



MARYLAND  
STATE RETIREMENT  
*and* PENSION SYSTEM

# Popular Annual Financial Report

Maryland State Retirement and Pension System  
A Pension Trust Fund for the State of Maryland  
For the Year Ended June 30, 2018

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2018



Government Finance Officers Association

Award for  
Outstanding  
Achievement in  
Popular Annual  
Financial Reporting

Presented to

**Maryland State Retirement  
and Pension System**

For its Annual  
Financial Report  
for the Fiscal Year Ended

**June 30, 2017**

*Christopher P. Morrill*

Executive Director/CEO



MARYLAND  
STATE RETIREMENT  
*and* PENSION SYSTEM

## Mission Statement

The Board of Trustees of the Maryland State Retirement and Pension System (System) is charged with the fiduciary responsibility for administering the survivor, disability and retirement benefits of the System's participants and to ensure that sufficient assets are available to fund the benefits when due. To accomplish this mission the System has established the following key goals:

- To prudently invest System assets in a well diversified manner to optimize long-term returns, while controlling risk through excellence in execution of the investment objectives and strategies of the System.
- To effectively communicate with all retirement plan participants to inform them about the benefits provided by the System, and to educate them about planning and preparing for all aspects of their future retirement.
- To accurately and timely pay retirement allowances provided by State pension law to the System's retirees and their beneficiaries.
- To implement an automated, comprehensive and integrated pension administration and electronic document management system.
- To efficiently collect the required employer and member contributions necessary to fund the System.



# A Message from our Executive Director

It is my pleasure to once again present our Popular Annual Financial Report (PAFR) for the Maryland State Retirement and Pension System (MSRPS). The PAFR summarizes what is found in the lengthier—and more technical—Comprehensive Annual Financial Report, or CAFR, which we publish each year. The PAFR instead, presents the operating results achieved for the fiscal year that ended June 30, 2018 in an easier-to-digest format for anyone who wants to review the status of the retirement fund.



You will see in the following pages that fiscal year 2018 was another good one for the System. Our investment portfolio returned 8.06 percent on investments—exceeding the 7.50 percent assumed actuarial return rate and the plan’s policy benchmark of 7.59 percent. After the payment of benefits, the market value of assets grew roughly \$3 billion from more than \$49 billion on June 30, 2017 to nearly \$52 billion on June 30, 2018.

MSRPS is responsible for properly administering retirement, disability, and death benefits for state employees, teachers, law enforcement officers, legislators, judges, as well as local government employees and correctional personnel whose employers have elected to participate in the System. The System currently provides monthly allowances to more than 160,000 retirees and beneficiaries, and is an essential element of the future financial security for nearly 193,000 active participating members.

Participants and beneficiaries of the plan can be assured that the Board of Trustees is discharging its fiduciary responsibilities in a prudent and thoughtful manner. While the focus on investing tends to be on returns, the Board recognizes that risk is an important part of the equation. Therefore, the System’s asset allocation is more balanced and diversified than many of its peers, and is designed to navigate a middle path through periods of highs and lows in the market, putting it on a steady upward trajectory to full funding of the System.

I would like to emphasize that the pension reforms enacted by the legislature in 2011 continue to bear positive results on the System. In 2011, immediately following the enactment of the reforms, actuaries for the System and the legislature projected that the System’s funded status would increase from its fiscal 2011 level of 63.1 percent to 69.0 percent by fiscal 2018. In fact, as of June 30, 2018, the System’s actual funded status was 71.6 percent. With consistent contributions and an effective investment program, the MSRPS should continue to make consistent progress toward full funding.

I hope you will find this publication helpful and informative. If you find yourself wanting more, please read the CAFR at [sra.maryland.gov](http://sra.maryland.gov).

A handwritten signature in black ink, appearing to read "R. Dean Kenderdine". The signature is fluid and cursive, with a long horizontal stroke at the end.

