

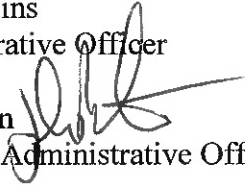


Howard County

Internal Memorandum

Subject: Council Testimony and Fiscal Impact Statement
Re: Council Bill XX -2021

To: Lonnie R. Robbins
Chief Administrative Officer

From: John K. Peterson 
Assistant Chief Administrative Officer

Date: December 11, 2020

The Administration supports and urges the passage of Council Bill XX-2021 which relates to the creation of a Deferred Retirement Option Program or DROP for employees in certain Correctional Officer classifications who are members of the Employees Retirement Plan. This provision was negotiated as part of the collective bargaining process with the American Federation of State, County, and Municipal Employees, Local 3080. The DROP provision helps the County stay competitive with the State of Maryland and surrounding jurisdictions in the recruitment and retention of Correctional Officers.

Local 3080 and the County Administration developed a cost neutral DROP proposal. As part of the recently negotiated agreement which was submitted to and approved by the County Council, the Administration agreed to draft, sponsor, and support legislation adopting the proposal. This bill is submitted to the County Council pursuant to that agreement.

A DROP allows an employee to begin having their retirement benefits calculated and accrued but the employee agrees to delay the receipt of their retirement benefits while they continue to work. An employee may participate in the DROP for two to five years. At the end of the DROP period, the employee would leave active employment and begin receiving a monthly retirement benefit along with the accumulated benefits from participating in the DROP, paid as either a lump sum or increased annuity. The DROP helps the County stay competitive with the State of Maryland and surrounding jurisdictions in the recruitment and retention of correctional officers. Establishing retirement windows also helps the County with succession planning

The attached actuarial study prepared by Bolton USA, shows the fiscal impact to be an actual savings to the retirement plan. The actual cost or savings of a DROP plan is difficult to determine and depends on when employees actually retire and if there is a change in retirement behavior. The County proposed the DROP plan as a cost neutral provision and is submitting the legislation to the Council as having no fiscal impact to the retirement plan.

cc: Jennifer Sager

Bolton

Employee Benefits, Actuarial & Investment Consulting

September 18, 2019

Lonnie R. Robbins
Chief Administrative Officer
Howard County Government
3430 Courthouse Drive
Ellicott City, MD 21043

Re: Howard County Retirement Plan – Analysis for adding a DROP provision for Corrections employees

Dear Lonnie:

We have completed our actuarial study to add a DROP provision for Corrections employees who are in the Howard County Retirement Plan. Our calculations show that the DROP would have no cost and might have a small savings. This is a different result than most DROP studies. The primary driver of the pension cost of a DROP is whether employees decide to work longer because of the DROP. If employees work longer, then the cost of the DROP is more likely to be lower than if employees elect DROP at an earlier retirement age and continue to retire (that is, leave employment) at the same age as prior to DROP. Currently the Corrections employees have a high probability (40%) of retiring when they first become eligible for retirement at 20 years of service. If the DROP is added, a portion of these Corrections employees who would have retired at 20 years may elect to enter DROP at 20 years of service and continue working for several more years. We assumed that the high 40% assumption would decrease to 20% if a DROP is implemented resulting in members working longer.

We tend to be reluctant to show savings when adding a DROP when that savings is dependent on assuming members work longer. So, we have also looked at the cost if a DROP is added but no member changes when they would exit employment (i.e., 40% of employees still retire at 20 years of service). Even if members don't work longer, there is a small savings because no COLA is provided for your DROP period. The results are as follow:

1. Change in County contribution if members retire later = savings of \$232,000 or 2.7% of Corrections payroll (or 0.2% of total plan payroll)
2. Change in Contribution if members do not retire later = savings of \$25,000 or 0.3% of Corrections payroll

Plan Provisions - DROP

We assumed the proposed DROP provisions would be similar to the Police and Fire plan's DROP II which was effective in 2015. There would be two differences. One difference is that Corrections members could enter DROP after 20 years while DROP II requires 25 years. Also, employee contributions are added to DROP II accounts, but Corrections members do not make employee contributions after 20 years. The following summarizes the provisions of the proposed Corrections DROP that we studied:

Eligibility

All plan members are eligible to enter DROP upon completing at least 20 years of Creditable Service.

