

## Protecting Local Government Retirement and Benefits Act Corrective Action Plan: Retirement Health Benefit Systems

Issued under authority of Public Act 202 of 2017.

### 1. MUNICIPALITY INFORMATION

Local Unit Name: City of Southgate Six-Digit Muni Code: 822270  
Retirement Health Benefit System Name: City of Southgate Municipal Employees Retiree Healthcare System  
Contact Name (Administrative Officer): David Angileri  
Title if not Administrative Officer: Assistant City Administrator/Finance Director  
Email: dangileri@ci.southgate.mi.us Telephone: (734) 258-3017

### 2. GENERAL INFORMATION

**Corrective Action Plan:** An underfunded local unit of government shall develop and submit for approval a corrective action plan for the local unit of government. The local unit of government shall determine the components of the corrective action plan. This Corrective Action Plan shall be submitted by any local unit of government with at least one retirement health benefit system that has been determined to have an underfunded status. Underfunded status for a retirement health system is defined as being less than 40% funded according to the most recent audited financial statements, and, if the local unit of government is a city, village, township, or county, the annual required contribution (ARC) for all of the retirement health systems of the local unit of government is greater than 12% of the local unit of government's annual governmental fund revenues, based on the most recent fiscal year.

**Due Date:** The local unit of government has **180 days from the date of notification** to submit a corrective action plan to the Municipal Stability Board. The Board may extend the 180-day deadline by up to an additional 45 days if the local unit of government submits a reasonable draft of a corrective action plan and requests an extension.

**Filing:** Per Sec. 10(1) of the Act, this Corrective Action Plan must be approved by the local government's administrative officer and its governing body. **You must provide proof of your governing body approving this Corrective Action Plan and attach the documentation as a separate PDF document.** Per Sec. 10(4) of the Act, failure to provide documentation that demonstrates approval from your governing body will result in a determination of noncompliance by the Board.

The submitted plan must demonstrate through distinct supporting documentation how and when the local unit will reach the 40% funded ratio. Or, if the local unit is a city, village, township, or county, the submitted plan may demonstrate how and when the ARC for all of the retirement healthcare systems will be less than 12% of annual governmental fund revenues, as defined by the Act. Supporting documentation for the funding ratio and/or ARC must include an actuarial projection, an actuarial valuation, or an internally developed analysis. The local unit must project governmental fund revenues using a reasonable forecast based on historical trends and projected rates of inflation.

The completed plan must be submitted via email to Treasury at [LocalRetirementReporting@michigan.gov](mailto:LocalRetirementReporting@michigan.gov) for review by the Board. **If you have multiple underfunded retirement systems, you are required to complete separate plans and send a separate email for each underfunded system.** Please attach each plan 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: **Corrective Action Plan-2017, Local Unit Name, Retirement System Name** (e.g. Corrective Action Plan-2017, City of Lansing, Employees' Retirement System OPEB)

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).

**Municipal Stability Board:** The Municipal Stability Board (the Board) shall review and vote on the approval of a corrective action plan submitted by a local unit of government. If a corrective action plan is approved, the Board will monitor the corrective action plan for the following two years, and the Board will report on the local unit of government's compliance with the Act not less than every two years.

**Review Process:** Following receipt of the email by Treasury, the Board will accept the corrective action plan submission at the next scheduled meeting of the Board. The Board shall then approve or reject the corrective action plan within 45 days from the date of the meeting.

**Considerations for Approval:** A successful corrective action plan will demonstrate the actions for correcting underfunded status as set forth in Sec. 10(7) of the Act (listed below), as well as any additional solutions to address the underfunded status. Please also include steps already taken to address your underfunded status, as well as the date prospective actions will be taken. A local unit of government may also include in its corrective action plan a review of the local unit of government's budget and finances to determine any alternative methods available to address its underfunded status. A corrective action plan under this section may include the development and implementation of corrective options for the local unit of government to address its underfunded status. The corrective options as described in Sec. 10(7) may include, but are not limited to, any of the following:

- (i) Requiring cost sharing of premiums and sufficient copays.
- (ii) Capping employer costs.

**Implementation:** The local unit of government has up to 180 days after the approval of a corrective action plan to begin to implement the corrective action plan to address its underfunded status. The Board shall monitor each underfunded local unit of government's compliance with this act and any corrective action plan. The Board shall adopt a schedule, not less than every 2 years, to certify that the underfunded local unit of government is in substantial compliance with the Act. If the Board determines that an underfunded local unit of government is not in substantial compliance under this subsection, the Board shall within 15 days provide notification and report to the local unit of government detailing the reasons for the determination of noncompliance with the corrective action plan. The local unit of government has 60 days from the date of the notification to address the determination of noncompliance.

### 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 Note:** If applicable, prior actions listed within your waiver application(s) may also be included in your corrective action plan.

