Economic Vitality Incentive Program/County Incentive Program
FY 2014 Unfunded Accrued Liability Plan

Local Unit Name: City of Grand Rapids
Local Unit Code: 41-2030

PREVIOUS ACTION TAKEN
TO REDUCE UNFUNDED ACCRUED LIABILITIES

Previous Actions Taken To Reduce Unfunded Accrued Liabilities			
	Unfunded Accrued Liability Type	Previous Action Taken	Estimated Cost Savings
1.	General Pension System	See Attached – Exhibit 1	See Attached – Exhibit 1
2.	Police & Fire Pension System	See Attached – Exhibit 2	See Attached – Exhibit 2
3.	General, Police and Fire OPEB Plan	See Attached – Exhibit 3	See Attached – Exhibit 3
4.			
5.			

How Will The Local Unit Continue To Implement And Maintain Previous Actions Taken
See Attached Exhibits 1-3

Additional Actions That Could Be Implemented Note: Actuarial assumption changes and issuance of debt instruments do not qualify as a new action.	
1.	See Attached Exhibits 1-3
2.	

Local Unit Name: City of Grand Rapids, Michigan
Local Unit Code: 41-2030

PREVIOUS ACTIONS TAKEN TO REDUCE UNFUNDED ACCRUED LIABILITIES:

1. UNFUNDED ACCRUED LIABILITY TYPE

DEFINED BENEFIT (DB) GENERAL PENSION SYSTEM

2. PREVIOUS ACTIONS TAKEN

Prior to the Great Recession, the City's pension plans were well funded. The General Retirement System (the pension system available to non-police and fire employees) required employer and employee contributions in varying amounts depending on individual Collective Bargaining Agreements, generally ranging from 4-5% of base wages. The Employer rate is determined annually through an actuarial study.

The robust investment returns of the 1990's created irresistible pressure to increase the pension multipliers, and it was in fact increased several times. The multiplier at the time negotiations began in 2009 was set at 2.7%. During the last round of contract negotiations the City approached bargaining with an interest that would reduce and normalize the plan with the base benefits calculated with a 1.8% multiplier and also close the Defined Benefit plan to new hires.

Prior to the significant drop in the value of securities associated with the Great Recession, the June 30, 2008 Actuarial Valuation showed the Employer's normal cost of 11.68%, but the plan was funded over 100% and collective bargaining agreements had a formula for reducing the Employer contribution rates when the plan is over funded. The June 30, 2008 valuation computed this reduction as 2.39% of covered payroll resulting in an actual contribution rate for the City of 9.29%

The City and the bargaining units negotiated a provision whereby employees were offered a one-time irrevocable election to maintain the 2.7% multiplier level by increasing their employee contributions by 5.27% (as actuarially determined), or to maintain their current level of contribution, thereby reducing their pension multiplier for future years of service to 1.8%, or several combinations of increased contributions and reduced multipliers all priced by the actuary to achieve the same savings as reducing the multiplier to 1.8% . This provision had the effect of reducing the Employer's normal cost to approximately 8% (actuarially determined).

It was further negotiated with the bargaining units that had employees in the Defined Benefit General Retirement System that the General Retirement System be closed to new hires on various dates as follows:

- GREIU MAIN UNIT 05/25/2011
- NON REPRESENTED 07/01/2011
- GREIU DISTRICT COURT UNIT 09/13/2011
- ECO SUPERVISORS UNIT 09/13/2011

- CRIME SCENE TECH UNIT 11/15/2011
- ECO UNIT 01/24/2012

All employees hired after that date are offered a Defined Contribution (DC) Retirement Plan. The current Defined Contribution contribution rates are 6% Employer, 6% Employee. The exception to this is the APA bargaining unit, who settled their contract prior to the establishment of the bargaining pattern to close the Defined Benefit Pension Plan. The APA unit is currently bargaining with the City and has signed a tentative agreement containing language which closes their participation in the Defined Benefit Pension Plan effective July 1, 2014.

