

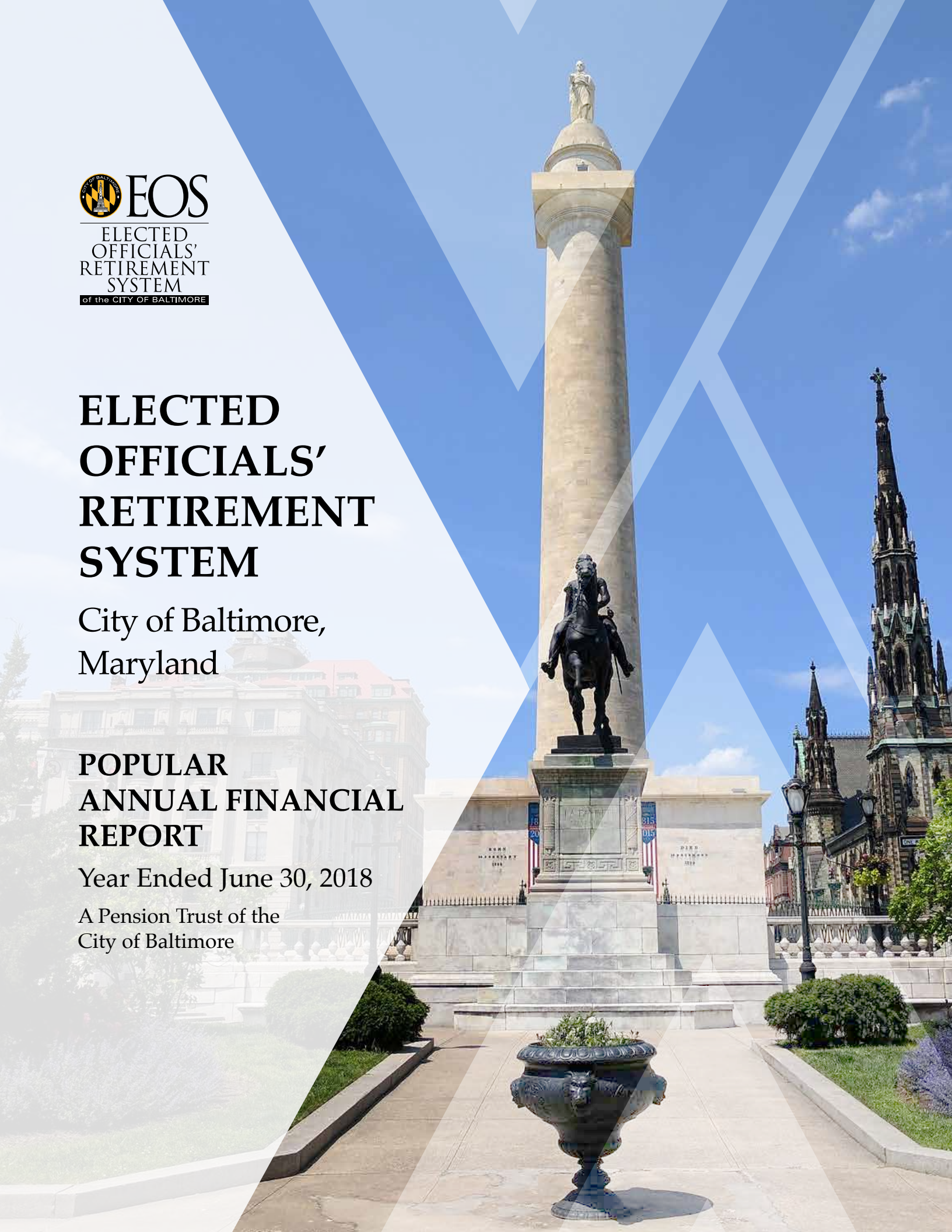
# **ELECTED OFFICIALS' RETIREMENT SYSTEM**

