



CITY COUNCIL ACTION REPORT

December 17, 2007

TO: Phillip L. Nelson, City Manager
FROM: John M. Lamerato, Assistant City Manager/Finance & Administration
SUBJECT: Amendment to City of Troy Incentive Plan for Volunteer Firefighters

Background:

- City management met with representatives of all six fire stations in the late fall to review the incentive plan for volunteer firefighters.
- At that meeting, the volunteers proposed an increase in benefits contained in Proposal 1 as prepared by our actuaries.
- City management also had an alternative proposal computed to determine what affect it would have on our annual contribution.
- After reviewing all proposals both City management and the station representatives have agreed to a 4% increase in the annual payment amount equating to annual incentive of \$582 per year for volunteer firefighters retiring on or after January 1, 2008 and \$605 per year for volunteer firefighters retiring on or after January 1, 2009, plus an additional \$10 per month for current retirees for the next two years.

Financial Considerations:

- The proposed amendment to the plan will increase the City contribution by approximately \$60,000 per year, far less than the annual contribution increases contained in Proposal 1 or 2.

Legal Considerations:

- There are no legal considerations.

Policy Considerations:

- Providing incentives for our volunteer firefighters enhances the livability and safety of the community (Goal I) and having volunteer firefighters minimizes the cost and increases the efficiency and effectiveness of City government (Goal II).

Options:

- It is recommended that Section 4.3 of the City of Troy *Incentive Plan for Volunteer Firefighters* be amended as stated.



Incentive Plan for Volunteer Firefighters

Definitions

- 1.1 “City” means the City of Troy, Michigan
- 1.2 “Plan” means the City of Troy Incentive Plan for Volunteer Firefighters established by resolution of the City Council and contained herein.
- 1.3 “Participant” means an individual who is a participant in the Plan.
- 1.4 “Vested former participant” means a former participant who has ten or more years of incentive service.
- 1.5 “Incentive service” means personal service rendered by the City as a volunteer firefighter and credited a participant in accordance with this plan.

Participation

- 2.1 Each volunteer firefighter of the City shall be a participant in the Plan.
- 2.2 Participation shall terminate upon termination of duties as a volunteer firefighter.

Incentive Service

- 3.1 A participant shall be credited with one month of incentive service for each complete calendar month the participant is a volunteer firefighter on active duty. Service shall be totaled in years and months.
- 3.2 Incentive service shall be forfeited five years after the date an individual ceases to be a participant unless the former participant is vested OR returns to active duty for ten consecutive years.

Incentive Payments

- 4.1 A vested former participant, upon written application filed with the City, shall be eligible to be paid incentive payments after attainment of age 60. The incentive payment due a vested former participant shall be determined at the time he terminates participation, as provided in the plan that is in effect on that date.
- 4.2 Incentive payments shall be made in monthly installments on the last day of each month during the life of the vested former participant.



Incentive Plan for Volunteer Firefighters

4.3 The amount of each annual incentive shall be equal to the following amounts:

\$582/year, retiring on or after January 1, 2008

\$605/year, retiring on or after January 1, 2009

4.4 Prior to the date of his first incentive payment, but not thereafter, a vested former participant may elect to receive his incentive payment payable throughout his life; or, he may elect to receive the actuarial equivalent at that time; or, his incentive payment in a reduced amount payable throughout his life, and nominate a beneficiary, in accordance with the provisions of the Options as set forth below:

Option A - Upon the death of a vested former participant, who elected Option A, his reduced incentive payment shall be continued throughout the life of and paid to such person having an insurable interest in his life, as he shall have nominated; or,

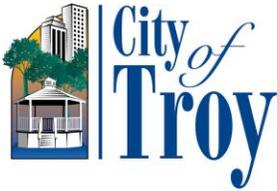
Option B - Upon the death of a vested former participant, who elected Option B, one-half of his reduced incentive payment shall be continued throughout the life of and paid to such person, having an insurable interest in his life, as he shall have nominated.

