



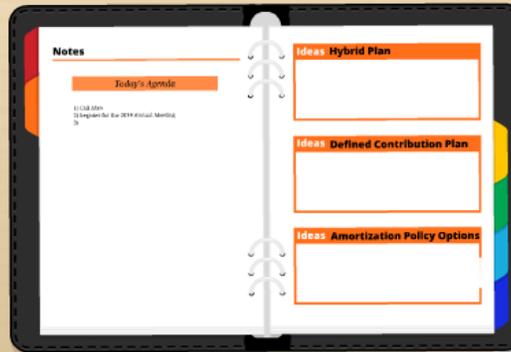
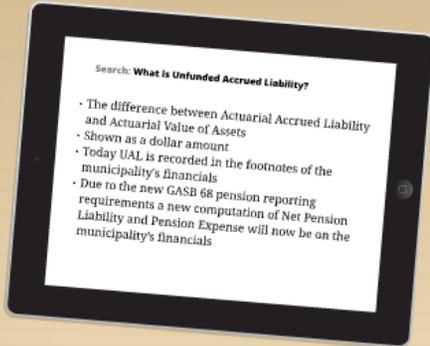
Search: **What is Unfunded Actuarial Liability?**

- The difference between Actuarial Actuarial Liability and Actuarial Value of Assets
- Shown as a dollar amount
- Today that is recorded in the footnotes of the municipality's financials
- Due to the new GASB 68 pension reporting requirement a new comparison of the Pension Liability and Pension Expense will now be on the municipality's financials.

Notes

Unfunded Liability	Unfunded Liability
Unfunded Liability	Unfunded Liability
Unfunded Liability	Unfunded Liability

Funding the Legacy
The Cost of Municipal Workers' Pensions
Communities
Bill Johnson, Ph.D.



Search: What is Unfunded Accrued Liability?

- The difference between Actuarial Accrued Liability and Actuarial Value of Assets
- Shown as a dollar amount
- Today UAL is recorded in the footnotes of the municipality's financials
- Due to the new GASB 68 pension reporting requirements a new computation of Net Pension Liability and Pension Expense will now be on the municipality's financials



Some Reasons for Unfunded Liability

- Many new defined benefit plans were not fully funded from the beginning
 - Adopting prior service credit for employees and did not require them to roll over assets
- Improved benefits adopted, due to collective bargaining, and financed over-time
- Early retirement windows
- Actuarial assumptions not being met (i.e. retiring earlier, not making the investment assumption)

Municipal Files

Michael Brown, Barry County

Pat Sullivan, City of Northville

Hybrid Plan for New Hires

Higher Member Contributions for Other Members

- A long-term strategy for reducing liabilities
- Reduced the employer cost for existing employees
 - Nearly 2.5% of payroll reduction in the employer contribution requirement
- Did Not Impact the Unfunded Accrued Liability (UAL) for Existing Employees
 - Benefit provisions were not changed
- Significantly Reduced the Employer's Risk Associated with Benefits for New Hires
 - 33% reduction in the employer's risk, because the total value of promised benefits is lower for new hires
 - If any UAL emerges for the new hires (from adverse experience), it will be much smaller
- Additional Employer Contribution Did Decrease the UAL



Municipal Files

Michael Brown, Barry County

Pat Sullivan, City of Northville

City of Northville



Pension Funding Issues
Pat Sullivan – City Manager

City of Northville

- Population: 5,970
- Area: 2 square miles in Wayne and Oakland Counties
- Total Budget: \$8.6 Million
- Full-time employees: 40

