Economic Vitality Incentive Program / County Incentive Program
Category 3: Unfunded Accrued Liability Plan

City of Saline UAL Plan Overview

EVIP (for eligible cities, villages or townships) and CIP (for eligible counties) are revenue sharing packages for municipalities. They include three categories of eligibility, each with its own set of requirements and deadlines, and offering 1/3 of the total available incentive revenue. By June 1, 2014, you need to submit a plan to address your unfunded liability to Treasury for Category 3 of EVIP. This sample template is meant to assist you in documenting your plan.

When your plan is complete, submit it along with certification form 5074 to the Department of Treasury, using the contact information on the form. The form can be found at *http://www.michigan.gov/documents/treasury/5074_434975_7.pdf.*

1. MUNICIPALITY INFORMATION

Municipality Name: City of Saline

Fiscal Year: FY2014

Pension UAL as reported in the most recent actuarial valuation: December 31, 2012

Pension Funded Ratio: 75% No Pension UAL ☐

OPEB UAL as reported in most recent valuation: December 31, 2011

OPEB Funded Ratio: 20% No OPEB UAL ☐

2. PENSION UAL – ACTIONS TAKEN

You may have a pension UAL only if you offer a defined benefit and/or a hybrid plan.

PLAN DESIGN CHANGES (CHECK IF APPLICABLE)

STRATEGY

☑ **Adopted a Lower Tier of Benefits for New Hires (check all that apply):**

- ☐ Lowered multiplier from ________ to ________
- ☐ Removed Cost of Living Increases
- ☐ Removed Early Retirement Riders (i.e. 55/25, 50/25)
- ☐ Increased Vesting from _______ to _______
- ☐ Increased Normal Retirement Age from ________ to ________
- ☑ Other:

  Closed Defined Benefit plans.

IMPACT

The long term impact of implementing a lower tier of benefits for new hires is that it reduces the future liability accrual because future benefits will be lower, and therefore less expensive, than the previous benefits offered.

Effective Date: 07/01/2008

☑ **Adopted a Defined Contribution Plan for New Hires** **Effective Date:** 07/01/2008	The long term impact of implementing Defined Contribution for new hires is that it eliminates the future accrual of liabilities for those benefits, since Defined Contribution does not have liabilities associated with the benefits.
☑ **Adopted a Hybrid Plan for New Hires** Multiplier: 1.50% Vesting: 6 years FAC: 3 years Normal Retirement Age: 60 Once the benefit structure is established, the defined benefit portion may not be increased and is not subject to collective bargaining. Yes (MERS only) ☑ No ☐ **Effective Date:** 06/01/2012	The long term impact of implementing a Hybrid Plan for new hires is that it reduces the future liability accrual because future benefits will be lower, and potentially less expensive, than the previous benefits.
☐ **Bridged the Multiplier for Active Employees** Bridged from: __________ multiplier Bridged to: __________ multiplier Final Average Compensation used: (check one) Frozen (biggest impact) ☐ Termination ☐ **Effective Date:**	The impact for bridging a multiplier for active employees is immediate and not only reduces future liabilities, but also may reduce existing liabilities. Past service remains at the previous multiplier and all future service accrues at the new, reduced multiplier. New hires would receive the new bridged multiplier.

FUNDING (CHECK ALL THAT APPLY)

STRATEGY	IMPACT
☑ **Contributed the Annual Required Contribution to Fund the Plan**	The actuarial determined minimum contribution is comprised of two pieces: **Employer Normal Cost** (present value of benefits allocated to the current plan year less any employee contribution), and **Amortization Payment of Unfunded Accrued Liability** (payment to reduce any shortfall between liability for past service and assets). Making the required minimum payments into the plan contributes towards the unfunded accrued liability. **How will this action continue to be implemented and maintained?** The City will continue to pay the annual required contribution based on the most recent actuarial valuations. In FY2013 the City implemented a Fund Balance Policy. At any time the General Fund balance exceeds the target balance set forth in the policy, the City Council may consider using the excess reserves to fund the MERS Pension or the OPEB Trust.
☑ **Contributed Above the Minimum Required Amount** ☐ Extra percentage above minimum: ________ ☑ Lump sum payment into plan: $660,190	Additional payments made into the plan go toward funding the unfunded accrued liability. In addition, those extra dollars are invested and have the ability to recognize market returns. **How will this action continue to be implemented and maintained?** In fiscal year FY2011, the City paid an additional $660,190 in order to attain a funded level that would allow them to close their Defined Benefit plans.

3. PENSION UAL – NO ACTIONS TAKEN

NO ACTIONS HAVE BEEN TAKEN IN THE PAST

PLEASE EXPLAIN WHY NO ACTIONS HAVE BEEN TAKEN

4. OPEB UAL—ACTIONS TAKEN

You may have an OPEB UAL only if you offer retiree health insurance, or other post-employment benefits.

