

CITY OF BATTLE CREEK LEGACY COSTS

Commission Workshop

August 7, 2019

FACTS AND FIGURES AT A GLANCE

Facts and Figures

- ▶ Legacy Costs for the City of Battle Creek are comprised of three components:
 - ▶ Pension for Police & Fire Retirees (P&F Pension)
 - ▶ Pension for Retirees other than Police & Fire (MERS Pension)
 - ▶ Retiree health insurance (Other Post Employment Benefits (aka OPEB))

Police & Fire Pension – Benefit Facts

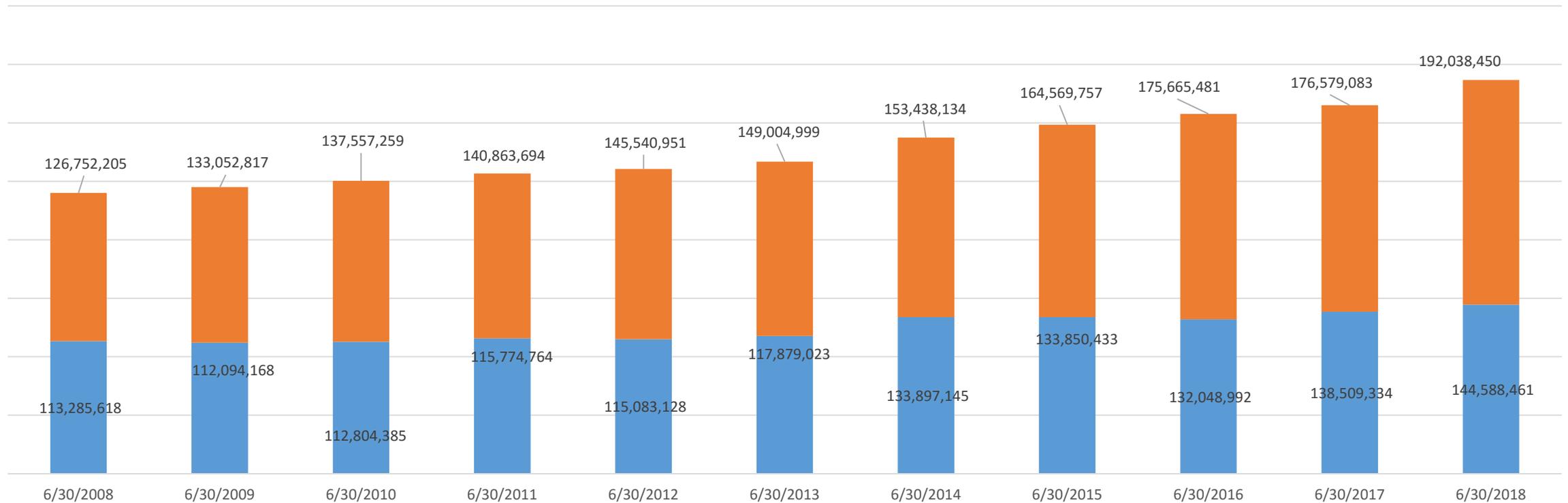
- ▶ Police & Fire employees do not contribute to social security (6.2% of eligible payroll, matched by the employer) and do not receive social security service credit for their city-service years like MERS employees.
- ▶ Police & Fire employees hired prior to 1987 did not contribute to Medicare (1.45%) and do not qualify for the Medicare benefit unless they have service outside the city.

Police & Fire Pension – Historical Figures

| Police & Fire Pension (Public Act 345): | 6/30/08 | 6/30/09 | 6/30/10 | 6/30/11 | 6/30/12 | 6/30/13 | 6/30/14 | 6/30/15 | 6/30/16 | 6/30/17 | 6/30/18 |
|--|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Total pension liability | 126,752,205 | 133,052,817 | 137,557,259 | 140,863,694 | 145,540,951 | 149,004,999 | 153,438,134 | 164,569,757 | 175,665,481 | 176,579,083 | 192,038,450 |
| Plan fiduciary net position | 113,285,618 | 112,094,168 | 112,804,385 | 115,774,764 | 115,083,128 | 117,879,023 | 133,897,145 | 133,850,433 | 132,048,992 | 138,509,334 | 144,588,461 |
| City's net pension liability | 13,466,587 | 20,958,649 | 24,752,874 | 25,088,930 | 30,457,823 | 31,125,976 | 19,540,989 | 30,719,324 | 43,616,489 | 38,069,749 | 47,449,989 |
| Percent funded | 89.38% | 84.25% | 82.01% | 82.19% | 79.07% | 79.11% | 87.26% | 81.33% | 75.17% | 78.44% | 75.29% |

