

EMPLOYEES' 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 ERS (Employees' 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.bcercs.org/publications/ERS-PAFR. For a detailed copy of our financials, please visit our website at www.bcercs.org/publications/ERS-CAFR.



Introduction.....	1
Plan Description.....	2
Financials.....	3-5
Investments.....	6-8
Actuarial.....	9-10



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



Fiscal year 2019 was a good year for the ERS. Investments returned 6.1% and the market value funded ratio is now 69.8%.

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.

Notwithstanding our changes, the primary objectives of the Board remain the same: ensuring timely monthly pensioner payroll; protecting the asset with which we have been entrusted; and growing the assets prudently to reduce the overall City liability.

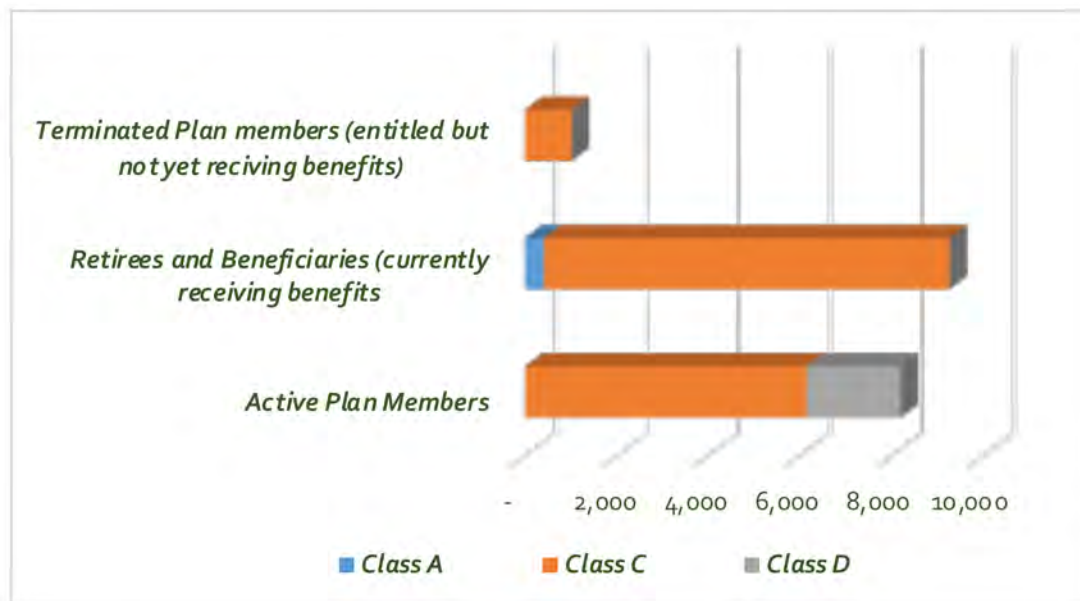
I would also like to thank the entire staff of ERS for their faithful commitment to servicing the Board and the Plan participants.

Henry J. Raymond
Chair, Board of Trustees

The Plan

ERS is the administrator of a cost sharing multiple employer defined benefit local government retirement plan (the Plan). ERS Plan was established effective January 1, 1926 and has been periodically amended. Any regular and permanent officer, agent or employee of the City with the exception of those required to join the Maryland State or any other Retirement System becomes a member of ERS upon completion of one year of service.

Membership Status as at June 30, 2019	Class A	Class C	Class D	Total
Active Plan Members	9	6,135	2,060	8,204
Retirees and Beneficiaries (currently receiving benefits)	410	8,856	1	9,267
Terminated Plan members (entitled but not yet reciving benefits)	3	1,021	-	1,024
Total	422	16,012	2,061	18,495



At June 30, 2019, total membership of ERS was 18,495 comprising 8,204 active members, 9,267 retirees & beneficiaries and 1,024 terminated plan members. Terminated plan members are former employees that are eligible for pension.

Class A active members currently contribute at 4% of earnable compensation, D members at 5% and C members at 5% . Earnable compensation is the annual salary authorized for the member not including overtime or other types of pay.

