



**City of Baltimore
Fire & Police Employees' Retirement System**

Actuarial Analysis

Presentation to Baltimore City Council

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Fire & Police Pension Actuarial Analysis

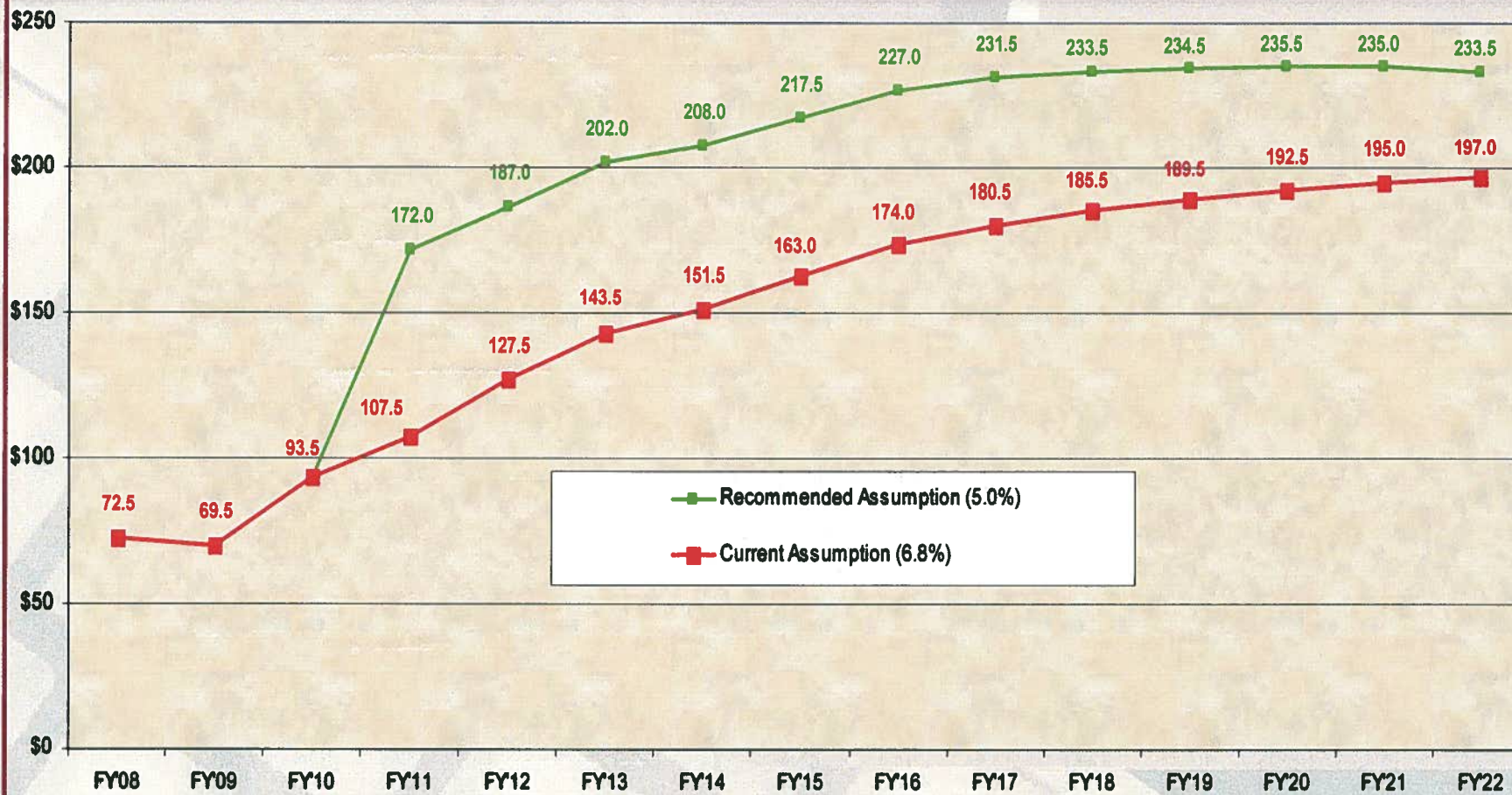
- Fund actuary's cost projections
- Based on financial evaluation, change is required
- Variable benefit
- Benefit adequacy
- Cost of alternatives
- Conclusions



Fund Actuary's Cost Projections

- 6.8% versus 5% post-retirement investment returns
- Actuary recommends 5% return assumption if variable benefit provided
- Statute is based on 6.8% return assumption
- City funds at 6.8% return assumption
 - Fund actuarial reports include these numbers
- Aon concurs that 5% return assumption more fairly represents cost of variable benefit

Illustration of Impact of Post-Retirement Return Assumption



Projections assume that actuarially required contribution is made each year plus an additional \$5.7 million until the BIF, ERF & MSF balance has been fully recognized.

