

GRAND TRAVERSE COUNTY REPORT ON UNFUNDED PENSION & RETIREE HEALTH CARE LIABILITIES

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PRESENTATION SUMMARY

Overall County Finances

Defined Benefit Plan (DB)

Other Post Employment Benefits (OPEB)

Options

OVERALL COUNTY FINANCES

2016 Total Budget \$155.6 million

2016 General Fund Budget 37.8 million

Defined Benefit Pension and OPEB

- County Joined MERS (Michigan Employee Retirement System) in 1967
- County has provided Defined Benefit Pension plans that are based upon a “multiplier”, years of service, and the final average compensation.
- County has provided Other Post Employment Benefits – Retiree Healthcare Benefits

Unfunded Pension Liabilities (projected thru 2016)	\$ -51,157,000
Unfunded OPEB Liabilities (projected thru 2016)	\$ -7,704,335
TOTAL UNFUNDED LIABILITIES	\$ -58,861,331

County's DEFINED BENEFIT Plan is ONLY 48% FUNDED – Average rate is 76%

Grand Traverse County is the lowest funded Defined Benefit Plan of all counties in the MERS plan.

Independent Financial Analysis

Projects Shortfalls

General Fund Projected Shortfalls Expenditures Exceed Revenues

	Revenues	Expenditures	Est. SHORTFALL
2017	\$ 37,640,283	\$ 41,752,050	\$ -4,111,767
2018	\$ 38,392,409	\$ 43,003,138	\$ -4,610,729
2019	\$ 39,159,566	\$ 43,799,030	\$ -4,636,463
2020	\$ 39,942,057	\$ 45,032,004	\$ -5,089,947

In FY 2016, \$500,000 shortfall, eliminated services, all department budget reductions

Rehman Robson November 2015

DB PENSION & OPEB CONTRIBUTORS TO THE GF SHORTFALLS

	<u>DB</u>	<u>OPEB</u>
2017	\$440,000	\$100,000
2018	410,000	100,000
2019	400,000	100,000
2020	430,000	100,000

CBIZ Retirement Plan Services

Sept. 3, 2015 letter regarding projections of employer contributions

DB COST VS DC COST

FOUR YEAR PROJECTION

2016-2020

DB COSTS GROWS FASTER THAN DC

DEFINED BENEFIT

- Cost will increase from \$4.8 to \$6.5 million
- A \$1.6 million or 35% increase
- 400+ Participants (retirees, actives, & vested)

DEFINED CONTRIBUTION

- Cost will increase from \$1.6 to 1.725 million*
- A \$125,000 or 7.8% increase
- 300+ Active Employees

*Assumes a 1.9% annual payroll increase

CBIZ Retirement Plan Services

Sept. 3, 2015 letter regarding projections of employer contributions

GRAND TRAVERSE COUNTY HISTORY OF THE DB PLAN

- Joined Municipal Retirement System (MERS) in 1967
- Benefit Multipliers Range from 2.25% to 2.8%
- 14 Divisions
- In 2000 Twelve Divisions Closed to New Hires
- In 2015 Two Divisions Closed to New Hires
- UAL in 2000 was \$20.6 million
- Funded Status in 2000 63%

DB EVENTS LEADING TO DECREASE IN FUNDED STATUS & INCREASE IN UAL

- 2000-Close 12 Divisions to New Hires
- 2000-Early Out Incentives
- 2005-Early out Incentives
- 2000-2004-MERS did not Hit Investment Targets
- 2000-2011-Three Year Freeze on Amortization
- 2008-MERS did not Hit Investment Target
- 2015-County ended the last open DB plan Circuit Court

EMPLOYER CONTRIBUTION HISTORY

2004-2016 A 50% INCREASE

<u>YEAR</u>	<u>CONTRIBUTION</u>
2004	\$3,188,538
2006	3,023,727
2009	3,572,015
2012	3,879,285
2015	4,466,904
2016	4,782,300

MERS 2014 Annual Valuation

BREAKDOWN OF THE EMPLOYER CONTRIBUTIONS FOR THE 2014 VALUATION

Normal Cost	\$ 545,844*
UAL Cost	<u>4,236,456</u>
Total Contribution	<u>4,782,300</u>

*Normal Cost is the cost of future benefits earned by employees in the current year

MERS 2014 Valuation

Grand Traverse County Compared to Other Municipalities

Average employee contribution to the MERS DB pension plan is between 5.5-6.5% in other communities.

