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, 2014

Cover Photos (Clockwise, starting at the left.)

1. Deadeyes – like those on sidewalk in front of Hurst Building; some felt that cigarette was thrown through hole in one of them into basement where fire started.
2. One of J.E. Henry photos from first ½ hour of fire.
3. Bowley's Wharf-foot of W. Falls Ave.
4. Area near Hurst Building & Liberty Street.

Introductory Section Photos

1. Hot Spot
2. Soldiers on patrol.

Financial Section Photos

1. Cleaning up of debris. Put on barges and dumped out in Bay. Addition to Locust Point community used some debris.
2. Remains of Church of the Messiah on right with City Hall on left.

Required Supplementary Information and Supporting Schedules Photos

1. Interior of Bank with bent wrought iron.
2. Remains of docks.

Investment Section Photos

1. John E. Hurst Building prior to fire.

Actuarial Section Photos

1. Hot Spot – shows 5 buildings that survived fire.
2. Overview of ruins of Maryland Institute and Marsh Market, which backed up onto Falls.

Statistical Section Photos

1. Remains of Baltimore Sun Building (made of cast iron).

Back Cover Photos

1. West Baltimore Street

All photos courtesy of Baltimore City Fire Department.

The Great Baltimore Fire of 1904

The Great Baltimore Fire began 110 years ago on Sunday, February 7, 1904, shortly before 11:00 a.m. inside the John E. Hurst & Company building. An explosion sent flames onto adjacent buildings and within minutes the surrounding buildings were on fire. Baltimore firefighters fought to contain the fire as gusting winds fanned the flames. Twenty-one cities responded to the call for help including Washington, D.C., Philadelphia, New York City, Virginia, Wilmington, and Atlantic City. However, once they arrived it was discovered that they could not help because their hose couplings would not fit Baltimore's hydrants.

After 30 hours and the determination of 1,231 firefighters, the fire was declared under control at 5 p.m. on Monday, February 8, 1904. In the hours that the fire raged 140 acres of downtown Baltimore burned in the process destroying 1,526 buildings and 2,500 businesses. The fire destroyed the business, banking, and newspaper districts leaving 35,000 people unemployed. The Baltimore Sun's Tuesday, Feb. 9, 1904, edition reported "It is impossible for the human mind to conceive the magnitude of the disaster and it is utterly beyond the power of man to approximately depict the extent of the ruin and the far reaching and disastrous consequences of the calamity."

It is believed the legacy of the Great Baltimore Fire of 1904 is the City adopting a building code, stressing fireproof materials and establishing emergency procedures. The legacy also includes a standardization of firefighting equipment across the country.

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City of Baltimore, Maryland




Comprehensive Annual Financial Report

A Component Unit of the City of Baltimore, Maryland

Year Ended June 30, 2014

Prepared by: N. Anthony Calhoun, *Executive Director*

David A. Randall, *Deputy Executive Director* | Howard I. Mossovitz, *Accounting Manager*

Fire and Police Employees' Retirement System
City of Baltimore, Maryland
Comprehensive Annual Financial Report
For the Year Ended June 30, 2014

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Certificate of Achievement for Excellence in Financial Reporting

Presented to

Fire and Police Employees'

Retirement System, City of Baltimore

Maryland

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

June 30, 2013

Jeffrey R. Emer

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 18, 2014

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-two 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, 2014. 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 82.

Major Initiatives

The plan's administration and staff successfully completed the implementation of a new Annual Active Member's Statement process utilizing a transitional platform that allowed the mailing of these statements in early September, several months ahead of the prior year. We have also implemented a new application that provides a platform for fast track development of complex calculators, forms, letters and processes integrated with all our databases on a modern SQL platform. The system has started to convert 93 Forms and 13 complex calculators including all the letters associated with these calculators to this platform. The Records Management (Imaging) application that we have purchased and is currently in production is allowing us to digitize almost 5 million analog images stored for the past 38 years on paper, microfilm, and microfiche and to improve workflow, approvals, compliance, and quality assurance processes.

We have also modernized our computing and electronic infrastructure by virtualizing all of our servers and implementing cloud and local backup solutions for data security and recovery. The productivity for our staff has also been increased by the many technological and workflow tracking and measuring tools in place.

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, 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 of America. 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 16.5% which ranked this F&P portfolio in the 58th percentile of the BNY Mellon All Public Plans Total Fund universe at June 30, 2014. The three year, five year, and ten year performance numbers for the "managed" portfolio were 10.0% which ranked in the 52nd percentile, 14.0% which ranked in the 12th percentile, and 7.7% which ranked in the 28th percentile.

The "dedicated variable benefit" fixed income portfolios returned 6.4% for fiscal year 2014. 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 14.2%. 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 2014, the "dedicated" portfolio dragged the overall performance from 16.5% to 14.2%.

Plan Funding

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.

As of June 30, 2014, the date of the F&P's last actuarial valuation, the System's funded ratio was 74.2% on an actuarial value of assets basis as well as on a market value of assets basis, compared to a 69.2% market value basis at June 30, 2013. As required by GASB 67, the funding ratio using the Entry Age Normal cost method is 73.9%. The required supplementary information that follows immediately after the notes to the basic financial statements provides new information and schedules due to the GASB 67 implementation. The schedules on page 42 show the changes in net pension liability and related ratios as well as the schedule of investment return. These schedules will start with one year as of June 30, 2014, but eventually will need to build up to ten years of information. Also provided is the schedule of required contributions made by the employer.

As a result of the actuarial valuation performed for the fiscal year ended June 30, 2012, a total City and State contribution due to the F&P for fiscal year 2014 was $113.8 million.

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 Ordinance 10-306 in 2010 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 the changes related to the post-retirement benefit increase provisions were unconstitutional. On August 6, 2014, the Fourth Circuit overturned the 2012 ruling, concluding that the Ordinance did not impair the federal constitutional rights of F&P members because they could have contested the Ordinance under State law. The Fourth Circuit also remanded the case to the District Court to reconsider the "Takings Clause" issue. Barring a future court order to the contrary, F&P will continue to administer the F&P plan as amended by Ordinance 10-306. See note 11 of the Notes to Basic Financial Statements on page 39 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 their findings annually to the Board of Estimates and to the Board of Trustees. The Board of Estimates elected to have CliftonLarsonAllen render an opinion on 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 62 to 65**.**

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, 2013. This was the thirty-first consecutive year (fiscal years 1983-2013) 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 18, 2014

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.

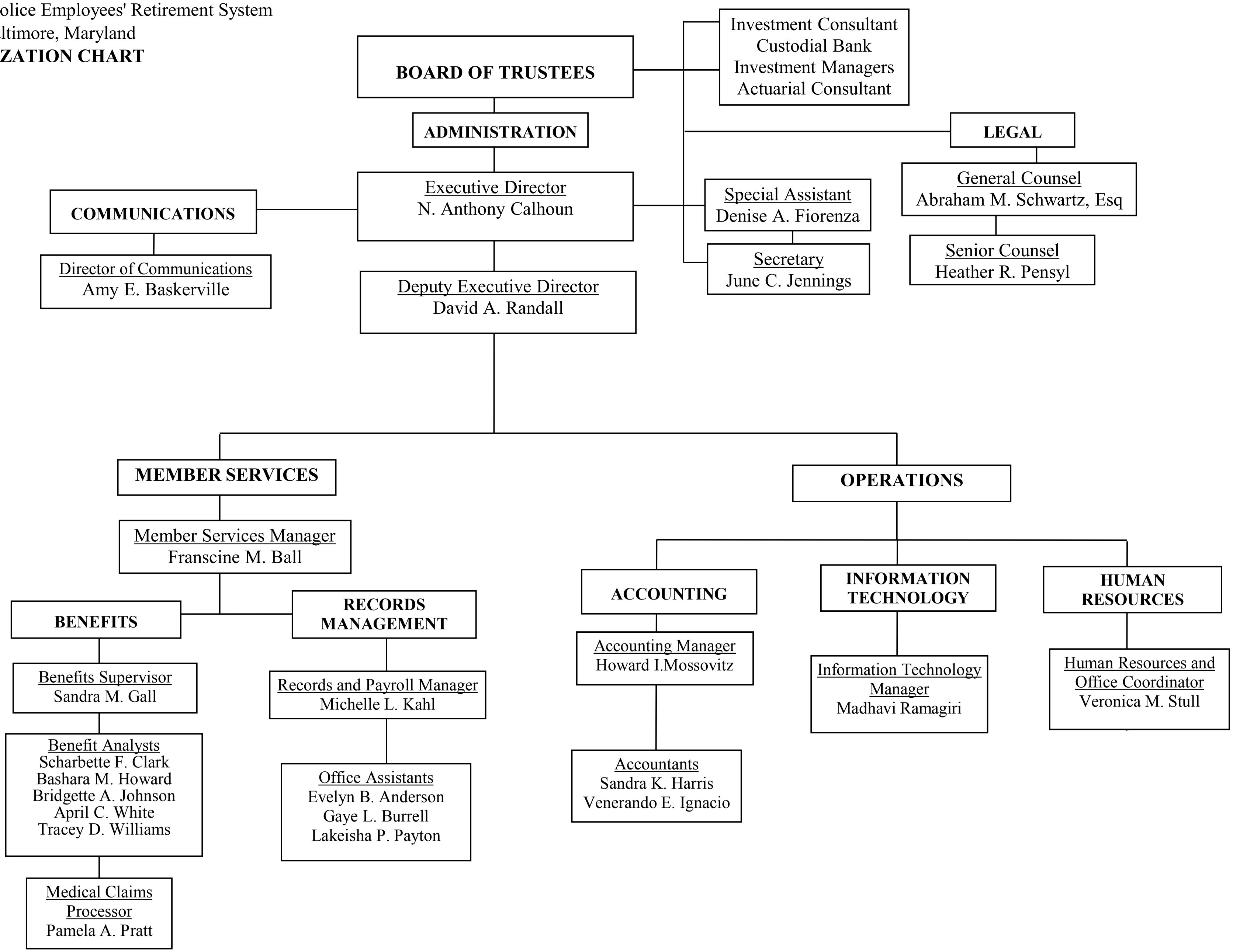
This report is being forwarded to the Mayor, the President of the City Council, the Comptroller, and other members of the Board of Estimates, to all members of the City Council, and to the Fire and Police Departments so that all members of the F&P will have the opportunity to review it. Hopefully, the 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 the previous Director of Finance and former Trustee, Harry E. Black, for his time and dedication to the System.

Respectfully submitted,

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 3, 2014

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, 2014.

The past year has been a very successful one for the F&P. As you know, maintaining solid funding for local government pensions is a complicated task in an era of 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 2.7%, from 4,439 to 4,317, while our number of retirees increased 1.0%, from 6,206 to 6,268. Many cities and states are grappling with chronically-underfunded pension systems and have cut pension benefits.

In 2013, for the first time, Baltimore City released a ten-year financial plan that included careful thought about funding for the F&P over the next decade. During the fiscal year ending June 30, 2014, the City contributed $113.0 million to the F&P, the largest annual sum ever contributed. Under the City's long-term financial plan, the annual City contribution will continue to be substantial. Based upon current actuarial assumptions and actions taken by the Board this year, our funded ratio is now expected to increase to 100% in 20 years. Our primary goal continues to be to make our plan fully-funded, so that our Members, Retirees and Beneficiaries will continue to receive sustainable benefits in the years to come.

