

Employees' Retirement System of Baltimore County, Maryland

# COMPREHENSIVE ANNUAL FINANCIAL REPORT

A Pension Trust Fund of Baltimore County

For the Fiscal Year Ended June 30, 2010



**COMPREHENSIVE ANNUAL  
FINANCIAL REPORT OF THE  
EMPLOYEES' RETIREMENT SYSTEM  
OF BALTIMORE COUNTY**

**JULY 1, 2009 TO JUNE 30, 2010**

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**A PENSION  
TRUST FUND OF  
BALTIMORE COUNTY  
MARYLAND**

Prepared By:  
Office of Budget and Finance

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# TABLE OF CONTENTS

## INTRODUCTORY SECTION

|  |    |
|--|----|
| Certificate of Achievement .....           | 1  |
| Letter of Transmittal .....                | 2  |
| Board of Trustees .....                    | 6  |
| Consultants and Professional Services..... | 7  |
| Investment Managers .....                  | 7  |
| Organizational Chart.....                  | 10 |

## FINANCIAL SECTION

|   |    |
|---|----|
| Independent Auditors' Report.....                           | 11 |
| Management's Discussion and Analysis.....                   | 13 |
| Basic Financial Statements                                  |    |
| Statements of Plan Net Assets .....                         | 19 |
| Statements of Changes in Plan Net Assets.....               | 20 |
| Notes to Financial Statements.....                          | 21 |
| Required Supplementary Information and Supporting Schedules |    |
| Schedule of Funding Progress .....                          | 31 |
| Schedule of Employers' Contributions.....                   | 31 |
| Supplementary Supporting Schedules                          |    |
| Schedule of Investment Expenses.....                        | 32 |
| Schedule of Administrative Expenses .....                   | 32 |

## INVESTMENT SECTION

|   |    |
|---|----|
| Investment Consultant's Report.....                       | 33 |
| Outline of Investment Policies.....                       | 36 |
| Investment Results .....                                  | 36 |
| Portfolio Composition by Manager Type (Current Year)..... | 38 |
| Portfolio Composition by Manager Type (Five Year).....    | 39 |
| List of Largest Assets Held.....                          | 40 |
| Schedule of Fees .....                                    | 41 |
| Schedule of Commissions.....                              | 41 |
| Investment Summary .....                                  | 42 |

## ACTUARIAL SECTION

|  |    |
|--|----|
| Actuary's Certification Letter .....                             | 43 |
| Summary of Actuarial Assumptions and Methods .....               | 45 |
| Schedule of Active Member Valuation Data .....                   | 54 |
| Schedule of Retiree and Beneficiary Data .....                   | 56 |
| Solvency Test.....   | 57 |
| Analysis of Change in Unfunded Accrued Liability.....            | 58 |
| Progress Toward Amortization of Unfunded Accrued Liability ..... | 58 |
| Summary of Plan Provisions.....                                  | 59 |
| Changes to Plan Provisions.....                                  | 65 |

# ———— TABLE OF CONTENTS ————

## STATISTICAL SECTION

|  |    |
|--|----|
| Schedule of Changes in Net Assets, last ten fiscal years .....   | 68 |
| Schedule of Benefit Payments and Refund Deductions from Net Assets by Type,<br>last ten fiscal years ..... | 68 |
| Retirees and Beneficiaries - Distribution to Members by Type of Retirement.....                            | 69 |
| Retirees and Beneficiaries - Distribution to Members by Option Selected .....                              | 70 |
| Schedule of Average Benefit Payments.....  | 71 |
| Schedule of Participating Employers.....   | 72 |

***INTRODUCTORY  
SECTION***

Certificate of  
Achievement  
for Excellence  
in Financial  
Reporting

Presented to  
Employees' Retirement System  
of Baltimore County  
Maryland

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended  
June 30, 2009

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



President

Executive Director

# — INTRODUCTORY SECTION —

## EMPLOYEES' RETIREMENT SYSTEM OF BALTIMORE COUNTY



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### Letter of Transmittal

The Board of Trustees  
Employees' Retirement System of Baltimore County  
Towson, Maryland 21204

December 20, 2010

The Comprehensive Annual Financial Report of the Employees' Retirement System of Baltimore County, Maryland (the "System") for the year ended June 30, 2010, is submitted herewith. The System is a Pension Trust Fund included in the financial statements of Baltimore County, Maryland. The System administration is responsible for the accuracy and fairness of the information contained in this report. To the best of our knowledge and belief, the enclosed data are accurate in all material respects and are reported in a manner designed to present fairly the plan net assets and changes in plan net assets of the System in conformity with accounting principles generally accepted in the United States of America.

