Dealing with a Fiscal Crisis: Resolving Unfunded Retired Employee Medical Benefits at the Bargaining Table

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Introduction

Among the many challenges of public administration one can be immersed into, perhaps the most interesting (and at times nerve-racking) is that of public sector labor negotiations. There are many great books, essays, and papers that discuss the broad field of negotiations and labor relations, especially in the public sector. While most cover topics such as bargaining styles, avoiding various pitfalls, dealing with, using, and leveraging power, and how to properly utilize influence, in the post-economic downturn where pension expenditures and retiree health benefit costs continue to grow almost geometrically, there are three (3) fundamental components necessary for success:

- Strategy,
- Costing and
- Human relations, with an emphasis on effective oral and written communications.

Before galloping into the negotiating corral with guns ablaze, it is essential that the skilled negotiator assemble a team capable of covering all the bases. Depending upon which side of the table you are on, this typically involves someone who knows the numbers (e.g., the financials) inside out, someone who has the *Patience of Job*[1], and someone who understands the big picture and is able to communicate expertly within his or her hierarchical structure as well as across the negotiating table.

Strategy

Much akin to a chess game where moves and countermoves dominate, it is important for a public administrator tasked with leading labor negotiations to set aside the "us versus them" mentality, to step back, and to develop a thorough strategy built upon an overall organizational vision. Even an experienced negotiator versed in all the rules, regulations, and methodologies must understand the agency's primary objectives. Typically, reducing costs and increasing productivity are the immediate driving forces. However, the long-term viability of the entity cannot be forgotten. Many elected officials look for a short-term fix. They want to get through their next election cycle successfully. In order to accomplish this, their loyalty to one or more employee bargaining groups (in exchange for election-time support) can take precedence. Therefore, it is essential for the negotiator to understand the needs of elected officials he or she represents and to factor this into the overall strategy.

[1] The Patience of Job is a Biblical reference to the New Testament (James 5:10-11).

Costing

Those who think that finance and budget are the only places where revenue projections, expense calculations, cost breakdowns, and benefit-based expenditure analyses reside clearly have not spent a great deal of time at the bargaining table. As pension and retiree medical benefit costs continue to rise, when coupled with increasing retiree longevity, the adverse end game becomes more and more apparent. Having an in-depth actuarial analysis of the true cost of post-employment benefits is only part of the equation. The experienced negotiator would not simply announce: “Here are the numbers finance has come up with, so we have to make cuts or obtain concessions.” Instead, the negotiator must understand where these costs originate, how they grow, and the inevitable outcome should they continue to grow out of control. Furthermore, he or she must understand what led to their implementation in prior contracts and the potential legal basis for their elimination. These knowledge points are critical and should be completely understood by the experienced negotiator before he or she gets too far into negotiations. After all, experienced negotiators on the other side of the table will certainly take advantage of weaknesses in these areas.

Human Relations

While many experienced negotiators think they have this one in the bag by virtue of their experience, the reality is that you must know how to connect with the people on the other side of the table and those you report to and get direction from (the decision-making legislative body). This involves more than being a versatile smooth talker with a quick wit. It requires a person who can expertly navigate each situation regardless of what is thrown his/her way and communicate effectively the depth and breadth of what is transpiring. It has been said in a humorous vein that a successful negotiator must be like a professor skilled as a motivational speaker who can sell ice cubes to Eskimos and have them sign up for permanent auto-delivery on a monthly basis with escalating prices. And furthermore, the Eskimos must become devout followers in a multi-level marketing campaign to sell ice cubes to other Eskimos. This could be an exaggeration...or is it?

Focus of Paper

This paper’s focus is from the municipal agency’s perspective and deals with how effective strategic vision, in-depth cost analysis, and expert human relations and communications at all levels and across the table were the key ingredients necessary for success in the midst of a serious fiscal crisis that threatened the agency’s very existence.

The Perfect Storm

As the economic downturn continued to take its toll on many municipal agencies, Inglewood had no escape. All primary revenue streams such as property taxes, sales taxes, utility user taxes, vehicle in-lieu taxes, etc., were still trending downward, and all expense lines comprised predominately of salaries and benefits as maintenance and operations were already cut to the bone were continuing their mad dash toward the stratosphere despite a third year of 10% furloughs—City Hall had been closed through a negotiated shut down every Friday of a 9/80 work schedule meaning civilian employees were only paid for 72 hours per bi-weekly pay period instead of 80 resulting in a loss of 208 hours per year. Also the sworn police officers had negotiated salary and benefit reductions equal to 10% using a combination of items necessary for a department that operates 24/7 regardless of City Hall's hours.

With furloughs set to expire at the end of 2013, employee morale at subterranean levels, and the need to continue with significant employee expenditure reductions across the board due to a projected structural deficit of more than $7.1 million on a General Fund budget of $79 million (nearly 9%), we faced a Perfect Storm, as all six (6) of our employee labor contracts would also expire at the end of 2013. To make matters worse (if that was possible), the labor groups in general showed little trust in management. In the past, whenever a labor group's leadership did not like the facts the city's negotiation team presented, they did an 'end run' to the elected officials and cut a side deal. This had the effect of undermining the city's negotiation team and its strategy—thus crippling the city's ability to collectively bargain.

