Legislative Budget Analysis

Proposed FY 2023 Operating and Capital Budgets

Office of the County Auditor

Baltimore County, Maryland

HEARING DATE: May 9, 2022

Retirement and Social Security

Director of Budget and Finance: Ed Blades

OBF Investment & Debt Management Administrator: Bob Burros

Legislative Analyst: Ronit Rubin

Questions Sent to Department	Thursday, April 14, 2022
Responses Received	Thursday, April 21, 2022
Analysis considers all agency responses.	

RETIREMENT AND SOCIAL SECURITY (041)

BUDGET SUMMARY

$ in Thousands

	GENERAL	SPECIAL	TOTAL	% Change Prior Year
PROPOSED CHANGE				
FY 2022 - 2023 Change	$ 47,850.6	-	$ 47,850.6	27.4%
BUDGET TRENDS				
FY 2021 Actual	$ 158,115.1	-	$ 158,115.1	
FY 2022 Approp.	174,714.0	-	174,714.0	10.5%
FY 2023 Proposed	222,564.6	-	222,564.6	27.4%
FY 2023 Budget Analysis	**TBD**	**-**	**TBD**	
POTENTIAL REDUCTIONS	**TBD**	**-**	**TBD**	

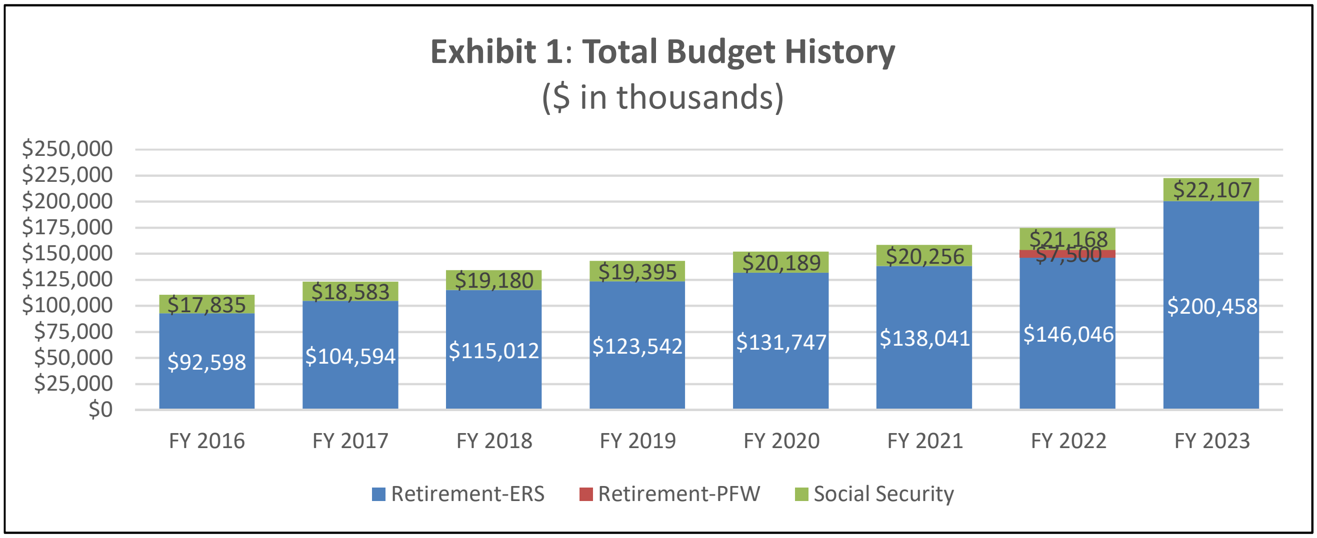
PERSONNEL

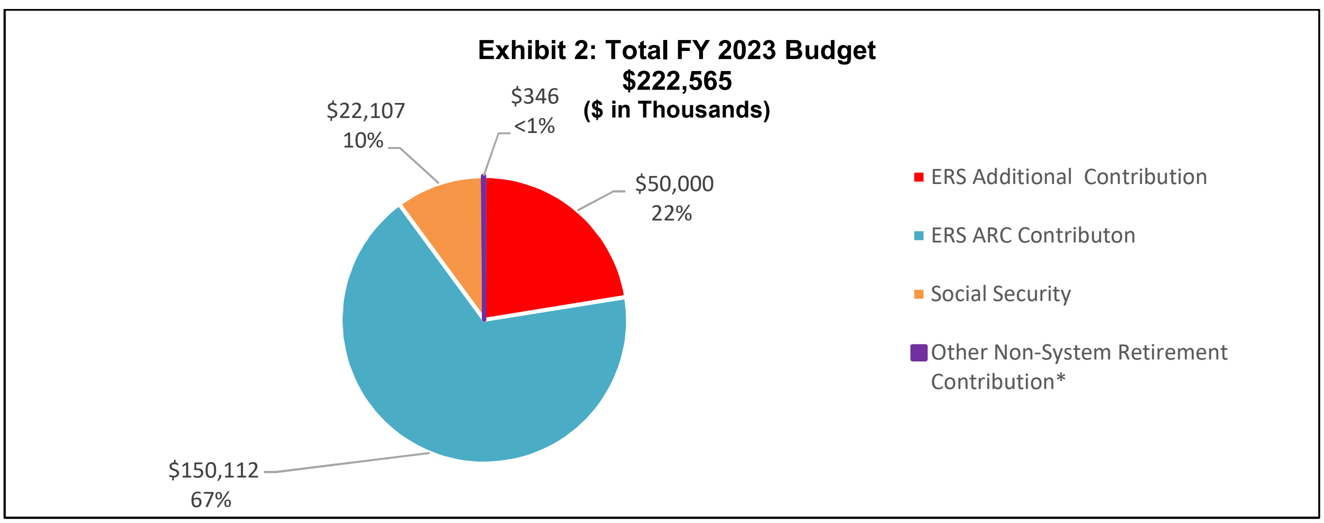
No personnel are funded in the Retirement and Social Security program budgets; rather, Retirement System personnel are paid out of the pension fund.

RETIREMENT AND SOCIAL SECURITY (041)

BUDGET SUMMARY:

The proposed FY 2023 budget for Retirement and Social Security totals $222.6 million, an increase of $47.9 million, or 27.4%, over the FY 2022 budget. The Retirement portion of the budget totals $200.5 million and increases by $46.9 million, or 30.6%, primarily due to a $4.4 million increase in the County's annual required contribution (ARC) to the Employees' Retirement System, and an additional $50 million contribution above and beyond the ARC to improve the System's funded status by 1%. These increases are offset by a one-time contribution of $7.5 million to the Police, Fire, and Widows (PFW) Pension Plan in FY 2022. The Social Security portion of the budget totals $22.1 million and increases by $939 thousand, or 4.4%, due to an increase in FICA contributions associated with the proposed budget's higher salaries. **See Exhibits 1 through 3 for additional detail.**





*Judges', Sheriffs', and Board of Elections' pension plans.

