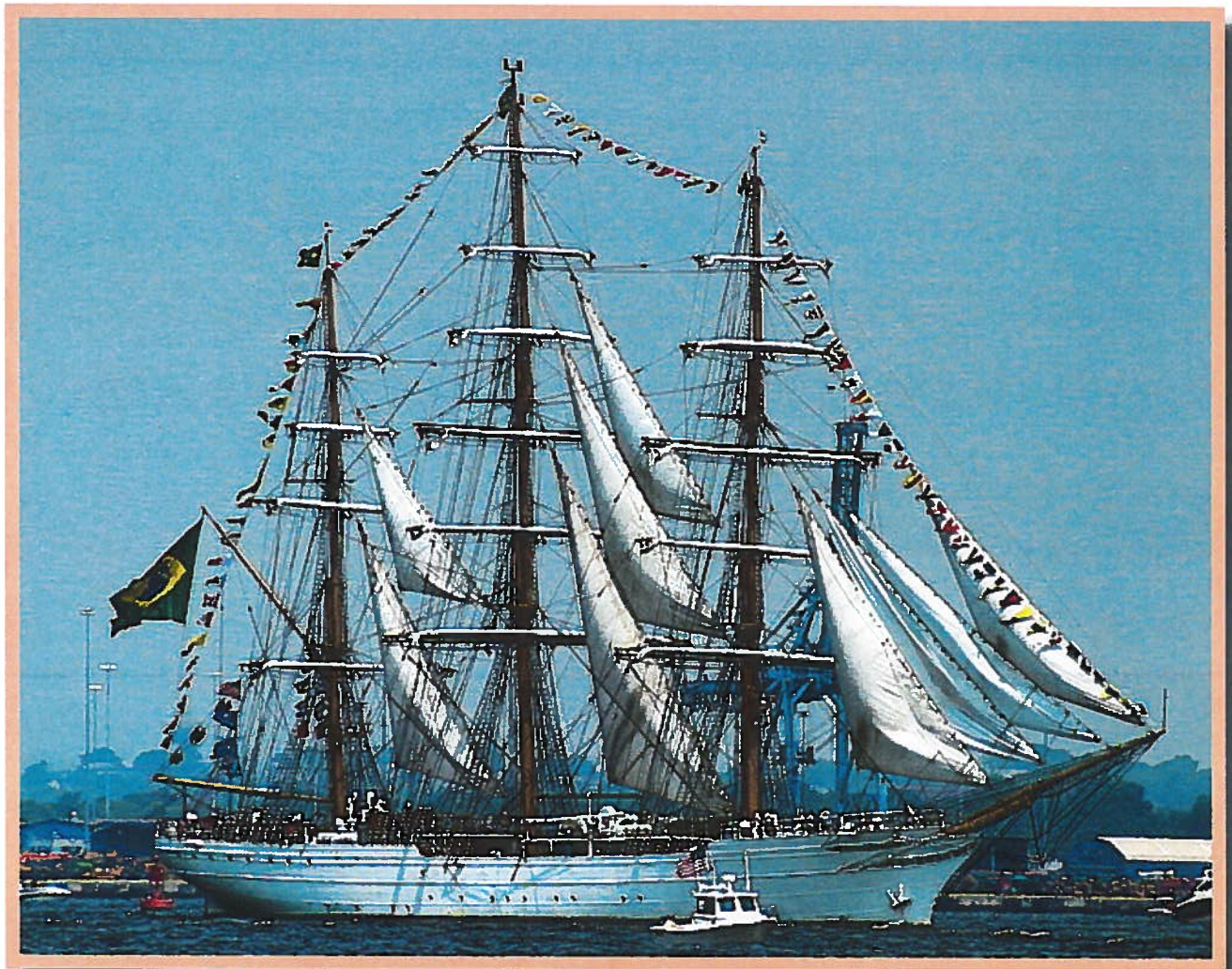


# Elected Officials' Retirement System

CITY OF BALTIMORE, MARYLAND

## Comprehensive Annual Financial Report

YEAR ENDED JUNE 30, 2012



A COMPONENT OF THE CITY OF BALTIMORE, MARYLAND



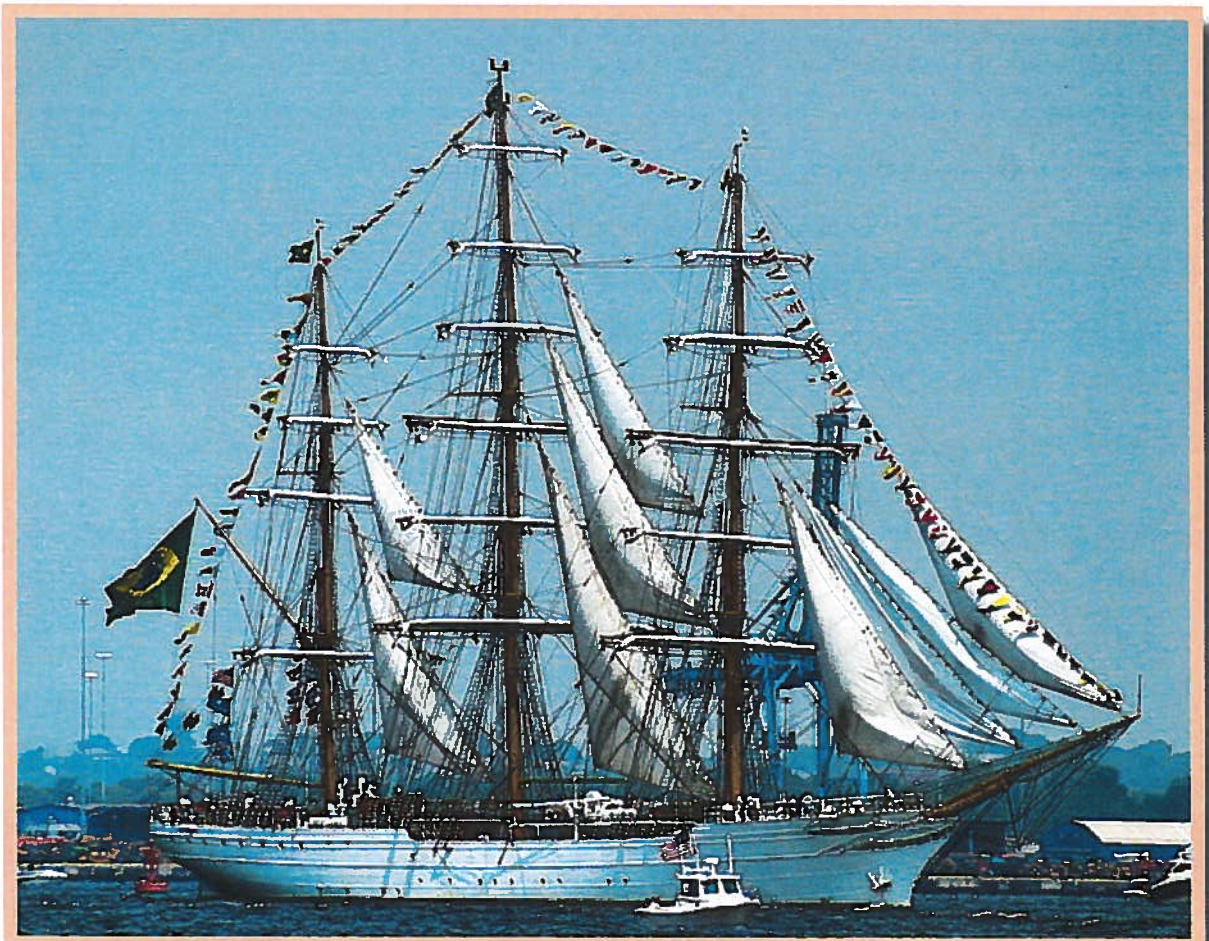


# Elected Officials' Retirement System

CITY OF BALTIMORE, MARYLAND

## Comprehensive Annual Financial Report

YEAR ENDED JUNE 30, 2012



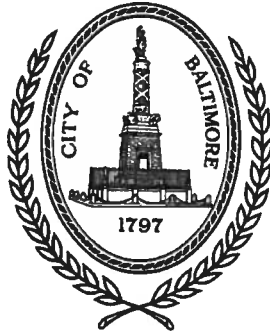
PREPARED BY

**Roselyn H. Spencer**, *Executive Director*  
**Bernita James**, *Deputy Executive Director*  
**Tal Willmott**, *Accounting Manager*

A COMPONENT OF THE CITY OF BALTIMORE, MARYLAND



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## **Elected Officials' Retirement System**

### **Mission Statement**

The System is committed to protecting and prudently investing member assets and providing accurate and timely retirement benefits with quality service to members and beneficiaries.

### **Standards of Conduct**

As Trustees and Staff, we are committed to:

Safeguard the members' assets.

Strive for continuous improvement.

Maintain confidentiality as appropriate.

Effectively communicate accurate information.

Provide accountable and proactive leadership.

Conduct all business in a fair and respectful manner.

Foster an atmosphere of cooperation and teamwork.

Value members as clients and advocate on their behalf.

Comply with the System's plan provisions, policies and guidelines.

Work efficiently, simplify procedures, and minimize bureaucratic hurdles.

Form alliances and partnerships to benefit the membership and the System.

*We expect all who interact with us to adhere to these standards of conduct.*

Approved by the Board of Trustees February 21, 2002

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Certificate of  
Achievement  
for Excellence  
in Financial  
Reporting

Presented to

Elected Officials' Retirement  
System, City of Baltimore  
Maryland

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended  
June 30, 2011

A Certificate of Achievement for Excellence in Financial  
Reporting is presented by the Government Finance Officers  
Association of the United States and Canada to  
government units and public employee retirement  
systems whose comprehensive annual financial  
reports (CAFRs) achieve the highest  
standards in government accounting  
and financial reporting.



*Christopher P. Morill*

President

*Jeffrey R. Enos*

Executive Director

## CITY OF BALTIMORE

STEPHANIE RAWLINGS-BLAKE, Mayor



## EMPLOYEES' RETIREMENT SYSTEM and ELECTED OFFICIALS' RETIREMENT SYSTEM

ROSELYN H. SPENCER, Executive Director  
7 E. Redwood Street  
12th and 13th Floors  
Baltimore, Maryland 21202

December 31, 2012

The Board of Trustees and  
Members of the Elected Officials' Retirement System  
Baltimore, Maryland

It is my pleasure to present the Comprehensive Annual Financial Report of the Elected Officials' Retirement System of the City of Baltimore, Maryland (EOS, System, Plan), a component unit of the City of Baltimore, Maryland (City) for the fiscal year ended June 30, 2012. The System's administration is responsible for the accuracy of the data and the completeness of the presentation, including all disclosures. We believe 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 the EOS' operations.

According to accounting principles generally accepted in the United States, management is required to provide a narrative introduction, overview and analysis of the financial statements of the System in the form of a Management 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 can be found immediately following the Independent Auditor's Report in the Financial Section.

### PROFILE OF THE PLAN

The EOS is a single employer defined benefit local government retirement plan. It was established on December 5, 1983 by legislation to cover the Baltimore City Mayor, the Comptroller, and the President and members of the City Council. 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. By law, the same Board of Trustees that administers the Employees' Retirement System also administers the EOS. A summary of plan provisions is presented on pages 54 through 57. The number of active, retired and deferred members, as well as beneficiaries of the plan can be found in the Notes to Basic Financial Statements on page 24.

### MAJOR INITIATIVES

One of our basic responsibilities in pension administration is to understand and respond to dynamics that will fundamentally reform the business and ability to improve member services. Like everything else, technology is often the best solution. We took on two technology driven initiatives during the year. First, we contracted with an Information Technology consultant to serve as network administrator support and to provide ongoing IT services by identifying and resolving issues in a preemptive manner.

Secondly, we partnered with a technology company to implement a proprietary web-based Benefits Administration System (BAS). Both initiatives are designed to enhance EOS service delivery in a secured and expedient manner, and to improve member communications.

To implement the proprietary BAS for the EOS, we acquired Pension Technology Group's (PTG) Pension Pro Benefit Administration System. This is a secured web-based BAS application designed for staff and member utilization. The main modules will include maintenance, calculators, processes, pension payroll, workflow, reports, tools and administration. The System will be hosted by RackSpace in a SSAE 16 Type II certified facility. It is designed to consolidate and maintain recordkeeping of members' records in an electronic format that is secured, backed-up and available for easy access and for remote access during



times of emergency, by utilizing standard internet connections. The web-based system will replace the City's 35-plus year old database system and bring the EOS into the 21<sup>st</sup> century.

Among other features, the BAS will streamline and improve our operating processes, allow for timely retirement calculations with ease and accuracy, and allow for prompt response to questions. It will also allow for electronic submission of retirement applications and provide portals that will be available 24 hours a day and 7 days a week to the members. In today's fast paced and changing electronic/social media environment, the new BAS will be an important step in providing members with information that is up-to-date, unfiltered and available when they need it.

## **FINANCIAL AND ECONOMIC SUMMARY**

EOS returned 1.3% on its investments for the fiscal year ending June 30, 2012. Although this represents a 0.3% differential from the policy benchmark of 1.6%, in comparison to its peers, it is a respectable performance especially given the lackluster domestic economic recovery, and challenging global market conditions.

The United States (U.S.) economy grew modestly and at a slower pace over the fiscal year. Geo-political and macroeconomic-driven events in Europe and in the U.S. weighed heavily on economic growth, and brought three consecutive years of economic expansion to a crawl. Realities of the euro debt crisis and fear of the U.S. "Fiscal Cliff" (a combination of higher taxes and spending cuts to reduce the national debt) conundrum are still raising concerns about the possibility of a global recession. It is believed that a compromise on the "Fiscal Cliff" is possible, and if achieved, will help the U.S. to avoid the same type of crisis that is happening in Europe.

Additionally, Central Banks in the U.S. and Europe are taking strong measures to stimulate and grow their respective economies. The U.S. Federal Reserve Bank (Fed) continues to implement monetary policies to stimulate the domestic economy. Quantitative Easing (QE3) is the most recent stimulus. It is designed to purchase unlimited amounts of mortgage-backed securities indefinitely, to inspire the economy until employment "improves substantially". The Fed is also committed to holding interest rates near zero at least until mid-2015. In Europe, policy makers and the European Central Bank (ECB) strengthened their commitment to preserving the unity of the euro, as talks of Greece exiting and fear of contagion grew. In a bold move to stimulate the euro, the ECB implemented "Outright Monetary Transaction", a new program, designed to purchase unlimited peripheral euro zone government bonds in the secondary market. This action is in addition to existing austerity measures already imposed on Greece and Spain.

