CITY of NOVI CITY COUNCIL

Agenda Item B*
September 13, 2010

SUBJECT: Adopt Resolution of changes in MERS Defined Benefit Pension benefits for the POLC (formerly POAM) Division 2 (a) benefit improvement from F25/50 to F25 (25 years of service with no age limitation) through City contribution and (b) benefit improvement B-4 (2.5% multiplier) to the non-standard benefit 2.8% multiplier through 1% of payroll contribution by the City and the remainder through employee contribution of an additional 5.07% (total employee contribution 9.24% of payroll), pursuant to the contract.

SUBMITTING DEPARTMENT: City Manager/Human Resources/Finance

CITY MANAGER APPROVAL:

BACKGROUND INFORMATION:
Pursuant to the POAM contract approved by the union and the City Council on July 1, 2004, the MERS defined benefit pension changes are effective June 1, 2010, with the City paying for the benefit improvement from F25/50 to F25 (25 years of service with no age limitation), and benefit improvement B-4 (2.5% multiplier) to the non-standard benefit 2.8% multiplier with the City contributing the first 1% of payroll and the POAM employees paying for the balance of the benefit through a percentage of payroll deduction.

The increased City contribution, based on these benefit changes, has been anticipated in the 2010-11 budget.

RECOMMENDED ACTION: Adopt Resolution of changes in MERS Defined Benefit Pension benefits for the POLC (formerly POAM) Division 2 (a) benefit improvement from F25/50 to F25 (25 years of service with no age limitation) through City contribution and (b) benefit improvement B-4 (2.5% multiplier) to the non-standard benefit 2.8% multiplier through 1% of payroll contribution by the City and the remainder through employee contribution of an additional 5.07% (total employee contribution 9.24% of payroll), pursuant to the contract.

	1	2	Y	N
Mayor Landry				
Mayor Pro Tem Gatt				
Council Member Crawford				
Council Member Fischer				

	1	2	Y	N
Council Member Margolis				
Council Member Mutch				
Council Member Staudt				

*Revised recommended action to match the subject

MEMORANDUM

TO: CLAY PEARSON

CC: TIA GRONLUND-FOX

MARINA NEUMAIER

FROM: KATHY SMITH-ROY

SUBJECT: SUPPLEMENTAL VALUATION ACTUARY REPORT

POLC (FORMERLY POAM) BENEFIT IMPROVEMENTS

DATE: SEPTEMBER 2, 2010

The City requested a supplemental valuation (actuary report) for the current POLC (formerly POAM) contract language is as follows:

> Section 16.4: Effective June 1, 2010, the F25 retirement rider shall be implemented with the cost being paid by the City. Effective June 1, 2010, the retirement plan shall be revised to a 2.8% pension retirement benefit. The City shall contribute 1% toward the cost of the 2.8% pension benefit with the remaining cost paid through employee/member contributions. An actuary study shall be ordered by April 1, 2010 to establish the cost of the 2.8% pension benefit. Contributions shall commence June 1, 2010.

The final actuary report was received by the City, and is summarized below. The final report resulted in a ***decrease*** in the rate as a percentage of payroll contribution. The primary reason given by MERS was the "temporary decrease in the inflation rate to 2% for the next five years", 4.5% is the inflation rate used prior to the December 31, 2009 valuation report.

Final (August 2010) Summary of POLC 2.8% & F25 Pension Actuary Cost Information

	Employee Contribution	Employer Contribution	Total % of Payroll	Employer Cost based on 2009-10 Payroll Wage Estimate $3,978,383
Rates as % of payroll prior to benefit improvements	4.17%	13.86%	18.03%	$ 602,619
F/N 25 Benefit	-	0.63%	0.63%	$ 27,392
2.8% Multiplier Benefit	5.07%	1.00%	6.07%	$ 43,479
Totals	**9.24%**	**15.49%**	24.73%	$ 673,490
2009-10 Employer Contributions				$ 464,140
Estimated additional annual cost to the City for 2010-11				***$ 209,350***

PRELIMINARY (December 2009) Summary of POLC 2.8% & F25 Pension Actuary Cost Information

	Employee Contribution	Employer Contribution	Total % of Payroll	Employer Cost based on 2009-10 Payroll Wage Estimate $4,347,900
Rates as % of payroll prior to benefit improvements	4.17%	13.86%	18.03%	$ 602,619
F/N 25 Benefit	-	0.81%	0.81%	$ 35,218
2.8% Multiplier Benefit	5.41%	1.00%	6.41%	$ 43,479
Totals	9.58%	15.67%	25.25%	$ 681,316
2009-10 Employer Contributions				$ 464,140

As noted above

there is only a slight difference in the most recent actuary report and the previous report, which results in a decrease in the employee contribution previously projected of 9.58% to 9.24%. Included in this correspondence is the explanation from MERS/GRS regarding the changes in actuary assumptions, as well as changes in census information.

Included for your consideration and review are the following:

- Motion sheet and related resolution
- Final actuary report
- Preliminary actuary report
- Explanation of additional charges ($6,000 with first monthly payment following adoption of the resolution) for adoption of non-standard benefit (the 2.8% multiplier)

Please let me know if you have any questions regarding this information.