In 2014 only 9 of Grand Traverse County's active 88 MERS participants contribute.

The Grand Traverse County contributing members rate are only .67% and 2%.

Average funded status of ALL DB plans administered by MERS is 78%.

The funded status of all Counties in the MERS DB plan is 76%.

Grand Traverse County's 48% funded status is the lowest of all counties in MERS.

Absent changes in the County's DB plan, it will require an increase in funding of \$4.78 million or 84% from the County between 2016-2026.

Funding in 2026 will increase to \$8.8 million

PREFERRED OPTIONS TO ELIMINATE AND/OR REDUCE UAL & EMPLOYER CONTRIBUTIONS

- **Bridge Benefit Plan**

Frozen FAC and a 1.0 multiplier would lower employer's contribution by \$750,000 the 1st year

FAC Based on termination, with a 1.0 multiplier would lower employer's contribution by \$450,000 the 1st year

- **Increase Employee Contribution**

Each 1% increase in the employee's contribution would save about \$45,000 per year

- **Increase Employer Contribution**

Increase the 2017 employer's contribution (\$5.24 million) by an additional \$100,000, \$500,000, \$1 million or any amount each year

OTHER OPTIONS TO ELIMINATE AND/OR REDUCE UALs & EMPLOYER CONTRIBUTIONS

- **Hybrid Pension Plans**

Combination of DB & DC options.

Example DB multiplier of 1.0 and an employer contribution of 2% to a DC plan.

- **Issue Pension Obligation Bonds---Municipal Securities**

County could issue municipal securities for all or a portion of the UAL.

POBs/MUNICIPAL SECURITIES

- Public Act 34 of 2001 as amended authorizes certain municipalities to issue municipal securities in order to reduce or eliminate pension and OPEB shortfalls
- Issuance requires approval of the State of Michigan's Department of Treasury
- DB proceeds would be forwarded to MERS

POB RISKS & REWARDS

- POBs could reduce or eliminate UALs for DB & OPEB
- Actually trading one debt for another
- Debt payments on the bonds would be built into the County's annual budget.
- Employer Contribution for DB and OPEB would be reduced
- Budget savings are at risk of volatile stock market
- If POBs are pursued without other structural changes the County's credit rating could be at risk
- No guarantee the Treasury Department would approve the issuance of POBs

OPEB FUNDING

- Funded Status 0%
- UAL as of 12/31/15 \$7.3 million
- Projected UAL as of 12/31/16 \$7.7 million

Liability Analytics, 2015 Valuation Report for
Grand Traverse County, November 25, 2015

OPEB ANNUAL REQUIRED CONTRIBUTION (ARC)

- Assuming a 30 year amortization period
- 2016 ARC \$640,000
- 2016 Budget 250,000
- Shortfall 390,000

Liability Analytics, 2015 Valuation Report for
Grand Traverse County, November 24, 2015

PREFERRED OPTIONS TO REDUCE OPEB UAL

- Close access to retiree health insurance for all new hires
- Increase the retiree's and future retirees premiums share for employees represented by a Collective Bargaining Agreement
- Phase in an annual increase to the employer's ARC

POBs/MUNICIPAL SECURITIES

- Public Act 34 of 2001 as amended authorizes certain municipalities to issue municipal securities in order to reduce or eliminate pension and OPEB shortfalls
- Issuance requires approval of the State of Michigan's Department of Treasury
- OPEB proceeds would be deposited into a irrevocable trust fund.