FROM

NAME & TITLE: David A. Randall, Executive Director

AGENCY NAME & ADDRESS: Employees', Elected Officials', Retirement Savings Plan Systems – 7 E. Redwood Street, 12th floor

SUBJECT: **City Council Bill 22-0292 Elected Officials' Retirement System – Benefits – Eligibility**

CITY OF BALTIMORE

MEMO

TO

DATE: November 1, 2022

The Honorable President and Members of the City Council
Attn: Natawna B. Austin, Executive Secretary
Room 409, City Hall
100 N. Holliday Street

Dear Mr. President and City Council Members:

City Council Bill 22-0292 was referred to the Employees' and Elected Officials' Retirement System for comment. The bill's stated purpose is for modifying certain provisions of the Elected Officials' Retirement System of the City of Baltimore relating to eligibility for service retirement benefits and deferred vested benefits; making the Ordinance contingent on the ratification of a certain City Charter amendment by a certain date; and providing for a special effective date.

The bill was provided to Cheiron, Inc., the Systems' Actuary, and their estimated cost analysis is attached for your review. The Board's role is to exercise due diligence and fiduciary responsibility over system assets. As such, the Board was not provided enough time to conduct a comprehensive review to determine long-term effects of the bill on the EOS plan.

Cheiron's report indicates an increase of approximately 3% from $318,711 to $328.374 to the annual pension cost. Based on the FY2022 actuarial valuation, the System's funding status is 142%. Because the funding status is well above 100%, there is no current cost to the City. The bill and market conditions have the potential to reduce the funding status to below 100%, at which time there will be a cost to the City. The future normal cost will continue to be at the increased levels. Going forward, the actuarial liability will continue to increase due to an earlier 8-year vesting period.

While it may not be unconstitutional, it is highly unusual for elected officials to enhance their benefits while in term. With all the above in mind, the Board OPPOSES the bill, in its current form.

Additionally, we are requesting adequate time to provide a full comprehensive cost analysis as it pertains to the City and the Elected Officials' Retirement System. Based on our findings, we will provide recommendations for cost-effective alternatives to this proposed bill.

If you have any questions, I can be reached at 443-984-3180.

DAR/dsb
Attachment: Cheiron estimated cost analysis
CC: Deborah Moore-Carter, ERS Board Chair
Nichelle Lashley, Deputy Director
Matt Stegman, Nikki Thompson, Nina Themelis

Via Electronic Mail

November 1, 2022

Mr. David Randall
Executive Director
Baltimore City Retirement Systems
7 East Redwood Street, 12th Floor
Baltimore, MD 21202

Re: Elected Officials' Retirement System of Baltimore
Proposed Council Bill - Change in Eligibility

Dear David:

At your request, we are writing to provide the cost analysis of changing the vesting eligibility for active members of the Elected Officials' Retirement System of Baltimore (EOS) as written in the proposed Council Bill provided to us. The proposed Bill changes the eligibility for a vested benefit, for active members that were hired on or after December 6, 2016 or are members as of December 1, 2022, from 12 years to 8 years of service. This is in line with the introduction of a 2-term limit for Baltimore City elected officials who cannot hold office for more than 8 years during any 12-year period. Eligibility to start collecting a retirement benefit still remains at age 55.

It is our understanding the active membership for EOS is expected to remain fixed at 17 members based on the number of elected officials. To the extent that the age, service and salary profile remains similar amongst new active members, the annual cost of accrual of benefits, i.e., the normal cost as a percent of pay is expected to remain level from year to year. However, reducing the vesting period from 12 years to 8 years increases the future normal cost based on members being eligible to begin their benefits sooner and become vested after 8 years. If the changes were applied to the 2022 valuation, the FYE 2024 Normal Cost will increase by approximately 3% from \$318,711 to \$328,374. The future normal cost will continue to be at the increased levels.

