



Human Resources Department

DATE: January 4, 2006

TO: John Szerlag, City Manager

FROM: John M. Lamerato, Assistant City Manager/Finance and Administration
Peggy E. Clifton, Human Resources Director

SUBJECT: Proposed Changes to Retiree Health Insurance Benefit for Classified and Exempt Employees Hired after January 2, 2006; Proposed Revisions to Personnel Rules & Regulations

RECOMMENDATION

City Administration recommends approval of replacing the current retiree health insurance benefit for new employees hired in the Classified and Exempt employee groups with a Retirement Health Savings Plan. Also recommended is a revision to the Personnel Rules and Regulations for Classified employees to reflect the revised benefit.

The proposed change will result in a tiered approach to retiree health insurance, consistent with our philosophy of providing a competitive benefit package while being fiscally responsible in responding to the economic climate.

BACKGROUND

The current retiree health insurance benefit provides City paid insurance at the rate of 4% per complete year of service, or the first \$400.00 per month of the cost of coverage, whichever is greater. Under the proposed plan, both the employee and the City would contribute a percentage of pensionable earnings on a pre-tax basis into a fund that would be administered by ICMA-RC. Vesting requirements (of the City's contribution only) are the same as under the Defined Contribution Plan. To the extent the employee is vested, the funds are portable should the employee discontinue working for the City.

We plan to introduce this issue to bargaining units as negotiations commence.

Revision to Personnel Rules & Regulations

The attached excerpt from the Personnel Rules and Regulations for Classified employees revises the language in the retiree medical insurance section consistent with the recommended benefit change. Under the retirement section, the vesting provision is modified for clarification.

The Personnel Board reviewed the proposed change on December 20, 2005 and recommends City Council approval.

PEC/bjm/PC06M.001

Attachments: a) Personnel Board Minutes
b) Recommended Personnel Rules Changes

XXX. RETIREMENT

Employees hired before 1/1/98 who chose to remain in the Defined Benefit plan continue to participate in the Defined Benefit (DB) Pension Program, as explained in Chapter 10 of the Troy City Code.

City of Troy employees hired on or after 1/1/98 participate in the Defined Contribution (DC) pension program which is administered by the ICMA Retirement Corporation.

1. Contributions: The contribution rates for this plan are (as a % of earnings):

Employer: 12% (for employees hired before 1/1/04)

11% (for employees hired on or after 1/1/04)

(01/04)

Employees: 4%

2. Vesting: Employees are 50% vested at three years, 75% vested at four years and 100% vested at five years. **The vesting percentage applies to employer contributions only. (Rev. 01/06)**

Medical Insurance:

1. For employees hired before January 2, 2006

Upon normal retirement, early retirement, or disability retirement, employees may be eligible for medical and hospitalization insurance. For employees retiring after January 1, 2000, the City will pay for medical and hospitalization coverage at the rate of 4% per complete year of service, or the first \$400.00 per month of the cost of coverage for retirees, whichever is greater. Employees who participate in the Defined Contribution Pension Plan must meet the age and service requirement specified in the retirement ordinance in order to be eligible for paid retiree health insurance. **(Rev. 01/06)**

2. Employees hired on or after January 2, 2006 participate in a Retirement Health Savings Plan (RHS)

A) Contributions: The contribution rates for this plan are (as a % of pensionable earnings):

Employer: 4%

Employee: 2%

B) Vesting: Employees are 50% vested at three years, 75% vested after four years and 100% vested after five years. The vesting percentage applies to employer contributions only

(01/06)

A Regular Meeting of the Troy Personnel Board was held Tuesday, December 20, 2005, at City Hall, 500 W. Big Beaver Road.

Roll Call:

PRESENT: Member Baughman
Member Tschirhart
Member Vanderbrink

ABSENT: Member Nelson

ALSO PRESENT: John Szerlag, City Manager
John M. Lamerato, Assistant City Manager/Finance & Administration
Peggy Clifton, Human Resources Director
Barbara A. Holmes, Deputy City Clerk

Appointment of Chairperson

PB-2005-12-001
Moved by Tschirhart
Seconded by Baughman

RESOLVED, That Members of the Troy Personnel Board hereby **APPOINT** James Vanderbrink to serve as temporary Chairperson and that the appointment of a Chairperson be **POSTPONED** until all members are present.

Yes: Baughman, Tschirhart, Vanderbrink
No: None
Absent: Nelson

Chair Vanderbrink called the meeting to order at 9:25 AM.

Approval of Minutes

Approval of the Minutes of the Meeting of June 8, 2004 as Corrected

Member Baughman indicated that she was present at the meeting of June 8, 2004. Therefore, there was a consensus of the members present to direct staff to review the notes of the meeting and present the corrected minutes at the next scheduled meeting.

