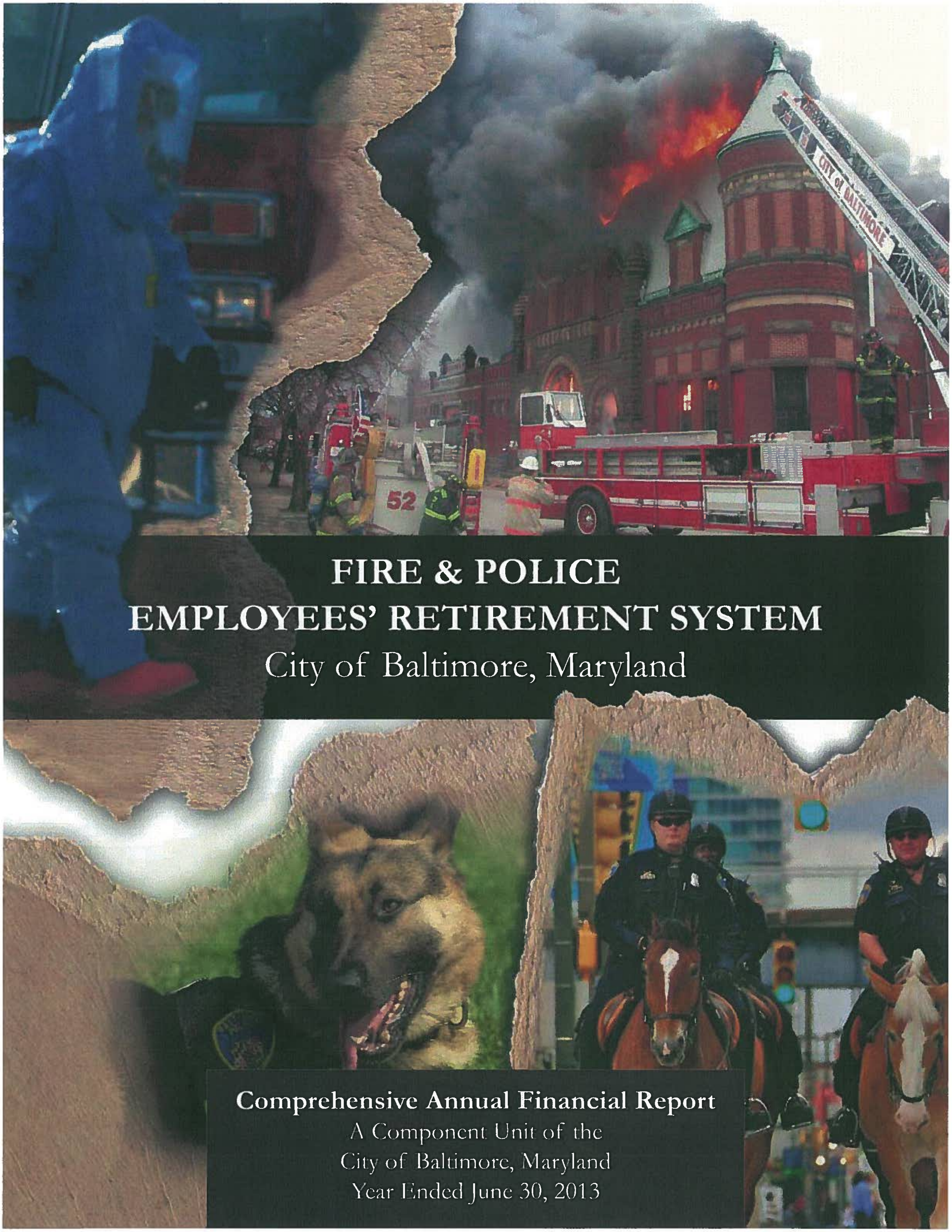


FIRE & POLICE EMPLOYEES' RETIREMENT SYSTEM

City of Baltimore, Maryland

Comprehensive Annual Financial Report

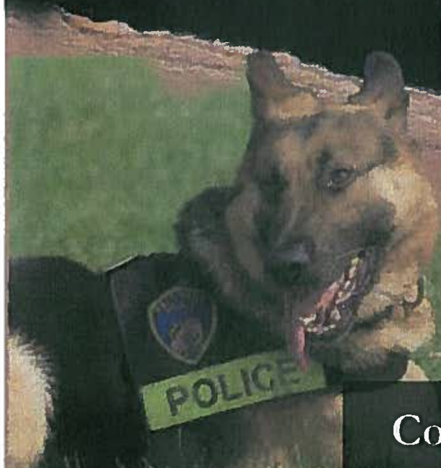
A Component Unit of the
City of Baltimore, Maryland
Year Ended June 30, 2013

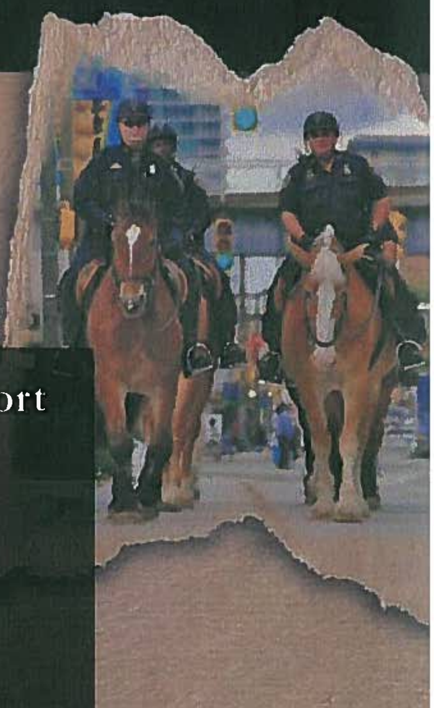
Cover photo of mounted horse unit by Gino Inocentes, BPD

Photo on page 97 courtesy of Mark Larson

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, 2013

Prepared by:
N. Anthony Calhoun
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, 2013

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Presented to

Fire and Police Employees'

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Maryland

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

June 30, 2012

Executive Director/CEO

CITY OF BALTIMORE
STEPHANIE RAWLINGS-BLAKE, Mayor

FIRE AND POLICE EMPLOYEES' RETIREMENT SYSTEM
N. ANTHONY CALHOUN, Executive Director
7 E. Redwood Street
18th Floor
Baltimore, Maryland 21202

November 19, 2013

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-one 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, 2013. 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.

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. These State of Maryland employees were grandfathered into F&P plan coverage by State law.

All System-related administrative and benefit provisions are established by City ordinance, as contained in Article 22 of the Baltimore City Code, and may be amended only by the Mayor and City Council. The F&P provides normal service retirement benefits for members who attain the required age and/or service requirements, and now due to plan amendments passed in June 2010, early service retirement benefits. Coverage for line-of-duty disability benefits is immediate upon entry into the System. Disability benefits for non-duty-related injury or illness are provided after the attainment of five years of membership. Line-of-duty death benefits are provided upon membership for any member whose death results from an injury occurring in the actual performance of duty. After one year of System service, members are also covered for non-duty-related death benefits. Members who do not reach normal or early service retirement benefit eligibility remain vested only in their accumulated member contributions and interest credits which are payable to the member upon termination from employment. A Deferred Retirement Option Plan (DROP) is available to members who entered the F&P prior to July 1, 2003, and who attained twenty or more years of service as of December 31, 2009. Members who do not meet the eligibility requirements for DROP may become eligible to participate in DROP 2 that commenced January 1, 2010. More information concerning the benefit provisions, DROP, and DROP 2, can be found in the Summary of Plan Provisions beginning on page 80.

Major Initiatives

The plan's administration and staff successfully completed the implementation of the Fire and Police Retirement System (FPRS), a custom SQL Server based system that replaced the 38 year old mainframe legacy member contribution tracking system. We have commenced the enhancement phase to the system that include service credit tracking (on a real time basis), DROP/DROP 2 benefit calculations, membership report generation and integration and normalization of membership data currently maintained in other in-house systems.

Another major initiative started in 2013 was the Records Management (Imaging) implementation. We intend to image all of our paper, microfilm, and microfiche documents (approximately 5 million images) to improve workflow, approvals, compliance and quality assurance processes. We anticipate completing the imaging system in FY2014.

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 (see "Litigation" below) filed by the fire and police unions against the City because of changes made to the plan provisions for current members and retirees, the Board continued investment of the "managed" investment portfolio according to its general asset allocation plan and separate investment of the "dedicated variable benefit" portfolio invested in U.S. Treasury and high quality corporate fixed income securities. The "managed" portfolio returned an above median 13.2% which ranked this F&P portfolio in the 31st percentile of the BNY Mellon All Public Plans Total Fund universe at June 30, 2013. The three year, five year, and ten year performance numbers for the "managed" portfolio were 12.8% which ranked in the 12th percentile, 5.1% which ranked in the 66th percentile, and 7.7% which ranked in the 25th percentile.

The "dedicated variable benefit" fixed income portfolios returned a negative 1.7% for fiscal year 2013. The dedicated portfolios have a significant weight to U.S. Treasuries and high quality corporate bonds. The performance is indicative of very low interest rates. When performance of the "dedicated" portfolio is combined with the "managed" portfolio performance, the F&P total fund composite returned 87th percentile performance of 9.6%. The "dedicated variable benefit" fixed income portfolios positively influenced the overall portfolio composite performance for the five and seven year periods as the "dedicated" portfolios avoided the volatility of the equity and real estate markets. However, for fiscal year 2013, the "dedicated" portfolio dragged the overall performance from 13.2% to 9.6%.

Plan Funding

A ten-year history of the System's funding progress is presented on page 42. 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, 2013, $36.0 million of the accumulated losses remain in the segregated actuarial reserves and will be released to the unallocated earnings calculation in the fiscal year 2014 amortization period.

At June 30, 2013, the actuarial value of assets exceeded the fair value of assets by $241.1 million. This difference decreased by $88.8 million from $329.9 million at June 30, 2012. 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 $52.4 million from $712.8 million at June 30, 2012, to $765.2 million at June 30, 2013. 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, 2013 was 76.6% on an actuarial value of assets basis and 69.2% on a market value basis. At June 30, 2012, the funded ratio was 77.6% on an actuarial value of assets basis and 67.3% on a market value of assets basis.

As a result of the actuarial valuation performed for the fiscal year ended June 30, 2011, a total City and State contribution due to the F&P for fiscal year 2013 was $101.3 million. The City contributed an additional $5.7 million for a total contribution paid in of $107.0 million. All of the additional $5.7 million was used to reduce the System's underfunding.

Litigation

In 2010, the fire and police unions filed suit against the City of Baltimore and the F&P Board of Trustees in the United States District Court. The suit alleged that the City impaired the contract between the members and the City with the enactment of its 2010 pension reform legislation and failed to adequately fund the System. The Plaintiffs also alleged that the F&P's Board of Trustees acted improperly in the pursuit of its duties. Following a trial, the judge ruled in 2012 that only the changes related to the post-retirement benefit increase provisions were unconstitutional. He further ruled that 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 were valid. Both the City and the unions have appealed the ruling and the court issued a memorandum staying its decision pending final resolution of appellate proceedings. See Management's Discussion and Analysis beginning on page 18 and note 9 to financial statements on page 38 for more information.

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 CliftonLarsonAllen render an 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, 2012. This was the thirtieth consecutive year (fiscal years 1983-2012) 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.

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

November 19, 2013

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.

