MAYOR & COUNCIL AGENDA COVER SHEET

MEETING DATE:

August 4, 2003

CALL TO PODIUM:

Fred Felton
Assistant City Manager

RESPONSIBLE STAFF:

Margaret Kee
Human Resources Director
Fred Felton
Assistant City Manager

AGENDA ITEM:
(please check one)

	Presentation
	Proclamation/Certificate
	Appointment
X	Public Hearing
	Historic District
	Consent Item
X	Ordinance
	Resolution
	Policy Discussion
	Work Session Discussion Item
	Other:

PUBLIC HEARING HISTORY:

(Please complete this section if agenda item is a public hearing)

Introduced	07-07-03
Advertised	07-23-03
Hearing Date	08-04-03
Record Held Open	
Policy Discussion	

TITLE:

An Ordinance to Amend Chapter 17 of the City Code entitled "Personnel," Section 17-4 entitled "Medical, Hospitalization, Dental and Other Insurance Benefits" so as to Create an Early Retirement Plan Providing for such Benefits

SUPPORTING BACKGROUND:

Like most local governments in the region, the City of Gaithersburg's retirement system is based on a defined contribution program. The City and the employee contributes to a 401 K account. Additionally, the City contributes to a 401 A account each pay period. These funds become available to the employee in accordance with IRS regulations after the employee retires.

Additionally, the City provides health insurance to retired employees on the same basis as active employees. Under current law, an employee may retire at age fifty (50) with at least fifteen (15) years of service provided that the total age in years plus years of service shall equal at least seventy-five (75).

The proposed ordinance would provide an early retirement option for employees that would permit them to retire at age forty-six (46) if they have at least twenty (20) years of service. Under this proposal, employees who elect to take the early retirement option would be required to contribute five percent more in employee shared cost of premiums than paid by employees in the general retirement plan.

While we do not know how many employees would ultimately take advantage of this, early retirements would provide a cost savings to the City of Gaithersburg as outlined in the attached memorandum dated May 8, 2003 from Human Resources Director Kee and in the letter from Milliman & Robertson, Inc.

DESIRED OUTCOME:

Hear presentation. Staff recommends that the Mayor and City Council vote to hold the record open for ten (10) days.

ORDINANCE NO. _____

AN ORDINANCE TO AMEND CHAPTER 17
OF THE CITY CODE ENTITLED "PERSONNEL," SECTION 17-4 ENTITLED "MEDICAL, HOSPITALIZATION, DENTAL AND OTHER INSURANCE BENEFITS" SO AS TO CREATE AN EARLY RETIREMENT PLAN PROVIDING FOR SUCH BENEFITS

BE IT ORDAINED, by the Mayor & City Council of the City of Gaithersburg, in public meeting assembled, that Chapter 17 of the City Code, Section 17-4 is hereby amended to read as follows:

CHAPTER 17
PERSONNEL

Sec. 17-4. Medical, hospitalization, dental and other insurance benefits.

* * * * *

(f) For purposes of this section, an employee may retire <u>under the General Retirement Plan</u> at age fifty (50) years with at least fifteen (15) years of service provided that the total of age (in years) plus years of service shall equal at least seventy-five (75). An employee may, at his option, use his accumulated sick leave as additional service to meet eligibility requirements. Any sick leave so used would not then be subject to a payment therefore as specified in section 17-727.

(f) <u>For the purposes of this section, an employee may retire under the Early Retirement Plan at age forty six (46) years with at least twenty (20) years of service. When an employee retires under the Early Retirement Plan the employee who elects to continue health care coverage through the City shall contribute five (5) percent more in employee share cost of premiums than paid by employees in the General Retirement Plan. All other benefits afforded to employees retiring under the General Retirement Plan shall be afforded to employees retiring under the Early Retirement Plan. An employee under the Early Retirement Plan may at employee's option use accumulated sick leave as additional service to meet eligibility requirements. Any sick leave so used would not then be subject to a payment therefore as specified in section 17-127 of this Chapter.</u>

* * * * *

ADOPTED, this _____ day of _____, 2003 by the City Council of Gaithersburg, Maryland.

_____
SIDNEY A. KATZ, Mayor and
President of the City Council

DELIVERED to the Mayor of the City of Gaithersburg, Maryland, this _____ day of _____, 2003. APPROVED/VETOED by the Mayor of the City of Gaithersburg, this _____ day of _____, 2003.

