2014

CITY OF SPRINGFIELD

Submitted by:	Nathan Henne, City Manager Jeannine Turner, Finance Director
City Council:	Susan Anderson, Mayor Harry Burdett Larry Eib Art Hollingsworth Tom Riley Carey Whitfield Richard Young

city of SPRINGFIELD

[UNFUNDED ACCRUED LIABILITY PLAN 2014]

The Springfield City Council presents this 2014 UAL Plan. Questions can be directed to the City Manager.

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Michigan Department of Treasury
5074 (Rev. 03-14)

Economic Vitality Incentive Program/County Incentive Program
Certification of Unfunded Accrued Liability Plan

Issued under authority of 2014 Public Act 34. Filing is mandatory to qualify for payments.

Each city/village/township/county applying for Unfunded Accrued Liability Plan payments must:

1. Certify to the Michigan Department of Treasury (Treasury) that the local unit listed below has produced and made readily available to the public, an Unfunded Accrued Liability Plan. The plan shall be made available for public viewing in the clerk's office or posted on a publicly accessible Internet site as required by 2014 Public Act 34.
2. Submit to Treasury an Unfunded Accrued Liability Plan, if selecting Option 1 of Part 2 below.

City/village/township: This certification, along with the Unfunded Accrued Liability Plan, **must be received by June 1, 2014,** to receive the June and August payments or on or before July 31, 2014, to receive the August payment. Post mark dates will not be considered. For questions, call (517) 373-2697.

County: This certification, along with the Unfunded Accrued Liability Plan, **must be received by June 1, 2014,** (or the first day of a payment month) in order to qualify for that month's payment. Post mark dates will not be considered. For questions, call (517) 373-2697.

PART 1: LOCAL UNIT INFORMATION

Local Unit Name: City of Springfield		Local Unit County Name: Calhoun County	
Local Unit Code: 13-2040		Contact E-Mail Address: jturner@springfieldmich.com	
Contact Name: Jeannine Turner	Contact Title: Finance Director	Contact Telephone Number: (269) 441-9274	Extension:
Website Address, if plan is available online: www.springfieldmich.com			Date of Last Audited Financial Report: 06/30/13

PART 2: STATEMENT OF UNFUNDED ACCRUED LIABILITIES

Indicate the option that pertains to your local unit:

☒ **1. Unfunded Accrued Liabilities Exist**
A local unit who has unfunded accrued liabilities pertaining to pensions or other post-employment benefits must attach a plan as required by 2014 Public Act 34.

☐ **2. No Unfunded Accrued Liabilities Exist**
A local unit who does not have any unfunded accrued liabilities pertaining to pensions or other post-employment benefits must provide, in the box below, an explanation of why the local unit does not have any unfunded accrued liabilities.

PART 3: CERTIFICATION

In accordance with 2014 Public Act 34, the undersigned hereby certifies to Treasury that the above mentioned local unit has produced an Unfunded Accrued Liability Plan and has made the plan available for public viewing in the city, village, township or county clerk's office, or has posted the plan on a publicly accessible Internet site. The Unfunded Accrued Liability Plan, if required, is attached to this signed certification.

Chief Administrative Officer Signature (as defined in MCL 141.422b): Nathan R. Henne	Printed Name of Chief Administrative Officer (as defined in MCL 141.422b): Nathan Henne
Title: City Manager	Date: 05/29/14

Completed and signed form (including required attachment, if selected option 1) should be e-mailed to: **TreasRevenueSharing@michigan.gov**

If you are unable to submit via e-mail, fax to (517) 335-3298, or mail the completed form and required attachment (if selected option 1) to:

Michigan Department of Treasury
Office of Revenue and Tax Analysis
PO Box 30722
Lansing MI 48909

TREASURY USE ONLY		
EVIP/CIP Eligible Y N	Certification Received	EVIP/CIP Notes
Final Certification	Plan Received	

City of Springfield UAL Plan Overview

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, you need to submit a plan to address your unfunded liability to Treasury for Category 3 of EVIP. This sample template is meant to assist you in documenting your plan.