Hopefully, these clearly set policy directions will help to gradually improve both the European and U.S. economies over time. The general outlook for the months ahead is cautious optimism.

## **INVESTMENT SUMMARY**

The ERS Board of Trustees (Board) is responsible for investment of the EOS funds and for establishing reasonable investment objectives, developing investment policy guidelines, selecting investment managers and evaluating performance results to assure adherence to guidelines, and achievement of the System's objectives. The Board has a fiduciary duty to exercise its investment authority prudently and solely in the interest of the System's participants and beneficiaries. The Board also seeks to safeguard the assets of the System by implementing proper risk mitigation strategies, and by broadly diversifying the assets.

The System investment objective is to earn or exceed a 7.25% rate of return or to outperform the policy benchmark. Assets in the EOS are invested primarily in indexed and commingled funds, with some that are actively managed. Given the difficult economic climate, the Board made no major shift in the asset allocation, but instead focused on closely monitoring performance, rebalancing as necessary, to remain close to the target allocation.

The 1.3% investment return ranked the EOS in the 41<sup>st</sup> percentile of the public pension funds universe. Total net assets grew by 3%, an increase of \$439,085, for the fiscal year. Fixed income and international equities are major contributors to fiscal year's investment gains, with domestic equity lagging. Long-term, three and five year annualized returns of 12.3% and 0.5% respectively, are very good, considering that losses from the 2008 market downturn are still being absorbed.

The Board continues to utilize external portfolio managers in active and passive strategies. The managers are monitored and evaluated monthly and annually by the Board and its Investment consultant, Marquette Associates, Inc. (Marquette), who provides the Board with monthly and annual evaluation reports. A summary of their annual analysis and the target asset allocation is found on pages 36 to 37 in the investment section of this report. Please refer to the MD&A for more investment and financial analysis.

## **ACTUARIAL AND FUNDING RESULTS**

The actuarial results in this report reflect the changes adopted by the Board as a result of the Experience Study completed last year. An actuarial evaluation of the System is performed annually and an Experience Study is conducted every four years.

Based on recommendations from the actuary, Cheiron Inc., and as a result of the Experience Study, the Board approved several changes, including: reducing the investment return assumption rate for funding purposes to 7.25%; reducing the interest rate credited on employee contributions from 5.5% to 5.25%; and reducing the salary increase assumption used to project System's liabilities. These and other changes are intended to strengthen the system's sustainability.

EOS is financially strong, with a funded ratio of 109.2%, up from 105.2% in the previous fiscal year. The funded ratio, is a standard measure of how well the System is funded. Other results of the actuarial valuation for fiscal year 2012 also reflect the System's strength. The total recommended employer contribution decreased from \$419,459 for fiscal year 2013 to \$306,606 for fiscal year 2014, due to gains in the actuarial liability. Normal cost as a percent of pay also declined by 3.73% to 36.18%. Demographic changes were major factors in these positive results. It should be noted that due to the small size of the Plan, any change in demographics - as often occur in election years - can have a material impact on the actuarial results. The Board is cognizant of its duties and makes every effort to maintain the System on an actuarially sound basis. This is verified in the "Schedule of Funding Progress", illustration on page 30 of this report.

## **ACCOUNTING SYSTEMS AND INTERNAL CONTROL**

This report has been prepared in accordance with the principles of governmental accounting and reporting promulgated by GASB. The accrual basis of accounting is used to record assets and liabilities, and revenues and expenses. Revenues for the EOS are recorded when earned regardless of the date of collection, and expenses are recorded when liabilities are incurred regardless of when payment is made.

The System's administration is responsible for establishing and maintaining adequate internal controls regarding achievement of all operational, financial reporting and compliance objectives. Specifically, the System's policies and procedures are designed to ensure that the assets are protected from loss, theft, or misuse and 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. Documented procedures of work duties are available for major job functions and implemented thoughtfully and consistently. The internal control structure is designed to provide reasonable, but not absolute, assurance that these objectives are met. Sufficient internal accounting controls exist to provide reasonable assurance regarding the security of assets, and the fair presentation of the financial statements and supporting schedules.



## **INDEPENDENT AUDIT**

The Baltimore City Code requires that the City's Board of Estimates select an independent auditor for the Retirement System, and that the auditor report findings annually to the Board of Estimates and to the Board of Trustees. The Board of Estimates elected to have the Department of Audits render an opinion as to the fairness of the System's financial statements. The independent auditor's opinion is contained in the Financial Section of this report.

## **PROFESSIONAL SERVICES**

The Board appoints a custodial bank, consultants and investment managers, subject to approval by the City's Board of Estimates. These professionals are chosen based on their ability to provide services that are essential to the effective and efficient operation of the System. Trustees are also required to monitor and terminate investment managers as necessary for underperformance, or for other material reasons as determined by the Board. All of the professionals that provide services to the Board are listed on pages 13 and 44 in the Introductory and Investment Sections of this Report.

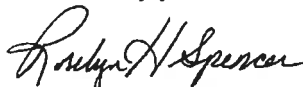
## **AWARDS AND ACKNOWLEDGMENTS**

For the 26<sup>th</sup> consecutive year (fiscal years 1986-2011) EOS was awarded a Certificate of Achievement for Excellence in Financial Reporting from the Government Finance Officers' Association of the United States and Canada (GFOA) for its Comprehensive Annual Financial Report for the fiscal year ended June 30, 2011. A Certificate of Achievement is a prestigious acknowledgement that is valid for one year and is awarded to only those governmental units who meet or exceed the strict standards and criteria of the association. I believe that this Comprehensive Annual Financial Report continues to meet the Certificate of Achievement Program requirements. It will be submitted to the GFOA to determine its eligibility for another certificate.

This CAFR 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 determining responsible stewardship for the assets contributed by the members and the City of Baltimore. Its preparation was a combined effort of the System's accounting and administrative staffs. They and all others who contributed to preparing of this report are to be commended for their excellent work.

In closing, I would like to thank the Board of Trustees, for their unwavering support and confidence in what we do; the EOS' dedicated staff, especially the accounting group, who keeps us focused and always conscientious; our investment consultant Marquette Associates, Inc.; our actuary, Cheiron, Inc.; and the other professionals who partner with us in the administration of the EOS.

Sincerely yours,



Roselyn H. Spencer

CITY OF BALTIMORE

STEPHANIE RAWLINGS-BLAKE, Mayor



EMPLOYEES' RETIREMENT SYSTEM and  
ELECTED OFFICIALS' RETIREMENT SYSTEM

ROSELYN H. SPENCER, Executive Director  
7 E. Redwood Street  
12th and 13th Floors  
Baltimore, Maryland 21202

December 31, 2012

To: All Members, Retirees, and Beneficiaries  
City of Baltimore Elected Officials' Retirement System (EOS)

On behalf of the Board of Trustees, I would like to share with you some of this year's significant developments, and to also highlight some accomplishments of the Board and staff.

Investment return for the fiscal year was 1.3%, placing EOS in the 41<sup>st</sup> percentile in the public pension fund universe. In a year of slow economic growth, high market volatility, on-going Eurozone debt crisis and other macroeconomic challenges, this is a relatively good outcome.

Topping that, EOS improved its funding status with the funding ratio increasing from a solid 105% last year to an even better 109% at June 30, 2012. This is great news at a time when funding ratios are declining for most other retirement funds, and is a clear assurance to our members that the EOS is financially strong and sustainable for the long term.

On the administrative side, the most exciting development in fiscal 2012 is the launch of a project to install a new Benefits Administration System (BAS) to replace the City's 35+ year old database system and bring EOS administration into the 21<sup>st</sup> century. The platform for the new BAS is Pension Technology Group's (PTG) Pension Pro Benefit Administration System, a secure web-based application. The BAS is a much needed acquisition that will substantially improve member communications and EOS operations.

In a very busy year of activities and undertakings, we have a few people to acknowledge. Executive Director Roselyn Spencer and our Investment Consultant, Marquette Associates, work collaboratively, implementing the Board's investment strategies in a difficult investment environment and keeping EOS on a steady course. Roz and her staff are also hard at work to move the BAS project forward and implement the Board's vision for a state-of-the-art data system. At the same time, they continue their outstanding work at their daily duties on behalf of EOS members. They are to be commended and given special thanks for their efforts.

Last but not least, I am grateful to my fellow Trustees for their dedication, commitment and valuable contributions on behalf of the EOS and the confidence they have placed in me as their Chair. EOS and its members benefit greatly from their service.

Sincerely,

Joan M. Pratt, CPA  
Chair, Board of Trustees



Elected Officials' Retirement System  
City of Baltimore, Maryland  
**BOARD OF TRUSTEES**

**Joan M. Pratt, CPA**  
**Chair**  
**Ex-officio**  
Comptroller of the City of Baltimore, Maryland

**Deborah F. Moore-Carter**  
**Vice Chair**  
**Term expires December 31, 2015**  
Mrs. Moore-Carter is the Labor Commissioner for the City of Baltimore.  
She was elected by the active membership to serve a four-year term.

**Dorothy L. Bryant**  
**Term expires December 31, 2015**  
Ms. Bryant is a Phlebotomist with the City of Baltimore Health Department.  
She was elected by the active membership to serve a four-year term.

**Brenda J. Clayburn**  
**Term expires December 31, 2013**  
Ms. Clayburn is currently the President of the City of Baltimore Union (CUB).  
Her official City job function is Office Supervisor in the Baltimore City Police Department.  
She was elected by the active membership to serve a four-year term.

**Ernest J. Glinka**  
**Term expires December 31, 2015**  
Mr. Glinka is a Retired Administrator for the City of Baltimore Retirement Systems.  
He was elected by the retired membership to serve a four-year term.

The two positions that are appointed by the Mayor are currently vacant.

Both appointed and elected trustees serve four-year terms. Appointed trustees continue to serve until replaced by the Mayor, or until the expiration of two consecutive full terms. There are no limitations on the number of terms an elected trustee may serve.

Elected Officials' Retirement System  
City of Baltimore, Maryland

**LEGAL COUNSEL, GENERAL COUNSEL, ACTUARY, AND INDEPENDENT AUDITOR**

**LEGAL COUNSEL**

City of Baltimore  
Law Department  
George Nilson, Esq.

**GENERAL COUNSEL**

City of Baltimore  
Elected Officials' Retirement System  
John Kratz

**ACTUARY**

Cheiron, Inc.  
Kenneth Kent, F.S.A.  
McLean, Virginia

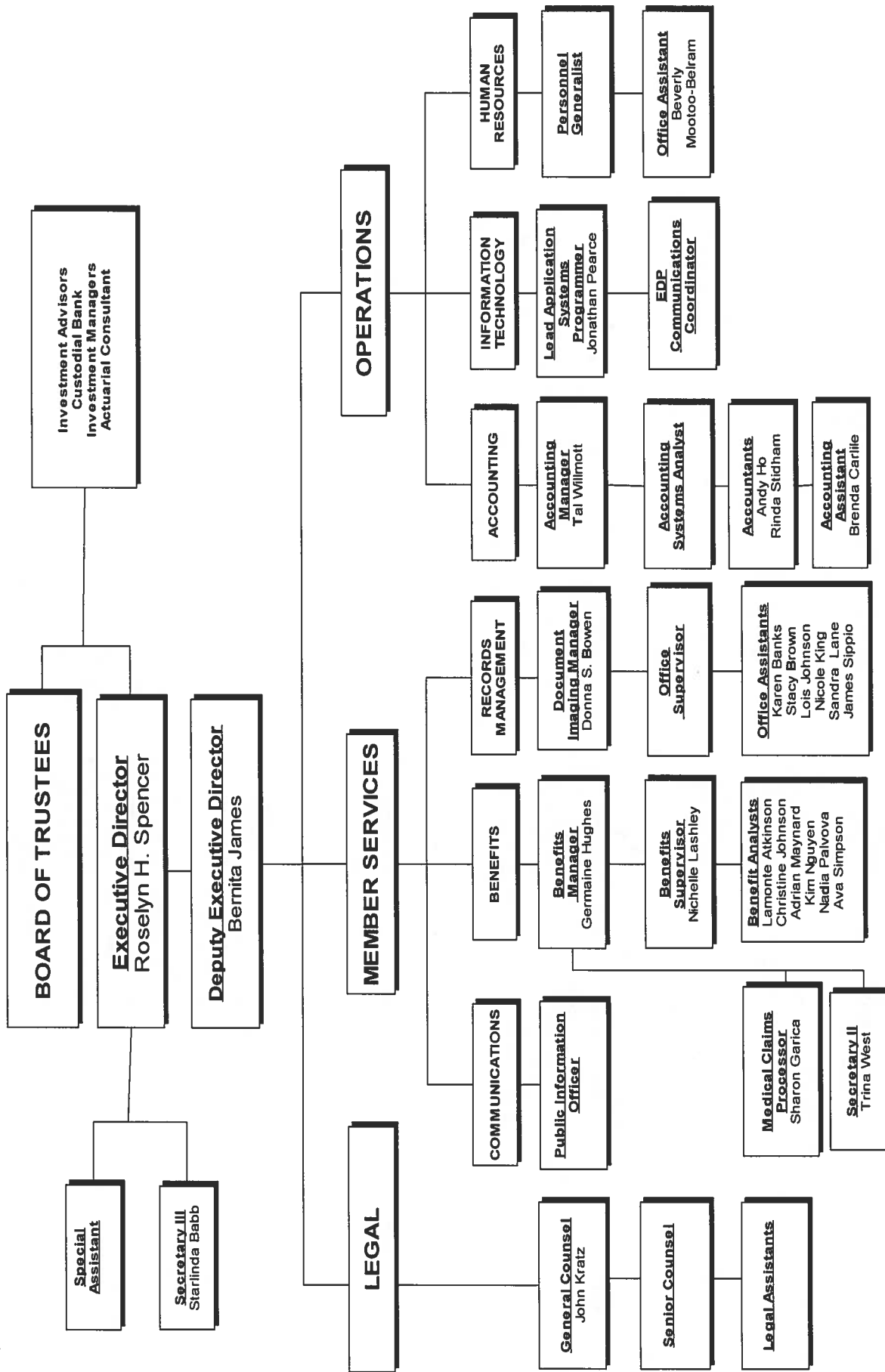
**INDEPENDENT AUDITOR**

City of Baltimore  
Department of Audits  
Robert L. McCarty, Jr., CPA

See page 44 in the Investment Section for a list of investment professionals.



