# FIRE & POLICE
# EMPLOYEES' RETIREMENT SYSTEM
## City of Baltimore, Maryland

# Comprehensive Annual Financial Report

A Component Unit of the
City of Baltimore, Maryland
Year Ended June 30, 2008

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City of Baltimore, Maryland
Year Ended June 30, 2008

Prepared by:
Thomas P. Taneyhill, CPA
Executive Director

David A. Randall
Accounting Manager

Fire and Police Employees' Retirement System
City of Baltimore, Maryland
Comprehensive Annual Financial Report
For the Year Ended June 30, 2008

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# Introductory Section


The Baltimore City Fire and Police Departments have formed a partnership to start a new Public Safety Training Facility at the former Pimlico Middle School in Northwest Baltimore. Fire and police trainees will use this facility for medical services training, as well as classroom and physical training. In-service training and other specialized training for veteran firefighters/paramedics and police officers will also be conducted at this new facility. The Baltimore City Fire and Police Departments are committed to improving their training to better protect and serve the citizens of Baltimore.

# Certificate of Achievement for Excellence in Financial Reporting

Presented to

## Fire and Police Employees' Retirement System, City of Baltimore, Maryland

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2007

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.

President

Executive Director

CITY OF BALTIMORE

SHEILA DIXON, Mayor

FIRE AND POLICE EMPLOYEES' RETIREMENT SYSTEM

THOMAS P. TANEYHILL, CPA, Executive Director
7 E. Redwood Street
19th Floor
Baltimore, Maryland 21202

December 30, 2008

The Honorable Members of the Board of Trustees
Fire and Police Employees' Retirement System
Baltimore, Maryland

The Fire and Police Employees' Retirement System of the City of Baltimore (F&P, Plan, System) has just completed its forty-sixth year of service to the uniformed officers of the Baltimore City Fire and Police Departments. On behalf of the dedicated staff that serves the System's membership, I am pleased to submit the Comprehensive Annual Financial Report of the F&P for the fiscal year ended June 30, 2008. The System's administration is responsible for both the accuracy of the data and the completeness of the presentation, including all disclosures. To the best of my knowledge and belief, the enclosed data is accurate in all material respects and is reported in a manner designed to present fairly the financial position and results of operations of the F&P. The F&P is a component unit of the City of Baltimore.

This report consists of five sections: the Introductory Section contains the Letter of Transmittal, the Chairman's Report, the identification of the Board of Trustees (Board), the Organization Chart, and the identification of the professionals who provide services to the Board; the Financial Section contains the Independent Auditor's Report, the Management's Discussion and Analysis, the financial statements of the System and certain required supplementary information; the Investment Section contains the Investment Advisor's Report on Investment Activity, Investment Objectives and Policies, Investment Results, various investment schedules, and a Schedule of Investment Professionals; the Actuarial Section contains the independent Actuary's Disclosure Certification, assumption tables, schedules of valuation data, and a Summary of Plan Provisions; and the Statistical Section includes data pertaining to active and retired members of the System and benefit expenses.

Established July 1, 1962, by City ordinance, the F&P is a defined benefit plan that covers all uniformed officers of the Baltimore City Fire and Police Departments. The plan also covers certain Maryland Aviation Administration firefighter/paramedics and certain Maryland Transportation Authority police officers. These State of Maryland employees were grandfathered into F&P plan coverage by State law.

All System-related administrative and benefit provisions are established by City ordinance, as contained in Article 22 of the Baltimore City Code, and may be amended only by the Mayor and City Council. The plan provisions provide a contractual relationship for the membership, unless specifically excepted, whereby benefits may not be diminished or impaired in any way.

The F&P provides normal service retirement benefits for members who attain age fifty, regardless of service, or who acquire twenty years of membership service, regardless of age. Employees who become members of the F&P on or after July 1, 2003, must have, in conjunction with the aforementioned, at least ten years of service as contributing F&P members. Coverage for line-of-duty disability benefits is immediate upon entry into the System. Disability benefits for non-duty-related injury or illness are provided after the attainment of five years of membership. Line-of-duty death benefits are provided upon membership for any member whose death results from an injury occurring in the actual performance of duty. After one year of System service, members are also covered for non-duty-related death benefits. Members who do not reach service retirement benefit eligibility remain vested only in their accumulated member contributions and interest credits, which are payable to the member upon termination from employment. A Deferred Retirement Option Plan (DROP) is available to members who attain twenty or more years of service. More complete information on DROP can be found in the Summary of Plan Provisions beginning on page 67.

**Major Initiatives**

The System's post-retirement increase provisions were the subject of review and discussion with the Board of Trustees. The System's actuary again reported to the Board that the post-retirement increase provisions allocate too many dollars away from the general asset pool in order to pay the increases and not enough assets remain to pay regular retirement benefits to members. The actuary warned that with lower long-term investment earnings expectations and increased volatility in the investment markets, the current post-retirement increase provisions will have a detrimental impact on the assets needed to pay regular plan benefits and, if not remedied, the provisions will substantially increase the City's annual required contribution.

The actuary presented alternatives to the Board which included lowering the assumed rate of return for post-retirement assets from 6.8% to 5% or amending the post-retirement provisions. Lowering the assumed earnings rate would increase the city's annual required contribution by $61.5 million per year, an amount unacceptable to the City Administration.

The actuary also presented new post-retirement increase criteria to the Board for consideration. Amendments to the current post-retirement increase provisions were drafted for review by the Board. The Board deferred submission of the amendments to the Administration pending receipt of a legal opinion rendered by the City Solicitor as to whether the proposed amendments violate the contractual relationship section of the plan provisions. The Administration, however, called for the proposed amendments and submitted them to the City Council on October 27, 2008. As of the date of this report, the Board has deferred submission of its report to the City Council on the proposed amendments pending receipt and review of the legal opinion.

A Retired Member Statement was initiated in January 2008. The purpose of the statement is to provide retirees, beneficiaries, students, and alternate payees, information regarding their current benefit amount as well as any annual increase provided from plan investment performance. In addition, health care deduction amounts required for federal income tax filing in accordance with the Pension Protection Act of 2006 were provided to eligible retired members. This statement will serve as a platform for providing additional demographic information to F&P benefit recipients.

**Financial Information**

This report has been prepared in accordance with the principles of governmental accounting and reporting promulgated by the Governmental Accounting Standards Board. The accrual basis of accounting is used to record assets and liabilities, revenues and expenses. Revenues are recorded when earned, regardless of the date of collection. Expenses are recorded when liabilities are incurred, regardless of when payment is made.

Accounting principles generally accepted in the United States require that management provide a narrative introduction, an overview, and an analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. The F&P's MD&A begins on page 18 immediately following the report of the independent auditor in the Financial Section of this report.

The System's administration is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the F&P are protected from loss, theft, or misuse and to ensure that adequate accounting data are compiled to allow for the preparation of financial statements in conformity with accounting principles generally accepted in the United States. The internal control structure is designed to provide reasonable, but not absolute, assurance that these objectives are met. The concept of reasonable assurance recognizes that the cost of a control should not exceed the benefits likely to be derived, and that the valuation of costs and benefits requires estimates and judgments by the System's management.

Sufficient internal accounting controls exist to provide reasonable assurance regarding the safekeeping of assets and the fair presentation of the financial statements and supporting schedules.

**Investments**

As provided for in the plan provisions, the Board of Trustees is authorized to invest the System's assets and to take appropriate action regarding the investment, management, and custodianship of plan assets. The investment responsibilities of the Board include establishing reasonable investment objectives, developing investment policy guidelines, selecting investment managers, and evaluating performance results to assure adherence to guidelines and the achievement of objectives.

An investment authority known as the "prudent person rule" governs the Board's investment of System assets. The "prudent person rule" establishes a standard for all fiduciaries, which includes anyone who has authority with respect to the fund. The "prudent person rule" states that fiduciaries shall discharge their duties solely in the interest of the plan participants and beneficiaries, and with the degree of diligence, care, and skill that prudent men and women would ordinarily exercise under similar circumstances in a like position.

The Board recognizes that the objective of a sound and prudent policy is to produce investment results that will preserve the plan's assets and maximize the earnings of the System consistent with its long-term needs. Through the diversification of plan assets over various investment classifications, the Board recognizes the need to maintain a balanced investment approach to not only maximize investment results, but to also reduce risk.

Fiscal year 2008 began with the subprime lending debacle which by year end impacted all investment classes. The Board's diversified investment allocation plan provided some relief as the System's fixed income, hedge funds of funds, and real estate portfolios provided positive performance to partially offset the negative performance from the domestic and international equity portfolios. The total fund rate of return for fiscal year 2008 was (7.0%) which provided quite a contrast to the fiscal year 2007 total fund rate of return of 19.8%. Even with the fiscal year 2008 negative performance, the System maintained first quartile rates of return of 7.6% over the past three years and 10.2% over the last five years.

**Plan Funding**

A ten-year history of the System's funding progress is presented on page 36. This schedule compares the actuarial value of assets to the actuarial accrued liability. This required schedule illustrates the System's funding method which smoothes the recognition of investment gains and losses by releasing net actuarial investment gains and losses at the rate of 20% each year to the actuarial value of assets. The smoothing method is employed so that the City's contribution remains stable as a percentage of member compensation and so that the City's required contribution to the F&P does not change dramatically from year to year due to investment market volatility. Because the actuarial value of assets excludes certain legislated actuarial reserves, as explained in the following paragraph, this schedule understated the funded status of the F&P when investment gains were realized and it now overstates the Plan funded status as realized investment losses were segregated and were not released to the actuarial value of assets according to the normal five year smoothing method.

In fiscal year 1996, the System's funding method was modified by legislation that established actuarial reserves in which "excess unallocated earnings" (gains and losses) were accumulated each year separate from the reserves maintained for funding purposes. The accumulated gains and losses were shared by the City and the members according to a formula in the provisions. Specific reserved investment gains could be utilized by the City to reduce or eliminate its required contributions to the F&P. Similarly, members could elect to utilize specific reserves to improve benefits. For the first several years, excess gains were accumulated which were utilized by the City to take contribution reductions and by the members to "purchase" benefit improvements. Beginning with fiscal year 2001 and through fiscal year 2003, losses were accumulated in the separate reserves due to the extraordinary downturn in the global equities markets. At June 30, 2005, net losses of $412.8 million were accumulated. The legislation that established the separate actuarial reserves had a June 30, 2005 sunset provision which required the Board of Trustees to apply the accumulated losses in accordance with an "appropriate asset valuation method." This caveat effectively removed the members from the sharing of the remaining losses which then became the responsibility of the plan and the City.

Since amortization of the accumulated losses has a direct impact on the contributions due from the City, the Board sought concurrence from the City administration on the period over which to amortize the accumulated losses. With the June 30, 2005 actuarial valuation, a ten-year amortization period was employed for the release of the accumulated losses to the actuarial value of assets. At June 30, 2008, $238.6 million of the accumulated losses remain in the segregated reserves and will be released to the unallocated earnings calculation at the rate of $39.8 million per year over the remaining six years of the amortization period.

The negative investment performance for fiscal year 2008 provided losses of $267.7 million, which will be released to the actuarial value of assets at the rate of $53.5 million a year for the next four years. The City administration remains dedicated to making the employer contributions necessary for the amortization of the accumulated losses.

**Independent Audit**

The Baltimore City Code stipulates that the Board of Estimates shall select an independent auditor for the F&P and that the auditor shall report his findings annually to the Board of Estimates and to the Board of Trustees. The Board of Estimates elected to have the City Auditor render his opinion as to the fairness of the System's financial statements. The auditor's report is contained in the Financial Section of this report.

**Professional Services**

The Board of Trustees appoints consultants and investment managers subject to approval by the City's policy making and approval body, the Board of Estimates. These professionals have been chosen based on their ability to provide services that are essential to the effective and efficient operation of the System. All of the professionals who provide service to the Board of Trustees are listed in the Introductory Section on page 14 and in the Investment Section on pages 53 to 55.

**Certificate of Achievement**

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Fire and Police Employees' Retirement System, City of Baltimore, Maryland for its comprehensive annual financial report for the fiscal year ended June 30, 2007. This was the twenty-fifth consecutive year (fiscal years 1983-2007) that the F&P has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a governmental unit must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both accounting principles generally accepted in the United States and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. I believe that this current report continues to meet the Certificate of Achievement Program requirements. I am submitting it to the GFOA to determine its eligibility for another certificate.

**Acknowledgments**

The preparation of this report could not be accomplished without the dedicated efforts of the System's Accounting staff, investment advisor, and actuarial consultant. I would like to express my appreciation to all who assisted and contributed to its preparation.

This report is intended to provide complete and reliable information as a basis for making management decisions, as a means of determining compliance with legal provisions, and as a means for determining responsible stewardship for the assets contributed by the members and the City of Baltimore.

This report is being forwarded to the Mayor, the President of the City Council, the Comptroller, and other members of the Board of Estimates, to all members of the City Council, and to the Fire and Police Departments so that all members of the F&P will have the opportunity to review it. Hopefully, the administration of the City and the membership of the System will find this report both informative and helpful.

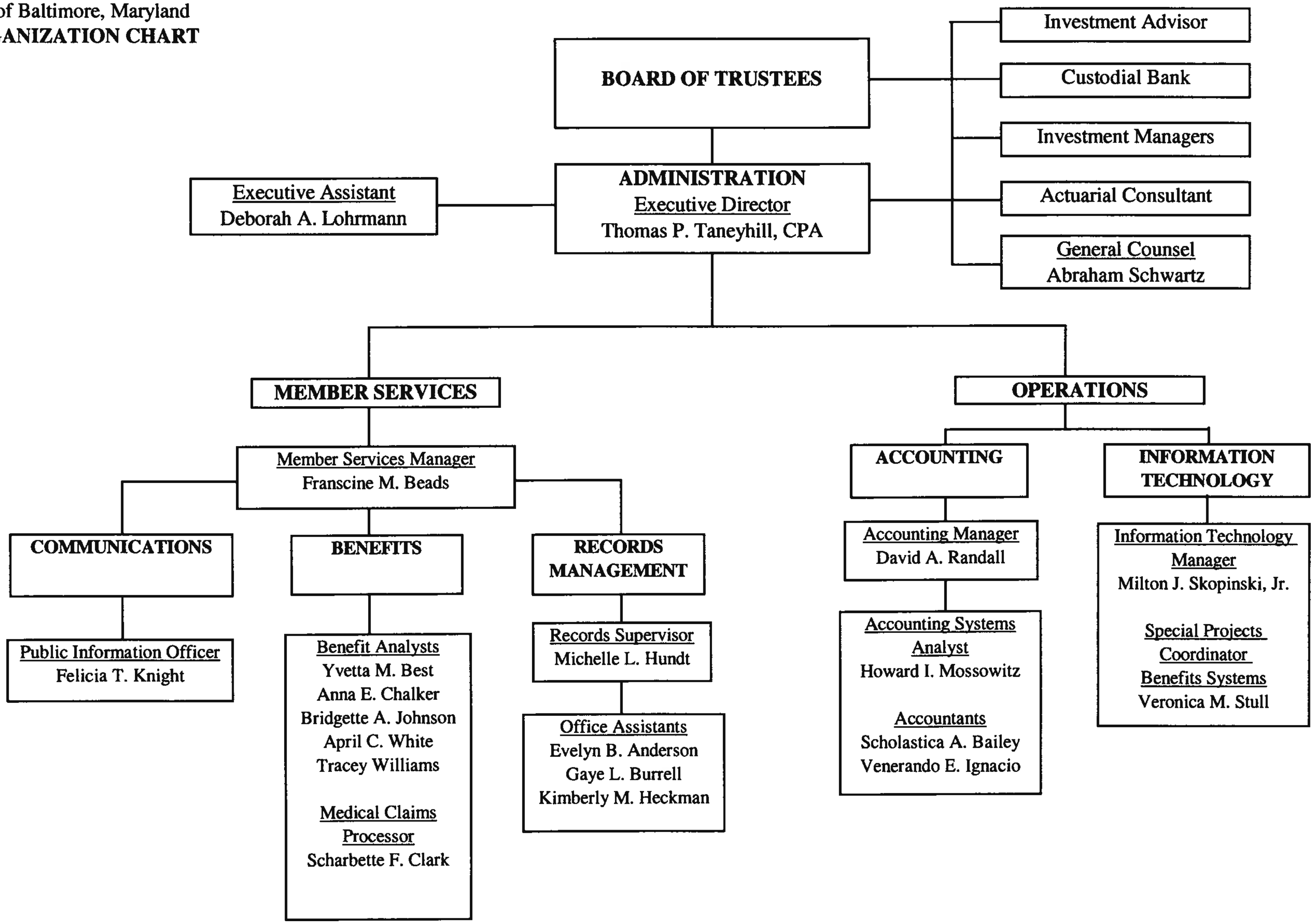
I would like to take this opportunity to express my gratitude to the Board of Trustees, the F&P's dedicated staff, the System's consultants, investment managers and advisors, all of whom continue to work diligently to assure the successful operation of the System.

Respectfully submitted,

Thomas P. Taneyhill

Thomas P. Taneyhill, CPA
Executive Director

Fire and Police Employees Retirement System
City of Baltimore, Maryland
**ORGANIZATION CHART**



Fire and Police Employees' Retirement System
City of Baltimore, Maryland
**BOARD OF TRUSTEES**



The ex-officio members to the Board are the City Comptroller, the Police Commissioner and the Fire Chief, all of whom may appoint a Deputy to represent her or him on the Board. Elected active and retired member Trustees serve four-year terms. There are no term limits for elected Trustees. Trustees appointed by the Mayor serve terms concurrent with the Mayor's term. Appointed Trustees continue to serve until replaced by the Mayor, or until the expiration of two consecutive full terms. The Board Chairman, Vice-Chairman, and members of the Investment Committee are elected by the members of the Board of Trustees.

CITY OF BALTIMORE

SHEILA DIXON, Mayor

FIRE AND POLICE EMPLOYEES' RETIREMENT SYSTEM

THOMAS P. TANEYHILL, CPA, Executive Director
7 E. Redwood Street
19th Floor
Baltimore, Maryland 21202

December 13, 2008

To All Members, Retirees, and Beneficiaries
Fire and Police Employees' Retirement System

This Annual Report marks the ninth year that I will have offered my thoughts and observations of the fiscal year just passed on behalf of the Board of Trustees as related to the Fire & Police Employees' Retirement System activities and performance. Ordinarily, this would be a rather mundane, somewhat predictable recitation of twelve months of Board activity and a summary of Fund performance documented in much greater detail in the pages to follow. There is indeed a traditional format to follow in preparing this Chairman's letter and it is typically wise not to venture into the area of personal judgment, predictions, or mention of anything potentially controversial. I cannot, however, be constrained by political considerations or concern for my commentary to be either misunderstood or exaggerated and I feel compelled to be candid and forthright.

What a difference a year makes! On this page last year, it was my pleasure to advise our Plan participants that our Fund had closed the fiscal year with a positive return of 19.8 percent placing us in the top ten percent of U.S. Public Pension Funds. This year, however, we ended our fiscal year reporting period on June 30, 2008 with a negative total fund return of 7.4 percent, for an investment return turn-around of more than twenty-seven percent! We find no comfort in the knowledge that our reversal of fortune is a common theme in the Public Pension Fund universe and that our precipitous fall is only slightly more or less than that of our peers. Surely, 7.4 percent is not the steepest one year decline our Fund has ever experienced and as recently as Fiscal Year 2002, a loss of 8.6 percent followed a Fiscal Year 2001 decline of 6.7 percent. Those back-to-back negative year losses eclipsed that of Fiscal Year 2008 significantly, but there are other forces at work not the least of which is the rather fragile nature of U.S. and Global markets and economies.

Though the legislation was filed after the close of the fiscal year represented in this report, dramatic change to the Variable Annuity structure of post-retirement benefit increases has been proposed and neither the alleged effect of the current structure nor the impact of the proposed changes can be ignored. The trends in demographics and average annual benefits continue with the number of retirees and beneficiaries steadily increasing along with average annual benefits earned while the number of active participants remains stagnant. What has long been viewed as a "drag" on the Plan appears to have turned the corner and though the DROP benefit is still not "cost-neutral", the benefit of extended careers is coming to fruition. In the atmosphere of positive U.S. and Global investment markets, perhaps all of these factors would be insignificant or absorbed by positive returns but such is not the case and the future appears to be no less troubling.

Though the market returns reflected in this report are disconcerting, they are but the tip of the iceberg and we cannot limit our scope of review to a fixed date and ignoring the reality of today. If the calendar year were to end at this writing, the only year in history with higher market losses was 1931. Granted, the bulk of the recent pain occurred after the close of Fiscal Year 2008 but while an annual "snapshot" view of Fund solvency is appropriate for reporting purposes, the investment holdings and strategies do not react to the turn of the calendar. So, what is it that the Board of Trustees can do to help turn things around?