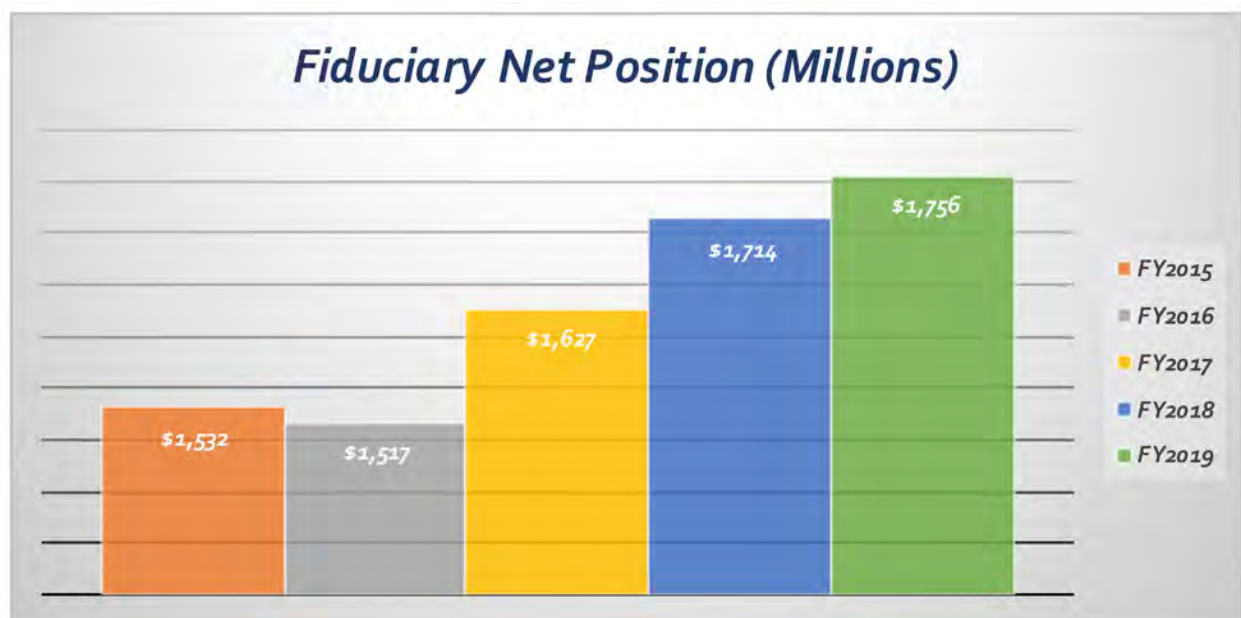
Class A members are eligible for retirement at age 60 with 5 years of service or 30 years of membership service while classes C and D are eligible for retirement at age 65 with 5 years of service or 30 years of service regardless of age.

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 fiduciary net position restricted for pensions was \$1,756M, an increase of \$41M (5.36%) over fiscal year 2018, mainly from investment income. The fiduciary net position includes cash & receivables, investments, securities lending and capital assets less total liabilities.

Fiduciary Net Position	Fiscal Year 2019	Fiscal Year 2018	Increase / (Decrease)	Percentage Increase
Cash and Receivables	\$111,183,719	\$187,792,797	-\$76,609,078	-41%
Investments	1,724,376,372	1,610,271,251	114,105,121	7%
Securities Lending	74,443,578	118,686,125	-44,242,547	-37%
Capital Assets	341,632	437,383	-95,751	-22%
Total assets	1,910,345,301	1,917,187,556	-6,842,255	-0.4%
Total liabilities	154,749,716	202,934,836	-48,185,120	
Total net position	1,755,595,585	1,714,252,720	41,342,865	2%

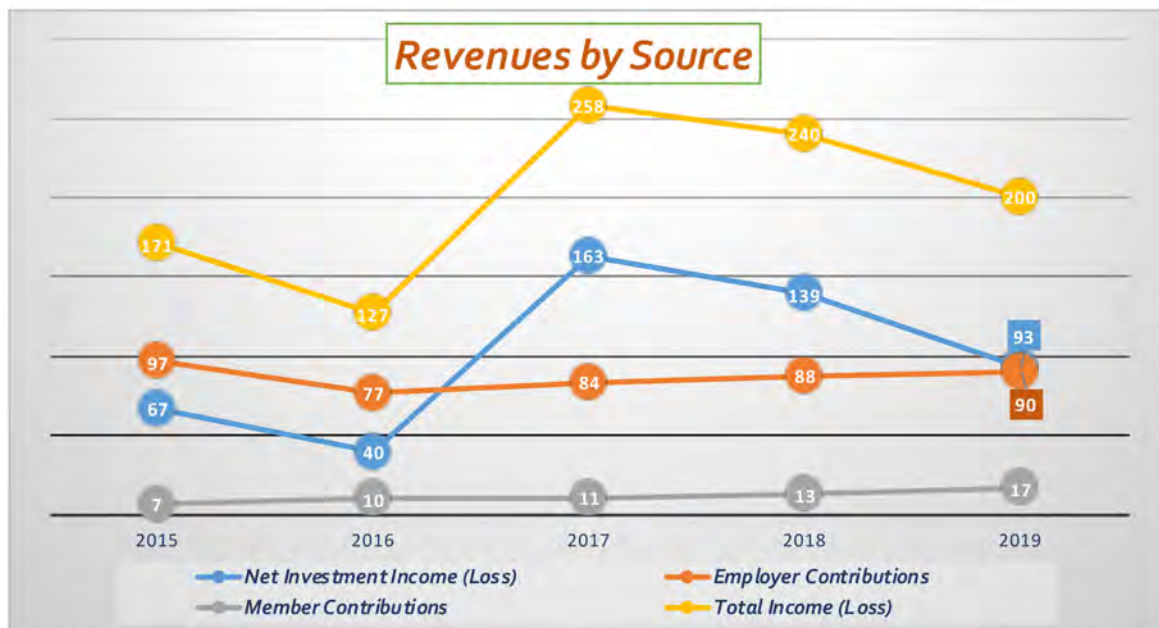
The fiduciary net position has been growing gradually for a couple of years with the exception of 2016 when there was a slight reduction. The net position serves as a useful indicator of the Plan's financial position and is available to meet the plan's ongoing obligation to participants and their beneficiaries. Management believes that the plan remains in a strong financial position to meet its obligations to the members, retirees and their beneficiaries.



