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STATE OF MICHIGAN

EMPLOYMENT RELATIONS COMMISSION

ARBITRATION UNDER ACT NO. 312

MICHIGAN PUBLIC ACTS OF 1969 AS AMENDED

IN THE MATTER OF ARBITRATION BETWEEN

CITY OF MONROE, MICHIGAN

-and-

FRATERNAL ORDER OF POLICE

CASE NUMBER D 81 I-1969

Monroe, City of

Arbitration Panel

Joseph P. Clark	Executive Director, Fraternal Order of Police, Delegate for the Union
William Grom	City Manager, Delegate for the City of Monroe
Daniel H. Kruger	Chairperson

Appearances for the City

Joseph S. Lybik	Director of Personnel and Labor Relations
William Grom	City Manager
Eileen Biggs	Administrative Assistant
Paul H. Townsend, Jr.	Attorney

Appearances for the Union

George W. Krueger	President, Command Officers Association
J. Earl Pierce	President, Monroe Fire Fighters Assoc.
James Arnold	President, Monroe Patrolmen Association
Hendrik Kanavel	Monroe Police Command Officers Association
Joseph P. Clark	Executive Director, F.O.P.
John A. Lyons	Attorney

Hearings Reporter

Jerry R. Kilgore

BACKGROUND

This case involves three employee organizations which have bargaining rights with the City of Monroe. The Monroe Firefighters Association, Monroe Patrolmen Association and Monroe Command Officers Association are covered by the same pension plan (see Joint Exhibit #1).

On September 30, 1981, Mr. John A. Lyons, Attorney, filed on behalf of the Fraternal Order of Police Labor Council a petition for arbitration. The issues dealt with the pensions only. The Agreement for 1981-82, Article VI, Section 7E, stated that pensions were to be closed for negotiations until after July 1, 1981. Pension negotiations to be opened after July 1, 1981 at the request of either party (see p. 20). The 1978-80 Agreement had similar language that pension negotiations could be opened after July 1, 1979. The issues contained in the petition were:

Reopener: Pension only

		Union	City
1.	Percentage Factor on Pension and Minimum Service	2.5 x no. of yrs age 50 w/25 yrs	2.1 x 25 yrs 1.5 over 25 75% cap
2.	Hospitalization Retirees	Retiree and Spouse	Retiree and Spouse None after Retiree dies
3.	Annuity Withdrawal	Withdrawal	---
4.	C.O.L.A. for Retirees	3% per year	None
5.	Decrease Employee Contributions	3% 1st year 2% 2nd year	Maintain 7% Contribution

On November 13, 1981, the Michigan Employment Relations Commission appointed Daniel H. Kruger Chairperson of the Act 312 Panel.

The Chairperson convened a pre-arbitration hearing at the Monroe City Hall on December 16, 1981. The parties negotiated a tentative settlement at this meeting which was presented to the Mayor and City Council on December 21, 1981. The Mayor and City Council turned down the tentative settlement.

The parties returned to the bargaining table on February 2, 1982 and reached the following agreement. The items negotiated by the parties on February 2, 1982 are incorporated in this Award.

February 2, 1982

AGREEMENT

The parties involved in the Police and Fire pension negotiations with the City of Monroe have resolved the following issues included in the Act 312 Petition as filed on September 30, 1981:

1. Hospitalization for retiree and spouse with off-sets and as explained in attached language, is agreed to by the parties.

2. Annuity withdrawal from pension fund is agreed to by the parties with specific language to be drawn up and added to the Police and Fire pension fund.

3. C.O.L.A. for retirees at three percent (3%) per year is withdrawn by the Police and Fire negotiators.

4. The settlement to cover a period of time until after June 30, 1983, with negotiations to open after that date on that subject.

The parties, therefore, will arbitrate the following issues:

1. Percentage factor on pension and minimum service.

2. Decreased employee contributions.

For the Police and Fire Units:

COMMAND OFFICERS ASSOCIATION:

Sgt. George Krueger

Sergeant George Krueger

FIREFIGHTERS ASSOCIATION:

J. Earl Pierce

Lieutenant J. Earl Pierce

MONROE PATROLMEN'S ASSOCIATION:

Patrolman James Arnold

F.O.P:

Joseph Clark

Joseph Clark

For the City of Monroe:

William J. Grom, City Manager

Joseph S. Lybik

Joseph S. Lybik, Director of Personnel & Labor Relations

February 2, 1982
Agreement

POLICE AND FIRE PENSION LANGUAGE

Effective January 1, 1982, the City shall provide hospitalization coverage for new retirees and spouse at minimum retirement from the Police and Fire Departments. If the retiree desires coverage for other dependents still under his care, he shall bear that cost. If the cost of dependents coverage dictate an increases or decreases in those premium rates, than payment adjustments will be made at that time. Coverage for the retiree and spouse will be at the regular employee levels until the retiree is covered under medicare. If the retiree and spouse are covered under medicare, then the City will provide supplemental coverage as required.