Elected Officials' Retirement System  
 City of Baltimore, Maryland  
 Organization Chart







CITY OF BALTIMORE

STEPHANIE RAWLINGS-BLAKE, Mayor



DEPARTMENT OF AUDITS

ROBERT L. McCARTY, JR., CPA

City Auditor  
100 N. Holliday Street  
Room 321, City Hall  
Baltimore, Maryland 21202  
Telephone: 410-396-4783  
Telefax: 410-545-3961

December 31, 2012

Honorable Joan M. Pratt, Comptroller  
And Other Members of the  
Board of Estimates of the  
City of Baltimore  
Board of Trustees of the  
Elected Officials' Retirement System

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying financial statements of the Elected Officials' Retirement System of the City of Baltimore, Maryland, a component unit of the City of Baltimore, as of and for the year ended June 30, 2012, as listed in the table of contents. These financial statements are the responsibility of the Elected Officials' Retirement System's management. 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 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 of material misstatement. We were not engaged to perform an audit of the Elected Officials' Retirement System's internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Elected Officials' Retirement System's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.


In our opinion, based on our audit, the financial statements referred to above present fairly, in all material respects, the plan net assets of the Elected Officials' Retirement System as of June 30, 2012, and the respective changes in plan net assets for the year then ended, in conformity with accounting principles generally accepted in the United States.

In accordance with *Government Auditing Standards*, we have also issued our report, dated December 31, 2012, on our consideration of the Elected Officials' Retirement System's 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.



The Management's Discussion and Analysis, on pages 18 to 21, and the Required Supplementary Information and Supporting Schedules, on pages 29 to 33, are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the Management's Discussion and Analysis. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Elected Officials' Retirement System's basic financial statements. The introductory section, required supplementary information and supporting schedules, investment section, actuarial section and statistical section, as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The required supplementary information and supporting schedules have been subjected to the auditing procedures applied by us in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section, investment section, actuarial section and statistical section have not been subjected to the auditing procedures applied by us in the audit of the basic financial statements and, accordingly, we express no opinion on them.



Robert L. McCarty, Jr., CPA  
City Auditor

Elected Officials' Retirement System  
City of Baltimore, Maryland  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**

We are pleased to provide this overview and analysis of the financial activities of the Elected Officials' Retirement System (EOS) for the fiscal year ended June 30, 2012. EOS is the administrator of a single employer defined benefit local government retirement plan (the Plan). Readers are encouraged to consider the information presented here in conjunction with additional information furnished in the Transmittal Letter, which begins on page 7 of this report.

**Financial Highlights**

- The net assets of the Plan at the close of the fiscal year 2012 are \$18,310,111. All of the net assets are available to meet the Plan's ongoing obligations to plan participants and their beneficiaries.
- The rate of return for the fiscal year ended June 30, 2012 was 1.3%, compared to the fiscal year ended June 30, 2011 return of 23.2%, this was due to the investment performance of the Plan's domestic equity assets.
- The Plan's total net assets held in trust for pension benefits increased by \$439,085 or 2.5%, as a result of positive investment performance and employer contributions.
- The Plan's funding objective is to meet long-term benefit obligations through contributions and investment income. As of June 30, 2012, the date of our last actuarial valuation, the funded ratio for the Plan was 109.2%. In general, this indicates that the EOS has sufficient funds to cover every dollar of benefits due.
- Revenues (Additions to Plan Net Assets) for the year were \$1,266,025, a decrease of \$3,281,646 from the prior year. Revenues include member contributions of \$63,234 and a net investment gain of \$205,106.
- Expenses (Deductions from Plan Net Assets) decreased to \$826,940 from the prior year expenses of \$871,778 due to a decline in retirement benefit expenses, investment management fees and operating expenses of the system.

**Overview of Financial Statements**

The following discussion and analysis are intended to serve as an introduction to the EOS financial statements and the Financial Section of this report.

The **Statement of Plan Net Position** provides a snapshot of the financial position of the EOS at June 30, 2012, the end of the Plan's financial year. It indicates the total assets and total liabilities at June 30, 2012, and the net assets available for future payment of retirement benefits and operating expenditures.

The **Statement of Changes in Plan Net Position**, on the other hand, summarizes the EOS' financial activities that occurred during the Plan's financial year from July 1, 2011 through June 30, 2012.

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

The statements and the notes are in conformity with the accounting principles generally accepted in the United States. These principles require certain financial statement presentations and disclosures including the use of the full accrual basis of accounting to record assets and liabilities, and revenues and expenses.

Elected Officials' Retirement System  
 City of Baltimore, Maryland  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**

The Statement of Plan Net Position presents the Plan's assets and liabilities, as well as, the net assets available for future retirement benefits and operating expenses at June 30, 2012. The assets comprise receivables, mainly from member contributions, and investments at fair value. Investments are valued at the last reported purchase or sale price. Purchases and sales of investments are recorded on a trade date basis. The payables comprise retirement benefits, investment management fees, and administrative expenses.

The Statement of Change in Plan Net Position presents information showing how the Plan's net assets changed during the year. Member contributions are recognized in the period in which the contributions are due. Employer contributions are recognized when a formal commitment has been made by the City of Baltimore to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the Plan. All investment gains and losses are shown at trade date. Both realized and unrealized gains and losses are shown on the investments.

The Statement of Plan Net Position and the Statement of Change in Net Position can be found on pages 22 and 23 of this report.

The **Required Supplementary Information** that follows immediately after the notes to the basic financial statements provide two schedules showing ten-year historical trend information concerning the funded status of the Plan and contributions made to the Plan by the employer. See the Required Supplementary Information beginning on page 29 of this report.

The remaining supplemental schedules provide additional detailed information concerning investment expenses and payments to consultants. All of this information is considered useful in understanding and evaluating the financial activities of the Plan.

**Financial Analysis**

Net assets may serve over time as a useful indicator of the Plan's financial position. At June 30, 2012, assets exceeded liabilities by \$18,310,111. All of the net assets are available to meet the Plan's ongoing obligation to Plan participants and their beneficiaries. As of June 30, 2012, total net assets increased by 2.5% compared to the prior year, due to investment performance.

Plan Net Position	Fiscal Year 2012	Fiscal Year 2011	Increase / (Decrease)	Percentage Change
Investments at Fair Value	\$18,230,922	\$17,773,297	\$457,625	2.6 %
Other Assets	<u>84,877</u>	<u>110,806</u>	<u>(25,929)</u>	(23.4)%
Total Assets	18,315,799	17,884,103	431,696	2.4 %
Total Liabilities	5,688	13,077	(7,389)	(56.5)%
<b>Total Net Assets</b>	<u><u>\$18,310,111</u></u>	<u><u>\$17,871,026</u></u>	<u><u>\$439,085</u></u>	2.5%

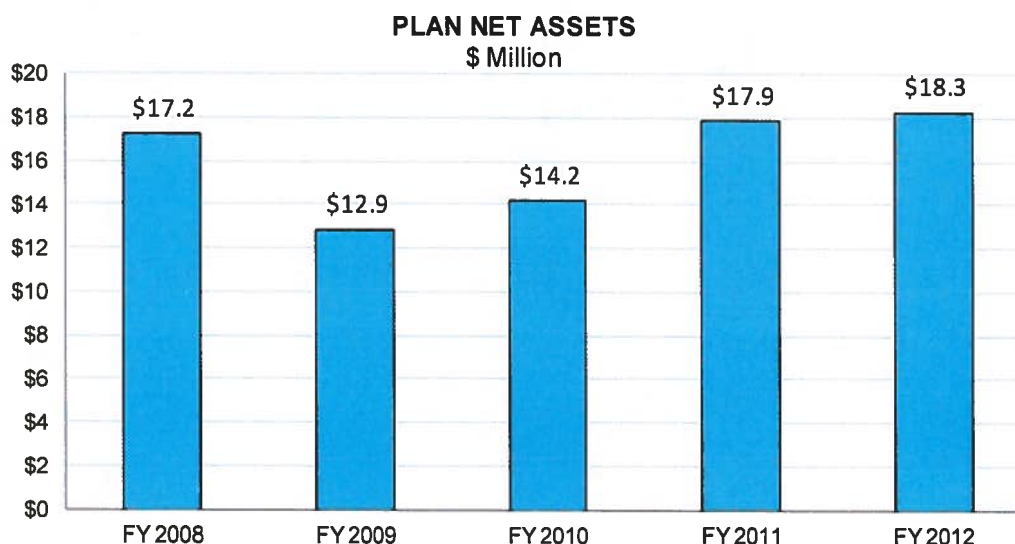
Elected Officials' Retirement System  
City of Baltimore, Maryland  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**Investment Assets**

EOS is a long-term investor and manages the Plan's assets with long-term objectives in mind. A primary element of the Plan's investment philosophy is to employ a diversification of assets as the best possible way to achieve its goals. The assets of the Plan are currently managed by an investment manager, who employs active and passive management strategies to take advantage of imbalances in the markets. The target asset allocation consists of 44% invested in the domestic equity index, 21% in the international equity index, and 35% in the fixed income index.

The Plan's investment performance for fiscal year 2012 was 1.3%, slightly underperforming its policy benchmark by .03%. The domestic equity index return 1.6% underperformed its benchmark 3.8% by 2.1% for the fiscal year ending June 30, 2012. The international equity index return was (11.2)% and it outperformed its benchmark MSCI All County ex US index by 2.9%. The rate of return of 7.5% for domestic fixed income index of the Plan was in-line with its benchmark, the Barclay's Capital Aggregate Index.

Investments in this report 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 investments for the year ended June 30, 2012 was 1.3% which is attributed to the underperformance of assets in the domestic equity which were over-weighted in small and mid cap stocks. The international equity portfolio, the actively managed international small-cap manager positively contributed to results by significantly mitigating losses in a falling international stock market and ranking in the 1<sup>st</sup> percentile of its peer group. The annualized rate of return for the three and five year periods ending June 30, 2012 were 12.3% and 0.5%, respectively. The Plan's long-term actuarial investment return assumption is 7.25%.



The Investment Section beginning on page 35 gives detailed information on the Plan's investment policies. See page 42 of this report for charts showing the asset allocation targets established by the Board of Trustees and the actual asset allocation of Plan assets at June 30, 2012.



Elected Officials' Retirement System  
 City of Baltimore, Maryland  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**Liabilities**

The current liabilities are payables due to retirement benefit expenses, investment management fees and operating expenses of the EOS office. The Plan is administered by the same staff that administers the Employees' Retirement System.

Changes in Plan Net Position	Fiscal Year 2012	Fiscal Year 2011	Increase / (Decrease)
<b>Additions</b>			
Employer Contribution	\$997,685	\$957,220	\$40,465
Members Contributions	63,234	100,523	(37,289)
Net Investment Income	205,106	3,489,928	(3,284,822)
Total Additions	<u>1,266,025</u>	<u>4,547,671</u>	<u>(3,281,646)</u>
<b>Deductions</b>			
Retirement Allowances	775,678	816,690	(41,012)
Administrative Expenses	28,242	55,088	(26,846)
Refund of Contributions	23,020		23,020
Total Deductions	<u>\$826,940</u>	<u>\$871,778</u>	<u>(44,838)</u>
<b>Net Decrease</b>	<u><u>\$439,085</u></u>	<u><u>\$3,675,893</u></u>	<u><u>(\$3,236,808)</u></u>

**Contributions and Investment Income**

The employer's contribution to the plan in fiscal year 2012 is based on the actuarial valuation report for the year ended June 30, 2011. The negative returns from prior years; increase of active member salaries and retired membership benefit increases for fiscal year 2012 required an employer's contribution this year in the amount of \$997,685. Net investment income increased due to investment performance in all asset classes. Investment expenses were \$20,217 and \$20,999 for fiscal years 2012 and 2011, respectively. The net increase of the plan is contributed to the positive investment performance and an increase of employer contribution.

**Retirement Benefits and Administrative Expenses**

The Plan was created to provide lifetime service retirement benefits, survivor benefits and permanent disability benefits to eligible members and their beneficiaries. The cost of such programs includes recurring benefit payments, lump sum death benefits, payments to terminated members, and the cost of administering the Plan.

The primary source of expense during fiscal year 2012 was for the payment of continuing retirement benefits totaling \$775,678, which decreased from \$816,690 for fiscal year 2011.

**Requests for Information**

This financial report is designed to provide a general overview of the Plan's finances and to account for the money it receives to the Board of Trustees, the Mayor and City Council, the Plan's membership and the City's taxpayers. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to: The Executive Director, Employees' Retirement System, 7 E. Redwood Street, 12<sup>th</sup> Floor, Baltimore, Maryland 21202.

Elected Officials' Retirement System  
City of Baltimore, Maryland  
**STATEMENT OF PLAN NET POSITION**  
June 30, 2012

<b>Assets</b>		
Cash and Cash Equivalents		\$ 80,920
Receivables:		
Other	\$ 3,957	
Total Receivables		3,957
Investments, at Fair Value		
Domestic equity	8,264,706	
Fixed income	6,237,794	
International equity	3,728,422	
Total Investments		<u>18,230,922</u>
Total Assets		<u>18,315,799</u>
<b>Liabilities</b>		
Investment Management Fees Payable	4,698	
Other	990	
Total Liabilities		<u>5,688</u>
<b>Net Assets Held in Trust for Pension Benefits</b>		<u><u>\$ 18,310,111</u></u>

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

Elected Officials' Retirement System  
City of Baltimore, Maryland  
**STATEMENT OF CHANGES IN PLAN NET POSITION**  
For the Year Ended June 30, 2012

**Additions**

Contributions		
Employer	\$ 997,685	
Plan Members	<u>63,234</u>	\$ 1,060,919
Investment Income:		
Net appreciation in fair value of investments	225,022	
Interest and dividends	301	
Less: investment expenses	<u>(20,217)</u>	
Net investment income		<u>205,106</u>
Total additions		<u>1,266,025</u>

**Deductions**

Retirement allowances	775,678	
Administrative expenses	28,242	
Refund of member contributions	<u>23,020</u>	
Total deductions		<u>826,940</u>

**Net Increase**

439,085

**Net assets held in trust for pension benefits**

July 1, 2011		17,871,026
June 30, 2012		<u><u>\$ 18,310,111</u></u>

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

Elected Officials' Retirement System  
City of Baltimore, Maryland  
**NOTES TO BASIC FINANCIAL STATEMENTS**

**1. Plan Description:**

The Elected Officials' Retirement System of the City of Baltimore (EOS) is the administrator of a single employer defined benefit local government retirement plan (the Plan). Established December 5, 1983, the plan covers the Mayor, the Comptroller, and the President and all members of the City Council. Based on criteria established by the Governmental Accounting Standards Board, the EOS is a component unit of the City of Baltimore and is included in the City's financial report as a Public Employee's Retirement System (PERS).

