M E M O R A N D U M

March 17, 2011

TO: Councilmembers

FROM: Aron Trombka, Senior Legislative Analyst
Leslie Rubin, Legislative Analyst
Office of Legislative Oversight

SUBJECT: Follow-up to OLO Report on Achieving a Structurally Balanced Budget: Additional Information about Current Retirement Benefits

This memorandum responds to Councilmember Elrich s request for additional information about retirement plan benefits currently provided to employees of the County Government and Montgomery County Public Schools (MCPS). It is organized as follows:

- Part A provides an overview of defined benefit, defined contribution, and hybrid retirement plans;
- Part B summarizes the current retirement plans for County Government and MCPS employees;
- Part C presents calculations of the income from retirement benefits for four hypothetical examples of employees who elect to retire on July 1, 2011; and
- Part D contains a series of questions and answers that explain the different retirement benefit amounts illustrated by the examples presented in Part C.

In sum, the primary factors that drive the amount of an employee s retirement benefits are the structure of the retirement plan the employee belongs to and the amount of time an employee has been enrolled in the plan.

A. Overview of Defined Benefit, Defined Contribution, and Hybrid Retirement Plans

Defined Benefit Plans. A defined benefit plan provides a retired employee with a sum of money paid regularly as a retirement benefit (i.e., a pension) from the time of retirement until death. A retiree s annual pension is determined by a formula that takes into account the employee s final earnings, years of service,[1] and a pension multiplier. [2] In addition, defined benefit plans often include a provision to annually increase the dollar amount of the pension (post-retirement) with a cost-of-living adjustment (COLA).

[1] Defined benefit plans often allow members to count earned sick leave toward their years of service for retirement purposes.

[2] A pension multiplier is the percent of wages used to calculate an annual pension.

To fund defined benefit plans, employers make annual contributions into a retirement trust fund[3] based on the projected funding needed to pay promised pensions to both current and future retirees. Plans often require employees to contribute a set percent of salary each year to help fund their future retirement benefits. The money in the retirement trust fund is managed by the employer (often at the direction of an independent board). A combination of employee contributions, employer contributions, and the trust fund s investment earnings pay for employees pensions.

In defined benefit plans, employees are required to work a minimum number of years before they become eligible to receive a pension (called vesting). If an employee separates from the employer before vesting, the employer typically refunds the employee s contributions to the plan. If an employee vests but separates from the employer before qualifying for retirement, typically the employee can either receive a refund of his or her own contributions plus interest or receive a pension at a later date when the employee <u>would have been</u> eligible for retirement from the employer.

Defined benefit plans place the financial risk for funding pensions on the employer. The employer remains responsible for paying participating employees an annual pension amount upon their retirement, regardless of the balance in the retirement trust fund.

Factors that Affect Pension Benefits. In most defined benefit plans, the following factors determine the amount of a retiree s annual pension:

- <u>Final salary</u>: An employee s final salary is one of the three main components in calculating a pension.
- <u>Multiplier</u>: The multiplier, which reflects a percent of wages used to calculate an annual pension, is the second of the three main pension formula components.
- <u>Length of service</u>: The length of an employee s service with an employer is the third of the three pension formula components.
- <u>Social Security integration</u>: Social security integration refers to whether a pension plan lowers the pension amount that a retiree collects when the retiree reaches Social Security retirement age (SSRA). In an integrated plan, the pension amount decreases when an employee reaches SSRA. In a non-integrated plan, the pension amount does not decrease.

The equation below shows one example of how an employee s final salary and years of service are combined with a multiplier to calculate the amount of an employee s pension.

Final Earnings	x	Multiplier	x	Years of Service	=	Annual Pension
$70,000	x	2%	x	30	=	$42,000

Defined Contribution Retirement Plans. In a defined contribution plan, an employee contributes a set percent of his or her salary to a retirement account. Often an employer also will make contributions to the employee’s retirement account – either contributing a set percent of an employee’s salary or matching a percent of an employee contribution. The employee guides investment of the funds in the retirement account and bears the entire risk of changes in investment returns. The employer’s financial responsibility ends after making any required contribution to an employee’s retirement account.

