



**ANNE ARUNDEL  
COUNTY**  
MARYLAND

## **Anne Arundel County Police Service Retirement Plan**

Actuarial Valuation as of January 1, 2024  
to Determine the County's Contribution for the  
Fiscal Year Ending June 30, 2025

# **Bolton**

*Submitted by:*

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# Bolton

May 1, 2024

Anne Budowski  
Personnel Director  
Anne Arundel County  
2660 Riva Road  
Annapolis, MD 21401

*Re: Anne Arundel County Police Service Retirement Plan Valuation*

Dear Anne:

The following sets forth the actuarial valuation of the Anne Arundel County Police Service Retirement Plan as of January 1, 2024. The actuarial valuation was performed at the request of Anne Arundel County (the County). Section I of the report provides a summary, Section II sets forth our Actuarial Certification, and Section III contains the development of the County's contribution for the 2025 fiscal year. Section IV provides a discussion of risk, while Sections V through VIII contain a summary of the census and asset data, a ten-year projection of benefit payments, plan provisions, assumptions and actuarial methods. The appendices of the report provide information on plan funding as well as a glossary of many of the terms used in this report.

We are available to answer any questions on the material in this report or to provide explanations or further details as appropriate.

Respectfully submitted,



Ann. M. Sturner, FSA, EA, FCA, MAAA



Michelle L. Boyles, FSA, EA, MAAA



## Section I. Executive Summary

### Background

Bolton Partners, Inc. (Bolton) has prepared the following report that sets forth the actuarial valuation of the Anne Arundel County Police Service Retirement Plan as of January 1, 2024. This report provides the funded status of the plan as of January 1, 2024 as well as the Actuarially Determined Contribution (ADC) for the plan for the fiscal year ending June 30, 2025 (FY2025). Accounting results under Government Accounting Standards Board Statements 67 and 68 are provided in a separate report.

### Actuarially Determined Contributions (ADC)

	FY2023	FY2024	FY2025
ADC	\$ 32,983,329	\$ 38,594,760	\$ 42,433,741
Percent of Total Payroll	48.4%	54.5%	54.5%

The above amounts assume the County's contribution will be made monthly throughout the fiscal year. Details of the determination of the County's contribution for FY2025 are shown in Section III of this report.

### Key Demographic Elements

	1/1/2023	1/1/2024	% Change
Participant Counts			
Active	680	680	0.0%
In Receipt	817	830	1.6%
Inactive with Deferred Benefits	0	0	0.0%
DROP	78	78	0.0%
Refunds Owed	N/A	40	N/A <sup>1</sup>
Total	1,575	1,628	3.4%

### Funding Measures

	1/1/2023	1/1/2024	% Change
1. Actuarial Accrued Liability	\$ 930,901,047	\$ 990,271,537	6.4%
2. Actuarial Value of Assets	\$ 681,284,581	\$ 719,446,566	5.6%
3. Plan Funded Ratio (2. / 1.)	73.2%	72.7%	(0.7%)
4. Market Value of Assets	\$ 620,244,928	\$ 691,098,519	11.4%
5. Funded Ratio based on Market Value of Assets (4. / 1.)	66.6%	69.8%	4.7%

<sup>1</sup> Members who terminated prior to completing the requirements for a retirement benefit are owed a refund of their contributions. This data was not included prior to the January 1, 2024 valuation.



## Changes in Contribution

The following table shows the sources of changes in the County's contribution.

Description	Contribution (\$ millions)
January 1, 2023 Valuation	\$38.6
Investment Performance	0.4
Pay Increases	0.1
New Entrants/Change in Normal Cost	1.7
COLA	0.3
Change in Expenses	0.0
Assumption/Method Changes	N/A
Plan Changes	(0.3)
Demographics and Other Changes	1.5
January 1, 2024 Valuation	\$42.4

## Experience Analysis

The following factors affected the County's contribution as a percentage of payroll:

- **Plan assets and investment performance** – the net return for the year ended December 31, 2023 after investment expenses was 12.1% on a market value basis and 6.2% on an actuarial value basis. Investment returns during CY2023 were about \$31.3 million higher than assumed. A portion of this gain is reflected in the actuarial value of assets (AVA) in this valuation, and the remaining portions will be reflected in future valuations. The AVA and the return on the AVA also reflect the continued recognition of outstanding net investment losses from prior valuations. As of January 1, 2024, there is a total of \$28.3 million in net deferred investment losses that will be reflected in future valuations.
- **Cost of Living Adjustment** – Retiree COLAs effective July 1, 2023 (generally, 4.00% for pre-2/1/1997 accruals and 2.50% for post-1/31/1997 accruals) were greater than the assumed annual increases (3.00% for pre-2/1/1997 accruals and 1.80% for post-1/31/1997 accruals).
- **Payroll changes** – Pay for returning employees, excluding members in DROP, increased approximately 10.1% over the prior year; a 5.9% larger increase than what was assumed. Total participant payroll, including payroll for members in DROP, increased by 9.9%, over the prior year; higher than the assumption of 3.0% growth per year.
- **Plan change** – The DROP was amended to allow seven years of participation which decreased liability by \$1.7 million.



## Risk Assessment

The primary risk that a plan sponsor incurs from a defined benefit plan is the risk of substantial increases in annual contributions. Many variables can influence future results and the sensitivity of the ADC will vary from plan to plan. This valuation report includes information intended to assist plan sponsors and the readers of this report in understanding the most significant risks that affect the plan's future financial position. This report includes commentary about risks to be considered when developing the plan's investment and funding policies and why it is important that these two policies are connected. Preparing a full risk assessment for the plan is beyond the scope of this engagement.

We encourage plan sponsors and plan administrators to consider this information carefully, view the results of the annual valuation in the context of the risks to plan costs and member benefit security, and determine whether it is an appropriate time to consider a more in-depth, comprehensive risk assessment.

## Changes in Methods, Assumptions, and Plan Provisions

The plan was amended to increase the maximum amount of time a participant is allowed to be in DROP from six years to seven.

## Sources of Information

The January 1, 2024 participant data and market value of assets were provided by or at the direction of Anne Arundel County. While we have reviewed this data for consistency and completeness, we have not audited this data.



## Section II. Actuarial Certification

This actuarial valuation sets forth our calculation of an estimate of the liabilities of the Anne Arundel County Police Service Retirement Plan (the plan), together with a comparison of these liabilities with the value of the plan assets, as submitted by Anne Arundel County (the County). This liability calculation and comparison with assets are applicable for the valuation date only. The future is uncertain, and the plan may become better funded or more poorly funded in the future. This valuation does not provide any guarantee that the plan will be able to provide the promised benefits in the future.

This report was prepared for the internal use of the County and its auditors in connection with our actuarial valuations of the pension plan. The purpose of this report is to provide the recommended employer contribution for the 2025 fiscal year. It is neither intended nor necessarily suitable for other purposes. Bolton is not responsible for the consequences of any other use or the reliance upon this report by any other party.

This report is based on plan provisions, census data, and asset data submitted by the County. We have relied on this information for purposes of preparing this report. We have not audited the census or asset data provided, however based on our review the data appears to be reasonable and consistent with previously provided information. Unless otherwise noted in our report, we believe the information provided is sufficiently complete and reliable for purposes of the results presented in this report. The accuracy of the results presented in this report is dependent upon the accuracy and completeness of the underlying information. The County is solely responsible for the validity and completeness of this information.

The County is responsible for selecting the plan's funding policy, actuarial valuation methods, asset valuation methods, and assumptions. The policies, methods and assumptions used in this valuation are those that have been so prescribed and are described in this report. The County is solely responsible for communicating to Bolton any changes required thereto.

The County is solely responsible for selecting the plan's investment policies, asset allocations and individual investments. Bolton's actuaries have not provided any investment advice to the County.

This is a deterministic valuation in that it is based on a single set of assumptions. This set of assumptions is one possible basis for our calculations. We may consider that some factors are not material to the valuation of the plan and may not provide a specific assumption for those factors. We may have used other assumptions in the past. We will likely consider changes in assumptions at a future date.

Different assumptions or scenarios within the range of possibilities may also be reasonable and results based on those assumptions would be different. As a result of the uncertainty inherent in a forward-looking projection over a very long period of time, no one projection is uniquely "correct" and many alternative projections of the future could also be regarded as reasonable. Two different actuaries could, quite reasonably, arrive at different results based on the same data and different views of the future.

The County could reasonably ask how the valuation would change if we used a different assumption set or if plan experience exhibited variations from our assumptions. This report does not contain such an analysis. That type of analysis would be a separate assignment.



In addition, decisions regarding benefit improvements, benefit changes, the trust's investment policy, and similar issues should not be based on this valuation. These issues are complex and other factors should be considered when making such decisions. Other factors might include the anticipated vitality of the local economy and future growth expectations, as well as other economic and financial factors.

The cost of this plan is determined by the benefits promised by the plan, the plan's participant population, the investment experience of the plan and many other factors. An actuarial valuation is a budgeting tool for the County. It does not affect the cost of the plan. Different funding methods provide for different timing of contributions to the plan. As the experience of the plan evolves, it is normal for the level of contributions to the plan to change. If a contribution is not made for a particular year, either by deliberate choice or because of an error in a calculation, that contribution can be made in later years. We are not responsible for the consequences of any decision by the County to make contributions at a future time rather than an earlier time. The County is responsible for funding the cost of the plan.

