



2018

RETIREMENT CONFERENCE

Comprehensive View of Plan Governance

Mike Overley, Lead Regional Manager

Agenda

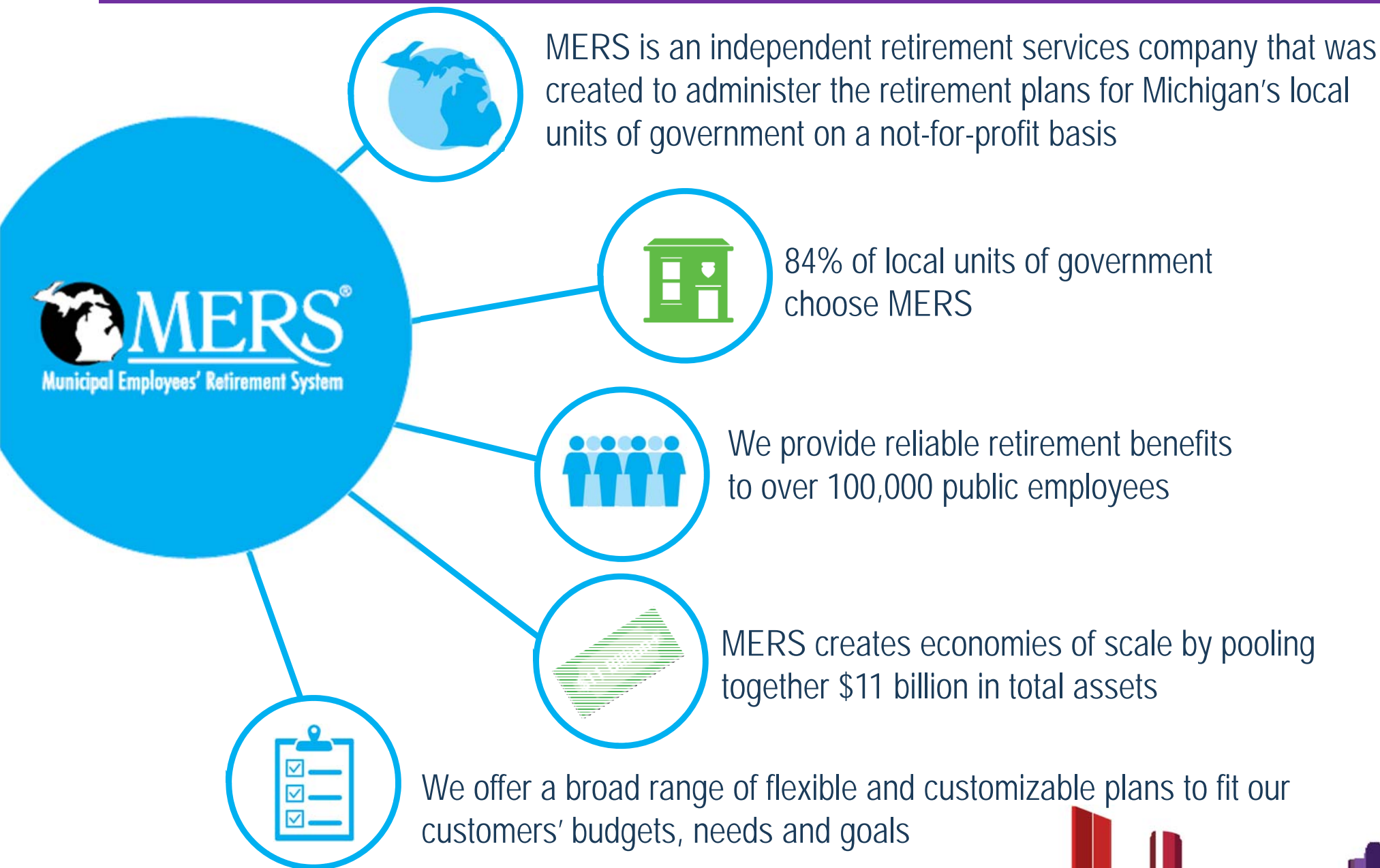
- Who is MERS?
 - The Role of a Fiduciary
 - Portfolio Management
 - Best Practices
 - Investment Menu Oversight
- What Your Responsibility is as an Employer
 - Determining the Benefits
 - Enrollment and Reporting
 - Encouraging Participant Success
- Responding to Your Needs
- MERS Resources



Who is MERS?



MERS of Michigan



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 plan



MERS Retirement Board

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



Plan Administration

MERS provides full service administration of our retirement plans

Plan
Governance

On-Staff Auditor

Legal Counsel

State and
Federal
Legislative
Advocacy

Financial
Reporting

Administration
of Benefits

Actuarial
Services

GASB 68
Assistance

Portfolio
Management

Participant
Education and
Resources



The Role of a Fiduciary



Fiduciary Responsibility

- With recent high-profile class action suits alleging violation of fiduciary duty, employers need to manage fiduciary risks
- When fiduciary breaches occur there can be:
 - Personal liability
 - Fines and penalties
 - Legal action
 - Plan disqualification
 - Higher operating expenses



MERS is the Fiduciary... So What?

- Providing fiduciary oversight means we aren't simply another third-party vendor
- Fiduciaries are subject to standards of conduct and must act on behalf of participants
- Responsibilities:
 - Adherence to plan document
 - Investment oversight
 - Ensure reasonable expenses

As the sole fiduciary, MERS provides our members with:



