

Thomas P. Taneyhill

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 10-0519

CITY of
BALTIMORE
MEMO



TO

DATE: June 9, 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 10-0519 amends benefit and administrative provisions of the Fire and Police Employees' Retirement System (F&P). This bill was introduced following a study and recommendations made by the Greater Baltimore Committee.

Position of the Board of Trustees of the Fire and Police Employees' Retirement System

At their meeting of June 8, 2010, the F&P Board of Trustees reviewed City Council Bill 10-0519 and the cost analysis prepared by the F&P's actuary. The Board decided to take the position that it OPPOSES City Council Bill 10-0519 as written.

Fiscal Note

Attached please find the June 8, 2010, cost analysis prepared by the F&P's actuary regarding City Council Bill 10-0519. Exhibit 1 which follows page 8 of the analysis letter displays the total employer contribution requirements due to the F&P on July 1, 2010. The total contribution requirements include the contribution due from the City and a small contribution (approximately \$1 million) due from the State of Maryland. The State contribution covers certain membership to the F&P pursuant to State law. The following displays only the City's contribution requirement due to the F&P on July 1, 2010.

City contribution requirement based on current assumption rates and no changes made to the F&P benefit provisions: \$101.0 million

City contribution requirement based on lowering the post-retirement investment return assumption rate from 6.8% to 5.0% to continue the Variable Benefit provisions and no changes made to the F&P benefit provisions: \$164.9 million

City contribution requirement if all provisions of CC 10-0519 are passed: \$87.5 million*
*estimated

Please note the sentence in the middle of page 2 paragraph 3 of the actuary's June 8, 2010, cost analysis, in which the actuary states, "However, regardless of whether the benefit changes described in this letter occur, in the absence of significant actuarial gains, we expect contributions will increase dramatically over the short term."

Baseline projections prepared following the June 30, 2009, actuarial valuation report estimate that if no changes are made to the post-retirement investment return assumption or the plan provisions, contributions to the plan will increase from \$101 million per year to approximately \$165 million per year, in five years.

If the post-retirement investment assumption is lowered from 6.8% to 5.0% and no plan benefit changes are made, the baseline projections are that the contributions will increase from \$164.9 million per year to approximately \$220 million per year, in five years.

Summary of CC Bill 10-0519 proposals

City Council Bill 10-0519 proposes changes to the F&P benefit and administrative provisions. The proposed changes are the following:

1. Establish new **Normal service retirement** benefit eligibility requirements for members who will not have attained the current service retirement eligibility requirements or who will not have 15 or more years of continuous service as a contributing member of the F&P on or before June 30, 2010.

The **CURRENT** eligibility requirements for service retirement are:

- Members hired before 7/1/03, are eligible upon the **earlier** of age 50, regardless of years of service, or 20 years of service, regardless of age.
- Members hired on or after 7/1/03, are eligible upon the **earlier** of age 50 with at least 10 years as an F&P contributing member or 20 years of service of which at least 10 years must be as an F&P contributing member.

The **PROPOSED** eligibility requirements for **Normal service retirement** would be the **earlier of**:

- 25 or more years of continuous service as a contributing member of the F&P, or
- Age 55 and 15 or more years of continuous service as a contributing member of the F&P.

2. Establish a new **Early service retirement** benefit and eligibility requirements for members who will not have attained the current service retirement eligibility requirements or who will not have 15 or more years of continuous service as a contributing member of the F&P on or before June 30, 2010. This will allow members to retire after they attain the pre-June 30, 2010, service retirement eligibility requirements, but, before attaining the new **Normal service retirement** eligibility requirements, but, with a reduced benefit.

The **CURRENT** eligibility requirements for an **Early** service retirement are:

- None

The **PROPOSED** eligibility requirements for **Early service retirement** would be:

- Members hired before 7/1/03, who do not meet the service retirement eligibility requirements on or before June 30, 2010, or who do not have 15 or more years of continuous service as a contributing member of the F&P, may still retire with a reduced **Early service retirement** benefit upon attaining the **earlier** of age 50, regardless of years of service, or 20 years of service, regardless of age.
 - Members hired on or after 7/1/03, who do not meet the service retirement eligibility requirements on or before June 30, 2010, or who do not have 15 or more years of continuous service as a contributing member of the F&P, may still retire with a reduced **Early service retirement** benefit upon the **earlier** of age 50 with at least 10 years as an F&P contributing member or 20 years of service of which at least 10 years must be as an F&P contributing member.
3. Change the average final compensation calculation for members who will not have attained the current service retirement eligibility requirements or who will not have 15 or more years of continuous service as a contributing member of the F&P on or before June 30, 2010.

The **CURRENT** Average Final Compensation calculation is:

- Average of 18 consecutive months of a member's earnable compensation when the member's earnable compensation was the highest.

The **PROPOSED** Average Final Compensation calculation would be:

- Average of 36 consecutive months of a member's earnable compensation when the member's earnable compensation was the highest.

4. Change the eligibility requirements for DROP 2 participation for members who have not or will not attain the DROP 2 eligibility requirements or who will not have 15 or more years of continuous service as a contributing member of the F&P on or before June 30, 2010.

