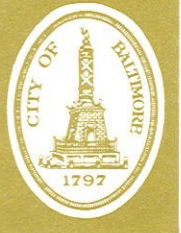


FROM	NAME & TITLE	Thomas P. Taneyhill, Executive Director
	AGENCY NAME & ADDRESS	Fire and Police Employees' Retirement System 7 E. Redwood Street, 19 <sup>th</sup> Floor
	SUBJECT	<b>Bill Amending Article 22, §34 (f-2)</b> <b>100% Line-of-Duty Disability Benefits</b>

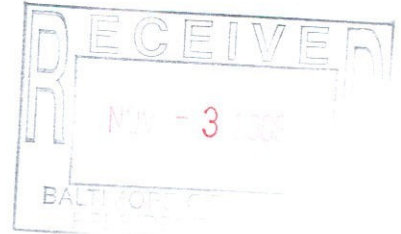
CITY of  
BALTIMORE  
**MEMO**



TO

DATE: November 02, 2009

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



**Re: City Council Bill 09-0403**  
**Amending Article 22, §34 (f-2)**  
**Fire & Police Employees' Retirement System**  
**100% Line-of-Duty Disability Retirement Benefits**

City Council Bill 09-0403 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. In general, 100% line-of-duty disability retirement benefits are awarded to claimants who have sustained severe disabling injuries.

The Board of Trustees of the Fire and Police Employees' Retirement System **OPPOSES** passage of City Council Bill 09-0403.

The Bill proposes to change the 100% line-of-duty disability retirement benefit from a benefit of 100% of the member's regular annual 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 annual compensation at the time of retirement **plus** a lump-sum refund of the member's accumulated contributions plus interest at the time of retirement.

Pursuant to the proposed Bill:

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

It should be noted that the proposed Bill would require no retroactive retirement benefit payments because the amount of the continuing retirement benefit would remain the same. However, F&P files indicate that if the proposed Bill is enacted by December 31, 2009, refunds of "unpaid" accumulated member contributions and interest would have to be made to two of the five existing 100% line-of-duty disability retirement benefit recipients.

An October 12, 2009, cost analysis prepared by Mercer, the F&P actuary, estimated the cost of the amendments proposed by City Council Bill 09-0403 to be \$23,000 per year.

Attached are:

- 1) the First Reader copy of City Council Bill 09-0403;
- 2) the cost analysis prepared by Mercer;
- 3) a comparison of the current 100% line-of-duty disability provisions to the proposed provisions with examples; and
- 4) a schedule of current and proposed benefits with an estimate of remaining accumulated contributions and interest payable to each of the 100% line-of-duty disability retirement benefit recipients.

I will be available for comment at the hearing to be held on City Council Bill 09-0403.

Please let me know if I can provide any additional information. I can be reached via email at [thomas.taneyhill@bcfpers.org](mailto:thomas.taneyhill@bcfpers.org) or by phone at 443.984.2800.

cc: Christopher Thomaskutty, Deputy Mayor  
Antonio Hayes, Assistant Deputy Mayor  
Angela Gibson, Mayor's Legislative Liaison to the City Council  
Karen Randle, Executive Secretary

**CITY OF BALTIMORE  
COUNCIL BILL 09-0403  
(First Reader)**

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Introduced by: The Council President

At the request of: The Administration (Fire and Police Employees' Retirement System)

Introduced and read first time: October 5, 2009

Assigned to: Taxation, Finance and Economic Development Committee

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REFERRED TO THE FOLLOWING AGENCIES: City Solicitor, Fire and Police Employees' Retirement System, Labor Commissioner, Department of Finance

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A BILL ENTITLED

1 AN ORDINANCE concerning

2 **Fire and Police Employees' Retirement System –**  
3 **100% Line-of-Duty Disability Benefits**

4 FOR the purpose of increasing retirement benefits for members who retire on a 100% line-of-  
5 duty disability; providing special rules for the applicability of this benefit increase to  
6 members currently retired and receiving a 100% line-of-duty disability; providing for a  
7 special effective date; and generally relating to the Fire and Police Employees' Retirement  
8 System.

