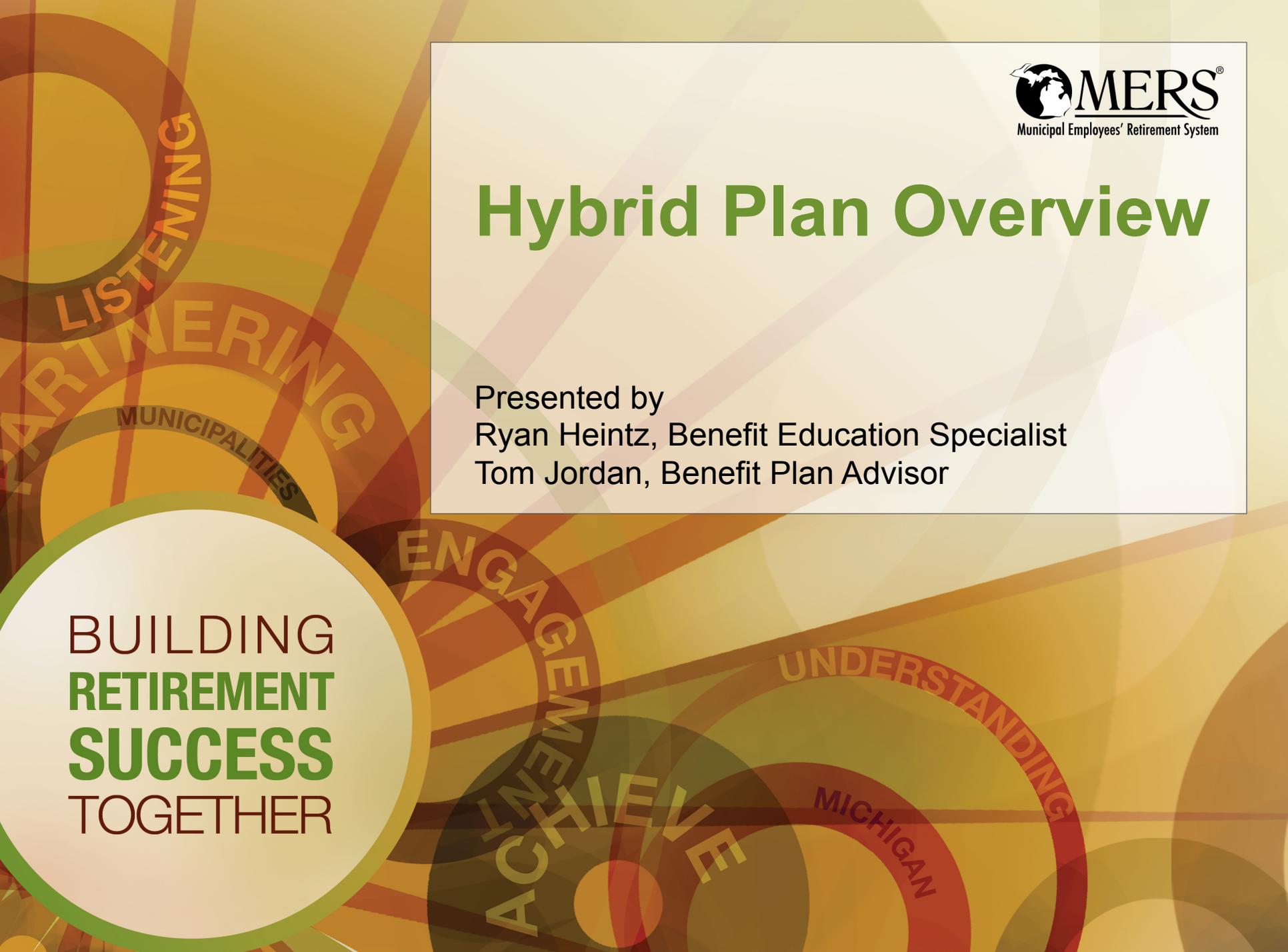


# Hybrid Plan Overview

Presented by  
Ryan Heintz, Benefit Education Specialist  
Tom Jordan, Benefit Plan Advisor

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# MERS Hybrid Plan

Offers combination of both MERS Defined Benefit and MERS Defined Contribution plans:

- Stability and security of a defined benefit plan funded by employer
  - Employee contribution provision available for adoption by eligible employers
- Flexibility and investment choice of a defined contribution plan
- May be funded by employer and employee

# MERS Hybrid Plan

Part I – Defined Benefit

Final Average Compensation	X	Service Credit	X	Benefit Multiplier	=	\$ Annual Benefit
----------------------------	---	----------------	---	--------------------	---	-------------------

Part II – Defined Contribution

Employer Contributions	+	Employee Contributions	+	Earnings or Losses in the Market	-	Fees	=	\$ Account Balance
------------------------	---	------------------------	---	----------------------------------	---	------	---	--------------------

+

\$ Total Retirement Benefit
-----------------------------



# Understanding Hybrid Part I - Defined Benefit Formula

Final Average  
Compensation

Service Credit

X

Benefit  
Multiplier

=

\$ Annual Benefit

## *Final Average Compensation (FAC)*

- Highest consecutive 3 years of wages
- Compensation may include regular salary, longevity, vacation, overtime, and paid time off (PTO) earned within the FAC period

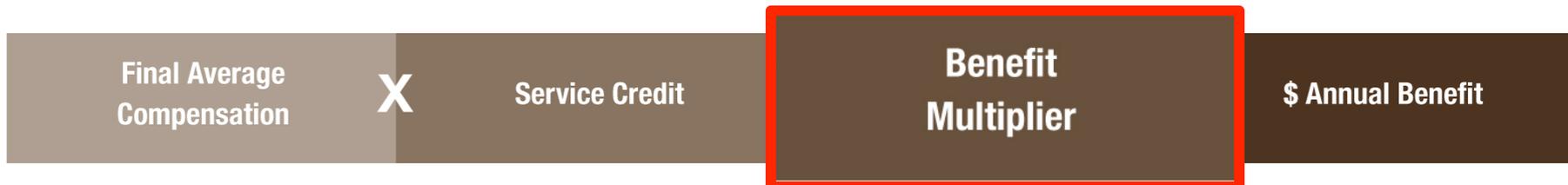
# Understanding Hybrid Part I - Defined Benefit Formula



## *Service Credit*

- Earned for each month of qualified work that meets employer's requirements
- Service credit is reported to MERS through MERS Employer Portal
- You can view service credit history through myMERS

# Understanding Hybrid Part I - Defined Benefit Formula



## ***Benefit Multiplier***

- Specific percentage adopted by the employer for each division
- Benefit multipliers range from 1% to 2%
  - 1.75% and 2.0% multipliers only available for divisions that do not participate in Social Security



# Hybrid Part II: Defined Contribution

# Understanding Hybrid Part II – Defined Contribution Formula

Employer Contributions	+	Employee Contributions	+	Earnings or Losses in the Market	-	Fees	=	\$ Account Balance
---------------------------	---	---------------------------	---	--	---	------	---	--------------------

- An individual account to which contributions are made and invested
- Benefits are based on the total amount of money in the account

## Common Misconceptions

Employers and participants may confuse 401(a) and 401(k). A big difference is that **by law**, public sector employers are required to provide a 401(a) plan. Additionally employee contributions are determined by the employer and can not be changed.

# Understanding Hybrid Part II – Defined Contribution

Employer  
Contributions

Employee  
Contributions

+

Earnings or  
Losses in  
the Market

-

Fees

=

\$ Account Balance

## *Employer Contributions*

- Made on a pre-tax basis
- Not taxable until withdrawn from the plan
- Three options for contributions
  1. Fixed dollar or percentage, without any required employee contributions
  2. Fixed dollar or percentage, with required employee contributions
  3. Fixed percentage of employee contributions is matched

# Understanding Hybrid Part II – Defined Contribution



## ***Mandatory Employee Contributions***

- Made on a pre-tax basis
- Fixed dollar or required percentage
  - Employee elects amount at enrollment that cannot be changed

## ***Voluntary After-Tax Contributions***

- Allowed through payroll deduction
- Can start and stop contributions at any time
- The maximum an employee can contribute is 25% of salary

# Understanding Hybrid Part II – Defined Contribution

## *Contribution Limits*

Internal Revenue Service sets annual contribution limit (employer and employee contributions), which is the lesser of:

- Up to 100% of gross wages (minus pre-tax contributions and FICA taxes)
- No more than the IRS allowed annual limit on contributions
  - \$51,000 in 2013 (adjusted annually)
  - IRS contribution limits available on MERS website

# Understanding Hybrid Part II – Defined Contribution

- Accepts rollovers from eligible plans
- Amounts rolled over are not subject to federal income tax
- Money grows tax-deferred until withdrawn
- Examples of eligible plans include:
  - 401(a) or 401(k)
  - Tax sheltered annuity contract (403b)
  - Eligible deferred compensation plans (457b)
  - Individual Retirement Account (IRA), Traditional or SIMPLE

## Benefits of rolling into MERS Defined Contribution Plan

- MERS average fees may be lower
- Access to MERS investment expertise and funds
- Receive information and service from one plan



**MERS  
Investment  
Menu**

# MERS Investment Menu

- Historically, participants have had to make a lot of complex decisions in a self-directed plan
- MERS sought to improve participant outcomes by developing a strategic and streamlined investment menu
- The MERS Investment Menu has a concentrated list of options to provide quality over quantity, following industry best practices
  - Options are grouped into four logical “sleeves” that participants can identify with, which assists in simplified decision making

## MERS Retirement Strategies

- Default fund for the MERS Defined Contribution Plan
- Nearly half of participants are in the MERS Retirement Strategies funds (47.6%)

# Benefits of MERS Investment Menu

- MERS is the fiduciary, meaning we have an obligation to place the participant's interest first in making any decisions about the plan
- The MERS Retirement Board and the MERS Office of Investments:
  - Actively monitor and select the fund lineup and investment managers
  - Ensures quality investment options are offered
  - Negotiates fees that individuals would not be able to negotiate on their own

# How it Works

- MERS provides resources to help select funds
- Participants choose the investment category that best meets their needs
- Participants can take the investor profile quiz to learn more about their investing style

**Understanding the MERS Investment Menu**  
For participants in the MERS Defined Contribution Plan, MERS Hybrid Plan, MERS Health Care Savings Program or MERS 407 Supplemental Retirement Program

**The MERS Investment Menu**  
When it comes to meeting the first step to meeting your goals is finding an investment strategy that best suits you. The MERS Investment Menu is comprised of four strategic categories designed with a diversified approach to choosing investments. Take this short quiz to find the category that sounds appropriate for your needs.

**Get started**  
Choose one of the investment categories that feels the most comfortable to you:

- "I want a simplified way to invest. I would like an option that is both fully diversified and professionally managed, and I don't want to invest."
- "I want a fully diversified, professionally managed charge of changing over time."
- "I want to start with a fully diversified, professional and flexible investment using MERS."
- "I want to build my own portfolio using a variety of funds selected for me by MERS."
- "I want to build my own portfolio using funds."

**Investor Profile Quiz**  
The section offers some helpful information when building or fine-tuning your retirement portfolio, and can help you understand what kind of investment strategy best suits you. These questions are just to get you started. The following quiz is to help you evaluate your risk tolerance. However, it will help you think about some important considerations. It may also help determine whether you are a conservative, moderate, or an aggressive investor. You should consult your investment advisor to determine the strategies that are right for you.

Investor Profile Quiz	None	Low	Medium	High	Very High
1. I am willing to accept a greater degree of risk to gain the potential for higher returns.	1	2	3	4	5
2. I am willing to invest on a long term basis.	1	2	3	4	5
3. If one of my investments dropped 20% in value over six months due to a stock market fluctuation, I would hold on to that investment, expecting to recover its value.	1	2	3	4	5
4. I have sources of savings other than my MERS account that make me feel better about my financial future.	1	2	3	4	5

Total Score: \_\_\_\_\_

Use the results from your investor profile quiz and your time horizon to determine the investor profile which best suits your needs.

