

EMPLOYEES' RETIREMENT SYSTEM

City of Baltimore, Maryland



ERS

EMPLOYEES'
RETIREMENT
SYSTEM

of the CITY OF BALTIMORE

Popular Annual
Financial Report

Year Ended June 30, 2024

Pension Trust of the City of Baltimore

Introduction

We are pleased to present the Popular Annual Financial Report (PAFR) for the Employees' Retirement System of the City of Baltimore (ERS). This report provides a summary of the fiscal year 2024 Annual Comprehensive Financial Report (ACFR), which was prepared in accordance with Generally Accepted Accounting Principles (GAAP). The PAFR includes selected highlights from the ACFR to offer a concise and accessible overview. It has been mailed to all retirees, shared via email with active members, and is available online at www.bcerc.org/publications/ERS-PAFR. For those interested in a detailed review of our financials, the complete ACFR can be accessed at www.bcerc.org/publications/ERS-ACFR. Thank you for staying engaged with ERS.

Board of Trustees Chair's Letter

ERS continued to rebound in fiscal year 2024. The ERS return was 7.7%. The ERS slightly underperformed its policy benchmark return of 8.4% and was below the relative peer group ranking in a universe of over 300 public pension funds. However, ERS has returned 7.2% over the past ten years and ranked 21st. The market value funded ratio for ERS is now 80.0%. We could not accomplish the agency's goals without the diligence and expertise of the Retirement Systems' staff. On behalf of the Board of Trustees, I sincerely thank you for a job well done.

In closing, I am pleased to announce some recent changes to the Board's composition. I, Quentin M. Herbert, and Veobia Akilo were elected to the board by active members, and Sharon Lockley was elected as the representative for retired members. I am honored to serve as the new board chair and am grateful for the opportunity to lead ERS in the years ahead.

Quinton M. Herbert

Executive Director's Letter

The ERS team remains deeply committed to prioritizing our members, retirees, and beneficiaries. Looking toward the future, we are advancing and actively working on significant system initiatives. In fiscal year 2024, we implemented Constant Contact as our new mass email software, enhancing communication capabilities with streamlined email campaigns and improved analytics. Progress continued on fossil fuel divestment under Ordinance 21-043, achieving further reductions and aligning with sustainability goals. We also introduced a Private Credit strategy to diversify and strengthen our investment portfolio. Modernization of IT systems included upgrading to Windows 11 and initiating server replacements to enhance security and efficiency. ERP system integrations were further refined for Baltimore City and actively supported for BCPSS's new system. Lastly, we reached a major milestone in digitizing Legal Affairs documents, with efforts ongoing across other departments to improve accessibility, security, and operational efficiency.

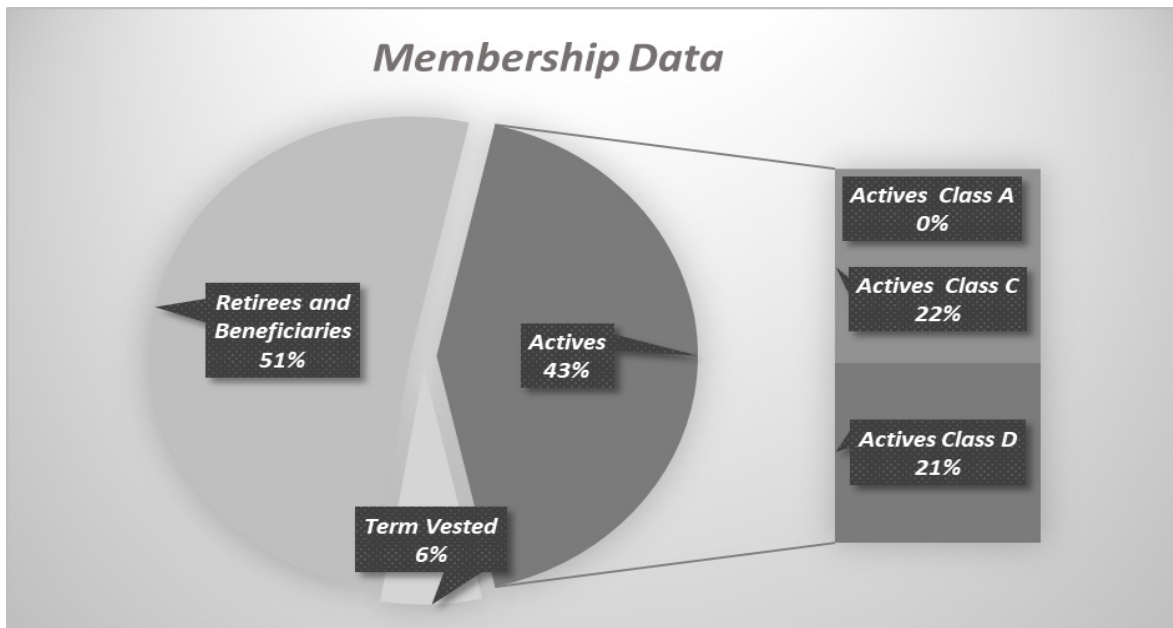
I would like to express my gratitude to our staff for their dedication. I also want to thank the Board of Trustees for their commitment to overseeing the ERS.

