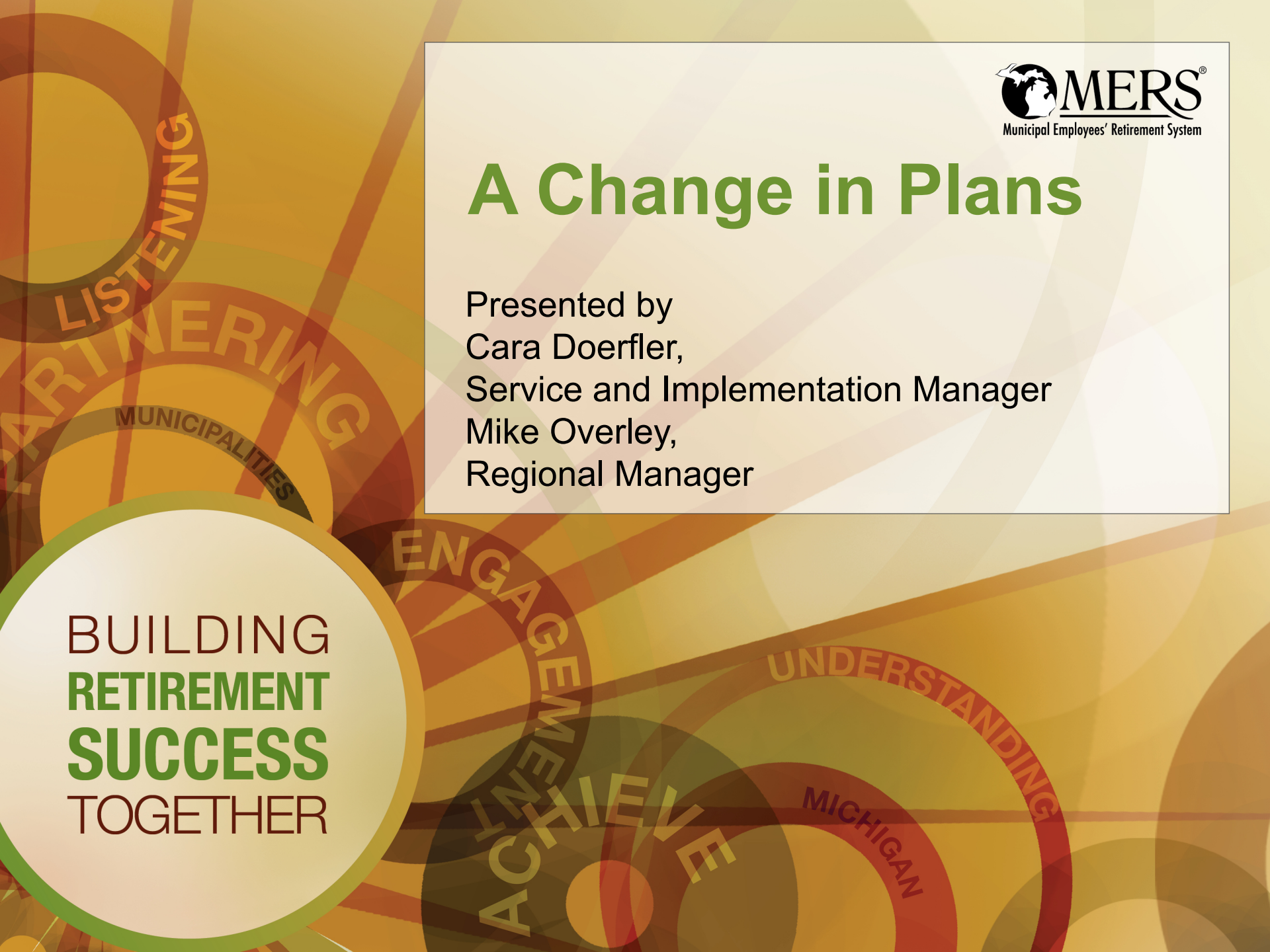


A Change in Plans

Presented by
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BUILDING
RETIREMENT
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Today's Agenda

