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, 2011

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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, 2011

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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, 2010

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

STEPHANIE RAWLINGS-BLAKE, Mayor

FIRE AND POLICE EMPLOYEES' RETIREMENT SYSTEM

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

January 5, 2012

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-ninth 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, 2011. 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 which 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 which 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 which 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 which contains the independent Actuary's Disclosure Certification, assumption tables, schedules of valuation data, and a Summary of Plan Provisions; and the Statistical Section which contains 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 F&P provides normal service retirement benefits for members who attain the required age and/or service requirements, and now due to plan amendments passed in June 2010, early service retirement benefits. 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 normal or early 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 entered the F&P prior to July 1, 2003, and who attained twenty or more years of service as of December 31, 2009. Members who do not meet the eligibility requirements for DROP may become eligible to participate in DROP 2 that commenced January 1, 2010. More information concerning the benefit provisions, DROP, and DROP 2 can be found in the Summary of Plan Provisions beginning on page 80.

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

January 5, 2012

Major Initiatives

The Board concluded its review of the asset/liability study performed by its investment consultant, the Summit Strategies Group. Baseline conclusions found that the funded status of the plan fell significantly in 2008 due to the credit crisis, the economic slow-down, and the resulting market correction. The study also concluded that plan liquidity needs are not expected to impact asset allocation decisions and if the plan achieves its 8.0% return assumption for the next ten years, the funded status is expected to be 78.0% on a market value basis. The study also included an analysis of the capital markets, various asset allocation plans, and how those allocation plans might perform in conjunction with the F&P's projected liabilities. Based on then capital market assumptions, Summit concluded that investment returns are below their historical levels while expected equity volatility has increased, investors are no longer rewarded for taking risk as they once were, and there is the need for adequate diversification beyond a traditional stock/bond portfolio.

As a result of the asset/liability study, the Board approved an asset allocation plan that is expected to meet its 8.0% assumption with less volatility than the current portfolio. The new plan will lead to a reduction in domestic equities, a reduction in domestic fixed income, an increase to hedge fund of funds, and the introduction of allocations to risk parity and private energy portfolios. Following year end, the Board conducted a search for a risk parity manager and reduced its domestic equity allocation to fund the new portfolio. The domestic equity allocation was further reduced to provide the liquidity required for plan benefit expenses.

Due to legislation passed in June 2010, a $16,000 minimum benefit was implemented in July 2010 for beneficiaries of members who retired prior to August 1, 1996 and who had acquired 20 or more years of service credit. In addition, the June 2010 legislation replaced the "variable benefit" post-retirement increase provisions, which provided non-guaranteed increases to eligible retirees and beneficiaries based on investment performance, with fixed-rate guaranteed increases to retirees and beneficiaries who meet the age and time on the retirement payroll requirements. Implemented in January 2011 were 2.0% increases to retirees and beneficiaries who had attained age 65 and who had been receiving retirement benefits for two or more years as of June 30, 2010. Retired members receiving 100% line-of-duty disability retirement benefits were also provided the 2.0% increase regardless of age. The 2.0% post-retirement increases will continue to be paid each January to retirees and beneficiaries who meet the age and time on payroll requirements.

On June 3, 2010, the fire and police unions and certain individual members and retirees filed suit against the City of Baltimore and the F&P Board of Trustees in the United States District Court for the District of Maryland (Northern Division). The suit, amended on September 20, 2010, alleges the City impaired the contract between the members and the City with the enactment of the pension reform legislation, the City failed to adequately fund the System, and the F&P Board of Trustees acted improperly in the pursuit of its duties. See note 8 to financial statements on page 36 for more information.

In March 2011, the City of Baltimore engaged the Segal Company to evaluate and report on the competitiveness of total compensation for fire and police employees. The evaluation includes the F&P plan provisions. Segal is to recommend retirement plan options to the City administration for members newly hired and covered by the F&P with an estimated commencement date of July 1, 2012. Release of a final report from Segal Co. is pending.

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 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.

Due to the unresolved lawsuit filed by the fire and police unions against the City because of changes made to the plan provisions for current members and retirees, the Board continued investment of the "managed" investment portfolio according to its general asset allocation plan and separate investment of the "dedicated variable benefit" portfolio invested in U.S. Treasury and high quality corporate fixed income securities. The "managed" portfolio returned an outstanding 25.6% which ranked this F&P portfolio in the 8th percentile of the BNY Mellon All Public Plans Total Fund universe at June 30, 2011. The three year, five year, and ten year performance numbers for the "managed" portfolio are not as encouraging as these performance numbers include the capital market devastation lingering from the credit crisis in fiscal years 2008 and 2009, and from the tech bubble downturn in fiscal years 2001 and 2002. The "dedicated variable benefit" fixed income portfolios returned 4.4% for fiscal year 2011 and when combined with the "managed" portfolio performance, the F&P total fund composite returned 4th quartile performance of 19.3%. Ironically, the "dedicated variable benefit" fixed income portfolios outperformed the "managed" portfolio over each of the three, five, and ten year periods as the "dedicated" portfolios avoided the volatility and extreme negative performance of the equity and real estate portfolios reflected in prior years.

Plan Funding

A ten-year history of the System's funding progress is presented on page 40. 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 vary 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, the membership could elect to utilize specific reserves to improve benefits. For the first several years, gains were accumulated and were utilized by the City to take contribution reductions and by the membership 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. With the June 30, 2006 actuarial valuation, a ten-year amortization period was employed for the release of the accumulated losses to the actuarial value of assets and was made retroactive to the June 30, 2005 valuation. At June 30, 2011, $108.2 million of the accumulated losses remains in the segregated actuarial reserves and will be released to the unallocated earnings calculation at the rate of $36.0 million per year over the remaining three years of the amortization period.

The fiscal year 2011 total fund composite investment performance of 19.3% provided excess earnings of $217.3 million above the 8.0% assumption rate. The excess earnings helped to offset in part the $429.6 million in losses mainly accumulated from the economic downturn recorded in fiscal years 2008 and 2009 and carried forward in the actuarial schedule of unallocated earnings and losses at June 30, 2011.

At June 30, 2011, the actuarial value of assets inclusive of the accrued employer contribution exceeded the fair value of assets by $402.2 million. This difference decreased from $666.0 million at June 30, 2010 due to favorable investment performance. Comparing the actuarial liability to the actuarial value of assets, the unfunded actuarial liability increased $49.6 million from $509.0 million at June 30, 2010, to $558.6 million at June 30, 2011. The funded ratio at June 30, 2011 was 82.0% on an actuarial value of assets basis and 72.2% on a market value basis inclusive of the accrued employer contribution. At June 30, 2010, the funded ratio was 83.2% on an actuarial value of assets basis and 64.2% on a market value of assets basis.

Due to the June 2010 legislated amendments to the plan provisions, the required fiscal year 2011 employer contribution made July 1, 2010, was reduced from $101.0 million to $90.6 million. The City, however, made the original contribution due July 1, 2010 of $101.0 million, plus an additional contribution of $5.7 million for a total contribution paid of $106.7 million in fiscal 2011. From the employer contribution made in excess of the required amount, $5.7 million was used to offset the accumulated unallocated losses from prior years and $11.2 million was used to reduce the unfunded liability. The fiscal year 2012 required employer contribution due July 1, 2011 increased from $90.6 million to $99.1 million. The fiscal year 2013 required employer contribution due July 1, 2012 increases to $102.2 million. If the baseline earnings assumption rate of 8.0% is met, the employer contribution is projected to increase $4.0 million to $6.0 million a year to $123.5 million payable in fiscal year 2017.

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.

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

January 5, 2012

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 13 and in the Investment Section on pages 60 to 62.

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, 2010. This was the twenty-eighth consecutive year (fiscal years 1983-2010) 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 consultant, 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.

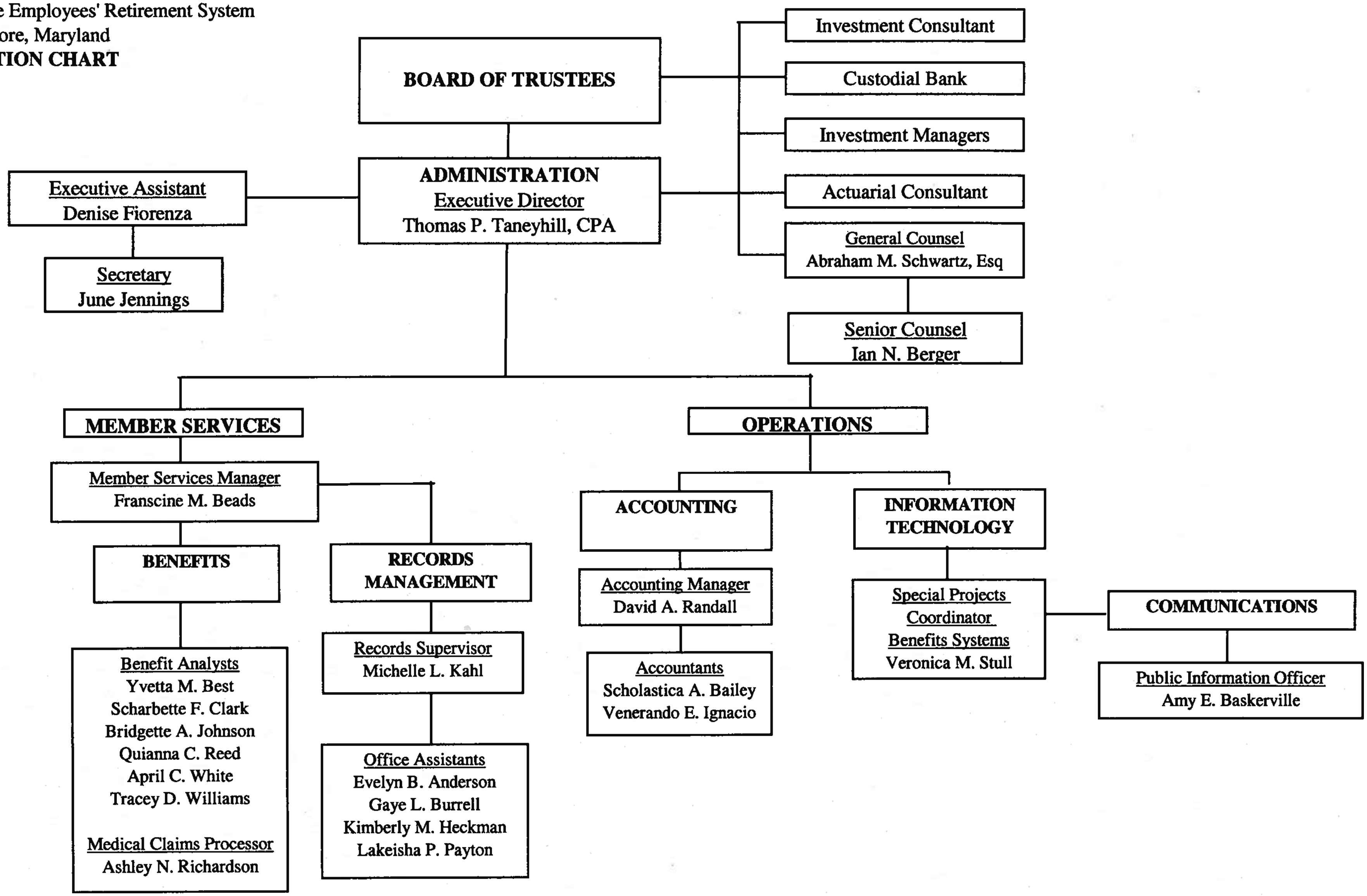
I would like to take this opportunity to express my gratitude to the Board of Trustees, the dedicated F&P staff, the System's consultants, investment managers and advisors, all of whom continue to work diligently to assure the successful operation of the System.

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 Board Chairman, Vice-Chairman, and members of the Investment Committee are elected by the members of the Board of Trustees. The ex-officio members to the Board are the City Comptroller, the Director of Finance, the Police Commissioner and the Fire Chief, all of whom may appoint a Deputy to represent her or him on the Board. 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. Elected active and retired member Trustees serve four-year terms. There are no term limits for Trustees elected by the active or retired members.

CITY OF BALTIMORE
STEPHANIE RAWLINGS-BLAKE, Mayor

FIRE AND POLICE EMPLOYEES' RETIREMENT SYSTEM
THOMAS P. TANEYHILL, CPA, Executive Director
7 E. Redwood Street
18th Floor
Baltimore, Maryland 21202

December 22, 2011

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

This annual report covers the fiscal year ended June 30, 2011, the first fiscal year end following the enactment of legislation that amended the normal service retirement eligibility requirements, DROP 2 eligibility requirements, and certain other provisions for many active members, and the post-retirement increase provisions for all retirees and beneficiaries. The amendments to the post-retirement increase provisions, known as the "variable benefit" increase provisions, set aside increases to retirees and beneficiaries based on investment performance in favor of annual fixed percentage increases based on the age and time on the retirement payroll of the retirement benefit recipient. The post-retirement increase provision amendments allow the Board of Trustees to reallocate the assets separately invested and dedicated to cover the "variable benefit" post-retirement increase liabilities to the general asset allocation plan maintained by the Board. However, because of the unknown outcome of the lawsuit filed by the fire and police unions against the City of Baltimore and the Board of Trustees due to the plan amendments, the Board elected to have the "variable benefit" assets remain separately invested in the dedicated fixed income portfolios rather than move those assets to the general asset allocation plan. The Board decided that until there is either a clear indication from the court that the "variable benefit" provisions will be set aside or there is a resolution between the City and the unions to replace the "variable benefit" provisions, the separate investment of the previously allocated "variable benefit" assets will remain in place.

The new 2% annual increase for eligible retirees and beneficiaries age 65 and older and for all 100% line-of-duty disability benefit recipients was provided in January 2011. The 1% annual increase to retirees and beneficiaries age 55 and older, but less than age 65, will be implemented in January 2012 along with the aforementioned 2% increase. These increases are now guaranteed by the City of Baltimore whereas the previously paid "variable benefit" increases were not guaranteed.

The Board of Trustees welcomed two new members, Assistant Fire Chief Dixon Henry who was appointed by Chief James Clack to represent him and Deputy Police Commissioner John Skinner who was appointed by Commissioner Bealefeld to represent him. Deputy Commissioner Skinner replaced Deputy Commissioner Deborah Owens who retired. On behalf of the Board, I offer our gratitude to Ms. Owens for her dedicated service to the Board and the members of the F&P.

Sincerely

Theodore I. Weintraub
Chairman
Board of Trustees

LEGAL AND GENERAL COUNSEL, ACTUARY, AND INDEPENDENT AUDITOR

LEGAL COUNSEL

Law Department
City of Baltimore
George Nilson, 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 60 to 62 in the Investment Section for a list of investment professionals.

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Financial Section

CITY OF BALTIMORE

STEPHANIE RAWLINGS-BLAKE, Mayor

DEPARTMENT OF AUDITS

ROBERT L. McCARTY, JR., CPA
City Auditor
100 N. Holliday Street
Room 321, City Hall
Baltimore, Maryland 21202
Telephone: 410-396-4783
Telefax: 410-545-3961

January 5, 2012

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, 2011, 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. Our most recent peer review was performed on July 26, 2006, and a peer review for the current cycle is scheduled in January 2012. 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 position of the Fire and Police Employees' Retirement System as of June 30, 2011, and the respective changes in plan net position 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, 2011, 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

Fire and Police Employees' Retirement System
City of Baltimore, Maryland
MANAGEMENT'S DISCUSSION AND ANALYSIS

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, 2011. 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 increased by $285.3 million during the fiscal year from $1,858.7 million at June 30, 2010, to $2,144.0 million at June 30, 2011.

- Additions to Plan Net Assets (Revenues) for the year were $494.3 million, an increase of $130.3 million from the prior year revenues of $364.0 million. The increase in revenues was driven by market valuation gains in the domestic and international equity markets, the private equity portfolio, and the recovery of the real estate portfolio.

- Deductions from Plan Net Assets (Expenses) were $209.0 million in the current year, an increase of $9.4 million from the prior year expenses of $199.6 million. The increase in expenses was driven by the implementation of a new post-retirement benefit increase, effective January 2011, and minimum retirement benefit payments to certain beneficiaries of members who retired prior to August 1, 1996.

- The "managed" investment portfolio composite total rate of return of 25.6% for the fiscal year ended June 30, 2011, provided outstanding 8th percentile performance when compared to other public pension plans reported in the BNY Mellon Public Fund – Total Fund universe.

- The "managed" investment portfolio total rate of return of 25.6% outperformed the total fund policy index of 23.5% and performed well above the median public fund performance of 21.3%.

- The F&P's U.S. equity composite led the fiscal year 2011 investment performance with a 36.5% rate of return which ranked in the 13th percentile of the BNY Mellon All Master Trust – U.S. Equity Segment universe; the international equity composite followed with a 31.4% rate of return which ranked in the 30th percentile of the BNY Mellon All Master Trust - International Equity Segment universe.

- The System's private equity fund-of-funds portfolio composite and the real estate portfolio composite provided returns of 19.0% and 15.3%, respectively, for fiscal year 2011.

- The System's managed fixed income composite portfolios provided performance of 10.4% and ranked in the 5th percentile of the BNY Mellon All Master Trust – U.S. Fixed Income Segment universe.

- The hedge fund-of-funds composite provided a 2.8% rate of return; energy master limited partnerships, which were added to the portfolio in December 2010, provided a 9.1% rate of return.

