



Takoma Park City Council Meeting – January 27, 2021 Agenda Item 1

Voting Session

Second Reading Ordinance Amending the 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 Kostiuik

First Reading: January 21, 2021

2 Second Reading:

3 Effective Date: March 1, 2021

4
5 **CITY OF TAKOMA PARK, MARYLAND**
6 **ORDINANCE NO. 2021-1**
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 for participants hired by the City on or after July 1, 2001; and
21

22 WHEREAS, the Maryland State Retirement System that covers other City employees provides
23 for a U.S. Military Credit for up to five years credit; and
24

25 WHEREAS, the City and the Union believe that the Plan should permit certain military service
26 to constitute creditable service under the Plan; and
27

28 WHEREAS, the City and the Union have recommended amendments to the Plan to create a
29 DROP and to address the changes to creditable service; and
30

31 WHEREAS, the Plan's enrolled actuary has provided the City, the Union and the Retirement
32 Plan Committee with an estimate of the actuarial cost of the amendments; and
33

34 WHEREAS, the Retirement Plan Committee approved the proposed amendments on December
35 21, 2020 and recommends adoption of the amendments by the City Council; and
36

37 WHEREAS, the Council wishes to attract and retain Takoma Park Police officers who live up
38 to and promote the goals and priorities of Council Resolution 2107-45 and who,
39 as a group, are reflective of the diversity of the Takoma Park community.
40

41 **NOW, THEREFORE, BE IT ORDAINED BY THE COUNCIL OF THE CITY OF**
42 **TAKOMA PARK, MARYLAND:**
43

44 *SECTION 1. Title 4, Personnel, Chapter 4.24, Police Employees' Retirement Plan, Section 060,*
45 *"Year of eligibility service," of the Takoma Park Code (2004 edition) is amended as follows:*
46

47 “Year of eligibility service” means a year of service for purposes of calculating a participant’s
48 eligibility for specified benefits under the Plan. The rules for calculating a participant’s years of
49 eligibility service are set forth in Sections 4.24.100 through 4.24.150 with reference to the
50 continuous period beginning with the employee’s employment commencement date or
51 reemployment commencement date and ending with the employee’s termination date, excluding
52 any period during which the employee is not a covered employee, ~~but~~ including any periods for
53 which service for the Maryland State Retirement System has been credited as described in
54 Section 4.24.130, and excluding periods for which pre-employment military service has been
55 credited as described in Section 4.24.140.

56
57 *SECTION 2. Title 4, Personnel, Chapter 4.24, Police Employees’ Retirement Plan, of the*
58 *Takoma Park Code is amended by adding new Section 295:*

59
60 **4.24.295 Deferred Retirement Option Program.**

61
62 **A. Definitions.**

63
64 In this section, the following words have the meanings indicated:

- 65
66 1. DROP means the Deferred Retirement Option Program established under this Section
67 4.24.295, pursuant to which a Participant agrees to delay receipt of retirement benefits
68 while the Participant continues to work.
69
70 2. DROP Participant means a Participant who participates in DROP.
71
72 3. DROP Participation Period means the three (3) year period during which a Participant
73 participates in DROP while actively employed by the City.
74
75 4. DROP Account means the account established for a DROP Participant in accordance
76 with subsection E. to which monthly amounts are credited while the Participant continues
77 to work for the City.
78
79 5. DROP Effective Date means March 1, 2021.
80
81 6. Applicable Interest Rate means 5% per annum.

82
83 **B. Eligibility.**

- 84
85 1. A Participant who has completed 25 Years of Eligibility Service as of the DROP
86 Effective Date shall be eligible to participate in DROP as of the DROP Effective Date.
87
88 2. A Participant who has not completed 25 Years of Eligibility Service as of the DROP
89 Effective Date shall be eligible to participate in DROP on the date the Participant has
90 completed 25 Years of Service.

91
92 **C. Limitation on Number of DROP Participants.**

- 93
94 1. Initial Plan Year. During the plan year ending June 30, 2021, no more than 3 Participants
95 are permitted to participate in DROP.
96
97 2. Second Plan Year. During the plan year ending June 30, 2022, no more than 6
98 Participants are permitted to participate in DROP.
99
100 3. Later Plan Years. Beginning with the plan year ending June 30, 2023, no more than 25%
101 of Eligible Employees may participate in the DROP at any time.
102
103 4. Selection by seniority. If the number of Participants that apply for participation in DROP
104 exceeds the number permitted under paragraphs 1 through 3 above, Participants shall be
105 selected by seniority on the basis of the Participants' actual service with the City as a
106 sworn police officer. The Coordinator will develop procedures to implement this
107 paragraph.
108

109 D. Application for DROP participation.
110

111 An eligible Participant who elects to participate in DROP shall complete and submit to the
112 Coordinator within a reasonable time before the beginning of the DROP Participation Period:
113

- 114 1. A written application on a form approved by or acceptable to the Committee, stating the
115 Participant's intention to participate in DROP;
116
117 2. An irrevocable election whether his or her retirement benefits shall be paid at the end of
118 the DROP Participation Period in either the normal form described in Section 4.24.220 or
119 one of the optional forms described in 4.24.330;
120
121 3. Such other information required by the Coordinator to implement the DROP selection
122 process described in paragraph 4 of subsection C.
123

124 E. DROP Account.
125

- 126 1. The Coordinator shall establish and maintain a DROP Account for each DROP
127 Participant solely for purposes of accounting for the DROP Participant's benefit from the
128 DROP. The Trustee shall not segregate funds from the Trust for Participants' DROP
129 Accounts.
130
131 2. During the DROP Participation Period, the Coordinator shall credit to the DROP
132 Participant's DROP Account:
133
134 a. An amount equal to the DROP Participant's normal monthly retirement income
135 determined pursuant to Section 4.24.220, but without the adjustment for unused
136 sick leave.
137
138 b. Interest at the applicable interest rate on the amount described in subparagraph a.

