

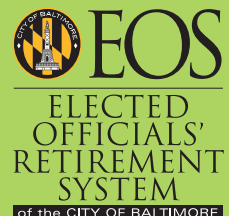
# ELECTED OFFICIALS' RETIREMENT SYSTEM

CITY OF BALTIMORE,  
MARYLAND

## POPULAR ANNUAL FINANCIAL REPORT

Year Ended  
June 30, 2019

A Pension Trust of the  
City of Baltimore



# Introduction

We are pleased to present The Popular Annual Financial Report (PAFR) of EOS (Elected Officials Retirement System of the City of Baltimore). This report is a summary of fiscal year 2019 CAFR (Comprehensive Annual Financial Report). The CAFR was prepared in conformity with GAAP but the PAFR includes only selected information from the CAFR. The PAFR has been mailed to all retirees, email blasted to all actives and available on our website at [www.bcers.org/publications/EOS-PAFR](http://www.bcers.org/publications/EOS-PAFR). For a detailed copy of our financials, please visit our website at [www.bcers.org/publications/EOS-CAFR](http://www.bcers.org/publications/EOS-CAFR).



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*The staff of the Baltimore City Employees' and Elected Officials' Retirement system is dedicated to serving all of our active members, retirees, and beneficiaries, as has always been our aim.*

*I am honored to have taken on the position of Executive Director this past year and continue to enjoy working to ensure that our entire membership benefits from the work that our System's employees consistently and diligently provide.*

*Over the last year, we have taken on several initiatives within our offices including an enhanced document managed system and revamped website. Such initiatives, among others, will help us to continue to build upon and improve our services for our membership.*

*I would like to extend my thanks to The Board of Trustees, ERS employees and advisors for their contributions and support in managing the System.*

**David A. Randall**  
Executive Director



*The past year produced good news for the EOS. Investments returned 4.5% and the market value funded ratio is an incredible 153.8%.*

*The EOS has implemented asset allocation initiatives over the years to increase diversification in our strategies. We have employed both active and passive investment strategies to obtain the desired mix in a cost effective, efficient manner. Our goal is to provide a favorable rate of return coupled with a cautious level of risk.*

*In 2019, Former State Senator Joan Carter Conway joined our Board of Trustees. Ms. Conway brings her substantial legislative and leadership skills to the Board. We also had a key staff appointment this year: Ms. Nichelle Lashley was named Deputy Executive Director.*

*I would also like to thank the entire Retirement System staff for their faithful commitment to servicing the Board and the Plan participants.*

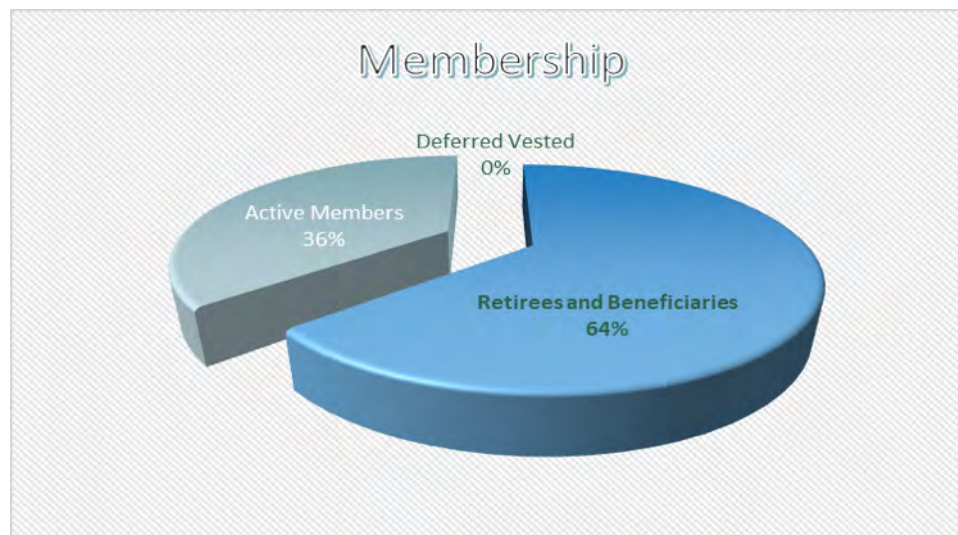
**Henry J. Raymond**  
Chair, Board of Trustees