_____
Sidney A. Katz, Mayor

THIS IS TO CERTIFY that the foregoing ordinance as adopted by the City Council of Gaithersburg, in public meeting assembled, on the _____ day of _____, 2003 and that the same was approved/vetoed by the Mayor of the City of Gaithersburg on the _____ day of _____, 2003. This Ordinance will become effective on the _____ day of _____, 2003.

_____
David B. Humpton, City Manager

Boldface	*Heading or defined term.*
Underling	*Added to existing law by original bill.*
[Single boldface brackets]	*Deleted from existing law by original bill.*
Double underlining	*Added by Amendment.*
[[Double boldface brackets]]	*Deleted from existing law or the bill by amendment.*
* * *	*Existing law unaffected by bill.*

GAZETTE NEWSPAPERS

9030 Comprint Court, Gaithersburg, MD 20877. 301-670-2544

This is to certify that the annexed advertisement of:

The Notice of Public Hearing – Early Retirement Plan
was published in The Gaithersburg Gazette Newspaper, a weekly newspaper published in Montgomery County, Maryland. The ad appeared once a week for (1) week(s) before the 24th day of July, 2003.

Gaithersburg Publishing Company

Karey A. Major

Copy of ad attached

KAREY A. MAJOR NOTARY PUBLIC PRINCE GEORGE'S CO., MD

KAREY A. MAJOR
Notary Public, State of Maryland
Prince George's County
My Commission Expires March 31, 2007

NOTICE OF PUBLIC HEARING

The Mayor and City Council of the City of Gaithersburg will hold a public hearing on:

MONDAY
August 4, 2003
7:30 P.M.

or as soon thereafter as it can be heard in the Council Chambers at City Hall, 31 South Summit Avenue, Gaithersburg, Maryland on:

AN ORDINANCE TO AMEND CHAPTER 17 OF THE CITY CODE ENTITLED "PERSONNEL," SECTION 17-4 ENTITLED "MEDICAL, HOSPITALIZATION, DENTAL AND OTHER INSURANCE BENEFITS" SO AS TO CREATE AN EARLY RETIREMENT PLAN PROVIDING FOR SUCH BENEFITS.

Further information may be obtained from the City Manager's Office at City Hall, 31 South Summit Avenue between the hours of 8 a.m. and 5 p.m., Monday through Friday.

David B. Humpton
City Manager

1t 7/23/03

MEMORANDUM TO: David B. Humpton, City Manager

FROM: Margaret Kee, Human Resources Director MSK

DATE: May 8, 2003

SUBJECT: Proposed Retirement Policy Change

In March 2001 the City of Gaithersburg requested that the firm of Millman and Robertson, Inc., Actuaries and Consultants do an analysis regarding the potential cost savings to the City of Gaithersburg if an early retirement option was made available to employees who met the criteria and who might be interested in taking an early out. The analysis was very conservative (i.e., estimating a new hire's salary to be at 85 percent of the retiree's salary when that would rarely be the case), yet it still indicated the City could potentially realize substantial savings if an early retirement option were to be implemented. Given current and forecasted economic trends, I believe it would be beneficial for the City to seriously consider offering an early retirement option at this time.

As I am sure you are aware, other municipalities including Montgomery County and Rockville often offer various early retirement incentives to control rising personnel related costs. After many years of service, an employee's salary and benefits rise significantly, and as salaries continue to rise, so do personnel costs directly related to the employee's salary, such as 401a and 401k employer contributions; employer paid life insurance; long term disability; and employer paid social security. If an employee retires early, the replacement employee is almost always hired at or near the bottom of the pay scale, which equates to a lower salary and therefore lower employer-paid personnel costs.

When an employee retires from the City under the current retirement criteria, he/she receives payment for 25 percent of their accumulated sick leave as well as their health, dental, and long-term care insurance paid at the same rate as an active employee. The City's primary expense when someone retires is the health care cost; and I believe that if someone chooses to retire early, it would be appropriate for them to pay a little more for their health care. This would help to offset any rise in costs that might be incurred by the City due to their early retirement (i.e., paying health care costs of the replacement employee). Therefore, I would propose that an employee retiring early pay an additional 5 percent above the premium rate paid by an employee retiring under the General Retirement Plan.

While providing an early retirement option greatly benefits the City, it also provides the employee with more flexibility. For example, an employee in a labor intensive job (such as a public service worker or a police officer) might find it more difficult to perform their job duties as they grow older and early retirement with a slightly increased cost for health care might seem a more preferable option than working more years just to keep their health care coverage.

