

**PARTICIPATE**



**SAVE**



MONTGOMERY COUNTY

## EMPLOYEE RETIREMENT PLANS

2021 POPULAR ANNUAL FINANCIAL REPORT

**INVEST**



**RETIRE**



# MESSAGE FROM THE PLAN ADMINISTRATOR & THE BOARD CHAIR



We are pleased to present to you the Popular Annual Financial Report (PAFR) of the Montgomery County (County) Employee Retirement Plans (Plans) for the fiscal year ended June 30, 2021. The information provided in this PAFR is a snapshot of the detailed information contained within the Plan's Annual Comprehensive Financial Report (ACFR). It is designed to assist you in understanding the structure and current status of the Plans by providing a concise summary of each Plan's financial health, investment performance, and key accomplishments throughout the fiscal year.

The County's Chief Administrative Officer is responsible for overseeing the day-to-day administration of the benefits provided to the nearly 10,000 active and 6,800 retired participants in the Plans.

The mission of the Board of Investment Trustees (Board) is to manage prudent investment programs for the members and beneficiaries of the Plans, which includes: the Employees' Retirement System (ERS), a defined benefit pension plan; the Guaranteed Retirement Income Plan (GRIP), a cash balance plan that is part of the ERS; the Retirement Savings Plan (RSP), a defined contribution plan; and the Deferred Compensation Plan (DCP), a Section 457 deferred compensation plan.

The Board continues to build on its previous strong record of incorporating Environmental, Social, and Governance (ESG) considerations into the investment program. To this end, the Board submitted its first annual PRI report during FY 2021 outlining our initiatives and incorporation of ESG into the portfolio. The results of PRI's review of our submission will help gauge the Board's progress on integrating our ESG policy compared to our industry peers. The Board also engaged with a leading provider of ESG and corporate governance

research and ratings to investors to run a Climate Portfolio Risk Report on the portfolio, which assessed the climate risk of the portfolio across five metrics – carbon risk rating, carbon intensity, fossil fuel revenue exposure, stranded asset risk, and carbon solutions. The portfolio compared favorably relative to the benchmark across four of the five metrics. The Board continues to engage with investment managers on Diversity, Equity, and Inclusion (DEI) considerations within their organizations and reports the results of the manager group within each sector of the portfolio at each Board meeting throughout the year. The Board's Governance Manual states that the Board, Staff, and consultants are committed to including emerging investment managers in searches, including businesses owned by women, minorities, and disabled individuals. As of the end of the fiscal year, the portfolio had approximately one fifth of the portfolio allocated to diverse firms.

In addition to the above initiative, the Board continued to implement changes to the investment program which resulted in further diversification of the investment portfolio and better management of the System's risk. Toward this effort, new investments were approved in the following sectors: public real assets, cash equitization, currencies and private markets.

The Board continually monitors the investment options offered to participants to ensure they offer the best risk and return for their sector as well as the lowest fee.

For more in-depth information, we encourage you to read the ACFR by visiting [www.montgomerycountymd.gov/retirement](http://www.montgomerycountymd.gov/retirement).

Respectfully submitted,

*Robert Madaleno*  
Chief Administrative Officer

*Joseph F. Beaulieu*  
Board Chair

## Montgomery County Board of Investment Trustees

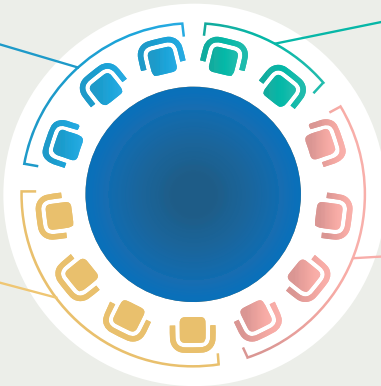
The Board is comprised of 13 trustees appointed by the County Executive and confirmed by the County Council. Shown below is the composition of the Board of Investment Trustees.

### Three Certified Employee Organization Representatives:

These representatives are nominated by the employee organizations certified as the representatives of the OPT/SLT, fire & rescue, and police bargaining units.

### Four Ex Officio Representatives:

Directors of three County departments: (Management & Budget; Finance; Human Resources) and the County Council.



### Two Employee Representatives:

One active County employee who is not represented by a bargaining unit and is a member of a County retirement plan, and one retired County employee recommended by the Montgomery County Retired Employees' Association.