# 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, 2019, the membership consisted of 28 retirees and beneficiaries, 16 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.*

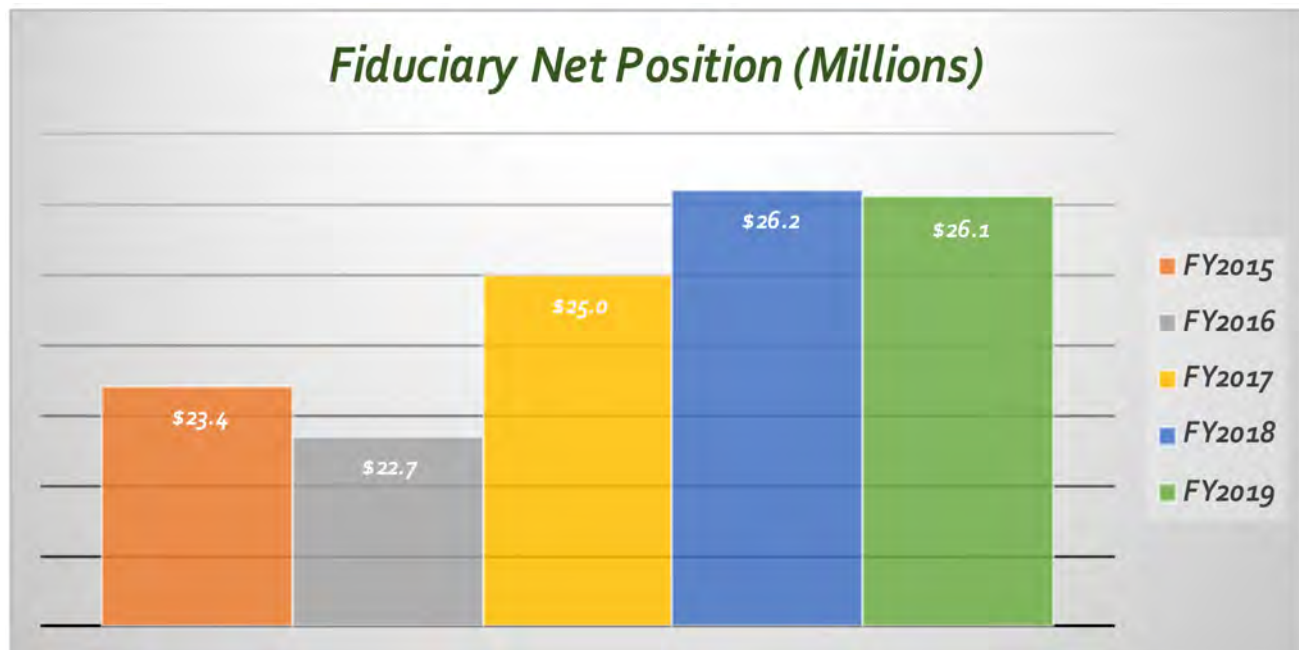
*In 2016, member benefits were revised per Article 22 as follows:*

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.

# Financials

The statement of fiduciary net position presents the plan's assets and liabilities and the net position restricted for pensions at June 30, 2019. The assets comprise cash and cash equivalents, receivables, mainly from investments sold and fair value of investments while liabilities comprise payables (mainly management fees and administrative expenses). At June 30, 2019, the fiduciary net position restricted for pensions was \$26.1M. The fiduciary net position restricted for pension decreased by \$75K or 0.3% when compared with fiscal year 2018 net position of \$26.2M.

