



Comprehensive View of Plan Governance

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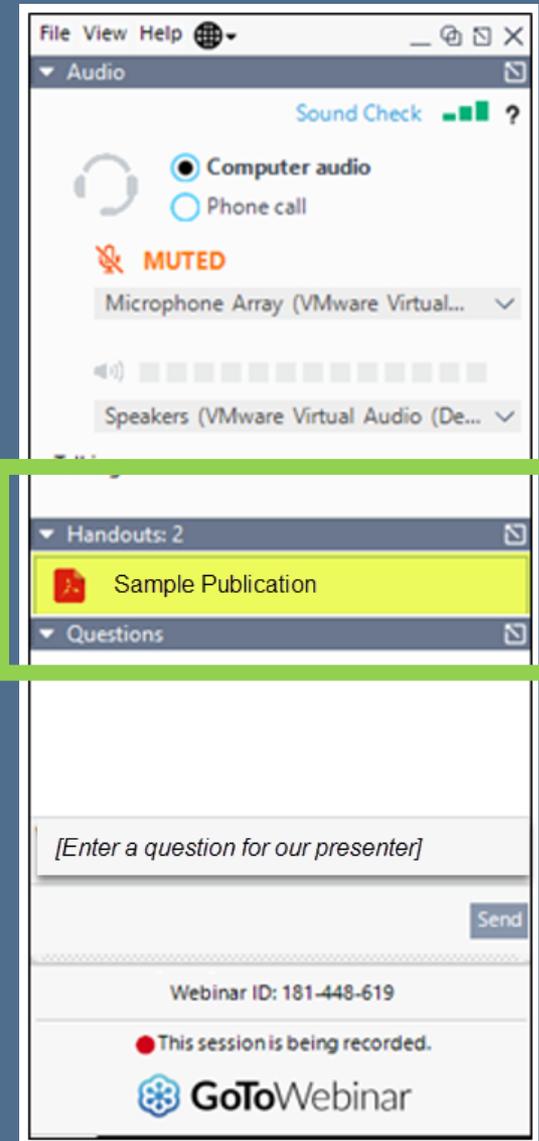
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Publications

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Look here for additional information



Agenda

- Retirement Plan Roles Overview
 - Fiduciary, Sponsor, Administrator, and Participant
- Laws and Regulations Governing MERS
 - IRC, MERA, Michigan Constitution, PERSIA, PA 202, Revised Municipal Finance Act, and others
- Investment Governance
 - Roles, responsibilities, objectives, costs and expenses
- MERS Resources
 - Employer and Participant



Retirement Plan Roles

Retirement Plan Roles



MERS

*Plan Fiduciary,
Plan Administrator, &
shared Plan Sponsor*



EMPLOYER

Plan Sponsor



EMPLOYEE

Plan Participant



Plan Fiduciary Role

An Independent Elected Board

- MERS is governed by an elected board that operates without compensation
- Our board is committed to accountability and transparency, holding the line on costs, and watching out for the best interest of our members
- MERS provides customers with peace of mind because ***the MERS Retirement Board takes on the sole fiduciary responsibility*** of their retirement plan



