



# 71<sup>st</sup> Annual Business Meeting

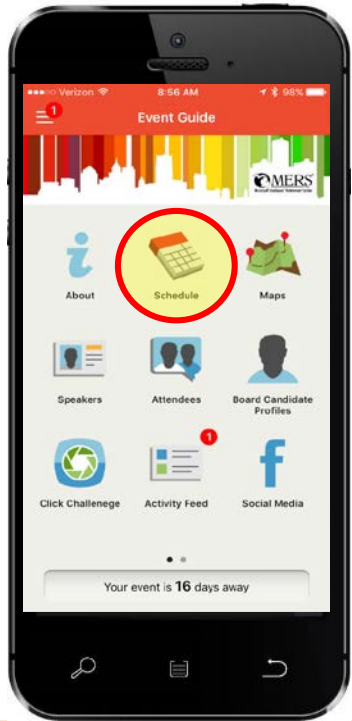
MERS Annual Conference

September 22, 2017

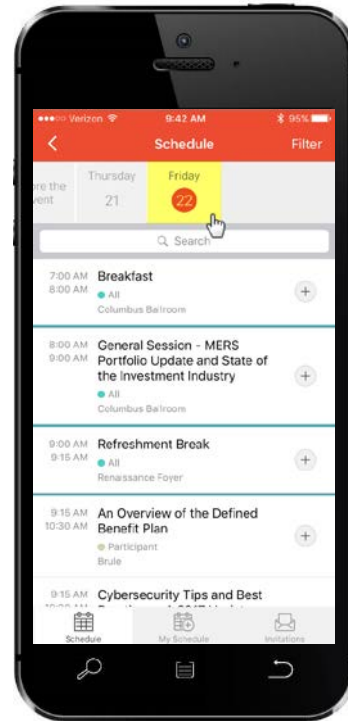
Detroit Marriott



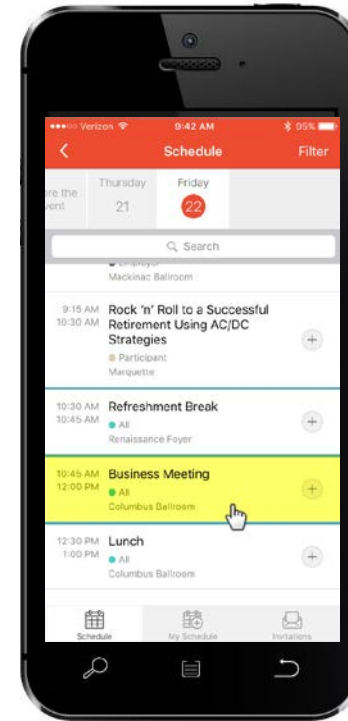
# Locating Business Meeting Documents in the App



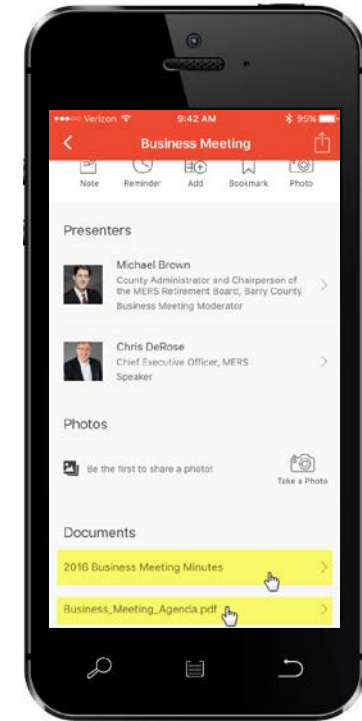
**Step 1:**  
Select the  
**Schedule** icon



**Step 2:**  
Select **Friday** at  
the top of the  
screen



**Step 3:**  
Select  
**Business  
Meeting**



**Step 4:**  
Scroll down  
and select the  
**Agenda or  
Minutes**





# 2017 State of MERS - Delivering Superior Value Now and In the Future

*Chris DeRose, MERS Chief Executive Officer*



*MERS is an independent, professional retirement services company that was **created to administer** the retirement plans for Michigan municipalities on a **not-for-profit basis***



# 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 Retirement Board**

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



## MERS will deliver superior value to our customer by:

### YOUR NEEDS

Achieving a deeper understanding of **your needs**

### INTUITIVE

Consistently **deliver** services through **intuitive** processes and systems

### PARTNER

Proactively **partner** with you to provide options and information that help meet unique workforce and financial needs

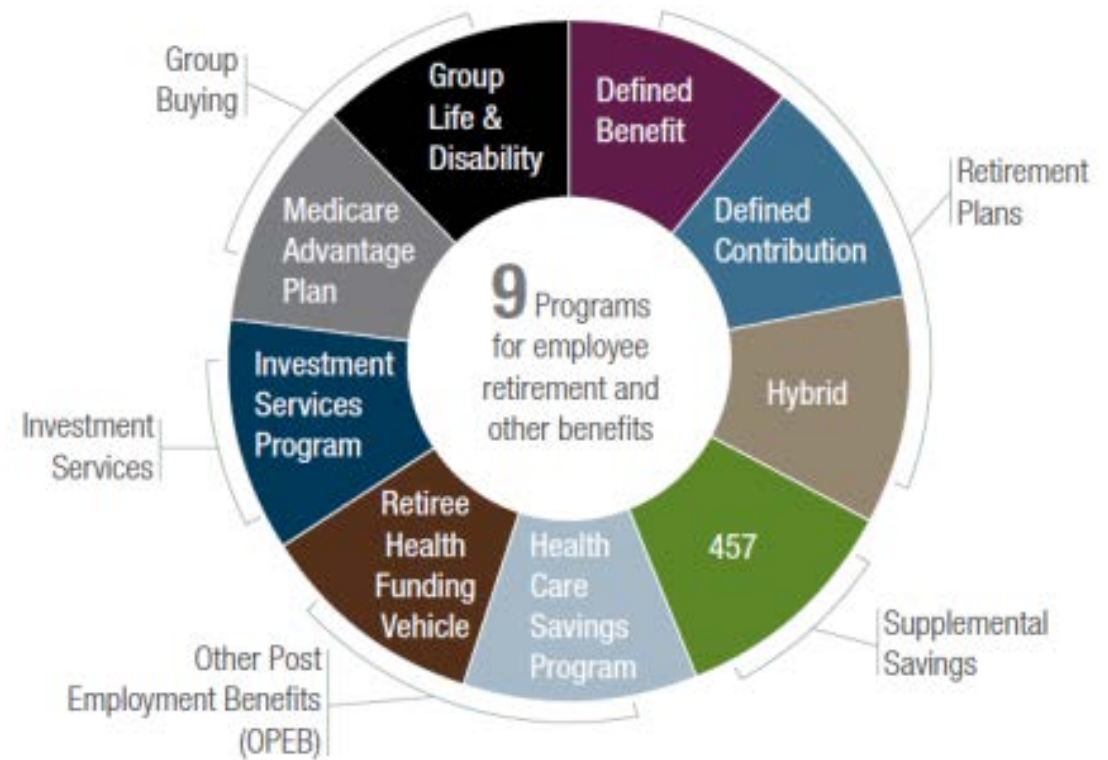
### FINANCIAL WELLNESS

Significantly increasing resources and awareness that help participants improve **financial wellness** to be ready for retirement



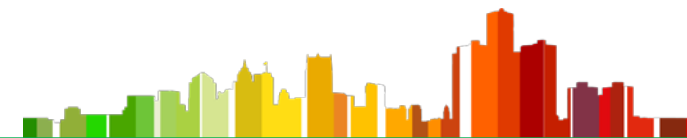
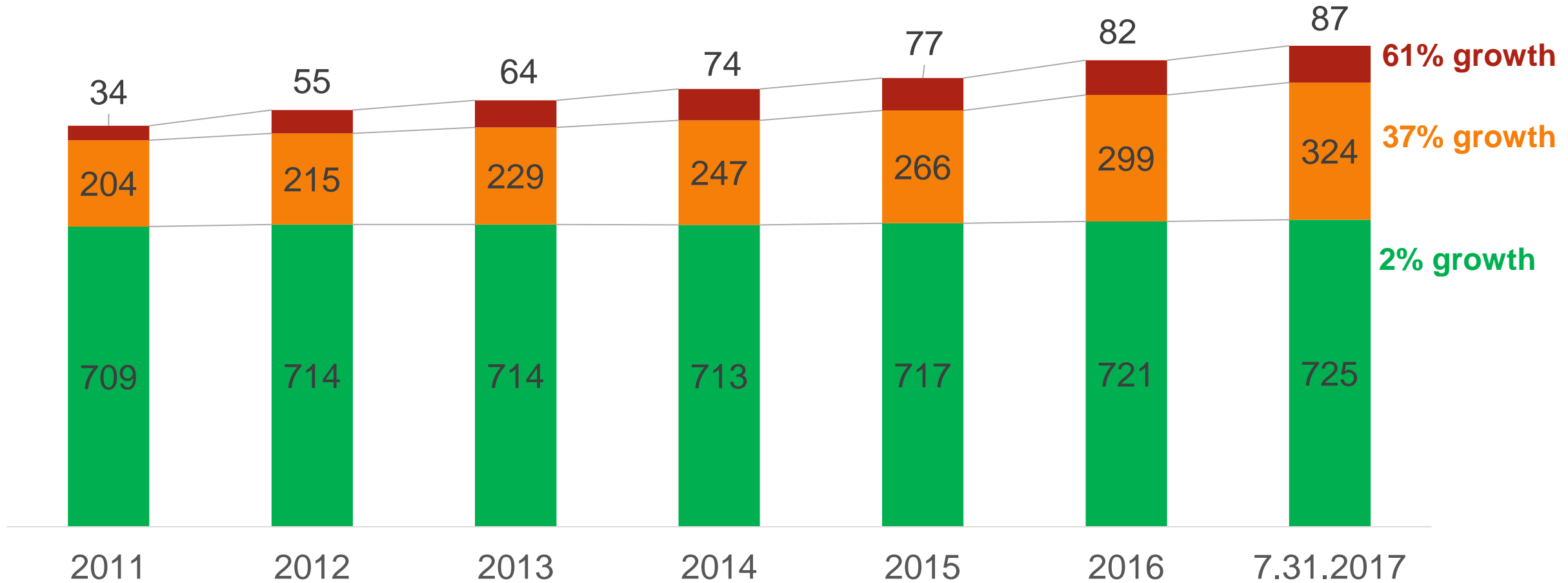
# One Size Does Not Fit All