Oversight



Administration



Investment Monitoring



Low Plan Costs

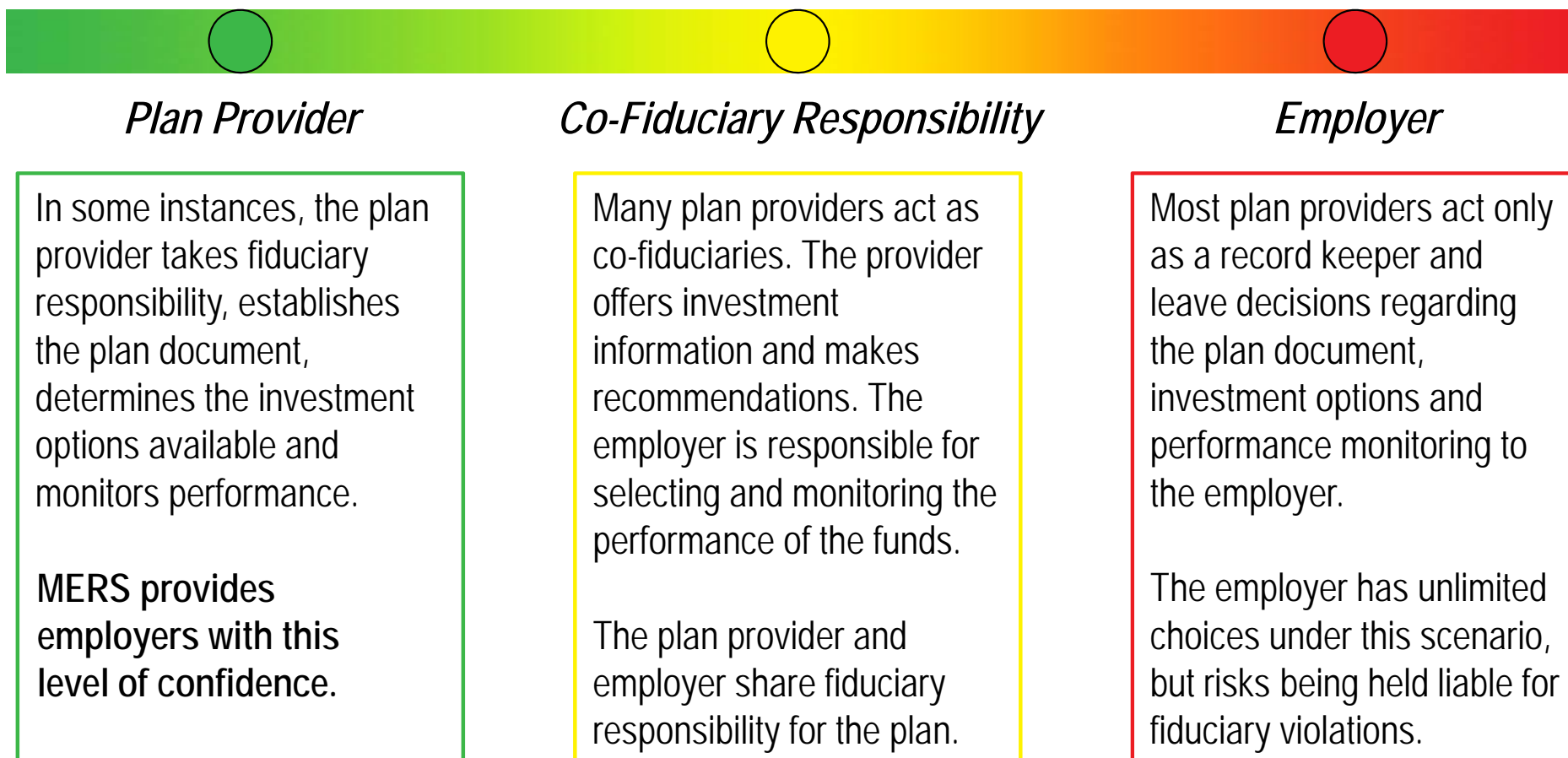


Participant Education



Degrees of Fiduciary Responsibility

When it comes to the fiduciary responsibility for your retirement plan, not all plan providers assume the same degree of responsibility



Portfolio Management

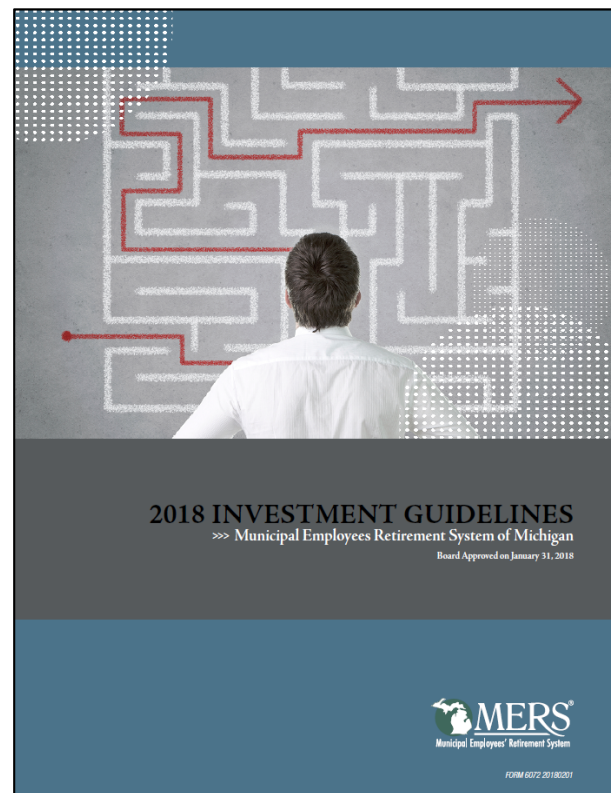


MERS Investment Governance

Our roles and long-term objectives are clearly defined and published



DB Investment Policy Statement



2018 Investment Guidelines



Investment Philosophy

- Capital preservation is paramount
- Keep it simple
- Sound governance is a prerequisite for the success
- Asset allocation is the most important decision
- Volatility is not a true measure of risk
- Focus should be on risk-adjusted returns
- Diversification is critical to reduce risk



Performance

MERS consistently **outperforms its benchmarks** and market averages, with a prudent, long-term approach designed to provide downside protection and upside market participation.



Primary Investment Objectives

- Exceed the actuarial investment assumption of 7.75% on a long-term basis
- Maintain adequate liquidity to pay promised benefits
- Provide inflation protection to the portfolio
- Adopt a strategic asset allocation plan that:
 - Minimizes volatility
 - Maximizes the long-term total rate of return
- Exceeding the return of the Policy Benchmark
- Minimize costs
- Maintaining above median peer rankings



Best Practices



Experience Study

- Conducted every five years
- Compares actual experience of the plan with the current assumptions to determine if changes are necessary
- 2014-2018 study is being conducted by our actuarial firm Gabriel, Roeder and Smith
 - Will likely result in changes to the actuarial assumptions, including the rate of return for investments
 - MERS provides market volatility scenarios within the annual actuarial valuation each year



Sound Funding Policies



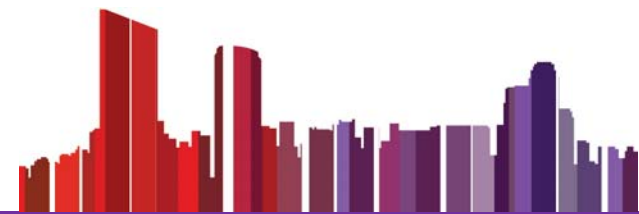
- Encourage extra contributions through market volatility scenarios



- Establish a minimum funding threshold that prevents plans from running out of assets



- Implement a fixed amortization policy that gives plans a specific date by which all known obligations will be fully funded



