“MERS makes it easy to plan for the future. To be honest, you don’t have to think twice about it. It’s there for you.

I am MERS because I like a plan.”

Jennifer Seman

actuarial section

Jennifer Seman is a Human Resources Director for Grand Traverse County.

She’s been a MERS member since 2009.

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Municipal Employees' Retirement System MERS

September 16, 2011

The Retirement Board
Municipal Employees' Retirement System of Michigan
1134 Municipal Way
Lansing, Michigan 48917

Dear Board Members:

The basic financial objective of the Municipal Employees' Retirement System of Michigan (MERS) is to establish and receive contributions which:

(1) fully cover the cost of benefits that members earn during the coming fiscal year, and

(2) amortize the unfunded costs of benefits earned based on past service, and which

(3) when combined with present assets and future investment return will be sufficient to meet the financial obligations of MERS to present and future retirees and beneficiaries.

In order to measure progress toward this fundamental objective, MERS has annual actuarial valuations completed. Separate actuarial valuations are prepared for each participating municipality and court. The purpose of the December 31, 2010 annual actuarial valuations was to (i) measure MERS' funding progress, (ii) establish contribution requirements for fiscal years beginning in 2012 that provide for the normal cost (i.e. the costs assigned by the valuation method to the year of service about to be rendered) and amortization of unfunded actuarial accrued liabilities over a reasonable period (generally 28 years), and (iii) provide actuarial information in connection with applicable Governmental Accounting Standards Board statements. The valuations should not be relied upon for any other purpose. The valuations were completed based upon population data, asset data, and plan provision data as of December 31, 2010.

The actuarial valuations are based upon financial data, plan provision data, and participant data which are prepared by MERS' administrative staff. We checked the data for internal and year-to-year consistency as well as general reasonableness, but did not otherwise audit the data. As a result, we do not assume responsibility for the accuracy or completeness of the data provided by MERS' administrative staff. The actuary summarizes and tabulates population data in order to analyze long term trends. MERS' external auditor audits the actuarial data annually.

This letter was prepared at the request of the Board and is intended for use by the Retirement System and those designated or approved by the Board. This letter may be provided to parties other than the System only in its entirety.

Actuarial valuations are based on assumptions regarding future rates of investment return and inflation, rates of retirement, withdrawal, death, disability, and pay increase among MERS members and their beneficiaries. These assumptions are adopted by the Board after considering the advice of the actuary and other professionals. The assumptions and methods comply with the requirements of Governmental Accounting Standards Board Statement No. 25. The demographic assumptions were adopted by the Retirement Board and were based upon actual experience of MERS during the years 2004 to 2008.

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The economic assumptions were adopted by the Board in 1998. Future actuarial valuation results may differ significantly from those presented in the annual valuations due to such factors as experience differing from that anticipated by the actuarial assumptions, or changes in plan provisions, actuarial assumptions/methods or applicable law. Due to the limited scope of the assignment, we did not perform an analysis of the potential range of future measurements.

Assets are valued on a market related basis that fully recognizes expected investment return and averages unanticipated market return over a 10-year period.

Based on the actuarial valuations, MERS' staff prepared and we reviewed the following supporting schedules in the Comprehensive Annual Financial Report:

Financial Section

- Schedule of Funding Progress
- Schedule of Employer Contributions (Annual Required Contribution)

Actuarial Section

- Summary of Actuarial Assumptions and Methods
- Annual Percentage Increase in Salary
- Rates of Withdrawal (Excluding Death or Disability)
- Rates of Retirement
- Rates of Withdrawal Due to Disability
- Mortality Tables
- Schedule of Active Member Valuation Data
- Schedule of Retirees and Beneficiaries Added To and Removed From Rolls
- Solvency Test
- Summary of Plan Document Provisions

Statistical Section

- Schedule of Retired Members by Type of Benefit – Defined Benefit Plan
- Schedule of Retired Members by Type of Option Selected – Defined Benefit Plan
- Active Members Per Pension Recipient
- Benefits as Percent of Active Member Pay

The dramatic price declines across the world financial markets in 2008 led to volatility unlike any experienced in decades. The following two years, 2009 and 2010, were more stable and MERS' portfolio recovered with investment returns of over 17% and 14%, respectively. While economic worries continue to haunt investors world-wide, equity markets have rebounded, particularly in the United States. MERS maintains the 8% annual return assumption on investments in the belief that over the long term this is achievable.

