Legislative Budget Analysis

Proposed FY 2024 Operating and Capital Budgets

Office of the County Auditor

Baltimore County, Maryland

HEARING DATE: May 11, 2023

Retirement and Social Security

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Questions Sent to Department	Monday, April 24, 2023
Responses Received	Friday, April 28, 2023
Analysis considers all agency responses.	

RETIREMENT AND SOCIAL SECURITY (041)

BUDGET SUMMARY

$ in Thousands

	GENERAL	SPECIAL	TOTAL	% Change Prior Year
PROPOSED CHANGE				
FY 2023 - 2024 Change	$ (36,106.7)	-	$ (36,106.7)	-16.2%
BUDGET TRENDS				
FY 2022 Actual	$ 174,548.5	-	$ 174,548.5	
FY 2023 Approp.	222,564.6	-	222,564.6	27.5%
FY 2024 Proposed	186,457.9	-	186,457.9	-16.2%
FY 2024 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 2024 budget for Retirement and Social Security totals $186.5 million, a decrease of $36.1 million, or 16.2% from the FY 2023 budget, as follows.

	($ in thousands)		
	Retirement[(1)]	Social Security	Total
2024 Request	**$163,563**	**$22,895**	**$186,458**
2023 Appropriation	200,458	22,107	222,565
$ Increase/(Decrease)	$ (36,895)	$ 788	$ (36,107)
% Increase/Decrease	-18.4%	3.6%	-16.2%

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

(2) Judges', Sheriffs', and Board of Elections' pension plans.

- **Retirement** - The budget decrease is due to the one-time additional $50.0 million contribution above the annual required contribution (ARC) to the Employees' Retirement System in FY 2023, partially offset by a $13.0 million increase in the County's ARC to the Employees' Retirement System for FY 2024.

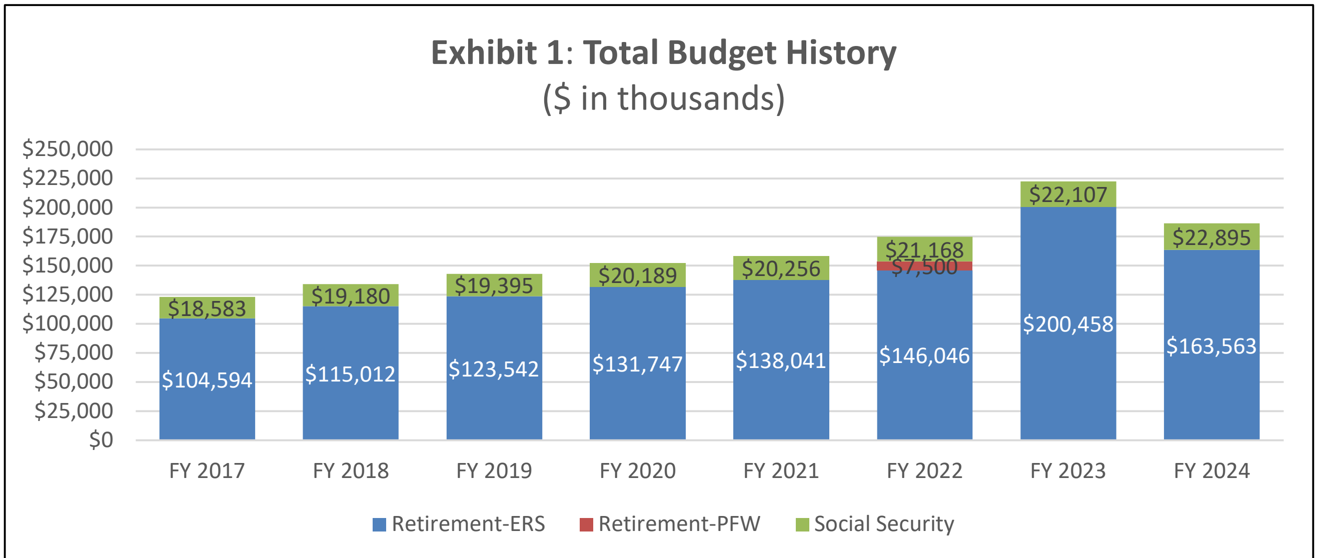
- **Social Security** - The budget increase is due to an increase in FICA contributions associated with the proposed budget's higher salaries.

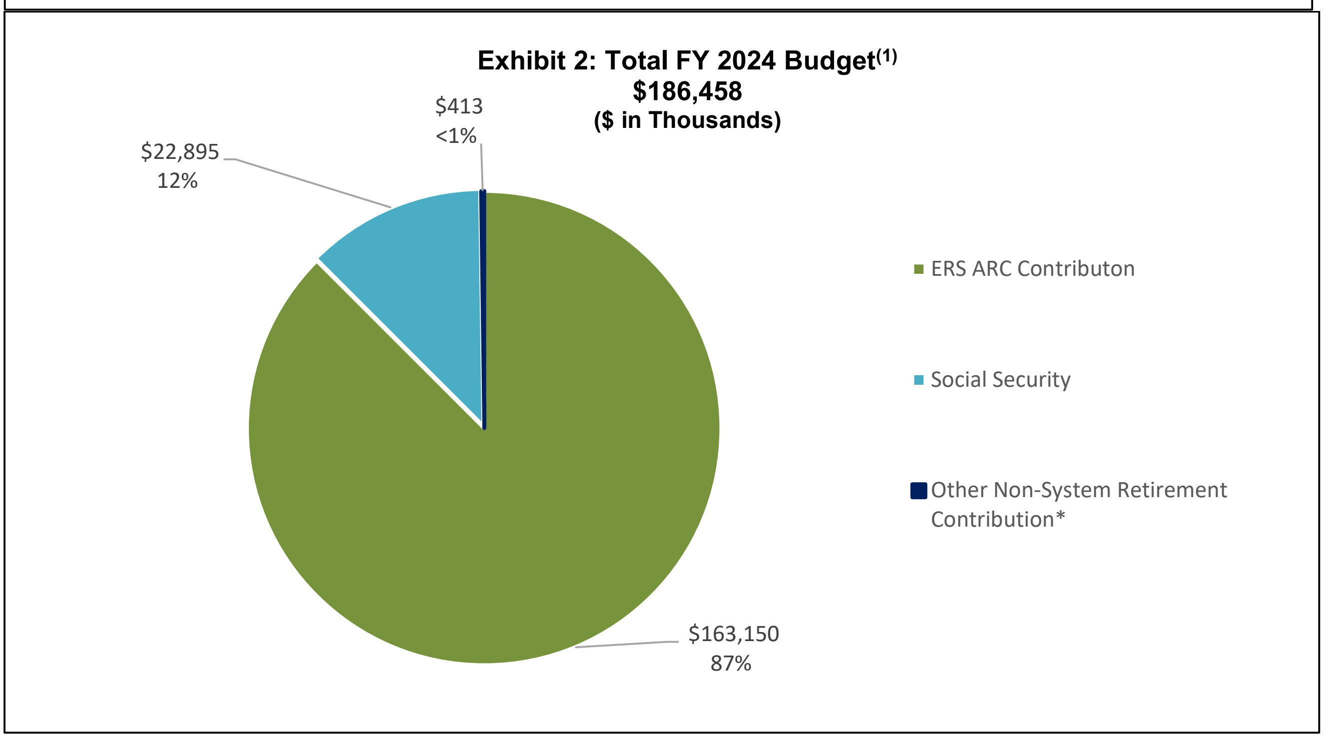
The proposed FY 2024 budget comprises 3.7% of the County's total Operating Budget.

