



**Harding Township**

Harding Township Committee

**Police Department Study  
Financial Analysis – Part I**

August 13, 2012

# Financial Analysis Objectives

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1. **Police Staffing: All-in-cost** (August Meeting)
  - Explain cost components
  - Determine all-in-cost estimate
  - Cost per hour estimate
2. **Cost Projections** (September Meeting)
  - Assuming current contract
  - Different staffing level scenarios
  - Future liabilities
3. **Cost Projections** (post consultant's report)
  - Different shift schedules, organizational models

# Compensation

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## Primary Components

1. Salary & Payroll Taxes
2. Overtime
3. Pension
4. Healthcare/Drug/Dental
5. Retirement Healthcare
6. Outside Police Work (Off duty work)

# Compensation

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## Primary Components

1. Salary & Payroll Taxes

2. Overtime

**3. Pension**

**4. Healthcare/Drug/Dental**

**5. Retirement Healthcare**

*6. Outside Police Work (Off duty work)*

# Pension

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- Administered by State
- Total State pension assets: ~ \$70 billion
- Estimated \$36 billion underfunded
- Harding Township Police Pension Payments
  - Contribution rates/amounts determined by State
  - 10% of salary paid by employee
  - Harding's portion varies, not predictable
    - Currently approximately 23% of Salary
    - In 2011 was 33.4%
    - Likely to increase back up to 30% to 35%?

# Healthcare Premiums

- Current Premiums:

Annual Premiums: Family	Traditional	PPO
Medical	\$33,402	\$26,167
Prescription Drug	\$8,787	\$8,787
Dental	\$1,465	\$1,465
<b>Total</b>	<b>\$43,654</b>	<b>\$36,419</b>

- Historical premium increases
  - Kaiser study: 1999-2011: 8.5% annually
  - Township: 2007-2011: 7.8% annually
  - Broker: 'expect 10% - 15% increase'
- Inflation (CPI): 3.4%

# Healthcare Premiums

- Mostly paid by Harding
- Employee Contribution % set by State
- 2011 police retiree Healthcare costs: ~ \$270,000

	2012	2013	2014	2015*	2016
<b>Non-PBA</b>	18%/26%	26%/35%	35%	35%	35%
<b>PBA</b>	0%	9%	18%	26%	35%
<b>Retirees</b>	0%	0%	0%	0%	0%

- Retirement Healthcare Benefits
  - Current State law exempts retirees from contribution requirements
  - Police Retirees (+ family) receive lifetime healthcare with 25 years of service (15 Harding/25 Pension System)

# Analysis - Retiree Healthcare Costs

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- How to estimate the current cost of this future benefit?

## Assumptions

- No contributions by retiree (determined by State)
- Starting premium is family plan PPO (\$36k) not Traditional (\$43k)
- Don't include Medi-gap payments
- Average retirement age: 51
  - (i.e. 14 years of full coverage until Medicare)
  - (recent average retirement age HTPD = 47 years)
- Average of 10 years until retirement
- Inflation: 3.4%
- Healthcare premium increase: 7.8%
- 25 years of service (eligible for lifetime healthcare)



# Analysis - Retiree Healthcare Costs

- How much does future retirement healthcare costs (14 years) cost for each year of active service?
- Rough estimate: Calculate projected average annual future retirement cost in today's dollars
- Allocate for each year of 25 year service
- Using assumptions, cost of retirement healthcare is \$42,889 per year for each year of active service.

Costs associated with different healthcare increase rates →

Note: Rough analysis – for illustration purposes only!

Healthcare Increase	Annualized Cost
3.4%	\$20,395
7.8%	\$42,889
8.5%	\$48,259
10.0%	\$62,116