As the "Category Five" storm approached, the mayor launched an aggressive campaign to sweep away two council members who strongly favored labor to the detriment of the city. The mayor supported replacing the two council members with two brand new, never-before elected members with no affiliations or allegiance to labor and who would be dedicated to the city's best interests. This realignment of the legislative body occurred one month before negotiations with the six labor groups began and gave Inglewood's negotiation team a fighting chance at saving the city from insolvency. Actually, 72%, or $5.1 million of the $7.1 million structural deficit for fiscal year 2013-2014 was solely attributable to retiree medical costs for existing retirees (not current or future employees—only those employees that had already retired). This was caused by the city's faulty approach to handling its rising retiree medical premium costs each year by using a "pay-as-you-go" method of budgeting.

Getting Past Denial

The first step to dealing with an overwhelming problem is to move past denial. It took replacing the two members of City Council to enable this legislative body to actually recognize that they had a problem…a really big one. Fortunately, the city's negotiating team was led by a person who possessed the historical perspective, who knew how the city had arrived at these dire financial straits, and who was (and is) dedicated to saving the city from fiscal ruin even if meant a significant reduction in his own benefits.

When times are good and employee bargaining groups are negotiating pay raises and benefit enhancements, it is not a big deal to have affected employees at the table representing the city like one big happy family. However, when times are tough, people quickly forget that the employees who represent the city in negotiations are, in effect, bargaining against themselves because their duty is foremost to their employer.

Being the one in charge during unhappy times and having to create and implement workforce reduction plans, impose significant furloughs, and actively work hard toward reducing current and future benefits all at the direction of the City Council requires more than mental and emotional toughness. It requires a person who can deal effectively with being looked upon as the "villain" even though he or she is trying to do what is best for the greater good of the entity.

While this unpleasant position, coupled with other heavy responsibilities associated with being an assistant city manager (made more burdensome by the absence of a human resources director) inevitably takes its toll. A constant focus on a successful end-game became the only light at the end of a seemingly endless tunnel.

Framing the Problem: The First Step in Strategy Development

With a City Council now willing to deal with the depth of the challenge, it was the team's responsibility to frame the problem in such a way as to not overwhelm them. That might push them into *paralysis by analysis*. At the same time, there is no easy way to express the magnitude of an unfunded liability associated with retiree medical premium costs without discussing the underlying mathematical mechanisms. It was the team's task to put together an easy-to-understand actuarial analysis that was not only accurate (to withstand the inevitable critique by each of the six bargaining groups[2]), but also to make it clear and convincing enough for the City Council and general public to understand. In essence, we needed an *Other Post-Employment Benefit Costs for Dummies* book.

Fortunately, the team's leader, the Assistant City Manager, has a strong background in mathematics, technology, finance, education, and communications. He was able to leverage his analytical and project management expertise and disassemble the problem into manageable, bite-sized pieces and take actual values directly from the city's financial system to create an elaborate, sophisticated, and expansive spreadsheet that actually calculated the projected cost of retiree medical for each and every current employee.

The structure of this actuarial analysis involved the following:

1. An expected retirement age (e.g., 50 for sworn employees and 55 for non-sworn employees, or immediately in the case where employees were equal to or older than the benchmark ages).
2. An expected "end" date (e.g., age 86 was used as the date when the retiree no longer needed benefits because they had reached their end of life).
3. The employee's current medical plan (employee-only or employee-plus-one for Kaiser's HMO, Aetna's PPO or HMO, or HealthNet's HMO).
4. A programmable inflation rate for medical-related premium costs (5% was used, which was agreed upon by the labor groups despite the fact the city experienced an increase of over 9.4% between 2013 and 2014 based upon claims history).

[2] The Inglewood Executive Organization [IEO] represents the department heads and above; the Inglewood Management Employee Organization [IMEO] represents the non-sworn management and professional employees; the Service Employee International Union [SEIU] Local 721 represents the general, non-management hourly employees; the Inglewood Police Management Association [IPMA] represents the sworn police management; the Inglewood Police Officer Association [IPOA] represents the non-management sworn police officers; and, the Inglewood Police Civilian Management Association [IPCMA], which represents the non-sworn management and professional employees who work in the police department)