See Appendix A for program-level expenditure/appropriation for FY 2022 (actual), FY 2023 (appropriated), and FY 2024 (proposed). As noted in Appendix B, no personnel are funded in the program budgets; rather, Retirement System personnel are paid out of the pension fund.

RETIREMENT AND SOCIAL SECURITY (041)

See Exhibit 1 for a budget history, and Exhibit 2 for the distribution of expenses across programs.





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

(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 2024 budget for Debt Service (Agency 040) includes $21,087,681 for principal and interest payments on pension funding bonds, a nominal decrease of $6,903 from the FY 2023 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.

RETIREMENT AND SOCIAL SECURITY (041)

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 sworn Police and Fire employees, who are not subject to Social Security) would be reflected in this account. The Office of Budget and Finance projects that the General Fund reversion from Retirement and Social Security will total $609 thousand in FY 2023.

BUDGET HIGHLIGHTS

- FY 2024 budget decline of $36.1 million, or 16.2%, from FY 2023. The budget includes:
  - $163.2 million for the County's General Government contribution to the Employees' Retirement System, which reflects **an increase of $13.0 million, or 8.7%, to fund the Annual Required Contribution (ARC)** per the System's actuary as of July 1, 2022, as well as the **discontinuance of the one-time additional $50 million** appropriation in FY 2023.
  - $22.9 million for Social Security contributions, an increase of $0.8 million, or 3.6%, associated with the proposed budget's higher salaries.
- County-wide, the County's ARC for FY 2024 totals $179.6 million, an increase of $14.1 million, or 8.5%, over the FY 2023 ARC. The County is required to make its full annual pension payment under County law *(see Exhibit 3, page 5).*
- The County's actuary estimates that the newly awarded salary enhancements included in the proposed FY 2024 budget and personnel bill will cause the following fiscal impacts on the Employees' Retirement System *(see #4, pages 12-13)*:
  - **a $10.3 million increase to the County's ARC for FY 2025**, with $5.7 million attributable to Police, $2.0 million attributable to Fire, $1.6 million attributable to General Government, $0.7 million attributable to BCPS and CCBC, and $0.3 million attributable to Corrections
  - **more than $108 million of cumulative increases to the ARC over the next ten years**
  - **a 0.7 percentage point reduction to the System's funded status next year -** instead of rising to 60.7%, the System's funded status would fall to 60.0%
- **1.25% COLA for eligible retirees on July 1, 2023** *(see #2, pages 7-8).*
- The System's financial condition *(see #3, pages 8-11)*:
  - The **funded status** as of July 1, 2022 was **60.2%,** lower than the 61.5% funded status as of July 1, 2021, 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 9,339 active members and 8,503 retirees (a ratio of 1.10 to 1) as of June 30, 2022.
  - During FY 2022, the System's **fiduciary net position** decreased 13.7%, or $452 million, from $3.288 billion on June 30, 2021, to $2.836 billion on June 30, 2022. Specifically, while net investment income, which increases fiduciary net position, increased to $727.3 million in FY 2021, the System experienced a net investment decline of $331.9 million in FY 2022.
  - 27.5% of System investments are indexed, consistent with the amount from one year ago.
- **Return on Investments** *(see #3, page 9):*
  - For FY 2022, the overall System portfolio, calculated using a time-weighted rate of return methodology, returned -9.9% gross of fees, ranking in the 47th percentile (slightly above the median) of the Investment Metrics Universe of Public Funds.
  - For CY 2022, the System experienced -12.7% gross-of-fee return on investments, ranking in the 49th percentile (just above the -12.8% median).
  - From CY 2013 to CY 2022, the System experienced a 6.1% gross-of-fee return on investments, ranking in the 90th percentile (below the 7.1% median).
- **Bill 34-23** *(see #4, pages 12-13):*
  - Offers an additional survivorship benefit for correctional officers.
  - Other provisions *(see Appendix D).*

TOPICS FOR DISCUSSION:

1. County's Contribution to the Employees' Retirement System

Annual Required Contribution (ARC)

The proposed FY 2024 General Fund budget includes $179.6 million to support the ARC, an increase of $14.1 million, or 8.5%, over the FY 2023 budget as follows: a General Government contribution of $163.1 million reflects a $13.0 million increase, excluding the $50 million one-time additional contribution in FY 2023; the remaining $16.5 million contribution is included in the respective budgets of BCPS ($10.2 million), CCBC ($385 thousand), BCPL ($107 thousand), the Metropolitan District ($5.4 million), and the Revenue Authority ($386 thousand), and reflects a $1.0 million increase.

