

MEMORANDUM

TO: County Council

FROM: Robert H. Drummer, Senior Legislative Attorney 

SUBJECT: **Worksession/Action:** Review of County government collective bargaining agreements

<p>GO Committee recommendation (3-0): approve all provisions of each Agreement except the group insurance provisions.</p>
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Background

Under the County Employees Labor Relations Laws (Police: County Code §§33-75 through 33-85; County employees: County Code §§33-101 through 33-112; Fire and Rescue employees: County Code §§33-147 through 33-157), the County Council must review any term or condition of each final collective bargaining agreement requiring an appropriation of funds or enactment, repeal, or modification of a county law or regulation. On or before May 1, unless the Council extends this deadline, the Council must indicate by resolution its intention to appropriate funds for or otherwise implement the agreement or its intention not to do so, and state its reasons for any intent to reject any part of an agreement. The Council is not bound by the agreement on those matters over which the Council has final approval. The Council may address contract items individually rather than on an all-or-nothing basis. See County Code §33-80(g); §33-108(g)-(j); §33-153(l)-(p).

If the Council indicates its intent to reject or opts not to fund any item, it must designate a representative to meet with the parties and present the Council's views in their further negotiations. The parties must submit the results of any further negotiations, or impasse procedures if the parties cannot agree on a revised contract, to the Council by May 10 (unless the May 1 date was extended). On April 18, 2014, the Court of Appeals upheld the Council's authority to unilaterally modify the group insurance and retirement benefit provisions in the FOP collective bargaining agreement after following this statutory process in *FOP Lodge 35 v. Montgomery County*, 437 Md. 618 (2014). The Court held that the Council is not part of the collective bargaining process, is not bound by the collective bargaining agreement, and holds the ultimate power of the purse.

The agreements before the Council this year are with the Fraternal Order of Police (police bargaining unit), the Municipal and County Government Employees Organization (County

employees bargaining units), and the International Association of Fire Fighters (fire and rescue employees). Each of these agreements was negotiated in 2015 and takes effect on July 1, 2015. The Council must review each of the provisions of these agreements that requires an appropriation of funds for FY16 or requires a change in law.

The attached proposed resolutions were amended to reflect the final recommendations of the GO Committee.

GO Committee Worksession

Linda Herman, Executive Director, Board of Investment Trustees, 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 General Wage Adjustment (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 Guaranteed Retirement Income Plan (GRIP) for new employees represented by MCGEO;
5. an annuity option for Retirement Savings Plan (RSP) members in the MCGEO Agreement; and
6. the new Deferred Retirement Option Plan (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 Employer Group Waiver Plan (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.

The Agreements

A chart showing the provisions in each Agreement that requires Council approval for FY16, including the GO Committee recommendations is at ©54-55. These provisions are described below.

(1) General Wage Adjustment (GWA)

- A. MCGEO – 2% on July 1, 2015. The FY16 fiscal impact is \$6,751,208.
- B. FOP – 2% on July 1, 2015. The FY16 fiscal impact is \$2,595,501.
- C. IAFF – 2% on July 1, 2015. The FY16 fiscal impact is \$2,387,598.

The fiscal impact of these wage adjustments over time and how they compare to wage increases provided to other government workers in the area are described in Council Administrator Farber's packet on Compensation and Benefits (all agencies), Agenda Item 4A.

(2) Service Increments: Each of the agreements provides a 3.5% service increment in FY16 for any employee who is below the top of his or her grade.

- A. MCGEO – The fiscal impact in FY16 is \$3,628,623.
- B. FOP – The fiscal impact in FY16 is \$1,541,890.
- C. IAFF – The fiscal impact in FY16 is \$982,053.

(3) Longevity Increments.

- A. MCGEO – an employee eligible for a longevity increment in FY16 would receive 3% increment. The FY16 fiscal impact would be \$88,981.
- B. FOP – an employee eligible for a longevity increment in FY16 would receive a 3.5% increment. The FY16 fiscal impact would be \$74,348.
- C. IAFF – an employee eligible for a longevity increment at 20 years or 28 years would receive a 3.5% longevity increment. The FY16 fiscal impact would be \$97,007.

Committee recommendation (3-0): approve the GWA, Service Increments, and the Longevity Increments in each Agreement.

(4) Tuition Assistance.

- A. MCGEO – 50% of all funds appropriated for tuition assistance that is not designated for another bargaining unit must be allocated for employees represented by MCGEO. The Executive’s recommended FY16 budget allocated \$300,000 for tuition assistance not designated for a different bargaining unit.
- B. FOP - \$135,000 is designated in FY16 for employees represented by the FOP.
- C. IAFF – the maximum annual tuition assistance for each employee is \$1830. The Agreement does not designate a portion of tuition assistance for IAFF employees. IAFF employees would share the \$150,000 not otherwise designated for MCGEO or FOP employees with unrepresented employees and volunteer fire and rescue workers on a first come, first served basis.

Committee recommendation (3-0): approve the tuition assistance as agreed upon. These costs are the same as the FY15 appropriations for tuition assistance.

(5) Shift and special duty differentials.

New IAFF Special Duty Differential for air compressor technicians and meter technicians - \$2037. The FY16 fiscal impact would be \$12,096.

Committee recommendation (3-0): approve the new shift differential as agreed upon.

(6) GRIP Election/RSP Annuity.

- A. MCGEO – Change the default election for new MCGEO employees hired after July 1, 2015 to the GRIP. The Executive did not recommend changing the default option for newly hired unrepresented employees. The FY16 fiscal impact would be \$10,000 to make changes to the computer system.

Under current law, a new non-public safety employee must make an irrevocable 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 ©60-69. 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.

Committee recommendation (3-0): approve changing the default option for new employees represented by MCGEO to the GRIP.

- B. MCGEO – Add an annuity option for all employees in the RSP. This change would provide the same option for those employees who choose the RSP instead of the GRIP.¹

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 ©90-92. 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.

¹ Although the annuity would be similar to an annuity purchased from a bank or other private sector business, the actual payout is expected to be slightly higher because the ERS does not add additional fees and can assume a higher investment return. See the comparison at ©56.

Committee recommendation (3-0): approve the changes to the GRIP election and the RSP annuity.

(7A, B, C) Group Insurance Benefits.

In 2011, the Council rejected the provisions in each collective bargaining agreement providing for an 80/20 employer/employee cost share and changed it to 75/25 for all employees who do not select a health maintenance organization. The collective bargaining agreements with the County's three unions were never amended to reflect this change, but the Executive continued to include funding for the 75/25 cost share in his recommended budgets for FY12-15. Each union filed a prohibited practice charge against the Executive alleging that he was legally required to recommend approval of the collective bargaining agreement. The Court of Special Appeals agreed and held that the Executive committed a prohibited practice by failing to recommend the 80/20 cost share to the Council. However, the Council formally rejected the provisions in each agreement providing an 80/20 cost share and adopted the 75/25 cost share for FY12-15. The FOP challenged the Council's authority to reject the agreement, but the Maryland Court of Appeals upheld the Council's rejection of the 80/20 cost share last April. The Court held that the Council is not part of the collective bargaining process, is not bound by the collective bargaining agreement, and holds the ultimate power of the purse.

For FY16, FOP Lodge 35 and MCGEO Local 1994 agreed in a side letter that they would not file a prohibited practice charge against the Executive if he included the 75/25 cost share in his recommended budget despite the contrary language of the collective bargaining agreement. IAFF Local 1664 did not agree. Therefore, the Executive included funding for the 80/20 cost share for IAFF members in his recommended budget, but included funding for the 75/25 cost share for all other employees. The Executive recommended, as he was required to, the 80/20 cost share just for IAFF members and added \$620,000 to his recommended budget to pay for it.

Although the Executive's recommended budget includes funding for the same 75/25 cost share that was approved by the Council for all employees in FY15 for both MCGEO and FOP members, all 3 collective bargaining agreements continue to require the 80/20 cost share. Therefore, if the Council wants to continue to fund the same level of these benefits for all employees in FY16, the Council must formally indicate its intent to reject each of these provisions in each of the collective bargaining agreements. The rejection of the benefit provisions in the IAFF Agreement would reduce expenditures for these benefits by the \$620,000 added to fund the 80/20 cost share. The rejection of the benefit provisions in the MCGEO and FOP agreements would not reduce expenditures from the Executive's recommended FY16 budget. This can be accomplished by adding the following language to the operating budget.

This resolution appropriates funds for employee group insurance benefits for the fiscal year that begins on July 1, 2015. This appropriation is subject to the following conditions:

The following cost-sharing provisions must apply to each eligible County employee and each eligible employee of a participating agency whose active employees are paid through the County's payroll system. These provisions do not apply to any eligible employee of a participating agency that does not use the County's payroll system for active employees. These provisions do not apply to any eligible retired employee.

Group Insurance Premiums

(medical, prescription drug, dental, vision, life insurance, long-term disability insurance)

The County must pay 80% of the cost of the premiums, and each employee must pay 20% of the cost of the premiums, for a Health Maintenance Organization (HMO) medical plan, including any prescription drug plan that is bundled with an HMO medical plan.

The County must pay 75% of the cost of the premiums, and each employee must pay 25% of the cost of the premiums, for each benefit plan listed below:

- *Point-of-Service (POS) medical plan;*
- *Stand-alone prescription drug plan (Standard Option plan);*
- *Dental;*
- *Vision;*
- *Basic Life insurance;*
- *Dependent Life insurance \$2,000/\$1,000/\$100 tier; and*
- *Long-term disability insurance.*

Each employee enrolled in the High Option prescription drug plan must also pay the difference between:

- *the County contribution toward the cost of the premium for the Standard Option prescription drug plan; and*
- *the cost of the premium for the High Option prescription drug plan.*

Optional Life insurance and Optional Dependent life insurance (\$4,000/\$2,000/\$100 tier and \$10,000/\$5,000/\$100 tier) remain at 100% paid by each employee.

Prescription Drug Benefits

Each employee enrolled in a stand-alone prescription drug plan must receive generic prescription drugs, if available. If an employee chooses to receive a brand name drug that has a generic equivalent, the employee must pay the generic drug co-payment plus the difference between the cost of the brand-name drug and the generic drug. This generic drug requirement may be waived only if the employee's doctor certifies in a separate document that it is medically necessary to use a brand-name drug instead of its generic equivalent. The letter of medical necessity

must contain details of the medical reason and must be attached to the prescription. If the waiver is approved by the Pharmacy Benefit Manager (PBM), the employee must be charged the brand-name drug co-payment.

The County's stand-alone prescription drug plans must allow each employee to buy up to a 90-day supply of a maintenance medication at any retail pharmacy agreed on by the County and the PBM in addition to using the PBM's mail service pharmacy. An employee must pay a penalty fee if a maintenance prescription is filled at a retail pharmacy other than a pharmacy agreed on by the County and the PBM. This penalty fee is the difference between the mail order cost and the retail prescription cost. This fee is in addition to the corresponding co-payment.

The County's prescription drug plan must limit coverage for each participant to a maximum of 6 doses each month for any drug specifically approved by the Food and Drug Administration for the treatment of erectile dysfunction. Medications currently approved for this purpose include sildenafil (Viagra), vardenafil (Levitra), and tadalafil (Cialis).

These changes to the prescription drug benefit must apply to each participant in the County's prescription drug plan, including each eligible retired employee, survivor, dependent, and employee of a participating agency.

Basic Life Insurance Benefit

For each full or part time employee eligible for life insurance coverage, the County must provide term life insurance coverage equal to the employee's earnings (as defined in the Group Insurance Certificate) rounded up to the nearest thousand dollars. The County will offer each eligible employee the opportunity to buy additional Optional Life Insurance at full cost during Open Enrollment.

For each full or part time employee eligible for life insurance coverage, the County must provide an accidental death and dismemberment (AD&D) benefit. The AD&D benefit includes:

- AD&D insurance of 8 times earnings, up to \$600,000, for a loss of life that is a direct result of an accidental injury sustained in the performance of County employment. A lower amount may be payable for certain dismemberments resulting from accidental bodily injury.*
- AD&D insurance of 4 times earnings, up to \$300,000, for a loss of life that is not a direct result of an accidental injury sustained in the performance of County employment. A lower amount may be payable for certain dismemberments resulting from accidental bodily injury.*

Modifications – Council approval

Any material change in any part of this paragraph or its application to any employee or group of employees, including any premium holiday or other waiver of premiums for County-provided health or life insurance, is subject to Council approval.

Committee recommendation (3-0): approve the same group insurance benefits for FY16 that were approved by the Council for FY15, including the changes approved for Medicare Part D for retirees as described below.

- (7D) **Medicare Part D Employer Group Waiver Plan (EGWP) for eligible retirees.** The Executive's Recommended FY15 budget included transitioning all Medicare-eligible retirees to an EGWP plus Wrap prescription drug plan. The FY15 savings attributable to health insurance for County government retirees reduced the required FY15 OPEB pay-as-you-go contribution by \$900,000 and the pre-funding contribution by \$27.5 million. On March 24, 2014, the FOP filed 2 separate contract grievances alleging that transitioning FOP retirees to an EGWP plus Wrap prescription drug plan violated the collective bargaining agreement.² The grievance is ongoing. The County Attorney's Office is defending the grievance. The Executive's position is that the move to an EGWP plus Wrap prescription plan does not violate the agreement. The Council does not need to wait for the resolution of this grievance. As discussed in the background, the Council has the authority to mandate the move to an EGWP plus Wrap plan even if it is inconsistent with the collective bargaining agreement.

Committee recommendation (3-0): To the extent that the move to an EGWP plus Wrap plan is inconsistent with the collective bargaining agreement with FOP, disapprove the provision on prescription drug plans for retirees and continue to mandate the move to EGWP plus Wrap. The savings are substantial and the move is unlikely to change the value of the prescription drug benefit received by Medicare-eligible retirees.

- (8) **MCGEO DROP.** The Executive agreed to submit legislation to the County that would establish a new Deferred Retirement Option Plan (DROP) for deputy sheriffs and uniformed correctional officers.³ Expedited Bill 20-15, which would create this new DROP, was introduced by the Council President at the Request of the Executive on April 21.

² MCGEO and the IAFF did not file similar grievances over the Executive's proposed move to EGWP plus Wrap.

³ MCGEO President Gino Renne submitted a letter asking for Council support for the DROP for deputy sheriffs and uniformed correctional officers. See ©103.

Discussion of the DROP

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.

1. What is the fiscal impact of the DROP?

OMB estimated a one-time \$50,000 cost to implement the new DROP. See ©58-59. OMB attached a report from GRS analyzing the potential fiscal impact of the new DROP. See ©70-89. The Council's Office of Legislative Oversight analyzed the GRS report to provide additional information on the fiscal impact of this new benefit. See ©93-95. OLO also relied on a report from the Council's actuary, Tom Lowman. See ©97-102. 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. 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 deputy sheriffs and correctional officers 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 ©57. 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 134-136 of Bill 20-15.

3. 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.

4. 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?

5. Who would be eligible for the DROP?

Bill 20-15, implementing this provision, 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.⁴ The CAO requested an amendment to make the Director of Corrections ineligible to enter the DROP after appointment. See ©96. The Committee recommended (3-0) approval of this amendment to the Bill.