9 BY repealing and reordaining, with amendments

10 Article 22- Retirement Systems

11 Section(s) 34(f-2)(1)

12 Baltimore City Code

13 (Edition 2000)

14 **SECTION 1. BE IT ORDAINED BY THE MAYOR AND CITY COUNCIL OF BALTIMORE,** That the  
15 Laws of Baltimore City read as follows:

16 **Baltimore City Code**

17 **Article 22. Retirement Systems**

18 **Subtitle – Fire and Police Employees' Retirement System**

19 **§ 34. Benefits.**

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

21 (1) [Any] A member [who retires on] TO WHOM A HEARING EXAMINER AWARDS a 100%  
22 line-of-duty disability BENEFIT shall receive [a] ON retirement [allowance that  
23 consists of]:

24 (i) [an annuity that is the actuarial equivalent] A LUMP-SUM REFUND of the  
25 member's accumulated contributions [at the time of retirement]; [and] PLUS

EXPLANATION: CAPITALS indicate matter added to existing law.  
[Brackets] indicate matter deleted from existing law.

**Council Bill 09-0403**

1 (ii) a pension [that, together with the annuity, equals] EQUAL TO 100% of the  
2 member's CURRENT regular compensation at the time of retirement.

3 **SECTION 2. AND BE IT FURTHER ORDAINED,** That the increase in benefits established by this  
4 Ordinance applies to:

5 (a) all persons who, in accordance with City Code Article 22, § 34, retire on a 100% line-  
6 of-duty disability after the effective date of this Ordinance, and

7 (b) all persons who, on the effective date of this Ordinance, are currently receiving a  
8 100% line-of-duty disability retirement benefit under Article 22, § 34, which persons  
9 shall begin receiving their increased benefits prospectively from the effective date of  
10 this Ordinance.

11 **SECTION 3. AND BE IT FURTHER ORDAINED,** That as of the date of enactment of this  
12 Ordinance, any member currently receiving a 100% line-of-duty disability retirement benefit  
13 under Article 22, § 34, who has not received in annuity payments an amount equal to the total of  
14 her or his accumulated contributions as of her or his retirement date, shall receive a lump-sum  
15 refund of any remaining unpaid accumulated contributions.

16 **SECTION 3. AND BE IT FURTHER ORDAINED,** That the catchlines contained in this Ordinance  
17 are not law and may not be considered to have been enacted as a part of this or any prior  
18 Ordinance.

19 **SECTION 4. AND BE IT FURTHER ORDAINED,** That this Ordinance takes effect on the date it  
20 is enacted.

# MERCER



MARSH MERCER KROLL  
GUY CARPENTER OLIVER WYMAN

**Douglas L. Rowe, FSA, MAAA, EA**  
Principal

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October 12, 2009

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

**Subject:** 100% Line-of-Duty Disability Benefits Bill

Dear Tom:

As requested in your October 1, 2009 e-mail, we have estimated the contribution increase for the proposed legislation that 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 a lump sum refund equal to accumulated employee contributions payable upon retirement.

The additional cost to the System has two components:

- A one-time payment equal to remaining unpaid accumulated employee contributions for members currently receiving the 100% line-of-duty disability retirement benefit. Based on your October 1, 2009 e-mail, as of October 1, 2009, only two out of the five members receiving the 100% line-of-duty disability benefit had remaining unpaid accumulated employee contributions.
- Increased benefits for future 100% line-of-duty disability retirements.

Please note that since the benefit is payable as a one-time lump sum contribution refund, that the post-retirement investment return assumption has no impact on the cost of the benefit.

The table below shows the estimated increase in Actuarial Accrued Liability and the annual contribution rounded to the nearest thousand.

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1. Estimated increase to actuarial accrued liability at July 1, 2010 <sup>a</sup>	\$ 148,000
2. 20-year amortization at end of year	15,000
3. Estimated increase to normal cost at end of year	8,000
4. Estimated additional contribution for FY 2012 (2. + 3.) <sup>b</sup>	<b>\$ 23,000</b>

The bill is similar to CC 08-0020, except that:

- For members who are currently receiving 100% line-of-duty disability benefits, the increase is applied prospectively, whereas CC 08-0020 included retroactive benefit increases. A significant portion of the increase to City contributions in the previous bill CC 08-0020 was due to retroactive application.
- In addition, for members currently receiving 100% line-of-duty disability benefits, the increase is equal to the amount of unpaid accumulated employee contributions, whereas CC 08-0020 provided an increased annuity amount equal to the actuarial equivalent of the members' accumulated employee contributions at the time of retirement.

