

RETIREMENT BENEFITS UPDATE

THE WHO, WHAT, WHEN, WHERE, WHY, AND HOW OF RECENT
CHANGES TO PENSION AND RETIREE HEALTH CARE, AND WHAT IT
MEANS FOR YOU!

INTRODUCTIONS – YOUR PRESENTERS TODAY

Eric Gould – Chairman, Pension Board of Trustees

Tom Skrobola – Finance Director/Pension Administrator

Susan Hardy – Senior Pension Accountant

TRANSITION TO DEFINED BENEFIT PROGRAM

TIER 2 EMPLOYEES

The City is transitioning from a Defined Contribution (DC/401(a)) retirement program to a Defined Benefit (DB/Pension) retirement program, for “Tier 2” employees hired on or after the following dates:

- 47TH DISTRICT COURT: SEPTEMBER 1, 2015 – *AWAITING APPROVAL*
- AFSCME: JULY 1, 2006
- TEAMSTERS: JANUARY 1, 2008
- DISPATCH: JANUARY 1, 2007
- GENERAL EXEMPT: JULY 1, 2006
- GENERAL EXEMPT (EXECUTIVE): JULY 1, 2006

TRANSITION TIMELINE

PSC count towards vesting and retirement eligibility with or without a PPSC. If you elect to purchase all, or a portion of, your PSC, the amount purchased would be included in the calculation of your pension benefit and enhance it.

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Employees should
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Employee will use
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By June
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The City will make
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from 401(a), 457,
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June 30th, 2023

TRANSITION TO DEFINED BENEFIT PROGRAM OVERVIEW

- Contributions to employee DC/401(a) accounts are discontinued.
- Employees contribute 4.5% of salary to the Defined Benefit Pension System; the City will continue to make the actuarially required contribution (ARC).
- Existing DC/401(a) accounts will continue under the current arrangement: (i) Defined Contribution Committee and its consultant (MBC) will continue to manage investment lineup, education, etc.; and (ii) employee investment selection.
- Employee contributions to the Defined Benefit Pension System commenced upon City Council approval (soon: AFSCME and 47th Court)
- New employees will be automatically enrolled in the Defined Benefit Pension System.

**COMPARISON
BETWEEN DEFINED
CONTRIBUTION AND
DEFINED BENEFIT
PENSIONS**

	DEFINED CONTRIBUTION	DEFINED BENEFIT
AMOUNT OF PENSION BENEFIT	Unknown	Known
INVESTMENT RISK	The risk of investment loss is on the employee.	The risk of investment loss is on the City.
COST OF PENSION BENEFIT	Paid directly by employees.	Paid by System: 27 to 49% lower due to pooling, mgt, longevity.
LONGEVITY RISK	Employee can "out-live" assets.	Lifetime Benefits, cannot outlive available assets
PORTABILITY	More portable; but more "leakage" due to cash out provisions.	Less portable; reciprocity does help.

DEFINED CONTRIBUTION (DC) PROGRAM (401(a))

- The DC/401(a) program receives employer and employee contributions (5% from employee/10% from the City) to individual participant accounts (new contributions have ended).
- Existing employee accounts remain with the DC/401(a) program (also known as a “plan”), and the Defined Contribution Committee will continue to select investment options w/professional oversight.
- The employee directs the investment of their account in Committee-selected investment options.
- Investment returns are subject to market volatility, and the risk of gain or loss is borne by the employee.

DEFINED CONTRIBUTION (DC) PROGRAM (401(a))

- With the DC program, there is no set or level benefit upon retirement.
- **The DC program participant decides the amount of periodic payout** throughout their retirement, based on balancing their needs and available 401(a) assets.
- The retiree is subject to “longevity risk” – **may outlive account assets.**

DEFINED BENEFIT (DB) PROGRAM

- The DB program involves employer and employee contributions which are invested through professional management in a **collective Pension Trust Fund**.
- The DB program **guarantees a set, level benefit during retirement for the retiree's life** or the retiree and spouse.
- The monthly DB Pension benefit amount will depend on the **benefit option chosen** by the employee at the time of retirement.

