

**Joint Committee on Pensions
November 16, 2011**

Today the Joint Committee on Pensions held various briefings on the following:

Call to Order and Chair's Opening Remarks

Delegate Melony Griffith introduced Dana T., as a new staffer to the Joint Pensions Committee.

Briefing on the Review and Comparison of the Judges' Retirement System

Colin Schafter, Policy Analyst, Department of Legislative Services (DLS) provided an overview of the judicial pension benefits comparisons. The Judicial Compensation Commission will be recommending to the General Assembly a contribution increase from 6% to 8% for new members of the Judge's Retirement System hired on or after July 1, 2012.

Annual Results of Fiscal 2011 Actuarial Valuation and Fiscal 2013 Contribution Rates

Nancy Kopp, Chairman of the Board of Trustees of the State Retirement and Pension System (SRPS) said there were substantial changes to the pension system in the 2011 legislative session. She explained the investments exceeded the plans actuarial assumption for the second year. She said there is still concern of the corridor funding method shared by many including herself, the comptroller and the joint pension members.

Mr. Brian Murphy, President, Gabriel Roeder Smith and Company (GRS) the Actuary presented to the joint committee the 2011 Actuarial Valuation, GASB Changes and Projections. After explaining the General Assembly reforms of 2011 he explained the various variables affecting the valuation results. The calculation of pension reform savings and reinvestment amounts shows that the Teachers' Combined System (\$129.2 million) and the Employees' Combined System (\$56.0 million) showed a savings of \$182.2 million available for reinvestment. However, the pension reform savings for the Teachers' Combined System (\$210.4) and Employees' Combined System (\$91.2) allowed for \$116.4 in savings retained by the State.

Regarding the Asset Value, there is a net gain of about \$1.4 billion to be recognized in the future. Fiscal year 2009 asset losses will be fully recognized in the June 30, 2013 valuation for fiscal year 2015. Asset gains realized in fiscal years 2010 and 2011 are expected to more than offset the 2009 loss beginning with the June 30, 2013 valuation. He concluded that the employer contributions would have increased without reforms for all Systems. The corridor method continues to result in the plan being funded at a level below actuarial rates. The budgeted rates for fiscal year 2013 as a percent of the actuarial rates are lower than for fiscal year 2012 due to the full recognition of the impact of the pension systems. Continued use of the corridor method will lead to increasing contribution rates even if all assumptions are realized exactly. In conclusion what is needed to sustain the Maryland State Retirement and Pension System? Mr. Murphy explained that continued reasonable forecasts of resources and obligations. Continued sound investment program, continued long-term approach to changes and the adoption of sound funding discipline. GRS supports the phase out of the corridor funding method along with other changes recommended by the Ad Hoc Committee on System Funding.

Senator Madaleno said he hears often from those who paid an increase in the contribution rate that they were basically taxed. He wanted to make clear that this did increase the amount to the pension system. He explained that given the 2% increase can he say it went entirely to the system? The response by Mr. Murphy is that it is safe to say.

Briefing on Changes to GASB-Public Pension Accounting

Nancy Kopp said there are going to be ongoing changes in the next years with a lot of financial oversight by the legislature. She said as the GASB comes out with its proposals, there will be a lot of “bell ringing” but keep in mind there is a lot of information on the Comptrollers Web-Site showing a lot of transparency while these changes are ongoing.

Dean Kenderdine, Executive Director, SRPS explained that GASB changes and rules are not final in his report and are hypothetical and subject to change. Mr. Brian Murphy explained that on July 8, 2011, the Governmental Accounting Standards Board (GASB) issued its Exposure Drafts (EDs) on pension accounting and financial reporting standards. The first, Accounting and Financial Reporting for Pensions, proposes standards applicable to state and local governments that provide pension benefits (amending GASB Statement No. 27). The second, Financial Reporting for Pension Plans, proposes standards for the financial statements of plans that administer the benefits (amending GASB Statement No. 25). An ED is usually the last public document that the GASB issues before issuing final standards. The unfunded actuarial accrued liability shows a combined rate of \$18,771,351 of which \$11,116,270 is teachers’ and \$6,500,970 are employees’ systems. With current policy the net pension liability would be \$9,952,183 for Teachers’ and \$6,040,017 for Employees’ and with the 25-year closed then the net pension liability would be \$9,952,183 for Teachers’ and \$6,219,888 for Employees’. Therefore the current balance sheet liability for State systems is \$1.8 billion. “Although it could be interpreted that the State is bankrupt,” he does not feel this is true. He explained that other states’ will be in a similar boat.” The GASB ED balance sheet liability will be about \$17 billion. An alternate funding policy (25-year closed) would cause the GASB ED liability to increase by \$160 million measured as of June 30, 2011. Nancy Kopp said that although she and others have followed this for years, she hoped those in the position to help translate and educate the public is important as “this is how things work.”