Financials

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 \$41M, when compared with fiscal year 2018 increase of \$87M, show a decrease of \$46M. The decrease is attributable to net investment return, which produced lower positive income when compared to fiscal year 2018. The reduced positive income is attributable to performance of investment composites.

Changes in Fiduciary Net Position	Fiscal Year 2019	Fiscal Year 2018	Increase / (Decrease)	Percentage Change
Net investment income	\$92,280,356	\$139,091,994	-\$46,811,638	-34%
Employer contribution	89,866,171	87,541,882	2,324,289	3%
Employee contribution	17,246,258	12,942,622	4,303,636	33%
Net Securities Lending Income	534,616	420,277	114,339	27%
Total additions	199,927,401	239,996,775	-40,069,374	-17%
Retirement allowances	152,947,832	148,219,211	4,728,621	3%
Administrative expenses	3,716,362	3,616,054	100,308	3%
Death benefits	988,038	497,011	491,027	99%
Refund of member's contribution	815,394	410,189	405,205	99%
Lump Sum cash payments	116,910	28,088	88,822	316%
Total deductions	158,584,536	152,770,553	5,813,983	4%
Net increases (decreases)	\$41,342,865	\$87,226,222	-\$45,883,357	-53%



Total additions (revenues) for fiscal year 2019 was \$200M. Compared to fiscal year 2018 total addition of \$240M, there was a decrease of \$40M. The decrease is from net investment income, which yielded lower than fiscal year 2018. Total deductions (expenses) on the other hand increased from \$153M in fiscal year 2018 to \$159M in fiscal year 2019. The increase in total deductions is mainly from retirement benefits payments.