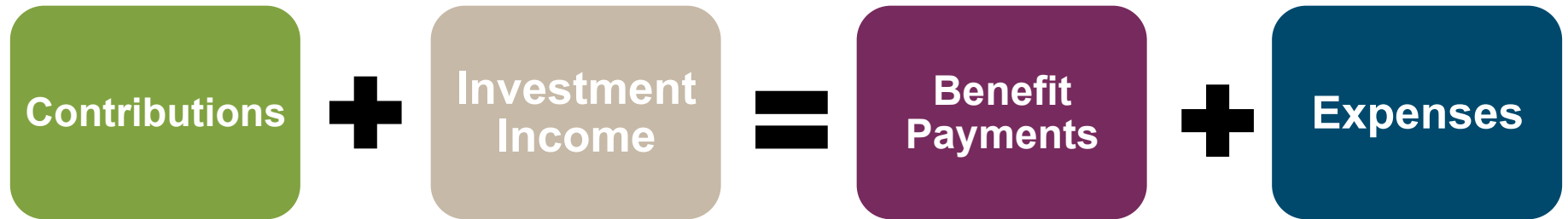
- Funding Concepts of Retirement Plans
- Changing from Defined Benefit to Defined Contribution
- Defined Benefit to Hybrid
- Defined Contribution to Hybrid

Funding Concepts of Retirement Plans

- Pre-funding
 - Set aside money now to pay for the benefits promised later
 - Investment income helps pay for the benefits promised
 - More level funding method
- Pay-as-you-go
 - Pay the benefits as they come due
 - Forego investment income
 - Increasing funding method

Funding Concepts of Retirement Plans

Basic Funding Equation



This equation must hold for any financing arrangement to be self-sustaining

Funding Concepts of Retirement Plans

- Defined Benefit Plan
 - Actuarial valuation is necessary to calculate the employer contribution
- Defined Contribution Plan
 - Actuarial valuation is not needed because employer contribution is defined
- Hybrid Plan
 - An actuarial valuation is necessary for the defined benefit portion

Funding Concepts of Defined Benefit Plans

- The employer contribution is the sum of Normal Cost and Amortization of the Unfunded Actuarial Accrued Liability
 - Amortization is paid off over a period of years, similar to a mortgage





Defined Benefit To Defined Contribution

How it Works

- New hires, rehires, and transfers are covered by the Defined Contribution Plan
 - Active employees may be given a one-time option to convert
- Funding level for municipality and division is considered when making this change
- Projection Study is required
 - Shows long term cost of the plan
 - How employer would be affected
- Defined Benefit division subject to closed division policy
 - Reduced amortization schedule and accelerated funding requirements
 - Assets in the Defined Contribution Plan cannot be used to pay benefits for members covered by closed Defined Benefit Plan

Closed Division Amortization Policy

- MERS Board requires accelerated funding of a closed defined benefit division, which ensures it is funded properly
 - Assets are dedicated for future retirees
 - Currently, MERS requires the municipality to become fully funded more rapidly in order to pay promised benefits
- MERS has two options for amortization

