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NAME & TITLE	Thomas P. Taneyhill, Executive Director
AGENCY NAME & ADDRESS	Fire and Police Employees' Retirement System 7 E. Redwood Street, 19 th floor
SUBJECT	Report to City Council City Council Bill 09-0295 (DROP 2)

CITY of
BALTIMORE
MEMO



TO

DATE:

April 24, 2009

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

Re: City Council Bill 09-0295 (DROP 2)

City Council Bill 09-0295 is an Administration bill that establishes a new Deferred Retirement Option Plan (DROP 2) for members of the Fire and Police Employees' Retirement System (F&P, System) who acquire twenty or more years of service credit on or after July 1, 2009. System members who attain twenty years of service credit as of June 30, 2009, remain eligible for the existing DROP. The Bill further clarifies certain technical provisions and language of the existing non-DROP benefits law and existing DROP law.

At their April 21, 2009 meeting, the F&P Board of Trustees examined City Council Bill 09-0295, the actuary's savings analysis, and the additional information attached to this report. The F&P Board finds Council Bill 09-0295 to be administratively workable.

Fiscal note

An analysis of City Council Bill 09-0295 was prepared by the System's actuary. It is attached to this report. The System's actuary estimates that DROP 2 could save the City \$4 to \$7 million in annual contributions to the F&P. The estimated savings are dependent upon the retirement behavior of the plan membership. Should the members retire from their respective departments after the acquisition of 27 to 28 years of service on average, the City could realize savings of \$7 million per year. Should the plan members retire after the acquisition of 25 to 26 years of service on average, the City's savings could be \$4 million per year. However, if the majority of plan members retire early, that is, after acquiring 20 years of service or upon attaining the age of 50, then the City may not realize any savings and the plan could cost the City more not less. The behavior of the membership is very difficult to predict and will only become known through actual experience after DROP 2 is established.

The F&P's actuary estimates that the current DROP costs the City \$9 to \$11 million per year.

Legislative History

The Deferred Retirement Option Plan (DROP) was established July 1, 1996. The purpose of DROP was - and still is - to encourage experienced police and fire officers to remain in the employ of their respective departments.

The existing DROP law contains a unique provision whereby if the costs of DROP were found to exceed the "excess earnings" allocated to pay for DROP (the "DROP Test"), the City Administration could modify or eliminate DROP with respect to members who had not yet attained eligibility to participate in DROP.

DROP was initially funded by an allocation of \$6 million of "excess earnings." The excess earnings were F&P plan assets.

DROP was modified through special City legislation in June 2000. Again, "excess earnings" of the F&P were used to pay for the changes that improved DROP to its present form.

As required by the plan provision, the DROP Test was performed by the System's actuary during fiscal year 2005. The test result revealed that the cost of DROP exceeded the "excess earnings" allocated to pay for DROP. The test result was reviewed by the actuary retained by the members. The members did not object to the test findings. Therefore, the Administration could enact legislation to modify DROP.

City Council Bill 09-0295 (DROP 2) is the result of a collaborative effort between the Administration and the union leadership representing the fire and police members of the plan.

How DROP works

The essential features of DROP as established in 1996 and later improved in 2000 are:

- 1) DROP is a retirement benefit enhancement.
- 2) DROP is a voluntary benefit program for members who acquire 20 years of system service credit and who are otherwise eligible for service retirement benefits.

For those uniformed employees who became F&P members prior to July 1, 2003, the F&P provides service retirement benefits after the

acquisition of 20 years of service, regardless of age, or after attaining age 50, regardless of years of service.

For those uniformed employees who became F&P members on or after July 1, 2003, the F&P provides service retirement benefits after the acquisition of 20 years of service, regardless of age, of which 10 years must be as a contributing member of the F&P or after attaining age 50 with a minimum of 10 years as a contributing member of the F&P.

- 3) A member must apply to participate in DROP.
- 4) Upon entering DROP, a “savings account” is established for the DROP participant.
- 5) The DROP participation period always starts on the first day of a month. The participation period is a maximum of 36 consecutive months (3 years).
- 6) A maximum annual retirement benefit amount is calculated for the DROP participant as if the member retired on his/her DROP start date. The annual benefit amount is “deposited” each year pro-rata to the member’s DROP account for up to a maximum of three years.
- 7) The DROP participant continues to make regular mandatory contributions to the System (6% of regular pay). During the member’s DROP participation period, member contributions are “deposited” to the member’s DROP account.
- 8) DROP participants can elect to shorten their DROP participation period by applying to discontinue DROP on either the first or second anniversary of their DROP start date rather than staying and accumulating DROP benefits and DROP contributions for three full years.
- 9) F&P service credit is not earned during the member’s DROP participation period. The benefit accrual rate is 2% for years of service over 20 years. Therefore, if the member’s DROP participation period is three years, the member has three less years of service credit and has “lost” 6% in accrual rate towards his/her retirement benefit calculation.
- 10) The “lost” service credits can be earned back through 4 years of continuous employment as a contributing member of the F&P following the member’s DROP participation period.
- 11) After a member completes her/his DROP participation period, the member can:

- a) retire; or
- b) continue employment covered by the F&P and resume earning F&P service credits for additional retirement benefits.

12) Interest is credited to the member's DROP account at 8.25% each year until the member terminates from employment (cut-off, dies, etc.) covered by the F&P.

13) Upon retirement, the DROP participant can elect to:

- a) receive the DROP account in a lump sum;
- b) rollover all or part of the DROP account to an IRA, or other employer plan; or
- c) annuitize the DROP account and increase the amount of her/his bi-weekly paid retirement benefit.