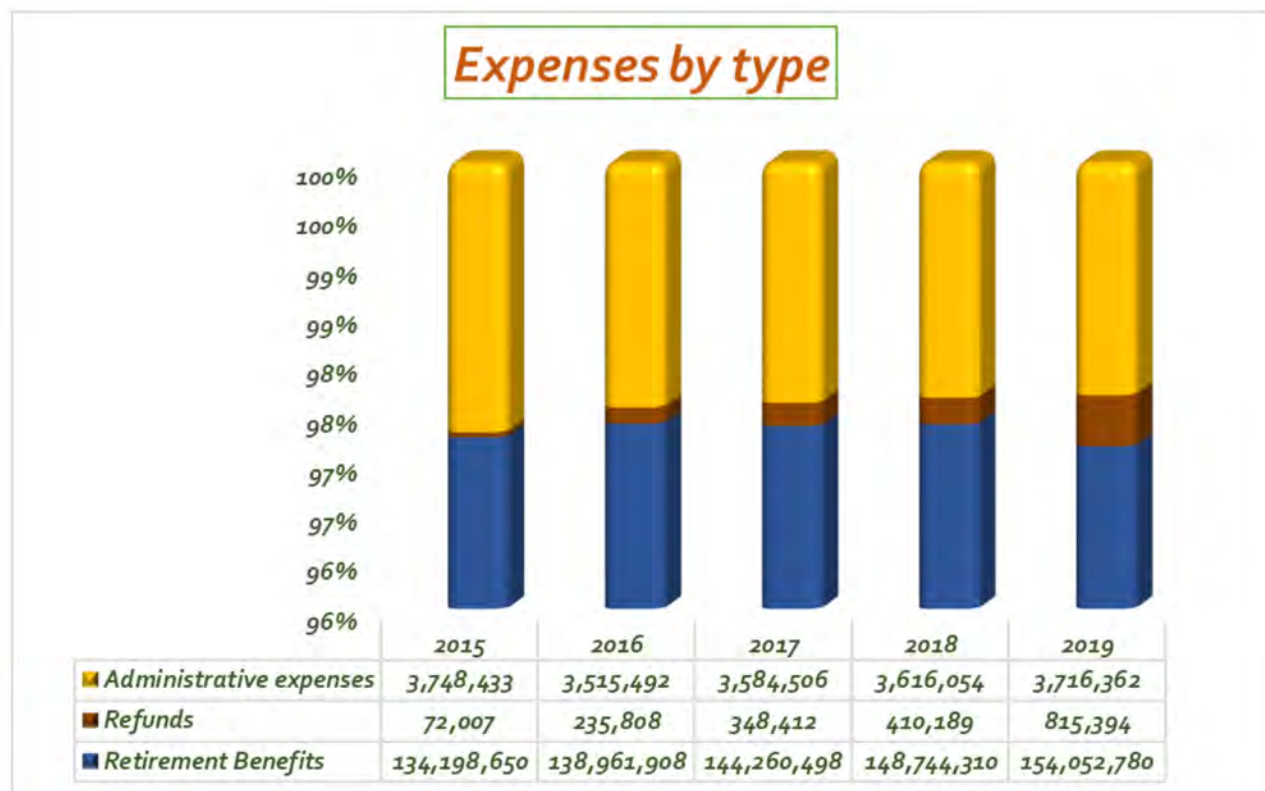
Financials

Net investment income yielded positive returns of \$92M in fiscal year 2019, which represents a decrease of \$47M from \$139M in fiscal year 2018. The decrease is attributable to lower overall market returns as well as the Plan's exposure to emerging markets and bank loans.

Employer contributions increased by \$2M from \$88M to \$90M, which is attributable to actuarial changes. The actuarially determined employer contributions are calculated two fiscal years in advance, that is, the \$90M employer contributions for fiscal year 2019 was determined during actuarial valuation for fiscal year 2017.

The employee contributions also increased by \$4M, attributable to increased rate of contribution. Employee contributions was scheduled to be at 5% during fiscal year 2018 but this was not achieved due to inconclusive union negotiations. This 5% rate, eventually achieved towards the end of fiscal year 2019 is reflective in 2019 contribution amount.

Net securities lending income on the other hand decreased due to the forces of demand and supply in the securities lending market.



Retirement benefits increased from \$148M in fiscal year 2018 to \$152M in fiscal year 2019. This \$5M increase was due to cost of living adjustments as well as slightly increased new retirees. Administrative expenses and refund of member contributions followed suit with both increasing by less than a million each.

Investments

The primary investment objectives of ERS 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. The board utilizes external portfolio managers in active and passive strategies for the investments of the assets. The managers are monitored and evaluated by the board with the help of investment consultants.

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. Private equity posted returns above public markets also meeting long-term return expectations.

	FY 2019	3 Years	5 Years	10 Years
TOTAL PORTFOLIO	6.1%	8.9%	6.9%	9.6%
Median Public Pension Fund	6.2%	8.4%	6.4%	9.3%
DOMESTIC EQUITIES	9.7%	13.8%	9.9%	14.5%
Russell 3000	9.0%	14.0%	10.2%	14.7%
DEFENSIVE EQUITIES	4.6%	-	-	-
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%
INTERNATIONAL EQUITIES	-0.7%	9.7%	4.2%	7.7%
MSCI ACWI ex-US	1.8%	9.9%	2.6%	7.0%
FIS Funds Management	-1.6%	6.5%	4.0%	11.0%
FIS Benchmark	0.7%	8.4%	4.3%	11.6%
FIXED INCOME	7.0%	3.0%	3.3%	4.9%
Barclays Aggregate	7.9%	2.3%	2.9%	3.9%
REAL ESTATE	7.6%	8.0%	10.6%	9.1%
NPI	6.5%	6.9%	8.8%	9.2%
CPI + 5%	6.7%	7.1%	6.5%	6.8%
PRIVATE EQUITY COMPOSITE	14.1%	15.0%	13.6%	12.7%
Private Equity Benchmark	7.3%	13.8%	10.8%	12.0%
CPI + 6%	7.7%	8.2%	7.5%	7.8%