Fortunately, the past year was a very strong one financially. Our investments earned 14.2% on a market value basis, significantly above our assumed rate of return of 7.75%. Along with the larger City contribution, active members continued to contribute to the System. Our market funded ratio increased significantly during the year, from 69.2% to 74.2%. We also successfully eliminated the past negative balances from the old Employer Reserve Fund and Benefit Improvement Fund that accumulated during the period 1996-2005 and had been a drag on our funded ratio.

Our Executive Director, Mr. N. Anthony Calhoun; our Deputy Executive Director, Mr. David A. Randall; and the F&P staff continued throughout the year to look for ways to improve service to our Members, Retirees, and Beneficiaries. For example, our annual statements were issued earlier this year than ever before, and record-keeping and technological improvements will continue to be implemented. I encourage you to visit the 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 protect 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 dedicated service to the City and the privilege of serving you.

Sincerely,

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
Timonium, Maryland

See pages 62 to 65 in the Investment Section for a list of investment professionals.

Financial Section

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, 2014, 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, 2014, 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 $657 million (26% percent of net position), and 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 changes in net pension liability and related ratios, investment returns 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 19, 2014 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 System's internal control over financial reporting and compliance.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Baltimore, Maryland
November 19, 2014

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, 2014. 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 $231.2 million during the fiscal year from $2,261.3 million at June 30, 2013, to $2,492.5 million at June 30, 2014. The increase was mainly due to the fiscal year 2014 strong relative performance across the entire portfolio.

- Additions to Net Position (Revenues) for the year were $456.6 million, an increase of $122.9 million from the prior year revenues of $333.7 million. The increase in revenues was caused by higher investment earnings that were uniformly up across all asset classes for fiscal year 2014.

- Deductions from Net Position (Expenses) were $225.3 million in the current year, an increase of $6.9 million from the prior year expenses of $218.4 million. The increase in expenses was driven by post-retirement benefit increases, effective January 2014, by increased retirement allowance payments, and by increased administrative expenses.

- The "managed" investment portfolio total rate of return of 16.5% (which excludes performance of the dedicated variable benefit assets) for the one year period ended June 30, 2014, was above the System's total fund policy index of 16.2% and was below the median public fund performance of 17.0%.

- The "managed" portfolio performance for the three year period ended June 30, 2014, was 9.9% which was slightly above the System's total fund policy index of 9.7% and was slightly below the median public plan performance of 10.0%.

- The System's real estate portfolio composite performance was a strong return of 11.4% for fiscal year 2014. The real estate composite outperformed the NCREIF Property Index and provided top quartile relative performance.

- The energy master limited partnership (MLP) portfolio composite continued to lead the overall portfolio performance by providing a return of 36.3% for fiscal year 2014. The energy MLP composite outperformed the S&P MLP Index by 11.5%.

- The U.S. equity composite provided a 23.6% rate of return which ranked below the median 24.8% rate of return for the BNY Mellon All Master Trust – U.S. Equity Segment universe.

- The international equity composite provided an 18.3% rate of return which underperformed the MSCI All Country World Ex-U.S. Index by 3.5%.

- The System's "managed" fixed income composite portfolio earned 5.3% and performed slightly below the 5.6% 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 19.8% and 8.1%, respectively, for fiscal year 2014.

- 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 6.4% for fiscal year 2014.

- Including the separately invested dedicated "variable benefit" fixed income portfolio performance of 6.4% with the composite "managed" investment portfolio total rate of return of 16.5% provided a total fund composite rate of return of 14.2% for the fiscal year ended June 30, 2014. The combined performance placed the F&P in the 90th percentile of the BNY Mellon Public Fund – Total Fund universe.

- Employer contributions made to the F&P were $113.8 million in fiscal year 2014, up slightly from the employer contribution made in fiscal year 2013.

- Member contributions to the F&P increased by $2.9 million in fiscal year 2014 due to an increase in the mandatory member contribution rate from 9.0% to 10.0% commencing in July 2013.

- 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 2014 was 7.75%.

- As of June 30, 2014, the date of the F&P's last actuarial valuation, the System's funded ratio was 74.2% on an actuarial value of assets basis, as well as 74.2% on a market value of assets basis, compared to a 69.2% market value basis at June 30, 2013. As required by GASB 67, the funding ratio using the Entry Age Normal cost method is 73.9%.

- 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, 2014, 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, 2014. The assets comprise cash and cash equivalents, which are fixed income instruments with a maturity date of three months or less; 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 and private equity holdings are 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, 2013, through June 30, 2014. 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. The net appreciation (depreciation) in fair value of investments consists of the realized gains or losses and the unrealized increase or decrease in fair value of investments during the year. Realized gains and losses on sales of investments are computed based on the difference between the sales price and the original cost of the investment sold. Realized gains and losses on investments that had been held in more than one fiscal year and sold in the current fiscal year were included as a change in the fair value of investments reported in the prior year(s) and the current year. Unrealized increase or decrease is computed based on changes in the fair value of investments between years. Security transactions are accounted for on a trade date basis. Interest income is recognized when earned and dividend income is recorded on the ex-dividend date. 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.

Included in the Notes to Basic Financial Statements beginning this fiscal year, are the GASB 67 required disclosures.

The **Required Supplementary Information** that follows immediately after the notes to the basic financial statements provides new information and schedules due to the GASB 67 implementation. The schedules on page 42 show the changes in net pension liability and related ratios as well as the schedule of investment return. These schedules will start with one year as of June 30, 2014, but eventually will need to build up to ten years of information. Also provided is the schedule of required contributions made by the employer. See the Required Supplementary Information beginning on page 41 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, 2014, net position, as displayed below, exceeded current liabilities by $2.5 billion, an increase of $231.2 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. The net position of the separately invested dedicated reserves totaled $487.2 million at June 30, 2014. The remaining net position of $2,005.3 million at June 30, 2014, is available to meet the ongoing regular benefit obligations to the F&P participants and beneficiaries. As of June 30, 2014, total assets increased by 11.0% from the prior year mainly due to an increase in investments at fair value. Total current liabilities were higher at June 30, 2014, from the prior fiscal year, mainly due to an increase in securities lending collateral payable and investments purchased liabilities.

Plan Net Position
For the Fiscal Years ended June 30, 2014 and 2013

	2014	2013	Increase	Percentage Change
Current assets	$ 68,364,825	$ 58,734,194	$ 9,630,631	16.4%
Capital assets	1,047,592	904,728	142,864	15.8
Investments at fair value	2,542,820,400	2,292,414,536	250,405,864	10.9
Total Assets	**2,612,232,817**	**2,352,053,458**	**260,179,359**	**11.1**
Current liabilities	119,688,418	90,720,360	28,968,058	31.9
Total Liabilities	**119,688,418**	**90,720,360**	**28,968,058**	**31.9**
Net Position	**$ 2,492,544,399**	**$ 2,261,333,098**	**$ 231,211,301**	**10.2%**

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, 2014, were $1,962.5 million of the $2,449.6 million total assets as presented on the Investment Summary on page 60. 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 $487.2 million as of June 30, 2014, 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 2014 rate of return of 6.4% 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, 2014, was 16.5%. The median public plan performance was 17.0%. The "managed" portfolio annualized rates of return for the last three-year, five-year, and ten-year periods ended June 30, 2014, were 10.0%, 12.9%, and 7.3%, 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 2014, 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 49 of this report, the Investment Section gives detailed information on the F&P investment policies. See page 58 for the comparison of the "managed" asset allocation targets established by the Board of Trustees to the actual asset allocation at June 30, 2014.

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, 2014, were $119.7 million, $29.0 million more than the $90.7 million in liabilities at June 30, 2013. While payables for the settlement of investment purchases increased $2.0 million to $8.6 million, and forward foreign contracts payable decreased $0.3 million to $6.3 million at June 30, 2014, the securities lending collateral payable increased by $26.7 million from $66.5 million at June 30, 2013, to $93.2 million at June 30, 2014, and served as a reason for the overall increase in current liabilities at June 30, 2014.

Changes in Plan Net Position
For the Fiscal Years Ended June 30, 2014 and 2013

	2014	2013	Increase (Decrease)
Additions			
Net investment income	$ 313,953,904	$ 200,073,582	$ 113,880,322
Employer contributions	113,843,250	107,778,859	6,064,391
Member contributions	28,265,556	25,381,635	2,883,921
Net securities lending income	495,366	463,706	31,660
Total Additions	**456,558,076**	**333,697,782**	**122,860,294**
Deductions			
Retirement allowances	205,591,968	198,640,360	6,951,608
Lump sum DROP payments	12,373,388	13,625,797	(1,252,409)
Administrative expenses	3,907,539	3,568,855	338,684
Refunds of member contributions	3,129,650	2,393,838	735,812
Death benefits	344,230	163,838	180,392
Total Deductions	**225,346,775**	**218,392,688**	**6,954,087**
Net Increase (Decrease)	**$ 231,211,301**	**$ 115,305,094**	**$ 115,906,207**

Investment Income

The F&P's total "managed" composite portfolio achieved a 16.5% rate of return which ranked the F&P "managed" asset performance in the 58th 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 equity portfolio outperformed their respective benchmark.

The System's U.S. equity composite returned 23.6% for fiscal year 2014, which ranked the domestic equity composite in the 73rd percentile of the BNY Mellon All Master Trust – U.S. Equity Segment universe. The domestic equity composite underperformed its Russell 3000 comparative index by 160 basis points.

The international equity composite posted an 18.3% rate of return which ranked in the 89th percentile of the BNY Mellon All Master Trust – International Equity Segment universe. The international equity composite underperformed its MSCI All Country World Ex-U.S. comparative index by 347 basis points.

The "managed" fixed income composite earned 5.3% for the fiscal year which ranked in the 56th 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 5.2% by 12 basis points.

The real estate composite portfolio continued to earn good rates of return with performance of 11.4% 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 11.2% this fiscal year, by a modest 18 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 8.1%, and performed 39 basis points above its comparative HFRI Fund-of-Funds Composite Index that provided a 7.7% for the fiscal year ended June 30, 2014. 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 19.8% return for the fiscal year but lagged the S&P 500 Index performance of 24.6% 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, 2014, the MLPs composite continued to achieve a remarkable 36.3% rate of return which exceeded the S&P MLP Index by 11.5%. 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, 2014, the risk parity portfolio returned 18.5%, and outperformed the comparative index by 226 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 6.4% for the year. While the "dedicated" composite portfolio is not benchmarked to any specific index, it underperformed the Barclays Capital U.S. Long Government/Credit index, which returned 10.8%. 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 $7.6 million in fiscal year 2013 to $8.1 million in fiscal year 2014.

Member and Employer Contributions

Member contributions were made at 10.0% of regular compensation during fiscal year 2014. Member contributions increased by $2.9 million during the current fiscal year due to the increase in the mandatory contribution rate from 9.0% to 10.0% commencing in July 2013. 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 4,439 at June 30, 2013, to 4,317 at June 30, 2014. Should the active member population remain stable, member contributions are expected to continue to increase, in conjunction with increased salaries.

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 2014 was $113.0 million.

The City's employer contribution requirement will increase to $118.2 million for fiscal year 2015 and to $120.3 million for fiscal year 2016, 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 2014 was for the payment of continuing retirement benefits totaling $205.6 million, an increase of $7.0 million over the $198.6 million in retirement allowances paid in fiscal year 2013. The increase in retirement allowances was mainly due to higher benefit levels paid to newly retired members, post-retirement increases, and minimum benefit amounts paid to certain beneficiaries.

