

Postboard Indefinitely S/P/CS

Submitted by: Assembly Member Allan Tesche
Prepared by: Anchorage Police & Fire Medical
Trust Board
For reading: April 15, 2008

ANCHORAGE, ALASKA
AO NO. 2008-59

1 AN ORDINANCE OF THE ANCHORAGE MUNICIPAL ASSEMBLY AMENDING
2 ANCHORAGE MUNICIPAL CODE SECTION 3.88.020 TO ENLARGE THE TIME FOR
3 THE MUNICIPALITY TO MAKE ANNUAL DEPOSITS TO THE POLICE AND FIRE
4 RETIREES MEDICAL TRUST TO ENSURE FULL FUNDING OF THE
5 MUNICIPALITY'S OBLIGATIONS TO THE MUNICIPAL PREFUNDING INVESTMENT
6 PROGRAM.
7

8
9 THE ANCHORAGE ASSEMBLY ORDAINS:

10
11 **Section 1.** Anchorage Municipal Code section 3.88.020, Municipal Prefunding
12 Investment Program, is hereby amended to read as follows: (*Language not amended*
13 *set out for context only*):
14

15 **3.88.020 Municipal prefunding investment program.**
16

17 A. It is the objective of the investment program that municipal assets be
18 accumulated through a 30-year [20-YEAR] prefunding program of regular annual
19 deposits by the municipality and accumulated interest earnings so that the
20 municipal obligation is fully funded, requiring no further deposits.
21

22 B. The assets of the investment program are restricted to the purposes outlined
23 in this chapter unless two consecutive annual actuarial valuations indicate that
24 surplus funds over and above those necessary to fully fund the municipality's
25 projected obligations for the funding program have accumulated and are
26 available.
27

28 C. Annual municipal deposit to the investment program will be established and
29 adjusted as necessary to ensure full funding at the end of the year 2024 [2014]
30 based on the results of actuarial valuations and recommendations of the
31 investment board.
32

33 D. An actuarial valuation of the municipality's obligation to the funding program
34 and the funding status of the investment program will be completed every three
35 years as a minimum.
36

(AO No. 95-63, § 1, 3-7-95)

Section 2. This ordinance shall become effective immediately upon its passage and approval by the Assembly.

PASSED AND APPROVED by the Anchorage Assembly this ____ day of _____, 2008.

Chair

ATTEST:

Municipal Clerk



MUNICIPALITY OF ANCHORAGE
ASSEMBLY MEMORANDUM
NO. AM 244-2008

Meeting Date: April 15, 2008

From: Allan Tesche
Subject: **AR 2008-76 AO 2008-58, AO 2008-59, AND AO 2008-60 – PROVIDING FOR A RETIREE MEDICAL FUNDING PROGRAM FOR POLICE OFFICERS AND FIRE FIGHTERS.**

INTRODUCTORY STATEMENT OF THE PROBLEM

I am introducing AR 2008-76, AO 2008-58, AO 2008-59, and AO 2008-60 to resolve a serious problem for the Anchorage Police and Fire Retirees Medical Trust (APFRMT) due to the unforeseen increases in the cost to providing medical benefits to retirees. The current funding program contained in AMC 3.87.010 *et seq.* is no longer keeping pace with the increased cost of medical benefits. This proposed package remediates this deficiency by changing the formulas for computing the Municipality's contribution to the retirees' medical benefits, applies Class 1 benefits to disabled retirees, applies Section 1 of AO 2008-58 retroactive to January 1, 2003, deletes superfluous language, requires a mandatory five-year assembly review of the program, and appropriates \$1,938,570.00 to the medical trust for the foregoing purposes. The ordinance package also adds ten funding years to the pre-funding investment trust to ensure its continued viability.

BRIEF HISTORY OF THE ISSUE

In 1994, after several years of lengthy discussions, the International Association of Fire Fighters, Local 1264 (IAFF), the Anchorage Police Department Employees Association (APDEA), and the Municipality entered into a September 1994 letter of agreement concerning retiree health care. This letter of agreement included the idea that the three parties would mutually agree to undertake a renewed attempt to settle the issue of Police and Fire Retiree health care benefits. The result of this effort was a deadlock, which divided the community and created a significant fiscal uncertainty for the Municipality.

To advance beyond this problem, the parties, in accordance with the letter of agreement, determined that the best interests of all required the removal of the Police and Fire Retiree medical coverage from collective bargaining. This understanding is memorialized in AM 1299-94, which provides in part as follows: "With the passages of AO 94-95 and 94-222(S-1) the Assembly will have addressed the major component of the Police and Fire Retiree medical issue."

1 Attached to AM 1299-94 is a letter of agreement recognizing that upon passage
2 of AO 94-222(S-1), Police and Fire Retiree health care would be removed as a subject
3 of collective bargaining for all purposes between the Municipality and all current, active
4 employees who are represented by APDEA and IAFF who retired subsequent to
5 January 1, 1995, and who were members of the Anchorage Police and Fire Retirement
6 System. This idea is codified at AMC 3.70.196 which provides:

7
8 *AMC 3.70.196 Post retirement police and fire medical benefits.*

9 No matter related to post retirement medical coverage for active or
10 retired police officers or firefighters shall be subject to the
11 provisions of this chapter and negotiations on the subject of retiree
12 medical coverage are prohibited for all such individuals in
13 legislated pension plans and any employee organizations on their
14 behalf.

