# Montgomery County
# Employee Retirement Plans

***Annual Comprehensive Financial Report***

## Employees' Retirement System
## Retirement Savings Plan
## Deferred Compensation Plan

*(Trust Funds of Montgomery County, Maryland)*

**Fiscal Year 2023**
**July 1, 2022 – June 30, 2023**

Government Finance Officers Association

# Certificate of Achievement for Excellence in Financial Reporting

Presented to

**Montgomery County Employee Retirement Plans**
**Maryland**

For its Annual Comprehensive
Financial Report
For the Fiscal Year Ended

June 30, 2022

Christopher P. Morrill

Executive Director/CEO

# Montgomery County
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## Deferred Compensation Plan

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**Fiscal Year 2023**
**July 1, 2022 – June 30, 2023**

Prepared by Montgomery County Employee Retirement Plans
101 Monroe Street, 6th Floor
Rockville, Maryland 20850

MONTGOMERY COUNTY

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GARDEZ BIEN

MARYLAND

**MONTGOMERY COUNTY**
**EMPLOYEE RETIREMENT PLANS**
**Fiscal Year Ended June 30, 2023**

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# INTRODUCTION SECTION

OFFICE OF THE COUNTY EXECUTIVE

Marc Elrich
*County Executive*

Richard S. Madaleno
*Chief Administrative Officer*

October 27, 2023

Honorable County Executive and
Members of the Montgomery County Council

I am pleased to present to you the Annual Comprehensive Financial Report (ACFR) of the Montgomery County Employee Retirement Plans (Plans) for the fiscal year ended June 30, 2023. This annual report is designed to assist you in understanding the structure and current status of the Plans.

## FORMAL TRANSMITTAL OF THE ACFR

This report was prepared pursuant to the provisions of Section 33-51(b) of the Montgomery County Code, 2004, as amended (Code), and includes the independent public accountants' report, issued by the County Council's appointed independent public accounting firm. Responsibility for the accuracy of the presented data and the completeness and fairness of the presentation including all disclosures rests with the County. We believe the data, as presented, is accurate in all material respects; that it is presented in a manner designed to fairly set forth the fiduciary net position and the changes in the fiduciary net position of the Plans; and that all disclosures necessary to enable the reader to gain the maximum understanding of the financial affairs of the Plans have been included.

## PROFILE OF THE RETIREMENT PLANS

### History

The Employees' Retirement System (System) was established in 1965, as a cost-sharing, multiple-employer defined benefit pension plan providing benefits to the employees of the County and other agencies or political subdivisions who elect to participate. Participating agencies and subdivisions include the following: Montgomery County Revenue Authority; Housing Opportunities Commission of Montgomery County; Town of Chevy Chase; Strathmore Hall Foundation, Inc.; Washington Suburban Transit Commission; SkyPoint Federal Credit Union; and certain employees of the State Department of Assessments and Taxation; and the District Court of Maryland. The System is closed to employees hired on or after October 1, 1994, except public safety bargaining unit employees and Guaranteed Retirement Income Plan (GRIP) participants. The Montgomery County Council passed legislation in FY 2009 enabling the County to establish and maintain a GRIP, a cash balance plan that is part of the System, for employees. During FY 2010, eligible County employees who were members of the Retirement Savings Plan (RSP) were granted the option to elect to participate in the GRIP, to transfer their RSP member account balance to the GRIP, and to cease being a member of the RSP. There were 6,229 active members, including 2,941 in the GRIP, and 6,986 retirees and beneficiaries participating in the System as of June 30, 2023.

The RSP was established in 1994 as a cost-sharing multiple-employer defined contribution plan providing benefits to all non-public safety and certain public safety employees hired on or after October 1, 1994. Employees covered by the System may make an irrevocable decision to transfer to the RSP. As of June 30, 2023, there were 3,225 active plan members.

The Deferred Compensation Plan (DCP) was established pursuant to Section 457 of the Internal Revenue Code, as amended. During FY 1999, in accordance with Federal legislation, the assets of the County Plan were placed in trust for the sole benefit of participants and their beneficiaries.

**Benefit Provisions**

The benefit provisions of the System are established by the Code. The System provides for normal service retirement and early service retirement benefits for members who attain age and service requirements. The System also provides options for disability and death benefits to eligible participants. Members are vested after five years of service. The GRIP provides for immediate vesting of employee contributions, and employer contributions are vested after three years of plan membership or upon death or disability.

The RSP provides for immediate vesting of employee contributions, and employer contributions are vested after three years of plan membership or upon death, disability, or reaching retirement age.

**Major Initiatives**

The Board continued to implement changes to the investment portfolio in an effort to improve the risk-adjusted returns of the program. During the year, new investments were added across the portfolio, including enhancements to public equity, private equity, private credit, and private real assets portfolios.

Environmental, Social, and Governance (ESG) considerations continue to play an important role in the investment program. Over the last year, staff completed the second annual Principles for Responsible Investment (PRI) submission, which is the most robust way for our ESG integration process to be benchmarked to peers. Staff continue to influence investment managers in the portfolio to become PRI signatories, as we believe it is the industry standard designation concerning ESG integration. Currently, 52% of the managers within the portfolio are signatories, up from 44% last year. Staff also engage with investment managers on Diversity, Equity, and Inclusion (DEI) initiatives within their firms and report results at several Board meetings throughout the year. The Board's Governance Manual states that the Board, staff, and consultants are committed to including emerging investment managers in searches, including businesses owned by women, minorities, and disabled individuals. As of the end of the fiscal year, 24% of the portfolio was allocated to diverse firms.

## INFORMATION USEFUL IN ASSESSING THE RETIREMENT PLANS' ECONOMIC CONDITION

**Financial Information**

***Accounting System and Reports***

The Plans' financial statements have been prepared under the accrual basis of accounting. Contributions are recognized in the period in which the contributions are due. Benefits, refunds and distributions are recognized when due in accordance with the terms of the Plans.

***Management's Discussion and Analysis***

The Management's Discussion and Analysis (MD&A), found on pages 15 to 19 of this report, provides a brief analysis of the financial performance of the Plans and an introduction to the financial statements of the Plans as of and for the year ended June 30, 2023.

### *Investments*

Montgomery County has established a Board to be responsible for the investment management of the Plans' assets for the exclusive benefit of the members and participants. The Board consists of thirteen members appointed by the County Executive and confirmed by the County Council.

In overseeing the management of the assets of the Plans, the Board has developed sound and prudent investment policies. The Board believes an appropriate balance must be struck between risks taken and returns sought to ensure the long-term health of the defined benefit plan. The Board has adopted an investment policy that works to control the extent of downside risk to which the System is exposed while maximizing the potential for long- term increases in the value of assets. To achieve this objective, System assets are allocated to a broad array of investment sectors as follows: domestic equity 10.0 percent, international equity 11.0 percent, global equity 3.5 percent, high yield 6.2 percent, emerging markets debt 1.3 percent, private equity 18.6 percent, credit opportunities 3.9 percent, directional hedge funds 2.1 percent, long duration and cash 8.0 percent, diversifying hedge funds 2.9 percent, public real assets 7.6 percent, private real assets 10.5 percent, and inflation indexed bonds/Gold 14.4 percent. For the twelve months ended June 30, 2023, the total time-weighted return achieved by the System's investments was a gain of 4.0 percent, gross of fees, compared to the gain recorded by the System's benchmark index of 3.1 percent, exceeding the benchmark by 0.9 percent. Returns for the three-year and five-year periods exceeded the performance benchmarks by 2.7 percent and 1.8 percent, respectively.

Section 33-125 of the Montgomery County Code authorizes the Board to establish for members of the RSP a diversified slate of mutual and commingled investment funds from which participants may select options. The Board has developed an investment policy outlining its oversight of the investment products offered.

The Board has also established a diversified slate of mutual and commingled funds for the County's Deferred Compensation Plan which offers a range of options from which participants may select. The Board has constructed an investment policy stipulating investment objectives and oversight by the Board.

### *Funding*

The System's actuary uses a five-year market-related value smoothing to determine the actuarial value of assets. The smoothing prevents extreme volatility in employer contribution rates due to short-term fluctuations in the investment markets. For the valuation as of June 30, 2023, the actuarial value of assets was $5.0 billion and the aggregate actuarial liability was $5.1 billion, resulting in a funded status ratio of 98.6%.

The Schedule of Changes in the Employers' net pension liability and related ratios, included as Required Supplementary Information in the Financial Section, expresses the System's fiduciary net position as a percentage of the total pension liability, providing one indication of the System's funding status on a going-concern basis. The actuary has determined that the present net asset base, expected future contributions, and investment earnings thereon, are sufficient to provide for full payment of future benefits under the entry-age normal actuarial cost method.

### *Internal Control Structure and Budgetary Controls*

The Plans' management is responsible for maintaining internal accounting controls to provide reasonable assurance that transactions are properly authorized and recorded as necessary to permit preparation of financial statements in conformity with U.S. generally accepted accounting principles. We believe the internal controls in effect during the fiscal year ended June 30, 2023, adequately safeguard the Plans' assets and provide reasonable assurance regarding the proper recording of financial transactions. In addition, the Board, in conjunction with the Chief Administrative Officer, approves and actively monitors the annual budgets for each plan. Because the cost of internal controls should not exceed the anticipated benefits, the objective is to provide reasonable, rather than absolute, assurance that the financial statements are free of any material misstatement.

### *Independent Audit and Actuarial Certification*

The independent public accountants' report and actuarial certification are included in this report.

## AWARDS AND ACKNOWLEDGEMENTS

**Certificate of Achievement for Excellence in Financial Reporting**

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Montgomery County Employee Retirement Plans for its annual comprehensive financial report for the fiscal year ended June 30, 2022. The Certificate of Achievement is a prestigious national award, recognizing conformance with the highest standards for preparation of state and local government financial reports. In order to be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized annual comprehensive financial report, whose contents conform to program standards. Such a report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. The Montgomery County Employee Retirement Plans have received the Certificate of Achievement for the last twenty-three consecutive years. We believe our current annual comprehensive financial report continues to meet the Certificate of Achievement program requirements, and we are submitting it to the GFOA.

**Acknowledgements**

The Plans' annual comprehensive financial report was prepared by the Montgomery County Employee Retirement Plans' staff in conjunction with staff support from the County's Department of Finance. I would like to express my appreciation to the employees who have worked hard throughout the year to ensure the successful operation of the Plans.

Respectfully submitted,

Richard S. Madaleno
Chief Administrative Officer
Plan Administrator

# ADMINISTRATIVE ORGANIZATION

## Professional Services

| Actuary | Auditor | Custodial Bank |
|---|---|---|
| Gabriel Roeder Smith & Company | SB & Company, LLC | The Northern Trust Company |

## Investment Consultants

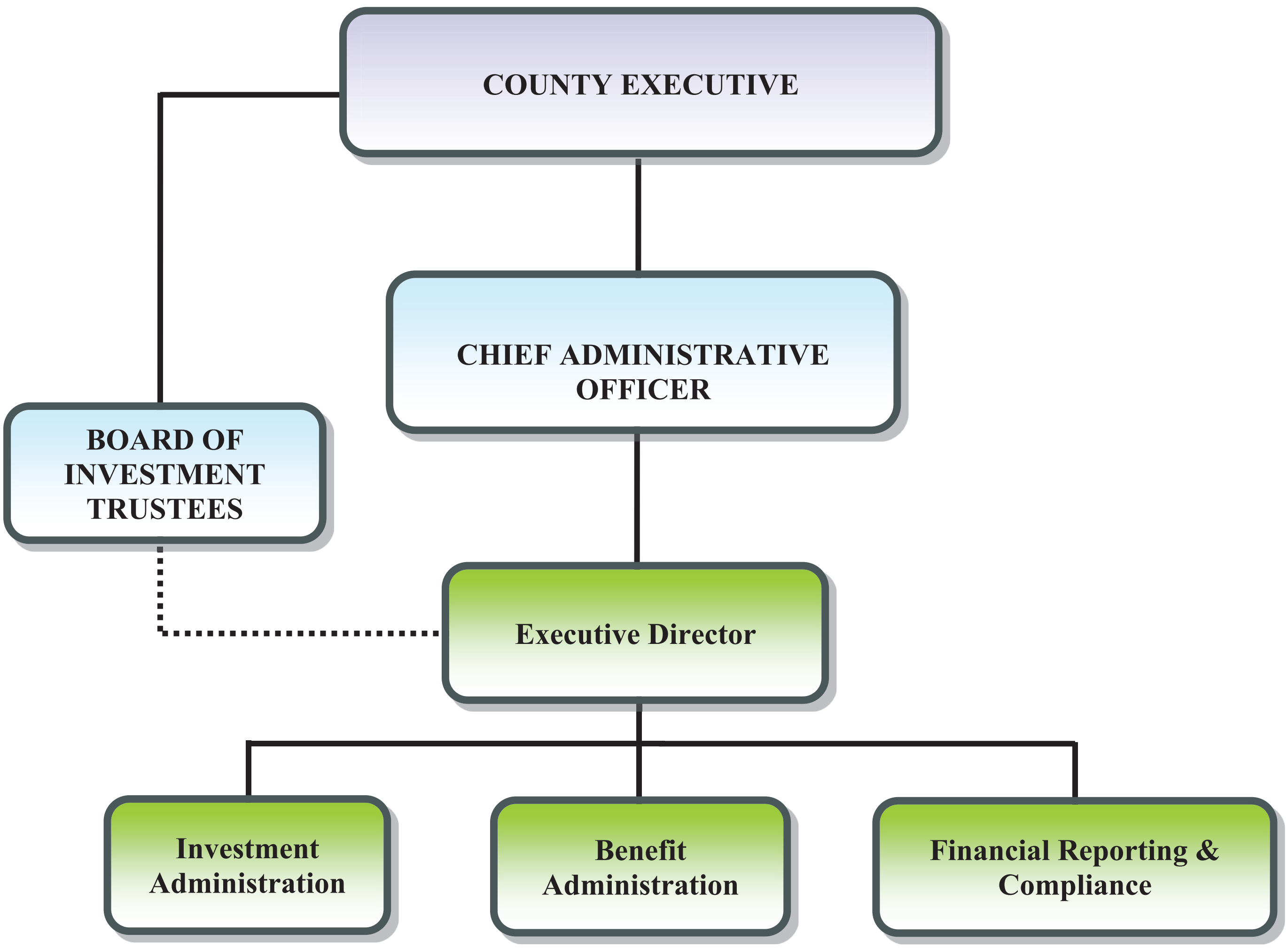
| | | |
|---|---|---|
| Albourne America LLC | Franklin Park Associates, LLC | NEPC, LLC |

## Investment Managers-Employees' Retirement System

| | | |
|---|---|---|
| Aberdeen Asset Management, Inc. | Acadian Asset Management LLC | Adams Street Partners |
| Altaris Capital Partners | Altus Capital Partners | Amulet Capital Partners |
| Arrowstreet Capital | Arroyo Energy Investors LLC | Astara Capital Partners |
| Atlas Capital Resources | Banner Ridge Partners | Bison Capital Partners |
| BlackRock Financial Management | Blackstone Inc. | Bridgewater Associates |
| BV Investment Partners | Caprock Management, LLC | Carmel Partners |
| Castlelake LP | Center Rock Capital Partners | CIBC Asset Management |
| Clearlake Capital Group | Crest Rock Partners | DW Healthcare Partners |
| Eagle Asset Management* | EMR Capital | EnerVest Ltd. |
| Excelsior Energy Capital | Federal Capital Partners | Franklin Park Associates, LLC |
| Global Alpha Capital Management Ltd. | GMO LLC | Graycliff Partners |
| Greenbacker Capital Management | Greyrock Capital Group | Gryphon Partners |
| GQG Partners | Hampshire Companies | HarbourVest Partners |
| Highclere International Investors LLP | Homestead Capital | J.F. Lehman & Company |
| Juniper Capital LP | K1 Investment Management LLC | Kimmeridge Energy Management Company |
| KPS Capital Partners, LP | Landmark Partners Inc. | LBA Realty |
| Levine Leichtman Capital Partners | Lime Rock Resources | Longpoint Realty Partners |
| Loomis Sayles & Co. | Luxor Capital Partners | Lyme Timber Company |
| Magna Hospitality Group | Marathon Asset Management (EMD) | Marathon Asset Management LLP* |
| Mason Wells Inc. | Melford Capital Partners LLP | Meridian Realty Partners |
| MiddleGround Capital | Morgan Stanley | New Energy Capital |
| NISA Investment Advisors | Nomura Asset Management | Odyssey Investment Partners |
| P/E Investments LLc | Pearlmark Real Estate Partners | Phoenician Resources |
| Polunin Capital Partners Limited | Post Road Group | Princeton Equity Group |
| Principal Real Estate Investors | PineBridge Investments LLC | Resource Land Holdings |
| Rhumbline Advisors* | Riverside Acceleration Capital | Riverside Partners |
| Ridgewood Infrastructure | Schroder Investment Management | Segall Bryant & Hamill LLC* |
| Senator Investment Group | Siris Capital Group LLC | Sunstone Partners |
| TA Associates | Tailwater Capital | Thoma Bravo LP |
| Trinity Street Asset Management | VSS Capital Partners | WCM Investment Management* |
| Wellington Management* | Whitehorse Liquidity Partners | Wicks Group |
| WNG Capital | Woodbourne Capital | |

* Public equity commission brokers are listed on page 60.

# Montgomery County Employee Retirement Plans
# Administrative Organization Chart



# FINANCIAL SECTION

SB & COMPANY, LLC
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# REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

The Honorable County Council of Montgomery County, Maryland
Board of Investment Trustees
Montgomery County Employee Retirement Plans

## Report on the Audit of the Financial Statements

### *Opinion*

We have audited each of the accompanying statements of fiduciary net position of the Montgomery County Employee Retirement Plans (the Plans) as of June 30, 2023, and the related statements of changes in fiduciary net position for the year then ended, and the related notes to the financial statements, as listed in the table of contents.

In our opinion, the accompanying financial statements present fairly, in all material respects, the fiduciary net position of the Plans as of June 30, 2023, and the respective changes in fiduciary net position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### *Basis for Opinion*

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are required to be independent of the Plans and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### *Responsibilities of Management for the Financial Statements*

The Plans' management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Plans' ability to continue as a going concern for one after the date that the financial statements are available for issuance.

### *Auditor's Responsibilities for the Audit of the Financial Statements*

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal controls relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Plans' internal controls. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Plans' ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal controls–related matters that we identified during the audit.

***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the schedules of changes in the employers' net pension liability and related ratios, employer contributions and investment returns, as listed in the table of contents, be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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***Supplementary Information***

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Plans' basic financial statements. The schedules of administrative expenses, payments to consultants and investment expenses, the statements of fiduciary net position and changes in fiduciary net position for the Employees' Retirement System, Retirement Savings Plan and the Deferred Compensation Plan (supplementary information) as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

***Other Information Included in the Annual Report***

Management is responsible for the other information included in the annual comprehensive financial report. The other information comprises the introduction, investment, actuarial, and statistical sections but does not include the financial statements and our auditor's report thereon. Our opinion on the basic financial statements does not cover the other information, and we do not express an opinion or any form of assurance thereon. In connection with our audit of the basic financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the basic financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

**Other Reporting Required by *Government Auditing Standards***

In accordance with Government Auditing Standards, we have also issued our report dated October 27, 2023, on our consideration of the Plans' internal controls over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal controls over financial reporting and compliance and the results of that testing, and not to provide an opinion on the Plans' internal controls over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Plans' internal controls over financial reporting and compliance.

Owings Mills, Maryland
October 27, 2023

SB + Company, LLC

## INTRODUCTION

The following Management's Discussion and Analysis (MD&A) of the Montgomery County Employee Retirement Plans (Plans) financial performance provides an introduction to the financial statements of the Plans as of and for the year ended June 30, 2023. Since the MD&A is designed to focus on current activities, resulting changes and current known facts, it should be read in conjunction with the transmittal letter in the Introduction Section on page 4, and the financial statements, notes to the financial statements, required supplementary information, and other supplementary information which follow this discussion.

## REQUIRED FINANCIAL STATEMENTS

The financial statements for the Plans have been prepared under the accrual basis of accounting in conformity with U.S. generally accepted accounting principles, promulgated by the Governmental Accounting Standards Board. The Statements of Fiduciary Net Position comprise the Plans' assets and liabilities and provide information about the nature and amount of investments, as well as the liabilities. The Statements of Changes in Fiduciary Net Position report the changes of the Plans' net position, measured by the additions by major sources and deductions by type. Comparative financial statements of the three plans are presented in the latter part of the financial section.

## FINANCIAL ANALYSIS OF THE MONTGOMERY COUNTY EMPLOYEE RETIREMENT PLANS

Shown below is a condensed presentation of the net position of the Employees' Retirement System (ERS), Retirement Savings Plan (RSP), and Deferred Compensation Plan (DCP) at June 30:

**Net Position**
(Millions)

| | ERS | | RSP | | DCP | |
|---|---|---|---|---|---|---|
| | **2023** | **2022** | **2023** | **2022** | **2023** | **2022** |
| **Assets:** | | | | | | |
| Cash and investments | $ 4,924.5 | $ 5,028.9 | $ 688.3 | $ 612.6 | $ 574.7 | $ 515.6 |
| Receivables | 15.0 | 18.4 | 1.4 | 2.3 | 0.6 | 1.3 |
| **Total assets** | 4,939.5 | 5,047.3 | 689.7 | 614.9 | 575.3 | 516.9 |
| **Liabilities** | 161.2 | 211.0 | - | 0.1 | - | - |
| **Total net position** | $ 4,778.3 | $ 4,836.3 | $ 689.7 | $ 614.8 | $ 575.3 | $ 516.9 |

Shown below is a condensed summary of the changes in net position of the ERS, RSP, and DCP for the years ended June 30:

**Change in Net Position**
(Millions)

| | ERS | | RSP | | DCP | |
|---|---|---|---|---|---|---|
| | **2023** | **2022** | **2023** | **2022** | **2023** | **2022** |
| **Additions:** | | | | | | |
| Employer contributions | $ 52.5 | $ 68.1 | $ 23.5 | $ 22.3 | $ - | $ - |
| Member contributions | 33.5 | 31.2 | 11.9 | 12.2 | 22.5 | 23.9 |
| Net investment income (loss) | 181.9 | (257.1) | 68.5 | (103.6) | 71.6 | (89.3) |
| **Total additions (reductions)** | 267.9 | (157.8) | 103.9 | (69.1) | 94.1 | (65.4) |
| **Deductions:** | | | | | | |
| Benefits | 310.4 | 287.0 | - | - | - | - |
| Refunds | 12.3 | 11.7 | 28.7 | 22.8 | 35.8 | 29.9 |
| Administrative expenses | 3.2 | 3.1 | 0.3 | 0.3 | - | - |
| **Total deductions** | 325.9 | 301.8 | 29.0 | 23.1 | 35.8 | 29.9 |
| **Total change in net position** | $ (58.0) | $ (459.6) | $ 74.9 | $ (92.2) | $ 58.3 | $ (95.3) |

The following schedules provide a comparative summary and an analysis of each Plan's assets, liabilities and net position, at June 30:

**Employees' Retirement System**
**Net Position**
(Millions)

| | **2023** | **2022** | **Percentage Change** |
|---|---|---|---|
| **Assets:** | | | |
| Cash and investments | $ 4,924.5 | $ 5,028.9 | (2.1) % |
| Receivables | 15.0 | 18.4 | (18.5) |
| **Total assets** | 4,939.5 | 5,047.3 | (2.1) |
| **Liabilities:** | | | |
| Benefits payable and other liabilities | 7.6 | 19.9 | (61.8) |
| Obligations under securities lending agreements | 153.6 | 191.1 | (19.7) |
| **Total liabilities** | 161.2 | 211.0 | (23.6) |
| **Total net position** | $ 4,778.3 | $ 4,836.3 | (1.2) % |

The table shown above reflects a decrease of $58.0 million, a 1.2 percent decrease in the net position for the ERS during fiscal year (FY) 2023, due to a combination of employer contributions reduction, and more benefits paid.

| Retirement Savings Plan<br>Net Position<br>(Millions) | | | |
|---|---|---|---|
| | 2023 | 2022 | Percentage Change |
| **Assets:** | | | |
| Cash and investments | $ 688.3 | $ 612.6 | 12.4 % |
| Receivables | 1.4 | 2.3 | (39.1) |
| **Total assets** | 689.7 | 614.9 | 12.2 |
| **Liabilities** | - | 0.1 | - |
| **Total net position** | $ 689.7 | $ 614.8 | 12.2 % |

During FY 2023, the net position of the RSP increased 12.2 percent to $689.7 million primarily driven by investment income during the fiscal year.

| Deferred Compensation Plan<br>Net Position<br>(Millions) | | | |
|---|---|---|---|
| | 2023 | 2022 | Percentage Change |
| **Assets:** | | | |
| Cash and investments | $ 574.7 | $ 515.6 | 11.5 % |
| Receivables | 0.6 | 1.3 | (53.8) |
| **Total net position** | $ 575.3 | $ 516.9 | 11.3 % |

The net position of the DCP increased 11.3 percent to $575.3 million during FY 2023. The change is due to investment income during the fiscal year.

**ADDITIONS**

The primary sources of additions for the Plans include member and employer (where applicable) contributions and investment income. The following tables compare the source and amount of additions for each Plan during FY 2023 and FY 2022:

| Employees' Retirement System<br>Contributions and Investment Income<br>(Millions) | | | |
|---|---|---|---|
| | 2023 | 2022 | Percentage Change |
| Employer contributions | $ 52.5 | $ 68.1 | (22.9) % |
| Member contributions | 33.5 | 31.2 | 7.4 |
| Net investment income (loss) | 181.9 | (257.1) | 170.8 |
| | $ 267.9 | $ (157.8) | 269.8 % |

Employer contributions were lower by 22.9 percent in FY 2023 from the FY 2022 level due to the increased funded status of the plan which resulted in lower employer contribution rates.

