
Funding Maryland's Pensions

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

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

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State Retirement and Pension System Financial Summary

(\$ in Millions)

	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
Employer Contributions	\$670.5	\$720.9	\$833.7	\$1,048.0	\$1,109.5
Member Contributions	209.0	215.1	319.3	420.5	532.1
Investment Income	2,766.4	3,225.6	5,924.1	(2,139.7)	(7,355.9)
Total Revenues	\$3,645.9	\$4,161.6	\$7,077.1	(\$671.2)	(\$5,714.3)
Benefit Payments	\$1,697.4	\$1,829.5	\$1,965.9	\$2,120.5	\$2,279.1
Administration	22.4	18.6	21.3	23.1	27.5
Refunds	19.1	16.4	16.0	16.2	22.3
Total Expenditures	\$1,738.9	\$1,864.5	\$2,003.2	\$2,159.8	\$2,328.9
Net Revenues	\$1,907.0	\$2,297.1	\$5,073.9	(\$2,831.0)	(\$8,043.2)
Pension Fund Assets	\$32,073.7	\$34,370.8	\$39,444.8	\$36,613.7	\$28,570.4

Pension Funding Model



**Accrued
Liabilities**

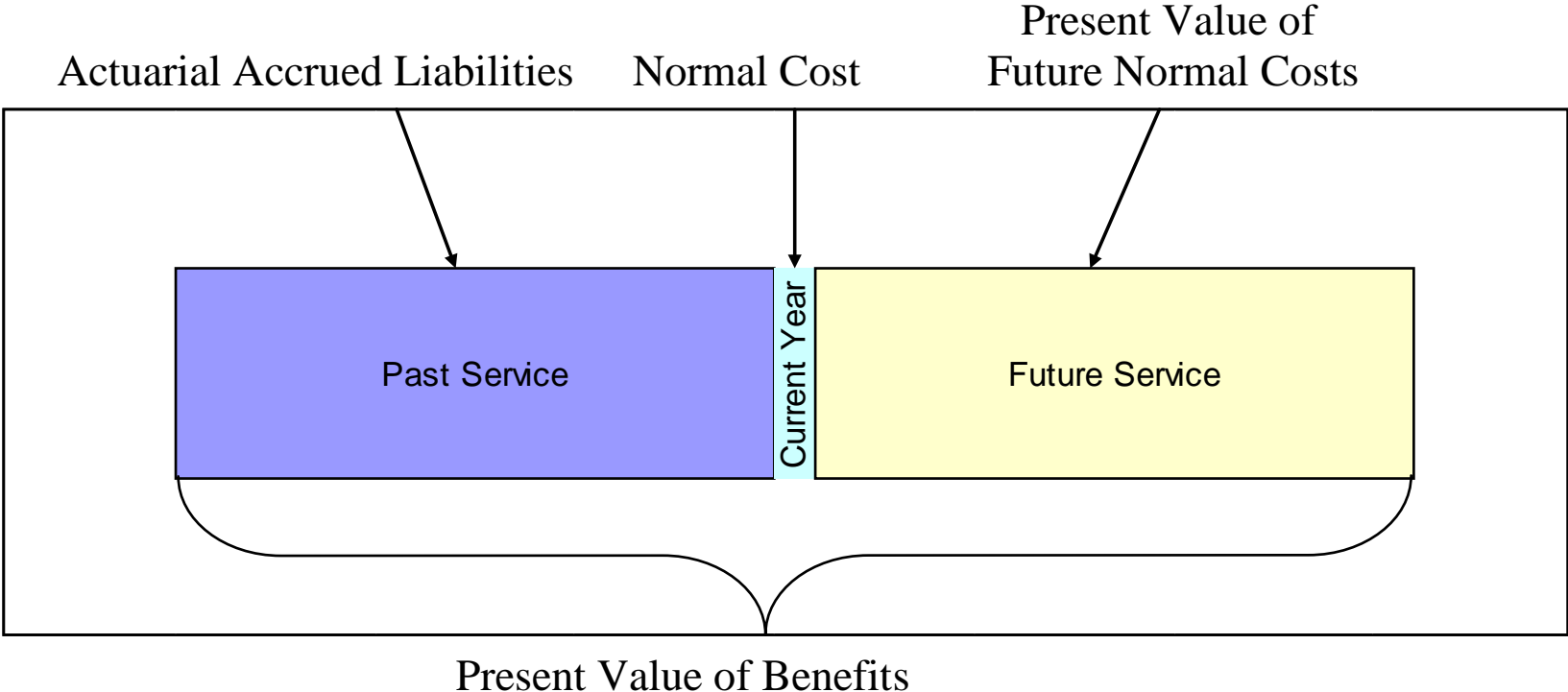


Assets



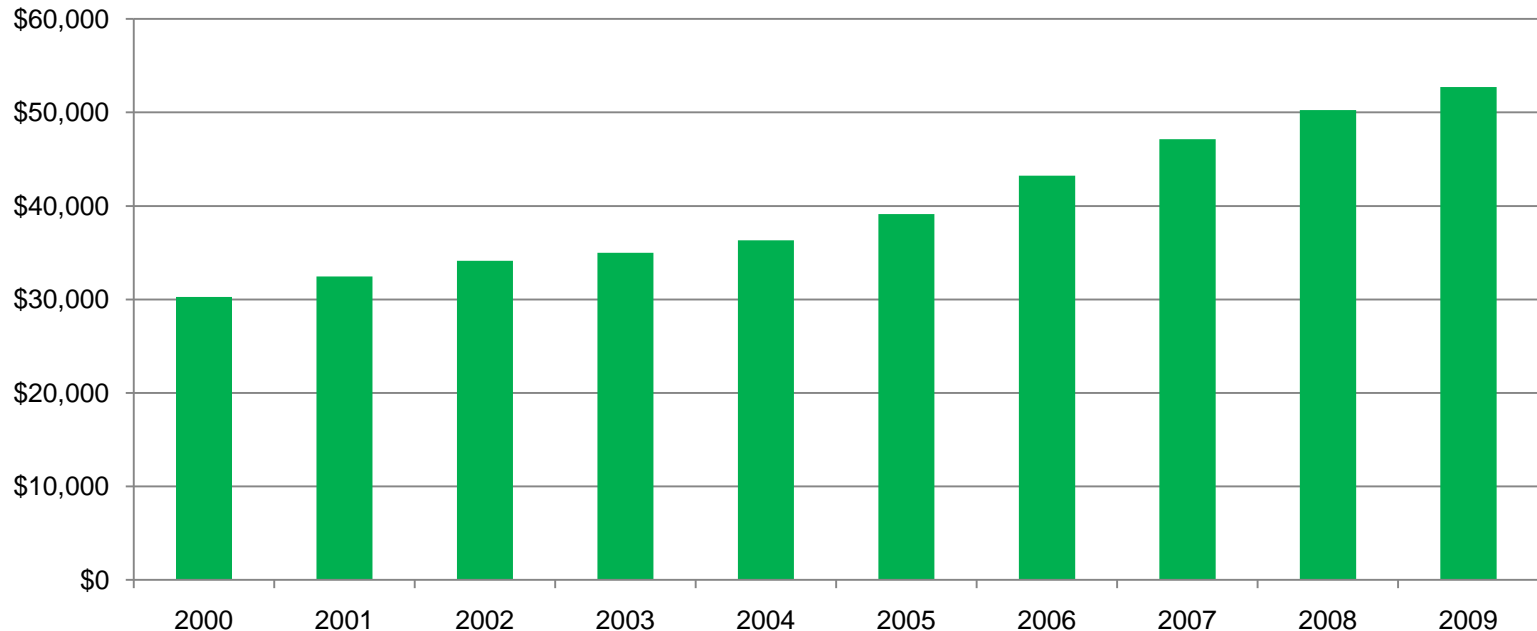
**Unfunded
Accrued
Liabilities**

Projecting Pension Liabilities



Liabilities Steadily Growing

**State Retirement and Pension System
Actuarial Accrued Liabilities