- The assets dedicated to the "variable benefit" post-retirement benefit increases remained segregated from the "managed" portfolio and were separately invested in "dedicated" fixed income portfolios which returned 4.4% for fiscal year 2011.

- Including the separately invested dedicated "variable benefit" fixed income portfolio performance of 4.4% with the composite "managed" investment portfolio total rate of return of 25.6% provided a total fund composite rate of return of 19.3% for the fiscal year ended June 30, 2011.

- Employer contributions made to the F&P increased by $13.4 million from $94.1 million in fiscal year 2010 to $107.5 million in fiscal year 2011.

- Member contributions to the F&P increased by $2.3 million in fiscal year 2011 due to the increase in the mandatory member contribution rate from 6.0% to 7.0% commencing in July 2010.

- The F&P's funding objective is to meet benefit obligations through employer and member contributions, and by achieving an 8.0% investment rate of return over the long-term. The earnings assumption rate was lowered from 8.25% to 8.0% in June 2010.

- As of June 30, 2011, the date of the F&P's last actuarial valuation, the System's funded ratio was 82.0% on an actuarial value of assets basis and 72.2% on a market value of assets basis, compared to 83.2% and 64.2% at June 30, 2010.

- Capital assets are recorded at cost, net of depreciation, and include leasehold improvements, computer equipment, and office furniture.

- June 2010 plan amendments extended the normal service retirement eligibility requirements for "non-grandfathered" members and changed the eligibility rules and the percentages payable for post-retirement increases determined on and after June 30, 2010.

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 Position** provides a snapshot of the financial position of the F&P at June 30, 2011, the end of the plan's financial year. It indicates the total assets and total liabilities at June 30, 2011, 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 three year or less expected lives; receivables, which are from investment activity; investments at fair 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 third-party appraisals. The current liabilities comprise payables for securities lending collateral, certain investment activity, retirement benefits, lump sums payable to members, and administrative expenses.

The **Statement of Changes in Plan Net Position**, on the other hand, summarizes the F&P financial activities that occurred during the plan's fiscal year from July 1, 2010, through June 30, 2011. 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. Realized gains and losses on the sale of investments are recorded at trade date. Unrealized investment gains and losses due to changes in market valuation are recorded. Retirement benefits and refunds are recognized when due and payable in accordance with the terms of the plan provisions.

The **Notes to 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 Position and the Statement of Changes in Plan Net Position can be found on pages 26 and 27 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 39 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 position over time may serve as a useful indicator of the financial position of the F&P. At June 30, 2011, net assets, as displayed below, exceeded current liabilities by $2.1 billion, an increase of $285.3 million over the prior year. Prior to the passage of Ordinance 10-306 of June 2010, it was mandated that the total assets of two reserves, the Paid-Up Benefit Reserve and the Contingency Reserve, were to be segregated and separately invested from the general plan assets. As required, the assets of these two reserves were dedicated to the payment of certain post-retirement benefit increases. With the passage of Ordinance 10-306, the assets of the two aforementioned reserves are to be included in the general asset pool as there is no longer a requirement to maintain those reserves and invest those assets separately. However, the Board of Trustees approved maintaining the separate investment and management of those assets until resolution of the lawsuit brought by the member unions against the City and the Board of Trustees. Assets of the separately invested dedicated reserves totaled $489.7 million at June 30, 2011. The remainder net assets of $1,654.3 million at June 30, 2011, are available to meet the ongoing regular benefit obligations to the F&P participants and beneficiaries. As of June 30, 2011, total assets increased by 12.4% over the prior year mainly due to the continued improvement in the financial markets and the corresponding valuation of the System's investment portfolio. Total current liabilities were lower at June 30, 2011, from the prior fiscal year mainly due to a decrease in securities lending collateral.

Plan Net Position
For the Fiscal Years ended June 30, 2011 and 2010

	2011	2010	Increase	Percentage Change
Current assets	$ 181,843,277	$ 70,384,022	$ 111,459,255	158.4%
Capital assets	1,243,934	1,424,959	(181,025)	(12.7)
Investments at fair value	2,228,901,282	2,073,290,000	155,611,282	7.5
Total Assets	**2,411,988,493**	**2,145,098,981**	**266,889,512**	**12.4**
Current liabilities	267,983,590	286,357,511	(18,373,921)	(6.4)
Total Liabilities	**267,983,590**	**286,357,511**	**(18,373,921)**	**(6.4)**
Net Assets	**$ 2,144,004,903**	**$ 1,858,741,470**	**$ 285,263,433**	**15.3%**

Investment Assets

The F&P's total investment portfolio is comprised of two distinct portfolios, the "managed" asset portfolio which is diversified across the Board's general asset allocation and the "dedicated" portfolio which is invested to cover the liabilities of the "variable benefit" post-retirement benefit increase provisions. The "managed" asset portfolio is invested in domestic and international equities, domestic fixed income, hedge fund of funds, private equity fund of funds, real estate limited partnerships, and energy master limited partnerships. The "managed" assets at June 30, 2011 were $1,538.1 million of the $2,027.8 million total assets as presented on the Investment Summary on page 58. All assets are managed by external investment management firms selected by the Board of Trustees and approved by the City's policy making body, the Board of Estimates. BNY Mellon Asset Servicing, the F&P's custodian bank, holds in custody all marketable securities except securities held in commingled management accounts, hedge fund of funds, private equity fund of funds, and the real estate portfolios. The System participates in a securities lending program that is managed by BNY Mellon Asset Servicing. The Board of Trustees retains the services of the Summit Strategies Group, an investment consulting services firm that provides investment allocation, manager selection, performance calculation, performance analytics, asset-liability studies, and other related services. With the assistance of the Summit Strategies Group, the Board filled its previously establish energy master limited partnerships allocation target in fiscal year 2011. As the result of an asset-liability study concluded during the current fiscal year, the Board expanded its investment opportunity set to include target allocations for risk parity and private energy investments. The risk parity allocation was filled subsequent to fiscal year end June 30, 2011, and the private energy allocation target remains subject to further Board discussion.

The dedicated "variable benefits" portfolios totaled $489.7 million as of June 30, 2011, and were 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 was to invest the dedicated assets in fixed income securities that are managed to match the payout streams of the "variable benefit" post-retirement increases. These benefit increases were not guaranteed by the City and the Board chose to immunize those benefit payments with fixed income securities to assure their continuation. Since the "dedicated" portfolio was managed to immunize the benefit liabilities and was not managed to the Board's general asset allocation, the fiscal year 2011, 4.4% rate of return for those assets is not included in the rates of return disclosed elsewhere 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 total "managed" assets for the year ended June 30, 2011, was 25.6%, a very strong 8th percentile performance when compared to other public pension plans reported in the BNY Mellon Public Fund – Total Fund universe. Even with the outstanding 25.6% investment performance for the fiscal year ended June 30, 2011, and the top quartile 15.3% performance for the prior fiscal year, the managed portfolio annualized rates of return for the last three-year, five-year, and ten-year periods ended June 30, 2011, were 4.0%, 4.6%, and 5.4% respectively. Each of the aforementioned time periods include the unprecedented negative 21.9% performance due to the economic meltdown recorded in fiscal year 2009, the exclamation point for the "lost decade" of investment results.

The Board has diversified the "managed" assets across multiple classes and strategies as it seeks to maximize investment opportunities and return at an acceptable level of investment risk. However, as evidenced by the variation in rates of return from year to year, Board's investment allocation plan is not immune to market volatility. The F&P's long-term actuarial investment return assumption is 8.0% which was lowered from 8.25% by legislation passed by the Mayor and City Council in June 2010.

Beginning on page 48 of this report, the Investment Section gives detailed information on the F&P investment policies. See page 56 for the comparison of the "managed" asset allocation targets established by the Board of Trustees to the actual asset allocation at June 30, 2011.

Liabilities

Reported on the Statement of Plan Net Position, the current liabilities are payables incurred mainly by investment portfolio transaction activity, the lump sum benefits payable to members, and the operating expenses of the F&P office. Liabilities at June 30, 2011, were $268.0 million, $18.4 million less than the $286.4 million in liabilities at June 30, 2010. While forward foreign contracts payable increased $30.5 million to $45.8 million at June 30, 2011, the securities lending collateral payable decreased by $43.9 million from $245.0 million at June 30, 2010, to $201.1 million at June 30, 2011, and served as the main reason for the overall reduction in current liabilities at June 30, 2011.

Changes in Plan Net Position
For the Fiscal Years Ended June 30, 2011 and 2010

	2011	2010	Increase (Decrease)	Percentage Change
Additions				
Net investment income	$ 366,713,890	$ 252,146,101	$ 114,567,789	45.4%
Employer contributions	107,539,873	94,097,743	13,442,130	14.3
Member contributions	19,586,155	17,254,515	2,331,640	13.5
Net securities lending income	452,113	500,376	(48,263)	(9.6)
Total Additions	**494,292,031**	**363,998,735**	**130,293,296**	35.8
Deductions				
Retirement allowances	186,002,569	176,660,415	9,342,154	5.3
Lump sum DROP payments	17,039,089	18,078,701	(1,039,612)	(5.8)
Administrative expenses	4,241,753	3,311,686	930,067	28.1
Refunds of member contributions	1,490,557	1,372,214	118,343	8.6
Death benefits	254,630	154,775	99,855	64.5
Total Deductions	**209,028,598**	**199,577,791**	**9,450,807**	4.7
Net Increase (Decrease)	**$ 285,263,433**	**$ 164,420,944**	**$ 120,842,489**	73.5%

Investment Income

The F&P's total "managed" composite portfolio achieved an outstanding 25.6% rate of return which ranked the F&P "managed" asset performance in the 8th percentile when compared to other public pension plans in the BNY Mellon Public Fund – Total Fund universe. The "managed" portfolio performance was well above the median public fund performance of 21.3% and it out performed the Board's comparative policy index of 23.5%. Positive performance was recognized in all asset portfolios; and the major asset classes including domestic equities, international equities, and domestic fixed income outperformed their comparative benchmarks for the fiscal year ended June 30, 2011.

The System's U.S. equity composite achieved a 36.5% rate of return which ranked in the 13th percentile of the BNY Mellon All Master Trust – U.S. Equity Segment universe and which outperformed its Russell 3000 comparative index by 400 basis points. The international equity composite achieved a 31.4% rate of return which ranked in the 30th percentile of the BNY Mellon All Master Trust – International Equity Segment universe and which outperformed its MSCI All Country World Ex-U.S. comparative index by 100 basis points.

The domestic fixed income composite earned 10.4% for the fiscal year which ranked in the 5th percentile of the BNY Mellon All Master Trust – U.S. Fixed Income Segment universe. The fixed income portfolio outperformed its Barclays Capital Aggregate index benchmark of 3.9% by 645 basis points.

The System's alternative asset portfolios, which include private equity fund-of-funds, hedge fund-of-funds, real estate funds, and energy master limited partnerships, had mixed results. The System invests in various private equity fund-of-funds; the private equity composite achieved a good absolute return of 19.0% for the fiscal year but lagged the exceptionally strong performance of the S&P 500 for the same time period. As the private equity composite portfolio is diversified by strategy and vintage year of the underlying investments, many of which are very young in their investment lifecycle, the goal of the private equity composite is to outperform the index over a market cycle. Accordingly, the private equity composite is reviewed over rolling three to five years and the performance has outperformed the index over the last 3 years.

The hedge fund-of-funds composite earned 2.8%, and performed below its comparative index – the HFRI Fund-of-Funds Conservative Index - which achieved a 5.3% return for the fiscal year. The Board had investments in two hedge fund-of-funds during the fiscal year; one fund manager was terminated for underperformance and was liquidated at year end while the other fund had previously been terminated and was in liquidation mode during the fiscal year. Two new hedge fund-of-fund managers were hired following fiscal year end to replace the terminated fund managers. The hedge fund-of-funds composite portfolio is expected to provide investment returns which, over a market cycle, generally are greater than bonds and less than stocks, but with less volatility than that of stocks and more like bonds.

The real estate composite portfolio provided a good absolute return of 15.3% for the fiscal year as it continued its late recovery from the 2008-2009 liquidity crisis. The real estate portfolio rebounded from the negative 11.7% performance of last fiscal year. The portfolio, however, underperformed the NCREIF Property Index, which returned 16.7% this fiscal year, by 140 basis points.

The Board hired two energy master limited partnerships (MLPs) during the fiscal year to complete its 5.0% allocation to that asset class. The MLPs are expected to have low correlation to other asset classes which makes them a good diversifier for the overall portfolio. From inception in December 2010 to fiscal year end, the MLPs composite achieved a 9.1% rate of return. The Board expects the MLPs to outperform the domestic equity composite with lower risk over time.

The "dedicated" fixed income "variable benefit" portfolios, which continue to be segregated and separately invested from the general plan assets, were invested in U.S. Treasury securities and high grade corporate bonds. The "dedicated" portfolio composite returned 4.4% for the year. While the "dedicated" composite portfolio is not benchmarked to any specific index, it outperformed the Barclays Capital U.S. Long Government/Credit index of 3.3% by 110 basis points. The cash flow of the dedicated reserves is matched to the benefit payment streams of the post-retirement "variable benefit" increases.

The investment income is reduced by investment expenses which include the fees paid to firms hired by the Board to manage the System's assets, the Board's investment consulting firm, and the System's custodian bank which tracks the investment activity of the F&P's investment managers, values the System's assets, and provides accounting reports to System staff and the Board's investment consultant. Investment expenses increased from $6.0 million in fiscal year 2010 to $7.9 million for fiscal year 2011 mainly due to the increase in portfolio market valuations.

Member and Employer Contributions

Member contributions were made at 7.0% of regular compensation during fiscal year 2011. Member contributions increased by $2.3 million during the current fiscal year due to the increase in the mandatory contribution rate from 6.0% to 7.0% commencing in July 2010. Due to the passage of legislation in June 2010, the member contribution rate increased from 6.0% to 7.0% of regular compensation beginning in July 2010, and the rate increases to 8.0% in July 2011, 9.0% in July 2012, and 10.0% in July 2013. Overtime pay is not subject to the mandatory member contribution rate and it is not included in the member's average final compensation calculation. The number of active members decreased slightly from 4,584 at June 30, 2010, to 4,575 at June 30, 2011. Should the active member population remain stable, member contributions are expected to increase approximately $2.7 million each year, based on June 30, 2011 compensation, until final implementation of the 10.0% mandatory member contribution rate in July 2013.

Employer contributions requirements are determined by the results of an actuarial valuation process which is performed following the end of each fiscal year. The valuation results determine the contribution requirement due on July 1 two fiscal years hence. For example, the actuarial valuation report prepared for the fiscal year ended June 30, 2009, normally would determine the City's fiscal year 2011 contribution requirement due July 1, 2010; the actuarial valuation report prepared as of fiscal year end June 30, 2010, would determine the City's contribution requirement due July 1, 2011, which is the fiscal year 2012 contribution requirement, and so on. The employer contribution is comprised of the contribution made by the City of Baltimore and the contribution made by the State of Maryland for a small number of State employees whose F&P coverage is mandated by State law.

The total employer contribution due for fiscal year 2011was $101.8 million, as reflected in the original June 30, 2009, actuarial valuation report. Due to the enactment of the June 2010 amendments to the plan provisions and the lowering of the actuarial assumed rate of return from 8.25% to 8.0%, the June 2009 actuarial valuation was amended to reflect a lower total employer contribution requirement. The amendments reduced the required fiscal year 2011 contribution by $11.2 million from the original $101.8 million to the amended $90.6 million.

Even with the amendments to the plan provisions, the fiscal year 2011 required employer contribution due July 1, 2010, increased $7.9 million from $82.7 million in fiscal year 2010, to the amended $90.6 million. The increase in the required contribution reflects the recognition of investment losses from prior fiscal years.

Regardless of the lower contribution requirement, the City of Baltimore contributed its original amount due of $101.8 million, plus an additional $5.7 million. Based on the amended $90.6 million employer contributions due for fiscal year 2011, the City contributed an additional $16.9 million for a total employer contribution of $107.5 million made in fiscal year 2011. From the additional contributions made, $11.2 million was used to reduce the unfunded actuarial liability and $5.7 million was directed to pay down remaining accumulated tech bubble investment losses.

The employer contribution requirement will increase to $99.1 million for fiscal year 2012 and to $102.2 million in fiscal year 2013. Following fiscal year 2013, provided the baseline 8.0% earnings assumption rate is met, the employer contribution is expected to increase $4.0 million to $6.0 million each year.

Retirement Benefits and Administrative Expenses

The F&P was created to provide lifetime service retirement and permanent disability retirement benefits for eligible members and survivor benefits and death benefits to eligible beneficiaries. The cost of such programs includes recurring retirement benefit payments, post-retirement benefit increases, lump-sum payments to Deferred Retirement Option Plan (DROP and DROP 2) participants, lump sum death benefits, refunds of accumulated member contributions and interest to members who leave F&P covered employment and are not eligible for retirement benefits, and the cost of administering the System.

The primary expense during fiscal year 2011 was for the payment of continuing retirement benefits totaling $186.0 million, an increase of $9.3 million over the $176.7 million in retirement allowances paid in fiscal year 2010. The increase in retirement allowances was due to an increase in the number of retired members, the July 2010 implementation of a $16,000 minimum benefit to certain beneficiaries of members who retired prior to August 1, 1996, and the January 2011 implementation of a new annual 2.0% post-retirement increase for retired members and beneficiaries who have attained age 65 and who have been receiving retirement benefits for two or more years as of the preceding June 30. Lump sum DROP and DROP 2 distributions decreased $1.1 million from $18.1 million in fiscal year 2010 to $17.0 million in fiscal year 2011 due to a decrease in the number of DROP participant service retirements. The number of DROP participants continues to decrease as the eligibility for DROP was frozen in 2009. DROP 2 was enacted in 2009; the DROP 2 eligibility requirements and the interest rate on DROP 2 accounts were amended by the June 2010 legislated changes to the plan provisions for "non-grandfathered" members.

