Agenda Item 16
November 23, 2010
Public Hearing

MEMORANDUM

TO: County Council

FROM: Robert H. Drummer, Senior Legislative Attorney RHD

SUBJECT: **Public Hearing:** Expedited Bill 54-10, Retirement - Investments

Expedited Bill 54-10, Retirement - Investments, sponsored by the Council President at the request of the County Executive, was introduced on October 26, 2010. A Management and Fiscal Policy Committee worksession was held on November 22.

Background

Bill 54-10 would:

(a) allow investments other than mutual and commingled funds in the Retirement Savings Plan (RSP);

(b) update investment provisions in the RSP and Deferred Compensation Plan (DCP) to comply with current procedures;

(c) require automatic distribution of terminated RSP and Guaranteed Retirement Income Plan (GRIP) participant account balances of $1,000 or less; and

(d) allow participants to rollover any eligible retirement plan account into the RSP.

Issues

1. What is the fiscal and economic impact of the Bill?

OMB estimated that the automatic distribution of RSP and GRIP accounts for participants who have left County service will save approximately $22 per account each year for a total of $8800 in FY11. See ©16. The Bill would have no other significant fiscal or economic impact.

2. Should RSP participants be permitted to purchase investments other than mutual or commingled funds?

RSP participants are required to direct their own investments. Current law restricts these investments to mutual funds or other commingled funds. The Board of Investment Trustees (BIT) selects mutual funds and other commingled funds that participants can choose from. The

BIT has also created a self-directed window where a participant can invest in a mutual fund that is not selected by the BIT. The Bill would permit the BIT to expand the investment options for participants who use the self-directed window. The BIT would permit participants to invest in individual equities, bonds, or ETFs if the Bill is enacted. The BIT also provides free financial counseling to participants to help them make investment decisions. The BIT's explanation of how this new authority would be exercised is at ©18-19. The BIT's DCP investment policy is at ©20-23 and the BIT RSP investment policy is at ©24-27. **Council staff recommendation:** approve this expanded authority for the BIT.

3. Should the BIT be permitted to automatically distribute a terminated participant's GRIP or RSP account with a balance $1000 or less?

OMB estimated that it costs the BIT approximately $22 each year to maintain a GRIP or RSP account. Account maintenance costs are spread out to all participants. Current law requires a participant who leaves County service to ask for a distribution before the BIT can close the account. The Internal Revenue Code permits an automatic distribution of these accounts if the balance is $1000 or less. The Bill would amend current law to permit the automatic distribution of these small accounts held for participants who have left County service. The BIT's explanation for this change is at ©19.

The Bill, as drafted, would permit the automatic distribution of an account balance less than $1000 at the time of separation from County service. However, a participant's account balance could grow to greater than $1000 due to investment performance after separation but before the BIT closes the account. IRS rules restrict the automatic distribution to account balances of $1000 or less. Therefore, the Bill needs a technical amendment to make sure that only account balances $1000 or less are automatically distributed. Staff amendment 1 at ©29 would accomplish this. **Council staff recommendation:** approve the Bill with Staff amendment 1.

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Expedited Bill No. 54-10
Concerning: Retirement – Investments
Revised: October 21, 2010
Draft No. 1
Introduced: October 26, 2010
Expires: April 26, 2012
Enacted: ______
Executive: ______
Effective: ______
Sunset Date: None
Ch. ____, Laws of Mont. Co. ______

COUNTY COUNCIL
FOR MONTGOMERY COUNTY, MARYLAND

By: Council President at the Request of the County Executive

AN EXPEDITED ACT to:
(1) require an automatic distribution for account balances of $1,000 or less in the Guaranteed Retirement Income Plan and the Retirement Savings Plan;
(2) permit rollover contributions into the Retirement Savings Plan from any eligible retirement plan;
(3) permit additional investment choices in the Retirement Savings Plan;
(4) permit additional investments in the Deferred Compensation Plan; and
(5) generally amend the law regarding the retirement and deferred compensation plans.

By amending
Montgomery County Code
Chapter 33, Personnel and Human Resources
Sections 33-44, 33-113, 33-116, 33-120, 33-121, 33-125 and 33-145

Boldface	*Heading or defined term.*
Underlining	*Added to existing law by original bill.*
[Single boldface brackets**]**	*Deleted from existing law by original bill.*
Double underlining	*Added by amendment.*
[[Double boldface brackets**]]**	*Deleted from existing law or the bill by amendment.*
* * *	*Existing law unaffected by bill.*

The County Council for Montgomery County, Maryland approves the following Act:

Sec. 1. Sections 33-44, 33-113, 33-116, 33-120, 33-121, 33-125 and 33-145 are amended as follows:

33-44. Pension Payment Options and cost of living adjustments

* * *

(n) Required distribution for guaranteed retirement income plan participants.

(1) The distribution of a participant's guaranteed retirement income plan account balance must be made no later than April 1 of the calendar year after the later of the calendar year in which the participant attains age 70 ½ or the calendar year in which the participant terminates employment. Distributions must be made in accordance with subsection (g). If the participant does not elect a form of distribution, the distribution must be made in a lump sum. If the participant dies before beginning to receive benefits, the participant's designated beneficiary under 33-46(h) must receive a lump sum distribution as soon as practicable after the participant's death, but not later than the December 31st of the year containing the fifth anniversary of the participant's death.