- Each municipality has unique needs
- We offer a broad range of customizable plans and services
- We listen to our members and continuously add new products and tools to meet their needs



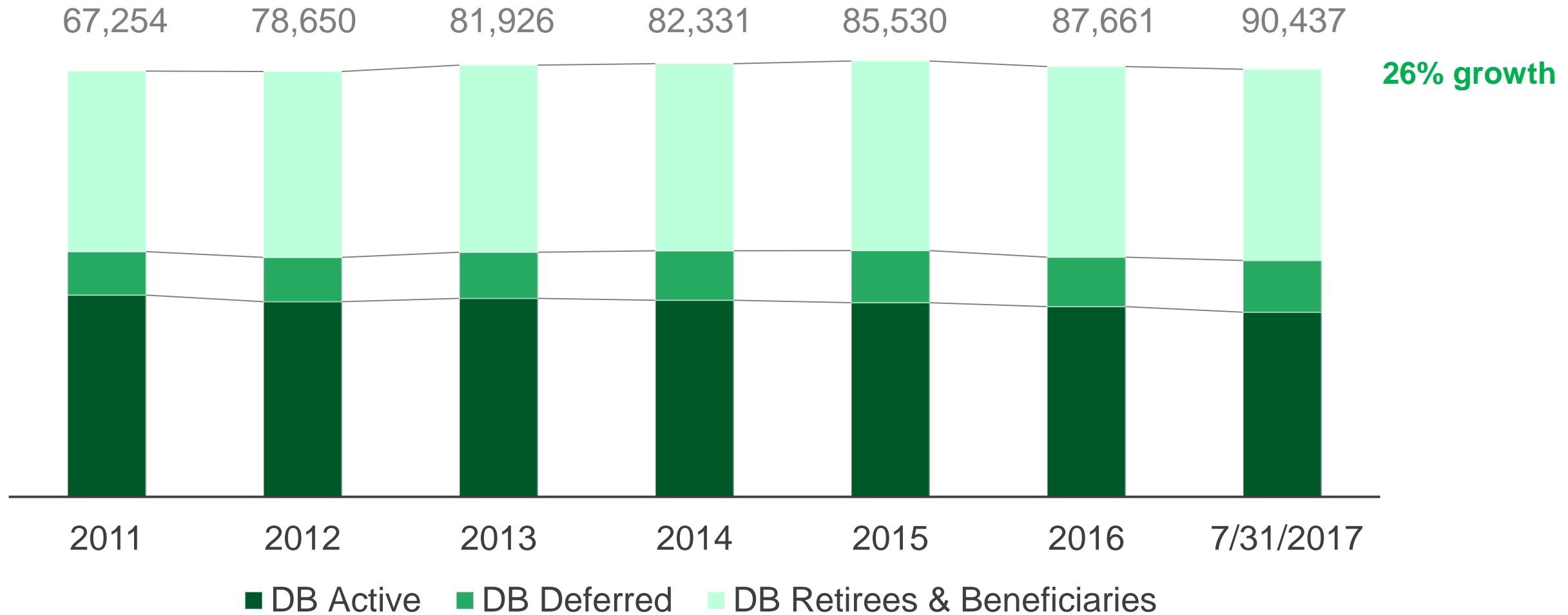
# MERS Retirement Plan Growth

■ DB Municipalities ■ DC Municipalities ■ Hybrid Municipalities





# Defined Benefit Participants Growth



# MERS is Maturing

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1955

7.5 Active Members



1 Pension Recipient



# MERS is Maturing

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2016

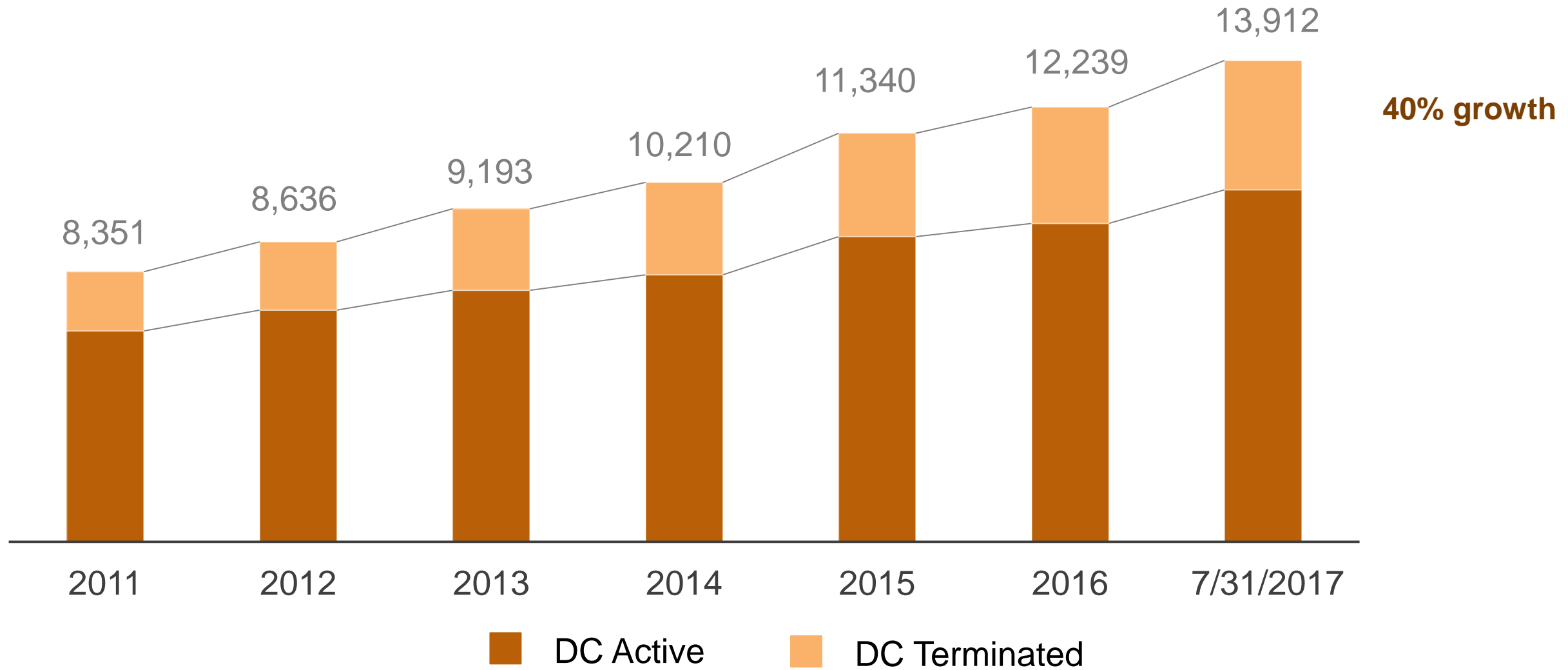
0.9 Active Member



1 Pension Recipient



# Defined Contribution Participants Growth



# MERS Defined Benefit Plan

# Unique Benefit Designs

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- By state law, defined benefit plans are required to be **prefunded** and are considered to be a financially accrued benefit and cannot be diminished
- **720** municipalities within MERS Defined Benefit or Hybrid Plan which results in **2,687** divisions with unique benefit designs



