

**G20J01**  
**State Retirement Agency**

***Operating Budget Data***

(\$ in Thousands)

	<u>FY 09</u> <u>Actual</u>	<u>FY 10</u> <u>Working</u>	<u>FY 11</u> <u>Allowance</u>	<u>FY 10-11</u> <u>Change</u>	<u>% Change</u> <u>Prior Year</u>
Special Fund	\$27,993	\$29,880	\$31,115	\$1,236	4.1%
Contingent & Back of Bill Reductions	0	0	-477	-477	
<b>Adjusted Special Fund</b>	<b>\$27,993</b>	<b>\$29,880</b>	<b>\$30,638</b>	<b>\$758</b>	<b>2.5%</b>
<b>Adjusted Grand Total</b>	<b>\$27,993</b>	<b>\$29,880</b>	<b>\$30,638</b>	<b>\$758</b>	<b>2.5%</b>

- The allowance increases by approximately \$758,000 over the fiscal 2010 working appropriation, driven primarily by \$711,000 in Maryland Pension Administration System-related change orders.

***Personnel Data***

	<u>FY 09</u> <u>Actual</u>	<u>FY 10</u> <u>Working</u>	<u>FY 11</u> <u>Allowance</u>	<u>FY 10-11</u> <u>Change</u>
Regular Positions	190.00	190.00	190.00	0.00
Contractual FTEs	<u>11.37</u>	<u>15.00</u>	<u>15.00</u>	<u>0.00</u>
<b>Total Personnel</b>	<b>201.37</b>	<b>205.00</b>	<b>205.00</b>	<b>0.00</b>

***Vacancy Data: Regular Positions***

Turnover and Necessary Vacancies, Excluding New Positions	7.60	4.00%
Positions and Percentage Vacant as of 12/31/09	12.00	6.32%

- There are no new regular or contractual positions in the allowance, but turnover has been increased by \$142,000 to reflect higher vacancy totals than those seen in fiscal 2010.

Note: Numbers may not sum to total due to rounding.

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## *Analysis in Brief*

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### Major Trends

***Joint Effort to Increase Accuracy of Peer Comparison for Investment Returns:*** The agency and the Department of Legislative Services (DLS) are working together to create more informative peer comparison metrics regarding investment returns. **DLS recommends that an investment plan based on the annual results of this comparative process be presented to the Joint Committee on Pensions as prelude to the DLS Investment Overview.**

***Call Center Performance Remains Strong:*** Agency response time in attending member calls beat goals for second consecutive year.

### Issues

***Contribution Rates Climb after Investment Losses:*** Total State contributions toward employee retirement increase by \$183 million in fiscal 2011, primarily due to investment losses. **The agency should discuss recent studies by its actuary that explore alternate funding policies that may provide for more stable rate structures throughout the systems.**

***Need to Study Agency Funding Method:*** Changes to the manner in which the State Retirement Agency (SRA) receives funds and the amount it may spend should be examined. **DLS recommends that the Joint Committee on Pensions study the funding method of the agency's administrative expenses during the 2010 interim. Topics of study should be the determination of the extent of cost savings possible by switching to an agency-based employer charge separate from the contribution rate, a method for distributing costs to all system users, and the agency spending cap in light of the completion of the Maryland Pension Administration System (MPAS-1).**

***Maryland Pension Administration System Computer System Nearing Completion:*** The Department of Information Technology and SRA report that the MPAS platform should be ready to replace the legacy system in July 2010. **DLS recommends deleting \$14,300 in MPAS-1 funding that the agency has identified as unneeded. The agency should comment on how much of the \$1 million project contingency fund will ultimately be needed.**

***Travel Expenses:*** An annual reporting of agency travel expenses is required by Chapter 674 of 2009. In fiscal 2009, SRA spent \$184,000 to finance 67 separate trips. **The agency should comment on the number of staff participating in each trip cited in the report and its projections for the need to seek out new managers in the future. The agency should describe its planned travel for fiscal 2010 and 2011 and how the planned expenditures and trip totals compare with the fiscal 2009 totals.**

**Recommended Actions**

	<b><u>Funds</u></b>	<b><u>Positions</u></b>
1. Delete funding for the IRS Service Locator.	\$ 73,200	
2. Reduce funding for “Alive and Well” audits due to fiscal 2010 solicitation lag.	72,000	
3. Delete redundant communications position.	79,722	1.0
4. Reduce the Maryland Pension Administration System Change Request Total.	14,300	
<b>Total Reductions</b>	<b>\$ 239,222</b>	<b>1.0</b>

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**State Retirement Agency**

***Operating Budget Analysis***

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**Program Description**

The State Retirement Agency (SRA), under the direction of the 14-member Board of Trustees for the State Retirement and Pension System (SRPS), is responsible for administering the State's retirement and pension systems. The board-appointed executive director is responsible for policy development, legislation, and legal affairs.

The agency has identified four fundamental goals for its operation:

- to prudently invest system assets in a well-diversified manner that optimizes long-term returns while controlling risk through excellence in the execution of the investment objectives and strategies of the system;
- to effectively communicate to all retirement plan participants the benefits provided by the system and to educate them about planning and preparing for all aspects of their defined benefit system;
- to pay all retirement allowances provided by State pension law to the system's retirees and their beneficiaries in an accurate and timely manner; and
- to efficiently collect the required employer and employee contribution necessary to fund the system.

The agency's administrative budget is funded through funds drawn from the pension trust fund. The annual spending is capped at 0.22% of members' payroll and benefit payments, or approximately \$34.5 million in fiscal 2011. The 2011 allowance is \$3.3 million below the upper limit established by the cap, though the amount of room under the cap will increase once across-the-board reductions are implemented. This cap is discussed further in the Issues section. As of June 30, 2009, the system's assets totaled \$28.6 billion, an \$8.0 billion decline from the end of fiscal 2008. **Appendix 3** contains detail on SRPS asset changes.

**Performance Analysis: Managing for Results**

**Effort to Increase Accuracy of Peer Comparison for Investment Returns**

SRPS ended fiscal 2009 with a loss of nearly 20.0% on its investment portfolio, the second consecutive year with a negative rate of return. In the past, the point of reference for the system's performance vis-à-vis that of other public trusts has been the Trust Universe Comparison Services

(TUCS) of all pension systems holding at least \$1.0 billion in assets. Because this group contains endowments and other systems that have different investment goals and policy parameters regarding return requirements than those under which SRPS operates, SRA and the Department of Legislative Services (DLS) have agreed that a more appropriate metric would be the TUCS grouping for all systems holding over \$25.0 billion in assets. This group is better aligned to the make-up of public employee pension systems constituted similarly to Maryland’s, and hence offers better comparative information.

In the TUCS system, the one-hundredth percentile represents the poorest performance; therefore, ranking in the lower percentiles signifies a better relative performance against the peer group. **Exhibit 1** shows Maryland’s current ranking in the larger TUCS universe, and where SRPS’ performance ranks in the \$1.0 billion grouping used in the past. The SRPS’ one-year decline ranks in the sixty-second percentile for fiscal 2009. As the exhibit shows, SRPS’s short-term performance is superior on the new scale, but inferior on the longer-term measures.

