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Maryland state workers to put more into pension plans

By Hazel Bradford
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(updated)

A short legislative season left little time for debate over changes to Maryland's state pension system that have participants contributing 2% more to maintain their defined benefit plans, and that bring new rules for new hires.

The changes are intended to help the Maryland State Retirement and Pension System, Baltimore, boost its current 64% funding ratio to 80% by 2023. Despite full funding in the past four years, funding has dropped dramatically from 95% 10 years ago, and was projected to decline to 59% next year, according to a news release from Gov. Martin O'Malley's office.

Recommendations from a sustainability commission study and Mr. O'Malley, who wanted to address plan underfunding while saving the state's defined benefit system, sparked the changes. Mr. O'Malley also called for biannual reports to check the system's financial health and consider adjustments.

Of those affected by the change in contribution rate from 5% to 7%, "the overwhelming majority are the teachers and state employees," said Michael Golden, spokesman for the $37.1 billion state pension system, which oversees all state pension plans. The 8% contribution rate for state police and 5% for correctional officers will not change. The contribution rate for enforcement officers from other departments rises to 6% this year, from 4%, and will increase to 7% in subsequent years.

New hires will come in at the 7% contribution rate, and their final compensation will be based on the average of the highest five years, compared to three years for current employees.

Union representatives had hoped to negotiate a more gradual phase-in of the increased contribution rate. "After waiting out furloughs and pay cuts, state employees had been looking forward to some relief, "said Sue Esty, assistant director of AFSCME Maryland, Baltimore, which has 30,000 members. "This way, it's as if they are still carrying the burden on their backs." Clara Floyd, Annapolis-based president of the Maryland State Education Association, the state's largest union with 71,000 members, warned that "this shortsighted decision will have long-term effects on the quality of our schools."

Still, Ms. Esty noted "one good thing" that came out of the latest budget

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skirmish was keeping the defined benefit plans, "which is the most efficient system."

The changes approved in April are anticipated to yield budget savings of $295 million for fiscal years 2012 and 2013. Of that, $120 million is directed to go into the general fund, which will reduce the state's pension contribution, now $1.5 billion, while $175 million will go to the pension system. After that, any savings realized by the pension system will be capped at $300 million, with the rest going into the general fund.

Hints of further changes to the state pension plans may come later in May when the sustainability commission meets to consider whether further cuts are needed. "It's definitely not over," said Ms. Esty of AFSCME.

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