(\$ in Millions)**



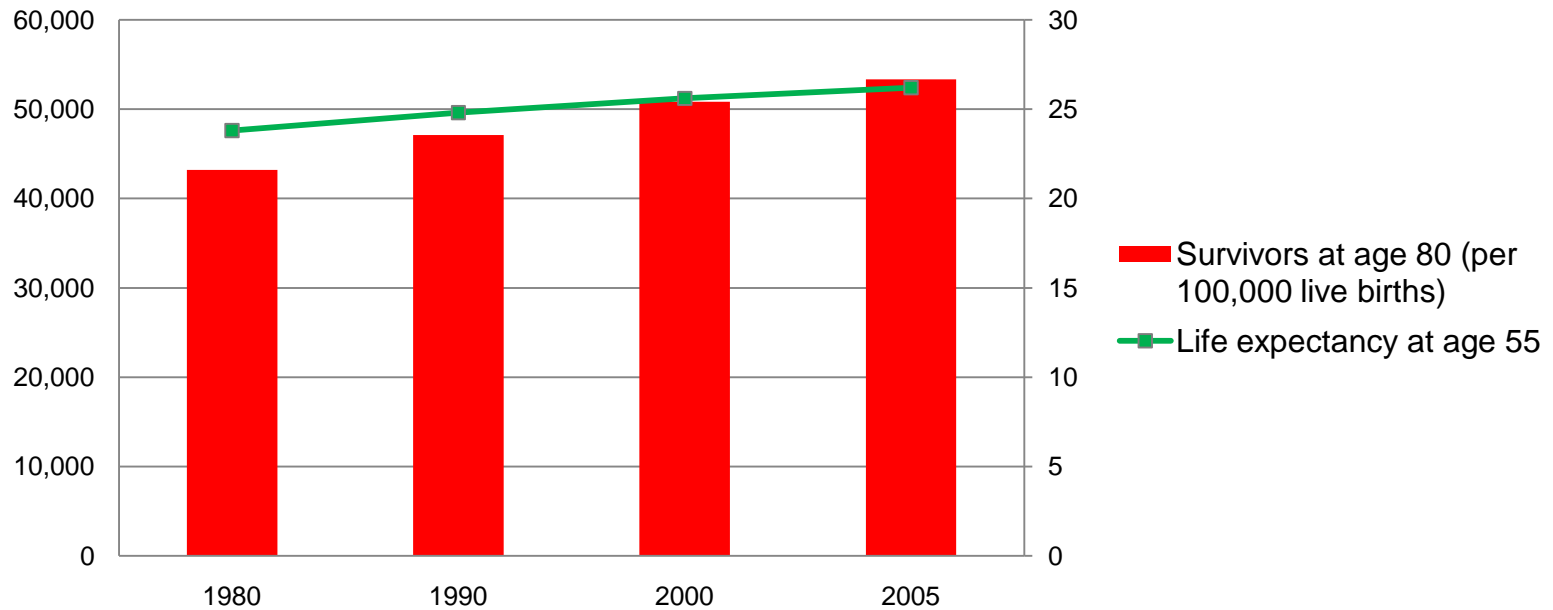
Source: State Retirement and Pension System

Multiple Reasons for Liability Growth

- Salary Increases
 - In fiscal 2007, 17 of 24 school systems awarded cost-of-living adjustments of at least 4%; in fiscal 2008, 21 school systems did so
- 2006 Benefit Enhancement
 - Retroactive benefit added \$1.9 billion to actuarial accrued liabilities
- Life Expectancy Rising

Life Expectancy for Retirees Increasing

U.S. Survivorship and Life Expectancy 1980-2005



Source: *National Vital Statistics Report*, March 2010, U.S. Department of Health and Human Services

