

**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, 2012

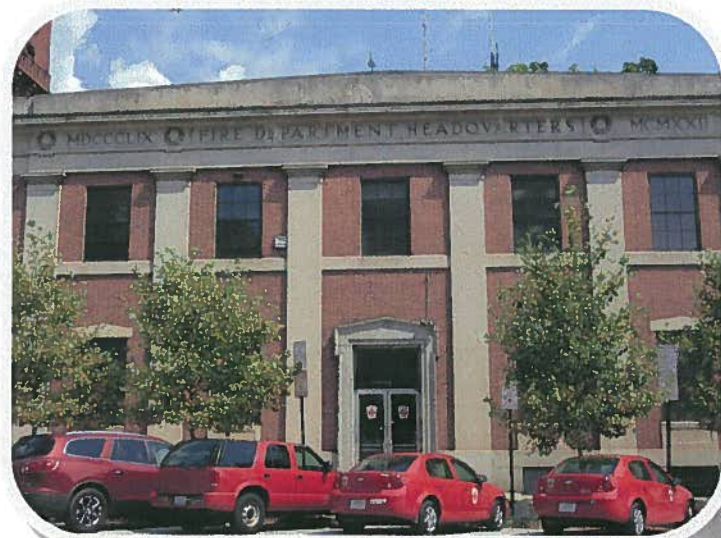
**The Baltimore City Firefighter's Memorial is located beside the Baltimore City Fire Department Office of the Fire Marshal building located at the corner of N. Gay Street and E. Lexington Street across from War Memorial Plaza. This building formerly served as headquarters for the Baltimore City Fire Department from 1922 to 1997.**

**The Baltimore City Fraternal Order of Police Memorial at Shot Tower Park is located at E. Baltimore Street and S. President Street across the street from the Baltimore Police Administration Building.**

**CAFR Design by Amy Baskerville, Public Information Officer for the F&P**

# **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, 2012

Prepared by:  
Thomas P. Taneyhill, CPA  
Executive Director

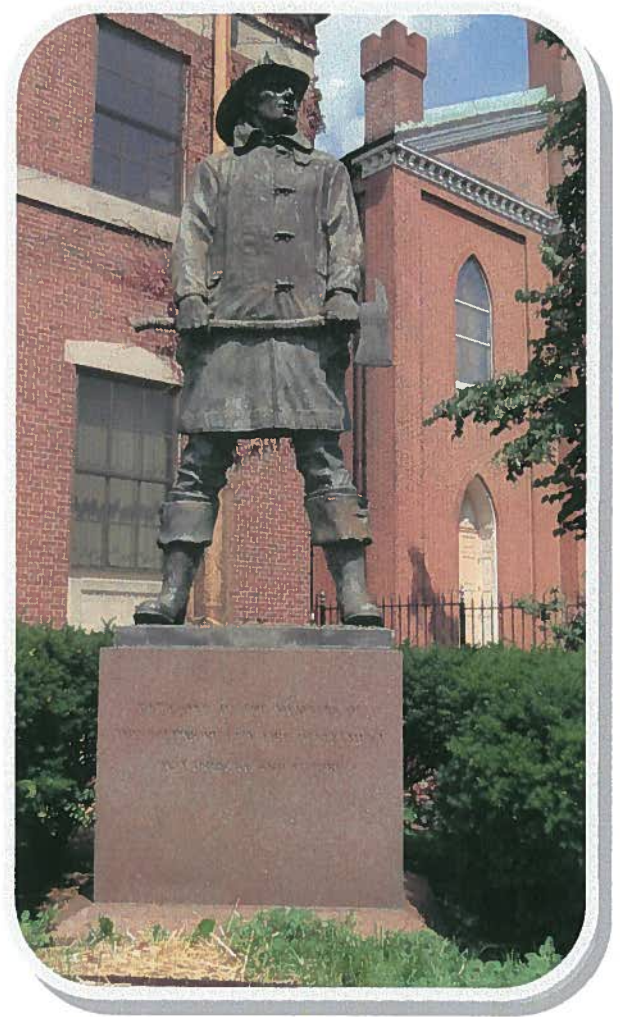
David A. Randall  
Accounting Manager

Fire and Police Employees' Retirement System  
City of Baltimore, Maryland  
Comprehensive Annual Financial Report  
For the Year Ended June 30, 2012

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# Introductory Section



**Baltimore City Firefighters Memorial**

# 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, 2011

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.



*Christopher P. Moirill*

President

*Jeffrey R. Emen*

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  
18th Floor  
Baltimore, Maryland 21202

December 31, 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 fifty years 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, 2012. 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 81.

## Major Initiatives

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, failed to adequately fund the System, and the F&P's Board of Trustees acted improperly in the pursuit of its duties. Following a three-phase trial, the judge ruled that only the changes related to the post-retirement benefit increase provisions are unconstitutional. The changes made to normal service retirement eligibility, DROP 2 eligibility, the average final compensation calculation, mandatory member contribution rate increases, and the reduction in the interest rate credited to member contributions are valid. In addition, the judge issued a memorandum staying his decision pending final resolution of appellate proceedings. The City appealed the decision to the Fourth Circuit Court of appeals. It is likely that the unions will also appeal the decision. See the Managements Discussion and Analysis beginning on page 18 and notes 9 and 10 to financial statements on page 38 for more information.

In the third quarter of the fiscal year, the Board reviewed with its investment advisor and adopted changes to its asset allocation plan. The changes included a reduction to the international developed markets allocation from 19.0% to 12.5%, an increase to the domestic large cap equity allocation from 13.0% to 15.5%, and an increase to the fixed income allocation from 15.0% to 19.0%. The change to the fixed income allocation was mainly affected by the addition of a 5.0% allocation to emerging markets debt. Compared to the prior allocation, the adopted asset allocation held the expected return constant at 8.2%, still exceeded the then earnings assumption rate of 8.0% by 20 basis points, and decreased risk by 60 basis points.

Having been advised by the Board's actuarial consultant that it was leaving the public pension plan consulting business, the Board conducted a search by issuing a request for proposal for actuarial consulting services. Following the interview of three firms, the Board selected Cheiron to perform its annual actuarial valuation, experience studies, and other related services. Cheiron began its transition work by examining the June 30, 2011 actuarial valuation and the June 30, 2011 experience study performed by the prior actuarial consulting firm. Cheiron made actuarial assumption recommendations to the Board subsequent to fiscal year end and prior to completion of the June 30, 2012 actuarial valuation. The Board adopted all of Cheiron's demographic assumption recommendations; and regarding economic assumption recommendations, the Board approved lowering the earnings assumption rate from 8.0% to 7.75%, lowering the inflation component of salary growth from 4.0% to 3.75%, eliminating the employer contribution receivable from the actuarial value of assets, and changing the formulation for the administrative expense assumption. The combination of the adopted changes will increase the employer contribution by approximately \$11.1 million a year. The lowering of the earnings assumption rate to 7.75% must be approved by the Mayor and City Council; it increases the employer contribution by approximately \$7.8 million a year. The Board has agreed to examine the possibility of changing the amortization method from a 20 year open method to a 20 to 25 year closed amortization method prior to the June 2013 actuarial valuation.

The plan's administration and staff began development of a custom system to replace a thirty-eight year old member contribution tracking system and various databases utilized to track certain baseline demographic information for both active and retired members. The objective of the custom system is to replace and stabilize the very important member contribution tracking system and to create a data warehouse where pertinent member information will be stored. Prior to the 2012 fiscal year end, parallel operations began tracking the member contributions to the plan. Immediately following the 2012 fiscal year end, parallel operations began on the maintenance transactions to the custom system inclusive of necessary work flows. Full transition to the in-house system was made prior to the end of calendar year 2012 while maintaining on an archived only basis the legacy systems. Enhancements to the system will include service credit tracking, benefit calculations, member report generation, and the addition of membership data currently maintained in other in-house systems. Specifications



and requirements have been developed and market studies performed for the replacement of archived records maintained on paper, microfilm, and microfiche with a modern records management system that will supplement and be linked with line-of-business systems and processes.

A major factor in considering this important undertaking is to insure self-sufficiency for business processes and to provide modern backup and recovery abilities. A continuity of operations and a disaster recovery planning process was started and became feasible with the modernization of F&P systems. Upon the integration of these projects, data cleansing, de-duplicating, and quality assurance functions are being performed as well as the re-engineering of business processes.

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 competitiveness of F&P retirement benefits. Segal Company is to recommend retirement plan options to the City administration for newly hired members covered by the F&P with an estimated commencement date of July 1, 2013. Presentation and release of a final report from Segal Company to all stakeholders 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 a below median 0.8% which ranked this F&P portfolio in the 56<sup>th</sup> percentile of the BNY Mellon All Public Plans Total Fund universe at June 30, 2012. The three year, five year, and ten year performance numbers for the "managed" portfolio were 13.4% which ranked in the 5<sup>th</sup> percentile, 1.1% which ranked in the 85<sup>th</sup> percentile, and 6.4% which ranked in the 36<sup>th</sup> percentile. The five year and ten year performance numbers include the capital market devastation lingering from the credit crisis in fiscal years 2008 and 2009.

The "dedicated variable benefit" fixed income portfolios returned an outstanding 16.0% for fiscal year 2012. The dedicated portfolios have a significant weight to U.S. Treasuries; the performance is indicative of the "flight to quality" caused by the European debt crisis. When performance of the "dedicated" portfolio is combined with the "managed" portfolio performance, the F&P total fund composite returned 7<sup>th</sup> percentile performance of 4.3%. The "dedicated variable benefit" fixed income portfolios had a very positive influence on the overall portfolio composite performance for the one, five, seven, 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 equity 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, 2012, \$72.1 million of the accumulated losses remains in the segregated actuarial reserves and will be released to the unallocated earnings calculation at the rate of \$36.1 million per year over the remaining two years of the amortization period.

At June 30, 2012, the actuarial value of assets exceeded the fair value of assets by \$329.9 million. This difference decreased by \$72.3 million from \$402.2 million at June 30, 2011. The main reason for the decrease in

the difference was the change approved by the Board of Trustees to eliminate inclusion of the employer contribution due in the following fiscal year as a receivable in the actuarial value of assets. Comparing the actuarial liability to the actuarial value of assets develops the unfunded actuarial liability (UAL). The UAL increased \$154.2 million from \$558.6 million at June 30, 2011, to \$712.8 million at June 30, 2012. The UAL increased due to an increase in liabilities for retired members and beneficiaries and the release of investment losses to the actuarial value of assets. The funded ratio at June 30, 2012 was 77.6% on an actuarial value of assets basis and 67.3% on a market value basis. At June 30, 2011, the funded ratio was 82.0% on an actuarial value of assets basis and 72.2% on a market value of assets basis.

As a result of the actuarial valuation performed for the fiscal year ended June 30, 2010, a total City and State contribution due to the F&P for fiscal year 2012 was \$99.7 million. The City contributed an additional \$7.8 million for a total contribution paid in of \$107.5 million. All of the additional \$7.8 million was used to reduce the System's underfunding.

The City's required fiscal year 2013 employer contribution due July 1, 2012 increased to \$101.3 million. The City paid in an additional \$5.7 million for a total fiscal year 2013 contribution paid in of \$107.0 million. Due to the assumption changes adopted by the Board and included in the fiscal year ended June 30, 2012 actuarial valuation, the City's contribution increases to \$113.0 million for fiscal year 2014. If baseline earnings are slightly better than the 7.75% earnings assumption rate, the employer contribution is projected to increase \$8.0 million for each of fiscal year 2015 and 2016.

### **Independent Audit**

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

### **Professional Services**

The Board of Trustees appoints consultants and investment managers subject to approval by the City's policy making and approval body, the Board of Estimates. These professionals have been chosen based on their ability to provide services that are essential to the effective and efficient operation of the System. All of the professionals who provide service to the Board of Trustees are listed in the Introductory Section on page 14 and in the Investment Section on pages 60 to 63.

### **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, 2011. This was the twenty-ninth consecutive year (fiscal years 1983-2011) 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**

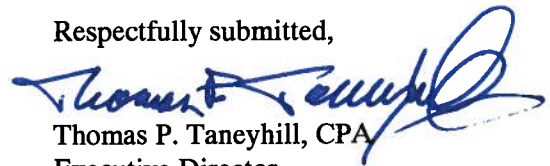
The preparation of this report could not be accomplished without the dedicated efforts of the System's accounting and communication support staff, investment consultant, and actuarial consultant. I would like to express my appreciation to all who assisted and contributed to its preparation.

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.

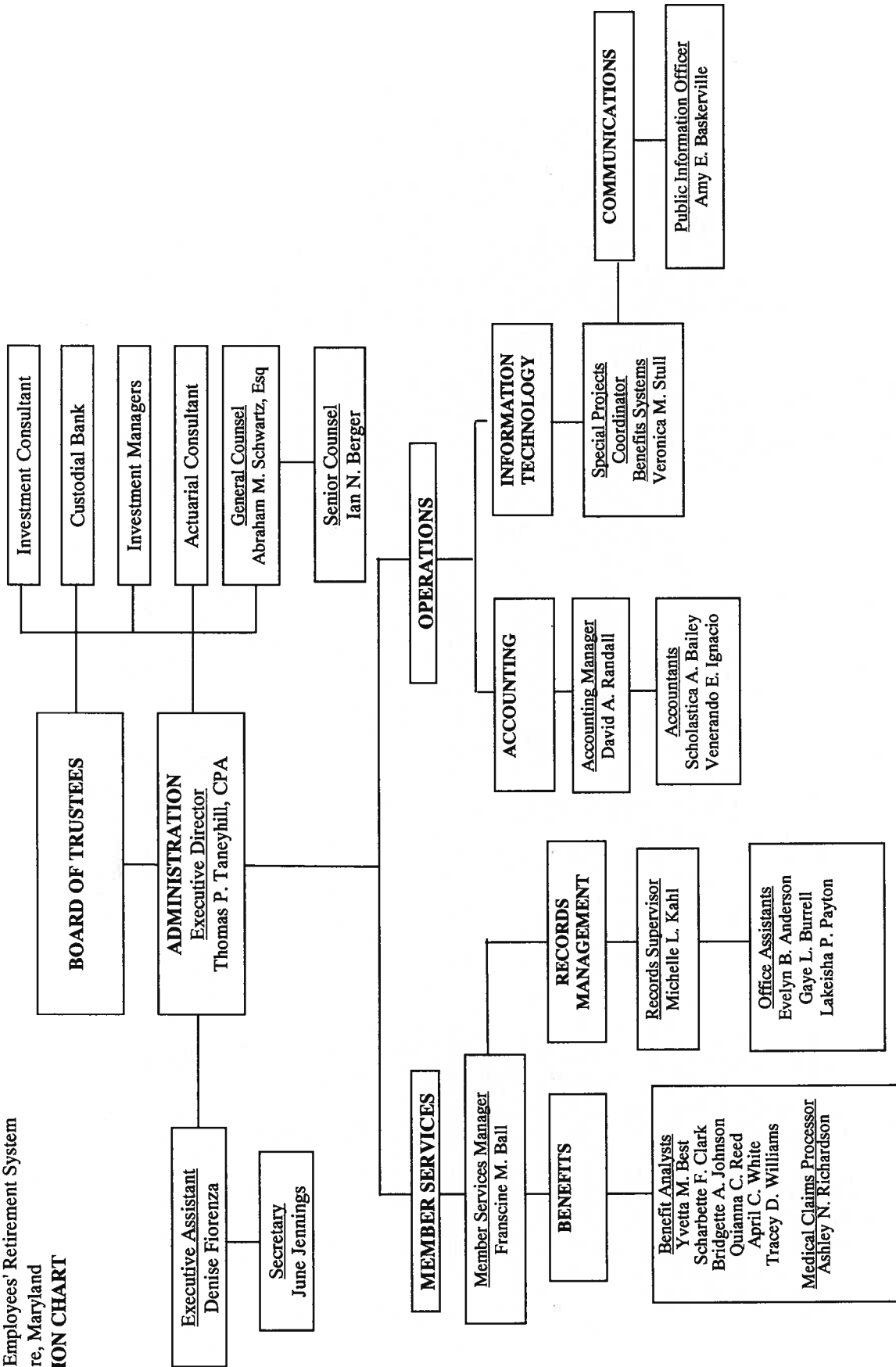
I would like to take this opportunity to express my gratitude to the Board of Trustees, the dedicated F&P staff, the System's consultants, investment managers and advisors, all of whom continue to work diligently to assure the successful operation of the System.