# Annual Actuarial Valuation Enhancements

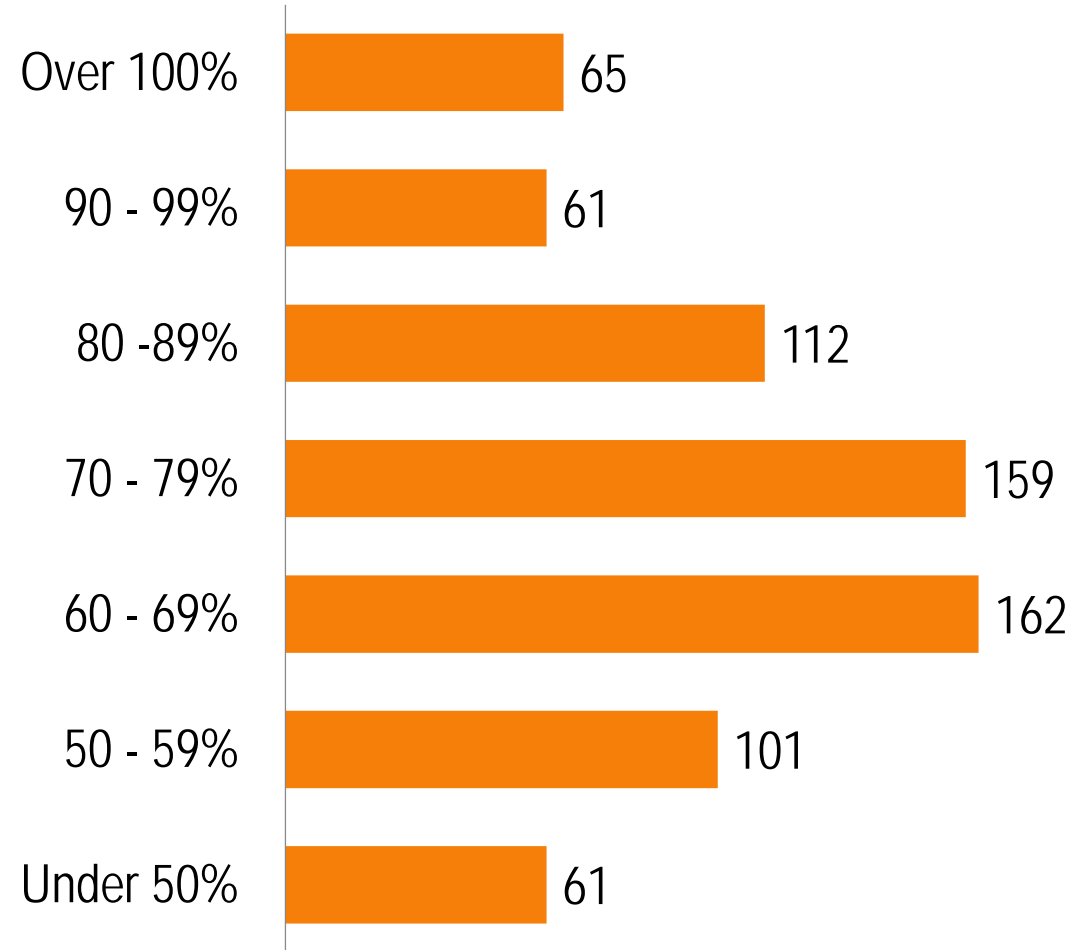
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- Delivered by June 30<sup>th</sup> each year
- Helps you **budget** for your municipality's retirement benefits
- Each report provides a six year projection with three volatility scenarios to assist with planning
- Contains insight into your plan's liabilities, funding levels, contributions for both the employer and employees, and important GASB 68 information
- Provides a picture of your MERS Defined Benefit Plan as of December 31<sup>st</sup>



# Distribution of Funded Percentage within MERS

- Through fiscally responsible policies, unfunded liabilities will be eliminated over time
- Plans within MERS are on schedule to eliminate unfunded liabilities over a period of 22 years



*Funding data as of 12/31/2016*





# Pension Funding 101

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In the most basic terms:

$$\text{Contributions} + \text{Investment Income} = \text{Benefits Paid} + \text{Expenses}$$



# Experience Study Impact

2017 is the first fiscal year that includes the contribution increases from the last Experience Study