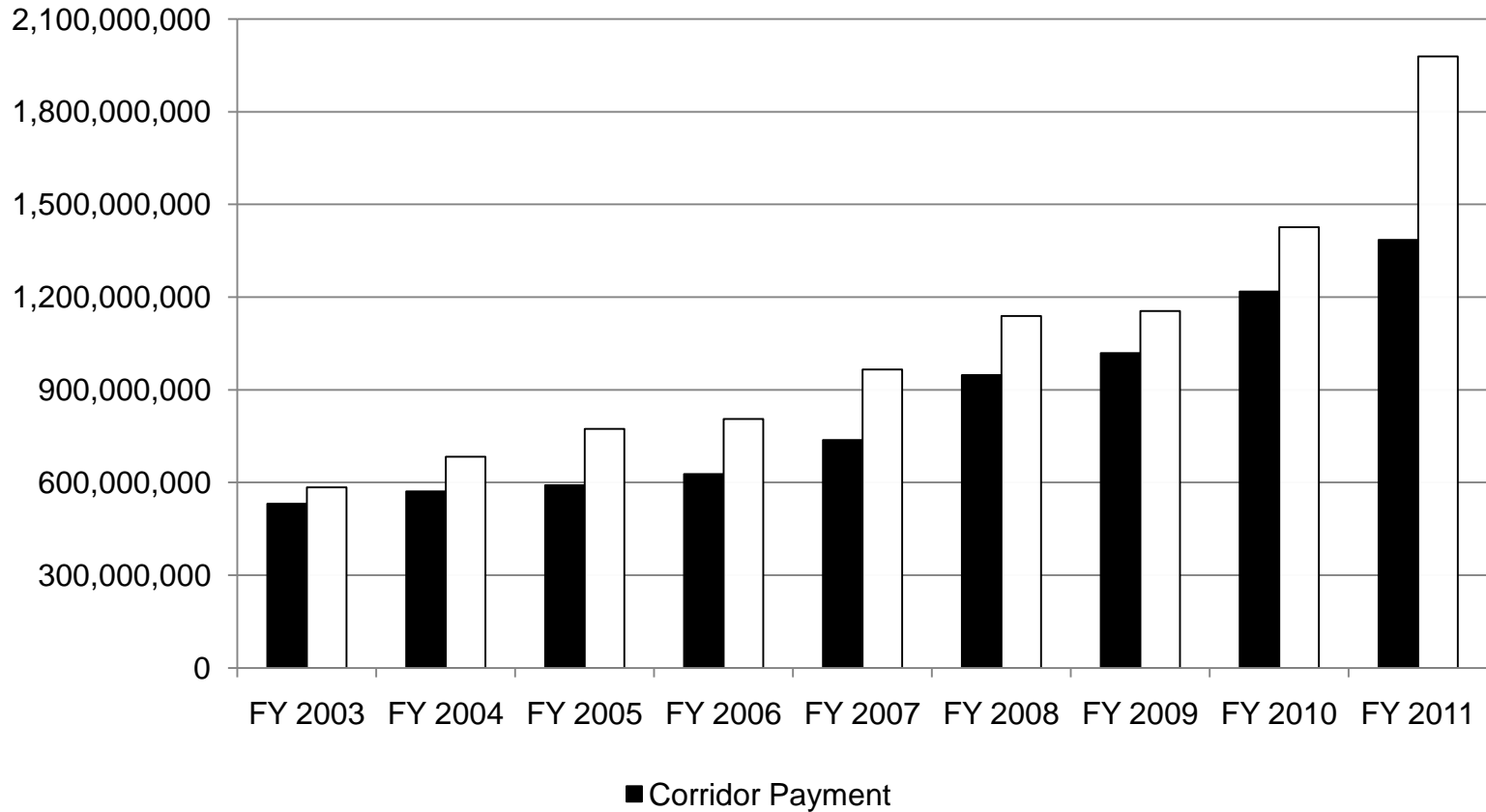
Sources of Assets: Employer Contributions

- Two components:
 - Normal cost
 - Amortization of unfunded accrued liabilities
- Contributions for teachers' and employees' plans subject to adjustment for corridor funding method

Corridor Funding Method

- Adopted in 2002
- Employer contribution rates in teachers' and employees' plans frozen at 2000 level as long as funded status was between 90 and 110%
- When plans fall out of their respective corridors, rates increase one-fifth of the difference between previous year's budgeted rates and the current year's "full" actuarial rate

Corridor Method Saves General Funds.... and Adds Minimally to Unfunded Liabilities