15 (AO No. 94-95, § 2, 5-24-94; AO No. 94-116, § 1(3.70.196), 1-1-
16 95)

17 Editor's note: The amendment to subsection A of this section
18 adopted in AO No. 94-116 shall apply to fire employees and to
19 police employees effective January 1, 1995, whether their current
20 labor agreements are extended or not.

21
22 Subsequently, the Assembly adopted AO 94-222(S-1) codified at AMC 3.87.010-
23 AMC 3.87.070, which establishes the Police and Fire Retiree Medical Funding Program
24 to provide those retirees with a Health Reimbursement Arrangement (HRA) for medical
25 benefits. The ordinances are intended to create and fund the Police and Fire Retiree
26 medical benefits thorough an HRA to cover the eligible medical expenses of the
27 retirees' spouses, and eligible dependents. The program also contains provisions
28 relating to the amendment and termination of the program. However, after careful
29 review of AMC 3.87.070, it addresses the reduction of medical benefits to a floor of
30 \$490.00, but does not address a diminution of benefits as a result of increased medical
31 costs. It is important to note that AMC 3.87.070(C) contains a directive that provisions of
32 this chapter are subject to Article XII, Section 7 of the Alaska State Constitution, which
33 provides that retiree benefits may not be diminished.

34
35 In conjunction, with the adoption of the medical benefit program for Police and
36 Fire Retirees, the Assembly adopted AMC 3.88 *et seq.* establishing a pre-funding
37 investment trust in order to fund the payment of medical benefits to the retirees. The
38 pre-funding investment trust was designed to fully fund the cost of retiree medical
39 benefits. However, it is currently not keeping pace with the increased costs of medical
40 benefits. Accordingly, the duration of the trust must be extended for an additional ten
41 years in order to ensure financial viability for the municipal contribution to the retirees'
42 medical benefits program. See Exhibit 1.

1
2 In summary, the agreement changed the retiree medical system from a "defined
3 benefit" plan (where the benefits of the plan are pre-determined) to a "defined
4 contribution" plan (where the employer's contribution is pre-determined) in 1995 with the
5 establishment of the Police and Fire Retire Medical Trust. Once a non-PERS sworn
6 employee retires, the Municipality will pay a predetermined amount to a Trust for the
7 employee's benefit. The employee will be able to choose from a variety of medical
8 options as to how to spend the money in his or her account. They are not limited to the
9 insurance provided by the Municipality.

10 11 SOLUTION TO THE PROBLEM

12
13 An examination of the program to provide the Police and Fire Retirees with
14 medical benefits establishes it is based upon an assumption that the cost of medical
15 benefits would actually decrease over time. This assumption has proven erroneous and
16 unreliable since medical costs have increased 305%, but the actual Police and Fire
17 medical cost increase equals 148%. Remedial legislation is necessary in order to avoid
18 the de-facto diminution of benefits the Police and Fire Retirees are suffering at this time.

19
20 The remedial legislation I am proposing begins with a policy resolution generally
21 outlining the issues and resulting in Assembly approval of an increased municipal
22 contribution to the Police and Fire Retiree medical benefits program.

23
24 The ordinances in the legislative package amend the unreliable CPI formula
25 currently existing in the medical funding program, adds Class 1 benefits to disabled
26 retirees, applies section 1 of AO 2008-58 retroactively, amends the pre-funding
27 investment trust to enlarge the time for an additional ten years for annual deposits,
28 deletes superfluous language, requires a mandatory five-year assembly review of the
29 program, and appropriates \$1,938,573.00 to the medical trust as a remedial contribution
30 to offset the diminution of benefits suffered by the Police and Fire Retirees who are
31 entitled to those benefits under the ordinance. The ordinances provide:

32
33 1. AO 2008-58 is an ordinance of the Anchorage Assembly amending
34 Anchorage Municipal Code ("AMC") chapter 3.87 which provides for the retiree medical
35 funding program for public safety retirees. It retroactively adjusts the health
36 reimbursement arrangement by deleting the unreliable medical CPI factor and using the
37 cost to purchase the annual municipality health insurance premium as the adjustment
38 factor for the contribution amounts of the public safety retirees' health insurance
39 premiums. AO 2008-58 also amends the special rule for members disabled in the line of
40 duty by retroactively entitling them to Class 1 benefits which remediate the reduced
41 benefits they received as a result of the unreliable CPI adjustment factor. AO 2008-58

1 duty by retroactively entitling them to Class 1 benefits which remediate the reduced
2 benefits they received as a result of the unreliable CPI adjustment factor. AO 2008-58
3 also deletes superfluous language from AMC 3.87.070 and adds a five year mandatory
4 assembly review of the program.

5
6 2. AO 2008-59 amends AMC 3.88.020 to enlarge the time for the assembly
7 to make annual deposits to the APFRMT to ensure full funding of the Municipality's
8 obligations to the municipal pre-funding investment program by extending the timeline
9 for the pre-funding investment program by ten years to 2024.