In addition, the assumption for the percentage of future line-of-duty disabled retirees who would receive the 100% line-of-duty disability benefit was updated in this analysis from the assumption used to analyze CC 08-0020. The impact of the proposed legislation on contributions has a degree of uncertainty because members become eligible for the 100% line-of-duty disability benefit only infrequently. This analysis uses the historical experience of one line-of-duty disability receiving the 100% benefit out of approximately 100 total line-of-duty disabilities (1.0%), in the five years from July 1, 2004 to June 30, 2009. In the previous analysis for CC 08-0020, we used the historical experience of one line-of-duty disability receiving the 100% benefit out of approximately 60 total line-of-duty disabilities (1.67%) in the three years from July 1, 2004 to June 30, 2007.

If the 1.67% assumption from the CC 08-0020 analysis were used instead of the 1.0% in this analysis, the FY 2012 contribution would increase approximately \$34,000 instead of \$23,000.

---

<sup>a</sup> \$58,036 of this amount is due to additional benefits for two disabled members as of October 1, 2009, based on remaining unpaid employee contributions projected to January 7, 2010, and projected forward at an annual interest rate of 8.25% to June 30, 2010.

<sup>b</sup> After allocating the amount for currently disabled members directly to the City, less than \$100 of the total \$23,000 would be the State's share of the contribution increase for BWI employees. The remainder would be the City's share of the contribution increase.

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The timing of the legislation would have an impact on the increased benefits for the two members currently receiving the 100% line-of-duty disability benefit with remaining unpaid employee contributions. Our analysis was based on an approximate adoption/effective date of January 1, 2010. If the legislation is effective earlier or later, the amount of unpaid accumulated employee contributions would change, and therefore the contribution increase would change. The total remaining unpaid employee contribution amount for the two employees will be \$55,736 as of January 7, 2010 based on information provided in your email dated October 1, 2009. To reflect the impact on the June 30, 2010 valuation, we rolled this amount forward with 8.25% annual interest from January 1, 2010 to June 30, 2010 to obtain \$58,036.

There is also a minor impact on costs from the previous analysis for CC 08-0020 based on updated retirement assumptions to reflect City Council Bill 09-0295 (DROP2).

The estimate is based on the following:

- The incidence of future line-of-duty disabled retirees receiving the 100% line-of-duty disability benefit would be 1.0% of line-of-duty disability retirements, based on 5 years of experience between July 1, 2004 and June 30, 2009.
- Benefit liabilities for future disabilities were calculated as of June 30, 2009 and rolled forward using standard actuarial techniques to June 30, 2010,
- Unpaid accumulated employee contributions for two members currently receiving the 100% line-of-duty disability benefit of \$55,736 of January 7, 2010, and rolled forward using standard actuarial techniques to June 30, 2010,
- Based on the information provided, the proposed plan change would probably first be reflected in the June 30, 2010 actuarial valuation. This would impact the City's contribution for the fiscal year ending June 30, 2012. The State's portion may be paid in FY2011.
- Except as noted earlier, all data, actuarial assumptions, methods, and plan provisions utilized in this analysis are the same as those used for the June 30, 2009 valuation report dated October 8, 2009.

This letter has been prepared exclusively for the City of Baltimore, the Fire and Police Employees' Retirement System, and its Board of Trustees to provide a cost estimate for a potential change in the current 100% line-of-duty disability benefit. This letter may not be

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GUY CARPENTER OLIVER WYMAN

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October 12, 2009

Mr. Thomas P. Taneyhill, CPA

Fire and Police Employees' Retirement System

used or relied upon by any other party or for any other purpose; Mercer is not responsible for the consequences of any such unauthorized use.

This letter includes or is derived from projections of future funding and/or accounting costs and/or benefit related results. To prepare these projections or results, various *actuarial assumptions*, as described in this letter and the 2009 actuarial valuation report were used to project a limited number of scenarios from a range of possibilities. However, the future is uncertain, and the plan's actual experience will likely differ from the assumptions utilized and the scenarios presented; these differences may be significant or material. In addition, different assumptions or scenarios may also be within the reasonable range and results based on those assumptions would be different. This letter has been created for a limited purpose, is presented at a particular point in time and should not be viewed as a prediction of the plan's future financial condition. To prepare the results shown in this letter, various *actuarial methods*, as described in this letter and the 2009 actuarial valuation report were used.

This letter is based on participant data supplied by the Fire and Police Employees' Retirement System (this data customarily would not be verified by a plan's actuary) and on the plan documents, including amendments, supplied by the Fire and Police Employees' Retirement System. The client is solely responsible for the validity, accuracy and comprehensiveness of this information; the results can be expected to differ and may need to be revised if the underlying data or the plan provisions supplied are incomplete or inaccurate.

