



MEMORANDUM

TO: Ann Arbor City Council
FROM: Howard S. Lazarus, City Administrator
SUBJECT: Update on Deferred Retirement Option Plan (DROP) for AAPD
DATE: February 18, 2020

In conjunction with the approval of the FY2020 Budget, City Council established the requirement for the City Administrator “to evaluate alternatives and tools (such as the DROP) and deliver to Council by November 30, 2019 recommendations/tools to improve the City’s hiring, on-boarding, and retention processes for Police Officers.” This memorandum is intended to provide an interim update to Council on these matters

Administrative/Process Changes

The FY2019 Budget included the addition of police cadet positions. The City has hired three cadets who are working with AAPD prior to attending a police academy. In general, cadet participants and AAPD have positive experiences with the cadet program and may look to expand it in the future. Interviews have recently been conducted for an incoming class of cadets.

Over the past year, the Human Resources Unit has initiated implementation of new processes to manage recruitment and on-boarding of new staff members. These enhancements include upgrades to our Ultipro HRIS (human resources information system), which have allowed hiring managers (including AAPD) to have greater visibility into the hiring pools and on-boarding schedules. While these improvements are still “works-in-progress,” the preliminary feedback from hiring managers has been positive.

Deferred Retirement Option Program (DROP)

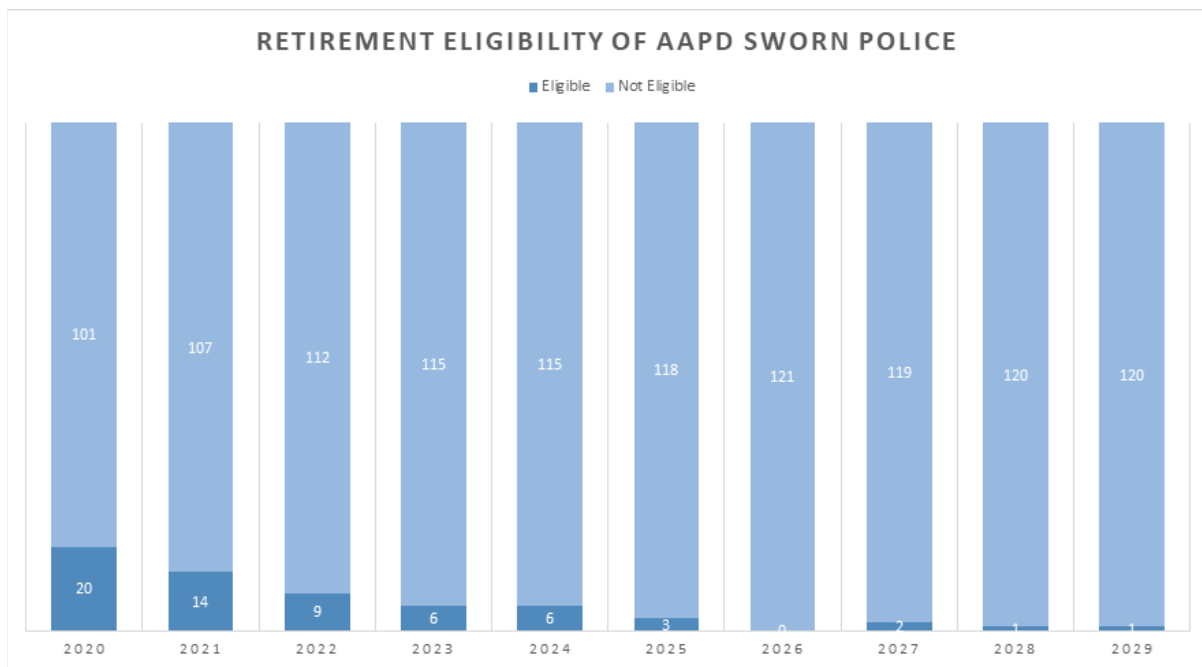
The amendment included a requirement to report on the applicability and feasibility of using a DROP to address anticipated AAPD officer retirements in the coming years. DROP allows participants to retire under the terms of their pensions and continue to work for their employer while having their monthly retirement benefit accrued to a “DROP Account.” The account accrues a set level of interest/return (3%-4%). Participants may DROP for a proscribed period of time defined by the DROP provisions of the pension plan. At the end of the DROP period, the participants collect their pensions (usually computed as of the date of the start of the DROP) plus

a lump sum of the accumulated benefits, plus interest (and sometimes with contributions) from the DROP.

Implementation of a DROP requires that the City assess the need and the administrative concerns, analyzing the legal and tax parameters, and negotiate the terms of the DROP with the Ann Arbor Police Officers Association (AAPOA) and the Command Officers Association of Michigan (COAM). Each of these considerations is discussed below:

Assessment of Need

If the full and average service duration for an officer is 25 years, then level annual hiring of 4% of the police force would bring on ~5 officers per year, or 25 over the next five years. The chart below depicts 55 officers who are retirement eligible during that period, for a potential additional loss of 30 officers.



Experience from the five-year period 2015-2019 indicates that only 33% of officers eligible for retirement in a given year actually retire during that year (32 of 96). Applying the same percentage to the histogram above, smooths out the curve to a reasonably anticipated loss of 18 officers, which is not significantly different from a more normal retirement profile. However, there is reason to be concerned about the specific impact over the next two years, where there may be atypically high potential turnover.

Aside from the potential loss discussed above, managing the uncertainty of when officers submit their retirement “papers” also creates potential problems. Officers now are only required to provide 30-day notices. In contrast, the timeframe to recruit and qualify a new officer is up to twelve months. There is also a finite capacity in the field training program to accommodate

incoming officers. The DROP would address the uncertainty as to when officers would retire as officers would have to commit to a date certain on the duration of their DROP participation

Administrative Concerns

If a DROP were proposed for adoption, the following administrative requirements would have to be addressed:

- The City of Ann Arbor Employee Retirement System would have to adopt the practices necessary to administer the DROP. While this will create additional administrative requirements, these requirements are not anticipated to be overly burdensome due to the limited applicability of the plan that is anticipated. Any potential impact on the pension fund would also have to be fully vetted.
- The terms and conditions of the DROP would have to be negotiated with both AAPOA and COAM and would not be effective until incorporated into the collective bargaining agreements by a Memorandum of Agreement or other appropriate mechanism. The DROP would be used only as necessary to meet City needs and would not become a vested right.
- The DROP could be augmented by a retention-separation agreement process to further address the uncertainty of retirement dates.

Please do not hesitate to contact me if you have any questions or if can be of further assistance in this matter.

cc: J Fournier
T Crawford
M Cox
E Fox
D Murphy
E Ronewicz
W Orcutt