

2018
RETIREMENT
CONFERENCE

Public Act 202: Local Government Reporting Updates

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Introductions



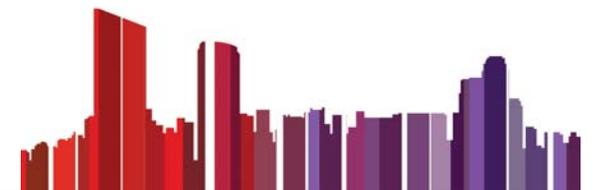
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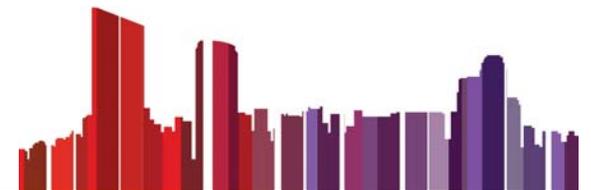


Eric A. Scorsone, Ph.D.
Chair, Municipal Stability Board



Agenda

- Understand the intent and methodology of the new law
- Guide you through implementation and best practices to assist you in complying with the act
- Overview of the Municipal Stability Board and criteria they are using to evaluate plan solvency
- A look at what's ahead





Public Act 202:
Protecting Local
Government Retirement
and Benefits Act

Overview of Public Act 202

- Protecting Local Government Retirement and Benefits Act (PA 202) implements the recommendations from the Responsible Retirement Reform Task Force
- The act incorporates four stages:



Transparency
through reporting



Identification
of potential
problems

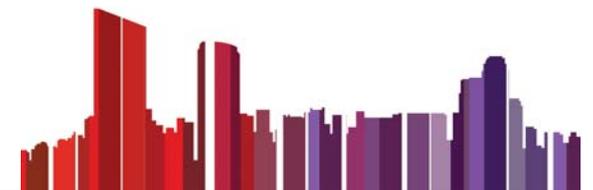


Review for fiscal
health
(waiver process)



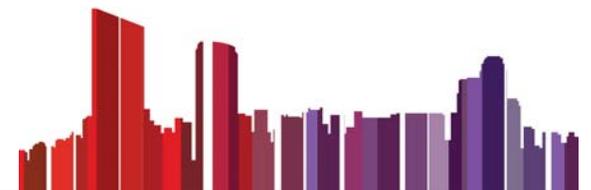
Develop action
plan

- The act is not perfect – implementation challenges!



Reporting Requirements and Timeline

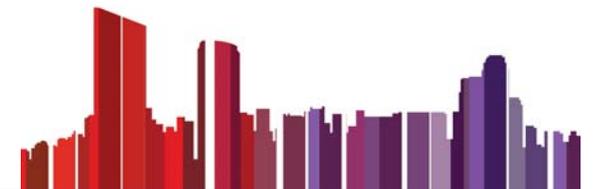
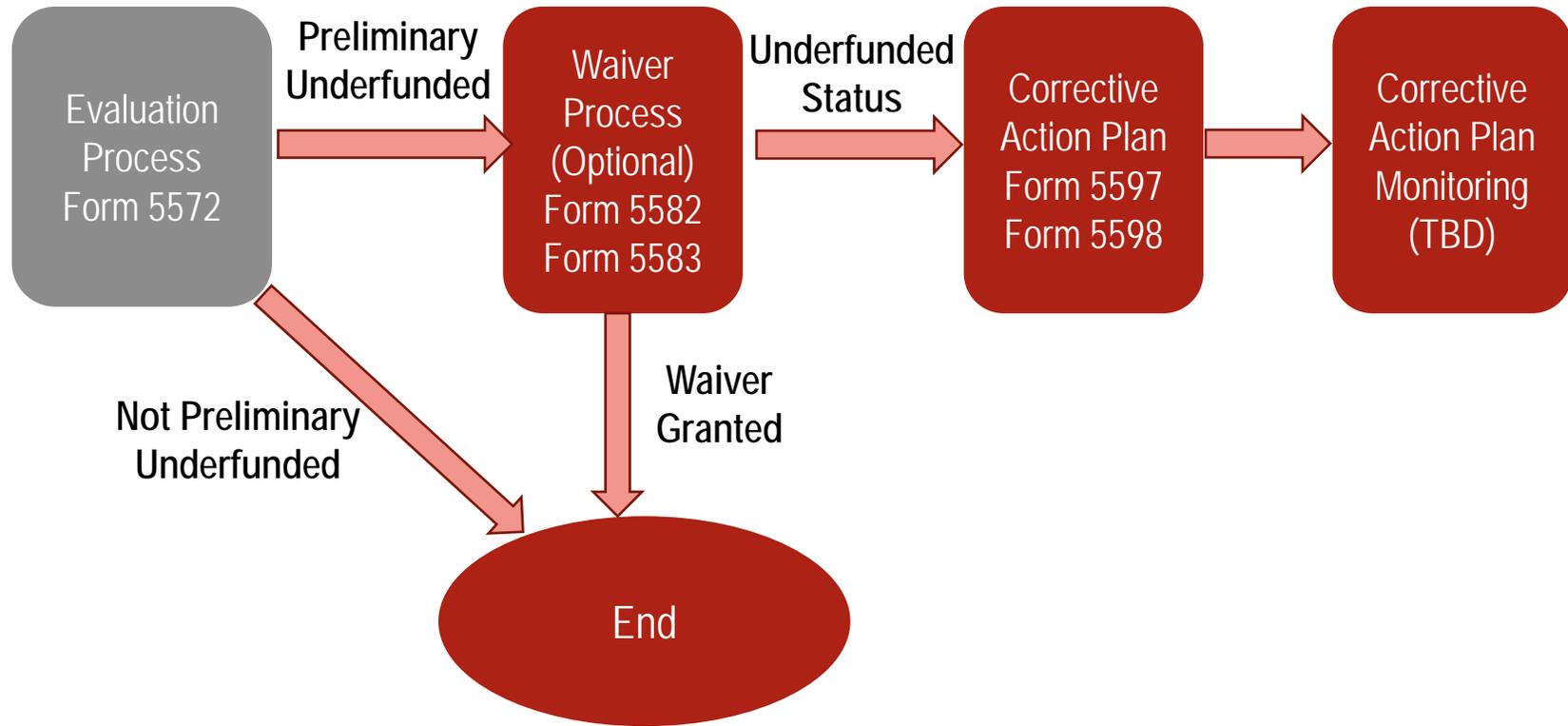
Report	Due Date
Retirement System Annual Report (Form 5572)	No later than 6 months after the end of fiscal year
Waiver (Forms 5582 and 5583)	45 days from preliminary underfunded status determination
Corrective Action Plans (Form 5597 and 5598)	A local unit shall submit a Corrective Action Plan to the board within 180 days after determination of underfunded status
Summary Health Care Report	TBD
Uniform Actuarial Assumptions	Implementation beginning in 2019
Summary Pension Report (Public Act 530)	30 days after the annual valuation



Form 5572 Submission and Evaluation



PA 202 Process



Underfunded Status Triggers

- Public Act 202 provides criteria for underfunded status (Triggers)

	Funded Ratio		ARC/Governmental Activity Fund Operating Revenue for Primary Units*
Health system	<40%	AND	>12%
Pension	<60%		>10%

