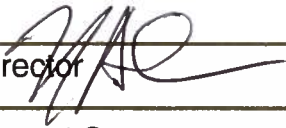



FROM	NAME & TITLE	N. Anthony Calhoun, Executive Director 	CITY OF BALTIMORE MEMO	
	AGENCY NAME & ADDRESS	Fire and Police Employees' Retirement System 7 E. Redwood Street, 18 th Floor		
	SUBJECT	City Council Bill 19-0357		

TO

DATE:
April 16, 2019

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

Re: City Council Bill 19-0357 – Fire and Police Employees’ Retirement System – Interest, Service Credits, Death Benefits, Direct Deposit, and Technical Corrections

Dear Mr. President and City Council Members:

City Council Bill 19-0357 has been introduced at the request of the Fire and Police Employees’ Retirement System (“F&P”) to amend the F&P law as follows:

Definition of regular interest for valuation purposes

The Bill would change the definition of regular interest for valuation purposes by decreasing F&P’s assumed earnings rate from 7.5% to 7.25%. Currently, the Employees’ Retirement System’s assumed earnings rate for active member plan assets is 7%.

This adjustment of F&P’s assumed future rate of return was recommended by the plan’s actuary, Cheiron, and approved by the F&P Board of Trustees for valuation purposes. The FY 2018 Valuation Report for F&P approved by the F&P Board used the 7.25% assumed rate of investment return to calculate the City’s 7/1/19 contribution to F&P; that contribution was certified by the F&P Board of Trustees to the Department of Finance to be \$145.9 million. Thus, passage of the Bill will not increase the City’s certified contribution.

Decrease in the F&P’s assumed rate of investment return is consistent with data derived by the City’s actuary from F&P’s past investment experience and future investment results projected by F&P’s investment consultant. A significant number of governmental pension plans have similarly reduced their assumed rates of investment return to more accurately reflect investment market data.

Credits for pre-employment and during-employment military service

The Bill would repeal unnecessary provisions involving the crediting of military service for F&P members already mandated by the federal Uniformed Services Employment and Reemployment Rights Act of 1994 (USERRA) requirements. USERRA is a federal law intended to ensure that persons who serve in the military are not disadvantaged in their civilian careers and are promptly reemployed.

Purchase and transfer of non-F&P and prior F&P service

The Bill would delete obsolete provisions and combine current provisions governing purchase and transfer of non-F&P and prior F&P service. In addition, **for members entering F&P on or after July 1, 2019 only**, the Bill would change the formula for calculating the cost of such purchases to the product of: salary as of system entry X the 10% current contribution rate for former City service (as opposed to a stated rate of 6%) OR twice the 10% current contribution rate (20%) for former non-City service (as opposed to a stated rate of 12%). Also, **for members entering F&P on or after July 1, 2019 only**, the Bill would eliminate the imposition of 3% interest as part of such cost.

Death benefits for minor children

The Bill would change the definition of “minor child” for purposes of being eligible to receive death benefits to mean any child who has not attained age 22, with no condition that such child attend school in order to collect the death benefit, which is currently required for children 18 years or older. F&P's actuary already assumes that all children ages 18 through 21 attend school; the Bill would therefore not result in increased costs to the City.

Optional survivorship benefits for beneficiaries of retired members

The Bill would update the 50-year old survivorship allowance language, clarifying and more accurately describing survivorship options, while deleting obsolete and transitional provisions and adding 2 benefit enhancements currently provided for Employees' Retirement System retirees and beneficiaries:

1. Allowing spousal beneficiaries age 70 and over to remarry without penalty of losing maximum benefit
2. Allowing change of beneficiary elections and change of survivorship option elections within 30 days after the death within a month of retirement commencement date of a member's initially designated beneficiary

Direct deposit requirement

The Bill would require that periodic benefits payments initially paid after January 1, 2020 be made electronically. **The new requirement would not apply to current F&P retirees.** Employees' Retirement System retirees are already required to be paid electronically.

Actuarial Cost Impact

The Bill's provisions have been reviewed by Cheiron, F&P's actuary, whose cost report is attached. Cheiron does not believe that the changes made by the Bill will result in any measurable cost to the City. Short-term increases in the City's F&P contribution resulting from the decrease in F&P's assumed earnings rate from 7.5% to 7.25% would be counterbalanced by forecasted contribution increases that would have resulted from investment losses sustained under a non-realistic 7.5% investment assumption.

At their meeting of April 16, 2019, the F&P Board of Trustees approved of the legislation that was introduced as CC Bill 19-0357 and resolved to issue a favorable report to the City Council.

I will be available to provide testimony at the hearing scheduled for CC Bill 19-0357. Please call me at 410.497.7929 if you would like additional information.