Generally accepted accounting principles require management to provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. The MD&A may be found immediately following the report of the independent auditors.

**Plan History.** The System, a defined benefit plan, was established January 1, 1945 by County ordinance. The authority to establish and maintain the System is specified in Section 5-1-101 of the Baltimore County Code. Membership in the System is open to employees in both the classified and unclassified service of Baltimore County, and employees of the Baltimore County Revenue Authority, the Baltimore County Board of Education, the Baltimore County Board of Library Trustees and the Community College of Baltimore County who are not eligible to participate in the Maryland State Retirement and Pension Systems. Direct appointees of the Governor of Maryland, temporary employees and employees for whom there are existing pension provisions are excluded. System membership is compulsory for general County classified employees after two years of service. Immediate membership is mandatory for police officers and firefighters as a condition of employment. Membership is optional for part-time employees.

**Benefits and Services Provided.** The System provides normal service retirement and discontinued service retirement benefits for members who attain the age and service requirements. Coverage for occupational disability benefits is immediate upon entry into the System. Disability benefits for non-occupational related injury or illness are provided to vested members. Members hired prior to July 1, 2007, are vested after five years of creditable service. Members hired on or after July 1, 2007 are vested after ten years of creditable service. Occupational death benefits are provided upon membership for any member whose death results from an injury occurring in the actual performance of their job. After one year of creditable service, members are covered for ordinary death benefits.

# — INTRODUCTORY SECTION —

## **Letter of Transmittal, continued**

Post-Retirement Cost of Living Adjustments (COLAs) are granted annually to members who have been retired for more than 12 months provided sufficient excess investment earnings exist. Certain changes to the plan, effective July 1, 2010, are summarized on page 65 in the Actuarial Section of this report.

The System's staff provides benefit counseling to benefit applicants throughout the year. Additionally, the staff makes benefit presentations at new employee orientations.

### **INVESTMENT PERFORMANCE**

The System investment portfolio gained 16.4% in FY 2010, recovering from the 17.5% loss incurred in FY 2009. With the exception of the real estate portfolio incurring a loss of 8.2%, all other investments categories in the System's portfolio had positive returns. Fixed income led the way with gains of 19.3%, followed closely by the domestic equity portfolio with gains of 17.3% and international equity with gains of 16.1%.

### **FUNDING STATUS**

For actuarial valuation purposes, returns are smoothed over a five-year period. The actuarially determined target investment return is a long-term target and significant deviations from this target can be expected. The actuarial cost method applied is projected unit credit. The funded status for FY 2009 and FY 2008 was 82.5%, and 88.0%, respectively, based on the latest available actuarial reports. The decrease is primarily due to the loss on the actuarial accrued liability, the loss on the asset experience.

### **INVESTMENT STRATEGIES**

Under the experienced direction of its Board of Trustees, the System plans to continue maximizing investment returns while maintaining an acceptable level of risk. The System will continue to invest assets domestically as well as internationally in an effort to maintain an appropriate balance.

During FY 2010, the Board allocated 5% of the portfolio to the Real Asset Class, while reducing the allocation to Large Cap US Equities by 4% and Domestic Fixed Income by 1%. The Board terminated one domestic equity manager and one international equity manager. Six new managers were hired by the Board, consisting of one international equity manager, two fixed income managers, two real asset managers and one private equity manager. The Board implemented these changes to better meet the System's long-term risk and return objectives.

### **MAJOR ISSUES AND INITIATIVES**

The Government Accounting Standards Board (GASB) has established new financial reporting standards through Statement No. 53, "Accounting and Financial Reporting for Derivative Instruments". The System has implemented the new financial reporting standards in its June 30, 2010 financial statements.

### **LEGISLATIVE AND ADMINISTRATIVE CHANGES:**

Effective February 1, 2010, County Council Bill 94-09 was enacted which caps retirement allowances for newly elected County council members at 60% of Average Final Compensation.

Changes taking effect in FY 2010 include:

- Eligibility for Ordinary Disability benefits increased from 5 years to 10 years for general, correctional officers and deputy sheriffs per Section 5-1-221 of the Code.
- Effective April 19, 2010, general, correction officers and deputy sheriffs who are eligible for a normal service retirement and applied for an ordinary disability retirement may be required by the Board to accept a normal service retirement.

