Legislative Budget Analysis

Proposed FY 2025 Operating and Capital Budgets

Office of the County Auditor

Baltimore County, Maryland

HEARING DATE: May 6, 2024

Retirement and Social Security

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OBF Investments & Debt Management Administrator: Bob Burros

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Questions to Department Sent	Friday, April 19
Responses Received	Wednesday, April 24
Analysis considers all agency responses.	

BALTIMORE COUNTY
FISCAL YEAR 2025 BUDGET ANALYSIS

RETIREMENT AND SOCIAL SECURITY (041)

BUDGET SUMMARY

$ in Thousands

	GENERAL	SPECIAL	TOTAL	% Change Prior Year
PROPOSED CHANGE				
FY 2024 - 2025 Change	$ 19,803.6	-	$ 19,803.6	10.6%
BUDGET TRENDS				
FY 2023 Actual	$ 222,486.9	-	$ 222,486.9	
FY 2024 Approp.	186,457.9	-	186,457.9	-16.2%
FY 2025 Proposed	**206,261.5**	**-**	**206,261.5**	**10.6%**

PERSONNEL

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

For further information contact: Office of the County Auditor Phone: (410) 887-3193

RETIREMENT AND SOCIAL SECURITY (041)

BUDGET SUMMARY:

The proposed FY 2025 budget for General Government's Retirement and Social Security Contributions totals $206.3 million, an increase of $19.8 million, or 10.6% over the FY 2024 budget (as adopted), as follows.

	($ in thousands)		
	Retirement[1]	Social Security	Total
2025 Request	**$180,880**	**$25,381**	**$206,261**
2024 Appropriation	163,563	22,895[3]	186,458
$ Increase	$ 17,317	$ 2,486	$ 19,803
% Increase	10.6%	10.9%	10.6%

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

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

[3] A budget appropriation transfer totaling $1.3 million from the Contengency Reserve to Social Security is expected to be presented for Council approval on June 3, 2024.

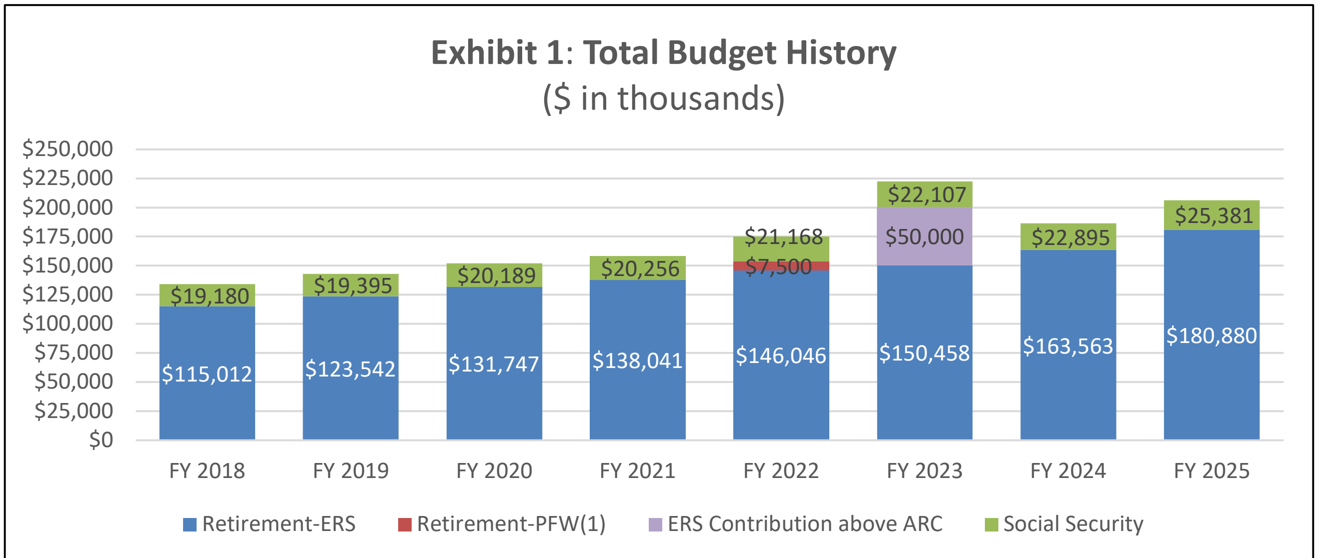
- **Retirement** - The budget increase is due to a $17.4 million increase in the General Government portion of the County's ARC to the Employees' Retirement System for FY 2025. This increase is largely driven by recent salary enhancements.
- **Social Security** - The budget increase is due to an increase in Federal Insurance Contributions Act (FICA) contributions associated with the proposed budget's higher salaries.