6. 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.*

⁴ An employee hired as a Department Director from outside the County would not be eligible for the ERS or the DROP.

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

Committee recommendation (3-0): approve the DROP with the amendment requested by the CAO for the Director of Corrections.

The Committee also discussed the ability of an employee to return to County service after the DROP period ends. The Committee agreed that the language in lines 134-136 of Bill 20-15, “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, a central rationale for the DROP, management’s ability to use it for succession planning, would be lost and the cost to the retirement system would likely increase.

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OFFICE OF THE COUNTY EXECUTIVE
ROCKVILLE, MARYLAND 20850

Isiah Leggett
County Executive

MEMORANDUM

April 1, 2015

TO: George Leventhal, President
Montgomery County Council

FROM: Isiah Leggett, County Executive 

SUBJECT: Memorandum of Agreement between the County and FOP

I have attached for the Council's review the agreement resulting from the recent collective bargaining negotiations between the Montgomery County Government and the Fraternal Order of Police, Montgomery County Lodge 35, Inc. The agreement reflects the changes that will be made to the existing Collective Bargaining Agreement effective July 1, 2015 through June 30, 2016.

I have also attached a summary of the agreed upon items as well as a copy of the fiscal impact statement referenced in the Workforce/Compensation chapter of my budget to assist in Council's review of the document. The items will take effect for the first time in FY2016 and have a fiscal impact in FY2016.

Attachments

cc: Shawn Stokes, Director, Office of Human Resources
Jennifer Hughes, Director, Office of Management and Budget
Marc Hansen, County Attorney, Office of the County Attorney

Resolution No: _____
Introduced: April 14, 2015
Adopted: _____

**COUNTY COUNCIL
FOR MONTGOMERY COUNTY, MARYLAND**

Lead Sponsor: Government Operations and Fiscal Policy Committee

Subject: Collective Bargaining Agreement with Fraternal Order of Police

Background

1. Section 510 of the County Charter requires the County Council to provide by law for collective bargaining with binding arbitration with an authorized representative of the County police officers.
2. Chapter 33, Article V of the County Code implements Section 510 of the Charter and provides for collective bargaining with representatives of certain police officers and for review of the resulting agreement by the County Council.
3. On April 1, 2015, the County Executive submitted to the Council an agreement between the County government and Fraternal Order of Police for the years July 1, 2015 through June 30, 2016. A copy of the Agreement is attached to this Resolution.
4. The County Executive outlined the terms and conditions of the collective bargaining agreement that require or may require an appropriation of funds or changes in any County law or regulation in FY16.
5. The Government Operations and Fiscal Policy Committee considered the Agreement and made recommendations at a worksession 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 agreement.

Action

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

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

1. 2.0% general wage adjustment for all bargaining unit members on the first pay period after July 1, 2015.
2. 3.5% service increments for all eligible members.
3. Tuition assistance cap at \$135,000.
4. 3.5% longevity increments for eligible members.

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, Clerk of the Council

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MEMORANDUM OF AGREEMENT
BETWEEN
THE MONTGOMERY COUNTY GOVERNMENT
AND THE
FRATERNAL ORDER OF POLICE, MONTGOMERY COUNTY LODGE 35, INC.

The Montgomery County Government (Employer) and the Fraternal Order of Police, Montgomery County Lodge 35, Inc. (Union), agree that their collective bargaining agreement effective July 1, 2012, through June 30, 2015, is extended in full force and effect for the one-year term July 1, 2015, through June 30, 2016, subject to the amendments shown on the following pages

Please use the key below when reading this document:

<u>Underlining</u>	<i>Added to the existing collective bargaining agreement</i>
[Single boldface brackets]	<i>Deleted from the existing collective bargaining agreement</i>
* * *	<i>Existing language unchanged by the parties</i>

* * *

Article 17

Disability Leave and Injury on the Job

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Section B. Eligibility

1. An employee who is temporarily disabled in the line of duty and unable to perform normal duties or an alternate duty assignment, must be paid [the difference between normal county salary and the amount received under the worker's compensation law for the period of temporary disability. The County shall provide a supplement to the standard Worker's Compensation benefit so that the gross pay of employees is equal to eighty-five percent (85%) of his/her regular gross pay. In the event that this calculation results in net pay, after taxes, that is less than the employee's regular net pay, the supplement shall be that which is required to provide 100 percent of original gross pay] full salary continuation in the form of disability leave. Gross pay shall not be modified for purposes of calculating final or final average earnings for retirement purposes. This section shall not adversely affect any other calculation or benefit. When incapacitated for regular work assignments, the employee must be required to accept other work assignments for the period of recuperation if found physically capable or be ineligible for disability leave. The ability of the employee to work will be determined by the County's Medical Examiner or such physician authorized by the chief administrative officer.

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Article 24

Insurance Coverage and Premiums

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Section C. Prescription Drug Plan. Effective January 1, 2009, the County shall provide prescription plans (Prescription Drug Plan - \$5/\$10 co-pays and Modified Prescription Drug Plan Option - \$10/\$20/\$35 co-pays with a \$50 deductible) for all active employees. Employees who select the Modified Plan Option shall pay 20% of the cost of the Modified Prescription Drug Plan Option. The Employer shall pay the remaining 80% of the Modified Prescription Drug Plan Option. For employees who select the Prescription Drug Plan, the employer shall pay 80% of the total premium cost of the Modified Prescription Drug Plan Option and the employee shall pay the remainder of the prescription drug plan premium.

Effective January 1, 2016, or as soon as administratively practical thereafter, both prescription plans shall include the following PBM programs:

1. Generic Step Therapy – Requires the use of cost-effective generic alternatives within the same therapeutic class, as first line therapy before brand name prescriptions are covered.
2. Specialty Pharmacy Guideline Management – To support appropriate utilization for specialty medications and help ensure the member meets sophisticated and robust criteria before a first dispense, that they experience expected therapeutic outcomes while on therapy, and discontinue unsafe or ineffective therapy.
3. Advanced Control Specialty Formulary – To promote cost effective care for members utilizing specialty medications by encouraging utilization of clinically appropriate and lowest next cost medications with the following therapy classes: Auto-Immune, Multiple Sclerosis and infertility. This program only applies to new therapies. Existing utilization is grandfathered.
4. Pharmacy Advisor Counseling at CVS retail – To provide available assistance designed to improve members health through one-on-one pharmacist counseling (face to face and by phone), tailored messaging, and coordination with health care providers at the most critical points in therapy.
5. Pre-Authorization for Compound Prescriptions – Compound prescriptions will require prior authorization by the Pharmacy Benefit Manager for any compounded claim with a single ingredient cost exceeding \$300.

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Section N.1. Optional Term Life Insurance. Effective July 1, 1999, employees may purchase group life insurance in amounts equal to one, two or three times salary provided they pay 100% of the premiums. This benefit shall carry into retirement [to age 70] at the members election. At age 70, the face value of the policy reduces to 50% of the original face value. At age 75, the face value of the policy reduces to 25% of original face value. The member can purchase the amount of the reductions on an individual policy as long as amount does not exceed the original face value. There shall be no pre-qualification for those who elect this insurance during initial implementation or initial employment. Thereafter, a medical examination and/or medical questionnaire may be required. Eligibility shall be extended to all employees who were in the bargaining unit as of January 1, 1999.

* * *

Section T. Group Insurance Program Changes

1. Dependent Life Insurance. [Add additional dependent] Dependent life insurance options may be elected by [for] bargaining unit employees [of] in the following increments:

\$2,000 spouse; \$1,000 child to age 26

\$4,000 spouse; \$2,000 child to age [21; \$100 newborn under age 6 months] 26

\$10,000 spouse; \$5,000 child to age [21; \$100 newborn under age 6 months] 26

These additional options will be offered on an employee pay all basis.

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Article 25

Transfers

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Section F. Filling of Vacancies.

1. Department directive 325, dated July 1, 1997, or its successor, as agreed by the parties, shall remain in effect to the extent it deals with negotiable terms and conditions of employment. (See Side Letter dated January 15, 2015.)
2. All members of the selection committee must review and sign the recommendation.
3. Subsequent to the selection, any unit member applicant shall have the right to review the recommendation committee memo upon request.

The County will provide information consistent with the arbitration award February 2, 2007.

Section G. Reserved [Work Group on Training and Selection Procedures. The parties agree to establish a joint committee for the purpose of providing appropriate training and selection guidance in the filling of vacancies through procedures provided under departmental directive 325. [See Side Letters:]]

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Article 31

Reopener

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Section C. Exercise of Management Rights. These article sections are subject to Bill 18-11 and the PLRA. Should any of the provisions in these articles conflict with the PLRA and Bill 18-11, or any other law, the law shall prevail.

1. In the event the Employer considers any exercise of a management right listed in Article 42 and the parties are unable to agree as to the effects on employees of the Employer exercise of such rights, all provisions of this agreement shall be reopened for negotiations at the request of either party on or after November 1, 2004.
2. If, after negotiations, the parties are unable to agree, impasse may be declared by either party. Within 10 days of impasse, the parties shall select an impasse neutral either by agreement or through the process of the American Arbitration Association. Within 60 days thereafter, the dispute shall be resolved pursuant to the impasse

procedures (excluding dates) of Chapter 33, Section 33-81(b) of the Montgomery County Code. Within 10 days after submission of all evidence, the impasse neutral shall select, as a whole, the more reasonable, in the impasse neutral's judgment, of the final offers submitted by the parties. The impasse neutral may take into account only those factors listed in Chapter 33-81(b)(5) of the Montgomery County Code. (See Ground Rules, Addendum, 2004-2005, attached as Appendix T.)

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Section D. These article sections are subject to Bill 18-11 and the PLRA. Should any of the provisions in these articles conflict with the PLRA and Bill 18-11, or any other law, the law shall prevail.

1. The Parties have agreed on amendments to the Police Labor Relations Law as identified under Article 68 to be submitted to the County Council for the purpose of amending Chapter 33, Sections 33-81 and 33-82 of the Montgomery County Code.
2. If the parties agree that the substance of the agreed upon amendments have been enacted into law, Sections C, D, and E will be null and void upon the effective date of the enacted law.

* * *

Section E. These article sections are subject to Bill 18-11 and the PLRA. Should any of the provisions in these articles conflict with the PLRA and Bill 18-11, or any other law, the law shall prevail.

Should a party make any challenge to the legality of Sections C or D of this Article in any forum, the other party may choose to have the contract expire on June 30, 2005.

* * *

Section G. Reopener Matters.

1. On or before September 1, [2013] 2015, there shall be a reopener for the purpose of bargaining over any issue(s) determined to be subject to bargaining by the Permanent Umpire pursuant to a filing of a charge of engaging in prohibited practices or a joint request or demand to bargain under Article 61. The deadline by which bargaining on any specific issue must be completed and after which the impasse procedure must be implemented shall be September 30, [2013] 2015.
2. On or before March 2, [2014] 2016, there shall be a reopener for the purpose of bargaining over any issue(s) determined to be subject to bargaining by the Permanent Umpire pursuant to a filing of a charge of engaging in prohibited practices or a joint request or demand to bargain under Article 61. The deadline by which bargaining on any specific issue must be completed and after which the impasse procedure must be implemented shall be March 31, [2014] 2016.
3. On or before September 1, 2014, there shall be a reopener for the purpose of bargaining over any issue(s) determined to be subject to bargaining by the Permanent Umpire pursuant to a filing of a charge of engaging in prohibited practices. The deadline by which bargaining on any specific issue must be completed and after which the impasse procedure must be implemented shall be September 30, 2014.]

The parties will schedule arbitrators for all three reopener sessions by no later than July 15, [2013] 2015. If no issues determined to be subject to bargaining are pending for a particular

~~reopener session, the scheduled arbitrator will be cancelled by the arbitrator's cancellation date~~

Any issues subsequently determined to be subject to bargaining will be bargained and, if necessary, taken to arbitration, during the next reopener.

* * *

Article 36

Wages

Section A. Wages. Effective July 1, 2007, the salary schedule shall be increased by adding \$3,151 at Step 0, Year 1 with increments and promotions for all other steps and pay grades calculated from the new Step 0, Year 1 basis. Increments and longevity shall continue to be calculated as required by Article 28. The percentage increases upon promotion shall continue (up to the maximum for each rank) to be: 5% between PO I and PO II; 5% PO II and PO III; 5% between PO III and MPO; 10% between MPO and Sergeant; and, subject to Section D, *infra*, 5% between POC and POI.

The four and one-quarter (4.25) percent wage increase scheduled to take effect in the first full pay period following July 1, 2009 shall be postponed, and shall not be effective during fiscal year 2010, 2011, 2012 2013, 2014, and 2015. Salary-based benefits shall not be diminished as a result of the postponement, and such benefits will be calculated as if the postponed wage increase had been received as scheduled. (Appendix T)

The County agrees to pay a \$2,000 lump sum payment in FY2013 to employees who are actively employed by the County on that date. This payment will be made in one lump sum, by separate payment, at the conclusion of the first full pay period of FY2013. Employees who are unpaid leave and return to work during FY2013 shall receive the \$2,000 lump sum on their date of return to the workforce and will receive their payment by separate payment following their return to active employment with the County. The lump sum payment is considered regular earnings for income, withholding, and employment tax purposes. The payment will not be added to the employees' base salary. These payments are not considered "regular earnings" for retirement/life insurance purposes and employees will not receive any retirement/life insurance benefits based on these payments. Employees will not be required to contribute toward their retirement for this payment.

Effective the first full pay period after July 1, 2013, each unit member shall receive a wage increase of two and one-tenth percent (2.1%). Each unit member whose service increment was deferred during FY2011, FY2012 and/or FY2013, and who is otherwise eligible, shall receive a salary adjustment of 1.75% effective the first full pay period following February 1, 2014.

Effective the first full pay period following July 1, 2014, each unit member shall receive a wage increase of two and one-tenth percent (2.1%). Each unit member whose service increment was deferred during FY2011, FY2012 and/or FY2013, and who is otherwise eligible, shall receive a salary adjustment of 1.75% effective the first full pay period following February 1, 2015.

Effective the first full pay period following July 1, 2015, each unit member shall receive a wage increase of two percent (2.0%).

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Article 47

Duration of Contract

[This agreement shall become effective on July 1, 2012, and terminate on June 30, 2015.] The duration of this agreement shall be one year, become effective July 1, 2015, and terminate June 30, 2016.

Article 51

Personnel Files

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Section B. Custody and Review

- 1. The Office of Human Resources Personnel Office shall maintain the official personnel file for each County employee.

* * *

- 7. To preserve confidentiality and protect the privacy of employees, access to an employee's personnel records shall be restricted to the following:

* * *

g. Members of a Recommendations Committee when an employee has applied for a position vacancy announcement (limited to performance evaluations, letters of commendation, awards and training documents for bargaining unit members assigned to Recommendations Committee).

* * *

- 11. Restricted Duty Unit files shall be maintained in the Police [Personnel] Health and Wellness Division. Restricted Duty Unit files shall be destroyed after twelve months have elapsed since the employee returned to full duty, except RDU tracking forms shall be transferred to the department unit/operating file and the official personnel file.