THE DB PENSION BENEFIT AMOUNT

- The Pension Benefit = FAC x Service Credit** x Multiplier
 - Final Average Compensation (FAC) – Salary + Longevity + Holiday Premium Pay (Dispatchers only) of the highest 3 consecutive years out of the last 10 years.
 - Service Credit** – includes any calendar month with at least 10 days of paid full-time service.
 - Multiplier – a stated percentage that is based on your benefit group

** - See upcoming slides for further explanation.

- Benefit cannot exceed 70% - 80% of FAC (based on benefit group)

TRANSITION TO DEFINED BENEFIT PROGRAM

TIER 2 EMPLOYEES – SERVICE CREDIT

- Tier 2 employees were brought back into the Defined Benefit program by City Council authorization over the last few months (see dates on next slide).
- Tier 2 employees are being granted Prior Service Credit (PSC) for all full-time work with the City (**with limitations**, see next slide).
- Tier 2 employees accrue Service Credit with the City's Defined Benefit program going forward (see table on next slide).

TRANSITION TO DEFINED BENEFIT TIER 2 EMPLOYEES – SERVICE CREDIT

GROUP	CLOSED	REOPENED
DISPATCH	1/1/2007	8/15/2022
TEAMSTERS	1/1/2008	10/10/2022
GENERAL EXEMPT	7/1/2006	10/10/2022
GENERAL EXEMPT (EXECUTIVE)	7/1/2006	10/10/2022
AFSCME	7/1/2006	1/9/2023
47TH DISTRICT COURT	9/1/2015	1/23/2023

- Tier 2 full-time with the City **from the REOPENED date forward** is Service Credit for (a) vesting, (b) eligibility for a Pension Benefit, **AND** (c) calculating a Pension Benefit.
- Tier 2 full-time with the City **between** the above dates is Prior Service Credit (PSC) for (a) vesting and (b) eligibility for a Pension Benefit, but **NOT for (c) calculating a Pension Benefit.**
- Tier 2 **may** purchase PSC to make it count towards the amount of the Benefit!

TRANSITION TO DEFINED BENEFIT PROGRAM

ALL EMPLOYEES - SERVICE CREDIT

HOW SERVICE CREDIT IS APPLIED	Vesting for	Eligibility for	Calculation of
	Deferred Retirement	Regular Retirement	Deferred or Regular Retirement
1. Regular Service Credit for full-time work with City	YES	YES	YES
2. Prior Service Credit (PSC) for prior full-time work with City#	YES	YES	NO
3. Purchase of Prior Service Credit (PPSC) for prior full-time work with City#	YES	YES	YES
4. Reciprocal Service Credit from other Michigan Governments DB Plans**	YES	YES	NO

Tier 2: for full-time service rendered from the date of CLOSE to the date REOPENED

** for those who have 30 months or more of qualified service with another Michigan government retirement plan (DB or DC)

PURCHASE OF PRIOR SERVICE CREDITS (PPSC)

- Tier 2 employees may elect a PPSC in the Defined Benefit program, increasing the employee's monthly pension benefit upon retirement.
- Tier 2 employees will have the choice of the number of years of PSC to purchase, up to the amount of the employee's full-time work with the City that occurred between the CLOSED and REOPENED dates on Slide 11.

PPSC TIMELINE

PSC count towards vesting and retirement eligibility with or without a PPSC. If you elect to purchase all, or a portion of, your PSC, the amount purchased would be included in the calculation of your pension benefit and enhance it.

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PPSC COSTINGS

- **Employees are entitled to up to three (3) costings from Actuary.** The City pays for the first 2 costings. The employee pays the City for the third costing (\$200) if requested.
 - **The first free costing** = the cost for all years of PSC with the City.
 - **The second free costing** = the cost for the amount of PSC with the City selected by the employee (example: 50% of PSC).
 - **The third costing** = the cost for the amount of PSC with the City selected by the employee (example: 1 or 2 years of PSC).
- **Recommendation:** request at least the two costings that are paid for by the City – **there's no obligation; you don't have to commit to a PPSC until May 1st!**

PPSC

MUST DECIDE BY MAY 1ST

- The decision to purchase Prior Service Credit is an important decision that is only available now for a limited time-period (through May 1st). It will not be available in the future.
- The City will provide meetings between employees and the City's Defined Contribution financial advisors, MBC Consultants, starting soon, through April, 2023, to assist in understanding the PPSC option. Susan Hardy will also be available for individual consultations. These sessions will be informational only and should not be construed as providing advice.