From: Dawn Grabinski [mailto:DGrabinski@mersofmich.com]
Sent: Tuesday, August 17, 2010 4:01 PM
To: Smith-Roy, Kathy
Cc: Kelli Davis; Neumaier, Marina; Lynda Pittman
Subject: RE: City of Novi

Hi Kathy,

Below is the response from Cathy Nagy at GRS in regards to the difference in the two supplemental.

Here is the explanation of why the results are different in the supplemental valuation prepared in August 2010, compared to the supplemental valuation prepared in December 2009.

- The supplemental valuation from December 2009 used the 12/31/2008 annual valuation as the baseline. As of that date there were 56 active employees, 19 retirees and 4 deferred vested members. The annual payroll was $4,201,850.
- The supplemental valuation from August 2010 used the 12/31/2009 annual valuation with census change as the baseline. After the census change there were 51 active employees, 19 retirees and 5 deferred vested members. The annual payroll was $3,978,383.

Because the supplemental valuation from August 2010 had fewer active members (and the benefit changes only apply to active members), the increase in the liability and normal cost (in dollars) from the benefit changes was lower than the increase in the liability and normal cost shown in the December 2009 supplemental valuation. The difference is mainly a result of the different data used in the calculations. In addition, there were certain assumption changes between the 2008 and 2009 annual valuations (in particular the wage inflation was temporarily lowered to 2.0% for the next 5 years).

I will follow up with Cathy in regards to page 4. Please let me know if you need anything further.

Thank you,

Dawn Grabinski
Benefit Plan Coordinator
Municipal Employees' Retirement System of Michigan
1134 Municipal Way
Lansing, Michigan 48917
Phone (517) 703-9030
Fax (517) 703-9704
www.mersofmich.com

From: Smith-Roy, Kathy [mailto:ksroy@cityofnovi.org]
Sent: Monday, August 16, 2010 3:41 PM
To: Dawn Grabinski
Cc: Kelli Davis; Neumaier, Marina; Lynda Pittman
Subject: RE: City of Novi

Hi Dawn:

City administrative staff just met, and we have concluded until we have all of the information explaining the decrease, assumptions used, etc. we will not be presenting this to City Council. Our next City Council meeting is September 13th and we would have to this information (including revised actuary report if necessary), by September 3, 2010.

Thanks for your assistance,

Kathy

Kathy Smith-Roy, Finance Director
City of Novi
45175 W. Ten Mile Rd
Novi, MI 48375-3024
(248) 347-0470
(248) 921-2691 (cell)
(248) 735-5682 (fax)
www.cityofnovi.org

FINAL

GRS Gabriel Roeder Smith & Company
Consultants & Actuaries

One Towne Square
Suite 800
Southfield, MI 48076-3723

248.799.9000 phone
248.799.9020 fax
www.gabrielroeder.com

August 5, 2010

Ms. Anne Wagner
Chief Executive Officer
Municipal Employees' Retirement System of Michigan
1134 Municipal Way
Lansing, Michigan 48917

Subject: Supplemental Valuation for City of Novi (6320), Division(s) 02

Dear Anne:

Attached are the results of a supplemental valuation prepared for City of Novi in order to determine the contributions necessary to support the following Benefit Program under the Municipal Employees' Retirement System of Michigan, in accordance with Act. No. 427 of the Public Acts of 1984, as amended, and the MERS plan document as revised:

Division		Change in Benefit	
POAM (02)		Census Changes	
POAM (02)	(City cost ↑ 0.63% of payroll)	F/N (25), Census Changes	-pg 6.
POAM (02)	(City cost ↑ 1% of payroll)	2.80% - 80% Max, Census Changes	-pg 8

As requested by the City, we amortized the Unfunded Accrued Liability over 25 years. In addition, the liabilities under the third proposal (2.80% - 80% Max), were calculated using 95% probability of retirement at the first age or service when unreduced benefits are available.

This report may be provided to other interested parties only in its entirety and only with the prior permission of MERS and the municipality.

Please see the **Important Comments and the Comments on the Investment Markets**, immediately following this cover letter, for important information which is essential to understanding the results presented in this report. In addition, please review the Impact of Adopting the Benefits page(s) following the Employer Computed Contributions page(s).

Sincerely

Rebecca J. Stouffer

Rebecca Stouffer
Senior Analyst

Cathy Nagy

Cathy Nagy, FSA
Actuary

RECEIVED
AUG 12 2010
CITY OF NOVI
FINANCE

rpc_id: 40242

MERS Supplemental Valuations - Important Comments

1. As amended, effective July 1, 2009, Section 43C of the MERS Plan Document includes the following requirements, which are not modifiable (subsection (5)):
   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 (subsection (1)).
   b) Both the requesting division and the participating municipality or court must be not less than 80% 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 80% requirement. If the requirement is not met, MERS and its actuary will not complete the requested supplemental valuation (subsection (2)).
   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 80% 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 80% requirement (subsection (3)).
   d) The 80% funded percentage requirements "shall not preclude a participating municipality or court whose actuarial funded level is below the required funded level from requesting a valuation, where the purpose of the valuation is to reduce actuarial liabilities by the proposed change in the existing benefit program," and shall not preclude adoption of the change where the valuation results indicate the change reduces such liabilities (last sentence of subsections (2) and (3)).
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, 2009 demographic and financial information unless noted elsewhere in the report.
5. The valuation date is December 31, 2009.
6. The valuation methods and Retirement Board-approved assumptions are consistent with those used in the December 31, 2009 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.

