

City of Berkley Memorandum

Date: July 24, 2017

To: Matthew Baumgarten, City Manager

From: Sabrina Lilla, Finance Director

Re: Public Act 530 of 2016, Section 20h (7) Funding Levels

To comply with Section 20h(7) of Public Act 530 of 2016, local government retirement systems which are funded less than 60% in retiree health care or pension as of the most recent summary annual report, shall post an informational report on the system's, or political subdivision's, website outlining the steps, if any, it may be taking to decrease its unfunded actuarial accrued liability. These corrective steps shall then be submitted to the Department for review.

MICHIGAN EMPLOYEES' RETIREMENT SYSTEM OF MICHIGAN (MERIT and DPW Employees)

For the first time in history, the City of Berkley's MERS percent funded level has dropped below 50%. The table below shows the past 15 years of history.

Valuation Date December 31	Actuarial Accrued Liability	Valuation Assets	Percent Funded	Unfunded (Overfunded) Accrued Liabilities
2002	\$ 16,251,453	\$ 13,650,366	84%	\$ 2,601,087
2003	16,746,763	13,969,155	83%	2,777,608
2004	17,465,052	14,180,194	81%	3,284,858
2005	17,324,667	14,449,996	83%	2,874,671
2006	18,077,314	14,937,657	83%	3,139,657
2007	18,443,014	15,431,980	84%	3,011,034
2008	18,963,204	15,211,513	80%	3,751,691
2009	19,113,973	14,794,854	77%	4,319,119
2010	19,040,900	14,601,510	77%	4,439,390
2011	19,680,073	14,285,165	73%	5,394,908
2012	19,621,345	13,876,409	71%	5,744,936
2013	20,019,135	13,660,720	68%	6,358,415
2014	20,606,205	13,371,044	65%	7,235,161
2015	21,188,269	12,863,418	61%	8,324,851
2016	21,384,079	12,294,873	58%	9,089,206

Notes: Actuarial assumptions were revised for the 2004, 2008, 2009, 2010, 2011, 2012 and 2015 actuarial valuations.

The drop in funding levels has corresponded with the changes in actuarial assumptions and methods adopted by MERS over the last few years. These changes include, but are not limited to, the change in mortality table to reflect longer lifetimes, a decrease in the assumed annual rate of investment return from 8% down to 7.75%, the asset smoothing period was changed from 10 years to 5 years, and the amortization period was moved to a fixed period amortization and will continue to gradually decrease for both open and closed divisions until the current unfunded accrued liability is completely paid off.

The City received the actuarial valuation in late June and it was a surprise to be below a 60% funding level. I recommend as we approach the new fiscal year and union negotiations (to begin the first of calendar year 2018), we explore our options to increase our funding levels. While I am not recommending any one particular solution, other municipalities have implemented the following actions to assist with their funding levels:

- Lower benefits offered to new hires
- Hybrid plan for new hires
- Defined contribution plan for new hires
- Defined benefit plan freeze
- Cost sharing for existing employees
- Additional contributions above the annual required contribution
- Voluntary contributions
- Bonding

OTHER POST EMPLOYMENT BENEFITS - MICHIGAN EMPLOYEES' RETIREMENT SYSTEM OF MICHIGAN RETIREE HEALTH FUNDING VEHICLE (Qualified employees only)

The City's last Other Post-Employment Benefits ("OPEB") actuarial valuation was performed as of June 30, 2012. We are currently in the middle of the June 30, 2015 valuation and hope to have the final report by beginning to middle of September. As of June 30, 2012, the City's OPEB plan was 8% funded. Current health care costs are paid on a "pay as you go" basis.

The City continues to evaluate its retiree health care benefits. New hires after July 1, 2005 in the MERIT system and AFSCME and after July 1, 2008 for public safety are not eligible for retiree health care but are enrolled in the City's Health Care Savings Account. During the prior fiscal year, the City converted all retirees to a Medicare Advantage health care plan with BCBS which was estimated to save the City approximately \$170,000. Each budget season the City evaluates its budget and has made a conscious effort to contribute towards the OPEB liability. The City plans to continue to do so. In past years the City has contributed approximately \$250,000 towards its health care liability.