The actuarial value of assets (funding value), used to determine both MERS' funded status and the required employer contributions, is based on a 10-year smoothed value of assets. Only a portion (three-tenths, for 2008, 2009, and 2010) of the 2008 investment market losses were recognized in the 2010 actuarial valuation reports.

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This reduces the volatility of the valuation results, which affects the required employer contribution and actuarial funded percentage.

As of December 31, 2010 the actuarial value of assets was 116% of market value (down from 125% in 2009). This means that meeting the actuarial assumption in the next few years will require average annual market returns that exceed the 8% investment return assumption.

If the investment markets do not fully make up for the 2008 losses, employer contribution requirements may rise. MERS' investment strategy employs diversification using various asset categories (stocks, bonds, and to a smaller extent real estate and private equity) to capture as much of the upside return as possible while managing acceptable risk. If contribution increases do become necessary, MERS would work to impose them incrementally.

The signing actuaries were employees of Gabriel, Roeder, Smith and Company at the time the December 31, 2010 actuarial valuations were completed, and were thus independent of the plan sponsor. Effective January 1, 2012, the signing actuaries will become employees of MERS.

To the best of our knowledge, the actuarial valuations are complete and accurate and are made in accordance with generally recognized actuarial methods, in compliance with Act No. 220 of the Public Acts of 1996, as amended, and the MERS plan document, as revised. All of the undersigned are members of the American Academy of Actuaries (MAAA) and meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion contained herein. **Based upon the valuation results, it is our opinion that the Municipal Employees' Retirement System of Michigan is meeting its basic financial objective and continues in sound condition in accordance with actuarial principles of advanced funding.**

Respectfully submitted,

Alan E. Sonnanstine

Alan E. Sonnanstine, MAAA, ASA

Cathy Nagy

Cathy Nagy, MAAA, FSA

W. James Koss, MAAA, ASA

SUMMARY OF ACTUARIAL ASSUMPTIONS AND METHODS

An actuarial valuation is the mathematical process that estimates plan liabilities and employer contribution requirements for the purpose of financing the Retirement System. This process is repeated annually to update the liabilities and contribution requirements for changes in member census and plan features, and to reflect actual plan experience in the process. The valuation reflects the current language of the Municipal Employees' Retirement Act of 1984, as last amended by Public Act 490 of 2004, embodied in the MERS Plan Document (as revised).

In addition to using current membership and financial data, an actuarial valuation requires the use of a series of assumptions regarding uncertain future events. The assumptions and methods used in the December 31, 2010, actuarial valuations are those adopted by the Retirement Board. The actuarial assumptions were last revised as of December 31, 2010, due to the results of the plan experience study covering the period from December 31, 2003, through December 31, 2008.

There have been no changes in the funding method that was adopted by the Retirement Board commencing with the December 31, 1993, valuations. The basic funding method is entry age normal, and employer contribution amounts are developed as a level percentage of payroll.

Valuation assets (cash and investments) were valued for each municipality using a 10-year smoothing method. For the 2006 valuation and later, the excess (shortfall) of actual investment income (including interest, dividends, realized and unrealized gains or losses) over the imputed income at the valuation interest rate, is considered the gain (loss) that is spread over 10 years. (Board adopted in 2006.)

The individual entry age actuarial cost method was used to determine actuarial accrued liabilities and normal cost. (Adopted 1994) The standard amortization periods used in the 2009 valuation are 28 years for positive unfunded liabilities, and 10 years for negative unfunded liabilities. At the March 11, 2009, Board meeting, the MERS Board voted to hold the 28-year amortization period for unfunded accrued liabilities in effect for the 2007 valuations, constant for the 2008 and 2009 valuations; then to let it decline by one year each year with the 2010 and beyond valuations until it reaches 20 years with the December 31, 2017 valuation. For divisions that are closed to new hires, the amortization period for positive unfunded liabilities is decreased annually by two years until the period reaches five years.

