

CONTRACTUAL PROVISIONS

§ 42. Contractual relationship.

Upon becoming either a Class A, a Class B or a Class C member of the Employees' Retirement System, or upon becoming a member of the Fire and Police Employees' Retirement System, established under this Article 22, such member shall thereupon be deemed to have entered into a contract with the Mayor and City Council of Baltimore, the terms of which shall be the provisions of this Article 22, as they exist at the effective date of this ordinance, or at the time of becoming a member, whichever is later, and the benefits provided thereunder shall not thereafter be in any way diminished or impaired.

(City Code, 1966, art. 22, §42; 1976/83, art. 22, §42.) (Ord. 64-426; Ord. 79-1055.)



Baltimore City Fire & Police

**2010 Funding Reform
Proposal and
Review of Bill 519**



2009 Union Funding Reform Proposal

1. Lower COLA (2%/2.5%)
2. Raise employee contributions gradually from 6% to 9%
3. Proper City Funding



2010 Union Funding Reform Proposal

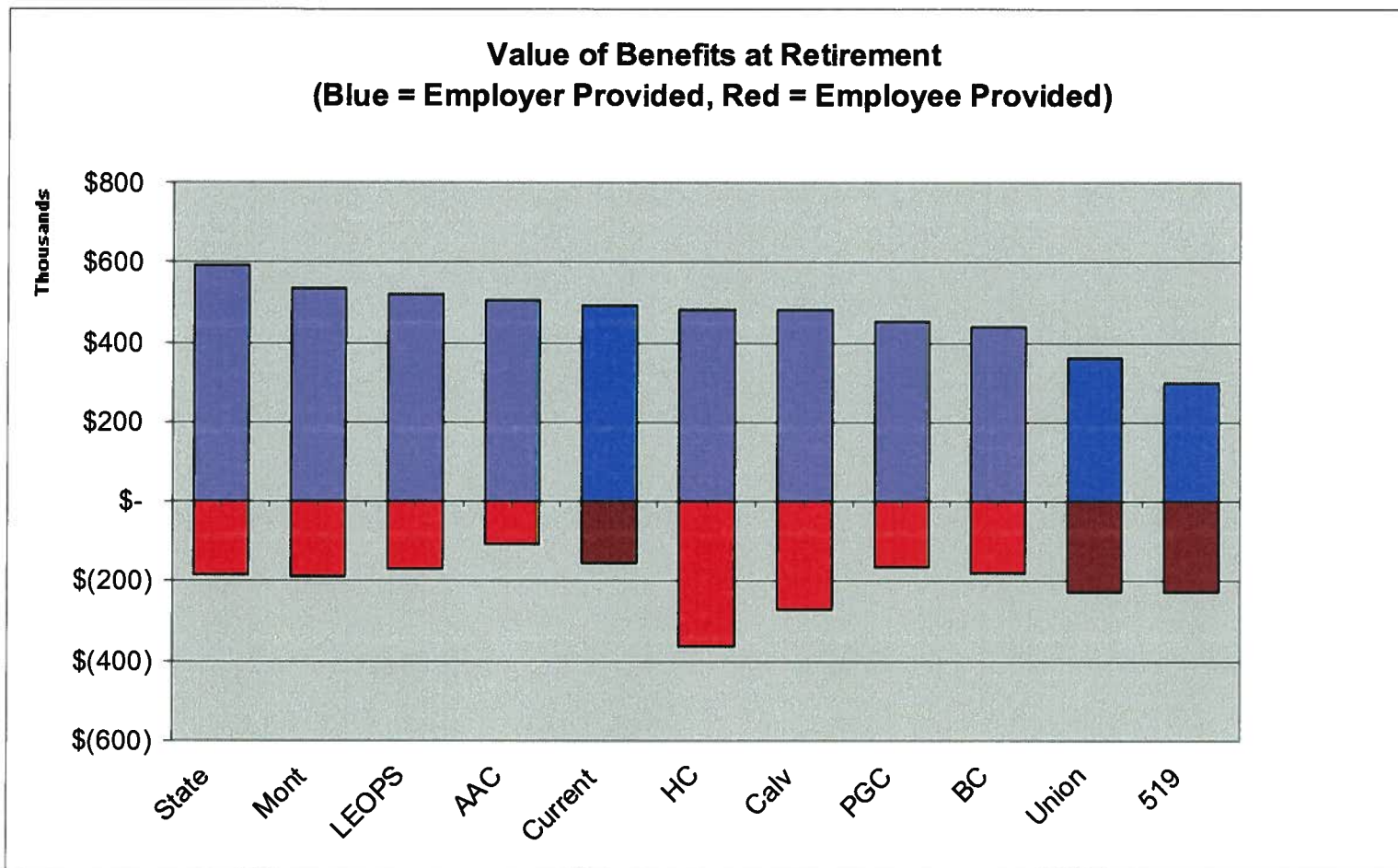
1. Lower COLA (2%)
2. Raise employee contributions gradually from 6% to 9%
3. Proper City Funding
4. Governance Improvements
5. Stay marginally competitive?
6. Study future changes (new hires and COLA)
7. Survivor Benefit changes for some current retirees



