



**MARYLAND**  
DEPARTMENT OF  
BUDGET & MANAGEMENT

MARTIN O'MALLEY  
Governor

ANTHONY BROWN  
Lieutenant Governor

T. ELOISE FOSTER  
Secretary

DAVID C. ROMANS  
Deputy Secretary

**MEMORANDUM**

**TO:** Participating Governmental Units

**FROM:** T. Eloise Foster *TEF*  
Secretary

**DATE:** January 31, 2011

**RE:** Administration Proposal for Pension Reform

As you may know, Governor O'Malley's FY 2012 budget submission includes a proposal to preserve pensions for State Retirement and Pension System members. I am writing to you because your government unit participates in one or more of the System's plans and to be sure you are aware of the specific changes that are being proposed and how they may impact your employees. The most significant effect will be on state and local employees who are members of the Alternate Contributory Pension System and employees hired after July 1, 2011.

In crafting this reform proposal, the Administration sought to preserve a defined benefit retirement plan for employees, to reduce the System's unfunded liabilities, to increase the System funding level, and to ensure the System's sustainability. The proposal achieves these goals and does so in a way that balances our commitment to our employees with our obligation to taxpayers to be fiscally responsible.

It is important to note that the Administration's pension reform proposal has no impact on current retirees nor does it impact benefits earned prior to July 1, 2011. The changes do, however, impact benefits earned after June 30, 2011 by both vested and non-vested active employees and will impact new hires as well.

Attached is a fact sheet outlining the Administration's reform proposal and providing answers to a number of questions you and your employees may have as to the impact of the reforms. Please feel free to share this fact sheet as you deem appropriate. The document is also available on the Department of Budget and Management website at the following web address: <http://dbm.maryland.gov/agencies/operbudget/Documents/2012/ProposedRetirementChanges.pdf>

If the General Assembly approves the reform proposal, additional information on the plan and its impact on members will be provided through the Maryland State Retirement Agency.

Thank you.

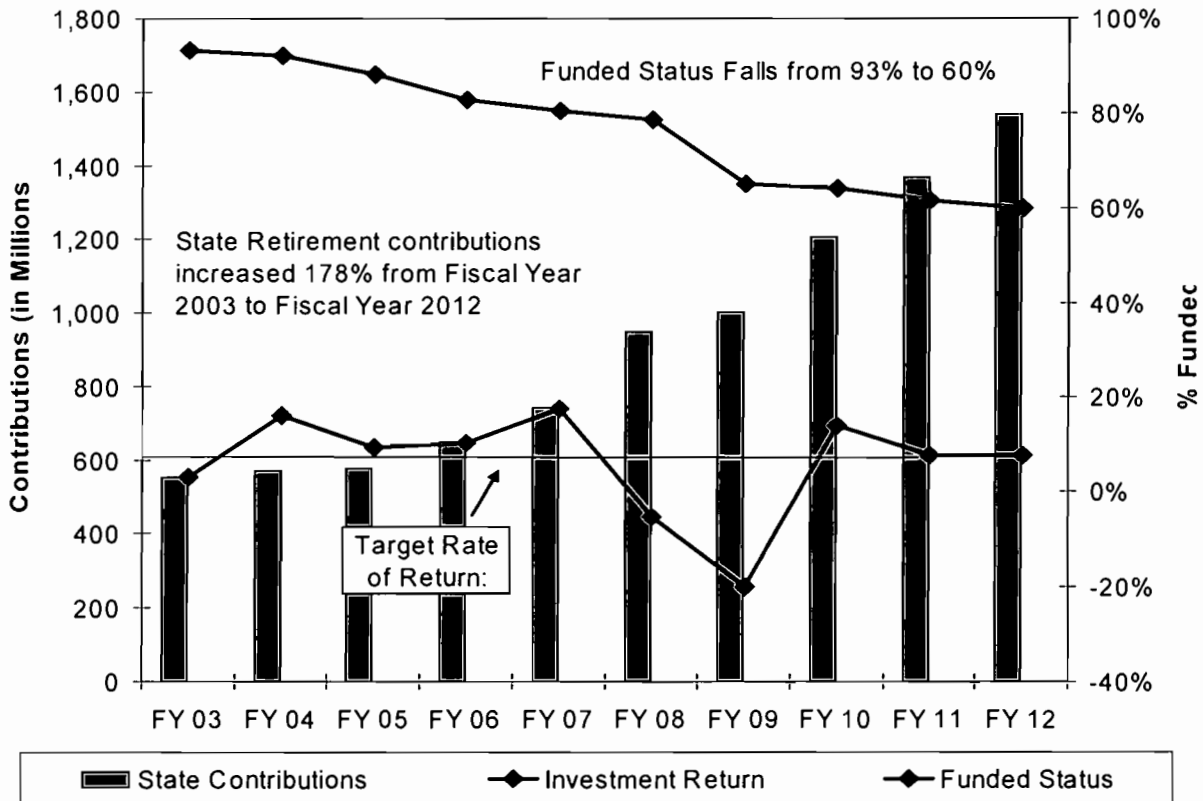
## Retirement Reform Proposal January 2011

The fiscal 2012 budget submitted to the General Assembly includes the retirement reform proposal detailed below which will help preserve pensions for Retirement System members. The General Assembly will deliberate on the plan in the coming weeks. If the General Assembly approves the reform proposal, additional information on the plan and its impact on members will be provided through the Maryland State Retirement Agency.