PPSC

WHO CAN YOU TALK TO FOR ADVICE?

- The City ****strongly recommends**** that employees contact their own Financial Advisors **NOW to schedule meetings to review PPSC costing materials** that will be provided to employees by April 3rd who requested the studies.
- The City also recommends that **you contact your funding source (Nationwide 457, ICMA 401(a), etc.) no later than April** to (a) verify that funds are available for the PPSC scenario(s) that you are considering, and (b) to fill out transfer paperwork for Nationwide/ICMA that may be necessary.

PPSC

PERSONAL FUNDS DEPOSIT REQUEST FORM

DUE MAY 1

- **How many years of PPSC?** The Employees selection of PPSC amount must come from one of the employee's requested costing scenarios.
- **How to Fund a PPSC?** Funds for the PPSC can come from any source, including tax-free transfers from employee 401(a) and 457 accounts, rollovers from other plans, or after-tax payments.
- **Personal Funds Deposit Request Form (PPSC amount + funding instructions):** the City must receive this form by May 1st. Once this is made, it is irrevocable.
- **The amount used by the employee for the PPSC will NOT be included in the Annuity Withdrawal Benefit Option lump sum payout.**

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Employee will use City forms to identify funding source (401(a), 457, etc) + transfer instructions.

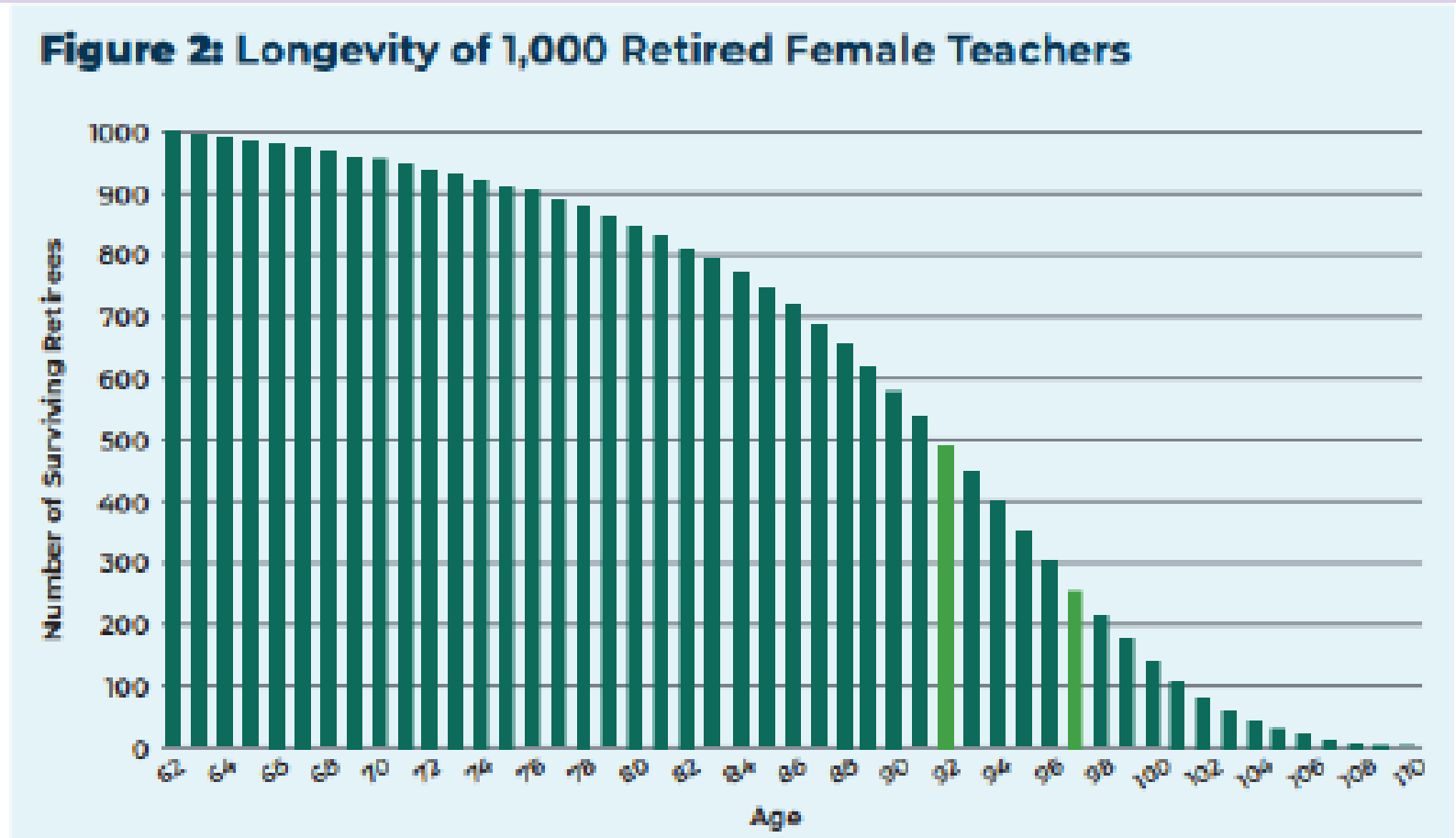
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LIFE EXPECTANCY UPON RETIREMENT IMPORTANT TO CONSIDER FOR RETIREMENT DECISION-MAKING



