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**Graham. A. Schmidt
Vice President**

March 26, 2004

The Honorable Anthony A. Williams, Mayor
c/o Margret Nedelkoff Kellems
Deputy Mayor for Public Safety and Justice
The John A. Wilson Building
1350 Pennsylvania Avenue, NW, Suite 327
Washington, D.C. 20004

Re: Impact of Bill 15-32

Dear Mayor Williams:

As requested, we have conducted an actuarial study of the five year impact on the District's pension plan contribution of Title VI, the Fire and Police Medical Leave and Limited Duty Act of 2003, of Bill 15-32: the Omnibus Public Safety Reform Amendment Act of 2003.

Description of the Applicable Changes

We looked at the provisions of Bill 15-32 which deal with "limited duty" and "extended sick leave." According to the Draft Report, Bill 15-32 contains language "creating a comprehensive limited duty program in each service to more effectively return police officers and fire fighters to active duty and streamline the process for retiring individuals who cannot return to full duty."

Description of the Methods and Assumptions

There are two primary causes for a projected increase cost to the DC Retirement System due to the Bill. First, there is a cost associated with moving those who are currently on limited duty or extended sick leave to disability retirements if they are unable to return to active duty. Second, there is the cost associated with the projected changes in the long-term disability rates.

The cost associated with moving the current limited duty and extended sick leave participants to active or disability retirement status was determined by calculating the present value of projected benefits for these individuals. The District provided us with a sample (taken on 1/12/2004) of all police officers and fire fighters in a limited duty or extended sick-leave status for a period of time equal to or greater than 172 police officer work days or 64 fire fighter work days (in each case this period of time corresponds to approximately 8½ months). This list contained 168 police officers and 19 fire fighters. The staff of the police and fire clinic perfumed a case review of the list and provided a best estimate of the likelihood of each individual returning to a full-duty status.

From this list, 51 police officers and 11 fire fighters were projected to return to full active duty. Of the remaining group, 117 police officers were listed as either not expected to return to full active duty or

having an uncertain future status, while 8 fire fighters were listed as not expected to return to active duty. The projected value of benefits for these 125 individuals (the group projected not to return to full duty status) was calculated based on the assumption that those who will leave on a disability retirement will do so on the average projected date of April 1, 2006.

To calculate the impact of the Bill due to the changes in long-term disability rates, we estimated the number of additional disability retirements that would occur per year because of the streamlined disability process. Our assumptions regarding the changes in long-term disability rates were determined by analyzing the list of individuals currently on limited duty or extended sick leave who were not expected to return to active duty. Additionally, we only included those individuals who have been on limited duty for at least two years; those who have spent less than two years on limited duty have likely not yet filtered through the current system of processing disability retirements.

Based on the data provided to us, we have estimated an additional 16 disability retirements annually for the police and 1 additional disability retirement for the fire fighters. This equates to a 66 2/3% increase in the long-term disability rates for the police and a 10% increase in the rates for the fire fighters.

The asset information, economic assumptions and baseline demographic data used in this study are consistent with those used in the Police Officers' and Fire Fighters' Retirement Fund actuarial valuation as of October 1, 2003.

Financial Impact

Under the Aggregate Funding Method used by the Retirement Fund, the Present Value of Future District Costs is divided by the Present Value of Future Salaries to generate the cost as a percentage of payroll, which is expected to stay fairly level. This calculation only considers the current participants in the Plan and does not anticipate any new entrants. This cost as a percentage of payroll is then applied to the appropriate projected annual payroll (which does assume new entrants) to determine the required dollar contribution for that year.

Although the Bill is projected to result in an increased Present Value of Future Benefits for the current participants (and therefore an increased Present Value of Future District Costs), it also decreases the Present Value of Future Salaries for those same participants, due to the additional anticipated immediate and future disability retirements. This decrease in the Present Value of Future Salaries compounds the increase to the Retirement Fund as a percentage of payroll, since the Future District Costs are now spread out over a smaller denominator.

In calculating the cost of the Bill as a percentage of payroll, we have not had to make any assumptions about new hires or replacements for those who were moved into disability retirements by the Bill, since the cost as a percentage of payroll is calculated using only the current participants. However, to estimate the projected annual payroll which is necessary to determine the fiscal impact of the Bill as a dollar amount, we must consider these new hires and replacements. Accordingly, the figures below assume that those employees who have been moved into disability retirements have been replaced by new hires, in addition to the new hires that would be present to account for the normal turnover within the Plan. As a result, the overall active payroll is assumed to increase by 5% per annum, which is consistent with the assumption used in the actuarial valuation as of October 1, 2003.

Because the effective date of the Bill is assumed to be October 1, 2004 and because the certified District contribution for FY 2005 has already been submitted, the first actuarial valuation that the Bill would impact would be the October 1, 2004 valuation. Accordingly, the first contribution affected would be the FY 2006 District contribution.

The estimated increase in the normal contribution percentage and the corresponding additional District payment to the Police Officers' and Fire Fighters' Retirement Fund are shown both separately and as a total dollar amount in the following chart.

D.C. Police Officers' and Fire Fighters' Retirement Fund

Impact of Bill 15-32

Fiscal Year	<u>Change to Normal Contribution Percentage (as a % of Total Salary)</u>		<u>Increase in District Contribution (in millions)</u>		
	<u>Police Officers</u>	<u>Fire Fighters</u>	<u>Police Officers</u>	<u>Fire Fighters</u>	<u>Total</u>
2006	6.1%	1.0%	\$14.3	\$0.8	\$15.1
2007	6.1%	1.0%	\$15.0	\$0.9	\$15.9
2008	6.1%	1.0%	\$15.7	\$0.9	\$16.6
2009	6.1%	1.0%	\$16.5	\$1.0	\$17.5
2010	6.1%	1.0%	\$17.4	\$1.0	\$18.4

Additional Comments

Please note that all costs calculated by EFI refer only to the additional costs payable by the District. Although we have not done any analysis regarding the cost of the Bill to the Federal government, disability benefits payable by the Federal government generally do not begin until normal retirement eligibility. Therefore, most of the cost associated with the Bill will fall on the shoulders of the District.

EFI's experience and expertise is directed only to an analysis of the effects of the Bill on the Retirement Fund. However, there are a number of non-Retirement Fund related cost savings associated with this Bill. As we discussed, the Present Value of Future Salaries for the current participants would be decreased; the overall drop in the Present Value of Future Salaries (calculated as of October 1, 2003) due to the Bill for the current employees is projected to be \$171.0 million for the Police and \$11.0 million for Fire over their active working lifetimes.

This reduction in future payroll should allow the District to hire replacement officers and fire fighters. These new hires would likely be more productive than the employees they are replacing (because of their health status) and less expensive (because of their relative lack of seniority). The addition of new officers

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and fire fighters will likely lead to lower overtime levels as well, since there will be more full duty personnel available to meet staffing mandates. Additionally, there may be lower expenditures from processing questionable disabilities.

Usage and Certification

This study has been prepared for purposes of disclosure and for statutory funding calculations to estimate the additional amount the District of Columbia Government needs to contribute to the District of Columbia Police Officers' and Fire Fighters' Retirement Fund as a result of Bill 15-32. Determinations for other purposes may be different from those presented herein. We hereby certify that, to the best of our knowledge, this study is complete and accurate and has been prepared in accordance with generally accepted actuarial principles and practices set forth by the American Academy of Actuaries.

Respectfully submitted,

Edward H. Friend, FSA

Graham A. Schmidt, ASA