



Employees' Retirement System of the City of Baltimore

Actuarial Valuation Report as of June 30, 2019

Produced by Cheiron

November 2019

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November 5, 2019

Board of Trustees
Employees' Retirement System
of the City of Baltimore
7 East Redwood Street, 12th Floor
Baltimore, Maryland 21202-3470

Dear Members of the Board:

We are pleased to submit the June 30, 2019 actuarial valuation of the Employees' Retirement System of the City of Baltimore (the System). This report contains information on the System's assets and liabilities, as well as discloses employer contribution levels. Financial disclosures are provided in a separate Governmental Accounting Standards Board (GASB) Statement Nos. 67 and 68 reports.

The purpose of this report is to present the annual actuarial valuation of the Employees' Retirement System of the City of Baltimore. This report is for the use of the Employees' Retirement System's Retirement Board and its auditors in preparing financial reports in accordance with applicable law and accounting requirements.

This report and its contents have been prepared in accordance with accepted actuarial principles and practices and our understanding of the Code of Professional Conduct and applicable Actuarial Standards of Practice set out by the Actuarial Standards Board as well as applicable laws and regulations. Furthermore, as credentialed actuaries, we meet the Qualification Standards of the American Academy of Actuaries to render the opinion contained in this report. This report does not address any contractual or legal issues. We are not attorneys, and our firm does not provide any legal services or advice.

This report was prepared solely for the Employees' Retirement System of the City of Baltimore for the purposes described herein. This valuation report is not intended to benefit any third party, and Cheiron assumes no duty or liability to any such party.

Sincerely,
Cheiron



Anu Patel, FSA, MAAA, EA
Principal Consulting Actuary



Matt Deveney, FSA, MAAA, EA
Consulting Actuary

cc: Kenneth A. Kent, FSA, FCA, MAAA, EA

**EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF BALTIMORE
ACTUARIAL VALUATION AS OF JUNE 30, 2019**

FOREWORD

Cheiron is pleased to provide the annual actuarial valuation report of the **Employees' Retirement System of the City of Baltimore** as of June 30, 2019. The purpose of this report is to:

- 1) **measure and disclose**, as of the valuation date, the financial condition of the System,
- 2) **report** on past and expected financial trends,
- 3) **determine** the recommended contributions for FYE 2021, and
- 4) **provide specific information** and documentation to support the City's funding obligation and information required by the auditors of the System.

An actuarial valuation establishes and analyzes the System assets and liabilities on a consistent basis, and traces the progress of both from one year to the next. It includes measurement of the System's investment performance as well as an analysis of actuarial liability gains and losses. This valuation report is organized as follows:

Section I presents a summary of the valuation and compares this year's results to last year's results.

Section II identifies the primary risks to the System as well as provides background information and assessment of these risks.

Section III contains exhibits relating to the valuation of assets.

Section IV shows the various measures of liabilities and presents an analysis of the experience gains and losses over the past year and the source of changes to the unfunded actuarial accrued liability.

Section V develops the City contribution rate.

The appendices to this report contain a summary of the System's membership at the valuation date, a summary of the major provisions of the System, and the actuarial methods and assumptions used in the valuation.

In preparing our report, we relied on information (some oral and some written) supplied by the System's staff. This information includes, but is not limited to, plan provisions, employee data, and financial information. We performed an informal examination of the obvious characteristics of the data for reasonableness and consistency in accordance with Actuarial Standard of Practice No. 23 Data Quality.

**EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF BALTIMORE
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The actuarial assumptions reflect our understanding of the likely future experience of the System and represent our best estimate, in cooperation with the Board's views, for the future experience of the System. The results of this report are dependent upon future experience conforming to these assumptions. To the extent that future experience deviates from the actuarial assumptions, the true cost of the System could vary from our results.

The employers' annual contributions to this System are determined as the sum of the net normal cost, reflecting a provision for administrative expenses, and an amortization of the System's unfunded actuarial liability. The employer contribution rate will change when benefits are modified or assumptions are changed. The rate also changes in response to actuarial gains and losses on either the assets or the liabilities of the System. This report was prepared using census data and financial information as of June 30, 2019 as provided to us by the System and does not reflect any subsequent changes in the membership or assets.

**EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF BALTIMORE
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SECTION I – SUMMARY

The Baltimore City Code requires an experience study of the System to be performed at least once every four years. Cheiron performed and presented an experience study for the System for the period July 1, 2014 through June 30, 2018 in June 2019. The analysis covered both economic and demographic assumptions. The following outlines the recommended assumption changes adopted by the Board for the June 30, 2019 valuation. For a more detailed description of these assumption changes, refer to Appendix B of this report or Cheiron's experience study report.

- Changes to demographic assumptions, including updates to termination rates, retirement rates, disability rates and an assumption for survivor data drop-offs.
- Updated mortality rates to Pub-2010 mortality tables and the MP-2018 mortality improvement projection scale through 2022.
- Decrease in future salary increases
- Decrease in inflation assumption from 2.65% to 2.55%

Additionally, the Regular Interest rate was decreased from 7.50% to 7.00% for active and terminated vested participants effective with the June 30, 2019 valuation, based on the City's Retirement Code. The Board of Trustees also adopted a change in the funding policy to apply a one-time, one-year extension of the amortization period for the June 30, 2019 valuation.

The impact of these changes is reflected in the June 30, 2019 valuation and resulting Fiscal Year (FY) 2021 contributions. The assumptions and methods reflected in the results of this valuation are listed in Appendix B.

The key results of the June 30, 2019 actuarial valuation are as follows:

- Investments earned 5.50% on a market value basis. The expected rate of return is defined by the definition of *Regular Interest* in the City Code, which for the prior year were 6.50% for participant liability in pay status and 7.50% for all other liabilities. For comparing the actual return, we determined a liability weighted expected return (taking the regular interest times a ratio of the respective present value of benefits for active and deferred vested participants versus participants in pay status over the total present value of benefits of the entire System) which resulted in a blended expected discount rate in the prior year of 6.93%.
- Due to smoothing of the prior investment gains and losses, the actuarial asset value return was 5.76%, producing a net loss of \$34.2 million to the System this year when measured against the expected asset return of 7.50%.
- The unfunded actuarial liability (Actuarial Liability minus Actuarial Assets) increased from \$625.26 million on June 30, 2018 to \$679.98 million on June 30, 2019. This increase is primarily attributable to the changes to the actuarial assumptions including the reduction in the pre-commencement Regular Interest rate. Details of the gains and losses are presented in detail in Section IV of this report.
- The reduction in the System's Regular Interest rate from 7.50% to 7.00% for active and terminated vested participants resulted in an increase in liabilities of \$22.9 million. The liability weighted discount rate for this year after reflecting this change is 6.72%.

**EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF BALTIMORE
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SECTION I – SUMMARY

- The unfunded actuarial liability increased by \$42.6 million due to changes in actuarial assumptions adopted as a result of the experience study (this is in addition to the change in the Regular Interest rate above).
- The System's funded ratio, which is the ratio of actuarial asset value to actuarial liability, decreased from 74.1% last year to 73.0% this year.
- The total recommended contribution increased from \$86,953,791 for FYE 2020 to \$92,637,053 for FYE 2021. This represents an increase in cost as a percent of payroll from 21.55% to 22.07% for FYE 2021. The expected employee contribution rate for active Plan C and Plan D members used to offset the City's cost is 5% of pay.
- The funding policy previously adopted by the Board provided for the unfunded actuarial liability to be amortized over a fixed period of 20 years targeting 100% funding by the fiscal year ending 2032. For the June 30, 2019 valuation, the Board adopted a one-time, one-year extension of the amortization period. As of the current valuation, the amortization period remains the same as last year at 13 years after reflecting this change.
- Employees hired or rehired after July 1, 2014 are covered under the Class D membership if they elect the "hybrid" plan option at time of employment. As of June 30, 2019 there are 2,060 Class D members out of total active membership of 8,204, representing 25.1% of the total active members in the System.
- Under the plan provisions for Hybrid Class D members if the funded status of this Class of members falls below 85% then up to half the City contributions to the Retirement Savings Plan (which would be an additional 1.5% of pay) will be diverted to this Plan. This report includes in Section IV the current Plan D funded status which is 90.7%.

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SECTION I – SUMMARY

The tables below provide details on the development of the FYE 2021 contribution results, unfunded actuarial liabilities, and statistics on Plan membership. The total lump sum costs determined as payable at the beginning of the fiscal year reflect the offset of expected member contributions.

Table I-1 Valuation Summary				
	2018 Valuation Applies to FYE 2020		2019 Valuation Applies to FYE 2021	
	Amount	% of Pay	Amount	% of Pay
1 Contributions				
Total Normal Cost (with expenses)	\$ 29,335,489	7.27%	\$ 31,541,844	7.52%
Expected Employee Contributions FYE 2019/2020 ¹	<u>(17,058,147)</u>	-4.23%	<u>(17,880,096)</u>	-4.26%
Employer Normal Cost	\$ 12,277,342	3.04%	\$ 13,661,748	3.26%
Allocation from 6/30/2000 Excess Earnings to Pay Ordinance 01-189 Normal Cost	\$ (3,574,394)	-0.89%	\$ (3,717,370)	-0.89%
Amortization of Unfunded Actuarial Liability	\$ 71,578,490	17.74%	\$ 76,037,552	18.12%
Interest to Beginning of Next FY	<u>\$ 6,672,353</u>	1.65%	<u>\$ 6,655,123</u>	1.59%
Total Lump Sum Cost	\$ 86,953,791	21.55%	\$ 92,637,053	22.07%
Total Covered Payroll	\$ 403,454,892		\$ 419,686,035	
2 Unfunded Liabilities				
Actuarial Liability				
Active	\$ 874,104,305		\$ 941,544,330	
Retirees and Dependents	1,484,169,320		1,512,876,082	
Terminated Vested	<u>52,340,433</u>		<u>60,716,983</u>	
Total	\$ 2,410,614,058		\$ 2,515,137,395	
Less: Actuarial Value of Assets	\$ 1,785,356,033		\$ 1,835,157,423	
Unfunded Actuarial Liability	\$ 625,258,025		\$ 679,979,972	
Funded Ratio based on Actuarial Value of Assets	74.1%		73.0%	
Funded Ratio based on Market Value of Assets	71.1%		69.8%	

¹ Expected Employee Contributions are 5% of pay for Plan C and Plan D members

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SECTION I – SUMMARY

The following tables summarize changes in plan membership over the past year.

Table I-2 Active Membership Summary						
	Active Members			Payroll		%
	2018	2019	% Increase	2018	2019	Increase
Class A	12	9	-25.00%	\$ 539,850	\$ 464,616	-13.94%
Class C	6,680	6,135	-8.16%	340,542,004	323,648,999	-4.96%
Class D	<u>1,321</u>	<u>2,060</u>	55.94%	<u>62,373,038</u>	<u>95,572,420</u>	53.23%
Total	8,013	8,204	2.38%	\$ 403,454,892	\$ 419,686,035	4.02%
Average				\$ 50,350	\$ 51,156	1.60%

Table I-3 Inactive Membership Summary						
	Number of Retirees			Average Annual Benefit Amount		
	2018	2019	% Increase	2018	2019	% Increase
Receiving Benefits						
Normal Service Retirement	5,974	6,057	1.4%	\$ 18,303	\$ 18,747	2.4%
Discontinued Service	848	821	-3.2%	22,199	22,719	2.3%
Ordinary Disability	830	821	-1.1%	9,873	9,974	1.0%
Accidental Disability	58	56	-3.4%	23,429	23,667	1.0%
Social Security Equalization	9	9	0.0%	6,266	6,391	2.0%
Beneficiaries of Above	1,356	1,386	2.2%	8,420	8,574	1.8%
Ordinary Death	117	111	-5.1%	13,237	13,331	0.7%
Special Death	<u>11</u>	<u>6</u>	-45.5%	<u>18,194</u>	<u>15,352</u>	-15.6%
Total	9,203	9,267	0.7%	\$ 16,402	\$ 16,751	2.1%
Deferred Benefits						
Terminated Vested*	1,030	1,024	-0.6%	\$ 8,882	\$ 9,258	4.2%

*Benefit amounts for 3 vested participants were not provided; we assumed a monthly benefit of \$700.

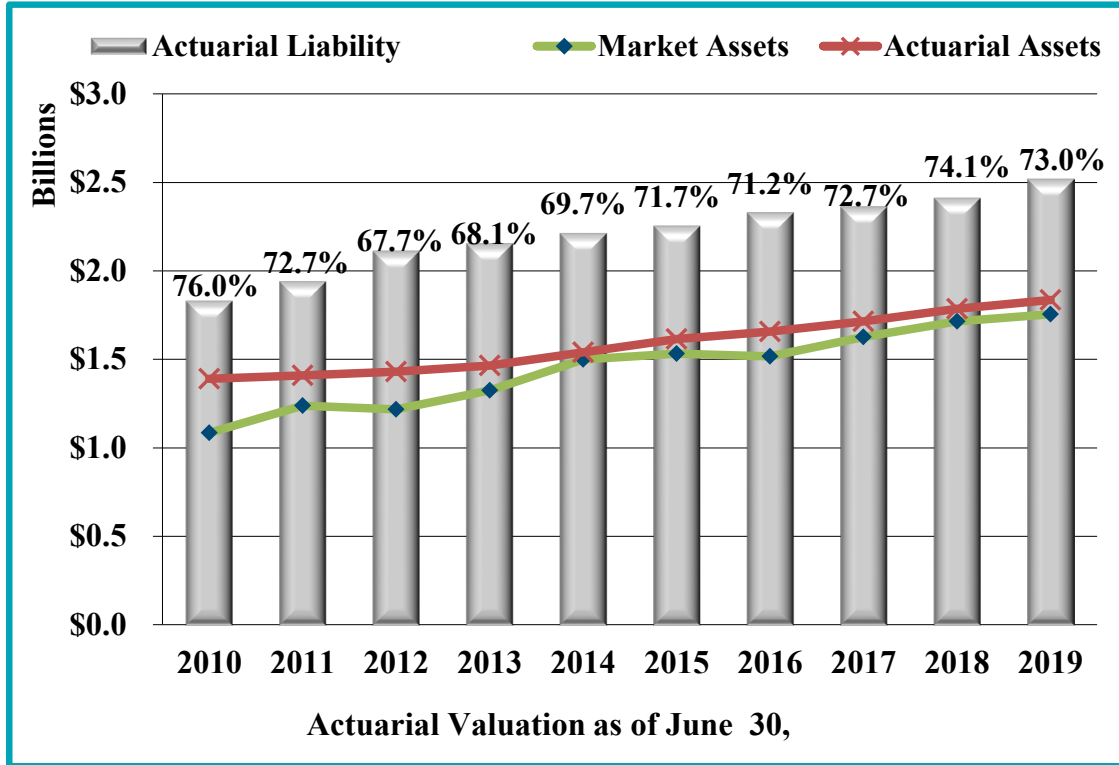
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SECTION I – SUMMARY

Historical Trends

It is important to take a step back from these latest results and view them in the context of the System's recent history. Below, we present a series of charts which display key factors in the valuations of the last 10 years.

