



STATE OF MICHIGAN
DEPARTMENT OF TREASURY
LANSING

GRETCHEN WHITMER
GOVERNOR

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DATE: September 18, 2024 (Originally approved August 19, 2019)

TO: The Municipal Stability Board (the Board)

FROM: Local Audit and Finance Division (LAFD), Department of Treasury

SUBJECT: Requirements for Removal from Underfunded Status and Corrective Action Plan Monitoring

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. These procedures are applicable to both Public Act 202 of 2017 and Public Act 166 of 2022, section 979a.

Removal Process: A local government that received a determination of underfunded status and request to file a CAP per Public Act 202 of 2017 (the Act) or received a grant award under the Protecting MI Pension Grant program, may be released from underfunded status and monitoring by the Board as follows:

I. For local governments in corrective action with retirement systems that failed to meet the Act's funding requirements:

Example Situation: On the most recently filed retirement system annual report (Form 5572), a local government with an approved CAP no longer triggers underfunded status per the Act.

Conditions for removal from corrective action:

- The local government filed a subsequent year's Form 5572 showing that the underfunded system now meets the Act's funding requirements.
 - Local governments meeting this criterion may request to be removed from the CAP process and purview of the Board.
- OR
- The local government may be removed during the CAP monitoring process if the underfunded system has failed to trigger as underfunded during the last two annual Form 5572 submissions. Alternatively, the local government may be removed during the CAP monitoring process if the underfunded system(s) funded ratio is at least 5% greater than the Act's designated minimum funded

ratio in the most recent Form 5572 submission (e.g. an OPEB system is 45% funded when underfunded status is below 40%).

The Board may vote to release these local governments from the CAP process and purview of the Board, thereby removing underfunded status.

2. For local governments in corrective action for failure to file the retirement system annual report (Form 5572):

Example Situation: The local government was required to submit a CAP for failure to file the Form 5572; however, information in their audited financial statements shows that the local government would not have been determined to be underfunded had the required Form 5572 been completed by the due date and submitted to Treasury.

Conditions for removal from corrective action:

- The local government subsequently filed the Form 5572 showing that they meet the Act's funding requirements.

Local governments meeting this criterion will be biannually reported to the Board. These local governments may be voted by the Board to be released from the CAP process and purview of the Board, thereby removing underfunded status

3. For local government retirement systems that received a grant award under the Protecting MI Pension Grant program:

Conditions for removal from corrective action:

- The local government retirement system accepted a grant award through the Protecting MI Pension Grant program.

The Board will remove these retirement systems from corrective action under the Act, with a revised corrective action plan to be monitored under Section 979a of Public Act 166 of 2022.

4. For local government retirement systems being monitored pursuant to Section 979a of Public Act 166 of 2022 after accepting a grant award under the Protecting MI Pension Grant program:

Conditions for removal from corrective action:

Following a 5-year monitoring period pursuant to the Protecting MI Pension Grant Program, Section 979a of Public Act 166 of 2022, local governments with pension systems that received a grant award under the Protecting MI Pension Grant program and are compliant with monitoring requirements may request removal from monitoring by the Board. These local governments may be voted by the Board to be released from the CAP process and purview of the Board if they have maintained a funding level of 65% for 3 consecutive years.

Other underfunded retirement systems not receiving a Protecting MI Pension Grant award will remain in corrective action until all remaining underfunded systems are no longer underfunded and meet the removal conditions 1 or 2 of this document.

Per Section 5(4) of Public Act 202 of 2017: The state treasurer shall determine that a local government is in underfunded status if any of the following apply:

- a. The actuarial accrued liability of a retirement health system of the local government is less than 40% funded, according to the most recent annual report, and, if the local government is a city, village, township, or county, the actuarially determined contribution (ADC) for all of the retirement health systems of the local government is greater than 12% of the local government's annual general fund operating revenues, based on the most recent fiscal year.
- b. The actuarial accrued liability of a retirement pension system of the local government is less than 60% funded, according to the most recent annual report, and, if the local is a city, village, township, or county, the ADC for all of the retirement pension systems of the local government is greater than 10% of the local government's annual general fund operating revenues, based on the most recent fiscal year.
- c. The local government has not submitted its Form 5572.
- d. The local government fails to make the payments as described under section 4(1), which includes paying normal costs for new hires first hired after June 30, 2018 and any retiree premiums that are due.

Per Section 10(6) Of Public Act 202 of 2017: The Board shall monitor each underfunded local government's compliance with this act and any CAP. The Board shall adopt a schedule, not less than every 2 years, to certify that the underfunded local government is in substantial compliance with this Act. If the Board determines that an underfunded local government is not in substantial compliance under this subsection, the Board shall within 15 days provide notification and report to the local government detailing the reasons for the determination of noncompliance with the CAP. The local government has 60 days from the date of the notification to address the determination of noncompliance.