Exhibit 3 provides a breakdown of ARC funding by program, fund, and employee group.

RETIREMENT AND SOCIAL SECURITY (041)

Exhibit 3: Employees' Retirement System
Annual Required Contribution
($ in Thousands)

	FY 2023 Budget	FY 2024 Budget	FY 2023 - FY 2024 Increase/(Decrease) Amount	%
Retirement Program (041)				
Regular County Employees	$ 30,674	$ 33,453	$ 2,780	9.1%
Police	78,398	84,475	6,077	7.8%
Firefighters	35,526	39,508	3,982	11.2%
Correctional Officers and Deputy Sheriffs	5,513	5,714	201	3.6%
Total Retirement Program (041)	150,111	163,150	13,039	8.7%
Public Schools (035)	9,666	10,170	505	5.2%
Community College (033)	390	385	(5)	-1.3%
Libraries (037)	87	107	21	23.7%
Total County Contribution - General Fund	160,254	173,813	13,559	8.5%
Metro Contribution	4,993	5,446	*452*	*9.1%*
Revenue Authority Contribution	323	386	63	*19.4%*
Total Annual Required Contribution	***$ 165,570***	***$ 179,644***	***$ 14,074***	***8.5%***

Additional $50 Million Contribution to Increase the System's Funded Status in FY 2023

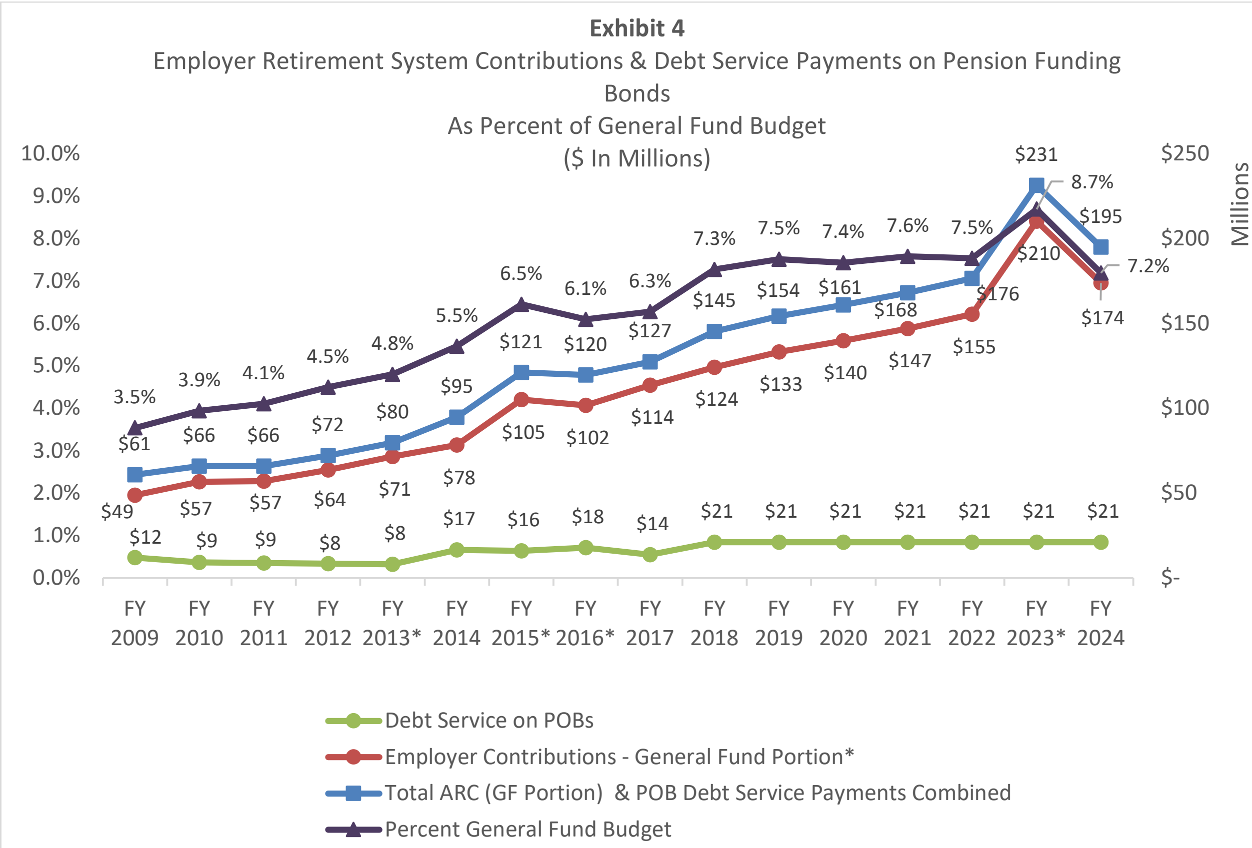
The FY 2023 Spending Affordability Committee (SAC) report noted "that improving the System's funded status should be a top budget priority. Accordingly, this year, we are providing an exclusion opportunity for the Administration to allow for a one-time influx of funding into the Pension Trust Fund to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

Historical Perspective

General Fund costs for the Employees' Retirement System have grown significantly in recent years. **Exhibit 4** 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 more than tripled since FY 2009, when they totaled $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 $195 million in FY 2024, or 7.2% of the FY 2024 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%.

Looking Ahead

General Fund costs for the Employees' Retirement System are expected to continue to rise in the coming years. According to the actuary's most recent projections (which are subject to change based on investment performance, plan changes, and other factors), the System's ARC is expected to rise to $213.9 million in the next five years, an increase of $34.3 million, or 19.1%, over the FY 2024 ARC. The County will need to continue to adhere to its sound financial practices in order to maintain funding for the General Fund portion of the ARC within the Spending Affordability Committee's guideline.

The Office should be prepared to discuss:

- ***Its plans to meet the demands of the County's increasing ARC over the next five years; and***
- ***The likelihood of any additional one-time contributions (over and above the ARC) in the foreseeable future.***

2. 1.25% COLA for Retirees on July 1, 2023

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 calculated 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. This balance was sufficient to cover the cost of a 3% COLA for eligible beneficiaries of the System as of July 1, 2022, which was estimated at $61,497,440.

