Agenda Item 24A
May 21, 2015
Action

MEMORANDUM

May 19, 2015

TO: County Council

FROM: Robert H. Drummer, Senior Legislative Attorney

SUBJECT: **Action:** Expedited Bill 20-15, Deferred Retirement Option Plan-Amendments – Retirement Savings Plan-Annuity – Guaranteed Retirement Income Plan-Election

Government Operations and Fiscal Policy Committee recommendation (3-0): approve the Bill with amendments.

Expedited Bill 20-15, Deferred Retirement Option Plan-Amendments – Retirement Savings Plan-Annuity – Guaranteed Retirement Income Plan-Election, sponsored by Lead Sponsor Council President at the request of the County Executive, was introduced on April 21, 2015. A Government Operations and Fiscal Policy Committee worksession was held on April 23 and a public hearing was held on May 5.

Bill 20-15 would:

(1) make the guaranteed retirement income plan the default retirement option for new employees in the Office, Professional and Technical (OPT) or the Service, Labor and Trades (SLT) bargaining units;
(2) establish a new deferred retirement option plan for sworn deputy sheriffs and uniformed correctional officers;
(3) provide an annuity option for employees who participate in the retirement savings plan; and
(4) generally amend the County employee retirement laws.

Bill 20-15 would implement 2 agreements negotiated by the Executive with MCGEO Local 1994. Changing the default option for new employees represented by MCGEO and the addition of an annuity option for all employees in the RSP resulted from an interest arbitration decision in favor of the County. See ©55-68. MCGEO sought, in arbitration, a new open enrollment period to elect the GRIP for those MCGEO members who are participating in the RSP. The arbitrator agreed with the County that a new open enrollment period for existing RSP members was inappropriate.

The establishment of a new DROP for sworn deputy sheriffs and uniformed correctional officers is part of the recently negotiated labor agreement with MCGEO for FY16. MCGEO President Gino Renne submitted a letter to the Council President in support of the DROP. See © 70. This new DROP would be similar to the existing DROP for sworn police officers. An eligible employee could choose to enter the DROP at full retirement. Once in the DROP, the employee would continue to work and receive his or her normal salary for up to 3 years. The employee would stop making retirement contributions and stop earning more service time for retirement while in the DROP. The County would pay the employee's retirement pension into a separate DROP account. The employee must choose investment options for these funds similar to the RSP. When the DROP period is over, the employee must leave County service and not return. The employee would receive the DROP account balance plus the pension the employee earned before entering the DROP with enhancements to the pension for cost-of-living adjustments the employee missed while in the DROP. As with the existing DROP for police and fire, the employee receives this enhanced retirement benefit in return for providing management with advance notice of retirement to aid management in succession planning. The Sheriff, in his letter supporting the new DROP, cited succession planning as the benefit to his Office. See ©69.

Public Hearing

Linda Herman, Executive Director of the County Retirement Plans, testifying on behalf of the Executive, supported the Bill to implement the recent Agreements with MCGEO.

GO Worksession

Linda Herman, Executive Director for the County Retirement Plans, represented the Executive Branch. Steve Farber, Council Administrator, Aron Trombka, OLO, Craig Howard, OLO, and Robert Drummer, Senior Legislative Attorney, represented the Council staff. The Committee discussed the collective bargaining agreements with MCGEO, FOP, and IAFF as well as Expedited Bill 20-15, which would implement the retirement amendments in the MCGEO Agreement.

The Committee recommended (3-0) approving:

1. the GWA, Service Increments, and Longevity Increments in each Agreement;
2. the tuition assistance in each Agreement;
3. the new special duty differential in the IAFF Agreement;
4. changing the default option to the GRIP for new employees represented by MCGEO;
5. an annuity option for RSP members in the MCGEO Agreement; and
6. the new DROP for deputy sheriffs and uniformed correctional officers in the MCGEO Agreement.

The Committee recommended (3-0) rejecting:

1. the 80/20 cost share for group insurance benefits in each Agreement; and

2. the prescription drug plan for Medicare-eligible retirees in each Agreement to the extent it conflicts with the County's move to EGWP plus wrap.

The Committee recommended (3-0) approval of Expedited Bill 20-15 with an amendment requested by the Executive to prevent the Director of Corrections from entering the DROP after appointment as Director.

Issues

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

OMB submitted a fiscal and economic impact statement for each provision of the Bill. See ©18-21. The Bill contains 3 distinct changes to the retirement system that should be considered separately.

(a) *GRIP Election.* Under current law, a new non-public safety employee must make a non-revocable choice to participate in either the Retirement Savings Plan (RSP) or the Guaranteed Retirement Income Plan (GRIP) within the first 150 days of full-time employment. Under each plan, the County contributes 8% of salary and the employee contributes 4% into a separate account. In the RSP, the employee must direct the investment of the account balance among several investments provided under the Plan. In the GRIP, the Board of Investment Trustees invests an employee's account balance along with the defined benefit plan trust funds. The County guarantees a return of 7.25%. The County bears the investment risk for members of the GRIP. The employee bears the investment risk for members of the RSP.

Many new employees fail to make a choice. Under current law, the default choice is the RSP. Bill 20-15 would change this default choice to the GRIP for employees represented by MCGEO. The Bill would not change the default choice for new unrepresented employees. OMB attached a report from an actuary, Gabriel, Roeder Smith & Co. (GRS), analyzing the potential fiscal impact of this change. See ©22-31. Although the change is likely to increase the number of employees in the GRIP, the fiscal impact depends entirely on the investment returns in the ERS Trust Fund. If they are greater than the 7.25% paid to the employee accounts, then it would have a positive impact. If not, the impact would be negative. The only conclusion we can draw from this analysis is that it would increase the County's investment risk. OMB also estimated a one-time $10,000 cost to implement the change.

(b) *RSP Annuity.* Under current law, a member of the GRIP can choose to receive his or her account balance upon retirement in the form of an annuity paid by the ERS Trust Fund. The employee must transfer his or her account balance to the ERS Trust Fund in return for periodic payments for the member's life and, if chosen, the life of the member's spouse. The annuity is calculated based upon the member's estimated life span (and the estimated life span of the member's spouse) in much the same manner as an insurance company would calculate an annuity. Since the ERS Trust Fund does not charge fees or seek a profit, the annuity payout should be greater than the payout offered by a private business. OMB attached a report from GRS analyzing the potential fiscal impact of this change. See ©52-54. The annuity option shifts both investment risk and longevity risk to the ERS Trust Fund. If the investment returns are less than predicted, the annuity will have a negative fiscal impact. If the member outlives his or her estimated lifespan, the annuity will have a negative fiscal impact. Again, it is impossible to calculate the fiscal impact of this risk, but it exists. OMB also estimated a one-time $10,000 cost to implement the change.

(c) *DROP for Deputy Sheriffs and Uniformed Correctional Officers.* OMB estimated a one-time $50,000 cost to implement the new DROP. See ©18. OMB attached a report from GRS analyzing the potential fiscal impact of the new DROP. See ©32-51. The Council's Office of Legislative Oversight analyzed the GRS report to provide additional information on the fiscal impact of this new benefit. See ©71-73. The Executive included no funds in FY16 for this benefit because the actuarial evaluation to calculate the additional County contribution necessary to fund this benefit will be calculated next year when payment begins. **If the Council enacts this new DROP, it will be paid for over the next 20 years through increased County contributions to the ERS Trust Fund starting in FY17.** In other words, the County would be buying the new benefit now, but paying for it later.

GRS estimated that the total cost of the new DROP would range between $2.6 and $4.1 million. OLO summarized its review of the actuary report as follows:

> OLO finds that GRS used reasonable assumptions to estimate the cost of the proposed DROP. Nonetheless, given the lack of experience data specific to the cohort that would receive the benefit as well as the high cost sensitivity associated with small changes in employee behavior, OLO concludes that the actual future cost of the DROP could fall outside of the range calculated by GRS. Further, OLO suggests that the Council take into account the immediate full cost of the DROP when considering whether to approve this new benefit.

2. Should the Council change the default choice to the GRIP for MCGEO employees?

Each new full-time non-public safety employee has 150 days after being hired to choose either the GRIP or the RSP. If the employee fails to make a choice, the employee becomes a member of the RSP. Unfortunately, many new employees fail to take advantage of this choice despite being given information about both plans by Human Resources during orientation. While we can only speculate why this happens, it may be that many employees hired at a young age are not yet ready to think about retirement. The Executive did not recommend passing this change through to unrepresented employees because of the increased risk from the GRIP and the potential increase in fees charged by the administrator for the RSP due to less participants and less money to be invested. The Executive successfully argued against creating a new window for existing MCGEO employees to transfer from the RSP to the GRIP for all of these reasons.

The Agreement with MCGEO to make this change for represented employees is reasonable. The County is in a better position to bear the investment risk than its employees. **Committee recommendation (3-0):** approve the change in the default choice for MCGEO employees.

3. Should the Council approve an annuity option for RSP members?

GRIP members already have this option. The Executive recommended passing the annuity option through to unrepresented employees. Although it would increase the risk to the ERS Trust Fund, it is reasonable to provide RSP members with the same distribution choices as GRIP members. **Committee recommendation (3-0):** approve the new annuity option for RSP members.

4. What is the purpose of the DROP for deputy sheriffs and uniformed correctional officers?

Sworn police officers and uniformed fire and rescue employees already have a similar DROP. Fire fighters receive a guaranteed return on their money of 8.25% for members entering the DROP before July 1, 2013 and 7.5% for members entering on or after July 1, 2013. Police officers must direct their own investments. The DROP for sheriffs and corrections would require the participant to direct his or her own investments.

The participant receives a tangible benefit. The participant can receive their retirement pension (though deferred) with interest along with normal salary for the last 3 years of employment before retirement. To some observers, this is double-dipping out of the same pot. What is the benefit to management? Increased retirement benefits can help with retention and recruitment of employees. However, we have not seen any evidence that the County is having difficulty recruiting new employees for these positions. It is possible that an employee would choose to stay longer because of the DROP, thus reducing the need to find a replacement. While this is likely in the first few years after the DROP begins, it is also likely that over time employees will schedule their entrance into the DROP 3 years before they would normally retire. It may encourage some employees to leave earlier due to the large lump sum an employee can receive upon exit from the DROP. *The Executive's actuarial report (GRS) estimates that using an assumption that employees will stay 1.6 years longer due to the DROP would increase the County's liability by $2.6 million, but an assumption that employees only stay 1 year longer due to the DROP increases the County's liability to $4.1 million.* Small changes in employee behavior create large changes in the County's liability. Predictions of employee behavior in this area are inherently inaccurate due to the lack of experience with a DROP for these employees.

The most likely benefit to management would be succession planning. Sheriff Popkin explained this as the reason he supports a DROP for deputy sheriffs. See ©69. Since deputy sheriffs must complete the police academy training, the lead-time for hiring new deputy sheriffs is significant. Scheduling a recruit class requires estimating the need for new employees. A DROP makes it easier to estimate when vacancies will occur. However, the extra lead time for hiring deputy sheriffs does not apply to uniformed correctional officers because the initial training is much shorter and done on an as-needed basis. In order for the DROP to support succession planning, the employee must be required to leave County service at the conclusion of the DROP and not return. The Bill uses the same language as the current law for police and fire, "when the employee's participation in the DROP ends, the employee must stop working for the County and receive a pension benefit." See lines 136-138 at ©7.

5. Are DROP plans used for deputy sheriffs and uniformed correctional officers in other local jurisdictions?

Maryland State police and fire have a DROP. State corrections officers do not. Many Maryland counties have a DROP for police and fire, but not for corrections. Those jurisdictions that have a separate police force, such as Howard and Anne Arundel, have a DROP for police, but not for deputy sheriffs. Baltimore County had a DROP for all employees, but ended it for new employees hired after 2007. Charles County has a DROP for deputy sheriffs, but they do not have a separate police force.

6. Is creating a new DROP for deputy sheriffs and uniformed correctional officers equitable?

Assuming that the major purpose of the DROP is an enhanced retirement benefit, it may be considered equitable to create a DROP for deputy sheriffs and uniformed correctional officers because it is a benefit enjoyed by police and fire. However, the County has divided its employees into two major groups for retirement benefits – those with a defined benefit plan (the ERS), like deputy sheriffs and correctional officers, and those with a defined contribution plan (the RSP; the GRIP is a hybrid plan, but the cost to the County is much closer to the RSP). More than half of current employees are now in the RSP or the GRIP.

The difference in the retirement cost for these two groups is very large. In FY16, the County will contribute 8% of salary for employees in the RSP and the GRIP, but 38-40% of salary for employees in the ERS. (Few private sector defined contribution plans offer an employer contribution as large as 8%, and more than 40% of private sector workers have no retirement plan at all.) For two County employees who both have a salary of $70,000, the first in the RSP or the GRIP and the second in the ERS, the County will contribute $5,600 for the first employee and about $28,000 for the second employee. Adding a DROP for deputy sheriffs and correctional officers would further widen this gulf. It could add more than $4 million to the County's accrued liability for the defined benefit plans. While it is payable over 20 years, beginning in FY17, it is real money. Is this the best use of this money?

7. Who would be eligible for the DROP?

The Bill would apply to a Correctional Officer I, Correctional Officer II, Correctional Officer III, Correctional Dietary Officer I, Correctional Dietary Officer II, Correctional Supervisor-Sergeant, Correctional Dietary Supervisor, Correctional Shift Commander-Lieutenant, Correctional Unit Commander-Captain, Deputy Warden, Warden, and Director of the Department of Corrections. The Bill would apply to Deputy Sheriff I, Deputy Sheriff II, Deputy Sheriff III, Deputy Sheriff Sergeant, Deputy Sheriff Lieutenant, Deputy Sheriff Captain, Assistant Sheriff, and Chief Deputy Sheriff (Colonel). **The elected Sheriff would not be eligible for the DROP.** The Agreement only applies to those employees in bargaining unit positions. The Bill would pass this benefit through to management, including the Director of Corrections. The purpose of including upper management is to avoid discouraging employees from applying for management positions. This seems reasonable, up to a point. It seems difficult to justify providing a DROP retirement benefit for an appointed official such as the Director of Corrections.[1] **Committee recommendation (3-0):** amend the Bill to prohibit the Director of Corrections from entering the DROP after appointment as Director. See lines 114-115 at ©6.

8. Technical amendments.

Recently, the County Attorney's Office notified Council staff of 2 technical amendments that should be made to the Bill.

1. First, the MCGEO Agreement provides that a DROP participant who becomes eligible for a non-service connected disability retirement pension after entering the DROP should have his or her non-service connected disability pension calculated as of the date the member **enters** the DROP. However, Bill 20-15, as sent over by the Executive, was inadvertently drafted to calculate this benefit as of the member's date of **exiting** the DROP. In order to conform to the Agreement, this change should be made as shown on line 206 at ©9.

2. The MCGEO Agreement does not affect the retirement benefit for an employee of a participating agency who is represented by a union. However, the Bill, as introduced, should be amended to clarify that the change in the default election to the DROP does not apply to an employee of a participating agency. This can be corrected by making the changes shown on lines 75, 89-90, 291, 336, & 338 of the Bill at ©4, 5, 12, & 14.

Committee recommendation (3-0): After the April 23 worksession, the Committee approved each of these technical amendments to conform to the MCGEO Agreement.

9. What are the Council's options for the DROP?

The Council has the final word on enacting this Bill. The Council is not part of the collective bargaining process and is not bound by the Agreement. There are at least 4 options:

(a) *Enact the Bill as introduced.*

(b) *Reject the DROP for the deputy sheriffs, uniformed correctional officers, or both.*

(c) *Remove some or all of upper management from the DROP, such as the Director of Corrections.*

[1] An employee hired as a Department Director from outside the County would not be eligible for the ERS or the DROP.

(d) *Reduce the maximum period of participation.* One or two years of lead-time would still give management the opportunity to plan for new hires while significantly reducing the cost of the DROP.

If the Council rejects any part of the Agreement (options b or d), the Executive and MCGEO would have 10 days from the adoption of the resolution indicating the intent to reject part of the Agreement to attempt to renegotiate that provision. If the parties reach a modified Agreement during that 10-day period, the new Agreement would be subject to Council review and approval.

If the Council decides to approve the DROP in any form for deputy sheriffs and uniformed correctional officers, it should be clear that the language in lines 136-138, "when the employee's participation in the DROP ends, the employee must stop working for the County and receive a pension benefit," means that the participant must not return to County service. Otherwise, the central rationale for the DROP, management's ability to use it for succession planning, would be lost.

Committee recommendation (3-0): approve the Bill with the amendments described above.

This packet contains:	Circle #
Expedited Bill 20-15	1
Legislative Request Report	16
County Executive Memo	17
Fiscal and Economic Impact statement	18
Arbitrator Decision	55
Sheriff Popkin letter	69
Gino Renne letter	70
OLO Fiscal Impact Analysis	71
Tom Lowman Analysis	74

F:\LAW\BILLS\1520 Retirement - RSP - GRIP - Default - Annuity\Action Memo.Docx

Expedited Bill No. 20-15
Concerning: Deferred Retirement Option Plan – Amendments – Retirement Savings Plan – Annuity – Guaranteed Retirement Income Plan – Election
Revised: May 7, 2015 Draft No. 6
Introduced: April 21, 2015
Expires: October 21, 2016
Enacted:
Executive:
Effective:
Sunset Date: None
Ch. ____, Laws of Mont. Co.

COUNTY COUNCIL
FOR MONTGOMERY COUNTY, MARYLAND

Lead Sponsor: Council President at the Request of the County Executive

AN EXPEDITED ACT to:

(1) make the guaranteed retirement income plan the default retirement option for certain employees;
(2) establish a deferred retirement option plan for sworn deputy sheriffs and uniformed correctional officers;
(3) provide an annuity option for employees who participate in the retirement savings plan; and
(4) generally amend the County employee retirement laws.

By amending
Montgomery County Code
Chapter 33, Personnel and Human Resources
Sections 33-37, 33-38A, 33-44, 33-115 and 33-120

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 33-37, 33-38A, 33-44, 33-115, and 33-120 are amended as follows:

33-37. Membership requirements and membership groups.

(a) *Full-time employees.*

(1) A full-time employee of the County or participating agency must become a member of a County retirement plan as a condition of employment, when the employee meets the applicable eligibility requirements, if the employee waives all rights of membership under any other retirement system supported in whole or in part by the State, a political subdivision of the State, or the County.

(2) A part-time employee who becomes a full-time employee and is not an active member of any County retirement plan must become an active member of:

(A) the integrated retirement plan, if the employee is eligible for membership in the integrated plan;

(B) the Retirement Savings Plan, if the employee satisfies the requirements for membership in Group I or II, even if the employee did not begin or return to County service on or after October 1, 1994 and participates as described in Section 33-115; or

(C) the guaranteed retirement income plan if the employee is eligible for membership and [elects to] participates as described in subsection (k).

(3) A temporary employee who becomes a full-time employee must become an active member of:

(A) the integrated plan, if the employee is eligible for membership in the integrated plan;

(B) the Retirement Savings Plan, if the employee satisfies the requirements for membership in Group I or II, even if the employee did not begin or return to County service on or after October 1, 1994 and participates as described in 33-115; or

(C) the guaranteed retirement income plan if the employee is eligible for membership and [elects to participate] participates as described in subsection (k).

(b) *Part-time employees.*

(1) A part-time employee of the County or participating agency may become a member of a County retirement plan if the employee waives all rights of membership under any other retirement system supported in whole or in part by the State, a political subdivision of the State, or the County. Membership is effective on the date the employee's application for membership is approved.

