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, 2019

2019

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, 2018

Christopher P. Morrill

Executive Director/CEO

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 though 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 present the 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 presents the operating results achieved for the fiscal year that ended June 30, 2019 in an easier-to-digest format for anyone who wants to quickly review the status of the retirement fund.

In sum, the pension fund realized modest gains in fiscal 2019, earning 6.46% for the year. Even though earnings fell short of the plan's 7.45% assumed actuarial return rate, the fund's performance raised the assets of the System to $54.2 billion, an increase of $2.4 billion over the previous fiscal year.

The 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 nearly 165,000 retirees and beneficiaries, and is an essential element of the future financial security for more than 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. In carrying out its investment responsibilities, the Board's focus is on maximizing returns while minimizing risk. Therefore, the System's asset allocation, set by the Board is balanced and diversified, 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.

It is important to note that the pension reforms enacted by the Maryland General Assembly in 2011 continue to bear positive results on the System and, in fact, continue to exceed earlier projections. For example, the required employer contributions for the coming fiscal year of 2021 are projected to be 17.75% of payroll, significantly lower than the 19.35% predicted at the time of the 2011 reforms. And, as of June 30, 2019, the System's funded ratio is 72.9%, higher than the 71.7% predicted at that time. All indications are that the System is on track to be 80% funded by 2026; 85% funded by 2030; and 100% funded by 2039.

I hope you will find this publication helpful and informative, but if you really want to "get into the weeds," please check out the CAFR, which can be found on our website at sra.maryland.gov.

Thank you for your interest,

R. Dean Kenderdine

Members at a glance

Total membership	**408,596**
Active members	**193,458**
Benefit recipients	**164,892**
Inactive members	**50,246**

Teachers

	Retirement System	Pension System
Total Membership		
Active vested	344	63,708
Active non-vested	0	43,740
Vested former members	153	24,321
Retired members	24,822	54,329
Active Members		
Number	334	107,448
Average age	68.3	45.0
Average years of service	43.0	11.9
Average annual salary	$101,714	$66,256
Retirees and Beneficiaries		
Number	24,822	54,329
Average age	78.3	71.1
Average monthly benefit	$3,388	$1,960

Employees

*Includes State correctional officers

	Retirement System*	Pension System
Total Membership		
Active vested	5,417	39,108
Active non-vested	2,702	33,990
Vested former members	768	24,593
Retired members	19,955	60,757
Active Members		
Number	8,119	73,098
Average age	45.5	48.6
Average years of service	13.3	11.5
Average annual salary	$51,663	$54,591
Retirees and Beneficiaries		
Number	19,955	60,757
Average age	73.5	70.5
Average monthly benefit	$2,079	$1,313

State Police

Total Membership	
Active vested	882
Active non-vested	482
Vested former members	89
Retired members	2,505
Active Members	
Number	1,364
Average age	36.4
Average years of service	12.1
Average annual salary	$78,430
Retirees and Beneficiaries	
Number	2,505
Average age	64.5
Average monthly benefit	$4,277

Law Enforcement Officers

Total Membership	
Active vested	1,502
Active non-vested	1,181
Vested former members	311
Retired members	2,053
Active Members	
Number	2,683
Average age	41.0
Average years of service	10.8
Average annual salary	$67,448
Retirees and Beneficiaries	
Number	2,053
Average age	61.1
Average monthly benefit	$3,032

Judges

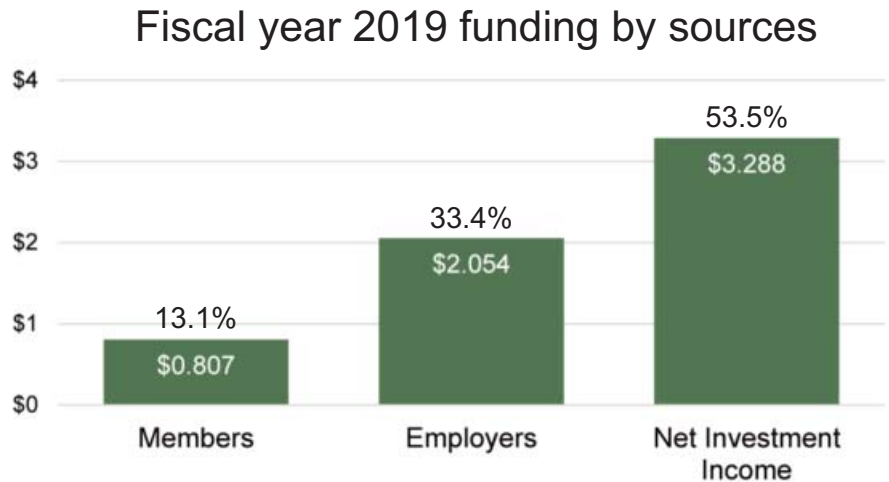|	
Total Membership	
Active vested	207
Active non-vested	108
Vested former members	8
Retired members	431
Active Members	
Number	315
Average age	57.5
Average years of service	8.1
Average annual salary	$155,349
Retirees and Beneficiaries	
Number	431
Average age	77.5
Average monthly benefit	$6,839