Via Electronic Mail

April 12, 2019

Mr. N. Anthony Calhoun
Executive Director
Fire and Police Employees' Retirement System
7 E. Redwood Street, 20th Floor
Baltimore, Maryland 21202

**Re: *Fire and Police Employees' Retirement System of the City of Baltimore
Actuarial Cost Impact Relative to Council Bill 19-0357***

Dear Tony:

As requested, we have reviewed Council Bill 19-0357 for possible impact on the City's contribution requirements from proposed legislation changes to the Fire and Police Employees' Retirement System of the City of Baltimore. The proposed changes in this bill include:

1. Decreasing the regular interest rate for valuation purposes;
2. Changes to the purchase and transfer of prior service;
3. Changes to death benefit eligibility for children 18 and over; and
4. Changes to retirement survivorship benefit options.

With regard to item one, the investment return for valuation purposes was decreased from 7.50% to 7.25% with the June 30, 2018 actuarial valuation. This assumption was chosen by the Board of Trustees, upon the recommendation of the actuaries, based on an experience study conducted on the System's experience from the 2011-2017 valuations. Therefore, the cost of this item is already reflected in the City's contribution for Fiscal Year 2020.

With regard to item two, the calculation for purchase or transfer of service is updated to change the contribution rates used in the calculations from set amounts of 6% for former City service and 12% for non-City service to being based on the member contribution rates in effect at the time of purchase as well as eliminating the 3% interest that is currently charged on these calculations. Under the proposed changes, the current member contribution rate will be used for former City service and twice the current member contribution rate will be used for former non-City service. Based on the current member contribution rate required by §36(H)(5), 10% will thus be used for former City service and 20% for former non-City service. The current member rate is sufficiently higher than the rates currently in effect that it is anticipated that this will make up for the reduction from the elimination of the 3% interest currently being assessed. As such, we do not believe that this change will result in an increase in the City's required contributions. We caution that our opinion is predicated on the member contribution rate remaining above 8% of pay. If the member contribution rate drops substantially below this threshold it would no longer offset the elimination of interest and could result in the service purchases having an impact on the City's contribution requirements.

With regard to item three, children over age 18 and under age 22 would no longer be required to be attending school in order to collect a death benefit. While there is some cost to paying additional death benefits to minors for these four years, we have determined the cost to be negligible to the City. The cost of this benefit is included in the valuation report based on two assumptions: one about how long the known minor beneficiaries who are currently receiving benefits will remain eligible and the second being the duration of benefits to be paid to assumed future minor dependents. A change in the provision to extend the payment period for those currently receiving this benefit would have a small but measurable impact on the plan's liability but with the amortization of that impact it would have a negligible impact on the contribution. For the valuation of future minors our current assumption is that any of these benefits, both current and future, would be paid through age 22, so the ordinance change is already effectively being valued. Therefore, no material impact on the City's contribution is expected from this change.

With regard to item four, there are two proposed benefit enhancements relating to survivorship benefits. The first allows surviving spouses age 70 and over to remarry without any impact on the benefits they receive as a surviving spouse, and the second allows for selection of a new beneficiary by a member in the case where their first beneficiary dies within a month of the member's retirement commencement date. While these benefit enhancements for survivorship options likely will result in some increases in costs, we anticipate the cost of both of these changes to be negligible to the City. Therefore, no material impact on the City's contribution is expected from this change.

In summary, we do not believe that any of the proposed provisions are expected to have a measurable impact on the cost of the System and the City's contribution requirements.

The analysis was based on the same data, methods, and assumptions as were used in the June 30, 2018 Actuarial Valuation Report.

This letter was prepared exclusively for the Fire and Police Employees' Retirement System for the purposes described herein. Other users of this letter are not intended users as defined in the Actuarial Standards of Practice, and Cheiron assumes no duty or liability to such other users.

This letter and its contents have been prepared in accordance with generally recognized and accepted actuarial principles and practices and our understanding of the Code of Professional Conduct and applicable Actuarial Standards of Practice set out by the Actuarial Standards Board as well as applicable laws and regulations. Furthermore, as credentialed actuaries, we meet the Qualification Standards of the American Academy of Actuaries to render the opinion contained in this letter. This letter does not address any contractual or legal issues. We are not attorneys, and our firm does not provide any legal services or advice.

Mr. N. Anthony Calhoun
April 12, 2019
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Please feel free to call should you have any questions.

Sincerely,
Cheiron



Elizabeth Wiley, FSA, FCA, EA
Consulting Actuary



Brett Warren, FSA, EA
Associate Actuary

cc: Fiona Liston, FSA, EA, Cheiron