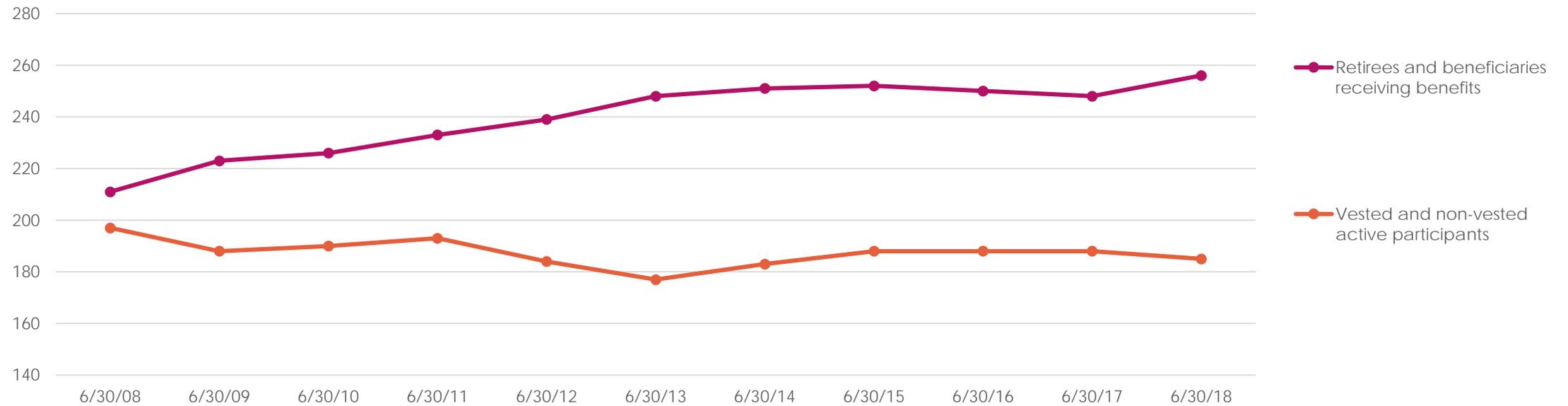
Police & Fire Pension – Historical Figures

Police & Fire Pension Fund - Assets (blue) compared to Liability by year



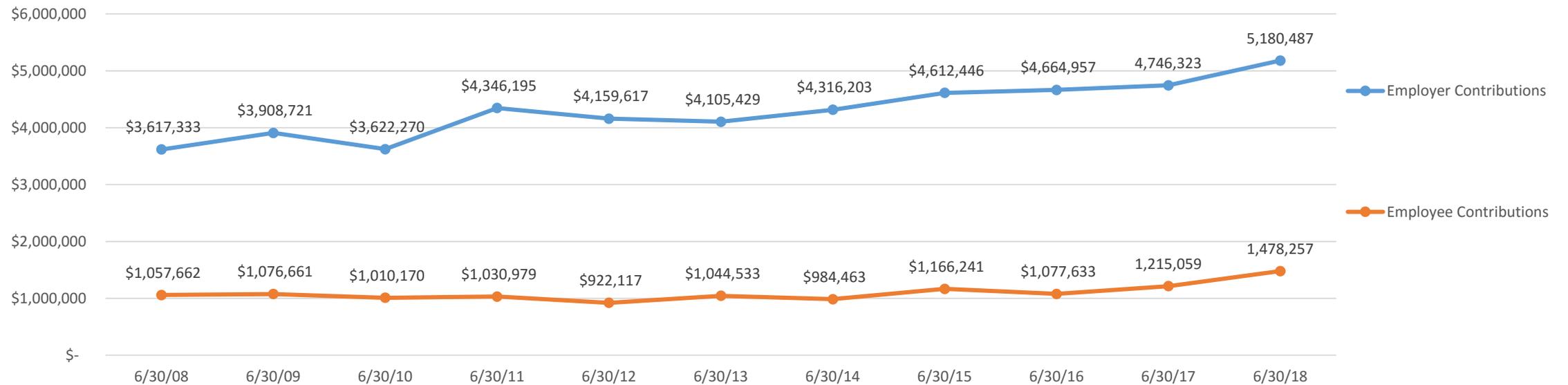
Police & Fire Pension – Historical Figures