Net investment income increased by 170.8 percent to 181.9 million in FY 2023 from FY 2022 due to stronger financial markets conditions in FY 2023.

The net investment income for the ERS totaled $181.9 million for FY 2023, comprised of $128.4 million in net increase in fair value of investments, $71.4 million in dividends and interest, $0.9 million from securities lending activities, and offset by $18.8 million related to investment expenses.

**Retirement Savings Plan**
**Contributions and Investment Income**
(Millions)

| | 2023 | 2022 | Percentage Change |
|---|---|---|---|
| Employer contributions | $ 23.5 | $ 22.3 | 5.4 % |
| Member contributions | 11.9 | 12.2 | (2.5) |
| Net investment income (loss) | 68.4 | (103.6) | 166.0 |
| | $ 103.8 | $ (69.1) | 250.2 % |

Employer contributions to the RSP were $23.5 million for FY 2023, an increase of 5.4 percent from FY 2022. The decrease in member contributions in FY 2023 was due to slightly lower rollover contributions. Net investment income for the RSP totaled $68.4 million an increase of 166.0 percent due to strong financial markets condition in FY 2023.

**Deferred Compensation Plan**
**Contributions and Investment Income**
(Millions)

| | 2023 | 2022 | Percentage Change |
|---|---|---|---|
| Member contributions | $ 22.5 | $ 23.9 | (5.9) % |
| Net investment income (loss) | 71.6 | (89.3) | 180.2 |
| | $ 94.1 | $ (65.4) | 243.9 % |

Member contributions to the DCP were $22.5 million for FY 2023, 5.9 percent lower than the FY 2022 level due to decreased rollover contributions compared to the prior fiscal year. Net investment income for the DCP totaled $71.6 million, an increase of 180.2 percent versus the prior year due to stronger financial markets condition.

## DEDUCTIONS

The primary sources of deductions from the Plans include the payment of retiree and survivor benefits, participant refunds and distributions, and administrative expenses.

The following tables show the use and amount of deductions for each plan during FY 2023 and 2022:

**Employees' Retirement System**
**Deductions by Type**
(Millions)

| | 2023 | 2022 | Percentage Change |
|---|---|---|---|
| Benefits | $ 310.4 | $ 287.0 | 8.2 % |
| Refunds | 12.3 | 11.7 | 5.1 |
| Administrative expenses | 3.2 | 3.1 | 3.2 |
| | $ 325.9 | $ 301.8 | 8.0 % |

During FY 2023, benefits and refunds increased by $23.4 million or 8.2 percent and $0.6 million or 5.1 percent, respectively. Refunds increased primarily due to an increase in the number of participants electing to receive distributions. Administrative expenses slightly increased by 3.2 percent factored in cost of living increases.

**Retirement Savings Plan**
**Deductions by Type**
(Millions)

| | 2023 | 2022 | Percentage Change |
|---|---|---|---|
| Distributions | $ 28.8 | $ 22.8 | 26.3 % |
| Administrative expenses | 0.3 | 0.3 | - |
| | $ 29.1 | $ 23.1 | 26.0 % |

The deductions related to the RSP are comprised of distributions and administrative costs. During FY 2023, distributions paid from the RSP increased by 26.3 percent from the FY 2022 level due to an increase volume of individual refunds. Administrative expenses in FY23 remains the same as FY22.

**Deferred Compensation Plan**
**Deductions by Type**
(Millions)

| | 2023 | 2022 | Percentage Change |
|---|---|---|---|
| Distributions | $ 35.8 | $ 29.9 | 19.7 % |

During FY 2023, distributions paid from the DCP increased by 19.7% percent from the FY 2022 level.

For additional information regarding this report, please contact the Board of Investment Trustees at 240-777-8220.

MONTGOMERY COUNTY EMPLOYEE RETIREMENT PLANS
STATEMENTS OF FIDUCIARY NET POSITION
AS OF JUNE 30, 2023

| | Employees' Retirement System | Retirement Savings Plan | Deferred Compensation Plan |
|---|---|---|---|
| **ASSETS** | | | |
| Equity in County's pooled cash and investments | $ 533,121 | $ 448,590 | $ - |
| Investments: | | | |
| Government and agency obligations | 93,931,515 | - | - |
| Municipal/Provincial obligations | 6,212,249 | - | - |
| Corporate bonds | 370,885,557 | - | - |
| Commerical mortgage-backed securities | 1,911,798 | - | - |
| Common and preferred stock | 1,001,153,671 | - | - |
| Mutual and commingled funds | 1,507,342,585 | 687,889,795 | 574,657,832 |
| Short-term investments | 213,371,201 | - | - |
| Cash collateral received under securities lending agreements | 153,525,364 | - | - |
| Private real assets | 497,879,182 | - | - |
| Private equity/debt | 1,077,712,424 | - | - |
| Total investments | 4,923,925,546 | 687,889,795 | 574,657,832 |
| Dividend, interest, and other receivables | 11,441,323 | - | - |
| Contributions receivable | 3,529,552 | 1,432,772 | 596,200 |
| Total assets | 4,939,429,542 | 689,771,157 | 575,254,032 |
| **LIABILITIES** | | | |
| Payable for collateral received under securities lending agreements | 153,525,364 | - | - |
| Benefits payable and other liabilities | 7,635,287 | 46,326 | - |
| Total liabilities | 161,160,651 | 46,326 | - |
| **Net position restricted for pensions** | $ 4,778,268,891 | $ 689,724,831 | $ 575,254,032 |

See accompanying notes to financial statements.

MONTGOMERY COUNTY EMPLOYEE RETIREMENT PLANS
STATEMENTS OF CHANGES IN FIDUCIARY NET POSITION
FOR THE YEAR ENDED JUNE 30, 2023

| | Employees' Retirement System | Retirement Savings Plan | Deferred Compensation Plan |
|---|---|---|---|
| **ADDITIONS** | | | |
| Contributions: | | | |
| Employer | $ 52,523,686 | $ 23,524,411 | $ - |
| Members | 33,543,896 | 11,942,596 | 22,544,268 |
| Total contributions | 86,067,582 | 35,467,007 | 22,544,268 |
| Investment income | 199,703,743 | 68,455,829 | 71,612,243 |
| Less investment expenses | 18,760,157 | 10,419 | - |
| Net gain from investment activities | 180,943,586 | 68,445,410 | 71,612,243 |
| Income from securities lending | 7,423,162 | - | - |
| Less securities lending expenses | 6,488,569 | - | - |
| Net income from securities lending | 934,593 | - | - |
| Total additions (reductions) | 267,945,761 | 103,912,417 | 94,156,511 |
| **DEDUCTIONS** | | | |
| Retiree benefits | 238,982,643 | - | - |
| Disability benefits | 59,673,567 | - | - |
| Survivor benefits | 11,782,336 | - | - |
| Refunds and distributions | 12,310,678 | 28,766,280 | 35,808,826 |
| Administrative expenses | 3,243,582 | 266,106 | - |
| Total deductions | 325,992,806 | 29,032,386 | 35,808,826 |
| Net increase (decrease) | (58,047,045) | 74,880,031 | 58,347,685 |
| **Net position restricted for pensions** | | | |
| Beginning of year | 4,836,315,936 | 614,844,800 | 516,906,347 |
| End of year | $ 4,778,268,891 | $ 689,724,831 | $ 575,254,032 |

See accompanying notes to financial statements.

## INTRODUCTION

The Montgomery County Employee Retirement Plans (Plans) are offered to Montgomery County (County) employees, as well as participating agencies, whose eligibility to participate is based on employment status and other factors. Each of the Plans as well as participating agencies described below was established under a separate section of the Montgomery County Code (Code). The accompanying notes summarize the significant accounting policies and plan provisions for each of the Plans, including the Employees' Retirement System, a defined benefit pension plan; the Retirement Savings Plan, a defined contribution plan; and the Deferred Compensation Plan, a plan established pursuant to Section 457 of the Internal Revenue Code.

## EMPLOYEES' RETIREMENT SYSTEM - Defined Benefit Pension Plan

The Montgomery County Employees' Retirement System (System or Plan) is considered part of the County's financial reporting entity and is included in the County's basic financial statements as a pension and other employee benefit trust fund. The accompanying financial statements present only the operations of the System in conformity with accounting principles generally accepted in the United States of America (GAAP) applicable to public employee retirement systems. They are not intended to present fairly the financial position and results of operations of the entire County.

The Montgomery County Council passed legislation in FY 2009 enabling the County to establish and maintain a Guaranteed Retirement Income Plan (GRIP), a cash balance plan that is part of the Plan, for employees. During FY 2010 eligible County employees who were members of the Retirement Savings Plan (RSP) were granted the option to elect to participate in the GRIP and to transfer their RSP member account balance to the GRIP and cease being a member of the RSP.

### A. Plan Description and Contribution Information

*Plan Membership*. As of June 30, 2023, the date of the latest actuarial valuation, membership in the System consisted of:

| | |
|---|---|
| Retirees and beneficiaries receiving benefits | 6,986 |
| Terminated plan members entitled to but not yet receiving benefits | 768 |
| Active plan members | 6,229 |

*Plan Administration.* The System, a cost-sharing multiple-employer defined benefit pension plan, was established in 1965 and is sponsored by the County. Eight other agencies and political subdivisions have elected to participate. The System is closed to employees hired on or after October 1, 1994, except public safety bargaining unit employees and GRIP participants. All covered full-time employees of the County and participating agencies must become members of the System as a condition of employment. All covered career part-time employees of the County and participating agencies may become members on an individual basis.

*Contributions*. The System is a contributory plan with employees contributing a percentage of their base annual salary. Contribution rates range from 6 percent to 11.25 percent of regular earnings annually based on group classification and contributions earn interest at the rate of 4 percent per annum as specified under Section 33-39(b) of the Code. The County and each participating agency are required to contribute the remaining amounts necessary to fund the System using the actuarial basis as specified in Section 33-40 of the Code. Employee contributions for the Elected Officials' Plan are 4 percent of regular earnings.

The GRIP, as defined in Section 33-35 of the Code, requires non-public safety employees to contribute 4 percent of regular earnings up to the Social Security wage base and 8 percent above the Social Security wage base. Public safety employees are required to contribute 3 percent of regular earnings up to the Social Security wage base and 6 percent above the Social Security wage base. Section 33-40 of the Code requires the County and each participating agency to contribute 8 percent and 10 percent of regular earnings for non-public safety and public safety employees, respectively.

*Benefit Provisions*. Benefit provisions are established under the Code beginning with Section 33-35. All benefits vest at five years of service. There are different retirement groups within the System. Members enrolled before July 1, 1978, belong to either the optional non-integrated group or the optional integrated group. Members enrolled on or after July 1, 1978, belong to the mandatory integrated group. Within the groups are different retirement membership classes. The retirement group assigned depends upon the job classification of the member (i.e., non-public safety, police, fire, sheriffs and correctional staff). Normal and early retirement eligibility, the formula for determining the amount of benefit, and the cost of living adjustment varies depending upon the retirement group and retirement membership class. Normal retirement is a percentage of earnings multiplied by years of credited service. Earnings for optional non-integrated group members and optional integrated group members is defined as the high 12 months and for mandatory integrated plan members, the high 36 months. The percentage of earnings, the maximum years of credited service and the cost of living adjustment varies depending upon the retirement membership class and group. Members who retire early receive normal retirement benefits reduced by a minimum of 2 percent to a maximum of 60 percent depending on the number of years early retirement precedes normal retirement. The System provides options for disability and death benefits to eligible participants. Annual cost-of-living adjustments are provided to retirees and beneficiaries based on the percentage change in the Consumer Price Index.

*Deferred Retirement Option Plans (DROP).* Legislation enacted by the Montgomery County Council in November 1999 required the Chief Administrative Officer of the County to establish Deferred Retirement Option Plans, or DROP Plans, allowing any employee who is a member of a specified membership group or bargaining unit, and who meets certain eligibility requirements, to elect to "retire" but continue to work for a specified time period, during which pension payments are deferred. When the member's participation in the DROP Plan ends, the member must stop working for the County, draw a pension benefit based on the member's credited service and earnings as of the date that the member began to participate in the DROP Plan, and receive the value of the DROP Plan payoff. The assets held by the System pursuant to DROP Plans as of June 30, 2023 were $47,242,340.

For members of the GRIP, employee contributions and earnings thereon vest immediately and employer contributions and earnings thereon are vested after three years of plan membership or upon death or disability. At separation, a participant's benefit is determined based upon the account balance which includes contributions and earnings.

**B. Summary of Significant Accounting Policies**

*Basis of Accounting*. The System's financial statements have been prepared under the accrual basis of accounting. Member and employer contributions are recognized in the period in which the contributions are required to be made as specified under the County Code. Benefits and refunds are recognized when due in accordance with the terms of the Plan. The cost of administering the Plan is paid by the System.

*Method Used to Value Investments*. Investments are stated at fair value. The fair value for public securities is generally based on quoted market prices as of June 30, 2023. Fair value for private investment funds, including private equity, private debt and private real assets, are determined using unit values supplied by the fund managers, which are based upon the fund managers' appraisals of the funds' underlying holdings. Such values involve subjective judgment and may differ from amounts which would be realized if such holdings were actually sold. The fair value of limited partnership investments are based on valuations of the underlying assets of the limited partnerships as reported by the general partner. Cash received as collateral on securities lending transactions and investments made with such cash are stated at fair value along with a related liability for collateral received.

*Equity in County's Pooled Cash and Investments.* The System maintains its short-term cash with the County, which invests cash and allocates interest earned, on a quarterly basis to the System based on the System's average daily balance of its equity in pooled cash. The County's policy is to fully collateralize the cash maintained in the pool.

**C. Net Pension Liability**

The components of the net pension liability of the System as of June 30, 2023, were as follows:

| Total Pension Liability (a) | Plan Fiduciary Net Position (b) | Net Pension Liability (a-b) | Plan Fiduciary Net Position as a % of Total Pension Liability (b/a) |
|---|---|---|---|
| $4,916,159,169 | $4,778,268,891 | $137,890,278 | 97.2% |

Additional information as of the latest actuarial valuation is as follows.

| | |
|---|---|
| Valuation date | July 1, 2022 |
| Measurement Date | June 30, 2023 |
| Actuarial cost method | Entry Age Normal |
| Amortization method for funding | Level percentage of payroll, separate closed period bases for Public Safety and GRIP, single closed period amortization base for non-Public Safety. |
| Amortization period for funding | For Public Safety and GRIP: Initial amortization period of 20 years for the base established July 1, 2015. Initial amortization period of 20 years for subsequent bases. For non-Public Safety: Single closed amortization period of 9 years established July 1, 2015. |
| Asset valuation method | Market Value |
| Actuarial assumptions: | |
| Investment rate of return | 7.50% per year |
| Projected salary increases depending on service | 3.00%-10.75% |
| Cost-of-living (inflation rate) adjustments | 2.5% compound for service before July 1, 2011, for optional integrated and non-integrated plan members, 2.45% compound for service before July 1, 2011 for mandatory integrated plan members (1.50% compound for service before July 1, 2011 for defined groups of mandatory integrated plan members) and 2.2% compound for service on or after July 1, 2011. |
| Post-retirement Increases | Consumer Price Index - by Group |
| Mortality rates after retirement | Pub-2010 Healthy Retiree Mortality Table (for General and Safety Employees), sex-distinct, with rates projected from 2010 using projection scale MP-2021 (generational mortality). Updated for the 2023 valuation. |

The actuarial assumptions used in the actuarial valuation are based on the experience study report covering the period July 1, 2014 through July 1, 2018 and the phase 1 experience study report covering the period July 1, 2018 through July 1, 2022.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of geometric real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2023 (see the discussion of the System's investment policy) are summarized in the table on the next page:

| Asset Class | Long-Term Expected Real Rate of Return |
|---|---|
| Domestic Equities | 1.90 % |
| International Equities | 2.30 |
| Emerging Market Equities | 6.50 |
| Global Equities | 3.00 |
| Private Equity | 6.40 |
| Credit Opportunities | 5.90 |
| High Yield Bonds | 4.10 |
| Emerging Market Debt | 5.00 |
| Directional Hedge Funds | 3.00 |
| Long Duration Fixed Income | 2.90 |
| Cash | 1.30 |
| Diversifying Hedge Funds | 4.20 |
| Global ILs/Gold | 1.80 |
| Private Real Assets | 5.30 |
| Public Real Assets | 3.60 |

*Discount Rate.* The discount rate used to measure the total pension liability was 7.5%. The projection of cash flows to determine the discount rate assumed that contributions from plan members will be made at the current contribution rate and contributions from the County and other participating agencies will be made at contractually required rates, actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

*Sensitivity of the Net Pension Liability to Changes in the Discount Rate.* The following presents the net pension liability of the System calculated using the discount rate of 7.5%, as well as what the System's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.50%) or 1-percentage-point higher (8.50%) than the current rate:

| | 1% Decrease 6.50% | Current Discount Rate 7.50% | 1% Increase 8.50% |
|---|---|---|---|
| Net pension liability | $640,798,843 | $137,890,278 | $(287,201,468) |

**D. Trustees of the Plan**

The County established a Board of Investment Trustees (Board) for the System to be responsible for the investment management of the System's assets for the exclusive benefit of the members. The Board consists of thirteen members appointed by the County Executive and confirmed by the County Council.

**E. Investments**

Section 33-61C of the Code, authorizes the Board to act with the care, skill, prudence and diligence under the circumstances that a prudent person acting in a similar capacity and familiar with the same matters would use to conduct a similar enterprise with similar purposes. The Code also requires that such investments be diversified so as to minimize the risk of large losses unless it is clearly not prudent to diversify under the circumstances. The Board has adopted an investment policy that works to control the extent of downside risk to which the System is exposed while maximizing the potential for long term increases in the value of assets. The overall investment policies do not address specific levels of credit risk, interest rate risk or foreign currency risk. The Board believes that risks can be managed, but not eliminated, by establishing constraints on the investment portfolios and by monitoring the financial markets, the System's asset allocation and the investment managers hired by the System.

Each investment manager has a specific benchmark and investment guidelines appropriate for the type of investments they are managing.

The following was the Board's adopted asset allocation policy as of June 30, 2023:

| Asset Class | Target Allocation |
|---|---|
| Domestic Equities | 12.70 % |
| International Equities | 7.50 |
| Emerging Market Equities | 3.80 |
| Global Equities | 3.50 |
| Private Equity | 15.00 |
| Credit Opportunities | 6.00 |
| High Yield Bonds | 4.00 |
| Emerging Market Debt | 1.50 |
| Directional Hedge Funds | 2.25 |
| **Total Growth** | **56.25** |
| | |
| Long Duration Fixed Income | 7.00 |
| Cash | 1.00 |
| Diversifying Hedge Funds | 2.25 |
| **Total Risk Mitigation** | **10.25** |
| | |
| Global Ils & Gold | 16.50 |
| Private Real Assets | 12.00 |
| Public Real Assets | 5.00 |
| **Total Real Assets/Inflation Protection** | **33.50** |
| **Total** | **100.00 %** |

*Rate of Return.* The annual money-weighted rate of return on pension plan investments, net of pension plan investment expenses, for FY 2023 was 3.28%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

*Fair Value Measurement.* The System categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset and gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level I measurements) and the lowest priority to unobservable inputs (level III measurements).

Level I– Unadjusted quoted prices for identical assets or liabilities in active markets.
Level II – Quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in markets are not active; and model-derived valuations in which all significant inputs are observable.
Level III – Valuations derived from valuation techniques in which significant inputs are unobservable.

Investments that are measured at fair value using the net asset value per share (or its equivalent) as a practical expedient are not classified in the fair value hierarchy. In instances where inputs used to measure fair value fall into different levels in the fair value hierarchy, fair value measurements in their entirety are categorized based on the lowest level input that is significant to the valuation. The System's assessment of the significance of particular inputs to these fair value measurements requires judgment and considers factors specific to each asset or liability.

The table on the next page shows the fair value leveling of the System's investments.

| | | Fair Value Measurements Using | | |
|---|---|---|---|---|
| | 6/30/2023 | Quoted Prices in Active Markets for Identical Assets Level I | Significant Other Observable Inputs Level II | Significant Unobservable Inputs Level III |
| **Investments by fair value level** | | | | |
| Debt securities | | | | |
| Government and agency obligations | $ 93,931,515 | $ - | $ 93,931,515 | $ - |
| Municipal/Provincial obligations | 6,212,249 | - | 6,212,249 | - |
| Corporate bonds | 370,885,557 | - | 370,422,321 | 463,236 |
| Commercial mortgage-backed securities | 1,911,798 | - | 1,911,798 | - |
| Total debt securities | 472,941,119 | - | 472,477,883 | 463,236 |
| Equity securities | | | | |
| Consumer goods | 116,062,681 | 116,041,187 | - | 21,494 |
| Energy | 56,108,182 | 55,249,135 | 93,801 | 765,246 |
| Financial services | 85,148,080 | 85,148,080 | - | - |
| Health care | 95,028,825 | 95,028,825 | - | - |
| Industrials | 132,868,871 | 132,655,219 | - | 213,652 |
| Information technology | 140,533,057 | 140,514,024 | - | 19,033 |
| Materials | 28,708,624 | 28,644,976 | - | 63,648 |
| Telecommunication services | 49,762,599 | 49,643,536 | - | 119,063 |
| Utilities | 86,500,390 | 86,500,390 | - | - |
| Real Estate | 210,432,362 | 210,432,362 | - | - |
| Total equity securities | 1,001,153,671 | 999,857,734 | 93,801 | 1,202,136 |
| Securities lending collateral fund | 153,525,364 | - | 153,525,364 | - |
| Total investments by fair value level | 1,627,620,154 | $ 999,857,734 | $ 626,097,048 | $ 1,665,372 |
| **Investments measured at the net asset value (NAV)** | | | | |
| Commingled equity funds | 506,583,294 | | | |
| Commingled bond funds | 536,896,639 | | | |
| Commingled funds (other) | 11,468,580 | | | |
| Hedge funds | 213,083,620 | | | |
| Fund-of-hedge funds | 237,499,532 | | | |
| Private real assets | 497,879,182 | | | |
| Private equity/debt | 1,077,712,424 | | | |
| Total investments measured at the NAV | 3,081,123,271 | | | |
| **Investments measured at amortized cost** | | | | |
| Short-term investments | 213,371,201 | | | |
| Total investments measured at amortized cost | 213,371,201 | | | |
| Synthetic guaranteed investments contracts measured at contract value | 1,810,920 | | | |
| Total investments | $ 4,923,925,546 | | | |
| **Investment derivative instruments:** | | | | |
| Foreign exchange contracts | $ 2,433,520 | $ - | $ 2,433,520 | |
| Credit default swaps | $ 410,364 | $ - | $ 410,364 | |

Equity securities classified in Level I are valued using prices quoted in active markets for those securities.

Debt securities classified in Level II and Level III are valued using either a bid evaluation, or matrix pricing technique. Bid evaluations may include market quotations, yields, maturities, call features and ratings. Matrix pricing is used to value securities based on the securities relationship to benchmark quoted prices. Level II debt securities have non-proprietary information that was readily available to market participants, from multiple independent sources, which are known to be actively involved in the market. Level III debt securities use proprietary information or single source pricing. Equity securities classified in Level II are securities whose values are derived daily from associated traded securities. Equity securities classified in Level III are valued with last trade data having limited trading volume. Short-term investments are cash or cash equivalents and generally include investments in money market-type securities reported at cost plus accrued interest, which approximates market or fair value.

The valuation method for investments measured at the net asset value (NAV) per share, or equivalent, is presented in the table below.

**Investments Measured at the NAV**

| | Fair Value | Unfunded Commitments | Redemption Frequency | Redemption Notice Period |
|---|---|---|---|---|
| Commingled equity funds | $ 506,583,294 | $ - | Daily, Weekly, Monthly | 0-30 days |
| Commingled bond funds | 536,896,639 | - | Daily, Monthly | 0-5 days |
| Commingled funds (other) | 11,468,580 | - | Daily | None |
| Hedge funds | 213,083,620 | - | Monthly, Quarterly | 5-90 days |
| Fund-of-hedge funds | 237,499,532 | - | Quarterly | 95 days |
| Private real assets | 497,879,182 | 91,581,608 | Not eligible | N/A |
| Private equity/debt | 1,077,712,424 | 268,377,892 | Not eligible | N/A |
| Total investments measured at the NAV | $ 3,081,123,271 | $ 359,959,500 | | |

*Commingled Equity Funds, Bond Funds and Other.* Eight equity funds, five bond funds and one other fund are considered to be commingled in nature. The fair value of the investments in these types of funds has been determined using the NAV per share of the investments.

*Hedge Funds*. The fair value of the investments have been determined using the NAV per share of the funds. Three funds are categorized in this category. All funds in this category could be subject to varying degrees of redemption restrictions based on market conditions that may impact their underlying portfolios.

*Fund-of-Hedge Funds*. The fair value of these funds are based upon information provided by underlying hedge fund investments using the NAV per share of the funds. Fund-of-hedge funds provide additional opportunities in terms of manager access, investment structuring, and fees. These funds also could be subject to varying degrees of redemption restrictions based on market conditions that may impact their underlying portfolios.