RETIREMENT AND SOCIAL SECURITY (041)

Exhibit 3
FY 2023 Proposed Budget ($ in 000's)[1]

How Much it Grows:	Retirement [2]	Social Security	Total
2022 Appropriation	$ 153,546	$ 21,168	$ 174,714
2023 Request	200,458	$ 22,107	$ 222,565
$ Increase/(Decrease)	$ 46,912	$ 939	$ 47,851
% Increase/(Decrease)	30.6%	4.4%	27.4%

Where it Goes:			
Retirement:			
Employees' Retirement System, General Government, General Fund Portion of Increase		$ 54,392	
Additional Contribution to ERS	50,000		
Increase to ERS ARC	4,392		
Other Non-Systems Plans[3]		20	
Police, Fire & Widows Pension Plan		(7,500)	
Retirement Total:			$ 46,912
Social Security:			939
Total			$ 47,851

[1] Agency 041 includes the retirement and social security contributions for General Government. The proposed budgets for Baltimore County Public Schools, Community College of Baltimore County, and Baltimore County Public Library each include their respective contributions. In addition to the General Government's Agency 041 retirement contribution, the proposed FY 2023 budget for Debt Service (Agency 040) includes $21,094,584 for principal and interest payments on pension funding bonds, a nominal decrease of $7,821 from the FY 2022 appropriation. The County's pension funding bonds were issued to fund a portion of the unfunded liability of the System's Plan "A," which closed to new membership effective July 1, 2007.

[2] Includes the Employees' Retirement System and non-system retirement plans[3].

[3] Judges', Sheriffs', and Board of Elections' pension plans.

POTENTIAL BUDGET REDUCTIONS:

Taxes under the Federal Insurance Contributions Act (FICA) are comprised of Social Security and Medicare taxes; the current employer tax rates are 6.2% for Social Security and 1.45% for Medicare. To the extent that reductions are made to salary and salary-related expenses within agency budgets, an additional reduction to the Social Security Contributions appropriation, equal to 7.65% of those reductions (or 1.45% for salary related expenses for Police and Fire sworn employees, who are not subject to Social Security) would be reflected in this account.

RETIREMENT AND SOCIAL SECURITY (041)

BUDGET HIGHLIGHTS

- FY 2023 budget growth of $47.9 million, or 27.4%, from FY 2022. The budget includes:
    - $200.1 million for the County's contribution to the Employees' Retirement System, an increase of $4.4 million, or 3.1%, to fund the **Annual Required Contribution (ARC)** per the System's actuary as of July 1, 2021, plus an **additional $50 million** *(see #1, pages 5-7).*
    - $22.1 million for Social Security contributions, an increase of $0.9 million, or 4.4%.
- County-wide, the County's ARC for FY 2023 totals $165.6 million, an increase of $5.0 million, or 3.1%, over the FY 2022 ARC. The County is required to make its full annual pension payment under County law *(see Exhibit 4, page 5).*
- The PRIF balance as of December 31, 2021 was sufficient to cover **a 3% COLA for eligible retirees on July 1, 2022** *(see #2, pages 7-8).*
- The System's financial condition *(see #3, pages 8-10)*:
    - The **funded status** as of June 30, 2021 was **61.5%,** lower than the 63.2% funded status as of December 31, 2020, and considerably lower than the funded status at the end of FY 2000 when it reached a peak of 111.8%.
    - The System is **maturing** with 9,591 active members and 8,426 retirees (a ratio of 1.14 to 1) as of June 30, 2021.
    - During FY 2021, the System's **fiduciary net position** increased 21.8%, or $589 million, from $2.698 billion on June 30, 2020, to $3.288 billion on June 30, 2021. Specifically, while net investment income, which increases fiduciary net position, dropped to $7.4 million in FY 2020, net investment income increased to $727.3 million in FY 2021.
    - 27.5% of System investments are now indexed, versus 26% one year ago.
- **Return on Investments** *(see #3, page 9):*
    - For FY 2021, the overall System portfolio, calculated using a time-weighted rate of return methodology, returned 27.5% gross of fees, ranking in the 37th percentile (above the 26.6% median) of the Investment Metrics Universe of Public Funds.
    - For CY 2021, the System experienced a 12.8% gross-of-fee return on investments for CY 2020, ranking in the 63rd percentile (below the 13.4% median).
    - From CY 2012 to CY 2021, the System experienced an 8.9% gross-of-fee return on investments, ranking in the 80th percentile (below the 9.7% median).
- **Bill 41-22** *(see #4, pages 11-12):*
    - Requires that all County employees participate in the Employees' Retirement System.
    - Offers Plan B Back DROP for sworn police offers and firefighters hired on or after July 1, 2007.
    - Other provisions *(see Appendix D).*

RETIREMENT AND SOCIAL SECURITY (041)

TOPICS FOR DISCUSSION

1. <u>County's Contribution to the Employees' Retirement System</u>

Annual Required Contribution

The proposed FY 2023 General Fund budget includes a General Government contribution of $150.1 million to support the ARC, reflective of a $4.4 million increase; the remaining $15.5 million is included in the respective budgets of BCPS ($9.7 million), CCBC ($390 thousand), BCPL ($87 thousand), the Metropolitan District ($5.0 million), and the Revenue Authority ($323 thousand). **Exhibit 4** provides a breakdown of ARC funding by program, fund, and employee group.

Exhibit 4: Employees' Retirement System
Annual Required Contribution
($ in Thousands)

	FY 2022 Budget	FY 2023 Budget	FY 2022 - FY 2023 Increase/(Decrease)	
			Amount	%
Retirement Program (041)				
Regular County Employees	$ 30,298	$ 30,674	$ 376	1.2%
Police	74,782	78,398	3,616	4.8%
Firefighters	35,116	35,526	410	1.2%
Correctional Officers and Deputy Sheriffs	5,524	5,513	(11)	-0.2%
Total Retirement Program (041)	145,720	150,111	4,391	3.0%
Public Schools (035)	9,142	9,666	524	5.7%
Community College (033)	407	390	(17)	-4.1%
Libraries (037)	75	87	12	15.3%
Total County Contribution - General Fund	155,344	160,254	4,910	3.2%
Metro Contribution	4,932	4,993	*61*	*1.2%*
Revenue Authority Contribution	296	323	*27*	*9.1%*
Total Annual Required Contribution	***$ 160,572***	***$ 165,570***	***$ 4,998***	***3.1%***

