



MSRP

Maryland

Teachers & State Employees

Supplemental Retirement Plans

457 • 401(k) • 403(b) • Match

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February 5, 2015
Senate Committee on Budget and Taxation
The Honorable Edward J. Kasemeyer, Chair

February 10, 2015
House Committee on Appropriations
Subcommittee on Public Safety and Administration
The Honorable Keith E. Haynes, Chair

Budget Position Statement and Response to Legislative Analysis
Michael T. Halpin, Executive Director
Debra L. Roberts, Director of Finance

Mister Chairmen and Members of the Committees, thank you for the opportunity to comment on the status of the Maryland Supplemental Retirement Plans (MSRP) and respond to the issues in the Department of Legislative Services analysis. We appreciate that the legislative analyst concurs with the Governor's allowance.

As calendar year 2014 ended, the Maryland Supplemental Retirement Plans reached another all-time high of \$3.35 billion in assets (see Attachment 1). This increase of about 5% was mainly attributed to investment gains but also to employee contributions. For the first time since 2008, we can report an increase in contributing participants by 0.6% (see Attachment 2).

That modest increase was won against the loss of contributing members through retirements and other job exits by achieving new Plan enrollments of about 300 per month. We haven't seen such sign-up totals since 2008. We credit this surge in new members to improving economic conditions, our consistent outreach statewide, and recent initiatives that place our simplified "Step-by-Step" form in the hands of more and more new-hires which asks them to join: check yes or no.

Part of our statewide outreach for the past two years has been our campaign with the tagline "Get back in the Game." By way of direct mail, email, statement messages and on-location events, we have steadily encouraged non-contributing members to restart their contributions. The contribution increases have gradually increased until last year we counted 40% more members increasing their MSRP deductions.

Add the increased contributions to the additional new-hire enrollments and we measure a 20% increase in total contributions last year. MSRP members added almost \$173 million to their retirement accounts last year (see Attachment 3)—more than in any previous year (excluding employer match contributions).

Another attractive Plan feature began a little over 3½ years ago. In 2011 the MSRP Board authorized Roth contributions to the 457(b) and 401(k) Plans. Since then, Roth totals in these two Plans have accumulated more than \$12 million as designated by about 2,400 members. Of course, a Roth option appeals to many employees who expect to pay a higher rate of federal taxes in retirement and can afford the choice to contribute after-taxes now. Still, many are surprised that MSRP offers Roth contribution options, and that typical IRA restrictions like pension coverage exclusions and income limits do not

apply. Roth “after-tax” contributions combined with any “pre-tax” deferrals may not exceed the federal annual limit of \$18,000 per Plan in the year 2015, plus any catchup amounts. But 5 years after the first contribution to those Roth accounts, an eligible withdrawal is not subject to federal income tax. Late last year the Board adopted provisions to permit members to convert portions of MSRP pre-tax balances to Roth accounts within the Plans, with the employee’s payment of income taxes due for the current tax year on the converted amount. Several members have already exercised a conversion option.

MSRP’s ultimate purpose is to help employees build a sound financial future. Last year’s data indicate that we helped quite a few members to achieve some of that. MSRP distributed almost \$215 million to participants in 2014, exceeding all prior year records (see Attachment 4). At about \$18 million per month, our payouts were 17.5% higher than the prior year.

The Department of Legislative Services (DLS) recommends that MSRP discuss the strategies that are in place to recruit more employees into the plan.

The MSRP Board of Trustees has long carried out a robust program of education and personal service to State employees encouraging their early enrollment in the supplemental retirement plans and their persistent contributions, when affordable, to take advantage of the long-term benefits of MSRP.

Over the years we have perfected a multi-factored approach to support the voluntary MSRP participation of State employees. We have worked hard to get the attention of all employees and we have made it easier for them to access MSRP information, easier to attend MSRP educational events, and easier to enroll or change contributions.

