

MERS Retirement Plan Basics

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BUILDING
RETIREMENT
SUCCESS
TOGETHER



Today's Objectives

- **Defined Benefit**
 - Formula
 - Advantages and considerations
- **Defined Contribution**
 - Formula
 - Advantages and considerations
- **Hybrid Plan**
 - Formula
 - Advantages and considerations
- **Important Points to Consider**
- **Supplemental Retirement Plans**

What MERS Offers

- All of the MERS Retirement Plans are 401(a) qualified governmental plans
- MERS partners with municipalities, providing three different types of 401(a) plans

Defined Benefit

- Benefit is based on formula

Defined Contribution

- Employer and Employee contribute a defined amount
- Benefit based on account balance at retirement

Hybrid

- Combination of both plans
- Benefit is based on defined benefit formula and account balance at retirement



Defined Benefit Plan

MERS Defined Benefit Plan

- Traditional pension plan which provides retirees a lifetime monthly benefit
- Gives employees an important tool to help them reach their retirement goals
- Defined Benefit Formula:

Final Average
Compensation

X

Service Credit

X

Benefit
Multiplier

=

\$ Annual Benefit

MERS partners with over 800 municipalities with a defined benefit plan and over 90,000 current and retired employees

Defined Benefit Formula

Final Average Compensation (FAC)

- Highest consecutive wages during a period of time (minimum of 36 months)
- Compensation may include regular salary, longevity, vacation, overtime, and paid time off (PTO) earned within the FAC period

Final Average
Compensation

Service Credit

X

Benefit
Multiplier

=

\$ Annual Benefit

Defined Benefit Formula

Service Credit

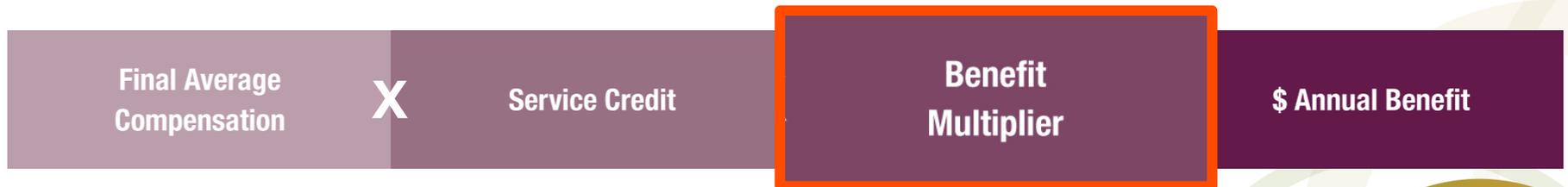
- Earned for each month of qualified work that meets employer's requirements
- Service credit is reported to MERS through MERS Employer Portal
- Employees can view service credit history through myMERS



Defined Benefit Formula

Benefit Multiplier

- A benefit multiplier is a specific percentage adopted by the employer for each division.
- Multipliers range from 1.00% to 2.50%
- Benefit maximum of 80% of Final Average Compensation for multipliers at 2.25% or more



Defined Benefit Eligibility

Vesting

- Vesting is the required amount of service needed to be eligible for a retirement benefit.



Retirement Eligibility

- Eligible to begin receiving benefits once age and service requirements are met:
 - Normal retirement age is 60 and vested
- Early Retirement Options Available for employer adoption



Advantages and Considerations

Advantages	Considerations
Rewards employee longevity	Limited portability options
Benefits do not decrease with investment losses	Benefits do not increase with investment gains
Investment returns reduce long-term contributions	Employer may have variable contributions
Cost of Living Adjustments options are available	Cost of Living Adjustments must be adopted
Service credit purchases available	Employers must approve all service credit purchases
Disability and death provisions included	



MERS Defined Contribution Plan

MERS Defined Contribution Plan

$$\begin{array}{ccccccc} \text{Employer} & & \text{Employee} & & \text{Earnings or} & & \\ \text{Contributions} & + & \text{Contributions} & + & \text{Losses in} & - & \\ & & & & \text{the Market} & & \\ & & & & & \text{Fees} & = & \$ \text{ Account Balance} \end{array}$$