Additional $50 Million Contribution to Increase the System's Funded Status

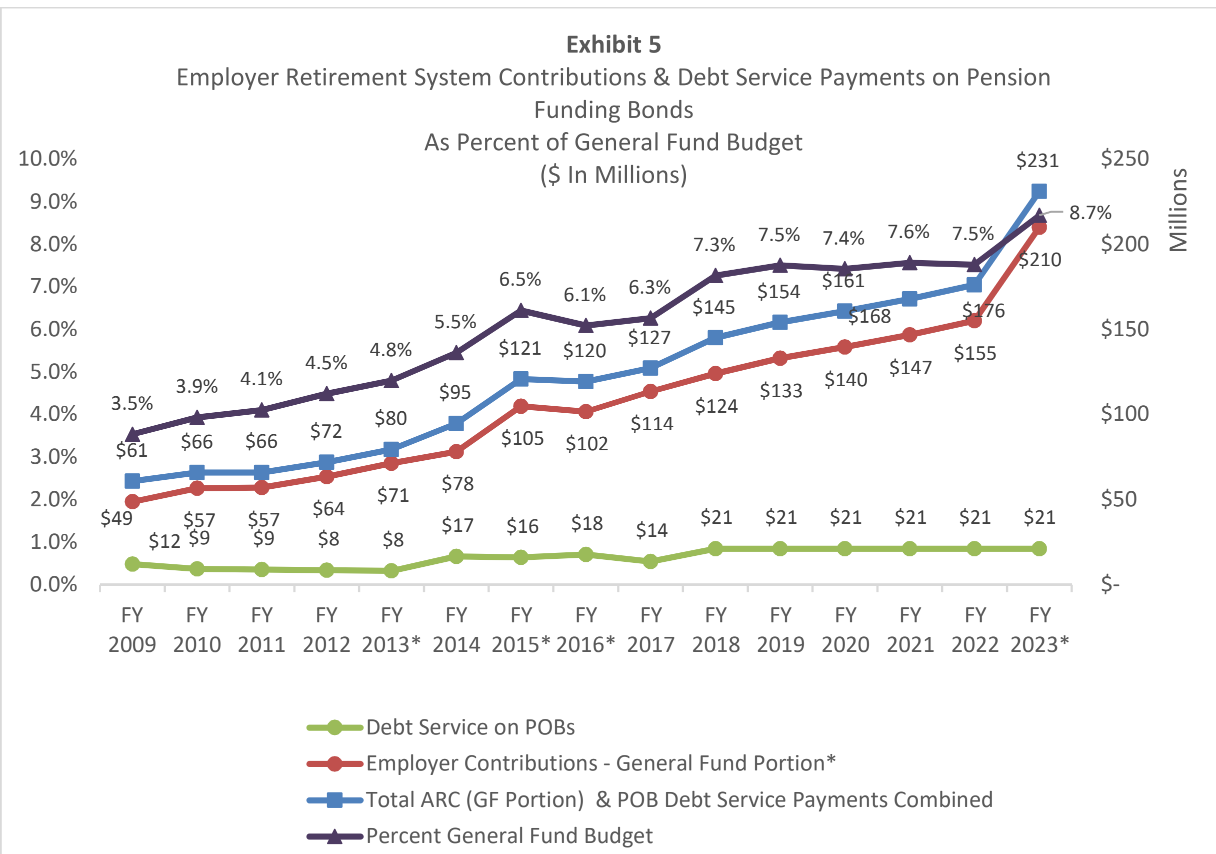
The FY 2023 Spending Affordability Committee (SAC) report noted "that improving the System's funded status should be a top budget priority. Accordingly, this year, we are providing an exclusion opportunity for the Administration to allow for a one-time influx of funding into the Pension Trust Fund to assist in raising the System's funded status." In response, the proposed FY 2023 budget includes an additional $50 million contribution to the System, which the Administration advised will increase the System's funded status by 1%. See Appendix C for more detail about the System's funded status.

RETIREMENT AND SOCIAL SECURITY (041)

Historical Perspective

General Fund costs for the Employees' Retirement System have grown significantly in recent years. **Exhibit 5** shows the increase in the General Fund portion of the employer contributions and pension obligation bonds (POBs) debt service payments since FY 2009.

- As the red line demonstrates, the System's employer contributions (General Fund portion) have quadrupled since FY 2009, when it was $49 million.
- As the green line demonstrates, debt service payments on the County's POBs have increased significantly following the issuance of $255.0 million and $150.0 million in POBs in FY 2013 and FY 2017, respectively.
- As the blue and purple lines demonstrate, the General Fund portion of the System's employer contributions and the debt service payments on the County's POBs combined total $231 million in FY 2023, or 8.7%, of the FY 2023 General Fund budget. This percentage is more than twice what it was in FY 2009, when these costs made up just 3.5% of the General Fund budget.



* FY 2013 amount includes an additional $556 thousand above the ARC toward funding for the FY 2012 Retirement Incentive Program; FY 2015 amount includes $4.8 million prefunding of FY 2016 contribution; FY 2023 amount includes $50 million additional contribution to increase the System's funded status by 1%.

The Office should be prepared to discuss:

- ***Reasons for the $3.6 million, or 4.8%, increase in the ARC for Police;***
- ***How the County's ARC and future ARC increases are likely to change when the experience study is updated to cover the 2016-2021 period;***
- ***The rationale for using a "projected unit credit" actuarial approach instead of an "entry age normal" approach, and its effects on the schedule of ARCs over time; and***
- ***The likelihood of any additional one-time contributions (over and above the ARC) in the foreseeable future.***

2. <u>3% COLA for Retirees on July 1, 2022</u>

Baltimore County Code, Section 5-1-235, provides that eligible retirees are entitled to a cost-of-living-adjustment (COLA) increase to their pension checks each July 1 based on the annual increase in the Consumer Price Index – All Urban Consumers – United States City Average – All Items (CPI-U) as of the previous December 31 (up to a maximum 3%) if sufficient funds are available in the Post-Retirement Increase Fund (PRIF). If the funds are insufficient to provide at least a 1% increase, then no increase is granted.

The PRIF is funded through the System's excess investment earnings. The Retirement Board sets the PRIF rate and methodology to determine how to calculate excess investment earnings. From FY 2012 to FY 2018, funds would only be transferred to the PRIF if the investment return on the System's 10-year smoothed actuarial value of assets for the previous calendar year exceeded 7.875%. This methodology did not produce excess investment earnings. As a result, the PRIF balance remained unchanged, and retirees did not receive a COLA. The System experienced significant investment losses in CY 2008 resulting from the economic downturn, and because of the 10-year smoothing period, the System's investment return continued to be impacted by those losses.

For FY 2019, the Board changed the method used to determine excess investment earnings, foregoing the System's 10-year smoothed actuarial value of assets rate of return with an income threshold rate of 7.875% for an 8-year geometric rate of return on assets with no change to the income threshold rate. The methodology calculated an 8.2% rate of return in calendar year 2017, producing excess investment earnings, and increasing the PRIF account balance from $10.5 million to $18.7 million. The increased balance was sufficient to cover the cost of a 1% COLA beginning July 1, 2018.

This new methodology, however, did not produce excess investment earnings for FY 2020, FY 2021, or FY 2022.

