Agenda Item 12
April 26, 2011
Public Hearing

MEMORANDUM

April 22, 2011

TO: County Council

FROM: Robert H. Drummer, Senior Legislative Attorney

SUBJECT: **Public Hearing:** Expedited Bill 11-11, Personnel – Retirement Plans - Contributions

Expedited Bill 11-11, Personnel – Retirement Plans - Contributions, sponsored by the Council President at the request of the County Executive, was introduced on April 5, 2011. A Government Operations and Fiscal Policy Committee worksession was held on April 25. A second worksession is tentatively scheduled for April 28 at 9:30 am.

Background

Bill 11-11 would increase member contributions by 2% of salary in the Optional and Integrated defined benefit plans of the Employees' Retirement System (ERS) and decrease employer contributions by 2% of salary in the defined contribution Guaranteed Retirement Income Plan (GRIP)[1] and the Elected Officials' Plan of the Employee's Retirement System and the Retirement Savings Plan (RSP). This Bill is necessary to implement the Executive's FY12 Recommended Budget.[2] The Executive estimated the FY12 savings from increasing the ERS member contributions by 2% in the defined benefit plans to be $6,044,180. The Executive estimated the FY12 savings from reducing the employer's contribution to the defined contribution RSP and GRIP by 2% to be $4,860,290. See ©9.

The Bill would take effect on July 1, 2011 for all County employees, except elected officials. The Bill would take effect for elected officials on the first day of their next term of office. Article III, §35 of the Maryland Constitution prohibits an increase or decrease in compensation during a term of office for an elected official. The State's Attorney, the Sheriff,

[1] Although the GRIP is a cash balance hybrid plan, we are considering it a defined contribution plan in this discussion because the employer's contribution as a percentage of salary is fixed.

[2] The arbitration awards in favor of the International Association of Fire Fighters (IAFF) and the Fraternal Order of Police (FOP) include no changes to the current retirement plans for fire fighters and police officers. The arbitration award in favor of Municipal and County Government Employees Organization (MCGEO) contains a similar one-year 2% reduction of the employer contribution to the RSP and GRIP and a one-year reduction in the employer contribution to the defined benefit plan with the members not earning service credit for FY12. The Executive did not recommend these retirement provisions in his FY12 Recommended Budget. The Council's review of the collective bargaining agreements with the County employee unions will be considered separately.

the Executive, and the Councilmembers are all elected officials serving a four year term of office subject to Article III, §35 of the Maryland Constitution.

Issues[3]

1. Should the retirement plan savings from employees in the defined contribution plans (RSP & GRIP) be similar to savings from employees in the defined benefit plans?

Currently, the defined benefit and the defined contribution plans have approximately the same number of enrollees.[4] However, the County Government will pay $124 million (from tax supported and non-tax supported funds) for employee retirement benefits in FY11: $105 million for the defined benefit plan and $19 million for the defined contribution plans. While defined benefit plans are more generous to employees and cost the County significantly more than defined contribution plans, the Bill would require employees in both plan types to forego identical amounts (2% of salary). In other words, the Bill would save the County approximately 25% of its annual defined contribution plan cost and only 5% of its annual defined benefit plan cost.

The reason for the dramatic difference in cost of the two plan types is the significant difference in the benefit earned by an employee at retirement. The Office of Legislative Oversight prepared the following chart showing an example of the different pension benefits for a firefighter III retiring after 20 years, a master firefighter retiring after 30 years, and a child welfare case worker retiring after 30 years. Although the Bill would increase the employee contribution for a master firefighter in the defined benefit plan, the present value of the pension benefit would remain $1,291,709. *The present value of the retirement account after 30 years for a child welfare case worker in the defined contribution GRIP plan would drop 16.7% from $536,132 to $446,776 due to a 2% reduction in the employer contribution.*

Summary of Income from Retirement Benefits
Examples of Employees Retiring at Top of Salary Grade in July 2011

	Master Firefighter	Firefighter III	Child Welfare Case Worker with an employer contribution of:	
			8% of salary	6% of salary
Years of Service	30	20	30	30
Age at Retirement	54	44	54	54
Final Salary	$87,422	$74,272	$88,027	$88,027
Annual Retirement Benefit (until age 62)	$58,382	$37,318	$0	$0
Pension	$58,382	$37,318	--	--
Social Security	$0	$0	$0	$0
Annual Retirement Benefit (age 62+)	$57,166	$37,992	$17,076	$17,076
Pension	$40,138	$25,656	--	--

[3] These issues will be discussed in further detail in the review of the collective bargaining agreements and the OLO analysis of the proposed changes to employee benefits.
[4] The percentage of defined contribution members is growing over time because the defined benefit plan was closed for non-public safety employees hired after October 1, 1994.

