



Influencing Retirement Outcomes through Effective Plan Design

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Agenda

- Plan Design Considerations
- New Defined Contribution (DC) Plan Provision Options
- Frequently Asked Questions
- Participant Education & Resources



Plan Design Considerations

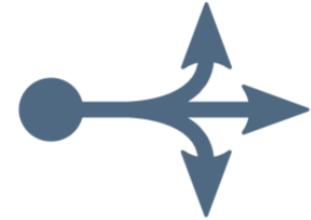
What do Employees Want in a Retirement Plan?



**Benefit Adequacy
(Income Replacement)**



Benefit Predictability



Flexibility



**Simple to
Understand**



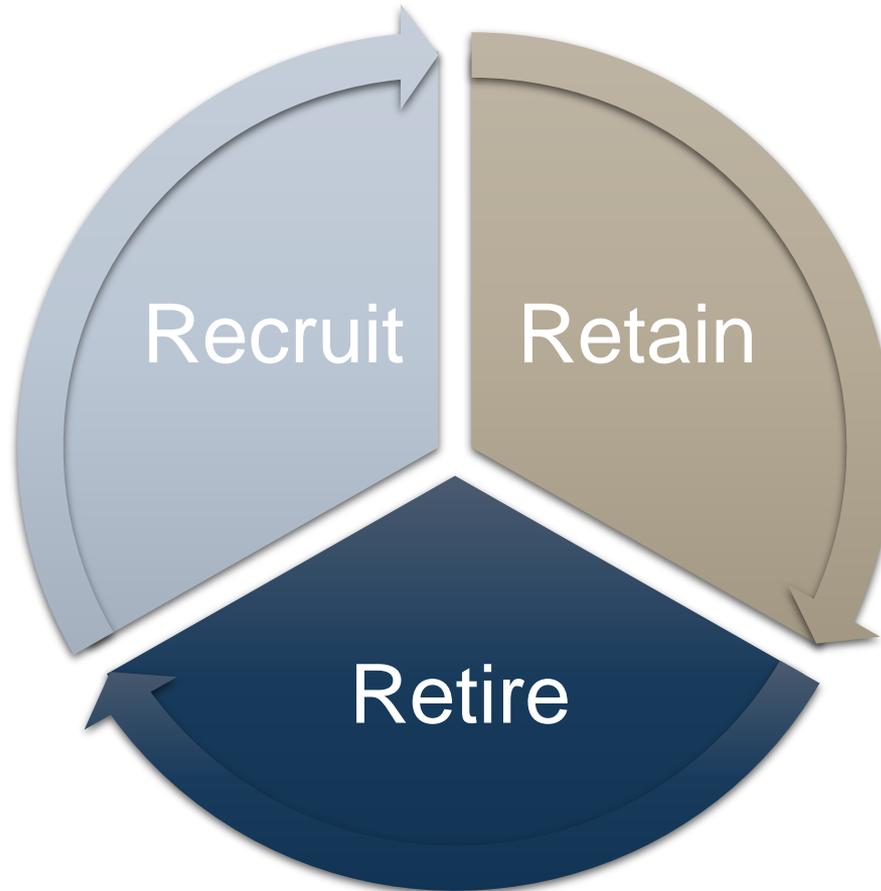
**Education Resources
and Tools**



Portability

Retirement Plan Adequacy

An adequate retirement plan can strengthen your workforce



Plan Design Considerations

Goal

Plan Eligibility

Contribution Structure

Tax Benefits

Vesting Schedule

Defined Contribution Plans: Comparison

Plan Feature Comparison			
Plan Type	401(k)	401(a)	457(b)
Primary Purpose	Qualified Retirement Plan	Qualified Retirement Plan	Supplemental Savings Program
Available for Governmental Entities	<u>No</u> (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 (optional)	Yes	n/a	Yes
Automatic Contribution Escalation (optional)	Yes	No	Yes
Roth Option Available	Yes	No	Yes
Allows Employer Contribution	Yes	Yes	Yes (but included as employee earnings)
Allows Vesting	Yes	Yes	Varies