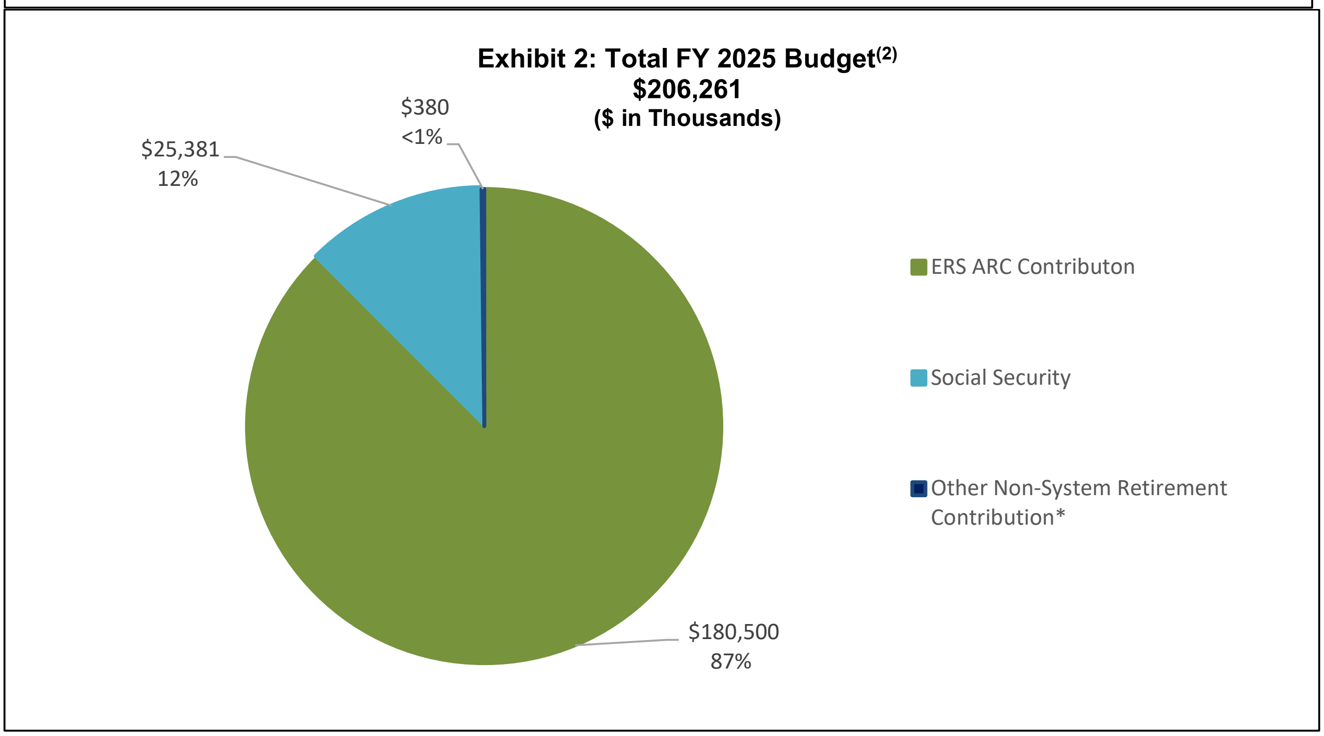
The proposed FY 2025 budget comprises 7.4% of the County's General Fund Budget.

See Appendix A for program-level expenditure/appropriation for FY 2023 (actual), FY 2024 (appropriated), and FY 2025 (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) Baltimore County Police, Fire, and Widows' Pension Plan, the defined benefit pension plan that provides pensions for "certain policemen and firemen hired prior to October 1,1959 and for their widows."

(2) 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 2025 budget for General Government Debt Service (Agency 040) includes $21,081,160 for principal and interest payments on pension funding bonds, a nominal decrease of $6,521 from the FY 2024 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)

BUDGET FLEXIBILITY:

Retirement: As is the case for FY 2025, when the proposed budget includes funding at the minimal required level, based on the actuarily determined annual required contribution (ARC), **there is no practical flexibility** surrounding the County's Retirement contributions. Rather, certain budget flexibility related to actuarial assumptions and methodologies exists during the Executive's <u>pre-submission</u> stage. In recent years, such pre-budget-submission flexibility has been legally restricted by the codification, in 2016, of the assumed rate of return on System assets at 6.375%. Otherwise, such flexibility is managed by the ERS Board of Trustees, which the Office of Budget and Finance advises/staffs, along with the County's contracted pension consultant (NEPC, LLC) and System actuary (Korn Ferry). The Board of Trustees has a fiduciary responsibility to act in the best interests of both current and future beneficiaries of the System, and accordingly is legally responsible for making financial decisions. Presently, the Board of Trustees is facing a System funded status that has dipped below 60% for the first time in at least the past several decades (the period over which this information is readily available). The Office and/or the County's System actuary should be able to speak to the present level of budget flexibility afforded by the current mix of actuarial assumptions and methodologies. The Office has advised that the County generally plans for annual ARC increases of 10%; as long as budgets do not exceed the ARC (as is the case for FY 2025), and such ARC increases are sufficient to cover the System's salary, asset, and demographic experience, the System's funded status will not decline. Over the 2016 to 2023 period, the System's funded status fell from 65.1% to 59.2% (*see Appendix C*). <u>Generally speaking, the lower the System's funded status drops (all else being equal), the less the future budget flexibility available to the County on all non-retirement-related spending.</u>

Social Security: 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.

In FY 2024, the Social Security budget is expected to experience a shortfall that will require a budget appropriation transfer (BAT) of $1.3 million from the General Fund's Contingency Reserve Program. The Office advised that higher-than-anticipated Social Security expenditures are due to a variety of factors, including a FY 2023 base that was lower than actual experience, reduced vacancies, additional overtime, higher salaries, and the higher social security wage base. For the most part, the level of budget flexibility within the Contribution to Social Security Program depends on how far below budget actual salaries fall. The less "tight" the General Fund salaries budget is in a given year, the more likely the Social Security Program budget will run an operating surplus – and vice versa.

