State Treasurer Nancy Kopp Applauds Joint Committee on Pension’s proposal to reform pension funding policy

Baltimore, MD (December 18, 2012)—State Treasurer Nancy K. Kopp today applauded the State Legislature’s Joint Committee on Pensions’ (JCP) decision to sponsor legislation during the 2013 General Assembly session that will phase out over ten years the so-called “corridor funding methodology” and return the system to the actuarially determined Annual Required Contribution. Since its adoption in 2002, the corridor method has been cited as one of the causes for the current underfunding of the state pension system. The system, as of June 30, 2012 was funded at 64.4%.

"The Board of Trustees is very pleased that the joint committee has taken this step towards what we hope will be the elimination a funding method that has contributed to an underfunding of the system,” said Treasurer Kopp, Chair of the Maryland State Retirement and Pension System Board of Trustees. “The pension reforms that were enacted in 2011 are projected to lead us to our goal of a fully funded system and this additional reform of the state funding policy will help us sustain it in the long term.

Under the corridor method, the state could maintain its contribution rate in effect for the Teachers’ and Employees’ combined systems at fiscal year 2002 levels every year as long as the funding level for the systems remained between a “corridor” of 90 percent and 110 percent funded. If either system fell below 90 percent funded, then the contribution rate for the subsequent fiscal year was set at the rate in effect for the preceding fiscal year, plus 20 percent of the difference between what is actuarially required and the prior fiscal year contribution rate.

Within two years of implementation of the corridor funding methodology, the employees’ plan dropped out of the corridor and the teachers’ plan followed a year later. This has contributed to the declining funded ratio for the Maryland State Retirement and Pension System as the method resulted in a contribution rate less than the actuarially required amount.

# # #

The Maryland State Retirement and Pension System is charged with the fiduciary responsibility for properly administering the retirement and pension allowances of more than 132,000 retirees and beneficiaries as well as the future benefits for more than 244,000 active and former members. These groups include state government employees, teachers, law enforcement personnel, legislators, judges and local government employees and fire fighters whose employers have elected to participate in the system.