

Roselyn H. Spencer

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	AGENCY NAME & ADDRESS	EMPLOYEES' & ELECTED OFFICIALS' RETIREMENT SYSTEMS 7 East Redwood Street, 12 th Floor
	SUBJECT	Amendments to City Council Bill 10-0520 Baltimore Benefits Commission - Membership

CITY of
BALTIMORE
MEMO



DATE: August 9, 2010

TO

The Honorable Bernard Jack Young,
President of the City Council
Room 400 City Hall

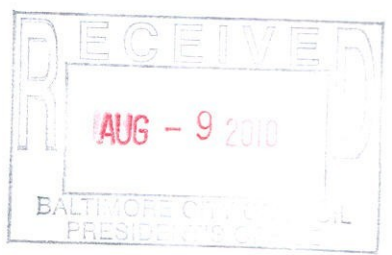
The Board of Trustees of the Elected Officials' Retirement System (EOS/The Board) has reviewed Council Bill 10-0520, which proposes to make the following amendments to certain provisions of the Elected Officials' Retirement System's law as set forth in Article 22 of the Baltimore City Code:

Bill Summary

The proposed legislation would, among other things, change normal retirement requirements from 12 years of service and age 50 to 12 years of service and age **55**, and from 16 years of service regardless of age to 16 years of service and age 50. In addition, the legislation proposes an increase in the service retirement benefit from 2.5% of current annual earnable compensation (as defined) to 2.8%; cap the service retirement benefit at 65% for persons who first become members of the system on or after July 1, 2010; and increases the required member contribution from 5% to 7% of compensation .

The Board of Trustees of the Elected Officials' Retirement System supports Council Bill 10-0520, and respectfully request that the following amendments be adopted in the bill:

1. **Define the regular interest for accumulation of member's contributions to mean 5.0% per annum compounded annually**, effective on or after January 1, 2011. This is a change from the current 5.5%.
2. Change the **date for all retirement to fall on the first day of a month**. EOS retiree benefits payments are currently paid monthly by dividing the annual allowance by 12. This change is recommended to facilitate plan administration process.
3. Council Bill 10-0520 increases the EOS benefit accrual rate from 2.5% to 2.8% for each year of service, without specifically limiting the change to future service credits. The Board recommends that the change in accrual rate from 2.5% to 2.8% be applied **prospectively only; so that the 2.8% of the member's current annual earnable compensation is applied to years of service credit earned after January 1, 2011**. For service credits earned through December 31, 2010, the 2.5% accrual rate will be applied.



4. **Amend the deferred vested retirement benefit language**, so that a member who leaves his or her accumulated contribution with regular interest with the EOS while the member is no longer in office; will be entitled to received a deferred vested retirement benefit provided the member meet the age and service retirement benefit eligibility requirement of 12 years of service and at least age 55 or 16 years of service and at least age 50.
5. Council Bill 10-0520 proposes increasing the required member contribution from 5% of compensation to 7%. To offset plan liabilities and strengthen the plan's long term sustainability, the **Board proposes an increase from the proposed required member contribution of 7% of compensation to 8%** effective after December 31, 2010.
6. **Remove language relating to separate accounting for the EOS assets in separate funds including: the Annuity Savings Fund, Annuity Reserve Fund, the Pension Accumulation and the Pension reserve funds.** These funds were products of prior actuary practices, and are considered obsolete and no longer required. The change is also recommended to remove extra accounting, facilitate plan administration and simplify plan terms. Similar revisions to the Employees' Retirement System were made in 2007.
7. **Establish a Cost of Living Adjustment, (COLA) provision for retiree's post-retirement benefits that is the same as those provided for ERS retirees**, instead of being tied to the pay increase rates for active elected officials. The total COLA will consist of a guaranteed and a non-guaranteed earnings increase not to exceed the previous year's Consumer Price Index (CPI). The recommendation also provides that the current post-retirement benefit increase provisions will sunset at the close of business December 31, 2010.
8. **Remove restrictive language on ERS and EOS investments in respect to Northern Ireland.** This change is recommended because of the improvements in the region, and the Board's belief that these provisions are no longer needed from a policy perspective and that it restricts the Plan's investment activity in the international arena.
9. The proposed legislation also includes various technical amendments to the EOS bill which will allow for conformity; to modernize and clarify the EOS laws allowing for a smooth administration of the system.
10. Finally, the ERS Board recommends that the provisions of the proposal Bill be made severable, and that the bill take effect on the date of its passage.

Cost Impact

Implementing the changes proposed in Council Bill 10-0520 along with all of the above Board recommendations would dramatically improve the financial health of the plan for the long term sustainability. Based upon the actuarial cost analysis, the changes will result in a prodigious improvement in the plan funding status. Once implemented, we expect that the current 84% funding status will improve significantly to a fully funded status and possibly overfunded. The proposed combined changes will reduce the City cost resulting in lower or no City contributions for the first few years after implementation.

RHS/dsb

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