3. ESTIMATED COST SAVINGS

As of the date of the most recent Actuarial Report (6/30/13), the employer contribution rate to the Defined Benefit General Pension System was calculated at 28.25% of pay (7.84% normal cost to the Employer, plus 20.41% to amortize the Unfunded Actuarial Accrued Liabilities (UAAL)). By closing the DB plan, the City expected a spike in the employer contribution rates, with FY2015 reflecting the largest projected employer contribution rate. Subsequent years project the contribution rate to fall around 3% per year for the next several years, eventually flattening out to around an average of 15% of payroll. The current Defined Contribution percentage contributed for all new employees is 6% of pay, resulting in savings over the FY2015 Defined Benefit contribution rate of 22.25% of payroll. By blending in the Defined Contribution contribution rate with the Defined Benefit contribution rate, the actual FY2015 contribution rate calculated for the City fell to 24.83% of payroll, a savings of 3.42%. As the population of employees continues to shift to the Defined Contribution plan, the total employer contribution rate will continue to fall and will eventually match level of the Defined Contribution contribution rate.

4. HOW WILL THE LOCAL UNIT CONTINUE TO IMPLEMENT AND MAINTAIN PREVIOUS ACTIONS TAKEN

The City has a tentative agreement negotiated with the last bargaining group (APA) who has yet to close the Defined Benefit plan. This agreement, once ratified, will become effective July 1, 2014. After this date, the General Pension System will be closed to all new hires. All new hires are now enrolled in a Defined Contribution Retirement plan with a 6% employer and 6% employee contribution rate.

In addition, all bargaining units were notified during the current round of negotiations that the City is not willing to discuss any future changes which would re-open any portion of the Defined Benefit pension plan.

5. ADDITIONAL ACTION THAT COULD BE IMPLEMENTED

The City is currently satisfied with the negotiated changes to the General Pension System and is confident the implemented changes will substantially reduce the unfunded liability. However, should future financial circumstances dictate, modifications to the plan could be implemented:

1. Negotiate for higher employee contribution rates.
2. Negotiate for lower multipliers.

In addition, if the City experiences budget surpluses, additional contributions could be made over the required Computed Employer Rate to advance fund the plan.

6. Projected Contribution Rates

	Defined Benefit Plan					Defined Contribution Plan			Combined Plans	
Fiscal Year Ending	Projected Pensionable Pay $	Employer Normal Cost $	Employer UAAL $	Total Employer Cost $	Total Employer Contribution %	Projected Pensionable Pay $	Total Employer Contribution $	Total Employer Contribution %	Total Employer Contribution $	Total Employer Contribution %
2014	$ 44.36	$ 3.48	$ 5.68	$ 9.16	20.64%	$ 5.29	$ 0.32	6.00%	$ 9.47	19.08%
2015	$ 43.49	$ 3.41	$ 8.88	$ 12.29	28.25%	$ 7.91	$ 0.47	6.00%	$ 12.76	24.83%
2016	$ 42.36	$ 3.20	$ 7.62	$ 10.82	25.56%	$ 10.83	$ 0.65	6.00%	$ 11.47	21.57%
2017	$ 40.38	$ 3.07	$ 6.74	$ 9.81	24.02%	$ 14.23	$ 0.85	6.00%	$ 10.66	19.36%
2018	$ 39.15	$ 2.94	$ 6.71	$ 9.65	24.66%	$ 17.83	$ 1.07	6.00%	$ 10.72	18.82%
2019	$ 37.56	$ 2.82	$ 6.31	$ 9.13	24.31%	$ 21.42	$ 1.29	6.00%	$ 10.42	17.66%
2020	$ 36.03	$ 2.71	$ 6.23	$ 8.94	24.81%	$ 25.01	$ 1.50	6.00%	$ 10.44	17.10%

Local Unit Name: City of Grand Rapids, Michigan

Local Unit Code: 41-2030

PREVIOUS ACTIONS TAKEN TO REDUCE UNFUNDED ACCRUED LIABILITIES:

1. **UNFUNDED ACCRUED LIABILITY TYPE**

   POLICE AND FIRE PENSION SYSTEM

2. **PREVIOUS ACTION TAKEN**

Prior to the Great Recession, the City's pension plans were well funded and in the case of the Police & Fire Pension System, it was overfunded. The Police and Fire Pension System requires employer and employee contributions and contains provisions for reductions in required Employer and Employee contributions in the event the plan is overfunded. The plan was overfunded for more than 10 years, during the 1990's. The causes of overfunding are arguable. Some may say it was due to outstanding investment results during the 1990's, while others may point to the extraordinary level of funding provided by the Employer during the 1980's. During the 1990's, the bargaining units pushed for higher multipliers while the Employer pushed for provisions that would lead to reduced funding requirements when the plan was actuarially deemed to be funded in excess of 100%.