When your plan is complete, submit it along with certification form 5074 to the Department of Treasury, using the contact information on the form. The form can be found at *http://www.michigan.gov/documents/treasury/5074_434975_7.pdf.*

1. MUNICIPALITY INFORMATION

Municipality Name: City of Springfield, Calhoun County

Fiscal Year: July 1st - June 30th

Pension UAL as reported in the most recent actuarial valuation: $2,479,118 (date of valuation 12-31-2012)

Pension Funded Ratio: 75% No Pension UAL ☐

OPEB UAL as reported in most recent valuation: $1,057,943 (date of OPEB calculation 3-31-2014)

OPEB Funded Ratio: 20% No OPEB UAL ☐

2. PENSION UAL – ACTIONS TAKEN

You may have a pension UAL only if you offer a defined benefit and/or a hybrid plan.

PLAN DESIGN CHANGES (CHECK IF APPLICABLE)

STRATEGY	IMPACT
☑ **Adopted a Lower Tier of Benefits for New Hires (check all that apply):** ☑ Lowered multiplier from 2.5% to 2.0% ☐ Removed Cost of Living Increases ☑ Removed Early Retirement Riders (i.e. 55/25, 50/25) ☐ Increased Vesting from ________ to ________ ☐ Increased Normal Retirement Age from ________ to ________ ☑ Other: See attachment #1	The long term impact of implementing a lower tier of benefits for new hires is that it reduces the future liability accrual because future benefits will be lower, and therefore less expensive, than the previous benefits offered.

Effective Date:

❒ **Adopted a Defined Contribution Plan for New Hires** **Effective Date:**	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.
❒ **Adopted a Hybrid Plan for New Hires** Multiplier: Vesting: FAC: Normal Retirement Age: Once the benefit structure is established, the defined benefit portion may not be increased and is not subject to collective bargaining. Yes (MERS only) ❒ No ❒ **Effective Date:**	The long term impact of implementing a Hybrid Plan for new hires is that it reduces the future liability accrual because future benefits will be lower, and potentially less expensive, than the previous benefits.
☑ **Bridged the Multiplier for Active Employees** Bridged from: 2.5% multiplier Bridged to: 2.0% multiplier Final Average Compensation used: (check one) Frozen (biggest impact) ☑ Termination ❒ **Effective Date:** July 1, 2013	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.

FUNDING (CHECK ALL THAT APPLY)

STRATEGY	IMPACT
☑ **Contributed the Annual Required Contribution to Fund the Plan**	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. **How will this action continue to be implemented and maintained?** Each year, the approved budget provides funding for an amount equal to the required employer contribution. The unfunded actuarial liability is being amortized as a level percentage of payrolls on a closed basis with an amortization period of 30 years.
☐ **Contributed Above the Minimum Required Amount** ☐ Extra percentage above minimum: __________ ☐ Lump sum payment into plan: __________	Additional payments made into the plan go toward funding the unfunded accrued liability. In addition, those extra dollars are invested and have the ability to recognize market returns. **How will this action continue to be implemented and maintained?**

3. PENSION UAL – NO ACTIONS TAKEN

NO ACTIONS HAVE BEEN TAKEN IN THE PAST

PLEASE EXPLAIN WHY NO ACTIONS HAVE BEEN TAKEN

4. OPEB UAL—ACTIONS TAKEN

You may have an OPEB UAL only if you offer retiree health insurance, or other post-employment benefits.

PLAN DESIGN CHANGES (CHECK ALL THAT APPLY)

STRATEGY	IMPACT
☑ Implemented Changes to Coverage Levels Details: See Attachment #1 Effective Date:	Implementing changes to coverage and benefit levels reduces the total liability of the plan.
☐ Increased Co-Payments Details: Effective Date:	Reduces the total liability of the plan.

