

Public Act 202 of 2017:

Protecting Local Government Retirement and Benefits Act

FREQUENTLY ASKED QUESTIONS (FAQs)

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Form 5572: Local Government Retirement System Annual Report

Definitions and Who Must File

When did Public Act 202 of 2017 take effect?

Public Act 202 of 2017, the Protecting Local Government Retirement and Benefits Act (the Act), went into effect on December 20, 2017.

Are all local governments required to report to Treasury under the Act?

No. The reporting required under the Act relates to defined benefit retirement pension health benefits of a local government. Therefore, **only local governments that offer or provide such retirement benefits** must report to Treasury.

Are local governments that only offer a defined contribution plan (i.e. 401k and/or 457 plan) required to file?

No. Only defined benefit retirement pension and/or defined benefit retirement health care benefits are required to report under the Act.

How is the term “local unit of government” defined under the Act?

The Act generally defines a local unit of government to mean a city, village, township, county, county road commission, metropolitan district or authority, municipal electric utility system, or a district, authority, commission, public body, or public body corporate created by one or more of these entities (e.g., a library district, housing commission, etc.).

How are retirement “systems” or “plans” defined in the Act?

The Act defines a “retirement system” to mean “a retirement system, trust, plan, or reserve fund that a local government establishes, maintains, or participates in and that, by its express terms or as a result of surrounding circumstances, provides retirement pension benefits or retirement health benefits, or both. Retirement “systems” do not include state government as that term is defined in section 2 of the public employee retirement benefit protection act, 2002 PA 100, MCL 38.1682.”

Are local governments with retirement systems or plans administered by the Municipal Employees' Retirement System (MERS) subject to the reporting requirement of the Act?

Yes.

My entity receives a stand-alone audit and is also included as a component government of a larger government. Is my entity required to file the Retirement System Annual Report (Form 5572)?

If the entity is a discretely presented component government of the larger government, the entity's information should not be presented with the larger government's Form 5572 and should instead be reported separately through its own Form 5572.

Blended component governments, however, should be reported as part of the larger government.

Reporting Requirements

Where can I find the Retirement System Annual Report (Form 5572) template?

The Retirement System Annual Report (Form 5572) template can be found by clicking the “Forms and Instructions” button on our website, Michigan.gov/LocalRetirementReporting, and selecting the correct fiscal year for which you are looking to file.

What are the reporting requirements for local governments under this Act?

Only local governments that offer or provide defined benefit retirement pension benefits and/or defined benefit retirement health benefits must report to Treasury under this Act. Although there are several reporting requirements under the Act, underfunded status is determined using the following:

For *each* retirement plan, the local government must report:

- The plan’s funded ratio (by specifying assets and liabilities);
- The ADC (actuarially determined contribution);
- The local government’s annual governmental fund revenues;
- Health care premium payments and payment of normal costs for employees hired after June 30, 2019.

Treasury will use this data to determine if the local government is in “underfunded status” (as described in Subsection 5(4) of the Act). This data is found primarily in the local government’s audited financial statements. The requirement to report the data is found under Section 5 of the Act.

For Fiscal Year 2019, uniform assumptions and additional summary reporting will be required per the Act.

- Beginning in fiscal year 2019, selected PA 202 and PA 530 summary reporting have been combined on the Retirement System Annual Report (Form 5572);
- Actuarial valuations received after December 31, 2018 should include Treasury’s uniform assumptions. Local governments should include those uniform assumptions on their Retirement System Annual Report (Form 5572). All local governments need to report uniform assumptions no later than the fiscal year 2020 Form 5572.

What about the other reporting requirements specified in the Act?

Beginning in fiscal year 2019, Treasury has streamlined the retirement system reporting by merging the Retirement System Annual Report (Form 5572) with the summary pension report, which was required under Public Act 530 of 2016 (PA 530). This eliminates the PA 530 report that was previously required. Additionally, fundamental data for summary retiree health care reporting is now requested on the Form 5572, as required by the Act.

The majority of the additional reporting requirements can be found in your local government's most recent actuarial funding valuation, however, you should check with your auditor and/or actuary for further guidance.

Regarding uniform assumptions, as general guidance, actuarial valuations issued after December 31, 2018 should include the data required for Treasury's uniform assumption reporting. Therefore, if your audited financial statements utilize a valuation issued after December 31, 2018, uniform assumptions must be reported. Uniform assumptions must be reported on your Form 5572 no later than fiscal year 2020. Please review the implementation section within Treasury's "[Selection of the Uniform Assumptions](#)" [memo](#) for further guidance on how and when to report data using uniform assumptions.

Additional reporting requirements under the Act will be implemented at a later date.

What are the Uniform Assumptions and how are local governments supposed to use them?

The Act requires the State Treasurer to annually establish uniform actuarial assumptions for retirement systems that include, but are not limited to, investment returns, salary increase rates, mortality tables, discount rates, and healthcare inflation. These uniform assumptions will allow the citizens of Michigan to compare local retirement systems on a standard basis.

