



Takoma Park City Council Meeting – January 13, 2021 Agenda Item 1

Work Session

Discussion of Code Amendments: Police Retirement Plan Deferred Retirement Option Program (DROP) and Military Service Credit

Recommended Council Action

Discuss Proposed Code Amendments

Context with Key Issues

The City of Takoma Park has its own Police Employees' Retirement Plan for Takoma Park police officers. The Plan is overseen by the Retirement Plan Committee. The terms of the Retirement Plan are in the City Code, so any change to the terms requires a Code Amendment.

Two amendments to the Plan benefits are proposed. The first is the institution of a Deferred Retirement Option Program (DROP) and the second is to allow Military Service Credit for plan credit (but not plan eligibility) purposes. These benefits are common among police departments and not having the benefits lessens our attractiveness when hiring.

An officer is eligible for retirement from the Takoma Park Police Department when they have served for 25 years. Under the DROP program, an officer can declare that they are going into the DROP and the funds that would have been paid into the Retirement Plan for them for the next three years will be deposited into a separate account. The employee would then work the three years and then retire. The funds for that employee in the DROP Account are then paid in a lump sum to the employee. The benefit to the retiree is the receipt of a substantial lump sum. (This can be of particular assistance to retirees not yet eligible for Medicare as the City does not provide retiree health care benefits.) The benefit to the City is early information on the date of retirement of an officer so that hiring to fill the vacancy can begin in advance. The program is designed to be cost neutral to the City; analysis of the program was done by the City's actuaries to assure the City of this aspect of the Plan.

The Military Service Credit allows for Retirement Plan credit for up to three years of military service which preceded employment with the City of Takoma Park. The employee must still work for the City for 25 years, but could receive retirement income that reflects the up to three additional years. The military credit increases the retirement benefit by 12% overall. Employees hired before July of 2001 already have this credit; this Code Amendment affects officers hired on or after July 1, 2001. According to the City's actuaries, if 20% of the active population will have three years of military service they could receive credit for, the change in contribution to the plan would be 0.8% of payroll and would reflect an increase of \$200,000 in pension liability and a change in contribution of \$24,000.

Both the DROP and the Military Credit proposals have been part of negotiations with United Food and Commercial Workers Local 400, which represents officers below the rank of Sergeant in Takoma Park. Discussion and study of the DROP took a number of years to ensure that the program would be cost neutral and workable. Both the DROP and the Military Credits were considered by the Retirement Plan Committee. The Committee recommends the City Council adopt the Code Amendments.

Council Priority

Engaged, Responsive, Service-oriented Government; Fiscally Sustainable Government

Environmental Considerations

N/A

Fiscal Considerations

The City's actuaries, Bolton Partners, Inc., reviewed the DROP and Military Credit proposals. While numbers will vary due to the level and type of participation in the programs, the actuaries found the DROP to be cost-neutral on average and, for the Military Credit, if 20% of the active population will have three years of military service they could receive credit for, the change in contribution to the plan would be 0.8% of payroll and would reflect an increase of \$200,000 in pension liability and a change in contribution of \$24,000.

Racial Equity Considerations

It is not clear to what extent there may be any racial equity impacts of these amendments. Elements that could be examined are the extent to which officers of color may be more likely to begin their public service in military service. The DROP provides access to funds for officers for health care or other life needs upon retirement. It may be the case that there is a difference in financial need based on race at retirement.

Attachments and Links

- Draft Two-Reading Ordinance

Introduced by: Councilmember _____

First Reading:
Second Reading:
Effective Date: March 1, 2021

**CITY OF TAKOMA PARK, MARYLAND
ORDINANCE NO. 2021-**

AMENDING THE CITY OF TAKOMA PARK POLICE EMPLOYEES' RETIREMENT PLAN TO ADD A DEFERRED RETIREMENT OPTION PROGRAM AND TO PERMIT MILITARY SERVICE AS CREDITABLE SERVICE

WHEREAS, the City of Takoma Park Police Employees' Retirement Plan (Plan) provides participants various benefits; and

WHEREAS, the City and the Union representing Police Officers (Union) believe that the Plan should offer another option, commonly referred to as Deferred Retirement Option Program (DROP); and

WHEREAS, the Plan does not permit military service to constitute either eligibility service or creditable service; and

WHEREAS, the City and the Union believe that the Plan should permit certain military service to constitute creditable service under the Plan; and

WHEREAS, the City and the Union have recommended amendments to the Plan to create a DROP and to address the changes to creditable service; and

WHEREAS, the Plan's enrolled actuary has provided the City, the Union and the Retirement Plan Committee with an estimate of the actuarial cost of the amendments; and

WHEREAS, the Retirement Plan Committee approved the proposed amendments on December 21, 2020 and recommends adoption of the amendments by the City Council.