R. Dean Kenderdine



# Members at a glance

Total membership	<b>405,106</b>
Active members	<b>192,431</b>
Benefit recipients	<b>160,374</b>
Inactive members	<b>52,301</b>

Teachers			Employees		
	Retirement System	Pension System		Retirement System*	Pension System
<b>Total Membership</b>			<b>Total Membership</b> <small>*Includes State correctional officers</small>		
Active vested	418	67,199	Active vested	5,720	42,718
Active non-vested	0	39,229	Active non-vested	2,005	30,765
Vested former members	199	24,989	Vested former members	756	25,942
Retired members	25,764	51,437	Retired members	20,340	57,947
<b>Active Members</b>			<b>Active Members</b>		
Number	418	106,428	Number	7,725	73,483
Average age	67.3	44.9	Average age	45.8	48.6
Average years of service	42.1	11.9	Average years of service	14.2	11.7
Average annual salary	\$99,275	\$64,829	Average annual salary	\$51,475	\$53,121
<b>Retirees and Beneficiaries</b>			<b>Retirees and Beneficiaries</b>		
Number	25,764	51,437	Number	20,340	57,947
Average age	77.8	70.7	Average age	73.5	70.1
Average monthly benefit	\$3,280	\$1,905	Average monthly benefit	\$2,007	\$1,271
State Police		Law Enforcement Officers		Judges	
<b>Total Membership</b>		<b>Total Membership</b>		<b>Total Membership</b>	
Active vested	921	Active vested	1,602	Active vested	197
Active non-vested	426	Active non-vested	1,015	Active non-vested	119
Vested former members	99	Vested former members	305	Vested former members	9
Retired members	2,477	Retired members	1,954	Retired members	421
<b>Active Members</b>		<b>Active Members</b>		<b>Active Members</b>	
Number	1,347	Number	2,617	Number	316
Average age	36.3	Average age	41.0	Average age	57.8
Average years of service	12.0	Average years of service	10.8	Average years of service	8.4
Average annual salary	\$65,172	Average annual salary	\$65,172	Average annual salary	\$150,311
<b>Retirees and Beneficiaries</b>		<b>Retirees and Beneficiaries</b>		<b>Retirees and Beneficiaries</b>	
Number	2,477	Number	1,954	Number	421
Average age	64.0	Average age	60.6	Average age	77.5
Average monthly benefit	\$4,167	Average monthly benefit	\$2,980	Average monthly benefit	\$6,595

# Retirees at a glance

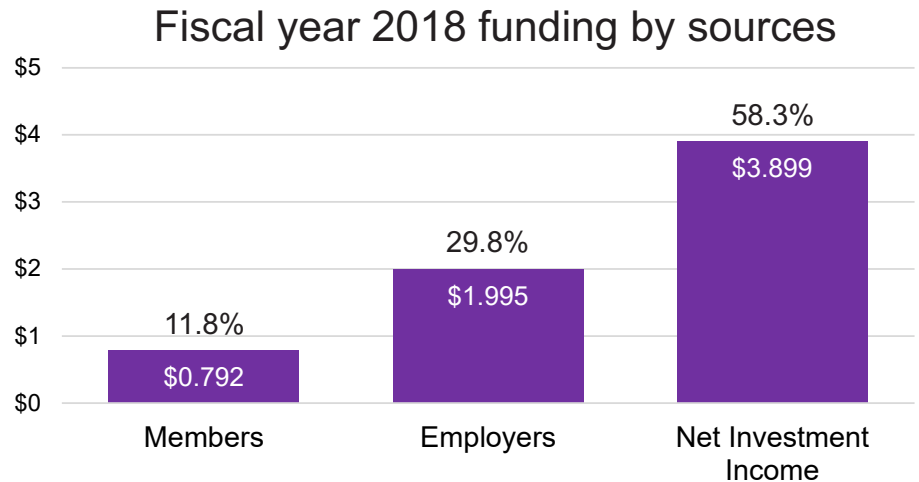
## The average MSRPS retiree:

- Had accrued 22.9 years of service at retirement
- Earned an average final salary before retirement of \$50,280
- Retired at age 60.7
- Is presently 71.8 years old
- Lives in Maryland
- Receives \$23,640 each year in MSRPS benefits

