

GO #5
April 25, 2011

MEMORANDUM

April 20, 2011

TO: Government Operations and Fiscal Policy Committee
CHP
FROM: Charles H. Sherer, Legislative Analyst
SUBJECT: FY12 County retirement budgets: Employees' Retirement System (ERS), Retirement Savings Plan (RSP), Deferred Compensation Plan (DCP), and FY12 County Retiree Health Benefits Trust (RHBT)

Those expected to attend this worksession include:
Linda Herman, Executive Director, Board of Investment Trustees
Alex Espinosa, Lori J. O'Brien, OMB
Wes Girling, Employee Benefits Manager, OHR

Council staff recommends approval of the County expenses to administer the retirement plans and the retiree health benefits trust in the amount of \$3,774,570.

The purpose of this discussion is to review the expenses related to the administration of the plans.

Background The Board of Investment Trustees is responsible for overseeing the investment programs, and the Office of Human Resources oversees benefit administration for the County's three retirement plans and the trust established to fund retiree health benefits (see the last page of this memorandum for an explanation of each plan/trust).

1. Employees' Retirement System (ERS):
 - a. defined benefit plan
 - b. cash balance Guaranteed Retirement Income Plan (GRIP) — guaranteed annual interest rate of 7.25%
2. Retirement Savings Plan (RSP) — defined contribution plan
3. Deferred Compensation Plan (DCP) — voluntary retirement plan
4. Retiree Health Benefits Trust (RHBT) — trust established to fund the costs of retiree health benefits, referred to as “other post employment benefits” or OPEB

The Board of Investment Trustees incurs administrative expenses overseeing the investment programs and approves an annual budget. In addition, three County Government departments/offices provide administrative, legal, and accounting services to the plans and charge each of the plans for this support: County Attorney, Office of Human Resources (OHR) and Finance. The CAO approves the charges to the plans for the services from the three departments/offices every year.

The total administrative expenses of administering the plans is the sum of the Board's own expenses plus the charges from the three County Government departments/offices the CAO approved, as summarized in the table below. The table on ©A shows the expenses by plan, but does not show the expense by source: BIT, County Attorney, OHR and Finance.

At the request of Council staff, OMB and BIT staff provided data for the following table that summarizes the County expenses to administer the plans, by source of expense. **These are the expenses the Committee is reviewing.** The major changes are explained below.

Excludes investment management fees	FY11 Budget	FY12 Request	\$ Change	% Change
Charges from Montgomery County Government:				
Human Resources	\$2,223,280	\$2,325,400	\$102,120	4.6%
Finance	\$136,290	\$136,290	\$0	0.0%
County Attorney	\$93,420	\$80,380	-\$13,040	-14.0%
Subtotal, Montgomery County Government	\$2,452,990	\$2,542,070	\$89,080	3.6%
Board of Investment Trustees	\$1,224,400	\$1,232,500	\$8,100	0.7%
Total	\$3,677,390	\$3,774,570	\$97,180	2.6%

Executive staff explained the change in costs for administering the retirement plans as follows.

Board of Investment Trustees: Benefit and other personnel cost shifts.

Other Departments: Changes are due to shifts in personnel costs, primarily from the transfer in of an Administrative Specialist to help with disability retirement issues, offset by reductions in benefit costs.

The Employees Retirement System was established in 1965 as a defined benefit pension plan providing benefits to the employees of Montgomery County and other agencies or political subdivisions who elect to participate. The System is closed to employees hired on or after October 1, 1994, except public safety bargaining unit employees and those employees who elect to participate in the Guaranteed Retirement Income Plan. There were 5,786 active members and 5,591 retirees participating in the System as of June 30, 2010.

The County established a Trust for the benefit of the members of the retirement system. The Board is responsible for the management of the Trust. In investing the Trust, an appropriate balance must be struck between risk taken and returns sought to ensure the financial wellbeing of the System. The Board of Investment Trustees has adopted investment policies that work to manage the risk to which the System is exposed while maximizing the potential for asset growth.

The Retirement Savings Plan was established in 1994 as a defined contribution plan providing benefits to all non-public safety and certain public safety employees hired on or after October 1, 1994. As of June 30, 2010 there were 3,839 active participants.

As described in the Statement of Policies and Objectives, the Board establishes a diversified slate of mutual and commingled funds through Fidelity Investments from which participants may select investment options. The Board selects a service provider for investment education for participants.

Deferred compensation Plan The employees of Montgomery County may participate in the Montgomery County Deferred Compensation Plan (the Plan) created pursuant to Section 457 of the Internal Revenue Code of 1954, as amended. The Board of Investment Trustees has established a diversified slate of mutual and commingled funds, administered by ING (formerly CitiStreet), from which participants may select investment options.

The Retiree Health Benefits Trust was established in 2008 as a Section 115 Trust to provide funding for retiree health benefits for retirees and their dependents.

The Board is responsible for the management of the Trust. In investing the Trust, an appropriate balance must be struck between risk taken and returns sought to ensure the financial wellbeing of the Trust. The Board of Investment Trustees has adopted investment policies that work to manage the risk to which the Trust is exposed while maximizing the potential for asset growth.

