

City of Ann Arbor
Employees' Retirement System
Board of Trustees

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Date: January 13, 2022
To: Honorable Mayor and City Council
From: Board of Trustees of the City of Ann Arbor Employees' Retirement System
RE: 401 Forfeiture Balance Account

The Board of Trustees for the City's Retirement System (System) and Retiree Health Care Trust (VEBA) is responsible for the general administration, management and proper operation of the Retirement System and VEBA. Effective January 1, 2017, the Retirement System was amended and restated to add a defined contribution money purchase pension plan (the "Dual Retirement Plan). The City makes contributions to the Dual Retirement Plan equal to a percentage of each Dual Retirement Plan Member's Compensation. For these City contributions to become fully "vested", members must participate in the Dual Retirement Plan for five years.

When a participant in the Dual Retirement Plan separates from service prior to being vested, any City contributions are forfeited by the participant and transferred to the plan-level forfeiture account. Currently, the Ordinance language restricts usage of these amounts to only offset future employer contributions. (Section 1:605(4)).

The Internal Revenue Service recognizes that the forfeited amounts could also be used to pay reasonable plan administrative expenses and/or reduce future employer contributions. Accordingly, in order to offset expenses for staff time and other direct costs attributable to the Dual Retirement Plan, such as recordkeeping, compliance, audits, etc., the Board requests that the Ordinance language be amended to provide the flexibility to also use these funds for reasonable administrative expenses.

Proposed language is provided below:

Current Language:

All amounts forfeited by reason of separation before a Dual Retirement Plan Member becomes fully vested shall be used as contributions to the Dual Retirement Plan and shall offset and reduce City contributions.

Proposed Language:

All amounts forfeited by reason of separation before a Dual Retirement Plan Member becomes fully vested shall be used as contributions to the Dual Retirement Plan and shall offset and reduce City contributions or be used to pay reasonable Plan administrative expenses.

The Board thanks you for your time and consideration of the proposed Ordinance amendment. Please do not hesitate to contact the Retirement System's Executive Director, Wendy Orcutt, if there are any questions or concerns.