14) There are three levels of DROP retirement benefits:

- a) BASIC DROP provides that the member can retire at any time during or at the end of the member's DROP participation period. At retirement the member receives:
 - (i) the retirement benefit calculated at the member's DROP start date, i.e. the retirement benefit is based on the average final compensation and service credit at the member's DROP start date; plus,
 - (ii) the member's DROP account, with 8.25% interest credited to the member's cut-off date, the last day of F&P covered employment.
- b) INTERMEDIATE DROP provides retirement at any time during the 18 months that follow the member's DROP participation period. At retirement the member receives:
 - (i) the retirement benefit calculated at the member's DROP start date (the BASIC DROP benefit); plus,
 - (ii) a retirement benefit of 2.0% of the member's average final compensation for each year of service credit, pro-rata for shorter time periods, following the member's DROP participation period; plus,

- (iii) a retirement benefit of 1.5% of the member's average final compensation for each year of service credit, pro-rata for shorter time periods, following the member's DROP participation period to recover the accrual rates "lost" during the member's DROP participation period, subject to the limitation of the accrual rate actually lost for a member who discontinued his/her DROP participation period; plus,
 - (iv) the member's DROP account, with 8.25% interest credited to the member's cut-off date, the last day of F&P covered employment.
 - c) FULL DROP provides retirement at any time 18 or more months following the member's DROP participation period. At retirement the member receives:
 - (i) a "refreshed" retirement benefit recalculated and based on current average final compensation and all service credit as of the member's retirement date (service credit is still not earned during the member's DROP participation period); plus,
 - (ii) a bonus benefit of 1.5% of current average final compensation (AFC) for each year - up to 4 years - immediately following the member's DROP participation period to recover the accrual rates "lost" during the member's DROP participation period, subject to the limitation of the accrual rate actually lost for a member who discontinued his/her DROP participation period; plus,
 - (iii) the member's DROP account, with 8.25% interest credited to the member's cut-off date, the last day of F&P covered employment.
- 15) If the member enters DROP at 20 years of service and continues to be a contributing member of the F&P for 7 more years, the member will retire with the same retirement benefit amount as the non-DROP retirement benefit, plus the member's DROP account.

DROP 2

City Council Bill 09-0295 (DROP 2) is a variation of the existing DROP provisions. The following compares and contrasts DROP and DROP 2:

- A) An F&P member who acquires 20 years of service credit as of June 30, 2009, will be entitled to participate in the existing DROP.
- B) A member who entered the F&P prior to July 1, 2003, and who acquires 20 years of service credit on or after July 1, 2009, will be eligible to participate in DROP 2.
- C) A member who enters the F&P on or after July 1, 2003, and on or before June 30, 2009, must acquire 20 years of service credit and must have at least 10 of those years as a contributing member of the F&P to become eligible for DROP 2.
- D) A member who enters the F&P on or after July 1, 2009, must acquire 20 or more consecutive years of service credit through City employment and as a contributing member of the F&P to become eligible for DROP 2.
- E) The interest rate credited to a DROP 2 account will be 5.5%, which is the regular interest rate credited on member contributions. The interest rate credited to an existing DROP account is 8.25%.
- F) The DROP participation period is a maximum term of three consecutive years, i.e. 36 months. The same applies to DROP 2.
- G) DROP participants can retire at any time following commencement of their DROP participation period. Members who retire during or at the end of their DROP participation period receive a Basic DROP benefit. With DROP 2, the participant must remain in DROP 2 for at least 1 year. Following that first year of DROP 2 participation, the member can retire at any time and receive an Early DROP 2 retirement benefit which is similar to the Basic DROP benefit.
- H) A DROP 2 participant who retires prior to the end of his or her first year of DROP 2 participation will not be entitled to receive any amounts accumulated in the DROP 2 account. Instead, the member will receive a non-DROP 2 retirement benefit based on the member's service credit and average final compensation as of the member's cut-off date (the member's last day of F&P covered employment) as if the member never entered DROP 2 participation.
- I) Service credit is not earned during the member's DROP participation period. The same provision applies to DROP 2. For each year of service credit, a member would normally earn a benefit accrual rate of 2%. During both the DROP and the DROP 2 participation periods, the member does not earn service credit and the corresponding accrual rates of 2% per year up to 6% are "lost."

- J) With DROP there is a four year period immediately following the member's DROP participation period during which the accrual rates "lost" during the member's DROP participation period are "recovered" at the rate of 1.5% per year.

With DROP 2, the same four-year "recovery" period applies to Fire Department participants only.

Police Department participants do not have a "recovery" period and do not "recover" the accrual rates lost during their DROP 2 participation period.

- K) With DROP there is retirement "bonus" calculation time period of 18 months (this is the Intermediate DROP benefit) immediately following the member's DROP participation period.

With DROP 2, the "bonus" calculation time period (this is the Mid DROP 2 benefit) has been extended to five years for Fire Department participants only.

Police Department DROP 2 participants have a "bonus" calculation period of three and a half years (this is the Mid DROP 2 benefit).

- L) The Mid DROP 2 benefit for Fire Department participants provides that at retirement the member receives:

(i) the retirement benefit calculated at the member's DROP 2 start date (the Early DROP 2 benefit); plus,

(ii) a retirement benefit of 2.0% of the member's average final compensation for each year of service credit, pro-rata for shorter time periods, following the member's DROP 2 participation period up to 5 years; plus,

(iii) a retirement benefit of 1.5% of the member's average final compensation for each year of service credit – up to 4 years, pro-rata for shorter time periods, following the member's DROP 2 participation period to recover the accrual rates "lost" during the member's DROP 2 participation period, subject to the limitation of the accrual rates actually lost for a member who discontinued his/her DROP 2 participation period; plus,

(iv) the member's DROP 2 account, with 5.5% interest credited to the member's cut-off date, the last day of F&P covered employment.