Conversion from DB to DC

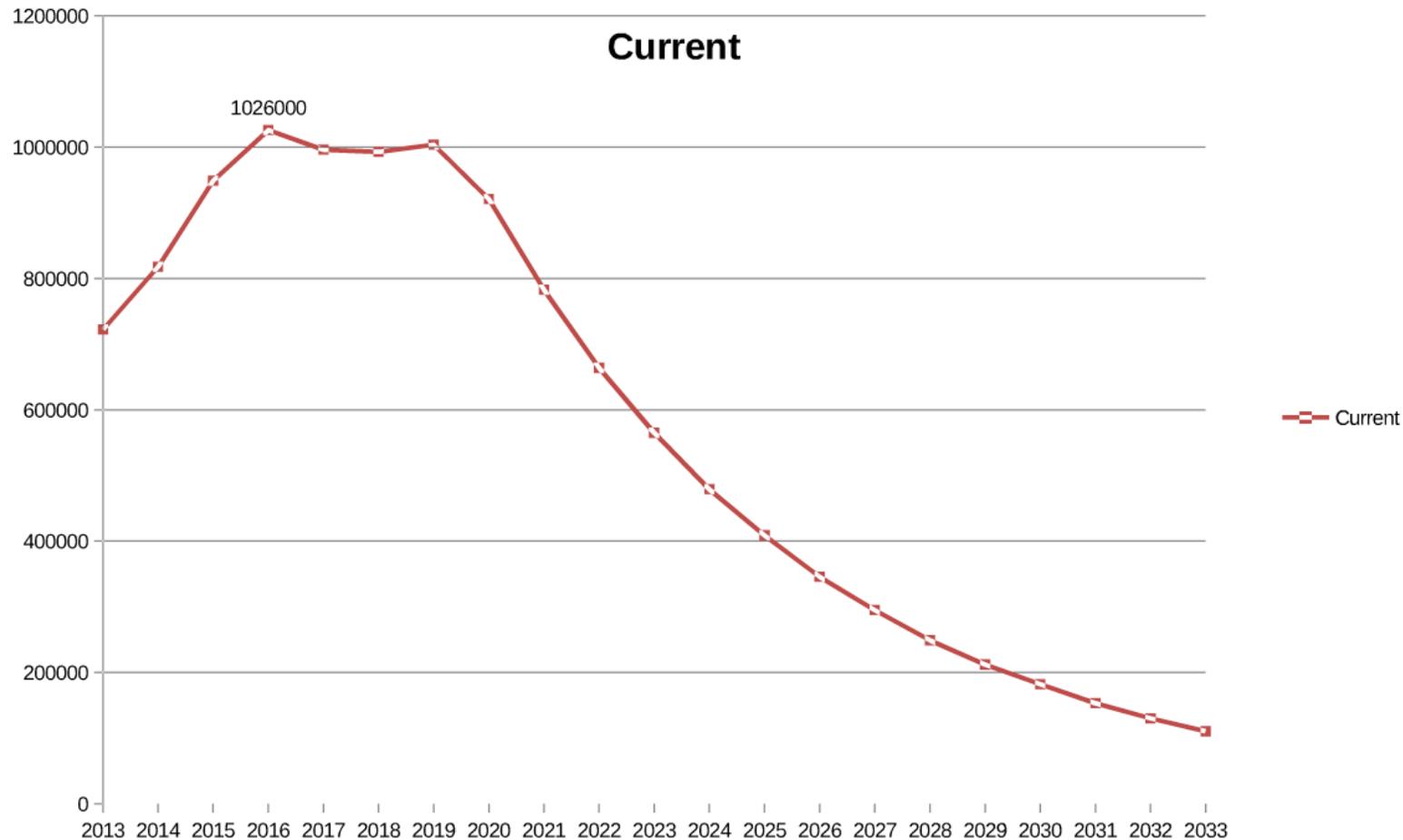
- Between 1996 and 2008 all DB plans were closed.
- New hires went into a DC plan.

Advantages

- Predictable costs.
- Ability to fully fund on an annual basis.

Financial Challenges

45% increase in employer contributions over 5 years.



Barriers

- “Funding the Spike”
- Economic Downturn
- Bonding Pension and O.P.E.B. not allowed by statute.

