


Thomas P. Taneyhill

FROM	NAME & TITLE	Thomas P. Taneyhill, Executive Director	CITY of BALTIMORE MEMO	
	AGENCY NAME & ADDRESS	Fire and Police Employees' Retirement System 7 E. Redwood Street, 19 th Floor		
	SUBJECT	City Council Bill 08-0020 - F&P Retirement System 100% Line-of-Duty Disability Benefits		

DATE: March 6, 2008

TO

The Honorable President and Members
of the Baltimore City Council
Attn: Karen Randle, Executive Secretary
Room 409, City Hall
100 N. Holliday Street
Baltimore, Maryland 21202

**Re: City Council Bill 08-0020
Fire & Police Retirement System
100% Line of Duty Disability Retirement Benefits**

Dear Madam President and City Council Members:

City Council Bill 08-0020 proposes to increase retirement benefits for members of the Fire and Police Employees' Retirement System (F&P) who have retired and are currently receiving a 100% line of duty disability retirement or who will retire and receive this benefit. Further, the bill proposes that the new benefit structure be made retroactive to the retirement date of any existing recipient of the 100% line of duty disability retirement benefit.

The F&P Board of Trustees **opposes** passage of City Council Bill 08-0020, as it is written.

The Bill proposes to change the 100% line of duty disability retirement benefit from a benefit of 100% of the member's regular compensation at retirement including an annuity that is the actuarial equivalent of the member's accumulated contributions (the contributions that a member made to the plan plus interest at the time of retirement) to a benefit of 100% of the member's regular compensation at the time of retirement, plus, an annuity that is the actuarial equivalent of the member's accumulated contributions at the time of retirement.

The Bill proposes to pay a continuing retirement benefit that is greater than the compensation the member was earning as an active employee member of the F&P at the time of retirement.

The F&P Board of Trustees **opposes** passage of City Council Bill 08-0020 as it is written because a) the bill proposes to pay a benefit greater than the benefit paid to the beneficiary of a member who has paid the ultimate sacrifice, that of dying in the line of duty, and b) the bill proposes to pay the member a retirement benefit greater than his current active compensation at the time of retirement.

Instead of the provisions proposed by City Council Bill 08–0020, the F&P Board recommends that:

1. the 100% line of duty disability benefit provisions be amended to equal the 100% line of duty death benefit provisions;
2. the proposed benefits be paid prospectively from the date of enactment;
and
3. a return of any “unpaid” accumulated contributions and interest be made to any members receiving benefits at the time of enactment.

It should be noted that with the Board of Trustees' recommendation no retroactive retirement benefit payments would be required because the amount of the continuing retirement benefit would remain the same.

Two cost estimates prepared by Mercer, the F&P actuary, and schedules containing related retiree data are attached.

The first analysis, dated February 15, 2008, estimates the cost of City Council Bill 08–0020 as written to be \$99,000 per year. This amount will have to be revised higher due to increased back-pay amounts calculated by the F&P. The related data schedule provides information concerning how current retirement benefits would be increased due to the Bill and the estimated back payments that would be made to existing benefit recipients.

The second analysis, dated February 29, 2008, estimates the cost of the proposals recommended by the F&P Board of Trustees to be \$30,000 per year. The related data schedule indicates that according to the Board's recommendations the current retirement benefit payments would remain the same and refunds of “unpaid” accumulated member contributions and interest would be made to two of the six existing benefit recipients.

Examples are attached comparing the current F&P 100% line of duty disability retirement benefit calculation, the calculation proposed by City Council Bill 08–0200, and the calculation recommended by the F&P Board of Trustees.

I will attend the City Council hearing to provide testimony on this bill. Please let me know if I can provide any additional information.

Cc: Angela Gibson, Mayor's Legislative Liaison to the City Council

**F&P
Line-of-Duty Disability Benefit**

Example at Retirement

F&P member	
Annual salary	\$60,000
Accumulated contributions	\$50,000
Age	45
Annuity Factor	15.005

F&P Benefits are comprised of:

- 1) An ANNUITY of the member's accumulated contributions determined by dividing the member's accumulated contributions at retirement by the age appropriate annuity factor, and
- 2) A PENSION calculated according to the benefit formula.