☑ **Modified Eligibility**

Reduces the total liability of the plan.

Details:

See Attachment #1

Effective Date:

☑ **Implemented Defined Contribution Style Health Care**
(i.e. MERS Health Care Savings Program)

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

Check all that apply:

☑ New hires

☑ Offered conversion/incentive for employees (actives or retirees) to opt out of retiree healthcare

Effective Date: July 1, 2009

☑ **Eliminated Retiree Health Insurance Coverage for New Hires**

Eliminates OPEB liability for new hires.

Details:

Effective Date: July 1, 2009

FUNDING (CHECK ALL THAT APPLY)

STRATEGY	IMPACT

☑ **Established a qualified medical trust - OPEB Trust**
(i.e. MERS Retiree Health Funding Vehicle)

Assets in a qualified medical trust can be used to offset OPEB liability.

Contributions made to the Trust this year: $30,000

Balance in the Trust: $260,235

Effective Date: May 3, 2010

How will this action continue to be implemented and maintained?

Each year, the approved budget provides funding for an employer contribution. Annual review of Trust assets vs the calculated OPEB UAL determines the recommended employer contribution.

5. OPEB UAL – NO ACTIONS TAKEN

NO ACTIONS HAVE BEEN TAKEN IN THE PAST

PLEASE EXPLAIN WHY NO ACTIONS HAVE BEEN TAKEN

6. OTHER ACTIONS THAT DO NOT QUALIFY FOR EVIP

STRATEGY

☐ **Closed the Defined Benefit Plan and Issued a Pension Obligation Bond to Fund the Plan**

Issued the bond at: (check one)

Actuarial Value ☐ Market Value ☐

Bond Amount: ____________________________

IMPACT

The proceeds of the bond are deposited and potentially will fully fund the unfunded accrued liability of the Plan. There is no guarantee that future unfunded liabilities may not occur.

How will this action continue to be implemented and maintained?

POLICIES/BEST PRACTICES (CHECK ALL THAT APPLY)

STRATEGY

☑ **Limited Final Average Compensation**

- ☐ Base wages only or (check all that apply)
  - ☐ Excluded or limited overtime
  - ☑ Excluded or limited PTO payouts
  - ☑ Excluded or limited sick leave payouts

IMPACT

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 UAL – open DB Plan** Current Amortization Policy: 30 years Is this amortization shrinking? Yes ☑ No ❐ *(MERS shrinks the amortization schedule by 1 year, every year)*	Decreasing the period in which UAL is spread over expedites the payoff.
☑ **Regular Actuarial Experience Study** Last study performed: 2009 Scheduled every 5 years *(MERS last Experience Study was performed in 2009)*	Regularly performing an actuarial experience study provides Plan oversight, governance and due diligence to ensure experience is close to assumptions.
☑ **Benefit Increases Policy** Required to be 100 % funded	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.

