

## Michigan Employees' Retirement System (MERS) –

Quite a presentation at the work session (August 9, 2016). Our “unfunded liability” has grown from \$1,333,260.00 since our 2016/2017 Budget work to \$2,737,899.00 – more than doubled! The hard part of this is there is no “easy way out” of the situation – we are stuck with the liability and volatility of the investments under MERS for the employees currently enrolled. It is a “defined benefit” plan – meaning that future payments are based on earnings and vesting periods and result in a “multiplier” retirement in the end, based on an average of earning for the last three or five years of service (depending on the unit of employment). The current liability is based on an assumption that the plan will earn 7.75% in the next year and the City makes payments of \$34,936.00 per month into the plan. Past assumptions were at 8%, which have proven to be unrealistic. Anything less than the revised 7.75% will result in even greater City liabilities. Budgets have addressed funding retirement issues over the years, suggesting employee contribution increases and reducing multipliers for future beneficiaries – but only the multipliers have been adjusted.

An example of increased costs on Non-Union category employees shows 4% employee contributions from 2005 through 2015 (flat) and contributions for the City starting at 1.61% in 2005, increasing yearly through 2008 to exceed employee contributions at 5.65% in 2008, and currently at 13.05% in 2015. The unfunded liability for this division is \$824,979.00. At the same time, the payroll for this division has increased from \$541,922.00 to \$691,619.00 – and this is not one of the greatest division increases. The IAFF division had employee contributions of 5% the first two years (2005 and 2006) and then leveled out to 4%. The City contributions started at 9.07% and are at 27.96% for 2015 – the payroll has been fairly steady – increasing on \$35,000 over the 10-year period, but the unfunded liability for this division alone is \$1,218,180.00. Public Safety employees are not under Social Security, so multipliers and contributions are higher than other divisions. The United Steel Workers (Public Works Departments) has been the model, with contributions of 4% from the beginning (2005) and NO City contributions until 2015, in the amount of \$3,116.00. Even the new division (employees hired after 7/1/2011) has a modest liability of \$6,388.00 and has not required a City contribution over 4.56% since inception. But another market crash like we experienced in 2008 could send the best divisions into negative values. That is the issue with MERS Defined Benefit plans. The State of Michigan got out of MERS in 1998 and the Mackinaw Group reports the State has saved over \$1.9 billion since going to a Defined Contribution plan for employees entering service with the State since that point.

Now the sobering news – we won't save any current (or projected) cost or liabilities by going to a Defined Contribution plan for future City employees. What we will save is future costs and end up with a predictable and affordable plan. The most recent City Newsletter indicated there was “Council Consensus” to take no action – when in fact, I raised a number of issues with the costs and Mr. Bradford admitted there needs to be a discussion and some action to fix this going forward. I'll restate the position that we should not impact any current employees in any changes, but we simply cannot afford to continue taxpayer liabilities and costs going forward without the Budget stated reductions in services offered by the City. Manistee is not alone in this situation and other (larger) communities have far greater liabilities (and greater staff members) than we do – but our liability has doubled since the April budget and this liability is growing at an alarming rate. I suggest you contact your Councilmember and urge them to begin serious efforts to study this issue and take action!

Attached are the court decision of 12<sup>th</sup> Street and a previous presentation given to City Council on the issues.

Tonight's Council Agenda is one of the busiest we've had lately – attend if you can or review the session on Public Television.

As always. I appreciate your feedback and attempt to respond to all communications. No citizens filed to run against Roger Zielinski (3d District), myself (5<sup>th</sup> District), or the open 7<sup>th</sup> District seat held by Mayor Kenney. Erin Pontiac filed to run against Eric Gustad and I've requested she be appointed to fill the vacancy since his resignation since there is no other filed candidate. I feel the Council is best served (and citizens) with the Charter defined 7 members and would prefer avoiding potential tied votes through November. Citizens have until the last Friday prior to the General Election (October 28<sup>th</sup>) to file as "write in" candidates for all seats up for election. While their names will not appear on the ballot, they would be eligible for election under that process. The normal petitions or filing fees are not required for write in candidates. Thanks - Jim