



## Takoma Park City Council Meeting – January 21, 2021 Agenda Item 2

### **Voting Session**

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

### **Recommended Council Action**

Adopt the ordinance.

### **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.

It should be noted that the Maryland State Retirement System that covers other City employees provides for a U.S. Military Credit for up to five years credit.

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

1 Introduced by: Councilmember \_\_\_\_\_

2 First Reading:  
3 Second Reading:  
4 Effective Date: March 1, 2021

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

7  
8 **AMENDING THE CITY OF TAKOMA PARK POLICE EMPLOYEES' RETIREMENT**  
9 **PLAN TO ADD A DEFERRED RETIREMENT OPTION PROGRAM AND TO PERMIT**  
10 **MILITARY SERVICE AS CREDITABLE SERVICE**

11  
12 WHEREAS, the City of Takoma Park Police Employees' Retirement Plan (Plan) provides  
13 participants various benefits; and

14  
15 WHEREAS, the City and the Union representing Police Officers (Union) believe that the Plan  
16 should offer another option, commonly referred to as Deferred Retirement Option  
17 Program (DROP); and

18  
19 WHEREAS, the Plan does not permit military service to constitute either eligibility service or  
20 creditable service; and

21  
22 WHEREAS, the City and the Union believe that the Plan should permit certain military service  
23 to constitute creditable service under the Plan; and

24  
25 WHEREAS, the City and the Union have recommended amendments to the Plan to create a  
26 DROP and to address the changes to creditable service; and

27  
28 WHEREAS, the Plan's enrolled actuary has provided the City, the Union and the Retirement  
29 Plan Committee with an estimate of the actuarial cost of the amendments; and

30  
31 WHEREAS, the Retirement Plan Committee approved the proposed amendments on December  
32 21, 2020 and recommends adoption of the amendments by the City Council.

33  
34 **NOW, THEREFORE, BE IT ORDAINED BY THE COUNCIL OF THE CITY OF**  
35 **TAKOMA PARK, MARYLAND:**

36  
37 *SECTION 1. Title 4, Personnel, Chapter 4.24, Police Employees' Retirement Plan, Section 060,*  
38 *"Year of eligibility service," of the Takoma Park Code (2004 edition) is amended as follows:*

39  
40 "Year of eligibility service" means a year of service for purposes of calculating a participant's  
41 eligibility for specified benefits under the Plan. The rules for calculating a participant's years of  
42 eligibility service are set forth in Sections 4.24.100 through 4.24.150 with reference to the  
43 continuous period beginning with the employee's employment commencement date or  
44 reemployment commencement date and ending with the employee's termination date, excluding  
45 any period during which the employee is not a covered employee, ~~but~~ including any periods for  
46 which service for the Maryland State Retirement System has been credited as described in

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

49  
50 **SECTION 2.** *Title 4, Personnel, Chapter 4.24, Police Employees' Retirement Plan, of the*  
51 *Takoma Park Code is amended by adding new Section 295:*

52  
53 **4.24.295**                      **Deferred Retirement Option Program.**

54  
55 **A.**     Definitions.

56  
57 In this section, the following words have the meanings indicated:

- 58  
59     1. DROP means the Deferred Retirement Option Program established under this Section  
60 4.24.295, pursuant to which a Participant agrees to delay receipt of retirement benefits  
61 while the Participant continues to work.  
62  
63     2. DROP Participant means a Participant who participates in DROP.  
64  
65     3. DROP Participation Period means the three (3) year period during which a Participant  
66 participates in DROP while actively employed by the City.  
67  
68     4. DROP Account means the account established for a DROP Participant in accordance  
69 with subsection E. to which monthly amounts are credited while the Participant continues  
70 to work for the City.  
71  
72     5. DROP Effective Date means March 1, 2021.  
73  
74     6. Applicable Interest Rate means 5% per annum.

75  
76 **B.**     Eligibility.

