



# CITY of NOVI CITY COUNCIL

**Agenda Item 4  
June 2, 2014**

**SUBJECT:** Approval of Resolution officially adopting MERS "Option B" for all future annual pension contributions.

**SUBMITTING DEPARTMENT:** Finance

**CITY MANAGER APPROVAL:** 

**BACKGROUND INFORMATION:**

The City is currently required to make annual contributions to the Michigan Employees' Retirement Systems of Michigan (MERS) Defined Benefit Pension Plan as determined by the actuaries. As part of the City's long-term financial plan, eight of the ten divisions within the MERS plan were closed in the last couple years to new members. The closing of the divisions, under the MERS plan, triggers an automatic acceleration in the pension contributions which will be reflected in future annual contributions (MERS refers to this as "Option A"). "Option A" is not a MERS provision unique to Novi, it's the same provision for all MERS member communities. Without any action by the City, all future contributions will be based on the current "Option A".

While the Mayor and City Council have expressed interest in increasing the contributions to the MERS plan to increase the overall funding level, the closing of eight of the ten divisions will almost **double** the current annual contribution of approximately \$2,500,000 in the next **five** years (see attached example of estimated future contributions for only five of the closed divisions). An increase in pension contributions of this magnitude, the majority of which are paid by the General Fund, would limit the city's ability to continue to invest in citywide capital and other service improvement type projects.

MERS has recognized that the current "Option A" can be difficult if not impossible for some member communities to fund without causing financial hardship so they have created and made available an "Option B." "Option B" still accelerates the amount of the pension contributions in the future years, but stretches it out over a longer period of time (see attached example of estimated future contributions for only five of the closed divisions). The increase in the annual pension contribution in the next five years would increase approximately **fifty percent rather than doubling** under "Option B".

**RECOMMENDED ACTION:** Approval of Resolution officially adopting MERS "Option B" for all future annual pension contributions.

	1	2	Y	N
Mayor Gatt				
Mayor Pro Tem Staudt				
Council Member Casey				
Council Member Fischer				

	1	2	Y	N
Council Member Markham				
Council Member Mutch				
Council Member Wrobel				

## **Resolution Adopting MERS "Option B" for all Future Annual Pension Contributions**

**WHEREAS**, the City has closed most of the divisions of the Michigan Employees' Retirement Systems of Michigan (MERS) Defined Benefit Pension Plan which has resulted in the acceleration of all future employer contributions under MERS "Option A", and

**WHEREAS**, the Mayor and City wish to accelerate the funding of the MERS pension plan to improve the overall funding level but recognize the substantial short-term burden to the City by staying with the current "Option A", and

**WHEREAS**, MERS has recognized that "Option A" may cause financial hardship on some of its member communities and has offered an "Option B" which still accelerates the contributions but over a longer period of time, and

**WHEREAS**, the change in funding options has no effect on retiree pension payments.

**NOW, THEREFORE, BE IT RESOLVED**, that the City Council elects to change from the current MERS "Option A" to MERS "Option B" for all future contributions and directs the finance director to work with MERS to incorporate the change in options into the next actuarial report assumptions.

I certify that the foregoing is a true and complete copy of a Resolution adopted by the City Council of the city of Novi at a regular Meeting held on this 2<sup>nd</sup> day of June, 2014.

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Maryanne Cornelius, City Clerk

## Closed City Plans

Valuation Year	Fiscal Year Beginning July 1,	Closed DB Amortization Option	
		A	Option B
		Amortization Payment	Amortization Payment
2012	2014	1,055,676	1,055,676
2013	2015	1,162,000	1,114,000
2014	2016	1,294,000	1,177,000
2015	2017	1,461,000	1,235,000
2016	2018	1,689,000	1,300,000
2017	2019	2,028,000	1,357,000
2018	2020	1,920,000	1,418,000
2019	2021	1,791,000	1,483,000
2020	2022	1,663,000	1,549,000
2021	2023	1,513,000	1,619,000
2022	2024	1,332,000	1,692,000
2023	2025	1,130,000	1,588,000
2024	2026	962,000	1,445,000
2025	2027	816,000	1,328,000
2026	2028	694,000	1,179,000
2027	2029	589,000	1,038,000
2028	2030	501,000	882,000
2029	2031	424,000	749,000
2030	2032	361,000	635,000
2031	2033	307,000	541,000
2032	2034	261,000	461,000
2033	2035	222,000	391,000
2034	2036	189,000	331,000
2035	2037	160,000	282,000
2036	2038	136,000	238,000
2037	2039	115,000	203,000
2038	2040	99,000	173,000
2039	2041	84,000	147,000
2040	2042	72,000	125,000
2041	2043	61,000	107,000
Total (30 Yr)		\$ 24,091,676	\$ 26,842,676

# Closed Division Amortization Policy

## Option A Current MERS Policy

- Amortization period begins two years below current schedule
- Schedule decreases by two years each year until five years is reached
- Division holds at a five year amortization schedule

## Option B Alternative MERS Policy

- Amortization period begins two years below current schedule
- Schedule decreases by two years each year until 15 years is reached
- Schedule decreases by one year each year until it reaches five years
- Division holds at a five year amortization schedule