

**MEMORANDUM**

April 27, 2012

TO: County Council

FROM: Robert H. Drummer, Senior Legislative Attorney 

SUBJECT: **Action:** Expedited Bill 7-12, Employees' Retirement System – Automatic Distributions

**Government Operations and Fiscal Policy Committee recommendation (3-0): approve the Bill as introduced.**

Expedited Bill 7-12, Employees' Retirement System – Automatic Distributions, sponsored by the Council President at the request of the County Executive, was introduced on March 6, 2012. A public hearing was held on March 27 and a Government Operations and Fiscal Policy Committee worksession was held on April 16.

**Background**

Bill 7-12 would provide for an automatic distribution for account balances of \$1,000 or less in the Optional and Integrated Plans and the Elected Officials' Plan of the Employees' Retirement System. There is a significant cost associated with maintaining small account balances for terminated participants of the Optional, Integrated, and Elected Officials Plan of the Employees' Retirement System. This Bill would reduce Plan administrative costs if these participant accounts are automatically distributed. Bill 54-10, enacted on November 30, 2010, added a similar provision for a terminated participant's account balance of \$1000 or less in the Retirement Savings Plan and the Deferred Compensation Plan.

**Public Hearing**

The only witness at the March 27 public hearing, Linda Herman, Executive Director for the Board of Investment Trustees, supported the Bill on behalf of the Executive (©12).

**April 16 Worksession**

Linda Herman, Executive Director for the Board of Investment Trustees, represented the Executive Branch. The Committee reviewed the Bill and recommended approval as introduced (3-0).

## Issues

Currently, a participant in the Optional, Integrated, or Elected Officials' Plan in the Employees' Retirement System who leaves County service must request a distribution regardless of the size of the account. The Internal Revenue Code permits a plan sponsor to distribute account balances of less than \$1000 automatically without a request. The cost to administer these small accounts is charged to the Trust Fund. This Bill would authorize the automatic distribution of these small accounts without waiting for the terminated employee to request it. This would be consistent with the automatic distributions of small accounts to terminated employees in the Retirement Savings Plan and the Deferred Compensation Plan. **Committee recommendation (3-0):** approve the Bill as introduced.

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Expedited Bill No. 7-12  
Concerning: Employees' Retirement  
System – Automatic Distributions  
Revised: March 1, 2012 Draft No. 2  
Introduced: March 6, 2012  
Expires: September 6, 2013  
Enacted: \_\_\_\_\_  
Executive: \_\_\_\_\_  
Effective: \_\_\_\_\_  
Sunset Date: None  
Ch. \_\_\_\_\_, Laws of Mont. Co. \_\_\_\_\_

## COUNTY COUNCIL FOR MONTGOMERY COUNTY, MARYLAND

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By: Council President at the Request of the County Executive

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**AN EXPEDITED ACT to:**

- (1) provide for an automatic distribution for account balances of \$1,000 or less in the Optional and Integrated Plans and the Elected Officials' Plan of the Employees' Retirement System; and
- (5) generally amend the law regarding the employees' retirement system.

By amending

Montgomery County Code  
Chapter 33, Personnel and Human Resources  
Sections 33-39, 33-44 and 33-45

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

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

**Sec. 1. Sections 33-39, 33-44, and 33-45 are amended as follows:**

**33-39. Member contributions and credited interest.**

\* \* \*

(c) *Return of member contributions.*

(1) *Refund after employee's separation under the optional and integrated plans.*

\* \* \*

(D) Notwithstanding any other provision, if the member's contributions and interest are \$1,000 or less, the amount must be distributed in a lump sum as soon as administratively feasible after termination of employment even if the member does not submit an application. If the distribution cannot be made because the member cannot be located, the member will forfeit the amount. If the member later contacts the County, the member will receive the forfeited amount.

\* \* \*

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

\* \* \*

(h) (1) *Required commencement of benefit payments.* The distribution of an elected officials' participant's retirement benefits must be made no later than April 1 of the calendar year following the later of the calendar year in which the elected officials' participant attains age seventy and one-half (70 1/2) or the calendar year in which the elected officials' participant retires. In the alternative, the payment of benefits to an elected officials' participant must begin not later than such April 1 under a

28 method of payment that, in accordance with the applicable  
29 United States Treasury Regulations, provides for distribution of  
30 the elected officials' participant's benefits over:

31 [(1)] (A) The life of the elected official's participant;

32 [(2)] (B) The lives of the elected officials' participant and  
33 the elected officials' participant's designated beneficiary;

34 [(3)] (C) A period not extending beyond the life expectancy  
35 of the elected officials' participant; or

36 [(4)] (D) A period not extending beyond the life expectancy  
37 of the elected officials' participant and the elected  
38 officials' participant's designated beneficiary.