Following the transfer of $61,497,440 to fund the July 1, 2022 COLA, the PRIF account balance fell to $30.4 million. The System's geometric average rate of return for the 5 years ending with calendar year 2022 totaled 3.6%, below the income threshold rate of 7.00%; thus the new methodology approved in February 2022 did not produce excess investment earnings to transfer to the PRIF account at the end of CY 2022.

The increase in the CPI-U from December 2021 to December 2022 was equal to 6.5%. The County is required, subject to the availability of funds in the PRIF account, to grant a 3% COLA, effective July 1, 2023, to eligible beneficiaries of the System. The estimated cost of the 3% increase in retirement allowances (for eligible retirees[1]), effective July 1, 2023, is $62,029,849. The PRIF balance of $30,448,072 as of December 31, 2022 is not sufficient to cover this cost. The estimated cost of a 1.25% increase in retirement allowances effective July 1, 2023 is $25,845,771, which the PRIF balance is sufficient to cover with a remaining balance of $4,602,301. Therefore, effective July 1, 2023, eligible retirees will receive a 1.25% 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. System's Financial Condition and Investment Policies

During FY 2022, the System's fiduciary net position decreased 13.7%, or $452 million, from $3.288 billion on June 30, 2021, to $2.836 billion on June 30, 2022.

1) Eligible retirees include those who retired before July 1, 2010; those who retired on or 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.

- **Net investment income**, which increases fiduciary net position, totaled $727.3 million in FY 2021. By comparison, the System experienced a net investment decline of $331.9 million in FY 2022.
- **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 $342.1 million in FY 2021. By comparison, deductions in FY 2022 totaled $332.5 million, a decrease of $9.6 million, or 2.8% from FY 2021, primarily due to a decrease in benefit payments partially offset by an increase in refunds.

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 -9.9% gross of fees for FY 2022, ranking in the 47th percentile (slightly above the median) of the Investment Metrics Universe of Public Funds for the fiscal year. Contributing to these returns were: US Equity -15.6%; International Equity -18.5%; Fixed Income -9.7%; Emerging Market Equity -31.2%; GAA Composite -14.2%; Real Estate 27.2%; Private Equity 26.2%. and Cash 0.2%. By comparison, the System's gross-of-fee return on investments for FY 2021 was 27.5%.

The System experienced a -12.7% gross-of-fee return on investments for CY 2022, which ranked in the 49th percentile of the Investment Metrics Universe of Public Funds. By comparison, the median gross-of-fee return on investments for CY 2022 was -12.8%. From a longer-term perspective, the System experienced an 6.1% gross-of-fee return on investments from CY 2013 to CY 2022, which ranked in the 90th percentile of the Investment Metrics Universe of Public Funds. By comparison, the median gross-of-fee return on investments from CY 2013 to CY 2022 was 7.1%.

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.

RETIREMENT AND SOCIAL SECURITY (041)

The Office advised of the following:

- 27.5% of System investments are currently indexed, the same percentage as last year and slightly more than the 26% that were indexed two years ago;
- The consultant recently recommended several asset allocation changes to the Board, as follows:

  Equity
  - Remove 2% Emerging Market Small-Cap Equity target

  Fixed Income
  - Increase U.S. Aggregate bonds by 4%
  - Decrease Global Multi-Sector by 2%

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

Other System Financial Highlights

- The actuarial accrued liability increased by $193.3 million to $5.002 billion during FY 2022.
- The funded status as of June 30, 2022 was 60.2%, lower than the 61.5% funded status as of June 30, 2021, 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 9,339 active members and 8,503 retirees (a ratio of 1.10 to 1) as of June 30, 2022. 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, 2022 was 297.0%. As of June 30, 2021, this measure was 284.8%. (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, including when the funded status is expected to start increasing, as well as the System's 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 51% of the $14.1 million increase in the County's ARC for FY 2024 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 $60.3 million.
- The proposed salary enhancements will continue to drive increases in the County's ARC. Assuming that all employees receive a 2% COLA in July followed by an additional 2% COLA in January, and assuming that any deviations from this assumption have a "de minimus" effect, the County's actuary estimated that the proposed enhancements would result in a $10.3 million increase to the County's ARC for FY 2025, with $5.7 million attributable to Police, $2.0 million attributable to Fire, $1.6 million attributable to General Government, $0.7 million attributable to BCPS and CCBC, and $0.3 million attributable to Corrections. Instead of rising to 60.7%, the System's funded status would fall to 60.0% next year. Over the next ten years, total increases to the ARC resulting from the 2%/2% COLA are expected to reach $108.8 million, and at that time the actuarial accrued liability is expected to be $122.9 million higher than if the proposed COLA had not been granted.
- Bill 42-22, approved by the Council on June 6, 2022, which:
    - Established 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.
    - Established 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.

- Provides an additional survivorship benefit for sworn firefighters and certain members of the police department who were not previously extended this benefit through Bill 48-21, approved by the Council on June 7, 2021.
- Established a pension plan for judges of the Orphans' Court, as mandated by Maryland Senate Bill 432 during the General Assembly's 2022 session, and requires employees to contribute 13.85% of base pay. This bill also provided 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.

The County's actuarial consultant indicated that recent plan changes account for $1.5 million of the $14.1 million increase in the County's ARC for FY 2024 and increase the County's unfunded accrued liability by $12.6 million.

- Bill 34-23, scheduled for the June 5, 2023 legislative session, which:
  - Provides an additional survivorship benefit for correctional officers and requires employees to contribute an additional 1.0% of base pay. The Office advised that this benefit is designed to be nearly cost-neutral to the County through the additional employee contribution.
  - Removes the requirement for new employees to undergo a physical examination in order to join the Employees' Retirement System.

Additional details regarding the provisions of Bill 34-23, as provided by the Office of Budget and Finance, are included in Appendix D.