M) The Mid DROP 2 benefit for Police Department participants provides that at retirement the member receives:

- (i) the retirement benefit calculated at the member's DROP 2 start date (the Early DROP 2 benefit); plus,
- (ii) a retirement benefit of 2.0% of the member's average final compensation for each year of service credit - up to 3½ years, pro-rata for shorter time periods, following the member's DROP 2 participation period; plus,
- (iii) the member's DROP 2 account, with 5.5% interest credited to the member's cut-off date, the last day of F&P covered employment

N) With DROP, retirement benefits are "refreshed" 18 months following the member's DROP participation period (this is the Full DROP benefit). "Refreshed" means that a new retirement benefit is calculated using the member's current average final compensation (AFC) and all service credit earned as of the member's retirement date. Service credit still is not earned during the member's DROP participation period, but, the member has the ability to earn back the accrual rates "lost" by continuing to earn service credit after the member's DROP participation period.

With DROP 2, the retirement benefits of Fire Department participants are "refreshed" five years after the member's DROP 2 participation period. This is the Complete DROP 2 benefit.

Police Department participants will have their retirement benefits "refreshed" three and a half years after their DROP 2 participation period. This is the Complete DROP 2 benefit.

O) The Complete DROP 2 benefit for Fire Department participants provides that, if the member retires 5 or more years after his DROP 2 participation period, at retirement the member receives:

- (i) a "refreshed" retirement benefit recalculated and based on current average final compensation and all service credit as of the member's retirement date (service credit is still not earned during the member's DROP 2 participation period); plus,

- (ii) a benefit of 1.5% of current average final compensation (AFC) for each year - up to 4 years - immediately following the member's DROP 2 participation period for the accrual rates "lost" during the member's DROP participation period, subject to the limitation of the accrual rates actually lost for a member who discontinued his/her DROP 2 participation period; plus,
 - (iii) the member's DROP account, with 5.5% interest credited to the member's cut-off date, the last day of F&P covered employment.
- P) The Complete DROP 2 benefit for Police Department participants provides that, if the member retires 3½ or more years after the member's DROP 2 participation period, at retirement the member receives:
 - i) a "refreshed" retirement benefit recalculated and based on current average final compensation and all service credit as of the member's retirement date (service credit is still not earned during the member's DROP 2 participation period); plus,
 - ii) the member's DROP 2 account, with 5.5% interest credited to the member's cut-off date, the last day of F&P covered employment.
- Q) DROP required that a test be performed to determine whether the costs of DROP exceeded the "excess earnings" allocated to pay for DROP. The test was required eight years after DROP was established.

DROP 2 requires that an annual experience report be prepared for the F&P Board of Trustees by the System's actuary and be included with the annual actuarial valuation report beginning with the fiscal year ended June 30, 2010. The DROP 2 experience report will indicate whether members retire earlier or later than assumed. The actuarial valuation report containing the DROP 2 experience report will be forwarded to the Director of Finance.

DROP 2 also requires that a savings test is to be prepared by the System's actuary beginning with the fiscal year ended June 30, 2017, and every four years thereafter. The first savings test is to be completed eight years after establishing DROP 2 to allow time for the accumulation of actual plan experience.

The DROP 2 savings test will be performed by the System's actuary in consultation with the actuary retained by the plan members. This

means that the results calculated by the System's actuary will be provided to the plan members' actuary for review and comment.

It is only after the savings test performed for the year ending June 30, 2021, that if the expected savings have not been met, the City can enact legislation to modify or terminate DROP 2, but, only with respect to members who have not yet attained eligibility to participate in DROP 2.

- R) DROP 2 contains a special provision that provides that it is the intention of the City to maintain a deferred retirement option plan, a DROP, for the F&P plan members. Should DROP 2 not provide the savings expected by the City, the provision provides that the City will at a minimum establish a cost-neutral DROP for the F&P members.

The bottom line for a Fire Department DROP 2 participant is that after 30 years of service:

- The DROP 2 participant will receive the same annual retirement benefit as a non-DROP member and a current DROP participant.
- The total value of DROP 2 benefits including the DROP 2 account is more than 22% greater than basic (non-DROP) benefits.
- The total value of DROP 2 benefits including the DROP 2 account is about 96% of the total value of current DROP benefits including the DROP account. This difference is solely due to the lower 5.5% interest rate credited on the DROP 2 account as opposed to the 8.25% interest rate credited on the existing DROP account.
- The DROP 2 account accumulations will be about 80% of a similar member's DROP account. This is solely because of the lower 5.5% interest rate credited on the DROP 2 account and the power of compounding.

The bottom line for a Police Department DROP 2 participant is that after 30 years of service:

- The DROP 2 participant will receive an annual retirement benefit that is 9% lower than the annual retirement benefit received by a non-DROP member and a current DROP participant.
- The total value of DROP 2 benefits including the DROP 2 account is more than 13% greater than basic (non-DROP) benefits.

- The total value of DROP 2 benefits including the DROP 2 account is about 89% of the total value of current DROP benefits including the DROP account. This difference is due to the lower 5.5% interest rate credited on the DROP 2 account as opposed to the 8.25% interest rate credited on the existing DROP account and the fact that police DROP 2 participants do not “recover” the accrual rates lost during their DROP 2 participation period.
- The DROP 2 account accumulations will be about 80% of a similar member’s DROP account. This is solely because of the lower 5.5% interest rate credited on the DROP 2 account and the power of compounding.

Included with this report are the following:

Tab 1: This report to the City Council.

Tab 2: The March 3, 2009 savings analysis prepared by Douglas Rowe of Mercer, actuary to the F&P Board of Trustees.

Tab 3: A copy of City Council Bill 09-0295 (DROP 2).

Tab 4: Comparison of current DROP to DROP 2.

Tab 5: Comparison retirement benefit schedules for fire and police members with 20 to 30 years of F&P service credit:

Page 1: Fire fighter non-DROP retirement benefits compared to existing DROP benefits.

Page 2: Fire fighter non-DROP retirement benefits compared to DROP 2 benefits.

Page 3: Fire fighter existing DROP retirement benefits compared to DROP 2 benefits.

Page 4: Police officer non-DROP retirement benefits compared to existing DROP benefits.

Page 5: Police officer non-DROP retirement benefits compared to DROP 2 benefits.