*Private Real Assets.* The portfolio consists of forty-five private real asset limited partnerships. Private real asset funds include U.S. real estate, oil and gas, timber, agriculture and other real asset investments. The fair value of these funds has been determined using the net asset values as of June 30, 2023. Net asset values one quarter in arrears plus current quarter cash flows are used when the most recent information is not available. These funds are not eligible for redemption. Distributions are received as underlying investments within the funds are liquidated, which on average can occur over a span of 5 to 10 years.

*Private Equity/Debt.* The portfolio consists of one hundred-six private equity/debt limited partnerships. Private equity funds include buyout, turnaround, fund-of-funds, and growth equity investments. Private debt funds include distressed and structured equity investments. The fair value of these funds has been determined using the net asset values as of June 30, 2023. Net asset values one quarter in arrears plus current quarter cash flows are used when the most recent information is not available. These funds are not eligible for redemption. Distributions are received as underlying investments within the funds are liquidated, which on average can occur over a span of 3 to 10 years.

*Interest Rate Risk*. Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of the investment. The Board's investment policies and guidelines manage interest rate risk by establishing duration constraints on each fixed income manager's portfolio based on the duration of each manager's respective benchmark. Duration is a measure of interest rate risk based on a bond price's sensitivity to a 100-basis point change in interest rates. The greater the duration of a bond, or a portfolio of bonds, the greater its price volatility will be in response to a change in interest rates and vice-versa. Duration of eight would mean that, given a 100-basis point change up/down in rates, a bond's price would move down/up by 8 percent. As of June 30, 2023, the System's fixed income portfolio had the following sensitivity to changes in interest rates included in the table on the next page:

| Type of Investment | Effective Duration in Years | Fair Value | Percentage of Portfolio |
|---|---|---|---|
| U.S. Government Obligations | 15.74 | $ 93,152,416 | 7.62 % |
| Foreign Government Obligations | 5.30 | 779,099 | 0.07 |
| Commercial Mortgage-Backed Securities | 0.93 | 1,911,798 | 0.15 |
| Municipal/Provincial Obligations | 12.96 | 6,212,249 | 0.51 |
| Corporate Bonds | 5.97 | 370,885,557 | 30.32 |
| Fixed Income Pooled Funds | 11.17 | 536,896,639 | 43.89 |
| Short-term Investments and Others * | N/A | 213,371,201 | 17.44 |
| Total Fixed Income Securities | | $ 1,223,208,959 | 100.00 % |

*Short-term investments consist of U.S. Treasury and government sponsored securities, money market funds, commercial paper, certificates of deposit, repurchase agreements, asset backed securities, notes and bonds issued by U.S. corporations, and other allowable instruments that meet short-term maturity or average life, diversification, and credit quality restrictions.

*Credit Risk/Concentration of Credit Risk.* Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Board's investment policies and guidelines limit the percentage of the total fund and individual manager's account which can be invested in fixed income securities rated below investment grade. In addition, the Board's investment policies and guidelines, for the majority of public fund managers, limit the percentage of each investment manager's account that may be allocated to any one security, position, issuer or affiliated issuer, to less than 5 percent of the fair value of the investment manager's account. The System does not have investments (other than those issued or explicitly guaranteed by the U.S. Government or pooled investments) in any one company that represents 5 percent or more of net assets.

The quality ratings of investments in fixed income securities as described by nationally recognized rating organizations as of June 30, 2023 are as follows:

| Type of Investment | Quality Rating | Fair Value | Percentage of Portfolio |
|---|---|---|---|
| U.S. Government Obligations* | AA+ | $ 93,152,416 | 7.62 % |
| Foreign Government Obligations | BBB | 200,901 | 0.02 |
| | BB | 203,101 | 0.02 |
| | Unrated | 375,097 | 0.03 |
| Commercial Mortgage-Backed Securities | B | 664,519 | 0.05 |
| | Unrated | 1,247,279 | 0.10 |
| Municipal/Provincial Bonds | AAA | 4,554,265 | 0.37 |
| | AA | 718,639 | 0.06 |
| | A | 435,737 | 0.04 |
| | Unrated | 503,608 | 0.04 |
| Corporate Bonds | AAA | 2,629,656 | 0.21 |
| | AA | 8,318,702 | 0.68 |
| | A | 30,591,821 | 2.50 |
| | BBB | 61,211,691 | 5.00 |
| | BB | 124,895,865 | 10.21 |
| | B | 104,321,479 | 8.53 |
| | CCC | 26,854,022 | 2.20 |
| | CC | 114,453 | 0.01 |
| | C | 2,263 | 0.00 |
| | D | 460,334 | 0.04 |
| | Unrated | 11,485,271 | 0.94 |
| Fixed Income Pooled Funds | AA | 477,189,025 | 39.01 |
| | BB | 59,707,614 | 4.88 |
| Short-term Investments and others | Unrated | 213,371,201 | 17.44 |
| Total Fixed Income Securities | | $ 1,223,208,959 | 100.00 % |

*Obligations of the U.S. government or obligations explicitly guaranteed by the U.S. government are not considered to have credit risk and do not have purchase limitations.

*Foreign Currency Risk*. Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment. The Board's International Investing Policy's objective is to achieve long-term capital appreciation and current income by investing in diversified portfolios of non-U.S. equities and bonds. The System has indirect exposure to foreign currency risk as of June 30, 2023 as follows:

| International Securities | Equity | Fixed Income | Short-Term and Other | Total Non-U.S. Dollar |
|---|---|---|---|---|
| Hong Kong dollar | $ 25,238,943 | $ - | $ 5,599,894 | $ 30,838,837 |
| Indian rupee | - | - | 25,990,753 | 25,990,753 |
| British pound sterling | 39,421,920 | - | (19,204,042) | 20,217,878 |
| Indonesian rupiah | 113,273 | - | 19,156,917 | 19,270,190 |
| Brazilian real | - | - | 17,998,081 | 17,998,081 |
| Hungarian forint | - | - | 16,861,910 | 16,861,910 |
| Japanese yen | 41,123,297 | - | (25,984,253) | 15,139,044 |
| Colombian peso | - | - | 13,478,077 | 13,478,077 |
| Mexican peso | 3,666,433 | - | 6,936,118 | 10,602,551 |
| Singapore dollar | 8,550,137 | - | - | 8,550,137 |
| Other Currencies | 142,268,005 | - | (223,209,031) | (80,941,026) |
| Total International Securities | $ 260,382,008 | $ - | $(162,375,576) | $ 98,006,432 |

*Derivatives.* In accordance with the Board's Statement of Investment Policy and Objectives, the System regularly invests in derivative financial instruments in the normal course of its investing activities to manage exposure to certain risks within the fund. During FY 2023, the System invested directly in various derivatives including exchange-traded futures contracts, forward currency contracts, and swaps. Investment managers are prohibited from purchasing securities on margin or using leverage unless specifically permitted within the investment manager's guidelines. These investments generally contain market risk resulting from fluctuations in interest and currency rates. The credit risk of these investments is associated with the creditworthiness of the related parties to the contracts. The System could be exposed to risk if the counterparties to the contracts are unable to meet the terms of the contracts. The Board's Statement of Investment Policy and Objectives seeks to control this risk through counterparty credit evaluations and approvals, counterparty credit limits, and exposure monitoring procedures. In addition, the System has indirect exposure to market and credit risk through its ownership interests in certain mutual and commingled funds which may hold derivative financial instruments. The System is not a dealer, but an end-user of these instruments.

The notional or contractual amounts of derivatives indicate the extent of the System's involvement in the various types of derivative financial instruments and do not measure the System's exposure to credit or market risk and do not necessarily represent amounts exchanged by the parties. The amounts exchanged are determined by reference to the notional amounts and the other terms of the derivatives.

As permitted by the Board's policies, the System holds off-financial statement derivatives in the form of exchange-traded financial futures, and foreign currency exchange contracts.

Futures contracts are contracts in which the buyer agrees to purchase and the seller agrees to make delivery of a specified financial instrument at a predetermined date and price. Gains and losses on futures contracts are settled daily. Futures contracts are standardized and are traded on exchanges. The exchange assumes the risk that a counterparty will not pay. As of June 30, 2023, the System held 81 long US Treasury futures contracts with notional exposure of $10,698,469. The System also held 16 currency futures contracts and 548 equity futures contracts with notional exposure of $1,210,080 and $58,981,080, respectively. In addition, the System held 1,077 commodity futures contracts with notional exposure of $207,682,020.

Foreign exchange contracts involve an agreement to exchange the currency of one country for the currency of another country at an agreed-upon price and settlement date. Foreign exchange contracts contain market risk resulting from fluctuations in currency rates. The credit risk is associated with the creditworthiness of the related parties to the contracts. As of June 30, 2023, the System held $630,819,522 buy foreign exchange contracts and ($628,386,002) sell foreign exchange contracts. The unrealized gain on the System's contracts was $2,433,520.

Credit default swaps are financial instruments used to replicate the effect of investing in debt obligations or corporate bond issuers as a means to manage bond exposure, effectively buying or selling insurance protection in case of default. Credit default swaps may be specific to an individual security or to a specific market sector (index swaps). As of June 30, 2023, the System held one credit default swap index sell contract with a fair value of $410,364 and notional amount of $13,594,500.

*Securities Lending.* Board policy permits the System to lend its securities to broker-dealers and other entities (borrowers) for collateral that will be returned for the same securities in the future. The System's custodian is the agent in lending the System's securities for collateral of 102 percent for domestic and 105 percent for international securities. The custodian receives cash, securities or irrevocable bank letters of credit as collateral. All securities loans can be terminated on demand by either the System or the borrower. Cash collateral received from the borrower is invested by the lending agent, as an agent for the System, in a short-term investment pool in the name of the System, with guidelines approved by the Board. Such investments are considered a collateralized investment pool. The relationship between the maturities of the investment pool and the System's loans is affected by the maturities of securities loans made by other plan entities that invest cash collateral in the investment pool, which the System cannot determine. The System records a liability for the return of the cash collateral shown as collateral held for securities lending in the statement of fiduciary net position. The agent indemnifies the System by agreeing to purchase replacement securities, or return the cash collateral thereof, in the event a borrower fails to return loaned securities or pay distributions thereon. There were no such failures by any borrower during the fiscal year, nor were there any losses during the period resulting from a default of the borrower or lending agent.

As of June 30, 2023, the fair value of securities on loan was $362,176,685. Cash received as collateral and the related liability of $ $153,525,364 as of June 30, 2023, is shown on the Statement of Fiduciary Net Position. Securities received as collateral are not reported as assets since the System does not have the ability to pledge or sell the collateral securities absent borrower default. Securities lending revenues and expenses amounting to $7,423,162 and $ 6,488,569 respectively, have been classified with investment income and investment expenses, respectively, in the accompanying financial statements.

The following represents the balances relating to the securities lending transactions as of June 30, 2023:

| Securities Lent | Underlying Securities | Non-Cash Collateral Value | Cash Collateral Investment Value |
|---|---|---|---|
| Lent for Cash Collateral: | | | |
| Government Obligations | $ 36,016,021 | $ - | $ 36,585,395 |
| Corporate Bonds | 96,686,479 | - | 98,392,694 |
| Equities | 18,191,915 | - | 18,547,275 |
| Lent for Non-Cash Collateral: | | | |
| Government Obligations | 48,766,224 | 51,786,198 | - |
| Corporate Bonds | 21,447,082 | 22,103,574 | - |
| Equities | 141,068,964 | 148,001,166 | - |
| Total | $ 362,176,685 | $ 221,890,938 | $ 153,525,364 |

As of June 30, 2023, the System has no credit risk exposure to borrowers because the amounts the System owes the borrowers exceeded the amounts the borrowers owe the System. The System is fully indemnified by its custodial bank against any losses incurred as a result of borrower default.

*Custodial Credit Risk.* Custodial credit risk is the risk that, in the event of the failure of the counterparty, the System will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. As of June 30, 2023, there were no funds held by a counterparty that was acting as the System's agent in securities lending transactions.

**F. Allocated Insurance Contract**

On August 1, 1986, the County entered into an agreement with Aetna Life Insurance Company (Aetna) wherein Aetna accepted future responsibility for monthly payments to all members retired prior to January 1, 1986, in exchange for a lump sum payment. The County is liable for cost of living increases effective January 1, 1986, and later. Monthly payments made under this agreement have not been recognized in the System's financial statements.

**G. Income Taxes**

The Internal Revenue Service issued a determination letter in October 2016, which stated that the System and its underlying trust qualify under the applicable provisions of the Internal Revenue Code and are exempt from federal income taxes. In the opinion of the plan administrator, the System and its underlying trust have operated within the terms of the System and are qualified under the applicable provisions of the Internal Revenue Code.

**RETIREMENT SAVINGS PLAN - Defined Contribution Plan**

The Montgomery County Retirement Savings Plan (Plan) is considered part of the County's financial reporting entity and is included in the County's basic financial statements as a pension and other employee benefit trust fund. The accompanying financial statements present only the operations of the Plan in conformity with GAAP. They are not intended to present fairly the financial position and results of operations of the entire County.

The Montgomery County Council passed legislation in FY 2009 enabling the County to establish and maintain a Guaranteed Retirement Income Plan (GRIP), a cash balance plan that is part of the Employees' Retirement System, for employees. During FY 2010, eligible County employees who were members of the Retirement Savings Plan (Plan) were granted the option to elect to participate in the GRIP and to transfer their Plan member account balance to the GRIP and cease being a member of the Plan.

**A. Plan Description and Contribution Information**

*Membership*. As of June 30, 2023, membership in the Plan consisted of:

| | |
|---|---|
| Active plan members | 3,225 |
| Inactive plan members | 1,246 |

*Plan Description*. The Plan, a cost-sharing multiple-employer defined contribution plan, was established in 1994 and is sponsored by the County. Eight other agencies or political subdivisions have elected to participate. All non-public safety and certain public safety employees not represented by a collective bargaining agreement and hired on or after October 1, 1994 are covered by the Plan unless they elect to participate in the GRIP. Eligible employees covered by the Montgomery County Employees' Retirement System may make an irrevocable decision to transfer to this Plan.

*Contributions*. For fiscal year 2023, under Section 33-116 of the Code, the Plan required non-public safety employees to contribute 4 percent of regular earnings up to the Social Security wage base and 8 percent above the Social Security wage base. Public safety employees are required to contribute 3 percent of regular earnings up to the Social Security wage base and 6 percent above the Social Security wage base. Section 33-117 of the Code requires the County and each participating agency to contribute 8 percent and 10 percent of regular earnings for non-public safety and public safety employees, respectively.

*Benefit Provisions*. Employee contributions and earnings thereon vest immediately and employer contributions and earnings thereon are vested after three years of plan membership or upon death, disability, or reaching retirement age. Members are fully vested upon reaching normal retirement (age 62) regardless of years of service. At separation, a participant's benefit is determined based upon the account balance which includes contributions and investment earnings.

**B. Summary of Significant Accounting Policies**

*Basis of Accounting*. The Plan's financial statements have been prepared under the accrual basis of accounting. Member contributions are recognized in the period in which the contributions are required to be made as specified in the County Code. Benefits, refunds and distributions are recognized when due in accordance with the terms of the Plan. The cost of administering the Plan is paid by the County and participating agencies.

*Method Used to Value Investments*. Investments are stated at fair value. The fair value is based on net asset value or quoted market prices as of June 30, 2023.

*Equity in County's Pooled Cash and Investments*. The Plan maintains its short-term cash with the County, which invests cash and allocates interest earned, on a quarterly basis to the Plan based on the Plan's average daily balance of its equity in pooled cash. The County's policy is to fully collateralize the cash maintained in the pool.

## C. Trustees of the Plan

The County established a Board of Investment Trustees (Board) for the RSP to oversee the investment program. The Board consists of thirteen members appointed by the County Executive and confirmed by the County Council.

## D. Investments

Section 33-125 of the Code authorizes the Board to establish a diversified slate of mutual and commingled investment funds from which participants may select an option. The Board exercises the Standard of Care as delineated in Section 33-61 of the Code. As of June 30, 2023, the fair value of the mutual and commingled investment funds was $687,889,795, of which $158,295,837 was invested in international mutual funds.

*Fair Value Measurement.* The Plan categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset and gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level I measurements) and the lowest priority to unobservable inputs (level III measurements).

Level I– Unadjusted quoted prices for identical assets or liabilities in active markets.
Level II – Quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in markets are not active; and model-derived valuations in which all significant inputs are observable.
Level III – Valuations derived from valuation techniques in which significant inputs are unobservable.

Investments that are measured at fair value using the net asset value per share (or its equivalent) as a practical expedient are not classified in the fair value hierarchy. In instances where inputs used to measure fair value fall into different levels in the fair value hierarchy, fair value measurements in their entirety are categorized based on the lowest level input that is significant to the valuation. The Plan's assessment of the significance of particular inputs to these fair value measurements requires judgment and considers factors specific to each asset or liability. The table below shows the fair value leveling of the Plan's investments.

| | | Fair Value Measurements Using | | |
|---|---|---|---|---|
| | **6/30/2023** | **Quoted Prices in Active Markets for Level I** | **Significant Other Observable Inputs Level II** | **Significant Unobservable Inputs Level III** |
| **Investments by fair value level** | | | | |
| Self directed - various securities | $ 15,222,830 | $ 15,222,830 | $ - | $ - |
| Total investments by fair value level | 15,222,830 | $ 15,222,830 | $ - | $ - |
| **Investments measured at the net asset value (NAV)** | | | | |
| Commingled equity funds | 119,284,585 | | | |
| Commingled bond funds | 11,762,969 | | | |
| Commingled funds (other) | 520,543,886 | | | |
| Total investments measured at the NAV | 651,591,440 | | | |
| Commingled Fund - Synthetic guaranteed investments contracts measured at contract value | 21,075,525 | | | |
| Total investments | $ 687,889,795 | | | |

Securities classified in Level I are valued using prices quoted in active markets for those securities.

The valuation method for investments measured at the net asset value (NAV) per share, or equivalent, is presented in the table below.

**Investments Measured at the NAV**

| | | Fair Value | | Unfunded Commitments | Redemption Frequency | Redemption Notice Period |
|---|---|---|---|---|---|---|
| Commingled equity funds | $ | 119,284,585 | $ | - | Daily | None |
| Commingled bond funds | | 11,762,969 | | - | Daily | None |
| Commingled funds (other) | | 520,543,886 | | - | Daily | None |
| Total investments measured at the NAV | $ | 651,591,440 | $ | - | | |

*Commingled Bond Funds, Equity Funds and Other Funds.* Five bond funds and ten equity funds are considered commingled in nature. Other commingled funds include eleven life cycle funds and one other fund. The fair value of the investments in these types of funds have been determined using the NAV per share of the investments.

## E. Income Taxes

The Internal Revenue Service issued a determination letter in October 2016, which stated that the Plan and its underlying trust qualify under the applicable provisions of the Internal Revenue Code and are exempt from federal income taxes. In the opinion of the plan administrator, the Plan and its underlying trust have operated within the terms of the Plan and are qualified under the applicable provisions of the Internal Revenue Code.

## DEFERRED COMPENSATION PLAN

During FY 2005, the Montgomery County Council passed legislation enabling the County to establish and maintain one or more additional deferred compensation plans for employees covered by a collective bargaining agreement. All County non-represented employees, those County represented employees who elected to participate, and employees who were retired at the time of transfer, continue to participate in the Montgomery County Deferred Compensation Plan administered by the County (the County Plan). County represented employees who elected and all represented employees hired after March 1, 2005 participate in the newly created Montgomery County Union Employees Deferred Compensation Plan (the Union Plan) administered by the bargaining units. The purpose of these Plans is to extend to employees deferred compensation plans pursuant to Section 457 of the Internal Revenue Code of 1986, as amended.

The accompanying financial statements present only the operations of the County Plan in conformity with GAAP. They are not intended to present fairly the financial position and results of operations of the entire County. The assets of the Union Plan are not included in the accompanying financial statements since neither the County nor the Board of Investment Trustees (Board) have fiduciary or other responsibility for the Union Plan except as required by federal law, including any regulation, ruling, or other guidance issued under law.

### A. Plan Description and Contribution Information

*Plan Description*. During 1999, in accordance with Federal legislation, the assets were placed in Trust for the sole benefit of participants and their beneficiaries. Trust responsibilities for the County Plan are assigned to the Board. The Board has a third-party administrator contract to provide investment vehicles and administrative services to plan participants. Under the County Plan, contributions are sent to the providers for different types of investments as selected by the participants. A separate account, which reflects the monies deferred, investment of the monies, and related investment earnings is maintained for each participant by the third-party administrator. Withdrawals are made upon retirement, termination of employment, death, and/or in unforeseeable emergencies.

*Plan Contributions*. In accordance with Section 457 of the IRC, the Plan limits the amount of an employee's annual contributions to an amount not to exceed the lesser of $20,500 in 2022, and $19,500 in 2021 or 100% of the employee's eligible compensation. The Plan also provides certain catch-up contribution provisions for participants age 50 or older and for participants within three years of their normal retirement age. Amounts contributed by employees are deferred for federal and state income tax purposes until benefits are paid to the employees. Under Section 33-11 of the County Code, all eligible employees hired after July 1, 2008 are automatically enrolled in the Plan with a 1% contribution unless they elect out within 60 days from the date of hire. If they do not opt out of the Plan within 60 days from the date of hire, they begin making a contribution equivalent to 1% of their salary.

### B. Summary of Significant Accounting Policies

*Basis of Accounting*. The County Plan's financial statements have been prepared under the accrual basis of accounting. Member contributions are recognized in the period in which the contributions are made. Distributions are recognized when paid in accordance with the terms of the County Plan, and administrative costs are recognized as incurred.

*Method Used to Value Investments*. Investments are stated at fair value. The fair value is based on net asset value or quoted market prices on June 30, 2023.

### C. Trustees of the Plan

The County established a Board to oversee the investment program of the County Plan. The Board consists of thirteen members appointed by the County Executive and confirmed by the County Council.

### D. Investments

The Board is required to establish a diversified slate of mutual and commingled funds from which participants may select investment options. The Board exercises the Standard of Care as delineated in Section 33-61 of the Code. As of June 30, 2023, the fair value of the mutual and commingled investment funds was $574,657,832 of which $82,181,644 was invested in international mutual funds.

*Fair Value Measurement.* The Plan categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset and gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level I measurements) and the lowest priority to unobservable inputs (level III measurements).

Level I– Unadjusted quoted prices for identical assets or liabilities in active markets.
Level II – Quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in markets are not active; and model-derived valuations in which all significant inputs are observable.
Level III – Valuations derived from valuation techniques in which significant inputs are unobservable.

Investments that are measured at fair value using the net asset value per share (or its equivalent) as a practical expedient are not classified in the fair value hierarchy. In instances where inputs used to measure fair value fall into different levels in the fair value hierarchy, fair value measurements in their entirety are categorized based on the lowest level input that is significant to the valuation. The Plan's assessment of the significance of particular inputs to these fair value measurements requires judgment and considers factors specific to each asset or liability. The table below shows the fair value leveling of the Plan's investments.

| | | Fair Value Measurements Using | | |
|---|---|---|---|---|
| | | Quoted Prices in Active Markets for Identical Assets | Significant Other Observable Inputs | Significant Unobservable Inputs |
| | 6/30/2023 | Level I | Level II | Level III |
| **Investments by fair value level** | | | | |
| Self directed - various securities | $ 17,675,855 | $ 17,675,855 | $ - | $ - |
| Total investments by fair value level | 17,675,855 | $ 17,675,855 | $ - | $ - |
| **Investments measured at the net asset value (NAV)** | | | | |
| Commingled equity funds | 327,699,839 | | | |
| Commingled bond funds | 34,389,927 | | | |
| Commingled funds (other) | 141,183,380 | | | |
| Total investments measured at the NAV | 503,273,146 | | | |
| Commingled Fund - Synthetic guaranteed investments contracts measured at contract value | 53,708,831 | | | |
| Total investments | $ 574,657,832 | | | |

Securities classified in Level I are valued using prices quoted in active markets for those securities.

The valuation method for investments measured at the net asset value (NAV) per share, or equivalent, is presented in the table below:

**Investments Measured at the NAV**

| | Fair Value | Unfunded Commitments | Redemption Frequency | Redemption Notice Period |
|---|---|---|---|---|
| Commingled equity funds | $ 327,699,839 | $ - | Daily | None |
| Commingled bond funds | 34,389,927 | - | Daily | None |
| Commingled funds (other) | 141,183,380 | - | Daily | None |
| Total investments measured at the NAV | $ 503,273,146 | $ - | | |

*Commingled Bond Funds, Equity Funds and Other Funds*. Five bond funds and ten equity funds are considered commingled in nature. Other commingled funds include eleven life cycle funds and one other fund. The fair value of the investments in these types of funds have been determined using the NAV per share of the investments.

## REQUIRED SUPPLEMENTARY INFORMATION

Historical trend information about the Employees' Retirement System (System) defined benefit pension plan is presented below as required supplementary information. This information is intended to help users assess the System's funding status on a going-concern basis, assess progress made in accumulating assets to pay benefits when due, and make comparisons with other public employee retirement systems.