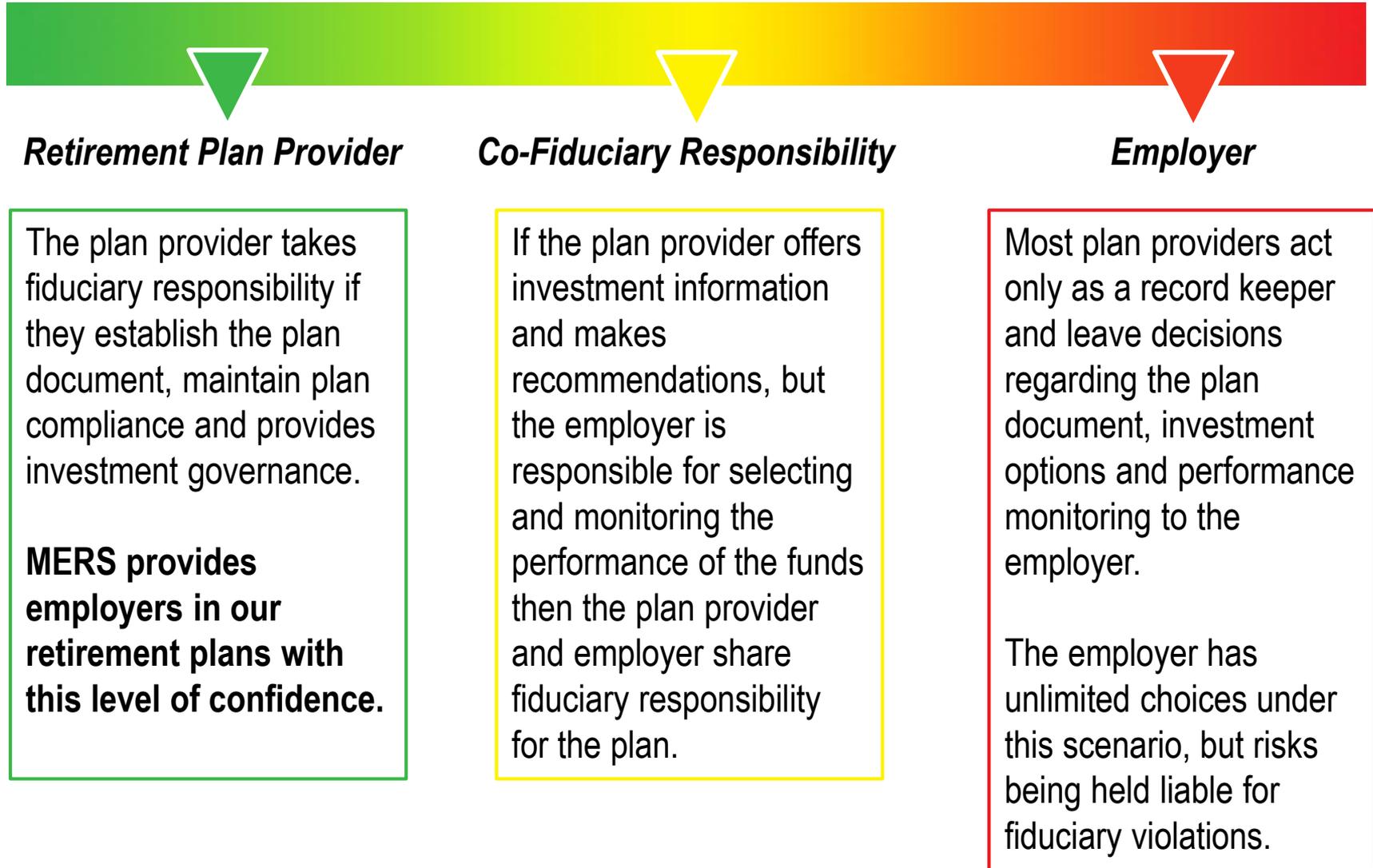
MERS Retirement Board

is responsible for administration of the system with fiduciary responsibility for the investment of assets and oversight.

MERS' Role as the Plan Fiduciary

- Fiduciaries are subject to high standards of conduct and must act on behalf of participants
- Duties of loyalty, prudence, and care
- Responsibilities include:
 - Adherence to laws and plan documents
 - Investment oversight
 - Ensure reasonable expenses

Degrees of Fiduciary Responsibility





Plan Sponsor and Administrator Roles

Plan Sponsor & Administrator Roles

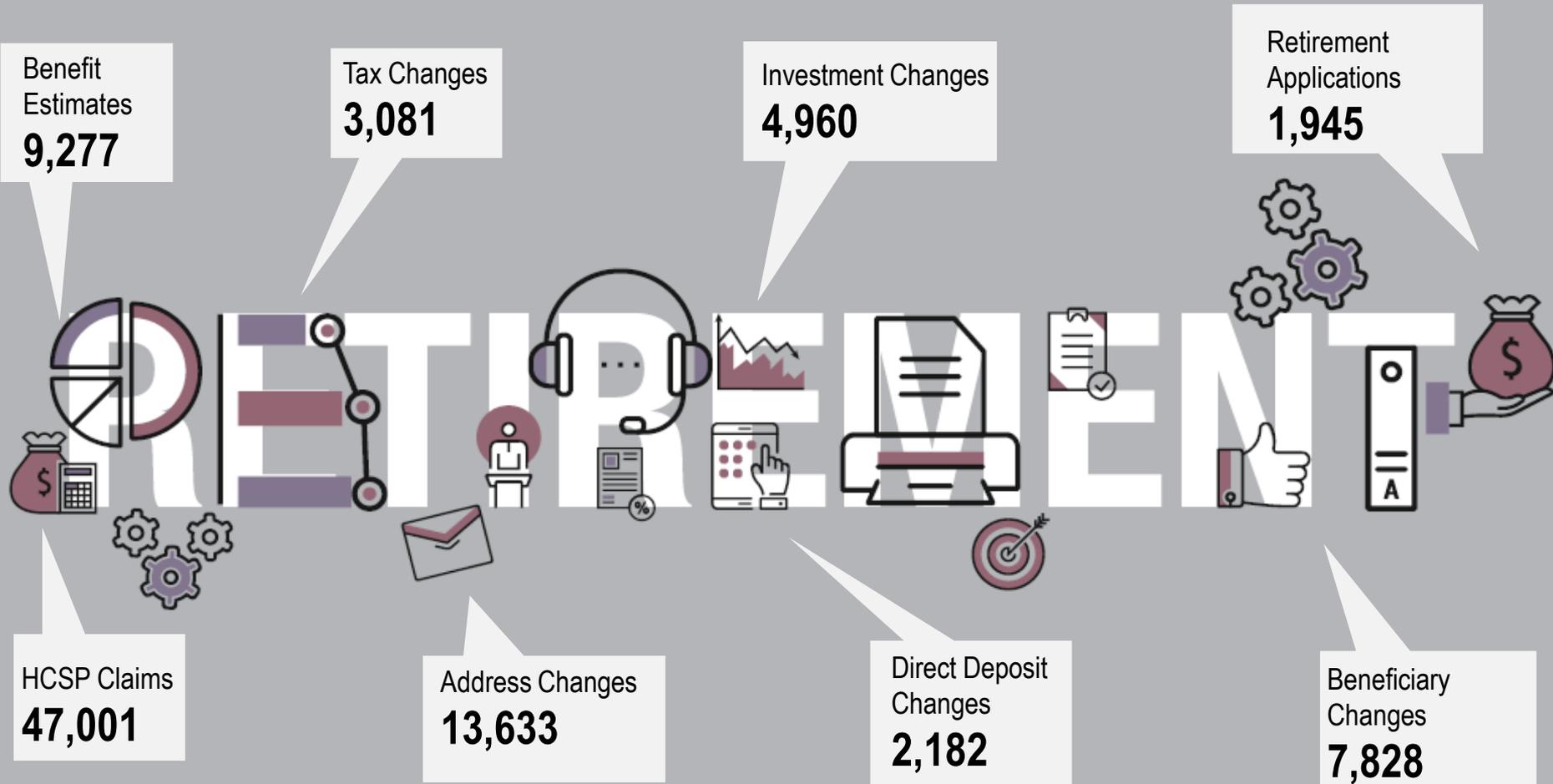
A plan sponsor is typically the employer or an organization that sets up the retirement plan