Based on the information and estimates provided, I am proposing the City revise the current policy as follows:

General Retirement Plan (Per Current Personnel Ordinance):

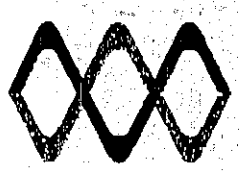
An employee must be at least 50 years of age, have at least 15 years of service with the City, and the years of service plus age must equal 75. Under this current plan an active employee pays a percentage of the cost of the lowest-cost HMO premium (current policy is 15% of premium). The retiree pays the same percentage of the health care premium as an active full-time employee.

Early Retirement Plan (Proposed):

An employee must be at least 46 years of age and have a minimum of 20 years of service with the City. When an employee retires under the Early Retirement Plan, he/she will pay an additional 5 percent of the health care premium cost of the lowest HMO offered at the time of retirement (i.e., if a person who retires under the General Retirement Plan pays 15 percent of the premium of the lowest-cost HMO for health care, a person who retires under the Early Retirement Plan will pay 20 percent of the lowest-cost HMO premium).

All other benefits afforded to a retiree at the time of retirement (i.e., payment for accumulated sick leave, dental insurance, long term care insurance) would remain the same whether an employee retires under the General Retirement Plan or the Early Retirement Plan.

Please let me know if you have any questions or need additional information.



MILLIMAN & ROBERTSON, INC.
Actuaries & Consultants
Internationally WOODROW MILLIMAN

Suite 1000, 8000 Towers Crescent Drive, Vienna, VA 22182-2700
Telephone: 703/917-0143
Fax: 703/827-9266

May 21, 2001

Confidential via Facsimile

Ms. Margaret Kee
Director of Human Resources
City of Gaithersburg
31 Summit Avenue
Gaithersburg, MD 20877-2098

Re: Estimate of the Impact on Post-retirement Medical Costs upon improving Retirement Eligibility

Dear Margaret:

We have completed our analysis regarding the cost of improving the City of Gaithersburg's post-retirement medical eligibility provisions. I appreciate your patience in what has turned out to be a hectic past month.

It is our understanding that the City of Gaithersburg wants to determine the net cost impact of improving post-retirement medical eligibility (increased cost less savings in [departing salaries less new hire salaries]). The attached exhibit shows the expected increase in medical claims by year, resulting from the city improving the current eligibility conditions to the proposed age 46 and 20 years of service. We also show the expected total salary savings due to earlier retirees and the maximum salary replacement percentage (new hire salary/departing retiree salary) in order to make the increase in post-retirement medical outlays cost neutral (see the last column).

Again, it is our understanding that the current program requires that an employee must be age 50, possess 15 years of service, and the sum of age and service must equal/exceed 75 in order to be eligible for the 85% employer subsidy of the medical premium. We did not include in our analysis the proposal to increase the employee co-pay for retirement prior to age 50. The increase in employee co-pay for earlier retirees would make the cost of the eligibility improvement even smaller and allow the city to have a higher salary replacement percentage (new hire earning ratioed over departing retiree earnings) to make the change cost neutral.

We used somewhat conservative assumptions, designed to anticipate high medical premium costs. For instance, the medical inflation was assumed to increase at 10% for the next ten years, grade uniformly from 10% to 6% in years 11-14, and be 6% thereafter. The second exhibit shows the total

present value of future medical claims, discounted at 8%, for the current 193 active employees you forwarded to M&R. Today's present value of the increase in future medical claims costs resulting from improving the eligibility conditions is roughly $831,000. The total present value of forfeited payroll by retirees was valued to be roughly $5 million. Thus, we estimate that, long-term, if new hires can be brought in at about 85% of the pay of departing retirees (1 - $830,000/$5,029,000), then the improved eligibility provisions are likely to be cost neutral to the City of Gaithersburg. Of course this assumes that your future active census remains similar to the underlying demographics of the current active census.

Lastly, we have attached the other assumptions used to perform our calculations. Please note that the assumed termination rates in Exhibit 2 are derived from the State of Maryland actual termination experience. We also employed two select and ultimate retirement scales for the City of Gaithersburg's maintenance workers versus non-maintenance workers (see Assumption 2).

Again, thanks for your patience and please do not hesitate to call me with any follow-up questions you may have.

Sincerely,

MILLIMAN & ROBERTSON, INC.