P.A. 329

- Bonds can be used to fund all or part of a DC conversion.
- Unfunded, accrued, healthcare liability – O.P.E.B.
- Must have AA or higher credit rating.
- Sunsets on 12/31/2014



MERS Amortization Policy

- “Option B” – Adopted by MERS Board July 2012
- Stretches out the amortization
“Flattens the spike”

Option B or Bonding?

Considerations.....

How Much Do We Bond For?

Actuarial Value

Market Value

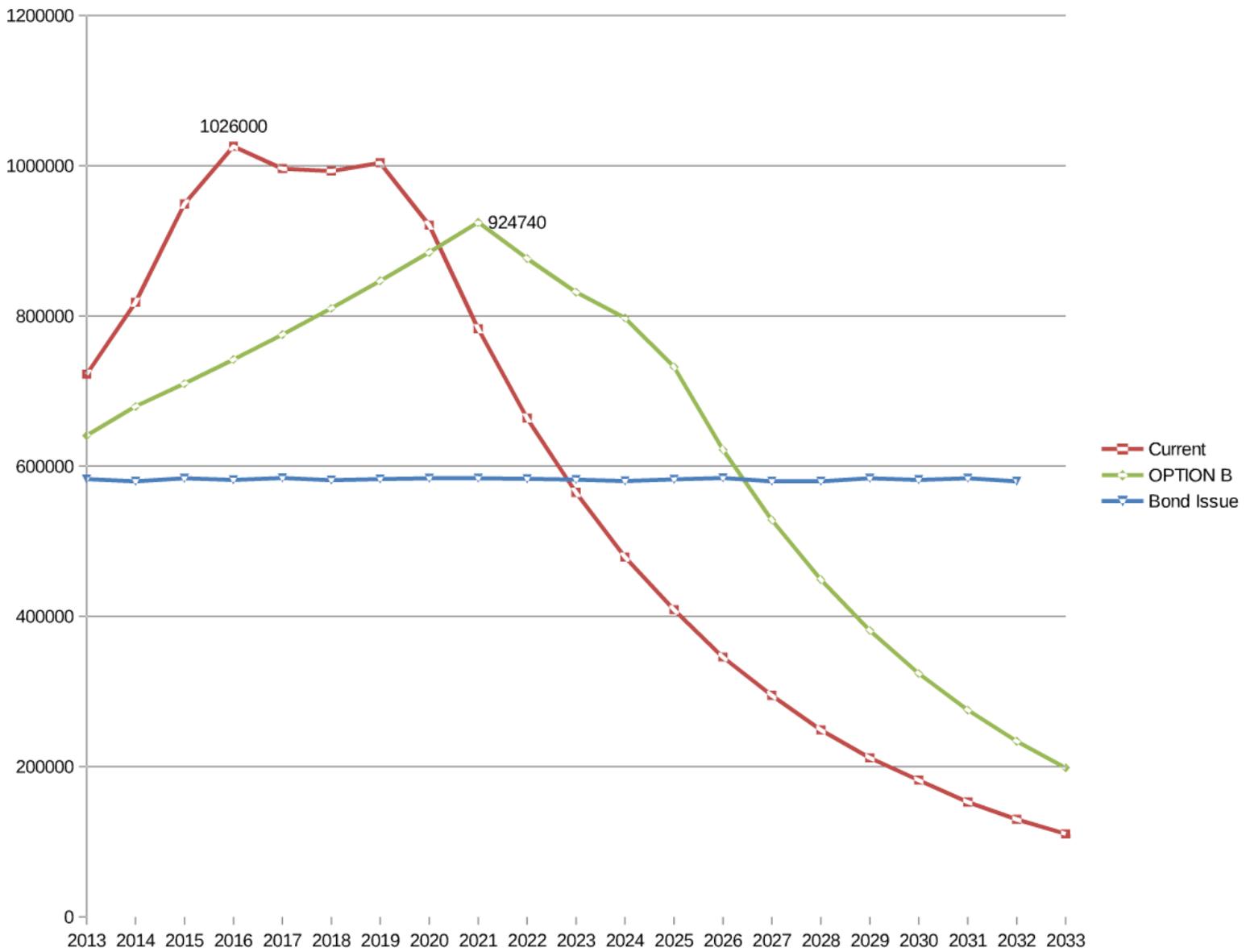
Issuance costs

What if.....?

