

## RESTATED INITIAL ACTUARIAL VALUATION AND SUPPLEMENTAL VALUATION PROCEDURE

**Effective July 1, 2006**

As Approved by the Retirement Board August 15, 2006, and revised to conform to 2007 Plan Amendments to Section 43C, effective January 1, 2008.

To assure that participating entities (eligible municipalities and courts) are cognizant of the cost of adopting or modifying defined benefit, consistent with Fiscal Responsibility: MERS Benefit Adoption Eligibility Requirements and to assure that contribution requirements are timely imposed pursuant to the Michigan Constitution and the MERS Plan Document, this Restated procedure is established.

### INITIAL ACTUARIAL VALUATION

Entities seeking participation in the defined benefit programs of the Tribal Government Retirement System-MERS (TGRS-MERS) shall have the costs of proposed benefits determined by TGRS-MERS actuary before the entity's membership is approved by TGRS-MERS. Entities shall submit a Request for Initial Actuarial Valuation <sup>(Form 511)</sup> on TGRS-MERS required form for each proposed benefit program for each valuation division. The actuary shall utilize a 25-year amortization schedule for all initial valuations requested on and after January 1, 2007. A 20-year amortization schedule shall be used for initial valuations requested on or after January 1, 2011. An entity may request a shorter amortization schedule, but not shorter than 5 years for negative unfunded liabilities.

### SUPPLEMENTAL VALUATIONS

Entities which participate in the defined benefit programs of TGRS-MERS, and meet benefit adoption eligibility requirements, shall have the cost of the proposed benefits determined by TGRS-MERS actuary before implementation. The entity shall prepare a Request for Supplemental Valuation <sup>(Form 513A)</sup> on TGRS-MERS required form for each proposed permanent or temporary benefit program for each eligible valuation division.

TGRS will not implement any benefit change unless consistent with Statement Of Modifications Of Standard Benefit Programs <sup>(Form 509)</sup> and:

1. benefit adoption eligibility requirements based on the most recent annual actuarial valuation are met; and
2. a current valuation (dated within the last 12 months) has been issued by TGRS-MERS actuary; and
3. the benefit change is formally adopted by the governing body within 12 months of the date of the valuation; and
4. all TGRS-MERS contributions are current.

The entity shall remit all required contributions to TGRS-MERS commencing the month the benefit becomes effective.

## FEES

The fees for Initial Actuarial Valuations and Supplemental Actuarial Valuations are found on the Fee Schedule.<sup>(Form 507)</sup> The entity making the request shall remit a check payable to TGRS-MERS for the applicable valuation fee.

## VALUATION TIMELINES

The actuary shall complete and mail to TGRS-MERS:

- three copies of the Initial Actuarial Valuation(s) within 35 calendar days from date of submission to the actuary; after TGRS-MERS review, two copies shall be sent to the requestor.
- two copies of the Supplemental Valuation(s) within 21 calendar days from date of submission to the actuary; after TGRS-MERS review, one copy shall be sent to the requestor.

## GENERAL CONDITIONS

1. Valuations which require valuations of non-standard benefits, extensive census adjustment or special situations, may take a week longer to accomplish.
2. TGRS shall formally advise the requesting entity in writing, that the **“adoption is not permitted,”** if the supplemental valuation reflects benefit(s) that TGRS-MERS shall not recognize due to noncompliance with benefit adoption eligibility requirements set forth in Plan Document Section 43C, Fiscal Responsibility: MERS Benefit Adoption Eligibility Requirements.
3. The costs and contribution rates will be valid for adoption and implementation until the end of the twelfth month from the date specified on the valuation cover letter from the actuary.
4. Should an entity and employee group negotiate an eligible benefit program (or combination or modification) that has not been the subject of a current Initial or Supplemental Valuation (e.g., one not more than 12 months old); or where no valuation was performed by TGRS-MERS actuary; then TGRS-MERS shall submit a Request for Supplemental Valuation to the TGRS-MERS actuary and assess the applicable fee to the entity’s Reserve for Employer Contribution and Benefit Payments.
5. The costs and rates given in each valuation are only applicable to the specific benefit program(s) for which the valuation has been requested, and the results may not be reliably applied to other benefit programs, combinations or modifications which have not been requested as the costs and rates will materially differ.
6. The governing body of the entity, prior to any benefit adoption must meet with a TGRS Representative for presentation of the short and long term fiscal effects arising from adoption of the proposed benefit.
7. The entity shall send to TGRS-MERS immediately upon ratification, adoption, or letter of agreement, any required TGRS-MERS Membership Agreement<sup>(Form 501)</sup> and/or Resolution for Adopting TGRS-MERS Defined Benefit Programs<sup>(Form 502)</sup> or Resolution For Changing TGRS-MERS Benefits,<sup>(Form 518)</sup> any collective bargaining or other agreement under which TGRS-MERS benefit program or modifications are to be implemented.