For employers that adopt E-1 or E-2 post-retirement benefit increases, retirement benefits are assumed to increase by an annual, non-compounded rate of 2.5%. (Board adopted in 1981.)

The most recent experience study for the System was completed in March 2010 and covered the period January 1, 2004, through December 31, 2008.

The Accelerated Funding Credit (AFC) program has been replaced with a new, less complicated program of contribution credits for overfunded employee divisions. The new program eliminates the complexities of the AFC, simplifies the calculation of the required employer contribution rates, removes much of the variability, and satisfies the requirement of the Governmental Accounting Standards Board. (Board adopted in 2002.)

There have been no recent changes that have had an impact on the System. Municipalities have the ability to modify provisions that apply to their individual plan. The individual municipality contribution rates are modified to account for changes in provisions of the plan selected by the municipality.

MERS staff has furnished the data about persons currently covered and present assets. Although examined for general reasonableness, the actuary has not audited the data.

The actuarial valuation computations were made by or under the supervision of a Member of the American Academy of Actuaries (MAAA). The Retirement Board adopted the assumptions used in the actuarial valuations after consulting with the actuary.

ASSUMPTIONS AND METHOD CHANGES

The December 31, 2010, actuarial valuation reflects the following changes in the actuarial assumptions:

- Temporary lower wage inflation assumption
- New assumption related to increases in final average compensation for some municipalities
- The standard amortization period for positive unfunded accrued liabilities is maintained at 28 years.

Actuarial Assumptions

To calculate MERS contribution requirements, assumptions are made about future events that could affect the amount and timing of benefits to be paid, and the assets to be accumulated. The economic and demographic assumptions include:

- An assumed rate of investment return used to discount liabilities and project what plan assets will earn
- A mortality table projecting the number of members who will die before retirement, and the duration of benefit payments after retirement
- Assumed retirement rates projecting when members will retire and commence receiving retirement benefits
- A set of withdrawal and disability rates to estimate the number of members who will leave the work force before retirement
- Assumed rate of pay increases to project member compensation in future years

Interest Rate

Funding plan benefits involves the accumulation of assets to pay benefits in the future. These assets are invested, and the net rate of investment earnings is a significant factor when determining the contributions required to support the ultimate cost of benefits. For the 2010 actuarial valuation, the net long-term investment yield is assumed to be 8%. This assumption was first used for the December 31, 1981, actuarial valuation.

The reader should note that, given that the actuarial value of assets is currently 16% higher than the market value, meeting the actuarial assumption in the next few years will require average annual market returns that substantially exceed the 8% investment return assumption.

Pay Increase

Because benefits are based on a member's final average compensation, it is necessary to make an assumption with respect to each member's estimated pay progression. The pay increase assumption used in the actuarial valuation projects annual pay increases of 4.5% (1% for calendar years 2010-2013), plus a percentage based on an age-related scale to reflect merit, longevity and promotional pay increases.

The pay increase assumption for sample ages is shown below. The 4.5% wage inflation assumption was first used for the December 31, 1997, actuarial valuation. The merit and longevity pay increase assumption was first used for the December 31, 2004, actuarial valuation.

Annual Percentage Increase in Salary

Sample Ages	Base Inflation	Merit and Longevity	Total Percentage Increase in Salary
20	4.50%	8.40%	12.90%
25	4.50	5.33	9.83
30	4.50	3.26	7.76
35	4.50	2.05	6.55
40	4.50	1.30	5.80
45	4.50	0.81	5.31
50	4.50	0.52	5.02
55	4.50	0.30	4.80
60	4.50	0.00	4.50

Inflation

Although no specific price inflation assumption is needed for this valuation, the 4.5% wage inflation assumption would be consistent with a price inflation of 3% to 4%.

Increase in Final Average Compensation

The 1999-2003 and 2004-2008 experience studies determined that for a number of retirees from various municipalities, the actual final average compensation (FAC) at retirement was larger than would be expected based on reported annual pays and FACs for the years just before retirement.

The Retirement Board adopted a new FAC assumption to be first used for the December 31, 2010, annual actuarial valuation. These assumptions reflect an FAC load of 0% to 4% for each municipality, based on the municipality's experience. The FAC increase assumption(s) for each division is reported in each municipality's annual actuarial report.