In February 2022, the Board approved a new methodology for determining excessive investment earnings, utilizing a 5-year geometric return of assets with an income threshold rate of 7.00%. The new methodology calculates a geometric average rate of return of 9.9% for the 5 years ending with calendar year 2021, producing excess investment returns of 2.9%, or $90.2 million, to transfer to the PRIF account, increasing the PRIF account balance from $1.8 million to $92.0 million.

The increase in the CPI-U from December 2020 to December 2021 was equal to 7.0%. The County is required, subject to the availability of funds in the PRIF account, to grant a 3% COLA, effective July 1, 2022, to eligible beneficiaries of the System. The estimated cost of the 3% increase on retirement allowances (for eligible retirees[1]), effective July 1, 2022, is $61,497,440. The increased PRIF balance due to the transfer of excess investment earnings generated in calendar year 2021, as a result of the new methodology, is sufficient to cover this cost. Therefore, effective July 1, 2022, eligible retirees will receive a 3% COLA.

The Office should be prepared to discuss whether retirees can expect to receive COLAs more frequently in future years, and the associated impact on the County's ARC and the System's liability.

3. <u>System's Financial Condition and Investment Policies</u>

During FY 2021, the System's fiduciary net position increased 21.8%, or $589 million, from $2.698 billion on June 30, 2020, to $3.288 billion on June 30, 2021.

- **Net investment income**, which increases fiduciary net position, totaled $7.4 million in FY 2020. By comparison, net investment income in FY 2021 increased to $727.3 million.
- **Total deductions**, which reduce fiduciary net position (and include pension payments to members and beneficiaries, refunds of contributions to former members, and the costs of System administration), totaled $298.9 million in FY 2020. By comparison, deductions in FY

1) Eligible retirees include those who retired before July 1, 2010; those who retired after July 1, 2010 with at least 20 years of creditable service (rising to 25 years if hired after June 30, 2007), with the additional requirement of waiting at least 4 years (DROP retiree) or at least 5 years (non-DROP retiree) after one's retirement date before being eligible to start receiving COLAs.

2021 totaled $342.2 million, an increase of $43.3 million, or 14.5% over FY 2020, primarily due to the increase in benefit payments.

See Appendix C for a history of net investment income and deductions.

Return on Investments

The overall System portfolio, calculated using a time-weighted rate of return methodology, returned 27.5% gross of fees for FY 2021, ranking in the 37th percentile (above median) of the Investment Metrics Universe of Public Funds for the fiscal year. Contributing to these returns were: US Equity 43.5%; International Equity 38.3%; Fixed Income 5.3%; Emerging Market Equity 42.1%; GAA Composite 21.7%; Real Estate 6.6%; Private Equity 30.0%. and Cash 0.4%. By comparison, the median gross-of-fee return on investments for FY 2020 was 0.7%.

The System experienced a 12.8% gross-of-fee return on investments for CY 2021, which ranked in the 63rd percentile of the Investment Metrics Universe of Public Funds. By comparison, the median gross-of-fee return on investments for CY 2021 was 13.4%. From a longer-term perspective, the System experienced an 8.9% gross-of-fee return on investments from CY 2012 to CY 2021, which ranked in the 80th percentile of the Investment Metrics Universe of Public Funds. By comparison, the median gross-of-fee return on investments from CY 2012 to CY 2021 was 9.7%.

The Council previously: 1) indicated its desire for the Employees' Retirement System Board to consider if overall investment performance could improve by allocating a larger portion of the System's Fund portfolio to index funds and a smaller portion to private equity and real estate investment trust holdings, both of which come with significant risks in the current economy; and 2) recommended that the Office assist the Board in taking measures to improve the System's investment performance.

The Office advised of the following:

- 27.5% of System investments are currently indexed, versus 26% indexed the same time last year;

- The Board approved the consultant's recommended asset allocation changes at the April 12, 2022 Board meeting, as follows:

    Equity
    - Increase U.S. Large Cap Equity by 2%
    - Decrease Emerging Market Equity by 2%

    Fixed Income
    - Remove 5% Emerging Market Debt target
    - Decrease Global Multi-Sector by 2%

    Real Estate
    - Increase Real Estate by 2%

    See Appendix C for the System's current Investment policy.

Other System Financial Highlights

- The actuarial accrued liability increased by $54.4 million to $4.81 billion during the first six months of FY 2021.
- The funded status as of June 30, 2021 was 61.5%, lower than the 63.2% funded status as of December 31, 2020, and considerably lower than the funded status at the end of FY 2000 when it reached a peak of 111.8%.
- The System is maturing with 9,591 active members and 8,426 retirees (a ratio of 1.14 to 1) as of June 30, 2021. The 311 members who retired in FY 2012 under the Retirement Incentive Program caused this ratio to decline significantly between June 30, 2011 (when the ratio was 1.41 to 1) and June 30, 2012 (when the ratio was 1.26 to 1).
- The unfunded actuarial accrued liability as a percentage of annual covered payroll as of June 30, 2021 was 284.8%. As of December 31, 2020, this measure was 266.4%. (This measure approximately adjusts for the effects of inflation and aids analysis of the System's progress made in accumulating sufficient assets to pay benefits when due; generally, the smaller this percentage, the stronger the System.)

The Office should be prepared to discuss the System's financial condition and investment policies.

4. Legislation

Recent, pending, and potential future legislative changes are expected to affect the County's ARC:

- Salary enhancements, including Cost-Of-Living Adjustments (COLAs) and other negotiated salary scale changes, are codified via personnel bills and are most frequently the main driver of increases in the County's ARC. The County's defined pension benefits are driven, formulaically, by salaries. The higher an employee's salary at the time of retirement, the greater the pension benefits. More than 75% of the $5.0 million increase in the County's ARC for FY 2023 is related to recently adopted salary changes. The County's actuarial consultant indicated that these salary changes increase the County's unfunded accrued liability by $25.5 million.
- Bill 17-22, which requires notice to the Council whenever a COLA or any other salary scale changes for County employees are proposed, or whenever other personnel or retirement-related legislation is proposed that would generate costs, providing the impact on the County's ARC and the effect on the actuarial accrued liability of the System as a consequence of the increased salaries. The Office of Budget and Finance advised that the proposed legislation may result in annual costs of roughly $10,000 to $15,000 for additional actuarial analyses.
- Bill 42-22, scheduled for the June 6, 2022 legislative session, which:
  - Establishes Plan B Back DROP for sworn firefighters hired on or after July 1, 2007 and requires employees to contribute an additional 0.78% of base pay. The Office advised that this new DROP program was negotiated with and approved by the membership of the Baltimore County Professional Fire Fighters Association and is designed to be revenue neutral to the County through the additional employee contribution. The first DROP may begin on or after July 1, 2040.
  - Establishes Plan B Back DROP for sworn police officers hired on or after July 1, 2007 and requires employees to contribute an additional 1.30% of base pay. The Office advised that this new DROP program was negotiated with and approved by the membership of the Fraternal Order of Police, Lodge #4 and is designed to be revenue neutral to the County through the additional employee contribution. The first DROP may begin on or after July 1, 2035.
  - Establishes a pension plan for judges of the Orphans' Court, as mandated by Maryland Senate Bill 432, and requires employees to contribute 13.85% of base pay. This bill also provides the judges the option to purchase time as an Orphans' Court judge

between January 1, 2022 and July 1, 2022 provided they complete the purchase within 180 days.

