

Defined Contribution Plans

What you need to know

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MERS[®]

Municipal Employees' Retirement System

The Role of Defined Contribution Plans

- Started as supplemental plans to traditional pension plans
 - Many employees did not want to wait until age 65 to collect retirement savings
- ERISA enacted in 1974, which provided tax-deferred savings for retirement (rather than direct cash payments)
- Governmental plans established after 1986 cannot be 401(k)
- While many municipalities still provide Defined Benefit plans, current trend is moving towards Defined Contribution Plans ***as the sole retirement plan offering***



Considerations of Defined Contribution

Increased responsibility of employers to ensure retirement readiness of employees

Retention

- Happy employees and retirees are engaged and build reputation within your community

Talent Acquisition

- Comprehensive benefit plans can be more attractive to potential employees



Considerations of Defined Contribution

Potential risks of prolonging retirement due to inadequate savings

Increased Health Care Costs

- Higher health care than average employee

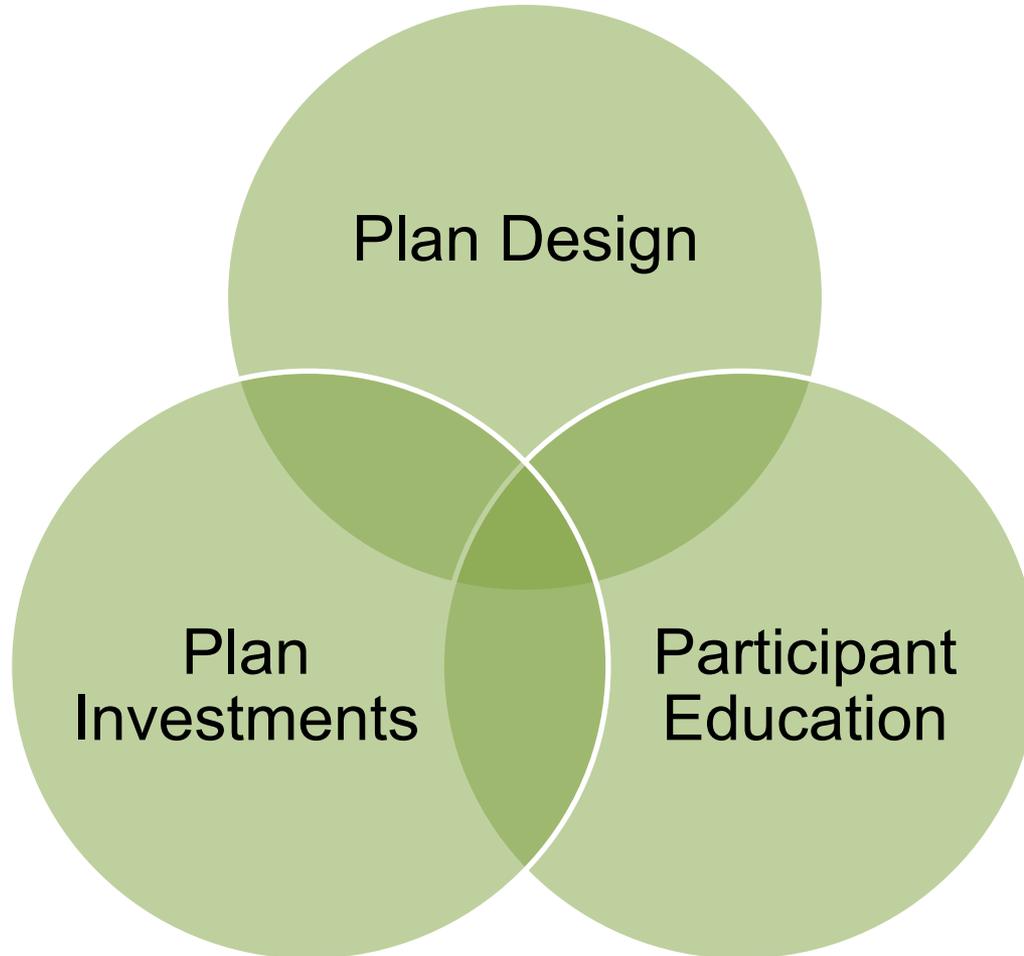
Decreased Productivity

- Greater absenteeism and a lower productivity while at work

Lower Employee Morale

- Can affect younger employees, who may not feel as motivated to move upward in career