10
11 3. AO 2008-60 appropriates \$1,938,573.00 to fund 713 (Retiree Medical
12 Trust) from fund 719 (Retirement Certificates of Participation) to remedy the diminution
13 of medical benefits suffered by the public safety retirees who are entitled to benefits
14 under AMC 3.87.010-3.87-070.

15
16 **RECOMMENDATION**

17
18 The attached resolution and ordinances, if adopted by the Assembly, will
19 remediate the diminution of benefits suffered by our public safety retirees. Since the
20 underlying assumptions of the original intent of the trust establishment have proven to
21 be unreliable, it is incumbent upon the Assembly to adjust the contribution of the
22 retirees' medical benefits to ensure they receive a realistic medical benefit, I strongly
23 recommend that the Assembly adopt AR 2008-76, AO 2008-58, AO 2008-59, and
24 AO 2008-60.

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26 Respectfully submitted:

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30 Allan Tesche
31 Assemblymember, Section 1
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A Division of Gallagher Benefit Services, Inc.

August 1, 2007

Lorne Bretz
Plan Administrator
Police & Fire Retiree Medical Trust
P.O. Box 196650
Anchorage, AK 99519-6650

Re: Funding Analysis for the Police and Fire Retiree Medical Trust Fund – New Scenarios

Dear Lorne:

APEX Management Group (“APEX”), a division of Gallagher Benefit Services, Inc., was retained by the Municipality of Anchorage (“the Municipality”) to develop new funding analysis scenarios for the Municipality of Anchorage Police and Fire Retiree Medical Trust (“the Trust”). This report presents the results of our analysis.

Currently, the trust is being pre-funded with annual contributions of \$1,868,996. These contributions are expected to end in 2014. The market value of assets in the trust as of January 1, 2007 is \$32,800,000. The current monthly benefit to retirees effective January 1, 2007 is:

- Tier 1 - \$696.28
- Tier 2 - \$620.26
- Tier 3 - \$620.26
- Tier 4 - \$551.33

Based on the current contribution levels, the Trust will be fully funded by 2014.

The Trust would like to identify the expected number of additional annual contributions of \$1,868,996 that are needed to fully fund the trust assuming the following monthly benefit to retirees beginning 1/1/2007:

- Tier 1 - \$1,101
- Tier 2 - \$852
- Tier 3 - \$710
- Tier 4 - \$591

The benefits are assumed to increase annually using the Trust’s current CPI increase formula.

All assumptions used for this analysis are the same as those used in the prior Trust analyses performed by APEX. A summary of the assumptions are provided in Exhibit I. In addition, the Municipality provided an updated active and retiree census. A summary of the census is provided in Exhibit II.

Lorne Bretz
August 1, 2007
Page 2

Results

In Exhibit III, we provide the expected annual cash flows for the Trust based on the new monthly retiree benefits. Based on our projections, the trust is not fully pre-funded and will be exhausted by 2029. To fully pre-fund the Trust, the annual pre-funding contribution of \$1.87 million needs to be extended from 2014 to 2024.

Please do not hesitate to contact me if you have any questions.

Sincerely,



Thomas M. Skurat, FSA, MAAA
Consulting Actuary

cc: Jennifer Bundy-Cobb – The Wilson Agency

Enclosures



Valuation Date

January 1, 2007

Market Value of Assets at January 1, 2007

\$32,800,000

Assumed Rate of Return on Assets

8.0% per year.

Assumed Annual CPI Increase

To estimate future trust contributions, we assumed that medical CPI will increase 5.2% annually.

Mortality Rates

We used the 1994 Uninsured Pensioners Mortality table set forward one year for males and females. A sample of the mortality rates is provided below.

Age	Male	Female
20	0.000521	0.000301
30	0.000838	0.000356
40	0.001075	0.000701
50	0.002501	0.001408
60	0.007623	0.004154
70	0.023364	0.013665
80	0.060066	0.038024

Termination Rates

The probability of an active employee terminating employment within a particular year and no longer being eligible for the retiree benefit is based on the length of service for the employee. The assumed termination probabilities are provided in the table below.

Service	Male & Female
1	8%
2 – 3	3%
4 – 7	2%
8+	1%

Retirement Rates

The retirement ages and associated probabilities are as follows:

Service	Plans 1 & 2	Plan 3
15	N/A	21.0%
16 – 18	N/A	9.0%
19	N/A	15.0%
20	33.0%	24.0%
21 – 22	15.0%	24.0%
23 – 24	24.0%	18.0%
25+	24.0%	30.0%
After age 55 with 5 years of service	100.0%	N/A
After age 57 with 5 years of service	N/A	100.0%

The following table provides a summary of the current census of current and future potential members in the Municipality of Anchorage Police and Fire Retiree Medical Trust Fund.

