



*Michigan Department of*  
**TREASURY**

# Corrective Action Plan Best Practices

**COMMUNITY ENGAGEMENT AND FINANCE DIVISION**

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MAY 23, 2019

# Today's Discussion Topics

- ▶ 2017 Findings
- ▶ Corrective Action Plan Criteria
- ▶ Best Practices
- ▶ Example  
Corrective Action Plans
- ▶ Corrective Action Plan Monitoring





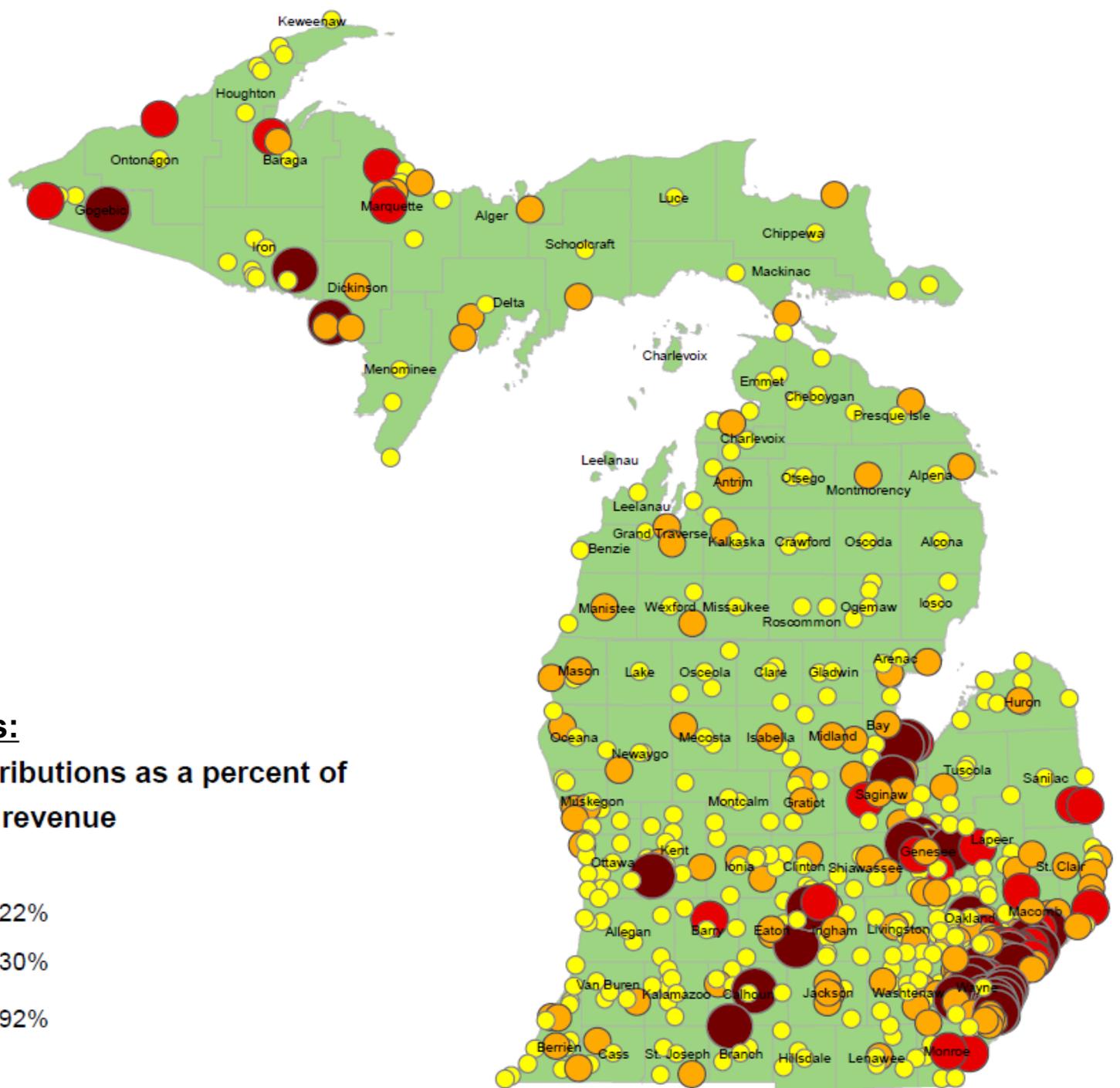


# First Year Reporting Data



## Primary Units:

Required contributions as a percent of governmental revenue



# Year One Milestones - Fiscal Year 2017

Reporting dates: December 20, 2017 - December 31, 2018

**Stage 1:**  
**Transparency and Reporting**  
*Nearly 900 local governments submitted their annual report to Treasury.*