City of Baltimore,  
Maryland

## **POPULAR ANNUAL FINANCIAL REPORT**

Year Ended June 30, 2018

A Pension Trust of the  
City of Baltimore

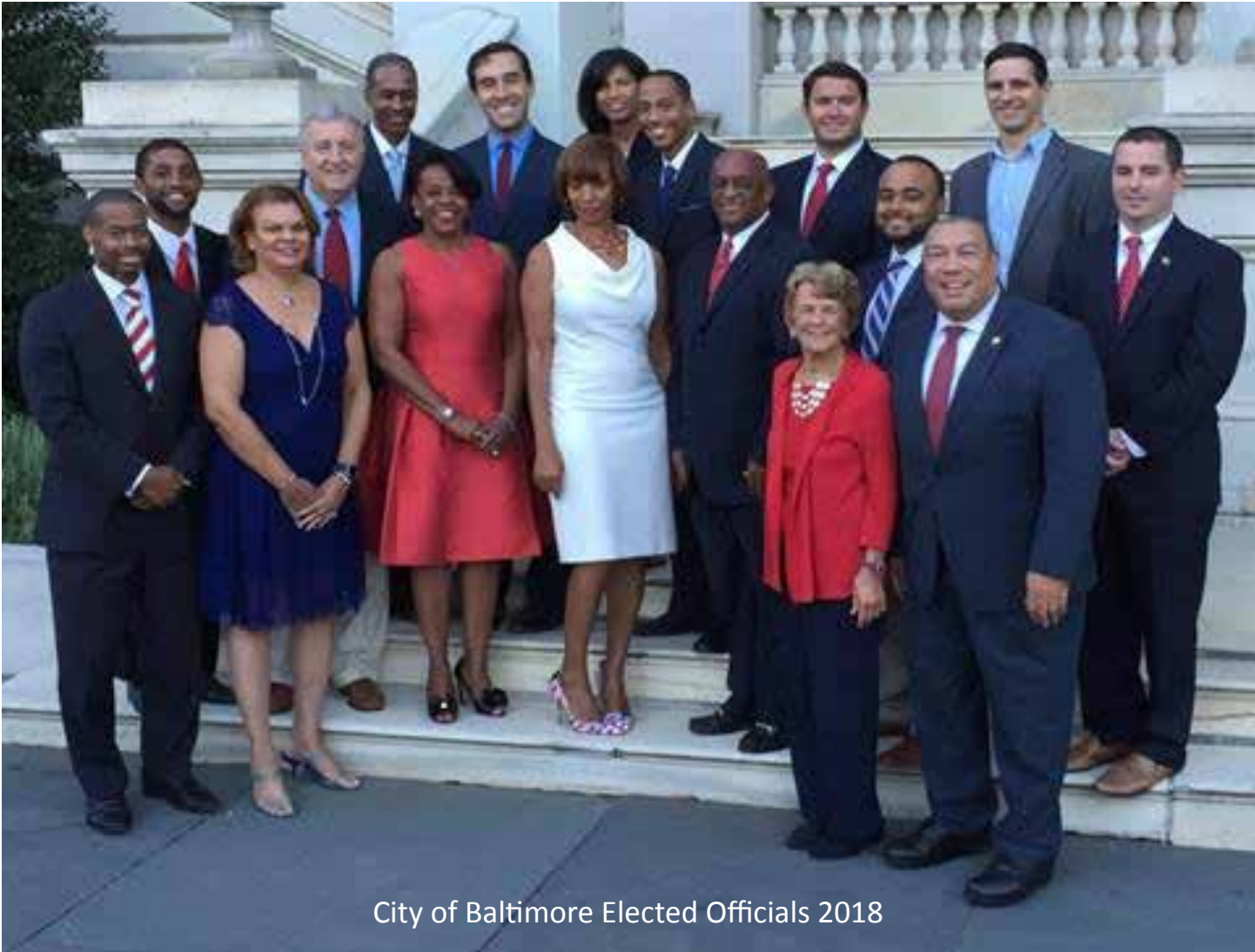


# Introduction

*It is with great pleasure that we present the Popular Annual Financial Report of EOS (Elected Officials’ Retirement System) for the year ended June 30, 2018. The report does not replace the CAFR (Comprehensive Annual Financial Report); rather, it is a summary of the fiscal year 2018 CAFR. For a copy of our CAFR, please visit our website at [www.bcercs.org](http://www.bcercs.org).*



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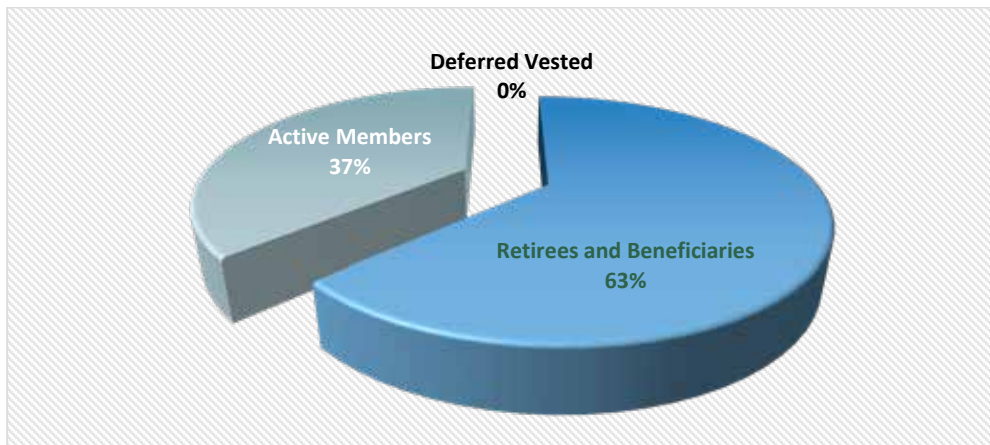




# The Plan

EOS plan was established effective December 5, 1983 by City Ordinance 1105. Any elected official who is not a member of the Employees' Retirement System of the City of Baltimore (ERS), upon taking the oath of office, automatically becomes a member. Any elected official who is a member of ERS has the option of electing, within 120 days of taking the oath of office, to become a member of EOS.

