



STATE OF MICHIGAN  
DEPARTMENT OF TREASURY  
LANSING

GRETCHEN WHITMER  
GOVERNOR

RACHAEL EUBANKS  
STATE TREASURER

## NUMBERED LETTER 2021-4

**Issued By:** Community Engagement and Finance Division (CEFD)  
Bureau of Local Government and School Services

**Effective Date:** July 23, 2021

**2021-4** Compliance for Supplemental Pension Systems under  
Public Act 202 of 2017

**Intended Audience:** Local governments that offer defined benefit retirement systems, specifically local governments that report a “supplemental pension” system in their audited financial statements – those local government employees including but not limited to, clerks, treasurers, elected officials, finance directors, city, township, or village managers, and accounting staff, and auditing or actuarial professionals.

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**Summary:** Defined benefit retirement systems that are categorized as “supplemental pension” systems shall be reported on the Retirement System Annual Report (Form 5572) as retirement pension systems and should meet all reporting requirements related to retirement pension under [The Protecting Local Government Retirement and Benefits Act, Public Act 202 of 2017](#) (the Act).

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### Overview of Supplemental Pension Systems

In the review of the Protecting Local Government Retirement and Benefits Act, Public Act 202 of 2017 (the Act) annual reporting data, it was reviewed that some local governments were reporting retirement systems categorized as “supplemental pension” systems within the audited financial statements. Upon further review of these supplemental pension systems, it was determined that these liabilities typically represent payments for retirees meeting the following two conditions: 1.) the retiree has opted out of retiree health care benefits that were previously reported as OPEB; and 2.) the supplemental pension is an additional monthly cash payment to retirees and beneficiaries that is not limited to payment of healthcare costs.

### Reporting Supplemental Pension Systems on the Form 5572

If a local government reports a supplemental pension system in their audited financial statements, **and that supplemental pension has no requirement for the funds to be used for healthcare or healthcare benefits**, then it shall be reported as a retirement pension system on the Form 5572. The Governmental Accounting Standards Board (GASB) Statement No. 76, includes The GASB Comprehensive Implementation Guide, which includes the following questions and answers related to this topic:

## 8.96 OPEB versus pensions

**8.96.1.** Q—A city's defined benefit pension plan for firefighters provides a postemployment health insurance subsidy in the form of an additional monthly cash payment to each pension recipient. There is no limitation on the use of the additional cash payment by recipients. Should the health insurance subsidy be classified as OPEB for financial reporting purposes?

A—No. In this circumstance, the use of the postemployment health insurance subsidy that is provided as an additional monthly cash payment to retirees and beneficiaries is not limited to payment of healthcare costs. Therefore, the subsidy should be considered retirement income. All retirement income should be classified as pensions.

**8.96.2.** Q—The terms of a postemployment benefit plan provide that those who retire from service will receive an amount, defined in terms of dollars or a formula, that may be used only (a) to offset the retiree's cost of premium payments for participation in the employer's healthcare insurance group with active employees or (b) for reimbursement of other healthcare costs, if the retirees provide proof of healthcare insurance costs or direct healthcare claims that are not reimbursed by others. Should the benefit be classified as OPEB for financial reporting purposes?

A—Yes. Even though the benefit is defined in terms of a dollar amount or formula, because the benefit is limited to the provision of postemployment healthcare, it should be classified as OPEB for financial reporting purposes.

### **Underfunded Supplemental Pension System Corrective Action Plans**

If a supplemental pension system is determined to be underfunded<sup>1</sup> according to the Act, the Act requires that a corrective action plan be submitted within 180-days for the underfunded system. This corrective action plan should document how the supplemental pension system meets the Municipal Stability Board's (the Board) criteria for **underfunded pension systems** as documented in the Board's [Corrective Action Plan Development: Best Practices and Strategies](#).

Local governments with a previously approved OPEB corrective action plan that included supplemental pension benefits shall submit revised corrective action plan(s) if reported supplemental pension systems are determined to be underfunded on the most recent Form 5572. The revised plan(s) should document how the supplemental pension system will address the system's underfunded status according to the Board's criteria for underfunded pension systems. The local government may also submit a revised corrective action plan for the previously approved OPEB system if they feel that the plan is no longer substantially in effect.

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<sup>1</sup> [MCL 38.2805](#)