

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.

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 2011 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 decrease \$963,408 or 3% for FY 2012. 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. For FY 2012 the HCPS school system employer contribution is expected to increase by \$841,346 or 30%. The State contribution and the HCPS school system contribution is related to the number of current employees, new employees hired in FY 2011, and the contribution to the new Alternate Contributory Pension Plan. The State contribution has decreased due to teacher retirements and the replacement teacher's salaries costing less than the retirees. The HCPS school system contribution has increased primarily due to an annual administrative fee assessed of \$728,931 by the State in FY 2012.

State Retirement And Pension System Information*					
	Actual FY 2008	Actual FY 2009	Actual FY 2010	Actual FY 2011	Projected FY 2012
Contribution Sources:					
State Aid to Local School Systems	\$23,870,733	\$26,419,617	\$31,578,248	\$34,323,976	\$33,360,568
Harford County Public Schools**	\$2,034,028	\$1,885,583	\$1,968,143	\$2,849,311	\$3,690,657
Total Contributions	\$25,904,761	\$28,305,200	\$33,546,391	\$37,173,287	\$37,051,225
Total Expenditures	\$25,904,761	\$28,305,200	\$33,546,391	\$37,173,287	\$37,051,225

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

** Includes all 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 2010, the Board's annual pension cost of \$1,968,143 is equal to its required and actual contribution. This required contribution was determined as part of the June 30, 2009 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 3.5 percent compounded annually, attributable to inflation;
- Additional projected salary increases ranging from 0.0 percent to 8.5 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 2003 to 2006; and,
- Aggregate active member payroll assumed to increase 3.5 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 12.58% for the Employees Retirement System and 7.58% for the Employees' Pension System.

The State of Maryland contributes 19.53% 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. The actual cost has increased to \$284,085 and was identified by the State Retirement and Pension System in the billing in December 2008 for the Fiscal Year 2009. This cost will escalate in future years.

Charts on the following page represent a trend line increase in the 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 who are members of the Teachers Retirement & Pension System.

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