- Another trigger: Failure to submit the report

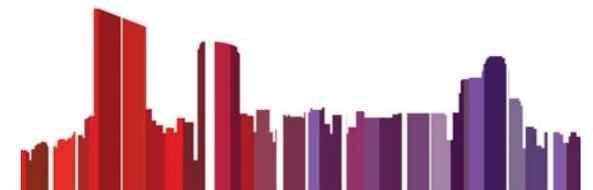
**Only applies to primary units (cities, villages, townships, and counties), non-primary units are only based on the funded ratio trigger*



Updated Retirement System Annual Report

Health care tab updated July 2, 2018

Line	Description	System 1
1	Provide the name of your retirement health care system	
2	Enter retirement health care system's actuarial value of assets	
3	Enter retirement health care system's actuarial accrued liabilities	
4	Date (system year ending) of valuation of system's assets and liabilities (e.g. 12/31/2016)	
5	Annual required contribution (ARC)	
6	Governmental Fund Revenues	
7	Health Care Trigger Summary	
8	Is this unit a primary unit (County, Township, City, Village)?	NO
9	Funded ratio	
10	All systems combined ARC/Governmental fund revenues	0.0%
11	Did the local government pay the retiree insurance premiums for the year?	
12	Did the local government pay the normal cost for employees hired after June 30, 2018?	
13	Does this system trigger "underfunded status" as defined by PA 202 of 2017?	NO



Data Sources: Audited Financial Statements

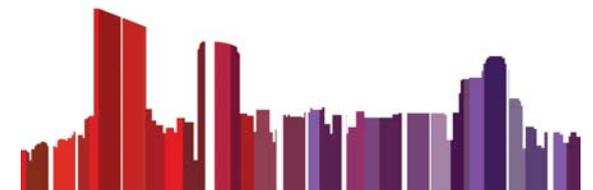
Item	Statement
From Financial Statement	
Total governmental fund revenue	Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds
From Notes; or Required supplementary information	
System Assets and Liabilities	For pension: Schedule of Changes in the Net Pension Liability and Related Ratios For OPEB: Schedule of OPEB Funding Progress and Employer Contributions
ADC (Pension)	Schedule of Contributions
ARC (Retiree Health Care)	Other Postemployment Benefits
From Retirement System or Local Unit Accounting Records	
Payment of retiree insurance payments	
Payment of Normal Cost for employees hired after 6/30/18	Speak to your actuary about the calculation and payment



PA 202 Total Reporting Data

Retirement Review Analysis (Form 5572) FY 2017 ¹			
Status Option	Primary Units	Non-Primary Units	Total
Preliminary Underfunded	111 (20%)	136 (40%)	247 (28%)
Approve	426 (79%)	199 (58%)	625(71%)
Deny	3 (1%)	7 (2%)	10 (1%)
Total-Reviewed	540 (61%)	342 (39%)	882
Pending Treasury Review	0	1	1
Total-Submission	540 (61%)	343(39%)	883

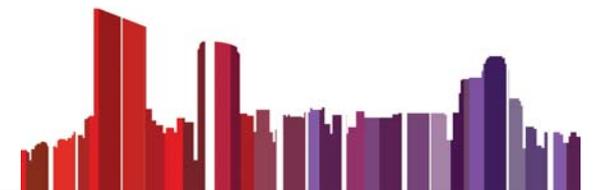
¹ As of 9/7/2018



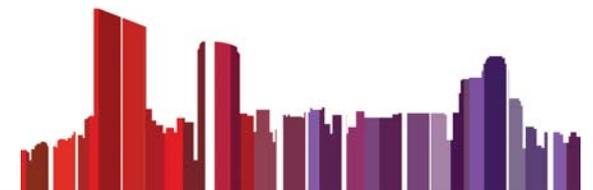
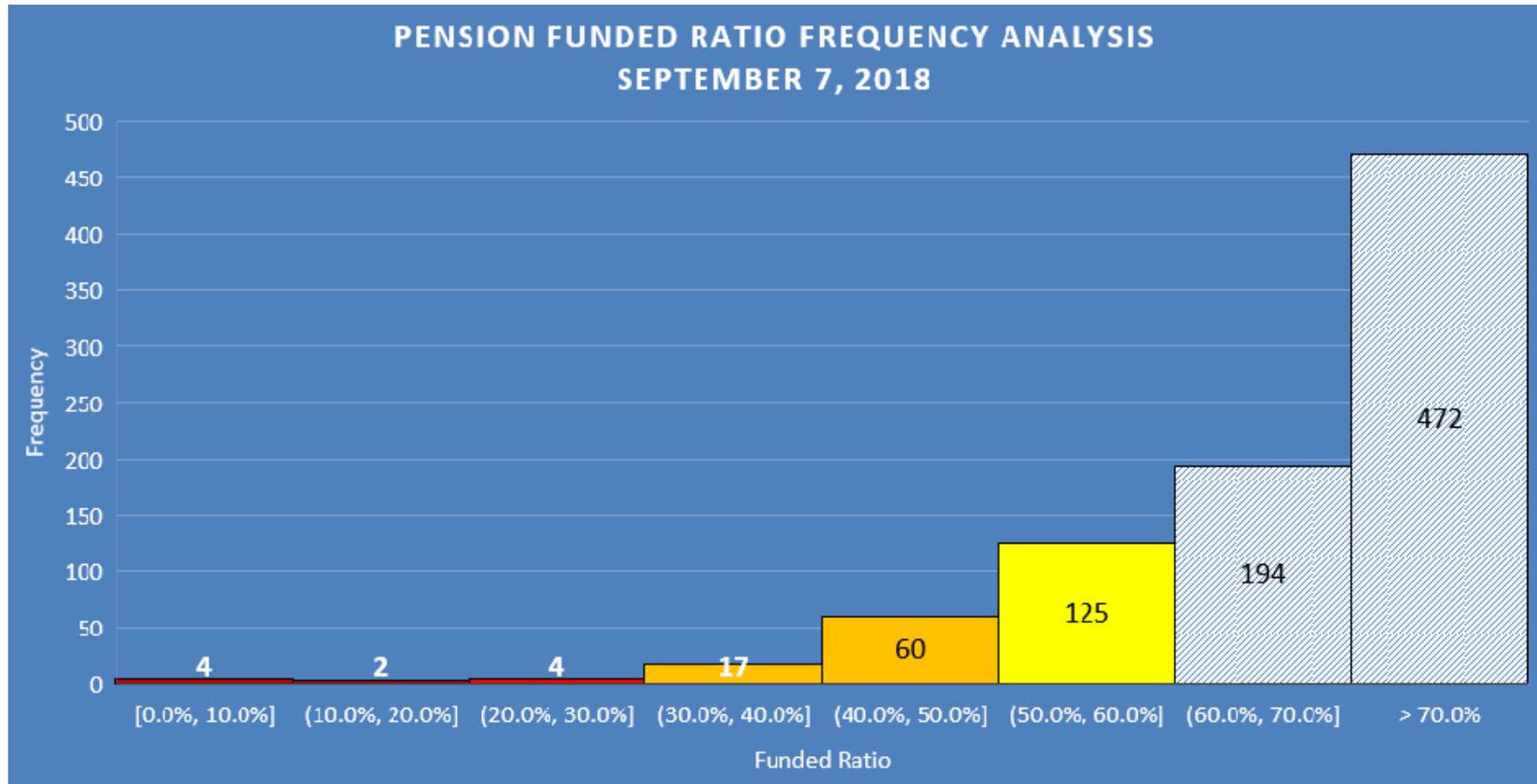
PA 202 Reporting Data