### SCHEDULE OF CHANGES IN THE EMPLOYERS' NET PENSION LIABILITY AND RELATED RATIOS

| Fiscal year ending June 30, | 2023 | 2022 | 2021 | 2020 | 2019 |
|---|---|---|---|---|---|
| **Total Pension Liability** | | | | | |
| Service Cost | $ 82,430,888 | $ 81,334,037 | $ 81,947,469 | $ 77,548,547 | $ 77,383,488 |
| Interest on the Total Pension Liability | 342,296,729 | 333,825,779 | 326,048,470 | 320,549,553 | 318,813,604 |
| Benefit Changes | 23,498,811 | - | - | - | - |
| Difference between Actual and Expected Experience | 147,148,767 | 7,768,030 | (16,244,403) | (52,694,298) | (8,632,850) |
| Assumption Changes | (38,410,093) | - | - | - | (97,002,014) |
| Benefit Payments | (310,438,546) | (287,003,081) | (267,420,904) | (262,073,745) | (256,950,531) |
| Refunds | (12,310,678) | (11,722,715) | (9,748,805) | (9,349,667) | (6,760,028) |
| **Net Change in Total Pension Liability** | 234,215,878 | 124,202,050 | 114,581,827 | 73,980,390 | 26,851,669 |
| **Total Pension Liability - Beginning** | 4,681,943,291 | 4,557,741,241 | 4,443,159,414 | 4,369,179,024 | 4,342,327,355 |
| **Total Pension Liability - Ending (a)** | $ 4,916,159,169 | $ 4,681,943,291 | $ 4,557,741,241 | $ 4,443,159,414 | $ 4,369,179,024 |
| **Plan Fiduciary Net Position** | | | | | |
| Contributions - Employer | $ 52,523,686 | $ 68,120,087 | $ 70,740,597 | $ 87,198,736 | $ 86,584,479 |
| Contributions - Member | 33,543,896 | 31,202,587 | 30,848,249 | 30,781,032 | 29,628,822 |
| Net Investment Income | 181,878,179 | (257,121,271) | 1,141,050,879 | 173,368,090 | 317,890,354 |
| Benefit Payments | (310,438,546) | (287,003,081) | (267,420,904) | (262,073,745) | (256,950,531) |
| Refunds | (12,310,678) | (11,722,715) | (9,748,805) | (9,349,667) | (6,760,028) |
| Administrative Expenses | (3,242,582) | (3,132,193) | (2,999,015) | (3,059,212) | (3,064,250) |
| **Net Change in Plan Fiduciary Net Position** | (58,046,045) | (459,656,586) | 962,471,001 | 16,865,234 | 167,328,846 |
| **Plan Fiduciary Net Position - Beginning Plan** | 4,836,315,936 | 5,295,972,522 | 4,333,501,521 | 4,316,636,287 | 4,149,307,441 |
| **Fiduciary Net Position - Ending (b)** | $ 4,778,269,891 | $ 4,836,315,936 | $ 5,295,972,522 | $ 4,333,501,521 | $ 4,316,636,287 |
| **Net Pension Liability (Asset) - Ending (a) - (b)** | 137,889,278 | (154,372,645) | (738,231,281) | 109,657,893 | 52,542,737 |
| **Plan Fiduciary Net Position as a Percentage of Total Pension Liability** | 97.20% | 103.30% | 116.20% | 97.53% | 98.80% |
| **Covered Payroll** | $ 564,939,277 | $ 510,692,954 | $ 506,377,759 | $ 503,656,509 | $ 476,619,112 |
| **Net Pension Liability as a Percentage of Covered Payroll** | 24.41% | (30.23)% | (145.79)% | 21.77% | 11.02% |

*Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.*

| 2018 | 2017 | 2016 | 2015 | 2014 |
|---|---|---|---|---|
| $ 74,269,457 | $ 71,688,228 | $ 70,847,993 | $ 74,984,370 | $ 70,019,055 |
| 314,427,728 | 307,446,425 | 300,076,908 | 291,040,049 | 281,988,785 |
| - | - | - | 3,626,601 | - |
| (78,304,829) | (44,766,772) | (34,032,308) | 602,431 | - |
| - | - | - | (12,706,870) | - |
| (238,915,782) | (235,124,234) | (230,695,791) | (230,646,729) | (229,664,720) |
| (4,624,066) | (6,473,277) | (5,887,137) | (2,874,357) | (4,329,834) |
| 66,852,508 | 92,770,370 | 100,309,665 | 124,025,495 | 118,013,286 |
| 4,275,474,847 | 4,182,704,477 | 4,082,394,812 | 3,958,369,317 | 3,840,356,031 |
| $ 4,342,327,355 | $ 4,275,474,847 | $ 4,182,704,477 | $ 4,082,394,812 | $ 3,958,369,317 |
| | | | | |
| $ 93,163,298 | $ 95,398,957 | $ 134,806,256 | $ 151,301,867 | $ 144,709,675 |
| 28,964,769 | 27,940,416 | 27,056,040 | 26,627,493 | 26,462,839 |
| 340,084,494 | 413,346,704 | 57,676,057 | 67,070,433 | 534,397,733 |
| (238,915,782) | (235,124,234) | (230,695,791) | (230,646,729) | (229,664,720) |
| (4,624,066) | (6,473,277) | (5,887,137) | (2,874,357) | (4,329,834) |
| (2,870,683) | (3,185,769) | (3,014,055) | (2,684,560) | (2,953,807) |
| 215,802,030 | 291,902,797 | (20,058,630) | 8,794,147 | 468,621,886 |
| 3,933,505,411 | 3,641,602,614 | 3,661,661,244 | 3,652,867,097 | 3,184,245,211 |
| $ 4,149,307,441 | $ 3,933,505,411 | $ 3,641,602,614 | $ 3,661,661,244 | $ 3,652,867,097 |
| 193,019,914 | 341,969,436 | 541,101,863 | 420,733,568 | 305,502,220 |
| | | | | |
| 95.55% | 92.00% | 87.06% | 89.69% | 92.28% |
| $ 467,974,450 | $ 444,274,516 | $ 427,622,475 | $ 418,728,584 | $ 402,899,096 |
| 41.25% | 76.97% | 126.54% | 100.48% | 75.83% |

## SCHEDULE OF EMPLOYER CONTRIBUTIONS

| Fiscal Year Ended June 30 | Actuarially Determined Contribution | Actual Contribution | Contribution Deficiency (Excess) | Covered Payroll | Actual Contribution as a % of Covered Payroll |
|---|---|---|---|---|---|
| 2014 | $ 144,709,675 | 144,709,675 | $ - | $ 402,899,096 | 35.92 % |
| 2015 | 151,301,867 | 151,301,867 | - | 418,728,584 | 36.13 |
| 2016 | 134,806,256 | 134,806,256 | - | 427,622,475 | 31.52 |
| 2017 | 95,398,957 | 95,398,957 | - | 444,274,516 | 21.47 |
| 2018 | 93,163,298 | 93,163,298 | - | 467,974,450 | 19.91 |
| 2019 | 86,584,479 | 86,584,479 | - | 476,619,112 | 18.17 |
| 2020 | 87,198,736 | 87,198,736 | - | 503,656,509 | 17.31 |
| 2021 | 70,740,597 | 70,740,597 | - | 506,377,759 | 13.97 |
| 2022 | 68,120,087 | 68,120,087 | - | 510,692,954 | 13.34 |
| 2023 | 52,523,686 | 52,523,686 | - | 564,939,277 | 9.30 |

## NOTES TO SCHEDULE OF EMPLOYER CONTRIBUTIONS

| | |
|---|---|
| **Valuation Date:** | July 1, 2021 |
| Notes | Actuarially determined contribution rates are calculated 24 months prior to the end of the fiscal year in which contributions are reported. |

**Methods and Assumptions Used to Determine Actuarially Determined Contribution:**

| | |
|---|---|
| Actuarial Cost Method | Individual Entry Age Normal |
| Amortization Method | Level percentage of pay, separate closed period bases |
| Remaining Amortization Period | Amortization Period (beginning with the valuation as of July 1, 2015): For Public Safety and GRIP: Initial amortization period of 20 years for the base established July 1, 2015. Initial amortization period of 20 years for subsequent bases. For non-Public Safety: Single closed amortization period of nine years established July 1, 2015. Average remaining amortization period for all plans is 28.0 years as of July 1, 2021. |
| Asset Valuation Method | 5-year smoothed market |
| Inflation | 2.50% per year |
| Salary Increases | Wage inflation of 3.00% per year plus additional service-based increases of up to 7.75%. Total increases of 3.00%-10.75%. |
| Investment Rate of Return | 7.50% net of investment expense, including inflation |
| Retirement Age | Experience-based table of rates that are specific to the type of eligibility condition and years of service. Last updated for the 2019 valuation pursuant to an experience study of the period 2014-2018. |
| Mortality | Pub-2010 Public Sector Mortality Table (for General and Safety employees), sex distinct, with rates projected from 2010 using projection scale MP-2018 (generational mortality). |
| Cost-of-Living Adjustment | 2.50% compound for service before July 1, 2011 (1.50% compound for service before July 1, 2011 for defined groups) and 2.20% compound for service on or after July 1, 2011 |

## SCHEDULE OF INVESTMENT RETURNS

| Fiscal Year Ended June 30 | Annual Money Weighted Rate of Return, Net of Investment Expenses |
|---|---|
| 2014 | 16.95 % |
| 2015 | 2.19 |
| 2016 | 1.42 |
| 2017 | 11.65 |
| 2018 | 8.60 |
| 2019 | 8.05 |
| 2020 | 3.41 |
| 2021 | 26.34 |
| 2022 | (3.17) |
| 2023 | 3.28 |

*Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.*

MONTGOMERY COUNTY EMPLOYEE RETIREMENT PLANS
SCHEDULE OF ADMINISTRATIVE EXPENSES
FOR THE YEAR ENDED JUNE 30, 2023

| | Employees' Retirement system | Retirement Savings Plan | Deferred Compensation Plan* |
|---|---|---|---|
| Personnel Services: | | | |
| Salaries and wages | $ 1,886,409 | $ 171,565 | $ - |
| Retirement contributions | 104,203 | 10,238 | - |
| Insurance | 180,456 | 16,357 | - |
| Social security | 129,256 | 12,183 | - |
| Total personnel services | 2,300,324 | 210,343 | - |
| Professional Services: | | | |
| Actuarial | 179,528 | - | - |
| Independent public accountants | 27,322 | 3,415 | - |
| Outside legal | 92,033 | 1,272 | - |
| Computer technical support | 155,369 | - | - |
| Other professional services | 41,962 | 46,658 | - |
| Total professional services | 496,214 | 51,345 | - |
| Benefit Processing: | | | |
| Disbursement services | 29,360 | - | - |
| Recordkeeping services | 128,695 | - | - |
| Disability management | 201,249 | - | - |
| Total benefit processing | 359,304 | - | - |
| Due diligence and continuing education | 23,505 | - | - |
| Office Management: | | | |
| Office equipment and supplies | 64,235 | 4,418 | - |
| Total office management | 64,235 | 4,418 | - |
| Total administrative expenses | $ 3,243,582 | $ 266,106 | $ - |

SCHEDULE OF PAYMENTS TO CONSULTANTS
FOR THE YEAR ENDED JUNE 30, 2023

| | Employees' Retirement system | Retirement Savings Plan | Deferred Compensation Plan* |
|---|---|---|---|
| Actuarial & Audit Services | $ 206,850 | $ 3,415 | $ - |
| Financial Planning and Consultation Services | - | 46,125 | - |
| Legal Services | 92,033 | 1,272 | - |
| IT Professional Services | 162,319 | - | - |
| Total payments to consultants | $ 461,202 | $ 50,812 | $ - |

*Deferred Compensation Plan expenses are funded through Montgomery County Government's General Fund.

MONTGOMERY COUNTY EMPLOYEE RETIREMENT PLANS
SCHEDULE OF INVESTMENT EXPENSES
FOR THE YEAR ENDED JUNE 30, 2023

| | Employees' Retirement System | Retirement Savings Plan | Deferred Compensation Plan* |
|---|---|---|---|
| Investment Management Expenses: | | | |
| Acadian Asset Management | $ 465,188 | $ - | $ - |
| Arrowstreet Capital Ltd. | 538,204 | - | - |
| BlackRock Financial Management | 17,363 | - | - |
| Bridgewater Associates | 7,777,112 | - | - |
| Canadian Imperial Bank of Commerce | 201,600 | - | - |
| Eagle Asset Management | 366,642 | - | - |
| First Quadrant L.P. | 22,093 | - | - |
| Global Alpha Capital Management Ltd. | 286,962 | - | - |
| Highclere International Investors LLP | 530,667 | - | - |
| Loomis Sayles & Company LP | 255,861 | - | - |
| Marathon Asset Management Limited | 357,354 | - | - |
| Morgan Stanley Investment Management Inc | 400,299 | - | - |
| NISA Investment Advisors LLC | 103,783 | - | - |
| Nomura Asset Management | 582,600 | - | - |
| P/E Global LLC | 2,600,048 | - | - |
| Principal Real Estate Investors LLC | 372,049 | - | - |
| RhumbLine Advisors | 18,940 | - | - |
| Segall Bryant & Hamill LLC | 145,524 | - | - |
| Schroder Investment Management North America Inc. | 348,794 | - | - |
| TimesSquare | 131,005 | - | - |
| WCM Investment Management | 435,628 | - | - |
| Wellington Management Company LLP | 582,750 | - | - |
| The Northern Trust Company | 500,215 | - | - |
| Abel Noser Solutions LLC | 5,250 | - | - |
| Aetna Life Insurance Company | 1,733 | - | - |
| Albourne America LLC | 636,863 | - | - |
| Bloomberg Finance LP | 17,831 | 2,547 | - |
| Ernst and Young | 7,397 | - | - |
| Evestment | 15,306 | 3,827 | - |
| Franklin Park Associates LLC | 600,368 | - | - |
| FTSE International | 1,600 | - | - |
| Institutional Limited Partners Association | 6,000 | - | - |
| Institutional Shareholder Services Inc | 17,500 | - | - |
| MSCI ESG Research Inc | 12,305 | - | - |
| NEPC LLC | 344,173 | - | - |
| PEI Media Inc | 15,000 | - | - |
| Preqin | 12,800 | - | - |
| Principles for Responsible Investment Association | 2,100 | 420 | - |
| Two Sigma Investor Solutions LP | 14,500 | 3,625 | - |
| Wilshire Associates Incorporated | 8,750 | - | - |
| Total investment management expenses | 18,760,157 | 10,419 | - |
| Securities lending borrower rebates | 6,324,047 | - | - |
| Securities lending agent fees | 164,522 | - | - |
| Total securities lending expenses | 6,488,569 | - | - |
| Total investment expenses | $ 25,248,726 | $ 10,419 | $ - |

*Deferred Compensation Plan expenses are funded through Montgomery County Government's General Fund.

EMPLOYEES' RETIREMENT SYSTEM
STATEMENTS OF FIDUCIARY NET POSITION
JUNE 30, 2023 AND 2022

| | 2023 | 2022 |
|---|---|---|
| **ASSETS** | | |
| Equity in County's pooled cash and investments | $ 533,121 | $ 2,027,017 |
| Investments: | | |
| Government and agency obligations | 93,931,515 | 90,898,497 |
| Municipal/Provincial bonds | 6,212,249 | 6,901,970 |
| Asset-backed securities | - | - |
| Corporate bonds | 370,885,557 | 403,474,888 |
| Commercial mortgage-backed securities | 1,911,798 | 2,681,279 |
| Common and preferred stock | 1,001,153,671 | 1,099,036,741 |
| Mutual and commingled funds | 1,507,342,585 | 1,653,739,980 |
| Short-term investments | 213,371,201 | 173,905,699 |
| Cash collateral received under securities lending agreements | 153,525,364 | 191,146,313 |
| Private real assets | 497,879,182 | 433,852,253 |
| Private equity/debt | 1,077,712,424 | 971,247,096 |
| Total investments | 4,923,925,546 | 5,026,884,716 |
| Dividend, interest, and other receivables | 11,441,323 | 11,508,575 |
| Contributions receivable | 3,524,000 | 6,918,120 |
| Total assets | 4,939,423,990 | 5,047,338,428 |
| **LIABILITIES** | | |
| Payable for collateral received under securities lending agreements | 153,525,364 | 191,146,313 |
| Benefits payable and other liabilities | 7,629,735 | 19,876,179 |
| Total liabilities | 161,155,099 | 211,022,492 |
| **Net position restricted for pensions** | $ 4,778,268,891 | $ 4,836,315,936 |

EMPLOYEES' RETIREMENT SYSTEM
STATEMENTS OF CHANGES IN FIDUCIARY NET POSITION
FOR THE YEARS ENDED JUNE 30, 2023 and 2022

| | 2023 | 2022 |
|---|---|---|
| **ADDITIONS** | | |
| Contributions: | | |
| Employer | $ 52,523,686 | $ 68,120,087 |
| Members | 33,543,896 | 31,202,587 |
| Total contributions | 86,067,582 | 99,322,674 |
| Investment Income (Loss): | | |
| Net decrease in fair value of investments | 128,275,723 | (300,782,047) |
| Dividends and interest | 71,428,020 | 83,251,845 |
| Total income (loss) from investment activities | 199,703,743 | (217,530,202) |
| Less investment expenses | 18,760,157 | 40,397,410 |
| Net income (loss) from investment activities | 180,943,586 | (257,927,612) |
| Income from securities lending | 7,423,162 | 1,181,873 |
| Less securities lending expenses | 6,488,569 | 375,532 |
| Net income from securities lending | 934,593 | 806,341 |
| Total additions (reductions) | 267,945,761 | (157,798,597) |
| **DEDUCTIONS** | | |
| Retiree benefits | 238,982,643 | 220,330,653 |
| Disability benefits | 59,673,567 | 55,902,141 |
| Survivor benefits | 11,782,336 | 10,770,287 |
| Refunds and distributions | 12,310,678 | 11,722,715 |
| Administrative expenses | 3,243,582 | 3,132,193 |
| Total deductions | 325,992,806 | 301,857,989 |
| Net (decrease) | (58,047,045) | (459,656,586) |
| **Net position restricted for pensions** Beginning of year | 4,836,315,936 | 5,295,972,522 |
| End of year | $4,778,268,891 | $4,836,315,936 |

RETIREMENT SAVINGS PLAN
STATEMENTS OF FIDUCIARY NET POSITION
JUNE 30, 2023 AND 2022

| | 2023 | 2022 |
|---|---|---|
| **ASSETS** | | |
| Equity in County's pooled cash and investments | $ 448,590 | $ 400,154 |
| Investments | 687,889,795 | 612,163,832 |
| Accounts receivable | 1,432,772 | 2,339,801 |
| Total assets | 689,771,157 | 614,903,787 |
| **LIABILITIES** | | |
| Accrued expenses | 46,326 | 58,987 |
| **Net position held in trust for pension benefits** | $ 689,724,831 | $ 614,844,800 |

RETIREMENT SAVINGS PLAN
STATEMENTS OF CHANGES IN FIDUCIARY NET POSITION
FOR THE YEARS ENDED JUNE 30, 2023 AND 2022

| | 2023 | 2022 |
|---|---|---|
| **ADDITIONS** | | |
| Contributions: | | |
| Employers | $ 23,524,411 | $ 22,341,229 |
| Members | 11,942,596 | 12,205,025 |
| Total contributions | 35,467,007 | 34,546,254 |
| Investment income (loss) | 68,089,083 | (104,124,486) |
| Other income - forfeitures | 366,746 | 547,006 |
| Net investment income (loss) | 68,455,829 | (103,577,480) |
| Less investment expenses | 10,419 | 6,791 |
| Total additions (reductions) | 103,912,417 | (69,038,017) |
| **DEDUCTIONS** | | |
| Distributions | 28,766,280 | 22,750,933 |
| Administrative expenses | 266,106 | 276,665 |
| Total deductions | 29,032,386 | 23,027,598 |
| Net increase (decrease) | 74,880,031 | (92,065,615) |
| Net Position - beginning of year | 614,844,800 | 706,910,415 |
| Net Position - end of year | $ 689,724,831 | $ 614,844,800 |

DEFERRED COMPENSATION PLAN
STATEMENTS OF FIDUCIARY NET POSITION
JUNE 30, 2023 AND 2022

| | 2023 | 2022 |
|---|---|---|
| **ASSETS** | | |
| Investments | $ 574,657,832 | $ 515,583,856 |
| Contributions receivable | 596,200 | 1,322,491 |
| **Net position restricted for pensions** | $ 575,254,032 | $ 516,906,347 |

DEFERRED COMPENSATION PLAN
STATEMENTS OF CHANGES IN FIDUCIARY NET POSITION
FOR THE FISCAL YEARS ENDED JUNE 30, 2023 AND 2022

| | 2023 | 2022 |
|---|---|---|
| **ADDITIONS** | | |
| Contributions - members | $ 22,544,268 | $ 23,908,201 |
| Investment (loss) income | 71,612,243 | (89,286,742) |
| Total (reductions) additions | 94,156,511 | (65,378,541) |
| **DEDUCTIONS** | | |
| Distributions | 35,808,826 | 29,918,725 |
| Total deductions | 35,808,826 | 29,918,725 |
| Net (decrease) increase | 58,347,685 | (95,297,266) |
| Net position - beginning of year | 516,906,347 | 612,203,613 |
| Net position - end of year | $ 575,254,032 | $ 516,906,347 |

# INVESTMENT SECTION

## Employees' Retirement System

# INVESTMENT OVERVIEW

The Board of Investment Trustees (Board), and the Investment Staff, are responsible for the investment program for the $4.8 billion Employees' Retirement System (the System) with the assets invested solely in the interests of its beneficiaries. It is a significant responsibility due to the majority of the average retiree's benefit coming from investment earnings on contributions from members, the County, and participating agencies.

The median return among U.S. public pension plans over $1 billion in size in FY 2023 was a gain of 7.9%, gross of fees, based on a survey of public pension plans conducted by NEPC, a national consulting firm. The System's return for the fiscal year was a gain of 4.0%, gross of fees, ranking in the universe's fourth quartile. The key drivers of the performance for the twelve-month period ending June 30, 2023, were the System's allocations to private equity, private debt, diversifying hedge funds, and emerging market debt. The same study ranked the System's three-year return of 8.6% as median for the universe. The System's five-year return of 7.7% and ten-year return of 8.1% both rank in the first quartile of the peer group universe. The gross return for the one-year period was above the performance benchmark established by the Board by 0.9%, with returns for the three-year and five-year periods exceeding the performance benchmarks by 2.7% and 1.8%, respectively. Returns for the System are calculated on a time-weighted basis (except as noted on page 54).

# INVESTMENT POLICY AND OBJECTIVES

In the investment of public funds, adequate funding of employee retirement benefits at a reasonable and affordable cost is a paramount concern. An appropriate balance must be struck between risks taken and returns sought to ensure the long-term health of the System. The Board has adopted an investment policy that works to control the extent of downside risk to which the System is exposed while maximizing the potential for long term increases in the value of assets.

Specific investment objectives include:

- To realize the actuarial assumed rate of return of 7.5%.
- To manage portfolio risk to limit potential downside fluctuations in the value of the total System assets.
- To realize as high a rate of total return as possible consistent with the above.

To achieve these objectives, the following investment policies are employed:

- Allocate System assets to a broad array of investment sectors and strategies.
- Maintain the asset allocation in compliance with the Board's rebalancing policy (+/- 5.0% for major asset classes and +/- 1.5% to 3.0% for sub-asset classes).
- Monitor the individual investment managers' market value to ensure compliance with the Board's Statement of Investment Policy and the Manager Funding Policy.
- Evaluate the performance of all investment managers against their specific performance and style objectives, assigned risk, and the returns achieved by other similar managers.
- Analyze the System's overall risk exposure and modify investments through rebalancing when necessary.
- Effectively manage and monitor claims and securities litigations by use of a third-party vendor or outside counsel.

The funded status of the System was 98.6% as of June 30, 2023. Additional information on the results of the actuarial valuation as of June 30, 2023, is detailed on pages 61 to 79 of the report.

## SIGNIFICANT ACTIONS IN 2023

The Board continued to implement changes to the investment portfolio in an effort to improve the risk-adjusted returns of the program. During the year, new investments were added across the portfolio, including enhancements to public equity, private equity, private credit, and private real assets portfolios.

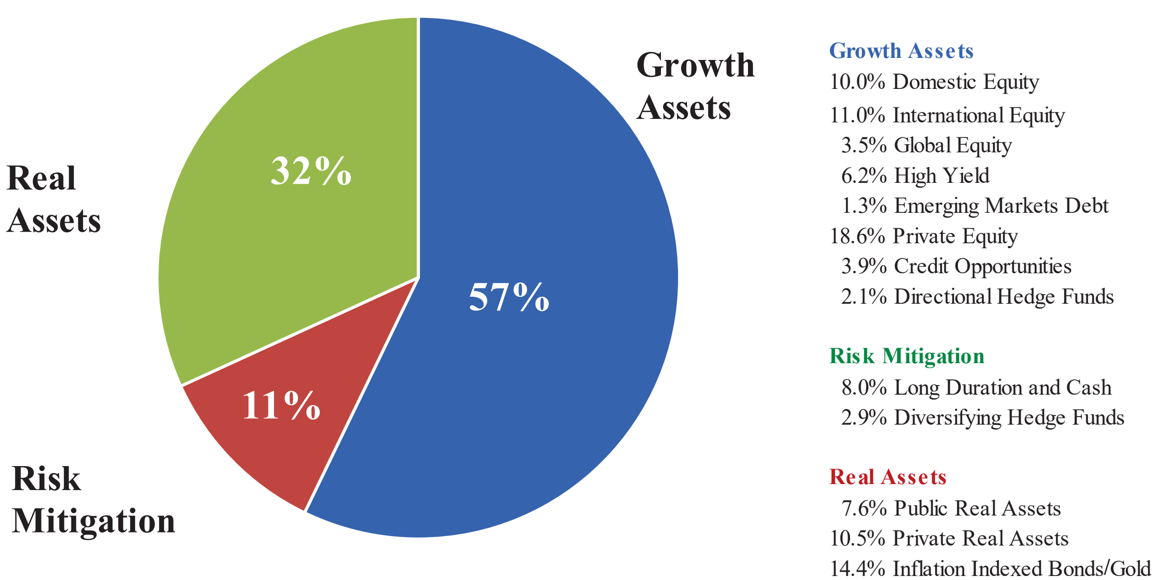
Environmental, Social, and Governance (ESG) considerations continue to play an important role in the investment program. Over the last year, staff completed the second annual Principles for Responsible Investment (PRI) submission, which is the most robust way for our ESG integration process to be benchmarked to peers. Staff continue to influence investment managers in the portfolio to become PRI signatories, as we believe it is the industry standard designation concerning ESG integration. Currently, 52% of the managers within the portfolio are signatories, up from 44% last year. Staff also engage with investment managers on Diversity, Equity, and Inclusion (DEI) initiatives within their firms and report results at several Board meetings throughout the year. The Board's Governance Manual states that the Board, staff, and consultants are committed to including emerging investment managers in searches, including businesses owned by women, minorities, and disabled individuals. As of the end of the fiscal year, 24% of the portfolio was allocated to diverse firms.

