

# 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 2017 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 FY2013, 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 FY2014 as reflected in the table below. The additional pension costs were fully funded by Harford County in FY2014 and then shared in FY2015, FY2016 and FY2017.

<b>State Mandated costs for HCPS Teachers Retirement Pension System</b>					
	FY2013	FY 2014	FY 2015	FY 2016	FY 2017
<b>State Shared Pension Costs</b>	\$5,529,741	\$7,009,102	\$8,966,815	\$10,309,396	\$10,170,828
Unrestricted Funding Harford County	\$5,529,741	7,009,102	7,475,675	8,448,709	8,470,828
Restricted Funding HCPS	\$0	\$0	\$1,491,140	\$1,860,687	\$1,700,000

For FY 2017, the HCPS school systems budgeted contribution for the shared costs for the HCPS Teachers Retirement Pension System will decrease by \$138,568 over the prior fiscal year. The pension costs are being funded by the unrestricted budget in the amount of \$8,470,828 and \$1,700,000 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 2017, the Board's annual pension cost of \$13,649,931, consists of contributions from the unrestricted fund of \$11,949,931 and the restricted fund of \$1,700,000 which is equal to its required and actual contribution. This required contribution was determined as part of the June 30, 2015 actuarial valuation using the entry age actuarial cost method.

<b>State Retirement And Pension System Information</b>					
	Actual FY 2014	Actual FY 2015	Actual FY 2016	Budget FY 2016	Budget FY 2017
<b>Contribution Sources:</b>					
State Aid to Local School Systems (A) *	\$29,187,145	\$29,257,412	\$26,626,689	\$29,257,412	\$26,626,689
<i>HCPS contributions:</i>					
HCPS Teachers Retirement Pension System **	6,462,804	7,361,347	8,448,709	8,803,344	8,470,828
HCPS Employees Retirement & Pension System ***	3,163,299	3,124,095	2,749,421	3,479,103	3,479,103
Unrestricted Fund Contributions (B)	\$9,626,103	\$10,485,442	\$11,198,130	\$12,282,447	\$11,949,931
Restricted Fund Contribution (C)		\$1,605,468	\$1,860,687	\$1,506,052	\$1,700,000
<b>Total HCPS Contributions A + B + C = D</b>	<b>\$9,626,103</b>	<b>\$12,090,910</b>	<b>\$13,058,817</b>	<b>\$13,788,499</b>	<b>\$13,649,931</b>
<b>Total Pension Contributions A + D</b>	<b>\$38,813,248</b>	<b>\$41,348,322</b>	<b>\$39,685,506</b>	<b>\$43,045,911</b>	<b>\$40,276,620</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, paid 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 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 2013 legislative session, the Legislature changed the method used to fund the State Systems of the MSRPS. The unfunded liability for each State System is being amortized over a single closed 25-year period beginning July 1, 2014 and ending June 30, 2039 (23 years remaining as of the June 30, 2015 valuation, which determines the fiscal year 2017 contribution). In addition, the corridor method used by the Teachers' Combined System and the State portion of the Employees' Combined System, which was established in 2001, was being phased-out over a 10-year period. In 2015, the Legislature removed the corridor funding method effective with the June 30, 2015 valuation.