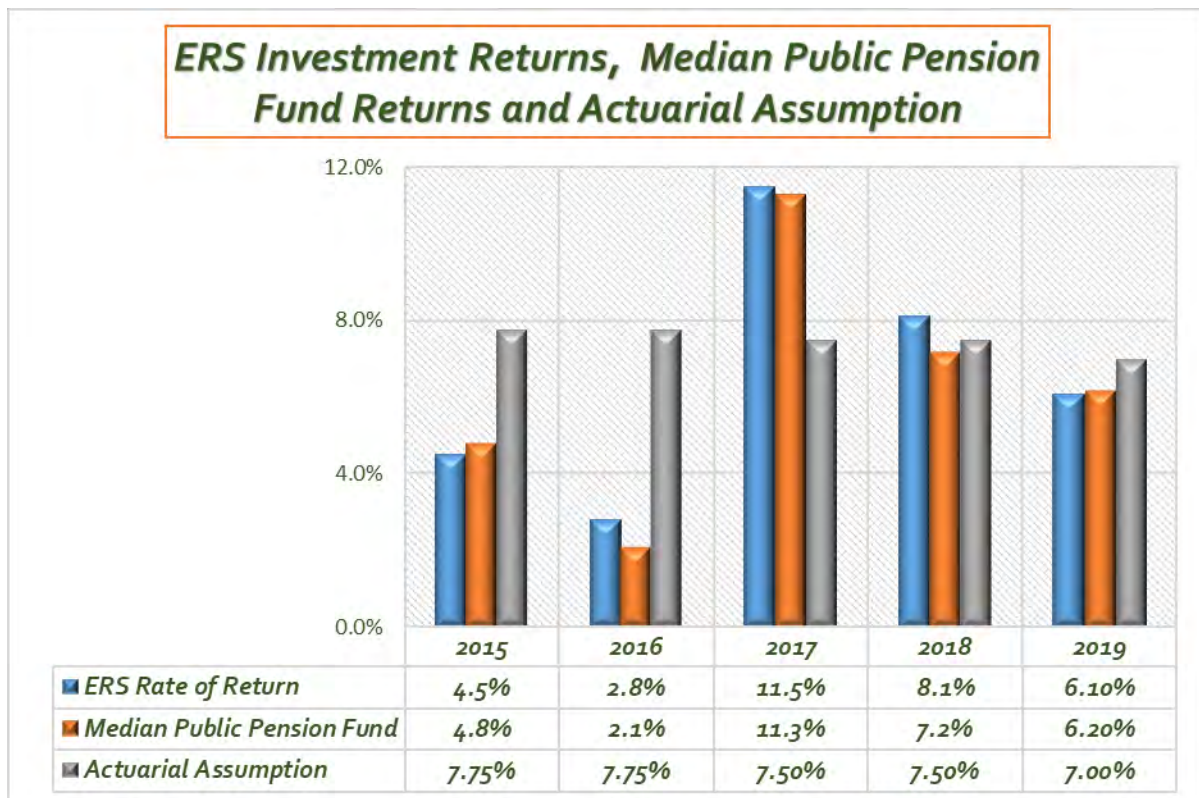
ERS posted a return of 6.1% for fiscal year 2019 lagging slightly behind the benchmark return of 6.2% by 0.1%. Likewise, the return lagged behind the actuarial interest rate assumption of 7.0% by 0.9%. Investment returns for the three, five and ten years on the other hand, all outperformed the benchmark with margins of 0.5%, 0.5% and 0.3% respectively.

Investments

Domestic equity portfolio posted a return of 9.7%, outperforming the benchmark by 0.7%. Both real estate and private equity portfolios also outperformed their respective benchmarks. On the other hand, defensive equity and fixed income portfolios, though posted positive returns, lagged their respective benchmarks. International equity, which includes FIS funds posted negative returns because of volatility due to uncertainties in the international market space during the year.

In June 2016, Ordinance 16-488 was signed into law which provides for reduction in the actuarial interest rate to 7.5% in fiscal years 2017 and 2018, subsequently to 7.0% in fiscal year 2019.