Administrative expenses are comprised primarily of personnel costs and other professional services costs. Administrative expenses increased by $930,000 from fiscal year 2010 to fiscal year 2011. The increase in administrative expenses was mainly due to the $892,000 in legal fees incurred as a result of the lawsuit filed by the membership against the City and the F&P Board of Trustees. 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.

Litigation

Due to the enactment of plan amendments in 2010, the fire and police unions and certain active and retired members filed suit in Federal Court claiming that the City wrongfully impaired the pension contract with the plan membership and that the Board of Trustees acted improperly in the conduct of its duties. Thus far, the Court has ruled that the pension contract was not impaired by the City except for the change made to the post-retirement benefit increase provisions whereby the City discontinued the determination of new "variable benefit" increases based on investment performance in favor of fixed percentage increases based on age and time on the retirement payroll. The trial is scheduled to proceed to a third phase in February 2012 to determine whether the changes made to the post-retirement benefit increase provisions were reasonable and necessary. Nullification of the benefit changes enacted in June 2010 could result in significant increases to the City's contribution to the plan.

Requests for Information

This report is designed to provide a general overview of the F&P's financial activity. Questions concerning 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 POSITION
June 30, 2011

Assets		
Cash and Cash Equivalents		$ 63,923,067
Receivables		
Redemption receivable	$ 59,126,882	
Forward foreign contracts	46,003,970	
Investments sold	6,923,907	
Accrued income	5,865,451	
Total Receivables		117,920,210
Investments, at fair value		
Stocks	1,044,606,414	
Bonds	694,931,482	
Real estate	164,534,970	
Private equity funds	110,934,896	
Hedge funds	12,805,018	
Total Investments		2,027,812,780
Capital Assets, net of depreciation		
Leasehold improvements	821,977	
Office furniture	243,100	
Computer equipment	178,857	
Total Capital Assets, net of depreciation		1,243,934
Securities Lending Collateral		201,088,502
Total Assets		2,411,988,493
Liabilities		
Securities lending collateral	201,088,502	
Forward foreign contracts	45,824,026	
Investments purchased	10,287,599	
Retirement allowances payable	3,637,550	
Lump sums payable to members	2,741,162	
Security lending loss payable	2,179,681	
Investment management fees payable	1,814,967	
Administrative expenses payable	372,019	
Other accounts payable	38,084	
Total Liabilities		267,983,590
Net Position Restricted for Pension Benefits		$ 2,144,004,903

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 POSITION
For the Year Ended June 30, 2011

Additions		
Contributions		
Employers	$ 107,539,873	
Plan members	19,586,155	
Total Contributions		$ 127,126,028
Investment Income		
Net appreciation in fair value of investments	325,026,533	
Interest and dividends	42,532,488	
Private equity income	3,610,461	
Real estate income	2,145,738	
Hedge funds income	1,344,382	
Less: Investment expenses	(7,945,712)	
Net Investment Income		366,713,890
Securities lending income	602,293	
Less: Securities lending expenses	(150,180)	
Net Securities lending income		452,113
Total Additions		494,292,031
Deductions		
Retirement allowances	186,002,569	
Lump sum DROP payments	17,039,089	
Administrative expenses	4,241,753	
Refunds of member contributions	1,490,557	
Death benefits	254,630	
Total Deductions		209,028,598
Net Increase		285,263,433
Net Position Restricted for Pension Benefits		
July 1, 2010		1,858,741,470
June 30, 2011		$ 2,144,004,903

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 twelve active 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, 2011, the F&P membership consisted of:

Retirees and beneficiaries currently receiving benefits	6,100
Active plan members	4,575
Total	10,675

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. Certain provisions were amended by Ordinances 10-306 and 10-357, as noted in the Summary of Plan Provisions beginning on page 80. Membership in the System is mandatory upon employment. The System does not have a vested benefit plan.

Post-retirement benefit increases are provided to retirees and beneficiaries based on age, type of retirement and having received benefits for two or more years as of each June 30 eligibility determination date.

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.

Early Implementation:
Governmental Accounting Standards Board statement number 63 provides guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position in a statement of financial position and related disclosures. Early implementation

is encouraged. The F&P has adopted the changes and replaced net assets with net position in its financial statements and applicable schedules.

3. Contributions and Reserves:

F&P members were required to contribute 7.0% of their regular compensation through payroll deduction for fiscal year 2011. The employer contributions are determined through an actuarial valuation. 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.

The paid up benefit reserve and the contingency reserve were eliminated by Ordinance 10-306. The assets and the liabilities from these reserves are reflected as transferred to the pension reserve.

At June 30, 2011, the balances in the legally required reserves are as follows:

Reserves	Balance
Annuity savings reserve	$ 247,518,595
Annuity reserve	288,463,420
Pension accumulation reserve	(161,053,574)
Pension reserve	1,769,076,462
Total Reserves	$ 2,144,004,903

At June 30, 2011, the actuarially determined accrued liability exceeded the actuarial value of assets by $558,568,855.

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, 2011, 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, 2011, was $196,764,064 and the market value of the collateral received for those securities on loan was $201,088,502. In October 2008, the Board placed a restriction on the dollar amount of securities that can be out on loan at any one time at $375.0 million. 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.

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 20.0% 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.

The custodian's lending program does not operate the collateral investments as a "matched program" where the length of the loaned assets would be specifically matched to the length of the portfolio investments. Because the System's active investments are currently engaged in the overnight investment fund, all assets in the portfolio mature within a 24 hour period.

As a participant in the custodian's short-term investment pool, the F&P suffered a principal loss of $2.3 million in fiscal year 2009. The collateral pool had an interest in Sigma Finance Corporation. The security defaulted and was downgraded and transferred to a liquidating fund at a $1.00 value per unit. Although recovery of the defaulted security is being sought through the bankruptcy court, BNY Mellon expects the loss of $2.3 million to materialize. F&P recognized the loss in fiscal year 2009. BNY Mellon advised that the System has an obligation to reimburse the collateral short term investment fund for the loss. To date, the F&P has not reimbursed the custodian. The liability for the loss is presently recorded at $2.2 million following a $116,038 recovery from the litigation.

The following represents the balances relating to the securities lending transactions as of June 30, 2011:

Types of Securities On Loan	Market Value of Securites On Loan	Market Value of Collateral Received	Type of Collateral
Domestic equities	$ 107,487,045	$ 109,326,964	Cash
Corporate bonds	30,035,485	30,743,547	Cash
U.S. treasury notes and bonds	29,302,342	30,071,433	Cash
International equities	24,464,705	25,348,917	Cash
U.S. Government agency bonds	3,418,574	3,498,305	Cash
Corporate bonds	2,055,913	2,099,336	Securities
Total Securities on Loan	$ 196,764,064	$ 201,088,502	

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 consultant 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, 2011 are presented below:

Investment Type	Fair Value
Debt Securities:	
Corporate bonds	$ 313,158,322
U.S. treasury notes and bonds	185,655,394
U.S. Government agency bonds	126,800,243
Absolute return strategic funds	64,085,383
Money mutual funds	63,923,067
Barclay aggregate index fund	5,232,140
Total debt securities	758,854,549
Other:	
Domestic equities	548,052,408
International equities	417,021,189
Real estate funds	164,534,970
Private equity funds	110,934,896
Energy master limited partnerships	79,532,817
Hedge funds	12,805,018
Total other	1,332,881,298
Total investments	2,091,735,847
Less cash and cash equivalents	63,923,067
Total net investments	$2,027,812,780

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of a plan's investment in a single issuer. As of June 30, 2011, 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:

Currency	Market Value
Euro Currency Unit	$ 84,942,218
British Pound Sterling	49,261,312
Japanese Yen	36,099,589
Swiss Franc	19,586,881
Hong Kong Dollar	11,393,759
South Korean Won	9,516,370
Singapore Dollar	6,232,815
Swedish Krona	4,823,912
Canadian Dollar	4,697,945
New Taiwan Dollar	3,834,006
Brazil Real	2,867,551
Indonesian Rupian	2,494,431
South African Comm Rand	2,093,964
Danish Krone	1,648,102
Norwegian Krone	1,200,266
Israeli Shekel	709,927
Mexican New Peso	573,513
Thailand Baht	546,233
New Turkish Lira	516,082
Egyptian Pound	378,276
Chilean Peso	373,958
Philippines Peso	284,942
Australian Dollar	260,110
Polish Zloty	6,160
Russian Rubel	118
Total Foreign Currency	$244,342,441
U.S. Dollars (held in International Equity)	$172,678,748

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 Barclay Capital Aggregate benchmark.

Asset Type	Option Adjusted Duration (in years)	Fair Value
Corporate bonds	5.16	$313,158,322
U.S. treasury notes and bonds	10.49	185,655,394
U.S. Government agency bonds	4.67	126,800,243
Absolute return strategic funds	1.50	64,085,383
Money mutual funds	0.08	63,923,067
Barclay aggregate index	5.10	5,232,140
Total debt securities		$758,854,549

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, 2011 were rated by Standard & Poor, a nationally recognized statistical rating agency and are presented below using the Standard and Poor's rating scale:

Asset Type	Quality Ratings	Fair Value
Corporate bonds	AAA	$44,223,585
	AA	29,291,313
	A	97,691,738
	BBB	84,057,813
	BB	14,250,403
	B	19,002,860
	CCC	4,733,290
	CC	531,335
	D	318,972
	Not Rated	19,057,013
Total corporate bonds		313,158,322
U.S. treasury notes and bonds	Guaranteed	185,655,394
U.S. Government agency bonds	Guaranteed	126,800,243
Absolute return strategic funds	A	64,085,383
Money mutual funds	Not Rated	63,923,067
Barclay aggregate index	AA	5,232,140
Total debt securities		$758,854,549

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 $642,359; for office furniture is $153,512; for leasehold improvements is $532,137.

Asset	June 2010 Balance	Additions	Depreciation	June 2011 Balance
Computer equipment	$ 243,167		$ 64,310	$ 178,857
Office furniture/equipment	269,541		26,441	243,100
Leasehold improvements	912,251		90,274	821,977
Totals	$1,424,959		$ 181,025	$1,243,934

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 40. The following is a schedule of funding progress as of the actuarial valuation date of June 30, 2011.

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)
$2,546,236,459	$3,104,805,314	$558,568,855	82.0%	$275,647,861	202.6%

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, 2011 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 over a five-year period.

Actuarial assumptions:

Investment rate of return	8.00%
Projected salary increases	4.00% to 8.00%
Inflation rate	3.00%
Post-retirement cost-of-living adjustments	Provided to retirees and beneficiaries dependent upon their age, receiving a benefit for 2 or more years, and retirement type as of the June 30 fiscal year end. Age 55 to 64, 1% increase commencing January 2012; Age 65 and over, 2% increase commenced January 2011; 100% line of duty disability retirees and beneficiaries, 2% regardless of age, commenced January 2011.

8. Litigation:

On September 20, 2010, Baltimore City Fraternal Order of Police, Lodge #3, Inc., Baltimore City Firefighters' IAFF, Local #734 and several individual F&P members and retirees filed a lawsuit against the Mayor and City Council of Baltimore, the F&P Board and Edward J. Gallagher, City Finance Director, in the United States District Court for the District of Maryland. The lawsuit principally alleged that the enactment of Ordinance 10-306 on June 30, 2010 impaired the contract between F&P members and the City. The lawsuit also alleged that the City failed to adequately fund the Plan. Finally, the lawsuit asserted that the Board acted improperly by (a) allegedly ignoring certain recommendations made by the Plan's actuary concerning interest rate assumptions; (b) allegedly miscalculating retiree increases for the 2005, 2006 and 2007 fiscal years; (c) allegedly concealing the Plan's funding status; and (d) allegedly improperly recognizing certain Plan investment losses. The City and the Board denied each of these allegations and have vigorously defended their actions in court.

The Court dismissed the action against the Director of Finance and dismissed the claim against the Board of Trustees with regard to miscalculating retiree increases for the 2005, 2006 and 2007 fiscal years, deciding that the latter was a State law claim, not a Federal law claim. The Court deferred a hearing on the remaining claims against the Board of Trustees pending its decision with regard to the allegations against the City.

The Court decided that the City did not impair its pension contract with F&P members by enacting the provisions of Ordinance 10-306, except with regard to the provision terminating the post-retirement variable benefit. The Court found that the variable benefit that existed prior to the enactment of Ordinance 10-306 was subject to a contract between the City and F&P's members and beneficiaries, and certain members and beneficiaries have sustained a substantial impairment of their contractual rights as a result of the ordinance's termination thereof. At a third phase of the trial which is scheduled to take place in February, 2012, the Court will decide whether the City's termination of the variable benefit was reasonable and necessary to serve a legitimate public purpose.

9. Derivatives:

Derivatives are generally defined as an investment contract or security with a value that depends on, or is derived from, the value of an underlying asset, reference rate or financial index. The F&P has classified the following hedging instruments as derivatives:

Forward Currency Contracts

Certain F&P investment managers enter into forward currency contracts to manage exposure to fluctuations in foreign currency exchange rates on portfolio holdings. Those managers also enter into forward exchange contracts to settle future obligations. A forward exchange contract is a commitment to purchase (payable) or sell (receivable) a foreign currency at a future date at a negotiated forward rate. Risk associated with such contracts includes movement in the value of a foreign currency relative to the U.S. dollar. Unrealized gain or loss on forward currency contracts is the difference between the contract and the closing market value of such contract and is included in the statement of changes in plan net position as net appreciation/depreciation in fair value of investments. The table below summarizes the market value of foreign currency contracts as of June 30, 2011.

Currency	Forward Foreign Contracts Cost Receivable	Forward Foreign Contracts Cost Payable	Forward Foreign Contracts Market Value Receivable	Forward Foreign Contracts Market Value Payable
Brazil Real	$ 74,874	$ 74,874	$ 74,874	$ 75,169
Brazil Real	195,595	195,595	196,379	195,595
British Pound Sterling	13,269,014	13,269,014	13,269,014	13,058,810
British Pound Sterling	3,348,753	3,348,753	3,362,393	3,348,753
Canadian Dollar	1,682,795	1,682,795	1,682,795	1,708,312
Canadian Dollar	8,647	8,647	8,626	8,647
Chilean Peso	27,609	27,609	27,429	27,609
Euro Currency Unit	13,516,772	13,516,772	13,516,776	13,612,579
Euro Currency Unit	1,968,130	1,968,130	2,001,760	1,968,130
Hong Kong Dollar	8,618	8,618	8,617	8,618
Israel Shekel	6,074	6,074	6,074	6,104
Japenese Yen	9,429,561	9,429,561	9,429,561	9,390,689
Mexican New Peso	51,470	51,470	51,470	51,749
New Turkish Lira	22,695	22,695	22,695	22,716
Singapore Dollar	7,393	7,393	7,393	7,417
Singapore Dollar	111,309	111,309	112,142	111,309
Swiss Franc	2,195,353	2,195,353	2,195,353	2,190,810
Swiss Franc	31,010	31,010	30,619	31,010
Totals	$ 45,955,672	$ 45,955,672	$ 46,003,970	$ 45,824,026

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Required Supplementary Information and Supporting Schedules

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)
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
2009	2,587,235,012	2,962,124,313	374,889,301	87.3	281,423,808	133.2
2010	2,524,753,505	3,033,723,523	508,970,018	83.2	276,576,626	184.0
2011	2,546,236,459	3,104,805,314	558,568,855	82.0	275,647,861	202.6

See notes to required supplementary information.

Fire and Police Employees' Retirement System
City of Baltimore, Maryland
Required Supplementary Information
SCHEDULE OF EMPLOYER CONTRIBUTIONS

This schedule 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 to the F&P, as allowed by the Plan Provisions, and the amount of additional contributions made by the City to the Plan.

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
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
2009	68,928,188	585,048		69,513,236	69,513,236	100
2010	81,879,056	818,687	11,400,000	82,697,743	94,097,743	114
2011	89,799,377	841,660	16,898,836	90,641,037	107,539,873	119

See notes to required supplementary information.

Fire and Police Employees' Retirement System
City of Baltimore, Maryland
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

1. 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.

2. 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.

3. 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.