Unless local governments are using the uniform assumptions for financial reporting purposes, they will be required to report two sets of funded ratios and actuarially determined contributions within their Retirement System Annual Report (Form 5572). Treasury has updated the fiscal year 2019 Form 5572 to receive this information.

Please see the Treasurer's memo at [Uniform Assumptions](#) for more information.

[Numbered Letter 2018-3](#) requires local governments with fiscal year ends of June 30, 2018 and after to calculate an actuarially determined contribution (ADC) in their Retirement System Annual Report (Form 5572). What does this mean for my local government?

The Act states that a local government shall be determined to be underfunded if the following apply:

- The actuarial accrued liability of a retirement health system of the local government is less than 40% funded according to the most recent annual report;
- **AND** if the local government is a city, village, township, or county, the annual required contribution (ARC) for all of the retirement health systems of the local government is greater than 12% of the local government's annual general fund operating revenues, based on the most recent year.

The Act defines ARC as "the sum of the normal cost payment and annual amortization payment for past services to fund the unfunded actuarial accrued liability (UAAL)". In the

Governmental Accounting Standards Board Statement No. 75, ARC was replaced with ADC, and Numbered Letter 2018-3 indicates that the ADC be calculated in accordance with the Act's definition of ARC, as the normal cost payment plus the amortized portion of the UAAL.

Local governments must calculate an ADC, and in accordance with GASB Statement No. 75, include it in the required supplementary information section of their annual report.

Failure to submit an ADC may affect the local government's evaluation of underfunded status. The updated Form 5572 allows local governments to indicate if an ADC was calculated and included in the audited financial statements. If the local government indicates an ADC is not included in the financial statements on the Form 5572 the underfunded status will be determined on the funded ratio trigger criteria alone. If a primary local government triggers underfunded status but subsequently obtained an ADC, and the ADC/governmental revenues are less than 10% for pension and less than 12% for OPEB, the local government can provide ADC information as part of a waiver application.

My retiree healthcare system is open to new employees. Do I need to pay normal cost on these employees?

Yes. As required by Section 4 of the Act, local governments that provide a defined retirement health benefit must pay the normal cost for employees first hired after June 30, 2018. Beginning in fiscal year 2019, failure to pay normal cost will result in a determination of underfunded status.

Normal cost is defined by the Act as “the annual service cost of retirement benefits as they are earned during the active employment of employees of the local government in the applicable fiscal year, using an individual entry-age normal and level percent of pay actuarial cost method.”

Treasury recommends contacting your actuary to help determine normal cost.

Where must I put the payment of normal cost for new employees first hired after June 30th, 2018?

These contributions should be placed in an IRS Section 115 qualified trust, or equivalent arrangement that meets the following criteria:

1. Contributions from employers and non-employer contributing entities to the OPEB plan and earnings on those contributions are irrevocable;
2. OPEB plan assets are dedicated to providing other post-employment benefits (OPEB) to plan members in accordance with the benefit terms;
3. OPEB plan assets are legally protected from the creditors of employers, non-employer contributing entities, the OPEB plan administrator, and plan members.

Under Section 4 of the Act, the local government must pay any retiree premiums that are due for retirees in the retirement system. My local government has a qualified healthcare trust that makes these payments to an insurance provider. Do these payments satisfy this requirement?

Yes.

Does the Act have any requirements regarding my actuary or the valuation process?

Yes. Section 4 of the Act requires local governments that have more than 100 members in a retirement plan(s) to have an actuarial experience study conducted by the plan actuary for each retirement system every five years.

Additionally, at least every 8 years, local governments shall do one of the following:

- Have a peer actuarial audit conducted by an actuary that is not the plan actuary;
- Replace the plan actuary.

Filing Requirements

When is the Retirement System Annual Report (Form 5572) due?

Under the Act, the report is due annually six months after the end of the local government's fiscal year.

My local government files their audited financial statements biennially and did not file an audit report this fiscal year. Do we still need to file the annual Retirement System Annual Report (Form 5572)?

Yes. As required by the Act, biennial filers are required to file the Form 5572 annually. Biennial filers will continue to use their most recent audited financial statement, which may be the same information as the previous year's submission.

Where do I send the Retirement System Annual Report (Form 5572)?

The Form 5572 must be submitted electronically. The local government's Chief Financial Officer (CFO), or their designee, should send a single email to LocalRetirementReporting@michigan.gov and attach the completed form. The subject line of the email should be in the following format: **Retirement System Annual Report-20XX, Local Government Name** (e.g. Retirement System Annual Report-2019, City of Lansing). Treasury will send a reply acknowledging receipt of the local official's email.

The Act also requires the local government to electronically submit the report to its governing body.

Does this information need to be made available to the public?

The Act specifies that the local government must post this information on its website or in a public place if the local government does not have a website. Treasury is also required to post a summary report of this information on its website.