Respectfully submitted,



Thomas P. Taneyhill, 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**

Peter E. Keith, Esquire, Chairman  
Partner  
Gallagher, Evelius & Jones, LLP  
Baltimore, Maryland

Appointed by the Mayor  
Term expires December 6, 2015  
Member of the Investment Committee

William R. Hudson, Vice Chairman  
Captain  
Baltimore City Fire Department

Elected by the active Fire Department members  
Term expires June 30, 2014  
Member of the Investment Committee

Joan M. Pratt, CPA  
Comptroller  
City of Baltimore

Ex-officio

Harry E. Black  
Director of Finance  
City of Baltimore

Ex-officio  
Member of Investment Committee

John P. Skinner  
Deputy Commissioner  
Baltimore City Police Department

Ex-officio  
Appointed by Police Commissioner Anthony W. Batts

Dickson J. Henry  
Assistant Chief  
Baltimore City Fire Department

Ex-officio  
Appointed by Fire Chief James S. Clack

Frank B. Coakley  
Assistant Secretary  
MD Department of Housing & Community Development

Appointed by the Mayor  
Term expires December 6, 2015

Benjamin F. DuBose, Jr.  
IRS Agent, Retired  
U.S. Department of Treasury

Appointed by the Mayor  
Term expires December 6, 2015

Victor C. Gearhart  
Lieutenant  
Baltimore City Police Department

Elected by the active Police Department members  
Term expires June 30, 2016  
Member of the Investment Committee

Paul S. DeSimone  
Lieutenant, Retired  
Baltimore City Fire Department

Elected by the retired Fire Department members  
Term expires June 30, 2014

Robert A. Haukdal  
Lieutenant, Retired  
Baltimore City Police Department

Elected by the retired Police Department members  
Term expires June 30, 2016

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 21, 2012

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

This comprehensive financial report covers the year ended June 30, 2012, a year that once again presented investment performance challenges to the Board as the recovery from the global recession continued to hit a variety of speed bumps and the European debt crisis spilled over to the U.S. equity markets. The year found tremendous volatility in the investment markets with record swings in U.S. stocks and new lows in U.S. Treasury bond yields. While these conditions presented challenges to the F&P Board, please be assured that the Board continues to work diligently with its consultants and investment advisors to regain a respectable plan funded status in what continues to be very difficult and volatile investment period. The sustainability of the F&P for all active and retired members is of primary concern for the Board.

During the year, the Board hired a new actuarial consulting firm. Each year the actuary performs a valuation of the F&P and reports the status of the plan to the Board. The actuary also determines the contribution payable by the City to the plan. The Board and staff will work with the actuary to assure compliance with new accounting and reporting disclosure requirements.

The composition of the Board of Trustees has seen substantial change over the last two years due to new appointments and trustee elections. Over the past year Finance Director Harry Black replaced retiring Finance Director Ed Gallagher, Ben DuBose, was appointed to the Board by Mayor Rawlings-Blake, retired Fire Lieutenant Paul DeSimone succeeded retired Fire Lieutenant Joe Machovec, retired Police Lieutenant Bob Haukdal succeeded retired Police Major Ted Weintraub, and active Police Lieutenant Vic Gearhart succeeded Police Sargent Steve Histon.

I want to personally thank Ted Weintraub who served as chairman of the Board and as trustee and Steve Histon who served as trustee for their many years of dedicated work on the Board during time periods that have required resolution to many difficult issues.

On behalf of the Board of Trustees and the F&P staff, we sincerely appreciate your service to the City.

Sincerely

Peter E. Keith, Esq  
Chairman  
Board of Trustees

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

**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**

Cheiron  
Fiona E. Liston, F.S.A.  
McLean, Virginia

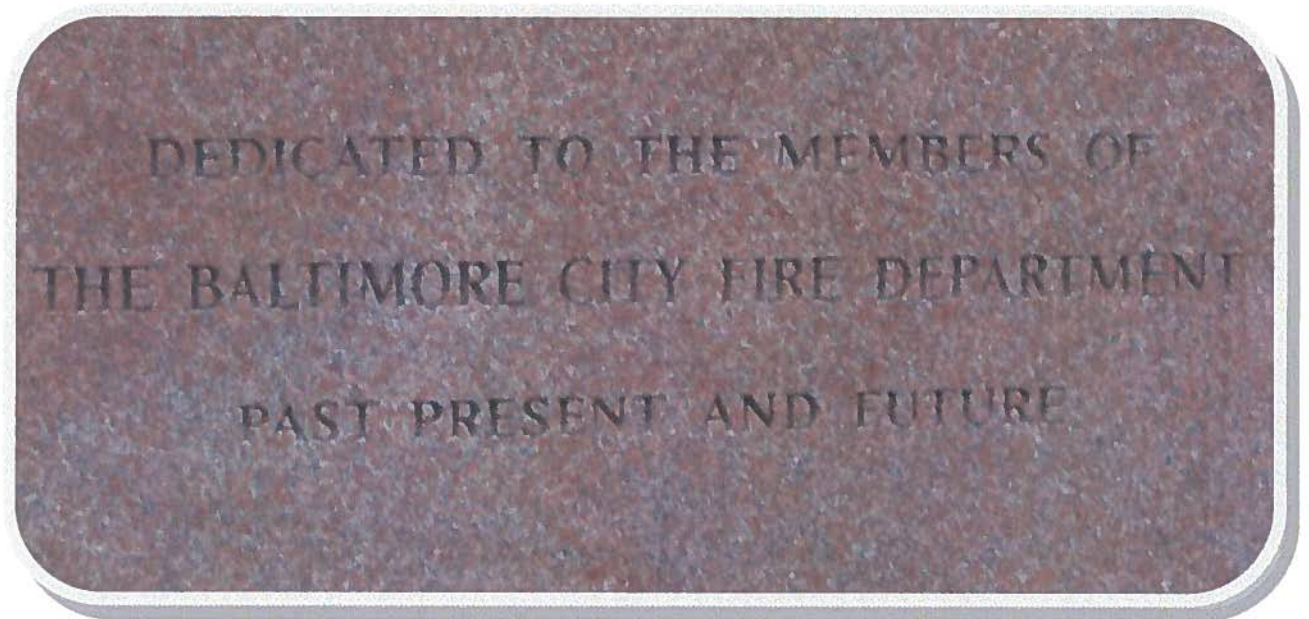
**INDEPENDENT AUDITOR**

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

See pages 60 to 63 in the Investment Section for a list of investment professionals.



## Financial Section



Baltimore City Firefighters Memorial

**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

December 31, 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, 2012, as listed in the table of contents. These financial statements are the responsibility of the Fire and Police Employees' Retirement System's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Fire and Police Employees' Retirement System's internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fire and Police Employees' Retirement System's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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, 2012, 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 31, 2012, 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, on pages 18 to 25, and the Required Supplementary Information and Supporting Schedules, on pages 39 to 45, are not a required part of the basic financial statements but are 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, 2012. 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 \$2.0 million during the fiscal year from \$2,144.0 million at June 30, 2011, to \$2,146.0 million at June 30, 2012. The meager increase was mainly due to the fiscal year 2012 global equity performance that was dramatically below the very successful fiscal year 2011 equity performance.
- Additions to Plan Net Assets (Revenues) for the year were \$211.3 million, a decrease of \$283.0 million from the prior year revenues of \$494.3 million. The decrease in revenues was caused by lower investment earnings that were uniformly down across all asset classes for fiscal year 2012.
- Deductions from Plan Net Assets (Expenses) were \$209.3 million in the current year, an increase of \$300 thousand from the prior year expenses of \$209.0 million. The increase in expenses was driven by post-retirement benefit increases, effective January 2012, and minimum retirement benefit payments paid to beneficiaries of certain members who retired prior to August 1, 1996.
- The “managed” investment portfolio total rate of return of 0.8% (which excludes performance of the dedicated variable benefit assets) for the one year period ended June 30, 2012 was below the System’s total fund policy index of 1.1% and was below the median public fund performance of 1.1%.
- The “managed” portfolio performance for the three year period ended June 30, 2012, was 13.4% which was above the System’s total fund policy index of 12.0% and was well above the median public plan performance of 11.4%.
- The System’s real estate portfolio composite led the overall portfolio performance by providing a strong return of 13.5% for fiscal year 2012. The real estate composite outperformed the NCREIF Property Index and provided top quartile relative performance.
- The energy master limited partnership (MLP) portfolio composite provided 11.9% rate of return for fiscal year 2012. The energy MLP composite outperformed the S&P MLP Index by 420 basis points.
- The U.S. equity composite provided a 2.7% rate of return which ranked above the median 2.0% rate of return for the BNY Mellon All Master Trust – U.S. Equity Segment universe.
- The international equity composite provided a negative 7.6% rate of return which although negative still ranked in the top quartile of the BNY Mellon All Master Trust - International Equity Segment universe.
- The System’s “managed” fixed income composite portfolio earned 5.25% and performed below the 7.85% median portfolio performance of the BNY Mellon All Master Trust – U.S. Fixed Income Segment universe.
- The System’s private equity fund-of-funds portfolio composite and the hedge fund-of-funds portfolio composite provided returns of 4.9% and negative 0.3%, respectively, for fiscal year 2012.
- 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 16.0% for fiscal year 2012.
- Including the separately invested dedicated “variable benefit” fixed income portfolio performance of 16.0% with the composite “managed” investment portfolio total rate of return of 0.8% provided a total fund composite rate of return of 4.3% for the fiscal year ended June 30, 2012. The combined performance placed the F&P in the 7<sup>th</sup> percentile of the

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BNY Mellon Public Fund – Total Fund universe.

- Employer contributions made to the F&P were \$107.5 million in fiscal year 2012, down slightly from the employer contribution made in fiscal year 2011.
- Member contributions to the F&P increased by \$3.3 million in fiscal year 2012 due to a \$8.0 million increase in covered payroll and an increase in the mandatory member contribution rate from 7.0% to 8.0% commencing in July 2011.
- The F&P's funding objective is to meet benefit obligations through investment income, employer contributions, and member contributions. The earnings assumption rate for FY 2012 was 8.0%. As a result of an actuarial experience study concluded following year end, the Board approved lowering the earnings assumption rate from 8.0% to 7.75%. The rate change must be approved by the Mayor and City Council.
- As of June 30, 2012, the date of the F&P's last actuarial valuation, the System's funded ratio was 77.6% on an actuarial value of assets basis and 67.3% on a market value of assets basis, compared to 82.0% and 72.2% at June 30, 2011.
- Capital assets are recorded at cost, net of depreciation, and include leasehold improvements, computer equipment, and office furniture.
- The 2010 lawsuit filed in the U.S. District Court by the fire and police unions against the City of Baltimore for contract impairment, due to changes made to the plan provisions and against the F&P Board of Trustees for allegedly not fulfilling its fiduciary duty, proceeded to a third trial phase during fiscal year 2012. Following year end, the court issued its decision stating that only the plan changes replacing and relating to the post-retirement increase provisions, the "variable benefits," were unconstitutional. Both the City and the unions are expected to appeal the District Court decision.

### **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, 2012, the end of the plan's financial year. It indicates the total assets, current liabilities, and the net assets available for future payment of retirement benefits and operating expenditures at June 30, 2012. 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, 2011, through June 30, 2012. 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

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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, 2012, net assets, as displayed below, exceeded current liabilities by \$2.1 billion, an increase of \$2.0 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 \$529.0 million at June 30, 2012. The remainder net assets of \$1,617.0 million at June 30, 2012, are available to meet the ongoing regular benefit obligations to the F&P participants and beneficiaries. As of June 30, 2012, total assets decreased by 1.7% from the prior year mainly due to a reduction in the current receivables. Total current liabilities were lower at June 30, 2012, from the prior fiscal year, mainly due to a decrease in securities lending collateral payable.

**Plan Net Position  
For the Fiscal Years ended June 30, 2012 and 2011**

	<b>2012</b>	<b>2011</b>	<b>Increase (Decrease)</b>	<b>Percentage Change</b>
Current assets	\$ 80,117,583	\$ 181,843,277	\$ (101,725,694)	(55.9)%
Capital assets	1,075,364	1,243,934	(168,570)	(13.6)
Investments at fair value	<u>2,290,024,790</u>	<u>2,228,901,282</u>	<u>61,123,508</u>	2.7
<b>Total Assets</b>	<b><u>2,371,217,737</u></b>	<b><u>2,411,988,493</u></b>	<b><u>(40,770,756)</u></b>	<b>(1.7)</b>
Current liabilities	<u>225,189,733</u>	<u>267,983,590</u>	<u>(42,793,857)</u>	(16.0)
<b>Total Liabilities</b>	<b><u>225,189,733</u></b>	<b><u>267,983,590</u></b>	<b><u>(42,793,857)</u></b>	<b>(16.0)</b>
<b>Net Assets</b>	<b><u>\$ 2,146,028,004</u></b>	<b><u>\$ 2,144,004,903</u></b>	<b><u>\$ 2,023,101</u></b>	<b>0.1%</b>

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**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 foreign fixed income, domestic and international equities, real estate limited partnerships, hedge fund-of-funds, private equity fund-of-funds, energy master limited partnerships, and a risk parity fund. The "managed" assets at June 30, 2012 were \$1,601.7 million of the \$2,130.8 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 assets held by 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 advice, manager selection, manager and portfolio performance calculations and peer comparisons, performance analytics, asset-liability studies, and other related services. As the result of an asset-liability study concluded in the prior fiscal year, the Board expanded its investment opportunity set to include target allocations for risk parity, emerging market debt, and private energy/natural resource investments. With the assistance of the Summit Strategies Group, the Board filled its risk parity and emerging market debt allocation targets, selected new hedge fund-of-fund managers and private equity fund-of-fund managers, and restructured the core fixed income portfolio and the large cap growth equity portfolio in fiscal year 2012.

The dedicated "variable benefits" portfolios totaled \$529.1 million as of June 30, 2012, 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 2012 rate of return of 16.0% for the "variable benefit" 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, 2012, was an anemic return of 0.8%. The fiscal year 2012 below median performance was a dramatic reversal from the very strong first quartile performance of 25.6% for the prior fiscal year. However, all public plans struggled to achieve investment returns and exceed their earnings assumption rate for the fiscal year ended June 30, 2012. The median public plan performance was 1.1% and only 2.3% was required to achieve top quartile performance in the BNY Mellon Public Fund – Total Fund universe. The F&P portfolio performance was held back by an underweight to U.S. equities, an overweight to international equities, and an underweight to U.S. fixed income. When the heavily weighted U.S. Treasury and high grade corporate rates of return of the "variable benefit" portfolios are added to the "managed" asset performance, the F&P total fund composite performance is 4.3% which would rank the F&P in the top percentiles of the BNY Mellon Public Fund – Total Fund universe.

The "managed" portfolio annualized rates of return for the last three-year, five-year, and ten-year periods ended June 30, 2012, were 13.4%, 1.1%, and 6.4% respectively. The later two 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 was 8.0% for fiscal year 2012. As the result of an actuarial experience study concluded subsequent to year end, the Board adopted and recommended to the Mayor and City Council that the investment return

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assumption rate be lowered from 8.0% to 7.75%. The change must be approved through legislation passed by the Mayor and City Council.

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, 2012.

**Liabilities**

Reported on the Statement of Plan Net Position, the current liabilities are payables incurred mainly from investment portfolio transaction activity. Liabilities at June 30, 2012, were \$225.2 million, \$42.8 million less than the \$268.0 million in liabilities at June 30, 2011. While payables for the settlement of investment purchases increased \$20.0 million to \$33.3 million, and forward foreign contracts payable decreased \$23.0 million to \$22.8 million at June 30, 2012, the securities lending collateral payable decreased by \$41.8 million from \$201.1 million at June 30, 2011, to \$159.3 million at June 30, 2012, and served as the main reason for the overall reduction in current liabilities at June 30, 2012.