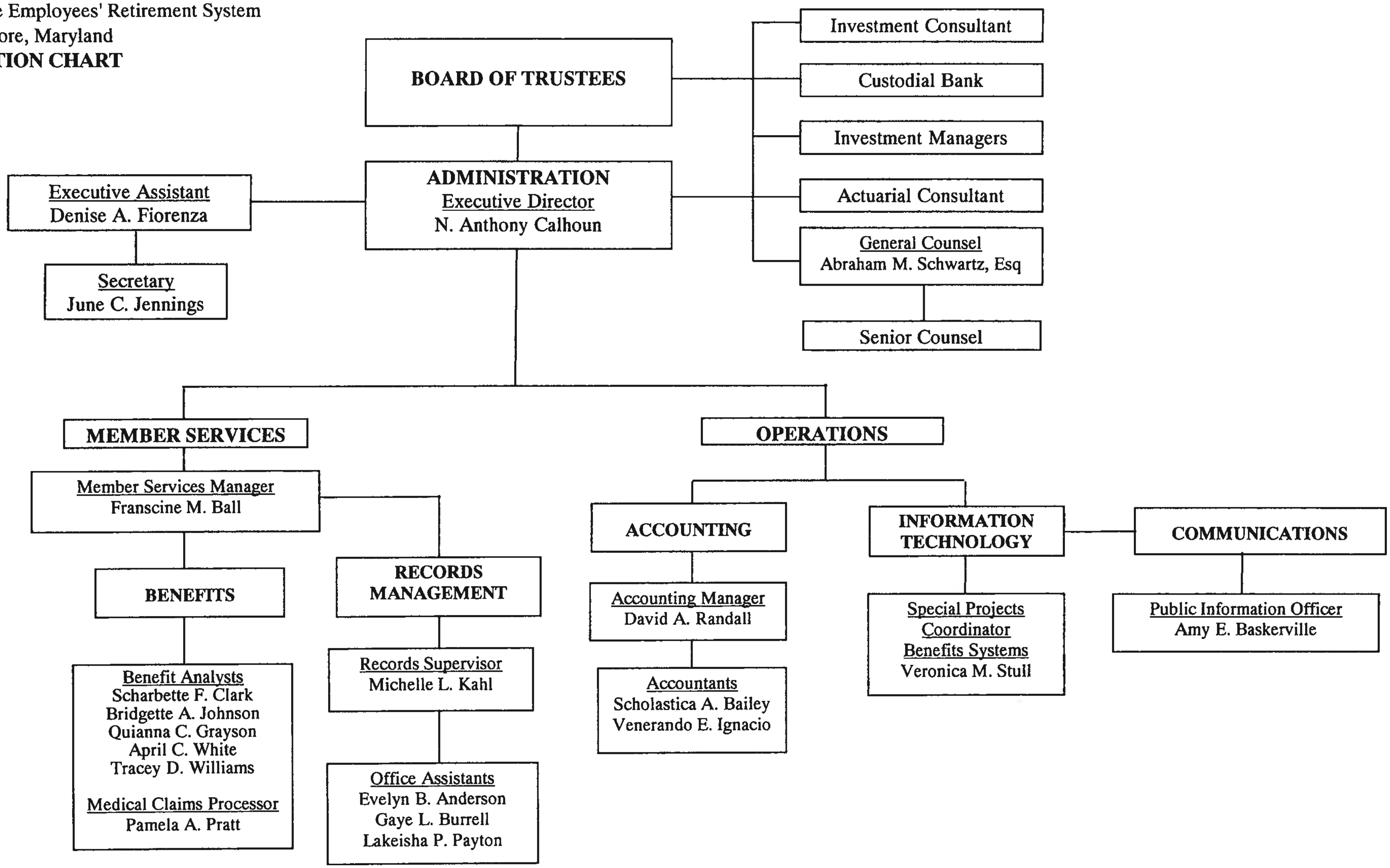
I would like to take this opportunity to express my gratitude to the Board of Trustees, the dedicated F&P staff, the System's consultants, investment managers and advisors, all of whom continue to work diligently to assure the successful operation of the System. I also would like to thank my predecessor Thomas P. Taneyhill for ensuring a smooth transition of leadership and operational responsibilities.

Respectfully submitted,

N A Calhoun

N. Anthony Calhoun
Executive Director

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



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

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

CITY OF BALTIMORE

STEPHANIE RAWLINGS-BLAKE, Mayor

FIRE AND POLICE EMPLOYEES' RETIREMENT SYSTEM

N. ANTHONY CALHOUN, Executive Director
7 E. Redwood Street
18th Floor
Baltimore, Maryland 21202

November 1, 2013

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

This comprehensive financial report covers the fiscal year ending June 30, 2013.

The past year has been a very important one for the F&P. As you know, we live in challenging times where maintaining solid funding for local government pensions is complicated by volatile financial markets, reduced government budgets, limited salary increases for active employees, reduced numbers of active employees contributing to retirement systems, larger numbers of retirees, and longer lifespans for retirees. For example, over the past year, the number of active F&P members decreased 4.0%, from 4,624 to 4,439, while our number of retirees increased 1.1%, from 6,136 to 6,206. Many cities and states are grappling with chronically-underfunded pension systems and have cut pension benefits.

For the first time in February 2013 Baltimore City released a ten-year financial plan that included careful thought about and anticipated funding for the F&P over the next decade. During the fiscal year ending June 30, 2013, the City contributed $107.0 million to the F&P, including an additional $5.7 million above the calculated contribution to reduce the System's underfunding. Under the City's long-term financial plan, the annual City contribution will continue to increase. Based upon current actuarial assumptions, our funded status is projected to improve from the current level of 76.6% to 93.0% over the next 25 years.

Our past year was a solid one financially. Our investments earned 9.6% on a market value basis, significantly above our assumed rate of return. During the past fiscal year the F&P Board voted to reduce the assumed rate of return from 8.0% to 7.75%, based upon the advice of our investment consultant and actuary, to ensure that the System remains sound. Reducing the assumed rate of return leads to a greater annual employer contribution, which was implemented with the cooperation of the City. Along with the larger City contribution, active members continued to contribute to the System. However, our funded ratio decreased during the year from 77.6% to 76.7%, because we continued to deal with past negative balances from the old Employer Reserve Fund and Benefit Improvement Fund that accumulated during the period 1996-2005. The last of these accumulated negative balances will be eliminated in the coming fiscal year ending June 30, 2014, so our funded ratio should begin to improve thereafter.

In June our long-time Executive Director, Thomas P. Taneyhill, retired after 42 years of service to the F&P, including 17 years as Executive Director. Tom was a conscientious public servant who cared deeply about our fire and police employees. We all owe Tom our thanks for his many years of hard work and dedicated service to our members. To replace Tom, the F&P Board conducted a national search and was able to find a very experienced replacement, Mr. N. Anthony Calhoun, to fill the position of Executive Director. Tony Calhoun previously served as Executive Deputy State Treasurer of Pennsylvania, Deputy CFO and Treasurer of the District of Columbia, and Deputy Executive Director and

CFO of the U.S. Pension Benefit Guaranty Corporation. The F&P is very fortunate to have Tony's impressive experience, knowledge of pensions, financial expertise, and managerial ability. He has already begun to implement changes that will benefit the System for many years to come.

If you have not already done so, I encourage you to visit the upgraded website for the F&P at www.bcfpers.org, where you will find useful information about the F&P and your retirement.

You may be assured that the F&P Board of Trustees and the F&P staff will continue to do our best to serve you and to preserve the financial sustainability of the System for all active and retired members. On behalf of the F&P staff and the Board of Trustees, we appreciate your service to the City.

Sincerely,

Peter E. Keith

Peter E. Keith, Esq.
Chairman
Board of Trustees

LEGAL AND GENERAL COUNSEL, ACTUARY, AND INDEPENDENT AUDITOR

LEGAL COUNSEL

Law Department
City of Baltimore
George Nilson, Esq.

GENERAL COUNSEL

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

ACTUARY

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

INDEPENDENT AUDITOR

CliftonLarsonAllen
Jason Ostroski, CPA
Timonium, Maryland

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

Financial Section

CliftonLarsonAllen

CliftonLarsonAllen LLP
www.cliftonlarsonallen.com

Independent Auditors' Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of the Fire and Police Employees' Retirement System of the City of Baltimore (the System), which comprise the statement of plan net position as of June 30, 2013, and the related statement of changes in plan net position for the year then ended, and the related notes to the financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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 of America 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the System as of June 30, 2013, and the respective changes in its financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

The financial statements include alternative investments valued at $577 million (26% percent of net position), as explained in Note 2, their fair values have been estimated by management in the absence of readily determinable fair values. Management's estimates are based on information provided by the fund managers or the general partners.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the schedules of funding progress and employer contributions and related notes, as listed in the table of contents, be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion on the Systems' financial statements. The schedules of administrative expenses, investment expenses and payments to consultants, as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the financial statements.

The schedules of administrative expenses, investment expenses and payments to consultants are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedules of administrative expenses, investment expenses and payments to consultants are fairly stated, in all material respects, in relation to the financial statements as a whole.

The introductory, investment, actuarial and statistical sections, as listed in the table of contents, have not been subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 18, 2013 on our consideration of the Systems' 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Systems' internal control over financial reporting and compliance.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Baltimore, Maryland
November 18, 2013

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, 2013. 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 position restricted for pension benefits increased by $115.3 million during the fiscal year from $2,146.0 million at June 30, 2012, to $2,261.3 million at June 30, 2013. The increase was mainly due to the fiscal year 2013 strong relative performance across the entire portfolio.

- Additions to Net Position (Revenues) for the year were $333.7 million, an increase of $122.4 million from the prior year revenues of $211.3 million. The increase in revenues was caused by higher investment earnings that were uniformly up across all asset classes for fiscal year 2013.

- Deductions from Net Position (Expenses) were $218.4 million in the current year, an increase of $9.1 million from the prior year expenses of $209.3 million. The increase in expenses was driven by post-retirement benefit increases, effective January 2013, by increased lump sum DROP payments, and by increased member contribution refunds.

- The "managed" investment portfolio total rate of return of 13.2% (which excludes performance of the dedicated variable benefit assets) for the one year period ended June 30, 2013 was above the System's total fund policy index of 12.8% and was above the median public fund performance of 12.3%.

- The "managed" portfolio performance for the three year period ended June 30, 2013, was 12.8% which was above the System's total fund policy index of 11.8% and was above the median public plan performance of 11.5%.

- The System's real estate portfolio composite performance was a strong return of 11.8% for fiscal year 2013. The real estate composite outperformed the NCREIF Property Index and provided top quartile relative performance.

- The energy master limited partnership (MLP) portfolio composite led the overall portfolio performance by providing a remarkable return of 37.0% for fiscal year 2013. The energy MLP composite outperformed the S&P MLP Index by 748 basis points.

- The U.S. equity composite provided a 22.1% rate of return which ranked above the median 21.2% rate of return for the BNY Mellon All Master Trust – U.S. Equity Segment universe.

- The international equity composite provided a 15.3% rate of return which outperformed the MSCI All Country World Ex-U.S. Index by 167 basis points.

- The System's "managed" fixed income composite portfolio earned 1.1% and performed above the 0.5% 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 10.4% and 10.1%, respectively, for fiscal year 2013.

- 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 a negative 1.7% for fiscal year 2013.

- Including the separately invested dedicated "variable benefit" fixed income portfolio performance of negative 1.7% with the composite "managed" investment portfolio total rate of return of 13.2% provided a total fund composite rate of return of 9.6% for the fiscal year ended June 30, 2013. The combined performance placed the F&P in the 87th percentile of the

BNY Mellon Public Fund – Total Fund universe.

- Employer contributions made to the F&P were $107.8 million in fiscal year 2013, up slightly from the employer contribution made in fiscal year 2012.

- Member contributions to the F&P increased by $2.5 million in fiscal year 2013 due to an increase in the mandatory member contribution rate from 8.0% to 9.0% commencing in July 2012.

- 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 2013 was 7.75%.

- As of June 30, 2013, the date of the F&P's last actuarial valuation, the System's funded ratio was 76.6% on an actuarial value of assets basis and 69.2% on a market value of assets basis, compared to 77.6% and 67.3% at June 30, 2012.

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

Overview of Financial Statements

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

The **Statement of Plan Net Position** provides a snapshot of the financial position of the F&P at June 30, 2013, 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, 2013. 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** summarizes the F&P financial activities that occurred during the plan's fiscal year from July 1, 2012, through June 30, 2013. Employer contributions are recognized when a formal commitment has been made by the employer to provide the contributions. Member contributions are recognized in the period in which the contributions are due. Realized gains and losses on the sale of investments are recorded at trade date. Unrealized investment gains and losses due to changes in market valuation are recorded. Retirement benefits and refunds are recognized when due and payable in accordance with the terms of the plan provisions.

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

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

The **Required Supplementary Information** that follows immediately after the notes to the basic financial statements provides two schedules illustrating ten-year historical trend information. The first schedule, concerning the funded status of the F&P, compares the actuarial value of assets to the actuarial accrued liability. The second schedule provides a history of required contributions made by the employer. See the Required Supplementary Information beginning on page 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, 2013, net assets, as displayed below, exceeded current liabilities by $2.3 billion, an increase of $115.3 million over the prior year. Prior to the passage of Ordinance 10-306 of June 2010, it was mandated that the total assets of two reserves, the Paid-Up Benefit Reserve and the Contingency Reserve, were to be segregated and separately invested from the general plan assets. As required, the assets of these two reserves were dedicated to the payment of certain post-retirement benefit increases. With the passage of Ordinance 10-306, the assets of the two aforementioned reserves are to be included in the general asset pool as there is no longer a requirement to maintain those reserves and invest those assets separately. However, the Board of Trustees approved maintaining the separate investment and management of those assets until resolution of the lawsuit brought by the member unions against the City and the Board of Trustees. Assets of the separately invested dedicated reserves totaled $501.8 million at June 30, 2013. The remainder net assets of $1,759.5 million at June 30, 2013, are available to meet the ongoing regular benefit obligations to the F&P participants and beneficiaries. As of June 30, 2013, total assets increased by 2.7% from the prior year mainly due to an increase in investments at fair value. Total current liabilities were lower at June 30, 2013, from the prior fiscal year, mainly due to a decrease in securities lending collateral payable and investments purchased liabilities.

