CITY COUNCIL ACTION REPORT

DATE: November 18, 2010

TO: The Honorable Mayor and City Council Members

FROM: John Szerlag, City Manager
John M. Lamerato, Assistant City Manager/Finance & Administration
William Nelson, Fire Chief
Peggy E. Sears, Human Resources Director

SUBJECT: **AGENDA ITEM** – Ratification of Contract Extension and Early Retirement Incentive Program – Troy Fire Staff Officers Association (TFSOA) 2011-2014

RECOMMENDATION

City management supports and recommends approval of the tentative agreement between the City of Troy and the Troy Fire Staff Officers Association for an extension of the collective bargaining agreement from June 30, 2011 to June 30, 2014 with the following exceptions: cost-saving changes to health insurance, elimination of longevity for all employees, and offering an early retirement incentive program. Additionally, the equivalent of a 5% wage decrease in the form of unpaid furlough days will continue through the period of the contract extension.

BACKGROUND

On June 15, 2009, the City Council approved a tentative agreement between the City of Troy and TFSOA to extend the current collective bargaining agreement from June 30, 2010 to June 30, 2011. Six months later the union agreed to open their contract for the purpose of investigating options for employee concessions; in December, 2009, the union agreed to the equivalent of a 5% wage decrease in the form of mandatory furlough time for the duration of the contract extension. This agreement was contingent on the passing of the millage election in February 2010.

As you are aware, the millage election failed. However, on March 11, 2010, the TFSOA agreed to continue the mandatory unpaid furlough days through the period of the contract extension until June 30, 2011, and further agreed that the issue of health insurance coverage may be subject to further negotiations. Health insurance changes were

subsequently negotiated, and on October 19, 2010 the TFSOA signed a tentative agreement (copy attached) that incorporated cost-saving changes to health insurance, as well as eliminated longevity pay for all TFSOA members who had been previously eligible to receive it. This agreement represents a reduction in costs of 16% of base pay.

The last component of the tentative agreement is the offering of an Early Retirement Incentive Program. A description of the program recommended by city administration is attached. Generally, two options would be offered: a cash incentive of $1,000 per complete year of credited retirement service with the City of Troy, or the option to convert from a Defined Contribution Pension Plan to a Defined Benefit Pension Plan. This Early Retirement Incentive Program must be cost neutral. The DC to DB Program would be funded directly from the members' DC accounts. The cost associated with the cash incentive program will be covered by the department. In the attached letter, actuary Brad Armstrong, Gabriel Roeder Smith & Company, further discusses this issue.

PES/JML/bjm

Attachments

TENTATIVE AGREEMENT

2010 Contract Negotiations
City of Troy and TFSOA

The City of Troy and the Troy Fire Staff Officers Association (TFSOA), hereby agree that all terms and conditions of the 2006-2009, which was extended to June 30, 2011, will be further extended until June 30, 2014 but with the following conditions:

1. Increases pertaining to certification enhancements will continue pursuant to the contract provisions
2. For all employees, the current health insurance plan will be replaced with Blue Cross Community Blue Plan 1 (Modified) to include:
   a. $10/40 drug rider with mandatory generic, step therapy and prior authorization.
   b. $30 office visit co-pay
   c. $50 emergency room co-pay (waived if admitted to hospital)
   d. $250/500 Basic deductible
   e. preventive care coverage with $1000 max
   f. $30 co-pay for chiropractic visits
3. HMO coverage would include:
   a. $10/40 drug rider with mandatory generic, step therapy, and prior authorization
   b. $30 office visit co-pay
   c. $50 emergency room co-pay (waived if admitted to hospital)
4. For employees currently receiving 'cash-in-lieu' for opting out of city health insurance, the cash-in-lieu payment will be $200/mo.
5. Employee co-pay for health insurance shall be 5% of the total premium cost for medical insurance and shall be paid by means of a payroll deduction.
6. Each member will continue to use mandatory furlough time in the amount of 104 hours between July 1 and June 30 for each year of the contract extension.
7. Effective January 2, 2011, longevity pay is eliminated.
8. The early retirement incentive plan (consisting of two options: cash incentive of $1000 per year of service or DC conversion to DB) will be offered to eligible members as soon as feasible.

FOR THE UNION:	FOR THE CITY:
Kathy Taylor	[signature]
Daniel Robert	Peggy E. Sears
Date: 11/02/10	Date: 11/2/10

G: Negotiations\TFSOA\2010\Contract Extension to 2014 and TA 2010-10-25

TFSOA NEGOTIATIONS 2010
PROPOSED SETTLEMENT SAVINGS
(As % of Payroll)

ISSUE	ANNUAL SAVINGS	
Furlough Time	$47,494	
Replace PPO Health Insur. w/Community Blue	$57,530	
Eliminate All Remaining Longevity effect. Jan., 2011	$25,156	
Total Annual Savings	$130,180	
Savings as Percent of Base Pay + Rollups [Pension, Work. Comp., FICA] ($949,870)		13.7%
Savings as Percent of Base Pay Only ($767,784)		16.96%

EARLY RETIREMENT INCENTIVE PROGRAM 2010

PROGRAM DESCRIPTION:

The City of Troy is implementing an Early Retirement Incentive Program (ERIP) in the form of two options, a cash incentive or a DC to DB conversion, in order to reduce personnel costs to accommodate budget constraints. The Program is being offered to eligible employees if the employee signs a Letter of Understanding with the City of Troy and, in the case of a union employee, that union agrees to the terms and conditions of the Program. Participation in the Program is entirely voluntary. Interested eligible employees in either the DB Pension Plan or the DC Pension Plan may elect to participate, but can only select one of the available options. Participating employees must retire on or before the date specified in the Plan.

