

CITY OF SOUTH LYON
SPECIAL COUNCIL MEETING
OCTOBER 5, 2017

Mayor Galeas called the meeting to order at 7:30 p.m.
Mayor Galeas led those present in the Pledge of Allegiance
Mayor Galeas stated Councilmember Parisien is out ill

PRESENT: Mayor Galeas, Councilmembers: Kivell, Kramer, Kurtzweil, Rzyzi and Wedell
ALSO PRESENT: City Manager Ladner, Chief Collins, Attorney Wilhelm and Clerk Deaton

CM 10-1-17 MOTION TO EXCUSE ABSENCE

Motion by Kivell, supported by Kramer
Motion to excuse absence of Councilmember Parisien

VOTE: MOTION CARRIED UNANIMOUSLY

PUBLIC COMMENT

Carl Richards of 390 Lenox stated he has been convalescing but he is happy to be here. He further stated it is now old news, but Depot Day was the best day in memory, and many people attended. Mr. Richards stated on behalf of the Historical Society he wanted to let everyone know as of right now they are making preparations for Cool Yule, whether it happens or not. Mr. Richards stated he is running for City Council and he thanked all members of Council for their service.

MERS

City Manager Ladner introduced Sue Feinberg of MERS. Ms. Feinberg stated she is the Regional Manager and she works with employers in the southeast Michigan area. Ms. Feinberg stated the annual actuary evaluation reflects in 2016 the City was 69% funded. She stated it helps to project our rates for 2018. She stated they made some changes based on the experience study. She stated the experience study looks at trends in the County and State and tries to get the best estimates of how long they think people will work and how long they will live. She stated based on the study, people will be living longer which will add to the City's liability. She stated when the City gets a new hire, MERS will try to project their career and when they will retire. She further stated the money the City pays throughout the year will ensure their retirement is fully funded.

Councilmember Kramer stated his 401(k) has gone up 13% and he asked what their rate of return is. Ms. Feinberg stated it is a 7.75% assumption, smoothed out over a period of time. She stated the money is in a total market fund which is the money from everyone that is a part of MERS. She further stated they manage the money themselves. She stated because this is a defined benefit pension plan, it is designed to fare well in all markets. She stated when the market tanked in 2008, MERS outperformed their benchmarks. Ms. Feinberg stated all the funds and histories are on their website. The average rate of return is 9.61%.

She stated the fund did well last year. Councilmember Kramer asked about the process if the City wanted to leave MERS. Ms. Feinberg stated the fund will have to be super-funded at 110% - 120% to ensure the money is there for the last employees. She further stated the City is currently enroute to be paid in full in 22 years. Councilmember Kramer asked if the members of MERS have a say in the changes. Ms. Feinberg stated the board members make the decisions and they take it very seriously. They take tons of

data and make recommendations. She further stated there were benefit enhancements that were made that caused changes. She further stated the higher the multiplier causes the unfunded liability to go up because it wasn't funded upfront. Councilmember Kurtzweil asked who chooses the multiplier. Ms. Feinberg stated the City does. She stated the City can bridge the multiplier back down, but the unions have to agree to it. She stated 2.5% is a very rich plan. She further stated most everyone in the State is setting up lower plans for new hires. Ms. Feinberg stated originally the City's multiplier was 1.3% but it was raised TO 2.5 in 2008. Councilmember Kurtzweil stated maybe the City didn't understand the consequences of increasing the multiplier over time. She asked how the City can lower the multiplier. Ms. Feinberg stated if the City lowered the multiplier it would take effect on that date, and the employees previous years would still be at the higher multiplier. She stated they would then take those 2 calculations into consideration when the employees retire. She further stated that is the only way to pay down the unfunded liability. Discussion was held regarding the City leaving MERS. Ms. Feinberg explained if there were no employees left in the defined benefit plan, it would dissolve. She stated otherwise if the City wanted to leave MERS and there are still employees in the plan, it would have to be super-funded 120% to ensure the money is there for the employee's retirement. Councilmember Rzyzi stated it is unrealistic to think the City can super-fund the plan 120% when we are 69% funded. He then asked if we can require all new employees to be in a defined contribution plan. Ms. Feinberg stated that can be done, but it would have to be approved by the unions, and it would have to be in their contract, then MERS would run an actuary. Mayor Galeas stated MERS is confusing, and lately there seems to be a division between the municipalities and MERS. He then asked where we fit in with other communities. Ms. Feinberg stated there are a lot of plans that still have a defined benefit, but most are public safety. Councilmember Kramer asked if anyone has ever challenged the calculations of funding percentages of MERS because the funding is going down, but the economy and the rate of return is going up. Ms. Feinberg stated no, because they can show how the member got to where they are. She further stated the liability is going up, and we bill the City based on normal costs and estimation for the employee's retirement. The City's unfunded liability is 4.8 million. City Manager Ladner stated we have raised the employee's contribution. Councilmember Rzyzi asked if we wanted to get to 100% funded, how much would we have to pay each year. Ms. Feinberg stated the City is paying the minimum. She further stated MERS can bill based on a return of 7.75, 6.75 or whatever the City wants. She stated if the City wants to pay off the unfunded liability in 10 years, you will have to pay \$74,989 instead of the \$52,793 which is the cost as of the 1st of the year. She said the average employee contribution is 6%. She further stated the employees should be funding their own retirement. Attorney Wilhelm asked if the City were to close the DB plan for new employees and go to a DC, would that affect the 22 years. Ms. Feinberg stated it would not. Councilmember Kurtzweil asked if the City decides to lower the multiplier for existing employees, will it have an effect on the \$74,989. Ms. Feinberg stated it would. She further stated if the City wants to pay additional money towards the unfunded liability, she suggests using a surplus division so that isn't counted as employer contribution, but it will help pay down the liability. Councilmember Kurtzweil stated there are several components to lowering the unfunded pension amounts such as increasing the employee contributions and another is to lower the multiplier. She further stated this may need to be adjusted each year, which has not been done. She stated we need to get this right. Further discussion was held regarding paying down the unfunded liability. Councilmember Kurtzweil asked if employees are guaranteed a certain amount of money. Ms. Feinberg stated yes, they are. Councilmember Kurtzweil asked if the employees are allowed to take their money out. Ms. Feinberg stated the only money they can take out is their contribution, they cannot take out the City's contribution. Councilmember Kurtzweil stated there is a local community that uses a 457 plan, and when the employee leaves, there is no unfunded liability. Ms. Feinberg stated that is a voluntary plan. She further stated the defined contribution plan is very restrictive. She further stated MERS now offers a DC+ plan which is basically a