BUDGET HIGHLIGHTS:

- FY 2025 budget increase of $19.8 million, or 10.6%, over FY 2024. The budget includes:
  - $180.5 million for the County's General Government contribution to the Employees' Retirement System, which reflects **an increase of $17.4 million, or 10.6%, to fund the Annual Required Contribution (ARC)** per the System's actuary as of July 1, 2023.
  - $25.4 million for Social Security contributions, an increase of $2.5 million, or 10.9%, associated with the proposed budget's higher salaries. Assuming the anticipated transfer from the Contingency Reserve is approved, the adjusted increase over the FY 2024 appropriation will be $1.2 million, or 4.9%.
- County-wide, including the Metropolitan District, the component units (BCPS, CCBC, BCPL), and the Baltimore County Revenue Authority, the ARC for FY 2025 totals $199.3 million, an increase of $19.7 million, or 10.9%, over the FY 2024 ARC. The County is required to make its full annual pension payment under County law *(see Exhibit 3, page 7).*
- The County's actuary estimates that the **planned salary enhancements** included in the proposed FY 2025 budget and personnel bill will cause the following fiscal impacts on the Employees' Retirement System *(see #4, pages 12-13)*:
  - **an $8.4 million increase to the County's ARC for FY 2026**, with $4.7 million attributable to Police, $2.2 million attributable to Fire, $0.9 million attributable to General Government, $0.4 million attributable to BCPS and CCBC, and $0.2 million attributable to Corrections
  - **more than $89 million of cumulative increases to the ARC over the next ten years**
  - **a 0.6 percentage point reduction to the System's funded status next year** - instead of rising to 59.3%, the System's funded status would fall to 58.7%
- **No COLA for eligible retirees on July 1, 2024** *(see #2, pages 9-10).*
- The System's financial condition *(see #3, pages 10-12)*:
  - The **funded status** as of July 1, 2023 was **59.2%,** lower than the 60.2% funded status as of July 1, 2022, 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 9,422 active members and 8,589 retirees (a ratio of 1.10 to 1) as of June 30, 2023.

  - During FY 2023, the System's **fiduciary net position** increased 3.6%, or $101 million, from $2.836 billion on June 30, 2022, to $2.937 billion on June 30, 2023. Specifically, while the System experienced a net investment decline of $331.9 million in FY 2022, in FY 2023 the System's net investment income totaled $195.6 million, increasing its fiduciary net position.
  - 32.6% of System investments are currently indexed, compared to 27.5% one year ago.
- **Return on Investments** *(see #3, page 10-12):*
  - For FY 2023, the overall System portfolio, calculated using a time-weighted rate of return methodology, returned 7.3% gross of fees, ranking in the 80th percentile (well below the median) of the Investment Metrics Universe of Public Funds.
  - For CY 2023, the System experienced a 12.4% gross-of-fee return on investments, ranking in the 63rd percentile (below the 13.2% median).
  - From CY 2014 to CY 2023, the System experienced a 6.1% gross-of-fee return on investments, ranking in the 77th percentile (below the 6.7% median).
- **Recent Changes to Retirement Benefits** *(see #4, page 13):*
  - Plan changes approved by Bill 34-23 account for $0.1 million of the $19.7 million increase in the County's ARC for FY 2025 and increase the County's unfunded accrued liability by $1.2 million.
- **Anticipated Changes to Retirement Benefits** *(see #4, page 13):*
  - Retirement eligibility for certain firefighters will change from age 60 with 10 years of creditable service to age 55 with 10 years of creditable service.
  - The benefit formula for certain deputy sheriffs will change.

TOPICS FOR DISCUSSION:

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

Annual Required Contribution (ARC)

The proposed FY 2025 General Fund budget includes $199.3 million to support the ARC, an increase of $19.7 million, or 10.9%, over the FY 2024 budget as follows: a General Government contribution of $180.5 million reflects a $17.4 million increase; the remaining $18.8 million contribution is included in the respective budgets of BCPS ($12.1 million), CCBC ($345 thousand), BCPL ($141 thousand), the Metropolitan District ($5.7 million), and the Revenue Authority ($471 thousand), and reflects a $2.3 million increase.

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

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

	FY 2024 Budget	FY 2025 Budget	FY 2024 - FY 2025 Increase/(Decrease) Amount	%
Retirement Program (041)				
Regular County Employees	$ 33,453	$ 35,080	$ 1,627	4.9%
Police	84,475	94,412	9,937	11.8%
Firefighters	39,508	44,390	4,882	12.4%
Correctional Officers and Deputy Sheriffs	5,714	6,618	904	15.8%
Total Retirement Program (041)	163,150	180,500	17,350	10.6%
Public Schools (035)	10,170	12,144	1,974	19.4%
Community College (033)	385	345	(40)	-10.4%
Libraries (037)	107	141	34	31.7%
Total County Contribution - General Fund	173,813	193,130	19,317	11.1%
Metro Contribution	5,446	5,711	*265*	*4.9%*
Revenue Authority Contribution	386	471	85	*22.2%*
Total Annual Required Contribution	***$ 179,644***	***$ 199,312***	***$ 19,668***	***10.9%***

SAC Policy to Encourage Increasing Greater System Contributions

In recent years, the Council's Spending Affordability Committee (SAC) has stated that improving the System's funded status should be a top budget priority. Accordingly, the Committee has approved exclusion opportunities to allow the Administration to infuse above-the-ARC 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%. The Administration did not utilize the exclusion opportunity to provide any over-the-ARC funding for FY 2024 or FY 2025. 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 $214 million in FY 2025, or 7.7% of the FY 2025 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.