Police & Fire Pension Membership



Police & Fire Pension-Historical Figures

Police & Fire Pension Contribution Dollars



Police & Fire Pension-Historical Figures

| Police & Fire Pension Employee Contribution Rates for the fiscal years based on Collective Bargaining agreements | | | | |
|--|-------------------|---------|---------|---------|
| | 6/30/08 - 6/30/16 | 6/30/17 | 6/30/18 | 6/30/19 |
| POLC - NS (Police Non-supervisory) | 7.75% | 8.00% | 8.25% | 8.25% |
| POLC - SGT (Police Sergeants) | 7.75% | 11.72% | 11.72% | 11.72% |
| POLC - LT (Police Lieutenants) | 10.00% | 10.00% | 10.00% | 10.00% |
| Police Non-Represented | 10.00% | 10.00% | 10.00% | 10.00% |
| OSP (Fire Supervisory Personnel) | 9.69% | 10.00% | 10.00% | 11.00% |
| IAFF (Fire Fighters) | 7.50% | 7.50% | 11.04% | 11.04% |
| Fire Non-Represented | 10.00% | 10.00% | 10.00% | 10.00% |

Police & Fire Pension/Total Millage Historical Figures

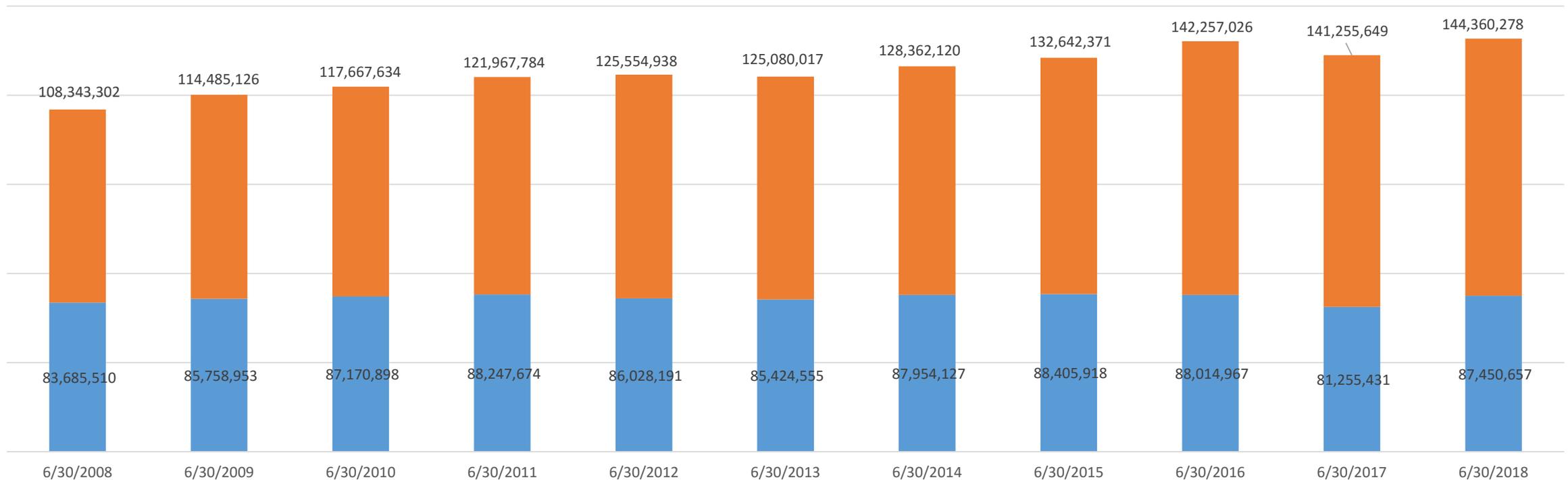
| Millage Rate History (rate per \$1000 of taxable value) | | | | | | |
|--|---------------|-----------|---|---------|-----------------------------|--------|
| Fiscal Year Ended June 30 | Levied July 1 | Operating | Capital Projects/Capital Project Debt | Streets | Police & Fire Pension | Total |
| 2020 | 2019 | 8.346 | 0.500 | 1.5 | 5.588 | 15.934 |
| 2019 | 2018 | 8.346 | 0.500 | 1.5 | 5.403 | 15.749 |
| 2018 | 2017 | 8.740 | 0.500 | 1.5 | 5.009 | 15.749 |
| 2017 | 2016 | 8.740 | 0.500 | 1.5 | 4.679 | 15.419 |
| 2016 | 2015 | 8.740 | | 1.5 | 4.496 | 14.736 |
| 2015 | 2014 | 8.807 | | 1.5 | 4.429 | 14.736 |
| 2014 | 2013 | 9.148 | | 1.5 | 4.088 | 14.736 |
| 2013 | 2012 | 9.427 | | 1.5 | 3.809 | 14.736 |
| 2012 | 2011 | 9.488 | | 1.5 | 3.748 | 14.736 |
| 2011 | 2010 | 9.488 | | 1.5 | 3.488 | 14.476 |
| 2010 | 2009 | 9.558 | | 1.5 | 3.418 | 14.476 |
| 2009 | 2008 | 9.594 | | 1.5 | 3.382 | 14.476 |
| 2008 | 2007 | 9.699 | | 1.5 | 3.277 | 14.476 |