At June 30, 2012, the EOS membership consisted of:

Retirees and beneficiaries currently receiving benefits	23
Active plan members	17
Terminated vested member	<u>1</u>
Total	<u>41</u>

The Plan provides retirement benefits as well as death and disability benefits in accordance with Article 22 of the Baltimore City Code and may be amended by the Mayor and City Council of Baltimore. However, the reduction of benefits is precluded by the City Code. Membership in the Plan is mandatory upon taking the oath of office, unless the elected official is already a member of the Employees' Retirement System of the City of Baltimore.

Post-retirement benefit increases are indexed to future increases in the compensation for the position held by the elected official prior to retirement.

**2. Summary of Significant Accounting Policies:**

**Basis of Presentation:**

The accounting and financial reporting policies of the EOS included in this report conform to the accounting principles generally accepted in the United States and reporting standards as promulgated by the Governmental Accounting Standards Board, which designates accounting and financial reporting standards applicable to PERS. This report includes solely the accounts of the EOS, a component unit of the City of Baltimore. There are no component units of the EOS 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.

**Method Used to Value Investments:**

Investments are reported at fair value. Securities traded on national exchanges are valued at the last reported sales price.

**3. Contributions:**

Plan members are required to contribute 5% of their regular compensation through payroll deduction. The City's annual employer contribution is determined through an actuarial valuation. According to the Plan provisions, Article 22 of the Baltimore City Code, contribution requirements of the Plan members and the City are established and may be amended by the Mayor and City Council. Administrative costs of the Plan are paid from investment earnings.



Elected Officials' Retirement System  
 City of Baltimore, Maryland  
**NOTES TO BASIC FINANCIAL STATEMENTS**

**4. Cash and Investments:**

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

The Board of Trustees (the Board) 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 Plan's investments through an external investment advisor who acts as a fiduciary for the Plan and through external investment managers. The Board invests the assets of the Plan 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.

The investments of the Plan at June 30, 2012 are categorized, as indicated in the following schedule:

<u>Investments Type</u>	<u>Fair Value</u>
Domestic equity index funds	\$8,264,706
Fixed income index funds	6,237,794
International equity index funds	3,728,422
Money market funds	80,920
Total Investments	18,311,842
Less: Money market funds	80,920
Net total investments	<u>\$18,230,922</u>

Investments of the Plan are made by outside investment managers and are held under a custodial agreement with BNY Mellon Financial Corporation.

*Foreign Currency Exposure Risk*

At June 30, 2012, EOS did not hold any foreign currency or hedging foreign investment positions. EOS does not have a formal policy to limit foreign currency.

*Interest Rate Risk*

Interest rate risk is the risk that changes in interest rates of debt investments will adversely affect the fair value of investments. The Plan has selected the duration method to disclose the exposure to changes in interest rates. The Plan does not have a formal policy to limit interest rate risk.

<u>Investment Type</u>	<u>Fair Value</u>	<u>Duration (in years)</u>
Debt Securities:		
Fixed income index funds	\$6,237,794	3.35
Money market funds	<u>80,920</u>	0.00
Total Debt Securities	<u>\$6,318,714</u>	

Elected Officials' Retirement System  
 City of Baltimore, Maryland  
**NOTES TO BASIC FINANCIAL STATEMENTS**

*Credit Risk by Quality*

The Plan's investments are not rated for credit risk. The Plan does not have a formal policy to limit credit risk.

*Concentration of Credit Risk*

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. As of June 30, 2012, the EOS 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.

**5. Derivatives Instruments**

A derivative is a unique and often complex financial arrangement entered into with another party, typically a private-sector financial firm. The value or cash flows of a derivative are determined by how the market prices of the hedged item change. At June 30, 2012 the Elected Officials' Retirement System did not hold derivatives with hedging investment positions.

**6. Funding Policy**

Funding of the System is accomplished through member and employer contributions, and the investment earnings. The System uses the projected unit credit funding method. The required schedule of funding progress presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits. A ten year schedule of the funding progress is on page 30 of this report.

*Funding Progress Schedule*

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Projected Unit Cost (b)	Unfunded (Excess of ) AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL (Excess of) as a Percentage of Covered Payroll ((b-a)/ c)
06/30/12	\$18,502,805	\$16,951,055	\$(1,551,750)	109.2%	\$1,236,273	125.5%

The Plan's obligations to its members are based on the actuarial valuation of the assets and liabilities of the Plan. The market value ratio indicates the Plan's ability to pay its obligations in a snapshot in time, such as, June 30, 2012. It does not take into account the increase and decrease of the Plan's assets and liabilities over a multitude of years.

*Market Value Ratio*

Actuarial Valuation Date	Market Value of Assets (a)	Actuarial Accrued Liability (AAL) Projected Unit Cost (b)	Unfunded (Excess of ) ( AAL) Market (b-a)	Market Ratio (a/b)	Covered Payroll (c)	Market (Excess of) as a Percentage of Covered Payroll ((b-a)/c)
06/30/12	\$18,310,111	\$16,951,055	\$(1,359,056)	108.0%	\$1,236,273	109.9%

Elected Officials' Retirement System  
City of Baltimore, Maryland

**NOTES TO BASIC FINANCIAL STATEMENTS**

The amortization method and the actuarial assumptions presented below are determined as part of the actuarial valuation dated June 30, 2012. The System's Board of Trustees approved the assumptions but some of the changes regarding interest rates defined by the City of Baltimore Code will require changes to the law. The information presented below is in the required supplementary schedules of this report on page 32.

Actuarial cost method:	Projected unit credit
Amortization method:	Level dollar, open
Amortization period:	16-year period that is decreased each year. Effective June 30, 2011.
Asset valuation method:	Market value adjusted for investment surpluses and deficits relative to investment assumptions, are recognized over 5 years, but limited to 10% of the market value of assets.
Actuarial assumptions:	
Investment rate of return:	
Pre-retirement	7.25%, effective June 30, 2011.
Post-retirement	5.0%, effective June 30, 2011.
Projected salary increases	5.0% compounded annually, effective June 30, 2011.
Cost-of-living adjustments	5.0% compounded annually, effective June 30, 2011.

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Required Supplementary Information  
and Supporting Schedules

Elected Officials' Retirement System  
 City of Baltimore, Maryland  
 Required Supplementary Information  
**SCHEDULE OF FUNDING PROGRESS**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Projected Unit Cost (b)	Unfunded (Excess of) AAL (UAAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAAL (Excess of) Percentage of Covered Payroll ((b-a)/c)
6-30-03	\$ 13,086,386	\$ 13,670,218	\$ 583,832	95.7 %	\$ 1,150,000	50.8 %
6-30-04	14,854,343	14,709,287	(145,056)	101.0	1,150,000	(12.6)
6-30-05	15,182,550	14,447,285	(735,265)	105.1	963,000	(76.4)
6-30-06	15,940,948	13,546,610	(2,394,338)	117.7	958,000	(249.9)
6-30-07	17,524,104	14,189,037	(3,335,067)	123.5	863,000	(386.5)
6-30-08	18,272,591	16,953,276	(1,319,315)	107.8	1,142,000	(115.5)
6-30-09	14,160,551	16,956,537	2,795,986	83.5	1,182,300	(236.5)
6-30-10	15,615,546	18,635,853	3,020,307	83.8	1,206,122	(250.4)
6-30-11	18,143,097	17,243,299	(899,798)	105.2	1,206,122	74.6
6-30-12	18,502,805	16,951,055	(1,551,750)	109.2	1,236,273	125.5

Elected Officials' Retirement System  
City of Baltimore, Maryland  
Required Supplementary Information  
**SCHEDULE OF EMPLOYER CONTRIBUTIONS**

<u>Fiscal Year Ended June 30</u>	<u>Annual Required Contributions</u>	<u>Percentage Contributed</u>
2003		N/A
2004	\$407,883	100 %
2005	575,760	100
2006	516,665	100
2007	381,524	100
2008	143,521	100
2009		N/A
2010	339,830	100
2011	957,220	100
2012	997,685	100

See notes to required supplementary information.

Elected Officials' Retirement System  
City of Baltimore, Maryland

**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**

1. The information presented in the required supplementary schedules was determined as part of the actuarial valuation dated June 30, 2012. Additional information as of the latest actuarial valuation follows:

Actuarial cost method:	Projected unit credit.
Amortization method:	Level dollar over 16 years.
Amortization period:	16-year period decreased every year, effective June 30, 2011.
Asset valuation method:	Market value adjusted for investment surpluses and deficits relative to investment assumptions, are recognized over 5 years, but limited to 10% of the market value of assets.
Actuarial assumptions:	
Investment rate of return:	7.25%, effective June 30, 2011.
Post-retirement increases	5.0%
Projected salary increases	5.0% compounded annually.
Cost-of-living adjustments	5.0% compounded annually.
2. The June 30, 2003 actuarial value of assets is less than the actuarial accrued liability due to unfavorable investment performance. Amortization of the unfunded actuarial liability causes employer contributions to increase by \$126,996, which represents 11% of the covered payroll. The Board of Trustees adopted a change in the mortality rate which decreased the June 30, 2003 unfunded liability by \$871,712 from the prior year.
3. As of June 30, 2008, the actuarial liability is less than the actuarial asset value as a result of deferred investment losses. The plan's funding position went from surplus of \$3,335,067 as of June 30, 2007 to a surplus of \$1,319,315 as of June 30, 2008. The actuarial liability increased significantly as payroll growth and retiree cost of living adjustments that track payroll growth were greater than the 6% assumption.
4. The June 30, 2009 actuarial value of assets is less than the actuarial accrued liability due to payroll increase and cost of living adjustments for retirees and beneficiaries. Amortization of the unfunded actuarial liability causes employer contributions to increase from \$0 to \$339,830 which represents 81% of the covered payroll. The employer contribution for the June 30, 2009 actuarial valuation is made payable on July 1, 2010.
5. The employer's contributions increased from \$339,830 to \$957,220 for the fiscal year ending June 30, 2010 primarily due to demographic experience. The contributions are payable July 1, 2011.
6. The June 30, 2011 actuarial assumptions changes are based on the results experience study covering the period July 1, 2006 through June 30, 2010. The System's Board of Trustees approved the assumptions but legislation is pending adoption by the Mayor and City Council of Baltimore City. The employer contributions decreased from \$957,220 to \$419,459, payable July 1, 2012.
7. The June 30, 2012 funding position improved from a surplus of \$899,798 as of June 30, 2011 to a surplus of \$1,551,750 as of June 30, 2012. The employer's contribution decreased from \$419,459 to \$306,606 primarily due to gains in actuarial liability resulting from demographic experience and lower than expected salary increases.



Elected Officials' Retirement System  
 City of Baltimore, Maryland  
**SCHEDULE OF ADMINISTRATIVE EXPENSES**  
**SCHEDULE OF INVESTMENT EXPENSES**  
**SCHEDULE OF PAYMENTS TO CONSULTANTS**  
 For the Year Ended June 30, 2012

**Schedule of Administrative Expenses**

<b>Administrative expenses</b>	<b><u>Fees</u></b>
Actuarial fees	\$22,051
Audit fees	4,200
Dues and membership fees	740
Other professional services	675
Miscellaneous	469
Retirement payroll processing	107
<b>Total administrative expenses</b>	<b><u><u>\$28,242</u></u></b>

**Schedule of Investment Expenses**

<b>Investment expenses</b>	<b><u>Fees</u></b>
Investment management fees	\$18,131
Custodial fees	1,086
Investment advisor fees	1,000
<b>Total investment expenses</b>	<b><u><u>\$20,217</u></u></b>

**Schedule of Payments to Consultants**

<b><u>Firm</u></b>	<b><u>Nature of Service</u></b>	<b><u>Fees</u></b>
Cheiron	Actuarial Services	\$22,051
Baltimore City Department of Audits	Financial Audit	4,200
<b>Total payments to consultants</b>		<b><u><u>\$26,251</u></u></b>

Note: A schedule of fees and commissions is also illustrated in the Investment Section on page 43.

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# Investment Section



## INVESTMENT CONSULTANT'S REPORT

### Introduction

This report, prepared for the City of Baltimore Elected Officials' Retirement System (EOS) by Marquette Associates, Inc. is based on information supplied by the System's custodian, Mellon Bank, N.A (Mellon). Mellon provides Marquette Associates, Inc. with beginning and ending market values, cash flows, transactions, and positions for the EOS as well as each manager, where applicable. Mellon audits the information contained in its accounting reports monthly. The rates of return are calculated using a time-weighted rate of return methodology based upon market values. The returns are reported on both net of fees and gross of fees to provide comparisons with the appropriate benchmarks. Investment information is reported to the greatest degree possible in conformance with the presentation standards of Global Performance Investment Standards (GIPS) formerly known as AIMR.

### Distinction of Responsibilities

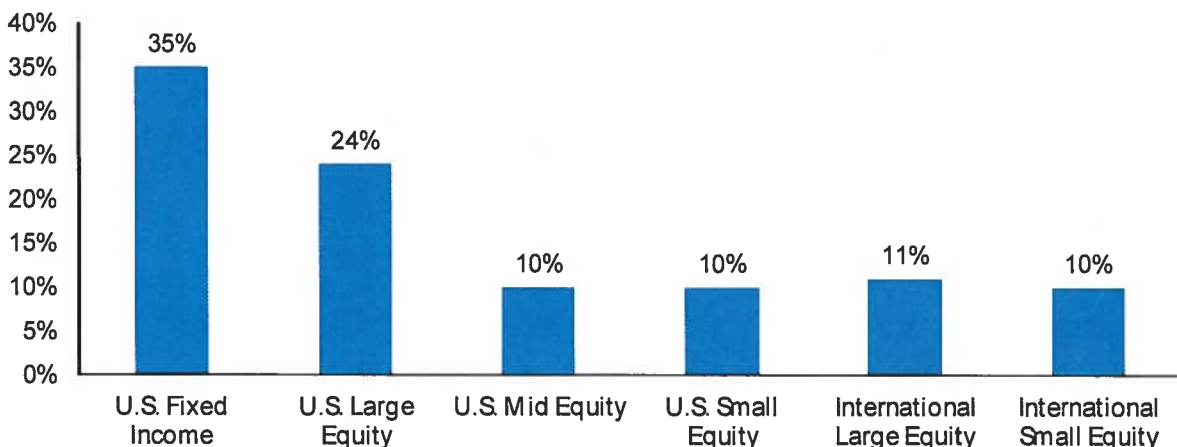
In recognition of the importance of prudent investment of System assets to both the City and the System's members, the Board, as primary fiduciary of the System, shall periodically review the asset management and actuarial characteristics of the System to ensure that investments are managed in a manner that is consistent with the retirement objectives of the System's members. These responsibilities are detailed in the Investment Guidelines.