Key Components of a Successful Defined Contribution Plan



Plan Design



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 the participant and their beneficiaries
- The value of the account is based on the contributions the participant has 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
 - Employer establishes the contribution structure
 - Employees cannot change contributions to the plan



401(a) and 401(k) Key Differences

MERS 401(a) Defined Contribution	401(k)
Participation is mandatory	Participant must choose to actively enroll in plan
Pre-tax employee contributions are mandatory	Participant may change contributions at any time
Employer may offer a contribution range in which the employee makes a one-time choice	
Not subject to ERISA laws but subject to other state and federal laws	Subject to ERISA laws



Contributions

- Studies continually show that employees are not saving enough for retirement
- Industry experts recommend a savings target of 12% of salary
 - Calculation assumes lifetime hypothetical average annual portfolio growth rate of 5.5%
 - Assumes employee's income grows 1.5% per year over general inflation with no breaks in employment or savings



Flexible Contribution Options

MERS 457 Program

MERS 457 Program provides the opportunity to create flexible contributions for employees and employer

- MERS 457 Program has features that encourage savings for participants
 - Auto-enrollment
 - Auto-escalation
 - Can start, stop, increase or decrease contributions at any time

Below is an example of how employers can create a matching contribution structure to reach 12% of salary target

New hires would be auto-enrolled into MERS 457 Program and auto-increase contributions 2% for the first 3 years (ending at 6% employee contribution)

Employer Contribution	Employee Contribution
2%	0%
4%	2%
5%	4%
6%	6%



Flexible Contribution Options

MERS Health Care Savings Program

An employer-sponsored defined contribution style account for health savings designed for public sector employees

- Provides individual medical savings account to employees to cover health care costs after employment
- Tax-favored program
 - Employees invest tax-free
 - Employer saved on FICA taxes (7.65%)

Below is an example of how employers can create a benefit structure

Employees contribute 3% and employers contribute 3%, with a vesting schedule applied to the account

Years	Vested
1	25%
2	50%
3	75%
4	100%



Loans

Defined Contribution plans are intended to be used in retirement where employees have an active role in reaching financial goals. When employees take loans, this can hinder reaching financial goals

- Borrowed money is not growing
- Loss of some tax-advantages
- Loan is tied to job



Importance of Plan Fiduciary

With recent high-profile class-action suits alleging violation of fiduciary duty—and with the potential for personal liability—plan sponsors universally want to manage fiduciary risks

MERS assumes this fiduciary role for our customers



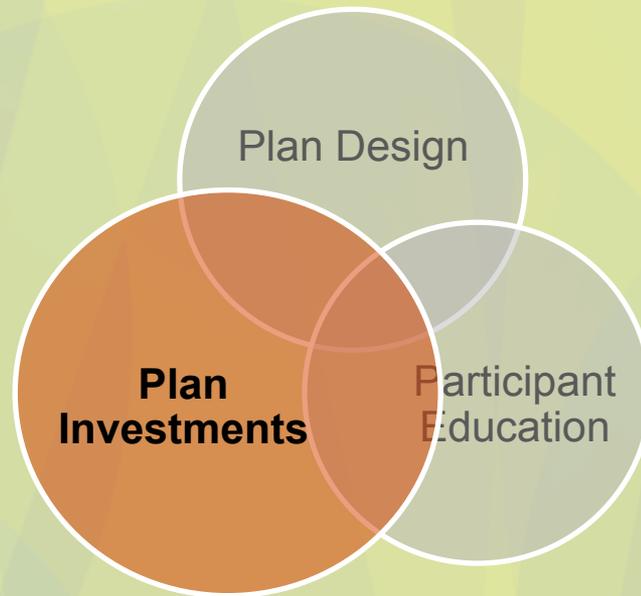
MERS Fiduciary Responsibility

What Does That Mean?

- In-house legal staff actively monitors state and federal laws ensuring compliance
- Actively maintain qualified status with IRS
- MERS Retirement Board and Office of Investments actively select and monitor:
 - Fund line-up
 - Investment managers
 - Index funds available



Plan Investments



Investment Menu Oversight

- The MERS Investment Menu allows investors of all types, regardless of investment experience
- The Investment Menu is designed to help participants easily create fully diversified portfolios to meet investment goals
 - MERS investment menu has a concentrated list designed around varying investment styles and risk preferences for participants
 - Understanding the decision-making process has helped MERS design a strategic investment menu by grouping investment options into logical categories



Investment Menu Oversight

MERS actively monitors and makes changes to funds and investment managers (as needed) ensuring strict criteria