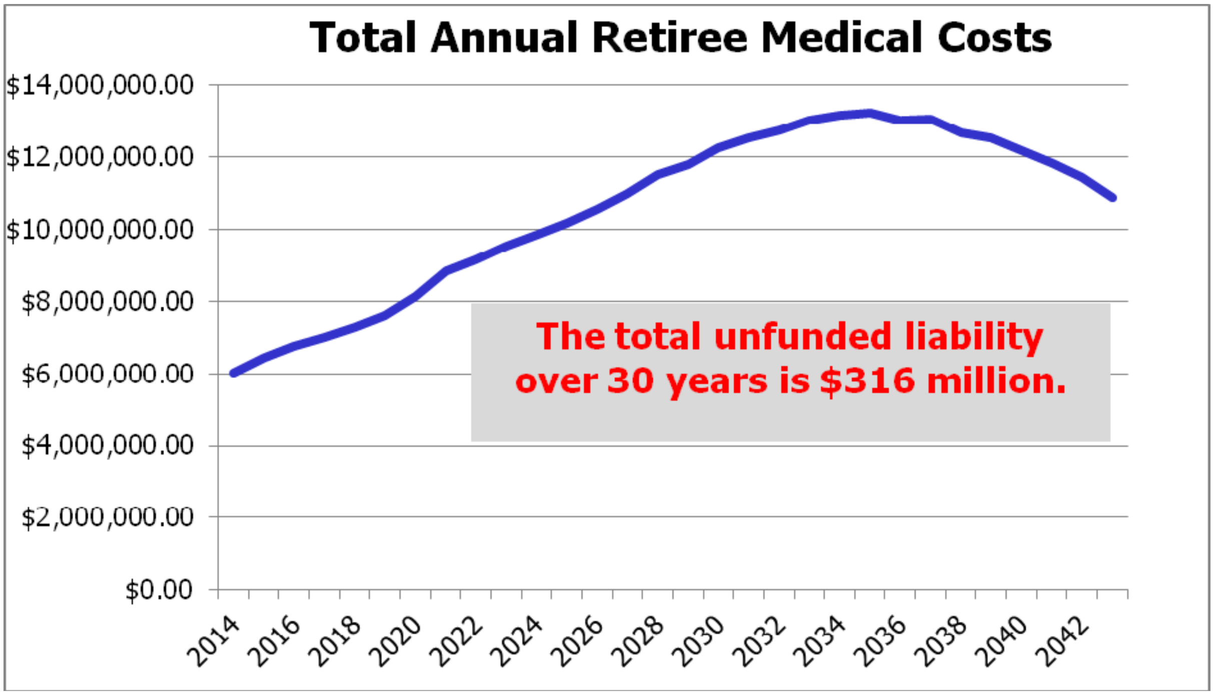
5. A mechanism to cut the medical premium cost in half when the retiree reached Medicare eligibility (medical premiums typically go down by about 50% when Medicare becomes the primary source of medical insurance).
6. The fact each labor group had a slightly different benefit structure.

Clearly, there were some shortcomings in the analysis such as the ages of dependent spouses, the potential departure of younger employees before reaching retirement age, retirees and/or dependents living beyond age 86 or dying sooner, etc. All in all, however, the result was a shocking reality. The city faced a staggering $199 million unfunded liability over the next 30 years due to the existing employees in the six labor groups.

	Retiree Medical Unfunded Liability (Current Employees Only—No New Hires)				
Labor Group	10 Years	15 Years	20 Years	25 Years	30 Years
IEO	$ 1,025,110.02	$ 1,738,023.80	$ 2,470,641.13	$ 3,161,985.68	$ 3,932,052.51
IMEO	$ 10,977,152.34	$ 21,037,192.40	$ 34,850,055.22	$ 51,776,570.33	$ 68,891,744.51
SEIU	$ 2,787,444.33	$ 6,746,684.28	$ 11,687,949.80	$ 17,288,298.62	$ 23,600,275.91
IPMA	$ 4,042,050.70	$ 8,627,926.57	$ 14,322,844.93	$ 19,714,612.75	$ 25,575,929.16
IPOA	$ 5,234,693.62	$ 14,627,832.20	$ 30,216,480.46	$ 50,354,242.52	$ 72,255,917.89
IPCMA	$ 643,892.53	$ 1,164,908.54	$ 1,991,367.25	$ 3,261,337.19	$ 4,725,797.33
Totals	$ 24,710,343.55	$ 53,942,567.79	$ 95,539,338.78	$ 145,557,047.09	$ 198,981,717.31

To make matters worse, the existing unfunded liability associated with existing retirees and their applicable dependents was a horrifying $117 million over the next 30 years using the same 5% growth rate for medical premiums and a declining population based upon conservative death rate expectations. This brought the total unfunded liability associated with retiree medical premiums to an astounding $316 million, which would leave the city bankrupt in less than five years since the city's total reserves would be completely wiped out attempting to cover the annual expenditures.

The following graph depicts the projected impact (annually over the next 30 years) of the unfunded liability solely attributable to medical premium costs for existing and future retirees. The "area" under the curve (e.g., the sum of each year's costs) represents the total unfunded liability over 30 years.



To give a simple perspective, the average cost per employee (including a potential eligible dependent) for retiree medical is more than $300,000. The tables below show the annual costs attributable to the $316 million unfunded liability if the city was unsuccessful in dealing with the massive problem.

Year	Retiree Medical Costs
2014	$ 6,029,859.78
2015	$ 6,442,660.32
2016	$ 6,771,291.36
2017	$ 6,995,828.88
2018	$ 7,297,044.16
2019	$ 7,610,099.82
2020	$ 8,148,907.37
2021	$ 8,826,746.57
2022	$ 9,144,733.65
2023	$ 9,543,784.55

Year	Retiree Medical Costs
2024	$ 9,848,390.49
2025	$10,156,191.24
2026	$10,551,402.13
2027	$10,971,264.91
2028	$11,521,104.50
2029	$11,775,427.63
2030	$12,244,097.22
2031	$12,523,266.67
2032	$12,752,572.83
2033	$13,011,084.07

Year	Retiree Medical Costs
2034	$13,147,248.96
2035	$13,230,605.41
2036	$13,006,365.33
2037	$13,038,684.68
2038	$12,661,094.26
2039	$12,531,656.40
2040	$12,169,474.25
2041	$11,806,903.15
2042	$11,426,637.24
2043	$10,864,160.47

With the main issue of retiree medical now defined and broken down, the city's negotiation team could focus on the overall strategic vision.