Benefit Enhancement Modeling



- For any benefit enhancements, municipal plans must be fully funded



- Actuarial reports illustrate financial impacts of benefit changes by providing cost projections of at least 5 years



Pension Spiking Mitigation



- Avoid “pension spiking” by limiting lump sum payouts into final compensation

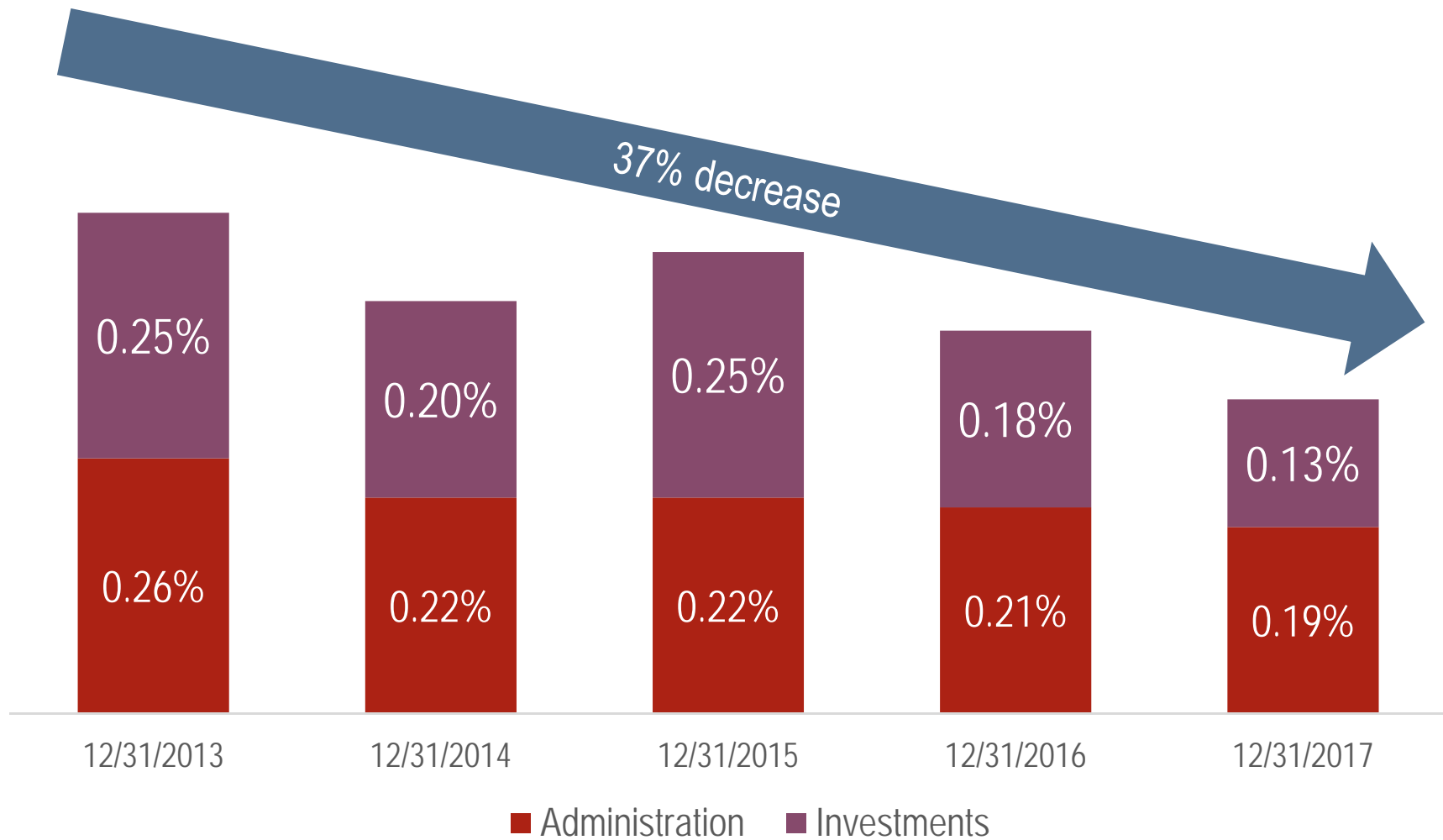


- Actuarial loads are applied to groups that have demonstrated a history of Final Average Compensation increases



Defined Benefit Plan Costs

5-year History



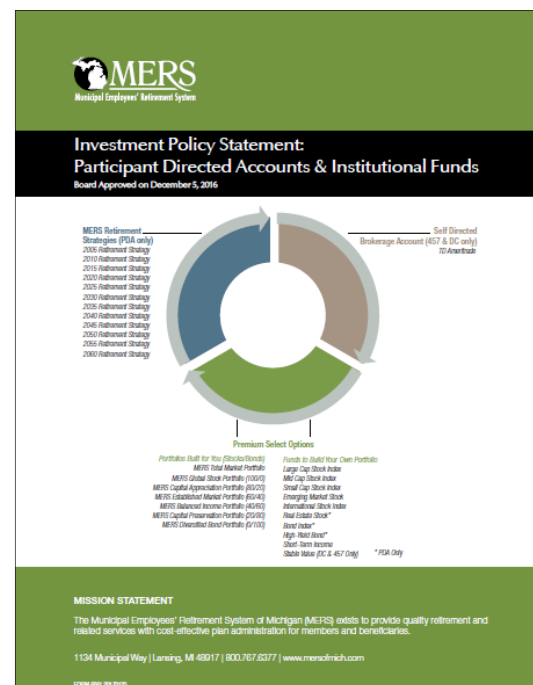
Investment Menu Oversight



Investment Menu and Oversight

Responsibilities of the Plan Fiduciary

- Establish clear goals and objectives for the plan investment options with well-defined measures for success
- Maintain a disciplined process for hiring, evaluating and terminating investment managers for the plan
- Choose an appropriate investment default fund
- Document all of the above in a formal Investment Policy Statement



PDA/IF Investment Policy Statement

Streamlined Investment Menu

- Our streamlined investment menu is a sophisticated set of selections by our experienced investment professionals
- Our pre-built portfolio funds use outside institutional investment managers that are selected and monitored by the MERS Office of Investments and MERS Retirement Board
- Designed to help participants easily create fully-diversified portfolios

Investment Categories



"Do it for me"

Fully diversified target date funds that automatically adjust over time



"Help me do it"

Prebuilt portfolios that are monitored and rebalanced quarterly



"I'll do it myself"