Plan Net Position
For the Fiscal Years ended June 30, 2013 and 2012

	2013	2012	Increase (Decrease)	Percentage Change
Current assets	$ 58,734,194	$ 80,117,583	$ (21,383,389)	(26.7)%
Capital assets	904,728	1,075,364	(170,636)	(15.9)
Investments at fair value	2,292,414,536	2,208,357,266	84,057,270	3.8
Total Assets	**2,352,053,458**	**2,289,550,213**	**62,503,245**	**2.7**
Current liabilities	90,720,360	143,522,209	(52,801,849)	(36.8)
Total Liabilities	**90,720,360**	**143,522,209**	**(52,801,849)**	**(36.8)**
Net Position	**$ 2,261,333,098**	**$ 2,146,028,004**	**$ 115,305,094**	**5.4%**

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, 2013 were $1,724.1 million of the $2,225.9 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 fiscal year 2011, 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, as well as hedge fund-of-fund and private equity fund-of-fund targets, and restructured the core fixed income portfolio and the large cap growth equity portfolio.

The dedicated "variable benefits" portfolios totaled $501.8 million as of June 30, 2013, 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 2013 rate of return of negative 1.7% 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, 2013, was 13.2%. The fiscal year 2013 above median performance was a dramatic reversal from the weak 56 quartile performance of 0.8% for the prior fiscal year. The median public plan performance was 12.4%. The "managed" portfolio annualized rates of return for the last three-year, five-year, and ten-year periods ended June 30, 2013, were 12.8%, 5.1%, and 7.7% respectively.

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, the Board's investment allocation plan is not immune to market volatility. The F&P's long-term actuarial investment return assumption was 7.75% for fiscal year 2013, as the result of an actuarial experience study concluded subsequent to year end, and as recommended and adopted 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, 2013.

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, 2013, were $90.7 million, $52.8 million less than the $143.5 million in liabilities at June 30, 2012. While payables for the settlement of investment purchases decreased $26.7 million to $6.6 million, and forward foreign contracts payable decreased $16.1 million to $6.7 million at June 30, 2013, the securities lending collateral payable decreased by $11.1 million from $77.6 million at June 30, 2012, to $66.5 million at June 30, 2013, and served as a reason for the overall reduction in current liabilities at June 30, 2013.

Changes in Plan Net Position
For the Fiscal Years Ended June 30, 2013 and 2012

	2013	2012	Increase (Decrease)
Additions			
Net investment income	$ 200,073,582	$ 80,339,513	$ 119,734,069
Employer contributions	107,778,859	107,488,403	290,456
Member contributions	25,381,635	22,866,939	2,514,696
Net securities lending income	463,706	594,933	(131,227)
Total Additions	**333,697,782**	**211,289,788**	**122,407,994**
Deductions			
Retirement allowances	198,640,360	193,082,852	5,557,508
Lump sum DROP payments	13,625,797	10,816,700	2,809,097
Administrative expenses	3,568,855	3,672,958	(104,103)
Refunds of member contributions	2,393,838	1,309,010	1,084,828
Death benefits	163,838	385,167	(221,329)
Total Deductions	**218,392,688**	**209,266,687**	**9,126,001**
Net Increase (Decrease)	**$ 115,305,094**	**$ 2,023,101**	**$ 113,281,993**

Investment Income

The F&P's total "managed" composite portfolio achieved a 13.2% rate of return which ranked the F&P "managed" asset performance in the 31st percentile when compared to other public pension plans in the BNY Mellon Public Fund–Total Fund universe. Strong performance across the entire portfolio was major contributors to the overall rate of return. The entire portfolio except the risk parity portfolio outperformed their respective benchmark.

The System's U.S. equity composite returned 22.1% for fiscal year 2013, which ranked the domestic equity composite in the 46th percentile of the BNY Mellon All Master Trust – U.S. Equity Segment universe. The domestic equity composite outperformed its Russell 3000 comparative index by 68 basis points.

The international equity composite posted a 15.3% rate of return which ranked in the 59th percentile of the BNY Mellon All Master Trust – International Equity Segment universe. The international equity composite outperformed its MSCI All Country World Ex-U.S. comparative index by 167 basis points.

The "managed" fixed income composite earned 1.1% for the fiscal year which ranked in the 37th percentile of the BNY Mellon All Master Trust – U.S. Fixed Income Segment universe. The fixed income portfolio outperformed its Barclays Capital Aggregate index benchmark of 0.2% by 86 basis points.

The real estate composite portfolio continued to earn good rates of return with performance of 11.8% 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 10.7% this fiscal year, by 110 basis points.

The System's alternative asset portfolios, which include hedge fund-of-funds, as well as private equity fund-of-funds, energy master limited partnerships, and a risk parity portfolio, had positive performance. The hedge fund-of-funds composite earned 10.1%, and performed 275 basis points above its comparative HFRI Fund-of-Funds Composite Index that provided a 7.8% for the fiscal year ended June 30, 2013. 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 10.4% return for the fiscal year but lagged the S&P 500 Index performance of 20.6% 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 have slightly underperformed the index over the last five year period.

For the year ended June 30, 2013, the MLPs composite achieved a remarkable 37.0% rate of return which exceeded the S&P MLP Index by 748 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 continue to outperform the domestic equity composite with lower risk.

Risk parity managers invest 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 year ended June 30, 2013, the risk parity portfolio returned 3.2%, and underperformed the comparative index by 850 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 a negative 1.7% for the year. While the "dedicated" composite portfolio is not benchmarked to any specific index, it outperformed the Barclays Capital U.S. Long Government/Credit index, which returned a negative 4.7%. The cash flow of the dedicated portfolios is matched to the benefit payment streams of the post-retirement "variable benefit" increases.

The investment income is reduced by investment expenses which include the fees paid to firms hired by the Board to manage the System's assets, the Board's investment consulting firm, and the System's custodian bank which tracks the investment activity of the F&P's investment managers, values the System's assets, and provides accounting reports to System staff and the Board's investment consultant. Investment expenses increased from $7.0 million in fiscal year 2012 to $7.6 million in fiscal year 2013.

Member and Employer Contributions

Member contributions were made at 9.0% of regular compensation during fiscal year 2013. Member contributions increased by $2.5 million during the current fiscal year due to the increase in the mandatory contribution rate from 8.0% to 9.0% commencing in July 2012. 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 4,624 at June 30, 2012, to 4,439 at June 30, 2013. Should the active member population remain stable, member contributions are expected to continue to increase, based on June 30, 2013 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 2013 was $101.3 million. However, the City contributed an additional $5.7 million for a total contribution paid of $107.8 million. The additional contribution was used to reduce the System's underfunding.

The City's employer contribution requirement increased to $113.0 million for fiscal year 2014 and to $118.2 million for fiscal year 2015, the later mainly due to the increase in the unfunded actuarial liability.

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 2013 was for the payment of continuing retirement benefits totaling $198.6 million, an increase of $5.5 million over the $193.1 million in retirement allowances paid in fiscal year 2012. 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 increased $2.8 million from $10.8 million in fiscal year 2012 to $13.6 million in fiscal year 2013 due to an increase 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 $104,103 from fiscal year 2012 to fiscal year 2013. The decrease in administrative expenses was mainly due to substantially lower legal fees paid in connection with the 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

In 2012, the U.S. District Court ruled that the changes made by Ordinance 10-306 to the F&P's variable annual cost-of-living increases (COLA) were unconstitutional because the new fixed COLA's are tiered, favoring older retirees who receive a higher COLA than younger retirees. Conversely, the court dismissed all other claims of the Plaintiffs, and specifically ruled that that the other provisions of Ordinance 10-306 raise no federal constitutional issues and are severable from the illegally modified variable cost-of-living benefit and its related provisions. Both parties have appealed the ruling and the court stayed the effect of its ruling pending the appeal. Accordingly, the F&P will continue to administer the F&P plan as amended by Ordinance 10-306 pending a final ruling on the Ordinance's legality by the United States Court of Appeals for the Fourth Circuit. The City continues to believe that there is a substantial possibility that the ruling will be reversed in its favor. If the ruling is upheld on appeal, the City estimates that the City's contributions to the pension fund could increase by approximately $75 million in the fiscal year following final adjudication and 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:

N. Anthony Calhoun
Executive Director
Fire and Police Employees' Retirement System
7 East Redwood Street, 19th Floor
Baltimore, Maryland 21202

Fire and Police Employees' Retirement System
City of Baltimore, Maryland
STATEMENT OF PLAN NET POSITION
June 30, 2013

Assets		
Cash and Cash Equivalents		$ 39,010,260
Receivables		
Forward foreign contracts	$ 6,835,178	
Accrued income	6,795,159	
Investments sold	5,761,923	
Receivable - members	331,674	
Total Receivables		19,723,934
Investments, at fair value		
Stocks	851,030,883	
Bonds	797,617,767	
Hedge funds	182,452,556	
Real estate funds	169,751,297	
Private equity funds	136,337,722	
Risk parity fund	88,688,459	
Total Investments		2,225,878,684
Capital Assets, net of depreciation		
Leasehold improvements	641,429	
Office furniture	190,218	
Computer equipment	73,081	
Total Capital Assets, net of depreciation		904,728
Securities Lending Collateral		66,535,852
Total Assets		2,352,053,458
Liabilities		
Securities lending collateral	66,535,852	
Forward foreign contracts	6,686,230	
Investments purchased	6,562,335	
Retirement allowances payable	5,540,717	
Investment management fees payable	1,700,547	
Security lending loss payable	1,568,940	
Lump sums payable to members	1,139,450	
Administrative expenses payable	938,301	
Other accounts payable	47,988	
Total Liabilities		90,720,360
Net Position Restricted for Pension Benefits		$ 2,261,333,098

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, 2013

Additions		
Contributions		
Employers	$ 107,778,859	
Plan members	25,381,635	
Total Contributions		$ 133,160,494
Investment Income		
Net appreciation in fair value of investments	160,306,412	
Interest and dividends	36,866,277	
Private equity income	3,593,217	
Risk parity income	3,441,085	
Real estate income	2,455,925	
Hedge funds income	1,031,877	
Less: Investment expenses	(7,621,211)	
Net Investment Income		200,073,582
Securities lending income	618,238	
Less: Securities lending expenses	(154,532)	
Net Securities lending income		463,706
Total Additions		333,697,782
Deductions		
Retirement allowances	198,640,360	
Lump sum DROP payments	13,625,797	
Administrative expenses	3,568,855	
Refunds of member contributions	2,393,838	
Death benefits	163,838	
Total Deductions		218,392,688
Net Increase		115,305,094
Net Position Restricted for Pension Benefits		
July 1, 2012		2,146,028,004
June 30, 2013		$ 2,261,333,098

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

1. Plan Description:

The Fire and Police Employees' Retirement System of the City of Baltimore (F&P, Plan, System) is the administrator of a single employer defined benefit local government retirement plan. Established July 1, 1962, the Plan covers all uniformed personnel of the Baltimore City Fire and Police Departments. In addition, the Plan includes six 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, 2013, the F&P membership consisted of:

Retirees and beneficiaries currently receiving benefits	6,206
Active plan members	4,439
Total	10,645

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 80. 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.

Use of Estimates in Preparing Financial Statements:
The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires the Board to make estimates and assumptions that affect the reported amounts of assets, liabilities, additions and deductions to net position held in trust for pension benefits and disclosure of contingent assets and liabilities at the date of the financial statements and during the reporting period. Actual results could differ from those estimates.

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. For alternative investments, which include real estate, private equity, hedge and risk parity funds where no readily ascertainable market value exists, management, in consultation with the general partner and investment advisors, has determined the fair values for the individual investments based upon the partnership's most recent available financial information. Foreign exchange contracts are marked-to-market daily based on published market prices and quotations from national securities exchanges or securities pricing services. The changes in market value are recognized as part of net appreciation/depreciation in the fair value of investments. Initial margin requirements for such financial instruments are provided by investment securities pledged as collateral or by cash.

Investment income consists of realized and unrealized appreciation (depreciation) in the fair value of investments, interest and dividend income earned, less investment expense, plus income from securities lending activities, less deduction for security lending expenses. Interest income is recorded on the accrual basis and dividends are recorded on the ex-dividend date. Securities and securities transactions are reflected in the financial statements on a trade-date basis.

3. Contributions and Reserves:

F&P members were required to contribute 9.0% of their regular compensation through payroll deduction for fiscal year 2013. 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, 2013, the balances in the legally required reserves are as follows:

Reserves	Balance
Annuity savings reserve	$ 270,077,058
Annuity reserve	320,958,451
Pension accumulation reserve	(216,077,213)
Pension reserve	1,886,374,802
Total Reserves	$ 2,261,333,098

At June 30, 2013, the actuarially determined accrued liability exceeded the actuarial value of assets by $765,166,747.

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, 2013, 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, 2013, was $135,604,427 and the market value of the collateral received for those securities on loan was $138,752,907. 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 $1.6 million following a $726,779 recovery from the litigation, which as of June 30, 2013, is still pending.