Based on Financial Evaluation, Change is Required

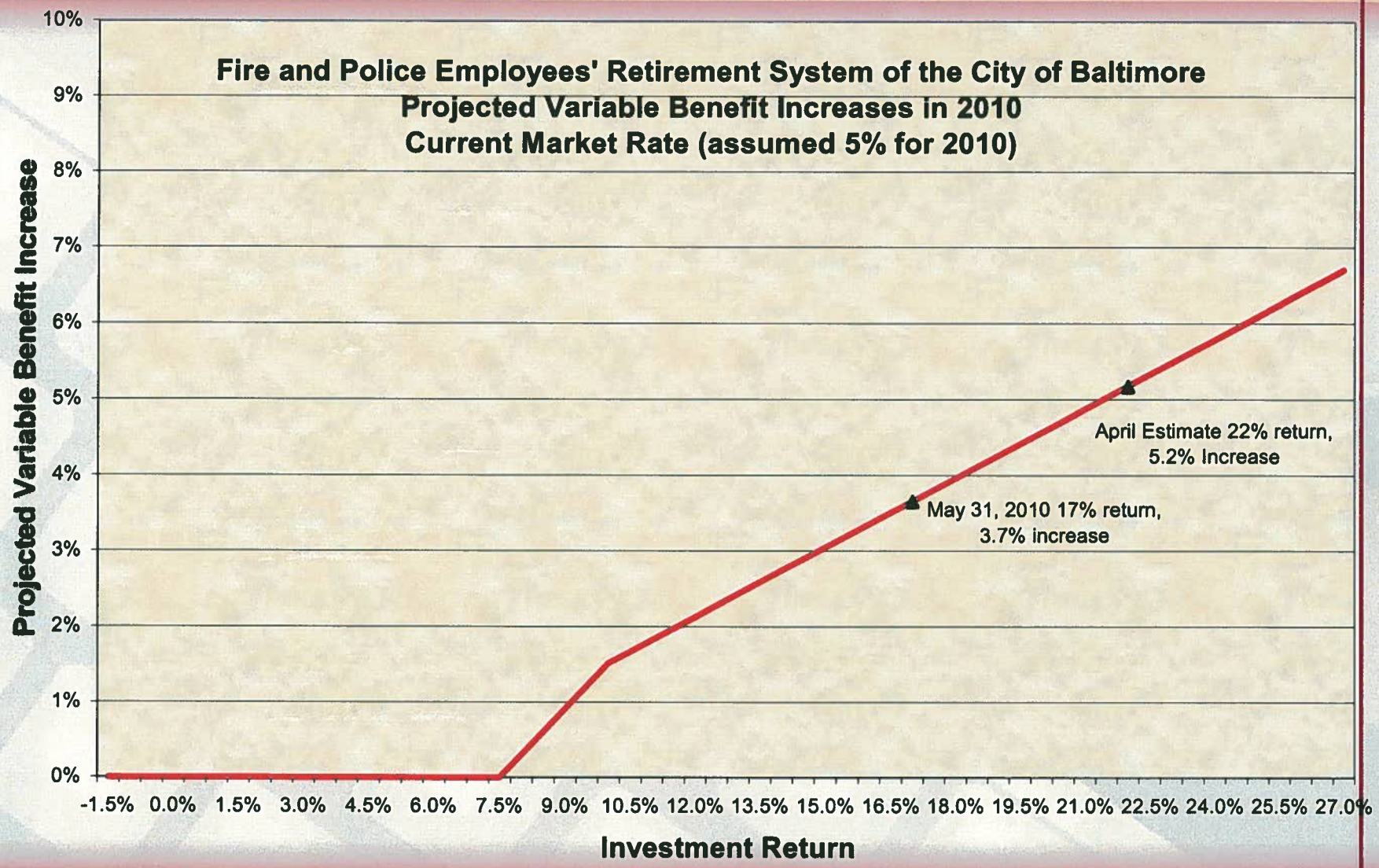
- \$61.9 million gap FY2011
- Grows to \$126.6 million FY2015
- Nearly \$1.3 billion cumulative 10 year gap