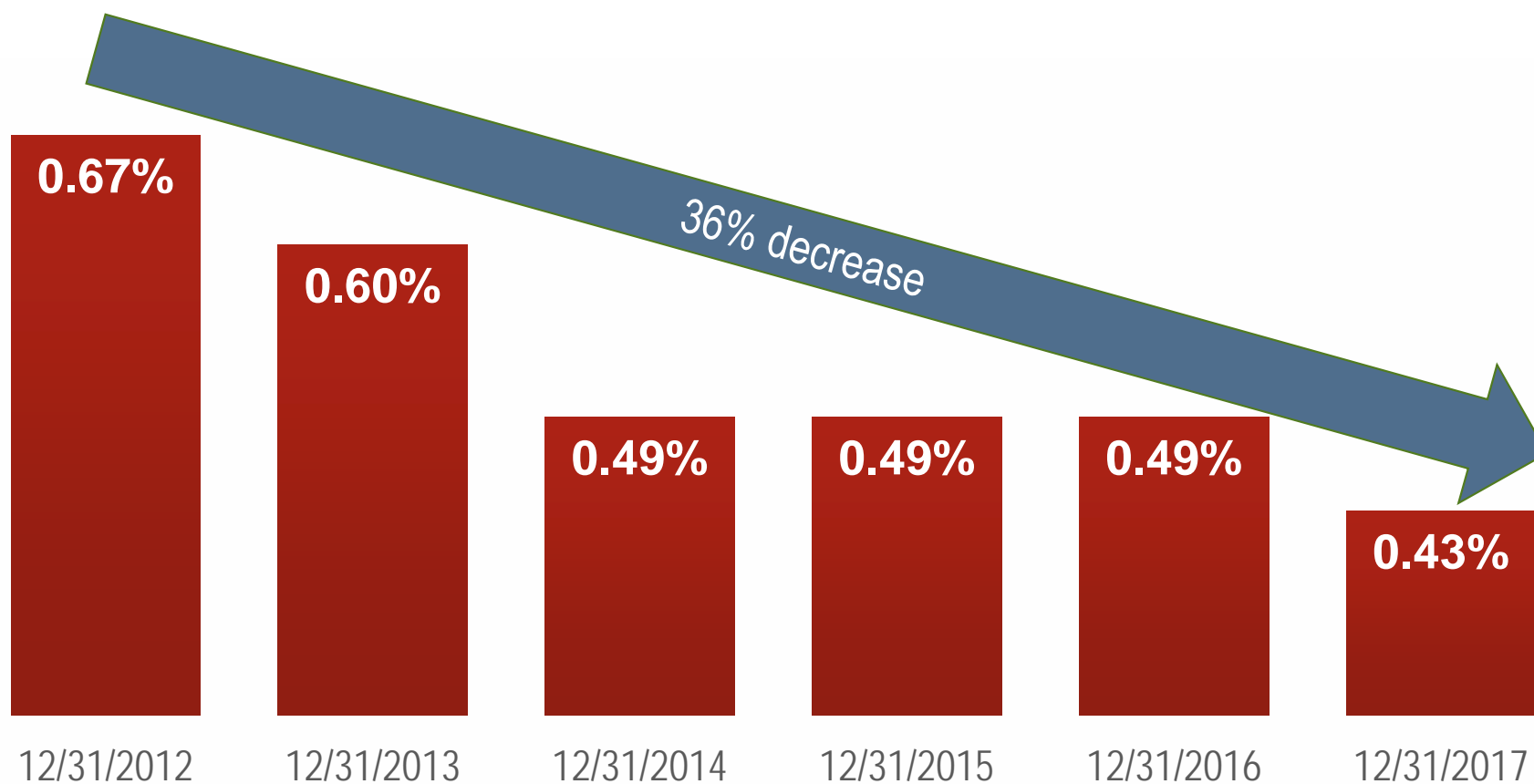
Self-Directed Brokerage Account to access funds outside of MERS*

** Self-directed brokerage account not available under Health Care Savings Program*



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.



Monitoring Participant Expenses

Responsibilities of the plan fiduciary

- Understand all costs paid by the participants, including:
 - Direct investment and administrative charges
 - Third-party and/or indirect fees
 - Reimbursements
- Assess whether plan fees are reasonable
- Ensure that all plan fees charged to participants are clearly disclosed



Why Fund Costs Matter

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

Meet John

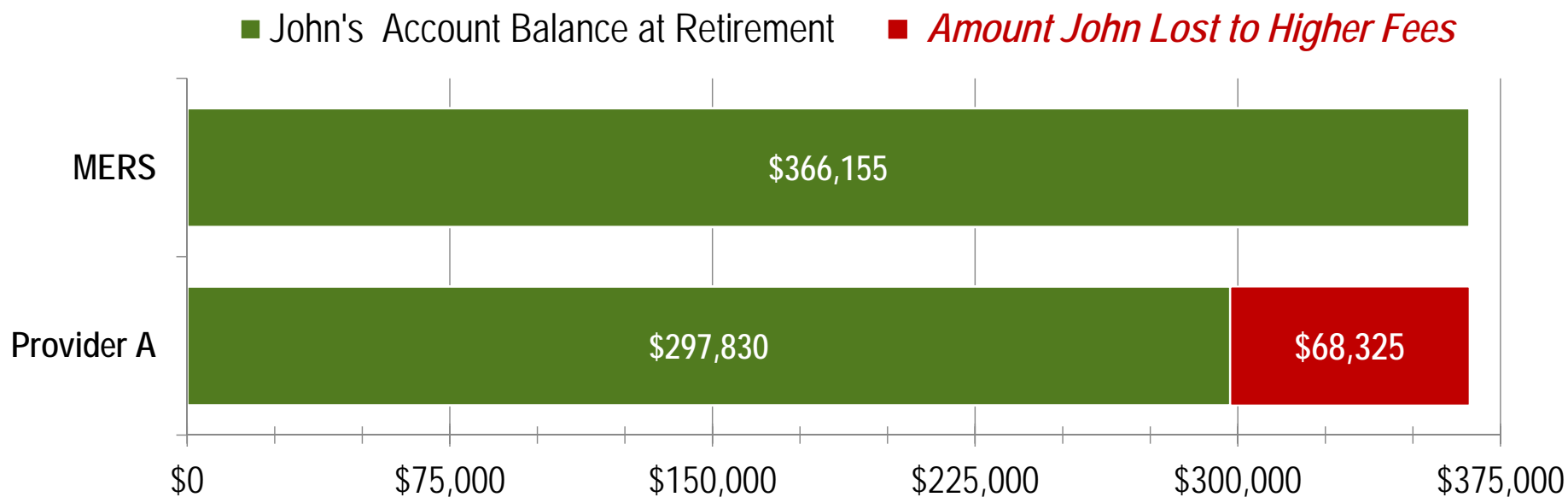
- John is 30 years old
- He currently makes \$48,000/year, and anticipates a 2% annual salary increase
- John makes bi-weekly contributions of 5% of his salary into his retirement account
- His account currently has a \$5,000 balance
- He expects a 7% investment return *before factoring in investment 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!***