Lump sum DROP and DROP 2 distributions decreased $1.2 million from $13.6 million in fiscal year 2013 to $12.4 million in fiscal year 2014 due to a slight decrease in the number of DROP and DROP 2 participant service retirements. The number of DROP participants continues to decrease as the eligibility for DROP was frozen in 2009. DROP 2 became effective January 1, 2010; the number of DROP 2 participants continues to increase.

Administrative expenses are comprised primarily of personnel costs and other professional services costs including information technology consultants. Administrative expenses increased by $338,684 from fiscal year 2013 to fiscal year 2014. The increase in administrative expenses was mainly due to increased technology cost created by our new document imaging system. The cost of processing the retirement payroll has significantly increased as well. Leasehold improvements and office furniture are depreciated on a straight-line basis over 15 years. Computer equipment is depreciated on a straight-line basis over a five year useful life.

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 Ordinance 10-306 in 2010 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 the changes related to the post-retirement benefit increase provisions were unconstitutional. On August 6, 2014, the Fourth Circuit overturned the 2012 ruling, concluding that the Ordinance did not impair the federal constitutional rights of F&P members because they could have contested the Ordinance under State law. The Fourth Circuit also remanded the case to the District Court to reconsider the federal "Takings Clause" issue. Barring a future court order to the contrary, F&P will continue to administer the F&P plan as amended by Ordinance 10-306. See note 11 to financial statements on page 39 for more information.

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, 2014

Assets		
Cash and Cash Equivalents		$ 47,977,473
Receivables		
Accrued income	$ 7,291,240	
Forward foreign contracts	6,350,721	
Investments sold	6,000,831	
Receivable - members	744,560	
Total Receivables		20,387,352
Investments, at fair value		
Bonds	820,443,232	
Stocks	784,818,981	
Real estate funds	197,410,069	
Hedge funds	195,165,946	
Energy master limited partnerships	186,869,419	
Private equity funds	159,946,882	
Risk parity fund	104,990,117	
Total Investments		2,449,644,646
Capital Assets, net of depreciation		
Leasehold improvements	551,155	
Computer equipment	332,660	
Office furniture	163,777	
Total Capital Assets, net of depreciation		1,047,592
Securities Lending Collateral		93,175,754
Total Assets		2,612,232,817
Liabilities		
Securities lending collateral	93,175,754	
Investments purchased	8,555,383	
Forward foreign contracts	6,337,209	
Retirement allowances payable	6,321,473	
Investment management fees payable	1,593,786	
Security lending loss payable	1,568,940	
Lump sums payable to members	1,286,142	
Administrative expenses payable	816,747	
Other accounts payable	32,984	
Total Liabilities		119,688,418
Net Position Restricted for Pension Benefits		$ 2,492,544,399

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, 2014

Additions		
Contributions		
Employers	$ 113,843,250	
Plan members	28,265,556	
Total Contributions		$ 142,108,806
Investment Income		
Net appreciation in fair value of investments	250,755,760	
Interest and dividends	42,098,555	
Risk parity income	16,301,658	
Real estate income	6,579,781	
Private equity income	5,771,033	
Hedge funds income	556,450	
Less: Investment expenses	(8,109,333)	
Net Investment Income		313,953,904
Securities lending income	650,323	
Less: Securities lending expenses	(154,957)	
Net Securities lending income		495,366
Total Additions		456,558,076
Deductions		
Retirement allowances	205,591,968	
Lump sum DROP payments	12,373,388	
Administrative expenses	3,907,539	
Refunds of member contributions	3,129,650	
Death benefits	344,230	
Total Deductions		225,346,775
Net Increase in Net Plan Net Position		231,211,301
Net Position Restricted for Pension Benefits		
June 30, 2013		2,261,333,098
June 30, 2014		$ 2,492,544,399

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 four 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, 2014, the F&P membership consisted of:

Retirees and beneficiaries currently receiving benefits	6,268
Active plan members	4,317
Total	10,585

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 82. 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.

New Accounting Standard:
Governmental Accounting Standards Board (GASB) Statement No. 67 which was implemented by the System this fiscal year addresses accounting and financial reporting requirements for pension plans. GASB 67 requires changes in presentation of the financial statements, notes to the financial statements, and required supplementary information. Significant changes include an actuarial calculation of total and net pension liability. It also includes comprehensive footnote disclosure regarding the pension liability, the sensitivity of the net pension liability to the discount rate, and increased investment activity disclosures.

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 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, and interest and dividend income earned, less investment 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 10.0% of their regular compensation through payroll deduction for fiscal year 2014. 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, 2014, the balances in the legally required reserves are as follows:

Reserves	Balance
Annuity savings reserve	$ 283,377,044
Annuity reserve	333,943,901
Pension accumulation reserve	(56,700,752)
Pension reserve	1,931,924,206
Total Reserves	$ 2,492,544,399

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, 2014, 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, 2014, was $149,229,423 and the market value of the collateral received for those securities on loan was $153,320,564. 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.

The following represents the balances relating to the securities lending transactions as of June 30, 2014:

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	$ 49,100,216	$ 49,940,299	Cash
Domestic equities	31,239,826	31,882,911	Cash
U.S. treasury notes and bonds	28,742,687	29,978,911	Securities
U.S. Government agency bonds	18,136,867	18,723,939	Securities
Corporate Bonds	8,352,937	8,573,585	Cash
Corporate Bonds	7,637,882	7,787,570	Securities
Domestic equities	2,988,620	3,255,784	Securities
International equities	1,939,498	2,066,203	Cash
U.S. Government agency bonds	700,440	712,756	Cash
International equities	390,450	398,606	Securities
Total Securities on Loan	$ 149,229,423	$ 153,320,564	

5. Cash and Investments:

The System's cash deposits are entirely covered by federal depository insurance at all times. The System classifies cash on deposit in the custodian institution, BNY Mellon, as well as the cash management pool held by BNY Mellon as cash and cash equivalents. The System also classifies certain short-term highly liquid securities as cash equivalents if the date of maturity is three months or less from the date of acquisition.

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, 2014 are presented below:

Investment Type	Fair Value
Debt Securities:	
Corporate bonds	$ 403,996,056
U.S. treasury notes and bonds	200,059,503
U.S. Government agency bonds	111,729,409
Emerging markets debt fund	85,953,765
Barclay aggregate index fund	18,704,499
Total debt securities	820,443,232
Other:	
Domestic equities	395,207,334
International equities	389,611,647
Real estate funds	197,410,069
Hedge funds	195,165,946
Energy master limited partnerships	186,869,419
Private equity funds	159,946,882
Risk parity fund	104,990,117
Total other	1,629,201,414
Total investments	$ 2,449,644,646

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, 2014, the F&P has no single issuer that exceeds 5% of total investments. Investments issued or explicitly guaranteed by the U.S. government and investments in mutual funds, external investment pools, and other pooled investments are excluded.

Foreign Currency Risk Exposure

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

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

Euro Currency Unit	$ 84,476,294
British Pound Sterling	53,273,308
Japanese Yen	36,838,603
Swiss Franc	28,473,384
Hong Kong Dollar	16,036,045
South Korean Won	9,431,719
Canadian Dollar	7,558,907
Australian Dollar	2,760,140
Brazil Real	2,619,393
Singapore Dollar	2,474,993
Danish Krone	2,202,448
Swedish Krona	1,651,904
Indonesian Rupiah	1,015,428
South African Comm Rand	348,804
UAE Dirham	196,278
Norwegian Krone	149,611
New Zealand Dollar	143,124
Polish Zloty	138,698
Total Foreign Currency	$ 249,789,081
U.S. Dollars (held in International Equity)	$ 138,332,548

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	5.25	$403,996,056
U.S. treasury notes and bonds	12.01	200,059,503
U.S. Government agency bonds	5.01	111,729,409
Emerging markets debt fund	5.05	85,953,765
Money mutual funds	0.08	47,977,473
Barclay aggregate index	5.58	18,704,499
Total debt securities		$868,420,705

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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, 2014, 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	$ 35,280,392
	AA	54,532,342
	A	157,159,748
	BBB	97,980,295
	BB	26,223,020
	B	22,836,935
	CCC	8,940,095
	D	186,035
	Not Rated	857,194
Total corporate bonds		403,996,056
U.S. treasury notes and bonds	AA	200,059,503
U.S. Government agency bonds	AA	111,729,409
Emerging markets debt fund	BBB	85,953,765
Money mutual funds	Not Rated	47,977,473
Barclay aggregate index	AA	18,704,499
Total debt securities		$ 868,420,705

Investment Policy

The System's investment policy is to preserve the capital value of the System adjusted for inflation; to ensure adequate liquidity to meet benefit liabilities as they fall due; to meet the actuarial interest rate assumptions over the longer term while maintaining appropriate risk levels; and to exceed the investment return by the astute management of System assets. The System's investment policy is designed to provide broad diversification among asset classes in order to maximize returns at a prudent level of risk. In addition, asset allocation ranges, target allocations and a process of periodic rebalancing are used to maintain compliance with policy. The long-term expected rate of return was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighing the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The following is the Board's adopted target asset allocation and the best estimates of arithmetic real rates of return by asset class.

Asset Class	**Allocation Target**	**Long-Term Expected Real Rate of Return**
US Equity	19.5%	5.8%
International Equity	19.5%	7.8%
Private Equity	5.0%	10.0%
Fixed Income	19.0%	3.3%
Real Estate	10.0%	8.0%
Hedge Funds	10.0%	4.8%
Energy MLP	7.0%	7.3%
Private Energy	5.0%	10.0%
Risk Parity	5.0%	7.3%
Total Portfolio	***100.0%***	

Rate of return

For the year ended June 30, 2014, the annual money-weighted rate of return of the Plan, calculated as the internal rate of return on investments, net of investment expenses, was 13.6%. The money-weighted rate of return expresses the Plan's investment performance, net of investment expenses, adjusted for the changing amounts actually invested.

6. Deferred Retirement Option Program (DROP):

The System has two DROP programs, DROP and DROP 2. DROP became effective July 1, 1996 and DROP 2 became effective January 1, 2010. The DROP balance as of June 30, 2014, is $80,018,911. The DROP 2 balance as of June 30, 2014, is $34,234,675.

DROP

Members with more than 20 years of service on or before December 31, 2009 can elect to participate in DROP at any time. A member's DROP participation period can be for one, two or three years. During that time the member will accrue no additional service. A member who continues employment at the end of his/her DROP participation period shall begin to earn additional service credit.

If a member retires during his/her DROP participation period or immediately at the end of this period, he/she shall be entitled to a Basic DROP Retirement Benefit. This shall equal:

1) The retirement benefit that would have been paid had the member retired at the time he/she began his/her DROP participation, plus

2) A lump sum equal to the member's DROP account. This equals the accumulation of the annuity payments the member would have received had he/she retired at the time his/her DROP participation began receiving benefits, plus the member contributions paid during his/her DROP participation period, plus interest at 8.25%.

If a member retires later than the end of the three-year DROP period but less than 18 months after the conclusion of his/her DROP participation period, he/she is entitled to an Intermediate DROP Retirement Benefit. This shall equal:

1) The retirement benefit that would have been paid had the member retired at the time he/she began his/her DROP participation, plus

2) Benefit accrual of 2% plus an extra 1.5% per year (not to exceed 18 months) for service after the DROP participation period.