Assets and Liabilities



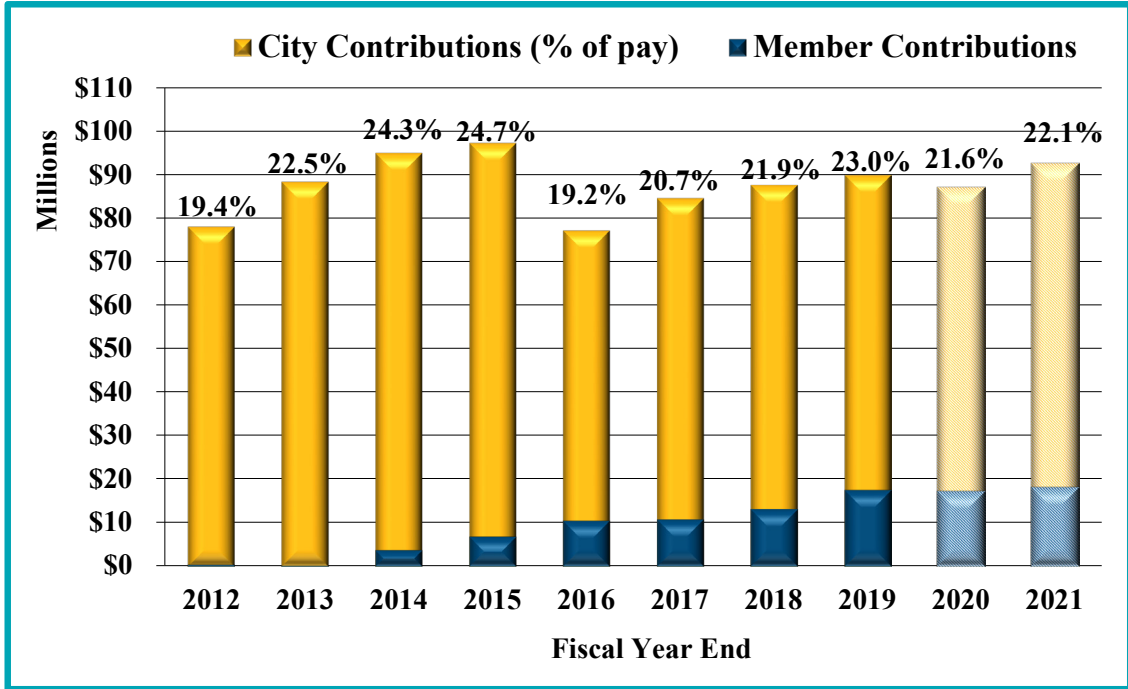
The chart above shows historical trends since 2010 for the market and actuarial value of assets compared to the actuarial liability. The actuarial asset value reflects the market value plus one-fifth of the aggregate investment earnings above or below the expected return. We also show the progress of the Retirement System's funded ratios (ratio of actuarial assets over actuarial liabilities) provided along the top of each bar. The System had its highest funded percentage during this decade (76%) on June 30, 2010. After the impact of the market decline in 2008, the System experienced marked lower funded ratios. The deferred investment losses are partially recognized and further offset by investment gains resulting in the actuarial assets being almost equal to the market assets in 2014. The increase in liability as of June 30, 2012 was mainly due to the change to the Entry Age Normal Cost funding method. In 2019, the funded ratio decreased from 74.1% to 73.0% primarily due to the change in discount rate and the change in assumptions due to the experience study.

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SECTION I – SUMMARY

Contribution Rates

This graph shows the historical trends for the actuarially calculated contributions (including City and member contributions) and net City contribution rate as a percent of payroll, shown above each bar. Because there is a one-year lag in the determination of the City contributions, we show the actual contributions made through FYE 2019 and estimated amounts for FYE 2020 and FYE 2021.



The increasing costs from 2012 to 2015 are a reflection of an increasing unfunded actuarial liability in part due to investment losses. The percentages above the bars show the City contribution rate net of member contributions as a percent of pay. The City contribution rate drops for FYE 2016 mainly due to the one-time credit applied for contributions already made by the City in excess of the required amounts due to the member contribution offset. Member contributions offset the City's cost. Beginning with FYE 2014 member contributions started at 1% of pay increasing by 1% each year, if salary also increased 2% in each of those years. During FYE 2017 because the 2% salary increase did not occur, member contributions remained at 3% instead of the scheduled increase to 4%. This results in a one year delay with, expected member contributions at 4% of pay during FYE 2018 and ultimately reaching 5% of pay starting with FYE 2019 and thereafter. The FYE 2021 costs reflect the changes in assumptions and the one-year extension for the amortization period.

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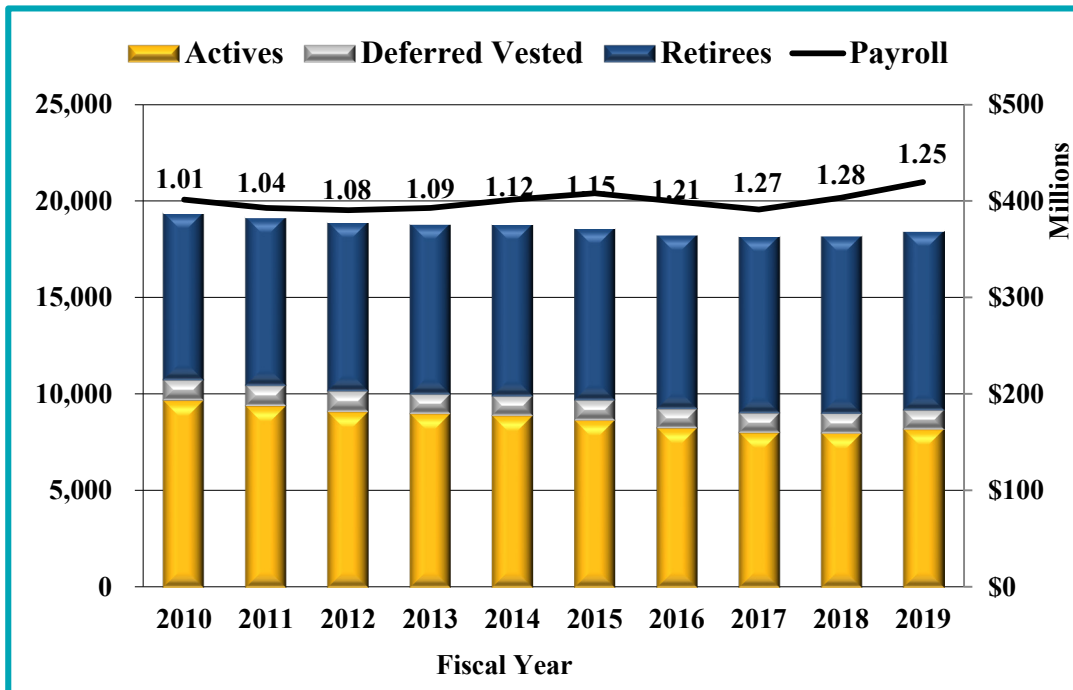
SECTION I – SUMMARY

Participant Trends

The chart below shows the membership counts of the System at successive valuations. The numbers which appear above each bar represent the ratio of the number of inactive members to active members at each valuation date. The number of inactive per each active had been steadily increasing since 2010 through 2018, however there was a decrease in 2019.

The black line represents the total covered payroll over the period, and it corresponds with the scale on the right. Payroll has remained fairly level from 2010 to 2015, declined from 2016-2017, and increased in 2018-2019. This is in line with the decline in active members resulting from the new Plan D which had a one year wait period for membership and an option to opt out of the Hybrid Plan D to participate in a defined contribution plan. The number of active members had been decreasing each year since 2010 until 2018 and for the first time in ten years active membership increased in 2019.

The ratio of inactive to active participants (support ratio) as of the current valuation is 1.25, down from 1.28 in the prior year. The implications of this ratio are that the unfunded liability, which represents the System overall, is measured as a percent of active participant payroll. Therefore the costs as a percent of payroll will be more volatile for a plan with a ratio of inactive to active participants greater than 1.



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SECTION I – SUMMARY

Historical Trends

Base Line Projections

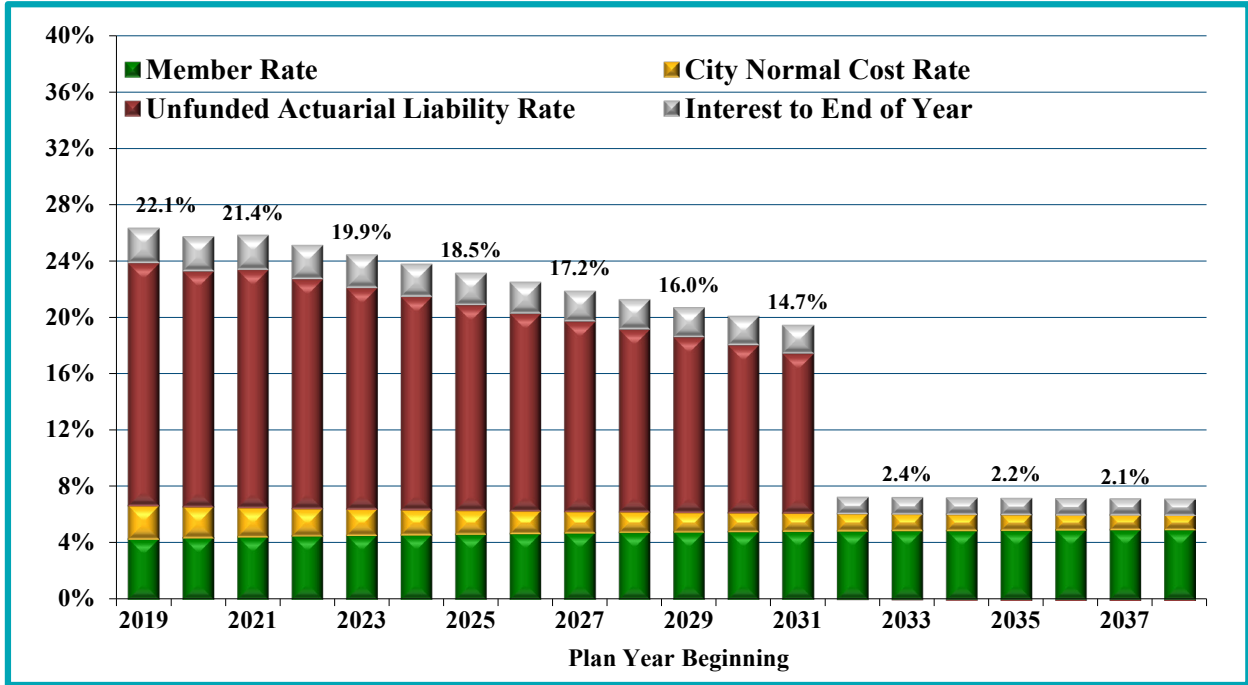
The following chart shows the expected progress of the System's funded status over the next 20 years measured in terms of the City's contribution rate and the funded ratio assuming the long-term return rate of 7.00%. This projection reflects the changes in plan membership where all new hires participate at a lower benefit formula and contribute at 5.0% of pay under Class D membership.

The projections assume there will be no future gains or losses on the liability. These projections are also based on assuming all of the valuation assumptions are exactly met, including the long-term rate of return and covered payroll increasing by the inflation assumption of 3.40% per year.

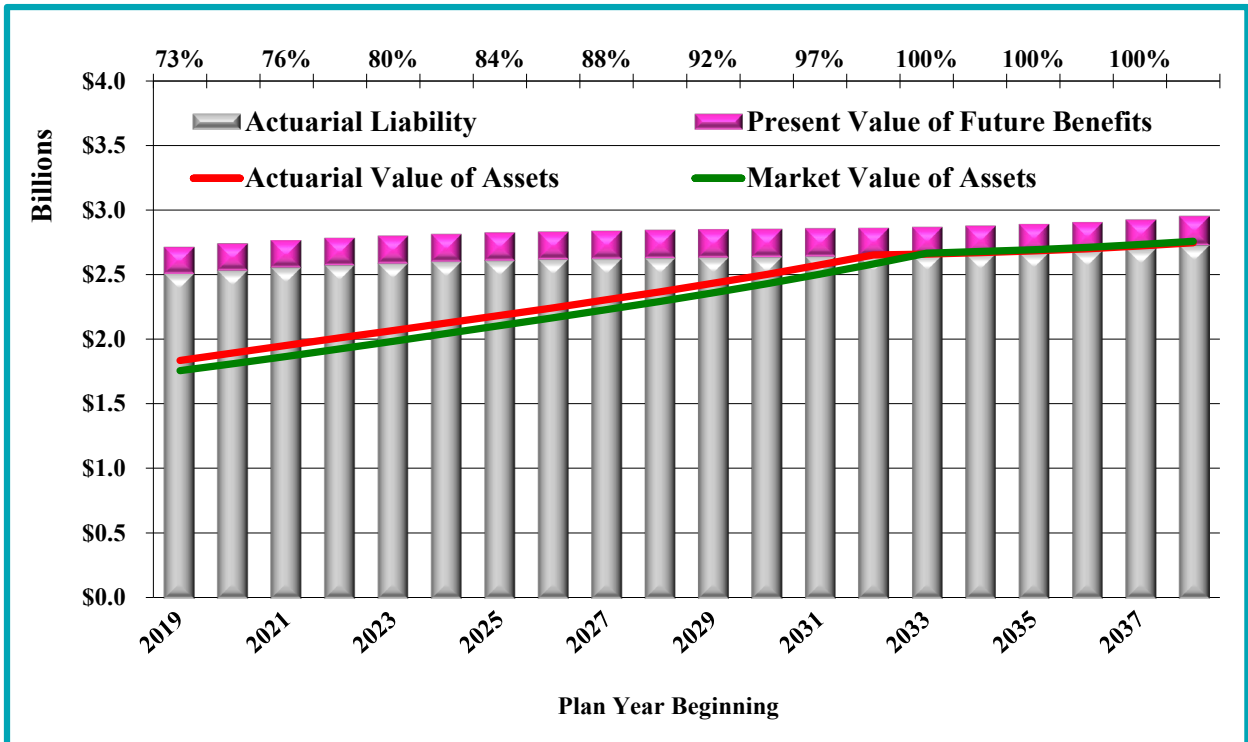
The chart shows the expected member contribution rate, the normal cost rate, the rate of pay amortization of the unfunded actuarial liability (UAL) rate, and the net City's total contribution rate (numbers on the top of the bars). The City's total cost as a percent of payroll is projected to decrease steadily over the projection period as a function of the funding policy which pays the unfunded liability over a fixed period resulting in level dollar amortization payments along with an increasing proportion of Plan D active membership with a lower normal cost rate. The cost eventually drops to around 2.4% when the unfunded liability is fully paid off and the majority of remaining active members are expected to be covered as Class D members. The 5.0% contribution rate for Class D members is expected to cover most of the normal cost rate, the cost of the annual benefit accrual with the balance of the cost to cover the cost of administrative expenses. Therefore the City's net cost will trend toward 2.1% as Class C members retire. The cost between year 2020 and 2021 is flat due to the ending of the Ordinance 01-189 normal cost adjustment. This projection assumes that all actuarial assumptions are met, including the 7.00% investment return assumption.