**Exhibit 1**  
**TUCS Comparison to Public Funds >\$25.0 Billion**  
**Rates of Return for Periods Ending June 30, 2009**

	<u>3 Months</u>		<u>1 Year</u>		<u>5 Years</u>		<u>10 Years</u>	
5th Percentile	12.41		-13.17		4.36		4.16	
25th Percentile	11.62		-18.17		3.30		3.81	
Median	11.11		-18.88		2.61		3.18	
75th Percentile	7.72		-21.96		2.01		2.45	
95th Percentile	6.11		-25.03		1.67		1.99	
SRPS performance and rank	11.81	21st	-19.87	62nd	1.51	100th	1.92	100th
SRPS rank in \$1 billion category		26th		82nd		87th		97th

TUCS: Trust Universe Comparison Services  
SRPS: State Retirement and Pension System

Source: State Street Analytics (TUCS Master Trust Report)

The rationale for the switch is apparent when one examines the best performers for the \$1.0 billion grouping versus those in the \$25.0 billion universe. In the universe of smaller funds, the top fifth percentile posted a positive return of 0.62% during the historic market decline of 2008 and 2009, suggesting highly risk-adverse strategies that avoided equities, likely due to the absence of actuarial requirements to seek higher returns like the 7.75% threshold required by the SRPS. However, in the funds of the \$25.0 billion group that are similar to Maryland, the top performers,

those in fifth percentile, posted a -13.17% investment loss, as the rules these systems are subject to are akin to those followed by the SRPS.

While the TUCS provides a quality measure of relative performance, more detailed comparisons of the asset allocations that yielded above-median returns are required to benefit from measuring Maryland's system against other states. To do so, SRPS has identified 25 of the larger pension systems most like Maryland through the Pensions and Investments ranking system. Useful comparative data can be researched by examining each peer system's Comprehensive Annual Financial Reports (CAFR), which are generally published in the January following the end of the fiscal year. A description of SRPS' current holdings by asset class and targeted allocations is provided in **Appendix 4**. This research, which requires documentation generally not fully available on publicly accessible web sites, will yield documentation of the distributions of funds to certain asset allocation strategies and the managers employed by successful peers systems.

With this data, SRPS' comparative performance in terms of returns and risk will be demonstrable and adjustments can be made where deemed beneficial by SRA's investment staff. The comparisons and their outcomes could, in turn, be reported to the Joint Committee on Pensions as part of the agency's interim briefings. **DLS recommends that an investment plan based on the annual results of this comparative process be presented to the Joint Committee on Pensions as prelude to the DLS Investment Overview.**

## **Call Center Performance Remains Strong**

SRA's call center is the agency's primary vehicle for communicating with system members about the benefits to which they are entitled. Since fiscal 2006, personnel and technology-based enhancements from compensation adjustments to the installation of a more sophisticated Interactive Voice Response telephone system have been approved by the General Assembly to boost the performance of this unit. **Exhibit 2** tracks the monthly results of the agency's two key metrics of call service efficacy: the rate of call abandonment and the average time to answer each call.

In fiscal 2009, an average of 5.4% of calls were abandoned before a counselor attended to the caller, identical to the fiscal 2008 rate. This rate is below the agency's goal of 7.0%, and well below the fiscal 2007 low point of 16.8%. As for the time to connect to a benefits counselor, wait times continued below the agency goal of 1:45 minutes, with the fiscal 2009 average wait clocking in at 1:19 minutes. Exhibit 2 also contains fiscal 2010 year-to-date data points. This experience indicates favorable trends that are reflected in a recently enhanced customer survey. Of the 270 surveys received, 92.0% of members affirmed satisfaction with the service received. A total of eight members, or 3.0% of the respondents, stated they were dissatisfied with their experience.

**Exhibit 2**  
**Monthly Rate of Call Abandonment and Average Time to Answer**  
**Fiscal 2008 to 2010**

	Rate of Call Abandonment			Avg. Time to Answer		
	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
July	9.2%	2.2%	3.4%	2:18	0:31	0:57
Aug	6.6%	4.0%	4.4%	1:28	1:02	1:28
Sept	8.5%	6.8%	6.9%	1:53	1:32	1:54
Oct	5.9%	4.9%	4.4%	1:04	1:11	1:09
Nov	5.4%	9.0%	5.3%	1:11	2:02	1:23
Dec	3.5%	6.4%	3.3%	1:06	1:29	0:49
Jan	4.3%	6.4%		1:05	1:37	
Feb	4.8%	8.2%		1:22	1:57	
Mar	4.9%	6.0%		1:18	1:27	
Apr	5.9%	4.0%		1:16	1:06	
May	3.9%	4.0%		0:49	1:06	
June	2.4%	3.2%		0:35	0:48	
Avg	5.4%	5.4%	4.6%	1:17	1:19	1:16
Goal	7.0%	7.0%	7.0%	1:45	1:45	1:45

Note: Fiscal 2010 figures as of January 1, 2010.

Source: State Retirement Agency

**Fiscal 2010 Actions**

**Impact of Cost Containment**

The cost containment action of August 2009 reduced the SRA appropriation by \$433,860 to represent savings from employee furloughs.

**Proposed Budget**

The agency's personnel expenditures increase by \$329,000, due to the statewide increases in retirement contribution levels and health insurance expenditures. Turnover was increased from the fiscal 2010 level by \$142,000 to reflect greater numbers of vacant positions in the agency.

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SRA's operational expenditures increase by \$429,000, primarily because of change order payments to the Maryland Pension Administration System (MPAS) contractor, Saber, that added \$577,000 to the fiscal 2010 totals. The Board of Trustee election services valued at \$168,000 are also included to facilitate the election of retired teachers' and employees' representatives, a process for which there are 364,000 eligible voters.

Several contracts related to computer hardware and software maintenance and acquisition were reduced by \$146,000 but offset through increases to investment management and accounting system contracts.

### **Impact of Cost Containment**

The fiscal 2011 budget reflects several across-the-board actions to be allocated by the Administration. This includes a combination of employee furloughs and government shut-down days similar to the plan adopted in fiscal 2010; a reduction in overtime based on accident leave management; streamlining of State operations; hiring freeze and attrition savings; a change in the injured workers' settlement policy and administrative costs; and a savings in health insurance to reflect a balance in that account. For purposes of illustration, DLS has estimated the distribution of selected actions relating to employee furloughs, health insurance, and the Injured Workers' Insurance Fund cost savings.

**Exhibit 3**  
**Proposed Budget**  
**State Retirement Agency**  
**(\$ in Thousands)**

<b>How Much It Grows:</b>	<b><u>Special</u> <u>Fund</u></b>	<b><u>Total</u></b>
2010 Working Appropriation	\$29,880	\$29,880
2011 Allowance	<u>31,115</u>	<u>31,115</u>
Amount Change	\$1,236	\$1,236
Percent Change	4.1%	4.1%
Contingent Reductions	-\$477	-\$477
Adjusted Change	\$758	\$758
Adjusted Percent Change	2.5%	2.5%

**Where It Goes:**

**Personnel Expenses**

Retirement contributions.....	\$249
Employee and retiree health insurance .....	183
Increments and other compensation.....	-17
Turnover adjustments.....	-142
Other fringe benefit adjustments.....	56

**Other Changes**

MPAS IT Project – change orders .....	711
Investment Management and Information Services contracts .....	205
Board of Trustees election service.....	168
Out-of-state travel .....	102
IRS locator service.....	73
Rent.....	73
Audits of local governmental employers .....	49
Contractual employee expenditure.....	32
Communication reduction.....	-58
Supplies and materials .....	-60
Printing.....	-68
Office of Administrative Hearings charge .....	-73
Other travel .....	-87

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**Where It Goes:**

Medical support services.....	-110
Equipment replacement.....	-140
Software purchases .....	-147
Other contracts .....	-211
Other .....	-30
<b>Total</b>	<b>\$758</b>

IRS: Internal Revenue Service

IT: information technology

MPAS: Maryland Pension Administration System

Note: Numbers may not sum to total due to rounding.

