

MUNICIPAL EMPLOYEES' RETIREMENT SYSTEM OF MICHIGAN

ACTUARIAL POLICY

Effective June 11, 2025

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2025-06-11 Actuarial Policy

INTRODUCTION

The Retirement Board (“Board”) of the Municipal Employees’ Retirement System of Michigan (“MERS”), in the exercise of its legal and fiduciary obligations under the Municipal Employees’ Retirement Act of 1984 (“MERA”) and the Public Employees Retirement System Investment Act of 1965 (“PERSIA”), adopts actuarial assumptions and follows actuarial procedures in order to determine the contribution needs for employers, measure the funding status of its plans, calculate the cost or savings projected from the adoption of proposed plan changes, and address special situations.

I. ACTUARIAL STUDIES, ASSUMPTIONS AND REPORTS

1. ANNUAL ACTUARIAL VALUATION

a. Employer Actuarial Valuation

Under MERA, MCL Section 38.1536(2)(d), incorporated into the Plan at Section 71(2)(d), the Board is obligated to arrange for an annual actuarial valuation and report of the actuarial soundness of each participating municipality and court to be prepared by an independent actuary based upon data reported to MERS by the employer, and compiled and supplied by employees of MERS. Included in each report is a summary describing plan provisions, actuarial assumptions and actuarial funding methods that were used in the preparation of the report.

PERSIA, MCL Section 38.1140h(4), further requires that a system’s annual actuarial valuation reflect assets valued on a market-related basis. The actuarial present value of total projected benefits are required to include all pension benefits to be provided by the system to members or beneficiaries pursuant to the terms of the Plan and any additional statutory requirements or contractual agreements to provide pension benefits through the System that are in force at the actuarial valuation date, including, but not limited to, service credits purchased by members, deferred retirement option plans, early retirement programs, and postretirement adjustment programs. MERS annually performs and publishes such a study that complies with the requirements of PERSIA.

b. Summary Annual Report

Under PERSIA, MCL Section 38.1133(3)(i), a number of reporting requirements are imposed. Among those is a requirement for the issuance of a summary annual report containing specified information on MERS as a whole. MERS satisfies this requirement in part by annually producing an Annual Comprehensive Financial Report (ACFR) and a summary report of the annual actuarial valuations described above.

2. INITIAL ACTUARIAL VALUATION

Before MERS accepts a new municipality or court that wishes to participate in its Defined Benefit Plan or Hybrid Plan defined benefit component, MERS’ actuary shall determine the costs of the proposed benefits.

The actuary shall complete and provide an Initial Actuarial Valuation to MERS within a reasonable period determined by MERS. Valuations that require valuation of nonstandard benefits, extensive census adjustment or involve special situations may take longer to complete.

The costs and contribution rates for adoption and implementation will be valid until the end of the twelfth month from the date specified on the valuation cover letter from the actuary.

3. PLAN CHANGES AND BENEFIT MODIFICATIONS

PERSIA, Section MCL 38.1140h(5), requires that a system provide a supplemental actuarial valuation before adoption of pension benefit changes (defined as an increase in the amount of pension benefits received by persons entitled to pension benefits under the system). The supplemental actuarial valuation is required to be provided by the system's actuary and must include an analysis of the long-term costs associated with any proposed pension benefit change. A participating municipality or court ("employer") may prepare and submit to MERS a Request for Benefit Change – Permanent or Temporary or a Request for Projection Study for each proposed permanent or temporary benefit program for each eligible valuation division.

MERS will not implement any benefit change unless each of the following conditions is met:

- The employer meets the eligibility requirements as described in Section IV of the Policy based on the most recent annual actuarial valuation;
- MERS' actuary has issued a supplemental actuarial valuation for the benefit change within the last 12 months;
- The governing body of the employer adopts the benefit change within 12 months of the date of the valuation; and
- All of the employer's employer contributions are current.

The employer is required to remit all contributions to MERS, if any, due on account of the benefit change commencing the month in which the benefit change is effective.

Fees for supplemental actuarial valuations and projection studies shall be determined by MERS. The employer making the request shall remit payment to MERS for the supplemental actuarial valuation prior to the delivery of the valuation. PERSIA prohibits system assets from being used for any actuarial expenses related to the supplemental actuarial valuation for pension benefit changes.

The actuary shall complete and provide reports to MERS within a reasonable period. Supplemental actuarial valuations that require valuations of non-standard benefits, extensive census adjustment or involve special situations may take longer to complete. MERS shall review all valuations received and forward them to the requesting municipality or court.

MERS requires that an actuarial study be performed by MERS internal actuaries so the municipality may review the impact of closing, freezing or opening the Defined Benefit Plan or Hybrid Plan defined benefit component. At the time of this analysis, MERS shall provide guidance to the employer regarding the changed basis upon which employer contribution invoices are prepared (e.g., from a percent of payroll to a flat dollar amount for newly closed or frozen divisions).

In addition, MERS requires that an actuary prepare and that MERS review with an employer a certified projection study by MERS external consulting actuaries prior to an employer adopting any of the following plan changes:

- Offering a conversion option to current active employees either upon or after the closure or freeze of the Defined Benefit Plan to the Defined Contribution Plan, a non-MERS defined contribution plan, or the Hybrid Plan;
- Offering a conversion option to current active employees either upon or after the closure or freeze of the Hybrid Plan to the Defined Contribution Plan or a non-MERS defined contribution plan;
- Reopening/adopting the Defined Benefit Plan or Hybrid Plan for new members;
- Freezing the benefits of members (either mandatory for all or individually optional as adopted by the employer) in the Defined Benefit Plan or Hybrid Plan.

MERS' actuary shall not perform projection studies with respect to enrollment in any non-MERS Plan (except those indicated above). Irrespective of Section V(6) of this Policy, MERS' actuary shall only provide conversion calculations for purposes of a conversion from the MERS Defined Benefit (or the Hybrid Plan defined benefit component) to a non-MERS qualified defined contribution money purchase plan.

4. EXPERIENCE STUDY AND ASSUMPTIONS REVIEW

The actuarial assumption review process is based on the use of historical experience that is subject to statistical variation. In addition, it reflects available knowledge of the current and future outlook of the economic environment, as well as knowledge about the Plan and its members, retirees and beneficiaries at a specific point in time. Thus, it becomes necessary to adjust assumptions periodically to reflect both the impact of changing circumstances and the availability of additional data. This involves an awareness of any changes in MERS' environment that may impact assumptions and also the monitoring of MERS' experience in a systematic fashion. Results from prior experience studies can be incorporated to study trends and improve credibility of data for decrements such as disability and mortality rates with low incidence.

MERS' actuary is required to conduct experience studies using generally accepted actuarial principles and techniques. The experience study is conducted for the purpose of updating or reviewing the actuarial assumptions and funding policy used in valuing actuarial liabilities and determining contribution requirements of MERS' Plans. Performing an experience study is a standard actuarial practice that compares actual experience with the current actuarial assumptions, and ensures that (i) actuarial assumptions reflect expected future experience, and (ii) MERS funding policies are within recommended or acceptable practice.