Creating a Way Out

Despite the major effort that went into the creation and explanation of the actuarial analysis, the real work had yet to be done. The City Council needed an alternative to offer the labor groups that, (1) did not leave the city teetering on the cliff of insolvency, (2) would not be so offensive (or too complex) that the labor groups would break off negotiations, (3) took into account the other important objectives the city needed to address such as the Public Employee Pension Reform Act of 2013 (PEPRA) and the need for employees to begin paying for most if not all of the employee premiums for CalPERS, the increasing liability associated with the unlimited accrual of sick and vacation leave, which is paid out upon termination or retirement at 50% for sick leave and 100% for vacation leave (the current hourly rate of the employee regardless of when the leave was earned), and (4) would provide the employees at all levels of tenure across all labor groups with something beneficial in exchange for the unsustainable benefit virtually all employees (incorrectly) believed was a vested right like their pension.

The Assistant City Manager's hobby and lifelong interest was in the field of retirement planning and investments. He took the problem from the vantage point of the employee, coupled it with the primary and secondary objectives of the City Council, and fashioned proposed solutions tailored to each of the six labor groups comprised of the following key criteria:

1. Significantly modify the retiree medical benefit by substituting a lesser yet still valuable alternative that also put some reality into the equation by having the employees carry some of the burden.

2. Provide an increase in salaries across the board for non-sworn employees of approximately 10.5% in exchange for employees paying the full employee rate for CalPERS, which is 8% plus 2 points of the employer's rate for a total of 10%.

3. The need to address the unlimited accrual of sick leave and vacation leave, which was a partially funded liability approaching $14 million. (Fortunately, not every employee would leave the city at the same time causing a "run on the bank.")

The alternative solution focused on the basic premise that employees should pay for part of their retiree medical insurance[3]. This became the first major hurdle during the negotiation process because virtually every employee (and their attorneys/chief negotiators) had grown to believe the city was unconditionally obligated to pay their medical insurance post-retirement forever…no questions asked. Despite the fact the city and its legal counsel believed that no vested[4] legal right existed prior to retirement[5] and were willing to go the distance to prove it, the "entitlement

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[3] The Assistant City Manager's theory was to leverage the same argument that pension funds such as CalPERS use when suggesting that future annuitants should pay a larger portion of their pension premiums while still employed.

[4] According to Merriam-Webster, *vested* is defined as "fully and unconditionally guaranteed as a legal right, benefit, or privilege." http://www.merriam-webster.com/dictionary/vested?show=0&t=1404832719

[5] Most MOUs provided for an employee to receive retiree medical benefits (and possibly dependent spousal coverage also) for the rest of their lives (and possibly the lives of any dependent spouse) at the point when the employee retired and "exchanged" accrued sick or vacation leave hours (e.g., anywhere from 300 hours to 1,000 hours depending upon which labor group the employee belonged to at the time of retirement and/or how many years of fulltime service they had with Inglewood).

mentality" of the labor groups sustained this misguided belief, which was ingrained in their version of reality, and even hinting that this was false sent shockwaves through the employee organization and brought threats of massive lawsuits and immediate impasse. Also, morale among the city's employees was at rock bottom because of the three years of mandatory furloughs, workforce reductions, and merit pay freezes. The storm had clearly grown worse.

Developing Proposals and Meeting with the Labor Groups

With a unanimously supportive City Council, the city's negotiation team began meeting with each of the six labor groups. Except for the executive group (IEO) whose negotiators understood the issues at hand and genuinely wanted to help come up with a workable solution, the other five groups were much less hospitable. Their attorneys/chief negotiators dug in for a long fight. Clearly, the major issue was retiree medical. While the groups begrudgingly accepted the actuarial analysis with limited discourse (even the union with their high-priced financial analysts quickly surrendered to the accuracy and validity of our actuarial analysis), it was clear they were not going to simply give into the city's demands.

And so began the cyclic redundancy among the groups: meeting after meeting, proposal followed by counter-proposal followed by another counter-proposal followed by another and another and another. Each proposal was painstakingly scrutinized, evaluated, and completely analyzed as to cost. The depth of these analyses required a great deal of mathematical and actuarial effort on our part because the City Council needed to know and understand each aspect of the proposal packages so they could provide effective direction to the city's negotiation team. The high level of mathematical and technical expertise of the assistant city manager proved invaluable. He was able to analyze each component of each proposal and establish a baseline cost breakdown that allowed an apples-to-apples comparison which made it easier for the City Council to digest and provided a basis for direction to staff. Furthermore, it eliminated the potential that a labor group might try to confuse the city's negotiation team with complexities or *slip something under the rug* that would come back to haunt the city later.

