

Introduced MAY 7, 2012
Public Hearing MAY 21, 2012
Council Action JUNE 4, 2012
Executive Action JUNE 6, 2012
Effective Date AUGUST 6, 2012

County Council Of Howard County, Maryland

2012 Legislative Session

Legislative Day No. 5

Bill No. 14 -2012

Introduced by: The Chairperson at the request of the County Executive

AN ACT amending the Howard County Employees' Retirement Plan to ensure that a cost of living adjustment can never be negative; to correct the name of a certain index; and generally relating to the Howard County Employees' Retirement Plan.

Introduced and read first time MAY 7, 2012. Ordered posted and hearing scheduled.

By order Stephen M LeGendre
Stephen LeGendre, Administrator

Having been posted and notice of time & place of hearing & title of Bill having been published according to Charter, the Bill was read for a second time at a public hearing on MAY 21, 2012.

By order Stephen M LeGendre
Stephen LeGendre, Administrator

This Bill was read the third time on JUNE 4, 2012 and Passed , Passed with amendments _____, Failed _____.

By order Stephen M LeGendre
Stephen LeGendre, Administrator

Sealed with the County Seal and presented to the County Executive for approval this 5th day of JUNE, 2012 at 12:00 noon ~~a.m./p.m.~~

By order Stephen M LeGendre
Stephen LeGendre, Administrator

Approved/Vetoed by the County Executive JUNE 6, 2012

Ken Uman
Ken Uman, County Executive

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 **Section 1. Be It Enacted** by the County Council of Howard County, Maryland that the Howard
2 County Code is amended as follows:

3
4 *By amending:*

5 *Title 1- Human Resources*

6 *Section 1.435 "Cost of living adjustments"*

7
8 **Title 1. Human Resources.**
9 **Subtitle 4. Retirement Plan.**
10 **Article 3. Trust Fund.**

11
12 **Section 1.435. Cost of living adjustments.**

13 (a) *Monthly Retirement Income Subject to Cost of Living Adjustment.* Notwithstanding the
14 foregoing, but subject to the limitations set forth in section 1.433, the monthly retirement income of a
15 participant who has reached his or her benefit commencement date, as otherwise computed pursuant
16 to section 1.428, 1.429, 1.430, 1.431, 1.432, or 1.437 (whichever is applicable), shall be subject to
17 the cost of living adjustment described in this section 1.435.

18 (b) *Computation of Cost of Living Adjustment.*

19 (1) As of each July 1 (hereafter referred to as the "valuation date") which occurs during
20 the period beginning on the first valuation date occurring at least 12 months
21 subsequent to the participant's benefit commencement date and ending on the date of
22 death, the participant's then monthly retirement income shall be multiplied by a
23 fraction:

24 (i) The numerator of which is the consumer price index (as defined in subsection
25 (c) of this section) as of such valuation date; and

26 (ii) The denominator of which is the LESSER OF THE NUMERATOR OR THE
27 consumer price index (as defined in subsection (c) of this section) as of the
28 immediately preceding valuation date;

29 (2) Provided, however, that no such cost of living adjustment shall cause a participant's

1 monthly retirement income to exceed an amount equal to the participant's monthly
2 retirement income as of his or her benefit commencement date compounded at the
3 annual rate of three percent as of each of the valuation dates (including the valuation
4 date for which the adjustment is being made) which have occurred subsequent to his
5 or her benefit commencement date.

6 (c) *Definition of Consumer Price Index.*

7 (1) The consumer price index to be used is the index for [[all urban consumers (CPI-U,
8 Washington-Baltimore DC-MD-VA-WV average), all items (1996=100),]] “ALL
9 URBAN CONSUMERS (CPI-U) WASHINGTON-BALTIMORE, DC-MD-VA-WV – ALL
10 ITEMS – NOVEMBER 1996 = 100” published by the Bureau of Labor Statistics; and the
11 [[CPI-U]] CONSUMER PRICE INDEX as of any valuation date means the index reading
12 on the last day of March preceding such valuation date.

13 (2) In the event the Bureau of Labor Statistics abandons publication of the [[CPI-U,]]
14 INDEX FOR “ALL URBAN CONSUMERS (CPI-U) WASHINGTON-BALTIMORE, DC-MD-
15 VA-WV – ALL ITEMS – NOVEMBER 1996 = 100” the County shall adopt any other
16 index which, in its judgment, provides an accurate measure of cost-of-living changes.

17 (d) *Monthly Survivor Benefits Subject to Cost of Living Adjustments.* All survivor benefits payable
18 pursuant to section 1.439 (but only if payable in the form of a monthly income) shall be granted the
19 cost of living adjustments provided in this section 1.435.

20
21 ***Section 2. And Be It Further Enacted by the County Council of Howard County, Maryland that***
22 ***this Act shall become effective 61 days after its enactment.***



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

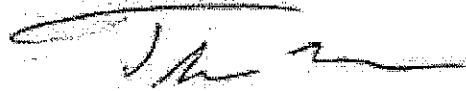
Todd Allen
January 13, 2012
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I am a credentialed actuary and meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion contained in this letter. I am currently compliant with the Continuing Professional Development 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

BY THE COUNCIL

This Bill, having been approved by the Executive and returned to the Council, stands enacted on June 6, 2012.

Stephen M. LeGendre
Stephen M. LeGendre, Administrator to the County Council

BY THE COUNCIL

This Bill, having been passed by the yeas and nays of two-thirds of the members of the Council notwithstanding the objections of the Executive, stands enacted on _____, 2012.

Stephen M. LeGendre, Administrator to the County Council

BY THE COUNCIL

This Bill, having received neither the approval nor the disapproval of the Executive within ten days of its presentation, stands enacted on _____, 2012.

Stephen M. LeGendre, Administrator to the County Council

BY THE COUNCIL

This Bill, not having been considered on final reading within the time required by Charter, stands failed for want of consideration on _____, 2012.

Stephen M. LeGendre, Administrator to the County Council

BY THE COUNCIL

This Bill, having been disapproved by the Executive and having failed on passage upon consideration by the Council stands failed on _____, 2012.

Stephen M. LeGendre, Administrator to the County Council

BY THE COUNCIL

This Bill, the withdrawal of which received a vote of two-thirds (2/3) of the members of the Council, is withdrawn from further consideration on _____, 2012.

Stephen M. LeGendre, Administrator to the County Council

