



Maximizing Your Defined Contribution Plan

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Defined Contribution Plans

What is a Defined Contribution Plan?

- Employer sponsored savings account for employees
- Many different types that vary in purpose and tax advantages
- Defined Contribution Plans are growing in importance:
 - Increased life expectancy means retirees need larger retirement savings
 - Trend of employers no longer offering traditional pensions
 - Trend of employers no longer offering retiree health insurance

How Defined Contribution Plans Evolved

- ERISA enacted in 1974, which provided tax-deferred savings for retirement
- Started as supplemental plans to traditional pension plans
- First 401(k) established by Johnson & Johnson in 1979, and others followed, including governmental plans
- Tax law changes in 1986 no longer allowed Governmental plans established after 1986 to be a 401(k) plan
- While many municipalities still provide Defined Benefit plans, many are moving towards Defined Contribution Plans as the sole retirement plan offering

Considerations of Defined Contribution

Potential risks of not providing adequate retirement plan

Recruit

Decreased ability to compete with other employers to attract talented employees

Retain

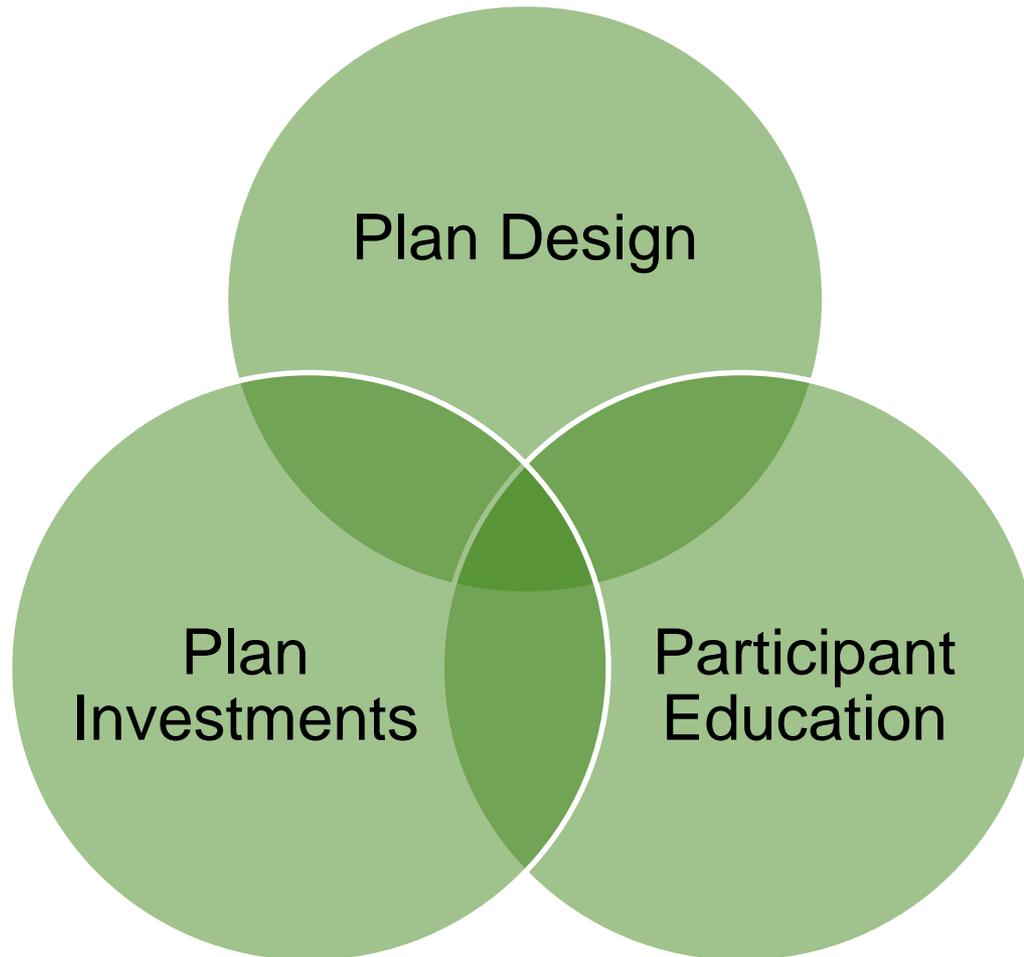
Benefits keep talented employees engaged in their current position and future opportunities

