



GRETCHEN WHITMER
GOVERNOR

STATE OF MICHIGAN
DEPARTMENT OF TREASURY
LANSING

RACHAEL EUBANKS
STATE TREASURER

May 27, 2020

**Retirement Corrective Action Plan:
Notice of Approval**

Fiscal Year: 2018

Municipality Code: 741100

Sent Via Email

East China Charter Township
Cindy@eastchinatownship.org

Dear Administrative Officer or Designee:

Thank you for submitting your retirement corrective action plan(s) pursuant to Public Act 202 of 2017 (the Act). **Upon review, the following corrective action plan(s) has been approved by the Municipal Stability Board (the Board):**

MERS

Next Steps (Pursuant to the Act):

- You must begin to implement your corrective action plan(s) within 180 days of the date of this letter;
- Your approved corrective action plan(s) must be posted publicly on your website or in a public place. While this approved corrective action plan(s) is in effect for your local government, you are not required to submit an additional corrective action plan for this system;
- You are required to continue to file the Retirement System Annual Report (Form 5572) annually, which is due six months after the end of your fiscal year;
- The Board shall monitor your compliance with the Act and your corrective action plan. can be viewed on our website.
We strongly recommend that you begin the process of compiling supporting documentation to show that you are implementing your corrective action plan(s) and making progress towards your funding status. Further guidance regarding corrective action plan monitoring will be sent in additional communication.

Thank you for your commitment to fiscal stability and compliance with the requirements of the Act. If you have any questions regarding your underfunded status, please visit

for step-by-step reporting instructions and helpful FAQs, or email our office at . If you would prefer to speak with a member of our team, please schedule a phone appointment using the . A team member will contact you via the phone number you provide at your scheduled time.

Sincerely,

Michigan Department of Treasury
Local Retirement Reporting Team

Protecting Local Government Retirement and Benefits Act Corrective Action Plan: Defined Benefit Pension Retirement Systems

Issued under authority of Public Act 202 of 2017 (The Act).

1. LOCAL GOVERNMENT INFORMATION

Local Government Name: Charter Township of East China Six-Digit Muni Code: 74110
Defined Benefit Pension System Name: MERS Defined Benefit Pension System
Contact Name (Administrative Officer): Cynthia Paparelli
Title if not Administrative Officer: Township Manager Telephone: (810) 765-8879
Email (Communication will be sent here): manager@eastchinatownship.org
Fiscal Year System was Determined to be Underfunded: N/A

2. GENERAL INFORMATION

Corrective Action Plan: An underfunded local government shall develop and submit for approval a corrective action plan for the local government. The local government shall determine the components of the corrective action plan. This corrective action plan shall be submitted by any local government with at least one defined benefit pension retirement system that has been determined to have an underfunded status. Underfunded status for a defined benefit pension system is defined as being less than 60% funded according to the most recent audited financial statements, and, if the local government is a city, village, township, or county, the actuarially determined contribution (ADC) for all of the defined benefit pension retirement systems of the local government is greater than 10% of the local government's annual governmental fund revenues, based on the most recent fiscal year.

Due Date: The local government has **180 days from the date of notification** to submit a corrective action plan to the Municipal Stability Board (the Board). The Board may extend the 180-day deadline by up to an additional 45 days if the local government submits a reasonable draft of a corrective action plan and requests an extension.

Filing: Per Sec. 10(1) of PA 202 of 2017 (the Act), this corrective action plan must be approved by the local government's administrative officer and its governing body. ***You must provide proof of your governing body approving this corrective action plan and attach the documentation as a separate PDF document.*** Failure to provide documentation that demonstrates approval from your governing body will automatically result in a disapproval of the corrective action plan.

The submitted plan must demonstrate through distinct supporting documentation how and when the local government will reach the 60% funded ratio. Or, if the local government is a city, village, township, or county, the submitted plan may demonstrate how and when the ADC for all defined benefit pension systems will be less than 10% of annual governmental fund revenues, as defined by the Act. Supporting documentation for the funding ratio and/or ADC must include an actuarial projection, an actuarial valuation, or an internally developed analysis. The local government must project governmental fund revenues using a reasonable forecast based on historical trends and projected rates of inflation.