PENSION ORDINANCE - IMPORTANT TO CONSIDER FOR RETIREMENT DECISION-MAKING

Sec. 2-410. - Survivor pension—Conditions for automatic pension to spouse.

A pension shall be paid for life to the surviving spouse of a deceased member if each of the following conditions are met:

- (a) The member has attained age fifty-seven (57) years and has eight (8) or more years of credited service, or
The member has ten (10) or more years of credited service regardless of age;
- (b) The member was married to the surviving spouse at time of death;
- (c) The member died while actively employed by the city;
- (d) No eligible domestic relations orders are in effect which would be inconsistent with the award of this benefit to the surviving spouse.

READ THE PENSION ORDINANCE ONLINE REFERENCE MATERIAL FOR RETIREMENT DECISION-MAKING

https://library.municode.com/MI/Farmington_Hills/
Article V, Division 3

RECIPROCITY (INTRODUCED ON SLIDE 12)

- **How to qualify?** Employees who are a former member of a retirement system(s) (vested or unvested) of another governmental unit(s) (DB or DC; state, local, schools, etc.) located in the State of Michigan may be able to use “reciprocal” Service Credit with these other unit(s) of government to help them vest/qualify for a retirement benefit with the City of Farmington Hills.
- **How to apply?** Employees who wish to apply for “reciprocity” must provide the City of Farmington Hills with proof of their Service Credit with the other unit(s) of government in Michigan.
- **Proof of Service Credit** can be obtained from the other governmental unit(s) in the form of a letter indicating that the employee is a former member of the other governmental unit(s) defined benefit pension system, and the employee’s years of Service Credit with the unit(s). This will be independently verified.
- **Does not increase Pension Benefit!** Please note that reciprocal Service Credits will **NOT** be used to calculate a pension benefit amount, only to determine (a) vesting and/or (b) retirement eligibility (i.e., pension and retiree health care stipend) from the City of Farmington Hills.

RECIPROCIITY

○ Hypothetical example (John Doe):

- John Doe worked **20 years** for the City of Kalamazoo and was a member of Kalamazoo's Defined Benefit Pension program.
- **John left his contributions in Kalamazoo's Pension Fund** when he left employment at age 50; he elected a Deferred Pension Benefit, which he will start to collect from the City of Kalamazoo when he reaches age 62.
- John became an employee for the City of Farmington Hills at age 50. He **provided the City of Farmington Hills with a letter from the City of Kalamazoo indicating that he was a member of the City of Kalamazoo Defined Benefit Pension program during his employment and has 20 years of Service Credit with them.**
- **The Farmington Hills Retirement System recognizes his 20 years of Service Credit with the City of Kalamazoo for the purposes of vesting and retirement eligibility with the Farmington Hills Retirement System.** In this instance, John already meets the 8 year vesting requirement in Farmington Hills and qualifies for a Deferred Vested Retirement.