The report is conditioned on the assumption of an ongoing plan and is not meant to present the actuarial position of the plan in the case of plan termination. Future actuarial measurements may differ significantly from the current measurements presented in this report due to such factors as the following: plan experience differing from that anticipated by the economic or demographic assumptions, changes in economic or demographic assumptions, increases or decreases expected as part of the natural operation of the methodology used for these measurements (such as the end of an amortization period or additional cost or contribution requirements based on the plan's funded status), and changes in plan provisions or applicable law.

The valuation was completed using both proprietary and third-party models (including software and tools). We have tested these models to ensure they are used for their intended purposes, within their known limitations, and without any known material inconsistencies unless otherwise stated.

The calculations in this report have been computed in accordance with our understanding of generally accepted actuarial principles and practices and fairly reflect the actuarial position of the plan. The various actuarial assumptions and methods which have been used are, in our opinion, appropriate for the purposes of this report.

We make every effort to ensure that our calculations are accurately performed. We reserve the right to correct any potential errors by amending the results of this report or by including the corrections in a future valuation report.

Bolton does not practice law and, therefore, cannot and does not provide legal advice. Any statutory interpretation on which this report is based reflects Bolton's understanding as an actuarial firm. Bolton recommends that recipients of this report consult with legal counsel when making any decisions regarding compliance with ERISA, the Internal Revenue Code, or any other statute or regulation.

The County should notify Bolton promptly after receipt of this report if the County disagrees with anything contained in the report or is aware of any information that would affect the results of the report that has not been communicated to Bolton or incorporated herein. The report will be deemed final and acceptable to the County unless the County promptly provides such notice to Bolton.





The undersigned credentialed actuaries meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion contained herein. We are not aware of any direct or material indirect financial interest or relationship, including investments or other services, which could create a conflict of interest that would impair the objectivity of our work.

We are available to answer any questions on the material in this report to provide explanations or further details as appropriate.

Ann. M. Sturner, FSA, EA, FCA, MAAA

Michelle L. Boyles, FSA, EA, MAAA



## Section III. Determination of Contributions

### Derivation of Liabilities

Below is a summary of the actuarial accrued liability of the future benefits expected to be paid from the plan.

Participants	1/1/2023	1/1/2024
1. Participants		
a. Active (excluding DROP)	680	680
b. Active Enrolled in DROP	78	78
c. Retirees	549	565
d. Beneficiaries	107	104
e. Disabled Participants	161	161
f. Refunds Owed	N/A	40
g. Total	<u>1,575</u>	<u>1,628</u>
2. Active Payroll	\$ 70,810,497	\$ 77,799,574

Actuarial Accrued Liability	1/1/2023	1/1/2024
1. Active Participants	\$ 373,596,945	\$ 411,084,731
2. In-Pay Participants		
a. Retirees	391,821,324	406,185,664
b. Beneficiaries	46,943,716	49,450,211
c. Disabled Participants	118,539,062	122,996,247
d. Total In-Pay Participants	<u>\$ 557,304,102</u>	<u>\$ 578,632,122</u>
3. Inactive with Deferred Benefits		
a. Terminated Vested	0	0
b. Refunds of Contributions Owed	0	554,684
c. Total Inactive with Deferred Benefits	<u>\$ 0</u>	<u>\$ 554,684</u>
4. Total Actuarial Accrued Liability (1. + 2.d. + 3.c)	\$ 930,901,047	\$ 990,271,537
5. Actuarial Value of Assets (AVA)	\$ 681,284,581	\$ 719,446,566
6. Unfunded Liability Based on AVA (4. - 5.)	\$ 249,616,466	\$ 270,824,971
7. Funded Ratio Based on AVA (5. / 4.)	73.2%	72.7%
8. Market Value of Assets (MVA)	\$ 620,244,928	\$ 691,098,519
9. Unfunded Liability Based on MVA (4. - 8.)	\$ 310,656,119	\$ 299,173,018
10. Funded Ratio Based on MVA (8. / 4.)	66.6%	69.8%



## Normal Cost

The normal cost and the projected normal cost are shown below.

Normal Cost	1/1/2023	1/1/2024
1. Total Benefit Normal Cost	\$ 21,446,116	\$ 23,490,348
2. Employee Normal Cost	4,007,751	4,451,040
3. County Benefit Normal Cost (1. - 2.)	\$ 17,438,365	\$ 19,039,308
4. Estimated Expenses	540,000	555,000
5. County Benefit Normal Cost with Expenses	\$ 17,978,365	\$ 19,594,308
6. Projected Normal Cost with Expenses as of July 1 (5. x 1.03 <sup>0.5</sup> )	\$ 18,246,048	\$ 19,886,051

## Projection of Unfunded Liability

The projection of the unfunded actuarial liability from January 1, 2024 to July 1, 2024 is shown below.

Projection of Unfunded Liability	1/1/2024
1. Unfunded Liability as of January 1, 2024	\$ 270,824,971
2. Expected Employer Contributions 01/01/2024-07/01/2024	19,297,380
3. Expected Employee Contributions 01/01/2024-07/01/2024	2,421,982
4. Expected Expenses 01/01/2024-07/01/2024	277,500
5. Total Normal Cost 01/01/2024-07/01/2024	11,745,174
6. Interest at 7.00%	9,356,919
7. Projected Unfunded Liability as of July 1, 2024 (1. - 2. - 3. + 4. + 5. + 6.)	\$ 270,485,202

## Actuarially Determined Contribution

Below is the derivation of the actuarially determined contribution.

Actuarially Determined Contribution	FYE2025
1. Employer Normal Cost	\$ 19,886,051
2. Amortization Amount	\$ 21,136,195
3. Actuarially Determined Contribution (ADC) (1. + 2.)	\$ 41,022,246
4. Interest for Timing of Payment	\$ 1,411,495
5. ADC Adjusted for Timing of Payment (3. + 4.)	\$ 42,433,741
6. Participant Payroll as of Valuation Date	\$ 77,799,574
7. Employer Contribution as a Percentage of Participant Payroll	54.5%



## Actuarial Gain/Loss

Development of actuarial (gain)/loss for January 1, 2023 to January 1, 2024 is show below.

	Liability	Actuarial Value of Assets	UAAL
1. Beginning of year total	\$ 930,901,047	\$ 681,284,581	\$ 249,616,466
2. Normal cost (net of admin exp)	21,446,116		21,446,116
3. Administration expense		(539,551)	539,551
4. Benefit payments	(43,607,166)	(43,607,166)	0
5. Contributions		40,434,944	(40,434,944)
6. Interest	65,138,051	47,560,009	17,578,042
7. Expected end of year total	\$ 973,878,048	\$ 725,132,817	\$ 248,745,231
8. Impact of plan changes	(1,582,050)		(1,582,050)
9. Impact of assumption changes	0		0
10. Actual end of year	990,271,537	719,446,566	270,824,971
11. (Gain)/Loss	\$ 17,975,539	\$ 5,686,251	\$ 23,661,790

## Actuarial Experience

There was an actuarial loss of \$23,661,790 from January 1, 2023 to January 1, 2024. The loss is measured by comparing expected liabilities to actual liabilities before any changes, such as any assumption or plan changes, are reflected in the current valuation. The individual sources of gains and losses that follow are based upon a comparison of actual and expected experience in the year ending on the valuation date.

Source	(Gain)/Loss
1. Actuarial Value of Assets	\$ 5,686,000
2. New Entrants	479,000
3. COLAs	4,576,000
4. Salary increases	14,953,000
5. Mortality	(7,083,000)
6. Turnover	(1,027,000)
7. Disability	(325,000)
8. Retirement	803,000
9. Other Demographic	5,600,000
<b>10. Total</b>	<b>\$ 23,662,000</b>

The actuarial loss/(gain) of \$24,453,852 in the amortization table is equal to the sum of:

1. The actuarial loss/(gain) of \$23,661,790 as of January 1, 2024, shown above, rolled forward to July 1, 2024, and
2. The actual FY2024 "contribution" loss/(gain) due to the sum of the actual FY2024 contributions to the plan falling short of/(exceeding) the amount necessary to align with the expected plan experience.



## Schedule of Amortization Bases

Below is a Schedule of the Amortization Bases as of July 1, 2024.