The Office should be prepared to discuss:

- ***The decision to remove the requirement for new employees to undergo a physical examination in order to join the Employees' Retirement System;***
- ***Whether using updated actuarial assumptions based on the 2016 to 2021 experience study would have required a greater increase in Police and Fire employee contribution rates to ensure that the new Back DROP is cost-neutral; and***
- ***The fiscal impacts of Bill 34-23's proposed changes.***

5. 2022 Experience Study

Article 5-1-245 of the County Code requires that at least once in a five-year period, an actuary undertake an experience investigation into the mortality, service, and compensation experience of the members and beneficiaries of the System. The System's ARC is highly dependent on the assumptions used by the actuary to project future benefit payments. The purpose of an experience study is to compare assumptions to actual experience to determine the accuracy of the assumptions. The July 1, 2016 to June 30, 2021 experience study was completed by the consultant and adopted by the Retirement Board in March 2023.

Based on actual experience during the July 1, 2016 to June 30, 2021 time period, the July 1, 2022 valuation reflects the following changes to demographic assumptions:

- An increase in the salary growth assumptions, which increases benefit costs;
- An increase in the retirement rate assumptions, which increases benefit costs;
- An increase in the non-vested termination rate assumptions, which decreases benefit costs; and
- A decrease in both the active employee mortaility rate and disability rate assumptions, which decreases benefit costs.

The County's actuarial consultant advised that due to excess mortality during the study period resulting from COVID-19 and other pandemic-related causes, it chose not to update the plan's retiree mortality rate assumptions at this time. The consultant further advised that the next study period, which will cover the period July 1, 2021 to June 30, 2026, would provide a better indication of post-pandemic retiree mortality, and that new versions of the Society of Actuaries public sector plan mortality tables will then be available.

The FY 2024 ARC is composed of two components - the normal cost and the unfunded accrued liability amortization payment. The changes to assumptions resulting from the 2022 experience study increased normal costs in FY 2024 by $1,083,709, largely driven by the higher salary growth assumptions, and increased the unfunded accrued liability (UAL) amortization payment by $4,042,980, largely driven by both the higher salary growth assumptions and the higher retirement rate assumptions.

The Office should be prepared to discuss how recent wage and salary enhancements compare to the new salary growth assumptions resulting from the experience study.

BALTIMORE COUNTY
FISCAL YEAR 2024 BUDGET ANALYSIS

RETIREMENT & SOCIAL SECURITY (041)

APPROPRIATION DETAIL

	FY 2022 ACTUAL	FY 2023 APPROP	FY 2024 REQUEST	NET CHANGE AMOUNT	NET CHANGE %
4102 Employees' Retirement Cont.	$ 145,720,037	$ 200,111,432	$ 163,150,267	(36,961,165)	-18.5%
4107 Social Security Contribution	21,050,823	22,107,000	22,895,000	788,000	3.6%
4108 Contributions Police Fire Widows Pension	7,500,000	-	-	-	NA
4109 Non-System Retirement	277,670	346,140	412,680	66,540	19.2%
General Fund Total	$ 174,548,530	$ 222,564,572	$ 186,457,947	$ (36,106,625)	-16.2%

RETIREMENT & SOCIAL SECURITY (041)

PERSONNEL DETAIL

	FY 2022 ACTUAL		FY 2023 APPROP		FY 2024 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)

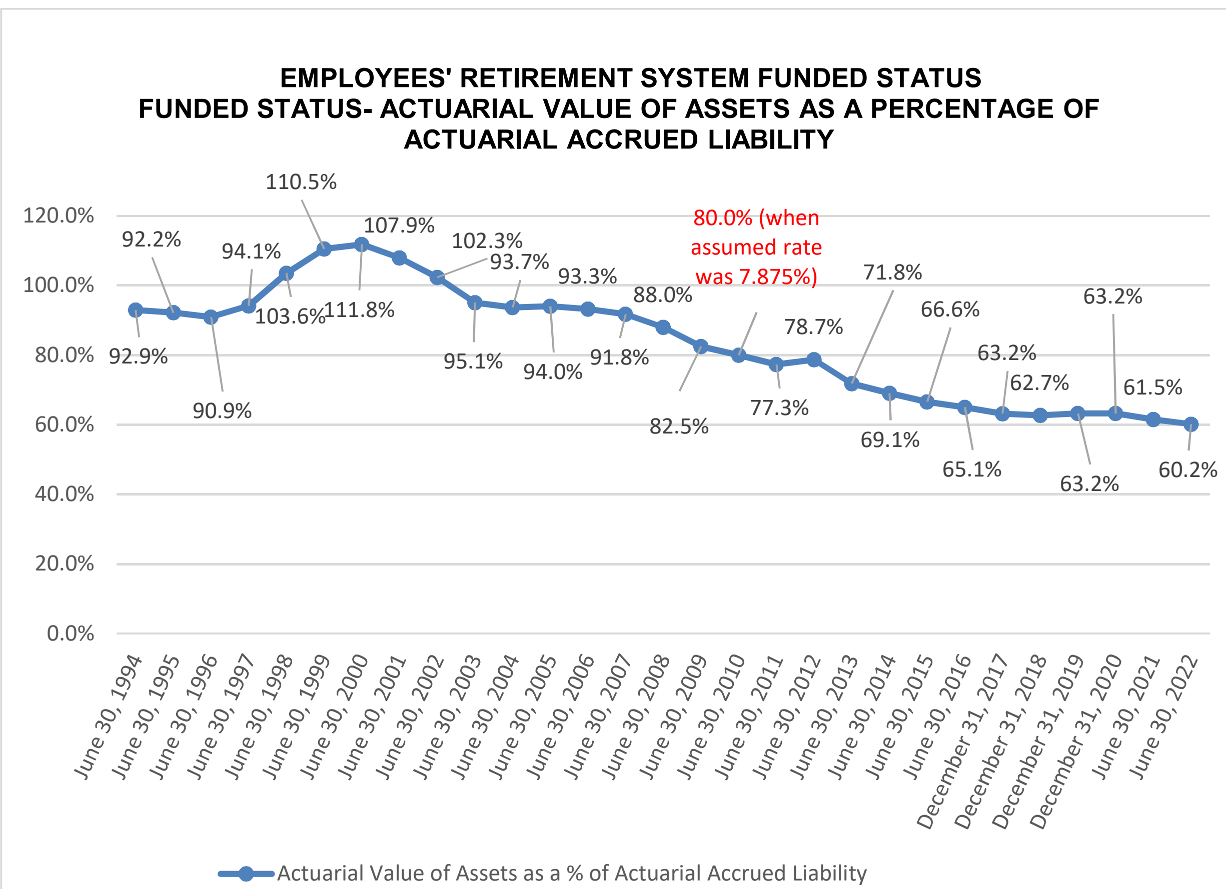
Employees' Retirement System Measures

<u>Funded Status and Assumed Rate of Return</u>

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, 2022 was 60.2%, 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:

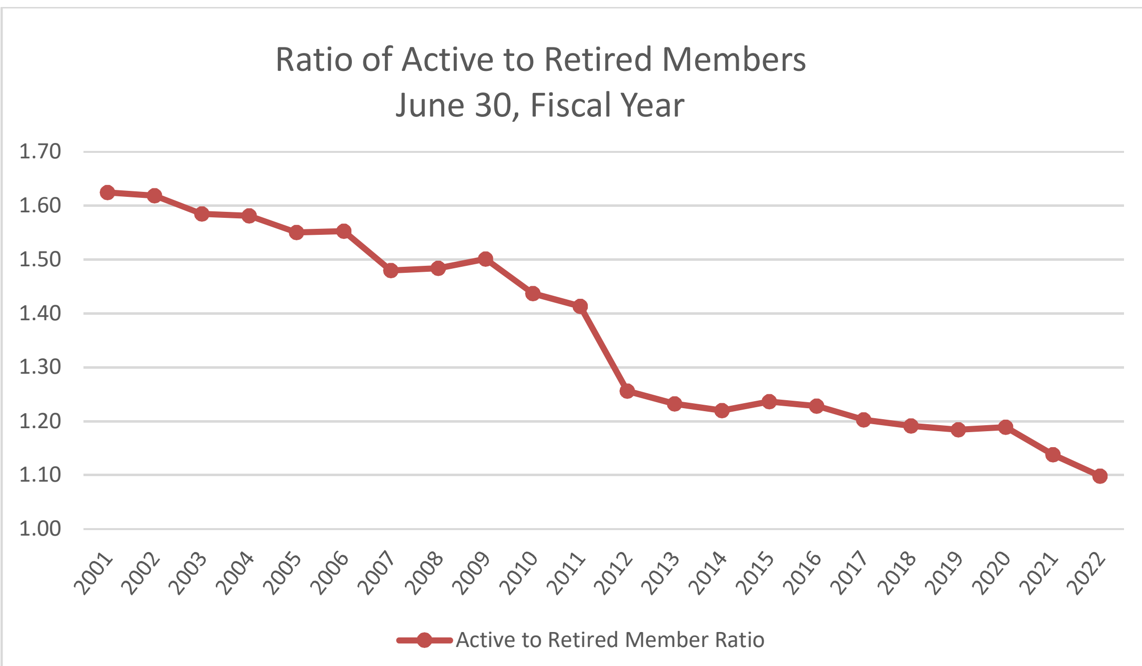
- July 10, 2012 – from 7.875% to 7.25%
- April 8, 2014 – to 7.0% (as of June 30, 2013)
- March 8, 2016 – to 6.75% (as of June 30, 2015)
- July 12, 2016 – to 6.375% (effective immediately upon enactment)



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.

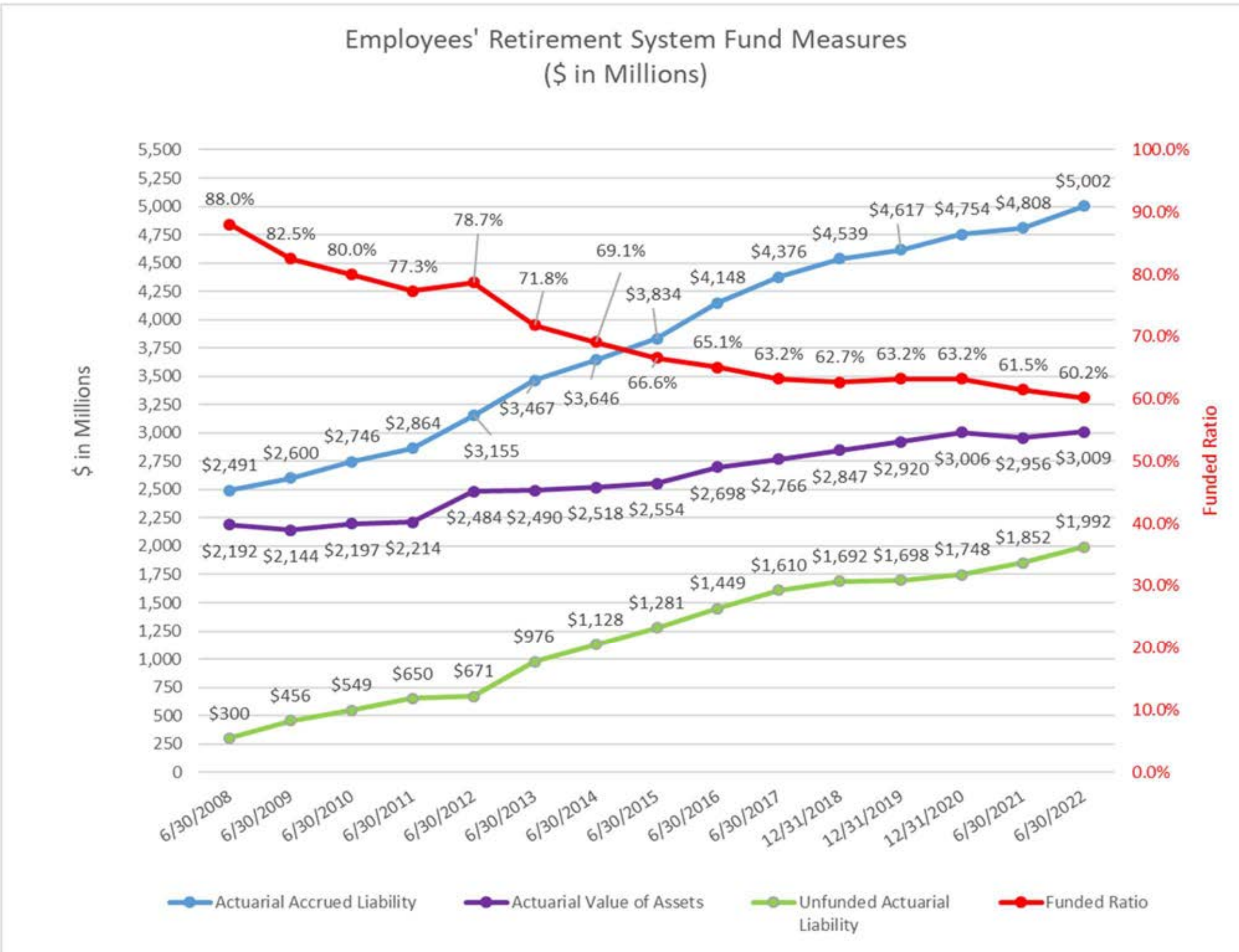
Unfunded Actuarial Accrued Liability as a Percentage of Annual Covered Payroll