# — INTRODUCTORY SECTION —

## Letter of Transmittal, continued

The County Council approved Legislative and Administrative changes to the System to take effect July 1, 2010, in the following areas:

- Contribution Rate Increase
- Post-Retirement Cost-of-Living Adjustments (COLAs)
- Disabilities and Death Benefits
- Administrative Efficiencies / Creditable Service

These changes were negotiated with the unions to protect the viability of the System. A summary of these changes may be found in the Actuarial Section of this report on Page 65.

## FINANCIAL INFORMATION

**Accounting System.** The System's financial statements have been prepared using the economic resources measurement focus and the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. Accordingly, contributions and investment income are recorded when earned regardless of the date of collection and benefits and other expenses are recorded when liabilities are incurred regardless of when payment is made.

**Internal Control.** In developing and evaluating the accounting system, consideration is given to the adequacy of internal accounting controls. Internal accounting controls are designed to provide reasonable, but not absolute, assurance regarding the safeguarding of assets against loss from unauthorized use or disposition and the reliability of financial records for preparing financial statements and maintaining accountability for assets. The concept of reasonable assurance recognizes that the cost of a control should not exceed the benefits likely to be derived; and the evaluation of cost and benefits requires estimates and judgments by management. All internal control evaluations occur within this framework. Management believes the System's internal accounting controls adequately safeguard assets and provide reasonable assurance of proper recording of financial transactions.

**Investments.** As provided in Article 5, Title 1 of the Baltimore County Code, the Board of Trustees is empowered to invest the System's assets utilizing the "prudent person" standard and to take appropriate action regarding the investment, management and custodianship of plan assets. The investment responsibilities include establishing reasonable investment objectives, developing investment policy guidelines, selecting investment managers and evaluating performance results to assure adherence to guidelines and the achievement of objectives.

The Board of Trustees has carefully exercised these responsibilities by diversifying the assets into stocks (domestic and foreign), fixed income securities, private equity funds, real estate funds, global asset allocation funds, hedge fund of funds and real assets. The Board of Trustees recognizes that the objective of a sound and prudent policy is to produce investment results which will preserve the System's assets and to maximize the earnings of the System consistent with its long-term needs.

A pension investment consultant has been appointed to advise and consult with the Board of Trustees and the System staff, prepare recommendations on investment policies, investment management structure and asset allocation, and to monitor and evaluate the performance of the investment managers and the asset custodian. For the fiscal year ended June 30, 2010, the System portfolio rate of return was 16.4%. The System had an annualized loss of 2.9% over the past three years, and an annualized rate of return of 3.3% over the past five years.

**Administration.** As provided in Section 5-1-238 of the Baltimore County Code, the general administration of the System is vested in the Director of Budget and Finance of Baltimore County. The Director has the responsibility to implement policies of the Board of Trustees as they pertain to the System and to ensure the System operates within the guidelines as set forth in those policies.

# — INTRODUCTORY SECTION —

## Letter of Transmittal, continued

**Funding.** A pension plan is considered adequately funded when sufficient assets are available to meet all expected future obligations to participants. The System funding objective is to meet long-term benefits through annual employer contributions that remain approximately level as a percentage of covered payroll. The greater the level of funding, the larger the ratio of assets accumulated to the actuarial accrued liability and the greater the level of investment potential. The advantage of a well-funded plan is that participants are confident that sufficient assets are available to the payment of current and future member benefits. The County's commitment to provide a financially sound retirement plan for its members is illustrated on two schedules contained in the required supplementary information of the Financial Section of this report.

### OTHER INFORMATION

**Independent Audit.** The County has contracted with a firm of independent certified public accountants to audit the System's financial statements. The independent auditors' report is contained herein.

**Professional Services.** The Board of Trustees has appointed an actuary, a pension investment consultant, an asset custodian, a medical board and numerous investment managers to provide services to the System. The list of professionals which provide services to the System is found on Pages 7 through 9.

**Certificate of Achievement.** The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Employees' Retirement System of Baltimore County for its comprehensive annual financial report for the fiscal year ended June 30, 2009. This was the sixteenth consecutive year that the System has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to GFOA to determine its eligibility for another certificate.

### ACKNOWLEDGMENTS

The preparation of this report on a timely basis reflects the combined effort and dedication of the System's staff. On behalf of the Board of Trustees, I would like to take this opportunity to express my gratitude to the staff who have worked so diligently to assure the successful operation of the System. This report is intended to provide complete and reliable information as a basis for making management decisions, as a means of determining compliance with legal provisions and for determining responsible stewardship for the assets of the System.