3) A lump sum equal to the DROP account. No additions (other than interest) are added after the conclusion of the DROP participation period.

If a member retires more than 18 months after the conclusion of his/her DROP participation period, he/she is entitled to a Full DROP Retirement Benefit. This shall equal:

1) The retirement benefit based on current average final compensation and all service excluding service while a participant is in DROP.

2) Benefit accrual includes an extra 1.5% per year (not to exceed four years) for service after the DROP participation period.

3) A lump sum equal to the DROP account. No additions (other than interest) are added after the conclusion of the DROP participation period.

DROP 2

Members with more than 20 years of service on or after January 1, 2010, but not before December 31, 2009, can elect to participate in DROP 2. Effective July 1, 2010, the 20-year requirement was moved to 25 years for non-grandfathered members. A member's DROP 2 participation period can be for one, two or three years. The participant must remain in DROP 2 for at least one year. Those participants who retire prior to the end of the first year are not entitled to receive any amounts accumulated in the DROP 2 account. No additional service is accrued during DROP 2 participation. A member who continues employment at the end of the DROP 2 participation period shall begin to earn additional service credit.

If a member retires during the DROP 2 participation period or immediately at the end of this period, the member is entitled to an Early DROP 2 Retirement Benefit. This is equal to:

1) The retirement benefit that would have been paid had the member retired at the time he/she began his/her DROP 2 participation, plus

2) A lump sum equal to the member's DROP 2 account. This equals the accumulation of the annuity payments the member would have received had he/she retired at the time his/her DROP 2 participation began plus the member contributions paid during his/her DROP 2 participation period, plus interest at 5.5% for grandfathered participants and 3.0% for non-grandfathered participants.

If a member retires later than the end of the three-year DROP 2 period but less than 3.5 years for police employees or five years for fire employees after the conclusion of his/her DROP 2 participation period, he/she is entitled to a Mid DROP 2 Retirement Benefit. This is equal to:

1) The retirement benefit that would have been paid had the member retired at the time he/she began his/her DROP 2 participation, plus

2) Benefit accrual of 2% for service after the DROP 2 participation period began.

3) An additional benefit accrual of 1.5% per year (not to exceed four years) for service after the DROP 2 participation period for fire employees only. Police employees do not receive an additional benefit accrual.

4) A lump sum equal to the DROP 2 account. No additions (other than interest) are added after the conclusion of the DROP 2 participation period.

If a member retires more than 3.5 years for police employees or five years for fire employees after the conclusion of his/her DROP 2 participation period, he/she is entitled to a Complete DROP 2 Retirement Benefit. This shall equal:

1) The retirement benefit based on current average final compensation and all service excluding service while a participant is in DROP 2.
2) Benefit accrual includes an extra 1.5% per year (no to exceed four years) for service after the DROP 2 participation period for fire employees only. Police employees do not receive an additional benefit accrual.

3) A lump sum equal to the DROP 2 account. No additions (other than interest) are added after the conclusion of the DROP 2 participation period.

7. 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 $869,188; for office furniture is $232,835; for leasehold improvements is $802,960.

Asset	June 2013 Balance	Additions	Depreciation	June 2014 Balance
Computer equipment	$ 73,081	$ 374,050	$114,471	$ 332,660
Office furniture / equipment	190,218		26,441	163,777
Leasehold improvements	641,429		90,274	551,155
Totals	$ 904,728	$ 374,050	$231,186	$1,047,592

8. Net Pension Liability:

The following schedules show the Net Pension Liability as of June 30, 2014, and the sensitivity of the NPL to the discount rate. The discount rate used to measure the total pension liability was 7.75 percent. The projection of cash flows used to determine the discount rate assumed that member and employer contributions will be made at rates equal to those based on the June 30, 2014, Actuarial Valuation Report. For this purpose, only employer contributions that are intended to fund benefits of current plan members and their beneficiaries are included. Projected employer contributions that are intended to fund the service cost of future plan members and their beneficiaries, as well as projected contributions from future plan members, are not included. Based on those assumptions, F&P's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members as of July 1, 2014. Therefore, the long-term expected rate of return on F&P investments was applied to all periods of projected benefit payments to determine the total pension liability as of June 30, 2014.

Net Pension Liability

Total Pension Liability	$ 3,373,171,388
Plan Fiduciary Net Position	2,492,544,399
Net Pension Liability	$ 880,626,989
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	73.9%

Sensitivity of Net Pension Liability to Changes in Discount Rate

	1% Decrease 6.75%	Discount Rate 7.75%	1% Increase 8.75%
Total Pension Liability	$ 3,739,768,445	$ 3,373,171,388	$ 3,065,049,548
Plan Fiduciary Net Position	2,492,544,399	2,492,544,399	2,492,544,399
Net Pension Liability	$ 1,247,224,046	$ 880,626,989	$ 572,505,149
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	66.6%	73.9%	81.3%

Valuation Date 6/30/2014

The total pension liability was determined by an actuarial valuation as of June 30, 2014, using the following actuarial assumptions, applied to all periods included in the measurement:

Actuarial Cost Method	Entry Age Normal
Discount rate	7.75%
Price inflation	3.75%
Salary increases	3.75% plus merit component based on employee classification and years of service
Mortality	RP-2000 Combined Healthy Mortality projected to 2010 by Scale AA for healthy lives

The last experience study covered the period 7/1/2008 through June 30, 2011. An actuarial experience study is generally conducted every five years.

9. Derivatives:

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

Forward Currency Contracts

Certain F&P investment managers enter into forward currency contracts to manage exposure to fluctuations in foreign currency exchange rates on portfolio holdings. Those managers also enter into forward exchange contracts to settle future obligations. A forward exchange contract is a commitment to purchase (payable) or sell (receivable) a foreign currency at a future date at a negotiated forward rate. Risk associated with such contracts includes movement in the value of a foreign currency relative to the U.S. dollar. Unrealized gain or loss on forward currency contracts is the difference between the contract and the closing market value of such contract and is included in the statement of changes in plan net position as net appreciation/depreciation in fair value of investments. The table below summarizes the market value of foreign currency contracts as of June 30, 2014.

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	1,517,464	1,517,464	1,517,464	1,537,457
British Pound Sterling	108,084	108,084	109,281	108,084
Canadian Dollar	4,983	4,983	4,999	4,983
Euro Currency Unit	3,198,429	3,198,429	3,198,429	3,166,159
Euro Currency Unit	836,895	836,895	839,270	836,895
Hong Kong Dollar	46,620	46,620	46,620	46,625
Japenese Yen	158,867	158,867	159,015	158,867
Japenese Yen	6,889	6,889	6,889	6,907
Swiss Franc	452,309	452,309	452,309	454,909
Swiss Franc	16,323	16,323	16,445	16,323
Totals	6,346,863	6,346,863	6,350,721	6,337,209

10. Commitments:

The F&P has at June 30, 2014, committed to fund certain alternative investment partnerships in the amount of $372,583,163. Funding of $284,548,827 has been provided leaving an unfunded commitment of $88,034,336.

11. Litigation:

The City enacted changes to the plan, through Ordinance 10-306, 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 under the federal constitution.

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 the 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 U.S. District Court 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" claim was moot.

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. On August 6, 2014, the Fourth Circuit overturned the 2012 ruling that the provision in Ordinance 10-306 that replaced the F&P's variable benefit retiree increase with a tiered COLA was unconstitutional under the federal constitution. The appeals court concluded that the provision in the Ordinance did not impair the federal constitutional rights of F&P members because they could have contested the Ordinance under State law. The Fourth Circuit also remanded the case to the District Court to reconsider the "Takings Clause" issue. Barring a future court order to the contrary, F&P will continue to administer the F&P plan as amended by Ordinance 10-306.

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Required Supplementary Information and Supporting Schedules

Fire and Police Employees' Retirement System
City of Baltimore, Maryland
SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS
SCHEDULE OF INVESTMENT RETURNS
For the Year Ended June 30, 2014

Schedule of Changes in Net Pension Liability and Related Ratios

Total Pension Liability:	
Interest (includes interest on service cost)	$ 250,480,374
Service cost	66,034,831
Differences between expected and actual experience	1,405,813
Benefit payments, including refunds of member contributions	(221,439,237)
Net change in total pension liability	**96,481,781**
Total pension liability - beginning	**3,276,689,607**
Total pension liability - ending	**$ 3,373,171,388**
Plan fiduciary net position	
Net investment income	$ 314,449,271
Contributions - employer	113,843,250
Contributions - members	28,265,556
Benefit payments, including refunds of member contributions	(221,439,237)
Administrative expense	(3,907,539)
Net change in total pension liability	**231,211,301**
Plan fiduciary net position - beginning	**2,261,333,098**
Plan fiduciary net position - ending	**$ 2,492,544,399**
Net pension liability - ending	**$ 880,626,989**
Plan fiduciary net position as a percentage of the total pension liability	**73.89%**
Covered employee payroll	**$ 284,210,233**
Net pension liability as a percentage of covered employee payroll	**309.85%**

Schedule of Investment Returns

	2014
Annual money-weighted rate of return, net of investment expense	13.60%

Note:

These schedules are presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, the Fire and Police Employees' Retirement System will present information for those years for which information is available.

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

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	Covered Employee Payroll	Contribution Rate of Covered Employee Payroll
2005	$48,321,205	$345,496		$48,666,701	$48,666,701	$244,814,891	19.88%
2006	49,248,316	413,311		49,661,627	49,661,627	248,558,248	19.98
2007	54,092,757	530,750	$ 5,505,220	54,623,507	60,128,727	254,489,308	23.63
2008	66,423,208	532,536	5,731,841	66,955,744	72,687,585	269,690,209	26.95
2009	68,928,188	585,048		69,513,236	69,513,236	281,423,808	24.70
2010	81,879,056	818,687	11,400,000	82,697,743	94,097,743	276,576,626	34.02
2011	89,799,377	841,660	16,898,836	90,641,037	107,539,873	275,647,861	39.01
2012	98,895,949	790,190	7,802,264	99,686,139	107,488,403	284,601,473	37.77
2013	101,291,889	786,970	5,700,000	102,078,859	107,778,859	277,524,356	38.84
2014	113,003,944	839,306		113,843,250	113,843,250	284,210,233	40.06

See notes to required supplementary information.

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.

6. The actuarially determined contribution rates in the schedule of employer contributions are calculated as of June 30, 2014. The following actuarial methods and assumptions were used to determine contribution rates reported in the schedule:

Valuation date	6/30/2012
Timing	Actuarially determined contribution rates are calculated based on the actuarial valuation coinciding with the beginning of the plan year.

Key methods and assumptions used to determine contribution rates:

Actuarial cost method	Projected unit credit
Asset valuation method	5-year smoothed market
Amortization method	The current unfunded actuarial liability is amortized as a level dollar figure over 20 years. This 20-year period is restarted each year.
Discount rate	7.75%
Amortization growth rate	0.00%
Price inflation	3.75%
Salary increases	3.75% plus merit component based on employee classification and years of service
Mortality	RP-2000 Combined Healthy Mortality projected to 2010 by Scale AA for healthy lives

A complete description of the methods and assumptions used to determine contribution rates for the year ending June 30, 2014 can be found in the June 30, 2012 actuarial valuation report.