David A. Randall

The Plan

ERS is the administrator of a cost sharing multiple employers defined benefit local government retirement plan (the Plan). The ERS Plan was established effective January 1, 1954, and has been periodically amended. Any regular and permanent officer, agent, or employee of the City except for those required to join the Maryland State or any other Retirement System becomes a member of ERS upon completion of one year of service.

Membership Status as of June 30, 2024	Classes A&B	Class C	Class D	Total
Active Plan Members	2	4,000	3,702	7,704
Retirees and Beneficiaries (currently receiving benefits)	263	8,847	47	9,157
Terminated Plan members (entitled but not yet receiving benefits)	-	1,113	15	1,128
Total	265	13,960	3,764	17,989



As of June 30, 2024, the Employees' Retirement System (ERS) had a total membership of 17,989, comprising 7,704 active members, 9,157 retirees and beneficiaries, and 1,128 terminated plan members. Compared to 2023, active membership increased, while the number of retirees and terminated vested members decreased. Terminated plan members are former employees who are eligible for but not yet receiving a pension.

Active members contribute a percentage of their earnable compensation, which excludes overtime and other types of pay and refers to their authorized annual salary. Class A members contribute 4%, while Classes C and D contribute 5%. Class A members are eligible for retirement at age 60 with 5 years of service or after 30 years of membership service, regardless of age. Classes C and D members are eligible for retirement at age 65 with 5 years of service or after 30 years of service, regardless of age.

Financials

The net position serves as a useful indicator of the Plan’s financial position and is available to meet the plan’s ongoing obligation to participants and their beneficiaries. Management believes that the plan remains in a strong financial position to meet its obligations to the members, retirees, and their beneficiaries.

The Plan’s total net position restricted for pensions increased by \$77.56 million during fiscal year 2024. The increase was due to positive investment returns from all asset classes except real estate that was negative. The negative return from real estate was due to lack of movement in interest rates that kept transaction volume low throughout the year as the asset class reflected a second consecutive negative year.

Fiduciary Net Position	Fiscal Year 2024	Fiscal Year 2023	Increase / (Decrease)	Percentage Increase
Cash and Receivables	\$ 75,800,974	\$ 74,461,003	\$ 1,339,971	2%
Investments	2,076,409,482	1,992,478,515	83,930,967	4%
Securities Lending	48,323,980	43,880,992	4,442,988	10%
Capital Assets	339,084	336,401	2,683	1%
Total assets	2,200,873,520	2,111,156,911	89,716,609	4%
Total liabilities	89,411,434	77,259,457	12,151,977	16%
Total net position	\$ 2,111,462,086	\$ 2,033,897,454	\$ 77,564,632	4%



The chart shows the Fiduciary Net Position of the ERS from FY2020 to FY2024 in millions. It increased significantly from \$1,709M in FY2020 to \$2,106M in FY2021, dipped to \$1,974M in FY2022, and then steadily rose to \$2,034M in FY2023 and \$2,111M in FY2024. Overall, the trend reflects consistent growth, with FY2024 reaching the highest position in the five-year period.

Financials

The Statement of Changes in Fiduciary Net Position provides an overview of how the Plan's net position evolved over the year. In fiscal year 2024, the Plan's fiduciary net position increased by \$77.6 million, a 30% growth compared to the \$59.6 million increase in fiscal year 2023. This marks a significant improvement, with the net position growing by \$17.97 million, or 30%, compared to the previous year's increase.