To All Members, Retirees, and Beneficiaries
Fire and Police Employees' Retirement System

December 13, 2008

Trust me when I say that no one group of people is more directly and deeply affected by the underperformance of our Fund than the Board of Trustees, our Executive Director, Thomas Taneyhill, and our Fund Consultant, Daniel Holmes and we are ALL single-focused on improvement. If one were to compare the strategies and holdings in this report to that in the previous Annual Report, it would become quite apparent that the dramatic decline was not the result of poor investment decisions but of previously well performing investments reversing course in reaction to market forces. One might also argue that the role of the Board is to avoid such losses but it is not as simple as moving the pieces on a chess board and is not as easily predictable as perfect hindsight might suggest. Movement into and out of any strategy takes time and includes inherent transitional costs. Market-timing is a game for fools and one that our fiduciary duties would clearly prohibit, knowing the likelihood of more significant losses not to mention the potential legal consequences and/or liability.

We have, in fact, made the appropriate, albeit marginal, changes with the termination of underperforming money managers including one headquartered right here in Baltimore so it is not a matter of sticking with a manager for any reason other than performance. One of the common retorts in the consideration of terminating a previously high-flying money manager is that if they haven't deviated from the strategies and themes for which they were initially hired, they "didn't get dumb overnight". Surely, the Board of Trustees must accept whatever criticism might come our way but it is essentially the same group that helped grow our Fund to $2.4 billion and move into the top echelon of U.S. Public Pension Funds. So what does the future hold?

A November 24, 2008 press release by the National Institute on Retirement Security stated the following: "A new analysis of public pension investment data indicates that public plans exhibit prudent investment behavior - even during volatile market conditions." That commentary referenced the results published in their report "In it for the Long Haul: Investment Behavior of Public Pensions" that found the "hold" strategy of public pension funds to be the most prudent approach regardless of current market conditions. Dismal as things might appear at present, history has shown that seventy cents of every dollar paid in public pension benefits is derived from investment returns there is no good reason to believe that will not hold true in the future as well. "The future" in public pension fund terms has a twenty-year horizon and I believe that whoever is writing this letter in twenty years will be reporting much better news.

As always, I will close by thanking a former Board member for his dedicated service and welcoming his replacement to the Board. Recently retired Deputy Chief Gregory B. Ward has been replaced by newly appointed Assistant Fire Chief, Joe T. Pryor who has come to Baltimore by way of the Miami-Dade County Fire Department. Chief Pryor will serve on behalf of the also newly appointed Chief of Fire Department, James S. Clack who comes to Baltimore by way of the Minneapolis Fire Department. Welcome to Baltimore to both Chief Clack and Chief Pryor and we look forward to Chief Pryor's contributions as a member of the Board of Trustees. I reported last year on the departure of former Board member, Mr. Robert W. Schaefer, and lamented that his leaving the Board would leave something of a void. Mayor Dixon has not yet announced a replacement for Mr. Schaefer but I am very pleased to report that another Mayoral appointment, Mr. Peter E. Keith, Esq., has truly emerged as a genuine source of knowledge and expertise that we should all be very thankful for.

Sincerely,

Stephan G. Fugate
Chairman, Board of Trustees

**LEGAL AND GENERAL COUNSEL, ACTUARY, AND INDEPENDENT AUDITOR**

## LEGAL COUNSEL

Law Department
City of Baltimore
George Nilson, Esq.
Richard E. Kagan, Esq.

## GENERAL COUNSEL

Fire and Police Employees' Retirement System
City of Baltimore
Abraham M. Schwartz, Esq.

## ACTUARY

Mercer
Douglas L. Rowe, F.S.A.
Baltimore, Maryland

## INDEPENDENT AUDITOR

Department of Audits
City of Baltimore
Robert L. McCarty, Jr., CPA

See pages 53 to 55 in the Investment Section for a list of investment professionals.

# Financial Section

Baltimore City Firefighters/Paramedics put themselves in harm's way to protect and rescue the citizens of Baltimore. Each year the Baltimore City Fire Department gives back to the community by holding a Fire Thrill Show. The Annual Thrill Show is an event to educate the public in fire safety and prevention. Some of the fun activities provided for kids are shown here.

CITY OF BALTIMORE

SHEILA DIXON, Mayor

DEPARTMENT OF AUDITS

ROBERT L. McCARTY, JR., CPA
City Auditor

Room 321, City Hall
Baltimore, Maryland 21202
Telephone: 410-396-4783
Telefax: 410-545-3961

December 30, 2008

Honorable Joan M. Pratt, Comptroller
And Other Members of the
Board of Estimates of the
City of Baltimore
Board of Trustees of the
Fire and Police Employees' Retirement System

# INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying financial statements of the Fire and Police Employees' Retirement System of the City of Baltimore, Maryland , a component unit of the City of Baltimore, as of and for the year ended June 30, 2008, as listed in the table of contents. These financial statements are the responsibility of the Fire and Police Employees' Retirement System's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Fire and Police Employees' Retirement System's internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fire and Police Employees' Retirement System's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, based on our audit, the financial statements referred to above present fairly, in all material respects, the plan net assets of the Fire and Police Employees' Retirement System as of June 30, 2008, and the respective changes in plan net assets for the year then ended, in conformity with accounting principles generally accepted in the United States.

In accordance with *Government Auditing Standards*, we have also issued our report, dated December 30, 2008, on our consideration of the Fire and Police Employees' Retirement System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis, as listed in the table of contents, is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the Management's Discussion and Analysis. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Fire and Police Employees' Retirement System's basic financial statements. The introductory section, required supplementary information and supporting schedules, investment section, actuarial section and statistical section, as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The required supplementary information and supporting schedules have been subjected to the auditing procedures applied by us in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section, investment section, actuarial section and statistical section have not been subjected to the auditing procedures applied by us in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Robert L. McCarty, Jr., CPA
City Auditor

The following overview and analysis of the financial activities of the Fire and Police Employees' Retirement System (F&P, Plan, System) is provided for the fiscal year ended June 30, 2008. Readers are encouraged to consider the information presented here in conjunction with additional information furnished in the Transmittal Letter, which begins on page 5 of this report.

**Financial Summary**

- The net assets held in trust for pension benefits decreased by $191.4 million during the fiscal year from $2,343.1 million at June 30, 2007, to $2,151.7 million at June 30, 2008.
- The managed investment portfolio total rate of return for the fiscal year ended June 30, 2008 was (7.0)% which was below the total fund policy index of (4.1)% and the median public fund performance of (4.4)%.
- When compared to other public pension plans reported in the Independent Consultants' Cooperative Public Fund Universe, the F&P's investment performance for the one, three, and five year periods ended June 30, 2008 ranked in the 85th percentile, the 21st percentile, and the 16th percentile, respectively.
- The F&P's real estate composite led the fiscal year 2008 investment performance with a 7.2% rate of return, followed by the hedge funds composite with a 4.9% rate of return.
- The System's domestic and international equity portfolios returned losses of 17.1% and 6.1%, respectively, for the fiscal year ended June 30, 2008, as the fiscal year ended with emerging inflation and recession fears.
- The F&P's funding objective is to meet benefit obligations through employer and member contributions and by achieving an 8.25% investment rate of return over the long-term. As of June 30, 2008, the date of the system's last actuarial valuation, the System's funded ratio was 89.4% on an actuarial value of assets basis and 74.2% on a market value basis.
- Additions to Plan Net Assets (Revenues) for the year were a negative $6.2 million, a decrease of $429.6 million from the prior year revenues of $423.4 million. The negative revenues were the result of a down turn in the domestic and international equity markets.
- Following fiscal year-end, world-wide equity markets remained extremely volatile, the economic meltdown fueled by the credit crisis continued and led to the announcement of a recession.
- Deductions from Plan Net Assets (Expenses) were $185.2 million in the current year, an increase of $11.1 million from the prior year expenses of $174.1 million, which was driven by an increase in retirement benefit payments.
- Capital assets, which are recorded at cost, include capitalized costs relating to leasehold improvements, computer equipment and office furniture.

## Overview of Financial Statements

The following discussion and analysis are intended to serve as an introduction to the F&P financial statements and the Financial Section of this report. The statements and the notes are in conformity with accounting principles generally accepted in the United States. These principles require certain financial statement presentations and disclosures including the use of the accrual basis of accounting to record assets and liabilities, and revenues and expenses.

The **Statement of Plan Net Assets** provides a snapshot of the financial position of the F&P at June 30, 2008, the end of the plan's financial year. It indicates the total assets and total liabilities at June 30, 2008, and the net assets available for future payment of retirement benefits and operating expenditures. The assets comprise cash and cash equivalents, which are fixed income instruments with a two year or less maturity; receivables, which are from investment activity; investments at fair market value; securities lending collateral; and capital assets, which includes leasehold improvements, computer equipment, and office furniture. Securities traded on national or international exchanges are valued at the last reported sale price at current exchange rates. Purchases and sales of investments are recorded on a trade date basis. The fair value of real estate holdings is based primarily on appraisals by third-party appraisers. The liabilities comprise payables for securities lending collateral, certain investment activity, retirement benefits, lump sum distributions payable to members and administrative expenses.

The **Statement of Changes in Plan Net Assets**, on the other hand, summarizes the F&P financial activities that occurred during the plan's financial year from July 1, 2007 through June 30, 2008. Employer contributions are recognized when a formal commitment has been made by the employer to provide the contributions. Member contributions are recognized in the period in which the contributions are due. All investment gains and losses are recorded at trade date. Both realized and unrealized investment gains and losses are recorded. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan provisions.

The **Notes to the Basic Financial Statements** provide additional information that is essential to a full understanding of the data provided in the financial statements. The notes are an integral part of the financial statements and include detailed information not readily evident in the basic financial statements.

The Statement of Plan Net Assets and the Statement of Changes in Plan Net Assets can be found on pages 25 and 26 of this report.

The **Required Supplementary Information** that follows immediately after the notes to the basic financial statements provides two schedules illustrating ten-year historical trend information. The first schedule, concerning the funded status of the F&P, compares the actuarial value of assets to the actuarial accrued liability. The second schedule provides a history of required contributions made by the employer. See the Required Supplementary Information beginning on page 36 of this report.

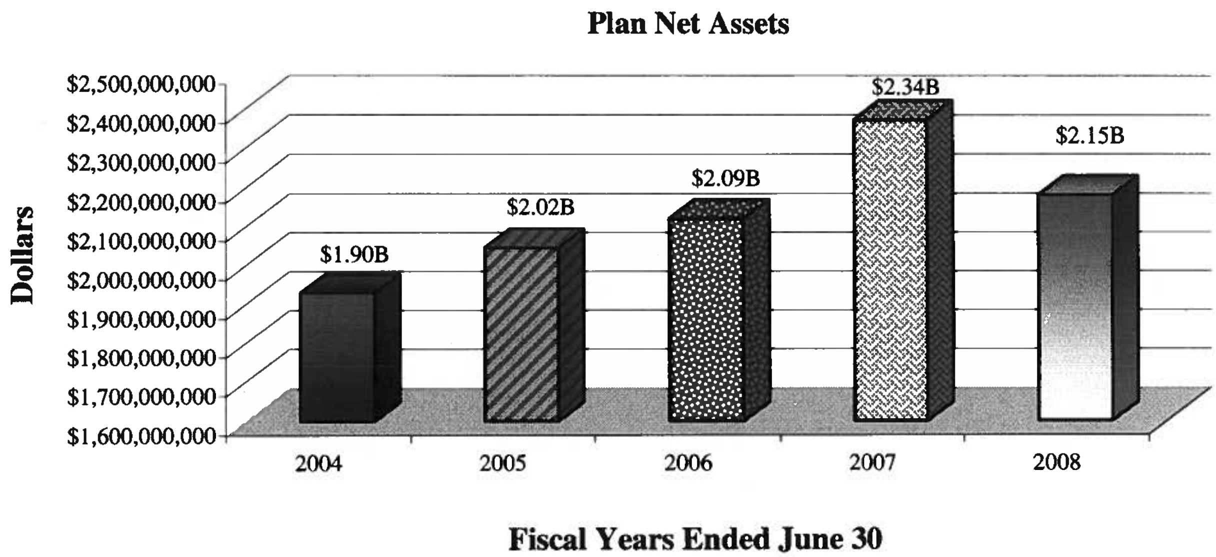
The remaining supplemental schedules provide additional detailed information concerning operating expenses, investment expenses and payments to consultants. All of this information is considered useful in understanding and evaluating the financial activities of the F&P.

**Financial Analysis**

The examination of plan net assets over time may serve as a useful indicator of the financial position of the F&P. At June 30, 2008, assets exceeded liabilities by $2.2 billion, a decrease of $191.4 million over the prior year. Assets of the Paid-Up Benefit Reserve and the Contingency Reserve, $483.0 million in total (see Note 3 to the financial statements), are segregated and separately invested from the general plan assets. The assets of these two reserves may only be utilized for the payment of certain post-retirement benefit increases. The remaining net assets of $1,668.7 million are available to meet the ongoing regular benefit obligations to the F&P participants and beneficiaries. As of June 30, 2008, total assets decreased by 13.8% over the prior year due to the decrease in the fair value of the System's domestic equity and international equity portfolios and plan benefit payments. Total liabilities decreased mainly due to investment activity.

**Plan Net Assets**
**For the Fiscal Years ended June 30, 2008 and 2007**

| | 2008 | 2007 | (Decrease) | Percentage Change |
|---|---|---|---|---|
| Current assets | $ 51,119,977 | $ 141,851,537 | $ (90,731,560) | (64.0)% |
| Capital assets | 1,583,785 | 1,705,614 | (121,829) | (7.1) |
| Investments at fair value | 2,413,189,853 | 2,715,648,436 | (302,458,583) | (11.1) |
| **Total Assets** | **2,465,893,615** | **2,859,205,587** | **(393,311,972)** | **(13.8)** |
| Current liabilities | 314,190,947 | 516,063,609 | (201,872,662) | (39.1) |
| **Total Liabilities** | **314,190,947** | **516,063,609** | **(201,872,662)** | **(39.1)** |
| **Net Assets** | **$ 2,151,702,668** | **$ 2,343,141,978** | **$ (191,439,310)** | **(8.2)%** |




**Investment Assets**

The F&P's net assets totaled $2.2 billion at the fiscal year ended June 30, 2008, and are allocated to two separate investment portfolios: the "managed" portfolio and the "dedicated" portfolio. The majority of the assets, $1,669 million, comprise the "managed" portfolio for which investment rates of return are calculated and tracked. The "managed" assets are allocated to various classes according to the Board's assets allocation targets, as reported in the financial section of this report, and are measured against benchmarks established for the management style within the particular asset class. The composite rate of return for the "managed" portfolio is calculated and is disclosed throughout this report.

The remainder of the assets, $483 million as of June 30, 2008, are separately invested from the Board's asset allocation targets and are managed in fixed income portfolios dedicated to immunize certain post-retirement increase liabilities. The Board's policy is to conservatively invest the dedicated assets in fixed income securities that are managed to match the payout streams of the post-retirement increases. These benefit increases are not guaranteed by the City and the Board has chosen to immunize those benefit payments to assure their continuation. Since the "dedicated" portfolio is managed to immunize the benefit liabilities and it is not managed to the Board's general asset allocation, the rate of return for those assets is not included in the rates of return disclosed in this report. However, the "dedicated" assets are included and reported in the System's financial statements along with the "managed" assets.

All investments are stated at fair value rather than at cost and include the recognition of unrealized gains and losses in the current period. The rate of return on "managed" assets for the year ended June 30, 2008 was a negative 7.0%, which is directly attributable to the down-turn in the domestic and international equity markets. The total portfolio annualized rates of return for the last three-year, five-year, and ten-year periods ended June 30, 2008, were 7.6%, 10.2%, and 5.4% respectively. The diversification of the F&P's "managed" assets across multiple classes and strategies seeks to lower investment risk and maximize opportunities to achieve the Board's investment objectives to fund plan benefits and reduce required employer contributions. The F&P's long-term actuarial investment return assumption is 8.25%.

The F&P invests in domestic and international equities, domestic fixed income, hedge fund of funds, private equity fund of funds, and real estate limited partnerships. The System also participates in a securities lending program that is managed by the System's custodian bank. External investment management firms selected by the Board of Trustees and approved by the Board of Estimates, the City's policy making body, manage all assets. BNY Mellon Asset Servicing, the F&P's custodian bank, holds all marketable securities in custody.

Beginning on page 42 of this report, the Investment Section gives detailed information on the F&P investment policies. See page 49 for the comparison of the "managed" asset allocation targets established by the Board of Trustees to the actual asset allocation at June 30, 2008.

**Liabilities**

The current liabilities are payables incurred mainly by the transaction activity of the investment assets, the lump sum benefits payable to members, and the operating expenses of the F&P office.

**Changes in Plan Net Assets**
**For the Fiscal Years Ended June 30, 2008 and 2007**

| | 2008 | 2007 | Increase (Decrease) |
|---|---|---|---|
| **Additions** | | | |
| Net investment income | $ (97,529,998) | $ 347,068,360 | $ (444,598,358) |
| Employer contributions | 72,687,585 | 60,128,727 | 12,558,858 |
| Member contributions | 16,547,425 | 15,438,649 | 1,108,776 |
| Net securities lending income | 2,049,347 | 756,603 | 1,292,744 |
| **Total Additions** | **(6,245,641)** | **423,392,339** | **(429,637,980)** |
| **Deductions** | | | |
| Retirement allowances | 166,119,977 | 155,639,508 | 10,480,469 |
| Lump sum DROP payments | 14,118,642 | 12,950,280 | 1,168,362 |
| Administrative expenses | 3,264,028 | 2,818,795 | 445,233 |
| Refunds of member contributions | 1,627,871 | 2,007,222 | (379,351) |
| Death benefits | 63,151 | 721,942 | (658,791) |
| **Total Deductions** | **185,193,669** | **174,137,747** | **11,055,922** |
| **Net Increase (Decrease)** | **$ (191,439,310)** | **$ 249,254,592** | **$ (440,693,902)** |

**Investment Income**

In general in fiscal year 2008, the international equity markets out-performed (albeit less poorly) the U.S. equity markets and global emerging markets outperformed all equity markets by a substantial margin. In the domestic markets, large cap growth stocks outperformed large value growth stocks, and large cap stocks outperformed (again albeit less poorly) small cap stocks. The equity markets suffered one of the worst losses in the month of June 2008 with the S&P 500 down 8.4% and the MSCI EAFE index down 8.2%. Domestic high yield fixed income securities lost their attraction and under performed U.S Treasury securities which performed very well as investors sought quality and security. Real estate out performed other asset classes for the fiscal year.

For the current fiscal year, the F&P's total managed portfolio lost 7.0%. This overall portfolio loss was below the median public fund performance of negative 4.4%. This sub-par performance was mainly due to three investment management firms, one of which has since been terminated. The System's domestic equity and international equity portfolios returned negative 17.1% and negative 6.1%, respectively. The down turn in the equity markets was offset by the System's real estate portfolio, which returned 7.2%, in fiscal year 2008. The System's hedge funds continued to perform inline with expectations by returning 4.9% and outperformed the System's "managed" fixed income portfolio, which returned 2.9% for the year.

The System's "dedicated" fixed income portfolio, which is invested in U.S. Treasury securities and high grade corporate bonds, returned 9.7% for the year as investors fled to quality. The cash flow of the dedicated fixed income portfolio, as explained above, is matched to the benefit payment streams of the post-retirement increases.

The investment income is reduced by investment expenses, which decreased from $7.6 million in fiscal year 2007 to $6.9 million for fiscal year 2008 due to the erosion of the portfolio market values.

The economic crisis which began with the sub-prime mortgage melt down in 2007 continued its downward spiral following fiscal year-end with the collapse of the government sponsored mortgage companies, the disappearance of old-line investment banks, the largest government intervention since the great depression, and the near bankruptcy of the U.S. auto manufacturers. The lack of available credit in the markets has led to rising unemployment, falling home prices, and a complete lack of consumer confidence.

The waning days of the current administration in Washington D.C. finds the government searching for ways to save the country from a complete collapse. Some economists are not predicting recovery until well after 2009. Many economists are calling for a long gradual recovery rather than the "V" shaped recovery as has occurred after other recessionary periods. A long recovery will add to the stress already in place for this defined benefit plan and its major sponsor, the City of Baltimore.

**Employer and Member Contributions**

Employer contributions increased $12.6 million to $72.7 in fiscal year 2008, from $60.1 million in the prior year. The increase is due mainly to the release of accumulated investment losses to the actuarial value of assets. The System's top quartile investment performance of 19.8% for fiscal year 2007 assisted in containing increases in the employer contributions due to the F&P in fiscal year 2009. However, the System's negative 7.0% investment performance for fiscal year 2008 added to the accumulation of negative earnings and results in increasing the employer contributions due to the F&P for fiscal year 2010 to $82.5 million, up from the $69.5 million contribution paid in fiscal year 2009. The further deterioration of the global investment markets following June 30, 2008, does not bode well for restrained increases in the employer contribution requirements. Negative performance estimates for the fiscal year ended June 30, 2009 project an employer contribution requirement of $98.5 million for fiscal year 2011.

By fiscal year end June 30, 2008, the covered member compensation and the related member contributions, which are made at 6.0% of regular compensation, increased from the prior year due to higher income levels for uniformed police and fire personnel.

**Retirement Benefits and Administrative Expenses**

The F&P was created to provide lifetime service retirement and permanent disability benefits to eligible members, and survivor benefits and death benefits to eligible beneficiaries. The cost of such programs includes recurring retirement benefit payments, the post-retirement benefit increases, lump-sum payments to Deferred Retirement Option Plan (DROP) participants, lump sum death benefits, refunds of accumulated member contributions and interest to terminated members, and the cost of administering the System.

