



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, 2020

2020



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, 2019

Christopher P. Morill

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 once again, 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 and can be found on our website at www.sra.maryland.gov. This document presents the operating results achieved for the fiscal year that ended June 30, 2020 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 2020, earning 3.57% for the year, reflecting the ongoing impact of the COVID-19 pandemic on global markets. Even though earnings fell short of the plan's 7.40% assumed actuarial return rate, the fund's performance raised the assets of the System to \$54.8 billion, an increase of \$562 million 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 168,000 retirees and beneficiaries and is an essential element of the future financial security for almost 196,000 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. Required employer contributions for the coming fiscal year of 2021 are projected to be 17.75% of payroll, significantly lower than the 19.86% predicted at the time of the 2011 reforms. As of June 30, 2020, the System's funded ratio is 73.6%, close to the 73.0% predicted at the same time, yet higher than 72.2% reported last year. The System remains on track to be 80% funded by 2026; 85% funded by 2030; and 100% funded by 2039.

This Popular Annual Financial Report is derived from information contained in the MSRPS 2020 Comprehensive Annual Financial Report (CAFR), but does not contain detailed financial information by plan, nor is it presented in a manner to conform to Generally Accepted Accounting Principles (GAAP). For a complete set of financial definitions included in this summary report, please refer to the MSRPS 2020 CAFR, which is prepared in conformity with GAAP and may be obtained by visiting our website.

I hope you will find this publication useful and informative.

Thank you for your interest,

A handwritten signature in black ink, appearing to read "R. Dean Kenderdine". The signature is stylized and fluid, written over a horizontal line.

R. Dean Kenderdine

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Members at a glance

| | |
|--------------------|----------------|
| Total membership | 412,397 |
| Active members | 195,851 |
| Benefit recipients | 167,644 |
| Inactive members | 48,902 |

| Teachers | | | Employees | | |
|-----------------------------------|-------------------|-----------------------------------|--|-----------------------------------|----------------|
| | Retirement System | Pension System | | Retirement System* | Pension System |
| Total Membership | | | Total Membership <small>*Includes State correctional officers</small> | | |
| Active vested | 261 | 60,476 | Active vested | 4,978 | 35,950 |
| Active non-vested | 0 | 48,860 | Active non-vested | 3,054 | 37,674 |
| Vested former members | 119 | 23,907 | Vested former members | 750 | 23,719 |
| Retired members | 23,858 | 56,581 | Retired members | 19,464 | 62,583 |
| Active Members | | | Active Members | | |
| Number | 261 | 109,336 | Number | 8,032 | 73,624 |
| Average age | 69.5 | 45.0 | Average age | 45.6 | 48.5 |
| Average years of service | 44.0 | 11.9 | Average years of service | 13.1 | 11.3 |
| Average annual salary | \$106,038 | \$68,274 | Average annual salary | \$54,119 | \$57,094 |
| Retirees and Beneficiaries | | | Retirees and Beneficiaries | | |
| Number | 23,858 | 56,581 | Number | 19,464 | 62,583 |
| Average age | 78.8 | 71.6 | Average age | 71.0 | 70.9 |
| Average monthly benefit | \$3,474 | \$2,020 | Average monthly benefit | \$2,139 | \$1,365 |
| State Police | | Law Enforcement Officers | | Judges | |
| Total Membership | | Total Membership | | Total Membership | |
| Active vested | 843 | Active vested | 1,394 | Active vested | 208 |
| Active non-vested | 548 | Active non-vested | 1,354 | Active non-vested | 116 |
| Vested former members | 87 | Vested former members | 306 | Vested former members | 8 |
| Retired members | 2,517 | Retired members | 2,153 | Retired members | 441 |
| Active Members | | Active Members | | Active Members | |
| Number | 1,391 | Number | 2,748 | Number | 324 |
| Average age | 36.5 | Average age | 40.9 | Average age | 57.5 |
| Average years of service | 12.3 | Average years of service | 10.6 | Average years of service | 8.0 |
| Average annual salary | \$83,590 | Average annual salary | \$70,839 | Average annual salary | \$160,130 |
| Retirees and Beneficiaries | | Retirees and Beneficiaries | | Retirees and Beneficiaries | |
| Number | 2,517 | Number | 2,153 | Number | 441 |
| Average age | 64.9 | Average age | 61.6 | Average age | 77.8 |
| Average monthly benefit | \$4,363 | Average monthly benefit | \$3,081 | Average monthly benefit | \$7,093 |