Withdrawal Rates

The withdrawal rates are used to estimate the number of employees at each age that are expected to terminate employment before qualifying for retirement benefits. The withdrawal rates do not apply to members eligible to retire, and do not include separation due to death or disability. The assumed rates of withdrawal applied in the current valuation are based on years of service and scaled up or down according to each division's experience.

The scaling factor is reported in each municipality's annual actuarial report.

The base withdrawal rates are multiplied by a scaling factor to obtain the assumed withdrawal rates.

Sample rates of withdrawal from active employment, prior to the scaling factor, are shown below. These rates were first used for the December 31, 2008, actuarial valuations.

Rates of Withdrawal (Excluding Death or Disability) from Active Employment Before Retirement

Sample Years of Service	% of Active Members Withdrawing Within the Next Year
0	20.0%
1	17.0
2	14.0
3	11.0
4	9.0
5	6.5
10	5.0
15	3.7
20	3.0
25	2.7
30	2.6
34 and Over	2.4

Retirement Rates

A schedule of retirement rates is used to measure the probability of eligible members retiring during the next year. The rates for normal retirement are determined by each member's replacement index at the time of retirement. The replacement index is defined as the approximate percentage of the member's pay (after reducing member contributions) that will be replaced by the member's benefit at retirement. The index is calculated as: Replacement Index = 100 multiplied by Accrued Benefit ÷ by [Pay - Member Contributions].

Retirement rates for early reduced retirement are determined by the member's age at early retirement.

The revised normal retirement rates below were first used for the December 31, 2009, actuarial valuations. The early retirement rates were first used for the December 31, 2004, actuarial valuations.

Normal Retirement - Service Based Benefit F(N) Adopted

Sample Replacement Index	Percent of Eligible Active Members Retiring Within Next Year
5	5%
10	11
15	16
20	19
25	20
30	20
35	20
40	20
45	20
50	20
55	21
60	22
65	24
70	24
75	28
80	32
85	38
90	45
95	48
100+	50

Municipalities that have adopted a non-standard benefit multiplier after December 31, 1996, that is in excess of the B-4, 2.5% multiplier, will have a retirement rate equal to 75% at the first age at which unreduced plan benefits are available.

Early Retirement - Reduced Benefit

Retirement Ages	Percent of Eligible Active Members Retiring Within Next Year
50	2%
51	2
52	3
53	5
54	8
55	4
56	4
57	4
58	6
59	8

Disability Rates

Disability rates are used in the valuation to estimate the incidence of member disability in future years.

The assumed rates of disablement at various ages are shown below. These rates were first used for the December 31, 2004, actuarial valuations.

Rates of Withdrawal Due To Disability*
Percent Becoming Disabled Within Next Year

Sample Years of Service	Percent of Active Members Becoming Disabled Within Next Year
20	0.02%
25	0.02
30	0.02
35	0.06
40	0.06
45	0.11
50	0.24
55	0.41
60	0.41
65	0.41

** 85% of the disabilities are assumed to be non-duty, and 15% of the disabilities are assumed to be duty related. For those plans that have adopted disability provision D-2, 70% of the disabilities are assumed to be non-duty, and 30% are assumed to be duty related.*

Mortality Tables

In estimating the amount of reserves required at retirement to pay a member's benefit for the remainder of their lifetime, it is necessary to make an assumption with respect to the probability of surviving to retirement, and the life expectancy after retirement.

The mortality table used to project the mortality experience of plan members is a 50% male -50% female blend of the 1994 Group Annuity Mortality table. For disabled retirees, the regular mortality table is used with a 10-year set forward in ages to reflect the higher expected mortality rates of disabled members. These mortality tables were first used for the December 31, 2004, actuarial valuations.

It is assumed that 90% of active members deaths are non-duty, and 10% of deaths are assumed to be duty related.

The life expectancies and mortality rates projected by the 1994 Group Annuity Mortality table for non-disabled and disabled members are shown on the following page for sample ages.

