

cityofnovi.org

# CITY of NOVI CITY COUNCIL

**Agenda Item 6  
May 17, 2010**

**SUBJECT:** Adopt Change in MERS Defined Benefit Pension benefits for the POAM Division 2 (a) benefit improvement from F25/50 to F25 (25 years of service with no age limitation) through City contribution and (b) benefit improvement B-4 (2.5% multiplier) to the non-standard benefit 2.8% multiplier through 1% of payroll contribution by the City and the remainder through employee contribution, pursuant to the contract. Temporary increase in employee payroll contribution of based on the preliminary actuarial valuation of 5.41% for a total of 9.58%.

**SUBMITTING DEPARTMENT:** City Manager/Human Resources/Finance

**CITY MANAGER APPROVAL:**

**BACKGROUND INFORMATION:**

Pursuant to the POAM contract approved by the union and the City Council on July 1, 2004, the MERS defined benefit pension changes are effective June 1, 2010, with the City paying for the benefit improvement from F25/50 to F25 (25 years of service with no age limitation), and benefit improvement B-4 (2.5% multiplier) to the non-standard benefit 2.8% multiplier with the City contributing the first 1% of payroll and the POAM employees paying for the balance of the benefit through a percentage of payroll deduction.

The actuary firm Gabriel, Roeder & Smith has indicated that the supplemental valuation will not be available until late July due to the completion of the December 31, 2009 annual actuary valuations currently in process. Therefore, the recommendation is to temporarily implement the payroll contributions based on the preliminary supplemental actuary valuation, increasing the employer contribution by 1.81%, and increasing the employee contribution by 5.41% (total employee contribution of 9.58%), effective with eligible payroll earnings beginning June 1, 2010. Attached is the memo summarizing the preliminary supplemental actuary valuation. Payroll deductions will be adjusted retroactively upon receipt of the final supplemental actuary valuation.

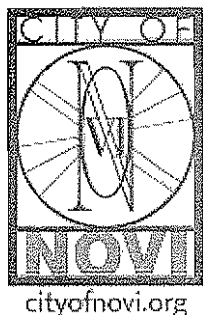
The increased City contribution based on the preliminary valuation has been anticipated in the 2010-11 proposed budget.

**RECOMMENDED ACTION:** Adopt Change in MERS Defined Benefit Pension benefits for the POAM Division 2 (a) benefit improvement from F25/50 to F25 (25 years of service with no age limitation) through City contribution and (b) benefit improvement B-4 (2.5% multiplier) to the non-standard benefit 2.8% multiplier through 1% of payroll contribution by the City and the remainder through employee contribution, pursuant to the contract. Temporary increase in employee payroll contribution of based on the preliminary actuarial valuation of 5.41% for a total of 9.58%.

	1	2	Y	N
Mayor Landry				
Mayor Pro Tem Gatt				
Council Member Crawford				
Council Member Fischer				

	1	2	Y	N
Council Member Margolis				
Council Member Mutch				
Council Member Staudt				

# MEMORANDUM



**TO:** CLAY PEARSON  
PAM ANTIL  
TIA GRONLUND-FOX  
SANQUINETT CAVE-RILEY  
**CC:** MARINA NEUMAIER  
**FROM:** KATHY SMITH-ROY  
**SUBJECT:** SUPPLEMENTAL VALUATION ACTUARY REPORT-POAM  
**DATE:** FEBRUARY 27, 2010

Enclosed for your information, please find the preliminary Supplemental Valuation/Actuary Report for the POAM pension provisions to be effective June 1, 2010.

The current contract language is as follows:

Section 16.4: Effective June 1, 2010, the F25 retirement rider shall be implemented with the cost being paid by the City. Effective June 1, 2010, the retirement plan shall be revised to a 2.8% pension retirement benefit. The City shall contribute 1% toward the cost of the 2.8% pension benefit with the remaining cost paid through employee/member contributions. An actuary study shall be ordered by April 1, 2010 to establish the cost of the 2.8% pension benefit. Contributions shall commence June 1, 2010.

The actuarial information is summarized as follows (using 2009-2010 contribution information):

	Employee Contribution	Employer Contribution	Total % of Payroll	Employer Cost based on 2009-10 Payroll Wage Estimate \$4,347,900
<b>2010-11</b>	4.17%	13.86%	18.03%	\$ 602,619
<b>F/N 25 Benefit</b>	-	0.81%	0.81%	\$ 35,218
<b>2.8% Multiplier Benefit</b>	5.41%	1.00%	6.41%	\$ 43,479
<b>Totals</b>	<u>9.58%</u>	<u>15.67%</u>	<u>25.25%</u>	<u>\$ 681,316</u>
<b>2009-10 Employer Contributions</b>				\$ 464,140

Please note the following, relative to the report and summary:

- The F/N 25 benefit (25 years no age requirement) above does not include the related cost for retiree health care benefits.
- Recommend obtaining an actuary report in May 2010 to obtain the most current annual actuary information for the year ended December 31, 2009 for purposes of implementing this change. The report attached is based on the annual actuary information for 2008. Also, based on the "Comments on the Investment Markets" the costs may increase using the 2009 data.
- The summary above for employer cost is utilizing the budgeted wage estimates for 2009-10.

If the City wanted to fund the unfunded accrued actuary liability for these benefits the cost would be \$279,687 (F-25) and \$2,090,836 (2.8% multiplier), respectively. The cost to the City for the unfunded liability with a closed DB plan (to be paid based on current membership) is \$281,503 and \$2,533,252.

Please let me know if you have any questions regarding this information.