Closed Division Amortization Policy

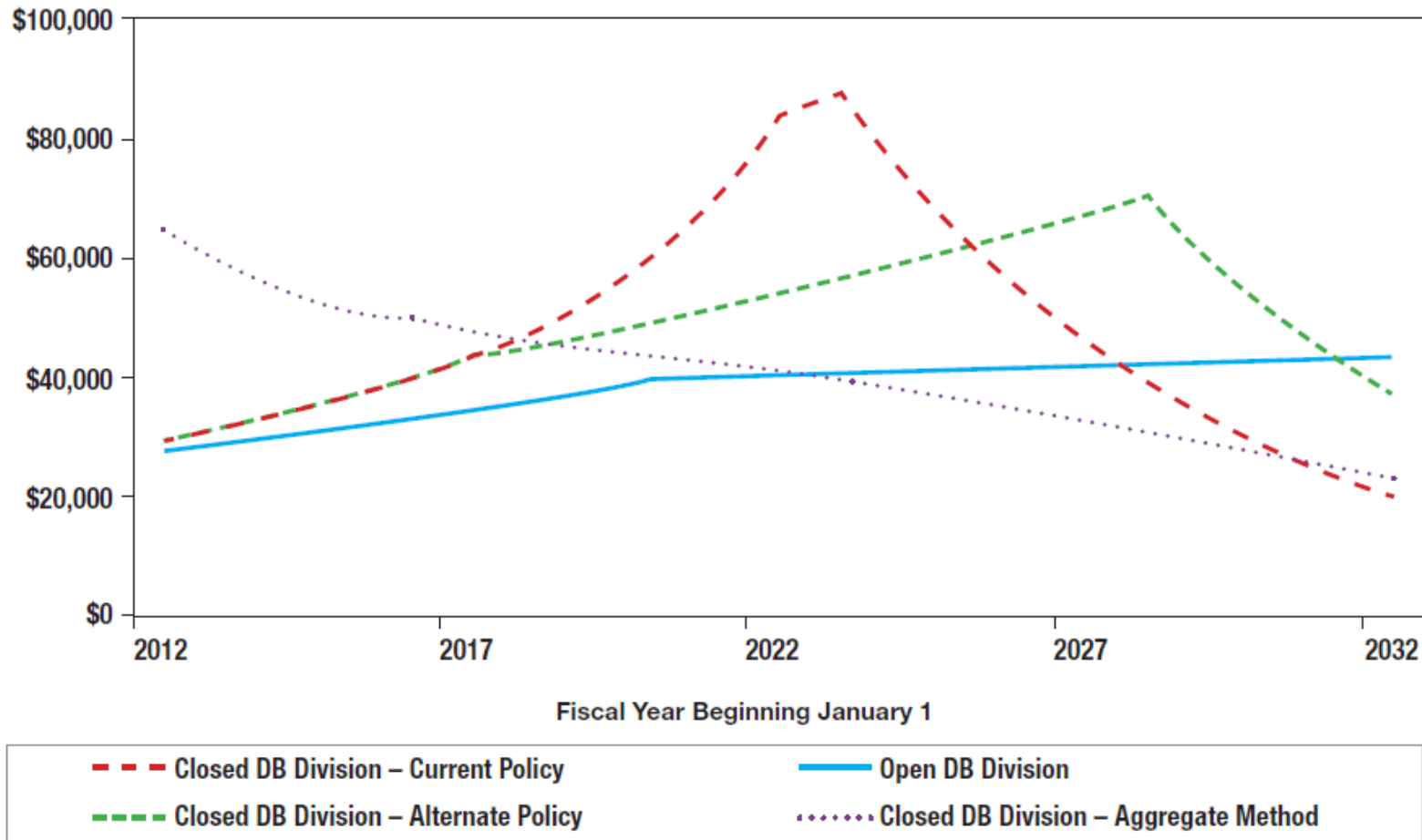
Option A Current MERS Policy

- Amortization period begins two years below current schedule
- Schedule decreases by two years each year until five years is reached
- Division holds at a five year amortization schedule

Option B Alternative MERS Policy

- Amortization period begins two years below current schedule
- Schedule decreases by two years each year until 15 years is reached
- Schedule decreases by one year each year until it reaches five years
- Division holds at a five year amortization schedule

MERS Amortization Policies



Comparing Contribution Rates

Compare Defined Benefit Plan **employer normal cost** to the **proposed employer contribution rate** of the Defined Contribution Plan