NOW, THEREFORE, BE IT ORDAINED BY THE COUNCIL OF THE CITY OF TAKOMA PARK, MARYLAND:

SECTION 1. Title 4, Personnel, Chapter 4.24, Police Employees' Retirement Plan, Section 060, "Year of eligibility service," of the Takoma Park Code (2004 edition) is amended as follows:

"Year of eligibility service" means a year of service for purposes of calculating a participant's eligibility for specified benefits under the Plan. The rules for calculating a participant's years of eligibility service are set forth in Sections 4.24.100 through 4.24.150 with reference to the continuous period beginning with the employee's employment commencement date or reemployment commencement date and ending with the employee's termination date, excluding any period during which the employee is not a covered employee, ~~but~~ including any periods for which service for the Maryland State Retirement System has been credited as described in

Section 4.24.130, and excluding periods for which pre-employment military service has been credited as described in Section 4.24.140.

SECTION 2. Title 4, Personnel, Chapter 4.24, Police Employees' Retirement Plan, of the Takoma Park Code is amended by adding new Section 295:

4.24.295 Deferred Retirement Option Program.

A. Definitions.

In this section, the following words have the meanings indicated:

1. DROP means the Deferred Retirement Option Program established under this Section 4.24.295, pursuant to which a Participant agrees to delay receipt of retirement benefits while the Participant continues to work.
2. DROP Participant means a Participant who participates in DROP.
3. DROP Participation Period means the three (3) year period during which a Participant participates in DROP while actively employed by the City.
4. DROP Account means the account established for a DROP Participant in accordance with subsection E. to which monthly amounts are credited while the Participant continues to work for the City.
5. DROP Effective Date means March 1, 2021.
6. Applicable Interest Rate means 5% per annum.

B. Eligibility.

1. A Participant who has completed 25 Years of Eligibility Service as of the DROP Effective Date shall be eligible to participate in DROP as of the DROP Effective Date.
2. A Participant who has not completed 25 Years of Eligibility Service as of the DROP Effective Date shall be eligible to participate in DROP on the date the Participant has completed 25 Years of Service.

C. Limitation on Number of DROP Participants.

1. Initial Plan Year. During the plan year ending June 30, 2021, no more than 3 Participants are permitted to participate in DROP.
2. Second Plan Year. During the plan year ending June 30, 2022, no more than 6 Participants are permitted to participate in DROP.

3. Later Plan Years. Beginning with the plan year ending June 30, 2023, no more than 25% of Eligible Employees may participate in the DROP at any time.
4. Selection by seniority. If the number of Participants that apply for participation in DROP exceeds the number permitted under paragraphs 1 through 3 above, Participants shall be selected by seniority on the basis of the Participants' actual service with the City as a sworn police officer. The Coordinator will develop procedures to implement this paragraph.

D. Application for DROP participation.

An eligible Participant who elects to participate in DROP shall complete and submit to the Coordinator within a reasonable time before the beginning of the DROP Participation Period:

1. A written application on a form approved by or acceptable to the Committee, stating the Participant's intention to participate in DROP;
2. An irrevocable election whether his or her retirement benefits shall be paid at the end of the DROP Participation Period in either the normal form described in Section 4.24.220 or one of the optional forms described in 4.24.330;
3. Such other information required by the Coordinator to implement the DROP selection process described in paragraph 4 of subsection C.

E. DROP Account.

1. The Coordinator shall establish and maintain a DROP Account for each DROP Participant solely for purposes of accounting for the DROP Participant's benefit from the DROP. The Trustee shall not segregate funds from the Trust for Participants' DROP Accounts.
2. During the DROP Participation Period, the Coordinator shall credit to the DROP Participant's DROP Account:
 - a. An amount equal to the DROP Participant's normal monthly retirement income determined pursuant to Section 4.24.220, but without the adjustment for unused sick leave.
 - b. Interest at the applicable interest rate on the amount described in subparagraph a. in accordance with the following rules:
 - i. Interest compounded monthly, but with an applicable annual rate equal to the applicable interest rate, will be applied to the balance of the DROP account as of the last day of each month during the DROP participation period, and

- ii. No interest will be applied to additions to the account made during the current calendar month
3. At least once a year, the Coordinator shall provide to a DROP Participant a statement of the account balance credited to the DROP Account as described in paragraphs 1 and 2.

