Pension Oversight Commission

June 16, 2025

Dr. Calvin Ball, County Executive
Howard County Government
3430 Court House Drive
Ellicott City, MD 21043

Ms. Liz Walsh, Chairperson
Howard County Council
3430 Court House Drive
Ellicott City, MD 21043

Dear Dr. Ball and Ms. Walsh:

Enclosed for your review, is the Annual Report of the Pension Oversight Commission for the Howard County Retirement Plan and the Howard County Police and Fire Employees' Retirement Plan. The Annual Report is presented as one document for both Plans and covers the fiscal year 2024, ending June 30, 2024.

Please feel free to contact us, should you have any questions.

Sincerely,

Signed by:
Jae Chon
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Jae Chon
Chair

cc: Mr. Dave Jordan, Commission Member
Mr. Lou Hutt, Jr., Commission Member
Ms. Michelle RhodesBrown, Commission Member
Ms. Anju A. Bennett, Chair, Retirement Plan Committees
Mr. Scott Southern, Howard County
Mr. Norman Parker, Howard County

ANNUAL REPORT BY THE HOWARD COUNTY PENSION OVERSIGHT COMMISSION FOR THE FISCAL YEAR ENDED JUNE 30, 2024

Introduction

The Howard County Pension Oversight Commission (the “Commission) hereby submits an annual report of the status of the Howard County Retirement Plan (the “Retirement Plan”) and the Police and Fire Employees’ Retirement Plan (the “Police and Fire Plan” and together with the Retirement Plan, the “Plans”) to the County Executive and The County Council for the fiscal year ended June 30, 2024. This report includes:

A. Actuarial Review
B. Investment Review
C. Plan Cost Analysis
D. Administration Review
E. Commission Recommendations

Actuarial Review

Introduction

The Howard County Retirement Plan and the Howard County Police and Fire Employees’ Retirement Plan are defined benefit pension plans. The amount of the benefit paid under a defined benefit plan is determinable by a stated plan formula. Benefits to eligible members are paid upon retirement, termination, disability, and death.

As a government employer, Howard County has the option of funding for the benefits as they become payable (pay-as-you-go) or funding for the benefits in advance based upon what benefits are expected to be payable (pre-funding). Most government employers pre-fund their defined benefit plans. Pre-funding is desirable for several reasons, including:

- It is unfair to expect future taxpayers to pay for benefits being earned by current employees.
- The accumulation of assets in a trust fund helps ensure money will be available to provide for benefits as they become payable.
- Investment earnings may help reduce future costs.

Annual Actuarial Valuation Report

As part of the decision to pre-fund, a determination must be made as to the appropriate level of annual contribution necessary to meet future benefit commitments. This determination is known as the annual actuarial valuation report. Bolton has been retained to complete the calculations supporting the contribution recommendations presented in the report.

The Commission has reviewed the Actuarial Valuation Reports for both the Howard County Retirement Plan and the Howard County Police & Fire Employees' Retirement Plan dated July 1, 2024.

The report covered the following information as it pertains to each plan:

- Executive summary with recommendations for the plan
- Determination of the county contributions
- Valuation of plan assets
- Summary of participant data
- Summary of plan provisions
- A description of the Actuarial Methods and Assumptions used in the report.

County Contributions

One objective of the valuation report is to determine the ADC or Actuarially Determined Contribution. The ADC is the amount that if contributed consistently and combined with investment earnings would be sufficient to pay promised benefits in full over the long term. Below outlines the ADC recommended for the Plans.

For the Howard County Retirement Plan, the ADC increased both as a dollar amount and as a percentage of total payroll, primarily due to larger than expected salary increases for active employees. The ADC for the Howard County Police & Fire Employees Retirement Plan increased both as a dollar amount and as a percentage, primarily due larger than expected salary increases for active employees and more retirements than were projected.

Plan	2023 Valuation for FY25	Recommended Percentage of Payroll FY25	2024 Valuation for FY26	Recommended Percentage of Payroll FY26
Howard County Retirement Plan	$21,329,338	13.1%	$24,230,780	13.4%
Police and Fire Employees' Retirement Plan	$37,004,228	36.0%	$41,506,530	36.7%

The ADC's for the plan are based on a number of assumptions, including investment return, inflation, and other actuarial determined assumptions that are presented in the valuation report to the Retirement Plan Committee (RPC) for review and consideration. The county upon recommendation from the RPC has consistently made contributions as a percentage of payroll that have been at or in excess of the ADC determined by Bolton. The chart below reflects the trailing five-year county contributions expressed as a percentage of payroll.