95% submitted retirement reports

**Stage 2:**  
**Evaluation Process**  
*Treasury reviews each submission, confirming the funded status.*

30% triggered preliminary underfunded status

**Stage 3:**  
**Optional Waiver Review**  
*The State Treasurer granted waivers to local governments that demonstrated a plan is already in place.*

30% of 200 waivers were approved

**Stage 4:**  
**Local Government Corrective Action Plan**  
*The Municipal Stability Board (the Board) sets best practices, criteria, and approves/disapproves corrective action plans.*

215 local governments must submit corrective action plan(s)

**Stage 5:**  
**Corrective Action Plan Implementation and Monitoring**  
*The local government must begin to implement their corrective action plan within 180 days of being approved. The Board will monitor the local government for compliance with the Act.*

Monitoring:  
every 2 years

*\*\*Amounts and percentages subject to rounding.*



# Corrective Action Plan Criteria & Best Practices

# Corrective Action Plan Approval Criteria

- ▶ Underfunded Status
- ▶ Reasonable Timeframe
- ▶ Legal and Feasible
- ▶ Affordability



# Underfunded Status & Reasonable Timeframe

Trigger	Reasonable Timeframe
Pension systems < 45% funded	60% within 20 years
Pension systems - ARC/Revenue trigger	10% within 5 years
OPEB systems < 25% funded	40% within 30 years
OPEB systems – ARC/Revenue trigger	12% within 5 years



**Supporting documentation must include actuarial projection, actuarial valuation or an internal developed analysis.**

# Legal & Feasible

- ▶ Follow all applicable local, state and federal laws
- ▶ Attach approval from governing body
- ▶ Chief Administrative Officer must certify to implement actions
- ▶ Reasonably achievable



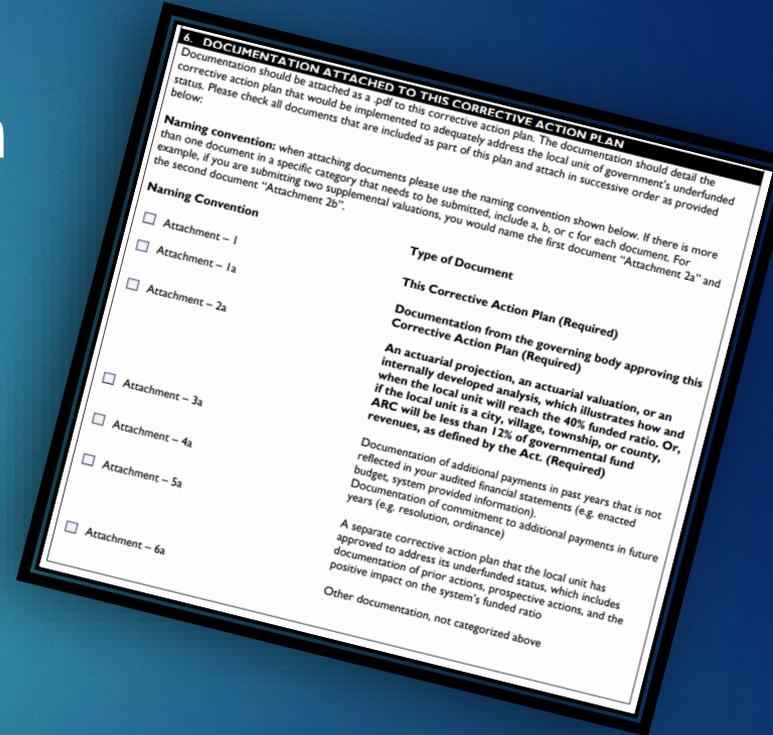
# Affordability

- ▶ Certify that local unit can continue to pay ARC and/or health care premiums, as well as normal cost for new hires
- ▶ Must be able to meet current and future obligations without using a significant portion of budget



# Supporting Documentation

- ▶ Corrective action plan form (signed)
- ▶ Documentation from the governing body
- ▶ Actuarial analysis
- ▶ Internally developed study
- ▶ Proof of additional payments
- ▶ Documentation of commitment to additional payments in future years



# Example: Corrective Action Plan

~~X~~ **Additional Funding** – Additional funding may include the following: paying the annual required contribution in addition to retiree premiums, voluntary contributions above the annual required contribution, bonding, millage increases, restricted funds, etc.

