Howard County
Internal Memorandum

Subject: Updated Council Testimony and Fiscal Impact Statement
Re: Council Bill 27 -2021

To: Lonnie R. Robbins
Chief Administrative Officer

From: John K. Peterson
Assistant Chief Administrative Officer

Date: April 12, 2021

The Administration supports and urges the passage of Council Bill 27-2021 which relates to providing new sworn employees of the Sheriff's Department with pension benefits similar to the those of Correctional Officers who participate in the Howard County Employees Retirement Plan.

This legislation would provide that as a condition of employment, Deputy Sheriff hired after July 1, 2021 would contribute 8.5% of base pay to the retirement plan and would become eligible to earn benefit accruals at the rate of 2.5% per year for the first twenty years and 1% for service greater than 20 years. Deputy Sheriffs participating in this plan would also be eligible to retire at 20 years with no benefit reduction. These retirement provisions will help the Sheriff recruit Deputies and help the County stay competitive with other public safety departments, the State of Maryland and surrounding jurisdictions in the recruitment of sworn officers.

The attached actuarial study prepared by Bolton USA, shows that there is no fiscal impact until the first new deputy is hired. The estimated cost for FY 2022 is $39,887 based on the projection of adding 8 new Deputy Sheriff positions in FY 2022. The estimated fiscal cost over time is 11.1% of the Sheriffs annual payroll or $410,441 based on the current payroll. The total impact will not occur until all current employees have retired and only employees hired after July 1, 2021 make up the employer cost of retirement. The increase in the normal cost is part of the entire employer cost that the County contributes for the Employees' Retirement Plan.

cc: Jennifer Sager

January 27, 2016

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

Re: *Howard County Retirement Plan – Analysis of changing benefits for certain Sheriff's department employees*

Dear Lonnie:

We have completed our actuarial study to place certain sworn employees of the Sheriff's Department under the "Corrections" benefit provisions including an increase in the employee contribution rate to the Corrections rate of 8.5% of compensation. Without any further increases in employee contributions, the annual County cost will increase. We also made an approximation of the amount by which employee contributions would need to increase for the Sheriff's in order to make the benefit improvements cost neutral to the County.

The chart below shows the increase in the annual County contribution under two scenarios: (1) the "Corrections" benefit formula applies to all service, and (2) the "Corrections" benefit formula applies to future service only. We assume that the employee contribution rate increase would always be prospective and the normal retirement age change would always be retroactive. This means that even the "future service only" benefit formula change would immediately change a person's Normal Retirement age (even though they would only get 1.55% and 1.66% accruals for past service).

As requested, we calculated the cost of the benefit change by amortizing the increase in the unfunded liability over 9, 15, 20, 25, 30 and 40 year amortization periods.

Increase in County Contribution

	Amortization Period					
Change applies to:	**9**	**15**	**20**	**25**	**30**	**40**
All service	$687,000	$484,000	$410,000	$367,000	$340,000	$308,000
Future service only	$229,000	$142,000	$110,000	$92,000	$80,000	$66,000

The increase in the County contribution shown above assumes the benefit changes and the increase in employee contributions occur immediately. If the Sheriff's Department and the County choose to delay the implementation of both the benefit changes and the increase in employee contributions several years (e.g., 1/1/2019), the County's contribution will increase at the time the change is implemented and will be approximately the same amount.

Increase in Employee Contribution Rate for the County's cost to stay neutral

Instead of increasing the County's contribution and raising the employee contribution rate from 3% to 8.5% of payroll, the employee contribution rate could be raised more. The following shows what the total employee contribution rate would need to be in order to keep the County's contribution unchanged.

	Amortization Period					
Change applies to:	**9**	**15**	**20**	**25**	**30**	**40**
All service	33.3%	26.0%	23.3%	21.8%	20.8%	19.6%
Future service only	16.8%	13.6%	12.5%	11.8%	11.4%	10.9%

While we are able to calculate the rates in the prior chart, there are several important factors to consider including:

- In the case of an "All Service" change, we would be asking new hires to pay for some of the benefits for current employees, particularly those who retire soon. This is most true under the longer amortization approach. To not require new hires to pay more than 8.5% simply increases the cost for current employees.