Approval of the Minutes of the Meeting of June 9, 2005

PB-2005-12-002
Moved by Baughman
Seconded by Tschirhart

RESOLVED, That the Personnel Board hereby **APPROVES** the minutes of the meeting of June 9, 2005 as presented.

Yes: Baughman, Tschirhart, Vanderbrink
No: None
Absent: Nelson

3. Old Business: None

4. New Business:

Recommendations for Retiree Health Insurance Benefit for Employees Hired On or After January 1, 2006

John Szerlag, City Manager, presented a brief summary of the proposed recommendations for the Retiree Health Insurance Benefit for employees hired on or after January 1, 2006. Mr. Szerlag advised that it is City Administration’s objective to remain competitive yet keep benefits in line. He continued by stating that in order to achieve that objective, City Administration has already initiated and implemented revisions to employee benefits such as discontinuance of longevity benefits to new employees and that employees hired after January 1, 1998 participate in a Defined Contribution (DC) Pension Program instead of the Defined Benefit (DB) Pension Program. Mr. Szerlag indicated that the proposed change to the retiree health benefit would be similarly beneficial in the long run for the City and that the next step would be to incorporate a defined contribution plan for retiree health benefits. He explained that retirees would receive 4% accrual per year of service. He continued by stating that the proposed Defined Contribution Retiree Health Care Plan will be allocated directly to that person and would eliminate a promise by the City to pay for future retiree’s health care. Mr. Szerlag advised that the vesting would be the same as what currently exists for the Defined Contribution Pension Program.

Member Tschirhart asked for a definition of “pensionable earnings?”

John Lamerato, Assistant City Manager, replied that pensionable earnings are any earnings derived from salary or hourly rate. He further explained that although the employer would deposit the contribution, the employee would determine how to invest the money and that amount would then be specifically designated for that employee’s health care costs.

Chair Vanderbrink asked whether overtime wages are included?

Mr. Lamerato replied that overtime wages are included.

Member Baughman asked when does the employee have access to the contribution?

Mr. Lamerato advised that the employee has access to their portion but that it must be used toward healthcare costs such as medical premiums, out of pocket healthcare costs, Medicare, COBRA, etc. However, he continued by stating that this is meant to be a retiree benefit and noted that the employee can transfer this benefit if the employee no longer works for the City.

Mr. Lamerato advised that there is a cost savings associated with this benefit in that there is no social security tax paid on the contributions.

Member Baughman asked where is the money held?

Mr. Szerlag responded that the money would be deposited into a separate account held by a third party administrator. He continued by stating that retirees' withdrawal requests would be made directly to the third party administrator. Mr. Szerlag added that these retirees would be eligible for the same health insurance coverage as those employees not in this plan except that they would pay directly for the benefit.

Member Vanderbrink believes that this alternative retiree health care plan will help to reduce costs and therefore, he supports the proposed plan.

Member Baughman requested that the text, "The vesting percentage applies to employer contributions only." as it appears in Section 2. Employees hired on or after January 2, 2006 participate in a Retirement Health Savings Plan (HSA); B. Vesting, also be inserted in Section 2. Vesting of the Defined Benefit (DB) Pension Program in the *Personnel Rules & Regulations*, XXX. Retirement.

Mr. Lamerato agreed.

Peggy Clifton, Human Resources Director, assured the board that the revision would be made to the text in the *Personnel Rules & Regulations*, XXX. Retirement as requested by Member Baughman.

Approval of Recommendations for Retiree Health Insurance Benefit

PB-2005-12-003
Moved by Baughman
Seconded by Vanderbrink

RESOLVED, That the Personnel Board hereby **APPROVES** the Retiree Health Insurance Benefit for Employees Hired on or after January 1, 2006; and

BE IT FURTHER RESOLVED, That the *Personnel Rules & Regulations* be **AMENDED** by **INSERTING** "The vesting percentage applies to employer contributions only." in XXX. Retirement Section 2. Vesting of the Defined Benefit (DB) Pension Program.

Yes: Baughman, Tschirhart, Vanderbrink
No: None
Absent: Nelson

Amendment to Personnel Rules & Regulations

PB-2005-12-004
Moved by Vanderbrink
Seconded by Baughman

RESOLVED, That the *Personnel Rules & Regulations* be **AMENDED** by **STRIKING** “(HSA)” and **INSERTING** “(RHS)” in Section 2. Employees hired on or after January 2, 2006 participate in a Retirement Health Savings Plan (HSA); B. Vesting

Yes: Baughman, Tschirhart, Vanderbrink

No: None

Absent: Nelson

The meeting **ADJOURNED** at 9:46 AM.

James Vanderbrink, Acting Chairperson

Barbara A. Holmes, Deputy City Clerk