Sources of Assets: Employee Contributions

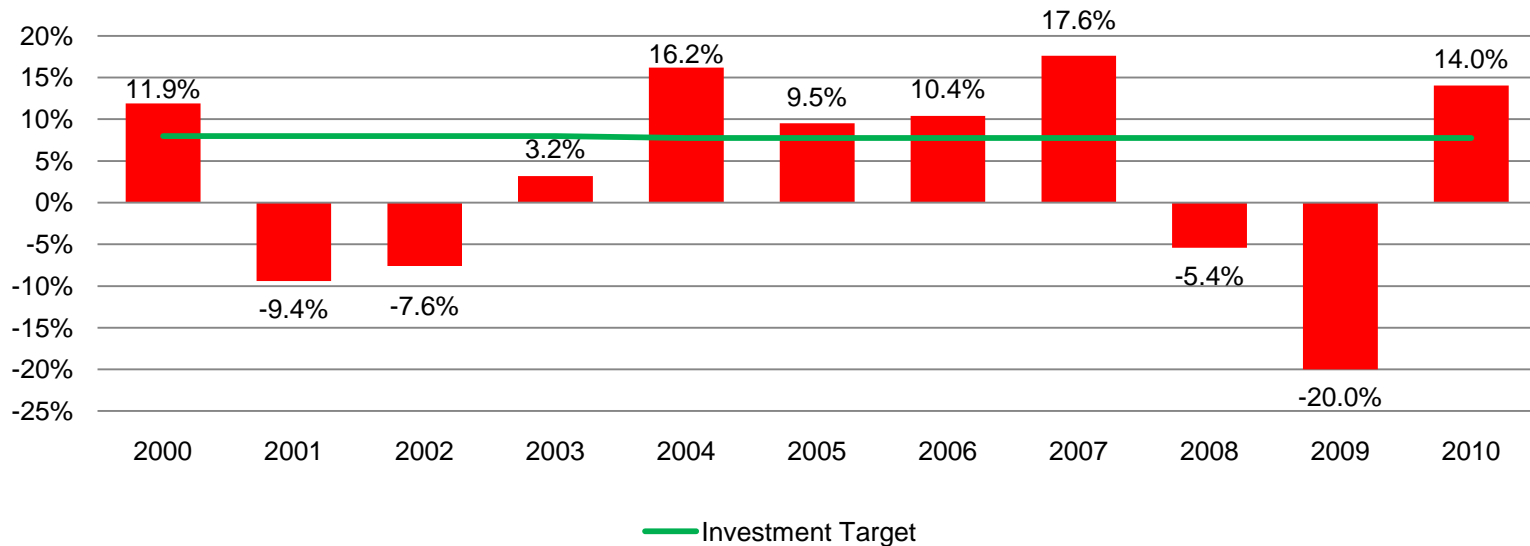
- All State plans are contributory, with contributions set in statute as a fixed percent of pay
- Employee contributions range from 4 to 8%, with the vast majority of members paying 5%
- Employee and teacher contribution rates increased from 2 to 5% under the 2006 enhancement
- Member contributions generated \$532 million in fiscal 2009

Sources of Assets: Investment Returns

- Pension trust fund allows for investment of system assets to pay long-term benefits
- Target is 7.75% annual return
- Annual market gains and losses “smoothed” over five years
- Actuarial value of assets (AVA) reflects effect of asset smoothing
- Asset “collar” dictates that AVA cannot be more than 120% or less than 80% of market value

The Lost Decade

State Retirement and Pension System
Annual Investment Returns
Fiscal 2000-2010



Source: State Retirement and Pension System

- Annualized returns of 2.1% over the past 10 years; S&P 500 returned -.6% on an annualized basis.