Age Group	Active Members			Retired	Total
	Fully Eligible	Not Fully Eligible	Total	Participants	Members
<40	0	14	14	3	17
40-44	1	32	33	17	50
45-49	7	32	39	48	87
50-54	8	6	14	93	107
55-59	13	0	13	92	105
60-64	2	0	2	37	39
65-69	0	0	0	6	6
70-74	0	0	0	0	0
75-79	0	0	0	0	0
80-84	0	0	0	0	0
85+	0	0	0	0	0
Total	31	84	115	296	411

Municipality of Anchorage
Police and Fire Retiree Medical Trust Fund - Funding Analysis
 Exhibit III - New Retiree Account Allocations

Year*	Members			Accumulated Assets (BOY)	Allocated to Accounts	Municipality Funding	Investment Income	Pay-As-You-Go Payment	Accumulated Assets (EOY)
	Active	Retirees	New Retirees						
2007	115	296	15	\$32,800,000	(\$2,910,183)	\$1,888,996	\$2,503,325	\$0	\$34,262,138
2008	99	310	5	\$34,262,138	(\$3,109,449)	\$1,888,996	\$2,604,355	\$0	\$35,626,040
2009	93	313	6	\$35,626,040	(\$3,250,466)	\$1,888,996	\$2,702,184	\$0	\$36,946,734
2010	86	317	5	\$36,946,734	(\$3,389,700)	\$1,888,996	\$2,796,702	\$0	\$38,222,732
2011	80	321	7	\$38,222,732	(\$3,526,396)	\$1,888,996	\$2,887,847	\$0	\$39,453,178
2012	72	325	8	\$39,453,178	(\$3,673,265)	\$1,888,996	\$2,974,533	\$0	\$40,623,442
2013	63	331	12	\$40,623,442	(\$3,840,342)	\$1,888,996	\$3,054,788	\$0	\$41,706,883
2014	50	340	12	\$41,706,883	(\$4,018,139)	\$1,888,996	\$3,127,239	\$0	\$42,684,980
2015	38	349	10	\$42,684,980	(\$4,183,729)	\$1,888,996	\$3,192,240	\$0	\$43,562,486
2016	28	355	7	\$43,562,486	(\$4,331,785)	\$1,888,996	\$3,250,596	\$0	\$44,350,293
2017	20	359	5	\$44,350,293	(\$4,455,786)	\$1,888,996	\$3,303,700	\$0	\$45,067,203
2018	15	360	5	\$45,067,203	(\$4,565,050)	\$1,888,996	\$3,352,312	\$0	\$45,723,461
2019	9	361	4	\$45,723,461	(\$4,664,375)	\$1,888,996	\$3,396,867	\$0	\$46,324,949
2020	5	360	2	\$46,324,949	(\$4,744,252)	\$1,888,996	\$3,438,595	\$0	\$46,886,288
2021	3	356	1	\$46,886,288	(\$4,805,865)	\$1,888,996	\$3,478,734	\$0	\$47,430,153
2022	2	352	1	\$47,430,153	(\$4,853,870)	\$1,888,996	\$3,518,242	\$0	\$47,963,522
2023	1	346	0	\$47,963,522	(\$4,889,092)	\$1,888,996	\$3,558,094	\$0	\$48,501,520
2024	1	340	0	\$48,501,520	(\$4,912,468)	\$1,289,185	\$3,564,475	\$0	\$48,442,713
2025	0	333	0	\$48,442,713	(\$4,923,582)	\$0	\$3,481,531	\$0	\$47,000,662
2026	0	325	0	\$47,000,662	(\$4,921,694)	\$0	\$3,366,317	\$0	\$45,445,285
2027	0	317	0	\$45,445,285	(\$4,905,952)	\$0	\$3,243,147	\$0	\$43,782,480
2028	0	308	0	\$43,782,480	(\$4,875,533)	\$0	\$3,112,556	\$0	\$42,019,502
2029	0	299	0	\$42,019,502	(\$4,829,826)	\$0	\$2,975,174	\$0	\$40,164,850
2030	0	289	0	\$40,164,850	(\$4,767,888)	\$0	\$2,831,757	\$0	\$38,228,719
2031	0	278	0	\$38,228,719	(\$4,689,067)	\$0	\$2,683,172	\$0	\$36,222,824
2032	0	267	0	\$36,222,824	(\$4,592,826)	\$0	\$2,530,400	\$0	\$34,160,398
2033	0	256	0	\$34,160,398	(\$4,478,919)	\$0	\$2,374,518	\$0	\$32,055,988
2034	0	244	0	\$32,055,988	(\$4,347,477)	\$0	\$2,216,682	\$0	\$29,925,202
2035	0	232	0	\$29,925,202	(\$4,199,012)	\$0	\$2,058,095	\$0	\$27,784,285
2036	0	220	0	\$27,784,285	(\$4,034,365)	\$0	\$1,899,994	\$0	\$25,649,913
2037	0	207	0	\$25,649,913	(\$3,854,678)	\$0	\$1,743,619	\$0	\$23,538,854
2038	0	194	0	\$23,538,854	(\$3,661,376)	\$0	\$1,590,198	\$0	\$21,467,676
2039	0	181	0	\$21,467,676	(\$3,456,167)	\$0	\$1,440,921	\$0	\$19,452,430
2040	0	168	0	\$19,452,430	(\$3,241,048)	\$0	\$1,296,911	\$0	\$17,508,293
2041	0	156	0	\$17,508,293	(\$3,018,283)	\$0	\$1,159,201	\$0	\$15,649,210
2042	0	143	0	\$15,649,210	(\$2,790,402)	\$0	\$1,028,705	\$0	\$13,887,513
2043	0	131	0	\$13,887,513	(\$2,560,157)	\$0	\$906,189	\$0	\$12,233,545
2044	0	119	0	\$12,233,545	(\$2,330,428)	\$0	\$792,249	\$0	\$10,695,367
2045	0	108	0	\$10,695,367	(\$2,104,102)	\$0	\$687,301	\$0	\$9,278,565
2046	0	97	0	\$9,278,565	(\$1,883,953)	\$0	\$591,569	\$0	\$7,986,181
2047	0	86	0	\$7,986,181	(\$1,672,517)	\$0	\$505,093	\$0	\$6,818,757
2048	0	77	0	\$6,818,757	(\$1,471,986)	\$0	\$427,742	\$0	\$5,774,513
2049	0	67	0	\$5,774,513	(\$1,284,151)	\$0	\$359,229	\$0	\$4,849,590
2050	0	59	0	\$4,849,590	(\$1,110,380)	\$0	\$299,137	\$0	\$4,038,347
2051	0	51	0	\$4,038,347	(\$951,585)	\$0	\$248,941	\$0	\$3,333,703
2052	0	44	0	\$3,333,703	(\$808,220)	\$0	\$202,039	\$0	\$2,727,522
2053	0	38	0	\$2,727,522	(\$680,275)	\$0	\$163,780	\$0	\$2,211,027
2054	0	32	0	\$2,211,027	(\$567,363)	\$0	\$131,493	\$0	\$1,775,157
2055	0	27	0	\$1,775,157	(\$468,799)	\$0	\$104,509	\$0	\$1,410,867
2056	0	22	0	\$1,410,867	(\$383,664)	\$0	\$82,176	\$0	\$1,109,378
2057	0	18	0	\$1,109,378	(\$310,668)	\$0	\$63,881	\$0	\$862,391
2058	0	15	0	\$862,391	(\$249,269)	\$0	\$49,050	\$0	\$662,172
2059	0	12	0	\$662,172	(\$197,698)	\$0	\$37,158	\$0	\$501,632
2060	0	10	0	\$501,632	(\$154,974)	\$0	\$27,733	\$0	\$374,391
2061	0	8	0	\$374,391	(\$119,995)	\$0	\$20,352	\$0	\$274,747
2062	0	6	0	\$274,747	(\$91,688)	\$0	\$14,645	\$0	\$197,704
2063	0	4	0	\$197,704	(\$69,052)	\$0	\$10,292	\$0	\$138,944
2064	0	3	0	\$138,944	(\$51,188)	\$0	\$7,020	\$0	\$94,776
2065	0	2	0	\$94,776	(\$37,311)	\$0	\$4,597	\$0	\$62,062
2066	0	2	0	\$62,062	(\$26,727)	\$0	\$2,827	\$0	\$38,162
2067	0	1	0	\$38,162	(\$18,773)	\$0	\$1,551	\$0	\$20,939
2068	0	1	0	\$20,939	(\$12,907)	\$0	\$643	\$0	\$8,675
2069	0	1	0	\$8,675	(\$8,675)	\$0	\$0	\$0	\$0