By the turn of the decade in 2000 the pension multipliers stood at 2.7%, employee contributions were determined by reference to a scale based on plan funding status, and the employer was not financially contributing to the Plan.

By the time of the Great Recession, the Police & Fire pension benefits were being based on a multiplier of 2.8%, having been increased several times since the 1970's due to an arbitration award, and the Plan was overfunded. The December 31, 2007 Actuarial Valuation showed the Plan to be funded at 121% of the Accrued Liability, and the normal cost was 23% of covered payroll (defined as "all W-2 wages). With employees paying approximately 4% of covered wages, the resulting Employer Normal Cost was approximately 19%. However, because of the provisions addressing Employer funding responsibilities, the final computed Employer contribution rate was, as it had been for more than 10 years, zero percent. The Great Recession brought about declines in the valuation of Plan assets to the extent that the overfunding status changed to an Unfunded Actuarial Accrued Liability. Initially, the City and the unions negotiated changes to plan provisions that addressed Asset Valuation Smoothing (increasing the time that investment gains and losses are recognized in the determination of plan funding status to 5 years). Additionally, the plan was modified to increase the amount of time to amortize the Unfunded Actuarial Accrued Liability to 30 years, the maximum permitted by actuarial standards. These changes blunted the impacts from the decline in market value of assets and also spread the increase in Employer Contributions over several years.

During this period of time, there was much publicity and rancor as to the cause of the under-funding in the plan. The unions pointed to the lack of City contributions for more than 10 years while the City believed that the principal cause was due to the numerous increases in the pension multiplier since the 1970's.

In hindsight, these negotiated increases in pension benefit provisions were inevitable due to the fact that the Plan included provisions for the Employer to enjoy pension funding relief during times where the plan was deemed to be overfunded, while the employees were required to continue their funding obligations, which exceeded 4% of "all W-2" earnings.

During the last round of contract negotiations the City looked for ways to reduce the Employer costs by 5%, the same savings goal that had been established for the General Retirement System. Initially the City worked with the Plan Actuary to determine combinations of reductions to multipliers or increases in employee contributions that would result in the desired 5% savings. For existing employees, the employee contribution rates were increased. New employees contribute approximately 10% of total earnings when plan funding is less than 100%. For all new hires, future years of service credit are earned at the 2% rate unless the employee elects to increase their multiplier. If an increased multiplier is selected, the employee pays 100% of the increased costs as determined by the actuarial study.

3. ESTIMATED COST SAVINGS

As of the date of the 12/31/2012 Actuarial Report, the employer contribution rate decreased from 22.26% to 19.07% of covered payroll as a result of superior investment rates of return and the scheduled increase in the member contribution rate. The 12/31/2013 Actuarial Report calculates the FY2015 employer contribution rate to be 16.31% and projects steady declines in employer contributions through FY2019. This trend is expected to continue into the future.

4. HOW WILL THE LOCAL UNIT CONTINUE TO IMPLEMENT AND MAINTAIN PREVIOUS ACTIONS TAKEN

As previously indicated, the City was successful in lowering the employer contribution rate effective with the changes resulting from the last round of bargaining sessions.

5. ADDITIONAL ACTION THAT COULD BE IMPLEMENTED

The City is satisfied with the negotiated changes to the Police and Fire Pension System and remains confident the implemented changes will systematically reduce the unfunded liability. However should future financial circumstances dictate, modifications to the plan could be implemented:

1. Negotiate for higher employee contribution rates
2. Negotiate for lower multipliers

In addition, if the City experiences budget surpluses, additional contributions could be made over the required Computed Employer Rate to advance fund the plan.

