



MARYLAND
STATE RETIREMENT
and PENSION SYSTEM

STATE RETIREMENT AGENCY
120 East Baltimore Street
Baltimore, MD 21202
Tel: 410-625-5555
1-800-492-5909
TDD/TTY 410-625-5535
sra.maryland.gov

R. Dean Kenderdine
Executive Director
Secretary To The Board

October 22, 2015

Dear Participating Governmental Unit in the Maryland State Retirement and Pension System:

RE: MEETING INVITATION

The Board of Trustees for the Maryland State Retirement and Pension System (“System”) has recently recommended to the Maryland General Assembly, that the current law which establishes the funding policy for the System’s Participating Governmental Units (“PGUs”) be amended. Passage of such legislation in the coming session of the General Assembly would result in a change in the amortization of the PGU liabilities, and with it, the future contribution rates for PGUs beginning in FY2018.

The basic contribution rate for the PGUs in the Employees’ Combined System Municipal Plan (ECS, consisting of the Employees’ Retirement System and the Employees’ Pension System) is expected to double between the December 2020 billing and the December 2021 billing. This situation is a result of the current statutory requirements governing the amortization schedule for the unfunded actuarial accrued liability.

The current amortization policy results in a basic contribution rate which is projected to increase by over 4% of payroll¹ from the December 2020 billing to the December 2021 billing. For example, if your total contribution rate was 10% of pay to determine your December 2020 contribution amount, your total contribution rate would be scheduled to go up to at least 14% of pay to determine your December 2021 contribution amount. The Board of Trustees sees this as undesirable and has worked with their actuarial consultant in order to request the legislation to avoid this spike in contribution requirements.

Specifically, the current municipal ECS has an amortization policy that separately creates and maintains a separate amortization base each year for gains/losses, benefit changes or changes in assumptions. The oldest of these bases has a large annual credit attributable primarily to accumulated gains from the 1990s. This base will be fully amortized and expire in fiscal year beginning July 1, 2020 and ending June 30, 2021 corresponding to the December 2020 billing. Under the current policy, the portion of your fiscal year ending June 30, 2016 contributions allocated to payments against the existing unfunded actuarial accrued liability will take over 100 years to pay off the unfunded liability if not increased.

The alternative is to phase into a combined, closed 25-year amortization schedule. While this increases contributions temporarily, it will address the existing unfunded actuarial accrued liability sooner and will provide greater security to your members and all the other members of the System rather than waiting for fiscal year ending June 30, 2022.

¹ *This projected result is based on the actuarial valuation as of June 30, 2014, and assumptions adopted for use in the actuarial valuation as of June 30, 2015, including an investment return assumption of 7.55%. The projected results do not reflect gains or losses compared to the actuarial assumptions after June 30, 2014, or any additional assumption or benefit changes.*

While this requested legislation averts the dramatic contribution rate spike, it will necessitate moderate contribution rate increases from the December 2017 billing through the December 2020 billing compared to the current policy to accomplish the objective of more contribution rate stability. If expectations are reasonably met, the proposed legislation will still result in the basic contribution rate being below the December 2014 billing rate which used 6.20% of payroll.

The other state and municipal systems also use single closed period amortization policies such as is being proposed. The Board of Trustees has submitted the proposal for legislation to the General Assembly Joint Committee on Pensions which will make its decision whether to introduce the bill when it meets on December 9th.

In the meantime, in November, I will be conducting six regional meetings for the purpose of discussing this matter and answering questions. The meetings are being held as follows:

Monday, November 16, 2015

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| 10:30 am – 12:30 pm | Allegany County Government
701 Kelly Road
Conference Room 100
Cumberland, MD 21502 |
| 2:00 pm – 4:00 pm | Frederick County Board of Education
Staff Development Center
44 W. Frederick Street
Walkersville, MD 21793 |

Wednesday, November 18, 2015

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| 10:00 am – 12:00 pm | Talbot County Community Center
10028 Ocean Gateway (RT 50)
Wye Oak Room
Easton, MD 21601 |
| 2:00 pm – 4:00 pm | Wor-Wic Community College
HC (Hazel Center) 302
32000 Campus Drive
Salisbury, MD 21804 |

Thursday, November 19, 2015

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| 10:00 am – 12:00 pm | Harford County Government
County Council Chambers
212 S. Bond Street
Bel Air, MD 21014 |
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Friday, November 20, 2015

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| 10:00 am – 12:00 pm | Prince Georges County Government
RMS Building
Conference Room 308, 3 rd Floor
1400 McCormick Drive
Largo, MD 20774 |
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If you or members of your staff wish to attend one of these meetings, please contact my office at (410) 625-5601 to inform us as to who will be attending for your office. You may also RSVP at GASB68@sra.state.md.us.

Additionally, in an effort to compile a comprehensive email distribution list for future correspondence, I am asking all recipients of this letter to provide my office with your email address. This will facilitate a more efficient means of communicating with all PGUs on matters such as this. Please send your email address to: GASB68@sra.state.md.us. Thank you.

Sincerely,

A handwritten signature in black ink, appearing to read 'R. Dean Kenderdine', with a long horizontal flourish extending to the right.

R. Dean Kenderdine
Executive Director

RDK/js

cc: Board of Trustees