ANNE ARUNDEL COUNTY
PENSION OVERSIGHT COMMISSION

P.O. Box 470 CROWNSVILLE, MARYLAND 21032
1-410-987-1723, FAX 410-923-0788

March 12, 2023

Via: Electronic mail

County Executive Steuart Pittman
Anne Arundel County
44 Calvert Street
Annapolis, MD. 21401

County Executive Pittman,

In accordance with the procedures set forth in the County Charter, and per your request, I am submitting the Pension Oversight Commission's **Annual Report for 2021**. Due to a lack of funding, our Commission relies on the financial reports generated each year by the pension's actuarial firm to provide the assessment of the appropriateness of the actuarial assumptions used including a statement of revenues, which includes contributions, investment earnings, and forfeitures. We also review the cost of the plan, including an analysis of fees, commissions and expenses. Late in 2017, the County entered into a memorandum of understanding (MOU) with the Pension Oversight Commission (Commission). This MOU was at the request of former County Executive Schuh. After debate and compromise, the MOU was accepted as a means to satisfy all parties that the duties of the Commission are properly fulfilled without interference, and the Commission maintains independent authority.

The key provision that assists the Commission with its duties of providing a yearly report is Section 1(a) which requires the Board of Trustees to submit to the Commission a draft report of the status of the County pension plans. The draft report is required to be submitted prior to the submission of these reports to the County Council and County Executive. In accordance with the negotiations between the County Attorney and the Commission, these reports consist of the annual Comprehensive Financial Valuation Report and the individual plan valuation reports. A joint meeting of the Board of Trustees and the Commission occurred on October 18, 2022. The delay in the production of associated reports and the meeting is partially attributable to continuing COVID-19 related issues and partially attributable to delays in receiving information requested of the administration by the Commission. The Commission encourages the administration to work towards returning to pre-COVID-19 expectations for production of yearly reports from auditors and actuaries to speed the review processes up to normal.

A review of the Comprehensive Annual Finance Report (CAFR) and valuation reports that were provided by the Board of Trustees reveals that, the plans' fiduciary net positions as a percentage of the total pension liability have slightly improved. The economy and investment returns improved substantially in 2021, and despite a moderate increase in pension liabilities the net positions on all pension plans have improved. The economy and investment markets reached historic levels in 2021 contributing to the increase in funding ratios. Additionally, the administration's decision to lower the discount rate and invest additional funds, above and beyond the recommended levels, into the system have also had a positive effect. The Commission is pleased by these positive actions but remains concerned about the economic downturn of 2022. The five-year smoothing applied to the calculations will help but there can be no doubt that the large economic ripples will have a long-term negative effect on the pension system. It remains important to maintain a healthy pension system that provides a competitive benefit to the employees of the County. This assures the citizens of the County that their government is attracting a qualified and skilled workforce. The Commission recommends the Administration continue this commitment to maintaining and improving the pension system.

While the Commission appreciates the assurances given as to the accuracy of the reports, the Commission has also noted that it has been many years since the contract for auditing the pension system has been put out to bid. It would be wise for the County to ensure that it continues to get the best value and, perhaps, have fresh eyes look into the finances of the pension system. This recommendation has been previously made by the Commission but has not been acted upon.

The Commission continues to request data related to the 401(a) program that was established in 2018. As an alternate to the defined benefit program, it is important to ensure that the programs complement each other and do not interfere with one another. The County Office of Personnel has submitted data regarding participation in the 401(a) program. The Commission now has multiple years of data and has concern about the efficacy of the program. The 401(a) program was aimed at recruiting young, educated employees, particularly with technical skills. Thus far, exempt employees appear to be taking advantage of the 401(a) program at somewhat more significant rates and there are relatively few employees in the target area taking advantage of the program. This causes the Commission concern that the 401(a) program is not meeting its initial stated goal and is only a benefit for the highest ranking, most well-paid, exempt employees in the county. These employees are not participating in the pension plan and therefore have no personal interest in the maintenance of the pension system. This also creates a two-tiered benefit structure that creates stratification between exempt and non-exempt employees. That is not to say that there are few non-exempt employees in the 401(a) plan, but it appears that those non-exempt employees are on the opposite end of the spectrum. They are the entry-level employees. This possibly indicates that these entry-level employees do not intend on staying for the full term of employment where they would expect a pension benefit. Thus, these employees are likely placeholders that are recruited for the short-term to fill critical vacancies until such time as career-timeframe employees can be hired. This might indicate a future high level of turnover in those positions which is detrimental to building institutional knowledge within the county workforce. Finally, the participation based upon age is relatively even across ten age bands. This, again, possibly indicates that the program has not been effective at recruiting young professionals, particularly in the information technology fields, as was the goal of the 401(a) program. When the Administration was questioned on this matter, they admitted they have little data as to why participants select the 401(a) program, whether it is actually meeting the needs of the employees, or if they regret their decision. The Commission urges the Administration and the County Council to gather appropriate data to analyze whether this 401(a) program is accomplishing a valid goal and if it is creating unforeseen negative consequences. Additionally, it is worthy of exploring why the County is unable to recruit entry-level employees into career-timeframe employment positions. Reform of this 401(a) program may be necessary to properly address its initial goals. The Commission has previously made this recommendation to the administration but it has not been acted on.

