

Roselyn H. Spencer

FROM	NAME & TITLE	Roselyn H. Spencer, Executive Director
	AGENCY NAME & ADDRESS	EMPLOYEES' & ELECTED OFFICIALS' RETIREMENT SYSTEMS 7 E. Redwood Street, 12th floor
	SUBJECT	<i>ERS Response to Committee's 6/7/13 request for additional information re Council Bill 13-0223</i>

CITY of
BALTIMORE
MEMO



DATE: 6/11/13

TO

The Honorable President & Members of the City Council
Attention: Karen Randle, Executive Secretary
Room 400 City Hall

Background:

At the May 23, 2013 hearing on Council Bill 13-0223, the Committee requested that ERS provide additional information concerning the ERS Board's comments on the Bill specifically regarding improvement in the ERS benefit accrual rate.

In its report to the Council, the Board suggested that the Council consider a modest adjustment to the ERS benefit structure in light of the proposed addition of a mandatory employee contribution. We currently provide a basic benefit accrual of 1.60% of final average pay for most City employees for each year of service, with no employee contribution.

The Bill establishes an employee contribution of up to 5% of pay, with that contribution rate phasing in over 5 years. At a 5% employee contribution, Cheiron, Inc., the ERS actuary, estimates that the benefit accrual rate could be increased to as much as 1.92% and still be cost neutral to the City.

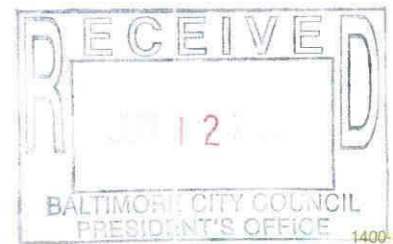
Recommendation for a Winning Outcome:

Based upon the analysis completed by the Board's actuary, Cheiron Inc., the Employees' Retirement System (ERS) Board respectfully suggests that the prospective benefit accrual rate be raised to 1.80% of final average pay for each year of service after the Bill is enacted. Then once a participant has 30 or more years of service they will accrue at the 1.85%.

This is in lieu of the current benefit structure that provides a benefit accrual rate of 1.60% of pay up to covered compensation for service up to 30 years plus 1.85% of pay for service in excess of 30 years. This would produce cost savings for the City while at the same time providing additional benefits prospectively for employees as a reflection of the employee contribution.

This modest increase in the benefit accrual rate would produce a winning outcome, in that the City achieves most of the anticipated cost savings over the years, while establishing cost sharing by the ERS members.

At this rate, the ERS member contributions at 5% will provide a crucial source of retirement security, while allowing the City to realize material cost savings of approximately \$21.2 million per annum in year five and thereafter.



F/A

Additional Cost Savings to the City

- Elimination of the variable increases: Based on the July 1, 2012 actuarial valuation analysis estimates, the total lump sum cost to the City could be reduced by 2.9% of pay.
- Job Elimination subsidy: The current City policy allows an ERS member to receive immediate unreduced benefits if they are removed from office after 20 years of service due to no personal fault. If the job elimination subsidy is removed the total cost savings to the City is 0.2% of pay.

Conclusion:

The total impact of eliminating the variable increase, removing the job elimination subsidy, and increasing the benefit accrual rate to 1.80% at a 5% employee contribution rate is estimated to be \$22 million per annum in cost savings to the City.

As stated during the council hearing on May 23, 2013, the ERS Board is in full support of Council Bill 13-0223, with respectful consideration of the amendments herein proposed, specifically the consideration to increase the ERS benefit accrual rate by the modest amount stated above to avoid a full reduction of benefits as a result of member contributions.

RHS/dsb

CC: Angela Gibson, Mayor's Legislative Liaison to the City Council
Kym Nelson, Mayor's Deputy Chief of Staff
Joan Pratt, City Comptroller, ERS Board Chair
Deborah Moore-Carter, Labor Commissioner
Harry Black, Director of Finance
Avery Aisenstark, Dept. of Legislative Reference
Ken Kent, Cheiron, Inc.
George Nilson, City Solicitor