**2009 – 2013  
Experience Study**

**1**

Assumed investment return was reduced from 8% to 7.75%

**2**

Mortality table was adjusted to reflect longer lifetimes



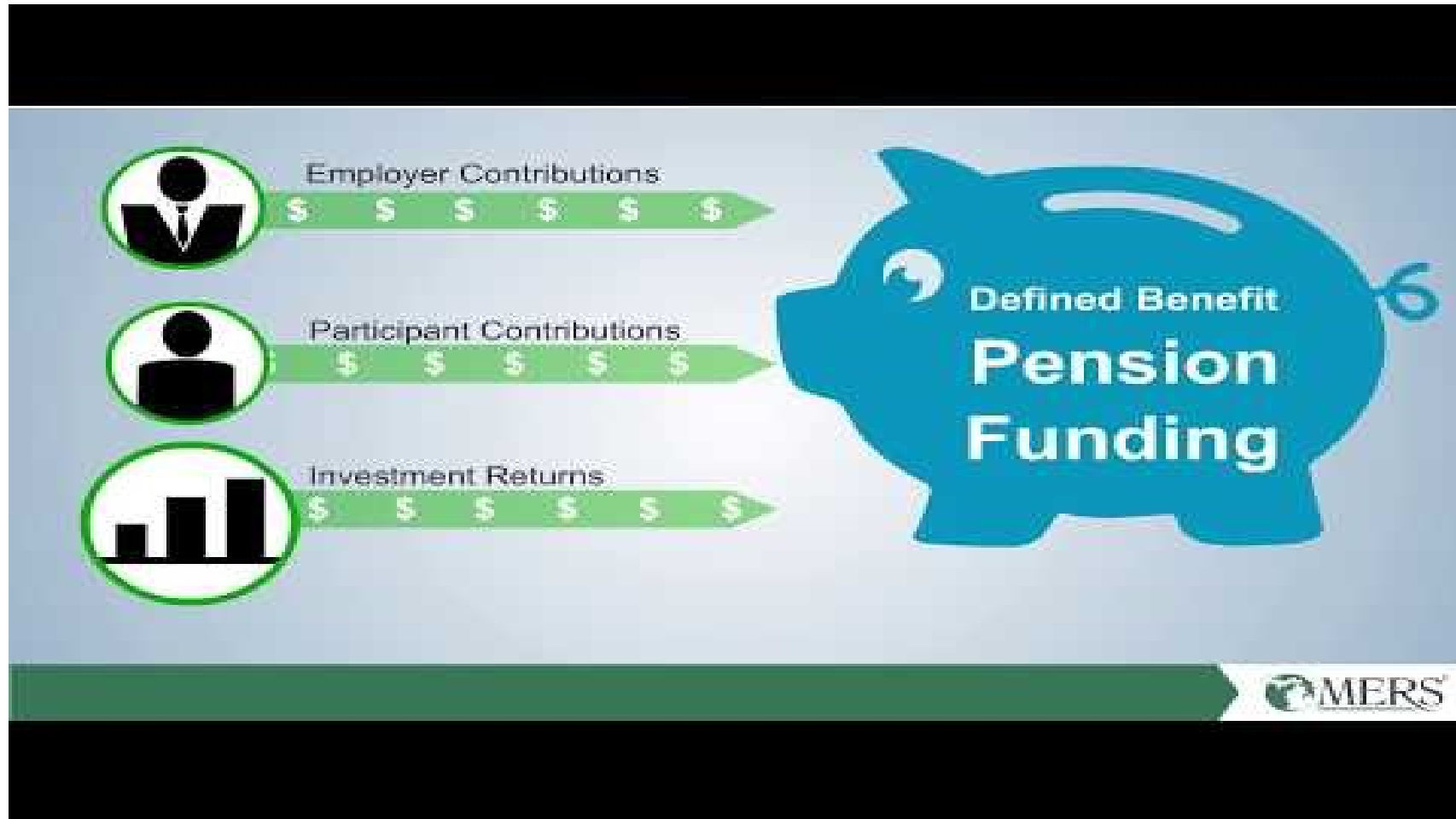
# Phasing In Contribution Increases

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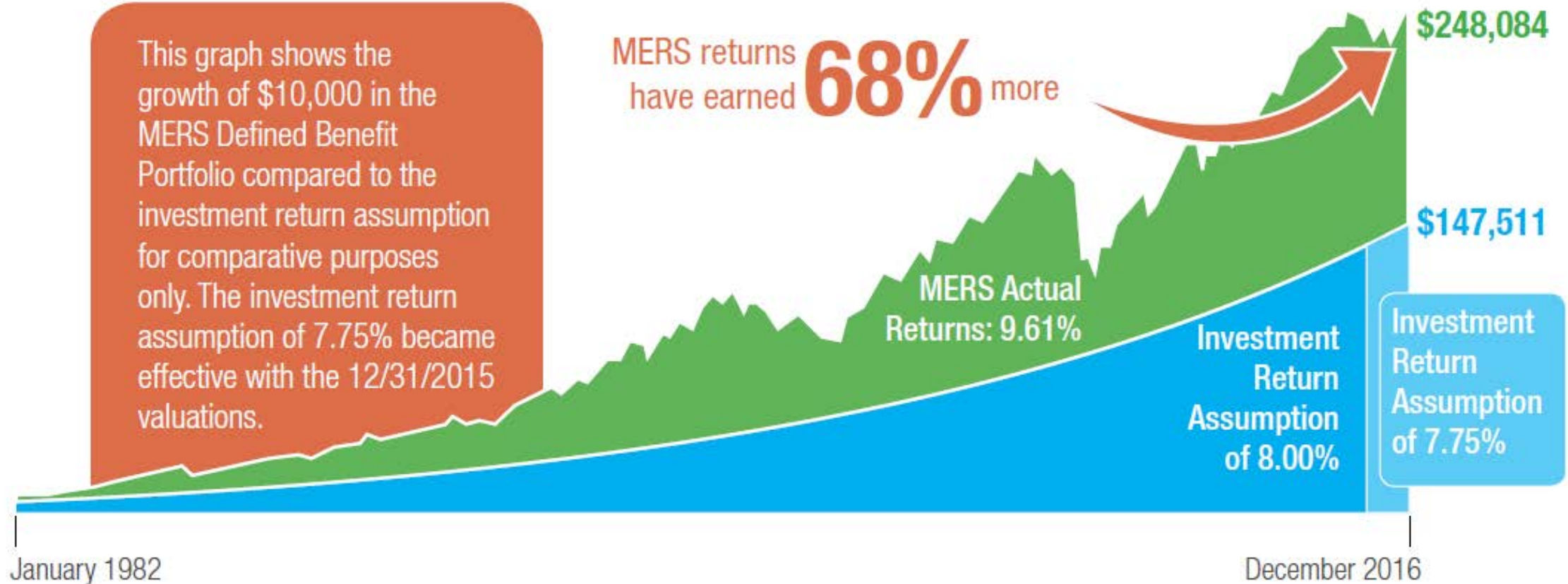
- The MERS Retirement Board approved phasing in the total impact of any increase to your required contributions over the **next five years**
  - Impacting fiscal years 2017 – 2021
  - This phased-in amount will be the your default unless you notify us that you wish to pay the full impact
- Next Experience Study will begin in the fall of 2019



# MERS Investment Return Assumption



# MERS Long-Term Investments



# Reducing UAL

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There are two ways a municipality can close its unfunded liability gap



**Increase assets to close the funding gap**

- Funding strategies



**Reduce or eliminate liability moving forward**

- Plan design strategies



# Additional Voluntary Contributions

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50%



# Flexibility with Additional Contributions

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- Based on your feedback we now have two ways in which your additional contributions can be applied:
  - To accelerate the time in which your plan is funded, or
  - To reduce future contribution requirements
- If your goal is to accelerate the time in which your plan is funded, we will establish a surplus division for those additional funds





# Amortization Options Available

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- The amortization policy sets the length of time needed to eliminate a pension plan's unfunded liability
- While the amortization policy changes are not a driver of the increasing costs, it has been an area where we have continued to receive feedback
- Ability for a one-time extension of amortization
  - Gives you flexibility with the timeframe of getting to full funding
  - Approval based on a sustainability analysis