The primary investment objectives of the System are to preserve the capital value of the System assets adjusted for inflation, to ensure adequate liquidity to meet benefit liabilities as they fall due, to meet the actuarial interest rate assumptions, and without unduly jeopardizing the above objectives, to exceed the investment return objective by the astute management of System assets.

The investment managers appointed to execute the policy will invest EOS assets in accordance with the policy guidelines and with their judgment concerning relative investment values. In particular, the investment managers are accorded full discretion to: (1) select individual securities, (2) make periodic strategic adjustments to the mix of the common stock and fixed income securities, where applicable, and (3) diversify their portfolios.

### Investment Asset Allocation Structure

The asset allocation structure is diversified along fixed income and equity. The goal of the asset allocation structure is to provide a favorable rate of return coupled with a prudent level of risk. The table below outlines the current asset allocation structure:





The asset allocation structure further diversified the domestic and international equity asset classes. In domestic equity, the asset allocation has exposure to large, mid and small-cap equity. In international equity, the asset allocation has exposure to large and small equity and emerging markets. The Trustees have employed both active and passive investment strategies to obtain the desired asset allocation mix in the most cost effective and efficient manner.

**Investment Objective**

The EOS's investment objective is to outperform the return of a policy portfolio consisting of 44% Russell 3000, 21% MSCI ACWI ex US, and 35% Barclays Capital Aggregate. In addition, the EOS's performance is evaluated relative to the Investorforce Public Fund Universe, a universe representing the performance of 109 Public Funds. Marquette utilizes the InvestorForce Performance Reporting network, an advanced and comprehensive analysis and performance management platform, comprised of 25 different investment consulting firms located throughout the United States. The Network's statistics consists of 815 total funds totaling \$4 trillion in assets.

**Market Overview**

The fiscal year ended June 30, 2012 was sluggish for the equity markets and a challenging year for international equities in particular. With mounting concerns over the European sovereign debt crisis, the last quarter of the fiscal year detracted from market gains made in the earlier part of 2012. Additionally, the threat of a growth slowdown in China may have placed a damper on investors' spirits in the U.S. as global macroeconomic concerns continued to dominate domestic behaviors. As a result, the domestic stock market as proxied by the Russell 3000 Index returned 3.8% and the international stock market as proxied by the MSCI All Country World ex-US Index returned -14.1%. In domestic markets, large-cap stocks outpaced smaller stocks by wide margins as the search for yield was widespread. Despite historically low yields, fixed income markets performed well due to their perceived lower risk attributes combined with a falling yield environment for longer term bond issues. Fixed income returned 7.5% as proxied by the Barclays Capital Aggregate Index.

**Investment Performance**

For the fiscal year ending June 30, 2012, the System posted a 1.3% return which lagged the policy benchmark by 1.6% but outpaced the median public pension fund return. The System made a strong showing in the public fund universe, ranking in the 41<sup>st</sup> percentile. Detracting from results was an overweight exposure to mid- and small-cap stocks versus the Russell 3000 Index. Large-cap stocks outpaced small-cap stocks by a wide margin as evidenced by the 4.4% gain for the Russell 1000 Index versus a negative -2.1% return for the Russell 2000 Index. Within the international equity portfolio, the actively managed international small-cap manager positively contributed to results by significantly mitigating losses in a falling international stock market and ranking in the 1<sup>st</sup> percentile of its peer group.

The market value of the EOS assets ended the 2012 fiscal year with \$18.3 million in total assets, which was an increase of \$0.4 million from the prior fiscal year end. At the end of fiscal year 2012, the System's assets were allocated as follows:

	Market Value (in millions)	Percent of Total	Fiscal Year Rate of Return	
			EOS	Benchmark
U.S. Equity	\$8.3	45.4%	1.7%	3.8%
International Equity	3.7	20.2%	-11.2%	-14.1%
U.S. Fixed Income	6.2	33.9%	7.5%	7.5%
Cash Equivalents	0.1	0.5%	---	---
<b>Total Fund</b>	<b>\$18.3</b>	<b>100.0%</b>	<b>1.3%</b>	<b>1.6%</b>



Nichole Roman-Bhatty  
 Managing Partner  
 Marquette Associates, Inc.

Elected Officials' Retirement System  
City of Baltimore, Maryland  
**OUTLINE OF INVESTMENT OBJECTIVES AND POLICIES**

**Investment Objectives**

The primary investment objectives of the Elected Officials' Retirement System (the Plan) 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 Plan adjusted for inflation;
2. To ensure adequate Plan liquidity to meet benefit liabilities as they fall due;
3. To meet the actuarial interest rate assumptions; and
4. Without unduly jeopardizing the above objectives, to exceed the investment return objective by the astute management of funds.

**General Investment Policy**

The Elected Officials' Retirement System 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. The Plan investment managers are expected to familiarize themselves with these laws.

Investment policy for the Plan relates to the portfolio of all assets which comprise the total holdings of the Plan. The Board of Trustees (Board) recognizes that the objective of a sound and prudent policy is to produce investment results that will preserve the assets of the Plan, as well as, to maximize earnings of the Plan 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 Plan and its projected benefit payments. Should the projected finances of the Plan change significantly, the applicable Federal or State statutes be amended, or changes in the Plan'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.

In general, the Board recognizes that large pools of assets must be diversified over 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 Plan:

<u>Asset Category</u>	<u>% of Total Assets at Market Value</u>	<u>Target</u>
U.S. Fixed Income		35%
U.S. Large Equity		24%
U.S. Mid Equity		10%
U.S. Small Equity		10%
International Large Equity		11%
International Small Equity		10%
Total		<u>100%</u>

Elected Officials' Retirement System  
City of Baltimore, Maryland

**OUTLINE OF INVESTMENT OBJECTIVES AND POLICIES**

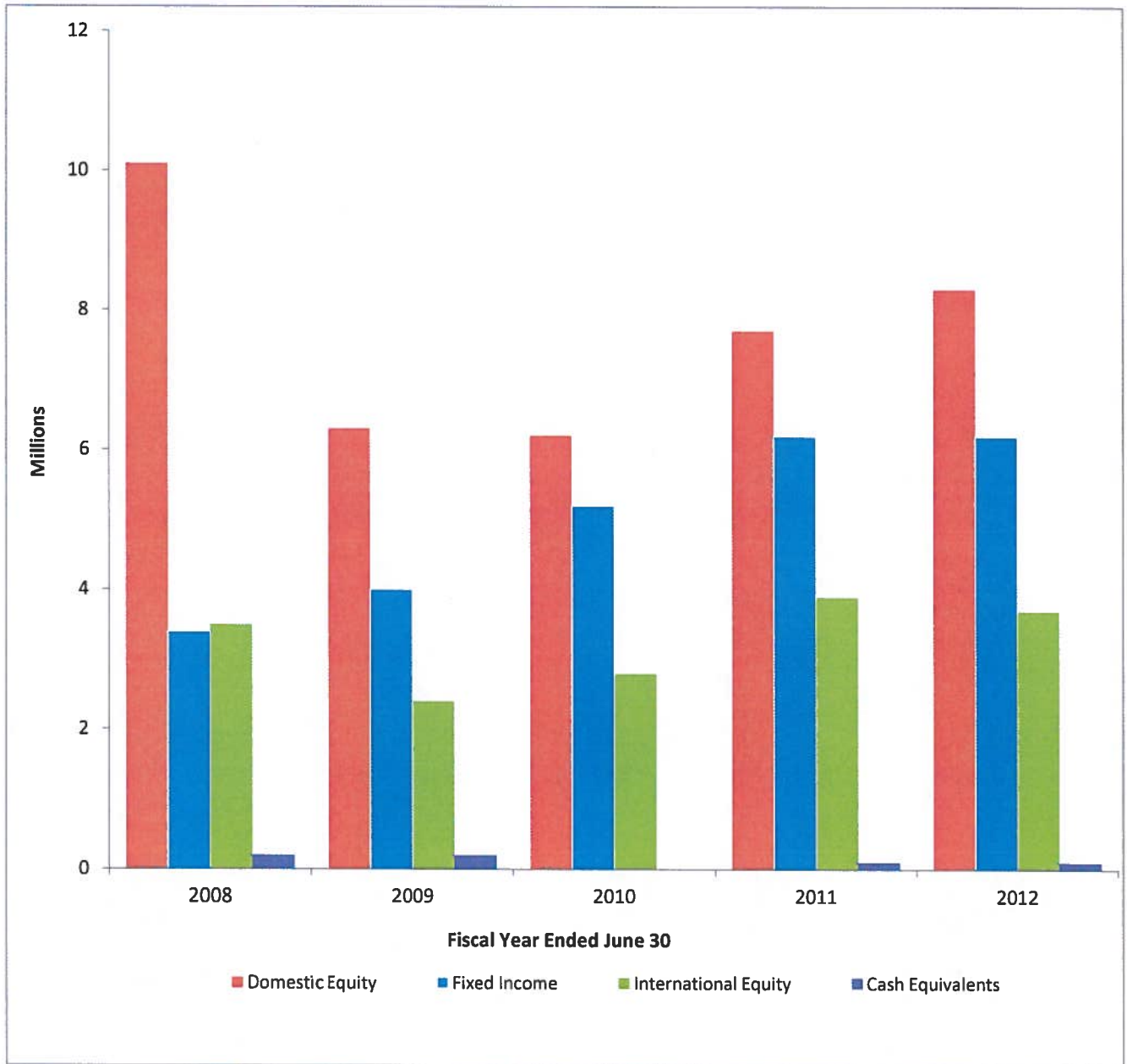
Within each major security classification, investments should be diversified and excessive concentration in any particular security, company or industry is to be avoided. Detailed guidelines in this regard have been supplied to the Plan's investment managers. Subject to these objectives and guidelines, and the Plan's laws referenced herein, the investment managers shall 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, and are encouraged to suggest changes in these guidelines at any time.

**Proxy Voting**

Pursuant to a U.S. Department of Labor directive, the Board of Trustees have 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 Plan 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.

Elected Officials' Retirement System  
 City of Baltimore, Maryland  
**PORTFOLIO COMPOSITION**  
**FAIR VALUE OF INVESTMENTS**



(amounts expressed in millions)

	2008		2009		2010		2011		2012	
Domestic Equity	\$ 10.1	58.7%	\$ 6.3	48.8%	\$ 6.2	43.7%	\$ 7.7	43.0%	\$ 8.3	45.4%
Fixed Income	3.4	19.8	4.0	31.0	5.2	36.6	6.2	34.6	6.2	33.9
International Equity	3.5	20.4	2.4	18.6	2.8	19.7	3.9	21.8	3.7	20.2
Cash Equivalents	0.2	1.1	0.2	1.6			0.1	0.6	0.1	0.5
<b>Total</b>	<b>\$ 17.2</b>	<b>100.0%</b>	<b>\$ 12.9</b>	<b>100.0%</b>	<b>\$ 14.2</b>	<b>100.0%</b>	<b>\$ 17.9</b>	<b>100.0%</b>	<b>\$ 18.3</b>	<b>100.0%</b>

Elected Officials' Retirement System  
 City of Baltimore, Maryland

**INVESTMENT RESULTS**

**TIME WEIGHTED RATE OF RETURN, CURRENT VALUE BASIS**

	<u>FY 2012</u>	<u>Annualized</u> <u>3 Years</u>	<u>5 Years</u>
<b>TOTAL PORTFOLIO</b>	<b>1.3 %</b>	<b>12.3 %</b>	<b>0.5 %</b>
Policy Benchmark	1.6	12.0	1.5
<b>DOMESTIC EQUITIES</b>	<b>1.7</b>	<b>17.4</b>	<b>N/A</b>
Russell 3000	3.8	16.7	0.0
<b>FIXED INCOME</b>	<b>7.5</b>	<b>6.9</b>	<b>N/A</b>
BarCap Aggregate	7.5	6.9	6.8
<b>INTERNATIONAL EQUITIES</b>	<b>-11.2</b>	<b>10.3</b>	<b>N/A</b>
MSCI ACWI ex-US	-14.1	7.4	-4.2