2017 Retirement Data				
Local Unit Type	Pension Funded Ratio	Pension ADC/Revenue	OPEB Funded Ratio	OPEB ARC/Revenue
Primary Units	74.9%	3.9%	32.0%	5.8%
Non-Primary Units	75.8%	2.4%	33.5%	2.7%
Total	75.0%	3.6%	32.2%	5.1%

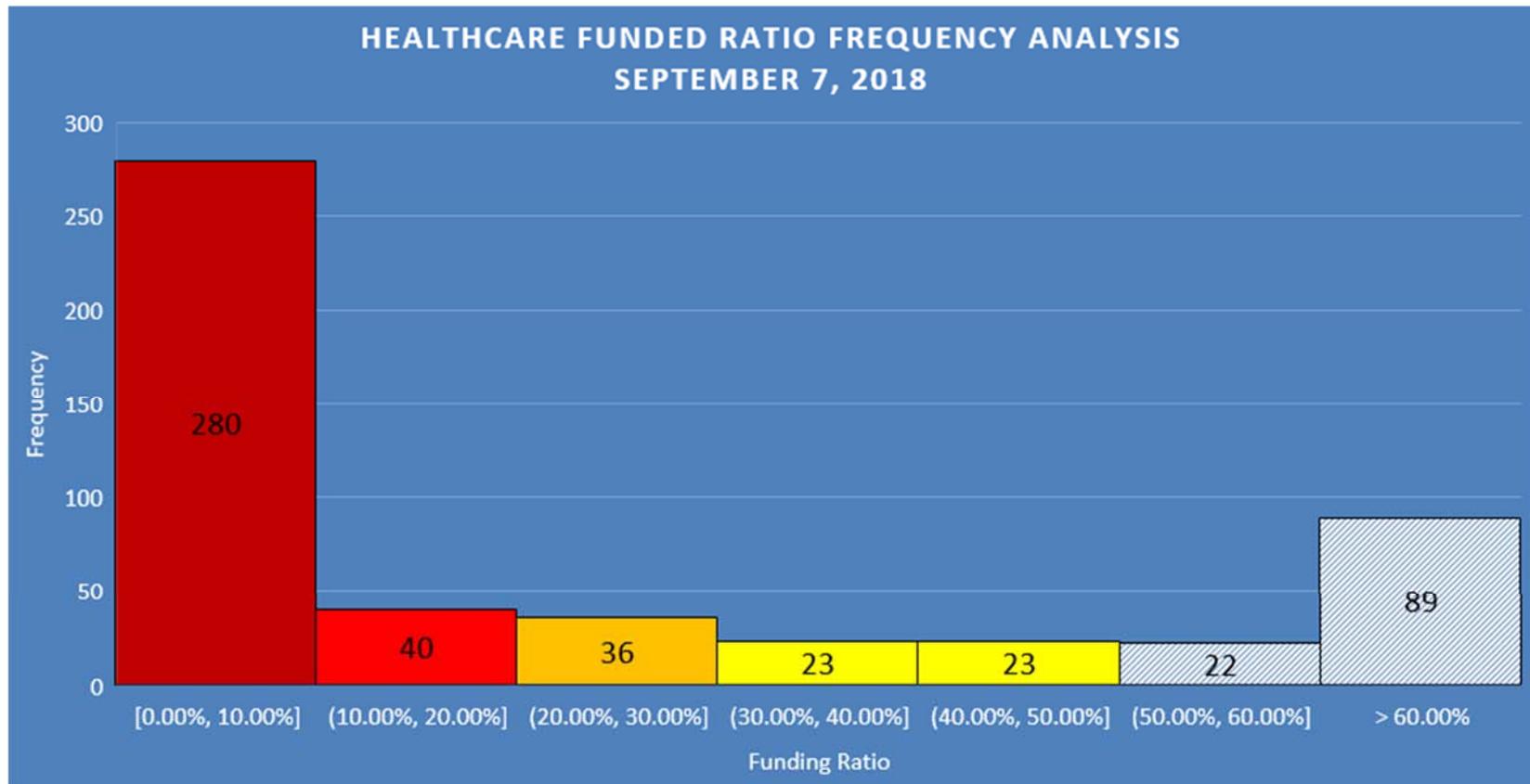
Source: PA 202 Retirement Reporting Data. As of 9/14/18



Pension Funded Ratio Frequency Analysis

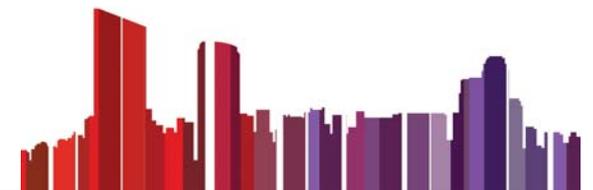
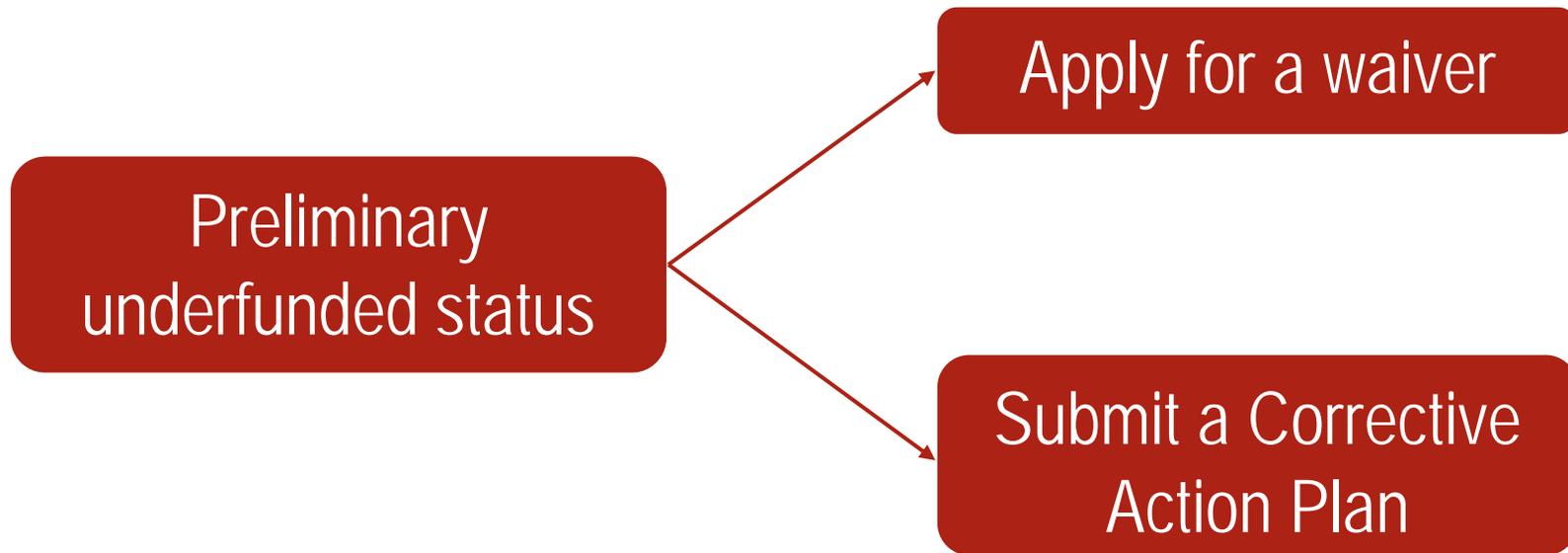


