

# Popular Annual Financial Report

For the Fiscal Year Ended June 30, 2013

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## **Employees' Retirement System**

The Maryland-National Capital Park and Planning Commission

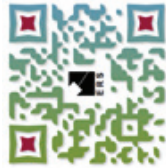


# Popular Annual Financial Report

For the Fiscal Year Ended June 30, 2013

## Introduction

This Popular Annual Financial Report (PAFR) summarizes the Maryland-National Capital Park and Planning Commission Employees' Retirement System's (ERS) more detailed 2013 Comprehensive Annual Financial Report (CAFR) which is prepared in conformity with generally accepted accounting principles. The CAFR provides in-depth information about the financial, investment and actuarial aspects of the ERS. Copies of the PAFR and CAFR are available at the ERS Office and on our website at <http://ers.mncppc.org> or use your smartphone and SCAN HERE



## About the Employees' Retirement System

The ERS covers employees of the Maryland-National Capital Park and Planning Commission ("Commission"). The ERS was established in 1972 as a single employer defined benefit pension plan. Today, the ERS consists of five defined benefit pension plans: Plan A, the original plan; Plan B, for non-police, integrated with Social Security; Plans C and D, for park police; and, Plan E, for non-police and appointed officials hired on or after January 1, 2013.

The Board of Trustees ("Board") administers the ERS in accordance with the Trust Agreement between the Board and the Commission. The Board's main responsibility is to administer the ERS for the sole benefit of the members and to ensure payment of the promised benefits.

The administrative operations of the ERS are the responsibility of the Administrator and the Staff who are employed by the Board.

## Table of Contents

Message from the Chairman	2
Awards	3
Mission, Core Values and Member Services & Resources	4
Membership and Benefits	5
Investment Policy and Asset Allocation	6
Investment Manager Matrix	7
Portfolio Performance	8
Actuarial Summary	9
Financial Summary	10
Summary Statements of Net Position	11
Summary Statements of Changes in Net Position	11

## **BOARD OF TRUSTEES**



**Elizabeth M. Hewlett, Chairman**

Prince George's County Commissioner  
Term expires: 6/30/2016

**Casey Anderson, Vice Chairman**

Montgomery County Commissioner  
Term expires: 6/30/2014

**Khalid Afzal**

Montgomery County Open Trustee  
Term expires: 6/30/2015

**Patricia Colihan Barney**

Executive Director  
Ex-Officio

**Richard H. Bucher, Ph.D.**

Prince George's County Public Member  
Term expires: 6/30/2014

**LaKisha Giles**

Prince George's County Open Trustee  
Term expires: 6/30/2015

**Josh Ardison**

MCGEO Represented Trustee  
Term expired: 6/30/2016

**Tracy Lieberman**

FOP Represented Trustee  
Term expires: 6/30/2016

**Elton F. King**

Montgomery County Public Member  
Term expires: 6/30/2014

**Barbara Walsh**

Bi-County Open Trustee  
Term expires: 6/30/2014

**Joseph C. Zimmerman, CPA**

Secretary-Treasurer  
Ex-Officio

## Message from the Chairman

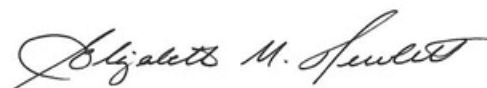
On behalf of the Board of Trustees of the Maryland-National Capital Park and Planning Commission Employees' Retirement System ("Board"), I am pleased to present the *2013 Popular Annual Financial Report*. I am proud of the responsible engagement and prudent actions taken by the Board to achieve long-term growth in our continued challenging economic environment.

The focus for FY2013 centered on implementation of the revised asset allocation policy approved in March 2012. The restructuring included new investments in global fixed income, private equity, public real assets, and private real assets and elimination of the long duration fixed income mandate. The majority of investments were funded in the first half of the fiscal year, with the exception of the private investments which will be funded gradually over time. These changes position the portfolio for enhanced returns and decreased volatility over the long-term.

