Corrective Action Plan
City of Escanaba

Plan Funding and Plan Design

Prior to 2005, the City of Escanaba offered all full-time and part-time employees a defined benefit pension plan through Municipal Employee’s Retirement System (MERS). In an effort to reduce future pension obligations, City administration began to close the defined benefit plans to new hires and offer a MERS defined contribution plan in its place. We have one defined benefit division that has not been closed, however, no new hires have been enrolled in this division since 2007. All employees are being enrolled in the defined contribution plan. Currently, the City has 32 active employees and 125 retirees in the defined benefit plan, and 60 employees in the defined contribution plan.

When the defined benefit plan was closed, we expected our annual pension contributions would increase for about 10 years and then begin a rapid decrease. Since then, MERS made changes in their assumptions and our contributions saw dramatic increases, our funding percentage was decreased and our date of declining contributions was pushed 10 years in the future. The chart below shows the employer contribution estimates that can be expected in the future.

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**Notes:**
All projected contributions are shown with no phase-in.
The chart (blue line) shows estimated future employer contributions for the MERS defined benefit pension climbing to a high of roughly $2,500,000 before a drastic decline around 2029.

As mentioned earlier, when MERS assumption changes were put in place in 2015 our funded percentage was negatively affected. The City went from 63% funded in 2014 to 59% in 2015. We have since dropped to 58% funded. The chart below (blue line) shows the projected future funded levels.

![Funded Percentage Chart](image)

Notes:
All projected funded percentages are shown with no phase in.

If the City continues to make the actuarially determined contributions (ADC) based on the MERS valuation reports, we can expect to be 60% funded by 2020 and 100% funded by 2030.

City administration made a presentation to City Council on the status of the MERS defined benefit pension plan on September 6th. Per the chart below, calculations of GASB 68 funding levels would indicate a payment just over $600,000 will get the City a 60% funded level. Administration recommended making a larger payment in order to combat any future assumption changes.
At their meeting on October 4th, Council voted to make a lump sum payment to MERS in the amount of $2,500,000. This payment will be made by 12/31/18 and will be made in addition to our full funding or our ADC. With this payment, it’s estimated the City’s funded level will rise to 65% (see chart below). This would be reflected in our MERS Actuarial Valuation for 12/31/2018.

The lump sum payment will be placed in a surplus division. The reason we have chosen this option is because we will continue to pay the ADC and get our unfunded liability paid down faster. If we chose to apply the payment to our divisions, our annual ADC would be reduced and we wouldn’t get to 100% funding any sooner than scheduled by MERS.

**Plan Administration**

The City of Escanaba has MERS administer their pension plan. MERS conducts an experience study every 5 years. The experience may or may not generate changes in the assumptions MERS uses to calculate unfunded accrued liability (UAL) and normal costs for current employees.
Every year MERS provides the City with an actuarial report. The report shows us what our ADC will be for the next year. It also provides our current funding level, our UAL and projects on future contributions.

MERS uses a 5 year asset smoothing on the City’s assets. Asset smoothing is a way to reduce the impact on contributions if there is a significant loss on the investments.

When the City switched to a defined contribution plan, we closed our defined benefit plans (with the exception of the one division mentioned earlier). Once the defined benefit plans were closed, we were moved to a closed amortization period. This requires the City to have all divisions UAL fully funded within a certain timeframe. For the City’s closed divisions, the UAL is scheduled to be fully funded in 10-12 years, depending on the division.

Conclusion

The City of Escanaba believes that making a lump sum payment to MERS is the best solution to get our funding percentage increased. This, along with continuing to make our actuarially determined contributions will put the pension plan in a much better place than it is today. By placing the lump sum in a surplus division, we will reach 100% funding more rapidly than MERS estimates.