(2) If a participant terminates employment with an account balance of $1,000 or less, the account balance must be automatically distributed in a lump sum as soon as administratively feasible after termination of employment without a request from the participant.

* * *

33-113. Definitions

* * *

(r) *Rollover contributions* means that portion of a participant's account balances in the retirement savings plan that is attributable to any assets transferred or rolled over to the retirement savings plan from another [qualified pension or profit sharing plan] eligible retirement plan as defined in [under] the Internal Revenue Code Section 402(c). No after-tax contributions may be transferred or rolled over into the retirement savings plan.

* * *

33-116. Participant Contributions

* * *

(c) *Participant rollover contributions.* With the Chief Administrative Officer's written consent, a participant may transfer or rollover to the retirement savings plan any interest in any other [qualified] eligible retirement plan [under] as defined in [the] Internal Revenue Code Section 402(c).

* * *

Section 33-120. Distribution of Benefit

* * *

(h) *Benefit distribution date.*

(1) The Chief Administrative Officer must pay a participant who retires by reason of normal, deferred, or disability retirement the participant's account balances in the retirement savings plan. The distribution must begin as soon as administratively feasible after the participant's retirement and after the date elected by the participant, but no later than April 1 following the later of the calendar year in which the participant attains age 70½, or

the calendar year in which the participant's County employment ends.

(2) A participant who has a 100% vested interest in the County contributions account, and whose County employment ends before the participant's death, disability retirement, or normal retirement date, may receive the account balances in the County contribution accounts and the participant contribution accounts before reaching the normal retirement date only upon filing written consent for the distribution with the Chief Administrative Officer. The distribution must be made as soon as administratively feasible after the Chief Administrative Officer receives the written consent for the distribution.

(3) (A) If a participant's County employment ends before the participant has a vested interest in the County contributions and the participant properly completes and submits an application for distribution of the participant's contribution account, the County must distribute the participant's contribution account as soon as administratively feasible.

(B) If a participant does not properly complete and submit an application for a distribution, the County must distribute the participant's contribution account under the time limits described in this Section.

(4) Notwithstanding any other provision of this subsection, if a participant terminates employment with an account balance of $1000 or less, the account balance must be automatically distributed in a lump sum as soon as administratively feasible

after termination of employment without a request from the participant.

* * *

33-121. Investment of contributions to the retirement savings plan.

(a) *Investment [funds] options.*

(1) A participant must direct that contributions allocated to the participant's retirement accounts be invested in one or more of the investment [funds] options selected by the Board. The investment [fund] options selected by the Board must conform to all applicable requirements of the Internal Revenue Code.

(2) A participant must allocate contributions among the investment [funds] options only in percentages of the value of the account balances of the participant, as determined by the Board.

(3) A participant's direction of investment must remain in effect until the participant changes the direction. If a participant does not provide a valid direction of investment, the account balances of the participant, to the extent they are not governed by a valid direction of investment, must be invested in an appropriate investment option selected by the Board.

(b) *Change of allocation.*

(1) A participant or former participant may change the allocation of the participant's account balances among the investment [funds] options [by giving written notice of the requested change at a time] in accordance with procedures set by the Board. The changes [will] must take effect on the date or dates set by the Board.

(2) A participant or former participant may designate that the change of the allocation among investment [funds] <u>options</u> is effective as to one or both of:

(A) the participant's or former participant's account balances on the effective date of the change; and

(B) the participant's contributions and County contributions made after the effective date of the change.

(c) *Gains and losses.* The Board must maintain [pro rata accounts of a commingled fund or] separate and distinct accounts for each participant. [If the Board establishes pro rata accounts, the Board may allocate realized and unrealized gains and losses, using the ratio that the portion of the account balance of a participant allocated to an investment fund bears to the portion of the account balances of all participants allocated to the investment fund as of the previous valuation date. If the Board establishes separate and distinct accounts, the] <u>The</u> Board must determine the value of an individual account solely with respect to the activity within each participant's account and unrealized gains to a participant's account. [The Chief Administrative Officer may deduct operating expenses from the realized and unrealized gains before allocation.]

* * *

33-125. Powers and duties under the retirement savings plan.

* * *

(a) *General*

* * *

(2) The Board must invest and reinvest, or cause to be invested or reinvested, the principal and income of the retirement savings

plan and keep the same invested without distinction between principal and income. The Board has the exclusive authority to manage the assets of the retirement savings plan, but must, to the extent directed by participants, invest each participant's accounts in the manner directed by the participant. [The Board may make or permit an investment manager to make individual investment selections with respect to any investments described in this section.] The Board may select mutual funds, commingled funds, or any combination of [funds] other investments [to provide] as investment options for the retirement savings plan.

* * *

(c) *Authorized investments.*

(1) The Board may select or remove any investment option for the retirement savings plan that the Board finds prudent under the policies set by the Board. [The Board may invest or permit an investment manager to invest the assets of the retirement savings plan in any investment it considers prudent within the policies set by the Board. The Board must use an investment manager except when making an investment in any pooled investment vehicle, including any combined, common or commingled trust fund, retirement or annuity contract, mutual fund, investment company, association, or business trust. The Board also may authorize the Executive Director to make investments in pooled investment vehicles and transition assets from one investment manager to another investment manager as the Board specifies.]