Participation Period

Determined by DROP participant. The minimum participation period is two years and the maximum participation period is five years. A member must provide at least 18 months' written notice of the intended termination date. However, termination of participation is automatic upon the earlier of the fifth anniversary of DROP participation or upon accruing 35 years of Creditable Service.

Deposits to Account

- (a) Monthly benefit at DROP entry with no adjustment for cost of living (COLAs start after termination and are not retroactive)
- (b) Interest compounded monthly is applied to the balance of the DROP account as of the last day of each month. No interest is applied to additions made during the current month. The effective annual interest rate is equal to the assumed rate of return minus 4.0%, but not less than 1.5%. The current rate is 3.45%.

Employee Contributions

As under the current plan provisions, employee contributions cease at 20 years of service so there will be no employee contributions while in DROP.

Benefit Upon Disability

Regular plan benefit (continuation of pay and service) and no DROP account.

Or DROP account plus regular plan benefit based on actual year of creditable service and average compensation earned through the day before DROP entry.

Benefits Upon Death

Regular plan benefit (continuation of pay and service) plus DROP account.

Data, Methods, Assumptions and Scope

The data, methods and assumptions used for this study are the same as those used in our July 1, 2018 actuarial valuation of the Howard County Retirement Plan dated February 28, 2019 except for the retirement rates for the scenario where employees are assumed to retire later. There were 136 active Corrections members in that valuation with an annual payroll of about \$8.56 million.

For the scenario where employees are assumed to retire later, we reduced the retirement rates between 20 and 24 years of service by 50% and assumed those no longer retiring in that service range would enter DROP at 20 years of service and exit DROP at 24 years (i.e., remain in DROP for 4 of the maximum 5 years). Anyone retiring after 24 years of service was assumed to retire based on the current assumptions but to have joined DROP four years earlier. The revised retirement rates are shown on the last page of this letter.

For the scenario where employees are not assumed to retire later, anyone retiring after 24 years of service was assumed to have joined DROP four years earlier.



When calculating the cost of the benefit change, we amortize the increase in the unfunded liability over a period of years. Model actuarial practice is to amortize the change in unfunded liability over the approximate average future working lifetime of current members which is approximately 8 years for Corrections members. The plan has been following this practice for several years and we have continued this practice for this study for the scenario where employees do not retire later. However, under the scenario where employees retire later, there is a potential savings, so we have used the same 15-year amortization period used for gains and losses.

We have not looked at the impact on the GASB accounting results. Liabilities would increase for GASB purposes since GASB requires Normal Cost to end at DROP entry while the County funds normal cost through DROP exit age.

Actuarial certification

This letter has been prepared for Howard County for the purposes of estimating the impact of a benefit change for Corrections members in the Howard County Retirement Plan. It is neither intended nor necessarily suitable for other purposes. Bolton Partners is not responsible for the consequences of any other use.

We used the assumptions, data and methods shown in the 7/1/2018 actuarial valuation except where noted otherwise. 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 call if you have any questions.

Sincerely,



Thomas B. Lowman, FSA, EA



Corrections Employees Retirement Rates (7/1/2018 actuarial valuation)

Age/Retirement Eligibility	Rate
Early retirement	
First eligibility	40%
Early retirement after first eligibility	5%
Normal retirement eligible, age < 62	
First eligible for normal	40%
After first eligible for normal (age < 50 and service < 25)	1%
All other age/service groups	10%
Normal retirement eligible, age 62+	50%
Age 70 and over	100%

Corrections Employees Retirement Rates (for scenario when employees retire later)

Age	Service							
	5	10	20	21	22	23	24	25
40	0%	0%	24%	1%	1%	1%	43.17%	10%
45	0%	0%	24%	1%	1%	1%	43.17%	10%
50	0%	0%	24%	4.74%	2.98%	1.38%	43.17%	10%
55	0%	0%	24%	4.74%	2.98%	1.38%	43.17%	10%
60	0%	0%	24%	4.74%	2.98%	1.38%	43.17%	10%
62	50%	40%	40%	50%	50%	50%	50%	50%
65	50%	50%	50%	50%	50%	50%	50%	50%
70	100%	100%	100%	100%	100%	100%	100%	100%

