

Defined Contribution Overview

Presented by
Ryan Heintz,
Benefit Education Specialist



MERS[®]

Municipal Employees' Retirement System

MERS Defined Contribution Plan

- MERS Defined Contribution Plan is a 401(a) Money Purchase Plan
- Contributions are made to an account for the exclusive benefit of you and your beneficiaries
- The value of the account is based on the contributions made and the investment performance over time
- Unlike a 401(k) plan there are some unique provisions of a 401(a) plan including:
 - All eligible employees must participate in the plan
 - Your employer establishes the contribution structure
 - You cannot change your contributions to the plan



How the Plan Works - Contributions

- It is common for both you and your employer to contribute to the account
- Vesting is the amount of service required to be eligible for employer contributions
 - Employee contributions are always 100% vested
 - Vesting is determined by your employer and typically based on a schedule
- Contributions are pre-tax
 - This is an important benefit because it means you can postpone paying taxes on contributions and investment earnings
 - When you begin using the account you pay taxes (oftentimes participants will be in a lower tax bracket)



Benefits of Pre-Tax Contributions

	No Contributions	Pre-tax Contributions
Gross Wages	\$2,000	\$2,000
Pre-tax contribution	0.00	-100.00
Payroll Deductions		
Federal Income Tax	282.93	257.93
Social Security	124.00	124.00
Medicare Tax	29.00	29.00
MI State Income Tax	81.82	77.42
Net Pay (Take-home Pay)	\$1,482.25	\$1,411.65

In this example a \$100 contribution only affects this person's take home pay by \$70



Rollovers

- 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- Money grows tax-deferred until withdrawn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 costs may be lower
- Access to MERS investment expertise and funds
- Receive information and service from one plan



MERS Investments



Investment Menu Oversight

- The MERS Retirement Board and Office of Investments actively select and monitor fund lineup, investment managers, and index funds
 - This means that you have an experienced team overseeing the investment choices. The MERS Retirement Board and Office of Investments:
 - Ensures quality investment options are offered
 - Provides access to investment professionals that specifically serve institutional investors like MERS
 - Has the ability to negotiate fees that individuals would not be able to negotiate on their own due to the size of the asset pool
- Here are some examples of criteria used to guide decisions:
 - Comparative risk-adjusted investment performance against peers and benchmark
 - Comparative expense ratio against peers in its category
 - Consistent investment style
 - Stable investment management team
 - Material legal, regulatory, or reputation changes



Design of the MERS Investment Menu

- The MERS Investment Menu was strategically designed for you by grouping investment options into logical categories
 - Investors of all types, regardless of experience, can easily create portfolios to meet their investment style

MERS Guiding Principles

- Keep it simple: reduce duplication of investment styles and asset classes
- Logical Ordering: align investments not by investment type (stocks, bonds, etc.), but rather on expected level of monitoring and rebalancing over time
- Bigger is not always better: A more streamlined investment menu can help with decision making because a high number of options can be overwhelming



What is an Asset Class?

An asset class is group of securities that generally:

- Have similar characteristics
- Behave similarly in the marketplace
- Are subject to the same laws and regulations

Cash

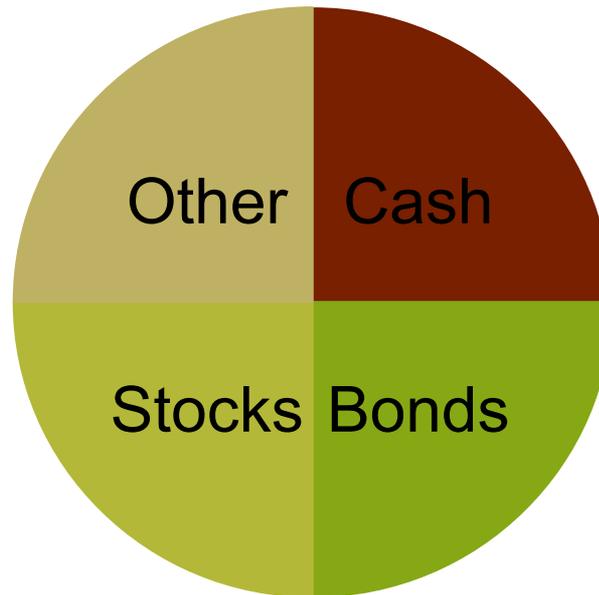
Bonds

Stocks

Other

Asset Allocation and Diversification

- Asset allocation mixes are asset classes within an investment portfolio
- Ensures your portfolio isn't dependent on one asset class
- Diversification is when you choose different investment options in each asset class



