



STATE OF MICHIGAN
DEPARTMENT OF TREASURY
LANSING

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GOVERNOR

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DATE: July 16, 2024
TO: Municipal Stability Board
FROM: Local Audit and Finance Division (LAFD)
SUBJECT: Monitoring Policies and Procedures for *Protecting MI Pension Grant* Awardees

Suggested Action: The Board motions to approve the guidance below regarding the process for removing local governments from underfunded status and corrective action plan (CAP) monitoring for public comment.

Executive Summary: Local governments that accepted a grant award under the Protecting MI Pension Grant program “shall be subject to corrective action plan monitoring by the Municipal Stability Board (the Board) for five years following receipt of any grant award.”, pursuant to PA 166 of 2022, Section 979a. The Department of Treasury is proposing the policies and procedures outlined in Appendix A for review by the Municipal Stability Board in monitoring these local governments.

Monitoring Methodology and Intent: The Protecting MI Pension Grant Program provided funding for qualified local units to increase the funded ratio for retirement pension systems to 60% funded, addressing underfunded status as defined in Public Act 202 of 2017. A provision of the Protecting MI Pension Grant requires grant recipients to be monitored by the Municipal Stability Board for a period of 5-years. This monitoring process will review the maintenance of an acceptable funding level for the retirement pension system, ensure that the retirement pension system is affordable, and ensure that the retirement pension system is complying with the provisions of the grant program.

Timeline: Local governments shall submit to the monitoring process under the Protecting MI Pension Grant Program within 2 years of grant award distribution and will be monitored for substantial compliance with these procedures every two-years until a period of 5-years has passed.

Attachments:

1. Appendix A: Pension Grant Awardee Corrective Action Plan Monitoring Process
2. Appendix B: Pension Grant Awardee Corrective Action Plan Monitoring Timeline

Appendix A: Pension Grant Awardee Corrective Action Plan Monitoring Process

Protecting MI Pension Grant Corrective Action Plan Monitoring Process

Background

PA 166 of 2022 Sec. 979a

The qualified unit shall be subject to corrective action plan monitoring by the Municipal Stability Board (the Board) for five years following receipt of any grant award.

Monitoring Methodology and Intent:

The Protecting MI Pension Grant Program provided funding for qualified local units to increase the funded ratio for retirement pension systems to 60% funded, addressing underfunded status as defined in Public Act 202 of 2017. A provision of the Protecting MI Pension Grant requires grant recipients to be monitored by the Municipal Stability Board for a period of 5-years. This monitoring process will review the maintenance of an acceptable funding level for the retirement pension system, ensure that the retirement pension system is affordable, and ensure that the retirement pension system is complying with the provisions of the grant program.

Timeline:

Local governments shall submit to the monitoring process under the Protecting MI Pension Grant Program within 2 years of grant award distribution and will be monitored for substantial compliance with these procedures every two-years until a period of 5-years has passed.

Corrective Action Plan Process

- Local governments with an existing corrective action plan for a pension system that received a grant award under the Protecting MI Pension Grant program will have these pension systems administratively removed from existing corrective action monitoring by the Board.
- **Grant award application/affidavit documents and agreements for local governments that received a grant award agreement under the Protecting MI Pension Grant Program will serve as the corrective action plan for all pension systems that received a grant award under the Protecting MI Pension Grant Program and shall be approved by the Board for monitoring.**
- Local governments with existing or future corrective action plans for retirement pension or retirement health care system(s) that were not awarded a Protecting MI Pension Grant award, will continue to follow existing corrective action plan and monitoring requirements under Public Act 202 of 2017.

Local Government Communication: Monitoring Notification

- **Monitoring Form – Distributed January 1, 2025 and every two years following while local remains in monitoring.**
 - **Local governments will be required to submit the designated form to be used by the Board when evaluating compliance**
 - Local governments must be compliant in filing retirement system annual report (Form 5572)
 - The completed CAP monitoring form is due 3 months after receipt.
 - Treasury will provide administrative support to the Board by preparing a detailed review and recommendation for the Board's compliance certification.
 - The Board will review and certify the local government for compliance approximately every 2 years until a period of 5-years from the date of grant award has passed.

Municipal Stability Board Corrective Action Plan Monitoring Review Criteria

To assist local governments in preparing for the statutorily required monitoring process for their MI Pension Grant Program recipient pension systems, the Board is publishing CAP monitoring approval criteria

Appendix A: Pension Grant Awardee Corrective Action Plan Monitoring Process

for awardees of the MI Pension Grant Program. The Board will consider these criteria when monitoring corrective action plan compliance and will determine if the local government's retirement system is sustainable. Local governments are encouraged to review all retirement pension benefit systems, by using one or more of the [best practice principles](#) published by the Board.