Fiscal Year	Howard County Retirement Plan Recommended ADC	Actual Contribution Howard County Retirement Plan	Police & Fire Employees' Retirement Plan Recommended ADC	Actual Contribution Police & Fire Employees' Retirement Plan
2025	13.1%	13.1%	36.0%	36.0%
2024	10.5%	12.3%*	32.1%	35.3%*
2023	9.7%	10.8%*	34.2%	34.8%*
2022	11.7%	11.8%*	35.8%	35.8%
2021	11.8%	11.8%	34.2%	35.4%*

**Contribution Rate was higher than the ADC*

<u>Actuarial Funding Method</u>

The actuarial funding method used in the valuation reports prepared by Bolton is the Projected Unit Credit Cost Method (PUC). The recommended contribution equals the sum of the normal cost and the amount necessary to amortize the unfunded liabilities according to the amortization policy. Amortization payments increase 2.75% annually. Active plan amendments are amortized over the lesser of average future service and 15 years. Inactive plan amendments are now amortized over the lesser of average life expectancy and 10 years. The PUC funding method appears to be appropriate for these plans currently.

The table below shows the change in the Plans' funded ratio from the last valuation:

Plan	FY 2023 Funded Ratio	Actuarial Unfunded Liability ($)	FY 2024 Funded Ratio	Actuarial Unfunded Liability ($)
Howard County Retirement Plan	93.3%	$44,637,435	91.9%	$58,710,732
Police and Fire Employees' Retirement Plan	89.1%	$103,837,508	88.6%	$117,462,687

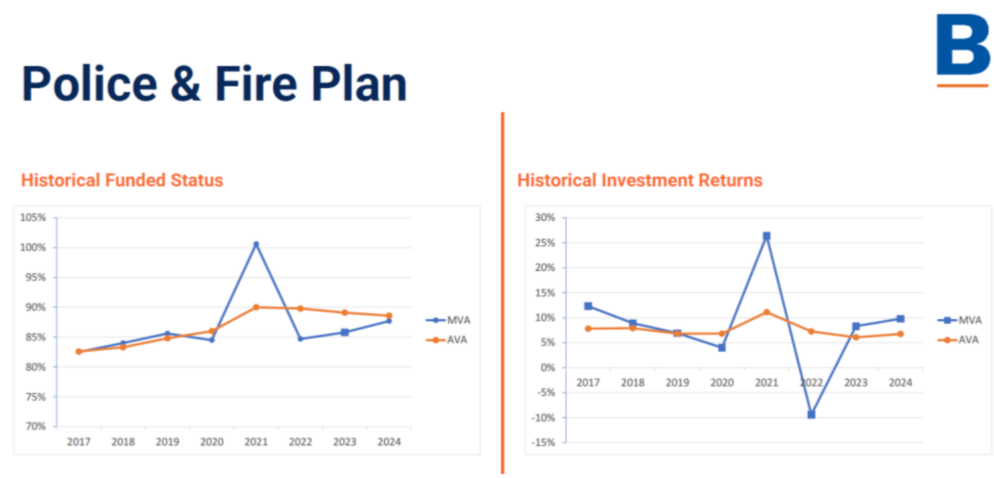
Actuarial Asset Method

The actuarial asset method selected must reflect the market value of assets. There are a number of asset methods, including market value, smoothed value, discounted cash flow, and book value. The method chosen will result in different impacts on the recommended contribution. A market value method will result in contributions increasing/decreasing as plan assets decrease/increase. A smoothed asset method will distribute market value gains and losses over a period of time, smoothing the increases/decreases in the recommended contribution.

The actuarial asset method used in the valuation is the smoothed asset method. Gains and losses are spread a five-year period. The actuarial values of assets used by Bolton can be no less than 50% of the market value of assets and no more than 150% of the market value of assets. As such, the recommended contribution will not increase as significantly if the investment return is less than assumed. Likewise, the recommended contribution will not decrease significantly if the investment return is greater than assumed. This results in a more stable recommended contribution level. The five-year asset smoothing method appears to be appropriate for these plans at this time.

The charts below included in the February 19, 2025 actuarial valuation results presentation from Bolton, illustrate how utilizing the smoothing method decreases volatility in the funded status of the retirement plans. The charts show that the market value of assets can vary wildly from one year to the next. By using the actuarial value of the assets, the county can minimize the impact to the funded ratio and stabilize the ADC in an effort to have a more predictable budgetary impact.

In addition, the charts show that over a longer horizon, investment returns can fluctuate but the rates of return on the actuarial value of assets have been within an acceptable range of the plans' investment return assumption.



Assumption Changes

Bolton conducts the Actuarial Valuation review of the "Plans" experience over the last fiscal year. Bolton utilizes assumptions along with the experience to determine the cost to the county to keep the Plan funded in order to pay benefits into the future. If the experience dictates a change in the assumptions Bolton will recommend that the Retirement Plan Committee adopt new assumptions.