Mortality Tables (Non – Disabled)

Age	Expected Years of Life Remaining	Mortality Rates
20	61.55	0.04%
25	56.68	0.05
30	51.82	0.06
35	46.97	0.07
40	42.13	0.09
45	37.34	0.13
50	32.60	0.20
55	27.98	0.34
60	23.53	0.62
65	19.40	1.16
70	15.66	1.87
75	12.24	2.99
80	9.25	5.07

Mortality Tables (Disabled)

Age	Expected Years of Life Remaining	Mortality Rates
20	51.82	0.06%
25	46.97	0.07
30	42.13	0.09
35	37.34	0.13
40	32.60	0.20
45	27.98	0.34
50	23.53	0.62
55	19.40	1.16
60	15.66	1.87
65	12.24	2.99
70	9.25	5.07
75	6.81	8.25
80	4.85	13.46

Schedule of Active Member Valuation Data

Valuation Dec. 31	Participating Municipalities	Active Members	Active Members Annual Payroll	Annual Average Pay	Percent Increase in Average Pay	Persons on Deferred Status
2000	560	36,573	$1,225,992,204	$33,522	3.7%	5,303
2001	561	36,583	1,271,563,960	34,758	3.7	5,799
2002	575	37,043	1,327,360,448	35,833	3.1	5,510
2003	594	37,159	1,381,197,725	37,170	3.7	5,575
2004	615	36,766	1,437,211,517	39,091	5.2	5,804
2005	644	36,467	1,462,411,810	40,102	2.6	6,126
2006	668	36,846	1,545,886,480	41,955	4.6	6,235
2007	683	36,518	1,581,597,937	43,310	3.2	6,438
2008	692	36,092	1,624,855,145	45,020	3.9	6,662
2009	699	35,598	1,636,501,282	45,972	2.1	6,726
2010	715	35,816	1,683,983,258	47,018	2.3	6,961

Schedule of Retirees and Beneficiaries Added to and Removed from Rolls

	Added to Rolls		Removed From Rolls	
Valuation Dec. 31	Retirees/ Beneficiaries Number	Annual Allowance	Retirees/ Beneficiaries Number	Annual Allowance
2000	1,319	$23,588,044	369	$2,810,133
2001	1,238	22,971,336	608	4,735,312
2002	1,275	25,079,342	642	5,882,066
2003	1,577	31,229,077	672	5,623,367
2004	1,553	32,303,049	725	6,669,694
2005	1,666	32,839,907	782	7,000,257
2006	2,071	38,752,141	762	4,291,133
2007	2,030	36,947,384	894	5,928,199
2008	2,015	43,573,642	783	5,156,426
2009	1,871	36,164,024	773	4,545,379
2010	2,809	67,149,443	809	9,250,641

	End-of-Year Rolls			
Valuation Dec. 31	Retirees/ Beneficiaries Number	Annual Allowance	% Increase in Annual Allowance	Average Annual Allowance
2000	16,275	$173,549,622	13.6%	$10,664
2001	16,905	191,785,646	10.5	11,345
2002	17,538	210,982,922	10.0	12,030
2003	18,443	236,588,632	12.1	12,828
2004	19,271	262,221,987	10.8	13,607
2005	20,155	288,061,637	9.9	14,292
2006	21,464	322,522,645	12.0	15,026
2007	22,600	353,541,830	9.6	15,643
2008	23,832	391,959,046	10.9	16,447
2009	24,930	423,577,691	8.1	16,991
2010	26,930	481,476,493	13.7	17,879

Solvency Test

The Solvency Test is another means of checking the Retirement System's progress under the funding program, based on the aggregate accrued liability. In this test, the Plan's present assets (actuarial value) are compared with obligations in order of priority: (1) active member contributions on deposit; (2) the present value of future benefits to present retired lives; (3) the aggregate accrued liability for present active members.

In a System that has been following the discipline of level percent of payroll financing, the obligation for active member contributions on deposit (present value 1) and the present value of future benefits to present retired lives (present value 2) will be fully covered by present assets (except in rare circumstances).

In addition, the aggregate accrued liability for present active members (present value 3) will be partially covered by the remainder of present assets. Generally, if a retirement system has been using level cost financing, in the absence of benefit provision increases, the funded portion (of present value 3) will increase over time.