MSRP has covered customary program approaches with website resources, targeted mailings, email reminders, and after-hours toll free customer service by phone. But we take the extra step of putting Team MSRP on the ground and in person across the State. The Board commits staff to make educational presentations to employees in their workplaces. We contract with Nationwide, our plan administrator, to provide licensed representatives to enroll new members and service ongoing participants where they work. In addition, we have Personal Retirement Consultants dedicated to assist MSRP members who are about to or who have recently retired with the transition to an individualized plan for utilizing pension and social security and MSRP assets and other resources.

We work to schedule visits and seminars in all work locations, and have redesigned seminars to accommodate busy schedules and coordinate with lunch breaks. We promote a regular curriculum of retirement planning and investment subjects in a Workshop of the Month program. This year we are continuing our MSRP SAVING\$ EXPOs in Baltimore and Annapolis, but we are taking a county-by-county tour of financial wellness events to reach additional State employees.

DLS recommends that the agency discuss the reasons for the underperformance of several funds and whether any changes are planned to the menu of investment options. The agency should also discuss the reasons for closing three funds that were not on the watch list.

The legislative analyst provides an excerpt of the September 2014 score chart of the performance of MSRP mutual fund options versus their benchmarks for one, three and five year periods. The actual performance numbers and an analysis of each fund's strategies and selections are discussed with the Board's investment advisor, Segal Rogerscasey, on a quarterly meeting schedule. Carefully following the MSRP Investment Policy, the performance reports over several periods and possibly other metrics are brought together for the Board's decision process and possibly addition to a watch list. The September 2014 performance review along with recent company outflows, and the departure of Mr. Bill Gross, resulted in the Board placing the PIMCO Total Return Fund on the watch list.

Other sub-par performance will be revisited at the Board's next meeting, with the added perspective of December 2014 performance information. Looking back, the American Funds Growth Fund of America was removed from the watch list in 2013 after several quarters of solid performance. The Morgan Stanley Institutional Fund was removed from the watch list in March of 2014 after achieving positive numbers for one, five and ten year periods ending December 2013 and March 2013.

The Board did recently approve the recommendation of Segal Rogerscasey to close three index funds in favor of other index funds. As explained to participants in their December 2014 account statements "In the long run, the Board expects that participants will experience less volatility with comparable returns by using the blended portfolios in the alternative "core" index funds." Members were informed that the Vanguard Small Cap Index Fund (VSCIX) had been opened in all plans, and that balances in the former options of the Vanguard Small Cap Growth Index Fund and the Vanguard Small Cap Value Index Fund would be transferred on February 18th to the new Small Cap "core" index option. In similar fashion, balances in the large-cap Vanguard Value Index Fund would be transferred on February 18th to the existing S&P 500 index fund, the Vanguard Institutional Index Fund.

DLS recommends that the agency discuss the role that a match might play in encouraging members to save for retirement.

There is no disputing that a match program adds value and can stimulate additional contributions to MSRP. When funding is available within the overall perspective of compensation and benefits for State employees, many would appreciate the return of the match program.

