

*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, 2011

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.



*Linda C. Dawson*

President

*Jeffrey R. Emer*

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 19, 2012

The Comprehensive Annual Financial Report of the Employees' Retirement System of Baltimore County, Maryland (the "System") for the year ended June 30, 2012 (FY 2012), 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. Ordinary Disability benefits are provided to Police Officers and Firefighters after one year of creditable service and after five years of creditable service for all other members.

# — 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 60 months, provided sufficient excess investment earnings exist in the Post Retirement Increase Fund. For active members who select the DROP program, the eligibility period to receive COLAs in the DROP remains a minimum of 12 months. Once the member actually retires, the eligibility period for a post-retirement COLA is a minimum of 48 months.

The staff makes benefit presentations at new employee orientations.

### **INVESTMENT PERFORMANCE**

The System investment portfolio net of fee return was 1.1% in FY 2012 and 21.0% in FY 2011. The Comparative Balanced Index was 0.8% and 19.4% respectively, for the same periods.

### **FUNDING STATUS**

For actuarial valuation purposes, returns were smoothed over a ten-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 2011 and FY 2010 was 77.3%, and 80.0%, respectively, based on the latest available actuarial reports. The decrease is primarily due to experience losses on the actuarial accrued liability and the actuarial value of assets.

### **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 2012, the Board conducted an annual asset allocation review and commitments were made to four new private equity funds. The Board implemented these changes to better meet the System's long-term risk and return objectives.

### **MAJOR ISSUES AND INITIATIVES**

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

Contributions (Bill No. 43-11):

On August 14, 2011, the County Council of Baltimore County approved an amendment to the Pensions and Retirement Code to increase contribution rates for deputy sheriffs and sworn members of the fire department, hired on or after July 1, 2011 to 10% of earnable compensation.

DROP (Bill No. 43-11):

On August 14, 2011, the County Council of Baltimore County approved an amendment to the Pensions and Retirement Code to allow those members who were eligible to participate in the Deferred Retirement Option Plan (DROP) as of July 1, 2007, but did not elect to participate at that time, may now elect to begin participation in the DROP retroactive to July 1, 2007.

Retirement Incentive Program (Bill No. 67-11):

On October 17, 2011, the County Council of Baltimore County approved an amendment to the Pensions and Retirement Code to offer a retirement incentive program to certain employees in order to further reduce the number of County employees on payroll. However, the incentive was granted only on the condition that a position would be eliminated for each retiree. The County provided 1.5 months of additional creditable service for each year of creditable service up to a maximum of 3 years and eliminated the early retirement penalty.

# — INTRODUCTORY SECTION —

## Letter of Transmittal, continued

To be eligible a member had to be age 60 with 5 years of creditable service, age 50 with 20 years of creditable service or have a minimum of 22 years and 3 months of creditable service regardless of age as of February 29, 2012. As a result of the incentive program, 310 members retired, saving \$21 million in annual payroll costs.

The System entered into a contract with CPAS Systems, Inc. to replace the current pension administration software system with a system that is highly configurable and provides full support for the County's defined benefit plan. The scope of this project includes a comprehensive retirement and pension administration software application that is web based for self-service access. Implementation is underway and is expected to go live on July 1, 2013.

### 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 ensure 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 (i.e. commodities). 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, 2012, the System portfolio rate of return was 1.7%. The System had an annualized rate of return of 12.8% over the past three years, and an annualized rate of return of 2.5% 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.

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## 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.

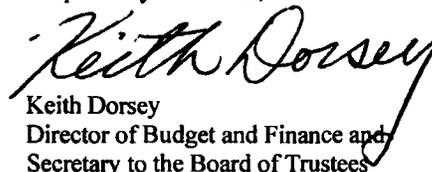
**Certificate of Achievement.** The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Employees' Retirement System of Baltimore County for its comprehensive annual financial report for the fiscal year ended June 30, 2011. This was the eighteenth 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

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## Board of Trustees

Joseph H. Zerhusen, Chairman Retiree	Elected by retired membership Four-year term expires November 30, 2016
Fred Homan County Administrative Officer	County Executive Designee
Keith Dorsey Director of Budget and Finance	Ex-officio Trustee
George Gay 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
David Rose Police Department	Elected by active membership Four-year term expires November 30, 2016
Michael K. Day President, IAFF Local 1311	Elected by active membership Four-year term expires November 30, 2016

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

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## Consultants and Professional Services

### Actuary

Buck Consultants, a Xerox Company  
Chicago, Illinois

### Auditors

CliftonLarsonAllen, LLP  
Baltimore, Maryland

### Pension Investment Consultant

NEPC, LLC  
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

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## 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

Stone Harbor Investment Partners  
New York, New York

### 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

Crescent Mezzanine Partners  
Los Angeles, California

Paul Capital Partners  
San Francisco, California

Energy Spectrum Partners  
Dallas, Texas

EIG Global Energy Partners  
Washington, District of Columbia

Landmark Equity Partners  
Simsbury, Connecticut

Lexington Capital Partners  
New York, New York

Vista Equity  
San Francisco, California

Sterling Capital  
Baltimore, Maryland

Private Advisors  
Richmond, Virginia

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## **Investment Managers, continued**

### **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
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### **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
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## Administrative Organizational Chart