Retirees at a glance

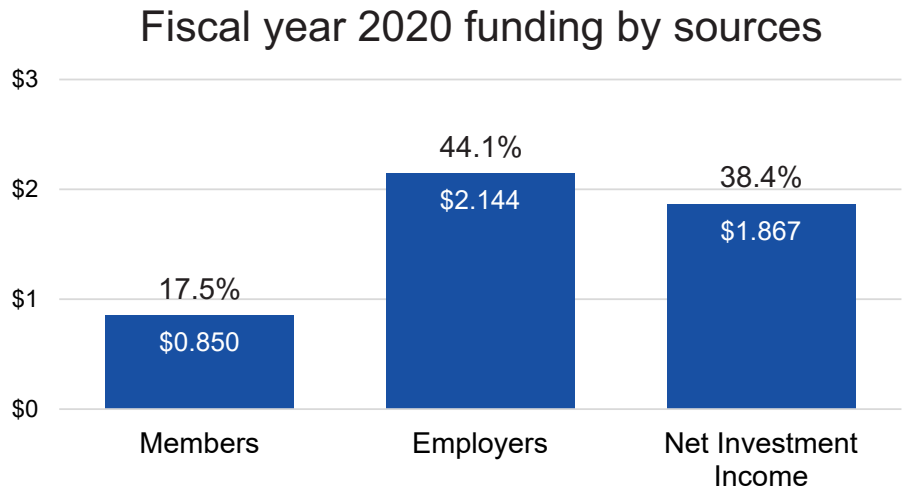
The average MSRPS retiree:

- Had accrued 22.7 years of service at retirement
- Earned an average final salary before retirement of \$52,077
- Retired at age 60.8
- Is presently 72.3 years old
- Lives in Maryland
- Receives \$24,699 each year in MSRPS benefits