**Sample Statement:** *The local unit created a qualified trust to receive, invest, and accumulate assets for retirement healthcare on **June 23, 2016**. The local unit of government has adopted a policy to change its funding methodology from Pay-Go to full funding of the Annual Required Contribution (ARC). Additionally, the local unit has committed to contributing **\$500,000** annually, in addition to the ARC for the next five fiscal years. The additional contributions will increase the retirement system's funded ratio to **40%** by **2022**. Please see page **10** of the attached resolution from our governing body demonstrating the commitment to contribute the ARC and additional **\$500,000** for the next five years.*

The system created a retiree health funding vehicle with MERS for the now closed City of Berkley Retiree Health Care Plan during the quarter ended 09/30/2008 (a decade ago). See the attached statement for quarter ended 09/30/2008. (Exhibit B) That same MERS account is now valued at \$5,007,973. (Exhibit C)



# Example: Corrective Action Plan

## Municipal Employees' Retirement System of Michigan Retirement Health Funding Vehicle

Exhibit B

Quarterly Statement of Account  
For the period July 1, 2008 to September 30, 2008

Account Summary	
Beginning Account Balance	\$ 0.00
Employer Contributions	326,250.00
Administration & Investment Fee	0.00
Forfeitures	0.00
Distributions	0.00
Investment Results	- 3,536.19
Ending Account Balance	\$ 322,713.81

SYSTEM OF MICHIGAN



Exhibit C

Period: 04/01/2018  
through 06/30/2018  
Division Code: ~~000000~~  
CITY OF BERKLEY RHFV