Social Security	$17,028	$12,336	$17,076	$17,076
Retirement Account Balance	--	--	$536,132	$446,776
Present Value of Retirement Benefit				
excluding Social Security	**$1,291,709**	**$1,198,851**	**$536,132**	**$446,776**
including Social Security	$1,666,325	$1,470,243	$911,804	$822,448

Assumptions

- All dollar amounts represent current year dollars.
- Pension payments and retirement account withdrawals are subject to Federal and State income tax. All dollar amounts shown are pre-tax dollars.
- All employees worked full time, were hired into their positions at age 24, and retire on July 1, 2011 with no unused sick leave.
- All employees retired with a top of grade salary for the position (including longevity awards).
- The Social Security Administration's online "Social Security Quick Calculator" is the source for annual Social Security benefits.
- Social Security pension amounts assume that retirees do not take another paid job after leaving County service and will be eligible for benefits beginning at age 62.
- The Child Welfare Case Worker's retirement account balance assumes a starting salary of $25,000; an annual employer contribution of either 8% or 6% of salary; an annual employee contribution of 4% of salary; and participation in the GRIP with an annual guaranteed return of 7.25%.
- Present value calculations assume that pension and Social Security cost of living adjustments equal the future rate of inflation.
- Present value calculations assume an average life expectancy of 84 years (the current average life expectancy assumption for ERS plan members).

2. Should the employee contribution for an employee in the defined benefit plan be raised 2% for everyone?

The Bill would require that all employees in a defined benefit plan contribute an additional 2% of salary annually. As shown in the table below, the impact of the Bill varies among different employee groups.

Table 2: Executive's Proposed Increases in Employee Defined Benefit Contributions

Employee Group	Current Employee Contribution (% of salary) [5]	CE Proposed Employee Contribution (% of salary)	% Increase in Employee Contribution
Non-Public Safety (hired before 10/1/94)	4%	6%	+50%
Police and Deputy Sheriff/Corrections	4.75%	6.75%	+42%
Fire & Rescue	5.5%	7.5%	+36%

The percentage increase in the employee contribution required by the Bill varies significantly by group.

[5] Employees in the ERS who earn more than the Social Security Wage Base ($106,800 in 2012) contribute a higher percentage toward their pensions for salary earned above the Social Security Wage Base.

Expedited Bill No. 11-11
Concerning: Personnel - Retirement Plans - Contributions
Revised: March 30, 2011 Draft No. 1
Introduced: April 5, 2011
Expires: October 5, 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) amend the Optional and Integrated Plans of the Employees' Retirement System to increase member contributions;
(2) amend the Guaranteed Retirement Income Plan of the Employee's Retirement System and the Retirement Savings Plan to decrease employer contributions; and
(3) generally amend the law regarding the employees' retirement system.

By amending
Montgomery County Code
Chapter 33, Personnel and Human Resources
Sections 33-39, 33-40 and 33-117

Boldface	*Heading or defined term.*
<u>Underlining</u>	*Added to existing law by original bill.*
[Single boldface brackets**]**	*Deleted from existing law by original bill.*
<u>Double underlining</u>	*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 33-39, 33-40, and 33-117 are amended as follows:

33-39. Member Contributions and Credited Interest.

(a) Member contributions. Each member of the retirement system must contribute a portion of the member's regular earnings through regular payroll deductions.

(1) Member Contributions to the Optional Retirement Plan. A member of the Optional Retirement Plan must contribute the following percentage of regular earnings:

(A) Group A or H member, [6] 8 percent;

(B) Group B member, 7 percent;

(C) Group D member, 7½ percent; and

(D) Group E, F, or G member, [8½] 10½ percent.

