City of East Lansing
Defined Benefit Plans Overview

Municipal Employees’ Retirement System
1134 Municipal Way, Lansing, MI 48917
800.767.MERS (6377)
The Municipal Employees’ Retirement System (MERS) of Michigan is a nonprofit organization that is independent from the State of Michigan.

- We provide retirement services to more than 800 municipal members across Michigan.
- Proudly serving more than 100,000 participants.
- We manage nearly 2,000 retirement and employee benefit plans with a combined value of over $9 billion.
- We are a multiple-employer plan — assets are pooled for investment purposes but separate trusts are maintained for each individual municipality.
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 operating in the best interest of our members.

The MERS Retirement Board serves as the fiduciary of the funds and has oversight responsibilities for the System.
A Program For Every Need

Customized Plans

We recognize that every member has unique needs. We offer a broad range of customizable plans to fit our members’ budgets, needs and goals.
• Defined Benefit Funding
• 2015 Experience Study and National Trends
• Unfunded Accrued Liability
  – What is UAL?
  – Why UAL Occurs
  – Strategies to Manage UAL
• Recent and Upcoming Accounting Changes
• MERS Resources
DEFINED BENEFIT

The fundamentals of pension funding
How Defined Benefit Works

The benefit formula is comprised of three components:

• Final Average Compensation (FAC) is average of highest consecutive wages

• Service Credit is earned for each month of work that meets the employer’s requirements

• Benefit Multiplier is a specific percentage adopted by the employer ranging from 1.0% to 2.5%
Meet Jane

Final Average Compensation
$45,000

Service Credit of 25 years

2.0% Benefit Multiplier

Annual Straight Life benefit*
$22,500

Monthly Straight Life benefit*
$1,875

*Maximum benefit at retirement with no benefit to beneficiary
Defined Benefit Plan Costs

• The cost of the Defined Benefit Plan is determined annually and provided in the Annual Actuarial Valuation
  – DB Plan costs vary by each municipality and depend on the benefit plan design and other plan specific details
  – The ultimate cost will not be known until the last retiree/beneficiary stops drawing

• There are also MERS administrative and investment costs, which are charged to your plan as basis points and are found on your quarterly statements

• MERS administrative & investment costs have decreased over the last 5 years by 39%
MERS Defined Benefit Cost Reduction History

5-Year History

Investment  Administrative

- 2011: 0.34% 0.35%
- 2012: 0.32% 0.37%
- 2013: 0.24% 0.36%
- 2014: 0.20% 0.26%
- 2015: 0.20% 0.22%
How Defined Benefit Plans are Funded

• May be funded by three sources: employer contributions, employee contributions and earnings on investments

• **Annual Actuarial Valuations** provide the required contributions, funding level and unfunded liability

• Contributions vary from one year to the next due to:
  – Changes in benefit provisions
  – Changes in actuarial assumptions and methods
  – Experience of the plan (investment and demographic experience);

• Actuarial valuations do not affect the ultimate cost of the plan; benefit payments (current and future) determine the cost of the plan

• Assumptions are for the long term; plan experience will not match the actuarial assumptions in any given year (except by coincidence)
How is the Employer Contribution Calculated?

Actuarial Assumptions and Methods established by the Retirement Board
Employer contribution rate is made up of two parts:

1. **Employer Normal Cost**— Present value of benefits allocated to the current plan year less any employee contribution

2. **Amortization Payment of Unfunded Accrued Liability**— Payment to reduce any shortfall between liability for past service and assets
## Breakdown of Contributions