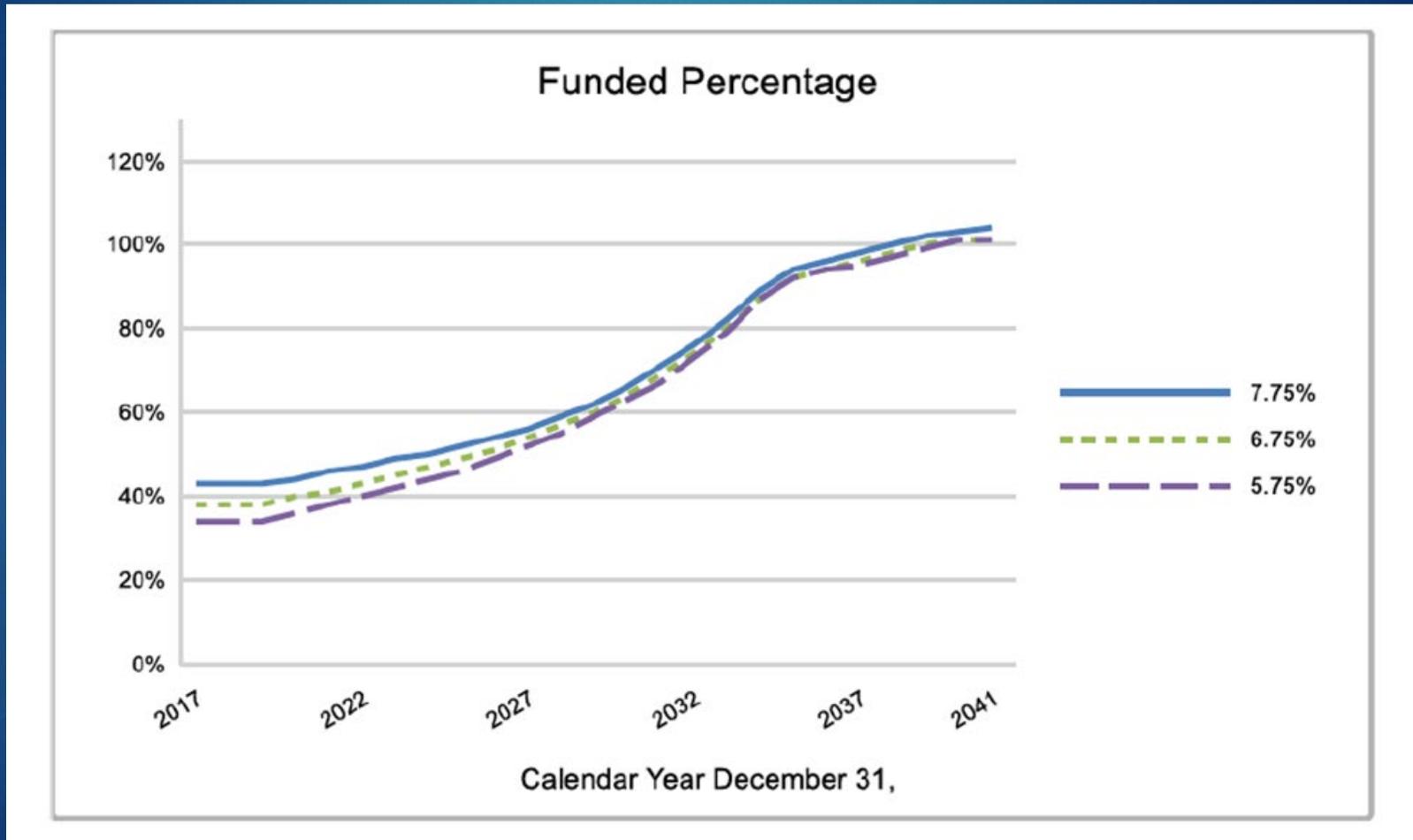
Contact Us

[www.mersofmich.com](http://www.mersofmich.com)  
800-767-MERS (6377)

### Your Account Summary

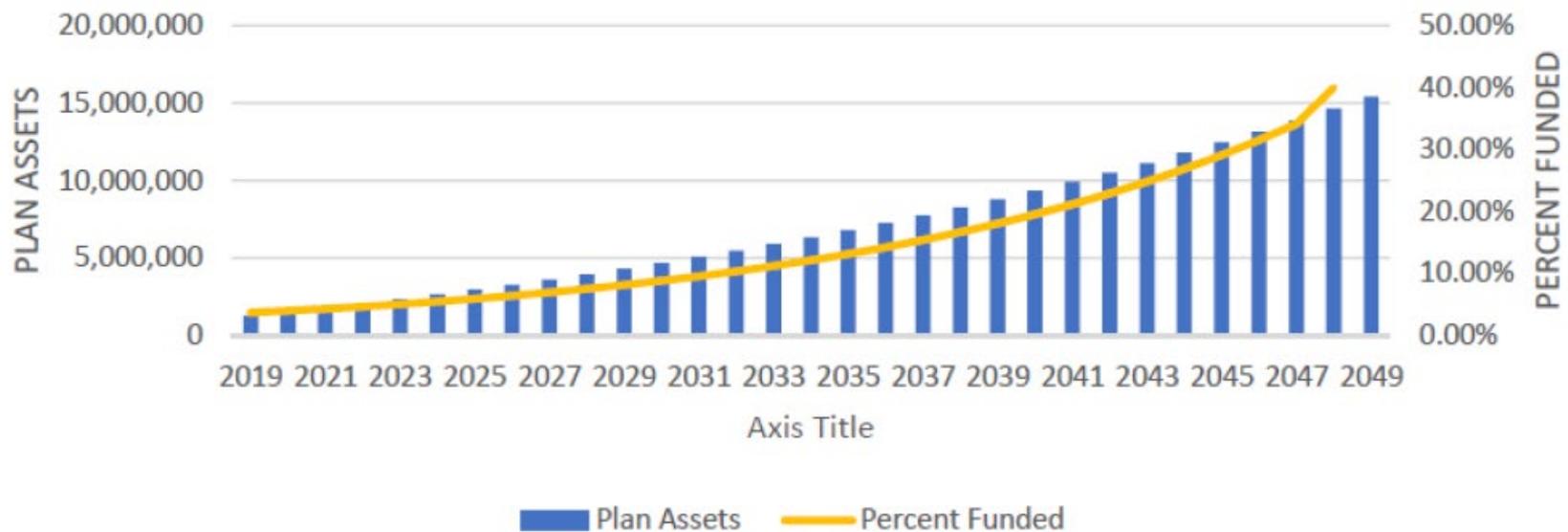
Beginning Balance on 04/01/2018	\$4,998,979.95
Contributions	\$0.00
Gain/Loss	\$11,994.20
Distributions	\$0.00
Administrative Fees	(\$3,000.70)
Ending Balance on 06/30/2018	\$5,007,973.45