There was underlying benefit to having strong mathematical and technical capabilities beyond the obvious. The City Council grew comfortable with the assistant city manager's ability to provide insight and guidance based upon his comprehensive understanding of the long-term impacts of the proposals. As they began accepting his justifications and recommendations, his ability strengthened. The labor groups began to realize the power and influence he had with the decision makers, and this undoubtedly reduced their ability to persuade the City Council even in vane attempts to do "end runs." In addition, the police officers association and police management association developed a great deal of respect for him, which created a more cohesive bond of trust at the table.

Nearing Agreement with the First Group

Not even the executive group, whose first counter proposal early in the negotiations process addressed every component of what the city asked for, was really interested in being the first group to ratify an agreement for fear larger groups might negotiate something better. The City Council, on the other hand, needed a deal to establish a baseline that other labor groups would hopefully follow. As we neared final agreement with the executive group, the City Council, who had become quite adept at understanding the fiscal implications of the proposals, made it known that they would make a limited *deficit spending commitment*[6] to try to solve the retiree medical issue meaning that those labor groups who came to the table and reached an agreement with the city the quickest would likely get the best deal, and those labor groups that stalled or refused to participate would get the least attractive deal.

As the executive group was nearing agreement, the City Council agreed to extend their contract month-to-month to give them time to work out details and call for a ratification vote. Despite heated debates and a few bruised feelings, the police officers association and the police management association were both actively working toward respective deals, so the City Council granted these two labor groups month-to-month extensions of their respective MOUs to work out their details. This left the three remaining labor groups at impasse (SEIU, IMEO, and IPCMA) with little hope of reaching consensus.

A Deal is Reached

In early February, the executives ratified a deal. The basic terms included the following, which were baselines for the other groups:

1. Cash out of up to 1,000 hours of sick leave at 100% value instead of the typical 50% and deposit into an employee-based Retiree Health Savings (RHS) Plan[7].

Even though this provision resulted in several hundred thousand dollars of deficit spending out of the city's reserves, it provided two significant benefits to the city beyond the elimination of the unsustainable retiree medical. First, it eliminated a large piece of the predominately unfunded liability associated with accrued sick leave that would have to be paid out at 50% and possibly at higher hourly rates. Second, it put half of the burden of saving for future healthcare costs onto the employee (e.g., half the value of the sick hours converted was already owed to the employee). The benefit to the employee is also significant as the city essentially matched the value of the employee's sick leave, which in some cases equates almost 25% of a year's pay. Furthermore, this money avoids federal or state taxes both at the time of deposit and the time of withdrawal based upon the features of an RHS Plan.

2. One-time money to the employee's RHS Plan (3%, 5%, 10%, or 15% of annual base pay determined by tenure).

This provision was designed to "seed" the employee's RHS Plan account and provide more value for employees with higher levels of tenure.

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6 The city's negotiations strategy called for the use of General Fund reserves to initially pay for the implementation costs associated with eliminating retiree medical. The City Council agreed to earmark approximately $10.5 million over the next three fiscal, with a cap this fiscal year of $3.25 million.

7 A Retiree Health Savings (RHS) Plan is a tax-advantaged savings vehicle exclusively for qualifying medical expenses where the contributions, which can come from the employee and/or the employer, are made pre-tax, and earnings and withdrawals (e.g., distributions) are tax-free. Finally, unlike deferred compensation plans (e.g., 457 Plans, 401a Plans, 401k Plans, 403b Plans, etc.), there is no annual limit as far as contributions are concerned.

3. Ongoing RHS contribution: Employee 2% of salary with City Match of 2%.

This provision was designed to achieve an on-going "cost sharing" as it relates to retiree healthcare savings. When coupled with the tax-advantaged nature of the RHS Plan, the value to the employee is even greater.

4. Departure contribution to RHS Plan (e.g., 3%, 5%, 10%, or 15% of annual base pay determined by tenure) upon separation from the city.

This provision was something the city agreed to with the executives because they were the first to agree. No other labor group received both an initial "seed" deposit and a departure payment, and, similar to item 2 above, it includes a mechanism that provides more value for longer tenure, which in this case helps retain executives.

5. Fixed Medical Premium Stipend/Allotment starting at retirement for 15 years of \$850/month or \$650/month depending upon tenure with the city.

This provision was the result of a spark of creative ingenuity—one of those moments where you think you have looked at things from every possible angle and *voilà*…it hits you! One of the biggest problems with the retiree medical benefit was that it was an unbudgeted and uncapped payment. That is, the city was imprisoned by constant increases in medical premiums year after year, and making things worse, the pool of retirees (and their dependent spouses) also grew as longevities increased. This plus the impact of the economic downturn many have labeled the Great Recession made it virtually impossible from a budgetary perspective to allocate funds to cover the rising costs.

As such, the assistant city manager came up with the idea of offering a fixed dollar amount for a fixed term (15 years or 180 months) in the form of a stipend or allotment toward the retiree's medical premiums. Provided the stipend/allotment goes directly from the city to its third-party benefits administrator and not to the retiree, it is considered tax-free. This allowed the city to amortize itself out of this crisis while still providing a worthwhile benefit. Finally, employees have an irrevocable option of converting the total value of their stipend/allotment (if applicable) at forty percent (40%) value into a one-time RHS contribution at retirement. This was done to allow employees who may choose not to continue on the city's medical insurance plans after retirement to have a way to exchange the value of the stipend/allotment for "up-front" tax-free dollars akin to a person exchanging a winning lottery ticket with a guaranteed payout over a specific time for a smaller amount of immediate cash.