- Requires that all County employees participate in the Employees' Retirement System.

Additional details regarding the provisions of Bill 42-22, as provided by the Office of Budget and Finance, are included in Appendix D.

The Office should be prepared to discuss:

- ***The decision to require all employees to participate in the Employees' Retirement System;***
- ***Whether using updated actuarial assumptions would require a greater increase in Police and Fire employee contribution rates to ensure that the new Back DROP is cost-neutral;***
- ***The fiscal impacts of Bill 42-22's proposed changes; and***
- ***Any challenges associated with Bill 17-22 compliance.***

5. <u>County Efficiency Review</u>

The County Efficiency Review recommended the consolidation of retirement and benefits services under the direction of the Office of Human Resources (OHR). The report advised that current research and best practices support shifting these responsibilities to OHR to improve efficiency and provide better service to County employees and retirees. The report further advised that the administration of employee benefits and retirement services in this context does not include the financial management of the pension investments themselves.

The Office should be prepared to discuss whether the County will be implementing this recommendation, and if so, the anticipated timeframe for doing so.

RETIREMENT & SOCIAL SECURITY (041)

APPROPRIATION DETAIL

	FY 2021 ACTUAL	FY 2022 APPROP	FY 2023 REQUEST	NET CHANGE AMOUNT	NET CHANGE %
4102 Employees' Retirement Cont.	$ 137,697,187	$ 145,720,037	$ 200,111,432	54,391,395	37.3%
4107 Social Security Contribution	20,093,860	21,168,000	22,107,000	939,000	4.4%
4108 Contributions Police Fire Widows Pension	-	7,500,000	-	(7,500,000)	100%
4109 Non-System Retirement	324,036	325,940	346,140	20,200	6.2%
General Fund Total	$ 158,115,083	$ 174,713,977	$ 222,564,572	$ 47,850,595	27.4%

RETIREMENT & SOCIAL SECURITY (041)

PERSONNEL DETAIL

	FY 2021 ACTUAL		FY 2022 APPROP		FY 2023 REQUEST		NET CHANGE	
	FULL	PART	FULL	PART	FULL	PART	FULL	PART
Employees' Ret. System [(A)]	-	-	-	-	-	-	-	-

[(A)] No personnel are funded in the Retirement and Social Security program budgets; rather, Retirement System personnel are paid out of the pension fund.

RETIREMENT AND SOCIAL SECURITY (041)

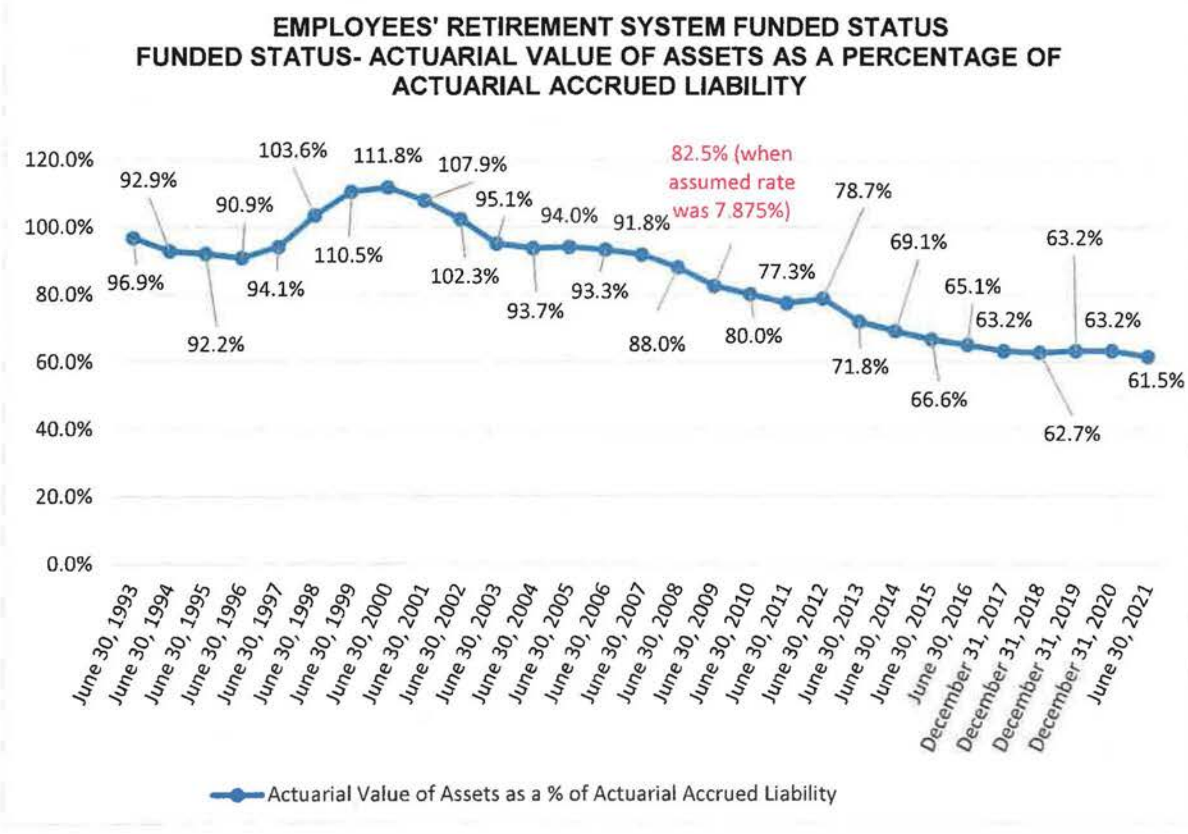
Employees' Retirement System Measures

Funded Status and Assumed Rate of Return

Expressing the actuarial value of plan net assets as a percentage of the actuarial accrued liability provides an indication of the System's funded status. Analysis of this percentage over time indicates whether the System is becoming financially stronger or weaker. Generally, the greater this percentage, the stronger the System.

