

CHARTER TOWNSHIP OF MERIDIAN
TOWNSHIP BOARD SPECIAL MEETING - **APPROVED** -
5151 Marsh Road, Okemos, MI 48864-1198
853-4000, Town Hall Room
TUESDAY, SEPTEMBER 8, 2015 **4:30 P.M.**

PRESENT: Supervisor LeGoff, Clerk Dreyfus, Treasurer Brixie, Trustees Scales, Styka, Veenstra
(4:36 PM), Wilson

ABSENT: None

STAFF: Township Manager Frank Walsh, Assistant Township Manager/Director of Public Works Derek Perry, Director of Community Planning & Development Mark Kieselbach, Police Chief David Hall, Fire Chief Fred Cowper, Township Assessor Dave Lee, Director of Information and Technology Stephen Gebes, Director of Communications Deborah Guthrie, Director of Parks and Recreation LuAnn Maisner, Finance Director Gretchen Gomolka, Human Resources Director Joyce Marx, Human Resources Specialist Heather Baker

1. CALL MEETING TO ORDER

Supervisor LeGoff called the meeting to order at 4:30 P.M.

2. PLEDGE OF ALLEGIANCE/INTRODUCTIONS

Supervisor LeGoff led the Pledge of Allegiance.

3. ROLL CALL

The secretary called the roll of the Board.

4. PUBLIC REMARKS

Supervisor LeGoff opened and closed Public Remarks.

5. MUNICIPAL EMPLOYEES' RETIREMENT SYSTEM (MERS) OF MICHIGAN
PRESENTATION ON MERIDIAN TOWNSHIP LEGACY COSTS – MARNE CARLSON

Marne Carlson, Regional Manager, Municipal Employees' Retirement System of Michigan, 1134 Municipal Way, Lansing highlighted the annual actuarial valuation report from MERS for year ending December 31, 2014. She indicated the numbers in this report were used to build the cost of the 2016 budget relative to liabilities and contribution rates.

MERS representative and Board discussion:

- Meridian Township's pension funding percentage at the end of 2014 is 59%
- Average funding level in the MERS system is 79%
- 67 of 792 municipalities in the MERS defined benefit system are within the same funding level range as Meridian Township
- Actuarials use a long term approach in determining trends
- The Township will not know the true cost of the MERS plan until the day the last retiree stops drawing
- Michigan Constitution requires the Township to pre-fund a defined benefit plan
- Actuarial Valuation Report produced by MERS provides information to calculate costs through the use of specific assumptions (e.g., life expectancy tables, length of employment, length of time a retiree lives in retirement status, disability rate, investment performance, etc.)
- Experience study performed every five (5) years to look at averages and see if assumptions need to be adjusted
- MERS currently uses an 8% annual return assumption on investments
- In 2008, the average portfolio lost 40-50%, while the MERS portfolio lost 25%
- Focus of the MERS portfolio is downside protection
- Impact had a negative 33% effect
- MERS policy currently uses a ten (10) year rolling "smoothing" which uses ten (10) years of investment returns and smoothes the gains and losses over time

- Smoothed actuarial rate of return for 2014 was 5.9%, which includes losses from 2008 and gains from other years
- MERS moved from a previous five (5) year smoothing to a rolling ten (10) year smooth because results from an experience study showed previous returns were higher than 8% and caused groups to experience an overfunding problem
- Table provided by MERS illustrates the plan's projected liabilities and required employer contribution for the next five (5) fiscal years under three (3) projected market return percentage rate assumptions
- Current life expectancy tables show individuals living longer which will increase Township liability
- Responsibility of MERS to provide the best numbers and assumptions available to help the Township pre-fund its liabilities
- Actuarial team considered the recent experience study and looked at what is transpiring within the MERS system and at the state and national level to obtain demographic data
- In 2017, the assumed annual return on investment (ROI) will be reduced from 8% to 7.75% to reflect market volatility and the true cost of the plan
- ROI assumption includes a 3% salary increase in all municipalities across the MERS system in 2016
- MERS will use the new ROI assumptions at the end of 2015 which will affect the 2017 budget
- Impact of changes to the assumption rate, the life expectancy table and the amortization schedule will be spread out over five (5) years
- Prudent for MERS to make the three (3) changes as the fiduciary of the Township's plan
- Assumption of a 3% salary increase includes both raises and step increases used to compute final average compensation (FAC)
- Comparison of the legacy debt amortization to how a mortgage functions
- Until recently, the Township's amortization period was rolled every 30 years
- In 2005-2006, the experience study reduced the amortization period to 20 years using a one (1) year roll down
- Board member belief that passing legacy debt from one generation to the next and never paying it off is fiscally irresponsible
- Unfunded liability will continue to roll down once it reaches the 20th year
- Increased longevity, a decreased amortization period and decreased investment are creating incremental increases in pension payment obligations
- Legacy debt is a "snapshot" at this point in time
- Ruling from the Governmental Accounting Standards Board (GASB) and GASB 68 stated continuation of a rolling amortization would trigger a blended rate which would not use only an 8% assumption, but the 8% assumption with a mix of the Treasury Bill assumption (1% and 2%), resulting in a much higher liability
- MERS Board chose to act on this issue prior to completion of the experience study in order to not trigger the blended rate
- GASB 68 is an attempt to provide transparency regarding a timeline for when the unfunded pension liability will be paid off
- Meridian Township's unfunded liability (legacy debt) of \$23,194,453 is amortized over 24 years
- Some municipalities have indicated the benefits they have promised today are not feasible for the future
- Options to deal with perpetual unfunded pension liability:
 - Potential solution is to close the defined benefit plan and new hires will be enrolled in the defined contribution plan
 - Another potential solution is to freeze the current formula at a date certain and lower the multiplier moving forward, resulting in a reduction in future liability
- Retiree health care is different from pensions and not an accrued benefit
- Percentage of funded pension plans significantly varies among the seven bargaining units
- MERS looks at Meridian Township's funding levels "as a whole," not by division
- Township Manager statement that Meridian Township offers an extremely generous benefit package