Present Value of Benefits
 Total Nominal Benefits

\$51,213,178
 \$169,339,035

* The projection year is the period from January 1 through December 31.

ACTUARIAL ASSUMPTIONS VS. REALITY

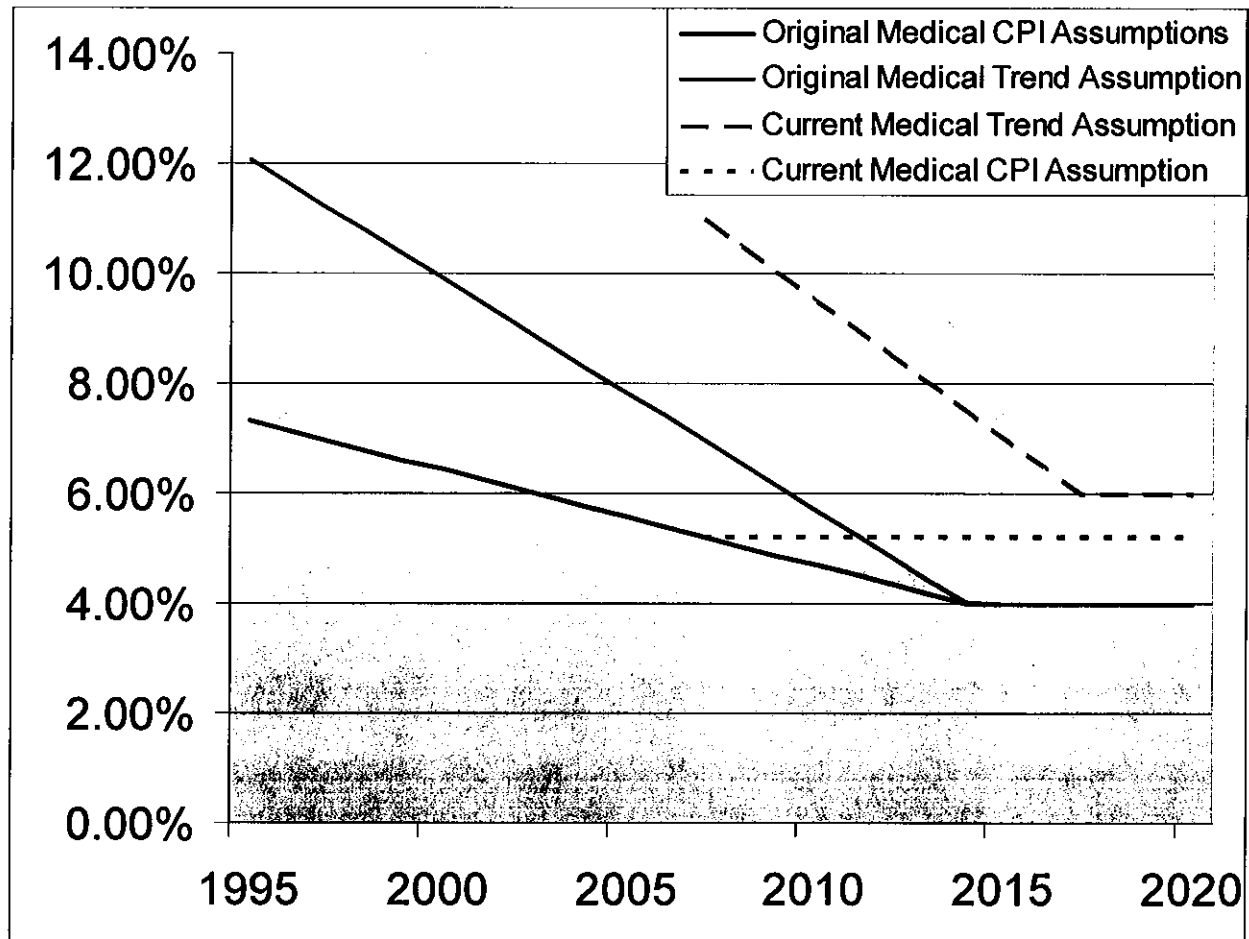
Original Actuarial Assumptions from AM 1298-94 Exhibit B by William M. Mercer, Inc.