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## ***Issues***

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### **1. Contribution Rates Climb after Investment Losses**

The State pays for its share of employee pensions through two budgetary methods. First, it sets aside the employer contribution for its own employees through allotments in each department's personnel budget. Second, it makes the employer contribution for all local teachers, librarians, and community colleges through specific, lump-sum State aid to education line items. The amounts included in the fiscal 2011 allowance for these two employer contributions are shown in **Exhibit 4**.

The total State contribution across these two sources is \$183 million greater in the allowance than the amount included in the fiscal 2010 working appropriation, with \$97 million of the increase representing higher payments for local teachers, librarians, and community colleges, and \$86 million supporting the five State employee plans. The total fiscal 2011 outlay will be \$1.37 billion. While these monies are special funds when withdrawn from the trust, \$938 million, or 68.5%, of the total being contributed in fiscal 2011 represents general funds. In fact, the general fund increase is \$228 million less than it would have been had stimulus funds not been available to substitute the general funded aid to education contributions. This federal fund source will not be available in fiscal 2012, so the \$365 million worth of general fund contribution substituted in fiscal 2010 and 2011, and any additional increases in these areas, will have to be funded by the general fund beginning in fiscal 2012.

**Exhibit 4**  
**State Agency Retirement Systems**  
**Budgeted Rates and Contributions**  
**Fiscal 2009-2011**  
**(\$ in Millions)**

<u>System</u>	<u>2009 Actual</u>	<u>Approved Rates</u>	<u>Corrected Rates</u>	<u>2010 Working Appropriation</u>	<u>Approved Rates</u>	<u>2011 Allowance</u>	<u>Approved Rates</u>	<u>Change 2010 to 2011</u>
Employees	\$242	8.73%	9.01%	\$291	9.93%	\$345	11.69%	\$53
Teachers	17	11.70%	12.92%	23	13.15%	24	14.34%	1
State Police	17	20.53%	25.27%	29	30.79%	51	57.03%	22
Judges	17	43.61%	44.09%	20	48.89%	24	59.07%	4
LEOPS	19	36.99%	39.90%	23	38.63%	29	47.67%	5
<b>State Subtotal</b>	<b>\$312</b>			<b>\$386</b>		<b>\$472</b>		<b>\$86</b>
Teachers	\$622	11.70%	12.92%	\$759	13.15%	\$850	14.34%	\$91
Libraries	10			12		14		1
Community Colleges	24			29		34		4
<b>Local Teachers Subtotal</b>	<b>\$656</b>			<b>\$801</b>		<b>\$897</b>		<b>\$97</b>
<b>Grand Total</b>	<b>\$968</b>			<b>\$1,187</b>		<b>\$1,370</b>		<b>\$183</b>
General Fund Portion	774			894		938		44
Stimulus Portion	0			137		228		98
Other Fund Types	194			155		203		41
<b>Other*</b>	<b>\$101</b>	n/a	n/a	<b>\$103</b>	n/a	<b>\$104</b>	n/a	<b>\$1</b>

LEOPS: Law Enforcement Officers Pension System

\* Includes the Maryland Transit Administration Pension System, whose rate is established through collective bargaining with the union representing employees, and the Optional Retirement/Pension System (TIAA), a defined contribution program, in which the State pays 7.25% of a member's salary with no mandated employee contribution, but offers no pre-defined benefit.

Source: Department of Budget and Management; Department of Legislative Services

## Actuarial Role of Investment Returns

The increases are driven by the actuarial rates also listed in Exhibit 4. These rates represent percentages of total payroll. So, in the employee’s system, for example, for every \$1,000 of salary to be paid to a member in fiscal 2011, the State must put \$116.90 in the budget for pension contributions. The level of these rates is determined by the results of an actuarial calculation for the various plans to which employees may belong: Employees’, Teachers’, Police, Judges’, and Law Enforcement Officers’ (LEOPS) Pension Systems. **Exhibit 5** shows the components of the actuarial rate increases in each system, moving from fiscal 2010 to 2011.

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### Exhibit 5 State Retirement and Pension System of Maryland Components of Actuarial Rate Change Fiscal 2010-2011

	<u>Teachers</u>	<u>Employees</u>	<u>State Police</u>	<u>Judges</u>	<u>LEOPS</u>	<u>Total</u>
Fiscal 2010 Actuarial Contribution	14.05%	13.61%	30.79%	48.89%	38.63%	<b>14.42%</b>
Investment Return	4.58%	3.90%	18.36%	8.29%	5.26%	<b>4.50%</b>
Assumption Changes	-0.18%	0.07%	2.33%	2.78%	0.18%	<b>-0.06%</b>
Actuarial Error	0.08%	0.02%	0.31%	0.03%	0.18%	<b>0.06%</b>
Liability Growth	0.57%	1.13%	5.24%	-0.92%	3.42%	<b>0.82%</b>
<b>Fiscal 2011 Actuarial Contribution</b>	<b>19.10%</b>	<b>18.73%</b>	<b>57.03%</b>	<b>59.07%</b>	<b>47.67%</b>	<b>19.74%</b>
<b>Fiscal 2011 Corridor Rates</b>	<b>14.34%</b>	<b>11.69%</b>	-	-	-	-
% of Change from Investment Loss	90.7%	76.2%	70.0%	81.4%	58.2%	<b>84.6%</b>

LEOPS: Law Enforcement Officers’ Pension System

Source: Gabriel, Roeder, Smith and Company

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The differing benefits structures, salary levels, and membership totals for each plan flow through the economic and demographic assumptions that the actuary employs in calculating the future liabilities that determine the contribution rates. The impact in changes to these inputs is represented by the rows termed “liability growth” and “assumption changes” in Exhibit 5. Investment losses, however, were clearly the largest driver of change across the various systems. As a weighted average across the plans, the investment losses accounted for 84.6% of the rate growth. Yet, these actuarial rates do not include the full impact of the tremendous investment losses suffered by SRPS assets in fiscal 2009. Maryland employs two smoothing techniques to stabilize contribution rates across the years: asset smoothing and the corridor funding method.

## Asset Smoothing

Asset smoothing spreads annual investment returns over a five-year period to minimize volatility as the contribution rate calculations utilize the asset values to compute how much money must enter the system to ensure funds are available for benefit payments. Under this technique, only one-fifth of a given annual return is recognized during the year in which it occurs. So, when investment income is high, as it was in fiscal 2004 and 2007, contribution rates are not lowered drastically. Alternatively, when large negative investment returns are experienced, like those suffered in fiscal 2008 and 2009, the State is partially buffered from large rate increases. **Exhibit 6** compares the calculation of the system's asset values under market-based returns and under the actuarial method that smoothes assets in fiscal 2009. The actual fiscal 2009 results are used to formulate the fiscal 2011 rates.