Investor Profile	Mid-Care (20-30)	Mid-Care (31-40)	Mid-Care (41-50)
10 or more	Conservative Growth (C)	Moderate Growth (M)	Conservative Growth (C)
11-20	Moderate Growth (M)	Conservative Growth (C)	Income Oriented (I)
10 or less	Conservative Growth (C)	Income Oriented (I)	Income Oriented (I)

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# Department of Labor Requirements Participant Fee Disclosure Overview

- All participants and beneficiaries:
  - Have access to general plan and investment information
  - Be made aware of rights and responsibilities
  - Have sufficient information to make informed decisions about management accounts

# MERS Resources

**3Q 9/30/11**  
Page 1 of 4  
1314 Municipal Way Lansing, MI 48917 | 517.793.9630 | 800.742.2308  
www.mersofmich.com

### Investment Menu Summary

Performance Summary  
Defined Contribution, Hybrid (Part II) Plans, Health Care Savings Program, and 457

Fund Type	Quarter-to-Date	1 yr.	3 yr.	5 yr.	10 yr.	inception date
<b>Stable Value Funds</b>						
MERS Stable Value Fund (not available to HCF or 457)	0.74%	-	-	-	-	Jan. 2011
<b>Bond Funds</b>						
MERS Short Term Managed Income Fund	0.59%	-1.03%	1.82%	4.54%	6.03%	Jan. 1987
MERS Diversified Bond Fund	0.59%	-1.03%	2.46%	3.86%	3.23%	Jan. 1987
MERS Capital U.S. Government MBS Index	1.06%	3.33%	9.19%	6.65%	6.01%	Jan. 1987
Barrage Capital U.S. Aggregate Index	3.62%	3.26%	7.07%	6.53%	3.95%	Jan. 2011
American Century Government Bond Fund	4.36%	-	-	-	-	Jan. 2011
Dreyfus Bond Market Index	3.72%	-	-	-	-	Jan. 2011
Barrage Capital U.S. Aggregate Bond Index	3.62%	-	-	-	-	Jan. 2011
PRMCO Total Return Fund	-1.56%	-	-	-	-	Jan. 2011
Barrage Capital U.S. Aggregate Bond Index	3.62%	-	-	-	-	Jan. 2011
PRMCO High Yield Fund	-4.38%	-	-	-	-	Jan. 2011
Bank of Montreal U.S. High Yield, BB-B Rated, Constrained Index	-4.29%	-	-	-	-	Jan. 2011
<b>Target Date Funds</b>						
MERS 2005 Retirement Strategy	-5.92%	-	-	-	-	Jan. 2011
Custom Benchmark	-5.81%	-	-	-	-	Jan. 2011
MERS 2010 Retirement Strategy	-8.15%	-	-	-	-	Jan. 2011
Custom Benchmark	-8.00%	-	-	-	-	Jan. 2011
MERS 2015 Retirement Strategy	-9.81%	-	-	-	-	Jan. 2011
Custom Benchmark	-9.71%	-	-	-	-	Jan. 2011
MERS 2020 Retirement Strategy	-11.23%	-	-	-	-	Jan. 2011
Custom Benchmark	-11.03%	-	-	-	-	Jan. 2011
MERS 2025 Retirement Strategy	-12.62%	-	-	-	-	Jan. 2011
Custom Benchmark	-12.43%	-	-	-	-	Jan. 2011
MERS 2030 Retirement Strategy	-14.27%	-	-	-	-	Jan. 2011
Custom Benchmark	-14.05%	-	-	-	-	Jan. 2011
MERS 2035 Retirement Strategy	-15.23%	-	-	-	-	Jan. 2011
Custom Benchmark	-15.01%	-	-	-	-	Jan. 2011
MERS 2040 Retirement Strategy	-16.12%	-	-	-	-	Jan. 2011
Custom Benchmark	-15.94%	-	-	-	-	Jan. 2011
MERS 2045 Retirement Strategy	-16.10%	-	-	-	-	Jan. 2011
Custom Benchmark	-15.88	-	-	-	-	Jan. 2011
MERS 2050 Retirement Strategy	-16.11%	-	-	-	-	Feb. 2011
Custom Benchmark	-15.84	-	-	-	-	Feb. 2011
MERS 2055 Retirement Strategy	-16.13%	-	-	-	-	Feb. 2011
Custom Benchmark	-15.84	-	-	-	-	Feb. 2011