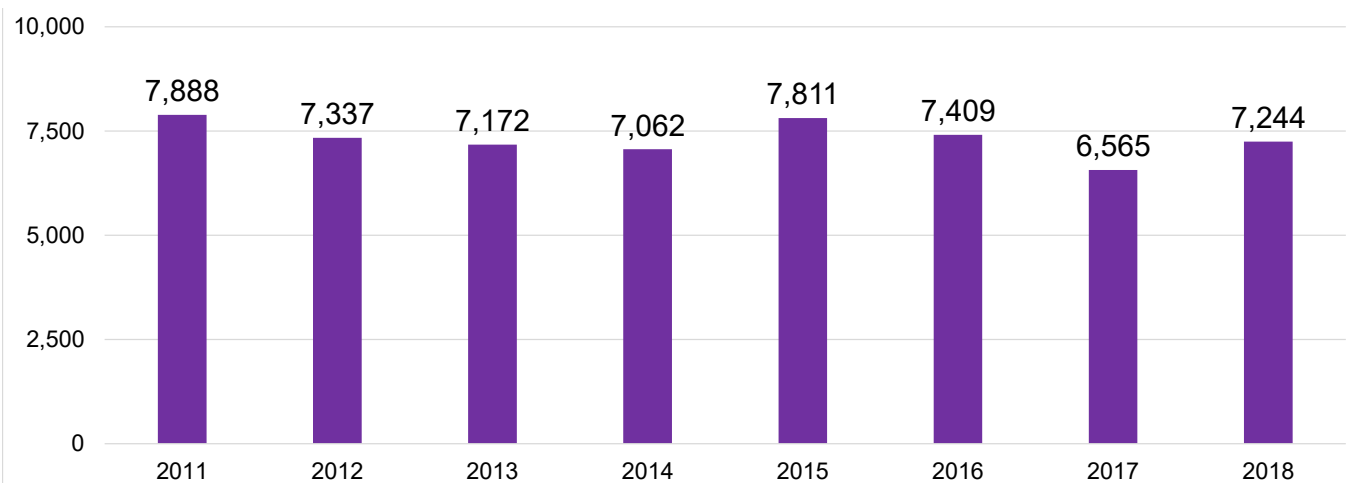
## How benefits are funded

Retirement benefits are funded primarily by investment returns with the remainder coming from a combination of member and employer contributions. Dollar amounts are shown in millions.

**More than seventy cents of every \$1 accrued for MSRPS retirees last year came from *investment income* and *member contributions*.**