Respectfully submitted,

Keith Dorsey  
Director of Budget and Finance and  
Secretary to the Board of Trustees  
Employees' Retirement System of Baltimore County

# — INTRODUCTORY SECTION —

## Board of Trustees

Fred Homan  
County Administrative Officer

County Executive Designee

Keith Dorsey  
Director of Budget and Finance

Ex-officio Trustee

Joseph H. Zerhusen, Chairman  
Retiree

Elected by retired membership  
Four-year term expires November 30, 2012

Theresa Stokes Hill  
Director of Human Resources

Ex-officio Trustee

James W. Johnson  
Chief of Police

Ex-officio Trustee

Edward C. Adams, Jr.  
Director of Public Works

Ex-officio Trustee

Cole B. Weston  
President, F.O.P. Lodge # 4

Elected by active membership  
Four-year term expires November 30, 2012

Michael K. Day  
President, IAFF Local 1311

Elected by active membership  
Four-year term expires November 30, 2012

The Ex-officio trustees serve by virtue of their position with Baltimore County.

# — INTRODUCTORY SECTION —

## Consultants and Professional Services

### Actuary

Buck Consultants  
Chicago, Illinois

### Auditors

Clifton Gunderson, LLP  
Baltimore, Maryland

Pension Investment Consultant  
New England Pension Consultants  
Cambridge, Massachusetts

EDP Consultant  
Levi, Ray & Shoup, Inc.  
Springfield, Illinois

Asset Custodian  
BNY Mellon  
Pittsburgh, Pennsylvania

Medical Board  
Rubin Reider, M.D.  
Rafael Hernandez, M.D.  
Jose Morelos, M.D.

### Operational Banking

M & T Bank  
Buffalo, New York

## Investment Managers

### Domestic Equity

Brown Advisory  
Baltimore, Maryland

BlackRock  
San Francisco, California

Gottex Fund Management  
Boston, Massachusetts

Brown Capital Management  
Baltimore, Maryland

Earnest Partners  
Atlanta, Georgia

Cadence Capital Management  
Boston, Massachusetts

Benchmark Plus Mgmt.  
Tacoma, Washington

John Hsu Capital Group  
New York, New York

Profit Investment Mgmt.  
Silver Spring, Maryland

Herndon Capital Management  
Atlanta, Georgia

### International Equity

Gryphon International Investment Corp.  
Toronto Ontario, Canada

LSV Asset Management  
Chicago, Illinois

BlackRock  
San Francisco, California

Mondrian Investment Partners  
Wilmington, Delaware

# — INTRODUCTORY SECTION —

## Investment Managers, continued

### Fixed Income

Pacific Investment Mgmt. Co.  
Newport Beach, California

Reams Asset Management  
Columbus, Indiana

Earnest Partners  
Atlanta, Georgia

Western Asset Management  
Pasadena, California

Seix Advisors  
Upper Saddle River, New Jersey

Loomis, Sayles & Company, L.P.  
Boston, Massachusetts

### Private Equity

HarbourVest Partners, Inc.  
Boston, Massachusetts

Siguler Guff  
New York, New York

Edison Venture Fund  
Lawrenceville, New Jersey

Grotech Capital Group  
Timonium, Maryland

Mesirow Financial  
Chicago, Illinois

Newstone Capital Partners  
Los Angeles, California

TCW/Crescent Mezzanine Partners  
Los Angeles, California

Paul Capital Partners  
San Francisco, California

Landmark Equity Partners  
Simsbury, Connecticut

### Real Estate

ING Clarion  
New York, New York

Transwestern Investment Co.  
Chicago, Illinois

UBS Global Asset Management  
Hartford, Connecticut

JP Morgan  
New York, New York

### Hedge Fund of Funds

EIM Management  
New York, New York

Federal Street Partners  
Stamford, Connecticut

# — INTRODUCTORY SECTION —

## Investment Managers, continued

### Global Asset Allocation

Bridgewater  
Westport, Connecticut

Mellon Capital Mgmt.  
San Francisco, California

Wellington Trust Company, NA  
Boston, Massachusetts

### Real Assets

Gresham Investment Management  
New York, New York

Wellington Trust Company, NA  
Boston, Massachusetts

## Administrative Organizational Chart