A plan administrator is a designated party tasked with the responsibility of running the plan

Plan Administrator and Sponsor Roles

	MERS	Employer
Establish Plan Document & determine the menu of options	✓	
Establish retirement plan & determine plan provisions		✓
Compliance and legal processes	✓	
Performing a plan audit	✓	✓
Financial Reporting (CAFR)	✓	✓
GASB Reporting	✓	✓
PA 202 Reporting		✓
Enrollment & accurate reporting		✓
Participant communications & education	✓	✓
Pay actuarially determined employer contributions		✓

Plan Administration



As of 12/31/2019

Encouraging Participant Success

Plan sponsor roles include:

- Ensuring participants understand their benefits is crucial to the success of any retirement plan
- Hosting and encouraging employees to attend free on-site education offered by MERS' Certified Financial Educators
- Inviting MERS to benefit fairs to promote enrollment in voluntary programs



Overview of Governing Laws and Regulations

Internal Revenue Code (IRC)

- Section 401(a) of IRC provides for plan qualification for MERS' Defined Benefit, Hybrid and Defined Contribution Plans
 - Plan qualification allows members to defer paying taxes on the value of the benefit to the year in which the benefit is paid
 - Section 401(a) contains various requirements for plan administration and operation
 - Examples: Requirements to maintain and follow a plan document, prohibition on reversion of plan assets to the employer, limits on amount of final average compensation, protections from benefit forfeiture
 - Failure to comply with the applicable provisions of 401(a) would result in MERS losing its tax qualified status

Internal Revenue Code (cont.)

- Section 457(b) governs the MERS' 457 Deferred Compensation Plan
 - Examples: who is eligible to participate, how much compensation can be deferred, when deferrals must be invested, distribution rules
- Other provisions of the Internal Revenue Code apply to the administration of MERS' other products:
 - Sections 105 and 106 provide that contributions into and distributions from MERS' Health Care Savings Program are not taxable income
 - Section 115 provides that investment earnings on the trust containing assets of HCSP and Retiree Healthcare Funding Vehicle (RHFV) are not taxable income
 - Section 408 governs the MERS Deemed IRA, including the contribution limits and disclosure requirements

Municipal Employees' Retirement Act (MERA)

- Prior to our independence in 1996, MERA controlled every aspect of MERS' operations, including plan provisions, how employers joined MERS and the composition of the Board under the State
- Since then, most of these sections were repealed, granting the MERS Board full authority over plan provisions
- Today, MERA:
 - Governs the composition, duties and authorities of the Board
 - Outlines which employers can join MERS
 - Requires the Annual Conference and sets forth basic Board election procedures

Michigan Constitution

- Article 9, Section 24 protects “accrued financial benefits” of public employee retirement systems
 - Employers may not decrease or eliminate benefits
 - Case law examples:
 - Retiree health care not protected
 - Tax-free pension benefits not protected – income tax permitted
 - Retirement age is protected
- Requires employer payment of normal cost (liabilities accrued in that year) and a portion of unfunded accrued liability from prior years

Public Employees' Retirement System Investment Act

- PERSIA is a wide-ranging law that governs the investment of assets and governance of public employee retirement systems:
 - Sets limits on asset allocation, requires divestiture and prohibits certain investments
 - Establishes fiduciary duties and responsibilities for Board members, staff and others
 - Requires adoption of budget and various reports and policies
 - Requires employers to make contributions and review supplemental valuations before implementing benefit increases
 - Limits amortization periods

PA 202 – Protecting Local Government Benefits Act

- Law implementing recommendations from the Responsible Retirement Reform Task Force on addressing unfunded pension and OPEB (retiree healthcare) of local governments
- Four stages promoting fiscal health and the security of retirement benefits for retired municipal employees:
 - Creates transparency using consistent reporting requirements
 - Identify potential problems
 - Review for fiscal health (waiver process)
 - Develop and implement a corrective action plan (CAP)
- MERS assists customers with each stage

Revised Municipal Finance Act

- Provides authority for customers to issue bonds to pay for unfunded pension or OPEB debt
- Requirements:
 - Closed defined benefit plan or OPEB plan
 - A- rating
 - Detailed financial plan
 - Compliance with PA 202 reporting
 - Treasury approval
- Effective through 2023
- MERS assists customers with the application process

Other Laws Impacting MERS

- Freedom of Information Act (FOIA)
- Open Meetings Act
- Administrative Procedures Act
- Public Employee Retirement Benefits Protection Act
- Public Employee Retirement Benefits Forfeiture Act