Does the local government's governing body need to approve the submission of the Retirement System Annual Report (Form 5572) before submitting it to Treasury?

No. However, the Act requires the local government to electronically submit the report to its governing body and post it on its website or a public place if the local government does not have a website.

Source of Data

Where can the Retirement System Annual Report (Form 5572) data be found?

The data used in determining underfunded status for this report is primarily found in the most recent audited financial statement or funding valuation. The data used in reporting uniform assumptions, as well as most additional summary reporting data, can primarily be found in the most recent actuarial funding valuation. The Form 5572 specifies the correct data source.

Where do I find my assets and liabilities for purposes of determining underfunded status?

Your assets and liabilities should come from your most recent audited financial statement.

- Assets and liabilities can be found in the notes section or the required supplementary information (RSI) of the audited financial statement;
- For updated accounting terminology please view Treasury’s instructions by visiting our website, Michigan.gov/LocalRetirementReporting, selecting the “Forms and Instructions” button and fiscal year for which you are looking to file, and then select instructions.

Where do I find my actuarial determined contribution (ADC) for purposes of determining underfunded status?

The ADC amount is primarily listed in the required supplementary information (RSI) of the audited financial statements.

Where do I find my annual governmental fund revenues for purposes of determining underfunded status?

The annual governmental fund revenue amount is primarily listed in the financial statements section of the audited financial statement under “Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds.”

This should include revenues from the general, special revenue, capital projects, debt service, and permanent funds. Revenues must be reported on the modified accrual basis from the fund-based statements and not the government-wide based statements. All other financing sources including, but not limited to, interfund transfers, bond proceeds, and sale of capital assets, must not be included in the calculation of revenues.

- Special purpose governments, business-type non-primary local governments, and discretely presented component governments must include all operating, non-

operating, and capital contributions in the calculation of revenues regardless of fund type;

- For local governments with multiple retirement systems, enter the same governmental fund revenue amount in each column.

Where do I find the required summary reporting information?

Beginning in fiscal year 2019, Treasury has streamlined the retirement system reporting by merging the Retirement System Annual Report (Form 5572) with the summary pension report, which was required under Public Act 530 of 2016 (PA 530). This eliminates the PA 530 report that was previously required. Fundamental data for summary retiree health care reporting is now also requested in the Form 5572 as required by the Act. The majority of the additional reporting requirements can be found in your local government's most recent actuarial funding valuation; however, you should check with your auditor and/or actuary for further guidance.

When is the required summary reporting information due?

All data requested on the Form 5572, including all required summary reporting data, is due six months after the local government's fiscal year end.

My FY 2019 audited financial statements have been submitted utilizing an actuarial valuation dated 12/31/2018, but for the summary reporting data fields required on the Form 5572, it states to use my “Most Recent Actuarial Funding Valuation”. My 12/31/2019 valuation won't be received until after my submission due date. Should I report the summary reporting numbers from my 12/31/2018 valuation, or wait to submit the form until after my 12/31/2019 valuation is received?

Treasury recommends that local governments submit the Form 5572 at the same time that the audited financial statements are due. Required fields on the Form 5572 should be completed using the most recent audited financial statements and the actuarial funding valuation(s) utilized in the most recent audited financial statements. It is not necessary to delay the submission of the Form 5572 until a more recent valuation has been received.

When are uniform assumptions required to be reported?

As general guidance, actuarial valuations issued after December 31, 2018 should include the data required for Treasury's uniform assumption reporting. Therefore, if your audited financial statements utilize a valuation issued after December 31, 2018, uniform assumptions must be reported. Uniform assumptions must be reported on your Form 5572 no later than fiscal year 2020. Please review the implementation section within Treasury's [“Selection of the Uniform Assumptions” memo](#) for further guidance on how and when to report data using uniform assumptions.

Where do I find uniform assumption reporting information?

As general guidance, assets, liabilities, and actuarially determined contributions calculated using uniform assumptions can be found in your most recent actuarial funding valuation. Unless local governments are using the uniform assumptions for financial reporting purposes, they will be required to report two sets of funded ratios and actuarially determined contributions within their Retirement System Annual Report (Form 5572). This is required six months after the local government's fiscal year end. Treasury has updated the fiscal year 2019 Form 5572 to receive this information. Further questions regarding the location of these numbers should be directed to your actuarial or auditing professional.

We have several divisions in our MERS pension, or similarly, I receive one summary document from MERS showing the status of several departments (such as General, Police, DPW, Admin, Police Chief, New F/T Employees, etc.) Should I be listing each division or department separately on the Retirement System Annual Report (Form 5572) or combine them under one system?

You should report the data on the Form 5572 as it is reported in your audited financial statements. Often, if you have several divisions or departments, your retirement divisions/departments (e.g. General, Police, DPW, Admin, etc.) are combined into one report of your MERS system in your audited financial statements. The number of systems in Form 5572 should match the number of reports your local government has in your audited financial statements, not including any discretely presented component government plans.