### Four Other Representatives:

Individuals who are knowledgeable in pensions, investments, or financial matters - two recommended by the County Council and two recommended by citizens or countywide citizens' groups.

# FINANCIAL SUMMARY

## Fiduciary Net Position As of June 30

The financial statements for the Plans have been prepared under the accrual basis of accounting in conformity with U.S. generally accepted accounting principles, promulgated by the Governmental Accounting Standards Board. The table shown below is a summary of the assets and liabilities of the ERS, RSP, and DCP, and reflects the resources available to pay benefits to members and beneficiaries as of June 30, 2021.

Net Position (Millions)						
	ERS		RSP		DCP	
	2021	2020	2021	2020	2021	2020
<b>Assets:</b>						
Cash and investments	\$ 5,445.6	\$ 4,482.5	\$ 704.8	\$ 535.5	\$ 610.9	\$ 466.6
Receivables	19.3	21.7	2.2	2.1	1.3	1.1
<b>Total assets</b>	<b>5,464.9</b>	<b>4,504.2</b>	<b>707.0</b>	<b>537.6</b>	<b>612.2</b>	<b>467.7</b>
Liabilities	168.9	170.7	0.1	0.1	—	—
<b>Total net position</b>	<b>\$ 5,296.0</b>	<b>\$ 4,333.5</b>	<b>\$ 706.9</b>	<b>\$ 537.5</b>	<b>\$ 612.2</b>	<b>\$ 467.7</b>

## Changes in Fiduciary Net Position for the years ended June 30

This table shown below reflects the financial activity of the ERS, RSP, and DCP for the fiscal year and presents information to illustrate how each plan's fiduciary net position changed as a result of this activity. Contributions from employers and members, as well as net investment earnings, were the main additions to the Plans. The payment of retirement benefits and participant distributions accounted for the majority of deductions from the Plans.

Change in Net Position (Millions)						
	ERS		RSP		DCP	
	2021	2020	2021	2020	2021	2020
<b>Additions:</b>						
Employer contributions	\$ 70.7	\$ 87.2	\$ 21.6	\$ 21.2	\$ —	\$ —
Member contributions	30.8	30.8	11.8	11.5	25.7	22.5
Net investment income	1,141.1	173.3	156.0	34.2	150.7	35.7
<b>Total additions</b>	<b>1,242.6</b>	<b>291.3</b>	<b>189.4</b>	<b>66.9</b>	<b>176.4</b>	<b>58.2</b>
<b>Deductions:</b>						
Benefits	267.4	262.1	—	—	—	—
Refunds	9.7	9.3	19.8	18.6	31.9	34.1
Administrative expenses	3.0	3.0	0.2	0.2	—	—
<b>Total deductions</b>	<b>280.1</b>	<b>274.4</b>	<b>20.0</b>	<b>18.8</b>	<b>31.9</b>	<b>34.1</b>
<b>Total change in net position</b>	<b>\$ 962.5</b>	<b>\$ 16.9</b>	<b>\$ 169.4</b>	<b>\$ 48.1</b>	<b>\$ 144.5</b>	<b>\$ 24.1</b>

# EMPLOYEES' RETIREMENT SYSTEM (ERS) including GRIP

The ERS was established in 1965 as a cost-sharing, multiple-employer defined benefit pension plan to provide benefits to the employees of the County and other agencies or political subdivisions that elect to participate. The County Council passed legislation in 2009 enabling the County to establish and maintain the GRIP, a cash balance plan that is part of the ERS, for employees. The ERS is closed to employees hired on or after October 1, 1994, except public safety bargaining unit employees and GRIP participants. ERS benefits are determined based on the participant's years worked, age at retirement, and average final earnings. GRIP benefits are determined based upon the participant's account balance, which includes contributions and earnings.