Asset Allocation Has Evolved

State Retirement and Pension System Asset Allocation Fiscal 2007-2010

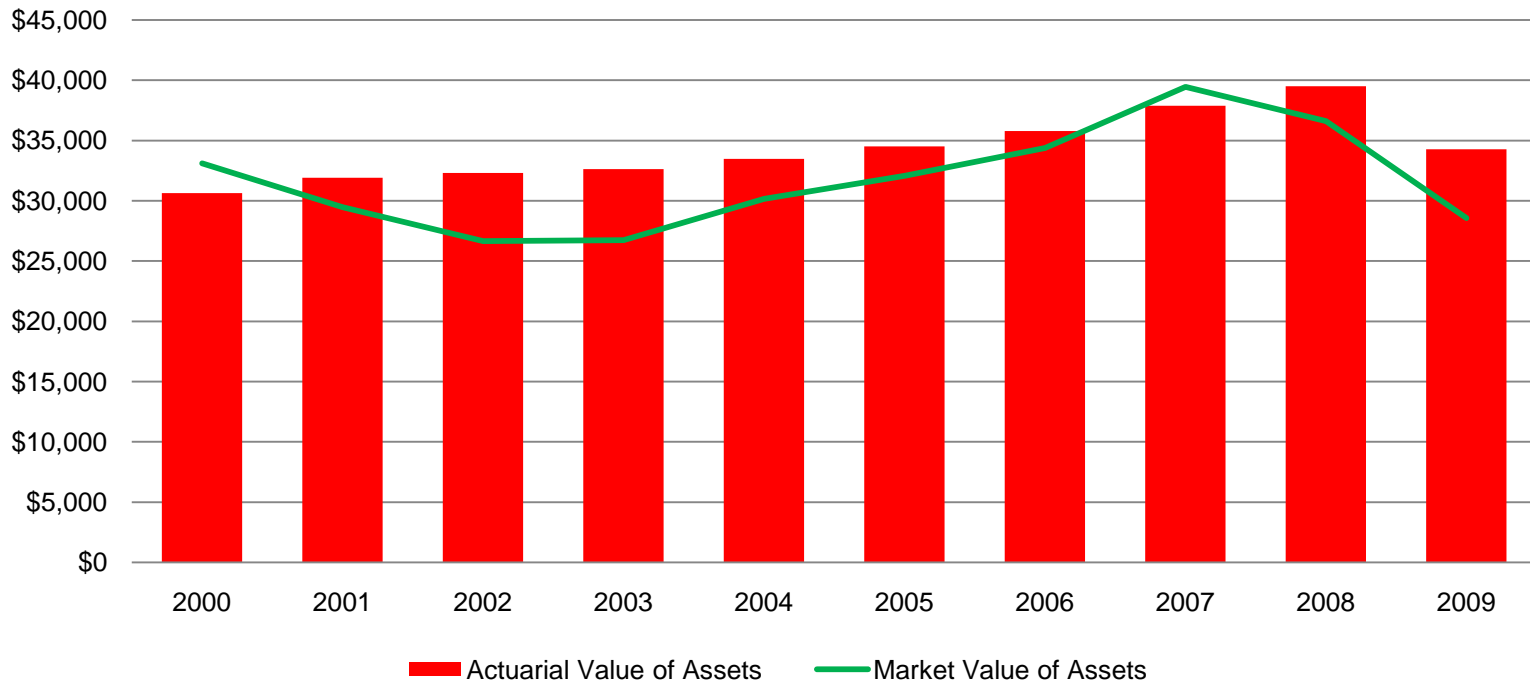
	<u>6/30/2007 Allocation Target</u>	<u>6/30/2008 Allocation Target</u>	<u>6/30/2009 Allocation Target</u>	<u>6/30/2010 Allocation Target</u>	<u>6/30/2010 Actual Allocation</u>
Public Equity					
Domestic Stocks	40%	27%	12%	12%	20%
International Stocks	13%	16%	12%	12%	22%
Global Equity	10%	14%	12%	12%	9%
Total Public Equity	63%	57%	36%	36%	51%
Private Equity	2%	5%	15%	10%	3%
Real Estate	5%	10%	10%	10%	6%
Fixed Income	28%	17%	15%	15%	19%
Real Return Strategies	2%	5%	10%	10%	11%
Absolute Return	n/a	5%	10%	7%	4%
Credit Opportunity	n/a	n/a	2%	10%	3%
Cash and Other	n/a	1%	2%	2%	2%
Total Assets	100%	100%	100%	100%	100%

Note: Columns may not add to total due to rounding.

