Howard County
MARYLAND

Internal Memorandum

Subject: Testimony for Bill No. – 2013

To: Lonnie R. Robbins
Chief Administrative Officer

From: L. Todd Allen
Human Resources Administrator

Date: August 20, 2013

Howard County Government Administration supports passage of Bill No. – 2013, an amendment to the Howard County Retirement Plan.

The Bill will increase the retirement benefit multiplier for all employees in the Howard County Retirement Plan not currently in AFSCME Union Local 3085 or the Participating Correction Employees Retirement Plan from 1.55% of final average compensation to 1.66%, effective retroactively to July 1, 2012. This legislation will also increase the employee contribution rate to the Plan from 2% of pay to 3% of pay, effective January 1, 2014.

In 2009 the County Council passed Council Bill - 14 which improved the Retirement Benefit for members of AFSCME Union Local 3085 from 1.55% to 1.66% for final average pay. To pay for this benefit the employee contribution was raised from 2% of pay to 3% of pay. This benefit increase was retroactive for all prior service and became effective 7/1/2011. Other unions have requested this benefit as well. This legislation is consistent with the terms of the previously approved union contracts for AFSCME Union Local 3888, AFSCME Local 1810 and the Dispatchers Union in which the County agreed to introduce legislation increasing the benefit multiplier from 1.55% to 1.66% provided that the increase was cost neutral.

This proposed legislation extends the increase in the multiplier for service effective July 1, 2012, for both union employees and non-represented employees. This is important for equity purposes as well as to avoid a major management problem. For example, if unrepresented managers receive a lesser pension benefit multiplier than the employees they supervise, employees may wish to not be promoted.

A thorough analysis of this legislation was completed by County's Retirement Plan actuary, Bolton Partners. Bolton projected the cost of this plan amendment to be $64,500 annually for the covered payroll of $69,021,817. Therefore, this plan amendment cost is estimated to be 0.09% of covered payroll which is considered actuarially cost neutral.

Currently the base pension benefit is calculated by determining the average of the three highest years of annual compensation and then multiplying that number by the years of service and 1.55%. For an employee with a final average compensation of $50,000 and thirty years of service that would result in an annual pension payment of $23,250 or 46.5% of average final compensation. With this proposed change, the multiplier would increase to 1.66% and result in an annual retirement payment of $24,900 or 49.8% of average final compensation. For employees hired before July 1, 2012 the final retirement benefit would be calculated using 1.55% for all service before that date and 1.66% for service after that date.

The Administration believes that it is important that we have a consistent retirement benefit formula for these interrelated job classifications and recommend that you enact this legislation.

Fiscal Note:

A copy of the fiscal impact statement prepared by Bolton Partners, Inc. is attached for reference.

I am available to provide any further assistance or answer any questions you may have.

L. Todd Allen
Human Resources Administrator

cc: Ken Ulman, County Executive
Jennifer Sager, Legislative Coordinator
Howard County Retirement Plan Committee
Howard County Police and Fire Retirement Plan Committees

BOLTON PARTNERS

March 15, 2013

Todd Allen
Administrator, Office of Human Resources
Howard County
3430 Court House Dr.
Ellicott City, MD 21043

Re: *Benefit Improvement study for Howard County Retirement Plan – General Employees with 1.55% multiplier*

Dear Todd:

We are providing you with the annual change in County contribution resulting from potential benefit increases for all General employees whose benefit is currently calculating using a 1.55% benefit multiplier. We studied the following change to the benefit multiplier which we understand would be effective 1/1/2014. The employee contribution rate increase is effective on the same date as the benefit formula change.

- Increase the benefit multiplier from 1.55% to 1.66% for <u>all future years of service and service earned 1.5 years prior</u> to the effective date of the change; employee contribution rate increases from 2% to <u>3%</u>.

Another way to look at this change is that the multiplier increase is effective 7/1/2012 for those employees who are employed on 1/1/2014.

The results are shown below. Note that when calculating the change in County contribution as a percent of covered payroll, covered payroll only includes pay for this specified group of employees. A negative would represent a decrease in County contribution. Although for calculation efficiency these results assumed the plan changes were effective 7/1/2012; the results, especially the percent of payroll, would be similar when the effective date is 1/1/2014. As you consider the results, you should also consider expected future payroll for this group and apply the percentage to expected payroll to get an expected additional contribution in dollars.

Bolton Partners, Inc.
100 Light Street • 9th Floor • Baltimore, Maryland 21202 • (410) 547-0500 • (800) 394-0263 • Fax (410) 685-1924
Actuarial, Benefit and Investment Consultants

Annual Change in County Contribution

General employees with 1.55% current multiplier	Increase for future years plus 1.5 prior years of service
Employee contribution rate	3%
County Contribution (in $)	$64,500
County Contribution (% of covered pay)	0.09%
Number of employees	1,128
Average age	48.8
Average service	12.0
7/1/2012 covered pay	$69,021,817

Under this scenario, the employees contribute an additional 1% of pay prospectively (3% total) and the multiplier is increased for future service plus 1.5 additional year of prior service and there is a slight increase in County contributions. Note that under this scenario, new employees will not have "1.5 years of prior service" so the County will see a slight savings for new employees.

Data, Method and Assumptions

The methods and assumptions used for this study (except the amortization period as discussed below) are the same as those used in our July 1, 2011 actuarial valuation of the Howard County Retirement Plan dated January 26, 2012. As a reminder, if a lower (less risky) interest rate was used, the County contribution would be higher. The data used for this study was provided by the County on August 7, 2012 and consists of employees as of July 1, 2012. The data was not reconciled with the 2011 actuarial valuation data and may differ from the data used to prepare the July 1, 2012 actuarial valuation. Any differences in data should not materially affect the results, but we reserve the right to revise these results if we determine there are significant differences in the data.

Any increase in actuarial liabilities was amortization over 8.25 years, the average future work life of current employees in this group. There is no requirement about what this period should be, but several groups are working on new funding guidelines and most are suggesting that increases in unfunded liabilities due to benefit increases be amortized over the average future work life of current employees.

I am a credentialed actuary and meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion contained in this letter. I am currently compliant with the Continuing Professional Development Requirement of the Society of Actuaries.

Please let me know if you have any questions or need any additional information.

Sincerely,

BOLTON PARTNERS, INC.

Ann M Sturner

Ann M. Sturner, FSA, EA, MAAA

cc: Tom Lowman