Section C. Contents

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- 3. Employee files held by a department shall contain documents necessary for program operations limited to:

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f. Copies of performance evaluations including supporting documentation [and the Annual Skills Inventory and Career Development forms,] limited to five years. (See Side Letter.)

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k. Copies of transfer notices for past five years (indicating only effective date, present assignment, future assignment and authorizing signature(s)).

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Article 57

Retirement

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Section N. [Reserved] Line of Duty Death Benefit for Unit Members in Proficiency Grades

All salary and pay based benefits and compensation paid on account of the line-of-duty death of a bargaining unit member holding the rank of POC, PO I, PO II, or PO III shall be based on the pay of a PO III with the same years of service but not less than Pay Grade P4, Step 5.

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Article 61

Directives and Administrative Procedures

This agreement has been negotiated in the manner set forth in the Preamble.

[Section A. Procedures for Review of Directives. Prior to forwarding proposed changes to directives, rules, and procedures to the FOP, the employer shall make a good faith effort to assign one of the categories listed below, Section B-D, to the draft. Draft copies of proposed changes to directives, rules, and procedures with the previously referenced designation shall be forwarded to the Union along with a copy of the current directive, rule or procedure (if applicable). All changes shall be identified in the draft document. Each party shall, in writing, designate one representative to send and receive all documents specifically related to the Police Department required under this article. Each party shall, in writing, designate one representative to send and receive all documents not specifically related to the Police Department required under this article.

Section B. Changes to directives, rules and procedures which are a mandatory subject of bargaining. Negotiable matters pertaining to administrative procedures, department directives, and rules referenced in this agreement (including those that are part of any appendices) or are otherwise a mandatory subject of bargaining are subject to addition, change, amendment or modification, only after specific notice is provided to the other party with an opportunity to bargain, if both parties agree to bargain, and after the parties reach agreement. If no agreement is reached, the addition, change, amendment or modification shall not be implemented.

Section C. Changes to directives, rules and procedures involving the exercise of a management right. If the change, or a portion thereof, to the administrative procedure, department directive, or rule involves the effects on employees of the exercise of a management right as enumerated in Article 42 §A, it will be proposed by either party for bargaining. Thereafter, the parties shall engage in bargaining only over the effects of the exercise of employer rights in accordance with the Montgomery County Code.

Section D. Changes to directives, rules and procedures involving a procedural matter which is neither a mandatory subject of bargaining nor triggers bargaining over the effects of the exercise of employer rights. After transmittal of the administrative procedure, department directive, or rule to the FOP involving a procedural matter which is neither a mandatory subject of bargaining nor triggers bargaining over the effects of the exercise of employer rights, the Union shall notify the employer of any comments for consideration by the employer, the Union has regarding the draft document within twenty-one (21) days. If the FOP does not respond, the employer shall follow-up in writing to the FOP.

Section E. In the event the FOP receives a draft administrative procedure, department directive, or rule and disagrees with the categorization applied by the employer, the FOP shall notify the employer within ten (10) business days. If the FOP does not respond, the employer shall follow-up in writing to the FOP. If the FOP does not respond within ten (10) business days of the follow-up, such failure to respond shall indicate agreement by the FOP to the categorization, but not the substance, of the administrative procedure, department directive, or rule. In the event the parties are unable to agree on the categorization of a directive, the matter may be resolved in accordance to the provisions of the Police Labor Relations Act (PLRA).]

Section A. Prior to implementing new directives or rules, or proposed changes or amendments to directives or rules, the Employer shall notify the FOP. The Employer shall give the FOP notice of new, changed or amended directives or rules by email no less than thirty (30) working days before implementation. The Employer shall forward draft copies of proposed new, change or amended

Any new directive or rule and all changes or amendments shall be identified in the draft document.

Within in ten (10) working days after the Employer emails notice to the FOP, the FOP may email comments to the Employer and/or request a meeting with the Employer to discuss the changes. The Employer shall meet with the FOP within five (5) working days of the FOP's emailed request. Any comments shall include identification of those specific provisions of the new directive or rule (or the change or amendment to the directive or rule) that the FOP wishes to discuss.

Each party shall, in writing, designate one representative to email notices as described in Sections A and B.

Section B. The FOP may demand to bargain a provision of a new directive or rule or a change or amendment to a directive or rule. The demand shall be emailed to the Employer within fifteen (15) working days after the Employer emails notice to the FOP and shall include identification of the specific provision(s) of the new directive or rule (or the change or amendment to the directive or rule) that the FOP demands to bargain as a mandatory subject of bargaining. The Employer shall then proceed as follows.

1. If the Employer agrees that the provision is subject to bargaining, then the Employer shall email the FOP its decision to bargain within five (5) working days of the FOP's demand to bargain and enter into collective bargaining with the FOP over that provision within five (5) working days. If the parties cannot reach agreement, the matter shall be bargained at the earlier of either the next term negotiation [per MCC §33-80(d)] or next Article 31, §G reopener date.
2. If the Employer does not agree that the provision is subject to bargaining, the Employer shall email the FOP that decision within five (5) working days of the FOP's demand to bargain and the parties shall jointly seek a negotiability determination from the Permanent Umpire within five (5) working days. The parties shall request that the Permanent Umpire issue the decision within thirty (30) calendar days. If found bargainable, the parties shall begin bargaining within five (5) working days of the Permanent Umpire's decision. If the parties cannot reach agreement, the matter shall be bargained at the earlier of either the next term negotiation [per MCC §33-80(d)] or next Article 31, §G reopener date.

Section [F] C. Conflict. If a provision of a regulation, departmental directive or rule conflicts with a provision of the contract as described in this article, the contract prevails except where the contract provision conflicts with State law or the Police Collective Bargaining Law. A copy of the preceding sentence will be placed on the first page of each departmental directive that is issued or reissued after July 1, 2003.

Section [G] D. Presumption of Validity. It is presumed that any work rule, policy, directive, regulation, or procedure is valid unless challenged. If the validity of such a rule is challenged by the FOP, the County has the burden of establishing the validity of the rule in relation to the provisions of the Contract, the Police Labor Relations Law, and applicable State law. The County does not, however, have the burden of establishing the validity of work rules to which the FOP has expressly agreed or concurred.

Section [H] E. LEOBR Hearing Board. When in an LEOBR administrative hearing board proceeding, a unit member asserts that a County work rule, policy, directive, regulation, or procedure is invalid or inapplicable because the rule conflicts with the Contract, the County agrees that its representative will inform the administrative hearing board that it is appropriate for the board to consider the validity of the rule in relation to the Contract, before the board applies the

County's rule.

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Article 65

Automatic Vehicle Locator/Portable Radio Locator

Section A. Automatic Vehicle Locator/Portable Radio Locator. The Automatic Vehicle Locator (AVL) and Portable Radio Locator (PRL) [is a] are systems [which allows] that allow the [ECC] Department to identify the location of police vehicles and portable radios [which have been equipped with fixed mount computers] that are equipped with GPS tracking capabilities. This is a critical officer safety tool and will greatly enhance the safety of employees who have fixed mount computers and GPS enabled portable radios. [Employees who use "bag units" (portable computers) rather than fixed mount computers will not be required to connect to the AVL system during the term of this contract. [Side Letter: AVL data is retained for 120 days.]] It is the intent of the County to limit the data storage for AVL/PRL to 365 days. In the event that the Employer should decide to change its AVL/PRL data storage requirements, the Union will receive advance notice of this change.

Section B. Operation. The AVL/PRL [system does] systems do not report and store vehicle/radio locator data when the [fixed mount] computer/radio is turned off. Employees assigned vehicles equipped with fixed mount computers are not required to have their computers turned on when they are not on duty.

Section C. Use of AVL/PRL Data

1. [AVL data will not be used in, or as a basis for any disciplinary action against an employee.] The Employer may only use AVL/PRL data as a basis of discipline where the information was obtained after the Department reviewed a specific incident following:
 - a. An external complaint being filed concerning the incident (a non-police Department employee)
 - b. A pursuit;
 - c. Uses of force arising out of the incident that result in injuries to anyone;
 - d. A collision involving a police vehicle;
 - e. A non-employee's claims of injury arising out of the incident; or
 - f. The Employer's reasonable basis to suspect that the AVL/PRL data would show an officer engaged in criminal wrongdoing or serious allegations of misconduct in violation of Department rules and regulations applicable to bargaining unit members. At the time of its review, the Employer shall enter the grounds for its reasonable basis in the log described in 2 or in a related case or investigative file.
2. [AVL data will not be used in any internal investigation or administrative hearing board proceeding.] A log will be kept to record access to all AVL/PRL data. The log will include the:
 - a. Name of the employee accessing;
 - b. Reason for access;
 - c. Date data access.

Section D. MPIA. The County agrees that it will deny all Maryland Public Information Act (MIPA) requests for stored AVL/PRL data on the movements and location of vehicles assigned to unit members until and unless a point is reached where court decisions establish that AVL/PRL ~~data is public information subject to release under the MIPA.~~ The County will defend its denials of

MPIA requests for stored AVL/PRL data in the trial courts, and will continue to defend these denials in trial courts until and unless court decisions establish that AVL/PRL data is not confidential information. The County may, where appropriate, seek appellate review of court decisions ordering the release of AVL/PRL data, but is not required to do so. If the county chooses not to appeal, the employee shall have the right, as allowed by the Court, to continue the appeal at the employee's own expense.

Section E. Summonses. The County agrees that it will seek court protection from any subpoena or summons seeking stored AVL/PRL data on the movements and location of vehicles assigned to unit members, except for subpoenas issued by a grand jury, or a State or federal prosecutor. The County will seek protection from subpoenas and summonses in the trial courts, until and unless a point is reached where court decisions establish that AVL/PRL data is not confidential information. The County may, where appropriate, seek appellate review of court decisions ordering the release of AVL/PRL data, but the county is not required to do so. If the county chooses not to appeal, the employee shall have the right, as allowed by the court, to continue the appeal at the employee's own expense.

Section F. Notice to the FOP. Unless prohibited by court order, the employer shall notify the FOP upon receipt of a request for AVL/PRL data, including, but not limited to, an MPIA request, a subpoena, summons, or court order.

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Article 68

Proposed Legislation Relating to Impasse Procedure

Section A.

These article sections are subject to Bill 18-11 and the PLRA. Should any of the provisions in these articles conflict with the PLRA and Bill 18-11, or any other law, the law shall prevail.

* * *

Section B.

These article sections are subject to Bill 18-11 and the PLRA. Should any of the provisions in these articles conflict with the PLRA and Bill 18-11, or any other law, the law shall prevail.

This Article represents the result of bargaining over a permissive subject of bargaining. Any dispute arising out of the application or interpretation of this Article is not grievable or arbitrable and may be submitted to the Permanent Umpire in accordance with Montgomery County Code Chapter 33, Section 33-82.

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Article 70

[Wellness Study Committee] HEALTH AND WELLNESS

The parties shall establish a Wellness Study Committee consisting of three Union representatives and three Employer representatives to review health and wellness issues involving unit members of the MCPD. The committee shall meet on or before July 1, 2009, and shall, upon majority vote, issue a report on June 1, 2010.

The FOP may participate in the existing County Joint Labor Management Wellness Committee. The FOP may have up to three representatives on the committee as well as one or more FOP

Article 71

Employee Benefits Committee

1. Effective July 1, [2013] 2015, the parties shall jointly establish an Employee Benefits Committee through [December 31, 2013] October 2015 (which may include [any other employee organization] UFCW Local 1994 MCGEO and IAFF Local 1664) to study, review, and evaluate the [feasibility of establishing a union health care trust, joint healthcare trust or Union administered plan for possible implementation no later than January 1, 2015] changes in employee benefit administration, including but not limited to, cost share arrangements for possible implementation no later than January 1, 2017. By mutual agreement the parties may agree to being meeting prior to July 1, 2015.

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6. The Committee shall prepare a report of findings or recommendations for the parties regarding proposed changes in employee benefit administration no later than [December 31, 2013] October 31, 2015.

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Appendix I

Article 30 Uniforms and Equipment

ISSUED CLOTHING AND EQUIPMENT

CATEGORY: Academy (see below listed items under ALL SWORN)

- 1 Sweat suit outfit
- [1 Clipboard]

CATEGORY: All Sworn

- 1 Class A cap
- 1 [Black crew neck sweater minimum 50% wool] Black Sweater
- 1 Black [Gortex] duty jacket
- 1 Class A dress blouse
- 2 Class A tan pants
- 2 Class A tan short sleeve shirts
- 2 Class A tan long sleeve shirts
- 1 Light weight black duty jacket
- 8 Long sleeve shirts
- 8 Short sleeve shirts
- 1 Pair [Corfam] hi-gloss dress shoes
- 1 Pair black rubber boots
- 1 [Gortex long black raincoat] Reversible hi-visual, waterproof, long black raincoat
- 1 Class A cap rain cover
- [3]2 Black clip on ties
- 8 Black Trousers
- 1 [Black knit watch cap] Winter knit hat w/county cloth badge
- 1 Black baseball style cap w/county cloth badge
- 1 Shoulder microphone (subject to availability)
- 3 [9mm] Handgun magazines
- 1 Field Operations Manual

- 1 Transportation Article
- 1 Fine book
- [1 MAARS Manual]
- 1 Criminal Digest
- 1 Criminal Citation Manual

Black Leather Items:

- 1 Pair black leather boots
- 4 Black belt keepers
- 2 Black "D" rings
- 1 Black handcuff case
- 1 Black [9mm] Handgun holster
- 1 Black rechargeable flashlight ring holder
- 1 Black "Sam Browne" [black] belt
- 1 Black synthetic outer duty belt
- 1 Velcro inner belt
- 1 Black shoulder strap
- 1 Black double handgun magazine [9mm] holder
- 1 Black OC holder
- 1 Black leather ASP holder
- 1 Black identification case
- 1 Black key keeper
- 1 Black leather cut resistant gloves
- 1 Black Garrison belt (Honor Guard + Admin)

CATEGORY: All Sworn (continued)

Serialized Equipment:

- 1 Flashlight: black metal, rechargeable, w/ additional batteries and use as protective instrument [NI-CAD battery/ "MagLite"]
- 1 Bullet proof vest
- 1 Bullet proof vest black [winter] outer carrier
- 2 Bullet proof vest [summer] inner carriers
- 1 pair handcuffs
- 1 9mm semi-automatic handgun gun plus ammunition
- 1 Portable radio
- 1 Long gun

Other:

- 1 [Black] Plastic battery operated flashlight
- [1 100 foot measuring tape]
- 1 County brass Police badge
- 2 Maryland seal collar pins; class A
- 1 County street map
- 1 Equipment bag
- 1 Fingerprint kit
- 1 First aid kit and bag
- 1 Gas mask with carrier bag
- 1 Class A hat brass badge

- 1 Brass marksman badge
- [1]2 Brass name plates
- [1]2 Brass name plate "serving since" pins
- 2 Velcro nameplates
- [1] 2 Pair white cotton gloves
- 2 Plastic handcuffs (flex cuffs)
- 1 Portable radio holder
- 1 Riot Ballistic helmet with face shield
- 1 Orange Hi-Vis/reflective traffic vest
- 1 Traffic template
- 1 Traffic orange wand (flashlight attachment)
- [1]2 Plastic whistle
- 1 Collapsible ASP
- 1 OC Spray
- 1 Black [nylon] "rubber glove" pouch