- Even if new hires paid 8.5%, the cost to the County would increase for these members just as new Corrections employees cost the County more than general employees.

- Even under the "future service only" option, the current funding method allocates a considerable amount of the cost of the benefit change to the actuarial liability and some to the Normal Cost. One thing this implies is that the 16.8% to 10.9% cost for the future service only benefit improvement is the correct impact in year one but the cost will gradually drift up if you use the longer than a 9-year amortization period since new hires have an approximately 16.8% of pay employee Normal Cost. This same issue applies even if the County pays for some of the increase.

- If employees were to pay for all of the cost increase, in theory the cost could decline after the amortization period. However, until that time, even the new hires would have to pay the higher contribution rate and something above 8.5% after that date.

- In part to simplify the calculation, we assumed that contribution refunds would continue to be based on the 8.5% employee contribution rate.

Amortization Periods

In 2014, the Conference of Consulting Actuaries Public Plans Community (CCA PPC) prepared a white paper entitled *Actuarial Funding Policies and Practices for Public Pension Plans*. The paper discusses actuarial cost methods, asset smoothing methods and amortization policy. The

CCA PPC discusses various methods and policies and categorizes them in various categories such as Model, Acceptable, Non-recommended and Unacceptable.

The Model amortization period for an active plan amendment is the lesser of the future working lifetime of active employees, or 15 years. The future working lifetime in the Howard County plan is approximately 9 years. The plan improvements made in 2013 were amortized over 9 years. Thus, we would recommend following Model practice but this is not an actuarial decision.

As requested, we have provided the increase in County contributions under periods in excess of 9 years. The CCA PPC white paper categorizes periods in excess of 9 years but less than or equal to 25 years as Acceptable, with Conditions which means some rationale should ideally be provided for using a period in this range. Amortization periods of 26 to 30 years are Non-recommended while periods over 30 years are Unacceptable.

Plan Provisions

The County's pension plan for general employees is called the Howard County Retirement Plan. Within that plan there are two major groups: the Corrections Employees and All Other. The employees of the Sheriff's Department are currently covered by under the "All Other" provisions. The Corrections employees have:

- Earlier normal retirement ages (e.g. "20 and out")
- Better benefit accruals (e.g. 2.5% for each of the first 20 years vs. the current 1.66% for "All Others")
- Higher Employee contributions (8.5% of pay vs. 3.0% for "All Others")

In this study, we assumed all Corrections provisions will apply to the applicable Sheriff's Department employees.

Data, Methods and Assumptions

The data, methods and assumptions used for this study are the same as those used in our July 1, 2014 actuarial valuation of the Howard County Retirement Plan dated February 26, 2015. Forty-eight employees with job codes of 2405, 2407, 2409, 2411 or 2413 were assumed to be impacted by the change. They had an average age of 54.41 and average service of 10.95 years as of 7/1/2014. The total payroll (rate of pay as of 7/1/2014) for these 48 employees was approximately $2.7 million. The total payroll for all employees as of 7/1/2014 was approximately $100.2 million. As of 7/1/2015, there were 52 employees with a total rate of pay as of 7/1/2015 of $3.0 million, an increase over 2014 of a little over 10%. We have adjusted the expected increase in the County's contribution to take into account the increased payroll.

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 9 years. As requested, we also calculated the cost of the benefit change using 15, 20, 25, 30 and 40 year amortization periods.

Like a similar study we prepared in 2014, we have focused on the impact on the County's contribution rate. If you wish more information (e.g. impact on GASB 68 results or change in funded ratio) please let us know.

Actuarial certification

This letter has been prepared for Howard County for the purposes of estimating the impact of a benefit improvement for certain employees in the Sheriff's department. 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 7/1/2014 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,

BOLTON PARTNERS, INC.

Thomas B. Lowman, FSA, EA

Cc: John Peterson