MERS' Plan, Section 71(1)(d), provides that, at intervals of five years, MERS' actuary shall conduct an actuarial experience study of the Retirement System and report the results to the Retirement Board. Upon consultation and with the recommendations of MERS' actuary, the Retirement Board reviews and considers the actuarial tables, assumptions, and methods that are incorporated into its Actuarial Policy. In this periodic review, or at a shorter interval determined by MERS, MERS and its actuary review all aspects of pension valuation, including:

- Demographic and non-economic assumptions;
- Economic assumptions; and
- Funding policy, including
 - Amortization policy;
 - Actuarial cost method;

- Asset valuation or smoothing methods; and
- Dedicated gains.

5. PEER REVIEW

Every five years or at another interval determined by MERS, MERS shall direct that a peer review or actuarial audit be performed of the work of its actuary, including the experience study, to help monitor and advise on the quality of work being performed. Peer review or audit can take many forms, including:

- Checking some or all of the computations underlying the work product;
- Evaluating the appropriateness of methodologies employed by the actuary who prepared the work product (the preparing actuary);
- Evaluating the selection of assumptions used by the preparing actuary in the underlying work product;
- Considering whether the preparing actuary complied appropriately with professional standards of conduct, practice and qualification;
- Determining whether the preparing actuary's findings and conclusions as set forth in the work product, including any expression of the preparing actuary's opinion, appear to be reasonable and well-supported; and
- Considering whether the work product communicates the preparing actuary's findings and conclusions in a manner that is reasonably clear and complete, appears consistent with the level of understanding of the anticipated audience, and contains the appropriate disclosures and caveats.

MERS requires that a peer reviewer or auditor have:

- Independence from the work product being reviewed, that is, someone not otherwise involved in the preparation of the work product and, therefore, in a position to offer an unbiased assessment, free of financial or other interest in the content of the work product.
- Expertise, that is, someone sufficiently proficient in the issues and areas addressed in the work product to offer a competent review.
- Independence from the preparing actuary, that is, someone who is neither a supervisor nor a subordinate of the preparing actuary.

The results of the peer review or audit are provided to MERS, and any items, issues or differences of opinion are discussed between MERS, its actuary and the peer reviewer or auditor. Any finding and recommendations that would require action by the Board are presented to and reviewed by the Chief Executive Officer (CEO), together with MERS' actuary, after which, MERS staff shall report the findings and recommendations to the Board.

II. FUNDING POLICY

A funding policy provides the framework for determining a series of contributions to fund the benefits. The funding policy includes a number of features, most notably:

- A funding method (e.g., entry age normal), which allocates the value of the benefits between past service and future service;
- A funding target;
- An amortization policy, specifying how to pay off any unfunded past service liabilities (unfunded accrued liability, or UAL), and including specific amortization period(s) and payment amounts;
- An asset smoothing method, intended to reduce contribution volatility arising from financial market volatility; and
- Other methods intended to reduce contribution volatility.

Changes in funding policy impact the pattern of contributions, not the ultimate cost of the benefits.

1. MERS' PRIORITIES

Every funding policy will address the goals of adequacy, equity, contribution stability, transparency and governance in different measures. Determining the relative weight for these sometimes conflicting goals aids in producing a specific policy. MERS' Board shall determine and review MERS' priorities in this regard from time to time and in keeping with its fiduciary obligations.

2. ACTUARIAL COST METHOD

In addition to the monthly amortization payment of unfunded accrued liability, employers are required to contribute the monthly employer normal cost, which is the total employer normal cost less expected employee contributions. The Entry Age Normal Level Percent of Payroll (EAN) cost method shall be used in determining the normal cost or the portion of the present value of future benefits allocated to service accrued in the applicable employer's fiscal year.

3. SMOOTHING METHOD

The Board has adopted an asset valuation method to mitigate substantial variations in minimum required contribution rates resulting from the volatility of the portfolio's investment returns. The Actuarial Value of Assets (AVA) is based on the Market Value of Assets (MVA) with five-year smoothing applied. This is accomplished by recognizing 20% of each year's investment gain (loss), or the difference between expected and actual investment income, over the following five annual actuarial valuations, excluding funds allocated for dedicated gains purposes (see section II.4 below).

4. DEDICATED GAINS

Effective February 17, 2022, market gains in excess of the actuarial assumed rate of return remaining after the initial application of the smoothing method will be used to lower or buy down the rate of return. The amount of excess market gains used will be based on the most recent range of reasonable economic assumptions ("the Range"), as provided by MERS' consulting actuary and will be as follows:

- If the current assumed rate of return is at or above the mid-point in the Range (6.95%), the full amount of excess gains will be used to lower the rate of return. If the current assumed rate of

return is below the midpoint in the Range, half of the excess gains will be used to lower the rate of return.

- The assumed rate of return will not be reduced lower than the bottom of the range (6.50%).
- If the ratio of Actuarial Value of Assets (“AVA”) to Market Value of Assets (“MVA”) is below 80% or above 120%, excess market gains will not be used to lower or buy down the rate of return, and the normal smoothing method will be applied.

The most recent range for the assumed rate of investment return is 6.50% - 7.40%, based upon a price inflation assumption of 2.50%. The Range shall be reviewed by MERS’ consulting actuary at least every five years, or more frequently, as determined by MERS.

In the first year of implementation, the full amount of accumulated net gains and losses will be utilized for the dedicated gains process.

The following thresholds will be followed to buy down the rate in 1 basis point (bps) increments.

December 31 AAV	Threshold (in Millions) 1 bps increments
2024	\$27
2025	\$28
2026	\$29
2027	\$30
2028	\$31

In any year where gains are accelerated under this section II.4, remaining unrecognized gains and losses will be combined and smoothed over the regular remaining period.

The Board has granted MERS’ CEO the authority to direct MERS’ actuary to forego application of this dedicated gains policy in any year where a financial condition or other circumstance exists and where foregoing the application of this dedicated gains policy benefits the overall funding level or sustainability of the System. The CEO shall report actions taken under this paragraph to the Board no later than the next Board meeting following the decision.

5. PHASE-IN OF ASSUMPTION CHANGE IMPACT

Actuarial assumption changes adopted by the Board effective with the December 31, 2019 actuarial valuation shall be fully reflected in the minimum contribution requirements. An alternative minimum required contribution with a five-year phase-in that recognizes 25% of the impact in the 2019 actuarial valuation and 25% of the remaining balance in the 2020, 2021, 2022, and 2023 valuations shall also be provided and may be elected by the employer.

Actuarial assumption changes adopted by the Board effective for the December 31, 2020 and December 31, 2024 actuarial valuations shall be fully reflected in the minimum contribution requirements. An alternative minimum required contribution with a four-year phase-in that recognizes 25% each year of the December 31, 2020 assumption changes impact through the December 31, 2023 actuarial valuation shall also be provided and may be elected by the employer.

