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# **Historical Overview of the State Retirement and Pension System**

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**Presentation to the  
Employees' and Retirees' Benefit  
Sustainability Commission**

**Department of Legislative Services  
Office of Policy Analysis  
Annapolis, Maryland**

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# The Origins

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- The Maryland State Teachers' Retirement System (TRS) was the first State system, established in 1927
- The State Employees' Retirement System (ERS) followed 14 years later, in 1941
- A member of these systems received a retirement allowance equal to 1.43% of the member's average final compensation for each year of service
  - After 35 years of service, a member received 50.0% of the member's average final compensation.
- The 1.43% multiplier was not amended until 1969 when it was increased to 1.67%

# The 70s

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- In 1971, annual unlimited and compounded cost-of-living adjustments (COLAs) for all retirees of the Employees' Retirement System, Teachers' Retirement System, and State Police Retirement System were established
- At this time, the funding methodology in place for the plans of the State Retirement and Pension System (SRPS) was based on two components
  - Pay-as-you-go (PAYGO)
  - Advance funding
- Coopers and Lybrand and Winklevoss and Associates urged changes to the funding methodology in place at that time

# The 70s

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- In 1976, Winklevoss contended that if the State continued with a combined funding methodology, the portions of PAYGO costs would shift from 25 to 90% in future years
- The funded status of the SRPS was 56% in 1976 and projected to only increase to 69% by 2026 if changes in the funding methodology did not occur

# 1979 Pension Changes

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- The ERS and TRS were closed to new members
- The Employees' Pension System (EPS) and Teachers' Pension System (TPS) were established for new members as of January 1, 1980 and any ERS or TRS members who opted to transfer into the new systems
- Full actuarial funding was established for all plans of the SRPS
  - Following the 1979 pension changes, it was anticipated that the State's future contribution rate would be constant at approximately 11.66%

# The 80s

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- By fiscal 1985, the State's aggregate employer contribution rate climbed to 17.6% of payroll
- Issues with the 1979 pension changes were discovered
  - Unlimited COLAs
  - Erroneous actuarial assumptions
- In 1984, legislation was enacted to modify benefits in the ERS and the TRS

# The 90s

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- The financial health of the SRPS improved following the 1984 pension changes
- Pension enhancement legislation was enacted:
  - 1998 for the EPS and the TPS
  - 1999 for the State Police Retirement System
  - 2000 for the Law Enforcement Officers' Pension System

# 2000 – 2010

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- The SRPS became fully funded by the end of fiscal 2000 as a result of large investment gains due to favorable market conditions
- The SRPS experienced significant investment losses in fiscal 2001 and 2002
- In 2006, the EPS and the TPS were enhanced for the second time in eight years

## 2000 – 2010 (cont.)

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- The SRPS experienced a 22% decline in asset value and a -20% return on investments in fiscal 2009
- As of June 30, 2010, the funded status of the SRPS had dropped to 64%

## Employees' and Teachers' Systems Snapshot 1927 - Present

### Employees' and Teachers' Retirement Systems

	<u>Employee Contribution Rate</u>	<u>Benefit Multiplier</u>	<u>COLA</u>
1927 (only TRS)	5.0%	1.43%	N/A
1941 (ERS added)	5.0%	1.43%	N/A
1969	5.0%	1.67%	N/A
1971	5.0%	1.67%	Unltd and Cmpd
1973	5.0%	1.82%	Unltd and Cmpd
1984	7.0%, 5.0%, 0.0%	1.82%	Unltd Cmpd, 5%-cap Cmpd, Unltd /3%-cap Cmpd
1998	7.0%, 5.0%, 2.0%	1.82%	Unltd Cmpd, 5%-cap Cmpd, Unltd/3%-cap Cmpd
2010	7.0%, 5.0%, 5.0%	1.82%	Unltd Cmpd, 5%- cap Cmpd, Unltd/3%-cap Cmpd

## Employees' and Teachers' Systems Snapshot (cont.) 1927 – Present

### Employees' and Teachers' Pension Systems

	<u>Employee Contribution Rate</u>	<u>Benefit Multiplier</u>	<u>COLA</u>
1979	0.0% of pay < Social Security Wage Base + 5.0% of pay > Social Security Wage Base	0.8% of AFC < Social Security integration level + 1.5% of AFC > Social Security integration level	3.0% -cap, Simple
1998	2.0%	1.2% of AFC for service prior 7/1/98 + 1.4% of AFC for service earned on or after 7/1/98	3.0%-cap, Cmpd
2006	5.0%(phased in over 3 years)	1.2% of AFC for service prior 7/1/98 + 1.8% of AFC for service earned on or after 7/1/98	3.0%-cap, Cmpd
2010 New Member	5.0%	1.8%	3.0%-cap, Cmpd