**Changes in Plan Net Position  
For the Fiscal Years Ended June 30, 2012 and 2011**

	2012	2011	Increase (Decrease)	Percentage Change
<b>Additions</b>				
Net investment income	\$ 80,339,513	\$ 366,713,890	\$ (286,374,377)	(78.1)%
Employer contributions	107,488,403	107,539,873	(51,470)	(0.1)
Member contributions	22,866,939	19,586,155	3,280,784	16.8
Net securities lending income	594,933	452,113	142,820	31.6
<b>Total Additions</b>	<b><u>211,289,788</u></b>	<b><u>494,292,031</u></b>	<b><u>(283,002,243)</u></b>	<b>(57.3)</b>
<b>Deductions</b>				
Retirement allowances	193,082,852	186,002,569	7,080,283	3.8
Lump sum DROP payments	10,816,700	17,039,089	(6,222,389)	(36.5)
Administrative expenses	3,672,958	4,241,753	(568,795)	(13.4)
Refunds of member contributions	1,309,010	1,490,557	(181,547)	(12.2)
Death benefits	385,167	254,630	130,537	51.3
<b>Total Deductions</b>	<b><u>209,266,687</u></b>	<b><u>209,028,598</u></b>	<b><u>238,089</u></b>	<b>0.1</b>
<b>Net Increase (Decrease)</b>	<b><u>\$ 2,023,101</u></b>	<b><u>\$ 285,263,433</u></b>	<b><u>\$ (283,240,332)</u></b>	<b>(99.3)%</b>

**Investment Income**

The F&P's total "managed" composite portfolio achieved an 0.8% rate of return which ranked the F&P "managed" asset performance in the 56<sup>th</sup> percentile when compared to other public pension plans in the BNY Mellon Public Fund–Total Fund universe. Major contributors to the overall rate of return were the real estate portfolio, the "managed" fixed income portfolio, and certain alternative investments including energy master limited partnerships, risk parity, and private equity. The negative performance of the international equity portfolio related to the European debt crisis held the overall portfolio performance below the median public fund performance of 1.1% and below the Board's comparative policy index of 1.1%.



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The System's U.S. equity composite returned 2.7% for fiscal year 2012, which ranked the domestic equity composite in the 40<sup>th</sup> percentile of the BNY Mellon All Master Trust – U.S. Equity Segment universe. The domestic equity composite underperformed its Russell 3000 comparative index by 110 basis points.

The international equity composite posted a negative 7.6% rate of return which ranked in the 10<sup>th</sup> percentile of the BNY Mellon All Master Trust – International Equity Segment universe. Although international equities provided negative returns, on a relative basis the international equity composite outperformed its MSCI All Country World Ex-U.S. comparative index by 650 basis points.

The “managed” fixed income composite earned 5.3% for the fiscal year which ranked in the 89<sup>th</sup> percentile of the BNY Mellon All Master Trust – U.S. Fixed Income Segment universe. The fixed income portfolio underperformed its Barclays Capital Aggregate index benchmark of 7.5% by 220 basis points.

The real estate composite portfolio earned the top rate of return with performance of 13.5% for the fiscal year. The real estate portfolio continued its recovery from the 2008-2009 liquidity crisis as it outperformed the comparative NCREIF Property Index, which returned 12.0% this fiscal year, by 140 basis points.

The System's alternative asset portfolios, which include hedge fund-of-funds, private equity fund-of-funds, energy master limited partnerships, and a risk parity portfolio, overall had positive performance. The hedge fund-of-funds composite earned negative 0.25%, yet performed 420 basis points above its comparative HFRI Fund-of-Funds Composite Index that provided a negative 4.45% for the fiscal year ended June 30, 2012. During fiscal year 2012, two new hedge fund-of-fund managers were hired to replace two 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 that of fixed income investments.

The System invests in various private equity fund-of-funds. The private equity composite achieved a 4.9% return for the fiscal year but lagged the S&P 500 Index performance of 5.5% for the same time period. The private equity portfolio funds are diversified by strategy and vintage year; and many of underlying investments are still very young in their investment lifecycle. The goal of the private equity portfolio is to outperform the S&P 500 index over a market cycle. The private equity composite is reviewed over rolling three and five year periods and the composite performance has outperformed the index over the last five year period.

The Board hired two energy master limited partnerships (MLPs) during the prior fiscal year to fulfill its 5.0% allocation to that asset class. For the year ended June 30, 2012, the MLPs composite achieved an 11.9% rate of return which exceeded the S&P MLP Index by 420 basis points. The MLPs are expected to have low correlation to other asset classes which makes them a good diversifier for overall portfolio performance. Over time, the Board expects the MLPs to outperform the domestic equity composite with lower risk.

In December 2011, the Board hired a risk parity manager who invests in a diversified portfolio with more exposure in bonds, commodities, credit, and less in stocks. The asset allocation is driven by forecasting risk and not forecasting return. The risk parity portfolio is expected to outperform a portfolio composition of 60% S&P 500 Index/ 40% Barclays Aggregate Index. For the six months ended June 30, 2012, the risk parity portfolio returned 4.9%, but underperformed the comparative index by 180 basis points.

The “dedicated” fixed income “variable benefit” portfolios, which the Board agreed to continue to separately invest from the general plan assets while the unions' lawsuit against the City and the Board remains unresolved, were invested in U.S. Treasury securities and high grade corporate bonds. The “dedicated” portfolio composite returned 16.0% for the year. While the “dedicated” composite portfolio is not benchmarked to any specific index, it performed below the Barclays Capital U.S. Long Government/Credit index which returned a remarkable 24.6%. The cash flow of the dedicated portfolios is matched to the benefit payment streams of the post-retirement “variable benefit” increases.

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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 decreased from \$7.9 million in fiscal year 2011 to \$7.0 million in fiscal year 2012.

**Member and Employer Contributions**

Member contributions were made at 8.0% of regular compensation during fiscal year 2012. Member contributions increased by \$3.3 million during the current fiscal year due to the increase in the mandatory contribution rate from 7.0% to 8.0% commencing in July 2011. 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, to 8.0% in July 2011, to 9.0% in July 2012, and finally to 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 4,575 at June 30, 2011, to 4,624 at June 30, 2012. Should the active member population remain stable, member contributions are expected to increase approximately \$2.8 million in fiscal year 2013, based on June 30, 2012 compensation, and until final implementation of the 10.0% mandatory member contribution rate in fiscal year 2014.

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 requirements due on July 1 two fiscal years hence. 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 fixed number of State employees whose F&P coverage is mandated by State law. The contribution required from the City of Baltimore for fiscal year 2012 was \$98.9 million. However, the City contributed an additional \$7.8 million for a total contribution paid of \$106.7 million. The additional contribution was used to reduce the System's underfunding.

The City's employer contribution requirement increased to \$101.3 million for fiscal year 2013 and to \$113.0 million for fiscal year 2014, the later mainly due to the Board's recommendation to the Mayor to lower the earnings assumption rate from 8.0% to 7.75%. Because the earnings assumption rate is included in Article 22 of the Baltimore City Code which comprises the plan provisions, the change in the assumption rate must be approved by the Mayor and City Council.

**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 non-retirement eligible members who leave F&P covered employment, and the costs of administering the System.

The primary expense during fiscal year 2012 was for the payment of continuing retirement benefits totaling \$193.1 million, an increase of \$7.1 million over the \$186.0 million in retirement allowances paid in fiscal year 2011. The increase in retirement allowances was mainly due to higher benefit levels paid to newly retired members, post-retirement increases, and minimum benefit amounts paid to certain beneficiaries.

Lump sum DROP and DROP 2 distributions decreased \$6.2 million from \$17.0 million in fiscal year 2011 to \$10.8 million in fiscal year 2012 due to a decrease in the number of DROP and DROP 2 participant service retirements. The number of DROP participants continues to decrease as the eligibility for DROP was frozen in 2009. DROP 2 became effective January 1, 2010; the number of DROP 2 participants continues to increase.

Administrative expenses are comprised primarily of personnel costs and other professional services costs including information technology consultants. Administrative expenses decreased by \$569,000 from fiscal year 2011 to fiscal year 2012. The decrease in administrative expenses was mainly due to substantially lower legal fees paid in connection with the

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lawsuit filed by the membership against the City and the F&P Board of Trustees and lower technology expenses. 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**

The City enacted changes to the plan effective June 30, 2010: 1) replacing the “variable benefit” increases based on investment performance with tiered post-retirement COLAs based on the attained age of the retiree or beneficiary, 2) increasing the months used for the average final compensation calculation, 3) lengthening the eligibility requirements for normal service retirement, and DROP 2 participation, and 4) increasing member contribution rates. The fire and police unions and certain active and retired members filed suit in U. S. District Court as a result of these changes to the plan, 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. On September 20, 2012, after holding a three-phase trial, the court ultimately decided that: 1) the City impaired its contract with plan members by its replacement of the variable benefit with a tiered post-retirement COLA, 2) the impairment was substantial, and 3) although it was reasonable and necessary for the City to eliminate the “variable benefit” in order to sustain the plan, the inequitable nature of the tiered post-retirement COLAs based on age rendered the change unconstitutional.

In a November 30, 2010, memorandum, the judge found that the changes to the plan enacted in 2010 which are not related to the “variable benefit” are severable - and therefore valid and enforceable – from the changes related to the “variable benefit” provisions, which are invalid and not enforceable. The enforceable changes include: the changes made to the average final compensation calculation, the eligibility requirements for normal service retirement, DROP 2 participation, and increases to member contribution rates.

The court also decided that the federal “Takings Clause” was not violated. On December 28, 2012, the judge issued an order staying the effects of his ruling pending appeals to the Fourth Circuit Court of Appeals. The City has appealed the decision. The unions are also expected to appeal. Should the appeals court find that the changes made to the “variable benefit” provisions are unconstitutional, the City’s required contribution to the F&P is expected to increase by approximately \$75.0 million or more in future years.

**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, 19<sup>th</sup> Floor**  
**Baltimore, Maryland 21202**

Fire and Police Employees' Retirement System  
City of Baltimore, Maryland  
**STATEMENT OF PLAN NET POSITION**  
June 30, 2012

**Assets**

Cash and Cash Equivalents		\$ 34,339,410
Receivables		
Forward foreign contracts	\$ 23,001,687	
Accrued income	9,529,548	
Redemption receivable	7,203,255	
Investments sold	<u>6,043,683</u>	
Total Receivables		45,778,173
Investments, at fair value		
Bonds	829,792,276	
Stocks	756,741,233	
Real estate funds	175,093,167	
Hedge funds	169,617,702	
Private equity funds	120,821,595	
Risk parity fund	<u>78,705,517</u>	
Total Investments		2,130,771,490
Capital Assets, net of depreciation		
Leasehold improvements	731,703	
Office furniture	216,659	
Computer equipment	<u>127,002</u>	
Total Capital Assets, net of depreciation		1,075,364
Securities Lending Collateral		<u>159,253,300</u>
Total Assets		<u>2,371,217,737</u>

**Liabilities**

Securities lending collateral	159,253,300	
Investments purchased	33,330,662	
Forward foreign contracts	22,771,751	
Retirement allowances payable	4,809,307	
Security lending loss payable	2,179,681	
Investment management fees payable	1,451,013	
Lump sums payable to members	791,253	
Administrative expenses payable	539,379	
Other accounts payable	<u>63,387</u>	
Total Liabilities		<u>225,189,733</u>

**Net Position Restricted for Pension Benefits**

\$ 2,146,028,004

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, 2012

**Additions**

Contributions		
Employers	\$ 107,488,403	
Plan members	<u>22,866,939</u>	
Total Contributions		\$ 130,355,342
Investment Income		
Net appreciation in fair value of investments	37,566,340	
Interest and dividends	36,854,266	
Real estate income	7,971,643	
Private equity income	4,613,340	
Hedge funds income	1,190,112	
Risk parity income	(898,653)	
Less: Investment expenses	<u>(6,957,535)</u>	
Net Investment Income		80,339,513
Securities lending income	793,199	
Less: Securities lending expenses	<u>(198,266)</u>	
Net Securities lending income		<u>594,933</u>
Total Additions		<u>211,289,788</u>

**Deductions**

Retirement allowances	193,082,852	
Lump sum DROP payments	10,816,700	
Administrative expenses	3,672,958	
Refunds of member contributions	1,309,010	
Death benefits	<u>385,167</u>	
Total Deductions		<u>209,266,687</u>

**Net Increase** 2,023,101

**Net Position Restricted for Pension Benefits**

July 1, 2011		<u>2,144,004,903</u>
June 30, 2012		<u><u>\$ 2,146,028,004</u></u>

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

Fire and Police Employees' Retirement System  
 City of Baltimore, Maryland  
**NOTES TO BASIC FINANCIAL STATEMENTS**

**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 eight active fire 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, 2012, the F&P membership consisted of:

Retirees and beneficiaries currently receiving benefits	6,136
Active plan members	<u>4,624</u>
Total	<u>10,760</u>

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 Ordinance 11-444, as noted in the Summary of Plan Provisions beginning on page 81. Membership in the System is mandatory upon employment. The System does not have a vested benefit plan, however, members have vested rights to their contributions and interest.

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

Fire and Police Employees' Retirement System  
 City of Baltimore, Maryland  
**NOTES TO BASIC FINANCIAL STATEMENTS**

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 8.0% of their regular compensation through payroll deduction for fiscal year 2012. 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. An expense load of 1.5% of covered payroll is included in the annual employer contribution requirement to cover administrative plan costs.

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, 2012, the balances in the legally required reserves are as follows:

<u>Reserves</u>	<u>Balance</u>
Annuity savings reserve	\$ 261,776,304
Annuity reserve	302,808,830
Pension accumulation reserve	(246,614,677)
Pension reserve	<u>1,828,057,547</u>
Total Reserves	<u><u>\$ 2,146,028,004</u></u>

At June 30, 2012, the actuarially determined accrued liability exceeded the actuarial value of assets by \$712,787,613.

**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, 2012, 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, 2012, was \$154,729,909 and the market value of the collateral received for those securities on loan was \$159,253,300. 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, which as of June 30, 2012, is still pending.



Fire and Police Employees' Retirement System  
 City of Baltimore, Maryland  
**NOTES TO BASIC FINANCIAL STATEMENTS**

The following represents the balances relating to the securities lending transactions as of June 30, 2012:

<u>Types of Securities On Loan</u>	<u>Market Value of Securities On Loan</u>	<u>Market Value of Collateral Received</u>	<u>Type of Collateral</u>
U.S. treasury notes and bonds	\$ 76,983,742	\$ 79,207,262	Securities
Domestic equities	36,095,102	36,218,593	Cash
U.S. treasury notes and bonds	28,354,820	29,450,977	Cash
Corporate Bonds	6,186,762	6,299,054	Cash
International equities	5,575,470	5,617,152	Cash
U.S. Government agency bonds	1,148,485	1,173,726	Securities
Corporate Bonds	<u>385,528</u>	<u>1,286,536</u>	Securities
Total Securities on Loan	<u>\$ 154,729,909</u>	<u>\$ 159,253,300</u>	

**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.

Fire and Police Employees' Retirement System  
City of Baltimore, Maryland  
**NOTES TO BASIC FINANCIAL STATEMENTS**

The F&P invested assets at June 30, 2012 are presented below:

<u>Investment Type</u>	<u>Fair Value</u>
<b>Debt Securities:</b>	
Corporate bonds	\$ 317,352,130
U.S. treasury notes and bonds	218,111,276
U.S. Government agency bonds	139,515,678
Emerging markets debt fund	82,593,543
Core plus fixed income fund	66,185,520
Money mutual funds	34,339,410
Barclay aggregate index fund	6,034,129
Total debt securities	<u>864,131,686</u>
<b>Other:</b>	
Domestic equities	349,358,039
International equities	319,110,370
Real estate funds	175,093,167
Hedge funds	169,617,702
Private equity funds	120,821,595
Energy master limited partnerships	88,272,824
Risk parity fund	78,705,517
Total other	<u>1,300,979,214</u>
Total investments	2,165,110,900
Less cash and cash equivalents	<u>34,339,410</u>
Total net investments	<u>\$ 2,130,771,490</u>

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, 2012, 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.