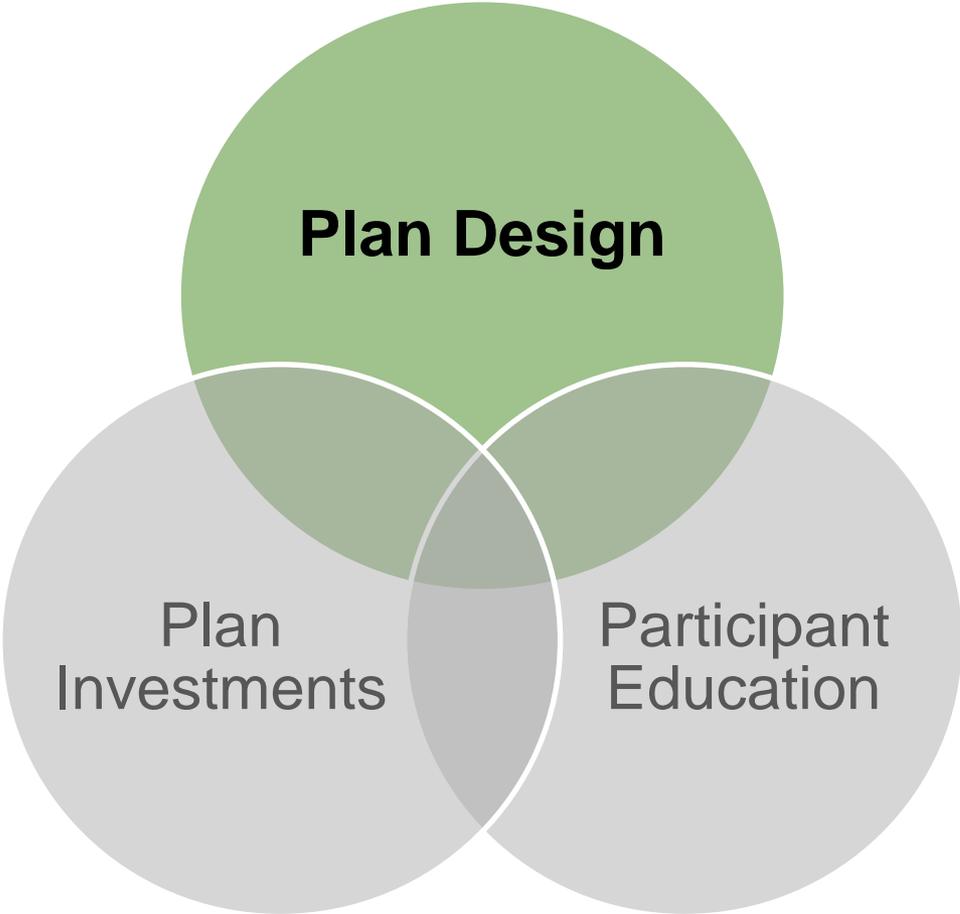
Retire

Potential employer costs if employees have inadequate savings to retire:

- Higher health care costs than younger employees
- Higher absenteeism and lower productivity while at work
- Decreased engagement for other workers unable to advance career