Overview Booklet with Glossary of Terms

Performance and Fee Summary

Fund Sheets



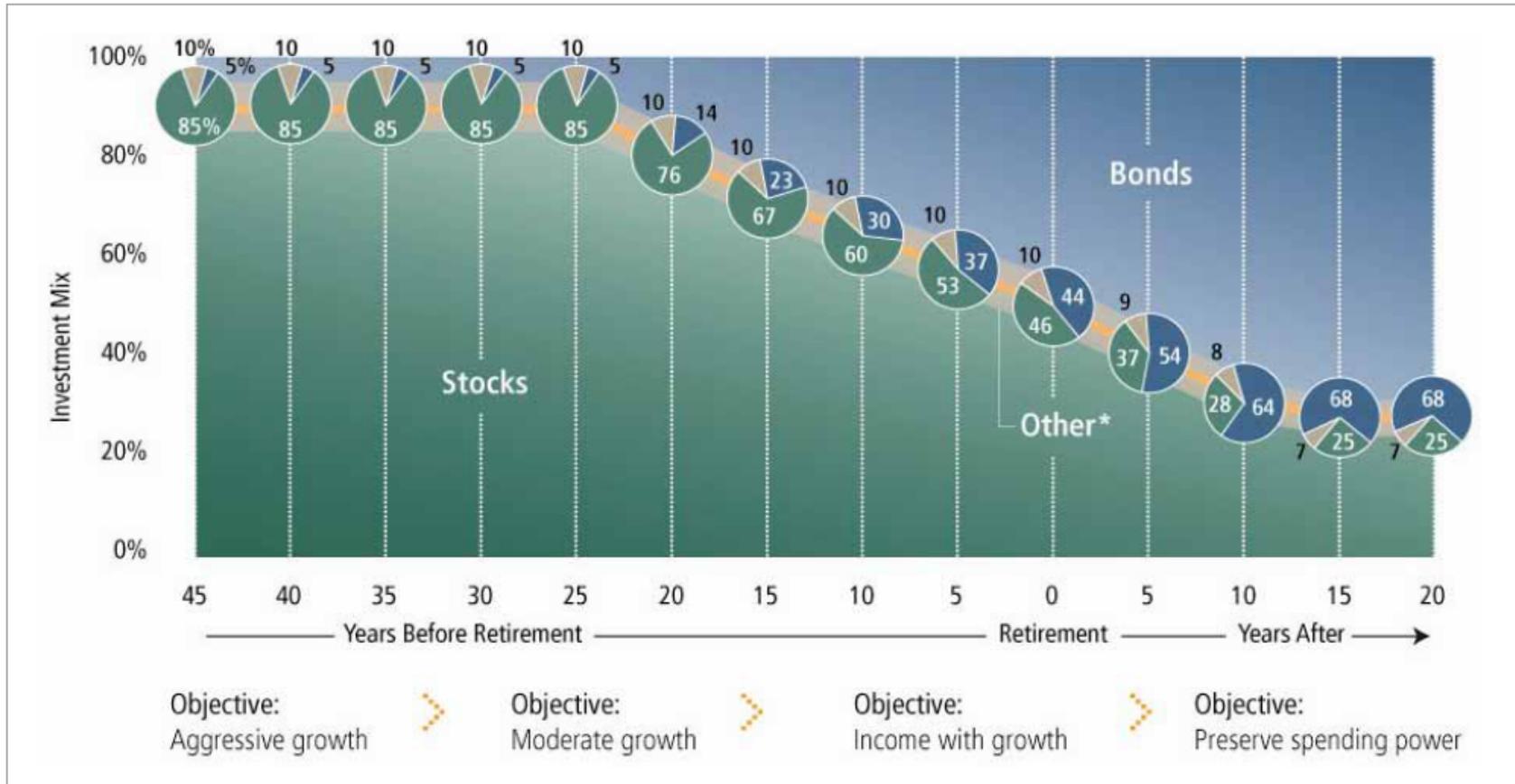
## Retirement Strategies

### *Target Date Funds*

For those who want a simplified way to invest

- Complete diversified investment fund
- Assets change from aggressive to conservative as participant approaches selected retirement age and through retirement
- Default investment selection, based on projected retirement age 60