Our pension plan includes employees in our water and sewer department. Their pension cost is allocated to the water and sewer fund, an enterprise fund. When I report governmental fund revenue, should I include any revenue received by the water and sewer fund?

No. Section 3(g) of the Act states proprietary, fiduciary, enterprise, or other restricted funds may not be used in general fund operating revenues.

Uniform Assumptions

What are the Uniform Assumptions and how are local governments supposed to use them?

The Act requires the State Treasurer to annually establish uniform actuarial assumptions for retirement systems that include, but are not limited to, investment returns, salary increase rates, mortality tables, discount rates, and healthcare inflation. These uniform assumptions will allow the citizens of Michigan to compare local retirement systems on a standard basis.

Unless local governments are using the uniform assumptions for financial reporting purposes, they will be required to report two sets of funded ratios and actuarially determined contributions within their Retirement System Annual Report (Form 5572). Treasury has updated the fiscal year 2019 Form 5572 to receive this information.

Please see the Treasurer's memo at [Uniform Assumptions](#) for more information.

Are uniform assumptions used to trigger underfunded status?

No.

What are uniform assumptions used for?

Uniform assumptions are used for reporting purposes only. Local governments can use the numbers generated using uniform assumptions to evaluate their retirement systems using generally more conservative assumptions. Additionally, Treasury can use the numbers reported using uniform assumptions to evaluate retirement systems throughout the State on a uniform basis, allowing for an apples-to-apples comparison.

What happens if the numbers reported using uniform assumptions indicate that my local government is underfunded?

Underfunded status is determined solely based on the numbers found in the local government's audited financial statements. Numbers reported using uniform assumptions are for reporting purposes only.

Determining Underfunded Status

How is preliminary underfunded status determined for primary governments (cities, villages, townships, or counties)?

This can be found in Section (5)(4) of the Act and is summarized as follows:

- *For Retirement Pension Plans:* A preliminary determination of underfunded status is made if the plan's total assets are less than 60% of the plan's total liabilities (assets/liabilities < 60%) **and** the ADC is greater than 10% of total governmental fund revenues (ADC/Revenues > 10%);
- *For Retirement Health Care Plans (OPEB):* A preliminary determination of underfunded status is made if the plan's total assets are less than 40% of the plan's total liabilities (assets/liabilities < 40%) **and** the ADC is greater than 12% of total governmental fund revenues (ADC/Revenues > 12%).

How is preliminary underfunded status determined for authorities, districts, and other local non-primary governments?

This can be found in section (5)(4) of the Act and is summarized as follows:

- *For Retirement Pension Plans:* A preliminary determination of underfunded status is made if the plan's total assets are less than 60% of the plan's total liabilities (assets/liabilities < 60%);
- *For Retirement Health Care Plans (OPEB):* A preliminary determination of underfunded status is made if the plan's total assets are less than 40% of the plan's total liabilities (assets/liabilities < 40%).

What happens if a local government is given a preliminary underfunded status determination?

If a local government is notified by Treasury that they have been determined to be preliminarily underfunded, the local government may apply for a waiver under Section 6 of the Act. In general, local governments must submit a plan that is approved by the governing body that shows that the underfunded status is already being addressed. Examples of governing body approval include signed minutes, signed draft minutes, excerpts of the minutes signed by the clerk, etc. The waiver application can then be submitted to Treasury. Waiver applications and criteria can be found on the [Forms and Instructions](#) section of our website.

Are uniform assumptions used to trigger underfunded status?

No.

What are uniform assumptions used for?

Uniform assumptions are used for reporting purposes only.

What happens if the numbers reported using uniform assumptions indicate that my local government is underfunded?

Underfunded status is determined solely based on the numbers found in the local government's audited financial statements. Numbers reported using uniform assumptions are for reporting purposes only.

Application for Waiver of Underfunded Status Process

My local government received an e-mail from Treasury with a notification that one of our retirement systems triggered a preliminary review of underfunded status. The e-mail included an Application for Waiver. Is my local government required to fill out this waiver application?

No. Submitting a waiver application is optional and meant to be used if your local government meets general waiver criteria. Waiver applications and criteria can be found by clicking the “Forms and Instructions” button on our website, [Michigan.gov/LocalRetirementReporting](https://www.michigan.gov/LocalRetirementReporting).

My local government has more than one retirement system, but not all of them triggered underfunded status. Do we need to apply for a waiver for each system, even the systems that did not trigger as preliminarily underfunded?

No. If you chose to apply for a waiver, you only need to complete a waiver application for the retirement systems that have triggered a preliminary review of underfunded status.

How do I know which of our retirement systems are underfunded?

Local governments that trigger as preliminarily underfunded on the Retirement System Annual Report (Form 5572) will receive an email notification from Treasury indicating which systems have been identified as preliminarily underfunded.