- Police and Firefighters made a change in recent years and began contributing the excess when their multiplier was increased from 2.5% to 2.75%, which “triggered” larger debt because of members who were already in the system and would soon be retiring
- Participant Summary numbers indicate Meridian Township has a mature plan
- Concern with the participant summary numbers showing there will soon be more retirees than active employees
- Need for caution when writing union contracts if a decision is made to provide only new hires with lower tiered benefits so language will be upheld during future arbitration
- Variety of cost sharing options to fix the pension liability issue
- Active member benefits which do not accrue until retirement is drawn can be changed/removed without violating the constitution
- Early retirement (50/25 and 55/15) can be changed, but every active employee who was already promised the benefit must sign off
- Board member request for a list of the benefits which can legally be changed
- MERS has seen changes to benefits in many plans since 2010 (e.g., increase of employee contributions of cost sharing, lower benefits to new hires, hybrid for new hires, lump sum payments to reduce the unfunded pension liability, bonding, etc.)
- Comparison to other municipalities selected by the Township indicate each of those regional comparables have made a change (i.e., changes for new hires, lump sum, additional contribution, lower multiplier, etc.) while Meridian Township hasn’t made changes to its benefit plans
- Additional employee contributions are pre-tax
- Importance of looking at this issue from a regional standpoint
- Concern that an unintended consequence of reducing employee pension benefits may be lowering the quality of individuals hired at the Township
- Concern if Meridian Township lowers its pension benefits below other regional pensions offered, employees will obtain their training and move on to similar departments within the region for the remainder of their careers
- Average multiplier from the comparables was 1.5% compared to Meridian Township’s average of 2.5%
- Average funding from all the comparables was 73% compared to Meridian Township’s average of 59%
- Challenge to making Meridian Township an attractive place to work and still fulfill pension promises
- Other program incentives available outside of the defined benefit plan (e.g., health savings account, 457 plan, etc.)
- City of East Lansing’s unfunded pension liability is \$50 million, while Meridian Township’s taxable value is higher than East Lansing’s
- Some of Meridian Township’s active employee groups are only 5-20% funded
- Three things to consider when contracts are negotiated next year are increased employee contributions, changes for new hires and Township voluntary contributions
- Minimum Township staffing for fire is seven (7) employees per shift compared to Lansing and East Lansing at 9 to 13 employees
- Two employee groups (Firefighters and Police Command) account for approximately 80% of the unfunded liability
- Board member belief the Board’s response must be proportional to each bargaining unit’s specific plan
- Benefits in other communities tend to be higher for police and fire as well
- Job liabilities for police and fire are different than for members of other bargaining units
- Some other MERS groups are over 100% funded and have a very good benefit through both employee and employer paying for benefits “up front”
- Statement by MERS representative that if there were no legacy costs, Meridian Township’s current plan would be “doable”

6. PUBLIC REMARKS

Supervisor LeGoff opened and closed Public Remarks.

7. ADJOURNMENT

Supervisor LeGoff adjourned the meeting at 5:58 P.M.

ELIZABETH LEGOFF
TOWNSHIP SUPERVISOR

BRETT DREYFUS, CMMC
TOWNSHIP CLERK

Sandra K. Otto, Secretary