

# PENSION

This section is provided to supplement the budget document. The Pension Plan represents a significant expense for Harford County Public Schools. The employees of the school system are covered by one of the following cost-sharing multiple-employer retirement/pension systems:

- Teachers' Retirement System of the State of Maryland;
- Teachers Pension System for Teachers of the State of Maryland;
- Employees' Retirement System of the State of Maryland; or,
- Employees Pension System of the State of Maryland.

Each plan provides pension, death, and disability benefits to plan members and beneficiaries. The Plans are administered by the State Retirement Agency. Responsibility for the administration and operation of the Retirement/Pension System is vested in the Board of Trustees. The State Personnel and Pensions Article of the Annotated Code of Maryland established the Pension System. The Pension System issues a publicly available financial report at [www.sra.state.md.us](http://www.sra.state.md.us).

## **FUNDING POLICY**

The State Personnel and Pension Article require active members to contribute to the Retirement or Pension System at the rate of 5 percent or 7 percent of their covered salary depending upon the retirement option selected. This is administered through an employee payroll deduction that HCPS forwards to the State Retirement Agency.

The combined State contribution rate for 2009 of covered payroll is established by annual actuarial valuations. The rate is sufficient to fund normal costs and amortize the unfunded actuarial accrued liability over a 40-year period, as provided by law, from July 1, 1980.

The State pays a substantial portion of the school system's annual required contributions to the Teachers' Retirement Systems on behalf of the school system. The state will make a direct contribution to the Retirement System for these school based employees. The State's estimated contribution will increase \$2,549,267 or 10.7% for FY 2009. The actual pension contribution by the State on behalf of our employees in the Teachers Retirement and Pension Systems is based on the adopted budget of the State. For FY 2009 the school system employer contribution is expected to decrease by \$156,538 or 7.7%. The increase in FY 2009 for both the State contribution and the School System contribution is related to the number of current employees, new employees hired in FY 2008, and the contribution to the new Alternate contributory Pension Plan.

<b>Harford County Public Schools</b>					
<b>State Retirement And Pension System Information*</b>					
	Actual	Actual	Actual	Projected	Projected
	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
<b>Contribution Sources:</b>					
State Aid to Local School Systems	\$16,172,006	\$16,388,211	\$17,752,000	\$23,870,733	\$26,420,000
Harford County Public Schools**	\$1,298,426	\$1,298,692	\$1,666,543	\$2,034,028	\$1,877,490
<b>Total Receipts</b>	<b>\$17,470,432</b>	<b>\$17,686,903</b>	<b>\$19,418,543</b>	<b>\$25,904,761</b>	<b>\$28,297,490</b>
<b>Total Expenditures</b>	<b>\$17,470,432</b>	<b>\$17,686,903</b>	<b>\$19,418,543</b>	<b>\$25,904,761</b>	<b>\$28,297,490</b>

\* Employer contribution information (State pays school based employees employer contribution)

\*\* Includes all funds - Unrestricted, Restricted, and Food Service Funds.

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## **ANNUAL PENSION COST**

The school system will make the employer required annual contributions to the Employee's Pension Systems as well as those related to positions in the Teacher's Pension Systems funded through federal and state restricted programs. For FY 2008, the Board's annual pension cost of \$2,034,028 is equal to its required and actual contribution. This required contribution was determined as part of the June 30, 2006 actuarial valuation using the entry age actuarial cost method.

The actuarial assumptions included:

- 7.75 percent investment rate of return, compounded annually;
- Projected salary increases of 4 percent compounded annually, attributable to inflation;
- Additional projected salary increases ranging from 0.8 percent to 11.96 percent attributable to seniority and merit;
- Post-retirement benefit increases ranging from 3% to 4% per year depending on the system;
- Rates of mortality, termination of service, disablement, and retirement based on actual experience from 1985 to 2006; and,
- Aggregate active member payroll assumed to increase 4 percent annually.

Although the Pension System uses techniques that smooth the effects of short term market volatility on investments by using a simplified three-year moving average, the effect of the recent market on the assets of the Pension System is projected to increase costs to employers. While employees have experienced salary increases less than the assumed level over the past three-year cycle, the assumed rate of return on investments is more difficult to attain.

The employer contribution rate for FY 2009, based on an actuarial valuation for June 30, 2007, is 8.84% for the Employees Retirement System with a 2.42% contribution for the Contributory Pension Benefit Surcharge for a total of 11.26%.

The employer contribution rate for FY 2009 for the Employees Pension System is 3.84%. There is an additional 2.42% contribution for the Contributory Pension Benefit Surcharge and 1.11% for the Alternate Contributory Pension Surcharge bringing the total for the Employees' Pension System to 7.37%.

The State of Maryland contributes 11.60% for employees within the Teachers Retirement and Pension Systems.

The employee pension system contribution rate is 5% of salary for FY 2009. The employee retirement system contribution rate is 5 to 7% depending upon the retirement option selected.

The General Assembly of the State of Maryland passed HB 1737 and the Governor has signed the Alternate Contributory Pension System legislation. As of June 30, 2006, the financial impact of the changes cost the school system an additional \$256,423 beginning December 2007 and increasing thereafter. The actual cost was identified by the State Retirement and Pension System in the billing in December 2007 for the Fiscal Year 2008. This cost will escalate in future years.