MERS Supplemental Valuations - Important Comments

9. For divisions that are closed to new hires, with the new hires being covered by the MERS DC Plan, by any non-MERS DB or DC plan or by no plan, 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 (Amended Amortization Policy for Closed Divisions Within Open Municipalities).
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 Office of Marketing and Employer Services (800) 767-6377 or MERS' actuary before relying on the results in this report.

City of Novi (6320)

Comments on the Investment Markets

The dramatic price declines across the world financial markets in 2008 led to volatility unlike any experienced in decades. 2009 was more stable (and MERS earned a healthy 17+% investment return) but the volatility continues. The crisis has been focused on the financial sector. While the U.S. government and business leaders are doing all they can to address the issues, it may be difficult in the short term to meet the investment assumption of 8% annual return.

The actuarial value of assets (funding value), used to determine both your funded status and your required employer contribution, is based on a 10-year smoothed value of assets. Only a portion (two-tenths, for 2008 and 2009) of the 2008 investment market losses were recognized in this actuarial valuation report. This reduces the volatility of the valuation results, which affects your required employer contribution and actuarial funded percentage.

As of December 31, 2009 the actuarial value of assets is 125% of market value (down from 139% in 2008). This means that meeting the actuarial assumption in the next few years will require average annual market returns that substantially exceed the 8% investment return assumption.

If the December 31, 2009 valuation results were based on market value on that date instead of 10-year smoothed funding value: i) the funded percent of your entire municipality would be 55% (instead of 69%); and ii) your total employer contribution requirement for the fiscal year starting July 1, 2011 would be $3,031,656 (instead of $2,415,744). If the investment markets do not fully make up for the 2008 losses, employer contribution requirements can be expected to rise. MERS continues to do everything it can to make sure that if this proves to be the case, the increases are incremental as opposed to steep.

Remember that only two-tenths of the 2008 market losses are reflected in this actuarial valuation report. As was true for past market downturns, MERS expects the markets to continue to rebound. By the time the 2008 market losses would be fully recognized (over the following 8 years), future market gains are expected to partly or fully offset 2008 market losses. This smoothing method is a powerful tool for reducing the volatility of your required employer contributions. However, if the financial markets do not rebound, the result would be gradual increases in your employer contribution requirement over the next 8 years (as described above). These increases would be in addition to the contributions for Current Benefits or for Proposed Benefits shown in this report.

Comment on Actuarial Calculations - The projections of your future employer contributions in this report are based on the current actuarial assumptions used in the December 31, 2009 actuarial valuation. As always, your required employer contribution rate changes every year, in response to demographic changes, financial experience, benefit provision changes, etc, within your specific plan. The results of future actuarial valuations will differ from the projections, sometimes materially.

City of Novi (6320) - POAM (Division 02)
Employer Computed Contributions -- Based on 12/31/2009 Actuarial Valuation

	Current Benefits	Proposed Benefits	Difference
1. Benefits			
a) Benefit Formula	B-4 - 80% Max	B-4 - 80% Max	
b) Normal Retirement Age	60	60	
c) Vesting Provision	V-10	V-10	
d) F50 Ret Condition	F50(25)	F50(25)	
e) F55 Ret Condition	-	-	
f) F(N) Ret Condition	-	-	
g) Rule of X	-	-	
h) FAC Period	FAC-3	FAC-3	
i) RS50 Percent	-	-	
j) DROP+	-	-	
k) D-2	D-2	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	4.17%	4.17%	
p) Census Changes	No	Yes	
2. Member Counts			
a) Active	54	51	(3)
b) Retired	19	19	0
c) Deferred Vested	4	5	1
d) Total	77	75	(2)
3. Annual Payroll	$4,177,893	$3,978,383	($199,510)
4. Actuarial Value of Assets	$11,890,634	$11,890,634	$0
5. Actuarial Accrued Liability			
a) Active	$9,006,671	$8,827,255	($179,416)
b) Retired	6,569,317	6,569,317	0
c) Deferred Vested	262,976	291,845	28,869
d) Pending Refunds	13,527	13,527	0
e) Total	$15,852,491	$15,701,944	($150,547)
6. Unfunded Accrued Liability (UAL) (5e - 4)	$3,961,857	$3,811,310	($150,547)
7. Division Percent Funded (4 / 5e)	75.0%	75.7%	0.7%
8. Cost as a Percentage of Payroll			
a) Employer Normal Cost	8.60%	8.60%	0.00%
b) Amort. of UAL (over 25 years)	5.34	5.40	0.06
c) Total Long Term Employer Contribution (8a + 8b)	13.94	14.00	0.06*
d) Overfunding Credit	0.00	0.00	
e) Total Regular Employer Contribution % (8c + 8d)	13.94%	14.00%	
f) Total Regular Employer Contribution $ (8e x 3)	$582,408	$556,980	($25,428)

The preceding Important Comments pages, Comments on the Investment Markets page, and concluding Impact of Adopting Benefits page are incorporated by reference herein.

City of Novi (6320) - POAM (Division 02)
Impact of Adopting the Benefits

Results reported on the previous page show how the December 31, 2009 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.

