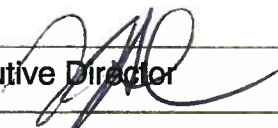


FROM	NAME & TITLE	N. Anthony Calhoun, Executive Director 
	AGENCY NAME & ADDRESS	Fire and Police Employees' Retirement System 7 E. Redwood Street, 18 th Floor
	SUBJECT	City Council Bill 14-0406 – Change to Grow

CITY of
BALTIMORE
MEMO



TO DATE: August 19, 2014

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

**Re: City Council Bill 14-0406 – Change to Grow: 10-Year Plan –
Fire and Police Employees' Retirement System –
Retirement Savings Plan**

Dear Mr. President and City Council Members:

City Council Bill 14-0406 has been introduced at the request of the Administration to amend the F&P law as well as Article 22A with the following changes:

Affected Members:

- The following provisions of the Bill would apply to all F&P members hired or rehired on or after January 1, 2015.

Changes to Article 22:

- The Bill would change the eligibility requirements for a service retirement to the following criteria:
 - 25 years of service and age 55, with at least 15 years as a contributing member to the defined benefit system; or
 - 10 years of service and age 60, with at least 6 years as a contributing member to the defined benefit system.
- In addition, the Bill would change the amount of the service retirement benefit a member may receive to the following formula:
 - 1.0% of the member's average final compensation for each year for the first 10 years of service, plus
 - 1.67% of the member's average final compensation for each year for the next 10 years, plus

- 1.33% of the member's average final compensation for each year for the next 10 years.

The maximum service retirement benefit that may be earned by a member is 40% of their average final compensation, regardless of the years of service credited beyond 30 years.

- The Bill would limit the early retirement eligibility date to no sooner than 5 years before the new eligibility for normal service retirement, and reduce the benefit by 0.5% per month for each month or fraction of a month by which the benefit commencement date precedes the date on which the member would have met the new eligibility requirements for normal service retirement.
- The Bill would change the contribution amount required by members under the defined benefit plan to 6% from 10%. It is noteworthy that, as discussed below, members would be required to contribute 4% to the defined contribution Retirement Savings Plan ("RSP").
- Under the Bill, F&P members would no longer be eligible to receive a job removal benefit or participate in DROP or DROP 2.
- The Bill would also create a new vesting provision which would allow a member to have a deferred vested interest in their defined benefit retirement after being credited with at least 10 years of service as a contributing member of the System.
- Furthermore, the Bill would institute an automatic payment provision for the deferred vested benefit. At the time that the member reaches the new eligibility requirements for a normal service retirement, the member would automatically begin receiving the maximum allowance under this provision.
- In addition, the Bill would change the factors used to calculate the non-line-of-duty disability retirement to conform with the new normal service retirement factors.
- The Bill would also change the eligibility requirements for members seeking to have military service credit to match the new service retirement eligibility requirements.
- Furthermore, the Bill would create provisions governing members who are re-employed on or after January 1, 2015 after previously becoming eligible for retirement.

Changes to Article 22A:

- The Bill would create new definitions of members and employees which would reflect that F&P members would be mandatorily required to be members of the

RSP. The Bill would add the Baltimore City Police Department and Fire Department as participating employers under the RSP.

- In addition, the Bill would require that F&P members (known as “uniformed members” under the RSP) commence participation in the RSP on the 30th day after employment or re-employment.
- Under the Bill, F&P members must contribute 4% of their income to the RSP, and their employers would match that 4% contribution.
- The Bill would change the makeup of the Board of Trustees for the RSP in the following ways:
 - The Executive Director of F&P would be added as a voting member.
 - The number of residents appointed by the Mayor as voting trustees would be reduced from 4 to 3.
 - The President of Baltimore Fire Fighters, Local 734, the President of Lodge No. 3, Fraternal Order of Police and the President of Baltimore Fire Offices, Local 964 would be added as non-voting trustees.

Actuarial Cost/Savings:

The Bill's provisions have been reviewed by Cheiron, F&P's actuary, and are expected to have no significant immediate cost impact to the City, as the City's current contribution and unfunded liability would not change as a result of the Bill's passage. Attached please find Cheiron's July 24, 2014 letter assessing the Bill's cost impact. According to Cheiron, any savings that do develop would do so slowly over time as new people are hired into the plan. The full long-term cost impact of creating the new hybrid plan will not be known until a substantial period has passed and the new hires replace the current active population. Cheiron notes that the analysis provided is not intended to be a complete actuarial analysis, which would presumably include various additional factors, such as the potential benefit of the insulation of the City from investment risk through the defined contribution component.

Administrative Feasibility:

F&P takes no position on the Bill, except to note that the provisions of the Bill would be administratively feasible.

I will be available to provide testimony at the hearing scheduled for CC Bill 14-0406. Please call me at 410.497.7929 if you would like additional information.

cc: Sheila Wyche, Mayor's Office of Government Relations (via email)