Retirees at a glance

The average MSRPS retiree:

- Had accrued 22.7 years of service at retirement
- Earned an average final salary before retirement of $51,080
- Retired at age 60.8
- Is presently 72 years old
- Lives in Maryland
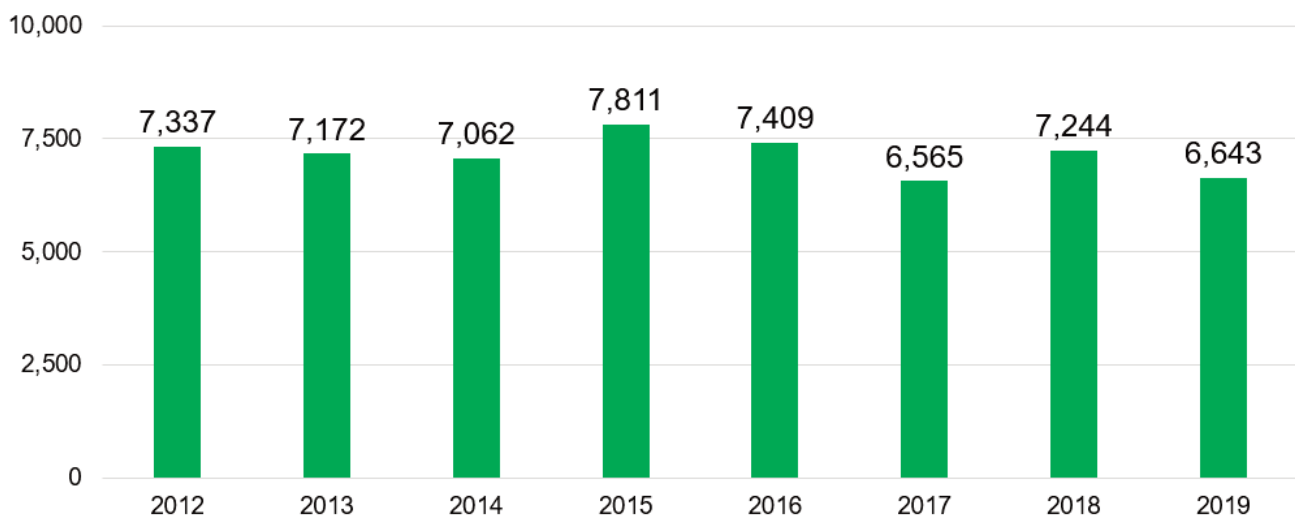- Receives $24,148 each year in MSRPS benefits

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.

Nearly **67 cents** of every $1 accrued for MSRPS retirees last year came from *investment income* and *member contributions*.