OPEB Funded Ratio Frequency Analysis



Underfunded Status

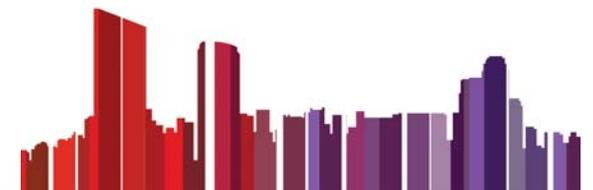
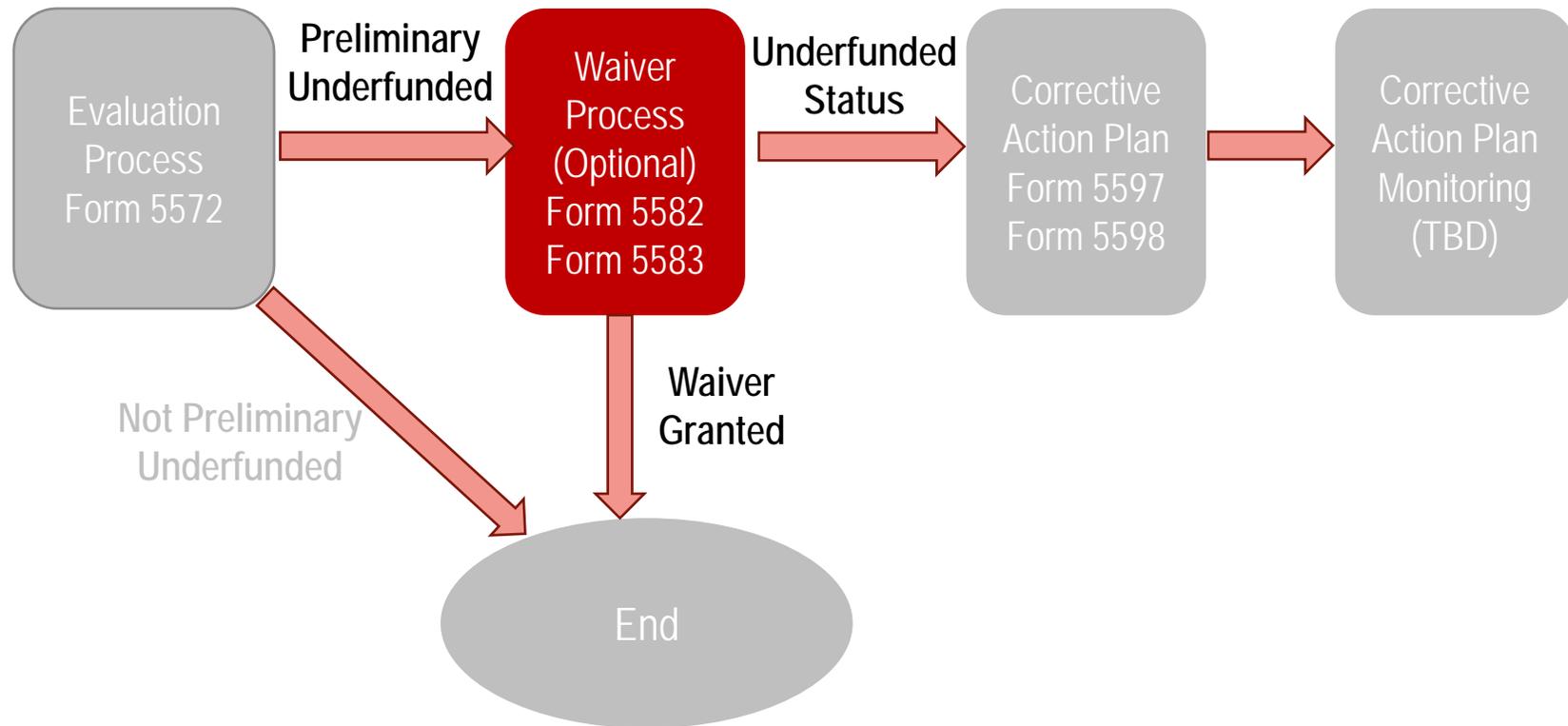
What happens if a local unit is underfunded?



Waiver Process and Review Criteria



Waiver Process



Underfunded Status Waiver

- Local units that receive a preliminary review of underfunded status may submit a waiver request
 - Waiver must be submitted to Treasurer within 45 days of preliminary underfunded notification
 - Separate waiver must be submitted for each preliminary underfunded system
- Successful waivers must include
 - Actions already taken to address underfunded status.
 - Proof that the governing body has approved waiver application and plan to address underfunded status



Waiver Data

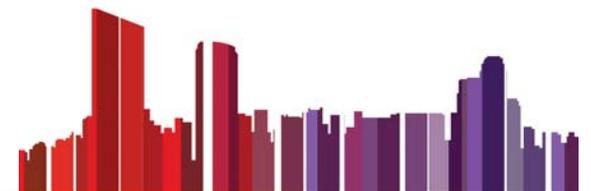
PA 202: Waiver Analysis FY 2017 ¹							
	Did Not File		Waiver Applications				
LOCAL UNIT TYPE	Retirement Report – Form 5572	Waiver Application	Recommend Approve	Recommend Deny	Split	Total Waiver Applications	Corrective Action Plans Required
NON-PRIMARY	14	14	27 (48%)	25 (45%)	4 (7%)	56	57
PRIMARY	3	13	10 (12%)	65 (79%)	7 (9%)	82	88
TOTAL	17	27	37 (27%)	90 (65%)	11 (8%)	138	145

¹ As of 9/14/2018



Reasons a Waiver Might Be Denied

- Required documentation not attached or waiver application not properly certified
- Unfunded liability represents a significant portion of annual revenues and/or the outstanding unfunded liability remains significant
- The fiscal year is significantly into the future or is to be determined
- A portion of the retirement liabilities are attributable to employees within enterprise divisions, however, in totality, the application does not demonstrate the underfunded status is adequately being addressed
- Insufficient information to support the claims made in the application
- Waiver application includes prospective information which will need to be monitored through a Corrective Action Plan
- Waiver application was submitted late