- Pre-tax contributions are made to account throughout employment
- Assets are invested and accumulate tax-deferred
- Retirement benefit is account balance

MERS services over 10,000 current and retired employees from over 200 municipalities with a defined contribution plan

Employer Contributions

Employer
Contributions

Employee
Contributions

+

Earnings or
Losses in
the Market

-

Fees

=

\$ Account Balance

- Made on a pre-tax basis
- Can be either a fixed dollar amount or percentage, or a matched percentage to employee contributions
- Three contribution formulas permitted under the plan:
 1. Fixed dollar or percentage, without required employee contributions
 2. Fixed dollar or percentage, with required employee contributions
 3. Fixed percentage of employee contributions, matched by employer

Employee Contributions



Mandatory Employee Contributions

- Contributions are made pre-tax
- Fixed dollar or required percentage
 - Employee elects amount at enrollment that cannot be changed

Voluntary After-Tax Contributions

- Allowed through payroll deduction
- Start and stop contributions any time
- Maximum contribution 25% of salary

401(a) and 401(k)

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, not a 401(k) plan.

MERS 401(a) Defined Contribution	401(k)
<ul style="list-style-type: none">• Participation is mandatory	<ul style="list-style-type: none">• Participant must choose to actively enroll in plan
<ul style="list-style-type: none">• Pre-tax employee contributions are mandatory• Employer may offer a contribution range in which the employee makes a one-time choice	<ul style="list-style-type: none">• Participant may change contributions at any time
<ul style="list-style-type: none">• Not subject to ERISA laws but subject to other state and federal laws	<ul style="list-style-type: none">• Subject to ERISA laws



**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'd like a professional advisor to monitor my investments."
 - 1** Retirement Strategies
- "I want a fully diversified, professionally managed charge of changing over time."
 - 2** Diversified Portfolio
- "I want to start with a fully diversified, professional and flexible investment using MERS' self-directed portfolios."
 - 2** Diversified Portfolio + **3** Expanded Funds
- "I want to build my own portfolio using a variety of investments selected for me by MERS."
 - 3** Expanded Funds
- "I want to build my own portfolio using funds of my own choosing."
 - 4** Self-Directed "Challenge Window"

*Based on MERS Defined Contribution Plan, MERS Hybrid Plan and MERS 407 Supplemental Retirement Program

Investor Profile Quiz
This 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 designed to assess "risk." The following quiz is a first evaluation of 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	Strong	Conservative	Aggressive	None	Strong
1. I am willing to accept a greater degree of risk to gain the potential for higher returns.	1	2	3	4	5	6
2. I am willing to invest on a long-term basis.	1	2	3	4	5	6
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	6
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	6
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	Fund Group 1 (G1)	Fund Group 2 (G2)	Fund Group 3 (G3)	Fund Group 4 (G4)
1 or more	Conservative Growth (C)	Moderate Growth (M)	Conservative Growth (C)	Conservative Growth (C)
11-20	Moderate Growth (M)	Conservative Growth (C)	Income Oriented (I)	Income Oriented (I)
10 or lower	Conservative Growth (C)	Income Oriented (I)	Income Oriented (I)	Income Oriented (I)