MERS Pension – Historical Figures

| MERS Pension: | 6/30/08 | 6/30/09 | 6/30/10 | 6/30/11 | 6/30/12 | 6/30/13 | 6/30/14 | 6/30/15 | 6/30/16 | 6/30/17 | 6/30/18 |
|------------------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Total pension liability | 108,343,302 | 114,485,126 | 117,667,634 | 121,967,784 | 125,554,938 | 125,080,017 | 128,362,120 | 132,642,371 | 142,257,026 | 141,255,649 | 144,360,278 |
| Plan fiduciary net position | 83,685,510 | 85,758,953 | 87,170,898 | 88,247,674 | 86,028,191 | 85,424,555 | 87,954,127 | 88,405,918 | 88,014,967 | 81,255,431 | 87,450,657 |
| | | | | | | | | | | | |
| City's net pension liability | 24,657,792 | 28,726,173 | 30,496,736 | 33,720,110 | 39,526,747 | 39,655,462 | 40,407,993 | 44,236,453 | 54,242,059 | 60,000,218 | 56,909,621 |
| | | | | | | | | | | | |
| Percent funded | 77.24% | 74.91% | 74.08% | 72.35% | 68.52% | 68.30% | 68.52% | 66.65% | 61.87% | 57.52% | 60.58% |

