



Internal Memorandum

Subject: Testimony for Bill No. --2012

To: Lonnie R. Robbins
Chief Administrative Officer

From: L. Todd Allen
Human Resources Administrator

Date: April 18, 2012

The Howard County Retirement Plan Committee supports passage of Bill No. -- 2012, an amendment to the Howard County retirement plans that will eliminate the possibility of a negative Cost-of-Living adjustment (COLA) to plan retirees.

Each July 1, a COLA is applied to the benefits of retired members of the Howard County Retirement Plan (the "HCRP") and the Howard County Police and Fire Employees' Retirement Plan (the "Police and Fire Plan"). The COLA is calculated in accordance with Section 1.435 (for the HCRP) and Section 1.435 A (for the Police and Fire Plan) of the Howard County Code, which are summarized as follows:

- The COLA is based on the change in the CPI-U for the Baltimore Washington region ((CPI-U) Washington-Baltimore, DC-MD-VA-WV) from March 31 to March 31, as published by the Bureau of Labor Statistics.
- The COLA is applied each July 1, to benefits that have been in pay status 12 or more months.
- The COLA for the HCRP is limited to 3% compounded annually.
- The COLA for the Police and Fire Plan is limited to 2% compounded annually.

It is possible for the CPI-U to go down from one year to the next. If this should happen, the Howard County Code, as currently written, would produce a negative COLA, and the benefits of retirees would go down as a result. The plan's actuaries looked back over the last 50 years and found that from March to March there was only one decline in the ALL-US CPI over that full time period. Furthermore, the Howard County plans have never had a negative COLA. So, while the possibility of a negative COLA is rare and is not a concern for this July 1, it is a fear for current and future retirees that the retirement plan trustees want to remove.

Memo to Lonnie R. Robbins

Page Two

April 18, 2012

At its meeting on October 27, 2011, the Joint Retirement Plan Committee voted unanimously to approve an amendment to Code Sections 1.435 and 1.435A which would prevent the annual retiree COLA from ever being less than 0%.

The plan's actuaries have determined that the cost to the County of amending the plan to prevent a negative COLA is negligible (see attached letter from Bolton Partners). Further, the Pension Oversight Commission reviewed the recommendation and cost impact at its meeting of February 2, 2012.

Fiscal Note:

A copy of the fiscal impact statement prepared by Bolton Partners, Inc. is attached for reference.

Next Steps:

To implement any retirement plan change:

- The Retirement Plan Committee must approve the legislation. The Joint Retirement Plan Committee met on October 27, 2011, and voted unanimously to approve an amendment to Code Sections 1.435 and 1.435A which would prevent the annual retiree COLA from ever being less than 0%.
- The Pension Oversight Commission must consider the legislation. The Pension Oversight Commission considered the legislation, including its fiscal impact, at their regularly scheduled meeting on February 2, 2012 and expressed no concerns.
- The County Council and County Executive must consider and approve the legislation.

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



L. Todd Allen
Human Resources Administrator

cc: Ken Ulman, County Executive
Jennifer Sager, Legislative Coordinator
Howard County Retirement Plan Committee
Howard County Police and Fire Employees' Retirement Plan Committee

BOLTON  PARTNERS

January 13, 2012

Todd Allen
Administrator, Office of Human Resources
Howard County
3430 Court House Dr.
Ellicott City, MD 21043

Re: *Amendment to avoid negative COLA for retirees*

Dear Todd:

As you requested, we have reviewed the amendments to both plans to avoid decreasing benefits when changes in the CPI are negative. We have also reviewed the illustrations provided to us.

Putting an exact cost on the amendment is difficult for two reasons. The main reason is that negative CPI increases have been rare. The other reason is the cumulative caps of 2% or 3% would be a factor. In addition, there is the fact that even if the COLA increase is zero (and not negative) there would be a gain relative to the funding assumption (even if there is a cost in terms of providing a larger benefit).

We know that over the last few years there have been time frames when annual CPI changes were negative and some other plans have reduced retiree benefits. We looked back over the last 50 years and found that from March to March there was only one decline in the All-US CPI. The average increase has been about 4% and the standard deviation about 3%. You might think that with these values of 4% and 3% that there would have been more than one negative year but since there have not, it points out that CPI increases are not "normally distributed" and that inflation is "sticky" on the down side.

Based on the above I conclude that the cost of these proposed change are deminimus and I would not try to place a cost on the change. That being said, it certainly is possible that future CPI changes could be negative and there could be a cost.


Bolton Partners, Inc.

100 Light Street • 9th Floor • Baltimore, Maryland 21202 • (410) 547-0500 • (800) 394-0263 • Fax (410) 685-1924
Actuarial, Benefit and Investment Consultants

Todd Allen
January 13, 2012
Page 2

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 let me know if you have any questions or need any additional information.

Sincerely,

BOLTON PARTNERS, INC.

A handwritten signature in black ink, appearing to read 'T. Lowman', with a long horizontal flourish extending to the right.

Thomas Lowman, FSA, EA, MAAA

Copy: Terry Reider
Ann Sturner