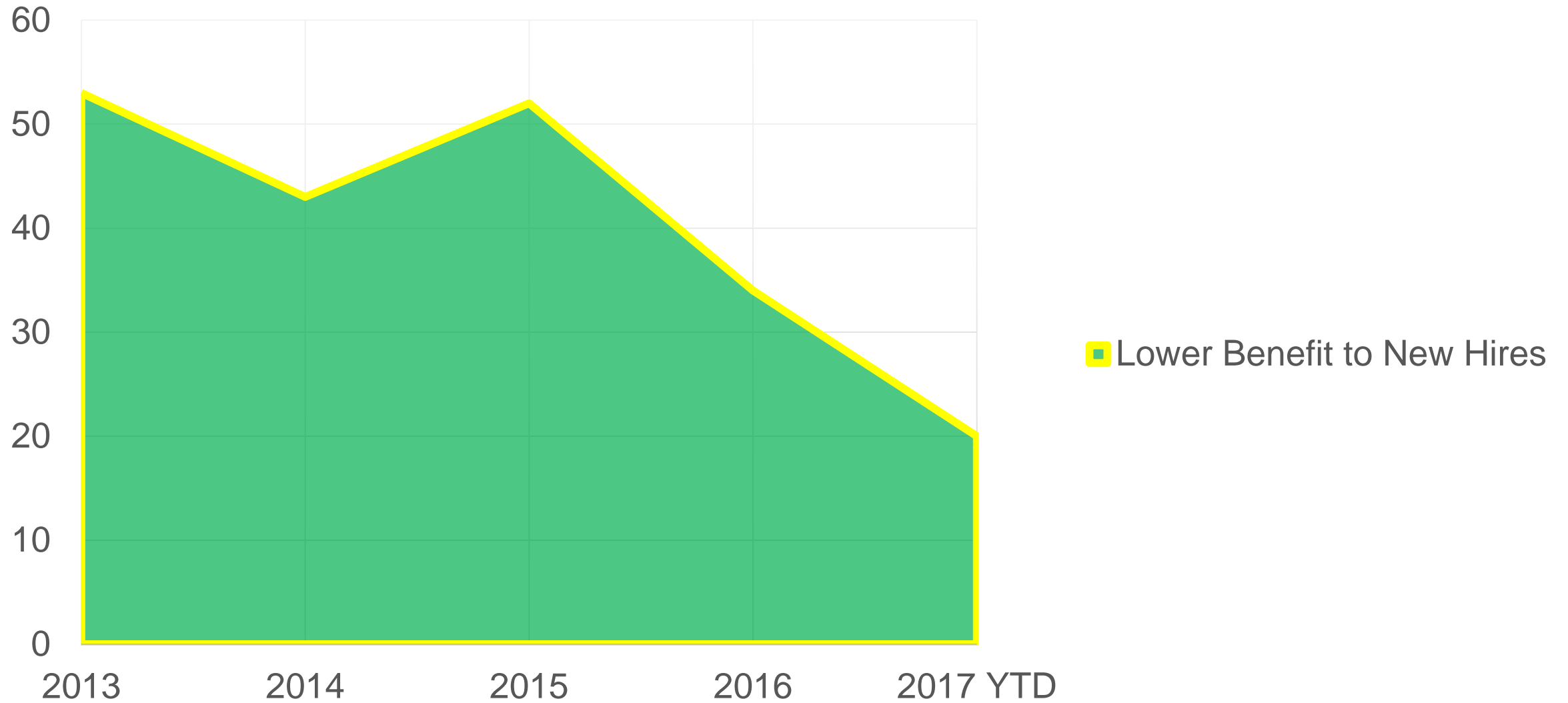


# Municipal Actions

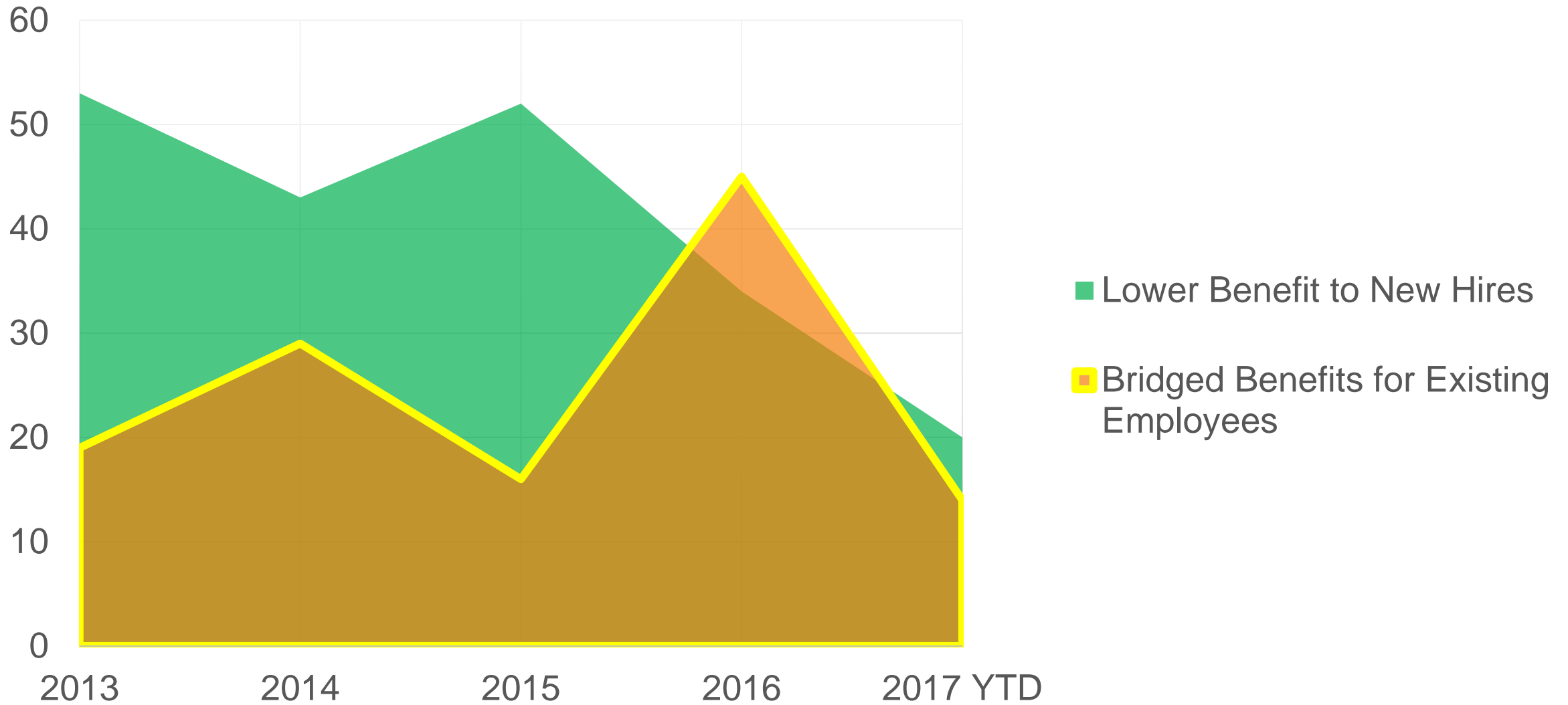
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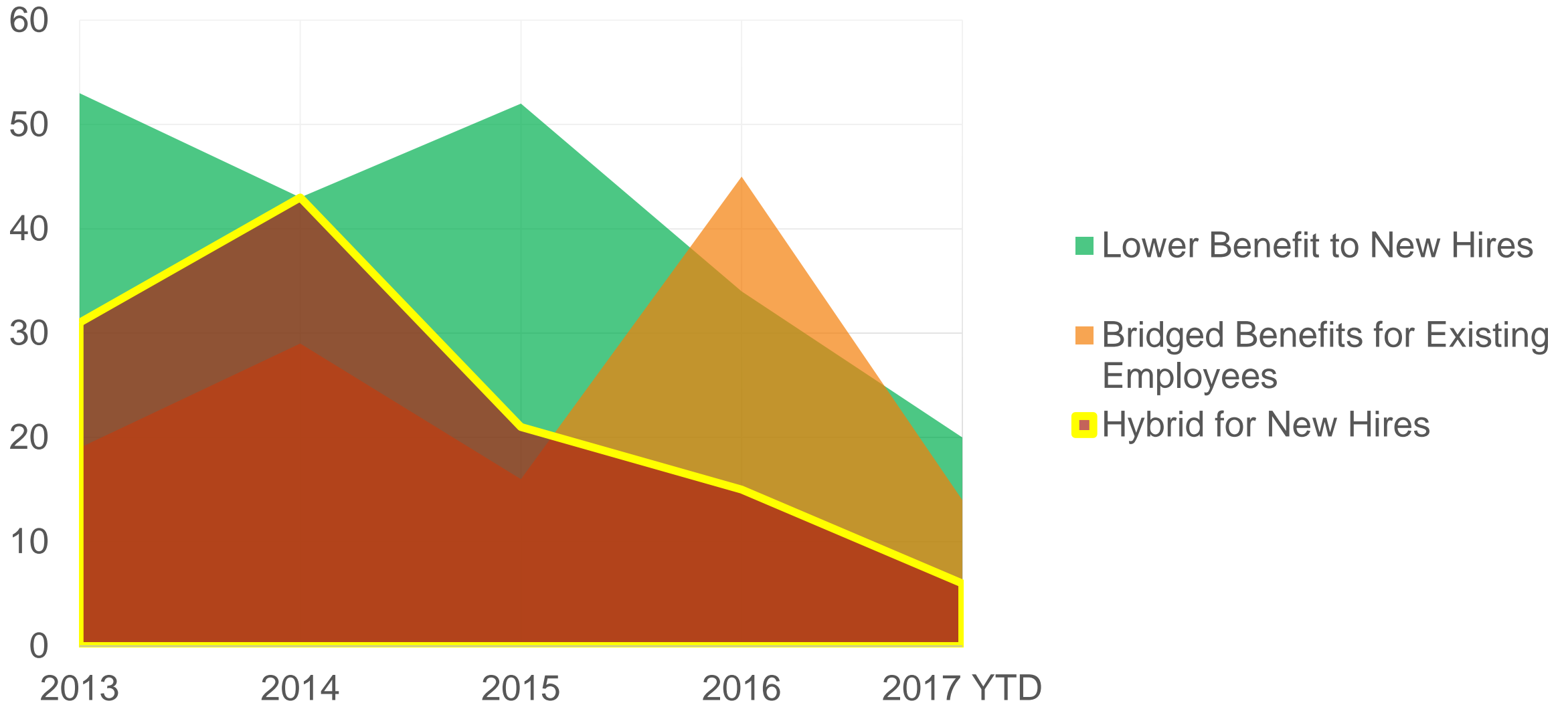
# Plan Design Strategies