CATEGORY: Tactical

- 1 .45 cal. Semi-automatic [(Para Ordinance)] handgun and ammunition
- 1 Pair summer boots with vibram soles
- 1 Pair winter boots with vibram soles
- 1 [Maglight] Flashlight/mini-laser product light
- 1 Black modular holster for .45 cal. Handgun
- 1 Pair binoculars
- 8 Sets of black uniforms/1 set camouflage uniform
- 4 Green combat uniform sets
- 1 Tactical/ballistic vest with pouches
- 1 USAF flight jacket
- 1 Black Velcro Sam Browne belt
- 1 Tactical equipment bag
- 1 Ballistic helmet; tactical
- 1 Set hardware & harness for repelling (including figure eight ring/carbineer)
- 1 Set [Gortex] windproof/waterproof cold weather outerwear (jacket & pants)
- 1 .308 counter sniper rifle
- [1] Fully automatic sub-machine gun; H&K MP5 SMG (9mm)]
- 1 Fully automatic M-4 carbine With holographic sight, infrared/white weapon light, infrared aiming laser magazines and ammunition
- 1 Portable radio headset with ear/mouth piece, ptt (push to talk)
- [1]2 Diversionary device
- 1 Set each elbow/knee pads
- 1 Pair padded/tactical gloves
- 1 Fire retardant jumpsuit (Nomex)
- 1 Pair fire retardant gloves
- 1 Remington 870 Breaching Shotgun
- 1 UTM Simunition bolt
- 1 Simunition Face mask
- 1 Binocular IR night vision goggle
- 1 Taser
- 2 IR reflective call sign patches

1 Gas mask with voice emitter

CATEGORY: Canine

- 1 Tracking lead
- 1 Street lead
- 1 Tracking harness
- 1 Agitation harness
- 2 Reward balls (toys)
- 1 Remote training collar (e-collar)
- 1 K9 training bite sleeve
- [1] 9mm automatic gun (92F) plus ammo
- 1 Pair black summer boots
- 1 Pair black winter boots
- 1 Concrete slab and chain link kennel
- [1] Dog choke chain
- 1 Pinch collar
- 1 Flat collar
- 1 Dog food pan
- 1 Heated water bowl
- 1 Kennel tarp
- 1 Dog house
- 1 Dog muzzle
- 1 Dog water bucket
- 1 Grooming brush and rake
- 1 [Black low rider nylon holster] Safariland ALS Level III tactical holster
- 1 Surefire X Series gunlight w/pressure mounted grip switch
- 1 Black nylon Velcro gear belt with magazine holder and all other necessary attachments
- [2] Training leads
- 8 Sets of black BDU uniforms of rip stop material; with short sleeve and long sleeve shirts
- 1 Black Surefire mini-flashlight with charger/6 rechargeable
- 1 Black [Gortex] windproof/waterproof rain suit (jacket and pants)
- 1 Radio [headset] earpiece for [saber] portable radio
- 2 Tactical tracking gloves
- 1 Protective eye wear
- 25 Cloth name tags for uniform shirts
- 25 Cloth badges for uniform shirts & jackets

CATEGORY: Traffic

- 1 Black leather motor jacket
- 1 Motor helmet with ear muffs
- 1 [Pair gauntlets/mittens not gloves] Heated clothing (1 pair pants, 1 jacket liner, 1 pair gloves, 1 pair socks and thermostat)
- 1 Pair motor boots
- 1 Pair safety glasses
- 8 Pairs riding britches
- [1] Neck gator]

1 Rain coat/suit and pants

Note: Putts may be worn, but will not be issued.

CATEGORY: Detective

- 1 Detective badge
- 1 Badge belt clip
- 1 Black leather pancake holster
- 1 Single black leather magazine holder
- 1 Jumpsuit with cloth badge

CATEGORY: Mountain Bike (See below for "specification sheet" Brand names may be substituted for equal/greater quality items.)

- 1 (Per assigned officer), [Trek USA Police model 8000] Black Mountain bike
- 1 Black [Vetta] rack [#01-610]
- 1 Black [Jadd] police bag
- 1 Black bicycle bell
- 1 Black [Vista] rear light/red lens
- 1 [Mt. Zefal] black fenders
- 1 Rear mount kickstand
- 1 Black water bottle racks
- 1 [Niterider] light system
- 1 Black [Giro] helmet with white "POLICE" logo
- 1 Black [Trek] derailleur guard
- 1 Repair kit: to include Slime tube 26 X 1.90 and three (3) plastic tire levers
- 1 Black [Trek] water bottle
- 1 Pair [Oakley] protective sunglasses "511" Tactical aileron shield ballistic glasses [{"M" frame-gray}]
- 1 [Avocet] saddle, [Gelflex M30]
- 1 [Mt.Zefal "Plus"] bike mounted pump
- 1 Cable bike lock
- [1 Pair Smith & Wesson ankle cuffs]
- 1 [Gortex] Windproof/waterproof Fall/Winter foul weather suit (to include: 1 [Gortex] windproof/waterproof pants and jacket, cycle vest, [1 zip off Bolero Ultrex, and Ultrex pants])
- 2 Black BDU long pants
- 5 Pairs black bike short pants
- 5 Polo shirts
- [1 Pair Nike bike shoes]

PART TIME BIKE RIDERS/BICYCLE:

- 1 Helmet
- 1 BDU
- 2 Shorts
- 2 Shirts

CATEGORY: SAT

- 1 Portable radio ear phone set per person (subject to availability)

CATEGORY: COMMUNITY [OUTREACH] SERVICES

- 1 Black [leather pancake 9mm] concealment holster
- 1 Black [leather] single 9mm magazine and handcuff case

[CATEGORY: **PAGERS**

The following units/officers receive one (1) pager per person:

- Special Assignment Teams
- Special Investigations Division
- Detective Sections
- TEAM
- Alcohol Enforcement
- Hostage Negotiations
- Technical Services
- Internal Affairs
- Fugitive Squad
- Traffic MPOs
- DARE
- School Safety
- Community Outreach
- Community Policing Coordinators
- Gang Coordinators
- Administrative Officers]

CATEGORY: Special Clothing/Safety Equipment

e.g. Technical services masks, breathing apparatus, first aid kits, black winter boots, black summer boots.

[CATEGORY: Other Specialized Units/BLACK UNIFORMS

- 2 sets – Alcohol Enforcement Unit (AEU), Truck Inspectors
- 4 sets – Academy staff
- 8 sets – Technical Services, AAU Tow Truck Supervisor]

CATEGORY: Other Specialized Units/GREY UNIFORMS

- 4 sets – Range instructors

CATEGORY: OTHER

- 2 MPO insignia pins
- 2 PO3 insignia pins
- [2]3 Black Turtleneck shirts

Exceptions to turtleneck:

- 1. Office of the Chief
- 2. Court Liai:

- 3. ISB except: Forensic Services Section
- 4. MSB except:
 - a. Fleet Coordinator
 - b. Abandoned Motor Vehicle
 - c. Academy

NOTES:

- 1. Officers who bought their own black sweaters can continue to wear them.
- 2. Trousers must have "utility" pockets
- [3. Where "Gortex" is specified, an equivalent may be issued.
- 4. Where Safety Committee recommends and parties agree, other substitutions may be made.]

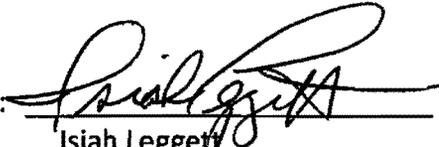
IN WITNESS WHEREOF, the parties hereto have caused their names to be subscribed hereto by their duly authorized officers and representatives this ___ day of March 2015.

FRATERNAL ORDER OF POLICE,
MONTGOMERY COUNTY LODGE 35

MONTGOMERY COUNTY,
MARYLAND

By: 

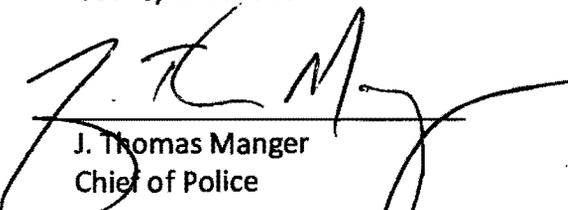
 Torrie Cooke
 President

By: 

 Isiah Leggett
 County Executive



 Marc Zifcak
 Chief Negotiator



 J. Thomas Manger
 Chief of Police



 Approved for form and legality
 County Attorney

Tentative Agreement
2014 FOP Negotiations
Mediation
1/15/15
9:00 p.m.

Position Vacancy Side Letter Agreement

The parties agree that the following terms will apply when an employee applies for, and is selected for a position vacancy. The following is the procedure for position vacancies:

- The Employer will provide instructions on how to apply for position vacancies in each position vacancy announcement.
- The employer will provide a receipt indicating the date and time for each application received for a position vacancy. The receipt will be provided to each respective applicant.
- Applications submitted after the closing date will not be accepted.
- The selected applicant, for each position vacancy, will be notified by the recommendations committee, or designee, following the selection made by the Bureau Chief.

The parties agree that the following terms will apply when an employee elects to rescind a transfer request:

- An officer seeking a permanent transfer (not including a position vacancy announcement) may also rescind the transfer request by submitting a memorandum, or via email, through their chain of command to their Bureau Chief.

For the County

William F. Scott
1-15-15

For the Union

J. L. [Signature]
1/15/15

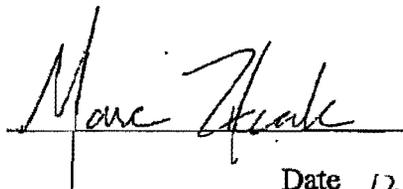
Article 51 Side Letter Agreement

Tentative Agreement

The parties agree that the following terms will apply when an employee wants to review their personnel file and when the employer purges a member's personnel file. This side letter applies exclusively to personnel files stored at the Police Personnel Division.

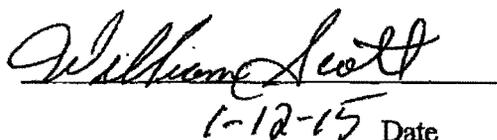
1. Officers should call ahead or make an appointment to review their department held personnel file. Officers who do not make an appointment may have to wait while the file is obtained. Any documents purged from the file prior to producing it to the requesting officer shall be provided contemporaneously with the file for review.
2. The Police Personnel Division will notify, via e-mail, an employee of documents being removed from their main Department personnel file (maintained by Police Personnel). By email message, police employees must elect how to receive their purged documents (in person or via interoffice mail) or instruct the Personnel Division to shred the documents.
3. Police employees choosing to pick up purged documents from Police Personnel must do so within 14 calendar days of receiving the email from the Personnel Division. If the purged documents are not retrieved by the employee within 14 calendar days, or if there is no email response to the original purge notice, then all purged documents will be sent to the employee via interoffice mail.

For the FOP



Date 12 January 2015

For the Employer



1-12-15 Date

Memorandum of Understanding between
Fraternal Order of Police Montgomery County Lodge 35, Inc. and
The Montgomery County Government
Montgomery County Maryland
For July 1, 2015 to June 30, 2016

This Memorandum of Understanding between the Montgomery County Government (hereinafter, the "County") and the Fraternal Order of Police Montgomery County Lodge 35, Inc. (hereinafter the "FOP") hereby memorializes the agreements between the parties, arising out of collective bargaining negotiations that occurred during November, 2014 through January, 2015.

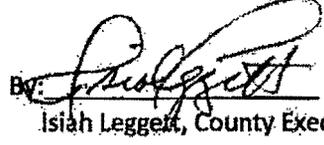
1. The parties acknowledge that the health, prescription and retirement benefits currently being provided by the Employer pursuant to previous County Council action are inconsistent with the provisions of the Collective Bargaining Agreement.
2. The parties agree that, notwithstanding the CBA language, the Employer will seek, for the FY 16 recommended budget, funding for those benefits at the level set by Montgomery County Council Resolution No. 17-149, Bill 11-11, and Montgomery County Council Resolution No. 17-1111.
3. This agreement does not affect or alter the positions or rights of the parties in regards to these benefits. The FOP agrees that they will not file a prohibited practice charge referencing the funding of these benefits, identified in paragraph one, in the FY 16 recommended budget.

IN WITNESS WHEREOF, the parties hereto have caused their names to be subscribed hereto by their duly authorized officer and representatives, this ____ day of January, 2015.

Fraternal Order of Police, Lodge 35, Inc.:

Montgomery County, Maryland:

By:  1/15/15
Torrie Cooke, President Date

By:  Jan 20, 2015
Isiah Leggett, County Executive Date

By: _____
Marc Zifcak, Chief Negotiator Date

Approved as to form and legality
Office of the County Attorney

By:  1/15/15
Date

Summary of Economic Impact Items in the Labor Agreement with FOP Effective FY 2016

No.	Article	Subject	Summary of Change	Requires Appropriation of funds	Present or Future Fiscal Impact	Requires Legislative Change	Requires Regulation Change	Notes
1	17.B	Disability Leave Eligibility	Disability leave will be paid as full salary continuation	No	No	No	No	
2	24.C	Prescription Drug Plan	<p>Effective 01/01/2016, prescription plans will include the following PBM programs:</p> <p>1. Generic Step Therapy -requires use of cost-effective generic alternatives; 2. Specialty Pharmacy-Guideline Management - supports appropriate utilization for specialty medications; 3. Advanced Control Specialty Formulary - promotes cost effective care for members' utilizing specialty medications; 4. Pharmacy Advisor Counseling at CVS retail - provides available assistance designed to improve members' health through one-on-one pharmacist counseling; 5. Pre-Authorization for Compound Prescriptions - requires prior authorization by the PBM for any compounded claim with a single ingredient cost exceeding \$300.</p>	No	Yes	No	No	Estimated Cost Reduction - See Fiscal Impact Statement
3	24.N	Optional Term Life Insurance	<p>At age 70 the face value of the policy reduces to 50% of original value. At age 75 the face value of the policy reduces to 25% of original value.</p> <p>Member can purchase amount of reductions not to exceed original value</p>	No	No	No	No	
4	24.T	Group Insurance Program Changes	Addition of dependent life insurance option of \$2000 spouse, \$1000 child to age 26	No	No	No	No	Potential fiscal impact not material due to limited potential additional coverage and limited cost of premium (\$0.755 per month)
5	25	Transfers	Reference added in the event of a new department directive	No	No	No	No	
6	31	Reopener	Reference added regarding effects bargaining	No	No	No	No	

Summary of Economic Impact Items in the Labor Agreement with POF Effective 7/1/2010

