



Financial Services Audit Committee Communication

Date: May 22, 2018

To: Great Lakes Water Authority Audit Committee

From: Nicolette N. Bateson, CPA, Chief Financial Officer/Treasurer

Re: Review of the FY 2017 Detroit General Retirement System Plan Actuarial Report

Background: When the Great Lakes Water Authority (GLWA) assumed operations of the regional water and sewer systems on January 1, 2016, it also assumed a pro-rata share of the frozen legacy defined benefit pension (referenced as “Component II”) liabilities related to service provided to the regional systems for the Detroit Water & Sewerage Department (DWSD) Division of the Detroit General retirement System Plan (DGRS) pension plan. The allocation of those liabilities is 70.3% GLWA and 29.7% DWSD. As part of the City of Detroit’s bankruptcy Plan of Adjustment (POA), the DWSD Division is required to be funded at \$45.4 million per year with representations that the Division would be nearly fully funded by June 30, 2023 with any tail liability payment in FY 2024.

Analysis: The FY 2017 DGRS Actuarial Report was issued by the retirement system’s actuaries, GRS Retirement Consulting, on May 1, 2018. That actuarial report is attached.

As this report was recently received, there are a number of questions that staff has identified and will report the results of the follow-up at a subsequent Audit Committee meeting.

Topic 1 – FY 2024 and Beyond Funding Requirements

From pages 2 and 11 of the report (excerpt below), the FY 2024 is projected to be either \$7.1 Million or \$9.1 Million depending on the funding policy selected by DGRS.

Funding Policy 1 is based on amortizing the UAAL over the average remaining service life of active members (7 years for DWSD) using level dollar amortization.

Funding Policy 2 is based on amortizing the UAAL with level principal payments over a closed 30-year period plus interest. This method is also known as level principal declining interest amortization.

While it is good news that the annual, combined DWSD Division payments by DWSD and GLWA move from \$42.9 million (net of plan administrative fees of \$2.5 million) per year to \$7.1 Million or \$9.1 Million, this is significantly more than what was outlined in the POA.

Valuation Results (Continued)

Unfunded Actuarial Accrued Liability (UAAL)⁺

	(\$ millions)				
	General City	D.O.T.	DWSD	Library	System Total
UAAL as of June 30, 2017	\$ 508.9	\$ 235.6	\$ 266.9	\$ 17.6	\$ 1,029.1
Anticipated POA Contribution (EOY)	16.4	6.4	42.9	2.5	68.3
Anticipated Expenses@	-	-	-	-	-
Interest at 6.75%	34.4	15.9	18.0	1.2	69.5
Projected UAAL as of June 30, 2018	\$ 526.9	\$ 245.0	\$ 242.1	\$ 16.3	\$ 1,030.3
Anticipated POA Contributions for FY2019	16.4	6.5	42.9	2.5	68.3
Estimated Employer Contributions for FY 2024 #!					
Alternate 1:Level Principal	\$ 70.3	\$ 33.4	\$ 9.1	\$ 0.8	\$ 113.5
Alternate 2:Level Dollar##	\$ 54.8	\$ 26.0	\$ 7.1	\$ 0.6	\$ 88.5

Totals may not add due to rounding.

⁺ *Unfunded Actuarial Accrued Liability.*

@ *In accordance with Plan Document, the mandated 6.75% rate of return is net of investment and administrative expenses.*

Assuming the POA contributions through 2023 and a 30-year closed amortization thereafter. When determining the Fiscal Year 2024 illustrative amounts, only the total contributions and the DWSD contributions are stipulated in the POA. The remaining amounts were allocated to the other groups as described on page 1. A different allocation would result in different results by group.

! *Total employer contributions, including amounts paid by employer but funded from other sources as required by POA.*

Contributions at this level may not be sufficient to prevent fund depletion prior to satisfaction of all liabilities. Included at System's request.

DWSD (Water/Sewer) Projections

Based on this valuation, the DWSD (Water/Sewer) division is not expected to be fully funded by 2024. As a result, their contributions will continue to be needed in FY 2024 (see page 2 for estimated FY 2024 contributions) to fund DWSD liabilities.

Topic 2 – Clarity Regarding Terminate Employees

It also appears that there is a legal question by the actuaries (except below) as noted below. The third sentence below is consistent with prior years and GLWA’s expectations. It is expected that this could be readily addressed with the appropriate parties.

Great Lakes Water Authority (GLWA) Members

The Retirement System does not currently identify GLWA employees. The DWSD division had a large number of terminations in 2016. We have discussed with the Board's legal counsel whether or not GLWA employees are considered active members for purposes of Component II and do not have a definitive answer. We have treated these numbers as terminated members who are entitled to either a vested deferred benefit or a refund of ASF contributions. We recommend the Board's legal counsel research this point. If it is determined that these members are still active and are continuing to earn vesting and eligibility service under the plan, then we recommend the Retirement System work with GLWA to identify these members.

For this valuation (6/30/2017) we received a separate file indicating the June 30, 2014 DWSD status of members. Any members that were indicated as being DWSD division members on that file were valued under the DWSD for this valuation, regardless of the division reported on the main valuation data (which we understand to be the division as of June 30, 2017 in the Component I plan).

Proposed Action: None.