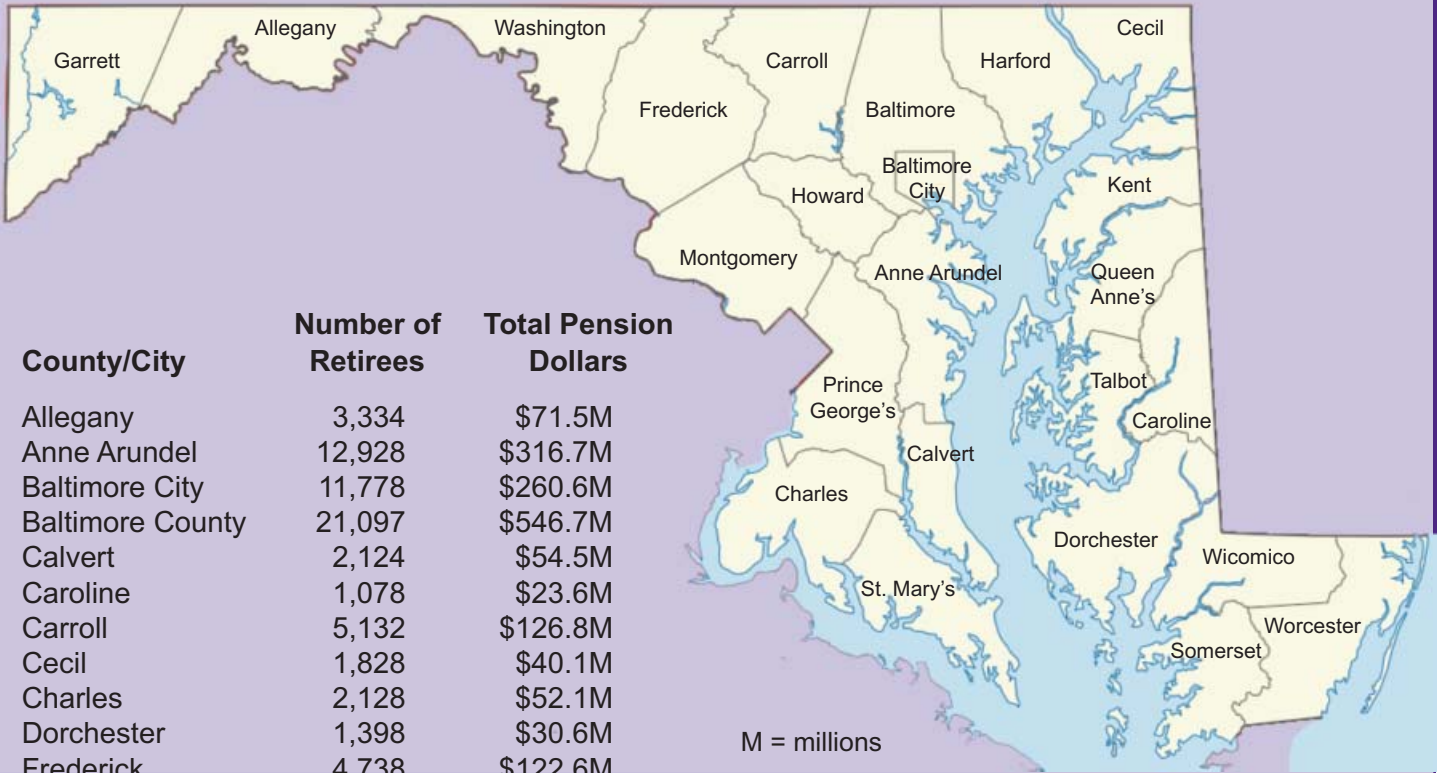
## Number of retirements by fiscal year





# Local economic impact of Maryland pensions

More than **\$2.89 billion** in annual pension payments stay in Maryland.

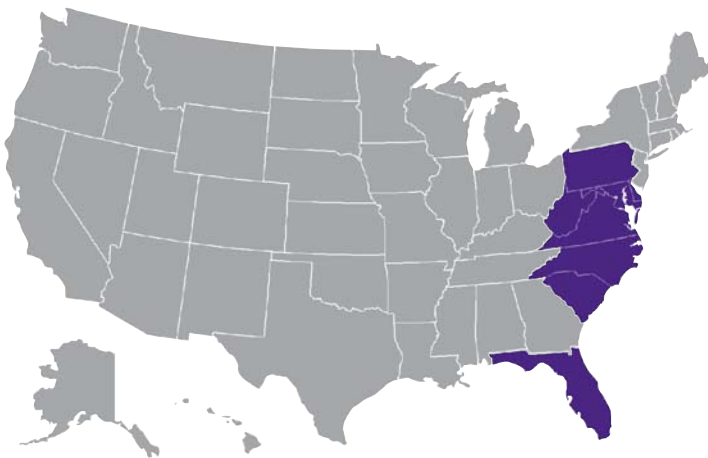


M = millions

County/City	Number of Retirees	Total Pension Dollars
Allegany	3,334	\$71.5M
Anne Arundel	12,928	\$316.7M
Baltimore City	11,778	\$260.6M
Baltimore County	21,097	\$546.7M
Calvert	2,124	\$54.5M
Caroline	1,078	\$23.6M
Carroll	5,132	\$126.8M
Cecil	1,828	\$40.1M
Charles	2,128	\$52.1M
Dorchester	1,398	\$30.6M
Frederick	4,738	\$122.6M
Garrett	1,179	\$25.0M
Harford	6,813	\$169.4M
Howard	6,172	\$174.0M
Kent	673	\$15.5M
Montgomery	8,796	\$268.0M
Prince George's	10,442	\$233.3M
Queen Anne's	1,787	\$44.4M
Saint Mary's	1,915	\$43.1M

County/City	Number of Retirees	Total Pension Dollars
Somerset	1,187	\$24.2M
Talbot	1,355	\$31.2M
Washington	4,437	\$98.8M
Wicomico	3,319	\$76.3M
Worcester	2,022	\$45.3M

## Where else do retirees live?



Maryland	75.8%
Florida	4.5%
Pennsylvania	3.5%
Virginia	2.5%
North Carolina	2.1%
Delaware	2.1%
West Virginia	1.3%
South Carolina	1.3%

