



FREDERICK COUNTY, MARYLAND STAFF REPORT CONCURRENCE FORM

To: Office of the County Executive Date: 10/03/2018

Through (Name of Div. Dir.): _____

From (Name & Division): Lori Depies, Director, Finance Division

Phone #: ext 11753

Staff Report Topic:

Amendment to Frederick County Employees Retirement Plan - Ad Hoc COLA

Adjustment for FY2020

Time Sensitive? Yes (if yes, deadline for approval: _____) No

Action Requested by County Executive:

Signature Approval **OR** Information Only

Staff Report Review:

This staff report has been thoroughly reviewed first by the appropriate divisions/agencies noted on Page 2 followed by those outlined below:

	Initials	Date	Comments Y/N (Page 2)
<input checked="" type="checkbox"/> Budget Office	<u>RA</u>	<u>10/5/18</u>	<u>N</u>
<input checked="" type="checkbox"/> Finance Division	<u>EW/UP</u>	<u>10/5/18</u>	<u>N</u>
<input checked="" type="checkbox"/> County Attorney's Office	<u>JPM</u>	<u>10/9/18</u>	<u>no</u>
Refer to County Council? Yes <input checked="" type="checkbox"/> No <input type="checkbox"/> (To be completed by the Co. Attorney's office.)			
<input checked="" type="checkbox"/> Chief Administrative Officer	<u>[Signature]</u>	<u>11/27/18</u>	<u>Yes</u>

<input checked="" type="checkbox"/> County Executive	<u>[Signature]</u>	<u>11/28/18</u>	
Approval to forward to Council? Yes <input checked="" type="checkbox"/> No <input type="checkbox"/>			

RECEIVED
OCT 10 2018
Office of the
County Executive

Other Reviewing Divisions/Agencies:

(Click to place a check mark in the following appropriate spaces.)

	<u>Initials</u>	<u>Date</u>	<u>Comments Y/N</u> <u>(noted below)</u>
<input type="checkbox"/> <input type="checkbox"/> Animal Control	_____	_____	_____
<input type="checkbox"/> <input type="checkbox"/> Citizens Services	_____	_____	_____
<input type="checkbox"/> <input type="checkbox"/> Economic Development	_____	_____	_____
<input type="checkbox"/> <input type="checkbox"/> Emergency Management	_____	_____	_____
<input type="checkbox"/> <input type="checkbox"/> Fire & Rescue Services	_____	_____	_____
<input type="checkbox"/> <input type="checkbox"/> Health Services	_____	_____	_____
<input checked="" type="checkbox"/> <input type="checkbox"/> Human Resources	<i>MSH</i>	<i>10-04</i>	_____
<input type="checkbox"/> <input type="checkbox"/> Interagency Information Technologies	_____	_____	_____
<input type="checkbox"/> <input type="checkbox"/> Parks & Recreation	_____	_____	_____
<input type="checkbox"/> <input type="checkbox"/> Planning & Permitting	_____	_____	_____
<input type="checkbox"/> <input type="checkbox"/> Public Works	_____	_____	_____
<input type="checkbox"/> <input type="checkbox"/> Sustainability & Environmental Resources	_____	_____	_____
<input type="checkbox"/> <input type="checkbox"/> Transit Services	_____	_____	_____
<input type="checkbox"/> <input type="checkbox"/> Utilities & Solid Waste Management	_____	_____	_____
<input type="checkbox"/> <input type="checkbox"/> Volunteer Fire & Rescue Services	_____	_____	_____
<input checked="" type="checkbox"/> <input type="checkbox"/> Other: <u>M Marschner, Special Admin Director</u>	_____	_____	_____
<input type="checkbox"/> <input type="checkbox"/> Other: _____	_____	_____	_____
<input type="checkbox"/> <input type="checkbox"/> Other: _____	_____	_____	_____

Elected Officials or Independent Agencies:

	<u>Initials</u>	<u>Date</u>	<u>Comments Y/N</u> <u>(noted below)</u>
<input type="checkbox"/> <input type="checkbox"/> Board of Education	_____	_____	_____
<input type="checkbox"/> <input type="checkbox"/> Board of Elections	_____	_____	_____
<input type="checkbox"/> <input type="checkbox"/> Board of License Commissioners	_____	_____	_____
<input type="checkbox"/> <input type="checkbox"/> Frederick Community College	_____	_____	_____
<input type="checkbox"/> <input type="checkbox"/> Frederick County Public Libraries	_____	_____	_____
<input type="checkbox"/> <input type="checkbox"/> Internal Audit	_____	_____	_____
<input type="checkbox"/> <input type="checkbox"/> Sheriff's Office	_____	_____	_____
<input type="checkbox"/> <input type="checkbox"/> Social Services	_____	_____	_____
<input type="checkbox"/> <input type="checkbox"/> State's Attorney's Office	_____	_____	_____