Guidance Session

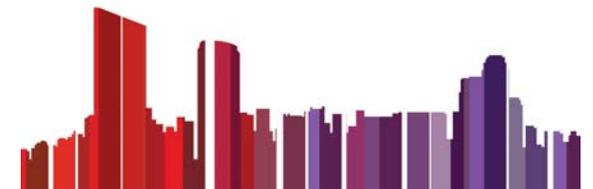
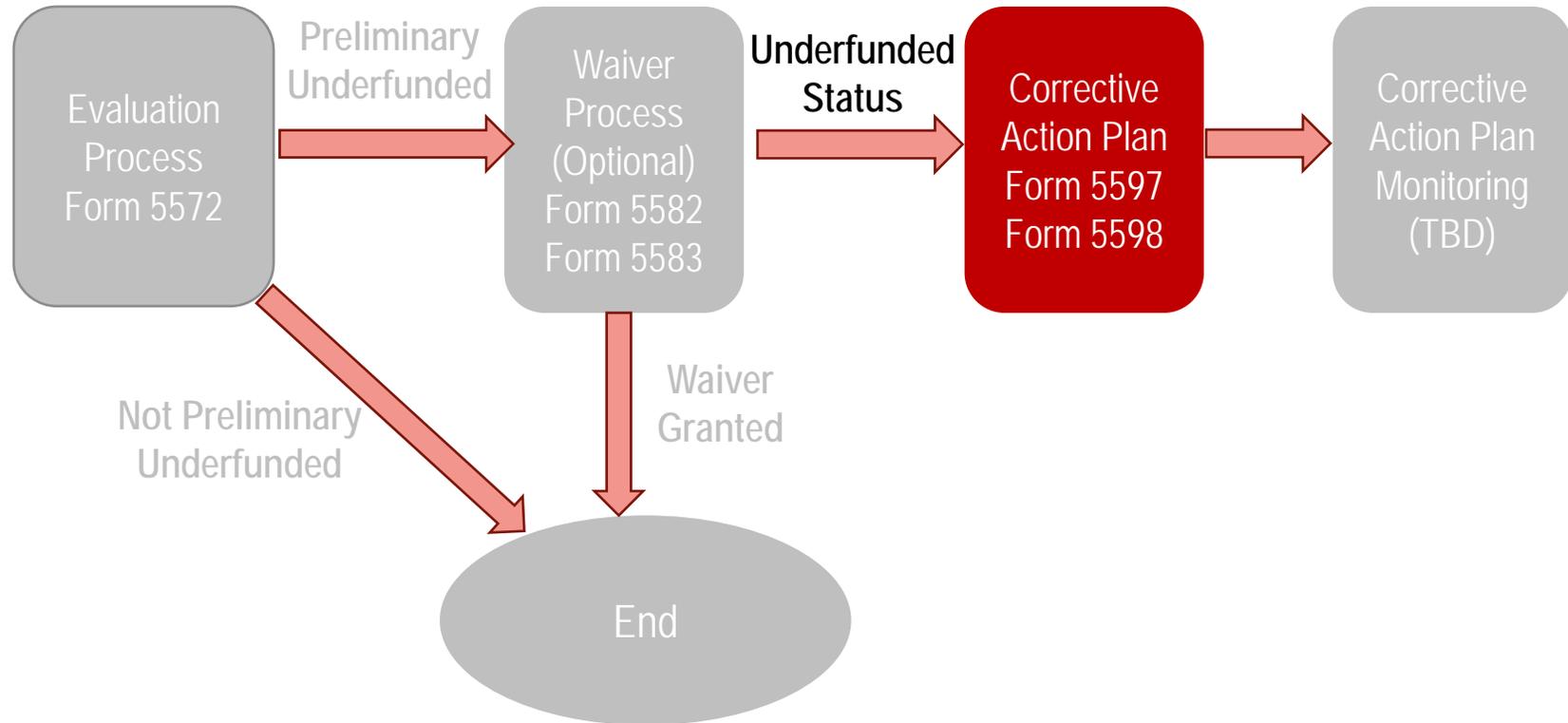
- Waiver Review and Corrective Action Plan Guidance Session
 - [Schedule 30 minute review phone call with Treasury](#)
 - Review waiver denial reasons
 - Detail Corrective Action Plan process

The screenshot shows the Schedulicity website interface. At the top left is the 'schedulicity' logo. At the top right are links for 'Need Help?' and 'Login'. Below the logo is a card for 'Public Act 202 of 2017' with a 'Fave It 30 faves' button. Underneath are 'About' and 'Services' tabs. A large white box contains the text 'We will call you using the number you listed, Lansing, MI 48922'. To the right, an orange 'Schedule Now' button is circled in red, with a note below it stating 'Last booked 18 hours ago'. At the bottom left, it says 'MERS of Michigan | 22'. At the bottom right, there is a decorative bar chart with red and purple bars.

Corrective Action Plans



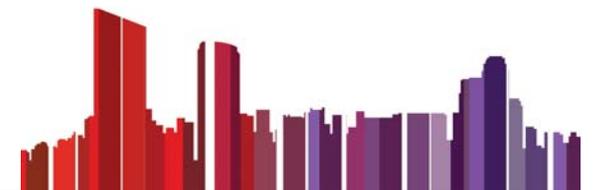
Corrective Action Plan Process



Corrective Action Plan Data

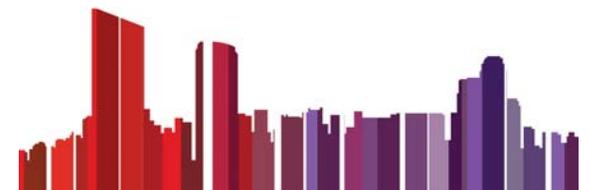
PA 202: Corrective Action Plan Analysis FY 2017						
Local Unit Type	Corrective Action Plan Submission Status		Corrective Action Plan Approval Status			Pending
	Required	Submitted	Approved	Denied	Split	
Non-primary	57	6 (10%)	4 (66%)	0 (0%)	1 (17%)	1 (17%)
Primary	88	4 (4%)	1 (25%)	0 (0%)	0 (0%)	3 (75%)
Total	145	10 (7%)	5 (50%)	0 (0%)	1 (10%)	4 (40%)

¹ As of 9/14/2018



Corrective Action Plan Process

- Who must file a Corrective Action Plan?
 - Local units that did not file Retirement System Annual Report (Form 5572)
 - Local unit that was not granted a waiver, their waiver determination was split, or no waiver was filed
 - Split waiver: at least one waiver approved and at least one denied. Must file Corrective Action Plan for denied waiver
- The local unit of government shall determine the components of the Corrective Action Plan
 - Due 180 days after receipt of Determination of Underfunded Status and Need for a Corrective Action Plan letter
 - The board may extend the 180-day deadline by up to an additional 45 days if the local unit of government submits a reasonable draft of a Corrective Action Plan and requests an extension

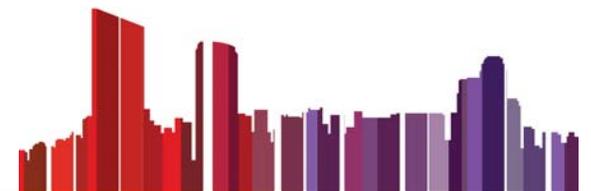


Best Practices



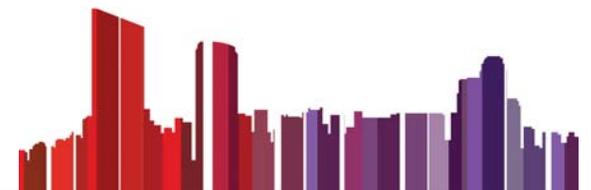
Best Practices

- Required to be published annually
- Municipal Stability board adopted Best Practices and Corrective Action Plan Approval Criteria at its July meeting
- Best practice principles for developing a Corrective Action Plan
 - Plan Funding
 - Modern Plan Design
 - Effective Plan Administration/Management



