



City of Berkley Response to PA 202 of 2017

PA 202 of 2017

- December 2017 Legislation passed by State of Michigan known as the “Protecting Local Government Retirement and Benefits Act.”
- Intended to reflect July 2017 findings and recommendations from the Responsible Retirement Reform for Local Government Task Force

PA 202 of 2017

- Realizing that local government is not “one size fits all”, the task force recommended an annual review of pension and retiree healthcare (OPEB) plans for each municipality

PA 202 of 2017

State requested:

- information from "most recent audit report" from either footnotes or required supplemental information
- Later changed the information request to only the 2017 CAFR Supplemental Information Schedule
 - This indicated the city's OPEB plan was only 8% funded, (2012 data).

*Government Accounting Standards Board (GASB 74) changed reporting requirements in 2017 ***

2017 Supplemental Information Schedule

City of Berkley, Michigan

Required Supplemental Information OPEB System Schedule Year Ended June 30, 2017

The schedule of funding progress is as follows:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (Percent) (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll
6/30/06	\$ 100,000	\$ 21,807,213	\$ 21,707,213	0.5 %	\$ 3,651,406	594.5 %
6/30/09	1,035,664	17,655,852	16,620,188	5.9	3,344,639	496.9
6/30/12	2,223,325	27,663,815	25,440,490	8.0	2,635,197	965.4

The schedule of employer contributions is as follows:

Fiscal Year Ended	Actuarial Valuation Date	Annual Required Contribution	Percentage Contributed
6/30/15	6/30/12	\$ 2,603,419	61.6 %
6/30/16	6/30/12	2,531,410	62.1
6/30/17	6/30/12	2,512,485	61.4

* The required contribution is expressed to the City as a percentage of payroll.

In Reality...

As of:

- June 30, 2017 the City's OPEB plan was 17.71% funded
- June 30, 2018 the City's OPEB plan was 19.78% funded

State Review Process / Current Status

- Each municipality must provide data for each pension and OPEB plan.
 - ❑ Berkley submitted information in January 2018.
- The state reviews the data from municipalities to identify underfunded plans
 - ❑ Berkley's audit information reviewed. City identified as underfunded for OPEB
- Municipalities can apply for waiver describing implemented cost containment measures
 - ❑ Berkley waiver submitted in March 2018.

State Review Process / Current Status *(Cont.)*

- If waiver is not accepted, the administrative officer or governing body must approve a corrective action plan to address “underfunded” status.
 - ❑ Berkley waiver not accepted. Notice received May 2018.
 - ❑ Corrective action plan due mid November, 2018

Purpose of the Corrective Action Plan

- Financial planning tool that describes how a municipality will fund retirement related legacy cost
- Help identify what is reasonable and affordable
- Memorializes the approach for future administrations
- Can be modified if conditions change
- Does not prohibit additional contributions when the budget allows

Corrective Action Plan Approval Criteria

The City of Berkley shall:

1. Provide graph showing funding growth over time
2. Be able to achieve plan results in a reasonable timeframe: 40 % funded within 30 years
3. Submit a legal and feasible plan - must comply with all applicable local, state and federal laws
4. Demonstrate plan affordability

Affordability

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

Best Practices for Affordability

- Defined Benefit plan closed to new hires *
- Diversify the investment portfolio in consultation with MERS (*the system provider*) *
- Ensure proper assumptions are utilized according to actuarial standards of practice *
- Draw on trust asset, as needed, to meet future OPEB obligations

* *Already implemented in Berkley*

State Funding Status Based On City's Pension Data

Source of Data: Actuarial Valuation Report, most recent Audit Report. Plan valuation date (assets & liabilities) 6/30/17