The primary expense during fiscal year 2008 was for the payment of continuing retirement benefits totaling $166.1 million, an increase of $10.5 million over the $155.6 million in retirement allowances paid in fiscal year 2007. Retirement allowances increased due to the January 2008 post-retirement increase of 5.3% made to eligible retirees and beneficiaries. Administrative expenses increased because of higher personnel costs, increased lease payments for office space, and technology system support costs. Leasehold improvements and office furniture are depreciated on a straight-line basis over 15 years, the life of the building lease. Computer equipment is depreciated on a straight-line basis over a five year useful life.

The System's actuary again reported to the Board that the post-retirement benefit increases, which are provided only when investment performance exceeds 7.5%, are having a negative impact on the assets needed to pay regular retirement benefits because too many assets must be allocated to pay for the increases when performance exceeds the threshold. When portfolio earnings exceed the 7.5% threshold, assets are allocated and separately invested from the "regular" plan assets. The System does not provide a funded automatic cost of living increase. When performance is below the threshold, the retirees do not participate in the negative earnings.

The investment market volatility witnessed from the year ended June 30, 2007, when portfolio performance provided a top quartile 19.8% rate of return, to the year ended June 30, 2008, when portfolio performance provided fourth quartile negative performance of 7.0%, is the "perfect storm" type of scenario about which the System's actuary warned the Board. According to the System's actuary, this scenario draws too many assets away from the assets needed to pay regular plan benefits.

Because of lower earnings expectations and increased market volatility, the System's actuary recommended that the Board lower its earnings assumption for post-retirement assets from 6.8% to 5.0%, which would result in a $61.5 million annual increase in the City's required contribution to the plan. The Board did not adopt the assumption change because the resulting contribution increase is unacceptable to the City's administration.

Understanding that a 75.0% increase in the employer contribution was not acceptable to the City, the System's actuary presented alternatives to the post-retirement increase provisions to mitigate the contribution increase. After review of various options, the Board of Trustees recommended that the administration consider provisions that would provide for two different annual fixed rates of increase based on the member's retirement date with provision for an add-on rate of increase should investment performance exceed 8.0%.

The administration favored a 1.5% annual fixed rate of increase with the proviso for an add-on rate of increase if accumulated plan earnings exceed 8.0%, a phase-in provision for the accumulated earnings, and guarantee of new and previous increase provisions. The administration introduced legislation in October 2008 to amend the post-retirement increase provisions. Further analysis of the proposed provisions revealed that because of the erosion of investment markets values due to the continuing economic meltdown following the June 30, 2008 year end, the proposed provisions are no longer cost-neutral and now would cost the City an additional $7.7 million each year.

As of the date of this report, the Board of Trustees has not rendered comment in favor of the amendments pending receipt and review of a legal opinion from the City Solicitor regarding the legality of the proposed legislation.

**Requests for Information**

This report is designed to provide a general overview of the F&P's financial activity. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to:

**Thomas P. Taneyhill, CPA**
**Executive Director**
**Fire and Police Employees' Retirement System**
**7 East Redwood Street, 19th Floor**
**Baltimore, Maryland 21202**

Fire and Police Employees' Retirement System
City of Baltimore, Maryland
**STATEMENT OF PLAN NET ASSETS**
June 30, 2008

| | | |
|---|---|---|
| **Assets** | | |
| Cash and Cash Equivalents | | $ 27,460,493 |
| Receivables | | |
| Investments sold | $ 16,875,886 | |
| Accrued income | 6,783,598 | |
| Total Receivables | | 23,659,484 |
| Investments, at fair value | | |
| Stocks | 966,009,894 | |
| Bonds | 742,387,430 | |
| Real estate | 221,354,101 | |
| Hedge funds | 144,071,696 | |
| Private equity funds | 41,403,436 | |
| Total Investments | | 2,115,226,557 |
| Capital Assets, net of depreciation | | |
| Leasehold improvements | 1,072,464 | |
| Office furniture | 314,379 | |
| Computer equipment | 196,942 | |
| Total Capital Assets, net of depreciation | | 1,583,785 |
| Securities Lending Collateral | | 297,963,296 |
| Total Assets | | 2,465,893,615 |
| **Liabilities** | | |
| Securities lending collateral | 297,963,296 | |
| Investments purchased | 10,537,450 | |
| Retirement allowances payable | 1,875,544 | |
| Investment management fees payable | 1,643,289 | |
| Administrative expenses payable | 1,323,598 | |
| Lump sums payable to members | 499,845 | |
| Federal taxes withheld on lump sum distributions | 260,203 | |
| Other accounts payable | 87,722 | |
| Total Liabilities | | 314,190,947 |
| **Net Assets Held in Trust for Pension Benefits** | | $2,151,702,668 |

The schedule of funding progress is presented on page 36.

The notes to the basic financial statements are an integral part of this statement.

Fire and Police Employees' Retirement System
City of Baltimore, Maryland
**STATEMENT OF CHANGES IN PLAN NET ASSETS**
For the Year Ended June 30, 2008

| | | |
|---|---|---|
| **Additions** | | |
| Contributions | | |
| Employers | $ 72,687,585 | |
| Plan members | 16,547,425 | |
| Total Contributions | | $ 89,235,010 |
| Investment Income | | |
| Net depreciation in fair value of investments | (147,315,306) | |
| Interest and dividends | 46,709,643 | |
| Real estate income | 9,987,684 | |
| Less: Investment expenses | (6,912,019) | |
| Net Investment Income | | (97,529,998) |
| Securities lending income | 2,732,309 | |
| Less: Securities lending expenses | (682,962) | |
| Net Securities lending income | | 2,049,347 |
| Total Additions | | (6,245,641) |
| **Deductions** | | |
| Retirement allowances | 166,119,977 | |
| Lump sum DROP payments | 14,118,642 | |
| Administrative expenses | 3,264,028 | |
| Refunds of member contributions | 1,627,871 | |
| Death benefits | 63,151 | |
| Total Deductions | | 185,193,669 |
| **Net Decrease** | | (191,439,310) |
| **Net Assets Held in Trust for Pension Benefits** | | |
| **July 1, 2007** | | 2,343,141,978 |
| **June 30, 2008** | | $2,151,702,668 |

The notes to the basic financial statements are an integral part of this statement.

## 1. Plan Description:

The Fire and Police Employees' Retirement System of the City of Baltimore (F&P, Plan, System) is the administrator of a single employer defined benefit local government retirement plan. Established July 1, 1962, the plan covers all uniformed personnel of the Baltimore City Fire and Police Departments. In addition, the plan includes nineteen fire and police officers who are employees of the State of Maryland; this contingent emanated from when the City of Baltimore owned the Baltimore/Washington International Thurgood Marshall Airport. Based on criteria established by the Governmental Accounting Standards Board, the F&P is a component unit of the City of Baltimore and is included in the City's financial report as a public employees retirement system (PERS).

At June 30, 2008, the F&P membership consisted of:

| | |
|---|---|
| Retirees and beneficiaries currently receiving benefits | 5,881 |
| Active plan members | 4,615 |
| Total | 10,496 |

The F&P provides normal service retirement benefits, as well as, death and disability benefits in accordance with Article 22 of the Baltimore City Code, which may be amended only by the Mayor and City Council. The reduction of benefits is precluded by the City Code. Membership in the System is mandatory upon employment. The System does not have a vested benefit plan.

Post retirement benefit increases are provided to those eligible retirees and beneficiaries when the plan is determined at June 30 to have excess investment earnings, as specified by law. See the description of the Paid Up Benefit Reserve and the Contingency Reserve as noted under "Contributions and Reserves" in Note 3.

## 2. Summary of Significant Accounting Policies:

Basis of Presentation:
The accounting and financial reporting policies of the F&P included in this report conform to accounting principles generally accepted in the United States and reporting standards as promulgated by the Governmental Accounting Standards Board, which designates accounting principles and financial reporting standards applicable to PERS. This report includes solely the accounts of the F&P, a component unit of the City of Baltimore.

There are no component units of the F&P based on the nature of operational or financial relationships.

Basis of Accounting:
These financial statements have been prepared on the accrual basis of accounting, whereby revenues are recorded when they are earned, expenses are recorded when liabilities are incurred, and investment purchases and sales are recorded as of their trade date. Member contributions are recognized in the period in which the contributions are due. Employer contributions are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

Method Used to Value Investments:
Investments are reported at fair value. Securities traded on national or international exchanges are valued at the last reported sales price at the current exchange rates. The real estate holdings are based on the most recent appraisal (either internal to the manager or third party) as then presently available. Investments that do not have an established market are reported at estimated fair value.

## 3. Contributions and Reserves:

F&P members are required to contribute 6% of their regular compensation through payroll deduction. The employer contributions are determined through an actuarial valuation. In fiscal year 2008, the City contributed an additional $5.7 million to reduce the unfunded liability. According to the plan provisions, contribution requirements of the plan members and the City are established and may be amended by the Mayor and City Council. The valuation method is stipulated in the plan provisions. Administrative costs of the F&P are paid from investment earnings.

The plan provisions, Article 22 of the Baltimore City Code, established the following reserves:

Annuity Savings Reserve - Accumulated in this reserve are members' contributions inclusive of interest credits, less amounts distributed upon termination of employment or death, or transferred to another reserve for retirement.

Annuity Reserve - Upon retirement, the accumulated contributions of members are transferred to this reserve. From this reserve, the members' accumulated contributions are paid as a life annuity.

Pension Accumulation Reserve - Employer contributions are credited and accumulated with earnings in this reserve. DROP benefits and certain death benefits are paid from here. In addition, when a member retires, an amount equal to the member's pension reserve is transferred from this reserve to the Pension Reserve.

Pension Reserve - From this reserve is paid the pension portion of the retirement allowance. The pension represents benefits for life derived from employer contributions and investment income.

Paid Up Benefit Reserve – Credited to this reserve are a portion of excess investment earnings, as defined by the plan provisions, and all earnings on the investments of this reserve. Post-retirement benefit increases provided by the excess earnings are paid from this reserve.

Contingency Reserve – Credited to this reserve are a portion of excess investment earnings, as defined by the plan provisions, and all earnings on the investments of this reserve. The Contingency Reserve was created to insure payment of benefit increases payable from the Paid Up Benefit Reserve. In the event of a deficit in the Paid Up Benefit Reserve, assets would be transferred to that reserve from the Contingency Reserve.

At June 30, 2008, the balances in the legally required reserves are as follows:

| Reserves | Balance |
|---|---|
| Annuity savings reserve | $ 223,169,334 |
| Annuity reserve | 241,038,254 |
| Pension accumulation reserve | (4,756,231) |
| Pension reserve | 1,209,233,300 |
| Paid up benefit reserve | 446,761,222 |
| Contingency reserve | 36,256,789 |
| Total Reserves | $2,151,702,668 |

The annuity savings reserve, annuity reserve, pension accumulation reserve and pension reserve comprise the managed portfolio totaling $1,668,684,657. The paid up benefit reserve and contingency reserve comprise the dedicated portfolio totaling $483,018,011.

At June 30, 2008, the actuarially determined accrued liability exceeded plan assets by $318,038,882.

## 4. Securities Lending:

The Board of Trustees (the Board) entered into a Securities Lending Authorization Agreement with the System's custodian bank, BNY Mellon Asset Servicing. All individual securities which are readily marketable and which are not restricted due to an outstanding short option are eligible for loan at the discretion of the custodian bank. The investment manager may loan securities held in custody of commingled accounts if authorized in the manager's contract with the F&P.

Collateral received in exchange for securities loaned is collected in an escrow account for the F&P's benefit for the duration of the loan. At no time will the System lose custody of the loaned securities. Collateral in exchange for the principal loaned may be in the form of cash, or securities issued or guaranteed by the U.S. government, its agencies or instrumentalities. Irrevocable Letters of Credit from banks approved by the custodian may not be used as collateral. The minimum levels of collateral will be set at 102% of the market value of domestic securities loaned, including all accrued income, and 105% of the market value of international securities loaned, including all accrued income. If the market value of the collateral falls below 100% of the loaned securities, additional collateral will be collected to maintain the appropriate minimum level. All collateral amounts will be marked to market daily. The F&P does not have the right to sell or pledge securities received as collateral without borrower default.

At June 30, 2008, the F&P had no credit risk exposure to borrowers because the amounts the F&P owed borrowers exceeded the amounts the borrowers owed the F&P. The market value of securities on loan at June 30, 2008, was $287,841,915 and the market value of the collateral received for those securities on loan was $297,963,296. The F&P did not impose any restrictions during the fiscal year on the amount of loans the custodian made on its behalf. The terms of the Securities Lending Authorization Agreement require that the custodian indemnify the F&P against: (1) the failure to demand adequate and appropriate collateral from a borrower; (2) the failure to comply with the investment guidelines in connection with the investment and reinvestment of cash collateral; (3) the failure to obtain and perfect a security interest or rights equivalent thereto in and to the collateral; and (4) the failure to make a reasoned determination of the creditworthiness of any borrower. There were no such failures by any borrowers during the fiscal year. Moreover, there were no losses during the fiscal year resulting from default of the borrower or the custodian.

Substantially all securities loans can be terminated on demand either by the custodian or by the borrower, although generally the average term of these loans is one week. Cash collateral is invested in the custodian's short-term investment pool. The short-term investment pool guidelines specify that a minimum of 20% of the invested cash collateral is to be available each business day and the dollar weighted average maturity of holdings should not exceed 90 days.

## 5. Cash and Investments:

The System's cash deposits are entirely covered by federal depository insurance at all times.

The Board of Trustees of the F&P is authorized by the Baltimore City Code to make investments in accordance with the guidelines and limitations set forth in the Code. The Board accomplishes the daily management of the System's investments through an external investment advisor who acts as a fiduciary for the System and through external investment managers. The Board invests the assets of the F&P using the "prudent person standard" which allows the Board to consider the probable safety of investments, avoid speculative investments, and invest as people of prudence, discretion, and intelligence would in a similar situation. The Board has adopted an investment policy and guidelines to formally document its investment objectives and responsibilities.

Governmental Accounting Standards Board (GASB) Statement No. 40 updates and/or supersedes portions of GASB Statement No. 3. GASB Statement No. 40 establishes more comprehensive disclosure requirements related to investment risks: foreign currency risk exposure, interest rate risk and credit risk by quality.

The F&P invested assets at June 30, 2008 are presented below:

| Investment Type | Fair Value |
|---|---|
| Debt Securities: | |
| Corporate bonds | $ 311,451,600 |
| U.S. treasury notes and bonds | 175,754,560 |
| U.S. Government agency bonds | 134,957,733 |
| Absolute return strategic funds | 88,889,446 |
| Lehmann aggregate index | 31,334,091 |
| Money mutual funds | 27,460,493 |
| Total debt securities | 769,847,923 |
| Other: | |
| Domestic equities | 642,916,553 |
| International equities | 323,093,341 |
| Real estate | 221,354,101 |
| Hedge funds | 144,071,696 |
| Private equity funds | 41,403,436 |
| Total other | 1,372,839,127 |
| Total investments | 2,142,687,050 |
| Less cash and cash equivalents | 27,460,493 |
| Total net investments | $2,115,226,557 |

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. As of June 30, 2008, the F&P has no single issuer that exceeds 5% of total investments. Investments issued or explicitly guaranteed by the U.S. government and investments in mutual funds, external investment pools, and other pooled investments are excluded.

Foreign Currency Risk Exposure

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. It is the Board's policy that external managers demonstrate sensitivity to foreign currency risk. The foreign currency exposure of the System may be hedged back to the U.S. dollar using forward foreign exchange contracts. From 0% to 100% of the foreign currency exposure of a portfolio may be hedged. Cross-hedging to currency other than the U.S. dollar may reach 25% of the total portfolio. Currency speculation is not permitted.

The F&P exposure to foreign currency risk is presented on the following table:

| | |
|---|---|
| Euro Currency Unit | $ 82,226,262 |
| British Pound Sterling | 41,784,776 |
| Japanese Yen | 28,515,030 |
| Swiss Franc | 13,726,643 |
| Canadian Dollar | 9,198,402 |
| Swedish Krona | 5,386,370 |
| South Korean Won | 5,373,457 |
| Australian Dollar | 5,050,586 |
| Taiwan Dollar | 4,529,586 |
| Hong Kong Dollar | 4,462,617 |
| Brazil Real | 4,438,925 |
| Singapore Dollar | 3,818,102 |
| Danish Krone | 3,105,346 |
| Norwegian Krone | 2,654,125 |
| Egyptian Pound | 1,056,333 |
| South African Comm Rand | 996,733 |
| Malaysian Ringgit | 703,651 |
| Indonesian Rupian | 558,629 |
| Turkey Lira | 424,409 |
| Mexican New Peso | 423,915 |
| Russian Rubel | 407,324 |
| Total Foreign Currency | $218,841,221 |
| U.S. Dollars (held in International Equity) | $104,252,110 |

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates of debt investments will adversely affect the fair value of an investment. F&P uses the Option Adjusted Duration as a measure of interest rate sensitivity for bonds. Duration is a measure of the approximate sensitivity of a bond's value to interest rate changes. The Board's fixed income interest rate policy states that the effective duration of a portfolio may not exceed 120% of the effective duration of the underlying Lehman Aggregate benchmark.

| Asset Type | Option Adjusted Duration | Fair Value |
|---|---|---|
| Corporate bonds | 4.33 | $311,451,600 |
| U.S. treasury and bonds | 13.07 | 175,754,560 |
| U.S. Government agency bonds | 5.74 | 134,957,733 |
| Absolute return strategic funds | 3.63 | 88,889,446 |
| Lehmann aggregate index | 5.24 | 31,334,091 |
| Money mutual funds | 0.08 | 27,460,493 |
| Total debt securities | | $769,847,923 |

Credit Risk by Quality

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligation. The Board has not adopted a formal policy to limit credit risk. The F&P's rated debt investments as of June 30, 2008 were rated by a nationally recognized statistical rating agency and are presented below using the Standard and Poor's rating scale:

| Asset Type | Fair Value | Quality Ratings | | | |
|---|---|---|---|---|---|
| | | AAA thru A | BBB thru B | CCC thru C | Not Rated |
| Corporate bonds | $311,451,600 | $185,295,699 | $112,039,872 | $1,520,887 | $12,595,142 |
| U.S. treasury and bonds | 175,754,560 | 175,754,560 | | | |
| U.S. Government agency bonds | 134,957,733 | 134,957,733 | | | |
| Absolute return strategic funds | 88,889,446 | 88,889,446 | | | |
| Lehmann aggregate index | 31,334,091 | 31,334,091 | | | |
| Money mutual funds | 27,460,493 | | | | 27,460,493 |
| Total debt securities | $769,847,923 | $616,231,529 | $112,039,872 | $1,520,887 | $40,055,635 |

## 6. Capital Assets:

Capital Assets consisting of furniture and equipment, computer equipment and leasehold improvements are recorded at cost. Depreciation on computer equipment is calculated on a straight-line basis over a five year useful life; depreciation on leasehold improvements and office furniture is calculated on a straight-line basis over fifteen years, the life of the building lease. Accumulated depreciation for computer equipment is $410,062; for office furniture is $74,693; for leasehold improvements is $262,180.

| Asset | June 2007 Balance | Additions | Depreciation | June 2008 Balance |
|---|---|---|---|---|
| Computer equipment | $ 246,210 | $ 62,978 | $ 112,246 | $ 196,942 |
| Office furniture/equipment | 327,408 | 12,102 | 25,131 | 314,379 |
| Leasehold improvements | 1,131,996 | 28,495 | 88,026 | 1,072,465 |
| Totals | $1,705,614 | $ 103,575 | $ 225,403 | $1,583,786 |

## 7. Funding:

Funding of the System is accomplished through member and employer contributions and the investment earnings. The System uses the projected unit credit funding method. The required schedule of funding progress presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits. This schedule can be found on page 36. The following is a schedule of funding progress as of the actuarial valuation date of June 30, 2008.

| Actuarial Assets (a) | Actuarial Accrued Liability (AAL) (b) | Unfunded AAL (b-a) | Funded Ratio (a/b) | Covered Payroll ( c ) | Unfunded AAL as a percentage of Covered Payroll ((b-a)/c) |
|---|---|---|---|---|---|
| $2,676,354,876 | $2,994,393,758 | $318,038,882 | 89.4% | $269,690,209 | 117.9% |

The information presented above and in the required supplementary schedules was derived from the annual actuarial valuations prepared as of each June 30. Additional information from the latest actuarial valuation dated June 30, 2008 follows:

| | |
|---|---|
| Actuarial cost method: | Projected unit credit |
| Amortization method: | Level dollar, open |
| Amortization period: | 20 year period; only one amortization base. |
| Asset valuation method: | Market value adjusted for investment surpluses and deficits relative to investment assumptions, phased-in at 20% each year. |
| Actuarial assumptions: | |
| Investment rate of return | |
| Pre-retirement | 8.25% |
| Post-retirement | 6.80% |
| Projected salary increases | 4.00% to 8.00%, includes inflation at 3.00% |
| Post-retirement cost-of-living adjustments | Dependent upon investment performance which must exceed 7.50% as calculated each fiscal year end. |

## 8. Subsequent Events:

There has been a significant decline in the fair market value of the Plan's investments. Due to the economic downturn that occurred since the close of the System's statement of plan net assets for the year ended June 30, 2008, the fair market value of investments has decreased by $392,082,747, a decline of 18.3%.