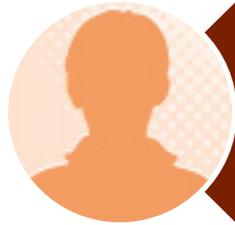
- Establish and implement investment performance objectives and research
- Experienced team overseeing investment choices
- Focus on driving successful outcomes
- Quality investment options are offered

Based on these principles, MERS made changes to the Investment Menu, which will be completed December 31, 2014

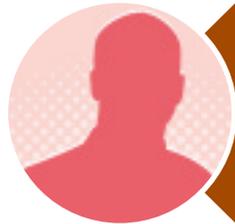


MERS Investment Menu

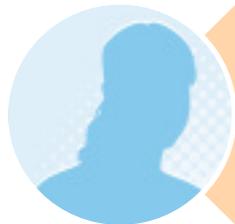
Typically, there are three types of investors



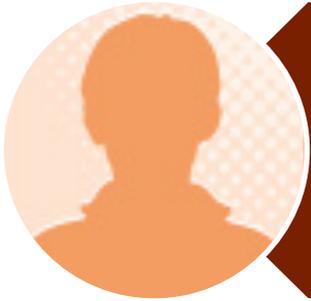
“Do it for me”



“Help me do it”

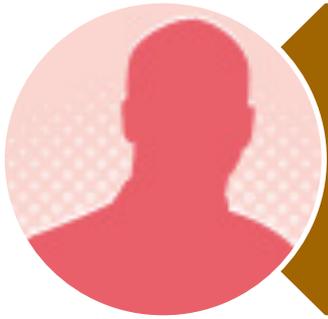


“I’ll do it myself”



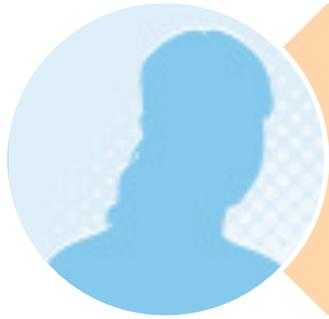
“Do it for me”

- 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



“Help me do it”

- 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



“I’ll do it myself”

- 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



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



Why Cost Matters?

Reduced costs allow participants to put more of their invested dollars towards their retirement