The completed plan must be submitted via email to Treasury at _____ for review by the Board. **If you have multiple underfunded retirement systems, you are required to**

complete separate plans and send a separate email for each underfunded system. Please attach each plan as a separate PDF document in addition to all applicable supporting documentation.

The subject line of the email(s) should be in the following format: **Corrective Action Plan-20XX, Local Government Name, Retirement System Name** (e.g. Corrective Action Plan-2017, City of Lansing, Employees' Retirement System Pension Plan). Treasury will send an automatic reply acknowledging receipt of the email. Your individual email settings must allow for receipt of Treasury's automatic reply. This will be the only notification confirming receipt of the application(s).

Municipal Stability Board: The Board shall review and vote on the approval of a corrective action plan submitted by a local government. If a corrective action plan is approved, the Board will monitor the corrective action plan and report on the local government's compliance with the Act not less than every two years.

Review Process: Following receipt of the email by Treasury, the Board will receive the corrective action plan submission at the Board's next scheduled meeting. The Board shall then approve or reject the corrective action plan within 45 days from the date of the meeting.

Considerations for Approval: A successful corrective action plan will demonstrate the actions for correcting underfunded status as set forth in Sec. 10(7) of the Act (listed below), as well as any additional solutions to address the underfunded status. Please also include steps already taken to address your underfunded status as well as the date prospective actions will be taken. A local government may also include in its corrective action plan a review of the local government's budget and finances to determine any alternative methods available to address its underfunded status. A corrective action plan under this section may include the development and implementation of corrective options for the local government to address its underfunded status. The corrective options as described in Sec. 10(7) may include, but are not limited to, any of the following:

- (i) Closing the current defined benefit plan;
- (ii) Implementing a multiplier limit;
- (iii) Reducing or eliminating new accrued benefits;
- (iv) Implementing final average compensation standards.

Implementation: The local government has up to 180 days after the approval of a corrective action plan to begin to implement the corrective action plan to address its underfunded status. The Board shall monitor each underfunded local government's compliance with this Act and any corrective action plan. The Board shall adopt a schedule, not less than every 2 years, to certify that the underfunded local government is in substantial compliance with the Act. If the Board determines that an underfunded local government is not in substantial compliance under this subsection, the Board shall within 15 days provide notification and report to the local government detailing the reasons for the determination of noncompliance with the corrective action plan. The local government has 60 days from the date of the notification to address the determination of noncompliance.

3. DESCRIPTIONS OF PRIOR ACTIONS

Prior actions are separated into three categories below: System Design Changes, Additional Funding, and Other Considerations. Please provide a brief description of the prior actions implemented by the local government to address the retirement system's underfunded status within the appropriate category section. Within each category are sample statements that you may choose to use to indicate the changes to your system that will positively affect your funded status. For retirement systems that have multiple divisions, departments, or plans within the same retirement system, please indicate how these changes impact the retirement system as a whole.

- If applicable, prior actions listed within your waiver application(s) may also be included in your corrective action plan.

Please indicate where in the attached supporting documentation these changes are described and the impact of those changes (i.e. what has the local government done to improve its underfunded status, and which attachment(s) supports your actions).

- Please provide the name of the system impacted, the date you made the change, the relevant page number(s) within the supporting documentation, and the resulting change to the system's funded ratio.

Category of Prior Actions:

- ☒ **System Design Changes** - System design changes may include the following: lower tier of benefits for new hires, final average compensation limitations, freeze future benefit accruals for active employees in the defined benefit system, defined contribution system for new hires, hybrid system for new hires, bridged multiplier for active employees, etc.

Sample Statement: *The system's multiplier for current employees was lowered from 2.5X to 2X for the **General Employees' Retirement System** on **January 1, 2019**. On page **8** of the attached actuarial supplemental valuation, it shows our funded ratio will be **60%** by fiscal year **2022**.*

See attached at 1b.

- ☐ **Additional Funding** - Additional funding may include the following: voluntary contributions above the ADC, bonding, millage increases, restricted funds, etc.

Sample Statement: *The local government provided a lump sum payment of **\$1 million** to the **General Employees' Retirement System** on **January 1, 2019**. This lump sum payment was in addition to the ADC of the system. The additional contribution will increase the retirement system's funded ratio to **61%** by **2027**. Please see page **10** of the attached enacted budget, which highlights this contribution of **\$1 million**.*

- ☐ **Other Considerations** - Other considerations may include the following: outdated Form 5572 information, actuarial assumption changes, amortization policy changes, etc.