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# Required Supplementary Information and Supporting Schedules


Baltimore police officers are faced with danger every day in the performance of their jobs. Police work involves more than arresting criminals and protecting the citizens of Baltimore; it involves interacting with the community and establishing positive relationships. The Baltimore Police Department joined the Baltimore City Fire Department by participating in the Fire Department's Annual Thrill Show. police pilots gave attendees a tour of the police helicopter, Foxtrot.

Fire and Police Employees' Retirement System
City of Baltimore, Maryland
Required Supplementary Information
**SCHEDULE OF FUNDING PROGRESS**

| Actuarial Valuation Date June 30 | Actuarial Value of Assets (a) | Actuarial Accrued Liability (AAL) Projected Unit Cost (b) | Unfunded (Excess of) AAL (UAAL) (b-a) | Funded Ratio (a/b) | Covered Payroll ( c ) | UAAL (Excess of) as a Percentage of Covered Payroll ((b-a)/c) |
|---|---|---|---|---|---|---|
| 1999 | $1,974,471,134 | $1,919,288,493 | $ (55,182,641) | 102.9% | $183,068,111 | (30.1)% |
| 2000 | 2,078,331,195 | 2,029,568,487 | (48,762,708) | 102.4 | 191,003,156 | (25.5) |
| 2001 | 2,098,740,595 | 2,096,802,530 | (1,938,065) | 100.1 | 209,527,825 | (0.9) |
| 2002 | 2,127,393,333 | 2,173,188,430 | 45,795,097 | 97.9 | 227,785,032 | 20.1 |
| 2003 | 2,205,205,652 | 2,286,873,035 | 81,667,383 | 96.4 | 245,711,363 | 33.2 |
| 2004 | 2,320,027,717 | 2,395,522,699 | 75,494,982 | 96.8 | 241,245,198 | 31.3 |
| 2005 | 2,464,821,382 | 2,560,984,795 | 96,163,413 | 96.2 | 244,814,891 | 39.3 |
| 2006 | 2,505,470,848 | 2,709,929,913 | 204,459,065 | 92.5 | 248,558,248 | 82.3 |
| 2007 | 2,658,735,035 | 2,893,890,517 | 235,155,482 | 91.9 | 254,489,308 | 92.4 |
| 2008 | 2,676,354,876 | 2,994,393,758 | 318,038,882 | 89.4 | 269,690,209 | 117.9 |

See notes to basic financial statements.

Fire and Police Employees' Retirement System
City of Baltimore, Maryland
Required Supplementary Information

**SCHEDULE OF EMPLOYER CONTRIBUTIONS**

The Schedule of Employer Contributions presents the required contributions due from the City of Baltimore and the State of Maryland. In addition, the schedule presents the amount of excess earnings elected by the City to reduce the contributions payable

| Fiscal Year Ended June 30 | City Contribution Per Actuarial Valuation | Contributions Required From State of Maryland | Addition To (Reduction In) City Contributions Due To Excess/Deficit Earnings | Total Contributions Required | Total Contributions Made | Percentage Contributed |
|---|---|---|---|---|---|---|
| 1999 | $30,439,954 | $268,139 | $(30,439,954) | $268,139 | $268,139 | 100% |
| 2000 | 27,074,061 | 235,272 | (27,074,061) | 235,272 | 235,272 | 100 |
| 2001 | 27,297,688 | 217,340 | (27,297,688) | 217,340 | 217,340 | 100 |
| 2002 | 29,192,803 | 252,220 | (29,192,803) | 252,220 | 252,220 | 100 |
| 2003 | 34,415,552 | 263,326 | | 34,678,878 | 34,678,878 | 100 |
| 2004 | 42,387,801 | 311,365 | | 42,699,166 | 42,699,166 | 100 |
| 2005 | 48,321,205 | 345,496 | | 48,666,701 | 48,666,701 | 100 |
| 2006 | 49,248,316 | 413,311 | | 49,661,627 | 49,661,627 | 100 |
| 2007 | 54,092,757 | 530,750 | 5,505,220 | 54,623,507 | 60,128,727 | 110 |
| 2008 | 66,423,208 | 532,536 | 5,731,841 | 66,955,744 | 72,687,585 | 109 |

See notes to required supplementary information and notes to basic financial statements.

**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**

1. Changes in actuarial assumptions, which included a slight reduction in the salary scale, a reduction in the mortality rates for line-of-duty deaths and for service retirements, lowering withdrawal rates by 10% for ages 30-39 for non-officers, lowering disability rates, and changes in DROP and retirement assumptions increased the June 30, 1999, actuarial accrued liability by $10.2 million. These changes in actuarial assumptions increased employer contributions by $1.1 million.

   As provided in the plan provisions, the City can utilize excess earnings to reduce or eliminate its required employer contribution. For fiscal year 1999, the City elected to apply $30.4 million of the excess earnings to eliminate having to make its required employer contribution.

2. Ordinance 00-49 of 2000 provided for plan benefit improvements for active members and most retirees and beneficiaries. The improvements which included a one percent increase to retirees and beneficiaries who were receiving retirement benefits as of June 30, 2000, a reduction in the member contribution for one year, an increase in the accrual rates for Intermediate and Full Deferred Retirement Option Plan (DROP) retirement benefits, and a reduction in the time period to attain eligibility for a Full DROP retirement benefit, increased the June 30, 2000 actuarial accrued liability by $61.7 million. Ordinance 97-164 of 1997, allows the use of excess earnings to reduce the cost of plan benefit improvements. For fiscal year 2000, $61.7 million of excess earnings were used to offset the increase in the actuarial accrued liability due to these plan benefit improvements.

3. Ordinance 03-576 of 2003 provided amendments and clarifications to the plan provisions that affect current and future active members. The ordinance clarified the provisions regarding service credit while members are on military leave of absence to conform to federal and state laws. The improvements amended or added provisions to allow certain members to purchase previous service credits lost due to separation from service, to allow members to purchase up to 6 months of Maryland Police Corps training time for service credit, and to allow members to transfer certain service credits from former federal and state governmental pension and retirement systems outside the state of Maryland. The ordinance also placed restrictions on how much service credit can be transferred to the F&P from other qualified plans based on whether the service was in a uniformed position or civilian position. In addition, the ordinance added restrictions to the service retirement requirements and to the eligibility requirements to enter the Deferred Retirement Option Plan for members who enter the F&P on or after July 1, 2003, and required a minimum of ten years of service as a member of the F&P and as an employee paid by the Mayor and City Council of Baltimore. The ordinance did not have a material financial impact on the System.

4. Preceding the preparation of the June 30, 2005 Actuarial Valuation Report, the System's actuary performed an Actuarial Experience Study for the three year period ended June 30, 2005. As a result of the Experience Study, the Board of Trustees adopted changes in actuarial assumptions which included increases to the salary scale for most ages, reductions to pre-retirement and post-retirement mortality rates, increases to withdraw rates for members under age 50, decreases to withdraw rates for members over age 50, reductions to non-line-of-duty disability rates for members age 40 and above, increases to line-of-duty disability rates for ages 44 and below, an increase to the DROP participation rate, and changes to both DROP and non-DROP retirement rates. These assumption changes, which were incorporated into the June 30, 2005 actuarial valuation, increased the actuarial accrued liability $39.5 million. The Board approved utilization of $34.3 million of excess investment earnings to reduce the increase in the unfunded accrued liability.

5. A plan provision that required that excess earnings be credited and deficit earnings be charged to certain actuarial reserves, expired on June 30, 2005. The purpose of the reserves, established June 30, 1996, was to segregate excess positive earnings that could then be utilized by the City to reduce its required employer contributions to the plan and by the plan membership to "purchase" benefit improvements. The reserves were initially utilized for those two purposes. Subsequently, however, because of the downturn in the global equity markets in fiscal years 2001 through 2003, the reserves have instead accumulated net deficit earnings of $412.8 million as of June 30, 2005. The plan provision requires that the Board of Trustees apply the deficit in the reserves in accordance with an appropriate asset valuation method. The City Administration requested that a 10-year amortization of the accumulated net deficit be utilized. It is expected that the City's employer contributions to the plan will substantially increase in future years due to this deficiency.

Fire and Police Employees' Retirement System
City of Baltimore, Maryland
**SCHEDULE OF ADMINISTRATIVE EXPENSES**
For the Year Ended June 30, 2008

| | | |
|---|---|---|
| Salaries and Wages: | | |
| Permanent full-time salaries | $ 1,235,755 | |
| Overtime | 255 | |
| Total Salaries and Wages | | $ 1,236,010 |
| Other Personnel Costs: | | |
| Medical insurance and health care | 197,257 | |
| Retirement | 145,602 | |
| Social security | 90,893 | |
| Other employee benefits | 4,116 | |
| Total Other Personnel Costs | | 437,868 |
| Contractual Services: | | |
| Technology systems support | 411,916 | |
| Retirement payroll processing | 251,341 | |
| Lease payments | 222,170 | |
| Actuarial services | 189,041 | |
| Other professional services | 61,615 | |
| Postage | 31,968 | |
| Financial audit fees | 26,000 | |
| Staff training | 22,518 | |
| Telephone systems | 16,055 | |
| Dues and publications | 16,054 | |
| Equipment maintenance | 13,065 | |
| Printing | 11,169 | |
| Equipment rental | 9,833 | |
| Trustee education | 8,584 | |
| Total Contractual Services | | 1,291,329 |
| Depreciation expense | | 225,404 |
| Office supplies | | 24,623 |
| Computer equipment | | 48,794 |
| Total Administrative Expenses | | $ 3,264,028 |

Fire and Police Employees' Retirement System
City of Baltimore, Maryland
**SCHEDULE OF INVESTMENT EXPENSES**
**SCHEDULE OF PAYMENTS TO CONSULTANTS**
For the Year Ended June 30, 2008

## Schedule of Investment Expenses

| Investment Expenses | Fees |
|---|---|
| Investment management fees | $6,484,722 |
| Securities lending fees | 682,962 |
| Investment advisor fees | 253,750 |
| Custodial fees | 173,547 |
| **Total Investment Expenses** | **$7,594,981** |

## Schedule of Payments to Consultants

| Firm | Fees | Nature of Service |
|---|---|---|
| Mercer | $189,041 | Actuarial services |
| Baltimore City Department of Audits | 26,000 | Financial audit |

Note: A schedule of fees and commissions is also illustrated in the Investment Section on page 52.

# Investment Section


The Baltimore City Fire Department is dedicated to saving lives and promoting fire safety. At the Annual Thrill Show, fire department members allowed kids to become firefighters for a day. Shown here, a small group of kids are learning first hand how to extinguish a house fire using a water hose.

December 9, 2008

To the Board of Trustees of the
Fire & Police Employees' Retirement System of the City of Baltimore

**Introduction**

This report, prepared for the Fire & Police Employees' Retirement System of the City of Baltimore (System) by Summit Strategies Group (Summit) is based on information supplied by the System's custodian, BNY Mellon. BNY Mellon provides Summit with beginning and ending market values, cash flows, securities transactions and positions for the System as well as each manager, where applicable. BNY Mellon audits the information contained in its monthly accounting reports. Summit uses BNY Mellon's monthly reports to calculate performance returns for the System and the Trustees.

**Distinction of Responsibilities**

The System's Board of Trustees (the Trustees) is responsible for the investment and administration of System assets. This includes establishing the strategic asset allocation that, over time, is the primary determinant of investment return on assets. A thorough understanding of both the System's assets and liabilities is essential for determining an appropriate asset allocation. The key drivers of this analysis are the projections of the System's liabilities and the projections of expected future returns and risk (as measured by standard deviation of returns) for each asset class as well as correlation between asset classes. The liabilities include all key dimensions of the System's pension plan: membership, benefits, liabilities, assets, and funding requirements. In May 2006, the Trustees adopted a modified target asset allocation, which is shown in the table below. This was the target allocation in place during fiscal year 2008.

**Investment Policy/Structure**

The asset allocation adopted by the Trustees is included in the System's investment policy. The System employs various investment managers to implement the asset allocation within the guidelines and limitations contained in the investment policy. System assets are invested using numerous investment managers so as to diversify the System's assets among multiple asset classes and investment styles. Each investment manager is delegated full investment discretion for its respective portfolio including the discretion to purchase and sell individual securities, and control industry and economic sector exposure.

The System's investment policy is designed to provide broad diversification among asset classes in order to maximize return at an appropriate level of risk and to minimize the risk of large losses to the System. In addition, asset allocation ranges, target allocations and a process of periodic rebalancing are used to maintain compliance with the investment policy and to increase the likelihood that the System will achieve its long-term risk and return objectives. The following table outlines the System's long-term target asset allocation:

| Asset Class | Allocation Target |
|---:|:---:|
| U.S. Equity | 40% |
| International Equity | 20% |
| Private Equity | 5% |
| ***Total Equity*** | ***65%*** |
| U.S. Fixed Income | 18% |
| Real Estate | 10% |
| Alternative Strategies | 7% |
| ***Total Portfolio*** | ***100%*** |



8182 Maryland Avenue, 6th Floor • St. Louis, Missouri 63105 • 314 727 7211 314 727 6068 (fax)

Within each asset class, the Trustees employ several investment managers to further diversify the investment approach and to minimize style biases. The Trustees employ both active and passive investment strategies to obtain the desired asset allocation mix in a cost effective and efficient manner.

**Investment Objectives**

The System's investment policy contains the following objectives:

1. To preserve the inflation-adjusted capital value of the System;
2. To ensure adequate liquidity to meet benefit liabilities as they fall due;
3. To meet the actuarial interest rate assumptions; and
4. To exceed the investment return objective without unduly jeopardizing objectives 1-3.

The investment return objective is a hypothetical policy portfolio constructed as follows: 45% Russell 3000 Index, 20% MSCI All Country World Ex-US Index, 13% Lehman Aggregate Index, 10% NCREIF Index, 7% 90-Day LIBOR + 400 bps, and 5% Lehman High Yield Index. In addition, the System's investment performance has been evaluated relative to the Independent Consultant's Cooperative Universe for Public Funds; a performance universe representing the performance of more than 136 public plans (3,683 portfolios) with an aggregate market value of nearly $728.2 billion as of June 30, 2008. Finally, each investment manager is measured and evaluated against its relevant broad market index and style peer universe.

**Market Overview**

The U.S. and global economics began to slow significantly during the fiscal year. U.S. GDP contracted in the fourth quarter of 2007 and was only modestly positive during the first half of 2008 for a fiscal year GDP growth rate of 1.8%. At the same time, inflation accelerated with CPI increasing 4.9% over the fiscal year, mainly following higher food and energy prices. Unemployment continued to rise, ending at 5.5% as of June 30, 2008. Housing starts and prices declined throughout the fiscal year while inventory of unsold houses climbed. Consumer confidence slipped to a 16-year low by the end of June 2008. All of the above are signs the U.S. Economy has been in recession since the 4th quarter of 2007.

Cracks in the capital markets began with the bond market during 2007 but the stage was set earlier. In the 3-4 years leading up to 2007, excess financial liquidity focused primarily on residential real estate combined with excesses in real estate financing and securitization markets to create a "housing bubble" that eventually popped in 2007. What started with a crisis in subprime mortgages spread to become a global credit and liquidity crisis. As a result, a "flight to quality" drove up Treasury bond prices as investors sought safety. The Lehman Aggregate Bond Index returned 7.1% for the year, which contained a 10.3% return for Treasuries offsetting lower returns for mortgages and corporate bonds.

Most equity indexes fell during the July 1, 2007-June 30, 2008 time period. Large cap stocks, as measured by the S&P 500 Index, returned (13.1%) for the fiscal year. Small cap stocks, as measured by the Russell 2000 Index, returned (16.2%) over the same period. Developed country international stocks returned (10.2%), as measured by the MSCI EAFE Index, while its emerging markets counterpart remained positive returning 4.9% for the fiscal year, as measured by the MSCI Emerging Markets Index.

**Investment Performance**

For investment performance measurement purposes, the total investment portfolio is split between "actively managed" accounts and "other" assets. The "other" assets consist of the Cash Reserve, held for the payment of benefits and administrative expenses, and "Post Retirement" assets held in immunized portfolios dedicated solely for the purpose of paying post retirement benefit increases. It is only the actively managed assets that are displayed below. In past annual reports, Summit has calculated and reported all returns in accordance with AIMR Performance Presentation Standards. The new performance standards used by the industry now are the Global Investment Performance Standards (GIPS). As an investment consultant, Summit is prohibited from stating that investment performance is shown "in compliance with" or "in accordance with" GIPS, as GIPS compliance is reserved solely for use by investment management firms. However, Summit strives to uphold and maintain the guiding principles underlying the GIPS standards, both ethically and in its performance calculation methodology. Accordingly, all performance returns are calculated using a time-weighted the methodology.known as the Modified Dietz method. This algorithm attempts to eliminate the effects of cash flows and geometrically links period returns.

Even considering the recent market turmoil, the System has been protected by its superior performance during the last four fiscal years resulting from the strategic implementation of the target asset allocation, investment manager changes, and additional asset class diversification. This strategy included the replacement of underperforming managers, increased weights to mid cap US equity, international equity, and real estate, and the addition of a hedge fund portfolio managed by two diversified fund-of-fund managers.

For the fiscal year ended June 30, 2008, the System's rate of return was (7.0%) and ranked in the 85th percentile of the ICC Public Fund Universe. The System's Investment Policy calls for measuring performance over rolling 3-5 year periods. Accordingly, the System has compounded at annual rates of return of 7.6% and 10.2% for the last 3 and 5 years, ranking in the 21st and 16th percentiles, respectively for those periods. For the previous four consecutive fiscal years, the System ranked in the 4th, 12th, 4th, and 30th percentiles respectively. The Fund underperformed its benchmark return of (4.1%) for the fiscal year and ranked in the bottom quartile of the peer universe, due in part to:

- Underperformance of the domestic equity portfolio.
- Within the domestic equity portfolio, significant underperformance by two mid-large cap managers, one of which has since been terminated.
- Underperformance of the domestic fixed income portfolio
- Within the domestic fixed income portfolio, exposure to high yield bonds and significant underperformance by two managers with overweight positions in corporate bonds and mortgages.

The market value of the actively managed accounts decreased from $1.93 billion on June 30, 2007, to $1.67 billion on June 30, 2008. The decrease in value is primarily attributable to underperformance of certain domestic equity and fixed income investment managers. At the end of fiscal year 2008, the System's assets were allocated as follows:

| | | | Fiscal Year Rate of Return | |
|---|---|---|---|---|
| | **Market Value ($ in millions)** | **Percent of Total** | **System** | **Benchmark** |
| **US Equity** | $661.2 | 39.6% | (17.1%) | (12.7%) |
| **International Equity** | $326.5 | 19.5% | (6.1%) | (10.2%) |
| **US Fixed Income** | $275.7 | 16.5% | 2.9% | 7.1% |
| **Hedge Funds** | $144.2 | 8.6% | 4.9% | 8.2% |
| **Real Estate** | $221.2 | 13.2% | 7.2% | 9.3% |
| **Private Equity** | $43.4 | 2.6% | N/A | N/A |
| **Total Managed Assets** | $1,672.2 | 100.0% | (7.0%) | (4.1%) |

**Of Note**

Pending at the end of the fiscal year was: replacement of the active large cap core equity manager, search for a new international private equity fund of fund manager, review of the economy and capital markets, and review of the System's asset allocation in light of the further weakening global economy, U.S. Recession, volatile capital markets, and need to maintain the System's liquidity.

Regardless of the economic or capital market climate, it is a pleasure to serve the System, and work with the Staff and Trustees. I look forward to the continued search for competitive investment returns in the current challenging capital market environment.

Sincerely,

Daniel J. Holmes
Managing Director

Fire and Police Employees' Retirement System
City of Baltimore, Maryland
**OUTLINE OF INVESTMENT OBJECTIVES AND POLICIES**

## Investment Objectives

The primary investment objectives of the Board of Trustees (Board) of the Fire and Police Employees' Retirement System (F&P, System) are set forth below. It is recognized that maximizing any one objective may compromise the achievement of other objectives. For example, maximizing liquidity may reduce investment return; seeking maximum investment return may subject capital preservation to higher risk. Accordingly, the investment objectives are given in descending order of priority:

1. To preserve the capital value of the System assets adjusted for inflation;
2. To ensure adequate System liquidity to meet benefit liabilities as they fall due;
3. To meet the actuarial interest rate assumptions; and
4. Without unduly jeopardizing the above objectives, to exceed the investment return objective by the astute management of funds.

## General Investment Policy

The Board must comply with investment restrictions imposed by the laws of the City of Baltimore and any other State or Federal laws dealing with investment of public retirement plan assets. System investment managers are expected to familiarize themselves with these laws.

