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# 2011 Maryland Pension and Retiree Health Reform

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## **Presentation to the National Conference of State Legislatures**

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# 2011 Maryland Pension and Retiree Health Reform

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

# 2011 Maryland Pension and Retiree Health Reform

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## Pension Reform

# Maryland State Retirement and Pension System - Overview

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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

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- 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

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

\*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

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	<b>Current Employee</b>	<b>Reform - New Hires*</b>
EPS/TPS	1.8% multiplier	1.5% multiplier

- 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

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	<b>Before Reform</b>	<b>Reform – New Hires*</b>
EPS/TPS LEOPS**	3 consecutive years with highest average	5 consecutive years with highest average
CORS^ SPRS	3 years with highest average	5 years with highest average

\*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

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	<b>Before Reform</b>	<b>Reform – Existing and New Members*</b>
EPS/TPS	5.0%	7.0%
LEOPS	4.0%	FY 2012: 6.0% FY 2013+: 7.0%

- 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

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- 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

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## Retiree Healthcare

# Retiree Health Prescription Drug Costs

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	<b>Before Reform</b>	<b>Health Benefit Reform</b>
Retiree Share of Premium	20%	25%
Copays	Generic: \$5 Formulary: \$15 Non-formulary: \$25	Generic: \$10 Formulary: \$25 Non-formulary: \$40
Out-of-pocket Limit	Individual: \$700 Family: \$700	Individual: \$1,500 Family: \$2,000

# Retiree Health Eligibility Criteria

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	<b>Before Reform</b>	<b>Reform – New Hires</b>
Benefit Eligibility	5 years	10 years
Full Subsidy	16 years	25 years
Prescription drugs	State Plan	Medicare Part D in 2020

- 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.