Fire and Police Employees' Retirement System  
City of Baltimore, Maryland  
**NOTES TO BASIC FINANCIAL STATEMENTS**

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:

<u>Currency</u>	<u>Market Value</u>
Euro Currency Unit	\$ 54,761,230
British Pound Sterling	38,448,650
Japanese Yen	22,978,074
Swiss Franc	14,412,855
Hong Kong Dollar	8,908,975
South Korean Won	7,210,400
Singapore Dollar	4,866,726
Swedish Krona	3,726,942
Canadian Dollar	2,575,846
New Taiwan Dollar	3,684,995
Brazil Real	2,394,294
Indonesian Rupian	739,780
South African Comm Rand	2,952,374
Danish Krone	1,164,291
Norwegian Krone	1,811,456
Colombian Peso	345,660
Nigerian Naira	118,964
Thailand Baht	1,214,085
New Turkish Lira	563,287
Chilean Peso	698,729
Philippines Peso	229,652
Australian Dollar	225,347
Polish Zloty	5,068
Russian Rubel	101
Total Foreign Currency	<u>\$ 174,037,781</u>
U.S. Dollars (held in International Equity)	<u>\$ 145,072,589</u>

Fire and Police Employees' Retirement System  
 City of Baltimore, Maryland  
**NOTES TO BASIC FINANCIAL STATEMENTS**

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.

<u>Asset Type</u>	<u>Option Adjusted Duration</u> (in years)	<u>Fair Value</u>
Corporate bonds	5.66	\$317,352,130
U.S. treasury notes and bonds	11.54	218,111,276
U.S. Government agency bonds	4.96	139,515,678
Emerging markets debt fund	3.90	82,593,543
Core plus fixed income fund	6.80	66,185,520
Money mutual funds	0.08	34,339,410
Barclay aggregate index	4.97	<u>6,034,129</u>
Total debt securities		<u><u>\$864,131,686</u></u>

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, 2012 were rated by Standard & Poor, a nationally recognized statistical rating agency and are presented on the next page using the Standard and Poor's rating scale:

Fire and Police Employees' Retirement System  
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**NOTES TO BASIC FINANCIAL STATEMENTS**

<u>Asset Type</u>	<u>Quality Ratings</u>	<u>Fair Value</u>
Corporate bonds	AAA	\$ 42,483,405
	AA	21,527,205
	A	105,206,688
	BBB	100,802,586
	BB	15,605,890
	B	26,948,874
	CCC	4,369,600
	CC	143,100
	D	114,740
	Not Rated	<u>150,042</u>
Total corporate bonds		<u>317,352,130</u>
U.S. treasury notes and bonds	AA	218,111,276
U.S. Government agency bonds	AA	139,515,678
Emerging markets debt fund	BBB	82,593,543
Core plus fixed income fund	AA	66,185,520
Money mutual funds	Not Rated	34,339,410
Barclay aggregate index	AA	<u>6,034,129</u>
Total debt securities		<u><u>\$864,131,686</u></u>

**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 \$700,796; for office furniture is \$179,953; for leasehold improvements is \$622,411.

<u>Asset</u>	<u>June 2011 Balance</u>	<u>Additions</u>	<u>Depreciation</u>	<u>June 2012 Balance</u>
Computer equipment	\$ 178,857	\$6,582	\$ 58,437	\$ 127,002
Office furniture / equipment	243,100		26,441	216,659
Leasehold improvements	<u>821,977</u>	<u></u>	<u>90,274</u>	<u>731,703</u>
Totals	<u>\$1,243,934</u>	<u>\$6,582</u>	<u>\$175,152</u>	<u>\$1,075,364</u>

Fire and Police Employees' Retirement System  
 City of Baltimore, Maryland  
**NOTES TO BASIC FINANCIAL STATEMENTS**

**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, 2012.

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)
\$2,475,874,446	\$3,188,662,059	\$712,787,613	77.6%	\$284,601,473	250.5%

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, 2012 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.
<b>Actuarial assumptions:</b>	
Investment rate of return	7.75% (Adopted 6/30/12)
Projected salary increases	4.25% to 11.75% Based on service (Adopted 6/30/12)
Inflation rate	3.75% (Adopted 6/30/2012)
Post-retirement cost-of-living adjustments	Provided to retirees and beneficiaries dependent upon their age, retirement type, receiving a benefit for 2 or more years as of the June 30 fiscal year end, and payable the following January: Less than age 55: 0% increase, Age 55 to 64: 1% increase, Age 65 and over: 2% increase, 100% line of duty disability retirees and beneficiaries: 2% regardless of age.

Fire and Police Employees' Retirement System  
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**NOTES TO BASIC FINANCIAL STATEMENTS**

**8. 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, 2012.

<u>Currency</u>	<u>Forward Foreign Contracts Cost Receivable</u>	<u>Forward Foreign Contracts Cost Payable</u>	<u>Forward Foreign Contracts Market Value Receivable</u>	<u>Forward Foreign Contracts Market Value Payable</u>
Brazil Real	\$ 20,890	\$ 20,890	\$ 20,890	\$ 21,673
British Pound Sterling	7,615,915	7,615,915	7,615,915	7,461,719
British Pound Sterling	5,797,661	5,797,661	5,749,600	5,797,661
Canadian Dollar	18,434	18,434	18,434	18,656
Canadian Dollar	26,411	26,411	26,346	26,411
Euro Currency Unit	7,018,189	7,018,189	7,018,189	6,892,080
Euro Currency Unit	364,449	364,449	370,635	364,449
Hong Kong Dollar	164,207	164,207	164,235	164,207
Japanese Yen	1,009,941	1,009,941	1,009,941	1,010,676
Japanese Yen	478,691	478,691	477,049	478,691
Nigerian Naira	14,409	14,409	14,414	14,409
Norwegian Krone	37,630	37,630	37,630	38,246
Singapore Dollar	46,166	46,166	46,166	46,550
South African Rand	198,394	198,394	198,394	204,397
South African Rand	42,187	42,187	42,878	42,187
Swedish Krona	6,289	6,289	6,289	6,306
Swiss Franc	69,171	69,171	69,171	70,357
Swiss Franc	113,076	113,076	115,511	113,076
<b>Totals</b>	<b>\$ 23,042,110</b>	<b>\$ 23,042,110</b>	<b>\$ 23,001,687</b>	<b>\$ 22,771,751</b>

Fire and Police Employees' Retirement System  
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**NOTES TO BASIC FINANCIAL STATEMENTS**

**9. 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, then 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. In addition, the lawsuit alleged that Ordinance 10-306 violated the "Takings Clause" of the United States Constitution. Among other changes, Ordinance 10-306 increased minimum retirement benefits for beneficiaries of certain retired police officers and firefighters, lengthened the service retirement requirements and the time period used for calculating average final compensation, increased mandatory employee contributions to the pension system, and replaced a gain-sharing mechanism providing cost-of-living increases ("the Variable Benefit") with a guaranteed, tiered COLA. The lawsuit also alleged that the City failed to adequately fund the Plan. Finally, the lawsuit asserted that the Board of Trustees 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 then Director of Finance and dismissed without prejudice 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.

**10. Subsequent Event:**

On September 20, 2012, the court ruled that the changes to the "Variable Benefit" violated the United States Constitution. In reaching its decision, the court agreed that the changes furthered the important public purpose of making the pension system sustainable and affordable. The court also agreed, in substance, that the City could restructure the Variable Benefit to achieve the significant cost reductions that Ordinance 10-306 allowed. The court found the ordinance unconstitutional only because it implemented a tiered COLA, under which older retirees would receive a higher COLA than younger retirees (some of whom would receive no COLA for a period of time). In the court's opinion, the Constitution required that all retirees receive the same, or substantially the same, COLA. The court's ruling is limited to the Variable Benefit and those provisions in the Ordinance related to the "Variable Benefit". Accordingly, the court dismissed the Plaintiffs' claims under the "Takings Clause" and has specifically ruled that the other provisions of Ordinance 10-306 raised no federal constitutional issues and are severable from the illegally modified Variable Benefit and its related provisions.

On December 18, 2012, the Board, the City and the Plaintiffs entered into a standstill agreement pursuant to which the state-law based claims against all Defendants who would voluntarily dismissed without prejudice, and the statute of limitations applicable to those claims tolled, while District Court's decisions on the federal constitutional claims were appealed by the Plaintiffs and the City. On December 21, 2012, the District Court entered an order dismissing the state claims without prejudice in accordance with the standstill agreement. Accordingly, there are presently no claims pending against the Board in the Federal litigation.

On December 28, 2012, the court entered a final, appealable judgment order in the case in accordance with its previous orders and stayed the enforcement of the judgment order pending final resolution of any appeal. On December 28, 2012, the City entered its Notice of Appeal of the court's judgment order. Accordingly, the F&P will continue to implement and administer Ordinance 10-306 as legal pending a final ruling on the Ordinance's legality by the United States Court of Appeals for the Fourth Circuit. If the ruling is upheld on appeal, the City's contributions to the plan are estimated to increase by approximately \$75 million for fiscal year 2012 and more in future years.



## Required Supplementary Information and Supporting Schedules



**Baltimore City Fraternal Order of Police Memorial**

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)
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
2012	2,475,874,446	3,188,662,059	712,787,613	77.6	284,601,473	250.5

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.

<u>Fiscal Year Ended June 30</u>	<u>City Contribution Per Actuarial Valuation</u>	<u>Contributions Required From State of Maryland</u>	<u>Additional City Contributions</u>	<u>Total Contributions Required</u>	<u>Total Contributions Made</u>	<u>Percentage Contributed</u>
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
2012	98,895,949	790,190	7,802,264	99,686,139	107,488,403	108

See notes to required supplementary information.

**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%

**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**

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 commenced in January 2012.

Fire and Police Employees' Retirement System  
City of Baltimore, Maryland  
**SCHEDULE OF ADMINISTRATIVE EXPENSES**  
For the Year Ended June 30, 2012

Salaries and Wages:		
Permanent full-time salaries	\$1,308,433	
Overtime	<u>1,402</u>	
Total Salaries and Wages		\$1,309,835
Other Personnel Costs:		
Retirement	268,542	
Medical insurance and health care	208,795	
Social security	94,099	
Other employee benefits	<u>12,471</u>	
Total Other Personnel Costs		583,907
Contractual Services:		
Technology systems support	533,741	
Retirement payroll processing	251,654	
Lease payments	249,787	
Actuarial services	198,517	
Legal Fees	69,102	
Postage	40,535	
Financial audit fees	36,400	
Equipment rental	36,225	
Printing	31,449	
Staff training	24,328	
Dues and publications	18,733	
Other professional services	16,451	
Board meeting expense	13,132	
Trustee education	8,899	
Telephone systems	8,632	
Equipment maintenance	<u>7,413</u>	
Total Contractual Services		1,544,998
Depreciation expense		175,153
Office supplies		15,980
Computer equipment		36,248
Office furniture		<u>6,837</u>
Total Administrative Expenses		<u><u>\$3,672,958</u></u>

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, 2012

**Schedule of Investment Expenses**

<b>Investment Expenses</b>	<b>Fees</b>
Investment management fees	\$6,498,793
Investment consultant fees	297,500
Securities lending fees	198,266
Custodial fees	161,242
<b>Total Investment Expenses</b>	<b><u><u>\$7,155,801</u></u></b>

**Schedule of Payments to Consultants**

<b><u>Firm</u></b>	<b>Fees</b>	<b><u>Nature of Service</u></b>
TeleCommunication Systems	\$161,309	Technology systems support
Mercer	157,927	Actuarial services
Digicon Corporation	123,812	Technology systems support
Magothy Technology	108,333	Technology systems support
Venable, LLP	70,343	Legal fees
Cheiron	40,590	Actuarial services
Baltimore City Department of Audits	36,400	Financial audit
<b>Total Paid to Consultants</b>	<b><u><u>\$698,714</u></u></b>	

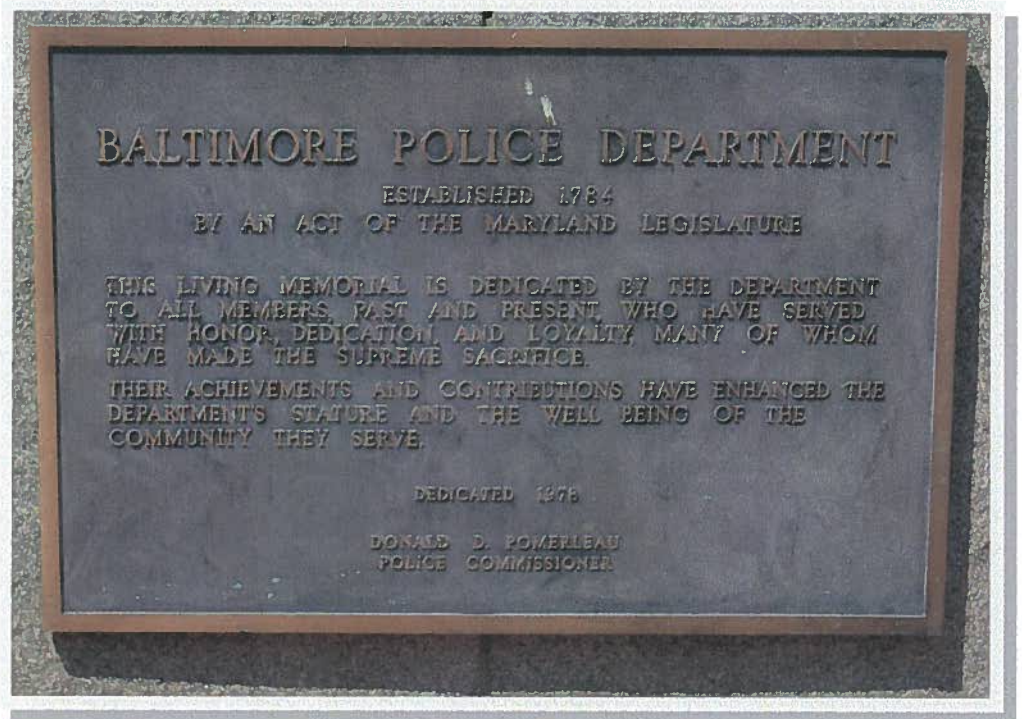
Note: A schedule of fees and commissions is also illustrated in the Investment Section on page 59.

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## Investment Section



Baltimore City Fraternal Order of Police Memorial



October 31, 2012

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 holds assets in safe-keeping for the System, regularly values the assets for the System, and provides Summit with beginning and ending market values, cash flows, securities transactions and positions for the System as well as each manager, where applicable. Where System assets are invested in pooled investment vehicles, such as mutual funds or commingled trusts, third-party custodians for the pooled investment vehicles provide BNY Mellon net asset values and the System audited financial statements for those investments. 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 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 which was presented to the System's Trustees at which time the Trustees adopted a strategic target asset allocation. Subsequent to that time, Summit has regularly reviewed the target asset allocation and expected asset class returns with the Trustees, with the Trustees modifying the target asset allocation as necessary. The target asset allocation in place at fiscal year-end 2012 is shown in the table below.

**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, hold and sell individual securities or other investment positions, 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:

<b>Asset Class</b>	<b>Allocation Target</b>
US Equity	19.5%
International Equity	19.5%
Private Equity	5%
Fixed Income	19%
Real Estate	10%
Hedge Funds	10%
Energy/MLPs	12%
Risk Parity	5%
<b>Total Portfolio</b>	<b>100%</b>

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.

**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 is available 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): 19.5% Russell 3000 Index, 19.5% MSCI All Country World Ex-US Index, 5% S&P 500 +4%, 5% CPI + 4%, 7% S&P MLP Total Return Index, 19% Barclays US Universal Index, 10% NCREIF Property Index, 10% HFRI Fund of Funds Composite Index, and 5% Risk Parity Index (consisting of 60% S&P 500/40% BC Aggregate 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 301 public pension plans with an aggregate market value of \$1.4 trillion as of June 30, 2012. Finally, each investment manager is measured and evaluated against its relevant broad market index and style peer universe.

**Market Overview**

The past fiscal year was a time of unusual turbulence; capital markets returns continued to be choppy and highly sensitive to unresolved macroeconomic headwinds. Equity markets and other "risk assets" sold off in August and September amid the first downgrade of the US federal government's AAA credit rating as concerns about the European debt crisis and downward revisions in domestic GDP growth weighed heavily on investors' appetite for risk. After a big drawdown in the third quarter of 2011, markets peaked in March 2012 before giving back some of their gains in a volatile second calendar quarter that experienced further drawdowns in May. For the fiscal year, domestic large capitalization stocks, as measured by the S&P 500 Index rose +5.5% while the Russell 2000, which is a proxy for small cap stocks declined -2.1%. International stocks, as measured by the MSCI EAFE and Emerging Markets indices, performed very poorly, declining -13.8% and -15.9%, respectively. Developments in Europe and a softer Chinese economy continue to meaningfully dampen investors risk appetites for overseas markets.