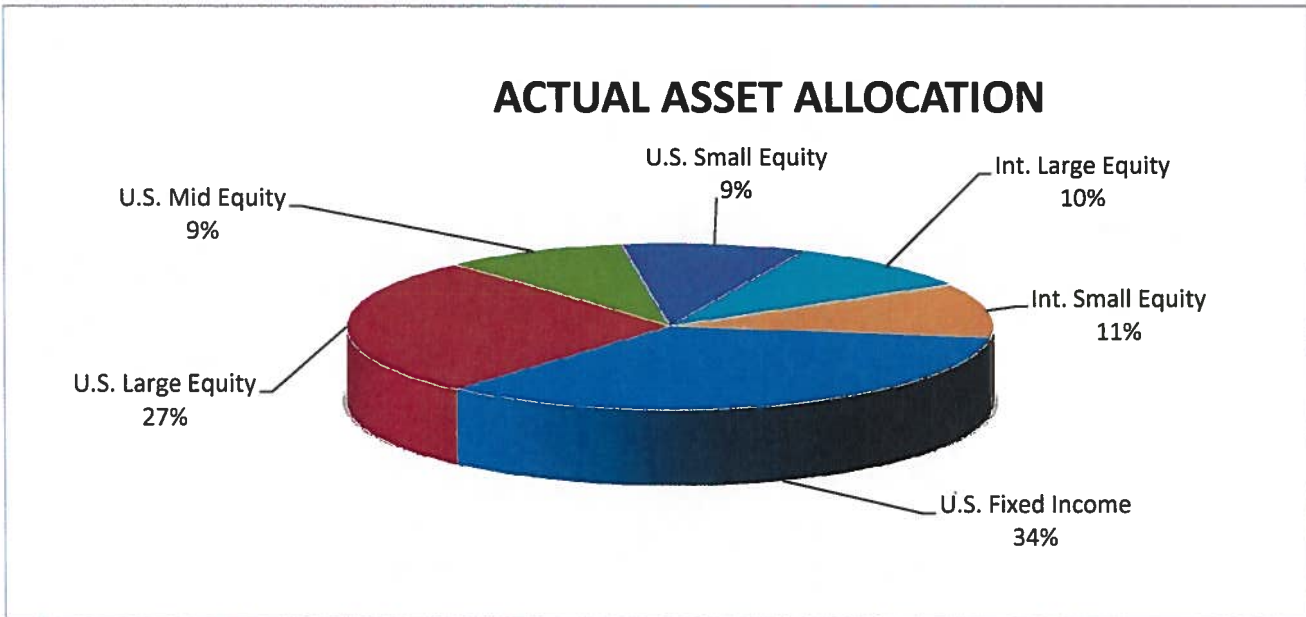
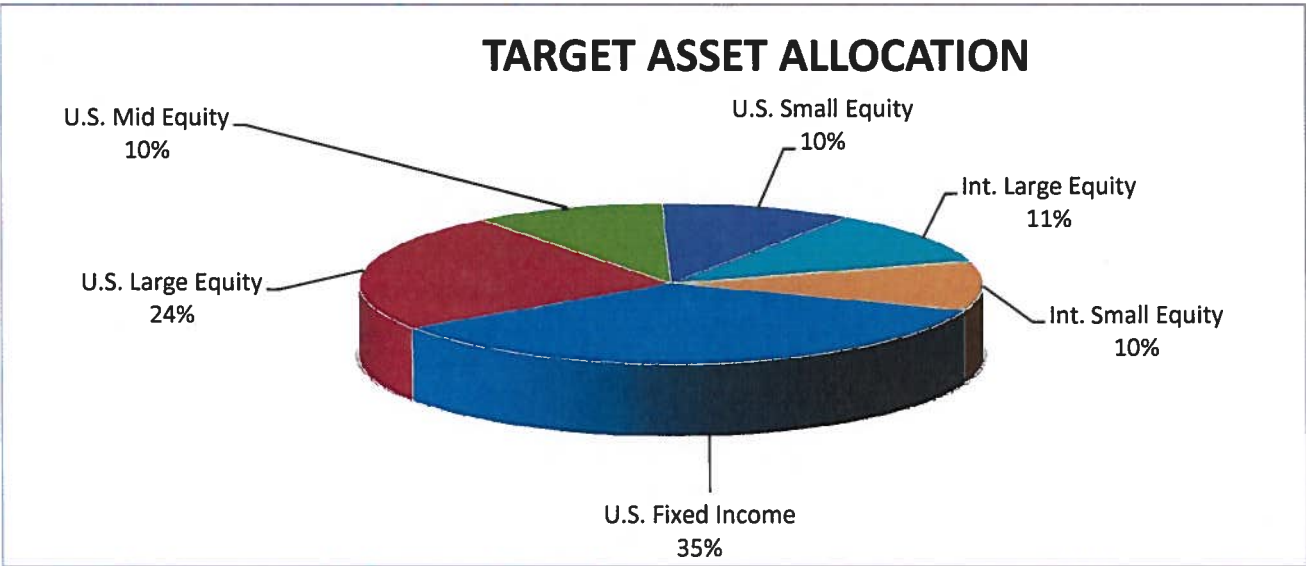
*Note:*

The calculations above were prepared by the Elected Officials' Retirement System's investment advisor, Marquette Associates, Inc., using a time weighted rate of return, based on fair value. The assets were evaluated as a total composite before June 30, 2008, as a result, the five-year rate of returns are unavailable.

The Policy Benchmark is 35% BarCap Aggregate, 44% Russell 3000, 21% MSCI ACWI ex-US.



Elected Officials' Retirement System  
 City of Baltimore, Maryland  
**ASSET ALLOCATION - ACTIVELY MANAGED ACCOUNTS**  
 June 30, 2012



Note: For asset allocation purposes, only actively managed accounts are included. Assets in the mutual funds are allocated between domestic equity and domestic fixed income based on the percentage held by the investment managers at June 30, 2012. Assets in the cash reserve are also excluded from this illustration. These assets are for the purpose of providing cash for the payment of benefit and administrative expenses.

Elected Officials' Retirement System  
City of Baltimore, Maryland  
**SUMMARY SCHEDULE OF FEES AND COMMISSIONS**  
**INVESTMENT SUMMARY**  
For the Year Ended June 30, 2012

**Summary Schedule of Fees and Commissions**

	<b><u>Assets Under Management</u></b>	<b><u>Fees</u></b>
<b>Investment manager fees:</b>	<u>\$18,230,922</u>	\$18,131
<b>Other investment service fees:</b>		
Custodial fees		1,086
Investment advisor fees		<u>1,000</u>
<b>Total other investment service fees</b>		<u>2,086</u>
<b>Total investment service fees</b>		<u><u>\$20,217</u></u>

Note: No broker fees are reported due to the nature of the investments of the EOS.

**Brokerage Commissions**

Because of the highly visible nature of the Elected Officials' Retirement System, it is important that the investment managers have as a primary objective to obtain the best execution in all investment transactions. 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 first preference whenever possible to brokerage firms with offices located in the Baltimore City 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.

**Investment Summary**

<b>Investments:</b>	<b><u>Fair Value</u></b>	<b><u>Percent of Fair Value</u></b>
Domestic Equity	\$ 8,264,706	45 %
Fixed Income	6,237,794	34
International Equity	<u>3,728,422</u>	<u>21</u>
Total Investments	<u><u>\$ 18,230,922</u></u>	<u><u>100 %</u></u>

Elected Officials' Retirement System  
City of Baltimore, Maryland  
**INVESTMENT PROFESSIONALS**

**INVESTMENT ADVISOR**

Marquette Associates, Inc.  
Nichole Roman-Bhatty  
Chicago, Illinois

**TACTICAL ASSET ALLOCATION**

Mellon Capital Management Corp.  
Brian Hock  
Pittsburgh, Pennsylvania

**INTERNATIONAL EQUITY**

Mondrian Investment Group, Inc.  
Laura Conlon  
Philadelphia, Pennsylvania

**CUSTODIAN BANK**

BNY Mellon Asset Servicing  
Arlene C. Sefcik  
Pittsburgh, Pennsylvania





Actuarial Section



November 20, 2012

Board of Trustees  
Elected Officials' Retirement System  
of the City of Baltimore  
7 East Redwood Street, 12<sup>th</sup> Floor  
Baltimore, Maryland 21202-3470

**Re: 2012 CAFR**

Honorable Members of the Board of Trustees:

Cheiron, Inc. performs an actuarial valuation of the System at the end of each fiscal year. The most recent valuation was as of June 30, 2012, and it determined the employer's contribution for the plan year beginning July 1, 2012. The contribution is determined for the following year and therefore it is our understanding the contribution plus interest will be made during the 2012 fiscal year.

The funding method used in the annual valuation is the Projected Unit Credit Cost method. This method tends to produce a level normal cost (portion of the contribution) as a percentage of covered payroll as long as the average age of active members does not change significantly. The employer's contribution is increased or decreased to amortize the difference between the actuarial value of assets and the actuarial accrued liability as a level dollar amount over a fixed period targeting 100% funding by the fiscal year ending 2028.

Contributions have not consistently reflected level percent of pay because of:

- Volatility in the investment returns of the System
- Differences between actual and assumed pay increases
- Purchases of prior service credit; and
- Sensitivity to elected officials terms of office.

The annual recommended contributions have varied from 0% to 83% of covered payroll.

The valuation is based on actuarial assumptions recommended by the actuary and approved by the Board of Trustees. The assumptions and methods used for funding purposes meet the parameters set for the disclosures presented in the financial section by Governmental Accounting Standards Board (GASB) Statement No. 25. The spread between the interest rate and the salary scale recommended by the actuary has been incorporated into Article 22 of the Baltimore City Code. A review of the actuarial assumptions was completed in 2010 by Cheiron with changes incorporated in the June 30, 2011 valuation. The June 30, 2012 valuation continues to use the assumptions adopted based on this review.

The valuation is based on a closed group of members; no new hires are assumed. The actuarial value of assets equals the market value, adjusted for investment performance above or below the assumed rate of return. Such gains or losses are recognized over a five-year period. The





Board of Trustees  
Elected Officials' Retirement System  
November 20, 2012  
Page 2

unrecognized gain or loss is limited to 10% of the market value of assets. In preparing our report, we relied on information (some oral and some written) supplied by the System's staff. This information includes, but is not limited to, plan provisions, employee data, and financial information. We performed an informal examination of the obvious characteristics of the data for reasonableness and consistency in accordance with Actuarial Standards of Practice No. 23.

The assumptions and methods used in determining the assets, liabilities, and the annual required contributions of the employer as defined by the Governmental Accounting Standards Board meet the parameters set by GASB Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*. All supporting schedules in the Actuarial Section and the Schedule of Employer Contributions and the Schedule of Funding Progress in the Financial Section have been prepared by the System and reviewed by Cheiron.

We note that GASB has approved new accounting standards for pension accounting for periods beginning after June 15, 2014. This report does not reflect the changes that may be required under the newly approved GASB Statement No. 67.

These results were prepared exclusively for the Elected Officials' Retirement System of the City of Baltimore for the purpose described herein. These results are not intended to benefit any third party, and Cheiron assumes no duty or liability to any such party.

To the best of our knowledge, this report and its contents have been prepared in accordance with generally recognized and accepted actuarial principles and practices which 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 report. This report does not address any contractual or legal issues. We are not attorneys and our firm does not provide any legal services or advice.

Sincerely,  
Cheiron



Kenneth Kent, FSA, FCA  
Principal Consulting Actuary



Anu Patel, FSA  
Consulting Actuary

Attachments

Elected Officials' Retirement System  
 City of Baltimore, Maryland  
**ACTUARIAL FUNDING METHOD AND ACTUARIAL ASSUMPTIONS**

**Actuarial Funding Method**

Method of Funding: 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, if applicable. The current Unfunded Actuarial Liability is amortized over 10 years. This 10-year period is restarted each year. The Trustees can elect to change this period. Effective June 30, 2011

Asset Valuation: The actuarial value of assets is equal to market value plus accrued contributions minus/plus the unrecognized gain/loss as of the valuation date. Each year's gain/loss are recognized over 5 years. Investment gains/losses are defined as earnings in excess of 7.25% of the value of the Pension Accumulation Fund at the beginning of the year. The absolute value of the total unrecognized gain/loss is limited to not more or less than 10% of the market value of assets. Effective June 30, 2011.

**Actuarial Assumptions**

Interest: 7.25% compounded annually, effective June 30, 2011.

Expenses: Expenses are paid from the funds except investment management expenses that are paid from investment earnings. It is assumed that the fund will have sufficient earnings to pay these expenses and meet the interest assumption.

Salary Scale: Salary increases are assumed to be 5% compounded annually, effective June 30, 2011.

Additional Assumptions:

Post Retirement Increase:	5% compounded annually, effective June 30, 2011.
Pre-retirement Mortality:	None
Withdrawal:	None
Retirement Age:	The later of (i) completion of current term or, (ii) end of term when first eligible for retirement (16 years of service or age 50 with 12 years of service).
Percentage Married:	Males: 80%; Females: 80%
Spouse Age:	A husband is assumed to be four years older than his wife.
New Entrants:	No future entrants are assumed.
Election Year:	The next election year is assumed to occur in 2016. Elections are then assumed to be held every four years thereafter.

Elected Officials' Retirement System  
 City of Baltimore, Maryland

**ACTUARIAL FUNDING METHOD AND ACTUARIAL ASSUMPTIONS**

Sample rates for all mortality, morbidity and retirement decrements for active members are as follows:

<u>Age</u>	<u>Withdrawal</u>	<u>Non-Line- of-Duty Disability</u>	<u>Line- of-Duty Disability</u>	<u>Service Retirement</u>
25	0	0.0008	0.0002	*
30	0	0.0008	0.0002	*
35	0	0.0012	0.0002	*
40	0	0.0023	0.0003	*
45	0	0.0035	0.0005	*
50	0	0.0057	0.0005	*
55	0	0.0080	0.0008	*
60	1	0.0013	0.0012	*
65	0	0.0014	0.0014	*
69	0	0.0015	0.0015	*

\* Retirement eligibility is based on age and service. Assumed to retire on the later of (1) completion of current term; or (ii) end of term when first eligible for retirement (16 years of service credit or age 50 with 12 years of service credit).

Mortality rates for retired and disabled members and beneficiaries are as follows:

<u>Age</u>	<u>Retirees and Beneficiaries</u>		<u>Disabled Members</u>	
	<u>Male**</u>	<u>Female**</u>	<u>Male</u>	<u>Female</u>
55	0.007268	0.002700	0.006131	0.002541
60	0.013366	0.005408	0.009158	0.004241
65	0.022558	0.010293	0.015592	0.007064
70	0.035261	0.015879	0.027530	0.012385
75	0.057993	0.026691	0.044597	0.023992
80	0.093973	0.046439	0.074070	0.042945

\*\* Rates for individuals who are the age shown as of June 30, 2012.

1994 Uninsured Pensioners Generational Mortality table (Male + 4, Female + 1) with generational projections using 50% of the AA scale projected to 2016 (Effective 6/30/2007).

Elected Officials' Retirement System  
 City of Baltimore, Maryland  
**SCHEDULE OF ACTIVE MEMBER VALUATION DATA**

<u>Valuation Date</u>	<u>Number of Members</u>	<u>Annual Payroll</u>	<u>Annual Average Pay</u>	<u>% Increase in Average Pay</u>
6/30/2003	21	\$1,150,000	\$54,762	
6/30/2004	21	1,150,000	54,762	
6/30/2005	17	958,000	56,353	2.9 %
6/30/2006	17	958,000	56,353	
6/30/2007	15	863,000	57,533	2.1
6/30/2008	17	1,142,000	67,176	16.8
6/30/2009	17	1,182,300	69,547	3.5
6/30/2010	17	1,206,122	70,948	2.0
6/30/2011	17	1,206,122	70,948	
6/30/2012	17	1,263,273	72,722	2.5

Elected Officials' Retirement System  
 City of Baltimore, Maryland

**SCHEDULE OF RETIREES AND BENEFICIARIES ADDED TO AND REMOVED FROM ROLLS**

Year Ended	Added to Rolls		Removed from Rolls		Rolls - End of Year		% Increase / (Decrease) Annual Allowances	Average Annual Allowances
	No.	Annual Allowances	No.	Annual Allowances	No.	Annual Allowances		
6/30/2003					16	\$ 453,958	(8.2) %	\$ 28,372
6/30/2004					16	453,958		28,372
6/30/2005	3	63,623	1	27,923	18	489,658	7.9	27,203
6/30/2006					18	489,658		27,203
6/30/2007	1	14,357			19	504,015	2.9	26,527
6/30/2008 *	1	173,121			20	677,136	34.3	33,857
6/30/2009 *	1	17,094			21	694,230	2.5	33,059
6/30/2010 *	1	120,069			22	814,299	17.3	37,014
6/30/2011	1	40,419	1	106,833	22	747,885	(8.2)	33,995
6/30/2012 *	1	36,816			23	805,051	7.6	35,002

\* Includes post-retirement increases.