Building a Successful Defined Contribution Plan



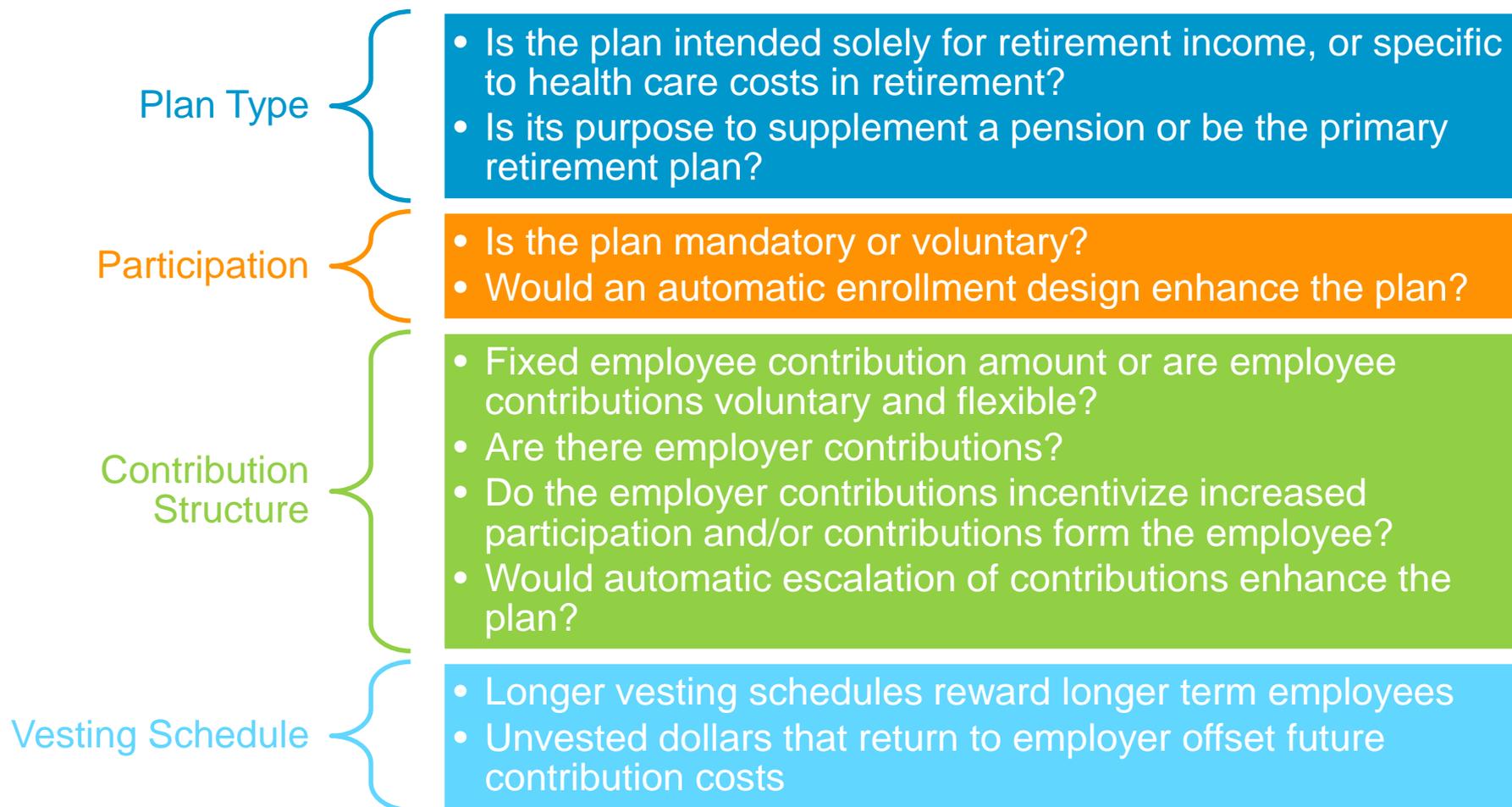


Plan Design

Plan
Investments

Participant
Education

Plan Design Considerations



Loans

- Defined Contribution plans are intended to be used in retirement
- 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

Exploring Plan Types

Types of Governmental Defined Contribution Plans			
	401(a)	457(b)	Section 115 Trust
Primary Purpose	Pension Plan	Supplement Pension	Health Care Costs
Employee Participation	Mandatory	Voluntary	Mandatory
Employee Contribution Structure	Fixed	Flexible	Fixed
Vesting on Employer Contributions	Allowed	Immediate	Allowed

Defined Contribution Plans: Comparison

Plan Feature Comparison

Plan Type	401(k)	401(a)	457(b)
Available for Governmental Entities	No (post-1986)	Yes	Yes
Enrollment	Voluntary	Mandatory	Voluntary
Employee Contribution Flexibility	Complete Flexibility	Limited (Choice only at Enrollment)	Complete Flexibility
Required Contributions	No	Yes	No
Automatic Enrollment Feature	Yes	100% (participation already required)	Yes
Automatic Contribution Escalation	Yes	No	Yes
Roth Option Available	Yes	No	Yes
Allows Employer Contribution	Yes	Yes	Yes (but included as employee earnings)
Vesting Requirements Possible	Yes	Yes	No