Fire and Police Employees' Retirement System
City of Baltimore, Maryland
SCHEDULE OF ADMINISTRATIVE EXPENSES
For the Year Ended June 30, 2014

Salaries and Wages:		
Permanent full-time salaries	$1,235,658	
Overtime	6,999	
Total Salaries and Wages		$1,242,657
Other Personnel Costs:		
Retirement	271,045	
Medical insurance and health care	181,940	
Social security	103,105	
Other employee benefits	8,043	
Total Other Personnel Costs		564,133
Contractual Services:		
Technology systems support	647,814	
Retirement payroll processing	489,268	
Lease payments	264,999	
Actuarial services	120,671	
Printing	81,511	
Postage	43,584	
Financial audit fees	35,000	
Equipment rental	24,868	
Other professional services	21,788	
Legal Fees	20,961	
Trustee education	19,140	
Staff training	16,163	
Board meeting expense	11,699	
Equipment maintenance	9,249	
Telephone systems	9,067	
Dues and publications	8,633	
Total Contractual Services		1,824,415
Depreciation expense		231,186
Computer equipment		29,802
Office supplies		14,575
Office furniture		771
Total Administrative Expenses		$3,907,539

SCHEDULE OF INVESTMENT EXPENSES
SCHEDULE OF PAYMENTS TO CONSULTANTS
For the Year Ended June 30, 2014

Schedule of Investment Expenses

Investment Expenses	Fees
Investment management fees	$7,612,310
Investment consultant fees	317,500
Custodial fees	166,462
Securities lending fees	154,958
Total Investment Expenses	**$8,251,230**

Schedule of Payments to Consultants

Firm	Fees	Nature of Service
TeleCommunication Systems	$228,217	Technology systems support
Magothy Technology	167,553	Technology systems support
Cheiron	120,671	Actuarial services
CliftonLarsonAllen	35,000	Financial audit
Venable, LLP	20,961	Legal fees
Total Paid to Consultants	**$572,402**	

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 61.

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JOHN E. HURST & CO.

Summit Strategies Group

October 1, 2014

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

Introduction

Summit Strategies Group ("Summit") prepares this report for the Fire & Police Employees' Retirement System of the City of Baltimore (the "System") based on the information supplied by the System's custodian, BNY Mellon Asset Servicing ("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 monthly. Third-party custodians for the pooled investment vehicles, such as mutual funds or commingled trusts, provide BNY Mellon with net asset values and the System's 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 System's Board of Trustees (the "Trustees").

Distinction of Responsibilities

The Trustees are responsible for the investment and administration of the System's assets. This includes establishing the strategic asset allocation that, over time, is the primary determinant of the 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. In December 2010, Summit conducted and presented an asset-liability study 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 and modified the target asset mix as necessary. The following page entails the target asset allocation, as modified by the Trustees, as of fiscal year ("FY") 2014.

Investment Policy/Structure

The target 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"). The System's assets are invested using numerous investment managers to diversify the assets among multiple asset classes 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 geographic exposure subject to Investment Policy.

The System's Investment Policy is designed to provide broad diversification among asset classes and investment strategies in order to maximize return at a prudent level of risk as determined by the Trustees, 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 while maintaining appropriate risk level; and
4. To exceed the investment return objective without unduly jeopardizing objectives 1-3.

The FY 2014 investment policy return objective is based on a hypothetical portfolio that includes the following allocations: 19.5% Russell 3000 Index; 19.5% MSCI All Country World Ex-US Index; 5% Russell 3000 +3%; 5% CPI + 4%; 7% S&P MLP Total Return Index; 19% Barclays US Universal Index; 10% NCREIF Property Index; 10% HFRI Fund of Funds Composite Index; and 5% Risk Parity Index (consisting of 60% S&P 500 and 40% BC Aggregate Index). In addition, the System's investment performance is evaluated relative to the Public Plan Universe of the BNY Mellon US Trust Universe, which represents the performance of 310 public pension plans with an aggregate market value of $1.3 trillion as of June 30, 2014. Finally, each investment manager is assessed comparative to its relevant market index and style peer universe.

Market Overview

The major economic themes for the fiscal year beginning July 1, 2013 and ending June 30, 2014, were ones of: central bank stimulus, market reaction to political tension in Washington D.C., and anticipation of rising interest rates. For the calendar year ending December 31, 2013, US unemployment fell to 6.7%, well off the recession peak of 10.0% in 2009. Looming uncertainty revolving around the Fed's decision to "taper" was alleviated by the Federal Open Market Committee's ("FOMC") announcement of a $10 billion per month decrease to $75 billion. Volatility continued to decline to historical lows and the volume of mergers and acquisitions was low, which caused the loan market to be very competitive. Rates remained low, but the U.S. Treasury yield curve began to price in normalization of monetary policy. For the calendar year ending 2013, equities returned 32.4% (S&P 500) and small cap value equities were the strongest performers, returning 43.3% (annualized).

The first quarter of 2014 greeted investors with a negative Gross Domestic Product ("GDP") number along with a decrease in the unemployment rate and an improved participation rate; however, poor weather conditions in the United States partially caused a decrease in consumer spending and muted housing market. Volatility-inducing events such as the geopolitical conditions due to the Malaysian Air catastrophes and Russian sanctions stressed the markets. Most fixed income sectors still produced positive returns, hurt by limited spread compression and an overall rise in Treasury yields. The second quarter of 2014 experienced improvements in the labor market and broader economy as the Fed continued to taper its asset purchase program, Quantitative Easing 3 ("QE3"). At its June meeting, the Fed announced that it would purchase mortgage-backed securities and Treasury bonds at a rate of $35 billion per month and, if the economy continued to grow, the FOMC will conclude QE3 in October 2014. In June 2014, the labor market showed significant signs of improvement. The unemployment rate fell to 6.1% as the economy recovered all of the jobs lost during the recession five years ago. After an abysmal first quarter, the U.S. economy picked up steam in the second quarter with GDP coming in much stronger than expected, increasing at an annual rate of 4.0%. The increase in real GDP was largely due to growing personal consumption expenditure, private inventory investment, exports, nonresidential fixed investment, state and local government spending and residential fixed investment.

Despite the Spring 2014 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 +24.6% and the Russell 2000, a proxy for small cap stocks, rose +23.6%. International stocks also produced strong results; the MSCI EAFE Index rose by 23.6% for the fiscal year and the MSCI Emerging Markets Index returned +14.7%. 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. Yields fell across the middle and long end of the yield curve during the quarter. The spread between 2-year and 30-year Treasuries tightened 24 basis points to 2.9%. US TIPS returned 4.4% over the fiscal year. International bonds were among the top fixed income performers, as the Barclays Global Aggregate ex US returned 9.4% outperforming the US Aggregate by 70 basis points. 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 system assets are, 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. Summit, however, strives to uphold and maintain the guiding principles underlying GIPS standards, both ethically and in its performance calculation methodology. Accordingly, all performance returns are calculated using a time-weighted methodology known as the Modified Dietz method. This algorithm attempts to eliminate the effects of cash flows and geometrically links period returns.

The total return for the FY 2014 on all assets was 14.2% which ranked in the 90th percentile of the Public Plan Universe of the BNY Mellon US Trust Universe. For the fiscal year, the System's rate of return for the "actively managed," diversified portfolio of assets was 16.5% and ranked in the 58th percentile of the Mellon Trust Public Fund Universe. In addition, the System's diversified portfolio outperformed its policy benchmark by 0.26%. The System's Investment Policy calls for measuring performance for the diversified portfolio over rolling 3 to 5 year periods. Accordingly, this portion of the System's assets have compounded at annual rates of return of 10.0% and 14.0% for the last 3 and 5 years, ranking in the 52nd and 12th percentiles for those periods, respectively. Over the longer time period of the trailing 7 and 10 years, however, the System returned 4.8% and 7.7%, respectively and ranked in the 84th and 28th percentiles of the universe, respectively.

The actively managed assets outperformed their policy benchmark return of 16.2% for the FY 2014, due in part to:

- Strong relative performance across the entire portfolio as every asset class composite, except Domestic and International Equity, outperformed its benchmark;
- Strong absolute and relative performance of the energy master limited partnership ("Energy MLPs") combined with an above target weight to private equity and a below-target weight to fixed income;
- Strong absolute and relative performance for risk parity and real estate investments.

The market value of all assets was $2.50 billion on June 30, 2014. The market value of the "actively managed" assets increased from $1.77 billion on June 30, 2013 to $1.99 billion on June 30, 2014. The increase in value is primarily attributable to market appreciation over the last twelve months, as shown below:

			Fiscal Year Rate of Return	
	Market Value ($ in millions)**	**Percent of Total****	**System**	**Benchmark**
US Equity	$402.8	20.2%	23.6%	25.2%
International Equity	$401.7	20.1%	18.3%	21.8%
Fixed Income	$341.8	17.1%	5.3%	5.2%
Private Equity	$159.9	8.0%	19.8%	N/A
Hedge Funds	$195.2	9.8%	8.1%	7.7%
Real Estate	$197.4	9.9%	11.4%	11.2%
Energy MLPs	$171.2	8.6%	36.3%	24.9%
Risk Parity	$105.0	5.3%	18.5%	16.2%
Total Managed Assets*	**$1,994.4****	**100.0%****	**16.5%**	**16.2%**

* *The market value of the Total Managed Assets does not include Securities Lending, but it does include Natural Resources.*

** *Rounded*

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 in the continuing effort to manage risk and search for competitive investment returns in this current challenging capital market environment.

