


FROM	NAME & TITLE	Harry E. Black, Director <i>HJB</i>	CITY of BALTIMORE <b>MEMO</b>	
	AGENCY NAME & ADDRESS	Department of Finance Room 454, City Hall (396-4940)		
	SUBJECT	<b>City Council Bill #13-0248 – Employees’ and Elected Officials Retirement Systems – Actuarial Funding Method and Clarifications</b>		

TO

DATE:

October 23, 2013

Honorable President and  
Members of the City Council

This bill changes the Employees’ Retirement System (ERS) and Elected Officials’ Retirement System (EOS) Plans. The bill bases future ERS and EOS valuation on a new actuarial method, requires the City’s employer contribution amount certified by the Board of Trustees to be due on July 1 of the ensuing fiscal year and clarifies a provision of the law related to deferred vested benefits.

Since 1988, the ERS and EOS actuarial funding method used by the Systems is the projected unit credit costing method. The projected unit credit method attempts to fund the “true” cost of benefits as it accrues. This creates lower costs early in an employee’s career and higher costs as the employee nears retirement. For Plan year 2012, the systems moved to the entry age normal costing method. This method attempts to create level contributions throughout the working career of the employee. As a result of the change in actuarial funding method, other changes made by the systems last year (reducing the return assumption for funding purposes to 7.75% for active members and 6.55% for retired members, changing the funding policy for amortizing the unfunded actuarial liability over a fixed 20 year period) and actuarial investment losses of \$49.1 million, the unfunded actuarial liability for the plan increased from \$530.2 million in FY2011 to \$681.6 million in FY2012. The proposed language memorializes a change that has already occurred. The Department of Finance takes no position on this portion of the proposed legislation.

In addition to the funding method, the legislation changes the certification of appropriation requirements. This change requires the City make an annual contribution to the systems on July 1 of each fiscal year. The Department of Finance opposes the changes to the proposed language in section 8 (c). While the Finance Department is compelled to pay the annual contribution amount as close to July 1 as possible in order to maximize the interest earnings on the annual contribution amount, there is no legal or accounting requirement that mandates the City pay the annual contribution on the first day of the fiscal year. The Finance Department requests Council maintain the current language in the City code so that the City may retain the flexibility to defer payment if the funds are not available on July 1 of the fiscal year. For this reason, the Department of Finance opposes this change to the Retirement Systems code.

The Department of Finance takes no position on the change to the language regarding deferred retirement benefits.