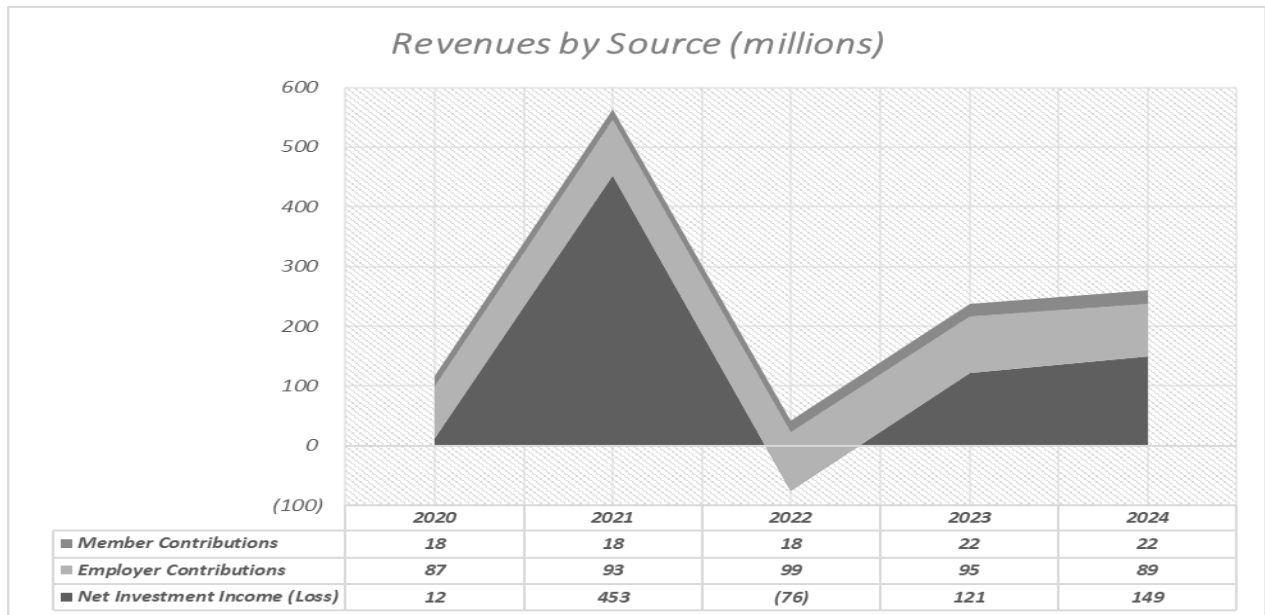
Changes in Fiduciary Net Position	Fiscal Year 2024	Fiscal Year 2023	Increase / (Decrease)	Percentage Change
Employer contribution	\$ 89,287,690	\$ 94,788,090	\$ (5,500,400)	-6%
Employee contribution	22,006,003	22,144,404	(138,401)	-1%
Net investment income (loss)	148,973,976	120,788,368	28,185,608	23%
Net Securities Lending Income	192,915	211,475	(18,560)	-9%
Total additions	260,460,584	237,932,337	22,528,247	9%
Retirement allowances	174,651,915	170,579,131	4,072,784	2%
Administrative expenses	5,316,122	5,068,850	247,272	5%
Refund of member's contribution	1,711,402	1,770,228	(58,826)	-3%
Death benefits	1,177,121	870,469	306,652	35%
Lump Sum cash payments	39,392	49,349	(9,957)	-20%
Total deductions	182,895,952	178,338,027	4,557,925	3%
Net increases (decreases)	\$ 77,564,632	\$ 59,594,310	\$ 17,970,322	30%

Total additions, which include contributions and investment income, increased by 9% (\$22.5 million), rising from \$237.9 million in FY2023 to \$260.5 million in FY2024. This growth was driven primarily by a 23% (\$28.2 million) increase in net investment income, which totaled \$149.0 million in FY2024. However, contributions from both employers and employees decreased. Employer contributions declined by 6% (\$5.5 million) to \$89.3 million, while employee contributions dropped by 1% (\$138K) to \$22.0 million. Net securities lending income also saw a 9% reduction, amounting to \$193K.

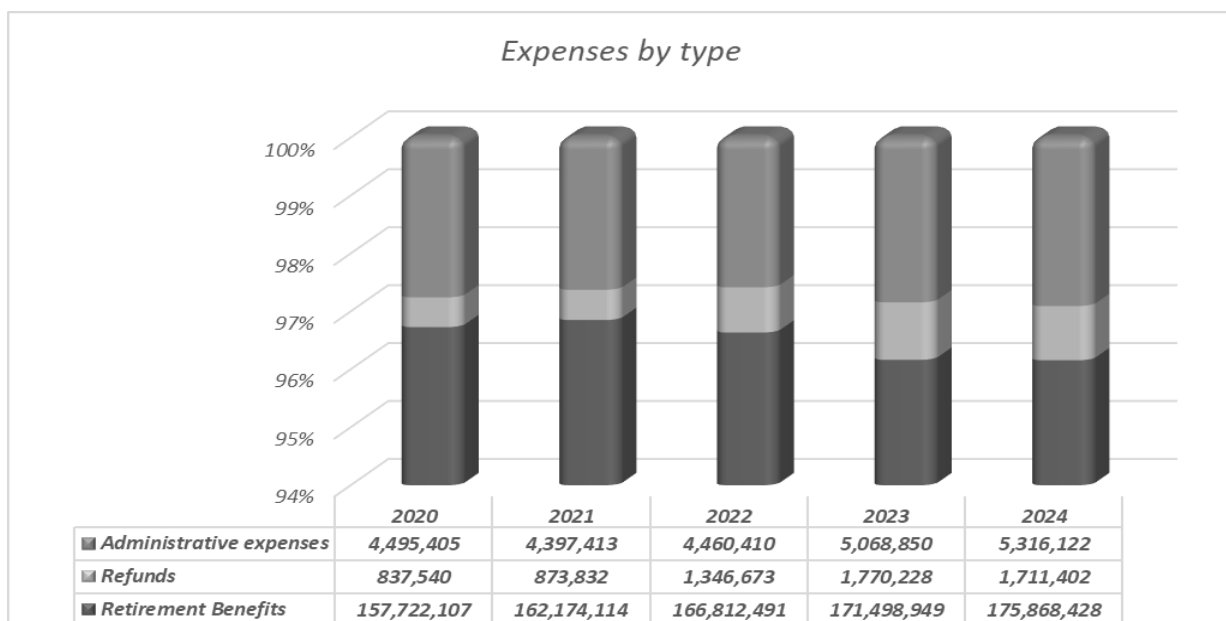
Deductions, which encompass retirement allowances, administrative expenses, refunds, death benefits, and lump-sum cash payments, grew by 3% (\$4.6 million), reaching \$182.9 million in FY2024. Retirement allowances, the largest deduction category, increased by 2% (\$4.1 million) to \$174.7 million. Administrative expenses rose by 5% (\$247K), totaling \$5.3 million. Death benefits saw the most significant percentage increase, jumping 35% (\$307K) to \$1.2 million, while refunds of member contributions decreased by 3% (\$59K), and lump-sum cash payments fell by 20% (\$10K).