The Commission has repeatedly requested data from County Personnel on the pension system's funding of salaries of employees of County Personnel. These employees are ostensibly assigned tasks related to the management of the pension system. Unfortunately, the County has been unable to account for the time actually spent by these employees on pension-related tasks. The County has been able to provide the job classifications and percentage of salary provided by the pension system but, despite two years of requesting an actual accounting of time spent on these tasks, the County has been unable to provide those data. This is concerning because there is no way to determine if the pension system is receiving pension services it is paying for. There is a significant transparency problem when funds are being spent without any accounting, and whether those funds are actually paying for the pension services they are intended. The Commission requests that County Personnel undertake proper data collection so that the Commission can judge a proper accounting of those funds, or it may be appropriate to transfer such funding away from the pension systems and place that responsibility solely with the County. The Commission has made this request repeatedly and it has not been acted on.

The Commission notes that the last three concerns expressed to the administration have been made repeatedly, over multiple years, and the Administration has failed to heed the advice and recommendations of the Commission. The Commission continues to seek information from the County related to the administration of the Pension system.

As Chairman, I have presided over publicized, open meetings of our Commission to consolidate their collective thoughts and ideas regarding each bill introduced and presented our final position before submitting them to your office and the County Council. In 2021, there were two pension related bills submitted for review. Minutes for meetings have been submitted to the County for posting on its website for review.

Bill 79-21 removed the ability of the Fire Chief to deny a sixth year of participation in the Deferred Retirement Option Plan (DROP) to fire service Battalion Chiefs. The Commission supported this legislation because it has consistently supported the collective bargaining process and because it is consistent with effective and consistent administration of the DROP. This bill passed and was signed into law.

Bill 100-21 re-instituted a reduction of benefits for retired employees who are re-hired in a contractual capacity (under Charter §802(a)(14)), but only for time worked in excess of 1,500 hours per year. The Commission opposed this legislation for multiple reasons. First, there was a contrast between the administration's assertion that there would be a cost savings for the pension system versus the bill's fiscal note which stated there would be "no estimated fiscal impact." Second, it took the county a full year from a related change in the County Charter which lifted the 1,500 total work-hour cap on contract employees to switch back to a system that imposes the reduction in benefit for hours worked over 1,500 hours. The Commission also had concerns about how reinstituting the penalty would affect the county's ability to hire and retain employees into those positions. Finally, the Commission had concerns about County Personnel's ability to administer the program and keep track of the 1,500 hour trigger for implementation of the penalty on any particular employee. This bill passed and was signed into law.

During 2021, Commission member Joe Bernatowicz was elected and appointed as the non-represented employee member of the Commission and in 2022 Julius Jones was appointed as a citizen representative. Fire Service Representative Erik Kornmeyer retired and was replaced by elected and appointed Fire Service Representative Jamie McIntosh in 2022. The commission is now fully staffed.

The Pension Oversight Commission continues its important work, as determined by the citizens of Anne Arundel County. The Commission provides an apolitical, unbiased, and non-partisan analysis of how the County's pension system is operating and the legislation that will affect it. It is our belief that the membership of the Commission reflects a thoughtful and intelligent composition of views, as evidenced by our members' varied backgrounds. Additionally, we have been able to achieve consensus views that apply a thoughtful and dedicated analysis of the issues at hand with an eye toward maintaining a healthy and productive pension system that is to the benefit of the County, employees and citizens.

2021 Members of the Pension Oversight Commission:

1. ***Michael Shier Esq.*** *(Chairman) – Uniformed Police Officer | Conductor of FOP Lodge #70 | Educated: University of Maryland, College Park | University of Maryland, Carey Law School of Law (J.D. 2020)*

2. ***Robert Stull*** *(Secretary) – AFSCME Representative – Wastewater Tech II Anne Arundel County Dept. of Public Works.*
   Educated: University of Texas, San Antonio | Anne Arundel Community College

3. ***Susan Duncan*** *– Human Resources Consultant, Annapolis, Maryland | Government Administration | HR Solutions by the Hour | U.S. Army, U.S. Army Corps of Engineers*
   Educated: Virginia Polytechnic Institute and State University

4. ***Joseph Bernatowicz, MBA –*** *Energy Manager | Anne Arundel County Department of Public Works | Educated: Clarkson University and University Of Maine*

5. ***Erik Kornmeyer*** *– Fire Service Representative –Anne Arundel County Fire Dept. Captain | Community Outreach and Recruitment Officer*
   Educated: University of Richmond
   **Retired Dec. 2021*

6. ***Ed Gosselin*** *–Real Estate Development| Chesapeake Real Estate Group| MD Economic Development Corp Board| Anne Community Development Corp Board | Education: Colorado State University, Masters DePaul University| Resident since 1996.*

7. ***Mark Humphries*** *- Owner | Sentinel Financial Planning, LLC | The National Association of Personal Financial Advisors | Anne Arundel Chamber of Commerce | Education: University of Central Florida | Resident since 2012*

8. ***Sherri Voelkel*** *– Certified Public Accountant | Chief Financial Officer, McDonogh School | Member Maryland Association of Certified Public Accountants | President of the Board, Association of Independent Maryland Schools Benefit Trust | Education: University of Tulsa | Resident since 1997*

Sincerely,

Michael Shier
Chairman – Pension Oversight Commission

Cc:

Alison Pickard	Amanda Fiedler	Pete Smith
Julie Hummer	Nathan Volke	
Lisa Rodvein	Shannon Leadbetter	