Every year the Committee reevaluates the Investment Return Assumption to see if it is appropriate with recent market activity. Since investments can be volatile from year to year and across the different asset classes that are in the portfolio, this assumption is closely monitored. It was determined that the current investment return assumption of 7.15% remains within an acceptable range based on the plans current investment policy. The Committees will continue to reevaluate this assumption on an annual basis and recommend adjustments if the assumption does not align with expected returns.

Bolton did adjust the service requirement for normal retirement eligibility, benefit accrual percentages and employee contribution rates for participating Dispatchers to align with the plan amendment that went into effect on July 1, 2024.

ANNUAL INVESTMENT REVIEW

The net assets of the Howard County Retirement Plan and the Howard County Police and Fire Employees Retirement Plan are combined in a master trust (the Master Trust). The following represents an investment review of the combined Master Trust assets for the fiscal year ending June 30, 2024.

MASTER TRUST NET ASSETS

The 2024 fiscal year saw another year where investment returns outperformed the plans investment return assumption, by continuing to have strong US and International equity returns and Hedge Funds outperforming the index. Total Master Trust net assets as of fiscal year-end were $1.553 billion. The gain of 10% placed the combined Master Trust in the 50th percentile for the fiscal year as compared to other public funds of its size. During the past three-year fiscal period, the annualized gain of 8.4% placed the fund in the 58th percentile ranking versus other Public Funds in its peer group and is above the plans 7.15% discount rate.

The Howard County Retirement Plan net assets increased during the period from $604 million to $658 million. The net investment gain for the period was $58 million. The Retirement Plan represented about 42% of Master Trust net assets as of June 30, 2024.

The Howard County Police & Fire Employees Retirement Plan net assets increased during the period from $816 million to $899 million. The net investment gain was $80 million for the period after investment management fees. The Police and Fire Plan comprised about 58% of Master Trust net assets as of June 30, 2024.

ASSET ALLOCATION SUMMARY

The following table compares asset class allocations with Investment Policy targets and acceptable ranges as of June 30, 2024. All asset classes at fiscal year-end were within the range of acceptable long-term policy guidelines at fiscal year-end:

Asset Class	Total Plan	Target Policy %	Range %
U.S. Equity	28.2	27.5	22.5-32.5
Int'l Equities	10	11	6-16
Int'l Emerging Markets	6.9	6.5	1.5-11.5
EQUITY	**45.1**	**45**	**35-55**
Private Equity	12.9	13	8-18
Private Debt	3.4	5	0-10
Hedge Funds	8.1	8	3-13
ALTERNATIVE INV	**24.4**	**26**	**21-31**
Core/Non-Core Real Estate	3.3	4	2-6
Other Real Assets	1.2	2	0-4
REAL ASSETS	**4.5**	**6.0**	**2-11**
Core Fixed Income/Tips	16.8	11	**5-19**
Absolute Return Fixed Income	3.8	4	0-9
Emerging Market Debt	2.1	4	0-9
High Yield	2.6	4	0-9
FIXED INCOME	**25.4**	**23**	**13-33**
CASH EQUIVALENTS	**0.7**	**0.0**	**0-5**

NEW INVESTMENTS

In Fiscal Year 2024 The Retirement Plan Committees continued to diversify the "Plans" portfolio by approving investments in five new strategies. The Fund Names and commitments for the new investments are listed below:

Fund Name	Investment	Type
Orchard Global Elegan Tree Opportunities Fund III	$ 20 Million	Private Debt
Cortec Group Fund VIII	$ 15 Million	Private Equity
HarbourVest Dover Street Secondaries Fund XI	$ 15 Million	Private Equity
Brookfield Real Estate Secondaries	$ 15 Million	Real Estate
Search Capital Partner Fund IV	$ 15 Million	Private Equity

Each of the new investments are direct investments. This allows the county to continue to diversify the portfolio while eliminating a layer of fees that are associated with non-direct types of investment opportunities.

PLAN COST ANALYSIS

The operating cost for the Howard County Retirement Plan in the fiscal year totaled $32,225,537. Included in the costs were $30,288,011 for plan benefit payments. The remaining expenses came from Investment $1,363,861 and administrative services of $627,912.

The operating cost for the Howard County Police and Fire Employees' Retirement Plan in the fiscal year totaled $44,758,436. Included in the costs were $42,459,762 for plan benefit payments. The remaining expense came from Investment: $1,692,679 and Administration: $605,995.

The chart below outlines the administrative cost to the Plans which the Commission feels are reasonable based on the size of the plan.

Service	Retirement Plan	Police & Fire Employees' Plan
Actuarial Services	$109,426	$94,077
Attorney Fees	$73,803	$59,402
Plan Salaries	$394,869	$394,869
Fiduciary Insurance	$28,645	$35,673
Travel & Training	$750	$1,877
Investment Consultant	$142,000	$142,000
Audit Fees	$19,860	$19,860
Seminar/ Printing Fees	$559	$237
Total	**$769,912**	**$747,995**

Investment Costs

A recent fee study analysis conducted by NEPC compares the Plans fees versus the Universe Median and provided insight into the reasonableness of cost for some of the Plan's investments. In many cases the fees the Plans are paying to investment managers ranked in the top quartile.

