Howard County
MARYLAND

Internal Memorandum

Subject: Testimony for Bill No. – 2008

To: Lonnie R. Robbins
Chief Administrative Officer

From: Phyllis Madachy
Acting Human Resources Administrator

Date: March 19, 2008

The Howard County Retirement Plan supports passage of Bill No. – 2008. The Bill makes the following changes to the Plan:

- Certain technical corrections are required from time to time to keep the Plan in compliance with Internal Revenue Code regulations. In this case, the amendment addresses four IRC regulations:

    - The maximum limitation on benefits have been raised. Section 415 of the tax code sets limits on benefits and contributions for tax-qualified retirement plans and increases those dollar limits periodically for increases in the cost-of-living. One of these IRS limitations is that the plan cannot use an average compensation which includes salaries in excess of $225,000 in any given year. As Howard County salary scales do not reach these levels, compliance with the new IRC regulation for qualified defined benefit pension plans will not impact our Plans' participants or beneficiaries.

    - The IRC provides minimum distribution rules regarding when retirement benefits must commence. Again, the change in the Plan's language is unlikely to have an impact on our Plan participants, as the regulations require that distributions begin prior to attainment of age 70 and ½. However, the required language for continued IRC compliance is added here.

    - The Pension Protection Act of 2006 added language to the Internal Revenue Code to allow a participant in a retirement plan who has designated a non-spouse beneficiary to roll over the inherited funds into an IRA set up to receive them. The rollover must be accomplished by a direct trustee-to-trustee transfer (a "direct rollover") and the retirement plan must provide for this type of rollover.

    - The legislation provides that distributions made after December 31, 2007 are eligible to be rolled into ROTH accounts, as required by recent amendments to the Internal Revenue Code.

Fiscal Note:

A copy of the fiscal impact statement prepared by Bolton Partners, Inc. is attached for reference. The actuary has certified that the legislation has no fiscal impact.

To implement any retirement plan change:

- The Retirement Plan Committee must approve the legislation. The Howard County Police and Fire Employees' Retirement Plan Committee approved the legislation at its March 12, 2008 meeting.

- The Pension Oversight Commission must consider the legislation. The Pension Oversight Commission considered the legislation, including its fiscal impact, at their regularly scheduled March 6 meeting. The POC will approve the legislation and provide their comments under separate cover.

- The County Council must consider and approve the legislation.

In closing, the changes provided in this Bill are technical in nature and do not change any benefit or create any fiscal impact. I am available to provide any further assistance or answer any questions you may have.

Phyllis Madachy
Acting Human Resources Administrator

cc: Ken Ulman, County Executive
Jennifer Sager, Legislative Coordinator
Howard County Police and Fire Employees' Retirement Plan Committee

BOLTON PARTNERS, INC.

February 29, 2008

Ms. Wendy Burke
Human Resources
Howard County
3430 Court House Drive
Ellicott City, MD 21043

Re: Addition of 401(h) account and technical corrections

Dear Wendy:

I have reviewed the proposed amendments to sections 1.433, 1.440, 1.443, 1.445, 1.433A, 1.440A, 1.443A and 1.445A. I understand these to be IRS required technical corrections. There is no fiscal impact due to these changes.

I also reviewed the change to add a 401(h) account to accommodate the payment of certain health care benefits to police officers injured in the line of duty. As noted in the material prepared by Paul Madden, this benefit has already been provided for but in the past has not been paid from the plan. When we determine the expense for the pension plan, we already include the cost for this benefit. Therefore, there is no additional fiscal impact associated with this change other than any administrative cost.

We also should discuss the accounting and cash flow treatment with the County's accounting people. It is possible that the County will simply pay into the 401(h) trust funds sufficient to cover the pay-as-you-go cost and contribute the balance of the full plan expense to the pension side of the trust. Alternatively, the County could start prefunding within the 401(h) account and make a smaller contribution to the pension side of the trust. We may need to discuss how the 401(h) assets are tracked and should begin to separately identify the 401(h) cost in our valuation report including testing for the 25% limit.

I am qualified to make this determination based on standards set by the American Academy of Actuaries.

Please call me if you have any questions.

Sincerely,

BOLTON PARTNERS, INC.

Thomas B. Lowman, FSA

TBL/mlg
cc: Sharon Greisz
Mark Lynne
Kevin Binder

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