## ***Professional Qualifications***

The undersigned credentialed actuaries meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion contained herein. We are available to answer any questions on the material contained in this letter, or to provide explanations or further details as may be appropriate. We are not aware of any relationship, including investments or other services, that could create a conflict of interest that would impair our objectivity.



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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 give us a call if you have any questions.

**Douglas L. Rowe, FSA, MAAA, EA**

October 12, 2009

**Date**

**James Baughman, ASA, EA**

October 12, 2009

**Date**

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1255 23rd Street, NW  
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**Fire and Police Employees' Retirement System  
100% Line-of-Duty Disability Retirement Benefit  
Current vs. Proposed Provision**

**The current 100% Line-of Duty Disability retirement benefit comprises:**

- 1) An *Annuity* of the member's accumulated contributions and interest at retirement date (calculated by dividing the accumulated contributions and interest by the age appropriate annuity factor), and
- 2) A *Pension* that, together with the annuity, equals 100% of the member's regular annual compensation at retirement date.

**The proposed 100% Line-of Duty Disability retirement benefit would consist of:**

- 1) A Lump Sum *Refund* of the member's accumulated contributions and interest at retirement date; plus
- 2) A *Pension* equal to 100% of the member's current regular annual compensation at retirement date.

**Workers' Compensation Offset**

The F&P (and State) law requires that a disability retirement benefit be offset (reduced) by any workers' compensation award(s) received on account of the same injury for which the member was retired on disability. The annual workers' compensation offset award is determined by using the annuity factor appropriate for the member's age at retirement date. Once "recovered" the member's benefit is increased by the amount of the workers' compensation offset.

**Example of F&P Member**

Annual Compensation at Retirement Date	\$ 59,125
Accumulated Contributions and Interest	\$ 79,121
Workers' Compensation Award	\$135,348
Age	45
Annuity Factor	13.613

**Current 100% Line-Of Duty Disability Retirement Benefit**

Annuity ( $\$79,121 \div 13.613$ )	\$ 5,812
Pension	<u>53,313</u>
Annual Retirement Benefit (compensation at retirement)	59,125
Less: Workers' Compensation Offset	<u>9,943</u>
<b>Offset Annual Retirement Benefit</b>	<b><u>\$49,182</u></b>

**Proposed 100% Line-of-Duty Disability Retirement Benefit**

<b>Refund of Accumulated Contributions</b>	<b><u>\$79,121</u></b>
Pension (compensation at retirement)	<u>\$59,125</u>
Annual Retirement Benefit	<b>59,125</b>
Less: Workers' Compensation Offset	<u>9,943</u>
<b>Offset Annual Retirement Benefit</b>	<b><u>\$49,182</u></b>

**Fire and Police Employees' Retirement System  
Proposed Amendment to 100% Line-of-Duty Disability Retirement Benefit  
Amounts Projected to January 7, 2010**

<u>Dept</u>	<u>Ret No.</u>	<u>Ret. Date</u>	<u>Current B/W</u>	<u>Current Annual</u>	<u>Proposed B/W</u>	<u>Proposed Annual</u>	<u>Proposed Annual Factor</u>	<u>Accum. Cont. &amp; Int.</u>	<u>Annuity Paid 1/7/2010</u>	<u>Refunds</u>
FD	001731	12-03-1976	\$ 1,558.26	\$ 40,626.15	\$ 1,558.26	\$ 40,626.15	12.721	\$ 6,297.87	\$ 16,397.87	\$ (10,100.00)
FD	004053	07-06-1990	\$ 2,643.87	\$ 68,929.34	\$ 2,643.87	\$ 68,929.34	12.036	\$ 57,300.28	\$ 92,943.40	\$ (35,643.12)
PD	005057	04-11-1995	\$ 3,360.57	\$ 87,614.79	\$ 3,360.57	\$ 87,614.79	8.544	\$ 105,452.67	\$ 182,123.75	\$ (76,671.08)
PD	005404	02-27-1997	\$ 1,627.69	\$ 42,436.27	\$ 1,627.69	\$ 42,436.27	16.531	\$ 17,225.53	\$ 13,412.79	\$ 3,812.74
PD	006879	05-06-2005	\$ 1,987.19	\$ 51,808.78	\$ 1,987.19	\$ 51,808.78	13.613	\$ 79,121.15	\$ 27,197.46	\$ 51,923.69
<b>Totals</b>			\$ 11,177.58	\$ 291,415.33	\$ 11,177.58	\$ 291,415.33		\$ 265,397.50	\$ 332,075.27	\$ (66,677.77)

Prepared By: April White