



**City of Rochester Hills
AGENDA SUMMARY
NON-FINANCIAL ITEMS**

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Legislative File No: 2009-0485

TO: Mayor and City Council Members

FROM: Keith Sawdon, Director of Finance, Ext 2535

DATE: October 23, 2009

SUBJECT: Retiree Health Care Benefit Trust – Implicit Rate Subsidy – First Reading

REQUEST:

We are requesting City Council approve the creation of a Retiree Health Care Benefit Trust – Implicit Rate Subsidy and insert said Implicit Rate Trust into the City's Code of Ordinances.

BACKGROUND:

The City over time has negotiated several retiree health care benefits. Those benefits include the ability for a retired employee to purchase the City's health care insurance at the City's blended rate.

This program have been in place for a number of years and with the adoption of GASB 45, the City must now identify its long-term liability for this program and recognize those liabilities in its financial statements.

The City Council has already taken several steps in recognizing this liability. In February of 2008, City Council received the Actuarial report that identified the liability for this program based on current city policy and certain actuarial assumptions (used within that profession).

For the City to be recognized (by the accounting profession (Audit Firm, GASB, etc.) and City Creditors (bond holders, future bond holders and rating agencies)) for addressing this Other Post Employment Benefits (OPEB) liability, the funds need to be placed in a trust, thus segregating them away from other City assets and therefore making those funds only available for this purpose.

The Implicit Rate Subsidy Trust document being presented tonight is based on the previously City Council approved Trust document for the Supplemental Benefit and was structured and reviewed by Cynthia Billings from the firm of Sullivan, Ward so it too would receive IRS approval as a Section 115 Trust.

In addition, we have incorporated changes that have been requested by the IRS to the Supplemental Trust document into this trust document being presented to you tonight for first reading.

RECOMMENDATION:

It is our recommendation that City Council adopt, for first reading, the Implicit Rate Subsidy Trust document which will be incorporated into the City's Code of Ordinances.