

MEMORANDUM

April 27, 2012

TO: Government Operations and Fiscal Policy Committee

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Office of Legislative Oversight

SUBJECT: FY13 County Government Retirement Plans /Consolidated Retiree Health Benefits Trust -
Administrative and Operating Expenses

The purpose of this discussion is to review the administrative and operating expenses of three County Government retirement plans: the Employees' Retirement System, the Retirement Savings Plan, the Deferred Compensation Plan, and the Consolidated Retiree Health Benefits Trust.

A staff recommendation regarding these expenses will appear in Staff Director Farber's memorandum for the May 9 GO Committee session on agency compensation issues.

Background

The County manages three programs that offer retirement benefits as well as an additional program that provides retiree health benefits. The Chief Administrative Office (CAO), acting as the Plan Administrator for each retirement plan, oversees the benefit administration and accounting for Plan assets. The cost of administering these programs in FY13 is included in the budget for the newly created Montgomery County Employee Retirement Plans (see below).

Employees' Retirement System

The Employees Retirement System (ERS) is a defined benefit (pension) plan for eligible County Government employees. Uniformed public safety employees, as well as general government employees hired before October 1, 1994, participate in the ERS. The ERS also serves general government employees hired starting October 1, 1994 who have elected to participate in the Guaranteed Retirement Income Plan (GRIP).

The Board of Investment Trustees (BIT) invests and manages ERS assets. As stated in the BIT FY11 annual report, "the Board works to control the risk to which the ERS is exposed while maximizing the potential for long term increases in the value of the assets."

The table below shows FY12 approved and FY13 recommended ERS administrative and operating expenses.

Employees' Retirement System Administrative and Operating Expenses

	FY12 Approved	FY13 Recommended	\$ Amount Change FY12 to FY13	Percent Change FY12 to FY13
Investment Management	\$19,300,000	\$21,200,000	\$1,900,000	9.8%
Salaries and Benefits	\$1,775,920	\$1,654,200	-\$121,720	-6.9%
Professional Services	\$833,930	\$813,933	-\$19,997	-2.4%
Benefit Processing	\$375,000	\$375,000	\$0	0.0%
Office Management	\$241,887	\$240,887	-\$1,000	-0.4%
Due Diligence/Education	\$53,500	\$55,500	\$2,000	3.7%
TOTAL	\$22,580,237	\$24,339,520	\$1,759,283	7.8%

The investment management costs shown above represent the fees paid based on the investment performance of assets held in the ERS trust fund. As assets grow from contributions and investment earnings, fees increase. The nearly \$2 million increase in ERS investment management costs from FY12 to FY13 is a direct result of the projected increase in trust fund assets.

Retirement Savings Plan

The Retirement Savings Plan (RSP) is a defined contribution plan providing benefits to non-public safety employees, and certain public safety employees, hired after 1994. The County Government contributes a defined percent of salary into RSP participants' retirement savings accounts. Employees also contribute to their RSP account and self-manage investment choices. As stated in the BIT FY11 Annual Report, "the Board oversees the [RSP] investment program, providing a variety of investment options for participants to choose from." BIT also provides investment education sessions for RSP participants.

The table below shows FY12 approved and FY13 recommended RSP administrative and operating expenses.

Retirement Savings Plan Administrative and Operating Expenses

	FY12 Approved	FY13 Recommended	\$ Amount Change FY12 to FY13	Percent Change FY12 to FY13
Investment Management	\$10,000	\$9,000	-\$1,000	-10.0%
Salaries and Benefits	\$162,390	\$205,460	\$43,070	26.5%
Professional Services	\$73,500	\$89,500	\$16,000	21.8%
Office Management	\$23,630	\$23,430	-\$200	-0.8%
Due Diligence/Education	\$2,000	\$2,000	\$0	0.0%
TOTAL	\$271,520	\$329,390	\$57,870	21.3%

Deferred Compensation Plan

County Government employees, if eligible, may elect to participate in the Deferred Compensation Plan (DCP) created pursuant to Section 457 of the Internal Revenue Code. The DCP is a voluntary deferred compensation plan that allows employees to make tax-deferred contributions into a retirement savings account. Employees self-manage DCP investment choices. BIT contracts with a record keeper who administers the mutual and commingled fund options selected by the Board and offered to DCP participants. The table below shows FY12 approved and FY13 recommended DCP administrative and operating expenses.

