EMPLOYEES' RETIREMENT SYSTEM

City of Baltimore, Maryland

POPULAR ANNUAL FINANCIAL REPORT

Year Ended June 30, 2017

A Pension Trust of
the City of Baltimore

ERS
EMPLOYEES' RETIREMENT SYSTEM
of the CITY OF BALTIMORE

DIRECTOR'S LETTER

DEAR MEMBERS OF THE BALTIMORE CITY EMPLOYEES' RETIREMENT SYSTEM,

I am pleased to present the Popular Annual Financial Report (PAFR) for fiscal year 2017. The information provided in this report offers an overview of ERS's financial wellbeing, including our yearly investment performance, asset allocations, and economic accomplishments achieved with our members' best interests in mind. For a more detailed review of the System's financial development, please visit our website at www.bcers.org, then click on "Publications & News" to read our Comprehensive Annual Financial Report (CAFR).

I would like to express my appreciation to the Board of Trustees and the ERS staff who dedicate themselves to serving our plan sponsors, active members, retirees and their beneficiaries year after year. We hope this year's PAFR demonstrates the discipline and strategy our team exercises on a daily basis to yield satisfactory results.

Sincerely,

Roselyn H Spencer

Roselyn H. Spencer

EMPLOYEES' RETIREMENT SYSTEM of the CITY OF BALTIMORE

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About The Plan

The Employees' Retirement System of the City of Baltimore (ERS) provides defined benefit and defined contribution options for eligible members whose hard work and service has kept the City running for decades. Since its establishment on January 1, 1926, ERS has remained committed to these individuals and their families. By protecting and prudently investing Plan assets, this pension trust of the City provides accurate and timely retirement benefits to members and their beneficiaries.

As of June 30, 2017, ERS consisted of 18,232 total members. This figure includes 8,043 active members, 9,144 retirees and beneficiaries as well as 1,045 terminated vested plan members, which are non-active members not yet receiving benefits. There are three membership classes: Class A, Class C and Class D. Class A is a closed group, and due to pension reform, Class C was also closed to new hires on June 30, 2014.

ERS introduced Class D for those hired on and after July 1, 2014, providing them the option between the hybrid program, which is dual- membership in Class D and the City's Retirement Savings Plan (RSP), or the non-hybrid alternative of participating only in the RSP program. Employees participating in Class D or the RSP plans contribute 5% of their pay to the fund, while Class C members, who contributed at a rate of 3% in fiscal year 2017, will contribute 4% in 2018 and cap at a 5% rate in fiscal year 2019. Under the hybrid-Class D option, members receive similar benefits as Class C members, but as a compliment to the lower benefit formula of this plan, the City contributes 3% into the RSP account on behalf of each Class D member. Vesting for Classes A, C and D members requires ten years of membership service, and vesting for the RSP plan typically requires five years.

18,232

TOTAL ERS MEMBERS BY STATUS:

- 9,144 Retirees & Beneficiaries
- 8,043 Active
- 1,045 Terminated Vested

8,043

ACTIVE MEMBERS BY YEARS OF CREDITED SERVICE:

- 0-14 Years = 4,704
- 15-29 years = 2,400
- 30+ years = 939 Vested

12%

of ERS's active workers have contributed 30 years or more of dedicated service to our City!

Approximately 1 in every 20 people in Baltimore's civilian labor force are ERS members

Investment Returns

Each fiscal year, ERS establishes policy benchmarks as standards against which our investment performances can be graded. The System determines its yearly policy benchmarks based on actuarial assumptions. These assumptions are carefully drawn by studying social, economic and political changes and how they will impact the success of long-term investments. ERS posted an 11.8% return this year, surpassing the policy benchmark of 11% and far exceeding the 7.5% actuarial rate of return. This year's above-average investment performance placed ERS's returns outcome beyond that of most public pension funds across the country.

Aside from this year's solid results, the Fund's long-term standing has remained in excellent condition. ERS's investment portfolio maintains an impressive position compared to other public pension funds, with annualized returns of 6.6% for the 3 year period and 9.6% for the 5 year period.