[3] The amount of the annual contribution required by the employer typically is determined by an actuary.

Unlike defined benefit plans, defined contribution plans are portable. This means that upon separation, employees can take retirement funds in a defined contribution plan with them and transfer the funds to a new retirement account. Upon retirement, the employee's benefit is the total of the employee and employer contributions and any investment income earned on the joint contributions.

Factors that Affect Defined Contribution Retirement Benefits. The following factors determine how much money an employee will accumulate in a defined contribution retirement account.

- Annual salary: Employer and employee contributions to defined contribution plans are often calculated as a percent of an employee's annual salary.
- Employer/employee contribution rate: Employer and employee contribution rates determine the amount of money (e.g., percent of salary) deposited annually into an employee's retirement account.
- Length of service: Length of service affects both the total amount contributed to an employee's retirement account and the length of time to earn investment income for the account.
- Investment choices and market performance: The size of a defined contribution account is a function of the market return of the investment choices selected by the employee.

Hybrid Plans. Hybrid plans have characteristics of both defined benefit and defined contribution plans. Some hybrid plans have a defined benefit component and a defined contribution component, while others have different structures entirely. With a hybrid retirement plan, the financial risk is shared between the employer and the employee, with the specific division of risk varying by the details of the funding and benefit structure of the hybrid plan.

B. Summary of County Government and MCPS Retirement Plans

1. County Government.

The County Government provides all three types of retirement plans, and County law outlines which employees are covered by which plans. The table below summarizes each plan and the employees covered. Participation is required for full-time employees, and optional for part-time employees.

Summary of County Government Retirement Plans

Retirement Plan	Plan Type	Active Members*	Covered Employees
Employees' Retirement System (ERS)	Defined Benefit	4,635	• Employees hired before October 1, 1994 • Represented public safety employees regardless of date of hire
Employees' Retirement Savings Plan (RSP)	Defined Contribution	3,272	• Non-public safety employees hired on or after October 1, 1994 • Non-represented public safety employees hired on or after October 1, 1994
Guaranteed Retirement Income Plan (GRIP)	Hybrid	942	

* This is the number of active MCG employees enrolled in the retirement plan as of October 2010.

Employees Retirement System (ERS) Defined Benefit. As shown in the table above, employees hired before October 1, 1994 and all represented public safety employees belong to the County Government s defined benefit pension plan. These employees are divided into seven different pension groups determined by their bargaining unit and date of hire. Each group has a separate set of variables used to calculate pensions (e.g., multiplier, average final salary, etc.) and different requirements for retirement eligibility (combination of age and/or years of service).

The ERS is integrated with Social Security, meaning that retirees receive a smaller pension (determined by a formula that varies by group) once they reach Social Security retirement age. The County Government s Board of Investment Trustees manages and invests ERS funds.

Retirement Savings Plan (RSP) – Defined Contribution. The County Government opened its defined contribution plan in 1994 when it closed its defined benefit plan to non-public safety and non-represented employees hired after October 1, 1994. For most employees in the RSP, the County currently contributes 8% of salary and the employee contributes 4% of salary annually.[4] Employees in this plan direct the investment of the funds in their retirement account and can take their funds with them when they leave County Government service.

Guaranteed Retirement Income Plan (GRIP) – Hybrid. The County Government created its hybrid plan, the GRIP, in 2009. The GRIP is open to all employees who are eligible for the RSP. New hires must choose between the two plans and existing RSP members were given a one-time option to transfer to the GRIP.

Like the RSP defined contribution plan, the County currently contributes 8% of salary and the employee contributes 4% of salary to an employee’s GRIP account for most employees. Like a defined benefit plan, the County guarantees a fixed rate of return (currently 7.25% annually) on funds in employees GRIP accounts. If GRIP investments earn less than the guaranteed return annually, the County is responsible for making up the difference. Investments that earn more than the guaranteed return offset part of the cost of the County’s annual contribution to the GRIP accounts.

