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MARYLAND
STATE RETIREMENT
and PENSION SYSTEM

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May 26, 2023

Dear Participating Governmental Unit in the Maryland State Retirement and Pension System:

Introduction

The Maryland State Retirement and Pension System ("the System") implemented the Government Accounting Standards Board (GASB) Statement No. 67 (Financial Reporting for Pension Plans) which was effective for the System's FY2014 financial statements. For the years ending June 30, 2015 and thereafter, GASB's Statement No. 68 (Accounting and Reporting for Pensions) are effective for the financial statements of the System's participating employers.

The System is a cost sharing, multi-employer defined benefit pension plan for the employees' and school teachers' personnel for the State's 24 subdivision boards of education and certain local governmental entities that chose to participate in the System. These "Participating Governmental Units" ("PGUs") were required to adopt GASB No. 68 in its financial statements for the year ended June 30, 2015 and each fiscal year thereafter. As a PGU of the System, you are required to report your PGU's proportionate share of the System's unfunded liability as of the close of each fiscal year.

The System is pleased to offer the information detailed below for its participating employers as they comply with GASB No. 68 reporting requirements. Participating employers must determine on their own whether or not to use the information provided by the System. The System is offering the information in this memo solely for information purposes to assist with compliance with GASB No. 68 to the extent participating employers may find it useful. Employers should consult their independent auditor regarding the possible use of this information when complying with GASB No. 68.

The 2023 GASB No. 68 information is as of and for the year ended June 30, 2022 (measurement date) and is for use in participating employer's financial statements for the year ended December 31, 2022 or June 30, 2023, whichever is applicable.

Boards of Education Special Funding Situation

Before discussion of the process used to calculate and allocate the net pension liability, it is important to understand Maryland's particular situation concerning the payment of employer pension costs for Maryland's teacher population under the 24 Boards of Education (BOE).

At the time that the GASB's changes were under consideration, an initiative for pension cost sharing was before the 2012 session of the General Assembly. This legislation, which did become law, required each BOE to begin paying the "normal cost" for their teachers starting in FY 2013. It was actually structured as a four-year phase-in to the full normal cost so that 50% was paid in FY2013. Full normal cost was paid in FY2017 and each year thereafter.

It was then evident that a serious question as to the responsibility of our local Boards of Education insofar as their own financial reporting requirements were concerned was before us. In that the local jurisdictions were now responsible for a portion of the pension cost, albeit the normal cost, and none of the accrued unfunded liability for teachers, would the local governments have any responsibility regarding the liabilities related to the net pension liability associated with teachers?

Because the State of Maryland pays the unfunded liability and the local jurisdictions pay the normal cost for the teachers' pension, the local Boards of Education are not required to record their share of the unfunded pension liability but instead, that liability is to be recorded by the State of Maryland.

Because the State of Maryland must record the liability for the Boards of Education and because the State of Maryland and the Boards of Education did not fully contribute their normal and past service costs for the teachers' pension, our calculation is adjusted to account for total contributions to ensure the Boards of Educations' liability was not improperly allocated to other Participating Government Units.

For Boards of Education, Community Colleges, Libraries, and others, note that if you have employees who are members of the employees' pension system (i.e., non-teachers), you do have a responsibility for the funding of those employees contributions and therefor are allocated a proportional share of the net pension liability. The proportional share is based on the employer contributions for those employees only (i.e., you are not being allocated based on the contributions made for the teachers' system).

Unfunded Liability Calculation

As explained in past years, the System developed the allocation of the net pension liability by following these steps:

1) Calculate the net pension liability as of June 30, 2022, for the entire System in accordance with the provision of GASB No. 67.

2) Determine the total contributions to the System by the State and PGUs, inclusive of any underfunding of contributions.

3) Based on the number of participants at each BOE, calculate the difference between what each BOE would have contributed if they funded at the rate of all other participating governments and what the BOE actually contributed. The difference between what the Boards contributed and what they would have contributed if they funded at the rate of the other participating governments, is then added to the total contribution to the System, to calculate the System's adjusted calculation.

   Note: The purpose of this adjustment to the total System contribution for the share of the Board's contribution that is paid for by the State (BOE's share of unfunded liability to be paid for by the State) is because the State will not fund its share in the current year, and we do not want the participating government's share of the total contribution to be greater because of the State's share not being contributed.

4) Calculate for each participating government, their percentage of the adjusted System contribution by dividing the total adjusted System contribution into each PGU's contribution.

5) Provide each PGU its adjusted percentage of contribution and the System's net pension liability and other related amounts as of June 30, 2022, under the GASB No. 67 requirements.

Information Provided

In accordance with GASB No. 68, we are also providing an audited FY 2022 Schedule of Employer Allocations and Schedule of Pension Amounts by Employer. The Schedule of Pension Amounts by Employer presents deferred inflows of resources and deferred outflows of resources and pension expense for the current reporting period (measurement period) only. In addition to the current period amount reported on the schedule, employers need to account for deferred inflows of resources and deferred outflows of resources from prior reporting periods and amortize those amounts to pension expense based off the amortization period for their respective years.