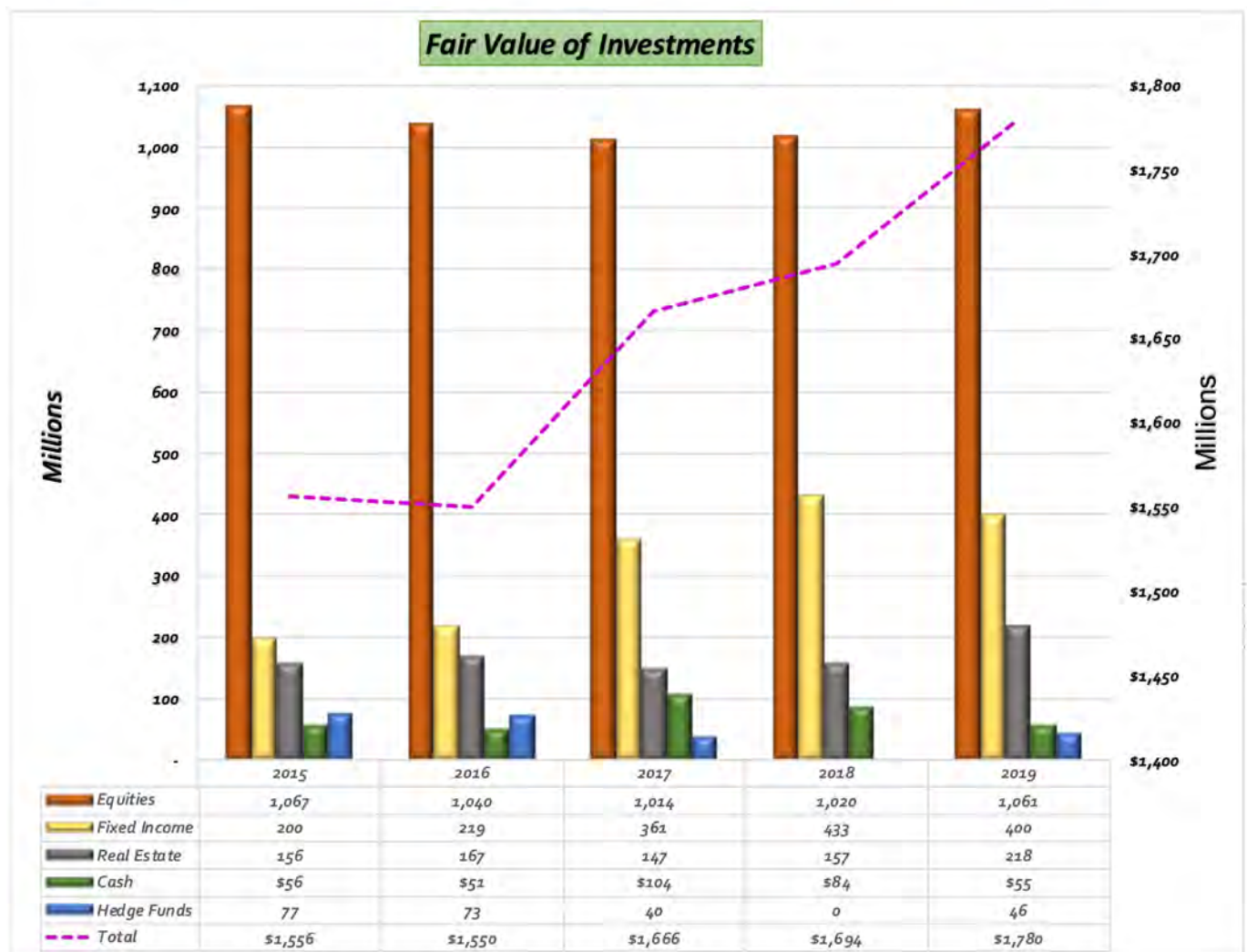
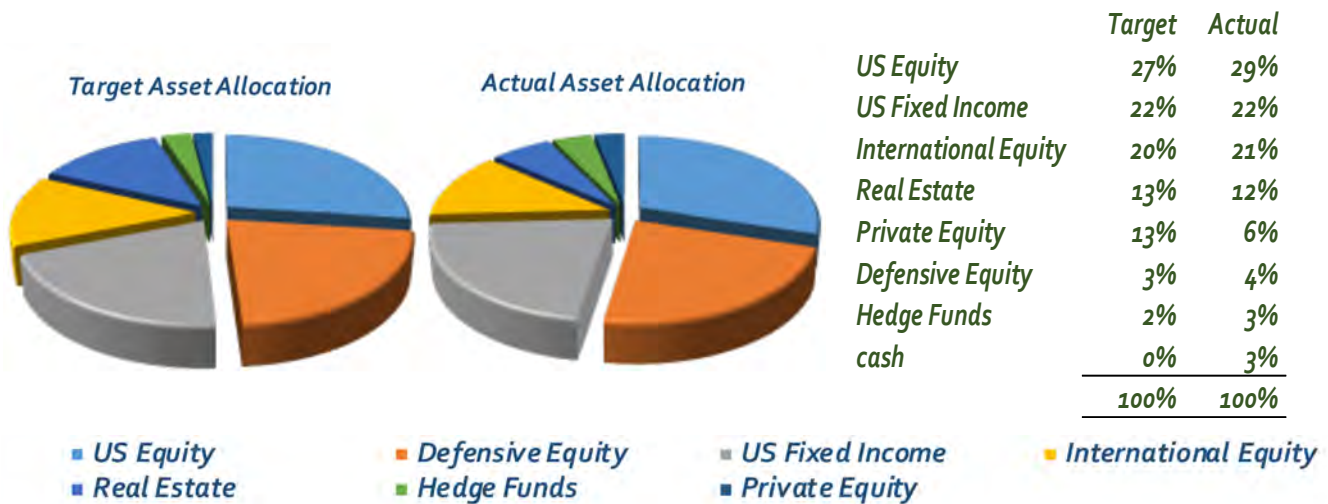
In the last five years, ERS outperformed both the benchmark and actuarial assumption three times but lagged slightly in the remaining two years. This shows that the Plan is well positioned to achieve the investment objectives as outlined by the board of trustees.



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 ERS asset allocation policy and actual allocation is as stated below.