139 in accordance with the following rules:

- 140
- 141 i. Interest compounded monthly, but with an applicable annual rate equal to
- 142 the applicable interest rate, will be applied to the balance of the DROP
- 143 account as of the last day of each month during the DROP participation
- 144 period, and
- 145
- 146 ii. No interest will be applied to additions to the account made during the
- 147 current calendar month
- 148
- 149 3. At least once a year, the Coordinator shall provide to a DROP Participant a statement of
- 150 the account balance credited to the DROP Account as described in paragraphs 1 and 2.

151

152 F. Status during participation in DROP.

153

154 During the DROP Participation Period:

- 155
- 156 1. A DROP Participant will remain an active Participant in the Plan;
- 157
- 158 2. A DROP Participant will not accrue credit for Years of Creditable Service;
- 159
- 160 3. A DROP Participant's compensation shall be subject to the City pick up contributions
- 161 provided for in Section 4.24.200.
- 162
- 163 4. A DROP Participant's Compensation shall not be used to increase the DROP Participant's
- 164 Average Compensation;
- 165
- 166 5. The normal monthly retirement income of DROP participants, which accumulates in their
- 167 DROP accounts, will not be subject to cost of living adjustments under Section 4.24.290.
- 168
- 169 6. A DROP Participant shall continue to be eligible to participate in any health and welfare
- 170 plan or deferred compensation plan, and to receive any other benefits otherwise available
- 171 to City employees who are sworn police officers; and
- 172
- 173 7. A DROP Participant shall continue to be subject to the personnel laws, regulations and
- 174 policies applicable to City employees who are sworn police officers.

175

176 G. Death of a DROP Participant.

177

178 If during the DROP Participation Period, the Participant reaches a Termination Date by reason of

179 death, the Participant's Beneficiary will receive the balance of the Participant's DROP Account

180 in addition to the death benefit described in Section 4.24.300.

181

182 H. Disability during participation.

- 183
- 184 1. Permitted. A DROP participant may apply for a disability pension pursuant to Section

185 4.24.250.

- 186
- 187 2. Effect of disability pension. If a DROP participant receives a disability pension, the
- 188 disability benefit calculated under Section 4.24.250 shall be based upon the participant's
- 189 actual Years of Creditable Service, if applicable, and Average Compensation earned
- 190 through the Termination Date and calculated as if the DROP Participant had not elected
- 191 to participate in DROP. A DROP Participant who receives a disability benefit will forfeit
- 192 his or her DROP Account

193

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

- 195
- 196 1. DROP Account. Upon the termination of a DROP Participant's employment with the
- 197 City at the end of the 3-year DROP Participation Period:

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

- 206
- 207 b. the Participant will begin receiving his or her monthly retirement income,
- 208 determined in accordance with the Participant's irrevocable election, as of the first
- 209 day of the month following the end of the DROP Participation Period. Retirement
- 210 income shall include an adjustment for unused sick leave. The amount of the
- 211 Participant's unused sick leave shall be determined as of the Participant's
- 212 Termination Date.

- 213
- 214 2. Termination prior to the end of the DROP Participation Period. If the DROP Participant
- 215 reaches a termination date, other than by reason of death or disability, prior to the end of
- 216 the 3- year DROP Participation Period without regard to whether the termination of
- 217 employment is voluntary by the Participant or involuntary and at the request of the City:

- 218
- 219 a. the Participant will forfeit the balance of his or her DROP Account; and

- 220
- 221 b. the Participant's monthly retirement income shall be determined in accordance
- 222 with the election made during the application for participation in DROP and
- 223 calculated as if the DROP participant did not participate in DROP.

224

225 J. Adjustment for maximum limitations on benefits.

226

227 The benefits payable pursuant to this Section 4.24.295 shall be adjusted, if necessary, to conform

228 to the limitations on the accrual of benefits pursuant to Section 4.24.270.

229

230 *SECTION 3. Title 4, Personnel, Chapter 4.24, Police Employees' Retirement Plan, Section*

231 *140(C) of the Takoma Park Code is amended as follows:*

232

233 **4.24.140(C) Credit for pre-employment military service.**

234

235 Participants Hired on or After July 1, 2001. Participants hired by the City on or after July 1, 2001
236 shall not receive credit for years of eligibility service ~~and years of credited service~~ for service in
237 the armed forces of the United States which precedes the participant’s employment
238 commencement date but, upon retirement, shall receive credit for up to three (3) years of credited
239 service for service in the armed forces of the United States which precedes the participant’s
240 employment commencement date.

241

242 **SECTION 4.** Council directs the City Manager to actively pursue benefit provisions that attract
243 and retain Takoma Park Police officers who live up to and promote the goals and priorities of
244 Council Resolution 2017-45 and who, as a group, are reflective of the diversity of the Takoma
245 Park community. Such provisions may include retirement credit for service in the Peace Corps or
246 AmeriCorp before being hired by the City of Takoma Park, and may include modifications to
247 existing benefits after consultation with the Union, the Retirement Plan Committee and other
248 stakeholders.

249

250 **SECTION 5.** The provisions of this Ordinance shall be effective March 1, 2021.

251

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

254

255

256 Aye:

257 Nay:

258 Absent:

259 Abstain:

260

261 **Explanatory Note**

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

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