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SECTION I – SUMMARY



The next chart compares Assets and Liabilities and shows that if all actuarial assumptions are exactly met, the System’s funded ratio shown along the top of the graph (actuarial asset value as a ratio of actuarial liability) is projected to improve gradually from the current level of 73% to 100% funding in 13 years by 2032.



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SECTION I – SUMMARY

This pattern of funded status improvement is a function of the funding policy to amortize the UAL over a fixed 21-year period including the one-year extension adopted for the June 30, 2019 valuation. The financial experience of the System will not conform exactly to the assumptions every year. As a result, in addition to the baseline projection, we provided additional stress testing in the future in Section II of this report.

SECTION II – IDENTIFICATION AND ASSESMENT OF RISK

Introduction

Actuarial Standard of Practice (ASOP) No. 51 was issued by the Actuarial Standards Board to provide guidance to actuaries on the assessment and disclosure of risks related to the possibility that future pension plan experience will deviate from assumptions. This standard does not introduce new concepts to actuarial work; it simply attempts to provide some codification of the practice. Our reports have routinely included stress testing of the valuation results showing the impact of future experience deviating from the underlying assumptions as well as other communications related to the risks that the actual condition of the System will deviate from our valuation results. However, with this ASOP becoming effective for the June 30, 2019 valuation, we have taken this as an opportunity to consolidate the information regarding assessment and disclosure of the System's risks in this section as well as add a number of additional items helping to communicate and understand these risks.

Actuarial valuations are based on a set of assumptions about future economic and demographic experience. These assumptions represent a reasonable estimate of future experience, but actual future experience will undoubtedly be different and may be significantly different. This section of the report is intended to identify the primary risks to the System, provide some background information about those risks, and provide an assessment of those risks.

Identification of Risks

As we have discussed with the Board, the fundamental risk to the System is that the contributions needed to pay the benefits become unaffordable. While we believe it is unlikely that the Plan by itself would become unaffordable, the contributions needed to support the Plan may differ significantly from expectations. While there are a number of factors that could lead to contribution amounts becoming unaffordable, we believe the primary risks are:

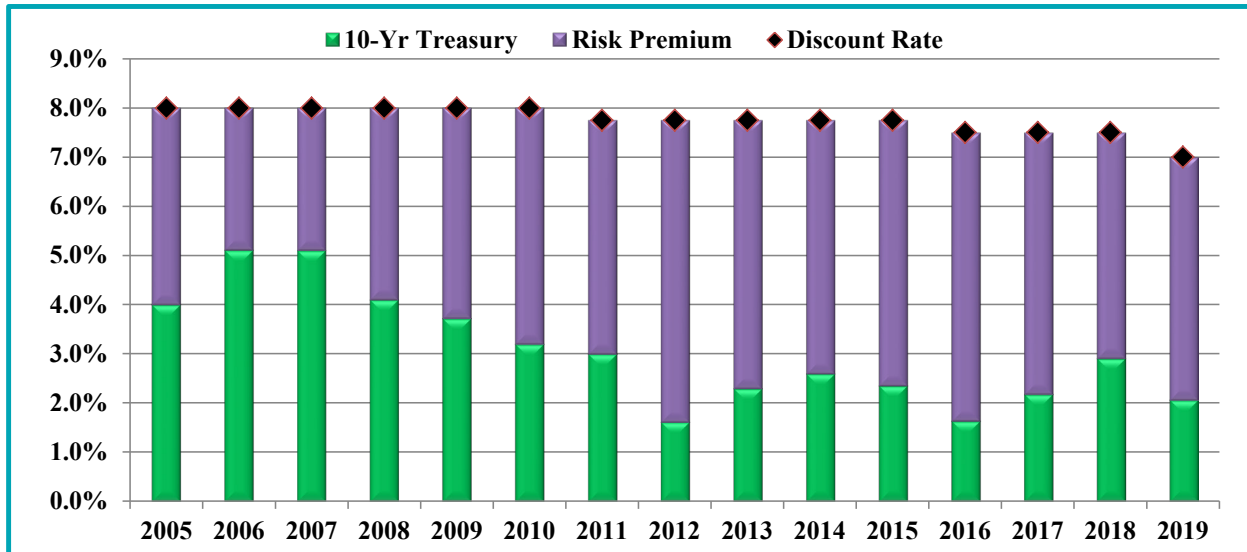
- Investment risk,
- Interest rate risk,
- Longevity and other demographic risks; and
- Assumption change risk.

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SECTION II – IDENTIFICATION AND ASSESMENT OF RISK

Investment Risk is the potential for investment returns to be different than expected. Lower investment returns than anticipated will increase the Unfunded Actuarial Liability necessitating higher contributions in the future unless there are other gains that offset these investment losses. The potential volatility of future investment returns is determined by the System's asset allocation and the affordability of the investment risk is determined by the amount of assets invested relative to the size of the plan sponsor or other contribution base.

Interest Rate Risk is the potential for interest rates to be different than expected. For public plans, short term fluctuations in interest rates have little or no effect as the system's liability is usually measured based on the expected return on assets. Longer-term trends in interest rates however can have a powerful effect. The chart below shows the yield on a 10-year Treasury security compared to the System's assumed rate of return. The difference is a simple measure of the amount of investment risk taken. As interest rates have declined, plans face a choice: maintain the same level of risk and reduce the expected rate of return; maintain the same expected rate of return and take on more investment risk; or some combination of the two strategies. The System has reduced their discount rate for active and terminated vested participants from 8.00% to 7.00% over the period shown.



Longevity and Other Demographic Risks are the potential for mortality or other demographic experience to be different than expected. Generally, longevity and other demographic risks emerge slowly over time and are often dwarfed by other changes, particularly those due to investment returns.

Assumption Change Risk is the potential for the environment to change such that future valuation assumptions are different from the current assumptions. For example, declines in interest rates over time may result in a change in the assumed rates of return used in the valuation. A healthier workforce may result in changes in employee behavior such that retirement rates are adjusted to reflect employees working longer. Assumption change risk is an extension of the other risks identified, but rather than capturing the risk as it is experienced, it captures the cost of

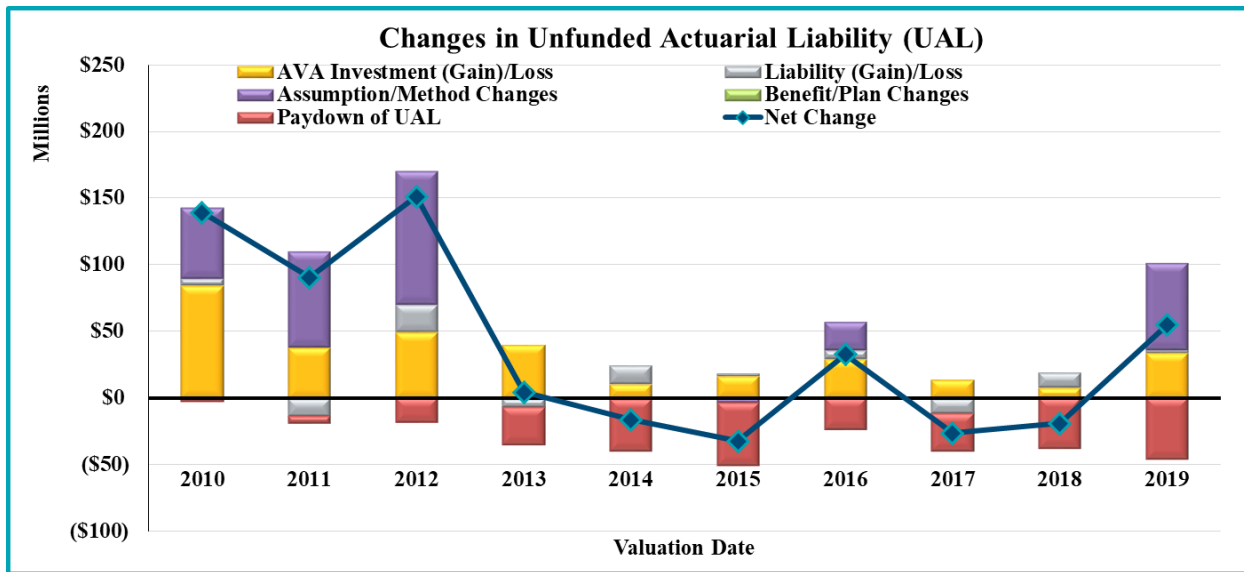
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SECTION II – IDENTIFICATION AND ASSESMENT OF RISK

recognizing a change in environment when the current assumption is no longer reasonable. The historical review section below illustrates that assumption change risk has had a measureable impact when assumptions were updated as a result of experience studies and lowering of the discount rate.

In understanding the impact of some of these risks, it is useful to look at past experience deviations. These deviations are commonly referred to as actuarial gains and losses. The chart below shows the components of changes in the Unfunded Actuarial Liability (UAL) for the System over the last ten years, including AVA investment gains and losses, liability gains and losses, assumption and method changes, and the paying down of the UAL. Amounts below the horizontal axis are gains, or decreases to the UAL, while amounts above the axis are losses, or increases to the UAL. The net UAL change is shown by the dark blue line. Table II-1 below the chart summarizes the changes in the UAL over the last ten years.

Historical Changes in UAL 2010-2019



	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Total
Discount Rate	8.00%	7.75%	7.75%	7.75%	7.75%	7.75%	7.50%	7.50%	7.50%	7.00%	
Source											
AVA Investment (G)/L	\$ 83.7	\$ 37.8	\$ 49.1	\$ 40.1	\$ 10.3	\$ 16.5	\$ 29.2	\$ 14.2	\$ 7.9	\$ 34.2	\$ 323.0
Liability (G)/L	5.6	(13.3)	20.6	(7.0)	14.0	2.1	6.9	(11.3)	11.3	1.4	30.3
Assumption/Method Changes	53.0	72.1	100.2	0.0	0.0	(3.8)	20.9	0.0	0.0	65.5	307.9
Benefit/Plan Changes	0.0	0.0	0.0	0.0	(1.0)	0.0	0.0	0.0	0.0	0.0	(1.0)
Paydown of UAL ¹	(3.3)	(6.0)	(18.6)	(28.7)	(39.4)	(47.2)	(24.1)	(29.1)	(38.1)	(46.3)	(280.8)
Total UAL Change	139.0	90.6	151.3	4.4	(16.1)	(32.4)	32.9	(26.2)	(18.9)	54.8	\$ 379.4

¹ UAL change due to benefit accruals and payments, contributions, timing, and interest.

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SECTION II – IDENTIFICATION AND ASSESMENT OF RISK

On a smoothed asset basis, the investment gains and losses (gold bars) from 2010 to 2019 reflect investment losses in every year since 2010. Over the ten-year period, investment losses, have added approximately \$323.0 million to the UAL.

On the liability side (gray bars), the System has experienced offsetting gains and losses, increasing the UAL by approximately \$30.3 million over the ten-year period.

Assumption and method changes (purple bars) have increased the UAL by approximately \$307.9 million over the ten-year period. The method changes include changing the funding method from projected unit credit to entry age normal in 2012. The significant assumption changes have included reductions in the discount rate for actives and terminated vested participants from 8.00% (in 2010) to the current 7.00% and experience studies in 2012, 2016, and 2019. It is important to note that investment return changes reflect a downward revision to the estimate of future investment earnings, and ultimately costs will be determined by actual investment earnings. We are continuing to see investment consultants reduce their capital market assumptions with the continued low-interest rate environment.

Benefit and Plan changes (green bars) have decreased the UAL by approximately \$1.0 million over the ten-year period.

Each year the UAL is expected to decrease as the System contributes towards the UAL, assuming no future investment and liability gains and losses. Net changes due to paying down the UAL (red bars), which reflects benefit accruals and payments, contributions, and timing, have decreased the UAL by approximately \$280.8 million over the last ten years.

SECTION II – IDENTIFICATION AND ASSESMENT OF RISK

Plan Maturity Measures

As pension plans become more mature, the primary risks of adverse investments, demographic deviations, plan changes, and assumption change experience become of more significant concern. As a result, it has become increasingly important to examine measures that indicate a pension plan's maturity level. With shrinking workforces, aging Baby Boomers, and retirees living longer, plans pay out more in benefits than they receive in contributions – leading to negative cash flows, excluding investment income.

When plans with negative cash flows suffer investment losses, they need to liquidate enough assets to pay for benefits in excess of contributions. That means these plans will need to earn higher returns to rebuild their assets to the previous levels. Plans with negative cash flows exceeding five percent of assets are especially vulnerable to asset losses.

Before assessing each of these risks, it is important to understand the maturity of this System compared to other plans and how the maturity has changed over time. Plan maturity can be measured in a variety of ways, but they all get at one basic dynamic - the larger the plan is compared to the contribution or revenue base that supports it, the more sensitive the plan will be to risk. The balance of this section discloses and examines two maturity measures: the support ratio and the net cash flow ratio.

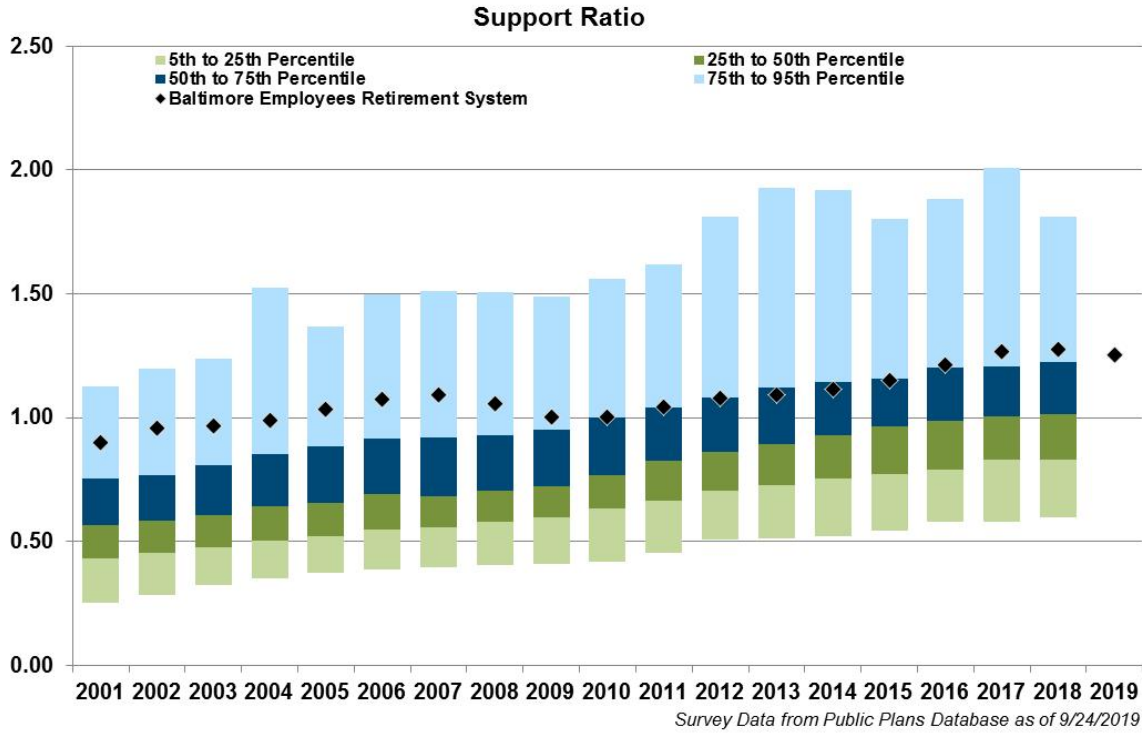
Inactives per Active (Support Ratio)

One simple measure of plan maturity is the ratio of the number of inactive members (those receiving benefits or entitled to a deferred benefit) to the number of active members. The revenue base supporting the plan is usually proportional to the number of active members, so a relatively high number of inactives compared to actives indicate a larger plan relative to its revenue base as well. The greater this ratio, the more likely that the plan will have or develop negative cash flows.