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**Exhibit 6**  
**State Retirement and Pension System of Maryland**  
**Actuarial Changes vs. Market Changes**  
**Fiscal 2009**  
**(\$ in Millions)**

	<u>Market Value</u>	<u>Actuarial Value</u>
June 30, 2008 Value	\$36,614	\$39,504
Employer Contributions	1,110	1,110
Member Contributions	532	532
Benefit Payments	-2,329	-2,329
Expected Investment Earnings (7.75%)	2,811	3,035
<i>Expected Asset Value June 30, 2009</i>	<i>38,738</i>	<i>41,852</i>
Investment Gain (Loss)	-7,356	-2,034
Previous Smoothing Phase-In	-	-625
Unattained Investment Return	-2,811	-224
Collar Limiting Assets to 120% of Market	-	-4,685
June 30, 2009 Value	<b>\$28,571</b>	<b>\$34,285</b>
<i>Difference</i>		<i>\$5,714</i>

Source: Gabriel, Roeder, Smith and Company

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Under actuarial smoothing, SRPS assets have a value \$5.7 billion higher than the moment-in-time market value used in the valuation. This amount is actually a middle ground between the smoothed result and the market result for two reasons. First, asset smoothing from prior

years that provoked underfunding must be recouped. This item is termed “previous smoothing phase-in” in Exhibit 6, and it lowered asset values by \$625 million in fiscal 2009. Second, SRPS guidelines limit asset smoothing to reasonable levels by preventing the actuarial asset value from being lower than 80% of market value or higher than 120%. This limitation obliged the system to recognize \$4.7 billion worth of asset value decline in its fiscal 2009 calculation of the actuarial value of assets.

### **Corridor Smoothing**

The corridor method effects changes to the rates themselves to moderate variations in annual spending. The corridor method began by freezing the contribution rates for the Employees’ and Teachers’ Pension and Retirement Systems at fiscal 2002 levels, as long as the systems have funded ratios between 90 and 110%. When the funded ratios fall outside this corridor, the statute requires that the contribution increase by just 20% of the difference between the prior year’s contribution rate and the actuarial rate required to fully fund the system over a 25-year amortization schedule. The employees’ plan dropped out of the corridor in 2005 and the teachers’ plan followed in 2006. **Appendix 5** shows the rate history for the Teachers and Employees systems over the past decade under this method.

The Board of Trustees consistently voices its opposition to the corridor system because it results in a costlier method of funding benefits over time. Yet, the tremendous losses of fiscal 2009 highlight the budgetary utility of this method. For fiscal 2011, the total amount required by actuarial standards would have been \$1.88 billion. However, because the corridor funding method is in place, the total contribution will reach the \$1.37 billion level noted in Exhibit 4. The countercyclical smoothing approach has reduced the required spending in fiscal 2011 by \$505 million, approximately \$400 million of which represents general funds.

Comparing the rates of the noncorridor plans to those in the corridor system further elucidates the impact of corridor smoothing. The Employees’ System contribution rate went from 9.93% in fiscal 2010 to 11.69% in fiscal 2011. The actuarially determined rate would have required the State to contribute 18.73% of payroll, nearly double the prior year, or the equivalent of a \$261 million increase instead of the \$53 million growth seen in the allowance. On the other hand, the State Police system is not under the corridor funding method. Its 30.79% contribution rate in fiscal 2010 jumped to 57.03% of payroll for fiscal 2011, with 18.36% of the payroll charge hike stemming directly from negative investment returns. The budgetary result is that State Police pension costs grow from \$29 million in fiscal 2010 to \$51 million in the allowance, a 76.0% increase. Or, for each \$1,000 of salary paid to Police system members, the State must put in \$570.30 toward pension costs. The smoothing of gains and losses across five years, while more expensive in the long-term when losses prevail, insulates the State from such changes in the larger systems.

The principle cost of utilizing smoothing methods manifests itself in the system’s funded ratios. **Exhibit 7** shows the system’s funded ratio since fiscal 2005. Funding below the actuarial rate causes assets to grow at a slower rate than liabilities, which decreases the system’s funded ratio. However, this underfunding is but one contributor to the widening gap between assets and liabilities. Other factors include:

**Exhibit 7**  
**State Retirement and Pension System of Maryland Funded Ratio**  
**Fiscal 2005 to 2009**  
**(\$ in Millions)**

	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>
Market Value of Assets	\$32,073	\$34,370	\$39,455	\$36,614	\$28,571
Actuarial Value of Assets	34,520	35,795	37,887	39,504	34,285
Actuarial Accrued Liability (AAL)	39,133	43,243	47,144	50,244	52,729
Unfunded AAL	4,613	7,448	9,257	10,740	18,444
Funded Ratio	<b>88.21%</b>	<b>82.78%</b>	<b>80.36%</b>	<b>78.62%</b>	<b>65.02%</b>
Average Public System Funded Ratio	86.80%	85.70%	86.40%	85.30%	n/a

Note: Average Public System represents the funded ratio of 93 large U.S. public pension funds.

Source: Gabriel, Roeder, Smith and Company; Cheiron, Inc., Public Fund Survey; and State Retirement and Pension System of Maryland

- the 2006 pension enhancement that increased liabilities by an estimated \$120 million annually by providing a retroactive benefit increase;
- the maturing nature of the system, as the ratio of benefit recipients to active members decreases. This effect is highlighted in **Appendix 6**; and
- the lack of investment income due to poor average annual investment returns over the past decade that has lowered asset growth from anticipated levels.

As this last point indicates, the smoothing techniques rely upon positive investment returns above the actuarial target to supplement required cash influxes to the trust after losses push the system's long-term rate of return below the 7.75% assumed return level.

### **Year-to-date Investment Performance**

The market value of the investments under SRA management has grown from the \$28.6 billion total at which they began fiscal 2010 to \$32.8 billion as of December 31, 2009, a 16.2% improvement. This recuperation is promising but continued above-the-target investment returns will be required to alleviate the pressure on future rate increases. Mercer, the Legislature's actuary, predicts that with an assumed investment return of 15.0% for fiscal 2010, and the assumed 7.75% rate

going forward, the fiscal 2012 rates will be 12.99% for the Employees' System and 15.12% for the Teachers' System. That amounts to an additional \$140 million that will need to be in the fiscal 2012 allowance, apart from the aforementioned \$365 million in stimulus funds that must be replaced with general funds. **The agency should discuss recent studies by its actuary that explore alternate funding policies that may provide for more stable rate structures throughout the systems.**

## **2. Need to Study Agency Funding Method**

Current law (§ 21-303 of State Personnel and Pensions Article (SPPA)) provides for the transfer of the funds required for SRA's annual budget from the accumulation fund, where investments are made, to the expense fund, where they are expended by the agency. The accumulation fund holds all monies contributed by employers and employees, which are invested in order to generate the funds needed to pay retiree pensions. The contributions are the result of actuarial calculations that determine required payments into the accumulation fund. The source of funds for the agency's operating expenses are embedded in the larger calculation of how much employers must contribute for employees in the various systems, such as Employees, Teachers, State Police, etc. The result of this policy is twofold: the funding method for the agency is part of an expensive use of funds because of its opportunity cost and local employers are not obliged to pay agency expenditures.