(2) If an investment through any combined, common, or commingled trust fund exists, the declaration of trust of that fund is a part of the retirement savings plan trust.

[(3) The board or any investment manager must not invest any retirement savings plan asset in any bond, note, or debt instrument issued by:

(A) Montgomery County;

(B) any political subdivision within Montgomery County;

(C) any agency supported or financed wholly or partly by taxes levied by the County Council; or

(D) any agency supported by bond issues underwritten by Montgomery County.

However, the Board and any investment manager may invest plan assets in such bonds, notes, and debt instruments if held indirectly through a mutual fund, subject to any limit in the Internal Revenue Code.]

* * *

(f) [*Investment management agreements.*

(1) The Board may appoint investment managers to manage, acquire, or dispose of all or some of the assets of the retirement savings plan. The Board may dismiss any manager the Board appoints. The fees charged by any manager are expenses of the retirement savings plan.

(2) In any contract with an investment manager, the Board must identify the assets that are subject to the contract. The Board may give an investment manager the right to invest the assets of the retirement savings plan specified in the contract without

prior notice to or approval by the Board. The Board may limit the investment of a specified portion of the retirement savings plan to a certain type of property. If a contract with an investment manager only applies to a portion of the assets of the retirement savings plan and specifies the type of property to be invested in, the manager must achieve diversification within the specified category of property, but is not responsible for diversification of investments of the entire retirement savings plan. The Board may delegate to the investment manager any power or discretion conferred on the Board under this Division and may provide that the investment manager must have custody and control of certain assets of the retirement savings plan.

(3) The Board must monitor the performance of any investment manager. Monitoring may include any tests or analyses that the Board considers prudent in the circumstances.]

The Board must monitor the performance of investment options. Monitoring may include any tests or analyses that the Board finds prudent.

33-145. Powers and duties of the board.

* * *

(d) *Authorized investments.*

(1) The Board must invest each participant's account in one or more of the Board-designated investment options in the manner directed by the participant.

(2) The Board may select or remove any investment options for the deferred compensation plan that the Board [considers] finds

prudent [within] under the policies set by the Board [, except real property investments described in this subsection].

(3) [The Board must not invest in real property unless the investment is a pooled investment in which the Board has no power or right to manage the real estate property. The pooled investment must not invest more than 10 percent of its assets in real property located in Montgomery County. The 10-percent limitation applies to the market value of the total assets on the preceding June 30. If the market value of investments in real property in the County exceeds the 10-percent limitation as a result of market forces, the Board, or the investment manager without direction from the Board, is not required to sell an existing equity investment. The Board may obtain valuations and take appropriate steps to comply with the 10-percent limitation.]

[(4)] If an investment through any combined, common, or commingled trust fund exists, the declaration of trust of that fund is a part of the deferred compensation plan trust.

[(5) The Board and any investment manager must not invest the deferred compensation plan assets in any bonds, notes, or debt instruments issued by:

(A) Montgomery County;

(B) a political subdivision in Montgomery County;

(C) an agency that receives support or funds from taxes levied by the County Council; or

(D) an agency supported by bond issues underwritten by Montgomery County.

The Board and any investment manager may invest plan assets in bonds, notes, and debt instruments of these entities if the investment is held indirectly through a mutual fund and complies with any limit in the Internal Revenue Code.]

* * *

(g) [Investment management agreements. Section 33-60(g) (Investment management agreements) applies to the Board with respect to its responsibilities under the deferred compensation plan.] The Board must monitor the performance of each investment option. Monitoring may include any tests or analyses that the Board finds prudent.

* * *

Sec. 2. Effective Date.

The Council declares that this legislation is necessary for the immediate protection of the public interest. This Act takes effect on the date on which it becomes law.

Approved:

Nancy Floreen, President, County Council Date

Approved:

Isiah Leggett, County Executive Date

This is a correct copy of Council action.

Linda M. Lauer, Clerk of the Council Date

LEGISLATIVE REQUEST REPORT

Expedited Bill 54-10
Retirement - Investments

DESCRIPTION: The bill amends the County's retirement law to: (a) allow investments other than mutual and commingled funds in the Retirement Savings Plan (RSP), (b) update investment provisions in the RSP and Deferred Compensation Plan (DCP) to comply with current procedures, (c) require automatic distribution of terminated RSP and Guaranteed Retirement Income Plan (GRIP) participant account balances of $1,000 or less, and (d) allow participants to rollover any eligible retirement plan account into the RSP.

PROBLEM: (1) RSP participants may only invest in mutual and commingled funds.

(2) Several of the investment provisions in the RSP and DCP are not applicable.

(3) There is a significant cost associated with maintaining small account balances for terminated participants of the RSP and GRIP. Plan costs will be reduced if these participant accounts are involuntarily distributed.

(4). RSP participants may not currently rollover accounts from certain types of retirement plans (e.g., 403(b), 457, IRAs).