Interest rates dropped over the fiscal year. The continued flight to quality and uncertainty of the markets further flattened the yield curve even though US Treasuries were already over-valued and US debt was downgraded. Domestic bond indices were up across the board with the Barclays US Aggregate and Barclays U.S. Corporate High Yield bond indices advancing 7.5% and 7.3%, respectively, while long duration bond benchmarks like the Barclays Long Government/Credit Bond Index led the way with return of +24.6% .

The United States economy continues to slow and the long, hard process of deleveraging continues. The Commerce Department released revisions of GDP growth indicating that growth was weaker than previously thought. Signs of U.S. economic recovery are intermittent and there are a number of downside risks. Long-term unemployment and a declining participation rate are of concern and exacerbated by the lack of mobility caused by the housing crisis. Despite mortgage rates at historic lows and continuing to fall, housing prices remained soft during the fiscal year and will remain under pressure until the two million mortgages in foreclosure - and nearly as many in serious delinquency - are drawn down to more normal levels. A sharp dip in commodity prices caused headline inflation to dip below core inflation for the first time since 2009. Consumer confidence is weak with money continuing to flow from stock funds into bond funds as investors continue to shun risk.

Europe is the current center of the storm where deficit countries have managed to avert economic disaster by securing official European Central Bank financing through its liquidity programs but the region is a long way from resolving a crisis that can only end in a more perfect union or a divorce. Rising bond rates in the Eurozone and a widening gap between U.S. and international equity P/E ratios indicate the risk investors perceive to be associated with Europe's fragile political and economic condition.

### **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 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, 2012 on all assets was 4.3% which ranked in the 7<sup>th</sup> 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 0.79% and ranked in the 56<sup>th</sup> percentile of the Mellon Trust Public Fund Universe. In addition, the System's diversified portfolio underperformed its policy benchmark by 0.26%. Return for the "other assets" or the Variable Benefit (invested in domestic, investment grade long maturity bonds) and Contingency Reserve portions (invested in domestic, investment grade, and intermediate maturity bonds) were 16.9% and 6.7%, 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 13.4% and 1.1% for the last 3 and 5 years, ranking in the 5<sup>th</sup> and 85<sup>th</sup> percentiles for those periods respectively. The 5 year period includes 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 5.1% and 6.4%, respectively and ranked in the 43<sup>rd</sup> and 36<sup>th</sup> percentiles of the universe, respectively. The Fund performed essentially in line with its policy benchmark return of 1.1% for the current fiscal year, due in part to:

- Strong relative performance by domestic large cap and international equity managers which was offset by above target allocation to public equities and weak absolute equity returns over the fiscal year.
- Strong absolute and relative performance by core real estate and MLP managers which was offset by weak absolute hedge fund returns.

The market value of all assets was \$2.145 billion on June 30, 2012. The market value of the "actively managed" accounts decreased slightly from \$1.63 billion on June 30, 2011, to \$1.61 billion on June 30, 2012. The decrease in value is primarily attributable to withdrawals, distributions, fees and benefit payments of \$33,693,398 over the 12-month period. At the end of fiscal year 2012, the System's assets were allocated as follows:

	Market Value (\$ in millions)	Percent of Total	Fiscal Year Rate of Return	
			System	Benchmark
<b>US Equity</b>	\$363.2	22.5%	2.7%	3.8%
<b>International Equity</b>	\$325.4	20.2%	-7.6%	-14.2%
<b>US Fixed Income</b>	\$285.2	17.7%	5.3%	7.5%
<b>Hedge Funds</b>	\$172.3	10.7%	-0.25%	-4.5%
<b>Real Estate</b>	\$173.9	10.8%	13.5%	12.0%
<b>Private Equity</b>	\$120.0	7.5%	4.9%	N/A
<b>Energy MLPs</b>	\$91.4	5.7%	11.9%	7.7%
<b>Risk Parity</b>	\$78.7	4.9%	N/A	N/A
<b>Total Managed Assets</b>	\$1,610.1*	100.0%	0.79%	1.1%

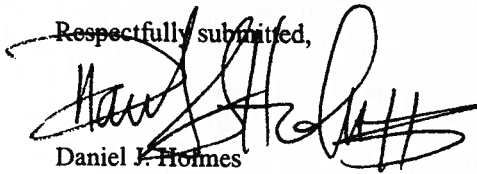
\* Total Managed Assets market value does not include Securities Lending.

**Of Note**

Pending at the end of the fiscal year was the following: funding of a new large cap growth manager, redemption of a core real estate manager and identification of private equity and real asset 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 our continued partnership with them in the continued effort to reduce risk and search for competitive investment returns in this current challenging capital market environment.

Respectfully submitted,



Daniel J. Holmes  
 Managing Director

**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**

<u>Asset Category</u>	<u>Target</u>
Domestic Equity	19.5%
International Equity	19.5%
Private Equity	5.0%
Risk Parity	5.0%
Energy MLP	7.0%
Private Energy	5.0%
Fixed Income	19.0%
Real Estate	10.0%
Hedge Funds	10.0%

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.

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

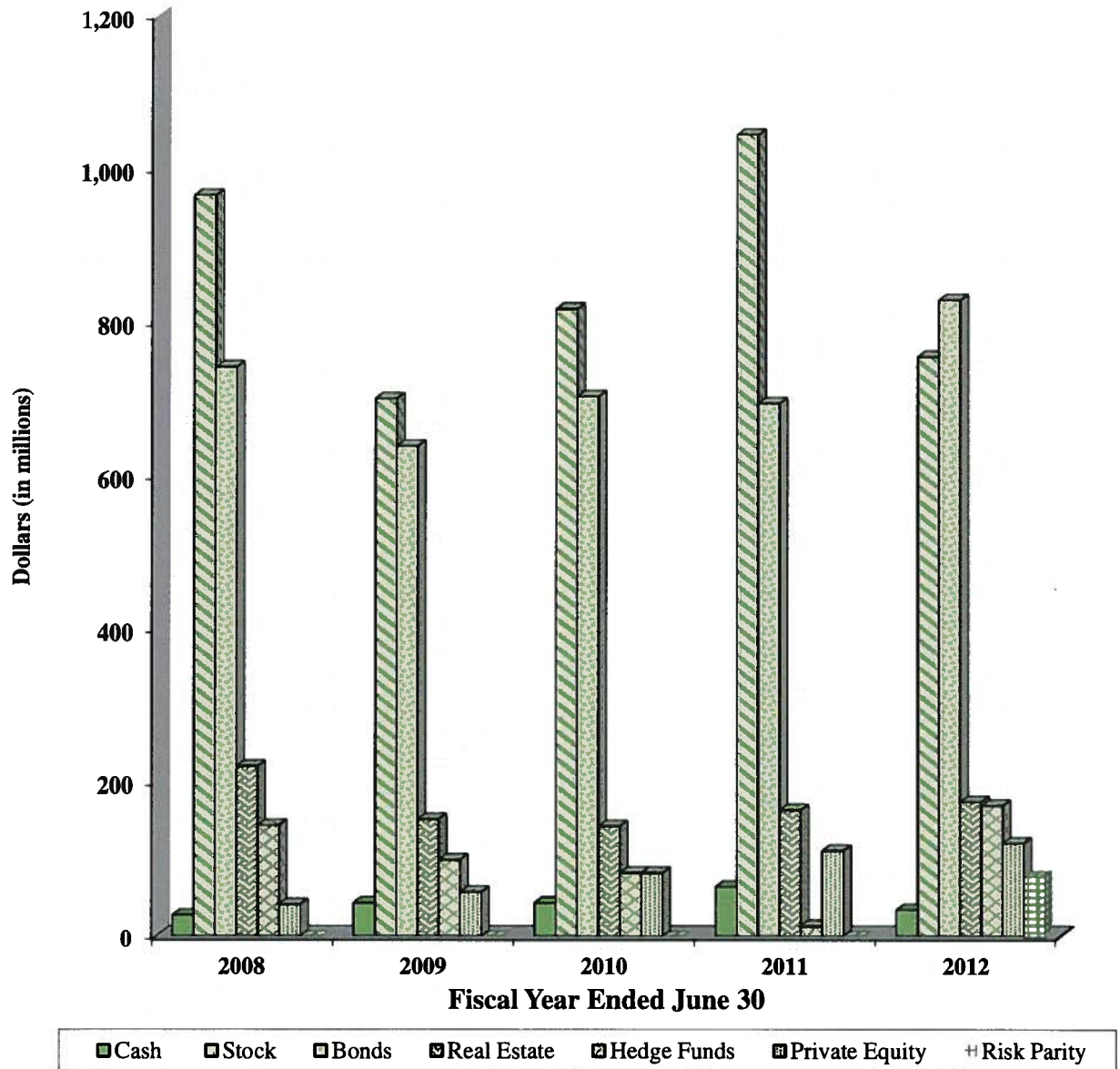
**OUTLINE OF INVESTMENT OBJECTIVES AND POLICIES**

**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**  
**FAIR VALUE OF INVESTMENTS**



	2008		2009		2010		2011		2012	
Cash	\$ 27	1%	\$ 43	3%	\$ 43	2%	\$ 64	3%	\$ 34	2%
Stock	966	45	701	41	818	44	1,045	50	756	35
Bonds	742	35	639	38	704	38	695	33	830	38
Real Estate	221	10	152	9	143	8	164	8	175	8
Hedge Funds	144	7	99	6	82	4	13	1	170	8
Private Equity	41	2	57	3	82	4	111	5	121	5
Risk Parity									79	4
<b>Total</b>	<b>\$ 2,141</b>	<b>100%</b>	<b>\$ 1,691</b>	<b>100%</b>	<b>\$ 1,872</b>	<b>100%</b>	<b>\$ 2,092</b>	<b>100%</b>	<b>\$ 2,165</b>	<b>100%</b>



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

<u>Total Returns</u>	<u>Annualized</u>			
	<u>FY 2012</u>	<u>3 Years</u>	<u>5 Years</u>	<u>10 Years</u>
<b>TOTAL PORTFOLIO</b>	0.8%	13.4%	1.1%	6.4%
Composite Benchmark	1.1	12.0	2.1	6.7
<b>DOMESTIC EQUITIES</b>	2.7	18.8	0.5	6.2
S&P 500 Index	5.4	16.4	0.2	5.3
Russell 1000	4.4	16.6	0.4	5.7
Russell 2000	(2.1)	17.8	0.5	7.0
Russell 3000	3.8	16.7	0.4	5.8
<b>INTERNATIONAL EQUITIES</b>	(7.6)	14.0	0.2	9.6
MSCI ACWI Free Ex-US	(14.2)	7.4	(4.0)	7.2
<b>DOMESTIC FIXED INCOME</b>	5.3	12.4	8.6	6.6
Barclays Capital US Government/Credit	5.4	5.8	6.0	5.1
Barclays Capital Aggregate	7.5	6.9	6.8	5.6
<b>PRIVATE EQUITY</b>	4.9	12.2	3.8	N/A
S&P 500 Index Plus 400 bps	5.4	16.4	0.2	N/A
<b>HEDGE FUND</b>	(0.3)	2.0	(0.8)	N/A
HFRI FOF Composite Index	(4.5)	2.2	(2.0)	N/A
<b>REAL ESTATE</b>	13.5	4.9	(4.0)	4.3
NCREIF Property Index	12.0	8.8	2.5	8.3
<b>ENERGY MLP</b>	11.9	N/A	N/A	N/A
S&P MLP Index	7.7	N/A	N/A	N/A
<b>RISK PARITY</b>	4.9*	N/A	N/A	N/A
Risk Parity Index: 60% S&P 500/40% BC Agg	6.7*	N/A	N/A	N/A

Notes:

This schedule illustrates the investment results of the "managed" investment portfolio which excludes assets of the Variable Benefit Reserves and the operating cash reserve.

The total investment portfolio result which includes the performance of the fixed income Variable Benefit Reserves for the fiscal year is 4.3%. The fixed income portfolio, including the reserves, result for the fiscal year is 12.3%.

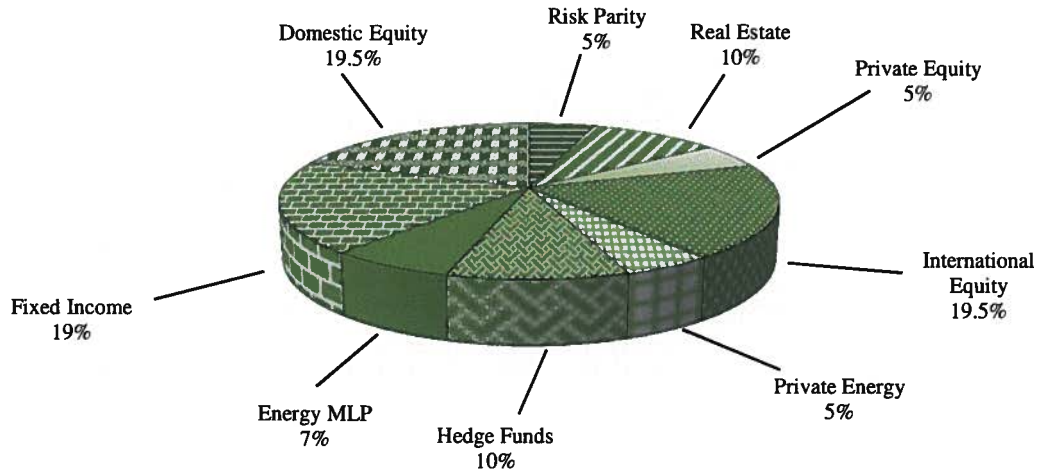
The composite returns above were calculated by the System's investment consultant, who used a time weighted rate of return based on market value.

The Composite Benchmark exhibits the overall rate of return for a sample unmanaged portfolio. At fiscal year end 2012, the Composite Benchmark is comprised of 19.5% Russell 3000 Index, 19.5% MSCI All Country World Ex-US Index, 5% S&P 500 +4%, 5% CPI + 4%, 7% S&P MLP Total Return Index, 19% Barclays US Universal Index, 10% NCREIF Property Index, 10% HFRI Fund of Funds Composite Index, and 5% Risk Parity Index (consisting of 60% S&P 500/40% BC Aggregate Index).