### **Agency Expenses Have Added Cost Due to Source in the Trust**

Unlike the annual funding for other State agencies whose use is for present operating expenses, the dollars utilized by SRA have a heightened opportunity cost when taken from the trust. The assets in the Trust must earn a return of 7.75% annually to achieve the goal of balancing benefits promised with the assets held. Because SRA must withdraw these funds from the trust for its operations, they do not generate the required return and ultimately reduce the assets of the system. The actuary may reduce the expected rate of return on system assets to account for these funds. However, the resulting offset, necessarily of the magnitude estimated in **Exhibit 8**, highlights the lack of connection between funds required for present usage and those for future-driven contributions, suggesting an alternate method. The percentage of assets represented by the SRA budget is a small proportion of the overall asset value, leading this expedient way to fund the agency to be overlooked. But as recent investment patterns have strained contribution rates, a new approach may be warranted.

Exhibit 8 shows the SRA budgets for five years, from fiscal 2007 to the 2011 allowance. Spending totals \$137.1 million in year-of-expenditure dollars. However, those pieces of the annual State contribution would have a current value of \$158.5 million had they been accruing the assumed rate of return for plan assets, which is 7.75% annually. The \$21.4 million differential represents the potential cost of mingling administrative expenses with investment-bound contributions.

**Exhibit 8**  
**Budgeted Agency Expense vs. Cost of Removal from Trust**  
**Fiscal 2007-2011**

Required Return for Trust Assets                      7.75%

	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>Totals</u>
<b>Budget Total</b>	<b>\$26,290,370</b>	<b>\$21,775,538</b>	<b>\$27,992,560</b>	<b>\$29,879,597</b>	<b>\$31,115,337</b>	<b>\$137,053,402</b>
<b>Accrued Values</b>						
Fiscal 2007 funds		\$28,327,874	\$30,523,284	\$32,888,838	\$35,437,723	
Fiscal 2008 funds			23,463,142	25,281,536	27,240,855	
Fiscal 2009 funds				30,161,983	32,499,537	
Fiscal 2010 funds					32,195,266	
					<b>\$158,488,718</b>	\$21,435,316 Additional Expense

Source: Department of Legislative Services

### Potential Charge

A possible alternative would be to remove the agency's expenditures from the actuarial contribution rate calculation and to institute a charge similar to that used by various State agencies that service other departments, such as the Office of Administrative Hearings. A charge mechanism could utilize the Department of Budget and Management (DBM) calculation for the total SRA budget as the basis for a per employee charge to all entities utilizing SRA services. Depending on the structure of the charge, local boards of education, libraries, and community colleges could be assessed similarly for the agency's expenses.

**Exhibit 9** shows the total number of employees, by employer, that are set to pay into the system at the onset of fiscal 2011. If the fiscal 2011 allowance were spread to each employer by their per employee usage of the system, the State would save \$18.9 million (all of which are fundamentally general funds) as the local employers pay for the services they receive. Once the SRA budget has been set in any given year, the total charge to local employers could be withheld from their portions of income tax revenue and transferred to a reimbursable fund managed by SRA to alleviate the need for each jurisdiction to establish a payment procedure with the State.

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**Exhibit 9**  
**Distribution of Administrative Charge on Per Employee Basis**

	<u>FY 11</u> <u>Employees</u>	<u>Per Employee</u> <u>Charge</u>
State Employees	66,917	\$12,071,526
Local Teachers	104,246	18,805,509
Nonbudgeted State	925	166,866
Other locals ( <i>i.e.</i> Registers of Wills)	396	71,437
<b>Totals</b>	<b>172,484</b>	<b>\$31,115,337</b>
<b>Total Budget</b>	<b>\$31,115,337</b>	
Per Employee Admin. Charge	\$180.40	

Source: State Retirement Agency; Department of Legislative Services

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**Basis Point Cap Could Be Readjusted with Impending Completion of MPAS**

A final area of interest is the agency's spending cap. The transfers out of the accumulation fund for SRA's budget, whose fiscal 2011 allowance is \$31.1 million, are limited by § 21-315 SPPA to 0.22% of the sum of active employee payroll and annual benefits payments. The formula's base was enhanced to include benefit payments by Chapter 372 of 2000. The rationale for the increase was to accommodate the additional spending for the agency's second attempt to procure an enhanced information technology (IT) system. The original act included a sunset provision for the expanded base, given the assumed temporary nature of the project, but this limitation was removed as the agency was unsuccessful in completing the IT platform enhancement and the project persisted in SRA budgets throughout the decade. The agency's expenses should fall significantly after the impending completion of the third iteration of the new computer system.

**Exhibit 10** shows the spending cap calculation for fiscal 2011. It also displays what the cap would have been without the inclusion of benefit payments into the calculation. The cap as expanded adds \$5.1 million in potential expenditures to SRA's limit. With MPAS-1 nearing completion, the additional cap room may be unnecessary. At the pre-IT project calculation level, the cap would still provide the agency with \$3.9 million of room to grow, at a time when the majority of agency budgets are falling or remaining static.

**DLS recommends that the Joint Committee on Pensions study the funding method of the agency's administrative expenses during the 2010 interim. Topics of study should be the determination of the extent of cost savings possible by switching to an agency-based employer charge separate from the contribution rate, a method for distributing costs to all system users, and the agency spending cap in light of the completion of MPAS-1.**

**Exhibit 10**  
**State Retirement Agency Administrative Expense Cap Levels**  
**Fiscal 2011**

	<u>Current</u>	<u>Pre-Computer System</u>	
Projected Salaries	\$13,328,176,961	\$13,328,176,961	
Benefit Payments	2,336,124,189	0	
	<i>\$15,664,301,150</i>	<i>\$13,328,176,961</i>	
Operating Cap	0.22%	0.22%	Difference
Total Possible Expenditure	<b>\$34,461,463</b>	<b>\$29,321,989</b>	\$5,139,473
Total FY11 SRA Budget	\$31,115,337		
FY11 MPAS-1 and 2	5,725,376		
Agency Expenses	\$25,389,961		
Room under previous cap	\$3,932,028		

MPAS: Maryland Pension Administration System  
SRA: State Retirement Agency

Source: State Retirement Agency; Department of Legislative Services

### 3. MPAS Computer System Nearing Completion

The MPAS-1 project has a go-live date of July 2010, which coincides with the beginning of fiscal 2011. The fiscal 2011 allowance contains the final \$4.2 million installment of the \$24.4 million revised total project cost figure. The majority of this funding represents the final change order payments to the primary contractor Saber, Inc. (Saber).

#### Milestones Completed and Testing Underway

Project leaders from the Department of Information Technology (DoIT) and SRA presented the status of the project to the Board of Trustees at the January 2010 meeting of its administrative committee. DoIT, which exercises an oversight function over the project, reported that the vast majority of the concerns over project risks that it had cited in previous analyses of MPAS' status, such as poor project management, a lack of rigor in project plan creation, and deficient requirement definition, had been rectified since its initial comments were made to the budget committees during the 2008 session. DoIT believes that the project will conclude as scheduled in July 2010.

MPAS project staff reported on specific project details. Importantly, all of the 10 major milestones have been officially received by the project manager, which signifies that the core coding for the system is complete and of acceptable quality. As of the end of January 2010, regression testing, which tests the system to gauge whether changes and fixes of previously identified problems have resulted in new problems, has also been completed. The final, critical check is parallel testing, where data is fed into both the legacy and MPAS systems and the outputs are compared to ensure that the new code is properly replicating all of the functions of the extant legacy system.