(2) Member Contributions to the Integrated Retirement Plan. A member of the Integrated Retirement Plan must contribute the following percentage of regular earnings:

(A) Group A, [4] 6 percent up to the maximum Social Security wage base, and [6] 8 percent of regular earnings that exceed the wage base;

(B) Group B, 4½ percent up to the maximum Social Security wage base, and 7 percent of regular earnings that exceed the wage base;

(C) Group E, [4¾] 6¾ percent up to the maximum Social Security wage base, and [8½] 10½ percent of regular earnings that exceed the wage base;

(D) Group F, [4 ¾] 6¾ percent up to the maximum Social Security wage base and [8½] 10½ percent of regular earnings that exceed the wage base;

(E) Group G:

(i) [5½] 7½ percent up to the maximum Social Security wage base, and [9¼] 11¼ percent of regular earnings that exceed the wage base;

(ii) starting in the 25th year from the member's leave accrual date under the County payroll system, [4¾] 6¾ percent up to the maximum Social Security wage base, and [8½] 10½ percent of regular earnings that exceed the wage base on and after the member's 25th year of credited service;

(F) Group H, [4] 6 percent up to the maximum Social Security wage base and [6] 8 percent of regular earnings that exceed the wage base.

33-40. Employer Contributions.

* * *

(d) Elected officials' plan. Subsections 33-40(a), (b), and (c) do not apply to the elected officials' plan. Instead, the following provisions apply:

(1) The County must contribute to the elected officials' plan in monthly installments, on behalf of each elected officials' participant, an amount equal to [8] 6 percent of the elected officials' participants' regular earnings. The county's elected officials' contributions are to be adjusted to take into account any forfeiture under subsection 33-40(d)(2)(D). In determining the amount of the County elected officials' contributions, only an elected officials' participant's regular earnings earned while that elected officials' participant made required elected officials' participant contributions are counted.

* * *

(e) Guaranteed Retirement Income Plan.

(1) Each pay period, the County must credit to each non-public safety member's guaranteed retirement income plan account an amount equal to [8%] 6% of the member's regular earnings. The County must make a one-time credit equal to .36% of the member's fiscal year 2010 regular earnings to the member's guaranteed retirement income plan account on the second pay period in July 2010 for a member who is on the County payroll as of June 30, 2009 and who is also on the County payroll as of June 30, 2010. Interest must be credited at an annual rate of 7.25% on the County contribution credits. If the annual 7.25% interest rate does not comply with applicable law, the third segment rate described in Internal Revenue Code Section 430(h)(2)(G) or any successor provision must apply. Interest must be credited to a member's guaranteed retirement income plan account balance on a monthly basis as of the last day of the month.

(2) Each pay period, the County must credit to each public safety member's guaranteed retirement income plan account an amount equal to [10%] 8% of the member's regular earnings. Interest must be credited at an annual rate of 7.25% on the County contribution credits. If the annual 7.25% interest rate does not comply with applicable law, the third segment rate described in Internal Revenue Code Section 430(h)(2)(G) or any successor provision must apply. Interest must be credited

to a member's guaranteed retirement income plan account balance on a monthly basis as of the last day of the month.

33-117. Employer Contributions.

(a) Amount of employer contributions.

(1) Group I participants. The County must contribute to the retirement savings plan in quarterly installments, on behalf of each Group I participant, an amount equal to [8%] <u>6%</u> of that participant's regular earnings while a Group I participant during a plan year. The County must make a one-time contribution of .36% of the participant's fiscal year 2010 regular earnings on the second pay period in July 2010 for a Group I participant on the County payroll as of June 30, 2009 and who is also on the County payroll as of June 30, 2010.

(2) Group II participants. The County must contribute to the retirement savings plan in quarterly installments, on behalf of each Group II participant, an amount equal to [10%] <u>8%</u> of that participant's regular earnings while a Group II participant during a plan year. The County must make a one-time contribution of .36% of the participant's fiscal year 2010 regular earnings on the second pay period in July 2010 for a Group II participant on the County payroll as of June 30, 2009 and who is also on the County payroll as of June 30, 2010.

