



STATE OF MICHIGAN
DEPARTMENT OF TREASURY
LANSING

GRETCHEN WHITMER
GOVERNOR

RACHAEL EUBANKS
STATE TREASURER

NUMBERED LETTER 2018-3 (REVISED)

Issued By: Community Engagement and Finance Division
Bureau of Local Government and School Services

Effective Date: September 28, 2018 (Revised: March 13, 2020)

2018-3 Recording of Actuarially Determined Contributions (ADC) for Other
Postemployment Benefit (OPEB) Systems

Calculating and reporting an annual required contribution (ARC) is **required** by State of Michigan law for all local defined benefit retirement systems - including OPEB systems - pursuant to [Public Act 202 of 2017 \(the Act\)](#). However, with the implementation of Governmental Accounting Standards Board (GASB) Statement No. 75, the term actuarially determined contribution (ADC) is being reported within audited financial statements rather than ARC.

Calculating the ADC

For purposes of continued compliance with the Act, ADC meets the definition of ARC, as long as the ADC is calculated and reported in accordance with the Act's definition, which is defined as "the sum of the normal cost payment and the annual amortization payment for past service costs to fund the unfunded actuarial accrued liability" (UAAL)¹. In order to comply with the Act, the ADC calculated and reported in the audited financial statements shall be calculated as the normal cost payment plus the amortized portion of the UAAL, *regardless of local funding policy*.

Failure to Comply

Reporting that fails to comply with the Act's definition of ARC occurs primarily for the following two reasons:

- 1.) OPEB systems that are not administered through a qualified trust fail to calculate an ADC, as it is not required by generally accepted accounting principles (GAAP). Therefore, an ADC is not disclosed within the audited financial statements; or
- 2.) The ADC is calculated and reported without including the normal cost payment or the annual amortization payment for past service costs to fund the UAAL. Instead, the annual "pay-as-you-go" cost is calculated and reported as the ADC, which only accounts for retiree benefit payments.

¹ [MCL 38.2803](#)

Local governments that failed to report an ADC in compliance with the Act's definition recently received communication regarding this issue. Failure to comply may result in the following actions by Treasury:

1.) A primary government's (city, village, township, or county) evaluation of underfunded status will be determined based on the funded ratio trigger criteria only. If triggered as underfunded, a primary government may submit a waiver application to Treasury that includes the calculated ADC, as demonstrated in an actuarial report or separate letter of an actuarial firm, showing the local government would not have been considered underfunded if the ADC had been included. **Failure to report a compliant ADC in future audited financial statements may result in the rejection of Form 5572 submissions and noncompliance with the Act; and/or**

2.) Rejection of the local government's audited financial statements. Pursuant to Public Act 2 of 1968, local governments must follow Treasury standards. Failure to comply with these standards may result in the rejection of the audited financial statements.

Reporting the ADC in the Audit

There have been some questions regarding how to report the ADC in the audit with GASB No. 75 in effect. Once calculated, for plans with a qualifying trust or equivalent arrangement, GAAP requires the disclosure of the ADC in the required supplementary information (RSI) section of the audited financial statements in accordance with GASB No. 75. OPEB plans that are not administered through trusts are not required by GAAP to disclose the ADC in the RSI section of the financial statements; those plans should disclose this information in the notes to the financial statements, instead of the RSI. **Failure to calculate the ADC in compliance with the Numbered Letter 2018-3 will be considered in statutory noncompliance and shall be reported in the notes to the financial statements. Auditors shall also issue a finding for statutory noncompliance.**

If you have any questions, please visit Michigan.gov/LocalRetirementReporting for step-by-step reporting instructions and helpful FAQs, or email our office at LocalRetirementReporting@michigan.gov. If you would prefer to speak with a member of our team, please schedule a phone call appointment using the [Local Retirement Calendar](#). A team member will contact you via the phone number you provide at your scheduled time.