

Survey of Public Pension Benefits in Maryland



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Bolton Partners was asked by the MACo to provide a survey of pension benefits for local governments in Maryland. Many of these plans are our clients and the timing was such that we thought that a quick survey would be of interest. Why now? Almost all governmental employees in Maryland are covered by mature defined benefit plans. Mature plans with common investment approaches have suffered material investment losses over the last few years. Those losses are being reflected in gradual (but significant) contribution increases often covering the period FY10-FY15. At the same time tax revenues have been hard hit. Some employers have responded already by raising both employer and employee contributions (e.g. Anne Arundel County, Baltimore County and City of Baltimore).

If an employer wants to change benefits it needs to consider whether they will be competitive after the change. In a time like now it might not take as much to be competitive but a pension (even a defined contribution pension) is a long term plan that needs to be competitive over the long term. The balance between being competitive and prioritizing fiscal needs is one that elected officials must decide.

Attached are three charts. The first is a basic comparison chart of plans for police officers. The second is a similar chart for general employees. The third is a graphic representation of the value of employer and employee provided benefits for police officers. Each of these is described below:

Benefit Comparison for Police Officers

We compared the benefits offered by the following nine jurisdictions. All provide defined benefit plans for their police officers:

1. Anne Arundel County
2. Baltimore County
3. Calvert County
4. City of Baltimore
5. Howard County
6. LEOPS (State administered plans for local governments covering police officers)
7. Montgomery County
8. Prince George's County
9. State Police

One thing to understand about a survey like this is that we almost always focus on the benefit offered to new hires. Many of these groups have higher benefits for "closed" groups of employees. However, if the question is whether or not what you offer is going to attract new employees, only the new "tier" of benefit is relevant. So for example, City of Baltimore just changed its benefits 7/1/2010 and these changes are reflected in this chart.

Features Surveyed:

1. First we looked at how many jurisdictions also have Social Security coverage for their police officers. The answer is mixed but most are not covered by Social Security.
2. Next we looked at the basic benefit formula. All groups have benefits tied to an average of pay over their last few years of credited service (CS). The period of time over which the average final compensation (AFC) is determined varies but 36 months is the most common.
3. All of the plans only consider base pay. None include overtime (which avoids the types of large “spiking” issues found in other plans). However, the exact definition of base pay does vary some. For example, some include shift differential and some do not.
4. The “Normal Retirement Age” varies from plan to plan. In every case a police officer age 50 with 25 years has reached his/her Normal Retirement Age. However, some officers can reach this age in their 40’s under the plans’ “20 and out” or “25 and out” benefit (the State Police have a “22 and out”).
5. All of these plans require employee contributions. Generally these contributions are made on a pre-tax basis. As noted above, many plans have been increasing these amounts recently. Those in Social Security would also be contributing an additional 6.2% of their salaries up to the Social Security Wage Base (SSWB).
6. All of the plans have some type of COLA provision. The variation in the COLA designs is material.
7. The final item is the “Form” of payment. This is the normal form of payment. Often the benefit produced by the pension formula is paid just for the life of the retiree. However, in some cases (particularly when the officers are not covered by Social Security) the normal form comes with a survivor benefit. When this is not provided, there is almost always an option to take a reduced benefit in order to provide a survivor benefit.

These are some of the key features employers and unions would want to compare. However, they are not the only important features of plans. Other factors which might be important include disability benefits, DROP provisions, credit for pre-employment military service and early retirement/vesting provisions.

Benefit Comparison for General Employees

We did a similar chart comparing benefits for general employees. Two of the counties (Calvert and Montgomery) provided defined contribution plans and not defined benefit plans for their general employees. This probably parallels the national situation where (1) defined contribution plans are more common for general employees than public safety employees but (2) even for general employees coverage under a defined benefit plan is still more common. In the private sector, defined contribution plans are more common.

Value of Benefits for Police Officers

Is there an easy way to combine all of these key features into a simple comparison of benefits? Ideally you probably need to look at combinations of age and service when people would retire since not everyone is hired at the same time nor do they all retire at the same time. However, we can look at one reasonable retirement age. Attached is a chart comparing police officer benefits based on retirement at age 50 with 25 years of service. The blue portion of the bar is the employer provided portion of the benefit and the red portion of the bar is the employee provided portion of the benefit. The bars include Social Security for those covered by Social Security. The table is ranked from the highest employer provided benefit (State Police) to the lowest (City of Baltimore). The largest total benefit is probably Howard County but employees pay for a large share of the benefit.

