AARP IN THE STATES

OVERVIEW: Maryland State Retirement and Pension System

The **Maryland State Retirement and Pension System** provides a defined benefit (DB) fund for public employees. It offers a modest but stable monthly income over a retiree's life. DB pensions help to recruit and retain experienced employees.

The spending from the pension checks of the 159,863 retired public employees helps support:

$6.5 billion
in economic output in Maryland.

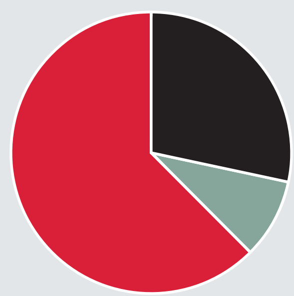
43,006 jobs
paying $2.5 billion in wages supported by retirees' spending from public pensions in Maryland.

$1.5 billion
in federal, state, and local tax revenues based on spending of pension benefits in Maryland.

Pensions are a good deal for taxpayers:

Funding of public employee pensions is shared by employees and employers. New employees contribute 5% or 7% of their pay into the fund. Over time, investment income earned by the fund does most of the work. In fact, between 1993 and 2018, taxpayers (via employer contributions) paid only 28.59% of the cost of pension benefits in Maryland.

62.4% Investment Earnings



28.6% Employer Contributions

9.0% Employee Contributions

Key facts about the plan and its benefits:

188,999
Total active members of Maryland State Retirement and Pension System.

45%
After a 30-year career, a pension benefit from the fund will replace 45% of an employees' pre-retirement income.

$1,503
Average pension benefit paid to retired members each month.

Pension benefits are a good deal for the economy too:

Each dollar "invested" by Maryland taxpayers (employers) in these plans supported $4.86 in total economic activity in the state.

$1.00 → **$4.86**

All data come from retirement system financial reports, Public Plans Database, or the National Institute on Retirement Security.

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PRIMER: Maryland State Retirement and Pension System

The Maryland State Retirement and Pension System provides benefits to qualified state employees, teachers, state police, law enforcement officers, and correctional officers.

The Maryland State Retirement and Penison System Pension Works for Maryland Stakeholders

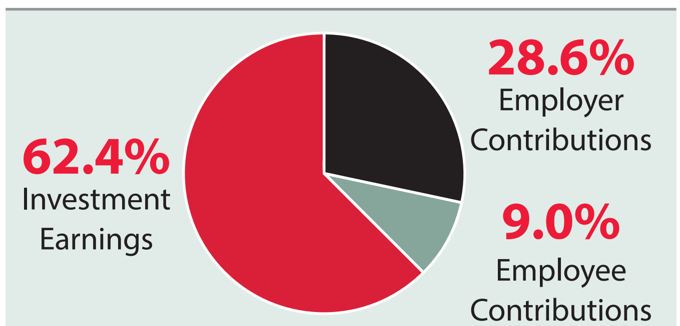
Defined benefit (DB) pensions help recruit and retain effective and experienced public employees, which is essential to delivering high quality service to citizens.

The spending by retired public employees from pension checks supports jobs, greater tax revenues and economic growth in our communities.

Pensions offer employees the best path to retirement security. They are cost-effective and provide modest lifetime income that will not run out.

Taxpayers Only Pay a Small Part of Pension Costs

The funding of public employee pensions is shared by employees and employers. New employees contribute 5% or 7% of their pay into the fund. Over time, investment income earned by the fund does most of the work. In fact, between 1993 and 2018, taxpayers paid only 28.59% of the cost of benefits in Maryland.



Pensions Cost Half as Much as a 401(k) Plan

Pensions can provide the same benefit as a 401(k) retirement account at about half the cost because of the following key factors:

10% cost savings from pooling longevity risk **+** **11%** cost savings from optimal asset allocation **+** **27%** cost savings due to higher returns and lower fees **=** **48%** **total cost savings**

Pensions Disproportionately Benefit Rural Areas

Rural counties have the largest percentage of their population receiving a public pension benefit, as 4.3% of residents in rural areas received benefits in 2018. Excluding counties that are home to a state capitol, public pension benefits in rural and small town counties accounted for a larger share of total personal income than in denser metropolitan counties.

SRPS Key Facts

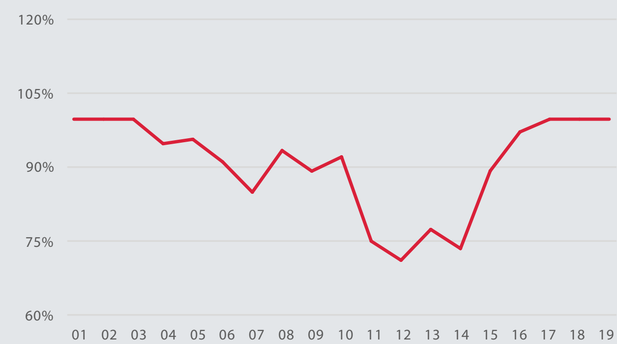
- Maryland's plan serves 188,999 active employees and 159,863 retired members and survivor beneficiaries.
- New employees contribute 5% or 7% of pay to the fund.
- Employers contribute 17.75% to the fund.
- The average monthly retirement benefit for members is $1,503.
- After a 30-year career, a pension benefit from Maryland will replace 45% of an employee's final average salary.