Overall, the fiduciary net position improved significantly, with a net increase of \$77.6 million in FY2024, a 30% (\$18.0 million) growth compared to the \$59.6 million increase in FY2023. This strong performance was largely attributed to improved investment returns, which offset the slight declines in contributions and securities lending income.

Financials



Between FY2023 and FY2024, total expenses increased from \$178.3 million to \$182.9 million, reflecting a rise of \$4.6 million, primarily driven by retirement benefits. Retirement payments grew by \$4.4 million, from \$171.5 million to \$175.9 million, due to cost-of-living adjustments (2% for retirees aged 65+ and 1.5% for those under 65), despite a decline in the retiree population. Administrative expenses rose from \$5.1 million to \$5.3 million, an increase of \$247,272, reflecting slightly higher operational costs. Refunds of employee contributions declined by \$58,826, from \$1.77 million to \$1.71 million, indicating fewer non-vested employees leaving. The increase in total expenses highlights the impact of COLAs on retirement benefits and modest growth in administrative costs, even with a declining retiree population.



Investments

The primary investment objectives of the System are to preserve the inflation-adjusted capital value of its assets, maintain sufficient liquidity to meet benefit liabilities as they become due, achieve the actuarial interest rate assumptions, and, where possible without compromising these priorities, surpass the investment return objective through prudent management of the System's assets.

Investment performance is measured against a policy benchmark comprising a pro rata representation of the asset allocation, using indices detailed in the Investment Policy. Additionally, the System's performance is compared to the Investment Metrics Public Fund Universe, which reflects the performance of 64 Public Funds with over \$1 billion in assets. Performance analysis is supported by Marquette through the InvestorForce Performance Reporting network, a sophisticated platform utilized by over 100 investment consulting firms across the United States.

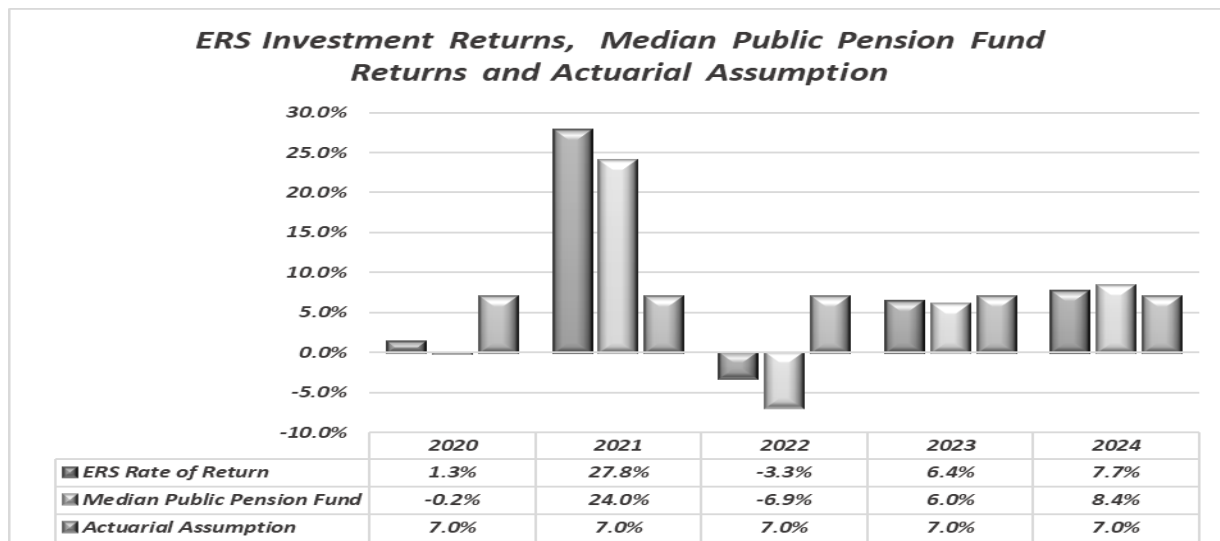
The asset allocation strategy aims to balance a favorable rate of return with an appropriate level of risk. Following an asset allocation analysis, the System increased its exposure to private credit investments to enhance long-term returns, manage risk, and diversify the portfolio. The table below highlights the ERS's investment returns relative to its benchmarks.