The Solvency Test illustrates the history of the obligation and reflects the MERS policy of following the discipline of level percent payroll financing. The solvency of the System remains sound. However, many municipalities have adopted richer benefits in recent years that have dampened the funding level. The System as a whole remains on track for meeting its obligations.

Solvency Test – (Dollars In Millions)

	Aggregate Accrued Liabilities				Portion of Accrued Liabilities Covered by Valuation Assets		
Valuation Date Dec. 31	(1) Active Member Contributions	(2) Retirees and Beneficiaries	(3) Active Members (Employer-Financed Portion)	Valuation Assets	(1)	(2)	(3)
2000	$318.4	$1,744.6	$2,334.0	$3,787.2	100%	100%	73.9%
2001	336.5	1,944.6	2,502.8	4,034.4	100	100	70.1
2002	359.2	2,159.1	2,662.8	4,133.0	100	100	60.6
2003	396.7	2,435.2	2,835.8	4,459.5	100	100	57.4
2004	422.5	2,696.6	3,045.7	4,732.2	100	100	53.0
2005	463.0	2,966.2	3,179.9	5,026.1	100	100	50.2
2006	518.0	3,314.5	3,355.2	5,493.8	100	100	49.5
2007	565.9	3,627.6	3,530.4	5,973.0	100	100	50.4
2008	591.9	4,029.2	3,700.7	6,245.5	100	100	43.9
2009	604.2	4,342.0	3,588.5	6,443.1	100	100	41.7
2010	652.1	4,950.7	3,714.4	6,945.4	100	100	36.1

SUMMARY OF PLAN DOCUMENT PROVISIONS

There were no recent changes in the nature of the Plan that would have a material impact on the actuarial valuations for December 31, 2010. Pursuant to a collective bargaining agreement, a participating municipality may provide for retirement benefits that are modifications of standard retirement benefits otherwise included, although the Hybrid Plan is not modifiable. The actuary took the known modifications into consideration when determining the municipality contribution rates in the December 31, 2010, actuarial valuation.

The benefits summarized in this section are intended only as general information regarding the Municipal Employees' Retirement System. The Comprehensive Annual Financial Report and valuation are not a substitute for the language of the MERS Act and the MERS Plan Document, as revised. If any conflict occurs between the information in this summary and the MERS Act or the MERS Plan Document, as revised, the provision of the Act and the MERS Plan Document govern.

The December 31, 2010, actuarial valuation was based on the provisions of the MERS Plan Document.

Defined Benefit Plan

Eligibility for Retirement

Monthly retirement payments are made over the lifetime of the retiree and/or over the lifetime of the beneficiary. Payments are based on the choice of benefits adopted by each municipality, and the final payment option elected by the retiring member.

Vesting occurs after 10 years of credited service unless the municipality selects a lesser number of years.

Normal retirement for a member occurs after vesting and attaining age 60. The municipality may choose other combinations of age and service such as age 55 and 15 years of service, age 50 and 25 years of service, etc. There is no mandatory retirement age.

Early retirement benefits are available if the vested member meets either the age 55 with 15 years of service or age 50 with 25 years of service eligibility requirements. The monthly payment is reduced (unless waived by the municipality) for each month the member is younger than the age the unreduced retirement benefits are available.

Benefit Formula

The annual benefit equals a specified percentage of the member's final average compensation, multiplied by the number of years and months of credited service. The plan has several benefit multipliers available. The benefit multipliers vary from 1.3% to 2.5%, and are adopted by a participating municipality.

Mandatory Retirement

There is no mandatory retirement age.

Deferred Retirement

Deferred retirement occurs when an employee leaves MERS covered employment after vesting, but before reaching the minimum retirement age. The member or beneficiary will become eligible for the deferred allowance once they reach the minimum retirement age. However, the member's contributions must remain on deposit with MERS.

Maximum Benefit Payable by MERS

The maximum benefit that may be paid by MERS is governed by Section 415 of the Internal Revenue Code. Benefits in excess of the maximum benefit will be paid by the MERS Excess Benefit Plan under Plan Section 55A.

Act 88 (Reciprocal Retirement Act)

If a municipality elects to come under the provision of Act 88, service with former and future public employers in Michigan may be used to satisfy the service eligibility conditions of MERS.