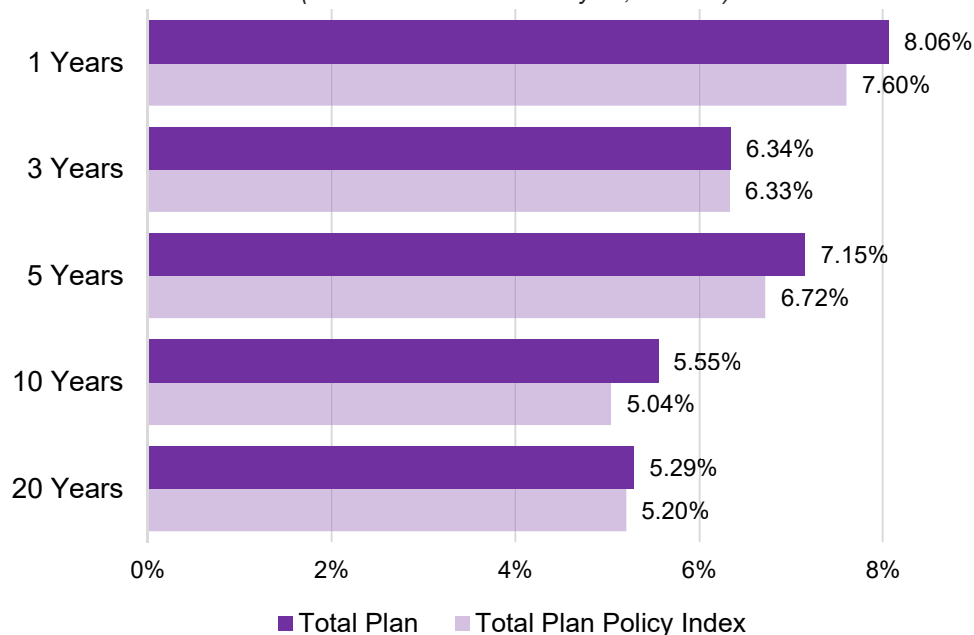
No other states have more than 1% of our payees.

# Investments

The System's portfolio returned 8.06 percent on investments for the fiscal year 2018—exceeding the plan's then 7.50 percent assumed actuarial return rate and the policy benchmark of 7.59 percent. As a result, the fund's performance raised the assets of the System to \$51.8 billion, an increase of \$2.8 billion over the previous fiscal year.

## Portfolio Return and Benchmarks

(all based on end of fiscal year, June 30)



## Plan Net Position

For the Years Ended  
June 30, 2018 and 2017

Assets	2018	2017	Increase / (Decrease)	% Increase / (Decrease)
Cash and cash equivalents and receivables	2,447,428	2,162,860	284,568	13.16%
Collateral for securities loaned	2,043,411	2,533,919	(490,508)	(19.36%)
Total investments, at fair value	50,573,697	49,080,132	1,493,565	3.04%
<b>Total assets</b>	<b>55,064,536</b>	<b>53,776,911</b>	<b>1,287,625</b>	<b>2.39%</b>
<b>Liabilities</b>				
Accounts payable and accrued expenses	60,407	63,796	(3,389)	(5.31%)
Investment commitments payable	1,133,485	2,172,013	(1,038,528)	(47.81%)
Obligation for collateral for loaned securities	2,043,411	2,553,919	(510,508)	(19.99%)
<b>Total liabilities</b>	<b>3,237,303</b>	<b>4,789,728</b>	<b>(1,552,425)</b>	<b>(32.41%)</b>
<b>Net Position Restricted for Pensions</b>	<b>\$ 51,827,233</b>	<b>\$ 48,987,183</b>	<b>\$ 2,840,050</b>	<b>5.80%</b>

(Amounts expressed in thousands)

# Where your money is invested?

## Asset Allocation

	Target	June 30, 2018
Growth/Equity	50% (+/-7)	50.0%
Rate Sensitive	19% (+/-5)	19.9%
Credit	9% (+/-4)	8.0%
Real Assets	14% (+/-4)	11.9%
Absolute Return	8% (+/-4)	8.4%
Cash	0%	1.8%