Summary of Retirement Plan Factors. The table on the next page summarizes the key provisions that determine the amount of pension/retirement benefits for the different County Government s retirement plans.

[4] A small number of non-represented public safety employees participate in the RSP and GRIP. For these employees, the County contributes 10% of the employee’s salary and the employee contributes 3%.

Summary of County Government Retirement Plans:
Key Provisions that Determine the Amount of an Employee's Pension/Retirement Benefit

<table>
<tr><th colspan="8">Defined Benefit Plans</th></tr>
<tr><th rowspan="2"></th><th colspan="2">FY11 Contribution (percent of salary)</th><th colspan="2">Minimum Age / Years of Service</th><th rowspan="2">Multiplier</th><th rowspan="2">Final Salary Calculation</th><th rowspan="2">Social Security Integration</th></tr>
<tr><th>Employee</th><th>Employer</th><th>Any Age</th><th>Or</th></tr>
<tr><td>Non-public safety hired pre 10-1-94</td><td>4%</td><td>24.9%</td><td>30 years</td><td>60 years old/
5 years of service</td><td>2.0%</td><td rowspan="4">Average of highest 3 consecutive years</td><td rowspan="4">Integrated for employees hired after July 1, 1978</td></tr>
<tr><td>Police</td><td>4.75%</td><td>31.9%</td><td>25 years</td><td>55 years old/
15 years of service</td><td>2.4%</td></tr>
<tr><td>Deputy Sheriff/Corrections</td><td>4.75%</td><td>35.85%</td><td>25 years</td><td>55 years old/
15 years of service</td><td>2.4%</td></tr>
<tr><td>Fire</td><td>5.5%</td><td>38%</td><td>20 years</td><td>55 years old/
15 years of service</td><td>2.5%</td></tr>
</table>

<table>
<tr><th colspan="3">Defined Contribution Plan / Hybrid Plan</th></tr>
<tr><th rowspan="2">Employees hired on or after October 1, 1994</th><th colspan="2">FY11 Contribution (percent of salary)</th></tr>
<tr><th>Employee</th><th>Employer</th></tr>
<tr><td>Non-Public Safety</td><td>4%</td><td>8%</td></tr>
<tr><td>Non-Represented Public Safety</td><td>3%</td><td>10%</td></tr>
</table>

Source: Montgomery County Code Chapter 33; Montgomery County Employees Retirement System 2009 Actuarial Valuation Report

2. Montgomery County Public Schools

All MCPS employees participate in a defined benefit retirement plan. Approximately three quarters of MCPS employees participate in a defined benefit plan funded and administered by the State of Maryland. All other MCPS employees participate in a locally-funded defined benefit plan that is identical to the State plan. MCPS refers to these plans (whether State-funded or MCPS-funded) as the employees Core Pension.

In addition to the Core Pension, State law requires MCPS to provide a Pension Supplement to employees in the State pension plan.[5] MCPS provides the Pension Supplement to all MCPS employees, regardless of whether they are in the State- or locally-funded plan. The Pension Supplement that MCPS provides is 150% higher than required by State law. The Core Pension multiplier of 1.8% combined with the 0.2% Pension Supplement provides MCPS employees with an overall 2.0% pension multiplier.

The table below summarizes the key factors that determine the amount of an MCPS employee s pension benefits.

Summary of MCPS Pension Plans:
Key Provisions that Determine the Amount of an Employee s Pension*

Core pension paid by…	Active Employees+	FY11 Contribution (percent of salary)		Minimum Age / Years of Service		Multiplier	Final Salary Calculation	Social Security Integration
		Employee	MCPS	Any Age	Or			
State	16,923	5.5%	1.92%	30 years	60 years old/ 5 years service	2%	Average of highest 3 consecutive years	Non-Integrated for service after 7-1-98
MCPS	4,956	5.5%	20.49%					

* For employees hired on or after July 1, 1998
\+ This is the number of active MCPS employees enrolled in the pension plan as of September 2010
Source: MCPS *Understanding Your Retirement* (October 2009)

C. Income from Retirement Benefits – Four Examples

OLO calculated the pension/retirement income that four <u>hypothetical employees</u> who elect to retire on July 1, 2011 would receive under current retirement plan designs. OLO calculated retirement benefit income for one MCPS employee and three County Government employees (listed below) who were chosen to illustrate (1) differences between MPCS and County Government pension plans, (2) the impact on retirement income from retiring after 20 years compared to 30 years, and (3) the difference in retirement income from a defined benefit plan compared to a defined contribution plan.