III. MINIMUM EMPLOYER CONTRIBUTION REQUIREMENTS

Each division of an employer's plan has a minimum employer contribution requirement, which consists of the employer normal cost plus payment toward the unfunded accrued liability, defined further in this section. The minimum employer contribution requirement is also subject to the following, discussed in detail below:

- Three times benefit minimum threshold,
- Minimum contribution requirements for newly overfunded,
- Additional considerations for pension obligation bonds ("POB") issued prior to December 31, 2023,
- Optional invoicing of linked sets, and
- Optional phase-in of assumption change impact (refer to II. 5. above).

An amortization policy determines the period of time and pattern of contributions required to fund any unfunded accrued liability (UAL) adjusted to the start of the employer's fiscal year. Changes in UAL from valuation year to year are common, and result from:

- Asset or liability gains or losses occurring due to actual experience being different than assumed,
- Changes in plan provisions, and/or
- Changes in assumptions or methods.

The Board endeavors to ensure that assets are sufficient to provide for the benefits that are expected to be paid, and that each employer is making reasonable progress toward achieving full funding. Having a fixed amortization period gives a specific target date to each employer by which all known obligations are anticipated to be fully funded. The Board's secondary goal is to encourage each generation of employees to support the cost of benefits accrued in that generation, rather than deferring those costs to future employees. Shorter amortization periods support this goal. Finally, the Board seeks to promote transparency and accountability with respect to the emergence of liability – to display when there is a change in a participating municipality's or court's UAL, and when the impact of this change will be fully realized.

There are three types of divisions for funding purposes that an employer may have in its actuarial valuation:

- Open division (linked or not linked) – Generally a division accepting new hires and having at least one active member. An open linked division that has no active members, but has inactive members or assets and has active members in the associated closed linked divisions(s) is considered open for valuation purposes. For projection purposes, normal cost for emerging new entrants and payroll (as actuarially assumed) are included.
- Closed (linked) divisions - A division not accepting new hires, with new hires that would otherwise be in such division enrolled in a separate open Defined Benefit or Hybrid division. Multiple closed (linked) divisions can be closed and linked to the same open division (referred collectively as a "linked set"). For projection purposes, normal cost for emerging new entrants and payroll (as actuarially assumed) are included with the corresponding open division.

- Closed (not linked) – A division not accepting new hires, but that may include members continuing to accrue service. Closed (not linked) divisions occur when the employer decides to enroll new hires (including rehires and transferees, and possibly current members by freezing accrued service) in a plan other than the MERS Defined Benefit Plan or Hybrid Plan. Costs of a plan other than the MERS Defined Benefit Plan or Hybrid Plan are excluded for annual valuation purposes. A division that is accepting new hires, and that has no active members but has retirees, vested former members, and non-vested former members who have not yet applied for a refund of accumulated employee contributions is considered closed (not linked) for valuation purposes. An open linked division with no active members across all divisions within the linked set is considered closed (not linked) for valuation purposes.

The Board has granted MERS' CEO, in consultation with MERS' actuary, the authority to depart from the amortization provisions set forth in subsections (1) and (2), based on the needs of the particular plan (for example, when an employer needs accelerated funding as a result of the financial condition, or a change to the remaining length of amortization is approved). The CEO shall report exception approvals under this clause to the Board at the following Board meeting.

1. AMORTIZATION OF UAL

Beginning with the December 31, 2020 valuation, a single amortization layer will be established each valuation year for changes in UAL occurring since the prior valuation year (plan amendments, assumption or method changes, and experience). Each new layer will be recognized over a fixed period (refer to the following table), which will decline by 1-year in each subsequent valuation year.

Division Status	Link Status	Period¹	Method
Open	Linked	15	Level Percent
Open	Not Linked	15	Level Percent
Closed	Linked	15	Level Percent
Closed	Not Linked	10	Level Percent

¹The greater of this period or the remaining period under the prior policy, discussed further under legacy UAL.

Closed (linked and not linked) division amortization payments are calculated using the same amortization method used for open divisions. Contributions are invoiced as a dollar amount rather than a percentage of pay to avoid applying a percent of pay contribution to a declining (or nonexistent) payroll.

The following are special situations affecting amortization bases, the establishment of amortization layers and minimum contribution requirements:

- When the UAL, adjusted to the start of the employer's applicable fiscal year, changes from underfunded to overfunded, or from overfunded to underfunded, existing amortization bases are combined to a single layer. As of the date of the combination, the single layer is established in accordance with the schedule above.

- Every division is required to maintain a minimum market value of reserves equal to three times the expected annual benefit payments (the “three times benefit minimum” rule). The required total minimum employer contribution equals the excess (if any) of three times the expected annual benefit payments over the projected market value of assets as of the employer’s fiscal year for which the contribution applies. In the event that the three times minimum contribution applies, all existing amortization layers will be combined under a layer established in accordance with the schedule above.
- Effective with the December 31, 2018 valuations, when a division switches from underfunded to overfunded, the amortization table will be reset. In the case of negative UAL (that is, overfunded status), the employer is required to make a minimum contribution equal to employer normal cost until the division’s funded ratio reaches 120%.
 - Effective with the December 31, 2024, valuations, a division less than 100% funded on the valuation date with a negative UAL, when adjusted to the start of the employer’s fiscal year, is required to make a minimum contribution equal to the employer normal cost.
- Effective with the December 31, 2024, valuations, when a division switches from underfunded to overfunded, when adjusted to the start of the employer’s fiscal year, the type of amortization period becomes open. Each subsequent valuation year, in which the division remains overfunded, the amortization period remains open.
- For divisions within participating municipalities or courts that have issued Pension Obligation Bonds (POBs) prior to December 31, 2023, in the valuation subsequent to receipt of POB proceeds, all existing amortization layers shall be combined to a single layer. As of the date of combination, the single layer is established in accordance with the schedule above.
 - All divisions within an employer issuing a POB are subject to a minimum annual employer contribution requirement not less than the division employer normal cost, regardless of the division’s funded ratio.
- Upon request of the employer, divisions within a linked set may be invoiced a total blended contribution. The total blended contribution of a closed (linked) division(s) and its applicable open division is expressed as a percentage of combined payroll. In instances where there are no active employees reported for a closed division within a linked set and the employer has elected a blended rate, MERS may, at its discretion, invoice such closed division the regular monthly dollar amount, and a blended contribution rate for the other divisions as a percentage of their payroll.
- Divisions that have been closed, but subsequently reopen the formerly closed Defined Benefit or Defined Benefit Component of the Hybrid Plan for the same employee division will continue to amortize existing layers under the schedules in place at the time of reopening the Plan. New amortization layers that occur with the first valuation after the division reopening will utilize the amortization schedule in place for open divisions.

New employers joining MERS will be placed on a schedule consistent with the treatment of existing divisions based on division and link status.