Description	Date Established	Years Remaining	Outstanding Balance	Amortization Amount
Unfunded Accrued Liability	1/1/2004	10	\$ 12,855,142	\$ 1,516,837
Actuarial (Gain)/Loss	1/1/2005	11	(5,093,548)	(556,177)
Actuarial (Gain)/Loss	1/1/2006	12	6,939,654	706,989
Actuarial (Gain)/Loss	1/1/2007	13	(4,743,441)	(453,968)
Actuarial (Gain)/Loss	1/1/2008	14	4,086,598	369,553
Assumption Change	1/1/2008	14	423,418	38,290
Actuarial (Gain)/Loss	1/1/2009	15	40,328,815	3,463,236
Actuarial (Gain)/Loss	1/1/2010	16	(953,242)	(78,074)
Asset Method Change	1/1/2011	17	24,812,294	1,945,592
Actuarial (Gain)/Loss	1/1/2011	17	(14,335,385)	(1,124,072)
Actuarial (Gain)/Loss	1/1/2012	18	30,593,434	2,304,359
Assumption Change	1/1/2013	19	5,108,848	370,743
Actuarial (Gain)/Loss	1/1/2013	19	34,757,868	2,522,338
Assumption Change	1/1/2014	10	5,408,436	638,166
Actuarial (Gain)/Loss	1/1/2014	10	(15,278,124)	(1,802,736)
Actuarial (Gain)/Loss	1/1/2015	11	5,537,146	604,615
Actuarial (Gain)/Loss	1/1/2016	12	3,163,026	322,239
Actuarial (Gain)/Loss	1/1/2017	13	(1,426,751)	(136,546)
Actuarial (Gain)/Loss	1/1/2018	14	7,345,046	664,216
Actuarial (Gain)/Loss	1/1/2019	15	8,389,227	720,425
Assumption Changes	1/1/2019	15	1,270,349	109,091
Method Change	7/1/2019	15	323,199	27,755
Actuarial (Gain)/Loss	7/1/2020	16	2,529,790	207,198
Actuarial (Gain)/Loss	7/1/2021	17	11,921,415	934,787
Assumption Change	7/1/2021	17	45,229,822	3,546,579
Actuarial (Gain)/Loss	7/1/2022	18	(6,903,005)	(519,948)
Actuarial Loss/(Gain)	7/1/2023	19	28,522,262	2,069,827
Assumption Change	7/1/2023	19	16,888,117	1,225,551
Actuarial Loss/(Gain)	7/1/2024	20	24,453,852	1,714,270
Plan Change	7/1/2024	9	(1,669,060)	(214,940)
Totals			\$ 270,485,202	\$ 21,136,195

Bases are amortized as an equal percent of payroll each year with total payroll expected to increase 3.0% annually. The July 1, 2024 amortization payment of \$21,136,195 is sufficient to cover the interest on the plan's unfunded liability. Based on the the total payment shown above, the total amount will be fully amortized in approximately 17.1 years.



## Section IV. Risk Discussion

### Risk Measures

Pension plans are complicated financial instruments designed to provide income security for plan participants as they move through their working lives and into retirement. As such they can be subject to many different forces that can put the plan in better or worse positions over time. The primary risk that a plan sponsor incurs from a defined benefit plan is the risk of substantial increases in annual contributions.

The “maturity” level of a plan can indicate the likely sensitivity the plan will have to different events whether positive or negative. Variations in the investment returns are a common source of these types of events or shocks. Other sources might be experience that differs from that assumed, assumption changes or plan changes.

The purpose of this section is to provide the reader with a basic understanding of the fundamentals of pension financing and the associated risks, including implications of the Plan’s funding policy on future plan funding, how future experience may differ from the assumptions used, and the potential volatility of future measurements resulting from these differences.

### Elements of Pension Plan Financing

The following equation lays out the fundamental elements of pension plan financing:

$$\text{Contributions} + \text{Investment Returns} = \text{Benefit Payments} + \text{Expenses}$$

Employers and employees **contribute** to a plan based on the statutory requirements, plan terms, and plan sponsor funding policy. The plan invests these contributions and earns a **return** on that investment. Together, these contributions and investment returns are the sole sources of income to the plan. **Benefits** are paid to participants who have met the eligibility and vesting requirements defined by the plan. Plans also pay administrative, investment, auditing, legal, and other **expenses** for maintaining the plan. **Over time, contributions and investment earnings must equal benefits and expenses.**

From this equation, it is evident that funding, investment, and benefit policies must be developed together. Once the benefit terms are established, each plan sponsor must determine the desired balance of contributions versus investment returns needed to finance benefits accrued to participants. It is important to remember that the plan sponsor’s investment and funding policies, along with the selected actuarial assumptions, determine the assumed balance between contributions and investment returns. **The actual cost of a plan is based on the actual experience of the plan and may result in a different balance than is assumed.** Ultimately, the expected return does not impact the long-term relationship between the contributions required and the benefit level that can be supported by such contributions. Using a higher expected return assumption may give a false sense of benefit security if the plan does not realize that level of actual returns over time.

The development of integrated benefit, funding, and investment policies generally requires consideration of many factors such as:

- Balancing benefit security and intergenerational equity;
- Risk appetite and ability to absorb short-term volatility in plan contributions;
- Current plan funded status;
- Timing and expected duration of benefit payments; and
- Nature and frequency of past and anticipated future plan amendments..

### Significant Risks Affecting Pension Plans

Examples of risk common to most public plans include the following (generally listed from greatest to least risk):

- **Investment risk:** The potential that investment returns will be different than expected.
- **Contribution risk:** the potential that actual future contributions are not made in accordance with the plan's actuarially based funding policy.
- **Longevity and other demographic risks:** The potential that mortality or other demographic experience will be different than expected.
- **Asset/liability mismatch risk:** The potential that changes in the value of liabilities are not matched by changes in asset values.
- **Cash flow risks:** The potential that contributions to the plan will not cover benefit payments and expenses.

Investment risk is often the single most significant risk for defined benefit plans. Plans that seek a higher investment return are typically forced to accept a higher level of volatility that can change the plan's funded status drastically year-to-year. Use of an asset smoothing method that phases in investment gains and losses over a period of years can give the perception of less volatility in the funded status from year to year.

Contribution risk most commonly results from either large contribution increases that are difficult for the plan sponsor to meet, or from a material decrease in the number of covered employees and/or covered payroll.

Assumptions regarding mortality and other demographic factors related to participant behavior bring the risk that future experience will diverge from the reasonable assumptions utilized within the actuarial valuation model. For example, participants living longer than expected will increase plan costs, while people terminating sooner than expected will generally decrease plan costs. Additionally, what is considered a reasonable assumption may change over time and lead to an increase or decrease in future contributions. Actual life expectancies may be longer or shorter than what is reflected in the valuation and benefit payment projections and will increase or decrease the cost of the plan as actual experience emerges.

Asset/liability mismatch risk is also another major risk for many pension plans. To the extent that the duration of plan assets is not matched to the duration of plan liabilities the change in discount rates could have a significant impact on the plan's funded status. For most public pension plans, changes in asset values and interest rates do not directly affect the

measurement of the plan’s liability. Liability-driven investment approaches (where the liability is immunized by investments in fixed income whose cash inflows are matched to the benefit payment outflows, or the asset and liability durations are brought into close alignment) will reduce this risk, however it is difficult to invest in a manner that hedges all risks.

As plans mature, they become more reliant on investment returns to pay benefits and expenses. When plans have negative cash flows, they must spend interest and dividends, or may be forced to sell assets at inopportune times, to meet those obligations. Plans with DROP or other lump sum payment features are particularly exposed to this risk.

One item left off this list is “interest rate risk” (i.e., the potential that interest rates will be different than expected). This risk is common in corporate ERISA plans where funding is based on bond rates. Interest rates on bonds are still an important consideration when setting an expected return assumption and can change over time, along with long-term capital market expectations. Together these may lead to a change in the interest rate used to value plan liabilities which will increase or decrease the measurement of plan liabilities and the actuarially determined contribution.

### Quantifying Investment and Funded Status Risk

Although cash and money market funds have the lowest absolute investment risk, they are typically not the lowest risk investment for a pension plan. With respect to interest rate risk, a pension plan liability behaves like the price of a bond because both equal the discounted value of a series of future cash flows. The present value will change in the opposite direction to a change in interest rates. Therefore, a bond portfolio with the timing of expected income cash flows matched to the expected benefit payment outflows is typically the lowest risk investment approach for a pension plan.

Corporate, Treasury, and municipal bonds, often considered lower risk investment classes, can still have a high level of interest rate risk in their present values. If the duration (timing and pattern of income payments) of the fixed income assets are misaligned with the duration of the plan’s liability, there can be significant funded status volatility as interest rates change. The way to mitigate this volatility is minimizing the asset/liability (or duration) mismatch risk.

One means of quantifying the expected cost of assuming future investment and asset/liability mismatch risk is to compare the Plan’s current assets to a liability calculated assuming very low default risk. One such measure is called a **Low-Default-Risk Obligation Measure (LDROM)**. An example of an LDROM is the Plan’s Funding Liability determined using a discount rate based on the yields on high quality municipal bonds, similar to what is referenced under GASB statement 68.

	Liability Measure	Assumed Return
Actuarial Liability – Funding Policy Return	\$ 990,271,537	7.00%
Actuarial Liability – Municipal Bond Yield (LDROM)	\$ 1,549,724,987	3.77%
Market Value of Assets	\$ 691,098,519	7.00%



The difference between the LDRM and the Actuarial Liability used to determine funding contributions can be viewed in several ways, and certain views of this measure may be more relevant for some plan sponsors:

- The expected long-term contribution savings to be achieved by investing in asset classes with higher expected risk and returns than bonds.
- The cost of investing in an all-bond portfolio and significantly lowering expected long-term investment returns in exchange for protecting the Plan's current funded status.
- A measure of the Plan's non-diversifiable investment risk.