Please indicate where in the attached supporting documentation these changes are described and the impact of those changes (i.e. what has the local unit of 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: Changes to coverage levels (including retiree co-payments, deductibles, and Medicare eligibility), changes to premium cost-sharing, eligibility changes, switch to defined contribution retiree health care plan, changes to retiree health care coverage for new hires, etc.

**Sample Statement:** Benefit levels of the retired membership mirrors the current collective bargaining agreement for each class of employee. On **January 1, 2017**, the local unit entered into new collective bargaining agreements with the **Command Officers Association and Internal Association of Firefighters** that increased employee co-payments and deductibles for healthcare. These coverage changes resulted in an improvement to the retirement system's funded ratio. Please see page 12 of the attached actuarial analysis that indicates the system is **40% funded as of June 30, 2017**.

Starting in 2005 through 2018 the City has actively negotiated changes to the Municipal union contracts. No Municipal Employee hired after 7/1/2008 has retirement healthcare in retirement. The City will provide a RHSA to which the City will contribute 2% per month. Also, during the last 10 years through negotiation the City has increased deductibles and prescription copays. Currently only 43 municipal employees are eligible for retirement healthcare going into the future and all current retirees over the age of 65 are on a Medicare supplement.

- Additional Funding** – Additional funding may include the following: paying the annual required contribution in addition to retiree premiums, voluntary contributions above the annual required contribution, bonding, millage increases, restricted funds, etc.

**Sample Statement:** The local unit created a qualified trust to receive, invest, and accumulate assets for retirement healthcare on **June 23, 2016**. The local unit of government has adopted a policy to change its funding methodology from Pay-Go to full funding of the Annual Required Contribution (ARC). Additionally, the local unit has committed to contributing **\$500,000** annually, in addition to the ARC for the next five fiscal years. The additional contributions will increase the retirement system's funded ratio to **40% by 2022**. Please see page 10 of the attached resolution from our governing body demonstrating the commitment to contribute the ARC and additional **\$500,000 for the next five years**.

The City has set aside over 2.7 million in a Municipal Employees Retire Health Care Trust Fund. The City Administration will make an \$84,000 contribution (\$2,000 per employee x 42 employees) to the Southgate Municipal Employees Retirement Healthcare Trust Fund for the 2018/19 fiscal year. Going forward the annual budget will include a yearly contribution of \$2,000 per employee.

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

**Sample Statement:** The information provided on the Form 5572 from the audit used actuarial data from **2015**. Attached is an updated actuarial valuation for **2017** that shows our funded ratio has improved to **42%** as indicated on page 13.

Attached is a copy of the updated Actuarial Valuation dated August 15, 2018 (attached) that shows the Unfunded Actuarial Accrued Liability for Municipal Employees has fallen from \$30,063,301 to \$28,452,326, a decrease of over \$1.6 million or 5.4%. This is a result of changes made by the City over the last few years.

**4. DESCRIPTION OF PROSPECTIVE ACTIONS**

The corrective action plan allows you to submit a plan of prospective actions which are separated into three categories below: System Design Changes, Additional Funding, and Other Considerations. Please provide a brief description of the prospective 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 will the local unit of government do to improve its underfunded status, and where can we find the proof of these changes in the supporting documentation?).

**Category of Prospective Actions:**

- System Design Changes** - System design changes may include the following: Changes to coverage levels (including retiree co-payments, deductibles, and Medicare eligibility), changes to premium cost-sharing, eligibility changes, switch to defined contribution retiree health care plan, changes to retiree health care coverage for new hires, etc.

**Sample Statement:** *The local unit will seek to align benefit levels for the retired membership with each class of active employees. Beginning with **summer 2018** contract negotiations, the local unit will seek revised collective bargaining agreements with the **Command Officers Association and Internal Association of Firefighters** to increase employee co-payments and deductibles for healthcare. These coverage changes would result in an improvement to the retirement system's funded ratio. Please see page 12 of the attached actuarial analysis that indicates the system would be **40% funded by fiscal year 2020** if these changes were adopted and implemented by **fiscal year 2019**.*

During the spring 2018 contract negotiations, contract changes were made for employees to increase employee's co-payments and deductibles for healthcare. Also, all future retirees after 1/1/2019 will contribute 5% of the retirement health care for HMO and 20% for a PPO. These changes should result in an improvement to the system's funded ratio.

- Additional Funding** – Additional funding may include the following: meeting the annual required contribution in addition to retiree premiums, voluntary contributions above the annual required contribution, bonding, millage increases, restricted funds, etc.

