

COUNCIL COMMUNICATION

Council _____ moved that an ordinance introduced February 23, 2009, entitled and reading as follows, be taken up and enacted:

AN ORDINANCE TO AMEND PARAGRAPH (B) OF §16.02, "DEFINITIONS" OF CHAPTER 16, "POLICE OFFICERS AND FIREFIGHTERS RETIREMENT SYSTEM" OF TITLE I, "ADMINISTRATIVE CODE," OF THE SAGINAW CODE OF ORDINANCES, O-1.

The City of Saginaw ordains:

Section 1. Paragraph (B) of §16.02, "Definitions," of Chapter 16, "Police Officers and Firefighters Retirement System," of Title I, "Administrative Code" of the Saginaw Code of Ordinances, O-1, is hereby amended to include the definition of "Total Actuarial Cost" and shall read as follows:

§ 16.02(B) DEFINITIONS.

TOTAL ACTUARIAL COST. The "total actuarial cost" is defined and calculated as follows:

Section 16.08(A)(3) of the Saginaw Code of Ordinances states that, "Effective July 1, 1996, any police officer who was a member on or after this date shall be allowed to purchase prior law enforcement service time up to five (5) years with such member paying the total actuarial cost." The following procedure shall be used to calculate the total actuarial cost of service purchased under this section:

1. The present value of the expected benefits to be paid to the member from the System shall be calculated as of the member's service credit purchase date, without regard to the purchase of service.
2. The present value of the expected benefits to be paid to the member from the System shall be calculated as of the member's service credit purchase date, including the effect of the purchase of service. The additional service credit will be used in both calculating the amount of benefit and in determining the earliest date benefits will commence.
3. The cost of the service credit purchase to the member, as of the service credit purchase date, shall be the difference between 2 and 1.

The calculation of the above amounts shall be based on the benefit formula in effect as of the service credit purchase date, and the following assumptions:

Interest Discount Factor:	The Investment Return (net of expenses) used in the most recently published annual actuarial valuation of the System.
Mortality Table:	A blend of 50% of the male rates and 50% of the female rates of the mortality table used in the most recently published annual actuarial valuation of the System.
Benefit Commencement Date:	The date of earliest retirement, assuming continuous accrual of eligibility service from the service credit purchase date.
Amount of Expected Benefit:	Calculated as of the earliest retirement date. If the member is not eligible to retire at the service purchase date the expected benefit will be based on service and Final Average Salary (FAS) projected to the earliest retirement date. FAS for this purpose will be projected from FAS as of the service purchase date using the base (economic) annual rate of pay increase from the most recently published annual actuarial valuation of the System. If the member is eligible to retire as of the service purchase date, actual service and FAS as of the service purchase date shall be used.
Form of Payment:	60% Joint and Survivor. Actual spousal birth date will be used if available. If unavailable, or the participant is unmarried at the time of service purchase, the female spouse is assumed to be 3 years younger than the male spouse.

Two examples of the Service Credit Purchase calculation are shown on the following pages.

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Example 1

In this example, the benefit formula is 2.6% times Final Average Salary (FAS) times the first 25 years of service, plus 2.75% times FAS service in excess of 25 years. A member can retire after 20 years of service, regardless of age.

Data as of Service Credit Purchase Date:

Member's Date of Birth:	12/1/1963
Spouse's Date of Birth:	2/1/1964
Service Purchase Date (SPD):	2/1/2007
Member's Age at SPD:	43.13
Service at SPD:	16.00
Final Average Salary at SPD:	\$62,000.00

The member wishes to purchase 5 years of prior law enforcement time.

Step 1: Calculate Expected Benefit at Earliest Retirement Age Before Service Purchase

Assuming continuous employment, the earliest date the member can retire is 2/1/2011.

Earliest Retirement Date (ERD):	2/1/2011
Age at ERD:	47.13
Service at ERD:	20.00
FAS at ERD:	\$74,646.22

Bi-weekly benefit at ERD: \$1,492.92

Present Value as of SPD: \$402,754.00

Step 2: Calculate Expected Benefit at Earliest Retirement Age After Service Purchase

By purchasing 5 years, the member is eligible to retire on the service purchase date.

Earliest Retirement Date (ERD):	2/1/2007
Age at ERD:	43.13
Service at ERD:	21.00
FAS at ERD:	\$62,000.00

Bi-weekly benefit at ERD: \$1,302.00

Present Value as of SPD: \$468,251.00

Step 3: Calculate the Cost of the Service Purchase

\$468,251.00 minus \$402,754.00 = \$65,497.00

Comment:

In this example, the benefit calculated at ERD before the service purchase is larger than the bi-weekly benefit calculated after the service purchase (due to the projected increase in the FAS). However, the present value in Step 2 is larger than in Step 1 because benefits are expected to be paid out 4 years longer than in Step 1.

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Example 2

In this example, the benefit formula is 2.6% times Final Average Salary (FAS) times the first 25 years of service, plus 2.75% times FAS service in excess of 25 years. A member can retire after 20 years of service, regardless of age.

Data as of Service Credit Purchase Date:

Member's Date of Birth:	1/1/1961
Spouse's Date of Birth:	8/1/1960
Service Purchase Date (SPD):	5/1/2004
Member's Age at SPD:	43.33
Service at SPD:	20.00
Final Average Salary at SPD:	\$68,000.00

The member wishes to purchase 5 years of prior law enforcement time.

Step 1: Calculate Expected Benefit at Earliest Retirement Age Before Service Purchase

The member is eligible to retire on the SPD, so this is the ERD for this calculation.

Earliest Retirement Date (ERD):	5/1/2004
Age at ERD:	43.33
Service at ERD:	20.00
FAS at ERD:	\$68,000.00

Bi-weekly benefit at ERD: \$1,360.00

Present Value as of SPD: \$444,815.00

Step 2: Calculate Expected Benefit at Earliest Retirement Age after Service Purchase

Since SPD = ERD the purchased service increases the annuity but does no change the retirement date.

Earliest Retirement Date (ERD):	5/1/2004
Age at ERD:	43.33
Service at ERD:	25.00
FAS at ERD:	\$68,000.00

Bi-weekly benefit at ERD: \$1,700.00

Present Value as of SPD: \$556,019.00

Step 3: Calculate the Cost of the Service Purchase

\$556,019.00 minus \$444,815.00 = \$111,204.00

Comment:

In this example, the member was eligible to retire on the service purchase date before the purchase of service.

Section 3. This ordinance shall become effective March 19, 2009.

Enacted: March 9, 2009.