



## Unfunded Accrued Liability Plan

Updated November 1, 2021

### **Pension Unfunded Accrued Liability**

BACKGROUND: The City terminated its service contract with Municipal Employees' Retirement System of Michigan (MERS) on October 21, 2020 with full asset transfer completed on April 30, 2021. The City defined benefit pension plan is now being provided by the City of East Grand Rapids Retirement Plan, which is a single employer defined benefit pension plan. This retirement plan was closed as of July 1, 1999 to all new participants and has 2 active members and 46 inactive member/beneficiaries receiving benefits.

The following is a history of the actuary results for the year-ended:

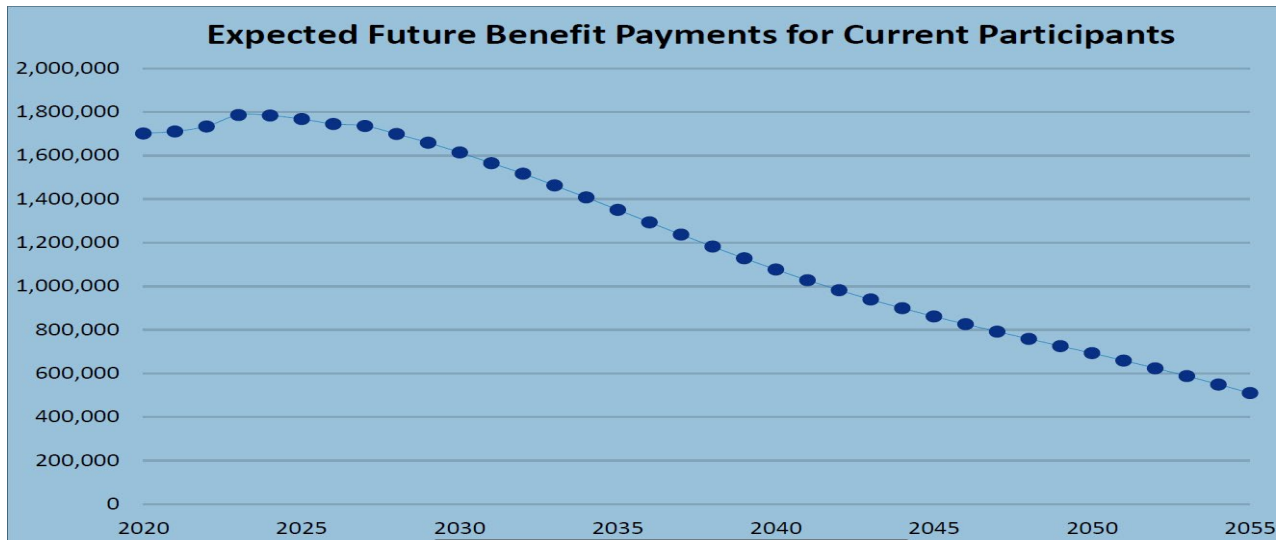
Actuary Report Date:	12/31/2018	12/31/2019	06/30/2021
Actuarial Value of Assets:	\$ 8,553,542	\$ 9,289,366	\$10,486,957
Actuarial Accrued Liability:	\$18,444,521	\$18,995,705	\$20,753,337
Amortization period (years)	7	7	15
Unfunded Actuarial Accrued Liability (UAL):	\$ 9,910,979	\$ 9,706,339	\$10,266,380
<b>Funded Ratio Total:</b>	<b>46%</b>	<b>49%</b>	<b>50.2%</b>

#### CONTINUED IMPLEMENTATION:

Leaving MERS has allowed the City to control of the plan investments, forecasting and make a course of action that will permit the plan to reach necessary funding with a consistent funding stream that was not available through the MERS plan.

The City contracts an actuarial to devise the best plan of action to reach a point where the City achieves accurate funding for current and future payments without increasing hardship to the City of unknown future payments. The City is also able to set a realistic rate of return when developing the contribution schedule and make immediate changes if the market under performs. Since the plan is closed the actuarial valuation can determine a proper cash flow as the plan ages and less funding is needed to provide benefits.

Below is the graph from the actuary that represents the City's cash flow needs for the plan.



The City also implemented the payment schedule which allows for manageable contributions to the plan by the City while continuing to fund the plan at a necessary level. This schedule is based on an 7% return on investment.

	Projected Assets	Benefit Payments	City Contribution	Investment Income	Payment from Trust	Funding Status
2021	10,300,000	1,760,000	1,076,000	673,000	684,000	50%
2022	10,289,000	1,779,000	1,076,000	671,000	703,000	51%
2023	10,257,000	1,828,000	1,076,000	665,000	752,000	52%
2024	10,171,000	1,823,000	1,076,000	660,000	747,000	53%
2025	10,084,000	1,804,000	1,076,000	655,000	727,000	54%
2026	10,012,000	1,778,000	1,076,000	652,000	702,000	55%
2027	9,962,000	1,770,000	1,076,000	649,000	693,000	57%
2028	9,917,000	1,729,000	1,076,000	649,000	653,000	59%
2029	9,913,000	1,686,000	1,076,000	651,000	610,000	61%
2030	9,955,000	1,638,000	1,076,000	657,000	562,000	64%
2031	10,050,000	1,587,000	1,076,000	668,000	511,000	68%
2032	10,207,000	1,533,000	1,076,000	682,000	457,000	72%
2033	10,432,000	1,477,000	1,076,000	702,000	401,000	78%
2034	10,734,000	1,421,000	1,076,000	727,000	345,000	84%
2035	11,116,000	1,363,000	1,076,000	758,000	286,000	91%
2036	11,588,000	1,304,000	0	720,000	1,304,000	100%

Based on the above schedule year 2036 and beyond the trust will be fully funded and the City no longer needs to contribute to the trust

### **Other Postemployment Benefits (OPEB) Unfunded Accrued Liability**

BACKGROUND: The City administers a single employer defined benefit healthcare plan (the Plan). The Plan provides 100% of health insurance benefits to eligible retirees and their spouses until Medicare coverage at age 65. Dependents are covered until age 26.

An actuarial study was performed by a consultant for the year-ended:

Actuary Report Date:	06/30/2019	06/30/2020	06/30/2021
Actuarial Value of Assets:	\$1,427,004	\$1,486,643	\$1,897,753
Actuarial Accrued Liability:	\$3,797,950	\$4,047,344	\$3,919,582
Unfunded Actuarial Accrued Liability:	\$2,370,946	\$2,560,701	\$2,021,829
Funded Ratio Total:	38%	37%	48.4%

#### CONTINUED IMPLEMENTATION:

The City Commission approved to close the defined benefit health insurance benefit and open a defined contribution retirement health savings program (RHSP) through collective bargaining process. The plan was closed to all new hires as of November 1, 2020. The City also offered a conversion for current employees with less than 10-years of service at a conversion of \$1,200 per year of service (pro-rated monthly) and going forward a City contribution of 1.5% with an employee contribution of 1.5% of gross wages. The vesting period aligns with the defined contribution retirement plan of five years. A total of 11 employees converted to this new plan. This allowed the City to shift from 67 active members to 54 (retirees receiving benefits went from 10 to 13). With the closing of the plan if everything stays as is the last year of enrollment will be 2061 and the participants will age out.