**Table 1 (continued)**

<table>
<thead>
<tr>
<th></th>
<th></th>
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<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>19 - UAW Jr Unit</td>
<td>24</td>
<td>956</td>
<td>629</td>
<td>1,585</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>20 - Pct Sprvsrs</td>
<td>24</td>
<td>13,500</td>
<td>45,854</td>
<td>59,354</td>
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<td>21 - Police/Fire</td>
<td>24</td>
<td>1,151</td>
<td>31,718</td>
<td>32,869</td>
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<tr>
<td>22 - Sup of Info &amp; Tech</td>
<td>24</td>
<td>775</td>
<td>1,358</td>
<td>2,133</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>23 - POAM aft 7/1/11-Of</td>
<td>24</td>
<td>6,711</td>
<td>246</td>
<td>6,957</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>50 - Fire Hired after 7</td>
<td>24</td>
<td>3,757</td>
<td>(10)</td>
<td>3,747</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>HA - New hires after 11</td>
<td>24</td>
<td>40,749</td>
<td>(970)</td>
<td>39,779</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>HB - Gen.Aux FOP-hired</td>
<td>24</td>
<td>1,115</td>
<td>(81)</td>
<td>1,034</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total Municipality</strong></td>
<td></td>
<td>$141,794</td>
<td>$380,293</td>
<td>$522,087</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td><strong>Estimated Annual Contribution</strong></td>
<td></td>
<td>$1,701,528</td>
<td>$4,563,516</td>
<td>$6,265,044</td>
<td></td>
<td></td>
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</tr>
</tbody>
</table>
# Funded Level Trend

Your Funded Ratio:

<table>
<thead>
<tr>
<th>Funded Ratio</th>
<th>12/31/2014</th>
<th>12/31/2013</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>58%</td>
<td>60%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Valuation Date December 31</th>
<th>Actuarial Accrued Liability</th>
<th>Valuation Assets</th>
<th>Percent Funded</th>
<th>Unfunded (Overspent) Accrued Liabilities</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010</td>
<td>151,237,873</td>
<td>99,154,337</td>
<td>66%</td>
<td>52,083,536</td>
</tr>
<tr>
<td>2011</td>
<td>157,959,599</td>
<td>99,227,169</td>
<td>63%</td>
<td>58,732,430</td>
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<tr>
<td>2012</td>
<td>161,482,472</td>
<td>98,576,088</td>
<td>61%</td>
<td>62,906,384</td>
</tr>
<tr>
<td>2013</td>
<td>164,533,111</td>
<td>98,177,540</td>
<td>60%</td>
<td>66,355,471</td>
</tr>
<tr>
<td>2014</td>
<td>169,548,861</td>
<td>98,571,517</td>
<td>58%</td>
<td>70,977,244</td>
</tr>
</tbody>
</table>
Our Defined Benefit Plan is a multiple-employer plan

- Assets are pooled for investment purposes only
- Separate trusts are maintained for each individual employer
- We do not borrow from one municipality’s account to cover another municipality’s obligation
## Employer Contributions

<table>
<thead>
<tr>
<th>Valuation Date: Fiscal Year Beginning:</th>
<th>Percentage of Payroll</th>
<th>Monthly $ Based on Valuation Payroll</th>
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</thead>
<tbody>
<tr>
<td></td>
<td>12/31/2014 July 1, 2016</td>
<td>12/31/2013 July 1, 2015</td>
</tr>
<tr>
<td></td>
<td>12/31/2014 July 1, 2016</td>
<td>12/31/2013 July 1, 2015</td>
</tr>
<tr>
<td>Division</td>
<td></td>
<td></td>
</tr>
<tr>
<td>01 - Gnl NonUnio</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>02 - Plc NonComm</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>05 - Fire</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>08 - NewHires 54B</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>10 - Gnl DPW</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>11 - Gnl Auxiry</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>12 - Gnl 54B Crt</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>13 - Jail Serv</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>14 - Water&amp;Sewer</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>15 - Junior Empl</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>16 - Comm Devlpm</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>17 - Supervisory Independen</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>18 - UAW Non Sup</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>19 - UAW Jr Unit</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>20 - Plc Sprvsrs</td>
<td>67.18%</td>
<td>67.19%</td>
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<tr>
<td>21 - Police/Fire</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>22 - Sup of Info &amp; Tech/Rec</td>
<td>38.34%</td>
<td>35.57%</td>
</tr>
<tr>
<td>23 - POAM aft 7/1/11-Office</td>
<td>11.60%</td>
<td>11.52%</td>
</tr>
<tr>
<td>50 - Fire Hired after 7/1/2</td>
<td>11.23%</td>
<td>10.79%</td>
</tr>
<tr>
<td>HA - New hires after 11/1/1</td>
<td>8.61%</td>
<td>9.01%</td>
</tr>
<tr>
<td>HB - Gen.Aux FOP-hired aft</td>
<td>6.47%</td>
<td>5.64%</td>
</tr>
<tr>
<td><strong>Municipality Total</strong></td>
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# Employee Contributions