- 77  
78     1. A Participant who has completed 25 Years of Eligibility Service as of the DROP  
79 Effective Date shall be eligible to participate in DROP as of the DROP Effective Date.  
80  
81     2. A Participant who has not completed 25 Years of Eligibility Service as of the DROP  
82 Effective Date shall be eligible to participate in DROP on the date the Participant has  
83 completed 25 Years of Service.

84  
85 **C.**     Limitation on Number of DROP Participants.

- 86  
87     1. Initial Plan Year. During the plan year ending June 30, 2021, no more than 3 Participants  
88 are permitted to participate in DROP.  
89  
90     2. Second Plan Year. During the plan year ending June 30, 2022, no more than 6  
91 Participants are permitted to participate in DROP.

92

- 93 3. Later Plan Years. Beginning with the plan year ending June 30, 2023, no more than 25%  
94 of Eligible Employees may participate in the DROP at any time.  
95  
96 4. Selection by seniority. If the number of Participants that apply for participation in DROP  
97 exceeds the number permitted under paragraphs 1 through 3 above, Participants shall be  
98 selected by seniority on the basis of the Participants' actual service with the City as a  
99 sworn police officer. The Coordinator will develop procedures to implement this  
100 paragraph.

101  
102 D. Application for DROP participation.

103  
104 An eligible Participant who elects to participate in DROP shall complete and submit to the  
105 Coordinator within a reasonable time before the beginning of the DROP Participation Period:  
106

- 107 1. A written application on a form approved by or acceptable to the Committee, stating the  
108 Participant's intention to participate in DROP;  
109  
110 2. An irrevocable election whether his or her retirement benefits shall be paid at the end of  
111 the DROP Participation Period in either the normal form described in Section 4.24.220 or  
112 one of the optional forms described in 4.24.330;  
113  
114 3. Such other information required by the Coordinator to implement the DROP selection  
115 process described in paragraph 4 of subsection C.

116  
117 E. DROP Account.  
118

- 119 1. The Coordinator shall establish and maintain a DROP Account for each DROP  
120 Participant solely for purposes of accounting for the DROP Participant's benefit from the  
121 DROP. The Trustee shall not segregate funds from the Trust for Participants' DROP  
122 Accounts.  
123  
124 2. During the DROP Participation Period, the Coordinator shall credit to the DROP  
125 Participant's DROP Account:  
126  
127 a. An amount equal to the DROP Participant's normal monthly retirement income  
128 determined pursuant to Section 4.24.220, but without the adjustment for unused  
129 sick leave.  
130  
131 b. Interest at the applicable interest rate on the amount described in subparagraph a.  
132 in accordance with the following rules:  
133  
134 i. Interest compounded monthly, but with an applicable annual rate equal to  
135 the applicable interest rate, will be applied to the balance of the DROP  
136 account as of the last day of each month during the DROP participation  
137 period, and  
138

- 139                   ii. No interest will be applied to additions to the account made during the  
140                   current calendar month  
141  
142           3. At least once a year, the Coordinator shall provide to a DROP Participant a statement of  
143           the account balance credited to the DROP Account as described in paragraphs 1 and 2.  
144

145 F. Status during participation in DROP.

146  
147 During the DROP Participation Period:

- 148  
149           1. A DROP Participant will remain an active Participant in the Plan;  
150  
151           2. A DROP Participant will not accrue credit for Years of Creditable Service;  
152  
153           3. A DROP Participant's compensation shall be subject to the City pick up contributions  
154           provided for in Section 4.24.200.  
155  
156           4. A DROP Participant's Compensation shall not be used to increase the DROP Participant's  
157           Average Compensation;  
158  
159           5. The normal monthly retirement income of DROP participants, which accumulates in their  
160           DROP accounts, will not be subject to cost of living adjustments under Section 4.24.290.  
161  
162           6. A DROP Participant shall continue to be eligible to participate in any health and welfare  
163           plan or deferred compensation plan, and to receive any other benefits otherwise available  
164           to City employees who are sworn police officers; and  
165  
166           7. A DROP Participant shall continue to be subject to the personnel laws, regulations and  
167           policies applicable to City employees who are sworn police officers.  
168