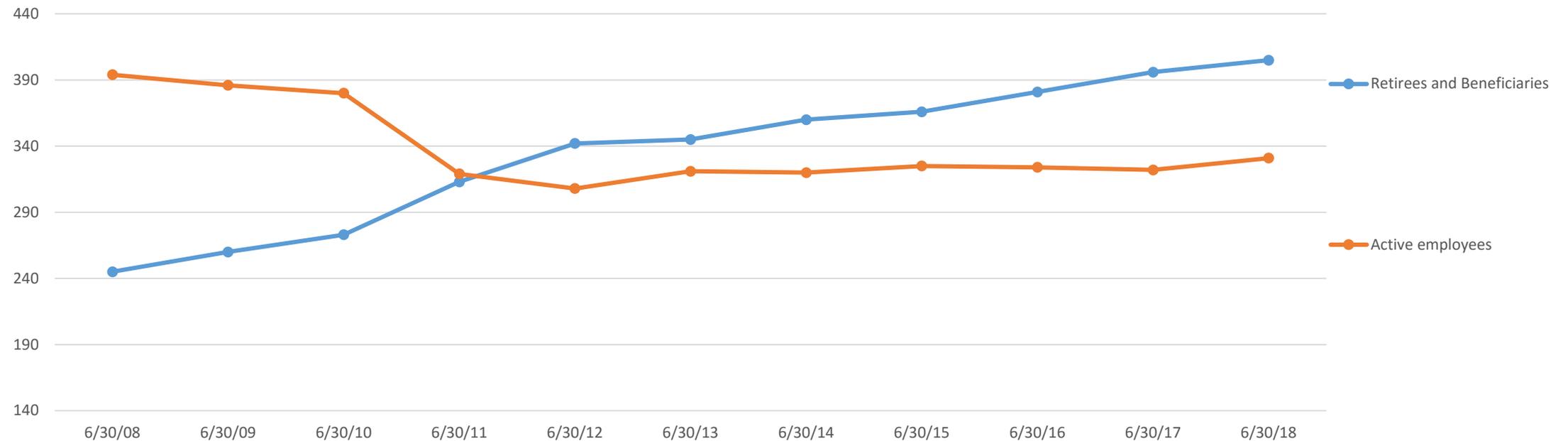
MERS Pension – Historical Figures

MERS Pension Fund - Assets (blue) compared to Liability by year



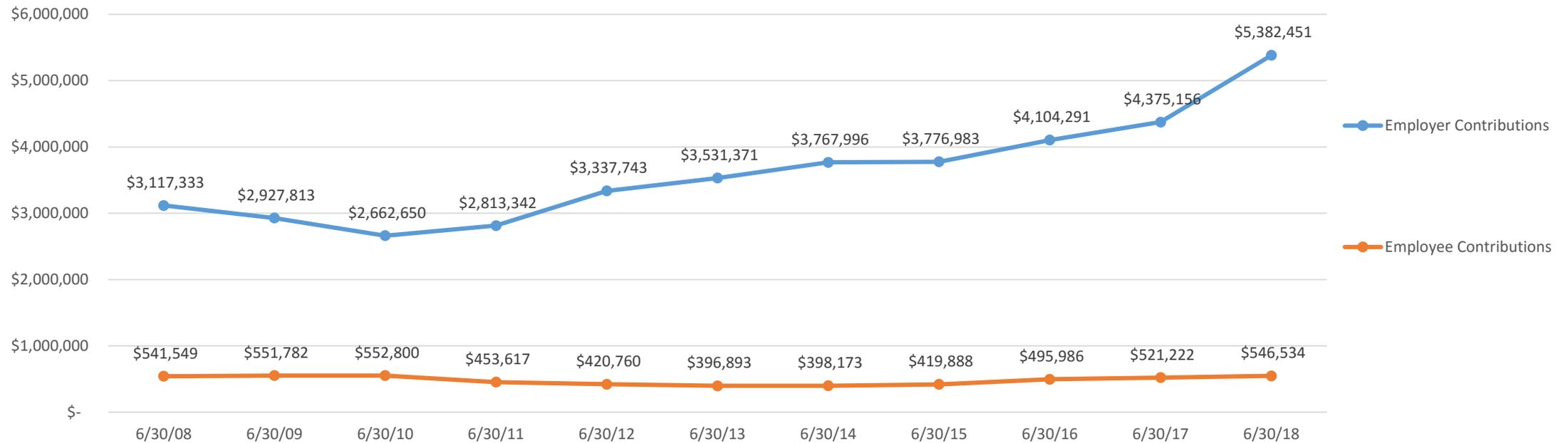
MERS Pension – Historical Figures

MERS Pension Membership



MERS Pension – Historical Figures

MERS Pension Contribution Dollars



Retiree Health Insurance (OPEB) Liabilities Historical Figures

| Other Post Employment Benefits (OPEB)-Health Insurance | | | | | | | | | |
|--|-----------------------------------|------------|------------|------------|------------|------------|------------|--|--|
| | | 6/30/2007 | 6/30/2009 | 6/30/2011 | 6/30/2013 | 6/30/2015 | 6/30/2017 | | |
| | Actuarial accrued liability (AAL) | 40,251,892 | 53,965,475 | 51,185,806 | 41,620,241 | 57,194,872 | 56,471,961 | | |
| | Actuarial value of assets | 75,887 | 1,491,954 | 3,094,002 | 4,078,070 | 5,086,500 | 6,802,762 | | |
| | Unfunded AAL (UAAL) | 40,176,005 | 52,473,521 | 48,091,804 | 37,542,171 | 52,108,372 | 49,669,199 | | |
| | Funded Ratio | 0.19% | 2.76% | 6.04% | 9.80% | 8.89% | 12.05% | | |

OPEB Liabilities – Historical Facts

- ▶ Police and Fire bargaining unit members were first provided retiree health insurance pursuant to Battle Creek City Commission Resolution 168, dated 6/24/80. This resolution provided health insurance to the retiree and spouse and set forth a specific funding source (Act 28 of 1966).
- ▶ Since the original provision, the Police and Fire Pension Board changed the funding vehicle, utilizing the provisions of Section 401(h) of the Internal Revenue Code. Because of statutory limitations in section 401(h) designed to protect both the pension fund and the tax status of pension and retiree health insurance benefits, the fund in 2005 was no longer able to cover the cost of insurance premiums.