Example (1): MCPS Teacher with Master's Degree and 30 years of service
Example (2): Master Firefighter with 30 years of service
Example (3): Firefighter III with 20 years of service
Example (4): Child Welfare Case Worker with 30 years of service

To calculate the income from retirement benefits, OLO needed to make certain assumptions about the hypothetical employees. For the four calculations, OLO assumed the employees:

- Had similar starting salaries;
- Began employment with the agency (County Government or MCPS) at age 24; and
- Retired at the maximum salary for their grade.[6]

[5] State law requires MCPS to provide a Pension Supplement of a 0.08% multiplier. MCPS adds an additional 0.12%, for a total multiplier of 0.2%. Montgomery County is the only Maryland county required to supplement State teacher pensions.

[6] Based on past pay adjustments, employees who work in the same job class until they are eligible for normal retirement will have reached the maximum salary for that grade.

In addition, the calculations:

- Assume Social Security benefit amounts based on the scenario that a retiree does not take another paid job after leaving County service and will be eligible for benefits beginning at age 62; and
- Present all dollar amounts in pre-tax, current year dollars.

With the exception of the Firefighter III example, OLO calculated benefits for an employee who retired after 30 years of service. Because firefighters are eligible for normal retirement after 20 years of service,[7] OLO calculated the retirement benefits for a Firefighter III who served 20 years.

A complete list of assumptions used to calculate retirement benefit income appears on page 11. Of course, changing the assumptions would alter the calculations.

Example (1): Teacher with Master's Degree. Teachers participate in the State retirement system and receive a supplemental pension benefit from MCPS. As shown in the table below, a teacher who retires after 30 years of service on July 1, 2011, would receive an annual pension equal to 48.5%[8] of average final salary.[9] At the current maximum salary of $96,966, the teacher would retire with an annual pension of $47,009.

At age 62, the retiree would begin receiving an annual Social Security benefit of $17,724. Because MCPS' pensions do not integrate with Social Security, the Teacher receives a Social Security benefit of $17,724 in addition to his/her annual pension of $47,009, for a total retirement benefit of $64,733. Under current law, the Teacher's pension and Social Security benefits are both adjusted annually to account for inflation.

Annual Pension Payments for an MCPS Teacher with Master's Degree
Retiring at Maximum Salary in July 2011
(Current Year $)

Years of Service	30
Age at Retirement	54
Final Salary	$96,966
Annual Retirement Benefit (until age 62)	**$47,009**
Pension	$47,009
Social Security	$0
Annual Retirement Benefit (age 62+)	**$64,733**
Pension	$47,009
Social Security	$17,724

The table above shows that the amounts of the annual pension ($47,009) and of the Social Security benefit ($17,724) remain constant over time. The amounts remain constant because they are shown in current year dollars and OLO assumed that future cost of living adjustments will approximate the future rate of inflation, canceling each other out. For example, future cost of living adjustments will raise the Teacher s annual pension income above $47,009. However, the increases will be offset by inflation, keeping the value of future payments equal to $47,009 when measured in current year dollars.

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[7] Firefighters at age 55 or older are eligible for normal retirement with 15 years of service.

[8] Teachers receive an annual pension equal to 1.28% of average final salary for each year of service before FY99 and 2.00% of average final salary for each year of service from FY99 onward.

[9] Average final salary equals the mean of the employee s highest three consecutive years of salaries.