Sample Statement: *The information provided on the Form 5572 from the audit used actuarial data from **2017**. Attached is an updated actuarial valuation from **2019** that shows our funded ratio has improved to **62%** as indicated on page **13**.*

4. DESCRIPTION OF PROSPECTIVE ACTIONS

The corrective action plan allows you to submit a plan of prospective actions which are separated into three categories below: System Design Changes, Additional Funding, and Other Considerations. Please provide a brief description of the additional actions the local government is planning to implement to address the retirement system's underfunded status within the appropriate category section. Within each category are sample statements that you may choose to use to indicate the changes to your system that will positively affect your funding status. For retirement systems that have multiple divisions, departments, or plans within the same retirement system, please indicate how these changes impact the retirement system as a whole.

Please indicate where in the attached supporting documentation these changes are described and the impact of those changes (i.e. what will the local government do to improve its underfunded status, and which attachment(s) supports your actions).

Category of Prospective Actions:

- ☒ **System Design Changes** - System design changes may include the following: Lower tier of benefits for new hires, final average compensation limitations, freeze future benefit accruals for active employees in the defined benefit system, defined contribution system for new hires, hybrid system for new hires, bridged multiplier for active employees, etc.

Sample Statement: Beginning with **summer 2019** contract negotiations, the local government will seek to lower the system's multiplier for current employees from 2.5X to 2X for the **General Employees' Retirement System**. On page 8 of the attached actuarial supplemental valuation, it shows our funded ratio would be **60%** funded by **fiscal year 2021** if these changes were adopted and implemented by **fiscal year 2020**.

See attached at 1b.

- ☒ **Additional Funding** - Additional funding may include the following: voluntary contributions above the ADC, bonding, millage increases, restricted funds, etc.

Sample Statement: Beginning in **fiscal year 2020**, the local government will provide a lump sum payment of **\$1 million** to the **General Employees' Retirement System**. This lump sum payment will be in addition to the ADC of the system. The additional contribution will increase the retirement system's funded ratio to **61% by 2026**. Please see page **10** of the attached enacted budget, which highlights this contribution of **\$1 million**. Please see page **12** of the attached supplemental actuarial valuation showing the projected change to the system's funded ratio with this additional contribution.

See attached at 1b.

- ☐ **Other Considerations** - Other considerations may include the following: outdated Form 5572 information, actuarial assumption changes, amortization policy changes, etc.

Sample Statement: Beginning in **fiscal year 2020**, the local government will begin amortizing the unfunded portion of the pension liability using a **level-dollar amortization method over a closed period of 10 years**. This will allow the retirement system to reach a funded status of **62% by 2023** as shown in the attached actuarial analysis on page **13**.

5. CONFIRMATION OF FUNDING

Please check the applicable answer:

Do the corrective actions listed in this plan allow for your local government to make, at a minimum, the ADC payment for the defined benefit pension system according to your long-term budget forecast?

☒ Yes

☐ No, Explain:

6. DOCUMENTATION ATTACHED TO THIS CORRECTIVE ACTION PLAN

Documentation should be attached as a PDF to this corrective action plan. The documentation should detail the corrective action plan that would be implemented to adequately address the local government's underfunded status. Please check all documents that are included as part of this plan and attach in successive order as provided below:

Naming Convention: When attaching documents, please use the naming convention shown below. If there is more than one document in a specific category that needs to be submitted, include a, b, or c for each document. For example, if you are submitting two supplemental valuations, you would name the first document "Attachment 2a" and the second document "Attachment 2b".

Naming Convention:

☒ Attachment – I

☒ Attachment – Ia

☒ Attachment – 2a

☐ Attachment – 3a

☒ Attachment – 4a

☐ Attachment – 5a

☒ Attachment – 6a

Type of Document:

This corrective action plan form (required);

Documentation from the governing body approving this corrective action plan (required);

An actuarial projection, an actuarial valuation, or an internally developed analysis (in accordance with GASB and/or actuarial standards of practice), which illustrates how and when the local government will reach the 60% funded ratio. Or, if the local government is a city, village, township, or county, how and when the ADC will be less than 10% of governmental fund revenues, as defined by the Act (required);

Documentation of additional payments in past years that are not reflected in your audited financial statements (e.g. enacted budget, system provided information);

Documentation of commitment to additional payments in future years (e.g. resolution, ordinance);

A separate corrective action plan that the local government has approved to address its underfunded status, which includes documentation of prior actions, prospective actions, and the positive impact on the system's funded ratio;

Other documentation not categorized above.