INCENTIVE OPTIONS:

Cash Incentive

Eligible employees in either the Defined Benefit or Defined Contribution Pension Plan may elect to receive a cash incentive that is equal to $1,000 for each actual complete year of credited service with the City of Troy as of December 31, 2010. The cash incentive will be issued not later than three weeks after the employees' designated retirement date. The number of years for which the cash incentive is made shall not include years of service granted for prior government service from an employer other than the City of Troy.

For those employees participating in the Defined Benefit Pension Plan, the incentive will not be included in any computation of Final Average Compensation (FAC) under any provisions of the Retirement System.

For those employees participating in the Defined Contribution Pension Plan, the employee and the City of Troy will each contribute their appropriate percentage to the plan.

DC to DB Conversion

Eligible employees in the Defined Contribution Pension Plan may elect to transfer their total accumulated balance (including all employee contributions and interest thereon) to the City of Troy Employees Retirement System-Defined Benefit Plan. Their pension will be based solely on the value of their accumulated DC account balance at the date of transfer as determined by the Retirement System's actuary.

GENERAL CONDITIONS:

Employees who are eligible to participate in the Early Retirement Incentive Program will be sent notification upon approval of the program by City Council. The notice will include the Early Retirement Incentive Program Voluntary Resignation Agreement and Release of Claims form, a Receipt form and a Waiver of Review Period form. Employees will have 45 days in which to

consider the Release in order to seek counsel regarding their rights. If the employee chooses to waive the 45-day review period, he/she must submit the signed Waiver. Employees who elect to participate in the Program must submit the signed Release not later than January 13, 2011 and will have seven (7) days after signing to revoke their decision. Retirement must occur not later than February 22, 2011.

ELIGIBILITY REQUIREMENTS:

The Program will be available to TFSOA employees who meet the age and service requirements for normal or early retirement as of December 31, 2010 or are within five years of eligibility, as defined by the Employee Retirement System Ordinance or by the respective collective bargaining agreement. These eligibility requirements are as follows:

GROUP A
Regular Retirement

25 years of service regardless of age; or
Age 60 with 10 years of service

Early Retirement
Age 55 with 10 years of service

GROUP B
Those within five (5) years of eligibility as stated above

EFFECTIVE DATES:

Window Period (45-days):	November 29, 2010 through January 13, 2011
Revocation Period Ends (7 days):	January 20, 2011
Retirement Not Later Than:	February 22, 2011

GRS

Gabriel Roeder Smith & Company
Consultants & Actuaries

One Towne Square
Suite 800
Southfield, MI 48076-3723

248.799.9000 phone
248.799.9020 fax
www.gabrielroeder.com

October 1, 2010

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

Re: Miscellaneous Issues Regarding the Proposed Early Retirement Incentive Program

John:

This letter addresses two issues regarding the proposed Early Retirement Incentive Program currently under consideration by the City of Troy. The two issues and our responses follow:

1. Is there any cost to the Retirement System for allowing members with Defined Contribution account balances to transfer the account into the Retirement System in order to receive an annuity from the System?

   Required contributions to the Retirement System will be unaffected initially by the transfer of DC balances under the ERIP. That is because the annuity that will be provided to these individuals will be determined using the same actuarial assumptions used for the valuation of the System. Once the transfers are made however, the Retirement System will bear the risks of investment performance and mortality. In other words, if investment performance is worse than expected or these individuals live longer than expected, there will be additional costs to the Retirement System resulting from these transfers. Of course, this also works in the other direction should investment performance exceed expectations or transferring members die earlier than expected.

2. Would there be any cost to the Retirement System due to the retirement of Keith Lenderman under the ERIP?

Mr. Lenderman is already eligible for an unreduced annuity from the Retirement System. Therefore, the ERIP would not provide an increased monthly benefit. However, if Mr. Lenderman retires sooner than he otherwise would due to other incentives provided by the ERIP (paid with assets outside of the Retirement System), the value of his Retirement System annuity could be greater than if he retired later. Although, this should be considered in conjunction with projected payroll savings that may occur subsequent to his departure. This is true with respect to retiree health benefits as well. For actuarial valuation purposes, it is assumed that active members who are 60 or older will retire immediately. Therefore, since Mr. Lenderman will be turning 60 shortly, his immediate retirement would not create an actuarial loss (unexpected increase in liability) since it is already assumed he will retire in the near future.

If you have any questions or comments, please contact us.

Respectfully submitted,

Brad Lee Armstrong

BLA:sc