The following pages reflect comments on the investment portfolio and were prepared by the Board of Investment Trustees Staff.

## ASSET ALLOCATION

The Board's asset allocation policy buckets or groups assets into the following categories based on their risk/return attributes and correlation to each other: growth, risk mitigation, and real assets. This provides a clear outline of the risk and diversification of the System's assets based on exposures to the economic factors of growth and inflation.

The pie chart below notes the grouping of the assets within the buckets. The Board's allocation within each bucket seeks to maximize returns and minimize risk.



The Board and Staff believe that a well-diversified portfolio will serve the Trust well over the long-term to manage the overall risk of the portfolio. Shown below is the description of each category:

- Growth - provides returns associated with the economic growth of underlying global economies.
- Risk mitigation - provides protection against negative growth shocks by offering a reliable income stream through the yield component. This yield also provides some protection against a deflationary environment, characterized by falling interest rates.
- Real assets - provides some level of protection against an inflationary environment, as well as additional diversification to the total portfolio through a differentiated income stream generate by owning tangible hard assets.

The risk/return characteristics of the System are evaluated on a periodic basis through annual asset allocation reviews. Asset/liability studies are prepared every three (3) years. The goal of these reviews is to formulate an Asset Allocation Policy which maximizes return while minimizing overall risk through the most efficient combination of acceptable asset classes under the prudent person standard.

Investments in private markets are generally less liquid than investments in public markets and are typically implemented via periodic commitments to funds. As a result, actual allocations to private markets may deviate from their strategic targets for extended periods. Under or over weights to private markets are invested in public market securities with the most similar risk/return characteristics as a short-term proxy for the private asset classes.

Shown on the next page are the annualized investment returns as of June 30, 2023, for all asset classes.

# INVESTMENT PERFORMANCE – ANNUALIZED RETURNS – JUNE 30, 2023

| | 1 Year | 3 Year | 5 Year |
|---|---|---|---|
| **Total Fund Time-Weighted Returns** | | | |
| MCERS | 4.0[A] % | 8.6[A] % | 7.7[A] % |
| Policy Benchmark | 3.1 | 5.9 | 5.9 |
| **Domestic Equities** | | | |
| MCERS | 17.2 | 13.4 | 10.9 |
| Russell 3000 Benchmark | 19.0 | 13.9 | 11.4 |
| **International Equities** | | | |
| MCERS | 12.4 | 6.9 | 3.3 |
| Custom International Equity Benchmark | 12.7 | 7.5 | 3.5 |
| **Global Equities** | | | |
| MCERS | 18.7 | 12.4 | 12.5 |
| MSCI All Country World Benchmark | 16.5 | 11.0 | 8.1 |
| **Private Equities** | | | |
| MCERS | 6.9 [A,B] | 24.6 [A,B] | 23.8 [A,B] |
| Investible Russell 3000 + 300 Bpts Benchmark | 20.8 [B] | 18.5 [B] | 15.6 [B] |
| **High Yield** | | | |
| MCERS | 9.7 | 4.0 | 3.5 |
| ICE BofAML U.S. HY Constrained Benchmark | 8.9 | 3.2 | 3.2 |
| **Emerging Markets Debt** | | | |
| MCERS | 9.8 | - | - |
| JPM EMBI Global Diversified Benchmark | 7.4 | - | - |
| **Credit Opportunities** | | | |
| MCERS | 8.0 [A,B] | 16.0 [A,B] | 12.5 [A,B] |
| Investible ICE BofAML U.S. HY Const. + 300 Bpts | 11.9 [B] | 6.2 [B] | 6.4 [B] |
| **Directional Hedge Funds** | | | |
| MCERS | 2.9 | 6.4 | 1.9 |
| HFR FoF Strategic Benchmark | 3.5 | 4.1 | 2.5 |
| **Long Duration** | | | |
| MCERS | (3.9) | (9.5) | 0.5 |
| BC U.S. Gov't/Credit Long Benchmark | (4.9) | (9.5) | 0.0 |
| **Diversifying Hedge Funds** | | | |
| MCERS | 7.6 | 8.9 | 6.7 |
| HFR FoF Conservative Benchmark | 3.5 | 6.0 | 3.9 |
| **Public Real Assets** | | | |
| MCERS | (0.7) | 5.3 | 1.6 |
| Custom Public Real Asset Benchmark | (2.9) | 5.9 | 1.1 |
| **Private Real Assets** | | | |
| MCERS | 3.5 [A,B] | 17.1 [A,B] | 9.7 [A,B] |
| CPI + 500 Bpts Benchmark | 8.1 [B] | 11.1 [B] | 9.2 [B] |
| **Global Inflation Indexed Bonds/Gold** | | | |
| MCERS | (13.2) | (1.5) | (2.6) |
| Custom ILB Benchmark | (8.0) | (5.9) | 0.5 |

Return data for the System was calculated on a time weighted basis (except where noted). Returns shown are provided by various System vendors. Valuations are based on published national securities exchange prices, where available, and all valuations are reconciled between the various investment managers and the custodian bank. Returns are gross of fees paid to investment managers except where noted.

A: Returns utilize lagged valuations for fund-of-funds, including private equity, credit opportunities and private real assets.
B: Returns computed on dollar-weighted basis and may or may not be net of investment management fees.

# GROWTH INVESTMENTS

## PUBLIC EQUITY

The market value of the total Public Equity Portfolio as of June 30, 2023, represented approximately 24.5% of the System assets, split between Domestic Equity at 9.9%, International Equity at 11.4%, and Global Equity at 3.5%. The Domestic Equity Portfolio underperformed the Russell 3000 Benchmark by 1.8% for the one year ending June 30, 2023. After declining on concerns about slowing growth, inflation, and interest rate increases, U.S. equity markets advanced during the preceding quarters on strong corporate earnings, cooling inflation, and growing soft-landing expectations. Technology related securities led the gains towards the end the fiscal year, driven by companies such as Apple, Microsoft, Amazon, Google, Nvidia, and Meta, which in total had 28% weight of the S&P 500.

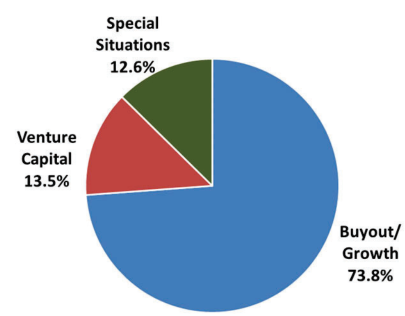
The International Equity Portfolio underperformed the international equity benchmark by 0.3% for the fiscal year. Overall, the international markets followed their domestic counterparts by declining earlier in the fiscal year due to monetary policy tightening and the ongoing energy crisis. However, they advanced during the remainder of the year supported by hopes that inflation may be peaking in Europe as well as in the U.S. Within developed international markets, European equities outperformed the Pacific region. As of June 30, 2023, emerging markets represented 35.1% of the International Equity Portfolio. Emerging markets lagged developed markets during the period, driven earlier by Eastern European countries as the war in Ukraine escalated and led to an energy crisis in Europe. In addition, Chinese markets declined 16.8% on reescalation in U.S.-China tensions, the slump in the property market, and disappointing economic results after the COVID reopening.

## EQUITY: TOP 15 HOLDINGS

The top 15 holdings in the Public Equity Portfolio comprised 3.57% of ERS assets as of June 30, 2023. In comparison to the top 15 holdings as of June 30, 2022, Apple, Microsoft, American Tower, China Gas Holdings, Amazon, GFL Environmental, Prologis, Vinci, Infrastructure Wireless Italia, UnitedHealth, Enbridge and Sempra remained while Nvidia, National Grid, and Ventas were added.

| Equity | Shares | Market Value |
|---|---|---|
| MICROSOFT CORP COM | 77,378 | $ 26,350,304 |
| APPLE INC COM STK | 135,200 | 26,224,744 |
| AMERICAN TOWER CORP | 72,627 | 14,197,122 |
| AMAZON COM INC COM | 105,566 | 13,761,584 |
| CHINA GAS HOLDINGS HKD0.01 | 10,379,910 | 11,881,147 |
| NVIDIA CORP COM | 25,602 | 10,830,158 |
| GFL ENVIRONMENTAL INC. COM NPV SUB VTG SHS | 264,923 | 10,279,012 |
| PROLOGIS INC COM | 80,868 | 9,916,843 |
| NATIONAL GRID ORD GBP0.12431289 | 638,325 | 8,749,154 |
| VINCI EUR2.50 | 69,965 | 8,120,179 |
| INFRASTRUTTURE WIRELESS ITALIA SPA NPV 144A | 614,078 | 8,093,107 |
| UNITEDHEALTH GROUP INC COM | 14,716 | 7,073,098 |
| ENBRIDGE INC COM NPV | 187,538 | 6,978,554 |
| VENTAS INC REIT | 145,308 | 6,933,022 |
| SEMPRA COM | 47,461 | 6,909,847 |

## PRIVATE EQUITY




The System began investing in private equity in 2003 to achieve returns greater than those available in the public equity markets and to gain exposure to diversified alpha sources. As of June 30, 2023, the Private Equity Portfolio represented 18.6% of the System assets with approximately 84.0% of the dollars committed having been called. On a long-term basis, the Private Equity program seeks to outperform the Russell 3000 Index by 3.0%. System returns are calculated on a dollar-weighted or internal-rate-of-return (IRR) basis, and the annualized return since inception (2003) through June 30, 2023, was 13.8%. By comparison, the dollar-weighted return for the Russell 3000 Index plus 3.0% for the same period was 13.3%. The return from 2009, when the System moved from fund-of-funds to a direct program, is 23.1% as of June 30, 2023, compared to the 16.4% return of the Russell 3000 plus 3.0% benchmark.

Compared to the prior fiscal year, U.S. buyout investment was down, as the number of completed deals, aggregate deal value, and average deal size all slowed as the markets remain uneasy for a multitude of factors, notably rising rates and inflation, which have negatively impacted M&A conditions. Fundraising was mixed during the fiscal year as the number of U.S. buyout funds raised decreased 26%, but the aggregate capital raised increased 39% with the average fund size nearly doubling over the course of the year. The slowdown in capital markets that began at the onset of the fiscal year has persisted and overall buyout exit activity for the year decreased notably, with the number of exits dropping 45% to 595, the aggregate deal volume decreasing 54% to $166 billion, and the average deal size falling 7% to $5.3 billion. EV/EBITDA valuation multiples for U.S. buyouts companies remain relatively high, but have softened and began trending downwards, finishing the fiscal year at 11.3x. Similar to buyouts, U.S. venture activity was down for the fiscal year as the number of deals decreased 40% to 6,257, aggregate venture deal value dropped 57% to $143 billion, and the average deal size fell 27% to $29 million. Venture IPO activity continues to remain muted and fell an additional 19% relative to the prior fiscal year as the challenging exit environment persists.

## CREDIT OPPORTUNITIES

The System began investing a portion of its portfolio in credit opportunities in 2014 to target higher yielding securities and further diversify the portfolio. The market value of the Portfolio as of June 30, 2023, represented 3.9% of System assets. Approximately 78.8% of total committed capital has been called. On a dollar weighted, or IRR, basis, the annualized return since inception is 12.0%, outperforming the benchmark index, the ICE BofA Merrill Lynch U.S. High Yield Constrained Index plus 3.0%, by 6.7%. According to Preqin, private debt fundraising began and ended the fiscal year the second highest aggregate capital raised, which was also the second highest (equal to FY 2021) in the past ten years. North America remained the number one market for private debt throughout the fiscal year. Direct lending funds were the most attractive debt strategy due to the diversity and security of income, followed by mezzanine debt. Dry powder remained the highest amount ever recorded by Preqin. The Portfolio primarily consists of managers focused on lending to privately held middle-market companies in need of less dilutive forms of growth capital.

## HIGH YIELD

The System invests a portion of its portfolio in U.S. high yield securities which are designed to provide a higher cash coupon than government bonds and investment-grade corporate securities. High yield bonds also have less sensitivity to interest rate risk than lower yielding fixed income securities with similar maturity dates. The market value of the high yield portfolio as of June 30, 2023, represented 6.2% of the total Fund. During the fiscal year, the System's high yield portfolio gained 9.7%, outperforming the ICE BofA Merrill Lynch U.S. High Yield Constrained Index which recorded a gain of 8.9% due to strong outperformance from one of the System's managers.

As the markets settled into the latter half of the fiscal year, there was a lot of volatility that ensued to start 2023. Instability of the banking sector along with the Federal Reserve continuing their aggressive pace of rate hikes, pushed spreads wider. Technical factors remain positive as a lack of primary issuance has provided a tailwind to secondary trading. While the credit cycle appears to be lingering in a late-cycle environment, a shift to a downturn would cause spreads to widen even more as systemic risk will impact all credits. If a downturn does materialize in the US, it is anticipated that the default rate would move closer to a 4.0% level and high yield credit spreads could hover around a +750bps level.

## EMERGING MARKETS DEBT

The System invests a portion of its portfolio in emerging market dollar denominated (EMD) securities which are designed to provide a higher cash coupon than U.S. government bonds. EMD bonds have less credit risk and higher interest rate risk compared to U.S. high yield bonds. The market value of the EMD portfolio as of June 30, 2023, represented 1.3% of the total Fund. During the fiscal year, the System's EMD portfolio gained 9.8%, outperforming the JPM EMBI Global Diversified Index which recorded a gain of 7.4% due to outperformance from both System's active managers.

### DIRECTIONAL HEDGE FUNDS

A portion of the portfolio is invested in growth-oriented hedge funds through direct funds and a fund-of-one vehicle to enhance risk adjusted and absolute returns. The combined market value of the investments as of June 30, 2023, represented 2.1% of System assets.

The portfolio's gain of 2.9% underperformed the HFRI Fund-of-Funds Strategic Index's gain of 3.5% for the one-year period as of June 30, 2023, primarily due to weaker performance within the residential mortgages and credit sectors.

## RISK MITIGATION INVESTMENTS

### LONG DURATION

Long duration securities are held to reduce the volatility of the System's portfolio and to provide a measure of downside protection in the event of a slowing economic environment. The market value of the long duration portfolio as of June 30, 2023, represented 6.2% of total System assets. During the fiscal year, the long duration portfolio lost 3.0%, outperforming the benchmark's loss of 4.9%.

For the one year ending June 30, 2023, long duration bonds struggled, returning -6.8% in absolute terms, as the Federal Reserve continued to raise interest rates aggressively to fight inflationary pressures. The U.S. Treasury yield curve shifted higher (up 82 basis points as measured by the 10-year tenor) given strong growth, tight labor markets, and inflationary fears. Long corporate spreads tightened 36 bps as a belief in a "soft landing" grew stronger over the period and talk of recession faded. As of June 30, 2023, the yield to worst on the Bloomberg Long U.S. Corporate Bond Index was 5.45% which is 44 bps higher than one year earlier.

### Fixed Income: Top 15 Holdings

| Fifteen Largest Fixed Income Holdings | Interest Rate | Maturity Date | Market Value |
|---|---|---|---|
| United States Treasury Bonds | 2.0 % | November 15, 2041 | $ 18,160,521 |
| United States Treasury Bonds | 3.3 | May 15, 2042 | 12,023,785 |
| United States Treasury Bonds | 2.9 | May 15, 2052 | 10,895,059 |
| United States Treasury Bonds | 1.9 | May 15,2053 | 7,707,632 |
| United States Treasury Bonds | 2.0 | November 15, 2042 | 7,698,997 |
| United States Treasury Bonds | 2.0 | November 15, 2051 | 6,735,891 |
| United States Treasury Bonds | 2.3 | February 15, 2043 | 4,006,720 |
| United States Treasury Bonds | 4.6 | August 15, 2042 | 3,808,511 |
| Carnival Corp | 5.8 | March 1, 2027 | 3,679,147 |
| United States Treasury Bonds | 1.4 | Feburary 15, 2053 | 3,450,468 |
| United States Treasury Bonds | 4.9 | February 15, 2042 | 3,231,807 |
| United States Treasury Bonds | 4.5 | November 15, 2052 | 3,162,130 |
| United States Treasury Bonds | 3.1 | August 15, 2052 | 3,060,669 |
| United States Treasury Bonds | 0.1 | December 15, 2023 | 2,575,239 |
| Bank of Montreal | 2.7 | Janurary 10, 2037 | 2,454,568 |

### DIVERSIFYING HEDGE FUNDS

Investments are held in diversifying hedge funds strategies through a fund-of-one vehicle to enhance risk adjusted returns and reduce volatility of the System's portfolio. The market value of the diversifying investments as of June 30, 2023, represented 2.9% of System assets. The portfolio's performance of 7.6% outperformed the HFRI Fund-of-Funds Conservative Index's gain of 3.5% for the one-year period as of June 30, 2023, primarily due to strong performance within the quantitative and global macro sectors.

# REAL ASSETS INVESTMENTS

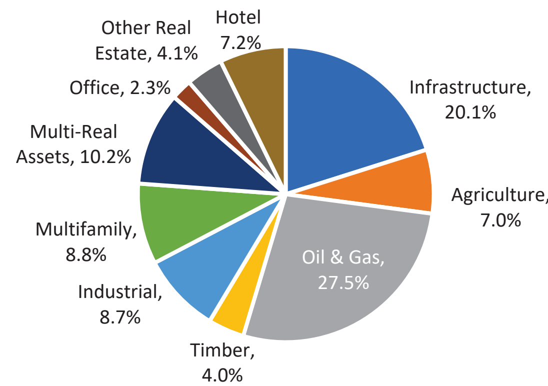
## PUBLIC REAL ASSETS

The System began investing in Public Real Assets in January 2009 to further diversify the portfolio, reduce risk, and provide a hedge against inflation. The market value of the Public Real Assets Portfolio as of June 30, 2023, represented approximately 7.6% of System assets and was allocated as follows: 51.0% global real estate and 49.0% global listed infrastructure. The System's loss of 0.6% outperformed the benchmark's loss of 2.8%.

In Q1 2023, the weakness in cyclical sectors returned due to the SVB banking crisis and regional banks' linkage to real estate (specifically office) as a significant provider of debt capital. Infrastructure lagged the broader market over the fiscal year due to exposure to the energy markets and a large weighting to defensive areas like utilities which typically lag during periods of strong performance for risk assets.

## PRIVATE REAL ASSETS

Private real estate and natural resources were added to the portfolio in 2006 to attain real returns less correlated with the broad public securities markets. Returns are computed on a dollar-weighted, or IRR, basis, and from inception (2006) to June 30, 2023, the investments generated an annualized gain of 7.1%. By comparison, the dollar-weighted return for the benchmark CPI plus 5.0% for the same period was a gain of 7.6%. The Private Real Assets Portfolio comprised 10.5% of the Fund as of June 30, 2023, with approximately 81% of the dollars committed called.




During the fiscal year, challenging capital market conditions for debt capital and moderating fundamentals have pressured U.S real estate values. Office properties are experiencing weak fundamentals while industrial and multi-family fundamentals are still positive in most markets. Within commodities, energy prices remain elevated due to an unexpected production cut by OPEC+ in April and U.S. energy producers remaining highly capital disciplined. Industrial metal prices have remained range bound at elevated levels as many industrial metals are key inputs for the build out of the energy transition. Limited availability of capital to the mining sector provides interesting opportunities for private capital mining financiers. Within infrastructure, rising demand for data storage, processing transmission, and connectivity, continue to drive the need for more digital infrastructure. The conflict in Eastern Europe has continued to push agricultural prices higher; however, this trend is not viewed as sustainable in the long term.

## GLOBAL INFLATION INDEXED BONDS

Inflation-indexed bonds provide protection against inflation risk, as well as a globally diversified return stream, to assist in managing volatility. The Portfolio represented 14.4% of System assets as of June 30, 2023. The Portfolio, which also includes an absolute return fund overlay, lost 13.2% during the fiscal year, underperforming the custom benchmark's loss of 8.0%.

| Inflation-Indexed Bonds - Country Exposures | | |
|---|---|---|
| United States | 45 | % |
| United Kingdom | 20 | |
| Canada | 10 | |
| France | 10 | |
| Germany | 7 | |
| Sweden | 5 | |
| Australia | 3 | |

As central banks increased nominal interest rates in 2022, real interest rates also rose, leading to sell-offs in both IL and nominal bonds. In Q1-2023, IL bonds rallied slightly in response to the market volatility from the regional bank issues, which resulted in a fall in both real and nominal yields as market participants began to price in lower peak interest rates followed by easing. As concerns around banks began to ease, inflation persisted, and the economy proved more resilient than expected, real yields increased, driving negative returns in IL Bonds and reversing the small gains from earlier in the year. Performance in this segment of the portfolio was further hampered by negative returns from the absolute return fund overlay, where equities and nominal long rates detracted from performance.

# INVESTMENT MANAGERS

The diversified investment structure as of June 30, 2023 is reflected in the following table, which lists System managers by asset class and style.

| Public Equity | Investment Style |
|---|---|
| **Domestic Equity** | |
| Eagle Asset Management | Small Cap Growth |
| Rhumbline Advisors | Russell 1000 Index |
| Segall Bryant & Hamill LLC | Small Cap Value |
| **International Equity** | |
| Acadian Asset Management* | Emerging Markets |
| Global Alpha Capital Management Ltd. | Small Cap Core |
| GQG Partners* | Emerging Markets |
| Highclere Int'l Investors LLP* | Small Cap Core |
| Marathon Asset Management LLP | EAFE |
| Polunin Capital Partners* | Emerging Markets |
| Trinity Street Asset Management* | EAFE |
| Wellington Management* | Large Cap Growth |
| **Global Equity** | |
| Arrowstreet Capital* | Global |
| WCM Investment Management | Global |

| Private Real Assets | Investment Style |
|---|---|
| Aberdeen* | Co-Investment |
| Arroyo Energy Investors* | Energy |
| Caprock Partners* | Real Estate |
| Carmel Partners* | Real Estate |
| EMR Capital* | Mining |
| EnerVest, Ltd.* | Energy |
| Excelsior Energy Capital* | Energy |
| Federal Capital Partners* | Real Estate |
| Greenbacker* | Energy |
| Hampshire Companies* | Real Estate |
| Homestead Capital* | Agriculture |
| Juniper Capital* | Energy |
| Kimmeridge Energy* | Energy |
| LBA Realty* | Real Estate |
| Lime Rock Resources* | Energy |
| Longpoint Realty* | Real Estate |
| Lyme Timber Company* | Timber |
| Magna Hospitality Group* | Real Estate |
| Melford Capital Partners* | Real Estate |
| Meridian Realty Partners* | Real Estate |
| Pearlmark Real Estate Ptrs* | Real Estate |
| Phoenician Resources* | Energy |
| Resource Land Holdings* | Diversified Natural Resources |
| Ridgewood Infrastructure* | Infrastructure |
| Tailwater Capital LLC* | Energy |
| Woodbourne* | Real Estate |

| Public Real Assets | Investment Style |
|---|---|
| Morgan Stanley | Infrastructure |
| Principal Real Estate Investors LLC | Real Estate |

| Public Emerging Market Debt | Investment Style |
|---|---|
| GMO LLC* | Emerging Market Debt |
| Marathon Asset Management* | Emerging Market Debt |

| Directional Hedge Funds | Investment Style |
|---|---|
| Blackstone* | Fund-of-One |
| Luxor Capital Partners* | Event Driven |
| Senator Investment Group* | Event Driven |

| Diversifying Hedge Funds | Investment Style |
|---|---|
| Blackstone Inc.* | Fund-of-One |

| Private Debt | Investment Style |
|---|---|
| Banner Ridge Partners* | Distressed |
| Bison Capital Partners* | Structured Equity |
| Castlelake* | Distressed |
| Clearlake Capital Group* | Distressed |
| Enlightenment Capital* | Structured Equity |
| Franklin Park* | Co-Investment |
| Greyrock Capital Group* | Structured Equity |
| Levine Leichtman Capital Partners* | Structured Equity |
| New Energy Capital Partners* | Senior Debt |
| PineBridge Investments* | Structured Equity |
| Post Road Group* | Structured Equity |
| Riverside Acceleration Capital* | Senior Debt |
| VSS Capital Partners* | Structured Equity |
| Whitehorse Liquidity Partners * | Special Assets |
| WNG Capital* | Special Assets |

| Private Equity | Investment Style |
|---|---|
| Adams Street Partners* | Fund-of-Funds |
| Altaris Capital Partners* | Buyout |
| Altus Capital Partners* | Buyout |
| Atlas Capital Resources* | Turnaround |
| Amulet Capital Partners* | Buyout |
| Astara Capital Partners* | Buyout |
| BV Investment Partners* | Growth Equity |
| Center Rock Capital Partners* | Turnaround |
| Clearlake Capital Group* | Turnaround |
| Crest Rock Partners* | Buyout |
| DW Healthcare Partners* | Buyout |
| Franklin Park* | Fund-of-Funds |
| Graycliff Partners* | Buyout |
| Gryphon Partners* | Buyout |
| HarbourVest Partners* | Fund-of-Funds |
| J.F. Lehman & Company* | Buyout |
| K1 Investment Mgmt.* | Growth/Buyout |
| KPS Capital Partners* | Turnaround |
| Landmark Partners* | Fund-of-Funds |
| Mason Wells* | Buyout |
| MiddleGround Capital* | Buyout |
| Odyssey Inv. Partners* | Buyout |
| Princeton Equity Group* | Buyout |
| Riverside Partners* | Buyout |
| Siris Capital Group* | Buyout |
| Sunstone Partners* | Growth Equity |
| TA Associates* | Growth Equity |
| Thoma Bravo* | Buyout |
| The Riverside Company* | Turnaround |
| Wicks Group* | Buyout |

| High Yield | Investment Style |
|---|---|
| Loomis Sayles & Co. | High Yield |
| Nomura Asset Management | High Yield |

| Long Duration | Investment Style |
|---|---|
| Blackrock Financial Mgt.* | Long Duration |
| Schroder Investment Mgt. | Long Duration |

| Global Inflation-Indexed Bonds | Investment Style |
|---|---|
| Bridgewater Associates* | Passive |

| Foreign Currency | Investment Style |
|---|---|
| CIBC Asset Management | Foreign Currency |
| P/E Investments LLC | Foreign Currency |

| Other | Investment Style |
|---|---|
| NISA Investment Advisors | Overlay |

* Pooled Funds

A complete list of the portfolio holdings are available upon request. Please contact the Montgomery County Employee Retirement Plans at 240-777-8220.