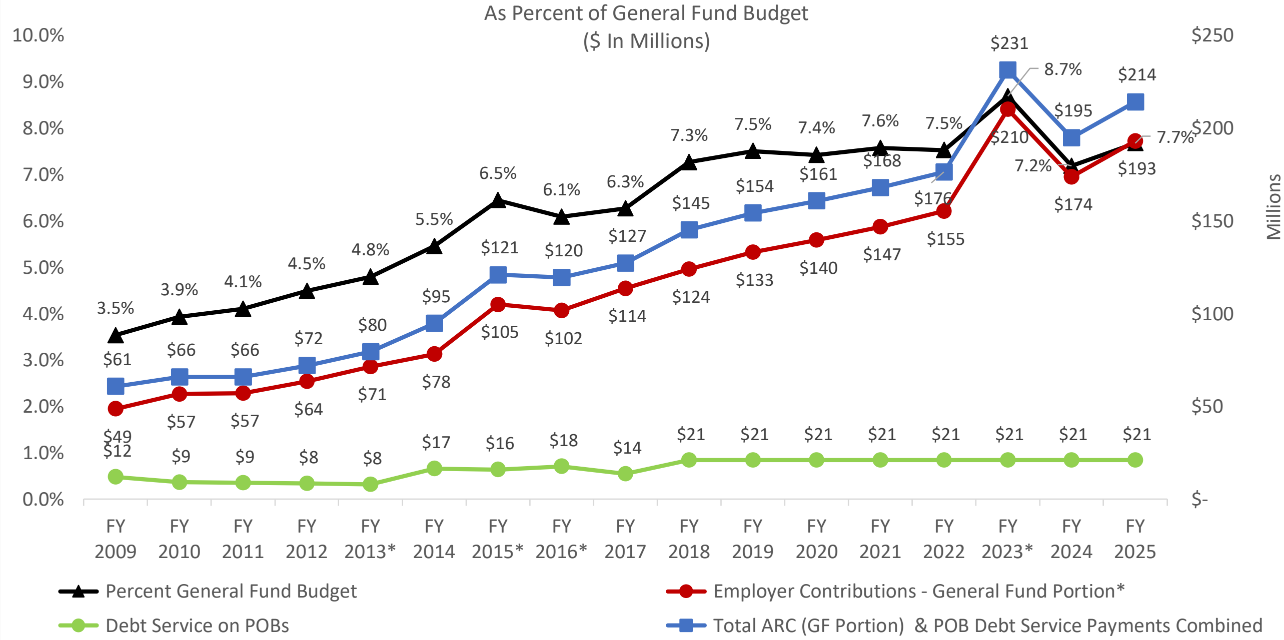


Exhibit 4
Employer Retirement System Contributions & Debt Service Payments on Pension Funding Bonds
As Percent of General Fund Budget
($ In Millions)

* 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 contri

<u>Looking Ahead</u>

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 $238.1 million in the next six years, an increase of $38.8 million, or 19.5%, over the FY 2025 ARC. The County will need to weigh and balance its other priorities 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 the County's options for meeting the demands of the County's increasing ARC over the next five years.

2. No COLA for Retirees on July 1, 2024

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 PRIF balance of $30,448,072 as of December 31, 2022 was sufficient to cover the estimated cost of a 1.25% increase in retirement allowances. Therefore, effective July 1, 2023, eligible retirees received a 1.25% COLA.

Following the transfer of $25,845,771 to fund the July 1, 2023 COLA, the PRIF account balance fell to $4.6 million. The System's geometric average rate of return for the 5 years ending with calendar year 2023 totaled 7.3%, producing excess investment returns of 0.3%, or $8.7 million, to transfer to the PRIF account, increasing the PRIF account balance from $4.6 million to $13.3 million at the end of CY 2023.

The increase in the CPI-U from December 2022 to December 2023 was equal to 3.4%. The County is required, subject to the availability of funds in the PRIF account, to grant a 3% COLA, effective July 1, 2024, to eligible beneficiaries of the System. The estimated cost of the 3% increase in retirement allowances (for eligible retirees[1]), effective July 1, 2024, is $63,363,778, and the estimated cost of a 1% increase in retirement allowances, effective July 1, 2024, is $21,121,259. The PRIF balance of $13,294,871 as of December 31, 2023 is not sufficient to cover the cost of a 1% increase in retirement allowances. Therefore, no increase in retirement allowances will be granted on July 1, 2024.

The Office should be prepared to discuss the impact of the two recent COLAs for retirees on the County's ARC and the System's liability.

3. System's Financial Condition and Investment Policies

During FY 2023, the System's fiduciary net position increased 3.6%, or $101 million, from $2.836 billion on June 30, 2022, to $2.937 billion on June 30, 2023.

- **Net investment income**, which increases fiduciary net position, totaled $195.6 million in FY

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.

2023. 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 $332.5 million in FY 2022. By comparison, deductions in FY 2023 totaled $366.1 million, an increase of $33.6 million, or 10.1% over FY 2022, primarily due to an increase in benefit payments slightly offset by a small decrease 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 7.3% gross of fees for FY 2023, ranking in the 80th percentile (well below the median) of the Investment Metrics Universe of Public Funds for the fiscal year. Contributing to these returns were: US Equities 16.2%; International Equities 14.4%; Fixed Income 3.0%; Emerging Market Equity 9.0%; GAA Composite 0.0%; Real Estate 16.7%; Private Equity 0.4%; Private Debt 3.2%; and Cash 3.9%. By comparison, the System's gross-of-fee return on investments for FY 2022 was -9.9%.

The System experienced a 12.4% gross-of-fee return on investments for CY 2023, 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 2022 was 13.2%. From a longer-term perspective, the System experienced an 6.1% gross-of-fee return on investments from CY 2014 to CY 2023, which ranked in the 77th percentile of the Investment Metrics Universe of Public Funds. By comparison, the median gross-of-fee return on investments from CY 2014 to CY 2023 was 6.7%.

