

# 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 7 percent of their covered salary. This is administered through an employee payroll deduction that HCPS forwards to the State Retirement Agency.

The combined State contribution rate 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 System on behalf of the school system. The actual pension contribution by the State on behalf of our employees in the Teachers Retirement and Pension Systems is based on the approved budget of the State. The State of Maryland contribution and the HCPS school system contribution is related to the number of current employees, new employees and the contribution to the Alternate Contributory Pension Plan

Prior to FY 2013 the State of Maryland funded all teacher pension contributions for the 24 school districts. The State of Maryland addressed their ongoing structural deficit by sharing teacher pension costs with the counties. The cost sharing was structured over a four year implementation period beginning in FY 2013 as reflected in the table below. The additional pension costs were fully funded by Harford County in FY 2013 and 2014 and then shared in FY 2015 and 2016.

<b>State Mandated costs for HCPS Teachers Retirement Pension System</b>				
	<b>FY 2013</b>	<b>FY 2014</b>	<b>FY 2015</b>	<b>FY 2016</b>
<b>State Shared Pension Costs</b>	5,529,741	7,009,102	8,966,815	10,309,396
Unrestricted Funding Harford County	5,529,741	7,009,102	7,475,675	8,803,344
Restricted Funding HCPS	0	0	1,491,140	1,506,052

For FY 2016, the HCPS school systems budgeted contribution for the shared costs for the HCPS Teachers Retirement Pension System increased by \$1,342,581 over the prior fiscal year. The additional pension costs were funded by Harford County in the amount of \$1,327,669 and HCPS funded \$14,912. HCPS will fund \$1,506,052 via the restricted fund.

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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 2016, the Board's annual pension cost of \$13,530,816, consists of contributions from the unrestricted fund of \$12,024,764 and the restricted fund of \$1,506,052 which is equal to its required and actual contribution. This required contribution was determined as part of the June 30, 2014 actuarial valuation using the entry age actuarial cost method.

<b>State Retirement And Pension System Information</b>						
Contribution Source:	Actual FY 2012	Actual FY 2013	Actual FY 2014	Actual FY 2015	Budget FY 2015	Budget FY 2016
<b>State Aid to Local School Systems *</b>	\$33,360,568	\$30,575,369	\$29,187,145	\$29,257,412	\$29,257,412	\$29,257,412
<b>HCPS Contributions:</b>						
HCPS Teachers Retirement Pension System **		5,529,741	6,462,804	7,475,675	7,475,675	8,803,344
HCPS Employees Retirement & Pension System ***	3,350,174	2,873,080	3,163,299	3,009,767	3,170,403	3,092,330
<b>HCPS - Unrestricted Fund Contribution</b>	<b>\$3,350,174</b>	<b>\$8,402,821</b>	<b>\$9,626,103</b>	<b>\$10,485,442</b>	<b>\$10,646,078</b>	<b>\$11,895,674</b>

\* The State of Maryland employer contribution for the Teacher Retirement system, hereafter referred as the Teacher system

\*\* The employer contribution for the Teacher Retirement system, hereafter referred as the Teacher system, funded by Harford County Government

\*\*\* The HCPS employer contribution for the Employee Retirement & Pension system, referred to as the Employee system, paid by HCPS representing costs in the Unrestricted and Food Service Fund

The actuarial assumptions included<sup>1</sup>:

- 7.65 percent investment rate of return, compounded annually;
- The member contribution rate was increased for members of the Teacher's Pension System and Employee's Pension System from 5% to 7%, and from 4% to 6% in fiscal year 2012 and 7% in fiscal year 2013
- In addition, the benefit attributable to service on or after July 1, 2011, will be subject to different cost-of-living adjustments (COLA) that is based on the increase in the Consumer Price Index and capped at 2.5% or 1.0% based on whether the market value investment return for the preceding calendar year was higher or lower than the investment return assumption used in the valuation (currently 7.65%)

In the 2001 legislative session, the Legislature changed the method used to fund the two largest Systems of the MSRPS, the Teachers Combined System and the State portion of the Employees Combined System, to a corridor method. Under this funding approach, the State appropriation is fixed at the prior fiscal year's rate, but adjusted to reflect the cost of any legislative changes, as long as the actuarial funded status of these Systems remains in a corridor of 90% funded to 110% funded. Once the ratio falls outside this corridor, the appropriated or budgeted rate will be adjusted one-fifth of the way toward the underlying actuarially calculated rate, with the exception of the cost of/or the savings from legislative changes, which are fully recognized regardless of whether the Systems are within or outside of the corridor.

The employer contribution rates for FY 2016, based on an actuarial valuation for June 30, 2014, are as follows:

- 10.00% for the Employees Retirement System
- 5.00% for the Employees' Pension System
- 2.42% for the Contributory Pension Benefit Surcharge
- 1.11% for the Alternate Contributory Pension Surcharge

The State of Maryland contributes 15.71% for employees within the Teachers Retirement and Pension Systems per rates published in December 2014. These rates are subject to change annually as a result of the General Assembly session.

<sup>1</sup> Maryland State Retirement System 2014 CAFR – page 6

# Pension

The following charts represent retirement and pension payments made by Harford County Public Schools as well as payments made by the State of Maryland on behalf of our employees.