(2) A part-time employee who is not an active member of a retirement plan may become a member of either:

(A) the integrated plan, if the employee is eligible for membership in the integrated plan;

(B) the Retirement Savings Plan if the employee satisfies the requirements for membership in Group I or II, even if the employee did not begin or return to County service on or after October 1, 1994 and elects to participate as described in Section 33-115; or

(C) the guaranteed retirement income plan if the employee is eligible for membership and elects to participate as described in subsection (k).

* * *

(k) [*Election to join*] *Eligibility for the guaranteed retirement income plan.*

* * *

(3) An eligible full-time employee hired on or after July 1, 2009 and before July 1, 2015, and a part time or temporary employee who becomes full time on or after July 1, 2009 and before July 1, 2015, who does not participate in the retirement savings plan, may elect to participate in the guaranteed retirement income plan. An eligible employee must make an irrevocable election during the first 150 days of full time employment. If an eligible employee elects to participate, participation must begin on the first pay period after an employee has completed 180 days of full time employment. An employee who does not participate in the guaranteed retirement income plan must participate in the retirement savings plan beginning on the first pay period after the employee completes 180 days of full time employment.

* * *

(7) A member of the Office, Professional and Technical (OPT) or the Service, Labor and Trades (SLT) collective bargaining unit of the County government must participate in the guaranteed retirement income plan unless the employee makes a one-time irrevocable election to participate in the retirement savings plan during the first 150 days of full time employment, if the employee:

(A) is hired as a full-time employee on or after July 1, 2015; or

(B) is a part time employee who does not participate in the retirement savings plan and becomes a full-time employee on or after July 1, 2015.

Participation must begin on the first pay period after an employee has completed 180 days of full time employment.

(8) On or after July 1, 2015, an eligible full-time employee or a part-time or temporary employee who becomes a full-time employee in a position that is not within a bargaining unit or an eligible employee of a participating agency must participate in the retirement savings plan unless the employee makes a one-time irrevocable election to participate in the guaranteed retirement income plan during the first 150 days of full time employment. If the employee elects to participate, participation must begin on the first pay period after an employee has completed 180 days of full-time employment. A part-time employee who participates in either the retirement savings plan or the guaranteed retirement income plan when the employee becomes a full-time employee must continue to participate in the same retirement plan.

[(7)](9) An individual who changes employment from the County government to a participating agency or from a participating agency to the County government must continue to participate in his or her retirement plan and is not eligible to make an election.

33-38A. Deferred Retirement Option Plans.

* * *

(c) *DROP Plan for Sworn Deputy Sheriffs and Uniformed Correctional Officers.*

(1) *Uniformed correctional officer* means Correctional Officer I, Correctional Officer II, Correctional Officer III, Correctional Dietary Officer I, Correctional Dietary Officer II, Correctional Supervisor-Sergeant, Correctional Dietary Supervisor, Correctional Shift Commander-Lieutenant, Correctional Unit Commander-Captain, Deputy Warden, and Warden. [[and]] The Director of the Department of Corrections must not begin participation in the DROP after appointment as Director.

(2) *Sworn Deputy Sheriff* means Deputy Sheriff I, Deputy Sheriff II, Deputy Sheriff III, Deputy Sheriff Sergeant, Deputy Sheriff Lieutenant, Deputy Sheriff Captain, Assistant Sheriff, and the Chief Deputy Sheriff (Colonel).

(3) *Eligibility.* A sworn deputy sheriff or uniformed correctional officer who is at least age 55 years old and has at least 15 years of credited service or is at least 46 years old and has at least 25 years of credited service may participate in the DROP. A uniformed correctional officer or sworn deputy sheriff must participate in the optional retirement plan or the integrated retirement plan as a Group E member in order to participate in the DROP.

(4) *Application requirements.* An eligible employee must apply at least 60 days before the employee becomes a participant. An employee may withdraw a pending application within 2 weeks after submitting the application.

(5) *Employee participation and termination.* The employee's participation in the DROP must begin on the first day of a month that begins at least 60 days, but not more than 90 days, after the employee applied and must end 3 years after the employee begins to participate or at an earlier date chosen by the employee. When the employee's participation in the DROP ends, the employee must stop working for the County and receive a pension benefit.

(6) *Employment status.* An employee who participates in the DROP must continue to be a member of the retirement system, earn sick and annual leave, and remain eligible to participate in health and life insurance programs.

(7) *Retirement date, retirement contributions, and credited service.* The retirement date of an employee who participates in the DROP is the date when the employee begins to participate in the DROP, and the employee must not make retirement contributions after that date. An employee who wishes to purchase prior service must do so before the employee's participation in the DROP begins. Sick leave in excess of 80 hours must be credited towards retirement at the beginning of the employee's participation.

(8) *Pension benefits.*

(A) Before an employee's participation begins, the employee must select a:

(i) pension payment option under Section 33-44 for the regular retirement pension payments; and

(ii) pension payment distribution option for the distribution of the employee's DROP account.

(B) A pension benefit must not be paid to the employee while the employee participates in the DROP, but must be deposited in a DROP account established for the participant by the County. The participant must receive the account balance and the County must close the account within 60 days after the employee stops participating in the DROP. Subject to any requirements of the Internal Revenue Code and other applicable law, the employee may roll over the account balance into an eligible retirement plan.

(C) An employee must direct the Board of Investment Trustees to allocate pension benefits contributed to the employee's DROP account in one or more of the investment funds selected by the Board. An employee's direction of investment must remain in effect until the employee changes the direction. An employee must select investment options in order to participate in the DROP.

(D) After the employee's participation in DROP ends, the employee's pension benefit will be based on:

(i) the employee's credited service immediately prior to the beginning of the employee's participation in the DROP, adjusted to include credit for unused sick leave under Section 33-41;

(ii) the employee's average final earnings, excluding earnings during the period of participation in the DROP; and

(iii) increases in the consumer price index during the period of the employee's participation that would have resulted in an increase in the employee's pension benefit if the employee had not been participating in the DROP.

(9) *Disability retirement.* An employee may apply for disability retirement prior to the termination of the employee's participation in the DROP.

(A) A DROP participant who is eligible for a service-connected disability retirement must choose either:

(i) the retirement benefit under the DROP and the DROP account balance; or

(ii) the service-connected disability retirement benefit that the employee would have received if the employee had continued as an active employee and had not elected to participate in the DROP, and no DROP account balance.

(B) A DROP participant who is eligible for a non-service-connected disability retirement benefit must receive the non-service-connected disability retirement benefit under Section 33-43(h), with the benefit calculated as of the member's DROP [[exit]] entry date, plus the DROP account balance.

(C) If a DROP participant ends participation in the DROP before a final decision is made on the disability retirement application, the DROP account must not be distributed until a final decision is made.

(10) *Death benefit.* If an employee dies during the employee's participation in the DROP, the employee's beneficiary will receive:

(A) the death benefit that the beneficiary would have received if the employee had retired on the date on which the employee began to participate in the DROP, adjusted under subparagraph (7)(D); and

(B) the balance of the employee's DROP account.

(11) *DROP account distribution options.* A member may have the balance of the DROP account distributed as a lump sum or an annuity, or have some or all paid directly to an eligible retirement plan as a direct rollover distribution. If the member dies before the balance of the DROP account is distributed, the beneficiary may receive distribution of the balance under any option described in this paragraph as allowed under the Internal Revenue Code and applicable regulations.

33-44. Pension payment options and cost-of-living adjustments.

*   *   *

(s) *Transfer from Retirement Savings Plan.*

A participant who transfers his or her retirement savings plan account balance under Section 33-120 may elect to receive his or her account balance paid as an annuity under subsection (g)(2).

33-115. Participant requirements and participant groups.

(a) *Participant Requirements.*

(1) Full-time employees.

(A) Except as provided in paragraphs (3)[,] and (4), [and (7)] and the last sentence of Section 33-37(e)(2), a full-time employee eligible for membership in Group I or Group II must participate in the Retirement Savings Plan <u>or the Guaranteed Retirement Income Plan</u> when the full-time employee meets the applicable eligibility requirements or forfeit employment, unless the Chief Administrative Officer exempts the employee from participation.

(B) A part-time employee who becomes a full-time employee and is not an active member of any retirement plan for County employees, must become a member of:

(i) the integrated retirement plan, if the employee is eligible for membership in the integrated plan;

(ii) the Retirement Savings Plan, if the employee qualifies for Group I or II, even if the employee did not begin or return to County service on or after October 1, 1994; or

(iii) the Guaranteed Retirement Income Plan if the employee is eligible for membership [[and makes an election]].

(C) A temporary employee who becomes a full-time employee must become an active member of:

(i) the integrated plan, if the employee is eligible for membership in the integrated plan;

(ii) the Retirement Savings Plan, if the employee satisfies the requirements for membership in Group I or II, even if the employee did not begin or return to County service on or after October 1, 1994; or

(iii) the Guaranteed Retirement Income Plan if the employee is eligible for membership in the Guaranteed Retirement Income Plan [and makes an election under subsection (7)].

* * *

(7) [Election to participate] Participation in the Guaranteed Retirement Income Plan.

(A) [A full time employee hired or rehired on or after July 1, 2009 and a part time and temporary employee who becomes full time after July 1, 2009 participate in the guaranteed retirement income plan. An eligible employee must make a one-time irrevocable election during the first 150 days of employment. If an eligible employee elects to participate, participation must begin on the first pay period after an employee has completed 180 days of full time employment. A full time employee who does not elect to participate in the guaranteed retirement income plan must participate in the retirement savings plan beginning on the first pay period after the employee has completed 180 days of full time employment.] A participant who changes employment from the County directly to a participating agency or from a participating agency directly to the County must continue to participate in his or her retirement plan and is not eligible to make an election. A member of the Office, Professional and Technical (OPT) or the Service, Labor and Trades (SLT) collective bargaining unit of the County government must participate in the Guaranteed Retirement Income Plan, unless the employee makes a one-time irrevocable election to participate in the Retirement Savings Plan during the first 150 days of full time employment, if the employee:

(i) is hired as a full-time employee on or after July 1, 2015; or

(ii) is a part time employee who does not participate in the Retirement Savings Plan and becomes a full-time employee on or after July 1, 2015.

Participation must begin on the first pay period after an employee has completed 180 days of full time employment.

(B) Except as provided in subparagraph (A), an eligible employee must participate in the Retirement Savings Plan unless the employee makes a one-time irrevocable election to participate in the Guaranteed Retirement Income Plan during the first 150 days of full-time employment. Participation must begin on the first pay period after an employee has completed 180 days of full- time employment. A part-time employee who participates in either the Retirement Savings Plan or the Guaranteed Retirement Income Plan when the employee becomes a full-time employee must continue to participate in the same retirement plan.

(C) A part time employee who is not a participant in the Retirement Savings Plan may make a one-time irrevocable election to participate in the Guaranteed Retirement

Income Plan any time after the employee has completed 150 days of employment.

(b) *Participants groups and eligibility.*

(1) *Group I.* Except as provided in the last sentence of Section 33-37(e)(2), any full-time or career part-time employee meeting the criteria in paragraphs (A) or (B) must participate in the retirement savings plan if the employee begins, or returns to, County service on or after October 1, 1994. An employee hired on or after July 1, 2009 must be employed on a full time or part time basis with the County for 180 days before participating in the Retirement Savings Plan. An individual who changes employment from the County government directly to a participating agency or from a participating agency directly to the County government must continue to participate in the same retirement plan. Participation in the Retirement Savings Plan must begin on the first payroll after an employee has completed 180 days of employment if the employee:

(A) (i) is not represented by [[an]] a County government employee organization;

(ii) does not occupy a County government bargaining unit position;

(iii) is not a public safety employee; and

(iv) does not elect to participate in the Guaranteed Retirement Income Plan; or

(B) (i) is not a public safety employee; and

(ii) is subject to the terms of a collective bargaining agreement between the County and an employee organization which requires the employee to participate in the [retirement savings] Guaranteed Retirement Income Plan if the employee does not elect to participate in the [guaranteed retirement income] Retirement Savings Plan; and

(iii) [does not elect] elects to participate in the Retirement Savings Plan [guaranteed retirement income plan].

* * *

33-120. Distribution of Benefit.

* * *

(f) *Distribution methods*. The Chief Administrative Officer must pay, at the request of the participant or the designated beneficiary, a participant's account balances in the retirement savings plan upon retirement, disability retirement, death, or separation from County service.

* * *

(4) *Optional method of distribution - Transfer to Employees' Retirement System, Annuity Option.* A participant may elect to have the participant's entire account balance transferred to the employees' retirement system and have the account balance paid in one of the annuity options available under Section 33-44(g)(2).

* * *

Sec. 2. Expedited 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, 2015.

LEGISLATIVE REQUEST REPORT

Expedited Bill 20-15
DROP–Amendments – RSP–Annuity – GRIP-Election

DESCRIPTION: Amend the County's retirement law to support the collective bargaining agreement entered into with the Municipal and County Government Employees Organization, Local 1994 (MCGEO) and the arbitrator's decision.

PROBLEM: In order to implement the collective bargaining agreement entered into with the Municipal and County Government Employees Organization, Local 1994 (MCGEO) and the arbitrator's decision, the retirement law needs to be amended.

GOALS AND OBJECTIVES: The Bill amends the retirement law to: (a) establish the Guaranteed Retirement Income Plan (GRIP) as the default retirement option for all MCGEO employees hired after July 1, 2015; (b) establish a new Deferred Retirement Option Plan (DROP) for sworn deputy sheriffs and uniformed correctional officers; and (c) provide an annuity option for employees who participate in the Retirement Savings Plan (RSP) from the ERS.

COORDINATION: Montgomery County Employee Retirement Plans & Office of Human Resources

FISCAL IMPACT: Office of Management and Budget

ECONOMIC IMPACT: Department of Finance

EVALUATION: N/A

EXPERIENCE ELSEWHERE: N/A

SOURCE OF INFORMATION: Linda Herman, Executive Director, Montgomery County Employee Retirement Plans
Shawn Stokes, Director, OHR

APPLICATION WITHIN MUNICIPALITIES: N/A

PENALTIES: N/A

Bill

OFFICE OF THE COUNTY EXECUTIVE
ROCKVILLE, MARYLAND 20850

2015 APR 16 AM 9: 34

RECEIVED
MONTGOMERY COUNTY
COUNCIL

las → BD
CC
SBF
las → LL
AM
JH
JF
las → OLO

Isiah Leggett
County Executive

MEMORANDUM

April 7, 2015

TO: George Leventhal, President
County Council

FROM: Isiah Leggett, County Executive

SUBJECT: Expedited Legislation to Amend Chapter 33, Personnel and Human Resources.

I am attaching for the Council's consideration a Bill that would amend the County's retirement law to support the collective bargaining agreement entered into with the Municipal and County Government Employees Organization, Local 1994 (MCGEO) and the arbitration award. The Bill amends the retirement law to (a) establish the Guaranteed Retirement Income Plan (GRIP) as the default retirement option for all MCGEO employees hired after July 1, 2015; (b) provide for a Deferred Retirement Option Plan (DROP) for sworn deputy sheriffs and uniformed correctional officers; and (c) provide an annuity option for employees who participate in the Retirement Savings Plan (RSP) from the ERS.

Attachments

c: Linda Herman, Executive Director, MCERP
Jennifer Hughes, Director, OMB
Shawn Stokes, Director, OHR
Joseph Beach, Director, Finance

Fiscal Impact Statement
Expedited Council Bill XX-15 Retirement – Employees' Retirement System Deferred Retirement Option Plan – Amendments – Retirement Savings Plan – Guaranteed Retirement Income Plan – Election

1. Legislative Summary.

   This bill implements changes to County employee retirement options as a result of the collective bargaining process. Changes include the following: 1) set the default option for all new employees in MCGEO effective July 1, 2015 to the Guaranteed Retirement Income Plan (GRIP); 2) provide Retirement Savings Plan (RSP) participants with the same option to purchase an annuity from the Employees' Retirement System as GRIP participants; and 3) establish a Deferred Retirement Option Plan (DROP) for sworn deputy sheriffs, uniformed correction officers, uniformed sheriff management, and uniformed correctional management.

2. An estimate of changes in County revenues and expenditures regardless of whether the revenues or expenditures are assumed in the recommended or approved budget. Includes source of information, assumptions, and methodologies used.

   Implementation of this bill requires one-time changes to various systems. For the GRIP default change, the Oracle payroll system must be updated to reflect default retirement status for an estimated one-time impact of $10,000. Additionally, the implementation of the RSP annuity offering will require one time programming changes to PeopleSoft, the pension administration system, for an estimated $10,000. For the addition of the DROP, there are one-time costs of $30,000 to establish the plan with Fidelity, the County's recordkeeper, $10,000 to program Oracle payroll changes, and $10,000 for PeopleSoft programming changes.

   The County's pension actuary, Gabriel Roeder Smith & Company (GRS), has determined that the GRIP and RSP annuity will not increase costs. According to GRS, the actuarial cost of the DROP would require an additional County contribution of between $84,675 and $253,679 annually beginning in FY17.

3. Revenue and expenditure estimates covering at least the next 6 fiscal years.

   The total additional expenditures from the GRIP default and RSP annuity offering are estimated at $20,000 in the first year, and no additional costs over 6 years.

   The total additional expenditures from the DROP change are estimated at $50,000 in the first year, and between $84,675 and $253,679 in each year afterwards for a total estimated cost of between $473,375 and $1,318,395. The total impact of this bill would be estimated at $70,000 in the first year, and between $493,375 and $1,338,395 over 6 years.

4. An actuarial analysis through the entire amortization period for each bill that would affect retiree pension or group insurance costs.

   See attached.

5. An estimate of expenditures related to County's information technology (IT) systems, including Enterprise Resource Planning (ERP) systems.

As mentioned in #2, there is a total one-time impact of $20,000 to make payroll changes, and a one-time impact of $20,000 to make PeopleSoft programming changes.

6. Later actions that may affect future revenue and expenditures if the bill authorizes future spending.

   Not applicable.

7. An estimate of the staff time needed to implement the bill.

   No additional staff time will be required to implement the bill.

8. An explanation of how the addition of new staff responsibilities would affect other duties.

   No additional staff responsibilities would be added.

9. An estimate of costs when an additional appropriation is needed.

   No additional appropriation is necessary, as the retirement funds will absorb the implementation cost. An additional appropriation would be required in FY17, as noted in #2, to fund the actuarial cost of the DROP.

10. A description of any variable that could affect revenue and cost estimates.

    The DROP cost range could be affected by a participation rate different from the actuarial assumed rate.

11. Ranges of revenue or expenditures that are uncertain or difficult to project.

    See # 2.

12. If a bill is likely to have no fiscal impact, why that is the case.

    Not applicable.

13. Other fiscal impacts or comments.

    Not applicable.

14. The following contributed to and concurred with this analysis:

    Corey Orlosky, Office of Management and Budget
    Linda Herman, Executive Director, Montgomery County Employee Retirement Plans

Jennifer A Hughes

Jennifer A. Hughes, Director
Office of Management and Budget

3/31/15
Date

Economic Impact Statement
Bill ##-15, Retirement – Employees' Retirement System – Deferred Retirement Option Plan – Retirement Savings Plan –Guaranteed Retirement Income Plan – Election – Annuity

Background:

This legislation would amend the law regarding the Employees' Retirement System (ERS) to:

- establish the Guaranteed Retirement Income Plan (GRIP) as the default retirement option for all MCGEO employees hired after July 1, 2015;
- provide for a Deferred Retirement Option Plan (DROP) for sworn deputy sheriffs and uniformed correctional officers; and
- provide an annuity option for employees who participate in the Retirement Savings Plan (RSP) from the ERS.

1. **The sources of information, assumptions, and methodologies used.**

   The source of information is from the staff of the Montgomery County Employee Retirement Plans. Assumptions and methodologies used have been provided by the ERS' actuary.