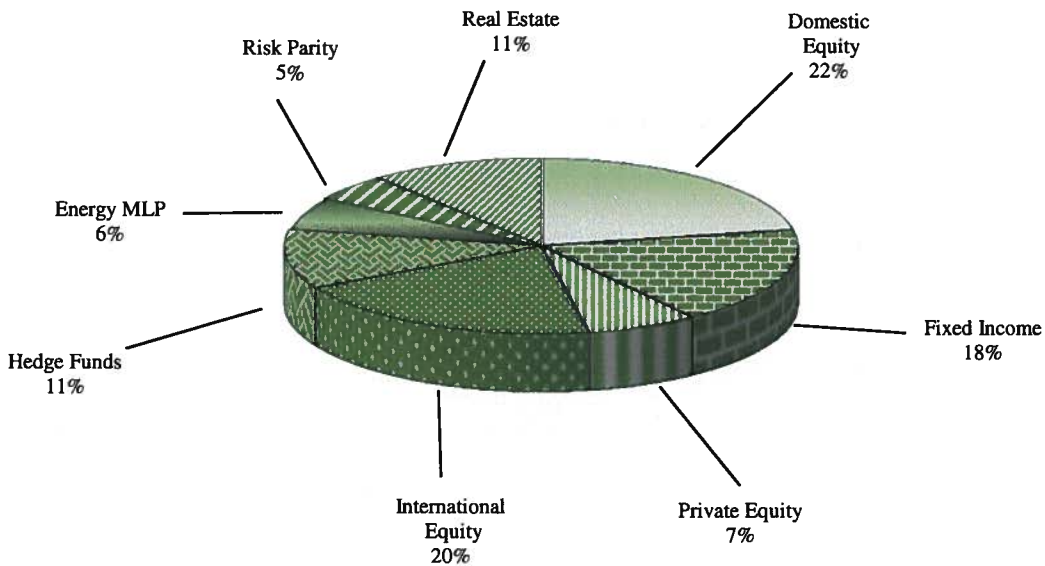
\*Risk Parity commenced December 2011

Fire and Police Employees' Retirement System  
 City of Baltimore, Maryland  
**ASSET ALLOCATION - ACTIVELY MANAGED ACCOUNTS**  
 For the Period Ended June 30, 2012

**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 2012, 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 FAIR VALUE**  
**TOP TEN BOND HOLDINGS BY FAIR VALUE**

June 30, 2012

**Top Ten Domestic Stock Holdings**

	<b>Shares</b>	<b>Stock</b>	<b>Market Value</b>
1)	11,645	Apple Inc	\$6,800,680
2)	216,800	Intel Corp	5,777,720
3)	158,069	AT&T Inc	5,636,741
4)	63,521	Exxon Mobil Corp	5,435,492
5)	47,695	Chevron Corp	5,031,823
6)	8,459	Google Inc	4,906,812
7)	210,923	Pfizer Inc	4,851,229
8)	188,700	General Electric Co	3,932,508
9)	110,900	Allstate Corp/The	3,891,481
10)	67,851	Conocophillips	3,791,514

**Top Ten International Stock Holdings**

	<b>Shares</b>	<b>Stock</b>	<b>Market Value</b>
1)	59,057	Sanofi	\$4,477,291
2)	320,498	Reed Elsevier NV EURO.07	3,665,433
3)	68,520	British American Tobacco Ord GBPO.25	3,483,646
4)	243,850	Rolls Royce Group Ord GBPO.20	3,281,563
5)	44,691	KT&G Corp	3,168,386
6)	55,961	Novartis AG CHFO.50 REGD	3,127,667
7)	77,507	BNP Paribas EUR2	2,983,758
8)	63,405	AKZO Nobel NV EUR2	2,980,391
9)	221,276	AXA EUR2.29	2,942,892
10)	101,000	JGC Corp Y50	2,905,063

**Top Ten Bond Holdings**

	<b>Par</b>	<b>Bonds</b>	<b>Market Value</b>
1)	72,870,000	U S Treasury Bond Prin Strip 05/15/2030	\$46,481,587
2)	30,000,000	Israel St AID Zero Cpn 11/15/2013	29,710,200
3)	27,450,000	U S Treasury Bond Cpn Strip 08/15/2020	24,430,226
4)	21,309,000	GOVT Tr CTF CL 1-Z Zero Cpn 10/01/2020	17,548,601
5)	18,700,000	Israel St AID Zero Cpn 08/15/2021	15,388,604
6)	33,300,000	U S Treasury Bond Prin Strip 08/15/2039	15,297,354
7)	15,800,000	U S Treasury Bond CPN Strip 05/15/2021	13,695,061
8)	19,000,000	U S Treasury Bond Prin Strip 08/15/2026	13,679,430
9)	7,825,000	U S Treasury Bond 05/15/2037	11,292,492
10)	9,300,000	FHLMC Multiclass MTG K014 A2 04/225/2021	10,365,873

A complete list of portfolio holdings is available upon request.

Fire and Police Employees' Retirement System  
City of Baltimore, Maryland  
**INVESTMENT SUMMARY**  
June 30, 2012

	<u>Fair Value</u>	<u>Percent of Total Investments</u>
<b>Stock:</b>		
U.S. Common Stock		
Financial	\$ 74,803,115	3.51%
Energy	59,982,573	2.81
Technology	44,367,484	2.08
Health care	40,089,075	1.88
Consumer nondurables	30,901,118	1.45
Consumer durables	25,179,746	1.18
Consumer services	24,427,712	1.15
Basic industries	19,795,537	0.93
Capital goods	5,335,177	0.25
Transportation	3,736,225	0.18
Total U.S. Common Stock	<u>328,617,762</u>	<u>15.42</u>
Other		
International Stock	319,110,370	14.98
Large cap index fund	20,740,277	0.97
Total Other	<u>339,850,647</u>	<u>15.95</u>
<b>Total Stock</b>	<b><u>668,468,409</u></b>	<b><u>31.37</u></b>
<b>Bonds:</b>		
U.S. Securities and Agencies		
Treasury notes and bonds	218,111,276	10.24
U.S. Agencies	139,515,678	6.55
Total U.S. Securities and Agencies	<u>357,626,954</u>	<u>16.79</u>
Corporate		
Financial	207,280,137	9.73
Transportation	41,843,677	1.96
Industrial	39,875,438	1.87
Utilities	28,352,878	1.33
Total Corporate	<u>317,352,130</u>	<u>14.89</u>
Barclay Aggregate Index	6,034,129	0.28
Emerging markets debt fund	82,593,543	3.88
Core plus fixed income fund	66,185,520	3.11
<b>Total Bonds</b>	<b><u>829,792,276</u></b>	<b><u>38.95</u></b>
<b>Other Investments:</b>		
Real estate funds	175,093,167	8.22
Private equity funds	120,821,595	5.67
Energy master limited partnerships	88,272,824	4.14
Risk parity fund	78,705,517	3.69
Hedge funds	169,617,702	7.96
<b>Total Other Investments</b>	<b><u>632,510,805</u></b>	<b><u>29.68</u></b>
<b>Total Investments</b>	<b><u>\$2,130,771,490</u></b>	<b><u>100.00%</u></b>

Fire and Police Employees' Retirement System  
City of Baltimore, Maryland  
**SUMMARY SCHEDULE OF FEES AND COMMISSIONS**  
For the Year Ended June 30, 2012

	<u>Assets Under Management</u>	<u>Fees</u>
<b>Investment Managers' Fees</b>		
International equity	\$325,441,840	\$2,302,734
Domestic equity	454,952,253	2,196,294
Fixed income	814,266,263	942,652
Real estate	178,476,333	707,074
Private equity	119,987,331	350,039
Securities lending		<u>198,266</u>
<b>Total Investment Managers' Fees</b>		<b><u>\$6,697,059</u></b>
<b>Other Investment Service Fees:</b>		
Investment consultant fees		\$297,500
Custodian bank fees		<u>161,242</u>
<b>Total Other Investment Service Fees</b>		<b><u>\$458,742</u></b>

**Brokerage Fees**

Broker's fees on investment transactions for the year ended June 30, 2012 amounted to \$898,829. Brokerage firms receiving more than \$6,500 in fees are listed below.

<u>Brokerage Firms</u>	<u>Fees Paid</u>	<u>Brokerage Firms</u>	<u>Fees Paid</u>
Percival Financial, LTD	\$80,613	RBC Capital Markets Corp	\$14,484
UBS	59,295	Jefferies & Company	13,694
BNY Convergenx	53,172	Weeden & Company	11,474
Morgan J P Securities Inc.	50,051	Liquidnet Asia LTD	10,471
Credit Suisse First Boston	48,627	Raymond James & Associates	10,291
Morgan Stanley & Co.	48,269	Abel Noser Corp	10,176
Merrill Lynch	42,539	Piper Jaffray & Company	8,716
BNP Paribas Peregrine Securities	39,478	Loop Capital Markets	7,733
Deutsche Banc Alex Brown Inc.	34,183	Lazard Capital Markets LLC	7,673
Barclays Capital LE	25,967	Macquarie Capital	7,392
Citigroup GBL Markets	25,221	Wells Fargo Securities LLC	7,154
Stifel Nicolaus	19,582	Needham & Co	7,060
Goldman Sachs	18,689	Bernstein Sanford & Co	7,020
Instinet Corp	17,919	Banco BTG Pactual SA	6,952
Knight Equity Markets	14,654	CSI Institutional	6,751

**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

The Edgar Lomax Company  
Randall Eley  
Springfield, Virginia

Mellon Capital Management  
Karen Wong  
San Francisco, CA

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 Private Asset Management, LLC  
Peter Barcia  
New York, New York

Cantor Fitzgerald  
Peter Hommeyer  
New York, New York

Prisma Capital Partners  
Eric Wolfe  
New York, NY

Titan Advisors  
Tom Holliday  
Rye Brook, NY

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

**FIXED INCOME MANAGERS**

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

Western Asset Management Company  
Steve Walsh  
Pasadena, California

Income Research & Management (IRM)  
Jake Remely  
Boston, MA

C. S. McKee  
Brian Allen  
Pittsburgh, PA

MacKay Shields  
Michael Kimble  
New York, New York

Mellon Capital Management  
Susan Ellison  
San Francisco, California

Pugh Capital Management  
Mary Pugh  
Seattle, WA

Artio Global Investors  
Donald Quigley  
New York, NY

**REAL ESTATE MANAGERS**

Principal Global Investors  
John Berg  
De Moines, Iowa

LaSalle Investment Management, Inc.  
James Hutchinson  
Chicago, Illinois

Blackrock Realty  
Andrew Piekarski  
Florham Park, New Jersey

DLJ Real Estate  
Andy Rifkin  
New York, New York

AREA Property Partners  
Steven M. Wolf  
New York, NY

Alex Brown Realty  
John M. Prugh  
Baltimore, Maryland

Clarion  
Stephen Hansen  
New York, New York

Angelo Gordon Real Estate  
Adam Schwartz  
New York, New York

**REAL ASSETS**

Harvest Fund Advisors, LLC  
Eric Conklin  
Wayne, PA

Tortoise Capital Advisors, LLC  
Zach Hamel  
Leawood, KS

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

**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

Drum Capital Management, LLC  
Scott Vollmer  
Stamford, Connecticut

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

Greenspring Global Partners  
Jay Jarrett  
Owings Mills, MD

**RISK PARITY**

AQR Capital Management  
Michael Mendelson  
Greenwich, CT



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

**GLOBAL CUSTODIAN**

BNY Mellon Asset Servicing  
Sarah Baulch  
Pittsburgh, Pennsylvania

**SECURITIES LENDING**

BNY Mellon Asset Servicing  
Stephen R. Crosby  
Pittsburgh, Pennsylvania

**INVESTMENT CONSULTANT**

The Summit Strategies Group  
Daniel Holmes  
St. Louis, Missouri

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## **Actuarial Section**



**Baltimore City Fraternal Order of Police Memorial**

October 24, 2012

Board of Trustees  
Fire and Police Employees' Retirement System  
of the City of Baltimore  
7 East Redwood Street, 18<sup>th</sup> Floor  
Baltimore, Maryland 21202-3470

**Re: 2012 CAFR**

Honorable Members of the Board of Trustees:

Cheiron has performed an actuarial valuation of the System as of June, 30 2012. This valuation is used to determine the City's contribution to be made in Fiscal Year 2014. The contribution made during Fiscal Year 2012 was developed in the 2010 actuarial valuation produced by the previous actuary.

The funding method used in the annual valuation is the Projected Unit Credit Cost method. This method tends to produce level contributions as a percentage of covered payroll, as long as the average age of active membership does not change. If the average age were to increase, the Normal Cost portion of the employer's contribution would increase as a percentage of covered payroll. The employer's contribution is increased or decreased to amortize as a level dollar amount over 20 years – the difference between the actuarial value of assets and the actuarial accrued liability.

The valuation is based on actuarial assumptions recommended by the actuary and approved by the Board of Trustees. The assumptions and methods used for funding purposes meet the parameters set forth in the disclosures presented in the financial section by Governmental Accounting Standards Board Statement No. 25. Some actuarial assumptions are incorporated into Article 22 of the Baltimore City Code. The plan provisions require a periodic review of the assumptions by the Actuary. The most recent review examined experience from 2008 to 2011 and resulted in changes that were incorporated in the June 30, 2012 valuation. The current assumptions are a reasonable estimate of the anticipated experience of the System. The results presented in this Comprehensive Annual Report reflect the assumptions from the June 30, 2012 actuarial valuation.

The actuarial value of assets for this disclosure is equal to the market value adjusted for investment performance above or below the assumed rate of return. Such gains or losses are aggregated and recognized at the rate of 20% each year. Membership data used for the actuarial valuation are supplied by the Retirement System. The data is examined by the actuary for reasonableness and consistency with the prior year's data. Asset information is provided on an unaudited basis.



Board of Trustees  
Fire and Police Employees' Retirement System  
October 24, 2012  
Page 2

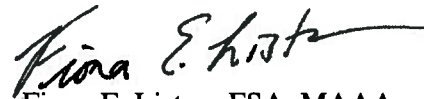
All supporting schedules in the Actuarial Section and the Schedule of Funding Progress in the Financial Section have been prepared by the System and reviewed by Cheiron. The undersigned meet the qualification standards of the American Academy of Actuaries to render the actuarial the actuarial opinion contained in this letter and the actuarial report. This report does not address any contractual or legal issues. We are not attorneys and our firm does not provide any legal services or advice.

These results were prepared solely for the Fire and Police Employees' Retirement System of the City of Baltimore for the purposes described herein, except that the plan auditor may rely on these results solely for the purpose of completing an audit related to the matters herein. These results are not intended to benefit any third party, and Cheiron assumes no duty or liability to any such party.

Sincerely,  
Cheiron



Margaret Tempkin, FSA, MAAA  
Principal Consulting Actuary



Fiona E. Liston, FSA, MAAA  
Principal Consulting Actuary

Attachments

Fire & Police Employees' Retirement System  
City of Baltimore, Maryland  
**ACTUARIAL FUNDING METHOD AND ACTUARIAL ASSUMPTIONS**

**Actuarial Funding Method**

**Method of Funding:**  
(Effective 6/30/1988)

Liabilities and contributions shown in this report are computed using the Projected Unit Credit method of funding.

The Plan's normal cost is the present value of the benefit deemed to accrue in the plan year less the amount of anticipated employee contributions.

The actuarial accrued liability is the sum of the individual's present value of accrued benefits at the beginning of the year.

Effective July 1, 1992, the Unfunded Actuarial Liability is amortized as a level dollar amount over 20 years. This 20-year period is restarted each year. The Trustees can elect to change this period.

**Asset Valuation:**  
(Effective 6/30/1982)

The actuarial value of assets is equal to the market value, adjusted for investment surpluses and deficits over a five-year period.

The actuarial value of assets is the market value less cumulative unallocated earnings.

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**

**Interest:**  
(Effective 6/30/2012)

7.75% compounded annually.

**Expenses:**  
(Effective 6/30/2012)

Expenses are paid from the funds except investment management expenses which are paid from investment earnings. It is assumed that the fund will have sufficient earnings to pay these expenses and meet the interest assumption.

Administrative expenses are added to the contribution in the amount of 1.5% of covered payroll.

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

**ACTUARIAL FUNDING METHOD AND ACTUARIAL ASSUMPTIONS**

**Salary Scale:**  
 (Effective 6/30/2012)

Salary increases are split into a static inflation assumption of 3.75% and a merit scale based on service. Sample rates are as follows:

Service	Merit Scale
0	8.00%
1	6.50%
2	5.00%
3	4.50%
4	3.00%
5 – 11	1.50%
12 – 14	1.25%
15 – 20	1.00%
21+	0.50%

**Additional Assumptions:**

**Percent Married:**  
 (effective 6/30/2012)

Males 70%,  
 Females 70%

**Spouse Age:**

A husband is assumed to be 4 years older than his wife.

**Remarriage rates:**

None

**Children:**

All benefits with Joint & Survivor Forms of Payments for retirees had their survivor benefits increased by 2.0% to account for children's benefits.

**Benefit Loads:**  
 (Effective 6/30/2012)

Benefits to certain types of future beneficiaries receiving Line-of-Duty death benefits were increased by 7.0% to allow for contingent beneficiaries.

Benefits to certain types of future members receiving Line-of-Duty disability benefits were increased by 1.5% to allow for possible conversion to Line-of-Duty death benefits.

Benefits payable in the form of a Joint and Survivor 100% Pop Up or Joint and Survivor 50% Pop Up were valued, respectively, as 100% Joint and Survivor with a 2.70% load and 50% Joint and Survivor with a 1.50% load to account for the additional value of the Pop Up form of benefit in the absence of data on the amount to which the benefit would increase.

All future retirement benefits were increased by 1% to account for possible child beneficiaries.