Staying Competitive

- Comparing Current plan to Bill 519 and union proposed amendments

Is the City Competitive? (at 50/25)





Key Issues

- 2% COLA from date of retirement (past VB = SS > 3%)
- Raise employee contributions
- Protect contract rights for 20 and out and 18 month average
- Make governance changes to avoid mistakes of the past
- Breaking contract vs. taking more time to fund Unfunded Liability
- Keeping 7.9% net return assumption or lowering to 7.65%



Union Proposal Cost Estimates (final estimates to be prepared by Board Actuary)

FY11 City contribution (in millions)

True FY11 cost =	\$165
Replace VB with 2% COLA =	(\$55)
Increase member contributions to 7% =	<u>(\$ 3)</u>
Net =	\$107
Add 75% survivor benefit for older retirees =	<u>\$ 5</u>
Net =	\$112
Adopt 30 year amortization = (optional)	<u>(\$ 15)</u>
Revised City cost for FY11 =	\$ 97



Forecast of Future years (FY12 and later)

- 6/30/09 unrecognized loss = \$816 (\$617 + \$199)
- FY10 gain if fund earns 24% = \$110 million for VB and \$90 for City UAL
- If we give all \$200 to City UAL, the 6/30/10 total loss = \$683
- ($\$816 \times 1.0825 - \$200 = \$683$ might be a better number)
- FY12 recognized loss = $20\% \times \$683 = \137
- \$97 FY11 contribution increases to $\$97 + 9.4 + 1 - 3 = \104 contribution for FY12
 - \$137 amortized over 30 years = \$9.4
 - 3% increase in prior amort. base = \$1
 - Increase member contributions to 8% = \$3

- **FY12 = \$104**
- **FY13 = \$113**; similar trend as FY11 to FY12.
- **FY14 = \$122**, no more employee contribution increases.
- Could adjust for payroll increases but (1) likely to get salary gains in UAL and (2) total payroll not expected to increase for a few years.
- Could adjust for lower benefits for new hires.



Governance

- Trustee independence changes: Rotate actuary and auditor. Independent auditor, actuary and attorney.
- Actuary and accountants to follow ASOPs and GASB standards
- Annual funding report to Judge until 80% funded on market value of assets.
- Additional union Board members.
- Commissions to study provisions for new hires and to study COLA increases.



Notes:

- \$55 million is based on Mercer's 10/13/09 letter adjusted to reflect undisclosed reduction in interest rate assumption. A portion of the Contingency Reserve Fund will be utilized to correct prior underpayments in 2006 – 2008 for retirees.
- COLA moved from January to July payment dates with first payment July 2011.
- Increase employee contributions from 6% to 7% (7/1/10), 7% to 8% (7/1/11), 8% to 9% (7/1/12).
- Increase survivor benefit from 50% to 75% for those retired or died before 7/1/1996.
- An actuary could reasonably conclude that, given the termination of the Variable Benefit, the extraordinary losses of the last few years, and the Commission to study provisions for new hires, an adjustment to 30-year amortization is not imprudent. The figures above are based on 30-year amortization, level percentage of pay amortization (3% increase per year).
- No lowering of 7.9% net interest assumption (8.25% less 0.35%) to 7.65% as in existing bill.



GASB Survey of Interest Rates (GASB December 2007 Survey)

Discount Rate (Values in %)

	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>
Average	7.93	7.95	7.95	7.99	8.03	8.05	8.05	8.02	7.98	7.99
Median	8.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00
Min	5.00	5.00	5.00	6.50	6.50	6.50	6.50	6.50	5.40	6.00
Max	9.00	9.00	9.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00
Sample Size	83	102	106	112	128	140	147	154	160	163



Amortization Method (GASB 2007 Survey)

	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>
Level % of Payroll	57	77	79	79	92	99	100	107	107	109
Level Dollar	8	13	16	18	20	25	28	31	35	33
Other	0	2	2	3	1	3	2	2	2	2
Sample Size	65	92	97	100	113	127	130	140	144	144



Amortization Period (GASB 2007 Survey)

Values in Years	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>
Average	23.55	21.47	20.80	20.55	20.85	20.68	24.59	23.98	24.64	24.32
Median	22.00	21.00	20.00	20.00	20.00	20.00	21.00	22.00	25.00	25.00
Min	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Max	50.00	43.00	57.00	47.00	40.00	50.00	100.00	100.00	100.00	100.00
Sample Size	71	94	97	100	117	127	133	141	144	146