Page 6: Police officer existing DROP retirement benefits compared to DROP 2 benefits.

I will be available to provide testimony on behalf of the F&P Board of Trustees at the City Council hearing scheduled for April 30, 2009 at 10:30 a.m.

Cc: The Honorable Members of the City Council of Baltimore
The Honorable Members of the F&P Board of Trustees
Christopher Thomaskutty, Deputy Mayor
Edward J. Gallagher, Director of Finance
Andrew Kleine, Director, Bureau of the Budget
Thomas Driscoll, Deputy Budget Director
Deborah Moore-Carter, Labor Commissioner
Stephan G. Fugate, President, Fire Officers Union Local #964
Robert Sledgeski, President, Fire Fighters Union Local #734
Robert Cherry, President, Fraternal Order of Police Lodge #3
Larry Green, Director, Office of Council Services
Angela Gibson, Mayor's Legislative Liaison to the City Council

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GUY CARPENTER OLIVER WYMAN

Douglas L. Rowe, FSA, MAAA, EA
Principal

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March 3, 2009

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

Subject: Possible DROP Changes

Dear Tom:

This letter summarizes cost estimates for the possible changes which you requested to the DROP via email on February 25, 2009.

Basis for the cost/savings calculations

The estimates are based on the June 30, 2008 actuarial valuation data. Actual savings will depend on the experience of the plan. The actuarial assumptions and methods used are the same as those used in our June 2008 actuarial valuation report except as noted below. The benefit changes are assumed to be effective July 1, 2009 and apply only to active members with fewer than 20 years of service on June 30, 2009. The relative impact of the changes shouldn't change significantly for a later effective date.

We have projected all savings to July 1, 2009 just as we do for the usual valuation. By savings, we mean the decrease in Normal Cost and a 20-year amortization of any changes in unfunded liability. Savings will change over time as experience develops. In addition, the savings will increase over the short term as current DROP participants retire and are replaced by members to whom the benefits changes apply. Over the long term, the savings will decline to only Normal Cost savings, which represent approximately 47-48% of the first year savings using the optimistically late retirement age assumptions.

Description of DROP Changes Considered

All plan provisions for the requested change are the same as the current DROP except for the following:

- For police, there is no recoup; for fire, the recoup is unchanged.

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Baltimore City Fire and Police Employees' Retirement System

- For police, the refresh period is increased from 1.5 years to 3.5 years; for fire, the refresh period is increased from 1.5 years to 5 years.
- The DROP account interest rate for both police and fire is decreased from 8.25% to 5.50%.

Below is an explanation of some of the key terms used in the provisions:

- **Recoup** - Recoup refers to the additional benefit credit that is earned in post-DROP years to make up for the one, two, or three 2% credits that are not earned during DROP participation.
- **Refresh** - Refresh means that if a member retires before the refresh time, pre-DROP average compensation is used to determine the benefit for pre-DROP years of service. If a member retires at or after the refresh time, post-DROP average compensation is used to determine the benefit for all years of service.

Assumption Changes

We used the actuarial assumptions shown in the June 30, 2008 valuation for the calculations described in this letter, with the following exceptions:

- We assumed that the number of active members who are not eligible for DROP on the date of the plan change would be the same at July 1, 2009 as July 1, 2008, but their average pay would be 3% higher.
- Because a change in the DROP could potentially change the behavior of the affected members in terms of when they would retire, we have also provided the cost of the DROP scenarios under alternative retirement assumptions.
- For the pessimistically early retirement assumptions, we also assumed that 85% of members would elect to participate in the revised DROP. This is updated from the current valuation assumption of 90% DROP participation to reflect lower benefits.

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▪ Rates of Retirement for DROP Participants

Years of Service	Current Provisions	Updated Provisions			
		Optimistically Late		Pessimistically Early	
		Fire	Police	Fire	Police
20	0.0%	0.00%	0.00%	0.00%	0.00%
21	4.0%	3.25%	4.75%	7.25%	8.75%
22	5.0%	4.25%	5.75%	7.25%	8.75%
23	8.0%	11.25%	12.75%	14.25%	15.75%
24	10.0%	10.25%	11.75%	12.25%	13.75%
25	25.0%	10.25%	11.75%	19.25%	25.75%
26	17.0%	7.25%	9.00%	19.25%	26.00%
27	25.0%	7.25%	26.00%	19.25%	36.00%
28	25.0%	24.00%	26.00%	34.00%	36.00%
29	25.0%	24.00%	26.00%	34.00%	36.00%
30	25.0%	23.50%	26.50%	33.50%	36.50%
31	25.0%	23.50%	26.50%	33.50%	36.50%
32	25.0%	23.50%	26.50%	33.50%	36.50%
33	25.0%	23.50%	26.50%	33.50%	36.50%
34+	25.0%	23.00%	27.00%	33.00%	37.00%

Costs of Changes

Estimated change in net plan cost for FY 2011 (in millions)

Department	Based on later retirement assumptions	Based on earlier retirement assumptions
Police	\$(5.2)	\$(3.1)
Fire	(1.8)	(0.9)
Total	\$(7.0)	\$(4.0)

Negative amounts represent contribution savings.

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Baltimore City Fire and Police Employees' Retirement System

Other Issues

Pension changes which affect the timing of employees' retirement can also have a cost impact on retiree medical benefits, which is beyond the scope of this letter.

According to the June 30, 2008 valuation data, all of the BWI airport members except one would have over 20 years of service as of July 1, 2009. Any savings attributable to BWI airport members would be immaterial.

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.

Please let me know if you have any questions or need any further information. I can be reached at 410 347 2806. I meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion contained in this letter.

Sincerely,

A handwritten signature in cursive script that reads "Douglas L. Rowe".