12 | Managed Employee Retirement System of Michigan

Department of Labor Requirements Participant Fee Disclosure Overview

- All participants and beneficiaries:
 - Have access to general plan and investment information
 - Are 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
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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
Stable Value Funds (not available to HCF or 457)						
MERS Stable Value Fund	0.74%	-	-	-	-	Jan. 2011
Bond Funds						
MERS Short Term Managed Income Fund	0.59%	-1.03%	1.82%	4.54%	6.03%	Jan. 1987
Randcap Capital U.S. Strategy 1-2 Year Index	0.59%	-3.20%	2.46%	3.86%	3.23%	Jan. 1987
MERS Diversified Bond Fund	1.06%	3.33%	9.19%	6.65%	6.01%	Jan. 1987
Randcap Capital U.S. Aggregate Index	3.62%	3.20%	7.07%	6.53%	3.95%	Jan. 2011
American Century Government Bond Fund	4.36%	-	-	-	-	Jan. 2011
Randcap Capital U.S. Government MSCI Index	3.82%	-	-	-	-	Jan. 2011
Dreyfus Bond Market Index	3.72%	-	-	-	-	Jan. 2011
Randcap Capital U.S. Aggregate Bond Index	3.62%	-	-	-	-	Jan. 2011
PRMCO Total Return Fund	-1.56%	-	-	-	-	Jan. 2011
Randcap Capital U.S. Aggregate Bond Index	3.62%	-	-	-	-	Jan. 2011
PRMCO High Yield Fund	-4.30%	-	-	-	-	Jan. 2011
Bank of Montreal U.S. High Yield, BB-B Rated, Constrained Index	-4.29%	-	-	-	-	Jan. 2011
Target Date Funds						
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	-12.42%	-	-	-	-	Jan. 2011
MERS 2030 Retirement Strategy	-14.27%	-	-	-	-	Jan. 2011
Custom Benchmark	-14.07%	-	-	-	-	Jan. 2011
MERS 2035 Retirement Strategy	-15.23%	-	-	-	-	Jan. 2011
Custom Benchmark	-15.03%	-	-	-	-	Jan. 2011
MERS 2040 Retirement Strategy	-16.12%	-	-	-	-	Jan. 2011
Custom Benchmark	-15.92%	-	-	-	-	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	-15.94%	-	-	-	-	Feb. 2011
MERS 2055 Retirement Strategy	-16.13%	-	-	-	-	Feb. 2011
Custom Benchmark	-15.94%	-	-	-	-	Feb. 2011

3Q 2011	3Q 2011	3Q 2011
<p>MERS 2015 Retirement</p> <p>Objective: Meet the target date for retirement.</p> <p>Investment Strategy: A diversified portfolio of equities and fixed income investments with a focus on growth and income. The portfolio is managed to meet the target date for retirement.</p> <p>Asset Allocation: 60% Equity, 40% Fixed Income</p> <p>Target Date: 12/31/2015</p>	<p>MERS 2020 Retirement</p> <p>Objective: Meet the target date for retirement.</p> <p>Investment Strategy: A diversified portfolio of equities and fixed income investments with a focus on growth and income. The portfolio is managed to meet the target date for retirement.</p> <p>Asset Allocation: 55% Equity, 45% Fixed Income</p> <p>Target Date: 12/31/2020</p>	<p>MERS 2025 Retirement Strategy</p> <p>Objective: Meet the target date for retirement.</p> <p>Investment Strategy: A diversified portfolio of equities and fixed income investments with a focus on growth and income. The portfolio is managed to meet the target date for retirement.</p> <p>Asset Allocation: 50% Equity, 50% Fixed Income</p> <p>Target Date: 12/31/2025</p>
<p>MERS Capital Appreciation</p> <p>Objective: Long-term capital appreciation.</p> <p>Investment Strategy: A diversified portfolio of equities and fixed income investments with a focus on growth and income. The portfolio is managed to meet the target date for retirement.</p> <p>Asset Allocation: 70% Equity, 30% Fixed Income</p>	<p>MERS Established Market</p> <p>Objective: Long-term capital appreciation.</p> <p>Investment Strategy: A diversified portfolio of equities and fixed income investments with a focus on growth and income. The portfolio is managed to meet the target date for retirement.</p> <p>Asset Allocation: 60% Equity, 40% Fixed Income</p>	<p>MERS Established Market Fund</p> <p>Objective: Long-term capital appreciation.</p> <p>Investment Strategy: A diversified portfolio of equities and fixed income investments with a focus on growth and income. The portfolio is managed to meet the target date for retirement.</p> <p>Asset Allocation: 60% Equity, 40% Fixed Income</p>
<p>MERS Short-Term Mans</p> <p>Objective: Short-term capital appreciation.</p> <p>Investment Strategy: A diversified portfolio of equities and fixed income investments with a focus on growth and income. The portfolio is managed to meet the target date for retirement.</p> <p>Asset Allocation: 70% Equity, 30% Fixed Income</p>	<p>MERS Diversified Bond</p> <p>Objective: Long-term capital appreciation.</p> <p>Investment Strategy: A diversified portfolio of equities and fixed income investments with a focus on growth and income. The portfolio is managed to meet the target date for retirement.</p> <p>Asset Allocation: 40% Equity, 60% Fixed Income</p>	<p>MERS Mid Cap Fund</p> <p>Objective: Long-term capital appreciation.</p> <p>Investment Strategy: A diversified portfolio of equities and fixed income investments with a focus on growth and income. The portfolio is managed to meet the target date for retirement.</p> <p>Asset Allocation: 70% Equity, 30% Fixed Income</p>