# How the Glide Path Works



\*Other includes Global Real Estate Investment Trusts (REITs) and Commodities



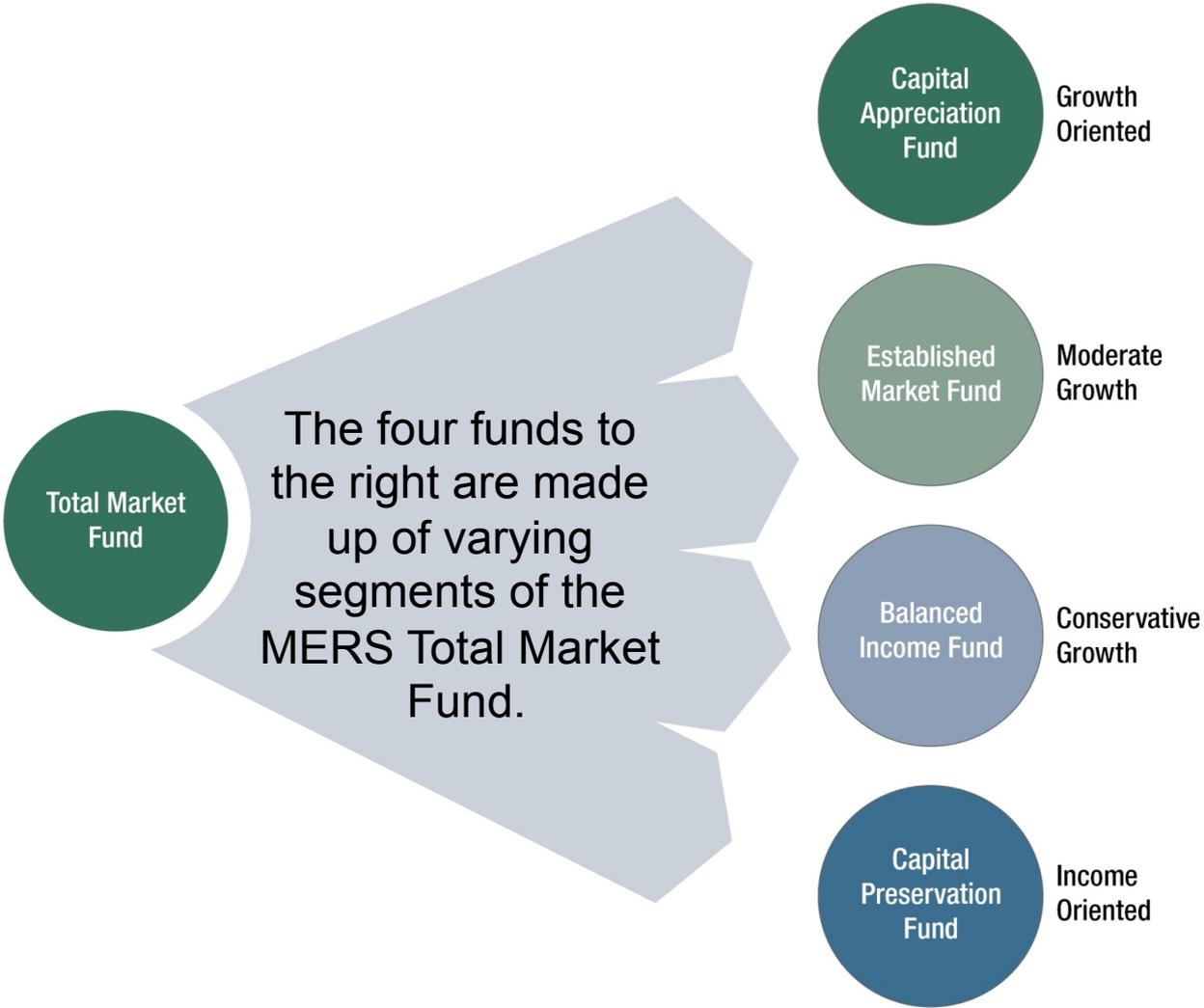
## Diversified Portfolios

### *MERS-managed portfolios*

For those who want a fully diversified, professionally managed portfolio they are in charge of changing