On this basis, the funded status of the System as of June 30, 2021 was 61.5%, considerably lower than the funded status at the end of FY 2000 when it reached a peak of 111.8%, as shown in the following graph. Of note, however, during the past decade, the ERS Board of Trustees voted to reduce the System's 7.875% assumed rate of return four times, resulting in drops in the System's funded status, as follows:

- July 10, 2012 – from 7.875% to 7.25%
- April 8, 2014 – to 7.0% (as of June 30, 2013)
- March 8, 2016 – to 6.75% (as of June 30, 2015)
- July 12, 2016 – to 6.375% (effective immediately upon enactment)

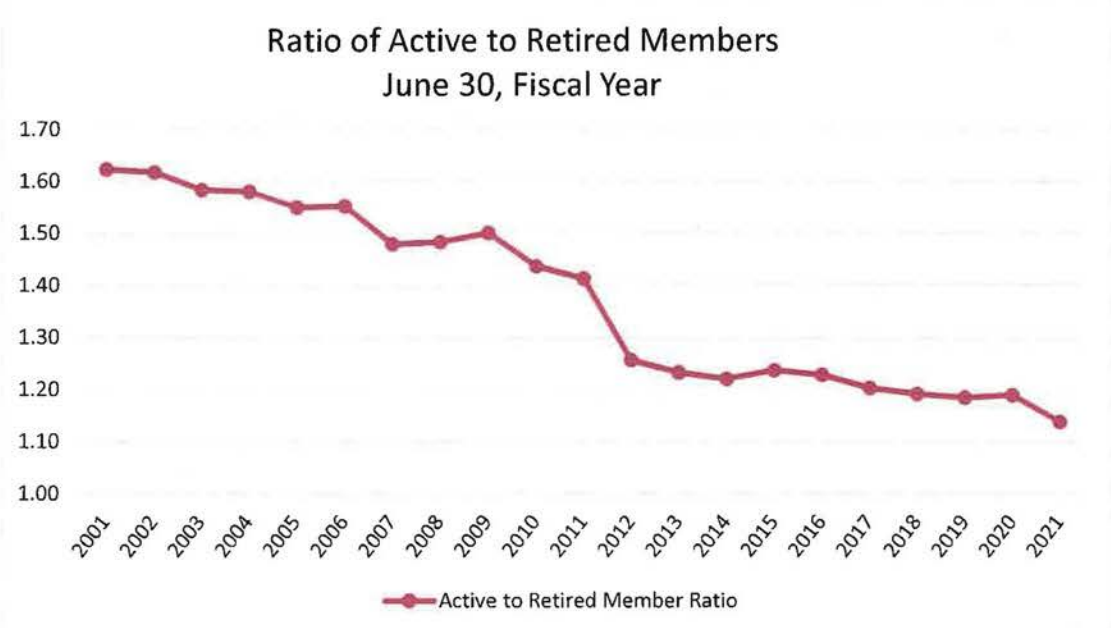


RETIREMENT AND SOCIAL SECURITY (041)

The FY 2019 Pension Bill, approved by the County Council on May 24, 2018, codified the current 6.375% actuarial assumed rate of return on investments. This assumed rate is lower than that of most other pension systems, so when comparing funded status across jurisdictions, it is important to recognize that Baltimore County's would be higher if a higher assumed rate of return was in place.

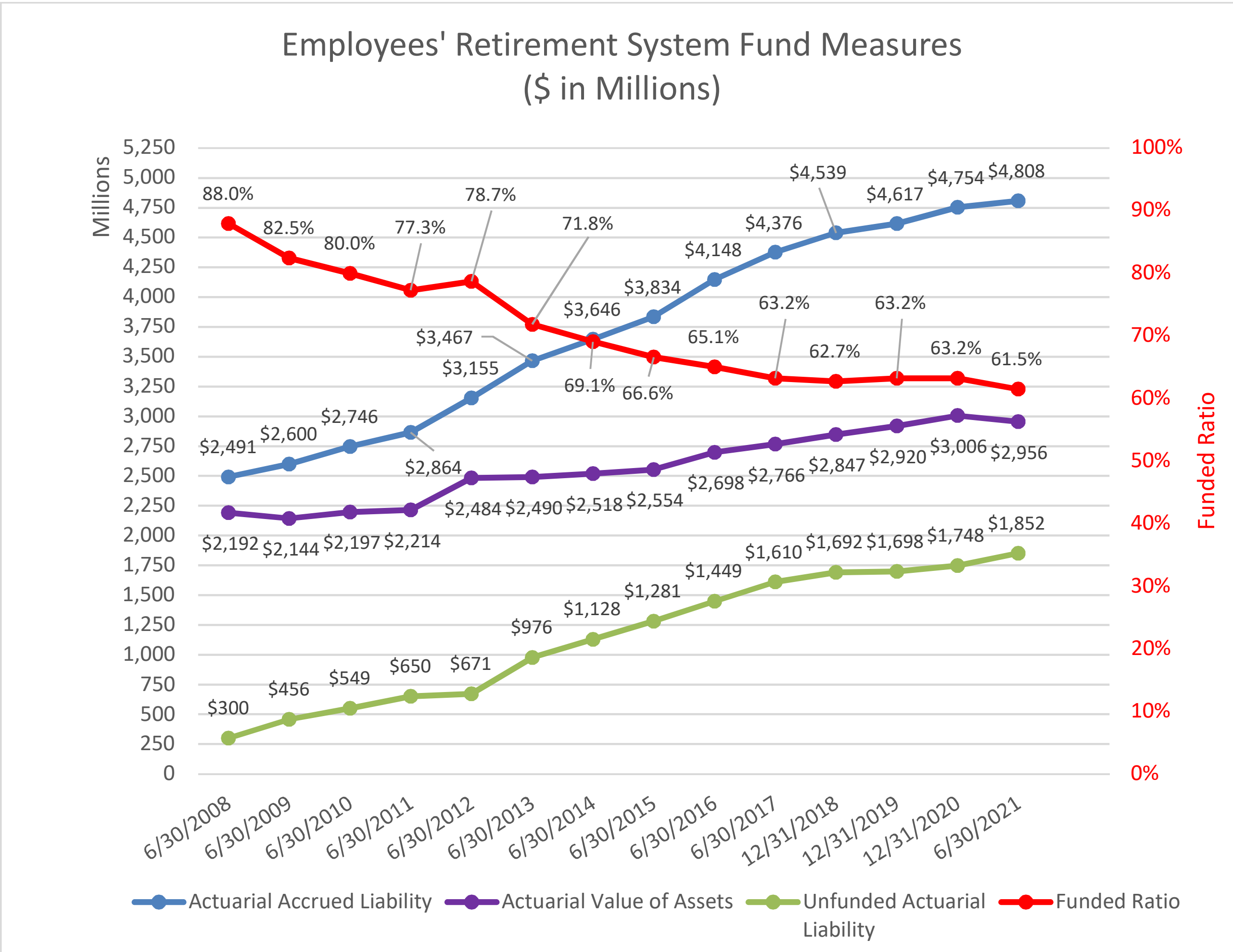
Unfunded Actuarial Accrued Liability as a Percentage of Annual Covered Payroll

Another factor that contributes to the decline in the System's funded status is the active to retired member ratio (since a lowered ratio means that fewer employees are making contributions to the System). The System is maturing, with 9,591 active members and 8,426 retirees (a ratio of 1.14 to 1) as of June 30, 2021. The 311 members who retired in FY 2012 under the Retirement Incentive Program caused this ratio to decline significantly between June 30, 2011 (when the ratio was 1.41 to 1) and June 30, 2012 (when the ratio was 1.26 to 1). The following graph illustrates the ratio of active to retired members in the System over the past several decades. The Office also advised that in FY 2022 to date, 212 employees have retired.



