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Administrator

QUESTIONS AND ANSWERS FROM MEMBERS

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1. Is the formula used to compute our COLA's the same one used by the Federal Government for Social Security? If not how does it differ?

There are several differences between the cost-of-living adjustment (COLA) formulas used by the Social Security Administration (SSA) and the Employees' Retirement System (ERS).

First, the Social Security Act specifies the formula for determining the COLA applicable to your social security benefits. The ERS plan document which requires approval of both the Board of Trustees and the Commission, governs application of the COLA to your retirement benefits.

Second, the Bureau of Labor Statistics issues various consumer price indexes. The Social Security Administration uses the Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W) and the ERS uses the Consumer Price Index – All Items Annual Average Urban Index for Major U.S. Cities (CPI-U).

Third, the one-year time period and calculation vary as follows:

- Social Security is equal to the percentage increase (if any) in the average CPI-W for the third quarter (September 30) of the current year over the average for the third quarter of the last year in which a COLA became effective. For more information, please go to www.socialsecurity.gov/cola/.
- The ERS COLA is determined by the percentage increase or decrease for the preceding 12 months on the preceding December 31st. If the percentage increase or decrease is 3% or less, retirement benefits are adjusted by 100% of the increase or decrease. If the percentage increase or decrease is greater than 3%, the benefit is adjusted by 3% plus ½ of the percentage increase or decrease above 3%. The maximum adjustment is 5%. No decrease can reduce the benefit below the initial amount.

2. Are there limitations on how much the COLA can increase or decrease in any year?

The ERS COLA can increase or decrease by 5%, but never take the benefit below its initial amount.

3. Does the Board of Trustees have any authority to change the COLA for any given year?

Because the COLA provision is built into the plan document, any action to modify the COLA must be shared with and approved by the full Commission.

4. How is our pension funded?

The ERS is funded through the collection of employer and employee contributions. In addition, the income from investments provides the reserves needed to finance retirement benefits. The ERS' funding policy provides for an actuarial valuation each year to determine the funding requirements for the ERS, so that sufficient assets will be available to pay benefits when due.

Recommended employer contribution rates vary each year and have ranged from a high of 24.7% in 2009 to a low of .54% in 2001, while employee contribution rates have remained fixed. The recommended employer contribution rate consists of a normal cost plus an amount to fund any unfunded liability (obligations directly related to funding future retiree benefits) over a fixed period of time.

5. Do the external auditors feel the pension system is adequately funded?

The auditors are not responsible for expressing an opinion on the funded status of the ERS. The auditor's responsibility is to express an opinion on the basic financial statements based on audit of the ERS. The audit is conducted in accordance with auditing standards generally accepted in the United States of America. Those standards require that the auditor perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

Clifton Gunderson conducted a full scope audit for the fiscal year ended June 30, 2010 and issued an unqualified "clean" opinion on the ERS' financial statements.

6. Recently, many employees have taken buy-outs and elected early retirement. What effect does this have on the financial stability of our pension system?

The Board of Trustees requested the actuaries answer this very question with respect to the Montgomery County Retirement Incentive. There were sixty-two participants who elected to retire under the Montgomery County Incentive. There were no enhanced benefits paid by the Employees' Retirement System (ERS); however, the Retirement Incentive caused a loss to the Plan since participants retired earlier than assumed in the July 1, 2010 actuarial valuation. Aon determined this was not a significant financial impact on the ERS. The effect was an increase in the present value of benefits in the amount of \$4.2 million (less than 1% of the ERS' total liability) which will be amortized over the next 15-year period. The Prince George's County Retirement Incentive was effective September 1, 2010; the cost will be determined as part of the July 1, 2011 actuarial valuation.

7. Media recently reported that sixteen states have reduced pension benefits. These include reducing or eliminating COLA'S, raising the retirement age, greater pension contributions by employees, longer service to qualify or a combination of the above. Are any such measures being contemplated for Commission retirees?

The Board of Trustees is responsible for administration of the current benefits established by the ERS plan document. The Board may recommend amendments from time to time to comply with changes in the Internal Revenue Code, and/or federal or state law to ensure the ERS is recognized as a qualified tax-exempt retirement plan. Amendments to the structure of benefits would generally be the responsibility of the Commission as the employer and plan sponsor. Questions should be directed to Patti Barney, Executive Director of the Commission.

8. The Board of Trustees has members representing various employee groups. However, there is no representative for retirees. Has any consideration been given to having a member of the Retirement Association as a member of the Board of Trustees?

In 2001, the Commission proposed and approved changes to the composition of the Board. A survey at the time showed other jurisdictions had voting representatives from the union, citizen members, and retirees with an average size of nine or ten members. As a result, the Commission directed the Board to move to an eleven-member board and make several changes to the structure. One of these changes permitted one, but not both, of the Public Members on the Board to be a retiree.

9. What part does ERS play in determining retiree health benefits?

The ERS does not play any role in determining retiree health benefits which are determined and provided by the Commission. The ERS is a separate legal entity responsible for administration of the defined benefit plans established by the Commission. The Plan Document, Trust Agreement and Memorandum of Understanding with the Commission detail all of the powers and duties of the Board of Trustees in administration of the ERS. These powers do not extend to retiree health benefits. The ERS deducts medical premiums from retirement benefits for the convenience of retirees. These funds are wired back to the Commission for administration of the health benefit programs.