Advantages of Plan Type

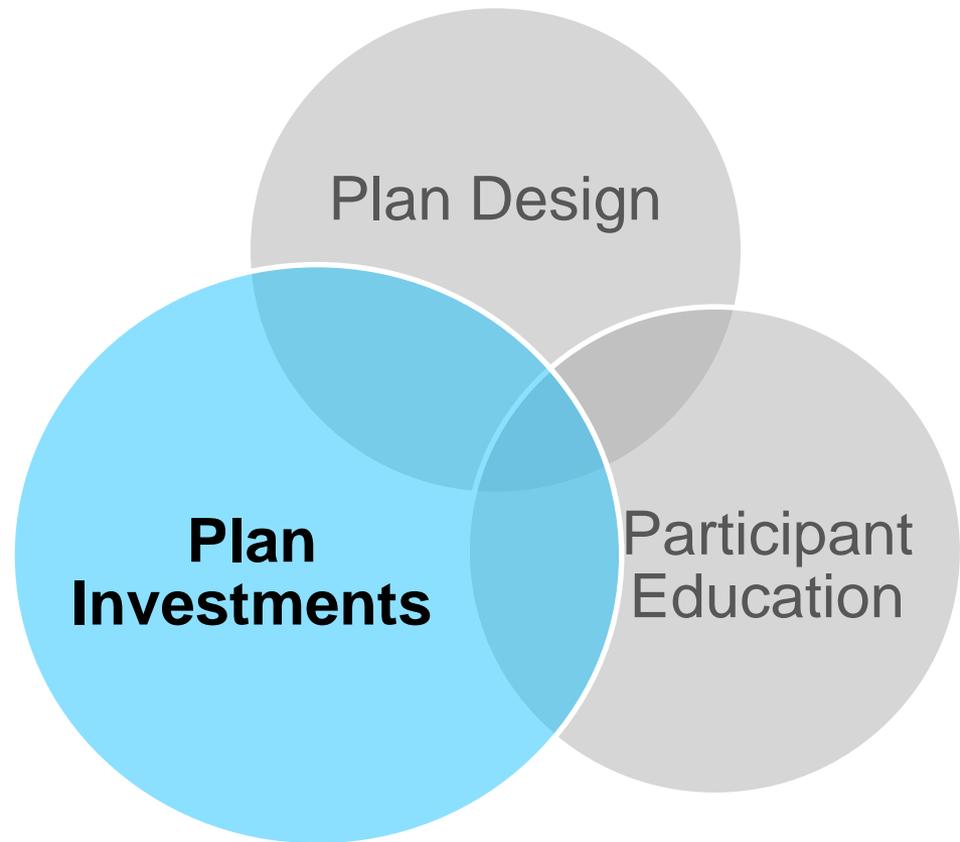
Plan Comparison			
Plan Type	401(k)	401(a)	457(b)
Advantages	<ul style="list-style-type: none"> • Voluntary participation • Flexible employee contributions • Vesting on employer contributions • Roth option 	<ul style="list-style-type: none"> • 100% participation • Employer can determine what employees contribute • Vesting on employer contributions 	<ul style="list-style-type: none"> • Voluntary participation • Flexible employee contributions • Roth option
Disadvantages	<ul style="list-style-type: none"> • Employees might not participate • Employees might not contribute enough 	<ul style="list-style-type: none"> • Employees can not voluntarily change contributions after initial enrollment • Roth option not available 	<ul style="list-style-type: none"> • Employees might not participate • Employees might not contribute enough • Immediate Vesting • Employer contributions included in employee earnings

Maximizing Advantages of Both Plans

- Employers seeking more flexibility may explore combining the 401(a) and 457(b)
- Employer can require a minimum mandatory employee contribution that would still go into the 401(a) Plan
- Employer can set a matching contribution structure between plans:
 - Employer matching contribution would go into the 401(a) plan
 - Allows vesting to continue on employer matching contributions
 - Matching employer contributions into 401(a) plan not included in earnings
 - Employee voluntary contribution would go into the 457(b) plan
- Employee would have the option to choose between pre-tax or Roth (post-tax) with contributions into the 457(b) plan

Retirement Health Care Expenses

- Governmental entities have the ability to set dollars aside in a **Section 115 Trust** for employees to use toward health care costs post-employment
- Funded by Employer and/or Employee Contributions
- Employer can establish vesting schedule to reward long-term employees
- Efficient tax-favored program:
 - Employees invest tax-free
 - Reimbursements are tax-free
 - Employer saves on FICA taxes (7.65%) on contributions



Fiduciary Responsibility

- Employer is required to understand and provide adequate investment alternatives for participants
 - Type of investments
 - Costs of investing in the plan
- 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
 - Maintain plan structure to meet IRS regulations
 - Administration of the plan
- MERS takes on these fiduciary roles for our employers

Investment Menu Oversight

MERS actively monitors and makes changes to funds and investment managers (as needed) ensuring compliance with a set of 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

MERS Investment Oversight

MERS Retirement Board

- Acts as sole investment fiduciary and sets general investment policy, including the Investment Policy Statements, Investment Guidelines, and Investment Options

MERS Investment Committee

- Serves as the Board's investment policy development arm
- Monitors investment management activity and policy recommendations by MERS Investments Department
- Approves recommendations to retain/remove investment managers