2. LEGACY UAL

Amortization policy has evolved over time. As a result, each division may have multiple legacy UAL layers established prior to December 31, 2020. Legacy layers were established by the source of UAL as denoted in the following table:

Source of UAL	Definition
Initial UAL	UAL as of December 31, 2015, or the valuation date the municipality joined MERS
Gain/Loss	UAL attributable to difference between the actuarial assumptions and expected contributions and the experience of the plan from one valuation to the next
Plan Amendment	UAL arising from adoption of a benefit change
Assumption Change	UAL arising from a change in actuarial assumptions
Method Change	UAL arising from a change in methods (i.e., funding method or asset method)
Early Retirement Incentive	UAL arising from adoption of an Early Retirement Incentive program
Merged Division Balance	Aggregate UAL resulting when divisions merge

Each legacy layer will continue to be recognized under the Policy pursuant to which it was established (including recognition of accelerated amortization periods where applicable), with the following exceptions:

- Triggering a feature of the current amortization policy (Section III.1. above) will result in the establishment of a single layer under the current Policy.
- Beginning with the December 31, 2020 valuations, any remaining (overfunded) negative Initial UAL shall be amortized over a closed ten-year period.
- Where employers have requested that a shorter amortization period for positive UAL be used in their annual actuarial valuations, MERS will apply that period to their future valuations, provided that a feature of the current amortization policy (Section III.1 above) is not triggered.

3. AMORTIZATION EXTENSION GUIDELINES

The funding policies that have been adopted by MERS are reflective of best practices and recommendations. However, some participating municipalities and courts may require flexibility with respect to funding

liabilities. The MERS Retirement Board has adopted the following amortization extension guidelines to address this need.

After an actuarial analysis, a division is allowed a one-time opportunity to reset the amortization period of its remaining UAL. Amortization period reset requests are considered by MERS based on a case-by-case analysis, prepared by MERS' consulting actuaries in accordance with their professional judgment and consideration of actuarial standards of best practice, and Michigan law. The actuaries may consider the plan characteristics in their analysis, including but not limited to the following:

- The funded ratio of the employer and the projected funded status over time;
- Demographic attributes and plan maturity (e.g., the mix of actives and retirees);
- Contribution projections and their reasonableness in comparison to the level of baseline contributions;
- Employer reserve cash flow projections;
- Sensitivity to market shock or to a lower long-term rate of investment return.

The process for an amortization extension is as follows:

- An employer requests an analysis for an extension of amortization review.
- MERS' actuary prepares the required projections, at the expense of the employer, to evaluate criteria and provide decision-useful information for the request. Extension requests prepared on a December 31, 2019 or later valuation basis will have existing amortization layers combined into a single layer and amortized over a period of fixed length declining by 1-year each subsequent valuation. Future layers are established in accordance with the schedule in Section III. 1.
- If an extension of amortization is approved, the employer enters into an agreement acknowledging the receipt and understanding of the projections and full awareness of the risks (lower funded levels, market volatility, etc.) and MERS' general advice to use shorter amortization periods.
- The agreement is submitted for approval and signature on behalf of the employer's governing body, and by MERS' CEO.

The Board has granted MERS' CEO, in consultation with MERS' actuary, the authority to depart from the amortization provisions set forth in subsections (1), (2), and (3) (but only with respect to the restriction to a one-time extension), based on actuarial analysis and the cash flow and short- and long-term needs of the particular plan, using criteria established by the Actuary, as well as additional risk analysis as appropriate. The CEO shall report exception approvals under this clause to the Board at the following Board meeting.

IV. MINIMUM FUNDING RULES FOR NEW EMPLOYERS AND PLAN CHANGES

1. NEW EMPLOYERS

A new employer adopting the Defined Benefit Plan or the Hybrid Plan that has elected to grant service to current employees under a prior non-MERS defined benefit plan of the employer must transfer assets to MERS from a preceding qualified defined benefit plan and/or other source equal to at least 50% of prior service accrued liabilities (as determined under MERS' actuarial assumptions in effect on the effective date of participation).

A new employer adopting the Defined Benefit Plan or the Hybrid Plan that wishes to implement a plan for their employees, or to convert the service of its active employees under a prior non-MERS defined contribution plan must have a minimum division funded level of 80% in order to grant prior service to the active employees.

Unfunded actuarial accrued liabilities, if any, shall be amortized and required contributions developed in accordance with Section III.

2. PERMANENT AND TEMPORARY BENEFIT ENHANCEMENTS

For purposes of this Section IV(2) of this Policy, a benefit enhancement is any formula or feature change that increases the Plan's actuarial liability and/or increases the actuarial present value of benefits. A benefit enhancement will include situations where the merger of two or more divisions, or the transfer of more than one member from one to another division of the employer outside of the course of ordinary employment transfers, results in a benefit increase for the members of one or more of the merged divisions or transferred employees. A benefit enhancement will not include corrections of errors over one or more divisions that result in benefit increases for members.

MERS requires that the affected division and the employer as a whole be 100% funded in order to be eligible to adopt an enhanced benefit provision (whether permanent or temporary), and the affected division(s) must be 100% funded after adoption of an enhanced benefit provision. Exceptions to this policy are:

- A one-time benefit increase (COLA) for current retirees may be adopted if the employer contributes, as a market value of assets, in a lump sum*, 100% of the increased liability associated with the benefit increase, irrespective of the funded level of the divisions or the employer.
- Upon adoption of a Lump Sum Buyout Program (hereinafter "Benefit Program LSB") as set forth in Section 12A of the Plan (a temporary modification), the employer is responsible for maintaining the funded level of the Defined Benefit plan or the defined benefit component of the Hybrid plan division, determined as follows and provided to the employer prior to adoption, as a minimum funding requirement. For this purpose, the valuation date is as of the most recent Annual Actuarial Valuation date, and subject to adjustment for other subsequent plan changes and assumption changes as known/available. The funded level is determined based on the division's market value of assets as of the valuation date, and the liability of the division based on the full actuarial present value of all vested former members eligible under Benefit Program LSB (prior to application of a payout percentage) as set forth in Section V(9), and includes the accrued liability of all other division members based on the actuarial assumptions adopted by the Board for valuation purposes, as applicable. If the employer adopts a payout percentage greater than said funded level, the employer is required to contribute, on behalf of any and all electing vested former members, the shortfall based on the division's funded level and the payout percentage as adopted. MERS shall inform the employer of the total potential shortfall/cost associated with such funding shortfall prior to adoption, and the employer shall acknowledge this amount and that it may be greater than determined at the outset. MERS shall require advance receipt of all shortfall amounts related to an accelerated pension payment prior to MERS' issuing an accelerated pension payment. Upon the issuance of a subsequent actuarial

valuation during the duration period of the Benefit Program LSB, the subsequent actuarial valuation/date may be used for purposes of determining the above required lump sum employer contribution thereafter.

- Provided the employer is at least 80% funded, a division that is at least 80% funded may adopt a permanent enhanced benefit provision if the employer contributes, in a lump sum*, 100% of the increased liability associated with the benefit enhancement, and both the division and the employer remain at least 80% funded following the benefit enhancement.
- Provided the employer is at least 80% funded, a division that is at least 80% funded may adopt a temporary enhanced benefit under Section 25 of the Plan if the employer contributes, in a lump sum*, 100% of the increased liability associated with the benefit enhancement for members who elect to retire during the temporary benefit window, and both the division and the employer remain at least 80% funded following the benefit change.