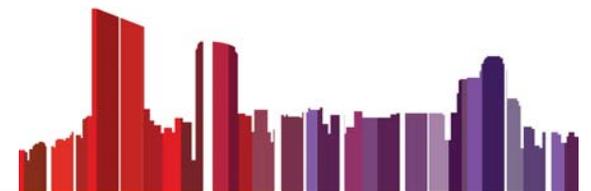
Plan Funding

- Fund the annual required contribution, which pays the expected cost of all promised benefits for both pension and retirement health systems (i.e. fund the annual service cost of active employee benefits plus any unfunded actuarial accrued liabilities)
- Add funding into the annual budget in addition to the annual required contribution(s). This practice will reduce the unfunded liability and allow for potential increased earning interest or investment income
- Dedicate additional revenue sources to pay for retirement benefits (e.g. Public Act 345 of 1937 millage, increased operating millage, other special millage)
- ✓ Establish a qualified medical trust designated for retirement health system funding
- Transfer funds from reserves to increase retirement assets, earning interest, and investment income
- Add or increase employee/retiree contributions



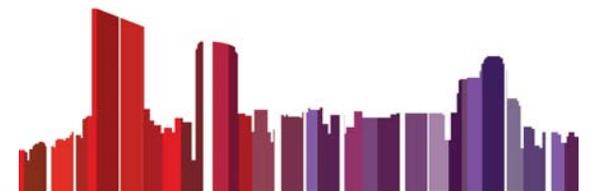
Modern Plan Design *Pension*

- ✓ Implement a “bridged multiplier” for active employees
- ✓ Implement Final Average Compensation (FAC) standards
- ✓ Reduce or eliminate future defined benefit accruals and enroll active employees into a defined contribution plan or hybrid plan
- ✓ Limit defined benefit options for newly hired employees, including multipliers, cost of living increases, retirement age, and benefit vesting periods
- ✓ Close the current defined benefit plan
- ✓ Enroll new hires into a defined contribution plan or a hybrid plan
- ✓ Evaluate the financial implications of any early retirement incentive buyouts
- ✓ Limit the dual payment of both a pension and a salary to any employee who is rehired after retirement by the same employer



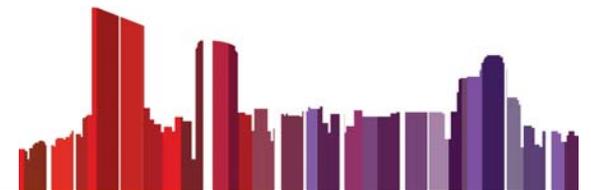
Modern Plan Design *OPEB*

- Require cost sharing of premiums and sufficient copays
- Implement a cap on employer retiree health care costs
- Require use of Medicare as primary insurance for retirees 65 and older
- Require mirroring of retiree health care plans within the same local unit
- Require retirees to use health plans of current employees if available, and spouses to utilize benefits from their employer, if available
- Enroll new hires in a defined contribution retiree health care plan
- Do not offer incentive packages for early separation without first considering the costs of the separation on the retirement health system
- Raise the eligibility age for retiree health care
- Implement vesting rules that provide levels of benefits based on years of service
- Use a market driven approach to evaluate benefit offerings and carriers



Effective Plan Administration/Management

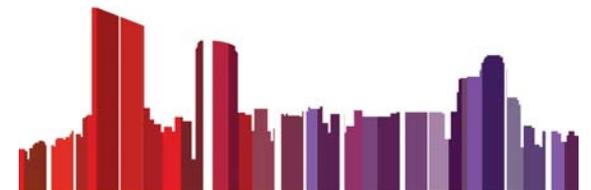
- ✓ Work with system providers to determine appropriate solutions for each local unit
- ✓ Require retirement systems to be 100% funded before benefit increases are allowed
- ✓ Require an experience study by the plan's actuary at least every five years
- ✓ Require a peer actuarial audit to be conducted by an actuary that is not the plan actuary at least every eight years, or replace the actuary
- ✓ Obtain frequent annual required contributions for all retirement systems
- ✓ Diversify the investment portfolio in consultation with the system provider
- ✓ Ensure proper assumptions are utilized according to actuarial standards of practice
- ✓ Ensure management and oversight boards have proper experience, skills, and training to administer pension and retirement health systems
- ✓ Use of asset smoothing in the valuation to reduce the impact of significant investment losses on required contribution amounts
- ✓ Implement a closed amortization period of no more than 20 years
- ✓ Calculate amortization payments based on a "level-dollar" amortization schedule
- Create a committee consisting of stakeholders to evaluate options for benefit offerings



Case Study

Pittsfield Township – Pension and OPEB Plans

- Modern Plan Design
 - Closed DB plan to new hires and implemented a Hybrid Plan
 - Began offering 457 Program and incentivized saving through matching contributions
 - Adopted Health Care Savings Program for new hires
- Plan Funding
 - Increased pension funding through additional voluntary contributions
 - Opted to absorb full impact of increases to annual required contributions
 - Began using the Retiree Health Funding Vehicle to prefund existing OPEB obligation



Impact of PA 202

175

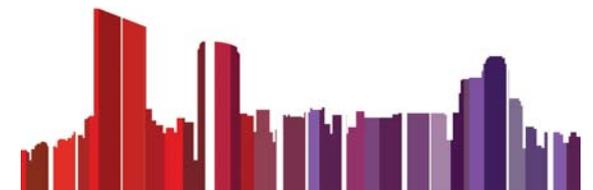
WAIVERS REVIEWED

As of 9/7/2018, a total of 175
waivers have been reviewed

39%

MADE CHANGES

69 local units made a change to
their retirement system in 2018;
comprised primarily of
additional funding

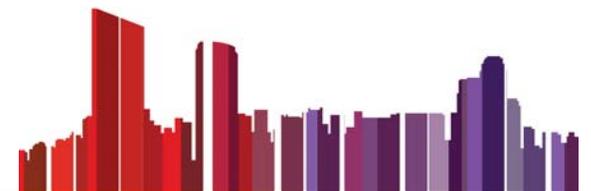


Municipal Stability Board



Municipal Stability Board Members

- The Municipal Stability Board is appointed by the Governor and consists of:
 - One resident of the state representing state officials
 - Dr. Eric Scorsone
 - One resident of the state representing local officials
 - Mr. Daryl Delabbio
 - One resident of the state representing employees and retirees
 - Mr. Barry Howard



Fiscal Stress Isn't New



Corrective Action Plan Review

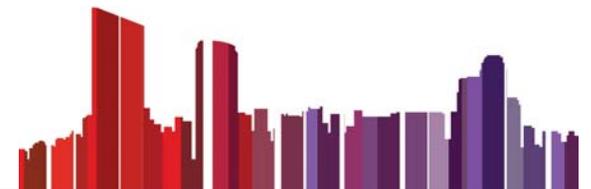
- Corrective Action Plans are received by the Municipal Stability Board
 - Within 45 days the Municipal Stability Board will vote to approve or deny
 - Corrective Action Plans that are approved
 - Approved plans will have letter sent to chief administrative officer
 - Local unit has 180 days from date of letter to begin implementation of plan
 - Corrective Action Plans that are denied:
 - Board will provide detailed denial letter within 15 days
 - Local unit must address deficiencies and resubmit a plan within 60 days.



