City of Detroit
Human Resources Department
Labor Relations Division

Coleman A. Young Municipal Center
2 Woodward Avenue - Suite 332
Detroit, Michigan 48226
(313) 224-3860 • TTY:711
(313) 224-0738
www.detroitmi.gov

December 14, 2014

Albert Garrett, President
Michigan Council 25, American Federation of State
County and Municipal Employees, AFL-CIO
25600 W. Lafayette,
Detroit, MI 48226

Mr. Edward McNeil, Spokesperson, Coalition of Detroit Union
Michigan Council 25, American Federation of State
County and Municipal Employees, AFL-CIO
600 W. Lafayette,
Detroit, MI 48226

Re: Retiree Health Program for Certain Active Employees

Dear Albert Garrett and Edward McNeil:

Reference is made to Section 39.A of the collective bargaining agreements ("CBA" or "Agreement") negotiated by the Coalition of Detroit GRS Unions (the "Coalition"), requiring the City of Detroit (the "City") to contribute annually toward retiree health benefits an amount equal to 2% of the base salary of the employees covered by the Agreement. This side letter (the "Side Letter") sets forth the agreement between the Coalition and the City with respect to the retiree health program that the City will provide during the term of the Agreement to active employees covered by the CBA, and for non-Union employees as specified below, who retire from employment from the City on or after January 1, 2015, and during the term of the Agreement.[1] This Side Letter shall expire at the same time as the CBA. This Side Letter and its obligations herein are governed by the Michigan Public Employment Relations Act, as bargaining agreements between the City and Coalition and each union with members within the General Retirement System. This Side Letter Agreement is enforceable by each individual union within GRS and/or the Coalition of Detroit Unions.

The City will establish a voluntary employees' beneficiary association trust ("Non-Safety VEBA") in accordance with Section 501(c)(9) of the Internal Revenue Code of 1986, as amended. The City shall contribute 2% of base salary earnings, for all Eligible Employees (as defined below) to the Non-Safety VEBA for retiree health benefits. The City's contribution shall be retroactive, back to base salary earned since October 1, 2014, and the retroactive contribution shall be made

[1] Based on the terms of applicable collective bargaining agreements, members of AFSCME Local 1863 (crossing guards) are not eligible for retiree medical benefits and the City will contribute to retiree medical benefits only for those members of AFSCME Local 542 (motor city seasonals) who work more than 1440 hour per fiscal year. For purposes of this Side Letter, members who are not eligible for retiree medical benefits shall not be Eligible Retirees.

to the Non-Safety VEBA by or before 20 days from the date the VEBA is able to receive the contribution. The Non-Safety VEBA shall hold and invest the 2% base salary contributions made by the City toward retiree health benefits under the CBA and contributions for other employee groups eligible to participate in the City of Detroit General Retirement System. The City shall have no other contribution or payment obligations to the Non-Safety VEBA. The Non-Safety VEBA trust shall be substantially in the form set forth in Exhibit 1 of this letter, and during the term of the CBA the Non-Safety VEBA trust may be amended solely by the express written agreement of the parties to the CBA (for amendments relating to administration that do not materially and significantly increase the cost of retiree health benefits and those required by law, the parties shall consent without demanding bargaining or concessions of any sort).

The trustees of the Non-Safety VEBA shall establish and administer a health plan for non-safety retirees of the City of Detroit (the "Plan"), which shall provide a Health Reimbursement Arrangement ("HRA") for each Eligible Retiree, as described herein.