4. Ordinance 10-306, signed by the Mayor on June 22, 2010, provided amendments and clarifications to the plan that affect current and future members and retirees. The Ordinance, which was clarified by Ordinance 10-357 and signed by the Mayor on August 10, 2010: (1) modified the plan's variable post-retirement increase benefit provisions by changing to a guaranteed, fixed increase: 1% for eligible retirees and beneficiaries aged 55 to 64 who have been receiving periodic benefit payments for 2 or more years as of June 30, 2011, beginning in January 2012; and 2% for eligible retirees and beneficiaries aged 65 and older and for 100% line-of-duty disability retirees and their beneficiaries who have been receiving periodic benefit payments for 2 or more years as of June 30, 2010, beginning in January 2011; and no increases for retirees less than 55 years of age; (2) changed the age and service requirements for a normal service retirement benefit for all non-grandfathered members (members who, as of June 30, 2010, did not meet the eligibility requirements for a service retirement benefit or had fewer than 15 years of service) to the earlier of 25 years of service or age 55, with at least 15 years of service as an F&P member; (3) established a new early service retirement benefit for non-grandfathered members by allowing members who are not eligible for the new normal service retirement to retire at or after their former retirement eligibility date and receive a reduced early retirement benefit; (4) changed the definition of "average final compensation" for non-grandfathered members to mean a member's salary over 36 consecutive months during which pay was highest; (5) increased DROP 2 eligibility to 25 years of service as a contributing F&P member for non-grandfathered members with less than 15 years of service as of June 30, 2010; (6) increased the percentage of compensation contributable by all members to 7%

effective July 1, 2010; 8% effective July 1, 2011; 9% effective July 1, 2012; and 10% effective July 1, 2013; (7) reduced interest paid by the plan on withdrawal of accumulated contributions and lump-sum death benefits from 5.5% to 3.0% for all members; (8) reduced interest paid by the plan on DROP 2 accounts from 5.5% to 3.0% for members with less than 15 years of service; (9) established a new minimum annual benefit of $16,000 payable to spousal beneficiaries of sworn members who, before August 1, 1996, retired or died in service with 20 or more years of service; (10) allowed pre-employment military service to be used to satisfy eligibility for a normal service, DROP, or DROP 2 retirement for all members; (11) lowered the plan's long-term investment earnings assumption from 8.25% to 8.0%; and (12) expanded the plan's Board of Trustees to add the City's Director of Finance and a third Mayoral appointee and established new professional qualifications for the Mayoral appointees.

Due to the aforementioned plan changes, the June 30, 2009 actuarial valuation report was revised. The actuarial accrued liability was reduced by $88.8 million and the fiscal year 2011 employer contribution due July 1, 2010 was reduced from $101.8 million to $90.6 million.

5. The June 30, 2010, unfunded actuarial liability increased $134.1 million from a revised $374.9 million at June 30, 2009, due to the above noted changes in plan provisions, to $509.0 million mainly due to the recognition of prior year investment losses.

6. Ordinance 11-444, signed by the Mayor on May 19, 2011, established a new minimum annual benefit of $16,000 payable to spousal beneficiaries of sworn members who, before August 1, 1996, retired on account of a Line-of-Duty Disability with less than 20 years of service. The unfunded actuarial liability increased $49.6 million to $558.6 million at June 30, 2011; the increase included $5.6 million due to the minimum benefit improvement which is to commence in January 2012.

Fire and Police Employees' Retirement System
City of Baltimore, Maryland
SCHEDULE OF ADMINISTRATIVE EXPENSES
For the Year Ended June 30, 2011

Salaries and Wages:		
Permanent full-time salaries	$ 1,250,362	
Overtime	12,417	
Total Salaries and Wages		$ 1,262,779
Other Personnel Costs:		
Medical insurance and health care	168,840	
Retirement	96,795	
Social security	91,940	
Other employee benefits	15,221	
Total Other Personnel Costs		372,796
Contractual Services:		
Legal Fees	891,658	
Technology systems support	635,959	
Lease payments	242,512	
Retirement payroll processing	229,590	
Actuarial services	132,984	
Other professional services	79,945	
Equipment rental	37,211	
Financial audit fees	36,400	
Postage	27,660	
Telephone systems	20,041	
Dues and publications	16,773	
Printing	14,729	
Trustee education	13,268	
Board meeting expense	10,650	
Equipment maintenance	7,305	
Staff training	7,052	
Total Contractual Services		2,403,737
Depreciation expense		181,025
Office supplies		19,332
Computer equipment		1,795
Office furniture		289
Total Administrative Expenses		$ 4,241,753

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, 2011

Schedule of Investment Expenses

Investment Expenses	**Fees**
Investment management fees	$7,470,130
Investment consultant fees	287,500
Custodial fees	188,082
Securities lending fees	150,180
Total Investment Expenses	**$8,095,892**

Schedule of Payments to Consultants

Firm	**Fees**	**Nature of Service**
Venable, LLP	$871,440	Legal fees
TeleCommunication Systems	210,272	Technology systems support
Magothy Technology	146,677	Technology systems support
Digicon Corporation	137,704	Technology systems support
Mercer	132,984	Actuarial services
Baltimore City Department of Audits	36,400	Financial audit
Total Paid to Consultants	**$1,535,477**	

Note: A schedule of fees and commissions is also illustrated in the Investment Section on page 59.

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Investment Section

Summit Strategies Group

October 26, 2011

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. Summit conducted an Asset-Liability study in December 2010. At this time, the Trustees adopted a modified target asset allocation, which is shown in the table below. This was the target allocation in place at fiscal year-end 2011.

Investment Policy/Structure

The asset allocation adopted by the Trustees is included in the System's Statement of Investment Objectives and Policies... The System employs various investment managers to implement the asset allocation within the guidelines and limitations contained in the Statement of Investment Objectives and Policies, Asset Class Guidelines and Manager Instructions (together the "Investment Policy"). System assets are invested using numerous investment managers so as to diversify the System's assets among multiple asset classes, investment styles and investment strategies. Each investment manager is delegated full investment discretion for its respective portfolio including the discretion to purchase and sell individual securities, control industry and economic sector exposure, and with certain managers geographic exposure.

The System's Investment Policy is designed to provide broad diversification among asset classes and investment strategies 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
US Equity	18%
International Equity	27%
Private Equity	5%
Fixed Income	15%
Real Estate	10%
Hedge Funds	10%
Energy/MLPs	10%
Risk Parity	5%
Total Portfolio	***100%***

Within each asset class, the Trustees employ several investment managers to further diversify the investment approach and to minimize style biases. The Trustees may employ both active and passive investment strategies to obtain the desired asset allocation mix in a cost effective and efficient manner. Please note at fiscal year end, Risk Parity was yet to be funded.

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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 rate of return assumptions over time; 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 (at fiscal year-end): 33% Russell 3000 Index, 27% MSCI All Country World Ex-US Index, 10% Barclays Capital Aggregate Index, 2% Barclays Capital US Corporate High Yield Index, 4% Barclays Capital US TIPS Index, 2% Barclays Capital Global Aggregate Index, 10% NCREIF Property Index, 7% HFRI Fund of Funds Composite Index, and 5% Alerian MLP Index. In addition, the System's investment performance is evaluated relative to the Public Plan Universe of the BNY Mellon U.S. Trust Universe; a performance universe representing the performance of 302 public pension plans with an aggregate market value of $1.16 trillion as of June 30, 2011. Finally, each investment manager is measured and evaluated against its relevant broad market index and style peer universe.

Market Overview

Capital markets returns were broadly and strongly positive for the fiscal year 2011, performing exceptionally well in the first three quarters but stumbling in the middle of June amid fears of a Euro-zone debt crisis. For the fiscal year, domestic equities, as measured by the Russell 3000 Index rose an impressive 32.37% while the DJIA and Standard & Poors 500 each returned approximately 30%. International stocks, as measured by the MSCI EAFE and Emerging Markets indices, rose 30.36% and 27.80%, respectively. Overall, the global equity market's resilience in the face of the Fukushima earthquake, Middle East rebellions, and Euro-debt uncertainties has been remarkable.

Though interest rates declined slightly in June, the yield curve nudged upward over the fiscal year. Domestic bond indices were up across the board with the Barclays US Aggregate and Citigroup High Yield bond indices advancing 3.9% and 15.6%, respectively. Local currency emerging market debt as measured by the JPM GBI Diversified index returned 19.7% for the fiscal year, outperforming domestic high yield bonds by 4%. US-Dollar denominated emerging markets debt returns, as measured by the JP Morgan EMBI, were 11.7%.

It was a "two-and-six world": In mature economies, growth and inflation were both roughly 2% while in emerging markets both are around 6%. US GDP (real) was erratic but rose in all four quarters of the fiscal year ended June 30, 2011, for a fiscal year GDP increase of 1.6%. Inflation also rose, with CPI increasing 3.6% over the fiscal year. Unemployment remained stubbornly high amid the so-called "jobless recovery" but did decline slightly over the 12-month period from 9.5% to 9.2%.

News headlines continued to send markets careening between "risk-on" and "risk-off" trades. Equity markets were negative in June following a negative May as markets fretted about the degree and magnitude of sovereign risk in Europe. For the quarter ending June 30th, the market was boosted by news that the Greek austerity plan had been approved by the nation's lawmakers. With not much happening on the domestic front, the market's optimistic mood was primarily attributable to news of the Greek parliament voting in favor of spending cuts, tax hikes and state asset sales. Though violence broke out in Athens, markets recouped much of the losses suffered earlier in June. The five-year plan that was finalized by the European Union and the International Monetary Fund was necessary to prevent a debt default as well as a prerequisite for Greece to receive the next installment of the country's bailout package.

Investment Performance

For investment performance measurement purposes, the total investment portfolio is split between, what has been internally called "actively managed" accounts and "other" assets. The "actively managed" portion of the System's total assets refers to the portion fully diversified according to the Investment Policy explained above. The "other" assets consist of the Cash Reserve, held for the payment of benefits and administrative expenses, Contingency Reserve assets and the Variable Benefit assets held in an immunized portfolio dedicated solely to paying postretirement benefit increases. Returns for both portions are provided below but only the "actively managed" assets that are given attribution in the table below. Summit calculates and reports all returns in accordance with 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 GIPS standards, both ethically and in its performance calculation methodology. Accordingly, all performance returns are calculated using a time-weighted methodology known as the Modified Dietz method. This algorithm attempts to eliminate the effects of cash flows and geometrically links period returns.

The total return for the fiscal year ending June 30, 2011 on all assets was 19.31% which ranked in the 80th percentile of the Public Plan Universe of the BNY Mellon U.S. Trust Universe. For the fiscal year the System's rate of return for the "actively managed", diversified portfolio of assets was 25.62% and ranked in the 8th percentile of the Mellon Trust Public Fund Universe. In addition, the System's diversified portfolio outperformed its policy benchmark by 2.16%. Return for the "other assets" or the Variable Benefit (invested in domestic, investment grade, intermediate maturity bonds) and Contingency Reserve portions (invested in domestic, investment grade long maturity bonds) were 4.39% and 4.69%, respectively. The System's Investment Policy calls for measuring performance for the diversified portfolio over rolling 3-5 year periods. Accordingly, this portion of the System's assets have compounded at annual rates of return of 4.04% and 4.64% for the last 3 and 5 years, ranking in the 72nd and 64th percentiles for those periods respectively. These periods include the significant market drawdown of calendar years 2007 and 2008. Over the longer time period of the trailing 7 and 10 years, however, the System returned 6.71% and 5.37%, respectively and ranked in the 24th and 57th percentiles of the universe, respectively. The Fund outperformed its policy benchmark return of 23.46% for the current fiscal year, due in part to:

- Above target allocation to and extremely strong absolute and relative performance by the domestic equity managers in aggregate, with significant outperformance coming in the small-mid cap portfolio.
- Higher than benchmark allocation to emerging markets in international equity, and outperformance by active managers in aggregate.
- Above-target allocation and outperformance of the fixed income portfolio due to higher than benchmark exposure to spread sectors, high yield and the addition of US Treasury inflation protected securities (TIPS) in the latter half of the fiscal year.
- Addition of energy MLPs in the latter half of the fiscal year and the increased return on capital in the private equity portfolio.

The market value of all assets was $2.146 billion on June 30, 2011. The market value of the "actively managed" accounts increased from $1.36 billion on June 30, 2010, to $1.62 billion on June 30, 2011. The increase in value is primarily attributable to strong market returns in all but the last fiscal quarter, outperformance of strategic asset allocation, and outperformance by most active managers for the 12-month period. At the end of fiscal year 2011, the System's assets were allocated as follows:

	Market Value ($ in millions)	Percent of Total	Fiscal Year Rate of Return	
			System	Benchmark
US Equity	$555.2	34.1%	36.5%	32.4%
International Equity	$428.3	26.3%	31.4%	30.3%
US Fixed Income	$221.0	13.6%	10.4%	3.9%
Hedge Funds	$71.9	4.4%	2.8%	5.3%
Real Estate	$162.6	9.9%	15.3%	16.7%
Private Equity	$108.8	6.7%	19.0%	N/A
Energy Master	$81.6	5.0%	N/A	N/A
Total Managed Assets	$1,627.3*	100.0%	25.6%	23.5%

* Total Managed Assets market value does not include Securities Lending.

Of Note

Pending at the end of the fiscal year was the following: a risk parity manager search, funding of two new hedge fund of fund managers to replace an underperforming manager, restructuring the fixed income portfolio to provide further diversification, and identification of private equity and real assets managers for new commitments to maintain vintage year diversification.

Regardless of the economic or capital market climate, it is a pleasure to serve the System, and to work with Staff and the 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 assumption; 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	18%
International Equity	27%
Private Equity	5%
Risk Parity	5%
Energy MLP	10%
Fixed Income	15%
Real Estate	10%
Hedge Funds	10%

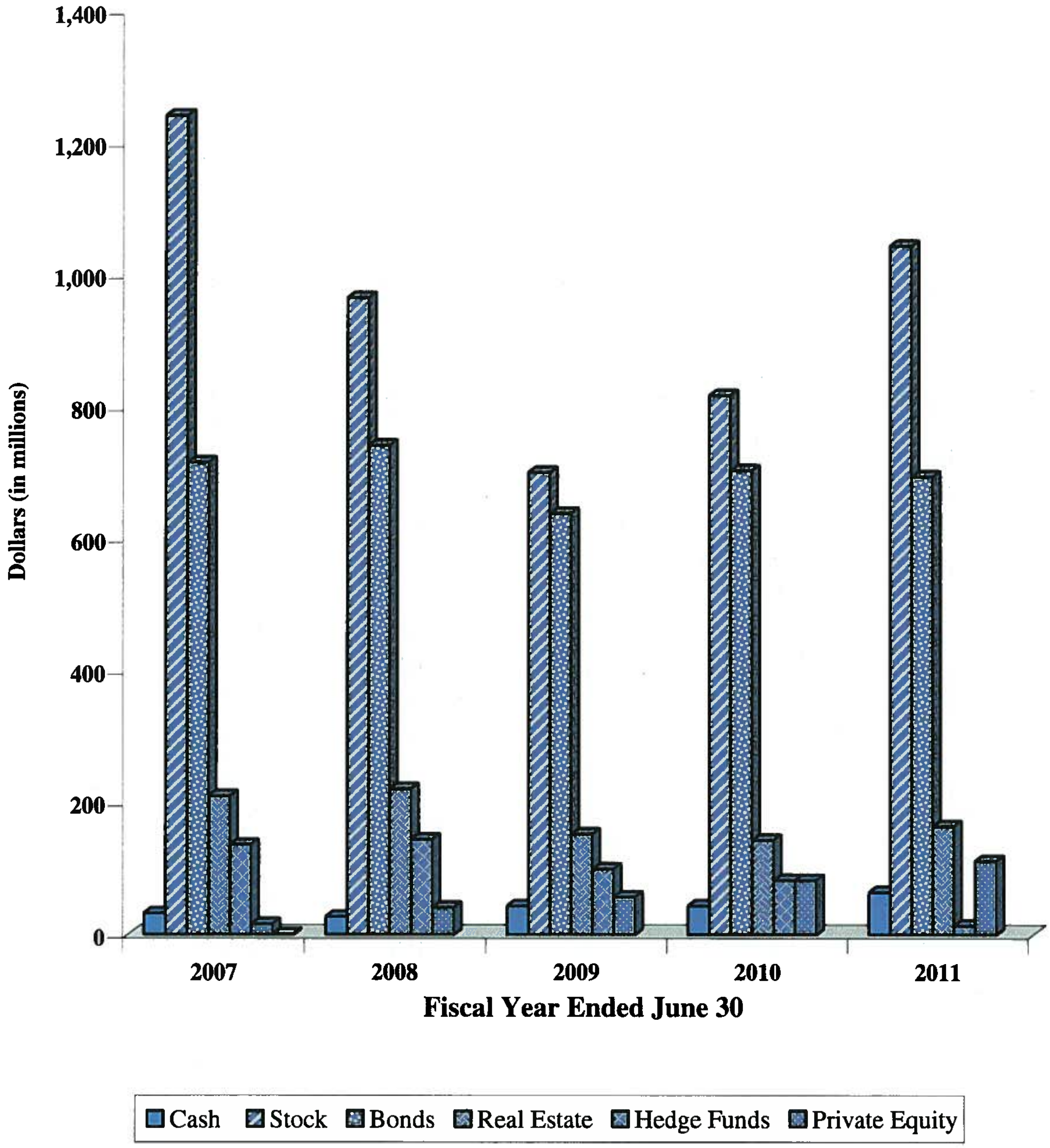
Within each major asset classification, investments are further diversified. Excessive concentration in any particular security, company or industry is to be avoided. Investment guidelines have been supplied to each of the System's investment managers. Subject to these objectives and guidelines, and 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



	2007		2008		2009		2010		2011	
Cash	$ 32	1%	$ 27	1%	$ 43	3%	$ 43	2%	$ 64	3%
Stock	1,242	53	966	45	701	41	818	44	1,045	50
Bonds	716	30	742	35	639	38	704	38	695	33
Real Estate	210	9	221	10	152	9	143	8	164	8
Hedge Funds	136	6	144	7	99	6	82	4	13	1
Private Equity	16	1	41	2	57	3	82	4	111	5
Total	$ 2,352	100%	$ 2,141	100%	$ 1,691	100%	$ 1,872	100%	$ 2,092	100%

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

		Annualized		
Total Returns	**FY 2011**	**3 Years**	**5 Years**	**10 Years**
TOTAL PORTFOLIO	25.6%	4.0%	4.6%	5.4%
Composite Benchmark	23.5	4.7	5.3	5.8
DOMESTIC EQUITIES	36.5	6.4	3.9	4.0
S&P 500 Index	30.7	3.3	2.9	2.7
Russell 1000	31.9	3.7	3.0	3.2
Russell 2000	37.4	7.7	4.1	6.3
Russell 3000	32.4	4.0	3.4	3.4
INTERNATIONAL EQUITIES	31.4	5.2	7.5	9.7
MSCI ACWI Free Ex-US	30.3	0.1	4.1	7.9
DOMESTIC FIXED INCOME	10.4	11.7	9.0	7.0
Barclays Capital US Government/Credit	3.8	5.8	6.1	5.3
Barclays Capital Aggregate	3.9	6.5	6.5	5.8
PRIVATE EQUITY	19.0	4.7	2.4	N/A
HEDGE FUND	2.8	(2.8)	2.1	N/A
HFRI FOF Conservative Index	5.3	(2.1)	1.0	-
REAL ESTATE	15.3	(12.5)	(3.1)	3.4
NCREIF Property Index	16.7	(2.6)	3.5	7.6

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.

