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

AMC 3.70.196 Post retirement police and fire medical benefits.
No matter related to post retirement medical coverage for active or retired police officers or firefighters shall be subject to the provisions of this chapter and negotiations on the subject of retiree medical coverage are prohibited for all such individuals in legislated pension plans and any employee organizations on their behalf.
(AO No. 94-95, § 2, 5-24-94; AO No. 94-116, § 1(3.70.196), 1-1-95)
Editor's note: The amendment to subsection A of this section adopted in AO No. 94-116 shall apply to fire employees and to police employees effective January 1, 1995, whether their current labor agreements are extended or not.

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

In conjunction, with the adoption of the medical benefit program for Police and Fire Retirees, the Assembly adopted AMC 3.88 et seq. establishing a pre-funding investment trust in order to fund the payment of medical benefits to the retirees. The pre-funding investment trust was designed to fully fund the cost of retiree medical benefits. However, it is currently not keeping pace with the increased costs of medical benefits. Accordingly, the duration of the trust must be extended for an additional ten years in order to ensure financial viability for the municipal contribution to the retirees' medical benefits program. See Exhibit 1.
In summary, the agreement changed the retiree medical system from a “defined benefit” plan (where the benefits of the plan are pre-determined) to a “defined contribution” plan (where the employer’s contribution is pre-determined) in 1995 with the establishment of the Police and Fire Retire Medical Trust. Once a non-PERS sworn employee retires, the Municipality will pay a predetermined amount to a Trust for the employee’s benefit. The employee will be able to choose from a variety of medical options as to how to spend the money in his or her account. They are not limited to the insurance provided by the Municipality.

**SOLUTION TO THE PROBLEM**

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

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

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

1. AO 2008-58 is an ordinance of the Anchorage Assembly amending Anchorage Municipal Code ("AMC") chapter 3.87 which provides for the retiree medical funding program for public safety retirees. It retroactively adjusts the health reimbursement arrangement by deleting the unreliable medical CPI factor and using the cost to purchase the annual municipality health insurance premium as the adjustment factor for the contribution amounts of the public safety retirees’ health insurance premiums. AO 2008-58 also amends the special rule for members disabled in the line of duty by retroactively entitling them to Class 1 benefits which remediate the reduced benefits they received as a result of the unreliable CPI adjustment factor.
also deletes superfluous language from AMC 3.87.070 and adds a five year mandatory assembly review of the program.

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

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

RECOMMENDATION

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

Respectfully submitted:

Allan Tesche
Assemblymember, Section 1