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:

- 32.6% of System investments are currently indexed, an increase from the 27.5% that have been indexed for the last two years; and

- The consultant has not recommended any asset allocation changes to the Board in recent months.

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

<u>Other System Financial Highlights</u>

- The actuarial accrued liability increased by $156.0 million to $5.158 billion during FY 2023.
- The funded status as of June 30, 2023 was 59.2%, lower than the 60.2% funded status as of June 30, 2022, 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 9,422 active members and 8,589 retirees (a ratio of 1.10 to 1) as of June 30, 2023. 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, 2023 was 306.3%. As of June 30, 2022, this measure was 297.0%. (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;***
- ***The System's investment policies; and***
- ***How the County's increased reliance on contractors has affected the maturation ratio of the System.***

4. Legislation and Proposed Changes

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

- <u>Salary enhancements</u>, 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 52% of the $19.7 million increase in the County's ARC for FY 2025 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 $90.8 million.

- <u>The proposed salary enhancements</u> will continue to drive increases in the County's ARC. Assuming that general government employees receive a 2.25% COLA, police officers receive a 3.5% COLA, firefighters receive a 4.5% COLA, and correctional officers and deputy sheriffs receive a 3.0% COLA, the County's actuary estimated that the proposed enhancements would result in an $8.4 million increase to the County's ARC for FY 2026, with $4.7 million attributable to Police, $2.2 million attributable to Fire, $0.9 million attributable to General Government, $0.4 million attributable to BCPS and CCBC, and $0.2 million attributable to Corrections. Instead of rising to 59.3%, the System's funded status would fall to 58.7% next year. Over the next ten years, total increases to the ARC resulting from the proposed COLAs are expected to reach $89.7 million, and at that time the actuarial accrued liability is expected to be $109.3 million higher than if the proposed COLAs had not been granted.
- <u>Bill 34-23,</u> approved by the Council June 5, 2023, which:
    - Provided 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 was designed to be nearly cost-neutral to the County through the additional employee contribution.
    - Removed the requirement for new employees to undergo a physical examination in order to join the Employees' Retirement System.
    - The County's actuarial consultant indicated that these recent plan changes account for $0.1 million of the $19.7 million increase in the County's ARC for FY 2025 and increase the County's unfunded accrued liability by $1.2 million.
- <u>Anticipated changes to retirement benefits,</u> including changing the retirement eligibilty for certain firefighters from age 60 with 10 years of creditable service to age 55 with 10 years of creditable service, changing the benefit formula for certain deputy sheriffs, and changing the accidental disability benefit for certain police officers, would impact the County's ARC beginning in FY 2026, according to the Office of Budget and Finance.

The Office should be prepared to discuss the anticipated legislation planned for FY 2025 that will impact the Employees' Retirement System and the associated fiscal impacts.

RETIREMENT & SOCIAL SECURITY (041)

APPROPRIATION DETAIL

	FY 2023 ACTUAL	FY 2024 APPROP	FY 2025 REQUEST	NET CHANGE AMOUNT	NET CHANGE %
4102 Employees' Retirement Cont.	$ 200,106,891	$ 163,150,267	$ 180,500,283	17,350,016	10.6%
4107 Social Security Contribution	22,036,306	22,895,000 [1]	25,381,000	2,486,000	10.9%
4109 Non-System Retirement	343,702	412,680	380,200	(32,480)	-7.9%
General Fund Total	$ 222,486,899	$ 186,457,947	$ 206,261,483	$ 19,803,536	10.6%

[1] A budget appropriation transfer totaling $1.3 million from the Contingency Reserve to Social Security is expected to be presented for Council approval on June 3, 2024.

RETIREMENT & SOCIAL SECURITY (041)

PERSONNEL DETAIL

	FY 2023 ACTUAL		FY 2024 APPROP		FY 2025 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)