Article	Subject	Summary of Change	Requires Appropriation of funds	Present or Future Fiscal Impact	Requires Legislative Change	Requires Regulation Change	Notes
7 31.G	Reopener	Reopeners for the purpose of bargaining over any issue(s) determined to be subject to bargaining by the Permanent Umpire pursuant to a filing of a charge of engaging in prohibited practices for 9/1/2015 and 3/1/2016 Arbitrators for all three reopeners will be selected no later than July 15, 2015	No	No	No	No	
8 36	Wages	Effective the first full pay period after July 1, 2015, members will receive a 2.0% wage increase.	Yes	Yes	No	No	See Fiscal Impact Statement
9 47	Duration of Contract	July 1, 2015 through June 30, 2016	No	No	No	No	
10 51.B	Personnel Files/ Custody & Review	Update reference to Office of Human Resources Access granted to members of a Recommendation Committee when an employee has applied for a vacancy announcement Update reference to Health and Wellness Division	No	No	No	No	
11 51.C	Personnel Files/ Contents	Addition of transfer notices up to 5 years added	No	No	No	No	
12 57.N	Line of Death Benefit	In the event of a line-of-duty death, salary and pay based benefits and compensation paid to a bargaining unit member holding the rank of POC, PO I, PO II, or PO III shall be based on the pay of a PO III with the same years of service but not less than Pay Grade P4, Step 5.	No	Yes	No	No	Not expected to have a material fiscal impact
13 61.A	Directives and Administrative Procedures	Removal of effects bargaining language Revised process to notify Union of directive changes	No	No	No	No	
14 61.B	Directives and Administrative Procedures	Details process when the Union demands to bargain over mandatory subjects of bargaining over rule/policy change	No	No	No	No	

Summary of Economic Impact Items in the Labor Agreement with FOP Effective FY 2016

Article	Subject	Summary of Change	Requires Appropriation of funds	Present or Future Fiscal Impact	Requires Legislative Change	Requires Regulation Change	Notes
15 65	Automatic Vehicle Locator/Portable Radio Locator	Addition of Portable Radio Locator (PRL) to Article Data storage is limited to 365 days Policy regarding use of data for disciplinary action	No	No	No	No	
16 68	Proposed Legislation Relating to Impasse Procedure	Reference added regarding effects bargaining	No	No	No	No	
17 70	Wellness Committee	The Union may participate in the County Joint Labor Management Wellness Committee with up to 3 representatives and as needed consultants	No	No	No	No	
18 71	Employee Benefits Committee	Update dates to 2015 Discussion also to include employee benefit administration and cost share arrangements Report back by October 31, 2015	No	No	No	No	
19 Appendix I	Issued Clothing and Equipment	Appendix of issued clothing and equipment updated to reflect current practice	No	No	No	No	
20 Side Letter	Position Vacancy	Procedure for when an employee applies for and is selected for a position vacancy -Employer will provide application instructions; -Employer will provide a receipt for each application to the employee; -Applications submitted after the closing date will not be accepted; -Employee selected will be notified by Recommendations Committee (or designee) Employee seeking a permanent transfer may rescind request to Bureau Chief	No	No	No	No	

Summary of Economic Impact Items in the Labor Agreement with FOR Effective FY 2010

	Article	Subject	Summary of Change	Requires Appropriation of funds	Present or Future Fiscal Impact	Requires Legislative Change	Requires Regulation Change	Notes
21	Side Letter	Rollover	Unless a provision is reopened by the parties, that provision is carried over into the new agreement	No	No	No	No	

**Fraternal Order of Police County Lodge 35, Inc.
Fiscal Impact Summary***

<u>Article</u>	<u>Item</u>	<u>Description</u>	<u>Annual Cost</u>	
			<u>FY16</u>	<u>Beyond FY16</u>
24	Insurance Coverage	Inclusion of Pharmacy Benefit Management Programs	-\$117,089	-\$234,179
28	Service Increments	Service Increment of 3.5 Percent for Eligible Employees	\$1,541,890	\$2,471,441
28	Longevity	Longevity Step Increase of 3.5 Percent for Eligible Employees	\$74,348	\$99,625
36	Wages	2 Percent General Wage Adjustment in July 2015	\$2,595,501	\$2,595,501
Total			\$4,094,651	\$4,932,388

Police Uniformed Management Pass-Through Estimates**

<u>Item</u>	<u>Description</u>	<u>Annual Cost</u>	
		<u>FY16</u>	<u>Beyond FY16</u>
Wages	2 Percent General Wage Adjustment in July 2015	\$183,875	\$183,875
Longevity	Longevity Step Increase of 3.5 Percent for Eligible Employees	\$9,549	\$11,740
Insurance Coverage	Inclusion of Pharmacy Benefit Management Programs	-\$5,003	-\$10,006
Total		\$188,421	\$185,610

* Estimates reflect the impact to all funds. Increases apply in the first full pay period during the month noted.

**No Police Uniformed Management is currently eligible to receive a service increment in FY16.

Note: Line of duty death benefit is not anticipated to have a fiscal impact.



OFFICE OF THE COUNTY EXECUTIVE
ROCKVILLE, MARYLAND 20850

Isiah Leggett
County Executive

MEMORANDUM

April 1, 2015

TO: George Leventhal, President
Montgomery County Council

FROM: Isiah Leggett, County Executive 

SUBJECT: Memorandum of Agreement between the County and MCGEO

I have attached for the Council's review the agreement resulting from the recent reopener negotiations between the Montgomery County Government and the Municipal & County Government Employees Organization/United Food and Commercial Workers Union Local 1994 (MCGEO). The agreement is the product of a settlement reached by the parties during mediation. The agreement reflects the changes that will be made to the existing Collective Bargaining Agreement to be effective July 1, 2015 through June 30, 2016.

I have also attached a summary of the agreed upon items as well as a copy of the fiscal impact statement referenced in the Workforce/Compensation chapter of my budget to assist in Council's review of the document. The items will take effect for the first time in FY2016 and have a fiscal impact in FY2016.

Attachments

cc: Shawn Stokes, Director, Office of Human Resources
Jennifer Hughes, Director, Office of Management and Budget
Marc Hansen, County Attorney, Office of the County Attorney

Resolution No: _____
Introduced: April 14, 2015
Adopted: _____

**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, Clerk of the Council

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**MEMORANDUM OF AGREEMENT
BETWEEN
THE MONTGOMERY COUNTY GOVERNMENT
AND THE
MUNICIPAL & COUNTY GOVERNMENT EMPLOYEES ORGANIZATION, UFCW, LOCAL 1994**

The Montgomery County Government (Employer) and the United Food and Commercial Workers, Local 1994, Municipal & County Government Employees Organization (Union), conducted negotiations for the reopener for the third year of the parties' Collective Bargaining Agreement pursuant to Article 49 of the Collective Bargaining Agreement, effective July 1, 2013 through June 30, 2016. As a result of those negotiations, the Employer and the Union agree that the Collective Bargaining Agreement shall be amended according to the terms set forth below.

Please use the following key when reading this agreement:

- | | |
|----------------------------|--|
| <u>Underlining</u> | <i>Added to existing agreement.</i> |
| [Single boldface brackets] | <i>Deleted from existing agreement.</i> |
| * * * | <i>Existing language unchanged by parties.</i> |

The parties agree to amend the contract as follows:

* * *

**ARTICLE 5
WAGES, SALARY, AND EMPLOYEE COMPENSATION**

5.1 Fiscal Year Salary Schedules

Bargaining unit members are eligible for service increments of 3½ percent each. A service increment may be granted only to the extent that an employee's salary does not exceed the maximum salary for the assigned grade. Receipt of a service increment shall be conditioned upon the provisions of Article 6, Service Increments. [Beginning July 1, 2013, and continuing through June 30, 2015, the] The salary schedule shall contain a longevity increment for bargaining unit members who are at the maximum of their pay grade and have completed 20 years of service (beginning of year 21) equal to a 3 percent increase to be paid the first full pay period following their 20 year service anniversary. (See Appendix VII).[.]

5.2 Wages

* * *

- (e) All previously postponed general wage adjustments will not be paid in [FY 2014 or FY 2015] FY 2016.
- (f) Effective the first full pay period following July 1, 2015, each unit member shall receive a 2.0 percent general wage adjustment (GWA). Bargaining unit employees shall be paid a base salary pursuant to the uniform pay plan, which appears in Appendix VII of this agreement.

* * *

**ARTICLE 6
SERVICE INCREMENTS**

* * *

6.8 Effective July 1, 2013, eligible bargaining unit employees shall receive an annual service increment of 3.5 percent the first full pay period following their anniversary date as described in this Article.

Effective July 1, 2014, eligible bargaining unit employees shall receive an annual service increment of 3.5 percent the first full pay period following their anniversary date as described in this Article.

Effective July 1, 2015, eligible bargaining unit employees shall receive an annual service increment of 3.5 percent the first full pay period following their anniversary date as described in this Article.

6.9 All previously postponed service increments will not be paid in [FY 2014 or FY 2015] FY2016.

* * *

**ARTICLE 17
DISABILITY LEAVE**

* * *

17.2 Eligibility

An employee who is temporarily disabled in the line of duty and unable to perform normal duties or an alternate duty assignment must be paid [the difference between normal County salary and the amount received under the Workers' Compensation law] full salary continuation in the form of disability leave for a maximum period of 18 months of the temporary disability provided that the employee participates in cost-savings programs administered by the Montgomery County Division of Risk Management. [During the covered period of temporary disability, the Employer will adjust the employee's gross salary to account for the favorable tax treatment of the Workers' Compensation disability pay. Under no circumstances will the employee's adjusted net pay be less than 100 percent of the net pay that he or she received prior to the disability designation.] After 18 months, if the employee remains temporarily disabled he/she may use accrued sick, annual or compensatory leave to make up the difference between Workers' Compensation benefits and full salary. When incapacitated for regular work assignments, the employee must be required to accept other work assignments for the period of recuperation if found physically capable or be ineligible for disability leave in accordance with Article 33 of this agreement. The ability of the employee to work will be determined in accordance with the provision of the Executive Regulations on Disability as required by Section 33-100 of the Montgomery County Code.

* * *

**ARTICLE 41
RETIREMENT**

* * *

41.11. Deferred Retirement Option Plan (DROP). The Employer shall seek the introduction of legislation to the County Council, on or before April 1, 2015, to amend the Montgomery County Code, Chapter 33, Article III to provide for a Deferred Retirement Option Plan (DROP) for sworn deputy sheriffs and uniformed correctional officers under a new Section 33-38A(c), established as follows, with an effective date of July 1, 2015:

Any employee who is a sworn deputy sheriff or uniformed correctional officer (as defined in (a)) who meets the eligibility requirements may elect to retire but continue to work and have pension payments contributed to a DROP account. Pension payments must not be paid to the employee while the employee participates in the DROP. When the employee's participation in the DROP ends, the employee must stop working for the county, begin receiving pension benefits based on the employee's credited service and earnings as of the date that the employee began to participate in the DROP, and receive the DROP account balance.

(a) "Deferred Retirement Option Plan" or "DROP" means the DROP program for sworn deputy sheriffs and uniformed correctional officers. Uniformed Correctional Officer includes only the following positions: Correctional Officer I, Correctional Officer II, Correctional Officer III, Correctional Dietary Officer I, Correctional Dietary Officer II, and Correctional Supervisor-Sergeant.

(1) 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.

(2) 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 of submitting the application.

(3) 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 program ends, the employee must stop working for the County and receive pension benefits.

(4) Employment status. An employee who participates in 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.

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

(6) 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 pension benefits; and
- (ii) pension payment distribution option for the distribution of the employee's DROP account balance.

(B) Pension benefits will not be paid to the employee while the employee participates in DROP, but will be deposited in a DROP account established for the employee by the County. The employee must receive the account balance and the County must close the account within 60 days after the employee's participation in the program ends.

Subject to the IRC, IRS regulations and other law, the employee may direct that account balance be rolled over into any eligible retirement plan.

(C) An employee must direct the Board of Investment Trustees to contribute pension benefits to the employee's DROP, account to be invested in one or more of the investment options selected by the Board. An employee's selection of investment options remain in effect until the employee changes the investment selection. An employee must select investment options in order to participate in 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 program, 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 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 program.

(7) Disability Retirement. An employee may apply for disability retirement prior to the termination of the employee's participation in the program. An employee who receives a service connected disability retirement will receive either, as elected by the employee, the DROP account balance or the service connected disability benefit that would apply had the employee not entered DROP with no DROP account balance. An employee who receives a non-service connected disability retirement will receive the non-service connected disability retirement benefit calculated as of the member's DROP entry date and the DROP account balance. If an employee's participation in DROP ends before a final decision is made on the disability retirement application, the DROP account will not be distributed until a final decision is made.

(8) Death Benefit. If an employee dies during the employee's participation in the program, 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 program, adjusted under subsection (6)(D); and

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

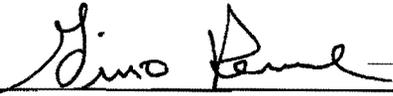
(9) DROP account distribution options. An employee may elect to have the DROP account distributed as a lump sum or an annuity, or to have some or all paid directly to an eligible retirement plan as a direct rollover distribution. If the employee dies before the balance of the DROP account is distributed, the beneficiary may elect to receive distribution of the balance according to any option described in this paragraph as allowed under the IRC and applicable regulations.

* * *

* * * * *

IN WITNESS WHEREOF, the parties hereto have caused their names to be subscribed by their
duly authorized officers and representatives this ____ day of March 2015.

United Food and Commercial Workers,
Local 1994, Municipal & County Government
Employees Organization

By: 
Gino Renne
President

Montgomery County Government
Montgomery County, Maryland

By: 
Isiah Leggett
County Executive


Approved for form and legality
County Attorney

**Memorandum of Understanding between
UFCW Local 1994 MCGEO and
The Montgomery County Government
Montgomery County Maryland**

For July 1, 2015 to June 30, 2016

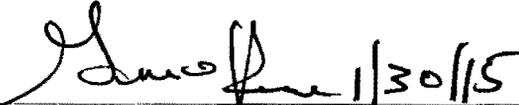
This Memorandum of Understanding between the Montgomery County Government (hereinafter, the "County") and UFCW Local 1994, MCGEO (hereinafter, "MCGEO") hereby memorializes the agreements between the parties, arising out of collective bargaining negotiations that occurred during November, 2014 through January, 2015.

1. The parties acknowledge that the health, prescription and retirement benefits currently being provided by the Employer pursuant to previous County Council action are inconsistent with the provisions of the Collective Bargaining Agreement.
2. The parties agree that, notwithstanding the CBA language, the Employer will seek, for the FY 16 recommended budget, funding for those benefits at the level set by Montgomery County Council Resolution No.17-149, Bill 11-11, and Montgomery County Council Resolution No. 17-1111.
3. This agreement does not affect or alter the positions or rights of the parties in regards to these benefits. MCGEO agrees that they will not file a prohibited practice charge referencing the funding of these benefits, identified in paragraph one, in the FY 16 recommended budget.

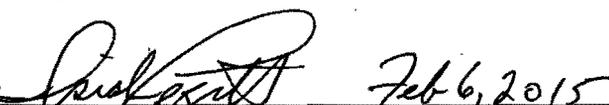
IN WITNESS WHEREOF, the parties hereto have caused their names to be subscribed hereto by their duly authorized officer and representative this ____ day of January, 2015.