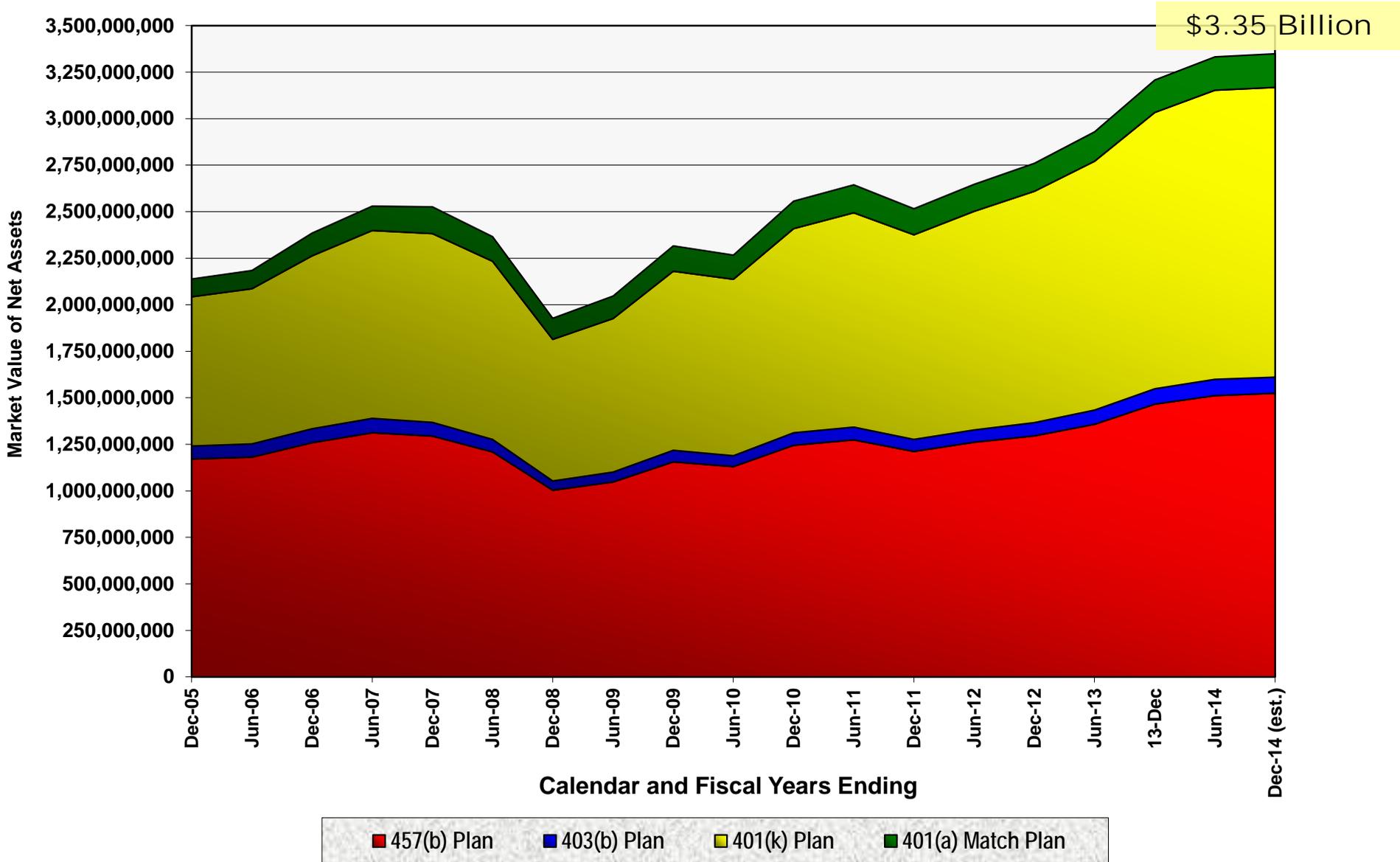
In the meantime, the MSRP Board continues to remind State employees of the importance of long-term retirement savings and to make affordable increases in savings,

no matter how small. We continue to pursue the implementation of our “Step-by-Step” form for new hire enrollments with a solid education program to help them start early with retirement savings.

