

# State of Michigan Economic Vitality Incentive Program (EVIP)

## Category 3: Unfunded Accrued Liability Plan



*City of Charlevoix  
June 1, 2014*

# Municipality Information



Municipality Name: City of Charlevoix

Fiscal Year: 2014-2015

Pension Unfunded Accrued Liability (UAL): \$2,887,986  
as reported in the most recent actuarial valuation (12/31/2012)

Pension Funded Ratio: 75%

Other Post-Employment Benefits (OPEB) UAL: None

# Pension Unfunded Accrued Liability Actions Taken



The City of Charlevoix has implemented the following pension plan design change to reduce its UAL:

- **Bridged the Multiplier for Active Employees**
  - Bridged from 2.5 multiplier to 1.5 multiplier
  - Froze Final Average Compensation used for 2.5 multiplier
  - Effective date: POLC 12/1/2011, Non-union 4/1/2012 and CWA 6/1/2012

## IMPACT

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.

# Pension Unfunded Accrued Liability Strategy



The City of Charlevoix will continue to contribute the annual required contribution to fund its pension plan as it is a requirement of the State Constitution as well as of MERS (Municipal Employees' Retirement System of Michigan) which is the provider of the City's pension plan.

## IMPACT

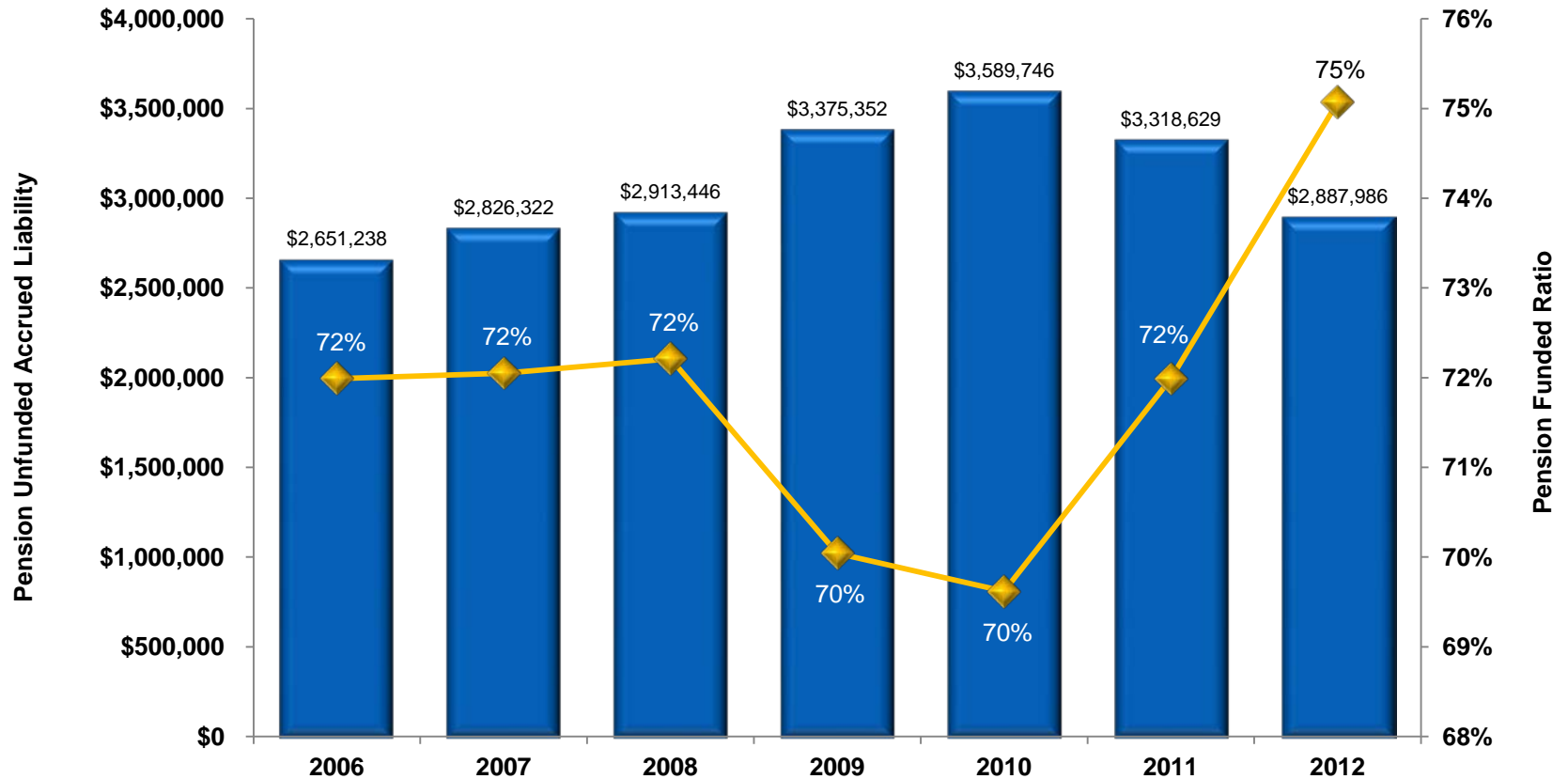
The actuarial determined minimum contribution is comprised of two pieces: **Employer Normal Cost** (present value of benefits allocated to the current plan year less any employee contribution) and **Amortization of Unfunded Liability** (payment to reduce any shortfall between liability for past services and assets). Making the required minimum payments into the plan contributes towards the unfunded accrued liability.

# Pension Unfunded Accrued Liability Other Policies / Best Practices Implemented



- Limited Final Average Compensation by Excluding Sick Leave Payouts
  - 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 Unfunded Accrued Liability
  - Current amortization policy is 26 years and the amortization schedule shrinks by one year, every year.
  - Decreasing the period in which UAL is spread over expedites the payoff.
- Regular Actuarial Experience Study
  - Last study was performed in 2009 and scheduled every five years.
  - Regularly performing an actuarial experience study provides plan oversight, governance and due diligence to ensure experience is close to assumptions.
- Benefit Increases Policy
  - Plan is required to be 100% funded in order to increase benefits.
  - 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.

# Pension Unfunded Accrued Liability Since 2006



- Due to bridging the plan multiplier from 2.5 to 1.5 and improved market returns, the City has reduced its pension unfunded accrued liability and increased its funded ratio to 75%