Investment Governance

Investment Roles and Responsibilities

MERS BOARD

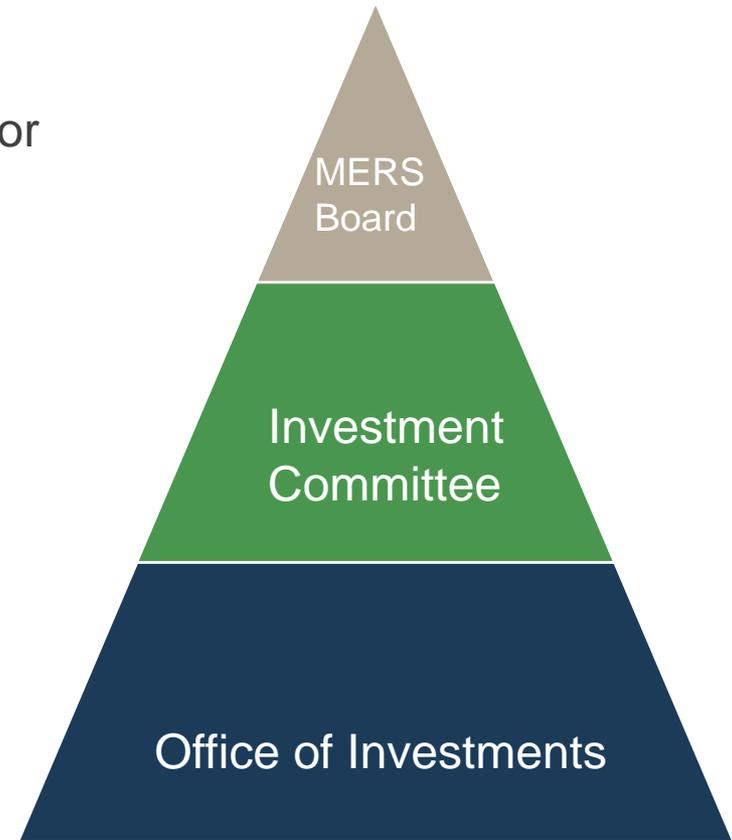
- Functions as sole fiduciary
- Sets general investment policy, responsible for managing costs, and diversifying the investments

INVESTMENT COMMITTEE

- Serves as the Board's investment policy development arm
- Approves recommendations to hire and fire core mandate managers

OFFICE OF INVESTMENTS

- Makes recommendations to Investment Committee
- Responsible for day-to-day investment management activities



MERS Investment Governance

Defined Benefit Plan

The cover features the MERS logo at the top left. The title "Defined Benefit Investment Policy Statement" is centered, with the approval date "Board approved on February 27, 2020" below it. The central image shows a hand pointing to a line graph on a chalkboard, with a bar chart overlaid. The y-axis ranges from 200 to 900. The bottom section contains the "MISSION STATEMENT" and contact information: "1134 Municipal Way | Lansing, MI 48917 | 800.767.6377 | www.mersofmich.com" and "PUB 6061 2020-05-27".

Participant Directed Accounts (PDA) & Institutional Funds

The cover features the MERS logo at the top left. The title "Investment Policy Statement: Participant Directed Accounts & Institutional Funds" is centered, with the approval date "Board approved on February 27, 2020" below it. The central graphic is a circular diagram with three segments: "MERS Retirement Strategies" (blue), "Self Directed Brokerage Account" (brown), and "Premium Select Options" (green). Below the diagram, it says "Portfolios Built for You (Stocks/Bonds)" and "Funds to Build Your Own Portfolio". The bottom section contains the "MISSION STATEMENT" and contact information: "1134 Municipal Way | Lansing, MI 48917 | 800.767.6377 | www.mersofmich.com" and "PUB 6061 2020-05-27".

Defined Benefit Investment Objectives

- The primary goal is to grow assets at a rate that, when combined with employer and employee contributions, pension benefits can be paid to MERS members
- MERS' assets are allocated with a strategic, long-term perspective and a high degree of prudence to limit risk while:
 - Meeting or exceeding the actuarial rate or return assumption on a long-term basis
 - Meeting or exceeding the return of the Fund's Policy Benchmark
 - Maintaining above median peer rankings
 - Maintaining adequate liquidity to pay pension benefits
 - Adopting a strategic asset allocation plan
 - Minimizing costs

PDA Investment Objectives

- To accommodate the varying needs of participants by providing appropriate and diversified investment options
- Offering an assortment of investment choices across a range of asset classes, risk levels, and investment strategies, at a reasonable cost
- Each option should be an appropriate building block to forming a reasonably diversified portfolio
- Encourage participants to take an active role in saving and selecting investment options for retirement by providing education, information, and tools to help make decisions required to meet their retirement goals

PDA Plan Participant's Role

- Plan participants are responsible for all investment decisions and should do the following:
 - Read investment education and communication materials provided by MERS
 - Determine risk tolerance and retirement income needs
 - Understand the investment options
 - Manage investments by allocating assets and future contributions to the various investment options
 - Reallocate investments as personal circumstances and risk tolerance change