Investors expect to be compensated for assuming risk when they make an investment. The risk premium of an investment is the return an asset is expected to generate in excess of the risk-free rate of return. The more risk assumed by the investor, the greater the return they expect to achieve in exchange for accepting that risk.

For plans whose assumed long-term rate of return on plan assets is greater than the municipal bond yield used for the LDRM calculation, the expected cost to the plan sponsor of funding the plan will be lower because of the greater level of investment risk accepted. This in turn leads to greater volatility in the plan's funded status because the actual return on plan investments is expected to vary considerably year-to-year. Conversely, if a plan has taken steps to reduce asset/liability mismatch risk the expected cost of contributions to fund the plan will be greater (if the plan is not already fully funded) and the volatility in the plan's funded status will be reduced.

Selecting the right level of investment risk (and associated asset/liability mismatch risk) for a plan requires complex analysis that goes beyond the scope of these basic disclosures. Included in any such analysis must be an evaluation of the plan sponsor's funding policy.

### Risk Considerations in Assessing a Funding Policy

When assessing a plan's funding policy, two primary considerations are:

- whether the contributions are determined using reasonable and appropriate actuarial cost, amortization, and asset valuation methods (i.e., is the contribution an Actuarially Determined Contribution (ADC)), and
- the projected period until any Unfunded Actuarial Accrued Liability (UAAL) is fully amortized.

Under the current funding policy, the annual contribution is an ADC. The Plan's UAAL is required to be amortized varying periods ranging up to 20 years, depending on the source of the change, with new layered amortization bases established annually. If the plan is in a surplus position, i.e., the actuarial value of assets exceed AAL, a new single amortization base with a 30-year amortization period is established each year equal to the current year's UAAL.

Assuming all actuarial assumptions are met and contributions are made according to the funding policy, the plan's unfunded liability is expected to decrease in future years. The effect of declining interest rates, investment losses, or other actuarial losses may offset the favorable effect of these contributions and cause the unfunded liability to remain steady or increase in future years.

The second consideration for plan sponsors is the projected period until full funding. Based on the Plan’s amortization policy, if contributions are made as expected based on the current valuation and plan funding policy, and all actuarial assumptions are met, the plan is expected to pay off the UAAL in approximately 20 years. Depending on future actuarial and investment experience, the plan may be projected to reach \$0 in unfunded accrued liability in greater than or fewer than 20 years.

Some examples of changes from year to year that will shorten or lengthen the period until the UAAL is fully amortized include:

⌘

Factors that Shorten the Amortization Period	Factors that Lengthen the Amortization Period
Contributing more than the ADC	Contributing less than the ADC
Investment and demographic gains	Investment and demographic losses
Increasing interest rates	Decreasing interest rates
Shorter life expectancies	Longer life expectancies
Reducing or eliminating future benefit accruals	Increasing benefit accruals (past and/or future)

### Historical Plan Risk and Maturity Measures

While historical plan experience is no guaranteed predictor of the future, it can be informative in assessing the degree of risk and variability in the annual valuation results year-to-year, and in understanding how certain factors influence future outcomes.

There are several plan maturity measures that can be significant to understanding the risks associated with the plan. The following table shows four commonly used measures of the relative riskiness of a pension plan, relative to the plan sponsor and the employee group covered by the plan and how they have changed over time.

Risk Measure	January 1, 2022	January 1, 2023	January 1, 2024
Inactive Liability as a Percent of Total Liability	61%	60%	58%
Assets to Payroll	10.1	8.8	8.9
Liabilities to Payroll	12.7	13.1	12.7
Benefit Payments to Contributions	1.2	1.1	1.1

The Assets to Payroll ratio, also called the Asset Volatility Ratio (AVR), is equal to the Market Value of Assets (MVA) divided by payroll. A higher AVR implies that the plan is exposed to greater contribution volatility. The current AVR of 8.9 indicates that a:

- 1% asset gain/loss can be related to about 8.9% of the annual payroll.

- The County's contribution changes by about 0.6% of payroll for each 1.0% gain or loss on the market assets (the plan currently amortizes asset gains/losses over a period of 20 years)

The Liabilities to Payroll ratio, also call the Liability Volatility Ratio (LVR), is equal to the Actuarial Accrued Liability (AAL) divided by payroll. A higher LVR implies that the plan is exposed to greater contribution volatility due to changes in liability measurements. The current LVR of 12.7 indicates that a:

- 1% liability gain/loss can be related to about 12.7% of the annual payroll.
- The County's contribution changes by about 0.9% of payroll for each 1.0% gain or loss on the AAL (the plan currently amortizes liability gains/losses over a period of 20 years).

As the plan approaches a 100% funded level, the AVR will converge to the LVR.

The use of payroll in these risk measures is an easily available substitute for the employer's revenue and often reflects the employer's ability to afford the plan. Each of these measures is a measure of plan maturity. The common evolution of a pension plan is to become more mature over time. Mature plans present more risk to plan sponsors because changes to the liability or assets will result in large changes in the unfunded liability as compared to the overall size of the employer as measured by payroll. As a result, the change in the metrics over time can be as important as the nominal size of the metric itself.

### Additional Review

In some instances, more detailed quantitative assessment of risks is warranted either by the above maturity metrics, part of a periodic self-assessment of risks, or due to changes in investment allocations and capital market assumptions. When risks are identified and discussed early, Plan Sponsors may have more options available to them to address those risks. As plans mature, however, certain tools become less effective for addressing potential future funding shortfalls.

The following are examples of tests that could be performed:

- **Scenario Test**—A process for assessing the impact of one possible event, or several simultaneously or sequentially occurring possible events, on a plan's financial condition. A scenario test could show, for example, the effect of a layoff or reduction in workforce, or early retirement program.
- **Sensitivity Test**—A process for assessing the impact of a change in an actuarial assumption on an actuarial measurement. A sensitivity analysis could demonstrate, for example, the impact of a decrease in the valuation discount rate or a change in future life expectancies.
- **Stochastic Modeling**—A process for generating numerous potential outcomes by allowing for random variations in one or more inputs over time for the purpose of assessing the distribution of those outcomes. This type of analysis could show, for example, a range of potential future contribution levels and the likelihood of contributions increasing to a certain level.

- **Stress Test**—A process for assessing the impact of adverse changes in one or relatively few factors affecting a plan's financial condition. A stress test could show, for example, the impact of a single year or period of several years with significant investment losses.



## Section V. Assets

### Reconciliation of Assets

Below is a reconciliation of assets (unaudited) from January 1, 2022 through December 31, 2023.

	1/1/2022 to 12/31/2022		1/1/2023 to 12/31/2023	
1. Beginning of Year Assets				
a. Before Adjustment	\$	687,590,575	\$	616,988,780
b. Adjustment		(90,000)		-
c. After Adjustment		687,500,575		616,988,780
2. Receipts				
a. Employer Contributions	\$	37,529,282	\$	35,321,427
b. Employee Contributions		4,257,117		4,592,338
c. Investment Income & Dividends Realized and Unrealized		10,609,364		12,764,525
d. Gain/(Loss)		(80,095,482)		60,323,455
e. Stock Loan Income		54,149		57,778
f. Other		4,908,129		4,251,548
g. Total Receipts	\$	(22,737,441)	\$	117,311,071
3. Deductions				
a. Benefit Payments	\$	44,445,786	\$	43,607,166
b. Administrative Expenses		523,105		539,551
c. Investment Expenses	\$	2,805,463	\$	2,831,942
d. Total Disbursements	\$	47,774,354	\$	46,978,659
4. Net Increase (2.g. + 3.d.)	\$	(70,511,795)	\$	70,332,412
5. Preliminary Ending Value (1. + 4.)	\$	616,988,780	\$	687,321,192
6. Contribution Receivable	\$	3,256,148	\$	3,777,327
7. End of Year Assets	\$	620,244,928	\$	691,098,519
8. Rate of Return Net of Investment Fees (2I / [A + B - I] Method)		(9.8%)		12.1%



## Determination of Investment Gain/(Loss) for Assets

Market Value of Assets	
As of December 31, 2022	\$ 620,244,928

Item (1)	Amount (2)	Weight for Timing (3)	Weighted Amount (2) × (3)
Contributions	\$ 40,434,944	50%	\$ 20,217,472
Benefits Paid	(43,607,166)	50%	(21,803,583)
Expenses	(539,551)	50%	(269,776)
Total			(1,855,887)
Market Value plus Total Weighted Amount			618,389,041
Assumed Rate of Return for the Year			7.00%
Expected Return			\$ 43,287,233

Actual Return	
1. Market Value as of December 31, 2022	\$ 620,244,928
2. Contributions	40,434,944
3. Benefits and Administrative Expenses Paid	(44,146,717)
4. Market Value as of December 31, 2023	691,098,519
5. Actual Return [(4) - (1) - (2) - (3)]	\$ 74,565,364
6. Calculation Base (1) + 50% × [(2) + (3)]	618,389,042
7. Market Value Return as a Percentage [(5) / (6)]	12.1%

Investment Gain/(Loss)	
Actual Return minus Expected Return	\$ 31,278,131



## Development of Actuarial Value of Assets

The actuarial asset value as of January 1, 2024 is determined by spreading the asset gain or loss for each year over a five-year period. The asset gain or loss is the amount by which the actual asset return differs from the expected asset return.