- The employer normal cost is found in your Annual Actuarial Valuation



Comparing Contribution Rates

	Employer Contributions @		
Division	Normal Cost	Unfunded Accrued Liability	Total Required Employer Contribution
Percentage of Payroll 01 – General	7.50%	5.50%	13.00%
Estimated Monthly Contribution 01 – General	<u>\$1,320</u>	<u>\$973</u>	<u>\$2,293</u>
Total Municipality	\$1,320	\$973	\$2,293
Estimated Annual Contribution Total Municipality	\$15,840	\$11,676	\$27,516



Defined Benefit To Hybrid

How it Works

- An actuarial report is needed to calculate the contributions for the new Hybrid Plan
- New hires, rehires, and transfers are covered by the Hybrid Plan
 - Active employees may be given a one-time option to convert
 - Service is coordinated for vesting purposes for both parts of Hybrid
- Defined Benefit Plan division is **not** subject to the closed division policy
 - Assets can be used to finance the benefits for members covered by old Defined Benefit Plan and members covered by the new Hybrid Plan Part I - defined benefit portion
 - No accelerated funding and short term contribution spike

Moving to Hybrid Example

	Current Defined Benefit Structure	Proposed Hybrid Defined Benefit Part I*
Benefit Structure		
Benefit Multiplier	2.5% (80% max)	1.0%
Final Average Compensation (FAC)	5 years	3 years
Vesting	10 years	6 years
Early Retirement Options	Age 55 with 15 years of service	None
Cost		
Employee Cost	3.62%	None
Employer Normal Cost	8.16%	4.49%

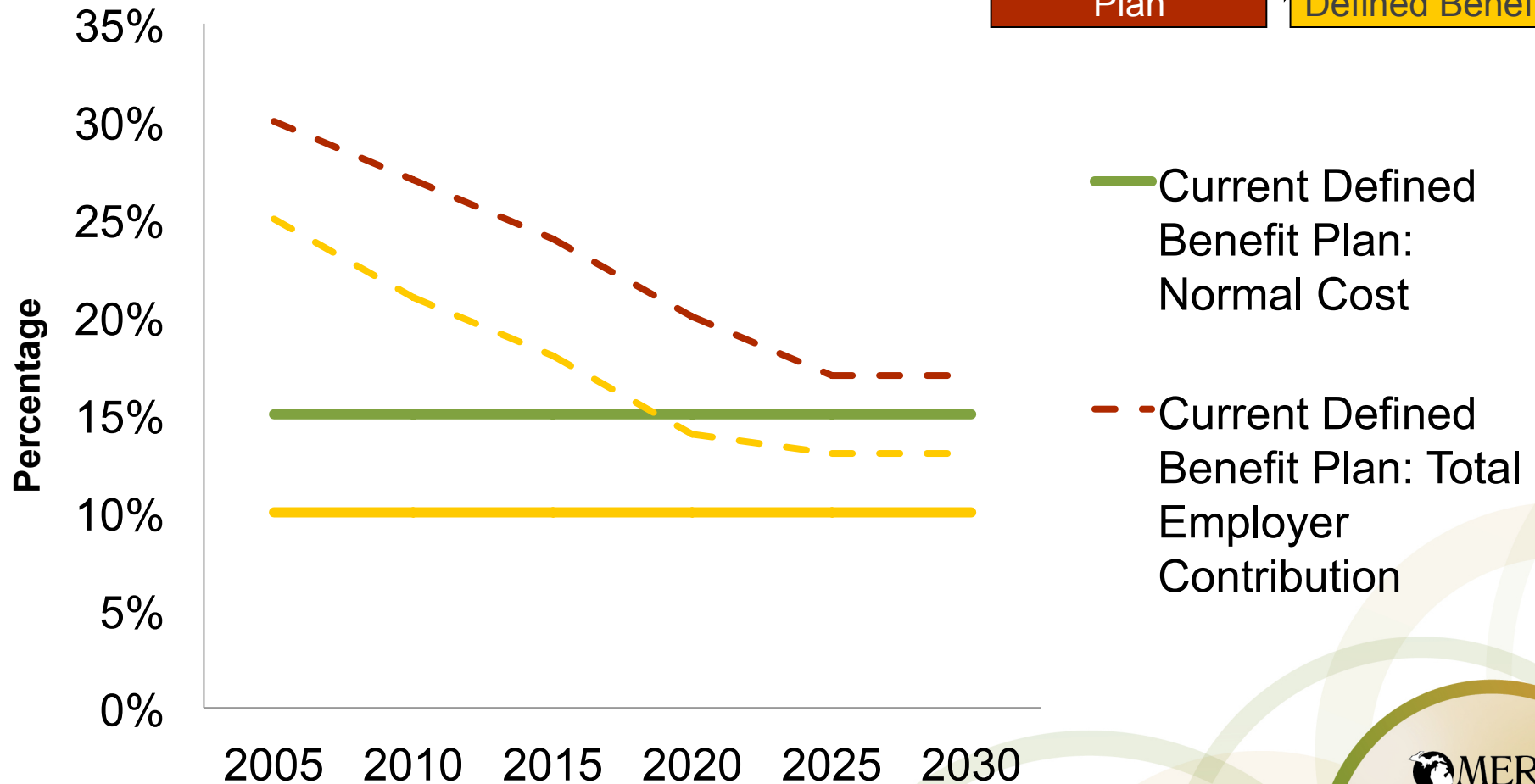
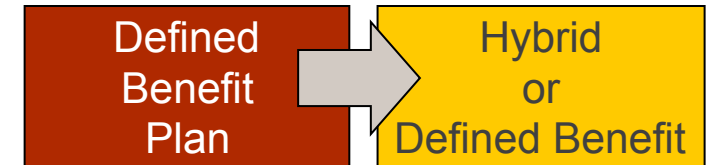
*Hybrid Part II – defined contribution determined by the employer