FY12

PROPOSED OPERATING BUDGET DEFERRED COMPENSATION MANAGEMENT						
ITEM	FY10 ACT	FY11 APPR	FY11 EST	FY12 REC	\$ Change	% Change
EXPENSES						
Salaries and Benefits	61,140	71,810	88,230	77,340	5,530	7.7%
Professional Services	0	6,000	5,500	5,500	(500)	(8.3%)
Due Diligence/Education	4,740	1,600	1,000	1,000	(600)	(37.5%)
Office Management	11,780	6,210	5,510	5,510	(700)	(11.3%)
Investment Management	22,140	21,700	10,000	10,000	(11,700)	(53.9%)
TOTAL EXPENSES	\$99,800	\$107,320	\$110,240	\$99,350	(\$7,970)	(7.4%)

Amounts shown above are not charged to the Deferred Compensation Plan trust but are instead appropriated and charged to the General Fund Compensation and Employee Benefits Adjustments Non-Departmental Account.

PROPOSED OPERATING BUDGET RETIREE HEALTH BENEFIT TRUST						
ITEM	FY10 ACT	FY11 APPR	FY11 EST	FY12 REC	\$ Change	% Change
EXPENSES						
Salaries and Benefits	69,470	67,730	76,720	66,960	(770)	(1.1%)
Professional Services	66,190	75,000	75,000	75,000	0	0.0%
Office Management	1,700	1,700	1,000	1,500	(200)	(11.8%)
Investment Management	17,480	100,000	70,000	70,000	(30,000)	(30.0%)
TOTAL EXPENSES	\$154,840	\$244,430	\$222,720	\$213,460	(\$30,970)	(12.7%)

PROPOSED OPERATING BUDGET EMPLOYEES' RETIREMENT SYSTEM						
ITEM	FY10 ACTUAL	FY11 APPR	FY11 EST	FY12 REC	FY12 vs. FY11 Appr. \$	%
REVENUE						
Contributions	134,389,250	149,000,000	127,100,000	146,500,000	(2,500,000)	(1.7%)
Investment Income	319,294,650	210,000,000	417,000,000	212,000,000	2,000,000	1.0%
Miscellaneous Income	643,220	550,000	650,000	700,000	150,000	27.3%
TOTAL REVENUE	454,327,120	359,550,000	544,750,000	359,200,000	(350,000)	(0.1%)
EXPENSES						
OPERATING EXPENSES						
Retirement Benefits	170,503,650	190,700,000	186,900,000	204,500,000	13,800,000	7.2%
Investment Management	15,752,830	15,000,000	16,200,000	19,300,000	4,300,000	28.7%
SUBTOTAL	186,256,480	205,700,000	203,100,000	223,800,000	18,100,000	8.8%
ADMINISTRATIVE EXPENSES						
Salaries and Benefits	1,591,160	1,660,710	1,596,210	1,775,920	115,210	6.9%
Professional Services	401,740	829,930	803,930	833,930	4,000	0.5%
Benefit Processing	364,470	375,000	375,000	375,000	0	0.0%
Due Diligence/Education	27,060	53,500	43,500	53,500	0	0.0%
Office Management	186,340	258,030	249,030	241,887	(16,143)	(6.3%)
SUBTOTAL	2,570,770	3,177,170	3,067,670	3,280,237	103,067	3.2%
TOTAL EXPENSES	\$188,827,250	\$208,877,170	\$206,167,670	\$227,080,237	\$18,203,067	8.7%
NET REVENUE	\$265,499,870	\$150,672,830	\$338,582,330	\$132,119,763	(\$18,553,067)	(12.3%)

PROPOSED OPERATING BUDGET RETIREMENT SAVINGS PLAN						
ITEM	FY10 ACTUAL	FY11 APPR	FY11 EST	FY12 REC	Change: FY12 vs. FY11 Appr. \$	%
REVENUE						
Investment Income	1,830	11,000	10,000	6,250	(4,750)	(43.2%)
Miscellaneous Income	557,950	150,000	560,000	500,000	350,000	233.3%
TOTAL REVENUE	559,780	161,000	570,000	506,250	345,250	214.4%
EXPENSES						
OPERATING EXPENSES						
Investment Management	22,140	21,700	10,000	10,000	(11,700)	(53.9%)
SUBTOTAL	22,140	21,700	10,000	10,000	(11,700)	(53.9%)
ADMINISTRATIVE EXPENSES						
Salaries and Benefits	133,310	165,050	180,380	162,390	(2,660)	(1.6%)
Professional Services	48,010	78,500	73,500	73,500	(5,000)	(6.4%)
Due Diligence/Education	4,880	2,600	2,000	2,000	(600)	(23.1%)
Office Management	51,500	24,030	23,630	23,630	(400)	(1.7%)
SUBTOTAL	237,700	270,180	279,510	261,520	(8,660)	(3.2%)
TOTAL EXPENSES	\$259,840	\$291,880	\$289,510	\$271,520	(\$20,360)	(7.0%)