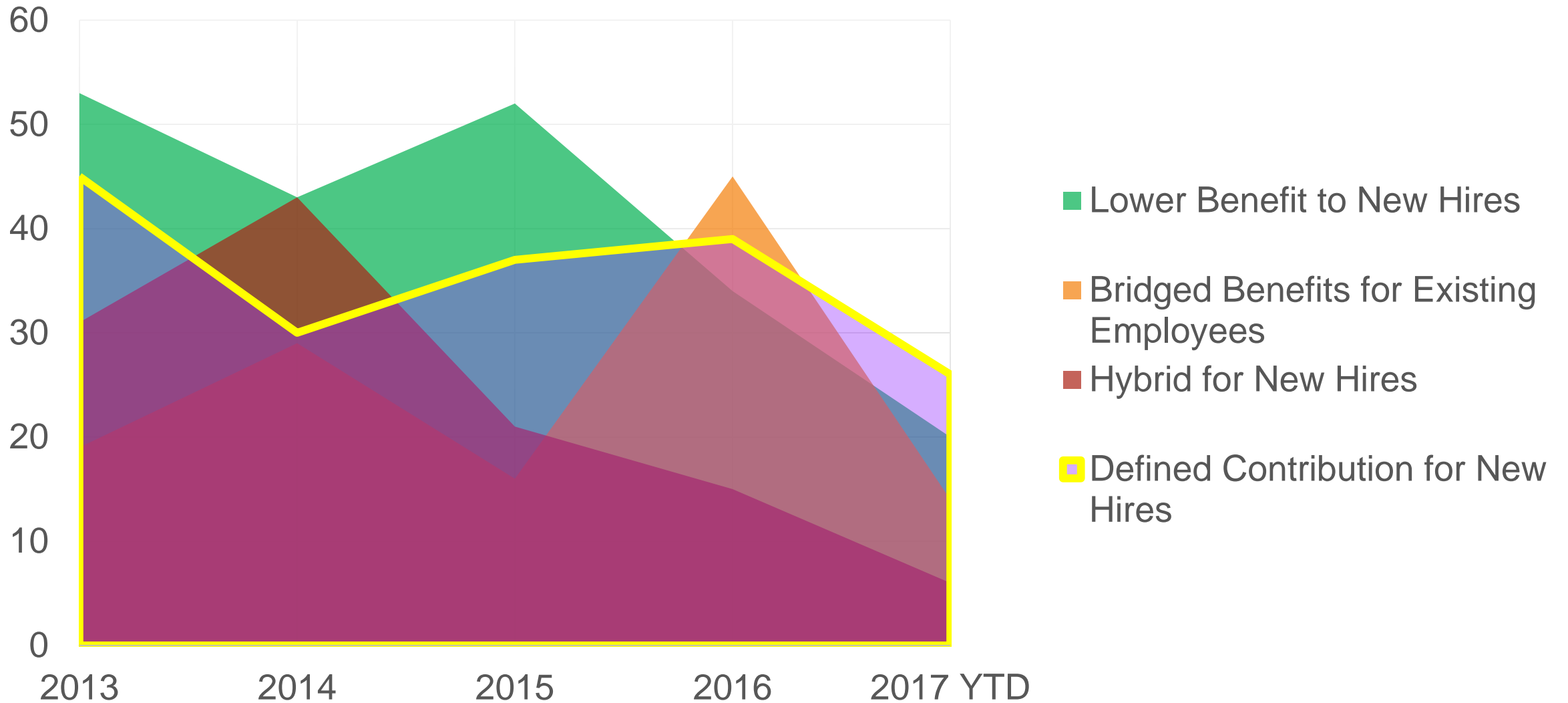
# Plan Design Strategies



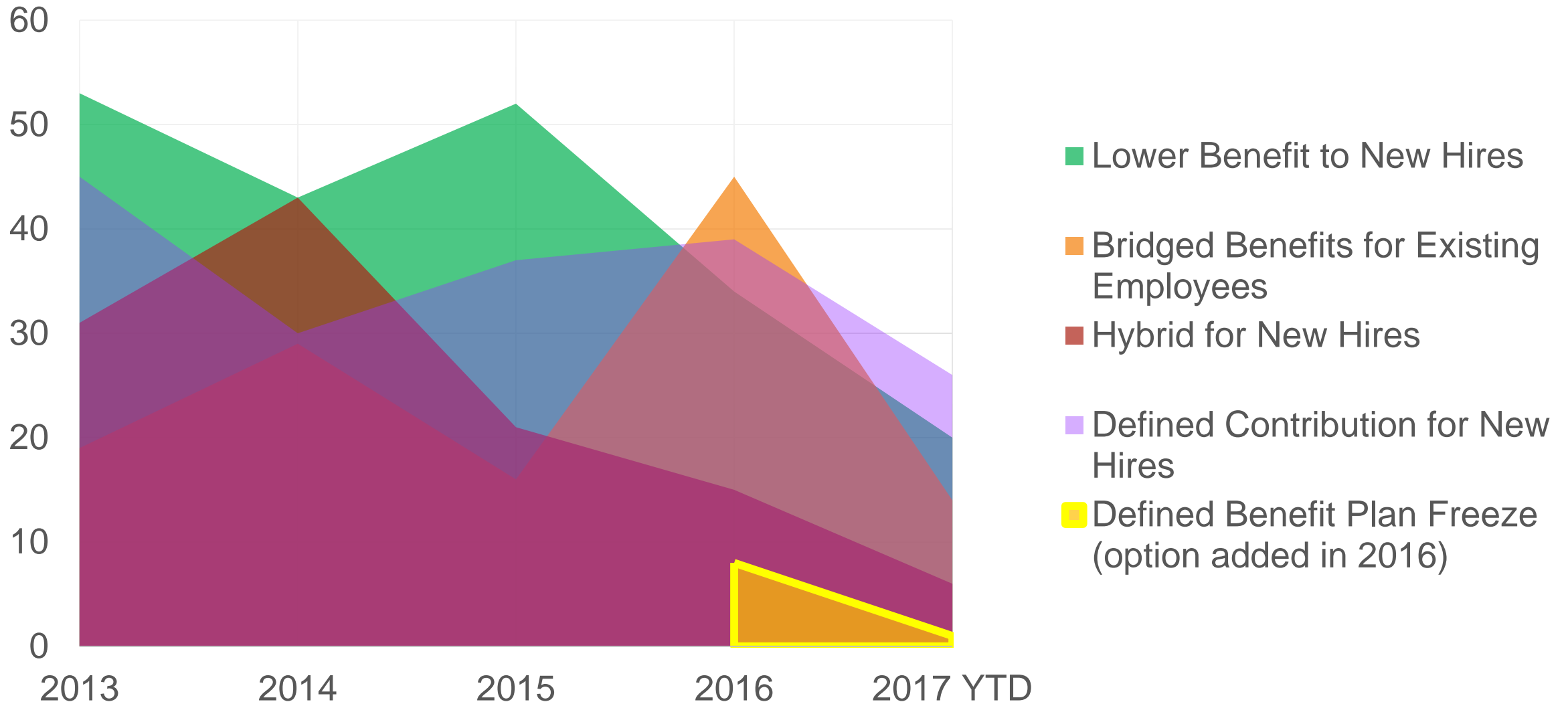
# Plan Design Strategies



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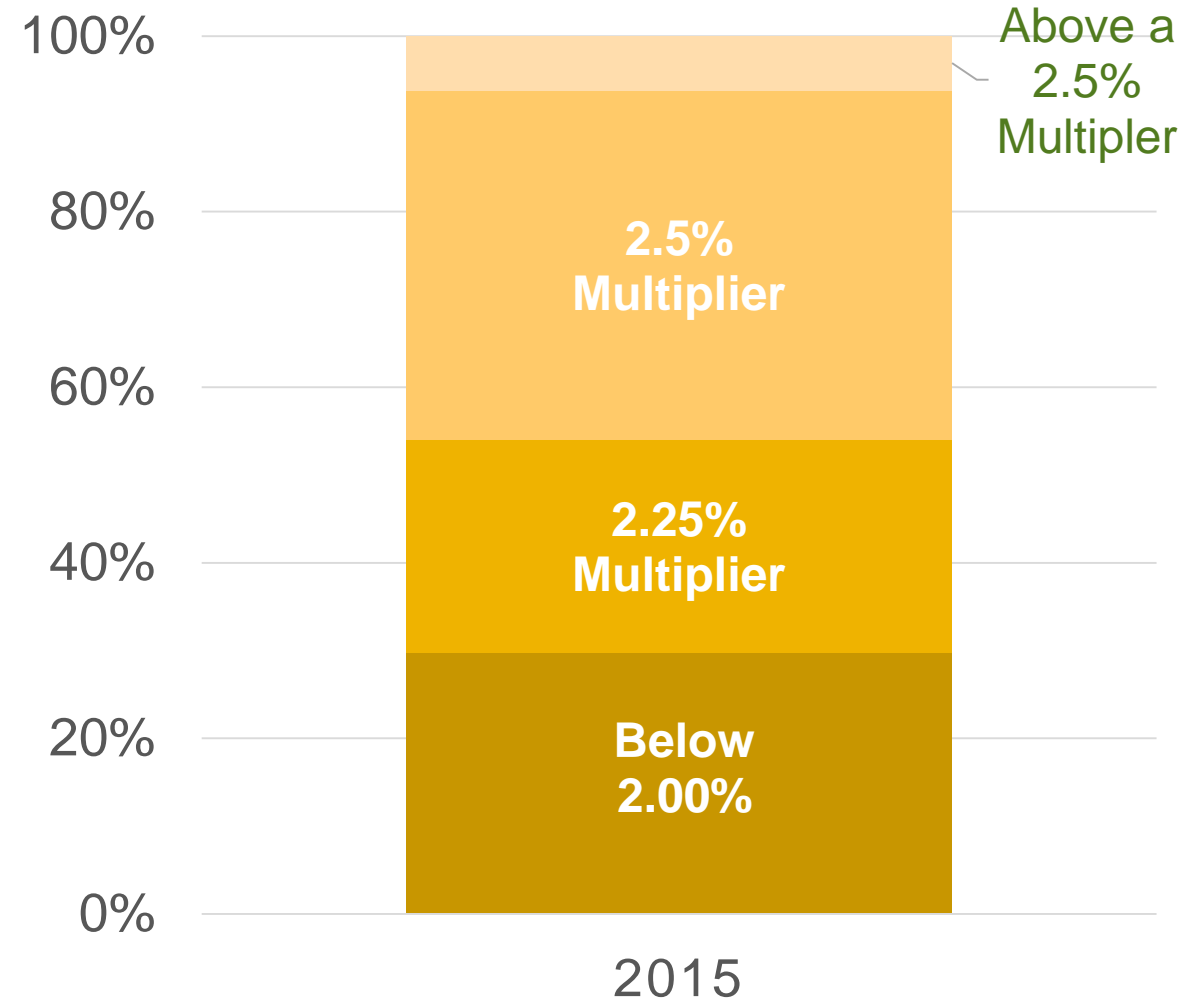


# Plan Design Strategies



# Trend of Benefit Multipliers

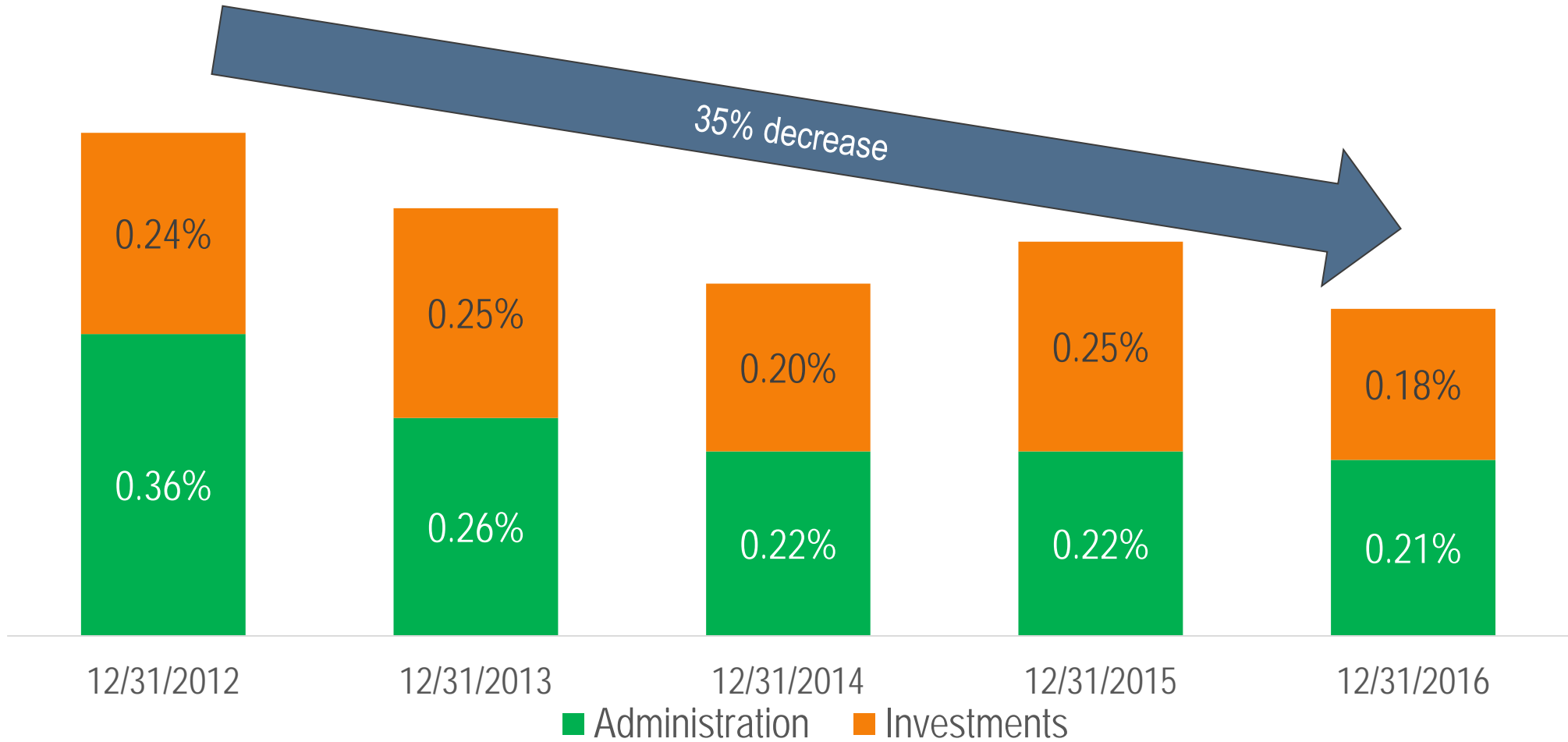
- About a third of divisions have a 2.5% multiplier
  - No new divisions are adopting this provision
  - Higher multiplier divisions may have opted out of Social Security
- 72% increase in divisions bridging to lower multipliers over the past 3 years





