



500 West Big Beaver
Troy, MI 48084
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Date: April 14, 2023

To: Honorable Mayor and City Council Members

From: Mark F. Miller, City Manager
Lori Grigg Bluhm, City Attorney

Subject: Volunteer Firefighter Incentive Plan (VFIP) Replacement Plan

Background

In late 2022, the Internal Revenue Service (“IRS”) determined the City of Troy Incentive Plan for Volunteer Firefighters (“Current VFIP”), although drafted in good faith as a length of service award plan (“LOSAP”), doesn’t meet the IRS’s criteria to be a LOSAP and therefore has undesirable tax consequences for both the volunteer firefighters and the City. The City made extensive efforts to challenge the IRS determination, but was unsuccessful in changing the IRS’s characterization of the Current VFIP. Accordingly, the City plans to terminate the Current VFIP and establish a replacement incentive plan (“Replacement Plan”) in order to continue retaining and rewarding volunteer firefighters.

As required by the Current VFIP, on January 11, 2023, the City provided official notice to the Voluntary Incentive Committee and Fire Leadership of its intent to close the Current VFIP and associated trust and establish a Replacement Plan and Trust on April 17, 2023. Notice to the individual firefighter volunteers and retirees, and to the public through the City’s main webpage, followed shortly thereafter. The Current VFIP created the Voluntary Incentive Committee, which is “a committee comprised of representatives selected by each of the six fire stations in the City.” (Section 1:102 (18)). Any proposed Replacement Plan would also have a Voluntary Incentive Committee to provide the volunteer firefighters with a voice and a way to quickly and completely disseminate information to the individual six fire stations. The City provided the Voluntary Incentive Committee with an initial proposed draft Replacement Plan in January, which was designed to retain current volunteer firefighters and continue rewarding them for performing an essential governmental function. However, the initial proposed draft Replacement Plan prompted dissatisfaction from many volunteer firefighters.

The City and the Voluntary Incentive Committee met again on January 26, 2023 to discuss the closure of the Current VFIP and associated trust and establishment of a Replacement Plan and Trust. The City and the Voluntary Incentive Committee met four more times (February 9, March 2, March 16 and March 23) to discuss the closure of the Current VFIP and associated trust and establishment of a Replacement Plan and Trust. Based on input from the Voluntary Incentive Committee and feedback from others, City Administration has prepared an updated Replacement Plan recommendation for City Council consideration.

The Replacement Plan is similar to the Current VFIP in many ways. All eligible firefighters will be automatically enrolled into the Replacement Plan. Participants vest and become eligible for distributions after 10 years of service. Station officer contributions are 30% greater than standard contributions. The major difference between the Current VFIP and the Replacement Plan is that the Current VFIP is a defined benefit-style plan, which is based on actuarial calculations, and the



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Replacement Plan is a defined contribution-style plan, which is uniform for all volunteers based on start and end dates and lengths of service.

The Current VFIP provides that the incentive benefits due an eligible vested Participant or Eligible Former Participant shall be determined at the time he or she terminates participation (section 1:202(1)). Section 1:202(2) provides eligibility criteria that Participants must satisfy in order to receive incentive benefit payments:

- a) Ten (10) years of incentive service credit with at least five consecutive years as a participant after returning (if applicable), and is at least age fifty-five (55);
- b) Twenty-five (25) or more years of incentive service credit as a volunteer firefighter with at least five consecutive years as a participant after returning (if applicable) and has attained fifty (50) years of age; or
- c) A Participant having attained thirty (30) years of incentive service credit as a volunteer firefighter regardless of age, with at least five consecutive years as a participant after returning (if applicable).

Section 1:202(3) provides Eligible Former Participants with ten (10) or more years of service as a volunteer firefighter, but who separated from volunteer service prior to meeting the foregoing age requirements, are eligible to commence receipt of incentive benefit payments from the Current VFIP upon attainment of age sixty (60). Section 1:202(4) provides that incentive benefits shall be made in monthly installments. Section 1:202(5) provides that the annual incentive benefit will be equal to a specific dollar amount (multiplier) multiplied by the eligible years of service. Effective July 1, 2022, the multiplier was \$857. For example:

Service Credit	Multiplier	Annual Incentive Benefit	Monthly Installments
10	\$857	\$8,570	\$714
25	\$857	\$21,425	\$1,785
30	\$857	\$25,710	\$2,143

Section 1:202(7) provides that a Participant or an Eligible Former Participant may elect to receive reduced incentive benefits in accordance with one of four options set forth in the Current VFIP.