The System calculated the deferred inflows of resources and deferred outflows of resources for the change in proportion percentage from the end of the prior measurement period (June 30, 2021) to the end of the current measurement period (June 30, 2022) for the net pension liability only.

These schedules have been audited in accordance with auditing standards generally accepted in the United States of America and are located at the following website https://sra.maryland.gov/gasb-no-68.

The key actuarial assumptions used to perform the June 30, 2022 pension liability calculation are as follows:

Actuarial	Entry Age Normal
Amortization Method	Level Percentage of Payroll, Closed
Inflation	2.25% price, 2.75% wage
Salary Increases	2.75% to 11.25%, including wage inflation
Discount rate	6.80%
Investment Rate of Return	6.80%
Mortality	Fully generational – PB-2010/MP2018 for males and females

System's Verification of Accuracy of Census Data

The development of the calculation of the net pension liability is a process that is done on an annual basis based on information provided by the State of Maryland and the PGUs. The System performs various activities to review the accuracy of the census data and contributions. These activities include, but are not limited to, the following:

1) The System routinely reconciles all census data provided by the PGU's to the contributions received from each PGU to provide certain assurance that the census data is not unreasonable,

2) The System identifies issues and discrepancies and works with each PGU to rectify the items; and

3) Each PGU is subject to a triennial audit in which auditors, on behalf of the System, audit the reported payroll data to ensure that the information includes the correct census data, thereby validating that the data held by each PGU is sufficient to support a clean audit insofar as its proportionate share of the unfunded liability is concerned.

Example Journal Entry

The following is a generic journal entry example to assist you in recording GASB 68 activity. Individual journal entries may be different based on individual facts and circumstances specific to you.

The following entry is based on these assumptions:

- June 30, 2021 PGU's Share of Net Pension Liability: $58,000,000
- June 30, 2022 PGU's Share of Net Pension Liability: $62,000,000
- June 30, 2022 Pension expense: $4,000,000
- June 30, 2022 Deferred inflow (2022 level only): $(1,750,000)
- June 30, 2022 Deferred outflows (2022 level only): $10,000,000
- June 30, 2021 Deferred inflow amortization: $1,500,000 (PY total of $7.5 million amortized over 5 years)
- June 30, 2021 Deferred outflow amortization $200,000 (PY total of $1.0 million amortized over 5 years)
- Year end June 30, 2022 contributions: $8,000,000
- Year end June 30, 2023 contributions (contributions subsequent to measurement date): $10,000,000

Note: The amounts above, except contributions, may be found in the schedules located at the link to the website noted above. The June 30, 2022, 2021, 2020, 2019, 2018, and 2017 deferred inflows and outflows would come from your financial statements. Contributions would come from your financial information.

June 30, 2023 Journal Entries

Debit: Pension expense (contributions) - $8,000,000
Credit: Deferred outflow of resources - $8,000,000 Debit: Deferred outflow of resources - $10,000,000
Credit: Pension expense (contributions) - $10,000,000
To record the contributions to the System made after the measurement date of the ending NPL and before the end of the employer's reporting period and to reverse last year's journal entry.

Debit: Pension expense: $4,000,000 Credit: Net pension liability: $4,000,000
To record the change in the net pension liability (calculated as current year NPL ($62,000,000) less beginning of year NPL ($58,000,000).

Debit: Deferred outflow of resources: $10,000,000 Credit: Pension expense: $10,000,000
Debit: Pension expense: $1,750,000
Credit: Deferred inflow of resources: $1,750,000
To record the 2022 deferred inflows and outflows related to items allowed to be amortized by GASB 68 (difference in actuarial experience, change in assumptions, investment earnings and change in proportionate share).

Debit: Pension expense: $200,000
Credit: Deferred outflow of resources: $200,000
Debit: Deferred inflow of resources: $1,500,000 Credit: Pension expense: $1,500,000
To record the amortization of the prior year deferred inflows and outflows related to items allowed to be amortized by GASB 68 (difference in actuarial experience, change in assumptions, investment earnings and change in proportionate share). Note that you should have amortization entries for each year of deferred outflows and inflows (there is only one for example purposes, but you should have prior years if you have recorded deferred outflows and inflows each year).

Additional information for footnote disclosure and required supplemental information can be found in the schedule noted above, the System's financial statements or from your financial data.

Other Items

GASB 68 will affect each PGU differently and the schedule has been prepared on a consistent basis for all PGU's. Each PGU may have individual facts and circumstances that may affect the net pension liability calculation.

Summary

Maryland and its participating employers will continue to fund our pension plans according to statute as it always has. Maryland will continue to progress toward full funding of its pension obligations in the well planned and manageable manner it has established.

We believe this information will prove useful to each of the System's participating employers and will facilitate clarity and understanding of the new liability numbers to be recorded in the financial statements.

With respect to our ongoing compliance with GASB Statement No. 68, you can count on the availability and support of not only this agency, but the Retirement and Pension System's actuary and independent public auditors.

Finally, in an effort to more efficiently manage all future communications regarding GASB No. 68, I am asking all recipients of this letter to **please provide my office with your email address**. Please send your email address to: jsirkis@sra.state.md.us. Thank you.

Sincerely,

Martin Noven
Executive Director