While the current 7.5% investment return assumption is reasonable given the recent revised asset allocation, the Board believed careful analysis was necessary in light of the recent 5-year trend across public plans to reduce the assumption. As a result, the Board initiated an analysis of the investment return assumption with its advisors, Boomershine Consulting Group and Wilshire Associates. The Board agreed that a gradual reduction over a 5-year period was a prudent, conservative approach for the long-term health of the ERS. The July 1, 2013 actuarial valuation will assume a slight reduction to a 7.4% investment return assumption and an annual review will occur to make incremental adjustments, as necessary.

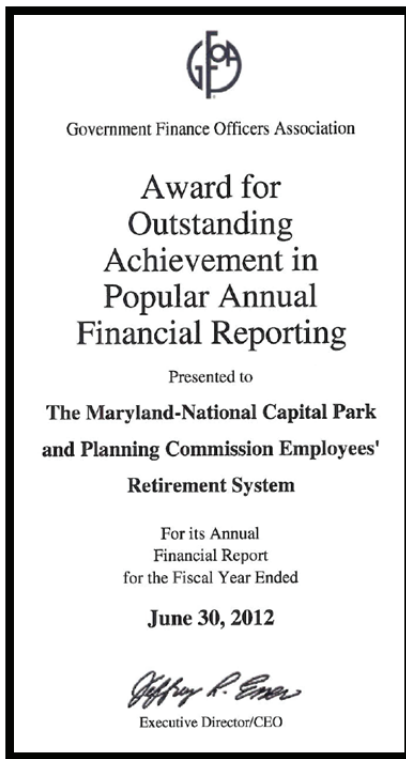
As FY2014 is underway, the Board is closely evaluating the implications of a rising interest rate environment and considering options available to improve the return/risk profile for the fixed income portfolio by diversifying the risk and protecting against potential interest rate increases. I thank the Board members, staff and consultants who have worked tirelessly on your behalf to recognize trends, monitor investments and consider opportunities for growth and protection of the assets.

Kind regards,



Elizabeth M. Hewlett  
Chairman, Board of Trustees

## Awards



The Government Finance Officers Association (GFOA) of the United States and Canada has given an **Award for Outstanding Achievement in Popular Annual Financial Reporting** to the Employees' Retirement System (ERS) for its Popular Annual Financial Report (PAFR) for the fiscal year ended June 30, 2012. The Award is a prestigious national award, recognizing conformance with the highest standards for preparation of state and local government popular reports.

In order to receive an Award, a government unit must publish a PAFR, whose contents conform to program standards of creativity, presentation, understandability and reader appeal.

This is the third year the ERS applied for and received the Award.

\* \* \*

The ERS' Comprehensive Annual Financial Report (CAFR) for the year ended June 30, 2012, was awarded the **Certificate of Achievement for Excellence in Financial Reporting** by GFOA. The Certificate of Achievement is the highest form of recognition for excellence in state and local government financial reporting.

In order to be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized CAFR, whose contents conform to program standards. Such CAFR must satisfy both generally accepted accounting principles and applicable legal requirements.

The ERS has received the Certificate of Achievement each time a CAFR was submitted to GFOA for consideration (2008-2012 and previously from 1992-2000). While the ERS is not required to prepare a CAFR, management considers it a "best practice" and plans to annually prepare a CAFR for consideration by GFOA.

## ERS STAFF



**Andrea L. Rose**  
Administrator

**Heather D. Brown**  
Senior Administrative Specialist

### Member Relations

**Antonia L. Lanier**  
Member Relations Manager

**Lisa D. Butler**  
Senior Retirement Benefits Analyst

**Angela Griggs-Montero**  
Member Relations Assistant

### Technical Services

**Sheila S. Joynes**  
Accounting Manager

**Ann L. McCosby**  
IT Systems Manager

**Edward D. Sarkar**  
IT Manager

## Mission

The Mission of the Maryland-National Capital Park and Planning Commission Employees' Retirement System (ERS) is to prudently manage, protect, diversify, and administer the funds for the sole benefit of the members and beneficiaries to ensure sufficient assets are available to pay the promised benefits.