# Example: Corrective Action Plan



# Example: Corrective Action Plan

40% Funding Plan



# Example: Corrective Action Plan

Fiscal Year	Actuarial Accrued Liability (AAL) Projection				Market Value of Asset Projection							Unfunded Liability (EOY)	Funded Percentage
	Normal Cost	Benefit Payments	6.00% Interest	AAL EOY	Employee Contribution	Pay-Go Employer Contribution <sup>(1)</sup>	Additional Employer Contribution	Benefit Payments	Administrative Expenses	6.00% Interest	Asset Value EOY <sup>(2)</sup>		
	(a)				(b)							(c) = (a) - (b)	(d) = (b) / (a)
7/1/2017 - 6/30/2018				\$264,880,680							\$82,023,006	\$182,857,674	30.97%
7/1/2018 - 6/30/2019	\$2,563,487	\$14,001,690	\$15,554,693	268,997,170	\$0	\$14,001,690	\$1,000,000	\$14,001,690	\$0	\$4,950,943	87,973,949	181,023,221	32.70%
7/1/2019 - 6/30/2020	2,487,290	15,022,665	15,769,247	272,231,042	0	15,022,665	1,000,000	15,022,665	0	5,308,000	94,281,949	177,949,093	34.63%
7/1/2020 - 6/30/2021	2,409,383	15,908,849	15,934,778	274,666,354	0	15,908,849	1,000,000	15,908,849	0	5,686,480	100,968,429	173,697,925	36.76%
7/1/2021 - 6/30/2022	2,334,128	16,786,202	16,052,734	276,267,014	0	16,786,202	1,000,000	16,786,202	0	6,087,669	108,056,098	168,210,916	39.11%
7/1/2022 - 6/30/2023	2,253,372	17,455,836	16,126,590	277,191,140	0	17,455,836	1,000,000	17,455,836	0	6,512,929	115,569,027	161,622,113	41.69%
7/1/2023 - 6/30/2024	2,168,466	18,091,059	16,160,749	277,429,296	0	18,091,059	1,000,000	18,091,059	0	6,963,705	123,532,732	153,896,564	44.53%
7/1/2024 - 6/30/2025	2,084,203	18,627,911	16,156,676	277,042,264	0	18,627,911	1,000,000	18,627,911	0	7,441,527	131,974,259	145,068,005	47.64%
7/1/2025 - 6/30/2026	2,000,091	19,068,675	16,117,937	276,091,617	0	19,068,675	1,000,000	19,068,675	0	7,948,019	140,922,278	135,169,339	51.04%
7/1/2026 - 6/30/2027	1,909,220	19,378,549	16,049,051	274,671,339	0	19,378,549	1,000,000	19,378,549	0	8,484,900	150,407,178	124,264,161	54.76%
7/1/2027 - 6/30/2028	1,807,476	19,633,552	15,953,288	272,798,551	0	19,633,552	1,000,000	19,633,552	0	9,053,994	160,461,172	112,337,379	58.82%
7/1/2028 - 6/30/2029	1,701,974	19,764,864	15,833,920	270,569,581	0	19,764,864	1,000,000	19,764,864	0	9,657,233	171,118,405	99,451,176	63.24%
7/1/2029 - 6/30/2030	1,607,109	19,889,282	15,693,699	267,981,107	0	19,889,282	1,000,000	19,889,282	0	10,296,667	182,415,072	85,566,035	68.07%
7/1/2030 - 6/30/2031	1,512,490	20,013,199	15,531,930	265,012,328	0	20,013,199	1,000,000	20,013,199	0	10,974,467	194,389,539	70,622,789	73.35%
7/1/2031 - 6/30/2032	1,409,714	20,103,523	15,348,094	261,666,613	0	20,103,523	1,000,000	20,103,523	0	11,692,935	207,082,474	54,584,139	79.14%
7/1/2032 - 6/30/2033	1,305,312	20,156,441	15,142,701	257,958,185	0	20,156,441	1,000,000	20,156,441	0	12,454,511	220,536,985	37,421,200	85.49%
7/1/2033 - 6/30/2034	1,199,376	20,272,528	14,913,631	253,798,664	0	20,272,528	1,000,000	20,272,528	0	13,261,782	234,798,767	18,999,897	92.51%
7/1/2034 - 6/30/2035	1,080,027	20,333,621	14,658,726	249,203,796	0	20,333,621	1,000,000	20,333,621	0	14,117,489	249,916,256	-712,460	100.29%

<sup>(1)</sup> Includes benefit payments and administrative expenses.

