

Roselyn H. Spencer

FROM

NAME & TITLE
AGENCY NAME & ADDRESS
SUBJECT

Roselyn H. Spencer, Executive Director and CIO
Employees' & Elected Officials' Retirement System
7 East Redwood Street, 12th Floor
City Council Bill 16-0634 - Employees' Retirement System and Elected Officials' Retirement System

CITY OF BALTIMORE
MEMO



TO

DATE: March 31, 2016

The Honorable President and Members of the
Baltimore City Council
Attn: Natawna B. Austin
Room 409, City Hall

Dear Mr. President and City Council members:

On behalf of the Board of Trustees of the Employees' and Elected Officials' Retirement Systems (the "ERS/EOS Board"), I hereby submit the following response to City Council Bill 16-0634 (the "Bill"). The Bill amends several provisions of Article 22 of the Baltimore City Code pertaining to the Employees' Retirement System ("ERS") and the Elected Officials' Retirement System ("EOS"). A summary of the Bill and the recommendations of the ERS/EOS Board are as follows:

Summary of the Bill's Provisions

1. Assumed Interest Rate. On the advice of the ERS/EOS actuary and consistent with other municipal pension plans, the Bill lowers the interest rate that the plans' investments are assumed to earn in the future. The actuary uses these assumed interest rates to calculate the amount of the City's annual contribution to the ERS and EOS.

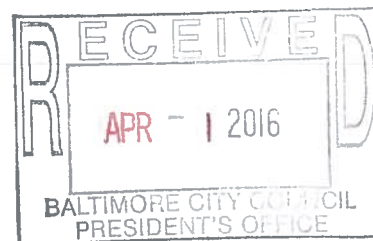
For ERS, the assumed interest rate is currently 7.75% (for assets covering liabilities of members pre-retirement) and 6.55% (for assets covering liabilities of members post-retirement). The Bill changes the rate to:

- 7.50% (pre-retirement) and 6.30% (post-retirement) for fiscal years ending 6/30/17 and 6/30/18; and
- 7.25% (pre-retirement) and 6.0% (post-retirement) for fiscal years ending on or after 6/30/19.

For EOS, the assumed interest rate is currently 7.25%. The Bill changes the rate to:

- 7.0% for fiscal years ending 6/30/17 and 6/30/18; and
- 6.75% for fiscal years ending on or after 6/30/19.

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2. Mortality Table for Calculating Optional Forms of Payment. The current mortality table used to calculate optional forms of payment is outdated. On the advice of the ERS/EOS actuary, the Bill changes the mortality table to a more recent table.

3. Actuarial Experience Studies. Currently, experience studies to determine the reasonableness of the plans' actuarial assumptions are required at least once every 3 years. In accordance with normal practice, the Bill changes the frequency of actuarial experience studies to at least once every 5 years.

4. Definition of Eligible "Employee". Only individuals who meet the definition of an "employee" are eligible to become an ERS member. The Bill changes the definition of "employee" to clarify that certain Public School System employees, State corrections employees, Baltimore Museum of Art and Walters Art Museum employees, and the State's Attorney for Baltimore City are considered "employees".

5. Death Benefits to Surviving Spouses. Currently, death benefits payable to a deceased member's surviving spouse cease upon the spouse's remarriage at any age. For administrative simplicity, the Bill provides that death benefits cease only if remarriage occurs before the spouse's 70th birthday.

6. Death Benefits to Children. Currently, death benefits payable to a deceased member's child cease at age 18 unless the child is a full-time student, in which case benefits continue until age 22. To encourage members' children to further their education, the Bill provides that death benefits continue to the child's 22nd birthday even if child is a part-time student.

7. Distribution of Small Account Balances. Non-vested ERS members are entitled to a refund of their employee contributions (plus interest) when they terminate employment. In accordance with IRS rules, the Bill allows ERS to distribute employee contributions of \$1,000 or less to a terminated non-vested member if the member does not elect to have the contributions directly rolled over to an IRA or another employer plan.

8. Board Authority Over ERS/EOS Staff. The Bill clarifies that the ERS/EOS Board retains the right to create new staff positions for ERS and EOS and to set the compensation level of existing staff members, subject to applicable Civil Service Commission rules.

9. Clarification of Existing Provisions. Existing Article 22 contains many provisions that are outdated or that do not reflect current administrative practice. The Bill deletes the outdated provisions and clarifies the provisions that are inconsistent with administrative practice.