

*Roselyn H. Spencer*

FROM	NAME & TITLE	Roselyn H. Spencer, Executive Director
	AGENCY NAME & ADDRESS	Employees' & Elected Officials' Ret. Systems 7 East Redwood Street - 12 <sup>th</sup> Floor
	SUBJECT	<b>City Council Bill 13-0223: ERS Response</b>

CITY of  
**BALTIMORE**  
**MEMO**



TO DATE: May 16, 2013

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

Mr. President and Members of the City Council:

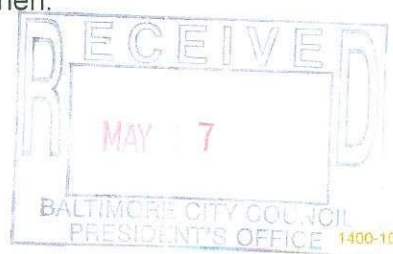
The Board of Trustees of the Employees' Retirement System (ERS) has reviewed Council Bill 13-0223. The Bill provides that, effective with the first full payroll period after July 1, 2013, ERS members must make mandatory payroll deduction contributions equal to a percentage of their authorized salary; that employee contributions be treated for federal income tax purposes as pre-tax contributions; that for certain members who terminate City employment before retirement, the required employee contributions, with interest at 3% per year, will be payable to those members; and that the variable post-retirement benefit increase is discontinued.

Under Article 22, Section 5(a)(1) of the Baltimore City Code, the Board has responsibility for the administration and proper operation of ERS and for making effective ERS' statutory provisions. In the context of its responsibilities to administer and operate the plan, the Board **SUPPORTS** the Bill and respectfully requests consideration of the following comments and amendments:

**1. Adjustment to the Current Benefit Structure.** In light of the proposed addition of a mandatory employee contribution to ERS, the Board respectfully suggests that the Council consider a modest adjustment to the ERS benefit structure. The ERS actuary has advised that for the fiscal year ending June 30, 2014, the actuarial normal cost of ERS benefits is about 6.75% of members' pay and is expected to remain at about that level going forward. Assuming a normal cost rate of 6.75% and the full mandatory employee contribution of 5%, the actuary's estimate is that employees will be responsible to pay for as much as 74% of the total normal cost with no increase in their ERS benefit. According to the ERS actuary, the new employee contributions could support a modest adjustment in the ERS benefit while also reducing the City's cost and thereby enhancing the system's sustainability long term.

**2. Tie Variable Post-retirement Increase to ERS Funding Status.** As an alternative to eliminating the variable benefit increase entirely, the Council might consider making the variable increase contingent upon a significant strengthening of the system's funding. For example, according to the ERS actuary, if the variable increase were payable only when the system's funded status exceeds 85% (ERS is currently about 68% funded), the system is not likely to reach that threshold for another 12-15 years, assuming good investment returns, and no variable increase would be payable until then.

*F/A*



**3. Consider January 1, 2014 Date for Employee Contributions.** The Board respectfully requests that the Council consider a January 1, 2014 effective date for employee contributions.

**a. Member Communication.** The July 1 effective date for employee contributions leaves little time to communicate this significant change to ERS members so that they can plan appropriately. Many ERS members are among the lowest paid City employees least able to absorb on short notice a requirement to contribute what will eventually be 5% of pay.

**b. Administrative Impact.** ERS currently is in the process of installing a Benefits Administration System (BAS) that is due to "go live" during the 4th quarter of this year. The Board believes that the Bill's time frame of installing individual member contributions as of July 1, 2013, in the midst of the BAS process, is likely to create administrative challenges and raise the risk of errors. To implement employee contributions beginning July 1, ERS must be ready and able to record and account for the contributions plus the 3% regular interest. The BAS will be able to accommodate these provisions, but will not be fully tested and ready by July 1. The BAS is scheduled for full implementation during the fourth quarter of 2013, with staff training, data validation, testing for accuracy and other installation steps scheduled between now and then. Implementing employee contributions for the approximately 9,000 ERS active members during this transition, although certainly possible, increases the risk of error. It will also cause the system to incur additional costs in adapting the BAS to take employee contributions into account as of the earlier date. Implementing employee contributions effective as of a later date, such as January 1, 2014, would reduce the risk of error and avoid the incremental costs of earlier implementation.

**4. Consider reviewing the ERS "job elimination" benefit in light of the City's cost savings goals.** ERS provides an unreduced early retirement benefit to a member with at least 20 years of service who is laid off before age 65, without fault on his or her part, due to a reduction in force, diminished need for the member's services, or other specified circumstances. This benefit is the member's full retirement allowance, without actuarial reduction to reflect the fact that it begins before age 65, and is therefore more expensive than a normal age 65 retirement or the usual actuarially reduced early retirement benefit. The Board respectfully requests that the Council review this benefit in light of the City's cost savings goals and the possible savings that may be achieved if it were eliminated or revised to include an age reduction..

Thank you for your consideration.

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, Department of Legislative Reference  
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