To verify your local government’s status, please go to [Michigan.gov/LocalRetirementReporting](https://www.michigan.gov/LocalRetirementReporting). Reporting information can be found in the “Reports and Documents” section by fiscal year.

Finally, you can view all correspondence related to the Act on the document search site by visiting <https://www.michigan.gov/localfinancialreporting>.

Are there two different waiver application forms?

Yes. Form 5583 is for Defined Benefit Pension Retirement Systems and Form 5584 is for Retirement Health Benefit Systems.

What information should be provided in the waiver application?

The local government must complete Form 5583 for Defined Benefit Pension Retirement or Form 5584 for Retirement Health Benefit Systems. Within the forms are detailed instructions including what information is required to be included in your waiver

application. Waiver applications and criteria can be found by clicking the “Forms and Instructions” button on our website, Michigan.gov/LocalRetirementReporting.

Is there any information that should NOT be included with our waiver application?

Yes. Personal and confidential information that identifies specific individuals associated with the retirement systems should be redacted. This includes, but is not limited to, any two identifying factors such as plan participant names, dates of birth, social security numbers, etc.

My local government received notification of a preliminary review of underfunded status. Because we do not meet general waiver criteria, we are not submitting a waiver application. What happens next?

Following the 45-day period allowed for waiver applications, Treasury will provide notification to your local government detailing the determination of underfunded status. Within this notification, Treasury will also request a corrective action plan (CAP). Per section 10 of the Act, CAPs are due within 180 days of the determination letter.

The instructions for the waiver application state that the waiver must be approved by the local government’s governing body before it is submitted to Treasury for review. Our governing body is not scheduled to meet before the due date of the waiver. Can I submit the waiver application without the approval of our governing body?

No. The Act requires governing body approval of the waiver application. Proof of approval by the governing body must be included in your waiver application.

What happens after my local government submits our waiver application to Treasury?

After receiving your waiver application, Treasury will send a letter informing your local government if the waiver application is approved or disapproved. If the waiver application is disapproved, Treasury will provide a notification detailing the reasons for disapproval.

What happens if our application for waiver is disapproved?

If a waiver is disapproved, Treasury will provide a notification to the local government detailing the determination of underfunded status. Within this notification, Treasury will also request a corrective action plan (CAP). Per section 10 of the Act, CAPs are due within 180 days of the determination letter.

Corrective Action Plan (CAP) Process

What happens if a local government is given a determination of underfunded status?

If a local government is notified by Treasury that they have been determined to be underfunded, the local government must submit a corrective action plan (CAP) for each underfunded system. Per Section 10 of the Act, CAPs are due within 180 days of the determination letter.

My local government received an e-mail from Treasury with a written notification that our waiver was disapproved. The e-mail included a corrective action plan form. Is my local government required to fill out this corrective action plan form?

Yes. You have received this notification because the State Treasurer has determined you have not adequately addressed your underfunded status, and therefore is not granting you a waiver of underfunded status. Every underfunded local government needs to create a corrective action plan for each underfunded system. Corrective action plan Forms 5597 for Retirement Health Benefit Systems and Form 5598 for Defined Benefit Pension Retirement Systems provides detailed instructions, including suggested actions, for your corrective action plan.

To verify which systems are underfunded, please go to Michigan.gov/LocalRetirementReporting. This information can be found in the Reports and Documents section by fiscal year.

Is there a way to contact Treasury about my waiver application disapproval or my corrective action plan?

Yes. If you would like to discuss your underfunded status, please schedule an appointment using the [Local Retirement Calendar](#). A staff member will contact you at your scheduled time.

My local government's waiver was disapproved, can we use the information from our waiver in our corrective action plan?

Yes. Any prior actions taken by your local government may be and are encouraged to be included in your corrective action plan.

Our local government failed to file the Form 5572 by the due date and was given a determination of underfunded status. Our audit shows that we meet the act's funding requirements. Are we still required to submit a corrective action plan?

If your local government was determined to be underfunded for failure to file the Form 5572, rather than submitting a corrective action plan form(s) (Forms 5597/5598), you may submit the completed Form 5572 demonstrating your local government's retirement system(s) do not trigger as underfunded. The Form 5572 is due back to Treasury within 180 days of this notification via email to LocalRetirementReporting@Michigan.gov.

Can we request a corrective action plan extension from the Municipal Stability Board (the Board)?

Yes, the Board may extend the 180-day deadline by an additional 45 days, if the local government submits an extension request and a reasonable draft of a corrective action plan. Please note, this extension request is for an additional 45 days from the original due date. You can find a template for submitting an extension request at the Board's [website](#).

My local government has more than one retirement system, but not all of them triggered underfunded status. Do we need to submit a corrective action plan for each system?

No. You only need to complete a corrective action plan for retirement systems that have triggered preliminarily underfunded status and do not have an approved waiver.

Are there two different corrective action plan forms?