MERS Investments Department

- Provides a monthly report on activities and performance
- Reports material changes with the investments to the Investment Committee and MERS Retirement Board
- Manages Internal Fixed Income and Equity
- Monitors external investment managers

Employer

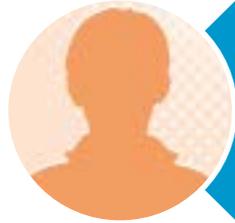
- Determines participation in MERS plan
- Determines vesting and contribution structure for employees
- Reports contributions and employee status to MERS

Investment Menu Design

- The MERS Investment Menu accommodates investors of all types, regardless of investment experience
- 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 decision-making process has helped MERS design a strategic investment menu by grouping investment options into logical categories

MERS Investment Menu

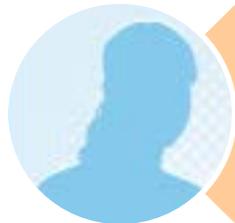
Designed around three types of investors



“Do it for me”



“Help me do it”



“I’ll do it myself”



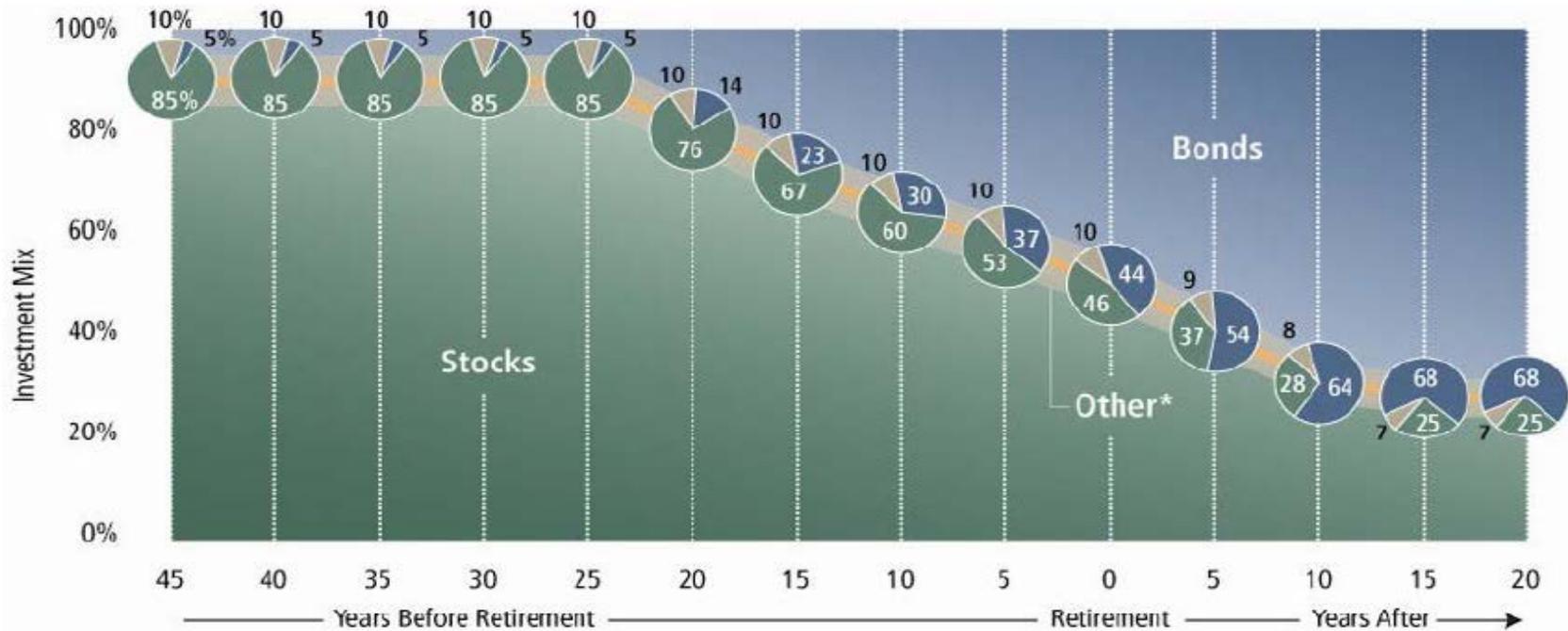
“Do it for me”

- A simple, effective, all-in-one investment choice
- Complete diversified investment fund
- Assets change from aggressive to conservative as participant approaches retirement age and throughout retirement
- Default investment selection, based on projected “target-date” of retirement at age 60



“Do it for me”