MERS Defined Contribution Plan

Employer
Contributions

+

Employee
Contributions

+

Earnings or
Losses in
the Market

-

Fees

=

\$ Account Balance

- 401(a) Money Purchase Plan
- Pre-tax contributions are made to an invested account, which is managed by the employee
- The employer establishes the contribution structure
- Per IRS rules, once the employee elects a contribution rate at enrollment, it cannot be changed
- A vesting schedule can be applied to employer contributions

MERS 457 Program

$$\begin{array}{ccccccc} \text{Voluntary Employee} & & \text{Earnings or} & & & & \\ \text{Contributions} & + & \text{Losses in} & - & \text{Fees} & = & \$ \text{ Account Balance} \\ & & \text{the Market} & & & & \end{array}$$

- Voluntary supplemental retirement savings program
- Contributions are made to an invested account, which is managed by the employee
 - Employees deposit either a flat-dollar amount or percent of their pay
 - Contributions can be pre-tax, Roth or a combination of both
- Employees can start, stop or change their contributions at any time

Pairing Plans to Provide Flexibility

Plan Feature Comparison			
Plan Type	401(a)	457(b)	Combined
Primary Purpose	Qualified Retirement Plan	Supplemental Savings Program	Qualified Retirement Plan with Supplemental Savings Program
Enrollment	Mandatory	Voluntary	Mandatory
Employee Contribution Flexibility	Limited (Choice only at Enrollment)	Complete Flexibility	Complete flexibility above minimum required contributions
Required Contributions	Yes	No	Yes
Automatic Enrollment Feature (optional)	n/a	Yes	Yes
Automatic Contribution Escalation (optional)	No	Yes	Yes
Roth Option Available	No	Yes	Yes
Allows Employer Contribution	Yes	Yes (but included as employee earnings)	Yes
Allows Vesting	Yes	Varies	Yes

Incentivizing Employee Saving

Matching Employer
Contributions

Mandatory Employee
Contributions

Mandatory Employer
Contributions

401(a) account

Voluntary Employee
Contributions

457(b) account

Contribution Structure *Sample One*

- Employees are required to contribute 2%
- No minimum employer contributions
- Employer will match 100% of the employee's voluntary contributions, up to a maximum of 7.5%
- Voluntary employee contributions above 7.5% are allowed, but will not be matched by the employer

	Required Contributions				
Employee Contributions - Deposited into DC Account	2%				
Employer Contributions - Deposited into DC Account	0%				
	Voluntary Contributions				
Employee Voluntary Contributions - Deposited to 457 Account	0%	1%	5%	7.5%	10%
Employer Matching Contributions - Deposited into DC Account	0%	1%	5%	7.5%	7.5%
Total Retirement Contributions	2%	4%	12%	17%	19.5%

Contribution Structure *Sample Two*

- Employees are required to contribute 2%
- Employer will contribute a minimum of 2%
- Employer will match 100% of voluntary contributions, up to a maximum of 5%
- Voluntary employee contributions above 5% are allowed, but will not be matched by the employer

	Required Contributions				
Employee Contributions - Deposited into DC Account	2%				
Employer Contributions - Deposited into DC Account	2%				
	Voluntary Contributions				
Employee Voluntary Contributions - Deposited to 457 Account	0%	1%	5%	7.5%	10%
Employer Matching Contributions - Deposited into DC Account	0%	1%	5%	5%	5%
Total Retirement Contributions	4%	6%	14%	16.5%	19%

Contribution Structure *Sample Three*

- No required employee contributions
- Employer will contribute a minimum of 5%
- Employer will match 50% of the employee's voluntary contributions, up to a maximum of 5%
- Voluntary employee contributions above 5% are allowed, but will not be matched by the employer

	Required Contributions				
Employee Contributions - Deposited into DC Account	0%				
Employer Contributions - Deposited into DC Account	5%				
	Voluntary Contributions				
Employee Voluntary Contributions - Deposited to 457 Account	0%	1%	5%	7.5%	10%
Employer Matching Contributions - Deposited into DC Account	0%	0.5%	2.5%	3.75%	5%
Total Retirement Contributions	5%	6.5%	12.5%	16.25%	20%