Cost of Living (Medical)	7.5% per annum for 1994 grading down over the next 20 years to an ultimate rate of 4%
Medical Trend Increase	Increase in medical costs are assumed to increase:
Pre-Medicare	12.5% for 1994 grading down over the next 20 years to 4%
Post-Medicare	11.5% for 1994 grading down over the next 20 years to 4%

Current Actuarial Assumptions from Actuarial Valuation 2007 by APEX Management

Cost of Living (Medical)	5.2% per annum
Medical Trend Increase	Increase in medical costs are assumed to increase:
Pre-Medicare	11.0% for 2007 grading down .5% each years to 6.0%

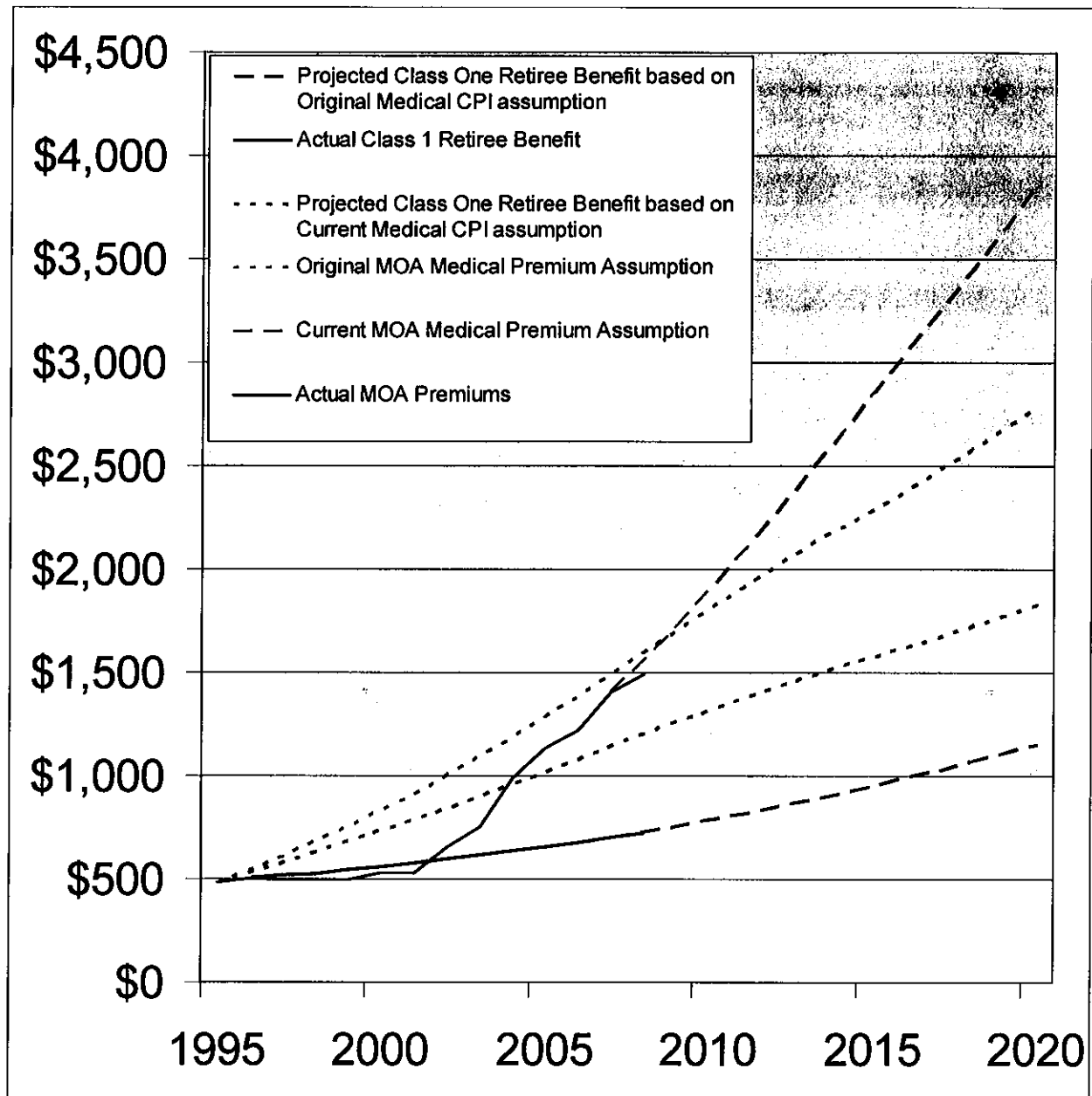
Note: In the 12 years since the inception of the PFRM Trust Medical Trend Assumption has only decreased 1% verses the projected 5% decrease. Medical Trend and Medical CPI were projected to equalize. Now they are not projected to equalize.