hybrid of a 457 and a defined benefit plan. She stated it gives the employees incentive to put more money towards their retirement. City Manager Ladner stated we currently have that through ICMA. Councilmember Wedell stated Oakland County had a defined benefit plan as well as a 457 and the 457 was funded by himself. He further stated the money in the 457 is not taxed until it is being drawn out. There was no employer contribution to the 457 plans. Further discussion was held regarding the hybrid plan which normally marries a lower defined benefit and a 457. Councilmember Kivell asked if the employee isn't vested, can they take the money with them. Ms. Feinberg stated they can take their contribution out, but not the City's. Councilmember Kramer asked how many communities have changed their plan in recent years. Ms. Feinberg stated there were 38 divisions in 2017 and in 2016. She stated it is a big decision to change plans, everyone is unique. Most communities want a defined benefit plan for recruiting purposes. Councilmember Kivell stated we have to make assumptions as well. For years we were one of the fastest growing communities and now we are not. The escalation in retirement in smaller increments doesn't seem as perilous. We have set ourselves up in a tough situation, because we aren't getting the revenues. Ms. Feinberg stated the overhead liability is a huge topic right now. She stated most people in the State are in same kind of plan to get funded. She further stated in 2008 MERS began minimum funding to keep people moving forward and they tried to come up with solutions to reduce cost. Ms. Feinberg stated they now have a new CEO and he listens to everyone and he is proactive and things have changed a lot in the last few years. Councilmember Kivell stated MERS has changed a lot and is much more user friendly to us. Ms. Feinberg stated they are going to have something called a health exchange which is very outside of the box. Councilmember Wedell asked what percentage of the defined contributions are unfunded. Ms. Feinberg stated there are 54 over 100% funded, 67 between 90 and 95% funded and 107 with 80-89% funded. She further stated the communities that are 100% funded only have the normal cost of active employees, and there are no unfunded liabilities. They are earning interest on their asset balance. Councilmember Kurtzweil stated this is a statement regarding government managed pensions. She doesn't think government should be in the pension business. She stated there is a pension crisis in this country. Ms. Feinberg stated MERS is not part of the State of Michigan. Councilmember Kurtzweil stated somewhere down the line with whatever process was used, it has caused communities to have unfunded liability. Ms. Feinberg stated MERS tries to get everyone funded, but each government chooses their own plan and their own multiplier. Councilmember Kurtzweil asked if we can freeze the current plan for all employees. Ms. Feinberg stated the unfunded liability must be funded 120%. Councilmember Kurtzweil stated changes are coming. Councilmember Kivell stated the best we are looking at is having a DC plan for new hires. Councilmember Kramer asked what would happen if we hire someone to look at the numbers and we disagree with what MERS. Ms. Feinberg stated that won't happen. She stated when you sign to come into MERS the agreement says the City must abide by their terms. Councilmember Kurtzweil stated we are agreeing to the terms, but what if we disagree with the numbers. Ms. Feinberg stated they have the best actuaries in the Country that are working on the plan. Councilmember Kurtzweil stated the unfunded liability came about because the contributions were not high enough to cover the liability. Councilmember Kurtzweil stated while the City was increasing the benefits, the City wasn't increasing their contribution to the unfunded liability. Ms. Feinberg stated that is correct. Councilmember Ryzyi asked what the next steps are. City Manager Ladner stated this will need to be discussed in a regular meeting and Council can direct her in the way they want to proceed. Councilmember Ryzyi stated he would like to see an 8% maximum match with the employee contribution. Ms. Feinberg stated the City can do that. Councilmember Kivell stated this this only impacts new hires, it doesn't have anything to do with the existing obligation. City Manager Ladner clarified that the City wants an 8% cap match for new hires, but the employee can put in as much as they want. Chris Sovik asked what the other municipalities average percentage allowed to be contributed by the employees. Ms. Feinberg stated there is an IRS cap, but she thinks the average is \$18,500 a year.

Chief Collins asked what the average employers contribution is in the DC plan. Ms. Feinberg stated the average is 8.3%. Councilmember Kurtzweil stated the employees have to get out of being entitled. We don't have a lot of money coming in and we can't afford to pay Cadillac benefits anymore.

CM 10-2-17 MOTION TO ADJOURN

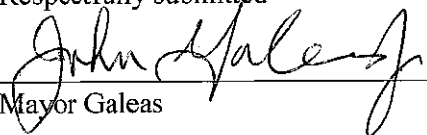
Motion to adjourn by Kramer, supported by Kurtzweil

Motion to adjourn meeting at 9:20 p.m.

VOTE:

MOTION CARRIED UNANIMOUSLY

Respectfully submitted



Mayor Galeas



Clerk Lisa Deaton