LEGACY COST COMMITTEE MEETING AGENDA

September 25, 2017- 3:30 P.M.

City Hall Conference Room 302A (3rd floor of City Hall)

I. Review of Matrix

II. Michigan Municipal League Pension and OPEB Reform Information

II. Brainstorming Options for Battle Creek

   A. Pension
   B. Retiree Health (OPEB)

III. Questions and Comments

IV. Next Meeting – set a date

   A. Brainstorming Proposals

V. Adjournment

Union	Vesting	Retirement Eligibility	Multiplier	FAC	Other	Retiree Health
IAFF		25 yrs of service	3% FAC x 1st 25 yrs ≤ 80% FAC	best 3/10	DROP Plan: • 25-30 yrs of service • Max participation 5 years	**Fire members hired after May 14, 2007** • Members receive a maximum $200 per month from the City • Members contribute 3% of pay and pension into 149 Trust • Members receive a share of trust fund dollars upon retirement **Fire Members hired prior to May 14, 2007 and who retired after July 1, 2004** • Members contribute 3% of pay and pension into 149 Trust • Upon retirement, trust fund pays insurance premium. If there is not enough money in the trust fund, the City pays the difference
OSP			3% FAC x 1st 25 yrs & 1% FAC x 25+ yrs ≤ 80% FAC	best 3/5		
POLC - Nonsupervisory		25 yrs of service or 60 years of age	3% FAC x 1st 25 yrs & 1% FAC x 25+ yrs ≤ 80% FAC	best 5/10		**Police Members retired on or after January 1, 2007 – (VEBA)** • Members receive a maximum $200 per month from the City prorated for service less than 25 years • Members contribute 2% of pay and City contributes 3% of pay during active employment • Retiree must be immediately eligible for pension and have at least 15 years of service • In 2010, members are eligible for an additional dollar subsidy of up to $8,000 per year
POLC - Nonsupervisory (Civilian)			2% until reaching age of full social security 1.7% thereafter	best 5/10		
POLC - Lieutenants		25 yrs of service or 60 years of age	3% FAC x 1st 25 yrs & 1% FAC x 25+ yrs ≤ 80% FAC	best 3/10	DROP Plan: • 25-30 yrs of service • Max participation 5 years	
POLC - Sergeants		25 yrs of service or 60 years of age	3% FAC x 1st 25 yrs & 1% FAC x 25+ yrs ≤ 80% FAC	best 3/10		

Union	Vesting	Retirement Eligibility	Multiplier	FAC	Other
ATU (Hired Before March 2, 2010)	10 years	Full • Age 60 w/ 10+ years • Age 55 w/ 25+ years Reduced Allowance • Age 55 w/ 15+ years • Age 50 w/ 25+ years	2.25% of FAC, with a maximum benefit of 80% of FAC	Best 3/10	
ATU (Hired After March 2, 2010)	10 years	Full • Age 60 w/ 10+ years • Age 55 w/ 25+ years Reduced Allowance • Age 55 w/ 15+ years • Age 50 w/ 25+ years	Hybrid:DB is 1.25 x years of service x FAC	Best 3/10	
AFSCME (Hired Before Dec. 1, 2010)	10 years	Full • Age 60 w/ 10+ years • Age 55 w/ 25+ years Reduced Allowance • Age 55 w/ 15+ years • Age 50 w/ 25+ years	2.25% of FAC, with a maximum benefit of 80% of FAC	Best 3/10	
AFSCME (Hired After Dec. 1, 2010)	10 years	Full • Age 60 w/ 10+ years • Age 55 w/ 25+ years Reduced Allowance • Age 55 w/ 15+ years • Age 50 w/ 25+ years	1.5% of FAC	Best 3/10	ICMA 457 Contribution: • Match between 1-5%
BCSA (Hired prior to Jun 21, 2011)	10 years	Full • Age 55 w/ 25+ years Reduced Allowance • Age 55 w/ 15+ years • Age 50 w/ 25+ years	2.25% of FAC, with a maximum benefit of 80% of FAC	Best 3/10	RS 50%
BCSA (Hired on/after Jun 21, 2011)	10 years	Full • Age 60 w/ 10+ years Reduced Allowance • Age 55 w/ 15+ years • Age 50 w/ 25+ years	1.5% of FAC	Best 3/10	ICMA 457 Contribution: • Match between 1-5%
SEIU (Hired prior to June 30,2011)	10 years	Full • Age 60 w/ 10+ years • Age 55 w/ 25+ years Reduced Allowance • Age 55 w/ 15+ years • Age 50 w/ 25+ years	2.25% of FAC, with a maximum benefit of 80% of FAC	Best 3/10	
SEIU (Hired on/after June 30,2011)	10 years	Full • Age 60 w/ 10+ years • Age 55 w/ 25+ years Reduced Allowance • Age 55 w/ 15+ years • Age 50 w/ 25+ years	1.5% of FAC	Best 5/10	ICMA 457 Contribution: • Match up to 2.5%