Corrective Action Plan Approval Criteria

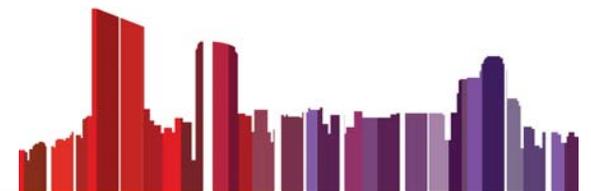
During a Corrective Action Plan review, the Municipal Stability Board will consider:

- 1 Underfunded Status
- 2 Reasonable Timeframe
- 3 Legal and Feasible
- 4 Affordability



Underfunded Status

- Proposed Corrective Action Plan must include supporting documentation demonstrating how and when system will reach
 - 60% funding for Pension Systems
 - 40% funding for Health Care Systems
- OR, if the local unit is a city, village, township or county, it must demonstrate when ARC as a percent of general fund operating revenues will reach
 - 10% funding for Pension Systems
 - 12% funding for Health Care Systems
- Supporting documentation must include actuarial projection, actuarial valuation or an internal developed analysis

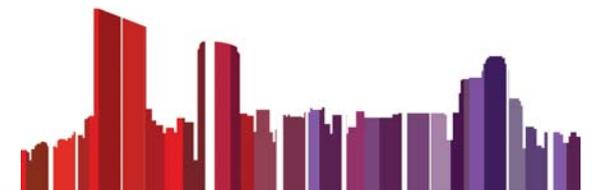


Reasonable Timeframe

- Proposed Corrective Action Plan must address the underfunded status within a reasonable timeframe
 - Reasonable timeframe determined on case-by-case basis
- Proposed actions should include implementation date
 - If approved, must be implemented within 180 days

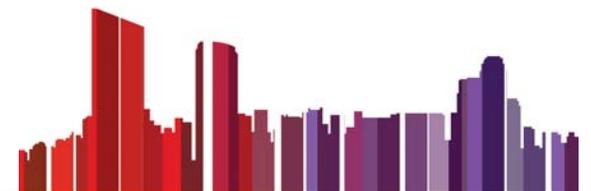
General Guidelines

Trigger	Reasonable Timeframe
Pension systems < 45% funded	60% within 20 years
Pension systems - ARC/Revenue trigger	10% within 5 years
OPEB systems < 25% funded	40% within 30 years
OPEB systems – ARC/Revenue trigger	12% within 5 years



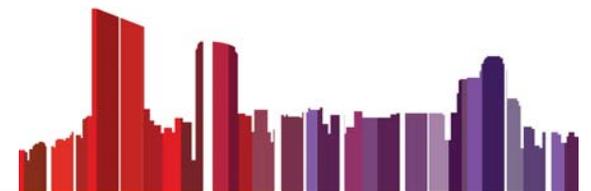
Legal and Feasible

- Proposed Corrective Action Plan must follow all applicable local, state and federal laws
- Local unit must attach approval from governing body
- Chief Administrative Officer must certify to implement actions
- Must be reasonably achievable
 - Considering local unit's current environment, can the proposed changes actually be implemented?
 - Provide details of how



Affordability

- Proposed Corrective Action Plan must certify that local unit can continue to pay ARC and/or health care premiums, as well as normal cost for new hires
- Must be able to meet current and future obligations without using a significant portion of budget
 - Less than 10% for pension and less than 12% for OPEB (ARC/Governmental Fund Revenues)
 - Ability to offer residents services while meeting legacy obligations
 - Prefund OPEB to earn interest income and build savings for future payments
 - Follow Best Practices to reach affordability

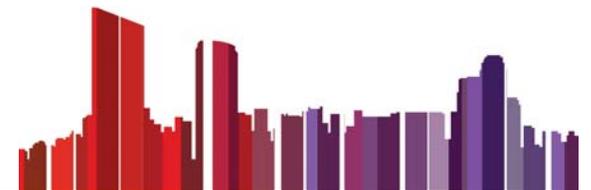


In Development



Annual Uniform Assumptions

- Treasury will establish annual uniform actuarial assumptions of retirement systems
- Available on the local retirement reporting website
- Are for reporting purposes only
- Implementation beginning for FY 2019 submissions (e.g. based on 12/31/2018 Valuations)



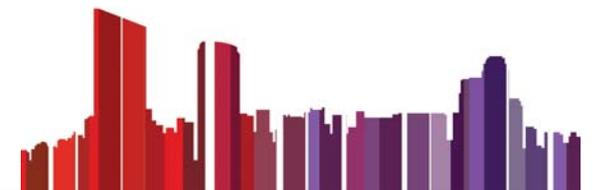
Uniform Assumption Details

Assumption	Draft Uniform Assumption
Investment Rate of Return	Maximum of 7.00%
Discount Rate	<ul style="list-style-type: none"> • Blended discount calculating per GASB 68 & 75 • If Sufficient Plan Assets Exist: Maximum of 7.00% • If Insufficient Plan Assets Exist: 3.00%
Salary Increase	Minimum of 3.50%
Health Care Inflation (Medical and Drug)	<p>Non-Medicare: Initial rate of 8.50% decreasing 0.25% per year to a 4.50% long term rate</p> <p>Medicare: Initial rate of 7.00% decreasing 0.25% per year to a 4.50% long-term rate</p>
Mortality Table	RP-2014 or based on an actuarial experience study conducted within the last five years
Amortization of the Unfunded Actuarial Accrued Liability	<p>Local units must amortize the unfunded actuarial accrued liability (UAAL) over a maximum closed period of:</p> <ul style="list-style-type: none"> • Pension Systems: 20 years • Retiree Health Care Systems: 30 years • Closed plans: Level dollar amortization method • Open plans: Level dollar or % of pay amortization method



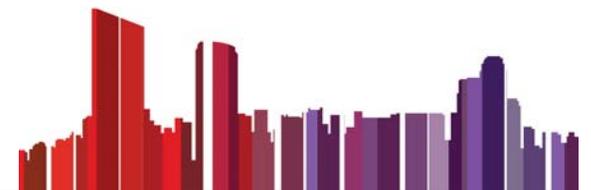
Corrective Action Plan Monitoring

- PA 202 requires the Municipal Stability Board to monitor each underfunded local unit's compliance with the Act and any Corrective Action Plans
- Treasury is working with the Board to develop this process



Updated 5572

- New Form 5572 to accommodate GASB 75 is anticipated soon
 - Recommend Calculating Actuarial Determined Contribution for retiree health care (ADC) and reporting in financial statements
- Treasury is working to streamline reporting requirements of Public Act 530 and Public Act 202
 - Annual Summary Reports for Pension and Retiree Health Care
 - Uniform Assumptions



Looking Ahead

2018 – Legislative Changes

- Lame Duck Session

2019 – Administrative Changes

- Uniform Actuarial Assumptions
- Summary Pension Reporting (PA 530)
- Summary Health Care Reporting (PA 202)