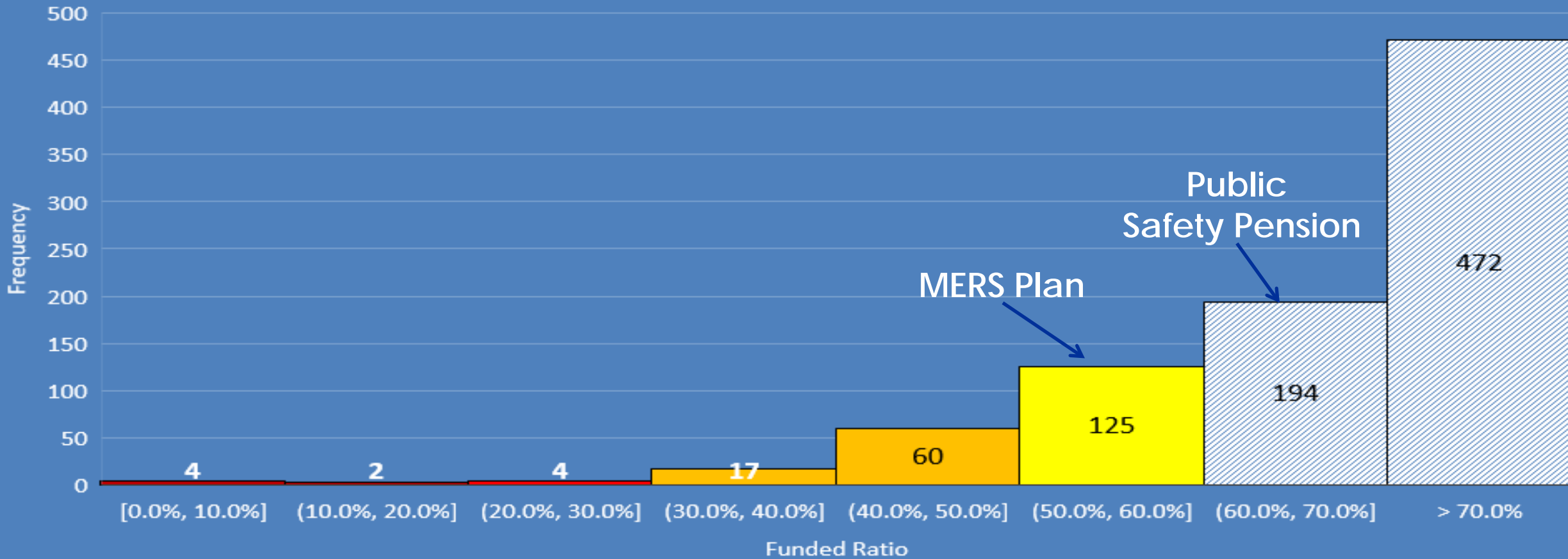
Description		Plan 1	Plan 2
Name of retirement pension system		General Employees' Defined Benefit Pension Plan	Public Safety Pension System
Retirement pension system's assets		\$11,414,846	\$18,505,881
Retirement pension system's liabilities		\$20,915,484	\$23,489,258
Actuarially Determined Contribution		\$528,385	\$713,669
Governmental Fund Revenues		\$14,203,634	\$14,203,634
Pension Trigger Summary			
Funded ratio		54.6%	78.8%
All plans combined ADC/Governmental fund revenues		8.7%	8.7%
"Underfunded status" (defined by PA 202 of 2017)		NO	NO

Primary unit triggers: Less than 60% funded AND greater than 10% ADC/Governmental fund revenues.

Pension Funded Ratio Frequency Analysis

PENSION FUNDED RATIO FREQUENCY ANALYSIS
SEPTEMBER 7, 2018

Total Plans : 878



State Funding Status Based On City's OPEB Data

Source of Data: Actuarial Valuation Report, most recent Audit Report.