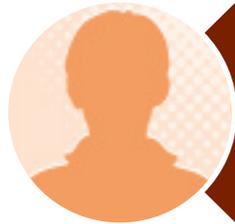
Active Management vs. Passive Management

- Active management – An investing strategy that seeks returns in excess of a specified benchmark
- Passive management – An investing strategy that mirrors a market **index** and does not attempt to beat the market
 - MERS Investment Menu refers to these funds as “Index Funds”



Finding Investment Choices that Work for You

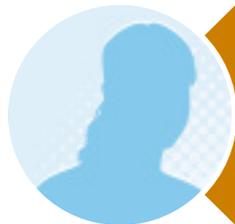
Typically there are three types of investors



“Do it for me”



“Help me do it”



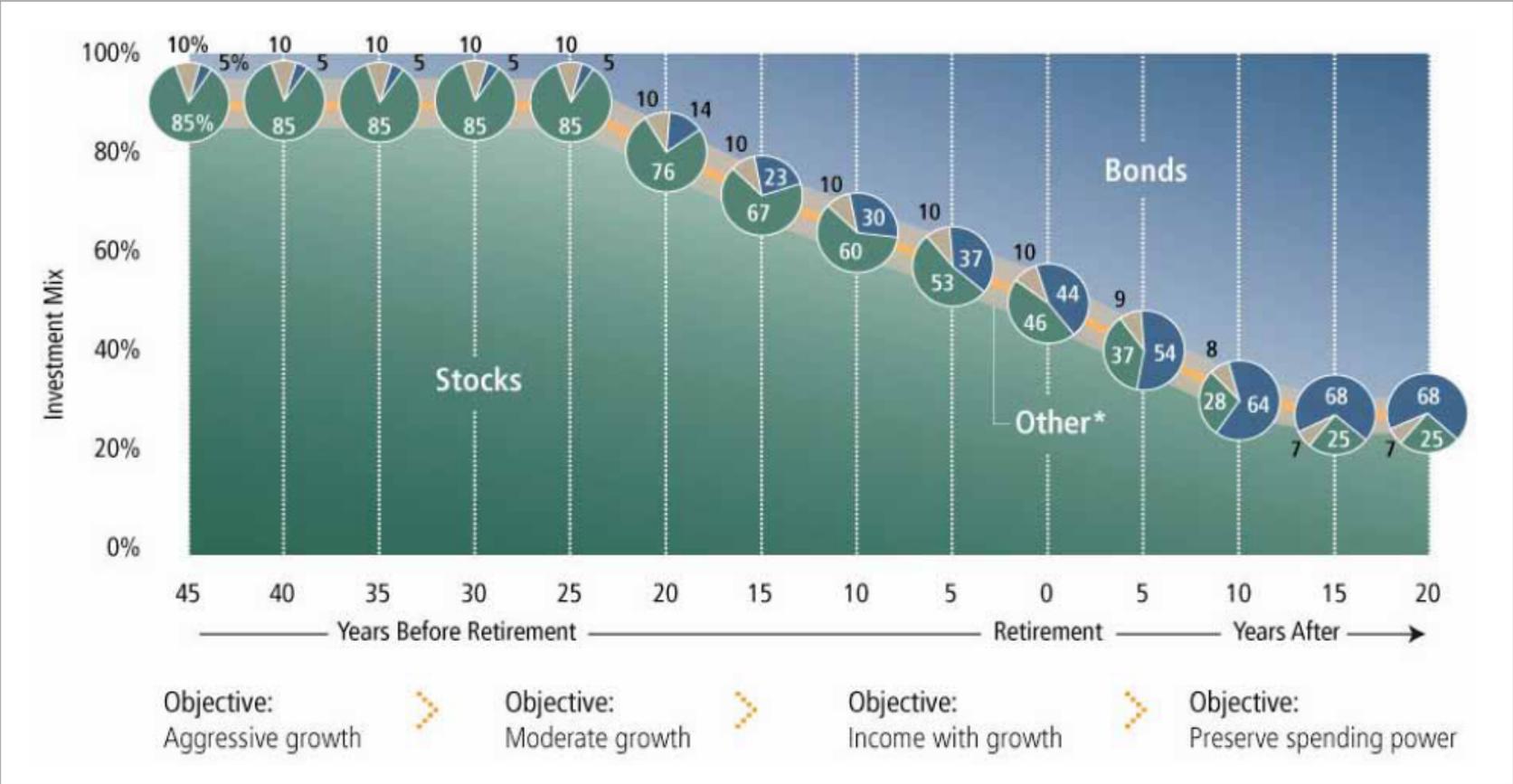
“I’ll do it myself”