GOALS AND OBJECTIVES: To: (a) allow investments other than mutual and commingled funds in the Retirement Savings Plan (RSP), (b) update investment provisions in the RSP and Deferred Compensation Plan (DCP), (c) permit automatic distributions to terminated RSP and Guaranteed Retirement Income Plan (GRIP) participants who have accounts of $1,000 or less, and (d) allow participants to rollover any eligible retirement plan account into the RSP.

COORDINATION: Board of Investment Trustees

FISCAL IMPACT: Office of Management and Budget

ECONOMIC IMPACT: Office of Management and Budget

EVALUATION: N/A

EXPERIENCE ELSEWHERE: N/A

SOURCE OF INFORMATION: Board of Investment Trustees
Office of the County Attorney

APPLICATION WITHIN MUNICIPALITIES: N/A

PENALTIES: N/A

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OFFICE OF THE COUNTY EXECUTIVE
ROCKVILLE, MARYLAND 20850

Isiah Leggett
County Executive

MEMORANDUM

October 21, 2010

TO: Nancy Floreen, President, County Council

FROM: Isiah Leggett, County Executive

SUBJECT: Legislation to amend the County's Retirement Law

I am attaching for the Council's consideration a bill requested by the Board of Investment Trustees (BIT) which would amend the County's retirement law to: (a) allow investments other than mutual and commingled funds in the Retirement Savings Plan (RSP); (b) update investment provisions in the RSP and the County's Deferred Compensation Plan (DCP); (c) permit automatic distributions to terminated participants the RSP and Guaranteed Retirement Income Plan (GRIP) who have account balances less than $1,000; and (d) allow participants to rollover any eligible retirement plan account into the RSP.

The County Code allows RSP participants to invest in mutual and commingled funds. The bill replaces the terms "mutual fund" and "fund" with "investment option" to allow the BIT to expand the investment options available to RSP participants.

In many respects, the County Code provisions relating to RSP and DCP investments mirror the County Code provisions relating to the Employees' Retirement System (ERP). However, because the RSP and DCP are participant directed retirement plans, some aspects of those County Code provisions are not applicable to the RSP and DCP (e.g., investment manager agreements). The bill amends current law to clarify current administrative and investment procedures for the RSP and DCP.

Under current law, the BIT cannot distribute RSP or DCP account balances to terminated participants unless the participant first submits a request for the distribution to the BIT. The Internal Revenue Code (IRC) allows a plan sponsor to distribute account balances of less than $1,000 even without a request from the participant. In light of the administrative costs associated with maintaining small accounts, the BIT has recommended that current law be modified to conform to the IRC provision (i.e., to allow the BIT to distribute terminated participant account balances of less than $1,000 even when the participate has not requested the distribution).

Federal law allows participants to roll over accounts from most types of retirement plans (e.g., 403(b), 457, 401(k), IRA) into the RSP. However, under County law, the only qualified plans (e.g., 401(k)) can be rolled over into the RSP. The bill amends current law to allow participants to roll over retirement accounts from most types of retirement plans.

Thank you for your prompt consideration of this bill. Please contact BIT Executive Director Linda Herman 240-777-8224 if you have any questions about this bill.

Attachments

cc: Linda Herman, Executive Director, Board of Investment Trustees

OFFICE OF MANAGEMENT AND BUDGET

Isiah Leggett
County Executive

Joseph F. Beach
Director

MEMORANDUM

October 20, 2010

TO: Nancy Floreen, President, County Council

FROM: Joseph F. Beach, Director

SUBJECT: Expedited Bill – Amendments to the County's Retirement Law

The purpose of this memorandum is to transmit a fiscal and economic impact statement to the Council on the subject legislation.

LEGISLATION SUMMARY

This bill amends the County's retirement law to:

- allow investments other than mutual and commingled funds in the Retirement Savings Plan (RSP);
- update investment provisions in the RSP and County's Deferred Compensation Plan (DCP) to comply with current procedures;
- permit automatic distribution of terminated RSP and Guaranteed Retirement Income Plan (GRIP) participant account balances of less than $1,000; and
- allow participants to rollover any eligible retirement plan account into the RSP.

FISCAL AND ECONOMIC SUMMARY

The Board of Investment Trustees estimates that the annual cost of administering RSP and GRIP participant accounts for terminated employees whose balances are below $1,000 is about $22 per account. There are currently about 400 terminated participants with balances at this level, so the proposed legislation would result in administrative savings of about $8,800 in FY11. There is no fiscal impact to the County since the savings would be used to lower the investment management fees charged to participants for investment options and/or to provide additional services to participants. Plan participants would continue to benefit in future years, but savings are indeterminate as they are dependent on the number of employees who terminate with balances lower than $1,000.

The legislation has no significant economic impact; it affects very few people and any savings would be small relative to the Montgomery County economy as a whole.

The following contributed to and concurred with this analysis: Linda Herman and Patrick O'Brien, Board of Investment Trustees, Lori O'Brien, Office of Management and Budget, and Michael Coveyou, Department of Finance.