Investment policy for the System relates to the portfolio of all assets that comprise the total holdings of the System. The Board recognizes that the objective of a sound and prudent policy is to produce investment results that will preserve the assets of the System, as well as to maximize earnings of the F&P consistent with its long-term needs. These long-term needs have been ascertained through various studies performed on behalf of the Board by its actuary and its investment advisor. Investment policy and the long-term average allocation of plan assets to which they refer are deemed to be consistent with the projected pattern of cash flows to the F&P and its projected benefit payments. Should the projected finances of the System change significantly, the applicable Federal or State statutes be amended, or changes in the System's asset valuation methods be adopted, these policies and average asset allocations will be reviewed and modified by the action of the Board, if appropriate.

The Board recognizes that its investment portfolio must be diversified over several different asset classifications in order to reduce risk. The following asset allocation has been established as an overall objective for the total holdings of the System:

| | Percentage of Total Fund at Market Value |
|---|---|
| Asset Category | Target |
| Domestic Equity | 40% |
| International Equity | 20% |
| Private Equity | 5% |
| Domestic Fixed Income | 18% |
| Real Estate | 10% |
| Alternative Strategies | 7% |

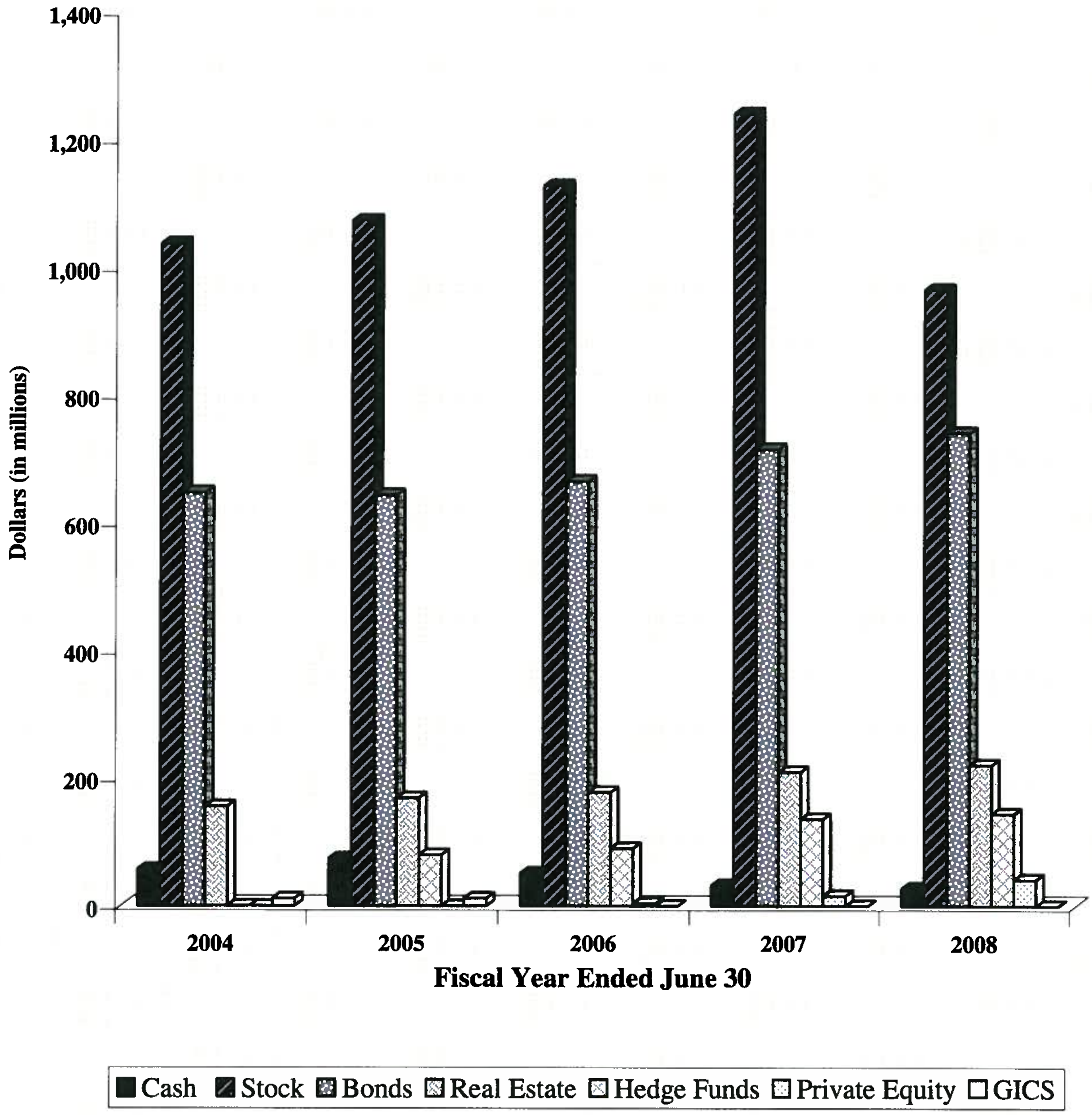
Within each major asset classification, investments are further diversified. Excessive concentration in any particular security, company or industry is to be avoided. Investment guidelines have been supplied to each of the System's investment managers. Subject to these objectives and guidelines, and the System laws, the investment managers have full discretion in investment decisions. Managers are advised to notify the Board in writing if these objectives cannot be met or if the guidelines constrict performance. The investment managers are encouraged to suggest changes to the guidelines at any time.

**Proxy Voting**

Pursuant to a U.S. Department of Labor directive, the Board has a long standing policy that, when solicitations of proxies with respect to securities are received by an investment manager, the decisions as to whether and how to vote such proxies are delegated to that investment manager.

The Board also recognizes, however, that the investment manager's decisions must be made in accordance with applicable legal standards and that the Board has an obligation to ensure that those standards are being observed. Therefore, the Board requests that annually (June 30) each management firm furnish the System with a written statement of their policy and practices with respect to the voting of securities held in their employee benefit plan asset portfolios, together with their written assurance that such policies and practices are being followed. These statements and assurances will be included, and will be given appropriate weight, in the Board's continuing evaluation of each manager's overall investment performance.

Fire and Police Employees' Retirement System
City of Baltimore, Maryland
**TOTAL PORTFOLIO COMPOSITION**
**MARKET VALUE OF INVESTMENTS**




| | 2004 | | 2005 | | 2006 | | 2007 | | 2008 | |
|---|---|---|---|---|---|---|---|---|---|---|
| Cash | $ 57 | 3% | $ 74 | 4% | $ 51 | 3% | $ 32 | 1% | $ 27 | 1% |
| Stock | 1,038 | 54 | 1,074 | 52 | 1,129 | 54 | 1,242 | 53 | 966 | 45 |
| Bonds | 648 | 34 | 644 | 31 | 666 | 31 | 716 | 30 | 742 | 35 |
| Real Estate | 156 | 8 | 169 | 8 | 178 | 8 | 210 | 9 | 221 | 10 |
| Hedge Funds | 0 | 0 | 80 | 4 | 90 | 4 | 136 | 6 | 144 | 7 |
| Private Equity | 0 | 0 | 0 | 0 | 4 | 0 | 16 | 1 | 41 | 2 |
| GICS | 12 | 1 | 12 | 1 | 0 | 0 | 0 | 0 | 0 | 0 |
| Total | $ 1,911 | 100% | $ 2,053 | 100% | $ 2,118 | 100% | $ 2,352 | 100% | $ 2,141 | 100% |

Fire and Police Employees' Retirement System
City of Baltimore, Maryland
**INVESTMENT RESULTS - TIME WEIGHTED RATE OF RETURN**

| | | Annualized | | |
|---|---|---|---|---|
| **Total Returns** | **FY 2008** | **3 Years** | **5 Years** | **10 Years** |
| **TOTAL PORTFOLIO** | (7.0)% | 7.6% | 10.2% | 5.4% |
| Composite Benchmark | (4.1) | 7.8 | 9.7 | 6.0 |
| **DOMESTIC EQUITIES** | (17.1) | 3.3 | 8.1 | 2.7 |
| S&P 500 Index | (13.1) | 4.4 | 7.6 | 2.9 |
| Russell 1000 | (12.4) | 4.8 | 8.2 | 3.4 |
| Russell 2000 | (16.2) | 3.8 | 10.3 | 5.5 |
| Russell 3000 | (12.7) | 4.7 | 8.4 | 3.5 |
| **INTERNATIONAL EQUITIES** | (6.1) | 16.5 | 20.5 | 9.1 |
| MSCI ACWI Free Ex-US | (6.2) | 16.2 | 19.4 | 7.7 |
| **DOMESTIC FIXED INCOME** | 2.9 | 3.3 | 3.1 | 5.3 |
| Lehman Government/Credit | 7.2 | 3.8 | 3.6 | 5.7 |
| Lehman Aggregate | 7.1 | 4.1 | 3.9 | 5.7 |
| **HEDGE FUND** | 4.9 | 10.5 | N/A | N/A |
| Libor + 400 | 8.2 | 8.8 | 7.7 | N/A |
| **REAL ESTATE** | 7.2 | 14.4 | 13.9 | 13.2 |
| NCREIF Property Index | 9.3 | 15.0 | 14.7 | 12.2 |

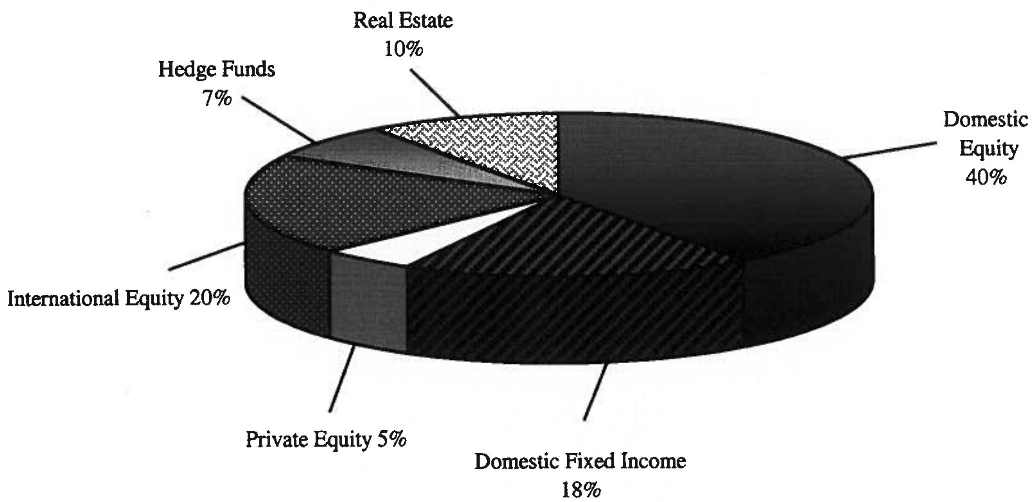
Notes:
This schedule illustrates the investment results of the "managed" investment portfolio which excludes assets of the Paid Up Benefit Reserve, Contingency Reserve and the operating cash reserve.

The composite returns above were calculated by the System's investment advisor, who used a time weighted rate of return based on market value.

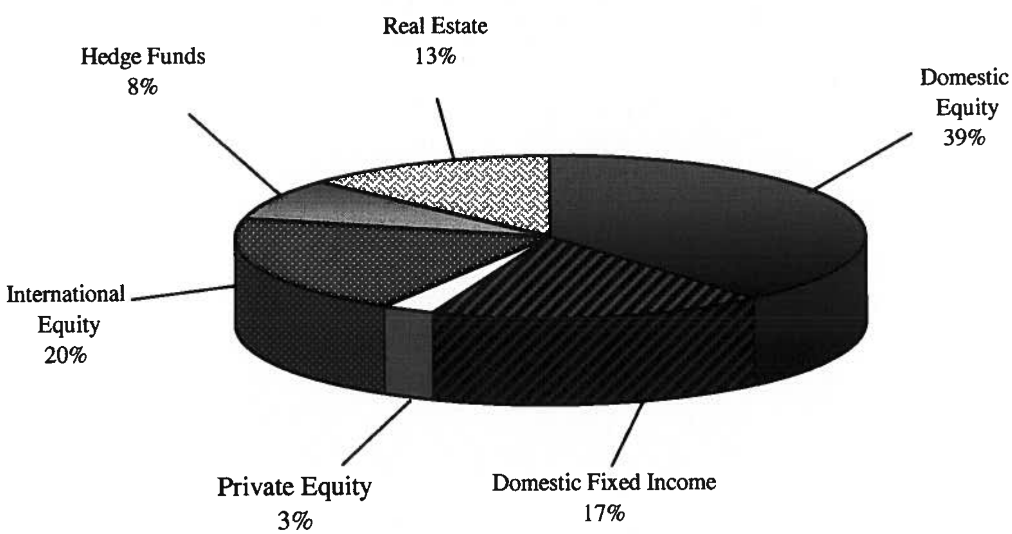
The Composite Benchmark exhibits the overall rate of return for a sample unmanaged portfolio. Commencing with the Fiscal Year 2008, the Composite Benchmark is comprised of 45% Russell 3000, 20% MSCI ACWI Free Ex-US, 25% Lehman Aggregate, and 10% NCREIF Property Index.

Fire and Police Employees' Retirement System
City of Baltimore, Maryland
**ASSET ALLOCATION - ACTIVELY MANAGED ACCOUNTS**
For the Year Ended June 30, 2008

## TARGET ASSET ALLOCATION




## ACTUAL ASSET ALLOCATION




Note: For asset allocation purposes, only actively managed accounts are included. Assets of the Paid Up Benefit Reserve and the Contingency Reserve are not included in this illustration. The assets of these reserves are invested separately for the sole purpose of providing post retirement benefit increases. Assets in the cash reserve, also excluded from this illustration, are held for the purpose of providing cash for the payment of benefits and administrative expenses.

Fire and Police Employees' Retirement System
City of Baltimore, Maryland
**TOP TEN DOMESTIC AND INTERNATIONAL STOCK HOLDINGS BY MARKET VALUE**
**TOP TEN BOND HOLDINGS BY MARKET VALUE**
June 30, 2008

### Top Ten Domestic Stock Holdings

| | Shares | Stock | Market Value |
|---|---|---|---|
| 1) | 176,000 | Wal Mart Stores Inc | $9,891,200 |
| 2) | 347,700 | General Electric Co | 9,280,113 |
| 3) | 262,356 | J P Morgan Chase & Co | 9,001,434 |
| 4) | 155,500 | Gilead Sciences Inc | 8,233,725 |
| 5) | 88,180 | Exxon Mobil Corp | 7,771,303 |
| 6) | 170,000 | Hewlett Packard Co | 7,515,700 |
| 7) | 13,245 | Google Inc | 6,972,433 |
| 8) | 67,595 | Chevron Corporation | 6,700,692 |
| 9) | 237,200 | Microsoft Corp | 6,525,372 |
| 10) | 387,800 | Citigroup Inc | 6,499,528 |

### Top Ten International Stock Holdings

| | Shares | Stock | Market Value |
|---|---|---|---|
| 1) | 26,496 | E.ON AG NPV | $5,349,721 |
| 2) | 45,028 | Siemens AG NPV | 4,974,584 |
| 3) | 1,656,633 | Vodafone Group | 4,917,398 |
| 4) | 49,915 | Technip Sa Eur | 4,623,456 |
| 5) | 106,906 | TNT NV Eur0.48 | 3,658,424 |
| 6) | 104,952 | British American Tobacco | 3,632,253 |
| 7) | 119,338 | France Telecom | 3,517,910 |
| 8) | 54,415 | Vinci Eur2.50 (Post Subdivision) | 3,343,609 |
| 9) | 97,300 | Honda Motor Co | 3,313,551 |
| 10) | 313,000 | Ericsson L.M. | 3,267,707 |

### Top Ten Bond Holdings

| | Par | Bonds | Market Value |
|---|---|---|---|
| 1) | 27,500,000 | U S Treasury Bonds 5.000% 05/15/2037 | $29,562,500 |
| 2) | 72,870,000 | U S Treasury Strip 05/15/2030 | 26,320,644 |
| 3) | 30,000,000 | Israel St U S Government NTS 11/15/2013 | 24,595,200 |
| 4) | 38,700,000 | U S Treasury Strip 08/15/2020 | 22,167,360 |
| 5) | 14,800,000 | U S Treasury Bonds 6.000% 02/15/2026 | 17,339,162 |
| 6) | 19,875,000 | U S Treasury Bonds Strip 11.250% 02/15/2010 | 15,540,263 |
| 7) | 16,000,000 | Israel St U S Government GTD NTS 09/15/2010 | 15,052,480 |
| 8) | 21,309,000 | Government Ln Tr CTF CL 1-Z 10/01/2020 | 11,656,662 |
| 9) | 18,700,000 | Israel St Zero Cpn GTD CL 8-Z 08/15/2021 | 9,855,461 |
| 10) | 10,000,000 | Israel St US Government GTD NT CL-Z 03/15/2012 | 8,843,700 |

A complete list of portfolio holdings is available upon request.

Fire and Police Employees' Retirement System
City of Baltimore, Maryland
**INVESTMENT SUMMARY**
June 30, 2008

| | Market Value | Percent of Total Investments |
|---|---|---|
| Stock: | | |
| U.S. Common Stock | | |
| Financial | $ 125,697,940 | 5.94% |
| Technology | 121,284,216 | 5.73 |
| Consumer services | 67,223,777 | 3.18 |
| Health care | 66,486,740 | 3.14 |
| Capital goods | 65,056,666 | 3.08 |
| Energy | 61,035,315 | 2.89 |
| Basic industries | 41,294,993 | 1.95 |
| Consumer durables | 30,836,541 | 1.46 |
| Consumer nondurables | 28,408,754 | 1.34 |
| Utilities | 21,490,588 | 1.02 |
| Transportation | 14,101,023 | 0.67 |
| Total U.S. Common Stock | 642,916,553 | 30.40 |
| Other | | |
| International Stock | 323,093,341 | 15.27 |
| **Total Stock** | **966,009,894** | **45.67** |
| Bonds: | | |
| U.S. Securities and Agencies | | |
| U.S. Agencies | 175,754,560 | 8.31 |
| Treasury notes and bonds | 134,957,733 | 6.38 |
| Total U.S. Securities and Agencies | 310,712,293 | 14.69 |
| Corporate | | |
| Financial | 191,587,694 | 9.06 |
| Industrial | 84,655,420 | 4.00 |
| Utilities | 22,327,083 | 1.06 |
| Transportation | 12,881,403 | 0.61 |
| Total Corporate | 311,451,600 | 14.73 |
| Lehmann Aggregate Index | 31,334,091 | 1.48 |
| Absolute Return Strategic Funds | 88,889,446 | 4.20 |
| **Total Bonds** | **742,387,430** | **35.10** |
| Other Investments: | | |
| Real estate | 221,354,101 | 10.46 |
| Hedge funds | 144,071,696 | 6.81 |
| Private equity funds | 41,403,436 | 1.96 |
| **Total Other Investments** | **406,829,233** | **19.23** |
| **Total Investments** | **$2,115,226,557** | **100.00%** |

Note: This schedule includes all plan assets including the assets of the Paid Up Benefit Reserve and the Contingency Reserve.

Fire and Police Employees' Retirement System
City of Baltimore, Maryland
**SUMMARY SCHEDULE OF FEES AND COMMISSIONS**
For the Year Ended June 30, 2008

| | Assets Under Management | Fees |
|---|---|---|
| **Investment Managers' Fees** | | |
| Domestic equity | $659,763,173 | $3,249,083 |
| International equity | 326,067,343 | 2,278,760 |
| Fixed income | 746,174,266 | 704,630 |
| Real estate | 221,404,102 | 252,250 |
| Securities lending | | 682,962 |
| **Total Investment Managers' Fees** | | **$7,167,685** |
| | | |
| **Other Investment Service Fees:** | | |
| Custodial fees | | $173,546 |
| Investment advisor fees | | 253,750 |
| **Total Other Investment Service Fees** | | **$427,296** |

**Brokerage Fees**

Broker's fees on investment transactions for the year ended June 30, 2008 amounted to $1,329,423. Brokerage firms receiving more than $9,500 in fees are listed below.

| Brokerage Firms | Fees Paid | Brokerage Firms | Fees Paid |
|---|---|---|---|
| Merrill Lynch | $87,405 | Goldman Sachs | $17,337 |
| Credit Lyonnais Securities, Inc. | 83,035 | Weeden & Company | 16,823 |
| UBS | 80,580 | Stifel Nicolaus | 14,837 |
| Citigroup GBL Markets | 76,128 | Banc of America | 14,744 |
| Ridge Clearing & Outsourcing Servs. | 69,080 | Wachovia Capital Markets | 14,367 |
| Deutsche Banc Alex Brown Inc. | 66,929 | SG Warburg | 11,983 |
| Morgan Stanley | 62,477 | Raymond James & Associates | 11,555 |
| Credit Suisse First Boston | 54,571 | Liquidnet Inc. | 11,315 |
| Morgan J P Securities Inc. | 50,421 | Bernstein Sanford & Co | 10,910 |
| Instinet | 43,347 | Guzman & Company | 10,888 |
| BNY | 41,636 | BOE Securities | 10,795 |
| Lehman Brothers Inc. | 36,258 | Abel Noser Corp | 9,950 |
| Bear Stearns & Co. Inc. | 32,183 | Cantor Fitzgerald & Company | 9,805 |
| Pershing Securities | 29,256 | Morgan Keegan & Co | 9,680 |
| Jefferies & Company | 27,089 | Macquarie Equities LTD | 9,655 |
| ING Baring Securities, LTD | 17,532 | Calyon Securities | 9,592 |

**Brokerage Commissions**

Because of the highly visible nature of the Fire and Police Employees' Retirement System, it is important that the investment managers have best execution as their primary objective. While the managers are permitted to direct a portion of brokerage commissions for research, it is expected that each manager will receive commission discounts which are commensurate with current discount practice. Investment managers are expected to give preference whenever possible to brokerage firms with offices located in the Baltimore Metropolitan Area. However, the managers are expected to negotiate commission rates, and local brokerage firms should be given preference only when commission rates and transaction services are competitive with those available from other firms.