Actuarial Value of Assets and Accrued Liability

The actuarial accrued liability is the present value of benefits accumulated to date under the System's funding method and reflects future pay increases for active employees. The following graph demonstrates how the actuarial accrued liability is rising at a rate faster than the actuarial value of assets. As the gap between the two measures widens, the employer contribution will need to increase in order for the System to be fully funded within the current 30-year amortization period, which commenced in FY 2017. The additional $50 million contribution to the System above and beyond the FY 2023 ARC, which increases the funded status by 1%, should help to reduce the required employer contribution during the remaining amortization period.

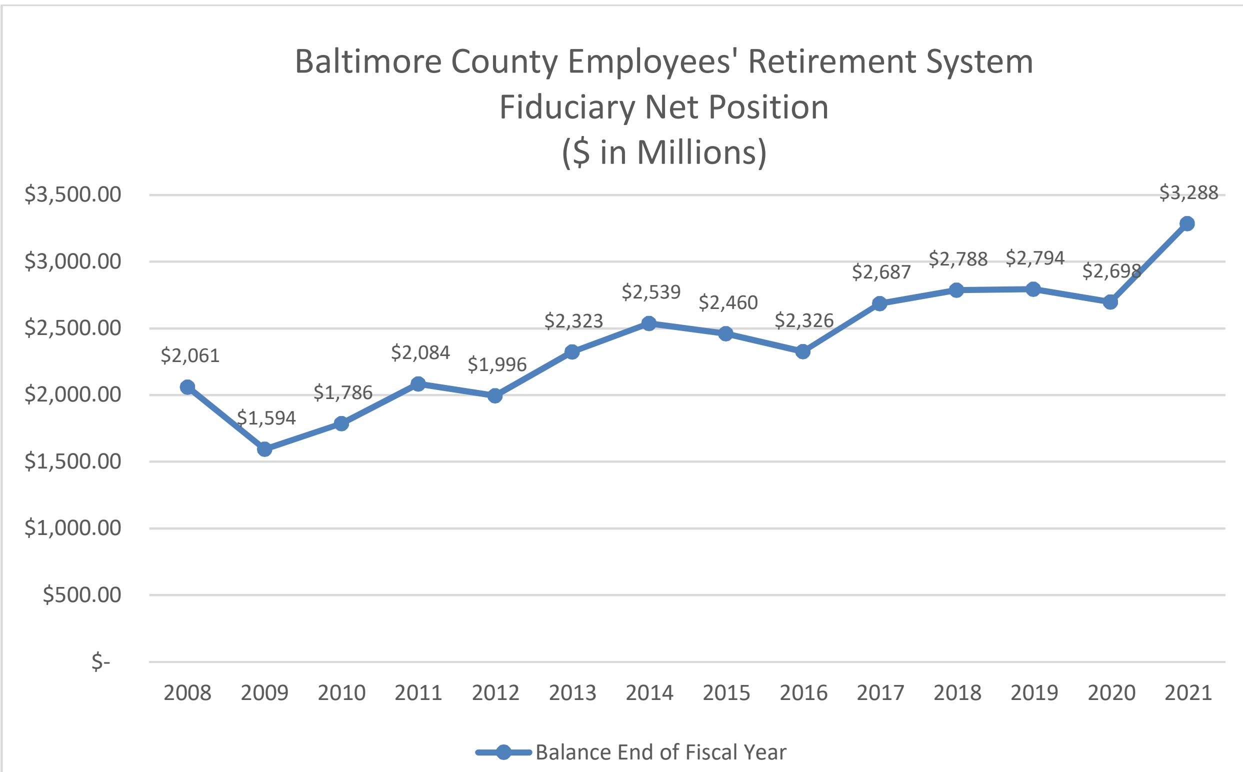


Actuarial Valuation

The Employees' Retirement System Board of Trustees approved a motion to conduct valuations on a fiscal-year basis rather than a calendar-year basis, beginning July 1, 2021, to ensure the Board will have sufficient time to conduct a full review of the System's assumptions prior to submission of the budget. Prior to the calendar-year valuation dated January 1, 2018, the System's valuations were performed on a fiscal-year basis.

Fiduciary Net Position

The System's fiduciary net position reflects the value of assets accumulated to pay future benefits net of liabilities currently due and payable. Employee/member and employer contributions, pension bond proceeds, and investment income increase fiduciary net position. Pension benefit payments, refunds of contributions, and administrative expenses decrease net position. Over time, increases and decreases in the System's fiduciary net position measure whether the System's assets available for benefits are improving or deteriorating. The following graph illustrates the historical changes to the System's fiduciary net position.



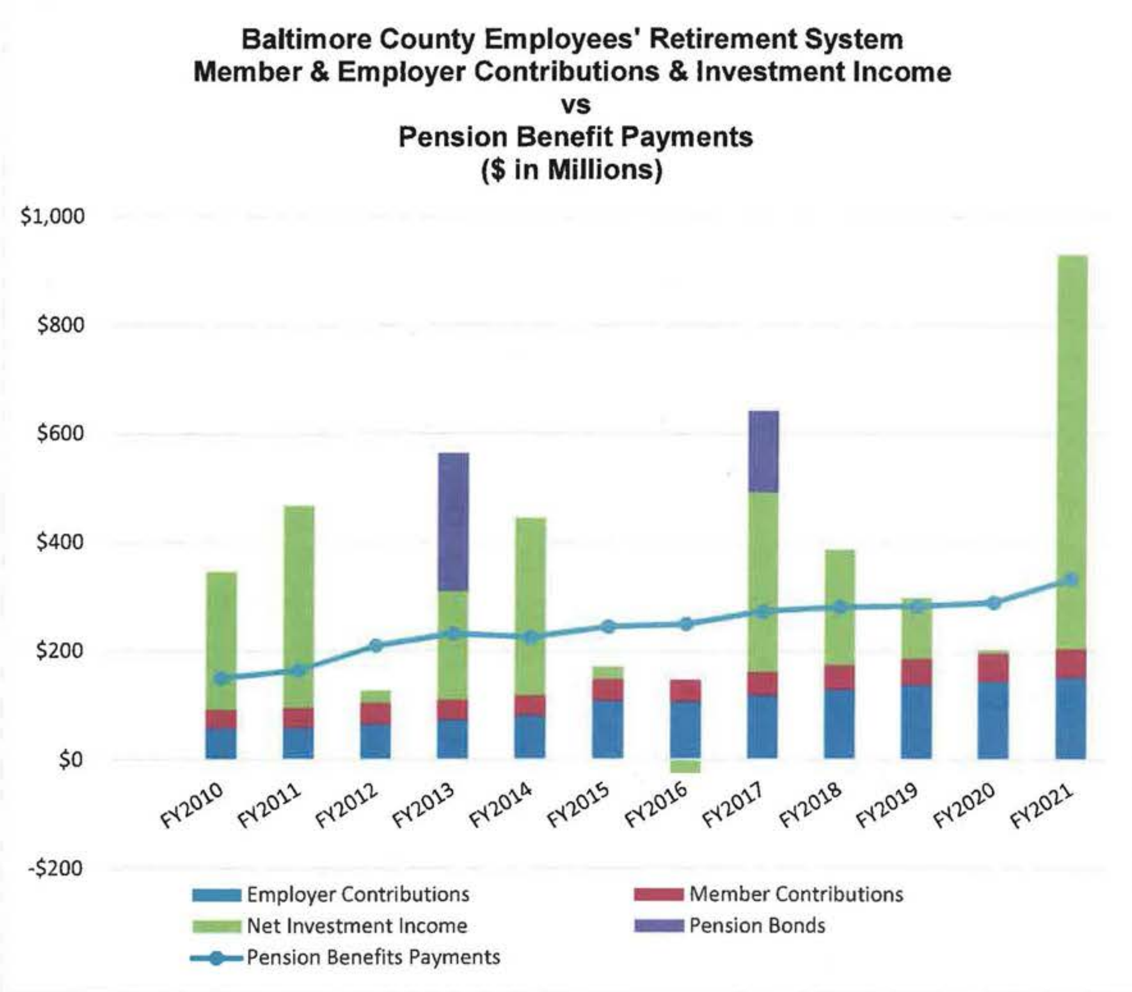
During FY 2021, the System's fiduciary net position increased 21.8%, or $589 million, from $2.698 billion on June 30, 2020, to $3.288 billion on June 30, 2021. By comparison, during FY 2020, the System's fiduciary net position decreased 3.4%, or $96 million, from $2.794 billion on June 30, 2019 to $2.698 billion on June 30, 2020.