Respectfully submitted,

Daniel J. Holmes
Managing Director

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%

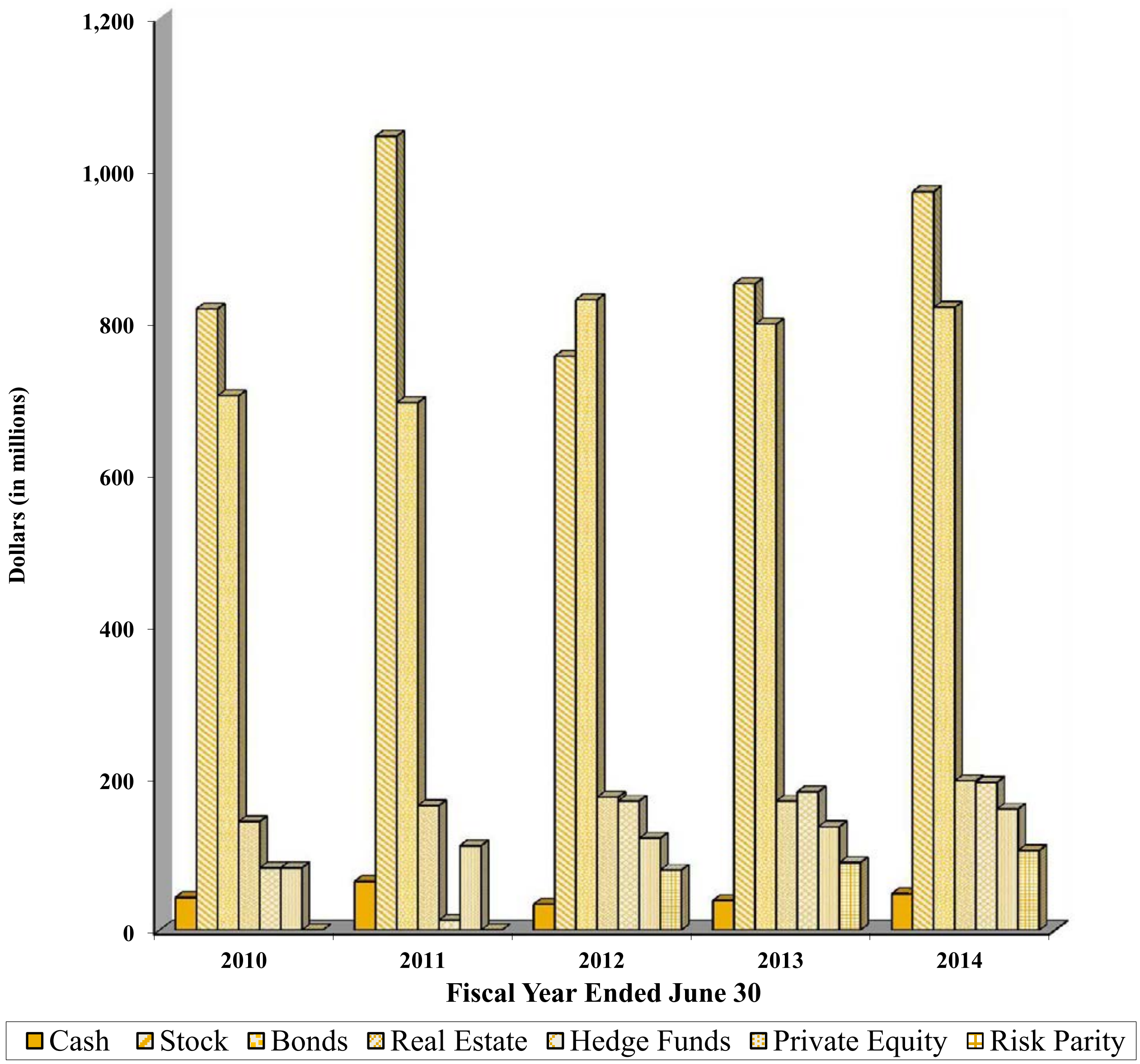
Within each major asset classification, investments are further diversified. Excessive concentration in any particular security, company or industry is to be avoided. Investment guidelines have been supplied to each of the System's investment managers. Subject to these objectives and guidelines, and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



	2010		2011		2012		2013		2014	
Cash	$ 43	2%	$ 64	3%	$ 34	2%	$ 39	2%	$ 48	2%
Stock	818	44	1,045	50	756	35	851	38	972	38
Bonds	704	38	695	33	830	38	798	35	820	35
Real Estate	143	8	164	8	175	8	170	7	197	7
Hedge Funds	82	4	13	1	170	8	182	8	195	8
Private Equity	82	4	111	5	121	5	136	6	160	6
Risk Parity					79	4	89	4	105	4
Total	$ 1,872	100%	$ 2,092	100%	$ 2,165	100%	$ 2,265	100%	$ 2,497	100%

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

		Annualized		
Total Returns	**FY 2014**	**3 Years**	**5 Years**	**10 Years**
TOTAL PORTFOLIO	16.5%	10.0%	14.0%	7.7%
Composite Benchmark	16.2	9.8	13.0	7.4
DOMESTIC EQUITIES	23.6	15.8	20.4	8.5
S&P 500 Index	24.6	16.6	18.8	7.8
Russell 1000	25.4	16.6	19.3	8.2
Russell 2000	23.6	14.6	20.2	8.7
Russell 3000	25.2	16.5	19.3	8.2
INTERNATIONAL EQUITIES	18.3	8.0	15.1	11.1
MSCI ACWI Free Ex-US	21.8	5.7	11.1	7.8
DOMESTIC FIXED INCOME	5.3	3.9	8.6	6.2
Barclays Capital US Government/Credit	2.9	2.8	4.1	4.3
Barclays Capital Aggregate	4.4	3.7	4.9	4.9
PRIVATE EQUITY	19.8	11.3	13.2	N/A
S&P 500 Index Plus 400 bps	24.6	16.6	18.8	N/A
HEDGE FUND	8.1	5.9	4.8	N/A
HFRI FOF Composite Index	7.7	3.3	4.3	N/A
REAL ESTATE	11.4	12.2	7.6	5.5
NCREIF Property Index	11.2	11.3	9.7	8.6
ENERGY MLP	36.3	27.9	N/A	N/A
S&P MLP Index	24.9	20.3	N/A	N/A
RISK PARITY	18.5	N/A	N/A	N/A
Risk Parity Index: 60% S&P 500/40% BC Agg	16.2	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.

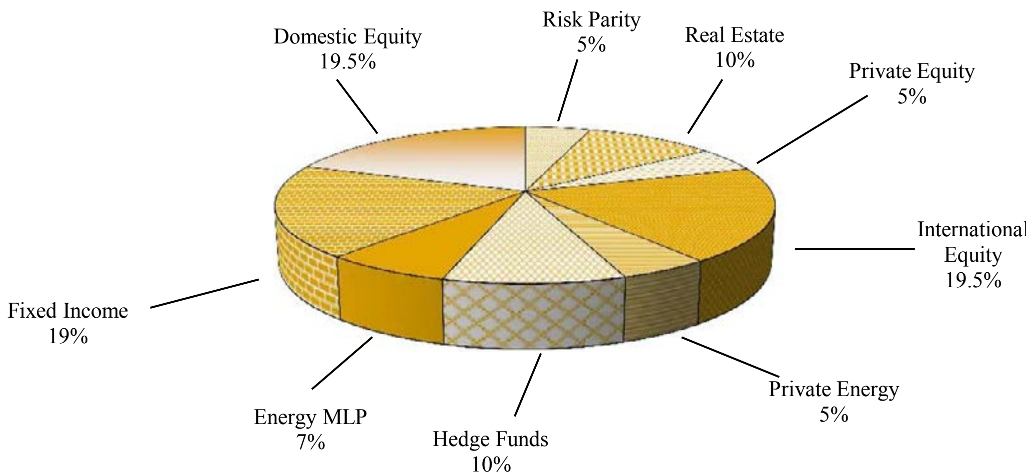
The total investment portfolio result which includes the performance of the fixed income Variable Benefit Reserves for the fiscal year is 14.2%. The fixed income portfolio, including the reserves, result for the fiscal year is 6.0%.

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

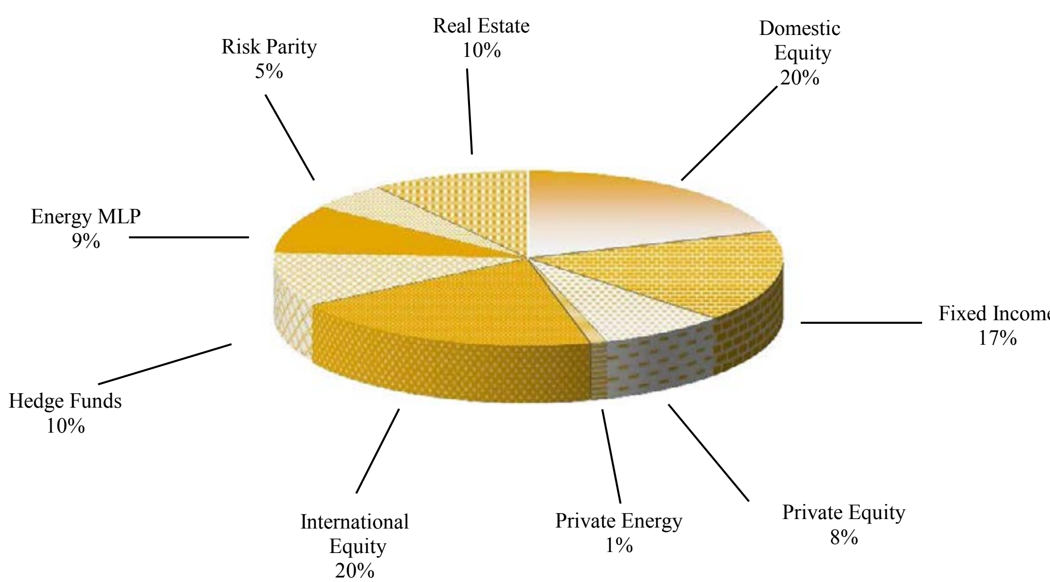
The Composite Benchmark exhibits the overall rate of return for a sample unmanaged portfolio. At fiscal year end 2014, the Composite Benchmark is comprised of 19.5% Russell 3000 Index; 19.5% MSCI All Country World Ex-US Index; 5% Russell 3000 +3%; 5% CPI + 4%; 7% S&P MLP Total Return Index; 19% Barclays US Universal Index; 10% NCREIF Property Index; 10% HFRI Fund of Funds Composite Index; and 5% Risk Parity Index (consisting of 60% S&P 500 and 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, 2014

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 2014, 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, 2014

Top Ten Domestic Stock Holdings

	Shares	Stock	Market Value
1)	199,000	Intel Corp	$6,149,100.00
2)	206,323	Pfizer Inc	6,123,666.64
3)	43,595	Chevron Corp	5,691,327.25
4)	60,949	Apple Inc	5,663,990.57
5)	68,500	Unitedhealth Group Inc	5,599,875.00
6)	132,300	Microsoft Corp	5,516,910.00
7)	91,900	Allstate Corp/The	5,396,368.00
8)	192,300	General Electric Co	5,053,644.00
9)	39,792	Schlumberger Ltd	4,693,466.40
10)	58,139	Qualcomm Inc	4,604,608.80

Top Ten International Stock Holdings

	Shares	Stock	Market Value
1)	289,944	Reed Elsevier NV EUR0.07	$6,649,361.86
2)	67,274	Novartis AG CHF0.50 (REGD)	6,091,680.42
3)	71,436	AZKO Nobel NV EUR2	5,354,911.32
4)	47,168	Sanofi	5,010,121.61
5)	53,391	Daimler AG ORD NPV	5,000,059.68
6)	74,800	KDDI Corp Y5000	4,562,353.25
7)	15,238	Roche HLDG AG Genusscheine NPV	4,544,937.98
8)	245,952	UBS AG CHF0.1	4,512,448.17
9)	40,937	TECHNIP SA EUR	4,477,746.11
10)	73,256	British American Tobacco ORD	4,356,430.52

Top Ten Bond Holdings

	Par	Bonds	Market Value
1)	72,870,000	U S Treasury NT Prin Strip 05/15/2030	$44,444,141.70
2)	21,309,000	Government TR CTFS 10/01/2020	17,720,777.49
3)	18,700,000	Israel St AID Zero Cpn 08/15/2021	15,568,311.00
4)	33,300,000	U S Treasury NT Prin Strip 08/15/2039	14,211,774.00
5)	19,000,000	U S Treasury NT Prin Strip 08/15/2026	13,482,590.00
6)	9,300,000	FHLMC Multiclass MTG K014 A2 04/25/2021	10,149,741.00
7)	10,410,000	U S Treasury NT Prin Strip 05/15/2021	8,950,611.69
8)	10,419,000	Government TR CTFS 04/01/2020	8,858,963.13
9)	8,005,000	U S Treasury Bonds 11/15/2043	8,645,400.00
10)	11,040,000	U S Treasury NT Prin Strip 08/15/2027	7,521,993.60

A complete list of portfolio holdings is available upon request.

