

PENSION AND OPEB CORRECTIVE ACTION PLAN OUTLINE

FINDINGS:

- The City has been advised by the Michigan Department of Treasury that its pension and other post-employment benefit (OPEB) plans are underfunded within the meaning of Public Act 202 of 2017 (the Act). The act requires that a corrective action plan must be prepared for each underfunded system. That plan, which requires City Council approval, must be submitted by October 31, 2019.
- The corrective action plan must demonstrate that the City has taken, or will take, steps to achieve a pension funding level of 60% within 20 years and an OPEB funding level of 40% within 30 years.
- As of December 31, 2018, the City's pension system had unfunded accrued actuarial liabilities of \$10,031,615 and a funded ratio of 56%.
- The computed annual employer contribution to the City's pension system is expected to increase from approximately \$900,000 to \$2.1 million between 2020 and 2040 before decreasing to approximately \$500,000 annually. The City is expected to achieve a 60% funding level in its pension system in 2030.
- As of June 30, 2019, the City's OPEB system had a net OPEB liability of \$1,972,962 and assigned fund balance in the General Fund of \$200,000.
- During the fiscal year ended June 30, 2019, OPEB benefit payments equaled \$84,759. Of this amount, \$43,525.22 was attributable to pre-65 retirees and \$41,233.52 was attributable to post-65 retirees.
- By 2026, the maximum cost for annual OPEB benefit payments, assuming zero mortality among those currently eligible, will be \$111,360.
- The City projects its maximum cost for annual benefit payments to increase slightly over the next few years before declining to near zero by 2050 due to the mortality of covered retirees.
- The City has implemented measures to limit future pension and OPEB liabilities. These include:
 - Enrolling all new hires after July 1, 2012 into hybrid pension plans that combine less generous defined benefit plans with defined contribution plans and capping employer contributions for plans at 10% of wages for employees with social security coverage and 16.2% of wages for employees without social security coverage;
 - Closing the retiree health insurance plan eligibility to those specifically designated as eligible on July 1, 2010 and converting post-65 retiree coverage to

a maximum monthly dollar contribution to a Health Reimbursement Account (HRA) to fund individual health insurance purchases.

- City revenues are not projected to increase at a rate comparable to the rate of increase in required annual employer contributions for the City's pension system. Additional sources of revenue will be required to meet these contributions.

CORRECTIVE ACTIONS:

- The City Council will consider authorizing a ballot proposal to establish millage dedicated to addressing the projected increase in annual required employer contributions to the pension system.
- If the aforementioned ballot proposal is authorized but not approved, the City Council will consider implementing a public safety special assessment to generate funds sufficient to pay costs associated with police and fire department pensions including accrued liabilities for those benefits.
- The City Council will approve the establishment of a retirement health funding trust to which it will allocate the \$200,000 assigned reserve and such additional sums as are necessary to achieve the 40% funding level required by 2050.
- City administration will explore changes to current pension benefit programs to determine the feasibility of modifying benefits, benefit calculations and/or employee contributions to reduce the City's unfunded accrued liability.