Jeff

Jeffrey J. Lane, E.A., A.S.A.
Associate Actuary

Enclosures:
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City of Gaithersburg
Expected Annual Retiree Claims Outlay under Current Retiree Eligibility and Proposed 46/20

Year	Current	Proposed 46/20	Difference	Estimated Departing Retiree Salary	Maximum New Hire Salary Level to make Cost Worthwhile
2001	$545	$18,348	$17,803	$204,335	91%
2002	$8,637	$36,643	$28,006	$301,075	91%
2003	$24,203	$53,421	$29,218	$317,673	91%
2004	$42,991	$68,470	$25,479	$261,915	90%
2005	$69,651	$88,185	$18,534	$232,990	92%
2006	$98,219	$111,550	$13,331	$208,518	94%
2007	$118,410	$134,033	$15,623	$285,224	95%
2008	$154,300	$175,245	$20,945	$348,195	94%
2009	$169,468	$204,212	$34,744	$474,029	93%
2010	$199,929	$242,802	$42,873	$527,000	92%
2011	$233,244	$292,894	$59,650	$616,358	90%
2012	$274,998	$344,354	$69,356	$677,063	90%
2013	$307,529	$384,926	$77,397	$723,693	89%
2014	$360,856	$436,641	$75,785	$709,229	89%
2015	$401,618	$483,967	$82,349	$740,185	89%

City of Gaithersburg
Expected Annual Retiree Claims Outlay under Current Retiree Eligibility and Proposed 46/20

Year	Current	Proposed 46/20	Difference	Estimated Salary Saved
2001	$545	$18,348	$17,803	$204,335
2002	$8,637	$36,643	$28,006	$301,075
2003	$24,203	$53,421	$29,218	$317,673
2004	$42,991	$68,470	$25,479	$261,915
2005	$69,651	$88,185	$18,534	$232,990
2006	$98,219	$111,550	$13,331	$208,518
2007	$118,410	$134,033	$15,623	$285,224
2008	$154,300	$175,245	$20,945	$348,195
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2014	$360,856	$436,641	$75,785	$709,229
2015	$401,618	$483,967	$82,349	$740,185

City of Gaithersburg
Post-Retirement Medical Claims
Total Present Value of Expected Future Claims

Total Active PVFB under Current Retirement Eligibility	$3,352,547.81
Total Active PVFB under Alternative Retirement Eligibility (Age 46 and 20 years of service)	$4,183,417.52
Difference	$830,870

Assumptions I:

Data Communicated By Optimum Choice:		
Coverage	Enrollee Count	Monthly Premium
Single	75	$217
Double	37	$413
Family	60	$658

Claims Assumption by Age	
Age	Average Monthly Premium
45	$261
46	$277
47	$295
48	$313
49	$335
50	$356
51	$359
52	$381
53	$406
54	$432
55	$459
56	$485
57	$510
58	$541
59	$573
60	$604
61	$561
62	$588
63	$617
64	$644
65	$261
66	$261
67	$261
68	$261
69	$261
70	$261
71	$218
72	$218
73	$218
74	$218
75	$218
76	$218
77	$218
78	$218
79	$218
80	$218
81	$218
82	$218
83	$218
84	$218
85	$218
86	$218
87	$218
88	$218
89	$218
90	$218

Assumptions 2:

Select/Ultimate Retirement Rates for MAINTENANCE Workers

First Elig	45	46	47	48	49	50	51	52	53	54	55	56	57	58	59	60	61	62	63	64	65
45	0.10	0.10	0.10	0.10	0.10	0.15	0.15	0.15	0.15	0.15	0.20	0.15	0.15	0.15	0.15	0.20	0.15	0.15	0.15	0.15	1.00
46		0.10	0.10	0.10	0.10	0.15	0.15	0.15	0.15	0.15	0.20	0.15	0.15	0.15	0.15	0.20	0.15	0.15	0.15	0.15	1.00
47			0.10	0.10	0.10	0.15	0.15	0.15	0.15	0.15	0.20	0.15	0.15	0.15	0.15	0.20	0.15	0.15	0.15	0.15	1.00
48				0.10	0.10	0.15	0.15	0.15	0.15	0.15	0.20	0.15	0.15	0.15	0.15	0.20	0.15	0.15	0.15	0.15	1.00
49					0.10	0.15	0.15	0.15	0.15	0.15	0.20	0.15	0.15	0.15	0.15	0.20	0.15	0.15	0.15	0.15	1.00
50						0.15	0.15	0.15	0.15	0.15	0.20	0.15	0.15	0.15	0.15	0.20	0.15	0.15	0.15	0.15	1.00
51							0.15	0.15	0.15	0.15	0.20	0.15	0.15	0.15	0.15	0.10	0.15	0.15	0.15	0.15	1.00
52								0.15	0.15	0.15	0.20	0.15	0.15	0.15	0.15	0.10	0.15	0.15	0.15	0.15	1.00
53									0.15	0.15	0.20	0.15	0.15	0.15	0.15	0.10	0.15	0.15	0.15	0.15	1.00
54										0.15	0.20	0.15	0.15	0.15	0.15	0.10	0.15	0.15	0.15	0.15	1.00
55											0.20	0.15	0.15	0.15	0.15	0.10	0.15	0.15	0.15	0.15	1.00
56												0.15	0.15	0.15	0.15	0.10	0.15	0.15	0.15	0.15	1.00
57													0.15	0.15	0.15	0.10	0.15	0.15	0.15	0.15	1.00
58														0.15	0.15	0.10	0.15	0.15	0.15	0.15	1.00
59															0.15	0.10	0.15	0.15	0.15	0.15	1.00
60																0.20	0.15	0.15	0.15	0.15	1.00
61																	0.20	0.15	0.15	0.15	1.00
62																		0.20	0.15	0.15	1.00
63																			0.25	0.20	1.00
64																				0.25	1.00
65																					1.00