Market Value of Assets	
As of December 31, 2023	\$ 691,098,519

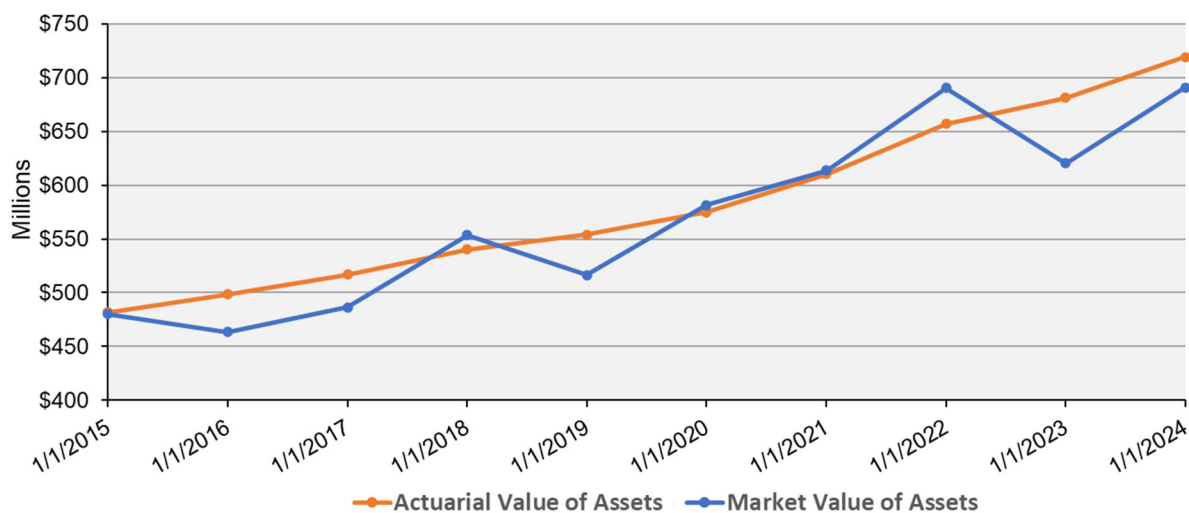
Plan Year End (1)	Investment Gain/(Loss) (2)	Percent Deferred (4)	Deferred Gain/(Loss) (2) × (4)
12/31/2023	31,278,131	80%	\$ 25,022,505
12/31/2022	(115,570,203)	60%	(69,342,122)
12/31/2021	40,332,793	40%	16,133,117
12/31/2020	(807,733)	20%	(161,547)
Total Deferred			\$ (28,348,047)

Preliminary Actuarial Value of Assets	
As of January 1, 2024 (Market Value of Assets less total Deferred Gain/(Loss))	\$ 719,446,566

Final Actuarial Value of Assets	
Minimum Actuarial Value of Assets (50% of MVA)	\$ 345,549,260
Maximum Actuarial Value of Assets (150% of MVA)	1,036,647,779
As a Percentage of Market Value	104.1%
Actuarial Value of Assets as of January 1, 2024	\$ 719,446,566

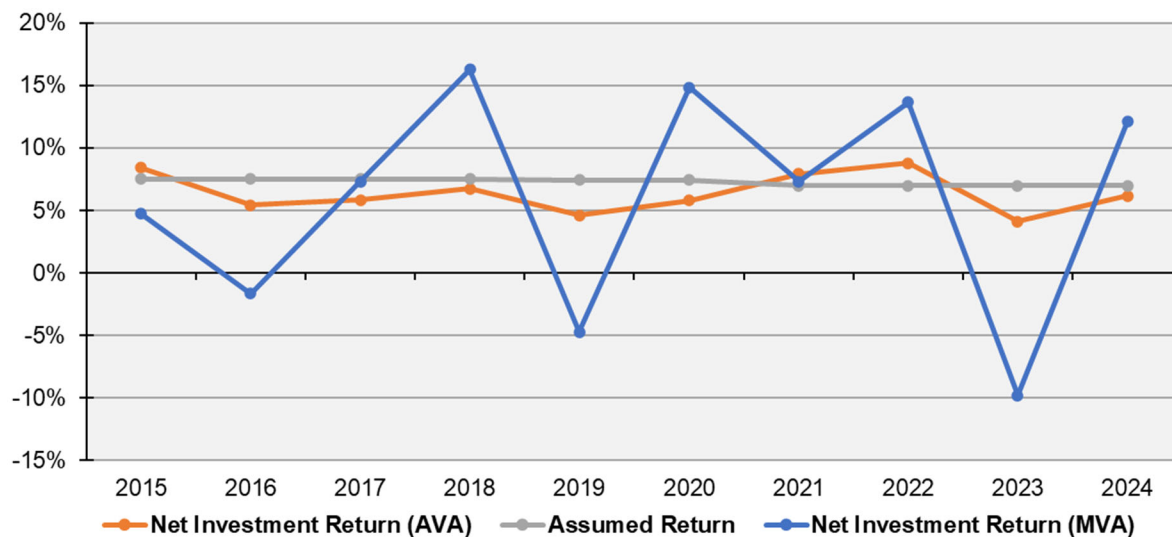
Calculation of Actuarial Return	
1. Actuarial Value as of January 1, 2023	\$ 681,284,581
2. Contributions	40,434,944
3. Benefits and Administrative Expenses Paid	(44,146,717)
4. Actuarial Value as of January 1, 2024	719,446,566
5. Actuarial Return [(4) - (1) - (2) - (3)]	41,873,758
6. Calculation Base (1) + 50% × [(2) + (3)]	679,428,695
7. Actuarial Return as a Percentage [(5) / (6)]	6.2%

## 10-Year: Market Value vs. Actuarial Value of Assets



## 10-Year: Market Value vs. Actuarial Value Rates of Return

The assumed long-term rate of return 7.00% considers past experience, the Trustees' asset allocation policy and future expectations.



Average Rates of Return	MVA	AVA
Most recent year return	12.1%	6.2%
Most recent five-year average return	7.2%	6.5%
Most recent ten-year average return	5.7%	6.4%