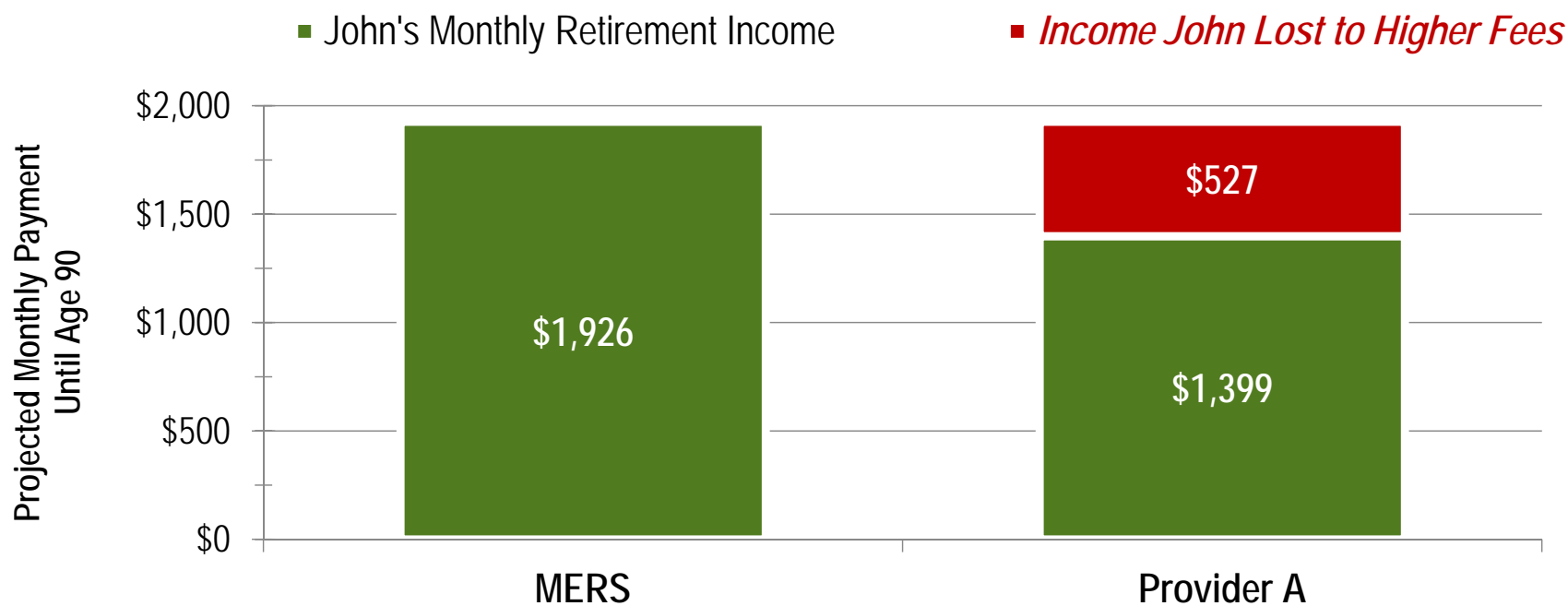


Weighted Average Expense Ratios: MERS – 0.43% and Provider A – 1.43%.

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!**



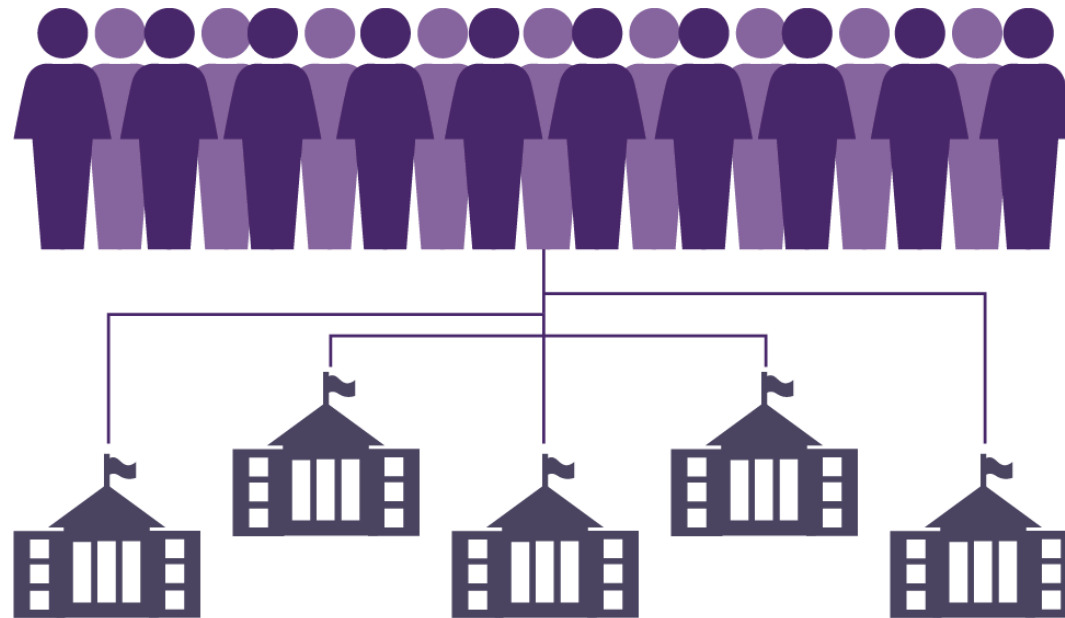
Weighted Average Expense Ratios: MERS – 0.43% and Provider A – 1.43%.