In the event that a retiree obtains employment elsewhere after his retire ment where hospitalization is provided, the City shall not provide coverage while the retiree is so employed. The retiree will yearly provide the City with an update on his status.

Upon termination of subsequent employment, the retiree, after giving notice to the City, will resume with the City retiree hospitalization insurance in effect at the time of return.

Also, if the employee (retiree) is employed long enough to obtain a pension and health insurance as provided, equal or greater than that provided to the retiree as a City retiree, the City will have no liability for hospitalization insurance.

Upon death of the retiree, the City's obligation shall continue until the death or remarriage of the spouse.

On April 1, 1982, a formal hearing was held at the Monroe City Hall on the two issues in impasse: multiplier on pension and minimum service and decrease in employee contribution. At the conclusion of the hearing, each party stated its last offer on each of the issues. On the issue of decreased employee contributions, the last best offers of the parties were identical. The employee contribution will be reduced from 7 percent to 5 percent effective July 1, 1981. Thus, there is only one issue before the panel -- the multiplier on pensions and minimum service

Reducing the employee contribution from 7 percent of annual compensation to 5 percent of annual compensation will result in a cost to the Employer for the first year $45,923, assuming a 4.5 percent annual increase in payroll (see Employer Exhibit #2, a memo dated March 23, 1982 from Brian B. Murphy, Actuary, Gabriel, Roeder, Smith & Company, hereafter referred to as B.B. Murphy, Actuary).

DISCUSSION OF THE ISSUE AND POSITIONS OF THE PARTIES

The present pension plan in the 1980-82 agreement provides for a pension to be based on total years of service multiplied by 2.0 percent of final average compensation (FAC). The regular retirement age is 50 years of age with twenty-five (25) years of eligibility.

The Union's last best offer is 2.5 percent of final average compensation for the first 25 years and 1 percent for each year thereafter.

The Employer's last best offer is: 2.2 percent of final average compensation for the first twenty-five (25) years and 1 percent for each year thereafter.

Below is a table comparing the present pension plan, the City's last best offer, and the Union's last best offer, as to the percentage factor (multiplier) on pensions and years of service.

Years	25	26	27	28	29	30	31	32	33	34	35
Present Plan 2%	50%	52%	54%	56%	58%	60%	62%	64%	66%	68%	70%
City 2.2%	55%	56%	57%	58%	59%	60%	61%	62%	63%	64%	65%
Union 2.5%	62.5%	63.5%	64.5%	65.5%	66.5%	67.5%	68.5%	69.5%	70.5%	71.5%	72.5

Source: Union Brief, p. 7.

POSITION OF UNION

The Union noted that the Teamsters Union had their multiplier increased from 1.8% in 1/1/82 to 1.9 percent on 7/1/82 to 2.0 percent on 7/8/83. The Union further noted that most other bargaining units contribute only 2 percent towards their pension; the Teamsters contribution rate is being reduced from 4 percent to 3 percent by 7/8/83 (see Union Exhibit #4). It was further stated that all City employees except Police and Fire employees participate in Social Security. The Union pointed out that other employees receive a higher retirement income than Police and Firemen when pension benefits and Social Security benefits are added together (see Union Exhibit #5).

The Union pointed out that the Employer's real pension costs are lower for Police and Fire employees when its Social Security contributions are added to its pension contributions:

	Pension	Social Security	
General Members	12.90%	6.7%	19.6%
Water Dept.	14.26%	6.7%	20.96%
Sewerage Disposal	11.84%	6.7%	18.54%
Police/Fire	15.42%	--	15.42%

(Adapted from 37th Annual Actuarial Valuation, p. B3, Employer Exhibit #1; see also Transcript, p. 33)

The Union noted that under the Employer's proposal, employees who stay beyond thirty (30) years lose benefits when compared with the current plan (see table above).

The Union challenged the cost estimates of $172,331 made by B.B. Murphy, Actuary, on March 12, 1982, of a proposal based on total service times 2.5 percent of FAC (see Joint Exhibit #2). This cost estimate is based on total service times 2.5 percent of FAC, whereas the Union proposal is 2.5 percent for the first 25 years and then 1 percent per year thereafter. Thus, the cost estimates in Joint Exhibit #2 are not applicable to the Union's last best offer. The Union estimated the costs of its proposal to be approximately $12,000 (see Union Brief, pp. 6-7).