# 2011 Maryland Pension and Retiree Health Reform

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## Fiscal Effects

# Pension Reform

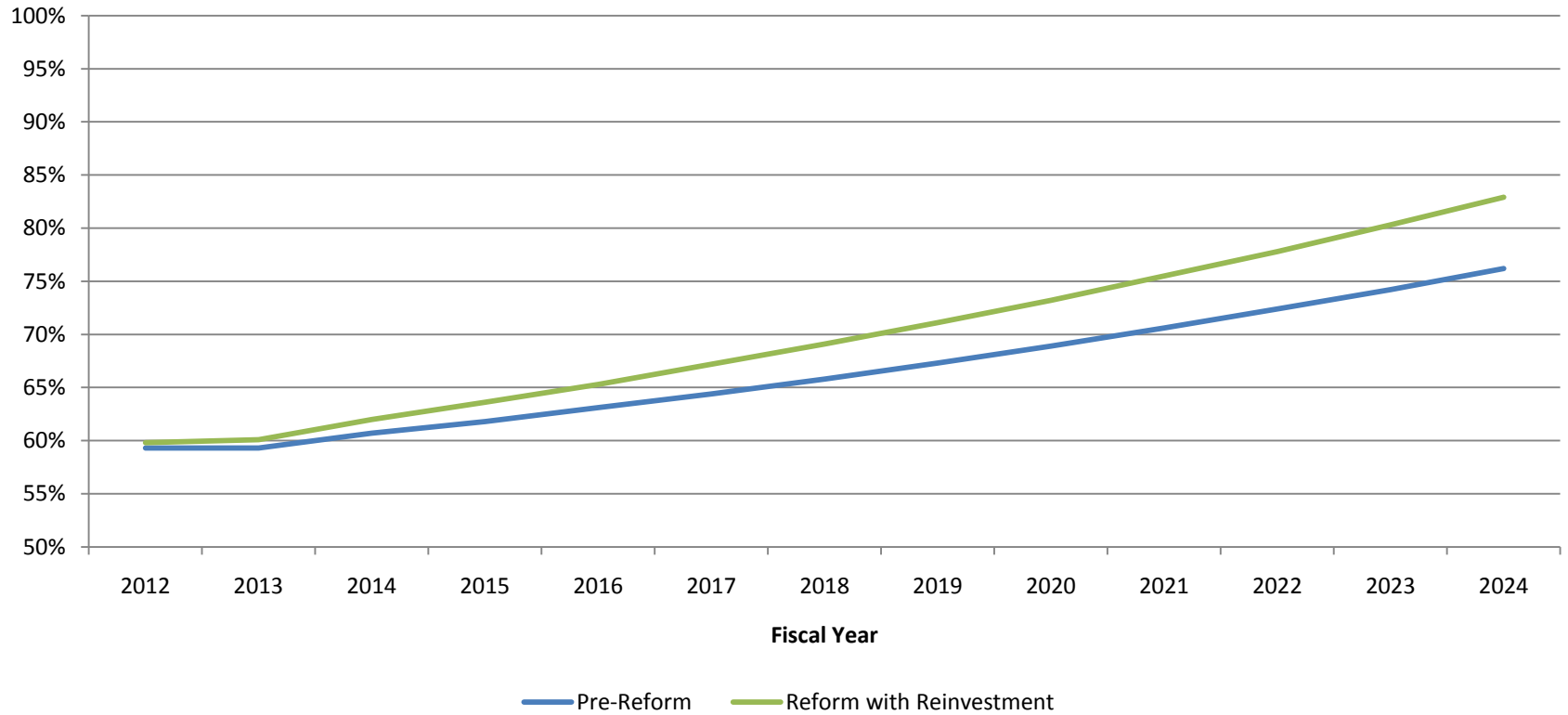
## Fiscal Effects

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- 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

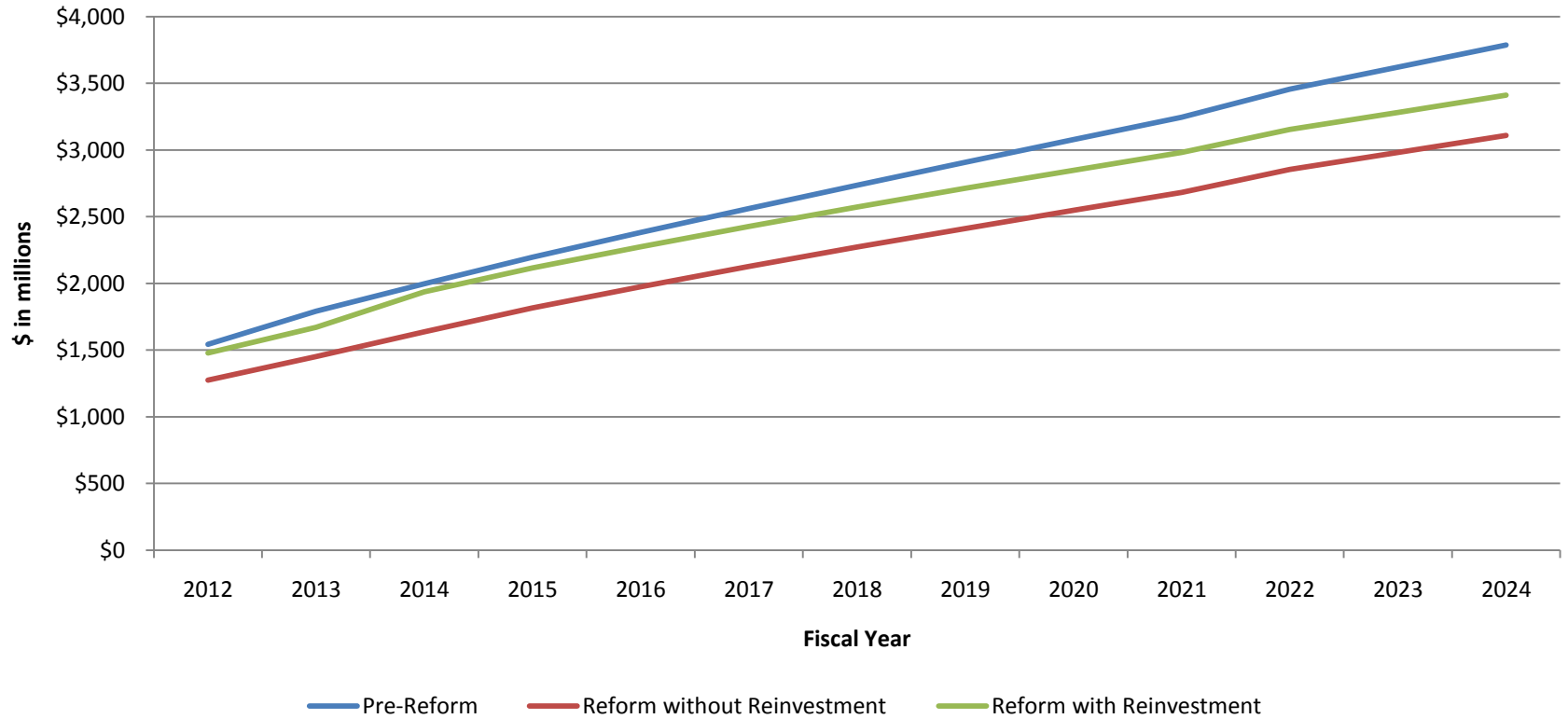
**Exhibit 2**  
**Projected SRPS Funded Status**





# Pension Reform Fiscal Effects

**Exhibit 1**  
**Projected Total State Pension Contributions**



# Retiree Health Fiscal Effects

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- 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.

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