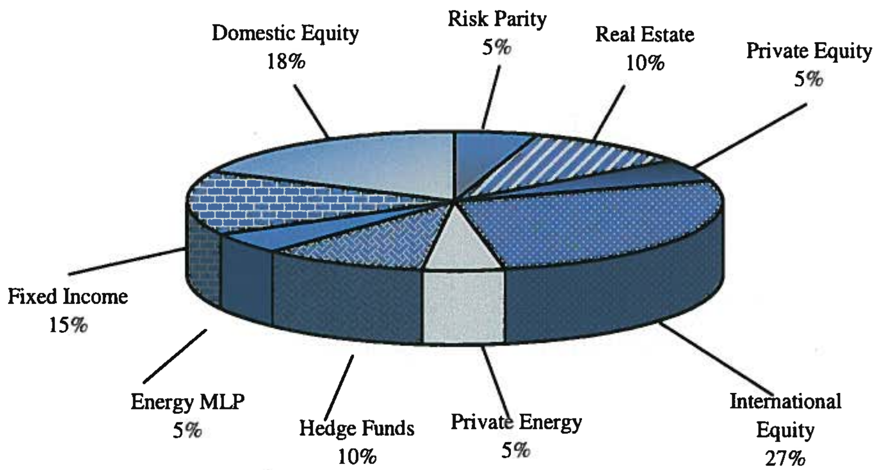
The total investment portfolio result which includes the fixed income Paid Up Benefit and Contingency Reserves for the fiscal year is 19.3%. The fixed income portfolio, including the reserves, result for the fiscal year is 6.3%.

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

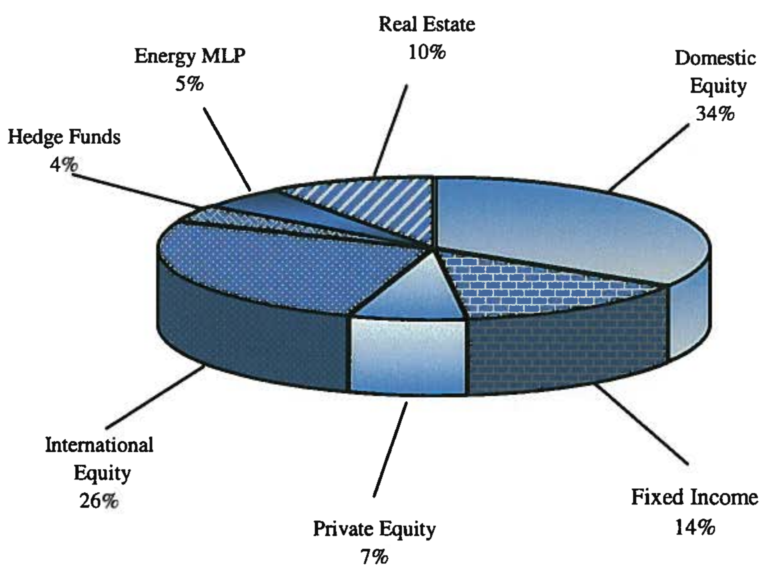
The Composite Benchmark exhibits the overall rate of return for a sample unmanaged portfolio. At fiscal year end 2011, the Composite Benchmark is comprised of 33% Russell 3000 Index, 27% MSCI All Country World Ex-US Index, 10% Barclays Capital Aggregate Index, 2% Barclays Capital US Corporate High Yield Index, 4% Barclays Capital US TIPS Index, 2% Barclays Capital Global Aggregate Index, 10% NCREIF Property Index, 7% HFRI Fund of Funds Composite Index, and 5% Alerian MLP Index.

Fire and Police Employees' Retirement System
City of Baltimore, Maryland
ASSET ALLOCATION - ACTIVELY MANAGED ACCOUNTS
For the Period Ended June 30, 2011

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. During the fiscal year 2011, the assets of these reserves were invested separately for the sole purpose of providing post retirement benefit increases. Assets in the cash reserve are also excluded from this illustration. These assets 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, 2011

Top Ten Domestic Stock Holdings

	Shares	Stock	Market Value
1)	163,800	United Health Group Inc	$8,448,804
2)	80,595	Chevron Corp	8,288,390
3)	237,069	AT&T Inc	7,446,337
4)	21,400	Apple Inc	7,183,338
5)	340,123	Pfizer Inc	7,006,534
6)	90,451	Conocophillips	6,801,011
7)	117,766	Eldu Pont De Nemours & Co	6,365,252
8)	286,100	Intel Corp	6,339,976
9)	94,600	Johnson & Johnson	6,292,792
10)	76,821	Exxon Mobil Corp	6,251,693

Top Ten International Stock Holdings

	Shares	Stock	Market Value
1)	546,060	Rolls Royce Group Ord GBPO.20	$5,654,535
2)	398,529	Reed Elsevier NV EURO.07	5,347,606
3)	59,576	Sanofi	4,788,700
4)	108,650	British American Tobacco Ord GBPO.25	4,763,742
5)	76,827	Novartis AG CHFO.50 REGD	4,699,039
6)	58,485	BNP Paribas EUR2	4,513,610
7)	189,584	AXA EUR2.29	4,307,187
8)	23,905	Linde AG NPV	4,190,233
9)	66,137	AKZO Nobel NV EUR2	4,171,160
10)	98,000	Toyota Motor Corp NPV	4,004,458

Top Ten Bond Holdings

	Par	Bonds	Market Value
1)	72,870,000	U S Treasury Bond Prin Strip 05/15/2030	$31,632,867
2)	30,000,000	Israel St AID Zero Cpn 11/15/2013	29,287,500
3)	35,600,000	U S Treasury Bond Cpn Strip 08/15/2020	26,348,984
4)	21,309,000	GOVT Tr CTF CL 1-Z Zero Cpn 10/01/2020	14,433,012
5)	18,700,000	Israel St AID Zero Cpn 08/15/2021	12,602,304
6)	15,800,000	U S Treasury Bond CPN Strip 05/15/2021	11,316,118
7)	9,135,000	U S Treasury Bond 05/15/2037	10,146,975
8)	19,000,000	U S Treasury Bond Prin Strip 08/15/2026	10,039,790
9)	10,000,000	Israel St AID Zero Cpn 03/15/2012	9,961,700
10)	33,300,000	U S Treasury Bond Prin Strip 08/15/2039	8,896,428

A complete list of portfolio holdings is available upon request.

Fire and Police Employees' Retirement System
City of Baltimore, Maryland
INVESTMENT SUMMARY
June 30, 2011

	Market Value	Percent of Total Investments
Stock:		
U.S. Common Stock		
Financial	$122,630,105	6.05%
Energy	76,064,904	3.75
Technology	71,386,439	3.52
Consumer nondurables	54,994,684	2.71
Consumer services	54,767,229	2.70
Health care	47,868,246	2.36
Consumer durables	41,985,762	2.07
Basic industries	26,753,423	1.32
Capital goods	19,262,858	0.95
Transportation	11,848,893	0.59
Utilities	827,934	0.04
Total U.S. Common Stock	528,390,477	26.06
Other		
International Stock	417,021,189	20.57
Large cap index fund	19,661,931	0.97
Total Other	436,683,120	21.54
Total Stock	**965,073,597**	**47.60**
Bonds:		
U.S. Securities and Agencies		
Treasury notes and bonds	185,655,394	9.16
U.S. Agencies	126,800,243	6.25
Total U.S. Securities and Agencies	312,455,637	15.41
Corporate		
Financial	222,846,689	10.99
Transportation	35,586,420	1.75
Industrial	28,020,402	1.38
Utilities	26,704,811	1.32
Total Corporate	313,158,322	15.44
Barclay Aggregate Index	5,232,140	0.26
Absolute Return Strategic Funds	64,085,383	3.16
Total Bonds	**694,931,482**	**34.27**
Other Investments:		
Real estate	164,534,970	8.11
Private equity funds	110,934,896	5.47
Energy master limited partnerships	79,532,817	3.92
Hedge funds	12,805,018	0.63
Total Other Investments	**367,807,701**	**18.13**
Total Investments	**$2,027,812,780**	**100.00%**

Fire and Police Employees' Retirement System
City of Baltimore, Maryland
SUMMARY SCHEDULE OF FEES AND COMMISSIONS
For the Year Ended June 30, 2011

	Assets Under Management	Fees
Investment Managers' Fees		
Domestic equity	$636,868,580	$2,554,759
International equity	428,332,363	2,381,529
Fixed income	710,656,428	2,292,404
Real estate	162,195,574	241,438
Securities lending		150,180
Total Investment Managers' Fees		**$7,620,310**
Other Investment Service Fees:		
Custodian bank fees		$188,082
Investment consultant fees		287,500
Total Other Investment Service Fees		**$475,582**

Brokerage Fees

Broker's fees on investment transactions for the year ended June 30, 2011 amounted to $1,072,012. Brokerage firms receiving more than $7,500 in fees are listed below.

Brokerage Firms	Fees Paid	Brokerage Firms	Fees Paid
Merrill Lynch	$80,309	Raymond James & Associates	$16,107
Credit Suisse First Boston	75,291	Nomura Securities Intl Inc.	15,894
Percival Financial, LTD	66,770	Macquarie Capital	15,098
UBS	66,573	Gabelli & Company	14,191
Morgan J P Securities Inc.	64,116	RBC Capital Markets Corp	12,861
Instinet Corp	49,596	BOE Securities	11,245
Deutsche Banc Alex Brown Inc.	46,225	Abel Noser Corp	9,930
BNY	45,777	Cowen and Company LLC	9,444
Morgan Stanley & Co.	40,201	Merlin Securities LLC	9,254
Barclays Capital LE	32,322	GRW Capital Corp	8,873
Citigroup GBL Markets	28,807	Piper Jaffray & Company	8,558
Weeden & Company	26,089	Keefe Bruyette & Wood LTD	8,436
Jefferies & Company	22,219	Credit Agricole Cheuvreux, Coubevoie Co	8,417
Stifel Nicolaus	18,355	Madison Williams & Co	7,752
Goldman Sachs	17,134	Exane	7,504

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
Jennifer Young
Palm Beach Gardens, Florida

Mellon Capital Management
Karen Wong
San Francisco, CA

The Edgar Lomax Company
Randall Eley
Springfield, Virginia

Columbus Circle Investors
Anthony Rizza
Stamford, Connecticut

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.
Devan Kaloo
London, England

Causeway Capital Management, LLC
Sarah Ketterer
Los Angeles, California

Hedge Fund of Funds

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

MacKay Shields
Michael Kimble
New York, New York

Western Asset Management Company
Steve Walsh
Pasadena, California

Mellon Capital Management
Susan Ellison
San Francisco, California

Income Reasearch & Management (IRM)
John Mohr, Senior VP
Boston, MA

REAL ESTATE MANAGERS

Principal Global Investors
John Berg
De Moines, Iowa

AREA Property Partners
Steven M. Wolf
New York, NY

LaSalle Investment Management, Inc.
James Hutchinson
Chicago, Illinois

Alex Brown Realty
John M. Prugh
Baltimore, Maryland

Blackrock Realty
Andrew Piekarski
Florham Park, New Jersey

Clarion
Stephen Hansen
New York, New York

DLJ Real Estate
Andy Rifkin
New York, New York

Angelo Gordon Real Estate
Adam Schwartz
New York, New York

REAL ASSETS

Harvest Fund Advisors, LLC
Anthony Merhige, General Counsel
Wayne, PA

Tortoise Capital Advisors, LLC
Abel Mojica,
Leawood, KS

PRIVATE EQUITY

Pantheon
Brett Johnson
San Francisco, California

BlackRock
Russell Steenberg
Plainsboro, New Jersey

Capital Dynamics
Cynthia Duda
New York, NY

LGT Capital Partners
Tycho Snyers
New York, NY

Adams Street Partners
Miguel F. Gonzalo
Chicago, Illinois

Squadron Capital Advisors
David Pierce
Hong Kong

Maryland Venture Capital Trust
Baltimore, Maryland

Siguler Guff
Thomas McGowan
New York, NY

Drum Capital Management, LLC
Scott Vollmer
Stamford, Connecticut

GLOBAL CUSTODIAN

BNY Mellon Asset Servicing
Arlene Sefcik
Pittsburgh, Pennsylvania

SECURITIES LENDING

BNY Mellon Asset Servicing
Stephen R. Crosby
Pittsburgh, Pennsylvania

INVESTMENT CONSULTANT

The Summit Strategies Group
Daniel Holmes
St. Louis, Missouri

Actuarial Section

MERCER

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Baltimore, MD 21202
+1 410 727 3345
www.mercer.com

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

October 20, 2011

Honorable Members of the Board of Trustees:

Mercer performs an actuarial valuation of the System at the end of each fiscal year. In this Comprehensive Annual Financial Report (CAFR), 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 based on the information included in Mercer's report on the annual actuarial valuation.

The most recent valuation was as of June 30, 2011. The actuarial valuation report was prepared for the System's Trustees exclusively for the following purposes:

- Present Mercer's actuarial estimates of the System's liabilities and expenses based on assumptions and plan provisions including Ordinance 11-444 for the Trustees to incorporate, as the Trustees deem appropriate, in the System's financial statements: and
- Provide the City contribution for the period beginning July 1, 2012 and the State contribution for the period beginning July 1, 2011.

The funding method (also called the actuarial cost method) used in the annual valuation is the Projected Unit Credit cost method. The actuarial value of assets recognizes 20% of investment performance above or below the assumed rate of return each year. 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.

Over the long term, the actuarial methods are designed to produce reasonably level contributions as a percentage of covered payroll. However, even in the absence of plan improvements, contribution levels can rise over time. This can occur, for example, if the average age of the active members were to increase because of a decline in the number of new members being added to the plan, or if plan experience is less favorable than the actuarial assumptions. Over the short term, unless investment earnings exceed assumed earnings by significant amounts, funding policy contributions are likely to increase due to recognition of past investment losses. The types of events that cause volatility in the contribution rates include favorable/unfavorable investment returns, and actuarial gains or losses resulting from differences between actual experience and the assumed rates of retirement, disability, pay increases, etc.

Decisions about benefit changes, granting new benefits, investment policy, funding policy, benefit security and/or benefit-related issues should not be made on the basis of a valuation report of CAFR, but only after careful consideration of alternative economic, financial, demographic, and societal factors, including financial scenarios that assume future sustained investment losses.

The Trustees are solely responsible for selecting the plan's investment policies, asset allocations and individual investments. Mercer's actuaries have not provided any investment advice to the Trustees.

A valuation report is a only snapshot of a plan's estimated financial condition at a particular point in time; it does not predict a plan's future financial condition or its ability to pay benefits in the future and does not provide any guarantee of future financial soundness of the Plan. Over time, a plan's total cost will depend on a number of factors, including the amount of benefits the plan pays, the number of people paid benefits, the period of time over which benefits are paid, plan expenses and the amount earned on any assets invested to pay the benefits. These amounts and other variables are uncertain and unknowable at the valuation date.

Because modeling all aspects of a situation is not possible or practical, we may use summary information, estimates, or simplifications of calculations to facilitate the modeling of future events in an efficient and cost-effective manner. We may also exclude factors or data that are immaterial in our judgment. Use of such simplifying techniques does not, in our judgment, affect the reasonableness of valuation results for the plan.

To prepare the valuation report, actuarial assumptions are used in a forward looking financial and demographic model to present a single scenario from a wide range of possibilities; the results based on that single scenario are included in the valuation. The actuarial assumptions are described in the valuation report. The future is uncertain and the plan's actual experience will differ from those assumptions; these differences may be significant or material because these results are very sensitive to the assumptions made and, in some cases, to the interaction between the assumptions.

Different assumptions or scenarios within the range of possibilities may also be reasonable and results based on those assumptions would be different. As a result of the uncertainty inherent in a forward looking projection over a very long period of time, no one projection is uniquely "correct" and many alternative projections of the future could also be regarded as reasonable. Two different actuaries could, quite reasonably, arrive at different results based on the same data and different views of the future. A "sensitivity analysis" shows the degree to which results would be different if we substitute alternative assumptions within the range of possibilities for those utilized in the valuation report. We have not been engaged to perform such a sensitivity analysis and thus the results of such an analysis are not included in the valuation report. At the Trustees' request, Mercer is available to perform such a sensitivity analysis.