PLAN DESIGN CHANGES (CHECK ALL THAT APPLY)

STRATEGY	IMPACT
☑ **Implemented Changes to Coverage Levels** **Details:** 2008: Moved to lower cost plans with higher deductibles. 2011: Moved to plans with even higher deductibles. Employees pay 15%-20% of deductible. 2012: Elected "Hard Cap" option for staff & Teamsters; effective for Police in **Effective Date:** 07/01/2008	Implementing changes to coverage and benefit levels reduces the total liability of the plan.
☐ **Increased Co-Payments** **Details:** **Effective Date:**	Reduces the total liability of the plan.

☐ **Modified Eligibility**

Reduces the total liability of the plan.

Details:

Effective Date:

☑ **Implemented Defined Contribution Style Health Care**
(i.e. MERS Health Care Savings Program)

Eliminates OPEB liability for new hires. If active employees opt out, it reduces the current liabilities.

Check all that apply:

☑ New hires

☑ Offered conversion/incentive for employees (actives or retirees) to opt out of retiree healthcare

Effective Date: 2005

☑ **Eliminated Retiree Health Insurance Coverage for New Hires**

Eliminates OPEB liability for new hires.

Details:

Retiree health insurance is not offered to new hires.

Effective Date: 07/01/2012

FUNDING (CHECK ALL THAT APPLY)

STRATEGY

☑ **Established a qualified medical trust - OPEB Trust**
(i.e. MERS Retiree Health Funding Vehicle)

Contributions made to the Trust this year: $623,693 (in 2013)

Balance in the Trust: $2,748,795

Effective Date: 2005

IMPACT

Assets in a qualified medical trust can be used to offset OPEB liability.

How will this action continue to be implemented and maintained?

The City will continue to pay the annual required contribution based on the most recent actuarial valuations. In FY2013 the City implemented a Fund Balance Policy. At any time the General Fund balance exceeds the target balance set forth in the policy, the City Council may consider using the excess reserves to fund the OPEB Trust or the MERS Pension.

5. OPEB UAL – NO ACTIONS TAKEN

NO ACTIONS HAVE BEEN TAKEN IN THE PAST

PLEASE EXPLAIN WHY NO ACTIONS HAVE BEEN TAKEN

6. OTHER ACTIONS THAT DO NOT QUALIFY FOR EVIP

STRATEGY

☐ **Closed the Defined Benefit Plan and Issued a Pension Obligation Bond to Fund the Plan**

Issued the bond at: (check one)

Actuarial Value ☐ Market Value ☐

Bond Amount: ______________________

IMPACT

The proceeds of the bond are deposited and potentially will fully fund the unfunded accrued liability of the Plan. There is no guarantee that future unfunded liabilities may not occur.

How will this action continue to be implemented and maintained?

POLICIES/BEST PRACTICES (CHECK ALL THAT APPLY)

STRATEGY

☑ **Limited Final Average Compensation**

- ☐ Base wages only or (check all that apply)
  - ☑ Excluded or limited overtime
  - ☑ Excluded or limited PTO payouts
  - ☑ Excluded or limited sick leave payouts

IMPACT

Limiting what is included in someone's final average compensation reduces the benefit amounts, therefore decreasing total liability. It also mitigates Final Average Compensation (FAC) padding/spiking, which could lead to the immediate development of UAL.

☑ **Amortization of UAL – open DB Plan**

Current Amortization Policy:
26 years

Is this amortization shrinking?

Yes ☑ No ☐

(MERS shrinks the amortization schedule by 1 year, every year)

Decreasing the period in which UAL is spread over expedites the payoff.

☑ **Regular Actuarial Experience Study**

Last study performed: 2009 (by MERS)

Scheduled every 5 years

(MERS last Experience Study was performed in 2009)

Regularly performing an actuarial experience study provides Plan oversight, governance and due diligence to ensure experience is close to assumptions.

☐ **Benefit Increases Policy**

Required to be ________% funded

By limiting when benefit increases can be done, this reduces the risk of developing UAL due to granting benefit enhancements that have not yet been paid for and/or prefunded.

7. ACTIONS THAT MAY BE TAKEN

To reduce Unfunded Accrued Liability in the future, plan design modifications may be made for new hires, including: retirement eligibility and vesting requirements, multipliers, cost-of-living increases, removal of early retirement riders, and increases to the retirement age. In addition, plan changes could be made for new hires, including adopting a hybrid or defined contribution plan. For active employees, bridging the current multiplier to a lower multiplier for future service could also be implemented.

Funding strategies may also be made, including: contributing the annual required contribution to the plan (required by the State Constitution), and contributing more than the minimum required contribution.

Best practice policies include: limiting what is included in the final average compensation calculation, reviewing/reducing the amortization period to pay off unfunded liabilities, performing a regular actuarial Experience Study, and creating a policy on when benefit increases can be made.

If retiree healthcare is offered, and there is OPEB unfunded liabilities, future actions that could be taken include: plan design modifications (i.e. changes to coverage levels, increased co-payments, eligibility modifications), plan type changes (i.e. implementing a defined contribution style health care), and funding strategies (i.e. establishing an OPEB trust and funding it).