## PUBLIC EQUITY COMMISSIONS

**January 1, 2022 Through December 31, 2022**

| Brokers | Shares Traded | Total Commissions | Commissions per Share |
|---|---|---|---|
| UBS AG London Branch | 9,517,632 | $ 16,910 | $ 0.0018 |
| UBS Securities Asia Limited | 6,580,954 | 11,900 | 0.0018 |
| Instinet Pacific Limited | 4,317,100 | 1,770 | 0.0004 |
| JP Morgan Securities (Asia Pacific) | 3,052,769 | 4,070 | 0.0013 |
| Goldman, Sachs & Co. | 3,028,090 | 41,520 | 0.0137 |
| Citigroup Global Markets Limited | 2,129,169 | 3,500 | 0.0016 |
| Jefferies International Limited | 1,818,380 | 4,210 | 0.0023 |
| UBS Securities Australia Limited | 1,794,714 | 8,250 | 0.0046 |
| Citigroup Global Markets Inc. | 1,485,932 | 19,470 | 0.0131 |
| Barclays Capital | 1,374,066 | 12,850 | 0.0094 |
| Other Brokers | 24,611,691 | 282,820 | 0.0115 |
| **Total** | **59,710,497** | **$ 407,270** | **$ 0.0068** |

## INVESTMENT SUMMARY

| | June 30, 2023 Fair Value | Percent of Total Value | June 30, 2022 Fair Value | Percent of Total Value |
|---|---|---|---|---|
| Government and agency obligations | $ 93,931,515 | 2.0 % | $ 90,898,497 | 1.9 % |
| Municipal/Provincial obligations | 6,212,249 | 0.1 | 6,901,970 | 0.1 |
| Corporate bonds | 370,885,557 | 7.8 | 403,474,888 | 8.3 |
| Commerical mortgage-backed securities | 1,911,798 | 0.0 | 2,681,279 | 0.1 |
| Common and preferred stock | 1,001,153,671 | 21.0 | 1,099,036,741 | 22.7 |
| Mutual and commingled funds | 1,507,342,585 | 31.6 | 1,653,739,980 | 34.2 |
| Short-term investments | 213,371,201 | 4.5 | 173,905,699 | 3.6 |
| Private real assets | 497,879,182 | 10.4 | 433,852,253 | 9.0 |
| Private equity/debt | 1,077,712,424 | 22.6 | 971,247,096 | 20.1 |
| **Total** | **$ 4,770,400,182** | **100.0 %** | **$ 4,835,738,403** | **100.0 %** |

Cash collateral received under securities lending agreements is not included in the investment summary shown above.

# ACTUARIAL SECTION
## Employees' Retirement System

P: 312.456.9800 | www.grsconsulting.com

September 28, 2023

Mr. Eli Martinez
Executive Director
Montgomery County Employee Retirement Plans
101 Monroe Street, 6th Floor
Rockville, Maryland 20850

Dear Mr. Martinez:

At your request, we have performed an actuarial valuation for funding purposes, and a separate actuarial valuation for accounting purposes, of the Montgomery County Employees' Retirement System ("System") as of July 1, 2023. The purposes of the funding actuarial valuation, which is performed annually, are to determine the funding status and annual contribution requirements of the System. The purpose of the accounting actuarial valuation is to comply with the Governmental Accounting Standards Board (GASB) Statement Nos. 67 and 68 and provide accounting and financial reporting information needed to prepare the financial statements of the Montgomery County Employees' Retirement System.

The actuarial valuations were performed specifically at your request and are intended for use by the System and Montgomery County ("County") and those designated by the System and the County. These reports may be provided to parties other than the System and County only in their entirety and only with the permission of the System and County. GRS is not responsible for unauthorized use of this report.

**Funding Objective**

The funding objective for the System is to collect employer and employee contributions sufficient to pay the benefits of the Montgomery County Employees' Retirement System when due and to achieve a funded ratio of 100% at the end of the amortization period. The total contribution rate is equal to the normal cost rate plus amortization of the unfunded liability (or surplus) as a level percentage of payroll. The unfunded liability as of July 1, 2015 for the open Non-Public Safety group (Group J) and Public Safety groups (Groups E, F and G) was amortized over a closed period of 20 years (12 years remaining at the actuarial valuation as of July 1, 2023) and the unfunded liability bases established in each subsequent year are amortized over separate 20-year closed periods. The amortization policy was updated beginning with the actuarial valuation as of July 1, 2023 for Groups A, H and GRIP. The combined unfunded liability as of July 1, 2023 (and in each future year) for Groups A, H and GRIP (Groups A and H are closed to new members) is amortized over a 20-year closed amortization period as a level percentage of payroll and subsequent unfunded liability over separate 20-year closed amortization periods as a level percentage of payroll.

The single equivalent amortization period for the System in total as of July 1, 2023 is 12.8 years. The single equivalent amortization period is 20.0 years for Groups A, H, and GRIP and 14.3 years for the non-GRIP open groups (Public Safety groups and Group J) as of July 1, 2023. There is currently a surplus for all groups except Groups F and G and therefore, the amortization periods relate to amortizing the surplus.

The total contribution rate minus the average employee contribution rate equals the County contribution rate. The funding actuarial valuation as of July 1, 2023 establishes the County contribution rate for the fiscal year beginning July 1, 2024, and ending June 30, 2025.

**Actuarial Assumptions and Methods**

The actuarial cost method used in this valuation is the same as the method used in the prior actuarial valuation. The actuarial cost method utilized by the System is the individual Entry-Age Normal method. The objective of this method is to finance the benefits of the System as a level percentage of payroll over the members' careers. Any Unfunded Actuarial Accrued Liability (UAAL) under this method is separately financed. All actuarial gains and losses under this method are reflected in the UAAL. The actuarial assumptions used in the actuarial valuation are based on the experience study report covering the period July 1, 2014 through July 1, 2018 and the phase 1 experience study report covering the period July 1, 2018 through July 1, 2022.

The following assumption changes were first reflected in the actuarial valuation as of July 1, 2023:

- The COLA assumption for retirees who receive a COLA increase that is equal to 100% of the change in CPI, up to 3%, and 60% of the change in CPI in excess of 3%, up to a maximum increase of 7.50%, was decreased from 2.50% to 2.45%.
- The mortality improvement projection scale was updated from the MP-2018 to the MP-2021 scale.

The actuarial assumptions and methods used, including the economic and demographic assumptions, the actuarial cost method and asset method, meet the parameters set forth in the Actuarial Standards of Practice issued by the Actuarial Standards Board for the funding of public sector pension plans and are set by the County as authorized under Montgomery County Code. Actuarial assumptions and actuarial methods required under GASB Statement Nos. 67 and 68 were used in the preparation of the accounting disclosures and schedules required by GASB Statement Nos. 67 and 68.

**Benefit Provisions**

The following plan changes have been reflected in the funding actuarial valuation as of July 1, 2023. All other plan provisions have remained unchanged since the last valuation, performed as of July 1, 2022.

- Group J
  - The Social Security integration age was increased to age 70.
  - The benefit accrual rate was increased to 2.50% for the first 25 years and 2.00% for the next five years for the benefit payable until the Social Security integration age.
- Group E
  - Up to 24 months of military time is granted to Group E members upon attainment of five years of County service, at no cost to the members.
  - The Social Security integration age was increased to age 70.
  - The benefit accrual rate was increased to 2.60% for the first 25 years and 2.25% for the next five years for the benefit payable until the Social Security integration age.
- Group F
  - Eligibility for the Discontinued Retirement Service Program (DRSP) was updated to allow entry upon satisfying normal retirement eligibility conditions (age 55 with 15 years of service or any age with 25 years of service).
  - The Social Security integration age was increased to age 70.

    - The benefit accrual rate was increased to 2.60% for the first 25 years and 2.40% for the next nine years for the benefit payable until the Social Security integration age and increased to 1.80% for the first 25 years and 1.65% for the next nine years for the benefit payable after the Social Security integration age.
- Group G
    - Up to 12 months of military time is granted to Group G members upon attainment of seven years of County service and up to an additional 12 months of military time is granted to Group G members upon attainment of 15 years of County service, up to a total of 24 months, at no cost to the members.
    - The benefit accrual rate for sick leave years of credited service was increased for Group G members to 5.0% for the benefit payable until the Social Security integration age and 3.4375% for the benefit payable upon attainment of the Social Security integration age.
    - The benefit accrual rate was increased to 2.60% for the first 25 years and 1.25% for the next six years for the benefit payable until the Social Security integration age and increased to 1.7875% for the first 25 years and 0.859375% for the next six years for the benefit payable after the Social Security integration age.
    - COLA for members hired after July 1, 1978, is 100% of CPI up to 3%, plus 60% of the change in excess of 3%, up to a maximum increase of 5% on the total benefit (both the benefit attributable to service before and after July 1, 2011).

The following plan change was reflected in the funding actuarial valuation as of July 1, 2022 and the GASB Statement Nos. 67 and 68 actuarial valuation for the fiscal year ending June 30, 2023.

- From March 2020 through February 2021, the County paid certain employees a pay differential for COVID-19. For members of Group F who were active at that time, the pay differential is eligible to be included in the Average Final Earnings for retirement benefit calculations.

**Participant Data**
A total of 6,229 active members (excluding DRSP and DROP) were included in the actuarial valuation as of July 1, 2023. Between the 2022 and 2023 actuarial valuations, the number of active employees increased by 273 members. The average annual actuarial valuation pay (excluding DRSP and DROP) increased by 5.8%, from $85,744 to $90,695 between the 2022 and 2023 actuarial valuation. The number of benefit recipients (including DRSP and DROP) increased from 6,966 to 6,986, or 0.3%, since the last actuarial valuation. The average monthly benefit increased by 3.1%, from $3,737 to $3,852.

**Aetna Contract**
There is a group of retirees who have benefits that are insured by Aetna. The total benefit amount reported for each of these members in the actuarial valuation report includes the insured benefit amount. However, the actuarial liabilities exclude the value of the insured benefits. The actuarial liabilities included in the actuarial valuation for these members are for benefits in excess of the insured benefit and represent cost of living adjustments provided by the Montgomery County Employees' Retirement System.

**Actuarial Valuation Assets**
On a market value basis, the Plan assets had an investment return of approximately 3.28% (net of investment expenses). Recognition of the fiscal year end 2020, 2022 and 2023 investment losses were partially offset by recognition of the fiscal year end 2019 and 2021 investment gains. The net investment losses resulted in an estimated net asset rate of return of 6.84% on an actuarial value of assets basis, which compares to the assumed rate of return of 7.50%.

**Reliance on Others**
The actuarial valuation was based upon information furnished by the County Staff, concerning benefits provided by the Montgomery County Employees' Retirement System, financial transactions, plan provisions and census data for active members, terminated members, retirees and beneficiaries. We checked for internal and year-to-year consistency, but did not audit the data. We are not responsible for the accuracy or completeness of the information provided by the County Staff.

The following schedules in the Financial Section and Actuarial Section of the Annual Comprehensive Financial Report were prepared based upon certain information presented in the previously mentioned funding valuation report or provided outside of the valuation to the System. In the case of the other schedules, the System Staff excerpted information from various schedules in the actuarial reports and tabulated it to produce the appropriate Annual Financial Report Schedule.

**Financial Section**

Net Pension Liability
Schedule of Changes in the Employer Net Pension Liability and Related Ratios
Schedule of Employer Contributions
Notes to Schedule of Employer Contributions

**Actuarial Section**

Summary of Valuation Results
Summary of Results
Valuation Highlights
Actuarial Assumptions and Methods
Analysis of Financial Experience
Schedule of Funding Progress
Schedule of Retirees and Survivors
Schedule of Annual Allowance
Schedule of Active Member Valuation Data

**Accounting Schedules under GASB Statement Nos. 67 and 68**
The total pension liability (actuarial accrued liability) calculated under GASB Statement Nos. 67 and 68 is based on an actuarial valuation date of July 1, 2022, with results projected to July 1, 2023, assuming no liability gains and losses, under the Entry Age Normal actuarial cost method. A single discount rate of 7.50%, which is the same rate that is used in the funding actuarial valuation, was used to measure the total pension liability. All other assumptions and methods used in the funding actuarial valuation for calculation of the actuarial accrued liabilities as of July 1, 2023 were used in the GASB Statement Nos. 67 and 68 actuarial valuation for calculation of the total pension liability for fiscal year ending June 30, 2023. The total pension liability includes the impact of the following plan changes that were enacted before July 1, 2023:

- Group F COVID pay differential
- Group G military service credit
- Group G sick leave credit benefit accrual change

The net pension liability is measured as the total pension liability, less the amount of the pension plan's fiduciary net position (market value of assets) as of June 30, 2023.

**Certification**

To the best of our knowledge the information contained in this report is accurate and fairly presents the actuarial position of the Montgomery County Employees' Retirement System as of the valuation date of July 1, 2023, based on the data and actuarial techniques described above and applicable sections of the County Code. All calculations have been made in conformity with generally accepted actuarial principles and practices, and all actuarial assumptions used in this report are reasonable for the purposes of this actuarial valuation and meet the parameters set forth in the Actuarial Standards of Practice issued by the Actuarial Standards Board. Amy Williams and Michael D. Kosciuk are Members of the American Academy of Actuaries (MAAA) and meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinions contained herein.

This report was prepared using our proprietary valuation model and related software which, in our professional judgment, has the capability to provide results that are consistent with the purposes of the valuation, and has no material limitations or known weaknesses. We performed tests to ensure that the model reasonably represents that which is intended to be modeled. We are relying on the GRS actuaries and Internal Software, Training and Processes Team who developed and maintain the model.

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. Due to the limited scope of the actuary's assignment, the actuary did not perform an analysis of the potential range of such future measurements in this report.

This actuarial valuation assumed the continuing ability of the plan sponsor to make the contributions necessary to fund this plan. A determination regarding whether or not the plan sponsor is actually able to afford the required contributions is outside the scope this engagement and was not performed.

This report should not be relied on for any purpose other than the purpose stated.

The signing actuaries are independent of the plan sponsor.

Respectfully submitted,

Gabriel, Roeder, Smith & Company

Amy Williams

Amy Williams, ASA, MAAA, FCA
Senior Consultant

Michael D. Kosciuk, FSA, EA, FCA, MAAA
Consultant

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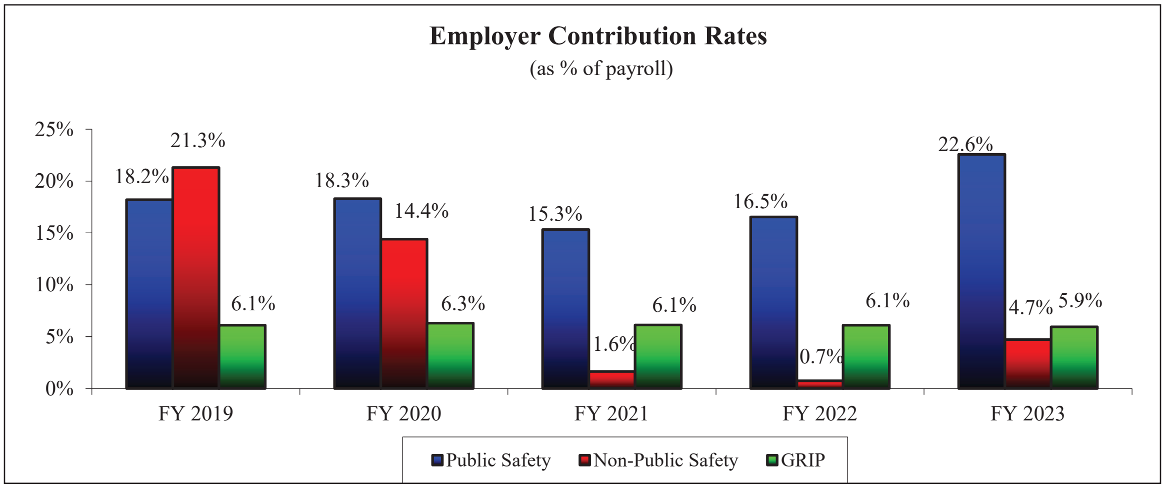
**SUMMARY OF VALUATION RESULTS**
**EMPLOYEES' RETIREMENT SYSTEM**

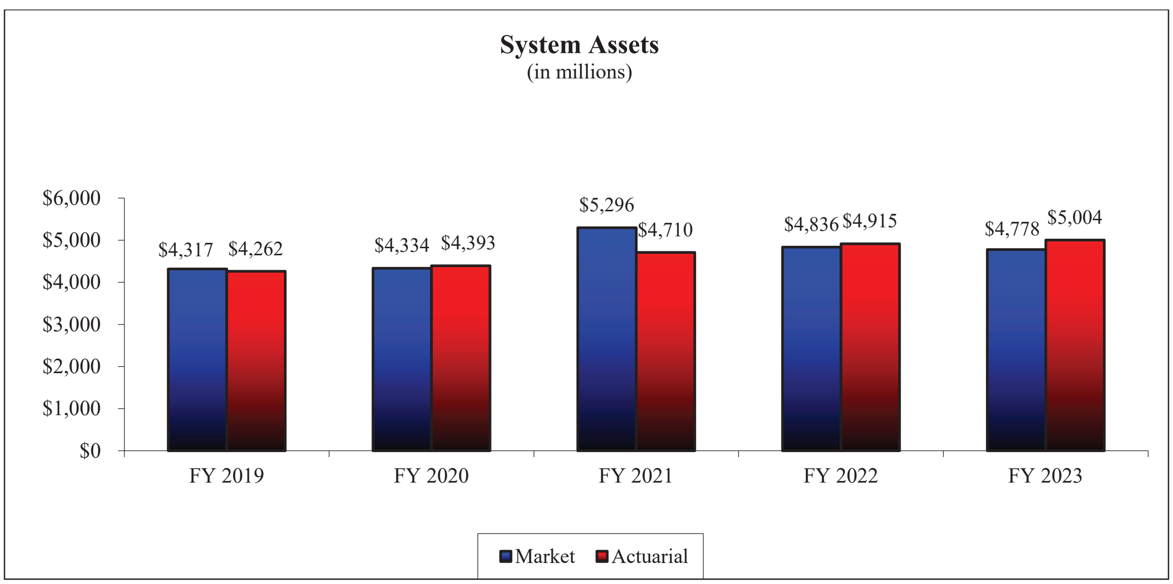
## A. Overview

This report presents the results of our June 30, 2023 actuarial valuation of the Montgomery County Employees' Retirement System.

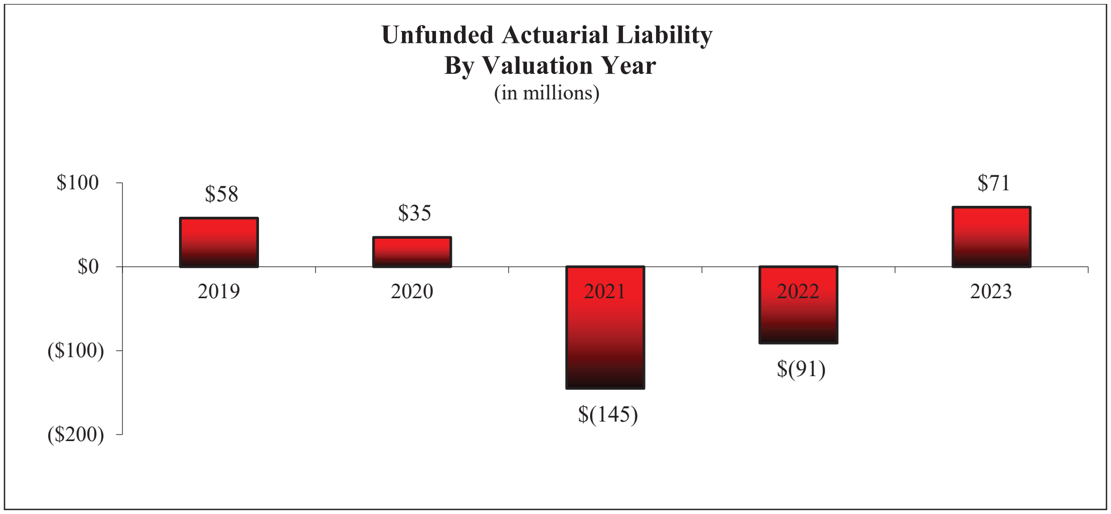
The major findings of the valuation are summarized in the following charts:



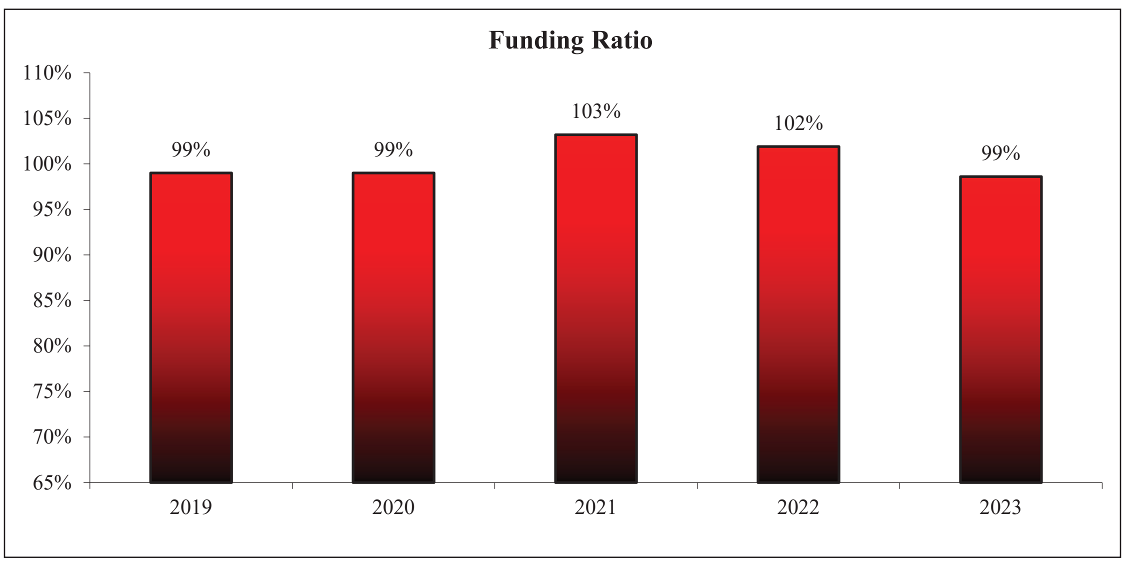

The change in the employer contribution rate in FY 2023 was due to actual System experience versus actuarial assumptions.




The change in the system assets in FY 2023 was primarily due to investment income and employer and employee contributions.




The unfunded actuarial liability increased in FY 2023 primarily due to plan changes related to benefit enhancement.




The ratio of actuarial assets to the actuarial accrued liability decreased primarily due to the factors noted above.

**B. Summary of Results**

| | July 1, 2022 | July 1, 2023 |
|---|---|---|
| Actuarial Liability | | |
| a. Active Members | $1,381,262,961 | $1,569,656,299 |
| b. Retired Members and Beneficiaries | 3,387,000,065 | 3,440,983,353 |
| c. Vested Former Members | 56,545,918 | 64,416,985 |
| d. Total | $4,824,808,944 | $5,075,056,637 |
| Valuation Assets | $4,915,636,212 | $5,003,872,329 |
| Unfunded Actuarial Accrued Liability | ($90,827,268) | $71,184,308 |
| Normal Cost | | |
| a. Gross Normal Cost | $85,704,000 | $98,245,954 |
| b. Anticipated Employee Contributions | $27,889,228 | $30,463,444 |
| c. County Normal Cost (a -b) | $57,814,772 | $67,782,510 |
| Amortization Payment | ($6,224,199) | $6,185,910 |
| County Contribution Required at Date Shown | $51,590,573 | $73,968,420 |
| County FY 2022/FY 2023 Contribution (as a % of covered payroll) | | |
| Public Safety Employees | 16.54% | 22.57% |
| Non-Public Safety Employees | 0.71% | 4.72% |
| Guaranteed Retirement Income Plan | 6.10% | 5.94% |

## C. Valuation Highlights

### 1. System Assets

As of June 30, 2023, the System had assets, valued at market, of $4.778 billion, as compared to $4.836 billion at June 30, 2022. The decrease of $58 million was attributable to the following:

a. An increase of $86 million from employer and employee contributions.
b. An increase of $182 million from investment income.
c. A decrease of $326 million due to the payment of benefits to System participants and administrative expenses.