<b>Fiduciary Net Position</b>	<b>Fiscal Year 2019</b>	<b>Fiscal Year 2018</b>	<b>Increase / (Decrease)</b>	<b>Percentage Increase</b>
<b>Investments</b>	25,847,420	25,810,832	36,588	0.1%
<b>Other Assets</b>	289,253	401,406	-112,153	-28%
<b>Total assets</b>	26,136,673	26,212,238	-75,565	-0.3%
<b>Total liabilities</b>	14,409	14,782	-373	-2.5%
<b>Total net position</b>	26,122,264	26,197,456	(75,192)	-0.3%



# Financials

The statement of changes in fiduciary net position presents information on how the plan's net position changed during the year. In fiscal year 2019, the fiduciary net position decreased by \$75K. When compared with fiscal year 2018 growth of \$1.2M, this was a decrease of 106% as highlighted below.

Plan members' contributions are recognized in the period in which the contributions are due. Employer contributions are recognized when a formal commitment has been made by the City of Baltimore to provide the contributions. All investment gains and losses are shown at trade date. Both realized and unrealized gains and losses are shown on the investments. Benefits and refunds are recognized when due and payable in accordance with the terms of the Plan.

<b>Changes in Fiduciary Net Position</b>	<b>Fiscal Year 2019</b>	<b>Fiscal Year 2018</b>	<b>Increase / (Decrease)</b>	<b>Percentage Change</b>
Employee contribution	1,056,238	2,309,415	-1,253,177	-54%
Net investment income	\$70,259	\$69,079	\$1,180	2%
Total additions	1,126,497	2,378,494	-1,251,997	-53%
Retirement allowances	1,165,567	1,110,338	55,229	5%
Administrative expenses	36,122	36,921	-799	-2%
Total deductions	1,201,689	1,147,259	54,430	5%
<b>Net increases (decreases)</b>	<b>-\$75,192</b>	<b>\$1,231,235</b>	<b>-\$1,306,427</b>	<b>-106%</b>