The Boston College's Center for Retirement Research, NASRA and the Center for State and Local Government Excellence maintain the Public Plan Database that contains the majority of state plans as well as many large municipal plans. The graph below shows the support ratio over time for the System compared to the Public Plan database.

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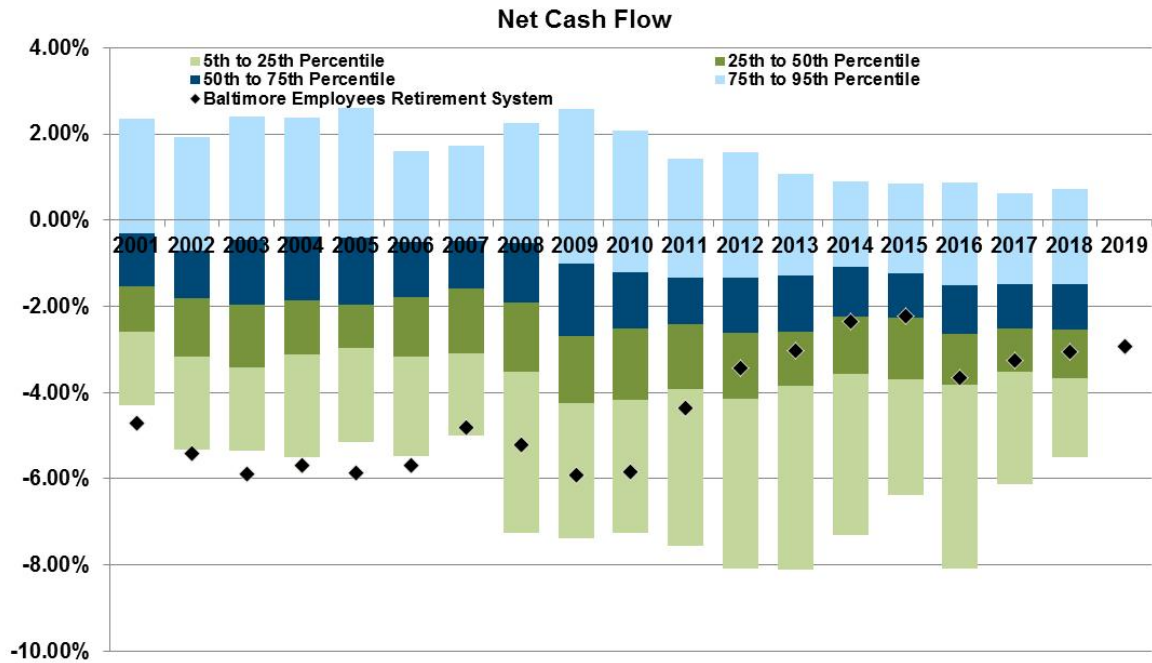
The graph above shows the distribution from the 5th to 95th percentile of support ratios for the plans in the Public Plans Database. The black diamond shows how the System compares to the other plans. The System was already in a relatively mature status in 2001 being in the 75th to 95th percentile. While the System’s support ratio has gradually increased over time, the support ratios for the plans as a whole have also increased over the period as they mature.

Net Cash Flow Ratio

Another measure of plan maturity is the ratio of the net cash flow out of the plan – benefits and expenses less contributions – divided by the market value of plan assets. When this ratio is significantly negative, a plan is more vulnerable to market declines. Mature plans can have large amounts of benefit payments compared to contributions, particularly if they are well funded. Investment losses in the short-term are compounded by the net withdrawal from the plan leaving a smaller asset base to try to recover from the investment losses. Large negative cash flows can also create liquidity issues.

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SECTION II – IDENTIFICATION AND ASSESMENT OF RISK



Survey Data from Public Plans Database as of 9/24/2019

The graph above shows the distribution from the 5th to 95th percentile of net cash flow as a percent of assets for the plans in the Public Plans Database. The black diamond shows how the System compares to the other plans. Up until 2007, the System was consistently below the fifth percentile. However, since 2012, the System's cash flow as a percent of assets has consistently been amongst the 25th to 50th percentile. The increase in this percent is primarily due to increases in the employee and employer contributions, which have helped to improve the outlook of the System. The employer contributions have increased as a result of the change in the funding policy to close the amortization period and the adoption of more conservative assumptions and methods.

**EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF BALTIMORE
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SECTION II – IDENTIFICATION AND ASSESMENT OF RISK

Assessing Future Risk

Assessing the future risk that the expected measurements produced by the actuarial valuations will deviate from the actual values over time is complex and can never be exactly known.

Pages 9 and 10 in the Summary section of this report show the baseline projection of funded status and projected costs. It is important to note that baseline projections, while valid, **are not going to occur** as experience never conforms exactly to assumptions every year. As discussed in the plan maturity section, as plans become more mature, it becomes more difficult to recover from market declines. Additionally, the pattern of funded status improvement in the baseline projections is a function of the funding policy to amortize the UAL over a fixed 21-year period including the one-year extension adopted for the June 30, 2019 valuation. As the amortization period shortens, cost volatility is expected to increase. For illustrative purposes we have developed hypothetical scenarios to show the impact deviations from assumed investment returns may have on future funded status and contribution rates. The scenarios are balanced between positive and negative scenarios and are intended to illustrate the importance of both the return itself as well as the timing of such returns.

Under the baseline results in the Summary section, we assumed a 7.00% investment return assumption per year. The graphs on the following pages show the projections under three scenarios: varying returns each year averaging 7.00% over the period, optimistic returns of 9.00% per year and pessimistic returns of 5.00% per year.

For each scenario, the first projection chart compares the market value of assets (MVA) (green line) and the actuarial or smoothed value of assets (AVA) (red line) to the System's actuarial liabilities (AL) (gray bars). In addition, at the top of each chart, we show the System's AVA funded ratio (ratio of AVA to AL). The years shown in the chart signify the valuation date as of June 30 of the labeled year.

The second chart shows the expected member contribution rate, the normal cost rate, the rate of pay amortization of the unfunded actuarial liability (UAL) rate, and the net City's total contribution rate (numbers on the top of the bars).

Scenario 1: Varying Returns averaging 7.00%

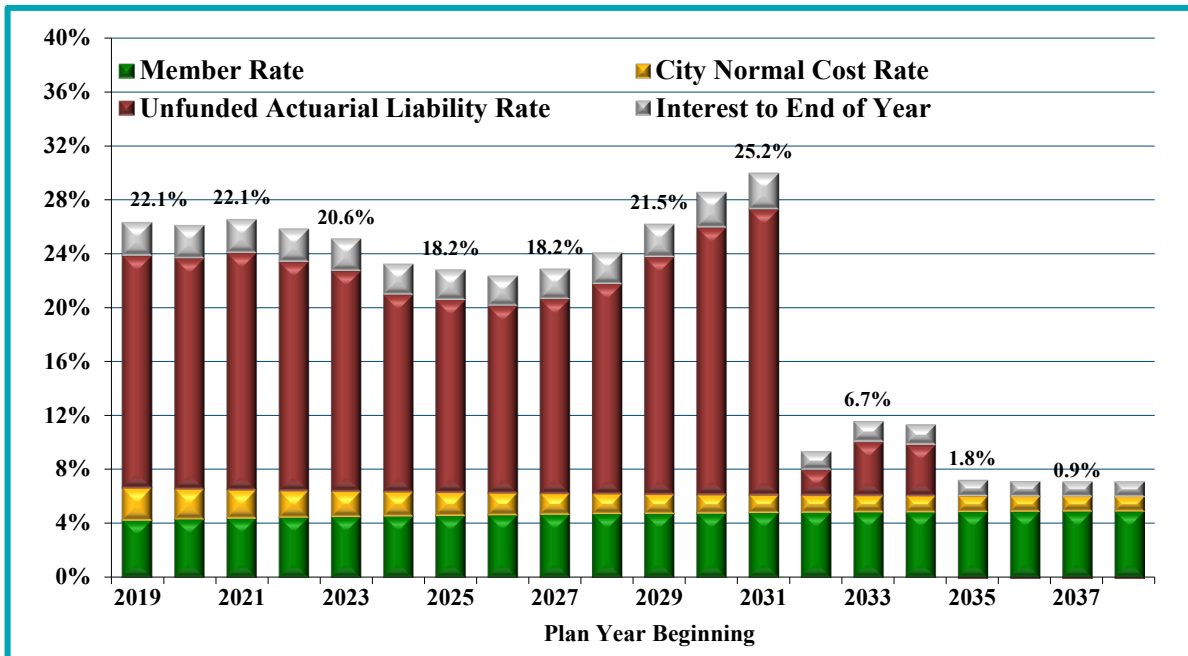
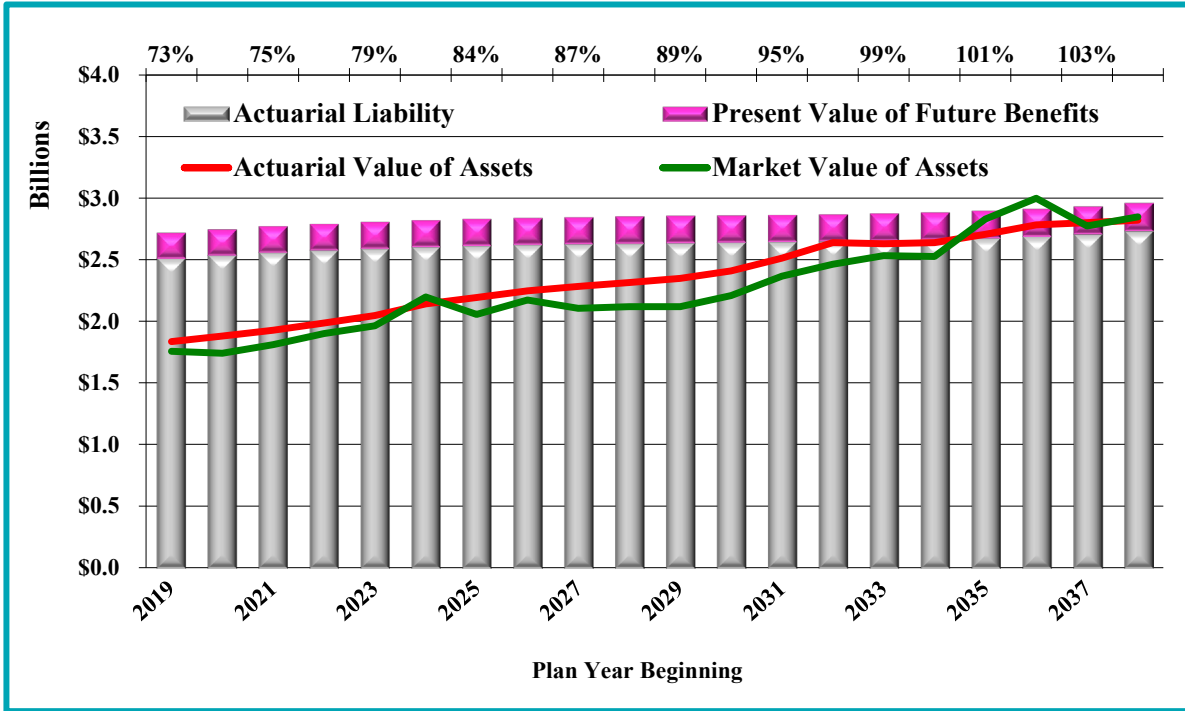
The two graphs based on projected returns that while volatile produce the same average 7.00% return based on the following table.

2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
3.00%	8.00%	9.00%	7.00%	16.00%	-3.00%	10.00%	1.00%	5.00%	4.00%
2029	2030	2031	2032	2033	2034	2035	2036	2037	2038
8.00%	10.00%	6.00%	4.00%	6.00%	18.00%	11.00%	-2.00%	9.00%	10.00%

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SECTION II – IDENTIFICATION AND ASSESMENT OF RISK

This presents a realistic view of the potential volatility of the System and highlights the long-term implications of the funding and funded status risks from market volatility.



