



Howard County

Internal Memorandum

August 22, 2024

Subject: Council Testimony and Fiscal Impact Statement Re:
Proposed Retirement Plan Amendments Affecting Sheriff Deputies

To: Brandee Ganz, Chief Administrative Officer

From: Jamar Herry
Raul Delerme
Deputy Chief Administrative Officers

Anju A. Bennett, 
Chair, Joint Pension Committee
Administrator, Office of Human Resources

Scott Southern, Retirement Coordinator
Office of Human Resources

County Administration recommends the passage of the proposed legislation which would add a Deferred Retirement Option Program (DROP) benefit for the Sheriff deputies. The DROP program incentivizes individuals otherwise eligible for retirement to continue employment for 2-5 years. The plan amendment would be effective July 1, 2024, and subject to eligibility criteria summarized at the bottom of this memo. The County supports this change to address retention and succession planning concerns within the Sheriff's Office. It should be noted that the addition of a DROP option is consistent with pension programs for other public safety personnel.

The proposed legislation was drafted by the Howard County Pension Counsel and reviewed by the Pension Oversight Commission. The Pension Oversight Commission considered the legislation at its meeting on July 16, 2024, and supports the amendment. The Pension Oversight Commission's letter of support is provided as Attachment A.

The proposed legislation provides a benefit enhancement DROP Program who have at least 20 years of Creditable Service in the Howard County Retirement Plan.

- This benefit would apply to individuals who were hired after July 1, 2021.
- Upon obtaining 20 years of creditable service or any month after, a Deputy Sheriff can elect to participate in the DROP program.
- Participation in the DROP option is a minimum of 2 years and a maximum of 5 years. The enrolled participant must provide 18 months' advanced notice of their intent to exit DROP.
- At enrollment into the DROP option, a DROP Account is established for the individual. Every month that the participant is in DROP, the DROP account is credited for their monthly retirement benefit (as if they had elected retirement) along with compounded interest.

Fiscal Impact: Attachment B provides the actuarial costing prepared by our Pension actuary, Bolton USA. The study was completed in February 2024 and considered the FY25 actuarially determined contributions. The Plan amendment would result in a small saving to the Retirement plan.

We are available to provide any further assistance or answer any questions you may have.
cc: Jennifer Sager



Pension Oversight Commission

July 18, 2024

Dr. Calvin Ball, County Executive
Howard County Government
3430 Court House Drive
Ellicott City, MD 21043

Ms. Deb Jung, Chairperson
Howard County Council
3430 Court House Drive
Ellicott City, MD 21043


Dear Dr. Ball and Ms. Jung:

I write on behalf of the Pension Oversight Commission regarding the currently unnumbered bill to amend the Howard County Employees' Retirement Plan, in order to create a Deferred Retirement Option Program (DROP) for Participating Deputy Sheriffs.

The Commissioners reviewed the bill and its fiscal impact at their July 16, 2024 meeting, including the February 2024 report from the pension plan actuaries, Bolton.

The Pension Oversight Commission supports the proposed legislation.

Sincerely,

DocuSigned by:

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Jae Chon
Chair

cc: Mr. Dave Jordan, Commission Member
Mr. Lou Hutt, Jr., Commission Member
Ms. Michelle RhodesBrown, Commission Member
Ms. Anju A. Bennett, Chair, Retirement Plan Committees
Mr. Scott Southern, Howard County
Mr. Norman Parker, Howard County



February 23, 2024

Anju Bennett
HR Administrator
Howard County Government
3430 Courthouse Drive
Ellicott City, MD 21043

Re: Howard County Retirement Plan – Analysis for adding a DROP provision for Participating Deputy Sheriffs

Dear Anju:

We have completed our actuarial study to add a Deferred Retirement Option Program (DROP) for Participating Deputy Sheriffs (i.e., Deputy Sheriffs hired after June 30, 2021) who are in the Howard County Retirement Plan. The proposed provisions of the Participating Deputy Sheriffs DROP mirror the provisions of the Corrections DROP.

Our calculations show that the DROP for Participating Deputy Sheriffs may result in a small savings. The primary driver of the pension cost of a DROP is by how much DROP influences retirement behavior:

- Will members leave employment when they would have otherwise without the DROP, or
- Will they 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 to enter DROP at an age earlier than they would have retired had there been no DROP and continue to retire (that is, leave employment) at the same age as they would have without a DROP.

The retirement rates used in the July 1, 2023 actuarial valuation assume that the Participating Deputy Sheriffs 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 Participating Deputy Sheriffs 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 25% if a DROP is implemented resulting in members working longer.

