

# MERS Retirement Plan Basics

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BUILDING  
RETIREMENT  
**SUCCESS**  
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# 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*

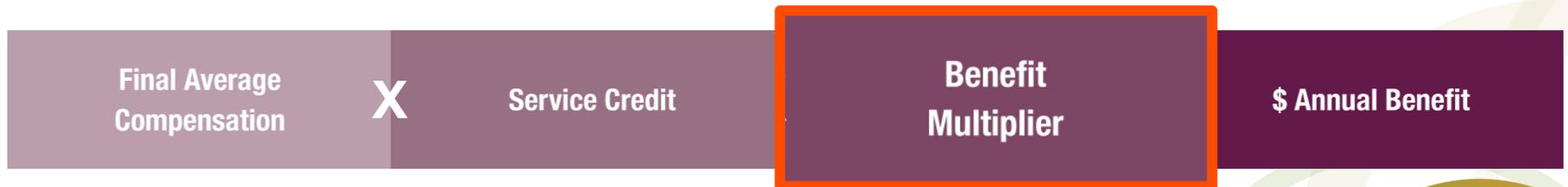
- Earned for each month of qualified work that meets employer's requirements
- Service credit is reported to MERS through MERS Employer Portal
- Employees can view service credit history through myMERS



# 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

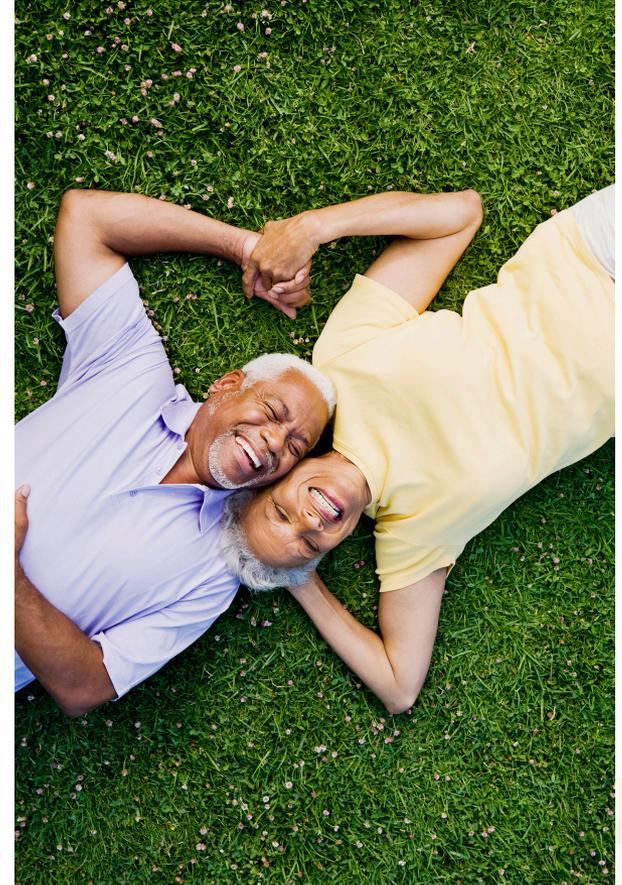
## *Vesting*

- 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

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

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



**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	1	2	3	4	5
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	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



# 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
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# 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

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