UFCW Local 1994, MCGEO:

Montgomery County, Maryland:

By:  1/30/15

Gino Renne, President Date

By:  Feb 6, 2015

Isiah Leggett, County Executive Date

Approved as to form and legality
Office of County Attorney

By:  1/30/15

Heather A. Mulloy Date

Attachment 2 to the MOA between Employer and Union dated 1/30/15

Summary of Proposed Labor Agreement with MCGEO Effective FY 2016

No.	Article	Subject	Summary of Change	Requires Appropriation of funds	Present or Future Fiscal Impact	Requires Legislative Change	Requires Regulation Change	Notes
1	5.1	Fiscal Year Salary Schedules/ Longevity	In FY16 longevity will be paid to employees who complete 20 years of service	Yes	Yes	No	No	See Fiscal Impact Statement
2	5.2(e)	Wages	Postponed GWAs will not be paid in FY2016	No	No	No	No	
3	5.2(f)	Wages	2.0% GWA effective the first full pay period following July 1, 2015	Yes	Yes	No	No	See Fiscal Impact Statement
4	6.8	Service Increments	3.5% service increments for bargaining unit members in FY2016 Postponed service increments will not be paid in FY2016	Yes	Yes	No	No	See Fiscal Impact Statement
5	17.2	Disability Leave Eligibility	Disability leave will be paid as full salary continuation	No	No	No	No	
6	41.11	Deferred Retirement Option Plan (DROP)	The Employer will submit legislation to adopt a Deferred Retirement Option Plan (DROP) for sworn deputy sheriffs and uniformed correctional officers Participants who meet eligibility requirements may elect to retire but continue to work and have pension payments contributed to a DROP account Eligibility extends to only Deputy Sheriffs, Correctional Officers I, II, and III, Correctional Dietary Officer I and II, and Correctional Supervisor-Sergeant Participants must be at least 55 years old and have at least 15 years credited service OR at least 46 years old with at least 25 years of credited service	No	Yes	Yes	No	Fiscal impact of funding actuarial cost will be in FY17 - See Fiscal Impact Statement

**Municipal and County Government Employees Organization
United Food and Commercial Workers, Local 1994
Fiscal Impact Summary***

<u>Article</u>	<u>Item</u>	<u>Description</u>	<u>FY16</u>	<u>Annual Cost Beyond FY16</u>
5	Wages	2 Percent General Wage Adjustment in July 2015	\$6,751,208	\$6,751,208
5.1	Longevity	Longevity Step Increase of 3 Percent for Eligible Employees	\$88,981	\$229,595
6	Service Increments	Service Increment of 3.5 Percent for Eligible Employees	\$3,628,623	\$7,173,198
41.11	DROP	DROP Program for Sworn Deputy Sheriffs and Uniformed Correctional Officers in Group E Retirement Plan	\$0	\$85,825 to \$230,505
Total			\$10,468,812	\$14,239,826 to \$14,384,506

Non-Represented Pass-Through Estimates

<u>Item</u>	<u>Description</u>	<u>FY16</u>	<u>Annual Cost Beyond FY16</u>
Wages	2 Percent General Wage Adjustment in July 2015	\$4,141,812	\$4,141,812
Longevity	Longevity Step Increase of 2 Percent for Eligible Employees	\$42,631	\$76,176
Service Increments	Service Increment of 3.5 Percent for Eligible Employees	\$1,161,942	\$2,233,397
DROP	DROP Program for Sworn Deputy Sheriff Management and Uniformed Correctional Officer Management in Group E Retirement Plan	\$0	-\$1,150 to \$23,174
Total		\$5,346,385	\$6,450,235 to \$6,474,559

* Estimates reflect the impact to all funds. Increases apply in the first full pay period during the month noted.

Notes: Both the RSP annuity and GRIP default are expected to be cost neutral.

One time estimated cost of \$40,000 to accommodate system changes necessary for GRIP and DROP. Fidelity will charge a one time \$30,000 fee for DROP implementation.

Range shown is due to varying assumptions related to age at entry into DROP and at retirement.



OFFICE OF THE COUNTY EXECUTIVE
ROCKVILLE, MARYLAND 20850

Isiah Leggett
County Executive

MEMORANDUM

April 1, 2015

TO: George Leventhal, President
Montgomery County Council

FROM: Isiah Leggett, County Executive

SUBJECT: Memorandum of Agreement between the County and MCGEO: GRIP

I have attached for the Council's review the agreement resulting from the recent reopener negotiations between the Montgomery County Government and the Municipal & County Government Employees Organization/United Food and Commercial Workers Union Local 1994 (MCGEO). The agreement, which is the product of an arbitration decision in favor of the Montgomery County Government, reflects the changes that will be made to the existing Collective Bargaining Agreement, *Article 44 – Non-Public Safety Retirement Plans*, to be effective July 1, 2015 through June 30, 2016.

I have also attached a summary of the agreed upon items as well as a copy of the fiscal impact statement referenced in the Workforce/Compensation chapter of my budget to assist in Council's review of the document.

Attachments

cc: Shawn Stokes, Director, Office of Human Resources
Jennifer Hughes, Director, Office of Management and Budget
Marc Hansen, County Attorney, Office of the County Attorney

**MEMORANDUM OF AGREEMENT
BETWEEN
THE MONTGOMERY COUNTY GOVERNMENT
AND THE
MUNICIPAL & COUNTY GOVERNMENT EMPLOYEES ORGANIZATION, UFCW, LOCAL 1994**

The Montgomery County Government (Employer) and the United Food and Commercial Workers, Local 1994, Municipal & County Government Employees Organization (Union), conducted negotiations for the reopener for the third year of the parties' Collective Bargaining Agreement pursuant to Article 41.10 of the Collective Bargaining Agreement, effective July 1, 2013 through June 30, 2016. This Agreement is the product of an Interest Arbitration Decision in favor of the Employer. The Employer and the Union agree that the Collective Bargaining Agreement shall be amended according to the terms set forth below.

Please use the following key when reading this agreement:

<u>Underlining</u>	<i>Added to existing agreement.</i>
[Single boldface brackets]	<i>Deleted from existing agreement.</i>
* * *	<i>Existing language unchanged by parties.</i>

The parties agree to amend the contract as follows:

* * *

Article 44

NON-PUBLIC SAFETY RETIREMENT PLANS

SECTION 44.10

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, the employee's 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.* The employee's account balance is calculated as a life annuity which is a monthly benefit paid over the employee's lifetime with no benefits payable after death.
- *Joint and Survivor Annuity.* The employee's account balance is calculated as a joint and survivor life annuity which is a monthly benefit paid over your lifetime. At the employee's death, the employee's surviving joint annuitant, who must be the employee's 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 the employee's joint annuitant receives, the less the amount that will be paid to the employee during the employee's lifetime. The employee may choose any percentage but not less than 10%. Typically percentages elected are 100%, 70%, 50%, 30% or 20%. Benefits end when both the employee and the employee's 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.

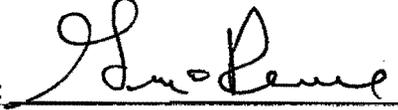
The parties further agree that the County pension plan will not be subject to the upcoming collective bargaining reopener in Fall of 2014.

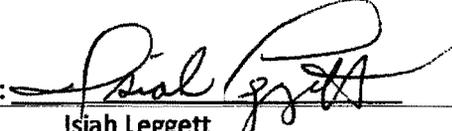
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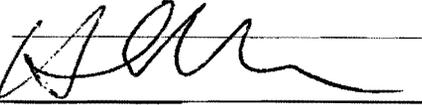
IN WITNESS WHEREOF, the parties hereto have caused their names to be subscribed by their duly authorized officers and representatives this ____ day of March 2015.

United Food and Commercial Workers,
Local 1994, Municipal & County Government
Employees Organization

Montgomery County Government
Montgomery County, Maryland

By: 
Gino Renne
President

By: 
Isiah Leggett
County Executive


Approved for form and legality
County Attorney

Summary of Proposed Labor Agreement with MCGEO Effective FY 2016

No.	Article	Subject	Summary of Change	Requires Appropriation of funds	Present or Future Fiscal Impact	Requires Legislative Change	Requires Regulation Change	Notes
1	41.12	Annuity Distribution Option/Default Retirement Participation	<p>The County will offer an annuity distribution option for RSP members subject to a favorable private letter ruling from the IRS and subjective to legislative approval</p> <p>Upon election of the RSP annuity option, members RSP account balance will be transferred to the ERS</p> <p>Bargaining unit members' default option will be the GRIP for all new members subject to legislative approval</p> <p>Eligible employees must participate in the RSP or the GRIP, cannot participate in both and cannot change</p> <p>Bargaining unit employees will automatically be enrolled in the GRIP unless they elect to enroll in the RSP</p> <p>GRIP or RSP membership will begin 180 days after date of hire</p> <p>Participation in GRIP or RSP will be optional to part-time employees</p>	No	Yes	Yes	No	No actuarial cost is expected for the annuity distribution option or automatic enrollment in the GRIP. One time costs are expected to implement changes - See Fiscal Impact Statement

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**Municipal and County Government Employees Organization
United Food and Commercial Workers, Local 1994
Fiscal Impact Summary***

<u>Article</u>	<u>Item</u>	<u>Description</u>	<u>FY16</u>	<u>Annual Cost Beyond FY16</u>
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Total		\$5,346,385	\$6,450,235 to \$6,474,559

* Estimates reflect the impact to all funds. Increases apply in the first full pay period during the month noted.

Notes: Both the RSP annuity and GRIP default are expected to be cost neutral.

One time estimated cost of \$40,000 to accommodate system changes necessary for GRIP and DROP. Fidelity will charge a one time \$30,000 fee for DROP implementation.

Range shown is due to varying assumptions related to age at entry into DROP and at retirement.



OFFICE OF THE COUNTY EXECUTIVE
ROCKVILLE, MARYLAND 20850

Isiah Leggett
County Executive

MEMORANDUM

April 1, 2015

TO: George Leventhal, President
Montgomery County Council

FROM: Isiah Leggett, County Executive 

SUBJECT: Memorandum of Agreement between the County and IAFF

I have attached for the Council's review the agreement resulting from the recent reopener negotiations between the Montgomery County Government and the Montgomery County Career Fire Fighters Association, International Association of Fire Fighters, Local 1664. The agreement is the product of a settlement reached by the parties during mediation. The agreement reflects the changes that will be made to the existing Collective Bargaining Agreement to be effective July 1, 2015 through June 30, 2016.

I have also attached a summary of the agreed upon items as well as a copy of the fiscal impact statement referenced in the Workforce/Compensation chapter of my budget to assist in Council's review of the document. The items will take effect for the first time in FY2016 and have a fiscal impact in FY2016.

Attachments

cc: Shawn Stokes, Director, Office of Human Resources
Jennifer Hughes, Director, Office of Management and Budget
Marc Hansen, County Attorney, Office of the County Attorney

Resolution No: _____
Introduced: April 14, 2015
Adopted: _____

COUNTY COUNCIL
FOR MONTGOMERY COUNTY, MARYLAND

Lead Sponsor: Government Operations and Fiscal Policy Committee

Subject: **Collective Bargaining Agreement with Career Fire Fighters Association**

Background

1. Section 510A of the County Charter authorizes the County Council to provide by law for collective bargaining with binding arbitration with authorized representatives of County career fire fighters.
2. Chapter 33, Article X of the County Code implements Section 510A of the Charter and provides for collective bargaining by the County Executive with the certified representatives of the County's fire fighters and for review of the resulting contract by the Council.
3. On April 1, 2015, the County Executive submitted to the Council a collective bargaining agreement between the County government and the International Association of Fire Fighters, effective July 1, 2015 through June 30, 2016. The Agreement is attached to this Resolution.
4. The Executive has submitted to the Council the terms and conditions of the collective bargaining agreement that require or may require an appropriation of funds or changes in any County law or regulation for FY16.
5. The Government Operations and Fiscal Policy Committee considered and made recommendations concerning the agreement at a worksession 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 agreement.

Action

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

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

1. 2% general wage adjustment for all bargaining unit members on the first pay period after July 1, 2015.
2. 3.5% longevity increment for all eligible bargaining unit members with 20 or 28 years of service.
3. 3.5% service increments for all eligible bargaining unit members.
4. Establish a special duty differentials for Air Compressor Technicians and Meter Technicians at \$2037.
5. Changes to the leave slot procedure for the Fire and Explosives Investigation Section.
6. Tuition Assistance.

The Council intends to disapprove the group insurance provisions in the collective bargaining agreement. The Council intends to approve the group insurance provisions as they were included in the FY15 operating budget, including a Medicare Part D Employer Group Waiver Prescription Drug Plan for Medicare-eligible retirees. 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, Clerk of the Council

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**MEMORANDUM OF AGREEMENT
BETWEEN
THE MONTGOMERY COUNTY GOVERNMENT
AND THE
MONTGOMERY COUNTY CAREER FIRE FIGHTERS ASSOCIATION,
INTERNATIONAL ASSOCIATION OF FIRE FIGHTERS, LOCAL 1664, AFL-CIO**

The Montgomery County Government (Employer) and the Montgomery County Career Fire Fighters, International Association of Fire Fighters, Local 1664, AFL-CIO (Union) conducted reopener negotiations pursuant to Article 50 of their collective bargaining agreement effective July 1, 2013, through June 30, 2016. As a result of those negotiations, the Employer and the Union tentatively agree that said collective bargaining agreement shall be amended according to the terms set forth below to be effective July 1, 2015.

Please use the key below when reading this document:

<u>Underlining</u>	<i>Added to the existing collective bargaining agreement</i>
[Single boldface brackets]	<i>Deleted from the existing collective bargaining agreement</i>
* * *	<i>Existing language unchanged by the parties</i>

* * *
Article 6
Annual Leave
* * *

Section 6.16 Leave Slots for Fire & Explosives Investigations Section

For bargaining unit employees assigned to the Fire & Explosives Investigation Section ("FEI) on a shift consisting of two (2) twelve (12)-hour days, two (2) twelve (12)-hour nights and four (4) days off, beginning 1/1/16 there shall be two (2) twelve (12)-hour leave slots per shift. Bargaining unit employees assigned to FEI and to this shift schedule shall select vacation leave, beginning with CY2016 leave, at a time and in a manner consistent with the existing vacation leave pick procedure applicable to field operations employees; however, FEI employees shall not compete for vacation leave with employees outside of FEI. Leave slots that are not selected for vacation leave shall be available for casual leave selection by FEI employees.

* * *
Article 10
Disability Leave
* * *

Section 10.2 Disability Leave
A. Eligibility

An employee who is temporarily disabled in the line of duty and unable to perform normal duties or an alternate duty assignment must be paid [the difference between normal County salary and the amount received under the workers' compensation law] full salary continuation in the form of disability leave for a maximum period of eighteen (18) months of temporary disability, except as set for in 10.3 (b). During the covered period of temporary disability, [the Employer will adjust the employee's gross salary to account for the favorable tax treatment of the Workers' Compensation disability pay. Under] under no circumstances will the employee's [adjusted] net pay be less than 100 percent of the net pay that he or she received prior to disability designation. After 18 months, if the employee remains temporarily disabled he/she may use accrued sick, annual or compensatory time to make up the difference between workers' compensation benefits and full salary. When incapacitated for regular work assignments, the employee must be required to accept other work assignment for the period of recuperation if found physically capable or be ineligible for disability leave. The ability of the employee to work will be determined by the County's Medical Examiner or such physician authorized by the Chief Administrative Officer.