Benefits of Combining Plan Types

Employer

- Minimum level of participation in the Defined Contribution Plan can still be required
- A vesting schedule can be applied to all employer contributions
- Loans can be restricted from the Defined Contribution account, while still allowed from the 457 account
- Having both programs administered by a single vendor saves time and lowers plan expenses

Employee

- Combined statements and online account access make monitoring performance easier
- Employees can contribute up to the current IRS maximum in each plan. (Up to \$57,000 in Defined Contribution and \$19,500 in 457)*
- Voluntary contributions can start, stop or be changed at will
- Matching contributions from employer are not taxed as income when received

**IRS limits for 2020*

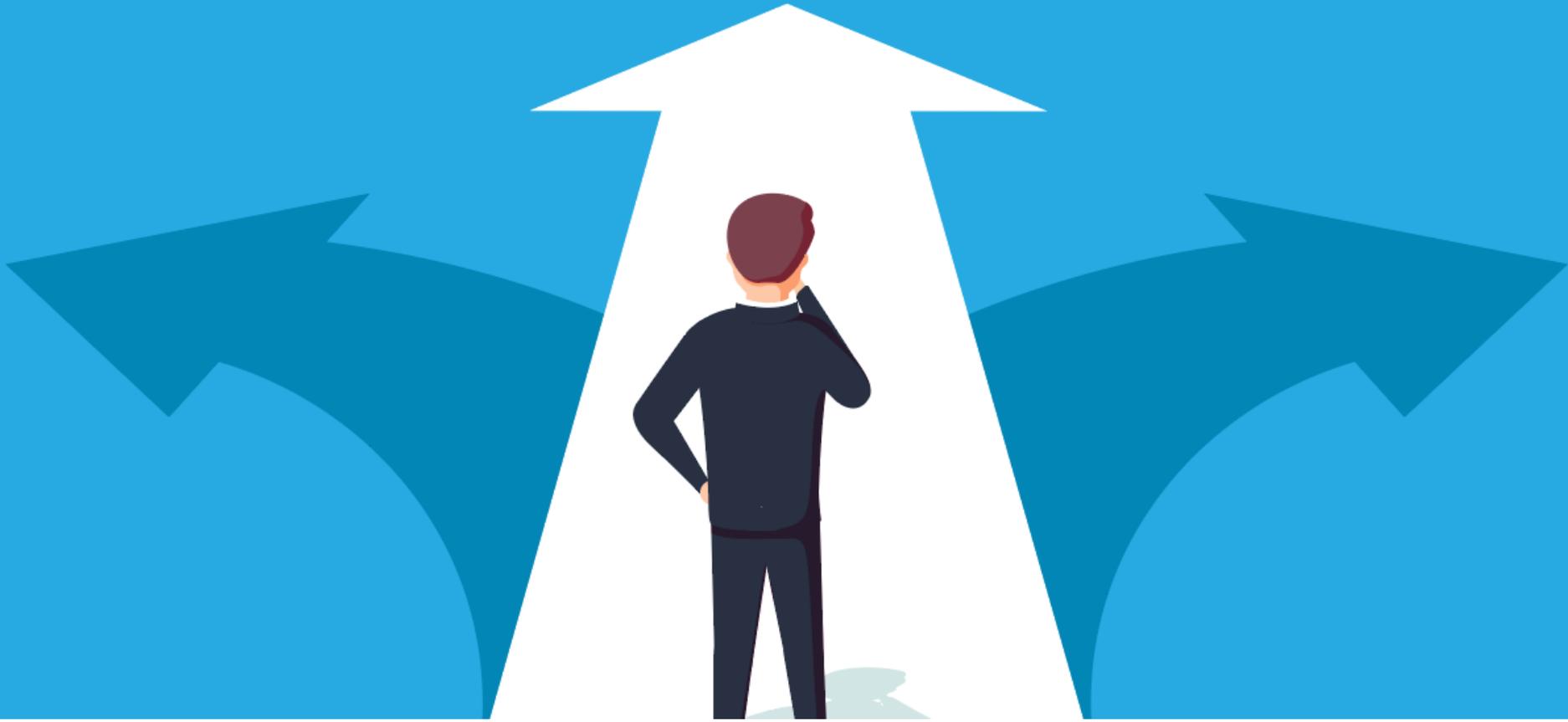
What is an Adequate Saving Rate?