Deferred Compensation Plan Administrative and Operating Expenses

	FY12 Approved	FY13 Recommended	\$ Amount Change FY12 to FY13	Percent Change FY12 to FY13
Investment Management	\$10,000	\$9,000	-\$1,000	-10.0%
Salaries and Benefits	\$77,340	\$91,873	\$14,533	18.8%
Professional Services	\$5,500	\$5,500	\$0	0.0%
Office Management	\$5,510	\$5,310	-\$200	-3.6%
Due Diligence/Education	\$1,000	\$1,000	\$0	0.0%
TOTAL	\$99,350	\$112,683	\$13,333	13.4%

Consolidated Retiree Health Benefits Trust Fund

The County has established a Trust Fund to set aside funds for retiree health benefits, similar to the County's practice of prefunding for retiree pension benefits. The Office of Human Resources is responsible for the administration of the Trust Fund and the Board of Investment Trustees is responsible for investing the trust fund assets with the goal of managing risk exposure while maximizing asset growth. The table below shows FY12 approved and FY13 recommended retiree health benefits trust fund administrative and operating expenses.

Retiree Health Benefits Trust Fund Administrative and Operating Expenses

	FY12 Approved	FY13 Recommended	\$ Amount Change FY13 to FY14	Percent Change FY12 to FY13
Investment Management	\$70,000	\$308,000	\$238,000	340.0%
Salaries and Benefits	\$66,960	\$89,470	\$22,510	33.6%
Professional Services	\$75,000	\$75,000	\$0	0.0%
Office Management	\$1,500	\$1,200	-\$300	-20.0%
TOTAL	\$213,460	\$473,670	\$260,210	121.9%

The investment management costs shown above represent the fees paid based on the investment performance of assets held in the retiree health trust fund. As assets grow from contributions and investment earnings, fees increase. The \$238,000 increase in investment management costs from FY12 to FY13 is a direct result of the projected increase in trust fund assets, along with the addition of active investment managers.

Reorganization of Retirement Plan Staffing

Effective July 1, 2012, the Chief Administrative Officer (who serves as the Administrator for County Government retirement plans) approved the consolidation of all retirement related functions into one organization, Montgomery County Employee Retirement Plans (MCERP). The MCERP will be responsible for retirement plan investments, administration, and accounting functions. To facilitate this change, the CAO will assign seven Board of Investment Trustees' staff positions to the MCERP. In addition, the CAO will transfer six positions from the Office of Human Resources and one position from the Finance Department to the MCERP. The CAO offers the following justification for the reorganization:

The County and the Retirement Plans will be best served by consolidating the oversight of the Plans into one office whose core mission is the management of the Plans. In evaluating possible structures, we looked at other pension funds to determine what the "industry standard" and "best in class" operational systems might look like. Most other local public pension plans, including Fairfax, DC, MNCPPC, WSSC, and the States of Maryland and Virginia, as well as plans across the nation our size or larger, are structured as consolidated retirement offices with a single director or manager overseeing employees dedicated to specific retirement functions, including investments, benefits and finance. A consolidated organization will allow its dedicated employees to develop the knowledge required to effectively manage the County's retirement plans and improve accountability and efficiency, lower costs, and consolidate oversight through a single chain of command.

This consolidation results in the creation of an office with a core mission, depth of knowledge, and sustainability to meet future demands and represent Montgomery County's standard of operational excellence. The director of the organization will report to the CAO, or his/her designee, on administrative matters related to the management of the Retirement Plans and to the Board for the investment of the assets of the Retirement Plans and the Consolidated Retiree Health Benefits Trust.

The MCERP will collaborate with OHR to offer retirement planning seminars for County Government employees. As implemented on March 1, 2012, MC311 will remain responsible for responding to employee and retiree inquiries about retirement and other County benefits, including health insurance.

Salary and Benefit Charges and FTEs

In total, the Executive’s FY13 recommended operating budget includes \$2,041,003 in salary and benefit costs and 17 full-time equivalents (FTEs) for the management of the Employees’ Retirement System, the Retirement Savings Plan, the Deferred Compensation Plan, and the Retiree Health Benefits Trust. The FY13 recommended salary and benefits costs (combined for the four plans) represent a \$42,000 decrease (2%) from the combined FY12 approved costs.

**County Government Retirement Plans and Consolidated Retiree Health Benefit Trust
Salary and Benefit Charges and Full-Time Equivalents**

	FY12 Approved		FY13 Recommended	
	Salary/Benefits \$ ¹	FTEs	Salary/Benefits \$	FTEs
Retirement Plans	\$2,015,650	0.5 (BIT only)	\$1,951,533	16.5
Retiree Health Plan	\$66,960	0.5 (BIT only)	\$89,470	0.5
TOTAL	\$2,082,610	1.0 (BIT only)	\$2,041,003	17.0

In FY12, the Office of Human Resources, the Office of the County Attorney, and the Department of Finance provided staff support for County Government Retirement Plans and the Consolidated Retiree Health Benefit Trust. FY12 salary and benefit costs shown in the table above include chargebacks of staff time from these departments. As described above, effective July 1, 2012, the CAO approved the consolidation of all retirement related functions into the newly created MCERP. FY13 salary and benefits costs and FTEs shown in the table are all budgeted to the MCERP.