Option C - Joint and Survivor Pension (pop-up A): Upon the death of a vested former participant who elected Option C, his reduced incentive payment shall be continued through the life and paid to such person having an insurable interest in his life, as he shall have nominated. If the selected beneficiary predeceases the participant, the incentive payment shall revert to a straight-life payment payable throughout the remainder of his life.

Option D - Modified Joint and Survivor Pension (pop-up B): Upon the death of a vested former participant who elected Option D, one-half of his reduced incentive payment shall be continued throughout the life of and paid to such person having an insurable interest in his life, as he shall have nominated. If

the selected beneficiary predeceases the participant, the incentive payment shall revert to a straight-life payment payable throughout the remainder of his life.

Option E - Lump-Sum Payout: Equal to the present value of all benefit payments under Option A computed using the applicable group annuity mortality table and interest rate compounded annually.



Incentive Plan for Volunteer Firefighters

- 4.5 In the event a participant dies who has ten or more years of incentive service, his widow shall receive an incentive payment computed in the same manner in all respects as if the participant had retired the day preceding his death, elected Option A, and nominated his spouse as beneficiary.
- 4.6 A participant may elect to receive payment upon his termination as a participant based on the following:
- Ten years of service and age 55;
 - Twenty-five or more years of service and has attained 50 years of age;
 - A participant having attained 30 years of service regardless of age.

Administration

- 5.1 The City may, as a means of making provision for the potential financial obligations of the Plan, purchase securities or make deposits in interest-bearing accounts from its general assets. Any securities purchased or deposits made shall at all times be part of the general assets of the City. The purchase of securities or the making of deposits shall not of themselves entitle any individual to any right or claim for incentive payments under the Plan.
- 5.2 Nothing in this plan shall be construed as creating a trust fund for the participants or otherwise make the participants an equitable owner of or have any claim against any assets of the City.

Amendment and Termination

- 6.1 The City reserves the right to amend or terminate the plan at any time. No such amendment or termination shall affect the amount of any incentive payment made prior to the date of the amendment or termination. Upon termination, the City shall be free of any liability for incentive payments which otherwise would become payable after the date of termination.

Miscellaneous

- 7.1 Each participant shall be deemed to have assented to the terms and conditions of the Plan. An individual may not sell, assign or hypothecate, in any manner, all or any part of the individual's potential payments under the Plan.
- 7.2 Nothing in this Plan shall in any way affect the rights of the City or a participant to terminate the volunteer firefighter relationship between them.

December 7, 2007

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

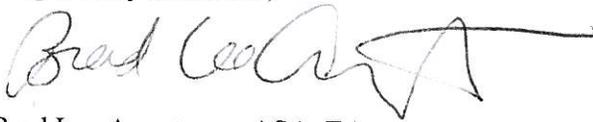
Re: City of Troy Fire Incentive Plan for Volunteer Firefighters

Dear John:

Enclosed is the requested supplemental actuarial valuation report regarding the proposed changes to the Plan.

Please contact me with any questions or comments.

Respectfully submitted,



Brad Lee Armstrong, ASA, EA

BLA:jtt
Enclosures

**CITY OF TROY INCENTIVE PLAN FOR VOLUNTEER FIREFIGHTERS
SUPPLEMENTAL ACTUARIAL VALUATION
AS OF DECEMBER 31, 2006**

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

DATE: December 7, 2007

SUBMITTED BY: Brad Lee Armstrong, ASA, EA, MAAA
Gabriel, Roeder, Smith & Company

This report contains the results of the supplemental actuarial valuation requested to determine the costs associated with the proposal for Volunteer Firefighters covered by the City of Troy Incentive Plan for Volunteer Firefighters.

The date of the valuation was December 31, 2006. 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.

Actuarial assumptions and methods were the same as those used in the regular actuarial valuation of the Plan on the valuation date.

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

Active Volunteer Firefighters*		
Number	Average in Years	
	Age	Service
162	40.8	11.1

**Includes 3 members on leave of absence.*

**CITY OF TROY INCENTIVE PLAN FOR VOLUNTEER FIREFIGHTERS
SUPPLEMENTAL ACTUARIAL VALUATION
AS OF DECEMBER 31, 2006**

Proposal 1: Increase Incentive Payments

Present Provisions:

The annual incentive payment under normal payment conditions in 2007 is \$560 per year of incentive service.