Rather than determining incentive benefits at the time a Participant terminates, the Replacement Plan provides Participants with lump sum payments after each Vesting Date of the following while the Participant continuously performs Firefighting Services:

- (a) “Tier 1 Vesting Date” means the date on which the Participant completes 120 Months of Credited Service (12 months x 10 years = 120 months).
- (b) “Tier 2 Vesting Date” means the date on which the Participant completes 180 Months of Credited Service (12 months x 15 years = 180 months).
- (c) “Tier 3 Vesting Date” means the date on which the Participant completes 240 Months of Credited Service (12 months x 20 years = 240 months).
- (d) “Tier 4 Vesting Date” means the date on which the Participant completes 300 Months of Credited Service (12 months x 25 years = 300 months).



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(e) “Tier 5 Vesting Date” means the date on which the Participant completes 360 Months of Credited Service (12 months x 30 years = 360 months).



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Financial

Effective May 1, 2023, the Replacement Plan will provide the following contributions:

Tier	Years	Standard Tier Contribution	Annualized Tier Contribution
1	10	\$75,000	\$7,500
2	5	\$75,000	\$15,000
3	5	\$75,000	\$15,000
4	5	\$75,000	\$15,000
5	5	\$75,000	\$15,000
Total	30	\$375,000	

Tier	Years	Station Officer Tier Contribution	Annualized Tier Contribution
1	10	\$97,500	\$9,750
2	5	\$97,500	\$19,500
3	5	\$97,500	\$19,500
4	5	\$97,500	\$19,500
5	5	\$97,500	\$19,500
Total	30	\$487,500	

Beginning July 1, 2024, Standard Tier Contribution and Station Officer Tier Contribution amounts will be increased annually consistent with the Consumer Price Index for the Detroit Metropolitan area, but in no event shall any annual increase be greater than 5%, for the City's classified and exempt employees. For example:

Effective Date	% Change	\$ Change	Standard Tier Contribution
July 1, 2024	3.00%	\$2,250	\$77,250
July 1, 2025	3.00%	\$2,318	\$79,568
July 1, 2026	3.00%	\$2,387	\$81,955
July 1, 2027	3.00%	\$2,459	\$84,413
July 1, 2028	3.00%	\$2,532	\$86,946
July 1, 2029	3.00%	\$2,608	\$89,554
July 1, 2030	3.00%	\$2,687	\$92,241
July 1, 2031	3.00%	\$2,767	\$95,008
July 1, 2032	3.00%	\$2,850	\$97,858
July 1, 2033	3.00%	\$2,936	\$100,794

Effective Date	% Change	\$ Change	Officer Tier Contribution
July 1, 2024	3.00%	\$2,925	\$100,425
July 1, 2025	3.00%	\$3,013	\$103,438
July 1, 2026	3.00%	\$3,103	\$106,541
July 1, 2027	3.00%	\$3,196	\$109,737
July 1, 2028	3.00%	\$3,292	\$113,029
July 1, 2029	3.00%	\$3,391	\$116,420
July 1, 2030	3.00%	\$3,493	\$119,913
July 1, 2031	3.00%	\$3,597	\$123,510
July 1, 2032	3.00%	\$3,705	\$127,215
July 1, 2033	3.00%	\$3,816	\$131,032

The Standard Tier Contribution and Station Officer Tier Contribution amounts in effect on the Participant's applicable Vesting Date shall be utilized for purposes of calculating the Participant's Account value. In other words, each Participant will receive a lump sum payment based on the Tier Contribution amount in effect on the Vesting Date rather than the Tier Contribution amount in effect at the time the performed Firefighting Services. For example:



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Tier 1 Standard

Service as of 04/30/23	Tier Start Date	Approximate Vesting Date	Tier Proration	Standard Tier Contribution	Prorated Contribution	Average \$/Year
9.75	05/01/23	07/31/23	2.50%	\$75,000	\$1,875	\$7,500
8.67	05/01/23	08/28/24	13.30%	\$77,250	\$10,274	\$7,725
7.67	05/01/23	08/29/25	23.30%	\$79,568	\$18,539	\$7,957
6.75	05/01/23	07/31/26	32.50%	\$81,955	\$26,635	\$8,195
5.50	05/01/23	10/30/27	45.00%	\$84,413	\$37,986	\$8,441

Tier 1 Station Officer

Service as of 04/30/23	Tier Start Date	Approximate Vesting Date	Tier Proration	Officer Tier Contribution	Prorated Contribution	Average \$/Year
9.75	05/01/23	07/31/23	2.50%	\$100,425	\$2,511	\$10,043
8.75	05/01/23	07/30/24	12.50%	\$103,438	\$12,930	\$10,344
7.33	05/01/23	12/31/25	26.70%	\$106,541	\$28,446	\$10,654
6.58	05/01/23	10/01/26	34.20%	\$109,737	\$37,530	\$10,974
5.42	05/01/23	11/28/27	45.80%	\$113,029	\$51,767	\$11,303

