2011 Maryland Pension and Retiree Health Reform

Presentation to the National Conference of State Legislatures

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Maryland General Assembly

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Office of Policy Analysis
Annapolis, Maryland
2011 Maryland Pension and Retiree Health Reform

- Pension System Reform
- Retiree Healthcare Reform
- Fiscal Effects of Pension and Retiree Health Reform
2011 Maryland Pension and Retiree Health Reform

Pension Reform
Maryland State Retirement and Pension System - Overview

For all systems*:

- 197,720 active employee members.
- 120,247 retirees.
- 51,781 deferred vested former members.
- The system funded status was 64.1% with net assets of $32.0 billion.

*values are for the period from 7/1/2009 – 6/30/2010
The Road to Reform

• In fiscal 2009, the Maryland State Retirement and Pension Systems suffered investment losses of 20%, resulting in an $8.1 billion loss to the trust fund.

• By fiscal 2011, the State contribution reached $1.4 billion, with projected contributions reaching $3.1 billion by 2020.

• The Budget Reconciliation and Financing Act of 2010 established a Benefits Sustainability Commission to examine the challenges the systems face and make recommendations for reform to achieve a sustainable and affordable pension system.

• Comprehensive reform of the pension systems was enacted during the 2011 legislative session based on legislative deliberations and recommendations from the Benefits Sustainability Commission.
## Pensions – New Members Eligibility

<table>
<thead>
<tr>
<th></th>
<th>Before Reform</th>
<th>Reform – New Hires*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Vesting</td>
<td>5 years</td>
<td>10 years</td>
</tr>
<tr>
<td>EPS/TPS** Normal Retirement</td>
<td>Age 62 with 5 years or 30 years</td>
<td>Age 65 with 10 years or Rule of 90</td>
</tr>
<tr>
<td>EPS/TPS Early Retirement</td>
<td>Age 55 with 15 years</td>
<td>Age 60 with 15 years</td>
</tr>
<tr>
<td>SPRS^ Normal Retirement</td>
<td>Age 50 or 22 years</td>
<td>Age 50 or 25 years</td>
</tr>
</tbody>
</table>

*Changes apply to employees hired on or after July 1, 2011.

** Employees’ and Teachers’ Combined Pension Systems

^State Police Retirement System
## Pensions – New Members Benefit Multipliers

<table>
<thead>
<tr>
<th>EPS/TPS</th>
<th>Current Employee</th>
<th>Reform - New Hires*</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1.8% multiplier</td>
<td>1.5% multiplier</td>
</tr>
</tbody>
</table>

- A 1.8% multiplier will provide a retiree with 54% income replacement with 30 years of service.

- A 1.5% multiplier will provide retirees with 45% income replacement with 30 years of service.

*Changes apply to employees hired on or after July 1, 2011.*
Pensions – New Members
Average Final Compensation

<table>
<thead>
<tr>
<th></th>
<th>Before Reform</th>
<th>Reform – New Hires*</th>
</tr>
</thead>
<tbody>
<tr>
<td>EPS/TPS LEOPS**</td>
<td>3 consecutive years with highest average</td>
<td>5 consecutive years with highest average</td>
</tr>
<tr>
<td>CORS^ SPRS</td>
<td>3 years with highest average</td>
<td>5 years with highest average</td>
</tr>
</tbody>
</table>

*Changes apply to employees hired on or after July 1, 2011.
**Law Enforcement Officers’ Pension System
^ Correctional Officers Retirement System
Pensions – New and Current Members
Member Contributions

<table>
<thead>
<tr>
<th></th>
<th>Before Reform</th>
<th>Reform – Existing and New Members*</th>
</tr>
</thead>
<tbody>
<tr>
<td>EPS/TPS</td>
<td>5.0%</td>
<td>7.0%</td>
</tr>
<tr>
<td>LEOPS</td>
<td>4.0%</td>
<td>FY 2012: 6.0%</td>
</tr>
<tr>
<td></td>
<td></td>
<td>FY 2013+: 7.0%</td>
</tr>
</tbody>
</table>

- Member contribution increases take effect beginning 7/1/2011.
- LEOPS increase from 6.0% to 7.0% takes effect beginning 7/1/2012.
Other Pension Reforms

• A goal of achieving 80% funded status in 10 years was established in statute.
  – Portion of savings generated by the benefit redesign is reinvested in the pension fund, subject to a $300 million cap beginning in fiscal 2014.