*Required lump sum amounts shall be adjusted for interest from the date of valuation to the date the lump sum is paid.

3. PLAN CHANGES

“Plan change” in this Policy section refers to an employer’s selection to close or freeze a Plan as set forth in MERS Plan Document Section 12, which may include an optional freeze and/or a conversion option. MERS provides guidance to employers regarding plan change options available and those that may meet objectives of a particular employer such as to manage costs associated with current or future Defined Benefit (or Hybrid) Plan benefits, including information regarding the funding requirements below and the potential impact to the employer’s plan under a proposed plan change, including the preparation of projection studies as set out in this Policy.

Employers that adopt the following plan changes shall amortize unfunded accrued liability according to the amortization policy for closed (not linked) divisions, with or without offering members conversion or optional freeze as pursuant to the Plan:

- Close or freeze the Defined Benefit Plan or Hybrid Plan to new hires and enroll new members in the Defined Contribution Plan (frozen employees continue to earn service under the Defined Benefit or Hybrid Plan for vesting and eligibility purposes only as pursuant to the Plan).
- Close the Defined Benefit Plan or Hybrid Plan to new hires and enroll new members in a MERS 457 plan, a non-MERS plan, or no retirement plan.
- Freeze the Defined Benefit Plan or Hybrid Plan and enroll current and new members in a MERS 457 plan, a non-MERS plan, or no retirement plan, which requires immediate 100% vesting of all current active members in the Defined Benefit or Hybrid Plan, without change to early retirement eligibility (for valuation purposes only, members in frozen divisions are considered terminated and vested plan members).

Employers that adopt the following plan changes shall amortize unfunded accrued liability according to the amortization policy for open and closed (linked) divisions, with or without offering members conversion or optional freeze as pursuant to the Plan:

- Close the Defined Benefit Plan or Hybrid Plan, and enroll new hires in another MERS Defined Benefit or Hybrid plan.

- Freeze the Defined Benefit Plan, and enroll current and new members who would have otherwise been members of the frozen employee division or Plan in the Hybrid Plan.
- Freeze the Hybrid Plan, and enroll current and new members who would have otherwise been members of the frozen employee division or Plan in the Defined Benefit Plan.
- Close or freeze the Defined Contribution Plan and enroll current and/or new members who would have otherwise been members of the closing/freezing employee division or Plan in the Defined Benefit or Hybrid Plan.

The following minimum funding requirements apply to plan closures, freezes and reopenings of Defined Benefit or Hybrid Plans and employee divisions:

- A closed employee division (or linked set) and Plan as a whole under the Defined Benefit or Hybrid Plan must be at least 80% funded to reopen the Defined Benefit or Hybrid Plan if the reopened Plan has a higher benefit structure/normal cost than otherwise under the previously closed Defined Benefit or Hybrid Plan. Additionally, the employer must contribute, in a lump sum, 100% of the increased liability associated with the benefit enhancement for current active employees prior to the plan change. If the division (or linked set) and Plan as a whole are over 100% funded with the inclusion of the new plan with higher benefit structure, then the increase in liability would be funded through changes in the annual contribution requirement (if any), without any required immediate lump sum contribution, at the employer discretion.
- A division and the Plan as a whole must be at least 80% funded to freeze (or offer optional freeze) to an enhanced benefit structure in another Defined Benefit or Hybrid Plan with respect to such employee division; and the employer must contribute, in a lump sum, 100% of the increased liability associated with the benefit enhancement.
- Any plan change for current members that results in an overall increased liability, based on a supplemental actuarial valuation provided by the System's actuary, requires the employer to contribute, in a lump sum, 100% of the increased liability associated with the plan change in addition to meeting any other funding requirements as applicable (including the requirements under benefit enhancements as applicable).
- If the employer adopts a plan change that includes a conversion option, the Defined Benefit or Hybrid Plan must be at least 80% funded after conversion, unless the employer maintains (post-conversion) the most recently determined funded level.
- Under a conversion option offered to members to convert their Defined Benefit Plan or Hybrid Plan Defined Benefit component accrued benefits to the Hybrid Plan Defined Contribution component, the Defined Contribution Plan or a non-MERS defined contribution money purchase plan, if the employee division's funded level is less than the level that the employer has selected as the conversion percentage, the employer must contribute to the employee division of the Defined Benefit Plan or Hybrid Plan Defined Benefit component, for each member electing the conversion option, the difference between the amount required to maintain the employee division's funded level and the amount to be transferred to the Hybrid Plan Defined Contribution component, the Defined Contribution Plan or a non-MERS defined contribution money purchase plan. The division's funded level for this purpose is as of the most recent Annual Actuarial Valuation date, and subject to adjustment for other subsequent plan changes and assumption changes as known/available. The funded level is determined based on the division's market value of assets as of the valuation date, and the liability of the division based on the full actuarial present value of all active members eligible for conversion as set

- forth in Section V(4)(f), and includes the accrued liability of all other division members based on the actuarial assumptions adopted by the Board for valuation purposes, as applicable.
- Under a closure or freeze of a Defined Contribution Plan or employee division to a Defined Benefit Plan or Hybrid Plan in which the employer is offering a conversion option, and involving employee division(s) that previously participated in the Defined Benefit or Hybrid Plan, all new/prior service accrued liabilities must be funded by the employer to at least 80% (as determined in a supplemental actuarial valuation).
 - Under a closure or freeze of a Defined Contribution Plan or employee division to a new Defined Benefit Plan or Hybrid Plan in which the employer is offering a conversion option, where the employee division had not previously participated in the Defined Benefit or Hybrid Plan, the minimum funding requirement under Section IV(1) for new employers converting from a defined contribution plan shall apply.

Required lump sum amounts above may be adjusted for interest from the date of valuation to the date the lump sum is paid.

The funding requirements in this section are not intended to replace or conflict with those established in Section IV(2) of this Policy for benefit enhancements. Plan changes may affect multiple divisions or members differently (e.g., prior plan/benefit changes). MERS shall evaluate the specifics of a plan change or a combination of plan changes, including options offered, to ensure consistency with (or application of, as determined) the funding requirements under Section IV(2), and MERS' actuary shall reasonably develop required and projected contributions for plan changes based on standard actuarial cost methods and MERS funding policies as adopted by the Board.