Overview Booklet with Glossary of Terms

Performance and Fee Summary

Fund Sheets

Advantages and Considerations

Advantages	Considerations
Employees understand the account balance concept	Employees require investment education
No investment risk for the employer	Employer does not benefit from investment gains
Employer has a constant contribution	Employee may have variable retirement benefit
Employees have portability options	No monthly death or disability benefits
Employer will not have unfunded accrued liability	Inflation protection must be accounted for in the participant's account balance



MERS Hybrid Plan

MERS Hybrid Plan

A combination of both Defined Benefit and Defined Contribution plans:

- Stability and security of a defined benefit plan funded by employer
- Flexibility and investment choice of a defined contribution plan funded by the employer and employee
- Defined Benefit portions provide limited options
- Once Hybrid is adopted, the provisions of the plan cannot be changed

How it Works

Part I – Defined Benefit

Final Average Compensation	X	Service Credit	X	Benefit Multiplier	=	\$ Annual Benefit
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Part II – Defined Contribution

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

\$ Total Retirement Benefit



Hybrid Part I - Defined Benefit Formula

Final Average
Compensation

X

Service Credit

X

Benefit
Multiplier

=

\$ Annual Benefit

Final Average Compensation

Highest consecutive 36 months of wages during service history

Service Credit

Earned for each month of qualified work that meets employer's requirements

Benefit Multiplier

A specific percentage adopted by the employer for each division

Benefit Multiplier Options

- 1.00%
- 1.25%
- 1.50%
- 1.75%*
- 2.00%*

*Available only for divisions that do not participate with Social Security

Hybrid Part I – Defined Benefit Retirement Eligibility

Retirement Eligibility

- Normal retirement age 60 and vested (6 year vesting)
 - Optional Early Retirement at age 55 with 25 years of service



Understanding Hybrid Part II - Defined Contribution Formula

$$\begin{array}{ccccccc} \text{Employer} & & \text{Employee} & & \text{Earnings or} & & \\ \text{Contributions} & + & \text{Contributions} & + & \text{Losses in} & - & \\ & & & & \text{the Market} & & \\ & & & & & \text{Fees} & = & \$ \text{ Account Balance} \end{array}$$

Contributions

- Determined by employer
- Includes both employer and employee

Vesting

- Same as Defined Contribution Plan

Investments

- Participants have access to MERS Investment Menu
- Participants choose investment options based on goals and objectives

Advantages and Considerations

Advantages	Considerations
Offers stability of traditional Defined Benefit Plan	Available Hybrid Plan Part I multipliers lower than MERS Defined Benefit Options
Portability	Employees may lose Hybrid Plan Part I if they leave their employment before vesting
Hybrid Plan Part II offers investment choices of a defined contribution plan	Employees are responsible for selecting and monitoring investments
Gives employees a wide variety of retirement tools	Once adopted, Hybrid provisions can't be changed