• Cost of living increases linked to investment performance.
  – Applies only to service credit earned after June 30, 2011.
  – Cap is 2.5% if investment target is reached; 1.0% if it is not.

• All new State Police Deferred Retirement Option Program accounts opened after July 1, 2011 will earn 4% compounded annual interest (instead of 6% compounded monthly interest).

• Benefit reforms for judges and legislators referred for further study.
2011 Maryland Pension and Retiree Health Reform

Retiree Healthcare
## Retiree Health Prescription Drug Costs

<table>
<thead>
<tr>
<th></th>
<th>Before Reform</th>
<th>Health Benefit Reform</th>
</tr>
</thead>
<tbody>
<tr>
<td>Retiree Share of Premium</td>
<td>20%</td>
<td>25%</td>
</tr>
<tr>
<td>Copays</td>
<td>Generic: $5</td>
<td>Generic: $10</td>
</tr>
<tr>
<td></td>
<td>Formulary: $15</td>
<td>Formulary: $25</td>
</tr>
<tr>
<td></td>
<td>Non-formulary: $25</td>
<td>Non-formulary: $40</td>
</tr>
<tr>
<td>Out-of-pocket Limit</td>
<td>Individual: $700</td>
<td>Individual: $1,500</td>
</tr>
<tr>
<td></td>
<td>Family: $700</td>
<td>Family: $2,000</td>
</tr>
</tbody>
</table>
Retiree Health Eligibility Criteria

<table>
<thead>
<tr>
<th></th>
<th>Before Reform</th>
<th>Reform – New Hires</th>
</tr>
</thead>
<tbody>
<tr>
<td>Benefit Eligibility</td>
<td>5 years</td>
<td>10 years</td>
</tr>
<tr>
<td>Full Subsidy</td>
<td>16 years</td>
<td>25 years</td>
</tr>
<tr>
<td>Prescription drugs</td>
<td>State Plan</td>
<td>Medicare Part D in 2020</td>
</tr>
</tbody>
</table>

- Eligibility changes (except for Part D) apply only to new State employees hired after June 30, 2011.

- Subsidy changes apply to retirees beginning in fiscal 2012.

- Prescription drug coverage shall be discontinued for Medicare eligible retirees starting in fiscal 2020.
Fiscal Effects
Pension Reform
Fiscal Effects

• Changes reflect an estimated overall savings of $320 million in fiscal 2012. Projected savings grow to $602 million by fiscal 2022.

• An additional $200 million will be contributed to the system trust fund in fiscal 2012.

• Up to $300 million in reform savings will be contributed to the trust fund in fiscal 2014 and beyond to accelerate achieving funded status targets.

• The system is projected to reach 80% funded status by fiscal 2023 under the reform provisions, and 100% funded status by fiscal 2030.
Pension Reform
Fiscal Effects

Exhibit 2
Projected SRPS Funded Status

Fiscal Year

- Pre-Reform
- Reform with Reinvestment
Pension Reform
Fiscal Effects

Exhibit 1
Projected Total State Pension Contributions

$ in millions
Fiscal Year


$0 $500 $1,000 $1,500 $2,000 $2,500 $3,000 $3,500 $4,000

Pre-Reform  Reform without Reinvestment  Reform with Reinvestment
Retiree Health
Fiscal Effects

- Eligibility and cost-sharing changes reduce OPEB liability from $15.9 billion to $9.2 billion ($6.7 billion reduction) and the annual required contribution from $1.22 billion to $690 million ($534 million reduction).

- Changes to prescription drug subsidy and copays for retirees generates $13.9 million in general fund savings in fiscal 2012.

- Additional $6.3 million in general fund savings in fiscal 2012 from changes to prescription drug plan for active employees.
2011 Maryland Pension and Retiree Health Reform

For further information:

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