2. **A description of any variable that could affect the economic impact estimates.**

   The estimate of costs is based upon projections including participation rates (DROP), life expectancies (RSP annuity offering), investment earnings (GRIP) and other demographic assumptions from the actuarial analysis. If the actual assumptions are different than what was estimated by that analysis for each of the three projections and demographic assumptions, there could be an economic impact. At this time, it is uncertain what changes to the estimated projections and demographic assumptions would be and would have on the future economic impacts.

3. **The Bill's positive or negative effect, if any on employment, spending, saving, investment, incomes, and property values in the County.**

   The proposed legislation amends the law regarding the ERS that would result in changes to the participation of various groups in the retirement plans offered by the County. However, based on the actuarial analysis cited in section 2, changes in participation will not impact the County's property values, incomes, investment, saving, or spending of County residents.

4. **If a Bill is likely to have no economic impact, why is that the case?**

   See paragraph #3 above.

5. **The following contributed to or concurred with this analysis**: David Platt and Rob Hagedoorn, Finance; Linda Herman, Executive Director, Montgomery County Employee Retirement Plans.

Economic Impact Statement
Bill ##-15, Retirement – Employees' Retirement System – Deferred Retirement Option Plan – Retirement Savings Plan –Guaranteed Retirement Income Plan – Election – Annuity

Joseph F. Beach, Director
Department of Finance

4-2-15
Date

GRS

Gabriel Roeder Smith & Company
Consultants & Actuaries

20 North Clark Street
Suite 2400
Chicago, IL 60602-5111

312.456.9800 phone
312.456.9801 fax
www.gabrielroeder.com

March 19, 2015

Ms. Linda Herman
Executive Director
Montgomery County Employees' Retirement System
Rockville, Maryland

Re: Projections of the Guaranteed Retirement Income Plan (GRIP) under Alternate New Hire GRIP Election Scenarios (Update to January 26, 2015, letter)

Dear Linda:

In accordance with your request, we have performed projections of the Guaranteed Retirement Income Plan County contribution requirement and funded ratio based on the actuarial valuation as of July 1, 2014, under alternate new hire GRIP election scenarios.

The new hire election (or defaulting into) GRIP scenarios that we considered include the following. The percentage of new hires that are not assumed to elect GRIP are assumed to elect the Retirement Savings Plan (RSP).

New Hires Elect GRIP Scenario	Percentage of New Hires Electing GRIP	Percentage of New Hires Electing RSP
Baseline - 33 1/3% Elect GRIP	33 1/3%	66 2/3%
50% Elect GRIP	50%	50%
66 2/3% Elect GRIP	66 2/3%	33 1/3%

For each of the new hire election scenarios outlined above, we performed projections showing the GRIP County contribution requirement and funded ratio assuming a future investment return of 7.50%. The results of our projections for each of the three new hire GRIP election scenarios are summarized in Graph A and Exhibit A.

Exhibit A also illustrates projected RSP payroll and projected County contribution dollars combined for GRIP and RSP. Due to the volume of data from the projections, we summarized the key projection information in the exhibits.

For these projections, we used the GRIP census data used in the actuarial valuation as of July 1, 2014, and census data provided by Pat Paoli on January 12, 2015, for current RSP members.

The projection scenarios are based on the following data and assumptions:

- Census data file of current RSP members provided by the County, including:
  - Demographic information for each participant (date of birth and date of hire)
  - RSP balance as of June 30, 2014
  - Contributions for each year ending June 30 for the period 2012 through 2014
- Approximately 3,500 active RSP members were included in the analysis from the data file
- Pay rates and salaries were not available for RSP members. Therefore, we estimated the 2014 pay rate based on the actual contribution amounts received in the data and used it to project future contributions
- Assumptions from the actuarial valuation as of July 1, 2014, for GRIP members including assumptions for salary increases, termination rates, retirement rates, and pre-retirement mortality

Exhibit B summarizes the actuarial assumptions and methods for GRIP used in the analysis and Exhibit C summarizes the GRIP benefit provisions. For purposes of projecting RSP payroll, we have assumed the RSP member behavior and salary increases would follow the same assumptions as GRIP.

The County contribution rate to the RSP is 8.00% of pay. The County normal cost rate for GRIP is approximately 7.30% of pay based on an investment return assumption of 7.50% and a GRIP interest crediting rate of 7.25%. When GRIP experiences gains and assets exceed liabilities, the County contribution rate will be lower than normal cost. When GRIP experiences losses and there is an unfunded liability, the County contribution rate will be higher than normal cost.

The GRIP County contribution rate during the 20 year projection period is less than 8.00% under all new hire GRIP election scenarios. For the majority of the 20-year projection period, total projected County contribution dollars decrease as the percentage of new hires electing GRIP increases.

Because the County bears the investment risk for the GRIP and the plan members bear the investment risk for the RSP, higher GRIP elections for new hires will result in the County undertaking more risk. However, the County also benefits from the rewards (if investment returns are favorable).

Stochastic projections which simulate future investment returns for a number of potential future outcomes (such as 1,000 outcomes) could help illustrate the probability of alternative investment return scenarios occurring. However, stochastic projections were outside the scope of this assignment.

Future actuarial measurements may differ significantly from the current measurements presented in this cost analysis, due to such factors as the following: plan experience differing from that anticipated by the economic or demographic assumptions; changes in economic or demographic assumptions; and changes in plan provisions, contribution amounts or applicable law.

If any of the provisions, underlying data or assumptions used in this analysis appear to be incorrect or unreasonable, please let us know as soon as possible so we can update the analysis.

The signing actuaries are independent of the plan sponsor.

Lance Weiss and Amy Williams are Members of the American Academy of Actuaries (MAAA) and meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion herein.

Please let us know if you have any questions or would like to discuss the results of this analysis further.

Sincerely,

Lance J. Weiss

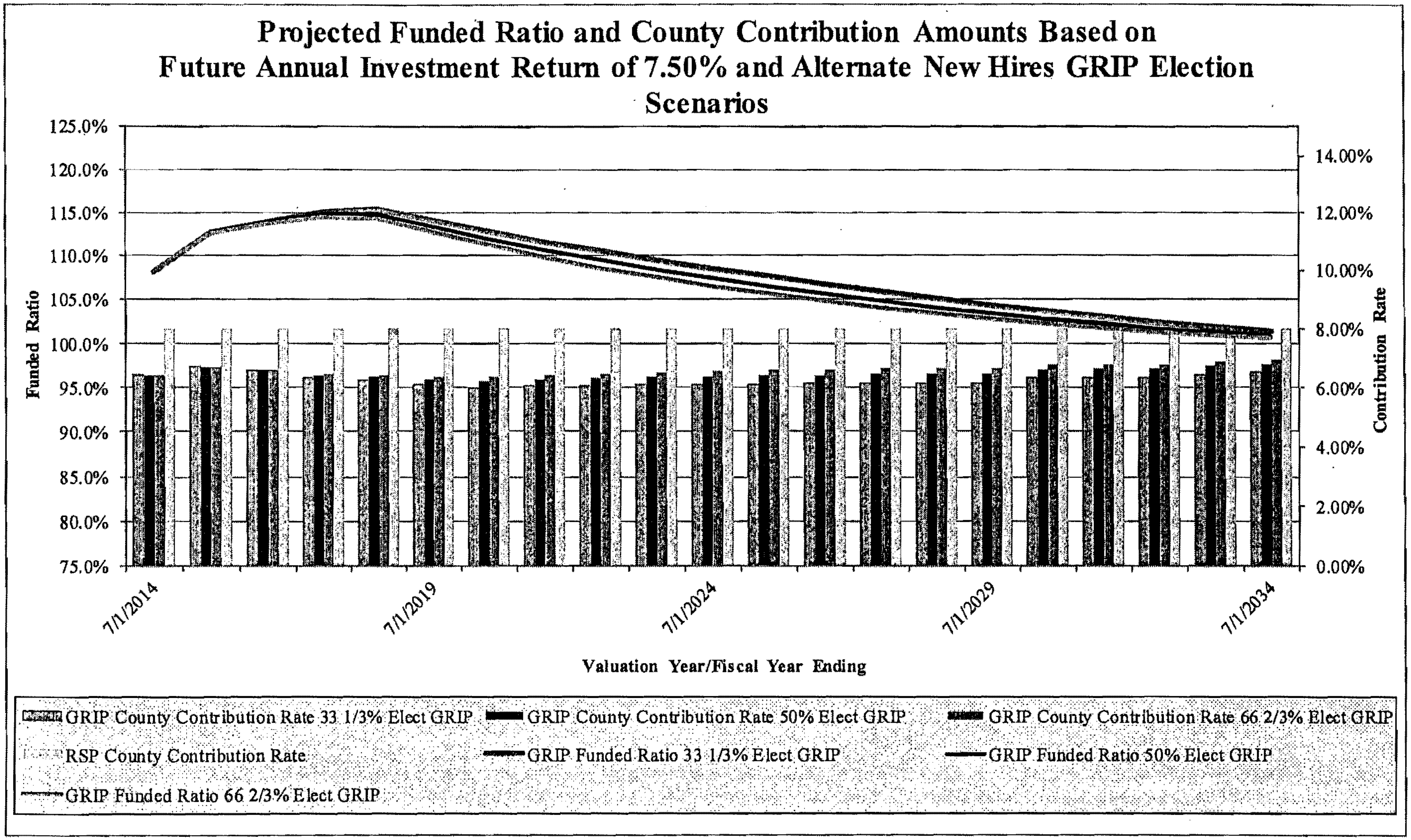
Lance J. Weiss, EA, FCA, MAAA
Senior Consultant

Amy Williams

Amy Williams, ASA, MAAA
Consultant

LW/AW:mrb

Graph A



Projected Funded Ratio and County Contribution Amounts Based on Future Annual Investment Return of 7.50% and Alternate New Hires GRIP Election Scenarios
125.0%
120.0%
115.0%
110.0%
105.0%
100.0%
95.0%
90.0%
85.0%
80.0%
75.0%
Funded Ratio
14.00%
12.00%
10.00%
8.00%
6.00%
4.00%
2.00%
0.00%
Contribution Rate
7/1/2014
7/1/2019
7/1/2024
7/1/2029
7/1/2034
Valuation Year/Fiscal Year Ending
GRIP County Contribution Rate 33 1/3% Elect GRIP
GRIP County Contribution Rate 50% Elect GRIP
GRIP County Contribution Rate 66 2/3% Elect GRIP
RSP County Contribution Rate
GRIP Funded Ratio 33 1/3% Elect GRIP
GRIP Funded Ratio 50% Elect GRIP
GRIP Funded Ratio 66 2/3% Elect GRIP

Exhibit A

Montgomery County Employees' Retirement System
Projection Results — Comparison of GRIP Results Under Alternative Future Investment Return Scenarios
Results Based on July 1, 2014 Actuarial Valuation and 33 1/3%, 50% and 66 2/3% of New Hires Elect GRIP

Assumes Annual Investment Return of 7.50%

($ in thousands)

Year Ended 6/30	Investment Return	GRIP Active Member Population			GRIP Active Member Payroll			GRIP County Contribution Rate		
		% of New Hires Elect GRIP			% of New Hires Elect GRIP			% of New Hires Elect GRIP		
		Baseline	50%	66 2/3%	Baseline	50%	66 2/3%	Baseline	50%	66 2/3%
2014	17.66%	1,263	1,263	1,263	$ 83,226	$ 83,226	$ 83,226	6.45%	6.45%	6.45%
2015	7.50%	1,346	1,445	1,544	90,508	95,816	101,124	6.72%	6.72%	6.72%
2016	7.50%	1,409	1,581	1,754	97,399	107,121	116,844	6.61%	6.61%	6.61%
2017	7.50%	1,465	1,703	1,942	104,484	118,591	132,699	6.37%	6.43%	6.48%
2018	7.50%	1,516	1,815	2,114	111,923	130,463	149,003	6.25%	6.36%	6.45%
2019	7.50%	1,562	1,916	2,269	119,431	142,458	165,485	6.12%	6.28%	6.40%
2020	7.50%	1,604	2,008	2,413	127,056	154,696	182,336	6.04%	6.24%	6.39%
2021	7.50%	1,641	2,094	2,546	134,749	167,162	199,576	6.06%	6.28%	6.45%
2022	7.50%	1,676	2,173	2,671	142,627	179,999	217,371	6.08%	6.33%	6.50%
2023	7.50%	1,707	2,247	2,786	150,738	193,236	235,735	6.10%	6.36%	6.54%
2024	7.50%	1,736	2,316	2,895	159,090	206,952	254,814	6.12%	6.39%	6.57%
2025	7.50%	1,762	2,379	2,996	167,598	221,003	274,408	6.13%	6.42%	6.61%
2026	7.50%	1,786	2,437	3,089	176,463	235,558	294,654	6.14%	6.45%	6.63%
2027	7.50%	1,808	2,492	3,176	185,670	250,689	315,707	6.15%	6.47%	6.65%
2028	7.50%	1,828	2,542	3,256	195,130	266,267	337,404	6.16%	6.48%	6.67%
2029	7.50%	1,847	2,589	3,331	205,012	282,434	359,855	6.17%	6.50%	6.69%
2030	7.50%	1,863	2,631	3,399	215,171	299,074	382,977	6.33%	6.63%	6.80%
2031	7.50%	1,878	2,669	3,461	225,762	316,310	406,857	6.35%	6.65%	6.82%
2032	7.50%	1,892	2,705	3,517	236,746	334,121	431,495	6.35%	6.66%	6.83%
2033	7.50%	1,904	2,737	3,569	248,014	352,431	456,848	6.47%	6.75%	6.90%
2034	7.50%	1,916	2,767	3,617	259,776	371,425	483,073	6.56%	6.81%	6.95%

Year Ended 6/30	Investment Return	GRIP Funded Ratio			RSP Payroll			County Contribution Dollars (RSP and GRIP)		
		% of New Hires Elect GRIP			% of New Hires Elect GRIP			% of New Hires Elect GRIP		
		Baseline	50%	66 2/3%	Baseline	50%	66 2/3%	Baseline	50%	66 2/3%
2014	17.66%	108.22%	108.22%	108.22%	$ 203,987	$ 203,987	$ 203,987	$ 22,326	$ 22,326	$ 22,326
2015	7.50%	112.66%	112.66%	112.66%	219,042	213,735	208,427	21,913	21,913	21,913
2016	7.50%	113.98%	113.86%	113.73%	234,064	224,341	214,618	23,504	23,430	23,356
2017	7.50%	115.13%	114.83%	114.54%	249,757	235,650	221,542	24,931	24,834	24,742
2018	7.50%	115.39%	114.88%	114.40%	265,716	247,176	228,636	26,512	26,393	26,280
2019	7.50%	114.08%	113.40%	112.78%	281,739	258,712	235,685	28,108	27,965	27,830
2020	7.50%	112.78%	111.96%	111.24%	298,057	270,417	242,778	29,750	29,584	29,427
2021	7.50%	111.60%	110.67%	109.88%	314,557	282,143	249,729	31,542	31,354	31,175
2022	7.50%	110.53%	109.50%	108.66%	331,180	293,808	256,436	33,360	33,147	32,944
2023	7.50%	109.50%	108.42%	107.56%	348,074	305,576	263,077	35,196	34,958	34,728
2024	7.50%	108.55%	107.43%	106.56%	365,114	317,252	269,391	37,065	36,801	36,544
2025	7.50%	107.66%	106.52%	105.67%	382,352	328,947	275,542	38,962	38,669	38,382
2026	7.50%	106.78%	105.66%	104.85%	399,950	340,854	281,759	40,884	40,560	40,242
2027	7.50%	105.94%	104.85%	104.10%	417,752	352,734	287,715	42,852	42,498	42,148
2028	7.50%	105.13%	104.10%	103.41%	435,884	364,747	293,610	44,858	44,471	44,087
2029	7.50%	104.33%	103.39%	102.78%	454,361	376,939	299,517	46,907	46,486	46,066
2030	7.50%	103.67%	102.81%	102.27%	473,307	389,404	305,501	49,333	48,881	48,425
2031	7.50%	103.02%	102.26%	101.80%	493,086	402,538	311,990	51,526	51,036	50,542
2032	7.50%	102.39%	101.74%	101.36%	513,441	416,067	318,692	53,791	53,262	52,728
2033	7.50%	101.84%	101.30%	101.00%	534,500	430,084	325,667	56,391	55,824	55,249
2034	7.50%	101.35%	100.92%	100.69%	556,136	444,487	332,839	59,029	58,421	57,802

Actuarial Assumptions and Methods

The assumed rate of price inflation is 3.00%.

The assumed rate of investment return used for the GRIP was 7.50%, net of expenses, annually.

The rates of annual salary increase used for individual members are in accordance with the following table. This assumption is used to project a member's current salary to the salaries upon which benefit amounts will be based.

	Salary Increases	
Service	Public Safety	Non-Public Safety*
0	9.25%	6.00%
5	8.25%	6.00%
10	6.25%	6.00%
15	5.50%	6.00%
20	5.00%	4.25%
25	4.50%	4.00%
30	4.25%	4.00%

** Includes GRIP*

The assumed rate of total payroll growth is 4.00%.

Rates of separation from active membership are represented by the following table (rates do not apply to members eligible to retire and do not include separation on account of death or disability). This assumption measures the probabilities of members terminating employment.

Service	GRIP
0	9.500%
1	9.500%
2	6.000%
3	6.000%
4	5.000%
5	4.250%
6	3.000%
7	3.000%
8	2.500%
Over 8 years	2.500%

Rates of disability were as follows:

	GRIP	
Age	**Male**	**Female**
20	0.0975%	0.0375%
25	0.1800%	0.0975%
30	0.2475%	0.1800%
35	0.2925%	0.2550%
40	0.3300%	0.3150%
45	0.5880%	0.3375%
50	0.7080%	0.5100%
55	0.5400%	0.5800%
60	0.8625%	0.5625%

Rates of retirement for members eligible to retire during the next year were as follows:

	GRIP
Age	**Rate**
Under 59	0.00%
59	0.00%
60	5.00%
61	5.00%
62	15.00%
63	15.00%
64	15.00%
65	40.00%
66	40.00%
67	40.00%
68	40.00%
69	40.00%
70	100.00%

The mortality table used to measure retirement mortality was based on the RP2000 Mortality Table, sex-distinct, projected to the year 2030 for healthy mortality and projected to the year 2010 for disabled mortality. Rates are set forward five years for the disabled mortality assumption. The healthy mortality assumption is used to measure the probabilities of members dying before retirement and the probabilities of each benefit payment being made after retirement. We expect that because the mortality table is projected to the year 2030, this provides a margin for future mortality improvement.

	Healthy Mortality				Disabled Mortality			
	Mortality Rate		Future Life Expectancy (years)		Mortality Rate		Future Life Expectancy (years)	
Age	Men	Women	Men	Women	Men	Women	Men	Women
25	0.0278%	0.0136%	57.94	59.71	0.0422%	0.0239%	51.06	53.61
30	0.0382%	0.0195%	53.03	54.76	0.0735%	0.0425%	46.19	48.69
35	0.0665%	0.0341%	48.15	49.83	0.0996%	0.0607%	41.38	43.81
40	0.0848%	0.0449%	43.33	44.91	0.1323%	0.0957%	36.59	38.96
45	0.1018%	0.0693%	38.51	40.03	0.1783%	0.1412%	31.85	34.16
50	0.1240%	0.1002%	33.71	35.18	0.2991%	0.2507%	27.17	29.44
55	0.2038%	0.2135%	28.94	30.40	0.5742%	0.4808%	22.66	24.89
60	0.4159%	0.4349%	24.32	25.81	1.1062%	0.9231%	18.44	20.61
65	0.8344%	0.8351%	19.94	21.49	1.9091%	1.5923%	14.60	16.69
70	1.4111%	1.4405%	15.89	17.51	3.2859%	2.5937%	11.12	13.15
75	2.4785%	2.2088%	12.11	13.86	5.8213%	4.2767%	8.13	10.00
80	4.7613%	3.7161%	8.79	10.54	10.3244%	7.2923%	5.75	7.31

For this analysis, sex was not given for current RSP members, therefore, pre-retirement mortality was based on male only mortality rates.