Final Average Compensation

Final average compensation (FAC) is the highest monthly average of a member's compensation over a consecutive period of months of credited service. The municipality selects the number of months. A FAC-3 is over a 36-month period, a FAC-5 is over a 60-month period. The compensation used in calculating the final average compensation cannot exceed the limit set by Internal Revenue Code Section 401(a)(17).

Disability Retirement Allowance – Duty or Non-Duty

Duty disability is available to a member who becomes totally and permanently disabled while employed by a participating municipality, and after meeting the vesting requirement of the benefit program. The service requirement is waived if the disability is the natural and proximate result of duty-related causes.

The allowance is computed in the same manner as a service retirement allowance, except that the reduction for retirement before age 60 is not applied.

If disability is due to duty-connected causes, the amount of the retirement allowance shall not be less than 25% of the member's final average compensation.

Death Allowance – Duty or Non-Duty

If a member or vested former member with the minimum years of service required to be vested dies before retirement, a monthly survivor allowance may be made payable.

If the member is married, the spouse is the automatic beneficiary unless the spouse, in writing, declines a benefit in favor of another named beneficiary.

A contingent survivor beneficiary will receive a retirement allowance computed in the same manner as a service retirement allowance, based on service and final average compensation at death, but reduced to reflect an Option II election. The reduction for retirement before age 60 is not applied. Payment to the contingent survivor beneficiary of a deceased member commences immediately. Payment to the contingent survivor beneficiary of a deceased vested former member commences on the date the member would have first satisfied eligibility for retirement with an unreduced service retirement allowance.

If there is no named beneficiary and the member leaves a spouse, the spouse will receive an Option II survivor allowance. The amount shall be 85% of the deceased member's or the deceased former vested member's accrued retirement allowance computed in the same manner as a service retirement allowance, based on service and final average compensation at the time of death. Payment to the surviving spouse of a deceased member commences immediately. Payment to the contingent surviving spouse of a deceased former vested member commences on the date the member would have first satisfied eligibility for retirement with an unreduced service retirement allowance. The amount of a surviving spouse's benefit is always the larger of (1): the benefit computed as a contingent survivor beneficiary, and (2) the 85%

of accrued retirement allowance benefit described above.

If there is no named beneficiary and no retirement allowance being paid to a surviving spouse, unmarried children under 21 will be paid an equal share of 50% of the deceased member's or the deceased former vested member's accrued retirement allowance. The reduction for retirement before age 60 is not applied.

If no retirement benefits are payable on death, the beneficiary or the decedent's estate would receive a refund of the employee's contributions.

A duty death allowance, computed in the same manner as a non-duty death allowance, may be payable to a spouse or child(ren) if death occurs as the natural and proximate result of performance of duty with a participating municipality. The vesting requirement is waived, and the minimum benefit is 25% of the deceased member's final average compensation.

Member Contributions

Each member may contribute a percentage of their annual compensation, if selected by the municipality, up to the compensation limit under Section 401(a)(17) of the Internal Revenue Code. Interest is credited to accumulated member contributions each December 31 at a rate determined by MERS. Currently MERS is using the one-year U.S. Treasury bill rate determined as of December 31.

If a member leaves the municipality, or dies without a retirement allowance or other benefit payable on their account, the member's accumulated contributions plus interest are refunded with spousal consent to the member, if living, or to the member's surviving spouse or a named beneficiary.

Post-Retirement Adjustments

Each municipality may elect to provide post-retirement adjustments to retirees and their beneficiaries. The municipality can choose a one-time adjustment, an annual adjustment for all retirees or, an adjustment for future retirees only. This cost-of-living adjustment (COLA)-type of increase is effective in January of each year.

Forms of Benefit Payment

The member elects a payment option as part of the retirement application process. Once the election is made, the selection is irrevocable after receipt of first payment. The payment options include:

1. Straight Life over the retiree's life only.
2. A reduced benefit to cover retiree and beneficiary as long as either lives.
3. A reduced benefit to cover retiree for their lifetime and further reduced to 75% or 50% of the original reduced amount to cover beneficiary (if the beneficiary outlives the retiree).
4. A reduced benefit for the retiree's life guaranteed for a specified number of years. The reduced benefit continues for the beneficiary even if the retiree dies, but terminates after the guaranteed number of years.