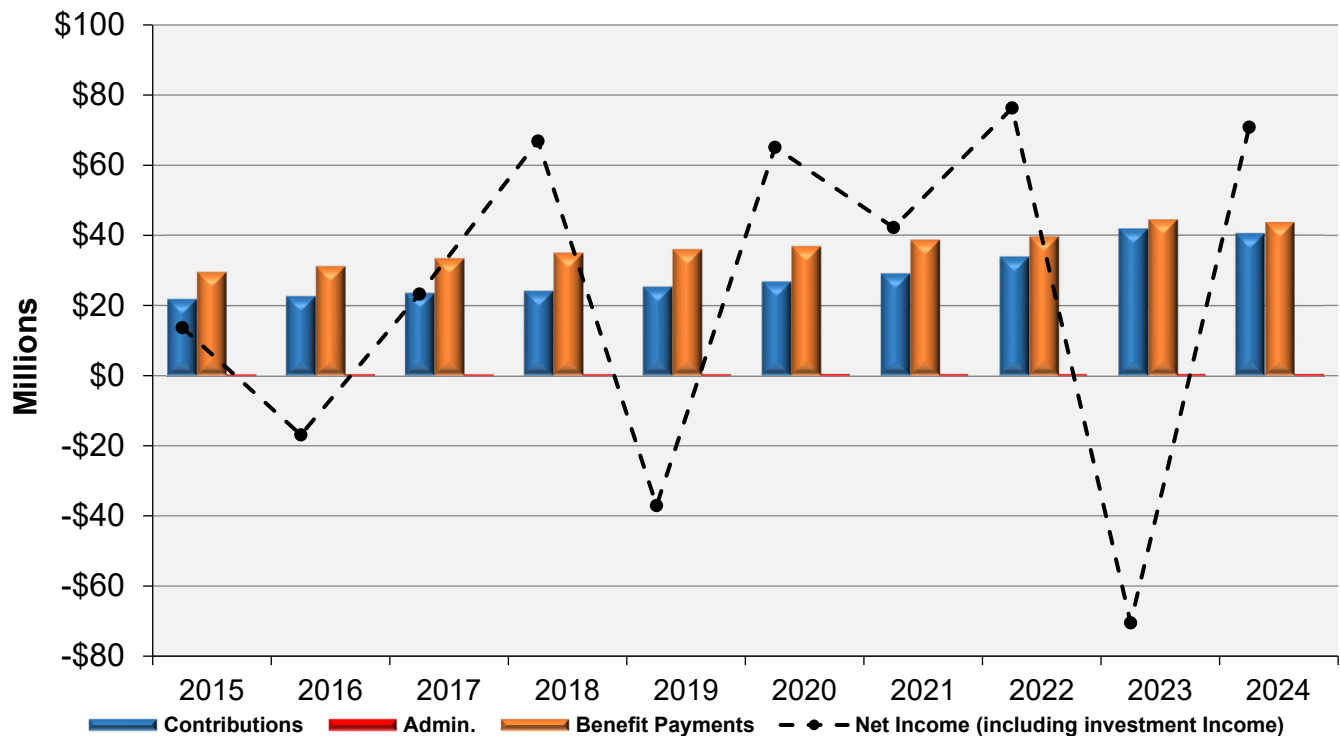




## Summary of Investment Returns & Historical Cash Flows

Plan Year Ending	Market Value Net Investment Return		Total Contributions	Benefit Payments	Admin. Expenses	Net Income
	Amount	Percent				
2015	\$ 21,798,814	4.7%	\$ 21,819,525	\$ 29,507,190	417,781	\$ 13,693,367
2016	(8,001,369)	(1.7%)	22,664,290	31,134,325	423,135	(16,894,539)
2017	33,473,596	7.3%	23,569,347	33,357,089	417,385	23,268,469
2018	78,083,595	16.3%	24,181,140	34,950,315	445,097	66,869,323
2019	(25,971,068)	(4.7%)	25,305,731	35,937,699	464,176	(37,067,212)
2020	75,656,166	14.9%	26,763,091	36,790,519	530,188	65,098,549
2021	52,277,044	7.3%	29,081,501	38,637,477	476,545	42,244,523
2022	82,521,893	13.6%	33,854,092	39,554,994	509,359	76,311,632
2023	(67,329,303)	(9.8%)	41,805,938	44,445,786	523,105	(70,492,256)
2024	74,565,364	12.1%	40,434,944	43,607,166	539,551	70,853,591
Total	\$ 317,074,731		\$ 289,479,598	\$ 367,922,561	\$ 4,746,322	\$ 233,885,446

## Comparison of Net Income versus Historical Cash Flows





## Benefit Payment Projection

The following table shows the estimated benefit payments, including DROP lump sum payments and DROP annuity payments after DROP exit, from January 1, 2024 through December 31, 2033 based on existing members of the plan.

Calendar Year	Benefits
2024	\$ 52,213,492
2025	54,212,060
2026	58,483,508
2027	61,014,449
2028	59,044,745
2029	66,972,893
2030	70,684,429
2031	71,868,528
2032	74,270,417
2033	78,264,132



## Section VI. Participant Information

### Participant Summary

The following table summarizes the counts, ages and benefit information for plan participants used in this valuation.

	1/1/2023	1/1/2024	% Change
1. Actives, not in DROP			
a. Number	680	680	0.0%
b. Average Age	36.8	37.0	0.7%
c. Average Service	10.2	10.5	2.7%
d. Total Compensation	\$ 60,710,400	\$ 66,813,400	10.1%
e. Average Salary	\$ 89,280	\$ 98,255	10.1%
2. Actives, in DROP			
a. Number	78	78	0.0%
b. Average Age	54.0	54.5	0.9%
c. Average Service	27.7	27.8	0.3%
d. Total Compensation	\$ 10,100,195	\$ 10,986,275	8.8%
e. Average Salary	\$ 129,490	\$ 140,850	8.8%
3. Service Retirements, Disabled, and Beneficiaries			
a. Number	817	830	1.6%
b. Average Age	64.6	64.9	0.5%
c. Total Annual Benefit	\$ 40,295,938	\$ 42,487,441	5.4%
d. Average Annual Benefits	\$ 49,322	\$ 51,190	3.8%
4. Refunds Owed			
a. Number	N/A	40 <sup>1</sup>	N/A
b. Total Lump Sum Amount Due	N/A	\$ 554,684	N/A

<sup>1</sup> Members who terminated prior to completing the requirements for a retirement benefit are owed a refund of their contributions. This data was not included prior to the January 1, 2024 valuation.



### Active Age/Service Distribution Including Compensation

Shown below is the distribution of active participants, excluding those currently enrolled in DROP, based on age and service. The compensation shown is the average rate of pay as of January 1, 2024.

Age	Years of Service as of 01/01/2024										Total	
	Under 1	1-4	5-9	10-14	15-19	20-24	25-29	30-34	35-39	40 & Up		
Under 25	16	17	1	-	-	-	-	-	-	-	-	34
	62,478	68,714	69,921	-	-	-	-	-	-	-	-	65,815
25 to 29	13	89	23	-	-	-	-	-	-	-	-	125
	68,395	73,163	81,886	-	-	-	-	-	-	-	-	74,272
30 to 34	5	44	76	24	1	-	-	-	-	-	-	150
	72,934	75,045	88,068	97,364	105,071	-	-	-	-	-	-	85,344
35 to 39	-	29	25	55	38	-	-	-	-	-	-	147
	-	74,914	92,199	102,676	118,601	-	-	-	-	-	-	99,534
40 to 44	-	6	13	18	54	6	-	-	-	-	-	97
	-	71,811	89,939	110,665	129,201	135,147	-	-	-	-	-	117,317
45 to 49	-	4	3	4	20	25	8	-	-	-	-	64
	-	82,276	98,124	102,468	131,047	143,716	153,395	-	-	-	-	132,412
50 to 54	-	3	4	2	9	9	15	-	-	-	-	42
	-	82,190	95,621	122,690	131,058	137,151	142,788	-	-	-	-	129,289
55 to 59	1	2	1	2	-	2	6	2	-	-	-	16
	75,627	85,107	79,408	103,417	-	125,757	133,947	151,394	-	-	-	118,129
60 to 64	-	-	-	1	2	1	-	-	-	-	-	4
	-	-	-	125,757	125,757	125,757	-	-	-	-	-	125,757
65 to 69	-	-	-	-	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-	-	-	-	-
70 & up	-	-	-	-	-	-	-	-	-	-	1	1
	-	-	-	-	-	-	-	-	-	-	181,141	181,141
Total	35	194	146	106	124	43	29	2	-	-	1	680
	66,545	73,870	88,198	103,432	126,135	139,893	143,885	151,394	-	-	181,141	98,255

Averages	
Age	37.0
Service	10.5



## Participant Reconciliation

Shown below is the reconciliation of participants between the prior and current valuation date.

	Active Participants	DROP	Inactive Participants			Total
			With Deferred Benefits	Refunds Owed	Receiving Benefits	
Participants in Last Valuation	680	78	0	0	817	1575
Retired	(6)	(9)	0	0	15	0
Disabled	(3)	0	0	0	3	0
Vested Termination	0	0	0	0	0	0
Nonvested Termination	(17)	0	0	7	0	(10)
Deceased/Payment Expired	0	0	0	0	(47)	(47)
Beneficiary	0	0	0	0	12	12
New QDRO	0	0	0	0	30	30
Transfer In From:						
Police Plan	0	0	0	0	0	0
Employee Plan	0	0	0	0	0	0
Detention Plan	0	0	0	0	0	0
Transfer Out To:						
Police Plan	0	0	0	0	0	0
Employee Plan	0	0	0	0	0	0
Detention Plan	0	0	0	0	0	0
Rehired	2	(1)	0	0	0	1
New Participants	34	0	0	26	0	60
Entered DROP	(10)	10	0	0	0	0
Adjustments	<u>0</u>	<u>0</u>	<u>0</u>	<u>7</u>	<u>0</u>	<u>7</u>
Participants in This Valuation	680	78	0	40 <sup>1</sup>	830	1628

<sup>1</sup> Members who terminated prior to completing the requirements for a retirement benefit are owed a refund of their contributions. This data was not included prior to the January 1, 2024 valuation.

Note: There are 45 Alternate Payees receiving benefits as of January 1, 2024.



## Section VII. Summary of Plan Provisions

### Plan Year

January 1 – December 31.

### Compensation

Regular annual rate of pay, exclusive of extra compensation of any kind such as overtime pay, bonuses, and commissions.

### Final Average Basic Pay

The average of the highest 3 years of annual basic pay.

### Employee Contributions

7.25% of compensation for all employees.

### Employee Contributions Benefit

The sum of the employee contributions made by the Participant and interest, including contributions made to other plans and transferred to this plan, as allowed by plan provisions.

### Years of Service

Total number of years and nearest months.

### Normal Retirement

#### Eligibility

For those hired prior to February 25, 2002: 20 years of service or age 50. For those hired on or after February 25, 2002: 20 years of service, or age 50 with 5 years of service.

#### Benefit

2 ½% of final average basic pay for each year of service up to 20 years plus 2% of final average basic pay for each year of service after 20 years (maximum 70% plus 2% times unused disability credit and pre-employment military service credit).

### DROP

Allows accumulation of pension after 20 years of County service. DROP period must be between three and seven years. Interest shall be credited to the DROP account on a monthly basis at an interest rate of 0.34745%, which provides an effective annual yield of 4.25%. Employee contributions cease upon entry into DROP.

### Termination Prior to Retirement

At less than 20 years of service, return of employee contributions with 3% interest.

### Disability Benefit

Must be totally and permanently disabled (except as the result of activities specified in the County code) regardless of length of service.

#### Line of Duty Disability

The greater of the accrued benefit or 66 2/3% of final average basic pay, payable immediately, unreduced.



#### Non-Line of Duty Disability

The greater of the accrued benefit or 20% of final average basic pay, payable immediately, unreduced.

#### Pre-Retirement Death Benefits

Pre-Retirement Death Benefit (Line of duty)

##### *Married*

Greater of accrued benefit or 66 2/3% of final average basic pay, payable immediately, unreduced.

