# CITY of NOVI CITY COUNCIL

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**Agenda Item E**
**January 22, 2007**

**SUBJECT:** Resolution for Changing MERS Benefits for the General Teamster Division 11, pursuant to the recently adopted contract.

**SUBMITTING DEPARTMENT:** Finance Department

**CITY MANAGER APPROVAL:**

**BACKGROUND INFORMATION:** Pursuant to the Teamster contract settlement, the MERS pension benefit multiplier was changed, with the current employees to pay for this benefit through a percentage of payroll deduction. Attached is the required MERS Resolution, as well as a copy of the actuary report. The benefit and deduction are effective March 1, 2007.

**RECOMMENDED ACTION:** Resolution for Changing MERS Benefits for the General Teamster Division 11, pursuant to the recently adopted contract.

| | 1 | 2 | Y | N |
|---|---|---|---|---|
| **Mayor Landry** | | | | |
| **Mayor Pro Tem Capello** | | | | |
| **Council Member Gatt** | | | | |
| **Council Member Margolis** | | | | |

| | 1 | 2 | Y | N |
|---|---|---|---|---|
| **Council Member Mutch** | | | | |
| **Council Member Nagy** | | | | |
| **Council Member Paul** | | | | |

MERS

MUNICIPAL EMPLOYEES' RETIREMENT SYSTEM OF MICHIGAN

# RESOLUTION FOR CHANGING MERS BENEFITS

In accordance with the MERS Plan Document of 1996, the CITY OF NOVI (Participating Municipality)

6320 (Municipality No.) adopts the following benefits for: DIVISION 11 GENERAL TEAMSTER (Reporting Unit No., MERS Division No. and Name)

A "division" is defined as an employee or group of employees covered by the same benefit programs and the same employee contribution program. Each division has a specific MERS number and name, such as "Div. 10, General-Admin.," and is part of a Reporting Unit, such as: "01."

Supporting Supplemental Valuation is dated MERS LETTER DATED 1/3/07

## BENEFIT MULTIPLIER

From B-2 (Current Benefit Multiplier) To B-3 (New Benefit Multiplier) Effective Date March 1, 2007

## Provisions for Earlier Normal Retirement

☐ F50/25 ☐ F50/30 ☐ F(N)-Years and Out (Specify number of years) ____
☐ F55/15 ☐ F55/20 ☐ F55/25 ☐ F55/30

Effective Date ____

## * EMPLOYEE CONTRIBUTION RATE

New Rate 2.45%

Effective Date 3/1/2007

## ADDITIONAL BENEFITS AFFECTING FUTURE RETIREES

☐ FAC 3 ☐ FAC 5 ☐ V-6 ☐ V-8 ☐ V-10 ☐ RS - 50%

☐ D-2 ☐ E-2 ☐ DROP + with ____ %

Effective Date ____

## RETIREE COST-OF-LIVING BENEFIT PROGRAMS FOR CURRENT RETIREES

☐ E Standard ☐ E-1

☐ E - Other (Specify Factor ____ Adjustment Years ____)

Effective Date ____

## WINDOW PERIOD (If applicable)

From ____ (Date) To ____ (Date)

I CERTIFY THAT THE ABOVE WAS ADOPTED BY CITY OF NOVI (Governing Body) 1/22/07 (Date of Meeting)

____ Authorized Signature ____ Title ____ Date

*NOTE: Standard/Nonstandard Benefit Provisions—Attach page fully describing provision(s), and (1) a complete copy of the fully executed collective bargaining agreement and a certified copy of official minutes where the collective bargaining agreement or this Resolution was adopted, or (2) a copy of the arbitration or mediation decision. If further information is needed, please contact MERS Employer Services Division at 1 (800) 767-6377.*

MERS
MUNICIPAL EMPLOYEES' RETIREMENT SYSTEM

**Municipal Employees' Retirement System of Michigan**
1134 Municipal Way, Lansing, Michigan 48917

Marketing Department - Sales Division and Employer Services Division • Fax (517) 703-9704
Phone (517) 703-9030 • (800) 767-6377 • Fax (517) 327-8336 • Website: www.mersofmich.com

January 3, 2007

Kathy Smith-Roy
City of Novi
45175 West 10 Mile
Novi, MI 48375

Actuarial Valuation for: **City of Novi**

Dear Ms. Smith-Roy:

Enclosed with this letter please find the completed actuarial valuation, per your earlier written request.

The valuation enclosed does address costs and rates for ONLY the specific benefit program(s) requested. These costs and rates may not be reliably combined or modified to yield accurate actuarial results for any other benefits not included in the original request. Thus, if the parties agree to another benefit program (or combination of programs) not identical to those contained in the current valuation, you are obligated to advise MERS in writing as soon as possible so that MERS' actuary may determine the required contribution to support the benefit plan selected.