This graph above shows the nature of the fixed amortization period and the potential for cost volatility as the System gets closer to the target date for full funding. In the year 2031, almost all of the unfunded actuarial liability is being recognized in the one-year period remaining of the

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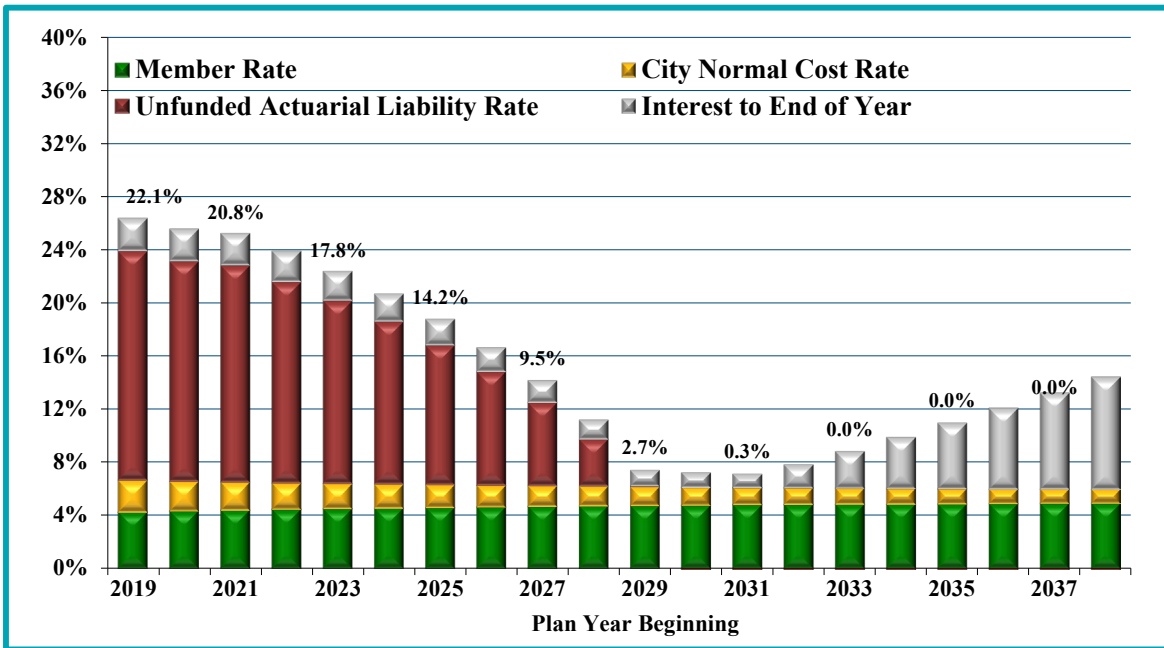
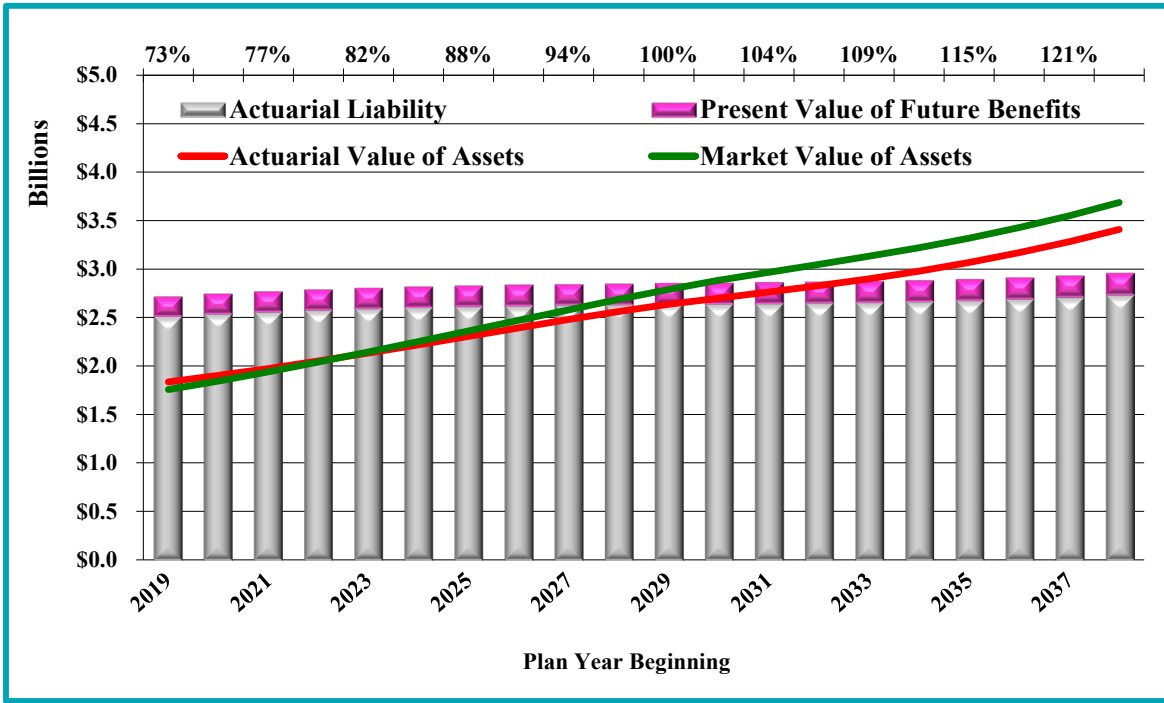
total amortization period. It is anticipated that as that date gets closer, and based on plan experience, additional measures may be considered to address cost volatility. However for the balance of the years leading up to 2031, the costs are relatively stable given the return volatility illustrated. This is a function of the asset smoothing.

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Scenario 2: Optimistic Returns of 9.00%

If the System earns 2.00% greater than the assumed rate of return in each year of the projection, the AVA funded ratio is projected to increase to 100% by the 2029 valuation, three years earlier than in the baseline projection.

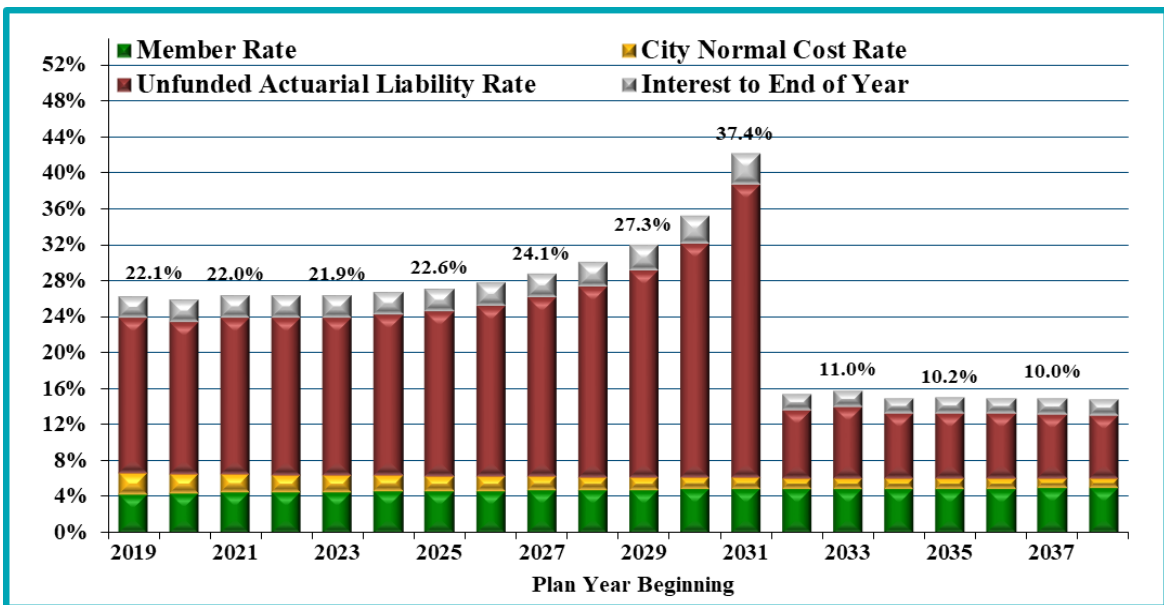
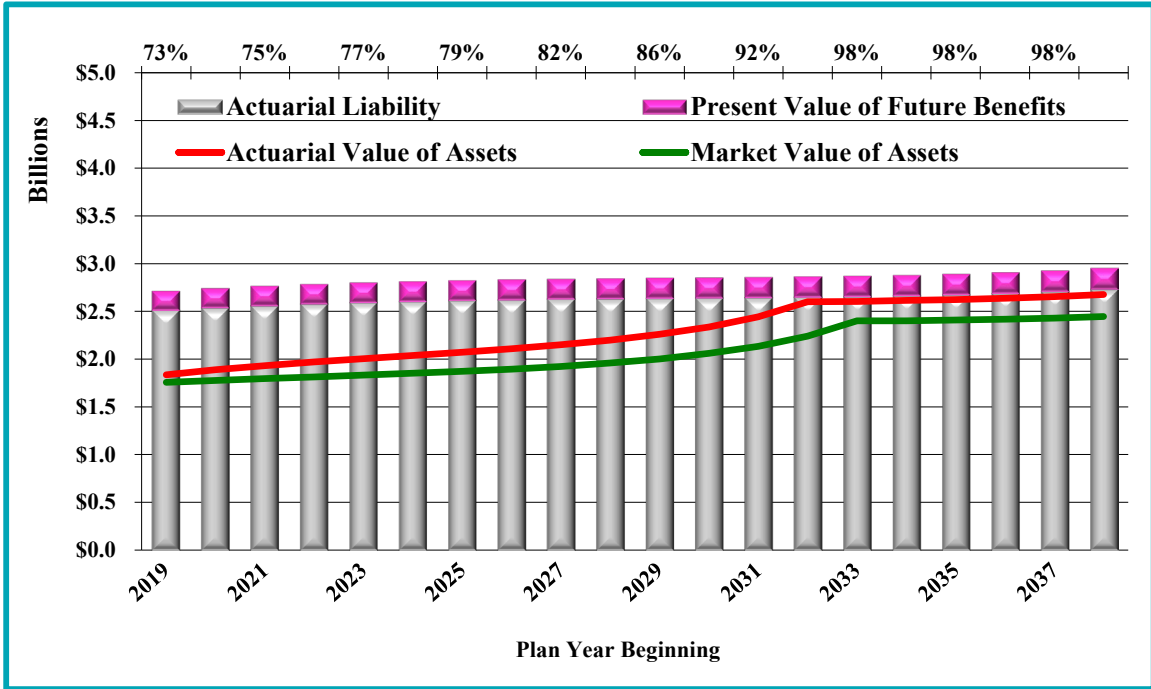


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SECTION II – IDENTIFICATION AND ASSESMENT OF RISK

Scenario 3: Pessimistic Returns of 5.00%

If the System earns 2.00% less than the assumed rate of return in each year of the projection, the AVA funded ratio is projected to increase to only 92% by 2031 when 100% is reached in the baseline projection. In addition, the employer contribution rate will steadily increase to about 37% by FY 2031 (final year of the initial 21-year closed period). In FY 2042, the initial 21-year UAL is fully paid off.



SECTION III – ASSETS

Assets play a key role in the financial operation of the System and in the decisions that the Board of Trustees may make with respect to future deployment of those assets. The level of assets, the allocation of assets among asset classes, and the methodology used to measure assets will likely impact upon benefit levels, employer contributions, and the ultimate security of members' benefits.

In this section, we present detailed information on the System's assets including:

- Disclosure of the System's assets as of June 30, 2019,
- Statement of the changes in market values during the year,
- Development of the actuarial value of assets, and
- A comparison of the year's investment performance to the return assumption.

Disclosure

The market values of assets represent “snap-shot” or “cash-out” values, which provide the principal basis for measuring financial performance from one year to the next. However, market values can fluctuate widely with corresponding swings in the marketplace. As a result, market values are usually not suitable for budgeting annual contributions.

The actuarial values of assets are market values that have been smoothed; they are used for evaluating the System's ongoing ability to meet its obligations. Current smoothing method employed by this System spreads investment gains and losses over a five year period.

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SECTION III – ASSETS

The assets below are based on unaudited financial data furnished by the Retirement System's Office. The change in market value of assets during the valuation year ending June 30, 2019 is summarized below.

Table III-1 Assets of the Plan as of June 30, 2019	
	<u>Total Market Value</u>
Fund Balance on June 30, 2018	\$ 1,714,252,720
Contributions	
Member	\$ 17,246,258
City/State	\$ 89,866,171
Net Investment Income	
Interest, dividends, securities lending income and realized capital gains	\$ 37,831,001
Unrealized gains (losses)	64,633,338
Expenses	<u>(9,649,367)</u>
Total Investment Income	\$ 92,814,972
Administrative expenses	\$ (3,716,362)
Payments of benefit & refunds	\$ (154,868,174)
Fund Balance on June 30, 2019	\$ 1,755,595,585

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SECTION III – ASSETS

The chart below shows the calculation of investment gains and losses. On a market value basis, the Plan earned a 5.50% return amounting to total investment income of \$92,814,972 during FY 2018-2019. Because the liabilities (Present Value of Future Benefits shown as PVFB in the table below) are valued using different discount rates for actives and terminated vested participants versus retirees, we allocate this return over the actuarial liabilities of active and inactive participants separately. The investment loss on a market basis related to the inactive liabilities using the expected return rate of 6.50% was \$16.9 million. The investment loss on a market basis related to the active liabilities using the expected return rate of 7.50% was \$33.8 million. Combining these two losses in relation to the portion of funds in each group, results in a net System asset loss over the assumptions on a market value basis of \$24.4 million.

Table III-2 Development of Investment Gain / (Loss)	
1. Market Value of assets as of June 30, 2018	\$ 1,714,252,720
2. Market Value of assets as of June 30, 2019	\$ 1,755,595,585
3. Earnings during June 30, 2018 to June 30, 2019 (including investment expenses)	\$ 92,814,972
4. Mean Assets [Half of ((1.) + (2.) - (3.))]	\$ 1,688,516,667
5. Investment return 2018-2019 [(3.) ÷ (4.)]	5.50%
6. Investment gain / (loss)	
a. Relative to 6.50%: [(5.) - 6.50%] x (4.)	\$ (16,885,167)
b. Relative to 7.50%: [(5.) - 7.50%] x (4.)	\$ (33,770,333)
7. Funds as a portion of market value of assets	
a. Retired PVFB/Total PVFB	0.55581
b. (Total PVFB - Retired PVFB)/Total PVFB	0.44419
c. Total: (a) + (b)	1.00000
8. Total investment gain / (loss)	
a. Retired: (6a.) x (7a.)	\$ (9,384,888)
b. Active: (6b.) x (7b.)	\$ (15,000,559)
c. Total Investment Gain / (Loss): (a) + (b)	\$ (24,385,447)

The investment losses for FYE 2019 are taken together with past experience to determine an actuarial asset value for determining the City's contribution obligations.

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SECTION III – ASSETS

The table below shows the development of the unallocated earnings which represent the earnings above and below the valuation interest assumption. The excess earnings are calculated by the “asset averaging method” from Article 22(7) (b) of the Baltimore City Code. This method uses one-fifth of the excess earnings for the year to adjust the unfunded actuarial liability in the current year. The other four-fifths of the excess earnings are used to smooth investment experience. The unrecognized deferred earnings decreased from an excess of \$25,143,039 to an excess of \$ 606,074 a change in net unallocated accumulated earnings of \$24,536,965 as of June 30, 2019. This net excess is gradually recognized in the future actuarial value of assets and impacts future contributions to the System. However, future investment gains/(losses) may ameliorate/(exacerbate) this recognition.

**Table III-3
Development of Unallocated Earnings**

The development of current unallocated excess/(deficit) earnings over the most recent two years is as follows:

	Valuation Date	
	6/30/2018	6/30/2019
1. Remaining net excess earnings from prior valuation	\$ 2,926,680	\$ 25,143,039
2. New investment gain/(loss)	<u>28,502,119</u>	<u>(24,385,447)</u>
3. Current net excess earnings [(1) + (2)]	\$ 31,428,799	\$ 757,592
4. One-fifth (credit) charge [(3) x 20%]	<u>(6,285,760)</u>	<u>(151,518)</u>
5. Net unallocated excess/(deficit) earnings [(3) + (4)]	\$ 25,143,039	\$ 606,074

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SECTION III – ASSETS

The table below shows the calculation of the actuarial value of assets. The assets are smoothed using the unallocated earnings calculation. Additionally, the actuarial value of assets is offset by the Normal Cost Reserve from Plan Change.