Douglas L. Rowe, FSA, MAAA, EA
Principal
DLR:TS:cdf

Copy:
David Randall, BCFPERS
James Baughman, Mercer

Enclosure

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Fire and Police
Employees' Retirement System

Comparison of Current DROP to Proposed DROP 2
April 2009

ITEM	CURRENT DROP	DROP 2
Date established	July 1, 1996	July 1, 2009
Date closed for new eligibility	July 1, 2009	Not applicable
DROP Entry Eligibility	<p>F&P Membership entry date before 7/1/03: 20 years of any service.</p> <p>F&P Membership entry date after 6/30/03: 20 years of service, but, 10 years must be F&P covered employment.</p> <p>Not applicable</p>	<p>Same</p> <p>Same</p> <p>F&P Membership entry date on or after July 1, 2009, member must have 20 years of continuous F&P covered employment</p>
Maximum DROP participation period	3 years/36 consecutive months	Same
Minimum DROP participation period	None	1 year participation period required for DROP 2 benefits
Service credit earned during DROP participation period	No	Same
"Lost" benefit accruals during 3 year DROP participation period	Yes: 2% per year for a total of 6% over 3 years	Same

Comparison of Current DROP to DROP 2

April 2009

<p>“Lost” benefit accruals recovered through continued employment</p>	<p>Fire: Yes Police: Yes</p>	<p>Fire: Same Police: No</p>
<p>“Lost” benefit recovery rate</p>	<p>Fire: 1.5% per year Police: 1.5% per year</p>	<p>Fire: Same Police: None</p>
<p>“Lost” benefit recovery period</p>	<p>Fire: 4 years of continuous employment after the DROP participation period Police: 4 years of continuous employment after the DROP participation period</p>	<p>Fire: Same Police: Not Applicable</p>
<p>Member contributions continue during DROP period</p>	<p>Yes</p>	<p>Same</p>
<p>“DROP Account” established for member</p>	<p>Yes</p>	<p>Same</p>
<p>Member contributions made during DROP period credited to DROP account</p>	<p>Yes</p>	<p>Same</p>
<p>Maximum annual retirement benefit calculated at DROP start date credited to DROP account</p>	<p>Yes Credited for up to 3 years</p>	<p>Same</p>
<p>Interest credited on DROP account until “cut-off” date</p>	<p>8.25%</p>	<p>5.50%</p>
<p>Benefit calculation “Refresh” using new AFC</p>	<p>Yes</p>	<p>Same</p>

Comparison of Current DROP to DROP 2

April 2009

<p>Bonus benefit time period</p>	<p>Fire: Intermediate DROP 18 months</p> <p>Police: Intermediate DROP 18 months</p>	<p>Fire: Mid DROP 5 years</p> <p>Police: Mid DROP 3½ years</p>
<p>Member can retire at any time during or at the end of the 3 year DROP period</p>	<p>Yes</p> <p><u>BASIC DROP</u></p> <p>Member can retire at any time during or at the end of the DROP participation period. Member receives retirement benefit calculated at DROP start date, plus, DROP account.</p>	<p>Member must complete 1 year of DROP 2 participation period.</p> <p><u>EARLY DROP 2</u></p> <p>Member must complete 1 year of DROP 2 participation period. Then, member can retire at any time during or at the end of the DROP 2 participation period. Member receives retirement benefit calculated at DROP 2 start date, plus, DROP 2 account.</p> <p>If member leaves employment before completing 1 year of DROP 2 participation period, the member receives regular benefit as of retirement date.</p>
<p>Retirement benefit “bonus” provided after DROP participation period</p>	<p><u>INTERMEDIATE DROP</u></p> <p>Fire: Yes: Member receives retirement benefit calculated at DROP start date, plus, 2% of current AFC at retirement date for each year after DROP period up to 1½ years, plus, a “recovery” benefit of 1.5% of current AFC at retirement date for each year after DROP period up to 1½ years, plus, the member’s DROP</p>	<p><u>MID DROP 2</u></p> <p>Fire: Yes: Member receives retirement benefit calculated at DROP 2 start date, plus, 2% of current AFC at retirement date up to the first 5 years of employment after DROP 2 period, plus, a “recovery” benefit of 1.5% of current AFC at retirement date for the first 4 years of covered employment after DROP 2 period (maximum “recovery” of 6% and limited to</p>

Comparison of Current DROP to DROP 2

April 2009

	<p>account.</p> <p>Police: Yes: Member receives retirement benefit calculated at DROP start date, plus, 2% of current AFC at retirement date for each year after DROP period up to 1½ years, plus, a “recovery” benefit of 1.5% of current AFC at retirement date for each year after DROP period up to 1½ years, plus, the member’s DROP account.</p>	<p>credits “lost” in DROP 2 period), plus, the member’s DROP account.</p> <p>Police: Yes Member receives retirement benefit calculated at DROP 2 start date, plus, 2% of current AFC at retirement date for the first 3½ years after DROP 2 period, plus, the member’s DROP 2 account. There is no “recovery” of “lost” credits for police members.</p>
<p>Retirement benefit is “Refreshed”, i.e. recalculated using current AFC for all service credit at retirement date</p>	<p>Yes: <u>FULL DROP</u></p> <p>Fire: starts 18 months after DROP period.</p> <p>Member receives regular benefit based on all service credit and current AFC at retirement date; plus, “recovery” benefit of “lost” credits at rate of 1.5% per year of AFC at retirement date for first 4 years of covered employment after DROP period (maximum “recovery” of 6% and limited to credits “lost” in DROP period), plus, member’s DROP account.</p>	<p>Yes: <u>COMPLETE DROP 2</u></p> <p>Fire: starts 5 years after DROP 2 period.</p> <p>Member receives regular benefit based on all service credit and current AFC at retirement, plus, “recovery” benefit of “lost” credits at 1.5% per year of AFC at retirement for first 4 years after DROP 2 period, plus, member’s DROP 2 account.</p>