Moving to Hybrid Plan Example, Cont'd.

	Current Defined Benefit Plan	Proposed Hybrid Plan	
		Defined Benefit Part I	Defined Contribution Part II
Employee Cost	3.62%	N/A	2.50%
Employer Cost	8.16%	4.45%	2.50%
Total Plan Cost	11.78%	9.45%	

MERS Hybrid Plan Example

Employer Contribution Rates





Defined Contribution To Hybrid

How It Works

- Actuarial report need to calculate contributions
- New hires, rehires, and transfers covered by the Hybrid Plan
 - Active employees may be given one-time option to convert
 - Service is coordinated for vesting purposes for both parts of Hybrid
 - Benefit service accrual for defined benefit portion of Hybrid begins at the date of adoption
 - Defined Contribution Plan asset balances move to the defined contribution portion of Hybrid

Important Points to Consider

- Understand how your Defined Benefit Plan is funded and the actuarial elements
- How will the change affect employees, current and new hires
- MERS Fiscal Responsibility Policy
- Understand MERS Cost-Reducing Strategies for your municipality

Defined Benefit Cost-Reducing Strategies

Strategy	Description	Trend 201220112010	Impact
Cost Sharing	Employees contribute to help fund the overall cost of the plan	<div><div>149</div><div>176</div><div>109</div></div>	<ul style="list-style-type: none">Reduces the employer cost, but does not affect total cost, or the plan’s unfunded liability
Lower Benefit to New Hires	New hires are covered by a lower tier of either Defined Benefit or Hybrid benefits	<div><div>89</div><div>77</div><div>8</div></div>	<ul style="list-style-type: none">Existing employees are not affectedReduces the liability for new hires
Bridged Benefits	Benefits are offered in parts to existing employees Multiplier is lowered on a going-forward basis	<div><div>17</div><div>14</div><div>2</div></div>	<ul style="list-style-type: none">Leaves earned benefits unchangedReduces the liability for new hires and existing employees

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