POSITION OF EMPLOYER

The Employer noted that the final average compensation (FAC) for the Police and Fire is based on the highest three (3) of the last 10 years of service rather than the highest 5 of the last 10 years of service (see Employer Brief, p. 8; see also Joint Exhibit #1). The Employer further stated that a Police or Fire sergeant with identical years of service to a Water Department supervisor will automatically receive a higher pension from the City, i.e. a Police sergeant with 30 years will have a FAC of $23,703.27 as compared to $21,799 for a Water Department supervisor with 30 years (see Employer Brief, Appendix A and p. 8).

The Employer said that pension comparisons with other city employees are inappropriate because police and firefighters can retire earlier than other employees. These employees can retire at age 50 with 25 years of service or at age 55 with 10 years of service, whereas other employees cannot retire until age 60. The Employer pointed out that pension benefits to police and fire employees are more costly because the benefits have to be paid over a longer period (see Employer Exhibit #1, p. B1, and Employer Brief, pp. 8-9).

The Employer called attention to pension plans of muncipalities whose police and fire retirement plans are not covered by Act 345 PA 1937 and 18 muncipalities whose plans are covered by Act 345. Monroe's pension plan is not covered by Act 345 (see Joint Exhibit #2). The Employer contended that a comparison with Act 345 pension plans is not appropriate (see Employer Brief, p. 10). Of the 22 pension plans not covered by Act 345, the Employer noted that its last offer would compare favorably with the great majority of the other cities' plans (see Joint Exhibit #3, and Employer Brief, p. 11).

The Employer stated its last best offer would cost $4,834 additional first-year dollars (see Employer Exhibit #2). In addition, reducing the employee contribution from 7% of annual compensation to 5 percent would cost $45,923 (see Employer Exhibit #2). The current annual contribution by the Employer for police and fire pensions is estimated by the Actuary to be $372,698 (see Employer Exhibit #1, p. B4). Thus, the total costs to the Employer for pensions for fire and police for the first year will

$423,455. (Note: this figure is the total of $372,698 + $45,923 + $4,834.) The Employer contended that the costs of the change in benefit formula and the reduction of employee contribution totaling $50,757 ($4,834 + $45,923) represents a 13.6 percent increase in pension costs (see Employer Brief, p. 12).

The Employer sought to derive the cost of the Union's last best offer from Joint Exhibit #2 and Employer Exhibit #2 as follows:

> "1. the effect of providing only a 1% benefit for years of service in excess of 25 is to reduce the total cost by $53,174, assuming the basic benefit for the first 25 years remains the same (Emp. Ex. 2).
>
> 2. The cost of providing a benefit level of 2.5% for all years of service is $172,331 (Jt. Ex. 2).
>
> 3. Therefore, the cost of providing a benefit formula of 2.5% for the first 25 years plus 1% for years in excess of 25 is $172,331 minus $53,174 or $119,157.
>
> 4. To this must be added the cost of reducing employee contributions to 5%, per Employer Exhibit 2, or <u>$45,923</u>
> Total $165,080 "

(see Employer Brief, pp. 12-13)

The Employer contended that the Union's last best offer would increase the Employer's annual contributions from $372,698 to $537,778, an increase of $165,080 or 44.3 percent (see Employer Brief, p. 13).

PANEL'S DISCUSSION OF PARTIES' LAST BEST OFFERS

On June 7, 1982, Mr. Lyons, Attorney for the F.O.P., and Mr. Townsend, Attorney for the City, requested Gabriel, Roeder, Smith and Company to supply additional information on the cost of the Union's last best offer (see letter dated June 7, 1982 from Mr. Townsend to Chairperson Kruger).

On June 14, 1982, Brian B. Murphy prepared a cost estimate of the Union's last best offer, i.e. 2.5% of FAC for first 25 years of service plus 1.0 percent of FAC per year of service in excess of 25 years. Using a 7.0 percent interest rate, the cost estimate for the first year was $78,083. When the cost of reducing the employee contribution is added ($45,923), the total cost to the Employer for pension improvements will be approximately $124,000 ($78,083 + $45,923 = $124,006). This would represent an increase in pension costs for the police and fire personnel of 33 percent. (Note: 124,000 ÷ $372,698 equals 33 percent.)