# Defined Benefit Plan- Administrative & Investment Costs

*5-Year History*



# Actuarial Services Provider Due Diligence

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- As part of MERS' fiduciary responsibility, it is a fiscal best practice to issue a request for proposal every five years for actuarial services
- Through a comprehensive selection process, MERS has chosen the Gabriel Roeder Smith & Company (GRS) firm
- By partnering with GRS, MERS will be able to leverage:
  - A team of knowledgeable and experienced staff
  - The size and strength of GRS' presence in the public pension market sector and its significant experience
  - Ability to support high levels of service to our customers, and the added value of robust and sophisticated modeling and reporting tools



# Participant Directed Accounts

# Fiduciary Responsibility

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MERS is the sole fiduciary for our retirement plans – we provide our members with:



Oversight



Administration



Investment Monitoring



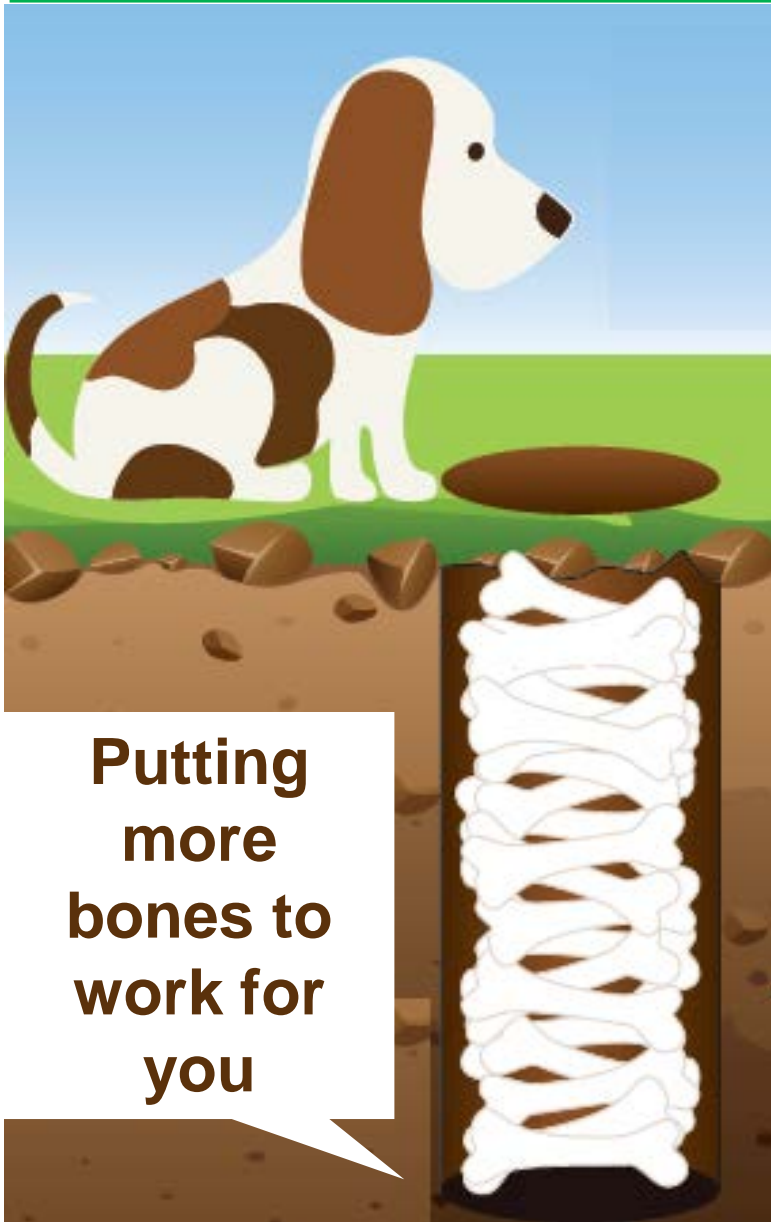
Low Plan Costs



Participant Education



# Program Cost Reduction

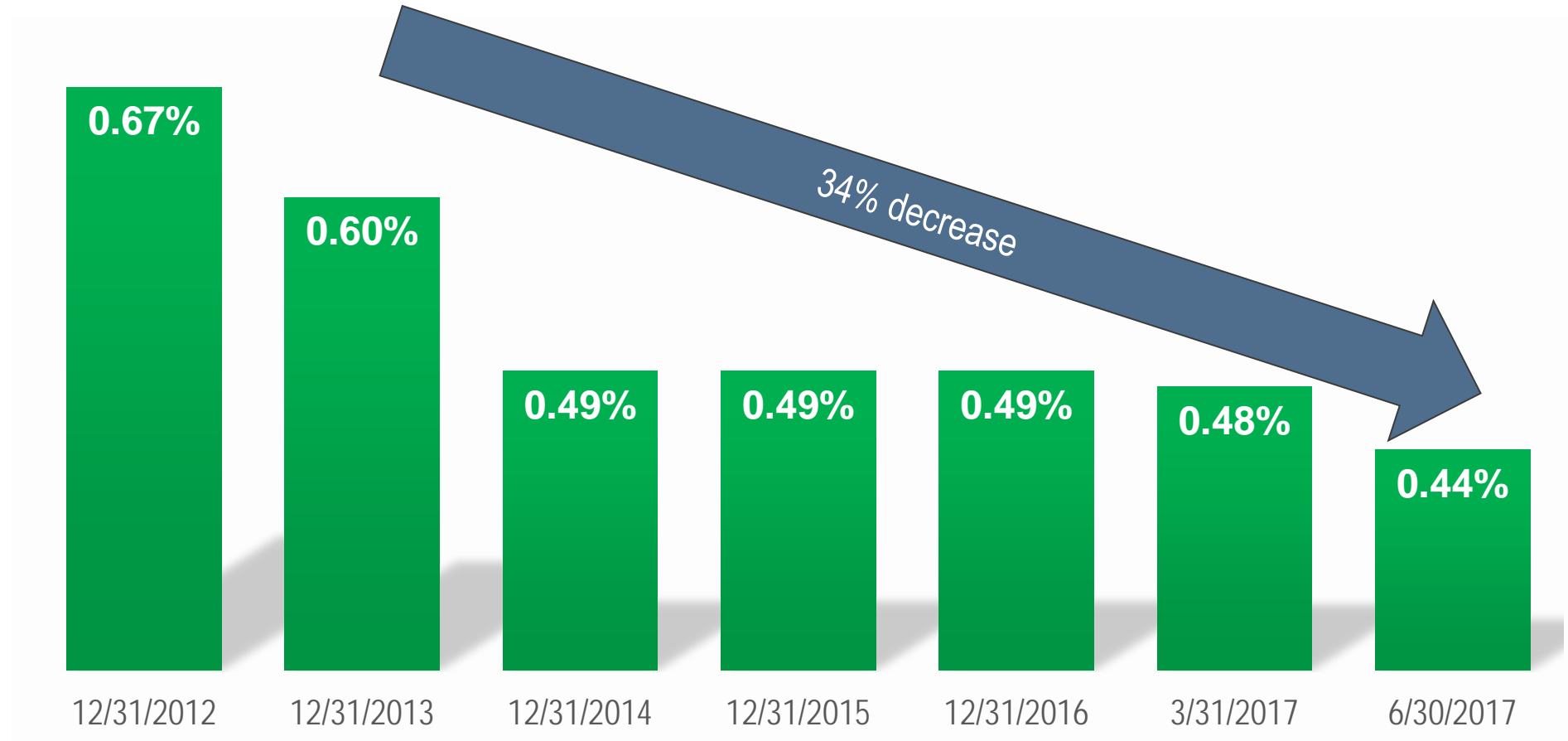


- Since 2012, MERS has consistently lowered costs in participant directed account programs
- Reduced costs mean more money in employee's accounts — increasing the amount they're saving for retirement and harnessing the power of compounding



# A History of Cost Reduction

## *Weighted Average Fund Expense*



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 and MERS 457 Program Investment Menu.