Michigan Municipal League
Suggestions for Pension and OPEB Solutions

We would ask that these concepts be included in the final report and represent a continued evolution of our thoughts given the direction of discussion within the task force. First, we must take measures to make legacy benefits more affordable for the community to provide and our focus should be cash flow or annual budget obligations not the balance sheet. Second, we must look to mitigate future expansion of legacy costs. While we talk about intergenerational equity on the funding side, if you require full funding or any increased funding for OPEB, the residents you are trying to protect will see dramatic service cuts to fund this effort. We cannot recreate history, and we must focus on providing current residents the services they need rather than focusing on an accounting entry. As we address these issues, it is important that we recognize the human element as well as local government's ability to attract and retain talent. For those reasons, lowering the cost of the benefit rather than elimination in the local government's budget is the only way to achieve this.

While not the charge of this group, local government revenue constraints are a significant contributor to this issue and worthy of further action. Local government's two largest revenue sources have been negatively impacted, and must be reformed. Property taxes are the single largest source of local funding and it lacks any real upward mobility. Revenue Sharing is typically the second largest and we have seen over $8.1 billion dollars diverted from local service provision due to state budget reductions in the last decade. These impacts are real and threaten Michigan's economic future. We would welcome the opportunity to engage in meaningful reform conversations that would create a municipal finance system that tracks with the state's economy and provides the resources needed to have a prosperous Michigan. Without meaningful revenue changes, this task force's work will only postpone the inevitable collapse.

We would like to offer the following ideas as part the pension reform discussion.

1. **Final Average Compensation reform** – we should consider either A) defining what earnings are included in the calculation of any defined benefit pension, or B) Move to average career earnings as a way of eliminating spiking which exacerbates unfunding.
2. **Extension of amortization periods for unfunded liabilities** – It is important that we preserve the integrity of a pension system, but not at the expense of current service provision. Extending the period of time costs are paid does not jeopardize the liquidity of the system, but this will significantly help communities in their efforts to fund the benefit and more importantly free up dollars for service provision. We need to allow the community, at their discretion, to extend amortization periods to manage cash flow and we should set benchmarks or limiters to be used to ensure the integrity of the system. For example, extending an amortization period shall not result in a pension system having less than 50% UAAL at any point in the defined period. Defining the appropriate tests to establish the limits of the extension will be important and will require additional technical expertise.
3. **Expand bonding as a tool** – Bonding is not a panacea or a one size fits all solution, but if used correctly it can be an important tool in addressing unfunded liabilities for closed systems. The current law has a sunset and a AA credit limitation. In our view neither of these are necessary. Ultimately we believe that the market can and will regulate these issues and the arbitrary limitations in place serve no real purpose. If the concern is that a community will move forward

without a financing team capable of offering appropriate guidance and council, then have Treasury provide some oversight that would approve the team before moving forward. Bond issues are very dynamic and can change quickly, so putting in place a team that will be capable of reacting is logical. (This approach can also be applied to OPEB)

Retiree Health Care or OPEB, unlike pensions, is largely unfunded. The constitution requires that local government make actuarially required contributions for pensions, but there is no such funding requirement for OPEB. This has been essentially a pay-as-you-go cost that is escalating faster than inflation and having a major impact on local budgets. In many developed communities, the number of retirees receiving OPEB is larger than the number of employees. With antiquated plan designs and high benefit levels, it is unsustainable in its current form. We recommend the following ideas as part the OPEB reform discussion.

1 **New Hires** – Close off all DB style OPEB benefits for all new hires regardless of their financial standing and replace with retiree health savings accounts or similar vehicle. If we do not make this mandatory for all then we create significant recruitment issues. Additionally, this speaks to the intent of the task force to close off future liability for residents, local government, and the state. The amount of any contributions for this approach can be a matter for negotiations.
2 **Coordination of Benefits** – We should require current and future retirees to use health plans of current employers if available. Likewise, we should require spouses to utilize benefits from their employer if available.
3 **Reducing current liability** - Allow local governments the option to move to a retiree health savings account for current employees with less than 10 years of service. We would need the ability to raise the appropriate capital to fund accounts for employees that fall into this category.
4 **Deferred Benefits** – Eliminate the deferral of benefits and require that an employee be of "normal" retirement age and eligible for a full pension before qualifying for a healthcare benefit. In other words, someone that left with 10 years of service at age 35 and has "vested" for a limited deferred pension would not qualify for a health benefit.
5 **Medicare** - Require Medicare participation and coordination. Upon attaining age 65 for all local unit of government, retirees above the age of 65 shall enroll in Medicare, which shall be primary insurance. If an employee was not eligible for Medicare, then this provision would not apply. This should extend to current retirees and funding for any penalties would need to be provided.
6 **Plan Design** - Allow local governments to maintain local control over designs. This will allow them to modernize healthcare plan designs for all beneficiaries to strike the appropriate balance between costs and benefits. This will ensure it is sustainable for employees, retirees, and local government. We would suggest that this be considered as two pieces:
    a. **Drug Coverage** - Requiring a plan mirroring strategy for current and future retirees for drug coverage would be an effective way of managing retiree healthcare costs for DB programs. This can be a huge cost driver for any plan
    b. **Health Plan Design** – Mirroring of the current employee's health plan would be available if needed. We suggest not including premium share for current retirees unless it already exists as part of the mirroring process. This would not be necessary or applicable for health savings account programs.