Actuarial assumptions may also be changed from one valuation to the next because of changes in mandated requirements, plan experience, changes in expectations about the future and other factors. A change in assumptions is not an indication that prior assumptions were unreasonable when made.

The calculation of actuarial liabilities for valuation purposes is based on a current estimate of future benefit payments. The calculation includes a computation of the "present value" of those estimated future benefit payments using an assumed discount rate; the higher the discount rate assumption, the lower the estimated liability will be. For purposes of estimating the liabilities (future and accrued) in the valuation report, the City code specifies an assumption based on the expected long term rate of return on plan investments. Using a lower discount rate assumption, such as a rate based on long-term bond yields, could substantially increase the estimated present value of future and accrued liabilities.

Because valuations are a snapshot in time and are based on estimates and assumptions that are not precise and will differ from actual experience, contribution calculations are inherently imprecise. There is no uniquely "correct" level of contributions for the coming plan year.

Valuations do not affect the ultimate cost of the Plan, only the timing of contributions into the Plan. Plan funding occurs over time. Contributions not made this year, for whatever reason, including errors, remain the responsibility of the Plan sponsor and can be made in later years. If the contribution levels over a period of years are lower or higher than necessary, it is normal and expected practice for adjustments to be made to future contribution levels to take account of this with a view to funding the plan over time.

Data, computer coding and mathematical errors are possible in the preparation of a valuation involving complex computer programming and thousands of calculations and data inputs. Errors in a valuation discovered after its preparation may be corrected by amendment to the valuation or in a subsequent year's valuation.

The 8.00% investment return assumption and certain actuarial methods are prescribed by statute. Other assumptions used are based on the September 2008 experience study, as adopted by the Trustees, or Mercer's analysis regarding the possible effect of plan changes, as mandated by City Council Bill 09-0295 and Ordinance 10-306/357, on member behavior such as DROP 2 participation and the timing of retirement . The City and/or the Trustees are responsible for selecting the plan's funding policy, actuarial valuation methods, asset valuation methods, and assumptions. The policies, methods and assumptions used in this valuation are those that have been so prescribed and are described in the valuation report. The System is solely responsible for communicating to Mercer any changes required thereto.

Because the unfunded actuarial liability (UAL) is being amortized by an open or rolling amortization period (with re-amortization of the UAL in each valuation), the amortization amounts will never fully eliminate the UAL. Actuarial gains could eliminate the UAL or actuarial losses could increase it.

Mercer conducted an experience study in September/October 2011 and the Trustees decided to defer adoption of any assumption or method changes until a new actuary is selected. In the absence of method changes or a change in the investment return assumption, the effect of changing assumptions would have been a decrease in contributions. In the absence of assumptions changes, the effect of the method changes would have been an increase in contributions.

To prepare this report Mercer has used and relied on financial data and participant data supplied by the Retirement System's Office and summarized in the valuation report. The Trustees are responsible for ensuring that such participant data provides an accurate description of all persons who are participants under the terms of the plan or otherwise entitled to benefits as of June 30, 2011 that is sufficiently comprehensive and accurate for the purposes of this report. Although Mercer has reviewed the data in accordance with Actuarial Standards of Practice No. 23, Mercer has not verified or audited any of the data or information provided.

Mercer has also used and relied on the plan documents, including amendments, and interpretations of plan provisions, supplied by the Fire and Police Employees' Retirement System including Ordinance 11-444 as summarized in the valuation report. We have assumed for purposes of this valuation that copies of any official plan document including all amendments and collective bargaining agreements as well as any interpretations of any such document have been provided to Mercer along with a written summary of any other substantive commitments. The Trustees are solely responsible for the validity, accuracy and comprehensiveness of this information. If any data or plan provisions supplied are not accurate and complete, the valuation results may differ significantly from the results that would be obtained with accurate and complete information; this may require a later revision of this report. Moreover, plan documents may be susceptible to different interpretations, each of which could be reasonable, and that the different interpretations could lead to different valuation results.

MERCER

A change to the plan provisions was incorporated in the enclosed exhibits as well as the June 30, 2011 valuation results to reflect Ordinance 11-444.

I meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion contained in the valuation report. I am not aware of any direct or material indirect financial interest or relationship, including investments or other services that could create a conflict of interest, that would impair the objectivity of Mercer's work.

Respectfully submitted,

Douglas L. Rowe

Douglas L. Rowe, FSA, MAAA, EA

The information contained in this document (including any attachments) is not intended by Mercer to be used, and it cannot be used, for the purpose of avoiding penalties under the Internal Revenue Code that may be imposed on the taxpayer.

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MARSH & McLENNAN COMPANIES

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. 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)	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. Effective 6/30/2005, the accumulated deficit under an agreement between the City and unions representing members of the plan to use excess investment income for contribution holidays and benefit improvements is being recognized as an investment loss over 10 years.
Post Retirement Benefit Increases: (Effective 6/30/2010)	Based solely on age, type of retirement, and amount of time receiving retirement benefits.

Actuarial Assumptions

Investment return: (Effective 6/30/2010)	8.00% compounded annually. According to Article 22 of the Baltimore City Code, regular member accumulations earn 3.0% and DROP and DROP 2 account accumulations earn 8.25% and 5.0% respectively.
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)
*(Effective 6/30/2011)

Retirees and Beneficiaries

	Service Members		Disabled Members	
Age	Male*	Female*	Male	Female
55	0.004668	0.002446	0.006451	0.002940
60	0.008439	0.004749	0.010671	0.004913
65	0.015410	0.009240	0.019097	0.008404
70	0.025133	0.014689	0.031079	0.016230
75	0.039452	0.024198	0.051653	0.029663
80	0.066029	0.042064	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 23 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:

Age	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[1]
20	0.000228	0.000864	0.000535	0.000300	0.000076
25	0.000232	0.001138	0.000704	0.000309	0.000119
30	0.000594	0.001792	0.000858	0.000373	0.000164
35	0.001914	0.003520	0.000910	0.000508	0.000253
40	0.001840	0.004988	0.001144	0.000752	0.000385
45	0.002651	0.005644	0.001675	0.001029	0.000433
50	0.002800	0.004600	0.002723	0.001510	0.000372
55	0.001446	0.004664	0.004558	0.002446	0.000300
60	0.001162	0.006208	0.008439	0.004749	0.000159
64	0.000812	0.006353	0.013719	0.008153	0.000062

The above rates for line-of-duty disability and non-line-of-duty death were effective 6/30/2008.
The above rates for non-line-of-duty disability and line-of-duty death were effective 6/30/2005.

Withdrawal rates:

Years of Service	Withdrawal[2]
0	0.0700
1	0.0650
2	0.0600
3	0.0575
4	0.0525
5	0.0450
6	0.0400
7	0.0325
8	0.0250
9	0.0200
10	0.0130
11-14	0.0085
15-19	0.0035
20+	0.0000

The above rates were effective 6/30/2008.

[1]Benefit loaded 0.50% for post-disability line-of-duty death benefit.

[2]Withdrawal decrements are reduced to zero when participant is eligible to retire.

ACTUARIAL ASSUMPTIONS RETIREMENT RATES

The retirement rates are assumed to be affected by whether or not a member participates in DROP or DROP 2. Members that do not join DROP or DROP 2 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 grandfathered members will elect to participate in DROP / DROP 2, 75% of non-grandfathered police will elect DROP 2 and 85% of non-grandfathered firefighters will elect DROP 2. Retirement rates are as follows and reflect possibilities of retirement with and without DROP/DROP 2 rates: (Effective 6/30/2010)

Grandfathered Non-DROP/DROP 2 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

Grandfathered Non-DROP/DROP 2 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

Grandfathered 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

Grandfathered Full DROP 2 Rates

Years After Electing DROP2	DROP 2 Retirement Rates	
	Fire	Police
1	3.25 %	4.75 %
2	4.25	5.75
3	11.25	12.75
4-5	10.25	11.75
6	7.25	9.00
7	7.25	26.00
8-9	24.00	26.00
10-13	23.50	26.50
14+	23.00	27.00

ACTUARIAL ASSUMPTIONS RETIREMENT RATES

The following rates apply to non-grandfathered members (participants who have not met the full service retirement eligibility, or have less than 15 years of service as of July 1, 2010). (Effective 6/30/2010)

Non-Grandfathered Non-DROP 2 Rates

Age	Fire (with 85% reduction) At First Eligibility	Fire (with 85% reduction) After First Eligibility	Police (with 75% reduction) At First Eligibility	Police (with 75% reduction) After First Eligibility
<55	9.00%	7.50%	17.50%	15.00%
55	9.00	7.50	17.50	15.00
56	9.00	7.50	17.50	15.00
57	9.00	7.50	17.50	15.00
58	9.00	7.50	17.50	15.00
59	9.00	7.50	17.50	15.00
60	9.00	7.50	17.50	15.00
61	9.00	7.50	17.50	15.00
62	9.00	7.50	17.50	15.00
63	9.00	7.50	17.50	15.00
64	9.00	7.50	17.50	15.00
65+	100.00	100.00	100.00	100.00

Non-Grandfathered Full DROP 2 Rates

Years After eligibility/election	Fire (with 85% reduction)	Police (with 75% reduction)
0	0.00%	0.00%
1	3.40	4.50
2	4.25	5.25
3	11.90	12.00
4	11.05	11.25
5	12.75	13.50
6	10.20	10.50
7	10.20	27.00
8	28.90	27.00
9	28.90	27.00
10	28.48	27.38
11	28.48	27.38
12	28.48	27.38
13	28.48	27.38
14+	28.05	27.75

ACTUARIAL ASSUMPTIONS RETIREMENT RATES

Early Retirement Rates for Non-Grandfathered Fire Members (Reduced Benefits) (Effective 6/30/2010)

	Service													
Age	<10	10	11	12	13	14	15	16	17	18	19	20	21-24	25+
<45												3.00%	2.00%	
45												3.00%	3.00%	
46												3.00%	3.00%	
47												3.00%	3.00%	
48												3.00%	3.00%	
49												4.00%	4.00%	
50	3.00%	6.00%	6.00%	6.00%	6.00%	6.00%	6.00%	6.00%	6.00%	6.00%	6.00%	6.00%	6.00%	
51	3.00%	6.00%	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%	
52	3.00%	6.00%	8.00%	10.00%	10.00%	10.00%	10.00%	10.00%	10.00%	10.00%	10.00%	10.00%	10.00%	
53	3.00%	6.00%	8.00%	10.00%	12.00%	12.00%	12.00%	12.00%	12.00%	12.00%	12.00%	12.00%	12.00%	
54	3.00%	6.00%	8.00%	10.00%	12.00%	14.00%	14.00%	14.00%	14.00%	14.00%	14.00%	14.00%	14.00%	
55	4.50%	7.00%	9.50%	12.00%	14.50%	17.00%								
56	5.00%	8.00%	11.00%	14.00%	17.00%	20.00%								
57	5.00%	8.00%	11.00%	15.00%	19.00%	23.00%								
58	5.00%	8.00%	14.00%	18.00%	22.00%	26.00%								
59	5.00%	8.00%	15.00%	20.00%	25.00%	30.00%								
60	5.00%	15.00%	20.00%	25.00%	30.00%	35.00%								
61	10.00%	20.00%	25.00%	30.00%	35.00%	40.00%								
62	15.00%	20.00%	25.00%	30.00%	35.00%	40.00%								
63	15.00%	20.00%	25.00%	30.00%	35.00%	40.00%								
64	15.00%	20.00%	25.00%	30.00%	35.00%	40.00%								
65	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%								

Members not yet eligible for early retirement

Members eligible for unreduced benefits

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

Early Retirement Rates for Non-Grandfathered Police Members (Reduced Benefits) (Effective 6/30/2010)

	Service													
Age	<10	10	11	12	13	14	15	16	17	18	19	20	21-24	25+
<45												5.00%	4.00%	
45												5.00%	5.00%	
46						Members not yet eligible for early retirement						3.00%	3.00%	
47												5.00%	5.00%	
48												5.00%	5.00%	
49												6.00%	6.00%	
50	5.00%	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%	
51	5.00%	8.00%	10.00%	10.00%	10.00%	10.00%	10.00%	10.00%	10.00%	10.00%	10.00%	10.00%	10.00%	
52	5.00%	8.00%	10.00%	12.00%	12.00%	12.00%	12.00%	12.00%	12.00%	12.00%	12.00%	12.00%	12.00%	
53	5.00%	8.00%	10.00%	12.00%	14.00%	14.00%	14.00%	14.00%	14.00%	14.00%	14.00%	14.00%	14.00%	
54	5.00%	8.00%	10.00%	12.00%	14.00%	16.00%	16.00%	16.00%	16.00%	16.00%	16.00%	16.00%	16.00%	
55	5.00%	8.00%	11.00%	14.00%	17.00%	20.00%								
56	7.00%	11.00%	15.00%	19.00%	23.00%	27.00%								
57	10.00%	15.00%	20.00%	25.00%	30.00%	35.00%								
58	15.00%	20.00%	25.00%	30.00%	35.00%	40.00%								
59	20.00%	25.00%	30.00%	35.00%	40.00%	45.00%								
60	25.00%	30.00%	35.00%	40.00%	45.00%	50.00%								
61	30.00%	35.00%	40.00%	45.00%	50.00%	55.00%								
62	35.00%	40.00%	45.00%	50.00%	55.00%	60.00%								
63	35.00%	40.00%	45.00%	50.00%	55.00%	60.00%						Members eligible for unreduced benefits		
64	35.00%	40.00%	45.00%	50.00%	55.00%	60.00%								
65	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%								

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
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
2009	4,690	281,423,808	60,005	2.7
2010	4,584	276,576,626	60,335	0.6
2011	4,575	275,647,861	60,251	(0.1)

Fire and Police Employees' Retirement Sytem
City of Baltimore, Maryland
SCHEDULE OF RETIREES AND BENEFICIARIES ADDED TO AND REMOVED FROM ROLLS

Year Ended June 30	Added to Rolls No.	Added to Rolls Annual Allowances*	Removed from Rolls No.	Removed from Rolls Annual Allowances	Rolls - End of Year No.	Rolls - End of Year Annual Allowances	% Increase in Annual Allowances	Average Annual Allowances
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
2009	232	7,709,875	184	4,049,841	5,929	174,430,768	2.1	29,420
2010	280	12,045,607	197	4,307,535	6,012	182,168,840	4.4	30,301
2011	267	11,885,471	179	4,215,749	6,100	189,838,563	4.2	31,121

* Includes post-retirement adjustments.
The annual allowances were adjusted to incorporate the $16,000 minimum benefit for certain beneficiaries under Ordinances 10-306 and 11-444.

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)
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
2009	237,159,576	1,971,574,127	842,153,582	2,587,235,012	100	100	44.9
2010	246,799,329	1,977,520,610	809,403,584	2,524,753,505	100	100	37.1
2011	247,518,595	2,057,539,881	799,746,838	2,546,236,459	100	100	30.2

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 2010	Gain or (Loss) for Fiscal Year 2011
Age and Service Retirements 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.	$ 1,241,455	$ 7,466,204
Disability Retirements If disability claims are less than assumed, there is a gain. If more claims, a loss.	(4,386,494)	(2,258,398)
Death-in-Service Benefits If survivor claims are less than assumed, there is a gain. If more claims, there is a loss.	794,867	(150,634)
Withdrawal From Employment If more liabilities are released by withdrawals than assumed, there is a gain. If smaller releases, a loss.	(1,163,107)	1,985,025
Pay Increases If there are smaller pay increases than assumed, there is a gain. If greater increases, a loss.	35,883,978	31,157,560
Investment Income If there is greater investment income than assumed, there is a gain. If less, a loss.	(174,771,781)	(91,073,001)
Death After Retirement If retirees live longer than assumed, there is a loss. If not as long, a gain.	3,580,695	1,403,620
New Entrants New entrants create a loss because they were not assumed in the previous evaluation.	(933,052)	(1,518,221)
Excess Contributions Gain created due to contributions that are not designated to reduce the BIF and ERF.		11,198,836
Expense Gain / (Loss) If the actual expenses paid from the plan are greater than expected, there is a loss. If less, there is a gain.		(5,832,049)
Other Miscellaneous gains and losses resulting from data adjustments, timing of financial transactions, valuation methods, etc.	(2,519,437)	(7,474,066)
Loss During Year From Financial Experience	$(142,272,876)	$ (55,095,124)

SUMMARY OF PLAN PROVISIONS
For the Year Ended June 30, 2011

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:**

Prior to July 1, 2010, members contributed at the rate of 6% of regular compensation. Effective July 1, 2010, the rate increased to 7% of regular compensation; effective July 1, 2011, the rate is 8% of regular compensation; effective July 1, 2012, the rate will be 9% of regular compensation; and, effective July 1, 2013, the rate will be 10% of regular compensation.

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.

Effective July 1, 2010, for members hired on or after July 1, 2010, and for members who, as of June 30, 2010, did not meet the eligibility requirements for a service retirement benefit and had fewer than 15 years of service, AFC means the average annual compensation based on 36 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; or

(3) 15 years of service, regardless of age for a member removed from his/her position.

Effective July 1, 2010, eligible military service credit prior to employment also can be used to satisfy the eligibility requirements for a service retirement benefit, DROP, or DROP 2.

(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 Uniformed Services Employment and Reemployment Rights Act.