Elected Officials' Retirement System  
 City of Baltimore, Maryland  
**SOLVENCY TEST**

The Elected Officials' 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; 3) The liabilities for future benefits to terminated vested members; and 4) 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), the liabilities for future benefits to present retired lives (liability 2), and the liabilities for future benefits to terminated vested members (liability 3) will be fully covered by present assets (except in rare circumstances). In addition, the liabilities for service already rendered by active members (liability 4) will be partially covered by the remainder of present assets. Generally, the funded portion of liability 4 will increase over time. Liability 4 being fully funded is rare.

The schedule below illustrates the System's history of liabilities 1 through 4.

Valuation Date	Aggregate Accrued Liabilities For:				Portion of Accrued Liabilities Covered by Reported Assets	
	(1) Active Member Contributions	(2) Retirees and Beneficiaries	(3) Terminated Vested Members	(4) Active Members (Employer Financed Portion)	(1) (2)	(3) (4)
6/30/2003	\$ 603,485	\$ 8,357,322		\$ 4,709,411	100 %	87.6 %
6/30/2004	697,485	8,461,667		5,550,135	100	102.6
6/30/2005	619,494	8,550,774		5,277,017	100	113.9
6/30/2006	701,887	7,135,209		5,709,514	100	141.9
6/30/2007	633,314	7,156,086	\$1,126,466	5,273,171	100	163.2
6/30/2008	660,277	10,406,449	337,457	5,549,093	100	123.8
6/30/2009	750,094	9,488,629	312,704	6,405,110	100	56.3
6/30/2010	733,536	11,658,750	317,461	5,926,106	100	49.0
6/30/2011	789,516	10,336,701	277,246	5,839,836	100	115.4
6/30/2012	760,599	11,010,110	283,545	4,896,801	100	131.7

Elected Officials' Retirement System  
City of Baltimore, Maryland  
**ANALYSIS OF FINANCIAL EXPERIENCE**

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

<u>Type of Activity</u>	<u>Gain or (Loss) for Year 2011</u>	<u>Gain or (Loss) for Year 2012</u>
<b>Age and Service Retirements</b>	\$ 11,026	\$ 17,995
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.		
<b>Disability Retirements</b>	3,445	2,217
If disability claims are less than assumed, there is a gain. If more claims, a loss.		
<b>Death-in-Service Benefits</b>		
If survivor claims are less than assumed, there is a gain. If more claims, a loss.		
<b>Withdrawal From Employment</b>		221,632
If more liabilities are released by withdrawals than assumed, there is a gain. If smaller releases, a loss.		
<b>Pay Increases</b>	1,049,306	137,285
If there are smaller pay increases than assumed, there is a gain. If greater increases, a loss.		
<b>Investment Income</b>	2,440,107	(1,078,075)
If there is greater investment income than assumed, there is a gain. If less, a loss.		
<b>Death After Retirement</b>	149,107	(186,615)
If retirees live longer than assumed, there is a loss. If not as long, a gain.		
<b>New Entrants</b>	(346,312)	(28,025)
New entrants create a loss because they were not assumed in the previous evaluation.		
<b>Assumption and Method Changes</b>	1,634,024	
Changes due to assumption changes and/or changes in accounting and liability.		
<b>Other</b>		
Miscellaneous gains and losses resulting from data adjustments, timing of financial transactions, valuation methods, etc.		
	1,066,536	
<b>Gains During Year From Financial Experience</b>	<u>\$ 4,940,703</u>	<u>\$ 152,950</u>

Elected Officials' Retirement System  
City of Baltimore, Maryland  
**SUMMARY OF PLAN PROVISIONS**  
June 30, 2012

1. **EFFECTIVE DATE:**

The Elected Officials' Retirement System (EOS) was established by City Ordinance effective December 5, 1983, and has been amended periodically.

2. **MEMBERSHIP AND SERVICE CREDIT:**

- (A) An elected official, who is not a member of the Employees' Retirement System of the City of Baltimore, automatically becomes a member of the EOS upon taking the oath of office.
- (B) An elected official, who is a member of the Employees' Retirement System of the City of Baltimore, has the option within 120 days of taking the oath of office, to become a member of the EOS.
- (C) Provided a claim is filed with the Board of Trustees within six months after becoming a member, the member is eligible to receive credit for all previous service as an elected official of Baltimore City, as a member of a Maryland State retirement system, or as a member of a Baltimore City retirement system.

3. **CONTINUED MEMBERSHIP:**

A member of the EOS has the option to continue membership in the System following his leaving office or the end of the term of office for which he was last elected, provided he continues to contribute both the employer and member contributions.

4. **MEMBER CONTRIBUTIONS:**

Members are required to contribute 5% of their salary. However, no contributions shall be made after the member has attained age 60 and has acquired 35 years of service credit in the EOS.

If a member transfers prior City service or State service, he must pay the equivalent of such past member contributions.

5. **MILITARY SERVICE CREDIT:**

- (A) **Military Service Prior to Employment:** A maximum of three years service credit is granted provided:
  - (1) the member retires; and
  - (2) benefits due to military service credit have not been or will not be received from any other retirement system, except social security benefits and certain military benefits.
- (B) **Military Service Within Employment:** Upon retirement or death, any member who had a break in employment due to military duty, shall receive service for the period of absence as provided by the Veterans' Re-employment Rights Act and the Uniformed Services Employment and Reemployment Rights Act of 1994.

6. **SERVICE RETIREMENT:**

- (A) **Eligibility Requirements:**
  - (1) Acquired 12 or more years of service and attained age 50; or
  - (2) Acquired 16 years of service, regardless of age.
- (B) **Benefit Amount:** An annual maximum service allowance equaling 2.5% of the current annual earnable compensation of the position held by the member multiplied by the number of years of the member's service credit. The allowance will consist of:

Elected Officials' Retirement System  
City of Baltimore, Maryland  
**SUMMARY OF PLAN PROVISIONS**  
June 30, 2012

- (1) an annuity equal to the actuarial equivalent of the member's accumulated contributions at the time of retirement; and
- (2) a pension, equal to the maximum allowance less the annuity described in (1) above.

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

- (A) **Eligibility Requirements:** Five years of service, and determination by a hearing examiner to be mentally or physically incapacitated for the performance of duties as an elected official, and that such incapacity is likely to be permanent.
- (B) **Benefit Amount:** An annual maximum retirement allowance equal to the greater of:
  - (1) the member's annual maximum service retirement allowance; or
  - (2) a retirement allowance totaling 25% of the member's current annual earnable compensation.
- (C) **Offset to Retirement Allowance:** This benefit is offset by workers' compensation received on account of the same disability.

8. **LINE-OF-DUTY DISABILITY BENEFIT:**

- (A) **Eligibility Requirements:** Immediate eligibility upon membership in the System and determination by a hearing examiner to be totally and permanently incapacitated for the further performance of duty, and the incapacity resulted from an accident occurring while in the actual performance of such duty at definite time and place without willful negligence.
- (B) **Benefit Amount:** An annual maximum retirement allowance consisting of:
  - (1) an annuity equal to the actuarial equivalent of the member's accumulated contributions; plus
  - (2) a pension equaling 66.667% of the member's current annual earnable compensation.
- (C) **Offset to Retirement Allowance:** This benefit is offset by workers' compensation received on account of the same disability.

9. **DEFERRED VESTED RETIREMENT BENEFIT:**

- (A) **Eligibility Requirements:** A member who has:
  - (1) Acquired 12 or more years of service, but less than 16 years of service, and
  - (2) Left office and has not attained age 50; and
  - (3) Elected to leave his or her accumulated contributions with the System.
- (B) **Benefit Amount:** Upon attaining age 50, the member is entitled to receive an annual maximum service allowance equaling 2.5% of the member's current annual earnable compensation multiplied by the number of years of the member's service credit. The allowance will consist of:
  - (1) an annuity equal to the actuarial equivalent of the member's accumulated contributions at the time of retirement; and
  - (2) a pension, equal to the maximum service allowance less the annuity described in (1) above.

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

- (A) **Maximum Allowance:** Upon retiree's death, 40% of retiree's maximum allowance to unremarried spouse or dependent children until the last dies or attains age 18 (age 22 if full time student). All other options result in a lesser amount paid.

Elected Officials' Retirement System  
City of Baltimore, Maryland  
**SUMMARY OF PLAN PROVISIONS**  
June 30, 2012

- (B) **Reserve Guarantee Option:** Upon retiree's death, 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 member's allowance to continue to designated beneficiary.
- (D) **50% Joint and Survivor Option:** Upon retiree's death, 50% of member's allowance to continue to designated beneficiary.
- (E) **100% Joint and Survivor "Pop-Up" Option:** Upon retiree's death, 100% of member's allowance continues to the designated beneficiary. However, should the designated beneficiary predecease the retired member, the retiree immediately begins to receive the maximum retirement allowance; the retiree may not designate another beneficiary and no survivorship benefits are paid on the death of the retiree.
- (F) **50% Joint and Survivor "Pop-Up" Option:** Upon retiree's death, 50% of member's allowance continues to the designated beneficiary. However, should the designated beneficiary predecease the retired member, the retiree immediately begins to receive the maximum retirement allowance; the retiree may not designate another beneficiary and no survivorship benefits are paid on the death of the retiree.
- (G) **Specific Benefit Option:** Upon the 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, non-line of duty disability, and line-of-duty disability retirement. Within 30 days after retirement, the retired member may change any option and/or the designated beneficiary.

**11. NON-LINE-OF-DUTY DEATH BENEFIT:**

- (A) **Eligibility Requirements:**
  - (1) Member dies while serving as an elected official for Baltimore City; or
  - (2) Retiree dies within 30 days after retiring on account of service, non-line-of-duty disability, or line-of-duty disability; or
  - (3) Retiree who postpones receipt of a retirement allowance until reaching age 50 and dies within 30 days after reaching age 50.
- (B) **Benefit Amount:**
  - (1) 100% Joint and Survivor benefit:  
Provided the member was eligible for a service retirement at the time of death, the 100% Joint and Survivor Option shall be paid to:
    - (a) The member's designated beneficiary spouse to whom the member was married for at least one year immediately prior to the date of death; or
    - (b) The member's parent(s).
  - (2) Lump Sum Benefit:  
If not eligible under (1) above, a lump sum benefit consisting of the member's accumulated contributions, and if the member has acquired more than one year of service, 50% of the member's current annual earnable compensation, payable to:
    - (a) the member's designated beneficiary; or
    - (b) a beneficiary as specified by the plan provisions.
- (C) **Offset to Retirement Allowance:** This benefit is offset by:
  - (1) workers' compensation received on account of the same disability or death; and
  - (2) any allowance paid by this System and received by the retired member or former member before the date of death.



**12. LINE-OF-DUTY DEATH BENEFIT:**

**(A) Eligibility Requirements:**

- (1) A determination by a hearing examiner, that the member's death occurred from the natural and proximate result of the actual performance of duty and without willful negligence on the part of the member; or
- (2) A member has been granted a line-of-duty disability and dies from injuries that caused or contributed to the member being awarded the line-of-duty disability.

**(B) Benefit Amount:** The benefit consists of:

- (1) a refund of the member's accumulated contributions and interest payable to the member's designated beneficiary or the beneficiary specified by the plan provisions; and
- (2) an annual pension of 100% of the member's current annual earnable compensation payable to:
  - (a) the member's surviving spouse, to continue for life or remarriage;
  - (b) if there is no surviving spouse, or if the spouse dies or remarries, then to the member's child or children, equally, until age 18 (age 22 if a full-time student); or
  - (c) if there is no surviving spouse or minor child surviving, then to the member's dependent father and mother, who are designated beneficiaries, to continue for life, in the percentages designated by the member.

**(C) Offset to Retirement Allowance:** This benefit is offset by workers' compensation received on account of the same disability or death.

**13. CURRENT ANNUAL EARNABLE COMPENSATION AND POST-RETIREMENT BENEFIT INCREASES:**

Retirement allowances are based upon the current annual earnable compensation authorized for that elected position and shall include any future increases occurring after the retirement of the official, which shall, after retirement, index benefits paid under the EOS subject to applicable reduction for any optional retirement allowance selection.