Tier 2 Standard

Service as of 04/30/23	Tier Start Date	Approximate Vesting Date	Tier Proration	Standard Tier Contribution	Prorated Contribution	Average \$/Year
14.08	05/01/23	04/01/24	18.40%	\$75,000	\$13,800	\$15,000
13.83	05/01/23	07/01/24	23.40%	\$77,250	\$18,077	\$15,450
12.83	05/01/23	07/01/25	43.40%	\$79,568	\$34,532	\$15,914
11.50	05/01/23	10/30/26	70.00%	\$84,413	\$59,089	\$16,883

Tier 2 Station Officer

Service as of 04/30/23	Tier Start Date	Approximate Vesting Date	Tier Proration	Officer Tier Contribution	Prorated Contribution	Average \$/Year
13.67	05/01/23	08/28/24	26.60%	\$100,425	\$26,713	\$20,085
12.33	05/01/23	12/31/25	53.40%	\$103,438	\$55,236	\$20,688
12.33	05/01/23	12/31/25	53.40%	\$103,438	\$55,236	\$20,688
11.67	05/01/23	08/29/26	66.60%	\$106,541	\$70,956	\$21,308
10.08	05/01/23	04/01/28	98.40%	\$109,737	\$107,981	\$21,947

The annual cost will depend on the number of volunteers and their years of credited service. Age is a factor in the Current VFIP, but is not a factor in the Replacement Plan. Each fire station is authorized for 30 volunteers including six officers (180 total potential Participants). Actual volunteers and years of credited service for the last five years was as follows:



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Year Ended	0-9 Years	10-30 Years	Active Participants
December 31, 2018	97	55	152
December 31, 2019	100	55	155
December 31, 2020	78	58	136
December 31, 2021	78	62	140
December 31, 2022	79	60	139
Average	86	58	144

The annual cost will also depend on the number of station officers. Each fire station is authorized for six (6) station officers (36 total potential station officers). There are currently eight (8) station officers with 0-9 years and 23 station officers with 10-30 years.

The following table calculates the estimated annual cost of the Replacement Plan based on 144 volunteers (30 station officers and 114 other firefighters) with 80 volunteers (56%) in Tier 1 and 64 volunteers (44%) in Tiers 2-5. This is consistent with the recent averages, but more than the current number of Participants (31 station officers and 104 other firefighters).

Tier	Firefighter		Officer		Subtotal	FICA (7.65%)	Grand Total
	\$/Year	Firefighters	\$/Year	Officers			
Tier 1	\$7,500	72	\$9,750	8	\$618,000	\$47,277	\$665,277
Tiers 2-5	\$15,000	42	\$19,500	22	\$1,059,000	\$81,014	\$1,140,014
		114		30			\$1,805,291

This estimated annual cost of the Replacement Plan is approximately \$1.1 million greater than the normal cost of the Current VFIP (approximately \$700,000; see table below). However, the City's Actuarially Determined Contribution (ADC) associated with the Current VFIP has been approximately \$1.7 million in recent years because of the Current VFIP's Unfunded Actuarial Accrued Liability (UAAL). The City has been spending approximately \$1 million annually to fully fund the UAAL over a 25-year closed amortization period. Instead, the UAAL will be fully funded in the current fiscal year when the Current VFIP is closed and lump sum payments are made. The City's total annual cost would have significantly decreased after the UAAL was fully funded in 23 years. Instead, the cost of the Replacement Plan will continue in perpetuity.

Actuarial Valuation Date	Normal Cost	Unfunded Actuarial Accrued Liability (UAAL) ¹	Actuarially Determined Contribution (ADC)	Fiscal Year Ending
December 31, 2018 &	\$549,733	\$769,539	\$1,319,272	June 30, 2021
December 31, 2019 *	\$738,080	\$1,021,628	\$1,759,708	June 30, 2022
December 31, 2020 &	\$666,454	\$986,259	\$1,652,713	June 30, 2023
December 31, 2021	\$705,555	\$984,429	\$1,689,984	June 30, 2024
December 31, 2022	\$742,381	\$922,404	\$1,664,785	June 30, 2025

1 Amortized over a 25-year closed period (23 years remaining as of December 31, 2022)
& After changes in actuarial assumptions
* After changes in benefit provisions



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Recommendation

City Administration recommends City Council approve the recommended attached Replacement Plan for Volunteer Firefighters, and continue to provide annual budgetary transfers to provide funding.