DROP+ - Delayed Retirement Option Partial Lump Sum

Any member (covered or not covered by the Benefit Program DROP+) who is eligible to retire with full, immediate retirement benefits, has the option to retire and receive a monthly benefit payable immediately, or delay the retirement date and continue to work.

If a member is covered by the Benefit Program DROP+ and retires at least 12 months after first becoming eligible for unreduced benefits, they have the option to receive a partial lump sum and a reduced monthly benefit at actual retirement. The member can elect a lump sum equal to 12, 24, 36, 48, or 60 times their monthly accrued benefit. For each 12 months included in the lump sum, the member's lifetime benefit is reduced by the DROP+ percentage adopted by the employer. The employer can adopt any of the following DROP+ reduction percentages: 4, 5, 6, 7, or 8%.

Hybrid Plan

Part I - Defined Benefit Portion of Hybrid Plan

Eligibility for Retirement

Monthly retirement payments are made over the lifetime of the retiree and/or over the lifetime of the beneficiary. Payments are based on the choice of benefits adopted by each municipality, and the final payment option elected by the retiring member.

Vesting occurs after six years of credited service.

Normal retirement for a member occurs after vesting and reaching age 60. (There is not a mandatory or early retirement provision.)

Benefit Formula

The annual benefit equals a specified percentage of the member's final average compensation multiplied by the number of years and months of credited service. Percentage options are 1, 1.25, and 1.5%, and may be selected by a participating municipality.

Mandatory Retirement

There is no mandatory retirement age.

Deferred Retirement

Deferred retirement occurs when an employee leaves MERS covered employment after vesting, but before reaching the minimum retirement age. The member or beneficiary will become eligible for the deferred allowance once they reach the minimum retirement age. However, the member's contributions must remain on deposit with MERS.

Maximum Benefit Payable by MERS

Section 415 of the Internal Revenue Code governs the maximum benefit that may be paid by MERS. Benefits in excess of the maximum benefit will be paid by the MERS Excess Benefit Plan.

Act 88 (Reciprocal Retirement Act)

If the municipality has elected to come under the provision of Act 88, service with former and future public employers in Michigan may be used to satisfy the service eligibility conditions of MERS.

Final Average Compensation

Final average compensation (FAC) is computed using the FAC-3 under the Defined Benefit Plan. The compensation used in calculating final average compensation cannot exceed the limit set by Internal Revenue Code Section 401(a)(17).

Disability Benefit – Duty or Non-Duty

Benefits are the same as are provided in the Defined Benefit Plan, except that optional benefit program D-2 does not apply.
Death Allowance – Duty or Non-Duty
Benefits are the same as are provided in the Defined Benefit Plan, except that the optional benefit program D-2 does not apply.

Member Contributions

There are no member contributions.

Post-Retirement Adjustments

There are no post-retirement adjustments within the Hybrid Plan.

Forms of Benefit Payment

The member elects a payment option as part of the retirement application process. Once the election is made, the selection is irrevocable after receipt of the first payment.

The payment options include:

1. Straight Life over the retiree's life only.
2. A reduced benefit to cover retiree and beneficiary as long as either lives.
3. A reduced benefit to cover retiree for their lifetime, and further reduced to 75% or 50% of the original reduced amount to cover beneficiary (if the beneficiary outlives the retiree).
4. A reduced benefit for the retiree's life guaranteed for a specified number of years. The reduced benefit continues for the beneficiary even if the retiree dies, but terminates after the guaranteed number of years.

DROP+ Delayed Retirement Option Partial Lump Sum

There is no DROP+ option in the Hybrid Plan.

Part II - Defined Contribution Portion of Hybrid Plan

Contributions - Employer

Any percentage of compensation is allowed by federal law.

There are three optional vesting schedules for an employer to adopt:

- Immediate vesting upon participation
- 100% vesting after stated years (the maximum vesting period is five years), or
- Graded vesting percentages per year of service (must be 100% vested after six years)

Contributions – Member

Any percentage of compensation is allowed by federal law and subject to procedures established by the Retirement Board. Member contributions are vested immediately.