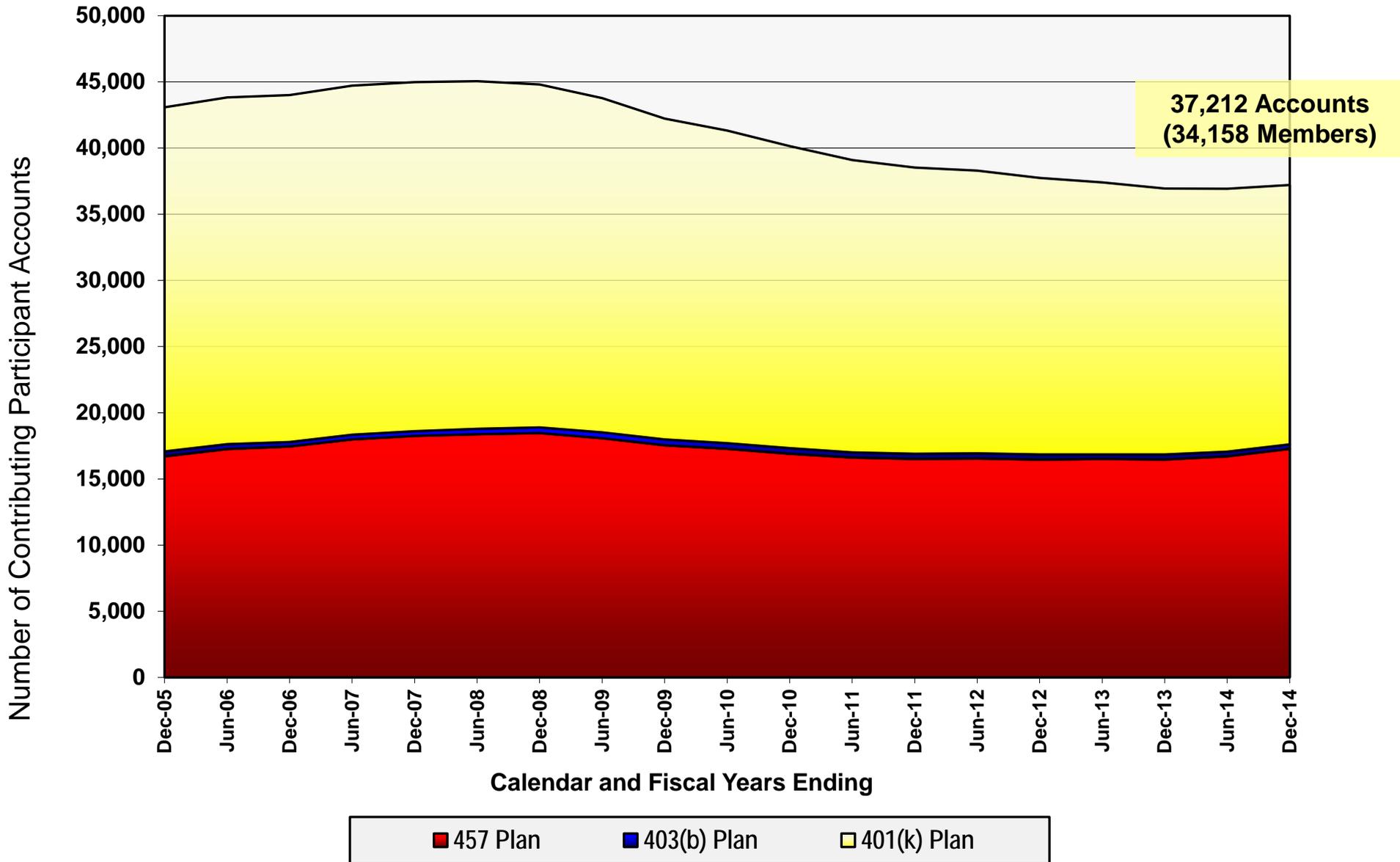
In conclusion, the MSRP Board of Trustees and staff appreciate this careful review and discussion of the Plans, and are grateful for the longstanding support of the Committees in these efforts. We are committed to work with you to protect the long-term financial interests of State employees and their families.