JFB:lob

c: Kathleen Boucher, Assistant Chief Administrative Officer
Dee Gonzalez, Offices of the County Executive
Jennifer Barrett, Director, Department of Finance
Linda Herman, Board of Investment Trustees
Patrick O'Brien, Board of Investment Trustees
Michael Coveyou, Department of Finance
Lori O'Brien, Office of Management and Budget
John Cuff, Office of Management and Budget

BOARD OF INVESTMENT TRUSTEES

November 17, 2010

To: Robert H. Drummer, Senior Legislative Attorney

From: Linda A. Herman, Executive Director

Subject: Expedited Bill #54-10 – Amendments to the County's Retirement Law

Expedited Bill #54-10 would amend the County's retirement law to replace the terms "mutual fund" or "fund" with "investment option" to expand the investments available to participants. The Montgomery County Code ("Code") permits Retirement Savings Plan (RSP) and County Deferred Compensation Plan (DCP) participants to invest in mutual and commingled funds.

Background: The Code grants the Board of Investment Trustees ("the Board") the exclusive authority to manage the assets of the RSP and the County's DCP and to select investment options through funds that the Board considers prudent subject to the Standard of Care set forth in County Code.

The Plans' participants have different investment objectives, time horizons and risk tolerances. To meet these varying investment needs, the Board provides a diversified slate of investment options through mutual and commingled funds, each of which has a different set of risk and return characteristics as disclosed in their fund prospectus. In addition, the Board recognizes that some participants consider themselves experienced investors who want more variety, independence, and greater control in managing their retirement plan portfolios. To meet this need, the Board permits a participant to purchase/sell any ***mutual fund***, unless otherwise prohibited, through a Self Directed Brokerage Account (SDBA).

A SDBA is an option available in most defined contribution plans (the SDBA option was added to each Plan in 2005) allowing participants to select investment options other than the slate of funds offered by the Board. There are currently 43 participants with SDBAs across both Plans with assets totaling $3.2 million. In 2005, when the Board began offering the SDBA they limited participation to only mutual funds. However, as new investment options have developed over the past few years, including Exchange Traded Funds (ETFs), and with requests from participants to purchase other types of securities, the Board is recommending that the County Code be amended to allow the Board to offer participants the option of trading any fund, exchange traded product (e.g. ETFs), equity, or fixed income product, unless otherwise prohibited (options will be prohibited), through the SDBA.

Montgomery County Employee Retirement Plans
101 Monroe Street, 15th Floor • Rockville, Maryland 20850
240.777.8220 Fax 301.279.1424

Prior to opening an SDBA, participants are required to sign an agreement acknowledging their understanding that they exercise exclusive control over their SDBA and that the Board does not select or monitor the funds/securities traded in the SDBA. The agreement also provides a reminder to participants that Section 33-125 (a)(5) requires the Board to make investment counseling services available to all Plan participants to assist them with their investment selections. In addition, each Plan recordkeeper provides investment education including: newsletters, onsite seminars, one-on-one counseling sessions, representative visits, and internet access services.

The Board recently amended its Statement of Policies and Objectives for the RSP and the County's DCP to become effective upon the enactment of the legislation reflecting the following: Recognizing that some participants may want more variety, independence, and greater control in managing their RSP or DCP retirement plan portfolio, the Board will permit a participant to select any mutual fund, exchange traded product (e.g. ETFs), equity, or fixed income product, unless otherwise prohibited, through the SDBA. If the legislation is approved, the Board will prepare a communication piece to all RSP and DCP participants advising them of the changes and encouraging them to meet with the investment counselors to obtain additional information on the Self Directed Brokerage Account option and the feasibility of its use in their portfolio.

Expedited Bill #54-10 would also amend the County's retirement law to permit the RSP and Guaranteed Retirement Income Plan (GRIP) to distribute terminated employee account balances of less than $1,000. Although a participant may close his or her RSP or GRIP account when leaving County service, the County Code requires that the participant request a distribution regardless of the size of the account balance.

Background: Annually, the Board evaluates the services provided by each Plan's recordkeeper to determine if processes can be altered to lower expenses which will result in lower fees for participants. The Internal Revenue Code (IRC) allows a plan sponsor to distribute account balances of less than $1,000. Due to the administrative costs associated with maintaining these small accounts, and the costs being borne by all participants, the Board of Investment Trustees is recommending adoption of the IRC provision to distribute terminated RSP and GRIP participant account balances of less than $1,000 without requiring a request from the participant.

In addition, Expedited Bill #54-10 also amends the County's retirement law to allow participants to rollover retirement accounts from most types of retirement plans and clarifies current administrative and investment procedures for the RSP and DCP.

Montgomery County Employees Deferred Compensation Plan
Statement of Policies & Objectives

Montgomery County sponsors the Montgomery County Employees Deferred Compensation Plan ("Plan") to provide eligible employees a voluntary method of retirement savings through pre-tax employee contributions to individual participant accounts.

The Montgomery County Code ("Code") grants the Board of Investment Trustees ("the Board") the exclusive authority to manage the assets of the Plan and to select investment options that the Board considers prudent subject to the Standard of Care set forth in Code Section 33-61C. The Code also provides that the Board must invest each participant's account in the Board designated investment options as directed by the participant. The Board adopts this Statement of Policies and Objectives as a guide to the exercise of its powers and duties in overseeing the investment program of the Plan.