Retirement Strategies - Target Date Funds

- A simple, effective, all-in-one investment choice
- 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
- This is a passive management strategy



How the Glide Path Works



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



Premium Select Options

Options Selected by MERS

- Options that are actively chosen for you
- Portfolios built for you
 - MERS helps you by monitoring the underlying investment managers
 - Rebalanced quarterly
- Funds to build your own portfolio
 - Pre-selected options give you access to a variety of funds
 - Actively monitored by MERS

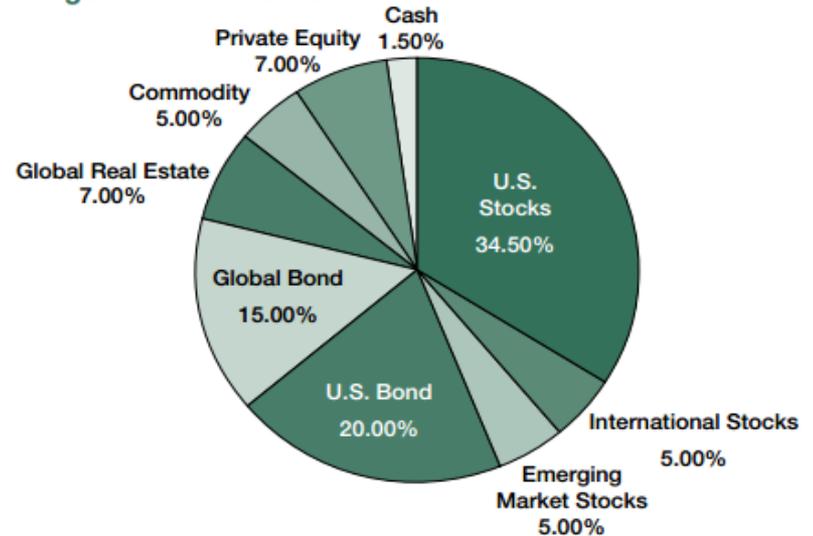


Portfolios Built For You

Total Market Fund

- A fully diversified portfolio combining traditional stocks and bonds with alternative asset classes including real estate, private equity, and commodities
- The objective is to provide current income and capital appreciation while minimizing the volatility of the capital markets

Target Asset Allocation



Portfolios Built For You

Stocks

Bonds

MERS Global Stock Portfolio

Focus on above average growth with a long time horizon and may experience substantial fluctuations



MERS Capital Appreciation Fund

Focus on above average growth with a long time horizon as it may experience substantial fluctuations



MERS Established Market Fund

Focus on stable growth with a moderate time horizon and may experience moderate fluctuations



MERS Balanced Income Fund

Focus on a small growth with a moderately short time horizon and may experience some fluctuations



MERS Capital Preservation Fund

Focus on stability with a short term time horizon and aims to minimize fluctuations



MERS Diversified Bond Portfolio

Focus on stability with a short term time horizon and aims to minimize fluctuations



Funds to Build Your Own Portfolio

Type of Investment	Who it's for
Stable Value	Investors looking to safeguard principal value or to balance with more aggressive investments
Bond Index	Investors seeking higher potential income than with a stable value investment
Large Cap	Investors willing to accept market fluctuations in return for long-term capital growth
Mid Cap	Investment may be most appropriate for someone seeking potential returns over time and willing to weather market down turns
Small Cap	For someone with a longer investment horizon, seeking longer-term capital growth, and willing to accept larger market fluctuations

Funds to Build Your Own Portfolio

Type of Investment	Who it's for
Real Estate	For investors seeking to diversify their portfolio beyond bonds and other common stocks
International Stock Index	For someone looking for greater potential returns and willing to accept a higher degree of risk
Short-Term Managed Income	For investors with a shorter investment horizon, seeking reduced account fluctuation and willing to accept reduced growth opportunity
High Yield Bond Fund	For someone with a longer investment horizon seeking long term capital appreciation, and willing to accept more fluctuation than other bond funds
Emerging Market Stock Fund	For someone with longer investment horizon, seeking longer-term capital growth, and willing to accept substantial marketing fluctuations