Using the retirement rate assumptions included in the appendix of this letter, adding a DROP for Participating Deputy Sheriffs is expected to decrease the County's actuarially determined contribution (ADC) by approximately \$4,600 or 0.43% of Participating Deputy Sheriff payroll (or 0.003% of total plan payroll). Further details are shown on the next page.

	2023 Valuation Results (Baseline)	Participating Deputy Sheriffs DROP
Actuarial Accrued Liability	\$671,177,385	\$671,169,869
Change (\$)		(\$7,516)
Change (%)		-0.001%
AVA Funded Ratio	93.349%	93.350%
Increase/(Decrease)		0.001%
FY2025 ADC*	\$21,329,338	\$21,324,691
Change (\$)		(\$4,647)
Change (%)		-0.022%

*Due to the minimal dollar change in the ADC, the ADC as a percentage of payroll, which is rounded to the nearest tenth of a percentage, would remain unchanged from the baseline rate of 13.1%.

The estimated savings are primarily attributed to:

- (1) assuming members will work longer because of DROP,
- (2) the DROP not granting COLA during the DROP period, and
- (3) the interest crediting rate relative to the assumed return on plan assets.

If members do not work longer because of the DROP, the savings shown above would be overstated and the overall impact could actually be a slight cost to the County.

Given that the current Participating Deputy Sheriffs represent just a small fraction of the Retirement Plan population and that they have low service, the impact of DROP relative to the size of the plan is minimal. As the number of Participating Deputy Sheriffs grows over time and the group's average age and service increase and then stabilize, the impact of DROP on this group relative to the entire Retirement Plan will increase.

Plan Provisions - DROP

The proposed provisions for the Participating Deputy Sheriffs' DROP mirror those of the Corrections' DROP which was effective July 1, 2021. The following summarizes the proposed provisions of the Participating Deputy Sheriffs DROP:

Eligibility

All Participating Deputy Sheriffs 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. Additionally, termination is automatic upon accruing 35 years of Creditable Service.

Deposits to Account

- (a) Monthly benefit at DROP entry with no cost-of-living adjustments (COLAs start after termination of employment and are not retroactive to the date of DROP entry)
- (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 for the valuation minus 4.0%, but not less than 1.5%.

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 years 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, 2023 actuarial valuation of the Howard County Retirement Plan dated February 7, 2024. This table summarizes the data for Participating Deputy Sheriffs as of July 1, 2023

Participating Deputy Sheriffs	
Count	20
Average Age	40.42
Average Service	1.93
Average Salary	\$54,575

Under the Plan's funding policy, changes in the unfunded liability due to benefit changes for active members are amortized over a period of years equal to the lesser of the average expected future service for the impacted group and 10 years. Since the approximate average expected future service for Participating Deputy Sheriffs is 10 years, the estimated unfunded liability change due to DROP implementation was amortized over 10 years for this study.

Actuarial certification

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

We used the data, methods, and assumptions shown in the July 1, 2023 actuarial valuation report dated February 7, 2024, except where noted otherwise.

We believe the data, methods, and assumptions used in this analysis are reasonable for the purpose of this estimate. The actual effect on the Plan's funded status and required contributions shall be determined by actual plan experience and may differ from the results presented in this analysis.

This 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.

Bolton does not practice law and, therefore, cannot and does not provide legal advice. Any statutory interpretation on which this communication is based reflects Bolton's understanding as an actuarial firm. Bolton recommends that recipients of this communication consult with legal counsel when making any decisions regarding compliance with ERISA, the Internal Revenue Code, or any other statute or regulation.

The undersigned credentialed actuaries meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion contained herein. We are not aware of any direct or material indirect conflict of interest that would impair the objectivity of this analysis.

Please call if you have any questions.

Sincerely,



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



Jordan McClane, FSA, EA, FCA, MAAA

Participating Deputy Sheriff Retirement Rates Reflecting DROP Exit

Age/Retirement Eligibility	Rate
Early Retirement	
First eligibility	5%
Early retirement after first eligibility	5%
Normal Retirement (NR), Age < 70	
NR, Age < 62 and Service = 20	25%
NR, Age < 63 and Service = 21	5%
NR, Age < 64 and Service = 22	3%
NR, Age < 65 and Service = 23	2%
NR, Age < 66 and Service = 24	45%
NR, Age < 62 and Service >= 25	10%
NR, Age < 70	40%
NR, Age >= 70	100%