# All-In-Cost Estimate

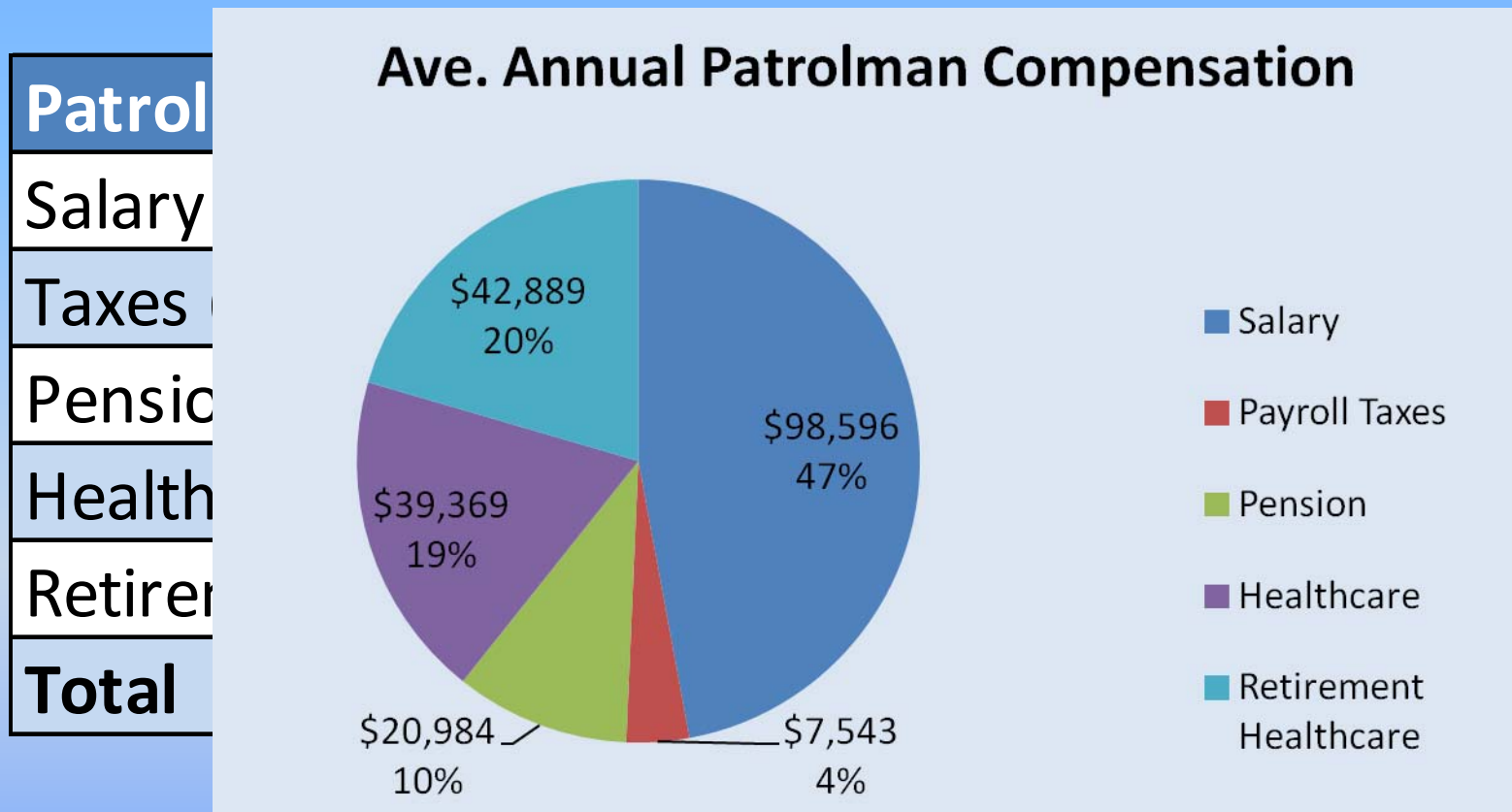
- Ave. Patrolman Annual Cost: \$209,000**

<b>Patrolman (Ave. Cost)</b>	<b>2012</b>
Salary	\$98,596
Taxes (Employer)	\$7,543
Pension (Employer)	\$20,984
Healthcare	\$39,369
Retirement Healthcare	\$42,889
<b>Total</b>	<b>\$209,380</b>