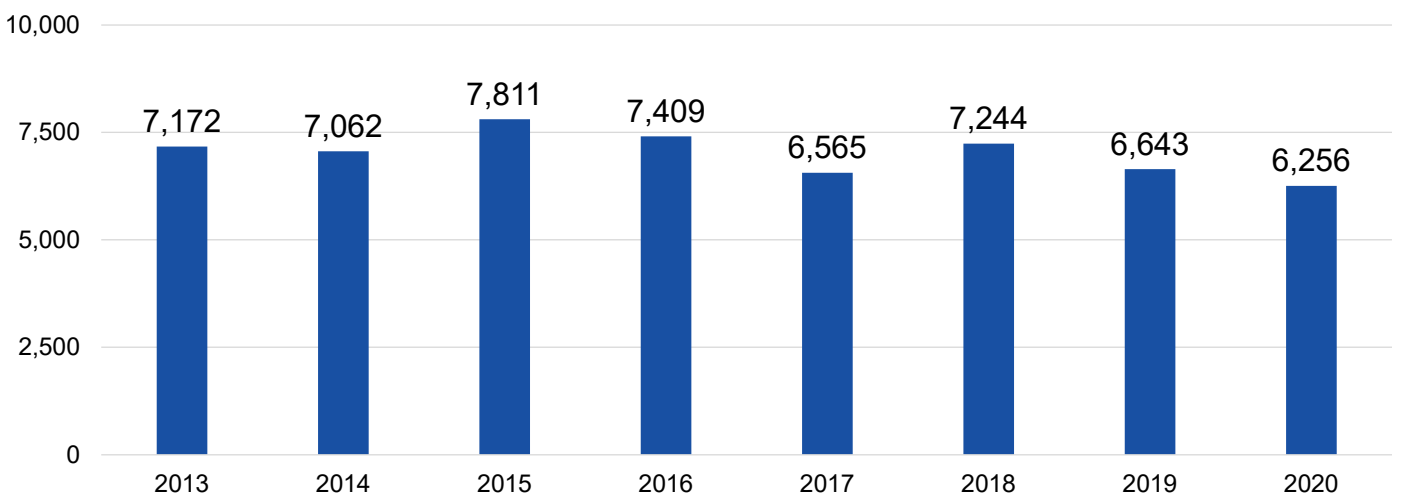
How benefits are funded

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

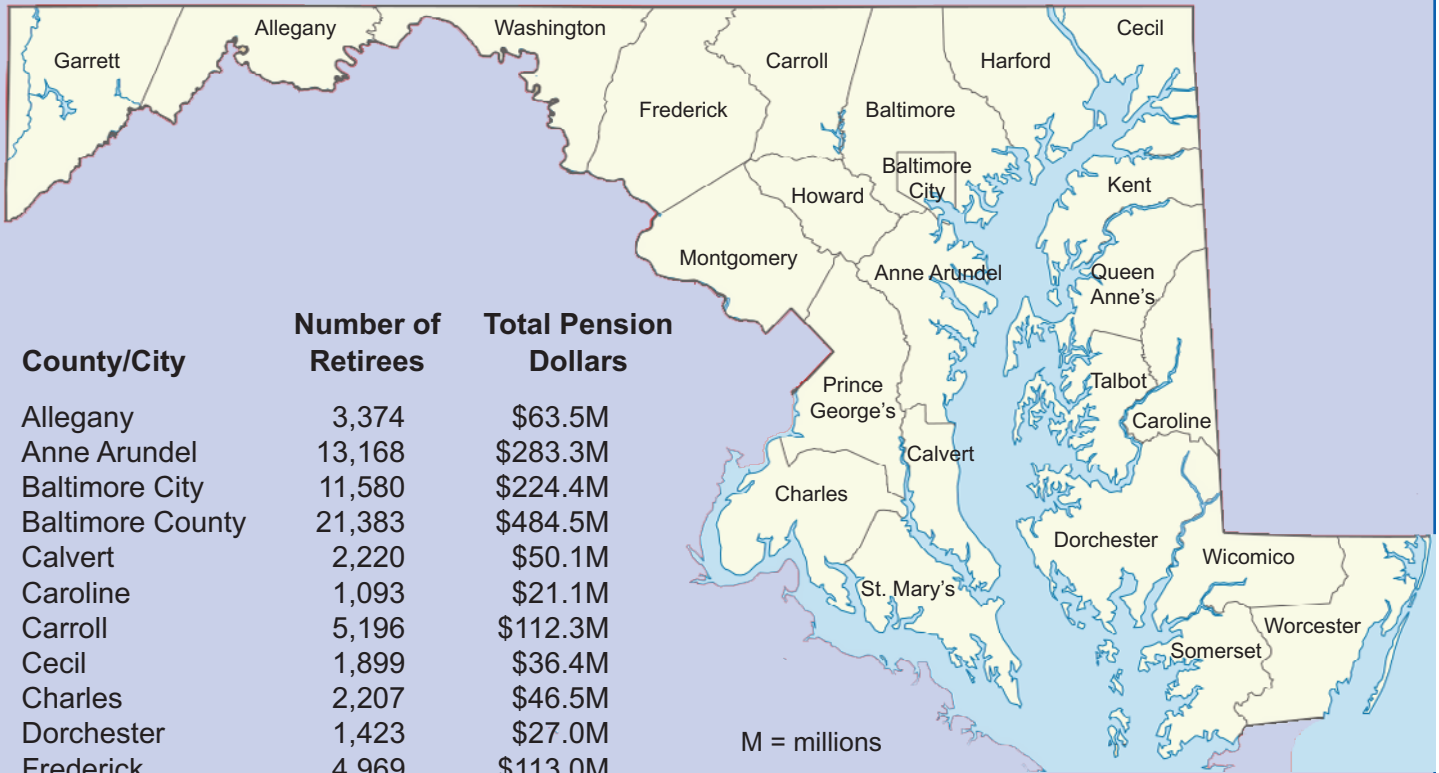


Number of retirements by fiscal year



Local economic impact of Maryland pensions

More than **\$2.58 billion** in annual pension payments stay in Maryland.



| County/City | Number of Retirees | Total Pension Dollars |
|------------------|--------------------|-----------------------|
| Allegany | 3,374 | \$63.5M |
| Anne Arundel | 13,168 | \$283.3M |
| Baltimore City | 11,580 | \$224.4M |
| Baltimore County | 21,383 | \$484.5M |
| Calvert | 2,220 | \$50.1M |
| Caroline | 1,093 | \$21.1M |
| Carroll | 5,196 | \$112.3M |
| Cecil | 1,899 | \$36.4M |
| Charles | 2,207 | \$46.5M |
| Dorchester | 1,423 | \$27.0M |
| Frederick | 4,969 | \$113.0M |
| Garrett | 1,223 | \$23.0M |
| Harford | 7,012 | \$152.5M |
| Howard | 6,383 | \$157.7M |
| Kent | 710 | \$14.3M |
| Montgomery | 9,118 | \$242.0M |
| Prince George's | 10,478 | \$205.0M |
| Queen Anne's | 1,872 | \$40.8M |
| Saint Mary's | 2,033 | \$39.8M |