OPEB Liabilities – Historical Facts

- ▶ Resolution Number 225 dated 5/17/05 created a public employee health care fund to be used for the accumulation and investment of monies for the purpose of funding health care for the City of Battle Creek police and fire retirees and their beneficiaries, as provided for in Public Act 149 of 1999.
- ▶ Resolution Number 12 dated 11/14/06 authorized a \$2,400 annual increase in pension benefits for current police & fire retirees and surviving spouses. The intent of the pension improvement was to provide additional funds for retirees to help cover the cost of retiree health insurance benefits; however, the additional funds are not limited to this intent and are available to retirees whether or not they have health insurance.

OPEB Liabilities – Historical Facts

- ▶ Act 312 Arbitration with the IAFF(resolved 5/14/07) resulted in the creation of a fund (Fire Retiree Health Care Fund)for current employees with a 3% member contribution that would be used to pay retiree health insurance premiums, with the City responsible for any additional costs. Retirees also pay 3% of their pension benefit into the fund. Contributions have changed over time for current employees based on collective bargaining.
- ▶ This same Act 312 Arbitration resulted in employees hired after 5/14/07 being required to contribute 3% of compensation into the retiree health insurance fund, and the City contribution towards health insurance premiums is limited to \$200/month upon retirement with a benefit payable.

OPEB Liabilities – Historical Facts

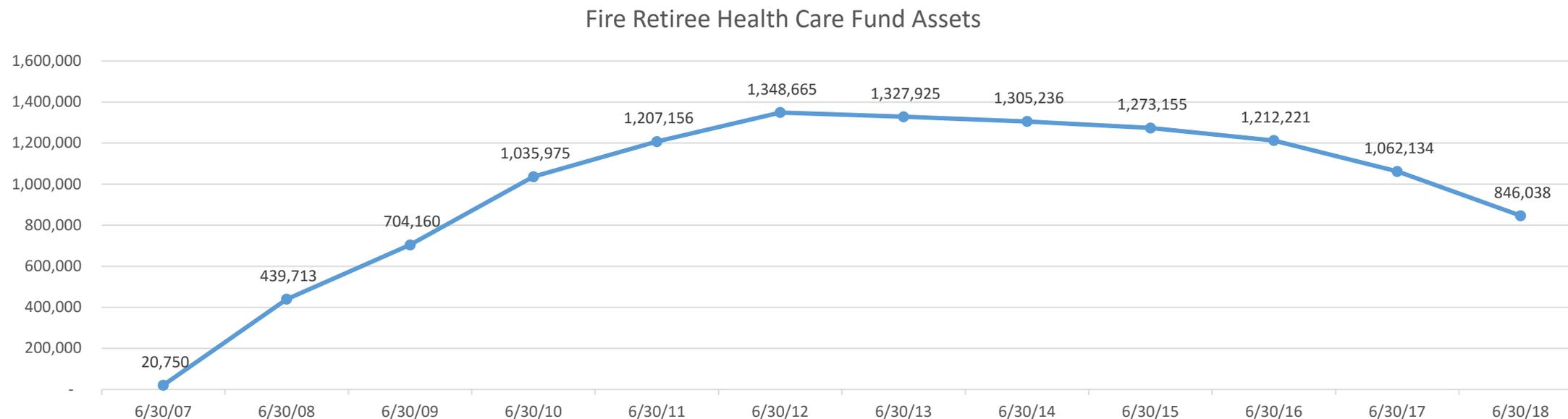
- ▶ Resolution 103 dated 5/1/07 established the Police & Fire Retiree Health Care Insurance Board (401h Board). This board is tasked with the allocation of \$500,000 raised annually through the police & fire pension millage to police members retired prior to 1/1/07 and fire members retired prior to 7/1/04.