Proposed Provisions:

The annual incentive payment under normal payment conditions would increase according to the following calendar year schedule:

2008	\$598 per year of service
2009	\$639 per year of service
2010	\$683 per year of service
2011	\$729 per year of service
2012	Cost-of-living (3.5%)
2013	Cost-of-living (3.5%)

In addition, \$10 per month increases for retirees each year from 2007 through 2013.

Actuarial Statement

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

Contribution for	Present Provisions	Proposed Provisions	Increases in Total Cost
Normal Cost			
Total	\$ 318,112	\$ 412,362	\$ 94,250
Accrued Liabilities			
Present recipients	3,409,856	3,728,249	318,393
Active participants and vested former participants	<u>8,522,049</u>	<u>10,369,163</u>	<u>1,847,114</u>
Total	11,931,905	14,097,412	2,165,507
Assets	\$6,006,600	\$6,006,600	
Amortization of UAL over 25 years	\$ 470,630	\$ 642,630	\$ 172,000
City's Total Annual Contribution	\$ 788,742	\$1,054,992	\$ 266,250
Percent Funded	50.3%	42.6%	

**CITY OF TROY INCENTIVE PLAN FOR VOLUNTEER FIREFIGHTERS
SUPPLEMENTAL ACTUARIAL VALUATION
AS OF DECEMBER 31, 2006**

Proposal 2: Increase Incentive Payments

Present Provisions:

The annual incentive payment under normal payment conditions in 2007 is \$560 per year of incentive service.

Proposed Provisions:

The annual incentive payment under normal payment conditions would increase according to the following calendar year schedule:

2008	\$588 per year of service
2009	\$617 per year of service
2010	\$648 per year of service
2011	\$680 per year of service
2012	Cost-of-living (3.5%)
2013	Cost-of-living (3.5%)

In addition, \$10 per month increases for retirees each year from 2007 through 2013.

Actuarial Statement

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

<u>Contribution for</u>	<u>Present Provisions</u>	<u>Proposed Provisions</u>	<u>Increases in Total Cost</u>
Normal Cost			
Age and service payments	\$ 318,112	\$ 390,654	\$ 72,542
Accrued Liabilities			
Present recipients	3,409,856	3,728,249	318,393
Active participants and vested former participants	8,522,049	9,953,564	1,431,515
Total	<u>11,931,905</u>	<u>13,681,813</u>	<u>1,749,908</u>
Assets	\$6,006,600	\$6,006,600	
Amortization of UAL over 25 years	\$ 470,630	\$ 609,621	\$ 138,990
City's Total Annual Contribution	\$ 788,742	\$1,000,275	\$ 211,532
Percent Funded	50.3%	43.9%	

**CITY OF TROY INCENTIVE PLAN FOR VOLUNTEER FIREFIGHTERS
SUPPLEMENTAL ACTUARIAL VALUATION
AS OF DECEMBER 31, 2006**

Disclaimer

This report is intended to describe the financial effect of the proposed changes on the plan. Except as otherwise noted, potential effects on other benefit plans were not considered. No statement in this report is intended to be interpreted as a recommendation in favor of the changes, or in opposition to them.

The calculations are based upon assumptions regarding future events, which may or may not materialize. They are also based upon present and proposed plan provisions that are outlined in the report. If you have reason to believe that the assumptions that were used are unreasonable, that the plan provisions are incorrectly described, that important plan provisions relevant to this proposal are not described, or that conditions have changed since the calculations were made, you should contact the author of this report prior to relying on information in the report.

If you have reason to believe that the information provided in this report is inaccurate, or is in any way incomplete, or if you need further information in order to make an informed decision on the subject matter of this report, please contact the author of the report prior to making such decision.

In the event that more than one plan change is being considered, it is very important to remember that the results of separate actuarial valuations cannot generally be added together to produce a correct estimate of the combined effect of all of the changes. The total can be considerably greater than the sum of the parts due to the interaction of various plan provisions with each other, and with the assumptions that must be used.