The System's $3.288 billion fiduciary net position as of June 30, 2021 reflects all assets accumulated to pay future benefits, net of current liabilities. The figure does not capture the System's funded status – that is, the System's ability to pay future retirement benefits earned by System participants (active employees and retirees/beneficiaries) to date.

RETIREMENT AND SOCIAL SECURITY (041)

Pension Trust Fund Revenues vs. Expenses

The following graph compares member and employer contributions and net investment income relative to pension benefit payments to retirees/beneficiaries. The chart illustrates that benefit payments have almost doubled since FY 2010, reflecting average annual growth of approximately 7.8%.



Net investment income, which increases fiduciary net position, totaled $7.4 million in FY 2020. By comparison, net investment income in FY 2021 increased to $727.3 million. Total deductions, which reduce fiduciary net position (and include pension payments to members and beneficiaries, refunds of contributions to former members, and the costs of System administration), totaled $298.9 million in FY 2020. By comparison, deductions in FY 2021 totaled $342.2 million, an increase of $43.3 million, or 14.5% over FY 2020, primarily due to the increase in benefit payments.

RETIREMENT AND SOCIAL SECURITY (041)

System's Investment Policy

The System's investment policy as adopted by the Board in April 2022 is shown below for the broad investment categories:

Asset Class	Allocation Target
U.S. Equities	33%
International Equities	19%
Private Equity	9%
Fixed Income	27%
Real Estate	7%
Global Asset Allocation	5%
Cash and Cash Equivalents	0%
Total	100%

RETIREMENT AND SOCIAL SECURITY (041)

Provisions of Bill 41-22 (Scheduled for the June 6, 2022 Legislative Session)

- Establishing a Back DROP for sworn firefighters hired on or after July 1, 2007 and requiring employees to contribute an additional 0.78% of base pay. This new DROP program was negotiated with and approved by the membership of the Baltimore County Professional Fire Fighters Association. The new program is designed to be revenue neutral to the County through the additional employee contribution. The first DROP may begin on or after July 1, 2040.
- Establishing a Plan B Back DROP for sworn police officers hired on or after July 1, 2007 and requiring employees to contribute an additional 1.30% of base pay. This new DROP program was negotiated with and approved by the membership of the Fraternal Order of Police, Lodge #4. The new program is designed to be revenue neutral to the County through the additional employee contribution. The first DROP may begin on or after July 1, 2035.
- Providing an Option 7 survivorship benefit to members on Pay Schedule VII, Police SMC, who have completed at least 25 years of creditable service. The new Option 7 language mirrors the Fraternal Order of Police, Lodge #4 approved by the Council in council bill 48-21.
- Providing an Option 7 survivorship benefit to members on Pay Schedules V and VIII, Firefighters, who have completed at least 25 years of creditable service for Plan A and 30 years of creditable service for Plan B. The new Option 7 language mirrors the Fraternal Order of Police, Lodge #4 approved by the Council in council bill 48-21.
- Establishing a pension plan for judges of the orphans' court as mandated by Maryland State Senate Bill 432 and requiring employees to contribute 13.85% of base pay. This Bill also provides the judges the option to purchase time as an orphans' court judge between January 1, 2022 and July 1, 2022 provided they complete the purchase within 180 days.
- Requiring all new employees to join the retirement system as of July 1, 2022, including the county executive, county council, part-time employees, and employees in the special employment category. Employees, other than sworn police and fire, who have attained the age of 55 when beginning employment with the County or a County agency retain the option to waive membership in the System. If an employee had previously elected not to join the System and becomes a merit system employee and has attained the age of 55, they would have the option to continue not to join the System.

THE CLARIFICATIONS LISTED BELOW DO NOT ELIMINATE OR REDUCE ANY CURRENT BENEFITS:

- Clarifying the definition of active duty military service for members of the National Guard. This change clarifies that the County only accepts active duty in the Maryland National Guard toward creditable service. The County allows up to four years of creditable service for military time served prior to County employment. The County also allows an employee to purchase creditable service for a military leave of absence in accordance with USERRA law. ERS Board policy is to only provide military service for active employment and not routine monthly assignments.
- Removing language regarding refund of military contributions that had applied to members who purchased their military service time prior to 1977. Since 1977, the County has granted up to four years of prior military service at no cost to the member.
- Clarifying that the correctional officers' and deputy sheriffs' pension benefit applies only to those members who have reached 20 years of creditable service if hired prior to July 1, 2007 or 25 years of creditable service if hired on or after July 1, 2007. Members who don't meet the requisite number of years for the above-mentioned benefit but otherwise qualify for retirement (age 65 with 5 years for members hired prior to July 1, 2007 or age 67 and 10 years for members hired on or after July 1, 2007) are eligible for the General benefit as described in the Editor's note in Sections 5-1-218 and 5-1-219 of the County Code.
- Correcting the vesting language in Section 5-1-230(b)(2) for a termination benefit for members hired or after July 1, 2007 from "creditable" to "membership" service to agree with the vesting language in Section 5-1-203(9)(ii).