Source: State Retirement Agency, State Street Analytics

Smoothing Eases Volatility

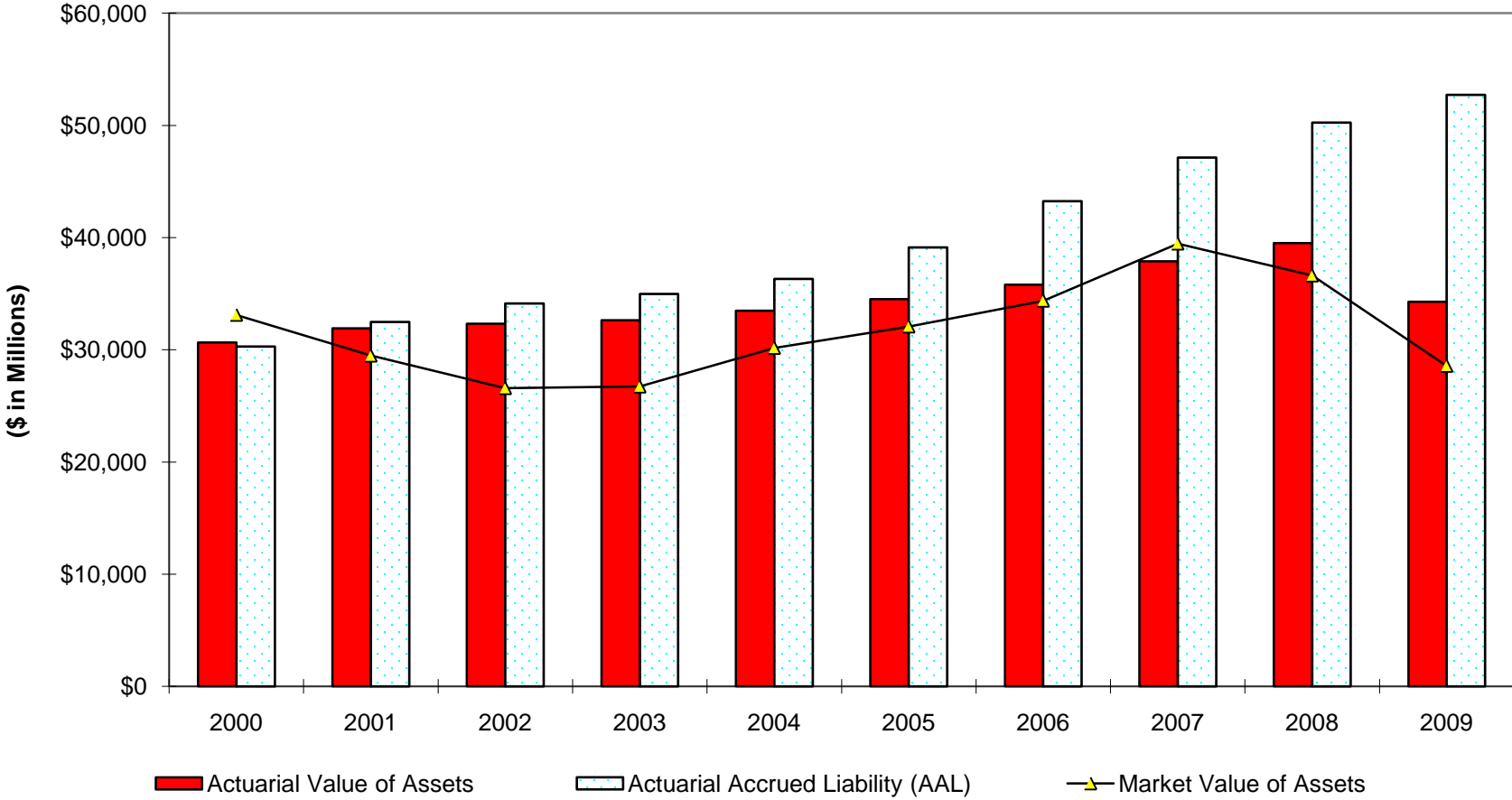
**State Retirement and Pension System
Market vs. Actuarial Value of Assets**
(\$ in millions)



Source: State Retirement and Pension System

Conclusion #1

We Cannot Expect to Invest Our Way Out of This



Source: State Retirement and Pension System

Conclusion #2

The Problem Is Getting Worse

- It is too late to address funding gap for fiscal 2012
- Solutions designed to reduce current funding gap must address ***accrued*** liabilities