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 9,339 active members and 8,504 retirees (a ratio of 1.10 to 1) as of June 30, 2022. 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 as of April 13, 2023, 218 employees have retired in FY 2023.



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 increased the funded status by 1%, should help to reduce the required employer contribution during the remaining amortization period.



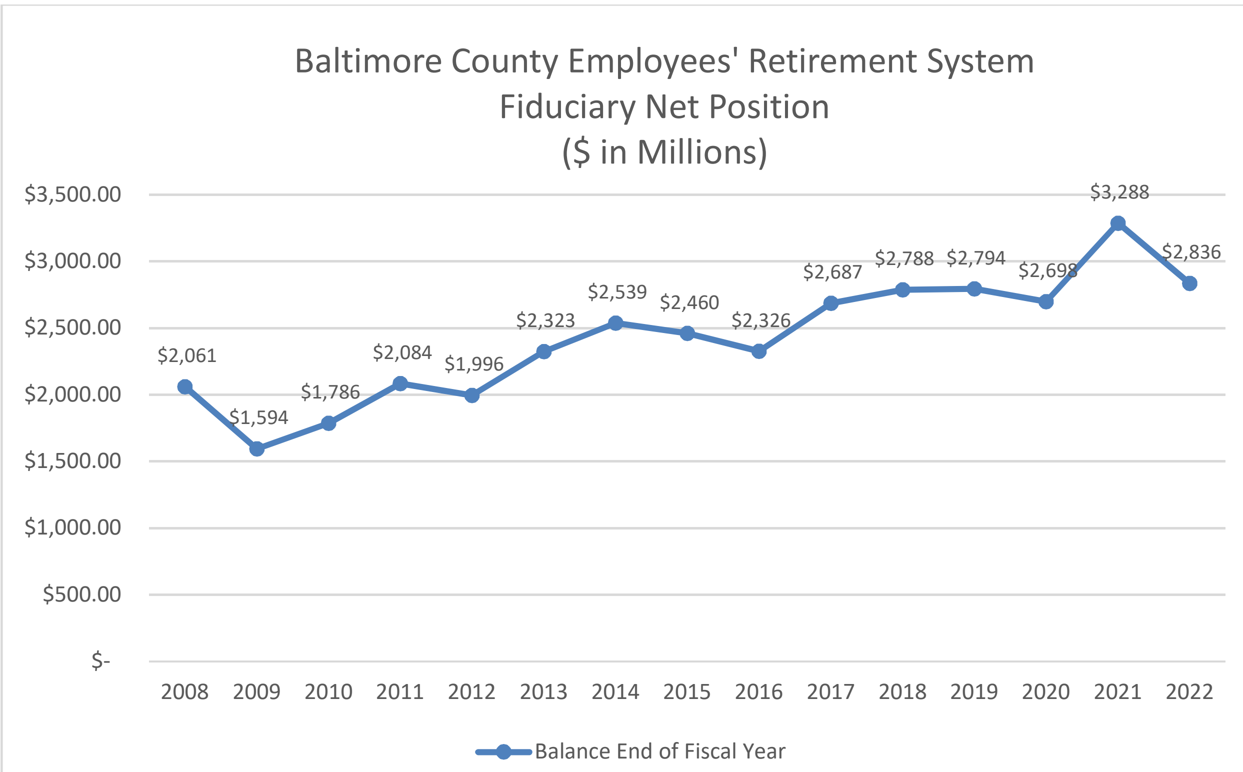
Actuarial Valuation

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.

RETIREMENT AND SOCIAL SECURITY (041)

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.