Health Care Cost Trend Rate - An assumption about the annual rate of change in the cost of health care benefits currently provided by the postretirement benefit plan, due to factors other than changes in the composition of the plan population by age and dependency status, for each year from the measurement date until the end of the period in which benefits are expected to be paid. Considers estimated health care inflation, changes in utilization and delivery patterns, advances in technology and changes in health status of plan participants. Different health care services may have different trend rates.

ACTUARIAL ASSUMPTIONS VS. REALITY

Note: The compounding effect of unreliable assumptions has greatly underestimated the price for the retiree to purchase Municipal health insurance and the reality of their diminished benefit.



**POLICE AND FIRE MEDICAL TRUST BOARD
RESOLUTION NO. 2008-1**

A RESOLUTION OF THE POLICE AND FIRE MEDICAL TRUST BOARD URGING THE ANCHORAGE ASSEMBLY TO APPROVE A REMEDIAL ADJUSTMENT TO THE EMPLOYER CONTRIBUTION TO THE POLICE AND FIRE RETIREES MEDICAL BENEFITS.

WHEREAS, in 1994 the Anchorage Assembly adopted AO 94-222(S-1) establishing chapter 3.87 of the Anchorage Municipal Code (AMC) providing a retiree medical funding program for police officers and firefighters; and

WHEREAS, AO 94-222(S-1) was accompanied by Assembly Memorandum 1298-94, which sought to explain the police and fire retiree medical funding program adopted by the assembly. AM 1298-94 and AO 94-222(S-1) notes that there are four classes of retirees who are subject to differing factors as follows:

Class	Retirement Age	OR	Service at Retirement	Annual Adjustment
Class 1	60 or older		25 years	75 percent of medical CPI
Class 2	55--59			50 percent of medical CPI
Class 3	50--54		20--24 years	50 percent of medical CPI, with a maximum of 6 percent
Class 4	Less than 50		0--19 years	25 percent of medical CPI, with a maximum of 3 percent

WHEREAS, AMC 3.87.050(H) establishes a special rule for retirees who are totally or permanently disabled in the line duty; and

WHEREAS, the agreement between the municipality and the police and fire retirees greatly reduced the municipal, unfunded liability for retiree medical benefits in 1995 of \$103.8 million which in today's dollars equals \$144.2 million, consequently protecting the municipality's bond rating; and

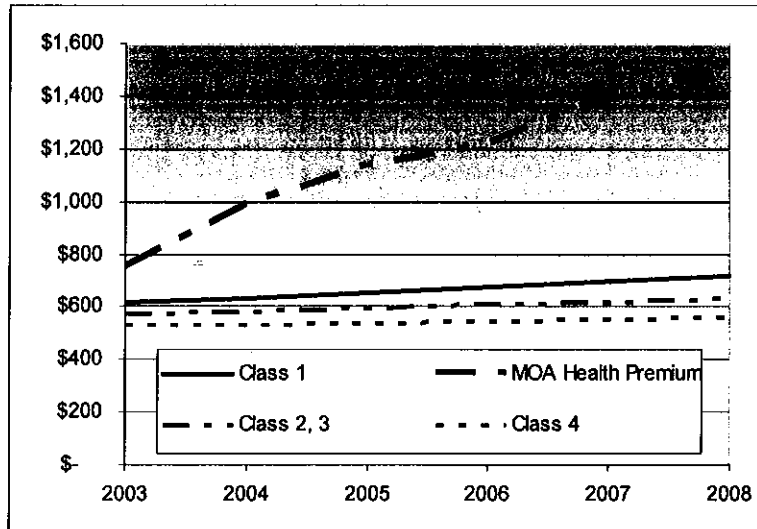
WHEREAS, the agreement modified the retiree medical system from a defined benefit plan (where the benefits of the plan are predetermined) to a defined contribution plan (where the employers contribution rate is predetermined) in 1995 with the establishment of the Police and Fire Retiree Medical Trust; and