Fire and Police Employees' Retirement System
City of Baltimore, Maryland
**INVESTMENT PROFESSIONALS**

## DOMESTIC EQUITY MANAGERS

### Large Cap

INTECH
Russell Bjorkman
Palm Beach Gardens, Florida

Mellon Capital Management
Greg Kolling
Pittsburgh, Pennsylvania

Legg Mason Capital Management
Kyle P. Legg
Baltimore, Maryland

Columbus Circle Investors
Richard Pace
Stamford, Connecticut

The Edgar Lomax Company
Randall Eley
Springfield, Virginia

### Small and Mid Cap

Pinnacle Associates, Ltd.
Peter Marron
New York, New York

Rothschild Asset Management Inc
T. Radey Johnson
New York, New York

Hotchkis & Wiley Capital Management
Sheldon Lieberman
Los Angeles, California

## INTERNATIONAL EQUITY MANAGERS

William Blair & Co.
George Greig
Chicago, Illinois

Aberdeen Asset Management, Inc.
Jack Kirkpatrick
Philadelphia, Pennsylvania

Causeway Capital Management, LLC
Sarah Ketterer
Los Angeles, California

## ALTERNATIVE STRATEGIES

Union Bancaire Privee Asset Management, LLC
Peter Barcia
New York, New York

Cadogan Management, LLC
Peter Hommeyer
New York, New York

Fire and Police Employees' Retirement System
City of Baltimore, Maryland
**INVESTMENT PROFESSIONALS**

## FIXED INCOME MANAGERS

Loomis Sayles & Company, L.P.
Clifton Rowe
Boston, Massachusetts

Utendahl Capital Management, L.P.
Tom Mandel
New York, New York

MacKay Shields
Michael Kimble
New York, New York

Mellon Capital Management
Susan Ellison
San Francisco, California

Western Asset Management Company
Steve Walsh
Pasadena, California

## REAL ESTATE MANAGERS

Principal Global Investors
John Berg
De Moines, Iowa

LaSalle Investment Management, Inc.
James Hutchinson
Chicago, Illinois

Blackrock Realty
Jay Alexander, Theodore Koros
Florham Park, New Jersey
San Francisco, California

DLJ Real Estate
Andy Rifkin
New York, New York

Apollo Real Estate Advisors
Steven M. Wolf
Atlanta, Georgia

Alex Brown Realty
John M. Prugh
Baltimore, Maryland

ING Clarion
Joanne Vitale
New York, New York

Angelo Gordon Real Estate
Aliana B. Spungen
New York, New York

## PRIVATE EQUITY

Pantheon
Matthew Curran
San Francisco, California

BlackRock
Russell Steenberg
Plainsboro, New Jersey

HRJ Capital
Duran Curis
Woodside, California

Adams Street Partners
Miguel F. Gonzalo
Chicago, Illinois

Squadron Capital Advisors
David Pierce
Hong Kong

Maryland Venture Capital Trust
Baltimore, Maryland

Fire and Police Employees' Retirement System
City of Baltimore, Maryland
**INVESTMENT PROFESSIONALS**

## GLOBAL CUSTODIAN

BNY Mellon Asset Servicing
Arlene Sefcik
Pittsburgh, Pennsylvania

## SECURITIES LENDING

BNY Mellon Asset Servicing
Stephen R. Crosby
Pittsburgh, Pennsylvania

## INVESTMENT ADVISOR

The Summit Strategies Group
Daniel Holmes
St. Louis, Missouri

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# Actuarial Section

The Baltimore Police Department is committed to strengthening positive relationships with the community. At this year's Adopt-A-Block event, police officers and McGruff, the Crime Dog, gave kids a lesson in crime awareness and safety tips. McGruff, the Crime Dog is used across the country to bring a higher awareness to fight against crime, as well as to build positive relationships between police and the youth of the community.

MERCER

MARSH MERCER KROLL
GUY CARPENTER OLIVER WYMAN

November 3, 2008

Board of Trustees
Fire & Police Employees' Retirement System
Baltimore, Maryland

Honorable Members of the Board of Trustees:

Mercer performs an actuarial valuation of the System at the end of each fiscal year. The most recent valuation was as of June 30, 2008, and it determined the employer's contribution for the plan year beginning July 1, 2008. Since the contribution is always accrued, the contribution plus interest will be made during the 2010 fiscal year.

The funding method used in the annual valuation is the Projected Unit Credit Cost method. The actuarial value of assets equals the market value adjusted for investment performance above or below the assumed rate of return. The employer's contribution is increased or decreased to amortize over 20 years the difference between the actuarial value of assets and the Actuarial Accrued Liability. Since the plan year beginning July 1, 2002, this amortization has increased the employer's contribution. The employer's contribution may also decrease based on the excess of the market value of assets over the actuarial value of assets. This type of decrease has not occurred for several years and is unlikely to occur for several years.

Over the long term, the actuarial methods will tend to produce level contributions as a percentage of covered payroll as long as the average age of the active members does not change. If the average age were to increase because of a decline in the number of new members being added to the plan, the employer's contribution would begin to increase as a percentage of covered payroll. Over the short term, unless investment earnings exceed assumed earnings by significant amounts, recommended contributions are likely to increase due to recognition in the actuarial value of assets of past investment losses. The types of events that tend to cause some volatility in the contribution rates include favorable/unfavorable investment returns, benefit improvements, and actuarial gains or losses resulting from differences between actual experience and the assumed rates of retirement, disability, pay increases, etc.

The valuation is based on actuarial assumptions recommended by the actuary and approved by the Board of Trustees. The assumptions and methods used for funding purposes meet the parameters set for the disclosures presented in the financial section by Government Accounting Standards Board Statement No. 25. Some actuarial assumptions are incorporated into Article 22 of the Baltimore City Code. The plan provisions require a periodic review of the assumptions by the Actuary. Changes in assumptions based on a review of 2005-2008 experience were incorporated in the June 30, 2008 valuation. The updated assumptions resulted in a $1.0 million increase to the anticipated FY 2010 contribution requirement. Based on past experience with the System's variable benefit structure for retired members, the assumptions represent a reasonable estimate of the anticipated experience of the System. However, changes in financial markets make the repetition in the future of that past experience very uncertain.

The valuation is based on a closed group of members; no new hires are assumed. Membership data used for the actuarial valuation is supplied by the Retirement System. The data is examined by the actuary for reasonableness and consistency with the prior year's data. Asset information is provided on an unaudited basis.

All supporting schedules in the Actuarial Section and the Schedule of Funding Progress and the Schedule of Employer Contributions in the Financial Section have been prepared by the System and reviewed by me. I meet the qualification standards of the American Academy of Actuaries to render the actuarial opinion contained in this letter and the actuarial valuation report.

Respectfully submitted,

Douglas L. Rowe

Douglas L. Rowe, FSA, MAAA, EA



Consulting. Outsourcing. Investments.

**ACTUARIAL FUNDING METHOD AND ACTUARIAL ASSUMPTIONS**

## Actuarial Funding Method

| | |
|---|---|
| Method of Funding: (Effective 6/30/1988) | The Projected Unit Credit Cost Method is used. Normal Cost is calculated as that portion of projected pension cost allocated to the participant's upcoming year of service less the amount of anticipated employee contributions. No new entrants are assumed. This is a closed group valuation.<br><br>Effective July 1, 1992, the current Unfunded Actuarial Liability is open-ended and amortized over 20 years. Gains and losses are reflected in the Unfunded Actuarial Liability. |
| Asset Valuation: (Effective 6/30/1982) | The actuarial value of assets is equal to the market value, adjusted for interest surpluses and deficits over a five-year period, and less (plus) any accumulated excess (deficit) earnings. Effective 6/30/05, the accumulated deficit will be recognized in investment earnings over 10 years.<br><br>Earnings above or below the assumed return are released into the actuarial value of assets at the rate of 20% per year. This moderates fluctuations in contributions considerably. |
| Post Retirement Benefit Increases: (Effective 6/30/1983) | The liability for these increases is assumed to be equal to the assets of the Paid Up Benefit Reserve plus the Contingency Reserve. If the actuary feels that these funds are insufficient, additional reserves will be calculated. If the actuary believes that the assets in the Paid Up Benefit Reserve and Contingency Reserve are more than the liabilities for post retirement benefits, the excess is not used to reduce any other liability but simply held as excess funds to back up future post retirement benefit payments. |

## Actuarial Assumptions

| | |
|---|---|
| Investment return: (Effective 6/30/1995) | 8.25% compounded annually until retirement and 6.8% after retirement.<br><br>According to Article 22 of the Baltimore City Code, regular member accumulations earn 5.50% and DROP account accumulations earn 8.25%. |
| Expenses: | Expenses are paid from the fund. It is assumed that the fund will have sufficient earnings to pay these expenses and meet the interest assumption. |

Salary Scale:
(Effective 6/30/2008)

Salary increases are assumed to vary with age. Sample rates are as follows:

| Age | Annual Rate of Salary Increase |
|---|---|
| 20 | .0800 |
| 25 | .0700 |
| 30 | .0625 |
| 35 | .0500 |
| 40 | .0500 |
| 45 | .0500 |
| 50 | .0500 |
| 55 | .0400 |
| 60 | .0400 |
| 64 | .0400 |

The interest rate and salary assumptions are based on an inflation rate of 3.0%.

Additional Assumptions:
(Effective 7/1/1989)

| | |
|---|---|
| Spouse Age: | Husband assumed 4 years older than wife |
| Remarriage Rates: | None |
| Children: | Joint and survivor benefits loaded 4% for children |
| Percent Married: | Males 75%, females 75% |

Mortality Rates for
Retired and Disabled
Members and Beneficiaries
(Effective 6/30/2008)

Retirees and Beneficiaries

| | Service Members | | Disabled Members | |
|---|---|---|---|---|
| Age | Male | Female | Male | Female |
| 55 | 0.004944 | 0.002506 | 0.006451 | 0.002940 |
| 60 | 0.008857 | 0.004821 | 0.010671 | 0.004913 |
| 65 | 0.016076 | 0.009380 | 0.019097 | 0.008404 |
| 70 | 0.026299 | 0.014912 | 0.031079 | 0.016230 |
| 75 | 0.041156 | 0.024788 | 0.051653 | 0.029663 |
| 80 | 0.068050 | 0.042960 | 0.081603 | 0.049100 |

The mortality rates for service members are based on the 1994 Uninsured Pensioners Generational Mortality table increased by a 5-year projection in 2006. The GAM 1983 table is set forward four years and reduced by 19 percent for disabled members.

Fire and Police Employees' Retirement System
City of Baltimore, Maryland
**ACTUARIAL ASSUMPTIONS AND METHODS**

Mortality and Morbidity Rates for Active Members:
Sample rates for all mortality and morbidity are as follows (Effective 6/30/2008):

| Age | Withdrawal[1] | Non-Line-of-Duty Disability | Line-of-Duty Disability | Non-Line-of-Duty Death Male | Non-Line-of-Duty Death Female | Line-of-Duty Death[2] |
|---|---|---|---|---|---|---|
| 20 | 0.070083 | 0.000228 | 0.000864 | 0.000566 | 0.000315 | 0.000076 |
| 25 | 0.054430 | 0.000232 | 0.001138 | 0.000725 | 0.000322 | 0.000119 |
| 30 | 0.031211 | 0.000594 | 0.001792 | 0.000871 | 0.000385 | 0.000164 |
| 35 | 0.018943 | 0.001914 | 0.003520 | 0.000924 | 0.000525 | 0.000253 |
| 40 | 0.010828 | 0.001840 | 0.004988 | 0.001172 | 0.000786 | 0.000385 |
| 45 | 0.003026 | 0.002651 | 0.005644 | 0.001742 | 0.001080 | 0.000433 |
| 50 | 0.037573 | 0.002800 | 0.004600 | 0.002876 | 0.001590 | 0.000372 |
| 55 | 0.048033 | 0.001446 | 0.004664 | 0.004944 | 0.002506 | 0.000300 |
| 60 | 0.084338 | 0.001162 | 0.006208 | 0.008857 | 0.004821 | 0.000159 |
| 64 | 0.100843 | 0.000812 | 0.006353 | 0.014312 | 0.008277 | 0.000062 |

All probabilities shown on this page were based on the June 30, 2008 actuarial experience study.

[1]Withdrawal decrements are reduced to zero when participant is eligible to retire.
[2]Benefit loaded 0.50% for post-disability line-of-duty death benefit.

Fire and Police Employees' Retirement System
City of Baltimore, Maryland
**ACTUARIAL ASSUMPTIONS RETIREMENT RATES**

The retirement rates are assumed to be affected by whether or not a member participates in DROP. Members that do not join DROP are assumed to have retirement rates that vary by service until age 50. Thereafter, they are assumed to vary solely by age. It is assumed that 90% of members will elect to participate in DROP. Retirement rates are as follows and reflect possibilities of retirement with and without DROP rates (Effective 6/30/2008):

Non-DROP Rates Until Age 50 (with 90% reduction)

| Years of Service | Non-DROP Retirement Rates |
|---|---|
| 20 | 6.00% |
| 21 | 2.25 |
| 22 | 2.25 |
| 23 | 2.93 |
| 24 | 3.38 |
| 25 or more | 3.38 |

Non-DROP Rates After Age 50 (with 90% reduction)

| Age | Non-DROP Retirement Rates |
|---|---|
| 50 | 0.64 % |
| 51 | 0.46 |
| 52 | 0.46 |
| 53 | 0.47 |
| 54 | 0.59 |
| 55 | 0.73 |
| 56 | 0.69 |
| 57 | 0.69 |
| 58 | 0.69 |
| 59 | 1.39 |
| 60 | 2.12 |
| 61 | 1.72 |
| 62 | 2.55 |
| 63 | 2.55 |
| 64 | 3.23 |
| 65 | 100.00 |

Full DROP Rates

| Years After Electing DROP | DROP Retirement Rates |
|---|---|
| 1 | 4.00 % |
| 2 | 5.00 |
| 3 | 8.00 |
| 4 | 10.00 |
| 5 | 25.00 |
| 6 | 17.00 |
| 7+ | 25.00 |

Fire and Police Employees' Retirement System
City of Baltimore, Maryland
**SCHEDULE OF ACTIVE MEMBER VALUATION DATA**

| Valuation Date June 30 | Number | Annual Payroll | Annual Average Pay | % Increase In Average Pay |
|---|---|---|---|---|
| 1999 | 4,635 | $183,068,111 | $39,497 | 2.8% |
| 2000 | 4,667 | 191,003,156 | 40,926 | 3.6 |
| 2001 | 4,871 | 209,527,825 | 43,015 | 5.1 |
| 2002 | 4,875 | 227,785,032 | 46,725 | 8.6 |
| 2003 | 4,875 | 245,711,363 | 50,402 | 7.9 |
| 2004 | 4,778 | 241,245,198 | 50,491 | 0.2 |
| 2005 | 4,690 | 244,814,891 | 52,199 | 3.4 |
| 2006 | 4,627 | 248,558,248 | 53,719 | 2.9 |
| 2007 | 4,578 | 254,489,308 | 55,590 | 3.5 |
| 2008 | 4,615 | 269,690,209 | 58,438 | 5.1 |

Fire and Police Employees' Retirement Sytem
City of Baltimore, Maryland

**SCHEDULE OF RETIREES AND BENEFICIARIES ADDED TO AND REMOVED FROM ROLLS**

| | Added to Rolls | | Removed from Rolls | | Rolls - End of Year | | | |
|---|---|---|---|---|---|---|---|---|
| Year Ended June 30 | No. | Annual Allowances* | No. | Annual Allowances | No. | Annual Allowances | % Increase in Annual Allowances | Average Annual Allowances |
| 1999 | 467 | $16,829,266 | 158 | $2,775,264 | 4,964 | $108,493,822 | 14.9% | $21,856 |
| 2000 | 255 | 7,315,414 | 141 | 2,406,524 | 5,078 | 113,402,712 | 4.5 | 22,332 |
| 2001 | 202 | 5,744,867 | 151 | 2,706,188 | 5,129 | 116,441,391 | 2.7 | 22,703 |
| 2002 | 211 | 5,317,804 | 168 | 2,988,395 | 5,172 | 118,770,800 | 2.0 | 22,964 |
| 2003 | 241 | 7,127,894 | 160 | 3,209,861 | 5,253 | 122,688,833 | 3.3 | 23,356 |
| 2004 | 345 | 11,813,675 | 168 | 3,261,435 | 5,430 | 131,241,073 | 7.0 | 24,170 |
| 2005 | 314 | 14,678,942 | 166 | 3,213,125 | 5,578 | 142,706,890 | 8.7 | 25,584 |
| 2006 | 309 | 12,062,518 | 171 | 3,540,124 | 5,716 | 151,229,284 | 6.0 | 26,457 |
| 2007 | 287 | 12,085,575 | 175 | 3,750,941 | 5,828 | 159,563,918 | 5.5 | 27,379 |
| 2008 | 264 | 15,906,340 | 211 | 4,699,524 | 5,881 | 170,770,734 | 7.0 | 29,038 |

* Includes post-retirement adjustments

Fire and Police Employees' Retirement System
City of Baltimore, Maryland
**SOLVENCY TEST**

The Retirement System's funding objective is to meet long-term benefit promises through contributions which spread the cost over the employees' service base. If the contributions to the System are soundly executed, the System will pay all promised benefits when due - the ultimate test of financial soundness.

A short-term solvency test is one means of examining a system's progress under its funding program. In a short-term solvency test, the plan's present assets are compared with: 1) Active member contributions on deposit; 2) The liabilities for future benefits to present retired lives; and 3) The liabilities for service already rendered by active members. In a system which has been following the discipline of allocating cost on a consistent basis to valuation years, the liabilities for active member contributions on deposit (liability 1) and the liabilities for future benefits to present retired lives (liability 2) will be fully covered by present assets (except in rare circumstances). In addition, the liabilities for service already rendered by active members (liability 3) will be partially covered by the remainder of present assets. Generally, the funded portion of liability 3 will increase over time. Liability 3 being fully funded is rare.

The schedule below illustrates the System's history of liability 3.

| | Aggregate Accrued Liabilities For | | | | Portion of Accrued Liabilities Covered by Reported Assets | | |
|---|---|---|---|---|---|---|---|
| Valuation Date June 30 | (1) Active Member Contributions | (2) Retirees and Beneficiaries | (3) Active Members (Employer Financed Portion) | Valuation Assets | (1) | (2) | (3) |
| 1999 | $158,048,531 | $1,223,035,179 | $538,204,783 | $1,974,471,134 | 100% | 100% | 110.3% |
| 2000 | 164,329,116 | 1,258,254,621 | 606,984,750 | 2,078,331,195 | 100 | 100 | 108.0 |
| 2001 | 175,086,388 | 1,281,344,804 | 640,371,338 | 2,098,740,595 | 100 | 100 | 100.3 |
| 2002 | 187,770,301 | 1,308,031,625 | 677,386,504 | 2,127,393,333 | 100 | 100 | 93.2 |
| 2003 | 197,937,017 | 1,368,638,818 | 720,297,200 | 2,205,205,652 | 100 | 100 | 88.7 |
| 2004 | 197,462,032 | 1,502,541,087 | 695,519,580 | 2,320,027,717 | 100 | 100 | 89.1 |
| 2005 | 200,799,034 | 1,653,513,286 | 706,672,475 | 2,464,821,382 | 100 | 100 | 86.4 |
| 2006 | 206,295,261 | 1,731,864,189 | 771,770,463 | 2,505,470,848 | 100 | 100 | 73.5 |
| 2007 | 214,167,284 | 1,875,522,941 | 804,200,292 | 2,658,735,032 | 100 | 100 | 70.8 |
| 2008 | 223,169,334 | 1,933,289,565 | 837,934,859 | 2,676,354,876 | 100 | 100 | 62.0 |

Fire and Police Employees' Retirement System
City of Baltimore, Maryland
**ANALYSIS OF FINANCIAL EXPERIENCE**

**Gains and Losses in Accrued Liabilities During Fiscal Year**
**Resulting from Differences Between Assumed Experience and Actual Experience**

| Type of Activity | Gain or (Loss) for Fiscal Year 2007 | Gain or (Loss) for Fiscal Year 2008 |
|---|---|---|
| **Age and Service Retirements**<br>If members retire at older ages or with lower final average pay than assumed, there is a gain. If younger ages or higher pays, a loss. | $ (4,615,243) | $ 13,110,819 |
| **Disability Retirements**<br>If disability claims are less than assumed, there is a gain. If more claims, a loss. | (5,251,616) | (4,179,227) |
| **Death-in-Service Benefits**<br>If survivor claims are less than assumed, there is a gain. If more claims, there is a loss. | (1,321,787) | (718,402) |
| **Withdrawal From Employment**<br>If more liabilities are released by withdrawals than assumed, there is a gain. If smaller releases, a loss. | 1,052,001 | 1,326,589 |
| **Pay Increases**<br>If there are smaller pay increases than assumed, there is a gain. If greater increases, a loss. | 4,308,343 | (15,221,887) |
| **Investment Income**<br>If there is greater investment income than assumed, there is a gain. If less, a loss. | (24,135,850) | (84,072,486) |
| **Death After Retirement**<br>If retirees live longer than assumed, there is a loss. If not as long, a gain. | 879,615 | (1,673,380) |
| **New Entrants**<br>New entrants create a loss because they were not assumed in the previous evaluation. | (2,045,812) | (1,963,034) |
| **Other**<br>Miscellaneous gains and losses resulting from data adjustments, timing of financial transactions, valuation methods, etc. | (3,911,720) | 140,441 |
| **Gain or (Loss) During Year From Financial Experience** | $(35,042,069) | $(93,250,567) |

Fire and Police Employees' Retirement System
City of Baltimore, Maryland
**SUMMARY OF PLAN PROVISIONS**
For the Year Ended June 30, 2008

1. **EFFECTIVE DATE:**

   The System was established July 1, 1962, and has been amended periodically.