A major area of risk, the “sync up” portion of the project has also been completed. In this process, all of the changes made to the legacy system since the project’s inception in 2006 are added to the new MPAS architecture to fully replicate the system. The enhanced project oversight facilitated by DoIT and the change in project management in place for the completion of the “sync up” may result in some budgetary savings. Because of the greater level of specification provided in the agency’s description of the “sync up” changes to Saber, the contractor brought down its change order requests to, on average, 25% of the original asking price. Saber had adopted the practice of including a large, additional risk factor for all SRA requests because of its experience in the earlier stages of the project with vague deliverable requirements leading to extensive additional man-hours being expended to achieve the desired result. These difficulties were settled by increasing Saber’s contract from the original \$11.6 million contemplated in the procurement action to the final \$17.4 million total. **The agency should comment on how much of the \$1.0 million project contingency fund will ultimately be needed. DLS recommends deleting \$14,300 in MPAS-1 funding that the agency has identified as unneeded.**

#### **4. Travel Expenses**

Chapter 674 of 2009 requires an annual reporting of the agency’s travel expenditures and the purpose of travel undertaken by board of trustee members and investment staff. The agency submitted the statutory report to the Joint Committee on Pensions in September 2009. The total SRA travel costs in fiscal 2009 were \$184,161, with agency staff trips representing \$170,123 of the expense and board of trustees travel representing the remaining \$14,038.

#### **Summary of Travel Undertaken**

Agency investment staff made a total of 61 trips over the course of fiscal 2009. Of these travels, 5 were made to international destinations. The purposes stated for the travel were 29 meetings with prospective managers, 27 meetings with existing managers, 24 conferences attended, and 3 meetings with consultants. Some trips, typically those of longer duration, were utilized to realize multiple purposes. A total of 137 days were spent traveling by investment staff, although the report does not indicate how many staff members participated in each trip. Meeting with numerous prospective managers made sense during 2008 and 2009 as the new Chief Investment Officer began implementing his tactical asset allocation shifts. The need to continue seeking new managers is less clear as the strategy solidifies. **The agency should comment on the number of staff participating in each trip cited in the report and its projections for the need to seek out new managers in the future.**

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Members of the board of trustees made 6 trips, all with domestic destinations. The purposes stated for the travel were 5 instances of fiduciary education sessions and 1 client conference. A total of 24 days was spent by trustees on travel. **The agency should describe its planned travel for fiscal 2010 and 2011 and how the planned expenditures and trip totals compare with the fiscal 2009 totals.**

## ***Recommended Actions***

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	<b><u>Amount Reduction</u></b>		<b><u>Position Reduction</u></b>
1. Delete funds for the IRS Service Locator. This service would utilize State funds to locate ‘missing’ former members in order to pay benefits or return contributions. Leaving the funds in the trust to earn 7.75% per year on the \$46.7 million these members represent outweighs the liability of 5.0% annual interest earnings to be repaid and any negligible administrative cost for maintaining existing records.	\$ 73,200	SF	
2. Reduce funds for “Alive and Well” audit. In fiscal 2010, \$96,000 was appropriated for this overseas retiree locator service. The contract will most likely not be awarded until April 2010. Another \$96,000 is included in the fiscal 2011 allowance for this contract, but \$72,000 of the fiscal 2010 amount can be encumbered to cover the cost of this service.	72,000	SF	
3. Delete the second communications/liaison position and associated funding. The agency has two communications/liaison positions. This reduction eliminates redundancy of PIN 063213.	79,722	SF	1.0
4. Reduce funds for the Saber contract. The agency advises that the amount required to fund information technology contractor change requests should be reduced by \$14,300 to reflect agreed upon values.	14,300	SF	
<b>Total Special Fund Reductions</b>	<b>\$ 239,222</b>		<b>1.0</b>

## *Current and Prior Year Budgets*

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### **Current and Prior Year Budgets** **State Retirement Agency** **(\$ in Thousands)**

	<b><u>General</u></b> <b><u>Fund</u></b>	<b><u>Special</u></b> <b><u>Fund</u></b>	<b><u>Federal</u></b> <b><u>Fund</u></b>	<b><u>Reimb.</u></b> <b><u>Fund</u></b>	<b><u>Total</u></b>
<b>Fiscal 2009</b>					
Legislative Appropriation	\$0	\$29,192	\$0	\$0	\$29,192
Deficiency Appropriation	0	0	0	0	0
Budget Amendments	0	288	0	0	288
Cost Containment	0	-287	0	0	-287
Reversions and Cancellations	0	-1,200	0	0	-1,200
<b>Actual Expenditures</b>	<b>\$0</b>	<b>\$27,993</b>	<b>\$0</b>	<b>\$0</b>	<b>\$27,993</b>
<b>Fiscal 2010</b>					
Legislative Appropriation	\$0	\$30,313	\$0	\$0	\$30,313
Cost Containment	0	-434	0	0	-434
Budget Amendments	0	0	0	0	0
<b>Working Appropriation</b>	<b>\$0</b>	<b>\$29,879</b>	<b>\$0</b>	<b>\$0</b>	<b>\$29,879</b>

Note: Numbers may not sum to total due to rounding.

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**Fiscal 2009**

- A special fund budget amendment distributed \$241,757 to the agency from the 2% cost-of-living adjustment that was centrally budgeted in DBM.
- A special fund budget amendment for Annual Salary Review increases centrally budgeted in DBM distributed \$45,881 to the agency for its Retirement Benefit Counselor positions.
- As part of the June 2008 and March 2009 cost containment actions, \$287,461 of the SRA special fund appropriation was reduced, the majority of which represented savings from employee furloughs and the use of statewide employee health insurance balances in lieu of budgeted funds.

**Fiscal 2010**

- The cost containment action of August 2009 reduced the SRA appropriation by \$433,860 to represent savings from employee furloughs.

***Audit Findings***

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Audit Period for Last Audit:	December 1, 2005 – September 30, 2008
Issue Date:	April 2009
Number of Findings:	2
Number of Repeat Findings:	0
% of Repeat Findings:	0%
Rating: (if applicable)	

***Finding 1:*** Security review processes and related security reporting were inadequate. Although SRA advised that security officers reviewed critical mainframe security reports and investigated entries on these reports, there was no documentation supporting these reviews and investigations. Also, the same security officers that established security access rules and modified user accounts also reviewed the related security reports and had direct modification access to the underlying production programs. As a result, these security officers could make unauthorized changes to the system.

***Finding 2:*** Procedures were not in place to help ensure that the State paid the proper share of retirement costs for participating local jurisdiction employees. The contributions of local jurisdictions receiving federal funds and State funds for retirement costs were not audited to ensure that the State was not overpaying for costs these jurisdictions may have received double payments for due to the multiple fund sources.

\*Bold denotes item repeated in full or part from preceding audit report.