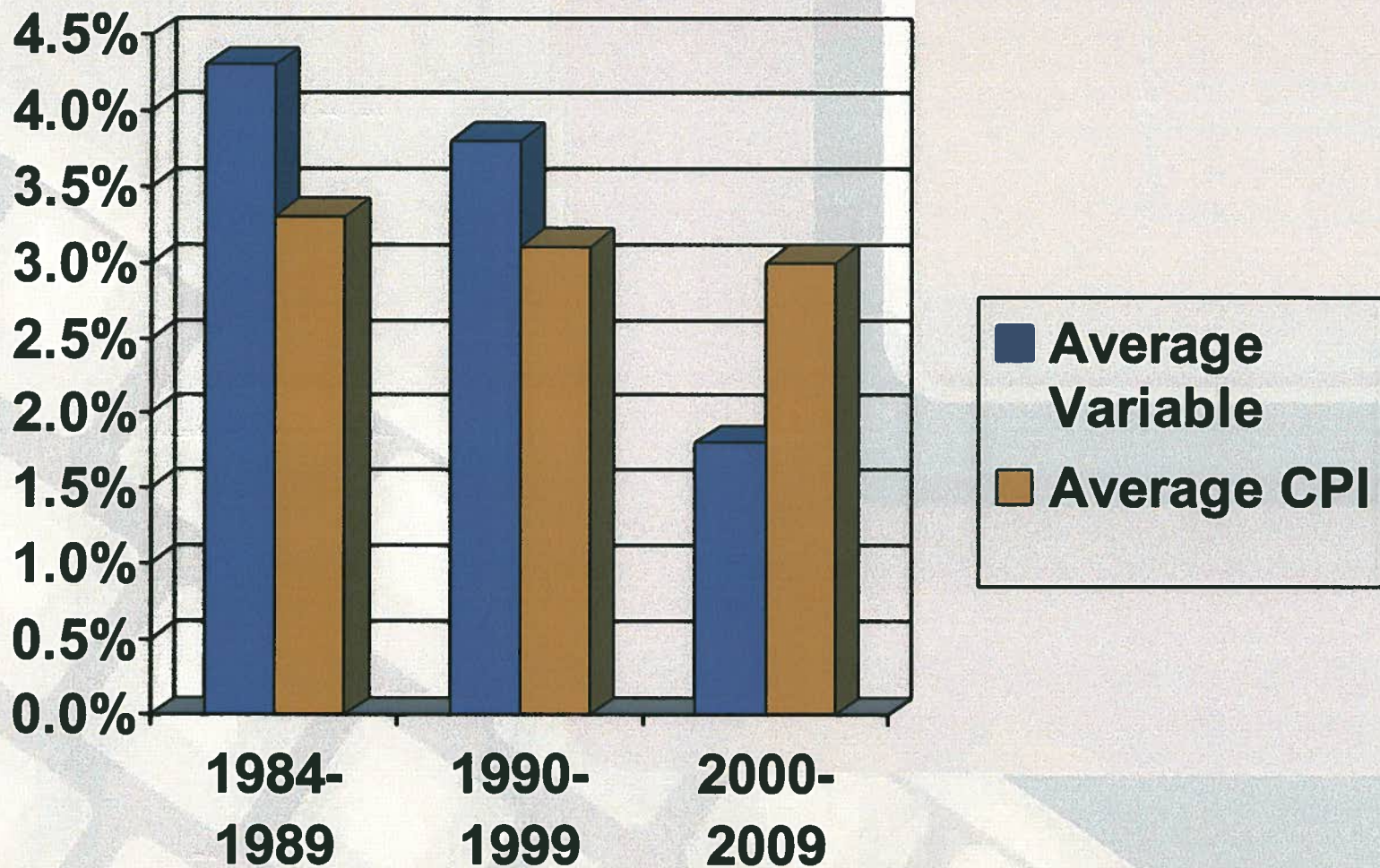
Variable Benefit

- Provides some cost-of-living protection
- Volatile & inconsistent
- But change in variable benefit doesn't fully solve financial constraints