## Membership Data

Membership - Fiscal Year 2021	ERS	GRIP
Active Participants	3,504	2,710
Former Participants	159	444
Retiree & Other Benefit Recipients	6,843	-
<b>Total Membership</b>	<b>10,506</b>	<b>3,154</b>

ERS Average Annual Retirement Benefit	
2021	2020
\$39,079	\$38,637

## Funded Status

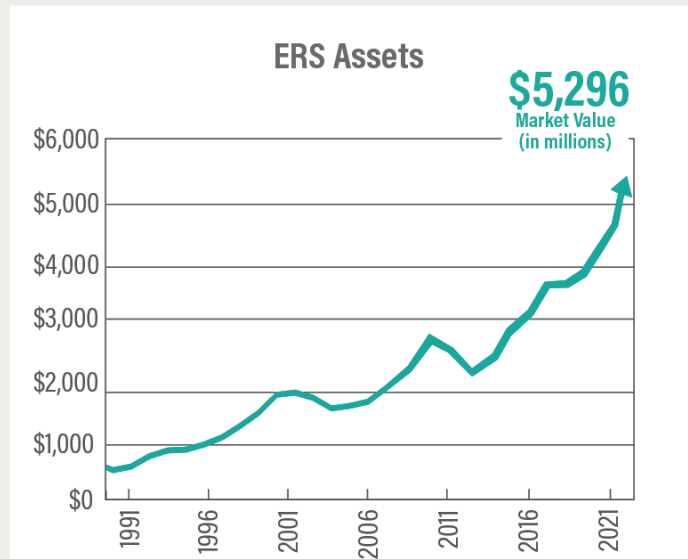
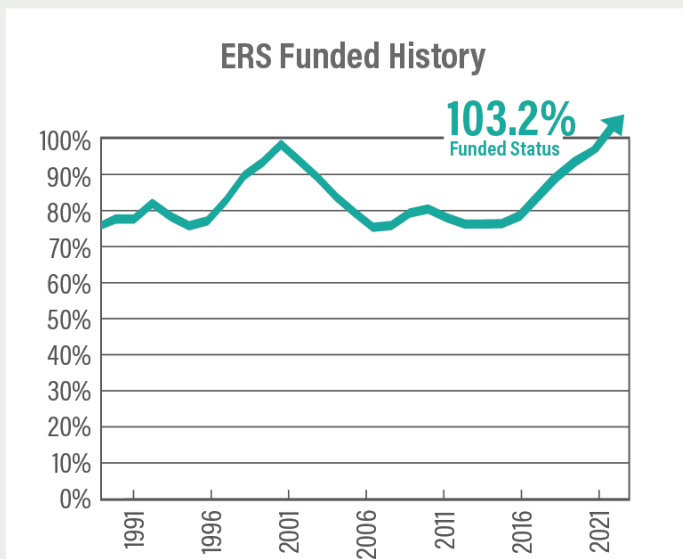
The funded status of a retirement plan measures the progress of accumulating the funds necessary to meet future obligations and is an important indicator of the soundness of a retirement plan. The funded status reflects the asset of the retirement plan available to pay benefit payments.

The funded status is affected by membership experience, as well as demographics, economic changes, and investment performance. The aggregate funded status of the 100 largest U.S. public pension plans was 82.6% as of June 30, 2021\*, compared to the ERS funded status of 103.2%.

## Growth of Assets

As of June 30, 2021, the market value of the ERS assets was \$5.296 billion, as compared to \$4.334 billion at June 30, 2020. The increase of \$962 million was attributable to the following:

- An increase of \$101 million from employer and employee contributions
- An increase of \$1,141 million from investment gains
- A decrease of \$280 million due to the payment of benefits to system participants and administrative expenses



\*Milliman Public Pension Funding Index, 2nd Quarter 2021.

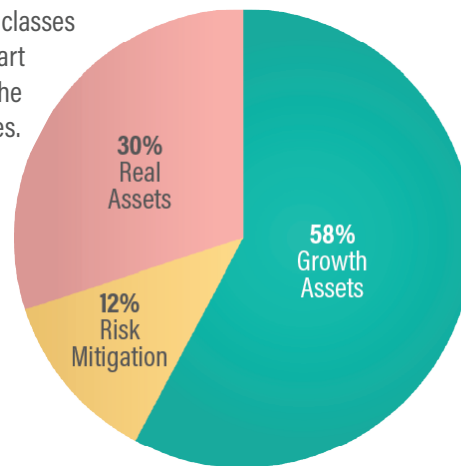


# EMPLOYEES' RETIREMENT SYSTEM (ERS) including GRIP

## Investment Allocation

The Board invests ERS assets across a broad array of asset classes resulting in the June 30, 2021 allocation presented in the chart to the right. In overseeing the management of ERS assets, the Board has developed sound and prudent investment policies. The Board works to control the risk to which the ERS is exposed while maximizing the potential for long-term increases in the value of the assets. The Board's specific investment objectives are to:

- Realize the actuarial assumed rate of return of 7.5% annually, over a long term time horizon
- Manage portfolio risk to limit potential downside fluctuations in the value of the total ERS assets
- Realize as high a rate of total return as possible consistent with the above



### Growth Assets

14.2% Domestic Equity  
12.9% International Equity  
2.7% Global Equity  
7.7% High Yield  
1.3% Emerging Markets Debt  
14.0% Private Equity  
2.4% Credit Opportunities  
2.1% Directional Hedge Funds

### Risk Mitigation

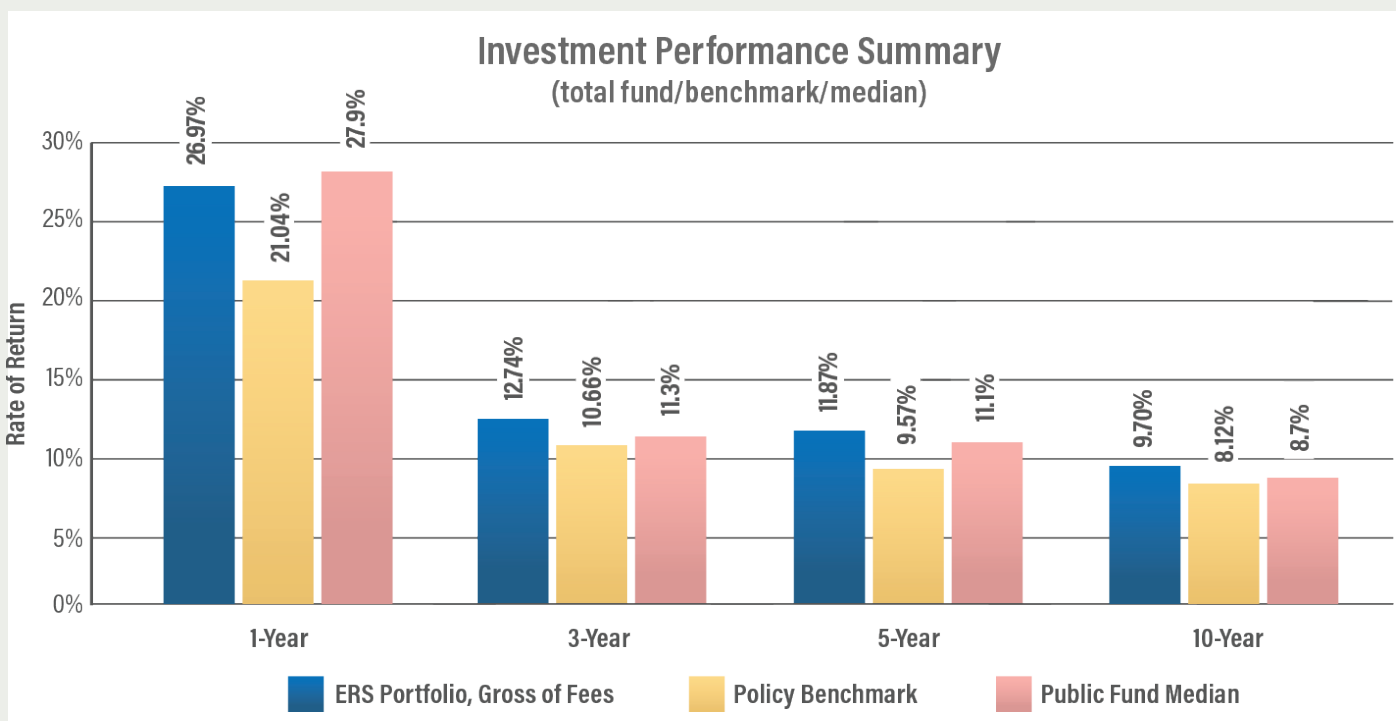
10.0% Long Duration and Cash  
2.4% Diversifying Hedge Funds

### Real Assets

11.0% Public Real Assets  
6.5% Private Real Assets  
12.8% Inflation Indexed Bonds

## Investment Performance Summary

The majority of the average retiree's benefit is paid from investment earnings. The median return among U.S. public pension plans over \$5 billion in size in FY 2021 was 27.9%, gross of fees. The ERS' return for the fiscal year was a gain of 27.0%, gross of fees, ranking slightly below the universe median. The key drivers of the performance for the twelve-month period ending June 30, 2021 were the ERS' allocations to: private equity, global IL bonds and global equities. The ERS' five-year return of 11.9% ranks in the top quartile of the peer group universe, while its ten-year return of 9.7% ranks in the top decile of the peer group universe. Shown below is a comparison of the ERS' returns to its policy benchmark, which is composed of market indexes with weightings reflective of the ERS' asset allocation targets. Also shown is the public fund peer group comprised of funds with assets over \$5B.