- The industry standard is an **80% *income replacement*** rate in retirement
- The savings rate needed to achieve that goal varies from person to person depending on their:
 - Current age
 - Expected age at retirement
 - Health/life expectancy
 - Investment risk tolerance
 - Other income sources
 - Lifestyle
 - Debt



The Moral of the Story?

Giving employees the flexibility to choose their savings rate enables them to make the best choices for their individual circumstances



Participant Education is Key

Preparing Participants for a Successful Retirement

- Ensuring that participants understand how their benefit works is a crucial component for building an effective retirement plan
- Higher financial literacy among employees is associated with higher voluntary participation rates or lower quit-rates in automatic enrollment plans
- Financial literacy has a larger effect on saving than a sizable increase in income
- Knowledge of a plan's specific features — such as the employer matching threshold — is also associated with increased saving

Source: Center for Retirement Research at Boston College



New DC Plan Provision Options

New DC Plan Provision Options

- MERS is implementing some modifications to DC plan provision options
- **All employers will be asked to submit an updated Adoption Agreement Addendum to clarify provisions**
- While employers do not need to make any changes to their plans, if you do want to make changes they will become effective January 1, 2021 to prospective benefits only

New Plan Provision Options

- **Plan Eligibility**
- **Leaves of Absence**
- **Definition of Compensation**

Plan Eligibility Today

- Plan eligibility **defines who participates** in the defined contribution plan
- Eligibility is based on a **defined “group” of employees**, and doesn't always follow a specific naming convention, which can lead to confusion

Plan Eligibility – 1/1/2021

- Employers will have the ability clarify the definition of eligibility by identifying which **classifications** of employees participate in the plan
- Employee classifications, including part-time employees can now be excluded

Employee Classification	Included	Excluded	Not Employed
Temporary Employees: Those who will work for the municipality fewer than <input type="text"/> months in total.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Part-Time Employees: Those who regularly work fewer than <input type="text"/> per <input type="text"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Seasonal Employees: Those who will work for the municipality from <input type="text"/> to <input type="text"/> only.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Voter-Elected Officials	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Appointed Officials: An official appointed to a voter-elected office.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Contract Employees	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Service and Elapsed Time – No Changes

- No changes to vesting
- Service will continue to be calculated using Date of Hire through Date of Termination
- Participants do not earn months toward service, they earn whole years
- Some employers have adopted an hours reported method for calculating service

Leaves of Absence Today

- A Leave of Absence is when an employee is **out for an extended period of time** for reasons such as disability, workers' compensation, and the Family Medical Leave Act (FMLA)
- Each type of leave has nuanced differences as it relates to granting service credit, reporting wages, and remitting employee and employer
- We see inconsistent application of service credit and reporting of third party wages and contributions

Leaves of Absence – 1/1/2021

- Leave of absence will become a plan provision that employers can **specify which type(s) of leave will be included or excluded** when determining both employer and employee contributions
- This will help align how the various types of leave are administered for your plan

Type of Leave	Included	Excluded
Short- and Long-Term Disability	<input type="checkbox"/>	<input type="checkbox"/>
Workers' Compensation	<input type="checkbox"/>	<input type="checkbox"/>
Unpaid Family Medical Leave Act (FMLA)	<input type="checkbox"/>	<input type="checkbox"/>
Other: <input type="text"/> For example, sick and accident, administrative, educational, sabbatical, etc.	<input type="checkbox"/>	<input type="checkbox"/>
Other 2: <input type="text"/> Additional leave types as above	<input type="checkbox"/>	<input type="checkbox"/>

Military Leave – No Changes

- Military leave is governed by the Uniformed Services Employment and Reemployment Act (USERRA) and **affords an employee the right to service credit for qualified military leaves of absence** if the employee returns to their same employer within the timeframe allowed
- There will be no changes to the way in which Military Leave is administered