Self-Directed Brokerage Window

- For participants who want to independently and actively manage a greater choice of investments
- Broader range of investments including
 - Individual stocks
 - Bonds
 - CD's
 - Commission free ETFs
- Gives access to over 13,000 mutual funds:
 - 2,500 No-Load, No-Transaction Fee Funds
 - Mutual funds in a variety of share classes
- Online trading
- Available through TD Ameritrade
- Certain restrictions apply



Rebalancing Your Portfolio

- It's important to note, except for the MERS Retirement Strategies and MERS Diversified Portfolios, you are in charge of rebalancing your portfolio
- Rebalancing is the process of restoring your portfolio to its original allocation
- Due to market forces, you don't have to do anything to your portfolio for it to change over time
 - Those investments that have done well will naturally begin to take up more of your portfolio; those that haven't done as well will take up less of your portfolio
- Rebalancing helps you get the full rewards of diversification



Rebalancing Your Portfolio

- myMERS allows you to change investments online
- One feature allows you to schedule an Automated Account Realignment
 - This can be set up for annual, semi-annual, or quarterly

Change My Investments

Today

Pending Transactions

No transactions pending

Select the change you want to make

Click one of the available items below to begin

-  **Change Both My Future Investments & Current Account Balance**
This selection walks you through changing both the investment of future contributions and realigning your account balance in one easy step. This change will also automatically cancel any pending scheduled automated realignment. Available
-  **Change My Future Contribution Investments**
This selection walks you through changing the investment of future contributions only. This change will also automatically cancel any pending scheduled automated realignment. Available
-  **Change My Current Account Balance**
This selection walks you through realigning your account balance only. This change will also automatically cancel any pending scheduled automated realignment. Available
-  **Transfer Specific Amounts**
This selection shows you how to transfer amounts from specific funds into other funds. This allows the more advanced investor to make targeted changes to get in or out of specific investments. This change will also automatically cancel any pending scheduled automated realignment. Available
-  **Schedule Automated Account Realignment**
This selection allows you to setup a schedule account realignment which will automatically occur on your plan's schedule. This sets up instructions which will realign your account periodically until you cancel it. This option automatically keeps your changing account balance aligned with your investment objectives. Available

Personal Rate of Return

Through myMERS online, you can also view your personal rate of return

Account Summary

[Click here to see more details](#)

From 01/01/2014 to 06/19/2014

Beginning Balance	\$.00
Contributions	\$210.00
Cash Earnings	\$.00
Dividends	\$.00
Distributions	\$.00
Other	\$.00
Transfers	\$.00
Fees	\$.00
Gain/Loss	\$6.25

Current Balance	\$216.25
Vested Balance	\$216.25

Balance History

Your Quarterly Balance History

Mers 2045 Retirement Strategy	100%
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your resources

- 401(k) calculator**
[Click here to see if your retirement is on track >](#)
- personal rate of return**
Year To Date
4.31%
[Click here to see history >](#)

Hired: 01/08/2008
[Manage My Information](#)

Cost Reduction

- MERS is a multi-employer plan, meaning we are able to allocate costs over all participating customers
- Since the assets under management continue to grow, the cost of plan decreased on June 1, 2014
 - Recordkeeping and custodial costs were lowered 0.05%
 - MERS-managed funds costs decreased 0.05%
 - Combined costs decreased brought the total average participant costs (administrative and investment) down to 0.54% or \$5.40 for every \$1,000 invested



What does this mean for you?

Lower fees can add up in your account

investing more dollars
makes a lot of sense

MERS helps participants save by offering **lower investment fees** than many competitors, putting more of their money to work for them. Those fees add up, and can **make a big difference** over time.