7. ACTIONS THAT MAY 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).

Local Unit Name: **City of Springfield** **Local Unit Code:** **13-2040**

Economic Vitality Incentive Program

Unfunded Accrued Liability Plan - FY 2014

Attachment #1

PREVIOUS ACTION TAKEN TO REDUCE UNFUNDED ACCRUED LIABILITIES

Previous Actions Taken To Reduce Unfunded Accrued Liabilities		
	Unfunded Accrued Liability Type	**Previous Action Taken**
1.	Pension, Defined Benefit	A lower tier of benefits for new hires was adopted. Department Heads appointed prior to July 1, 2009 are eligible to participate in the MERS B-4 Plan. Department Heads appointed after **July 1, 2009** are eligible to participate in the MERS Pension Plan provided to all other non-union employees or the MERS B-2 Plan. Currently there are only two remaining active employees in the closed DH B-4 Plan.
2.	Pension, Defined Benefit	Closure of the Department Head MERS B-4 Plan includes elimination of 2.5% multiplier, 3 year FAC & unreduced early retirement at age 55 with 25 years of service credit. Effective date: **July 1, 2009**
3.	Pension, Defined Benefit	One department head position was eliminated. The active employee was transferred from the DH B-4 Division to the Non-Union B-2 Division. Future service accrues at the reduced multiplier, FAC change from 3 to 5 years & unreduced early retirement was eliminated. Effective date: **July 1, 2013**
4.	Pension, Defined Benefit	Closure of the Public Safety MERS B-4 Plan due to Police Service Contract with the Calhoun County Sherriff Department. Currently there is only one remaining active employee in the PS B-4 Plan. Closure includes elimination of a 3% multiplier, unreduced early retirement with 25 years of service credit regardless of age. Future UAL will also be significantly reduced with the deferment of vested members (not yet considered in current UAL calculation as of 12-31-2012). Effective date: **October 1, 2013**

How Will The City Continue To Implement And Maintain Previous Actions Taken

Through departmental reorganization & employee attrition, the City of Springfield has expanded its' use of contractual & part-time employees. Also, supplemental retirement plans (457) are made available to both full-time & part-time employees. Employer match offered to participants.

Additional Actions That Could Be Implemented Note: Actuarial assumption changes and issuance of debt instruments do not qualify as a new action.	
1.	City leadership will continue to review pension benefits & consider the possibility of a shift from a Defined Benefit to a Defined Contribution Plan for new hires.
2.	Consider bridging the multiplier of the represented employees currently in the B-3 DB Plan to the multiplier of all other non-represented employees.
3.	Strive to level benefit tiers equally for both non-union & represented employees. Currently, the represented employees have a higher tier of benefits in their DB Plan.

Local Unit Name: **City of Springfield** Local Unit Code: **13-2040**

Economic Vitality Incentive Program

Unfunded Accrued Liability Plan - FY 2014

Attachment #2

PREVIOUS ACTION TAKEN TO REDUCE UNFUNDED ACCRUED LIABILITIES

Previous Actions Taken To Reduce Unfunded Accrued Liabilities		
	Unfunded Accrued Liability Type	**Previous Action Taken**
1.	OPEB	New criteria for Department Heads: must be appointed to a DH position prior to July 1, 2009 to be eligible for retiree & spouse to continue in the City's group health insurance plan. Retire must of served a minimum of 14 years as a DH. The premium amount paid by the City is capped at DOR. Effective date: **July 1, 2009**
2.	OPEB	New criteria for all other employees: DOH must be prior to July 1, 2009 to be eligible for retiree as a single person to continue in the City's group health insurance plan. Retiree must have served a minimum of 20 years as a full-time employee. The premium amount paid by the City is capped at DOR. Effective date: **July 1, 2009**
3.	OPEB	Retiree health insurance shall cease upon the retiree obtaining employment that provides its own health plan. At the time the retiree is eligible to enroll in Medicare (as provided by Federal Law) retiree shall enroll in Medicare & the City will provide $200 per month for the purchase of supplemental insurance in lieu of continuance n the City's group plan. Effective date: **July 1, 2009**
4.	OPEB	Eligible retirees who do not wish to participate in the City's group health insurance plan my decline to join at the time of their retirement and receive a one-time payout from the City. There is no reinstatement right if such coverage is declined & payment made. Effective date: **July 1, 2009**

How Will The City Continue To Implement And Maintain Previous Actions Taken
All employees now have access to an employer sponsored Health Care Savings Plan. Employees make weekly contributions & are allowed to convert on an annual basis unused PTO (maximum number of hours is capped) to their HCSP.

Additional Actions That Could Be Implemented Note: Actuarial assumption changes and issuance of debt instruments do not qualify as a new action.	
1.	City leadership will continue to monitor & review retiree health care benefits. New ideas & opportunities will be considered to reduce future OPEB liabilities. By attrition, the retiree group health insurance benefit will be eliminated in future years.
2.	A Plan will be put in place to fully fund the current OPEB UAL.