M = millions

| County/City | Number of Retirees | Total Pension Dollars |
|-------------|--------------------|-----------------------|
| Somerset | 1,218 | \$21.7M |
| Talbot | 1,396 | \$28.3M |
| Washington | 4,531 | \$88.2M |
| Wicomico | 3,396 | \$69.0M |
| Worcester | 2,137 | \$42.2M |

Where else do retirees live?



| | |
|----------------|-------|
| Maryland | 75.1% |
| Florida | 4.6% |
| Pennsylvania | 3.6% |
| Virginia | 2.5% |
| Delaware | 2.3% |
| North Carolina | 2.2% |
| South Carolina | 1.4% |
| West Virginia | 1.3% |

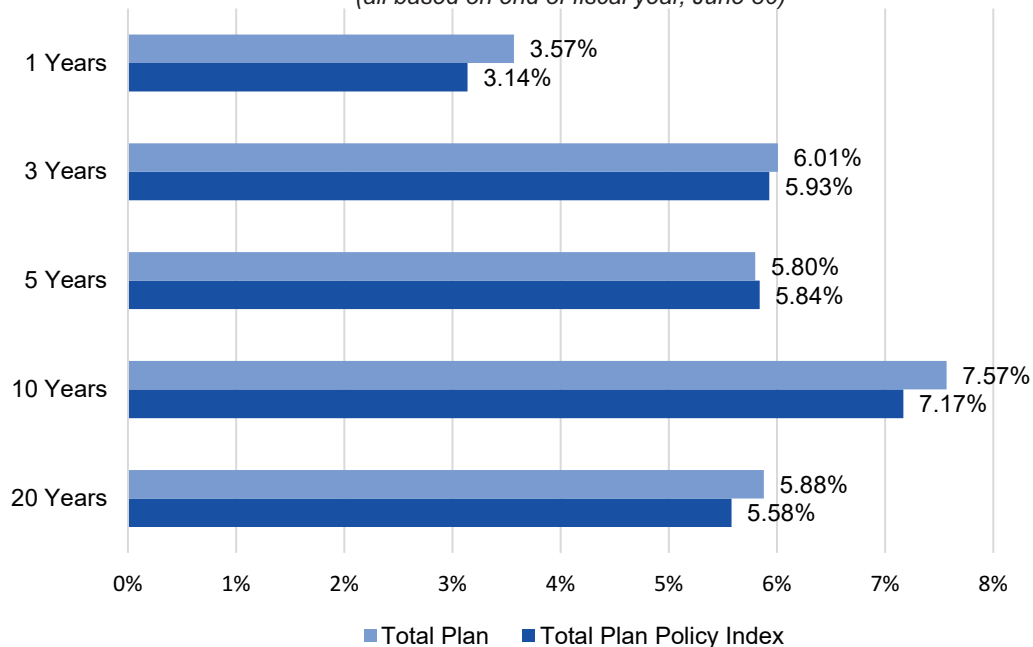
No other state is home to more than 1% of our payees. Data as of September 2020.

Investments

The pension fund realized modest gains in fiscal 2020, earning 3.57 percent for the year, reflecting the ongoing impact of the COVID-19 pandemic on global markets. Although the fiscal year earnings fell short of the System's 7.40% assumed actuarial return rate, it exceeded the policy benchmark of 3.14% by 43 basis points.