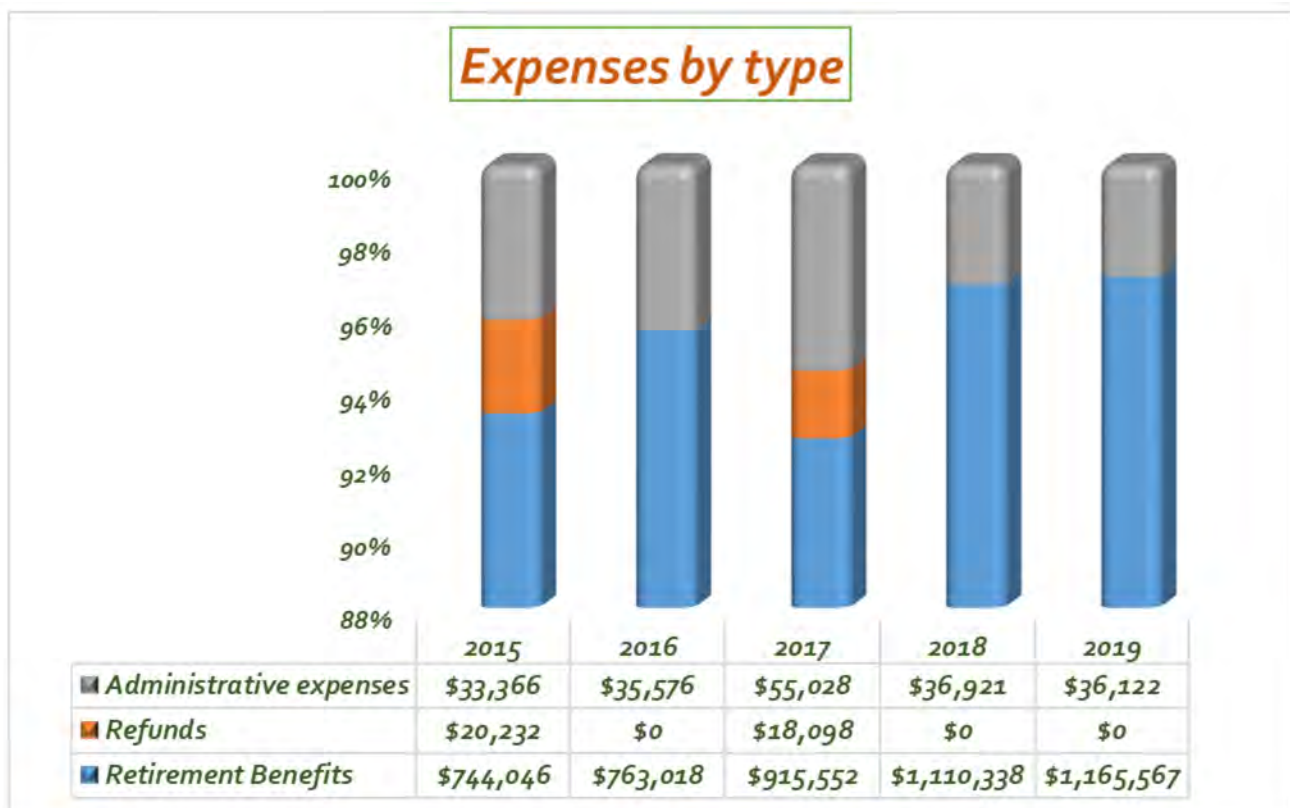


# Financials

Revenues (Additions to Fiduciary Net Position) for the year were \$1,126,497, a decrease of \$1,251,997 from the prior year due to lower investment returns. Revenues include plan members' contributions of \$70,259 and a net investment gain of \$1,056,238.

The employer contribution is determined by an actuarial valuation, it could be zero when the actuarial value of assets is greater than the accrued liabilities and the amortization of the surplus is greater than the annual cost of the plan.

In fiscal year 2019, the employer contribution remained at zero because the actuarially determined employer contribution was set at \$0 while employee contributions increased slightly by 2%. Investments also produced positive return of \$1.1M, which is 54% lower than the \$2.3M return of fiscal year 2018.



Expenses (Deductions from Fiduciary Net Position) increased by \$54,430 to \$1,201,689 from the prior year expenses of \$1,147,259 due to an increase in retirement benefit allowances (cost of living adjustment). Expenses include retirement benefit allowances, refunds and administrative expenses of the System.

# Investments

*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.*

*The overall markets experienced increased volatility over the past fiscal year but strong economic growth and a healthy job market resulted in gains for both fixed income and equities. The stock market, as proxied by the Russell 3000 Index, posted a return of 9.0%. A more risk averse market resulted in large-cap outpacing small-cap across both domestic and international markets. As bond yields fell at the end of the fiscal year, the bond market posted a strong gain of 7.9%. Real estate performed in line with expectations with a solid return of 6.5% mostly generated from income.*

	FY 2019	3 Years	5 Years	10 Years
<b>TOTAL PORTFOLIO</b>	4.5%	9.4%	6.2%	9.8%
Median Public Pension Fund	6.7%	9.2%	6.3%	9.6%
<b>DOMESTIC EQUITIES</b>	5.7%	13.4%	9.4%	14.6%
Russell 3000	9.0%	14.0%	10.2%	14.7%
<b>DEFENSIVE EQUITIES</b>	4.5%	-	-	-
CBOE Put Write Index	0.1%	5.9%	5.4%	8.5%
50% S&P 500/50% 91 Day T-Bill	6.7%	7.8%	5.9%	7.6%
<b>INTERNATIONAL EQUITIES</b>	-0.4%	9.8%	3.7%	8.5%
MSCI ACWI ex-US	1.8%	9.9%	2.6%	7.0%
<b>FIXED INCOME</b>	6.8%	3.3%	3.4%	4.1%
Barclays Aggregate	7.9%	2.3%	2.9%	3.9%
<b>REAL ESTATE</b>	7.6%	7.7%	-	-
NPI	4.9%	6.4%	8.5%	9.1%