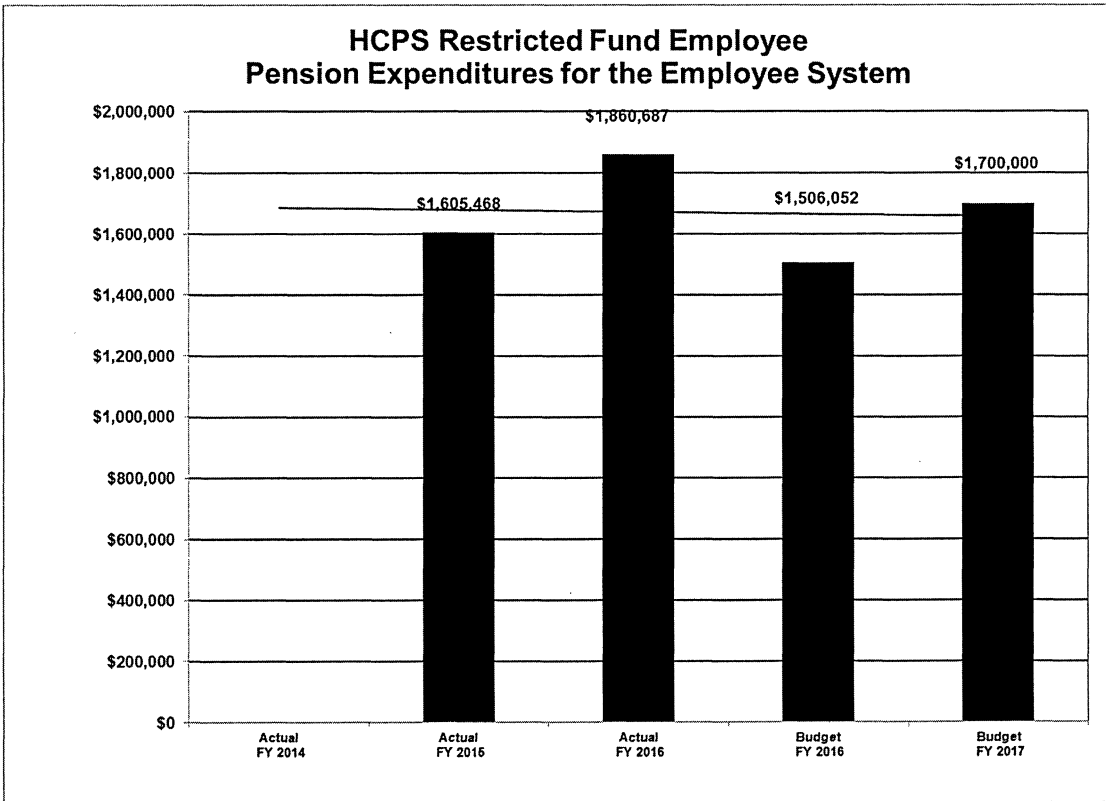
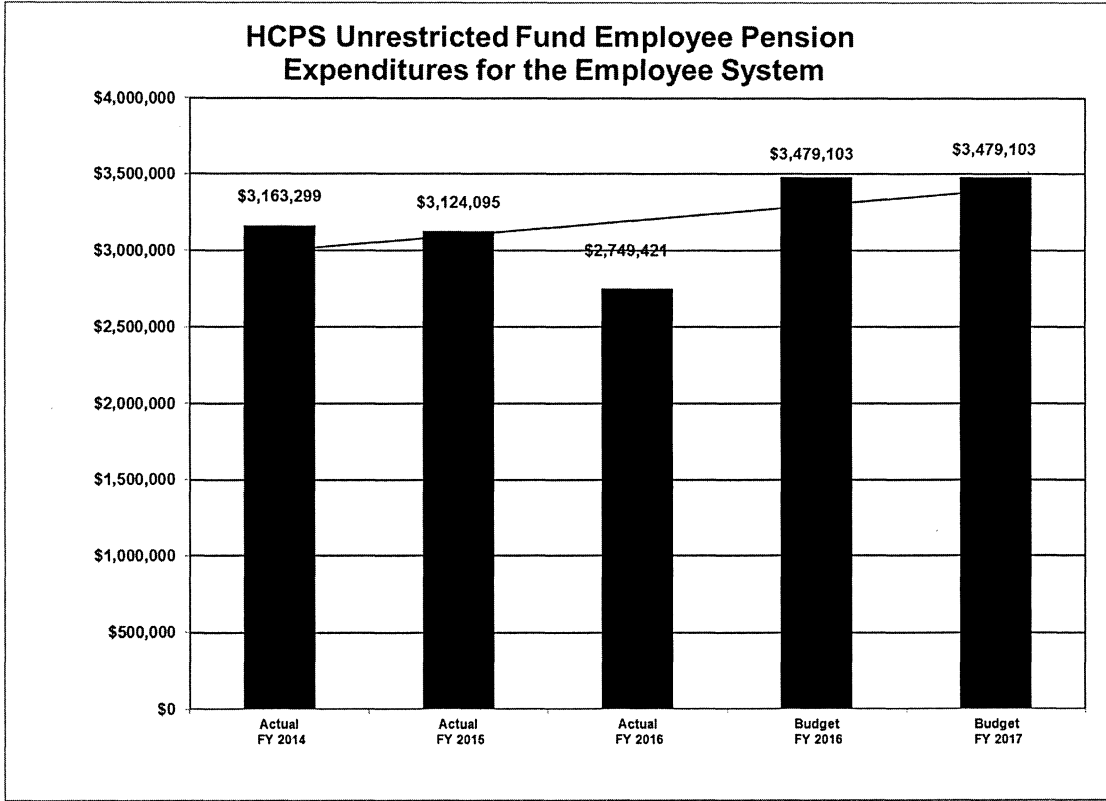
The employer contribution rate for FY 2017, based on an actuarial valuation for June 30, 2015, is 9.64% for the Employees Retirement System and 4.64% for the Employees' Pension System.

The State of Maryland contributes 11.23% and Harford County Public Schools contributes 4.56% for employees within the Teachers Retirement and Pension Systems. These rates are subject to change annually as a result of the General Assembly session.

The following charts 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.

<sup>1</sup> Maryland State Retirement System 2015 CAFR – Actuarial Section

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