



Howard County

Internal Memorandum

Confidential

Date: January 27, 2022

To: Joint Retirement Plan Committees

From: Anju Bennett, Human Resources Administrator/Retirement Plan Committee Chairperson
Rafiu Ighile, Director of Finance

Requested Action

We are requesting support for:

1. Staff positions needed to carry out extensive responsibilities for pension and OPEB benefit administration.

- One new pension analyst in the Office of Human Resources to handle pension reviews, pension calculations, pension benefit administration, reporting, and actuarial support/analysis. (Needed level to ensure adequate expertise/background: Grade K)
- Two new financial analysts in Finance (Needed level to ensure adequate expertise/background: Grade K)
 - One financial analyst in Finance to provide assistance and backup of pension investment cash flow accounting, financial governmental accounting standard compliance, and assistance with preparing for the pension plan audit.
 - One financial analyst in Finance dedicated to the accounting for OPEB.

2. Updated/enhanced Retirement Calculation and Reporting Software

The County's current pension software has limited capacity to utilize real-time data, and consequently requires in-house staff to rely on manual research and calculations for estimates, beneficiary updates, and actuarial data/statements. Public employers with plans of our size utilize significantly more sophisticated pension software. Our team has researched software platforms including enhanced versions of our present software PensionSoft, as well as platforms used by other county governments such as PensionGold. While PensionGold offers the most comprehensive management system, it is quite expensive (upwards of a million dollars). In speaking with our pension actuary, we recommend enhancing our current software at an additional cost of approximately \$27,000/annually. There is a one-time setup fee of approximately \$45,000.

Background and Support For Recommendations

Howard County offers one of the more complex public pension programs based on multiple pension offerings by employee group, DROP plan options, disability retirement benefits, military service and transferrable service credits, and variations in benefit calculations based on effective start dates.

While our program is quite complex, the County's team that administers the "Plans" is considerably understaffed to carry out the required functions of the program. In fact, benchmarking across other public employers, including those that have significantly fewer complex programs, reveals that our staffing resources are significantly smaller.

The Office of Human Resources (OHR) maintains and administers the pension benefits for over 1,500 retirees and approximately 2,900 enrolled active employees. The team is having difficulty keeping up with the current duties. It is responsible for retirement benefit calculations, plan contribution reconciliation, transfer requests, service purchase requests, vested and non-vested termination benefits, disability retirement board administration and annual disability recertifications, retirement estimate calculations and annual statements, retiree database recordkeeping, retiree health insurance changes, county code interpretation for plan administration and employee retirement education amongst various other plan administration tasks. The team also coordinates all monthly retirement plan committee meetings, maintains minutes, and coordinates presentations. The team administers benefits for the County government as well as the Howard County Economic Development Authority, Soil Conservation District and the Howard County Housing Commission. The team also acts as the retirement coordinator for the remaining County employees and retirees who are still participating in the Maryland State Retirement and Pension system. The OHR pension unit presently has two staff members and one lead.

Investment reporting and accounting functions are supported by one dedicated staff person in Finance. Due to the continued growth of the pension investment portfolio in total size, the number of investment managers, and new investment types such as forms of private equity and private debt, oversight and management of all investment related activities including the investment capital calls, distributions, cash rebalancing, and review of fund manager financial statements, the workload has grown increasingly complex and onerous, all the while being supported by only one staff member. This person also handles lead audit coordination, the County's pension financial statement preparation, annual pension budget preparation and GASB compliance amongst other various financial needs for the plans.

The complexity and size of our program continue to grow placing demands on staff that cannot be adequately carried out. This has created an increase in workload for all units within the office, however the staff assigned to carry out the administration and financial support has remained static. For the complexity and size of our program, it is significantly understaffed compared to other similarly situated agencies. Please see the chart on page 4.

1. The Howard County program holds \$1.4 billion in assets across 40 funds/managers. These assets require substantial oversight for investment reviews, partnerships with actuaries for accurate projections, and due diligence. The Retirement plans are also transitioning to more direct investments from "fund of fund" strategies. The direct investments require an increase in maintenance and availability from the plans' finance department as capital may be called and investments need to be rebalanced more frequently.
2. In the last five years, the retiree population increased 30% from 1,133 to over 1,500 retirees, requiring staff to support a larger population for pension benefits, communications and health benefits. Active employee enrollments in the plan have also increased to 2,890 during the same time frame.

