



PENSION OVERSIGHT COMMISSION

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September 8, 2014

Mr. Kenneth Ulman
Howard County Government
3430 Court House Drive
Ellicott City MD 21043

Dr. Calvin Ball, III
Howard County Council
3430 Court House Drive
Ellicott City MD 21043

Dear Mr. Ulman and Dr. Ball:

Subject: Draft Bill 51-2014: Deferred Retirement Option Program (DROP) I and II

This letter provides a summary of the review by the Pension Oversight Commission (the "Commission") of the draft Bill 51-2014 which amends the Deferred Retirement Option Program I and introduce the Deferred Retirement Option Program II (DROP I and II, respectively).

The Commission reviewed (i) draft bill 51-2014, and (ii) the Bolton Partners' letter dated August 28, 2014. The Commission also met with Mr. Lonnie Robbins, Ms. Terry Reider, Ms. Wanda Hutchinson, and Mr. Scott Southern of the Howard County Government (the County) on September 2, 2014 and had a conference call with a Bolton Partners' representative, Mr. Robbins, and Ms. Reider on September 4, 2014.

The Commission understood the primary objectives of the bill were the following:

1. Make a DROP ("DROP II") available for firefighter, which was agreed between the County and the firefighters union earlier this year.
2. Incentivize senior police officers (the DROP I participants) to postpone their retirements by allowing them to participate in the DROP II at the end of DROP I participation period.
3. Provide strong financial benefits and incentives for the current Police Chief by rolling into DROP II at the end of his DROP I participation period.

Please note that as the Commission was given a very short review period (1 week) and did not receive all the additional information it requested, this summary largely relied on oral statements during the Sept 2 meeting and the Sept 4 conference call. During the review, the Commission focused on the impacts on the following areas:

1. Financial impact on the Howard County Police and Fire Employee's Retirement Plan (the "Plan")
2. Fair and equal treatments of all Plan participants and beneficiaries.
3. Conflict of interests between main beneficiaries of the bill, if passed, and those who proposed the bill.

Financial impact on the Plan. The Commission thought it was essential that the bill would not increase the Plan's liability, considering the Plan was already severely underfunded (funded ratio was 75.2% as of 2013 fiscal year end) and the Plan's liability was growing rapidly (11% per annum for the 6 year average). During the conference call, Bolton Partners re-confirmed that the bill was financially neutral to

the Plan. Bolton Partners also confirmed that the assumptions used for the calculation were based on their long-term experience and expertise in the industry. The Commission requested the detail of assumptions and another calculation based on worst case scenarios but they were not provided.

Fair and equal treatments of all Plan participants and beneficiaries. The Commission understood that the bill included different and substantially better benefits for the Police and Fire Chiefs including updating the salary used for the final annuity. During the conference call, the County staff informed the Commission that an independent decision was made by the County to revise the “special privileges provisions” of the bill. As such, this letter does not address such provisions, but further review may be required by the Commission after the revision, other than deletion, of such provisions.

Conflict of interest. The County Government staff confirmed the Commission there was no conflict of interest in the process; those who would benefit from the bill, if passed, were not involved in the drafting and the approval of the bill.

Conclusion and Recommendations:

To reiterate, during the Commission’s review process, the Commission was informed that an independent decision was made by the County to revise the “special privileges provisions” for the Police and Fire Chiefs of the proposed amendment. As such, the Commission’s conclusions and recommendations do not address such provisions, and further review may be required by the Commission after revision, other than deletion, of such provisions.

Based on the above, the Commission is generally comfortable with the proposed bill. The Commission believes, however, additional documentation should be submitted to enhance the understanding of the amendment to the DROP I and DROP II’s long-term potential financial implications for the Plan. This additional documentation should include:

1. Experience of other government entities which introduced similar DROP programs, especially the impact on the pension liability.
2. Potential impact to the Plan with supporting scenario analyses. These analyses should detail the assumptions used in the various scenarios. At a minimum, the Commission recommends a base case scenario and a worst case scenario be submitted.

Further, if the DROP II is adopted, the Commission recommends that a formal procedure be developed to review the impact of the DROP II. Additionally, the Commission recommends that Howard County retain the ability to alter DROP II if DROP II has a significant adverse impact on the Plan.

Finally, the Commission believes there may be potential non-financial implications that should be understood, including a disruption to the natural employment cycle for an entity as the DROP may provide an incentive for “older” participants to defer retirement which may limit the ability of “younger” participants to be promoted and limit new employment opportunities for younger generations.

If it is desired, the Commission will be available to discuss this review in greater detail.

Sincerely,



Jeffrey Huber

cc: Lonnie Robbins
Terry Reider
Scott Southern