Let's take \$25,000 as an example:
\$25,000 growing for 25 years, with additional \$100 every week, at an average return of 7%



Average Fees of 0.54%
Balance = \$433,586



Average Fees of 1.00%
Balance = \$400,903



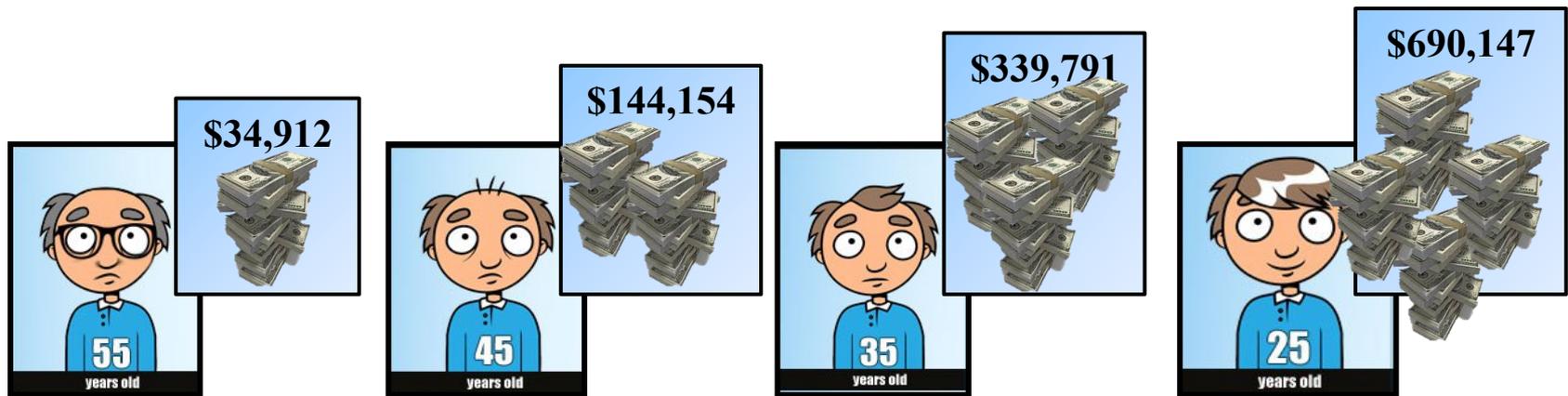
Average Fees of 1.50%
Balance = \$368,436

Planning for Retirement



The Power of Compounding

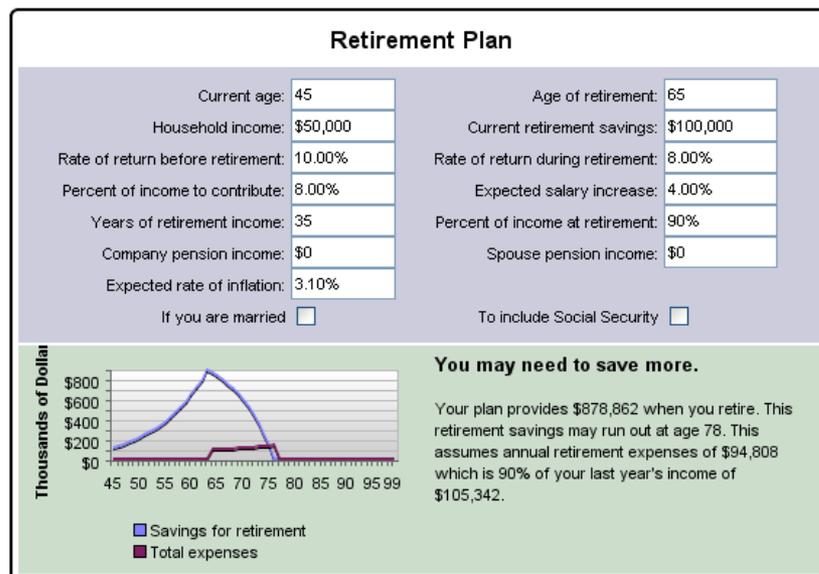
- Albert Einstein called compound interest “the greatest mathematical discovery of all time”
- If you're patient and disciplined, your money can work for you and make a real difference in your account balance over time
- The key is the power of compounding, the snowball effect that happens when your earnings generate even more earnings



Initial investment	\$0
Savings per month	\$500
Rate of return	\$6

Identify Your Gaps

- Determine how long you have until retirement
- Revisit your goals
 - Are they realistic?
- MERS has an online retirement planning tool to assist you



Other Steps To Take

- Keep your beneficiary information updated
- Learn about your other retirement vehicles
 - Talk with your employer
 - Review your Social Security Benefit Summary and other statements you may receive
 - Attend MERS educational meetings
- Take advantage of online tools and resources