7. CORRECTIVE ACTION PLAN CRITERIA

Please confirm that each of the three corrective action plan criteria listed below have been satisfied when submitting this document. Specific detail on corrective action plan criteria can be found in the document.

Corrective Action Plan Criteria:

Description:

☒ Underfunded Status

Is there a description and adequate supporting documentation of how and when the retirement system will reach the 60% funded ratio? Or, if your local government is a city, village, township, or county, how and when the ADC of all pension systems will be less than 10% of governmental fund revenues? Do the corrective actions address the underfunded status in a reasonable timeframe?

☒ Legality

Does the corrective action plan follow all applicable laws? Are all required administrative certifications and governing body approvals included?

☒ Affordability

Do the corrective action(s) listed allow the local government to make the ADC payment for the pension system now and into the future without additional changes to this corrective action plan?

8. LOCAL GOVERNMENT'S ADMINISTRATIVE OFFICER APPROVAL OF CORRECTIVE ACTION PLAN

I, Cynthia Paparelli, as the government's administrative officer (Ex. City/Township Manager, Executive Director, Chief Executive Officer, etc.) (**insert title**) Township Manager approve this corrective action plan and will implement the prospective actions contained in this corrective action plan.

I confirm to the best of my knowledge that because of the changes listed above, one of the following statements will occur:

☒ The MERS Defined Benefit Pension System (**insert retirement pension system name**) will achieve a funded status of at least 60% by fiscal year 2020 as demonstrated by required supporting documentation listed in Section 6.

OR, if the local government is a city, village, township, or county:

☐ The ADC for all the defined benefit pension retirement systems of the local government will be less than 10% of the local government's annual governmental fund revenues by fiscal year _____ as demonstrated by required supporting documentation listed in Section 6.

Signature: Cynthia A Paparelli Digitally signed by Cynthia A Paparelli
Date: 2020.04.07 09:44:02 -04'00' Date: 04/07/2020

Addendum to Form 5598

Part 3 – Descriptions of Prior Actions

System Design Changes

Historically, employees of the Township had a defined benefit pension plan with a 2.5 multiplier. To decrease future pension costs, the Township decreased this multiplier to 2.25 for all current employees during the 2016-2019 collective bargaining session.

Further, for Clerical employees, the Township has increased the employees' contribution to the pension plan from 4.7% to 5.5%.

Part 4 – Description of Prospective Actions

System Design Changes

According to the most recent Annual Actuarial Valuation Report (December 31, 2018), the Township's funded ratio is 61%. Attached at 2a. MERS has decreased its Investment Return Assumption, so using the 12/31/2018 Valuation Results and the new 2019 Assumptions is anticipated to cause the funded ratio to decrease to 59%. Nevertheless, the Township's MERS Plan is presently more than 60% funded. To increase the funded ratio the Township will be making the following changes:

- The Township will be closing the defined benefit pension plan for all new hires of the Township. By closing the defined benefit pension plan, the Township will cease creating any new unfunded accrued liability.
- Moreover, the Township is bridging the Cost-of-Living-Adjustment benefit for all current employees who are eligible for a defined benefit pension plan. According to the supplemental actuarial valuation this will cause Division 1 to increase its percent funded ratio from 61.1% to 61.4%. According to the supplemental actuarial valuation this will cause Division 10 to increase its percent funded ratio from 62.6% to 65.5%. The supplemental actuarial valuation is attached at 2b.
- Further, the Township is increasing the employee contribution for both Divisions 1 and 10 to 6.2% by July 1, 2021.

These system design changes are evidenced in the three ratified tentative agreements listed at 4a, 4b, and 4c. Please direct your attention to item "4. Retirement" in each of these tentative agreements.

Additional Funding

In an effort to improve funding levels the Township will make three lump sum payments. These payments are in addition to the normal actuarially determined contributions (ADC). The first contribution will be in an amount of \$75,000. This payment will be made a reasonable period