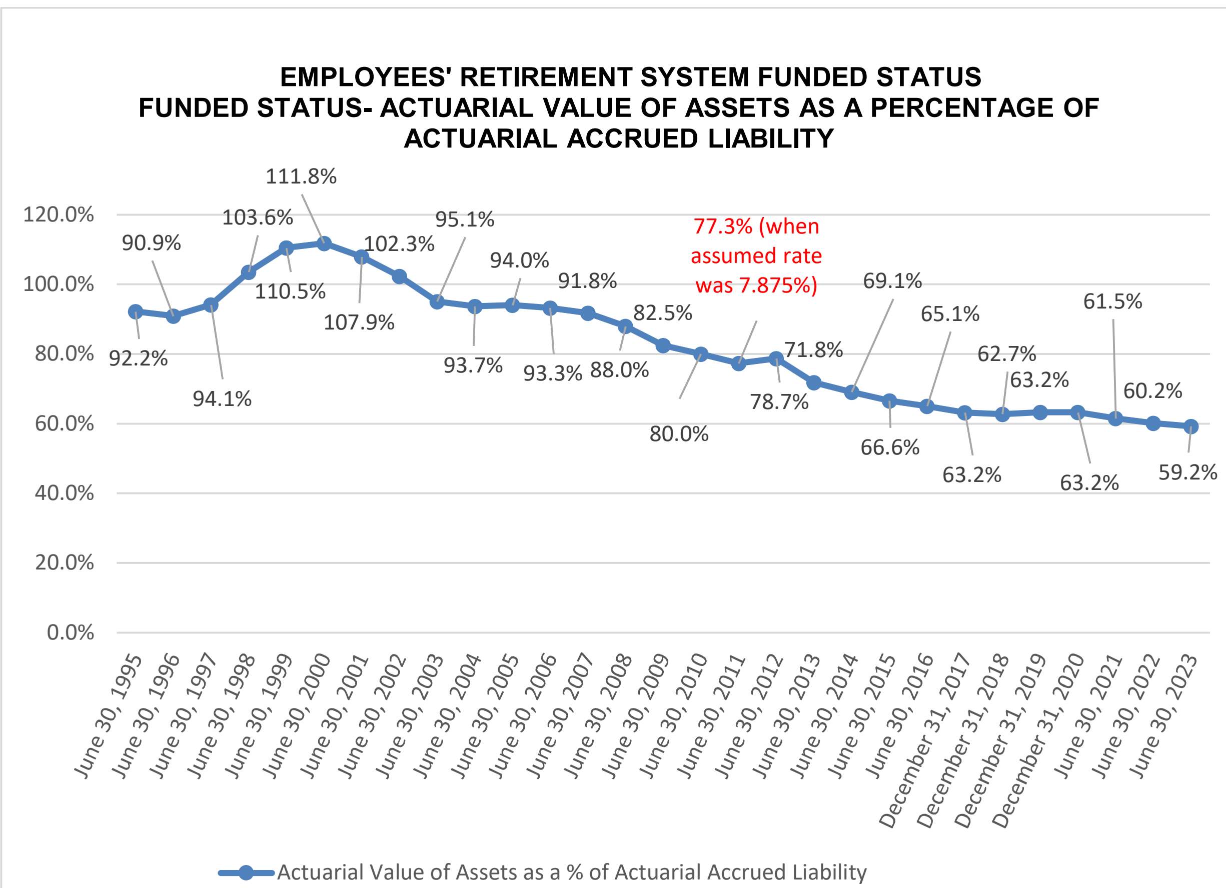
Employees' Retirement System Measures

<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, 2023 was 59.2%, 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:

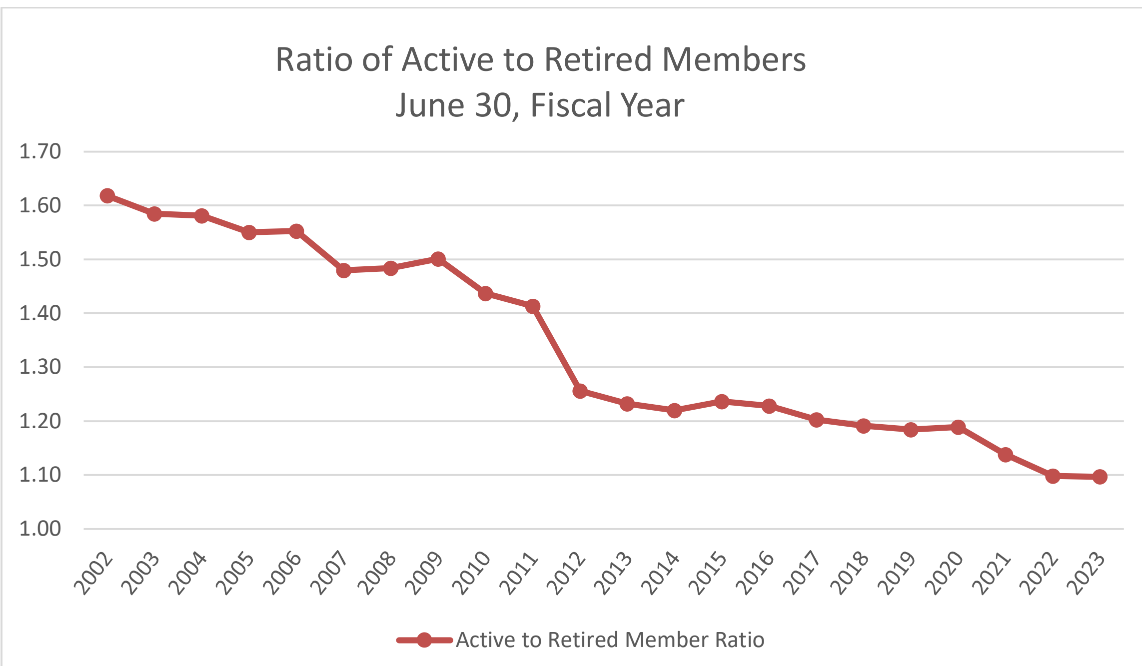
- July 10, 2012 – from 7.875% to 7.25%
- April 8, 2014 – to 7.0% (as of June 30, 2013)
- March 8, 2016 – to 6.75% (as of June 30, 2015)
- July 12, 2016 – to 6.375% (effective immediately upon enactment)



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.