Current 100% LOD Disability Benefit

Annual Benefit =	Salary at retirement	=	<u>\$60,000</u>	
	Annuity (\$50,000 ÷ 15.005)	=	3,999	+7%
	Pension	=	56,001	

CC Bill 08-0020 PROPOSED

Current Salary	=	<u>\$60,000</u>
<u>PLUS</u> Annuity	=	<u>+ 3,999</u>
Proposed Annual Benefit	=	<u>\$63,999</u>

F&P BOARD RECOMMENDATION

Refund Accumulated Contributions	=	<u>\$50,000</u>
Annual Benefit = Current Salary	=	<u>\$60,000</u>

March 6, 2008

**Fire and Police Employees' Retirement System Board of Trustees
City Council Bill 08-0020
Amendments Proposed by the Board of Trustees**

Board of Trustee Proposals:

1. Annual retirement benefits would remain the same.
2. Refunds of unpaid accumulated contributions would be made.

Dept	RetNo	Ret Date	Current B/W	Current Annual	Proposed B/W	Proposed Annual	Proposed Annual	Annuitiy Factor	Accum. Cont & Int	Annuitiy Paid	(Excess Paid) Refund
PD	000673	01/21/1971	1,077.00	28,078.90	1,077.00	28,078.90	13.859	8,305.47	16,006.01	(7,700.54)	
FD	001731	12/03/1976	1,558.26	40,626.02	1,558.26	40,626.02	12.721	6,297.87	15,638.27	(9,340.40)	
FD	004053	07/06/1990	2,643.87	68,929.34	2,643.87	68,929.34	12.036	57,300.28	85,639.40	(28,339.12)	
PD	005057	04/11/1995	3,360.57	87,614.79	3,360.57	87,614.79	8.544	105,452.67	163,187.75	(57,735.08)	
PD	005404	02/27/1997	1,627.69	42,436.27	1,627.69	42,436.27	15.943	16,613.41	11,813.99	4,799.42	
PD	006879	05/06/2005	1,987.19	51,808.78	1,987.19	51,808.78	13.613	79,121.15	18,280.26	60,840.89	
Totals			12,254.58	319,494.10	12,254.58	319,494.10					

Note: Annuity paid, (excess paid), and refunds are projected to pay period ending 06/26/2008.

**Fire and Police Employees' Retirement System
City Council Bill 08-0020
Proposed Bi-weekly and Annual Benefit Increases and Retroactive Pays
Summary as of June 26, 2008**

City Council Bill 08-0020 Proposals:

1. To increase the 100% LOD Disability Retirement Benefit from a benefit of 100% of the member's salary at retirement including the annuity, to a benefit of 100% of the member's salary at retirement, plus the annuity.
2. The increased benefits would be made retroactive to the member's retirement date.

Dept	RetNo	RetDate	Current B/W	Current Annual	Proposed B/W	Proposed Annual
PD	000673	01/21/1971	1,077.00	28,078.90	1,125.65	29,347.27
FD	001731	12/03/1976	1,558.26	40,626.02	1,577.25	41,121.12
FD	004053	07/06/1990	2,643.87	68,929.34	2,926.06	76,286.48
PD	005057	04/11/1995	3,360.57	87,614.79	3,998.70	104,251.71
PD	005404	02/27/1997	1,627.69	42,436.27	1,674.90	43,666.99
PD	006879	05/06/2005	1,987.19	51,808.78	2,222.02	57,931.17
Totals			12,254.58	319,494.10	13,524.58	352,604.74

Dept	RetNo	RetDate	Benefits Paid	Proposed ShouldHave BeenPaid	Retro Adjustment
PD	000673	01/21/1971	626,647.98	654,094.35	27,446.37
FD	001731	12/03/1976	742,513.10	805,331.67	62,818.57
FD	004053	07/06/1990	986,193.76	1,091,454.04	105,260.28
PD	005057	04/11/1995	988,854.47	1,176,622.30	187,767.83
PD	005404	02/27/1997	426,500.56	437,841.96	12,341.40
PD	006879	05/06/2005	155,998.52	174,433.48	18,434.96
			3,926,708.39	4,339,777.80	414,069.41

**FIRE AND POLICE EMPLOYEES' RETIREMENT SYSTEM
AMENDMENTS TO
100% LINE OF DUTY DISABILITY RETIREMENT BENEFIT
CITY COUNCIL BILL 08 - 0020**

ARTICLE 22, SECTION 34:

(f-2) Allowance on 100% line-of-duty disability retirement.

