
State and Local Pension Costs

Presentation to The Blueprint for Maryland's Future Funding Formula Workgroup

**Department of Legislative Services
Office of Policy Analysis
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Refresher

- Locals pay the “normal cost” share of teacher pensions
- State pays unfunded liabilities (amortized)
- New teachers add to the normal cost but not to unfunded liabilities
- Salary increases add to normal cost, and can add to unfunded liabilities, but only if they exceed actuarial assumptions

Actuarial Assumptions

- Actuarial calculations assume a closed group – each teacher who leaves or retires is replaced by a new (younger) teacher.
- Actuarial assumptions include a 3.1% annual rate of increase in teacher payroll.
- For this analysis, that rate was adjusted very slightly by our actuary to reflect that not all members of the pension plan are affected by the commission's recommendations (roughly half of pension plan members are affected).
- This analysis assumes a 10% reduction in teacher turnover during the phase-in period due to increases in compensation and improved working conditions.

Assumed vs. Projected Pay Increases

	<u>Actuarial Assumption</u>	<u>Kirwan Proposed</u>	<u>Difference</u>
FY 2020	2.98%	2.64%	-0.34%
FY 2021	3.05%	3.49%	0.44%
FY 2022	3.05%	5.11%	2.06%
FY 2023	3.05%	3.93%	0.88%
FY 2024	3.02%	2.07%	-0.95%
FY 2025	2.94%	1.69%	-1.25%
FY 2026	2.97%	1.35%	-1.62%
FY 2027	2.93%	2.17%	-0.76%
FY 2028	2.81%	1.78%	-1.03%
FY 2029	2.79%	1.75%	-1.04%
FY 2030	2.80%	2.91%	0.11%

Changes in Local Pension Costs

(\$ in Thousands)

	<u>FY</u> <u>2022</u>	<u>FY</u> <u>2023</u>	<u>FY</u> <u>2024</u>	<u>FY</u> <u>2025</u>	<u>FY</u> <u>2026</u>	<u>FY</u> <u>2027</u>	<u>FY</u> <u>2028</u>	<u>FY</u> <u>2029</u>	<u>FY</u> <u>2030</u>	<u>FY</u> <u>2031</u>	<u>FY</u> <u>2032</u>
Increase in Headcount due to Enrollment	\$345	\$441	\$1,929	\$3,646	\$4,847	\$5,579	\$6,277	\$6,287	\$6,057	\$6,161	\$6,760
<u>Commission</u>											
Additional Teachers for Collaboration	\$0	\$2,664	\$4,373	\$5,824	\$10,316	\$14,465	\$18,494	\$21,852	\$25,739	\$28,560	\$29,024
Teacher Salary Increases	\$4,847	\$5,782	\$10,033	\$12,016	\$10,157	\$7,579	\$4,182	\$2,589	\$374	-\$1,880	-\$1,674
Total Commission Costs – Local Teacher Pensions	\$4,847	\$8,446	\$14,406	\$17,840	\$20,473	\$22,044	\$22,676	\$24,441	\$26,113	\$26,680	\$27,350

Pension Costs by County (Full Implementation)

(\$ in Thousands)

Allegany	\$245
Anne Arundel	2,273
Baltimore City	2,215
Baltimore	3,273
Calvert	491
Caroline	168
Carroll	716
Cecil	474
Charles	768
Dorchester	139
Frederick	1,178
Garrett	103
Harford	1,017
Howard	2,120
Kent	61
Montgomery	5,790
Prince George's	4,102
Queen Anne's	216
St. Mary's	482
Somerset	102
Talbot	122
Washington	604
Wicomico	442
Worcester	248
	\$27,350

State Pension Costs

- Only changes in unfunded liabilities
- In 7 of 11 years, projected salary increases are less than actuarial projections
- As a result, unfunded liabilities increase in only 4 of the 11 years and decrease in the remaining years (including the final year of the phase-in period)
- For the purpose of this analysis, we are treating the overall State effect as being cost neutral