At June 30, 2018, the membership consisted of 29 retirees and beneficiaries, 17 active members and no deferred vested member.



EOS members contribute 5% of their earnable compensation. However, no contribution is required after the member has attained age 60 and acquired 35 years of service. Earnable compensation is the annual salary authorized for the member not including overtime or other types of pay.

In 2016, member benefits were revised per Article 22 as follows:

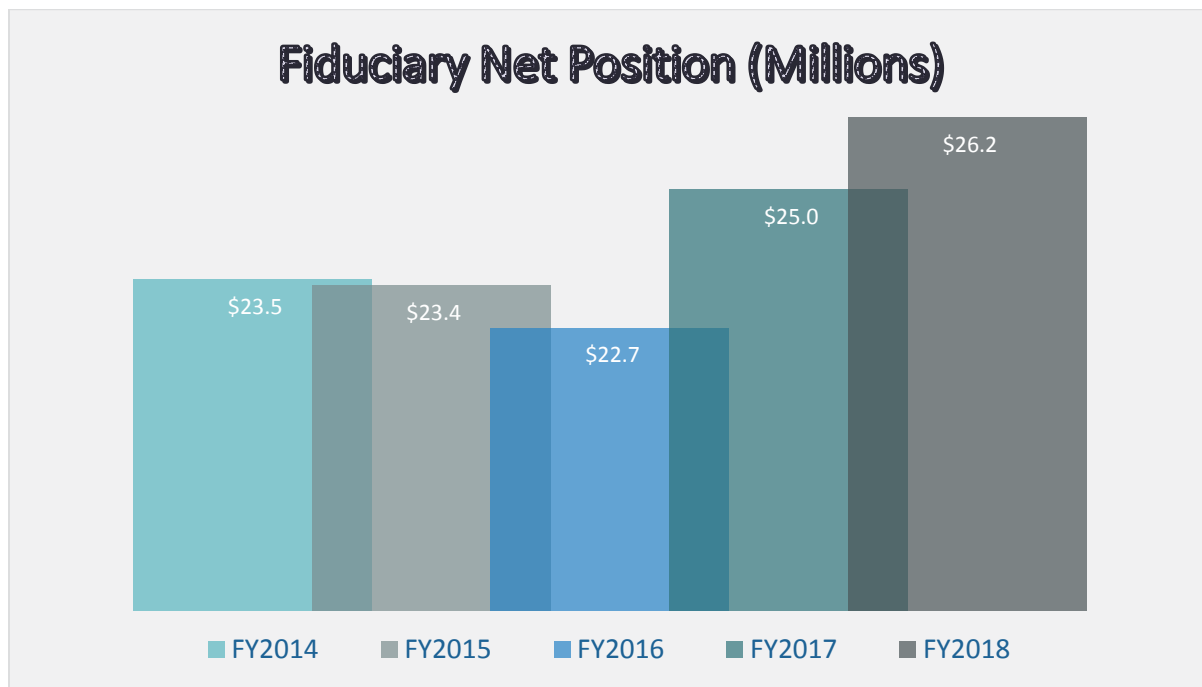
S/N	Criteria	Elected on/or before December 5, 2016	Elected after December 5, 2016
1	Retirement eligibility	Age 50	Age 55
2	Salary Increases	Indexed to compensation of the position held prior to retirement.	COLA – Higher of 1.5% and rates in effect for F&P retirement system; and waiting period of 1 year.
3	Cap	N/A	60% of compensation at retirement.

# Financial Statements

The statement of fiduciary net position presents the plan's assets and liabilities and the net position restricted for pensions. At June 30, 2018, the fiduciary net position restricted for pensions was \$26.2M, an increase of \$1M (5%) over fiscal year 2017. The fiduciary net position includes investments, other assets (receivables and cash & cash equivalents) and liabilities.

Fiduciary Net Position	Fiscal Year 2018	Fiscal Year 2017	Increase / (Decrease)	Percentage Change
Investments	\$25,810,832	\$24,868,132	\$942,700	4%
Other assets	401,406	117,270	284,136	242%
<b>Total assets</b>	<b>26,212,238</b>	<b>24,985,402</b>	<b>1,226,836</b>	<b>5%</b>
<b>Total liabilities</b>	<b>14,782</b>	<b>19,181</b>	<b>-4,399</b>	<b>-23%</b>
<b>Total Net Position</b>	<b>\$26,197,456</b>	<b>\$24,966,221</b>	<b>\$1,231,235</b>	<b>5%</b>

The fiduciary net position of \$26.2M represents a five-year high as shown in the chart below.