OPEB Liabilities – Historical Facts

- ▶ 4/5/07 a Letter of Understanding between the City and the Police Officers Labor Council, representing the lieutenant, sergeant and nonsupervisory units of the Battle Creek Police Department set forth an agreement regarding funding for retiree health insurance for bargaining members.
 - ▶ Members retiring after 4/5/07 will receive a \$200 benefit per month towards the cost of insurance premiums. This \$200 benefit is pro-rated based on years of service between 15 and 25.
 - ▶ Established a Voluntary Employee Benefit Association (VEBA) to provide each eligible participant with a lifetime benefit of \$8,000 maximum per year towards health insurance premium above the monthly \$200 from the City. The VEBA is funded via contributions from current members as well as retirees.
 - ▶ Resolution 154 dated 3/18/08 adopted the MERS retiree health funding vehicle (RHFV) and the VEBA was converted to the RHFV (a Section 149 trust under Michigan state law)

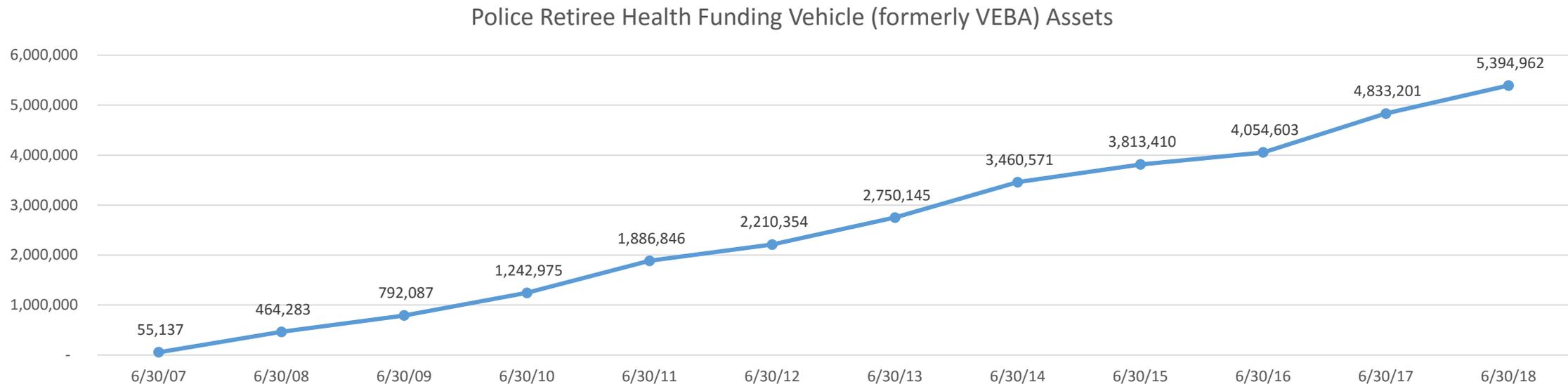
OPEB- Fire Retiree Health Insurance Funding Facts and Figures

- ▶ Since the 5/14/07 establishment of the fund, funding for the Fire Retiree Health Care Fund consists of \$250,000 annual City contributions, 3% retiree contributions, and 2.5%/3% current employee contributions (initial employee contributions were 3% and were negotiated to 2.5% effective 7/1/08).