**State Retirement and Pension System of Maryland**  
**Statement of Changes in Net Assets Available for Plan Benefits**  
**Fiscal 2006-2009**  
**(\$ in Millions)**

	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>
<b>Beginning Asset Value</b>	<b>\$32,073.7</b>	<b>\$34,370.7</b>	<b>\$39,444.7</b>	<b>\$36,613.7</b>
<u>Source of Asset Growth</u>				
State Contributions	\$720.8	\$833.7	\$1,048.0	\$1,109.5
Member Contributions	215.1	319.3	420.5	532.1
Investment Income (Loss)	3,225.6	5,924.1	-2,139.7	-7,355.9
<b>Total Inflows</b>	<b>\$4,161.6</b>	<b>\$7,077.1</b>	<b>-\$671.2</b>	<b>-\$5,714.3</b>
<u>Source of Asset Outflows</u>				
Benefit Payments	-1,829.5	-1,965.9	-2,120.5	-2,279.2
Administrative Expenses	-18.6	-21.3	-23.1	-27.5
Refunds	-16.4	-16.0	-16.2	-22.3
<b>Total Outflows</b>	<b>-\$1,864.5</b>	<b>-\$2,003.2</b>	<b>-\$2,159.8</b>	<b>-\$2,329.0</b>
<b>End of Period Asset Value</b>	<b>\$34,370.8</b>	<b>\$39,444.7</b>	<b>\$36,613.7</b>	<b>\$28,570.4</b>
<b>Change in Assets During Period</b>	<b>\$2,297.1</b>	<b>\$5,073.9</b>	<b>-\$2,831.0</b>	<b>-\$8,043.3</b>
<b>Total Investment Return</b>	<b>10.1%</b>	<b>17.6%</b>	<b>-5.4%</b>	<b>-20.1%</b>

Note: Data presented here includes the system's bank cash account and excludes money invested by the system on behalf of the Maryland Transportation Authority. Columns may not add to total due to rounding.

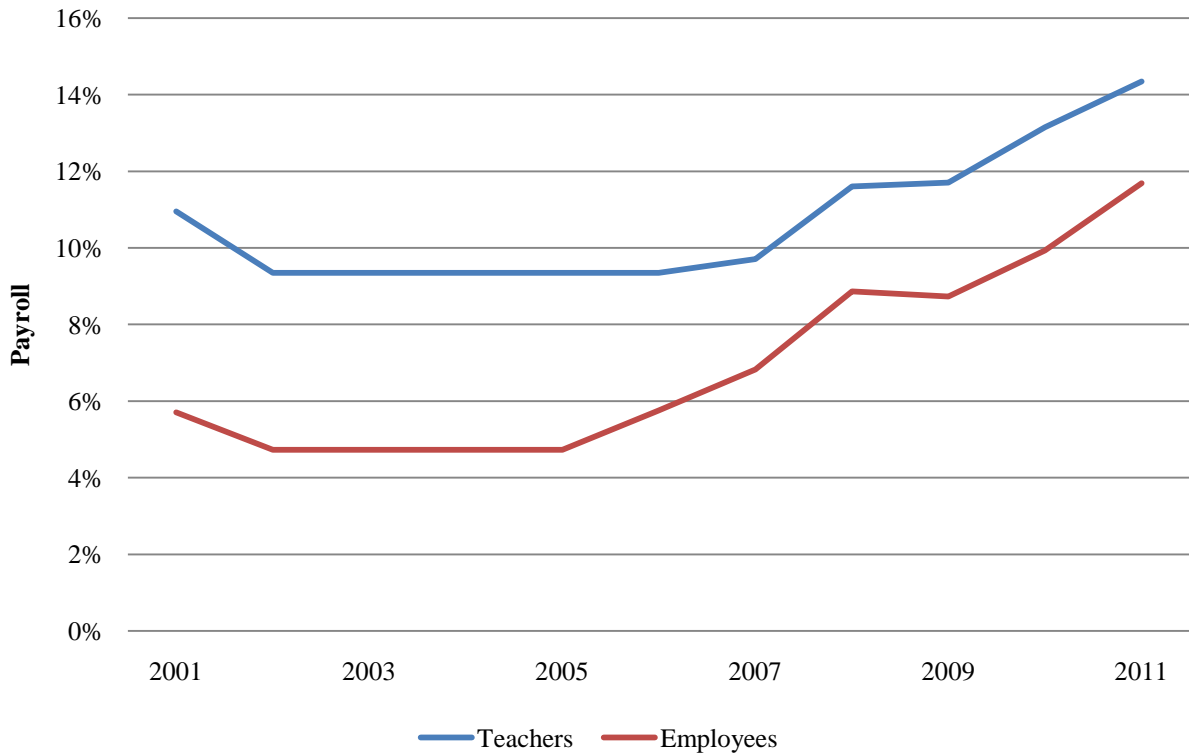
Source: State Retirement Agency

**State Retirement and Pensions System Investment Assets**  
**Value by Class and Allocation**  
(\$ in Thousands)

	<u>December 31, 2009</u>	<u>Actual Allocation on December 31, 2009</u>	<u>Allocation Target as of January 1, 2010</u>
Public Equity	\$18,043,087	55%	36%
<i>U.S. Equity</i>	7,458,624		
<i>International Equity</i>	7,091,728		
<i>Global Equity</i>	3,492,735		
Fixed Income	6,052,678	18%	15%
Real Return	2,847,646	9%	10%
Private Equity	1,225,631	4%	12%
Real Estate	1,902,301	6%	10%
Absolute Return	785,873	2%	10%
Credit Opportunity	204,692	1%	5%
Cash Aggregate	1,710,949	5%	2%
<b>Total Plan</b>	<b>\$32,772,857</b>		

Source: State Street, State Retirement Agency

### Contribution Rates for Maryland Pension Systems Fiscal 2001 to 2011



Source: State Retirement Agency

## Summary of State Membership Data by Plan Fiscal 2006-2009

	Ratio Retirees to Actives	<u>Total</u>	<u>Teachers'</u> <u>Retirement</u>	<u>Teachers'</u> <u>Pension</u>	<u>Employees'</u> <u>Retirement</u>	<u>Employees'</u> <u>Pension</u>	<u>Judges'</u> <u>Retirement</u>	<u>State Police</u> <u>Retirement</u>	<u>LEOPS</u>
<b><i>From 7/1/2005 to 6/30/2006</i></b>									
Active Members	<b>54.3%</b>	191,218	5,449	94,869	10,121	76,979	296	1,441	2,063
Average Annual Salary		\$48,560	\$75,950	\$51,179	\$46,222	\$43,198	\$121,416	\$55,967	\$51,706
Retired Members		103,815	31,138	19,141	24,271	26,216	330	1,937	782
Average Annual Retirement Allowance		\$17,916	\$27,253	\$14,892	\$15,732	\$8,904	\$61,020	\$38,844	\$17,412
Vested Former Members		49,303	1,229	19,824	1,258	26,805	14	58	115
<b><i>From 7/1/2006 to 6/30/2007</i></b>									
Active Members	<b>55.2%</b>	196,204	4,788	98,789	9,978	78,719	297	1,416	2,217
Average Annual Salary		\$50,808	\$80,121	\$53,914	\$47,347	\$45,017	\$126,729	\$58,751	\$55,036
Retired Members		108,339	31,023	21,016	24,408	28,631	335	2,063	863
Average Annual Retirement Allowance		\$18,645	\$28,464	\$15,720	\$16,620	\$9,528	\$63,480	\$39,540	\$28,800
Vested Former Members		52,020	1,175	21,544	1,260	27,847	13	54	127
<b><i>From 7/1/2007 to 6/30/2008</i></b>									
Active Members	<b>56.4%</b>	199,202	4,125	101,836	9,740	79,462	286	1,426	2,327
Average Annual Salary		\$52,913	\$85,565	\$56,607	\$48,542	\$46,465	\$132,669	\$60,634	\$57,347
Retired Members		112,404	30,955	23,080	24,197	30,723	342	2,149	958
Average Annual Retirement Allowance		\$19,357	\$29,676	\$16,632	\$17,412	\$10,188	\$67,644	\$40,776	\$29,496
Vested Former Members		51,786	1,092	21,726	1,166	27,559	8	61	174
<b><i>From 7/1/2008 to 6/30/2009</i></b>									
Active Members	<b>58.1%</b>	199,637	3,554	102,553	9,962	79,418	297	1,408	2,445
Average Annual Salary		\$53,648	\$86,127	\$57,420	\$48,572	\$47,415	\$135,577	\$60,785	\$57,289
Retired Members		116,007	30,598	25,158	23,778	32,832	348	2,226	1,067
Average Annual Retirement Allowance		\$20,450	\$31,200	\$17,484	\$18,360	\$10,860	\$67,668	\$42,288	\$30,612
Vested Former Members		51,866	996	21,999	1,065	27,543	6	68	189