Option B

What is the impact on future cash flow?

Understanding actuarial projections



Take Aways

- Understand Future Cost Implications
- Estimate the Impact of Cash Flow
- Choose a Strategy
 - Bonding
 - Option B
 - Cash Reserves

Municipal Files

Michael Brown, Barry County
Pat Sullivan, City of Northville

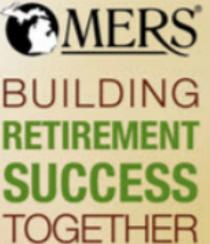
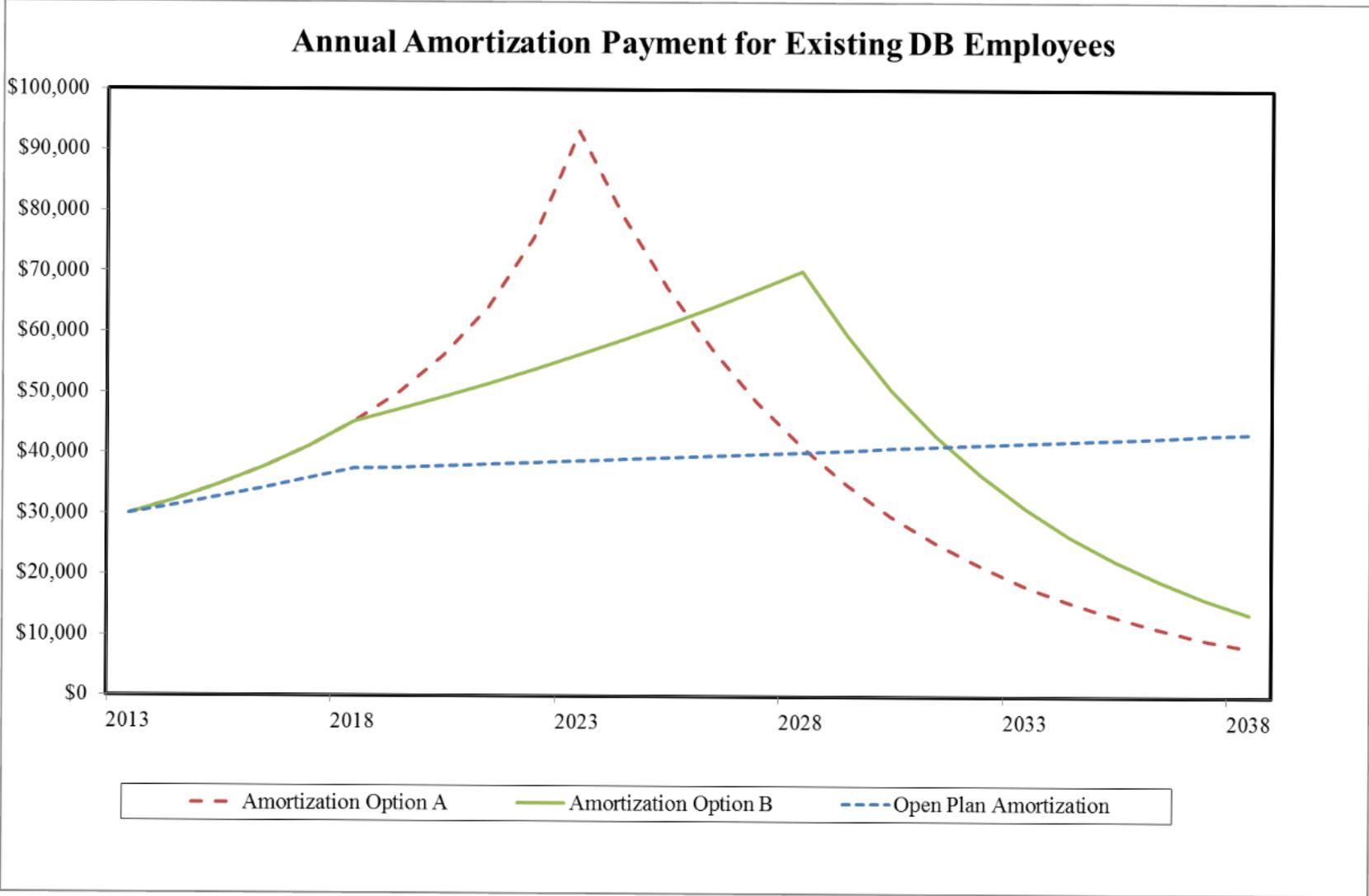
Defined Contribution Plan for New Hires