Benefit Service: Exact fractional years of service are used to determine the amount of benefit payable.

Decrement Timing: All decrements are assumed to occur at the beginning of the year.

Decrement Operation: Turnover decrements do not operate after the member reaches retirement eligibility.

Eligibility Testing: Eligibility for benefits is determined based upon the age nearest birthday and service on the date the decrement is assumed to occur.

Pay Increase Timing: End of (fiscal) year.

Exhibit C

Benefit Provisions

Guaranteed Retirement Income Plan *(effective 7/1/2009)*

A. Eligibility for GRIP entry:

- Full-time non-public safety employees hired on or after July 1, 2009 who do not participate in the retirement savings plan may make a one-time irrevocable election to participate in the GRIP within the first 150 days of full time employment.
- Part-time or temporary non-public safety employees hired on or after October 1, 1994 who do not participate in the retirement savings plan may make a one-time irrevocable election to participate in the GRIP after at least 150 days of employment.

B. The GRIP account collects:

- Member contributions (pre-tax unless noted otherwise)

  a. Non-public safety employees: 4% of regular base earnings up to the maximum Social Security wage base plus 8% of the excess.
  b. Public safety employees: 3% of regular base earnings up to the maximum Social Security wage base plus 6% of the excess.
  c. Effective July 1, 2011 members may contribute an additional 2% of regular earnings for service between June 30, 2011 and July 1, 2012, on an after-tax basis by making an election in writing on or before September 1, 2011.

- Employer contributions

  a. Non-public safety employees: 8% of regular base earnings. Effective July 1, 2011, the employer contribution is 6% of regular base earnings for service between June 30, 2011 and July 1, 2012.
  b. Public safety employees: 10% of regular base earnings. Effective July 1, 2011, the employer contribution is 8% of regular base earnings for service between June 30, 2011 and July 1, 2012.

- 7.25% interest credited from the date of contribution.

C. Vesting Schedule:

- Employees are 100% vested in employee contributions at all times.
- County contributions are 0% vested from 0-3 years of credited service and 100% vested at 3 or more years of credited service.
- Participants become 100% vested at death or disability.

D. Normal Form of Payment – Lump sum

E. Optional Forms of Payment:

- Direct rollover
- Life annuity purchased from an insurer

F. Eligible Agencies:

- CC – credit union employees (outside agency)
- CM – union employees (represented)
- CN – non-bargaining employees (non-represented)
- CP – public safety employees
- CZ – elected officials who transferred from the EOP

GRS

Gabriel Roeder Smith & Company
Consultants & Actuaries

20 North Clark Street
Suite 2400
Chicago, IL 60602-5111

312.456.9800 phone
312.456.9801 fax
www.gabrielroeder.com

March 11, 2015

Ms. Linda Herman
Executive Director
Montgomery County Employees' Retirement System
Rockville, Maryland

Subject: Cost Impact of DROP Proposal for Group E (Uniformed MCGEO Only)

Dear Linda:

As requested, we have measured the cost impact to the Montgomery County Employees' Retirement System (ERS) of the following proposal to change benefit provisions for current active Uniformed MCGEO Group E employees.

- Implement a DROP with an interest crediting rate based on actual investment performance of a self-directed DROP account.

The proposed effective date of this change is July 1, 2015, and the change would only affect members that are active as of that date.

The main provisions of the DROP would be the same as the current DRSP for Group F members and include:

- Members may enter the DROP once minimum age and service requirements have been met for normal retirement
    - Age 55 with 15 years of credited service or age 46 with 25 years of credited service
- The following amounts are accumulated in the DROP account and are credited actual investment returns during participation in DROP:
    - The accrued benefit frozen at time of DROP
        - The DROP account does not collect COLAs granted during the DROP period
- The maximum DROP period is equal to three years.
    - Employees may opt out of DROP annually at their anniversary of entering DROP
- Upon exit from DROP, the member receives:
    - The monthly benefit amount equal to the frozen accrued benefit at time of DROP plus the COLA increases granted during the DROP period, plus
    - Distribution of the DROP account

The illustrated cost impacts are shown in Exhibits I – IV:

- Exhibit I – Summary of DROP Scenarios
- Exhibit II – Implement DROP, Scenario 1 Retirement Rates
- Exhibit III – Implement DROP, Scenario 2 Retirement Rates
- Exhibit IV – Group E Contribution Rate Summary

The analysis includes the following assumptions and methods:

- Members will enter the DROP earlier than when they are currently assumed to retire under the current provisions. Two alternative sets of DROP/retirement rates were used in the analysis and are shown in Appendix I. These rates assume that members will exit DROP and commence normal retirement later than currently assumed.
- 70% DROP participation rate, which is the same assumption currently used for Group F and Group G.
- Members will participate in the DROP for the maximum period of time (three years under the proposal) and extend their careers on average by exiting DROP approximately 1.0 year or 1.5 years later than under the current provisions with no DROP.
- The other assumptions and methods as used and disclosed in the actuarial valuation as of July 1, 2014.

The data is summarized in Appendix II. We have assumed that all active uniformed MCGEO members of Group E would be affected by the change (if they meet the eligibility conditions).

<u>Summary of Results</u>
Implementing a DROP for Group E uniformed MCGEO members is expected to increase the actuarial liabilities and contribution requirements of the System based on the assumptions used. The cost of the DROP is significantly affected by how member retirement behavior changes as a result of implementing the DROP. If members commence retirement benefits sooner (by the benefit amount being deposited into the DROP account), costs are typically expected to increase.

Exhibit I contains a summary of the key results for the two DROP scenarios included in this analysis and the results if 100% of members entered DROP or retired at first eligibility for retirement. The 100% scenario was provided in order to give a high-end estimate on what the additional cost might be.

The following table summarizes the increase in costs of implementing a DROP for the indicated groups:

	Increase in first year costs	
Group and Scenario	Funding [1]	Accounting [2]
Uniformed MCGEO - Scenario 1 Rates	$ 230,505	$ 2,805,524
Uniformed MCGEO - Scenario 2 Rates	85,825	1,631,042

[1] Increase in first year County contribution (total cost amortized over 20 years).

[2] Increase in GASB 68 pension expense (total cost immediately recognized).

Below is a summary of the key results for the two DROP scenarios included in this analysis and the results if 100% of members entered DROP or retired at first eligibility for retirement. The 100% scenario was provided in order to give a high-end estimate on what the additional cost might be.

Uniformed MCGEO	Baseline	DROP Scenario 1	DROP Scenario 2	100% DROP/Retirement at First Eligibility
Active Actuarial Accrued Liability	$ 83,638,135	$ 86,443,659	$ 85,269,177	$ 90,581,379
County Contribution Requirement $	7,693,023	7,923,528	7,778,848	8,154,735
County Contribution Requirement % (Includes Retirement Incentive)	31.88%	33.45%	32.74%	35.80%
Average Age at Retirement/DROP	55.5	54.4	55.0	53.3
Average Age at Retirement*	55.5	56.5	57.1	55.4
Number of Retirement/DROP First Year	11	16	15	28
Total ERS				
Funded Ratio (Actuarial Value of Assets)	84.20%	84.14%	84.17%	84.05%

*Assumes 70% of members retire 3 years after entering DROP.

The following provision of the DROP is cost neutral based on the current actuarial assumptions when a member remains in the DROP compared to retiring:

- Interest crediting equal to actual investment performance of a member-directed DROP account because the member bears the investment risk

The following provision of the DROP decreases costs when a member remains in the DROP compared to retiring:

- COLAs are not payable during the DROP period

Additional implications of implementing a DROP:

- A lower payroll base on which both County and member contributions are made as a result of an increase in total members participating in the DROP at a given time. (The total active member payroll which includes DROP and non-DROP members would be expected to remain the same, but the total non-DROP payroll would be expected to be lower.)
    - o This means that the portion of the contribution rate to amortize the unfunded liability may be higher, but the contribution as a dollar amount to amortize the unfunded liability may not be substantially different.

Future actuarial measurements may differ significantly from the current measurements presented in this cost analysis, due to such factors as the following: plan experience differing from that anticipated by the economic or demographic assumptions; changes in economic or demographic assumptions; and changes in plan provisions, contribution amounts or applicable law.

If any of the provisions, underlying data or assumptions used in this analysis appear to be incorrect or unreasonable, please let us know as soon as possible so we can update the analysis.

The signing actuaries are independent of the plan sponsor.

Lance Weiss and Amy Williams are members of the American Academy of Actuaries (MAAA) and meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion herein.

Please let us know if you have any questions or would like to discuss the results of this analysis further.

Sincerely,

Lance J. Weiss

Amy Williams

Lance J. Weiss, E.A., F.C.A., M.A.A.A.
Senior Consultant

Amy Williams, A.S.A., M.A.A.A.
Consultant

cc: Mr. Ryan Gundersen, Gabriel, Roeder, Smith, and Company
Mr. Neil Nguyen, Gabriel, Roeder, Smith and Company

L:\c3323_MontgomeryCounty\2015\ImpactStatements\02Feb20_DROP\MCGEO_Proposal_03092015.docx

Exhibit I

Cost Impact of DROP – Summary of Scenarios

Uniformed MCGEO Only		Baseline		DROP Scenario 1		Impact**		DROP Scenario 2		Impact**		100% DROP/Retirement at First Eligibility		Impact**
Actuarial Accrued Liability	$	83,638,135	$	86,443,659	$	2,805,524	$	85,269,177	$	1,631,042	$	90,581,379	$	6,943,244
Net Normal Cost		6,622,219		6,632,597		10,378		6,571,879		(50,340)		6,520,942		(101,277)
Amortization of Unfunded Liability		2,655,300		2,843,954		188,654		2,764,978		109,677		3,122,190		466,890
County Contribution Requirement		7,693,023		7,923,528		230,505		7,778,848		85,825		8,154,735		461,712
Average Age at Retirement/DROP		55.5		54.4		-1.1		55.0		-0.5		53.3		-2.2
Average Age at Retirement*		55.5		56.5		1.0		57.1		1.6		55.4		-0.1
Number of Retirement/DROP First Year		11		16		5		15		4		28		17
(Includes Retirement Incentive)														
Group E														
Actuarial Accrued Liability	$	165,611,776	$	168,417,300	$	2,805,524	$	167,242,818	$	1,631,042	$	172,555,020	$	6,943,244
County Contribution Requirement $		12,587,119		12,817,624		230,505		12,672,944		85,825		13,048,831		461,712
County Contribution Requirement %		31.98%		32.93%		0.95%		32.51%		0.53%		34.30%		2.32%
(Includes Retirement Incentive)														
Total ERS														
Actuarial Accrued Liability	$	3,958,929,718	$	3,961,735,242	$	2,805,524	$	3,960,560,760	$	1,631,042	$	3,965,872,962	$	6,943,244
Funded Ratio (Actuarial Value of Assets)		84.20%		84.14%		-0.06%		84.17%		-0.03%		84.05%		-0.15%

* Assumes 70% of members retire 3 years after entering DROP.

** The change in the actuarial accrued liability and the net normal cost is the change in the GASB 68 pension expense accounting cost. The change in the County contribution requirement is the change in the first year funding cost (total costs are amortized over 20 years).

Cost Impact of DROP – Scenario 1 Retirement Rates

	Valuation as of July 1, 2014				Impact - DROP Scenario 1				Change			
	Uniformed MCGEO	Total Group E	Total ERS	% of Payroll	Uniformed MCGEO	Total Group E	Total ERS	% of Payroll	Uniformed MCGEO	Total Group E	Total ERS	% of Payroll
Total All Plans												
Actuarial Accrued Liability												
Active Members	$ 83,638,135	$ 162,527,468	$ 1,373,483,134		$ 86,443,659	$ 165,332,992	$ 1,376,288,658		$ 2,805,524	$ 2,805,524	$ 2,805,524	
DRSP/DROP Members			99,437,744				99,437,744			-	-	
Terminated Vested Members		3,084,308	26,461,195			3,084,308	26,461,195			-	-	
Retired Members and Beneficiaries			2,459,547,645				2,459,547,645				-	
Total	83,638,135	165,611,776	3,958,929,718		86,443,659	168,417,300	3,961,735,242		2,805,524	2,805,524	2,805,524	
Contribution Basis Payroll:												
For Normal Cost	$ 23,474,153	$ 37,611,162	$ 360,825,073		$ 23,007,948	$ 37,144,957	$ 360,358,868		$ (466,205)	$ (466,205)	$ (466,205)	
For Amortization of Unfunded Liability	25,479,199	42,951,126	378,030,049		25,012,994	42,484,921	377,563,844		(466,205)	(466,205)	(466,205)	
Actuarial Value of Assets			3,333,484,724				3,333,484,724				-	
Unfunded Actuarial Accrued Liability			625,444,994				628,250,518				2,805,524	
Funded Ratio (Actuarial Value of Assets)			84.2%				84.1%				-0.1%	
Annual Gross Normal Cost												
Benefits	$ 6,417,555	$ 10,324,699	$ 74,984,370	(20.78%)	$ 6,427,933	$ 10,335,077	$ 74,994,748	(20.81%)	$ 10,378	$ 10,378	$ 10,378	(0.03%)
Expenses of Administration	204,664	327,921	2,966,800	(0.82%)	204,664	327,921	2,966,800	(0.82%)	-	-	-	(0.00%)
Total	6,622,219	10,652,620	77,951,170	(21.60%)	6,632,597	10,662,998	77,961,548	(21.63%)	10,378	10,378	10,378	(0.03%)
						Excluding Retirement Incentive						
Amortization of Unfunded Liability	$ 2,599,208	$ 4,381,570	$ 56,951,509	(15.07%)	$ 2,787,862	$ 4,570,224	$ 57,140,163	(15.13%)	$ 188,654	$ 188,654	$ 188,654	(0.06%)
Annual Contribution Requirement:												
County Portion	$ 7,636,930	$ 12,492,562	$ 112,667,487	(30.51%)	$ 7,867,435	$ 12,723,067	$ 112,897,992	(30.60%)	$ 230,505	$ 230,505	$ 230,505	(0.09%)
Employee Portion	1,584,497	2,541,628	22,235,192	(6.16%)	1,553,024	2,510,155	22,203,719	(6.16%)	(31,473)	(31,473)	(31,473)	(0.00%)
Total	9,221,427	15,034,190	134,902,679	(36.67%)	9,420,459	15,233,222	135,101,711	(36.76%)	199,032	199,032	199,032	(0.09%)
County Public Safety Contribution			$ 76,256,907				$ 76,487,412				$ 230,505	
						Including Retirement Incentive						
Amortization of Unfunded Liability	$ 2,655,300	$ 4,476,127	$ 59,111,574	(15.64%)	$ 2,843,954	$ 4,664,781	$ 59,300,228	(15.71%)	$ 188,654	$ 188,654	$ 188,654	(0.07%)
Annual Contribution Requirement:												
County Portion	$ 7,693,023	$ 12,587,119	$ 114,827,552	(31.08%)	$ 7,923,528	$ 12,817,624	$ 115,058,057	(31.18%)	$ 230,505	$ 230,505	$ 230,505	(0.10%)
Employee Portion	1,584,497	2,541,628	22,235,192	(6.16%)	1,553,024	2,510,155	22,203,719	(6.16%)	(31,473)	(31,473)	(31,473)	(0.00%)
Total	9,277,520	15,128,747	137,062,744	(37.24%)	9,476,552	15,327,779	137,261,776	(37.34%)	199,032	199,032	199,032	(0.10%)
County Public Safety Contribution			$ 76,351,464				$ 76,581,969				$ 230,505	

Numbers may not add due to rounding.

Cost Impact of DROP – Scenario 2 Retirement Rates

	Valuation as of July 1, 2014				Impact - DROP Scenario 2				Change			
	Uniformed MCGEO	Total Group E	Total ERS	% of Payroll	Uniformed MCGEO	Total Group E	Total ERS	% of Payroll	Uniformed MCGEO	Total Group E	Total ERS	% of Payroll
Total All Plans												
Actuarial Accrued Liability												
Active Members	$ 83,638,135	$ 162,527,468	$ 1,373,483,134		$ 85,269,177	$ 164,158,510	$ 1,375,114,176		$ 1,631,042	$ 1,631,042	$ 1,631,042	
DRSP/DROP Members			99,437,744				99,437,744			-	-	
Terminated Vested Members		3,084,308	26,461,195			3,084,308	26,461,195			-	-	
Retired Members and Beneficiaries			2,459,547,645				2,459,547,645				-	
Total	83,638,135	165,611,776	3,958,929,718		85,269,177	167,242,818	3,960,560,760		1,631,042	1,631,042	1,631,042	
Contribution Basis Payroll:												
For Normal Cost	$ 23,474,153	$ 37,611,162	$ 360,825,073		$ 23,081,741	$ 37,218,750	$ 360,432,661		$ (392,412)	$ (392,412)	$ (392,412)	
For Amortization of Unfunded Liability	25,479,199	42,951,126	378,030,049		25,086,787	42,558,714	377,637,637		(392,412)	(392,412)	(392,412)	
Actuarial Value of Assets			3,333,484,724				3,333,484,724				-	
Unfunded Actuarial Accrued Liability			625,444,994				627,076,036				1,631,042	
Funded Ratio (Actuarial Value of Assets)			84.2%				84.2%				0.0%	
Annual Gross Normal Cost												
Benefits	$ 6,417,555	$ 10,324,699	$ 74,984,370	(20.78%)	$ 6,367,215	$ 10,274,359	$ 74,934,030	(20.79%)	$ (50,340)	$ (50,340)	$ (50,340)	(0.01%)
Expenses of Administration	204,664	327,921	2,966,800	(0.82%)	204,664	327,921	2,966,800	(0.82%)	-	-	-	(0.00%)
Total	6,622,219	10,652,620	77,951,170	(21.60%)	6,571,879	10,602,280	77,900,830	(21.61%)	(50,340)	(50,340)	(50,340)	(0.01%)
						Excluding Retirement Incentive						
Amortization of Unfunded Liability	$ 2,599,208	$ 4,381,570	$ 56,951,509	(15.07%)	$ 2,708,885	$ 4,491,247	$ 57,061,186	(15.11%)	$ 109,677	$ 109,677	$ 109,677	(0.04%)
Annual Contribution Requirement:												
County Portion	$ 7,636,930	$ 12,492,562	$ 112,667,487	(30.51%)	$ 7,722,755	$ 12,578,387	$ 112,753,312	(30.56%)	$ 85,825	$ 85,825	$ 85,825	(0.05%)
Employee Portion	1,584,497	2,541,628	22,235,192	(6.16%)	1,558,009	2,515,140	22,208,704	(6.16%)	(26,488)	(26,488)	(26,488)	(0.00%)
Total	9,221,427	15,034,190	134,902,679	(36.67%)	9,280,764	15,093,527	134,962,016	(36.72%)	59,337	59,337	59,337	(0.05%)
County Public Safety Contribution			$ 76,256,907				$ 76,342,732				$ 85,825	
						Including Retirement Incentive						
Amortization of Unfunded Liability	$ 2,655,300	$ 4,476,127	$ 59,111,574	(15.64%)	$ 2,764,978	$ 4,585,804	$ 59,221,251	(15.68%)	$ 109,677	$ 109,677	$ 109,677	(0.04%)
Annual Contribution Requirement:												
County Portion	$ 7,693,023	$ 12,587,119	$ 114,827,552	(31.08%)	$ 7,778,848	$ 12,672,944	$ 114,913,377	(31.13%)	$ 85,825	$ 85,825	$ 85,825	(0.05%)
Employee Portion	1,584,497	2,541,628	22,235,192	(6.16%)	1,558,009	2,515,140	22,208,704	(6.16%)	(26,488)	(26,488)	(26,488)	(0.00%)
Total	9,277,520	15,128,747	137,062,744	(37.24%)	9,336,857	15,188,084	137,122,081	(37.29%)	59,337	59,337	59,337	(0.05%)
County Public Safety Contribution			$ 76,351,464				$ 76,437,289				$ 85,825	

Numbers may not add due to rounding.