The actuarial liability is expected to increase due to this change because more members will now reach full vesting at the end of two terms. Members with 8 or more years and less than 12 years' service who may have previously been terminated and not vested and who would have received only a return of contributions, would now be eligible for a retirement benefit at age 55. This is offset by a reduction in liability due to a lower benefit based on 8 years of service as opposed to 12 or more years accrued service prior to this change in term limits. The net impact on the June 30, 2022 Actuarial Liability is an increase of approximately 0.1% from \$18,780,621 to \$18,806,447. Note, it is assumed that all active members will work enough to become fully vested. When a member leaves before becoming vested this becomes a gain for the System. Going forward the actuarial liability will continue to increase due to more members being vested though the offset due to the maximum of 8 years' service will dampen this impact.

Due to the System's position of being significantly overfunded the increases in the liability and normal cost are relatively small and are not expected to increase costs to the System. The City's contributions are expected to remain zero for FYE 2024.

The cost analysis above is based on the current membership of the System. Due to the relatively small membership subject to elected terms, the costs are expected to exhibit material volatility from election year to election year. Over time it is expected that the number of retirees to actives will increase which will change the risk profile of the System which may call for changes in assumptions to be considered in the future. However, initially until such experience begins to emerge there are no changes in the assumptions recommended at this time.

The table in the attachment summarizes the impact of the change in vesting eligibility on the June 30, 2022 actuarial valuation.

The results of this letter are based on the same data, assumptions, methods, and plan provisions as the June 30, 2022 Actuarial Valuation Report. Please refer to Cheiron's Actuarial Valuation Reports as of June 30, 2022 for a summary of the census data, financial information, actuarial assumptions and methods, and plan provisions, as well as other disclosures. In preparing this letter, we relied without audit on information (some oral and some written) supplied by the City of Baltimore. This information includes, but is not limited to plan provisions, membership data and financial information.

This analysis was performed in an expedited manner, and until we perform an independent review, this letter provides best estimates and results are subject to change once the review process is completed.

The actuarial assumptions have been selected to reflect the likely future experience of the Plan. The results of this letter are dependent upon future experience conforming to these assumptions. To the extent that future experience deviates from the actuarial assumptions, the true cost of the plan could vary from our results.

This letter was prepared exclusively for the Executive Director and the Board of the Elected Officials' Retirement System of the City of Baltimore for a specific and limited purpose. Other users of this letter are not intended users as defined in the Actuarial Standards of Practice, and Cheiron assumes no duty or liability to such other users.

This letter and its contents have been prepared in accordance with generally recognized and accepted actuarial principles and practices and our understanding of the Code of Professional Conduct and applicable Actuarial Standards of Practice set out by the Actuarial Standards Board as well as applicable laws and regulations. Furthermore, as credentialed actuaries, we meet the Qualification Standards of the American Academy of Actuaries to render the opinion contained in this letter. This letter does not address any contractual or legal issues. We are not attorneys, and our firm does not provide any legal services or advice.

Sincerely,
Cheiron

Anu Patel

Anu Patel, FSA, MAAA, EA
Principal Consulting Actuary

Matt Deveney, FSA, ~~MAAA~~, EA
Principal Consulting Actuary

ATTACHMENT A

Elected Officials' Retirement System if the City of Baltimore June 30, 2022 Actuarial Valuation	Baseline	Updated Eligibility	% Change
Active Membership			
Number	17	17	
Average Age	43.33	43.33	
Average Service	6.34	6.34	
Average Pay	$ 90,821	$ 90,821	
Actuarial Liability and Contributions			
Actuarial Liability	$ 18,780,621	$ 18,806,447	0.1%
Actuarial Value of Assets	28,279,100	28,279,100	
Unfunded Acuarial Liability (UAL)	$ (9,498,479)	$ (9,472,653)	
Normal Cost	$ 318,711	$ 328,374	3.0%
Amortization of UAL	(2,155,602)	(2,149,741)	
Interest	(123,990)	(122,942)	
City Contrbutions	$ 0	$ 0	0.0%