Continued Negotiations and Additional Deals

After nearly six additional months of negotiations (close to 100 sessions), the city reached agreement with two more labor groups: the IPOA and the IPMA. As we hammered out language and the like with the police groups, the remaining three labor groups (SEIU, IMEO, and IPCMA) rejected the city's respective Last, Best, and Final proposals. Despite the rejections, the city continued negotiations with the three groups that had reached impasse with the hope of reaching a tentative agreement.

At the request of SEIU, we entered into "concept" discussions during impasse just prior to using State mediation services and reached tentative agreement with this bargaining group's leadership on a "concept proposal" that would be valid if ratified. If not, then the city's December 2013 Last, Best, and Final proposal stood. The SEIU membership rejected the concept proposal, and we began State mediation. After several sessions whereby SEIU continually increased their demands even beyond the concept proposal they had rejected (which was clearly regressive bargaining), we remained at impasse and began the process of scheduling fact finding, which SEIU attempted to delay.

IMEO and IPCMA entered the State mediation process more quickly than SEIU. During their respective processes, both groups presented unique proposals for eliminating the current retiree medical benefit for future retirees in exchange for tier-based, amortized payments that took into account an employee's tenure with the city. Despite not being able to reach a complete agreement during those six State mediation sessions, both labor groups presented the offers (which were based upon requests the groups had made) to their memberships for a vote prior to fact finding. In mid-May, both groups to our surprise ratified their respective agreements. This left final MOU language modifications and details that took almost four weeks to complete.

On June 17, 2014, the assistant city manager presented five of the six MOUs to the City Council for adoption. This left SEIU as the only labor group without an MOU. With fact finding scheduled in less than a week, the city's negotiation team prepared for one final thrust. The city's team put together an impressive presentation for the fact finding panel, which persuaded the fact finder to ask the labor group's representatives on several occasions why they had not taken the deal. This dramatically turned the tide. SEIU called for an emergency ratification meeting and overwhelmingly ratified the once-rejected "concept" deal a week later.

A summary of the deals that were struck along with the projected cost breakdown appears at the end of this paper in Appendix One. Please feel free to visit the city's website at www.cityofinglewood.org to view the individual MOUs.

Conclusion

All in all, the implementation of the alternative retiree medical benefit plans contained in the six MOUs reduces the unfunded liability attributable to retiree medical from the staggering $199 million to $35.2 million over 30 years. This represents a reduction of almost $164 million or 82%, effectively saving the city from insolvency. While this successfully heroic effort may be over, now the real work begins, as the city must implement the MOUs and ensure they are administered correctly.

The next challenge will be to attack the $117 million liability associated with the existing retirees…

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About the Author:

Mr. Michael Falkow has 25 years of hands-on systems engineering, project management, business development, and executive-level municipal administration experience. He spent fifteen years in the area of digital imaging and information management, developing and implementing large-scale, enterprise-wide solutions across a wide array of industries including, financial services, insurance, legal, medical, and government.

He recently completed a Master of Arts degree in Security Studies (Homeland Defense and Security) from the United States Naval Postgraduate School in Monterey (2013) where he received the outstanding thesis award for his thesis entitled "Does Homeland Security Constitute an Emerging Academic Discipline?" Mr. Falkow also holds a Master of Science in Computer Science with an emphasis in Software Engineering and a Bachelor of Science in Computer Science, with a minor in mathematics both from California State University, Fullerton (1990 & 1994).

Mr. Falkow is a certified Project Management Professional (PMP®) for the past 10 years, and he has served as an online faculty member for the University of Phoenix where he taught courses in project management and systems implementation for their College of Information Systems & Technology and as a part-time lecturer for the College of Engineering and Computer Science at CSUF teaching undergraduate computer science courses.

He has been with the City of Inglewood for the past 11 years where he is currently the Assistant City Manager and Chief Information Officer. In this capacity, Mr. Falkow oversees the Information Technology & Communications (ITC), Parks, Recreation and Library Services, Human Resources, and Parking and Enterprise Services Departments. Mr. Falkow also serves as the city's Deputy Director of Emergency Services where he is responsible for the non-public safety aspects of emergency preparedness & disaster planning. This role affords him the opportunity to work very closely with the city's Police, Public Works, and Finance Departments as well as the City Attorney's office and the Los Angeles County Fire Department. Mr. Falkow also completed the Los Angeles Police Department Reserve Police Officer Academy and is a sworn Level III Reserve Police Officer for the City of Inglewood.

Mr. Falkow also serves as the Commission Advisor to the Inglewood Citizens Police Oversight Commission, and he is a Red Cross Community Ambassador representing Inglewood and South Bay. Finally, Mr. Falkow is on the Board of Directors of the California State University, Fullerton Alumni Association.