Contribution Rate Summary - Group E

	Group E		
	Valuation as of July 1, 2014	**Impact - DROP Scenario 1**	**Impact - DROP Scenario 2**
County Contribution Requirement ($) (Includes Retirement Incentive)			
Uniformed MCGEO	$ 7,693,023	$ 7,923,528	$ 7,778,848
Total Group E	12,587,119	12,817,624	12,672,944
Change in Total Group E Contribution from the Valuation	-	230,505	85,825
County Normal Cost Contribution Requirement (% of Payroll)			
Uniformed MCGEO	21.46%	22.08%	21.72%
Total Group E	21.57%	21.95%	21.73%
Change in Total Group E Rate from the Valuation	0.00%	0.38%	0.16%
County Contribution Requirement (% of Payroll) (Excludes Retirement Incentive)			
Uniformed MCGEO	31.66%	33.23%	32.52%
Total Group E	31.76%	32.71%	32.28%
Change in Total Group E Rate from the Valuation	0.00%	0.95%	0.52%
County Contribution Requirement (% of Payroll) (Includes Retirement Incentive)			
Uniformed MCGEO	31.88%	33.45%	32.74%
Total Group E	31.98%	32.93%	32.51%
Change in Total Group E Rate from the Valuation	0.00%	0.95%	0.53%

Numbers may not add due to rounding.

Group E Retirement Rates

	Valuation Rates		Drop Scenario 1 Group E		Drop Scenario 2	
Age	1st Elig. For Normal Ret	Ultimate Rate	1st Elig. For Normal Ret	Ultimate Rate	1st Elig. For Normal Ret	Ultimate Rate
Under 45	3.50%	3.50%	3.50%	3.50%	3.50%	3.50%
46	15.00%	8.00%	40.00%	8.00%	15.00%	8.00%
47	15.00%	8.00%	40.00%	8.00%	15.00%	8.00%
48	15.00%	8.00%	45.00%	8.00%	15.00%	8.00%
49	15.00%	8.00%	50.00%	8.00%	15.00%	8.00%
50	20.00%	10.00%	55.00%	10.00%	25.00%	15.00%
51	20.00%	10.00%	65.00%	10.00%	30.00%	15.00%
52	20.00%	18.00%	70.00%	18.00%	30.00%	23.00%
53	20.00%	18.00%	75.00%	18.00%	35.00%	23.00%
54	20.00%	18.00%	80.00%	18.00%	40.00%	23.00%
55	50.00%	50.00%	100.00%	50.00%	75.00%	55.00%
56	50.00%	50.00%	100.00%	50.00%	80.00%	55.00%
57	50.00%	50.00%	100.00%	50.00%	85.00%	55.00%
58	50.00%	50.00%	100.00%	50.00%	90.00%	55.00%
59	50.00%	50.00%	100.00%	50.00%	95.00%	55.00%
60	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%

DROP rates apply to uniformed MCGEO employees only.
Rates of 20% are added to the retirement rates above in the first year of implementation of the DROP for the DROP scenarios for members that have been previously eligible to retire.

Data Summary

	Valuation as of July 1, 2014							
	Non-Public Safety		Public Safety					
	Group A	Group H	Uniformed MCGEO*	Total Group E	Group F	Group G	GRIP	Total
Total All Plans								
Active Members								
Number	527	799	401	626	1,190	1,130	1,263	5,535
Average Age	56.7	56.8	42.0	43.5	38.1	37.5	49.5	45.7
Average Service	26.7	24.6	11.1	12.4	12.9	11.7	8.3	14.5
Total Base Payroll	$ 50,976,638	$ 55,866,352	$ 25,479,199	$ 42,951,126	$ 89,215,131	$ 80,663,980	$ 83,225,868	$ 402,899,096
Contribution Basis Payroll:								
For Normal Cost	$ 43,189,541	$ 47,460,110	$ 23,474,153	$ 37,611,162	$ 82,124,733	$ 75,043,449	$ 75,396,078	$ 360,825,073
For Amortization of Unfunded Liability	38,979,842	42,994,102	25,479,199	42,951,126	89,215,131	80,663,980	83,225,868	378,030,049
DRSP/DROP Members								
Number					39	60		99
Total Base Payroll					3,740,247	5,944,122		$ 9,684,369
Total Benefits					2,523,134	3,626,704		6,149,838
Terminated Vested Members								
Number	68	88		26	35	19	167	403
Total Benefits	$ 751,726	$ 740,739		$ 334,743	$ 411,385	$ 121,662		$ 2,360,255
Retired Members and Beneficiaries								
Number							1	6,143
Total Benefits							$ 5,024	$ 223,419,018
Total Membership								12,180

*22 out of the total 423 uniformed MCGEO members in the data provided were not active members as of July 1, 2014, and therefore were not included in this analysis.

GRS

Gabriel Roeder Smith & Company
Consultants & Actuaries

20 North Clark Street
Suite 2400
Chicago, IL 60602-5111

312.456.9800 phone
312.456.9801 fax
www.gabrielroeder.com

March 11, 2015

Ms. Linda Herman
Executive Director
Montgomery County Employees' Retirement System
Rockville, Maryland

Subject: Cost Impact of DROP Proposal for Group E (Uniformed Non-MCGEO Only)

Dear Linda:

As requested, we have measured the cost impact to the Montgomery County Employees' Retirement System (ERS) of the following proposal to change benefit provisions for current active Uniformed Non-MCGEO Group E employees.

- Implement a DROP with an interest crediting rate based on actual investment performance of a self-directed DROP account.

The proposed effective date of this change is July 1, 2015, and the change would only affect members that are active as of that date.

The main provisions of the DROP would be the same as the current DRSP for Group F members and include:

- Members may enter the DROP once minimum age and service requirements have been met for normal retirement
    - Age 55 with 15 years of credited service or age 46 with 25 years of credited service
- The following amounts are accumulated in the DROP account and are credited actual investment returns during participation in DROP:
    - The accrued benefit frozen at time of DROP
        - The DROP account does not collect COLAs granted during the DROP period
- The maximum DROP period is equal to three years.
    - Employees may opt out of DROP annually at their anniversary of entering DROP
- Upon exit from DROP, the member receives:
    - The monthly benefit amount equal to the frozen accrued benefit at time of DROP plus the COLA increases granted during the DROP period, plus
    - Distribution of the DROP account

The illustrated cost impacts are shown in Exhibits I – IV:

- Exhibit I – Summary of DROP Scenarios
- Exhibit II – Implement DROP, Scenario 1 Retirement Rates
- Exhibit III – Implement DROP, Scenario 2 Retirement Rates
- Exhibit IV – Group E Contribution Rate Summary

The analysis includes the following assumptions and methods:

- Members will enter the DROP earlier than when they are currently assumed to retire under the current provisions. Two alternative sets of DROP/retirement rates were used in the analysis and are shown in Appendix I. These rates assume that members will exit DROP and commence normal retirement later than currently assumed.
- 70% DROP participation rate, which is the same assumption currently used for Group F and Group G.
- Members will participate in the DROP for the maximum period of time (three years under the proposal) and extend their careers on average by exiting DROP approximately 1.0 year or 1.5 years later than under the current provisions with no DROP.
- The other assumptions and methods as used and disclosed in the actuarial valuation as of July 1, 2014.

The data is summarized in Appendix II. We have assumed that all active uniformed Non-MCGEO members of Group E would be affected by the change (if they meet the eligibility conditions).

<u>Summary of Results</u>
Implementing a DROP for Group E uniformed Non-MCGEO members is expected to increase the actuarial liabilities and the County contribution rates of the System based on the assumptions used. The projected dollar contribution requirements of the System are expected to increase under the Scenario 1 retirement rates and decrease slightly under the Scenario 2 retirement rates because the increase in the contribution rate more than offsets the decrease in the non-DROP payroll in Scenario 1, but the increase in the contribution rate is more than offset by the decrease in the non-DROP payroll in Scenario 2. The combination of the change in the projected non-DROP payroll and the change in the contribution rate determines the projected change in the contribution dollar amount. The cost of the DROP is significantly affected by how member retirement behavior changes as a result of implementing the DROP. If members commence retirement benefits sooner (by the benefit amount being deposited into the DROP account), costs are typically expected to increase.

Exhibit I contains a summary of the key results for the two DROP scenarios included in this analysis and the results if 100% of members entered DROP or retired at first eligibility for retirement. The 100% scenario was provided in order to give a high-end estimate on what the additional cost might be.

The following table summarizes the increase in costs of implementing a DROP for the indicated groups:

Group and Scenario	Increase in first year costs: Funding [1]	Increase in first year costs: Accounting [2]
Uniformed Non-MCGEO - Scenario 1 Rates	$ 23,174	$ 1,335,619
Uniformed Non-MCGEO - Scenario 2 Rates	(1,150)	989,728

[1] Increase in first year County contribution (total cost amortized over 20 years).

[2] Increase in GASB 68 pension expense (total cost immediately recognized).

Below is a summary of the key results for the two DROP scenarios included in this analysis and the results if 100% of members entered DROP or retired at first eligibility for retirement. The 100% scenario was provided in order to give a high-end estimate on what the additional cost might be.

Uniformed Non-MCGEO	Baseline	DROP Scenario 1	DROP Scenario 2	100% DROP/Retirement at First Eligibility
Active Actuarial Accrued Liability	$ 28,158,832	$ 29,494,451	$ 29,148,560	$ 32,376,204
County Contribution Requirement $	1,104,316	1,127,490	1,103,167	1,144,561
County Contribution Requirement % (Includes Retirement Incentive)	29.86%	34.58%	33.03%	48.81%
Average Age at Retirement/DROP	54.5	53.4	53.9	51.7
Average Age at Retirement*	54.5	55.5	56.0	53.8
Number of Retirement/DROP First Year	6	11	10	21
Total ERS				
Funded Ratio (Actuarial Value of Assets)	84.20%	84.17%	84.18%	84.11%

*Assumes 70% of members retire 3 years after entering DROP.

The following provision of the DROP is cost neutral based on the current actuarial assumptions when a member remains in the DROP compared to retiring:

- Interest crediting equal to actual investment performance of a member-directed DROP account because the member bears the investment risk

The following provision of the DROP decreases costs when a member remains in the DROP compared to retiring:

- COLAs are not payable during the DROP period

Additional implications of implementing a DROP:

- A lower payroll base on which both County and member contributions are made as a result of an increase in total members participating in the DROP at a given time. (The total active member payroll which includes DROP and non-DROP members would be expected to remain the same, but the total non-DROP payroll would be expected to be lower.)
  - This means that the portion of the contribution rate to amortize the unfunded liability may be higher, but the contribution as a dollar amount to amortize the unfunded liability may not be substantially different.

Future actuarial measurements may differ significantly from the current measurements presented in this cost analysis, due to such factors as the following: plan experience differing from that anticipated by the economic or demographic assumptions; changes in economic or demographic assumptions; and changes in plan provisions, contribution amounts or applicable law.

If any of the provisions, underlying data or assumptions used in this analysis appear to be incorrect or unreasonable, please let us know as soon as possible so we can update the analysis.

The signing actuaries are independent of the plan sponsor.

Lance Weiss and Amy Williams are members of the American Academy of Actuaries (MAAA) and meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion herein.

Please let us know if you have any questions or would like to discuss the results of this analysis further.

Sincerely,

Lance J. Weiss

Lance J. Weiss, E.A., F.C.A., M.A.A.A.
Senior Consultant

Amy Williams

Amy Williams, A.S.A., M.A.A.A.
Consultant

cc: Mr. Ryan Gundersen, Gabriel, Roeder, Smith, and Company
Mr. Neil Nguyen, Gabriel, Roeder, Smith and Company

L:\c3323_MontgomeryCounty\2015\ImpactStatements\02Feb20_DROP\MCGEO_Proposal_NonUnion_03092015.docx

Exhibit I

Cost Impact of DROP – Summary of Scenarios

Uniformed Non-MCGEO Only		Baseline		DROP Scenario 1		Impact**		DROP Scenario 2		Impact**		100% DROP/Retirement at First Eligibility		Impact**
Actuarial Accrued Liability	$	28,158,832	$	29,494,451	$	1,335,619	$	29,148,560	$	989,728	$	32,376,204	$	4,217,372
Net Normal Cost		887,284		786,948		(100,336)		791,803		(95,481)		538,876		(348,408)
Amortization of Unfunded Liability		447,109		536,921		89,812		513,662		66,553		730,701		283,592
County Contribution Requirement		1,104,316		1,127,490		23,174		1,103,167		(1,150)		1,144,561		40,245
Average Age at Retirement/DROP		54.5		53.4		-1.1		53.9		-0.6		51.7		-2.7
Average Age at Retirement*		54.5		55.5		1.0		56.0		1.5		53.8		-0.7
Number of Retirement/DROP First Year		6		11		5		10		4		21		15
(Includes Retirement Incentive)														
Group E														
Actuarial Accrued Liability	$	165,611,776	$	166,947,395	$	1,335,619	$	166,601,504	$	989,728	$	169,829,148	$	4,217,372
County Contribution Requirement $		12,587,119		12,610,293		23,174		12,585,969		(1,150)		12,627,364		40,245
County Contribution Requirement %		31.98%		32.42%		0.44%		32.30%		0.32%		33.30%		1.32%
(Includes Retirement Incentive)														
Total ERS														
Actuarial Accrued Liability	$	3,958,929,718	$	3,960,265,337	$	1,335,619	$	3,959,919,446	$	989,728	$	3,963,147,090	$	4,217,372
Funded Ratio (Actuarial Value of Assets)		84.20%		84.17%		-0.03%		84.18%		-0.02%		84.11%		-0.09%

*Assumes 70% of members retire 3 years after entering DROP.

** The change in the actuarial accrued liability and the net normal cost is the change in the GASB 68 pension expense accounting cost. The change in the County contribution requirement is the change in the first year funding cost (total costs are amortized over 20 years).

Cost Impact of DROP – Scenario 1 Retirement Rates

	Valuation as of July 1, 2014				Impact - DROP Scenario 1				Change			
	Uniformed Non-MCGEO	Total Group E	Total ERS	% of Payroll	Uniformed Non-MCGEO	Total Group E	Total ERS	% of Payroll	Uniformed Non-MCGEO	Total Group E	Total ERS	% of Payroll
Total All Plans												
Actuarial Accrued Liability												
Active Members	$ 28,158,832	$ 162,527,468	$ 1,373,483,134		$ 29,494,451	$ 163,863,087	$ 1,374,818,753		$ 1,335,619	$ 1,335,619	$ 1,335,619	
DRSP/DROP Members			99,437,744				99,437,744			-	-	
Terminated Vested Members		3,084,308	26,461,195			3,084,308	26,461,195			-	-	
Retired Members and Beneficiaries			2,459,547,645				2,459,547,645				-	
Total	28,158,832	165,611,776	3,958,929,718		29,494,451	166,947,395	3,960,265,337		1,335,619	1,335,619	1,335,619	
Contribution Basis Payroll:												
For Normal Cost	$ 3,381,053	$ 37,611,162	$ 360,825,073		$ 2,889,200	$ 37,119,309	$ 360,333,220		$ (491,853)	$ (491,853)	$ (491,853)	
For Amortization of Unfunded Liability	4,290,280	42,951,126	378,030,049		3,798,427	42,459,273	377,538,196		(491,853)	(491,853)	(491,853)	
Actuarial Value of Assets			3,333,484,724				3,333,484,724				-	
Unfunded Actuarial Accrued Liability			625,444,994				626,780,613				1,335,619	
Funded Ratio (Actuarial Value of Assets)			84.2%				84.2%				0.0%	
Annual Gross Normal Cost												
Benefits	$ 857,806	$ 10,324,699	$ 74,984,370	(20.78%)	$ 757,470	$ 10,224,363	$ 74,884,034	(20.79%)	$ (100,336)	$ (100,336)	$ (100,336)	(0.01%)
Expenses of Administration	29,478	327,921	2,966,800	(0.82%)	29,478	327,921	2,966,800	(0.82%)	-	-	-	(0.00%)
Total	887,284	10,652,620	77,951,170	(21.60%)	786,948	10,552,284	77,850,834	(21.61%)	(100,336)	(100,336)	(100,336)	(0.01%)
Excluding Retirement Incentive												
Amortization of Unfunded Liability	$ 437,664	$ 4,381,570	$ 56,951,509	(15.07%)	$ 527,476	$ 4,471,382	$ 57,041,321	(15.11%)	$ 89,812	$ 89,812	$ 89,812	(0.04%)
Annual Contribution Requirement:												
County Portion	$ 1,094,871	$ 12,492,562	$ 112,667,487	(30.51%)	$ 1,118,045	$ 12,515,736	$ 112,690,661	(30.56%)	$ 23,174	$ 23,174	$ 23,174	(0.05%)
Employee Portion	230,077	2,541,628	22,235,192	(6.16%)	196,379	2,507,930	22,201,494	(6.16%)	(33,698)	(33,698)	(33,698)	(0.00%)
Total	1,324,948	15,034,190	134,902,679	(36.67%)	1,314,424	15,023,666	134,892,155	(36.72%)	(10,524)	(10,524)	(10,524)	(0.05%)
County Public Safety Contribution			$ 76,256,907				$ 76,280,081				$ 23,174	
Including Retirement Incentive												
Amortization of Unfunded Liability	$ 447,109	$ 4,476,127	$ 59,111,574	(15.64%)	$ 536,921	$ 4,565,939	$ 59,201,386	(15.68%)	$ 89,812	$ 89,812	$ 89,812	(0.04%)
Annual Contribution Requirement:												
County Portion	$ 1,104,316	$ 12,587,119	$ 114,827,552	(31.08%)	$ 1,127,490	$ 12,610,293	$ 114,850,726	(31.13%)	$ 23,174	$ 23,174	$ 23,174	(0.05%)
Employee Portion	230,077	2,541,628	22,235,192	(6.16%)	196,379	2,507,930	22,201,494	(6.16%)	(33,698)	(33,698)	(33,698)	(0.00%)
Total	1,334,393	15,128,747	137,062,744	(37.24%)	1,323,870	15,118,223	137,052,220	(37.29%)	(10,524)	(10,524)	(10,524)	(0.05%)
County Public Safety Contribution			$ 76,351,464				$ 76,374,638				$ 23,174	

Numbers may not add due to rounding.

