

# Protecting Local Government Retirement and Benefits Act

## Application for Waiver:

### Defined Benefit Pension Retirement Systems

Issued under authority of Public Act 202 of 2017.

#### 1. LOCAL GOVERNMENT INFORMATION

Local Government Name: \_\_\_\_\_ Six-Digit Muni Code: \_\_\_\_\_  
Defined Benefit Pension System Name: \_\_\_\_\_  
Contact Name (Administrative Officer): \_\_\_\_\_  
Title if not Administrative Officer: \_\_\_\_\_  
Email: \_\_\_\_\_ Telephone: \_\_\_\_\_  
Fiscal Year: \_\_\_\_\_

#### 2. GENERAL INFORMATION

**Application for Waiver:** This Application for Waiver may be filed by any local government with at least one defined benefit pension retirement system that has triggered a preliminary review of underfunded status. In accordance with Public Act 202 of 2017 (the Act), if the State Treasurer determines that the underfunded status is adequately being addressed by the local government, the State Treasurer shall issue a waiver of the determination of underfunded status. If requesting a waiver, you must submit a separate and unique application for each underfunded retirement system as determined by your most recent *Retirement System Annual Report (Form 5572)*.

**Due Date:** The local government has **45 days from the date of notification** to complete and file the Application for Waiver. Failure to file within 45 days will result in a determination of underfunded status for your local government as defined by the Act, and your local government will be required to submit a corrective action plan to the Municipal Stability Board for approval.

**Filing:** This Application for Waiver must be approved by the local government's administrative officer and its governing body. **You must provide proof of your governing body approving this Application for Waiver and attach the documentation as a separate PDF document.** Failure to provide documentation that demonstrates approval from your governing body will automatically result in a disapproval of the waiver application.

The completed application must be submitted via email to [LocalRetirementReporting@michigan.gov](mailto:LocalRetirementReporting@michigan.gov). **If you have multiple underfunded retirement systems, you are required to complete separate applications and send a separate email for each underfunded system.** Please attach each application as a separate PDF document in addition to all applicable supporting documentation.

The subject line of the email(s) should be in the following format: **Waiver-20XX, Local Government Name, Retirement System Name** (e.g. Waiver-2018, City of Lansing, Employees' Retirement System Pension Plan). Treasury will send an automatic reply acknowledging receipt of the email. Your individual email settings must allow for receipt of Treasury's automatic reply. This will be the only notification confirming receipt of the application(s).

**Considerations for Waiver:** A successful Application for Waiver will demonstrate what your local government **has already done** to adequately address its underfunded status. Prospective solutions will not be granted merit in determining the outcome of the waiver application (e.g. future amendments to collective bargaining agreements, upcoming millage proposals, potential budget changes, etc.). However, Treasury may consider additional ongoing funding dedicated to your retirement system if those commitments have been formally enacted by the governing body and can be documented. Section three of this waiver application allows the local government to enter a brief description of prior

actions that have already been implemented to adequately address its underfunded status. For purposes of Sec. 6.(1) of the Act, this application will also be considered the plan.

Underfunded status for a defined benefit pension system is defined as being less than 60% funded according to the most recent audited financial statements, and, if the local government is a city, village, township, or county, the actuarially determined contribution (ADC) for all of the defined benefit pension retirement systems of the local government is greater than 10% of the local government's annual governmental fund revenues, based on the most recent fiscal year.

**General guidelines are listed below to help your local government decide whether to apply for a waiver. Ultimately, waiver approval or disapproval is at the discretion of the State Treasurer; however, waiver applications should generally demonstrate at least one of the following seven criteria. Please check all that apply:**

- In general, local governments that were previously granted a waiver should demonstrate improvement in their underfunded status in the subsequent year. Improvement can be measured by an increase in the funded ratio and/or a decrease in the ADC as a percentage of governmental revenue;
- There was a mistake in the filing process and the local government is not actually underfunded;
- Using updated data, such as a more recent actuarial valuation, the local government is not underfunded;
- If a local government fails to calculate an ADC within their audited financial statement and triggers underfunded status, the local government may file a waiver application to Treasury that includes the calculated ADC;
- The local government demonstrates their underfunded status will be addressed within four years;
- The local government is a non-primary government (e.g. road commission, authority, etc.) and demonstrates their ADC for pension is less than 10% of governmental revenues;
- When adding enterprise fund revenues used specifically to pay retirement costs with governmental fund revenues, your ADC as a percentage of combined revenues is below 10%.

### **3. DESCRIPTION OF PRIOR ACTIONS**

Prior actions are separated into three categories below: System Design Changes, Additional Funding, and Other Considerations. Please provide a brief description of the prior actions implemented by the local government to address the retirement system's underfunded status within the appropriate category section. Within each category are sample statements that you may choose to use to indicate the changes to your system that will positively affect your funded status. For retirement systems that have multiple divisions, departments, or plans within the same retirement system, please indicate how these changes impact the retirement system as a whole.