6. **SERVICE RETIREMENT BENEFIT:**

(A) **Normal Retirement Eligibility Requirements:**

(1) Effective June 30, 2010, members who entered the System on or before June 30, 2003, and who had acquired 15 or more years of service as of June 30, 2010, or who met the following age or service requirements as of June 30, 2010, may retire based on the following eligibility requirements:

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

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

(2) Effective June 30, 2010, members who entered the System on or after July 1, 2003, and who had acquired 15 or more years of service as of June 30, 2010, or who met the following age and service requirements as of June 30, 2010, may retire based on the following eligibility requirements:

(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.

(3) Effective July 1, 2010, members who, as of June 30, 2010, did not meet the applicable eligibility requirements in (1) or (2) above and had fewer than 15 years of service, are eligible for a normal retirement benefit upon the earlier of:

(a) age 55, with at least 15 years of service as a contributing member of this System; or

(b) regardless of age, 25 years of service with at least 15 years as a contributing member of this System.

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

(C) **Early Retirement Eligibility Requirements:**

Effective July 1, 2010, members who, as of June 30, 2010, did not meet the applicable eligibility requirements (A)(1) or (2) above and had fewer than 15 years of service, are eligible for an early retirement benefit upon attaining the applicable eligibility requirements in (A)(1) or (2) above.

(D) **Early Retirement Benefit Amount:**

(1) The amount determined under (B) above, reduced by:

(2) The applicable percentage shown below for each month (or fraction of a month) by which the member's benefit commencement date proceeds the date the member would have first met eligibility requirements for a normal retirement benefit under (A)(3) above had the member continued in employment with the City:

(a) 6.5/12% per month for the first 60 months or fraction of a month immediately preceding the member's normal service retirement date;

(b) 4.5/12% per month for the next 60 months or fraction of a month;

(c) ¼% per month for the next 60 months or fraction of a month; and

(d) 1/6% per month for any additional month or fraction of a month.

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

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

(B) **Non-Line-of-Duty Disability 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) **Line-of-Duty Disability 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 on the part of the member.

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) **Line-of-Duty Disability 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. The member will also receive a lump-sum refund of the member's accumulated contributions and interest.

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

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

(A) **Maximum Allowance:** Upon retiree's 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 until death.

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

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

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

(1) a specific lump sum amount; or

(2) a specific periodic 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) **Non-Line-of-Duty Death Benefit Eligibility Requirements:** Member who dies while actively employed but whose death does not qualify as a line-of-duty death.

(B) **Non-Line-of-Duty Death 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 until 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/her spouse to whom she/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) **Line-of-Duty Death Benefit 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 actual performance of duty, without willful negligence on the part of the member; or

(2) A member had 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) **Line-of-Duty Death 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):**

The Deferred Retirement Option Plan became effective July 1, 1996.

(A) **Eligibility: a member who does not meet the following eligibility requirements as of December 31, 2009, will not be eligible for DROP participation and will not be entitled to DROP benefits effective January 1, 2010. Such member may be eligible for participation in the Deferred Retirement Option Plan 2 (DROP 2) that became effective January 1, 2010.**

(1) For members who entered the System on or before June 30, 2003, a member must acquire 20 or more years of service, regardless of age on or before December 31, 2009.

(2) For members who entered the System on or after July 1, 2003, a member must acquire 20 or more years of service with at least 10 years of service as a contributing member of this System, regardless of age, on or before December 31, 2009.

(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 nor 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 DROP participation period, begins receiving DROP retirement benefits, and is then reemployed in a position covered by the F&P or any Baltimore City sponsored retirement system, 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 maximum 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 maximum annual service retirement allowance;

(3) A separate sub-account consisting of the member's regular mandatory contributions made during the member's DROP participation period; and

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

(F) **DROP Retirement Benefit:**

(1) BASIC DROP:

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:

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

(a) all benefits under the Basic DROP Benefit; plus

(b) 2.0% of the member's AFC, calculated as of the member's date of termination from employment covered by this System, for each year of service credit, prorated for partial years, earned by employment following the DROP participation period (taking into account the member's annual compensation while in DROP), not to exceed 18 months; plus

(c) a recovery rate of 1.5% of the member's AFC, calculated as of the member's date of termination from employment covered by this System, for each year of service credit, prorated for partial years, earned by employment following the DROP participation period (taking into account the member's annual compensation while in DROP), not to exceed 18 months, but limited to a "recovery" of 2.0% if the member discontinued participation in DROP after 1 year or limited to a "recovery" of less than 2.25% if the member discontinued participation in DROP after 2 years; plus

(d) 2.0% of the member's AFC, calculated as of the member's termination date from employment covered by this System, for each year of service not already included in the calculation of the member's retirement benefit under (a) and (b).

(3) FULL DROP:

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

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

(b) a pension, which together with the annuity, shall be equal to 2.5% of the member's AFC, calculated as of the member's date of termination from employment covered by this System for each of the first 20 years of service; plus

(c) 2.0% of the member's AFC, calculated as of the member's date of termination from employment covered by this system for each year of service in excess of 20 years; plus

(d) a recovery rate of 1.5% of the member's AFC, calculated as of the member's date of termination from employment covered by this System, for each year of service credit, prorated for partial years, earned by employment following the DROP participation period, not to exceed 4 years, but limited to a "recovery" of 2.0% if the member discontinued participation in DROP at 1 year or limited to a "recovery" of 4.0% if the member discontinued participation in DROP at 2 years; plus

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

(G) **Non-Line-of-Duty Disability:**

(1) 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.

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

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

(H) **Line-of-Duty Disability**:

Any member who retires on account of a line-of-duty disability during or following 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.

(I) **Non-Line-of-Duty Death:**

Due to the non-line-of-duty death of a member who dies during or following the DROP 2 participation period, the beneficiary will receive the non-line-of-duty death benefit according to the DROP provisions. The member's DROP account is payable according to the form of the non-line-of-duty death benefit as follows:

(1) Lump-sum benefit: The beneficiary of a deceased DROP participant will receive the balance of the deceased member's DROP account in a lump sum payment.

(2) 25% plus benefit: The beneficiary can elect to receive the balance of the deceased member's DROP account in a lump sum payment or in periodic payments.

(3) 100% survivorship benefit: The beneficiary can elect to receive the balance of the deceased member's DROP account in a lump sum payment or in periodic payments.

(J) **Line-of-Duty Death:**

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

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

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

(K) **Benefits for Reemployed DROP Participants:**

(1) if a member receiving DROP retirement benefits is reemployed 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 reemployment. Additionally, the member will receive 2.0% of the member's AFC for each year of service credit earned during the reemployment period.

(2) if a member receiving DROP retirement benefits is reemployed in a position covered by the F&P or any Baltimore City sponsored retirement system, and then dies during employment, the member's beneficiary will receive a non-line-of-duty death benefit. This reemployment death benefit also applies to line-of-duty death.

(L) **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 following 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.

(M) **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 which can be:

(a) rolled over to an IRA or similar account; or
(b) taken in pocket; or

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

14. **DEFERRED RETIREMENT OPTION PLAN 2 (DROP 2):**

DROP 2 became effective January 1, 2010. A member who is a DROP participant or who is entitled to DROP benefits is not entitled to DROP 2 participation or DROP 2 benefits. DROP 2 provisions differ for fire department and police department personnel.

(A) **Eligibility:**

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

(2) For members who entered the System on or after July 1, 2003, and on or before December 31, 2009, a member must acquire 20 or more years of service with at least 10 years of service as a contributing member of this System, regardless of age.

(3) For members who entered the System on or after January 1, 2010, a member must acquire 20 or more consecutive years of service credit through City employment and as a contributing member of the System, regardless of age.

(4) Effective July 1, 2010, members who had 15 or more years of service as of June 30, 2010, must acquire 20 or more years of service, and members who had less than 15 years of service as of June 30, 2010, must acquire 25 or more years of service as a contributing member of this System.

(5) For members who entered the System on or after July 1, 2010, a member must acquire 25 or more consecutive years of service credit through City employment and as a contributing member of the System, regardless of age.

(6) An application must be filed not less than 30 days nor more than 90 days prior to the date the DROP 2 participation will begin.

(7) A member who terminates employment immediately becomes ineligible to participate or to continue to participate in the DROP 2.

(B) **Term of DROP 2:**

The maximum period of time that a member can participate in the DROP 2 is a single term of three consecutive years beginning on the member's DROP 2 start date.

A member must remain in DROP 2 for a minimum of 1 year to be eligible for DROP 2 benefits.

(C) **No Service Credit While in DROP 2:**

A DROP 2 participant remains a member of the F&P but is not credited with F&P service.

Except for Mid DROP Retirement Benefits, compensation during the member's DROP 2 participation period shall be disregarded in calculating the member's AFC.

(D) **Discontinuation of DROP 2 Participation:**

(1) If a member terminates service anytime during or at the end of the three year DROP 2 period, participation in the DROP 2 ends automatically.

(2) A member may elect to end participation in the DROP 2 on either the first or second anniversary of the DROP 2 participation start date. The election must be made by filing an application with the System not less than 30 days nor more than 90 days prior to the first or second anniversary of the member's DROP 2 start date.

(3) A member who continues employment after terminating participation in the DROP 2 shall resume earning service credit in the F&P.

(4) Once a member terminates participation in the DROP 2, the member cannot again participate in the DROP 2 at a later date.

(5) If a member retires at the end of the DROP 2 participation period, begins receiving DROP 2 retirement benefits, and is then reemployed in a position covered by the F&P or any Baltimore City sponsored retirement system, all DROP 2 retirement benefit payments will be suspended until the member's later retirement.

(E) **DROP 2 Account:** The member's DROP 2 account shall consist of:

(1) For each full year of a member's DROP 2 participation, an amount equal to the maximum 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 month of a member's DROP 2 participation, an amount equal to one-twelfth of a member's maximum annual service retirement allowance;

(3) For each day not included in (1) or (2), an amount equal to 1/365 of the member's maximum annual service retirement allowance;

(4) Documentation requirements must be met prior to the member's DROP 2 start date for inclusion of pre-employment military service credit in the DROP 2 benefits calculation.

(5) A separate sub-account consisting of the member's regular mandatory contributions made during the member's DROP 2 participation period; and

(6) Interest compounded annually at 5.50% until the member terminates from service. Effective July 1, 2010, for members who had fewer than 15 years of service as of June 30, 2010, interest is compounded annually at 3.0% until the member terminates from service.

(F) **DROP 2 Retirement Benefit - FIRE DEPARTMENT MEMBERS:**

(1) EARLY DROP 2:

A member must complete a minimum of 1 year of DROP 2 participation to be eligible for Early DROP 2 benefits. A member who terminates service during year 2 or year 3 or at the conclusion of the DROP 2 participation period will receive:

(a) the following percentages of the member's AFC calculated as of the day before the member's DROP 2 start date:

(i) 2.5% for each of the first 20 years of service, plus
(ii) 2.0% for each full year of service in excess of 20 years, prorated for partial years, prior to the member's DROP 2 start date; no service credit is earned during the member's DROP 2 participation period; plus

(b) the balance in the member's DROP 2 account.

(2) MID DROP 2:

A member who continues working, resumes earning service credit for employment covered by this System following the conclusion of the member's DROP 2 participation period, and terminates service anytime within 5 years following the member's DROP 2 participation period will receive:

(a) the following percentages of the member's AFC calculated as of the day before the member's DROP 2 start date:

(i) 2.5% for each of the first 20 years of service, plus
(ii) 2.0% for each full year of service in excess of 20 years, prorated for partial years, prior to the member's DROP 2 start date, plus
(iii) 2.0% for each full year of service, prorated for partial years, purchased during or following the member's DROP 2 participation period, if any; no service credit is earned during the member's DROP 2 participation period; plus

(b) the following percentages of the member's AFC calculated as of the member's termination date from employment covered by this System:

(i) 2.0% for each full year of service, prorated for partial years, for up to 5 years of employment as a contributing member of this System following the member's DROP 2 participation period; no service credit is earned during the member's DROP 2 participation period, plus
(ii) A recovery rate of 1.5% for each of the first four years of employment covered by this System immediately following the member's DROP 2 participation period, subject to the following limitations:

1. if the member discontinued DROP 2 participation at 1 year, the recovery rate is limited to 2.0%.

2. if the member discontinued DROP 2 participation at 2 years, the recovery rate is limited to 4.0%.

plus,

(c) the balance in the member's DROP 2 account.

(3) COMPLETE DROP 2:

A member who continues working, resumes earning service credit for employment covered by this System following the conclusion of the member's DROP 2 participation period, and terminates service 5 or more years following the DROP 2 participation period will receive:

(a) the following percentages of the member's AFC calculated as of the member's termination date from employment covered by this System:

(i) 2.5% for each of the first 20 years of service, plus
(ii) 2.0% for each full year of service, prorated for partial years, for service in excess of 20 years, excluding employment covered by this System during the member's DROP 2 participation period, plus
(iii) A recovery rate of 1.5% for each of the first four years of employment covered by this System immediately following the member's DROP 2 participation period, subject to the following limitations:

1. if the member discontinued DROP 2 participation at 1 year, the recovery rate is limited to 2.0%.

2. if the member discontinued DROP 2 participation at 2 years, the recovery rate is limited to 4.0%.

plus,

(b) the balance in the member's DROP 2 account.

(G) **DROP 2 Retirement Benefit – POLICE DEPARTMENT MEMBERS:**

(1) EARLY DROP 2:

A member must complete a minimum of 1 year of DROP 2 participation to be eligible for Early DROP 2 benefits. A member who terminates service during year 2 or year 3 or at the conclusion of the DROP 2 participation period will receive:

(a) the following percentages of the member's AFC as of the day before the member's DROP 2 start date:

(i) 2.5% for each of the first 20 years of service, plus
(ii) 2.0% for each full year of service in excess of 20 years, prorated for partial years, prior to the member's DROP 2 start date; no service credit is earned during the member's DROP 2 participation period; plus

(b) the balance in the member's DROP 2 account.

(2) MID DROP 2:

A member who continues working, resumes earning service credit for employment covered by this System following the conclusion of the member's DROP 2 participation period, and terminates service anytime within 3½ years following the DROP 2 participation period will receive:

(a) the following percentages of the member's AFC as of the day before the member's DROP 2 start date:

(i) 2.5% for each of the first 20 years of service, plus
(ii) 2.0% for each full year of service in excess of 20 years, prorated for partial years, prior to the member's DROP 2 start date, plus
(iii) 2.0% for each full year of service, prorated for partial years, purchased during or following the member's DROP 2 participation period, if any; no service credit is earned during the member's DROP 2 participation period; plus

(b) the following percentage of the member's AFC calculated as of the member's termination date from employment covered by this System:

2.0% for each full year of service, prorated for partial years, for up to 3½ years of employment as a contributing member of this System following the member's DROP 2 participation period; no service credit is earned during the member's DROP 2 participation period; and

(c) the balance in the member's DROP 2 account.

(3) COMPLETE DROP 2:

A member who continues working, resumes earning service credit for employment covered by this System following the conclusion of the member's DROP 2 participation period, and terminates service 3½ or more years following the DROP 2 participation period will receive:

(a) the following percentages of the member's AFC calculated as of the member's termination date from employment covered by this System:

(i) 2.5% for each of the first 20 years of service, plus
(ii) 2.0% for each full year of service, prorated for partial years, for service in excess of 20 years excluding employment covered by this System during the member's DROP 2 participation period; plus

(b) the balance in the member's DROP 2 account.

(H) **Non-Line-of-Duty Disability:**

(1) the member must complete a minimum of 1 year of the DROP 2 participation period to be eligible for any DROP 2 benefits.

(2) any member who retires prior to the first anniversary of the member's DROP 2 start date is not entitled to any benefits under DROP 2. The benefit will be calculated as though the member had never participated in DROP 2.

(3) any member who retires on account of a non-line-of-duty disability during or at the end of the DROP 2 participation period will receive the Early DROP 2 Retirement Benefit.

(4) any Fire department member who retires within 5 years following the end of the DROP 2 participation period or any Police department member who retires within 3½ years following the end of the DROP 2 participation period on account of a non-line-of-duty disability will receive the Mid DROP 2 Retirement Benefit.

(5) any Fire department member who retires with 5 or more years following the end of the DROP 2 participation period or any Police department member who retires with 3½ or more years following the end of the DROP 2 participation period on account of a non-line-of-duty disability will receive the Complete DROP 2 Retirement Benefit.

(I) **Line-of-Duty Disability:**

Any member who retires on account of a line-of-duty disability during or following the DROP 2 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 2 retirement benefits and the member will not receive the balance in the DROP 2 account.

(J) **Non-Line-of-Duty Death:**

Due to the non-line-of-duty death of a member who dies after completing a minimum of one year of DROP 2 participation or following the DROP 2 participation period, the beneficiary will receive the non-line-of-duty death benefit according to the DROP 2 provisions. The member's DROP 2 account is payable according to the form of the non-line-of-duty death benefit as follows:

(1) Lump-sum benefit: The beneficiary of a deceased DROP 2 participant will receive the balance of the deceased member's DROP 2 account in a lump sum payment.

(2) 25% plus benefit: The beneficiary can elect to receive the balance of the deceased member's DROP 2 account in a lump sum or in periodic payments.

(3) 100% survivorship benefit: The beneficiary can elect to receive the balance of the deceased member's DROP 2 account in a lump sum payment or in periodic payments.

If the member dies within the first year of the DROP 2 participation period, the benefit will be calculated as though the member had never participated in DROP 2.