* * *

Article 17
Special Duty Differentials

* * *

Section 17.1 Disposition of Assignment Pay Differentials

* * *

B. Self Contained Breathing Apparatus Technician, Air Compressor Technicians and Meter Technicians

Assignment: \$1,837

Effective the first pay period beginning on or after July 1, 2014, increase the Self Contained Breathing Apparatus Technician Special Duty Pay Differential to \$2,037. Effective the first full pay period beginning on or after July 1, 2015, implement a Special Duty Pay Differential for Air Compressor Technicians and Meter Technicians in the amount of \$2,037.

* * *

[Section 17.4 Impact of Pay Differential on Other Compensation and Benefits

The assignment pay differentials listed above in section 17.1 and the special pay and hourly differentials listed above in section 17.2, shall be included in the employees' base pay for the purposes of computing overtime rates, any existing overtime cap and retirement. Amounts received as working out of class pay and multilingual and sign language pay differential in section 17.3 shall also be included in the employees' base pay for the purposes of computing overtime rates, any existing overtime cap and retirement. Employees eligible for Hazardous

Materials Response Team certification pay in section 17.1 subsection A will be paid in a lump sum, once a year and such pay will not be factored into computing overtime and retirement.]

Section 17.4 Impact of Special Pay Differential on Other Compensation and Benefits

The assignment pay differentials listed above in section 17.1, special pay differentials listed above in section 17.2 [given as assignment pay], amounts received as working out of class pay and multilingual and sign language pay differential in section 17.3 shall be added to the employees' base pay and shall be factored in when computing overtime rates, any existing overtime cap and retirement. Employees eligible for certification pay for one of the above differentials will be paid in a lump sum, once a year and such pay will not be factored into computing overtime and retirement.

* * *
Article 19
Wages

Section 19.1 Wage Increase

* * *
D. Effective the first full pay period on or after July 1, 2015, the base salary for all bargaining unit members shall be increased by 2.0 percent.

Section 19.2 Salary Schedule

A. Bargaining unit employees shall be paid a base salary pursuant to the uniform pay plan for the fiscal year, which appears in Appendix I, [and] II, and III of this Agreement. For employees scheduled to work a 48 hour workweek (per Article 23.1) the base salary is considered compensation for working 48 hours per week.

* * *
D. Effective at the beginning of the first full pay period beginning on or after July 1, 2010, a Step P will be added at a rate 3.5% greater than the current Step O. All employees will then receive one service increment increase. The existing Step A will then be removed from the schedule, and the remaining 15 steps will be re-lettered A through O. This pay plan adjustment, which the County Council elected not to fund in FY 2011, shall be postponed through FY2015. Such pay plan adjustment shall be a subject of the reopener for FY2016. As agreed to by the parties in the reopener negotiations, this pay plan adjustment shall continue to be postponed through FY 2016.

* * *
Article 55
Service Increments

* * *
Section 55.8 Postponement of Service Increments

Section 55.8 Postponement of Service Increments

Service increments that eligible bargaining unit employees were scheduled to receive in Fiscal Year 2011 pursuant to the 7/1/08 - 6/30/11 Collective Bargaining Agreement but which the County Council elected not to fund for FY 2011 shall be granted during the pay period beginning April 6, 2014. Similarly, the FY 2012 service increments that eligible bargaining unit employees would have otherwise received in Fiscal Year 2012 in accordance with this Article 55 shall be granted to eligible bargaining unit employees during the pay period beginning June 14, 2015. The FY 2013 increment that eligible bargaining unit employees would have received in Fiscal Year 2013 shall be postponed during FY2014 and 2015. The FY 2013 service increment shall be a subject of the re-opener for the 3rd year of the contract as described in Article 50. As agreed to by the parties in the reopener negotiations, the FY 2013 service increment shall continue to be postponed during FY 2016. However, no bargaining unit employee shall lose service credit for purposes of progression within the uniform pay plan.

Effective July 1, 2013, eligible bargaining unit employees shall receive an annual service increment on their anniversary date as described in this Article.

* * *

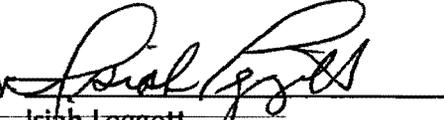
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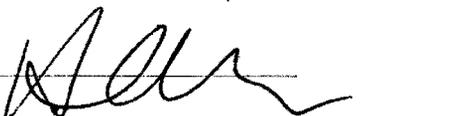
IN WITNESS WHEREOF, the parties hereto have caused their names to be subscribed by their duly authorized officers and representatives this ___ day of March 2015.

Montgomery County Career Fire Fighters,
International Association of Fire Fighters,
Local 1664, AFL-CIO

Montgomery County Government
Montgomery County, Maryland

By: 
Jeffrey Buddle
President

By: 
Isiah Leggett
County Executive


Approved for form and legality
County Attorney


Scott Goldstein
Acting Fire Chief

Summary of Proposed Labor Agreement with IAFF Effective FY 2016

No.	Article	Subject	Summary of Change	Requires Appropriation of funds	Present or Future Fiscal Impact	Requires Legislative Change	Requires Regulation Change	Notes
1	6.16	Leave slots for Fire & Explosives Investigations Section	Beginning 1/1/2016, bargaining unit employees assigned to the Fire & Explosives Investigation Section (FEI) on a shift consisting of 2-twelve hour days, 2-twelve hour nights and 4 days off shall have 2-twelve hour leave slots per shift to select leave slots consistent with existing vacation pick procedures. FEI employees will not compete for vacation leave with employees outside of FEI. Slots not selected for vacation leave shall be available for casual leave selection by FEI employees.	No	Yes	No	No	Estimated Cost Reduction - See Fiscal Impact Statement
2	10.2	Disability Leave Eligibility	Disability leave will be paid as full salary continuation	No	No	No	No	
3	17.1	Assignment Pay Differentials	Effective 7/1/2015, Air Compressor Technicians and Meter Technicians are eligible to receive a \$2,037 special duty differential	Yes	Yes	No	No	See Fiscal Impact Statement
4	17.4	Impact of Special Pay Differentials	Clean up of duplicated language	No	No	No	No	
5	19.1	Wage Increase	2.0% increase to base salary effective the first full pay period on or after July 1, 2015	Yes	Yes	No	No	See Fiscal Impact Statement
6	19.2	Salary Schedule	The FY2011 pay plan adjustment shall continue to be postponed through FY2016	No	No	No	No	
7	55.8	Service Increments	The postponed FY13 service increment shall continue to be postponed in FY16	No	No	No	No	

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**Montgomery County Career Fire Fighters Association, Inc
International Association of Fire Fighters, Local 1664
Fiscal Impact Summary***

<u>Article</u>	<u>Item</u>	<u>Description</u>	<u>Annual Cost</u>	
			<u>FY16</u>	<u>Beyond FY16</u>
6.16	Leave Slots	Leave Slots for the Fire & Explosives Investigation Section	-\$13,100	-\$13,100
17.1	Special Duty Differentials	Assignment Pay Differentials for Meter Technicians and Air Compressor Technicians at \$2,037**	\$12,096	\$12,096
19.1	Wages	2 Percent General Wage Adjustment in July 2015	\$2,387,598	\$2,387,598
19	Longevity	Longevity Step Increases of 3.5 Percent for Eligible Employees	\$97,007	\$157,821
55	Service Increments	Service Increment of 3.5 Percent for Eligible Employees	\$982,053	\$1,909,740
Total			\$3,465,654	\$4,454,156

**Fire and Rescue Uniformed Management Pass-Through
Estimates*****

<u>Item</u>	<u>Description</u>	<u>Annual Cost</u>	
		<u>FY16</u>	<u>Beyond FY16</u>
Wages	2 Percent General Wage Adjustment in FY15	\$151,895	\$151,895
Longevity	Longevity Step Increases of 3.5 Percent for Eligible Employees	\$16,186	\$38,360
Total		\$168,081	\$190,255

* Estimates reflect the impact to all funds. Increases apply in the first full pay period during the month noted.
 ** For a complete list of special duty differential increases, please refer to the Collective Bargaining - Fire and Rescue Bargaining Unit section of the chapter.
 *** No Fire and Rescue Uniformed Management is currently eligible to receive a service increment in FY16.

FY16 COUNCIL DECISION CHART FOR COLLECTIVE BARGAINING AGREEMENTS

General Wage Adjustments

	Provision	Agreement	Executive's Budget	Committee Decision	FY16 Fiscal Impact
1A	MCGEO GWA	2% on 7-1-15	2% on 7-1-15	Approve 3-0	\$6,751,208
1B	FOP GWA	2% on 7-1-15	2% on 7-1-15	Approve 3-0	\$2,595,501
1C	IAFF GWA	2% on 7-1-15	2% on 7-1-15	Approve 3-0	\$2,387,598

Service Increments

	Provision	Agreement	Executive's Budget	Committee Decision	FY16 Fiscal Impact
2A	MCGEO FY16 Service Increments	3.5%	3.5%	Approve 3-0	\$3,628,623
2B	FOP FY16 Service Increments	3.5%	3.5%	Approve 3-0	\$1,541,890
2C	IAFF FY16 Service Increments	3.5%	3.5%	Approve 3-0	\$982,053

Longevity Increments

	Provision	Agreement	Executive's Budget	Committee Decision	FY16 Fiscal Impact
3A	MCGEO Longevity Increments	3%	3%	Approve 3-0	\$88,981
3B	FOP Longevity Increments	3.5%	3.5%	Approve 3-0	\$74,348
3C	IAFF Longevity Increments	3.5%	3.5%	Approve 3-0	\$97,007

Tuition Assistance

	Provision	Agreement	Executive's Budget	Committee Decision	FY16 Fiscal Impact
4A	MCGEO Tuition Assistance	50% of funds appropriated for employees other than FOP (\$150,000)	\$150,000	Approve 3-0	\$150,000
4B	FOP Tuition Assistance	\$135,000 cap	\$135,000 cap	Approve 3-0	\$135,000
4C	IAFF Tuition Assistance	\$1830 per person for FY16	\$150,000	Approve 3-0	Sharing \$150,000

Shift or Special Duty Differentials

	Provision	Agreement	Executive's Budget	Committee Decision	FY16 Fiscal Impact
5	New IAFF Special Duty Differentials – Air Compressor Techs & Meter Techs	\$2037	\$2037	Approve 3-0	\$12,096

GRIP Election/RSP Annuity

	Provision	Agreement	Executive's Budget	Committee Decision	FY16 Fiscal Impact
6A	MCGEO – Change Default Election for new hires to GRIP – Bill 20-15	Change to GRIP	Change to GRIP	Approve 3-0	\$10,000
6B	MCGEO – RSP Annuity Option – Bill 20-15	RSP Annuity Option	RSP Annuity Option	Approve 3-0	\$10,000

Group Insurance Benefits

	Provision	Agreement	Executive's Budget	Committee Decision	FY16 Fiscal Impact
7A	MCGEO Group Insurance	80% County share	75% County Share except HMO per side letter	Reject 3-0	Similar to FY15
7B	FOP Group Insurance	80% County share	75% County Share except HMO per side letter	Reject 3-0	Similar to FY15
7C	IAFF Group Insurance	80% County share	80% County Share except HMO	Reject 3-0	\$622,000 more than FY15

Prescription Drug Plan for Medicare-Eligible Retirees

	Provision	Agreement	Executive's Budget	Committee Decision	FY15 Fiscal Impact
7D	EGWP Plus Wrap	70% County share	Move to EGWP plus Wrap	Reject 3-0	(savings of \$900,000 on pay-as-you-go for FY16)

MCGEO DROP

	Provision	Agreement	Executive's Budget	Committee Decision	FY16 Fiscal Impact
8	MCGEO DROP for sheriffs and corrections – Bill 20-15	Establish DROP – Bill 20-15	\$50,000 plus future additional retirement liability	Approve 3-0	\$50,000 year 1 plus \$84,675 to \$253,679 each year after year 1

Higher Annuity Payment Using ERS

Inputs:

- Current Age: 62
- Begin Annuity Age: 62
- Date: 4/1/14
- Account Balance as of 12/31/13: \$100,000

Monthly Annuity Increase Amount:

A Life Only Annuity purchased through the ERS for a GRIP participant resulted in the participant receiving \$57 more dollars per month (over 10% higher).

Annuity Type	Estimated Monthly Annuity Payment		Increased Annuity Amount Provided by ERS vs. RSP Fidelity Network		
	GRIP/ERS Quote	RSP Fidelity* Highest Quote	Monthly	Annually	Over 20 Year Life
Life Only	\$577	\$520	\$57	\$684	\$13,656
J&S 100%	\$507	\$471	\$36	\$432	\$8,635
J&S 50%	\$540	\$494	\$46	\$548	\$10,963

By eliminating fees paid to annuity providers, purchasing an Annuity from the ERS directly results in a higher monthly payment for RSP participants who decide to annuitize their balance at retirement

20 Year Cumulative Annuity Increase:

The same Life Only Annuity would result in an additional \$13,656 paid to the participant over a 20 year time period.

*Fidelity amount is the highest bid from Fidelity's annuity service Network of insurance companies (The Guardian, MassMutual, MetLife, New York Life, and the Principal were the bidders) which is currently used by RSP participants who want to purchase an annuity.



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SHERIFF DARREN M. POPKIN

March 26, 2015

MEMORANDUM

To: Timothy L. Firestine,
Chief Administrative Officer

From: 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 extend 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.

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.

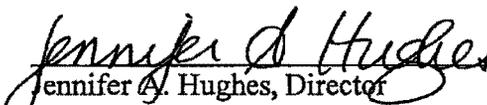
13. Other fiscal impacts or comments.

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, Director
Office of Management and Budget

3/31/15
Date



Gabriel Roeder Smith & Company
Consultants & Actuaries

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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.

Ms. Linda Herman
Montgomery County Employees' Retirement System
March 19, 2015
Page 3

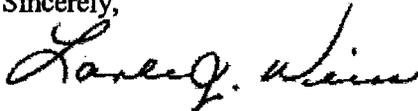
If any of the provisions, underlying data or assumptions used in this analysis appear to be incorrect or unreasonable, please let us know as soon as possible so we can update the analysis.

The signing actuaries are independent of the plan sponsor.

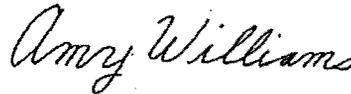
Lance Weiss and Amy Williams are Members of the American Academy of Actuaries (MAAA) and meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion herein.