Your Role as the Employer



Determine the Benefits

- MERS administers more than 3,300 retirement plans for nearly 900 municipal members
- Each local unit of government determines their benefits at the local level



Public Sector Retirement Options

Defined Benefit

- Lifetime benefit that does not fluctuate with investment gains or losses
- Contributions fluctuate
- Funded by the employer, employee and investment earnings

Hybrid

- Combines the best of both plans
- Benefit and contributions vary
- Funded by the employer, employee and investment earnings

Defined Contribution

- Benefit based on account balance
- Fixed contributions
- Funded by the employer, employee and investment earnings

457 Program

- Supplemental savings account that can be added to any retirement plan
- Voluntary and flexible employee contributions
- Pre-tax and Roth options



Enrollment and Reporting

- Employers are responsible for enrolling participants and reporting contributions using the employer portal
- Including employee wages for Defined Contribution Plans allows them to receive Snapshot Reports
 - Shows how retirement plans will work with Social Security to provide income in retirement
 - FREE reports mailed to participants



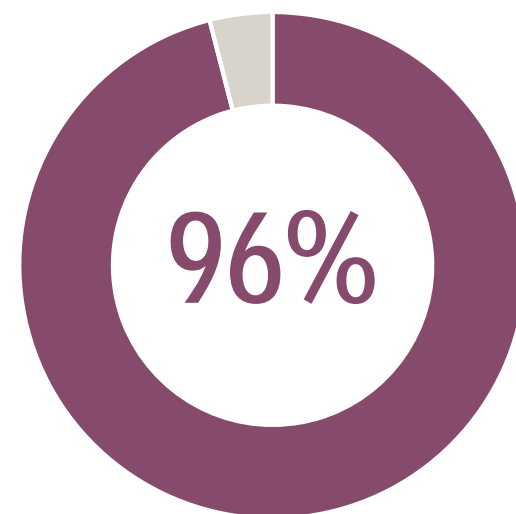
*Retirement Readiness
Snapshot Reports*



Encouraging Participant Success

- Ensuring that participants understand how their benefit works is crucial to the success of any retirement plan
- Employers should take advantage of MERS' free on-site education
 - Held during the day or before/after work hours
 - Conducted by Certified Financial Education Instructors
- MERS is also available to promote enrollment in voluntary programs at benefit fairs

Participant satisfaction
with on-site education



MERS Listens and Responds to Your Needs

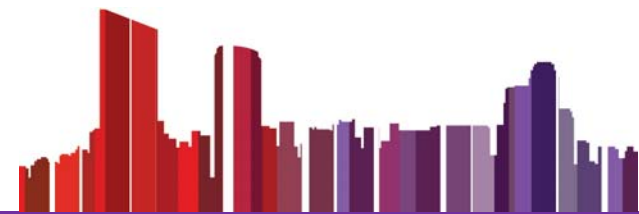


Plan Design Strategies

Managing Unfunded Accrued Liability

Strategy	Description	Trend						Impact
		2013	2014	2015	2016	2017	2018	
Lower Benefit to New Hires	New hires receive a lower tier of Defined Benefit provisions	53	43	52	34	47	16	Existing employees are not affected Reduces the liability for new hires
Bridged Benefits for Existing Employees	Benefits are offered in parts to existing employees Multiplier is lower going forward	19	29	16	45	27	26	Leaves earned benefits unchanged Reduces the liability for new hires and existing employees
Hybrid for New Hires	New hires receive a Hybrid Plan	31	43	21	15	12	10	Existing employees are not affected Reduces liability for new hires
Defined Contribution for New Hires	New hires receive a Defined Contribution Plan	45	30	37	39	73	42	Existing employees are not affected Eliminates liability for new hires
Defined Benefit Plan Freeze	Plan is frozen and all employees move to a new plan	n/a	n/a	n/a	8	2	2	Existing employees do not accrue additional service credit and FAC is frozen

Divisions that have adopted these strategies as of 8/31/2018.



Funding Strategies

Managing Unfunded Accrued Liability

Strategy	Description	Trend						Impact
		2013	2014	2015	2016	2017	2018	
Cost Sharing for Existing Employees¹	Employees contribute to help fund the overall cost of the plan	280	143	97	136	169	112	Reduces the employer cost, but does not affect total cost or the plan's unfunded liability
Voluntary Contributions²	Additional payments made into plan toward unfunded liability	211	210	277	320	421	379	Reduces existing liability Extra dollars are invested and recognize market returns
Bonding³	Municipalities may bond for all or a portion of their unfunded accrued liabilities—pension or OPEB	n/a	4	1	2	2	3	Proceeds of the bond are deposited and potentially will fully fund the UAL No guarantee that future unfunded liabilities may not occur

¹Divisions that have adopted this strategy as of 8/31/2018.

²Municipalities that have adopted this strategy as of 7/31/2018.

³Municipalities that have adopted this strategy as of 8/31/2018.



Option to Extend the Amortization Period

- 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
 - Open groups can reset their **existing** UAL amortization period **up to** 30 years fixed
 - Closed groups can reset their **existing** UAL amortization period **up to** 25 years fixed
- Approval based on a sustainability analysis



Defined Benefit Plan Billing Options

There are now two billing options under the Defined Benefit Plan

Percentage of Payroll

- Default payment method for open divisions
- Allows a municipality to allocate plan costs by employee
- As employees enter and exit the plan, monthly contributions are adjusted to accommodate the new participant counts
- Municipalities pay the actual cost of the plan on a monthly basis

Flat Billing

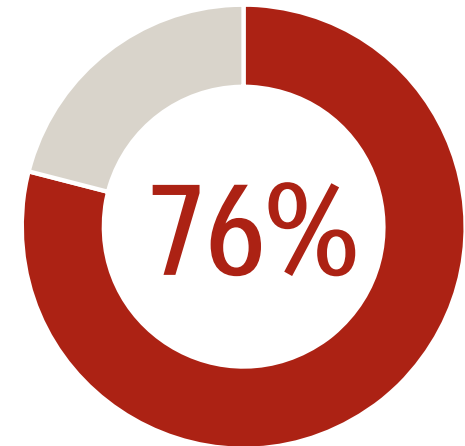
- Default payment method for closed divisions
- Provides employers with a flat monthly rate, regardless of plan participation
- Cost is calculated by the actual plan experience of the previous year
- Allows municipalities to budget for a specific amount each month