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Appendix One—MOU Highlights

Bargaining Unit and MOU Term	Modified Retiree Medical Benefit	Other Terms
IEO Two (2) Years MOU Expires December 31, 2015	1. Conversion of up to 1,000 hours of Sick Leave at 100% value to Retiree Health Savings (RHS) Plan. 2. One-Time "Seed" money to RHS Plan (e.g., 3%, 5%, 10%, or 15% of base pay based on tenure). 3. RHS Contribution: Employee 2% with City Match of 2%. 4. Departure contribution to RHS Plan (e.g., 3%, 5%, 10%, or 15% of base pay based on tenure). 5. Fixed Medical Premium Stipend/Allotment at Retirement for 15 years of $850/month or $650/month depending upon tenure with the City.	1. Ten (10) Range Point increase in salaries across the board in exchange for employees paying 10% of the cost of CalPERS. 2. Elimination of EPMC (Employer Paid Member Contributions). 3. Freezing of existing Vacation and Sick Leave and implementation of a Paid Time Off (PTO) Plan with 400-hour Cap.

Bargaining Unit and MOU Term	Modified Retiree Medical Benefit	Other Terms
IPMA Three-and-one-half (3½) Years MOU Expires June 30, 2017	Those unit employees eligible for a service-related retirement prior to May 1, 2014, are grandfathered into the existing retiree medical plan (e.g., approximately eight [8] employees). Those unit employees not eligible for a service-related retirement prior to May 1, 2014, will receive the following: a. Conversion of up to 1,000 hours of Sick Leave at 50% value to Retiree Health Savings (RHS) Plan spread over three (3) years. b. One-Time "Seed" money to RHS Plan (e.g., 10% or 12.5% of base pay based on tenure) spread over three (3) years. c. Fixed Medical Premium Stipend/Allotment at Retirement for fifteen (15) years of $900/month or $500/month depending upon tenure with the City.	1. Thirteen and a half (13½) Range Point increase in salaries across the board over three (3) years (e.g., four [4], five and a half [5½], and four [4]) in exchange for employees paying 12% of the cost of CalPERS (e.g., four percent [4%], four percent [4%], and four percent [4%]). 2. Phased-in elimination of EPMC (Employer Paid Member Contributions) over three (3) years.

<table>
<tr><th>Bargaining Unit and MOU Term</th><th>Modified Retiree Medical Benefit</th><th>Other Terms</th></tr>
<tr><td>IPOA

Three-and-one-half (3½) Years

MOU Expires June 30, 2017</td><td>Those unit employees eligible for a service-related retirement prior to May 1, 2014, are grandfathered into the existing retiree medical plan (e.g., approximately three [3] employees). Those unit employees not eligible for a service-related retirement prior to May 1, 2014, will receive the following Tier-based benefits based upon years of fulltime service as defined in the new IPOA MOU:

TIER 1
a. Conversion of up to 500 hours of Sick Leave and/or Vacation Leave at 100% value to Retiree Health Savings (RHS) Plan spread over three (3) years.

b. Fixed Medical Premium Stipend/Allotment at Retirement for fifteen (15) years of $900/month.

TIER 2
a. Conversion of up to 500 hours of Sick Leave and/or Vacation Leave at 75% value to Retiree Health Savings (RHS) Plan spread over three (3) years.

b. Fixed Medical Premium Stipend/Allotment at Retirement for fifteen (15) years of $500/month.

c. RHS Contribution:
Employee 2% with City Match of 2%.

TIER 3
a. RHS Contribution:
Employee 2% with City Match of 2%.

b. One-Time “Seed” money to RHS Plan (e.g., 20% of base pay based) spread over four (4) years.

TIER 4
a. RHS Contribution:
Employee 2% with City Match of 2%.

b. One-Time “Seed” money to RHS Plan (e.g., 5% of base pay based) spread over four (4) years.</td><td>1. Thirteen and a half (13½) Range Point increase in salaries across the board over three (3) years (e.g., four [4], five and a half [5½], and four [4]) in exchange for employees paying 12% of the cost of CalPERS (e.g., four percent [4%], four percent [4%], and four percent [4%]).

2. Phased-in elimination of EPMC (Employer Paid Member Contributions) over three (3) years.</td></tr>
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Bargaining Unit and MOU Term	Modified Retiree Medical Benefit	Other Terms
IMEO Three (3) Years MOU Expires December 31, 2016	Two Options to Choose From: <u>Option A</u> Option A is $1,000 per year of fulltime service. <u>**OR**</u> <u>Option B</u> Option B is a tier-based payment structure based upon fulltime tenure with the City as follows: *TIER 1*: $90,000 over 5 years (25 or more years of fulltime service) *TIER 2*: $75,000 over 8 years (20 to less than 25 years of fulltime service) *TIER 3*: $55,000 over 8 years (15 to less than 20 years of fulltime service) *TIER 4*: $35,000 over 8 years (10 to less than 15 years of fulltime service) *TIER 5*: $20,000 over 8 years (5 to less than 10 years of fulltime service) *TIER 6*: Same as Option A (less than 5 years of fulltime service) *NOTE: Payments terms vary.*	1. Ten (10) Range Point increase in salaries across the board in exchange for employees paying 10% of the cost of CalPERS. 2. Elimination of EPMC (Employer Paid Member Contributions).