The following represents the balances relating to the securities lending transactions as of June 30, 2013:

Types of Securities On Loan	Market Value of Securites On Loan	Market Value of Collateral Received	Type of Collateral
U.S. treasury notes and bonds	53,686,261	54,843,704	Securities
U.S. treasury notes and bonds	35,855,459	36,561,423	Cash
U.S. Government agency bonds	15,791,668	16,092,147	Securities
Domestic equities	15,386,999	15,783,912	Cash
Corporate Bonds	7,250,340	7,476,965	Cash
International equities	6,409,710	6,713,552	Cash
Domestic equities	1,219,614	1,274,245	Securities
International equities	4,376	6,960	Securities
Total Securities on Loan	135,604,427	138,752,908	

5. Cash and Investments:

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

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

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

The F&P invested assets at June 30, 2013 are presented below:

Investment Type	Fair Value
Debt Securities:	
Corporate bonds	$ 391,124,962
U.S. treasury notes and bonds	175,794,981
U.S. Government agency bonds	134,308,382
Emerging markets debt fund	83,451,472
Money mutual funds	39,010,260
Barclay aggregate index fund	12,937,970
Total debt securities	836,628,027
Other:	
Domestic equities	381,689,808
International equities	337,834,946
Hedge funds	182,452,556
Real estate funds	169,751,297
Private equity funds	136,337,722
Energy master limited partnerships	131,506,129
Risk parity fund	88,688,459
Total other	1,428,260,917
Total investments	2,264,888,944
Less cash and cash equivalents	39,010,260
Total net investments	$ 2,225,878,684

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, 2013, the F&P has no single issuer that exceeds 5% of total investments. Investments issued or explicitly guaranteed by the U.S. government and investments in mutual funds, external investment pools, and other pooled investments are excluded.

Foreign Currency Risk Exposure

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

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

Currency	Market Value
Euro Currency Unit	$ 61,812,867
British Pound Sterling	54,994,535
Japanese Yen	35,104,259
Swiss Franc	19,801,885
Hong Kong Dollar	13,997,793
Singapore Dollar	4,403,473
South Korean Won	4,031,832
New Taiwan Dollar	3,674,421
Canadian Dollar	3,206,631
Norwegian Krone	3,028,203
Swedish Krona	2,545,093
Australian Dollar	2,267,978
Brazil Real	1,171,968
Indonesian Rupian	1,075,848
South African Comm Rand	911,236
Thailand Baht	711,576
Danish Krone	635,233
New Turkish Lira	542,729
Chilean Peso	535,767
Polish Zloty	264,247
Nigerian Naira	244,621
Mexican New Peso	201,088
New Zealand Dollar	131,775
Philippines Peso	77,805
Russian Rubel	100
Total Foreign Currency	$ 215,372,963
U.S. Dollars (held in International Equity)	$ 122,461,983

Interest Rate Risk

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

Asset Type	Option Adjusted Duration (in years)	Fair Value
Corporate bonds	5.66	$391,124,962
U.S. treasury notes and bonds	12.20	175,794,981
U.S. Government agency bonds	4.94	134,308,382
Emerging markets debt fund	4.75	83,451,472
Money mutual funds	0.08	39,010,260
Barclay aggregate index	5.48	12,937,970
Total debt securities		$836,628,027

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, 2013 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:

Asset Type	Quality Ratings	Fair Value
Corporate bonds	AAA	$ 68,473,285
	AA	49,718,619
	A	130,148,781
	BBB	91,668,303
	BB	16,267,723
	B	27,371,017
	CCC	6,924,892
	CC	130,000
	D	148,690
	Not Rated	273,652
Total corporate bonds		391,124,962
U.S. treasury notes and bonds	AA	175,794,981
U.S. Government agency bonds	AA	134,308,382
Emerging markets debt fund	BBB	83,451,472
Money mutual funds	Not Rated	39,010,260
Barclay aggregate index	AA	12,937,970
Total debt securities		$ 836,628,027

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 $754,718; for office furniture is $206,394; for leasehold improvements is $712,686.

Asset	June 2012 Balance	Additions	Depreciation	June 2013 Balance
Computer equipment	$ 127,002		$ 53,921	$ 73,081
Office furniture / equipment	216,659		26,441	190,218
Leasehold improvements	731,703		90,274	641,429
Totals	$1,075,364		$170,636	$ 904,728

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 42. The following is a schedule of funding progress as of the actuarial valuation date of June 30, 2013.

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)
$2,502,405,754	$3,267,572,501	$765,166,747	76.6%	$277,524,356	275.7%

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, 2013 follows:

Actuarial cost method:	Projected unit credit
Amortization method:	Level dollar, open
Amortization period:	20 year period; only one amortization base.
Asset valuation method:	Market value adjusted for investment surpluses and deficits over a five-year period.
Actuarial assumptions:	
Investment rate of return	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.

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, 2013.

Currency	Forward Foreign Contracts Cost Receivable	Forward Foreign Contracts Cost Payable	Forward Foreign Contracts Market Value Receivable	Forward Foreign Contracts Market Value Payable
British Pound Sterling	1,759,368	1,759,368	1,759,368	1,705,351
British Pound Sterling	492,857	492,857	489,946	492,857
Euro Currency Unit	3,595,088	3,595,088	3,595,088	3,498,785
Euro Currency Unit	596,136	596,136	595,440	596,136
Japenese Yen	242,412	242,412	242,412	239,911
Norwegian Krone	6,209	6,209	6,205	6,209
Singapore Dollar	31,212	31,212	31,212	31,353
Singapore Dollar	19,051	19,051	19,037	19,051
South African Rand	16,609	16,609	16,609	16,827
South Korean Won	79,750	79,750	79,861	79,750
Totals	6,838,692	6,838,692	6,835,178	6,686,230

9. Commitments:

The F&P has at June 30, 2013 committed to fund certain alternative investment partnerships in the amount of $347,583,163. Funding of $253,457,409 has been provided leaving an unfunded commitment of $94,125,754.

10. 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. In 2010, the fire and police unions 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 violated the "Takings Clause" of the U.S. Constitution when it enacted the changes. 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 tiered, post-retirement fixed COLAs granting older retirees higher COLAs than younger retirees rendered the change unconstitutional.

In their lawsuit, the plaintiffs also sued the F&P Board of Trustees, claiming that the F&P Board did not properly exercise its fiduciary duties. Included in this claim were allegations that F&P Board acted improperly by: 1) ignoring actuary's recommendation to lower the interest rate on retiree assets, 2) miscalculating variable increases for 2005, 2006, and 2007 fiscal years, 3) concealing F&P funding status from members, and 4) improperly amortizing losses attributable to BIF and ERF. Ultimately, the court found that these claims were a matter for state court review and dismissed the claims against the F&P Board without prejudice, allowing the plaintiffs to sue the F&P Board in state court if they so desire. In connection with the claims against the F&P Board, the parties entered into a standstill agreement, tolling the statute of limitations on state-based claims pending final resolution of federal claims.

In a November 30, 2012 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.

The City and the unions both appealed the decision. 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 F&P will therefore continue to administer the F&P plan as amended by Ordinance 10-306 pending a final ruling by the Court of Appeals. If the appeals court finds 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 million or more in future years.

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Required Supplementary Information and Supporting Schedules

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

1. 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.

2. 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.

3. Ordinance 10-306, signed by the Mayor on June 22, 2010, provided amendments and clarifications to the plan that affect current and future members and retirees. The Ordinance, which was clarified by Ordinance 10-357 and signed by the Mayor on August 10, 2010: (1) modified the plan's variable post-retirement increase benefit provisions by changing to a guaranteed, fixed increase: 1% for eligible retirees and beneficiaries aged 55 to 64 who have been receiving periodic benefit payments for 2 or more years as of June 30, 2011, beginning in January 2012; and 2% for eligible retirees and beneficiaries aged 65 and older and for 100% line-of-duty disability retirees and their beneficiaries who have been receiving periodic benefit payments for 2 or more years as of June 30, 2010, beginning in January 2011; and no increases for retirees less than 55 years of age; (2) changed the age and service requirements for a normal service retirement benefit for all non-grandfathered members (members who, as of June 30, 2010, did not meet the eligibility requirements for a service retirement benefit or had fewer than 15 years of service) to the earlier of 25 years of service or age 55, with at least 15 years of service as an F&P member; (3) established a new early service retirement benefit for non-grandfathered members by allowing members who are not eligible for the new normal service retirement to retire at or after their former retirement eligibility date and receive a reduced early retirement benefit; (4) changed the definition of "average final compensation" for non-grandfathered members to mean a member's salary over 36 consecutive months during which pay was highest; (5) increased DROP 2 eligibility to 25 years of service as a contributing F&P member for non-grandfathered members with less than 15 years of service as of June 30, 2010; (6) increased the percentage of compensation contributable by all members to 7% effective July 1, 2010; 8% effective July 1, 2011; 9% effective July 1, 2012; and 10% effective July 1, 2013; (7) reduced interest paid by the plan on withdrawal of accumulated contributions and lump-sum death benefits from 5.5% to 3.0% for all members; (8) reduced interest paid by the plan on DROP 2 accounts from 5.5% to 3.0% for members with less than 15 years of service; (9) established a new minimum annual benefit of $16,000 payable to spousal beneficiaries of sworn members who, before August 1, 1996, retired or died in service with 20 or more years of service; (10) allowed pre-employment military service to be used to satisfy eligibility for a normal service, DROP, or DROP 2 retirement for all members; (11) lowered the plan's long-term investment earnings assumption from 8.25% to 8.0%; and (12) expanded the plan's Board of Trustees to add the City's Director of Finance and a third Mayoral appointee and established new professional qualifications for the Mayoral appointees.

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

4. 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.

5. 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
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)
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
2013	2,502,405,754	3,267,572,501	765,166,747	76.6	277,524,356	275.7

See notes to required supplementary information.

SCHEDULE OF EMPLOYER CONTRIBUTIONS

This schedule presents the required contributions due from the City of Baltimore and the State of Maryland. In addition, the schedule presents the amount of excess earnings elected by the City to reduce the contributions payable to the F&P, as allowed by the Plan Provisions, and the amount of additional contributions made by the City to the Plan.

Fiscal Year Ended June 30	City Contribution Per Actuarial Valuation	Contributions Required From State of Maryland	Additional City Contributions	Total Contributions Required	Total Contributions Made	Percentage Contributed
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
2013	101,291,889	786,970	5,700,000	102,078,859	107,778,859	106

See notes to required supplementary information.

Fire and Police Employees' Retirement System
City of Baltimore, Maryland
SCHEDULE OF ADMINISTRATIVE EXPENSES
For the Year Ended June 30, 2013

Salaries and Wages:		
Permanent full-time salaries	$1,468,939	
Overtime	966	
Total Salaries and Wages		$1,469,905
Other Personnel Costs:		
Medical insurance and health care	190,000	
Retirement	168,605	
Social security	87,497	
Other employee benefits	11,136	
Total Other Personnel Costs		457,238
Contractual Services:		
Technology systems support	498,383	
Retirement payroll processing	274,181	
Lease payments	257,281	
Legal Fees	84,528	
Actuarial services	69,122	
Printing	48,973	
Postage	42,375	
Financial audit fees	36,400	
Equipment rental	34,300	
Trustee education	32,637	
Equipment maintenance	11,754	
Board meeting expense	10,147	
Dues and publications	9,487	
Telephone systems	8,470	
Staff training	6,763	
Other professional services	3,533	
Total Contractual Services		1,428,334
Depreciation expense		170,636
Computer equipment		25,518
Office supplies		14,727
Office furniture		2,497
Total Administrative Expenses		$3,568,855

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, 2013

Schedule of Investment Expenses

Investment Expenses	**Fees**
Investment management fees	$7,141,388
Investment consultant fees	307,500
Securities lending fees	154,532
Custodial fees	172,323
Total Investment Expenses	**$7,775,743**

Schedule of Payments to Consultants

Firm	**Fees**	**Nature of Service**
TeleCommunication Systems	$210,687	Technology systems support
Magothy Technology	147,334	Technology systems support
Digicon Corporation	117,272	Technology systems support
Venable, LLP	84,528	Legal fees
Cheiron	69,122	Actuarial services
Baltimore City Department of Audits	36,400	Financial audit
Total Paid to Consultants	**$665,343**	

Notes:

(1) Several of the alternative investment managers provide account valuations on a net of fee basis. Manager fees are netted against investment income and because they are not readily separable for specific investment income, amounts are recorded and reported net of fees.

(2) A schedule of fees and commissions is also illustrated in the Investment Section on page 59.

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Investment Section

Summit Strategies Group

October 1, 2013

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 2013 is shown on the next page.

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:

Asset Class	**Allocation Target**
US Equity	19.5%
International Equity	19.5%
Private Equity	5%
Fixed Income	19%
Real Estate	10%
Hedge Funds	10%
Energy/Natural Resources	12%
Risk Parity	5%
Total Portfolio	***100%***

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

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 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 255 public pension plans with an aggregate market value of $1.1 trillion as of June 30, 2013. Finally, each investment manager is measured and evaluated against its relevant broad market index and style peer universe.