Table III-4 Actuarial Value of Assets		
The actuarial value of assets used to calculate the unfunded actuarial liability is developed as follows:		
1. Assets in the Fund on June 30, 2019	\$	1,755,595,585
2. Net deferred recognition of unallocated excess/(deficit) earnings	\$	606,074
3. Normal Cost Reserve from plan change	\$	(6,785,879) *
4. Present value of prior year's contributions not yet paid	\$	86,953,791
5. Preliminary actuarial value of assets on June 30, 2019 (1) - (2) + (3) + (4)	\$	1,835,157,423 **
6. Corridor testing:		
80% of market value assets	\$	1,404,476,468
120% of market value assets	\$	2,106,714,702
7. Final actuarial value of assets on June 30, 2019	\$	1,835,157,423
8. Ratio of actuarial asset value to adjusted market asset value		100.0%

* A reserve from the 6/30/2000 accumulated net excess earnings was established to pay the assumed increase in normal cost due to the Ordinance 01-189 improvements.

** The actuarial value of assets represents 104.5% of the market value which is up from the same measurement last year of 104.1%.

On actuarial asset value, due to the continued gradual recognition of prior year's investment losses, the rate of return is below expectation with an asset rate of return for the year of 5.76%, which is compared to the expected investment return of 7.50% for the prior year. As of June 30, 2019, previous investment losses are partially being recognized and further offset by investment gains which are being deferred for recognition in the future.

**EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF BALTIMORE
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SECTION III – ASSETS

The table below shows the schedule of the Normal Cost Reserve from Plan Changes. This schedule was established during the 2001 valuation year as a means of funding a benefit enhancement by reserving the full amount of the cost at a time when the actuarial asset value exceeded the liabilities. The Normal Cost Reserve, which reflects the unamortized balance, is taken out of the actuarial value of assets until valuation year 2020, at which time, the Plan changes will be fully amortized.

Table III-5 Normal Cost Reserve from Plan Change		
<u>June 30,</u>	<u>Additional Normal Cost</u>	<u>Normal Cost Reserve</u>
2001	\$ 1,835,000	\$ 26,256,000
2002	1,908,400	26,374,680
2003	1,984,736	26,423,582
2004	2,064,125	26,393,954
2005	2,146,690	26,276,215
2006	2,232,558	26,059,887
2007	2,321,860	25,733,515
2008	2,414,734	25,284,587
2009	2,511,323	24,699,441
2010	2,611,776	23,963,167
2011	2,716,247	23,059,502
2012	2,824,896	21,919,857
2013	2,937,892	20,574,820
2014	3,055,408	19,003,790
2015	3,177,624	17,184,382
2016	3,304,728	15,057,265
2017	3,436,917	12,633,977
2018	3,574,394	9,886,840
2019	3,717,370	6,785,879
2020	3,283,305	3,283,305

**EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF BALTIMORE
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SECTION IV – LIABILITIES AND EXPERIENCE GAINS/(LOSSES)

The tables below present the actuarial liabilities by membership status, employer, and then allocates the assets in proportion to each employer's liabilities, to produce the unfunded actuarial liability by employer. These liabilities are for funding purposes and are not appropriate for measuring the cost of settling Plan liabilities by purchasing annuities or paying lump sums. On the following page, this unfunded liability is amortized over the remaining years, and that amount is then added to the Net Normal Cost (cost to cover the upcoming year's expected accruals less member contributions) with the administrative expenses to produce the recommended employer contributions.

Table IV-1 Liability By Employee Group				
As of June 30, 2019				
	<u>Dept. of Education</u>	<u>Detention Services</u>	<u>All Others</u>	<u>Total</u>
Number of Participants				
Active	1,588	3	6,613	8,204
Service retired				6,887
Disabled				877
Terminated vested				1,024
Dependents				1,503
Total Participants				<u>18,495</u>
Annual compensation of active participants	\$ 74,305,098	\$ 170,923	\$ 345,210,014	\$ 419,686,035
Average Age	49.67	59.67	50.28	50.17
Average Service	12.08	33.10	13.79	13.46
Development of Unfunded Actuarial Liability				
Actuarial Liability				
Active	\$ 141,528,348	\$ 1,017,094	\$ 798,998,888	\$ 941,544,330
Retirees and dependents				1,512,876,082
Terminated vested				<u>60,716,983</u>
Total liabilities				\$ 2,515,137,395
Actuarial value of assets				
Active	\$ 39,317,078	\$ 282,552	\$ 221,964,728	\$ 261,564,358
Retirees and dependents				1,512,876,082
Terminated vested				<u>60,716,983</u>
Total assets				1,835,157,423
Unfunded actuarial liability *	\$ 102,211,270	\$ 734,542	\$ 577,034,160	\$ 679,979,972

* Unfunded actuarial liability was allocated in proportion to each employee group's actuarial liability for active participants.

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SECTION IV – LIABILITIES AND EXPERIENCE GAINS/(LOSSES)

This next table presents the change in actuarial liabilities, actuarial assets and unfunded liability during the plan year. In general, the unfunded actuarial liability (UAL) of any retirement system is expected to change at each subsequent valuation for a variety of reasons. In each valuation, we report on those elements of change in the UAL which are of particular significance, potentially affecting the long-term financial outlook of the System. Below, we present key changes in liabilities and assets since the last valuation.

Table IV-2 Development of 2019 Experience (Gain)/Loss				
		Actuarial Liability	Actuarial Value of Assets	Unfunded Actuarial Liability
1. Value as of June 30, 2018	\$	2,410,614,058	\$	1,785,356,033
a.) Actives and Term Vested at 7.50%	\$	926,444,738		\$
b.) Inactives at 6.50%	\$	1,484,169,320		\$
2. Additions				
a.) Normal Cost	\$	29,335,489	\$	0
b.) Actual Employer Contributions	\$	0	\$	89,866,171
c.) Actual Member Contributions	\$	0	\$	17,246,258
3. Decreases				
a.) Benefit Payments	\$	(154,868,174)	\$	(154,868,174)
b.) Admin Expenses	\$	0	\$	(3,716,362)
4. Expected Interest				
a.) On 1 for one year	\$	165,954,361	\$	133,901,702
b.) On 2a for one year	\$	2,200,162	\$	0
c.) On 2b for one year*	\$	0	\$	6,739,963
d.) On 2c for 1/2 year	\$	0	\$	635,043
e.) On 3a and 3b for 1/2 year	\$	(4,953,981)	\$	(5,839,411)
5. Expected Value June 30, 2019: (sum 1-4)	\$	2,448,281,915	\$	1,869,321,223
6. Change in methods/assumptions	\$	65,481,090	\$	0
7. Change in benefits	\$	0	\$	0
8. Expected value after changes: (sum 5-7)	\$	2,513,763,005	\$	1,869,321,223
9. Actual Value as of June 30, 2019	\$	2,515,137,395	\$	1,835,157,423
10. Actuarial (Gain)/Loss: (9-8)	\$	1,374,390	\$	34,163,800
11. Total Increase/(Decrease): (6 + 7 + 10)	\$	66,855,480	\$	34,163,800

* Assumes contributions made at year end.

**EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF BALTIMORE
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SECTION IV – LIABILITIES AND EXPERIENCE GAINS/(LOSSES)

Table IV-3 Development of 2019 Experience Gain/(Loss)	
1. Unfunded Actuarial Liability at June 30, 2018	\$ 625,258,025
2. Additions (normal cost, expenses and contributions)	(74,060,578)
3. Interest accrued*	27,763,245
4. Actuarial Assumption Change	<u>65,481,090</u>
5. Expected Unfunded Actuarial Liability at June 30, 2019 (1) + (2) + (3) + (4)	\$ 644,441,782
6. Actual Unfunded Actuarial Liability at June 30, 2019	<u>679,979,972</u>
7. Total Gain/(Loss) at June 30, 2019 (5) - (6)	\$ (35,538,190)

* Interest rate depends on active versus inactive.

Table IV-4 Elements of Actuarial Assets - Gain/(Loss)	
1. Change in unallocated earnings	\$ 24,536,965
2. Change in Normal Cost Reserve	3,100,961
3. Asset Return	<u>(61,801,726)</u>
4. Total Actuarial Assets - Gain/(Loss) (1) + (2) + (3)	\$ (34,163,800)

Table IV-5 Elements of Actuarial Liability - Gain/(Loss)	
1. Age and Service Retirements	\$ (6,271,279)
2. Disability Retirements	(2,977,166)
3. Death in Service Benefits	(3,881,603)
4. Withdrawal from Employment	1,496,319
5. Pay Increases	(2,572,108)
6. Death after Retirement	10,425,940
7. New Entrants	1,055,082
8. Other	<u>1,350,425</u>
9. Total Actuarial Liability - Gain/(Loss) (sum 1-8)	\$ (1,374,390)
10. Assumption Changes - Gain/(Loss)	(65,481,090)
11. Plan Changes - Gain/(Loss)	<u>0</u>
12. Total Actuarial Liability Changes (sum 9-11)	\$ (66,855,480)

**EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF BALTIMORE
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SECTION V – CONTRIBUTIONS

This table presents the components that make up the costs by employer including the normal cost reflective of the value of the benefits earned during the year, employee contributions for members under Class A, Class C, and Class D membership, the proportional shares of the amortization cost to pay off the unfunded actuarial liability, and the special credit normal cost defined in Ordinance 01-189, all brought forward with interest for the one-year delay in funding to the next fiscal year beginning. Under the current funding policy, the unfunded actuarial liability is amortized over a fixed period of 20 years starting from fiscal year beginning 2011 with a one-year extension adopted as of June 30, 2019. As of the current valuation, the remaining amortization period is 13 years.

**Table V-1
Contribution Summary by Group**

	As of June 30, 2019				
	<u>Dept. of Education</u>	<u>Detention Services</u>	<u>All Others</u>	<u>Total</u>	<u>% of Pay</u>
Total Normal Cost (including expenses)	\$ 5,660,424	\$ 12,325	\$ 25,869,095	\$ 31,541,844	7.52%
Expected Employee Contributions	<u>(638,667)</u>	<u>0</u>	<u>(17,241,429)</u>	<u>(17,880,096)</u>	<u>-4.26%</u>
Net Normal Cost	\$ 5,021,757	\$ 12,325	\$ 8,627,666	\$ 13,661,748	3.26%
13-year amortization of Unfunded Actuarial Liability	\$ 11,429,594	\$ 82,139	\$ 64,525,818	\$ 76,037,552	18.12%
Allocation from 6/30/2000 excess earnings to pay Ordinance 01-189 normal cost	<u>(558,777)</u>	<u>(4,016)</u>	<u>\$ (3,154,577)</u>	<u>(3,717,370)</u>	<u>-0.89%</u>
Net plan cost at 7/1/2019	\$ 15,892,574	\$ 90,448	\$ 69,998,907	\$ 85,981,929	20.49%
Interest to 7/1/2020	<u>1,135,212</u>	<u>6,331</u>	<u>5,513,579</u>	<u>6,655,122</u>	<u>1.59%</u>
Net plan cost at 7/1/2020	\$ 17,027,786	\$ 96,779	\$ 75,512,486	\$ 92,637,051	22.07%

**EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF BALTIMORE
ACTUARIAL VALUATION AS OF JUNE 30, 2019**

SECTION V – CONTRIBUTIONS

In accordance with Section 5.3 (C) of Article 22 of the City Code, the City's contribution rate to the Retirement Savings Plan (Savings Plan) is 3% for Hybrid Plan D members. However, if the Class D funded status falls below 85%, half of the 3.0% (or 1.5%) of the City contributions to the Savings Plan will be diverted to funding the Retirement System.

In the table below we track and provide the funded status for Class D members. The funded ratio is defined as the ratio of the adjusted market value basis of assets attributable to Class D members of the June 30th preceding the actuarial valuation over the Employees Retirement System liabilities attributable to Class D members on that date. To determine this value in time for the implementation of the appropriate City contribution rate, before the beginning of the fiscal year, we roll forward the liabilities for Class D members and the estimated adjusted asset value from the beginning of the prior year to provide a June 30, 2019 measurement.

Table V - 2 Development of 2019 Expected Funded Status for Plan D				
	<u>Actuarial Liability</u>	<u>Actuarial Value of Assets</u>	<u>Unfunded Actuarial Liability</u>	
1. Value as of June 30, 2018	\$ 5,347,297	\$ 4,713,555	\$ 633,742	
a.) Actives and Term Vested at 7.50%	\$ 5,347,297			
b.) Inactives at 6.50%	\$ 0			
2. Additions				
a.) Normal Cost	\$ 4,044,595	\$ 0	\$ 4,044,595	
b.) Expected Employer Contributions	\$ 0	\$ 1,192,444	\$ (1,192,444)	
c.) Expected Member Contributions	\$ 0	\$ 3,118,652	\$ (3,118,652)	
3. Decreases				
a.) Expected Benefit Payments	\$ (460,125)	\$ (460,125)	\$ 0	
b.) Expected Admin Expenses	\$ 0	\$ (267,878)	\$ 267,878	
4. Interest				
a.) On 1 for one year	\$ 374,311	\$ 259,246	\$ 115,065	
b.) On 2a for one year	\$ 283,122	\$ 0	\$ 283,122	
c.) On 2b for one year*	\$ 0	\$ 65,584	\$ (65,584)	
d.) On 2c for 1/2 year	\$ 0	\$ 84,615	\$ (84,615)	
e.) On 3a and 3b for 1/2 year	\$ (14,719)	\$ (19,752)	\$ 5,033	
5. Expected Value June 30, 2019: (sum 1-4)	\$ 9,574,481	\$ 8,686,341	\$ 888,140	
6. Funded Status			90.7%	

**EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF BALTIMORE
ACTUARIAL VALUATION AS OF JUNE 30, 2019**

APPENDIX A – PLAN MEMBERSHIP

The data for this valuation was provided electronically in Excel by the Retirement System Office. Cheiron did not audit any of the data; however the data was reviewed to ensure that it complies with generally accepted actuarial standards. The data for active and inactive participants is as of June 30, 2019. Where data elements may be missing such as dates of hire, dates of birth, and benefit accrual level, we make assumptions to fill-in the blanks. The assumed values (if applicable) are included in Appendix B.

The following pages contain a summary of the data provided.