4. WITHDRAWN MUNICIPALITY

a. Termination under Plan Section 11(1)(a)(i)

As set out in the MERS Termination Policy, which is incorporated herein by reference, when an employer withdraws from the Defined Benefit Plan or Hybrid Plan defined benefit component, by vote of the governing body of the participating municipality or by action of the chief judge of the participating court to terminate participation, assets may not remain with MERS for continued benefit distribution and management. Within thirty (30) days of the termination date established by the employer ("Termination Date"), or as soon as is reasonably practical, MERS' actuary will conduct and provide to the governing body/chief judge a termination liability valuation, at the employer's expense, confirming total market value assets ("Transfer Amount"), liabilities ("Liability Amount") in total and as to each member and retiree and funded level of the plan as of the Termination Date as a final valuation of the plan within the MERS system. In addition to the restrictions set forth in Sections 11 and 12 of the MERS Plan Document, if the participating municipality has had an emergency financial manager appointed pursuant to the Local Financial Stability and Choice Act, Act 436 of 2012, or its predecessor acts, former Act 101 of 1988, former Act 72 of 1990 PA 72, and former Act 4 of 2011, and its defined benefit plan is not funded to at least 60% pursuant to the termination liability valuation, the participating municipality must contribute sufficient funds to establish a funding level of greater than 60% to align with the Protecting Local Governmental Retirement and Benefits Act, Act 202 of 2017 within thirty (30) days of receipt of the termination liability valuation.

b. Termination under Plan Section 11(1)(a)(ii)

When an employer withdraws from MERS because it does not or ceases to meet the definition of “municipality” under the Plan or MERS has determined, in its sole discretion, that it is or has become ineligible to participate in the System due to privatization, dissolution, or any other change to its structure or functions that results in the employer no longer providing a municipal or public service (a “closed municipality”), such closed employer shall leave in the reserve for employer contributions with MERS for the amount determined under MERS’ Actuarial Policy, as it may be amended, for its retirees, beneficiaries, and vested and non-vested former members, in the Defined Benefit Plan. Such terminated closed group entities shall be required to have assets, based on market value, on deposit with MERS at the time of termination in an amount equal to 120% of the actuarial accrued liability.

As of each December 31, the MERS actuary shall prepare a Closed Group Valuation for all closed employers. A copy of the closed group valuation shall be distributed to the closed employer, accompanied by MERS' annual notification letter addressing its current funded status as described below.

- In the event of a funding level less than 120%, the shortfall shall be made up before the end of the calendar year in which this Closed Group Valuation was issued by payment, either in one payment or multiple payments, to MERS of a minimum required payment to amortize the shortfall over a 5-year period with level payments. This 5-year period is reestablished each valuation year.
- Regardless of the funding level, the required payment shall not be less than the excess, if any, of three years of annual benefit payments over the current total market value of assets.
- Failure to submit the required payment by the end of the calendar year in which the Closed Group Valuation was issued will result in the application of the MERS’ Reporting and Contribution Enforcement Policy, and may result in legal action.

5. PARTICIPATION BY SHARED SERVICES ENTITIES

Shared services entities (municipalities other than a county, city, village, township, or county road commission or as otherwise defined by the General Counsel) are subject to this section.

Shared services entities joining the Defined Benefit or Hybrid Plan shall enter into a shared services entity Adoption Agreement, on a form prescribed by MERS, which provides that one or more municipality(ies) (county, city, village, or township) agrees to be jointly and severally liable for all funding obligations to MERS, together with the shared services entity, in the event of:

- More than 60-day delinquency with respect to any invoice;
- Insolvency;
- Dissolution;
- Merger or privatization; or
- Any other occurrence resulting in the participating municipality’s nonpayment of its required pension contributions.

As an alternative to the above, a shared service entity adopting the Defined Benefit or Hybrid Plan may agree to achieve and maintain 100% funding by entering into an alternative shared services entity Adoption

Agreement on a form prescribed by MERS. In the event of a funding level less than 100%, the shortfall shall be made up before the end of the calendar year in which the valuation was issued by payment, either in one payment or multiple payments, to MERS. Failure to submit the required payment by the end of the calendar year in which the valuation was issued will result in the application of the MERS' Reporting and Contribution Enforcement Policy, and may result in legal action.

The Board has granted MERS' CEO the authority to reasonably depart from the requirements of this Section IV based on the needs of the particular plan. With respect to subsections 1 – 4 above, the CEO shall consult with MERS' actuary. The CEO shall report exception approvals under this clause to the Board at the next Board meeting following the decision.

V. INDIVIDUAL MEMBER MATTERS

1. OPTIONAL FORMS OF PAYMENT

A member or a vested former member may elect to have retirement allowance payments made under one of the forms of payment described in Section 27(2) of the Plan. The amount of a retirement allowance under the Life with 100%, 75%, or 50% to Survivor, or Life with 20, 15, 10, or 5 Years Certain forms of payment shall have the same actuarial present value as the amount of a retirement allowance under the Straight Life form or payment, computed as of the date of retirement. Under Section 27(2)(e) of the Plan (Form of Payment IV – Life with Period Certain Guarantee), if the monthly pension beneficiary dies before the expiration of the guaranteed period (and after the death of the retiree), the single sum actuarial present value of any remaining guaranteed retirement allowance payments is paid to the estate of such monthly pension beneficiary. The interest rate and mortality assumptions shall be based on the same as those established by the Board for valuation purposes with the disabled mortality table disregarded, and the exceptions of using a unisex mortality table with a 70/30 blend of male and female, and mortality improvement projected through an appropriate static period recommended by the actuarial consultants. Future mortality improvement shall be studied every experience study, and the explicit static improvement assumption reviewed, updated, and documented as appropriate. Changes to assumptions for this purpose, such as for changes in valuation assumptions or other recommendations from the actuary, shall be determined by the Board, including effective dates as established and appropriate with administrative impacts and implementation periods.

2. SERVICE PURCHASE CALCULATIONS

Active or vested former members and/or their employer may purchase up to five years of service for benefit and eligibility purposes, under terms and conditions set forth in Section 19 of the Plan. To accomplish this, MERS must receive an immediate contribution of 100% of the estimated actuarial cost of the service. The interest rate, mortality, and wage inflation assumptions shall be the same as those established by the Board for Optional Forms of Payment purposes (above, subsection 4(a)), with the exception of lowering the interest rate by 1 percentage point.

A member, other than a member covered by the Hybrid Plan, with qualifying service in the employ of the United States government, a state, or a political subdivision of a state, or in the governmental employ of a federally recognized Indian Tribal Government (as defined in 414(d) of the IRC), may be credited with service for such employment, under terms and conditions set forth in Section 18 of the Plan, if the member pays to the Retirement System the amount the employer may require of the member in consideration for

the crediting of qualifying governmental service; any payment shall be credited to the member's individual account in the reserve for employee contributions. The required payment, if any, shall not exceed the difference between the actuarial present value of potential benefits after crediting the specified period of qualifying service and the actuarial present value of potential benefits prior to crediting the specified period of qualifying service. The interest rate, mortality, and wage inflation assumptions used in determining the foregoing shall be the same as those established by the Board for Optional Forms of Payment purposes (above, subsection 4(a)), with the exception of lowering the interest rate by 1 percentage point.