- A long-term strategy for reducing liabilities
- Did not reduce the Unfunded Accrued Liability (UAL) for existing employees
 - Benefit provisions were not reduced
- Eliminated the employer's risk associated with benefits for new hires
 - Employer pays a fixed contribution rate
 - Employees shoulder all the risk in the Defined Contribution Plan
 - No UAL can emerge for the new hires
 - Number of Defined Benefit active members has decreased from 54 in 1997 to 17 2012
 - Current UAL is lower than if the Defined Contribution members had been covered by the Defined Benefit Plan (because of financial markets)

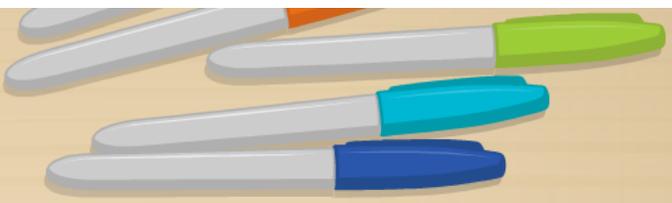
DC Plan for New Hires (cont.)

- Defined Benefit (DB) Plan becomes closed
- Closed DB Plans have a shorter time horizon
 - Open plans can use the contributions made on behalf of new employees to pay benefits for existing employees
 - Closed plans cannot do this, and have to be careful that sufficient assets are available to pay benefits
- MERS recognizes this and has two shorted amortization schedules for closed plans
 - Both Option A and B gradually increase the required contribution, and avoid "running out of money"
 - Option A pays off the UAL more rapidly

MERS Amortization Policies



Extension Expense will now be on the municipality's financials



Notes

Today's Agenda

- 11 Call Alan
- 21 Register for the 2014 Annual Meeting
- 31

Ideas Hybrid Plan

Ideas Defined Contribution Plan

Ideas Amortization Policy Options

MICHIGAN STATE UNIVERSITY Extension

Funding the Legacy The Cost of Municipal Workers' Retirement Benefits to Michigan Communities

MSU Extension White Paper

By:
Eric A. Skovrone, Michigan State University Extension specialist, state and local government
Colette N. Barcove, CPA, MBA, visiting specialist