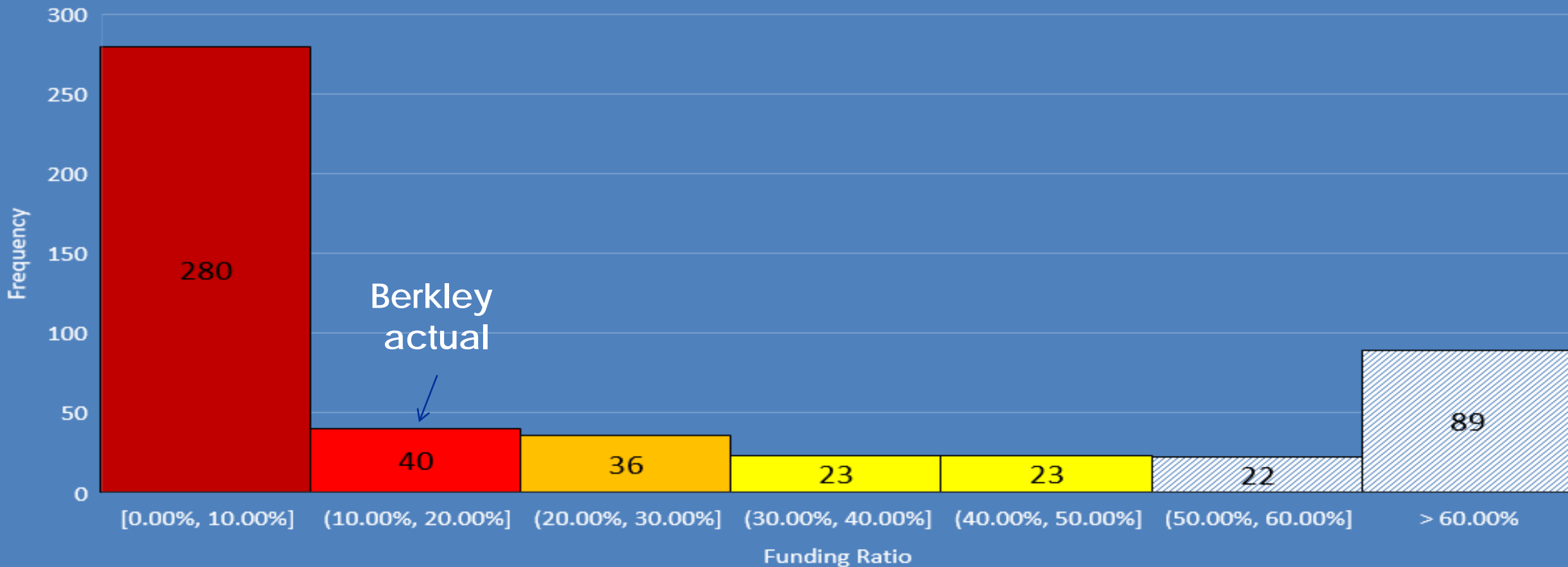
Description	Plan 1
Name of retirement health care system	Post Employment Benefit Plan
Retirement health care system's actuarial value of assets	\$2,223,325
Retirement health care system's actuarial accrued liabilities	\$27,663,815
Date of valuation of system's assets and liabilities	6/30/17
Annual required contribution	\$2,512,485
Governmental Fund Revenues	\$14,203,634
Health Care Trigger Summary	
Funded ratio	8.0%
All plans combined ARC/Governmental fund revenues	17.7%
"Underfunded status" (defined by PA 202 of 2017)	YES

Primary unit triggers: Less than 40% funded AND greater than 12% ARC/Governmental fund revenues

OPEB Funded Ratio Frequency Analysis

HEALTHCARE FUNDED RATIO FREQUENCY ANALYSIS SEPTEMBER 7, 2018

Total Plans : 512



State-wide Corrective Action Plans Submitted

PA 202: Corrective Action Plan Analysis FY 2017

LOCAL UNIT TYPE	Submissions		Approval Status			
	Required	Submitted	Approved	Denied	Split	Pending
NON- PRIMARY	98	6 (10%)	2 (33%)	0 (0%)	1 (17%)	3 (50%)
PRIMARY	98	8 (4%)	1 (13%)	0 (0%)	0 (0%)	7 (87%)
TOTAL	196	14 (7%)	3 (21%)	0 (0%)	1 (7%)	10 (72%)