2019-2020 – More Legislative Changes

- Legislative clean up and clarification



Resources



PA 202 Resources

Treasury has created online resources with helpful information



[Local Retirement Reporting Webpage](#)

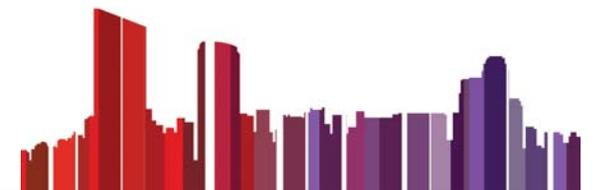


[Municipal Stability Board Webpage](#)



[Treasury Local Retirement Reporting Review](#)

Schedule a 30 Minute
Phone Consultation



MERS Resources

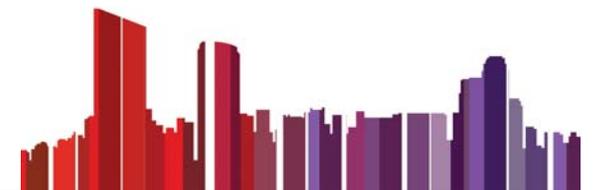
MERS has additional resources on www.mersofmich.com

Employer Resource Pages

The screenshot shows the 'Employer' page on the MERS website. At the top, there is a navigation bar with tabs for EMPLOYEE, RETIREE, EMPLOYER, MEDIA, and MERS. Below the navigation bar, there is a search bar and a 'Home » Employer' breadcrumb. The main content area is divided into three columns: 'Programs', 'Role Specific Information', and 'Trending Topics'. The 'Programs' column lists various benefit plans such as Defined Benefit Plan, Defined Contribution Plan, Hybrid Plan, 457 Program, Stable Income Annuity, Retiree Health Funding Vehicle, Health Care Savings Program, Health Care Exchange, Investment Services Program, and Group Life & Disability Insurance Program. The 'Role Specific Information' column lists contact roles like Primary Contact, HR Contact, Finance Contact, Reporting Contact, and Elected Official & Boards. The 'Trending Topics' column lists topics such as Annual Actuarial Valuations (AAV), Changing to MERS Defined Contribution Plan, Fiduciary Responsibility, GASB 68/75, Other Post-Employment Benefits (OPEB), PA 202, and Unfunded Liability. A red arrow points to the 'Annual Actuarial Valuations (AAV)' link.

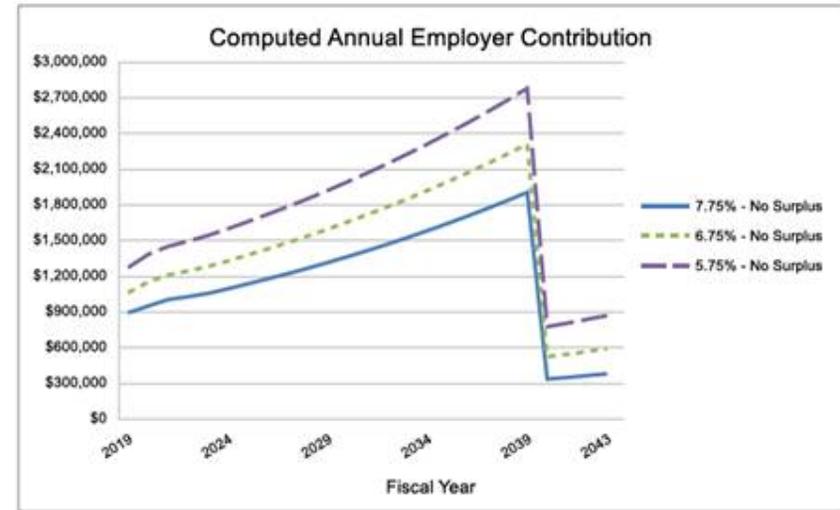
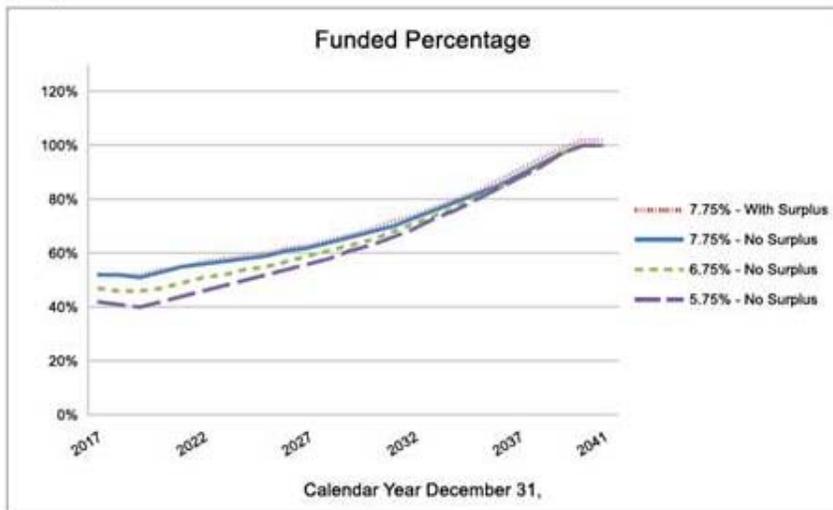
Communications Corner

The screenshot shows the 'Communications Corner' section on the MERS website. At the top, there is a navigation bar with tabs for EMPLOYEE, RETIREE, EMPLOYER, MEDIA, and MERS. Below the navigation bar, there is a search bar and a 'Home » Employer' breadcrumb. The main content area is divided into three columns: 'Programs', 'Role Specific Information', and 'Trending Topics'. The 'Programs' column lists various benefit plans such as Defined Benefit Plan, Defined Contribution Plan, Hybrid Plan, 457 Program, Stable Income Annuity, Retiree Health Funding Vehicle, Health Care Savings Program, Health Care Exchange, Investment Services Program, and Group Life & Disability Insurance Program. The 'Role Specific Information' column lists contact roles like Primary Contact, HR Contact, Finance Contact, Reporting Contact, and Elected Official & Boards. The 'Trending Topics' column lists topics such as Annual Actuarial Valuations (AAV), Changing to MERS Defined Contribution Plan, Fiduciary Responsibility, GASB 68/75, Other Post-Employment Benefits (OPEB), PA 202, and Unfunded Liability. A red arrow points to the 'Annual Actuarial Valuations (AAV)' link.

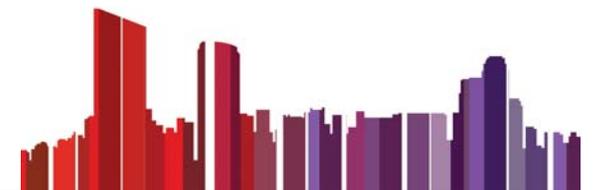


Actuarial Reports

- Annual Actuarial Valuations contain projection scenarios
- Can be helpful in demonstrating progress to reach a minimum funding ratio over a reasonable time period



- If you have made any changes to your plan provisions, the accompanying actuarial analysis will provide additional up-to-date information



Q&A



Contacting MERS of Michigan

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This presentation contains a summary description of MERS benefits, policies or procedures. MERS has made every effort to ensure that the information provided is accurate and up to date. Where the publication conflicts with the relevant Plan Document, the Plan Document controls.

