




# Howard County

## Internal Memorandum

**Subject:** Council Testimony and Fiscal Impact Statement  
Re: Fire Pension Sick Leave

**To:** Lonnie R. Robbins  
Chief Administrative Officer

**From:** John K. Peterson   
Assistant Chief Administrative Officer

**Date:** October 20, 2021

The Administration supports and urges the passage of the Council Bill XX-2021 which relates to a change in how unused sick leave is calculated for firefighters in the Police and Fire Employee' Retirement Plan.

As part of the recently negotiated agreement with the International Association of Firefighters, Local 2000, Administration agreed to introduce and support legislation to treat unused sick leave for retirement purposes for Fire Fighters who are members of Local 2000 the same as Fire Management. This bill will grant credit for unused sick leave by an amount equal to two and one-half percent of the fire fighters average compensation multiplied by his or her years of creditable service attributable to unused sick leave for service credit in excess of 30 years of service.

The change in the credit for sick leave would have an approximate fiscal impact of \$147,616 in the actuarially determined pension contribution. A copy of the actuarial analysis is attached a support for this fiscal estimate.

cc: Jennifer Sager

# Bolton

Employee Benefits, Actuarial & Investment Consulting

October 20, 2021

Scott Southern  
Retirement Coordinator  
Howard County Government  
3430 Courthouse Drive  
Ellicott City, MD 21043

*Re: Howard County Police and Fire Employees' Retirement Plan – Estimated Actuarial Impact of Proposed Change to Sick Leave Accrual Beyond 30 Years of Service for Non-Management Firefighters*

Dear Scott:

You have requested that Bolton study the actuarial impact of increasing the benefit accrual for sick leave for non-management firefighters when the total service including accumulated sick leave exceeds 30 years. This letter provides a summary of the estimated impact to the actuarial accrued liability, funded status, normal cost, and actuarially determined contribution for the Howard County Police and Fire Employees' Retirement Plan (the Plan) due to the proposed plan change for non-management firefighters.

#### Summary of Proposed Changes for Non-Management Firefighters

Under the current plan provisions, accumulated sick leave for non-management firefighters is added to total creditable service to determine the benefit accrual applicable to sick leave service. The current and proposed pension benefit accruals for accumulated sick leave are as follows:

Benefit Accrual For Accumulated Sick Leave For Non-Management Firefighters		
Total Years of Service (Including Accumulated Sick Leave)	Current Plan Provisions	Proposed
<= 30	Accrual rate is the same as regular (non-sick leave) service	Accrual rate is the same as regular (non-sick leave) service
> 30	1.0% x Avg Comp	2.5% x Avg Comp

This proposed increase in the accrual for sick leave from 1.0% to 2.5% of average compensation for each of the years of total service in excess of 30 years that are attributable to sick-leave would provide non-management firefighters the same accrual for such service as that provided to management firefighters under the current plan provisions.

We have assumed for this analysis that these changes would affect only currently employed non-DROP members (as of the effective date of the change) and future hires but would not result in any changes to the benefits for the current DROP members, current retirees, current beneficiaries, or current terminated employees.

#### Results

The proposed change would impact accrued liability and normal cost, and both of those impacts would be captured in the change to the actuarially determined contribution (ADC). Only current or future non-management firefighters who would attain more than 30 years of total service prior

to retirement would be impacted. Had these plan changes been effective for the July 1, 2020 actuarial valuation, they would have produced the following impacts to the July 1, 2020 actuarial accrued liability (AAL), funded status (on an actuarial value of assets basis), and the FY2022 ADC, both in dollars and as a percentage of payroll:

Scenario	AAL		Funded Status	
	Amount in \$	Difference In \$	%	Difference in %
Current	768,071,460	-	86.0%	-
Proposed	768,973,635	902,175	85.9%	(0.1%)

Scenario	FY2022 ADC		FY2022 ADC	
	Amount in \$	Difference In \$	% of Payroll	Difference in %
Current	33,138,107	-	35.8%	-
Proposed	33,285,723	147,616	36.0%	0.2%

The increase in ADC consists of a 0.1% of payroll increase due to increased Normal Cost and 0.1% of payroll increase due to the amortization of the increase in AAL.

Data, Methods, Assumptions and Scope

The data, plan provisions, methods, and assumptions used for this study are the same as those used in our July 1, 2020 actuarial valuation report for the Howard County Police and Fire Employees' Retirement Plan dated February 3, 2021. Notably, we assumed service credit for unused sick leave is equal to 2.2% of creditable service from all other sources. Additionally, we have assumed that the proposed change would not impact termination or retirement behavior.

While we have used the July 1, 2020 census data for estimating the impact of these proposed changes, the actual impact on liability, funded ratio, ADC, and employer normal cost would depend on the plan population on and after the effective date of the changes, the number of firefighters who would accrue more than 30 years of total service including accumulated sick leave, and the number of years in excess of 30 that would be attributable to accumulated sick leave.

When calculating the cost of the benefit change, we amortized the increase in the unfunded liability over a period of 17 years, which is the average expected future working lifetime of non-DROP firefighters in the July 1, 2020 valuation. This amortization period is consistent with model actuarial practice, as well as the County's amortization policy.

Actuarial Standard of Practice No. 51 states that actuaries should provide commentary on risks, such as the commentary on risks presented in each actuarial valuation, when performing certain analyses. The proposed plan change generally should not impact the types of risks to which the Plan is exposed but, due to the higher proposed accrual for sick leave, may magnify the impact to liability and cash flow when accumulated sick leave does not match the assumptions.



Actuarial Certification

This letter has been prepared for Howard County, Maryland for the purposes of assisting the County in assessing the impact of the proposed changes to the pension accruals for accumulated sick leave. It is neither intended nor necessarily suitable for other purposes. Bolton is not responsible for the consequences of any other use.

These calculations are based on a set of assumptions that we believe to be reasonable and appropriate for these estimates. The future costs of the Plan due to this plan change will ultimately depend on the actual experience of the Plan and the future investment performance of the Plan's assets.

The analysis was completed using both proprietary and third-party models (including software and tools). We have tested these models to ensure they are used for their intended purposes, within their known limitations, and without any known material inconsistencies unless otherwise stated.

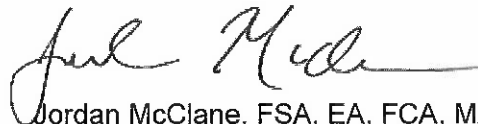
The undersigned credentialed actuaries meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion contained in this letter. We are currently compliant with the Continuing Professional Development Requirement of the Society of Actuaries. We are not aware of any direct or material indirect financial interest or relationship, including investments or other services, which could create a conflict of interest that would impair the objectivity of our work.

We are available to answer any questions on the material in this letter and provide explanation or further details as needed.

Sincerely,



Ann M. Sturner, FSA, EA, FCA, MAAA



Jordan McClane, FSA, EA, FCA, MAAA