Domestic Equity	HC Fee	Universe Median	Universe Ranking
LSV – Large Cap Value	0.45%	0.48%	34
Westfield – Large Cap Growth*	0.25%	0.48%	3
Blackrock Non-Lendable – Large Cap	0.02%	0.04%	1
William Blair - SMA	0.87%	0.85%	57
William Blair – S/C Value R6	0.81%	0.95%	14
Brown Capital - Small Growth*	0.25%	0.90%	1

International Equity	HC Fee	Universe Median	Universe Ranking
Mondrian - Int'l Equity	0.50%	0.67%	18
Baillie Gifford	0.64%	0.84%	27
GQG	0.70%	0.84%	21
Arga	0.70%	0.85%	20

Fixed Income	HC Fee	Universe Median	Universe Ranking
Dodge & Cox - Core Fixed	0.25%	0.26%	40
State Street U.S. Aggregate Bond Index*	0.02%	0.44%	1
State Street U.S. Treasury Index*	0.02%	0.60%	1
State Street – TIPS*	0.02%	0.04%	1
Colchester - EMD	0.72%	0.60%	65
Payden - Absolute Return	0.47%	0.65%	18
Artisan - HY	0.68%	0.50%	90

The nature of Private Equity funds makes benchmarking fees very difficult. NEPC's long standing relationships with these fund managers often lead to a negotiated discounted fee structure.

In the recent past the Plans have switched to investing in more direct investment managers to limit the layering of fees that come with investing in a fund of funds strategy.

Given the information provided, the Commission believes that the Plans are operating with reasonable fees for the services provided.

PLAN ADMINISTRATION

The Howard County Retirement Plan and The Howard County Police and Fire Employees Retirement are administered by the Joint Retirement Plan Committees (the "Committees".) The Committees delegate day-to-day operations to the Retirement Unit in the county Office of Human Resources. The Committees members are fiduciaries of the Plans and as such are obligated to act in the best interests of the plan members.

The Committees meet 10 times throughout the year to evaluate the health of the Plans. During this fiscal year the Committees were provided a greater understanding of some of the newer asset classes that NEPC is recommending for future investments to strengthen the portfolio. NEPC delivered a more in-depth education session relating to Private Equity, Private Debt and Real Assets. The also provided a focused review of their evaluation of the Real Estate managers. The Committee also were closely monitoring the performance of the underperforming manager Ballie Gifford and established a subcommittee to review the plans continued investment with this manager. Also upon recommendation from NEPC the Committees rebalanced $25 million from equities to fixed income. Before and after the rebalance the assets fell within the plans Investment Policy Statement.

The Committee received an extensive report on the legal due diligence conducted by the plan counsel, Whiteford, Taylor and Preston. The education focused on review of transactional documents, negotiating side letter agreements with the General Partners, risk management, as well as better understanding the investment manager and regulatory issues.

The Committees put out a request for proposal for legal services for the plan. There were two finalists for the position with Whiteford, Taylor & Preston eventually being selected to continue with the Plan.

The Committees also decided to pursue becoming the lead plaintiff in the National Vision Holdings class action securities litigation case. The case was presented to them by their portfolio monitoring firm Robbins Gellar. The Committees decided it was in the best interest so the trust would recover losses attributable to their investment. The master trust was not selected to be the lead plaintiff since there were other plans that had a greater loss.

The Committees review the annual actuarial valuation presentation from Bolton and discuss whether the assumptions are reasonable and debate if changes need to be made to improve the health of the plan or to limit the risks of the investment strategy. The discount rate remained the same for this fiscal year but is monitored at least annually and adjustments have been made in the past to ensure the discount rate continues to fall in line with the long term return outlook.

Both retirement plans were audited by Clifton Larson Allen and in the review the auditor had no difficulties and had no corrected misstatements.

Commission Recommendations

After thoroughly reviewing the administration of the Howard County Retirement Plan and the Howard County Police and Fire Employees Retirement Plan, the Pension Oversight Commission would offer the following recommendations:

1. The Commission would like to see the Actuary add the historical return rate assumption used in each valuation period to the results presentation and completed valuation report. This would provide more information to the reader when reviewing and assessing the plans' historical funding ratios, and Actuarially Determined Contributions (ADC).
2. The Commission would recommend that the Retirement Plan Committees should remain vigilant in the asset allocation for the Plans. Many of the new investments over the past few years have been in asset classes that are illiquid such as private equity and private debt. The Committees should make sure the Plans continue to follow the Investment Policy Statement (IPS) in the construction of the portfolio ensuring that a large percentage of assets are liquid.