On June 18, 1982, Attorney Townsend requested the Actuary to calculate the cost of the Union's last best offer using a 6 percent interest assumption. On June 21, 1982, Brian B. Murphy, Actuary, estimated the cost of the Union's last best offer using a 6 percent interest to be $92,724 for the first year. When the cost of reducing the employee contributions ($45,923) is added, the total increase costs to the Employer for police and fire pensions would be $138,647. (Note: $92,724 + $45,923 = $138,647). This represents an increase in pension costs of 37 percent the first year.

On June 17, 1982, Mr. Joseph Clark, F.O.P., wrote a letter to Mr. Murphy which read:

> "I have been given a copy of your most recent cost estimates relative to a change from the present plan to 2.5% of F.A.C. for 25 years plus 1.0% of F.A.C. in excess.
>
> I am puzzled by your suggested increase in employer cost and the amount of first year dollars for the following reasons:
>
>> In your evaluation, dated March 23, 1982, addressed to Mr. Lybik, you state that an increase from the present plan to 2.2% for 25 and 1.0% in excess increases the employer cost by .2% of payroll amounting to $4,834 additional first year dollars. If that is true, I am having difficulty attempting to understand how an .3% increase is the multiplier

to 2.5% under the same formula would increase the employer cost by 3.2% of payroll ($78,083 additional first year dollars).

Would you please provide the panel and myself with the calculations and an explanation."

The figure of $4,834 cited in Mr. Clark's letter is taken from Employer Exhibit #2, and the $78,083 cost estimate is taken from Mr. Murphy's memo dated June 14, 1982 to Attorneys Townsend and Lyons.

On June 22, 1982, Mr. Murphy answered Mr. Clark in a letter which reads in part:

"The City of Monroe Employees Retirement System currently uses a flat 2.0% times years of service to determine the retirement benefit. The first proposed change to a 2.2%/1.0% forumla represents a small increase for many years and a massive decrease for a few years. It nets out to practically no change in the current formula. The second proposed change to 2.5%/1.0% is a moderately large increase over the first proposed change for the first 25 years and is identical to it thereafter.

The average salary of Police and Fire Members is currently $24,093. For illustration purposes, assume that there are no future salary increases. For a typical person retiring with 30 years of service, the three formulas produce the following retirement allowances.

Formula	Calculation	Allowance
Flat 2.0%	.02 x30x24,093 =	14,456
2.2%/1.0%	(.022 x 25+.01x5)x30x24,093 =	14,456
2.5%/1.0%	(.025 . 25+.01x5)x30x24,093 =	16,263

Notice that the 2.5%/1.0% produces a 12½ percent increase in retirement allowance (16,263 ÷ 14,456 = 1.125), whereas the 2.2%/1.0% formula produces no change at all."

The retired individual in the example cited by Mr. Murphy would receive a $1807 a year more in pension allowance under the Union's last best offer thn under the City's last best offer.

PANEL AWARD

1. The Panel incorporates in its award the items the parties negotiated on February 2, 1982 as cited on pp. 4-5 of this award.

2. The parties have submitted the same last best offer on reducing employee contributions to the pension from 7 percent of annual earnings to 5 persent of annual earnings, effective July 1, 1981. This benefit will cost the Employer $45,923 in the first year.

Vote: For - Clark, Grom and Kruger

3. On the issue of the benefit formula, or multiplier and minimum service, the Panel directs the Employer to implement its last best offer which is 2.2 percent of final average compensation for the first twenty-five (25) years and 1.0 percent of final average compensation for each year thereafter, effective July 1, 1981.

The Panel was greatly influenced in its selection of the Employer's last best offer by the cost differences between the parties' last best offers and the total costs of both the change in pension formula and in the reduction of employee contributions.

	Cost of Reduction in Employee Contribution	Cost of Change in Benefit Formula	Total
Employer's Last Best Offer	$45,923	$ 4,834	$ 50,757
Union's Last Best Offer	45,923	92,724*	138,647

*This is based on a 6% interest assumption, effective 7/1/81.

The total costs under the Employer's last best offer represents a 13.6 percent increase in pension costs, whereas the total costs under the Union's last best offer represents an increase in pension costs for police and fire employees of 37 percent.

Michigan cities are caught in a difficult financial plight because of high unemployment and its impact of state and local governmental revenues and the City of Monroe is no exception.

Vote: For - Gromm and Kruger; Against - Clark.

Panel Members

Daniel H Kruger

Daniel H. Kruger, Chair

Joseph P. Clark

Joseph P. Clark, Delegate for the Union

W. Gromm

William Grom, Delegate for the Employer

Note: Signatures do not indicate that the Panel members are in agreement with all awards. The signatures attest that this is the Award of the Panel.