Assumptions 2:

Select/Ultimate Retirement Rates for non-Maintenance Workers

First Elig	45	46	47	48	49	50	51	52	53	54	55	56	57	58	59	60	61	62	63	64	65
45	0.30	0.20	0.15	0.15	0.10	0.30	0.15	0.15	0.15	0.15	0.30	0.20	0.20	0.20	0.20	0.60	0.30	0.30	0.30	0.30	1.00
46		0.30	0.20	0.15	0.15	0.30	0.15	0.15	0.15	0.15	0.30	0.20	0.20	0.20	0.20	0.60	0.30	0.30	0.30	0.30	1.00
47			0.32	0.22	0.17	0.32	0.17	0.17	0.17	0.17	0.30	0.22	0.22	0.22	0.22	0.62	0.32	0.32	0.32	0.32	1.00
48				0.34	0.24	0.34	0.19	0.19	0.19	0.19	0.30	0.24	0.24	0.24	0.24	0.64	0.34	0.34	0.34	0.34	1.00
49					0.35	0.35	0.21	0.21	0.21	0.21	0.30	0.26	0.26	0.26	0.26	0.66	0.36	0.36	0.36	0.36	1.00
50						0.35	0.23	0.23	0.23	0.23	0.36	0.28	0.28	0.28	0.28	0.68	0.38	0.38	0.38	0.38	1.00
51							0.35	0.25	0.25	0.25	0.36	0.30	0.30	0.30	0.30	0.40	0.40	0.40	0.40	0.40	1.00
52								0.35	0.27	0.27	0.35	0.32	0.32	0.32	0.32	0.40	0.40	0.40	0.40	0.40	1.00
53									0.35	0.29	0.35	0.34	0.34	0.34	0.34	0.40	0.40	0.40	0.40	0.40	1.00
54										0.35	0.35	0.36	0.36	0.36	0.36	0.40	0.40	0.40	0.40	0.40	1.00
55											0.40	0.38	0.38	0.38	0.38	0.40	0.40	0.40	0.40	0.40	1.00
56												0.40	0.40	0.40	0.40	0.45	0.45	0.45	0.50	0.50	1.00
57													0.40	0.42	0.42	0.45	0.45	0.45	0.45	0.45	1.00
58														0.44	0.44	0.45	0.45	0.45	0.45	0.45	1.00
59															0.46	0.45	0.45	0.45	0.45	0.45	1.00
60																0.48	0.45	0.45	0.45	0.45	1.00
61																	0.48	0.45	0.45	0.45	1.00
62																		0.45	0.45	0.45	1.00
63																			0.50	0.45	1.00
64																				0.60	1.00
65																					1.00

Assumption 3

Termination Rates (rates cease on retirement eligibility)

20	22.17%
21	20.50%
22	18.92%
23	17.50%
24	16.08%
25	15.08%
26	14.17%
27	13.29%
28	12.50%
29	11.75%
30	11.21%
31	10.67%
32	10.17%
33	9.67%
34	9.21%
35	8.79%
36	8.38%
37	8.00%
38	7.67%
39	7.33%
40	7.04%
41	6.75%
42	6.46%
43	6.17%
44	5.87%
45	5.62%
46	5.38%
47	5.17%
48	4.96%
49	4.79%
50	5.55%
51	5.35%
52	5.15%
53	4.95%
54	4.75%
55	4.60%
56	4.45%
57	4.30%
58	4.20%
59	4.10%
60	4.10%
61	4.10%
62	4.10%
63	4.10%
64	4.10%
65	4.10%