Example (2): Master Firefighter. Firefighters participate in the County Government s Employees Retirement System. After 30 years of service, a firefighter receives an annual pension equal to 70% of his/her average final salary. At the current maximum Master Firefighter salary of $87,422, the employee would retire with an annual pension of $58,382.

Because the County Government's pension integrates with Social Security, when the retired Master Firefighter reaches age 62, s/he will receive a Social Security benefit of $17,028 and will receive a reduced pension of $40,138 per year. Under current law, the Master Firefighter's pension and Social Security benefits are both adjusted annually to account for inflation.

Annual Pension Payments for Master Firefighter Retiring at Maximum Salary in July 2011 (Current Year $)

Years of Service	30
Age at Retirement	54
Final Salary	$87,422
Annual Retirement Benefit (until age 62)	**$58,382**
Pension	$58,382
Social Security	$0
Annual Retirement Benefit (age 62+)	**$57,166**
Pension	$40,138
Social Security	$17,028

The amounts of the annual pre-Social Security ($58,382) and post-Social Security pensions ($40,138) as well as the Social Security benefit ($17,028) remain constant over time. The amounts remain constant because they are shown in current year dollars and OLO assumed that future cost of living adjustments will approximate the future rate of inflation, canceling each other out. For example, future cost of living adjustments will raise the Master Firefighter s annual pre-Social Security pension income above $58,382. However, the increases will be offset by inflation, keeping the value of future payments equal to $58,382 when measured in current year dollars.

Example (3): Firefighter III. Firefighters who retire after 20 years of service receive an annual pension equal to 50% of average final salary. At the current maximum Firefighter III salary of $74,272, the employee would retire with an annual pension of $37,318.

Because the County Government's pension integrates with Social Security, when the retired Master Firefighter reaches age 62, s/he will receive a Social Security benefit of $12,336 and will receive a reduced pension of $25,656 per year. Under current law, the Firefighter's pension and Social Security benefits are both adjusted annually to account for inflation.

Annual Pension Payments for Firefighter III
Retiring at Maximum Salary in July 2011
(Current Year $)

Years of Service	20
Age at Retirement	44
Final Salary	$74,272
Annual Retirement Benefit (until age 62)	**$37,318**
Pension	$37,318
Social Security	$0
Annual Retirement Benefit (age 62+)	**$37,992**
Pension	$25,656
Social Security	$12,336

The amounts of the annual pre-Social Security ($37,318) and post-Social Security pensions ($25,656) as well as the Social Security benefit ($12,336) remain constant over time. The amounts remain constant because they are shown in current year dollars and OLO assumed that future cost of living adjustments will approximate the future rate of inflation, canceling each other out. For example, future cost of living adjustments will raise the Firefighter s annual pre-Social Security pension income above $37,318. However, the increases will be offset by inflation, keeping the value of future payments equal to $37,318 when measured in current year dollars.

Example (4): Child Welfare Case Worker (Grade 23). Non-public safety County Government employees hired since 1994 participate either in the Retirement Savings Plan (RSP) of the Guaranteed Retirement Income Plan (GRIP). RSP and GRIP participants do not receive an annual pension. Instead, the County Government and the employee both make annual contributions to a retirement account. Currently, the County Government annually contributes 8% of salary and the employee contributes 4% of salary to the employee's RSP or GRIP retirement account.

The current maximum salary for a Grade 23 County Government employee is $88,027. In this example, the Child Welfare Case Worker participated in the GRIP and received an annual guaranteed return of 7.25% for the entirety of his/her County employment.[10] Under current terms of the GRIP, the Child Welfare Case Worker would have accumulated a retirement account balance of more than $536,000 by the end of his/her 30 years of service.

In addition, the retiree would be eligible for a Social Security benefit of $17,076 per year beginning at age 62. The receipt of Social Security benefits does not alter the retirement benefit for employees in the RSP or GRIP.