3. ELIGIBLE DOMESTIC RELATIONS ORDERS

Under the Eligible Domestic Relations Order Act (MCL 38.1701 *et seq.*), an eligible domestic relations order is one that, among other requirements, does not require the retirement system to provide an increased benefit determined on the basis of actuarial value. Depending on the terms of the Order, it may be necessary to actuarially convert the benefit from one payable over a member's lifetime to one payable over the member's and the alternate payee's lifetime (a share interest order), or to actuarially convert a share of the member's benefits to an actuarially equivalent benefit over the alternate payee's lifetime (a separate interest order). The actuarial assumptions for purposes of calculating the MERS benefits payable under the terms of these orders are the interest rate and mortality tables used by MERS in effect as of the calculation date for Optional Forms of Payment (above, subsection 4(a)), with the exception that the disabled mortality table shall not be disregarded, if applicable. For post-retirement assignments of benefits, the actuarial assumptions in place at the time of retirement would be used (even for future computations or re-computations related to those cases).

4. FUNDING REQUIREMENTS FOR TRANSFER OF SERVICE CREDIT UNDER THE RECIPROCAL RETIREMENT ACT

Section 6(4) of the Reciprocal Retirement Act, MCL 38.1101 *et seq.* (Act or Act 88) sets out the legal requirements in the event of an agreement between two reciprocal units to transfer service credit between them. Section 6(4) (MCL 38.1106(4)) applies to all transactions between two reciprocal units for a transfer of service credit, where the transferred service credit is either becoming or ceasing to be included in any MERS retirement allowance, or both.

The term "preceding reciprocal unit" means the municipality or court reciprocal unit that is transferring the service credit out of its retirement system, and the term "succeeding reciprocal unit" means the municipality or court reciprocal unit that is accepting the service credit into its reciprocal retirement system.

- a. In order for MERS to either credit or debit the service credit being transferred, the reciprocal units entering into such agreement shall forward to MERS a copy of such agreement signed on behalf of the governing body of each reciprocal unit, and a copy of each reciprocal unit's governing body's resolution adopting such agreement.
- b. Where MERS is the retirement system of the succeeding reciprocal unit, MERS requires that the governing body of the succeeding reciprocal unit immediately contribute the greater of the following to MERS before the additional service credit is applied:

- i. The accumulated contributions with the reciprocal retirement system of the preceding reciprocal unit standing to the credit of the member whose credited service is being transferred.
 - ii. The difference between the actuarial present value of the member's retirement allowance payable by MERS subsequent to transfer and the actuarial present value of the member's retirement allowance payable by MERS prior to transfer. The foregoing actuarial present value determinations shall be calculated using the interest rate, mortality tables and other assumptions and methods then in use by MERS to determine the cost of service credit purchases (above, subsection 4(b)).
- c. Where MERS is the retirement system of the preceding reciprocal unit, MERS shall transfer no more than the greater of the following to the reciprocal retirement system of the succeeding reciprocal unit:
- i. The accumulated contributions with MERS standing to the credit of the member whose credited service is being transferred.
 - ii. The difference between the actuarial present value of the member's retirement allowance payable by MERS prior to transfer and the actuarial present value of the member's retirement allowance payable by MERS subsequent to the transfer. The foregoing actuarial present value determinations shall be calculated using the interest rate, mortality tables and other assumptions and methods then in use by MERS to determine funding liabilities and required contributions.
 - iii. The amount paid to or payable by MERS described in subsections (i) and (ii) above shall in no case exceed the actuarial present value of the retirement allowance that would have been payable by the reciprocal retirement system of the transferor reciprocal unit calculated using the interest rate and mortality tables specified by the Pension Benefit Guaranty Corporation for calculating the actuarial present value of immediate and deferred pensions under a terminated pension plan as provided in the Code of Federal Regulations, 29 CFR pt. 4044, app. A and B.

5. IRC SECTION 415(b) CALCULATIONS

Section 87(3) of the Plan sets out the rules concerning the maximum permissible annual benefit amount that the Defined Benefit Plan and the defined benefit component of the Hybrid Plan may pay, in compliance with the requirements of IRC Section 415(b).

6. BENEFIT CONVERSION CALCULATIONS

a. Conversion from Defined Benefit to Defined Contribution

The defined contribution balance is the greater of the member's accumulated contributions and the actuarial present value of the accrued defined benefit associated with the member's coverage under the previous benefit plan based upon the conversion percentage selected by the governing body in the Defined Contribution Plan adoption agreement (which may not be less than the division's actual funded level as

determined in the actuarial study nor greater than 100%). In determining final average compensation for purposes of determining the accrued benefit, there shall not be included any accrued annual leave, and the employer's defined benefit vesting schedule shall be disregarded. The interest rate and mortality assumptions for this purpose shall be the same as those in effect for Optional Forms of Payment (above, subsection 4(a)) as of the conversion date. The procedure for disclosing all assumptions and the methodology used shall be consistent with Section V(9) of this Policy. The earliest retirement date (for an unreduced benefit) assumption under the previous benefit plan in effect on the effective date of the change of the benefit program shall be used. All accrued service will be transferred to the Defined Contribution Plan upon effective date of the new benefit.

b. Conversion from Hybrid to Defined Contribution

The procedure is the same as that recited in (i) above for the purposes of calculating the present value of the defined benefit. Any accumulated defined contribution of hybrid benefit will be transferred to the new Defined Contribution Plan. All accrued service will be transferred to the Defined Contribution Plan as of the effective date of the new benefit.

c. Conversion from Defined Benefit to Hybrid

The Hybrid Plan defined contribution component is the greater of the member's accumulated contributions and the difference between the actuarial present value of the accrued benefit associated with the member's coverage under the previous benefit plan and the actuarial present value of the accrued benefit associated with the member's coverage under the Hybrid Plan defined benefit component, after such excess is multiplied by the conversion percentage selected by the governing body in the Defined Contribution Plan adoption agreement (which may not be less than the division's actual funded level as determined in the actuarial study nor greater than 100%). On the effective date of the change of the benefit program, the member's credited service under the Hybrid Plan shall be equal to the member's credited service under the previous benefit program. In determining final average compensation for purposes of determining the accrued benefit, there shall not be included any accrued annual leave, and the employer's defined benefit vesting schedule shall be disregarded. The interest rate and mortality assumptions for this purpose shall be the same as those in effect for Optional Forms of Payment (above, subsection 4(a)) as of the conversion date. The procedure for disclosing all assumptions and the methodology used shall be consistent with Section V(9) of this Policy.

d. Conversion from Defined Contribution to Hybrid

The member's defined contribution balance is transferred to the Hybrid Plan defined contribution component. No prior benefit service is credited at the time of conversion and therefore no actuarial calculation is needed. All accrued service is maintained for vesting purposes toward both the defined benefit and the defined contribution components of the Hybrid Plan.

7. CORRECTIONS OF MONTHLY BENEFIT ERRORS

For monthly benefit overpayments that are corrected by MERS under its Corrections Manual or Overpayment Policy by actuarial adjustments to future benefits, the interest rate and mortality assumptions for used shall be the same as those in effect for Eligible Domestic Relations Orders (above, subsection 4(c)) as of the calculation date.