Selection of Investment Options - Board

The Plan's participants have different investment objectives, time horizons and risk tolerances. To meet these varying investment needs, the Board will provide a diversified slate of investment options, each of which has a different set of risk and return characteristics as disclosed in their fund prospectus or other offering documents. From the options offered, participants can construct a portfolio designed for their retirement needs and risk tolerance.

The Board will select investment options that:

- Cover a risk and return spectrum of appropriate investment classes
- Are distinguishable and have distinct risk and return characteristics
- Are well diversified and professionally managed
- Charge fees that are reasonable for the asset class and investment style
- Maximize return within reasonable and prudent levels of risk

Recognizing that Plan participants have different investment styles and degrees of involvement in managing their retirement savings, the Board developed the following investment tiers to categorize the investment options offered in the Plan:

Tier	Implementation Style	Investments Offered
Tier 1	One decision funds	Lifecycle funds Stable Value fund
Tier 2	Passive exposure	Index funds across major asset classes
Tier 3	Active management	Funds within all major asset classes
Tier 4	Fully Participant driven	Self Directed Brokerage Account

The Board will offer a variety of options within each tier. Recognizing that some participants may want more variety, independence, and greater control in managing their Plan account, the Board will permit a participant to select any mutual fund, exchange traded product (e.g. ETFs), equity, or fixed income product, unless otherwise prohibited, through the Self-Directed Brokerage Account (SDBA). The Board will not monitor or evaluate the investment options available within the SDBA.

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When selecting investment options offered in Tier 1, 2, and 3, the Board may consider such factors as:

- The size, company staffing and organization, history, reputation, regulatory and legal compliance of the investment firm that manages each investment option.
- The experience of the individual portfolio manager.
- The investment objectives and structure, sector and security diversification.
- Adherence to investment strategy/style drift.
- Its historical risk and return measured against appropriate benchmarks and/or peer groups.
- Avoidance of duplication among investment options.
- The cost to participants, including any purchase or exchange fees, as well as its annual operating expenses.
- The ability to assist participants in meeting their individual investment goals when evaluated with the other available investment options.
- New product/investment opportunity.

Appendix A (attached) provides the current list of the investment options offered through the Plan and will be updated when changes are made.

Investment Program Oversight

On a quarterly basis the Board formally reviews and evaluates the investment options offered and the performance of each investment option. Board staff monitors the options daily and will notify the Board if circumstances warrant immediate action. The Board will discuss taking action if an investment option fails to satisfy its performance criteria, the basis for selecting the investment option has changed, or if some other material change prompts concern. If such an event occurs that causes concern as to the appropriateness of continuing to offer that investment option, the Board may take one or more of the following actions:

- Establish a probationary period during which any area of concern will be assessed and, if necessary, corrected.
- Supplement the investment option with one or more alternative investment options for that category.
- Replace the investment option with one or more alternative investment options for that category.
- Eliminate the investment option.

Changes to the investment options available will be made at the sole discretion of the Board, which shall document its decisions in the Board minutes, and communicate all changes to the participants on a timely basis. If a fund is eliminated and a replacement fund is added, participants will be notified that if they fail to make an election to move their balance from the eliminated fund prior to the date of transfer, any assets in the eliminated fund will be transferred to the replacement fund.

Selection of Investment Options - Participant

Participants may choose one or more investment options depending on individual investment objectives. Participants may change investment elections at any time (trade restrictions and fees on redemptions may be initiated by a particular option at any time). A participant's direction of investment remains in effect until otherwise changed by the participant. If a participant fails to 21 designate an investment option, the participant's account balance and future contributions will be invested in the default option, which is currently the lifecycle fund (also known as target date fund) closest to the participant's expected retirement date, based on the participant's date of birth.

Participants are advised that they bear all investment risk and earnings on their participant account balances are determined solely by their investment elections. No person who is a fiduciary shall be liable for any loss resulting from the participant's exercise of control over his or her plan account.

Prior to opening an SDBA, participants will be required to sign an agreement acknowledging their understanding that he or she exercises exclusive control over his/her SDBA and that the Board does not select or monitor the investment options traded in the SDBA.

Third Party Administrator

The Board, in conjunction with the Chief Administrative Officer, will select a Third Party Administrator (TPA) to perform functions related to administration of the Plan and recordkeeping of participant investment accounts, including: enrollment, exchanges, transfers, distributions, communication, performance and fee information, and periodic individual statements and benefit payments.

The Board will conduct a review annually, or as necessary, of the TPA, to evaluate the expenses, the revenue sharing arrangements in place, and to determine if the TPA is meeting the administrative requirements as described above.

Investment Education Resources

Participants will have educational resources available to make informed investment decisions based on their investment goals. The TPA will provide investment education and will include materials such as: quarterly statements and newsletters, onsite seminars, one-on-one counseling sessions, representative visits, and internet-based financial planning calculators or other tools.

The Board has administrative procedures in place with the TPA to ensure that participants receive information on risk factors, fee structures and other issues related to investments. The TPA will provide these materials upon request.