F. Status during participation in DROP.

During the DROP Participation Period:

1. A DROP Participant will remain an active Participant in the Plan;
2. A DROP Participant will not accrue credit for Years of Creditable Service;
3. A DROP Participant's compensation shall be subject to the City pick up contributions provided for in Section 4.24.200.
4. A DROP Participant's Compensation shall not be used to increase the DROP Participant's Average Compensation;
5. The normal monthly retirement income of DROP participants, which accumulates in their DROP accounts, will not be subject to cost of living adjustments under Section 4.24.290.
6. A DROP Participant shall continue to be eligible to participate in any health and welfare plan or deferred compensation plan, and to receive any other benefits otherwise available to City employees who are sworn police officers; and
7. A DROP Participant shall continue to be subject to the personnel laws, regulations and policies applicable to City employees who are sworn police officers.

G. Death of a DROP Participant.

If during the DROP Participation Period, the Participant reaches a Termination Date by reason of death, the Participant's Beneficiary will receive the balance of the Participant's DROP Account in addition to the death benefit described in Section 4.24.300.

H. Disability during participation.

1. Permitted. A DROP participant may apply for a disability pension pursuant to Section 4.24.250.
2. Effect of disability pension. If a DROP participant receives a disability pension, the disability benefit calculated under Section 4.24.250 shall be based upon the participant's actual Years of Creditable Service, if applicable, and Average Compensation earned through the Termination Date and calculated as if the DROP Participant had not elected to participate in DROP. A DROP Participant who receives a disability benefit will forfeit

his or her DROP Account

I. Payment of DROP Account and retirement income at Termination Date.

1. DROP Account. Upon the termination of a DROP Participant's employment with the City at the end of the 3-year DROP Participation Period:
 - a. the Trustee shall pay to the Participant the amount accrued in the Participant's DROP Account, determined in accordance with paragraph E, in the form of: (a) an eligible rollover distribution, pursuant to Section 4.24.350; (b) a lump sum distribution, reduced by any withholding taxes remitted to the Internal Revenue Service or other taxing authority; or (c) an additional annuity in the form of monthly benefit elected by the DROP Participant in accordance with paragraph (2) of subsection D.
 - b. the Participant will begin receiving his or her monthly retirement income, determined in accordance with the Participant's irrevocable election, as of the first day of the month following the end of the DROP Participation Period. Retirement income shall include an adjustment for unused sick leave. The amount of the Participant's unused sick leave shall be determined as of the Participant's Termination Date.
2. Termination prior to the end of the DROP Participation Period. If the DROP Participant reaches a termination date, other than by reason of death or disability, prior to the end of the 3- year DROP Participation Period without regard to whether the termination of employment is voluntary by the Participant or involuntary and at the request of the City:
 - a. the Participant will forfeit the balance of his or her DROP Account; and
 - b. the Participant's monthly retirement income shall be determined in accordance with the election made during the application for participation in DROP and calculated as if the DROP participant did not participate in DROP.

J. Adjustment for maximum limitations on benefits.

The benefits payable pursuant to this Section 4.24.295 shall be adjusted, if necessary, to conform to the limitations on the accrual of benefits pursuant to Section 4.24.270.

SECTION 2. Title 4, Personnel, Chapter 4.24, Police Employees' Retirement Plan, Section 140(C) of the Takoma Park Code is amended as follows:

4.24.140(C) Credit for pre-employment military service.

Participants Hired on or After July 1, 2001. Participants hired by the City on or after July 1, 2001 shall not receive credit for years of eligibility service ~~and years of credited service~~ for service in the armed forces of the United States which precedes the participant's employment

commencement date but, upon retirement, shall receive credit for up to three (3) years of credited service for service in the armed forces of the United States which precedes the participant's employment commencement date.

SECTION 4. The provisions of this Ordinance shall be effective March 1, 2021.

ADOPTED BY THE COUNCIL OF THE CITY OF TAKOMA PARK, MARYLAND, THIS __
DAY OF _____, 2021, BY ROLL-CALL VOTE AS FOLLOWS:

Aye:

Nay:

Absent:

Abstain:

Explanatory Note

Additions to the existing language of the *Takoma Park Code* are shown by underlining.

Deletions to the existing language of the *Takoma Park Code* are shown by ~~strikeout~~.