# Financial Statements

The statement of changes in fiduciary net position presents information on how the plan's net position changed during the year. The increase in fiduciary net position of \$1.2M, when compared with fiscal year 2017, decreased by \$1M. The decrease is mainly from net investment income as shown in the table below.

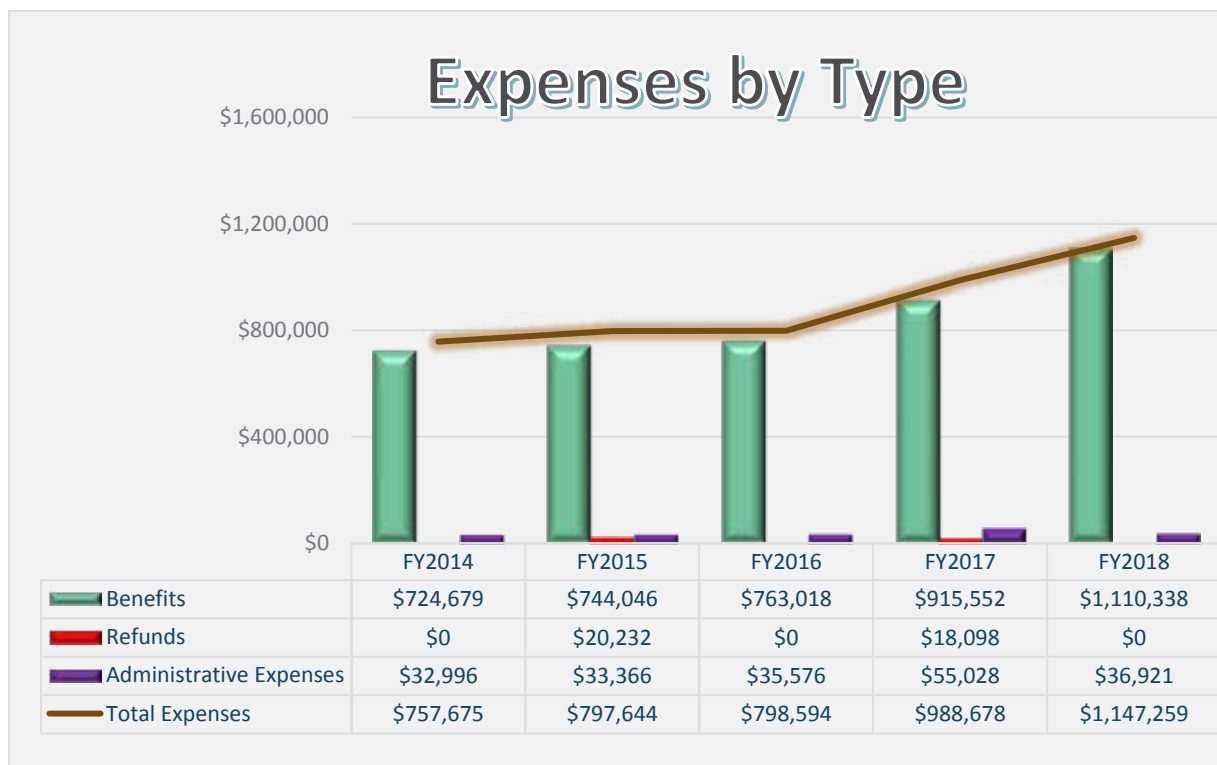
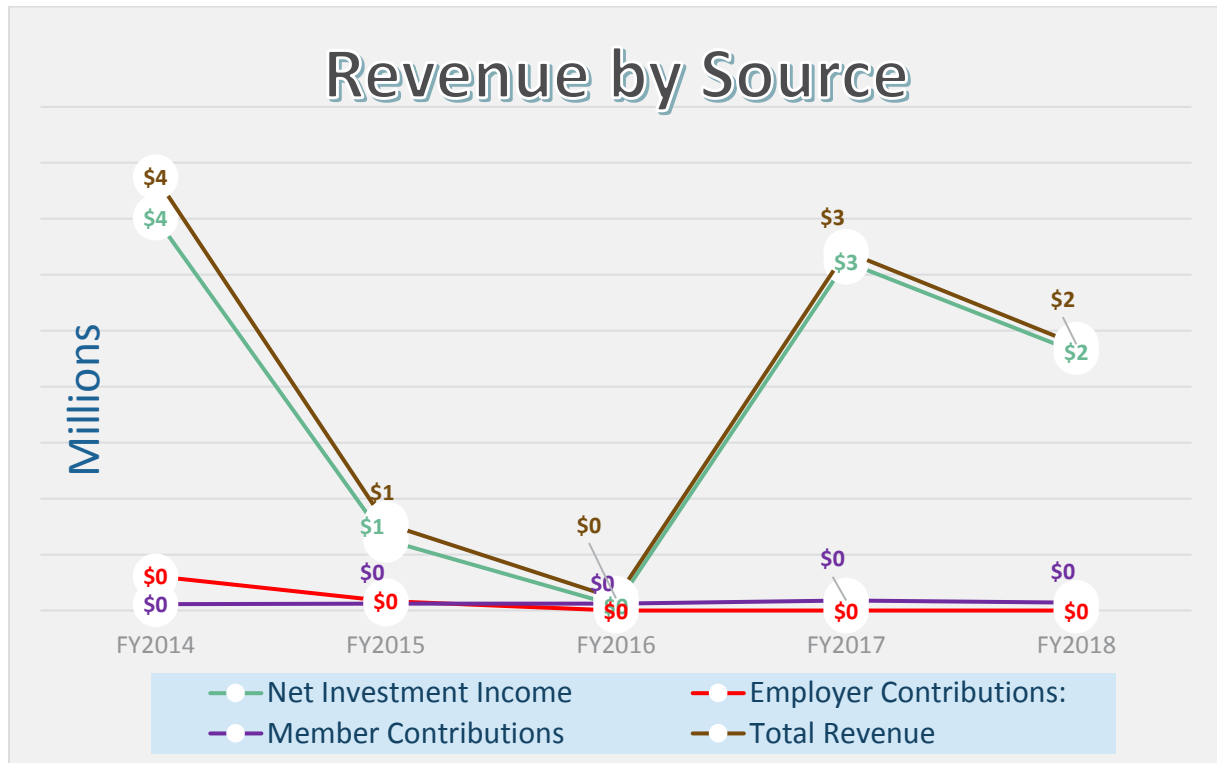
Although lower than fiscal year 2017, total additions for fiscal year 2018 was \$2.4M. The decrease from 2017 is mainly due to higher volatility that resulted in lower returns by all investment components. Total expenses increased by \$0.2M due to increase in retirement benefits from cost of living adjustments as well as new retirees.