## Core Values

- Quality Customer Service
- Accountability and Transparency
- Professionalism and Respect
- Trustworthiness and Stewardship

## Member Services & Resources

The ERS has a comprehensive membership education program that is offered to all members and their significant others which includes, **Onsite Workshops** and **One-on-One Counseling Sessions**. Onsite Workshops are tailored to the needs and requests of each work location.

The ERS' robust communication efforts include **Annual Benefit Statements** that project benefits at normal retirement; a **Popular Annual Financial Report**, which contains a summary of key financial, investment and actuarial information; a **Summary Plan Description**, which describes the provisions and benefits of the ERS; and articles in **LifeTimes** which are published monthly in the Commission's *Update* Newsletter.

The ERS' website, <http://ers.mncppc.org>, contains valuable information for active and retired members. Forms and publications are available to download.

The Member Relations Team is available via email or by phone to answer your retirement related questions. Please consider making an appointment to discuss benefits in person at the ERS Office.

## Membership and Benefits

As of July 1, 2012 Actuarial Valuation

Membership		Active Members	
Active employees	2,052	Average Age	47.32
Retirees and Beneficiaries	1,176	Average Service	12.63
Vested Members	224	Average Annual Salary	\$64,027
<b>Total Membership</b>	<b>3,452</b>	Members Eligible for Normal Retirement within the Next 5 Years	658

The ERS is a defined benefit pension plan. That means the retirement benefit paid is a guaranteed benefit, based on a definite formula. It does not depend on employee contributions made to the ERS, nor the amount of investment income the ERS has earned. The ERS provides normal and early retirement benefits, spouse and children survivor benefits, ordinary death benefits, and post-retirement death benefits for members of the ERS.

### Average Benefit Payments

The chart below shows the average monthly benefit payment, the average final salary, and the average years of service for retirees and survivors.

Years of Credited Service	0 - 5	6 - 10	11 - 15	16 - 20	21 - 25	26 - 30	>30	Total
Number of Retirees and Survivors	45	137	129	166	231	250	218	1,176
Average Monthly Benefit	\$464	\$701	\$1,035	\$1,615	\$2,612	\$3,405	\$4,450	\$2,508
Average Final Salary	\$38,126	\$45,665	\$46,972	\$54,389	\$64,336	\$65,415	\$71,397	\$59,131
Average Years of Service	3.6	8.2	13.0	18.1	23.1	28.7	33.6	21.9

## Investment Policy & Asset Allocation

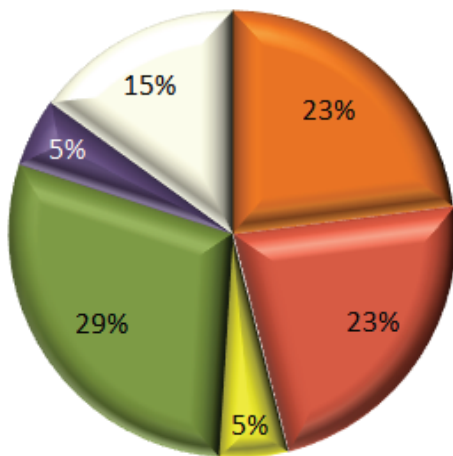
The Statement of Investment Policy outlines the ERS' portfolio's long-term objectives and investment diversification. A portfolio should be diversified at two levels: between asset classes and within asset classes. This diversification is called Asset Allocation.

Asset Allocation involves dividing the portfolio among different asset classes such as equities, fixed income, and real assets. The goal is to balance the risk and return of the portfolio by including asset classes that move up and down under different market conditions.

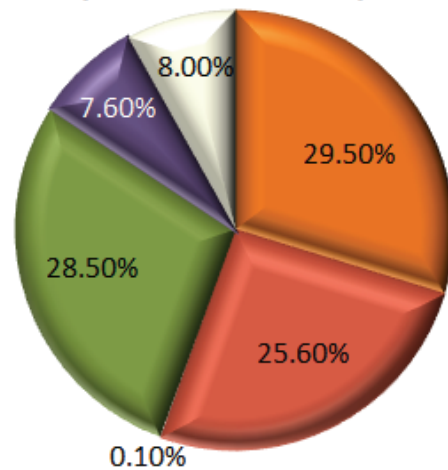
In the first quarter 2012, the Board established a new target asset allocation that seeks to increase the expected return and decrease the expected volatility and cost of the ERS' portfolio. Implementation included new investment allocations in global fixed income, private equity and public and private real assets. The majority of tasks were completed within the 12-month target with the exception of the private investments which will be funded gradually over time.