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<tr><th>Bargaining Unit and MOU Term</th><th>Modified Retiree Medical Benefit</th><th>Other Terms</th></tr>
<tr><td>IPCMA

Four (4) Years
MOU Expires
December 31, 2017</td><td>Two Options to Choose From:

<u>Option A</u>
Option A is $1,000 per year of fulltime service.

<u>**OR**</u>

<u>Option B</u>
Option B is a tier-based payment structure based upon fulltime tenure with the City as follows:

TIER 1: $90,000 over 5 years
(25 or more years of fulltime service)

TIER 2: $60,000 over 8 years
(15 to less than 25 years of fulltime service)

TIER 3: $40,000 over 8 years
(10 to less than 15 years of fulltime service)

TIER 4: $25,000 over 8 years
(5 to less than 10 years of fulltime service)

NOTE: Payments terms vary across Tiers.</td><td>1. Ten (10) Range Point increase in salaries across the board in exchange for employees paying 10% of the cost of CalPERS.

2. Elimination of EPMC (Employer Paid Member Contributions).</td></tr>
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NOTE: Unit employees have an irrevocable option of converting the total value of their stipend/allotment (if applicable) at forty percent (40%) into a one-time RHS contribution at retirement.

APPROXIMATE COSTS ASSOCIATED WITH THE IMPLEMENTATION OF EACH MOU

YEAR	IEO	IPMA	IPOA	SEIU	IMEO	IPCMA	BARGAINING GROUP ANNUAL TOTALS	EXISTING RETIREES	ESTIMATED ANNUAL GRAND TOTAL
2014	$485,975	$379,432	$543,287	$792,841	$814,750	$84,000	$3,100,285	*$5,150,000*	$8,250,285
2015	$24,496	$455,515	$820,197	$422,936	$814,750	$84,000	$2,621,894	*$5,415,581*	$8,037,475
2016	$82,299	$469,216	$804,428	$422,732	$814,750	$84,000	$2,677,425	*$5,374,161*	$8,051,586
2017	$45,485	$296,551	$432,011	$430,046	$814,750	$84,000	$2,102,843	*$5,332,742*	$7,435,585
2018	$52,320	$339,761	$418,076	$456,616	$814,750	$84,000	$2,165,523	*$5,280,968*	$7,446,491
2019	$58,136	$441,701	$405,000	$475,279	$508,750	$30,000	$1,918,866	*$5,229,194*	$7,148,060
2020	$52,919	$497,353	$392,750	$225,610	$508,750	$30,000	$1,707,382	*$5,177,419*	$6,884,801
2021	$75,070	$477,236	$381,292	$224,156	$508,750	$30,000	$1,696,504	*$5,125,645*	$6,822,149
2022	$69,045	$454,299	$370,596	$233,443			$1,127,383	*$5,063,516*	$6,190,899
2023	$86,598	$454,657	$352,670	$235,082			$1,129,007	*$5,001,387*	$6,130,394
2024	$79,165	$462,996	$343,015	$233,197			$1,118,373	*$4,928,903*	$6,047,276
2025	$66,600	$493,420	$334,022	$231,921			$1,125,963	*$4,856,419*	$5,982,382
2026	$66,600	$493,952	$309,561	$205,992			$1,076,105	*$4,773,581*	$5,849,686
2027	$66,600	$442,538	$301,015	$205,757			$1,015,910	*$4,680,387*	$5,696,297
2028	$66,600	$441,278	$293,023	$193,365			$994,266	*$4,576,839*	$5,571,105
2029	$66,600	$416,787	$285,564	$181,372			$950,323	*$4,452,581*	$5,402,904
2030	$66,600	$387,541	$278,618	$161,339			$894,098	*$4,317,968*	$5,212,066
2031	$56,400	$370,288	$272,165	$154,229			$853,082	*$4,162,645*	$5,015,727
2032	$38,400	$356,942	$266,189	$139,010			$800,541	*$3,986,613*	$4,787,154
2033	$38,400	$332,220	$260,673	$103,053			$734,346	*$3,789,871*	$4,524,217
2034	$28,200	$276,336	$255,603	$75,732			$635,871	*$3,572,419*	$4,208,290
2035	$28,200	$217,207	$250,964	$69,623			$565,994	*$3,323,903*	$3,889,897
2036	$18,000	$197,153	$246,745	$63,706			$525,604	*$3,044,323*	$3,569,927
2037	$7,800	$205,390	$242,933	$45,360			$501,483	*$2,733,677*	$3,235,160
2038		$214,040	$239,517	$35,568			$489,125	*$2,391,968*	$2,881,093
2039		$223,122	$236,490	$30,116			$489,728	*$2,008,839*	$2,498,567
2040		$224,558	$233,840	$24,790			$483,188	*$1,584,290*	$2,067,478
2041		$226,471	$231,562	$19,576			$477,609	*$1,118,323*	$1,595,932
2042		$228,884	$229,649	$10,263			$468,796	*$610,935*	$1,079,731
2043		$231,824	$228,095	$9,442			$469,361	*$51,774*	$521,135
2044			$226,894	$8,703			$235,597		$235,597
2045									
TOTALS	$1,726,508	$10,708,668	$10,486,444	$6,120,855	$5,600,000	$524,298	$35,152,475	*$117,116,871*	$152,269,346