RECIPROCALITY

- Hypothetical example (John Doe, continued):
 - After 5 years with Farmington Hills, **John becomes eligible for a Rule of 80 Pension Benefit** (a) 20 years w/Kalamazoo + 5 years w/Farmington Hills = 25 years of service; and (b) attainment of age 55 [(a) + (b) = 80]. John is eligible to retire, and would receive a **benefit based only on his 5 years of Service Credit from his work with Farmington Hills; but he would not be eligible for a Retiree Health Care Stipend at that point.**
 - If John instead decides to stay on with Farmington Hills until age 60, he will then receive a Pension benefit based upon 10 years of full-time Service Credit and **also qualify for a Retiree Health Care Stipend**, which requires 60 years of age and 15 years of Service Credit. **How is that?**
 - Although John only has 10 years of full-time Service Credit with Farmington Hills, **he does have 20 years of reciprocal Service Credit with Kalamazoo**; which when added to the 10 years with Farmington Hills, exceeds the 15 year service requirement to qualify for the Retiree Health Care Stipend benefit.

RETIREE HEALTH CARE STIPEND TIER 2 EMPLOYEES

- Tier 2 employees (as indicated on Slide 3), will become eligible for a Retiree Health Care Stipend, equal to \$200/month for singles and \$400/month for doubles/families for those who have attained 60 years of age and 15 years of Service Credit.
- The Stipend will be provided from the date of retirement until death.
- Retiree Health Savings Plan contributions are reduced by 20%; the City will invest savings from these reductions in the City's Retiree Health Care Fund to fund the new Stipend.

YOUR NEXT STEPS

- **By January 27th**: meet with Susan Hardy (see next slide for dates/times) and sign two free **Costing Request Forms** – one will be for the maximum, and for the other we suggest either 50% of PSC or perhaps a lower amount (1 or 2 years).
 - Consider a third Costing Request Form (\$200) if you feel that it would be best to cost another scenario.
- **Sooner rather than later**: Schedule a Meeting with MBC, Susan Hardy, and/or your own Financial Advisor right away – it would be best to have a meeting:
 - with MBC and/or Susan between **now and the end of March**, and
 - with your Financial Advisor in **April**, when you have the Costing results in your hands and it's time to make a decision by May 1st.
- **By May 1st**: decide whether to Purchase Prior Service Credits (PPSC).
 - If you choose “yes”, you will fill out a **Personal Funds Deposit Form** that will provide the City with the information needed to move your funds into the Pension System.
- **By June 30th**: the City will move your funds into the Pension System.

YOUR NEXT STEPS

ENROLLMENT AND COSTING REQUEST FORMS

Between now and January 27th, in addition to these Educational Sessions, Susan Hardy will hold open meeting times, no appointment necessary, to help Tier 2 employees fill out the following forms:

- Enrollment
- Request for Cost of Calculation of Prior Service Credit)

Dates/Times:

- **Thursday, January 19th** (10am – 1pm AND 2pm to 4pm)
- **Friday, January 20th** (10am – 1pm AND 2pm to 4pm)
- **Thursday, January 26th** (10am – 1pm AND 2pm to 4pm)
- **Friday, January 27th** (10am – 1pm AND 2pm to 4pm)

Location:

- South Conference room of City Hall, in the Treasury Department.

COMMENTS OR QUESTIONS?

- Eric Gould, Susan Hardy, and I will hold 4 of these sessions between now and January 25th
 - Wednesday, January 18th (City Council Chambers, 2pm)
 - Monday, January 23rd (The Hawk, 1pm)
 - Tuesday, January 24th (City Council Chambers, 2pm)
 - Wednesday, January 25th (The Hawk, 1pm)