The MERS Board, pursuant to the Michigan Constitution and the MERS Plan Document, requires that contributions necessary to support new benefit changes shall be imposed when the benefit change takes effect. Consistent with MERS funding requirements, the increase in the employer contribution amount shall be added to the current billing the month following the date of adoption. If the benefit(s) is/are adopted retroactively, any increase in employer contribution will also be retroactive and will be billed accordingly. Any employee contribution rate changes shall be directed by the municipality, as reflected in the *Resolution for Changing MERS Benefits.*

The proposed benefit program(s) covered in this valuation(s) must be put into effect by the end of the 12 months after the date of the valuation to be considered valid. Should adoption and implementation not occur before the end of the twelfth month after the valuation date, MERS requires an updated valuation to determine the contribution requirements.

Included with this letter is the MERS uniform *Resolution For Changing MERS Benefit* form, which along with supporting documentation, must be submitted to MERS before any new or amended benefits will be implemented. If the benefit change resolution is submitted without a current supporting actuarial valuation, the resolution will not be implemented until a current valuation is performed and necessary supporting contribution rate requirements have been certified by the MERS actuary.

Please feel free to contact the MERS Marketing Representative assigned should you have any additional questions or concerns regarding this valuation or if you would like a visit.

Sincerely,

Lynda M. Blackshaw

Lynda M. Blackshaw
Employer Services Manager

LMB\lmk

## MERS Supplemental Valuations - Important Comments

1. Effective July 1, 2006, Section 43C of the MERS Plan Document includes the following requirements, which are not modifiable:
   a.) At the time a supplemental actuarial valuation is requested, and at the time a new benefit provision is adopted, the employer must be current in the payment of all required employer and member contributions.
   b.) Both the requesting division and the participating municipality or court must be not less than 50% funded on an actuarial basis as of the last December 31 valuation date, based on the actual benefit provisions in effect when the supplemental valuation is requested or completed. The governing body may make a cash contribution, or transfer employer assets from a different division, or both, in order to meet the 50% requirement. If the requirement is not met, MERS and its actuary will not complete the requested supplemental valuation.
   c.) The proposed benefit provisions may not be adopted if the results of the supplemental valuation disclose there would be a funded percentage less than 50% on an actuarial basis (using the same valuation date as in requirement (b.) for either the division or the entire municipality or court. The governing body may make a cash contribution, or transfer employer assets from a different division, or both, in order to meet the 50% requirement.
2. The reader of this report should keep in mind that actuarial calculations are by their nature imprecise, as they are mathematical estimates based on current data and assumptions of future events (which may or may not materialize).
3. Actuarial calculations can and do vary from one valuation year to the next, sometimes significantly if the group valued is very small (less than 30 lives). As a result, the cost impact of a benefit change may fluctuate over time, as the demographics of the group changes.
4. The calculations in this report were prepared based on December 31, 2005 demographic and financial information unless noted elsewhere in the report.
5. The valuation date is December 31, 2005.
6. The valuation methods and Retirement Board-approved assumptions are consistent with those used in the December 31, 2005 Annual Actuarial Valuation, unless noted elsewhere in the report.
7. In the event that more than one plan change is being considered, the user of this report should remember that the results of separate actuarial valuations cannot be added together. The total can be considerably greater than the sum of the parts due to the interaction of various plan provisions with each other and with the assumptions used.
8. Retirement benefits and employer contributions are based on a percentage of members' gross pays, including base pay, overtime pay, longevity pay, and several other miscellaneous items. If total gross payroll exceeds the reported salaries, the dollar contribution amounts shown in this report should be increased proportionately. The above percentages of payroll will not be affected, however.
9. For divisions that are closed to new hires, the Retirement Board has directed that the amortization period for positive unfunded liabilities is decreased annually by 2 years until the period reaches 5 years (Amortization Policy for Closed Divisions Within Open Municipalities, adopted February 12, 2003).
10. The results in this report were based on information provided to the actuary by the municipality and MERS. The actuary is unaware of any additional information that would impact these results. If the information in the "Request for Supplemental

Valuation" is incorrect or incomplete, the actuary does not assume responsibility for the accuracy of that information, and the requester (or reader) of this valuation report may not rely on the results and should advise MERS promptly.

11. The results in this report do not show the potential impact that the adoption of the revised benefits may have on other post-employment benefits (such as retiree health care insurance) or ancillary benefits (such as life insurance).

12. If the user of this report is not sure how to interpret certain results in the report or how to read the report, they should contact the MERS Employer Services Division (800) 767-6377 or MERS' actuary before relying on the results in this report.

# City of Novi (6320) - General Tmstr (Division 11)
## Employer Computed Contributions -- Based on 12/31/2005 Actuarial Valuation