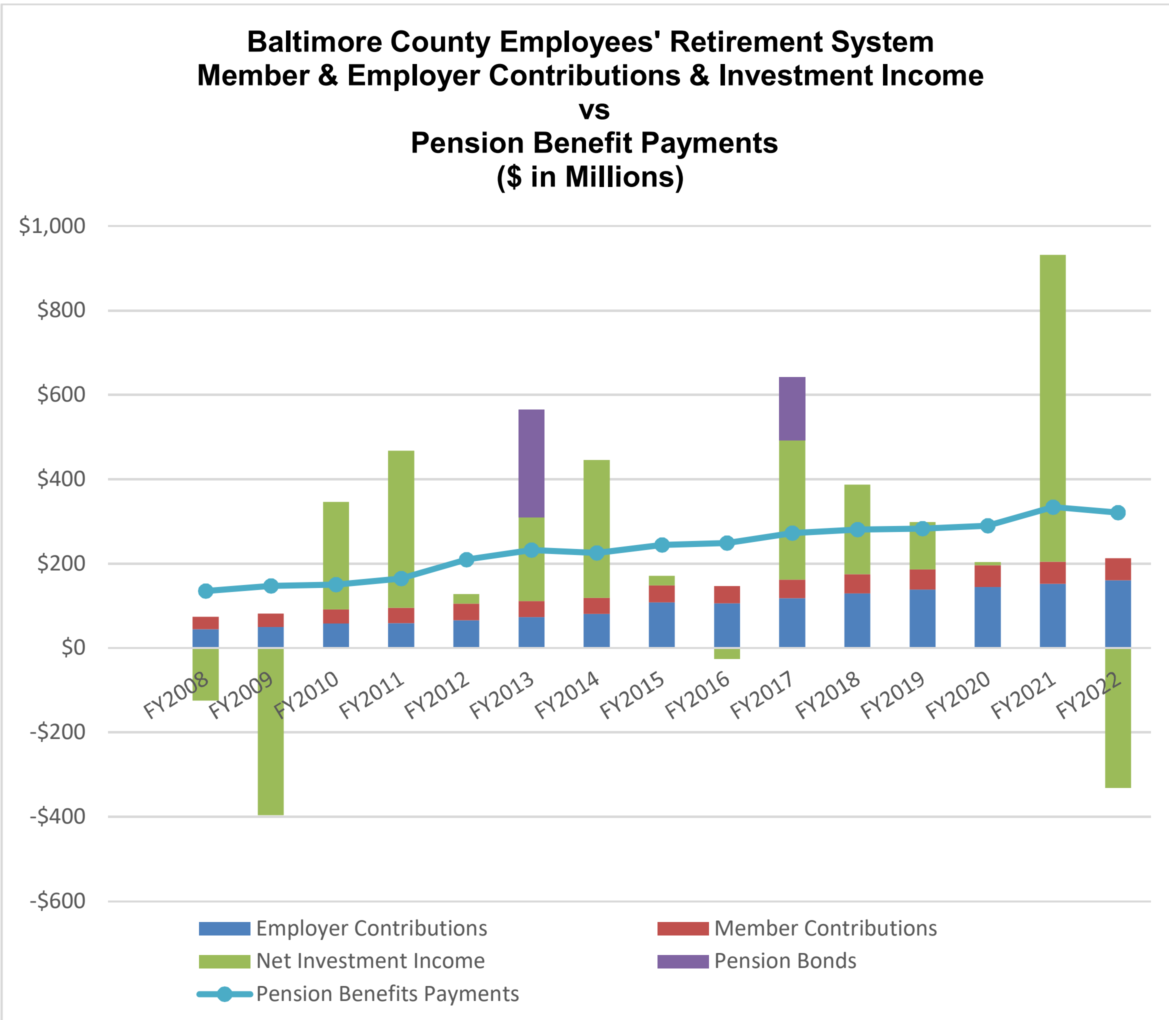
During FY 2022, the System's fiduciary net position decreased 13.7%, or $452 million, from $3.288 billion on June 30, 2021, to $2.836 billion on June 30, 2022. By comparison, during FY 2021, the System's fiduciary net position increased 21.8%, or $589 million, from $2.698 billion on June 30, 2020, to $3.288 billion on June 30, 2021.

The System's $2.836 billion fiduciary net position as of June 30, 2022 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 6.8%.



Net investment income, which increases fiduciary net position, totaled $727.3 million in FY 2021. By comparison, net investment income in FY 2022 reflected a loss of $332.0 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 $342.1 million in FY 2021. By comparison, deductions in FY 2022 totaled $332.5 million, a decrease of $9.6 million, or 2.8% from FY 2021, primarily due to a decrease in benefit payments partially offset by an increase in refunds.

System's Investment Policy

The System's investment policy as adopted by the Board in FY 2023 is shown below for the broad investment categories:

Asset Class	Allocation Target
U.S. Equities	33%
International Equities	17%
Private Equity	9%
Private Debt	5%
Fixed Income	24%
Real Estate	7%
Global Asset Allocation	5%
Cash and Cash Equivalents	0%
Total	100%

RETIREMENT AND SOCIAL SECURITY (041)

Provisions of Bill 34-23 (Scheduled for the June 5, 2023 Legislative Session)

<u>Correctional Officers' Option 7 Spousal Benefit</u>

The following agreement with the Correctional Officers was designed to be nearly cost neutral.

Effective July 1, 2023, all Pay Schedule 1-C members will contribute an additional 1% contribution to the Employees' Retirement System.

Effective July 1, 2026, all Pay Schedule 1-C members who have completed at least twenty-five (25) years of creditable service will be entitled to the Option 7 benefit, a 50% spousal benefit at no cost to the employee in retirement, provided the member meets the 36-month contribution requirement to pay for the Option 7 benefit.

A Pay Schedule 1-C member who retires between July 1, 2023 and June 30, 2026 may purchase the Option 7 benefit by paying a post-tax lump-sum equivalent of the additional 1% contributions for the period of time between their retirement effective date and July 1, 2026 based on the member's base salary at the time of retirement. The lump sum payment must be made on or before the member's retirement effective date.

A Pay Schedule 1-C member who retires on or after July 1, 2023 and selects both the DROP and the Option 7 benefit may recoup some of the additional contributions for the Option 7 benefit in the member's DROP account. In order to meet the 36-month contribution requirement to pay for the Option 7 benefit, those members who select both the DROP and the Option 7 benefit must pay a post-tax lump-sum equivalent of the additional 1% contributions to cover the portion of the 36-month requirement that was included in the member's DROP benefit. The lump sum payment must be made prior to the member's retirement effective date and will not be included in the member's DROP account.

<u>Decoupling of Physicals from the Employees' Retirement System</u>

This legislation removes the requirement for new employees to undergo a physical in order to join the Employees' Retirement System. Public Safety positions and certain safety sensitive positions in the County, as determined by the Office of Human Resources, will continue to require physicals prior to employment. However, physicals will not be a requirement for all new employees prior to joining the Retirement System, particularly for those employees who hold positions that do not require substantial physical activity.