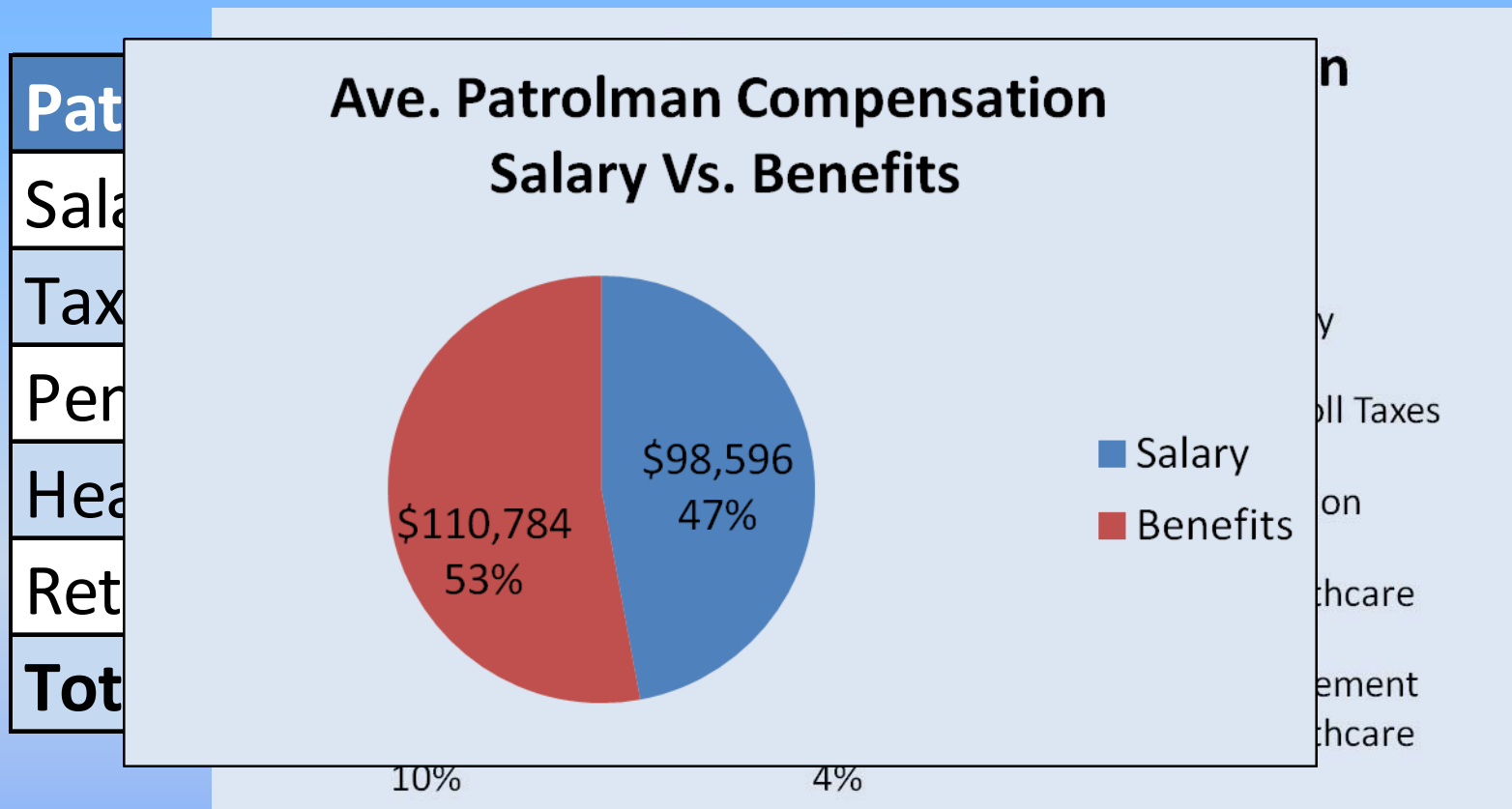
# All-In-Cost Estimate

- **Ave. Patrolman Annual Cost: \$209,000**



# All-In-Cost Estimate

- Ave. Patrolman Annual Cost: \$209,000**



# Cost per Hour Estimate

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- 12 Hour Shift Work Hours (Days)
  - 2,196 hours (183 work days)
- Less Contractual Time Off
  - Owed time, vacation, personal, etc.
- Actual (On duty) Work Hours (Days)
  - 1,547 hours (129 work days)
- **Average On Duty Patrolman Cost:  
\$135 per hour**

# Outside Police Work

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- Outside police work is performed for private entities by policeman while off duty
- Some outside police work is contracted through Harding Township and can be quantified:
  - In 2011 total outside work hours: 4,462
    - 2.9 full time equivalent (FTE) police officers\*
  - In 2012 YTD total outside hours: 2,977
    - Annualized: over 3 FTE police officers

\* - Assuming 1,547 actual work hours per year

Thank you