

# Waiver Completion Guide



## Helping Local Units of Government Address Stage 2 of the Public Act of 2017

Based on the information provided to the Michigan Department of Treasury (Treasury) in the Retirement System Annual Report ([form 5572](#)), a local unit may be identified as being in an underfunded status.

If your municipality is under preliminary review for being in underfunded status, but already has a plan in place for how you will continue to fund your plan over time, you may file an application for [waiver](#) to Treasury within **45 days of notification**. If you choose not to apply for a waiver, you will receive a determination of underfunded status.

## Corrective Actions, Impacts and Supporting Documentation

Below are some examples of corrective actions your local unit of government may have in place. You can use these actions as examples of how you are addressing pension underfunding when completing your waiver. Additionally, we have provided the location of where you can find evidence to support this action, as Treasury requires you to provide documentation.

System Design Changes		
Change	Impact	Location of Supporting Evidence
<b>Moved to Lower Tier of Benefits for New Hires</b>	Reduces future liability accrual because future benefits will be lower, and therefore less expensive, than the previous benefits offered	<b>Annual Actuarial Valuation</b> <ul style="list-style-type: none"> <li>- Projection of Funded Levels (<i>Executive Summary</i>)</li> <li>- Benefit Provisions (<i>Table 2</i>)</li> <li>- Benefit Provision History</li> </ul>
<b>Moved to Defined Contribution for New Hires</b>	Eliminates the future accrual of liabilities for those benefits, since DC does not have liabilities associated with the benefits	<b>Annual Actuarial Valuation</b> <ul style="list-style-type: none"> <li>- Projection of Funded Levels (<i>Executive Summary</i>)</li> <li>- Benefit Provisions (<i>Table 2</i>)</li> <li>- Benefit Provision History</li> </ul>
<b>Moved to Hybrid for New Hires</b>	Reduces the future liability accrual because future benefits will be lower, and potentially less expensive, than the previous benefits	<b>Annual Actuarial Valuation</b> <ul style="list-style-type: none"> <li>- Projection of Funded Levels (<i>Executive Summary</i>)</li> <li>- Benefit Provisions (<i>Table 2</i>)</li> <li>- Benefit Provision History</li> </ul>

<b>Bridged Multiplier for Active Employees</b>	Reduces future liabilities and may reduce existing liability. Past service remains at the previous multiplier and all future service accrues at the new, reduced multiplier. New hires would receive the new bridged multiplier.	<b>Annual Actuarial Valuation</b> <ul style="list-style-type: none"> <li>- Projection of Funded Levels (<i>Executive Summary</i>)</li> <li>- Benefit Provisions (<i>Table 2</i>)</li> <li>- Benefit Provision History</li> </ul> <b>Supplemental Valuation/Plan Design Report</b>
<b>Frozen Benefits</b>	No further service under the DB plan is accrued. For current employees, the benefits accrued prior to the effective date are frozen; they are enrolled into the new plan. Future employees are enrolled into the new retirement plan (DC or Hybrid)	<b>Annual Actuarial Valuation</b> <ul style="list-style-type: none"> <li>- Projection of Funded Levels (<i>Executive Summary</i>)</li> <li>- Benefit Provisions (<i>Table 2</i>)</li> <li>- Benefit Provision History</li> </ul> <b>Supplemental Valuation</b>
<b>Limiting Final Average Compensation</b>	Reduces the benefit amounts, therefore decreasing total liability. Also mitigates Final Average Compensation (FAC) padding/spiking, which could lead to the immediate development of UAL	<b>Union contract language</b> <b>Administrative Services Agreement</b> <b>Annual Actuarial Valuation</b> <ul style="list-style-type: none"> <li>- Flow of Valuation Assets (<i>Table 5</i>)</li> </ul>
<b>Additional Funding</b>		
<b>Change</b>	<b>Impact</b>	<b>Location of Supporting Evidence</b>
<b>Additional Contributions Made</b>	Additional payments made into the plan go toward funding the accrued liability. In addition, those extra dollars are invested and have the ability to recognize market return.	<b>Statement of Fiduciary Net Position</b> <b>Annual Actuarial Valuation</b> <ul style="list-style-type: none"> <li>- Projection of Funded Levels (<i>Executive Summary</i>)</li> </ul>
<b>Bonding</b>	Extra revenue source	<b>Statement of Fiduciary Net Position</b> <b>Annual Actuarial Valuation</b> <ul style="list-style-type: none"> <li>- Projection of Funded Levels (<i>Executive Summary</i>)</li> </ul>

Other Considerations		
Change	Impact	Location of Supporting Evidence
Follow MERS' Established Fiscal Best Practices	<p><b>Implement a fixed amortization policy</b> Gives plans a specific date by which all known obligations will be fully funded</p> <p><b>Conduct an Experience Study every 5 years</b> Ensure assumptions match actual experience and make adjustments where necessary</p> <p><b>Show market volatility scenarios</b> Encourages extra contributions</p> <p><b>Establish a minimum funding threshold</b> Prevents plans from running out of assets</p> <p><b>Require 100% funding before a plan can make benefit enhancements</b> Reduces the likelihood that a municipality will incur UAL due to benefit improvements</p> <p><b>Provide actuarial reporting</b> Reports illustrate financial impacts of benefit changes by providing cost projects of at least 5 years</p> <p><b>Mitigate pension spiking</b> Eliminates unexpected pension spikes and applies actuarial loads to groups that have demonstrated a history of final average compensation increases</p>	<p><a href="#">MERS Actuarial Policy</a></p> <p><a href="#">Actuarial Appendix</a></p> <p><a href="#">Your Partner in Retirement publication (Page 8)</a></p>

## Waiver Due Date

A completed waiver with supporting documentation is due to Treasury **45 days from the date of notification of underfunded status.**

## Additional Resources:

- [OPEB Management Strategies Resource Page](#) – Provides case studies and best practices for managing OPEB liabilities
- [Unfunded Liability Resource Page](#) – Provides an overview of what unfunded liability is, how it develops over time, and strategies to reduce it
- [Legislative Resource Page](#)
- [Your MERS Regional Manager](#)