| | Current Benefits | Proposed Benefits | Difference |
|---|---|---|---|
| 1. Benefits | | | |
| a) Benefit Formula | B-2 | B-3 - 80% Max | B-3 - 80% Max |
| b) Normal Retirement Age | 60 | 60 | |
| c) Vesting Provision | V-10 | V-10 | |
| d) F50 Ret Condition | - | - | |
| e) F55 Ret Condition | - | - | |
| f) F(N) Ret Condition | - | - | |
| g) Rule of X | - | - | |
| h) FAC Period | FAC-5 | FAC-5 | |
| i) RS50 Percent | - | - | |
| j) DROP+ | - | - | |
| k) D-2 | - | - | |
| l) Benefit E | 2.5% (1/1/2004) | 2.5% (1/1/2004) | |
| m) Benefit E-1 | - | - | |
| n) Benefit E-2 | - | - | |
| o) Load for Sick Leave in FAC | - | - | |
| p) Member Contribution Rate | 0.00% | 0.00% | |
| 2. Member Counts | | | |
| a) Active | 84 | 84 | 0 |
| b) Retired | 10 | 10 | 0 |
| c) Vested Former Members | 8 | 8 | 0 |
| d) Total | 102 | 102 | 0 |
| 3. Annual Payroll | $4,051,832 | $4,051,832 | $0 |
| 4. Actuarial Value of Assets | $6,813,241 | $6,813,241 | $0 |
| 5. Actuarial Accrued Liability | | | |
| a) Active | $7,108,768 | $7,721,840 | $613,072 |
| b) Retired | 755,885 | 755,885 | 0 |
| c) Vested Former Members | 429,481 | 429,481 | 0 |
| d) Pending Refunds | 3,013 | 3,013 | 0 |
| e) Total | $8,297,147 | $8,910,219 | $613,072 |
| 6. Unfunded Accrued Liability (UAL) (5e - 4) | $1,483,906 | $2,096,978 | $613,072 |
| 7. Division Percent Funded (4 / 5e) | 82.1% | 76.5% | (5.6%) |
| 8. Cost as a Percentage of Payroll | | | |
| a) Employer Normal Cost | 7.14% | 7.90% | 0.76% |
| b) Amort. of UAL (over 30 years) | 1.80 | 2.68 | 0.88 |
| c) Total Long Term Employer Contribution (8a + 8b) | 8.94 | 10.58 | 1.64* |
| d) Overfunding Credit | 0.00 | 0.00 | |
| e) Total Regular Employer Contribution % (8c + 8d) | 8.94% | 10.58% | |
| f) Total Regular Employer Contribution $ (8e x 3) | $362,232 | $428,688 | $66,456 |

**The preceeding Important Comments pages and concluding Impact of Adopting Benefits page are incorporated by reference herein.**

* Each 1% increase in member contributions decreases the computed employer contribution by 0.86%. If member contributions are increased to cover the long-term employer cost of the proposed benefits, the member rate would have to be increased 1.91% (1.64% / 0.86%) in addition to any change in the member contribution rate shown above. This increased rate would apply to all current members and future new members, and it is assumed that the number of active members in this division remains constant in the future. If the cost is to be covered by only current members, the member rate would have to be increased by 2.45%, instead of 1.91%. If the member rate is increased significantly, members may choose to retire earlier than assumed, and the required employer contributions may be affected.

# City of Novi (6320) - General Tmstr (Division 11)
## Impact of Adopting the Benefits

Results reported on the previous page show how the December 31, 2005 annual actuarial report would have been affected by a change in benefit provisions or member contributions. There are many ways to view the change in costs. Different ways are shown in the table below (items 5-7 below), and compared with the previous page's results (items 1-4 below).

| | |
|---|---|
| **Measurements from the Annual Valuation Report** | |
| 1. Actuarial Accrued Liability | |
| a) Current Benefits | $8,297,147 |
| b) Proposed Benefits | 8,910,219 |
| c) Difference | **$613,072** |
| 2. Division Percent Funded | |
| a) Current Benefits | 82.1% |
| b) Proposed Benefits | 76.5% |
| c) Difference | **(5.6%)** |
| 3. Long Term Employer Contribution as a % of Payroll of Current and Future Active Members | |
| a) Current Benefits | 8.94% |
| b) Proposed Benefits | 10.58% |
| c) Difference | **1.64%** |
| 4. Long Term Member Contribution as a % of Payroll of Current and Future Active Members Based on Members Paying for the New Benefit and a Constant Number of Active Members | |
| a) Current Benefits | 0.00% |
| b) Proposed Benefits | 1.91% |
| c) Difference | **1.91%** |
| **Lump Sum Cost for Current Active Members** | |
| 5. Actuarial Present Value of Future Employer Financed Benefits to all Current Active Members | |
| a) Current Benefits | $9,509,583 |
| b) Proposed Benefits | $10,370,672 |
| c) Difference | **$861,089** |
| **Fund the Lump Sum Cost Difference as a % of the Future Payroll of Current Active Members*** | |
| 6. Paid by the Employer | **2.45%** |
| 7. Paid by the Current Active Members | **2.45%** |

Note: If member contributions are increased to cover the long-term employer cost of the proposed benefits, the member rate would have to be increased by the amount shown in item 4c. This increased rate would apply to all current members and future new members, and it is assumed that the number of active members in this division remains constant forever in the future. If the cost is to be covered by only current members, the member rate would have to be increased by the amount in item 7. If the member rate is increased significantly, members may choose to retire earlier than assumed, and the required employer contributions may be affected.

*In instances where almost all members of the current population are fully vested, the probability of a refund of member contributions is close to zero, therefore the difference between the employer rate and the member rate is small.