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FRATERNAL ORDER OF POLICE

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POST Retirement Income Fund (PRIF)
Cost of Living Allowance (COLA)

How is a COLA Calculated for Baltimore County Retirees?

Employee bargaining units, including the FOP, do not negotiate for retirees or for an annual COLA. A COLA is strictly based on the investment earnings of the system.

The calculation process for a COLA for retirees is in Section 5-1-235(c), (d) & (e) of the Baltimore County Code.

(c) As of the end of each calendar year commencing with the year ending December 31, 1989, the increase in the Consumer Price Index to such index as of December 31, 1988, or as of the latest year-end shall be determined, subject to the provisions of subsection (d) of this section. The retirement allowance shall be increased by an amount equal to the increase in the Consumer Price Index, not to exceed three (3) percent. All increases calculated under this section shall take effect July 1, 1990, and on July 1st each year thereafter.

(d) If the funds accumulated from excess investment income in the postretirement increase fund are insufficient to cover the actuarial reserves required to provide the full percentage increase determined under subsection (c) of this section, then the appropriate increase shall be calculated to the nearest one-fourth (1/4) of one (1) percent as such funds will allow but not less than one (1) percent. If the funds are insufficient to provide a one (1) percent increase, then no increase shall be granted.

(e) For purposes of this section, "Consumer Price Index" shall mean the Consumer Price Index—All Urban Consumers—United States City Average—All Items (CPI-U), as published by the United States Department of Labor, Bureau of Labor Statistics.

Retiree COLAs are funded through the PRIF Account. (Post Retirement Income Fund) This account is funded through what is called "excess earnings" over the rate of return (ROR) determined by the Board of Trustees and County Council in consultation with the Pension Consultant. The rate is currently 7.875%. This rate is not a market ROR, but the actuarial ROR.



The calculation for the retirement system ROR was historically based on what is called a 5-year smoothing calculation. Using this widely accepted methodology, system losses and gains are calculated in or subtracted from the system over a 5-year period to avoid sharp movements in funding levels and more easily predict annual contribution costs for budgeting purposes.

In 2009, our system and many around the country, were feeling the losses of the great recession. To better control the County Contributions and help the funding status of the system the County and Trustees, under the advisement of the pension consultant, changed the calculation to a 10-year smoothing calculation. This added length greatly affects the calculation of earnings and losses. At the same time, employee bargaining groups throughout the county started contributing more from their pay. Currently new employees pay up to 10% into the system.

In 2018 the methodology for the calculation of a COLA was changed from the 10-year smoothing calculation to the 8-year geometric average rate of return for the last 8 calendar years. If the geometric average rate of return for the last 8 calendar years is lower than 7.875%, there are no excess investment earnings for the year to fund the PRIF.

Currently the system is approximately 63% funded at \$3,285,066,542. The cost of a 1% COLA for county retirees is \$19,852,856. The cost of a maximum COLA of 3% is \$59,558,569. In 2005 the cost of a 1% COLA was \$9,300,000 and a 3% COLA was \$27,900,000.

If you have any questions, please feel free to call me.

Fraternally,

Dave Rose
President



REPRESENTING THE PROFESSIONAL POLICE OFFICERS OF BALTIMORE COUNTY