##### *Not Married*

Other Pre-Retirement Death Benefit

Pre-Retirement Death Benefit (Non-line of duty)

##### *Married*

Accrued benefit, payable immediately, unreduced.

##### *Not Married*

Other Pre-Retirement Death Benefit

#### Other Pre-Retirement Death Benefits

Return of employee contributions with 3% interest, plus, if the member has one or more years of credited service, a lump sum equal to 50% of final average basic pay.

#### Normal Form of Benefit

For single participants, monthly life annuity with payments guaranteed for 5 years.

For married participants, unreduced 100% Joint & Survivor Annuity with payments guaranteed for 5 years.

The marital status of a participant at the date of death dictates the form of benefit payable.

#### Post-Retirement Cost of Living Increases

For Benefits Accrued as of 1/31/1997

Retiree benefits are adjusted each year. The revised benefit amount is the lesser of:

- Base benefit multiplied by ratio of current 12 month average CPI to 12 month average CPI at retirement.
- Prior year benefit increased by 4%.

For Benefits Accrued After 1/31/1997

Retiree benefits are adjusted each year. The revised benefit amount is the lesser of:

- Prior year benefit multiplied by 60% of the increase in the current March CPI from March CPI for prior year, or
- Prior year benefit increased by 2.5%.

#### Changes Since Prior Valuation

The plan was amended to increase the maximum amount of time a participant is allowed to be in DROP from six years to seven.

## Section VIII. Actuarial Methods and Assumptions

### Funding Method

Entry Age Normal Funding Method. A method under which the actuarial present value of the projected benefits of each individual included in an actuarial valuation is allocated on a level basis over the earnings of the individual between entry age and assumed exit (or DROP entry, if applicable and earlier).

### Amortization Policy

The unfunded actuarial accrued liability (UAAL) is amortized as a level percentage of payroll over the following closed periods:

- Gains and losses over 20 years
- Assumption changes over 20 years
- Active plan amendments over the lesser of 15 years and the average expected future service period for participants impacted by the plan amendment
- Inactive plan amendments over the lesser of 10 years and the average life expectancy for participants impacted by the plan amendment
- Early retirement incentives over 5 years or less
- Surplus, when reached, over 30 years (open)

Different amortization periods were utilized prior to 1/1/2014.

Amortization payments increase 3.0% per year.

### Asset Method

Asset smoothing method which spreads the investment gains or losses in excess of the assumed return over a five-year period. The Actuarial Value of Assets can be no less than 50% of market value of assets and no more than 150% of market value of assets.

### Discount Rate and Investment Rate of Return

7.00% compounded annually, net of investment expenses.

### Inflation

3.0%, compounded annually.

### Post-Retirement COLA Increases

Benefits accrued before Bill 88-96 are assumed to increase by 3.0% of the original benefit each year from retirement.

Benefits accrued after Bill 88-96 are assumed to increase by 1.8% of the current benefit each year from retirement.





### Salary Increases

Samples rates are:

Years of Service	Rate
0	7.25%
5	7.00%
10	6.50%
15	6.00%
20	5.00%
>=25	4.00%

### Payroll Growth

3.0%, compounded annually.

### Mortality

Healthy Actives, Terminated Vested Participants, and Retirees

Pub-2010 Safety Employee and Healthy Retiree Amount-Weighted Mortality Tables, with 2010 base rates set forward 2 years, and projected generationally from the 2010 base year with improvement scale MP-2021.

Disabled Retirees

Pub-2010 Safety Disabled Retiree Amount-Weighted Mortality Tables, with 2010 base rates set forward 2 years, and projected generationally from the 2010 base year with improvement scale MP-2021.

Contingent/Beneficiaries

Pub-2010 Contingent Survivor Amount-Weighted Mortality Tables, with 2010 base rates set forward 2 years, and projected generationally from the 2010 base year with improvement scale MP-2021.

100% of pre-retirement deaths are assumed to be non-duty related.

The mortality improvement scale is the scale most recently published by the Society of Actuaries as of the valuation date and may change in future actuarial valuations.

### Retirement (Reflects DROP Entry)

Age	Years of Service						
	5-20	20	21-22	23-24	25	26-31	32+
<50	N/A	35%	10%	25%	35%	30%	100%
51-59	10%	35%	10%	25%	35%	30%	100%
60+	100%	100%	100%	100%	100%	100%	100%

Members Participating in DROP on the Valuation Date

Members are assumed to exit DROP upon the later of (1) four years from their DROP entry date and (2) the valuation date.



### DROP Election Rate

75% of eligible participants who are under age 57 and have less than 30 years of service are assumed to elect to enter DROP.

### Termination of Employment

Service	Rate	Service	Rate
0	10.00%	8	2.00%
1	6.00%	9	1.00%
2	6.00%	10	1.00%
3	6.00%	11	0.50%
4	6.00%	12	0.50%
5	4.00%	13	0.50%
6	4.00%	14	0.50%
7	3.00%	15+	0.00%

### Disability

Sample rates are:

Age	Rate
30	0.3366%
35	0.4979%
40	1.0274%
45	1.7181%
50	2.5281%
55	0.0000%

75% of disablements are assumed to be duty-related.

### Marriage

It is assumed that 70% of employees and 70% of current retired and disabled members are married. Husbands are assumed to be 4 years older than wives.

### Special service credit assumptions

#### Disability Leave

Active liabilities (which depend on credited service) are loaded by 1.75% to account for future crediting of disability service.

#### Military Service

Active liabilities (which depend on credited service) are loaded by 3.25% to account for future crediting of military service.

#### Transferred Service

Transferred service is included in the calculation of a participant's benefit starting at the time the service is originally transferred to the County.



### Administrative Expenses

A load for estimated administrative expenses is included in the Actuarially Determined Contribution. Expenses are assumed to be the average of the administrative expenses for the prior two years increased with the assumed payroll growth, with the resulting average rounded to the nearest \$1,000.

### CIGNA Benefit

Our calculations and the data exhibits reflect that some benefits have already been purchased.

### Rationale for Assumptions

The following assumptions are deemed to have a significant effect on the calculations and were selected by the County based on the most recent Experience Study dated November 14, 2022.

- Inflation
- Salary increases
- Payroll growth
- Mortality
- Retirement
- Disability
- Termination of employment
- Marriage

The discount rate/investment rate of return is reviewed at least once annually following the same procedures as outlined in the Experience Study.

Anything not specifically noted is deemed to be not significant.

The various actuarial assumptions and methods which have been used are, in our opinion, appropriate for the purposes of this report.

### Changes Since Prior Valuation

None.



# Appendix 1

## Summary of Funding Progress

	(1)	(2)	(3)	(4)	(5)	(6)
				Unfunded Actuarial Liability		Unfunded Actuarial Liability as a Percentage of Covered Payroll
Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability	Percentage Funded (1) / (2)	(2) - (1)	Annual Covered Payroll	(4) / (5)
1/1/2014	\$452,075,806	\$576,387,838	78.4%	\$124,312,032	\$41,714,302	298.0%
1/1/2015	\$481,633,710	\$613,617,013	78.5%	\$131,983,303	\$48,261,635	273.5%
1/1/2016	\$498,491,072	\$635,017,447	78.5%	\$136,526,375	\$48,116,765	283.7%
1/1/2017	\$517,010,262	\$652,697,719	79.2%	\$135,687,457	\$50,560,385	268.4%
1/1/2018	\$540,292,184	\$684,386,917	78.9%	\$144,094,733	\$51,758,654	278.4%
1/1/2019	\$553,866,524	\$708,370,001	78.2%	\$154,503,477	\$55,101,812	280.4%
1/1/2020	\$575,083,049	\$731,651,009	78.6%	\$156,567,960	\$61,345,095	255.2%
1/1/2021	\$610,249,155	\$823,096,352	74.1%	\$212,847,197	\$67,888,039	313.5%
1/1/2022	\$657,356,435	\$865,499,619	76.0%	\$208,143,184	\$68,149,222	305.4%
1/1/2023	\$681,284,581	\$930,901,047	73.2%	\$249,616,466	\$70,810,497	352.5%
1/1/2024	\$719,446,566	\$990,271,537	72.7%	\$270,824,971	\$77,799,574	348.1%

Analysis of the dollar amounts of net assets available for benefits, actuarial accrued liability, and unfunded actuarial accrued liability in isolation can be misleading. Expressing the net assets available for benefits as a percentage of the actuarial accrued liability provides one indication of funding status on a going-concern basis. Analysis of this percentage over time indicates whether the plan is becoming financially stronger or weaker. Generally, the greater this percentage, the stronger the plan. Trends in unfunded actuarial accrued liability and annual covered payroll are both affected by inflation. Expressing the unfunded actuarial accrued liability as a percentage of annual covered payroll approximately adjusts for the effects of inflation and aids analysis of Anne Arundel County's progress made in accumulating sufficient assets to pay benefits when due. Generally, the smaller this percentage, the stronger the plan.

## Appendix 2 – Glossary

### Actuarial Accrued Liability (AAL)

The difference between the Present Value of Future Benefits and the Present Value of Future Normal Costs or the portion of the present value of future benefits allocated to service before the valuation date in accordance with the actuarial cost method. Represents the present value of benefits expected to be paid from the plan in the future allocated to service prior to the date of the measurement.