**Sample Statement:** *The local unit will create a qualified trust to receive, invest, and accumulate assets for retirement healthcare by **December 31, 2018**. The local unit of government will adopt a policy to change its funding methodology from Pay-Go to full funding of the Annual Required Contribution (ARC) by **December 31, 2018**. Additionally, beginning in fiscal year 2019, the local unit will contribute **\$500,000** annually in addition to the ARC for the next five fiscal years. The additional contributions will increase the retirement system's funded ratio to **40% by 2022**. Please see page 10 of the attached resolution from our governing body demonstrating the commitment to contribute the ARC and additional **\$500,000** for the next five years.*

See above

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

**Sample Statement:** *Beginning in **fiscal year 2019**, the local unit will begin amortizing the unfunded portion of the healthcare liability using a **level-dollar amortization method** over a **closed period of 10 years**. This will allow the health system to reach a funded status of **42% by 2022** as shown in the attached actuarial analysis on page 13.*

The City has used the pay-as you-go method since 1958. Currently the money in the Trust Fund grows without being used for current retirement healthcare cost. Assuming a \$2,000 per employee per year continued contribution along with the retiree's contribution (see above) along with other changes already made, the City expects to be at 40% funding by 2038.

## 5. CONFIRMATION OF FUNDING

Please check the applicable answer:

Do the corrective actions listed in this plan allow for (insert local unit name) City of Southgate to make, at a minimum, the retiree premium payment, as well as the normal cost payments for all new hires (if applicable), for the retirement health benefit system according to your long-term budget forecast?

- Yes  
 No  
If No, Explain

## 6. DOCUMENTATION ATTACHED TO THIS CORRECTIVE ACTION PLAN

Documentation should be attached as a .pdf to this corrective action plan. The documentation should detail the corrective action plan that would be implemented to adequately address the local unit of government's underfunded status. Please check all documents that are included as part of this plan 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

### Type of Document

- |   |   |
|---|---|
| <input checked="" type="checkbox"/> Attachment - 1  | <b>This Corrective Action Plan (Required)</b>   |
| <input checked="" type="checkbox"/> Attachment - 1a | <b>Documentation from the governing body approving this Corrective Action Plan (Required)</b>   |
| <input checked="" type="checkbox"/> Attachment - 2a | <b>An actuarial projection, an actuarial valuation, or an internally developed analysis, which illustrates how and when the local unit will reach the 40% funded ratio. Or, if the local unit is a city, village, township, or county, ARC will be less than 12% of governmental fund revenues, as defined by the Act. (Required)</b> |
| <input type="checkbox"/> Attachment - 3a            | Documentation of additional payments in past years that is not reflected in your audited financial statements (e.g. enacted budget, system provided information).   |
| <input type="checkbox"/> Attachment - 4a            | Documentation of commitment to additional payments in future years (e.g. resolution, ordinance)   |
| <input type="checkbox"/> Attachment - 5a            | A separate corrective action plan that the local unit has approved to address its underfunded status, which includes documentation of prior actions, prospective actions, and the positive impact on the system's funded ratio  |
| <input type="checkbox"/> Attachment - 6a            | Other documentation, not categorized above  |

**7. CORRECTIVE ACTION PLAN CRITERIA**

Please confirm that each of the four corrective action plan criteria listed below have been satisfied when submitting this document. Specific detail on corrective action plan criteria can be found in the Corrective Action Plan Development: Best Practices and Strategies document.

| Corrective Action Plan Criteria                        | Description   |
|--|---|
| <input checked="" type="checkbox"/> Underfunded Status | Is there a description and adequate supporting documentation of how and when the retirement system will reach the 40% funded ratio? Or, if your local unit is a city, village, township, or county, how and when the ARC of all retirement healthcare systems will be less than 12 percent of governmental fund revenues? |
| <input type="checkbox"/> Reasonable Timeframe          | Do the corrective actions address the underfunded status in a reasonable timeframe ( <u>see CAP criteria issued by the Board</u> )?   |
| <input checked="" type="checkbox"/> Legal and Feasible | Does the corrective action plan follow all applicable laws? Are all required administrative certifications and governing body approvals included? Are the actions listed feasible?  |
| <input checked="" type="checkbox"/> Affordability      | Do the corrective action(s) listed allow the local unit to make the retiree healthcare premium payment, as well as normal cost payment for new hires now and into the future without additional changes to this corrective action plan?   |

**8. LOCAL UNIT OF GOVERNMENT'S ADMINISTRATIVE OFFICER APPROVAL OF CORRECTIVE ACTION PLAN**

I, Dustin Lent, as the government's administrative officer (insert title) City Administrator (Ex: City/Township Manager, Executive director, and Chief Executive Officer, etc.) approve this Corrective Action Plan and will implement the prospective actions contained in this Corrective Action Plan.

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

The Southgate Municipal Employees Retiree Health (Insert Retirement Healthcare System Name) will achieve a funded status of at least 40% by Fiscal Year 2038 as demonstrated by required supporting documentation listed in section 6.