The ERS objective is to make smart investment decisions that allow us to meet the long-term needs of all members. This overall goal requires the System to broadly diversify asset allocation while avoiding investments that are excessively concentrated in one particular security, company or industry. This approach allows us to steadily grow the fund with measured risks. Each fiscal year, certain investment activities contribute more positively to the System's performance than others. This year, private equity, real estate and hedge fund investments boasted the best relative returns, while domestic and international equity both fell short of ERS's benchmark targets.

In addition to a fund's particular investment methods, major shifts in the broader world also affect yearly returns. For example, post-U.S. election expectations for large capital spending, pro-business policies, low inflation and low volatility led to steady financial markets, while emerging markets across the globe saw improved governance and significant GDP growth, thus driving stock prices up to record highs. These global developments contributed to the System's strong returns, which, in turn, allows us to better serve you and your family.

The ERS pension fund earned an

11.8%

return in 2017

The policy benchmark was

11.0%

The actuarial rate of return was

7.5%

The ERS investment portfolio has returns of

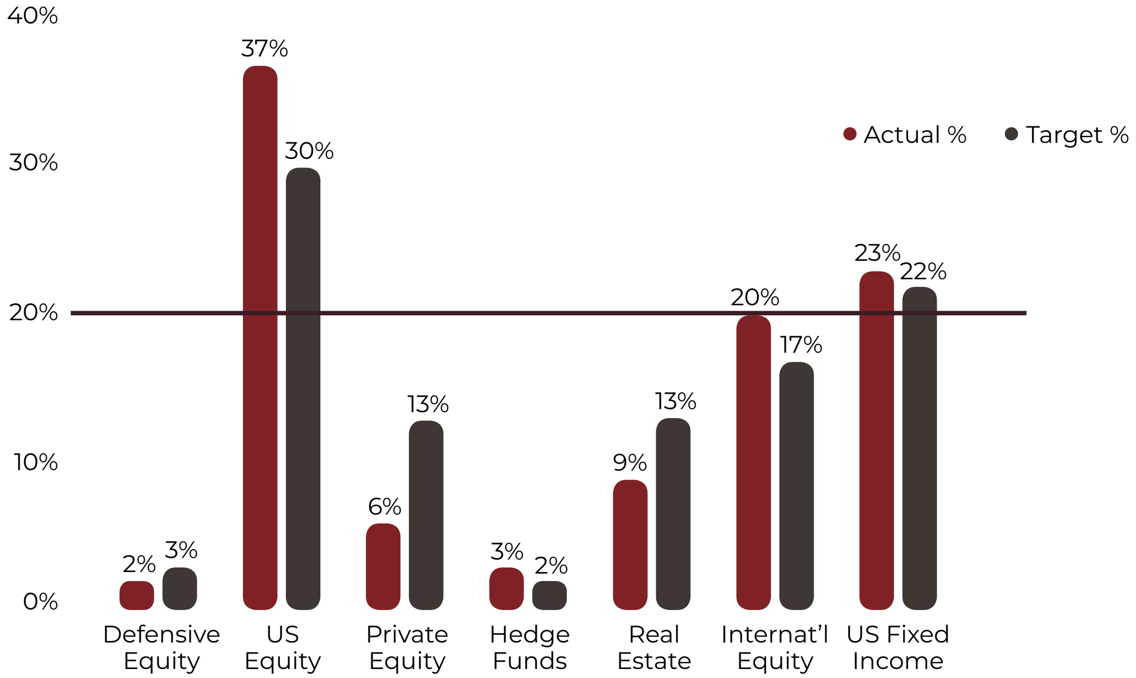
6.6%

for the 3 year period

9.6%

for the 5 year period

ASSET ALLOCATION - TARGET VS ACTUAL



TIME WEIGHTED RATE OF RETURN, CURRENT VALUE BASIS (annualized)

