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January 25, 2018

Board of Trustees
Township of Saugatuck
3461 Blue Star Highway, P.O. Box 100
Saugatuck, MI 49453

Dear Board Members:

I recently met with Aaron, Brad, and Lori to review the Township's 2017 financials. During the course of our conversation, we discussed the status of the Township's defined benefit pension plan through MERS. Aaron asked that I provide the information we discussed, concerning the Township's pension plan, to all of you.

The Township's defined benefit pension plan, like most in the State, is not fully funded. In fact, the plan's assets have represented less than 40% of the plan's liabilities for several years now. Per the December 31, 2016 actuarial report, plan assets amounted to \$297,090 while plan liabilities totaled \$962,462, leaving the plan with a net pension liability of \$665,372. Based on these amounts, the plan was 31% funded at December 31, 2016. Many municipal defined benefit plans are underfunded, which has become a significant financial concern for the State.

Public Act 202 of 2017 was passed in December which requires the submission of an annual report related to a local unit's defined benefit pension plan. The Act also requires the state treasurer to determine whether plans are underfunded, and established the Municipal Stability Board to monitor compliance of an underfunded local unit and its corrective action plan. According to the Act, a plan is underfunded if it is less than 60% funded. As noted above, the Township's pension plan is less than 60% funded, so the State will determine that the Township's plan is underfunded. It's important to note that the Municipal Stability Board has not yet been created and the process for submitting corrective action plans has not yet been developed, so it could be some time before you are requested to submit a corrective action plan.

To avoid the need for completing a corrective action plan, the Township could make additional contributions to the pension plan to achieve a 60% funding status. The Township would have to contribute approximately \$280,000 to the plan to increase its funded status to 60%, based on the December 31, 2016 actuarial report. Based on the conversation at our recent meeting, it's possible that this contribution amount will be less if you determine the calculation using the next actuarial report that will be available in the spring.

If the Township were to make a \$280,000 contribution to the pension plan, it would cause a significant reduction in the fund balance of the Township's General Fund. However, based on the 2017 financials, a \$280,000 contribution would still leave approximately \$340,000 in fund balance. A fund balance of \$340,000 represents 62% of fiscal year 2017 expenditures, which would be considered adequate by most general law townships. The Township also has in excess of \$1.3 million in funds set aside for various capital project costs.

Our goal is to make you fully aware of the status of the Township's pension plan and the potential effect of a new statute concerning pension plans. The Board will have to make some choices related to the funding of the plan, but it's clear that the Township has resources available to increase funding of the plan and still have adequate resources available for operations and future capital needs.

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Please contact me if you would like more information or want to discuss this topic in greater detail. I can be reached by phone at (800)876-0979, or e-mail at dveldhuizen@scpro.net.

Sincerely,

SIEGFRIED CRANDALL P.C.



Daniel L. Veldhuizen, Shareholder