Defined Benefit Plan Costs

Actual Plan Costs

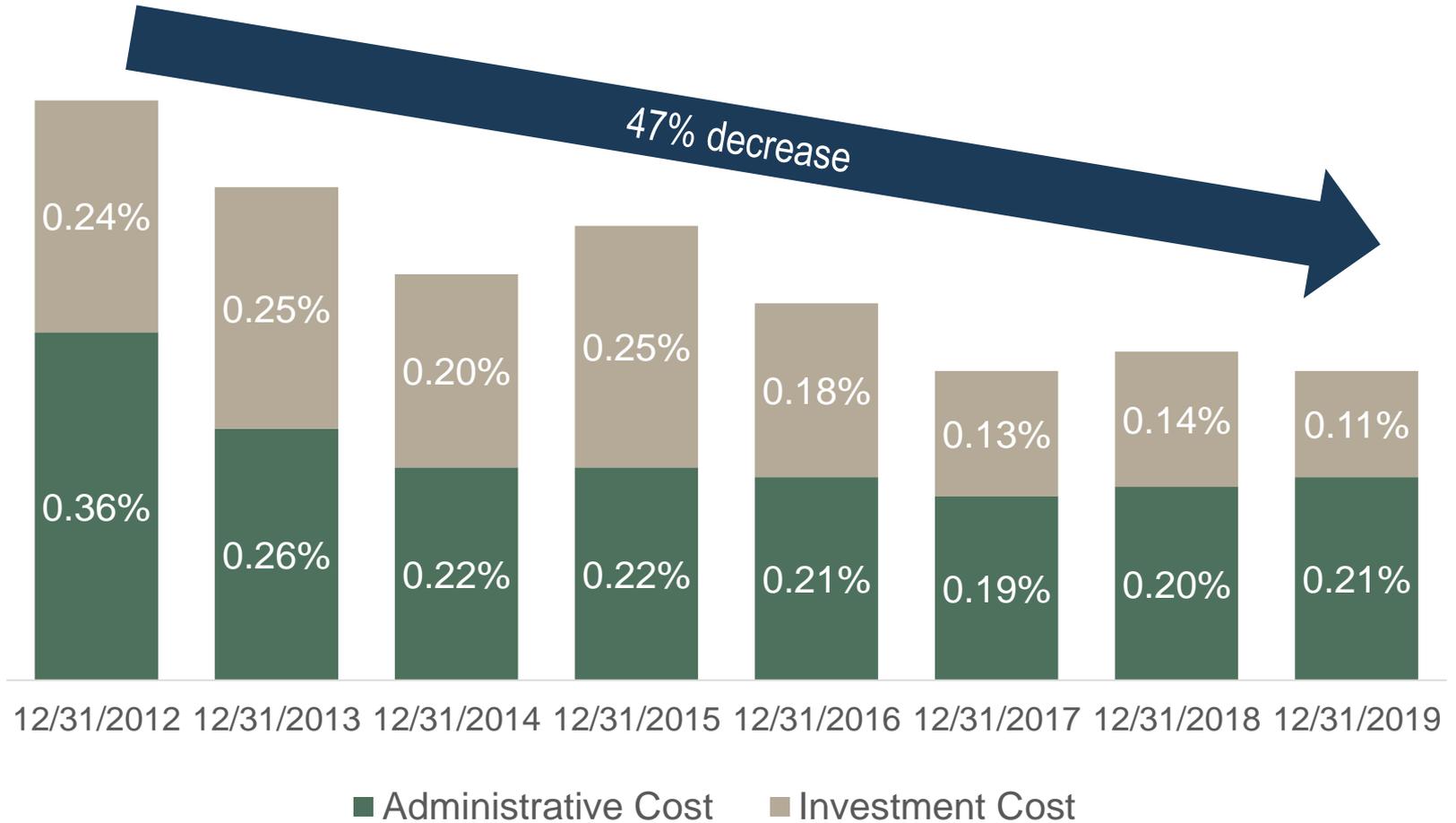
- The cost of your Defined Benefit Plan is determined annually and is provided in your Annual Actuarial Valuation
- Defined Benefit Plan costs vary by municipality based on the assets in the plan and specific benefit plan design

MERS Expenses

- There are also administrative and investment expenses, which are charged to your plan as basis points and are found on your quarterly statements

