

FIRE AND POLICE EMPLOYEES' RETIREMENT SYSTEM SUMMARY OF PLAN CHANGES MADE BY ORDINANCE 10-306

Changes to the F&P plan provisions made by the new ordinance have been kept to a minimum

- The percentage factors for each year of service remain the same for all members.
- For non-grandfathered members only, "average final compensation" changes to member's salary over 36 consecutive months during which pay was highest.
- For non-grandfathered members only, retirement eligibility changes to the earlier of: 25 years of service or age 55, with at least 15 years of service as a contributing F&P member.
- Non-grandfathered members can still retire at or after their former retirement eligibility date and receive a reduced early service retirement benefit.
- For non-grandfathered members only, DROP 2 eligibility changes to 25 years of service as a contributing F&P member.
- City Council Bill 10-0571, currently pending in the Baltimore City Council, would clarify that service for retirement eligibility and DROP 2 purposes does not have to be continuous.
- Employee contributions will increase by 1% in July over each of the next 4 years.
- Interest paid by the F&P on withdrawal of accumulated contributions and lump sum death benefits is reduced from 5.5% to 3.0% to reflect prevailing interest rates.
- Interest credited on DROP 2 accounts is reduced from 5.5% to 3.0%.
- Pre-employment military service eligibility requirements remain the same.
- The variable benefit retiree increase changes to a fixed 1% for eligible retirees and beneficiaries aged 55 to 64, beginning in Jan. 2012 (with no increase payable in Jan. 2011), and 2% for eligible retirees and beneficiaries aged 65 and older and for 100% line-of-duty disability retirees and their beneficiaries beginning in Jan. 2011.

Many members are "grandfathered" (exempted) from certain changes

- Members eligible for retirement with 20 or more years of service as of June 30, 2010, or members who entered the F&P prior to July 1, 2003 and attained age 50 as of June 30, 2010, are exempt from the retirement eligibility and "average final compensation" definition changes.
- Members with 15 or more years of service as of June 30, 2010, are exempt from the retirement eligibility and "average final compensation" definition changes, and are exempt from the DROP 2 eligibility changes.
- City Council Bill 10-0571, currently pending in the Baltimore City Council, would clarify that service for grandfathering includes purchased service and does not have to be continuous, and would exempt grandfathered members from the DROP 2 interest rate change.

Certain provisions have been improved

- The variable benefit retiree increase has been replaced with a more predictable fixed percentage increase that is guaranteed by the City.
- A minimum annual benefit of \$16,000 is payable to spousal beneficiaries of sworn members who, before August 1, 1996, retired or died in service with 20 or more years of service.
- Once eligibility has been attained for pre-employment military service, such service can be used to satisfy eligibility for a normal service retirement, DROP, or DROP 2.

Plan funding will be strengthened

- The City contributed approximately \$107 million on July 1, 2010, approximately \$17 million of which will be used to address the F&P's underfunding.
- The F&P will use conservative actuarial costing in order to relieve underfunding.
- The F&P will begin using a lower long term assumption that plan investments will earn 8.0% (instead of the current 8.25% interest rate) which will cost the City approximately \$10 million in additional annual contributions.