	FY2024	3 Years	5 Years	10 Years
TOTAL PORTFOLIO	7.7%	3.5%	7.5%	7.2%
<i>Median Public Pension Fund</i>	8.4%	2.5%	6.5%	6.5%
<i>Target Rate of Return</i>	7.0%	7.0%	7.0%	7.0%
DOMESTIC EQUITIES	14.5%	3.5%	9.8%	9.8%
<i>Russell 3000</i>	23.1%	8.1%	14.1%	12.1%
DEFENSIVE EQUITIES	11.9%	6.2%	9.5%	-
<i>CBOE Put Write Index</i>	9.1%	7.3%	8.2%	6.8%
<i>50% S&P 500/50% 91 Day T-Bill</i>	14.9%	6.9%	8.8%	7.3%
INTERNATIONAL EQUITIES	13.2%	0.4%	6.9%	5.6%
<i>MSCI ACWI ex-US</i>	12.2%	1.0%	6.1%	4.3%
Xponance	10.5%	0.5%	6.9%	5.5%
<i>InvMetrics Public DB ex US Eq Gross Rank</i>	11.6%	0.5%	5.5%	4.9%
FIXED INCOME	6.8%	-0.4%	1.8%	2.5%
<i>Bloomberg US Aggregate TR</i>	2.6%	-3.0%	-0.2%	1.3%
REAL ESTATE	-12.2%	0.0%	1.9%	5.7%
<i>NFI-ODCE</i>	-9.3%	1.9%	3.1%	6.4%
<i>CPI + 5%</i>	8.1%	10.2%	9.4%	7.9%
PRIVATE EQUITY COMPOSITE	7.1%	15.3%	19.5%	16.5%
<i>Cambridge Associates All PE</i>	4.9%	6.8%	15.1%	14.1%
<i>CPI + 6%</i>	9.7%	12.0%	10.4%	9.0%
Low Volatility Composite	13.7%	5.6%	-	-
<i>S&P 500 Low Volatility</i>	6.2%	4.7%	5.9%	8.8%

Investments

The economy remained steadfast though signs of weakness began to emerge towards the close of the fiscal year. Larger corporations and higher income households became more bifurcated from smaller firms and lower income households respectively, as the effects of inflation pricing continued to hurt the consumer. Similarly, the labor market while healthy, reflected a steady increase from 3.5% to 4.1% during the 12-month period. The markets were generally attentive to the Federal Reserve as expectations of a rate cut continued to be delayed throughout the year. On the global economic front, parallels to the United States emerged with developed countries generally reporting a fall in inflation. The European Central Bank cut its key rate in June 2024. China continued to reflect struggles in the country as domestic consumer demand remained weak after a challenging post-COVID recovery. Global equities continued to reflect strong returns in 2024. U.S equities once more led their international developed and emerging markets counterparts with double digit gains of 23.1% for the U.S. stock market and 11.5% for the international stocks. Fixed income markets were volatile, though generally closed the year in positive territory. Investment-grade bonds saw muted returns of 2.6% as the yield curve remained inverted. Sub-investment grade debt, once more posted gains, with bank loans outperforming high-yield debt given their floating-rate characteristics. Real Estate continued to weigh on investors returns as the lack of movement in interest rates kept transaction volume low throughout the year as the asset class reflected a second consecutive negative year with a -9% return.

For the fiscal year ending June 30, 2024, the System posted a positive gain of 7.7% return which underperformed the policy benchmark of 8.4% and lagged in the peer group. During a period of marginally increasing rates, fixed income returns were additive once more due to the exposure to floating rate debt. Domestic equity investment strategies struggled against their respective benchmarks over the fiscal year due to a narrow market where a handful of positions led the markets. Growth-oriented investments were in favor throughout the year with the larger sized corporations faring better than their smaller counterparts.