*For the fiscal year ending June 30, 2019, the System posted a return of 4.5%, lagging the policy benchmark of 6.7%. The fixed income portfolio's exposure to floating rate issues detracted from bond market returns as yields fell significantly at the end of the quarter. Within the domestic equity portfolio, an overweight position in small cap issues also negatively impacted returns as small company stocks lagged their larger counterparts. The real estate portfolio outpaced its respective benchmark due to an emphasis on the strong performing industrial sector as well as a focus on high quality retail properties.*

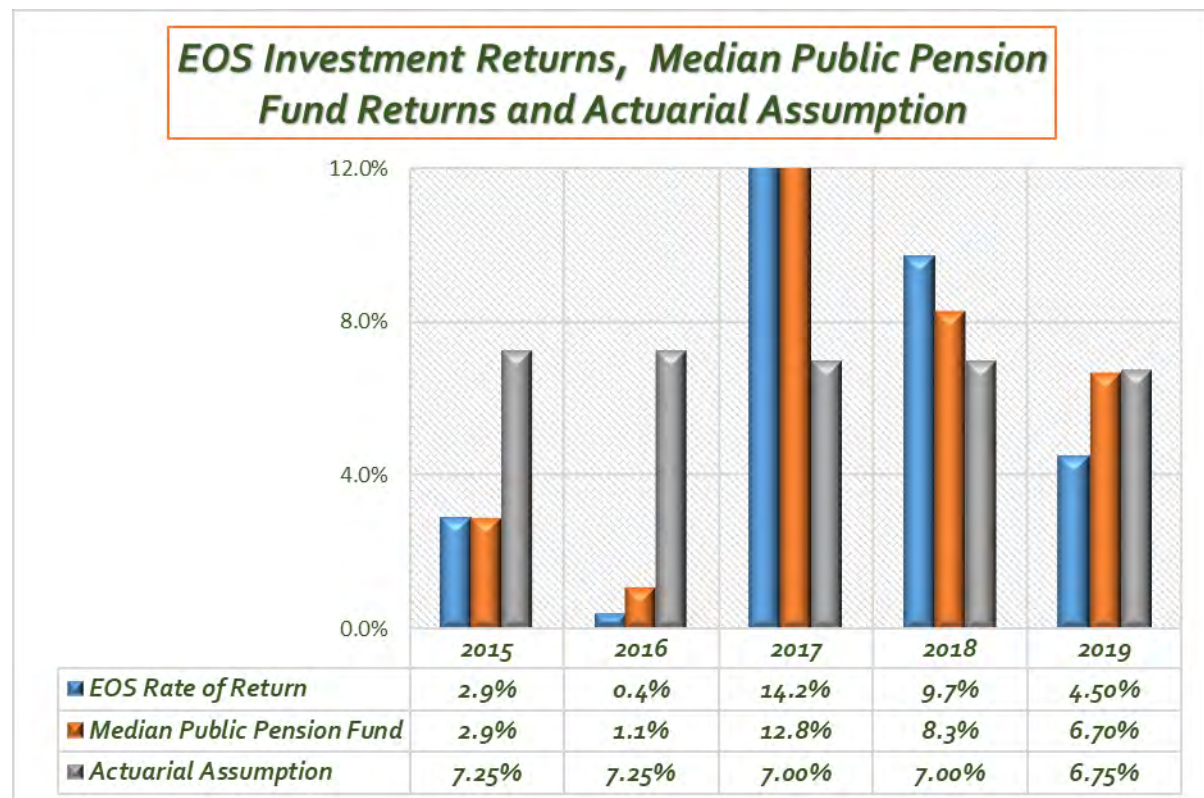


# Investments

Domestic equity portfolio posted a return of 5.7%, underperforming the policy benchmark return of 9.0% by 3.3%. Defensive equity, international equities and fixed income portfolios all underperformed their respective policy benchmark returns. Real estate return of 7.6% on the other hand, outperformed the policy benchmark return of 4.9% by 2.7%.

On June 21, 2016, Ordinance 16-488 was signed into law. The Bill changed the assumed interest rate for the Plan investments from 7.25% to 7.00% for fiscal years beginning July 1, 2016 and July 1, 2017. In fiscal year beginning on and after July 1, 2018, the assumed interest was changed to 6.75%.