	FY 2017	3 YRS	5 YRS
TOTAL PORTFOLIO	**11.8 %**	**6.6 %**	**9.6 %**
Median Public Pension Fund	11.0 %	5.9 %	9.0 %
DOMESTIC EQUITIES	**17.5 %**	**8.5 %**	**14.4 %**
Russell 3000	18.5 %	9.1 %	14.6 %
DEFENSIVE EQUITIES*	-	-	-
50% S&P 500/50% 91 Day T-Bill	8.9 %	5.0 %	7.3 %
INTERNATIONAL EQUITIES	**20.6 %**	**3.9 %**	**8.8 %**
MSCI ACWI ex-US	21.0 %	1.3 %	7.7 %
FIXED INCOME	**1.2 %**	**2.9 %**	**2.7 %**
Barclays Aggregate	(0.3) %	2.5 %	2.2 %
REAL ESTATE	**8.0 %**	**12.4 %**	**12.4 %**
NPI	7.0 %	10.2 %	10.5 %
PRIVATE EQUITY COMPOSITE	**12.5 %**	**12.1 %**	**13.7 %**
Venture Economics Private Equity	10.8 %	7.9 %	9.4 %
HEDGE FUNDS	**9.7 %**	**2.7 %**	**5.9 %**
Russell 3000	6.5 %	1.6 %	3.9 %
HFRI Fund of Funds	5.6 %	5.2 %	5.5 %

Note: The calculations above were prepared by the Employees' Retirement System's investment advisor, Marquette Associates, Inc. using a time weighted rate of return, based on market rate of return. The performance shown for the Total Portfolio does not include "Other Assets" dedicated to the payment of post-retirement benefit increases. The Median Public Pension Fund exhibits the overall rate of return for the average Public Pension Plan as measured by the Investorforce Public Universe.

*Insufficient data for annualized return due to the hiring of a new manager during the 3rd Quarter of the fiscal year.

Funded Ratio

This fiscal year, ERS's actuarial funded ratio climbed to 72.7% from 2016's 71.2%. This improvement brings ERS closer to the ideal 100% funding ratio that every retirement system aspires to achieve. Since our members retire at various times over the course of years, the Board remains confident that the sustainable plan it has put forth is capable of meeting all members' retirement needs at their due time.

Total Net Assets for the fiscal year totaled $1.63 billion, meaning that there are 110 million more dollars in funds available to fulfill the needs of retirees and their beneficiaries compared to last year.

ERS DISTRIBUTED

$144,260,498

IN BENEFITS TO RETIREES AND BENEFICIARIES IN FISCAL YEAR 2017.

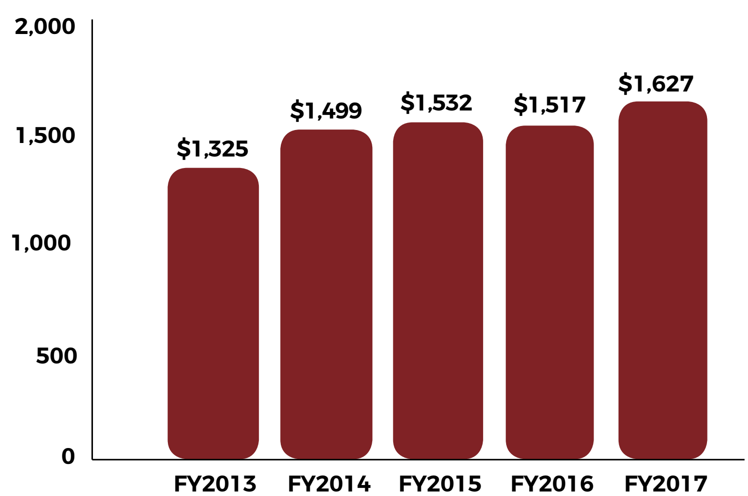
In 2017, ERS's Funded Ratio climbed to

72.7%

Fiduciary Net Position

Total Net Assets for the fiscal year totaled $1.63 billion. This snapshot of the Plan's financial standing reveals a 7.3% increase over last year's outcome, meaning that there are 110 million more dollars in funds available to fulfill the needs of retirees and their beneficiaries compared to last year. The System's fiduciary net position stands at a five-year high, as shown by the graph on the right and on the table titled "Fiduciary Net Position" on page 7, which summarizes the Plan's assets, liabilities, and total amount available for distribution of benefits.