- Reconciliation of participants as of June 30, 2019
- Active members split by plan and group
- Age/service and age/salary/service distribution for active members as of June 30, 2019
- Counts and average benefit amount by age for retirees, beneficiaries and disabled members as of June 30, 2019

**EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF BALTIMORE
ACTUARIAL VALUATION AS OF JUNE 30, 2019**

APPENDIX A – PLAN MEMBERSHIP

Data Reconciliation from June 30, 2018 to June 30, 2019

		Actives	Terminated Vested	Disabled	Retired	Beneficiaries	Total
1.	Participants on June 30, 2018 valuation	8,013	1,030	889	6,830	1,484	18,246
2.	Additions						
	a. New entrants / pickup	852					852
	b. Returned to work	94					
	c. Reporting Delay					48	48
	d. Total	946				48	994
3.	Reductions						
	a. Terminated - not vested	(291)					(291)
	b. Non-Participating						
	c. Lump sum	(5)	(8)				(13)
	d. Benefits Expired				(5)	(8)	(13)
	e. Deaths without beneficiary	(28)	(2)	(41)	(254)	(107)	(432)
	f. Total	(324)	(10)	(41)	(259)	(115)	(749)
4.	Changes in status						
	a. Terminated - vested	(93)	93				
	b. Returned to work	5	(3)		(2)		
	c. Retired	(307)	(82)		389		
	d. Disabled	(33)	(3)	36			
	e. Died with beneficiary	(3)		(9)	(73)	85	
	f. Data corrections		(1)	2	2	1	4
	g. Total	(431)	4	29	316	86	4
5.	Participants on June 30, 2019 valuation	8,204	1,024	877	6,887	1,503	18,495

ACTIVE MEMBERSHIP AS OF JUNE 30, 2019 BY PLAN AND GROUP

	<u>Dept. of Education</u>	<u>Detention Services</u>	<u>All Others</u>	<u>Total Actives</u>	<u>% of Total</u>
Class A active members	3	0	6	9	0.1%
Class C active members	1,196	3	4,936	6,135	74.8%
Class D active members	389	0	1,671	2,060	25.1%
Total	1,588	3	6,613	8,204	100.0%

**EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF BALTIMORE
ACTUARIAL VALUATION AS OF JUNE 30, 2019**

APPENDIX A – PLAN MEMBERSHIP

AGE/SERVICE DISTRIBUTION OF ACTIVE PARTICIPANTS ACTIVE PARTICIPANTS AS OF JUNE 30, 2019										
AGE	COMPLETED YEARS OF CREDITED SERVICE									Total
	0-4	5-9	10-14	15-19	20-24	25-29	30-34	35-39	40 & Up	
Under 25	67	1	0	0	0	0	0	0	0	68
25-29	329	24	0	0	0	0	0	0	0	353
30-34	399	126	79	2	0	0	0	0	0	606
35-39	363	220	177	53	0	0	0	0	0	813
40-44	262	185	218	125	35	1	0	0	0	826
45-49	229	185	222	180	126	38	4	0	0	984
50-54	207	169	262	173	161	80	82	1	0	1,135
55-59	197	141	256	208	164	117	210	56	1	1,350
60-64	123	105	199	178	171	122	197	141	45	1,281
65-69	37	42	91	75	72	31	85	50	55	538
70 & Up	28	18	39	26	35	18	22	21	43	250
Total	2,241	1,216	1,543	1,020	764	407	600	269	144	8,204
Average Age = 50.17					Average Service = 13.46					

**EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF BALTIMORE
ACTUARIAL VALUATION AS OF JUNE 30, 2019**

APPENDIX A – PLAN MEMBERSHIP

**AGE/SERVICE DISTRIBUTION OF ACTIVE PARTICIPANTS
ACTIVE PARTICIPANTS AS OF JUNE 30, 2019**

AGE	AVERAGE EARNINGS									Total
	0-4	5-9	10-14	15-19	20-24	25-29	30-34	35-39	40 & Up	
Under 25	\$ 25,829	\$ 32,293	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 25,924
25-29	41,399	40,538	0	0	0	0	0	0	0	41,341
30-34	47,145	49,107	41,445	54,390	0	0	0	0	0	46,834
35-39	50,395	57,927	51,166	45,228	0	0	0	0	0	52,264
40-44	49,544	61,071	52,449	56,007	49,428	42,216	0	0	0	53,857
45-49	49,983	55,118	48,944	52,344	57,065	61,816	63,430	0	0	52,564
50-54	48,114	54,380	50,254	50,233	55,557	57,842	57,629	61,104	0	52,304
55-59	45,949	50,082	47,479	46,799	50,995	55,849	58,934	63,030	41,757	50,998
60-64	52,981	48,902	46,649	44,932	48,883	55,252	58,343	61,689	62,506	52,332
65-69	45,919	51,309	46,982	50,500	46,729	56,849	57,939	59,189	66,947	53,178
70 & Up	45,346	48,034	39,536	42,782	49,893	53,963	54,987	58,367	56,924	49,557
Total	\$ 47,023	\$ 54,143	\$ 48,640	\$ 49,266	\$ 51,960	\$ 56,578	\$ 58,306	\$ 61,242	\$ 62,391	\$ 51,156

Total Earnings = \$ 419,686,035 Average Earnings = \$ 51,156

**EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF BALTIMORE
ACTUARIAL VALUATION AS OF JUNE 30, 2019**

APPENDIX A – PLAN MEMBERSHIP

**SCHEDULE OF BENEFIT RECIPIENTS BY ATTAINED AGE AND TYPE OF RETIREMENT
JUNE 30, 2019 - PRIMARY MEMBERS**

AGE	TYPE OF RETIREMENT					Total
	NR	ER	DS	ODis	ADis	
Under 20	0	0	0	0	0	0
20-24	0	0	0	0	0	0
25-29	0	0	0	0	0	0
30-34	0	0	0	2	0	2
35-39	0	0	0	3	0	3
40-44	0	0	0	14	0	14
45-49	1	0	3	21	1	26
50-54	33	2	9	67	1	112
55-59	117	158	47	132	9	463
60-64	359	366	126	228	10	1,089
65-69	938	472	183	154	9	1,756
70-74	938	367	170	91	7	1,573
75-79	652	289	118	56	6	1,121
80-84	399	243	83	34	8	767
85 & Up	474	258	82	19	5	838
Total	3,911	2,155	821	821	56	7,764
Average Annual Benefit	\$ 24,882	\$ 7,562	\$ 22,719	\$ 9,974	\$ 23,667	\$ 18,261

- NR - Service Retirement
- ER - Early Retirement
- DS - Discontinued Service
- ODis - Ordinary Disability
- ADis - Accidental Disability

**EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF BALTIMORE
ACTUARIAL VALUATION AS OF JUNE 30, 2019**

APPENDIX A – PLAN MEMBERSHIP

SCHEDULE OF BENEFIT RECIPIENTS BY ATTAINED AGE AND TYPE OF RETIREMENT JUNE 30, 2019 - BENEFICIARIES								
AGE	TYPE OF RETIREMENT							Total
	NR	ER	DS	ODis	ADis	ODth	ADth	
Under 20	5	1	0	0	0	1	3	10
20-24	0	0	2	0	0	0	0	2
25-29	1	0	0	0	0	0	0	1
30-34	0	0	0	1	0	0	0	1
35-39	1	0	0	0	0	0	0	1
40-44	0	0	0	0	0	0	0	0
45-49	3	0	1	2	0	3	0	9
50-54	4	1	2	12	1	3	0	23
55-59	14	14	2	21	0	6	0	57
60-64	53	22	9	23	1	25	0	133
65-69	80	39	9	59	0	17	0	204
70-74	109	37	22	30	3	13	0	214
75-79	127	45	24	35	2	16	3	252
80-84	125	53	15	32	2	7	0	234
85 & Up	201	81	29	25	6	20	0	362
Total	723	293	115	240	15	111	6	1,503
Average Annual Benefit	\$ 10,750	\$ 4,514	\$ 11,396	\$ 5,437	\$ 11,554	\$ 13,331	\$ 15,352	\$ 8,952

- NR - Service Retirement
- ER - Early Retirement
- DS - Discontinued Service
- ODis - Ordinary Disability
- ADis - Accidental Disability
- ODth - Ordinary Death
- ADth - Accidental Death

EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF BALTIMORE
ACTUARIAL VALUATION AS OF JUNE 30, 2019

APPENDIX B – ACTUARIAL ASSUMPTIONS AND METHODS

Entry Age Normal Method

Liabilities and contributions shown in this report are computed using the Entry Age Normal method of funding. Under this method, the normal cost is computed as the level annual percentage of pay required to fund the retirement benefits between each member's date of hire and assumed retirement.

A description of the calculation follows:

The normal cost is based upon the normal cost rate determined by taking the value, as of entry age into the plan, of each member's projected future benefits. This value is then divided by the value, also at entry age, of each member's expected future salary producing a normal cost rate that should remain relatively constant over a participant's career. The normal cost rate is multiplied by current salary to determine each member's normal cost. Finally, the normal cost is reduced by the member contribution to produce the employer normal cost.

The actuarial liability is the difference between the present value of future benefits and the present value of future normal costs. The unfunded actuarial liability is the difference between the actuarial liability and the actuarial value of assets.

APPENDIX B – ACTUARIAL ASSUMPTIONS AND METHODS

Actuarial Assumptions and Methods

Method of Funding: The Entry Age Normal Funding Method was approved by the Board of Trustees effective 7/1/2012.

The current unfunded actuarial liability is amortized as a level dollar over 20 years with a one-time, one-year extension adopted by the Board for June 30, 2019 valuation. The 20-year period decreases each year from 2011 through 2018, remains at 13 years for 2019 and continues to decrease until 2032, at which time the unfunded liability will be fully paid.

Asset Valuation: The actuarial value of assets is equal to the market value, adjusted for 20% of the five-year aggregate investment surpluses and deficits. This calculation is done in the following steps:

1. The investment gain or loss for the current year is calculated; this equals the actual investment earnings during the year minus the expected earnings. Expected earnings are calculated using a weighted average of the pre- and post-retirement interest rate assumptions multiplied by the mean market value of assets during the year.
2. The current net excess earnings are computed by adding the investment gain or loss for the current year to the remaining excess earnings for the prior valuation. One-fifth of the excess earnings are recognized in the actuarial value as of the current valuation and four-fifths are deferred to future years.
3. The net assets are then adjusted to account for the Normal Cost Reserve held for the plan changes made during 2001.
4. The present value of the prior year's City contributions is added to the net assets to account for the one-year lag between required contributions and when the contributions are actually received.
5. The actuarial value of assets will not be greater than 120% nor less than 80% of the market value of assets as of the valuation date.

All actuarial assumptions are subject to Board of Trustees approval with changes typically addressed following each four-year experience study and following the recommendation of the actuary. The last experience study was performed in 2019 based on 2014 through 2018 experience analysis. The rationale for these assumptions can be found in the experience study report.

**EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF BALTIMORE
ACTUARIAL VALUATION AS OF JUNE 30, 2019**

APPENDIX B – ACTUARIAL ASSUMPTIONS AND METHODS

Discount Rate: A liability weighted discount rate is expected on the basis that a 7.00% rate is applied in measuring active and terminated vested participant liabilities, and a 6.50% rate is applied for measuring retiree participant liabilities. The weighted discount rate this year is 6.72%.

Investment Return: The investment return assumption is 7.00% net of investment expenses effective June 30, 2019 valuation. This assumption is defined by City Code based on the definition of *Regular Interest*, which has been amended from time to time based on the advice of the actuary and investment consultant and recommendation of the Board of Trustees in the form of an amendment to the City Code from time to time.

Social Security Wage Base: 3.00% per year compounded annually

Inflation: 2.55% (effective 6/30/2019)

Salary Increases: Salary increases are assumed to vary with age. Sample rates are as follows:

Age	Salary
20	0.062
25	0.057
30	0.052
35	0.046
40	0.040
45	0.036
50	0.034
55	0.034
60	0.034
65	0.034
69	0.034

Cost-of-Living Adjustment Assumption: 1.5% for inactives in pay status under age 65 and 2.0% over age 65

Percent Married: Males 90%, females 80%

Spouse Age: A husband is assumed to be four-years older than his wife.

Remarriage Rates: None

**EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF BALTIMORE
ACTUARIAL VALUATION AS OF JUNE 30, 2019**

APPENDIX B – ACTUARIAL ASSUMPTIONS AND METHODS

Expenses: Administrative expenses are expected to be equal to the prior years' actual expenses rounded up to the next hundred thousand dollars and added as part of the annual normal cost for the year. For June 30, 2019 the assumed administrative expenses were \$3,800,000.

Investment expenses are assumed to be paid out of investment earnings.

Job Elimination Benefit: A liability load of 1.75% is applied to active retirement benefits to account for the value of this benefit.

New Entrant Assumption: A liability load of 0.5% is applied to active benefits to account for future new entrants who may have previous years of service restored or transferred into the System (effective 6/30/2015).

Inactive Liabilities: A liability reduction of 5.00% is applied to inactive benefits to account for the election rate of joint and survivor forms of payments when compared to actual experience. (effective 6/30/2019).

Withdrawal:

Service	Rate
0	17.00%
1	15.50
2	14.50
3	10.75
4	10.50
5	9.00
6	8.00
7	6.50
8	6.50
9	6.50
10	4.00
11	4.00
12	4.00
13	4.00
14	4.00
15+	2.50

**EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF BALTIMORE
ACTUARIAL VALUATION AS OF JUNE 30, 2019**

APPENDIX B – ACTUARIAL ASSUMPTIONS AND METHODS

Disability:

Age	Non-Line-of-Duty Disability	Line-of-Duty Disability (Classes A&B)	Line-of-Duty Disability (Class C)
25	0.00050	0.00004	0.00008
30	0.00060	0.00004	0.00008
35	0.00101	0.00006	0.00013
40	0.00129	0.00002	0.00006
45	0.00283	0.00006	0.00014
50	0.00692	0.00020	0.00040
55	0.00963	0.00022	0.00043
60	0.00947	0.00048	0.00093
65	0.00079	0.00000	0.00000
69	0.00079	0.00000	0.00000

Workers' compensation offset is included in the above rates

Pre-Retirement Mortality:

1. Non-line-of-Duty – Pub-2010 Total General Employee Below-Median mortality tables adjusted by 125% for males and 185% for females with future mortality improvement through 2022 using scale MP-2018 for non-line-of-duty mortality. (effective 6/30/2019).
2. Line-of-Duty - 0.005% at all ages (effective 6/30/1999).

Age	Non-Line-of-Duty Death*	Non-Line-of-Duty Death*	Line-of-Duty Death*
	Male	Female	
25	0.000518	0.000226	0.000050
30	0.000674	0.000363	0.000050
35	0.000902	0.000583	0.000050
40	0.001271	0.000908	0.000050
45	0.001832	0.001348	0.000050
50	0.002678	0.001944	0.000050
55	0.003878	0.002850	0.000050
60	0.005721	0.004393	0.000050
65	0.008472	0.007007	0.000050
69	0.011665	0.010285	0.000050

* Rates for individuals who are the age shown as of June 30, 2019

**EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF BALTIMORE
ACTUARIAL VALUATION AS OF JUNE 30, 2019**

APPENDIX B – ACTUARIAL ASSUMPTIONS AND METHODS

***Post-Retirement
Mortality:***

1. Retirees and Beneficiaries - Pub-2010 General Retiree Below-Median Weighted mortality tables adjusted by 115% for males and 125% for females with future mortality improvement through 2022 using SOA's Scale MP-2018.
2. Disabled members – Pub-2010 General Disabled Annuitant mortality tables adjusted by 163% for males and 145% for females with future mortality improvement through 2022 using SOA's Scale MP-2018.

Sample rates (rates first effective 6/30/2019).