In the last five years, EOS outperformed both the benchmark and actuarial assumption two times but lagged two years. In the remaining one year, it matched the benchmark but lagged the assumption rate. These show that the Plan is well positioned to achieve the investment objectives as outlined by the board of trustees.

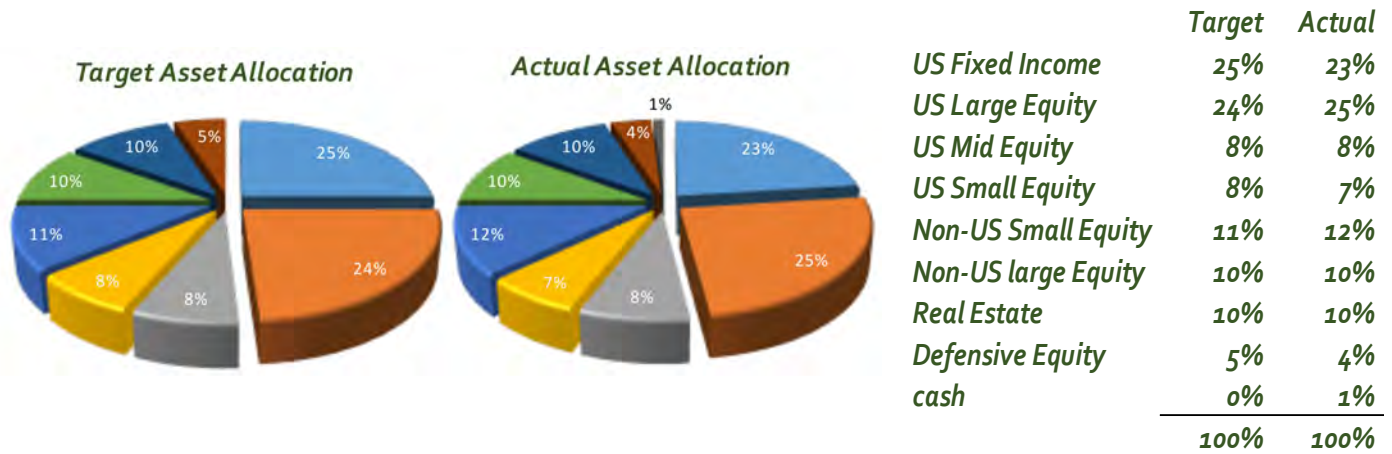


Diversification is the most important component of reaching long-range financial goals. To assist in meeting the overall objectives, the Board of Trustees approved an asset allocation guideline. The asset allocation guideline enables the plan to diversify its assets and maximize returns by investing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

