



Internal Memorandum

Subject: Testimony for Bill No. 19-2018

To: Lonnie R. Robbins
Chief Administrative Officer

From: Wanda Hutchinson
Human Resources Administrator

Date: April 4, 2018

The Administration is seeking County Council approval of Council Bill No. 19 -2018. The bill amends the calculation of the annual Cost of Living Adjustment (COLA) awarded to retirees of the Howard County Retirement Plan and the Howard County Police and Fire Employees' Retirement Plan (collectively the "Retirement Plans") effective July 1, 2018.

Each July 1, the Retirement Plans grant a COLA to retired members whose benefits have been in pay status at least 12 months. The COLA is calculated as the change in the Consumer Price Index from one year to the next. The Consumer Price Index for this purpose is specifically defined in the County Code as follows:

The consumer price index to be used is the index for "**All Urban Consumers (CPI-U) Washington-Baltimore, DC-MD-VA-WV—All items—November 1996=100**" published by the Bureau of Labor Statistics; and the Consumer Price Index as of any valuation date means the index reading on the last day of March preceding such valuation date.

In January 2018, the Bureau of Labor Statistics introduced a new geographic area sample for the Consumer Price Index, and announced that the combined Washington-Baltimore index would be discontinued. Thus, the Retirement Plans need to modify the basis by which the annual retiree COLA is determined, and the change must be in place by the time the July 2018 pension checks are issued.

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March 22, 2018

At its meeting on February 22, 2018, the Joint Retirement Plan Committee unanimously approved a change to the Plans' definition of Consumer Price Index to reflect the index of the Baltimore-Columbia-Towson geographic area sample. The formal name of the index published by the Bureau of Labor Statistics is "All Urban Consumers (CPI-U) BALTIMORE-COLUMBIA-TOWSON, MD – ALL ITEMS – 1982-1984 = 100".

The Pension Oversight Commission considered the proposed legislation at its meeting on March 28, 2018 and was comfortable with the provisions.

Finally, the Plan's actuaries have determined that there is no cost associated with this amendment. A copy of the fiscal impact statement prepared by Bolton Partners, Inc. is attached.

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

cc: Allan H. Kittleman, County Executive
Jennifer Sager, Legislative Coordinator
Howard County Retirement Plan Committee
Howard County Police and Fire Retirement Plan Committee



March 20, 2018

Terry Reider
Retirement Coordinator
Howard County Government
3430 Court House Drive
Ellicott City, MD 21043

Re: *Howard County Retirement Plan and
Police and Fire Employees' Retirement
Plan – Revise CPI definition for COLA
calculation*

Dear Terry:

We reviewed the proposed revisions to both the County's Retirement Plans which change the Consumer Price Index (CPI) used to calculate the post-retirement cost of living adjustments (COLA) and analyzed the cost impact of the change. The Bureau of Labor Statistics discontinued the CPI-U Washington-Baltimore, DC-MD-VA-WV – All Items index and the County has selected the CPI-U Baltimore-Columbia-Towson, MD – All Items index as the replacement.

We have concluded that using the newly-selected CPI will have an insignificant effect on the contribution rates. The actuarial valuations contain an assumption for the post-retirement COLA (currently 2.75% and 2.0% for the Retirement Plan and Police and Fire Retirement Plan, respectively). We have no reason to believe the new CPI will produce significantly different results than the discontinued CPI, so we will not change the post-retirement COLA valuation assumptions. Thus, there will be no change in the FY2019 contribution rates because of this amendment.

The newly-selected CPI could cause the actual COLA to be slightly more or less than the COLA using the discontinued CPI, so the resulting benefits could be slightly different and the plan could experience a minimal gain or loss. Since the Washington-Baltimore index is discontinued, we cannot compare the results.

The data, methods and assumptions used for this study are the same as those used in our July 1, 2017 actuarial valuations of the Howard County Retirement Plan and the Howard County Police and Fire Employees' Retirement Plan dated January 25, 2018.

I, Ann M. Sturner, am a member of the American Academy of Actuaries and meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion contained herein. I am currently compliant with the Continuing Professional Development Requirement of the Society of Actuaries.

Bolton Partners, Inc.

36 S. Charles Street • Suite 1000 • Baltimore, Maryland 21201 • (410) 547-0500 • (800) 394-0263 • Fax (410) 685-1924
Employee Benefit and Investment Consultants

Terry Reider
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Please contact me if you need any additional information.

Sincerely,

BOLTON PARTNERS, INC.

Ann M. Sturner
Ann M. Sturner, FSA, EA