Changes in Fiduciary Net Position	Fiscal Year 2018	Fiscal Year 2017	Increase / (Decrease)	Percentage Change
Employee contribution	\$69,079	\$89,620	-\$20,541	-23%
Net investment income	2,309,415	3,115,997	-806,582	-26%
Total additions	2,378,494	3,205,617	-827,123	-26%
Retirement allowances	1,110,338	915,552	194,786	21%
Refund of member's contribution	0	18,098	-18,098	-100%
Administrative expenses	36,921	55,028	-18,107	-33%
Total deductions	1,147,259	988,678	158,581	16%
<b>Net increases (decreases)</b>	<b>\$1,231,235</b>	<b>\$2,216,939</b>	<b>-\$985,704</b>	<b>44%</b>

Net investment income for fiscal year 2018 was \$2.3 million, which was 26% lower than the income of \$3.1 million for fiscal year 2017. Employer contribution is actuarially determined and the recommended contribution for fiscal year 2018 was zero since the plan is in a surplus position. The actuarial asset value was greater than actuarial liability by \$10.5 million.

Retirement allowances of \$1.1 million for fiscal year 2018 increased by 21% from \$0.9 million in fiscal year 2017. The increase was due to new retirees as well as cost of living adjustments while administrative expenses decreased by 33%. The following charts show the five-year revenue by source and expense by type.

# Financial Statements



# Investment Performance

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The primary investment objectives of EOS are to preserve the capital value of the plan assets adjusted for inflation, ensure adequate plan liquidity, and to meet and/or exceed both actuarial interest rate assumptions and investment return benchmark as determined by the Board of Trustees. It is recognized that maximizing any one objective may compromise the achievement of other objectives, for example, maximizing liquidity may reduce investment return. The objectives are thus considered and adhered to in descending order of priority.

In line with the above objectives, EOS posted a return of 9.7% for fiscal year 2018. The return outperformed both the benchmark return of 8.3% and actuarial interest rate assumption of 7.0% by 1.4% and 2.7% respectively.

	FY 2018	3 Years	5 Years
<b>TOTAL PORTFOLIO</b>	9.7%	8.0%	8.7%
Median Public Pension Fund	8.3%	7.3%	8.3%
<b>DOMESTIC EQUITIES</b>	15.0%	11.5%	12.8%
Russell 3000	14.8%	11.6%	13.3%
<b>DEFENSIVE EQUITIES</b>	3.9%	-	-
CBOE Put Write Index	5.8%	7.8%	8.0%
50% S&P 500/50% 91 Day T-Bill	7.8%	6.3%	6.9%
<b>INTERNATIONAL EQUITIES</b>	11.0%	7.6%	8.0%
MSCI ACWI ex-US	7.8%	5.6%	6.5%
<b>FIXED INCOME</b>	1.1%	2.7%	2.9%
Barclays Aggregate	-0.4%	1.7%	2.3%
<b>REAL ESTATE</b>	8.2%		
NPI	7.2%	8.3%	9.8%

All the investment portfolios achieved positive returns while simultaneously exceeding their respective benchmarks with the exception of defensive equities that performed slightly below the benchmark.