8. ANNUITY WITHDRAWAL PROGRAM (AWP)

For purposes of determining, under Section 29(3) of the Plan, the permanent actuarial reduction applied to the benefit of a participating member resulting from the AWP lump sum distribution paid, the actuarial equivalent will be calculated using either the interest rate for member contributions as determined by the System or the MERS actuarial assumed rate of return (as they were in effect on the date the lump sum distribution is withdrawn), as the employer shall elect in its Adoption Agreement, and the MERS mortality tables set forth for Optional Forms of Payment in this Policy (above, subsection 4(a)) in effect on the date the lump sum distribution is withdrawn.

9. BENEFIT PROGRAM LSB

Under a Benefit Program LSB adopted by the employer for a specified division as set forth in Section 12A of the Plan, the accelerated pension payment is the actuarial present value of the accrued defined benefit under the Straight Life Form of Payment associated with the member's coverage under the applicable benefit plan division to which the Benefit Program LSB is adopted, multiplied by the payout percentage selected by the governing body in the Benefit Program LSB adoption agreement. The calculation date shall be the first day of the month following receipt of the completed application for an accelerated pension payment. The earliest eligible retirement date (for the unreduced benefit) under the applicable benefit plan in effect on the effective date of the calculation date shall be used, as well as any future automatic cost of living increases associated with the plan provisions during the time of employment with the participating employer that has adopted Benefit Program LSB.

The interest rate and mortality assumptions for this purpose shall be the same as those in effect for Optional Forms of Payment (above, subsection 4(a)) as of the calculation date. Beneficiaries are assumed to have a 30/70 male/female blend and a 3-year age difference assumption, as necessary. MERS' actuary shall disclose all assumptions used in determining the Benefit Program LSB calculation including those in conjunction with, but not limited to, applicable/automatic survivor benefits (if any) and any other post-retirement benefits, as well as any relevant future/potential assumption or method changes known but not in effect/used, particularly within the Benefit Program LSB duration; and MERS shall include such disclosures, with a description of methodology, in writing to both the employer prior to adoption, and in communication(s) to members prior to or at the time of a member's election of Benefit Program LSB.

If any part of an eligible person's pension benefit is subject to one or more eligible domestic relations order(s) (EDRO), the System is not required to provide an increased benefit determined on the basis of actuarial value. The portion of the member's benefits already assigned to an alternate payee that is in payment status shall not be considered in any accelerated pension payment. Regarding any alternate payee(s) not in payment status, the accelerated pension payment ("payout") is determined before any EDRO assignment, and an alternate payee's share of the payout is based on the same portion or value of the member's accrued benefit assigned by the EDRO to the alternate payee. The member's share of the accelerated pension payment shall be the full accelerated pension payment reduced by the amount allocated to the alternate payee(s). Unless otherwise specified by the EDRO, the member's accumulated member contributions (if any) shall be subject to be allocated to the alternate payee(s) payout as determinable and administered by the System.

VI. OTHER ACTUARIAL MATTERS

1. EXTRA VOLUNTARY CONTRIBUTIONS FOR VALUATION PURPOSES

Extra voluntary contributions submitted by employers can be handled in two different ways for actuarial purposes depending on the employer's needs:

- An employer who submits extra voluntary contributions to MERS for the purpose of lowering its required rates and receiving immediate payment relief can submit funds directly to an employee division. This will ensure the funds are accounted for in an Annual Actuarial Valuation and, in turn, the UAL will be decreased. Since the amortization period will not change but the UAL is smaller, the required contributions will be lowered for the upcoming employer's fiscal year and each year of the remaining UAL amortization period.
- An employer who submits extra voluntary contributions to MERS for the purpose of paying off its UAL faster can submit funds to a surplus division. By establishing a separate division within the employer's designated reserves to hold these contributions, they will not be included in any other division's valuation calculations and thus they will not lower any other division's required contribution rates. The funds will, however, be included in the employer's funding as a whole and will show as a surplus division in the valuation.
- At any time, an employer may direct that employer contributions designated as surplus contributions and reflected in one or more surplus divisions be used as follows:
 - The employer may direct the transfer of surplus contributions not earmarked to a specific division to one or more employee division(s).
 - The employer may direct the transfer of such surplus contributions that were earmarked for a specific division to such employee division.
- When an employer is delinquent in paying contributions, MERS may direct employer contributions designated as surplus contributions and reflected in one or more surplus divisions be used as follows:
 - MERS may direct the transfer of surplus contributions not earmarked to a specific division to one or more employee divisions(s).
 - MERS may direct the transfer of such surplus contributions that were earmarked for a specific division to such employee division.
- Subject to any limitations imposed by law, an employer may use any surplus division assets that were deposited since its most recent annual actuarial valuation (that is, assets that have not been recognized in a valuation) to fund the additional actuarial liability cost of a benefit enhancement. Assets in a surplus division associated with an employee division may only be used to fund a benefit enhancement for that employee division.
- Subject to any limitations imposed by law, an employer may use any assets in a surplus division (irrespective of when deposited) to fund a benefit enhancement under the following conditions:
 - Assets in a surplus division associated with an employee division may only be used to fund a benefit enhancement for that employee division;
 - The affected employee division and the employer as a whole must be at least 80% funded (excluding surplus assets) in order to use surplus assets to pay for the cost of the increase in liability; and
 - The cost of the increase in liability resulting from the benefit enhancement must be fully paid, and the affected employee division and the employer as a whole must remain at

least 80% funded after the enhancement to use surplus assets (that is, additional money may be needed).

Once surplus contributions are transferred to an employee division, they may not thereafter be re-characterized as surplus contributions. Surplus contributions are irrevocable and may not be returned to the municipality.

Subject to the above, grant funds received through the Michigan Department of Treasury shall be placed in a surplus division for each receiving municipality. If the municipality has not established a surplus division in accordance with Section 79 of the Plan Document, MERS will establish a surplus division on behalf of the employer for receipt of grant funds. A municipality may request that grant funds not be placed in a surplus division through procedures established by MERS, and MERS may approve the funds being placed directly into one or more employee divisions in accordance with such procedures.

2. LINKED DIVISIONS WITH BLENDED RATES

Upon completion of the annual valuation reports, MERS may reallocate assets across linked divisions with significant funding level differences. In instances where there are no active employees reported for a closed employee division within a linked set and the employer has elected a blended rate, MERS may, in its discretion, invoice such closed employee division the regular monthly dollar amount, and a blended contribution rate for the other employee divisions as a percentage of their payroll.

3. CONTRIBUTION DELINQUENCY

The MERS Retirement Board has adopted a Reporting and Contribution Enforcement Policy. Pursuant to that Policy, MERS monitors any shortfalls in contributions received, issues demands for payment, initiates collections actions and takes all other reasonable and necessary actions to secure recovery of all assets due to MERS. MERS regularly reports shortfalls and collection actions to the Retirement Board. Included in the data MERS provides to its actuary when preparing an employer's annual actuarial valuation is information regarding, as and if applicable, amounts of outstanding delinquencies so that the actuary can take this information into account in the performance of the valuation.