Senator Madaleno spoke of a story of the Great Gatsby regarding suicide or murder. “Although this will impact all students, how will Maryland look different such as the State paying the teacher pensions and not local governments and will this make our state look worse?” Nancy Kopp said the debt will be reflected under the General Accounting Standards. “One of the questions is that each county that issues bonds and a number of employees are in the system, will they have to declare for the entire system and who will pay? This is one of those areas that the GASB has not made clear. If it appears the State has all of the liability and the counties have none, it will make a big difference. We are not sure how the disclosure will be required.” Disclosures in accounting will lead to policy where people will see things in their frames of reference, she added. She is saying that due to the GASB there will be confusion in public understanding as well as employees. Senator Madaleno said the LEA is making the contribution rate and this is on the State books. “It will appear we have a greater debt with local governments looking better than the State. Therefore any county executive running for Governor can show how well he is doing,” said Madaleno.

Delegate Griffith asked if there were any questions or further political statements before proceeding, with no response.

Board Requested Legislation

The State Retirement Board of Trustees recommends the following changes in the 2012 Maryland General Assembly.

1. The board maintains from its 2010 recommendation that the corridor funding methodology be phased out over a 10-year period at a rate of 10% per year. In addition, the board is revising its

recommendation that the current amortization policy be amended to a 25-year closed amortization policy. (The current amortization policy is a 20-year closed). Finally, the previous recommendation to smooth 2009 losses outside of the asset collar over 10 years rather than 5 years is no longer recommended due to the fact that most of the 2009 losses have already been realized and a 10-year smoothing would no longer have significant impact on cost. The Committee reacted to the report of the Public Employees' and Retirees' Benefit Sustainability Commission during this discussion where the Commission recommended that as economic conditions improve and pension liabilities are reduced, the General Assembly and Governor, in consultation with the board, should work together to develop an alternative funding model that provides for both adequate funding for the pension system and relatively stable contribution rates over the long term. Such a plan should include the termination, at the appropriate times, of both the corridor funding method and the transitional excess contributions required by the 2011 reforms.

2. The board recommends legislation that would grant it additional authority for professional positions within the Investment Division of the SRA. The additional compensation would be paid to Investment Division staff from SRPS investment income, and not the State's General Fund.
3. The board recommends that the reference to "public school" in Sections 22-406 and 23-407 be amended to include the Maryland School for the Deaf. This change would allow TRS and TPS retirees of the Maryland School for the Deaf to participate in the retire/rehire program currently in place if they are reemployed by that school.
4. The board recommends legislation to amend the nine year limitation in the SPRS (State Policy Retirement System) and CORS (Correctional Officers' Retirement System) to five years in order to be consistent with the Employees' Retirement System (ERS); Teachers' Retirement System (TRS), Employees' Pension System (EPS), and Teachers' Pension System (TPS). Moreover, a consistent period of time when the reemployment earnings limitation is in effect for all of the systems will simplify the State Retirement Agency's communications to its members with regard to reemployment earnings limitation issues, as well as simplify its administration of the retire/rehire program.
5. Administrative Fees-The Board recommends legislation to provide the SRA with sufficient time to calculate the administrative costs owed by the local school boards and community colleges, the board is recommending legislation to amend the May 1 statutory certification deadline to a preliminary certification date, with the final statutory certification date moved to July 1.

Delegate Griffith asked if there are procedures in place to help school systems budget the fee. She would like to get a sense of how it will affect systems prior to taking action on the request.

Technical/Clarifying Changes to the 2012 Pension Reform

Phillip Anthony and Susan Phelps, Policy Analyst, Department of Legislative Services spoke to the need for change. Need to clarify the rate determinations and the \$300 reinvestment cap. This year exceeded the cap and for clarity as this number will go, then the recommendation would be to put the overage in to the state budget. Also there is a tab for COLAs and the uncodified language there was a request for agency review. Delegate Griffith asked for the draft language on these requests to be brought on December 13 at 2 p.m. for the next meeting of the Joint Pension Committee.

Chairs' Closing Remarks

Wished all a Happy Thanksgiving