Supplemental MERS Retirement Programs

457 Supplemental Retirement Program

- Voluntary tax-deferred retirement savings program, which is available for public-sector employees
- Offers employees a self-directed account in which a portion of their salary is deposited into an invested account
- The employee decides level of contributions and how to invest assets to meet their goals and personal risk tolerance
- Benefits are based on the total dollar amount in account when employee leaves

457 Supplemental Retirement Program Benefits

Employee Benefits

- Participants choose to participate and how much to contribute
- Program offers tax-deferred retirement savings
- Access to MERS investments

Employer Benefits

- Can be offered at no additional cost for the employer
- Does not incur additional unfunded liability
- MERS administers the entire plan

Health Care Savings Program

MERS Health Care Savings Program

- Employer-sponsored program providing a tax-free medical savings account for covering the costs of post employment medical expenses
- For post employment use only
- Tax-exempt Section 115 Governmental Integral Part Trust
 - Ensures the assets are used for future medical expenses only

Step 1

Employer and employee groups work together to design the contribution structure using four types of contributions

Step 2

Individual employee accounts are invested and grow tax-free

Step 3

Upon separation of employment, regardless of age, the account becomes available for tax-free medical expense reimbursement

Health Care Savings Program Benefits

Employee Benefits

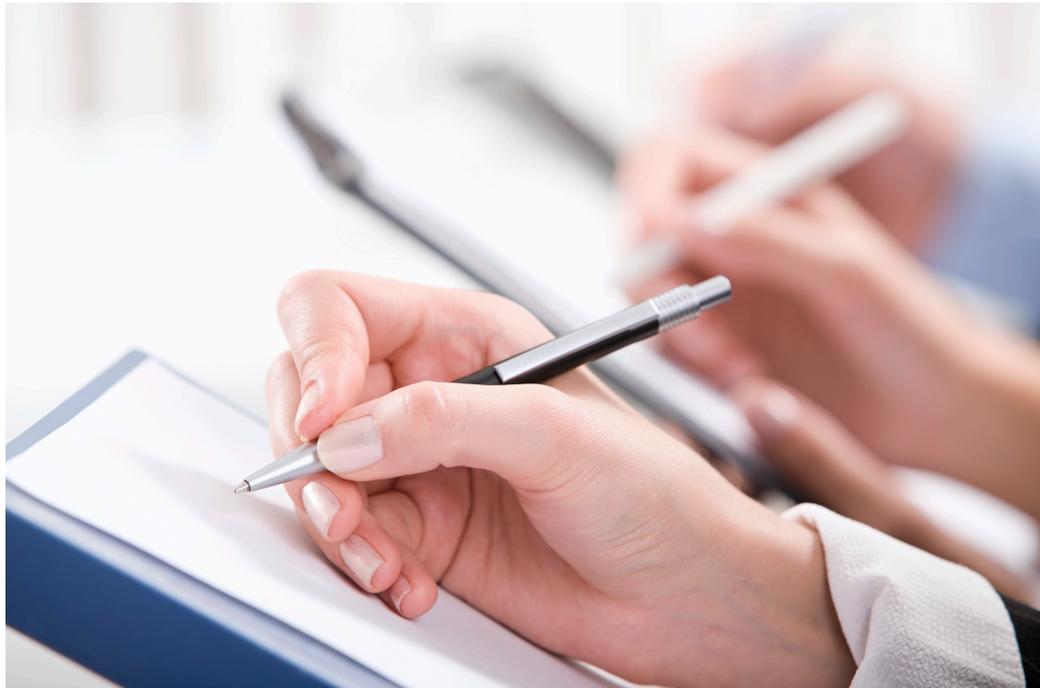
- Participants receive a savings plan that can help them build health care assets before leaving employment
- Program offers tax-free savings
- Participants have the ability to name beneficiaries other than a spouse or children
- Access to MERS investments
- Eligible participants can use the mySourceCard®

Employer Benefits

- A valuable employee benefit with no administrative cost to the municipality
- Does not incur additional unfunded OPEB liability
- Tax-free contributions are exempt from FICA taxation, saving the municipality on the amount contributed
- MERS administers the entire plan

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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