3. Regulatory agencies are placing an increasing emphasis on the employer performing due diligence on benefits provided to employees, so devoting a resource to maintain records that can support actions made in good faith could help to protect the County against a possible lawsuit and other risks.
4. Existing staff does not adequate capacity to meet the demands of the Program.

The OHR Pension unit is struggling to keep up with the present workload and regularly must extra hours to keep up with the most critical needs. Consequently, it is difficult to meet the needs of the workforce and pension system without undesired delays. The Finance pension investment manager is equally overworked, checking emails at all hours of the day and night to receive letters from the investment managers (some of whom are overseas) calling capital or making distributions so she can process immediately due to time sensitivity.

With the size of the portfolio growing exponentially, the Retirement Committee is routinely adding new investment managers to help diversify the portfolio which further increases the workload. Additionally, with the pension investment manager being the only person handling the detailed accounting, we are at risk of losing invaluable institutional knowledge and need to bring on additional help to serve as backup.

Comparison of Staffing Resources Across Public Entities

Survey Question	Howard County (plan complexity outlined on page 5)	Anne Arundel County	Montgomery County	Prince George's County	Baltimore County	M-NCPPC
Pension Program Administration	<u>3 positions</u> (Retirement Coordinator, an Analyst, and an Admin Assistant).	<u>5 positions</u> assigned to pension administration;	<u>5 positions</u> assigned to pension administration	<u>6 positions</u> assigned to pension administration;	<u>9 positions</u> assigned to pension administration	<u>5 positions</u> assigned to pension administration
Financial Professional Support	<u>1 position</u> dedicated to financial reporting and investment transfers	<u>Multiple positions</u> assigned in Finance for financial reporting and accounting	<u>14 positions</u> which assist with Financial Reporting, compliance, Investments or Director level	<u>Multiple positions</u> including 2 investment analysts and other positions assigned for support	<u>Multiple positions</u> assigned to financial reporting/ investments	<u>3 positions</u> assigned to accounting & software support
Number of Pension Plans	6 variations of 2 defined benefit plans (for General employees, Corrections, Police, Fire, Sheriff, and 3085 Union employees).	5 variations of defined benefit plans.	5 variations of defined benefit plans; 1 defined contribution plan; and 1 cash balance plan.	11 variations of defined benefit plans for general and public safety	6 variations of 1 defined benefit plan	5 variations of defined benefit plans (3 of these are closed to new participants)
DROP Plans	3 plans: Police, Fire, and Correctional Officers	4 plans: Police, Fire, Detention Officers, and Deputy Sheriffs	4 plans: Police, Fire, Detention Officers, and Deputy Sheriffs	2 plans: Police and Fire	5 plans: Police, Fire, Detention Officers, Deputy Sheriffs; and General employees	None
Disability Retirement	Yes	Yes	Yes	Yes	Yes	None
Pension Software for Benefit Calculation	Excel spreadsheets and largely manual calculations	Excel spreadsheets and largely manual calculations	Peoplesoft	PensionGold	CPAS Retirement Solutions	PensionGold
Pension Software for Pension Statements	Excel spreadsheet data provided to Bolton	Excel spreadsheet data provided to Bolton	Peoplesoft	PensionGold	CPAS Retirement Solutions	PensionGold

Challenges and Recommendation

1. Challenges that need to be addressed for Pension Program include:

- With an aging workforce (*40% of our active employees are within 10 years of retirement eligibility*) the workload is just going to grow as the demand for more retirement benefit calculations increase.
- Turn-around times for retirement estimates. Many participants give adequate time for this process, however, there are times when an estimate must be completed with very short notice, which can interrupt a regular workflow. Every estimate must be completed and checked by at least 2 different people. Adding another benefit analyst will increase productivity and cut down on costs by not relying on the actuaries to check calculations.
- Retirement data requests to be addressed with more efficiency. Additional personnel will assist in the research of complicated inquiries and the maintenance of databases. This will in turn improve the turnaround time for special projects like retirement plan statement preparation.
- Deliver requested retirement training seminars to increase the understanding and comfort in the retirement plans.
- Improve intercounty retirement relations by developing a network of contacts. This would assist with benchmarking, improving best business practices, and efficiency with title 37 service transfers.