Measurements from the Annual Valuation Report	
1. Actuarial Accrued Liability	
a) Current Benefits	$15,852,491
b) Proposed Benefits	15,701,944
c) Difference	**($150,547)**
2. Division Percent Funded	
a) Current Benefits	75.0%
b) Proposed Benefits	75.7%
c) Difference	**0.7%**
3. Long Term Employer Contribution as a % of Payroll of Current and Future Active Members	
a) Current Benefits	13.94%
b) Proposed Benefits	14.00%
c) Difference	**0.06%**

The preceding Important Comments pages and Comments on the Investment Markets page are incorporated by reference herein.

This report may be provided to other interested parties only in its entirety and only with the prior permission of MERS and the municipality.

City of Novi (6320) - POAM (Division 02)
Employer Computed Contributions -- Based on 12/31/2009 Actuarial Valuation

	Current Benefits	Proposed Benefits	Difference
1. Benefits			
a) Benefit Formula	B-4 - 80% Max	B-4 - 80% Max	
b) Normal Retirement Age	60	60	
c) Vesting Provision	V-10	V-10	
d) F50 Ret Condition	F50(25)	F50(25)	
e) F55 Ret Condition	-	-	
f) F(N) Ret Condition	-	F/N(25)	F/N(25)
g) Rule of X	-	-	
h) FAC Period	FAC-3	FAC-3	
i) RS50 Percent	-	-	
j) DROP+	-	-	
k) D-2	D-2	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	4.17%	4.17%	
p) Census Changes	Yes	Yes	
2. Member Counts			
a) Active	51	51	0
b) Retired	19	19	0
c) Deferred Vested	5	5	0
d) Total	75	75	0
3. Annual Payroll	$3,978,383	$3,978,383	$0
4. Actuarial Value of Assets	$11,890,634	$11,890,634	$0
5. Actuarial Accrued Liability			
a) Active	$8,827,255	$9,066,541	$239,286
b) Retired	6,569,317	6,569,317	0
c) Deferred Vested	291,845	291,845	0
d) Pending Refunds	13,527	13,527	0
e) Total	$15,701,944	$15,941,230	$239,286
6. Unfunded Accrued Liability (UAL) (5e - 4)	$3,811,310	$4,050,596	$239,286
7. Division Percent Funded (4 / 5e)	75.7%	74.6%	(1.1%) *
8. Cost as a Percentage of Payroll			
a) Employer Normal Cost	8.60%	8.84%	0.24%
b) Amort. of UAL (over 25 years)	5.40	5.79	0.39
c) Total Long Term Employer Contribution (8a + 8b)	14.00	14.63	0.63* *
d) Overfunding Credit	0.00	0.00	
e) Total Regular Employer Contribution % (8c + 8d)	14.00%	14.63%	
f) Total Regular Employer Contribution $ (8e x 3)	$556,980	$582,048	$25,068

The preceding Important Comments pages, Comments on the Investment Markets page, and concluding Impact of Adopting Benefits page are incorporated by reference herein.

This report may be provided to other interested parties only in its entirety and only with the prior permission of MERS and the municipality.

* Each 1% increase in member contributions decreases the computed employer contribution by 0.87%. If member contributions are increased to cover the long-term employer cost of the proposed benefits, the member rate would have to be increased 0.72% (0.63% / 0.87%) 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 0.56%, instead of 0.72%. 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) - POAM (Division 02)
Impact of Adopting the Benefits

Results reported on the previous page show how the December 31, 2009 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	$15,701,944
b) Proposed Benefits	15,941,230
c) Difference	**$239,286**
2. Division Percent Funded	
a) Current Benefits	75.7%
b) Proposed Benefits	74.6%
c) Difference	**(1.1%)**
3. Long Term Employer Contribution as a % of Payroll of Current and Future Active Members	
a) Current Benefits	14.00%
b) Proposed Benefits	14.63%
c) Difference	**0.63%**
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	4.17%
b) Proposed Benefits	4.89%
c) Difference	**0.72%**
Lump Sum Cost for Current Active Members	
5. Actuarial Present Value of Future Employer Financed Benefits to all Current Active Members	
a) Current Benefits	$12,037,218
b) Proposed Benefits	$12,237,194
c) Difference	**$199,976**
Fund the Lump Sum Cost Difference as a % of the Future Payroll of Current Active Members*	
6. Paid by the Employer	**0.56%**
7. Paid by the Current Active Members	**0.56%**

The preceding Important Comments pages and Comments on the Investment Markets page are incorporated by reference herein.

This report may be provided to other interested parties only in its entirety and only with the prior permission of MERS and the municipality.

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. The member rate if only current members pay for this benefit change is lower than the member rate if both current and new members pay for a permanent change. This is because this particular benefit change is more expensive for an open group, including new hires, than for the exsisting active members. 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.