FIDUCIARY NET POSITION
(dollars in millions)



FUNDED RATIO (based on actuarial value of assets)

ERS' Funded Ratio as of June 30	2017	2016	2015	2014	2013
Funded Ratio	72.7 %	71.2 %	71.7 %	69.7 %	68.1 %

FIDUCIARY NET POSITION as of June 30, 2017

Fiduciary Net Position	FY 2017	FY 2016	Increase/ (Decrease)	% Change
Investments	$ 1,587,514,722	$ 1,529,231,600	$ 58,283,122	3.81 %
Other Assets	175,709,749	136,079,109	39,630,640	29.12 %
Total Assets	1,763,224,471	1,665,310,709	97,913,762	5.88 %
Total Liabilities	136,197,973	148,378,327	(12,180,354)	-8.21 %
Total Net Position	$ 1,627,026,498	$ 1,516,932,382	$ 110,094,116	7.26 %

CHANGES IN FIDUCIARY NET POSITION as of June 30, 2017

Changes in Fiduciary Net Position	FY 2017	FY 2016	Increase/ (Decrease)	% Change
Additions				
Employer contributions	$ 84,474,451	$ 77,100,573	$ 7,373,878	10 %
Employee contributions	10,656,243	10,350,709	305,534	3 %
Net investment income	162,916,164	39,903,958	123,012,206	308 %
Net Securities Lending Income	240,674	356,084	(115,410)	- 32 %
Total additions	258,287,532	127,711,324	130,576,208	102 %
Deductions				
Retirement allowances	$ 142,957,078	$ 138,184,417	$ 4,772, 661	3 %
Death benefits	1,225,559	652,743	572, 816	88 %
Refund of member's contribution	348,412	235,808	112,604	48 %
Lump sum cash payments	77,861	124,748	(46,887)	- 38 %
Administrative expenses	3,584,506	3,515,492	69,014	2 %
Total deductions	148,193,416	142,713,208	5,480, 208	4 %
Net increases (decreases)	$ 110,094,116	($15,001,884)	$125,096,000	834 %

Changes In Fiduciary Net Position

Total revenue for the year was $258.3 million, more than doubling last year's amount of $127.7 million. Revenue includes employee and employer contributions, investments and security lending income. Although earnings generated by security lending dropped this fiscal year, investment income skyrocketed 308%, while employer and employee contributions also increased, although on a smaller scale. The percentage of employee contributions to the ERS fund did not change in fiscal year 2017, remaining at 3% of pay. In the next fiscal year, however, this figure is expected to climb to 4% and finally cap at 5% during fiscal year 2019.

Deductions increased slightly this year mostly due to the allocation of death benefits and refunds of members' contributions. Nonetheless, the net increase between fiscal years 2016 and 2017 totaled $125 million, representing an 834% growth from last fiscal year's net position. The table on page 7 titled "Changes in Fiduciary Net Position" reflects the Plan's financial activities including additions, deductions and net increase for the fiscal year.

AVERAGE MONTHLY BENEFIT PAYMENTS - NEW RETIREES

Retirement Effective Dates	Years of Credited Service					
	0-10	11-15	16-20	21-25	26-30	31+
Period 7/1/16 to 6/30/17						
Average-Average Final Compensation	$ 7,594	$ 8,897	$ 11,430	$ 18,309	$ 22,205	$ 37,646
Average Monthly Benefit	633	741	953	1,526	1,850	3,137
Total No. of Retirees	**92**	**77**	**57**	**30**	**67**	**92**

REVENUES BY SOURCE

Fiscal Year	Net Investment Income	Employee Contributions	% of Covered Payroll	Member Contributions	Total Income
2017	$ 163,156,838	$ 84,474,451	21.6%	$ 10,656,243	$ 258,287,532

One major initiative ERS undertook this year was the enhancement of the records management system by introducing new technological software. Now ERS staff can securely access digital files with just one click, therefore providing quick and effective assistance to members. On the legislative side, ERS continues to implement two multi-year mandates; one aims to save costs for the City while the other intends to refine the actuarial return assumption rate to better reflect the financial environment.

Cost-Of-Living-Adjustment

The Cost-of-Living-Adjustment helps retirees on a fixed income maintain their standard of living in the face of inflation. In others words, COLA secures your ability to buy needed items despite rising prices from year to year. This change in an individual's monthly retirement benefit provides assurance that no matter how long you live and or how much prices of common goods increase, you still possess the purchasing power necessary to take care of yourself and your loved ones.

ERS members and their beneficiaries become eligible for their first salary adjustments after a full fiscal year of receiving benefits. Retirees received their routine COLA as applicable on January 1, 2017, with those under the age of 65 earning a 1.5% increase and retirees 65 and above earning a 2.0% increase.