6. Projected Contribution Rates

7.5% Market Return 2014-2017						
Fiscal Year Ending	Funding Value $	Employer Rate	Employee Rate	Total Rate	Funded Ratio	MV Return
2013	$ 355.00	16.31%	10.27%	26.58%	92%	16.80%
2014	$ 383.00	14.46%	10.27%	24.73%	93%	7.50%
2015	$ 410.00	13.31%	10.27%	23.58%	95%	7.50%
2016	$ 444.00	11.45%	10.27%	21.72%	98%	7.50%
2017	$ 476.00	10.27%	10.27%	20.54%	100%	7.50%

Local Unit Name: City of Grand Rapids, Michigan

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PREVIOUS ACTIONS TAKEN TO REDUCE UNFUNDED ACCRUED LIABILITIES:

1. UNFUNDED ACCRUED LIABILITY TYPE

GENERAL, POLICE, AND FIRE RETIREE HEALTH CARE PLANS

2. PREVIOUS ACTIONS TAKEN

Prior to 2006 Retiree Healthcare was paid for by the City on a current cash, or pay-as-you-go basis. Specific non-represented management staff began paying 5% of the annual cost of their health insurance premium effective July 1, 2005.

In 2006 the City began partial pre-funding of retiree health care without an actuarial study.

Government Accounting Standards Board Statement 45 was issued in 2004. Statement 45 required the City to begin accounting for OPEB obligations on an actuarial basis in the fiscal year beginning July 1, 2006 (FY2007).

During FY2007 the City received the first Retiree Healthcare actuarial study as prepared by Gabriel, Roeder Smith & Company. This valuation revealed that in the absence of making rapid benefit changes, the City's financial position would quickly be overwhelmed by the Retiree Healthcare costs. At that time the City began negotiating changes to Retiree Healthcare through the collective bargaining process. The employee contracts that expired at the end of calendar year 2006 were eventually settled in 2009. Bargaining units other than Police Officers & Sergeants, Police Command, and Fire were settled on a voluntary basis. Bargaining units for Police Officers & Sergeants, Police Command, and Fire went to arbitration.

The changes negotiated by the non-312 eligible units and the changes implemented on the non-represented employee group were:

a) Employees not yet vested in the pension system (8 years for General employees and 10 years for Police & Fire sworn employees) were mandatorily converted to a Retiree Healthcare Savings Account benefit and were given an initial contribution for their account by the City that was calculated based on many factors, including the individual's actuarially determined present value of future benefits, proximity to normal retirement age, and years of service.
b) Employees and future retirees began paying premium sharing at 10% of the blended composite cost.
c) Employees who retired on or before March 31, 2010 were not required to participate in premium sharing. Anyone who retired after March 31, 2010 were required to participate in premium sharing based on the blended composite rate and were subject to the same health

care plan design changes as active employees. Said another way, everyone who retired after March 31, 2010 "floats" with the actives with regard to health care plan design and premium sharing. The composite rate means that retirees and actives are combined to calculate the premium sharing rate.

d) Employees who remained in the Defined Benefit Retiree Healthcare plan and had not retired by March 31, 2010 would no longer cliff vest with 100% of the benefit upon vesting in the pension plan, but rather now needed to earn the Retiree Healthcare Defined Benefit ratably over the course of their career (25 years for Police & Fire sworn employees and 30 years for General employees).

The awards made during 312 arbitrations were consistent with the changes negotiated with the non-312 eligible units, with the exception of the Fire bargaining unit.

The Fire arbitrator decided that any Firefighters hired prior to the date of the contract settlement would remain in the Defined Benefit Retiree Healthcare plan (with no mandatory conversion to the Retiree Healthcare Savings Accounts). The arbitrator did rule that firefighters that retired after the date of the arbitration award would "float" with the actives relative to premium sharing and health care plan design. Further, from the date of the contract settlement, Firefighters would need to meet the vesting schedule to earn the Retiree Healthcare benefit ratably over the course of their career.

All of the voluntary settlements and the 312 arbitration awards closed the Defined Benefit Retiree Healthcare plans for new hires. As of May 6, 2014, 41.6% of employees are in the RHSA (Defined Contribution) retiree health care plan.

The Grand Rapids Employees Independent Union contract expired June 30, 2013 and all other bargaining unit contracts expired June 30, 2014. Employees agreed to increase their healthcare premium sharing percentage from 10% to 20% which had an impact on the actuarial valuation numbers for the Retiree Healthcare Savings Plan.