WHEREAS, once a non Public Employee Retirement System ("PERS") sworn employee retirees the municipality will pay a predetermined amount to the trust for the employees benefit; and

WHEREAS, the employee will be able to select options to use the money for reimbursement of medical expenses; and

WHEREAS, the system established by the agreement between the municipality and the police and firefighters worked as projected until the era of escalating medical costs diminished the police and fire retirees ability to purchase insurance, since the contribution by the municipality for each of the police and fire retiree classes is substantially less than the cost of the Municipality of Anchorage ("MOA") medical insurance premium as exhibited by the following table and graph:

CLASS	2004	2005	2006	2007	2008
Class 1	\$634	\$655	\$675	\$696	\$721
Class 2, 3	\$582	\$596	\$607	\$620	\$635
Class 4	\$534	\$540	\$546	\$551	\$558
MOA Health Premium	\$991	\$1,140	\$1,222	\$1,407	\$1,496



WHEREAS, an internal audit report dated August 2002 states that the monthly insurance premium exceeded the cost for all four Police and Fire Retiree classes; and

WHEREAS, this report contained a recommendation from the Director of Internal Audit that action be taken to increase the contribution rate to cover the insurance premium; and

WHEREAS, to date no increase for the municipal contribution to the retirees insurance premium has been approved beyond the unreliable national medical Consumer Price Index formula contained in AMC 3.87.060(a)(4); and

1 WHEREAS, pensions are designed for protection against economic insecurity for
2 public employees and their families; and
3

4 WHEREAS, a primary objective of pension and medical benefits is to induce
5 competent persons to remain in public employment; and
6

7 WHEREAS, the police and firefighters who have retired under the system established
8 by AMC 3.87 have provided dedicated, loyal and heroic service to the municipality and its
9 citizens and are subject to economic insecurity due to the increase in medical premiums for
10 medical insurance; and
11

12 WHEREAS, it is the opinion of the Board that the municipality has an obligation to
13 increase the insurance contribution for the police and fire retirees so they're protected from
14 economic insecurity; and
15

16 WHEREAS, an increase in the municipal contribution to the insurance premium would
17 not result in an increase of the line item budget appropriation to the Police and Fire Retirees
18 Medical Trust since sufficient funds exist in AMC 3.88 to cover any increased amount the
19 assembly approves except for an appropriation of \$1,938,573 dollars to remedy the
20 diminution of benefits suffered by the retirees over the years due to the unreliable formula
21 contained in AMC 3.87.060(4) that does not reflect a realistic cost or approach to determining
22 the true cost of medical insurance premiums to retirees in the 21st century; and
23

24 NOW THEREFORE BE IT RESOLVED, The Police and Fire Retiree's Medical Board
25 hereby request the assembly to approve an increase in the municipality's contribution to the
26 medical benefit for each of the classes of police and firefighter retirees as follows:
27

Class 1	\$1,151
Class 2	\$877
Class 3	\$732
Class 4	\$600

28
29 BE IT FURTHER RESOLVED that the Police and Fire Retiree's Medical Board
30 expresses its sincere appreciation to those dedicated police and fire retirees who have
31 selflessly served the municipality and its residents.
32

33 PASSED AND APPROVED by the Police and Fire Retiree's Medical Board this
34 ____ day of ____, 2008.
35

1
2
3
4
5
6

ATTEST:

Municipality of Anchorage
MUNICIPAL CLERK'S OFFICE
Agenda Document Control Sheet

AO 2008-59

(SEE REVERSE SIDE FOR FURTHER INFORMATION)

1	SUBJECT OF AGENDA DOCUMENT		DATE PREPARED	
	AMEND AMC 3.88.020 TO ENLARGE THE TIME FOR THE MUNICIPALITY TO MAKE ANNUAL DEPOSITS TO THE POLICE AND FIRE RETIREES MEDICAL TRUST ...		4/11/08	
			Indicate Documents Attached ☒ AO ☐ AR ☒ AM ☐ AIM	
2	DEPARTMENT NAME		DIRECTOR'S NAME	
	Assembly		Dan Coffey, Assembly Chair	
3	THE PERSON THE DOCUMENT WAS ACTUALLY PREPARED BY		HIS/HER PHONE NUMBER	
4	COORDINATED WITH AND REVIEWED BY	INITIALS	DATE	
	Mayor		2008 APR 11 PM 3:10 MUNICIPAL CLERK'S OFFICE	
	Municipal Clerk			
	Municipal Attorney			
	Employee Relations			
	Municipal Manager			
	Anchorage Parks & Recreation			
	Fire			
	Health & Human Services			
	Merrill Field Airport			
	Municipal Light & Power			
	Office of Management and Budget			
	Police			
	Port of Anchorage			
	Office of Economic & Community Development			
	Solid Waste Services			
	Public Transportation			
	Anchorage Water & Wastewater Utility			
	Executive Manager			
	Planning Department			
	Chief Fiscal Officer			
	Heritage Land Bank			
	Information Technology Department			
	Project Management & Engineering			
	Purchasing			
	Other			
5	Special Instructions/Comments			
	ADDENDUM - CONSENT AGENDA-INTRODUCTION			
6	ASSEMBLY HEARING DATE REQUESTED		PUBLIC HEARING DATE REQUESTED	
	4/15/08		7/29/08	