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 July 1, 2011 except as otherwise provided. For a member of the Optional Plan, Integrated Plan, Elected Officials' Plan, or Guaranteed Retirement Income Plan holding the office of

County Executive, Councilmember, or Sheriff, the amendments to Sections 33-39(a)(1), 33-39(a)(2), 33-40(d)(1) and 33-40(e)(1) take effect on December 1, 2014. For a member of the Optional Plan, Integrated Plan, Elected Officials' Plan, or Guaranteed Retirement Income Plan holding the office of State's Attorney, the amendments to Sections 33-39(a)(1), 33-39(a)(2), 33-40(d)(1) and 33-40(e)(1) take effect on January 5, 2015.

Approved:

Valerie Ervin, 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 11-11
Personnel - Retirement Plans -- Contributions

DESCRIPTION: The requested legislation amends the County Retirement Law to (1) increase by 2 percent member contributions to the Optional and Integrated Plans; (2) decrease by 2 percent employer contributions to the Guaranteed Retirement Income Plan, the Elected Officials' Plan, and the Retirement Savings Plan; and (3) generally make changes in the employees' retirement system.

PROBLEM: The County faces a severe budget shortfall for Fiscal Year 2012 and the proposed legislation is part of the savings in the County Executive's proposed budget.

GOALS AND OBJECTIVES: To statutorily implement savings contained in the County Executive's proposed budget.

COORDINATION: Office of Human Resources

FISCAL IMPACT: Office of Management and Budget

ECONOMIC IMPACT: See OMB Fiscal Impact Statement.

EVALUATION: n/a

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OFFICE OF THE COUNTY EXECUTIVE
ROCKVILLE, MARYLAND 20850

Isiah Leggett
County Executive

RECEIVED
MONTGOMERY COUNTY
COUNCIL
2011 MAR 18 AM 9:59

MEMORANDUM

March 15, 2011

TO: Valerie Ervin, President
Montgomery County Council

FROM: Isiah Leggett, County Executive

SUBJECT: Legislation to Modify the County Retirement Law

I am submitting for Council consideration a bill that would amend the County's Retirement Law to increase by two percent member contributions to the Optional and Integrated Plans in the Employees' Retirement System, and to decrease by two percent employer contributions to the Guaranteed Retirement Income Plan and Retirement Savings Plan in the Employees' Retirement System. This bill implements a part of my recommended FY12 Operating Budget and is projected to save the County $10.9 million in FY12. I am attaching a Legislative Request Report and Fiscal and Economic Impact Statement for the bill.

In light of constitutional concerns raised by the County Attorney, the changes for elected officials in the Optional Plan, Integrated Plan, Elected Officials' Plan and Guaranteed Income Plan would not become effective until December 2, 2014, after the end of their current terms.

c: Joseph Adler, Director, Office of Human Resources
Joseph Beach, Director, Office of Management and Budget
Kathleen Boucher, Assistant Chief Administrative Officer
Marc Hansen, County Attorney

OFFICE OF MANAGEMENT AND BUDGET

Isiah Leggett
County Executive

Joseph F. Beach
Director

MEMORANDUM

March 15, 2011

TO: Valerie Ervin, President, County Council

FROM: Joseph F. Beach, Director, Office of Management and Budget

SUBJECT: Council Bill XX-11, Personnel – Retirement Plans - Contributions

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

LEGISLATION SUMMARY

Expedited Bill XX-11 amends the Optional and Integrated Plans of the Employees' Retirement System (ERS) to increase member contributions, amends the Guaranteed Retirement Income Plan (GRIP) of the Employee's Retirement System and the Retirement Savings Plan (RSP) to decrease employer contributions, and generally amends the law regarding the employees' retirement system.

FISCAL AND ECONOMIC SUMMARY

There is a fiscal impact resulting from this legislation. The County Executive's FY12 Recommended Operating Budget includes the following savings:

2% Employee Increase in ERS Contributions	-$6,044,180
2% Employer Reduction in GRIP Contributions	-$1,138,130
2% Employer Reduction in RSP Contributions	-$3,722,160
Total	**-$10,904,470**

These budgetary savings are net of a total FY12 County cost for the retirement benefit of $117,926,100. These are permanent, on-going reductions in the cost of employee benefits which will change as employee compensation changes over time.

