



Pension Reform Updates

MYTH: MERS is an outsource management model.

FACT:

- The Municipal Employees' Retirement System (MERS) of Michigan is an independent, professional retirement services company that was created to administer the retirement plans for Michigan municipalities on a not-for-profit basis.
- Our elected board is responsible for the administration of the system with fiduciary responsibility for the investment of assets and oversight.
- Pooling municipal assets for investment purposes provides benefits to members, including lower costs.

MYTH: Municipalities outside of MERS do a better job of keeping their pension promises funded at sustainable levels.

FACT:

- It's misleading to compare average funding levels since each municipality outside of MERS sets their own actuarial assumptions.
- MERS is a collection of individual plans, each held in a separate trust with its own funded level.
- MERS has a successful track record of improving the financial health of our member's plans, including turning around and rehabilitating plans that are struggling financially when they enter MERS.

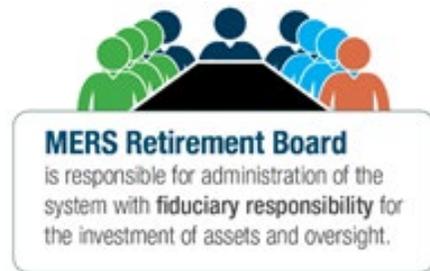


85% of Michigan's pension plans participate with MERS

MYTH: There is less accountability, and responsibility with MERS.

FACT:

- MERS is ahead of the curve in following industry standards for transparency, accountability and fiduciary responsibility.
- We governed by an elected board that doesn't receive compensation.
- As the plan fiduciary, we put our members first.



MYTH: Underfunding in the MERS system is caused by overly generous assumptions about future investment returns and mortality rates.

FACT:

- Underfunding occurs for many reasons including historical benefit enhancements and the once in 100 year market downturn of 2008.
- To ensure assumptions are sound, we perform an Experience Study every five years. This best practice helps us ensure that each municipality's plan assets are adequate to provide for the benefits that are expected to be paid and that each plan is making reasonable progress to achieve full funding.

MYTH: Local municipalities aren't sophisticated enough to manage their retirement benefits.

FACT:

- In the last 5 years, 73% of municipalities within MERS have taken proactive steps to manage their benefit commitments by lowering their costs or closing their funding gap.



Pension Reform Updates

MYTH: MERS investments have dismal performance.

FACT:

- As a multiple employer plan, MERS pools municipal assets for investment purposes.
- We maintain strict oversight and must follow Michigan state law and prudent standards of diligence. MERS is not an investment management firm, rather the MERS Retirement Board is an “investment fiduciary” under the Public Employee Retirement System Investment Act (PERSIA).
- We have consistently outperformed benchmarks and market averages, in fact our 35-year rate of return is 9.43%, well above our 7.75% assumption.
- As retirement plans operate over long-term time horizons, it’s important to look at long-term rates rather than any single year, or 10 year period.



For more than 20 years, more than half of retirement benefits have come from MERS investment earnings

MYTH: Closing all public pensions and mandating everyone to a 401(k) would create savings for taxpayers.

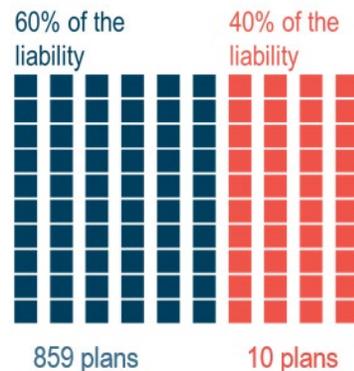
FACT:

- Closing a plan doesn’t reduce costs or unfunded liability.
- If all plans in MERS were to be closed, the investment allocation has to be recalibrated to ensure adequate cash is on hand to pay the remaining retirees. This likely means higher contributions are needed from employers and taxpayers.

MYTH: If the state doesn’t fix the pension crisis, all municipalities will go bankrupt.

FACT:

- By state law pension plans are required to be prefunded.
- Every single MERS municipality has made their required contributions, and in our 70 year history we have never missed a pension payment.
- Every plan is different, some plans are well funded, some are poorly funded and most are somewhere in the middle.
- Almost half the liability across the state comes from only a small handful of municipal plans.



- Recent studies by the University of Michigan CLOSUP program and the Michigan Citizens Research Council show that the state’s municipal finance system is one of the key underlying issues affecting local services.