47

Cost Impact of DROP – Scenario 2 Retirement Rates

	Valuation as of July 1, 2014				Impact - DROP Scenario 2				Change			
	Uniformed Non-MCGEO	Total Group E	Total ERS	% of Payroll	Uniformed Non-MCGEO	Total Group E	Total ERS	% of Payroll	Uniformed Non-MCGEO	Total Group E	Total ERS	% of Payroll
Total All Plans												
Actuarial Accrued Liability												
Active Members	$ 28,158,832	$ 162,527,468	$ 1,373,483,134		$ 29,148,560	$ 163,517,196	$ 1,374,472,862		$ 989,728	$ 989,728	$ 989,728	
DRSP/DROP Members			99,437,744				99,437,744			-	-	
Terminated Vested Members		3,084,308	26,461,195			3,084,308	26,461,195			-	-	
Retired Members and Beneficiaries			2,459,547,645				2,459,547,645				-	
Total	28,158,832	165,611,776	3,958,929,718		29,148,560	166,601,504	3,959,919,446		989,728	989,728	989,728	
Contribution Basis Payroll:												
For Normal Cost	$ 3,381,053	$ 37,611,162	$ 360,825,073		$ 2,975,340	$ 37,205,449	$ 360,419,360		$ (405,713)	$ (405,713)	$ (405,713)	
For Amortization of Unfunded Liability	4,290,280	42,951,126	378,030,049		3,884,567	42,545,413	377,624,336		(405,713)	(405,713)	(405,713)	
Actuarial Value of Assets			3,333,484,724				3,333,484,724				-	
Unfunded Actuarial Accrued Liability			625,444,994				626,434,722				989,728	
Funded Ratio (Actuarial Value of Assets)			84.2%				84.2%				0.0%	
Annual Gross Normal Cost												
Benefits	$ 857,806	$ 10,324,699	$ 74,984,370	(20.78%)	$ 762,325	$ 10,229,218	$ 74,888,889	(20.78%)	$ (95,481)	$ (95,481)	$ (95,481)	(0.00%)
Expenses of Administration	29,478	327,921	2,966,800	(0.82%)	29,478	327,921	2,966,800	(0.82%)	-	-	-	(0.00%)
Total	887,284	10,652,620	77,951,170	(21.60%)	791,803	10,557,139	77,855,689	(21.60%)	(95,481)	(95,481)	(95,481)	(0.00%)
					Excluding Retirement Incentive							
Amortization of Unfunded Liability	$ 437,664	$ 4,381,570	$ 56,951,509	(15.07%)	$ 504,217	$ 4,448,123	$ 57,018,062	(15.10%)	$ 66,553	$ 66,553	$ 66,553	(0.03%)
Annual Contribution Requirement:												
County Portion	$ 1,094,871	$ 12,492,562	$ 112,667,487	(30.51%)	$ 1,093,721	$ 12,491,412	$ 112,666,337	(30.54%)	$ (1,150)	$ (1,150)	$ (1,150)	(0.03%)
Employee Portion	230,077	2,541,628	22,235,192	(6.16%)	202,299	2,513,850	22,207,414	(6.16%)	(27,778)	(27,778)	(27,778)	(0.00%)
Total	1,324,948	15,034,190	134,902,679	(36.67%)	1,296,020	15,005,262	134,873,751	(36.70%)	(28,928)	(28,928)	(28,928)	(0.03%)
County Public Safety Contribution			$ 76,256,907				$ 76,255,757				$ (1,150)	
					Including Retirement Incentive							
Amortization of Unfunded Liability	$ 447,109	$ 4,476,127	$ 59,111,574	(15.64%)	$ 513,662	$ 4,542,680	$ 59,178,127	(15.67%)	$ 66,553	$ 66,553	$ 66,553	(0.03%)
Annual Contribution Requirement:												
County Portion	$ 1,104,316	$ 12,587,119	$ 114,827,552	(31.08%)	$ 1,103,167	$ 12,585,969	$ 114,826,402	(31.11%)	$ (1,150)	$ (1,150)	$ (1,150)	(0.03%)
Employee Portion	230,077	2,541,628	22,235,192	(6.16%)	202,299	2,513,850	22,207,414	(6.16%)	(27,778)	(27,778)	(27,778)	(0.00%)
Total	1,334,393	15,128,747	137,062,744	(37.24%)	1,305,466	15,099,819	137,033,816	(37.27%)	(28,928)	(28,928)	(28,928)	(0.03%)
County Public Safety Contribution			$ 76,351,464				$ 76,350,314				$ (1,150)	

Numbers may not add due to rounding.

Contribution Rate Summary - Group E

	Group E		
	Valuation as of July 1, 2014	Impact - DROP Scenario 1	Impact - DROP Scenario 2
County Contribution Requirement ($) (Includes Retirement Incentive)			
Uniformed Non-MCGEO	$ 1,104,316	$ 1,127,490	$ 1,103,167
Total Group E	12,587,119	12,610,293	12,585,969
Change in Total Group E Contribution from the Valuation	-	23,174	(1,150)
County Normal Cost Contribution Requirement (% of Payroll)			
Uniformed Non-MCGEO	19.44%	20.44%	19.81%
Total Group E	21.57%	21.67%	21.62%
Change in Total Group E Rate from the Valuation	0.00%	0.11%	0.05%
County Contribution Requirement (% of Payroll) (Excludes Retirement Incentive)			
Uniformed Non-MCGEO	29.64%	34.33%	32.79%
Total Group E	31.76%	32.20%	32.08%
Change in Total Group E Rate from the Valuation	0.00%	0.44%	0.32%
County Contribution Requirement (% of Payroll) (Includes Retirement Incentive)			
Uniformed Non-MCGEO	29.86%	34.58%	33.03%
Total Group E	31.98%	32.42%	32.30%
Change in Total Group E Rate from the Valuation	0.00%	0.44%	0.32%

Numbers may not add due to rounding.

Group E Retirement Rates

	Valuation Rates		Drop Scenario 1 Group E		Drop Scenario 2	
Age	1st Elig. For Normal Ret	Ultimate Rate	1st Elig. For Normal Ret	Ultimate Rate	1st Elig. For Normal Ret	Ultimate Rate
Under 45	3.50%	3.50%	3.50%	3.50%	3.50%	3.50%
46	15.00%	8.00%	40.00%	8.00%	15.00%	8.00%
47	15.00%	8.00%	40.00%	8.00%	15.00%	8.00%
48	15.00%	8.00%	45.00%	8.00%	15.00%	8.00%
49	15.00%	8.00%	50.00%	8.00%	15.00%	8.00%
50	20.00%	10.00%	55.00%	10.00%	25.00%	15.00%
51	20.00%	10.00%	65.00%	10.00%	30.00%	15.00%
52	20.00%	18.00%	70.00%	18.00%	30.00%	23.00%
53	20.00%	18.00%	75.00%	18.00%	35.00%	23.00%
54	20.00%	18.00%	80.00%	18.00%	40.00%	23.00%
55	50.00%	50.00%	100.00%	50.00%	75.00%	55.00%
56	50.00%	50.00%	100.00%	50.00%	80.00%	55.00%
57	50.00%	50.00%	100.00%	50.00%	85.00%	55.00%
58	50.00%	50.00%	100.00%	50.00%	90.00%	55.00%
59	50.00%	50.00%	100.00%	50.00%	95.00%	55.00%
60	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%

DROP rates apply to uniformed Non- MCGEO employees only.
Rates of 20% are added to the retirement rates above in the first year of implementation of the DROP for the DROP scenarios for members that have been previously eligible to retire.

Data Summary

	Valuation as of July 1, 2014							
	Non-Public Safety		Public Safety					
	Group A	Group H	Uniformed Non-MCGEO	Total Group E	Group F	Group G	GRIP	Total
Total All Plans								
Active Members								
Number	527	799	43	626	1,190	1,130	1,263	5,535
Average Age	56.7	56.8	49.4	43.5	38.1	37.5	49.5	45.7
Average Service	26.7	24.6	23.1	12.4	12.9	11.7	8.3	14.5
Total Base Payroll	$ 50,976,638	$ 55,866,352	$ 4,290,280	$ 42,951,126	$ 89,215,131	$ 80,663,980	$ 83,225,868	$ 402,899,096
Contribution Basis Payroll:								
For Normal Cost	$ 43,189,541	$ 47,460,110	$ 3,381,053	$ 37,611,162	$ 82,124,733	$ 75,043,449	$ 75,396,078	$ 360,825,073
For Amortization of Unfunded Liability	38,979,842	42,994,102	4,290,280	42,951,126	89,215,131	80,663,980	83,225,868	378,030,049
DRSP/DROP Members								
Number					39	60		99
Total Base Payroll					3,740,247	5,944,122		$ 9,684,369
Total Benefits					2,523,134	3,626,704		6,149,838
Terminated Vested Members								
Number	68	88		26	35	19	167	403
Total Benefits	$ 751,726	$ 740,739		$ 334,743	$ 411,385	$ 121,662		$ 2,360,255
Retired Members and Beneficiaries								
Number							1	6,143
Total Benefits							$ 5,024	$ 223,419,018
Total Membership								12,180

GRS

Gabriel Roeder Smith & Company
Consultants & Actuaries

20 North Clark Street
Suite 2400
Chicago, IL 60602-5111

312.456.9800 phone
312.456.9801 fax
www.gabrielroeder.com

February 3, 2015

Ms. Linda Herman
Executive Director
Montgomery County Employees' Retirement System
Rockville, Maryland

Subject: **Cost Impact of Offering Annuities to RSP Members that Transfer their Account Balances to the ERS**

Dear Linda:

As requested, we have determined the cost impact to the Montgomery County Employees' Retirement System (ERS) of the proposal to offer an annuity to RSP participants who transfer their balance to the ERS. The annuity factors to be used to convert the RSP account balance would be the same annuity factors that are currently used for the Guaranteed Retirement Income Plan (GRIP) participants.

Under the proposal, the ERS undertakes the investment and longevity risk. If future investment return is lower than the interest rates used in the GRIP annuity factors or the member lives longer than the life expectancy based on the mortality table used in the GRIP annuity factors, there is a cost to the ERS. On the other hand, if future investment return is higher than the interest rates used in the GRIP annuity factors or the member dies sooner than the life expectancy based on the mortality table used in the GRIP annuity factors, there is a gain to the ERS.

Exhibit I contains a benefit illustration showing (1) the annual benefit that would be provided to an RSP member who elects to annuitize his or her account balance based on the GRIP annuity factors for the 2014 plan year and (2) the present value of benefits (liability to the ERS) of the annual benefit based on the mortality assumption used in the actuarial valuation as of July 1, 2014, of the ERS and varying levels of future investment return.

Under almost all scenarios in Exhibit I, there would be a gain to the ERS by allowing RSP participants to transfer their balances and annuitize. The interest rates used in the GRIP factors are based on the PPA segmented high-quality corporate-bond yield curve for April 2014 (1.24% for the first five years, 4.13% for the next 15 years, and 5.15% for 20+ years after date of retirement). The average interest rate used in the annuity factors is under 4.50% (and is approximately 4.38% for a 55 year old) which is significantly lower than the 7.50% rate the ERS plan assets are assumed to earn.

In addition, the life expectancy based on the mortality rates used in the actuarial valuation is different than the mortality rates used to develop the GRIP annuity factors.

	Life Expectancy			
Age at Retirement	55	60	65	70
Male Valuation Mortality	28.94	24.32	19.94	15.89
Female Valuation Mortality	30.40	25.81	21.49	17.51
Annuity Factor Mortality	29.03	24.44	20.12	16.16

The mortality assumption used in the actuarial valuation as of July 1, 2014, is the RP2000 Mortality Table, sex-distinct, projected to the year 2030 for healthy mortality. The mortality assumption used for the GRIP factors is based on the PPA 2014 applicable mortality table prescribed in IRS Notice 2013-49.

GRS is currently performing an experience study to review the assumptions used in the actuarial valuation, including the assumed rate of investment return and mortality rates. Under a revised assumption set, we expect that providing annuities to RSP participants through the ERS would still generate gains under most future investment return scenarios.

Future actuarial measurements may differ significantly from the current measurements presented in this cost analysis, due to such factors as the following: plan experience differing from that anticipated by the economic or demographic assumptions; changes in economic or demographic assumptions; and changes in plan provisions, contribution amounts or applicable law.

If any of the provisions, underlying data or assumptions used in this analysis appear to be incorrect or unreasonable, please let us know as soon as possible so we can update the analysis.

The signing actuaries are independent of the plan sponsor.

Lance Weiss and Amy Williams are members of the American Academy of Actuaries (MAAA) and meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion herein.

Please let us know if you have any questions, would like to discuss the results of this analysis further, or would like to see any further analysis.

Sincerely,

Lance J. Weiss | Amy Williams

Lance J. Weiss, E.A., F.C.A., M.A.A.A.
Senior Consultant

Amy Williams, A.S.A., M.A.A.A.
Consultant

cc: Mr. Ryan Gundersen, Gabriel, Roeder, Smith, and Company
Mr. Neil Nguyen, Gabriel, Roeder, Smith and Company
L:\c3323_MontgomeryCounty\2015\ImpactStatements\15January5\AnnuitizeRSP\MCGEO_ProposalUpdate.docx

Exhibit I

Benefit Illustrations of Annuitizing RSP Balances Based on GRIP Annuity Factors

Montgomery County Employees' Retirement System
Guaranteed Retirement Income Plan (GRIP)
Single Life Annuity Factors for Distributions in the 2014 Plan Year

Mortality: PPA 2014 applicable mortality table prescribed in IRS Notice 2013-49

Interest rate: PPA segmented high-quality corporate-bond yield curve for April 2014

- 1.24% for the first 5 years
- 4.13% for the next 15 years
- 5.15% for payments 20+ years following employment termination

	Example 1	Example 2	Example 3	Example 4
Age at Retirement	55	60	65	70
Gender	Female	Male	Female	Male
Date of Retirement	7/1/2014	7/1/2014	7/1/2014	7/1/2014
Contribution Balance	$300,000.00	$300,000.00	$300,000.00	$300,000.00
GRIP Annuity Factor	0.062550	0.068237	0.076186	0.087468
Annual Benefit	$18,765.00	$20,471.10	$22,855.80	$26,240.40

Present Value of Benefits
Based on Annual Investment Return of:

4.50%	$302,012.75	$293,010.58	$300,952.47	$285,124.95
5.50%	$269,933.60	$265,907.48	$274,966.73	$265,166.21
6.50%	$243,334.47	$242,840.69	$252,649.94	$247,528.16
7.50%	$221,059.90	$223,067.66	$233,356.27	$231,871.45
8.50%	$202,231.88	$206,001.80	$216,570.67	$217,914.29
9.50%	$186,176.84	$191,176.48	$201,879.55	$205,421.57

In the Matter of Arbitration Between:

MUNICIPAL AND COUNTY GOVERNMENT EMPLOYEES ORGANIZATION (MCGEO), UFCW LOCAL 1994

and

MONTGOMERY COUNTY (MD) GOVERNMENT

Pension Reopener
Interest Arbitration

Walt De Treux, Esq., Arbitrator

Hearing Date: 7/29/14
Briefs Received: 11/3/14
Decision Date: 12/26/14

Appearances: For the Union – Carey Butsavage, Esq., *BUTSAVAGE & DURKALSKI*
For the County – Heather A. Malloy, Esq., *ASSOCIATE COUNTY ATTY.*

Introduction and Statement of Relevant Facts

Municipal and County Government Employees Organization (MCGEO), UFCW Local 1994 represents employees of the Montgomery County Government employed in the office, professional, and technical bargaining unit and the service, labor, and trades bargaining unit. Those employees currently participate in one of three employee retirement plans – a defined benefit plan within the Employee Retirement System ("ERS"), the Retirement Savings Plan ("RSP") or the Guaranteed Retirement Income Plan ("GRIP").

Public safety employees and employees hired before 1994 who did not opt to switch to the RSP participate in a defined benefit plan within the Employee Retirement System that was first created in 1965 and revised throughout the years. The retirement benefit is based on years of service and salary. MCGEO employees participating in that plan are not at issue in this proceeding.

In 1994, the parties agreed to employee participation (for employees hired on or after July 1, 1994) in the RSP, a money-purchase defined contribution plan. While the County and the employee contribute to the RSP (currently 8% and 4%, respectively), the employee directs the investments by selecting among a range of investment options.

In 2009, the parties agreed to employee participation in the GRIP, a cash balance defined benefit plan in which the combined County and employee contributions earn a guaranteed interest rate of 7.25% per year as mandated by County Code.

In 2009, MCGEO-represented employees who participated in the RSP were offered an option to move to the GRIP. The parties agreed that the option would be one-time and irrevocable. Newly hired employees who do not select a retirement plan are automatically enrolled in the RSP; approximately 80% of new hires opt for or default to the RSP. At the time of hearing in this case, approximately 2500 MCGEO members participate in the RSP, and approximately 800 MCGEO members participate in the GRIP.

In 2011, the parties jointly employed an actuarial consultant to develop an alternative pension plan design. Article 44.10 of the parties' 2013-2016 collective bargaining agreement provided the following,

> "The parties shall continue the study of the union's Adjustable Pension Plan (APP) proposal to address the need of employee retirement security, the Council's fiduciary responsibility, and avoidance of any accrued actuarial liability as a result of implementing the APP. If the parties reach agreement on the APP, the parties will submit legislation to the County Council to implement the APP by January 2014. Should the parties not reach agreement on the APP by October 2013, the parties retain their rights to impasse resolution under the Collective Bargaining Law."

The APP proved unsatisfactory to both parties, and they continued negotiations on certain revisions affecting employee participation in the RSP and the GRIP. Despite good faith efforts, the parties were unable to reach agreement and invoked the impasse arbitration procedures pursuant to Montgomery County Code, Chapter 33, §33-108.

On July 24, 2014 and immediately prior to the arbitration hearing on July 29, 2014, the parties engaged in mediation with the undersigned. The parties successfully narrowed the disputed issues to one outstanding item – whether current RSP participants would be given another one-time, irrevocable choice to remain in the RSP or opt out and enroll in the GRIP.

On July 29, 2014, a hearing was held at the offices of UFCW Local 1994 in Gaithersburg, Maryland, during which time both parties had a full and fair opportunity to present documentary and other evidence, examine and cross-examine witnesses, and offer argument in support of their respective positions. Both parties filed post-hearing briefs, and the matter was submitted to the Arbitrator for a decision.

Issue

Which of the parties' last best final offers is to be adopted?

Last Best Final Offers

In mediation, the parties reach agreement on two of three disputed issues – one related to an annuity distribution option for RSP participants and the other related to making the GRIP the default option for newly hired employees. Accordingly, both parties' last best final offers were amended prior to hearing, and in post-hearing discussions between the parties and the Arbitrator, to include the following language,

> Article 41 Retirement
>
> The parties will submit legislation to the County Council that would amend the Montgomery County Code to provide for the following revisions affecting bargaining unit employees:
>
> The County shall offer an annuity distribution option for Retirement Savings Plan ("RSP") members. This annuity distribution is subject to the county receiving a favorable private letter ruling from the IRS.
>
> Upon the election of the RSP annuity option, your RSP account balance will be transferred to the Employees Retirement System (ERS) to provide a monthly annuity as provided in the Montgomery County Code section 33-44 (g)(2) (the GRIP annuity provisions).
>
> - *Life Annuity.* Your account balance is calculated as a life annuity which is a monthly benefit paid over your lifetime with no benefits payable after death.
>
> - *Joint and Survivor Annuity.* Your account balance is calculated as a joint and survivor life annuity which is a monthly benefit paid over your lifetime. At your death, your surviving joint annuitant, who must be your spouse, child or eligible domestic partner, will receive a percentage of the benefit for the rest of his or her life. Generally, the larger the percentage your joint annuitant receives, the less the amount that will be paid to you during your lifetime. You may choose any percentage but not less than 10%. Typically percentages elected are 100%, 70%, 50%, 30% or 20%. Benefits end when both you and your joint annuitant die.

- *Note:* Any benefits due to a joint annuitant who is a minor will be paid in accordance with applicable State law. Under most State laws, minors cannot receive pension payments directly.