Fire & Police Employees' Retirement System  
 City of Baltimore, Maryland  
**ACTUARIAL FUNDING METHOD AND ACTUARIAL ASSUMPTIONS**

**Pre-Retirement Mortality and Disability Rates:**

Sample rates are shown below.

Age	Non-Line-of-Duty Disability	Line-of-Duty Disability	Non-Line-of-Duty Death <sup>1</sup>		Line-of-Duty Death <sup>2</sup>
			Male	Female	
20	0.000146	0.001073	0.000285	0.000163	0.000076
25	0.000149	0.001412	0.000340	0.000180	0.000119
30	0.000381	0.002224	0.000422	0.000239	0.000164
35	0.001227	0.004369	0.000735	0.000425	0.000253
40	0.001179	0.006191	0.000996	0.000607	0.000385
45	0.001699	0.007006	0.001323	0.000957	0.000433
50	0.001795	0.005710	0.001783	0.001412	0.000372
55	0.000927	0.005789	0.002991	0.002507	0.000300
60	0.000745	0.007706	0.005742	0.004808	0.000159
64	0.000520	0.007886	0.009797	0.008198	0.000062

<sup>1</sup> RP-2000 Combined Mortality Table projected to 2010 with scale AA.

<sup>2</sup> Benefit loaded ½% for post-disability line-of-duty death benefit.

**Post Retirement Mortality Rates for Retired and Disabled Members and Beneficiaries**

Retirees and Beneficiaries: RP-2000 Combined Mortality Table projected to 2010 with scale AA.

Disabled Members: RP-2000 Combined Mortality Table projected to 2010 with scale AA set forward four years.

Sample rates are shown below.

Age	Retirees and Beneficiaries		Disabled Members	
	Male	Female	Male	Female
55	0.002991	0.002507	0.005059	0.004224
60	0.005742	0.004808	0.009797	0.008198
65	0.011062	0.009231	0.017198	0.014133
70	0.019091	0.015923	0.029145	0.023731
75	0.032859	0.025937	0.051861	0.038690
80	0.058213	0.042767	0.093010	0.064801
85	0.010324	0.072923	0.015828	0.115627
90	0.017620	0.127784	0.024327	0.179176

Mortality through the 2011 experience study followed the RP 2000 tables, projected to 2005. The tables projected to 2010 should provide an additional ten years of projections but this will be monitored at the next quinquennial experience review.



Fire & Police Employees' Retirement System  
 City of Baltimore, Maryland  
**ACTUARIAL FUNDING METHOD AND ACTUARIAL ASSUMPTIONS**

Active decrements and service retirements rates are the same as presented in the June 30, 2012 actuarial valuation report. Sample rates follow:

**Withdrawal Rates:**

<b>Years of Service</b>	<b>Withdrawal<sup>1</sup></b>
0	7.50%
1	6.25%
2	5.00%
3	4.25%
4	3.75%
5	3.25%
6	2.75%
7	2.35%
8	1.95%
9	1.60%
10	1.30%
11	0.85%
12 – 19	0.35%
20+	0.00%

<sup>1</sup> Withdrawal decrements are reduced to zero when participant is eligible to retire.

**Service Retirement:**

The valuation uses the retirement rates that vary according to whether a member participates in the DROP or DROP2. Members who do not join DROP or DROP2 are assumed to have retirement rates that vary by service until age 50. After age 50 the rates are assumed to vary solely by age.

Members who join DROP or DROP2 are assumed to have retirement rates that vary solely by service from the time they join and leave DROP/DROP2. The assumption about whether a member will elect DROP/DROP2 varies according to the group to which they belong as follows:

	<b>Police</b>	<b>Fire</b>
DROP	90%	90%
DROP2 Grandfathered	90%	90%
DROP2 Non-Grandfathered	75%	85%

Fire & Police Employees' Retirement System  
 City of Baltimore, Maryland  
**ACTUARIAL FUNDING METHOD AND ACTUARIAL ASSUMPTIONS**

Retirement rates for members are as follows and reflect the possibilities of retirement with and without DROP/DROP2.

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).

**Probabilities of Retirement Rather Than DROP**

Those Eligible for DROP or Grandfathered DROP2:

Ages Less Than 50		Ages 50 and Higher	
Years of Service	Probability of Retirement	Age	Probability of Retirement
20	30%	50	6.4%
21	20%	51	4.6%
22 and up	100%	52	4.6%
		53	4.7%
		54	5.9%
		55	7.3%
		56	6.9%
		57	6.9%
		58	6.9%
		59	13.9%
		60	21.2%
		61	17.2%
		62	25.5%
		63	25.5%
		64	32.3%
		65	100.0%

Fire & Police Employees' Retirement System

City of Baltimore, Maryland

**ACTUARIAL FUNDING METHOD AND ACTUARIAL ASSUMPTIONS**

Assumptions vary between the rate applicable in the first year of eligibility for unreduced retirement and those for subsequent years. Rates also vary by police and fire.

Age	Police		Fire	
	First Eligible	Subsequent	First Eligible	Subsequent
Less than 65	70.0%	60.0%	60.0%	50.0%
65 and up	100.0%	100.0%	100.0%	100.0%

**Probabilities of DROP Rather Than Retirement**

Those Eligible for DROP:

Years After Electing Drop	DROP Exit Rates	
	Police	Fire
1	10.0%	4.0%
2	10.0%	5.0%
3	12.0%	8.0%
4	15.0%	10.0%
5	15.0%	10.0%
6	17.0%	10.0%
7	17.0%	18.0%
8	17.0%	18.0%
9	17.0%	10.0%
10	17.0%	15.0%
11	25.0%	20.0%
12	25.0%	20.0%
13	28.0%	20.0%
14	28.0%	25.0%
15 or more	28.0%	25.0%

NOTE: In all cases once the participant reaches age 65, there is 100% probability of leaving DROP to commence benefit receipt.

Fire & Police Employees' Retirement System  
 City of Baltimore, Maryland  
**ACTUARIAL FUNDING METHOD AND ACTUARIAL ASSUMPTIONS**

Grandfathered Participants in DROP2:

Years After Electing Drop	DROP Exit Rates	
	Police	Fire
1	10.0%	4.0%
2	10.0%	5.0%
3	16.0%	11.0%
4	16.0%	11.0%
5	16.0%	11.0%
6	10.0%	8.0%
7	17.0%	8.0%
8	17.0%	22.0%
9	17.0%	10.0%
10	17.0%	15.0%
11	25.0%	20.0%
12	25.0%	20.0%
13	28.0%	20.0%
14	28.0%	25.0%
15 or more	28.0%	25.0%

Non-Grandfathered Participants in DROP2:

Years After Electing Drop	DROP Exit Rates	
	Police	Fire
1	0.0%	0.0%
2	6.0%	4.0%
3	7.0%	5.0%
4	16.0%	14.0%
5	15.0%	13.0%
6	18.0%	15.0%
7	14.0%	12.0%
8	36.0%	12.0%
9	36.0%	34.0%
10	36.0%	34.0%
11	36.5%	33.5%
12	36.5%	33.5%
13	36.5%	33.5%
14	36.5%	33.5%
15 or more	37.0%	33.0%

NOTE: In all cases once the participant reaches age 65, there is 100% probability of leaving DROP to commence benefit receipt.

Non-Grandfathered Full DROP2 Rates:

Years After Electing DROP2	DROP2 Retirement Rate	
	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%

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

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

Age	Service	10	11	12	13	14	15	16	17	18	19	20	21-24	25+
<45														
45												3.00%	2.00%	
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%	
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%	
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%	
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%	
54		3.00%	6.00%	8.00%	10.00%	12.00%	12.00%	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%	17.00%	17.00%	17.00%	17.00%	17.00%	17.00%	
56		5.00%	8.00%	11.00%	14.00%	17.00%	20.00%	20.00%	20.00%	20.00%	20.00%	20.00%	20.00%	
57		5.00%	8.00%	11.00%	15.00%	19.00%	23.00%	23.00%	23.00%	23.00%	23.00%	23.00%	23.00%	
58		5.00%	8.00%	14.00%	18.00%	22.00%	26.00%	26.00%	26.00%	26.00%	26.00%	26.00%	26.00%	
59		5.00%	8.00%	15.00%	20.00%	25.00%	30.00%	30.00%	30.00%	30.00%	30.00%	30.00%	30.00%	
60		5.00%	15.00%	20.00%	25.00%	30.00%	35.00%	35.00%	35.00%	35.00%	35.00%	35.00%	35.00%	
61		10.00%	20.00%	25.00%	30.00%	35.00%	40.00%	40.00%	40.00%	40.00%	40.00%	40.00%	40.00%	
62		15.00%	20.00%	25.00%	30.00%	35.00%	40.00%	40.00%	40.00%	40.00%	40.00%	40.00%	40.00%	
63		15.00%	20.00%	25.00%	30.00%	35.00%	40.00%	40.00%	40.00%	40.00%	40.00%	40.00%	40.00%	
64		15.00%	20.00%	25.00%	30.00%	35.00%	40.00%	40.00%	40.00%	40.00%	40.00%	40.00%	40.00%	
65		100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	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 FUNDING METHOD AND ACTUARIAL ASSUMPTIONS**

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

Age	Service	10	11	12	13	14	15	16	17	18	19	20	21-24	25+
<45														
45												5.00%	4.00%	
46												5.00%	5.00%	
47												3.00%	3.00%	
48												5.00%	5.00%	
49												5.00%	5.00%	
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%	20.00%	20.00%	20.00%	20.00%	20.00%	20.00%	20.00%	
56	7.00%	11.00%	15.00%	19.00%	23.00%	27.00%	27.00%	27.00%	27.00%	27.00%	27.00%	27.00%	27.00%	
57	10.00%	15.00%	20.00%	25.00%	30.00%	35.00%	35.00%	35.00%	35.00%	35.00%	35.00%	35.00%	35.00%	
58	15.00%	20.00%	25.00%	30.00%	35.00%	40.00%	40.00%	40.00%	40.00%	40.00%	40.00%	40.00%	40.00%	
59	20.00%	25.00%	30.00%	35.00%	40.00%	45.00%	45.00%	45.00%	45.00%	45.00%	45.00%	45.00%	45.00%	
60	25.00%	30.00%	35.00%	40.00%	45.00%	50.00%	50.00%	50.00%	50.00%	50.00%	50.00%	50.00%	50.00%	
61	30.00%	35.00%	40.00%	45.00%	50.00%	55.00%	55.00%	55.00%	55.00%	55.00%	55.00%	55.00%	55.00%	
62	35.00%	40.00%	45.00%	50.00%	55.00%	60.00%	60.00%	60.00%	60.00%	60.00%	60.00%	60.00%	60.00%	
63	35.00%	40.00%	45.00%	50.00%	55.00%	60.00%	60.00%	60.00%	60.00%	60.00%	60.00%	60.00%	60.00%	
64	35.00%	40.00%	45.00%	50.00%	55.00%	60.00%	60.00%	60.00%	60.00%	60.00%	60.00%	60.00%	60.00%	
65	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	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  
**SCHEDULE OF ACTIVE MEMBER VALUATION DATA**

<u>Valuation Date June 30</u>	<u>Number</u>	<u>Annual Payroll</u>	<u>Annual Average Pay</u>	<u>% Increase In Average Pay</u>
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)
2012	4,624	284,601,473	61,549	2.2

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

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

Year Ended June 30	Added to Rolls		Removed from Rolls		Rolls - End of Year		% Increase in Annual Allowances	Average Annual Allowances
	No.	Annual Allowances*	No.	Annual Allowances	No.	Annual Allowances		
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
2012	234	9,614,994	198	4,747,538	6,136	194,706,019	2.6	31,732

\* 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.

Valuation Date June 30	Aggregate Accrued Liabilities For			Portion of Accrued Liabilities Covered by Reported Assets		
	(1) Active Member Contributions	(2) Retirees and Beneficiaries	(3) Active Members (Employer Financed Portion)	(1)	(2)	(3)
2003	\$197,937,017	\$1,368,638,818	\$720,297,200	100%	100%	88.7%
2004	197,462,032	1,502,541,087	695,519,580	100	100	89.1
2005	200,799,034	1,653,513,286	706,672,475	100	100	86.4
2006	206,295,261	1,731,864,189	771,770,463	100	100	73.5
2007	214,167,284	1,875,522,941	804,200,292	100	100	70.8
2008	223,169,334	1,933,289,565	837,934,859	100	100	62.0
2009	237,159,576	1,971,574,127	842,153,582	100	100	44.9
2010	246,799,329	1,977,520,610	809,403,584	100	100	37.1
2011	247,518,595	2,057,539,881	799,746,838	100	100	30.2
2012	261,776,304	2,132,731,848	794,153,907	100	100	10.2

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**

<u>Type of Activity</u>	<u>Gain or (Loss) for Fiscal Year 2011</u>	<u>Gain or (Loss) for Fiscal Year 2012</u>
<b>Age and Service Retirements</b> 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.	\$ 7,466,204	\$ 6,148,523
<b>Disability Retirements</b> If disability claims are less than assumed, there is a gain. If more claims, a loss.	(2,258,398)	(11,211,796)
<b>Death-in-Service Benefits</b> If survivor claims are less than assumed, there is a gain. If more claims, there is a loss.	(150,634)	206,491
<b>Withdrawal From Employment</b> If more liabilities are released by withdrawals than assumed, there is a gain. If smaller releases, a loss.	1,985,025	(2,123,530)
<b>Pay Increases</b> If there are smaller pay increases than assumed, there is a gain. If greater increases, a loss.	31,157,560	11,705,669
<b>Investment Income</b> If there is greater investment income than assumed, there is a gain. If less, a loss.	(91,073,001)	(203,470,749)
<b>Death After Retirement</b> If retirees live longer than assumed, there is a loss. If not as long, a gain.	1,403,620	697,503
<b>New Entrants</b> New entrants create a loss because they were not assumed in the previous evaluation.	(1,518,221)	(1,806,726)
<b>Excess Contributions</b> Gain created due to contributions that are not designated to reduce the BIF and ERF.	11,198,836	7,802,264
<b>Expense Gain / (Loss)</b> 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)	
<b>Other</b> Miscellaneous gains and losses resulting from data adjustments, timing of financial transactions, valuation methods, etc.	(7,474,066)	16,412,768
<b>Loss During Year From Financial Experience</b>	<u>\$ (55,095,124)</u>	<u>\$ (175,639,583)</u>

Fire and Police Employees' Retirement System  
City of Baltimore, Maryland  
**SUMMARY OF PLAN PROVISIONS**  
For the Year Ended June 30, 2012

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 increased to 8% of regular compensation; effective July 1, 2012, the rate is 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 normal service retirement benefit, early service, DROP, or DROP 2. To qualify to receive F&P service credit, a member may not be eligible to receive retirement benefits for the military service from any other retirement system except for a Reserve Component Retirement benefit for Reserve service and National Guard members nor be eligible for a regular military pension.

(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, provided the member leaves his/her accumulated contributions and interest on deposit with the F&P, does not take any other employment, and returns to F&P covered employment

Fire and Police Employees' Retirement System  
City of Baltimore, Maryland  
**SUMMARY OF PLAN PROVISIONS**  
For the Year Ended June 30, 2012

within 1 year following the military service.

**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; and
- (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 precedes 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:

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- (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; and
  - (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

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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.

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- (G) **Specific Benefit Option:** Upon retiree's death and subject to the approval of the Board of Trustees, the member's designated beneficiary will receive:
- (1) a specific lump sum amount; or
  - (2) a specific 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.

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- (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 did not meet the following eligibility requirements as of December 31, 2009, is not eligible for DROP participation and is not 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. Eligible military service credit prior to employment also can be used to satisfy the eligibility requirements.
- (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. Eligible military service credit prior to employment also can be used to satisfy the eligibility requirements.
- (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



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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

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- (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

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

**(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

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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 years of service credit 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

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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 2 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 benefit 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%

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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,

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(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:

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- (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.



Fire and Police Employees' Retirement System  
City of Baltimore, Maryland  
**SUMMARY OF PLAN PROVISIONS**  
For the Year Ended June 30, 2012

- (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

Fire and Police Employees' Retirement System  
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**SUMMARY OF PLAN PROVISIONS**  
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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 may be 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 and eligibility 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

Fire and Police Employees' Retirement System  
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**SUMMARY OF PLAN PROVISIONS**  
For the Year Ended June 30, 2012

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 was 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 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 receiving 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**

Effective July 1, 2010, a minimum annual benefit of \$16,000 is 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.