Surplus Divisions for Voluntary Contributions

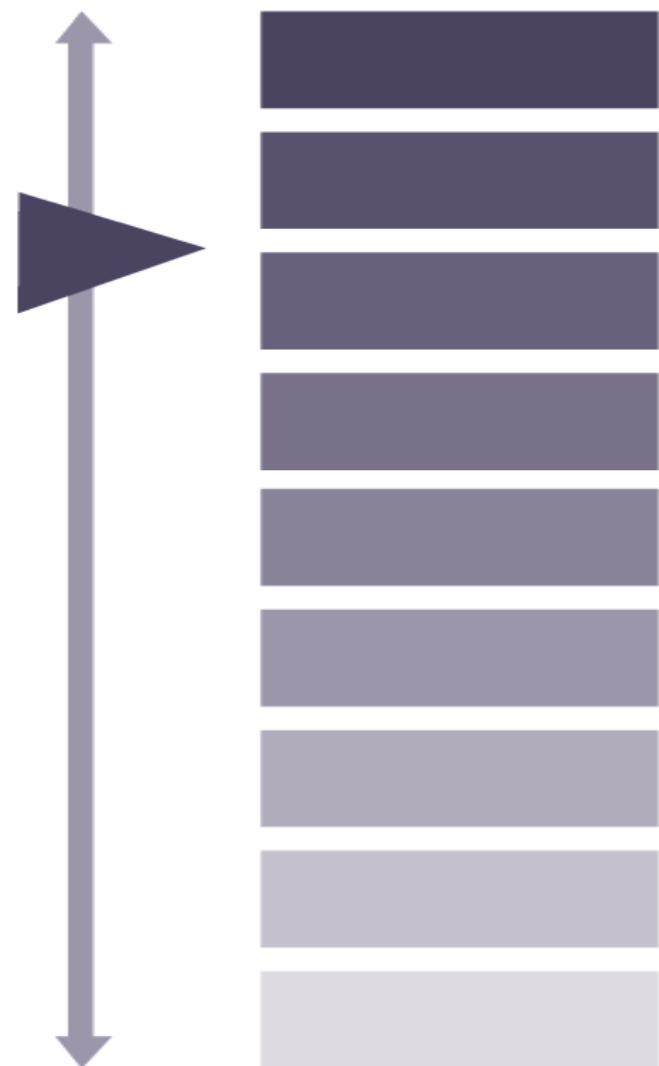
- Extra dollars are invested to realize market returns
- Employers can dictate how additional voluntary contributions are applied:
 - Allocating assets to specific divisions
 - Equally distributing assets
 - Applying assets to pay down UAL
 - Reducing future contributions

Members making additional contributions in the past 5 years



Choice of Normal Retirement Age

- Ability to establish a later Normal Retirement Age for participants in newly established divisions
- Choice of age ranges in which to offer early full and/or reduced retirement allowances
- Helps employees align their retirement date with Social Security and Medicare eligibility



MERS 457 Program



- Voluntary supplemental retirement savings program
- A portion of the employee's salary will be deposited into an invested account that they manage
- Employees can start, stop or change their contributions at any time
- Contributions are completely flexible
 - Employees deposit either a flat-dollar amount or percent of their pay
 - Contributions can be pre-tax, Roth or a combination of both



Defined Contribution *PLUS*

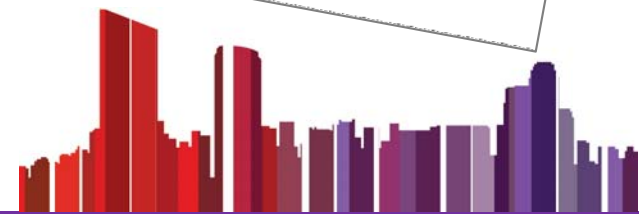
- Per IRS rules, employees cannot change their established contribution rate into a 401(a) Defined Contribution Plan
- MERS Defined Contribution *PLUS* pairs our Defined Contribution Plan with our 457 Program so employers can incentivize employee saving through matching contributions

	Required Contributions			
Employee Contributions - Deposited into DC Account	3%			
Employer Contributions - Deposited into DC Account	3%			
	Voluntary Contributions			
Employee Voluntary Contributions - Deposited to 457 Account	0%	1%	2%	3%
Employer Matching Contributions - Deposited into DC Account	0%	1%	2%	3%
Total Retirement Contributions	6%	8%	10%	12%



MERS IRA

- Available to **ALL** current and former employees (and their spouses) of municipalities with a MERS retirement product
 - 401(a) Plan (Defined Benefit, Defined Contribution & Hybrid)
 - 457 Program
- Roth and Traditional options
- Invest in low-cost funds on the MERS Investment Menu
- Available **TODAY!**
 - **No employer adoption required**



Other Projects

Initiatives implemented based on employer feedback



Improving valuations
to include budget
projections



Decreasing
costs



New educational
topics and resources



MERS Resources



Employer Resources



Morning Breaks with MERS

- Informal, roundtable discussions held at local municipalities across the state



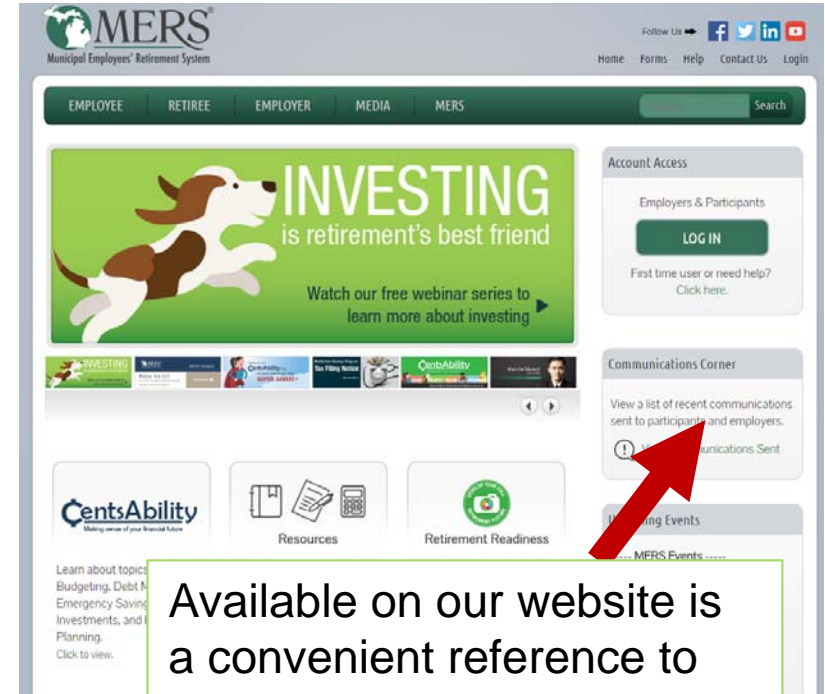
CEO Meetings

- Meeting held at local municipalities across the state each year
- Informal conversation with MERS CEO on what's happening at MERS and how it affects you



Communications from MERS

- Municipal Matters emails from your Regional Manager, and CEO updates
- Communications Corner available on our website, listing all recent mailings or emails sent by MERS



Available on our website is a convenient reference to recent mailings or emails that were sent from MERS



Finding Employer Resources by Role

The screenshot shows the MERS (Municipal Employees' Retirement System) website. The top navigation bar includes the MERS logo, social media links (Facebook, Twitter, LinkedIn, YouTube), and links for Home, Forms, Help, Contact Us, and Login. Below this is a green navigation bar with tabs for EMPLOYEE, RETIREE, EMPLOYER (selected), MEDIA, and MERS. A search bar is located on the right. The main content area is titled 'Employer' and features several sections: 'Products' with links to various plans (Defined Benefit, Defined Contribution, Hybrid, 457, Stable Income Annuity, Retiree Health Funding Vehicle, Health Care Savings Program, MERS Premier Advantage, Investment Services Program, Group Life & Disability Insurance Program); 'Learn By Your Role' with links for Primary Contact, HR Contact, Finance Contact, Reporting Contact, and Elected Official & Boards; 'Trending Topics' with links for Annual Actuarial Valuations (AAV), Changing to MERS Defined Contribution Plan, Fiduciary Responsibility, GASB 68/75, and Other Post-Employment Benefits (OPEB); and 'Resources For Primary Contacts' with a 'Primary' banner and a 'WELCOME' sign. A red arrow points from the 'Learn By Your Role' section to the 'Resources For Primary Contacts' section. At the bottom, there are icons for 'Forms' and 'Legal'.