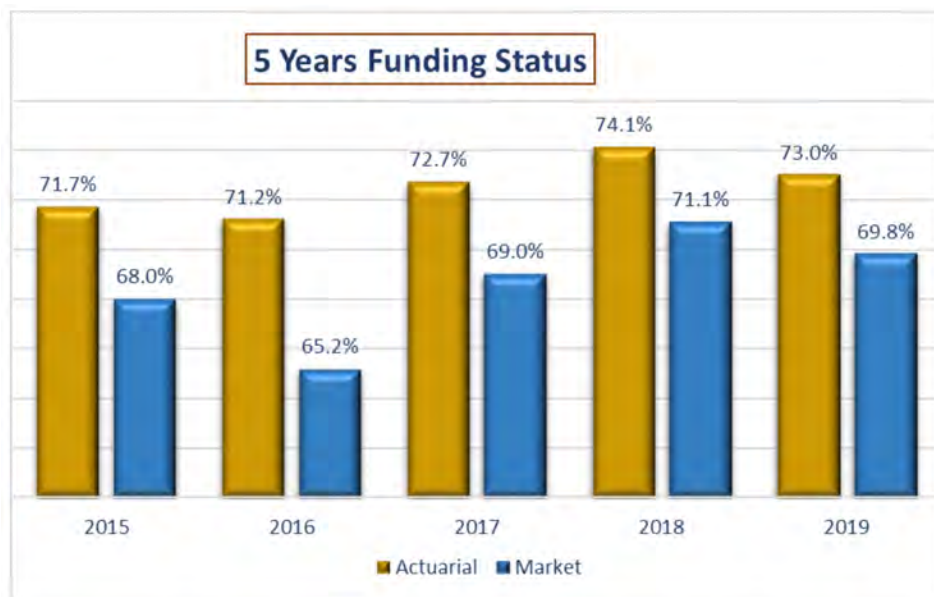


Actuarial

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. ERS' 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 73.0% and 69.8% based on actuarial and market values of assets. Both funded ratios decreased by 1.1% and 1.3% respectively when compared with their June 30, 2018 values of 74.1% and 71.1%.

In June 2016, Ordinance 16-488 was signed into law, which provides for reduction in the actuarial assumption rate to 7.5% in fiscal years 2017 and 2018, subsequently to 7.0% in fiscal year 2019.



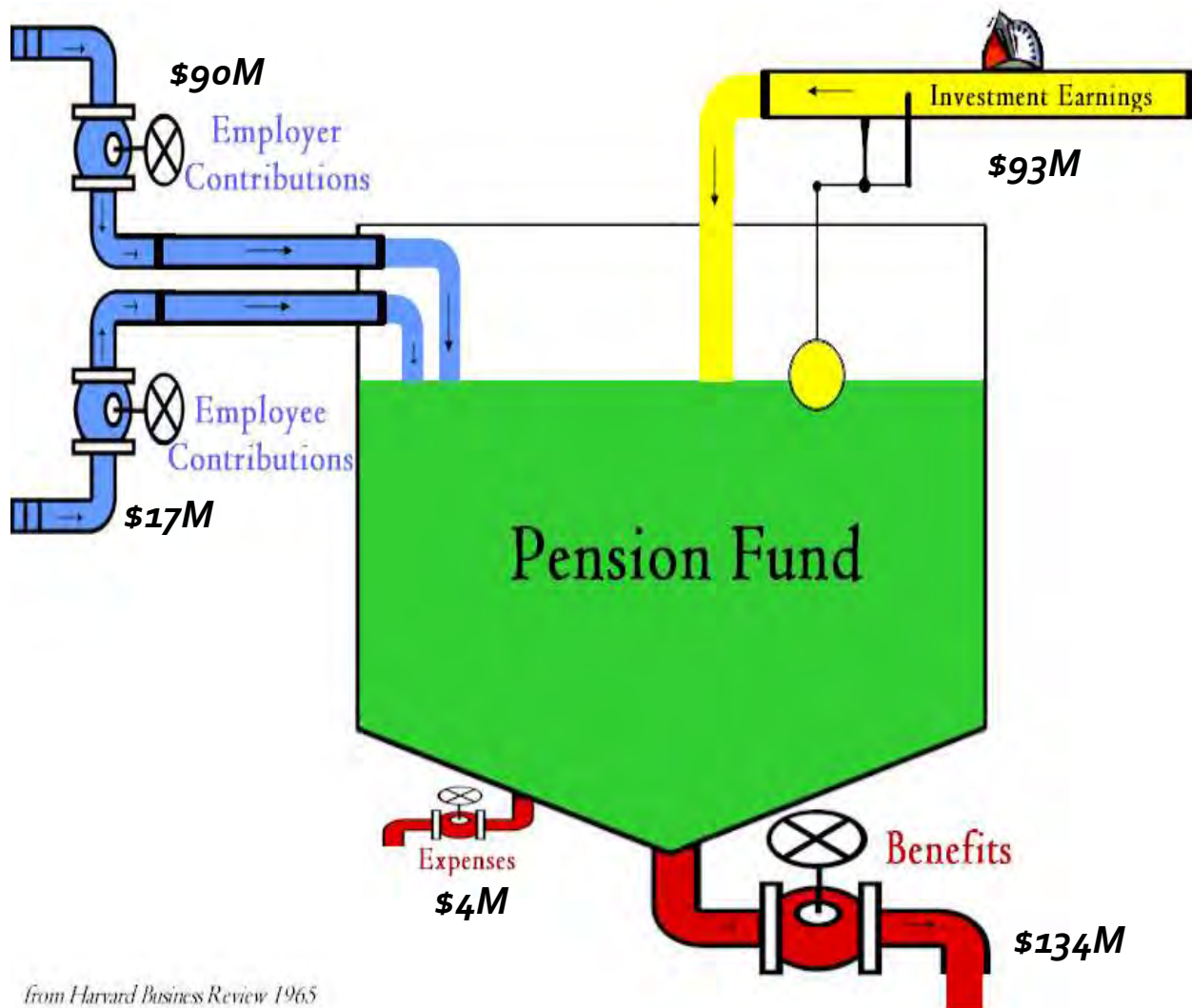
The funding policy adopted by the board provides for the unfunded actuarial liability to be amortized over a fixed period of 20 years targeting 100% funding by fiscal year 2032. However, a one-year extension was adopted this year and the remaining amortization period is now thirteen years. The funding method used is the Entry Age Normal Cost method. This method computes level contributions as a percentage of pay over the entire working lifetime of the plan participant.