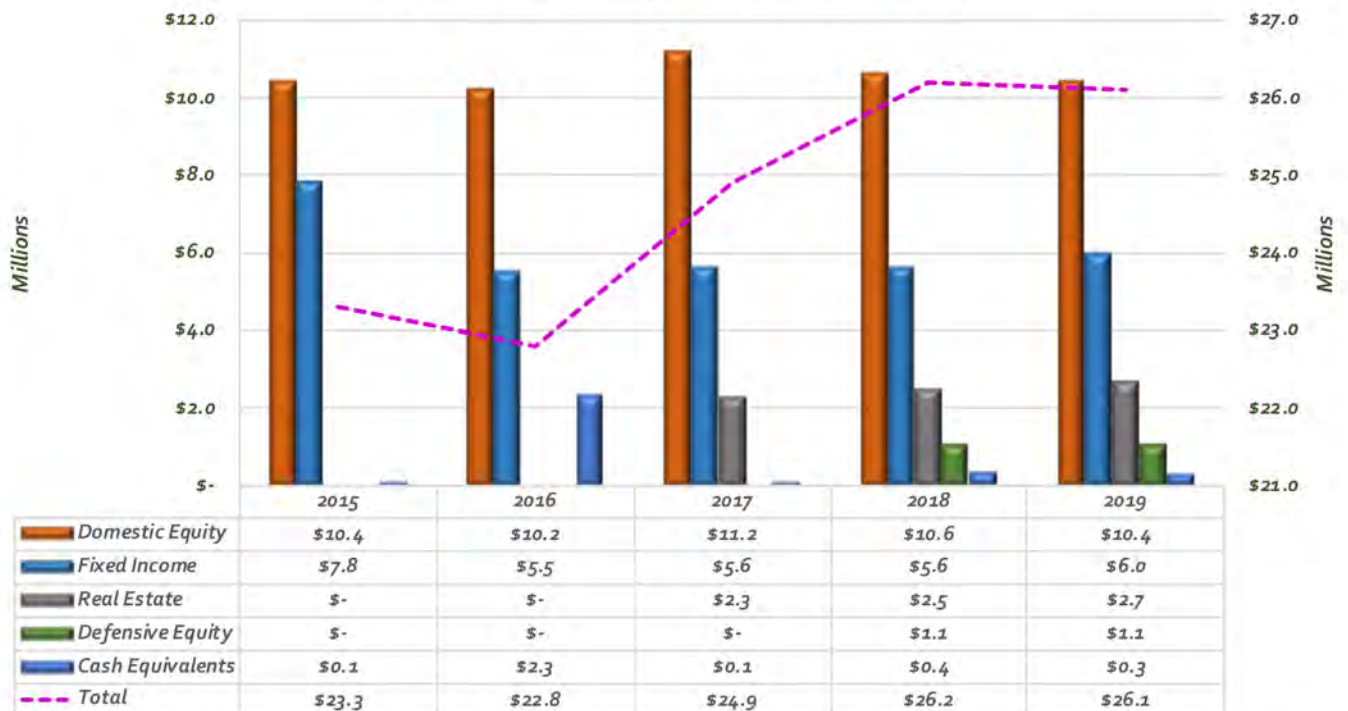


# Investments

The current EOS asset allocation policy and actual allocation is as stated below.



## Fair Value of Investments



# Actuarial

*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, 2019, the System's funded ratios were 153.8% and 153.6% based on actuarial and market values of asset respectively. Both funded ratios decreased by 14.8% and 18.1% respectively when compared with their June 30, 2018 values of 168.6% and 171.7%.*