Market Overview
The major economic themes for the fiscal year July 1, 2012 - June 30, 2013, were ones of: central bank stimulus, market reaction to political tension in Washington D.C., fears of rising rates, and high sensitivity to unresolved macroeconomic headwinds. Returns for all risk assets rose strongly during the third quarter 2012, rebounding from June lows with gains in every month during 3Q. The Fed's continued participation in Quantitative Easing (QE) as well as the recovering housing market contributed to the summer rally. In the fourth quarter, equity markets were subdued due to the concern over the outcome of the US Presidential election and Fiscal Cliff negotiations dragging on the market. Equities were down nearly 6% (S&P 500) mid-quarter before rebounding through year-end to finish positively for the quarter. The US economy, especially housing, displayed unexpected signs of real improvement, but through year-end all focus was on Fiscal Cliff discussions. The first quarter of 2013 saw equity markets reach all-time highs but most fixed income sectors struggled to generate positive returns, hurt by limited spread compression and an overall rise in Treasury yields. Volatility-inducing events such as the implementation of US Sequestration, continued weakness in the European economy and North Korea saber-rattling stressed the markets. The second quarter of 2013 can be summed up in a single word: "Tapering." Speculation over an early conclusion to the Fed's QE program grew through April before becoming a real fear in late May after Fed Chairman Bernanke's testimony at the end of May. Volatility spiked in June as "imminent" reality of rising rates led to higher real interest rates across the Treasury yield curve. Also stoking the volatility was continued concern over the prospect for slower global growth due to a slowing China. Risk assets re-priced across with board, with non-dollar markets and international equities falling sharply.

Despite the Spring 2013 sell-off, most equities delivered high absolute returns for the fiscal year due to the strong first three quarters of the period. For the fiscal year, domestic large cap equities, as measured by the S&P 500 Index, rose +20.6% and the Russell 2000, a proxy for small cap stocks, rose +24.2%. International stocks did not perform as well as domestic stocks; the MSCI EAFE Index rose by 18.6% for the fiscal year and the MSCI Emerging Markets Index returned +2.9%. Emerging Markets slowed, underperforming domestic markets, due to investors' liquidity concerns over a possible reduction in US Federal Reserve Quantitative Easing, slower global growth expectations, and China's economic shift toward a consumption economy. Despite a modest recovery for the past year, global economic stress and uncertainty about the continuation of accommodative monetary stimulus drove investors away from bonds. Interest rates rose by ~70 bps over the fiscal year, represented by the 10 Year Treasury. Rising real yields and falling inflation expectations drove US TIPS to severely underperform nominal Treasuries. Domestic bond indices were a mixed bag, with the Barclays US Aggregate and Barclays U.S. Corporate High Yield bond indices returning -0.7% and 9.5%, respectively, while long duration bond benchmarks like the Barclays Long Government/Credit Bond Index struggled with a return of -4.7%.

The United States economy continued to recover, albeit slowly, headlined by rising consumer confidence and a strengthening housing market. The unemployment rate remained at 7.6% at fiscal year-end as more workers left the labor force. Global economic stress and uncertainty regarding the Federal Reserve's stimulus triggered interest rates and declining equity markets in the 2H2013, negatively impacting investors. All eyes remain on the economic woes in Europe, the pace of growth in the US and China and the actions of global central banks.

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 the 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, 2013 on all assets was 9.6% which ranked in the 87th 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 13.2% and ranked in the 31st percentile of the Mellon Trust Public Fund Universe. In addition, the System's diversified portfolio outperformed its policy benchmark by 0.48%. 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 12.8% and 5.1% for the last 3 and 5 years, ranking in the 12th and 66th percentiles for those periods respectively. Over the longer time period of the trailing 7 and 10 years, however, the System returned 5.3% and 7.7%, respectively and ranked in the 57th and 25th percentiles of the universe, respectively. The Fund outperformed its policy benchmark return of 12.8% for the current fiscal year, due in part to:

- Strong relative performance across the entire portfolio as every asset class composite, except Risk Parity, outperformed its benchmark;
- Strong absolute and relative performance of the domestic equity portfolio combined with an above target weight to domestic equities and below target weight to fixed income;
- Strong absolute and relative performance for energy master limited partnerships and international equities.

The market value of all assets was $2.269 billion on June 30, 2013. The market value of the "actively managed' accounts increased from $1.61 billion on June 30, 2012, to $1.77 billion on June 30, 2013. The increase in value is primarily attributable market appreciation over the last twelve months, as shown below:

	Market Value ($ in millions)	Percent of Total	Fiscal Year Rate of Return: System	Fiscal Year Rate of Return: Benchmark
US Equity	$388.4	22.0%	22.1%	21.5%
International Equity	$346.5	19.6%	15.3%	13.6%
Fixed Income	$319.2	18.1%	1.1%	0.2%
Hedge Funds	$182.5	10.3%	10.1%	7.4%
Real Estate	$172.7	9.8%	11.8%	10.7%
Private Equity	$136.4	7.7%	10.4%	N/A
Energy MLPs	$125.6	7.1%	37.0%	29.5%
Risk Parity	$88.7	5.0%	3.2%	11.7%
Total Managed Assets	$1,766.9*	100.0%	13.2%	12.8%

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

Of Note

Developments during the fiscal year included: funding of Western Emerging Market Debt 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

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

Investment Objectives

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

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

General Investment Policy

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

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

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

	Percentage of Total Fund at Market Value
Asset Category	Target
Domestic Equity	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%

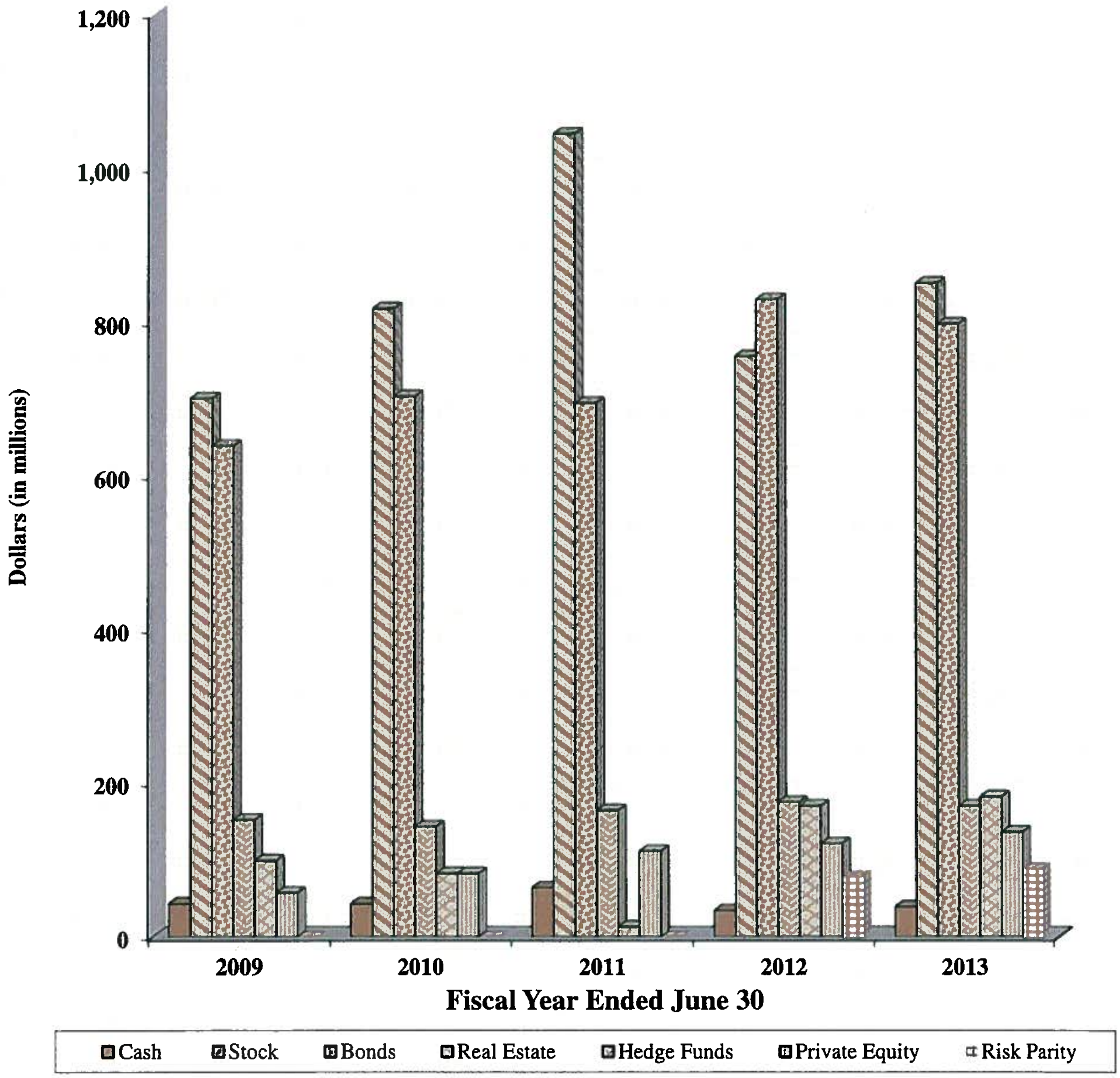
Within each major asset classification, investments are further diversified. Excessive concentration in any particular security, company or industry is to be avoided. Investment guidelines have been supplied to each of the System's investment managers. Subject to these objectives and guidelines, and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

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



	2009		2010		2011		2012		2013	
Cash	$ 43	3%	$ 43	2%	$ 64	3%	$ 34	2%	$ 39	2%
Stock	701	41	818	44	1,045	50	756	35	851	38
Bonds	639	38	704	38	695	33	830	38	798	35
Real Estate	152	9	143	8	164	8	175	8	170	7
Hedge Funds	99	6	82	4	13	1	170	8	182	8
Private Equity	57	3	82	4	111	5	121	5	136	6
Risk Parity							79	4	89	4
Total	$ 1,691	100%	$ 1,872	100%	$ 2,092	100%	$ 2,165	100%	$ 2,265	100%

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

		Annualized		
Total Returns	**FY 2013**	**3 Years**	**5 Years**	**10 Years**
TOTAL PORTFOLIO	13.2%	12.8%	5.1%	7.7%
Composite Benchmark	12.8	12.0	5.4	7.5
DOMESTIC EQUITIES	22.1	19.6	8.6	8.3
S&P 500 Index	20.6	18.5	7.0	7.3
Russell 1000	21.2	18.6	7.1	7.7
Russell 2000	24.2	18.7	8.8	9.5
Russell 3000	21.5	18.6	7.3	7.8
INTERNATIONAL EQUITIES	15.3	11.9	4.4	12.1
MSCI ACWI Free Ex-US	13.6	8.0	(0.8)	8.6
DOMESTIC FIXED INCOME	1.1	5.5	8.2	5.6
Barclays Capital US Government/Credit	0.3	3.1	4.6	4.0
Barclays Capital Aggregate	(0.7)	3.5	5.2	4.5
PRIVATE EQUITY	10.4	11.1	5.7	N/A
S&P 500 Index Plus 400 bps	20.6	18.5	7.0	N/A
HEDGE FUND	10.1	4.2	(0.2)	N/A
HFRI FOF Composite Index	7.4	3.0	(0.6)	N/A
REAL ESTATE	11.8	13.5	(3.2)	5.0
NCREIF Property Index	10.7	13.1	2.8	8.6
ENERGY MLP	37.0	N/A	N/A	N/A
S&P MLP Index	29.5	N/A	N/A	N/A
RISK PARITY	3.2	N/A	N/A	N/A
Risk Parity Index: 60% S&P 500/40% BC Agg	11.7	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.

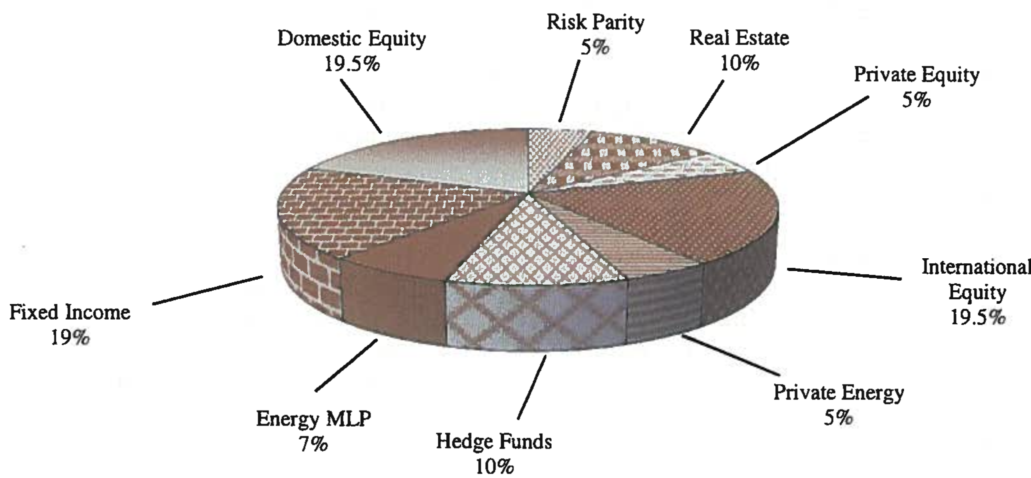
The total investment portfolio result which includes the performance of the fixed income Variable Benefit Reserves for the fiscal year is 9.5%. The fixed income portfolio, including the reserves, result for the fiscal year is -0.05%.

