



FROM	NAME & TITLE	Thomas P. Taneyhill, Executive Director
	AGENCY NAME & ADDRESS	Fire & Police Employees' Retirement System 7 E. Redwood Street, 19 th floor
	SUBJECT	City Council Bill 10-0571

CITY of
BALTIMORE
MEMO



TO

DATE:
July 23, 2010

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

Dear Mr. President and City Council Members:

City Council Bill 10-0571 (CC 571) amends provisions in the Fire and Police Employees' Retirement System (F&P) law recently changed by Ordinance 10-306 related to benefit and administrative provisions of the F&P plan.

Position of the F&P Board of Trustees

At their meeting of July 20, 2010, the F&P Board of Trustees reviewed CC 571 and the cost impact prepared by the F&P's actuary. The F&P Board found CC 571 to be administratively workable.

Summary of City Council Bill 10-0571 Proposals

CC 571 proposes changes to certain recently-enacted F&P benefit and administrative provisions. The proposed changes are as follows:

1. Age and service eligibility for normal retirement benefit

- Before July 1, 2010, the 20-year service requirement for an F&P normal retirement benefit required 10 years service as an F&P member.
- Ordinance 10-306 enacted a new 25-year service requirement for eligibility and provided that the eligibility for the normal retirement benefit be continuous service as an F&P member.
- CC 571 would remove the requirement that the service be continuous.
- CC 571 would also liberalize new 25-year service eligibility by requiring that only 15 of the 25 years be service as an F&P member and would allow purchased service to be used to satisfy the remaining 10-year requirement.

2. Grandfathering under Ordinance 10-306

- Ordinance 10-306 requires 15 continuous years of service as an F&P member for a member to be exempted, or “grandfathered”, from the new age and service requirements, the change in “average final compensation” and the DROP 2 eligibility change.
- CC 571 would remove the requirement that the grandfathered service be continuous.
- CC 571 would allow purchased service to be used to satisfy the 15-year grandfathering rule.
- CC 571 would also allow service purchases by December 31, 2010 to count for purposes of determining grandfathered status under Ordinance 10-306.

3. DROP 2 interest

- Ordinance 10-306 reduces interest rate on DROP 2 accounts from 5.5% to 3.0%.
- CC 571 would clarify that grandfathered members (i.e., members with at least 15 years of service as of 6/30/10) will continue to earn 5.5% interest.

4. F&P Board governance

- CC 571 would provide that a Deputy Fire Chief can act as the Fire Chief's designee on the F&P Board of Trustees.

Fiscal Note

Attached please find the July 19, 2010, cost impact prepared by F&P's actuary regarding City Council Bill 10-0571.

Essentially, the changes proposed by CC 571 would have a negligible cost to the City, if any. Most of the CC 571 proposals were already included in the approximately \$90 million FY 2011 normal cost funding contribution requirement for F&P. The City made an actual contribution of almost \$107 million on 7/1/10.

F&P reports service credit per member to the actuary. The service credit number provided by the actuary for the FY 2011 contribution included current service and purchased service. The actuary reports that he did not make a distinction between current service and purchased service in estimating the cost of the Ordinance 10-306.

The change to provide 5.5% interest, rather than 3.0% interest, on DROP 2 accounts for members who are grandfathered was also included by the actuary in costing Ordinance 10-306. The actuary had assumed that the change was going to be included in the ordinance even though it was not. So again, this change would have no impact on the City's cost.

The one exception is that the cost is unknown for those who will have the opportunity to purchase their previous service or transferred-in service prior to December 31, 2010 in order to attain "grandfathered" status. Those who do so will be included in the FY 2011 valuation.

If the 10-0571 proposals are not passed and the "continuous service" provision is maintained for eligibility, etc., then presumably the City's theoretical cost could decrease in future years. However, the reality is that with other probable changes in the F&P plan's covered population, etc, it will be hard, if not impossible, to determine what reductions would be attributable to the rollback to continuous service.

Abraham Schwartz, General Counsel to the F&P, will be available to provide testimony at the hearing for City Council Bill 10-0571. Please call me at 443-984-2800 or Mr. Schwartz at 443-984-2820, if you would like additional information.

TPT/dl
Attachment

Cc: Angela Gibson, Mayor's Legislative Liaison to the City Council
Board of Trustees of the Fire and Police Employees' Retirement System