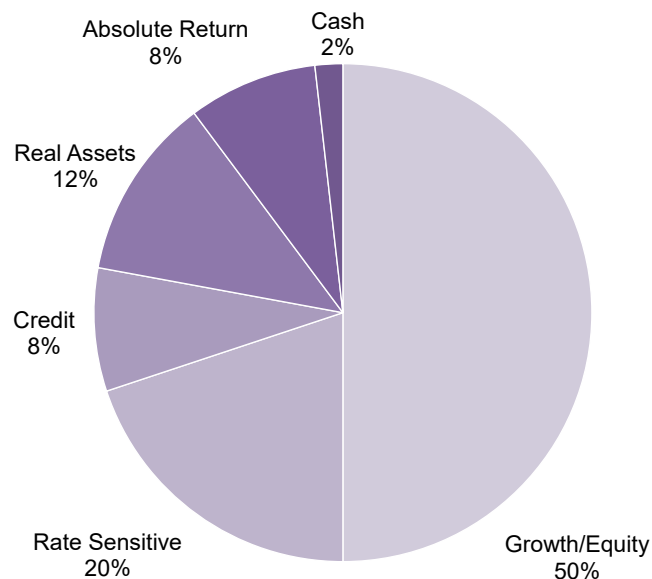
**GROWTH/EQUITY** includes U.S. Equity, International Developed Markets Equity, International Emerging Markets Equity, and Private Equity.

**RATE SENSITIVE** includes Long-Term Government Bonds, Securitized & Corporate Bonds, and Inflation-Linked Bonds.

**CREDIT** includes High Yield Bonds & Bank Loans and Emerging Markets Debt.

**REAL ASSETS** includes Real Estate, Commodities, Natural Resources and Infrastructure

**ABSOLUTE RETURN** includes those investments whose performance is expected to deliver absolute returns in any market conditions. The System's program may include strategies such



as hedge fund of funds, multi-strategy, global tactical asset allocation, event driven, relative value, macro, insurance and equity hedged.

**Indexed Assets** - \$7.8 billion as of June 30, 2018 (23.2 percent of total assets)

## Changes in Plan Net Position

For the Years Ended  
June 30, 2018 and 2017

Additions	2018	2017	Increase / (Decrease)	% Increase / (Decrease)
Employer contributions	1,247,722	1,322,805	(75,083)	(5.68%)
Employee contributions	791,583	782,686	8,897	1.14%
State contributions on behalf of local governments	746,354	712,536	33,818	4.75%
Contribution interest	941	1,255	(314)	(25.02%)
Net investment income	3,899,393	4,473,443	(574,050)	(12.83%)
<b>Total additions</b>	<b>6,685,993</b>	<b>7,292,725</b>	<b>(606,732)</b>	<b>(8.32%)</b>
<b>Deductions</b>				
Benefit payments	3,744,132	3,577,123	167,009	4.67%
Refunds	68,600	63,441	5,159	8.13%
Administrative expenses	33,211	30,904	2,307	7.47%
<b>Total deductions</b>	<b>3,845,943</b>	<b>3,671,468</b>	<b>174,475</b>	<b>4.75%</b>
<b>Net increase (decrease) in plan position</b>	<b>2,840,050</b>	<b>3,621,257</b>	<b>(781,207)</b>	<b>(21.57%)</b>
<b>Beginning plan net position</b>	<b>48,987,183</b>	<b>45,365,926</b>	<b>3,621,257</b>	<b>7.98%</b>
<b>Ending plan net position restricted for pensions</b>	<b>\$ 51,827,233</b>	<b>\$ 48,987,183</b>	<b>\$ 2,840,050</b>	<b>5.80%</b>

(Amounts expressed in thousands)

## Interested in learning more?

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The Maryland State Retirement Agency provides several resources to keep members, retirees and other stakeholders informed about the financial management of the State's \$50 billion pension fund.

- The full 146-page Comprehensive Annual Financial Report, along with reports for prior years, are available on the Maryland State Retirement Agency website at [sra.maryland.gov](http://sra.maryland.gov). From the homepage, simply click on **Investments & Financials**, then **Annual Financial Reports**.

This webpage also offers links to the Agency business plan, actuarial valuation reports and the Board of Trustees' open meeting minutes. You may review the Agency's investment policy manual and download quarterly investment performance updates.

- A dedicated email address is available for your inquiries about the Agency's investment program. Submit your questions to [invest-info@sra.state.md.us](mailto:invest-info@sra.state.md.us). Note: Our investment staff cannot provide advice about your personal investment portfolio.
- If you prefer corresponding by mail, address your letter to the Maryland State Retirement Agency, 120 East Baltimore Street, Baltimore, Maryland 21202-6700
- The Retirement Agency may be reached by telephone at 410-625-5555 or toll-free 1-800-492-5909.



STRIPS