Eligibility for retiree health benefits under the Plan will be made available to:

1. covered employees under the CBA;

2. City bargaining unit members represented by unions without a union contract, who are participants in the City of Detroit General Retirement System ("GRS");

3. City employees who are not represented by a member of the Coalition who are participants in the GRS; and

4. Employees of entities where the City (or its General Retirement System) administers the retirement benefits of the entity (i.e., Detroit Public Library) and the entity itself makes contributions to the VEBA for such employees, in an amount as outlined above, unless determined otherwise by the VEBA Board;

(herein defined as "Eligible Employees") provided that any such employees shall only be eligible to receive a benefit if (a) they retire from the City during the term of the CBA, but on or after January 1, 2015, (b) they commence their monthly pension from the GRS (irrespective of any delay from GRS in payment of said benefit), unreduced as a result of early retirement, and (c) they are not ineligible for these retiree medical benefits as a City employee (such retirees, "Eligible Retirees"). No other employees, retirees, or persons shall be treated as Eligible Retirees, Eligibility for retiree health benefits under the Plan for the above-described individuals shall be under terms materially identical to Section 39.A, including the City's obligation to contribute 2% of base salary to the VEBA.

The Plan shall be administered by a third party administrator acceptable to the VEBA trustees. The cost of HRA administration shall be assumed by the Non-Safety VEBA. The Plan shall be structured and implemented in the following manner:

1. The City shall afford each Eligible Retiree the opportunity to make an irrevocable election as part of the application for an unreduced pension from GRS to either begin immediate coverage under an HRA, or defer receipt of the HRA until after the Eligible Retiree attains age 65.

2. For each Eligible Retiree who elects immediate coverage under an HRA, the City shall report the results to the Non-Safety VEBA, and the Non-Safety VEBA shall establish and credit the electing Eligible Retiree's HRA, beginning with the first day of the month following the month in which such election occurs, with a monthly amount. Such amount shall be $125 per month in 2015 and shall be increased by 3% annually (rounding up to the nearest dollar) effective January 2016, and each January thereafter through December 2018. Thus, the monthly amount shall be $129 per month in 2016, $133 per month in 2017, and $137 per month in 2018.

3. For each Eligible Retiree who becomes an Eligible Retiree on or after attaining age 65, or who elects to postpone HRA coverage until age 65, the City shall report the results to the Non-Safety VEBA. The Non-Safety VEBA shall establish the HRA for such an Eligible Retiree to begin the first day of the month following the month in which such Eligible Retiree attains age 65. The Non-Safety VEBA shall be required to notify an Eligible Retiree who elected to postpone HRA coverage of the date that the HRA becomes available. For Eligible Retirees for whom an HRA is established following age 65, the Non-Safety VEBA shall credit toward the HRA a monthly amount. Such amount shall be $360 per month in 2015, and shall be increased by 3% annually (rounding up to the nearest dollar) effective January 2016, and each January thereafter through December 2018. Thus, the monthly amount shall be $371 per month in 2016, $382 per month in 2017, and $394 per month in 2018.

4. The credited monthly HRA amounts described herein shall not be reduced by administrative expenses for HRA and VEBA administration paid out of the VEBA. The Non-Safety VEBA shall not be required to make credits to Eligible Retiree HRAs on or after the expiration of the CBA, except as otherwise provided herein.

5. Notwithstanding the expiration of the CBA and this Side Letter, to the extent that a City employee becomes an Eligible Retiree during the term of this Side Letter, but postpones HRA coverage until his or her attainment of age 65, such Eligible Retiree upon attaining age 65 shall receive credits toward the HRA equal in number of months and amount as if he or she had turned age 65 on the date he or she became an Eligible Retiree for the period from such date through the expiration of this Side Letter. Thus, for example, if John Smith becomes an Eligible Retiree effective July 1, 2016, but postpones HRA coverage until he attains age 65 in June 2019, then notwithstanding the expiration of the CBA and the other

terms of this Side Letter, the Non-Safety VEBA shall establish an HRA for John Smith effective July 1, 2019 and credit it with HRA amounts as if the age-65 HRA had been created on July 1, 2016 and received credits through December 2019, that is, $371 per month in 2019, $382 per month in 2020, and $394 per month in 2021.

MAH/al

Sincerely,

Michael A. Hall

Michael A. Hall
Director of Labor Relations

Date: 8/16/16