Definition of Compensation Today

- The Definition of Compensation is **used to calculate employee and employer contributions**
- Prior to 2012, the MERS Defined Contribution plan had a standard definition to determine compensation
- Based on customer feedback options have expanded over time

Definition of Compensation – 1/1/2021

- There will be three standard definitions of compensation, and an allowable fourth custom option
- This change:
 - **Provides clarity** to what should be included or excluded when reporting wages and contributions
 - Allows for **consistency and alignment**
 - **Maintains customization** for employers who need it

Definition of Compensation – 1/1/2021

Standard Definitions <i>Standard definitions are non-modifiable</i>	Base Wages	Box 1 Wages (from W-2)	Gross Wages	Custom Definition
Types of Compensation				
Regular Wages Salary or hourly wage X hours PTO used (sick, vacation, personal, bereavement, holiday leave, or unclassified) On-call pay	All Regular Wages included	All Regular Wages included	All Regular Wages included	TBD
Other Wages Shift differentials Overtime Severance issued over time (weekly/bi-weekly)	Excluded	All Other Wages included	All Other Wages included	TBD
Lump Sum Payments PTO cash-out Longevity Bonuses Merit pay Job certifications Educational degrees Moving expenses Sick payouts Severance (if issued as lump sum)	Excluded	All Lump Sum Payments included	All Lump Sum Payments included	TBD
Taxable Payments Travel through a non-accountable plan (i.e. mileage not tracked for reimbursement) Prizes, gift cards Personal use of a company car Car allowance	Excluded	All Taxable Payments included	All Taxable Payments included	TBD
Reimbursement of Nontaxable Expenses (as defined by the IRS) Gun, tools, equipment, uniform Phone Fitness Mileage reimbursement Travel through an accountable plan (i.e. tracking mileage for reimbursement)	Excluded	Excluded	Excluded	TBD



Frequently Asked Questions



FAQ #1

What is the Adoption Agreement Addendum?



FAQ #2

What if I don't want to complete the form electronically? Can I send in a paper form?



FAQ #3

Will I be able to get a walk-through of the addendum and how to complete it?



FAQ #4

Will I be able to get a copy of my adoption documents so I know what is currently in effect?



FAQ #5

Can I decide who will sign the addendum?



FAQ #6

Where will I see these provisions in the future?



Resources & Key Takeaways

Employer Reporting Resources



Reporting Resource Page on www.mersofmich.com

- More FAQs
- Publications
- Contact information



Regional Team

- Your regional team is ready to assist you with all of your plan needs and questions

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Municipal Employees' Retirement System

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Employer Reporting Resource Page

Effective January 1, 2021, MERS is implementing several modifications to the way in which defined benefit plans are administered. Below you will find an overview of each of the modifications.

After reviewing the information below, you will be required to submit an updated Adoption Agreement Addendum to MERS indicating changes and/or provision clarifications you're making based on these modifications. Please note that any changes you make will be effective January 1, 2021, and future benefit changes do not impact prior benefits. Your addendum confirming your plan provisions is due to MERS by **September 30, 2020**.

- + Plan Eligibility Clarification
- + Day of Work Definition Modification
- + Leaves of Absence Clarification
- + Definition of Compensation
- + Have a Defined Contribution (DC) Plan?
- + Employee Contribution Requirements

Resource

- FAQs (pdf)
- Defined Benefit Employer Reporting Guide (pdf)

Questions?

Search out to your [benefit plan coordinator](#) with any questions.

Webinars

Learn more information and ask questions on reporting updates and provisional changes during these upcoming webinars:

Defined Benefit Plan Provisions
Monday, September 21
9:00 – 10:00 a.m.
[Register](#)

DE_BenefitPlan_Update.pdf 7/20/20

Key Takeaways

- Empower employees with a plan design that allows them to adjust their savings rate as their situation changes
- Plan design defaults should be in the employees' best interest
- Employers can improve employee outcomes by ensuring they understand how their benefit works
- Watch for more information coming soon on provision enhancements

Contacting MERS of Michigan

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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.