

County Council of Howard County, Maryland

2018 Legislative Session

Legislative Day No. 2


Resolution No. 22 - 2018

Introduced by: The Chairperson

A RESOLUTION acknowledging receipt of the annual report of the Howard County Retirement Plan and the Police and Fire Employees' Retirement Plan submitted by the Pension Oversight Commission.


Introduced and read first time February 5, 2018.

By order


Jessica Feldmark, Administrator

Read for a second time at a public hearing on February 20, 2018.

By order


Jessica Feldmark, Administrator

This Resolution was read the third time and was Adopted , Adopted with amendments ____, Failed ____, Withdrawn ____, by the County Council on March 5, 2018.

Certified By


Jessica Feldmark, Administrator

NOTE: [[text in brackets]] indicates deletions from existing law; TEXT IN SMALL CAPITALS indicates additions to existing law; ~~Strike-out~~ indicates material deleted by amendment; Underlining indicates material added by amendment.

1 **WHEREAS**, Title 1 Human Resources, Subtitle 4 Retirement Plans, Article VIII Pension
2 Oversight Commission establishes the Pension Oversight Commission and requires the
3 Commission to submit an annual report of the status of the Howard County Retirement
4 Plan and the Police and Fire Employees' Retirement Plan to the County Executive and the
5 County Council; and

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7 **WHEREAS**, Title 1 Human Resources, Subtitle 4 Retirement Plans, Article VIII Pension
8 Oversight Commission further requires the Howard County Council to accept by
9 Resolution the annual report of the Pension Oversight Commission; and

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11 **WHEREAS**, On November 21, 2017, the "Annual Report by the Howard County Pension
12 Oversight Commission for the Fiscal Year Ended June 30, 2016" was submitted to the
13 County Council.

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15 **NOW, THEREFORE, BE IT RESOLVED** by the County Council of Howard County,
16 Maryland, this 5th day of March, 2018, acknowledges receipt of the
17 Annual Report submitted by the Pension Oversight Commission.

MEMORANDUM

February 8, 2018

MEMO TO: Council Members
THROUGH: Craig Glendenning
County Auditor
FROM: Steve Peters
Legislative Audit Manager
SUBJECT: Council Resolution 22-2018

Council Resolution 22-2018 acknowledges the Council's receipt of the annual report of the pension plans submitted by the Pension Oversight Commission (POC). Listed below, in italics, are our comments on the Commission's recommendations, based upon pension committee meeting minutes and attendance at pension committee meetings by Auditor's Office staff.

Recommendation 1: Periodic Re-Evaluation of Service Providers to the Plans

The POC has recommended that the Plans adopt a formal policy to review the service providers, especially the investment consultant to the Plans, at least once every five years.

The Plans do review the service providers from time to time, but there is no formal policy. It would be in the best interest of the Plans to develop a formal policy to evaluate all consultants to the Plans on a periodic basis.

Recommendation 2: Retirement Plan Committee (RPC) Staffing

The POC recommends the hiring of an internal investment professional. *At the January 25, 2018 meeting of the pension committee, it was noted that the value of the plans had exceeded \$1 billion for the first time. Discussion among the committee members centered around determining if the benefit received from hiring a permanent employee would justify the cost of doing so. No conclusion was reached during that meeting.*

The POC also recommended that the pension committee establish a more formal training and education program for its members. *The Plans budget for a sufficient level of training each year, but only a small portion of that budget is utilized. A more formal requirement would ensure that all plan fiduciaries have sufficient training to keep up with changes in this field.*

Recommendation 3: Code of Ethics

The POC recommended that the pension committee adopt the Code of Conduct for Members of a Pension Scheme Governing Body issued by the CFA Institute. *The word "Scheme" has a different connotation in Great Britain, where it appears that this code originated, then it does in the U.S., and the pension committee is reluctant to use this code for that reason. They have adopted a code of conduct that is based on standards promulgated by the Chartered Financial Analyst Institute. These standards align with the Howard County Public Ethics Law.*

Recommendation 4: Alternative and Illiquid Investments

The POC recommended that the alternative investment firms provide financial statements audited by a reputable accounting firm, independent valuation and custody of assets, and key corporate governance considerations. *The pension committee currently receives financial statements audited by a reputable accounting firm for all alternative investment managers. The County's external auditors also provide assurance that the assets are properly valued and in proper custody.*

Recommendation 5: Funding Goal

The recommendation from the POC in 2015 was that the Plans should clearly report how and when the Plans would be fully funded based on future contributions and reasonable actuarial assumptions. *This information is available in the actuarial valuation. It may be that the POC does not consider the interest rate assumption to be reasonable.*

Recommendation 6: Investment Return Assumption

The POC is recommending that the Plans undertake an independent study to review the investment rate assumption for the Plans, which is currently 7.5%. The POC believes that this rate may be too high. The rate was reduced in 2015 from 7.75% to 7.5%.

This topic was discussed by the Plans in January 2017. It was noted that return assumptions locally vary from 6.75% to 7.75% and that the national median is 7.5%. These figures have trended lower in recent years. The California Public Employees Retirement System, or CalPERS, is considered to be the industry leader in this area and they reduced their assumed rate to 7.0% last year.

During the July 2017 meeting, the representative from Summit Strategies, the County's investment advisor, noted that the Plans have a higher probability of achieving an investment return of 6.6% than 7.5% based on the current asset allocation and Summit's forward looking capital markets analysis. On page 10 of the POC report, it states that Summit thought 7.5% to be "too high," while the Summit representative stated that he was misquoted, stating that he thought 7.5% was at the high end of the range.

Based upon the FY 2016 audited financial statements, if the Plans were to reduce the investment return assumption from 7.5% to 6.5%, the cost to the County, over time, would be about \$140 million.

Recommendation 7: Closed Meeting/Confidentiality

The Plans have investments with several private equity firms. As a condition of investment, these firms require that the Plans sign a confidentiality agreement and any discussions that the Plans have about these investments may only include pension committee members. These discussions are not open to the public. The Plans sought and obtained an opinion of legal counsel that these closed meetings were permissible.

The POC has recommended that they be allowed to attend the closed meetings. *The pension committee is reluctant to allow this because meetings of the POC are public meetings and the pension committee would be powerless to compel the POC to close their meeting if any of these confidential agreements were being discussed.*

Recommendation 8: Documentation of Procedures

The POC recommended that the Plans adopt written procedures to document their processes and procedures. They also recommended that the policies and procedures be made available to them.

All procedures are documented in the minutes. However, there is no written template of procedures to be followed that the POC could use as a checklist to ensure that all steps are being taken properly. A more formal approval process may provide a higher level of transparency.

Recommendation 9: Access to Plan Materials

The POC recommends that the County establish an internet-based document management system for all Plan information, such as financial statements, actuarial reports, pension committee meeting minutes and other materials.

Currently, financial statements are available on the County's website under the Department of Finance, while pension committee meeting agendas and minutes are available under the Department of County Administration, Office of Human Resources. The Office of Human Resources is working with the Department of Technology and Communication Services to make other public documents available on their website.