Comments:

1. From: *Ray Barnes* Date: *11.27.18*
Request moved by Council at their workshop on Dec 11, 2018

2. From: _____ Date: _____

3. From: _____ Date: _____

4. From: _____ Date: _____



FREDERICK COUNTY GOVERNMENT

DIVISION OF FINANCE

Jan H. Gardner
County Executive

Lori L. Depies, CPA, Division Director

Date: October 3, 2018

To: County Council of Frederick County, Maryland

Through: Jan H. Gardner, County Executive

From: Michael Marschner, Special Administrative Director/Frederick County Employees Retirement Plan, Retirees' Representative

Lori L. Depies, CPA, Director, Division of Finance /Frederick County Employees Retirement Plan Trustee

Re: Amendment to the Frederick County Employees Retirement Plan - Ad Hoc Cost of Living Adjustment

ISSUE

Should the County Executive approve an amendment to the Frederick County Employees Retirement Plan (the "Plan") that (1) provides for a one time cost of living adjustment to retirees' benefits, which will be phased in over a period of three years, up to a maximum of five percent (5%) of the retirees' monthly benefit payment, depending on the period in time when the Participant's retirement occurred, and (2) requires that the Retirement Plan Committee (the "Committee") evaluate the adequacy of cost of living adjustments every three years to assess the impact of inflation on retirees' benefit payments, and forward this amendment to the County Council for their consideration?

BACKGROUND

The Plan currently provides that a cost of living adjustment equal to one percent (1%) is applied to retirees' monthly benefit payments after the retiree has been in pay status for at least twelve (12) months. The cost of living adjustment is applied each July 1. The cost of living adjustment is not tied to the rate of inflation.

The Plan was amended in 1998 to add this one percent annual cost of living adjustment. Since that time no ad hoc or additional, permanent cost of living adjustments have been provided for under the Plan.

A representative group of County retirees requested the Committee consider an increase to the current cost of living adjustment or an ad hoc cost of living increase to assist with a loss of purchasing power of the retirees' benefits. Based upon this request, the Committee engaged the Plan's actuaries to assess the cost of providing an increased permanent cost of living adjustment at varying levels and ad hoc cost of living adjustments at varying levels.

The actuaries' presentation included an assessment of the impact of inflation on the purchasing power of the retirees' benefits. Specifically, inflation has averaged 2.05% over the last 15 years resulting in a 14% loss of purchasing power of the retirees' benefits, taking into consideration the compounding nature of the annual one percent increase.

The Committee reviewed several options of both a permanent cost of living adjustment and various ad hoc cost of living adjustments. If the County adopted a permanent 1.5% cost of living adjustment, the actuarially determined contribution rate would increase from 13.5% to 17.2% of payroll, would increase the total cost of funding to the Plan from \$15,986,795 to \$20,321,182, and would decrease the funding level from 97.8% to 92.8%. The cost to the Plan would be approximately \$4.3 million per year, amortized over 15 years.¹ The amortization policy of the Plan allows for plan changes to be amortized over a closed 15-year period, with the exception of any early retirement incentives, which are amortized over a closed 5-year period.

The Committee then considered a one-time, ad hoc COLA, with a tiered structure that extends the greater benefit to the longer term retirees, as shown in Table 1 below.

Participant's Retirement	Year 1	Year 2	Year 3	Total
After 12/31/18	0%	0%	0%	0%
Between 01/01/14 and 12/31/18	1%	1%	1%	3%
Between 01/01/09 and 12/31/13	2%	1%	1%	4%
On or before 12/31/08	3%	2%	0%	5%

If the County adopted a one-time ad hoc cost of living adjustment as shown above, the COLA would be phased in over a period of three (3) years, up to a maximum of five percent (5%) of the retirees' monthly benefit payment, depending on the period in time when the Participant's retirement occurred. This one-time COLA adjustment would be in addition to the annual one percent (1%) COLA provided for in the plan currently.

The effect of this one-time ad hoc cost of living adjustment on the actuarially determined contribution rate would result in an increase from 13.6% to 16.8% of payroll, would increase the total cost of funding the Plan from \$15,986,795 to \$19,850,096, and would decrease the funding ratio from 97.8% to 96.0%, based upon the actuarial value of the plan assets and from 99.6% to 97.8% based upon the market value of the plan assets. The cost to the Plan would be approximately \$3.8 million per year, amortized over three years.²

¹ Report of Bolton Partners dated February 13, 2018 (attached).