2. **ELIGIBILITY:**

   Any uniformed officer of the Police or Fire Departments shall become a member as a condition of employment.

3. **MEMBER CONTRIBUTIONS:**

   Members contribute at the rate of 6% of regular compensation for their entire period of service. Contributions are treated as made by the employer and are made to the System pre-tax according to Section 414(h)(2) of the Internal Revenue Code.

   Members of the Baltimore City Employees' Retirement System who transferred to this System after July 1, 1967, and did not make up the contributions which would have been made from July 1, 1962, are to have their retirement allowance reduced by the actuarial equivalent of the deficient contributions with interest.

4. **AVERAGE FINAL COMPENSATION:**

   Average Final Compensation (AFC) shall mean the average annual compensation based on eighteen consecutive months of service during which the member's compensation was highest.

5. **MILITARY SERVICE CREDIT:**

   (A) **Military Service Prior to Employment:** A maximum of three years service credit is granted provided the member has acquired:

   (1) 10 years of service and attained the age of 50; or

   (2) 20 years of service, regardless of age.

   (B) **Military Service Within Employment:** Upon retirement or death, any member who had a break in employment due to military duty, shall receive service credit for the period of absence as provided by the Veterans Reemployment Rights Act.

6. **SERVICE RETIREMENT BENEFIT:**

   (A) **Eligibility Requirements:**

   (1) For members who entered the System on or before June 30, 2003:

   (a) age 50, regardless of years of service credit; or

   (b) regardless of age, 20 years of service credit.

   (2) For members who entered the System on or after July 1, 2003:

   (a) age 50, with at least 10 years of service as a contributing member of this System; or

   (b) regardless of age, 20 years of service with at least 10 years as a contributing member of this System.

(B) **Benefit Amount:** The sum of:

(1) an annuity of the actuarial equivalent of the member's accumulated contributions and interest; plus

(2) a pension, which together with the annuity, shall be equal to 2.5% of the member's average final compensation for each of the first 20 years of service; plus

(3) 2% of the member's average final compensation for each year of service in excess of 20 years.

7. **NON-LINE-OF-DUTY DISABILITY RETIREMENT BENEFIT:**

(A) **Eligibility Requirements:** Five years of membership service and determined by a hearing examiner to be mentally or physically incapacitated for the performance of duty and that such incapacity is likely to be permanent.

(B) **Benefit Amount:** The sum of:

(1) an annuity of the actuarial equivalent of the member's accumulated contributions and interest; plus

(2) a pension, which together with the annuity, shall be equal to 2.5% of the member's average final compensation for each year of service up to 20 years; plus

(3) 2.0% of the member's average final compensation for each year of service in excess of 20 years.

(4) the total of this benefit shall not be less than 25% of the member's average final compensation.

(C) **Offset to Retirement Allowance:** This allowance is offset by workers' compensation, if the member entered the System after July 1, 1970.

8. **LINE-OF-DUTY DISABILITY RETIREMENT BENEFIT:**

(A) **Eligibility Requirements:** Immediate eligibility upon membership in the System and determined by a hearing examiner to be incapacitated for the further performance of duty, and the incapacity resulted from an injury occurring while in the actual performance of such duty without willful negligence.

Should such disability further result in extensive brain damage causing total incapacity or in the loss of or the use of both hands or both arms or both feet or both legs or both eyes or any two thereof, an additional pension will be payable.

(B) **Benefit Amount:**

(1) The sum of:

(a) an annuity of the actuarial equivalent of the member's accumulated contributions and interest; plus

(b) a pension equal to 66.667% of the member's average final compensation.

(2) If the member's disability results in extensive brain damage causing total incapacity or in the loss of or the use of both hands or both arms or both feet or both legs or both eyes or any two thereof, an additional pension is paid so that the retirement allowance is equal to 100% of the member's current annual compensation at the time of retirement.

(C) **Offset to Retirement Allowance:** This allowance is offset by workers' compensation, if the member entered the System after July 1, 1970.

9. **TERMINATION OF EMPLOYMENT:**

(A) **Eligibility Requirements:** If removed from a position without fault upon acquiring 15 years of service, the member is eligible for an immediate benefit; otherwise a refund of accumulated contributions and interest if not eligible for any other benefits.

(B) **Benefit Amount:** Determined the same as if the member had retired on a non-line-of-duty disability retirement allowance.

10. **MAXIMUM ALLOWANCE AND OPTIONAL METHODS OF RECEIVING BENEFIT PAYMENTS:**

(A) **Maximum Allowance:** Upon death, 50% of the retiree's maximum allowance is paid to the spouse provided they had been married for at least one year prior to retirement or five years beginning before or after retirement. A spouse remains eligible for the maximum benefit unless she or he remarries or until death. If there is no eligible spouse, the allowance will be paid to any minor and unmarried children until the last child marries, dies, or attains age 18 or age 22 if a full-time student. All other options will result in a lesser amount paid.

(B) **Reserve Guarantee Option:** Upon retiree's death, a cash refund to retiree's designated beneficiary based on present value of allowance at retirement less payments made.

(C) **100% Joint and Survivor Option:** Upon retiree's death, 100% of retiree's allowance to continue to designated beneficiary.

(D) **50% Joint and Survivor Option:** Upon retiree's death, 50% of retiree's allowance to continue to designated beneficiary.

(E) **100% Pop-up Joint and Survivor Option:** Upon retiree's death, 100% of retiree's allowance to continue to designated beneficiary. If the beneficiary predeceases member, the member's benefit "pops up" to the maximum allowance.

(F) **50% Pop-up Joint and Survivor Option:** Upon retiree's death, 50% of retiree's allowance to continue to designated beneficiary. If the beneficiary predeceases member, the member's benefit "pops up" to the maximum allowance.

(G) **Specific Benefit Option:** Upon the retiree's death and subject to the approval of the Board of Trustees, the member's designated beneficiary will receive:

(1) a specific lump sum amount; or

(2) a specific periodical allowance.

These options are available for service, termination, non-line-of-duty disability, and line-of-duty disability retirement. The option and/or beneficiary may be changed within thirty days after retirement.

11. **NON-LINE-OF-DUTY DEATH BENEFIT:**

(A) **Eligibility Requirements:** Member who dies while actively employed but whose death does not qualify as a line-of-duty death.

(B) **Benefit Amount:**

(1) Lump-sum benefit: The member's accumulated contributions and interest and if the member has one or more years of service, 50% of the greater of the member's current annual compensation or average final compensation shall be payable to the member's designated beneficiary or as specified by the plan provisions.

(2) 25% plus benefit: In lieu of (1) above, if the member had at least two years of continuous service, an annual sum equal to 25% of the member's current annual compensation, plus 1.5% of the member's current annual compensation for each year of service in excess of two years. This benefit is not to exceed 50% of the member's current annual compensation. This benefit shall be payable to:

(a) the member's spouse unless the spouse remarries or dies; or

(b) the member's minor and unmarried children equally until the last child marries, dies or attains age 18 or age 22 if a full-time student.

(3) 100% survivorship benefit: If the member was eligible for a service retirement and the member's designated beneficiary is his spouse to whom he was married for at least one year prior to the date of death, or surviving parent, such beneficiary may elect to receive in lieu of (1) and (2) above, an allowance equal to the amount that would have been paid under the 100% Joint and Survivor Option.

(C) **Offset to Retirement Allowance:** This allowance is offset by workers' compensation, if the member entered the System after July 1, 1970.

12. **LINE-OF-DUTY DEATH BENEFIT:**

(A) **Eligibility Requirements**:

(1) Immediate eligibility upon membership in the System and determined by a hearing examiner that the member's death arose out of and in the course of the performance of duty, without willful negligence on the part of the member; or

(2) A member has been granted a line-of-duty disability and dies within five years as a result of the last injury that resulted in a line-of-duty disability retirement.

(B) **Benefit Amount:** This benefit will consist of:

(1) A refund of the member's accumulated contributions and interest to the member's designated beneficiary or as specified by the plan provisions, and

(2) A pension of 100% of member's current annual compensation to be paid to:

(a) the member's surviving spouse to continue for life; or

(b) if no surviving spouse or the spouse dies, then equally to the member's minor and unmarried children equally until the last child marries, dies or attains age 18 or age 22 if a full-time student; or

(c) if no surviving spouse or eligible minor child or children, then to the member's surviving dependent parents to continue for life.

(C) **Offset to Retirement Allowance:** This allowance is offset by workers' compensation, if the member entered the System after July 1, 1970.

13. **DEFERRED RETIREMENT OPTION PLAN (DROP):**

(A) **Eligibility:**

(1) For members who entered the System on or before June 30, 2003, a member must have acquired 20 or more years of service, regardless of age.

(2) For members who entered the System on or after July 1, 2003, a member must have acquired 20 or more years of service with at least 10 years of service as a contributing member of this System, regardless of age.

(3) An application must be filed not less than 30 days nor more than 90 days prior to the date the DROP participation will begin.

(4) A member who terminates employment immediately becomes ineligible to participate or to continue to participate in the DROP.

(B) **Term of DROP:**

The maximum period of time that a member can participate in the DROP is a single term of three consecutive years beginning on the member's DROP start date.

(C) **No Service Credit While in DROP:**

A DROP participant remains a member of the F&P but is not credited with F&P service.

Except for Intermediate DROP Retirement Benefits, compensation during the member's DROP participation period shall be disregarded in calculating the member's AFC.

(D) **Discontinuation of DROP Participation:**

(1) If a member terminates service anytime during or at the end of the three-year DROP period, participation in the DROP ends automatically.

(2) A member may elect to end participation in the DROP on either the first or second anniversary of the DROP participation start date. The election must be made by filing an application with the System not less than 30 days and no more than 90 days prior to the first or second anniversary of the member's DROP start date.

(3) A member who continues employment after terminating participation in the DROP shall resume earning service credit in the F&P.

(4) Once a member terminates participation in the DROP, the member cannot again participate in the DROP at a later date.

(5) If a member retires at the end of the participation in the DROP, begins receiving DROP retirement benefits, and is then re-employed in a position covered by the F&P, all DROP retirement benefit payments will be suspended until the member's later retirement.

(E) **DROP Account:** The member's DROP account shall consist of:

(1) For each full year of a member's DROP participation, an amount equal to the annual service retirement allowance the member would have received had the member retired from service and began receiving the maximum retirement allowance;

(2) For each partial year of a member's DROP participation, an amount equal to a member's pro-rated annual service retirement allowance;

(3) A separate sub-account consisting of the member's regular mandatory contributions: and

(4) Interest compounded annually at 8.25% until the member terminates from service.

(F) **DROP Retirement Benefit:**

(1) Basic DROP Retirement Benefit:

A member who terminates service during or at the conclusion of the DROP participation period will receive:

(a) the service retirement benefit the member would have received if the member had retired on the date the DROP participation began; and

(b) the balance in the member's DROP account.

(2) Intermediate DROP Retirement Benefit:

A member who continues working following the conclusion of the DROP participation period and terminates service within 18 months after the DROP participation period has ended will receive:

(a) all benefits under the Basic DROP Benefit;

(b) 3.5% of the member's AFC for each year of service credit earned by employment following the DROP participation period (taking into account the member's annual compensation while in DROP), not to exceed 18 months; and

(c) 2% of the member's AFC for each year of service not already included in the calculation of the member's retirement benefit under (a) and (b).

(3) Full DROP Retirement Benefit:

A member who continues working following the conclusion of the DROP participation period and terminates service 18 or more months after the DROP participation period has ended will receive:

(a) the full service retirement as of the member's actual date of retirement, excluding the member's time while in the DROP; plus

(b) 1.5% of the member's AFC for each year of service credit earned by employment following DROP, not to exceed four years; and

(c) the balance in the member's DROP account.

(4) Non-Line-of-Duty Disability Retirement Benefit:

(a) any member who retires on account of a non-line-of-duty disability during or at the end of the DROP participation period will receive the Basic DROP Retirement Benefit.

(b) any member who retires on account of a non-line-of-duty disability within 18 months after the end of the DROP participation period will receive the Intermediate DROP Retirement Benefit.

(c) any member who retires on account of a non-line-of-duty disability 18 or more months after the end of the DROP participation period will receive the Full DROP Retirement Benefit.

(5) Line-of-Duty Disability Retirement Benefit:

Any member who retires on account of a line-of-duty disability during or after the DROP participation period will receive the line-of-duty disability retirement benefit consisting of: an annuity of the member's accumulated contributions and interest, plus 66.667% of current AFC. This benefit will be paid instead of any DROP retirement benefits and the member will not receive the balance in the DROP account.

(6) Non-Line-of-Duty Death Benefit:

Due to the non-line-of-duty death of a member who dies during or after the DROP participation period, the beneficiary will receive the non-line-of-duty death benefit, which in addition will consist of:

(a) Lump-sum benefit: The beneficiary of a deceased DROP participant must also receive the balance of the deceased member's DROP account in a lump sum payment; or

(b) 25% plus benefit: In lieu of (a) above, the beneficiary of a deceased DROP participant can elect to receive the 25% plus benefit. This benefit shall be payable to:

(i) the member's spouse, while unmarried, or if the spouse remarries or dies; or

(ii) the member's minor and unmarried children equally until the last child marries, dies or attains age 18 or age 22 if a full-time student.

The beneficiary can elect to receive the balance of the deceased member's DROP account in a lump sum or in periodic payments.

(c) 100% survivorship benefit: If a spouse or surviving parent of a deceased DROP member elects to receive the non-line-of-duty death retirement benefit, such beneficiary can elect to receive the balance of the deceased member's DROP account in a lump sum payment or in periodic payments.

(7) Line-of-Duty Death Benefit:

The line-of-duty death benefit payable due to the death of a member who dies during or after the DROP participation period will equal either of the following as elected by the member's beneficiary:

(a) the non-line-of-duty death benefit including DROP benefits as described above; or

(b) the line-of-duty death benefit payable as though the member had never participated in the DROP.

(8) Benefits for Re-employed DROP Participants:

(a) if a member receiving DROP retirement benefits is re-employed in a position covered by the F&P or any Baltimore City sponsored retirement system and then later receives a service or disability retirement, the member will resume receiving the DROP benefits which had been suspended at the time of re-employment. Additionally, the member will receive 2% of the member's AFC for each year of service credit earned during the re-employment period.

(b) if a member receiving DROP retirement benefits is re-employed in a position covered by the F&P, and then dies during employment, the member's beneficiary will receive a non-line-of-duty death benefit. This re-employment death benefit also applies to line-of-duty death.

(G) **DROP Post-Retirement Benefit Increases:**

(1) A member who retires during or at the end of the DROP participation period will have that DROP participation period credited toward the eligibility requirement for post-retirement benefit increases.

(2) A member who continues working at the end of the DROP participation period will not have that DROP participation period credited toward the eligibility requirement for post-retirement benefit increases.

(3) Post-retirement benefit increases for former DROP participants are applied prospectively.

(H) **Form of Payment of Benefits from DROP Account:**

A member (or a beneficiary after the death of the member in service) can choose to receive the total balance of the DROP account as:

(1) One lump sum after the member's retirement; or

(2) Periodic payments in the same form as the member's retirement benefit.

14. **POST-RETIREMENT BENEFIT INCREASES:**

Post-retirement benefit increases are automatically provided to certain retirees and beneficiaries when investment performance determined as of each June 30 exceeds 7.5%. Retirees and beneficiaries who have been receiving periodic benefit payments for two or more years as of the June 30 determination date are eligible for the increase. An exception exists for DROP participants who retire during or at the end of their DROP participation period. Basic DROP retirees will have their DROP participation period credited toward the eligibility requirements for post-retirement benefit increases. The actuarially determined increase is payable as equal percentage increases commencing in the January following the June 30 investment performance determination date.

# Statistical Section


The Baltimore City Fire and Police Departments united forces to participate in National Night Out. National Night Out is an annual crime/drug prevention event designed to heighten crime and drug prevention awareness, strengthen community partnerships, and promote neighborhood spirit. Standing together at the 25th Annual National Night Out event are Police Commissioner Frederick H. Bealefeld, III, Mayor Sheila Dixon and Fire Chief James S. Clack.

Fire and Police Employees' Retirement System
City of Baltimore, Maryland
**STATISTICAL SECTION NARRATIVE**

The Statistical Section of this Comprehensive Annual Financial Report presents information to add historical perspective, context, and detail to the financial statements, notes to financial statements, and required supplementary information presented in the preceding sections. To provide historical perspective and a sense of trends, most exhibits in this Section are presented in multiple-year formats. The information is categorized into two topical groups: Financial Trends and Demographic and Economic Information.

Financial Trends

These schedules contain trend information to help the reader understand how the F&P's financial performance has changed over time.

Statement of Changes in Plan Net Assets - Fiscal Years 1999 - 2008
Revenues by Source - Fiscal Years 1999 - 2008
Expenses by Type - Fiscal Years 1999 - 2008
Benefit Expenses by Type - Fiscal Years 1999 - 2008
Average Monthly Service Retirement Benefit Payments - Fiscal Years 1999 - 2008

Demographic and Economic Information

These schedules offer demographic indicators to help the reader understand trends in F&P membership.

Active Members by Years of Service - Fiscal Years 1999 - 2008
Active DROP Members by Fiscal Year of DROP Entry and Department – Fiscal Years 1997 – 2008
Active Members and Active DROP Members by Years of Service and Department
Retirees and Beneficiaries by Attained Age and Type of Retirement
DROP Retirees and DROP Beneficiaries by Attained Age and Type of Retirement

Fire and Police Employees' Retirement System
City of Baltimore, Maryland
**CHANGES IN PLAN NET ASSETS**

| | 1999 | 2000 | 2001 | 2002 | 2003 |
|---|---|---|---|---|---|
| **Additions** | | | | | |
| Net investment income | $200,443,433 | $153,861,543 | $ (91,538,575) | $(116,309,906) | $ 44,013,099 |
| Employer contributions | 268,139 | 235,272 | 217,340 | 252,220 | 34,678,878 |
| Member contributions | 8,381,576 | 9,470,800 | 11,526,631 | 14,241,040 | 15,159,112 |
| Net securities lending income | | 754,867 | 810,855 | 819,795 | 624,204 |
| **Total Additions** | 209,093,148 | 164,322,482 | (78,983,749) | (100,996,851) | 94,475,293 |
| **Deductions** | | | | | |
| Retirement allowances | 98,715,496 | 114,825,783 | 115,816,317 | 118,137,697 | 120,442,353 |
| Lump sum DROP payments | 25,901,332 | 12,934,599 | 11,148,700 | 7,545,984 | 12,147,757 |
| Administrative expenses | 1,476,168 | 1,087,798 | 1,284,702 | 1,520,942 | 1,562,487 |
| Refunds of member contributions | 877,485 | 1,078,875 | 804,084 | 800,898 | 1,059,150 |
| Death benefits | 425,789 | 669,134 | 531,714 | 540,949 | 126,270 |
| **Total Deductions** | 127,396,270 | 130,596,189 | 129,585,517 | 128,546,470 | 135,338,017 |
| **Net Increase (Decrease)** | $ 81,696,878 | $ 33,726,293 | $(208,569,266) | $(229,543,321) | $(40,862,724) |

Fire and Police Employees' Retirement System
City of Baltimore, Maryland
**CHANGES IN PLAN NET ASSETS (Concluded)**

| | 2004 | 2005 | 2006 | 2007 | 2008 |
|---|---|---|---|---|---|
| **Additions** | | | | | |
| Net investment income | $ 222,184,012 | $218,297,510 | $178,616,240 | $ 347,068,360 | $ (97,529,998) |
| Employer contributions | 42,699,166 | 48,666,701 | 49,661,627 | 60,128,727 | 72,687,585 |
| Member contributions | 15,421,154 | 15,359,931 | 15,157,898 | 15,438,649 | 16,547,425 |
| Net securities lending income | 536,506 | 389,616 | 561,649 | 756,603 | 2,049,347 |
| **Total Additions** | 280,840,838 | 282,713,758 | 243,997,414 | 423,392,339 | (6,245,641) |
| **Deductions** | | | | | |
| Retirement allowances | 126,884,291 | 135,950,256 | 147,353,252 | 155,639,508 | 166,119,977 |
| Lump sum DROP payments | 24,494,758 | 22,253,341 | 14,025,599 | 12,950,280 | 14,118,642 |
| Administrative expenses | 1,905,163 | 2,143,390 | 2,552,458 | 2,818,795 | 3,264,028 |
| Refunds of member contributions | 1,093,504 | 1,403,449 | 1,708,619 | 2,007,222 | 1,627,871 |
| Death benefits | 551,962 | 620,679 | 520,214 | 721,942 | 63,151 |
| **Total Deductions** | 154,929,678 | 162,371,115 | 166,160,142 | 174,137,747 | 185,193,669 |
| **Net Increase (Decrease)** | $ 125,911,160 | $120,342,643 | $ 77,837,272 | $ 249,254,592 | $(191,439,310) |

Fire and Police Employees' Retirement System
City of Baltimore, Maryland
**REVENUES BY SOURCE**

| Fiscal Year | Net Investment Income | Employer Contributions | | Member Contributions | Total |
|---|---|---|---|---|---|
| | | Amount | % of Covered Payroll | | |
| 1999 | $ 200,443,433 | $ 268,139 | 0.1% | $ 8,381,576 | $209,093,148 |
| 2000 | 154,616,410 | 235,272 | 0.1 | 9,470,800 | 164,322,482 |
| 2001 | (90,727,720) | 217,340 | 0.1 | 11,526,631 | (78,983,749) |
| 2002 | (115,490,111) | 252,220 | 0.1 | 14,241,040 | (100,996,851) |
| 2003 | 44,637,303 | 34,678,878 | 14.1 | 15,159,112 | 94,475,293 |
| 2004 | 222,720,518 | 42,699,166 | 17.7 | 15,421,154 | 280,840,838 |
| 2005 | 218,687,126 | 48,666,701 | 19.9 | 15,359,931 | 282,713,758 |
| 2006 | 179,177,889 | 49,661,627 | 20.0 | 15,157,898 | 243,997,414 |
| 2007 | 347,824,963 | 60,128,727 | 23.6 | 15,438,649 | 423,392,339 |
| 2008 | (95,480,651) | 72,687,585 | 27.0 | 16,547,425 | (6,245,641) |

Note: Employer contributions were made in accordance with actuarially determined contribution requirements.