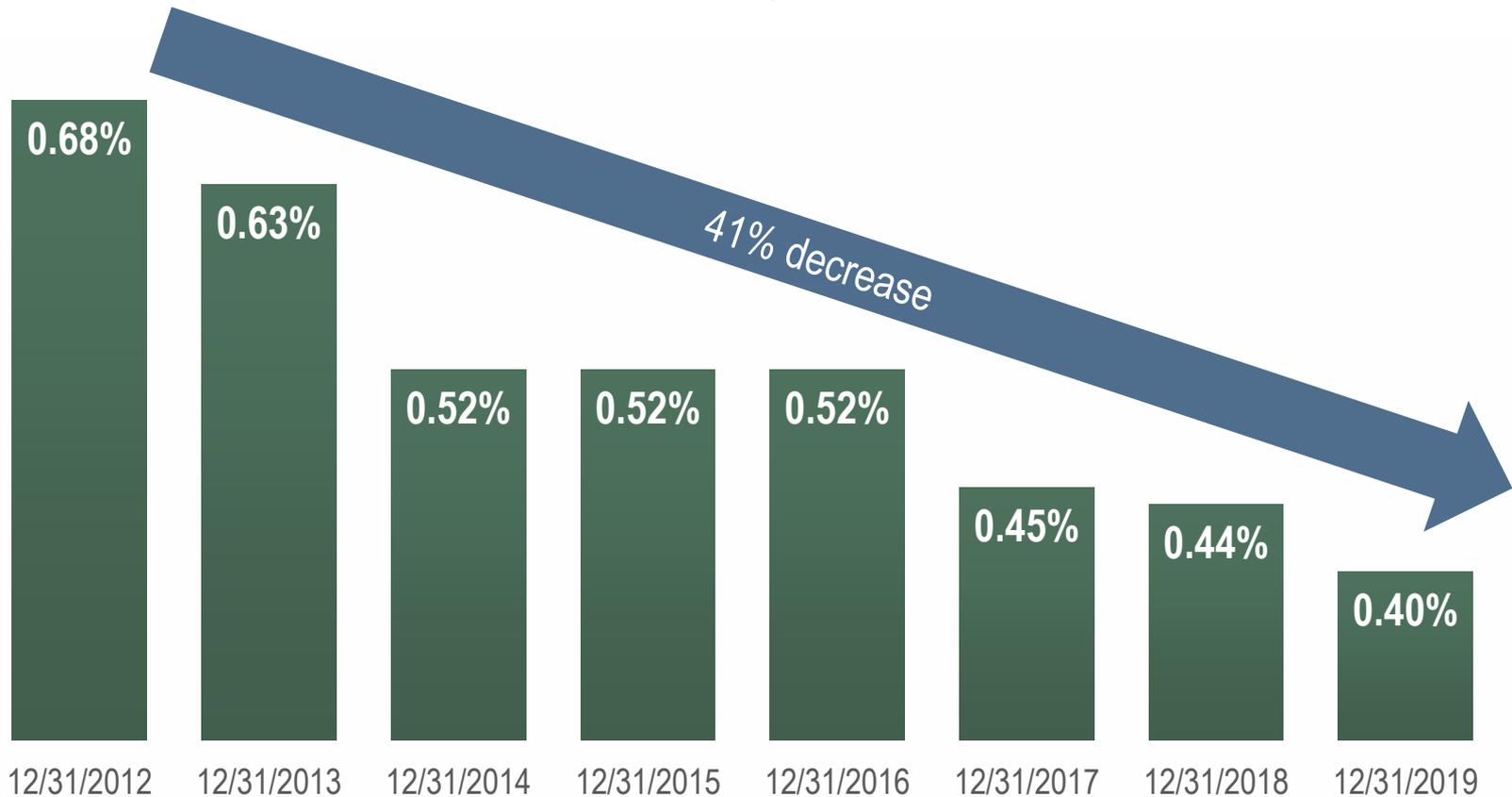
* As of 12/31/2019

Defined Benefit Plan Cost History



PDA Weighted Average Fund Cost History

Operational efficiencies and continued growth have reduced expenses



The MERS weighted average fund cost is determined by the percentage of assets participants invest in each fund offered on the MERS Defined Contribution Plan, 457 Program and Health Care Savings Program Investment Menus.

Monitoring Plan and Participant Expenses

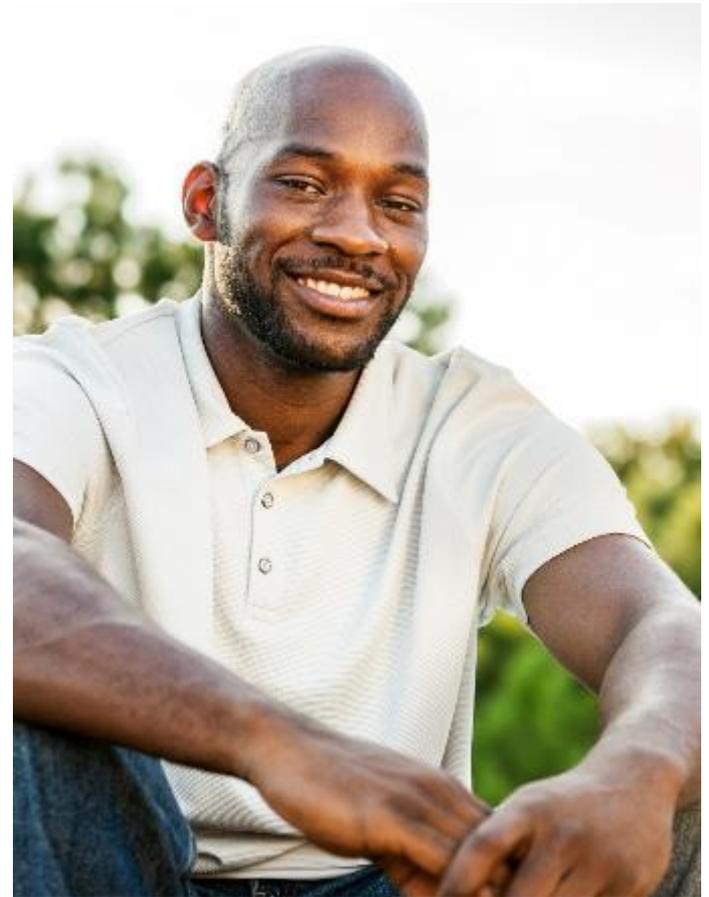
- Plan fiduciary is responsible
- Understand all costs paid by the participants, including:
 - Direct investment and administrative charges
 - Third-party and/or indirect fees
 - Reimbursements
- Ensure reasonable plan fees
- Ensure proper and clear disclosure of all plan fees

Why PDA Fund Costs Matter

How much impact can a 1% difference have on retirement income?