39 (2) Notwithstanding any other provision, an elected official's  
40 account balance of \$1,000 or less must be automatically  
41 distributed in a lump sum as soon as administratively feasible  
42 after termination of employment without a request from the  
43 elected official. If the distribution cannot be made because the  
44 elected official cannot be located, the elected official will forfeit  
45 the amount. If the elected official later contacts the County, the  
46 elected official will receive the forfeited amount.

47 \* \* \*

48 (q) *Direct rollover distributions.* A member or beneficiary may elect, in  
49 any manner prescribed by the Chief Administrative Officer at any  
50 time, to have any portion of eligible rollover distribution (as defined  
51 in the Internal Revenue Code) paid directly to an eligible retirement  
52 plan (as defined in the Internal Revenue Code) specified by the  
53 member in a direct rollover. For purposes of this subsection, a direct  
54 rollover is a payment from the retirement system to the eligible

55 retirement plan specified by the member. A member may not elect a  
56 direct rollover if the eligible rollover distribution is less than \$200.

57 \* \* \*

58 **33-45. Vested benefits and withdrawal of contributions.**

59 \* \* \*

60 (b) *Withdrawal of contributions for optional and integrated plans.*

61 (1) [If a member complies] In accordance with paragraph (2), the  
62 County must refund a member's contributions with credited  
63 interest to:

64 (A) a member whose County service ends before the member  
65 is eligible to vest; and

66 (B) a member eligible to vest whose County service ends and  
67 who voluntarily elects to withdraw, thus ceasing to be a  
68 member.

69 (2) (A) If a member's contributions and interest are more than  
70 \$1,000, to obtain a refund of contributions, a member  
71 must properly complete and submit an application for a  
72 refund.

73 (B) If a [member] member's contributions and interest are  
74 more than \$1,000, and the member does not properly  
75 complete and submit an application for a refund, the  
76 County must refund the contributions with credited  
77 interest under the minimum distribution requirements of  
78 the Internal Revenue Code and corresponding  
79 regulations.

80 (C) Notwithstanding any other provision, if the member's  
81 contributions and interest is \$1,000 or less, the amount



## LEGISLATIVE REQUEST REPORT

Expedited Bill 7-12

*Employees' Retirement System – Automatic Distributions*

**DESCRIPTION:** The bill amends the County's retirement law to permit automatic distribution of terminated participants in the Optional, Integrated, and Elected Officials Plan of the Employees' Retirement System who have account balances less than \$1,000.

**PROBLEM:** There is a significant cost associated with maintaining small account balances for terminated participants of the Optional, Integrated, and Elected Officials Plan of the Employees' Retirement System. Plan costs will be reduced if these participant accounts are involuntarily distributed.

**GOALS AND OBJECTIVES:** To permit automatic distributions to terminated participants in the Optional, Integrated, and Elected Officials Plan of the Employees' Retirement System who have account balances less than \$1,000.

**COORDINATION:** Board of Investment Trustees and the Office of the County Attorney

**FISCAL IMPACT:** Office of Management and Budget

**ECONOMIC IMPACT:** Office of Management and Budget

**EVALUATION:** N/A

**EXPERIENCE ELSEWHERE:** N/A

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

**APPLICATION WITHIN MUNICIPALITIES:** N/A

**PENALTIES:** N/A



OFFICES OF THE COUNTY EXECUTIVE

Isiah Leggett  
County Executive

Timothy L. Firestine  
Chief Administrative Officer

MEMORANDUM

January 30, 2012

TO: Roger Berliner, Council President

FROM: Isiah Leggett, County Executive 

SUBJECT: Expedited Bill to Amend the County's Retirement Law

I am attaching for the Council's consideration a bill that would amend the County's retirement law to permit automatic distributions to terminated participants in the Optional, Integrated, and Elected Officials Plans of the Employees' Retirement System who have account balances less than \$1,000.

Current law requires that a terminated participant request a distribution regardless of the size of the account balance. The Internal Revenue Code (IRC) allows a plan sponsor to distribute account balances of less than \$1,000. Due to the administrative costs associated with maintaining these small accounts, the Board of Investment Trustees is recommending adoption of the IRC standard for distributing balances of less than \$1,000 to terminated participants.

This bill is similar to Bill 54-10, Retirement – Investments, which was enacted by the Council on November 30, 2010. Bill 54-10 allowed similar distributions in the County's other retirement plans, the Retirement Savings Plan and the Deferred Compensation Plan.

Thank you for your prompt consideration of this bill.

Attachments

c: Linda Herman, Director  
Board of Investments Trustees

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ROCKVILLE, MARYLAND

MEMORANDUM

March 21, 2012

TO: Roger Berliner, President, County Council

FROM: Jennifer A. Hughes, Director, Office of Management and Budget *JAH*  
Joseph F. Beach, Director, Department of Finance *JFB*

SUBJECT: Expedited Bill 7-12 - Employees' Retirement System - Automatic Distributions

Attached please find the fiscal and economic impact statements for the above-referenced legislation.