Comparison of Current DROP to DROP 2

April 2009

	<p><u>FULL DROP</u> (continued)</p> <p>Police: starts 18 months after DROP period.</p> <p>Member receives regular benefit based on all service credit and current AFC at retirement date; plus, "recovery" benefit of "lost" credits at rate of 1.5% per year of AFC at retirement date for first 4 years of covered employment after DROP period (maximum "recovery" of 6% and limited to credits "lost" in DROP period), plus, member's DROP account.</p>	<p>COMPLETE DROP 2 (continued)</p> <p>Police: starts 3½ years after DROP 2 period.</p> <p>Member receives regular benefit based on all service credit and current AFC at retirement date, plus, DROP 2 account. There is no "recovery" of "lost" credits for police members.</p>
<p>Early exit from DROP period allowed</p>	<p>Yes, on 1st or 2nd anniversary of DROP start date</p> <p>Member keeps DROP account and advances to Intermediate and Full DROP sooner.</p>	<p>Same</p> <p>Member keeps DROP account and advances to Mid and Complete DROP sooner.</p>
<p>Recovery of "lost" credits limited by time in DROP participation period</p>	<p>Yes</p> <p>If member exits DROP period after 1 year, member can only recover "lost" credits of 2%.</p> <p>If member exits DROP period after 2 years, member can only recover "lost" credits of 4%.</p>	<p>Same</p>
<p>DROP account distribution</p>	<p>Member can receive DROP account in the form of:</p> <ol style="list-style-type: none"> 1) Lump-sum to member, 2) Lump sum rollover to IRA or other employer plan, or 3) Annuity of DROP account: increases retirement benefit 	<p>Same</p>

Comparison of Current DROP to DROP 2

April 2009

<p>Post retirement benefit eligibility following DROP</p>	<p>Member who retires on BASIC DROP has DROP period counted towards post-retirement benefit eligibility.</p> <p>Otherwise, member must be retired for 2 or more years as of June 30 post-retirement increase determination date.</p>	<p>Member must be retired for 2 or more years as of June 30 post-retirement increase determination date.</p>
<p>DROP can be modified or terminated</p>	<p>Yes, if "DROP test" failed, the City can amend or terminate DROP</p>	<p>Yes:</p> <p>DROP 2 experience report each year until June 30, 2021 to F&P Board of Trustees and Director of Finance.</p> <p>DROP 2 savings test beginning June 30, 2017 and every 4 years thereafter to F&P Board of Trustees and Director of Finance.</p> <p>If contribution reductions not realized beginning with the June 30, 2021 savings test, the City can modify or terminate existing DROP 2.</p> <p>Members already participating or eligible for DROP 2 will not be affected.</p>
<p>City acknowledges intention to maintain some form of DROP even if savings expectation is not met</p>	<p>No</p>	<p>Yes</p>

Comparison of Current DROP to DROP 2

April 2009

<p>Projected Costs/Savings</p>	<p>DROP COSTS \$9 to \$11 million per year</p>	<p>DROP 2 SAVINGS/COSTS</p> <p>Estimated SAVINGS \$4 to \$7 million per year versus current DROP.</p> <p>Estimated cost \$2 to \$7 million per year.</p> <p>Savings goal of at least \$5 million per year.</p>
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FIRE AND POLICE EMPLOYMENT RETIREMENT SYSTEM
DROP 2 C ARIZON

FIREFIGHTERS/FIRE OFFICERS' UNION PROPOSAL

NON-DROP BENEFIT										CURRENT DROP									
Firefighter:	Age at hire = 27	Yrs of Serv	Avg Final Comp	Benefit %	Annual Benefit	Pres Val Ttl Ben	Pres Val Factor	Annual Benefit	Benefit %	Int on DROP Acct	Mbr Contr Accum	Yrs of Serv	Drop Ben Accum	Frozen Benefit	Int on DROP Acct	Drop Account	Pres Val Ttl Ben	Ratio to Basic DROP	
	Age at hire = 27		Age at DROP = 47																
	Pay Increases: 3.0%																		
20	\$59,648	20	\$59,648	50.0	\$29,824	\$411,685	13.8038	\$29,824	50.0	0	3,686	20	29,824	0	0	\$411,685	100.0%		
21	61,437	21	61,437	52.0	31,947	438,386	13.7221	29,824	50.0	1,382	3,797	21	29,824	\$34,893	34,893	444,140	101.3%		
22	63,281	22	63,281	54.0	34,172	465,949	13.6356	29,824	50.0	2,764	3,911	22	29,824	72,779	72,779	479,447	102.9%		
23	65,179	23	65,179	56.0	36,500	494,359	13.5440	29,824	50.0	3,386	4,086	23	29,824	113,909	113,909	517,846	104.8%		
24	67,134	24	67,134	58.0	38,938	523,602	13.4471	32,174	35.0	4,066	4,816	24	29,824	123,307	123,307	555,950	106.2%		
24.5	68,141	24.5	68,141	59.0	40,203	538,554	13.3958	32,174	35.0	4,448	5,086	24.5	29,824	128,393	128,393	632,720	119.1%		
25	69,148	25	69,148	60.0	41,489	553,650	13.3445	32,174	35.0	4,830	5,468	25	29,824	133,480	133,480	659,448	119.1%		
26	71,223	26	71,223	62.0	44,158	584,477	13.2360	32,174	35.0	5,212	5,850	26	29,824	144,492	144,492	714,829	122.3%		
27	73,360	27	73,360	64.0	46,950	616,065	13.1217	32,174	35.0	5,594	6,232	27	29,824	156,412	156,412	772,477	125.4%		
28	75,560	28	75,560	66.0	49,870	648,367	13.0012	32,174	35.0	5,976	6,610	28	29,824	169,316	169,316	817,684	126.1%		
29	77,827	29	77,827	68.0	52,922	681,366	12.8748	32,174	35.0	6,358	7,096	29	29,824	183,285	183,285	864,651	126.9%		
30	80,162	30	80,162	70.0	56,113	715,036	12.7427	32,174	35.0	6,740	7,478	30	29,824	198,406	198,406	913,442	127.7%		
Normal Service Retirement Calculation:																			
For first 20 years of service = 2.5% X Years of Service X AFC																			
Plus																			
For service over 20 years = 2.0% X Years of Service X AFC																			
Salary: Year 20 AFC is the year 20 salary based on the FY 2009 MOU.																			
Basic DROP: Retirement during or at end of 3 year DROP participation period.																			
Intermediate DROP: Retirement any time within 18 months after DROP participation period. Retirement benefit is refreshed.																			
Full DROP: Retirement 18 months or later after DROP participation period.																			
Recovery: Accrual rates (2% per year) "lost" during DROP participation period are earned back.																			
Refreshed: Retirement benefit calculated as of member's retirement date using current AFC and all service credits.																			
AFC: Average Final Compensation is the average of the highest 18 consecutive months of regular earnable compensation.																			
Salary: Year 20 AFC is the year 20 salary based on the FY 2009 MOU.																			