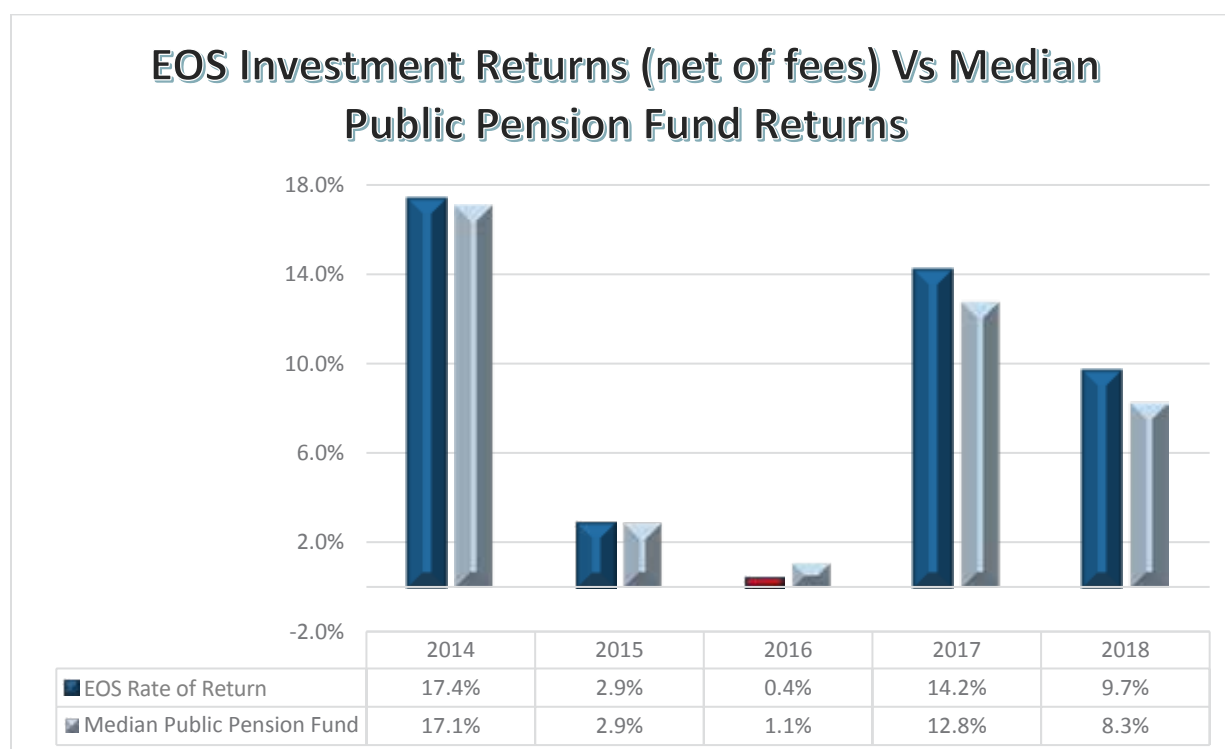
# Investment Performance

The fixed income portfolio benefited from its higher overall yield and exposure to floating rate issues in a bond market that was negatively impacted by rising interest rates.

Within real estate, an emphasis on the strong performing industrial sector as well as persistent income positively contributed to returns.

The international equity asset class benefited from its small-cap equity names as small companies outpaced their larger counterparts.

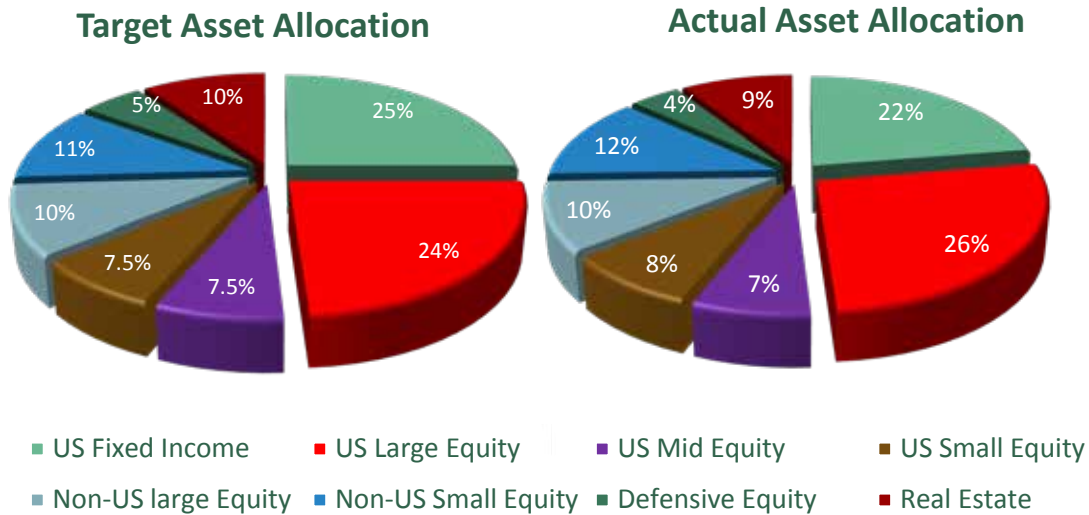
In the last five years, EOS has consistently outperformed or performed at par with the benchmark except in 2016 when the performance was below the benchmark.