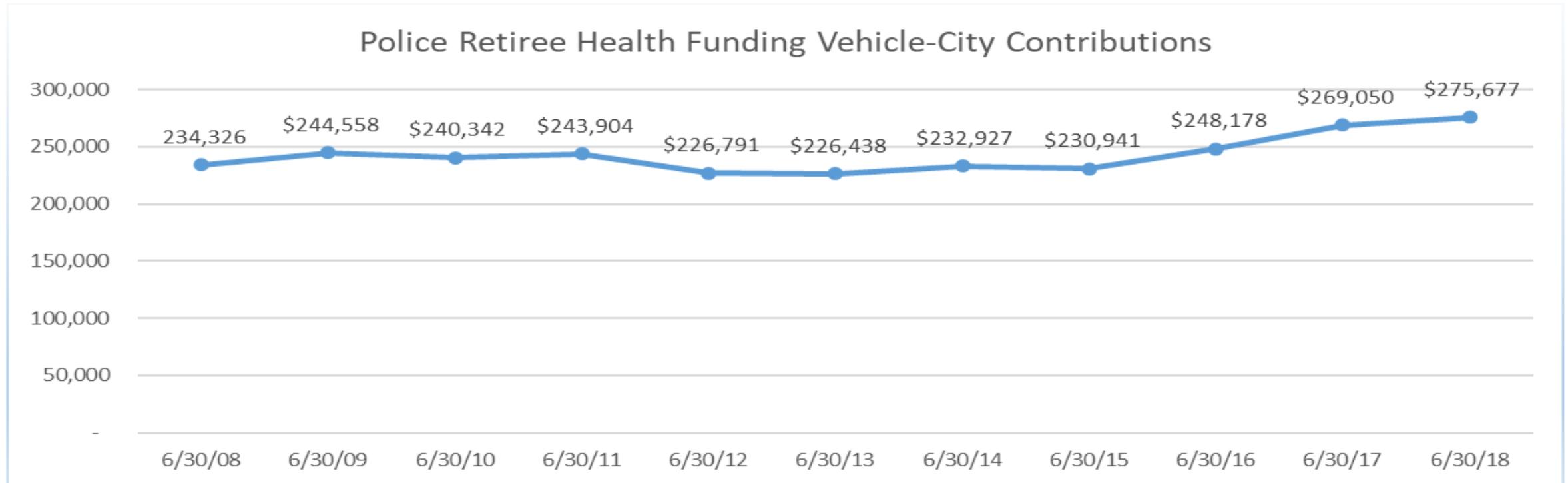


OPEB– Police Retiree Health Insurance Funding Facts and Figures

- ▶ Since the 4/5/07 establishment of the fund, funding for the Police Retiree Health Funding Vehicle has consisted of various combinations of employee, City, and retiree contributions based on the LOU and the BCPD RHIFT Board recommendations (currently 1% employee, 2% retiree, and 3% City).



OPEB-Police RHFV City Contributions Figures



OPEB – Non Police & Fire Retiree Health Insurance Facts

- ▶ Resolution number 71 dated 1/20/04 authorized the City to contribute to the cost of the “employee only” health insurance and the cost of the Medicare supplement in an amount not exceeding \$200 per month for non represented employees retiring with a pension benefit payable.
- ▶ Collective bargaining agreements have this same benefit with the following exceptions:
 - ▶ AFSCME – benefit is only available to employees hired on or before 12/1/10
 - ▶ ATU – benefit is only available to employees hired on or before 1/1/10
 - ▶ BCOSA – benefit is only available to employees hired on or before 6/21/11
 - ▶ SEIU – benefit is only available to employees hired on or before 6/30/11

Legacy Costs – Steps Taken

- ▶ 2010 – Eliminated the inclusion of vacation payoff in FAC for non-represented employees
- ▶ 2010 – Established Retiree Health Savings accounts (pre-tax contributions)
- ▶ 2010-2012 – Closed MERS divisions with the 2.5% multiplier to new hires in collective bargaining agreements. Established the lower-cost/lower-benefit 1.5% multiplier for all union new hires
- ▶ 2011-2013 – Bargained changes to lower final average compensation for police (PTO payout and exclusion of overtime for hires after 9/2/13) and fire (pension benefit will not exceed base wage)
- ▶ 2015 – Began the annual increase of 1% per year for non-represented employee contributions

Legacy Costs – Steps Taken

- ▶ 2016 – Began matching employee's 457 contributions for certain bargaining units
- ▶ 2017 – Established a surplus division at MERS for additional employer contributions
- ▶ 2019 – Implemented employee contributions for Commission-appointed employees
- ▶ 2019 – Established divisional surplus divisions to prevent increases in employee contributions from having a corresponding decrease in employer contributions
- ▶ 2019 – Bargained auto-enrollment into the deferred compensation 457 plan for certain bargaining units

Legacy Cost Committee – Final Report and Recommendations

- ▶ Review of April 19, 2019 letter
 - ▶ Recommendations and discussion points
 - ▶ Exhibits

Legacy Costs

▶ QUESTIONS/COMMENTS?

Legacy Costs – Commission Workshop Next Steps

- ▶ Future workshop – Strategy, planning, options review
 - ▶ Schedule a date