FIRE AND POLICE EMPLOYEES' RETIREMENT SYSTEM
 DROP 2 CALCULATION ARIZONA

FIREFIGHTERS/FIRE OFFICERS' UNION PROPOSAL

NON-DROP BENEFIT										DROP 2														
Firefighter:	Age at hire = 27	Yrs of Serv	Avg Final Comp	Benefit %	Annual Benefit	Pres Val Factor	Pres Val Ttl Ben	Yrs of Serv	Avg Final Comp	Benefit %	Annual Benefit	Pres Val Factor	Pres Val Ttl Ben	Ratio vs Basic Benefit										
20	\$59,648	20	61,437	50.0	\$29,824	13.8038	\$411,685	20	\$59,648	50.0	\$29,824	13.8038	0	100.0%										
21	61,437	21	63,281	52.0	31,947	13.7221	438,386	21	61,437	50.0	29,824	13.7221	\$34,432	101.2%										
22	63,281	22	65,179	54.0	34,172	13.6356	465,949	22	63,281	50.0	29,824	13.6356	70,871	102.5%										
23	65,179	23	67,134	56.0	36,500	13.5440	494,359	23	65,179	3.5	29,824	13.5440	109,431	103.8%										
24	67,134	24	69,148	58.0	38,938	13.4471	523,602	24	67,134	7.0	32,174	13.4471	115,450	104.7%										
25	69,148	25	71,223	60.0	41,489	13.3445	553,650	25	69,148	10.5	34,664	13.3445	121,800	105.6%										
26	71,223	26	73,360	62.0	44,158	13.2360	584,477	26	71,223	14.0	37,302	13.2360	128,499	106.5%										
27	73,360	27	75,560	64.0	46,950	13.1217	616,065	27	73,360	66.0	40,094	13.1217	135,566	107.4%										
28	75,560	28	77,827	66.0	49,870	13.0012	648,367	28	75,560	68.0	42,922	13.0012	143,022	122.1%										
29	77,827	29	80,162	68.0	52,922	12.8748	681,366	29	77,827	70.0	52,922	12.8748	150,889	122.1%										
30	80,162	30		70.0	56,113	12.7427	715,036	30	80,162	70.0	56,113	12.7427	159,187	122.3%										
Normal Service Retirement Calculation:																								
For first 20 years of service = 2.5% X Years of Service X AFC																								
Plus																								
For service over 20 years = 2.0% X Years of Service X AFC																								
Salary: Year 20 AFC is the year 20 salary based on the FY 2009 MOU.																								
Early DROP: Retirement during or at the end of 3-yr DROP 2 participation period. Member does not earn service credit nor 2.0% per year accrual rate during DROP 2 participation period.																								
Mid DROP: A 5-year time period during which the member earns the basic 2.0% accrual rate, PLUS for the first four years after a 3-yr DROP 2 participation period, the member earns 1.5% per year to recover accrual rates "lost" during DROP 2 participation period. The Mid DROP 2 benefit provides the service credits earned after DROP 2 times the member's current AFC plus the Early DROP 2 Benefit.																								
Complete DROP: Retirement 5 or more years after DROP 2 participation period. Current AFC is used for all credits.																								
Refreshed: Retirement benefit calculated as of member's retirement date using current AFC and all service credits AFC: Average Final Compensation - the average of the highest 18 consecutive months of regular annual earnable compensation.																								
Salary: Year 20 AFC is the year 20 salary based on the FY 2009 MOU.																								
DROP ACCOUNT																								
Interest: 5.50%																								
Frozen Benefit																								
Yrs of Serv	20	21	22	23	24	25	26	27	28	29	30	Yrs of Serv	20	21	22	23	24	25	26	27	28	29	30	
DROP Ben Accum	\$29,824	\$29,824	\$29,824	\$29,824	\$29,824	\$29,824	\$29,824	\$29,824	\$29,824	\$29,824	\$29,824	DROP Ben Accum	\$29,824	\$29,824	\$29,824	\$29,824	\$29,824	\$29,824	\$29,824	\$29,824	\$29,824	\$29,824	\$29,824	\$29,824
Mbr Contr Accum	\$3,686	\$3,686	\$3,686	\$3,686	\$3,686	\$3,686	\$3,686	\$3,686	\$3,686	\$3,686	\$3,686	Mbr Contr Accum	\$3,686	\$3,686	\$3,686	\$3,686	\$3,686	\$3,686	\$3,686	\$3,686	\$3,686	\$3,686	\$3,686	\$3,686
Int on DROP Acct	\$922	\$922	\$922	\$922	\$922	\$922	\$922	\$922	\$922	\$922	\$922	Int on DROP Acct	\$922	\$922	\$922	\$922	\$922	\$922	\$922	\$922	\$922	\$922	\$922	\$922
DROP Account	\$34,432	\$34,432	\$34,432	\$34,432	\$34,432	\$34,432	\$34,432	\$34,432	\$34,432	\$34,432	\$34,432	DROP Account	\$34,432	\$34,432	\$34,432	\$34,432	\$34,432	\$34,432	\$34,432	\$34,432	\$34,432	\$34,432	\$34,432	\$34,432