## SPECIAL SITUATIONS

1. The adoption of fixed employer contribution caps is inherently incompatible with sound actuarial funding for a defined benefit plan, as the ultimate funding obligation is transferred from the participating municipality or court, which has perpetual existence and tax or revenue authority, to active employees. Employee contribution percentages of over 10% may be unsustainable and are strongly discouraged by TGRS-MERS; an alternative (lesser) benefits should be considered, prior to adoption or ratification.

Accordingly, such municipalities which desire to formally cap their employer contribution requirements are not suited for defined benefit coverage, and are strongly encouraged to adopt TGRS-MERS Benefit Program H (Hybrid) or Benefit Program DC. Furthermore, employer contribution caps may not be adopted for divisions that are closed to new hires. If an existing employee division with an employer contribution cap becomes closed to new hires, the employer contribution cap will be removed.

2. In the context of prior service credit, where no or minimal assets are transferred to TGRS-MERS to fund accrued liability for such service, the funding obligation for such accrued liabilities is being disproportionately borne by future taxpayers and/or employees. The combination with a fixed employer contribution cap exacerbates this situation.

Accordingly, when a tribe authorizes the recognition of prior service for members in its employ, the Retirement Board strongly encourages that assets equal to or greater than the related actuarial accrued liability be transferred into TGRS-MERS, whether from the prior pension plan and/or other sources.

Therefore, with uniform application to all prospective tribes (or their division(s)) which seek to be covered by TGRS-MERS defined benefit programs, as provided in Plan Document section 2C(3):

- A. Unless assets equal to at least 80% of prior service accrued liabilities (as determined under TGRS assumptions) are transferred, no prior service other than in strict proportion to the assets actually transferred shall be granted.
  - B. All unfunded actuarial accrued liabilities shall be funded in accordance with TGRS amortization policy (currently over a 25-year period) until January 1, 2011, when it becomes 20 years.
  - C. In the event any alteration of these terms and conditions is made or occurs, under Section 43B of the Plan Document concerning collective bargaining agreements or under any other plan provision or other law, the Board expressly directs that TGRS-MERS defined benefit membership shall not be extended, or if subsequent to TGRS-MERS membership, then no prior service shall be granted except as specifically stated above. TGRS-MERS defined benefit membership with no prior service credit, or defined contribution participation, would be available options.
3. No initial valuation or supplemental valuation is needed when a division(s) legally separates from a participating municipality and elects to become a participating tribe and retain the same benefit program and all assets and all liabilities associated with all active and deferred members and all retirants and beneficiaries of the division(s) are transferred.

4. No initial actuarial or supplemental valuation is required if a participating tribe closes a division to new hires and establishes a new division for new hires with the same benefit programs. The normal cost contribution rate required for the closed division shall be used for the new division until superseded by a subsequent annual valuation.
5. TGRS-MERS will assess special annual expense charges if a participating municipality adopts benefit programs for more than five divisions, and/or adopts modifications of TGRS-MERS standard benefit programs, and/or adopts contribution programs with employer contribution caps. See Special Annual Expense Charges Procedure <sup>(Form 508)</sup> and TGRS-MERS Statement on Modifications of Standard Benefit Programs. <sup>(Form 509)</sup>

## **AUTHORITY**

This procedure is premised upon the Board's exclusive authority as TGRS-MERS trustee and fiduciary, and supersedes the TGRS-MERS Initial and Supplemental Valuation Procedure approved September 18, 2002 (effective October 1, 2002); and the preceding procedure effective January 1, 2000, and the inaugural procedure first effective April 1, 1997 (as amended December 11, 1997).