Fiscal year 2019 funding by sources

Members	Employers	Net Investment Income
13.1% $0.807	33.4% $2.054	53.5% $3.288

Number of retirements by fiscal year

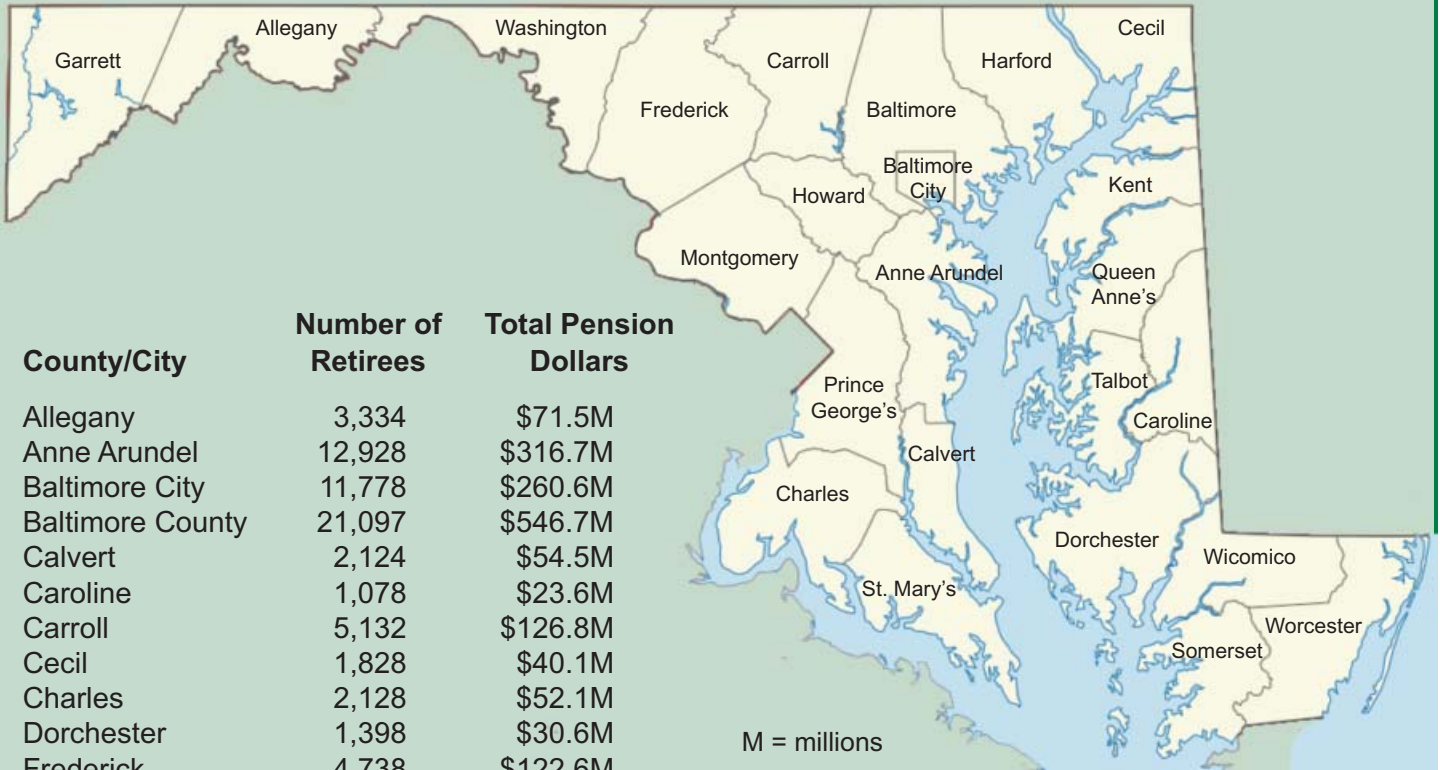| 2012	2013	2014	2015	2016	2017	2018	2019
7,337	7,172	7,062	7,811	7,409	6,565	7,244	6,643

Local economic impact of Maryland pensions

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

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

M = millions

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%
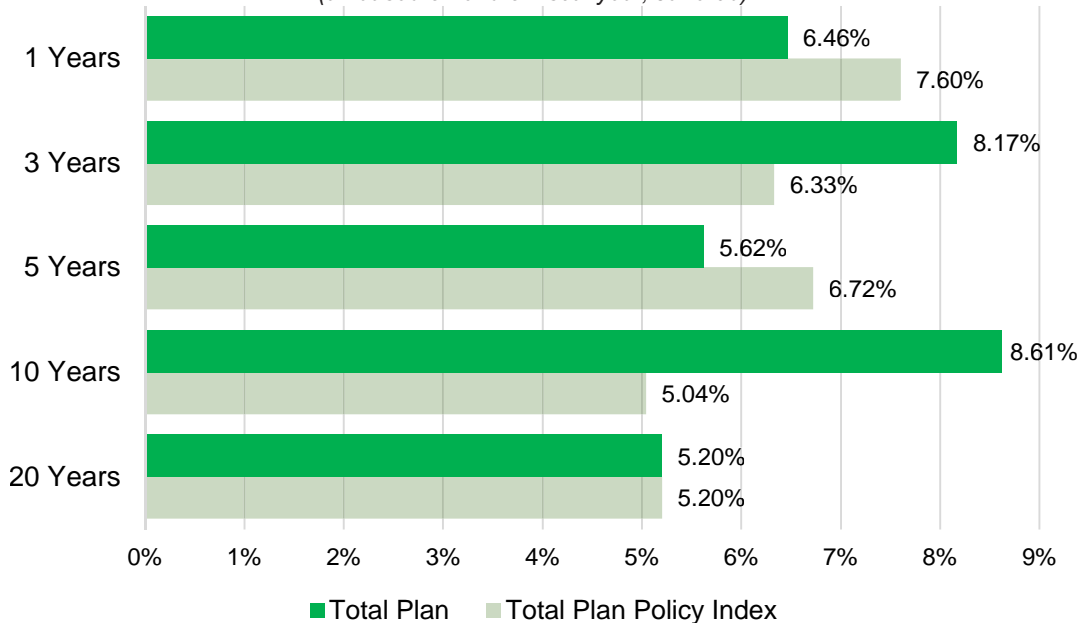
South Carolina 1.3%

No other states have more than 1% of our payees. Data as of May 2019.

