

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 requires active members to contribute to the Retirement or Pension System at the rate of 5% or 7% 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 2018 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 25-year period, as provided by law, from July 1, 2013.

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.

| State Mandated costs for HCPS Teachers' Retirement Pension System | | | | | |
|--|-------------|--------------|--------------|--------------|--------------|
| | FY 2015 | FY 2016 | FY 2017 | FY 2018 | FY 2019 |
| | Actual | Actual | Actual | Budgeted | Budgeted |
| State Shared Pension Costs | \$8,966,815 | \$10,309,396 | \$10,104,981 | \$10,896,243 | \$11,100,334 |
| Unrestricted Funding HCPS | 7,361,347 | 8,448,709 | 8,084,494 | 8,946,243 | 9,150,334 |
| Restricted Funding HCPS | \$1,605,468 | \$1,860,687 | \$2,020,486 | \$1,950,000 | \$1,950,000 |

Budgeted FY18 includes \$10,127,778 plus administrative fees of \$768,465

Budgeted FY19 includes \$10,330,334 plus administrative fees of \$770,000

For FY2019, HCPS' estimated required contribution for the Teachers' Retirement Pension System is \$10,330,334 plus an estimated \$770,000 in administrative fees assessed by the Maryland State Retirement System. The total contribution is estimated at \$11,100,334. For FY2019, HCPS' budgeted contribution for the shared costs for the HCPS Teachers' Retirement Pension System increased by \$204,091 over the prior fiscal year. HCPS will fund \$9,150,334 via the operating fund and \$1,950,000 via the restricted fund.

Annual Pension Cost

The school system will make the employer required annual contributions to the Employees' Pension Systems as well as those related to positions in the Teachers' Pension Systems funded through federal and state restricted programs. For FY2019, the Board's estimated annual pension cost of \$13,218,334 consists of contributions from the unrestricted fund of \$11,268,334 and the restricted fund of \$1,950,000.

| State Retirement And Pension System Information | | | | | |
|---|---------------------|---------------------|---------------------|---------------------|---------------------|
| | Actual FY 2015 | Actual FY 2016 | Actual FY 2017 | Budget FY 2018 | Budget FY 2019 |
| Contribution Sources: | | | | | |
| State Aid to Local School Systems (A) * | \$29,257,412 | \$26,626,689 | \$27,773,812 | \$26,381,727 | \$26,381,727 |
| <i>HCPS contributions:</i> | | | | | |
| HCPS Teachers' Retirement Pension System ** | 7,361,347 | 8,448,709 | 8,084,494 | 8,946,243 | 9,150,334 |
| HCPS Employees' Retirement & Pension System *** | 3,124,095 | 2,749,421 | 2,088,496 | 2,102,842 | 2,118,000 |
| Unrestricted Fund Contributions (B) | \$10,485,442 | \$11,198,130 | \$10,172,990 | \$11,049,085 | \$11,268,334 |
| Restricted Fund Contribution (C) | \$1,605,468 | \$1,860,687 | \$2,020,486 | \$1,950,000 | \$1,950,000 |
| Total HCPS Contributions B + C = D | \$12,090,910 | \$13,058,817 | \$12,193,477 | \$12,999,085 | \$13,218,334 |
| Total Pension Contributions A + D | \$41,348,322 | \$39,685,506 | \$39,967,289 | \$39,380,812 | \$39,600,061 |

* The State of Maryland employer contribution for the Teachers' Retirement System, hereafter referred to as the Teachers' system.

** The employer contribution for the Teachers' Retirement System, hereafter referred to 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 included¹:

- 7.55% investment rate of return, compounded annually.
- The member contribution rate was increased for members of the Teachers' Pension System and Employees' Pension System from 5.0% to 7.0%, and from 4.0% to 6.0% in fiscal year 2012 and 7.0% 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 7.55%).

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 (22 years remaining as of the June 30, 2016 valuation, which determines the fiscal year 2018 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 FY2018, based on an actuarial valuation for June 30, 2016, is 12.45% for the Employees' Retirement System, 8.56% for the Employees' Pension System and 4.47% for the Teachers' Retirement and Pension System.

The State of Maryland contributes 11.24% for employees within the Teachers' Retirement and Pension Systems per rates published in December 2016. These rates are subject to change annually as a result of the General Assembly session.

The following charts represent a trend line 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.

¹ Maryland State Retirement System 2016 CAFR – Actuarial Section.