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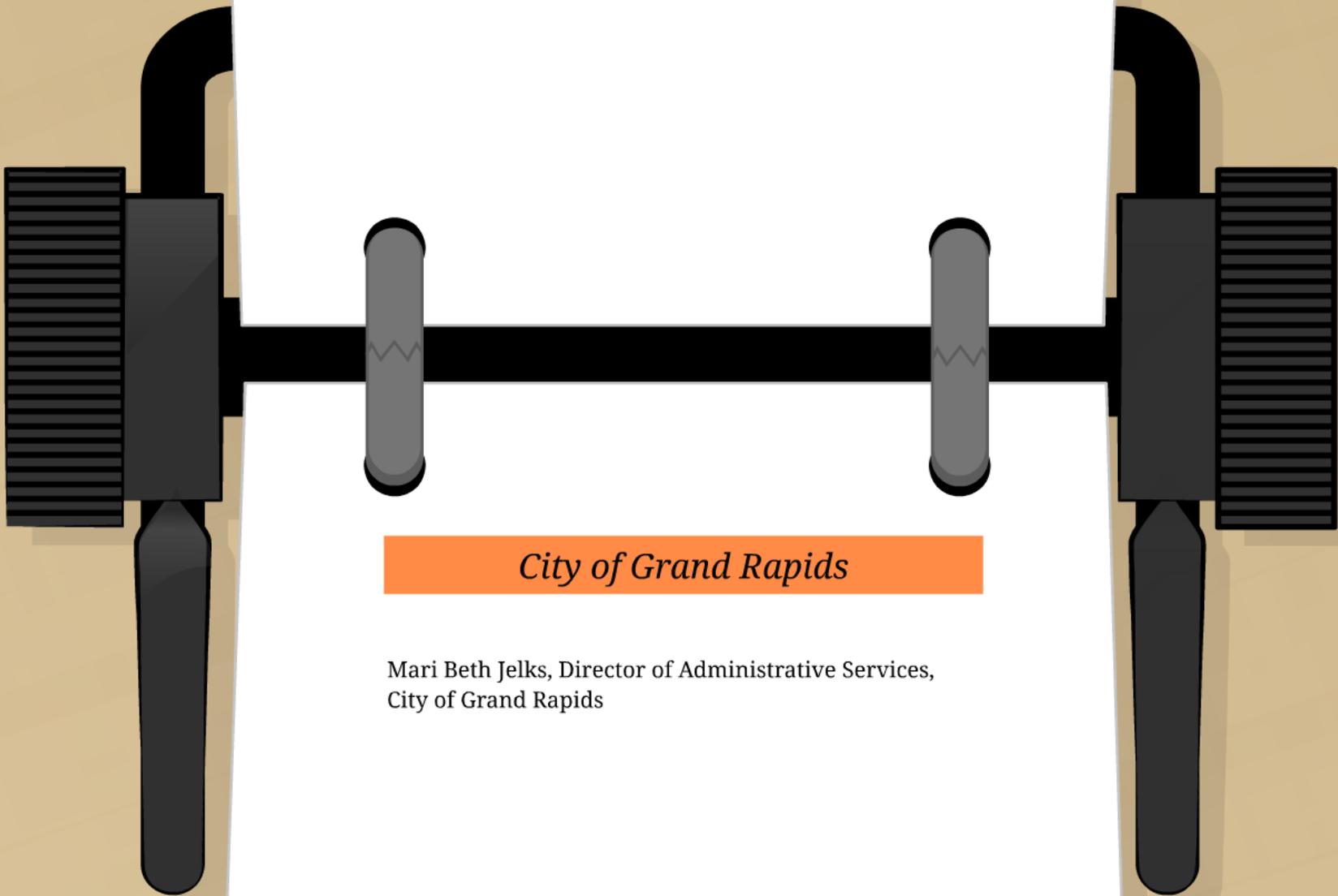
Nicolette N. Bateson, CPA, MPA, visiting specialist¹

Thank Traci Taylor and Christina Plerhoples, Ph.D., for their time and assistance with this research project.

3/14/2013 (1:22)

Other Post-Employment Benefits (OPEB)

- Non-pension benefits, the largest being retiree health care
- The total OPEB liability for Michigan's cities, villages and townships is \$13.5 billion
- This liability is funded at 6%
 - Net unfunded liability of \$12.7 billion
 - This is 1.6 times the combined amount of unfunded pension (\$3.1 billion) and governmental activities debt (\$4.7 billion)



City of Grand Rapids

Mari Beth Jelks, Director of Administrative Services,
City of Grand Rapids