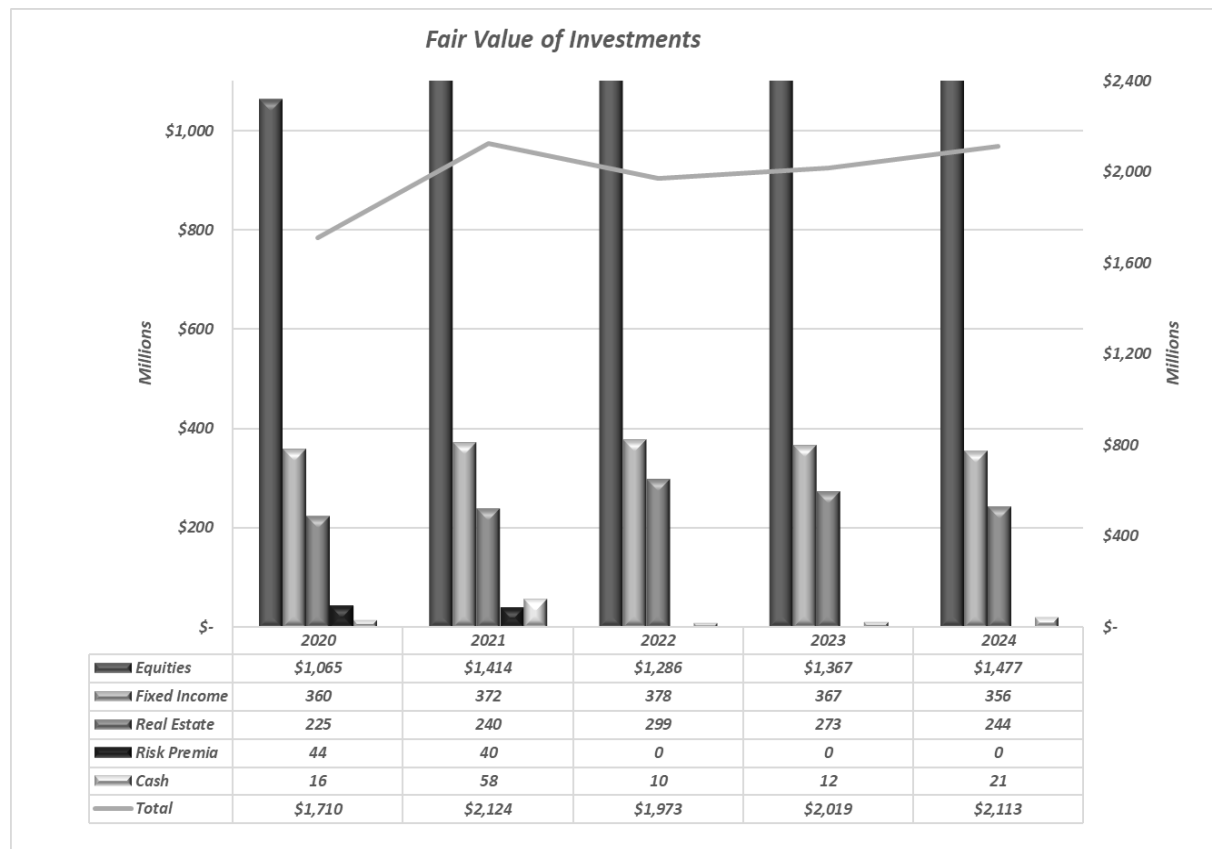
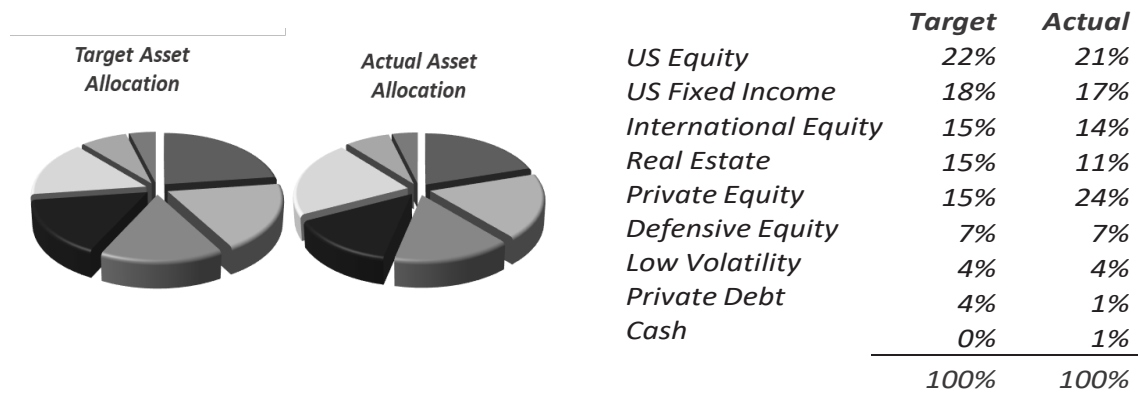