² Report of Bolton dated September 20, 2018 (attached).

RECOMMENDATION:

The Committee requests that the County Executive approve the recommendation to amend the Plan to provide for a one-time cost of living adjustment beginning in FY2020 and a cost of living review requirement by the Committee every three (3) years.

Attachments: Exhibit 1, Bill Amendment
Report of Bolton Partners, February 13, 2018
Report of Bolton, September 20, 2018

Approve? Yes _____ No _____

Jan H. Gardner, County Executive Date
Frederick County, Maryland

FUNDING INFORMATION

Financial Implication: No _____ Yes X (If yes, provide the following information.)

Existing Account Number(s): Additional costs to be funded in the FY2020 budget and distributed as the employer's share of payroll contributions to all departments.

Budget Balance: \$ n/a

Budget Journal Required: No X Yes _____

Amount of County Funding Requested: \$3,863,301

*Janee will update
Word document
to reflect new
Council President
after Dec. 4
Council mtg. takes
place.*

Bill No. _____
Concerning: Revisions to the Frederick County
Employee Retirement Plan: Ad Hoc Cost of Living
Adjustment

Introduced: _____
Revised: _____ Draft No. _____
Enacted: _____
Effective: _____
Expires: _____
Frederick County Code, Chapter _____
Section(s) _____

COUNTY COUNCIL FOR FREDERICK COUNTY, MARYLAND

By: Council President (TBD) on behalf of County Executive Jan Gardner

AN ACT to: amend the Frederick County Employees Retirement Plan to make certain revisions to the Plan to: (1) provide for "ad hoc" cost of living adjustment to retirees' benefits phased in over three years ranging from a total adjustment of three percent (3%) to five percent (5%) of the retirees' monthly benefit payment, depending on the date of retirement. The phased in ad hoc cost of living adjustment is in addition to the annual one percent (1%) cost of living adjustment; (2) provide that additional cost of living adjustments will be evaluated at least once every three years following the adoption of this amendment and in conjunction with the annual actuarial valuation of the Plan, (3) make other nonsubstantive changes.

Executive: _____ Date Received: _____

Approved: _____ Date: _____

Vetoed: _____ Date: _____

By amending:

Frederick County Code, Chapter, _____ Section(s) _____

Other: Frederick County Employees Retirement Plan

Boldface	<i>Heading or defined term.</i>
<u>Underlining</u>	<i>Added to existing law.</i>
[Single boldface brackets]	<i>Deleted from existing law.</i>
***	<i>Existing law unaffected by bill.</i>

Bill No. _____

By Ordinance No. 93-11-075, the County established a retirement plan for the employees of the Frederick County Government, effective July 1, 1993. The Frederick County Employees Retirement Plan ("Plan") has been amended several times since then, most recently in Bill No. 17-12.

The County Council of Frederick County, Maryland, deems it appropriate to make certain additional revisions to the Plan to: (1) provide for "ad hoc" cost of living adjustment to retirees' benefits phased in over three years ranging from a total adjustment of three percent (3%) to five percent (5%) of the retirees' monthly benefit payment, depending on the date of retirement. The phased in ad hoc cost of living adjustment is in addition to the annual one percent (1%) cost of living adjustment; (2) provide that additional cost of living adjustments will be evaluated at least once every three years following the adoption of this amendment and in conjunction with the annual actuarial valuation of the Plan; and (3) make other nonsubstantive changes.

NOW, THEREFORE, BE IT ENACTED, that the Frederick County Employees Retirement Plan be, and it is hereby, amended as shown on the attached Exhibit 1.

TBD, President
County Council of Frederick County,
Maryland

**AMENDMENT TO THE RESTATED
FREDERICK COUNTY
EMPLOYEES RETIREMENT PLAN**

First Change – Section 6.8 shall be amended to read as follows:

6.8 Annual Cost of Living Adjustments

(a) Retirement Benefits Subject to Cost of Living Adjustment. Notwithstanding the foregoing, but subject to the limitations set forth in Section 6.6, the monthly retirement income of a Participant who has reached the 12 month anniversary of his or her Benefit Commencement Date, as otherwise computed pursuant to Section 6.1, 6.2, 6.3, 6.4, or 6.5 (whichever is applicable), shall be subject to the cost of living adjustment described in this Section 6.8.