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

Sincerely,

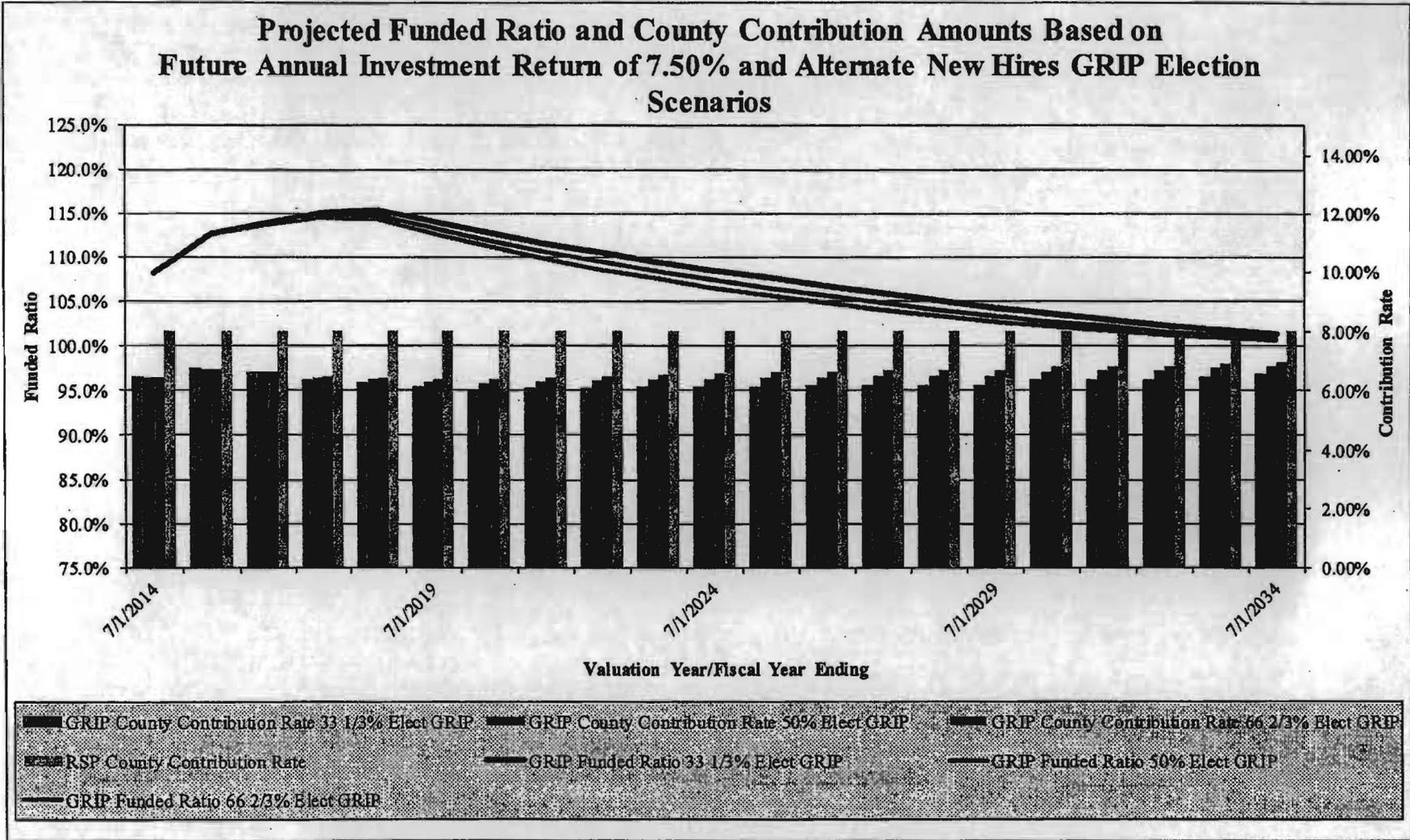


Lance J. Weiss, EA, FCA, MAAA
Senior Consultant
LW/AW:mrb



Amy Williams, ASA, MAAA
Consultant

Graph A



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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	Investment Return	GRIP Active Member Population			GRIP Active Member Payroll			GRIP County Contribution Rate						RSP Payroll			County Contribution Dollars (RSP and GRIP)		
		% of New Hires Elect GRIP			% of New Hires Elect 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%	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%	108.22%	108.22%	108.22%	\$ 203,987	\$ 203,987	\$ 203,987	\$ 22,326	\$ 22,326	\$ 22,326
2015	7.50%	1,346	1,445	1,544	90,508	95,816	101,124	6.72%	6.72%	6.72%	112.66%	112.66%	112.66%	219,042	213,735	208,427	21,913	21,913	21,913
2016	7.50%	1,409	1,581	1,754	97,399	107,121	116,844	6.61%	6.61%	6.61%	113.98%	113.86%	113.73%	234,064	224,341	214,618	23,504	23,430	23,356
2017	7.50%	1,465	1,703	1,942	104,484	118,591	132,699	6.37%	6.43%	6.48%	115.13%	114.83%	114.54%	249,757	235,650	221,542	24,931	24,834	24,742
2018	7.50%	1,516	1,815	2,114	111,923	130,463	149,003	6.25%	6.36%	6.45%	115.39%	114.88%	114.40%	265,716	247,176	228,636	26,512	26,393	26,280
2019	7.50%	1,562	1,916	2,269	119,431	142,458	165,485	6.12%	6.28%	6.40%	114.08%	113.40%	112.78%	281,739	258,712	235,685	28,108	27,965	27,830
2020	7.50%	1,604	2,008	2,413	127,056	154,696	182,336	6.04%	6.24%	6.39%	112.78%	111.96%	111.24%	298,057	270,417	242,778	29,750	29,584	29,427
2021	7.50%	1,641	2,094	2,546	134,749	167,162	199,576	6.06%	6.28%	6.45%	111.60%	110.67%	109.88%	314,557	282,143	249,729	31,542	31,354	31,175
2022	7.50%	1,676	2,173	2,671	142,627	179,999	217,371	6.08%	6.33%	6.50%	110.53%	109.50%	108.66%	331,180	293,808	256,436	33,360	33,147	32,944
2023	7.50%	1,707	2,247	2,786	150,738	193,236	235,735	6.10%	6.36%	6.54%	109.50%	108.42%	107.56%	348,074	305,576	263,077	35,196	34,958	34,728
2024	7.50%	1,736	2,316	2,895	159,090	206,952	254,814	6.12%	6.39%	6.57%	108.55%	107.43%	106.56%	363,114	317,252	269,391	37,065	36,801	36,544
2025	7.50%	1,762	2,379	2,996	167,598	221,003	274,408	6.13%	6.42%	6.61%	107.66%	106.52%	105.67%	382,352	328,947	275,542	38,962	38,669	38,382
2026	7.50%	1,786	2,437	3,089	176,463	235,558	294,654	6.14%	6.45%	6.63%	106.78%	105.66%	104.85%	399,950	340,854	281,759	40,884	40,560	40,242
2027	7.50%	1,808	2,492	3,176	185,670	250,689	315,707	6.15%	6.47%	6.65%	105.94%	104.85%	104.10%	417,752	352,734	287,715	42,852	42,498	42,148
2028	7.50%	1,828	2,542	3,256	195,130	266,267	337,404	6.16%	6.48%	6.67%	105.13%	104.10%	103.41%	435,884	364,747	293,610	44,858	44,471	44,087
2029	7.50%	1,847	2,589	3,331	205,012	282,434	359,855	6.17%	6.50%	6.69%	104.33%	103.39%	102.78%	454,361	376,939	299,517	46,907	46,486	46,066
2030	7.50%	1,863	2,631	3,399	215,171	299,074	382,977	6.33%	6.63%	6.80%	103.67%	102.81%	102.27%	473,307	389,404	305,501	49,333	48,881	48,425
2031	7.50%	1,878	2,669	3,461	225,762	316,310	406,857	6.35%	6.65%	6.82%	103.02%	102.26%	101.80%	493,086	402,538	311,990	51,526	51,036	50,542
2032	7.50%	1,892	2,705	3,517	236,746	334,121	431,495	6.35%	6.66%	6.83%	102.39%	101.74%	101.36%	513,441	416,067	318,692	53,791	53,262	52,728
2033	7.50%	1,904	2,737	3,569	248,014	352,431	456,848	6.47%	6.75%	6.90%	101.84%	101.30%	101.00%	534,500	430,084	325,667	56,391	55,824	55,249
2034	7.50%	1,916	2,767	3,617	259,776	371,425	483,073	6.56%	6.81%	6.95%	101.35%	100.92%	100.69%	556,136	444,487	332,839	59,029	58,421	57,802

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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%

Exhibit B

Rates of disability were as follows:

<u>Age</u>	<u>GRIP</u>	
	<u>Male</u>	<u>Female</u>
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:

<u>Age</u>	<u>GRIP</u>
	<u>Rate</u>
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%

Exhibit B

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.

Age	Healthy Mortality				Disabled Mortality			
	Mortality Rate		Future Life Expectancy (years)		Mortality Rate		Future Life Expectancy (years)	
	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.

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



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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).

Summary of Results

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:

<u>Group and Scenario</u>	<u>Increase in first year costs</u>	
	<u>Funding</u> ¹	<u>Accounting</u> 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.)
 - 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.

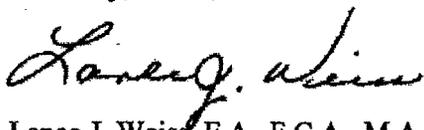
Ms. Linda Herman
Montgomery County Employees' Retirement System
Page 4

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, 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

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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**	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	2,635,300	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 (Includes Retirement Incentive)	11	16	5	15	4	28	17
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 % (Includes Retirement Incentive)	31.98%	32.93%	0.95%	32.51%	0.53%	34.30%	2.32%
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 MCOBO	Total Group E	Total ERS	% of Payroll	Uniformed MCOBO	Total Group E	Total ERS	% of Payroll	Uniformed MCOBO	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%)
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	
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

<u>Group E</u>			
	<u>Valuation as of July 1, 2014</u>	<u>Impact - DROP Scenario 1</u>	<u>Impact - DROP Scenario 2</u>
County Contribution Requirement (\$)			
<u>(Includes Retirement Incentive)</u>			
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)			
<u>(Excludes Retirement Incentive)</u>			
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)			
<u>(Includes Retirement Incentive)</u>			
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

Age	Valuation Rates		Drop Scenario 1 Group E		Drop Scenario 2	
	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							Total
	Non-Public Safety		Public Safety					
	Group A	Group H	Uniformed MCCEO*	Total Group E	Group F	Group G	GRIP	
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 MCCEO members in the data provided were not active members as of July 1, 2014, and therefore were not included in this analysis.



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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).

Summary of Results

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	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.

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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.

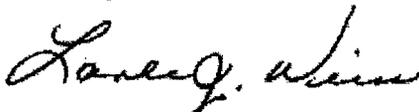
If any of the provisions, underlying data or assumptions used in this analysis appear to be incorrect or unreasonable, please let us know as soon as possible so we can update the analysis.

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, 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

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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 (Includes Retirement Incentive)	6	11	5	10	4	21	15
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 % (Includes Retirement Incentive)	31.98%	32.42%	0.44%	32.30%	0.32%	33.30%	1.32%
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-MC/GE	Total Group E	Total ERS	% of Payroll	Uniformed Non-MC/GE	Total Group E	Total ERS	% of Payroll	Uniformed Non-MC/GE	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.

Cost Impact of DROP – Scenario 2 Retirement Rates

	Valuation as of July 1, 2014				Impact - DROP Scenario 2				Change			
	Uniformed		Total ERS	% of Payroll	Uniformed		Total ERS	% of Payroll	Uniformed		Total ERS	% of Payroll
	Non-MCCEO	Total Group E			Non-MCCEO	Total Group E			Non-MCCEO	Total Group E		
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	\$ 10,324,999	\$ 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

<u>Group E</u>			
	<u>Valuation as of July 1, 2014</u>	<u>Impact - DROP Scenario 1</u>	<u>Impact - DROP Scenario 2</u>
County Contribution Requirement (\$)			
<u>(Includes Retirement Incentive)</u>			
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)
<u>County Normal Cost Contribution Requirement (% of Payroll)</u>			
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)			
<u>(Excludes Retirement Incentive)</u>			
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)			
<u>(Includes Retirement Incentive)</u>			
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

Age	Valuation Rates		Drop Scenario 1 Group E		Drop Scenario 2	
	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					GRIP	Total
	Group A	Group H	Uniformed Non-MCGEO	Total Group E	Group F	Group G			
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	



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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.

Ms. Linda Herman
Montgomery County Employees' Retirement System
Page 2

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.

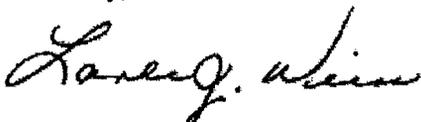
If any of the provisions, underlying data or assumptions used in this analysis appear to be incorrect or unreasonable, please let us know as soon as possible so we can update the analysis.

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, 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

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%	5.50%	6.50%	7.50%	8.50%	9.50%
Example 1	\$302,012.75	\$269,933.60	\$243,334.47	\$221,059.90	\$202,231.88	\$186,176.84
Example 2	\$293,010.58	\$265,907.48	\$242,840.69	\$223,067.66	\$206,001.80	\$191,176.48
Example 3	\$300,952.47	\$274,966.73	\$252,649.94	\$233,356.27	\$216,570.67	\$201,879.55
Example 4	\$285,124.95	\$265,166.21	\$247,528.16	\$231,871.45	\$217,914.29	\$205,421.57



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 new 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.



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.

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montgomerycountymd.gov/311



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Memorandum

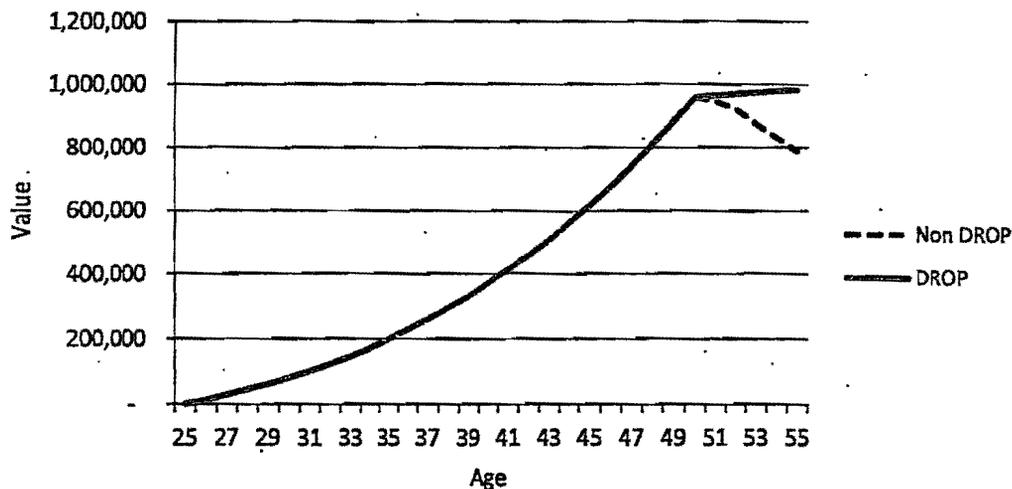
To: Steve Farber
From: Tom Lowman & Kevin Binder
Date: April 8, 2015
Re: Group E DROP Proposal

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 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.

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 retire¹. 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 Paper² 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.cactuaries.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.

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.

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 $\$13,000 \times 5 = \$65,000$ 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 Date¹ 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.

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

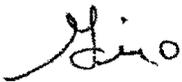
Dear President,

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 Renne
President, UFCW Local 1994
IVP, UFCW International

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

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