Yes. Form 5597 is for Retirement Health Benefit Systems and Form 5598 is for Defined Benefit Pension Retirement Systems.

Where can I find the last versions of the correction action plan forms?

Corrective action plan forms can be found at: Michigan.gov/LocalRetirementReporting.

Please make sure to use the correct form number:

- Forms 5597 for Retirement Health Benefit Systems;
- Form 5598 for Defined Benefit Pension Retirement Systems.

What information should be provided in the corrective action plan?

The local government is responsible for determining the components of the corrective action plan. However, Form 5597 for Retirement Health Benefit Systems and Form 5598 for Defined Benefit Pension Retirement Systems provide detailed instructions for your corrective action plan.

The Municipal Stability Board that reviews corrective action plans has established best practices and approval criteria to assist with the corrective action plan development process. Please visit Michigan.gov/MSB for more information.

There is not enough room in the form's input box to describe modern plan design changes, plan funding, or other considerations. Can I include an attachment that allows for more space?

Yes. If your local government has additional actions that you have taken or plan on taking that do not fit in the form, please enter "see attachment X" and label that attachment accordingly.

Is there any information that should NOT be included with our corrective action plan?

Yes. Personal and confidential information that identifies specific individuals associated with the retirement systems should be redacted. This includes, but is not limited to, any two identifying factors such as plan participant names, dates of birth, social security numbers, etc.

Does my local government's governing body need to approve the corrective action plan before it is submitted to the Municipal Stability Board?

Yes. As required by Section 10(1) of the Act, the local government's governing body must approve the corrective action plan before submission to the Municipal Stability Board. Examples of governing body approval include signed minutes, signed draft minutes, excerpts of the minutes signed by the clerk, etc.

When is my corrective action plan due?

Completed corrective action plans are due back to Treasury within 180 days of your email notification. Completed corrective action plans must be submitted via email to LocalRetirementReporting@Michigan.gov. The subject line of the email should be in the following format: **Corrective Action Plan-20XX, Local Government Name** (e.g. Corrective Action Plan-2019, City of Lansing).

What happens after my local government submits our corrective action plan to Treasury via email?

After receiving your corrective action plan, Treasury will provide the corrective action plan to the Municipal Stability Board (the Board) for their review. The Board will receive the corrective action plan submission at their next scheduled meeting. The Board shall then approve or disapprove the corrective action plan within 45 days from the date of the meeting.

We would like to update our corrective action plan(s) that was already submitted to Treasury. Can we withdrawal our submission?

You may request that your corrective action plan(s) submission be withdrawn if your local government's corrective action plan(s) have not yet received a determination by the Board. You may request a withdrawal by sending an email to LocalRetirementReporting@michigan.gov. However, please note that this will not extend your corrective action plan due date. Failure to have a corrective action plan submitted by your due date may result in noncompliance. For further guidance, please schedule a phone call appointment using the [Local Retirement Calendar](#). A staff member will contact you at your scheduled time.

Who reviews and approves my corrective action plan?

Section 7(1) of the Act established the Municipal Stability Board (the Board). The Board consists of all of the following members who are appointed by the Governor:

- One resident of this state representing state officials (serves as Chair);
- One resident of this state representing local officials;
- One resident of this state representing employees and retirees.

The Board will review and vote on the approval of corrective action plans submitted by local governments. The Board will also monitor each underfunded local government's compliance with the Act, including its adherence to the corrective action plan.

The Municipal Stability Board approved my corrective action plan. What are the next steps?

Section 10(5) of the Act states that a local government has up to 180 days after the approval of a corrective action plan to begin to implement the plan to address its underfunded status. The Municipal Stability Board will monitor each underfunded local government's compliance with the Act and any corrective action plan.

What does it mean to “begin to implement” your corrective action plan(s)?

Section 10(5) of the Act states that, “[a] 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.” Implementing a plan is defined as taking measurable action on the steps outlined in your approved corrective action plan.

Treasury strongly recommends that you begin the process of compiling detailed supporting documentation to show that you are implementing your corrective action plan and making progress towards your funding status. This information may be required to be submitted to the Municipal Stability Board during the corrective action plan monitoring process.

The Municipal Stability Board disapproved my corrective action plan. What are the next steps?

If the Municipal Stability Board disapproves a corrective action plan, within 15 days the Board will provide an email notification to the local government detailing the reasons for the disapproval of the corrective action plan.

The local government has 60 days from the date of the notification to address the reasons for disapproval and resubmit a corrective action plan.

Where can I find the Municipal Stability Board’s meeting schedule?

The Municipal Stability Board’s meeting schedule can be accessed at Michigan.Gov/MunicipalStabilityBoard.

My corrective action plan has been approved by the Municipal Stability Board. Do I need to post this to my local government’s website?

Yes. As required by Section 5 of the Act, local governments must post their approved corrective action plan(s) on their website, or in a public place if the local government does not have a website.