<table>
<thead>
<tr>
<th>Division</th>
<th>12/31/2014</th>
<th>12/31/2013</th>
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</thead>
<tbody>
<tr>
<td>01 - Gnl NonUnio</td>
<td>1.00%</td>
<td>1.00%</td>
</tr>
<tr>
<td>02 - Plc NonComm</td>
<td>1.50%</td>
<td>1.00%</td>
</tr>
<tr>
<td>05 - Fire</td>
<td>4.50%</td>
<td>4.00%</td>
</tr>
<tr>
<td>08 - NewHires 54B</td>
<td>1.00%</td>
<td>1.00%</td>
</tr>
<tr>
<td>10 - Gnl DPW</td>
<td>6.70%</td>
<td>6.70%</td>
</tr>
<tr>
<td>11 - Gnl Auxlry</td>
<td>1.00%</td>
<td>1.00%</td>
</tr>
<tr>
<td>12 - Gnl 54B Crt</td>
<td>1.00%</td>
<td>1.00%</td>
</tr>
<tr>
<td>13 - Jail Serv</td>
<td>1.00%</td>
<td>1.00%</td>
</tr>
<tr>
<td>14 - Water&amp;Sewer</td>
<td>0.00%</td>
<td>0.00%</td>
</tr>
<tr>
<td>15 - Junior Empl</td>
<td>3.00%</td>
<td>3.00%</td>
</tr>
<tr>
<td>16 - Comm Devpm</td>
<td>0.00%</td>
<td>0.00%</td>
</tr>
<tr>
<td>17 - Supervisory Independen</td>
<td>1.30%</td>
<td>1.30%</td>
</tr>
<tr>
<td>18 - UAW Non Sup</td>
<td>1.00%</td>
<td>1.00%</td>
</tr>
<tr>
<td>19 - UAW Jr Unit</td>
<td>3.00%</td>
<td>3.00%</td>
</tr>
<tr>
<td>20 - Plc Sprvsrs</td>
<td>3.00%</td>
<td>3.00%</td>
</tr>
<tr>
<td>21 - Police/Fire</td>
<td>4.00%</td>
<td>4.00%</td>
</tr>
<tr>
<td>22 - Sup of Info &amp; Tech/Rec</td>
<td>0.00%</td>
<td>0.00%</td>
</tr>
<tr>
<td>23 - POAM aft 7/1/11 Office</td>
<td>0.00%</td>
<td>0.00%</td>
</tr>
<tr>
<td>50 - Fire Hired after 7/1/2</td>
<td>0.00%</td>
<td>0.00%</td>
</tr>
<tr>
<td>HA - New hires after 11/1/1</td>
<td>0.00%</td>
<td>0.00%</td>
</tr>
<tr>
<td>HB - Gen.Aux FOP-hired aft</td>
<td>0.00%</td>
<td>0.00%</td>
</tr>
</tbody>
</table>
East Lansing’s Flow of Valuation Assets