The CURRENT eligibility requirements to participate in DROP 2:

- For members who entered the F&P before July 1, 2003, 20 years of F&P service credit.
- For members who entered the F&P on or after July 1, 2003, and on or before December 31, 2009, 20 years of F&P service credit of which 10 years must be as a contributing member of the F&P.
- For members who entered the F&P on or January 1, 2010, 20 years of continuous service as a contributing member of the F&P.

The PROPOSED eligibility requirement to participate in DROP 2 for members who will not have attained the eligibility requirements or who will not have 15 or more years of continuous service as a contributing member of the F&P on or before June 30, 2010:

- 25 years of continuous service as a contributing member of the F&P

5. Increase the member contribution rate.

The CURRENT member contribution rate is 6.0% of regular compensation.

The PROPOSED member contribution rate would increase as follows:

- July 1, 2010: from 6.0% to 7.0%
- July 1, 2011: from 7.0% to 8.0%
- July 1, 2012: from 8.0% to 9.0%
- July 1, 2013: from 9.0% to 10.0%

6. Reduce the interest rate credited on member contributions.

CURRENT rate credited on accumulated member contributions: 5.5%

PROPOSED rate to be credited on accumulated member contributions: 3.0%

Lowering the interest rate on member contributions will not change the service retirement benefit that a member will receive.

Lowering the interest rate on member contributions will save when a member leaves City employment prior to retirement eligibility and is returned his/her member contributions and interest.

Certain lump-sum death benefits will be lower.

DROP 2 lump sum benefits will be lower.

7. Discontinue the current post-retirement benefit increase provisions (“variable benefit”) and replace the variable benefit with an annual increase based on having received F&P benefit payments for 2 or more years and having attained a certain age as of the June 30 determination date.

The CURRENT “variable benefit” provisions:

- provide increases to eligible retirees and beneficiaries when F&P investment performance as determined at each June 30 exceeds 7.5%
- when F&P investment performance as determined at each June 30 does not exceed 7.5%, eligible retirees and beneficiaries DO NOT receive an increase
- increases, if any, are paid as the same percentage to all eligible retirees and beneficiaries
- increases are paid beginning the January following the June 30 determination date
- retirees and beneficiaries must be receiving benefits for two or more years as of the June 30 determination date to be eligible for a variable benefit increase

The PROPOSED post retirement increase provisions:

- Retirees and beneficiaries must be receiving retirement benefits for two or more years as of the June 30 determination date
- Increases will be based on attained age as of the June 30 determination date
- Retirees and beneficiaries must meet the age requirements on their own
- Increases will be paid beginning the January following the June 30 determination date
- Members and beneficiaries less than age 55 receive no increase
- Members and beneficiaries who meet the 2 year benefit requirement and who have attained age 55, but, are less than age 65 receive a 1.0% increase
- Members and beneficiaries who meet the 2 year benefit requirement and who have attained age 65 receive a 2.0% increase
- No increase will be paid in January 2011
- Transfer the current variable benefit assets and liabilities to the “general” asset and liability accounts.

8. Increase the number of members on the F&P Board of Trustees.

The CURRENT nine member Board of Trustees is comprised of:

- The City Comptroller, ex-officio
- The Police Commissioner, ex-officio
- The Fire Chief, ex-officio
- 2 Mayoral appointees who are City residents, one of which must have banking or similar experience
- 2 retired members of the F&P, 1 Fire Department and 1 Police Department, each elected by the retired members of their respective departments
- 2 active members of the F&P, 1 Fire Department and 1 Police Department, each elected by the active members of their respective departments

The PROPOSED additions to the Board of Trustees are:

- The Director of Finance or his representative
- 1 Mayoral appointee to be selected from a list of 3 candidates submitted by the President of the City Council
- All Mayoral appointments shall possess professional expertise and may not engage in certain activities.

9. Change the F&P's investment assumption rate.

The CURRENT assumption rates are:

Pre-retirement assets:	8.25%
Post-retirement assets:	6.80%

The PROPOSED assumption rate: 8.0%

This is the most commonly used assumption rate by public pension plans. If the variable benefit provisions are changed as proposed, there will be no reason to maintain different assumption rates for pre-retirement and post-retirement assets.

10. Establish minimum benefit levels for certain retirees who retired or died prior to August 1, 1996 (pre-DROP) and their beneficiaries.

The CURRENT minimum benefits:

- No minimum benefits have recently been established.

The PROPOSED minimum benefits:

- \$24,000 annual benefit for any retiree who retired prior to August 1, 1996 and who had 20 or more years of service credit at retirement.
- \$12,000 annual benefit for any beneficiary of a member who retired or died prior to August 1, 1996 and who had 20 or more years of service credit at retirement or death.

Attached are:

- a) a schedule that compares the current F&P provisions to the proposed amendments;
- b) a schedule of past variable benefit increases; and
- c) a schedule of average variable benefit increases based on certain time periods.

I will be available to provide testimony at the hearing for City Council Bill 10-0519. Please call me at 443-984-2800 if you would like additional information.

TPT/dl
Attachments

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