Via Electronic Mail

March 9, 2020

Ms. Patricia Denig
Pittsfield Charter Township
6201 W. Michigan Ave
Ann Arbor, Michigan 48108

Re: Impact of Adoption of Proposed Actuarially Determined Contribution

Dear Patricia:

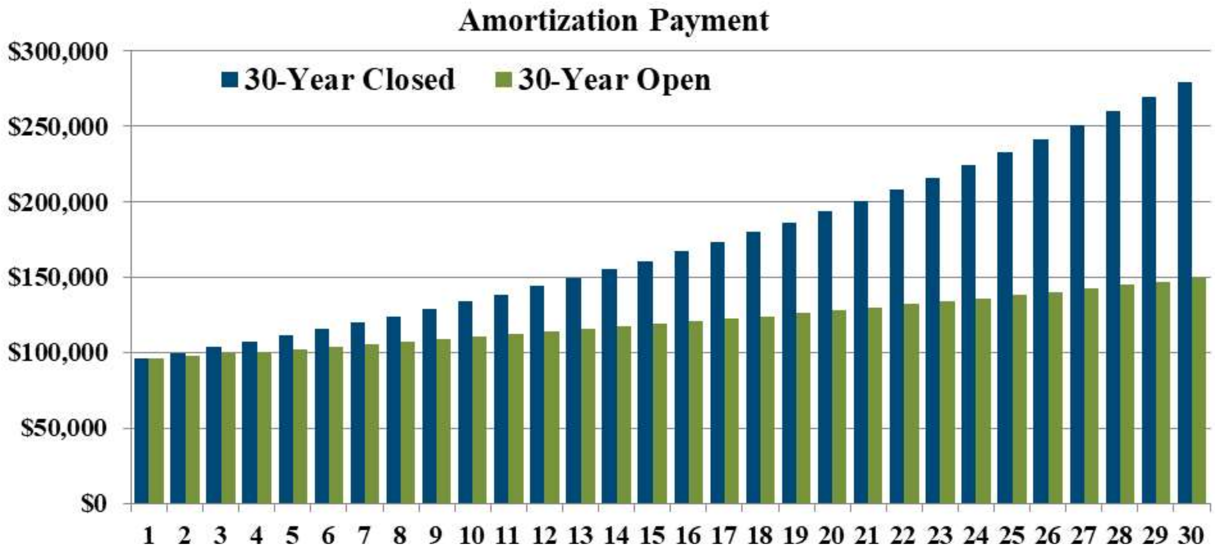
The purpose of this letter is to explain the potential impact of adopting the proposed Actuarially Determined Contribution (ADC) for the Pittsfield Charter Township Other Postemployment Benefit Plan. As explained below, we do not believe the proposed ADC needs to result in any increase in costs to the Township.

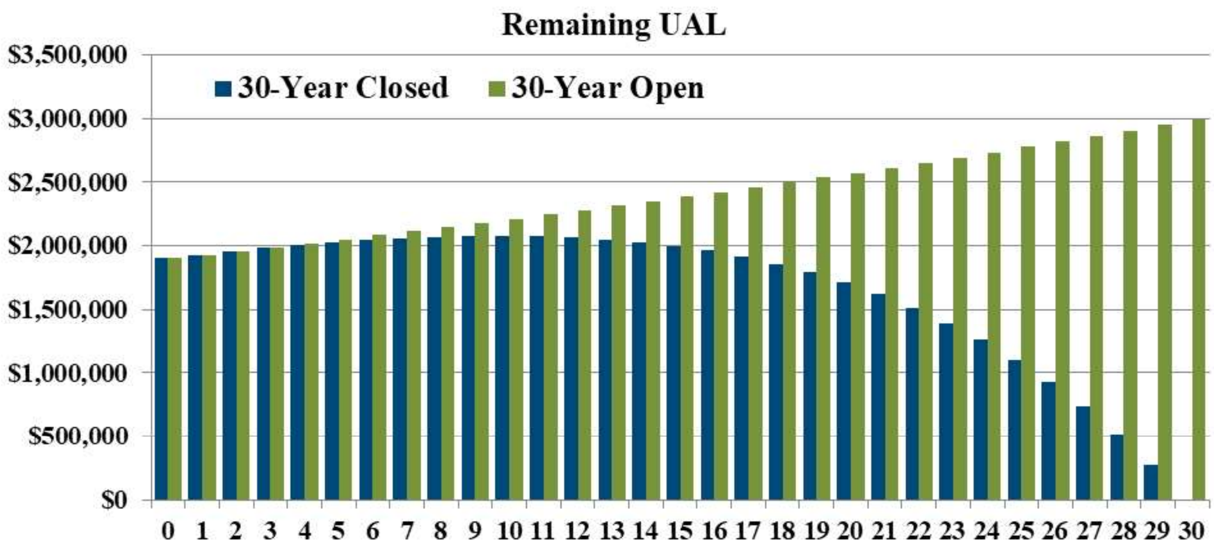
Currently, the Township's contributions to the Retiree Health Funding Vehicle (RHFV) have been equal to:

- the annual normal cost, plus
- a payment on the Unfunded Actuarial Liability (UAL) based on a 30-year amortization as a level percent of payroll.

In addition to the contributions to the RHFV, the Township currently pays the benefits directly from the Township funds rather than from the RHFV.

The proposed ADC is very similar to the current calculation of the Township's contributions to the RHFV. The only difference is that instead of always using 30 years to calculate the amortization payment, the period would decline by one year each year until the UAL is actually paid off. The current amortization method is referred to as a 30-year open amortization, and the proposed method is referred to as a 30-year closed amortization. The charts below show the projected amortization payments and remaining UAL based on an estimated UAL of $1.9 million as of January 1, 2020.





When implemented, the amortization payment amounts are the same, but under the 30-year closed amortization, payments increase 3.75% each year, while under the 30-year open amortization payments only increase about 1.5% each year. However, under the 30-year open amortization, the payments are less than interest on the UAL, so the remaining UAL is expected to grow continuously.

These projections assume that all assumptions hold true and that contributions equal the normal cost plus the amortization payment. In fact, as noted above, the Township contributes significantly more than this amount because it also pays the benefits of the Plan from Township funds instead of from the RHFV. This policy was an excellent way to build up the RHFV funds, but as the funded status improves, this policy should be adjusted to avoid over funding the RHFV. The purpose of building up assets in the RHFV is so they will be available to make benefit payments.

The proposed ADC is a contribution amount that presumes the benefits are being paid from the RHFV. Any benefits that are paid from Township funds instead of the RHFV should be subtracted from the proposed ADC to determine the minimum amount to contribute to the RHFV. Benefit payments are currently about $200,000 per year, which is more than the difference between the open and closed amortization payments even after 30 years. So, adopting the proposed ADC does not need to cost the Township more unless the Township elects to continue to pay all benefits directly in addition to contributing the proposed ADC to the RHFV. While contributions in excess of the proposed ADC are beneficial, we would not recommend continuing to pay all benefits in addition to the proposed ADC.

This letter and its contents have been prepared in accordance with generally recognized and accepted actuarial principles and practices and our understanding of the Code of Professional Conduct and applicable Actuarial Standards of Practice set out by the Actuarial Standards Board as well as applicable laws and regulations. Furthermore, as credentialed actuaries, we meet the Qualification Standards of the American Academy of Actuaries to render the opinion contained in this letter. This letter does not address any contractual or legal issues. We are not attorneys, and our firm does not provide any legal services or advice.

This letter was prepared exclusively for Pittsfield Charter Township for the purpose described herein. Other users of this letter are not intended users as defined in the Actuarial Standards of Practice, and Cheiron assumes no duty or liability to any other user.

If you have any questions about the proposed ADC, please let us know.

Sincerely,
Cheiron

Kathleen T. Weaver

Kathleen T. Weaver, FSA, EA
Consulting Actuary

William R. Hallmark

William R. Hallmark, ASA, FCA, EA
Consulting Actuary

cc: Gaelle Gravot