### Table 5

<table>
<thead>
<tr>
<th>Year Ended 12/31</th>
<th>Employer Contributions</th>
<th>Employee Contributions</th>
<th>Investment Income</th>
<th>Benefit Payments</th>
<th>Employee Contribution Refunds</th>
<th>Net Transfers</th>
<th>Valuation Asset Balance</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Required</td>
<td>Additional</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>2004</td>
<td>$ 2,291,511</td>
<td>$ 225,819</td>
<td>$ 5,590,491</td>
<td>$ (5,367,901)</td>
<td>$</td>
<td>$</td>
<td>$ 88,846,287</td>
</tr>
<tr>
<td>2005</td>
<td>2,590,160</td>
<td>236,801</td>
<td>5,562,303</td>
<td>(5,734,827)</td>
<td>0</td>
<td>0</td>
<td>91,500,724</td>
</tr>
<tr>
<td>2006</td>
<td>2,872,809</td>
<td>223,768</td>
<td>7,259,387</td>
<td>(6,301,344)</td>
<td>(3,929)</td>
<td>(1)</td>
<td>95,551,414</td>
</tr>
<tr>
<td>2007</td>
<td>3,099,813</td>
<td>208,680</td>
<td>7,716,280</td>
<td>(7,120,650)</td>
<td>0</td>
<td>(85,503)</td>
<td>99,370,034</td>
</tr>
<tr>
<td>2008</td>
<td>3,301,055</td>
<td>202,000</td>
<td>4,100,119</td>
<td>(7,997,330)</td>
<td>(7,044)</td>
<td>0</td>
<td>95,451,024</td>
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<tr>
<td>2009</td>
<td>3,687,481</td>
<td></td>
<td>3,615,006</td>
<td>(8,020,321)</td>
<td>0</td>
<td>0</td>
<td>98,981,582</td>
</tr>
<tr>
<td>2010</td>
<td>4,012,231</td>
<td></td>
<td>4,585,229</td>
<td>(8,680,299)</td>
<td>0</td>
<td>0</td>
<td>99,154,337</td>
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<tr>
<td>2011</td>
<td>4,819,096</td>
<td>0</td>
<td>168,721</td>
<td>(9,463,412)</td>
<td>0</td>
<td>(9,383)</td>
<td>99,227,169</td>
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<tr>
<td>2012</td>
<td>5,379,563</td>
<td>0</td>
<td>253,023</td>
<td>(10,312,446)</td>
<td>0</td>
<td>0</td>
<td>98,576,088</td>
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<td>2013</td>
<td>6,669,690</td>
<td>0</td>
<td>243,464</td>
<td>(10,760,394)</td>
<td>0</td>
<td>(919,226)</td>
<td>99,177,840</td>
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<td>2014</td>
<td>5,788,683</td>
<td>0</td>
<td>246,570</td>
<td>(11,030,534)</td>
<td>0</td>
<td>0</td>
<td>98,571,517</td>
</tr>
</tbody>
</table>

Increase in Final Average Compensation

<table>
<thead>
<tr>
<th>Division</th>
<th>FAC Increase Assumption</th>
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</thead>
<tbody>
<tr>
<td>All Divisions</td>
<td>4.00%</td>
</tr>
</tbody>
</table>
EXPERIENCE STUDY

Data driven assumptions help our members maintain plan stability
MERS Governance and Oversight

- MERS’ Fiduciary Duty
  - Experience Study
- Funding Policy
- Fiscal Responsibility Policy
- Investment Policy and Oversight
Experience Study

• Part of MERS’ fiduciary responsibility
• Conducted with our actuarial firm every five years
• Compares actual experience of the plan with the current assumptions to determine if changes are necessary
Experience Study Goals & Priorities

• Adequacy
  – Ensuring each plan’s assets are sufficient to provide for the benefits that are expected to be paid and that each plan is making reasonable progress to achieve full funding

• Intergenerational Equity and Transparency
  – Each generation should incur the cost of benefits for the employees who provide service in that generation, rather than deferring those costs to future employees. In addition, a funding policy should be easily understood

• Contribution Stability
  – Contribution volatility should be balanced with the commitment to ensure plans are properly funded
Experience Study – Key Changes

• Funding Policy Changes
  – Amortization Policy
  – 5 year smoothing

• Economic Assumptions
  – Investment Return Assumption—moved from 8% to 7.75%

• Mortality Tables
  – Updated rates to reflect longer life expectancies

• Overall, changes will result in higher contributions for all groups
Amortization Policy

- Since 2005, MERS has been gradually reducing the amortization period
- MERS will continue to reduce the amortization by one year, every year, until the UAL is completely paid off
- Beginning in 2023, future liability gains/losses will be spread over a 15-year fixed period for open divisions
National Trends

• Other Systems are implementing similar changes
• Largest public practice actuarial firms advising clients to make these changes
Recent Trends

Downward trend assumptions about long-term expected rates of return

– Public Fund Survey
  • 126 plans measured
  • More than half have reduced their investment return assumptions since FY 2008
  • Median return assumption is now 7.75, down from 8.0

– According to NASRA, average plan returns assumption as of 12/31/2014 was 7.69% (down from 8% as of 2008)