Diversification within each asset class is accomplished using multiple investment managers. Each manager has a set of guidelines which outline the manager's mission. The Board regularly reviews each manager's performance against objectives and benchmarks. Please refer to the Investment Manager Matrix on page 7 for a list of investment managers.

**Target Asset Allocation**




**Actual Asset Allocation  
(as of June 30, 2013)**




 **U.S. Equities**

 **International Equities**

 **Private Equities**

 **Fixed Income**

 **Public Real Assets**

 **Private Real Assets**



# Investment Manager Matrix

As of June 30, 2013

<b>Investment Manager</b>	<b>Style</b>	<b>Account Balance \$(000)</b>	<b>% of Fund</b>
<b><u>U.S. Equities</u></b>			
Artisan Partners, L.P.	Small Cap Value	\$ 24,452	3.50%
BlackRock Institutional Trust Company	Large Cap	63,229	9.10%
J.P. Morgan Investment Management, Inc.	130/30 Short Extension	27,630	4.00%
Russell 2000 Growth ETF	Small Cap Growth	27,068	3.90%
RhumbLine Advisers, L.P.	Large Cap	62,914	9.00%
		<u>\$ 205,293</u>	<u>29.50%</u>
<b><u>International Equities</u></b>			
Capital Guardian Trust Company	International Equities	\$ 91,165	13.10%
Earnest Partners, LLC	International Equities	87,060	12.50%
		<u>\$ 178,225</u>	<u>25.60%</u>
<b><u>Fixed Income</u></b>			
C.S. McKee, L.P.	Core	\$ 53,945	7.75%
Eaton Vance Management	Core	53,213	7.65%
Loomis Sayles & Company, L.P.	High Yield	32,101	4.60%
Neuberger Berman Fixed Income, LLC	High Yield	21,331	3.10%
Western Asset Management Company	Global Multi-Sector	32,795	4.70%
W. R. Huff Asset Management	High Yield <sup>1</sup>	86	0.00%
Oaktree PPIP Private Fund, L.P.	Public Private Investment Program	64	0.00%
Oaktree Opportunities Fund VII, L.P.	Distressed Opportunities	4,866	0.70%
		<u>\$ 198,401</u>	<u>28.50%</u>
<b><u>Real Assets</u></b>			
FLAG Real Estate Partners II, L.P.	Private Real Estate	\$ 4,729	0.60%
Principal Global Investors, LLC	Private Real Estate	41,550	6.00%
FLAG Energy & Resources Partners II, L.P.	Private Real Assets	10,063	1.40%
State Street Global Advisors	Public Real Assets	52,692	7.60%
		<u>\$ 109,034</u>	<u>15.6%</u>
<b><u>Private Equity</u></b>			
Wilshire Private Markets	Private Equity	\$ 883	0.10%
<b><u>Cash</u></b>			
		<u>\$ 4,943</u>	<u>0.70%</u>
<b>TOTAL</b>		<u>\$ 696,779</u> <sup>2</sup>	<u>100%</u>