The County shall change the default option from the RSP to the Guaranteed Retirement Income Plan ("GRIP") for all new employee members as follows:

Eligible full-time employees are required to participate in either the RSP or the Guaranteed Retirement Income Plan (GRIP). Employees cannot participate in both Plans, nor can they change Plans. Bargaining employees hired after July 1, 2015 will be automatically enrolled in the GRIP, unless they complete an election form to participate in the RSP. To enroll in the GRIP, employees do not need to complete an election form. GRIP membership will begin the first full pay period 180 days after the date of hire.

For part-time employees, participation will continue to be optional. Therefore, no default option is necessary.

This default option for members shall become effective (subject to legislative approval) on July 1, 2015.

The parties further agree that the County pension plan will not be subject to the upcoming collective bargaining re-opener in Fall of 2014.

In addition to the agreed-upon revisions, the Union included the following language in its last best final offer,

"Within 60 days from October 1st, 2014 Bargaining Unit members who are participants in the RSP will be given a one-time irrevocable choice between remaining in the RSP or opting out of the RSP and enrolling in the GRIP. Bargaining unit members currently enrolled in the RSP who elect to participate in GRIP will have their RSP account balance as of December 19th 2014 transferred to the GRIP on December 22nd 2014.

The County's last best final offer did not include this language; and therefore, it remains the only issue in dispute.

Analysis and Decision

Section 33-108 of the Montgomery County Code guides the selection of the "more reasonable" last best final offer. It reads in relevant part,

> (f) (3) ...the mediator/arbitrator must select, as a whole, the more reasonable of the final offers submitted by the parties...
>
> (4) In making a determination under this section, the mediator/arbitrator must first evaluate and give the highest priority to the ability of the County to pay for additional short-term and long-term expenditures by considering:
>
> (A) the limits on the County's ability to raise taxes under State law and the County Charter;
> (B) the added burden on County taxpayers, if any, resulting from increases in revenues needed to fund a final offer; and
> (C) the County's ability to continue to provide the current standard of all public services.
>
> (5) After evaluating the ability of the County to pay under paragraph (4), the mediator/arbitrator may only consider:
>
> (A) the interest and welfare of County taxpayers and service recipients;
> (B) past collective bargaining agreements between the parties, including the past bargaining history that led to each agreement;
> (C) a comparison of wages, hours, benefits, and conditions of employment of similar employees of other public employers in the Washington Metropolitan Area and in Maryland;
> (D) a comparison of wages, hours, benefits, and conditions of employment of other Montgomery County employees; and
> (E) wages, benefits, hours, and other working conditions of similar employees of private employers in Montgomery County.

The County Code lays out the specific factors that must be considered when weighing the parties' competing proposals. In this case, the County relies primarily on the ability to pay factors (Section (f)(4)(A-C)) and the "interest and welfare" factor (Section (f)(5)(A)). The Union dismisses the County's ability to pay argument as too speculative; and instead, it focuses on the "interest and welfare" factor and the comparative factors (Section (f)(5)(C-E)).

In a broad context, the Union asserts that a defined benefit plan such as the GRIP, as compared to a defined contribution plan such as the RSP, better serves its members, the County, and the taxpayers. It contends that a defined benefit plan provides retirees a more secure income stream because the retirement benefit is not susceptible to market fluctuations[1]. A more secure income stream ensures that retirees have more disposable income to spend within the County and are less likely to have to use County social services. As a result, the County will experience long-term savings to the benefit of its taxpayers.

This proceeding will certainly not decide the broader argument of whether a defined benefit plan is more beneficial to employees than a defined contribution plan. As part of its argument, the Union notes that County employees, other than non-public safety MCGEO employees, participate in a defined benefit plan. It further notes that all other jurisdictions in Maryland, other than the City of Gaithersburg and Calvert County, offer a defined benefit plan as their primary retirement option. However, many jurisdictions offer the choice between a defined benefit plan and a defined contribution plan. The District of Columbia also offers a defined contribution plan. Considering the comparatives in Maryland and the Washington Metropolitan Area, the County is in line with other jurisdictions in offering both types of plans. The fact is that the County has both a defined benefit plan and a defined contribution plan, so the parties have made a decision that offering both plans produces some benefit to employees. The crux of the initial disagreement in

---

[1] At hearing, the Union suggested that the RSP investment options were not professionally managed, forcing untrained and inexperienced employees to manage their own investments. County witnesses confirmed that the target date funds included among the RSP investment options, selected by 85-90% of RSP participants, are professionally managed. Further, the plan employs an investment manager and underlying managers "to fulfill asset allocation and create a portfolio...decreas[ing] the risk for a participant..."

the parties' negotiations was not the types of plans to be offered, but the manner in which employees choose plans and how employees are funneled into one plan or the other.

The parties have settled a large part of that concern by agreeing in the mediation of this dispute that new employees will default to the GRIP, rather than the RSP, if they fail to select a plan (as most new employees do). Going forward, therefore, the GRIP is likely to be the primary retirement vehicle for new employees. It is also the primary retirement vehicle for all the former RSP participants who elected to switch to the GRIP in 2009. The current dispute between the parties affects only those employees hired after July 1, 1994 who elected to remain in the RSP after 2009.

From a fairness perspective, the Union argues that RSP participants were not sufficiently notified and educated in 2009 on the differences between the plans and did not have the opportunity to make an informed choice. The Union argues that current RSP participants, armed with greater knowledge and the benefit of five years of experience with the GRIP, will be better prepared at this time to decide which plan works best for them.

Contrary to the Union's assertions, Linda Herman, Executive Director of the County's Employee Retirement Plan, explained, and the documentary evidence confirmed, that the County sent a 6-page announcement to employees in February 2009 explaining the new GRIP option and offering a side-by-side comparison of the GRIP and the RSP. The County also held orientation sessions for employees to further explain the choices and answer questions; the Union held similar sessions. A representative from Fidelity Investments was present at the orientation sessions[2] to offer numeric projections and information on returns for the specific investment offerings. The representative was available to employees on a continuing basis by phone and online. Finally, an Investment Education Program was established, through which employees can receive a 2-hour financial counseling session.

Any fault in the introduction and education of employees on their retirement options does not appear to lie in the County's efforts; but rather, to the low participation rates of the employees. Herman testified that only 5-10% of employees take advantage of the financial counseling sessions, and a majority of new employees have defaulted to the RSP. It may be that, through the Union's efforts since 2009 and in these negotiations, its members may be more focused on retirement options. But that outcome, in and of itself, does not provide a sufficient basis to re-open the GRIP for current RSP participants who declined to switch in 2009.

I find that the retirement options available in comparative jurisdictions and the history of the RSP and GRIP do not lend any significant support for the Union's proposal to allow another one-time irrevocable switch from the RSP to the GRIP.

The County Code requires that an arbitrator first evaluate and give highest priority to the ability to pay issue. Although I first discussed the comparative jurisdiction and bargaining history issues, it was only to indicate that they are not given any substantial weight in this Decision and Award. Rather, the ability to pay

[2] The orientation sessions continued to be held for new employees hired after July 1, 2009.

issue, which is intertwined with "the interest and welfare of County taxpayers and service recipients," emerges as the primary basis for the outcome in this case.

The Union correctly asserts that allowing current RSP participants to once again elect a switch to the GRIP does not require any immediate expenditure from the County. But the County contends there are several potentially significant short-term and long-term financial effects.

The County's ERS is currently 78.8% funded, primarily due to investment earnings over the last 10-13 years trailing the assumed investment return of 7.5% annually. The County cautions that a move of assets from the RSP to the GRIP, where the County bears the risk of investment performance, coupled with future poor investment returns, would result in a further increase in the unfunded liability. Unfunded liability would have to been made up through future investment earnings or, more likely, higher County and/or employee contribution rates. Higher contribution rates are not in the best interest of the County, the employee, the taxpayer, or the County's service recipients as it draws County funds away from other pressing needs.

The County further asserts that the switch of current RSP participants to GRIP would increase the fees paid by the remaining RSP participants. The Plan pays a fee to its investment manager and to Fidelity for administration of the Plan. The administrative fee is fixed; therefore, fewer assets spread over fewer participants will increase the fee paid by each participant. The County offered evidence of the effect on the fees if 20%, 40%, 50%, or 75% of the RSP participants switch to the

GRIP. In all cases, the fees increased, significantly affecting participants' current and future savings.

The Union argues that the fees are negotiable, and the County can bring considerable pressure to bear on its investment manager and administrator to reduce the fees. However, the County counters that certain fees, such as mutual fund fees, are non-negotiable; and its contract with Fidelity requires re-negotiation (presumably for increased fees) if the total assets of the ERS fall below a certain level.

The County further offered evidence that the employees who remained in the RSP after 2009 fared better than those who switched to the GRIP. GRIP participants earn 7.25% per year. RSP participants earned 28% in 2009, 13% in 2010, 12% in 2012, 17% in 2013, and lost 1% in 2011. As a result, if RSP participants were now permitted to switch to the GRIP, they would do so with much larger balances than the RSP participants who switched in 2009. Executive Director Herman testified that if the parties intended to equalize the two groups, the future credit rating for the group now switching to the GRIP should be set at approximately 6% rather than the current 7.25%.

The Union generally dismisses the County's financial concerns as too speculative and based on uncertain assumptions, particularly as to the projected number of current RSP participants who may switch to the GRIP if given the choice. According to the Union, those projections are too uncertain and inexact to support the County's financial concerns.

In assessing ability to pay, an arbitrator may have the advantage to look at definitive numbers that clearly map out the financial impact on the County. But equally compelling may be the potential impact on the County. There can be no real dispute, particularly given the current pension concerns (some call it a "crisis") of public employers throughout the country, that an increase in unfunded liability and increased expenses for retirement plans and participants will negatively affect the County, the plan participants, the employees and the Union as they negotiate in the future for improved wage and benefit packages, and ultimately, the County taxpayers and service recipients.

The real problem in the present dispute is neither party has a firm handle on the potential financial impact that may result if current RSP participants are given another opportunity to switch to the GRIP. The lack of certainty is due, in large part, to the parties' inability to determine a reliable estimate of current RSP participants who would make the switch. If the number is low, the financial impact may be minimal. If the number is significantly high, the financial impact could be detrimental to the County, to remaining RSP participants, and to the viability of the RSP.

There certainly seem to be ways in which the parties could gauge the interest of the current RSP participants in switching to the GRIP, but the parties have not yet endeavored to make that determination. If that number could be reasonably estimated, both parties would be in a better position to project the financial impact of the switch on all interested parties.

Without other reliable information, the County's projected financial impact based on various percentages of RSP participants making the switch remains the only available evidence to assess the County's ability to pay and the long-term financial impact of the Union's proposal. That evidence indicates that allowing current RSP participants to switch to the GRIP on a one-time irrevocable basis may have serious financial consequences – a potential increase in unfunded liability, increased fees to RSP participants affecting their current and future savings, potential damage to the long-term viability of the RSP – that will not be in the best interest of the County, the County's ERS, and the remaining RSP participants. The financial consequences have the potential to negatively affect the City's ability to pay future wage and benefit increases to its employees and could negatively impact County taxpayers (through higher taxes) and service recipients (through decreased services). Although the financial impact is somewhat speculative, it must be considered absent more reliable evidence that may be available to the parties if they can reasonably estimate the number of current RSP participants who may want to switch to the GRIP.

For all these reasons, I find that the County's last best final offer is the "more reasonable" of the final offers submitted by the parties.

Award

The County's last best final offer is adopted.

WALT De TREUX

Maryland's First
Nationally Accredited
Sheriff's Office

50 Maryland Avenue
Rockville, Md. 20850
240-777-7000
240-777-7148 Fax

SHERIFF DARREN M. POPKIN

March 26, 2015

MEMORANDUM

To: Timothy L. Firestine,
Chief Administrative Officer

From: Darren M. Popkin, Darren M. Popkin
Montgomery County Sheriff

Re: Deferred Retirement Option Plan (DROP) proposals

As a result of recent collective discussions and agreements, it is my understanding that the County will be proposing legislative amendments to authorize represented deputy sheriffs to participate in the Deferred Retirement Option Plan (DROP). Also under consideration are pass-through provisions that would extent the DROP to sworn Sheriff's Office management employees.

As Sheriff I find that the DROP plan enhances management's ability to monitor positions that will be vacated, to identify impending shortages in staff trained for specific tasks, and to plan promotional examinations and recruit classes. With the DROP, management will be able to assign deputies to shadow employees who will be retiring, and effectively time the hiring and training process for new deputy sheriff recruits.

Under the current retirement scheme, management generally has very little advance notice of pending retirements and thus is not able to conduct continuity planning or effectively plan for new hires.

It is essential that the DROP be extended uniformly to Sheriff's Office management positions, to avoid creating a disincentive for employees to apply for management positions, as well as maintaining management's flexibility in continuity planning of supervisory positions.

Of course, it would be inappropriate for the DROP to extend to the elected Sheriff, as may have been discussed in some draft position papers.

I would appreciate receiving a final copy of any proposed legislation that is transmitted to the Montgomery County Council, as well as any analytical papers or transmittal memos that are submitted in support of the legislation.

cc: Marc Hansen, County Attorney; Steve Farber, Council Administrator; Robert H. Drummer, Sr. Legislative Attorney.

UFCW LOCAL 1994
Municipal & County Government Employees Organization

GINO RENNE PRESIDENT
YVETTE CUFFIE SECRETARY-TREASURER
NELVIN RANSOME RECORDER
WWW.MCGEO.ORG

April 17, 2015

George Leventhal
Montgomery County Council
Council Office Building
100 Maryland Ave, 5th floor
Rockville, MD 20850

Dear President,

In light of the recent controversy surrounding the former MCFS Fire Chief and the MCFS DROP Plan. I submit this clarification regarding proposed legislation before the County Council to amend the County Code, Chapter 33, Article III to provide for a DROP Plan for sworn Deputy Sheriffs and uniformed Correctional Officers. Both Deputy Sheriffs and Correctional Officers are represented by UFCW Local 1994. During the recent contract negotiations the union and the County Executive reached an agreement to seek the introduction of such legislation to the County Council. If adopted, the DROP Plan as negotiated will be incorporated into the parties collective bargaining agreement effective July 1, 2015.

For the purpose of establishing for the record, Local 1994's position regarding a critical aspect of the DROP plan. Any Local 1994 member who is eligible to participate in said plan is expected to **STOP** working for the County and begin receiving pension benefits immediately upon termination of their participation in the plan.

Furthermore, on behalf of our Deputy Sheriffs and Correctional Officers, your support and the support of the full Council for this legislation is greatly appreciated.

Respectfully,

Gino

Gino Renne
President, UFCW Local 1994
IVP, UFCW International

CC: Members; Montgomery County Council
Isiah Leggett, County Executive
Shawn Stokes, Director OHR

UNITED FOOD & COMMERCIAL WORKERS LOCAL 1994 600 SOUTH FREDERICK AVENUE SUITE 200 GAITHERSBURG, MD 20877 301-977-2447 800-948-0651 FAX 301-977-6752

VICE PRESIDENTS: FRANK BECKHAM JERRY BONAPARTE MARJORIE BROWN-NELSON SEAN COLLINS JOSEPH DICKSON PAULETTE KEE-DUDLEY DENISE BRUSKIN-GAMBRELL ROBERT LEHMAN TERRI MILLER JA ROWE TARA HUBER ANDREA DEJARNETTE

EXPEDITED BILL 20-15, DEFERRED RETIREMENT OPTION PLAN-AMENDMENTS – RETIREMENT SAVINGS PLAN-ANNUITY – GUARANTEED RETIREMENT INCOME PLAN-ELECTION

Expedited Bill 20-15 would implement three changes to County Government employee retirement benefits as included in a collective bargaining agreement with the Municipal and County Government Employees Organization (MCGEO). The bill includes provisions to:

1. Establish the Guaranteed Retirement Income Plan (GRIP) as the default retirement option for new employees;
2. Provide an annuity option for employees who participate in the Retirement Savings Plan (RSP); and
3. Provide a deferred retirement option plan (DROP) for sworn deputy sheriffs and uniformed correctional officers.

This OLO review focuses on County costs associated with the proposed new DROP program.

Summary of Fiscal Impact Statement

The Executive's fiscal impact statement identifies both one-time and recurring costs resulting from the collective bargaining agreement with MCGEO.

One-Time Costs: The Executive estimates total one-time costs associated with implementation of the bill at $70,000. The following one-time costs would be incurred during late FY15 or early FY16:

- GRIP - $10,000 to update the payroll system to reflect GRIP as the default retirement plan for hew hires.
- RSP Annuity - $10,000 to program the pension administration system software to implement the RSP annuity offering.
- DROP - $30,000 to establish the DROP with Fidelity Investments; $10,000 to update the payroll system; and $10,000 for pension administration system software changes.

Recurring Costs: The Executive's fiscal impact statement assigns no recurring costs to the GRIP default and the RSP annuity provisions of the bill. Regarding the DROP provision, the Executive estimates:

- No change to the County's required FY16 contribution to the Employees' Retirement System (ERS) pension fund.
- An annual increase in the County's ERS contribution ranging between $85,000 and $254,000 for FY17 and beyond. Over the six-year period from FY16 through FY21, the fiscal impact statement assumes the DROP provision would increase the County's required pension contributions by $0.49 to $1.34 million.[1]

A copy of the Executive's Fiscal Impact Statement is attached to this review.

[1] The Executive recommends offering the DROP benefit to both MCGEO and non-MCGEO employees; the pension contribution amounts above reflect the combined cost for both groups of employees.

Actuarial Basis for Executive's Estimates

The Executive enlisted the services of an actuarial consulting firm, Gabriel, Roeder, Smith & Co. (GRS), to calculate the future year fiscal impact of the proposed new DROP program for sworn deputy sheriffs and uniformed correctional officers. GRS found that the calculation of future cost is dependent on assumptions about how the DROP affects when employees choose to retire. The cost of the DROP is inversely related to the amount of time an employee extends his/her career as a result of the DROP. In other words, the longer an employee stays with the County, the lower the cost of the DROP benefit. Conversely, costs to the County rise if the DROP does not encourage employees to significantly prolong their careers.

GRS developed cost calculations for two alternative scenarios. The first scenario assumes that the presence of the DROP would induce employees to extend their careers by an average of 1.0 year. Under this assumption, GRS calculated that the DROP would require the County to increase its annual pension contribution by about $254,000 per year. The Executive's fiscal impact statement uses this amount as the high end of the estimated recurring annual cost of the DROP.

The second scenario prepared by GRS assumes that the DROP would induce employees to extend their careers by an average of 1.6 years. This scenario results in lower cost to the County as it assumes that employees would remain with the County longer than assumed in the first scenario. GRS calculated that a DROP program that extends careers by 1.6 years would increase the County's annual pension contribution by about $85,000. The Executive's fiscal impact statement uses this amount as the low end of the estimated recurring annual cost of the DROP.

OLO Comments on Cost of the DROP Proposal

Council Staff asked the Council's actuarial consultant, Bolton Partners, to assess the GRS analysis and to clarify issues related to the bargained DROP proposal and DROP programs in general. OLO's comments below were informed by the responses provided by Bolton Partners. A copy of the Bolton Partners letter is attached to this review.

1. ***The future cost of the DROP is difficult to project and can vary significantly given relatively small changes in employee behavior.***

The actuaries agree that the actual cost of the proposed DROP is a function of how the benefit affects employee behavior. Costs fluctuate greatly dependent on the assumed retirement age of employees who participate in the DROP. This cost sensitivity is evident in the GRS analysis. GRS calculated that the DROP would increase the County's annual pension contribution by $85,000 if employees extend their careers by 1.6 years on average; however, the annual pension contribution jumps to $254,000 under the assumption that the DROP would prolong the average career by 1.0 year. Note that a difference of just 0.6 year (seven months) in the assumed average retirement age produces a three-fold variation in the estimated annual contribution. These data clearly indicate a significant degree of cost uncertainty and volatility inherent in the DROP proposal.