Variable Benefit Drains Investment Gains

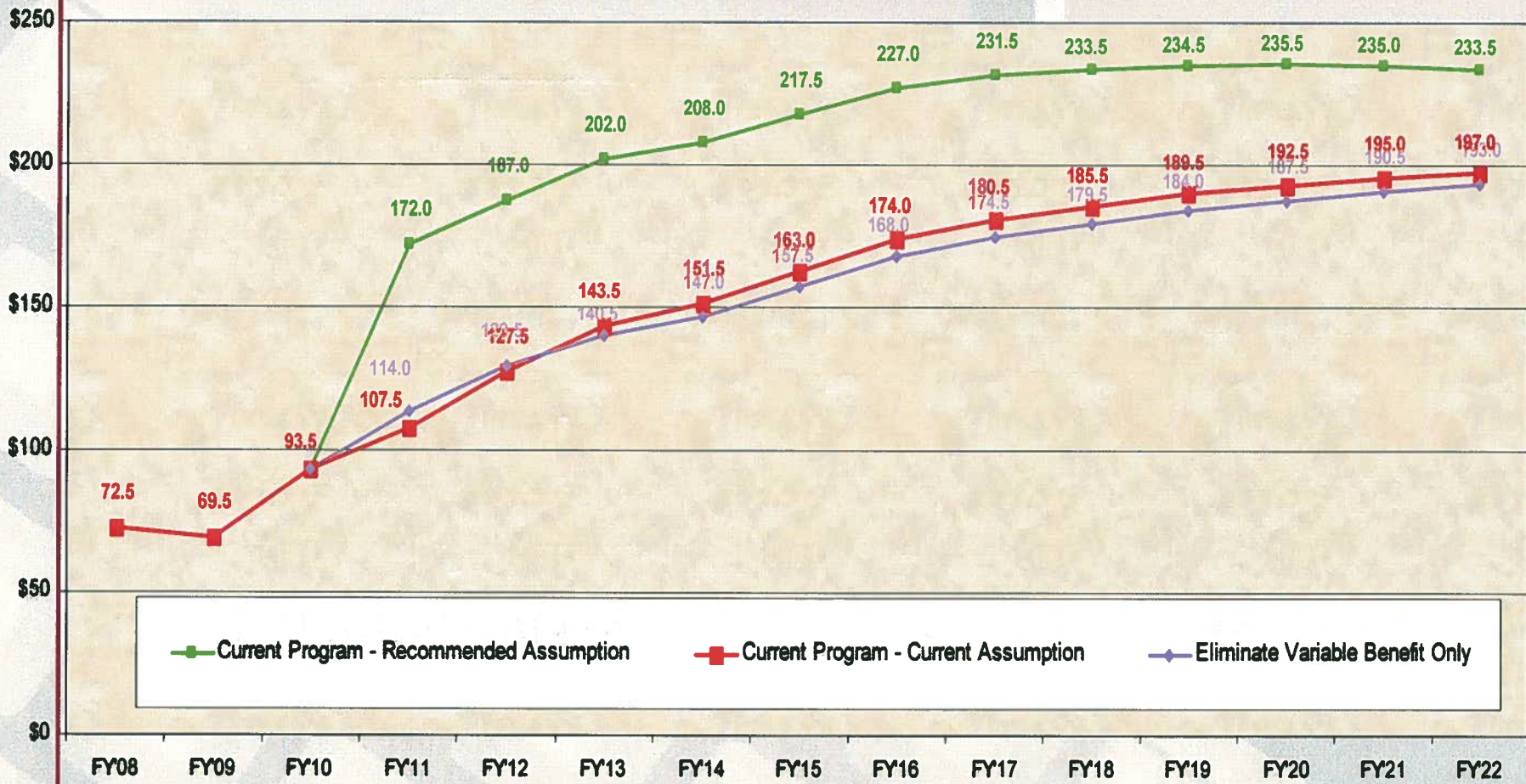


Variable Benefit Has Been Volatile and Inconsistent



Replacing Variable Benefit with Modest COLA Results in Status Quo Costs

BC FPERS Projected Contributions (\$millions)
 Assumes that actuarially required contribution is made each year plus an additional \$5.7 million until the BIF, ERF & MSF balance has been fully recognized.