Effective January 1, 2012, a minimum annual benefit of \$16,000 is 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.

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## Statistical Section



**Baltimore City Fraternal Order of Police Memorial**

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 2003 - 2012  
Revenues by Source - Fiscal Years 2003 - 2012  
Expenses by Type - Fiscal Years 2003 - 2012  
Benefit Expenses by Type - Fiscal Years 2003 - 2012  
Average Monthly Service Retirement Benefit Payments - Fiscal Years 2003 - 2012

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 2003 – 2012  
Active Members and Active DROP / DROP 2 Members by Years of Service and Department  
Active DROP / DROP 2 Members by Fiscal Year of DROP / DROP 2 Entry and Department – Fiscal Years 1997 – 2012  
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**

	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>
<b>Additions</b>					
Net investment income	\$ 44,013,099	\$ 222,184,012	\$ 218,297,510	\$ 178,616,240	\$ 347,068,360
Employer contributions	34,678,878	42,699,166	48,666,701	49,661,627	60,128,727
Member contributions	15,159,112	15,421,154	15,359,931	15,157,898	15,438,649
Net securities lending income	624,204	536,506	389,616	561,649	756,603
<b>Total Additions</b>	<u>94,475,293</u>	<u>280,840,838</u>	<u>282,713,758</u>	<u>243,997,414</u>	<u>423,392,339</u>
<b>Deductions</b>					
Retirement allowances	120,442,353	126,884,291	135,950,256	147,353,252	155,639,508
Lump sum DROP payments	12,147,757	24,494,758	22,253,341	14,025,599	12,950,280
Administrative expenses	1,562,487	1,905,163	2,143,390	2,552,458	2,818,795
Refunds of member contributions	1,059,150	1,093,504	1,403,449	1,708,619	2,007,222
Death benefits	126,270	551,962	620,679	520,214	721,942
<b>Total Deductions</b>	<u>135,338,017</u>	<u>154,929,678</u>	<u>162,371,115</u>	<u>166,160,142</u>	<u>174,137,747</u>
<b>Net Increase (Decrease)</b>	<u>\$ (40,862,724)</u>	<u>\$ 125,911,160</u>	<u>\$ 120,342,643</u>	<u>\$ 77,837,272</u>	<u>\$ 249,254,592</u>

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

	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
<b>Additions</b>					
Net investment income	\$ (97,529,998)	\$ (357,730,702)	\$ 252,146,101	\$ 366,713,890	\$ 80,339,513
Employer contributions	72,687,585	69,513,236	94,097,743	107,539,873	107,488,403
Member contributions	16,547,425	17,661,252	17,254,515	19,586,155	22,866,939
Net securities lending income	2,049,347	1,801,369	500,376	452,113	594,933
<b>Total Additions</b>	<u>(6,245,641)</u>	<u>(268,754,845)</u>	<u>363,998,735</u>	<u>494,292,031</u>	<u>211,289,788</u>
<b>Deductions</b>					
Retirement allowances	166,119,977	173,547,075	176,660,415	186,002,569	193,082,852
Lump sum DROP payments	14,118,642	10,379,493	18,078,701	17,039,089	10,816,700
Administrative expenses	3,264,028	3,334,851	3,311,686	4,241,753	3,672,958
Refunds of member contributions	1,627,871	1,114,334	1,372,214	1,490,557	1,309,010
Death benefits	63,151	251,544	154,775	254,630	385,167
<b>Total Deductions</b>	<u>185,193,669</u>	<u>188,627,297</u>	<u>199,577,791</u>	<u>209,028,598</u>	<u>209,266,687</u>
<b>Net Increase (Decrease)</b>	<u>\$ (191,439,310)</u>	<u>\$ (457,382,142)</u>	<u>\$ 164,420,944</u>	<u>\$ 285,263,433</u>	<u>\$ 2,023,101</u>



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

Fiscal Year	Net Investment Income	Employer Contributions		Member Contributions	Total
		Amount	% of Covered Payroll		
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
2012	80,934,446	107,488,403	37.8	22,866,939	211,289,788

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**

<u>Fiscal Year</u>	<u>Retirement Benefits</u>	<u>DROP Payments</u>	<u>Refunds</u>	<u>Administrative Expenses</u>	<u>Total</u>
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
2012	193,468,019	10,816,700	1,309,010	3,672,958	209,266,687

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

Year Ending	Age and Service Benefits		Death Benefits		Disability Benefits			Total	
	Retirees	Beneficiaries	Duty	Non-Duty	Retirees		Beneficiaries		
					Duty	Non-Duty			
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
2012	147,421,816	13,916,530	3,010,331	3,269,163	385,167	24,626,399	5,192,927	6,462,386	204,284,719

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

**AVERAGE MONTHLY SERVICE RETIREMENT BENEFIT PAYMENTS**

Retirement Effective Dates From July 1, 2002 to June 30, 2012	Years of Credited Service				
	10-15	16-20	21-25	26-30	31+
<b>Period 7/1/02 to 6/30/03</b>					
Average Monthly Benefit	\$ 1,070	\$ 1,961	\$ 2,769	\$ 3,636	\$ 3,997
Average-Average Final Compensation	75,014	47,590	58,570	60,701	57,942
Number of Active Retirees	2	13	30	46	40
<b>Period 7/1/03 to 6/30/04</b>					
Average Monthly Benefit	499	2,221	2,713	3,822	4,251
Average-Average Final Compensation	75,968	56,029	58,162	62,427	60,351
Number of Active Retirees	2	22	49	68	82
<b>Period 7/1/04 to 6/30/05</b>					
Average Monthly Benefit	1,293	2,323	2,949	3,826	4,474
Average-Average Final Compensation	54,254	54,891	61,233	62,285	63,031
Number of Active Retirees	1	24	76	39	42
<b>Period 7/1/05 to 6/30/06</b>					
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
<b>Period 7/1/06 to 6/30/07</b>					
Average Monthly Benefit	1,083	2,488	3,167	3,811	4,618
Average-Average Final Compensation	49,821	59,550	64,352	64,597	66,721
Number of Active Retirees	1	27	71	24	21

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

**AVERAGE MONTHLY SERVICE RETIREMENT BENEFIT PAYMENTS (Concluded)**

	Years of Credited Service				
	<u>10-15</u>	<u>16-20</u>	<u>21-25</u>	<u>26-30</u>	<u>31+</u>
<b>Period 7/1/07 to 6/30/08</b>					
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
<b>Period 7/1/08 to 6/30/09</b>					
Average Monthly Benefit	1,575	2,665	3,486	4,634	5,290
Average-Average Final Compensation	58,129	65,460	68,712	77,044	70,341
Number of Active Retirees	1	27	50	20	23
<b>Period 7/1/09 to 6/30/10</b>					
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
<b>Period 7/1/10 to 6/30/11</b>					
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
<b>Period 7/1/11 to 6/30/12</b>					
Average Monthly Benefit	2,940	3,025	3,475	4,374	5,210
Average-Average Final Compensation	61,719	69,173	71,631	72,289	75,681
Number of Active Retirees	11	37	35	25	15
<b>Period 7/1/02 to 6/30/12</b>					
Average Monthly Benefit	2,008	2,547	3,190	4,017	4,688
Average-Average Final Compensation	62,846	61,256	65,499	66,006	66,381
Number of Active Retirees	26	282	552	331	312

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

**SCHEDULE OF ACTIVE MEMBERS BY YEARS OF SERVICE**

<u>Years of Credited Service</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
0-4	1,179	1,114	1,084	1,019	1,017	1,088	1,142	1,079	1,047	987
5-9	933	912	885	931	949	946	900	873	873	982
10-14	861	991	935	948	902	814	759	726	770	770
15-19	679	696	773	717	661	757	904	872	890	853
20-24	668	581	507	473	514	515	513	572	536	504
25-29	244	233	279	345	348	329	291	264	251	313
30+	<u>311</u>	<u>251</u>	<u>227</u>	<u>194</u>	<u>187</u>	<u>166</u>	<u>181</u>	<u>198</u>	<u>208</u>	<u>215</u>
Total Members	<u>4,875</u>	<u>4,778</u>	<u>4,690</u>	<u>4,627</u>	<u>4,578</u>	<u>4,615</u>	<u>4,690</u>	<u>4,584</u>	<u>4,575</u>	<u>4,624</u>
Average Service Credit	<u>12.88</u>	<u>12.56</u>	<u>12.48</u>	<u>12.46</u>	<u>12.52</u>	<u>12.34</u>	<u>12.45</u>	<u>12.71</u>	<u>12.64</u>	<u>12.73</u>
Average Age	<u>38.26</u>	<u>38.75</u>	<u>38.55</u>	<u>38.66</u>	<u>38.73</u>	<u>38.91</u>	<u>38.99</u>	<u>39.21</u>	<u>39.14</u>	<u>39.23</u>

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 2 MEMBERS BY YEARS OF SERVICE AND DEPARTMENT**

For the Year Ended June 30, 2012

Years of Credited Service	<u>Schedule of Current Active Members By Years of Service and Department</u>				<u>Total</u>
	<u>Police Department</u>	<u>Fire Department</u>	<u>School Crossing Guards</u>	<u>Airport Employees</u>	
0-4	699	288			987
5-9	550	432			982
10-14	519	251			770
15-19	659	194			853
20-24	304	197		3	504
25-29	143	166		4	313
30+	98	113	3	1	215
<b>Total Members</b>	<u>2,972</u>	<u>1,641</u>	<u>3</u>	<u>8</u>	<u>4,624</u>

Years of Credited Service	<u>Schedule of Current Active DROP 2 Members By Years of Service and Department</u>				<u>Total</u>
	<u>Police Department</u>	<u>Fire Department</u>	<u>School Crossing Guards</u>	<u>Airport Employees</u>	
20-24	65	48		3	116
25-29	141	163		4	308
30+	97	112	1	1	211
<b>Total DROP Members</b>	<u>303</u>	<u>323</u>	<u>1</u>	<u>8</u>	<u>635</u>

Years of Credited Service	<u>Schedule of Current Active DROP 2 Members By Years of Service and Department</u>				<u>Total</u>
	<u>Police Department</u>	<u>Fire Department</u>	<u>School Crossing Guards</u>	<u>Airport Employees</u>	
20-24	118	133			251
25-29	1				1
30+					
<b>Total DROP 2 Members</b>	<u>119</u>	<u>133</u>			<u>252</u>

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

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

<u>Year of DROP Entry</u>	<u>Police Department</u>	<u>Fire Department</u>	<u>School Crossing Guards</u>	<u>Airport Employees</u>	<u>Total</u>
7/1/96 - 6/30/97	20	31			51
7/1/97 - 6/30/98	3	2			5
7/1/98 - 6/30/99	4	4	1		9
7/1/99 - 6/30/00	14	22		1	36
7/1/00 - 6/30/01	18	13			32
7/1/01 - 6/30/02	21	19			40
7/1/02 - 6/30/03	12	20			32
7/1/03 - 6/30/04	20	5			25
7/1/04 - 6/30/05	21	22		1	44
7/1/05 - 6/30/06	36	41		2	79
7/1/06 - 6/30/07	28	37			65
7/1/07 - 6/30/08	49	66			115
7/1/08 - 6/30/09	25	16		4	45
7/1/09 - 6/30/10	30	24			54
7/1/10 - 6/30/11		1			1
7/1/11 - 6/30/12	2				2
<b>Total DROP Members</b>	<u>303</u>	<u>323</u>	<u>1</u>	<u>8</u>	<u>635</u>

<u>Year of DROP 2 Entry</u>	<u>Police Department</u>	<u>Fire Department</u>	<u>School Crossing Guards</u>	<u>Airport Employees</u>	<u>Total</u>
7/1/09 - 6/30/10	22	25			47
7/1/10 - 6/30/11	43	96			139
7/1/11 - 6/30/12	54	12			66
<b>Total DROP 2 Members</b>	<u>119</u>	<u>133</u>			<u>252</u>



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, 2012

Age	Number of Recipients	TYPE OF RETIREMENT*				
		0	2	3	4	9
0-24						
25-29	10				10	
30-34	23			3	20	
35-39	69	1		12	56	
40-44	134	51	1	20	62	
45-49	372	227	8	27	109	1
50-54	434	346	2	20	65	1
55-59	562	481	1	21	59	
60-64	788	706	1	20	61	
65-69	764	662		32	70	
70-74	536	439		29	66	2
75-79	415	326		31	58	
80-84	335	239		34	61	1
85 and up	<u>215</u>	<u>156</u>		<u>27</u>	<u>32</u>	
Totals	<u>4,657</u>	<u>3,634</u>	<u>13</u>	<u>276</u>	<u>729</u>	<u>5</u>
Average Annual Benefit	<u>\$35,967</u>	<u>\$37,745</u>	<u>\$31,186</u>	<u>\$18,576</u>	<u>\$33,606</u>	<u>\$60,472</u>

**\*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, 2012

Age	Number of Recipients	TYPE OF RETIREMENT*								
		0	2	3	4	6	7	8		
0-24	19	2		2						8
25-29	2				1					1
30-34	2				1					
35-39	3	1							2	
40-44	14	5		1	1				1	6
45-49	37	22		5	4			1	2	3
50-54	70	52		2	4			7	3	2
55-59	96	61		8	10			6	5	6
60-64	145	87		10	11			17	10	9
65-69	151	89		14	21			8	10	9
70-74	201	111		26	41			10	8	5
75-79	243	120		48	49			15	7	4
80-84	245	111		39	68			17	2	8
85 and up	251	160		28	38			12	2	11
Totals	1,479	821	1	183	251			93	58	72
Average Annual Benefit	\$18,396	\$17,279	\$12,091	\$14,099	\$16,661	\$26,361	\$14,812	\$40,791		

- \*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  
 7 - Non-line-of-duty death with 25% of compensation  
 8 - Line-of-duty death

Fire and Police Employees' Retirement System

City of Baltimore, Maryland

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

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

For the Year Ended June 30, 2012

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

<u>Age</u>	<u>Number of Recipients</u>	<u>TYPE OF RETIREMENT*</u>	
		<u>0</u>	<u>4</u>
40-44	18	18	
45-49	151	148	3
50-54	294	283	11
55-59	396	385	11
60-64	508	496	12
65-69	348	344	4
70-74	139	138	1
75+	43	43	
Totals	<u>1,897</u>	<u>1,855</u>	<u>42</u>
Average Annual Benefit	<u>\$42,778</u>	<u>\$42,758</u>	<u>\$43,664</u>

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

<u>Age</u>	<u>Number of Recipients</u>	<u>TYPE OF RETIREMENT*</u>					
		<u>0</u>	<u>3</u>	<u>4</u>	<u>6</u>	<u>7</u>	<u>8</u>
< 20	3	1				2	
35-39	1	1					
40-44	3	3					
45-49	18	17			1		
50-54	43	39			4		
55-59	41	38			2		1
60-64	43	31			10		2
65-69	32	27			3	1	1
70+	34	32			2		
Totals	<u>218</u>	<u>189</u>			<u>22</u>	<u>3</u>	<u>4</u>
Average Annual Benefit	<u>\$19,180</u>	<u>\$16,340</u>			<u>\$34,672</u>	<u>\$19,495</u>	<u>\$67,944</u>

**\*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

7 - Non-line-of-duty death with 25% of compensation

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, 2012

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

<u>Age</u>	<u>Number of Recipients</u>	<u>TYPE OF RETIREMENT*</u>	
		<u>0</u>	<u>4</u>
40-44	3	3	
45-49	7	6	1
50-54	1	1	
55-59	1	1	
60-64			
65-69			
70-74			
Totals	<u>12</u>	<u>11</u>	<u>1</u>
Average Annual Benefit	<u>\$36,078</u>	<u>\$34,680</u>	<u>\$51,454</u>

**\*Type of Retirement**

0 - Normal retirement for age and service

4 - Line-of-duty disability

# **F & P**

**BALTIMORE Est. 1962**

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**50 YEARS OF SERVICE**

Fire & Police Employees' Retirement System  
City of Baltimore, Maryland  
7 East Redwood Street, 18th Floor  
Baltimore, Maryland 21202  
410-497-7929 or 1-888-410-1600