City of Novi (6320) - POAM (Division 02)
Employer Computed Contributions -- Based on 12/31/2009 Actuarial Valuation

	Current Benefits	Proposed Benefits	Difference
1. Benefits			
a) Benefit Formula	B-4 - 80% Max	2.80% - 80% Max	2.80% - 80% Max
b) Normal Retirement Age	60	60	
c) Vesting Provision	V-10	V-10	
d) F50 Ret Condition	F50(25)	F50(25)	
e) F55 Ret Condition	-	-	
f) F(N) Ret Condition	F/N(25)	F/N(25)	
g) Rule of X	-	-	
h) FAC Period	FAC-3	FAC-3	
i) RS50 Percent	-	-	
j) DROP+	-	-	
k) D-2	D-2	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	4.17%	4.17%	
p) Census Changes	Yes	Yes	
2. Member Counts			
a) Active	51	51	0
b) Retired	19	19	0
c) Deferred Vested	5	5	0
d) Total	75	75	0
3. Annual Payroll	$3,978,383	$3,978,383	$0
4. Actuarial Value of Assets	$11,890,634	$11,890,634	$0
5. Actuarial Accrued Liability			
a) Active	$9,066,541	$11,016,795	$1,950,254
b) Retired	6,569,317	6,569,317	0
c) Deferred Vested	291,845	291,845	0
d) Pending Refunds	13,527	13,527	0
e) Total	$15,941,230	$17,891,484	$1,950,254
6. Unfunded Accrued Liability (UAL) (5e - 4)	$4,050,596	$6,000,850	$1,950,254
7. Division Percent Funded (4 / 5e)	74.6%	66.5%	(8.1%)
8. Cost as a Percentage of Payroll			
a) Employer Normal Cost	8.84%	11.14%	2.30%
b) Amort. of UAL (over 25 years)	5.79	8.95	3.16
c) Total Long Term Employer Contribution (8a + 8b)	14.63	20.09	5.46*
d) Overfunding Credit	0.00	0.00	
e) Total Regular Employer Contribution % (8c + 8d)	14.63%	20.09%	
f) Total Regular Employer Contribution $ (8e x 3)	$582,048	$799,248	$217,200

The preceding Important Comments pages, Comments on the Investment Markets page, and concluding Impact of Adopting Benefits page are incorporated by reference herein.

This report may be provided to other interested parties only in its entirety and only with the prior permission of MERS and the municipality.

* Each 1% increase in member contributions decreases the computed employer contribution by 0.90%. If member contributions are increased to cover the long-term employer cost of the proposed benefits, the member rate would have to be increased 6.07% (5.46% / 0.90%) 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 7.22%, instead of 6.07%. 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) - POAM (Division 02)
Impact of Adopting the Benefits

Results reported on the previous page show how the December 31, 2009 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	$15,941,230
b) Proposed Benefits	17,891,484
c) Difference	**$1,950,254**
2. Division Percent Funded	
a) Current Benefits	74.6%
b) Proposed Benefits	66.5%
c) Difference	**(8.1%)**
3. Long Term Employer Contribution as a % of Payroll of Current and Future Active Members	
a) Current Benefits	14.63%
b) Proposed Benefits	20.09%
c) Difference	**5.46%**
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	4.17%
b) Proposed Benefits	10.24%
c) Difference	**6.07%**
Lump Sum Cost for Current Active Members	
5. Actuarial Present Value of Future Employer Financed Benefits to all Current Active Members	
a) Current Benefits	$12,237,194
b) Proposed Benefits	$14,479,354
c) Difference	**$2,242,160**
Fund the Lump Sum Cost Difference as a % of the Future Payroll of Current Active Members*	
6. Paid by the Employer	**7.22%**
7. Paid by the Current Active Members	**7.22%**

The preceding Important Comments pages and Comments on the Investment Markets page are incorporated by reference herein.

This report may be provided to other interested parties only in its entirety and only with the prior permission of MERS and the municipality.

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.

August 6, 2010

Ms. Kathy Smith-Roy
City of Novi
45175 W. Ten Mile Road
Novi, MI 48375

RE: Actuarial Valuation for: **City of Novi**

Dear Ms. Smith-Roy:

Enclosed with this letter please find the completed actuarial valuation for **non-standard benefit(s)** 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 Resolution adopting the proposed non-standard benefit(s) must be received by MERS within 10 days of adoption: Plan Document section 43(2). Adoption of the proposed non-standard benefit(s) included in this Supplemental Valuation will result in a one-time charge of $6,000. See Special Annual Expense Charges Procedure (effective January 1, 2000) in the Administrative Manual, Page 10, Section II.

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 Adopting 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 Adopting 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 this office should you have any additional questions or concerns regarding this valuation or if you would like a visit by a MERS marketing staff member.

Sincerely,

Lynda M. Pittman

Lynda M. Pittman
Retirement Services Director

LMP\ajh
Enclosure

MEMORANDUM

cityofnovi.org

TO: CLAY PEARSON
PAM ANTIL
TIA GRONLUND-FOX
SANQUINETT CAVE-RILEY
CC: MARINA NEUMAIER
FROM: KATHY SMITH-ROY
SUBJECT: SUPPLEMENTAL VALUATION ACTUARY REPORT-POAM
DATE: FEBRUARY 27, 2010

Enclosed for your information, please find the preliminary Supplemental Valuation/Actuary Report for the POAM pension provisions to be effective June 1, 2010.

The current contract language is as follows:

Section 16.4: Effective June 1,2010, the F25 retirement rider shall be implemented with the cost being paid by the City. Effective June 1, 2010, the retirement plan shall be revised to a 2.8% pension retirement benefit. The City shall contribute 1% toward the cost of the 2.8% pension benefit with the remaining cost paid through employee/member contributions. An actuary study shall be ordered by April 1,2010 to establish the cost of the 2.8% pension benefit. Contributions shall commence June 1, 2010.