7 **Bargaining of retiree healthcare** - Remove defined benefit retiree healthcare as a subject of collective bargaining. If we adopt the earlier recommendation of no new hire DB plans and benefit mirroring, then the need to negotiate this separately making this unnecessary. Additionally, this would restrict the ability for an arbitrator to award a benefit not consistent with the desired outcomes. Any contributions related to bullet 1 would remain a subject of collective bargaining as would active healthcare benefits.

In addition to the plan specific factors, we suggest the following issues also be included

1 **Uniform suggestion for pensions and OPEB**- Once a DB plan is closed for any bargaining unit, eliminate the future ability for it to be reopened or reoffered in any way. Absent this provision any subsequent management or union negotiating teams, or an arbitrator could restore the DB approach. This seems counter to the identified intentions.
2 **Bonding** - Allow bonding for closed OPEB plans/systems as described in the pension comments. This should only be allowed if DB health plans have been closed.
3 **Affordability** - We must focus our effort towards reducing annual costs from local budgets to help increase cash flow and service offerings. To that end, we should set a target affordability goal for combined legacy costs of 10% of general fund revenues. If Police and/or Fire services are provided via a PA 33 special assessment and accounted for in a separate fund, then those revenues should also be included in the affordability calculation.
4 **Codify court decisions** - There is considerable confusion and some disagreement as to the existing legal authority to modify benefits for existing retirees. Incorporate the current court decisions into statute. Define terms like substantial impairment, vital interest, reasonable, etc.
5 **What benefit vested** - If a vested benefit is deemed to exist, define in statute what benefit vested. Historically we have been required to provide "benefits" based on the plan doc, but only as it pertains to deductibles, prescriptions, and other retiree cost factors. We have ignored the other half of the equation. Those same plan docs provided the drug formularies, procedures, and other benefits that existed at that time. That is what was promised and the retiree costs reflected that plan. It is logical that if we are going to follow an agreement we would follow the entire agreement.
6 **Funding Mandates** - If any funding is going to be mandated of local government beyond what exists in current law, this would be an unfunded mandate under the Headlee Amendment exposing the state to significant liability and the requirement to fund it.

As it pertains to the intervention flowchart or matrix, we would suggest the following:

Given the constitutional funding protections, we do not believe we need an intervention mechanism for pensions. If a community fails to make it's actuarially required contribution, they are in violation of the constitution and a judgement is easily obtained to compel funding. This is not true of OPEB, and for this reason the interventions for purposes of this work should focus there.

First we need to clarify what measures we will make available for any potential intervention. We would suggest the list identified above. This is an important distinction because communities must know the standard they are trying to meet. That list would become the target for communities to use to try and design plans that would be designed around these best practices. It also would be the parameters of the powers of the MSB. Apart from the reporting requirements, the stage 2 test should be the stage 1 test, and if in compliance then they should be allowed to effectively opt out of the balance of the requirements. The additional tools suggested under the OPEB section should still be available to manage costs.

Stage 1 – Eliminate the normal cost and UAAL requirements. These would bankrupt communities if enforced and are an unreasonable threshold. Additionally, we should include closing DB type OPEB benefits to new hires and require the benefit coordination described above.

Stage 2 - The affordability threshold is set too high. A combined 22% is a tremendous ratio of current local resources being diverted from service provision. Set the combined affordability threshold for all legacy costs at 10% of total general fund revenues. If Police and/or Fire services are provided via a PA 33 special assessment and accounted for in a separate fund, then those revenues should also be included in the affordability calculation. We should also allow for an either/or threshold test. In other words, if the actuarial funding level is above a threshold, we would suggest 50% for OPEB and 75% for pension, or a community's affordability factor is below 10%, then the community is in compliance and not subject to any further action.

Stage 3 – OK

Stage 4 – Communities and bargaining units would attempt to utilize the strategies identified above to move costs within the affordability threshold and present a consent plan to the MSB. If all steps are taken from the list of best practices, then no further action is needed to satisfy the MSB.

Stage 5 – If unable to develop a plan that meets the affordability threshold to the satisfaction of the MSB, then PERA is suspended and the MSB may issue an order to bring the community into compliance. The powers of the MSB would be similar to an EM, but it would be specifically limited in scope to the list of best practices identified above. If the community is still experiencing a true financial emergency beyond the scope of this work, then PA 436 has a well established criteria and procedures for addressing that.