Diversification is the most important component of reaching long-range financial goals. To assist in meeting the overall objectives, the Board of Trustees approved an asset allocation guideline. The asset allocation guideline enables the plan to diversify its assets and maximize returns by investing in different areas that would each react differently to the same event. The current EOS asset allocation policy and actual allocation is as stated below.



# Investment Performance



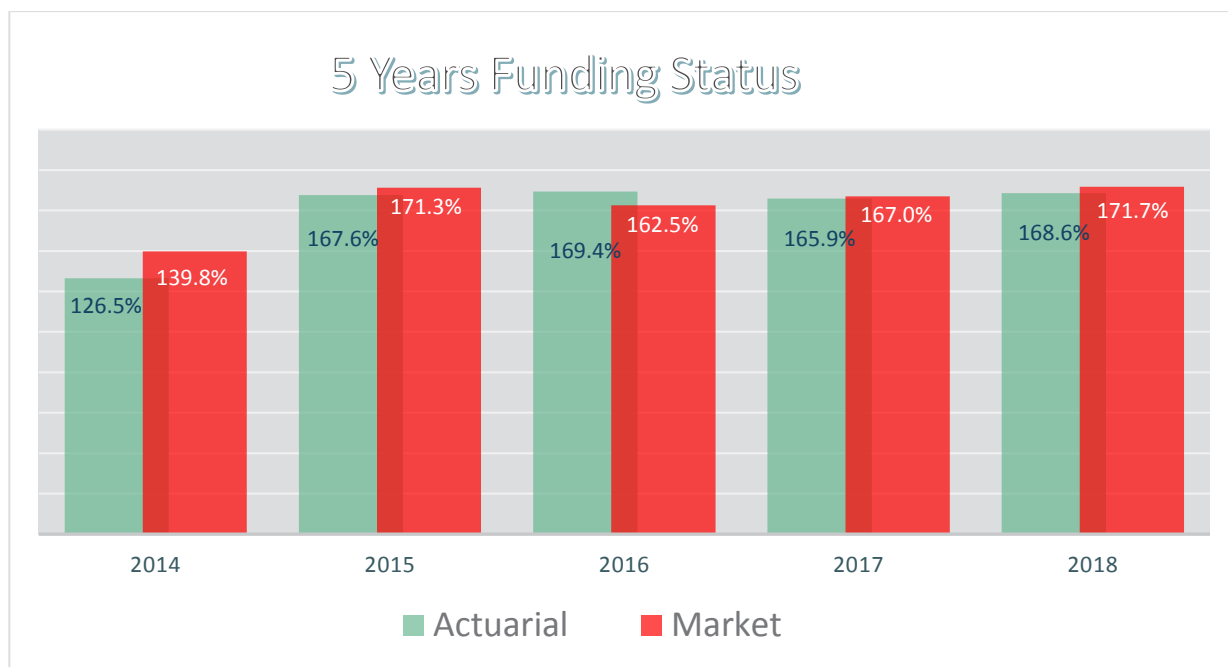
## Fair Value of Investments



# Actuarial Data

The Plan's funding objective is to meet long-term benefit obligations through investment income and contributions, which spread the cost over the employees' service base. EOS' funding status is a key indicator of its financial health because it reflects the percentage of benefits due that the plan's assets can cover.

As of June 30, 2018, the System's funded ratios were 168.6% and 171.7% based on actuarial and market values of assets respectively. Both funded ratios increased by 2.7% and 4.7% respectively when compared with their June 30, 2017 values of 165.9% and 167.0%.



	2014	2015	2016	2017	2018
Total Pension Liability	\$ 16,779,852	\$ 13,680,525	\$ 14,002,347	\$ 14,946,399	\$ 15,260,985
Plan Fiduciary Net Position	23,462,603	23,439,961	22,749,282	24,966,221	26,197,456
Net Pension Assets	\$ 6,682,751	\$ 9,759,436	\$ 8,746,935	\$ 10,019,822	\$ 10,936,471

The valuation is based on actuarial assumptions recommended by the actuary and approved by the Board of Trustees. The funding method used is the Entry Age Normal Cost method and the method tends to produce a level normal cost (portion of the contribution) as a percentage of the covered payroll as long as the average age of members does not change significantly.