– Pension & Investments: “Public pension funds taking a new look at return assumptions” (August 2015)
GFOA – Best Practices

• Use fixed (closed) amortization periods
• Balance equitable allocation of cost among generations with volatility management
• Never exceed 25 years; 15-20 years
• Use a layered approach for the various components to be amortized
Additional Resources

Visit www.mersofmich.com
Experience Study Key Takeaways

• Letter were sent with estimated impact
• Actual impact first disclosed in 2015 AAV delivered by June 2016
• First contribution impact seen with fiscal year beginning in 2017
• Overall, contributions are expected to increase
• Legacy unfunded liability now has a definite pay off date
• Impact on contributions can be paid in full or phased in over 5-year period
## Experience Study Projected Impacts

<table>
<thead>
<tr>
<th>Valuation Year Ending December 31,</th>
<th>Fiscal Year Beginning July 1,</th>
<th>Amort. Period</th>
<th>Valuation Assets</th>
<th>Actuarial Accrued Liability</th>
<th>Funded Ratio</th>
<th>Minimum Employer Contribution Dollars</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014</td>
<td>2016</td>
<td>Varies</td>
<td>98,570,000</td>
<td>169,549,000</td>
<td>58.1%</td>
<td>6,506,000</td>
</tr>
<tr>
<td>2015</td>
<td>2017</td>
<td>Varies</td>
<td>98,566,000</td>
<td>182,368,000</td>
<td>54%</td>
<td>7,195,000</td>
</tr>
<tr>
<td>2016</td>
<td>2018</td>
<td>Varies</td>
<td>97,608,000</td>
<td>186,349,000</td>
<td>52%</td>
<td>7,997,000</td>
</tr>
<tr>
<td>2017</td>
<td>2019</td>
<td>Varies</td>
<td>96,578,000</td>
<td>190,121,000</td>
<td>51%</td>
<td>8,876,000</td>
</tr>
<tr>
<td>2018</td>
<td>2020</td>
<td>Varies</td>
<td>95,778,000</td>
<td>193,729,000</td>
<td>49%</td>
<td>9,696,000</td>
</tr>
<tr>
<td>2019</td>
<td>2021</td>
<td>Varies</td>
<td>95,357,000</td>
<td>197,212,000</td>
<td>48%</td>
<td>10,532,000</td>
</tr>
<tr>
<td>2020</td>
<td>2022</td>
<td>Varies</td>
<td>97,752,000</td>
<td>200,499,000</td>
<td>49%</td>
<td>10,951,000</td>
</tr>
<tr>
<td>2021</td>
<td>2023</td>
<td>Varies</td>
<td>100,509,000</td>
<td>203,540,000</td>
<td>49%</td>
<td>11,420,000</td>
</tr>
<tr>
<td>2022</td>
<td>2024</td>
<td>Varies</td>
<td>104,190,000</td>
<td>206,375,000</td>
<td>50%</td>
<td>11,151,000</td>
</tr>
<tr>
<td>2023</td>
<td>2025</td>
<td>Varies</td>
<td>108,175,000</td>
<td>209,046,000</td>
<td>52%</td>
<td>11,254,000</td>
</tr>
<tr>
<td>2024</td>
<td>2026</td>
<td>Varies</td>
<td>112,130,000</td>
<td>211,557,000</td>
<td>53%</td>
<td>11,661,000</td>
</tr>
<tr>
<td>2025</td>
<td>2027</td>
<td>Varies</td>
<td>115,892,000</td>
<td>213,919,000</td>
<td>54%</td>
<td>12,077,000</td>
</tr>
<tr>
<td>2026</td>
<td>2028</td>
<td>Varies</td>
<td>119,740,000</td>
<td>216,069,000</td>
<td>55%</td>
<td>12,507,000</td>
</tr>
<tr>
<td>2027</td>
<td>2029</td>
<td>Varies</td>
<td>123,940,000</td>
<td>218,082,000</td>
<td>57%</td>
<td>12,957,000</td>
</tr>
<tr>
<td>2028</td>
<td>2030</td>
<td>Varies</td>
<td>128,547,000</td>
<td>219,983,000</td>
<td>58%</td>
<td>13,427,000</td>
</tr>
<tr>
<td>2029</td>
<td>2031</td>
<td>Varies</td>
<td>133,673,000</td>
<td>221,815,000</td>
<td>60%</td>
<td>13,915,000</td>
</tr>
<tr>
<td>2030</td>
<td>2032</td>
<td>Varies</td>
<td>139,438,000</td>
<td>223,648,000</td>
<td>62%</td>
<td>14,426,000</td>
</tr>
<tr>
<td>2031</td>
<td>2033</td>
<td>Varies</td>
<td>145,990,000</td>
<td>225,559,000</td>
<td>65%</td>
<td>14,955,000</td>
</tr>
<tr>
<td>2032</td>
<td>2034</td>
<td>Varies</td>
<td>153,508,000</td>
<td>227,657,000</td>
<td>67%</td>
<td>15,504,000</td>
</tr>
<tr>
<td>2033</td>
<td>2035</td>
<td>Varies</td>
<td>162,093,000</td>
<td>229,970,000</td>
<td>70%</td>
<td>16,078,000</td>
</tr>
<tr>
<td>2034</td>
<td>2036</td>
<td>Varies</td>
<td>171,883,000</td>
<td>232,553,000</td>
<td>74%</td>
<td>16,671,000</td>
</tr>
</tbody>
</table>
Projected Funded Percentage