¹. As of 10/9/2018



Corrective Action Plan: Funding Alternatives for Berkley

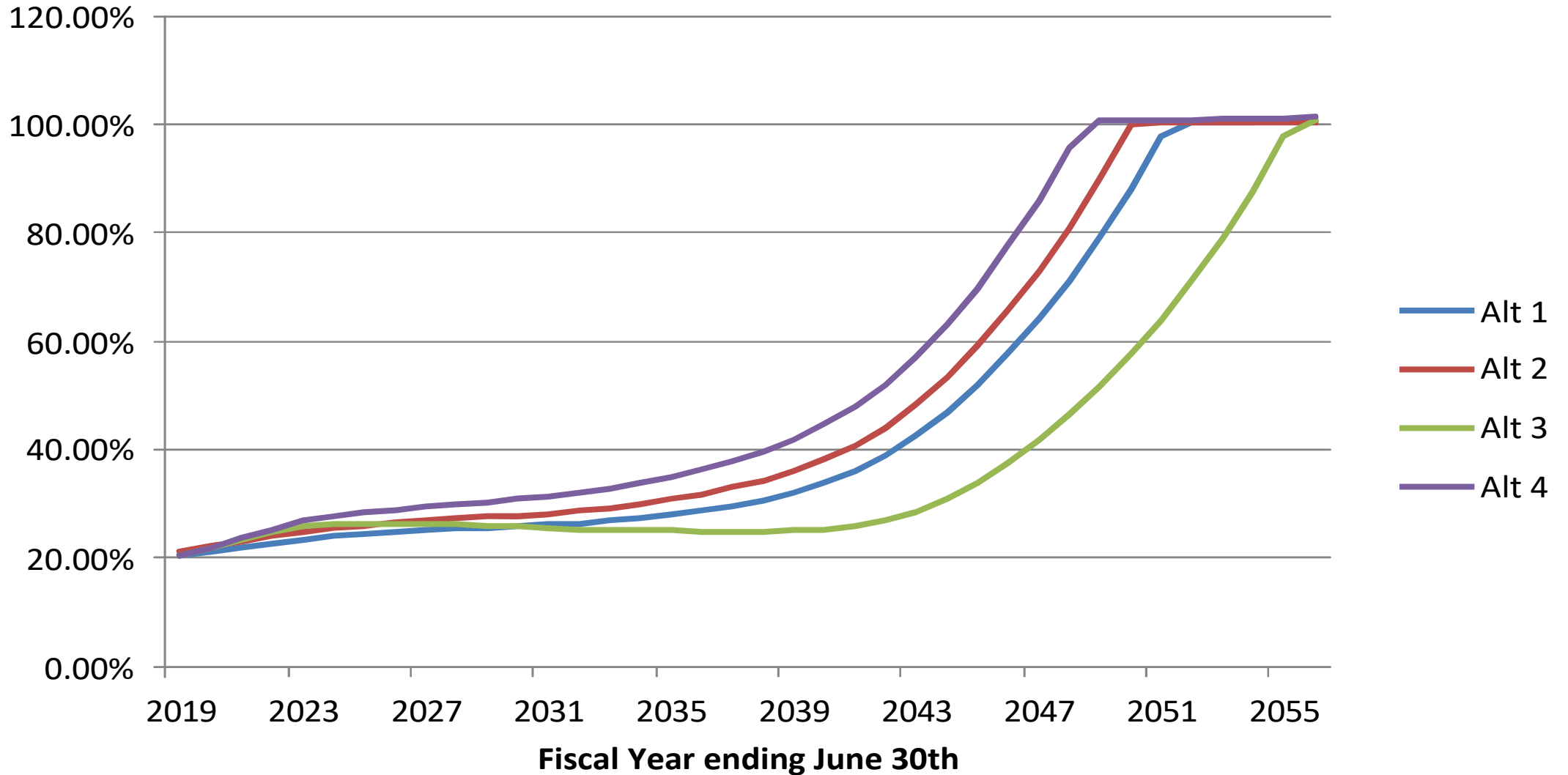


Currently:

- Retiree health care benefits is closed to new hires
- \$5 million in assets held in trust for retiree healthcare
 - ❑ Invested assets not used for current payment obligations and allow to earn interest
 - ❑ Funds could be available to ensure affordability in future years
- In past years, additional contributions, in excess of annual “pay as you go” amounts, have been made.

City of Berkeley Retiree Health Care Plan

Projected Funded Percentages



Alternate 1

- Continue payments for retiree health care, maximum annual payment \$1.2 million
- When payment due exceed \$1.2 million, pay the difference using funds from trust assets
- 40% funded by 2043
- 100% funded achieved by 2052
- After 2052, no additional city contributions required.

Alternate 2

- City pays \$1.2 million per year through FY 2043
- In the near term, annual payments expected: less than \$1.2 million at just over \$1M
- Additional, excess annual contributions applied to trust assets
- 40% funded by 2041
- 100% funded by 2050
- After 2050, no additional city contributions required.

Alternate 3

- Continue to pay the benefits to a max of \$1.1M
- Additional \$200k per year during 2020-2023
- Reach 40% funded by fiscal year 2047
- Reach 100% funded by fiscal year 2056
- After 2056, no additional City Contributions are expected to be needed.

Alternate 4

- Similar to Option 3 expect that the cap would be at \$1.2M
- Like alternative 3 fund an additional \$200k from 2020-2023
- Reach 40% funded by fiscal 2039
- Reach 100% funded by fiscal 2049
- After fiscal 2049, additional City contributions not required