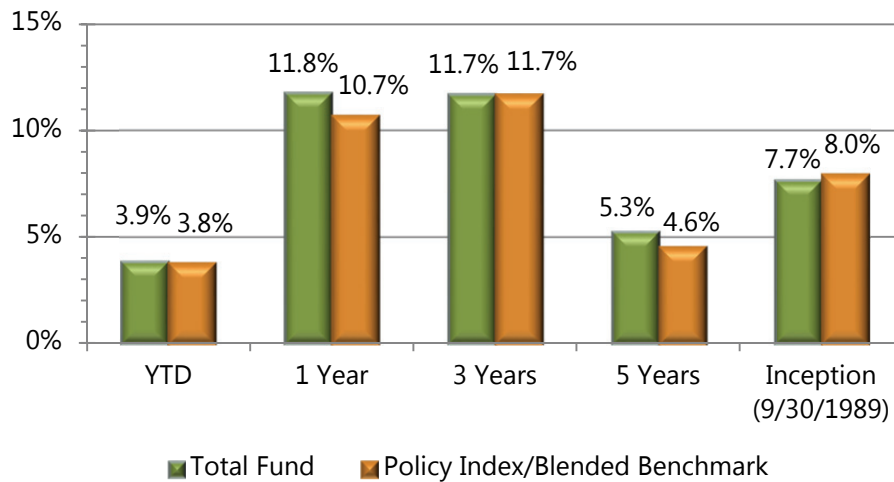
<sup>1</sup> Maintains Adelpia and Century Securities Only

<sup>2</sup> Net of Accrued Income on Investments and Investments Payable

## Portfolio Performance

The total fund gained considerable ground and returned 11.8% for the one-year ending June 30, 2013 versus the investment return assumption of 7.5%. The total fund benefited from its equity exposure during the past year as both domestic and international markets increased. Restructuring within the fixed income portfolio enhanced diversification and created return opportunities. The ERS' diversified investment strategy translated into a net investment gain of \$72.8 million. Please refer to the Summary Statements of Changes in Net Position on page 11. The amount accumulated to pay for retirement benefits totaled \$694.0 million as of June 30, 2013.

### Total Fund Returns vs. Policy Index As of June 30, 2013



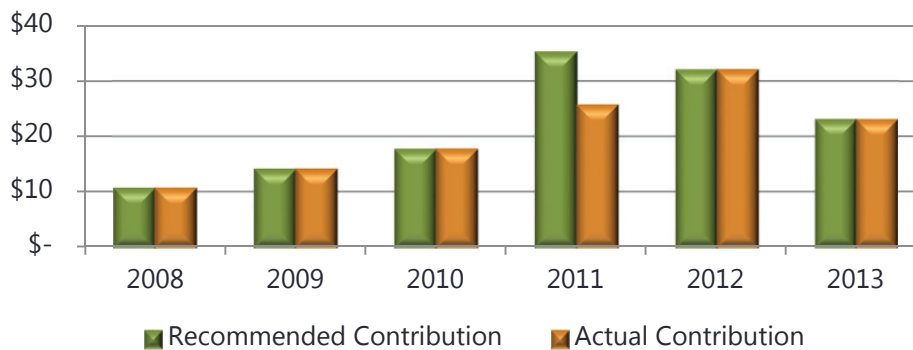
### Growth of Investments Net Position (\$millions)



## Actuarial Summary

The ERS' funding policy requires an annual study, or actuarial valuation, to determine a recommended employer contribution. Employer contributions vary based on a number of factors including fluctuations in the market, plan amendments, actuarial assumptions and employee demographics. During 2013, the employer contribution decreased from 22.9% (\$32.2 million) to 18.0% (\$23.8 million) of covered payroll. The decrease can be attributed to an actuarial gain that resulted primarily from plan and assumption changes.

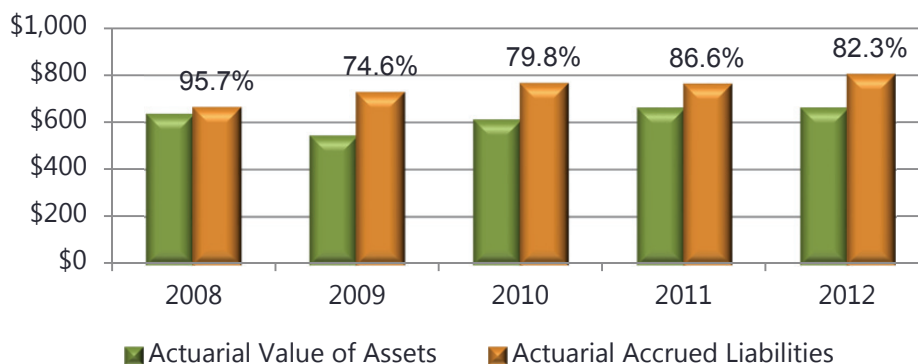
**Annual Employer Contributions**  
(\$millions)