- Professionally managed by MERS
- Customized to participant's risk preferences
- Each have target allocation mix rebalanced (or readjusted) quarterly

# How Diversified Portfolios Work



# 3

## Expanded Funds

*Building and fine-tuning your own portfolio*

For the investor who knows their goals, risk tolerance and time horizon and wants to build or add to their current portfolio

- Gives experienced investors a variety of funds to select from
- Can be a great addition to the other categories and help to further diversify investment portfolio and fine-tune strategy
- MERS actively monitors the selection of funds to ensure quality

# 4

## Self-Directed Brokerage Window

*More choices for experienced investors*

For the experienced investor who wants access to even more options

- Gives access to over 1,000 additional investments:
  - Individual securities
  - Mutual funds in a variety of share classes
- Available through Charles Schwab
- Certain restrictions apply

# Making Investment Changes

- Make changes online through myMERS
- Use the *Payroll/Investment Election Form*
- Call our Service Center at 800.767.2308



# Vesting

## Hybrid Plan Part I – Defined Benefit

- Requires 6 years of service to be vested
- Employees are eligible to collect benefits at age 60
- Option for age 55 with 25 years of service

## Hybrid Plan Part II – Defined Contribution

- Employer selects one of these options:
  - Immediate vesting – fully vested once enrolled
  - 100% vested after predetermined years of service
  - Graded vesting
- Automatic Vesting Age

### ***Did you know?***

Employee contributions are 100% vested



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# Other Vesting Considerations

## ***MERS-to-MERS Time***

- Minimum of 12 months of service at each employer
- Cannot have a break of more than 20 years between MERS employers

## ***Reciprocal Retirement Act (Act 88)***

- Current employer must have adopted Act 88
- Minimum of 30 months of credited service

# Naming a Beneficiary

Spouse is always beneficiary for Hybrid, unless they waive that right in writing

## *Hybrid Part I – Defined Benefit*

- Survivor beneficiary receives a lifetime benefit if employee is vested and dies before retiring
- MERS does not allow a trust, estate, or any other legal entity to be named as a survivor beneficiary for the defined benefit portion of the MERS Hybrid Plan

# Naming a Beneficiary

## *Hybrid Part II – Defined Contribution*

- If there is no spouse (or spouse waives their rights), employees may choose one or more persons as the primary or contingent beneficiary
- Employee may also name a trust, estate or any legal entity as the beneficiary

# Disability Benefits

## *Part I – Defined Benefit*

- Duty
  - Work related injury or illness
  - No vesting requirement
  - Spousal minimum benefit of 25% of FAC
- Non-duty
  - Non-work related injury/illness
  - Must meet vesting requirement
  - Calculation formula same as normal retirement

## *Part II – Defined Contribution*

- Automatic vesting once approved by employer
- May be eligible to receive benefit without early withdrawal penalties

# Divorce

- Pension benefits are considered marital property and former spouse may be eligible to receive benefits
- State of Michigan enacted the Eligible Domestic Relations Order (EDRO)
- MERS requires copy of the entire Judgment of Divorce
- Contact MERS before settlement discussions

# Changing Jobs at a Municipality

- If moving to a different position at your municipality with different MERS benefits, you must participate in the open, active plan
  - Your municipality may have Alternative Transfer Rules
    - In this case you have a choice of:
      - The division's open, active plan
- OR**
- Closed plan, if there are active employees in the plan and it matches your prior plan (defined benefit to defined benefit)

# Leaving before Retirement

## *Part I – Defined Benefit*

- Benefits may be deferred until age and service requirements are met
- Service credit may be used to meet eligibility requirements if employee returns to work for any MERS municipality within 20 years

# Leaving Current Employment

## *Part II Defined Contribution*

- You may withdraw assets from the plan without tax penalty if you leave employment after Jan. 1 of the year you turn 55
- If you leave employment before this time, you must wait until they are age 59 ½ to take withdrawals without penalty

Keep account  
with MERS

Full or partial  
rollover

Withdraw the  
account\*

MERS Stable  
Income Annuity

*\*Taxes and penalties may apply*

# Applying for Retirement

You can find the MERS Defined Benefit Retirement Process online at [www.mersofmich.com](http://www.mersofmich.com)



The image shows a mind map diagram on a piece of paper. The central node is 'Retirement'. Five branches extend from it to nodes labeled 'Finances', 'Health Care', 'Taxes', 'Insurance', and 'Plan'. The diagram is set against a background of a white coffee cup on a woven placemat. The MERS logo is visible in the top left corner of the image area.