City of East Lansing - Funded Percentage

Funded Percentage vs. Valuation Year - December 31

- 7% Projection
- 8% Projection Base
Projected Employer Contributions

City of East Lansing - Employer Contribution

Fiscal Year - July 1

8% Projection Base
7% Projection
REDUCING UAL

Strategies to reduce Unfunded Accrued Liability
What is Unfunded Liability?

Unfunded liability is the difference between a plan’s estimated pension benefits and assets that have been set aside to pay for them:

• The dollar value of the benefits is actuarially determined each year for pension.
• Assets are held in a trust and are professionally managed over the years.
• Unfunded liability is paid off over a period of years.
Why Unfunded Liabilities Occur

• Actual experience different than assumed (liabilities and assets)
  – Market performance
  – Demographic experience
  – Rates of retirement

• Benefit enhancements adopted and not entirely funded
  – Early retirement windows
  – Increased benefit multiplier
  – Cost of Living Adjustments

• Higher than projected Final Average Compensation

• Granting prior service for benefits without funding
<table>
<thead>
<tr>
<th>Strategy</th>
<th>Description</th>
<th>Trend</th>
<th>Impact</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cost Sharing for Existing Employees</td>
<td>• Employees contribute to help fund the overall cost of the plan</td>
<td>2011 176</td>
<td>• Reduces the employer cost, but does not affect total cost or the plan’s unfunded liability</td>
</tr>
<tr>
<td></td>
<td></td>
<td>2012 149</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>2013 280</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>2014 143</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>2015 [VALUE]</td>
<td></td>
</tr>
<tr>
<td>Lower Benefit to New Hires</td>
<td>• New hires receive a lower tier of Defined Benefit provisions</td>
<td>2011 63</td>
<td>• Existing employees are not affected</td>
</tr>
<tr>
<td></td>
<td></td>
<td>2012 49</td>
<td>• Reduces the liability for new hires</td>
</tr>
<tr>
<td></td>
<td></td>
<td>2013 53</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>2014 43</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>2015 52</td>
<td></td>
</tr>
<tr>
<td>Bridged Benefits for Existing Employees</td>
<td>• Benefits are offered in parts to existing employees</td>
<td>2011 14</td>
<td>• Leaves earned benefits unchanged</td>
</tr>
<tr>
<td></td>
<td>• Multiplier is then lowered on a going-forward basis</td>
<td>2012 17</td>
<td>• Reduces the liability for new hires and existing employees</td>
</tr>
<tr>
<td></td>
<td></td>
<td>2013 19</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>2014 29</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>2015 16</td>
<td></td>
</tr>
<tr>
<td>Hybrid for New Hires</td>
<td>• New hires receive a Hybrid Plan</td>
<td>2011 31</td>
<td>• Existing employees are not affected</td>
</tr>
<tr>
<td></td>
<td></td>
<td>2012 67</td>
<td>• Reduces liability for new hires</td>
</tr>
<tr>
<td></td>
<td></td>
<td>2013 31</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>2014 43</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>2015 21</td>
<td></td>
</tr>
<tr>
<td>Defined Contribution for New Hires</td>
<td>• New hires receive a defined Contribution Plan</td>
<td>2011 21</td>
<td>• Existing employees are not affected</td>
</tr>
<tr>
<td></td>
<td></td>
<td>2012 20</td>
<td>• Eliminates liability for new hires</td>
</tr>
<tr>
<td></td>
<td></td>
<td>2013 45</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>2014 30</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>2015 37</td>
<td></td>
</tr>
<tr>
<td>Bonding</td>
<td>• Municipalities may bond for all or a portion of their unfunded accrued liabilities—pension or OPEB</td>
<td>2011 4</td>
<td>• Proceeds of the bond are deposited and potentially will fully fund the UAL</td>
</tr>
<tr>
<td></td>
<td></td>
<td>2012 1</td>
<td>• No guarantee that future unfunded liabilities may not occur</td>
</tr>
<tr>
<td>Voluntary Contributions</td>
<td>• Additional payments made into plan toward unfunded liability</td>
<td>2011 180</td>
<td>• Reduces existing liability</td>
</tr>
<tr>
<td></td>
<td></td>
<td>2012 211</td>
<td>• Extra dollars are invested and recognize market returns</td>
</tr>
<tr>
<td></td>
<td></td>
<td>2013 210</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>2014 259</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>2015</td>
<td></td>
</tr>
</tbody>
</table>
RECENT AND UPCOMING ACCOUNTING CHANGES