Investments

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

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

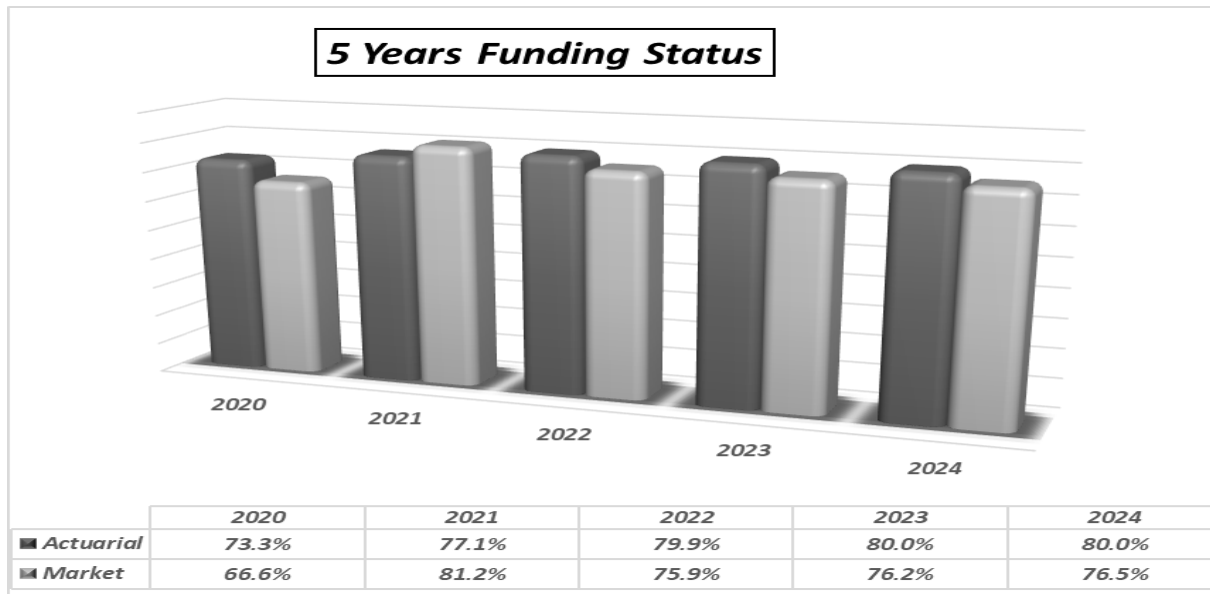
The current ERS asset allocation policy and actual allocation is as stated below:



Actuarial

The Plan’s funding objective is to meet long-term benefit obligations through investment income and contributions, which spread the cost over the employees’ service base. ERS’ funding status is a key indicator of its financial health because it reflects the percentage of benefits due that the plan’s assets can cover.

As of June 30, 2024, the actuarial funded ratio held steady at 80.0%, reflecting no change from the prior year. In contrast, the market funded ratio increased from 76.2% in 2023 to 76.5% in 2024, marking a 0.3% improvement. This progress in market funding was driven by the employer contributing more than the periodic cost because of the funding plan to get to 100%.