JAH:hv

c: Kathleen Boucher, Assistant Chief Administrative Officer  
Lisa Austin, Offices of the County Executive  
Joy Nurmi, Special Assistant to the County Executive  
Patrick Lacefield, Director, Public Information Office  
Linda Herman, Executive Director, Board of Investment Trustees  
Alex Espinosa, Office of Management and Budget  
Blaise DeFazio, Office of Management and Budget  
Helen P. Vallone, Office of Management and Budget  
Naeem Mia, Office of Management and Budget

**Fiscal Impact Statement**  
**Expedited Bill 7-12 - Employees' Retirement System - Automatic Distributions**

**1. Legislative Summary**

Expedited Bill 7-12 would provide for an automatic distribution for account balances of \$1,000 or less in the Optional and Integrated Plans and the Elected Officials' Plan of the Employees' Retirement System. There is a significant cost associated with maintaining small account balances for terminated participants of the Optional, Integrated, and Elected Officials Plan of the Employees' Retirement System. This Bill would reduce Plan administrative costs if these participant accounts are automatically distributed.

**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.**

This bill has no impact to County revenues or expenditures.

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

This bill has no impact to County revenues or expenditures.

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

Not applicable.

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

This change will not result in subsequent government action that will impact County future revenues and expenditures.

**6. An estimate of the staff time needed to implement the bill.**

Not applicable.

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

Not applicable.

**8. An estimate of costs when an additional appropriation is needed.**

Not applicable.

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

Not applicable.

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

Not applicable.

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

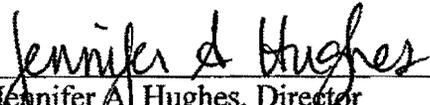
The bill provides the Board the authority to permit the automatic distribution of terminated participants in the Optional, Integrated, and Elected Officials Plan of the Employees' Retirement System who have account balances less than \$1,000.

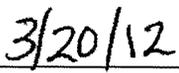
**12. Other fiscal impacts or comments.**

Not applicable.

**13. The following contributed to and concurred with this analysis:**

Linda Herman, Executive Director, Board of Investment Trustees  
Helen P. Vallone, Office of Management and Budget  
Blaise DeFazio, Office of Management and Budget  
Naeem Mia, Office of Management and Budget

  
\_\_\_\_\_  
Jennifer A. Hughes, Director  
Office of Management and Budget

  
\_\_\_\_\_  
Date

**Economic Impact Statement**  
Council Bill 7-12, Employees' Retirement System – Automatic Distributions

Background:

This proposed legislation would provide for an automatic distribution of account balances of \$1,000 or less in the Optional and Integrated Plans and the Elected Officials' Plan of the Employees' Retirement System to terminated participants. This bill would reduce administrative costs if these participant accounts are automatically distributed.

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

Not applicable

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

Not applicable

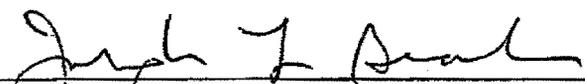
3. The Bill's positive or negative effect, if any on employment, spending, saving, investment, incomes, and property values in the County.

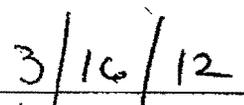
The bill would have no significant economic impact as it affects very few people and any amount distributed would be small relative to Montgomery County's entire economy.

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

The bill would have no significant economic impact as it affects very few people and any amount distributed would be small relative to Montgomery County's entire economy.

5. The following contributed to and concurred with this analysis: David Platt and Mike Coveyou, Finance

  
\_\_\_\_\_  
Joseph F. Beach, Director  
Department of Finance

  
\_\_\_\_\_  
Date

6

## **TESTIMONY FOR EXPEDITED BILL 7-12, COUNTY'S RETIREMENT LAW**

Good afternoon, for the record, I am Linda Herman, Executive Director for the Board of Investment Trustees which oversees the assets of the County's three retirement plans. I am here today on behalf of the County Executive to testify in support of Bill 7-12, Chapter 33 – Retirement & Investments.

The proposed Bill will amend the County's retirement law to permit automatic distributions to terminated participants in the Optional and Integrated Plans and the Elected Officials' Plan of the Employees' Retirement System, who have account balances less than \$1,000. This bill is similar to Bill 54-10, Retirement, enacted by the Council on November 30, 2010, which allows similar distribution from the County's other retirement plans, the Retirement Savings Plan and the Deferred Compensation Plan.

The County Code requires that a terminated participant request a distribution regardless of the size of the account balance. The Internal Revenue Code (IRC) allows a plan sponsor to distribute account balances of less than \$1,000. Due to the administrative costs associated with maintaining these small accounts, and the costs being borne by the Trust Fund, the Board of Investment Trustees is recommending adoption of the IRC provision to distribute terminated participant account balances of less than \$1,000.

We look forward to working with the Council in its deliberations on this legislation.