169 G. Death of a DROP Participant.

170  
171 If during the DROP Participation Period, the Participant reaches a Termination Date by reason of  
172 death, the Participant's Beneficiary will receive the balance of the Participant's DROP Account  
173 in addition to the death benefit described in Section 4.24.300.  
174

175 H. Disability during participation.

- 176  
177           1. Permitted. A DROP participant may apply for a disability pension pursuant to Section  
178           4.24.250.  
179  
180           2. Effect of disability pension. If a DROP participant receives a disability pension, the  
181           disability benefit calculated under Section 4.24.250 shall be based upon the participant's  
182           actual Years of Creditable Service, if applicable, and Average Compensation earned  
183           through the Termination Date and calculated as if the DROP Participant had not elected  
184           to participate in DROP. A DROP Participant who receives a disability benefit will forfeit

185 his or her DROP Account

186  
187 **I. Payment of DROP Account and retirement income at Termination Date.**

188  
189 1. DROP Account. Upon the termination of a DROP Participant's employment with the  
190 City at the end of the 3-year DROP Participation Period:

191  
192 a. the Trustee shall pay to the Participant the amount accrued in the Participant's  
193 DROP Account, determined in accordance with paragraph E, in the form of: (a)  
194 an eligible rollover distribution, pursuant to Section 4.24.350; (b) a lump sum  
195 distribution, reduced by any withholding taxes remitted to the Internal Revenue  
196 Service or other taxing authority; or (c) an additional annuity in the form of  
197 monthly benefit elected by the DROP Participant in accordance with paragraph  
198 (2) of subsection D.

199  
200 b. the Participant will begin receiving his or her monthly retirement income,  
201 determined in accordance with the Participant's irrevocable election, as of the first  
202 day of the month following the end of the DROP Participation Period. Retirement  
203 income shall include an adjustment for unused sick leave. The amount of the  
204 Participant's unused sick leave shall be determined as of the Participant's  
205 Termination Date.

206  
207 2. Termination prior to the end of the DROP Participation Period. If the DROP Participant  
208 reaches a termination date, other than by reason of death or disability, prior to the end of  
209 the 3- year DROP Participation Period without regard to whether the termination of  
210 employment is voluntary by the Participant or involuntary and at the request of the City:

211  
212 a. the Participant will forfeit the balance of his or her DROP Account; and

213  
214 b. the Participant's monthly retirement income shall be determined in accordance  
215 with the election made during the application for participation in DROP and  
216 calculated as if the DROP participant did not participate in DROP.

217  
218 **J. Adjustment for maximum limitations on benefits.**

219  
220 The benefits payable pursuant to this Section 4.24.295 shall be adjusted, if necessary, to conform  
221 to the limitations on the accrual of benefits pursuant to Section 4.24.270.

222  
223 **SECTION 2.** *Title 4, Personnel, Chapter 4.24, Police Employees' Retirement Plan, Section*  
224 *140(C) of the Takoma Park Code is amended as follows:*

225  
226 **4.24.140(C) Credit for pre-employment military service.**

227  
228 Participants Hired on or After July 1, 2001. Participants hired by the City on or after July 1, 2001  
229 shall not receive credit for years of eligibility service ~~and years of credited service~~ for service in  
230 the armed forces of the United States which precedes the participant's employment

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

234  
235 **SECTION 4.** The provisions of this Ordinance shall be effective March 1, 2021.

236  
237 ADOPTED BY THE COUNCIL OF THE CITY OF TAKOMA PARK, MARYLAND, THIS \_\_  
238 DAY OF \_\_\_\_\_, 2021, BY ROLL-CALL VOTE AS FOLLOWS:

239  
240  
241 Aye:  
242 Nay:  
243 Absent:  
244 Abstain:

245  
246 **Explanatory Note**

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