

# CATA Memorandum

To: Michigan Department of Treasury, Local Retirement Reporting Team

From: Patrick S. Lemon, Director of Finance

Date: 12/28/2018

Sub: Capital Area Transportation Authority Retirement Health Benefit Corrective Action Plan

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CATA's Other Post-Employment Benefits (hereinafter "OPEB") liability as of the date of the most recent valuation (September 30, 2018) stood at \$50,950,992, while OPEB Trust assets stood at \$8,155,213, leaving a net OPEB liability of \$42,795,779.

CATA's obligation to cover employees following retirement stems from two sources:

1. CATA's collective bargaining agreement with the Amalgamated Transit Union (hereinafter the "Union Contract"), and
2. CATA's Administrative Employee Guidebook (hereinafter the "Admin Handbook").

It should be noted that CATA's existing Union Contract expires on November 30, 2019.

## **EXISTING PLAN PROVISIONS**

The provisions of the Union Contract that are significant to the calculation of the OPEB liability are as follows:

- Eligibility/Service period – the existing Union Contract contains three distinct eligibility groups depending on an employee's hire date.

Group	Hire Date After:	Hire Date Before	Service Period In Years	Retirement Age
1	N/A	12/1/2004	1	59
2	12/1/2004	12/1/2009	5	59
3	12/1/2009	7/23/2015	10	60

- The level of medical benefits to be provided to retirees (or their spouses) prior to age 65 must match that provided to active employees covered under the Union Contract.
- The level of medical benefits to be provided to retirees (or their spouses) age 65 and older must be equal to that provided under Medicare Supplemental benefits underwritten by BC/BS of MI.
- Employees that retire early, with at least 10 years of service, cannot receive OPEB benefits until they reach retirement age.
- Employees that retire early with less than 10 years of service are not eligible at any time for OPEB benefits.

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- Surviving spouses are to receive retiree medical benefits only until age 65 or for 20 years, whichever occurs first.
- Retirees age 65 or older are to receive the same prescription drug benefits as the pre-age 65 retirees.
- Spouses of retirees that have other medical benefits available to them will not be covered under CATA's retiree medical plan.
- Retirees are required to pay participation fees to CATA to be covered under retiree medical benefits.

The provisions of the Administrative Plan are virtually identical to that of the Union Plan.

## **ESTABLISHMENT OF OPEB TRUST**

CATA's OPEB Trust was created September 28, 2009.

## **HISTORY OF TRUST FUNDING AND PARTICIPATION FEES**

CATA has made the following employer contributions to the OPEB Trust since its creation in 2009:

Year	Contribution
2010	\$788,000
2011	\$441,000
2012	\$463,050
2013	\$510,512
2014	\$562,839
2015	\$536,038
2016	\$0
2017	\$590,980
2018	\$620,529

Retirees participating in CATA's Retirement Health Benefit Plan have been required to make contributions to the Plan since 2005. The annual contributions required of retirees pursuant to the plan have been/will be as follows:

3/1/2005 – 2/28/2006 \$9/week

3/1/2006 – 2/28/2007 \$10/week

3/1/2007 – 2/28/2008 \$11/week

3/1/2008 – 2/28/2009 \$12/week

3/1/2009 – 7/22/2015 \$13/week

7/23/2015 – 2/28/2016 \$13/week, plus \$3/week for dental and vision

3/01/2016 – 2/28/2017 \$22/week, plus \$3/week for dental and vision

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3/01/2017 – 2/28/2018 \$24/week, plus \$3/week for dental and vision

3/01/2018 – 2/28/2019 \$26/week, plus \$3/week for dental and vision

3/01/2019 – 11/30/2019 \$28/week, plus \$3/week for dental and vision

## **OTHER ACTIVITIES TO DATE**

In May 2018, CATA management formed a committee to investigate and understand its current OPEB situation, to develop an OPEB corrective action plan and, ultimately, to implement the CAP. The committee consists of CATA's Chief Executive Office, Deputy Chief Executive Officer, Director of Finance and Human Resources Manager.

In June 2018, CATA engaged Plante Moran (an international certified public accounting and consulting firm) to perform an analysis and evaluation of CATA's OPEB plan and to present and educate CATA's management on potential options to address its underfunded OPEB obligation.

In October 2018, Plante Moran provided CATA with a report that provided information concerning retiree medical findings, alternative plan designs and cost impacts of potential changes to the plan.

## **CORRECTIVE ACTION PLAN**

CATA management expects to begin negotiations with the ATU towards the end of 2019. We believe that a solution will need to be crafted with the ATU that considers significant structural changes to the plan, potential changes to the Service Period and Retirement Age, potential changes to the level of benefits, and increased funding by both CATA and the participants. However, at this time, CATA management is not willing to document such changes until it has had an opportunity to work with the ATU as providing such changes via this CAP would likely weaken CATA's negotiating position.

## **APPROVAL BY CATA'S GOVERNING BODY**

CATA intends to present its CAP to its Board of Directors at the February 20, 2019 meeting of the Board.