Awards

For the 34th year in a row, ERS has earned the prestigious Certificate of Achievement for Excellence in Financial Reporting from the Government Finance Officers Association of the United States and Canada. The System's Comprehensive Annual Financial Report strives to meet the standards for this honor year after year.


Government Finance Officers Association

Certificate of Achievement for Excellence in Financial Reporting

Presented to

Employees' Retirement System City of Baltimore, Maryland

For its Comprehensive Annual Financial Report for the Fiscal Year Ended

June 30, 2016

Christopher P. Morrill

Executive Director/CEO

TO DEFER OR NOT TO DEFER. . .

...That is the question.

Weigh the advantages and disadvantages of a DCP to decide if this option will help you secure a more peaceful retirement.

A Deferred Compensation Plan (DCP), also called the 457 retirement plan, is often available to state and local government employees, along with those who work for hospitals, educational organizations and charitable foundations. It allows workers to set aside a fixed part of their annual salary for their employers to pay at a later point in the future. Similar to the more widely known 401(k) retirement plan, enrollees contribute to their DCP through automatic deductions of a pre-set amount that comes out of each paycheck. These deductions can occur before the taxes are taken out, or after depending on which option you elect upon signing up.

The City of Baltimore 457 Deferred Compensation Plan allows participants to make both before-tax and after-tax contributions as small as $10 per pay period up to an annual maximum of $18,500. In order to make an informed decision on whether or not to enroll in the Baltimore City Deferred Compensation Plan, take a closer look at the benefits and drawbacks of shelving some money away for the future through this option.

More Funds for Retirement

A deferred compensation plan almost certainly guarantees additional income during retirement, on top of the benefits distributed from the RSP Hybrid or Non-Hybrid plan chosen within the first five months of employment with the City. This stands as the primary advantage for enrolling in the DCP, as it creates a larger reserve to draw from during retirement.

Tax Benefits

Upon entering retirement, individuals are often pushed into a lower tax bracket because of an income reduction. DCP account holders typically withdraw their money during retirement, therefore, they are able to avoid the higher taxation rate that would have been levied on their income during their working years. The same money earned as an active employee will now be taxed at a lower rate as a retiree.

Earning Potential

Whether self-managed or handled by a professional in a managed account, deferred compensation funds can increase in value over the years. Instead of receiving the capital deferred from their annual salary in its initial amount, DCP members may receive a larger amount than the sum originally set aside during their working years.

However, while earning potential exists, there also stands a chance for loss. One risk with investing in the market is that values can decline as well as they grow, and an investor must be aware that returns do not always yield expected results.

Early Withdrawal

Since the plan is geared toward encouraging participants to strengthen their retirement reserve, early withdrawal is discouraged. Money allocated to the DCP remains untouchable while the participant is employed by the City, unless in the case of a critical and unforeseeable emergency.

WANT MORE INFORMATION?

Speak to a local representative by calling 443-984-3200 or by visiting the City's Retirement Savings and Deferred Compensation Plan offices located at

7 East Redwood Street
Baltimore, MD 21202

ERS
EMPLOYEES' RETIREMENT SYSTEM
of the CITY OF BALTIMORE

City of Baltimore, Employees' Retirement Systems

7 East Redwood Street, 13th Floor
Baltimore, MD 21202

Office hours:

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Phone: 443-984-3200
Outside of Baltimore
877-273-7136
Fax: 410-528-8428
Website: www.bcers.org
Email: horizon@bcers.org

Administration

Roselyn H. Spencer
Executive Director

REMEMBER TO SET YOUR BENEFICIARY

Active members, it's crucial that you record your beneficiaries on file with ERS and the Department of Human Resources. Call DHR at (410) 396-5830 or ERS at (443) 984-3200 today to check on your beneficiary listing and to make any necessary updates.

This Popular Annual Financial Report (PAFR) is a summary presentation of the Employees' Retirement System of the City of Baltimore's audited financial statements and other information contained in the ERS's Comprehensive Annual Financial Report (CAFR). The complete audited financial statements and pertinent notes to the financial statements can be found in the ERS's 2017 CAFR. This PAFR provides an overview of the System's financial and operating results.

To review the ERS CAFRs, please visit www.bcers.org, and select "Publications & News."