Meet John

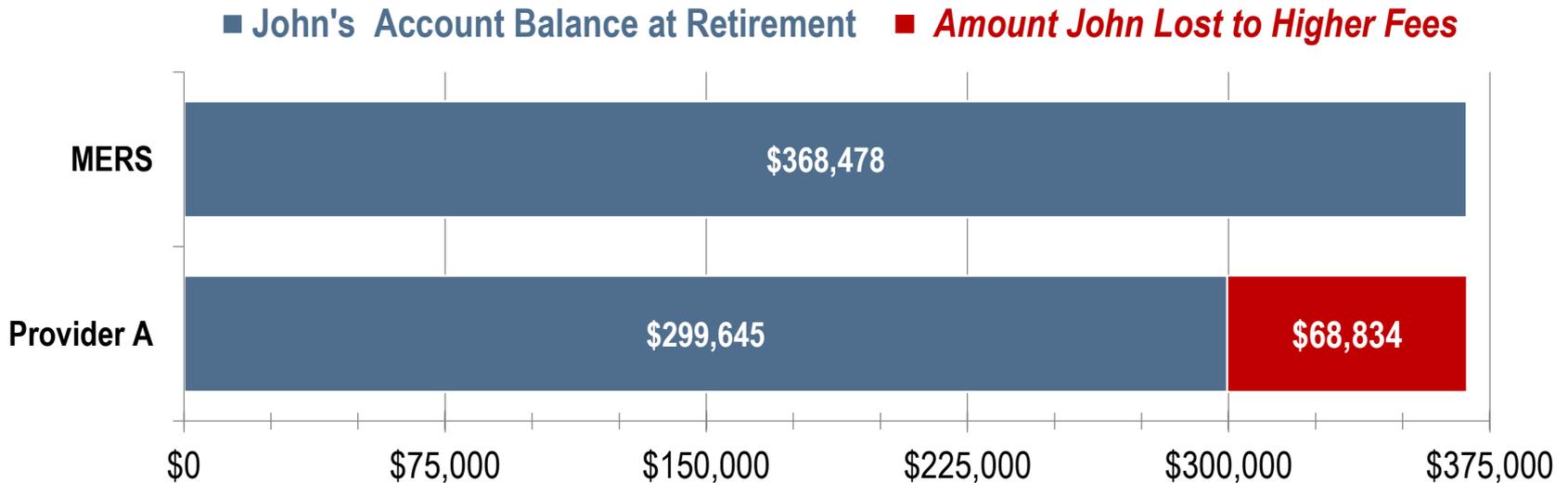
- John is 30 years old
- He currently makes \$48,000/year, and anticipates a 2% annual salary increase
- John makes bi-weekly contributions of 5% of his salary into his retirement account
- His account currently has a \$5,000 balance
- He expects a 7% investment return *before factoring in investment expenses*
- John plans to retire at age 62
 - He plans to receive equal monthly payments over 28 years (until age 90)
 - He anticipates a lower investment return of 5% during his retirement *before factoring in investment expenses*



Comparing Providers *Balance at Retirement*

A comparison report can help an employer gauge the impact of higher costs during the **accumulation phase** of an average employee.

A 1% difference in fund expenses would provide John with **23% more at retirement!**

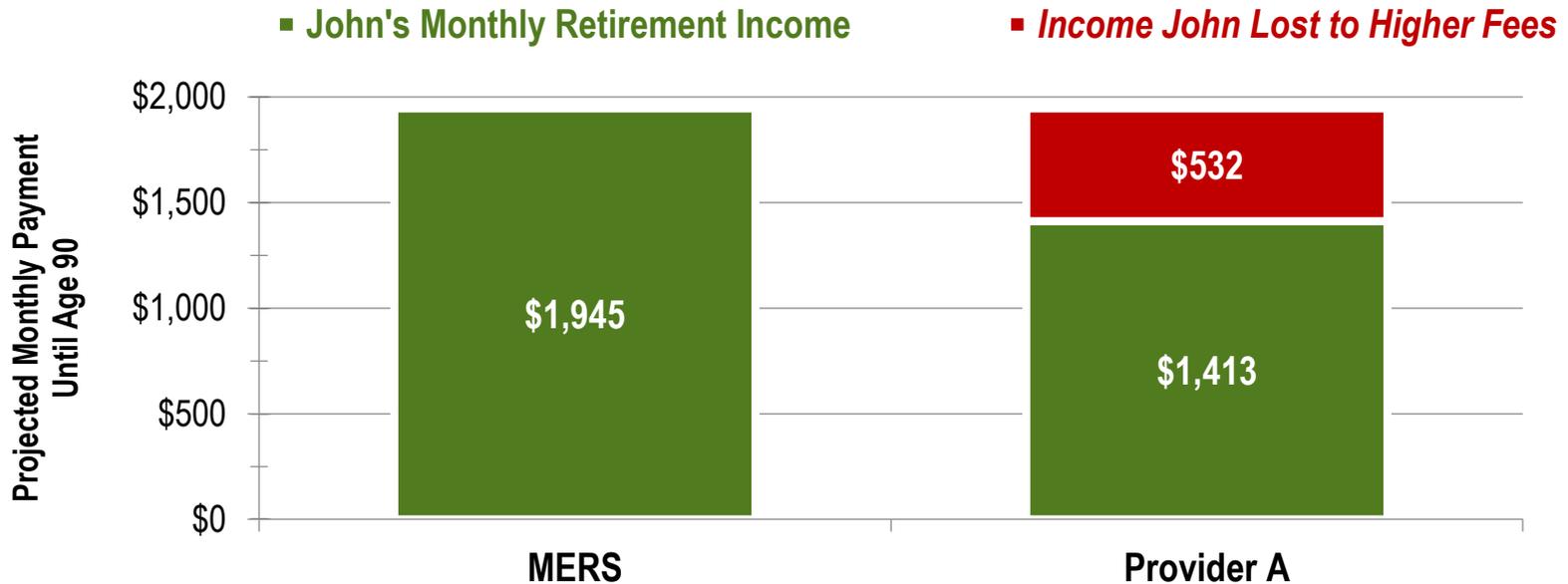


Weighted Average Expense Ratios: MERS – 0.40% and Provider A – 1.40%.