When measured on an actuarial basis, System assets were $5.004 billion at June 30, 2023, and $4.916 billion at June 30, 2022. The asset valuation method smooths the fluctuations generated by intermittent market gains and losses. This method phases-in investment gains and losses arising during and after the 1994 fiscal year over a five-year period from the date established. Effective July 1, 1997, the calculation of the actuarial value of assets was changed to exclude the present value of estimated accrued contributions.

### 2. System Liabilities

The Unfunded Actuarial Liability increased by $162 million, from surplus of 91 million at July 1, 2022, to liability of $71 million at July 1, 2023, as follows:

| | | |
|---|---|---|
| Unfunded Actuarial Liability at beginning of year | $ | (90,827,268) |
| Unfunded Actuarial Liability at end of year | | 71,184,308 |
| Increase in Unfunded Actuarial Liability | $ | (162,011,576) |

The increase in Unfunded Actuarial Liability for the year ended June 30, 2023, is comprised of the following:

| | | |
|---|---|---|
| Decrease due to gain on actuarial value of assets | $ | (31,676,832) |
| Increase due to demographic gain and other factors | | (35,205,475) |
| Decrease due to amortization payment and contributions | | 7,189,015 |
| Decrease due to plan changes | | (102,318,284) |
| Increase in Unfunded Actuarial Liability | $ | (162,011,576) |

**3. System Contributions**

Contributions to the System include a "normal cost" rate which covers the portion of projected liabilities related to service of members. In addition, an amortization payment is made to fund the unfunded liability related to changes made to benefits in previous years which are being funded over a specific period of time.

The increase/decrease in the employer contribution rate is attributable to the following:

| | Group J | | Group A, H with GRIP | | Public Safety | |
|---|---|---|---|---|---|---|
| | 2.57 | % | 5.39 | % | 16.53 | % |
| Increase/decrease due to recognition of asset (gains)/losses | 0.35 | | 2.15 | | 0.53 | |
| Increase/decrease due to actuarial (gains)/losses | 1.07 | | 2.29 | | 1.49 | |
| Increase/decrease due to plan changes | 2.24 | | 0.00 | | 4.63 | |
| Increase/decrease due to assumption and method changes | (0.32) | | (4.06) | | (0.61) | |
| Employer contribution rate - June 30, 2023 | 5.91 | % | 5.77 | % | 22.57 | % |

**4. Membership**

The active membership of the System decreased from 5,956 at June 30, 2022 to 6,229 at June 30, 2023. The System was closed to all new employees hired after October 1, 1994, except public safety, bargaining unit employees and GRIP participants. Inactive members, including retirees and beneficiaries, increased from 6966at June 30, 2022 to 6,986 at June 30, 2023 and the number of former members with vested rights increased from 712 to 768.

## SUMMARY OF ACTUARIAL ASSUMPTIONS AND METHODS EMPLOYEES' RETIREMENT SYSTEM

### A. Funding Method

The funding method used for the System's valuation is the "Individual Entry-Age Normal" actuarial cost method. The objective of this method is to finance the benefits of the System as a level percentage of payroll over the members' careers. The normal cost for each individual active member, payable from the date of employment to the date of retirement, is sufficient to accumulate the value of the member's benefit at the time of retirement. Each annual normal cost is a constant percentage of the member's year by year projected covered pay. An *actuarial liability* is calculated at the valuation date as the present value of benefits allocated to service prior to that date. The *Unfunded Actuarial Liability* at the valuation date is the excess of the actuarial liability over the assets of the System.

### B. Actuarial Value of Assets

The actuarial value of assets is used for purposes of determining the County's contribution to the System. The asset adjustment method dampens the volatility of asset values that could occur because of short term fluctuations in market conditions. Use of an asset smoothing method is consistent with the long term nature of the actuarial valuation process. Assets are valued at market value but with a phase-in of investment gains and losses arising after July 1, 1994, over a 5-year period. The gains and losses are net of expenses. Effective July 1, 1997, the calculation of the actuarial value of assets does not include the present value of accrued contributions.

# ACTUARIAL ASSUMPTIONS AND METHODS
# EMPLOYEES' RETIREMENT SYSTEM

## A. Demographic Assumptions

### 1. Mortality

**MP-2018 Employee and Healthy Annuitant (non-disabled)**

| | Pre-Retirement Future Life Expectancy (years) in 2023 | | Post-Retirement Future Life Expectancy (years) in 2023 | | | Pre-Retirement Future Life Expectancy (years) in 2023 | | Post-Retirement Future Life Expectancy (years) in 2023 | |
|---|---|---|---|---|---|---|---|---|---|
| **Age** | **Male** | **Female** | **Male** | **Female** | **Age** | **Male** | **Female** | **Male** | **Female** |
| 20 | 69.50 | 71.99 | 67.08 | 69.36 | 65 | 23.61 | 25.87 | 21.06 | 22.97 |
| 25 | 64.29 | 66.77 | 61.77 | 64.02 | 70 | 18.90 | 20.95 | 16.78 | 18.58 |
| 30 | 59.10 | 61.56 | 56.47 | 58.69 | 75 | 14.42 | 16.22 | 12.86 | 14.51 |
| 35 | 53.94 | 56.40 | 51.19 | 53.39 | 80 | 10.24 | 11.76 | 9.44 | 10.89 |
| 40 | 48.80 | 51.26 | 45.94 | 48.11 | 85 | 6.71 | 7.95 | 6.65 | 7.89 |
| 45 | 43.68 | 46.13 | 40.74 | 42.86 | 90 | 4.62 | 5.56 | 4.62 | 5.56 |
| 50 | 38.56 | 41.00 | 35.61 | 37.65 | 95 | 3.36 | 3.93 | 3.36 | 3.93 |
| 55 | 33.48 | 35.90 | 30.56 | 32.54 | 100 | 2.47 | 2.77 | 2.47 | 2.77 |
| 60 | 28.48 | 30.86 | 25.67 | 27.63 | 105 | 1.88 | 2.04 | 1.88 | 2.04 |

### 2. Rates of Termination of Employment (prior to retirement eligibility)

| Years of Service | Non-Public Safety and GRIP | | Public Safety: Group E and J | | Public Safety: Group F and G | |
|---|---|---|---|---|---|---|
| | **Male** | **Female** | **Male** | **Female** | **Male** | **Female** |
| 0 | 11.50% | 12.00% | 16.00% | 16.00% | 7.00% | 10.50% |
| 1 | 9.00 | 11.00 | 10.00 | 14.00 | 4.00 | 5.00 |
| 2 | 8.50 | 9.00 | 6.00 | 12.00 | 3.50 | 4.50 |
| 3 | 6.50 | 8.00 | 5.00 | 10.00 | 3.00 | 4.00 |
| 4 | 6.00 | 7.50 | 5.00 | 8.00 | 2.50 | 3.50 |
| 5 | 5.50 | 6.50 | 5.00 | 6.00 | 2.25 | 3.00 |
| 6 | 5.00 | 5.50 | 5.00 | 4.00 | 2.00 | 2.75 |
| 7 | 4.50 | 4.50 | 5.00 | 4.00 | 1.75 | 2.50 |
| 8 | 4.00 | 3.50 | 4.00 | 4.00 | 1.50 | 2.00 |
| 9 | 4.00 | 3.00 | 3.00 | 3.00 | 1.25 | 1.75 |
| 10 | 3.00 | 2.75 | 2.00 | 2.00 | 1.00 | 1.00 |
| 11 | 3.00 | 2.75 | 1.50 | 1.00 | 0.75 | 0.75 |
| 12 | 3.00 | 2.75 | 1.00 | 1.00 | 0.50 | 0.50 |
| 13 | 3.00 | 2.75 | 1.00 | 1.00 | 0.25 | 0.25 |
| 14 | 3.00 | 2.75 | 1.00 | 1.00 | 0.25 | 0.25 |
| 15-19 | 2.50 | 2.50 | 1.00 | 1.00 | 0.25 | 0.25 |
| 20+ | 2.00 | 2.00 | 1.00 | 1.00 | 0.25 | 0.25 |

Vested participants that terminate are assumed to elect the option with the greater present value:

1) A refund of their accumulated contributions with interest or
2) A deferred benefit.

### 3. Disability

**Annual Disabilities per 1,000 Members**

| | Non-Public Safety Employees | | | | Public Safety Employees | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Group A and H | | Group J | | Group E | | Group F | | Group G | |
| Age | Male | Female | Male | Female | Male | Female | Male | Female | Male | Female |
| 20 | 0 | 0 | 0 | 0 | 0 | 0 | 1 | 1 | 1 | 1 |
| 25 | 0 | 0 | 1 | 1 | 1 | 1 | 1 | 2 | 2 | 2 |
| 30 | 1 | 0 | 1 | 1 | 1 | 1 | 2 | 5 | 3 | 6 |
| 35 | 1 | 1 | 2 | 2 | 2 | 2 | 4 | 8 | 5 | 9 |
| 40 | 2 | 1 | 3 | 4 | 3 | 4 | 6 | 15 | 8 | 16 |
| 45 | 3 | 2 | 6 | 8 | 6 | 8 | 11 | 28 | 15 | 31 |
| 50 | 5 | 3 | 11 | 10 | 11 | 10 | 19 | 37 | 27 | 41 |
| 55 | 8 | 3 | 15 | 11 | 15 | 11 | 27 | 39 | 38 | 43 |
| 60 | 8 | 3 | 15 | 11 | 15 | 11 | 27 | 39 | 38 | 43 |

### 4. Deaths

| | Disabled Mortality Future Life Expectancy (years) in 2023 | |
|---|---|---|
| Age | Male | Female |
| 20 | 64.42 | 67.10 |
| 25 | 59.25 | 61.79 |
| 30 | 54.11 | 56.56 |
| 35 | 49.07 | 51.44 |
| 40 | 44.10 | 46.42 |
| 45 | 39.15 | 41.40 |
| 50 | 34.21 | 36.39 |
| 55 | 29.35 | 31.50 |
| 60 | 24.66 | 26.86 |
| 65 | 20.30 | 22.52 |
| 70 | 16.26 | 18.38 |
| 75 | 12.54 | 14.47 |
| 80 | 9.31 | 10.89 |

## 5. Rates of Retirement

| | Non Public Safety | | GRIP | |
|---|---|---|---|---|
| Age | Under 30 Years of Service | 30 Years of Service & Over | Under 15 Years of Service | 15 Years of Service & Over |
| 45 – 49 | 2.0% | 2.0% | 0.0% | 0.0% |
| 50 – 54 | 3.0 | 12.5 | 0.0 | 0.0 |
| 55 | 6.0 | 15.0 | 3.0 | 3.0 |
| 56 | 6.0 | 15.0 | 3.0 | 3.0 |
| 57 | 6.0 | 15.0 | 4.5 | 5.0 |
| 58 | 6.0 | 15.0 | 4.5 | 6.0 |
| 59 | 6.0 | 15.0 | 4.5 | 6.5 |
| 60 | 11.0 | 18.0 | 4.5 | 7.0 |
| 61 | 13.0 | 18.0 | 4.5 | 7.5 |
| 62 | 14.0 | 18.0 | 7.0 | 15.0 |
| 63 | 11.0 | 18.0 | 7.0 | 15.0 |
| 64 | 11.0 | 18.0 | 10.0 | 15.0 |
| 65 | 15.0 | 18.0 | 13.0 | 20.0 |
| 66 | 22.0 | 25.0 | 13.0 | 20.0 |
| 67-68 | 20.0 | 20.0 | 13.0 | 25.0 |
| 69 | 20.0 | 20.0 | 13.0 | 30.0 |
| 70 | 30.0 | 35.0 | 25.0 | 50.0 |
| 71 | 30.0 | 35.0 | 25.0 | 50.0 |
| 72-74 | 30.0 | 35.0 | 30.0 | 50.0 |
| 75 | 100.0 | 100.0 | 100.0 | 100.0 |

| | Public Safety | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Group E and J | | | Group F | | | Group G | | |
| Age | Under 25 Years of Service | 25 Years of Service & Over | Eligibility Group E Only | Under 25 Years of Service | 25 Years of Service | 26 Years of Service & Over | Under 20 or 21 - 24 Years of Service | 20 Years of Service | 25 Years of Service & Over |
| Under 42 | 3.5% | 3.5% | % | 2.5% | 10.0% | 10.0% | 2.5% | 2.50% | 2.5% |
| 42 – 44 | 3.5 | 3.5 | | 2.5 | 10.0 | 10.0 | 5.0 | 5.0 | 5.0 |
| 45 | 3.5 | 8.0 | | 2.5 | 10.0 | 10.0 | 5.0 | 15.0 | 7.5 |
| 46 | 3.5 | 8.0 | 18.0 | 3.0 | 10.0 | 10.0 | 5.0 | 15.0 | 7.5 |
| 47 | 3.5 | 8.0 | 18.0 | 4.0 | 10.0 | 10.0 | 5.0 | 15.0 | 7.5 |
| 48 | 3.5 | 8.0 | 18.0 | 4.0 | 10.0 | 10.0 | 5.0 | 15.0 | 10.0 |
| 49 | 5.0 | 20.0 | 30.0 | 4.0 | 10.0 | 10.0 | 10.0 | 20.0 | 10.0 |
| 50 | 7.5 | 20.0 | 30.0 | 8.0 | 18.0 | 18.0 | 10.0 | 20.0 | 10.0 |
| 51 | 7.5 | 20.0 | 20.0 | 8.0 | 18.0 | 18.0 | 10.0 | 20.0 | 17.5 |
| 52 | 7.5 | 20.0 | 20.0 | 8.0 | 18.0 | 18.0 | 12.5 | 22.5 | 20.0 |
| 53 | 7.5 | 20.0 | 20.0 | 8.0 | 20.0 | 20.0 | 12.5 | 22.5 | 20.0 |
| 54 | 7.5 | 20.0 | 20.0 | 12.0 | 20.0 | 20.0 | 12.5 | 22.5 | 20.0 |
| 55 – 56 | 15.0 | 30.0 | 30.0 | 12.0 | 50.0 | 35.0 | 15.0 | 25.0 | 30.0 |
| 57 | 15.0 | 30.0 | 25.0 | 15.0 | 50.0 | 35.0 | 15.0 | 25.0 | 30.0 |
| 58-59 | 15.0 | 30.0 | 25.0 | 15.0 | 50.0 | 35.0 | 15.0 | 25.0 | 40.0 |
| 60 – 62 | 15.0 | 30.0 | 50.0 | 20.0 | 65.0 | 50.0 | 30.0 | 40.0 | 40.0 |
| 63-64 | 15.0 | 30.0 | 50.0 | 25.0 | 65.0 | 50.0 | 30.0 | 40.0 | 40.0 |
| 65 | 50.0 | 50.0 | 85.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 |

6. **Sick Leave Credit**

Service credit is increased by 2.6% for Group A employees, 2.2% for Group E and J employees, 4.4% for Group F employees, 2.9% for Group G employees, and 1.6% for Group H employees to account for additional credit from unused sick leave. Sick leave is capped at 2 years.

7. **Marital assumption**

80% of active participants are assumed to be married. Women are assumed to be three years younger than their spouses.

**B. Economic Assumptions**

| | |
|---|---|
| 1. Investment Return: | 7.50% compound per annum |
| 2. Cost-of-Living Increases: | 2.50% on credited service earned prior to June 30, 2011. 2.20% on credited service earned on or after July1, 2011, reflecting the 2.50% cap |
| 3. Increase in Social Security Wage Base: | 3.00% compound per annum |
| 4. Expense load: | Assumed administrative expenses are based on 105% of the average of the administrative expenses over the past three years. For FY 2025 this figure is $3,281,201. |
| 5. Salary Increase: | Merit and promotional increases assumed to be based on service as shown below: |

| Service | Non-Public Safety* | Service | Group E | Service | Group F | Service | Group G |
|---|---|---|---|---|---|---|---|
| 1 | 6.75% | 1 | 9.50% | 1 | 7.75% | 1 | 10.75% |
| 2 | 5.75 | 2 | 9.25 | 2 | 7.50 | 2 | 9.25 |
| 3 | 5.25 | 3 | 8.00 | 3 | 7.25 | 3 | 7.75 |
| 4 | 5.25 | 4 | 6.75 | 4 | 7.00 | 4 | 7.25 |
| 5 | 5.25 | 5 | 6.25 | 5 | 6.75 | 5 – 10 | 6.75 |
| 6-8 | 5.00 | 6-7 | 5.75 | 6 | 5.75 | 11-15 | 5.25 |
| 9-10 | 4.75 | 8 | 5.25 | 7-8 | 5.50 | 16-20 | 4.25 |
| 11-15 | 4.25 | 9-15 | 4.75 | 9-10 | 5.00 | 21-29 | 3.25 |
| 16-21 | 4.00 | 16-18 | 4.50 | 11-15 | 4.75 | 30+ | 3.00 |
| 22-24 | 3.75 | 19-20 | 4.25 | 16 | 4.50 | | |
| 25-29 | 3.50 | 21 | 4.00 | 17 | 4.25 | | |
| 30+ | 3.00 | 22-27 | 3.75 | 18-20 | 4.00 | | |
| | | 28-29 | 3.50 | 21-25 | 3.25 | | |
| | | 30+ | 3.00 | 26+ | 3.00 | | |

** Includes GRIP*

## ANALYSIS OF FINANCIAL EXPERIENCE

### Gains and Loss in Accrued Liability During Years Ended June 30

### Resulting from Differences Between Assumed Experience and Actual Experience

| Fiscal Year | (a) Recognition of Asset gain/(loss) | (b) Combined liability experience | (a)+(b) Gain/(Loss) during year |
|---|---|---|---|
| 2014 | 163,194,287 | 7,865,965 | 171,060,252 |
| 2015 | 107,001,671 | 81,145,514 | 188,147,185 |
| 2016 | (23,178,967) | 86,796,201 | 63,617,234 |
| 2017 | 10,966,494 | 80,948,741 | 91,915,235 |
| 2018 | 12,111,506 | 21,671,951 | 33,783,457 |
| 2019 | (42,453,998) | 153,309,578 | 110,855,580 |
| 2020 | (26,326,113) | 41,909,369 | 15,583,256 |
| 2021 | 172,449,453 | 3,149,205 | 175,598,658 |
| 2022 | 62,396,858 | (117,240,646) | (54,843,788) |
| 2023 | (31,676,832) | (130,455,775) | (162,132,607) |

## SOLVENCY TEST

### Aggregate Accrued Liability

| Valuation Date | (1) Active Members Contributions | (2) Retirees, Term Vested, Beneficiaries | (3) Active Members (Employer Financed Portion) | Reported Assets | Portion of Accrued Liabilities Covered by Reported Assets (%) (1) | (2) | (3) |
|---|---|---|---|---|---|---|---|
| 6/30/2014 | $ 265,055,643 | $ 2,585,446,584 | $ 1,108,427,491 | $ 3,333,484,724 | 100% | 100% | 44% |
| 6/30/2015 | 280,135,577 | 2,698,040,722 | 1,072,560,553 | 3,630,075,610 | 100 | 100 | 61 |
| 6/30/2016 | 297,715,372 | 2,747,575,831 | 1,095,769,765 | 3,798,555,275 | 100 | 100 | 69 |
| 6/30/2017 | 314,707,102 | 2,789,167,599 | 1,098,758,441 | 3,968,497,692 | 100 | 100 | 79 |
| 6/30/2018 | 327,611,097 | 2,900,824,622 | 1,105,861,079 | 4,149,435,330 | 100 | 100 | 83 |
| 6/30/2019 | 333,645,308 | 2,927,345,196 | 1,059,170,568 | 4,261,996,413 | 100 | 100 | 95 |
| 6/30/2020 | 350,094,770 | 3,003,483,784 | 1,074,469,788 | 4,393,054,415 | 100 | 100 | 97 |
| 6/30/2021 | 357,460,046 | 3,175,042,247 | 1,032,465,022 | 4,709,827,390 | 100 | 100 | 100 |
| 6/30/2022 | 357,178,578 | 3,443,545,983 | 1,024,084,383 | 4,915,636,212 | 100 | 100 | 100 |
| 6/30/2023 | 376,109,982 | 3,505,400,338 | 1,193,546,318 | 5,003,872,329 | 100 | 100 | 94 |

## SCHEDULE OF RETIREES AND SURVIVORS
## During Years Ended June 30

| | New Retirees and Disableds | Survivors | Total |
|---|---|---|---|
| **July 1, 2014** | **5,790** | **452** | **6,242** |
| New retirements & disabilities | 264 | 0 | 264 |
| Deaths with beneficiaries | (24) | 24 | 0 |
| Deaths/benefits ended | (98) | (28) | (126) |
| **July 1, 2015** | **5,932** | **448** | **6,380** |
| New retirements & disabilities | 203 | 0 | 203 |
| Deaths with beneficiaries | (20) | 20 | 0 |
| Deaths/benefits ended | (107) | (23) | (130) |
| **July 1, 2016** | **6,008** | **445** | **6,453** |
| New retirements & disabilities | 207 | 0 | 207 |
| Deaths with beneficiaries | (30) | 30 | 0 |
| Deaths/benefits ended | (122) | (22) | (144) |
| **July 1, 2017** | **6,063** | **453** | **6,516** |
| New retirements & disabilities | 271 | 0 | 271 |
| Deaths with beneficiaries | (40) | 40 | 0 |
| Deaths/benefits ended | (144) | (28) | (172) |
| **July 1, 2018** | **6,150** | **465** | **6,615** |
| New retirements & disabilities | 270 | 0 | 270 |
| Deaths with beneficiaries | (35) | 35 | 0 |
| Deaths/benefits ended | (125) | (29) | (154) |
| **July 1, 2019** | **6,260** | **471** | **6,731** |
| New retirements & disabilities | 224 | 0 | 224 |
| Deaths with beneficiaries | (23) | 23 | 0 |
| Deaths/benefits ended | (144) | (28) | (172) |
| **July 1, 2020** | **6,317** | **466** | **6,783** |
| New retirements & disabilities | 237 | 0 | 237 |
| Deaths with beneficiaries | (30) | 30 | 0 |
| Deaths/benefits ended | (142) | (35) | (177) |
| **July 1, 2021** | **6,382** | **461** | **6,843** |
| New retirements & disabilities | 301 | 0 | 301 |
| Deaths with beneficiaries | (27) | 27 | 0 |
| Deaths/benefits ended | (156) | (22) | (178) |
| **July 1, 2022** | **6,500** | **466** | **6,966** |
| New retirements & disabilities | 178 | 0 | 178 |
| Deaths with beneficiaries | (24) | 24 | 0 |
| Deaths/benefits ended | (133) | (25) | (158) |
| **July 1, 2023** | **6,521** | **465** | **6,986** |

## SCHEDULE OF ANNUAL ALLOWANCE
## During Years Ended June 30

| | Retirees, Disableds & QDRO's | Survivors | Total |
|---|---|---|---|
| **July 1, 2014** | **$ 221,212,272** | **$ 8,356,583** | **$ 229,568,856** |
| Average Annual Allowance | 38,206 | 18,488 | 36,778 |
| Annual Allowance Added | 8,938,666 | 612,732 | 9,551,398 |
| Annual Allowance Removed | (3,140,736) | (366,643) | (3,507,379) |
| **July 1, 2015** | **$ 227,010,202** | **$ 8,602,673** | **$ 235,612,875** |
| Average Annual Allowance | 38,269 | 19,202 | 36,930 |
| Annual Allowance Added | 8,783,325 | 490,043 | 9,273,368 |
| Annual Allowance Removed | (3,486,640) | (535,806) | (4,022,446) |
| **July 1, 2016** | **$ 232,306,887** | **$ 8,556,910** | **$ 240,863,796** |
| Average Annual Allowance | 38,666 | 19,229 | 37,326 |
| Annual Allowance Added | 8,587,719 | 633,990 | 9,221,709 |
| Annual Allowance Removed | (4,617,442) | (329,036) | (4,946,478) |
| **July 1, 2017** | **$ 236,277,164** | **$ 8,861,864** | **$ 245,139,028** |
| Average Annual Allowance | 38,970 | 19,563 | 37,621 |
| Annual Allowance Added | 13,309,491 | 1,046,785 | 14,356,276 |
| Annual Allowance Removed | (3,360,205) | (595,678) | (3,955,883) |
| **July 1, 2018** | **$ 246,226,450** | **$ 9,312,972** | **$ 255,539,422** |
| Average Annual Allowance | 40,037 | 20,028 | 38,630 |
| Annual Allowance Added | 15,362,545 | 843,157 | 16,205,702 |
| Annual Allowance Removed | (5,059,721) | (505,871) | (5,565,591) |
| **July 1, 2019** | **$ 256,529,274** | **$ 9,650,259** | **$ 266,179,533** |
| Average Annual Allowance | 40,979 | 20,489 | 39,545 |
| Annual Allowance Added | 8,728,596 | 265,440 | 8,994,036 |
| Annual Allowance Removed | (4,732,240) | (594,568) | (5,326,808) |
| **July 1, 2020** | **$ 260,525,630** | **$ 9,321,131** | **$ 269,846,761** |
| Average Annual Allowance | 41,242 | 20,002 | 39,783 |
| Annual Allowance Added | 21,135,214 | 962,131 | 22,097,345 |
| Annual Allowance Removed | (5,180,570) | (751,498) | (5,932,068) |
| **July 1, 2021** | **$ 276,480,274** | **$ 9,531,764** | **$ 286,012,038** |
| Average Annual Allowance | 43,322 | 20,676 | 41,796 |
| Annual Allowance Added | 31,489,382 | 1,035,604 | 32,524,986 |
| Annual Allowance Removed | (5,583,743) | (533,376) | (6,117,119) |
| **July 1, 2022** | **$ 302,385,913** | **$ 10,033,993** | **$ 312,419,906** |
| Average Annual Allowance | 46,521 | 21,532 | 68,053 |
| Annual Allowance Added | 15,944,683 | 911,256 | 16,855,939 |
| Annual Allowance Removed | (5,991,726) | (401,557) | (6,393,283) |
| **July 1, 2023** | **$ 312,338,870** | **$ 10,543,691** | **$ 322,882,562** |