### Actuarial Assumptions

Estimates or projections of future plan experience such as investment return, expected lifetimes and the likelihood of receiving a pension from the pension plan. Demographic, or “people” assumptions include rates of mortality, retirement and separation. Economic, or “money” assumptions, include expected investment return, inflation and salary increases. Assumptions of a long-term nature are representative of average expectations (i.e., they will not be exactly realized in every year, however over an extended period are a reasonable projection of future outcomes).

### Actuarial Cost Method

A procedure for allocating the Present Value of Future Benefits into the Present Value of Future Normal Costs and the Actuarial Accrued Liability. Also known as the “funding method”.

### Actuarial Value of Assets (AVA)

The value of the assets as of a given date, used by the actuary for valuation purposes. The AVA may be the market or fair value of plan assets or a smoothed value in order to reduce the year-to-year volatility of calculated results, such as the funded ratio and the actuarially determined contribution (ADC).

### Actuarial or Experience Gain/Loss

A measure of the difference between actual experience and experience anticipated by a set of Actuarial Assumptions during the period between two actuarial valuation dates, in accordance with the actuarial cost method being used. Such gains or losses are not actual economic gains or losses immediately incurred by a plan, as experience in future years could offset the effect of experience in a single year due to the typically long-term average nature of actuarial assumptions.

### Actuarially Determined Contribution (ADC)

The employer’s periodic determined contribution to a pension plan, calculated in accordance with the assumptions and methods used by the plan actuary.

### Amortization Method

A procedure for payment of the Unfunded Actuarial Accrued Liability (UAAL) by means of periodic contributions of interest and principal. The components of the amortization payment for the UAAL includes the amortization period length, amortization payment increase (level dollar or level percentage of pay), and amortization type (closed or open).

### Funded Ratio

The actuarial value of assets expressed as a percentage of the plan’s actuarial accrued liability.

### Low-Default-Risk Obligation Measure (LDRM)

The present value of benefits accrued at the valuation date using actuarial assumptions that are generally the same as those used in determining the plan's funding liability, with the discount rate changed to reflect the expected return on a low-default-risk investment portfolio. For plans using a funding method that does not quantify gains and losses annually (but rather spreads them over future years through the changes in the normal cost), the actuarial cost method is also changed to reflect a different pattern of allocating costs to historical periods than is used to determine the ADC.

### Market Value of Assets (MVA)

The value of the assets as of a given date held in the trust available to pay for benefits of the pension plan.

### Normal Cost

That portion of the Present Value of Future Benefits and expenses which is allocated to a valuation year by the Actuarial Cost Method.

### Present Value of Future Benefits (PVFB)

The present value of amounts which are expected to be paid at various future times to active members, retired members, beneficiaries receiving benefits, and inactive, non-retired members entitled to either a refund or a future retirement benefit. Expressed another way, it is the value that would have to be invested on the valuation date so that the amount invested plus investment earnings would provide sufficient assets to pay all projected benefits and expenses when due.

### Present Value of Future Normal Cost (PVFNC)

The portion of the Present Value of Future Benefits (PVFB) allocated to future service.

### Unfunded Actuarial Accrued Liabilities (UAAL)

The difference between the Actuarial Accrued Liability (AAL) and the Actuarial Value of Assets (AVA).



## Appendix 3 – Summary of Major Legislative Changes

### County Council Bill No. 48-89

Effective 9/13/1989.

The previously combined Police and Fire plan was separated into distinct plans for each group. The reduction for retirement prior to age 50 was changed to 0.2% per month from 0.3% per month.

### County Council Bill No. 34-92

Effective 6/1/1992 through 8/31/1992.

Participants age 50 or with at least 20 years of service could elect to retire with an additional pension equal to 1/12 of 2.5% of final earnings for the first 20 years of service, plus 1/12 of 2% of final earnings for each additional year of service. The additional amount could be taken as a pension increase, a lump sum, or as a temporary supplement to age 62. Appropriate actuarial adjustments apply.

### County Council Bill No. 66-92

Effective 7/2/1992.

The plan was amended to allow normal, unreduced retirement after 20 years of service. Employee contributions were increased to 6% from 5%. Participants under age 50 were not allowed to retire and receive retirement incentives (under Bill No. 34-92) in addition to unreduced retirement. They could either retire early with the incentives, or normally without the incentives.

### State House Bill No. 687

Effective 7/1/1990.

County employees were given the opportunity to apply for credit under the County's plan for previous service with the State of Maryland (or a political subdivision of the State).

### County Council Bill 88-96

Effective 12/4/1996.

The previous method of calculating cost of living increases will only apply to benefits accrued as of 1/31/1997. The cost of living increase for future benefits is a compound increase equal to 60% of the annual change in the CPI, not to exceed 2.5%. Employees hired, or rehired, on or after 12/4/1996 will be Tier Two employees and will have different benefits than current employees.

### County Council Bill No. 80-00/ Recodification

Effective 2/25/2002.

Allows a benefit based on disability leave service and pre-plan military service to be paid over the 70% cap. Normal Retirement was changed to the earlier of 20 years of service or age 50 with 5 years of service. Elimination of Tier 2 benefits implemented a Deferred Retirement Option Program (DROP), a voluntary program that provides an alternative way to earn and receive retirement benefits.



**County Council Bill 66-05**  
Effective 10/10/2005.

Reduced the contribution percentage for Category II participants from 6% to 5%.

**County Council Bill 58-07**  
Effective 10/11/2007.

Reduced the contribution percentage for Category I participants from 6% to 5%.

**County Council Bill 74-09**  
Effective 12/11/2009.

For non-represented members, FY2010 annual pay shall be determined by increasing FY2009 annual pay by an assumed 3% for determining the average basic pay. Clarified the limits on those entering DROP. The effective annual interest rate for the DROP account changed from 8% to 4.25% for those entering DROP on or after July 1, 2009.

**County Council Bill 6-10**  
Effective 4/18/2010.

Provides for a disability benefit for those participants who are totally and permanently disabled as a result of qualified military service.

**County Council Bill 41-10**  
Effective 7/1/2010.

Increased the contribution rate for Police Officers, Police Officer First Class, Police Corporals, and Police Sergeants to 7.25%.

**County Council Bill No. 30-12**  
Effective 2/1/2013.

All participants except for those in the Police Lieutenant classification shall contribute 7.25% of his or her annual basic pay in each calendar year or portion of a calendar year while an active participant is in the plan.

**County Council Bill No. 67-12**  
Effective 2/1/2013.

Participants in the Police Lieutenant classification shall contribute 7.25% of his or her annual basic pay in each calendar year or portion of a calendar year while an active participant in the plan.





### County Council Bill No. 56-16

Effective 7/1/2016.

Allows for interest to be credited to a DROP member's account in the sixth year of DROP participation. Requires Appointing Authority approval for DROP participation in 6<sup>th</sup> year for the following classifications: Police Sergeant, Police Lieutenant, Police Captain, Police Major, Deputy Chief or Police Chief.

### County Council Bill No. 78-17

Effective 7/1/2017.

Eliminates the reduction in benefit for DROP retirees if they are reemployed in any capacity that meets the exceptions set forth in 5-1-203(c)(1). Also adds an exception under 5-1-203(c) for any retirees (including DROP participants) who are reemployed into a grant funded contractual position under 802(a)(17) of the Charter.

### County Council Bill No. 55-20

Effective 11/09/2020.

The legislation permits Police Lieutenants and Sergeants to participate in the sixth year of DROP without requiring Appointing Authority approval.

### County Council Bill No. 70-20

Effective 11/22/2020.

Each of the pension plans provide pension benefits for an employee who is or becomes totally and permanently disabled and meets certain criteria. To be eligible for a disability pension, the plan requires that the disability prevent the participant from performing the duties of the participant's regular duties. The purpose of the bill is to eliminate the participant's ability to perform any other assignment within their Department as a disqualifying factor for a service connected disability.

### County Council Bill No. 100-21

Effective 02/05/2022.

Clarified that the exception to the reduction in pension benefit for rehired classified employees who are reemployed in a contractual position pursuant to § 802(a)(14) of the County Charter is limited to the first 1500 hours per calendar year.

### County Council Bill No. 27-22

Effective 05/29/2022.

Allows modification of an election of contingent annuitant for participants who designated same sex partner prior to 01/01/2013 and subsequently married the contingent annuitant after change in Maryland law regarding same sex marriage.



### County Council Bill No. 58-23

Effective 09/11/2023.

Extends the DROP participation period for a seventh year for participants in the Police plan. Allows DROP participants who exit DROP prior to their initial DROP term to pay contributions missed during their DROP participation period (i) through an offset to their monthly pension benefit until the full amount of missed contributions is paid; (ii) through payroll deductions for a period of up to three years; or (iii) in a lump sum at the time of DROP exit or retirement, whichever is later. Participants who receive disability retirement during their DROP participation period will have the option to pay missed contributions (i) through an offset to their monthly pension benefit until the full amount of missed contributions is paid; or (ii) in a lump sum at the time of retirement.

### County Council Bill No. 67-23

Effective 12/08/2023.

Adds position of Assistant Police Chief to list of Police plan participants.