The Board and the Department of Treasury are available to assist local governments as they evaluate and update their retirement systems. To discuss potential assistance please schedule an appointment at LocalRetirementReporting@michigan.gov.

Funding Status

- **Is the pension system maintaining a funded ratio of greater than 60%**
 - Is the local government maintaining a funding status of 60%?
 - Is the funding level projected to continue to increase?
 - When will the retirement system be fully funded?
- **If funded status of 60% is not being maintained:**
 - If a local government is not maintaining a funded ratio of 60%:
 - The monitoring document may address additional reporting to document actions necessary to maintain 60% funding.
 - Local government may be found noncompliant with the Board's Pension Grant CAP monitoring criteria if it fails to maintain 60% funded.

Award Compliance

- **Benefit Enhancements:**
 - Did the pension system provide contractual benefit enhancements for awarded system(s)?
 - The qualified unit shall not provide contractual benefit enhancements unless the contractual benefit enhancement is 100% prefunded. Failure to meet the conditions of this subdivision requires repayment of the grant award that was received by the qualified unit. The qualified governmental unit shall notify the department of treasury in a form and manner prescribed of any contractual benefit enhancement under this subsection within 30 days.
 - **If a local government cannot certify that its retirement pension system(s) receiving a Protecting MI Pension Grant award have not provided contractual benefit enhancements or contractual benefit enhancements were not reported to Treasury or 100% prefunded:**
 - **Local government may be found to be noncompliant with the Protecting MI Pension Grant CAP Monitoring Process by the Board**
 - **Local government is required to repay the award received through the Protecting MI Pension Grant Program**
- **Actuarial Calculations:**
 - A local government must calculate and provide for the Board's review: assets, liabilities, and actuarially determined contribution amounts utilizing assumptions outlined in [Public Act 166 of 2022, Section 979a\(2\)\(a\)-\(f\)](#) for each pension system that has received a grant award under the Protecting MI Pension Grant Program.

Sustainability

- **Are retirement costs sustainable?**
 - The local government must certify that annual costs for pension systems receiving grant awards are sustainable and that the costs of all required annual payment(s) are affordable now and into the future.
 - Local governments with annual required combined payments that are greater than 22% of governmental fund revenues may be determined to be unsustainable by the Board.
 - The local government must confirm that the local government is able to make, at a minimum, the actuarially determined contribution (ADC) payment for all pension systems

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and any retiree health care premium payments, as well as the normal cost payment for new hires for retirement health benefits (Sec. 4(1) of the Act, MCL 38.2804).

- **If the local government cannot document that retirement system costs will continue to be sustainable, or the Board determines that the plan may no longer be sustainable:**
 - The Board may certify the local government as *Unsustainable*, as its annual payments are significant. Prior to the next monitoring period, the local government should review additional actions to address the significant annual payment amount(s), or it may be determined noncompliant.

Supporting Documentation:

- **Funding Status:**
 - The Board recommends that supporting documentation show an actuarial projection for the duration of the retirement system that included, but is not limited to, assets, liabilities, funded ratios, actuarially determined contributions, normal cost payments (if applicable), actuarial assumptions, and retiree benefit payments, using reasonable calculations.
- **Award Compliance:**
 - The Board recommends that supporting documentation include: actuarially developed calculations of assets, liabilities, and actuarially determined contributions for each retirement system receiving a grant award under the Protecting MI Pension Grant program.
- **Sustainability**
 - The Board requires that the local government uses Treasury's *Sustainability Worksheet* or provides an equivalent analysis utilizing detailed supporting documentation to provide a projection of all annual retirement payments (Pension actuarially determined contribution(s)+ OPEB Benefit Payments(s)+all additional required contributions) as a percentage of projected governmental fund revenues for the ensuing 5 years.
 - A local government should project governmental fund revenues using a reasonable forecast based on historical trends and projected rates of inflation. This analysis may include projected enterprise funds allocated specifically to pay retirement costs.

Certification of Compliance

- **Compliant:** If a local government has met all published CAP monitoring criteria and satisfied all reporting requirements:
 - The Board certifies the local government is in compliance
- **Compliant w/ Conditions:** If a local government is unable to certify sustainability or is determined to be unsustainable, but all other criteria and reporting requirements are met:
 - The Board certifies the local government is unsustainable.
 - Affordability concerns should be addressed and corrective actions documented prior to the subsequent monitoring period, to the Board's satisfaction.
- **Noncompliant:** If a local government does not meet CAP monitoring criteria, did not submit the required monitoring forms or documentation, or did not satisfy annual reporting requirements:
 - The Board may determine the local government noncompliant.
 - The local government will have 60 days to address the reasons for noncompliance.

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