Investments

The System's investment portfolio returned 6.46 percent (money-weighted net of fees) for the fiscal year 2019—falling short of the 7.45 percent assumed actuarial return rate and the plan's policy benchmark of 7.09 percent. After the payment of benefits, the market value of invested assets increased by roughly $2.3 billion to $54.2 billion on June 30, 2019.

Portfolio Return and Benchmarks
(all based on end of fiscal year, June 30)

Period	Total Plan	Total Plan Policy Index
1 Years	6.46%	7.60%
3 Years	8.17%	6.33%
5 Years	5.62%	6.72%
10 Years	8.61%	5.04%
20 Years	5.20%	5.20%

Plan Net Position
For the Years Ended June 30, 2019 and 2018

Assets	2019	2018	Increase / (Decrease)	% Increase / (Decrease)
Cash and cash equivalents and receivables	3,596,291	2,447,428	1,148,863	46.94%
Collateral for securities loaned	4,483,334	2,043,411	2,439,923	119.40%
Total investments, at fair value	52,127,787	50,573,697	1,554,090	3.07%
Total assets	60,592,412	55,064,536	5,527,876	10.04%
Liabilities				
Accounts payable and accrued expenses	63,403	60,407	2,996	4.96%
Investment commitments payable	2,102,255	1,133,485	968,770	85.47%
Obligation for collateral for loaned securities	4,483,334	2,043,411	2,439,923	119.40%
Total liabilities	6,648,992	3,237,303	3,411,689	105.39%
Net Position Restricted for Pensions	$ 53,943,420	$ 51,827,233	2,116,187	4.08%

(Amounts expressed in thousands)

Where are plan assets invested?

Asset Allocation

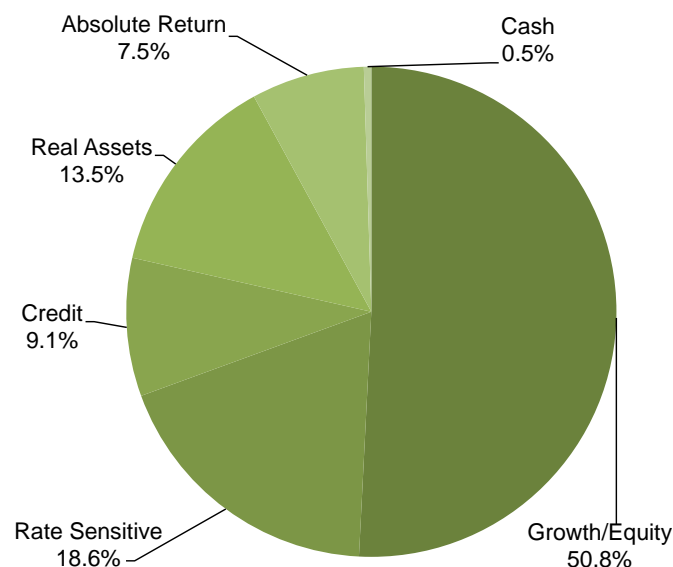|	Target	June 30, 2019
Growth Equity	50% (+/-7%)	50.8%
Rate Sensitive	19% (+/-5%)	18.62%
Credit	9% (+/-4%)	9.11%
Real Assets	14% (+/-4%)	13.51%
Absolute Return	8% (+/-4%)	7.46%
Cash	0%	0.49%

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 - $14.8 billion as of June 30, 2019 (27.3% of total assets)

Pie chart: Absolute Return 7.5%, Cash 0.5%, Real Assets 13.5%, Credit 9.1%, Rate Sensitive 18.6%, Growth/Equity 50.8%

Changes in Plan Net Position
For the Years Ended June 30, 2019 and 2018

Additions	2019	2018	Increase / (Decrease)	% Increase / (Decrease)
Employer contributions	1,301,554	1,247,722	53,832	4.31%
Employee contributions	807,291	791,583	15,708	1.98%
State contributions on behalf of local governments	751,945	746,354	5591	0.75%
Contribution interest	592	941	(349)	(37.09%)
Net investment income	3,288,209	3,899,393	(611,184)	(15.67%)
Total additions	6,149,591	6,685,993	(536,402)	(8.02%)
Deductions				
Benefit payments	3,926,220	3,744,132	182,088	4.86%
Refunds	67,400	68,600	(1,200)	(1.75%)
Administrative expenses	39,784	33,211	6,573	19.79%
Total deductions	4,033,404	3,845,943	187,461	4.87%
Net increase (decrease) in plan position	2,116,187	2,840,050	(723,863)	(25.49%)
Beginning plan net position	51,827,233	48,987,183	2,840,050	5.80%
Ending plan net position restricted for pensions	$ 53,943,420	$ 51,827,233	2,116,187	4.08%

(Amounts expressed in thousands)

Interested in learning more?

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. 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. 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.