# Actuarial Data

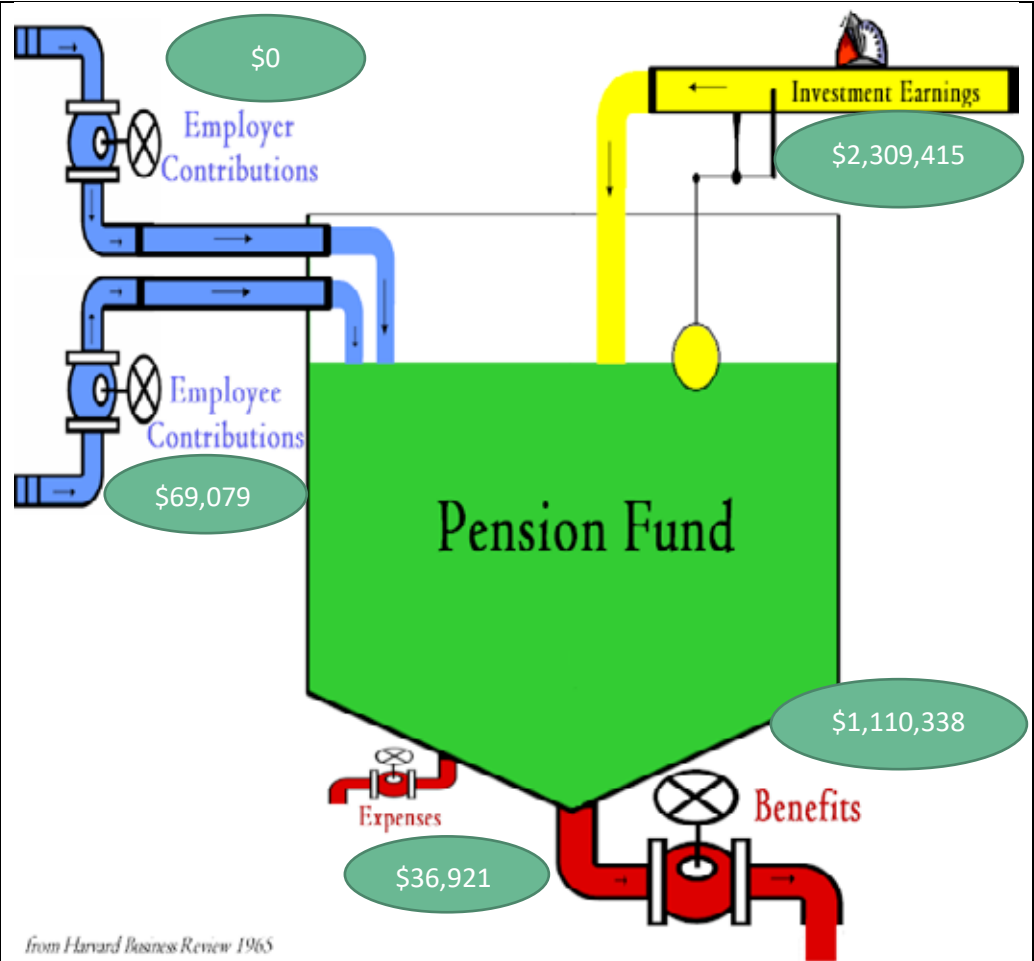
EOS plan has been overfunded for a couple years and thus, there were no employer contributions for those years.

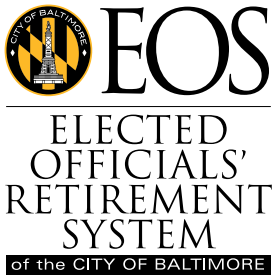
	2014	2015	2016	2017	2018
Actuarially Determined Contributions	\$306,606	\$84,986	\$0	\$0	\$0
Actual Employer Contributions	\$306,606	\$84,986	\$0	\$0	\$0
Contribution Deficiency (Excess)	\$0	\$0	\$0	\$0	\$0

Total additions for fiscal year 2018 was \$2,378,494. There are 2 major sources of revenue:

- Investments 97%
- Member Contributions 3%

Total deduction for fiscal year 2018 was \$1,231,235. Benefit expenses represent 97% of total deductions while administrative expenses represent 3%.





## CITY OF BALTIMORE Employees' Retirement Systems

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Baltimore MD 21202

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This Popular Annual Report (PAFR) is a summary presentation of the Elected Officials' Retirement System of the City of Baltimore's audited financial statements and other information contained in the Comprehensive Annual Financial Report (CAFR). The PAFR provides an overview of the System's financial and operating results. The complete audited financial statements and pertinent notes to the financial statements can be found in the 2018 CAFR.

Please visit our website at [www.bcers.org](http://www.bcers.org) for a copy of the CAFR.