Current Program Provides Appropriate Benefits for 30-Year Workers

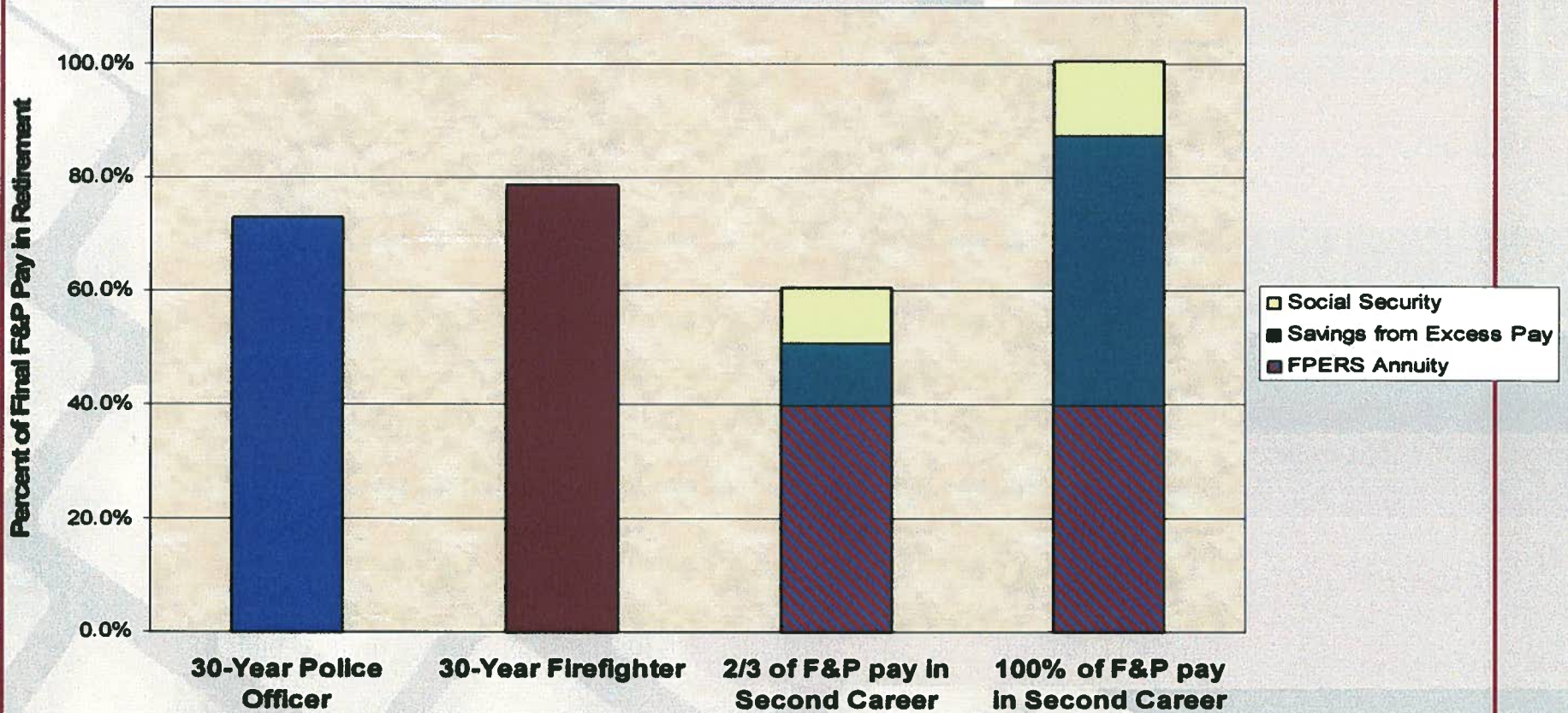
Illustrations of total retirement benefits for 30-year career
City of Baltimore Fire & Police employee



Calculation assumes career employee at average pay, electing a 3-year DROP2 benefit after 20 years of service with a final retirement after 30 years of service. Hire age - 27; retirement age - 57.

... but much larger benefits for 20-year dual-career workers

Total retirement benefits for 20-year City of Baltimore Fire & Police employee with a second 15-year career compared to full 30-year career employee



Calculation assumes employee at average pay, retirement from F&P plan after 20 years of service. Second career for 15 years at indicated percentage of F&P pay. Assumes that standard of living is maintained and any excess funds are saved for future retirement income. Also assumes that employee worked in a Social Security covered job for seven years prior to Baltimore F&P hire at age 27.