Historical Funding Experience

Maryland established long-term funding policies to provide for the cost of public pension benefits. The employee contribution is set by law and the actuary calculates the employers' contributions each year. As of the end of its 2019 year, the fund had $51.27 billion in assets in the fund.

The Actuarially Determined Contribution (ADC) is the amount needed to fund benefits earned in the year and to pay down the plans' unfunded actuarial accrued liability. Paying the full ADC each year is important to ensure that the fund is financially sound over time.

Maryland Paid 90.89% of Weighted Average Percent of ADC from FY2001-FY2019 for SRPS



Maryland Made Plan Changes in Recent Years

Following the global stock market crash in 2008-2009, Maryland policymakers proactively made changes to the fund to ensure long-term sustainability. These included:

- Contribution rates for employees covered by the system increased.
- Cost of Living Adjustments (COLA) for service credits were adjusted lowered and tied to investment returns.
- Employees hired after 7/1/11 had benefits reduced by lowering the multiplier, raising the normal and early retirement ages, and expanding the calculation of final average salary.

The Economic Impact of Maryland Pensions:

$6.5 billion
in economic output generated by retirees' spending from public pensions in Maryland.

43,006 jobs
paying $2.5 billion in wages supported by retirees spending from public pensions in Maryland.

$1.5 billion
in federal, state, and local tax revenues generated by retiree benefits and spending in Maryland.

All data come from retirement system financial reports, Public Plans Database, or the National Institute on Retirement Security.

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Why Pensions Work
for Maryland and Teachers

Pensions Help Deliver Quality Education in Maryland

There are important policy reasons to continue offering teachers defined benefit (DB) pensions. DB pensions give schools an effective tool to retain high-quality, experienced teachers. These teachers are the most important school-based element that provides positive educational outcomes for our children.

Pension benefits provide teachers an incentive to continue delivering quality education to K-12 students. This incentive becomes all the more important over a teaching career as the erosion of teachers' wages, when compared to the wages of similar college-educated workers, widens for more experienced teachers.

Because pensions help attract and retain workers, Maryland can keep skilled teachers in the classroom and empower students to achieve their highest potential. The nationwide teacher shortage is impacting Maryland, as enrollment in traditional teacher preparation programs has *declined by 58%* between 2009-2010 and 2017-2018.

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Pensions Help to Bridge the Teacher Wage Gap

A national study of K-12 public school teachers' wages identified a 19 percent pay gap relative to comparable private sector workers in 2019. At the same time, teachers' benefits, including pensions, help bridge that gap and allow states to attract and retain highly qualified educators by reducing that overall gap in compensation to 10 percent. In Maryland, teachers experience a 11.4% wage gap when compared to other college graduates in the workforce.[2]

19% teacher wage gap **offset by...** 9% teacher benefit advantage **reduces... the teacher compensation gap to 10%**

Americans understand that teacher pensions play an important role in retaining quality teachers and in offsetting the impact of their lower salaries.

83% 83 percent of Americans say pensions are a good way to recruit and retain qualified teachers.

74% 74 percent of Americans agree that teachers deserve pensions to compensate for lower pay.[3]

Pensions Reduce Teacher Turnover and Save Money

Experienced teachers are better teachers. DB pensions help to retain highly productive teachers longer, as compared with individual defined contribution (DC) accounts. Moreover, the cost of teacher turnover is quite high, both in terms of financial cost and loss of productivity to the school district.[4]

8.0%

Percentage of Maryland teachers who leave education.

612

The number of Maryland teachers retained each year due to the DB pension.

$3.2M to $7.0M

Savings created by the DB system through reduced teacher turnover costs in school districts across Maryland.

SRPS Key Facts

- PERS serves 188,999 active employees and 159,863 retired members and survivor beneficiaries.
- New employees contribute 5% or 7% to the fund.
- Employers contribute 17.75% to the fund.
- The average monthly retirement benefit for members is $1,503.
- PERS has $51.3 billion in assets and $18.7 billion in unfunded actuarial accrued liability.[5]

The Economic Impact of Maryland Pensions

$6.5 billion

in economic output generated by retirees' spending from public pensions in Maryland.

43,006 jobs

paying $2.5 billion in wages supported by retirees' spending from public pensions in Maryland.

$1.5 billion

in federal, state, and local tax revenues based on spending of pension benefits in Maryland.[6]

[1] Weller, C. 2017. "Win-Win: Pensions Effectively Serve American Schools and Teachers." Washington, DC. National Institute of Retirement Security (NIRS).

[2] Allegretto, S. A. and Mishel, L. 2020. "Teacher pay penalty dips but persists in 2019." Washington, DC. Economic Policy Institute.

[3] Oakley, D. and Kenneally, K. 2019. "Retirement Insecurity 2019: Americans' Views of the Retirement Crisis." Washington, DC. NIRS.

[4] Boivie, I. 2017. "Revisiting the Three Rs of Teacher Retirement Systems: Recruitment, Retention, and Retirement." Washington, DC. NIRS.

[5] All data, unless otherwise noted, as of fiscal year ended 2019.

[6] Boivie, I. 2021. "Pensionomics 2021: Measuring the Economic Impact of DB Pension Expenditures." Washington, DC. NIRS.

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