As we noted at the beginning, many employers are looking at the benefits they are offering. The Governmental Accounting Standards Board (GASB) accounting rules are also changing. It is unclear whether these changes will lead to benefit changes. But GASB is a subject for another article.

The following abbreviations are used in the benefit comparison charts found on the next four pages:

AFC = Average final compensation

CPI = Consumer price index

CS = Credited service

J&X% = Joint and survivor benefit with percentage (X%) continued to spouse upon retiree's death

SS Integration Level = IRS-prescribed average of the last 35 years of social security wage bases

SSNRA = Social security normal retirement age (67 for people born after 1959)

SSWB = Social security wage base (\$106,800 for 2010)

** The information contained in this survey was obtained from publicly available sources and/or documentation provided directly to Bolton Partners by a jurisdiction. If any information is incorrect or out of date, please forward corrections to the author.*

Benefit Comparison for Police Officers

	Anne Arundel County	Baltimore County	Calvert County	City of Baltimore	Howard County										
Social Security	No	No	Yes	No	Yes										
Plan Formula	$2\frac{1}{2}\%$ x AFC x CS up to 20 plus 2% x AFC x CS above 20 Maximum: 70% x AFC	$2\frac{1}{2}\%$ x AFC x CS up to 20 plus 2% x AFC x CS from 20 to 25 plus 3% x AFC x CS above 25 for each year above 25 earned after 2007 2% is used if less than 20 yrs	2.4% x AFC x CS up to 20 plus 2% x AFC x CS above 20 Maximum: 27 yrs CS	$2\frac{1}{2}\%$ x AFC x CS up to 20 plus 2% x AFC x CS above 20	2.5% x AFC x CS up to 20, graded thereafter based on chart (75% after 25 years, 80% after 30 years)										
Earnings Include	Base Pay	Base Pay	Base Pay	Base Pay	Base Pay										
Average Period (for AFC)	High 3 of last 5 years	Highest 12 months	Highest 36 consecutive months	Highest 36 consecutive months	Highest 36 consecutive months										
When Full Benefits Paid (Normal Retirement Age)	20 years of service or age 50 with 5 years	25 years of service or age 60 with 10 years	20 years of service or age 55	25 years service or age 55 with 15 years	20 years service or age 62 with 5 years										
Employee Contributions	5% of pay (7.75% for some)	8.0% of pay (effective 07/10) 8.5% of pay (effective 07/11)	8% of pay	<table border="1"> <thead> <tr> <th>Effective</th> <th>% of pay</th> </tr> </thead> <tbody> <tr> <td>07/10</td> <td>7%</td> </tr> <tr> <td>07/11</td> <td>8%</td> </tr> <tr> <td>07/12</td> <td>9%</td> </tr> <tr> <td>07/13</td> <td>10%</td> </tr> </tbody> </table>	Effective	% of pay	07/10	7%	07/11	8%	07/12	9%	07/13	10%	11.6% of pay, up to 30 years of service
Effective	% of pay														
07/10	7%														
07/11	8%														
07/12	9%														
07/13	10%														
Cost-of-Living Increases	60% CPI to a maximum of $2\frac{1}{2}\%$	Depends on investment performance, 3% maximum (0% if service < 20)	100% of CPI up to 3%	0% pre 55, 1%/year from 55 to 65, 2% after 65	100% of CPI up to 2%										
Form Valued	Unreduced J&100% benefit with 5 year guarantee	Benefit is J&50% for married employees with 25 years of service	Life Annuity (guaranteed return of employee contributions)	Benefit is J&50% for married employees	Life Annuity										

Benefit Comparison for Police Officers (cont.)

