

Muskegon County
EVIP/CIP Category #3-Unfunded Liabilities

INTRODUCTION

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, a plan must be submitted that addresses the municipality's unfunded liabilities to Treasury for Category 3 of EVIP or CIP.

Below is a historical overview of unfunded actuarial liabilities (UAL) and funded ratios by actuarial date, a listing of previous actions taken to reduce Muskegon County's unfunded liabilities and how these actions will be maintained, and actions that could be taken to reduce Muskegon County's unfunded liabilities. UAL and funded ratio for pension and Other Post Employment Benefits (OPEB) were taken from Muskegon County's FY2013 audited Comprehensive Annual Financial Report (CAFR).

PENSION

<u>Actuarial Date</u>	<u>UAL</u>	<u>Funded Ratio</u>
12/31/2007	27,624,193	85.40%
12/31/2008	36,569,013	81.90%
12/31/2009	36,522,079	82.20%
12/31/2010	42,597,280	80.20%
12/31/2011	51,700,774	77.30%
12/31/2012	56,481,977	76.00%

PREVIOUS ACTIONS TAKEN #1

Contributed the Annual Required Contribution to fund the plan.

IMPACT

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.

PREVIOUS ACTIONS TAKEN #2

All new non-bargaining/non-union employees, including directors and elected officials, hired on or after August 1, 2009 will have a MERS provided defined contribution plan per County Board action dated July 24, 2009.

All District Court bargaining unit employees hired on or after June 24, 2008 will be provided the MERS defined contribution plan per bargaining unit agreement which was approved by County Board action dated June 24, 2008.

All Michigan Nurses Association bargaining unit employees hired on or after August 21, 2007 will be provided the MERS defined contribution plan per bargaining unit agreement which was approved by County Board action dated August 21, 2007.

All American Federation of State, County and Municipal Employees (AFSCME) bargaining unit employees hired on or after January 1, 2009 will be provided the MERS defined contribution plan per bargaining unit agreement which was approved by County Board action dated April 22, 2008.

IMPACT

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.

PREVIOUS ACTIONS TAKEN #3

In calendar year 2012, Muskegon County contributed a lump sum payment of \$1,331,100 into the closed MERS group #17 (directors and elected officials).

IMPACT

A lumps sum payment was made in an effort to increase the funded ratio for this group to 60%.

HOW PREVIOUS ACTIONS TAKEN WILL CONTINUE TO BE IMPLEMENTED

Continue to contribute the annual required contribution to the plan per latest MERS actuarial as required by law.

For bargaining labor agreements, ensure that future contracts will continue to keep new hires in defined contribution plans. For non-bargaining employees hired after August 1, 2009, Board action requires that they be put into defined contribution plans. Nothing further is required to continue to implement this action.

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OTHER POST EMPLOYMENT BENEFITS (OPEB)

<u>Actuarial Date</u>	<u>UAL</u>	<u>Funded Ratio</u>
12/31/2007	71,217,120	21.80%
12/31/2009	67,317,322	27.60%
12/31/2011	46,793,364	43.60%
12/31/2012	41,897,452	49.10%

PREVIOUS ACTIONS TAKEN #1

All new non-bargaining/non-union employees, including directors and elected officials, hired on or after August 1, 2009 will have a Voluntary Employee Benefit Association (VEBA) type plan per Board action dated July 24, 2009.

All District Court bargaining unit employees hired on or after June 24, 2008 will be provided a Voluntary Employee Benefit Association (VEBA) type plan per bargaining unit agreement which was approved by County Board action dated June 24, 2008.

All Michigan Nurses Association bargaining unit employees hired on or after August 21, 2007 will be provided the Voluntary Employee Benefit Association (VEBA) type plan per bargaining unit agreement which was approved by County Board action dated August 21, 2007.

All SEIU LPN bargaining unit employees hired on or after March 9, 2010 will be provided the Voluntary Employee Benefit Association (VEBA) type plan per bargaining unit agreement which was approved by County Board action dated March 9, 2010.

All American Federation of State, County and Municipal Employees (AFSCME) bargaining unit employees hired on or after January 1, 2009 will be provided the Voluntary Employee Benefit Association (VEBA) type plan per bargaining unit agreement which was approved by County Board action dated April 22, 2008.

IMPACT

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

PREVIOUS ACTIONS TAKEN #2

In FY2011, the Muskegon County Board of Commissioners approved a three year proposal from Priority Health and Restat/RX for the period October 2012 to September 2014 to provide self-funded medical coverage and prescription coverage for all eligible active and retired employees. With that, the County opted to keep the retirees population on the same plans as active employees, rather than on the more costly plans that were available at the time.

IMPACT

Implementing changes to coverage and benefit levels reduces the total liability of the plan.

HOW PREVIOUS ACTIONS TAKEN WILL CONTINUE TO BE IMPLEMENTED

For bargaining labor agreements, ensure that future contracts will continue to keep new hires in VEBA type plans. For non-bargaining employees hired after August 1, 2009, Board action requires that they be put into VEBA type plans. Nothing further is required to continue to implement this action.

ACTIONS THAT COULD 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).