Comparing Providers *Monthly Income in Retirement*

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

A 1% difference in fund expenses would provide John with **38% more in monthly income during retirement!**



Weighted Average Expense Ratios: MERS – 0.40% and Provider A – 1.40%.



MERS Resources

Employer Resources

The screenshot displays the MERS website interface. At the top left is the MERS logo with the text "Municipal Employees' Retirement System". To the right are social media icons for Facebook, LinkedIn, and YouTube. Below these are navigation links: Home, Forms, Contact Us, and Log In. A dark green navigation bar contains the categories: PARTICIPANT, RETIREE, EMPLOYER, MEDIA, and MERS. A search bar with the placeholder "Search ..." and a "SEARCH" button is located on the right side of this bar. The main content area features two white cards with green accents. The first card, titled "Communications Corner", includes a speech bubble icon, a description of recent communications, and a link to "View Communications Sent". The second card, titled "Administrative & Policy Changes", includes a warning triangle icon, a description of administrative and policy changes, and a link to "View changes over time". Below these cards is a section titled "Upcoming Events" which contains a horizontal row of seven event tiles: "Participant Events" (pizza icon), "Retiree Connections" (ship's wheel icon), "Employer Events" (group of people icon), "Quick Bite Webinars" (circular arrow icon), "Facebook Live" (Facebook 'f' icon), and "Annual Conference" (map of Michigan icon).

Finding Employer Resources by Role

The screenshot displays the MERS website interface. At the top left is the MERS logo with the text "Municipal Employees' Retirement System". To the right are social media icons for Facebook, LinkedIn, and YouTube. Below these are navigation links for "Home", "Forms", "Contact Us", and "Log In". A dark green navigation bar contains tabs for "PARTICIPANT", "RETIREE", "EMPLOYER" (which is highlighted), "MEDIA", and "MERS". A search bar with the text "Search ..." and a "SEARCH" button is located on the right side of this bar. Below the navigation bar, a breadcrumb trail shows "Home | Employer". A large, light beige banner with the word "Employer" in a large, dark green font is centered on the page. Below the banner, there are three main content areas: "Programs" on the left, "Role Specific Information" in a yellow box in the center, and "Trending Topics" on the right. Each area contains a list of links to various resources.

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Home Forms Contact Us Log In

PARTICIPANT RETIREE **EMPLOYER** MEDIA MERS

Search ... SEARCH

Home | Employer

Employer

Programs

- [Defined Benefit Plan](#)
- [Defined Contribution Plan](#)
- [Hybrid Plan](#)
- [457 Program](#)
- [MERS IRA](#)
- [Stable Income Annuity](#)
- [Retiree Health Funding Vehicle](#)
- [Health Care Cost Containment](#)

Role Specific Information

- [Primary Contact](#)
- [HR Contact](#)
- [Finance Contact](#)
- [Reporting Contact](#)
- [Elected Official & Boards](#)

Trending Topics

- [Employer Reporting Project](#)
- [Experience Study](#)
- [Annual Actuarial Valuations \(AAV\)](#)
- [Unfunded Liability](#)
- [COVID-19](#)
- [Changing to MERS Defined Contribution Plan](#)

Participant Resources

The screenshot shows the MERS website's Participant Resources page. At the top left is the MERS logo with the text "Municipal Employees' Retirement System". To the right are social media icons for Facebook, LinkedIn, and YouTube. Further right are navigation links for "Home", "Forms", "Contact Us", and "Log In". Below this is a dark green navigation bar with tabs for "PARTICIPANT" (highlighted), "RETIREE", "EMPLOYER", "MEDIA", and "MERS". A search bar with the text "Search ..." and a "SEARCH" button is located on the right side of this bar. The main content area has a light green background and is titled "Resources". It features several resource categories, each with an icon and a link: "Rollover Funds" (circular arrow icon), "Forms" (document icon), "Publications" (book icon), "Calculators" (calculator icon), "CentsAbility Blog" (circular arrow icon), "Retirement Readiness" (scales icon), "Investments" (bar chart icon), and "Events" (person icon). The "Events" category includes a list of links: "Pizza & Planning", "Webinars", and "All events". The "Communications Corner" section, marked with a speech bubble icon, includes the text "View the recent communications MERS has sent to participants. [Click to view list.](#)"

MERS
Municipal Employees' Retirement System

Home Forms Contact Us Log In

PARTICIPANT RETIREE EMPLOYER MEDIA MERS

Search ... SEARCH

Resources

- [Rollover Funds](#)
- [Forms](#)
- [Publications](#)
- [Calculators](#)
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1134 Municipal Way
Lansing, MI 48917

800.767.MERS (6377)

www.mersofmich.com



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