Amended: September 24, 2010

Appendix A – Current Investment Options

Tier Classification	Investment Category	Fund Options*
Tier 1	Lifecycle Funds	• Blackrock LifePath Retirement • Blackrock LifePath 2020 • Blackrock LifePath 2030 • Blackrock LifePath 2040 • Blackrock LifePath 2050
Tier 1	Stable Value Fund	• SEI Stable Asset
Tier 2	Index Funds	• SSgA U.S. Bond Index Fund • SSgA S&P 500 Index • SSgA Russell Small/Mid Cap Index • SSgA International Index Fund
Tier 3	Bond/Income Funds	• Hartford Total Return Bond • Pimco High Yield • Goldman Sachs Short Duration Government
Tier 3	Real Return Funds	• Fidelity Inflation-Protected Bond • Fidelity Strategic Real Return • SsgA Tuckerman REIT
Tier 3	Stock Funds	• American Funds: Growth Fund of America • Hartford Dividend & Growth • Legg Mason ClearBridge Appreciation • Hartford Capital Appreciation • Fidelity Low Priced Stock • Fidelity Small Cap Stock • Legg Mason ClearBridge Small Cap Growth • Northern Small Cap Value
Tier 3	International/Global Stock Funds	• Fidelity Diversified International • Oppenheimer Global
Tier 4	Self Directed Brokerage Acct.	• State Street Global Markets

*Investment options as of September 24, 2010

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Montgomery County Retirement Savings Plan
Statement of Policies & Objectives

Montgomery County sponsors the Montgomery County Retirement Savings Plan ("Plan") to provide eligible participants a multiple-employer defined contribution plan.

The Montgomery County Code ("Code") grants the Board of Investment Trustees ("the Board") the exclusive authority to manage the assets of the Plan and to select investment options that the Board considers prudent subject to the Standard of Care set forth in Code Section 33-61C. The Code also provides that the Board must invest each participant's account in the Board designated investment options as directed by the participant. The Board adopts this Statement of Policies and Objectives as a guide to the exercise of its powers and duties in overseeing the investment program of the Plan.

Selection of Investment Options - Board

The Plan's participants have different investment objectives, time horizons and risk tolerances. To meet these varying investment needs, the Board will provide a diversified slate of investment options, each of which has a different set of risk and return characteristics as disclosed in their fund prospectus or other offering documents. From the options offered, participants can construct a portfolio designed for their retirement needs and risk tolerance.

The Board will select investment options that:

- Cover a risk and return spectrum of appropriate investment classes
- Are distinguishable and have distinct risk and return characteristics
- Are well diversified and professionally managed
- Charge fees that are reasonable for the asset class and investment style
- Maximize return within reasonable and prudent levels of risk

Recognizing that Plan participants have different investment styles and degrees of involvement in managing their retirement savings, the Board developed the following investment tiers to categorize the investment options offered in the Plan:

Tier	Implementation Style	Investments Offered
Tier 1	One decision funds	Lifecycle funds Stable Value fund
Tier 2	Passive exposure	Index funds across major asset classes
Tier 3	Active management	Funds within all major asset classes
Tier 4	Fully Participant driven	Self Directed Brokerage Account

The Board will offer a variety of options within each tier. Recognizing that some participants may want more variety, independence, and greater control in managing their Plan account, the Board will permit a participant to select any mutual fund, exchange traded product (e.g. ETFs), equity, or fixed income product, unless otherwise prohibited, through the Self-Directed Brokerage Account (SDBA). The Board will not monitor or evaluate the investment options available within the SDBA.

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When selecting investment options offered in Tier 1, 2, or 3, the Board may consider such factors as:

- The size, company staffing and organization, history, reputation, regulatory and legal compliance of the investment firm that manages each investment option.
- The experience of the individual portfolio manager.
- The investment objectives and structure, sector and security diversification.
- Adherence to investment strategy/style drift.
- Its historical risk and return measured against appropriate benchmarks and/or peer groups.
- Avoidance of duplication among investment options.
- The cost to participants, including any purchase or exchange fees, as well as its annual operating expenses.
- The ability to assist participants in meeting their individual investment goals when evaluated with the other available investment options.
- New product/investment opportunity.

Appendix A (attached) provides the current list of investment options offered through the Plan and will be updated when changes are made.

Investment Program Oversight

On a quarterly basis, the Board formally reviews and evaluates the investment options offered and the performance of each investment option. Board staff monitors the options daily and will notify the Board if circumstances warrant immediate action. The Board will discuss taking action if an investment option fails to satisfy its performance criteria, the basis for selecting the investment option has changed, or if some other material change prompts concern. If such an event occurs that causes concern as to the appropriateness of continuing to offer that investment option, the Board may take one or more of the following actions:

- Establish a probationary period during which any area of concern will be assessed and, if necessary, corrected.
- Supplement the investment option with one or more alternative investment options for that category.
- Replace the investment option with one or more alternative investment options for that category.
- Eliminate the investment option.

Changes to the investment options available will be made at the sole discretion of the Board, which shall document its decisions in the Board minutes, and communicate all changes to the participants on a timely basis. If an investment option is eliminated and a replacement fund is added, participants will be notified that if they fail to make an election to move their balance from the eliminated fund prior to the date of transfer, any assets in the eliminated fund will be transferred to the replacement fund.