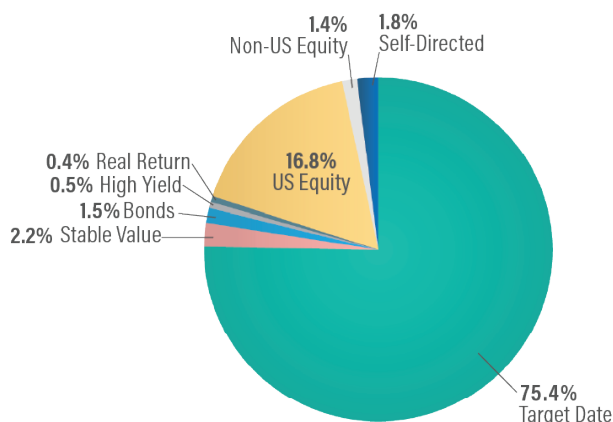


# RETIREMENT SAVINGS & DEFERRED COMPENSATION PLANS

## Retirement Savings Plan (RSP)

The RSP was established in 1994 as a cost-sharing multiple-employer defined contribution retirement plan to provide benefits to all non-public safety and certain public safety employees hired on or after October 1, 1994. Non-public safety employees contribute 4% of regular earnings up to the Social Security wage base and 8% above the wage base. Public safety employees contribute 3% up to the Social Security wage base and 6% above the wage base. During FY21, the County and participating agency employers contributed 8% of regular earnings for non-public safety employees, and 10% of regular earnings for public safety employees, as required by County law.

Participants' Investment Allocation



The Board has established a diversified slate of mutual and commingled funds from which participants may select investment options. The chart to the left depicts the allocation of RSP assets as of June 30, 2021.

Membership - Fiscal Year 2021

Active Members	3,328
Inactive Members	1,060
<b>Total Membership</b>	<b>4,388</b>

Target Date Funds invest in a combination of equities, bonds, and other assets. The asset allocation is adjusted over time to balance risk and return throughout a participant's lifetime. Each strategy is managed with an estimated retirement date, becoming more conservative (less equity exposure) to and through retirement.

 **FACT**

## Deferred Compensation Plan (DCP)

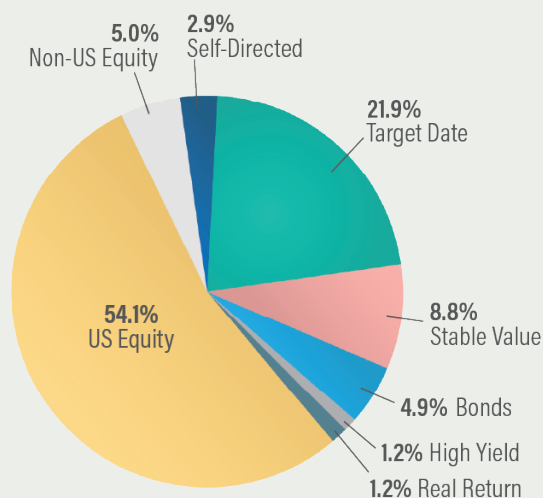
The County established the DCP for employees in 1980. All non-represented employees are eligible to join the DCP at any time, and non-represented employees hired after June 6, 2010 are automatically enrolled in the DCP 60 days after the date they are hired with a 1% contribution unless a written election not to participate is submitted. Employees who are members of Municipal and County Government Employees Organization (MCGEO), and were hired prior to March 1, 2005 and were not members of the DCP at that time, may also join the plan at any time.

The Board has established a diversified slate of mutual and commingled funds, administered by Fidelity, from which participants may select investment options.

Membership - Fiscal Year 2021

Active Members	2,161
Inactive Members	1,262
<b>Total Members</b>	<b>3,423</b>

Participants' Investment Allocation



 **FACT**

For calendar year 2021, annual contributions are limited to the lesser of \$19,500 or 100% of the employee's eligible compensation. Participants who are age 50 or older may make an additional annual catch-up contribution of \$6,000. In addition, participants may be eligible to participate in the 3-year catch-up option.