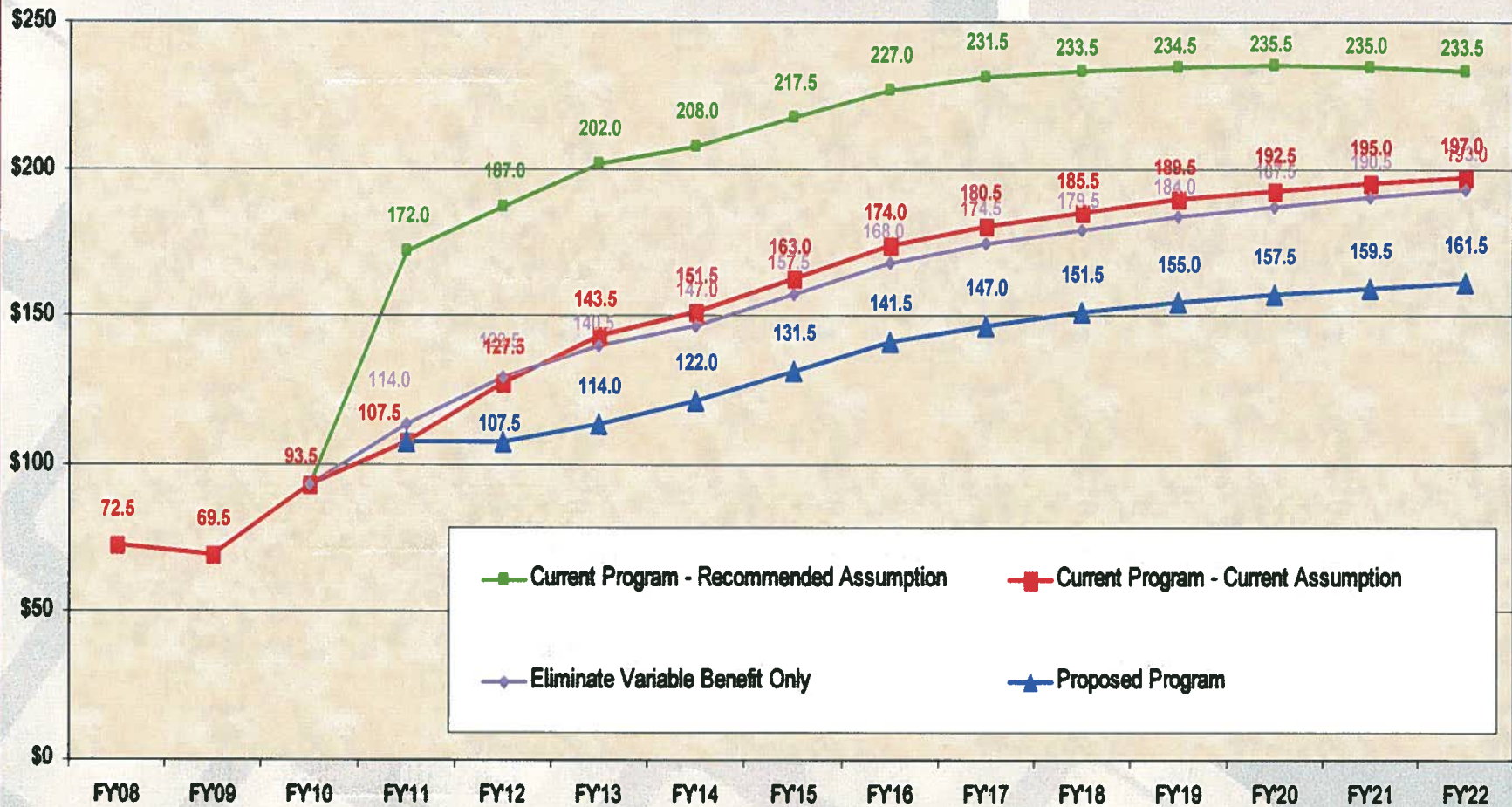


Proposed Program Changes

- **Maintain basic structure**
 - ❖ Defined benefit program
 - ❖ 2.5% first 20 years, 2.0% beyond
 - ❖ DROP
- **Require 25 years or age 55 & 15 years for full retirement**
 - ❖ Grandfather those with 15+ years at 7/1/2010
- **Exchange variable benefit for:**
 - ❖ Modest fixed COLA
 - ❖ Increased minimum pension
- **Average final earnings over 36 months**
- **Phased-in increase in employee contributions**

Illustration of Cost of Proposed Changes

BC FPERS Projected Contributions (\$millions)
 Assumes that actuarially required contribution is made each year plus an additional \$5.7 million until the BIF, ERF & MSF balance has been fully recognized.





Conclusions

- Proposed Program Affordable In Near Term
- Proposed Program More Actuarially Sound
 - Than Current Program
 - Than Union Proposal
- Proposed Program Provides Reasonable & Fair Benefits
- Proposed Program is Necessary
- Bill Includes Study For Additional Prospective Changes

Projected 5-Year Impacts