Lower costs make a difference over time

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

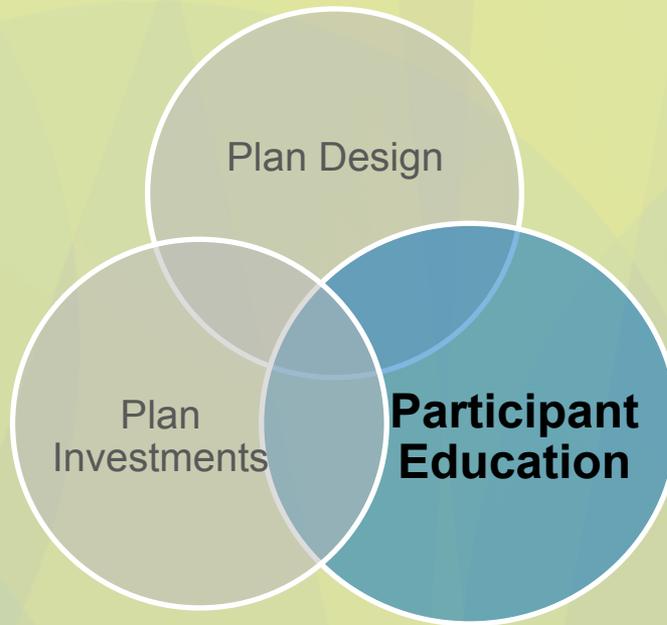


Average Fees of 1.00%
Balance = \$400,903



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

Participant Education



Events

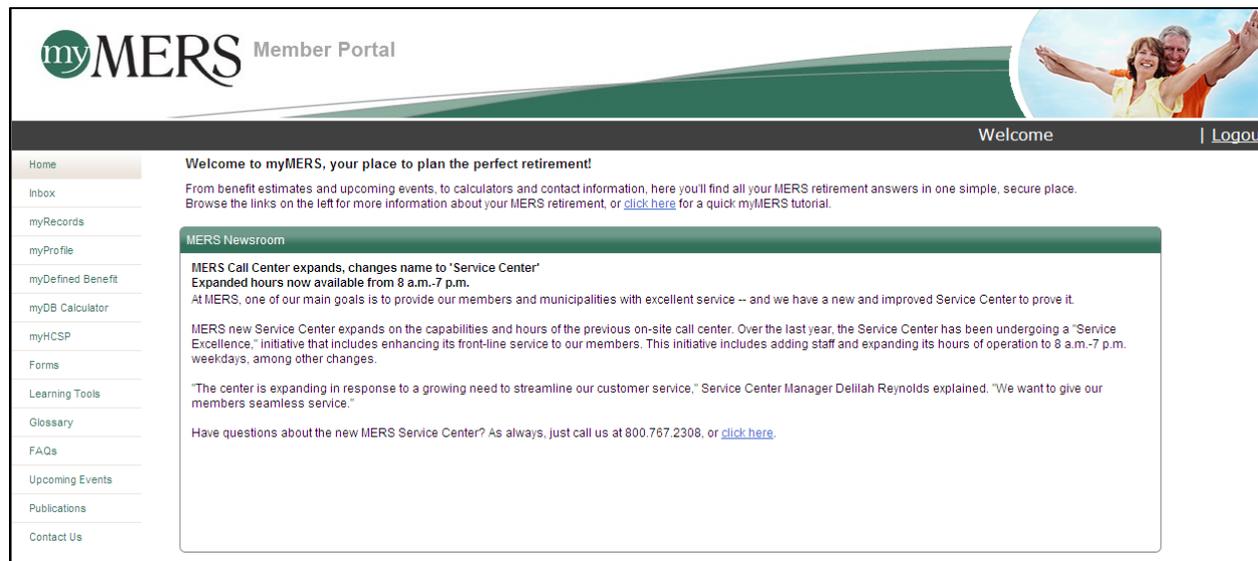
Variety of events to encourage employees to learn about retirement planning

- Pizza & Planning
 - Free, localized education for employees after traditional work hours
 - Held at different locations in the state throughout the year
 - Group presentation on variety of topics to help employees retire
- On-site education
 - Group presentation can be held at your location during work hours or when is convenient for your employees
 - Attend benefit fairs
 - One-on-one meetings for all MERS programs



Online Resources

- *myMERS* online access for employees to view account
- Updated account and plan information
- Online calculators
- Make investment changes



myMERS Member Portal

Welcome | [Logout](#)

Home
Inbox
myRecords
myProfile
myDefined Benefit
myDB Calculator
myHCSP
Forms
Learning Tools
Glossary
FAQs
Upcoming Events
Publications
Contact Us

Welcome to myMERS, your place to plan the perfect retirement!
From benefit estimates and upcoming events, to calculators and contact information, here you'll find all your MERS retirement answers in one simple, secure place. Browse the links on the left for more information about your MERS retirement, or [click here](#) for a quick myMERS tutorial.

MERS Newsroom

MERS Call Center expands, changes name to 'Service Center'
Expanded hours now available from 8 a.m.-7 p.m.
At MERS, one of our main goals is to provide our members and municipalities with excellent service -- and we have a new and improved Service Center to prove it.

MERS new Service Center expands on the capabilities and hours of the previous on-site call center. Over the last year, the Service Center has been undergoing a "Service Excellence," initiative that includes enhancing its front-line service to our members. This initiative includes adding staff and expanding its hours of operation to 8 a.m.-7 p.m. weekdays, among other changes.

"The center is expanding in response to a growing need to streamline our customer service," Service Center Manager Delilah Reynolds explained. "We want to give our members seamless service."

Have questions about the new MERS Service Center? As always, just call us at 800.767.2308, or [click here](#).



Keeping Employees Informed

- Quarterly Statements
 - Provides account detail, including investment growth, account balance, and investment options
- Publications
 - Variety of publications available to help employees understand their benefit
 - Updated online at *www.mersofmich.com*
- Newsletters
 - Sent to participants and retirees each quarter with news on topics important to the Defined Contribution Plan