<sup>(2)</sup> Projected values with the exception of the June 30, 2018 value.

# Example: Corrective Action Plan

## RESOLUTION/CITY OF ST. JOHNS

### A RESOLUTION AUTHORIZING SUBMISSION OF A CORRECTIVE ACTION PLAN AS CONCERNS THE CITY OF ST. JOHNS MERS DEFINED BENEFIT RETIREMENT PLAN'S "UNDERFUNDED STATUS"

At a meeting of the City Commission of the City of St. Johns, held on October 8, 2018 in the City of St. Johns, Clinton County, commencing at 6:00 p.m.:

Present: Dana C. Beaman, Heather Hanover, Eric Hufnagel, Bob Craig, Jean Ruestman

Absent: None

The following resolution was offered by Commissioner Hanover and supported by Commissioner Craig.

WHEREAS the City of St. Johns acknowledges receipt of written notice of its MERS "underfunded status" from the Michigan Department of Treasury pursuant to an evaluation conducted as authorized by PA 202 of 2017;

WHEREAS the City of St. Johns submitted an Application for Waiver and Plan for the Defined Benefit Pension Retirement System to the Michigan Department of Treasury;

WHEREAS the Department of Treasury notified the City in writing of its denial of the City's waiver application and, thus, requires the City to submit a Corrective Action Plan to address the pension fund's underfunded status;

WHEREAS the St. Johns Finance Committee has met to discuss the Corrective Action Plan and has recommended the attached application be submitted to the City Commission for consideration;

WHEREAS the St. Johns City Commission concurs with the recommendation made by the Finance Committee with respect to the Corrective Action Plan;

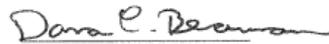
THEREFORE, BE IT RESOLVED:

- That the St. Johns City Commission formally authorizes the City Treasurer and Administrative Officer of the City to prepare, submit and execute the Corrective Action Plan and all other supporting/required documents to the Michigan Department of Treasury within the deadline for submission of same for the purpose of obtaining approval of said Corrective Action Plan from the Municipal Stability Board.

YEAS: Beaman, Hanover, Hufnagel, Craig, Ruestman

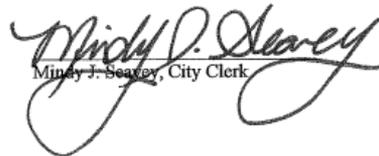
NAYS: None

Resolution declared adopted by unanimous vote on October 8, 2018.

  
Dana C. Beaman, Mayor

  
Mindy J. Seavey, City Clerk

This certifies that the foregoing is a true and complete copy of action taken by the City of St. Johns City Commission at the regular meeting held on October 8, 2018.

  
Mindy J. Seavey, City Clerk

# Best Practices



Best practice principles for developing a corrective action plan:

- ▶ Plan Funding
- ▶ Modern Plan Design
- ▶ Effective Plan Administration/Management

# Best Practices Examples

## ▶ Plan Funding

- ▶ Fund the annual required contribution
- ▶ Establish a qualified medical trust



# Best Practices Examples

## ▶ Modern Plan Design

- ▶ Pension: Implement Final Average Compensation (FAC) standards
- ▶ OPEB: Require cost sharing of premiums and sufficient copays



# Best Practices Examples

## ▶ Effective Plan Administration

- ▶ Implement a closed amortization period of no more than twenty years.





# Corrective Action Plan Case Studies

# OPEB Case Study



# Pension Case Study



# OPEB Case Study



# Pension Case Study



# Guidance Sessions

- ▶ 146 one-on-one calls to date
- ▶ Topics:
  - ▶ Developing and reviewing corrective action plans
  - ▶ Discussing best practices
  - ▶ Understanding the Municipal Stability Board's determination
  - ▶ Implementing corrective action plans
  - ▶ Corrective action plan monitoring



# Guidance Session

<https://www.schedulicity.com/scheduling/MTLCMH>

- ▶ Schedule 30 minute review phone call with Treasury

schedulicity

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**Information & Schedule a phone call:**

[Michigan.gov/LocalRetirementReporting](http://Michigan.gov/LocalRetirementReporting)



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# Questions?

- ▶ 2017 Findings
- ▶ Corrective Action Plan Criteria
- ▶ Best Practices
- ▶ Example Corrective Action Plans
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