3. ESTIMATED COST SAVINGS

The following chart summarizes the impact the previous actions taken have made to the City of Grand Rapids OPEB liabilities. As you can see, the Present Value of Future benefits have been reduced by just under $225 million since 2005 and the funding ratio continues to increase annually.

Actuary	Plan	Valuation date*	Discount rate	PV of Future Benefits	AAL	Assets **	UAAL	Funded Ratio	Current Yr. Normal Cost	ARC ***	Covered Payroll #	UAAL/ Payroll
GRS	All plans	2005	3%	426,470,833	215,988,771	-	215,988,771	0.0%	15,281,498	22,390,776	96,035,768	225%
AW	All plans	2007	3%	417,316,968	201,030,387	-	201,030,387	0.0%	3,474,693	20,177,079	89,583,450	224%
AW	All plans	2009	3%	268,293,045	222,684,549	6,238,344	216,446,205	2.8%	6,369,984	15,478,802	66,571,400	325%
GRS	All plans	2011	5%	219,574,010	171,279,094	6,803,789	164,475,305	4.0%	5,498,325	16,777,974	62,156,594	265%
GRS	All plans	2012	5%	188,738,328	151,049,503	19,093,979	131,955,524	12.6%	4,317,107	13,589,589	59,364,536	222%
GRS	All plans	2013	5%	201,506,510	162,266,726	26,725,726	135,541,000	16.5%	4,647,719	9,834,378	TBD	TBD
	7-year change			(224,964,323)	(53,722,045)	26,725,726	(80,447,771)		(10,633,779)	(12,556,398)	(36,671,232)	
				-52.8%	-24.9%	N/A	-37.2%		-69.6%	-56.1%	-38.2%	
	3-year change			(18,067,500)	(9,012,368)	19,921,937	(28,934,305)		(850,606)	(6,943,596)	(7,206,864)	
				-8.2%	-5.3%	292.8%	-17.6%		-15.5%	-41.4%	-11.6%	
	1-year change			12,768,182	11,217,223	7,631,747	3,585,476		330,612	(3,755,211)	-	
				6.8%	7.4%	40.0%	2.7%		7.7%	-27.6%	0.0%	

4. *HOW WILL THE LOCAL UNIT CONTINUE TO IMPLEMENT AND MAINTAIN PREVIOUS ACTIONS TAKEN*

All of the Defined Benefit Retiree Health Care Plans at the City of Grand Rapids have been closed. In addition, the City is currently funding the Annual Required Contribution (ARC) as determined by our outside actuarial firm. During current bargaining sessions, the City Commission has made it clear the reopening of the Defined Benefit Retiree Health Care Plan is not an area of interest in future contracts; the Defined Benefit Plans will remain closed. Our Defined Contribution Retiree Health Savings account plans provide for both employer and employee contributions and they are being funded 100%.

Four of seven contracts settled to date include negotiated health care plan design changes that will result in savings of approximately 3.1% to overall plan costs. The plan design changes will carry over to current retirees that are "floating" with the active employees, which will reduce the accrued liability and will also reduce the unfunded liability.

5. *ADDITIONAL ACTION THAT COULD BE IMPLEMENTED*

The City is currently satisfied with the negotiated changes to the Defined Benefit Retiree Health Care Plan and is confident the implemented changes will limit the unfunded liability. However, should future financial circumstances dictate, modifications to the plan could be implemented as follows:

1. Negotiate for higher employee contribution rates
2. Plan design changes
3. The City could attempt to negotiate additional restrictions or limitations on eligibility for Defined Benefit retiree health care. This is not being considered because the amount of changes that have been negotiated with the bargaining units were extraordinary. Our intent

is to honor existing commitments unless economic conditions deteriorate significantly. The legacy liability did not arise overnight and it is being managed pursuant to a long term strategy.

4. The Affordable Care Act may ultimately offer attractive alternatives to our self-funded health care plan. These opportunities are probably a decade or more in the future.

In addition, if the City experiences budget surpluses, additional contributions could be made over the Annual Required Contribution to advance fund the plan.