Selection of Investment Options - Participant

Participants may choose one or more investment options depending on individual investment objectives. Participants may change investment elections at any time (trade restrictions and fees on redemptions may be initiated by a particular option at any time). A participant's direction of investment remains in effect until otherwise changed by the participant. If a participant fails to designate an investment option, the participant's account balance and future contributions will be 25 invested in the default option, which is currently the lifecycle fund (also known as target date fund) closest to the participant's expected retirement date, based on the participant's date of birth.

Participants are advised that they bear all investment risk and earnings on their participant account balances are determined solely by their investment elections. No person who is a fiduciary shall be liable for any loss resulting from the participant's exercise of control over his or her plan account.

Prior to opening an SDBA, participants will be required to sign an agreement acknowledging their understanding that he or she exercises exclusive control over his/her SDBA and that the Board does not select or monitor the investment options traded in the SDBA.

Third Party Administrator

The Board, in conjunction with the Chief Administrative Officer, will select a Third Party Administrator (TPA) to perform functions related to administration of the Plan and recordkeeping of participant investment accounts, including: enrollment, exchanges, transfers, distributions, communication, performance and fee information, and periodic individual statements and benefit payments.

The Board will conduct a review annually, or as necessary, of the TPA, to evaluate the expenses, the revenue sharing arrangements in place, and to determine if the TPA is meeting the administrative requirements as described above.

Annuity Option

Section 33-120(f)(2) requires the Board to provide an annuity distribution option to Plan participants. The Board will provide several vendors, through the Third Party Administrator ("TPA"), from which a participant may select an annuity option. Annually, the Board will review the TPA's evaluation of the vendors, with a focus on additions or deletions to the list of approved vendors, as well as vendor credit ratings. The TPA serves as the Board's expert in performing analytics and due diligence to evaluate factors impacting each annuity provider's claims paying ability and creditworthiness, including:

- Quality and diversification of the annuity provider's investment portfolio
- Size of the insurer relative to the proposed contract
- Level of insurer's capital and surplus
- Lines of business of the annuity provider and other indications of the insurer's exposure to liability
- Structure of the annuity contract and guarantees supporting the annuities
- State guarantee association protection

Investment Education Resources

Section 33-125 (a)(5) requires the Board to make investment counseling services available each year to all Plan participants to provide advice on the investment options available. To meet this requirement, the Board will engage an investment counseling firm to provide counseling to each participant annually. The Board annually reviews the service provider to ensure that the contract terms are being met and that participants are satisfied with the service provided. Each participant is asked to complete a survey after meeting with the service provider to evaluate the satisfaction level with the counseling session.

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In addition to individual investment counseling, participants will have educational resources available to make informed investment decisions based on their investment goals. The education will be provided by the TPA and/or other qualified resources and includes: quarterly statements and newsletters, onsite seminars, representative visits, and internet-based financial planning calculators or other tools.

The Board has administrative procedures in place with the TPA to ensure that participants receive information on risk factors, fee structures and other issues related to investments. The TPA will provide these materials upon request.

Amended: September 24, 2010

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Appendix A – Current Investment Options

Tier Classification	Investment Category	Fund Options*
Tier 1	Lifecycle Funds	• Fidelity Freedom K 2000 • Fidelity Freedom K 2005 • Fidelity Freedom K 2010 • Fidelity Freedom K 2015 • Fidelity Freedom K 2020 • Fidelity Freedom K 2025 • Fidelity Freedom K 2030 • Fidelity Freedom K 2035 • Fidelity Freedom K 2040 • Fidelity Freedom K 2045 • Fidelity Freedom K 2050 • Fidelity Freedom K Income
Tier 1	Stable Value Fund	• Managed Income Portfolio
Tier 2	Index Funds	• Fidelity US Bond Index • Spartan Total Market Index • Spartan 500 Index • Spartan Extended Market Index • Spartan International Index
Tier 3	Bond/Income Funds	• Fidelity Intermediate Bond • Fidelity Capital & Income •
Tier 3	Balanced/Hybrid Fund	• Fidelity Puritan
Tier 3	Real Return Funds	• Fidelity Strategic Real Return • Fidelity Inflation-Protected Bond • Fidelity Real Estate Investment
Tier 3	Stock Funds	• Fidelity Contrafund • Fidelity Growth Company • Fidelity Value • Fidelity Equity Income • Davis NY Venture • Fidelity Low Priced Stock • Northern Small Cap Value • Fidelity Small Cap Stock • Artisan Small Cap
Tier 3	International/Global Stock Funds	• Fidelity Diversified International • Templeton World
Tier 4	Self Directed Brokerage Acct.	• Fidelity BrokerageLink

*Investment options as of September 24, 2010

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Staff Amendment 1

Amend lines 20-24 as follows:

(2) [If a participant terminates employment with an] A participant's account balance of $1,000 or less[, the account balance] must be automatically distributed in a lump sum as soon as administratively feasible after termination of employment without a request from the participant.

Amend lines 77-82 as follows:

(4) Notwithstanding any other provision of this subsection, [if a participant terminates employment with an] a participant's account balance of $1000 or less[, the account balance] must be automatically distributed in a lump sum as soon as administratively feasible after termination of employment without a request from the participant.