OR, if the local unit is a city, village, township, or county:

The ARC for all of the retirement healthcare systems of \_\_\_\_\_ (Insert local unit name) will be less than 12% of the local unit of government's annual governmental fund revenues by Fiscal Year \_\_\_\_\_ as demonstrated by required supporting documentation listed in section 6.

Signature Dustin Lent

Date 09/27/2018

JOSEPH G. KUSPA  
Mayor

JANICE M. FERENCZ  
City Clerk

JAMES E. DALLOS  
Treasurer



City of Southgate  
Celebrating 60 Years!

- CITY COUNCIL -

JOHN GRAZIANI  
Council President

MARK FARRAH

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KAREN E. GEORGE


BILL COLOVOS

DALE W. ZAMECKI

PHILLIP J. RAUCH

MEMORANDUM

TO: The Honorable Mayor and City Council

FROM: David Angileri, Assistant City Administrator/Finance Director 

DATE: September 26, 2018

RE: Corrective Action Plan Southgate Municipal Employees Retiree Healthcare System  
(Act 202 of 2017)

Mayor and City Council:

Attached, please find the Michigan Department of Treasury's form # 5597 (Corrective Action Plan Retirement Health Benefit Plan): This is a new requirement as a result of the law passed this past December 2017.

We have discussed this during our Audit presentations and Budget Sessions. Similar to some of the newer GASB reporting requirements, this new report formalizes the City's position with the State. The threshold for the Retirement Health Benefit Plan is 40% funded. The System is at 8.8% funded or 31.2% under the threshold and is considered in underfunded status. The attached form #5597 will show that changes made to the **System Design** along with **Additional Funding** to be made this year along with a commitment for additional funding into the future by the employees and the City, the City expects to be at 40% funded by 2038.

City Council approval is here by requested.

If you have any questions regarding this new report, please contact me.

City of Southgate  
**County of Wayne, State of Michigan**

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No. 114-18

**RESOLUTION**

At a Regular Meeting of the Southgate City Council called to order by Council President Pro Tem Mark Farrah on October 3, 2018 at 7:00 pm the following resolution was offered:

**Moved by Rollet, supported by Zamecki.**

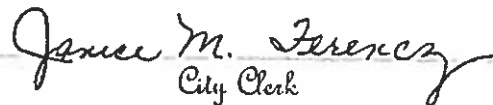
RESOLVED that the Southgate City Council hereby concurs with Administration and accepts the Corrective Action Plan for the Southgate Municipal Employees Retiree Healthcare System (Act 202 of 2017).

Motion carried unanimously.

Present: Colavos, Farrah, George, Rauch, Rollet, Zamecki

Absent: \*Graziani, \*excused

I, Janice M. Ferencz, City Clerk of Southgate, do hereby certify that the foregoing is a true, correct and complete copy of a resolution adopted by the Southgate City Council at a regular meeting held on October 3, 2018.

  
City Clerk

cc: Mayor, Finance, St of Michigan, files





STATE OF MICHIGAN  
DEPARTMENT OF TREASURY  
LANSING

RICK SNYDER  
GOVERNOR

NICK A. KHOURI  
STATE TREASURER

December 28, 2018

**Notice of Approval**

Fiscal Year: 2017

Municipality Code: 822270

**Sent Via Email**

City of Southgate

dangileri@ci.southgate.mi.us

Re: Corrective Action Plan

Dear Administrative Officer or Designee:

Thank you for submitting your retirement corrective action plans pursuant to Public Act 202 of 2017 (the Act). **Based upon review, your corrective action plan for City of Southgate Municipal Employees Retiree Healthcare System and City of Southgate Police and Fire Retiree Healthcare System have been approved by the Municipal Stability Board (the Board).**

**Next Steps (Pursuant to the Act):**

- You must begin to implement your corrective action plans within 180 days of the date of this letter.
- Your approved corrective action plans must be posted publicly on your website or in a public place. While these approved corrective action plans are in effect for your local unit, you are not required to submit an additional corrective action plan for these system.
- You are required to continue to file the Form 5572 Retirement System Annual Report annually, which is due six months after the end of your fiscal year.
- The Board shall monitor your compliance with the Act and your corrective action plan. The Board shall detail any reasons for a determination of noncompliance. Additional guidance will be forthcoming regarding the monitoring process.

Thank you for your commitment to fiscal stability and continued compliance with the Act. If you have any questions, please email our office at [LocalRetirementReporting@michigan.gov](mailto:LocalRetirementReporting@michigan.gov) or visit [Michigan.gov/LocalRetirementReporting](http://Michigan.gov/LocalRetirementReporting).

Sincerely,

Michigan Department of Treasury  
Local Retirement Reporting Team