(b) Computation of Cost of Living Adjustment. As of each July 1 (hereafter referred to as the “Valuation Date”) which occurs during the period beginning on the first Valuation Date occurring at least 12 months subsequent to the Participant’s Benefit Commencement Date, the Participant’s monthly retirement benefit as of the Valuation Date shall be increased by one percent.

(c) Monthly Survivor Benefits Subject to Cost Of Living Adjustments. All survivor benefits payable pursuant to Section 7.1 (but only if payable in the form of a monthly income) shall be granted the cost of living adjustments provided in this Section 6.8.

(d) Periodic Evaluation of Cost of Living Adjustments. No less frequently than every three years and in conjunction with the annual valuation of the Plan, the Retirement Plan Committee shall evaluate whether additional one-time and permanent cost of living adjustments should be recommended, taking into consideration the then current actuarially determined contribution rate, the rates of inflation, and the then current funding level of the Plan.

Second Change – Article VI of the Plan shall be amended by the addition of the following Section 6.10 to read as follows:

6.10 Ad Hoc Cost of Living Adjustment. Effective July 1, 2019, the monthly retirement income of a Participant who has reached his or her Benefit Commencement Date, as otherwise computed pursuant to Section 6.1, 6.2, 6.3, 6.4, or 6.5 (whichever is applicable), shall be subject to an increase determined in accordance with the following table, where “Year 1” is the Plan Year beginning July 1, 2019:

Underlining indicates entirely new matter added to existing law.
[Single boldface brackets] indicates matter deleted from existing law.
*** - indicates existing law unaffected by bill

<u>Participant's Initial Retirement Date</u>	<u>Year 1</u>	<u>Year 2</u>	<u>Year 3</u>	<u>Total</u>
<u>After 12/31/18</u>	<u>0%</u>	<u>0%</u>	<u>0%</u>	<u>0%</u>
<u>Between 1/1/14 and 12/31/18</u>	<u>1%</u>	<u>1%</u>	<u>1%</u>	<u>3%</u>
<u>Between 1/1/09 and 12/31/13</u>	<u>2%</u>	<u>1%</u>	<u>1%</u>	<u>4%</u>
<u>On or before 12/31/08</u>	<u>3%</u>	<u>2%</u>	<u>0%</u>	<u>5%</u>

The cost of living adjustment provided for in this Section 6.10 shall be in addition to, and applied after, the adjustment provided for in Section 6.8(b). The adjustment made pursuant to this Section 6.10 shall be a one-time adjustment, subject to Section 6.8(d).

Underlining indicates entirely new matter added to existing law.
 [Single boldface brackets] indicates matter deleted from existing law.
 *** - indicates existing law unaffected by bill

Frederick County Employees' Retirement Plan

Proposed COLA Changes

Presented by:

Colin England, FSA, EA, MAAA

Kris Seets, FSA, EA



February 13, 2018

 @BoltonPartners



Topics

2

- Possible cost-of-living changes
 - Why?
 - Possible Approaches
 - Comparison of Approaches
- Cost Impact

Why?

3

- COLA Currently – 1% annually
- Inflation has been low last few years
 - 1.32% last 5 years, so only 2% loss of purchasing power
 - 1.75% last 10, so 7% loss of purchasing power
 - 2.05% last 15, so 14% loss of purchasing power
- Retirees have also experienced significant medical cost increases

Possible Approaches

4

- Increase automatic COLA from 1% to 2% or more
- Provide one-time increase to retirees
- Assumed to be for all participants (automatic) or retirees only (one-time)

Comparison of Approaches

- Increase in Automatic COLA:
 - Quite expensive
 - Provides better inflation protection for current and future retirees
- One-Time Increase:
 - Much less expensive
 - Provide one-time increase to retirees
 - Still adds noticeable cost
- In either case, most of cost is for current retirees, and is not funded over their working career.

Cost Impact of COLA Improvement

Effect of Increases in the Annual Cost of Living Adjustment

COLA	Total Cost as a Percentage of Payroll ¹	Total Cost	Funding Level, Actuarial Value of Assets
Current 1.00% COLA	13.5%	\$15,986,795	97.8%
Ad Hoc 1.00% COLA	14.3%	\$16,904,792	97.3%
Ad Hoc 2.50% COLA	15.5%	\$18,281,787	96.7%
Ad Hoc 5.00% COLA	17.4%	\$20,576,779	95.7%
Ad Hoc 6.50% COLA	18.6%	\$21,953,776	95.0%
1.25% COLA	15.4%	\$18,165,756	95.3%
1.50% COLA	17.2%	\$20,321,182	92.8%
1.25% COLA and 6.75% Discount Rate	18.2%	\$21,494,291	91.9%

¹Contribution rates shown are the Actuarially Determined Contribution (ADC) rate and do not reflect the County's minimum contribution rate of 18.6% of payroll. The contribution amounts reflect current FY2019 payroll expectations, derived from the July 1, 2017 participant data.