The actuarial information is summarized as follows (using 2009-2010 contribution information):

	Employee Contribution	Employer Contribution	Total % of Payroll		Employer Cost based on 2009-10 Payroll Wage Estimate $4,347,900
2010-11	4.17%	13.86%	18.03%	$	602,619
F/N 25 Benefit	-	0.81%	0.81%	$	35,218
2.8% Multiplier Benefit	5.41%	1.00%	6.41%	$	43,479
Totals	9.58%	15.67%	25.25%	$	681,316
2009-10 Employer Contributions				$	464,140

Please note the following, relative to the report and summary:

- The F/N 25 benefit (25 years no age requirement) above does not include the related cost for retiree health care benefits.
- Recommend obtaining an actuary report in May 2010 to obtain the most current annual actuary information for the year ended December 31, 2009 for purposes of implementing this change. The report attached is based on the annual actuary information for 2008. Also, based on the "Comments on the Investment Markets" the costs may increase using the 2009 data.
- The summary above for employer cost is utilizing the budgeted wage estimates for 2009-10.

If the City wanted to fund the unfunded accrued actuary liability for these benefits the cost would be $279,687 (F-25) and $2,090,836 (2.8% multiplier), respectively. The cost to the City for the unfunded liability with a closed DB plan (to be paid based on current membership) is $281,503 and $2,533,252.

Please let me know if you have any questions regarding this information.

PRELIMINARY REPORT

GRS Gabriel Roeder Smith & Company
Consultants & Actuaries

One Towne Square
Suite 800
Southfield, MI 48076-3723

248.799.9000 phone
248.799.9020 fax
www.gabrielroeder.com

December 22, 2009

Ms. Anne Wagner
Chief Executive Officer
Municipal Employees' Retirement System of Michigan
1134 Municipal Way
Lansing, Michigan 48917

Subject: Supplemental Valuation for City of Novi (6320), Division(s) 02

Dear Anne:

Attached are the results of a supplemental valuation prepared for City of Novi in order to determine the contributions necessary to support the following Benefit Program under the Municipal Employees' Retirement System of Michigan, in accordance with Act. No. 427 of the Public Acts of 1984, as amended, and the MERS plan document as revised:

Division	Change in Benefit
POAM (02)	F/N(25)
POAM (02)	2.80% - 80% Max

As requested by the City, we amortized the Unfunded Accrued Liability over 25 years. In addition, the liabilities under the second proposal (2.80% - 80% Max) were calculated using 95% probability of of retirement at the first age or service when unreduced benefits are available.

This report may be provided to other interested parties only in its entirety and only with the prior permission of MERS and the municipality.

Please see the Important Comments and the Comments on the Investment Markets, immediately following this cover letter, for important information which is essential to understanding the results presented in this report. In addition, please review the Impact of Adopting the Benefits page(s) following the Employer Computed Contributions page(s).

Sincerely,

Christopher M. Smith
Chris Smith
Senior Analyst

Cathy Nagy
Cathy Nagy, FSA
Actuary

rpc_id: 36006

MERS Supplemental Valuations - Important Comments

1. As amended, effective July 1, 2009, Section 43C of the MERS Plan Document includes the following requirements, which are not modifiable (subsection (5)):

    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 (subsection (1)).

    b) Both the requesting division and the participating municipality or court must be not less than 80% 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 80% requirement. If the requirement is not met, MERS and its actuary will not complete the requested supplemental valuation (subsection (2)).

    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 80% 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 80% requirement (subsection (3)).

    d) The 80% funded percentage requirements "shall not preclude a participating municipality or court whose actuarial funded level is below the required funded level from requesting a valuation, where the purpose of the valuation is to reduce actuarial liabilities by the proposed change in the existing benefit program," and shall not preclude adoption of the change where the valuation results indicate the change reduces such liabilities (last sentence of subsections (2) and (3)).

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, 2008 demographic and financial information unless noted elsewhere in the report.

5. The valuation date is December 31, 2008.

6. The valuation methods and Retirement Board-approved assumptions are consistent with those used in the December 31, 2008 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.

MERS Supplemental Valuations - Important Comments

9. For divisions that are closed to new hires, with the new hires being covered by the MERS DC Plan, by any non-MERS DB or DC plan or by no plan, 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 (Amended Amortization Policy for Closed Divisions Within Open Municipalities).
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 Office of Marketing and Employer Services (800) 767-6377 or MERS' actuary before relying on the results in this report.

City of Novi (6320)

Comments on the Investment Markets

The dramatic price declines across the world financial markets in 2008 led to volatility unlike any experienced in decades. 2009 has continued to be only somewhat less volatile. This is a crisis of the global economy focused on the financial sector. The U.S. government and business leaders are doing all they can to address the issues. Even so, it is going to be difficult in the short term to meet the investment assumption of 8% annual return.

The actuarial value of assets (funding value), used to determine both your funded status and your required employer contribution, is based on a 10-year smoothed value of assets. Only a portion (one-tenth) of the 2008 investment market losses were recognized in your December 31, 2008 actuarial valuation report and in this supplemental actuarial valuation report. This reduces the volatility of the valuation results, which affects your required employer contribution and your actuarial funded percentage.

As of December 31, 2008 the actuarial value of assets is 139% of market value. This means that meeting the actuarial assumption in the next few years will require average annual market returns that substantially exceed the 8% investment return assumption.