Recommendations & Next Steps



Recommended: Alternative 1

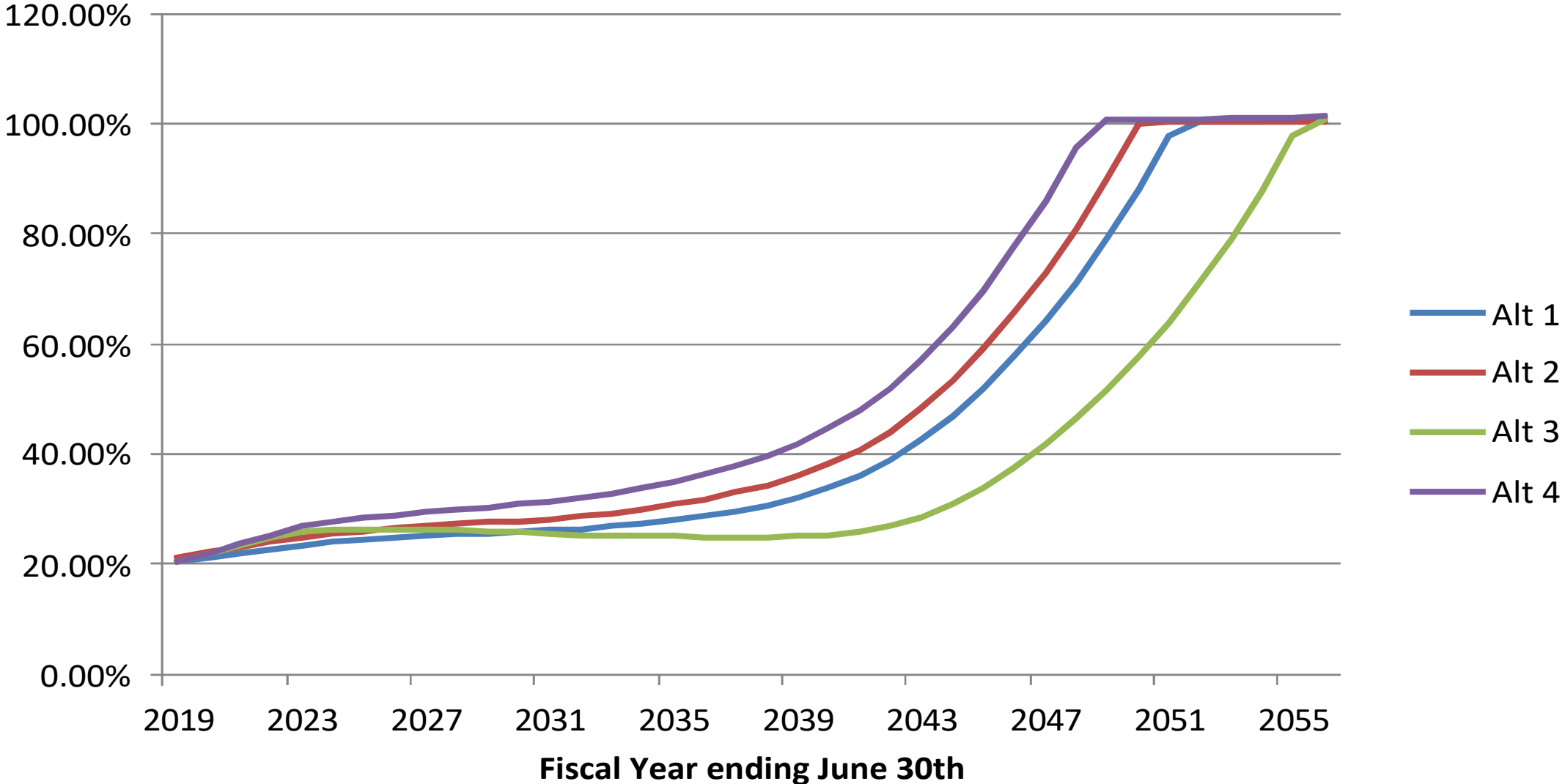
- Continue “pay as you go” amount for affordability
 - Current contribution ~ \$1 million and maintain flexibility to increase contribution as the budget allows
 - Additional amount considered annually in each budget cycle
- When annual “pay as you go” amount is greater than \$1.2 million, portion of trust assets can be used to cap current year contribution

Recommended: Alternative 1

- Satisfies state requirement: 40% funded within 30 years. Berkley would be:
 - 40% funded in 25 years
 - 100% funded in 34 years
- With a closed plan: retiree attrition will result in expedited achievement of 100% funding level

City of Berkley Retiree Health Care Plan

Projected Funded Percentages



Corrective Action Plan Next Steps....

1. Work with actuary to establish funding alternatives
2. Show graphically the funded level
3. City Council approves a course of action **
4. Reviewed by Michigan State Department of Treasury
5. Formal submission to the Municipal Stability Board. If denied – repeat steps 1-4

Corrective Action Plan Next Steps....

6. If approved – implement plan

- a) Submit future reports as required
- b) Consider feasibility of making additional contributions during annual budget preparation
- c) Evaluate effect of earnings on trust assets
- d) Modify plan as needed – ongoing process
- e) Maintain accountability to Municipal Stability Board



QUESTIONS?