Learn by Your Role

MERS has organized helpful resources by employer role, making it easy to find just what you need

Resources For Primary Contacts



As your municipality's Primary Contact with MERS, you are the main point of contact for all plan administration and information.

This page provides you with important resources and information that will help you navigate your role.



New to Your Role?

- Who is MERS?
- Your MERS Team
- Your MERS Benefits



Important Topics for Your Role

- GASB
- Unfunded Liability
- MERS Financial Reports
- Annual Actuarial Valuations
- Other Post Employment Benefits
- Investments



Other Helpful Information

Participant Resources



One Click Away

- To keep up with trending information related to retirement follow us on Facebook, Twitter, LinkedIn and YouTube
- Our website provides helpful calculators and sound advice via our CentsAbility blog



Quick Bite Webinars

- Our webinar series delivers online education
- Participants can tune in live and ask questions or view recorded sessions from the library of topics any time



Pizza & Planning

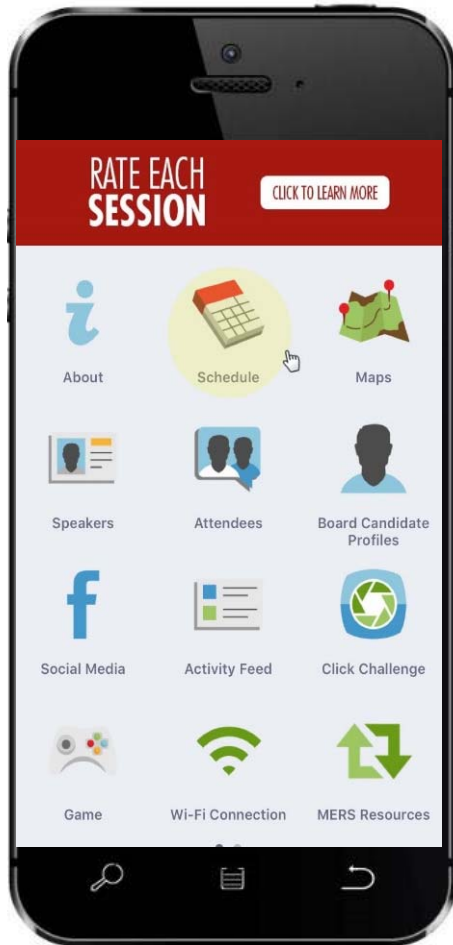
- Free, local education for employees held after traditional work hours
- Hosted at various locations throughout the state



Q&A

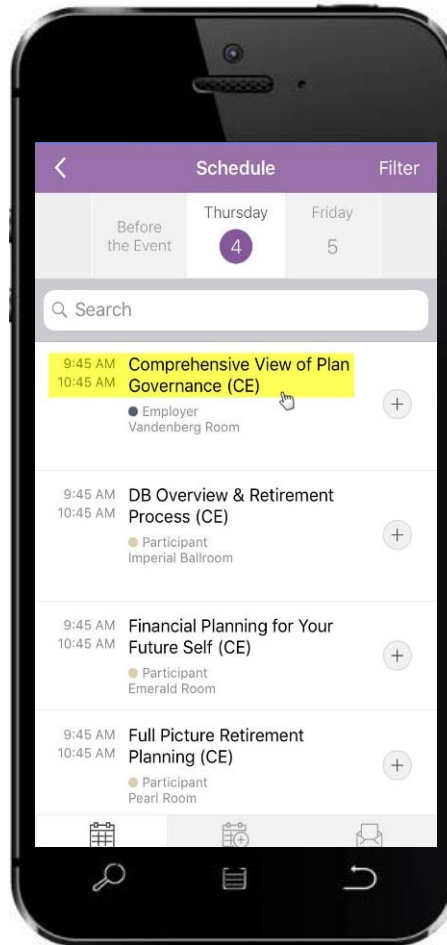


Please Complete a Session Survey!



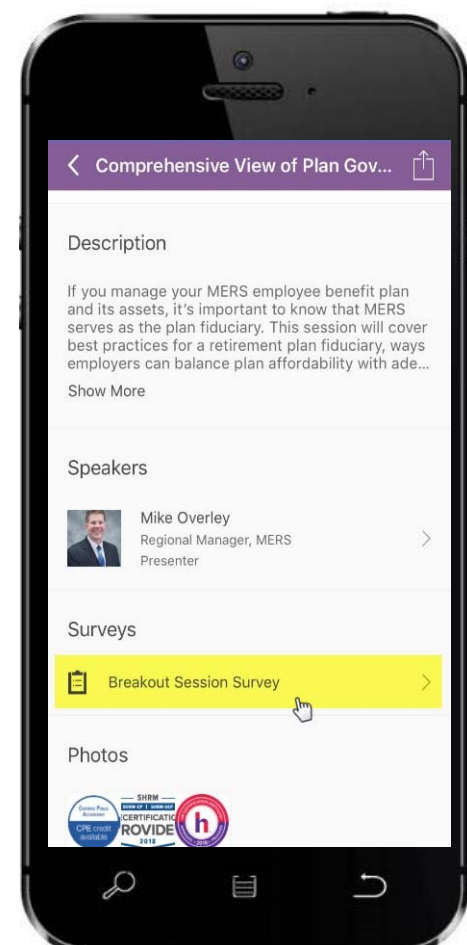
Step 1:

Locate and access the
"Schedule" Icon



Step 2:

Select the **session** you
just attended (look for
correct date and time)



Step 3:

Scroll down and click
"Breakout Session
Survey" to complete
the survey



Contacting MERS of Michigan

MUNICIPAL EMPLOYEES' RETIREMENT SYSTEM

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Lansing, MI 48917

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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.