Portfolio Return and Benchmarks

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



Plan Net Position

For the Years Ended
June 30, 2020 and 2019

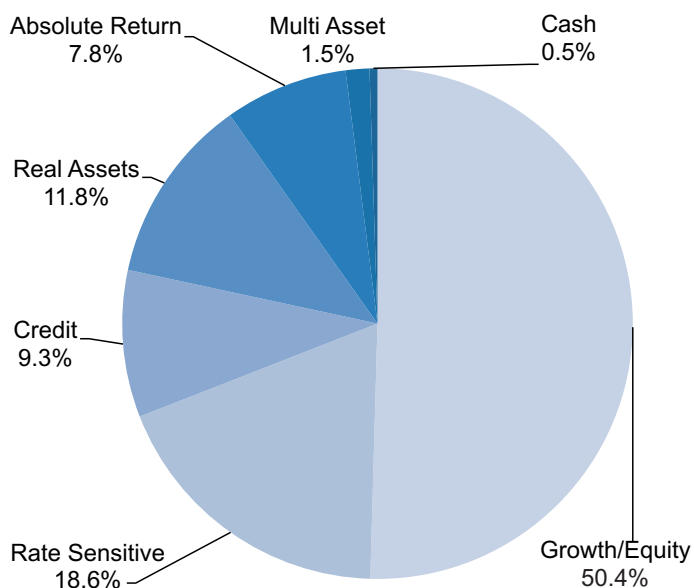
Amounts
expressed in
thousands

| Assets | 2020 | Increase/ (Decrease) | 2019 | Increase/ (Decrease) | 2018 |
|---|---------------------|-------------------------|-------------------|-------------------------|---------------------|
| Cash and cash equivalents and receivables | \$2,533,449 | \$(1,062,842) | \$3,596,291 | \$1,148,863 | \$2,447,428 |
| Collateral for securities loaned | 4,142,148 | \$806,438 | 3,335,710 | \$1,292,299 | \$2,043,411 |
| Total investments, at fair value | 57,913,139 | \$2,064,642 | 55,848,497 | \$5,274,800 | \$50,573,697 |
| Total assets | 60,446,588 | \$1,001,800 | 59,444,788 | \$5,527,876 | \$55,064,536 |
| Liabilities | | | | | |
| Accounts payable and accrued expenses | 64,565 | \$1,162 | 63,403 | 2,996 | 60,407 |
| Investment commitments payable | 1,653,838 | \$(448,417) | 2,102,255 | 968,770 | 1,133,485 |
| Obligation for collateral for loaned securities | 4,142,148 | \$806,438 | 3,335,710 | 1,292,299 | 2,043,411 |
| Total liabilities | 5,860,551 | \$359,183 | 5,501,368 | 2,264,065 | 3,237,303 |
| Net Position Restricted for Pensions | \$54,586,037 | \$642,617 | 53,943,420 | 2,116,187 | 51,827,233 |

Where are plan assets invested?

Asset Allocation

| | Target | June 30, 2020 |
|-----------------|-------------|---------------|
| Growth Equity | 50% (+/-7%) | 50.4% |
| Rate Sensitive | 19% (+/-5%) | 18.6% |
| Credit | 9% (+/-4%) | 9.3% |
| Real Assets | 14% (+/-4%) | 11.8% |
| Absolute Return | 8% (+/-4%) | 7.8% |
| Multi Asset | 0% (0%) | 1.5% |
| Cash | 0% | 0.5% |



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 allo-

cation, event driven, relative value, macro, insurance and equity hedged.

MULTI ASSET includes a combination of different strategies that do not fall within the description of only one asset class and are expected to have performance characteristics similar to the plan.

Changes in Plan Net Position

For the Years Ended
June 30, 2020 and 2019

Amounts
expressed in
thousands

| Additions | 2020 | Increase/ (Decrease) | 2019 | Increase/ (Decrease) | 2018 |
|---|---------------------|-------------------------|---------------------|-------------------------|---------------------|
| Employer contributions | \$1,359,914 | \$58,360 | \$1,301,554 | \$53,832 | \$1,247,722 |
| Employee contributions | \$850,298 | \$43,007 | \$807,291 | \$15,708 | \$791,583 |
| State contributions on behalf of local governments | \$784,149 | \$32,204 | \$751,945 | \$5,591 | \$746,354 |
| Contribution interest | \$207 | \$(385) | \$592 | \$(349) | \$941 |
| Net investment income | \$1,866,639 | \$(1,421,570) | \$3,288,209 | \$(611,184) | \$3,899,393 |
| Total additions | \$4,861,207 | \$(1,288,384) | \$6,149,591 | \$(536,402) | \$6,685,993 |
| Deductions | | | | | |
| Benefit payments | \$4,108,492 | \$182,272 | \$3,926,220 | \$182,088 | \$3,744,132 |
| Refunds | \$68,752 | \$1,352 | \$67,400 | \$(1,200) | \$68,600 |
| Administrative expenses | \$41,346 | \$1,562 | \$39,784 | \$6,573 | \$33,211 |
| Total deductions | \$4,218,590 | \$185,186 | \$4,033,404 | \$3,845,943 | \$187,461 |
| Net increase (decrease) in plan position | \$642,617 | \$(1,473,570) | \$2,116,187 | \$(723,863) | \$2,840,050 |
| Beginning plan net position | \$53,943,420 | \$2,116,187 | \$51,827,233 | \$2,840,050 | \$48,987,183 |
| Ending plan net position restricted for pensions | \$54,586,037 | \$642,617 | \$53,943,420 | \$2,116,187 | \$51,827,233 |

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 \$62.5 billion pension fund.

- The full 172-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.

SRPS