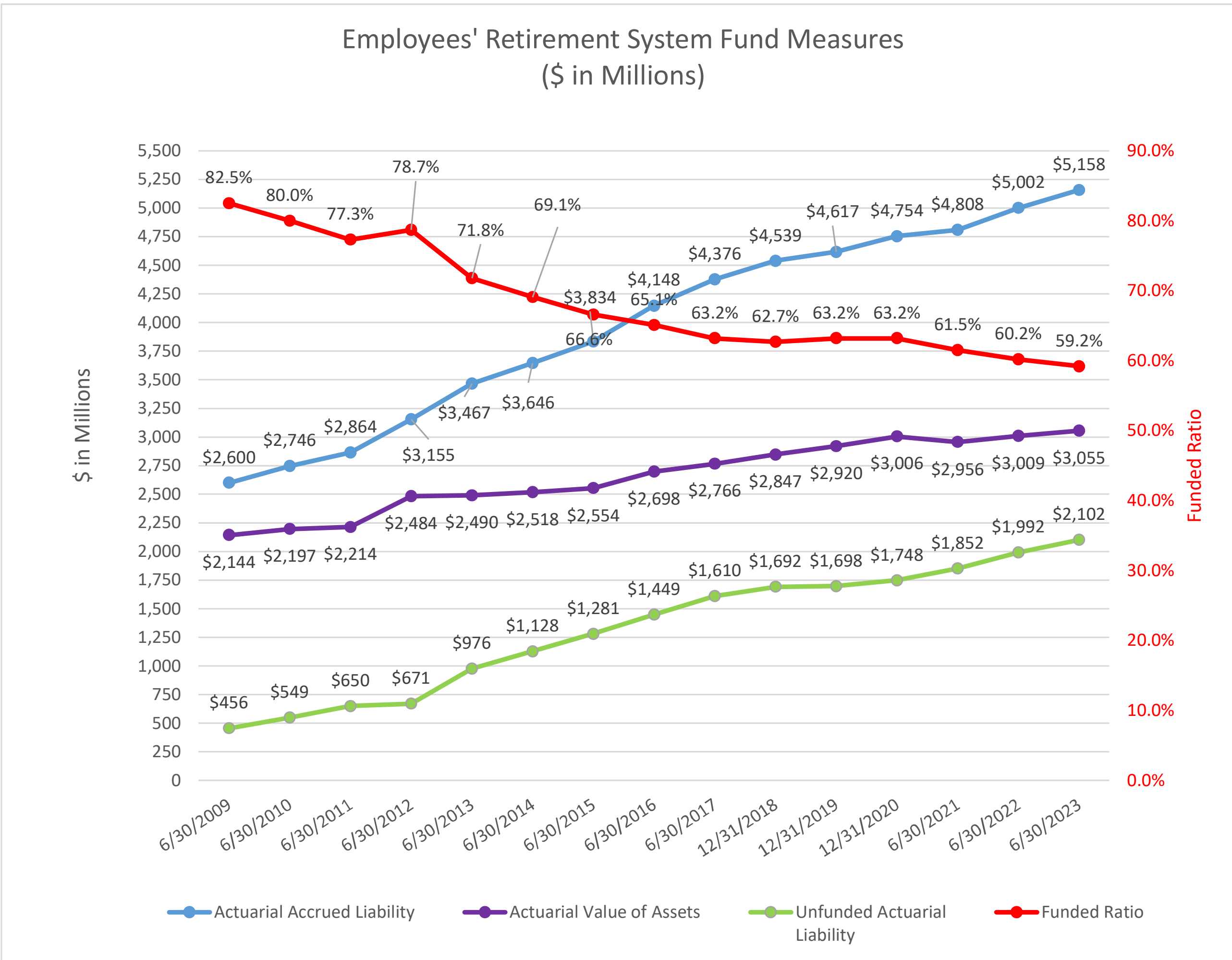
Unfunded Actuarial Accrued Liability as a Percentage of Annual Covered Payroll

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 9,422 active members and 8,589 retirees (a ratio of 1.10 to 1) as of June 30, 2023. 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 15, 2024, 163 employees have retired in FY 2024.



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.



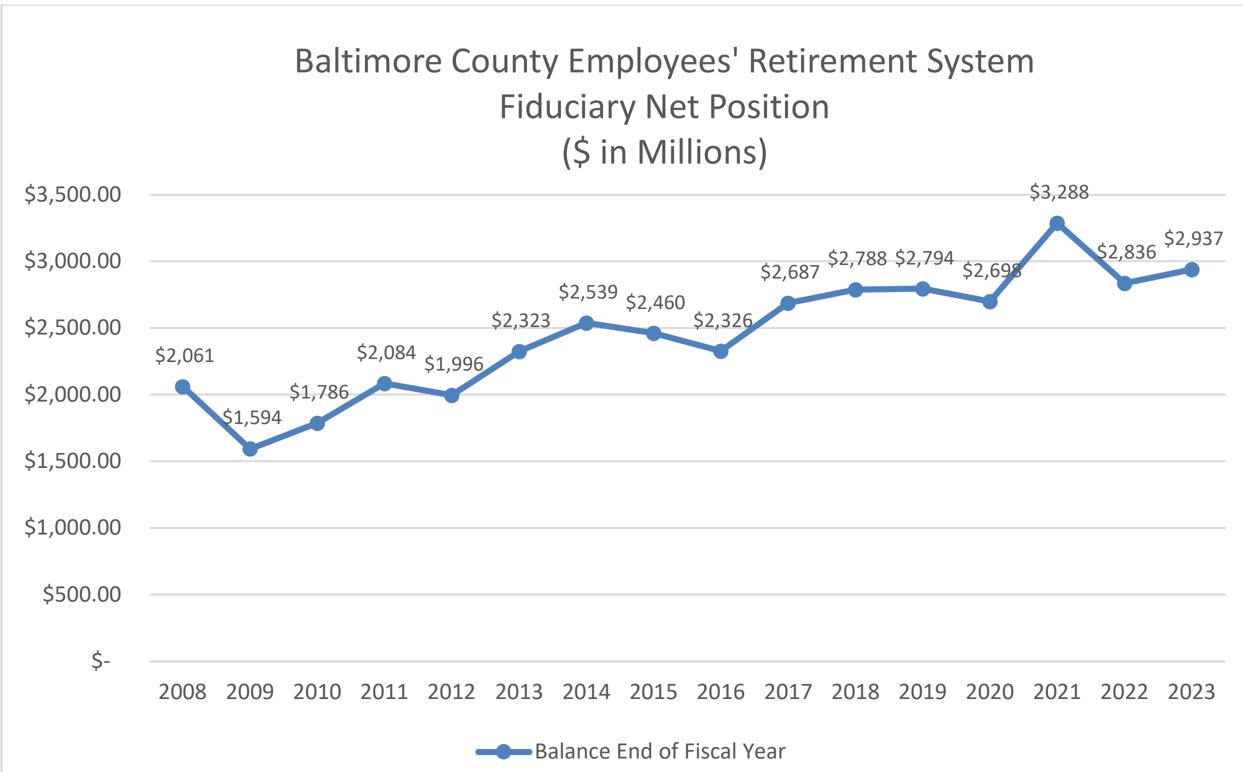
Actuarial Valuation

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.