Other Issues to Consider

7

- Funding COLA
 - Automatic COLA funded over 15 years
 - Ad hoc COLA funded over 3 years
- Could consider minimum increase amount, for example \$25 or \$50 per month
- Most of COLA alternatives analyzed bring ADC closer to 18.6% minimum
 - Reduces margin for adverse experience

Next Steps

8

- Recommend Post-Retirement COLA Increase?
 - One-Time - 3-year additional cost
 - About \$6.0 million per year for 6.5% increase – 18.6% ADC
 - About \$4.6 million per year for 5.0% increase
 - About \$2.3 million per year for 2.5% increase
 - About \$0.9 million per year for 1.0% increase
 - Automatic – 15-year retiree cost increase, permanent increase for employees
 - About \$4.3 million for increase to 1.5% annual COLA
 - About \$2.2 million for increase to 1.25% annual COLA

Bolton

September 20, 2018
[Revised December 7, 2018]

Lori Depies
Director of Finance
Frederick County Government
12 East Church Street Frederick, MD 21701

Re: *Potential Revision to Pension Plan – Increase in Annual Cost of Living Adjustments*

Dear Lori:

We were asked at the most recent Trustees' meeting to estimate the effect of increasing the annual post-retirement Cost of Living Adjustment (COLA) using an approach that gives an ad hoc COLA over a span of three years dependent on when the participant retired. As you know, COLAs are typically a very significant factor in the overall value of benefits, particularly for employees (such as public safety employees) who retire at younger ages and are expected to live more years in retirement.

Table 1 below shows the scheduled phase in of the COLA depending on the period in time the participant's retirement occurred. The scheduled increases shall be in addition to the annual 1% COLA provided.

Table 1 – Cost of Living Adjustment Increase Schedule

Participant's Retirement	Year 1	Year 2	Year 3
After 12/31/2018	0%	0%	0%
Between 1/1/2014 and 12/31/2018	1%	1%	1%
Between 1/1/2009 and 12/31/2013	2%	1%	1%
On or before 12/31/2008	3%	2%	0%

Table 2 below shows the effect on the County contribution rate, calculated as of July 1, 2017 of increasing the COLA based on the schedule in Table 1. The contribution amount is based on the actuarially determined contribution (ADC). According to the County's new funding policy, the County will contribute the greater of the ADC and two times the blended employee contribution rate as long as the funded ratio is at or above 95% on an actuarial value of assets (AVA) basis. Two times the blended employee contribution rate is 13.8%, and the funded ratio is still above 95%.

Table 2 – Effect of the Increase in COLA

	Actuarially Determined Contribution	Non-Uniformed Actuarially Determined Contribution	Uniformed Actuarially Determined Contribution	Total Contribution for FYE 2019	Funded Level, Actuarial Value of Assets	Funded Level, Market Value of Assets
Current Provisions	13.6%	12.6%	14.9%	\$15,986,795 ¹	97.8%	99.6%
Additional COLA	16.8%	16.1%	17.9%	\$19,850,096	96.0%	97.8%

Please note that the results shown in the table above reflect the methods and assumptions used are shown in the 2017 actuarial valuation report, including the annual 1% COLA increase Assumption. The results do not reflect FY2018 investment performance or demographic changes. The cost of the ad hoc increases are amortized over three years.

Since this change covers members not yet retired, there is a chance that some members could retire sooner to benefit from the COLA. We estimated the cost of those retiring in the 18 months after the 2017 valuation based on the information for those who retired within the 18 months prior to the 2017 valuation.

I am available to answer any questions on the material in this letter or to provide explanations or further details as appropriate. I am an Associate of the Society of Actuaries and I am qualified to render the actuarial opinion contained in this report. We are not aware of any direct or material indirect financial interest or relationship, including investments or other services that could create a conflict of interest that would impair the objectivity of our work. These results rely upon information contained in the July 1, 2017 Actuarial Valuation Report and all relevant constraints and limitations disclosed in that report also apply here.

Sincerely,


 Michael Spadaro, ASA

cc. Colin England

¹ The minimum contribution of 13.8% would be \$16,346,098.