If the December 31, 2008 valuation results were based on market value on that date instead of 10-year smoothed funding value: i) the funded percent of your entire municipality would be 49% (instead of 68%); and ii) your total employer contribution requirement for the fiscal year starting July 1, 2010 would be $3,193,092 (instead of $2,408,232). If the investment markets do not turn around, employer contribution requirements can be expected to rise. MERS is doing everything it can to make sure that if this proves to be the case, the increases are incremental as opposed to steep.

Remember that only one-tenth of the 2008 market losses are reflected in this supplemental actuarial valuation report and your December 31, 2008 valuation results. As was true for past market downturns, MERS expects the markets to rebound over time. By the time the 2008 market losses would be fully recognized (over the following 9 years), future market gains are expected to partly or fully offset 2008 market losses. This smoothing method is a powerful tool for reducing the volatility of your required employer contributions. However, if the financial markets do not rebound, the result would be gradual increases in your employer contribution requirement over the next 9 years (as described above). These increases would be in addition to the contributions for Current Benefits or for Proposed Benefits shown in this report.

Comment on Actuarial Calculations - The projections of your future employer contributions in this report are based on the current actuarial assumptions used in the December 31, 2008 actuarial valuation. As always, your required employer contribution rate changes every year, in response to demographic changes, financial experience, benefit provision changes, etc, within your specific plan. The results of future actuarial valuations will differ from the projections, sometimes materially.

City of Novi (6320) - POAM (Division 02)
Employer Computed Contributions -- Based on 12/31/2008 Actuarial Valuation

	Current Benefits	Proposed Benefits	Difference
1. Benefits			
a) Benefit Formula	B-4 - 80% Max	B-4 - 80% Max	
b) Normal Retirement Age	60	60	
c) Vesting Provision	V-10	V-10	
d) F50 Ret Condition	F50(25)	F50(25)	
e) F55 Ret Condition	-	-	
f) F(N) Ret Condition	-	F/N(25)	F/N(25)
g) Rule of X	-	-	
h) FAC Period	FAC-3	FAC-3	
i) RS50 Percent	-	-	
j) DROP+	-	-	
k) D-2	D-2	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	4.17%	4.17%	
2. Member Counts			
a) Active	56	56	0
b) Retired	19	19	0
c) Deferred Vested	4	4	0
d) Total	79	79	0
3. Annual Payroll	$4,201,850	$4,201,850	$0
4. Actuarial Value of Assets	$11,437,421	$11,437,421	$0
5. Actuarial Accrued Liability			
a) Active	$8,908,015	$9,187,702	$279,687
b) Retired	6,736,274	6,736,274	0
c) Deferred Vested	238,253	238,253	0
d) Pending Refunds	13,469	13,469	0
e) Total	$15,896,011	$16,175,698	$279,687
6. Unfunded Accrued Liability (UAL) (5e - 4)	$4,458,590	$4,738,277	$279,687
7. Division Percent Funded (4 / 5e)	72.0%	70.7%	(1.3%)
8. Cost as a Percentage of Payroll			
a) Employer Normal Cost	8.12%	8.49%	0.37%
b) Amort. of UAL (over 25 years)	6.16	6.60	0.44
c) Total Long Term Employer Contribution (8a + 8b)	14.28	15.09	0.81
d) Overfunding Credit	0.00	0.00	
e) Total Regular Employer Contribution % (8c + 8d)	14.28%	15.09%	
f) Total Regular Employer Contribution $ (8e x 3)	$600,024	$634,056	$34,032

The preceding Important Comments pages, Comments on the Investment Markets page, and concluding Impact of Adopting Benefits page are incorporated by reference herein.

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* Each 1% increase in member contributions decreases the computed employer contribution by 0.93%. If member contributions are increased to cover the long-term employer cost of the proposed benefits, the member rate would have to be increased 0.87% (0.81% / 0.93%) 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 0.63%, instead of 0.87%. 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) - POAM (Division 02)
Impact of Adopting the Benefits

Results reported on the previous page show how the December 31, 2008 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	$15,896,011
b) Proposed Benefits	16,175,698
c) Difference	**$279,687**
2. Division Percent Funded	
a) Current Benefits	72.0%
b) Proposed Benefits	70.7%
c) Difference	**(1.3%)**
3. Long Term Employer Contribution as a % of Payroll of Current and Future Active Members	
a) Current Benefits	14.28%
b) Proposed Benefits	15.09%
c) Difference	**0.81%**
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	4.17%
b) Proposed Benefits	5.04%
c) Difference	**0.87%**
Lump Sum Cost for Current Active Members	
5. Actuarial Present Value of Future Employer Financed Benefits to all Current Active Members	
a) Current Benefits	$12,690,729
b) Proposed Benefits	$12,972,232
c) Difference	**$281,503**
Fund the Lump Sum Cost Difference as a % of the Future Payroll of Current Active Members*	
6. Paid by the Employer	**0.63%**
7. Paid by the Current Active Members	**0.63%**

The preceding Important Comments pages and Comments on the Investment Markets page are incorporated by reference herein.

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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. The member rate if only current members pay for this benefit change is lower than the member rate if both current and new members pay for a permanent change. This is because this particular benefit change is more expensive for an open group, including new hires, than for existing active members. 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.