Fire and Police Employees' Retirement System
City of Baltimore, Maryland
INVESTMENT SUMMARY
June 30, 2014

	Fair Value	Percent of Total Investments
Stock:		
U.S. Common Stock		
Financial	$ 98,674,593	4.03%
Health care	50,369,849	2.06
Technology	48,591,080	1.98
Energy	46,100,124	1.88
Consumer durables	34,027,669	1.39
Consumer nondurables	31,412,785	1.28
Consumer services	30,923,696	1.26
Basic industries	21,500,095	0.88
Transportation	8,305,613	0.34
Capital goods	4,687,973	0.19
Total U.S. Common Stock	374,593,477	15.29
Other		
International Stock	389,611,647	15.91
Large cap index fund	20,613,857	0.84
Total Other	410,225,504	16.75
Total Stock	**784,818,981**	**32.04**
Bonds:		
U.S. Securities and Agencies		
Treasury notes and bonds	200,059,503	8.17
U.S. Agencies	111,729,409	4.56
Total U.S. Securities and Agencies	311,788,912	12.73
Corporate		
Financial	302,295,285	12.33
Transportation	51,087,081	2.09
Utilities	30,312,741	1.24
Industrial	20,300,949	0.83
Total Corporate	403,996,056	16.49
Emerging markets debt fund	85,953,765	3.51
Barclay Aggregate Index	18,704,499	0.76
Total Bonds	**820,443,232**	**33.49**
Other Investments:		
Real estate funds	197,410,069	8.05
Hedge funds	195,165,946	7.97
Energy master limited partnerships	186,869,419	7.63
Private equity funds	159,946,882	6.53
Risk parity fund	104,990,117	4.29
Total Other Investments	**844,382,433**	**34.47**
Total Investments	**$2,449,644,646**	**100.00%**

Fire and Police Employees' Retirement System
City of Baltimore, Maryland
SUMMARY SCHEDULE OF FEES AND COMMISSIONS
For the Year Ended June 30, 2014

	Assets Under Management	Fees
Investment Managers' Fees		
International equity	$401,676,595	$2,289,284
Domestic equity	594,993,176	2,822,072
Fixed income	828,988,891	1,163,909
Real estate	197,410,069	574,773
Private equity	159,946,882	762,273
Securities lending		154,957
Total Investment Managers' Fees		**$7,767,268**

Other Investment Service Fees:	
Investment consultant fees	$317,500
Custodian bank fees	179,522
Total Other Investment Service Fees	**$497,022**

Brokerage Fees

Broker's fees on investment transactions for the year ended June 30, 2014 amounted to $589,833. Brokerage firms receiving more than $4,600 in fees are listed below.

Brokerage Firms	Fees Paid	Brokerage Firms	Fees Paid
Percival Financial, LTD	$50,521	Macquarie Securities, Inc.	$7,926
UBS	44,458	Legent Clearing Corp.	7,838
Merrill Lynch	42,526	Merlin Securities, LLC	7,740
Morgan Stanley & Co.	38,058	SG Americas Securities, LLC	7,369
Instinet Corp	30,960	Weeden & Co.	6,348
BNY Convergex	30,950	Credit Lyonnais Securities	6,222
Credit Suisse	30,468	Williams Capital Group, LP	6,189
Deutsche Bank Securities, Inc.	23,853	Kepler Equities	5,584
J P Morgan Securities, Inc.	23,149	Stifel Nicolaus	5,471
Barclays Capital	23,006	Investment Technology Group, LTD	4,972
Citigroup Global Markets, LTD	22,566	Redburn Partners, LLP	4,949
Goldman Sachs & Co.	16,649	Raymond James & Associates, Inc.	4,746
Jefferies & Company, Inc.	13,759	Capital Institutional Services, Inc.	4,624
Bernstein Sanford & Co.	8,097	Sanford C Bernstein & Co.	4,602

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, FL

Mellon Capital Management
Karen Wong
San Francisco, CA

The Edgar Lomax Company
Randall Eley
Springfield, VA

Brown Advisory
Nicole A. Nesbitt
Baltimore, MD

Small and Mid Cap

Pinnacle Associates, Ltd.
Peter Marron
New York, NY

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

Hotchkis & Wiley Capital Management
Sheldon Lieberman
Los Angeles, CA

INTERNATIONAL EQUITY MANAGERS

William Blair & Co.
George Greig
Chicago, IL

Aberdeen Asset Management, Inc.
Devan Kaloo
London, England

Causeway Capital Management, LLC
Sarah Ketterer
Los Angeles, CA

HEDGE FUND OF FUNDS

Union Bancaire Private Asset Management, LLC
Robert Molina
New York, NY

Titan Advisors
Tom Holliday
Rye Brook, NY

Prisma Capital Partners
Eric Wolfe
New York, NY

FIXED INCOME MANAGERS

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

Western Asset Management Company
Derek Fan
Pasadena, CA

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

C. S. McKee
Brian Allen
Pittsburgh, PA

MacKay Shields
Taylor Wagenseil
New York, NY

Mellon Capital Management
Brian Hock
Pittsburgh, PA

Pugh Capital Management
Mary Pugh
Seattle, WA

REAL ESTATE MANAGERS

Principal Global Investors
John Berg
De Moines, IA

LaSalle Investment Management, Inc.
James Hutchinson
Chicago, IL

Clarion
Jeb Belford
New York, NY

DLJ Real Estate
Andy Rifkin
New York, NY

AREA Property Partners
Steven M. Wolf
New York, NY

Alex Brown Realty
John M. Prugh
Baltimore, MD

Angelo Gordon Real Estate
Adam Schwartz
New York, NY

REAL ASSETS

Harvest Fund Advisors, LLC
Eric Conklin
Wayne, PA

Tortoise Capital Advisors, LLC
Zach Hamel
Leawood, KS

PRIVATE EQUITY

Pantheon
Yokasta Segura-Baez
New York, NY

BlackRock
Russell Steenberg
Princeton, New Jersey

Capital Dynamics
Cynthia Duda
New York, NY

LGT Capital Partners
Ryan Green
New York, NY

Drum Capital Management, LLC
Amber Tencic
Stamford, CT

Adams Street Partners
Scott C. Hazen
Chicago, IL

Squadron Capital Advisors
Chau Ly
Central, Hong Kong

Maryland Venture Capital Trust
Baltimore, MD

Siguler Guff
Thomas McGowan
New York, NY

Greenspring Global Partners
Deric Emry
Owings Mills, MD

PRIVATE ENERGY

Aether Investment Partners
David Rhoades
Denver, CO

Park Street Capital
Sarah Dailey
Boston, MA

RISK PARITY

AQR Capital Management
Tiffany Wells
Greenwich, CT

GLOBAL CUSTODIAN

BNY Mellon Asset Servicing
Sarah Baulch
Pittsburgh, PA

SECURITIES LENDING

BNY Mellon Asset Servicing
Stephen R. Crosby
Pittsburgh, PA

INVESTMENT CONSULTANT

The Summit Strategies Group
Daniel Holmes
St. Louis, MO

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Actuarial Section

October 31, 2014

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: 2014 CAFR

Honorable Members of the Board of Trustees:

Cheiron has performed an actuarial valuation of the System as of June 30, 2014. This valuation is used to determine the City's contribution to be made in Fiscal Year 2016. The contribution actually made during fiscal year 2014 was developed in the 2012 actuarial valuation.

The funding method used in this annual valuation is the projected unit credit funding 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 then increased or decreased from the normal cost amount 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 a closed 20-year period. This closed 20-year period is an actuarial methodology change beginning with this June 30, 2014 annual valuation as the prior annual valuation utilized an open 20-year amortization period.

This June 30, 2014 annual valuation also reflects a reset of the actuarial value of assets to equal the market value of assets as of July 1, 2014.

The results presented in this Comprehensive Annual Financial Report reflect the assumptions from the June 30, 2014 actuarial valuation. Article 22 of the Baltimore City Code specifies a number of these assumptions and requires a period review of all of the assumptions by the actuary. The most recent such review examined experience from 2008 to 2011 and resulted in assumption changes that were first reflected in the June 30, 2012 actuarial valuation. The actuarial assumptions and methodology used in the June 30, 2014 actuarial valuation were recommended by the actuary as a reasonable estimate of the anticipated experience of the System and approved by the Board of Trustees. In addition, 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. 27.

Membership data used for the actuarial valuation are supplied by the System. An informal examination of the obvious characteristics of this data for reasonableness and consistency in accordance with Actuarial Standard of Practice No. 23 was performed. 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.

To the best of our knowledge, this letter and its contents have been prepared in accordance with generally recognized and accepted actuarial principles and practices that are consistent with the Code of Professional Conduct and applicable Actuarial Standards of Practice set out by the Actuarial Standards Board. Furthermore, as credentialed actuaries, we meet the Qualification Standards of the American Academy of Actuaries to render the opinion contained in this letter. This letter 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]		Line-of-Duty Death[2]
			Male	Female	
20	0.000146	0.001073	0.000285	0.000163	0.000076
25	0.000149	0.001412	0.000340	0.000180	0.000119
30	0.000381	0.002224	0.000422	0.000239	0.000164
35	0.001227	0.004369	0.000735	0.000425	0.000253
40	0.001179	0.006191	0.000996	0.000607	0.000385
45	0.001699	0.007006	0.001323	0.000957	0.000433
50	0.001795	0.005710	0.001783	0.001412	0.000372
55	0.000927	0.005789	0.002991	0.002507	0.000300
60	0.000745	0.007706	0.005742	0.004808	0.000159
64	0.000520	0.007886	0.009797	0.008198	0.000062

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

<u>Retirees and Beneficiaries</u>: RP-2000 Combined Mortality Table projected to 2010 with scale AA.
<u>Disabled Members</u>: RP-2000 Combined Mortality Table projected to 2010 with scale AA set forward four years.

Sample rates are shown below.