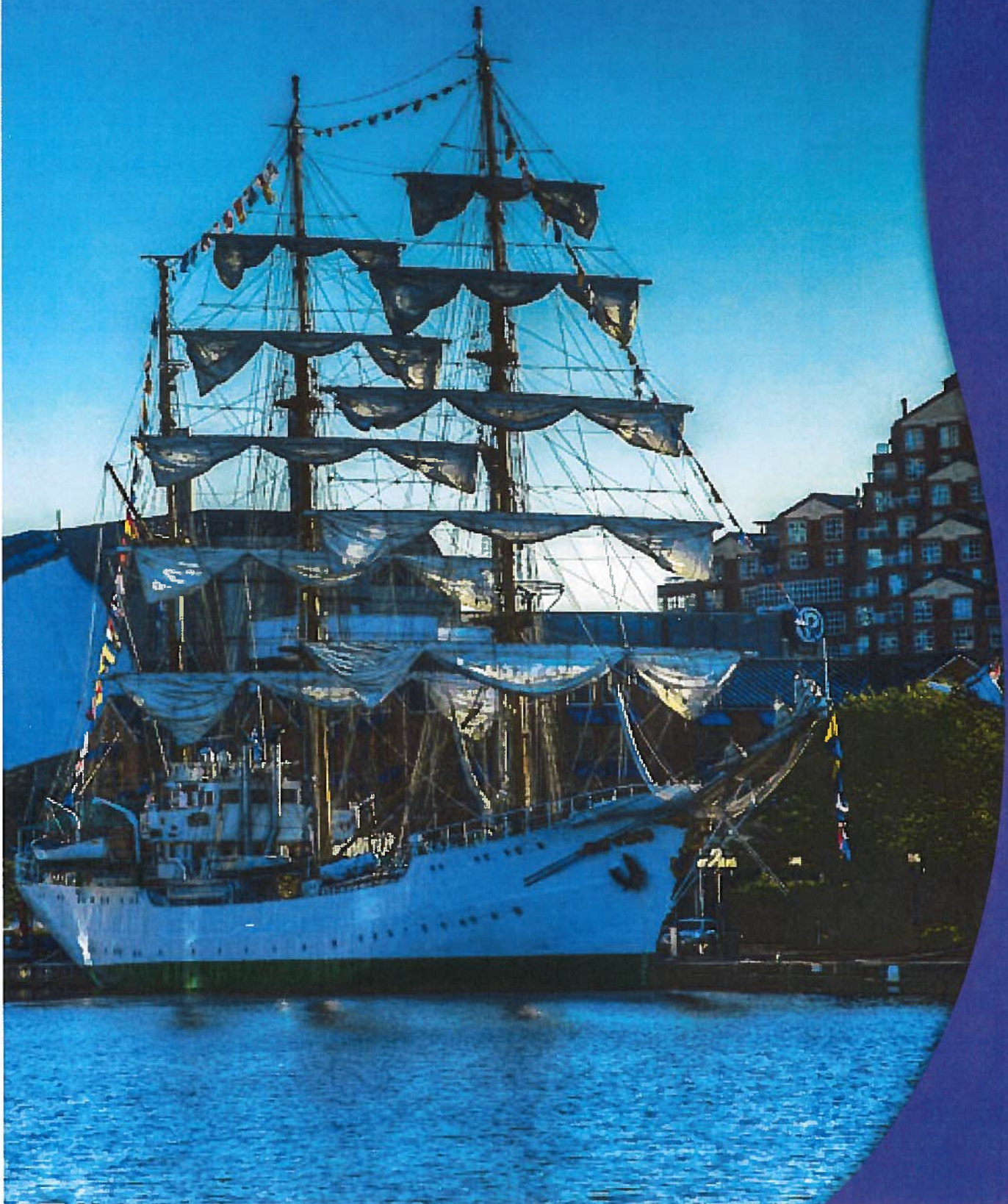
**14. REFUND OF MEMBER CONTRIBUTIONS:**

The member upon leaving office for any reason is entitled to a refund of the member's accumulated contributions and interest, if not eligible for any other benefits.

**15. FORFEITURE OF BENEFITS:**

If a member should be convicted of a job-related offense committed in the performance of his duties as an elected official of the City of Baltimore and committed against the City of Baltimore, no benefits provided by the EOS shall be paid to the member or his beneficiary. If the member or his beneficiary is receiving any benefits at the time of conviction, all benefit payments will cease. The member or his beneficiary shall only be entitled to the return of the member's accumulated contributions and interest less any benefit payments made.

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Elected Officials' Retirement System  
City of Baltimore, Maryland  
**STATISTICAL SECTION SUMMARY**

The statistical section of the Elected Officials' Retirement System's (System) comprehensive annual financial report presents detailed information as a context for helping the readers understand the information in the financial statements, notes disclosures, required supplementary information and the System's overall financial health for the last ten fiscal years. The information presented in this section is listed below.

**Financial Trends**

Changes of Plan Net Position schedules detail the System's financial performance from year to year.

**Revenue Capacity**

The Revenue by Source schedule list the different income streams of the System.

**Expenses Capacity**

The Expense by Type schedules contains information about the major costs of the System.

**Demographic Information**

The demographic schedules consist of various membership information used by the Actuary to determine or monitor the demographic assumptions. The tables which are used to compare current assumptions with actual experience to determine recommended assumption changes include:

- The Schedule of Active Members by Years of Service, which provides active membership information including the average service credit and member's age for each fiscal year;
- The Schedule of Retirees by Attained Age and Type of Retirement, provides the number of retirees by age and the type of retirement, and
- The Schedule of Beneficiaries By attained Age and Type of Retirement that provides membership information on beneficiaries by age and type of the member's retirement.

**Benefit Expenses by Type:** is a report of benefit related expenses by the type of retirement and payment for each year of service.

**Average Monthly Benefit Payments:** is a schedule of monthly benefit payments based on years of credited service. For each year, the schedule provides the average monthly benefit payment, average final compensation and number of retirees grouped in years of credited service.



Elected Officials' Retirement System  
 City of Baltimore, Maryland  
**Statement of Changes in Plan Net Position**  
 For the Last Ten Fiscal Years

	2003	2004	2005	2006	2007
<b>Additions</b>					
Contributions					
Employer		\$ 407,883	\$ 575,760	\$ 516,665	\$ 381,524
Plan members	\$ 56,968	59,198	50,494	47,951	46,197
Total contributions	<u>56,968</u>	<u>467,081</u>	<u>626,254</u>	<u>564,616</u>	<u>427,721</u>
Investment Income					
Net appreciation in fair value of investments	(144,676)	1,381,519	1,206,618	1,718,330	3,075,073
Interest, dividends, and real estate income	233,712	346,112	65,903	15,204	29,617
Less: investment expenses	(20,239)	(27,464)	(11,949)	(12,149)	(24,959)
Net investment income	<u>68,797</u>	<u>1,700,167</u>	<u>1,260,572</u>	<u>1,721,385</u>	<u>3,079,731</u>
Total additions	<u>125,765</u>	<u>2,167,248</u>	<u>1,886,826</u>	<u>2,286,001</u>	<u>3,507,452</u>
<b>Deductions</b>					
Retirement allowances	477,785	456,453	475,651	491,003	501,041
Administrative expenses	28,666	15,412	29,239	30,837	25,800
Death Benefits			35,606		
Refund of Contributions			540,496		
Total deductions	<u>506,451</u>	<u>471,865</u>	<u>540,496</u>	<u>521,840</u>	<u>526,841</u>
Net increase (decrease)	(380,686)	1,695,383	1,346,330	1,764,161	2,980,611
<b>Net assets held in trust for pension benefits</b>					
Beginning Balance	11,905,960	11,525,274	13,220,657	14,566,987	16,331,148
Ending Balance	<u>\$ 11,525,274</u>	<u>\$ 13,220,657</u>	<u>\$ 14,566,987</u>	<u>\$ 16,331,148</u>	<u>\$ 19,311,759</u>



Elected Officials' Retirement System  
 City of Baltimore, Maryland  
**Statement of Changes in Plan Net Position**  
 For the Last Ten Fiscal Years

	2008	2009	2010	2011	2012
<b>Additions</b>					
Contributions					
Employer	\$ 143,521		\$ 339,830	\$ 957,220	\$ 997,685
Plan members	103,757	58,617	59,358	100,523	63,234
Total contributions	<u>247,278</u>	<u>58,617</u>	<u>399,188</u>	<u>1,057,743</u>	<u>1,060,919</u>
Investment Income					
Net appreciation in fair value of investments	(1,588,540)	(3,656,082)	1,691,314	3,510,101	225,022
Interest, dividends, and real estate income	25,680	2,030	352	826	301
Less: investment expenses	(25,160)	(19,314)	(4,806)	(20,999)	(20,217)
Net investment income	<u>(1,588,020)</u>	<u>(3,673,366)</u>	<u>1,686,860</u>	<u>3,489,928</u>	<u>205,106</u>
Total additions	<u>(1,340,742)</u>	<u>(3,614,749)</u>	<u>2,086,048</u>	<u>4,547,671</u>	<u>1,266,025</u>
<b>Deductions</b>					
Retirement allowances	689,232	685,848	736,426	816,690	775,678
Administrative expenses	25,618	30,849	27,719	55,088	28,242
Death Benefits	24,193	27,298			23,020
Refund of Contributions	739,043	743,995	764,145	871,778	826,940
Total deductions	<u>(2,079,785)</u>	<u>(4,358,744)</u>	<u>1,321,903</u>	<u>3,675,893</u>	<u>439,085</u>
Net increase(decrease)					
<b>Net assets held in trust for pension benefits</b>					
Beginning Balance	<u>19,311,759</u>	<u>17,231,974</u>	<u>12,873,230</u>	<u>14,195,133</u>	<u>17,871,026</u>
Ending Balance	<u>\$ 17,231,974</u>	<u>\$ 12,873,230</u>	<u>\$ 14,195,133</u>	<u>\$ 17,871,026</u>	<u>\$ 18,310,111</u>

Elected Officials' Retirement System  
 City of Baltimore, Maryland  
**REVENUES BY SOURCE**

Fiscal Year	Net Investment Income	Employer Contributions:		Member Contributions	Total
		Amount	% of Covered Payroll		
2003	\$ 68,797		n/a	\$ 56,968	\$ 125,765
2004	1,700,167	\$ 407,883	35.4%	59,198	2,167,248
2005	1,260,572	575,760	60.0	50,494	1,886,826
2006	1,721,385	516,665	53.9	47,951	2,286,001
2007	3,079,731	381,524	44.2	46,197	3,507,452
2008	(1,588,020)	143,521	12.6	103,757	(1,340,742)
2009	(3,673,366)		n/a	58,617	(3,614,749)
2010	1,686,860	339,830	28.2	59,358	2,086,048
2011	3,489,928	957,220	377.0	100,523	4,547,671
2012	205,106	997,685	80.7	63,234	1,266,025

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

Elected Officials' Retirement System  
 City of Baltimore, Maryland  
**EXPENSES BY TYPE**

<u>Fiscal Year</u>	<u>Benefits</u>	<u>Refunds</u>	<u>Administrative Expenses</u>	<u>Total</u>
2003	\$ 477,785		\$ 28,666	\$ 506,451
2004	456,453		15,412	471,865
2005	475,651	\$ 35,606	29,240	540,497
2006	491,003		30,837	521,840
2007	501,041		25,800	526,841
2008	689,232	24,193	25,618	739,043
2009	685,848	27,298	30,849	743,995
2010	736,426		27,719	764,145
2011	816,690		55,088	871,778
2012	775,678	23,020	28,242	826,940

Elected Officials' Retirement System  
 City of Baltimore, Maryland

**SCHEDULE OF BENEFIT RECIPIENTS BY ATTAINED AGE AND TYPE OF RETIREMENT**  
**SCHEDULE OF ACTIVE MEMBERS BY YEARS OF SERVICE**

**Schedule of Benefit Recipients by Attained Age and Type of Retirement**

Age	Number of Recipients	Type of Retirement*		
		Retirees	Beneficiaries	
		0	0	5
45-49	1	1		
50-54	1	1		
55-59	1	1		
60-64	8	7	1	
65-69	4	3	1	
70-74	2	2		
75 and up	6	3	2	1
<b>Totals</b>	<b>23</b>	<b>18</b>	<b>4</b>	<b>1</b>
Retired Members	18	18		
Average Annual Benefit	\$35,741	\$35,741		
Beneficiaries	5		4	1
Average Annual Benefit	\$32,344		\$32,672	\$31,034

\*Type of Retirement:

0 - Normal retirement for age and service

5 - Non-line of duty death, member eligible for service retirement at death

**Schedule of Active Members by Years of Service**

Years of Credited Service	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
0-1			3	3		4	4	1		2
2-4	4	4			3	3	2	4	5	5
5-9	8	9	7	2	1			2	2	1
10-14	5	4	2	7	7	6	5	5	2	1
15-19	2	2	1	1	1		1	1	5	6
20-24	2	1	3	3	2	3	2	2	2	
25+		1	1	1	1	1	3	2	1	2
<b>Total Members</b>	<b>21</b>	<b>21</b>	<b>17</b>	<b>17</b>	<b>15</b>	<b>17</b>	<b>17</b>	<b>17</b>	<b>17</b>	<b>17</b>
Average Service Credit	10.50	11.60	11.76	12.76	14.92	11.12	13.18	12.66	12.77	11.95
Average Age	51.00	52.00	51.71	52.71	54.03	53.94	54.94	56.15	55.48	54.27

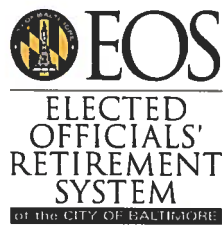
Elected Officials' Retirement System  
 City of Baltimore, Maryland  
**BENEFIT EXPENSES BY TYPE**

Fiscal Year Ending	Age and Service Benefits:		Death Benefits:	Termination	Total
	Retirees	Beneficiaries	Non Line-of-Duty		
2003	\$ 384,694	\$ 93,091			\$ 477,785
2004	340,443	116,010			456,453
2005	359,962	115,689			475,651
2006	375,314	115,689			491,003
2007	385,352	115,689			501,041
2008	543,705	145,527			689,232
2009	533,779	152,069		\$ 27,298	713,146
2010	578,534	157,892			736,426
2011	658,798	157,892			816,690
2012	589,657	186,021			775,678



Elected Officials' Retirement System  
City of Baltimore, Maryland  
**AVERAGE MONTHLY BENEFIT PAYMENTS**

Retirement Effective Dates From July 1, 2003 to June 30, 2012	Years of Credited Service				
	5-10	11-15	16-20	21-25	26-30
Period 7/1/03 to 6/30/04	No retirements for this period.				
Period 7/1/04 to 6/30/05:					
Average Monthly Benefit		\$ 816			
Average Current Compensation		21,266			
Number of Active Retirees		3			
Period 7/1/05 to 6/30/06	No retirements for this period.				
Period 7/1/06 to 6/30/07:					
Average Monthly Benefit				\$ 2,395	
Average-Average Final Compensation				28,735	
Number of Active Retirees				1	
Period 7/1/07 to 6/30/08:					
Average Monthly Benefit		\$ 4,933			
Average Current Compensation		59,196			
Number of Active Retirees		1			
Period 7/1/08 to 6/30/09:					
Average Monthly Benefit		\$ 956			
Average Current Compensation		11,468			
Number of Active Retirees		1			
*QDRO					
Period 7/1/09 to 6/30/10:					
Average Monthly Benefit					\$ 8,324
Average Current Compensation					151,700
Number of Active Retirees					1
Period 7/1/10 to 6/30/11:					
Average Monthly Benefit					3,368
Average Current Compensation					40,419
Number of Active Retirees					1
Period 7/1/11 to 6/30/12:					
Average Monthly Benefit					3,068
Average Current Compensation					36,816
Number of Active Retirees					1
Period 7/1/03 to 6/30/12:					
Average Monthly Benefit		\$ 6,705		\$ 2,395	\$ 4,920
Average Current Compensation		80,460		28,740	59,040
Number of Active Retirees		5		1	3



**Elected Officials' Retirement System**

City of Baltimore, Maryland  
7 E. Redwood Street  
12th and 13th Floors  
Baltimore, Maryland 21202  
443-984-3180

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