Understanding the  
MERS Defined Benefit  
Retirement Process

# Using the Account At Retirement

## *Hybrid Part I Defined Benefit*

### **Straight Life Option**

- Benefit applies only to retiree (no beneficiaries)

### **Life with 100%, 75% or 50% to Beneficiary**

- A benefit for two lives, retiree and beneficiary

### **Life with 20, 15, 10 or 5 years certain**

- Retiree receives benefit for life
- If retiree dies before the period certain ends, beneficiary(s) equally share benefit until the period certain ends

# Using the Account at Retirement

## *Part II – Defined Contribution*

### Lump Sum

- Full or partial amount of the account balance

### Substantially Equal Payments

- Terminates employment before the calendar year participant turns age 55

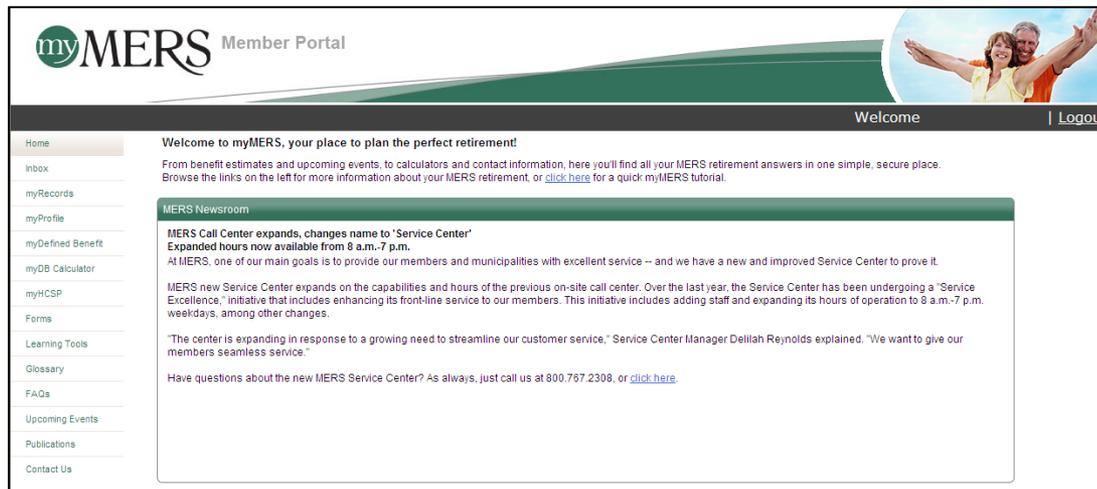
### Periodic

- Periodic payments made monthly, quarterly, semi-annually, or annually until account is exhausted

# myMERS Online Access

## *Full Access to All Your MERS*

- View the full menu of investment choices
- Track current fund performance
- Change investment selections or contact information
- Download current forms
- Access useful retirement planning information and calculators



You can access myMERS at [mymers.mersofmich.com](http://mymers.mersofmich.com)

# Helping Prepare for Retirement

## ***Service Center***

- Available weekdays by phone

## ***Statements, Newsletters, and Publications***

- Quarterly and annual statements highlight each member's personal benefit
- Active members receive *Active Outlook* newsletter
- Retired members receive *Retiree News* newsletter

## ***Seminars and Workshops***

- Group presentations and one-on-one consultations at municipality during business hours or any time convenient for employees
- Seminars and workshops offered at different times and locations throughout the year

## ***Online Calculators***

- Members can access online calculators to personalize finances

# Please take time to fill in your survey

There are session surveys in the back of your book. Please take the time to fill in the survey to assist us in planning future events!



# Contact Us

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[www.mymers.mersofmich.com](http://www.mymers.mersofmich.com)

*This presentation contains a summary description of MERS benefits, policies or procedures. MERS has made every effort to ensure that the information provided is accurate and up to date. Where the publication conflicts with the relevant Plan Document, the Plan Document controls.*