Resources to Help You

Statements, Newsletters, and Publications

- Quarterly statements highlight each of your personal benefit
- Newsletters

Seminars and Workshops

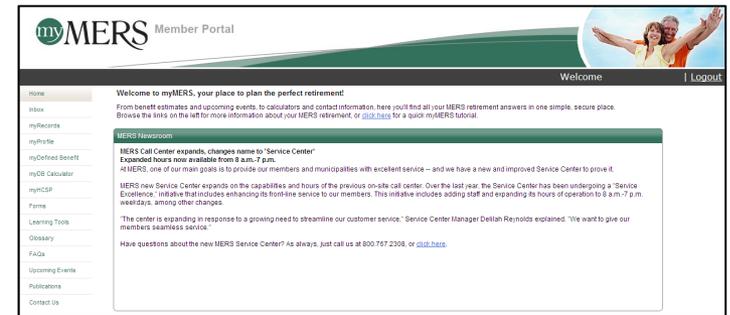
- Group presentations at municipality during business hours or any time convenient for employees
- Seminars and workshops offered at different times and locations throughout the year

Online Access

- Access to your account information
- Online calculators

Service Center

- Available weekdays by phone



mymers.mersofmich.com



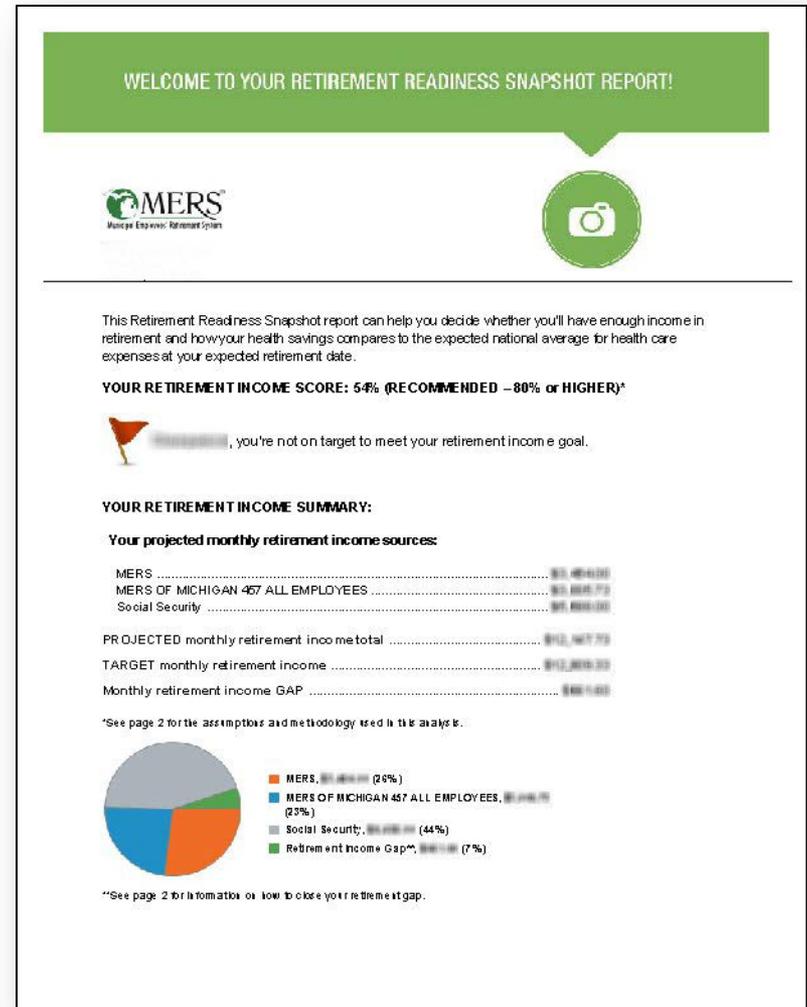
Expanding Our Services

Retirement Readiness

- We're committed to helping you prepare for life in retirement, which is why we're creating a variety of new resources
- This includes a customized retirement planning report, offering you a comprehensive view of how MERS benefits will work with other expected retirement income - and whether or not you're on track to meet your retirement goals

Online Enhancements

- Based on customer feedback, we have recently enhanced our online services and more enhancements are coming soon!



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!



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.