## Schedule of Active Member Valuation Data

| Valuation Date | Number | Annual Payroll | Annual Average Pay | % Increase in Average Pay |
|---|---|---|---|---|
| July 1,2014 | 5,535 | 402,899,096 | 72,791 | 3.05 % |
| July 1,2015 | 5,541 | 418,728,584 | 75,569 | 3.82 |
| July 1,2016 | 5,513 | 427,622,475 | 77,566 | 2.64 |
| July 1,2017 | 5,738 | 444,274,516 | 77,427 | -0.18 |
| July 1,2018 | 6,004 | 467,974,450 | 77,944 | 0.67 |
| July 1,2019 | 6,003 | 476,619,112 | 79,397 | 1.86 |
| July 1,2020 | 6,204 | 503,656,509 | 81,183 | 2.25 |
| July 1,2021 | 6,214 | 506,377,759 | 81,490 | 0.38 |
| July 1,2022 | 5,956 | 510,692,954 | 85,744 | 5.22 |
| July 1,2023 | 6,229 | 564,949,277 | 90,695 | 5.77 |

## Schedule of Funding Progress

| Valuation Date | Actuarial Value of Assets (a) | Actuarial Accrued Liabilities (b) | Unfunded Actuarial Accrued Liabilities (UAAL) (b) - (a) | Funded Ratio (a) / (b) | Covered Payroll (c) | UAAL as a Percentage of Covered Payroll [(b) - (a)] / (c) |
|---|---|---|---|---|---|---|
| July 1,2014 | $3,333,484,724 | $3,958,929,718 | $625,444,994 | 84.2 % | $402,899,096 | 155.20 % |
| July 1,2015 | 3,630,075,610 | 4,050,736,852 | 420,661,242 | 89.6 | 418,728,584 | 100.50 |
| July 1,2016 | 3,798,555,275 | 4,141,060,968 | 342,505,693 | 91.7 | 427,622,475 | 80.10 |
| July 1,2017 | 3,968,497,692 | 4,202,633,142 | 234,135,450 | 94.4 | 444,274,516 | 52.70 |
| July 1,2018 | 4,149,354,330 | 4,334,296,798 | 184,942,468 | 95.7 | 467,974,450 | 39.50 |
| July 1,2019 | 4,261,996,413 | 4,320,161,072 | 58,164,659 | 98.7 | 476,619,112 | 12.20 |
| July 1,2020 | 4,393,054,415 | 4,428,048,342 | 34,993,927 | 99.2 | 503,656,510 | 6.90 |
| July 1,2021 | 4,709,827,390 | 4,564,967,315 | (144,860,075) | 103.2 | 506,377,759 | (28.60) |
| July 1,2022 | 4,915,636,212 | 4,824,808,944 | (90,827,268) | 101.9 | 510,692,954 | (17.80) |
| July 1,2023 | 5,003,872,329 | 5,075,056,637 | 71,184,308 | 98.6 | 564,939,277 | 12.60 |

# STATISTICAL SECTION

## Employee Retirement Plans

## STATISTICAL SECTION

The Statistical Section presents detailed information in the areas shown below, as a context for understanding what the information in the Financial Section says about the overall financial health of the Employee Retirement Plans:

The schedules beginning on page 82 are designed to show financial trend information to assist users in understanding and assessing how the Employee Retirement Plans' financial position has changed over the past ten years. The financial trend schedules presented are:

- Changes in Fiduciary Net Position – Information to help the reader understand the Plans' historical contributions, earnings, and expenses.

- Benefit, Refund and Distribution Deductions from Fiduciary Net Position – Information to help the reader understand the historical benefits, refund, and distribution deductions.

The schedules beginning on page 88 display demographic, economic, and operating information. The demographic and economic information is intended to assist users in understanding the environment in which the Employee Retirement Plans operate. The operating information is intended to provide contextual information about the Employee Retirement Plans' operations to assist readers in using financial statement information. The demographic and economic information and the operating information presented include:

- Principal Participating Employers
- Retired Members by Benefit Type
- Average Benefit Amounts
- Retired Members by Type of Retirement
- Average Benefit Payments and Average Final Valuation Pay
- Schedule of Participating Agencies and Political Subdivisions

EMPLOYEES' RETIREMENT SYSTEM
SCHEDULE OF CHANGE IN FIDUCIARY NET POSITION
JUNE 30, 2023
LAST TEN FISCAL YEARS
(dollars in thousands)

| | 2014 | 2015 | 2016 | 2017 | 2018 |
|---|---|---|---|---|---|
| **Additions** | | | | | |
| Member contributions | $ 26,463 | $ 26,627 | $ 27,056 | $ 27,940 | $ 28,965 |
| Employer contributions | 144,710 | 151,302 | 134,806 | 95,399 | 93,163 |
| Investment income (loss) (net of expenses) | 534,397 | 67,071 | 57,676 | 413,347 | 340,085 |
| Total additions | 705,570 | 245,000 | 219,538 | 536,686 | 462,213 |
| **Deductions** | | | | | |
| Benefit payments | 229,664 | 230,647 | 230,696 | 235,124 | 238,916 |
| Refunds | 4,330 | 2,874 | 5,887 | 6,473 | 4,624 |
| Administrative expenses | 2,954 | 2,685 | 3,014 | 3,186 | 2,871 |
| Total deductions | 236,948 | 236,206 | 239,597 | 244,783 | 246,411 |
| **Change in net position** | $ 468,622 | $ 8,794 | $ (20,059) | $ 291,903 | $ 215,802 |

EMPLOYEES' RETIREMENT SYSTEM
SCHEDULE OF BENEFIT AND REFUND DEDUCTIONS FROM FIDUCIARY NET POSITION BY TYPE
JUNE 30, 2023
LAST TEN FISCAL YEARS
(dollars in thousands)

| | 2014 | 2015 | 2016 | 2017 | 2018 |
|---|---|---|---|---|---|
| **Benefit Payments** | | | | | |
| Service benefits: | | | | | |
| Retirees | $ 172,472 | $ 171,785 | $ 171,391 | $ 175,049 | $ 178,268 |
| Survivors | 8,586 | 8,982 | 9,017 | 9,334 | 9,784 |
| Disability | 48,606 | 49,880 | 50,288 | 50,741 | 50,864 |
| **Total benefits payments** | $ 229,664 | $ 230,647 | $ 230,696 | $ 235,124 | $ 238,916 |
| **Refunds** | | | | | |
| Death | $ 3 | $ 348 | $ 1,134 | $ 919 | $ 425 |
| Seperation and other | 4,327 | 2,526 | 4,753 | 5,554 | 4,199 |
| **Total Refunds** | $ 4,330 | $ 2,874 | $ 5,887 | $ 6,473 | $ 4,624 |

| 2019 | 2020 | 2021 | 2022 | 2023 |
|---|---|---|---|---|
| $ 29,629 | $ 30,781 | $ 30,848 | $ 31,203 | $ 33,544 |
| 86,584 | 87,199 | 70,741 | 68,120 | 52,524 |
| 317,891 | 173,368 | 1,141,051 | (257,122) | 181,878 |
| 434,104 | 291,348 | 1,242,640 | (157,799) | 267,946 |
| 256,951 | 262,074 | 267,421 | 287,003 | 310,438 |
| 6,760 | 9,350 | 9,749 | 11,723 | 12,311 |
| 3,064 | 3,059 | 2,999 | 3,132 | 3,244 |
| 266,775 | 274,483 | 280,169 | 301,858 | 325,993 |
| $ 167,329 | $ 16,865 | $ 962,471 | $ (459,657) | $ (58,047) |

| 2019 | 2020 | 2021 | 2022 | 2023 |
|---|---|---|---|---|
| $ 193,422 | $ 197,347 | $ 203,253 | $ 220,331 | $ 238,982 |
| 10,291 | 10,626 | 10,244 | 10,770 | 11,782 |
| 53,238 | 54,101 | 53,924 | 55,902 | 59,674 |
| $ 256,951 | $ 262,074 | $ 267,421 | $ 287,003 | $ 310,438 |
| $ 223 | $ 944 | $ 162 | $ 155 | $ 664 |
| 6,537 | 8,406 | 9,587 | 11,568 | 11,647 |
| $ 6,760 | $ 9,350 | $ 9,749 | $ 11,723 | $ 12,311 |

RETIREMENT SAVINGS PLAN
SCHEDULE OF CHANGE IN FIDUCIARY NET POSITION
JUNE 30, 2023
LAST TEN FISCAL YEARS
(dollars in thousands)

| | 2014 | 2015 | 2016 | 2017 | 2018 |
|---|---|---|---|---|---|
| **Additions** | | | | | |
| Member contributions | $ 8,695 | $ 9,728 | $ 10,714 | $ 10,303 | $ 10,801 |
| Employer contributions | 17,117 | 18,502 | 19,682 | 19,782 | 20,348 |
| Investment income (loss) (net of expenses) | 42,432 | 7,493 | 500 | 43,598 | 36,561 |
| Total additions | 68,244 | 35,723 | 30,896 | 73,683 | 67,710 |
| **Deductions** | | | | | |
| Distributions | 11,682 | 12,694 | 10,055 | 15,220 | 15,387 |
| Administrative expenses | 197 | 235 | 181 | 267 | 329 |
| Total deductions | 11,879 | 12,929 | 10,236 | 15,487 | 15,716 |
| **Change in net position** | $ 56,365 | $ 22,794 | $ 20,660 | $ 58,196 | $ 51,994 |

RETIREMENT SAVINGS PLAN
SCHEDULE OF DISTRIBUTION DEDUCTIONS FROM FIDUCIARY NET POSITION BY TYPE
JUNE 30, 2023
LAST TEN FISCAL YEARS
(dollars in thousands)

| | 2014 | 2015 | 2016 | 2017 | 2018 |
|---|---|---|---|---|---|
| **Distributions** | | | | | |
| Death | $ 347 | $ 401 | $ 437 | $ 257 | $ 58 |
| Seperation and other | 11,335 | 12,293 | 9,618 | 14,963 | 15,329 |
| **Total Distributions** | $ 11,682 | $ 12,694 | $ 10,055 | $ 15,220 | $ 15,387 |

| 2019 | 2020 | 2021 | 2022 | 2023 |
|---|---|---|---|---|
| $ 12,023 | $ 11,481 | $ 11,742 | $ 12,205 | $ 11,943 |
| 20,511 | 21,232 | 21,607 | 22,341 | 23,524 |
| 27,124 | 34,237 | 156,023 | (103,584) | 68,445 |
| 59,658 | 66,950 | 189,372 | (69,038) | 103,912 |
| 16,066 | 18,583 | 19,737 | 22,751 | 28,766 |
| 325 | 257 | 253 | 277 | 266 |
| 16,391 | 18,840 | 19,990 | 23,028 | 29,032 |
| $ 43,267 | $ 48,110 | $ 169,382 | $ (92,066) | $ 74,880 |

| 2019 | 2020 | 2021 | 2022 | 2023 |
|---|---|---|---|---|
| $ 112 | $ 40 | $ 1 | $ 14 | $ 56 |
| 15,954 | 18,543 | 19,736 | 22,737 | 28,710 |
| $ 16,066 | $ 18,583 | $ 19,737 | $ 22,751 | $ 28,766 |

DEFERRED COMPENSATION PLAN
SCHEDULE OF CHANGE IN FIDUCIARY NET POSITION
JUNE 30, 2023
LAST TEN FISCAL YEARS
(dollars in thousands)

| | 2014 | 2015 | 2016 | 2017 | 2018 |
|---|---|---|---|---|---|
| **Additions** | | | | | |
| Member contributions | $ 17,011 | $ 19,229 | $ 18,761 | $ 19,511 | $ 20,574 |
| Investment income (loss) (net of expenses) | 48,864 | 15,259 | (63) | 47,590 | 43,154 |
| Total additions | 65,875 | 34,488 | 18,698 | 67,101 | 63,728 |
| **Deductions** | | | | | |
| Distributions | 25,506 | 26,123 | 22,374 | 25,666 | 22,719 |
| Total deductions | 25,506 | 26,123 | 22,374 | 25,666 | 22,719 |
| **Change in net position** | $ 40,369 | $ 8,365 | $ (3,676) | $ 41,435 | $ 41,009 |

DEFERRED COMPENSATION PLAN
SCHEDULE OF DISTRIBUTION DEDUCTIONS FROM FIDUCIARY NET POSITION BY TYPE
JUNE 30, 2023
LAST TEN FISCAL YEARS
(dollars in thousands)

| | 2014 | 2015 | 2016 | 2017 | 2018 |
|---|---|---|---|---|---|
| **Distributions** | | | | | |
| Death | $ 1,004 | $ 2,326 | $ 385 | $ 763 | $ 355 |
| Seperation and other | 24,502 | 23,797 | 21,989 | 24,903 | 22,364 |
| **Total Distributions** | $ 25,506 | $ 26,123 | $ 22,374 | $ 25,666 | $ 22,719 |

| 2019 | 2020 | 2021 | 2022 | 2023 |
|---|---|---|---|---|
| $ 23,244 | $ 22,524 | $ 25,684 | $ 23,908 | $ 22,544 |
| 25,775 | 35,687 | 150,694 | (89,287) | 71,612 |
| 49,019 | 58,211 | 176,378 | (65,379) | 94,156 |
| 36,857 | 34,101 | 31,861 | 29,919 | 35,809 |
| 36,857 | 34,101 | 31,861 | 29,919 | 35,809 |
| $ 12,162 | $ 24,110 | $ 144,517 | $ (95,298) | $ 58,347 |

| 2019 | 2020 | 2021 | 2022 | 2023 |
|---|---|---|---|---|
| $ 341 | $ 95 | $ 158 | $ 50 | $ 291 |
| 36,516 | 34,006 | 31,703 | 29,869 | 35,418 |
| $ 36,857 | $ 34,101 | $ 31,861 | $ 29,919 | $ 35,809 |

EMPLOYEES' RETIREMENT SYSTEM
PRINCIPAL PARTICIPATING EMPLOYERS
CURRENT FISCAL YEAR AND NINE YEARS AGO
JUNE 30, 2023

| Participating Government | 2023 Covered Employees | 2023 Percentage of Total System | 2014 Covered Employees | 2014 Percentage of Total System |
|---|---|---|---|---|
| Montgomery County | 6,097 | 97.9% | 5,398 | 97.5% |
| Town of Chevy Chase | 1 | 0.0% | 3 | 0.1% |
| Strathmore Hall | 17 | 0.3% | 6 | 0.1% |
| Housing Opportunities Commission | 106 | 1.7% | 116 | 2.1% |
| Revenue Authority | 8 | 0.1% | 5 | 0.1% |
| SkyPoint Federal Credit Union | - | - | 5 | 0.1% |
| State Department of Assessment and Taxation | - | - | 1 | 0.0% |
| District Court | - | - | 1 | 0.0% |
| Total | 6,229 | 100.0% | 5,535 | 100.0% |

EMPLOYEES' RETIREMENT SYSTEM
SCHEDULE OF RETIRED MEMBERS BY BENEFIT TYPE
JUNE 30, 2023

| Fiscal Year | Retiree | Disability | Survivor | Total |
|---|---|---|---|---|
| 2014 | 4,669 | 1,121 | 452 | 6,242 |
| 2015 | 4,807 | 1,125 | 448 | 6,380 |
| 2016 | 4,882 | 1,126 | 445 | 6,453 |
| 2017 | 4,947 | 1,116 | 453 | 6,516 |
| 2018 | 5,031 | 1,119 | 465 | 6,615 |
| 2019 | 5,128 | 1,132 | 471 | 6,731 |
| 2020 | 5,190 | 1,127 | 466 | 6,783 |
| 2021 | 5,273 | 1,109 | 461 | 6,843 |
| 2022 | 5,383 | 1,117 | 466 | 6,966 |
| 2023 | 5,410 | 1,111 | 465 | 6,986 |

EMPLOYEES' RETIREMENT SYSTEM
SCHEDULE OF AVERAGE BENEFIT AMOUNTS
JUNE 30, 2023

| Fiscal Year | Retiree | Disability | Survivor | Total |
|---|---|---|---|---|
| 2014 | $ 36,940 | $ 43,360 | $ 18,995 | $ 36,793 |
| 2015 | 35,736 | 44,337 | 20,049 | 36,152 |
| 2016 | 35,107 | 44,660 | 20,263 | 35,750 |
| 2017 | 35,385 | 45,467 | 20,605 | 36,084 |
| 2018 | 35,434 | 45,455 | 21,040 | 36,117 |
| 2019 | 37,719 | 47,030 | 21,850 | 38,174 |
| 2020 | 38,024 | 48,004 | 22,803 | 38,637 |
| 2021 | 38,546 | 48,624 | 22,220 | 39,079 |
| 2022 | 40,931 | 50,047 | 23,112 | 41,201 |
| 2023 | 44,174 | 53,712 | 25,338 | 44,437 |

EMPLOYEES' RETIREMENT SYSTEM
SCHEDULE OF RETIRED MEMBERS BY TYPE OF RETIREMENT
JUNE 30, 2023

| Amount of Monthly Benefit | Number of Retired Members | Type of Retirement [a] | | | Option Selected [b] | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | 1 | 2 | 3 | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| Deferred [c] | 768 | | | | | | | | | | |
| $ 1 – $ 500 | 378 | 331 | 44 | 3 | 196 | 108 | 1 | 3 | 33 | 10 | 27 |
| 501 – 1,000 | 483 | 360 | 104 | 19 | 219 | 120 | 13 | 10 | 43 | 18 | 60 |
| 1,001 – 1,500 | 491 | 371 | 85 | 35 | 208 | 132 | 10 | 9 | 43 | 28 | 61 |
| 1,501 – 2,000 | 513 | 384 | 74 | 55 | 205 | 129 | 17 | 24 | 18 | 26 | 94 |
| 2,001 – 2,500 | 526 | 396 | 48 | 82 | 225 | 116 | 7 | 20 | 26 | 25 | 107 |
| 2,501 – 3,000 | 523 | 406 | 31 | 86 | 213 | 121 | 6 | 24 | 21 | 34 | 104 |
| 3,001 – 3,500 | 474 | 369 | 16 | 89 | 197 | 98 | 3 | 19 | 13 | 37 | 107 |
| 3,501 – 4,000 | 500 | 358 | 17 | 125 | 197 | 98 | 3 | 19 | 27 | 37 | 119 |
| Over 4,000 | 3,098 | 2,435 | 46 | 617 | 1,376 | 583 | 8 | 152 | 111 | 265 | 603 |
| Total | 7,754 | 5,410 | 465 | 1,111 | 3,036 | 1,505 | 68 | 280 | 335 | 480 | 1,282 |

Benefit amounts include total benefit amount for insured retirees (including the benefit amount that is paid by Aetna).
Counts include DRSP and DROP members.

**Notes:**

[a] Type of retirement:
1—Retiree
2—Beneficiary
3—Disabled Retiree

[c] Includes 631 terminated GRIP members

[b] Option selected:
Option 1—Modified Cash Refund
Option 2—Certain and Continuous
Option 3—Life Annuity
Option 4—Joint and Survivor 50%
Option 5—Joint and Survivor 100%
Option 6—Other Joint and Survivor Percentage
Option 7—Joint and Survivor Options

EMPLOYEES' RETIREMENT SYSTEM
SCHEDULE OF AVERAGE BENEFIT PAYMENTS AND AVERAGE FINAL VALUATION PAY
LAST TEN FISCAL YEARS

| Retirement Effective Dates | Years Credited Service 0–5 | 5–10 | 10–15 | 15–20 | 20–25 | 25–30 | 30+ |
|---|---|---|---|---|---|---|---|
| Period 7/1/2013 to 6/30/2014 | | | | | | | |
| Average monthly benefit* | $ - | $ - | $ - | $ 2,636 | $ 2,941 | $ 4,552 | $ 5,790 |
| Average final valuation pay** | $ - | $ - | $ - | $ 71,521 | $ 75,097 | $ 90,425 | $ 92,772 |
| Number of retired members*** | - | - | - | 17 | 53 | 98 | 71 |
| Period 7/1/2014 to 6/30/2015 | | | | | | | |
| Average monthly benefit* | $ - | $ - | $ 2,231 | $ 1,654 | $ 3,273 | $ 4,388 | $ 5,062 |
| Average final valuation pay** | $ - | $ - | $ 72,858 | $ 62,439 | $ 82,958 | $ 90,297 | $ 91,982 |
| Number of retired members*** | - | - | 1 | 11 | 49 | 74 | 57 |
| Period 7/1/2015 to 6/30/2016 | | | | | | | |
| Average monthly benefit* | $ - | $ - | $ 1,697 | $ 2,309 | $ 3,054 | $ 4,510 | $ 5,274 |
| Average final valuation pay** | $ - | $ - | $ 65,941 | $ 74,376 | $ 84,079 | $ 94,265 | $ 99,878 |
| Number of retired members*** | - | - | 6 | 5 | 32 | 63 | 37 |
| Period 7/1/2016 to 6/30/2017 | | | | | | | |
| Average monthly benefit* | $ - | $ - | $ 1,953 | $ 2,427 | $ 3,325 | $ 4,362 | $ 4,991 |
| Average final valuation pay** | $ - | $ - | $ 76,592 | $ 74,271 | $ 85,297 | $ 96,041 | $ 90,799 |
| Number of retired members*** | - | - | 12 | 5 | 27 | 60 | 39 |
| Period 7/1/2017 to 6/30/2018 | | | | | | | |
| Average monthly benefit* | $ - | $ - | $ 2,149 | $ 3,074 | $ 3,218 | $ 4,736 | $ 5,781 |
| Average final valuation pay** | $ - | $ - | $ 101,266 | $ 90,712 | $ 81,372 | $ 100,236 | $ 104,711 |
| Number of retired members*** | - | - | 5 | 7 | 31 | 76 | 48 |
| Period 7/1/2018 to 6/30/2019 | | | | | | | |
| Average monthly benefit* | $ - | $ - | $ 2,062 | $ 3,105 | $ 3,639 | $ 4,561 | $ 5,727 |
| Average final valuation pay** | $ - | $ - | $ 77,242 | $ 93,928 | $ 88,698 | $ 96,500 | $ 108,661 |
| Number of retired members*** | - | - | 4 | 9 | 22 | 69 | 75 |
| Period 7/1/2019 to 6/30/2020 | | | | | | | |
| Average monthly benefit* | $ - | $ - | $ 2,436 | $ 2,632 | $ 4,319 | $ 4,961 | $ 5,793 |
| Average final valuation pay** | $ - | $ - | $ 93,706 | $ 84,777 | $ 101,006 | $ 107,159 | $ 108,935 |
| Number of retired members*** | - | - | 1 | 7 | 17 | 56 | 90 |
| Period 7/1/2020 to 6/30/2021 | | | | | | | |
| Average monthly benefit* | $ - | $ - | $ 2,652 | $ 3,062 | $ 4,276 | $ 4,832 | $ 6,278 |
| Average final valuation pay** | $ - | $ - | $ 79,089 | $ 90,285 | $ 102,629 | $ 104,491 | $ 116,696 |
| Number of retired members*** | - | - | 3 | 18 | 20 | 46 | 65 |
| Period 7/1/2021 to 6/30/2022 | | | | | | | |
| Average monthly benefit* | $ - | $ 359 | $ 1,753 | $ 3,043 | $ 4,833 | $ 5,041 | $ 6,012 |
| Average final valuation pay** | $ - | $ 35,852 | $ 77,650 | $ 86,063 | $ 103,805 | $ 100,880 | $ 108,346 |
| Number of retired members*** | - | 1 | 6 | 17 | 37 | 86 | 92 |
| Period 7/1/2022 to 6/30/2023 | | | | | | | |
| Average monthly benefit* | $ - | $ 596 | $ 1,935 | $ 3,456 | $ 4,988 | $ 5,552 | $ 6,282 |
| Average final valuation pay** | $ - | $ 99,654 | $ 91,248 | $ 99,678 | $ 107,042 | $ 107,024 | $ 113,406 |
| Number of retired members*** | - | 1 | 4 | 11 | 32 | 63 | 68 |

* Based on current benefits only, and does not take into account any future benefits. Includes total benefit amount for insured retirees (including the benefit amount that is paid by Aetna).

** Pay used for last valuation (when member was an active employee).

*** Only includes participants who went from active to retiree status. Excludes disability retirees.

Counts include members that were in active GRIP, DRSP, or DROP in the previous valuation and were retired in the current valuation.

## SCHEDULE OF PARTICIPATING AGENCIES AND POLITICAL SUBDIVISIONS EMPLOYEES' RETIREMENT SYSTEM RETIREMENT SAVINGS PLAN

Town of Chevy Chase
Strathmore Hall Foundation, Inc.
Housing Opportunities Commission of Montgomery County
Montgomery County Revenue Authority
Washington Suburban Transit Commission
SkyPoint Federal Credit Union

Certain employees of the:
- State Department of Assessments and Taxation
- District Court of Maryland

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