# Defined Contribution *PLUS*

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- MERS Defined Contribution *PLUS* is a unique feature to the rigidity of a typical defined contribution program
- Provides the flexibility to incentivize employee saving through matching contributions within the 457 program
- The two products function as a single plan



# How Defined Contribution *PLUS* Works

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- Employers offer matching contributions to incentivize employee savings
- One-stop reporting
- Employees have the ability to start, stop or change their voluntary contributions at any time
- Combined quarterly statements
- Employees can contribute up to the current IRS maximum in each portion of the plan







**Responsive to Your Needs**

# Focusing on You



# Program Enhancements Based on Your Feedback

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## Defined Benefit

- New DROP provision
- Normal retirement ages greater than 60
- One-time option to extend your amortization period
- Removed the minimum funding requirement for closing a defined benefit plan
- Ability to freeze the plan for active employees

## Defined Contribution

- Aligned vesting calculations to industry standards and added additional options for flexibility
- Added flexibility to the definition of compensation
- New brokerage window with reduced costs
- DC Plus option
- In-service Roth conversions



# Listening to Your Feedback: Consistent Communications

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## Communications Corner

View a list of recent communications sent to participants and employers.



[View Communications Sent](#)

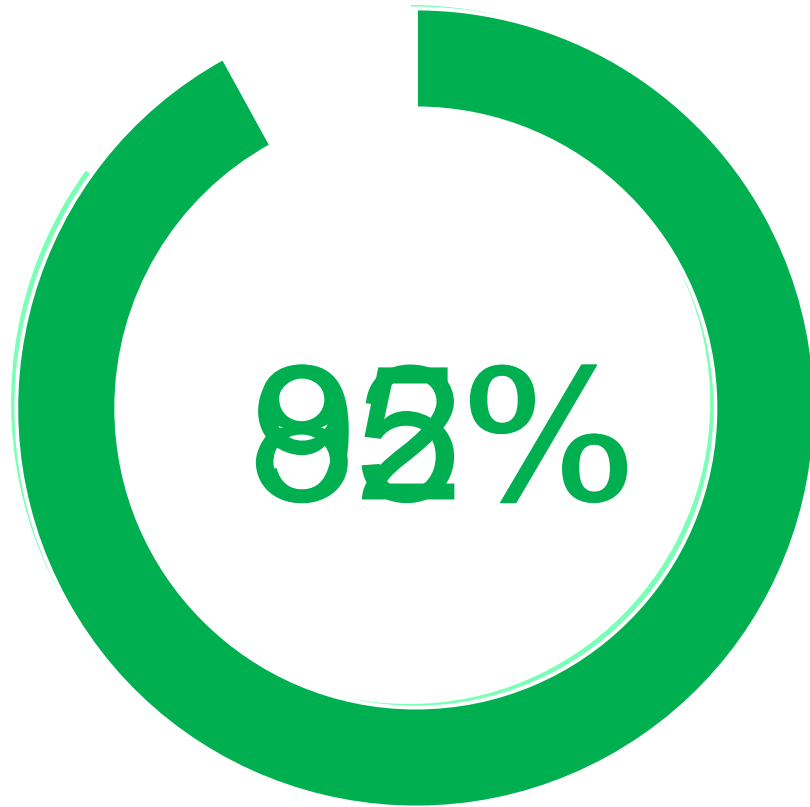


# Customer Service

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Percentage of 8, 9 or 10 Rating

**Employer**



2016

**Participant**





## Retirement Reform

### Updates

As lawmakers discuss strategies to address unfunded liabilities, MERS is **committed to keeping you informed** of any developing legislation what would affect public employee retirement plans and other postemployment benefits (OPEB)





# Public Act 530 Assistance

Sec. 13. (1)		
(d)	Item	Information and Location
(i)	Name of system	Name of local government
(ii)	Names investment fiduciaries	MERS of Michigan is the Investment Fiduciary
(iii)	Systems service providers	MERS of Michigan, CBIZ Retirement Plan Services (actuary)
(iv)	System's assets and liabilities/changes	Table 6 of Annual Actuarial Valuation
(v)	System's funded ratio	Table 6 of Annual Actuarial Valuation
(vi)	Investment performance	Investment performance net of fees: 1 year: 10.85% 3 years: 5.32% 5 years: 8.30% 7 years: 8.18% 10 years: 5.11%
(vii)	System admin & invest expenses	At December 31, 2016 the cost of the Defined Benefit Plan was 0.39% (0.21% for administration and 0.18% for investments)
(viii)	System's budget	Not applicable to the local government
(ix)		
(A)	Number of actives	Table 3 of Annual Actuarial Valuation
(B)	Number of retirees/beneficiaries	Table 3 of Annual Actuarial Valuation
(C)	The average annual retirement allowance	Table 3 of Annual Actuarial Valuation (Divide Annual Payroll for Retirees and Beneficiaries by the number of Retirees and Beneficiaries)
(D)	Total annual retirement allowances	Table 3 of Annual Actuarial Valuation
(E)	Valuation payroll	Table 3 of Annual Actuarial Valuation
(F)	Normal cost and percentage	Table 1 of Annual Actuarial Valuation
(G)	Total contribution rate as %	Table 1 of Annual Actuarial Valuation
(H)	Weighted average member contributions	Table 1 of Annual Actuarial Valuation
(I)	Actuarial investment return	7.75%
(J)	Actuarial long term inflation rate	3.75%
(K)	Smoothing method	5 years
(L)	Amortization method	Table 10 of Annual Actuarial Valuation
(M)	Actuarial cost method	Entry Age Normal Method
(N)	Open or closed membership	Benefit Provision History in the Annual Actuarial Valuation
(O)	Health care inflation	Not applicable to pension plans. If however, you offer a OPEB plan you will need to submit this information from your OPEB Valuation.
(x)	Travel report	Not applicable to local governments within MERS
Sec. 20b. (1)		
(f)	Item	Information and Location
	If below 60% funded, actions taken to reduce the system's UAL	<b>MERS adheres to the following fiscal best practices:</b> - Conducts an experience study every five years to ensure assumptions match actual experience and make adjustments where necessary - Use a fixed amortization period - MERS implements checks and balances to eliminate unexpected pension spikes. Actuarial loads are applied to groups that have demonstrated a history of Final Average Compensation increases. - UAL amortization schedule is on track to be paid off in 23 years  <b>Other actions your municipality may have taken could include:</b> - Lower benefit offered to new hires - Bridged Benefits for existing employees - Hybrid Plan for new hires - Defined Contribution Plan for new hires - Defined Benefit Plan Freeze - Cost sharing for existing employees - Additional contributions above the required Annual Required Contribution - Voluntary contributions - Bonding

- MERS created a guide to assist customers with compliance
  - Provides information for the Retirement System
  - Assists in locating your plan specific information



# Partnering to Help Manage OPEB Liabilities

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Today MERS has two programs that help address OPEB liability:

## Retiree Health Funding Vehicle

- Partnering with 162 municipalities

## Health Care Savings Program

- Partnering with 301 municipalities and over 19,000 participants





# NEW Retiree Private Health Care Exchange

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- MERS is excited to announce a partnership with a private health care exchange is *coming soon!*
- Fully integrated with MERS Health Care Savings Program
- Retiree-centric approach with a focus on education and white-glove service
- Transparency, carrier competition and economies of scale lead to competitive pricing



# Financial Wellness

- Financial wellness is a program or set of programs designed to improve employees' financial behavior and outcomes while also driving business impact
- MERS will be offering holistic support to employees so they can meet short-term needs while working toward long-range goals



# Having a Plan for the Future





# Fill out your **FULL PICTURE REPORT**

Build a Full Picture Report of your retirement readiness using customizable details such as expected retirement date, non-MERS savings and spouse information. Click here to log in to your myMERS and look for the Full Picture report builder.



# Looking Ahead

# Areas of Focus

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- Continued growth and efficiencies to reduce costs
- Personalized customer service
- Consistent communications
- Intuitive systems
- Financial wellness





# 2018 RETIREMENT CONFERENCE

October 4<sup>th</sup> – 5<sup>th</sup>

## GRAND RAPIDS



FINANCIAL WELLBEING

FUTURE SUSTAINABILITY

SUPERIOR VALUE

INTUITIVE PROCESS

DEEPER CONNECTION

CHOICE AND FLEXIBILITY

RELIABILITY

PARTNERSHIPS

RETIREMENT READINESS