### Why Reform Now?

- Maryland's Unfunded Pension Liability as of June 30, 2010 is \$19 Billion.
- Due largely to investment losses, the pension system funding level has dropped from 93% in 2003 to a projected 60% in 2012.
  - The decline has occurred despite a near tripling of the state contribution from \$555 million in FY 2003 to about \$1.5 billion in FY 2012.
  - The U.S. Government Accountability Office suggests that a healthy system is at least 80% funded.

Retirement Funded Status Declines Despite Increased State Contributions



### What are the Goals of the Reform Plan?

- Sustainable Retirement Benefits
- Preserve Defined Benefit
- Reduce Unfunded Liability
- Increase System Funding Level

### Does the Plan Impact Benefits for Current Retirees?

No.

### Does the Proposal Impact Benefits I have already earned?

No. The proposal has no impact on pension benefits already earned by active or former teachers/employees. Additionally, most active members of the Plan continue to be eligible for Social Security Benefits.

### Which Retirement Systems' Are Impacted by the Plan?

New hires and active employees in the systems listed below may be impacted by the Pension Reform proposal.

	New Hires	Actives	Retirees
Employees' Pension System	Yes	Yes	No
Teachers' Pension System	Yes	Yes	No
State Police	Yes*	Yes*	No
LEOPS	Yes*	Yes*	No
Judges	Yes	No	No
Governor/Legislature	Compensation commission to review benefit/cost sharing structure	Compensation commission to review benefit/cost sharing structure	No

\*Deferred Retirement Option Program closed to non-vested actives and new hires.

## What Are the Reform Proposals?

### Teachers' and Employees' Pension System – Active Members

- Benefit Multiplier/Employee Contribution – Employee Choice
  - One-time choice for employees with change effective 7/1/11
  - Earn current 1.8% multiplier for future years of service but pay higher employee contribution (7%); or
  - Reduce multiplier to 1.5% for future years of service & Maintain 5% Employee Contribution
- For non-vested members, those members having less than 5 years of eligibility service, Average Final compensation will be calculated using highest consecutive 5 years rather than 3 years.
- For active vested members of the teachers and employees system, the only change is the option of a 7% contribution rate in order to maintain the current multiplier, or the option of a 5% contribution rate and a decreased multiplier of 1.5% on future service.

### Teachers' & Employees' Pension System - New Hires (Hired after 6/30/11)

- Defined Benefit Plan with Following Characteristics:
  - Employee Contribution of 7%
  - Benefit Multiplier of 1.5%
  - Average Final Compensation Using 5 rather than 3 Years
  - Unreduced Benefit Available at Any Age with 30 Years Eligibility Service or Age 65 with 10 Years of Eligibility Service
  - Reduced Early Service Retirement at Age 60 with 15 Years Eligibility Service
  - Vesting at 10 Years Eligibility Service
  - Retiree compounded COLA capped at 3% if system achieves or exceeds its investment return target in prior year; 1% for years when rate of return is not achieved.

### State Police and Law Enforcement Officers Pension System

- Close Deferred Retirement Option Program (DROP) to new employees and non-vested current employees
- No changes for current DROP participants.
- No changes for vested active employees.

## **Judges**

- New judges on and after July 1, 2011 to pay 8% of salary toward pension (active judges pay 6%)
- No changes for active judges.

## **General Assembly/Governor**

Compensation Commissions to review pensions

### **What Impact Will the Changes Have on System Funding?**

Savings from the reform proposal will be reinvested in the system to improve sustainability. The pension reform proposal will facilitate pension systems return to financial health.

### **Does the Proposal impact benefits or employee contributions for participants in the Correctional Officers' Retirement System?**

No.

### **Does the Proposal impact benefits or employee contributions for participants in the Employees' Retirement System?**

No

### **Does the Proposal impact benefits or employee contributions for participants in the Teachers' Retirement System?**

No

### **How Does Benefit Multiplier Work?**

Example A: Employee Earning a benefit multiplier of 1.8% for 30 years would receive a benefit = 54% of salary (1.8% multiplier x 30 years)

Example B: Employee Earning a benefit multiplier of 1.5% for 30 years would receive a benefit = 45% of salary (1.5% multiplier x 30 years)