The Municipal Stability Board (the Board) approved our corrective action plan; however, our local government would like to update our plan. Can we submit an updated plan for the Board to review?

Yes, your local government may submit an updated corrective action plan to the Board for review by sending an email to LocalRetirementReporting@michigan.gov. The subject line of the email(s) should be in the following format: Updated Corrective Action Plan-20XX, Local Government Name, Retirement System Name (e.g. Updated Corrective Action Plan-2019, City of Lansing, Employees’ Retirement System OPEB Plan). Treasury will send an automatic reply acknowledging receipt of the email. Your email settings must

allow for receipt of Treasury's automatic reply. This will be the only notification confirming receipt of the application(s).

Alternatively, your local government can submit the updated corrective action plan to the Board during your corrective action plan monitoring period. For more details regarding monitoring, please visit our [website](#).

What happens if my corrective action plan is disapproved?

If the Municipal Stability Board (the Board) votes to disapprove a corrective action plan that has been submitted, the Board shall within 15 days provide a notification and report to the local government detailing the reasons for the disapproval of the corrective action plan. The local government has 60 days from the date of the notification to address the reasons for disapproval and resubmit a corrective action plan for approval.

What happens if I do not submit a corrective action plan (CAP) within 180 days, request an extension, or resubmit a revised CAP after being disapproved?

If a local government fails to submit a corrective action plan for all underfunded systems within the statutory deadlines, the Municipal Stability Board (the Board) will determine the local government to be in noncompliance with the Act. If the Board determines that an underfunded local government is not in substantial compliance with the Act, the Board shall within 15 days provide notification and report to the local government detailing the reasons for the determination of noncompliance with the corrective action plan. The local government has 60 days from the date of the notification to address the determination of noncompliance.

What are the consequences of noncompliance?

A determination of noncompliance may have impacts on a local government that include, but are not limited to:

- The local government will be listed on the Michigan Department of Treasury website as noncompliant;
- According to Section 518 (5)(i) of Public Act 34 of 2001, the local government is not eligible to issue a municipal security for the purpose of funding defined benefit pension retirement plans or postemployment health care plans;
- Potential legislative changes could have additional impacts;
- Other impacts due to local press or constituent pressure.

Corrective Action Plan (CAP) Monitoring Process

What is CAP Monitoring?

Section 10(6) of the Act states that “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 this act.” Generally, CAP monitoring serves as a check-in by the Board to ensure that approved CAPs are still on track to address their underfunded status and that local governments remain in compliance with the Act. The Board’s [CAP Monitoring Policy and Procedures](#) document outlines the Board’s methodology in the monitoring process, as well as the criteria by which local governments are reviewed.

Is there a form that needs to be completed for the CAP monitoring process?

Yes, Treasury has developed a [form](#) that is required to be completed as part of the CAP monitoring certification of the compliance process. This form will ask the local government to review and certify the Board’s CAP monitoring criteria.

What additional information should be provided in the corrective action plan monitoring process?

The Board’s [CAP Monitoring Policy and Procedures](#) outlines criteria and recommended supporting documentation that will be considered in the review of local government Corrective Action Plan Monitoring certifications. Recommended supporting documentation includes, but is not limited to:

- 1) A projection for the duration of the CAP that includes, but is not limited to, assets, liabilities, funded ratios, normal cost payments (if applicable), actuarial assumptions, and retiree benefit payments, using reasonable calculations;
- 2) Governing body approval for any additional actions proposed during the monitoring process;
- 3) The Board recommends that supporting documentation include a projection of all annual retirement payments (Pension ADC(s)+OPEB Benefit Payments(s)+all additional contributions) as a percentage of projected governmental fund revenues for the ensuing five years. A local government should project governmental fund revenues using a reasonable forecast based on historical trends and projected rates of inflation. This analysis may include projected enterprise funds allocated specifically to pay retirement costs.

How do I calculate the highest combined annual retirement payment as a percentage of our projected governmental revenues over the next five fiscal years as required in section 4 of the Corrective Action Plan Monitoring: Application for Certification of Compliance?

This section is used to evaluate the sustainability of the retirement costs for a local government as documented in its approved corrective action plan. Treasury has developed a [worksheet](#) and [additional instructions](#) to assist in the completion of section 4. Documentation used to complete this section will include the local government's pension valuation(s), OPEB valuation(s) and/or projection schedule, and most recent audited financial statements.