Moreover, while the GRS assumptions about employee behavior appear reasonable, the actual impact of the DROP program on employee behavior is unknown and difficult to predict. The County's experience with DROP benefits for Police and Firefighters may not provide sufficient evidence to confidently predict the future behavior of sheriff deputies and correctional officers. As noted by Bolton Partners, DROP programs are much less common for sheriff deputies and correctional officers than for police or fire personnel. In addition, the demographic make-up of sworn deputy sheriffs and uniformed correctional officers differs from that of other public safety departments. For example, the average age at hire for deputy sheriffs and uniformed correctional officers is 31, six years older than for County Police Officers. Bolton Partners further suggests that, under certain circumstances, the DROP may prompt employees to retire earlier than they would have absent the DROP. These considerations add further uncertainty to the DROP cost estimates.

2. ***The County would incur costs in FY16 resulting from the DROP but payment of these costs would be deferred to future years.***

The Executive's fiscal impact statement indicates that (other than the one-time costs listed above) the creation of a DROP program for deputy sheriffs and uniformed correctional officers would have no cost in FY16. This statement is accurate solely because the next actuarial valuation for the ERS is scheduled for next fall, and so, the increases in the County's annual pension fund contribution resulting from the DROP would first be budgeted in FY17. Indeed, the County would incur costs from the DROP in FY16. However as a result of the timing of the actuarial adjustment, the costs incurred in FY16 would be deferred to future years.

3. ***The Executive's actuarial advisor determined that the immediate full cost of the DROP proposal is between $2.6 and $4.1 million.***

The Executive's fiscal impact statement places the cost of implementing the DROP at between $85,000 and $254,000 annually beginning in FY17 and continuing for 20 years. This range of costs, in essence, represents the 20-year repayment schedule for costs that the County would incur immediately upon approval of the DROP. As such, the six-year estimate included in the Executive's fiscal impact statement presents only a partial indication of the full cost of the DROP.

New accounting standards now require public sector pension funds to immediately recognize pension expenses.[2] GRS, the Executive's actuarial advisor, calculated the full cost of the County's DROP liability as would be recorded on the pension fund balance sheet beginning in FY16. GRS estimated that the County would immediately recognize a cost of between $2.6 and $4.1 million (using the same assumptions about employee retirement age described above).[3] The above range represents the amount the County would have to contribute to the pension fund in FY16 to fully cover the new liability incurred by the DROP.

SUMMARY OF OLO REVIEW

OLO finds that the GRS used reasonable assumptions to estimate the cost of the proposed DROP. Nonetheless, given the lack of experience data specific to the cohort that would receive the benefit as well as the high cost sensitivity associated with small changes in employee behavior, OLO concludes that the actual future cost of the DROP could fall outside of the range calculated by GRS. Further, OLO suggests that the Council take into account the immediate full cost of the DROP when considering whether to approve this new benefit.

OLO Staff Contact: Aron Trombka

[2] Government Accounting Standards Board Statement #68.

[3] As the DROP would benefit an employee group currently consisting of 444 members, the GRS immediate cost estimate represents a cost to the County of between $5,900 and $9,300 per employee.

Memorandum

To: Steve Farber

From: Tom Lowman & Kevin Binder

Date: April 8, 2015

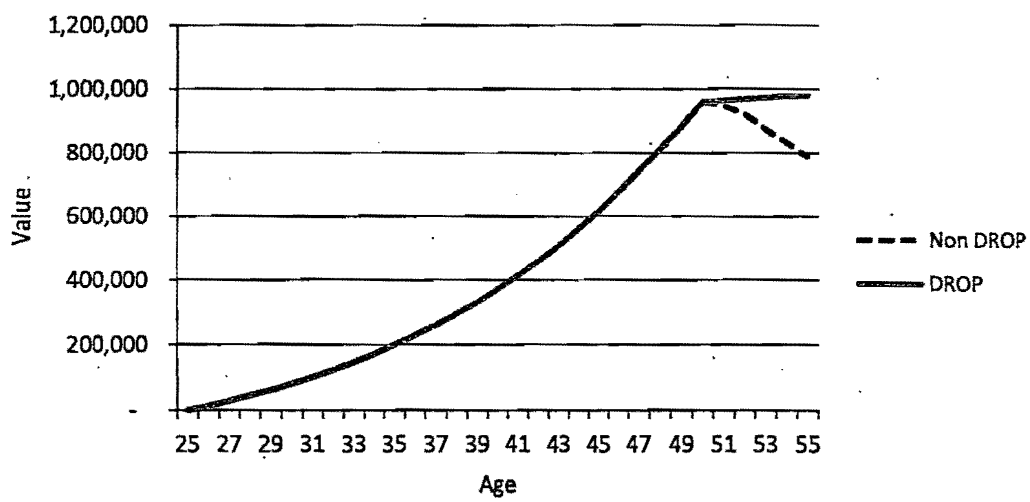
Re: Group E DROP Proposal

This memo has been prepared for the County Council to address questions about a proposed pension DROP for certain County employees. Bolton Partners, Inc. is not responsible for the consequences of any other use or the reliance on this document by any other party.

Pension DROP questions

We understand that certain members of Group E want to add a three year forward DROP provision to their retirement benefit. The covered group included 401 MCGEO members and 43 Uniform Non-MCGEO members (out of 626 total active Group E members). We have reviewed the two March 11, 2015 letters from the plan actuary (GRS) on this topic.

One way to look at what DROP does is to at look how the present value of the benefit grows with and without a DROP. The present values on the following graph are at the peak value retirement age which is why the non-DROP values fall after that age.



This graph shows that adding a DROP preserves the value of a benefit that would generally be lost if long service members continue to work beyond their Normal Retirement Age.

74

The bottom line is that the cost depends on how DROP impacts behavior (i.e. when employees retire). The impact on behavior is unknown. If DROP does encourage longer careers as assumed by GRS: (1) the pension cost will likely be as GRS showed, (2) payroll cost will increase, (3) health benefit cost will decline, and (4) there will be some value in terms of succession planning. If it ends up that DROP results in members retiring sooner, pension cost will be higher and factors (2) and (3) will move in the opposite direction.

1. Do you concur with the findings and conclusions of the GRS fiscal impact analysis?

While we cannot verify the results without doing an expensive replication valuation, the analysis seems reasonable given (1) the GASB type of cost allocation methodology used and (2) the baseline assumptions. However, there are alternatives to each of these. Our response to this question 1 focuses on the methodology used. The issue of the baseline assumptions (i.e. when people are assumed to retire) is covered under our response to the second question.

Methodology: DROP's are difficult benefits to value and there is no one right way to value them. There is no one acceptable method to use and no one knows how the benefit change will impact when people retire[1]. GRS noted that under their methodology, they assume Normal Cost ends when a member joins DROP. This is the method adopted by GASB for accounting purposes and is generally a **conservative** way to value DROP benefits but not the only way. The Conference of Consulting Actuaries White Paper[2] says that this GASB method is acceptable for funding but the Level Cost Allocation Model Practice is different and preferred. Under the Model Practice, "Normal Cost is allocated over service that continues until the member is no longer working." The limitation of the GASB model is that it has higher Normal Cost pre DROP and three zero Normal Cost years vs. without DROP there is a Normal Cost either for the member or their replacement. We would have preferred that added disclosure of cost (savings) under the less conservative model be shown to measure the impact of adding a DROP even if it is funded under the GASB model. We think the non-GASB method is a better way to measure cost.

There is one other small point about methodology we would like to make. While the focus is on the increase in the dollar cost, there is also an issue about how to display the cost as a percentage of payroll. GASB requires this cost to be shown as a % of total payroll including the payroll for those in DROP. While contribution collection systems might be tied to a percentage of the non-DROP active payroll, the true burden is better shown using the DROP payroll.

[1] GRS looked at the cost of DROP using two different sets of retirement assumptions. That is a good practice. However, the retirement assumptions are not the only key factor since the funding methodology is also important.

[2] http://www.ccactuaries.org/publications/news/CCA-PPC-White-Paper-on-Public-Pension-Funding-Policy.pdf

2. The GRS analysis includes a "high-end" estimate that shows the cost of the DROP assuming all employees participated and all retired at first eligibility. How likely or unlikely is this scenario relative to the other two scenarios presented in the GRS analysis?

We would like to start by noting how the age at hire of this group (Group E) differs from a group like Police (Group F). The average age at hire (31) is higher than for Police (25). In addition, Police tend to be hired within a narrower band of ages in their 20's while Group E is much more likely to hire members in their 30's and 40's. This means when looking at who retires under the two retirement age rules [(1) 25 years and age 46 or (2) age 55 with 15 years] the Group E members are much more split between these two age rules. Those eligible at age 55 are assumed to have an average retirement age of less than 56. Those who are eligible at age 50 have an average retirement age of 53.4 using the valuation assumptions and (if DROP is added) exiting DROP at age 54.7. However, the 2010 Experience Study shows that they may already be working to an average age of 55. One of our concerns is that some might join DROP at age 50 and be forced to retire at age 53 (two years sooner than the current average). For this reason it is difficult to know if adding a DROP will get employees to work longer. While the GRS pension cost might be conservative, there could be an HR impact if the DROP ends up causing members to leave employment sooner since they will be unable to further postpone retirement once they entered DROP.

Getting back to your question, this "high end" scenario would seem unlikely. As noted above, when we reviewed the 2010 experience study it showed that members were retiring much later than was assumed in valuations before or after the 2010 study. This implies that cost estimates are already conservative. We certainly understand that for the 2010 study (1) there was limited data creditability due to the small sample size, (2) the economy pre-2010 was unusual, (3) the assumptions were conservative and (4) GRS gave some deference to the prior assumption. We understand that the experience from 2009-2014 also shows a delayed retirement for Group E members compared to the current assumptions.

<u>Our concern is not that the cost of the system with DROP could be higher than shown. Our concern is simply that the impact of DROP could be different than shown.</u>

From an HR perspective, one common justification for adding a DROP is to encourage employees to work longer. However, once a member joins DROP they must retire after three years. GRS indicated that even if they revised the baseline assumptions they still would expect to follow the same methodology (increase retirement rates under the DROP scenario to reflect that members are expected to enter DROP earlier than they would have otherwise retired and work longer). However, when plan experience shows members working longer after becoming eligible for Normal Retirement, the more likely it is that they might elect DROP early enough that they might end up retiring sooner.

3. Are there other scenarios or assumptions that would lead you to a different conclusion?

It is likely that using a model that ends Normal Cost when a member exits DROP would result in a lower cost for DROP. It is also possible that there would be contribution savings if the Normal Cost ended when a member exits DROP.

4. GRS' Scenarios 1 and 2 assume that the DROP would induce employees to retire 1.0 and 1.6 years (respectively) later than in the absence of a DROP program.

a. How does the assumption of delayed retirement affect County salary and FICA costs (in that extending the employment of veteran employees disrupts the natural cycle of younger, less costly employees replacing older, more costly employees)?

For the non pension cost of DROP, items to consider include (1) job types electing DROP, (2) payroll cost, (3) health benefit cost, and (4) other costs including training cost. This question is about payroll cost.

Regarding payroll cost, looking just at the difference in salary between DROP participants versus non DROP active employees, there is about a $13,000 difference in average annual payroll. If adding a DROP does result in employees working longer and if we assume that ultimately 5 employees/year are still working who otherwise would be retired and would have been replaced, the cost is $13,000 x 5 = $65,000 plus FICA. However, as noted above, it is not clear that adding a DROP will actually result in employees working longer.

DROP can have a benefit of having a "scheduled" retirement date which allows better planning for training of replacements.

b. How does the assumption of delayed retirement affect the County's contribution to employee/retiree health insurance costs (as during extended employment period, the County would contribute only for the DROP participant's health premium instead of contributing for both the retiree's and the replacement employee's premiums)?

If we assume that DROP extends employment, the net health insurance cost to the County is lower when a participant is in DROP (versus if the participant retired and was replaced by a younger participant). This is because the County's under age 65 OPEB benefits cost are not that much lower than for active employees. If we assume there are five employees in DROP who would otherwise be retired, the cost might be $3,000 to $4,000/year.

5. Would the DROP result in any other non-pension impacts?

The biggest impact is in the area of public relations. Generally DROPs come with negative public relations impact because of the large lump sums. However, the plan already has DROPs for Police and Fire members.

Regarding job types electing DROP, we expect the participants who are hired at younger ages have a higher likelihood of joining the DROP. The preference of long service employees is consistent with the economics of DROP since additional annuity accruals add less value than the DROP lump sum after some service cross over point. Also participants with higher salary at retirement may have a higher likelihood of joining the DROP. This has an impact on promotional opportunities and other HR issues.

There is a savings in training cost to the County because for every participant who remains in DROP, the County does not have to train a new recruit. It is difficult to quantify this training cost savings but we expect it is largest for public safety with long formal training programs than for Corrections which we understand to have different training needs.

6. The County Executive's fiscal impact statement shows that creation of a Group E DROP program would have no effect on the Fiscal Year 2016 operating budget. Could this be a function of the timing for the next actuarial evaluation? If so, is it correct to assume that the County would incur costs in Fiscal Year 2016 but that the payment of these costs would be deferred to future years?

Yes. Normally the valuation following the change would be when this would show up. The means the July 1, 2015 valuation and FY17 contribution. It still is possible to make an adjustment to the FY16 contribution.

For accounting purposes the change needs to show up on the Measurement Date[1] following the change. If the GASB68 Measurement Date for FY15 is 6/30/15 that means that it would be reflected this year. However, if the Measurement Date is 6/30/14 for FY15, it would not show up until FY16.

7. How common nationwide are DROPs for these Sheriff and Corrections employee groups compared to Fire and Police employees? How common are DROPs for non-public safety employees?

DROPs are less common for Corrections employees.

In the Maryland State plan, Corrections employees (members of "CORS") do not have a DROP feature. Members of the State Police plan and local police and fire (LEOPS) have a DROP feature.

Many Maryland County plans do not have a DROP for Corrections employees but do have a DROP for police and fire. Baltimore County might be the only one that offers a DROP for all employees including Correctional officers and non-public safety employees (although DROP is not available to any new hires).

It is difficult to collect nationwide information and Sheriffs have an added difficulty. In some places like Charles County the Sheriff's office does the policing (there is no separate police department). Charles County Sheriffs have a DROP. In Anne Arundel and Howard counties there are both police and sheriffs. In both of these counties the police have a DROP and Sheriffs do not.

We are not aware of any national DROP studies. The National Conference on Public Employee Retirement Systems (NCPERS) conducted a study of retirement systems in November 2014 that looked at current practices but was not specific to DROPs. Two comments were made about DROPs. One was in the section on actions taken to reduce liabilities and was that DROP interest credits were reduced (which has happened in Anne Arundel County). The other comment was in the section on innovation and was about giving web access to DROP activity.

---

[1] The term Measurement Date is a GASB term. It refers to the date as of which assets and liabilities are valued. For FY15 financial statements this does not have to be as of 6/30/15. It could be as early as 6/30/14.

DROPs tend to be more common in some states than in others. Florida, Louisiana and Maryland have many plans with DROP. The only difference is that in Florida and Louisiana there are more than a few non-public safety groups that have DROPs.

8. Is there a pattern nationwide for DROPs – are they becoming more or less common and why?

This is mixed. However, within the past six months many Maryland Counties have been negotiating over new or expanded DROP benefits. This is likely due to the improvements in pension funding levels over the last five years due to good pension fund investment returns. On the other hand, Baltimore County does not offer DROP to any employees hired after June 30, 2007.

We asked a national labor union benefits staffer if the trend is that the number of plans adding DROPs is increasing or declining. His response was there is a mix: (1) Some have stopped it for new hires, (2) some have stopped it for future retirees, (3) some have asked for it as a few plans get close to 100% funded and (4) some have asked for it to cover groups not previously covered by DROP (e.g. police had it and Corrections want it). He said he is getting more requests for information on adding a DROP which is different than a few years ago when there was pressure on DROP plans. His suspicion was that worker retention, especially for police, is a factor in the renewed interest among plan sponsors. However, we think this is mostly driven by labor.

OFFICES OF THE COUNTY EXECUTIVE

Isiah Leggett
County Executive

Timothy L. Firestine
Chief Administrative Officer

MEMORANDUM

April 22, 2015

TO: George Leventhal, Council President
Nancy Navarro, Chair, Government Operations Committee

FROM: Timothy L. Firestine, Chief Administrative Officer Timothy L. Firestine

SUBJECT: Expedited Bill 20-15, Deferred Retirement Option Plan-Amendments – Retirement Savings Plan-Annuity – Guaranteed Retirement Income Plan-Election

The Government Operations Committee is scheduled to consider Expedited Bill 20-15 at its meeting on Thursday, April 22, 2015. The Bill includes a provision to establish a Deferred Retirement Option Plan (DROP) for sworn deputy sheriffs and uniformed correction officers. It is not our intention to allow a director of the Department of Correction and Rehabilitation to enter the DROP after he or she is appointed to the position of director. We therefore would propose and support an amendment to clarify that a director may not make application to participate in the DROP after the director's appointment. Thank you for your consideration of this amendment.

Resolution No.: 18-118
Introduced: April 14, 2015
Adopted: April 28, 2015

COUNTY COUNCIL
FOR MONTGOMERY COUNTY, MARYLAND

Lead Sponsor: Government Operations and Fiscal Policy Committee

SUBJECT: Collective Bargaining Agreements with Municipal & County Government Employees Organization

Background

1. Section 511 of the County Charter authorizes the County Council to provide by law for collective bargaining, with arbitration or other impasse resolution procedures, with authorized representatives of County Government employees.

2. Chapter 33, Article VII of the County Code implements Section 511 of the Charter and provides for collective bargaining by the County Executive with the certified representatives of County employees and for review of the resulting contract by the County Council.

3. On April 1, 2015, the County Executive submitted to the Council 2 collective bargaining agreements between the County government and Municipal and County Government Employees Organization effective July 1, 2015 through June 30, 2016. A copy of the Agreements is attached to this Resolution.

4. The Executive has submitted to the Council the terms and conditions of the Agreements that require or may require an appropriation of funds or changes in any County law or regulation.

5. The Government Operations and Fiscal Policy Committee considered the Agreements and made recommendations on April 23, 2015.

6. The County Council has considered these terms and conditions and is required by law to indicate on or before May 1 its intention regarding the appropriation of funds or any legislation or regulations required to implement the agreements.

Action

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

The County Council intends to approve the following provisions for FY16:

1. 2% general wage adjustment payable on the first pay period after July 1, 2015.

2. 3.5% service increments for all eligible bargaining unit members.

3. 3% longevity increment for eligible bargaining unit members.

4. Tuition Assistance up to $150,000.

5. Deferred Retirement Option Plan for Deputy Sheriffs.

6. Deferred Retirement Option Plan for Uniformed Correctional Officers.

7. Change the default option for new employees from RSP to GRIP.

8. Add an annuity option for the RSP.

The Council intends to approve the group insurance provisions as they were included in the Executive's Recommended FY16 operating budget, including a Medicare Part D Employer Group Waiver Prescription Drug Plan for Medicare-eligible retirees. To the extent that this approval is inconsistent with any provision of the collective bargaining agreement, that provision is disapproved. The Council intends to approve all other provisions of the Agreement subject to Council review.

This is a correct copy of Council action.

Linda M. Lauer

Linda M. Lauer, Clerk of the Council