Age	Retirees and Beneficiaries*		Disabled Members	
	Male	Female	Male	Female
55	0.010045	0.005765	0.033406	0.024785
60	0.012233	0.006648	0.040073	0.028299
65	0.014949	0.008659	0.04931	0.032604
70	0.023702	0.014508	0.062827	0.040508
75	0.038893	0.025035	0.082293	0.055942
80	0.065591	0.044199	0.115647	0.084194

* Rates for individuals who are the age shown as of June 30, 2019

**EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF BALTIMORE
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APPENDIX B – ACTUARIAL ASSUMPTIONS AND METHODS

Service Retirement: Early Retirement prior to the later of age 60 and eligibility for Normal Retirement (earlier of age 65 with five years of service and 30 years of service).

Age	Rates of Retirement		
	Less than	30 yrs	More than
45 -49	0.00	0.00	0.05
50-54	0.00	0.10	0.05
55	0.05	0.10	0.05
56-58	0.05	0.10	0.05
59	0.05	0.10	0.07
60	0.05	0.10	0.07
61	0.07	0.15	0.15
62	0.15	0.15	0.25
63	0.10	0.15	0.15
64	0.10	0.15	0.15
65	0.20	0.15	0.25
66	0.25	0.20	0.25
67	0.20	0.20	0.15
68	0.15	0.20	0.15
69	0.20	0.20	0.15
70	1.00	1.00	1.00

Normal Retirement is assumed on or after the later of age 60 and eligibility for Normal Retirement (earlier of age 65 with five years of service and 30 years of service).

Terminated vested participants are assumed to retire at age 65.

***Joint and Survivor
Forms of Payment:***

The 40% Joint & Survivor form of payment is assumed for all benefits. All benefits with Joint & Survivor Forms of Payment for retirees had their survivor benefits increased by 4% to account for children's benefits.

Data Assumptions:

For participants with a Joint and Survivor benefit who were missing spouse dates of birth, we assumed that the male is four-years older than the female.

For terminated vested participants who were not provided benefit amounts, we assumed a monthly benefit of \$700. This was the prior year average benefit for terminated vested participants, rounded to the nearest hundred.

EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF BALTIMORE
ACTUARIAL VALUATION AS OF JUNE 30, 2019

APPENDIX B – ACTUARIAL ASSUMPTIONS AND METHODS

*Justification for
Assumptions:*

The actuarial assumptions were adopted by the Retirement Board, based upon the alternatives presented in the 2018 experience study report conducted on the System's experience from the 2014-2018 valuations. The results of this study were presented in June 2019 and are incorporated into this report by reference.

*Changes Since Last
Valuation:*

The administrative expense assumption was changed from \$3.7 million to \$3.8 million to better reflect actual experience.

The discount rate applied in measuring active and terminated vested participant liabilities decreased from 7.50% to 7.00%.

Demographic assumptions (termination rates, retirement rates, disability rates, salary scale, form of payment load, and mortality rates) were updated to reflect the most recent experience study

The Board adopted a change in the funding policy to apply a one-time, one-year extension to the amortization schedule for the June 30, 2019 valuation.

**EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF BALTIMORE
ACTUARIAL VALUATION AS OF JUNE 30, 2019**

APPENDIX C – SUMMARY OF PLAN PROVISIONS

Effective Date

The System was effective January 1, 1926 and has been periodically amended.

Eligibility

Any regular and permanent officer, agent, or employee of the City with the exception of those required to join the Maryland State or any other Retirement System shall become a Class D member of the Employees' Retirement System upon completion of one year of service. The Board of Estimates may authorize prospective membership for any class of part-time employees. There are four classes of members as follows:

1. Class A – Members who were hired before July 1, 1979, and entered membership on or after January 1, 1954, or who elected, prior to April 1, 1954, to contribute at the higher Class A rate. Any Class B member may elect to become a Class A member by bringing his accumulated contributions and interest up to what they would be if he had elected Class A membership on January 1, 1954.
2. Class B – Members as of January 1, 1954 who did not elect Class A membership – there are no remaining active Class B participants as of June 30, 2011.
3. Class C – Members who were hired on or after July 1, 1979 and before July 1, 2014, or any other members who may have elected to transfer during various open transfer periods.
4. Class D – Members who were hired or rehired on or after July 1, 2014. Class D Members have the option to participate in both the Employees' Retirement System and the new Retirement Savings Plan (RSP) as hybrid members or opt out of the System and participate only in the RSP as non-hybrid members. The City contributes 3% of pay to RSP for hybrid members and 4% of pay for non-hybrid members. Members also have the option to make voluntary deferrals to the City's Deferred Compensation Plan, with the City matching 50% of the first 2% of compensation deferred by the member.

Member Contributions

Class A and Class B members currently contribute at the rate of 4% of earnable compensation, and contributions are not required upon attaining age 60 and completing 35 years of service. Class C members (except participants of Detention Services and Department of Education) began making contributions at 1.0% of compensation starting July 1, 2013 increasing 1.0% each year until they reach 5.0% of compensation. As of June 30, 2019, Class C and Class D members make contributions at 5.0% of pay from date of participation. Interest is credited on contributions at a rate of 5.25% per annum for Class A and B members and 3.00% for Class C and Class D members.

APPENDIX C – SUMMARY OF PLAN PROVISIONS

Compensation

Earnable compensation is the annual salary authorized for the member, not including overtime, differential pay, environmental pay, hazardous duty pay, pay for conversion of leave or other fringe benefits, or any additional payment. Average Final Compensation is the average of the member's annual earnable compensation on January 1 for the three successive years of service when the member's earnable compensation is the highest or, if the member is in service on January 1 for less than three successive years, than the average during total service.

Covered Compensation

The covered compensation (for Class C only) is the average of the FICA wage base for the 35-year period ending with the calendar year which ends immediately prior to the earlier of: (1) January 1, employment, or (2) January 1, of the calendar year in which the member attains age 65.

Military Service Credit

A. Military Service Prior to Employment:

1. Classes A and B

A maximum of three- years' service credit is granted provided the member has acquired 10 years of service and has reached the age of 60 or has acquired 20 years of service, regardless of age.

2. Classes C and D

A maximum of three-years' service credit is granted provided the member has acquired 10 years of service and has reached the age of 62 or has acquired 20 years of service, regardless of age.

B. Military Service Within Employment:

1. Classes A and B

Upon retirement or death, any member who, because of military duty, had a break in employment shall receive service credit for the period of absence as provided by the Veterans' Reemployment Rights Act.

Retirement Eligibility

A. Service Retirement:

1. Classes A and B – Age 60 with five years of service or 30 years of membership service.

2. Classes C and D – Age 65 with five years of service or 30 years of service, regardless of age. Early retirement allowed at age 55 with five years of service payable at age 65 or reduced for payment before 65.

APPENDIX C – SUMMARY OF PLAN PROVISIONS

B. Non-Line-of-Duty Disability Retirement:

Five years of membership service and determined by a hearing examiner to be mentally or physically incapacitated for the performance of duty and that incapacity is likely to be permanent.

C. Line-of-Duty Disability Retirement:

Totally and permanently incapacitated for duty as the result of an accident while in performance of duty and certified by a hearing examiner as mentally or physically incapacitated for the performance of duty and that such incapacity is likely to be permanent.

D. Dismemberment Disability Retirement:

1. Classes C and D – Loss of any two or more of hands, feet, sight of eye(s) as a direct result of bodily injury from an accident while in actual performance of duty as determined by a hearing examiner.

Termination of Employment

1. Classes A and B

- a. Eligible for Termination Retirement Allowance, deferred to age 60, upon completion of (1) 15 years of membership service, or (2) five years of service, if removed from a position without fault.
- b. Eligible for a Termination Retirement Allowance, payable immediately, upon completing 20 years of service, if removed from a position without fault.
- c. Eligible for a refund of accumulated contributions if not eligible for any other benefits.

2. Classes C and D

- a. Eligible for a Termination Retirement Allowance, deferred to age 65, upon completion of (1) 10 years of service, or (2) five years of service, if removed from a position without fault.
- b. Eligible for an immediate benefit if removed without fault after 20 years of service.

Retirement Allowances

A. Service Retirement:

1. Classes A and B

The sum of:

- a. An annuity of the actuarial equivalent of a member's accumulated contributions; and
- b. A pension, which together with the annuity shall equal 1.935% (Class A) or 1.785% (Class B) of Average Final Compensation times years of service.

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APPENDIX C – SUMMARY OF PLAN PROVISIONS

2. Class C

A pension of (1) 1.60% of Average Final Compensation, times years of service up to 30 years, plus (2) 0.25% of Average Final Compensation in excess of Covered Compensation, times years of service up to 30 years, plus (3) 1.85% of Average Final Compensation, times years of service in excess of 30 years.

3. Class D

A pension of 1.00% of Average Final Compensation, times years of service. If the member retires at or after age 62 with at least 20 years of service, the member receives an enhanced benefit of 1.10% of Average Final Compensation times years of service.

B. Early Retirement:

1. Classes C and D

If a member is age 55 with five years of service, the member may retire at any time, with a benefit reduced for early commencement. The reduction factor is 1/180 for each of the first 60 months prior to age 65 and 1/360 for each additional month preceding age 65. If the member has 30 years of service at retirement, then there is no reduction factor applied to the benefit.

C. Non-Line-of-Duty Disability Retirement:

1. Classes A and B

A benefit equal to the service retirement benefit if age 60; otherwise, an annuity of the actuarial equivalent of a member's accumulated contributions plus a pension which, together with the annuity, shall equal 1.90% (Class A) or 1.75% (Class B) of Average Final Compensation times years of service.

The member will receive the benefit as calculated above, if the benefit exceeds 25% of the member's Average Final Compensation. Otherwise, the member shall receive 25% of the member's Average Final Compensation.

This benefit is offset by:

- a. Workers' compensation (excluding amounts paid to third parties);
- b. Earnings in excess of base amount (current earnable compensation in same job grade and step adjusted for longevity) with a \$1.00 reduction for each \$2.00 of the first \$5,000 of excess and a \$2.00 reduction for each \$5.00 of additional excess earnings.

2. Classes C and D

The ordinary disability pension shall be equal to the greater of:

- a. The member's accrued service retirement benefit; or
- b. 15% of the member's average final compensation.

This benefit is offset by:

- a. Workers' compensation (excluding amounts paid to third parties);
- b. Unemployment compensation.

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D. Line-of-Duty Disability Retirement:

An annuity of the actuarial equivalent of a member's accumulated contributions, plus a pension equal to 66-2/3% of Average Final Compensation.

This benefit is offset by:

Same offsets are applied as for non-line of duty disability.

E. Dismemberment Disability Retirement:

1. Classes C and D

A pension, equal to 100% of Average Final Compensation. Same offsets as for Class C Line-of-Duty Disability benefits.

F. Termination Retirement Allowance (Deferred Payment):

Determined the same as for Service Retirement, but based on membership service and Average Final Compensation at the time of termination.

G. Termination Retirement Allowance (Immediate Payment):

Determined the same as if the member had retired with a non-line-of-duty retirement allowance.

H. Job Removal Retirement Benefit (Immediate Payment):

Unreduced retirement benefit based on actual years of service credit is provided to any member who is removed from a permanent position without fault, provided they had 20 years of service.

Option Methods of Receiving Benefit Payments

A. Maximum Service Retirement:

Joint & Survivor form of payment to unmarried spouse or dependent children until the last marries, dies or attains age 18 (age 22 if a full-time student). The percent continued to the spouse is 40%.

B. Cash refund to retiree's beneficiary based on present value of allowance at retirement less payments made.

C. Joint and 100% to Contingent Beneficiary

D. Joint and 50% to Contingent Beneficiary

E. Some other periodic benefit subject to the approval of the Board of Trustees

These options are available for service, termination, non-line-of-duty disability and line-of-duty disability retirement. Any option and/or beneficiary may be changed by the retired member within 30 days after retirement.

APPENDIX C – SUMMARY OF PLAN PROVISIONS

Non-Line-of-Duty-Death Benefits

1. Classes A and B

- The member's accumulated contributions will be returned; plus, if one or more years of membership service, 50% of the greater of Average Final Compensation or current annual earnable compensation, or
- If (1) eligible for service retirement, or (2) would have become eligible for service retirement within 90 days, or (3) if retired on account of service, non-line-of-duty disability, or line-of-duty disability and dies within 30 days of retirement, or (4) entitled to a deferred allowance at age 60; and the member's designated beneficiary or his partner(s) is his spouse with whom he has been living for at least five years, such beneficiary may elect an allowance equal to the greater of 40% of the participant's accrued benefit or the amount that would have been paid under the Joint and 100% Contingent Option.

This benefit is offset by workers' compensation (excluding amounts paid to third parties). If no beneficiary and if intestate without heirs, then contributions shall remain part of the System.

2. Classes C and D

- If (1) eligible for service retirement, or (2) would have become eligible for service retirement within 90 days, or (3) if retired on account of service, ordinary disability, or accidental disability and dies within 30 days of retirement, or (4) entitled to a deferred allowance at age 65, or (5) has 20 years of service and dies anytime between effective retirement date at age 65 and no later than 30 days following the attainment of age 65; the member's designated beneficiary shall receive an allowance equal to the greater of 40% of the participant's accrued benefit or the amount that would have been paid under the Joint and 100% Contingent Option, or
- If (1) not eligible under paragraph (1) above, and (2) if one or more years of service, 50% of the greater of Average Final Compensation or current annual earnable compensation, shall be paid as a lump sum.

Line-of-Duty Death Benefits

If a member's death was the result of injuries in the line of duty, a refund of contributions shall be payable, if applicable. In addition, an annual pension of 100% of current earnable compensation (not less than \$10,000 on June 30, 1994) shall be payable to:

- A. The spouse, provided there is no voluntary separation agreement renouncing rights of inheritance during her widowhood;
- B. If no eligible spouse, or if the spouse dies or remarries, the child or children equally until age 18 (age 22 if full-time student(s));

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- C. If no eligible spouse or child surviving, then to the deceased's father and / or mother equally, or to the survivor;
- D. For Classes A and B, any member who retires and dies within 30 days after the effective date of line-of-duty disability retirement shall receive the above benefits if death is the result of injuries in the line of duty.

This benefit is offset by workers' compensation (excluding amounts paid to third parties). If no beneficiary and if intestate without heirs, then contributions shall remain part of the System.

Post-Retirement Benefit Increases

Annual post-retirement benefit increases of a fixed 1.5% for participants in pay status under age 65 and 2.0% for participants in pay status age 65 and over.

Hybrid Employer Contributions

Section 5.3 (C) of Article 22 of the City Code identifies a provision that would impact the City's contribution rate to the Retirement Savings Plan (Savings Plan) of 3% for hybrid members of Plan D. If the Class D funded status falls below 85% half of the 3.0% or 1.5% of the City contributions to the Savings Plan will be diverted to funding the Retirement System. As a result in this report we track and provide specific information of the funded status for Class D members.

The funded ratio is defined as the ratio of the adjusted market value basis of assets attributable to Class D members of the June 30th preceding the actuarial valuation over the Employees Retirement System liabilities attributable to Class D members on that date. To determine this value in time for appropriate implementation of the appropriate City contribution rate before the beginning of the fiscal year we roll forward the liabilities for Class D members and the estimated adjusted asset value. This calculation is summarized in Section IV of this report.