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

Mortality through the 2010 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%

<u>Non-DROP/Grandfathered Non-DROP2 Retirement Probabilities</u>

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
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
2014	4,317	284,210,233	65,835	5.3

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
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
2014	258	9,180,339	196	3,095,964	6,268	207,704,903	3.0	33,137

* 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)
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
2014	283,377,044	2,266,741,330	810,330,710	2,492,544,399	100	97	0.0

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 2013	Gain or (Loss) for Fiscal Year 2014
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.	$ (20,022,440)	$ 1,245,488
Disability Retirements If disability claims are less than assumed, there is a gain. If more claims, a loss.	(6,736,905)	(3,545,830)
Death-in-Service Benefits If survivor claims are less than assumed, there is a gain. If more claims, there is a loss.	31,063	649,391
Withdrawal From Employment If more liabilities are released by withdrawals than assumed, there is a gain. If smaller releases, a loss.	19,738,403	2,409,944
Pay Increases If there are smaller pay increases than assumed, there is a gain. If greater increases, a loss.	19,987,317	(1,153,871)
Investment Income If there is greater investment income than assumed, there is a gain. If less, a loss.	(86,258,119)	(121,745,786)
Death After Retirement If retirees live longer than assumed, there is a loss. If not as long, a gain.	3,562,825	2,019,016
New Entrants New entrants create a loss because they were not assumed in the previous evaluation.	(1,640,175)	(936,958)
Excess Contributions Gain created due to contributions that are not designated to reduce the BIF and ERF.	5,710,207	-
Continuing Inactives Gains and losses from continuing inactives from causes other than death.	(550,969)	1,033,113
Other Miscellaneous gains and losses resulting from data adjustments, timing of financial transactions, valuation methods, etc.	208,776	(3,342,768)
Loss During Year From Financial Experience	$ (65,970,017)	$ (123,368,261)

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)	5**0% 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 2005 - 2014
Revenues by Source - Fiscal Years 2005 - 2014
Expenses by Type - Fiscal Years 2005 - 2014
Benefit Expenses by Type - Fiscal Years 2005 - 2014
Average Monthly Service Retirement Benefit Payments - Fiscal Years 2005 - 2014

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 2005 – 2014
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 – 2014
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

	2005	2006	2007	2008	2009
Additions					
Net investment income	$ 218,297,510	$ 178,616,240	$ 347,068,360	$ (97,529,998)	$ (357,730,702)
Employer contributions	48,666,701	49,661,627	60,128,727	72,687,585	69,513,236
Member contributions	15,359,931	15,157,898	15,438,649	16,547,425	17,661,252
Net securities lending income	389,616	561,649	756,603	2,049,347	1,801,369
Total Additions	282,713,758	243,997,414	423,392,339	(6,245,641)	(268,754,845)
Deductions					
Retirement allowances	135,950,256	147,353,252	155,639,508	166,119,977	173,547,075
Lump sum DROP payments	22,253,341	14,025,599	12,950,280	14,118,642	10,379,493
Administrative expenses	2,143,390	2,552,458	2,818,795	3,264,028	3,334,851
Refunds of member contributions	1,403,449	1,708,619	2,007,222	1,627,871	1,114,334
Death benefits	620,679	520,214	721,942	63,151	251,544
Total Deductions	162,371,115	166,160,142	174,137,747	185,193,669	188,627,297
Net Increase (Decrease)	$ 120,342,643	$ 77,837,272	$ 249,254,592	$ (191,439,310)	$ (457,382,142)

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

	2010	2011	2012	2013	2014
Additions					
Net investment income	$ 252,146,101	$ 366,713,890	$ 80,339,513	$ 200,073,582	$ 313,953,904
Employer contributions	94,097,743	107,539,873	107,488,403	107,778,859	113,843,250
Member contributions	17,254,515	19,586,155	22,866,939	25,381,635	28,265,556
Net securities lending income	500,376	452,113	594,933	463,706	495,366
Total Additions	363,998,735	494,292,031	211,289,788	333,697,782	456,558,076
Deductions					
Retirement allowances	176,660,415	186,002,569	193,082,852	198,640,360	205,591,968
Lump sum DROP payments	18,078,701	17,039,089	10,816,700	13,625,797	12,373,388
Administrative expenses	3,311,686	4,241,753	3,672,958	3,568,855	3,907,539
Refunds of member contributions	1,372,214	1,490,557	1,309,010	2,393,838	3,129,650
Death benefits	154,775	254,630	385,167	163,838	344,230
Total Deductions	199,577,791	209,028,598	209,266,687	218,392,688	225,346,775
Net Increase (Decrease)	$ 164,420,944	$ 285,263,433	$ 2,023,101	$ 115,305,094	$ 231,211,301

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
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
2014	314,449,270	113,843,250	40.1	28,265,556	456,558,076

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
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
2014	205,936,199	12,373,388	3,129,650	3,907,540	225,346,777

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
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
2014	158,233,244	15,372,751	2,908,705	3,229,061	344,230	25,992,206	5,061,399	7,167,990	218,309,586

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, 2004 to June 30, 2014	10-15	16-20	21-25	26-30	31+
Period 7/1/04 to 6/30/05					
Average Monthly Benefit	$ 1,293	$ 2,324	$ 2,949	$ 3,799	$ 4,473
Average-Average Final Compensation	54,254	54,889	61,233	61,836	62,908
Number of Active Retirees	1	23	76	37	41
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	3,838	4,618
Average-Average Final Compensation	49,821	59,550	64,387	65,036	66,721
Number of Active Retirees	1	27	70	23	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
Period 7/1/08 to 6/30/09					
Average Monthly Benefit	1,575	2,665	3,486	4,634	5,160
Average-Average Final Compensation	58,129	65,460	68,713	77,044	68,532
Number of Active Retirees	1	27	50	20	22

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 7/1/09 to 6/30/10					
Average Monthly Benefit	1,536	2,614	3,530	4,444	5,857
Average-Average Final Compensation	62,502	62,468	71,351	71,087	81,313
Number of Active Retirees	5	33	56	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	3,532	4,762	5,222
Average-Average Final Compensation	58,539	65,559	71,254	76,472	69,186
Number of Active Retirees	19	46	76	36	16
Period 7/1/13 to 6/30/14					
Average Monthly Benefit	2,905	3,086	3,709	4,496	5,274
Average-Average Final Compensation	59,037	71,445	74,306	74,239	76,000
Number of Active Retirees	21	49	61	23	10
Period 7/1/04 to 6/30/14					
Average Monthly Benefit	2,698	2,719	3,343	4,269	5,035
Average-Average Final Compensation	59,420	64,177	68,053	69,903	70,672
Number of Active Retirees	62	341	607	272	212

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

Years of Credited Service	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
0-4	1,084	1,019	1,017	1,088	1,142	1,079	1,047	987	824	787
5-9	885	931	949	946	900	873	873	982	997	934
10-14	935	948	902	814	759	726	770	770	791	765
15-19	773	717	661	757	904	872	890	853	763	686
20-24	507	473	514	515	513	572	536	504	575	668
25-29	279	345	348	329	291	264	251	313	294	275
30+	227	194	187	166	181	198	208	215	195	202
Total Members	4,690	4,627	4,578	4,615	4,690	4,584	4,575	4,624	4,439	4,317
Average Service Credit	12.48	12.46	12.52	12.34	12.45	12.71	12.64	12.73	13.09	13.42
Average Age	38.55	38.66	38.73	38.91	38.99	39.21	39.14	39.23	39.72	39.94

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, 2014

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	606	181			787
5-9	585	349			934
10-14	466	299			765
15-19	503	183			686
20-24	445	223			668
25-29	122	150		3	275
30+	95	105	1	1	202
Total Members	2,822	1,490	1	4	4,317

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	1	3			4
25-29	113	147		3	263
30+	93	105	1	1	200
Total DROP Members	207	255	1	4	467

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	295	183			478
25-29	5	1			6
30+	1				1
Total DROP 2 Members	301	184			485

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	15	20			35
7/1/97 - 6/30/98	2	2			4
7/1/98 - 6/30/99	3	3	1		7
7/1/99 - 6/30/00	11	17			28
7/1/00 - 6/30/01	11	9			20
7/1/01 - 6/30/02	14	18			32
7/1/02 - 6/30/03	10	16			26
7/1/03 - 6/30/04	14	5			19
7/1/04 - 6/30/05	16	18		1	35
7/1/05 - 6/30/06	21	25		1	47
7/1/06 - 6/30/07	18	30			48
7/1/07 - 6/30/08	31	58			89
7/1/08 - 6/30/09	20	14		2	36
7/1/09 - 6/30/10	20	19			39
7/1/10 - 6/30/11		1			1
7/1/11 - 6/30/12	1				1
7/1/12 - 6/30/13					
7/1/13 - 6/30/14					
Total DROP Members	207	255	1	4	467

Year of DROP 2 Entry	Police Department	Fire Department	School Crossing Guards	Airport Employees	Total
7/1/09 - 6/30/10	14	20			34
7/1/10 - 6/30/11	35	83			118
7/1/11 - 6/30/12	44	12			56
7/1/12 - 6/30/13	100	23			123
7/1/13 - 6/30/14	108	46			154
Total DROP 2 Members	301	184			485

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, 2014

		TYPE OF RETIREMENT*				
Age	Number of Recipients	0	2	3	4	9
0-24						
25-29	6				6	
30-34	26			3	23	
35-39	57	1		11	45	
40-44	162	58	1	19	84	
45-49	380	239	4	30	106	1
50-54	470	344	5	23	97	1
55-59	563	494	1	17	51	
60-64	709	636	1	20	52	
65-69	838	741	1	23	73	
70-74	573	478		27	68	
75-79	426	350		30	45	1
80-84	315	234		28	52	1
85 and up	235	171		31	33	
Totals	4,760	3,746	13	262	735	4
Average Annual Benefit	$37,613	$39,426	$31,299	$18,906	$35,028	$60,042

*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, 2014

TYPE OF RETIREMENT*

Age	Number of Recipients	0	2	3	4	6	7	8	9
0-24	17	3		3	2		5	4	
25-29									
30-34	3				2		1		
35-39	4	1					1	2	
40-44	19	7		2	1		4	5	
45-49	33	23		3	2		2	3	
50-54	71	49		4	7	4	4	3	
55-59	93	62		3	13	7	4	4	
60-64	134	84	1	11	12	16	6	4	
65-69	158	102		15	15	8	9	9	
70-74	204	118		29	33	8	8	7	1
75-79	222	116		30	51	13	5	7	
80-84	251	125		44	63	13	2	4	
85 and up	299	173		37	59	16	2	12	
Totals	1,508	863	1	181	260	85	53	64	1
Average Annual Benefit	$19,011	$18,071	$12,334	$14,253	$17,153	$27,662	$16,772	$42,877	$37,203

*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, 2014

Schedule of DROP Retirees by Attained Age and Type of Retirement

		TYPE OF RETIREMENT*	
Age	Number of Recipients	0	4
40-44	2	2	
45-49	115	114	1
50-54	286	273	13
55-59	414	406	8
60-64	496	484	12
65-69	435	430	5
70-74	202	200	2
75+	81	81	
Totals	2,031	1,990	41
Average Annual Benefit	$44,414	$44,413	$44,448

Schedule of DROP Beneficiaries by Attained Age and Type of Retirement

		TYPE OF RETIREMENT*					
Age	Number of Recipients	0	3	4	6	7	8
< 24	2					2	
40-44	4	4					
45-49	14	14					
50-54	41	37	1		3		
55-59	49	44	1		3		1
60-64	49	38			10		1
65-69	41	34			4	1	2
70+	49	47			2		
Totals	249	218	2		22	3	4
Average Annual Benefit	$19,865	$17,374	$21,993		$35,326	$19,825	$69,569

*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

SCHEDULE OF DROP 2 RETIREES / BENEFICIARIES BY ATTAINED AGE AND TYPE OF RETIREMENT

For the Year Ended June 30, 2014

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

		TYPE OF RETIREMENT*		
Age	Number of Recipients	0	3	4
40-44	16	16		
45-49	25	21	1	3
50-54	12	12		
55-59	7	7		
60-64	4	4		
65-69				
70-74				
Totals	64	60	1	3
Average Annual Benefit	$36,063	$35,423	$30,386	$50,753

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

		TYPE OF RETIREMENT*	
Age	Number of Recipients	0	7
40-44			
45-49	3	2	1
50-54	2	2	
55-59			
60-64			
65-69			
70-74			
Totals	5	4	1
Average Annual Benefit	$14,696	$10,303	$32,269

*Type of Retirement
0 - Normal retirement for age and service
3 - Non-line-of-duty disability
4 - Line-of-duty disability
7 - Non-line-of-duty death with 25% of compensation

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FIRE & POLICE

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SERVING BALTIMORE CITY'S PUBLIC SAFETY OFFICERS

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City of Baltimore, Maryland

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