Please indicate where in the attached supporting documentation these changes are described and the impact of those changes (i.e. what has the local government done to improve its underfunded status, and where can we find the proof of these changes in the supporting documentation?).

**Note:** Please provide the name of the system impacted, the date you made the change, the relevant page number(s) within the supporting documentation, and the resulting change to the system's funded ratio.

#### **Category of Prior Actions:**

- System Design Changes** - System design changes may include the following: Lower tier of benefits for new hires, final average compensation limitations, freeze future benefit accruals for active employees in the defined benefit system, defined contribution system for new hires, hybrid system for new hires, bridged multiplier for active employees, etc.

**Sample Statement:** *The system's multiplier for current employees was lowered from 2.5X to 2X for the **General Employees' Retirement System** on **January 1, 2018**. On page 8 of the attached actuarial supplemental valuation, it shows our funded ratio will be **60%** by fiscal year **2021**.*

- Additional Funding** – Additional funding may include the following: voluntary contributions above the ADC, bonding, millage increases, restricted funds, etc.

**Sample Statement:** *The local government provided a lump sum payment of **\$1 million** to the **General Employees' Retirement System** on **January 1, 2018**. This lump sum payment was in addition to the ADC of the system. The additional contribution will increase the retirement system's funded ratio to **61% by 2022**. Please see page 10 of the attached enacted budget, which highlights this contribution of **\$1 million**.*

- Other Considerations** – Other considerations may include the following: outdated Form 5572 information, enterprise fund revenue considerations, actuarial assumption changes, amortization policy changes, etc.

**Sample Statement:** *The information provided on the Form 5572 from the audit used actuarial data from **2016**. Attached is an updated actuarial valuation for **2018** that shows our funded ratio has improved to **62%** as indicated on page 13.*

**Sample Statement:** ***\$400,000** of expenditures are directly tied to expenses for retirement obligations from our water and sewer fund. The attached analysis shows that our revenue ratio (ADC / Combined Funds) would only be **9%** when including applicable enterprise fund revenue within the calculation. Additionally, attached are two invoices from MERS showing distributions to our pension fund from the enterprise fund totaling **\$400,000**. As a result, **\$400,000** of our enterprise fund revenues should be combined with our governmental fund revenues to properly demonstrate total available funding.*

#### **4. DOCUMENTATION ATTACHED TO THIS WAIVER APPLICATION**

Documentation must be attached as a PDF to this waiver application. The documentation must demonstrate the prior actions that have already been implemented to adequately address the local government's underfunded status. Please ensure this documentation directly supports and highlights the systems funded ratio as entered in section three of the waiver application above. Please check all documents that are included as part of this application and attach in successive order as provided below:

Naming convention: When attaching documents please use the naming convention shown below. If there is more than one document in a specific category that needs to be submitted, include a, b, or c for each document. For example, if you are submitting two supplemental valuations, you would name the first document "Attachment 2a" and the second document "Attachment 2b".

## Naming Convention

- Attachment – 1
- Attachment – 2
- Attachment – 3
- Attachment – 4
- Attachment – 5
- Attachment – 6
- Attachment – 7
- Attachment – 8
- Attachment – 9

## Type of Document

**This waiver application (required);**

**Documentation from the governing body approving the waiver application (required);**

Actuarial analysis (annual valuation, supplemental valuation, projection);

An internally developed study, in accordance with GASB and/or actuarial standards of practice, that projects assets and liabilities into the future;

Documentation of additional payments in past years that is not reflected in your audited financial statements (e.g. enacted budget, system provided information);

Documentation of commitment to additional payments in future years (e.g. resolution, ordinance);

A plan that the local government has already approved to address its underfunded status, which includes documentation of prior actions and the positive impact on the system's funded ratio;

Enterprise fund revenues: Analysis of retirement costs paid using enterprise fund revenues, as well as applicable financial documents (e.g. proof of payment, invoices from retirement plan, bank transactions, general ledger reimbursement transactions);

Other documentation, not categorized above.

## 6. LOCAL GOVERNMENT'S ADMINISTRATIVE OFFICER APPROVAL OF WAIVER APPLICATION

I, **<insert name>**, as the government's administrative officer (Ex. City/Township Manager, Executive Director, Chief Executive Officer, etc.) **(insert title)** approve this Application for Waiver. We are requesting a waiver of underfunded status because we have already implemented substantial changes to our retirement system as described above.

I confirm to the best of my knowledge that because of the changes listed above the following statement will occur:

Using the waiver criteria checked in Section 2 of this application, the **<insert Retirement Pension System Name>** (**Retirement Pension System Name**) will have addressed its underfunded status by fiscal year ----- .

Signature: **<insert signature>**

Date: **<insert date>**