The funded ratio is one measure of a plan's health at a point-in-time and compares assets to liabilities. The funded ratio can change annually based on changes in liabilities, investment returns, actuarial assumptions, employee demographics and more. Analysis of the trend over time should be viewed in light of the economic situation at the time. The funding ratio dropped significantly following the 2008 credit crisis; however, the trend since 2009 has been mostly positive with a slight decrease in 2012 due primarily to a loss in the actuarial value of assets.

An actuarial valuation performed as of July 1, 2012, indicates the actuarial value of assets was \$660.2 million; the actuarial accrued liability was \$802.1 million; and the funded ratio was 82.3%.

**Funded Ratio**  
(\$millions)



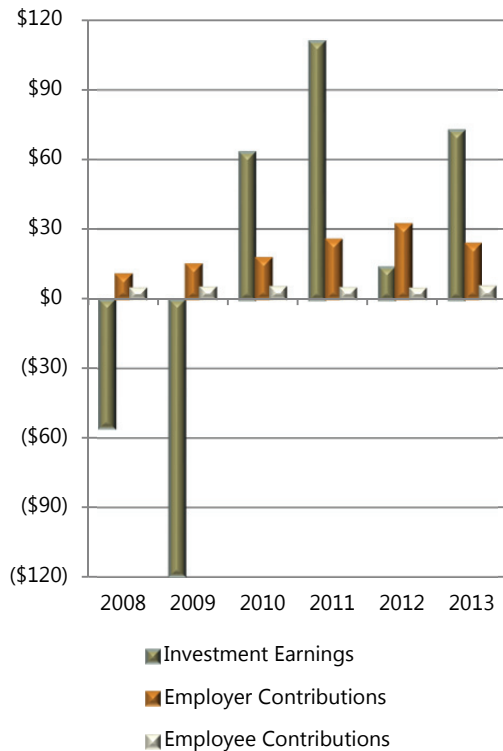
## Financial Summary

Employee and employer contributions as well as earnings from investments provide the funds necessary to pay monthly retirement benefits, refund contributions to terminated employees and administer the ERS.

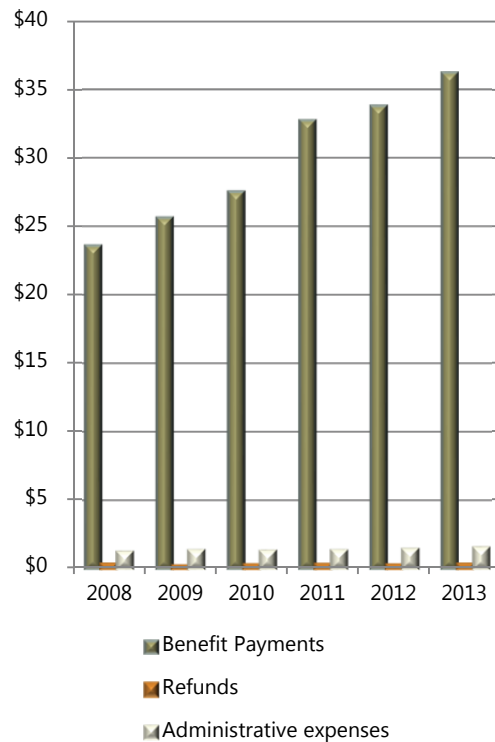
Revenues totaled \$102.0 million as of June 30, 2013 and include employee contributions (\$5.4 million), employer contributions (\$23.8 million) and, earnings from investments (\$72.8 million). Revenues increased primarily due to an increase in investment performance.

Expenses totaled \$38.2 million as of June 30, 2013 and include benefit payments (\$36.3 million), participant refunds (\$368,762) and administrative expenses (\$1.6 million). Expenses increased 7.3% from 2012 to 2013 due to an increase in the number of retirees and a 3.1% cost-of-living adjustment for retirees and survivors.