Retirement Account Balance for Child Welfare Case Worker
Retiring at Maximum Salary in July 2011
(Current Year $)

Years of Service	30
Age at Retirement	54
Final Salary	$88,027
Social Security Benefit (age 62+)	$17,076
Retirement Account Balance	$536,132

A table summarizing the income from retirement benefits for the four positions appears on the following page. The assumptions used in the calculations are listed below the table. The table on the following page also includes a present value calculation of the retirement income for each of the four employee examples (see question #4 on page 13).

[10] Neither the RSP nor the GRIP existed 30 years ago. A Child Welfare Case Worker (or other non-public safety County Government employee) who retires in July 2011 after 30 years of service would receive a pension as a member of the Employees Retirement System (ERS). The County closed the ERS to non-public safety and non-represented employees hired since 1994 and the majority of current non-public safety County Government employees participate in the RSP or GRIP.

The Child Welfare Case Worker example in this memo is a hypothetical case intended to illustrate the retirement benefit for an employee who retires after 30 years in the GRIP. A similar example for an RSP participant could be calculated based on assumptions of the market performance of the employee s investment selections.

Summary of Income from Retirement Benefits
Four Examples of Employees Retiring at Top of Salary Grade in July 2011

	Teacher (MA Degree)	Master Firefighter	Firefighter III	Child Welfare Case Worker
Years of Service	30	30	20	30
Age at Retirement	54	54	44	54
Final Salary	$96,966	$87,422	$74,272	$88,027
Annual Retirement Benefit (until age 62)	$47,009	$58,382	$37,318	$0
Pension	$47,009	$58,382	$37,318	--
Social Security	$0	$0	$0	$0
Annual Retirement Benefit (age 62+)	$64,733	$57,166	$37,992	$17,076
Pension	$47,009	$40,138	$25,656	--
Social Security	$17,724	$17,028	$12,336	$17,076
Retirement Account Balance	--	--	--	$536,132
Present Value of Retirement Benefit				
excluding Social Security	$1,363,264	$1,291,709	$1,198,851	$536,132
including Social Security	$1,753,192	$1,666,325	$1,470,243	$911,804

Assumptions

- All dollar amounts represent current year dollars.
- Pension payments and retirement account withdrawals are subject to Federal and State income tax. All dollar amounts shown are pre-tax dollars.
- All employees worked full time, were hired into their positions at age 24, and retire on July 1, 2011 with no unused sick leave.
- All employees retired with a top of grade salary for the position (including longevity awards).
- The Social Security Administration's online "Social Security Quick Calculator" is the source for annual Social Security benefits.
- Social Security pension amounts assume that retirees do not take another paid job after leaving County service and will be eligible for benefits beginning at age 62.
- The Child Welfare Case Worker's retirement account balance assumes a starting salary of $25,000; an annual employer contribution of 8% of salary; an annual employee contribution of 4% of salary; and participation in the GRIP with an annual guaranteed return of 7.25%.
- Present value calculations assume that pension and Social Security cost of living adjustments equal the future rate of inflation.
- Present value calculations assume an average life expectancy of 84 years (the current average life expectancy assumption for ERS plan members).

D. Retirement Plan Questions and Answers

This final section adopts a question and answer format to explain the major variations between/among the retirement benefits received by the four employee examples presented above.

1. Why does the Teacher's annual pension payment remain unchanged after age 62, while the two Firefighters' pensions from the County Government decrease at that age?

Social Security Integration: Since FY79, the County Government's pension plan has "integrated" with Social Security. Social Security integration means that an employer reduces a retiree's annual pension payment when the retiree becomes eligible for Social Security.[11] When a Firefighter becomes eligible for Social Security, the County Government's integrated plan reduces the annual pension payment to 68.75% of the initial annual pension amount.

Neither the State's pension plan nor the MCPS pension supplement integrates with Social Security for service after July 1, 1998. Therefore, for all service after that date, a Teacher's pension is not reduced when a retiree becomes eligible for Social Security.

2. If the Teacher's final salary is greater than the Master Firefighter's final salary, why does the Teacher receive a lower annual pension (up to age 62) than the Master Firefighter?