- Enter the most recent fiscal year in the first cell of the worksheet.
- Review the projected ADC for your pension system(s) for the next 5 years, note the payment amounts on the spreadsheet for each of the 5 years.
- Review your OPEB benefit payment projections for the next 5 years, note those amounts in the corresponding column providing this amount for each fiscal year.
- Next, based on your local government's funding policy and/or corrective action plan, document any additional payments above the ADC payment for pension, and any additional payments above the benefit payment amount for OPEB in their respective columns (these additional contributions may be documented in the system valuation(s) or corrective action plan(s)).
- Finally, review the most recent audited financial statements to project governmental revenues for the next 5 years. Using the most recent governmental fund revenue number found in the Statement of Revenues, Expenditures, and Changes in Fund Balance, note the current total governmental revenue for the first fiscal year. The worksheet will complete the subsequent 4 years, selecting the projected annual increase in revenue (you may replace these numbers if you have a more accurate projection). If there are enterprise funds that are used to pay retirement costs that are not included in your governmental revenues, you may include those in the enterprise fund revenue column.
- The worksheet will calculate the retirement contributions as a percentage of revenue for all years in which data is entered.

We have not received an updated valuation since the last time we filed. Do we need a new valuation to complete the Sustainability Certification (Section 4) within the Application for Certification of Compliance (Form 5720)?

No, you are not required to receive a new valuation. The Sustainability Certification section of the application may be completed using your most recent valuation. If your plan to address underfunded status is substantially different, we recommend either working with your auditor or an actuarial professional to create an updated projection. You may also construct an internal analysis to complete Section 4. Additionally, Treasury has created a [sustainability calculation worksheet](#) to aid local governments with the completion of Section 4.

Our valuation does not include all the required information to complete the Sustainability Certification (Section 4) within the Application for Certification of Compliance (Form 5720). Do we need a new valuation or actuarial projection?

No, if the required information cannot be found in your most recent valuation or actuarial projection, you may use an internal projection to answer this section. This may include, but is not limited to, evaluating the recent historical averages and trends for all retirement benefit payments and governmental fund revenues.

Please submit any supporting documentation outlining how you determined your future costs, including [Treasury's sustainability calculation worksheet](#). In the future, we recommend working with your auditor or actuarial professional to ensure this information is included in future valuations.

To complete the Sustainability Certification (Section 4) within the Application for Certification of Compliance (Form 5720), we are asked to include future projections for a retirement system(s) that is not underfunded and does not require a corrective action plan. Do we need a new valuation to provide this information?

No, if the required information cannot be found in your most recent valuation or actuarial projection, you may use an internal projection to complete this section. It is important to include a projection of all annual retirement payments - regardless of the system's funded status - to accurately estimate total annual retirement payments as a percentage of governmental revenues. An internal projection may include, but is not limited to, evaluating the recent historical averages and trends for all retirement benefit payments and governmental fund revenues.

Please submit any supporting documentation outlining how you determined your future costs, including [Treasury's sustainability calculation worksheet](#). In the future, we recommend working with your auditor or actuarial professional to ensure this information is included in future valuations.

My retirement system is in corrective action; however, it did not trigger as underfunded on the last Retirement System Annual Report (Form 5572). Does our local government need to submit a Corrective Action Plan Monitoring: Application for Certification (Form 5720)?

Systems in corrective action that no longer trigger as underfunded **are** required to complete a Form 5720.

My local government has multiple retirement systems in corrective action; however, one or more systems did not trigger as underfunded on the last Retirement System Annual Report (Form 5572). Can we request that the system(s) that no longer triggers as underfunded be removed from corrective action?

No. All retirement systems in corrective action must be funded before the Municipal Stability Board removes any systems.

How are local governments removed from corrective action?

A local government that received a determination of underfunded status and request to file a CAP per Public Act 202 of 2017 (the Act), may be released from underfunded status and monitoring by the Board as follows:

I. For local governments in corrective action with retirement systems that failed to meet the Act's funding requirements:

Example Situation: On the most recently filed retirement system annual report (Form 5572), a local government with an approved CAP no longer triggers underfunded status per the Act.

Conditions for removal from corrective action:

- The local government filed a subsequent year's Form 5572 showing that the underfunded system now meets the Act's funding requirements.
 - Local governments meeting this criterion may request to be removed from the CAP process and purview of the Board.
- OR
- The local government may be removed during the CAP monitoring process if the underfunded system has failed to trigger as underfunded during the last two annual Form 5572 submissions. Alternatively, the local government may be removed during the CAP monitoring process if the underfunded system(s) funded ratio is at least 5% greater than the Act's designated minimum funded ratio in the most recent Form 5572 submission (e.g. an OPEB system is 45% funded when underfunded status is below 40%).

The Board may vote to release these local governments from the CAP process and purview of the Board, thereby removing underfunded status.

2. For local governments in corrective action for failure to file the retirement system annual report (Form 5572):

Example Situation: The local government was required to submit a CAP for failure to file the Form 5572; however, information in their audited financial statements shows that the local government would not have been determined to be underfunded had the required Form 5572 been completed by the due date and submitted to Treasury.

Conditions for removal from corrective action:

- The local government subsequently filed the Form 5572 showing that they meet the Act's funding requirements.

Local governments meeting this criterion will be biannually reported to the Board. These local governments may be voted by the Board to be released from the CAP process and purview of the Board, thereby removing underfunded status.