**Revenues by Sources**  
For the years ended June 30  
(\$millions)



**Expenses by Sources**  
For the years ended June 30  
(\$millions)



## Summary Statements of Net Position

The Summary Statements of Net Position is a snapshot of what the ERS owns (assets) and what the ERS owes (liabilities), and the difference (net position) that has been accumulated to pay for retirement benefits.

	As of June 30, 2013	As of June 30, 2012	Percentage Change
<b>ASSETS</b>			
Investments, at fair value	\$ 696,165,684	\$ 639,562,731	8.9%
Receivables	1,456,898	1,714,100	(15.0%)
Securities lending short term collateral	80,072,342	65,088,801	23.0%
Other assets	65,546	76,135	(13.9%)
<b>TOTAL ASSETS</b>	<u>777,760,470</u>	<u>706,441,767</u>	<u>10.1%</u>
<b>LIABILITIES</b>			
Payables and accrued liabilities	1,551,267	10,284,307	(84.9%)
Payable for securities lending	82,241,046	65,954,799	24.7%
<b>TOTAL LIABILITIES</b>	<u>83,792,313</u>	<u>76,239,106</u>	<u>9.9%</u>
<b>NET POSITION</b>	<u>\$ 693,968,157</u>	<u>\$ 630,202,661</u>	<u>10.1%</u>

## Summary Statements of Changes in Net Position

The Summary Statements of Changes in Net Position is a summary of the flow of money in (additions) and out (deductions) of the ERS.

	As of June 30, 2013	As of June 30, 2012	Percentage Change
<b>ADDITIONS</b>			
Employee Contributions	\$ 5,354,904	\$ 4,395,720	21.8%
Employer Contributions	23,806,058	32,182,287	(26.0%)
Net investment gain	72,801,688	14,100,657	416.3%
<b>TOTAL ADDITIONS</b>	<u>101,962,650</u>	<u>50,678,664</u>	<u>101.2%</u>
<b>DEDUCTIONS</b>			
Benefit payments	36,262,962	33,833,630	7.2%
Refunds of contributions	368,762	316,681	16.4%
Administrative expenses	1,565,430	1,453,094	7.7%
<b>TOTAL DEDUCTIONS</b>	<u>38,197,154</u>	<u>35,603,405</u>	<u>7.3%</u>
<b>INCREASE IN NET POSITION</b>	63,765,496	15,075,259	323.0%
<b>NET POSITION</b>			
BEGINNING OF YEAR	630,202,661	615,127,402	2.5%
<b>END OF YEAR</b>	<u>\$ 693,968,157</u>	<u>\$ 630,202,661</u>	<u>10.1%</u>

Employee contributions increased as a result of a plan amendment requiring additional contributions from employees. Employer contributions decreased as a result of plan and assumption changes. The ERS' Net Position grew to \$694.0 million primarily due to an increase in investment performance.



## **Employees' Retirement System**

The Maryland-National Capital Park and Planning Commission  
6611 Kenilworth Avenue, Suite 100  
Riverdale, Maryland 20737

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Email: [contactERS@mncppc.org](mailto:contactERS@mncppc.org)

Visit us on the web at <http://ers.mncppc.org>  
or use your smartphone and SCAN HERE

Office Hours  
Monday – Friday  
8:00 a.m. to 5:00 p.m.



This Popular Annual Financial Report (PAFR) is for informational purposes only and provides general information designed to educate employees and retirees about the Maryland-National Capital Park and Planning Commission (Commission) Employees' Retirement System (ERS). The information found in this PAFR should not serve as the sole or primary basis for making decisions regarding the financial, investment or funding status of the ERS. To the extent any term or figure in this PAFR varies from the Plan Document or other governing documents, those pertinent documents will control and the information provided in this PAFR will not. The Plan Document and other governing documents, policies and procedures may be modified or amended from time to time consistent with law and those amendments likewise will control. More generally, in all circumstances the governing documents and policies and procedures, as amended from time to time, will control over any information provided by the ERS, the Commission or any agent or employee of the ERS or the Commission.