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

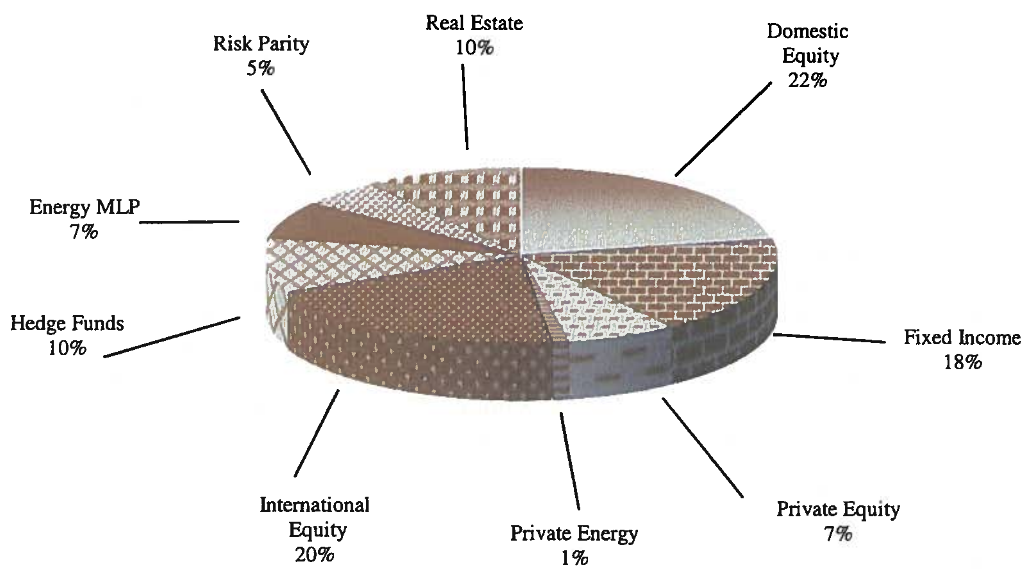
The Composite Benchmark exhibits the overall rate of return for a sample unmanaged portfolio. At fiscal year end 2013, the Composite Benchmark is comprised of 19.5% Russell 3000 Index, 19.5% MSCI All Country World Ex-US Index, 5% S&P 500 +4%, 5% CPI + 4%, 7% S&P MLP Index, 19% Barclays US Universal Index, 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).

Fire and Police Employees' Retirement System
City of Baltimore, Maryland
ASSET ALLOCATION - ACTIVELY MANAGED ACCOUNTS
For the Period Ended June 30, 2013

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 2013, 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, 2013

Top Ten Domestic Stock Holdings

	Shares	Stock	Market Value
1)	18,258	Apple	$7,239,845
2)	6,168	Google Inc.	5,430,122
3)	233,600	General Electric Co	5,417,184
4)	200,200	Intel Corp	4,850,846
5)	52,921	Exxon Mobil Corp	4,781,412
6)	63,400	Wal-Mart Stores Inc	4,722,666
7)	131,369	AT&T Inc	4,650,463
8)	158,323	Pfizer Inc	4,434,627
9)	69,560	Express Scripts Holding Co	4,294,634
10)	62,900	Unitedhealth Group Inc	4,118,692

Top Ten International Stock Holdings

	Shares	Stock	Market Value
1)	90,500	Toyota Motor Corp NPV	$5,457,241
2)	297,360	Reed Elsevier NV EUR0.07	4,947,499
3)	19,162	Roche Hldg AG GENUSSCHEINE NPV	4,759,362
4)	71,061	AKZO Nobel NV EUR2	4,000,948
5)	55,961	NovartisAG CHF0.50 (REGD)	3,968,697
6)	38,256	Sanofi	3,959,269
7)	74,800	KDDI Corp Y5000	3,885,519
8)	107,000	JGC CORP Y50	3,845,472
9)	67,519	BNP Paribas EUR2	3,683,918
10)	35,823	Siemens AG NPV REGD	3,615,735

Top Ten Bond Holdings

	Par	Bonds	Market Value
1)	72,870,000	U S Treasury NT Prin Strip 05/15/2030	$41,347,167
2)	21,309,000	Government TR CTFS 10/01/2020	17,251,766
3)	18,700,000	Israel St AID Zero Cpn 08/15/2021	15,049,386
4)	33,300,000	U S Treasury NT Prin Strip 08/15/2039	13,001,319
5)	19,000,000	U S Treasury NT Prin Strip 08/15/2026	12,697,700
6)	12,595,000	U S Treasury NT Prin Strip 08/15/2020	10,900,595
7)	9,945,000	Israel St AID Zero Cpn 11/15/2013	9,929,287
8)	9,300,000	FHLMC Multiclass MTG K014 A2 04/25/2021	9,835,494
9)	10,410,000	U S Treasury NT Prin Strip 05/15/2021	8,742,422
10)	10,419,000	Government TR CTFS 04/01/2020	8,622,243

A complete list of portfolio holdings is available upon request.

Fire and Police Employees' Retirement System
City of Baltimore, Maryland
INVESTMENT SUMMARY
June 30, 2013

	Fair Value	Percent of Total Investments
Stock:		
U.S. Common Stock		
Financial	$ 92,632,320	4.16%
Energy	51,930,802	2.33
Technology	48,620,596	2.19
Health care	47,728,301	2.15
Consumer services	36,276,050	1.63
Consumer nondurables	30,007,012	1.35
Consumer durables	28,029,048	1.26
Basic industries	17,383,525	0.78
Transportation	7,006,126	0.31
Capital goods	5,533,806	0.25
Total U.S. Common Stock	365,147,586	16.41
Other		
International Stock	337,834,946	15.18
Large cap index fund	16,542,222	0.74
Total Other	354,377,168	15.92
Total Stock	**719,524,754**	**32.33**
Bonds:		
U.S. Securities and Agencies		
Treasury notes and bonds	175,794,981	7.90
U.S. Agencies	134,308,382	6.03
Total U.S. Securities and Agencies	310,103,363	13.93
Corporate		
Financial	295,464,305	13.27
Transportation	50,682,891	2.28
Utilities	30,302,531	1.36
Industrial	14,675,235	0.66
Total Corporate	391,124,962	17.57
Emerging markets debt fund	83,451,472	3.75
Barclay Aggregate Index	12,937,970	0.58
Total Bonds	**797,617,767**	**35.83**
Other Investments:		
Hedge funds	182,452,556	8.20
Real estate funds	169,751,297	7.63
Private equity funds	136,337,722	6.12
Energy master limited partnerships	131,506,129	5.91
Risk parity fund	88,688,459	3.98
Total Other Investments	**708,736,163**	**31.84**
Total Investments	**$2,225,878,684**	**100.00%**

Fire and Police Employees' Retirement System
City of Baltimore, Maryland
SUMMARY SCHEDULE OF FEES AND COMMISSIONS
For the Year Ended June 30, 2013

	Assets Under Management	Fees
Investment Managers' Fees		
International equity	$346,462,582	$2,103,817
Domestic equity	522,467,387	2,480,794
Fixed income	809,826,747	1,217,085
Real estate	172,645,674	990,785
Private equity	136,370,798	348,907
Securities lending		154,532
Total Investment Managers' Fees		**$7,295,920**
Other Investment Service Fees:		
Investment consultant fees		$307,500
Custodian bank fees		172,323
Total Other Investment Service Fees		**$479,823**

Brokerage Fees
Broker's fees on investment transactions for the year ended June 30, 2013 amounted to $546,717. Brokerage firms receiving more than $3,100 in fees are listed below.

Brokerage Firms	Fees Paid	Brokerage Firms	Fees Paid
Percival Financial, LTD	$47,560	RBC Capital Markets Corp	$6,010
UBS	47,424	SG Americas Securities LLC	6,003
Credit Suisse First Boston	38,804	Credit Lyonnais Securities	5,659
BNY Convergex	36,862	Banco Santander	5,480
Merrill Lynch	33,892	Wells Fargo Securities LLC	5,304
Morgan Stanley & Co.	31,418	Weeden & Company	5,079
Morgan J P Securities Inc.	25,208	CSI Institutional	5,053
Goldman Sachs	22,459	Merlin Securities LLC	4,050
Instinet Corp	22,230	Redburn Partners LLP	4,041
Deutsche Banc Alex Brown Inc.	21,038	Credit Agricole Cheuvreux	3,593
Barclays Capital LE	20,504	Liquidnet Asia LTD	3,481
Citigroup GBL Markets	20,418	Keefe Bruyette & Wood LTD	3,394
Jefferies & Company	12,819	Legent Clearing Corp	3,342
Macquarie Capital	7,845	Stifel Nicolaus	3,109

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

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

DOMESTIC EQUITY MANAGERS

Large Cap

INTECH
Jennifer Young
Palm Beach Gardens, Florida

Mellon Capital Management
Karen Wong
San Francisco, CA

The Edgar Lomax Company
Randall Eley
Springfield, Virginia

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

Titan Advisors
Tom Holliday
Rye Brook, NY

Prisma Capital Partners
Eric Wolfe
New York, 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
Derek Fan
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
Brian Hock
Pittsburgh, PA

Pugh Capital Management
Mary Pugh
Seattle, WA

REAL ESTATE MANAGERS

Principal Global Investors
John Berg
De Moines, Iowa

LaSalle Investment Management, Inc.
James Hutchinson
Chicago, Illinois

Clarion
Stephen Hansen
New York, New York

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

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
Wen Tan
Hong Kong

Maryland Venture Capital Trust
Baltimore, Maryland

Siguler Guff
Thomas McGowan
New York, NY

Greenspring Global Partners
Jay Jarrett
Owings Mills, MD

PRIVATE ENERGY

Aether Investment Partners
David Rhoades
Denver, CO

Park Street Capital
Sarah Dailey
Boston, MA

RISK PARITY

AQR Capital Management
Michael Mendelson
Greenwich, CT

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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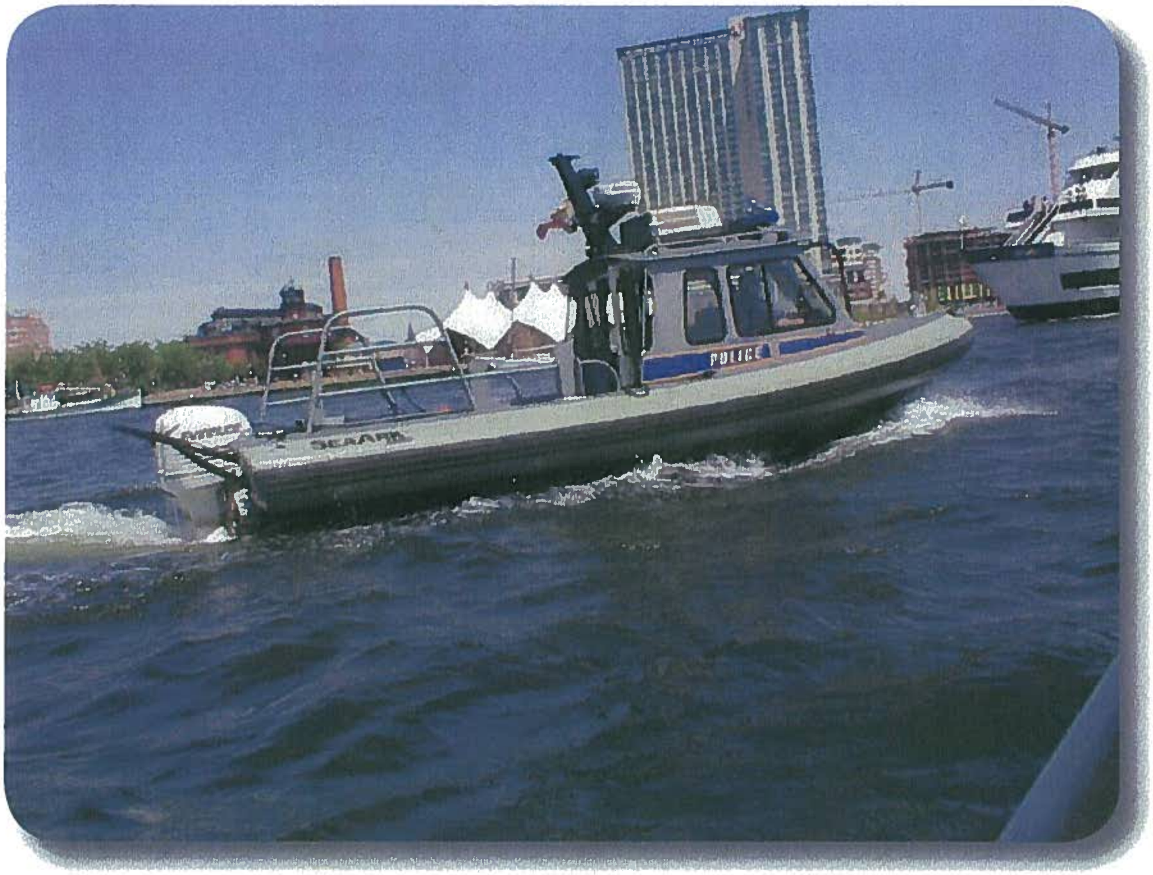
Actuarial Section



November 1, 2013

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

Re: 2013 CAFR

Honorable Members of the Board of Trustees:

Cheiron has performed an actuarial valuation of the System as of June 30, 2013. This valuation is used to determine the City's contribution to be made in Fiscal Year 2015. The contribution made during Fiscal Year 2013 was developed in the 2011 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 the Unfunded Actuarial Liability, the difference between the actuarial value of assets and the actuarial accrued liability, as a level dollar amount over 20 years.