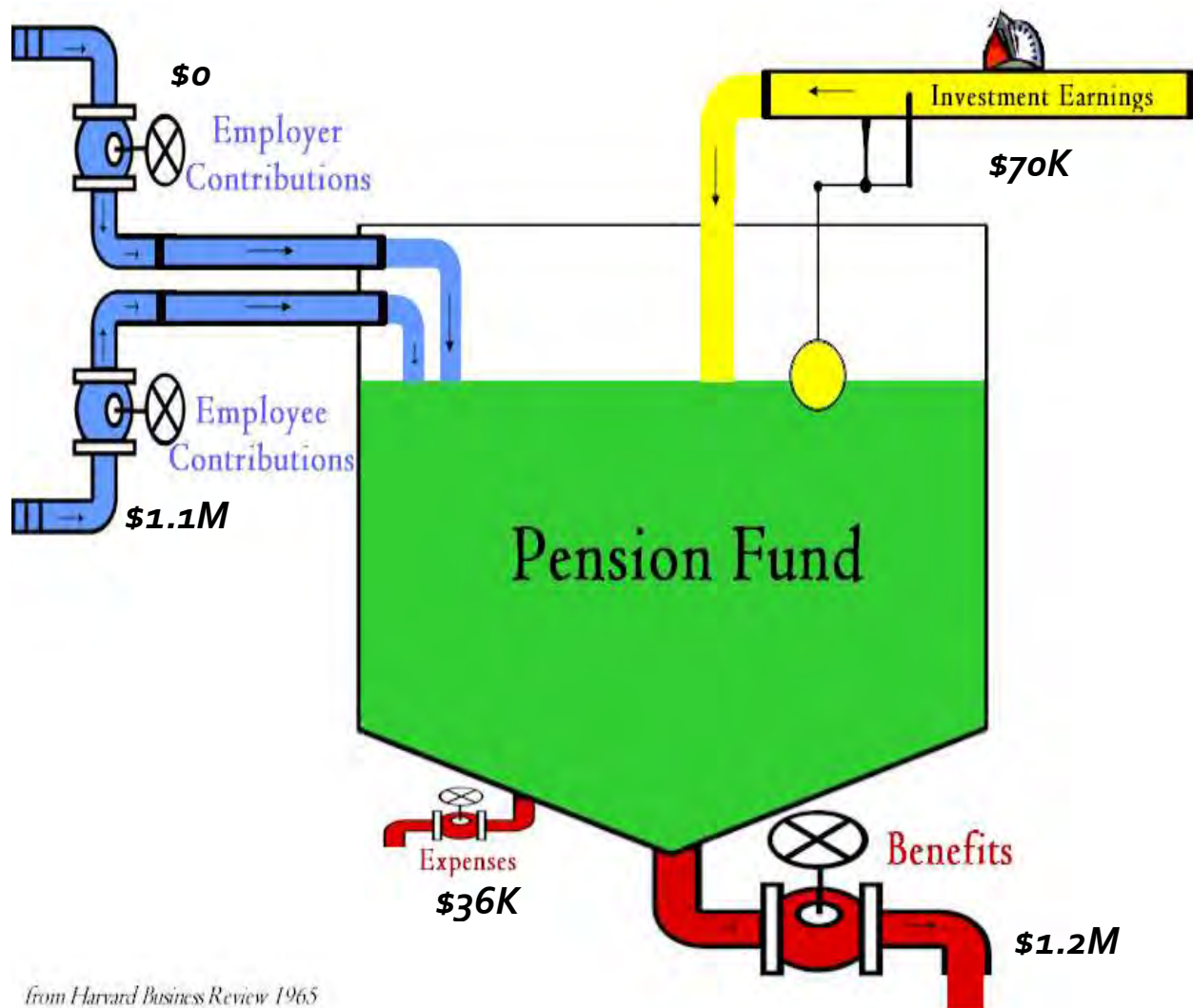


*The reduction in funded status as of June 30, 2019 is attributable to lower than expected investment returns, reduction of interest rate from 7.0% to 6.75%, as well as the assumption changes from experience study. Experience study is conducted by the system every four years. The study compares actual experience to assumptions of both demographic and economic assumptions to determine whether adjustments are required. The demographic changes adopted includes rates of retirement, termination rates, disability rates, post-retirement mortality as well as survivor data drop-offs while economic assumption changes includes discount rate, inflation and salary increases.*

	2015	2016	2017	2018	2019
Total Pension Liability	\$ 13,680,525	\$ 14,002,347	\$ 14,946,399	\$ 15,260,985	\$ 17,001,212
Plan Fiduciary Net Position	23,439,961	22,749,282	24,966,221	26,197,456	26,122,264
Net Pension Assets	\$ 9,759,436	\$ 8,746,935	\$ 10,019,822	\$ 10,936,471	\$ 9,121,052

# Actuarial

	2019	2018	2017	2016	2015
Actuarially determined contribution	\$ -	\$ -	\$ -	\$ -	\$ 84,986
Actual employer Contributions	0	0	0	0	84,986
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -
Covered payroll	\$ 1,362,517	\$ 1,398,738	\$ 1,296,866	\$ 1,333,907	\$ 1,298,865
Contributions as a percentage of payroll	0.00%	0.00%	0.00%	0.00%	6.54%



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Financial Reporting**

Presented to  
**Elected Officials' Retirement System  
City of Baltimore, Maryland**

For its Annual  
Financial Report  
for the Fiscal Year Ended

**June 30, 2018**

*Christopher P. Morrell*

Executive Director/CEO

**CITY OF BALTIMORE**  
*Employees' Retirement Systems*

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Recommendation*

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*This Popular Annual 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 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 2019 CAFR.*

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