# RETIREMENT SAVINGS & DEFERRED COMPENSATION PLANS

## Investment Counseling

The Board provides one 2-hour investment counseling session annually to all RSP and DCP participants through Cambridge Investment Research at no charge to the participant. These sessions are designed to assist participants with constructing a diversified portfolio to assist them in meeting their retirement savings goals, as well as to provide participants the opportunity to expand their knowledge of investments.

The Board also offers retirement investment counseling services through Fidelity Investments for participants in the RSP, DCP, GRIP, MCGEO DROP, and the police DRSP.

To learn more about available investment counseling options, visit the Board's web site:

[www.montgomerycountymd.gov/retirement/investmentcounseling](http://www.montgomerycountymd.gov/retirement/investmentcounseling).

### ✓ FACT

#### Default investment

Until a participant makes their investment selection, all contributions will be invested in a default target-dated investment fund that is determined based on the participant's date of birth and projected retirement date at age 65.

### ✓ FACT

#### Morningstar ratings

77% of the funds offered by the Board have a Morningstar rating of 4-stars or better.

### ✓ FACT

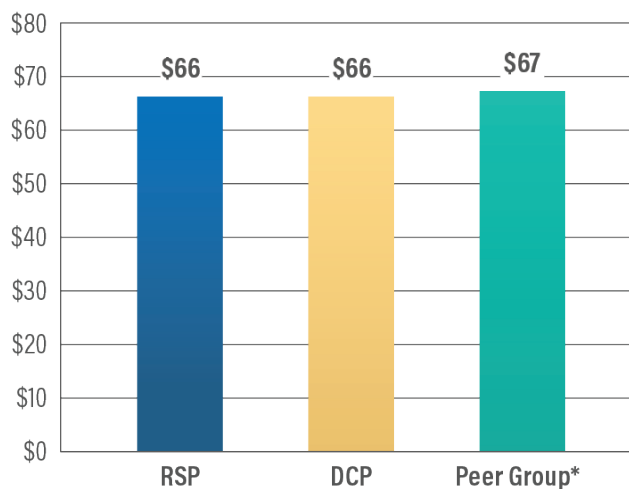
#### Termination

After termination of employment with the County or a participating agency, participants may leave their account balance in the County Plans (subject to minimum distribution requirements) and continue to benefit from the investment counseling services, strong investment products, and low fees.

## Competitive Recordkeeping Fee

In July 2016, the Board negotiated a very competitive, per-account annual recordkeeping fee of \$66 with Fidelity. As shown below, this fee is well below the average market fee of \$67 per participant.

Recordkeeping Fees - 2021

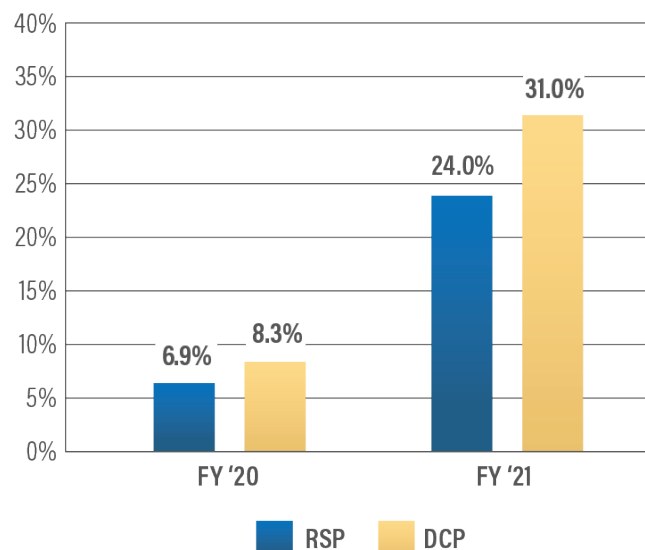


*\*Peer Group is based on Fidelity Investment's Tax Exempt universe of plans with similar participant levels as of 12/31/2020.*

## Investment Performance

The chart below compares the combined investment performance of all participants in the RSP and DCP.

Investment Performance





MONTGOMERY COUNTY

# EMPLOYEE RETIREMENT PLANS

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