Source: State Retirement Agency

**State Retirement Agency  
Maryland Pension Administration System (MPAS) Phase One**

<b>Project Description:</b>	<i>To replicate all computerized functions of the system used to administer retirement and pension benefits for State employees on a modern platform.</i>				
<b>Project Business Goals:</b>	To better accommodate growth and business process changes to the pension system, allow for more economical maintenance, and add capacity for future phase expansions that could enhance customer service.				
<b>Estimated Total Project Cost:</b>	\$17,005,000 subsequently revised to \$24,392,089				
<b>New/Existing Project:</b>	Ongoing project				
<b>Project Start Date:</b>	April 2006		<b>Projected Completion Date:</b>	July 2008, later revised to July 2010.	
<b>Schedule Status:</b>	MPAS-1 is on track for completion, according to its revised schedule, in July 2010.				
<b>Prior Year Funding:</b>	\$20,166,713	<b>Fiscal 2011 Funding:</b>	\$4,225,376	<b>Future Funding:</b>	\$0
<b>Cost Status:</b>	Project costs are also programmed to be completed at the revised total of \$24.39 million.				
<b>Scope Status:</b>	Unchanged				
<b>Project Management Oversight Status:</b>	Department of Information Technology continues its oversight function and affirmed proper development trends in January 2010.				
<b>Identifiable Risks:</b>	Parallel testing and the data reconciliation process require high levels of staff resources, which must be balanced against other project activities for successful, timely completion.				

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**State Retirement Agency  
Maryland Pension Administration System (MPAS) Phase Two**

<b>Project Description:</b>	<i>MPAS Phase Two (MPAS-2) will be completed in two stages – the first being the scoping of data cleaning needs identified after completion of MPAS-1 and the second being the actual scrubbing and re-engineering of payroll reporting.</i>				
<b>Project Business Goals:</b>	To clean existing data in the new MPAS system and re-engineer payroll reports to enhance customer service.				
<b>Estimated Total Project Cost:</b>	\$4,500,000				
<b>New/Existing Project:</b>	Existing project				
<b>Project Start Date:</b>	January 2010		<b>Projected Completion Date:</b>	July 2012	
<b>Schedule Status:</b>	Scoping for the project is programmed to begin in the second half of fiscal 2010. \$950,000 of the fiscal 2010 appropriation is restricted until scoping is completed and reported upon to budget committees.				
<b>Prior Year Funding:</b>	\$1,200,000	<b>Fiscal 2011 Funding:</b>	\$1,500,000	<b>Future Funding:</b>	\$1,800,000
<b>Cost Status:</b>	The costs are estimates provided by the State Retirement Agency. Until the scoping is completed, deliverables, costs, and timelines will be uncertain.				
<b>Scope Status:</b>	Data scrubbing and report re-engineering requirements will be determined by scoping exercise to begin in the third quarter of fiscal 2010.				
<b>Project Management Oversight Status:</b>	A portfolio review meeting with the Department of Information Technology was helpful in June 2009.				
<b>Identifiable Risks:</b>	MPAS-1, which has been delayed by two years, must be complete for this phase to begin.				

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**Object/Fund Difference Report  
State Retirement Agency**

<u>Object/Fund</u>	<u>FY09 Actual</u>	<u>FY10 Working Appropriation</u>	<u>FY11 Allowance</u>	<u>FY10 - FY11 Amount Change</u>	<u>Percent Change</u>
<b>Positions</b>					
01 Regular	190.00	190.00	190.00	0	0%
02 Contractual	11.37	15.00	15.00	0	0%
<b>Total Positions</b>	<b>201.37</b>	<b>205.00</b>	<b>205.00</b>	<b>0</b>	<b>0%</b>
<b>Objects</b>					
01 Salaries and Wages	\$ 14,612,742	\$ 15,061,275	\$ 15,867,770	\$ 806,495	5.4%
02 Technical and Spec. Fees	891,133	1,023,447	948,563	-74,884	-7.3%
03 Communication	661,418	625,451	567,073	-58,378	-9.3%
04 Travel	184,161	183,010	197,790	14,780	8.1%
07 Motor Vehicles	153,544	157,144	160,488	3,344	2.1%
08 Contractual Services	8,934,629	9,945,609	10,637,823	692,214	7.0%
09 Supplies and Materials	242,110	296,475	236,950	-59,525	-20.1%
10 Equipment – Replacement	250,731	372,212	262,129	-110,083	-29.6%
11 Equipment – Additional	37,765	92,139	61,793	-30,346	-32.9%
13 Fixed Charges	2,024,327	2,122,835	2,174,958	52,123	2.5%
<b>Total Objects</b>	<b>\$ 27,992,560</b>	<b>\$ 29,879,597</b>	<b>\$ 31,115,337</b>	<b>\$ 1,235,740</b>	<b>4.1%</b>
<b>Funds</b>					
03 Special Fund	\$ 27,992,560	\$ 29,879,597	\$ 31,115,337	\$ 1,235,740	4.1%
<b>Total Funds</b>	<b>\$ 27,992,560</b>	<b>\$ 29,879,597</b>	<b>\$ 31,115,337</b>	<b>\$ 1,235,740</b>	<b>4.1%</b>

Note: The fiscal 2010 appropriation does not include deficiencies.

**Fiscal Summary  
State Retirement Agency**

<u>Program/Unit</u>	<u>FY09 Actual</u>	<u>FY10 Wrk Approp</u>	<u>FY11 Allowance</u>	<u>Change</u>	<u>FY10 - FY11 % Change</u>
01 State Retirement Agency	\$ 24,540,666	\$ 25,274,098	\$ 25,389,961	\$ 115,863	0.5%
02 Major Information Technology Development Projects	3,451,894	4,605,499	5,725,376	1,119,877	24.3%
<b>Total Expenditures</b>	<b>\$ 27,992,560</b>	<b>\$ 29,879,597</b>	<b>\$ 31,115,337</b>	<b>\$ 1,235,740</b>	<b>4.1%</b>
Special Fund	\$ 27,992,560	\$ 29,879,597	\$ 31,115,337	\$ 1,235,740	4.1%
<b>Total Appropriations</b>	<b>\$ 27,992,560</b>	<b>\$ 29,879,597</b>	<b>\$ 31,115,337</b>	<b>\$ 1,235,740</b>	<b>4.1%</b>

Note: The fiscal 2010 appropriation does not include deficiencies.