Pension Multipliers: As described earlier in this memo, a retiree's annual pension payment is based on both average final salary and a multiplier. The Master Firefighter who worked for 30 years earned a pension equal to 2.5% (the multiplier) of average final salary for the first 20 years of service plus 2.0% of average final salary for the next 10 years of service. The multipliers result in the Master Firefighter receiving a pension equal to 70% of final average salary after 30 years of service.

Teachers receive an annual pension equal to 1.28% of average final salary for each year of service before FY99 and 2.0% of average final salary for each year of service from FY99 on. A Teacher retiring this summer after 30 years of service would have a pension equal to 48.5% of average final salary. In future years, a Teacher retiring after 30 years of service will have worked additional post-FY99 years (with those years subject to the higher 2.0% multiplier), and so, will have a higher pension.

3. The Firefighter III retires with a final salary that is about 85% of the Master Firefighter's final salary. Why is the annual pension for the Firefighter III only equal to about 64% of the Master Firefighter's annual pension?

Years of Service: One of the primary factors that determines a retiree's final pension is years of service. In the examples shown in this memo, the Master Firefighter worked for 30 years while the Firefighter III worked for 20 years. Based on current Employee Retirement System plan provisions, a firefighter's annual pension equals 50% of average final salary after 20 years of service and rises to 70% of average final salary after 30 years of service. Working ten additional years results in the retiree receiving a higher annual pension.

[11] For the examples in this memo, OLO assumed that the retirees would not take another paid job after leaving County service. As such, these retirees would become eligible for Social Security benefits beginning at age 62.

4. The Teacher and the Firefighters receive annual pension payments while the Child Welfare Case Worker leaves employment with a retirement account. Is there a way to compare these different types of retirement benefits?

<u>Present Value Analysis:</u> Pensions offer a stream of fixed payments from the time of retirement until the end of life; retirement accounts provide a cash balance that is available for withdrawal or re-investment during retirement.[12] The two plan types offer different benefits that make them difficult to compare.

Nonetheless, a present value analysis offers one means of comparison. Present value is a calculation of the current value of future cash payments. These calculations allow for a comparison of a current year cash amount (such as a retirement account balance) with a stream of future cash payments (such as pension benefits). Present value analysis also can be used to compare the relative value of different pension plans.

OLO calculated the present value of the Teacher, Master Firefighter, Firefighter III pension benefits shown as examples in this memo.[13] For this analysis, OLO assumed that retirees would receive benefits through age 84, the current average life expectancy for members of the County Government's Employees' Retirement System. For the Child Welfare Case Worker, the cash balance of his/her retirement account at retirement equals the present value of this benefit.

As shown in the table below, the present value of the retirement benefits (excluding Social Security benefits) for the four examples shown in this memo are:

Position	Type of Retirement Benefit	Years of Service	Present Value of Retirement Benefit
Teacher (MA)	Pension	30	$1,363,264
Master Firefighter	Pension	30	$1,291,709
Firefighter III	Pension	20	$1,198,851
Child Welfare Case Worker	Retirement Account	30	$536,132

5. **Are retirement plan benefits and Social Security the sole source of income for retired County employees?**

<u>Post-Retirement Employment and Savings:</u> The amount of income (other than retirement benefits and Social Security) available to retirees varies depending on the life and financial circumstances of the retiree. Depending on age, skill sets, and health, a person could take a new job after leaving County employment.

In addition, employees who are able and choose to set aside additional retirement savings during their working years have additional resources available to them during retirement. The County Government and MCPS provide employees the option of making additional pre-tax contributions (capped under federal law) annually to deferred compensation accounts.

c. Steve Farber

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[12] ERS and GRIP account withdrawals are subject to IRS penalties if made before the retiree reaches the age of 59½.

[13] Present value analyses commonly discounts future payments to account for inflation. The present value calculations in this memo do not discount future pension or Social Security payments because both of these benefits include annual cost of living adjustments. The present value calculations in this memo assume that pension and Social Security cost of living adjustments approximate the future rate of inflation.