(K) **Line-of-Duty Death:**

The line-of-duty death benefit payable due to the death of a member who dies after completing a minimum of one year of DROP 2 participation or following the DROP 2 participation period will equal either of the following as elected by the member's beneficiary:

(1) the non-line-of-duty death benefit including DROP 2 benefits as described above; or

(2) the line-of-duty death benefit payable as though the member had never participated in the DROP 2.

If the member dies within the first year of the DROP 2 participation period, the benefit will be calculated as though the member had never participated in DROP 2.

(L) **Benefits for Reemployed DROP 2 Participants:**

(1) if a member receiving DROP 2 retirement benefits is reemployed in a position covered by the F&P, the member's DROP 2 retirement benefits shall be suspended. When the member later retires again on a service or non-line-of-duty disability retirement, the member will resume receiving the DROP 2 benefits which had been suspended at the time of reemployment, plus, the member will receive 2.0% (prorated for

partial years) of the member's current AFC for each year of service credit earned during the reemployment period.

(2) if a member receiving DROP 2 retirement benefits is reemployed in a position covered by the F&P, and then dies during the reemployment period, beneficiary eligibility for either non-line-of-duty death benefits or line-of-duty death benefits will be determined according to the DROP 2 provisions.

(3) if a member receiving DROP 2 retirement benefits is reemployed in a position covered by another Baltimore City sponsored retirement system, the member's DROP 2 retirement benefits shall be suspended. When the member later retires again, the member will resume receiving the DROP 2 retirement benefits which had been suspended at the time of reemployment,

(M) **Pre-employment Military Service Credit for DROP 2 Participants:**

A member may receive up to 3 years of membership service credit for military service prior to employment with the City of Baltimore if the requirements are met according to the plan provisions. Credit for pre-employment military service may be used in the calculation of the member's maximum service retirement benefit credited to the member's DROP 2 account.

The member must apply and provide the F&P proper and complete documentation of pre-employment military service prior to the member's DROP 2 participation start date in order for the pre-employment military service to be used in the calculation of the members DROP 2 benefit credited to the DROP 2 account.

If the member fails to properly apply and provide the F&P with complete documentation of pre-employment military service prior to the member's DROP 2 participation start date, the pre-employment military service credit will not be included in the calculation of the member's maximum service retirement benefit that is credited to the member's DROP 2 account.

(N) **Form of Payment of Benefits from DROP 2 Account:**

A member (or an eligible beneficiary after the death of the member in service) can choose to receive the total balance of the DROP 2 account as:

(1) One lump sum which can be:

(a) rolled over to an IRA or similar account; or
(b) taken in pocket; or

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

15. POST-RETIREMENT BENEFIT INCREASES:

Effective June 30, 2010, post-retirement benefit increases are fixed rather than based on investment performance. 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 such an 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 increase is payable commencing in the January following the June 30 determination date.

The amount of the post-retirement benefit increase is as follows:

(1) Eligible retirees (or their beneficiaries) who have not attained age 55 as of the June 30 determination date will not receive an increase payable the following January.

(2) Eligible retirees (or their beneficiaries) who have attained age 55 but have not attained age 65 and have been retired for two or more years as of the June 30 determination date will receive a 1.0% increase payable the following January. This increase is first payable in January 2012.

(3) Eligible retirees (or their beneficiaries) who have attained age 65 and have been retired for two or more years as of the June 30 determination date will receive a 2.0% increase payable the following January. This increase was first payable in January 2011.

(4) Eligible retirees (or their beneficiaries) who are on a 100% line-of-duty disability regardless of age and have been retired for two or more years as of the June 30 determination date will receive a 2.0% increase payable the following January. This increase was first payable in January 2011.

16. MINIMUM BENEFIT FOR CERTAIN SPOUSAL BENEFICIARIES

Beginning with the first full pay period following July 1, 2010, a minimum annual benefit of $16,000 was provided to the spousal beneficiary of a sworn member who, before August 1, 1996, retired or died in service with 20 or more years of service.

Beginning with the first full pay period following January 1, 2012, a minimum annual benefit of $16,000 will be provided to the spousal beneficiary of a sworn member who, prior to August 1, 1996, retired on account of line-of-duty disability with less than 20 years of service.

Statistical Section

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 Position - Fiscal Years 2002 - 2011
Revenues by Source - Fiscal Years 2002 - 2011
Expenses by Type - Fiscal Years 2002 - 2011
Benefit Expenses by Type - Fiscal Years 2002 - 2011
Average Monthly Service Retirement Benefit Payments - Fiscal Years 2002 - 2011

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 2002 – 2011
Active Members and Active DROP / DROP 2 Members by Years of Service and Department
Active DROP / DROP 2Members by Fiscal Year of DROP / DROP 2 Entry and Department – Fiscal Years 1997 – 2011
Retirees and Beneficiaries by Attained Age and Type of Retirement
DROP / DROP 2 Retirees and DROP / DROP 2 Beneficiaries by Attained Age and Type of Retirement

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

	2002	2003	2004	2005	2006
Additions					
Net investment income	$(116,309,906)	$ 44,013,099	$222,184,012	$218,297,510	$178,616,240
Employer contributions	252,220	34,678,878	42,699,166	48,666,701	49,661,627
Member contributions	14,241,040	15,159,112	15,421,154	15,359,931	15,157,898
Net securities lending income	819,795	624,204	536,506	389,616	561,649
Total Additions	(100,996,851)	94,475,293	280,840,838	282,713,758	243,997,414
Deductions					
Retirement allowances	118,137,697	120,442,353	126,884,291	135,950,256	147,353,252
Lump sum DROP payments	7,545,984	12,147,757	24,494,758	22,253,341	14,025,599
Administrative expenses	1,520,942	1,562,487	1,905,163	2,143,390	2,552,458
Refunds of member contributions	800,898	1,059,150	1,093,504	1,403,449	1,708,619
Death benefits	540,949	126,270	551,962	620,679	520,214
Total Deductions	128,546,470	135,338,017	154,929,678	162,371,115	166,160,142
Net Increase (Decrease)	$(229,543,321)	$(40,862,724)	$125,911,160	$120,342,643	$ 77,837,272

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

	2007	2008	2009	2010	2011
Additions					
Net investment income	$ 347,068,360	$ (97,529,998)	$(357,730,702)	$252,146,101	$366,713,890
Employer contributions	60,128,727	72,687,585	69,513,236	94,097,743	107,539,873
Member contributions	15,438,649	16,547,425	17,661,252	17,254,515	19,586,155
Net securities lending income	756,603	2,049,347	1,801,369	500,376	452,113
Total Additions	423,392,339	(6,245,641)	(268,754,845)	363,998,735	494,292,031
Deductions					
Retirement allowances	155,639,508	166,119,977	173,547,075	176,660,415	186,002,569
Lump sum DROP payments	12,950,280	14,118,642	10,379,493	18,078,701	17,039,089
Administrative expenses	2,818,795	3,264,028	3,334,851	3,311,686	4,241,753
Refunds of member contributions	2,007,222	1,627,871	1,114,334	1,372,214	1,490,557
Death benefits	721,942	63,151	251,544	154,775	254,630
Total Deductions	174,137,747	185,193,669	188,627,297	199,577,791	209,028,598
Net Increase (Decrease)	$ 249,254,592	$ (191,439,310)	$(457,382,142)	$164,420,944	$285,263,433

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

Fiscal Year	Net Investment Income	Employer Contributions Amount	Employer Contributions % of Covered Payroll	Member Contributions	Total
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)
2009	(355,929,333)	69,513,236	24.7	17,661,252	(268,754,845)
2010	252,646,477	94,097,743	34.0	17,254,515	363,998,735
2011	367,166,003	107,539,873	39.0	19,586,155	494,292,031

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
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
2009	173,798,619	10,379,493	1,114,334	3,334,851	188,627,297
2010	176,815,190	18,078,701	1,372,214	3,311,686	199,577,791
2011	186,257,199	17,039,089	1,490,557	4,241,753	209,028,598

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
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
2009	133,001,464	10,862,644	3,608,486	3,242,417	251,544	22,751,656	5,481,123	4,978,778	184,178,112
2010	143,638,241	11,219,469	3,066,579	3,215,249	154,775	23,209,880	5,262,840	5,126,858	194,893,891
2011	148,265,914	13,292,721	3,063,434	3,311,818	254,630	23,759,543	5,291,033	6,057,195	203,296,288

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, 2001 to June 30, 2011	10-15	16-20	21-25	26-30	31+
Period 7/1/01 to 6/30/02					
Average Monthly Benefit	$ 1,326	$ 1,824	$ 2,629	$ 3,301	$ 4,005
Average-Average Final Compensation	43,978	44,897	51,739	56,219	62,122
Number of Active Retirees	1	21	29	28	15
Period 7/1/02 to 6/30/03					
Average Monthly Benefit	1,070	1,961	2,769	3,638	3,997
Average-Average Final Compensation	75,014	47,590	58,570	60,732	57,942
Number of Active Retirees	2	13	30	47	40
Period 7/1/03 to 6/30/04					
Average Monthly Benefit	499	2,221	2,711	3,811	4,251
Average-Average Final Compensation	75,968	56,029	58,114	62,277	60,351
Number of Active Retirees	2	22	50	69	82
Period 7/1/04 to 6/30/05					
Average Monthly Benefit	1,293	2,323	2,949	3,826	4,457
Average-Average Final Compensation	54,254	54,891	61,233	62,285	62,923
Number of Active Retirees	1	24	76	39	43
Period 7/1/05 to 6/30/06					
Average Monthly Benefit		2,383	2,971	3,566	4,347
Average-Average Final Compensation		57,370	60,675	60,001	63,996
Number of Active Retirees		27	61	27	26

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 7/1/06 to 6/30/07					
Average Monthly Benefit	$ 1,083	$ 2,477	$ 3,159	$ 3,811	$ 4,618
Average-Average Final Compensation	49,821	59,296	64,184	64,597	66,721
Number of Active Retirees	1	28	72	24	21
Period 7/1/07 to 6/30/08					
Average Monthly Benefit	1,659	2,521	3,342	4,492	4,872
Average-Average Final Compensation	54,859	61,500	68,107	72,422	69,542
Number of Active Retirees	2	35	61	22	13
Period 7/1/08 to 6/30/09					
Average Monthly Benefit	1,575	2,662	3,486	4,604	5,290
Average-Average Final Compensation	58,129	65,322	68,712	76,607	70,341
Number of Active Retirees	1	28	50	21	23
Period 7/1/09 to 6/30/10					
Average Monthly Benefit	1,536	2,614	3,519	4,442	5,857
Average-Average Final Compensation	62,502	62,468	71,223	70,814	81,313
Number of Active Retirees	5	33	57	33	26
Period 7/1/10 to 6/30/11					
Average Monthly Benefit	1,770	2,658	3,452	4,378	5,867
Average-Average Final Compensation	68,688	65,078	72,061	71,592	81,697
Number of Active Retirees	1	37	62	27	24
Period 7/1/01 to 6/30/11					
Average Monthly Benefit	1,324	2,423	3,139	3,928	4,627
Average-Average Final Compensation	62,441	58,849	64,338	64,680	65,705
Number of Active Retirees	16	268	548	337	313

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

Years of Credited Service	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
0-4	1,153	1,179	1,114	1,084	1,019	1,017	1,088	1,142	1,079	1,047
5-9	1,034	933	912	885	931	949	946	900	873	873
10-14	777	861	991	935	948	902	814	759	726	770
15-19	640	679	696	773	717	661	757	904	872	890
20-24	642	668	581	507	473	514	515	513	572	536
25-29	329	244	233	279	345	348	329	291	264	251
30+	300	311	251	227	194	187	166	181	198	208
Total Members	4,875	4,875	4,778	4,690	4,627	4,578	4,615	4,690	4,584	4,575
Average Service Credit	12.81	12.88	12.56	12.48	12.46	12.52	12.34	12.45	12.71	12.64
Average Age	38.37	38.26	38.75	38.55	38.66	38.73	38.91	38.99	39.21	39.14

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 AND DROP 2 MEMBERS BY YEARS OF SERVICE AND DEPARTMENT
For the Year Ended June 30, 2011

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	714	333			1,047
5-9	484	389			873
10-14	543	227			770
15-19	705	185			890
20-24	266	264		6	536
25-29	123	124		4	251
30+	96	107	3	2	208
Total Members	2,931	1,629	3	12	4,575

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	130	122		6	258
25-29	119	124		4	247
30+	95	105	1	2	203
Total DROP Members	344	351	1	12	708

Schedule of Current Active DROP 2 Members By Years of Service and Department

Years of Credited Service	Police Department	Fire Department	School Crossing Guards	Airport Employees	Total
20-24	70	127			197
25-29					
30+					
Total DROP 2 Members	70	127			197

SCHEDULE OF CURRENT ACTIVE DROP AND DROP 2 MEMBERS BY FISCAL YEAR OF DROP / DROP 2 ENTRY AND DEPARTMENT

Year of DROP Entry	Police Department	Fire Department	School Crossing Guards	Airport Employees	Total
7/1/96 - 6/30/97	25	34		1	60
7/1/97 - 6/30/98	3	3			6
7/1/98 - 6/30/99	4	6	1		11
7/1/99 - 6/30/00	16	26			42
7/1/00 - 6/30/01	20	16		1	37
7/1/01 - 6/30/02	27	21			48
7/1/02 - 6/30/03	13	22			35
7/1/03 - 6/30/04	22	7		1	30
7/1/04 - 6/30/05	22	24		1	47
7/1/05 - 6/30/06	40	43		2	85
7/1/06 - 6/30/07	34	38			72
7/1/07 - 6/30/08	53	67			120
7/1/08 - 6/30/09	31	16		6	53
7/1/09 - 6/30/10	34	27			61
7/1/10 - 6/30/11		1			1
Total DROP Members	344	351	1	12	708

Year of DROP 2 Entry	Police Department	Fire Department	School Crossing Guards	Airport Employees	Total
7/1/09 - 6/30/10	24	25			49
7/1/10 - 6/30/11	46	102			148
Total DROP 2 Members	70	127			197

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, 2011

Age	Number of Recipients	TYPE OF RETIREMENT* 0	2	3	4	9
0-24						
25-29	4			1	3	
30-34	24			2	22	
35-39	65			12	53	
40-44	153	60	1	18	74	
45-49	336	201	9	26	99	1
50-54	469	390	1	22	55	1
55-59	581	506	1	17	57	
60-64	852	766	1	20	65	
65-69	674	574		34	66	
70-74	528	422		34	70	2
75-79	429	330		36	62	1
80-84	312	218		33	61	
85 and up	209	152		25	32	
Totals	4,636	3,619	13	280	719	5
Average Annual Benefit	$35,269	$37,002	$31,138	$18,587	$32,951	$59,286

*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, 2011

		TYPE OF RETIREMENT*							
Age	Number of Recipients	0	2	3	4	6	7a	7b	8
0-24	26	2	2	3	4			6	9
25-29	1							1	
30-34	1								1
35-39	6	1		1				2	2
40-44	8	3						1	4
45-49	43	25		6	4	1		4	3
50-54	57	39		1	7	5	1	1	3
55-59	101	66		9	7	10	2	2	5
60-64	144	82	1	11	13	13	9	4	11
65-69	149	87		16	21	7	10		8
70-74	198	104		28	39	14	7		6
75-79	238	117		44	54	14	5		4
80-84	249	116		42	63	16	2		10
85 and up	243	153		24	38	14	2	1	11
Totals	1,464	795	3	185	250	94	38	22	77
Average Annual Benefit	$17,642	$16,853	$7,974	$13,517	$14,377	$25,199	$11,255	$20,451	$39,798

*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

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, 2011

Schedule of DROP Retirees by Attained Age and Type of Retirement

Age	Number of Recipients	TYPE OF RETIREMENT* 0	4
40-44	26	26	
45-49	146	139	7
50-54	333	323	10
55-59	407	394	13
60-64	501	494	7
65-69	287	283	4
70-74	146	145	1
Totals	1,846	1,804	42
Average Annual Benefit	$42,247	$42,222	$43,332

Schedule of DROP Beneficiaries by Attained Age and Type of Retirement

Age	Number of Recipients	TYPE OF RETIREMENT* 0	3	4	6	7b	8
< 20	3	1				2	
35-39	1	1					
40-44	1	1					
45-49	21	20			1		
50-54	29	26			2		1
55-59	44	39			5		
60-64	38	27			7	1	3
65-69	52	48			4		
Totals	189	163			19	3	4
Average Annual Benefit	$18,438	$15,467			$33,455	$19,414	$67,440

*Type of Retirement

0 - Normal retirement for age and service

3 - Non-line-of-duty disability

4 - Line-of-duty disability: Member not eligible for DROP benefits

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: Beneficiary not eligible for DROP benefits

Fire and Police Employees' Retirement System
City of Baltimore, Maryland
SCHEDULE OF DROP 2 RETIREES BY ATTAINED AGE AND TYPE OF RETIREMENT
For the Year Ended June 30, 2011

Schedule of DROP 2 Retirees by Attained Age and Type of Retirement

		TYPE OF RETIREMENT*
Age	Number of Recipients	0
40-44	1	1
45-49	2	2
50-54		
55-59		
60-64		
65-69		
70-74		
Totals	3	3
Average Annual Benefit	$41,698	$41,698

*Type of Retirement
0 - Normal retirement for age and service

Plan Protection For The City's Protectors

F&P

1962

Fire & Police Employees' Retirement System
City of Baltimore, Maryland
7 East Redwood Street, 18th Floor
Baltimore, Maryland 21202
410-497-7929 or 1-8888-410-1600