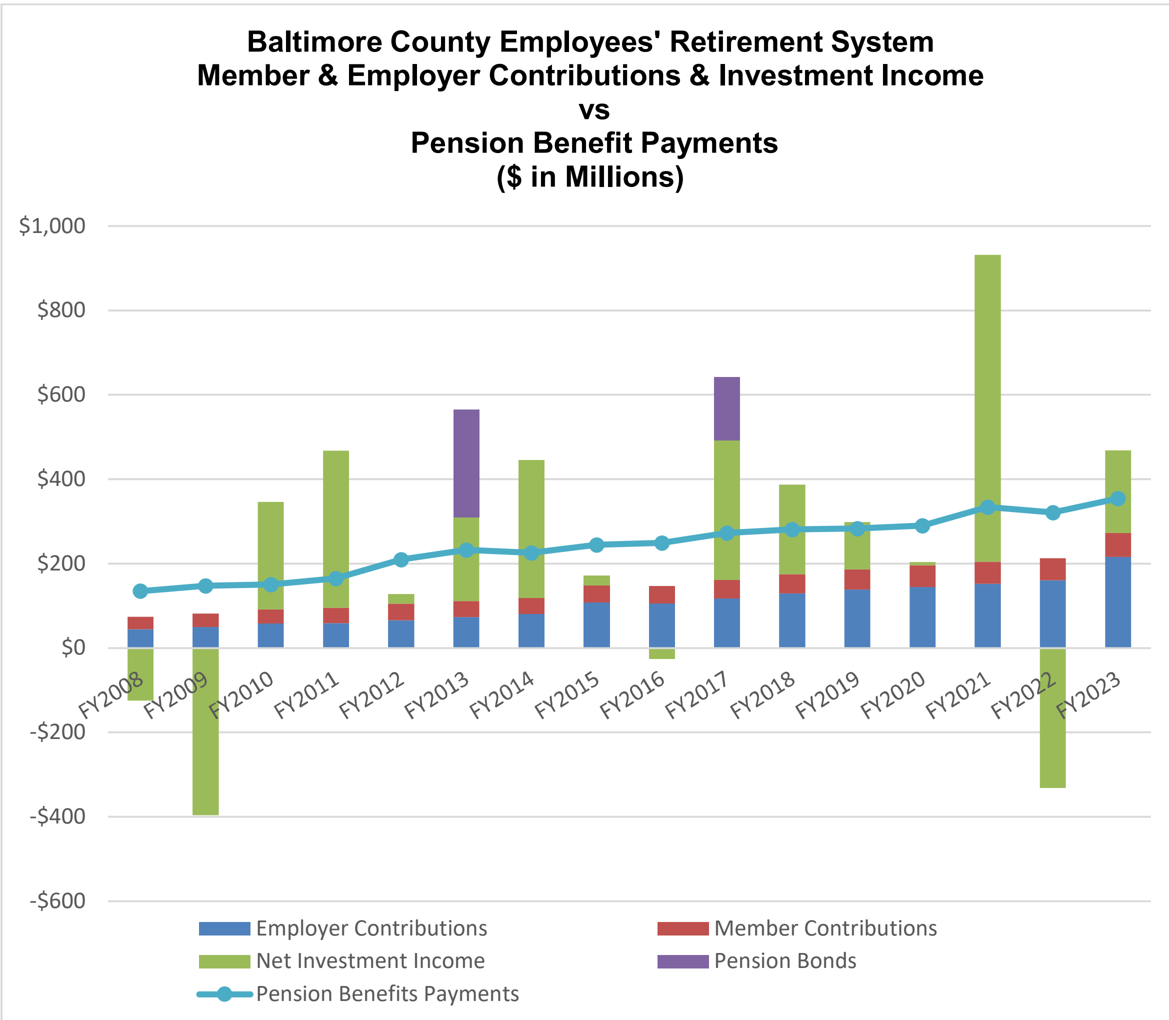
During FY 2023, the System's fiduciary net position increased 3.6%, or $101 million, from $2.836 billion on June 30, 2022, to $2.937 billion on June 30, 2023. By comparison, during FY 2022, the System's fiduciary net position decreased 13.7%, or $452 million, from $3.288 billion on June 30, 2021, to $2.836 billion on June 30, 2022.

The System's $2.937 billion fiduciary net position as of June 30, 2023 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 more than doubled since FY 2011, reflecting average annual growth of approximately 6.9%.



Net investment income, which increases fiduciary net position, totaled $195.6 million in FY 2023. 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 $332.5 million in FY 2022. By comparison, deductions in FY 2023 totaled $366.1 million, an increase of $33.6 million, or 10.1% from FY 2022, primarily due to an increase in benefit payments.

RETIREMENT AND SOCIAL SECURITY (041)

System's Investment Policy

The System's investment policy as adopted by the Board as of June 30, 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%