Funds that transition automatically for employees



Objective:
Aggressive growth



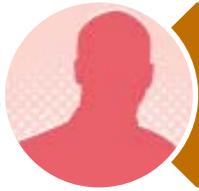
Objective:
Moderate growth



Objective:
Income with growth



Objective:
Preserve spending power



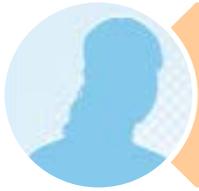
“Help me do it”

1) Pre-Built Portfolios for Participants

- Allows participants to choose a portfolio with a designed mix of stocks and bonds
- MERS helps participants by monitoring the underlying investment managers
- Rebalanced quarterly

2) Funds to build your own portfolio

- Pre-selected options give you access to a variety of funds
- Actively monitored by MERS
- Includes several low-cost index funds



“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 that includes over 2,500 No-Load, No-Transaction Fee Funds
- Online trading
- Available through TD Ameritrade
- Available within the Defined Contribution 401(a) and 457(b) plans

Monitoring Participant Fees

- MERS is a multi-employer plan, meaning we are able to allocate costs over all participating customers
- MERS monitors investment manager fees as part of its role as the fiduciary for the plan investments
- As assets under management have continued to grow, the cost of plan investments have continued to decrease, and this has brought the current weighted average participant cost down to 0.49% for the MERS Defined Contribution Plan
- MERS can provide a complimentary fee analysis

Monitoring Plan Fees

Below is an example of a comparison summary:

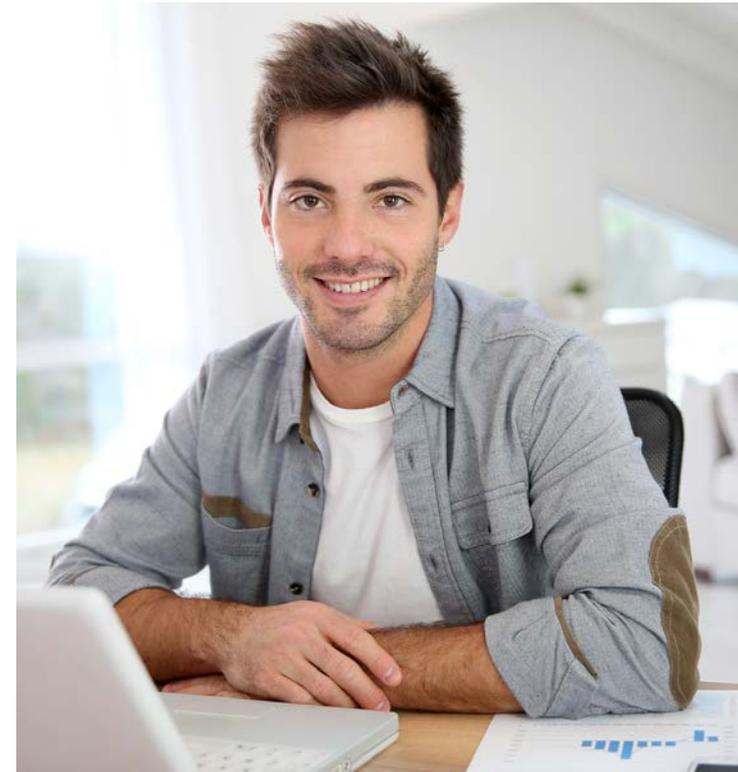
Average Fund Expense by Investment Style	Provider A (Appendix I)	MERS (Appendix II)	Fee Reduction
Target Date Funds	1.17%	0.49%	-0.68%
Asset Allocation Funds	1.27%	0.70%	-0.57%
Stock Funds	1.11%	0.66%	-0.45%
Bond Funds and Stable Value	0.89%	0.64%	-0.25%
Average Expense—All Funds	1.11%	0.59%	-0.52%

Plan Weighted Averages (Appendix III)	Provider A	MERS	Difference
Expense			
Weighted Average Expense	1.04%	0.49%	-0.55%
Performance			
1-Year Weighted Average Performance	3.61%	4.22%	0.61%
3-Year Weighted Average Performance	12.03%	12.66%	0.63%

Comparing Providers – An Example

Meet John

- He is 30 years old
- Current salary of \$36,000, with 2% annual salary increases
- Current balance of \$15,000, with 5% bi-weekly contributions until retirement
- Assumes a 7.5% gross investment return before retirement
- Retirees at age 62
 - Withdrawals assets in equal monthly payments for 30 years
 - At the end of 30 years the balance is depleted
- 6% gross investment return through retirement