Fire and Police Employees' Retirement System
City of Baltimore, Maryland
**EXPENSES BY TYPE**

| Fiscal Year | Retirement Benefits | DROP Payments | Refunds | Administrative Expenses | Total |
|---|---|---|---|---|---|
| 1999 | $ 99,141,285 | $25,901,332 | $ 877,485 | $1,476,168 | $127,396,270 |
| 2000 | 115,494,917 | 12,934,599 | 1,078,875 | 1,087,798 | 130,596,189 |
| 2001 | 116,348,031 | 11,148,700 | 804,084 | 1,284,702 | 129,585,517 |
| 2002 | 118,678,646 | 7,545,984 | 800,898 | 1,520,942 | 128,546,470 |
| 2003 | 120,568,623 | 12,147,757 | 1,059,150 | 1,562,487 | 135,338,017 |
| 2004 | 127,436,253 | 24,494,758 | 1,093,504 | 1,905,163 | 154,929,678 |
| 2005 | 136,570,935 | 22,253,341 | 1,403,449 | 2,143,390 | 162,371,115 |
| 2006 | 147,873,466 | 14,025,599 | 1,708,619 | 2,552,458 | 166,160,142 |
| 2007 | 156,361,450 | 12,950,280 | 2,007,222 | 2,818,795 | 174,137,747 |
| 2008 | 166,183,128 | 14,118,642 | 1,627,871 | 3,264,028 | 185,193,669 |

Fire and Police Employees' Retirement System
City of Baltimore, Maryland
**BENEFIT EXPENSES BY TYPE**

| Year | Age and Service Benefits | | Death Benefits | | | Disability Benefits | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | | | | | Retirees | | | |
| Ending | Retirees | Beneficiaries | Duty | Non-Duty | Lump Sum | Duty | Non-Duty | Beneficiaries | Total |
| 1999 | $90,590,660 | $4,942,201 | $2,036,030 | $2,650,538 | $169,938 | $15,341,618 | $5,591,684 | $3,719,948 | $125,042,617 |
| 2000 | 90,685,753 | 5,667,627 | 2,208,325 | 2,818,393 | 637,708 | 16,325,621 | 5,888,643 | 4,197,446 | 128,429,516 |
| 2001 | 86,485,377 | 6,515,936 | 2,469,426 | 3,121,856 | 378,886 | 17,523,788 | 6,140,540 | 4,860,922 | 127,496,731 |
| 2002 | 88,370,371 | 6,641,581 | 2,367,554 | 2,835,013 | 114,338 | 16,031,594 | 5,462,832 | 4,401,347 | 126,224,630 |
| 2003 | 94,740,211 | 7,191,867 | 2,366,651 | 2,764,583 | 22,790 | 15,944,128 | 5,259,650 | 4,426,500 | 132,716,380 |
| 2004 | 112,012,174 | 7,250,029 | 2,365,946 | 2,847,450 | 251,077 | 16,124,695 | 5,019,237 | 6,060,403 | 151,931,011 |
| 2005 | 119,001,250 | 7,783,462 | 2,482,341 | 2,904,441 | 394,961 | 16,792,991 | 5,027,007 | 4,437,823 | 158,824,276 |
| 2006 | 118,470,165 | 8,380,341 | 2,564,442 | 2,853,866 | 258,136 | 19,654,354 | 5,107,533 | 4,610,228 | 161,899,065 |
| 2007 | 123,111,432 | 9,121,591 | 2,736,442 | 3,026,112 | 335,991 | 20,835,183 | 5,367,831 | 4,777,148 | 169,311,730 |
| 2008 | 131,942,122 | 10,116,092 | 2,914,432 | 3,142,188 | 63,151 | 21,797,015 | 5,331,204 | 4,995,566 | 180,301,770 |

Fire and Police Employees' Retirement System
City of Baltimore, Maryland
**AVERAGE MONTHLY SERVICE RETIREMENT BENEFIT PAYMENTS**

| Retirement Effective Dates | Years of Credited Service | | | | |
|---|---|---|---|---|---|
| From July 1, 1998 to June 30, 2008 | 10-15 | 16-20 | 21-25 | 26-30 | 31+ |
| Period 7/1/98 to 6/30/99 | | | | | |
| Average Monthly Benefit | $ 1,921 | $ 1,473 | $ 1,788 | $ 2,283 | $ 2,815 |
| Average-Average Final Compensation | 37,803 | 39,180 | 38,640 | 41,256 | 48,364 |
| Number of Active Retirees | 3 | 2 | 77 | 129 | 110 |
| Period 7/1/99 to 6/30/00 | | | | | |
| Average Monthly Benefit | | 1,873 | 1,918 | 2,308 | 2,782 |
| Average-Average Final Compensation | | 50,632 | 44,344 | 44,888 | 46,816 |
| Number of Active Retirees | | 4 | 53 | 43 | 63 |
| Period 7/1/00 to 6/30/01 | | | | | |
| Average Monthly Benefit | | | 2,103 | 3,041 | 3,855 |
| Average-Average Final Compensation | | | 45,043 | 48,864 | 51,470 |
| Number of Active Retirees | | | 33 | 36 | 30 |
| Period 7/1/01 to 6/30/02 | | | | | |
| Average Monthly Benefit | 1,446 | 2,008 | 2,496 | 3,501 | 4,180 |
| Average-Average Final Compensation | 43,978 | 47,757 | 48,948 | 56,103 | 60,767 |
| Number of Active Retirees | 1 | 3 | 43 | 28 | 18 |
| Period 7/1/02 to 6/30/03 | | | | | |
| Average Monthly Benefit | | 2,119 | 2,673 | 3,956 | 4,216 |
| Average-Average Final Compensation | | 51,415 | 55,580 | 63,309 | 58,133 |
| Number of Active Retirees | | 1 | 38 | 49 | 41 |

Fire and Police Employees' Retirement System
City of Baltimore, Maryland
**AVERAGE MONTHLY SERVICE RETIREMENT BENEFIT PAYMENTS (Concluded)**

| | Years of Credited Service | | | | |
|---|---|---|---|---|---|
| | 10-15 | 16-20 | 21-25 | 26-30 | 31+ |
| Period 7/1/03 to 6/30/04 | | | | | |
| Average Monthly Benefit | $ 866 | $ 2,359 | $ 2,570 | $ 3,822 | $ 4,359 |
| Average-Average Final Compensation | 48,937 | 55,083 | 57,040 | 61,335 | 61,267 |
| Number of Active Retirees | 1 | 3 | 56 | 49 | 78 |
| Period 7/1/04 to 6/30/05 | | | | | |
| Average Monthly Benefit | 1,293 | 2,301 | 2,935 | 3,850 | 4,642 |
| Average-Average Final Compensation | 54,254 | 59,831 | 60,018 | 61,690 | 63,948 |
| Number of Active Retirees | 1 | 3 | 80 | 31 | 36 |
| Period 7/1/05 to 6/30/06 | | | | | |
| Average Monthly Benefit | | 2,019 | 2,777 | 3,379 | 3,799 |
| Average-Average Final Compensation | | 53,983 | 60,022 | 59,098 | 62,493 |
| Number of Active Retirees | | 2 | 70 | 25 | 44 |
| Period 7/1/06 to 6/30/07 | | | | | |
| Average Monthly Benefit | | 3,518 | 2,941 | 3,651 | 3,573 |
| Average-Average Final Compensation | | 100,170 | 62,489 | 64,576 | 63,410 |
| Number of Active Retirees | | 2 | 57 | 12 | 76 |
| Period 7/1/07 to 6/30/08 | | | | | |
| Average Monthly Benefit | 1,615 | | 3,098 | 4,081 | 5,081 |
| Average-Average Final Compensation | 55,048 | | 65,961 | 67,680 | 74,043 |
| Number of Active Retirees | 3 | | 88 | 25 | 16 |
| Period 7/1/98 to 6/30/08 | | | | | |
| Average Monthly Benefit | 1,460 | 1,934 | 2,177 | 2,798 | 3,267 |
| Average-Average Final Compensation | 46,472 | 50,121 | 47,207 | 48,707 | 52,234 |
| Number of Active Retirees | 9 | 20 | 595 | 427 | 512 |

Fire and Police Employees' Retirement System
City of Baltimore, Maryland
**SCHEDULE OF ACTIVE MEMBERS BY YEARS OF SERVICE**

| Years of Credited Service | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 |
|---|---|---|---|---|---|---|---|---|---|---|
| 0-4 | 947 | 968 | 1,124 | 1,153 | 1,179 | 1,114 | 1,084 | 1,019 | 1,017 | 1,088 |
| 5-9 | 1,101 | 1,048 | 1,079 | 1,034 | 933 | 912 | 885 | 931 | 949 | 946 |
| 10-14 | 757 | 856 | 820 | 777 | 861 | 991 | 935 | 948 | 902 | 814 |
| 15-19 | 716 | 623 | 606 | 640 | 679 | 696 | 773 | 717 | 661 | 757 |
| 20-24 | 366 | 447 | 584 | 642 | 668 | 581 | 507 | 473 | 514 | 515 |
| 25-29 | 504 | 444 | 380 | 329 | 244 | 233 | 279 | 345 | 348 | 329 |
| 30+ | 244 | 281 | 278 | 300 | 311 | 251 | 227 | 194 | 187 | 166 |
| Total Members | 4,635 | 4,667 | 4,871 | 4,875 | 4,875 | 4,778 | 4,690 | 4,627 | 4,578 | 4,615 |
| Average Service Credit | 13.13 | 12.94 | 12.60 | 12.81 | 12.88 | 12.56 | 12.48 | 12.46 | 12.52 | 12.34 |
| Average Age | 38.53 | 38.99 | 38.42 | 38.37 | 38.26 | 38.75 | 38.55 | 38.66 | 38.73 | 38.91 |

Fire and Police Employees' Retirement System
City of Baltimore, Maryland

**SCHEDULE OF CURRENT ACTIVE MEMBERS BY YEARS OF SERVICE AND DEPARTMENT**

**SCHEDULE OF CURRENT ACTIVE DROP MEMBERS BY YEARS OF SERVICE AND DEPARTMENT**

For the Year Ended June 30, 2008

**Schedule of Current Active Members By Years of Service and Department**

| Years of Credited Service | Police Department | Fire Department | School Crossing Guards | Airport Employees | Total |
|---|---|---|---|---|---|
| 0-4 | 681 | 407 | | | 1,088 |
| 5-9 | 640 | 306 | | | 946 |
| 10-14 | 614 | 200 | | | 814 |
| 15-19 | 489 | 267 | | 1 | 757 |
| 20-24 | 284 | 219 | | 12 | 515 |
| 25-29 | 181 | 144 | | 4 | 329 |
| 30+ | 78 | 82 | 4 | 2 | 166 |
| Total Members | 2,967 | 1,625 | 4 | 19 | 4,615 |

**Schedule of Current Active DROP Members By Years of Service and Department**

| Years of Credited Service | Police Department | Fire Department | School Crossing Guards | Airport Employees | Total |
|---|---|---|---|---|---|
| 20-24 | 233 | 205 | | 7 | 445 |
| 25-29 | 180 | 142 | | 4 | 326 |
| 30+ | 77 | 81 | 1 | 2 | 161 |
| Total DROP Members | 490 | 428 | 1 | 13 | 932 |

Fire and Police Employees' Retirement System
City of Baltimore, Maryland
**SCHEDULE OF CURRENT ACTIVE DROP MEMBERS BY FISCAL YEAR OF DROP ENTRY AND DEPARTMENT**

| Year of DROP Entry | Police Department | Fire Department | School Crossing Guards | Airport Employees | Total |
|---|---|---|---|---|---|
| 7/1/96 - 6/30/97 | 61 | 66 | | 2 | 129 |
| 7/1/97 - 6/30/98 | 6 | 4 | | | 10 |
| 7/1/98 - 6/30/99 | 13 | 8 | 1 | | 22 |
| 7/1/99 - 6/30/00 | 28 | 41 | | 1 | 70 |
| 7/1/00 - 6/30/01 | 32 | 29 | | 1 | 62 |
| 7/1/01 - 6/30/02 | 48 | 36 | | | 84 |
| 7/1/02 - 6/30/03 | 26 | 35 | | | 61 |
| 7/1/03 - 6/30/04 | 46 | 12 | | 2 | 60 |
| 7/1/04 - 6/30/05 | 27 | 30 | | 1 | 58 |
| 7/1/05 - 6/30/06 | 73 | 51 | | 4 | 128 |
| 7/1/06 - 6/30/07 | 47 | 42 | | 1 | 90 |
| 7/1/07 - 6/30/08 | 83 | 74 | | 1 | 158 |
| Total DROP Members | 490 | 428 | 1 | 13 | 932 |

Fire and Police Employees' Retirement System
City of Baltimore, Maryland
**SCHEDULE OF RETIREES BY ATTAINED AGE AND TYPE OF RETIREMENT**
For the Year Ended June 30, 2008

| | | TYPE OF RETIREMENT* | | | | |
|---|---|---|---|---|---|---|
| Age | Number of Recipients | 0 | 2 | 3 | 4 | 9 |
| 25-29 | 3 | | | | 3 | |
| 30-34 | 24 | | | 5 | 19 | |
| 35-39 | 67 | 1 | 1 | 16 | 49 | |
| 40-44 | 170 | 67 | 8 | 18 | 76 | 1 |
| 45-49 | 281 | 182 | 3 | 25 | 70 | 1 |
| 50-54 | 410 | 346 | 1 | 18 | 45 | |
| 55-59 | 644 | 562 | | 21 | 61 | |
| 60-64 | 863 | 743 | 1 | 34 | 85 | |
| 65-69 | 616 | 513 | | 32 | 69 | 2 |
| 70-74 | 503 | 381 | | 45 | 77 | |
| 75-79 | 459 | 330 | | 44 | 84 | 1 |
| 80-84 | 297 | 219 | | 31 | 46 | 1 |
| 85 and up | 141 | 102 | | 14 | 25 | |
| Totals | 4,478 | 3,446 | 14 | 303 | 709 | 6 |
| Average Annual Benefit | $33,294 | $35,002 | $30,621 | $18,213 | $31,321 | $53,103 |

*Type of Retirement
0 - Normal retirement for age and service
2 - Discontinued service
3 - Non-line-of-duty disability
4 - Line-of-duty disability
9 - Line-of-duty disability, 100% of compensation

Fire and Police Employees' Retirement System
City of Baltimore, Maryland
**SCHEDULE OF BENEFICIARIES BY ATTAINED AGE AND TYPE OF RETIREMENT**
For the Year Ended June 30, 2008

| | | TYPE OF RETIREMENT* | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| Age | Number of Recipients | 0 | 2 | 3 | 4 | 6 | 7a | 7b | 8 |
| 0-24 | 29 | 2 | | 2 | 5 | | | 12 | 8 |
| 25-29 | 2 | | | 1 | | | | 1 | |
| 30-34 | 1 | | | | | | | 1 | |
| 35-39 | 7 | | | | | | | 1 | 6 |
| 40-44 | 12 | 6 | | 1 | 2 | | 1 | | 2 |
| 45-49 | 38 | 26 | | 2 | 3 | 2 | | 2 | 3 |
| 50-54 | 72 | 42 | | 6 | 8 | 8 | 3 | 2 | 3 |
| 55-59 | 102 | 57 | 1 | 9 | 6 | 13 | 6 | 2 | 8 |
| 60-64 | 129 | 78 | | 11 | 11 | 9 | 10 | 1 | 9 |
| 65-69 | 155 | 85 | | 19 | 26 | 11 | 8 | | 6 |
| 70-74 | 202 | 92 | | 38 | 44 | 13 | 9 | | 6 |
| 75-79 | 232 | 107 | | 45 | 51 | 20 | 4 | | 5 |
| 80-84 | 229 | 125 | | 35 | 47 | 11 | 1 | 1 | 9 |
| 85 and up | 193 | 115 | | 26 | 30 | 10 | 3 | | 9 |
| Totals | 1,403 | 735 | 1 | 195 | 233 | 97 | 45 | 23 | 74 |
| Average Annual Benefit | $15,453 | $14,343 | $11,971 | $10,264 | $12,785 | $23,732 | $11,485 | $18,764 | $39,137 |

*Type of Retirement
0 - Normal retirement for age and service
2 - Discontinued service
3 - Non-line-of-duty disability
4 - Line-of-duty disability
6 - Non-line-of-duty death, member eligible for service retirement at death
7a - Non-line-of-duty death, 25% of compensation
7b - Non-line-of-duty death, 25% of compensation, plus 1.5% of compensation for each year in excess of two years
8 - Line-of-duty death

Fire and Police Employees' Retirement System

City of Baltimore, Maryland

**SCHEDULE OF DROP RETIREES BY ATTAINED AGE AND TYPE OF RETIREMENT**

**SCHEDULE OF DROP BENEFICIARIES BY ATTAINED AGE AND TYPE OF RETIREMENT**

For the Year Ended June 30, 2008

**Schedule of DROP Retirees by Attained Age and Type of Retirement**

| Age | Number of Recipients | TYPE OF RETIREMENT* 0 | 4 |
|---|---|---|---|
| 40-44 | 32 | 32 | |
| 45-49 | 136 | 133 | 3 |
| 50-54 | 255 | 250 | 5 |
| 55-59 | 358 | 349 | 9 |
| 60-64 | 371 | 367 | 4 |
| 65-69 | 168 | 167 | 1 |
| 70-74 | 55 | 55 | |
| Totals | 1,375 | 1,353 | 22 |
| Average Annual Benefit | $40,408 | $40,386 | $41,736 |

**Schedule of DROP Beneficiaries by Attained Age and Type of Retirement**

| Age | Number of Recipients | TYPE OF RETIREMENT* 0 | 3 | 4 | 6 | 7b | 8 |
|---|---|---|---|---|---|---|---|
| 40-44 | | | | | | | |
| 45-49 | | | | | | | |
| 50-54 | 6 | 4 | | 1 | 1 | | |
| 55-59 | 12 | 3 | 2 | 1 | 4 | | 2 |
| 60-64 | 12 | 8 | | | 3 | 1 | |
| 65-69 | 4 | 2 | | | 2 | | |
| Totals | 34 | 17 | 2 | 2 | 10 | 1 | 2 |
| Average Annual Benefit | $21,330 | $12,443 | $9,925 | $23,900 | $30,454 | $24,290 | $58,599 |

*Type of Retirement

0 - Normal retirement for age and service

3 - Non-line-of-duty disability

4 - Line-of-duty disability

6 - Non-line-of-duty death, member eligible for service retirement at death

7b - Non-line-of-duty death, 25% of compensation, plus 1.5% of compensation for each year in excess of two years

8 - Line-of-duty death

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Fire & Police Employees' Retirement System
City of Baltimore, Maryland
7 East Redwood Street, 19th Floor
Baltimore, Maryland 21202
443.984.2810 or 1.888.877.6565