City of Troy

Date: March 13, 2006

To: John M. Lamerato, Acting City Manager

From: Peggy E. Clifton, Human Resources Director PEC

Re: Costing of Tentative Agreement Between Troy Command Officers Association (TCOA) and City of Troy

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On February 20, 2006 the TCOA membership ratified a tentative agreement for a three-year collective bargaining agreement between the City of Troy and the Troy Command Officers Association. This agreement would replace the contract that expired June 30, 2005.

As indicated previously in the Tentative Agreement Summary, this tentative agreement includes a proposed change in the multiplier in the Defined Benefit (DB) pension plan for current DB participants; the multiplier would increase to 2.8% of FAC for the first 25 years, an additional 1% for each year of service over 25 years, with a 75% maximum FAC. Currently the multiplier is 2.5% of FAC, reduced to 2.25% at age 62. (Note that the increased multiplier would be consistent with the DB multiplier in effect for the TPOA, and that both units are 'closed' in that no new employees can participate in the DB plan.) This agreement is contingent on one DB employee retiring by July 1, 2006. If no DB employee retirees by July 1, 2006, the 2.8% multiplier would not go into effect.

The actuary's valuation was inadvertently not included and is attached for your review. The cost is calculated to be 7.76% of payroll for the 18 officers participating in DB, or a net cost of 3.88% of the total payroll for 36 command officers. However, the resultant cost savings realized by the decrease in manpower, plus the cost savings measures agreed upon in health insurance and other pension areas, bring the net cost of that 2nd contract year to less than 2.5%.

I am of course available to provide any additional information you or City Council may require.

PEC/bjm

Attachment

PC06M.023

GRS Gabriel Roeder Smith & Company
Consultants & Actuaries

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February 10, 2006

Mr. John Lamerato
Assistant City Manager-Finance
City of Troy
500 W. Big Beaver Road
Troy, Michigan 48084

Re: TCOA Pension Study

Dear John:

Enclosed is a copy of the supplemental actuarial valuation outlining the City's costs associated with a proposed benefit change for TCOA members as requested.

Please contact us with any questions or comments.

Respectfully submitted,

Brad Lee Armstrong

RJD:sew
Enclosures

cc: Employees Retirement System Board of Trustees
John Lamerato, Secretary

City of Troy Employees Retirement System
(TCOA MEMBERS)

Supplemental Actuarial Valuations
as of December 31, 2004

REQUESTED BY: Mr. John Lamerato, Assistant City Manager - Finance

DATE: February 10, 2006

SUBMITTED BY: Brad L. Armstrong, A.S.A., EA, Actuary
Gabriel Roeder Smith & Company

BACKGROUND

This report contains the results of the supplemental actuarial valuation requested to determine the costs associated with the proposal for TCOA Members covered by the City of Troy Employees Retirement System.

The date of the valuation was December 31, 2004. The results of the supplemental valuation indicate the increase in cost over existing benefits if the proposal had been in effect on that date. Supplemental valuations do not predict the result of future actuarial valuations. (Future activities can affect future valuation results in an unpredictable manner.) Rather, supplemental valuations give an indication of the probable effect of **only the benefit change** on future valuations without comment on the complete end result of the future valuations.

Except as otherwise noted, actuarial assumptions and methods were the same as those used in the regular actuarial valuation of the retirement plan on the valuation date. Changes in liabilities were amortized over 10/30 years for the pension plan.

A brief summary of the active data used in these valuations is presented below:

Active TCOA Members				
	Average in Years		Average	Total
Number	Age	Service	Annual Pay	Payroll
16	45.1	18.1	$96,636	$1,546,169

It was assumed that benefits for members as of 12/31/04 who were either inactive or retired would not be affected by this proposal.

City of Troy Employees Retirement System
(TCOA MEMBERS)

Supplemental Actuarial Valuation
As of December 31, 2004

Proposal One

Present Plan Provisions:

2.25% of FAC * service plus a supplemental benefit of 0.25% x FAC x service to age 62.

Proposed Pension Plan Provisions:

2.80% of FAC * x service up to 25 years, an additional 1% for each year of service over 25 years, 75% maximum FAC.

* *Final Average Compensation*

Actuarial Statement

The effect of the proposed change on computed employer contributions is shown below:

	Increase in Computed Annual Employer Contributions	
	10 Years	**30 Years**
Normal Cost	2.88%	2.88%
Unfunded Accrued Liability Cost	8.87%	4.88%
Percentage of Active Member Payroll	11.75%	7.76%
Dollar Amount	$181,675	$119,983

We have shown the new liability created by the proposal amortized as a level dollar amount over 10 years and 30 years. 10 years is the period used in the December 31, 2004 valuation to amortize the assets in excess of accrued liabilities.

It is typical to amortize credits over shorter periods such as 10-15 years. Benefit changes resulting in unfunded actuarial accrued liabilities are often amortized over longer periods such as 30 years.

The dollar cost increases shown above are based on the TCOA pension payroll ($1,546,169).