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 Financial Report reflect the assumptions from the June 30, 2013 actuarial valuation.

The actuarial value for this disclosure is equal to the market value, adjusted for a five-year phase-in of experience gains and losses. There is also a ten-year recognition of the remaining balances of the BIF, ERF and MSF. The last of these balances will be recognized in the June 30, 2014 valuation based on this ten-year recognition. Membership data used for the actuarial valuation are supplied by the System. The data is examined by the actuary for reasonableness and consistency with the prior year's data. Asset information is provided on an unaudited basis.

All supporting schedules in the Actuarial Section and the Schedule of Funding Progress 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 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

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.

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%

To reflect pay increases approved in recent bargaining, firefighter salaries were increased by an additional 2% for the year beginning July 1, 2013. Additionally, the static inflation component of the salary increase assumption of 3.75% was replaced by 7.00% for the year beginning July 1, 2014 for firefighters only.

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.

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[1] Male	Non-Line-of-Duty Death[1] Female	Line-of-Duty Death[2]
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

1 RP-2000 Combined Mortality Table projected to 2010 with scale AA.
2 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 Male	Retirees and Beneficiaries Female	Disabled Members Male	Disabled Members 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.

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

Withdrawal Rates:

Years of Service	Withdrawal[1]
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%

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

Service Retirement:

The valuation uses retirement rates that vary according to member plan (police or firefighter) and whether a member is eligible for DROP, grandfathered DROP2, or non-grandfathered DROP2.

Members with 20 or more years of service on or before December 31, 2009 are eligible for DROP.

Members who had less than 20 years of service on December 31, 2009, but had either 15 or more years of service on June 30, 2010 or were age 50 or older as of June 30, 2010 can elect to participate in grandfathered DROP2 when they have 20 or more years of service.

Members who were not age 50 or older as of June 30, 2010 and also had less than 15 years of service on June 30, 2010 can participate in non-grandfathered DROP2 when they have 25 or more years of service.

Non-grandfathered members, who are not eligible for DROP or grandfathered DROP2, can take early retirement, with a reduced benefit. Prior to reaching normal retirement eligibility, these non-grandfathered members are assumed to take early retirement according to the following tables:

Firefighter Non-Grandfathered DROP2 Early Retirement Rates

Non-grandfathered Early Retirement Rates for Firefighters														
Age	Service <10	10	11	12	13	14	15	16	17	18	19	20	21-24	25+
<45												3.00%	2.00%	
45												3.00%	3.00%	
46					Members Not Yet Eligible for Early Retirement							3.00%	3.00%	
47												3.00%	3.00%	
48												3.00%	3.00%	
49												4.00%	4.00%	
50	3.00%	6.00%	6.00%	6.00%	6.00%	6.00%	6.00%	6.00%	6.00%	6.00%	6.00%	6.00%	6.00%	
51	3.00%	6.00%	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%	
52	3.00%	6.00%	8.00%	10.00%	10.00%	10.00%	10.00%	10.00%	10.00%	10.00%	10.00%	10.00%	10.00%	
53	3.00%	6.00%	8.00%	10.00%	12.00%	12.00%	12.00%	12.00%	12.00%	12.00%	12.00%	12.00%	12.00%	
54	3.00%	6.00%	8.00%	10.00%	12.00%	14.00%	14.00%	14.00%	14.00%	14.00%	14.00%	14.00%	14.00%	
55	4.50%	7.00%	9.50%	12.00%	14.50%	17.00%								
56	5.00%	8.00%	11.00%	14.00%	17.00%	20.00%								
57	5.00%	8.00%	11.00%	15.00%	19.00%	23.00%								
58	5.00%	8.00%	14.00%	18.00%	22.00%	26.00%								
59	5.00%	8.00%	15.00%	20.00%	25.00%	30.00%								
60	5.00%	15.00%	20.00%	25.00%	30.00%	35.00%				Members Eligible for Unreduced Benefits				
61	10.00%	20.00%	25.00%	30.00%	35.00%	40.00%								
62	15.00%	20.00%	25.00%	30.00%	35.00%	40.00%								
63	15.00%	20.00%	25.00%	30.00%	35.00%	40.00%								
64	15.00%	20.00%	25.00%	30.00%	35.00%	40.00%								
65	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%								

Police Non-Grandfathered DROP2 Early Retirement Rates

Non-grandfathered Early Retirement Rates for Police														
Age	Service <10	10	11	12	13	14	15	16	17	18	19	20	21-24	25+
<45												5.00%	4.00%	
45												5.00%	5.00%	
46					Members Not Yet Eligible for Early Retirement							5.00%	5.00%	
47												5.00%	5.00%	
48												5.00%	5.00%	
49												6.00%	6.00%	
50	5.00%	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%	
51	5.00%	8.00%	10.00%	10.00%	10.00%	10.00%	10.00%	10.00%	10.00%	10.00%	10.00%	10.00%	10.00%	
52	5.00%	8.00%	10.00%	12.00%	12.00%	12.00%	12.00%	12.00%	12.00%	12.00%	12.00%	12.00%	12.00%	
53	5.00%	8.00%	10.00%	12.00%	14.00%	14.00%	14.00%	14.00%	14.00%	14.00%	14.00%	14.00%	14.00%	
54	5.00%	8.00%	10.00%	12.00%	14.00%	16.00%	16.00%	16.00%	16.00%	16.00%	16.00%	16.00%	16.00%	
55	5.00%	8.00%	11.00%	14.00%	17.00%	20.00%								
56	7.00%	11.00%	15.00%	19.00%	23.00%	27.00%								
57	10.00%	15.00%	20.00%	25.00%	30.00%	35.00%								
58	15.00%	20.00%	25.00%	30.00%	35.00%	40.00%								
59	20.00%	25.00%	30.00%	35.00%	40.00%	45.00%								
60	25.00%	30.00%	35.00%	40.00%	45.00%	50.00%				Members Eligible for Unreduced Benefits				
61	30.00%	35.00%	40.00%	45.00%	50.00%	55.00%								
62	35.00%	40.00%	45.00%	50.00%	55.00%	60.00%								
63	35.00%	40.00%	45.00%	50.00%	55.00%	60.00%								
64	35.00%	40.00%	45.00%	50.00%	55.00%	60.00%								
65	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%								

Once participants reach eligibility for normal retirement, they are expected to follow one of two paths: they either enter the DROP/DROP2 program and follow the appropriate post-DROP or post-DROP2 retirement assumptions for their group, or they never enter the DROP/DROP2 program and follow the appropriate non-DROP or non-DROP2 retirement assumptions for their group. Active participants who are beyond their applicable DROP or DROP2 program eligibility as of the valuation date are assumed to have already made this decision and so are valuing only with the applicable DROP/DROP2 or non-DROP/non-DROP2 retirement assumptions. Those who are not yet normal retirement eligible are valued under both options and the resulting liabilities are blended according to the following probabilities table:

	Police	Fire
DROP Members		
DROP	90%	90%
Non-DROP	10%	10%
Grandfathered DROP2 Members		
Grandfathered DROP2	90%	90%
Grandfathered Non-DROP2	10%	10%
Non-Grandfathered DROP2 Members		
Non-Grandfathered DROP2	75%	85%
Non-Grandfathered Non-DROP2	25%	15%

Non-DROP/Grandfathered Non-DROP2 Retirement Probabilities

Members who do not join DROP or grandfathered 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.

Ages Less Than 50	
Years of Service	**Probability of Retirement**
20	30%
21	20%
22 and up	100%

Ages 50 and Higher	
Age	**Probability of Retirement**
50	6.4%
51	4.6%
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%

Non-Grandfathered Non-DROP2 Retirement Probabilities

Assumptions vary between the rate applicable in the first year of eligibility for unreduced retirement and those for subsequent years for those who do not join non-grandfathered DROP2. Rates also vary by police and fire.

	Police		Fire	
Age	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%

DROP Retirement Probabilities

	DROP Exit Rates	
Years After Electing DROP	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.

Grandfathered DROP2 Retirement Probabilities

Years After Electing DROP2	DROP2 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%

NOTE: In all cases once the participant reaches age 65, there is 100% probability of leaving DROP2 to commence benefit receipt.

Non-Grandfathered DROP2 Retirement Probabilities

Years After Electing DROP2	DROP2 Exit Rates Police	Fire
1	6.0%	4.0%
2	7.0%	5.0%
3	16.0%	14.0%
4	15.0%	13.0%
5	18.0%	15.0%
6	14.0%	12.0%
7	36.0%	12.0%
8	36.0%	34.0%
9	36.0%	34.0%
10	36.5%	33.5%
11	36.5%	33.5%
12	36.5%	33.5%
13	36.5%	33.5%
14	37.0%	33.0%
15 or more	37.0%	33.0%

NOTE: In all cases once the participant reaches age 65, there is 100% probability of leaving DROP2 to commence benefit receipt.

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

Valuation Date June 30	Number	Annual Payroll	Annual Average Pay	% Increase In Average Pay
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
2013	4,439	277,524,356	62,520	1.6

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

SCHEDULE OF RETIREES AND BENEFICIARIES ADDED TO AND REMOVED FROM ROLLS

	Added to Rolls		Removed from Rolls		Rolls - End of Year			
Year Ended June 30	No.	Annual Allowances*	No.	Annual Allowances	No.	Annual Allowances	% Increase in Annual Allowances	Average Annual Allowances
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
2013	291	10,232,591	221	3,318,082	6,206	201,620,528	3.6	32,488

* 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.

SOLVENCY TEST

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

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

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

	Aggregate Accrued Liabilities For				Portion of Accrued Liabilities Covered by Reported Assets		
Valuation Date June 30	(1) Active Member Contributions	(2) Retirees and Beneficiaries	(3) Active Members (Employer Financed Portion)	Valuation Assets	(1)	(2)	(3)
2004	$197,462,032	$1,502,541,087	$695,519,580	$2,320,027,717	100%	100%	89.1%
2005	200,799,034	1,653,513,286	706,672,475	2,464,821,382	100	100	86.4
2006	206,295,261	1,731,864,189	771,770,463	2,505,470,848	100	100	73.5
2007	214,167,284	1,875,522,941	804,200,292	2,658,735,032	100	100	70.8
2008	223,169,334	1,933,289,565	837,934,859	2,676,354,876	100	100	62.0
2009	237,159,576	1,971,574,127	842,153,582	2,587,235,012	100	100	44.9
2010	246,799,329	1,977,520,610	809,403,584	2,524,753,505	100	100	37.1
2011	247,518,595	2,057,539,881	799,746,838	2,546,236,459	100	100	30.2
2012	261,776,304	2,132,731,848	794,153,907	2,475,874,446	100	100	10.2
2013	270,077,058	2,207,333,253	790,162,190	2,502,405,754	100	100	3.2

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

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

Type of Activity	Gain or (Loss) for Fiscal Year 2012	Gain or (Loss) for Fiscal Year 2013
Age and Service Retirements If members retire at older ages or with lower final average pay than assumed, there is a gain. If younger ages or higher pays, a loss.	$ 6,148,523	$ (20,022,440)
Disability Retirements If disability claims are less than assumed, there is a gain. If more claims, a loss.	(11,211,796)	(6,736,905)
Death-in-Service Benefits If survivor claims are less than assumed, there is a gain. If more claims, there is a loss.	206,491	31,063
Withdrawal From Employment If more liabilities are released by withdrawals than assumed, there is a gain. If smaller releases, a loss.	(2,123,530)	19,738,403
Pay Increases If there are smaller pay increases than assumed, there is a gain. If greater increases, a loss.	11,705,669	19,987,317
Investment Income If there is greater investment income than assumed, there is a gain. If less, a loss.	(203,470,749)	(86,258,119)
Death After Retirement If retirees live longer than assumed, there is a loss. If not as long, a gain.	697,503	3,562,825
New Entrants New entrants create a loss because they were not assumed in the previous evaluation.	(1,806,726)	(1,640,175)
Excess Contributions Gain created due to contributions that are not designated to reduce the BIF and ERF.	7,802,264	5,710,207
Continuing Inactives Gains and losses from continuing inactives from causes other than death.		(550,969)
Other Miscellaneous gains and losses resulting from data adjustments, timing of financial transactions, valuation methods, etc.	16,412,768	208,776
Loss During Year From Financial Experience	$ (175,639,583)	$ (65,970,017)

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 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 proceeds the date the member would have first met eligibility requirements for a normal retirement benefit under (A)(3) above had the member continued in employment with the City:

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

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

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

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

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

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

(B) **Non-Line-of-Duty Disability Benefit Amount:** The sum of:

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

compensation at the time of retirement. The member will also receive a lump-sum refund of the member's accumulated contributions and interest.

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

9. **TERMINATION OF EMPLOYMENT:**

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

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

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

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

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

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

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

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

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

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

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

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

(G) **Specific Benefit Option:** Upon retiree's death and subject to the approval of the Board 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.