FIRE AND POLICE EMPLOYMENT RETIREMENT SYSTEM
 DROP 2 C ARIZON

FIREFIGHTERS/FIRE OFFICERS' UNION PROPOSAL

CURRENT DROP										DROP 2									
Firefighter:	Age at hire = 27	Yrs of Serv	Avg Final Comp	Benefit %	Annual Benefit	Pres Val Factor	DROP Account	Pres Val Til Ben	Age at DROP = 47	Yrs of Serv	Avg Final Comp	Benefit %	Annual Benefit	Pres Val Factor	DROP Account	Pres Val Til Ben	Ratio to Current DROP		
Firefighter:	Age at hire = 27	20	\$59,648	50.0	\$29,824	13.8038	0	\$411,685	Age at DROP = 47	20	\$59,648	50.0	\$29,824	13.8038	0	\$411,685	100.0%		
Pay Increases: 3.0%		21	61,437		29,824	13.7221	\$34,893	444,140		21	61,437		29,824	13.7221	\$34,432	443,680	99.9%		
Basic DROP	No Service Credit	22	63,281		29,824	13.6356	72,779	479,447		22	63,281		29,824	13.6356	70,871	477,539	99.6%		
	Frozen Annual Benefit	23	65,179		29,824	13.5440	113,909	517,846		23	65,179		29,824	13.5440	109,431	513,368	99.1%		
Intermediate DROP		24	67,134	3.5	32,174	13.4471	123,307	555,950		24	67,134	3.5	32,174	13.4471	115,450	548,093	98.6%		
Full DROP		24.5	68,141	5.25	37,648	13.3958	128,393	632,720		24.5	68,141	5.25	33,401	13.3958	118,625	566,064	89.5%		
		25	69,148	57.0	39,415	13.3445	133,480	659,448		25	69,148	7.0	34,664	13.3445	121,800	584,379	88.6%		
AFC is refreshed		26	71,223	60.5	43,090	13.2360	144,492	714,829		26	71,223	10.5	37,302	13.2360	128,499	622,233	87.0%		
for all service credit		27	73,360	64.0	46,950	13.1217	156,412	772,477		27	73,360	14.0	40,094	13.1217	135,566	661,672	85.7%		
		28	75,560	66.0	49,870	13.0012	169,316	817,684		28	75,560	66.0	49,870	13.0012	143,022	791,390	96.8%		
		29	77,827	68.0	52,922	12.8748	183,285	864,651		29	77,827	68.0	52,922	12.8748	150,889	832,254	96.3%		
		30	80,162	70.0	56,113	12.7427	198,406	913,442		30	80,162	70.0	56,113	12.7427	159,187	874,223	95.7%		
DROP ACCOUNT										DROP ACCOUNT									
Interest: 8.25%		Yrs of Serv	DROP Ben Accum	Mbr Contr Accum	Int on DROP Acct	DROP Account			Interest: 5.50%	Yrs of Serv	DROP Ben Accum	Mbr Contr Accum	Int on DROP Acct	DROP Account					
Frozen Benefit		20	29,824	3,686	1,382	34,893	0		Frozen Benefit	20	\$29,824	\$3,686	\$922	\$34,432	0				
		21	29,824	3,797	4,265	72,779				21	29,824	3,797	2,818	70,871					
		22	29,824	3,911	7,396	113,909				22	29,824	3,911	4,826	109,431					
		23	29,824	3,998	9,398	123,307				23	29,824	3,911	6,019	115,450					
		24	29,824	5,086	10,173	133,480				24	29,824	3,911	3,175	118,625					
		24.5	29,824	11,012	11,012	144,492				24.5	29,824	3,911	6,350	121,800					
		25	29,824	11,921	12,904	156,412				25	29,824	3,911	6,999	128,499					
		26	29,824	13,969	13,969	169,316				26	29,824	3,911	7,067	135,566					
		27	29,824	15,121	15,121	198,406				27	29,824	3,911	7,456	143,022					
		28	29,824							28	29,824	3,911	7,866	150,889					
		29	29,824							29	29,824	3,911	8,299	159,187					
		30	29,824							30	29,824	3,911							
Basic DROP:	Retirement during or at end of 3 year DROP participation period.								Early DROP:	Retirement during or at the end of 3-yr DROP 2 participation period; Member does not earn service credit nor 2.0% per year accrual rate during DROP 2 participation period.									
Intermediate DROP:	Retirement any time within 18 months after DROP participation period.								Mid DROP:	A 5-year time period during which the member earns the basic 2.0% accrual rate, PLUS for the first four years after a 3-yr DROP 2 participation period, the member earns 1.5% per year to recover accrual rates "lost" during DROP 2 participation period. The Mid DROP 2 benefit provides the service credits earned after DROP 2 times the member's current AFC plus the Early DROP 2 Benefit.									
Full DROP:	Retirement 18 months or later after DROP participation period.								Complete DROP:	Retirement 5 or more years after DROP 2 participation period. Current AFC is used for all credits.									
Recovery:	Accrual rates (2% per year) "lost" during DROP participation period are earned back.								Recovery:	Accrual rates (2% per year) "lost" during DROP 2 participation period are earned back.									
Refreshed:	Retirement benefit calculated as of member's retirement date using current AFC and all service credits.								Refreshed:	Retirement benefit calculated as of members' retirement date using current AFC and all service credits annual earnable compensation.									
AFC:	Average Final Compensation is the average of the highest 18 consecutive months of regular earnable compensation.								AFC:	Average Final Compensation - the average of the highest 18 consecutive months of regular annual earnable compensation.									
Salary:	Year 20 AFC is the year 20 salary based on the FY 2009 MOU.								Salary:	Year 20 AFC is the year 20 salary based on the FY 2009 MOU.									

