CITY OF NOVI CITY COUNCIL
OCTOBER 9, 2023

SUBJECT: Consideration to Adopt the Michigan Employees' Retirement System ("MERS") Uniform Transfer Resolution for Employees to allow employees who transfer or are rehired to positions within the City to remain in current/previous retirement plan.

SUBMITTING DEPARTMENT: City Manager's

BACKGROUND INFORMATION:

In 2006, the City Council passed a resolution ending the define benefit (DB) pension program for City Employees hired after that date. In doing so, the Council, at that time, chose not to pass a subsequent resolution allowing current employees to maintain their DB if promoted/transferred out of their respective position or division. Instead, employees promoted to an administrative role, had their DB pension frozen and entered into the Defined Contribution (DC) plan (or Hybrid if a new police officer) that all new employees receive upon joining the City. Per the MERS Standard Transfer Rules, if an employee transfers from one division to another, that employee **must participate in the open, active retirement plan of the new division**. The Standard Transfer Rules apply to all divisions within the City as elected when the City joined in 2006. The City, through MERS, has ten (10) plans:

Administrative (non-union)
Police Officer
Police Command Officers (Open to new hires)
Hybrid – Police Officers hired after 4/1/2012 (Open to new hires)
Fire (full-time)
MAPE (Employees in Public Works, Community Development, Assessing and Clerks Departments)
Dispatchers
Library
Appointed Officials
Hybrid – POLC

Members of the City Council have now expressed an interest in changing this policy and allowing employees to take the benefits they received when hired, with them when promoted. Currently, there are 119 employees who are in a DB program.

Administration has received comments from a couple individuals within this group of employees that some current employees wish to refrain from exploring promotion into leadership roles due to the policy enacted back in 2006. Moving to an administrative role typically provides for a significant salary increase to offset any perceived loss from the pension change; however, the promotion freezes the employees DB (if they have one) and moves the employee into the City's DC plan. If Council decides to proceed with reversing the prior decision, the staff in question believe it would assist in succession planning and assist in upward mobility within the Administrative (Non-union) ranks.

The change in policy, if adopted, does come with a significant price tag. The current cost to move the only eligible nine (9) active employees - four (4) police, one (1) fire, and four (4) MAPE back to their respective plans is an immediate cost of $250,000 **annually** along with an increase in the unfunded liability. If adopted, the next actuarial valuation will reflect the increase in the unfunded liability related to these individuals as well as reflect the decrease in the overall funding level which is 68% at June 30, 2023. The Finance departments expects the additional annual cost to increase from the $250,000 noted above to approximately $300,000 for the future years if the nine members do return to the DB plan. The cost increase noted above is not budgeted and would require an amendment to increase the annual pension cost and use the General Fund fund balance to cover the cost for fiscal year 2023/2024.

RECOMMENDED ACTION: Adopt the Michigan Employees' Retirement System ("MERS") Uniform Transfer Resolution for Employees to allow employees who transfer or are rehired to positions within the City to remain in current/previous retirement plan.