



Internal Memo

September 14, 2016

TO: Mayor and City Council

FROM: Mark C. Meyers, City Administrator *MEM*

SUBJECT: Pension Program and OPEB (Retiree Health Insurance) Funding

The purpose of this memo is to provide the City Council both background and current status regarding funding levels of the Municipal Employees Retirement System (MERS) pension program and other post-employment benefits (OPEB), or retiree health insurance.

MERS Pension Program

Based on the last audit, the City's funding level in the MERS pension program is at 51%. The root of the funding problem dates back approximately 25 years ago when the City decided not to make any payments (\$0) for three consecutive fiscal years in 1992, 1993 and 1994. At the same time MERS changed actuaries and implemented more conservative assumptions. The result was a funding level that plunged during that period from 100% to approximately 65%. Later, during the recession, the pension system lost \$4.2 million during fiscal years 2008 and 2009.

Given these circumstances the City implemented strategies to: 1) reduce the cost of the retirement program; and, 2) increase funding. Lowering costs is being addressed several ways including increasing employee contributions to their pension and reducing retirement benefits. In addition the City has budgeted additional funds above the Annual Required Contribution (ARC) over seven fiscal years totaling more than \$2.5 million. Please see the attached list of specific steps taken to address pension funding.

In 2010 staff presented a long-term plan with a goal of attaining 80% funding. This percentage was the established goal coinciding with the funding level required by MERS to consider closing the defined benefit plan and opening a defined contribution plan. The initiatives that we've implemented are not "quick fixes". It will take time for these changes to have a significant effect on our funding levels.

OPEB-Retiree Health Insurance

OPEB was off many municipalities' radar until the Governmental Accounting Standards Board (GASB) changed accounting principles. Unlike pension funding with annual required contributions, historically, retiree health benefits were not pre-funded. Instead, municipalities

typically budgeted each year on a “pay as you go” basis to fund the cost of retiree health insurance. However, GASB accounting rules now require that future liability for retiree health insurance be shown on the balance sheet. Therefore, when the rules changed the City established a \$400,000 OPEB Trust Fund. The fund currently has a balance of approximately \$2 million representing 4.5% of the accrued liability. The City has focused on decreasing and capping costs of future retiree health insurance. Specific initiatives are included in the attachment.

Moving Forward

Staff continues to review the plan to improve our funding status in both the pension program and related to OPEB. Unfortunately, it’s a moving target, as MERS recently conducted a five-year experience study and are implementing even more conservative assumptions. We have scheduled discussions with MERS staff for early October to discuss pension and OPEB funding. Further, last week I had the opportunity to attend a Muskegon/Ottawa City Managers’ meeting where MERS staff gave a presentation. I have scheduled MERS staff to make the same presentation at the October 25, 2016 City Council work session.

Staff will continue to focus on this issue. It is certainly one we take very seriously. In the meantime, if you have any questions regarding this report, please contact me at any time.

/ss
Attachment

City of Norton Shores
Action Items Implemented to Reduce Unfunded Accrued Liabilities
September 2016

MERS Pension Program

Implementation of a reduced benefit pension plan

Beginning July 2010, a reduced benefit pension plan was introduced for new hires. The reduced benefit includes a lower multiplier, higher age and lower FAC, that began with the MPTC (non-union) employee group and has since been negotiated for the unions.

Implementation of employee contributions for pension plan

- MPTC – Hired after 7/1/2006 contribute 2% of wages
 - Hired after 7/1/2010 contribute 3% of wages

- Police – Hired prior to 7/1/2009 contribute 1% of wages
 - Hired after 7/1/2009 contribute 2% of wages
 - Hired after 7/1/2012 contribute 3% of wages
 - 7/1/2013 contribute 3.5% of wages
 - 7/1/2014 contribute 4% of wages

- Fire – Employees contribute 2.5% of wages
 - Hired after 7/1/2016 contribute 4% of wages

- DPW – Employees contribute 2.5% of wages

Increased payments above the Annual Required Contribution (ARC) toward pension program

Below are the additional contributions per fiscal year:

FY 1998 - \$500,000
FY 2002 - \$250,000
FY 2012 - \$59,836
FY 2013 - \$211,437
FY 2015 - \$500,000
FY 2016 - \$500,000
FY 2017 - \$500,000

Additional Items enacted to reduce unfunded accrued liabilities

- Discontinued the annual cost of living increase for existing retirees in January 2009.
- Implemented a wage freeze for non-union employees for Fiscal Years 2009, 2010 and 2011, lowering the FAC.
- Closed the Police Chief/Lieutenant Division of the MERS Pension Program in September 2014.

OPEB – Retiree Health Insurance

Established OPEB Trust Fund

A trust fund specifically for funding OPEB costs was established in 2010. The fund currently has \$1,996,000 in assets.

Implementation of Reduced Benefit – Retiree Health Insurance Plans

- MPTC – Hired after 7/1/2011 insurance for retiree only. City will pay \$15 for each year of service up to \$450 monthly maximum toward health insurance.
- Police – Hired after 6/1/2012 coverage for retiree only at the same level and payments as when they retired. It may be purchased for the spouse.
- Fire – Hired after 7/1/2013 coverage for retiree only. City pays \$20 for each year of service up to \$600 monthly maximum toward health insurance.
- DPW – Hired after 7/1/2012 coverage for retiree only. City pays \$20 for each year of service up to \$600 monthly maximum toward health insurance.

Implementation of employee health insurance premium co-pay

- Employee contributions toward health insurance premiums were implemented and have been increasing over the last 12 years.

Implementation of high deductible health insurance plan

- High deductible plan was introduced to the MPTC employee group in October of 2012 and to the Union employee groups during contract renewals.

Amended Personnel Code, Sec. 2-374 eligibility restrictions for OPEB benefits