Recommendation: In order to maintain pace with the workload, ensure good internal controls, and compliance, the Program requires a few additional resources. These requested resources still maintain a lean staff compliment for the work that must be achieved as compared to other County agencies. However, we feel it will help will alleviate some of the current challenges.

We are requesting one Pension analyst for the OHR Pension administration team and one Fiscal Specialist II in Finance to support pension investment management. Positions are needed at the Administrative Analyst II (grade K) position to ensure candidates have the necessary technical experience and skills.

2. Challenges that need to be addressed for OPEB

The size of the OPEB investment portfolio has grown from \$8 million in 2009 to over \$250 million in 2021. With that increase in size, the plan is now considering investing in more complex alternative investment types such as private equity and private debt, similar to the path of pensions. This will mean an increased workload associated with tracking and coordinating capital calls and distributions, as well as performing due diligence reviews of managers' financial statements. In addition to investment-related duties, this position could also handle the accounting and reporting of the Health Benefits Fund since it is interrelated to OPEB.

Recommendation: Finance is requesting a Fiscal Specialist II (grade K) position to support this OPEB function.

3. **Challenges that will be Addressed by Moving to an Enhanced Pension Software for Retirement Plan Administration.**

- **More efficient benefit calculations**
 - Payroll data uploaded after each pay period
 - Howard County Retirement team can update data, including beneficiaries, whenever necessary
 - PensionSoft can be programmed to perform the benefit calculations, including optional forms of benefit and participant paperwork, for the Retirement Team to review. Minimal manual data entry.

- **Timely data for the benefit statements and actuarial valuations**
 - Once the final fiscal year payroll is uploaded, data can be extracted from PensionSoft by Bolton as of June 30, eliminating the need for Howard County to provide the full data files manually.
 - PensionSoft can house data required for the actuarial valuations for terminated vested participants and all in-pay participants (retirees/beneficiaries).
 - Bolton's data review process can begin sooner resulting in more timely benefit statements
 - More timely actuarial contribution calculations for the county

- **Current PensionSoft programming for benefit statements and benefit estimates can be refined for benefit calculations**
 - Reduces implementation time
 - Reduces implementation fees

Recommendation: Approval of enhanced PensionSoft platform with Bolton. Once the update is approved the implementation of the enhanced features would take approximately 4-6 months. The cost for enhancements would not be incurred until Fiscal Year 2023.

- **One Time Cost:** Initial set up fee approximately \$35,000 to \$50,000).
- **Annual Cost:**
 - Annual data maintenance fee of \$40,000 (currently \$13,000 therefore increase is approximately \$27,000/yr)
 - Small increase to the existing participant fee for pension record management. An increase from \$3 to \$5/participant- total cost would be approximately \$22,000 in the next year.

Attachment: Background on Howard County Pension Program

Background on the Howard County Pension Program

The Howard County Retirement Plan consists of four variations that need to be handled differently in both the contribution accrual and the calculation of the benefit payout.

- **General Employees Plan:** This subset of the plan has 2 different multipliers for benefit calculation that may apply if the employees were hired before 2012.
- **Union 3085 Employees:** Have the same enhanced multiplier for all years of service. This can become tricky if the employee has been in and out of union 3085 positions.
- **Corrections Employees:** Have a higher employee contribution and multiplier. The contributions cease after 20 years of service. *Newly added DROP (Deferred Retirement Option Program) adds a layer of benefit administration and employee education.
- **Sheriffs' Deputies*:** Now have an increased benefit to follow along with the corrections model but do not have a DROP. The increased benefit applies to only the deputies hired after 7/1/2021. This means that there will be two groups of deputies that will have their benefits administered differently until all legacy deputies retire or terminate employment.

The Howard County Police and Fire Employees' Pension Plan has two distinct benefits that need to be administered differently.

- **Police Employees:** Compared to the general employee plan, Police employees have a higher contribution rate and faster benefit accrual after 20 years with the county and contributions that stop after 30 years. There is also a DROP benefit program that adds a more complex calculation with multiple variables that can change as frequently as every month.
- **Fire and Rescue Service Employees:** Have a different contribution rate and benefit accrual than the police, but also have contributions that stop after 30 years. They also have a DROP plan that needs to be administered. Fire employees tend to have salaries that fluctuate frequently with shift changes and enhanced base pay for certifications, which increases the difficulty of the benefit calculations.