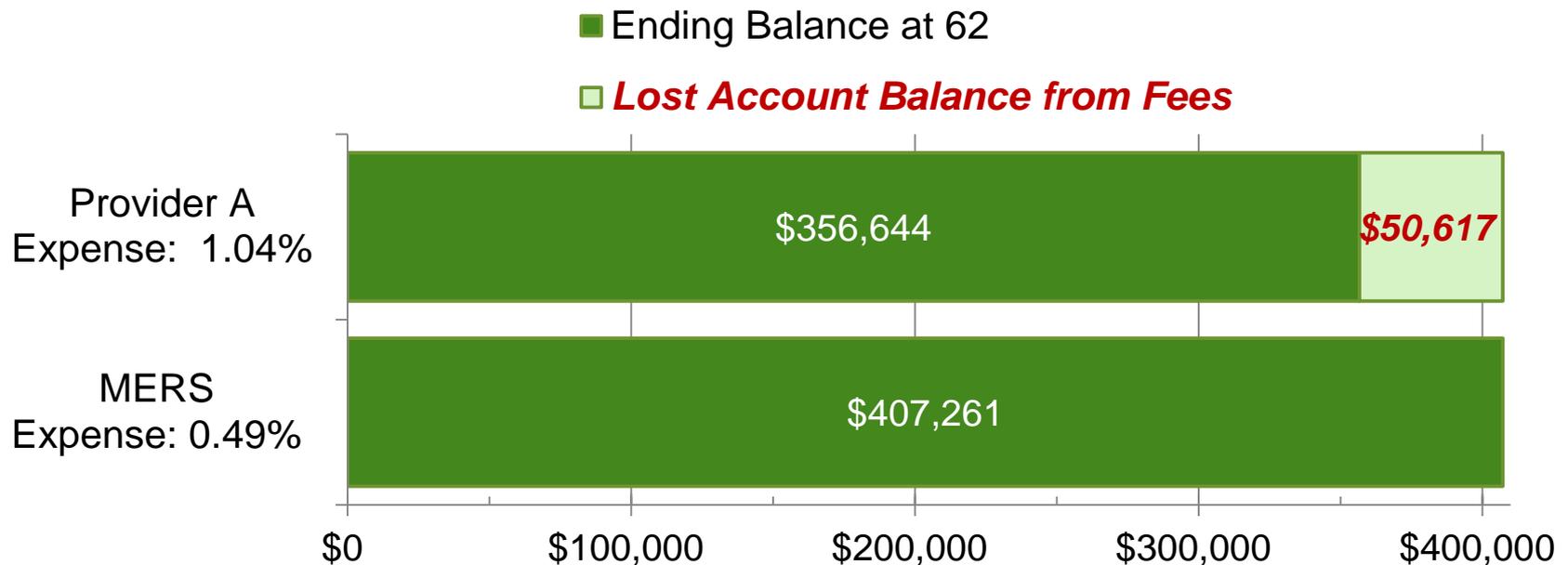


Comparing Providers

The comparison report will also help an employer gauge the impact of higher costs during the **accumulation phase** of an average employee:

Reducing expenses could provide a participant with more at retirement:

14% more with MERS in this Comparison

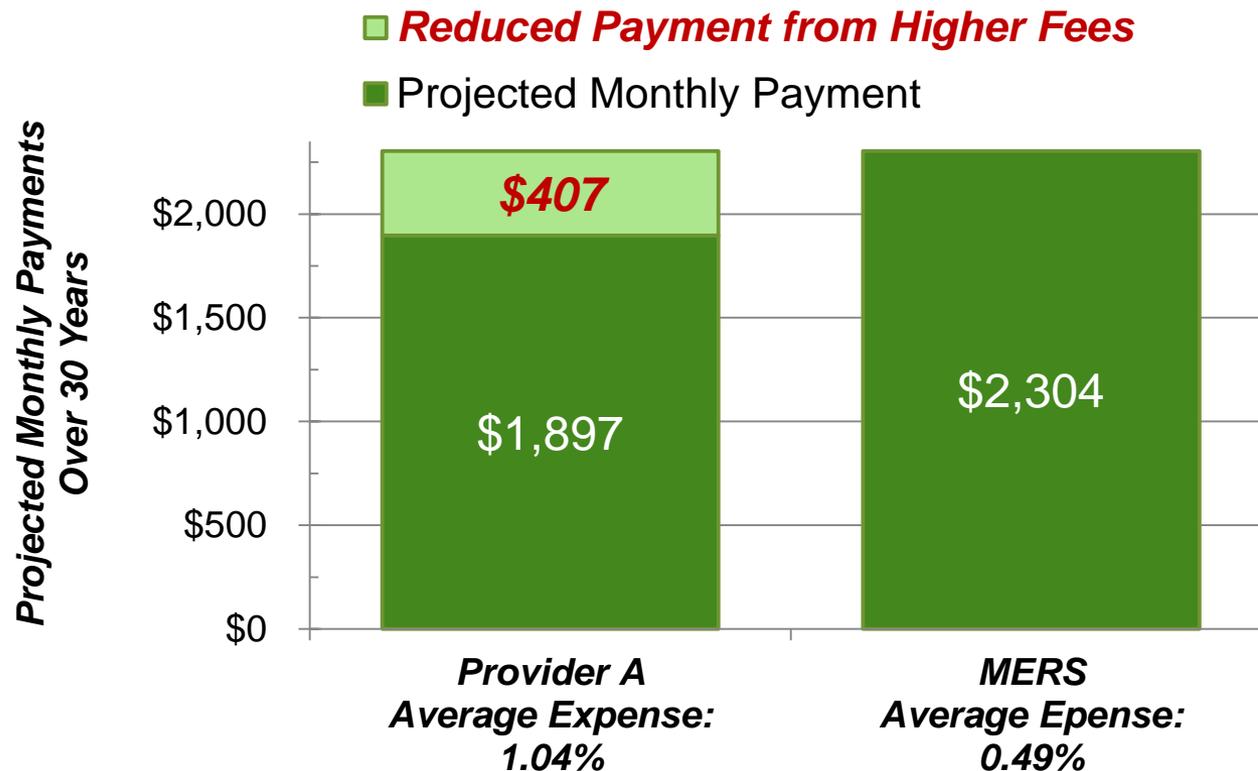


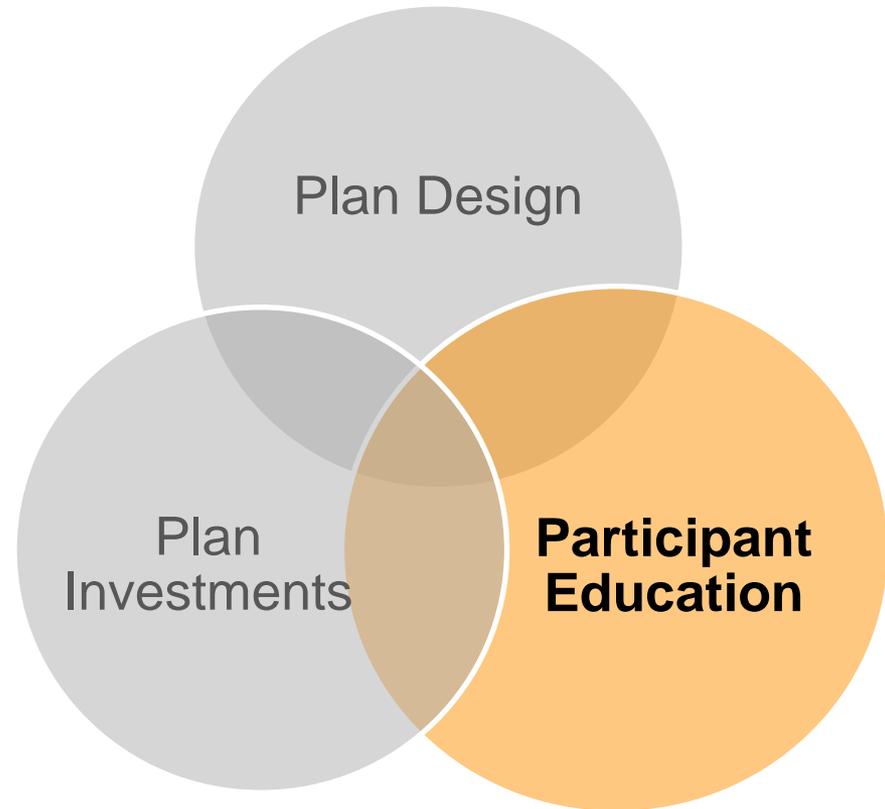
Comparing Providers

The comparison report will also help an employer gauge the impact of higher costs during the ***distribution phase*** of an average retiree:

Lowering fund expenses could provide more during retirement:

21% more with MERS





Events



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 videos and webinars

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*
- Alerts
 - Sent to employees to give them important updates to their plan

Retirement Readiness

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

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.