City of Novi (6320) - POAM (Division 02)
Employer Computed Contributions -- Based on 12/31/2008 Actuarial Valuation

	Current Benefits	Proposed Benefits	Difference
1. Benefits			
a) Benefit Formula	B-4 - 80% Max	2.80% - 80% Max	2.80% - 80% Max
b) Normal Retirement Age	60	60	
c) Vesting Provision	V-10	V-10	
d) F50 Ret Condition	F50(25)	F50(25)	
e) F55 Ret Condition	-	-	
f) F(N) Ret Condition	F/N(25)	F/N(25)	
g) Rule of X	-	-	
h) FAC Period	FAC-3	FAC-3	
i) RS50 Percent	-	-	
j) DROP+	-	-	
k) D-2	D-2	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	4.17%	4.17%	
2. Member Counts			
a) Active	56	56	0
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4. Actuarial Value of Assets	$11,437,421	$11,437,421	$0
5. Actuarial Accrued Liability			
a) Active	$9,187,702	$11,278,538	$2,090,836
b) Retired	6,736,274	6,736,274	0
c) Deferred Vested	238,253	238,253	0
d) Pending Refunds	13,469	13,469	0
e) Total	$16,175,698	$18,266,534	$2,090,836
6. Unfunded Accrued Liability (UAL) (5e - 4)	$4,738,277	$6,829,113	$2,090,836
7. Division Percent Funded (4 / 5e)	70.7%	62.6%	(8.1%)
8. Cost as a Percentage of Payroll			
a) Employer Normal Cost	8.49%	11.08%	2.59%
b) Amort. of UAL (over 25 years)	6.66	9.84	3.24
c) Total Long Term Employer Contribution (8a + 8b)	15.09	20.92	5.83*
d) Overfunding Credit	0.00	0.00	
e) Total Regular Employer Contribution % (8c + 8d)	15.09%	20.92%	
f) Total Regular Employer Contribution $ (8e x 3)	$634,056	$879,024	$244,968

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City of Novi (6320) - POAM (Division 02)
Impact of Adopting the Benefits

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3. Long Term Employer Contribution as a % of Payroll of Current and Future Active Members	
a) Current Benefits	15.09%
b) Proposed Benefits	20.92%
c) Difference	**5.83%**
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	
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b) Proposed Benefits	10.58%
c) Difference	**6.41%**
Lump Sum Cost for Current Active Members	
5. Actuarial Present Value of Future Employer Financed Benefits to all Current Active Members	
a) Current Benefits	$12,972,232
b) Proposed Benefits	$15,505,484
c) Difference	**$2,533,252**
Fund the Lump Sum Cost Difference as a % of the Future Payroll of Current Active Members*	
6. Paid by the Employer	**6.66%**
7. Paid by the Current Active Members	**6.66%**

The preceding Important Comments pages and Comments on the Investment Markets page are incorporated by reference herein.

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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.

MUNICIPAL EMPLOYEES' RETIREMENT SYSTEM OF MICHIGAN

SPECIAL ANNUAL EXPENSE CHARGES PROCEDURE

Effective January 1, 2000

Retirement Board Approved August 12, 1999

To provide for equitable allocations of administrative expenses associated with employee divisions, and non-standard benefit and contribution programs, the following special annual expense charges shall be assessed to each affected participating municipality or court as of December 31 of each year:

EXCESS EMPLOYEE CLASSIFICATIONS

$1,000 for each employee classification in excess of five divisions. The total charge shall be allocated equally between all employee divisions.

MODIFICATIONS OF MERS STANDARD BENEFIT PROGRAMS

$6,000 first year charge, including one-time charge for set-up/programming, allocated equally between all affected divisions.

CONTRIBUTION PROGRAMS WITH EMPLOYER CONTRIBUTION CAPS

$1,000 annual charge to each affected employee division.

NOTE: Modifications of MERS Standard Benefit Programs include, but are not limited to, compensation, final average compensation (FAC) period, factor which is multiplied by the member's FAC multiplied by the member's credited service to determine the retirement allowance, benefit programs which permit retirement allowances to exceed 80% of FAC, post-retirement COLAs and vesting periods.

This procedure supersedes the Special Annual Expense Charges Resolution last amended at the November 12, 1997 Retirement Board Meeting, and shall be effective January 1, 2000.

August 6, 2010

Ms. Kathy Smith-Roy
City of Novi
45175 W. Ten Mile Road
Novi, MI 48375

RE: Actuarial Valuation for: **City of Novi**

Dear Ms. Smith-Roy:

Enclosed with this letter please find the completed actuarial valuation for **non-standard benefit(s)** 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 Resolution adopting the proposed non-standard benefit(s) must be received by MERS within 10 days of adoption: Plan Document section 43(2). Adoption of the proposed non-standard benefit(s) included in this Supplemental Valuation will result in a one-time charge of $6,000. See Special Annual Expense Charges Procedure (effective January 1, 2000) in the Administrative Manual, Page 10, Section II.

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 Adopting 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 Adopting 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 this office should you have any additional questions or concerns regarding this valuation or if you would like a visit by a MERS marketing staff member.

Sincerely,

Lynda M. Pittman

Lynda M. Pittman
Retirement Services Director

RECEIVED
AUG 17 2010
CITY OF NOVI
FINANCE

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Enclosure