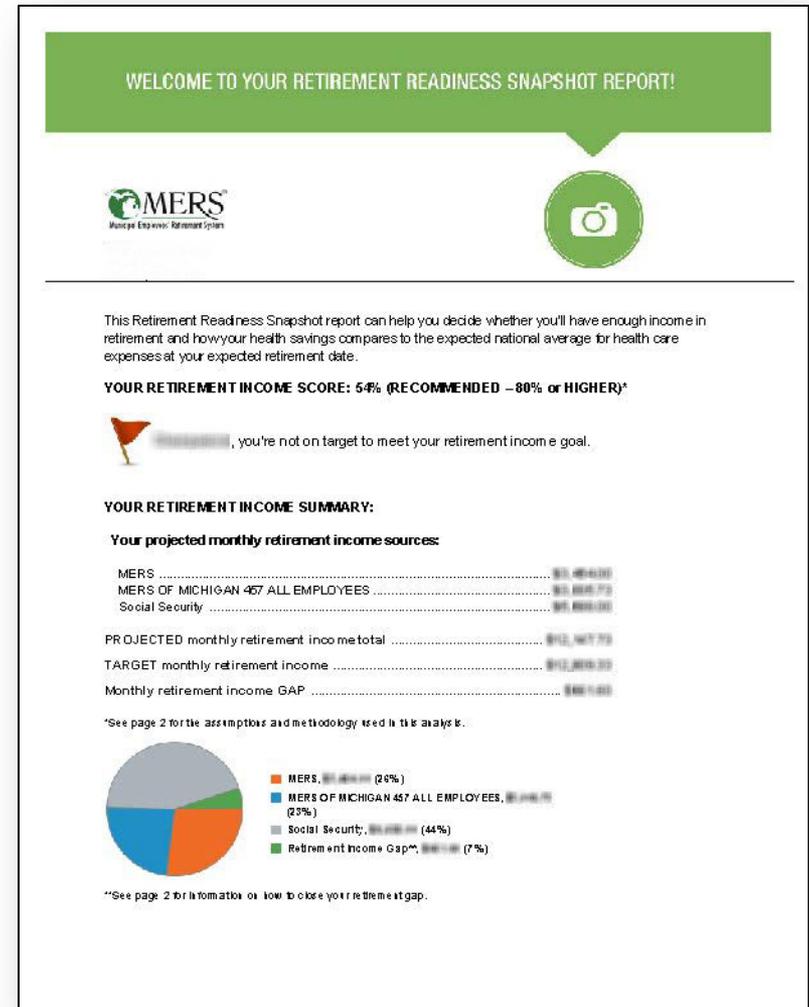
Expanding Our Services

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

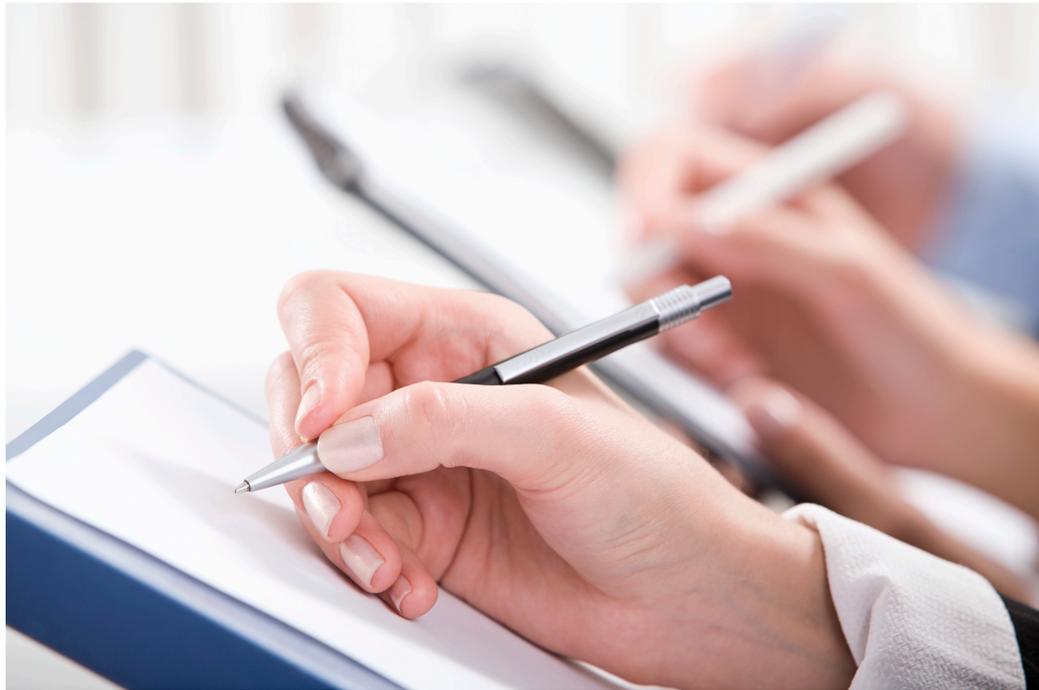
Online Enhancements

- 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.