	LEOPS	Montgomery County	Prince George's County	State Police
Social Security	Depends on Employer	Yes	No	No
Plan Formula	2.3% x AFC x CS up to 30 plus 1% x AFC x CS above 30	Pre 67 (SSNRA): 2.4% x AFC x CS up to 36 Post 67 (SSNRA): 1.65% x (AFC up to SS Integration Level) x CS up to 36 plus 2.4% x (AFC above SS Integration Level) x CS up to 36 (slightly different after 36 yrs)	3% x AFC x CS up to 20 plus 2.5% x AFC x CS above 20	2.55% x AFC x CS Maximum: 28 yrs CS
Earnings Include	Base Pay Earning increase of over 20% (non promotion) may not be counted without Trustee approval	Base Pay	Base Pay	Base Pay Earning increase of over 20% (non promotion) may not be counted without Trustee approval
Average Period (for AFC)	Highest 36 consecutive months	Highest 36 consecutive months	Highest 2 years	Highest 36 consecutive months
When Full Benefits Paid (Normal Retirement Age)	25 years of service or age 50	Age 55 with 15 years, or 25 years of service	Age 55 or 20 years of service	Age 50 or 22 years of service
Employee Contributions	4% of pay	4.75% of regular base to SSWB, plus 8.5% in excess	8% first five years, 7% next 5 years, 5.5% thereafter	8% of normal salary
Cost-of-Living Increases	100% of CPI up to 3%	100% first 3% of CPI, plus 60% in excess, not to exceed 7.5%	\$35 per month unless asset return is greater than 8%	100% CPI
Form Valued	Benefit is J&50% for married employees	Life Annuity (guaranteed return of employee contributions)	Life Annuity	Benefit is J&80%

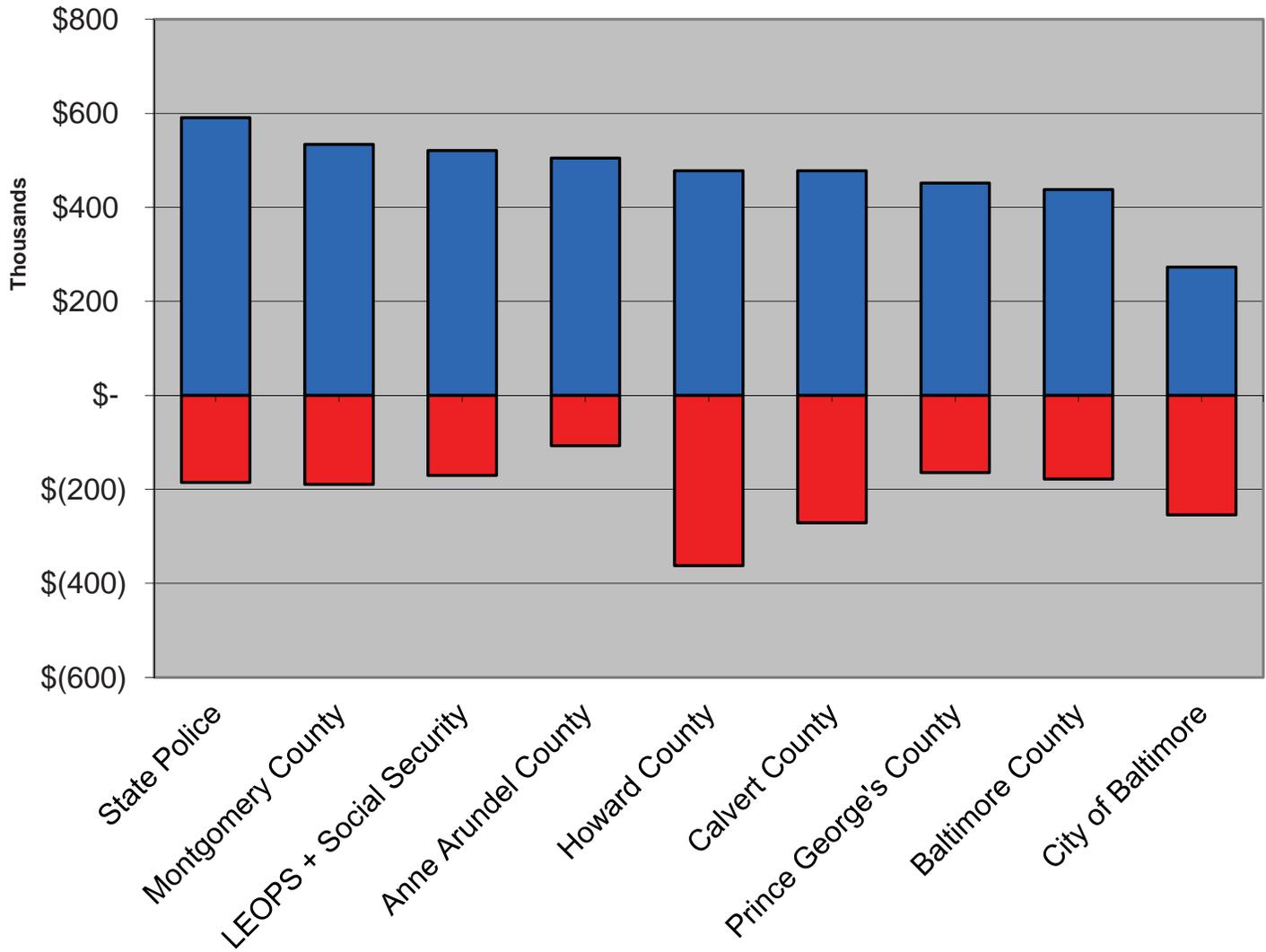
Benefit Comparison for General Employees