(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 shall be disregarded in calculating the member's AFC.

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

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

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

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

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

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

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

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

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

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

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

(F) **DROP Retirement Benefit:**

(1) BASIC DROP:

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

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

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

(2) INTERMEDIATE DROP:

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

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

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

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

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

(3) FULL DROP:

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

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

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

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

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

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

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

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

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

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

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

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

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

Due to the non-line-of-duty death of a member who dies during or following the DROP 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

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 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%

until the member terminates from service.

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

(1) EARLY DROP 2:

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

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

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

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

(2) MID DROP 2:

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

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

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

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

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

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

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

plus,

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

(3) COMPLETE DROP 2:

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

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

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

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

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

plus,

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

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

(1) EARLY DROP 2:

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

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

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

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

(2) MID DROP 2:

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

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

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

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

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

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

(3) COMPLETE DROP 2:

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

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

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

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

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

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

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

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

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

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

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

Any member who retires on account of a line-of-duty disability during or following the DROP 2 participation period will receive the line-of-duty disability retirement benefit consisting of: an annuity of the member's accumulated contributions and interest, plus 66.667% of current AFC. This benefit will be paid instead of any DROP 2 retirement benefits and the member will not receive the balance in the DROP 2 account.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

(1) One lump sum which can be:

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

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

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

Effective June 30, 2010, post-retirement benefit increases are fixed rather than based on investment performance. Retirees and beneficiaries who have been receiving periodic benefit payments for two or more years as of the June 30 determination date 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 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.

Statistical Section

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

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

Financial Trends

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

Statement of Changes in Plan Net Position - Fiscal Years 2004 - 2013
Revenues by Source - Fiscal Years 2004 - 2013
Expenses by Type - Fiscal Years 2004 - 2013
Benefit Expenses by Type - Fiscal Years 2004 - 2013
Average Monthly Service Retirement Benefit Payments - Fiscal Years 2004 - 2013

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 2004 – 2013
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 – 2013
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

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

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

	2009	2010	2011	2012	2013
Additions					
Net investment income	$(357,730,702)	$ 252,146,101	$ 366,713,890	$ 80,339,513	$ 200,073,582
Employer contributions	69,513,236	94,097,743	107,539,873	107,488,403	107,778,859
Member contributions	17,661,252	17,254,515	19,586,155	22,866,939	25,381,635
Net securities lending income	1,801,369	500,376	452,113	594,933	463,706
Total Additions	(268,754,845)	363,998,735	494,292,031	211,289,788	333,697,782
Deductions					
Retirement allowances	173,547,075	176,660,415	186,002,569	193,082,852	198,640,360
Lump sum DROP payments	10,379,493	18,078,701	17,039,089	10,816,700	13,625,797
Administrative expenses	3,334,851	3,311,686	4,241,753	3,672,958	3,568,855
Refunds of member contributions	1,114,334	1,372,214	1,490,557	1,309,010	2,393,838
Death benefits	251,544	154,775	254,630	385,167	163,838
Total Deductions	188,627,297	199,577,791	209,028,598	209,266,687	218,392,688
Net Increase (Decrease)	$(457,382,142)	$ 164,420,944	$ 285,263,433	$ 2,023,101	$ 115,305,094

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

Fiscal Year	Net Investment Income	Employer Contributions Amount	Employer Contributions % of Covered Payroll	Member Contributions	Total
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
2013	200,537,288	107,778,859	38.8	25,381,635	333,697,782

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

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

Fiscal Year	Retirement Benefits	DROP Payments	Refunds	Administrative Expenses	Total
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
2013	198,804,198	13,625,797	2,393,838	3,568,855	218,392,688

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

Year	Age and Service Benefits		Death Benefits			Disability Benefits			
						Retirees			
Ending	Retirees	Beneficiaries	Duty	Non-Duty	Lump Sum	Duty	Non-Duty	Beneficiaries	Total
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
2013	154,203,276	14,539,747	2,972,662	3,238,196	163,838	25,229,266	5,136,984	6,946,026	212,429,995

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

Retirement Effective Dates	Years of Credited Service				
From July 1, 2003 to June 30, 2013	10-15	16-20	21-25	26-30	31+
Period 7/1/03 to 6/30/04					
Average Monthly Benefit	$ 499	$ 2,221	$ 2,713	$ 3,842	$ 4,245
Average-Average Final Compensation	75,968	56,029	58,162	62,750	60,265
Number of Active Retirees	2	22	49	66	81
Period 7/1/04 to 6/30/05					
Average Monthly Benefit	1,293	2,323	2,949	3,839	4,474
Average-Average Final Compensation	54,254	54,891	61,233	62,554	63,031
Number of Active Retirees	1	24	76	38	42
Period 7/1/05 to 6/30/06					
Average Monthly Benefit		2,383	2,971	3,566	4,347
Average-Average Final Compensation		57,370	60,675	60,001	63,996
Number of Active Retirees		27	61	27	26
Period 7/1/06 to 6/30/07					
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
Period 7/1/07 to 6/30/08					
Average Monthly Benefit	1,659	2,521	3,332	4,492	4,872
Average-Average Final Compensation	54,859	61,500	68,204	72,422	69,542
Number of Active Retirees	2	35	60	22	13

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

	Years of Credited Service				
	10-15	16-20	21-25	26-30	31+
Period 7/1/08 to 6/30/09					
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
Period 7/1/09 to 6/30/10					
Average Monthly Benefit	1,536	2,614	3,519	4,444	5,857
Average-Average Final Compensation	62,502	62,468	71,223	71,087	81,313
Number of Active Retirees	5	33	57	32	26
Period 7/1/10 to 6/30/11					
Average Monthly Benefit	1,770	2,658	3,452	4,378	5,909
Average-Average Final Compensation	68,688	65,078	72,061	71,592	82,155
Number of Active Retirees	1	37	62	27	23
Period 7/1/11 to 6/30/12					
Average Monthly Benefit	2,940	3,025	3,475	4,374	5,188
Average-Average Final Compensation	61,719	69,173	71,631	72,289	75,409
Number of Active Retirees	11	37	35	25	14
Period 7/1/12 to 6/30/13					
Average Monthly Benefit	3,011	2,919	3,518	4,762	5,222
Average-Average Final Compensation	58,539	65,559	71,074	76,472	69,186
Number of Active Retirees	19	46	78	36	16
Period 7/1/03 to 6/30/13					
Average Monthly Benefit	2,495	2,626	3,252	4,164	4,811
Average-Average Final Compensation	60,377	62,448	66,586	68,111	67,656
Number of Active Retirees	43	315	599	317	285

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

Years of Credited Service	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
0-4	1,114	1,084	1,019	1,017	1,088	1,142	1,079	1,047	987	824
5-9	912	885	931	949	946	900	873	873	982	997
10-14	991	935	948	902	814	759	726	770	770	791
15-19	696	773	717	661	757	904	872	890	853	763
20-24	581	507	473	514	515	513	572	536	504	575
25-29	233	279	345	348	329	291	264	251	313	294
30+	251	227	194	187	166	181	198	208	215	195
Total Members	4,778	4,690	4,627	4,578	4,615	4,690	4,584	4,575	4,624	4,439
Average Service Credit	12.56	12.48	12.46	12.52	12.34	12.45	12.71	12.64	12.73	13.09
Average Age	38.75	38.55	38.66	38.73	38.91	38.99	39.21	39.14	39.23	39.72

Fire and Police Employees' Retirement System
City of Baltimore, Maryland
SCHEDULE OF CURRENT ACTIVE MEMBERS BY YEARS OF SERVICE AND DEPARTMENT
SCHEDULE OF CURRENT ACTIVE DROP AND DROP 2 MEMBERS BY YEARS OF SERVICE AND DEPARTMENT
For the Year Ended June 30, 2013

Schedule of Current Active Members By Years of Service and Department

Years of Credited Service	Police Department	Fire Department	School Crossing Guards	Airport Employees	Total
0-4	594	230			824
5-9	585	412			997
10-14	525	266			791
15-19	580	183			763
20-24	360	215			575
25-29	130	159		5	294
30+	95	98	1	1	195
Total Members	2,869	1,563	1	6	4,439

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

Years of Credited Service	Police Department	Fire Department	School Crossing Guards	Airport Employees	Total
20-24	28	28			56
25-29	126	157		5	288
30+	94	97	1	1	193
Total DROP Members	248	282	1	6	537

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

Years of Credited Service	Police Department	Fire Department	School Crossing Guards	Airport Employees	Total
20-24	210	147			357
25-29	3				3
30+					
Total DROP 2 Members	213	147			360

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

Year of DROP Entry	Police Department	Fire Department	School Crossing Guards	Airport Employees	Total
7/1/96 - 6/30/97	17	24			41
7/1/97 - 6/30/98	2	2			4
7/1/98 - 6/30/99	3	4	1		8
7/1/99 - 6/30/00	12	19			31
7/1/00 - 6/30/01	14	10		1	25
7/1/01 - 6/30/02	18	19			37
7/1/02 - 6/30/03	10	17			27
7/1/03 - 6/30/04	16	5			21
7/1/04 - 6/30/05	17	20		1	38
7/1/05 - 6/30/06	24	27		1	52
7/1/06 - 6/30/07	22	36			58
7/1/07 - 6/30/08	43	61			104
7/1/08 - 6/30/09	22	16		3	41
7/1/09 - 6/30/10	26	21			47
7/1/10 - 6/30/11		1			1
7/1/11 - 6/30/12	2				2
7/1/12 - 6/30/13					
Total DROP Members	248	282	1	6	537

Year of DROP 2 Entry	Police Department	Fire Department	School Crossing Guards	Airport Employees	Total
7/1/09 - 6/30/10	17	21			38
7/1/10 - 6/30/11	40	90			130
7/1/11 - 6/30/12	44	12			66
7/1/12 - 6/30/13	112	24			136
Total DROP 2 Members	213	147			370

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, 2013

		TYPE OF RETIREMENT*				
Age	Number of Recipients	0	2	3	4	9
0-24						
25-29	10				10	
30-34	20			3	17	
35-39	55	1		10	44	
40-44	150	51	1	20	78	
45-49	371	228	6	29	107	1
50-54	453	339	4	24	85	1
55-59	558	490		18	50	
60-64	743	664	1	19	59	
65-69	819	715	1	30	73	
70-74	565	476		24	64	1
75-79	417	330		34	53	
80-84	327	240		29	57	1
85 and up	224	163		29	32	
Totals	4,712	3,697	13	269	729	4
Average Annual Benefit	$36,875	$38,675	$31,234	$18,707	$34,432	$58,864

*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, 2013

		TYPE OF RETIREMENT*							
Age	Number of Recipients	0	2	3	4	6	7	8	9
0-24	16	1		3	1		5	6	
25-29									
30-34	3				2		1		
35-39	4	1					1	2	
40-44	18	8		1	1		2	6	
45-49	39	27		3	4	1	2	2	
50-54	63	46		3	4	4	3	3	
55-59	97	62		6	12	8	4	5	
60-64	143	84	1	11	14	17	8	8	
65-69	143	91		13	14	8	8	9	
70-74	202	114		27	37	11	8	4	1
75-79	231	115		40	53	10	6	7	
80-84	245	121		45	59	14	2	4	
85 and up	290	167		37	56	14	2	14	
Totals	1,494	837	1	189	257	87	52	70	1
Average Annual Benefit	$18,652	$17,525	$12,211	$14,167	$16,914	$27,032	$15,627	$42,289	$36,574

*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
9 - Line-of-duty disability, 100% of compensation

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, 2013

Schedule of DROP Retirees by Attained Age and Type of Retirement

		TYPE OF RETIREMENT*	
Age	Number of Recipients	0	4
40-44	11	11	
45-49	132	130	2
50-54	281	269	12
55-59	409	401	8
60-64	503	490	13
65-69	405	400	5
70-74	176	175	1
75+	62	62	
Totals	1,979	1,938	41
Average Annual Benefit	$43,675	$43,673	$43,767

Schedule of DROP Beneficiaries by Attained Age and Type of Retirement

		TYPE OF RETIREMENT*					
Age	Number of Recipients	0	3	4	6	7	8
< 20	2					2	
40-44	5	5					
45-49	19	18			1		
50-54	38	34			3		
55-59	47	44			2		1
60-64	43	30			11		2
65-69	35	30			3	1	1
70+	43	41			2		
Totals	232	202			22	3	4
Average Annual Benefit	$19,180	$16,340			$34,672	$19,495	$67,944

*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, 2013

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

		TYPE OF RETIREMENT*	
Age	Number of Recipients	0	4
40-44	8	8	
45-49	14	11	3
50-54	9	9	
55-59	3	3	
60-64	2	2	
65-69			
70-74			
Totals	36	33	3
Average Annual Benefit	$36,285	$34,970	$50,753

*Type of Retirement

0 - Normal retirement for age and service

4 - Line-of-duty disability

FIRE & POLICE
EMPLOYEES' RETIREMENT SYSTEM
BALTIMORE EST. 1962

SERVING BALTIMORE CITY'S PUBLIC SAFETY OFFICERS

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