Attachments

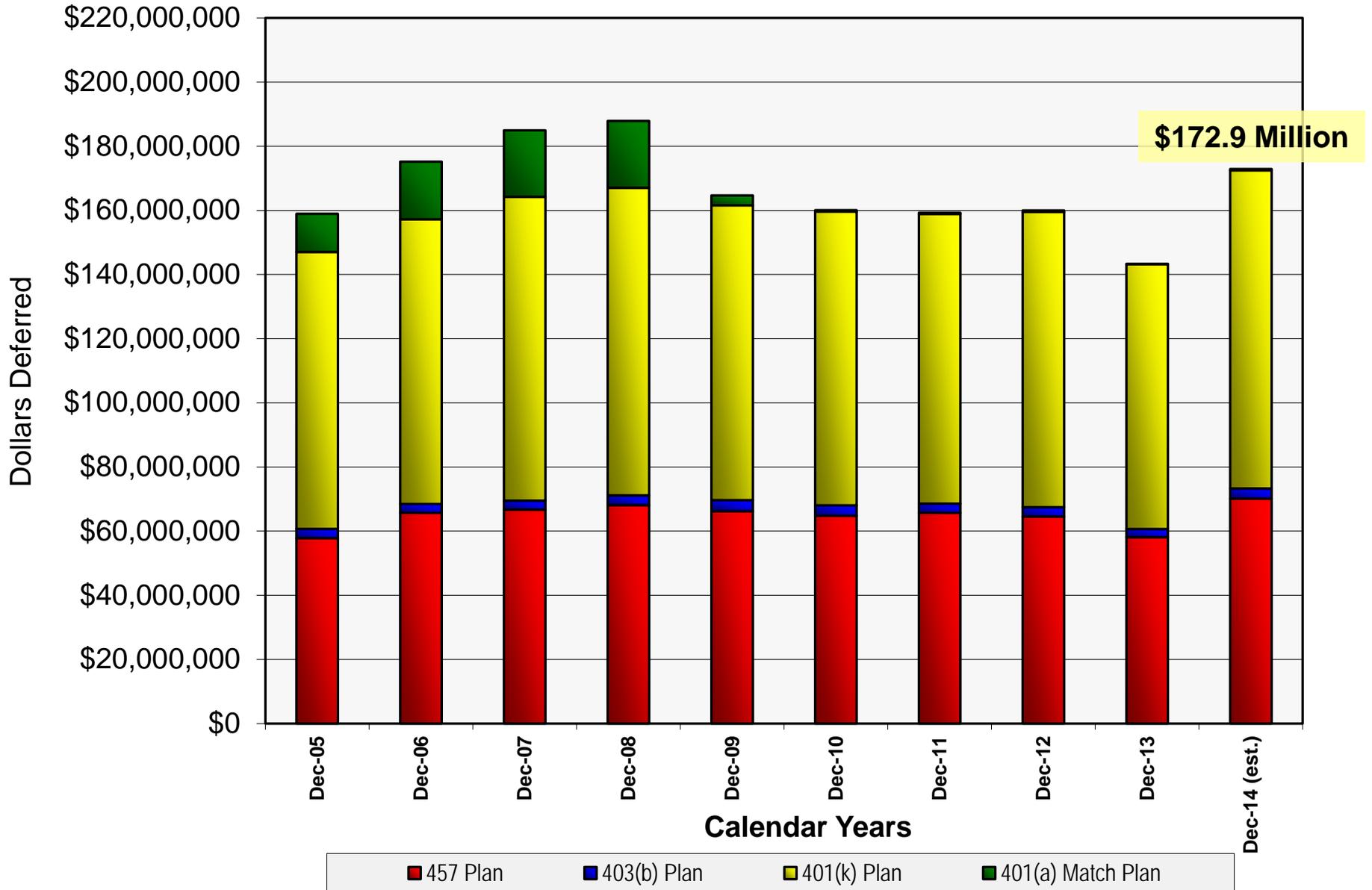
Total Assets in the Maryland Supplemental Retirement Plans



Number of MSRP Accounts with Active Contributions



Amounts Contributed to all MSRP accounts



Amounts Withdrawn from all MSRP accounts