(1) Any member who retires on a 100% line-of-duty disability shall receive AT THE TIME OF RETIREMENT a retirement allowance that consists of :

- (i) ~~an annuity that is the actuarial equivalent of the member's accumulated contributions at the time of retirement~~ A LUMP SUM REFUND OF THE MEMBER'S ACCUMULATED CONTRIBUTIONS; and
- (ii) a pension that ~~, together with the annuity,~~ equals 100% of the member's regular compensation at the time of retirement.

Section 2. AND BE IT FURTHER ORDAINED, That the increase in benefits established by this Ordinance shall be paid prospectively from the date of enactment.

Section 3. AND BE IT FURTHER ORDAINED, That as of the date of enactment of this Ordinance, any member currently receiving a 100% line of duty disability retirement benefit who has not received in annuity payments the total of his accumulated contributions and interest at his retirement date, shall receive a refund of any remaining accumulated contributions and interest.

Section 3. AND BE IT FURTHER ORDAINED, That this Ordinance shall take effect on the date of enactment.

MERCER



MARSH MERCER KROLL
GUY CARPENTER OLIVER WYMAN

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February 15, 2008

Mr. Thomas P. Taneyhill, CPA
Executive Director
Fire and Police Employees' Retirement System
7 E. Redwood Street
4th Floor
Baltimore, MD 21202

Subject: Cost Estimate of City Council Bill 08-0020

Dear Tom:

As requested in your January 30, 2008 e-mail, we have prepared estimated cost increases to the City due to the proposed legislation which would increase the allowance for disabled retirees receiving the 100% line-of-duty disability benefit.

Under the proposed legislation, benefits for the disabled retirees receiving the 100% line-of-duty disability benefit would increase by the annuity equivalent of members' contributions.

As you have indicated, we have estimated the additional cost to the F&P plan due to the following:

- Increased benefits for members currently receiving the 100% line-of-duty disability retirement benefit, and
- Increased benefits for future 100% line-of-duty disability retirements.

We have incorporated the retroactive benefit increases as of July 1, 2008 for the members currently receiving the benefit in the amount of \$375,031 (where \$359,081 includes retroactive payments including the January 24, 2008 payment, and the remaining \$15,950 is payable for the 11 bi-weekly payments between January 24, 2008 and July 1, 2008).

Much of the liability and cost is attributed to the increased benefits (both retroactively and prospectively) for the current disabled retirees receiving the 100% line-of-duty disability benefit. The final amounts were provided by the City but you have noted that these amounts are preliminary and may require modifications. Changes to these benefit amounts could increase or decrease the liability and cost significantly. We recommend that you let us know if there are significant changes to the benefit amounts (both retroactive and prospective) and if need be, we can revise the calculations to incorporate the updated information.

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February 15, 2008
Mr. Thomas P. Taneyhill, CPA
Fire and Police Employees' Retirement System

The table below shows the estimated increase in Actuarial Accrued Liability and the City's annual contribution, rounded to the nearest thousand:

1. Estimated increase to actuarial accrued liability at July 1, 2008 ^a :	\$ 858,000
2. 20-year amortization at end of year:	\$ 89,000
3. Estimated increase to normal cost at end of year:	10,000
4. Estimated additional contribution for FY 2010 (2) + (3):	\$ 99,000

Our calculations are based on the following:

- We used the participant data provided in your February 14, 2008 e-mail for the six members currently receiving the 100% line-of-duty disability benefit. As we discussed, we assumed that the prospective benefit increase for Thomas Herz would be equal to the current amount minus the proposed amount shown in the data because the proposed amount was less.
- We used the amount of \$359,081, per your email dated February 14, 2008, to account for the retroactive benefit increases through the January 24, 2008 payment for the six members currently receiving the 100% line-of-duty disability benefit. An additional 11 bi-weekly retroactive benefit increases totaling \$15,950 were also included to account for the time period between January 24, 2008 and July 1, 2008, totaling retroactive payments of \$375,031.
- We assumed that the incidence of future line-of-duty disabled retirees receiving the 100% line-of-duty disability benefit would be 1.67% of line-of duty disability retirements, based on 3 years of experience between July 1, 2004 and June 30, 2007.
- Benefit liabilities were calculated as of July 1, 2007 and rolled forward using standard actuarial techniques to July 1, 2008.
- Based on the information provided, the proposed plan change would probably first be reflected in the July 1, 2008 actuarial valuation. This, in turn, would impact the City's contribution for the fiscal year ending June 30, 2010.
- Except as noted earlier, all actuarial assumptions, methods, and plan provisions utilized in this analysis are the same as those used for the June 30, 2007 valuation report.

^a \$375,031 of this amount is due to a preliminary estimate of retroactive benefit payments as of July 1, 2008.

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February 29, 2008

Mr. Thomas P. Taneyhill, CPA
Executive Director
Fire and Police Employees' Retirement System
7 E. Redwood Street, 19th Floor
Baltimore, MD 21202

Subject: Revised Cost Estimate for City Council Bill 08-0020

Dear Tom:

As requested in your February 21, 2008 e-mail, we have revised our estimate of the cost increases to the City for the proposed legislation to reflect the changes which the Board of Trustees desires.

The Board's changes would make the proposed legislation prospective only, pay the refund of member contributions and interest in a lump sum at retirement, and pay two current 100% line-of-duty disability retirees the member contributions and interest that they have not already recovered.

As you have indicated, we have estimated the additional cost to the F&P plan due to the following:

- Back payment refunds to two members currently receiving the 100% line-of-duty disability retirement benefit, and
- Increased benefits for future 100% line-of-duty disability retirements.

The table below shows the estimated increase in Actuarial Accrued Liability and the City's annual contribution, rounded to the nearest thousand:

1. Estimated increase to actuarial accrued liability at July 1, 2008 ^a	\$ 192,000
2. 20-year amortization at end of year	20,000
3. Estimated increase to normal cost at end of year	10,000
4. Estimated additional contribution for FY 2010 (2. + 3.)	\$ 30,000

^a \$65,640 of this amount is due to retroactive benefit payment refunds for two disabled members as of July 1, 2008.

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February 29, 2008

Mr. Thomas P. Taneyhill, CPA

Fire and Police Employees' Retirement System

Our calculations are based on the following:

- We used the amount of \$65,640, per your email dated February 21, 2008, to account for the retroactive benefit refunds due to two members currently receiving the 100% line-of-duty disability benefit. We understand that the other four members have already received their refund, and will not be receiving any additional future payments.
- We assumed that the incidence of future line-of-duty disabled retirees receiving the 100% line-of-duty disability benefit would be 1.67% of line-of duty disability retirements, based on 3 years of experience between July 1, 2004 and June 30, 2007.
- Benefit liabilities were calculated as of July 1, 2007 and rolled forward using standard actuarial techniques to July 1, 2008.
- Based on the information provided, the proposed plan change would probably first be reflected in the July 1, 2008 actuarial valuation. This, in turn, would impact the City's contribution for the fiscal year ending June 30, 2010.
- Except as noted earlier, all actuarial assumptions, methods, and plan provisions utilized in this analysis are the same as those used for the June 30, 2007 valuation report.

Please note that if changes are made to the variable benefit structure they could also have an impact on costs related to this bill. We have not estimated this cost impact if the variable benefit structure were changed.

The information contained in this document (including any attachments) is not intended by Mercer to be used, and it cannot be used, for the purpose of avoiding penalties under the Internal Revenue Code that may be imposed on the taxpayer.

Collectively, the undersigned credentialed actuaries meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion contained in this analysis.

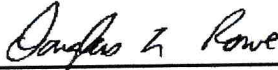

Please give us a call if you have any questions.

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Mr. Thomas P. Taneyhill, CPA
Fire and Police Employees' Retirement System

 <hr/> Douglas L. Rowe, FSA, MAAA, EA	<hr/> February 29, 2008 <hr/> Date
 <hr/> James Baughman, ASA, EA	<hr/> February 29, 2008 <hr/> Date
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