The impact on the individual employee varies, depending on the type of plan in which they are enrolled. For the ERS, a defined benefit plan, to maintain the same level of benefit at retirement, the proposed legislation requires an increase to employee contributions of two percent of covered compensation. For RSP and GRIP, savings are realized through a reduction in the employer contribution of two percent of covered compensation.

Office of the Director

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www.montgomerycountymd.gov

The Department of Finance reports that the proposed bill may affect the take-home pay for certain County employees who live in the County because of the increase in their contribution under the Optional Retirement Plan or the Integrated Retirement Plan. However, the legislation has no significant economic impact since any reduction in take-home pay for this group of employees is small relative to the Montgomery County economy as a whole.

Other Changes

These retirement changes are in addition to changes to the group health plan. The County Executive's FY12 Recommended Operating Budget also includes group health savings, most significantly from an increased employee cost share for the benefit. Under the County Executive's Recommended Budget, in addition to salary-based premiums (described below), the County pays up to 70% of the cost of the premiums for the benefits listed below and all employees must pay a base-level 30% of the cost of the premiums for:

- Health
- Dental
- Vision
- Prescription Drug (standard plan). High Option plan participants still buy up.
- Life Insurance
- Long Term Disability

In addition, part-time and full-time employees whose annualized base salary is equal to or over $50,000 and under $90,000 must pay an additional premium of $35.00 each pay period if they enroll in a health plan or a prescription drug plan. If their annualized base salary is equal to $90,000 and above they must pay an additional premium of $60.00 each pay period.

Finally, there is also savings in the CE's Recommended Budget from the following prescription and life insurance plan changes:

- Mandatory generics. If a participant chooses to receive a brand name prescription drug that has a generic equivalent, even if their doctor specifies that the prescription be dispensed as written, the participant must pay the generic co-pay plus the difference between the cost of the brand name drug and the generic drug.
- Participants receiving prescriptions by mail order must pay two copayments for up to a 90 day supply.
- The County's prescription drug benefit will no longer cover reimbursement for any of the drugs specifically approved by the Food and Drug Administration for the treatment of erectile dysfunction.
- Employees eligible for life insurance coverage must have term life insurance coverage equal to one times their basic annual salary.

Projected FY12 and Outyear Savings

Projected budget year and outyear savings from these cost share, program, and contribution changes are as follows:

Retirement and Group Health Savings Summary FY12 - FY17

Savings ($ in millions)

	FY12	**FY13**	**FY14**	**FY15**	**FY16**	**FY17**
2% Employee Increase in ERS Contributions[1]	-$6.0	-$6.2	-$6.3	-$6.4	-$6.5	-$6.7
2% Employer Reduction in GRIP Contributions[1]	-$1.1	-$1.2	-$1.2	-$1.2	-$1.2	-$1.3
2% Employer Reduction in RSP Contributions[1]	-$3.7	-$3.8	-$3.9	-$3.9	-$4.0	-$4.1
Three-tiered Cost Sharing Arrangement/ Prescription Plan Design Changes[2]	-$18.7	-$20.6	-$22.6	-$24.9	-$27.4	-$30.1
Total	**-$29.6**	**-$31.7**	**-$34.0**	**-$36.5**	**-$39.2**	**-$42.1**

[1] Outyear savings are projected to grow by the CPI-U for the Baltimore/Washington area (Source: Montgomery County Department of Finance).

[2] Outyear savings are projected to grow by the assumed growth in group health claims, premiums, and administrative cost growth, as projected by Aon Hewitt.

The following contributed to and concurred with this analysis: Lori O'Brien, Office of Management and Budget; David Platt, Department of Finance; and Wesley Girling, Office of Human Resources.

JFB:lob

c: Kathleen Boucher, Assistant Chief Administrative Officer
Lisa Austin, Offices of the County Executive
Jennifer Barrett, Director, Department of Finance
Joseph Adler, Director, Office of Human Resources
Linda Herman, Director, Board of Investment Trustees
Wesley Girling, Office of Human Resources
David Platt, Department of Finance
Michael Coveyou, Department of Finance
John Cuff, Office of Management and Budget