Attachment
Executive’s Recommended FY13 Operating Budget, Page 8-8

¹ FY12 salary and benefit costs include chargebacks of staff time from the Office of Human Resources, the Office of the County Attorney, and the Department of Finance.

PROPOSED OPERATING BUDGET DEFERRED COMPENSATION MANAGEMENT						
ITEM	FY11 ACT	FY12 APPR	FY12 EST	FY13 REC	\$ Change	% Change
EXPENSES						
Salaries and Benefits	80,850	77,340	86,230	91,873	14,533	18.8%
Professional Services	2,670	5,500	5,400	5,500	0	0.0%
Due Diligence/Education	280	1,000	1,000	1,000	0	0.0%
Office Management	6,500	5,510	5,010	5,310	(200)	(3.6%)
Investment Management	8,810	10,000	8,500	9,000	(1,000)	(10.0%)
TOTAL EXPENSES	\$99,110	\$99,350	\$106,140	\$112,683	\$13,333	13.4%

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	FY11 ACT	FY12 APPR	FY12 EST	FY13 REC	\$ Change	% Change
EXPENSES						
Salaries and Benefits	73,010	66,960	83,720	89,470	22,510	33.6%
Professional Services	84,680	75,000	75,000	75,000	0	0.0%
Office Management	1,000	1,500	1,100	1,200	(300)	(20.0%)
Investment Management	86,980	70,000	109,000	308,000	238,000	340.0%
TOTAL EXPENSES	\$245,670	\$213,460	\$268,820	\$473,670	\$260,210	121.9%

PROPOSED OPERATING BUDGET EMPLOYEES' RETIREMENT SYSTEM						
ITEM	FY11 ACTUAL	FY12 APPR	FY12 EST	FY13 REC	FY13 vs. FY12 Appr.	
					\$	%
REVENUE						
Contributions	127,936,100	146,500,000	128,000,000	139,600,000	(6,900,000)	(4.7%)
Investment Income	530,237,242	212,000,000	36,000,000	227,000,000	15,000,000	7.1%
Miscellaneous Income	833,495	700,000	775,000	735,000	35,000	5.0%
TOTAL REVENUE	659,006,837	359,200,000	164,775,000	367,335,000	8,135,000	2.3%
EXPENSES						
OPERATING EXPENSES						
Retirement Benefits	180,359,488	204,500,000	210,000,000	226,000,000	21,500,000	10.5%
Investment Management	21,052,585	19,300,000	20,200,000	21,200,000	1,900,000	9.8%
SUBTOTAL	201,412,073	223,800,000	230,200,000	247,200,000	23,400,000	10.5%
ADMINISTRATIVE EXPENSES						
Salaries and Benefits	1,621,180	1,775,920	1,719,530	1,654,200	(121,720)	(6.9%)
Professional Services	423,130	833,930	773,930	813,933	(19,997)	(2.4%)
Benefit Processing	942,395	375,000	375,000	375,000	0	0.0%
Due Diligence/Education	16,977	53,500	47,500	55,500	2,000	3.7%
Office Management	75,696	241,887	238,387	240,887	(1,000)	(0.4%)
SUBTOTAL	3,079,378	3,280,237	3,154,347	3,139,520	(140,717)	(4.3%)
TOTAL EXPENSES	\$204,491,451	\$227,080,237	\$233,354,347	\$250,339,520	\$23,259,283	10.2%
NET REVENUE	\$454,515,386	\$132,119,763	(\$68,579,347)	\$116,995,480	(\$15,124,283)	(11.4%)

PROPOSED OPERATING BUDGET RETIREMENT SAVINGS PLAN						
ITEM	FY11 ACTUAL	FY12 APPR	FY12 EST	FY13 REC	Change: FY13 vs. FY12 Appr.	
					\$	%
REVENUE						
Investment Income	1,830	6,250	1,500	1,500	(4,750)	(76.0%)
Miscellaneous Income	425,002	500,000	280,000	240,000	(260,000)	(52.0%)
TOTAL REVENUE	426,832	506,250	281,500	241,500	(264,750)	(52.3%)
EXPENSES						
OPERATING EXPENSES						
Investment Management	8,810	10,000	8,500	9,000	(1,000)	(10.0%)
SUBTOTAL	8,810	10,000	8,500	9,000	(1,000)	(10.0%)
ADMINISTRATIVE EXPENSES						
Salaries and Benefits	170,010	162,390	171,280	205,460	43,070	26.5%
Professional Services	47,850	73,500	87,500	89,500	16,000	21.8%
Due Diligence/Education	280	2,000	2,000	2,000	0	0.0%
Office Management	125,890	23,630	23,130	23,430	(200)	(0.8%)
SUBTOTAL	344,030	261,520	283,910	320,390	58,870	22.5%
TOTAL EXPENSES	\$352,840	\$271,520	\$292,410	\$329,390	\$57,870	21.3%