	2015	2016	2017	2018	2019
Total Pension Liability	\$ 2,253,002,106	\$ 2,327,562,823	\$ 2,359,605,516	\$ 2,410,614,058	\$ 2,515,137,395
Plan Fiduciary Net Position	1,531,934,266	1,516,932,382	1,627,026,498	1,714,252,720	1,755,595,585
Unfunded Liability	\$ 721,067,840	\$ 810,630,441	\$ 732,579,018	\$ 696,361,338	\$ 759,541,810

Based on the actuarial valuation performed at the end of fiscal year 2017, the total contributions due from the employer for fiscal year 2019 was \$89,866,171. For the past 3 years, the City of Baltimore, which is the employer, has contributed 100% of the actuarially determined contributions to the Plan.

Actuarial

	2019	2018	2017	2016	2015
Actuarially determined contribution	\$ 89,866,171	\$ 87,541,882	\$ 84,474,451	\$ 75,862,000	\$ 90,489,000
Actual employer Contributions	89,866,171	87,541,882	84,474,451	77,100,573	97,170,796
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ (1,238,573)	\$ (6,681,796)
Covered payroll	\$ 419,686,035	\$ 403,454,892	\$ 391,121,606	\$ 399,465,753	\$ 408,095,216
Contributions as a percentage of payroll	21.41%	21.70%	21.60%	19.30%	23.81%



from Harvard Business Review 1965



Government Finance Officers Association

**Award for
Outstanding
Achievement in
Popular Annual
Financial Reporting**

Presented to
**Employees' Retirement System
City of Baltimore, Maryland**

For its Annual
Financial Report
for the Fiscal Year Ended

June 30, 2018

Christopher P. Merrill
Executive Director/CEO

CITY OF BALTIMORE
Employees' Retirement Systems

**7 East Redwood Street
12th & 13th Floors
Baltimore MD 21202**

PRSRT STD
U.S POSTAGE
PAID
BALTIMORE, MD
PERMIT NO. 7650

TRUSTEES

Henry Raymond
Board Chair
Finance Director, City of
Baltimore
Ex-Officio Member

Joan M. Pratt, CPA
Board Vice-Chair
Comptroller, City of
Baltimore
Ex-Officio Member

Rosemary H. Atkinson
Chair, Investment Committee
Elected by Retired Members

Helen Holton, CPA
Vice-Chair, Investment
Committee
Appointed by the Mayor
upon City Council
Recommendation

Deborah F. Moore-Carter
Chair, Personnel Committee
Elected by Active Members

Dorothy L. Bryant
Elected by Active Members

Doris Y. Brightful
Appointed by the Mayor

John Beasley
Appointed by the Mayor
upon City Council
Recommendation

Joan Carter Conway
Appointed by the Mayor



**+1 443-984-3200
+1 877-273-7136**



contact@bcers.org



www.bcers.org



[Facebook.com/bmoreretirement](https://www.facebook.com/bmoreretirement)

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.

Please visit our website at www.bcers.org and click "Publications & News" for a copy of the CAFR.