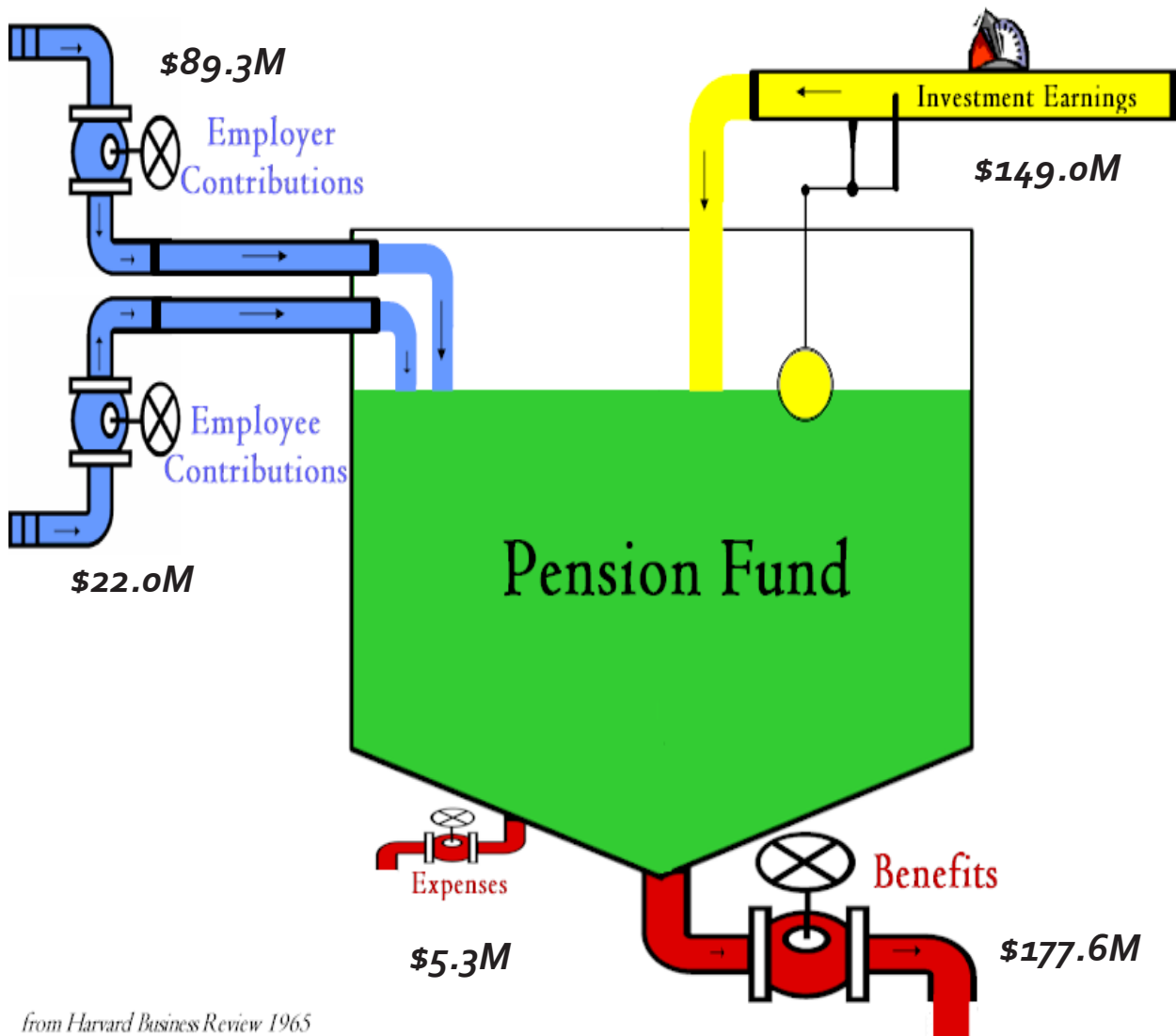
The funding policy previously adopted by the Board provides for the unfunded actuarial liability to be amortized over a fixed period of 20 years targeting 100% funding by the fiscal year ending 2032 with a one-time, one-year extension adopted in 2019. For the June 20, 2024 valuation, the Board adopted a change in amortization method such that future changes in unfunded liability due to experience gains or losses and changes in actuarial assumptions will be amortized over separate (“layered”) 15-year periods. The expected UAL as of June 30, 2023, based on the prior year is amortized over the remaining amortization period of 8 years.

	2020	2021	2022	2023	2024
Total Pension Liability	\$ 2,567,398,628	\$ 2,593,420,191	\$ 2,600,520,742	\$ 2,669,719,349	\$ 2,760,157,452
Plan Fiduciary Net Position	1,709,154,733	2,105,524,981	1,974,303,144	2,033,897,454	2,111,462,086
Unfunded Liability	\$ 759,541,810	\$ 858,243,895	\$ 487,895,210	\$ 626,217,598	\$ 648,695,366

Actuarial

Based on the actuarial valuation performed at the end of fiscal year 2022, the total contributions due from the employer for fiscal year 2024 was \$89.3 million. For the past 5 years, the City of Baltimore, which is the employer, has contributed 100% of the actuarially determined contributions to the Plan.

	2024	2023	2022	2021	2020
Actuarially determined contribution	\$ 89,287,690	\$ 94,788,090	\$ 98,640,176	\$ 92,637,051	\$ 86,953,801
Actual employer Contributions	89,287,690	94,788,090	98,640,176	92,637,051	86,953,801
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -
Covered payroll	\$ 507,685,584	\$ 458,637,682	\$ 439,326,244	\$ 455,219,365	\$ 437,242,419
Contributions as a percentage of payroll	17.59%	20.67%	22.45%	20.35%	19.89%



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Presented to

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

For its Annual Financial Report
For the Fiscal Year Ended

June 30, 2023

Christopher P. Merrill
Executive Director/CEO

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Baltimore City Council

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This Popular Annual Report (PAFR) is a summary presentation of the Employees Retirement System of the City of Baltimore's audited financial statements and other information contained in the Annual Comprehensive Financial Report (ACFR). The PAFR provides an overview of the System's financial and operating results. The complete audited financial statements and pertinent notes to the financial statements can be found in the 2024 ACFR.