	Anne Arundel County	Baltimore County	Calvert County	City of Baltimore
Social Security	Yes	Yes	Yes	Yes
Plan Formula	2% x AFC x CS Maximum: 60% x AFC	1/70 x AFC x CS (1.43% per year)	Defined Contribution plan. Employer contributes 5% of pay	1.6% x (AFC up SS Integration Level) x CS up to 30 plus 1.85% x (AFC above SS Integration Level) x CS up to 30 plus 1.85% x AFC x CS above 30 yrs
Earnings Include	Base Pay	Annual Earnable - same as Base Pay for all but AFSCME employees	Base Pay	Base Pay
Average Period (for AFC)	High 3 of last 5 years	Highest 36 months	NA	Highest 3 years (January 1 rates)
When Full Benefits Paid (Normal Retirement Age)	30 years of service or age 60 with 5 years	35 years of service or age 67 with 10 years	NA	30 years of service or age 65 with 5 years
Employee Contributions	4% of pay	6.5% of pay (effective 7/10) 7.0% of pay (effective 7/11)	3% of pay	None
Cost-of-Living Increases	60% CPI to a maximum of 2.5%	Depends on investment performance, 3% max (0% if service < 20 yrs)	NA	Minimum of 1.5%. Additional increases depend on investment performance
Form Valued	Life Annuity (guaranteed return of employee contributions)	Life Annuity (guaranteed return of employee contributions)	Lump Sum or Rollover	Benefit is J+40% for married employees

Benefit Comparison for General Employees (cont.)

	Howard County	Montgomery County	Prince George's County	State
Social Security	Yes	Yes	Yes	Yes
Plan Formula	1.55% x AFC x CS (some at 1.66% effective 7/1/2011)	Defined Contribution plan. Employer contributes 8% Limited option to put money in defined benefit plan and be credited with 7.25% (cash balance style benefit)	In State plan (non-contributory system) 0.8% x (AFC up to SS Integration Level) x CS plus 1.5% x (AFC above SS Integration Level) x CS Supplemental Plan: 1% x AFC x CS up to 30	1.8% x AFC x CS
Earnings Include	Base Pay	Base Pay	Base Pay Supplemental Plan: All Pay	Base Pay
Average Period (for AFC)	Highest 36 months	NA	Highest 36 consecutive months	Highest 36 consecutive months
When Full Benefits Paid (Normal Retirement Age)	30 years of service or age 62 with 2 years and sum of age and service equals at least 67	NA	30 years of service or age 62 with 5 years (grading up to 65/2) Supplemental Plan: Age 55 with 15 years or State plan NRA	30 years of service or age 62 with 5 years (grading up to 65/2)
Employee Contributions	2% of pay (some at 3% effective 7/1/2011)	4% of pay up to SS wage base and 8% of pay in excess of SS wage base	5% of pay in excess of SS wage base Supplemental Plan: 3.24% of pay	5% of pay
Cost-of-Living Increases	100% CPI up to a maximum of 3%	NA	100% CPI up to a maximum of 3% (based on initial benefit) Supplemental Plan: None	100% CPI to a maximum of 3%
Form Valued	Life Annuity	Lump Sum or Rollover	Life Annuity	Life Annuity

**Value of Benefits at Retirement for Police Officers
(Blue = Employer Provided, Red = Employee Provided)**



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