Helping our members navigate new liability reporting requirements
Overview of GASB 68 (Pension)

- GASB 68 substantially changed accounting and financial reporting of public employee pensions
  - Employers will now record the Net Pension Liability on the full accrual statements
  - Much more detailed footnotes
- The most notable change is the separation of accounting calculations from funding calculations
## Summary of the Changes

<table>
<thead>
<tr>
<th></th>
<th>Pre-GASB 68 (Statements 27 &amp; 50)</th>
<th>Post-GASB 68</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Balance Sheet</strong> (Government Wide Financial Statement)</td>
<td>Long-term liability was recorded in the footnotes of the financial statements</td>
<td>A new calculation of long-term liability, called Net Pension Liability, will be on the balance sheet and the footnotes will be more extensive</td>
</tr>
<tr>
<td><strong>Income Statement</strong> (Government Wide)</td>
<td>Pension expense equaled the annual required contribution</td>
<td>Pension expense will now be calculated based on accrual accounting, thus it will not equal the annual required contribution</td>
</tr>
<tr>
<td><strong>Deferred Outflows and Inflows</strong></td>
<td></td>
<td>New requirement</td>
</tr>
<tr>
<td><strong>Required Contributions</strong></td>
<td>The annual actuarial valuation process calculates the required contributions</td>
<td>Same process</td>
</tr>
</tbody>
</table>
New Accounting Standard – GASB 75

• Similar to the pension standards (GASB 68)
• Update to GASB 45 standards
  – Standards around OPEB valuations and footnote requirements
• Liabilities will now be reported on the government wide financial statements as a “Net OPEB Liability”
• Changes in the net OPEB liability will generally be recognized in expense
Basic OPEB Formula

Employers will now record the NET OPEB liability on the full accrual statements

TOTAL OPEB liability = OPEB Plan Net Position = NET OPEB liability

These amounts will be measured as of the “measurement date”
Retiree health care (OPEB) is the most significant legacy cost for municipalities

- Average funding level is 14% for 300 OPEB plans compared to 80% for 869 pension plans.
- The average OPEB unfunded liability is 3 times larger than for pensions and is rapidly approaching $11 billion.
- 49% of OPEB plans have no assets set aside.

Data from Legacy Costs facing Michigan Municipalities, MSU Extension, 1/8/2016
RESOURCES
We recently enhanced both myMERS and the Employer Portal.

The new look and features were a direct result of ideas and suggestions you provided, including improved navigation, added security and additional financial resources for participants and enhanced reporting features for employers.

With webinars, local seminars, and onsite meetings we are bringing education to more people in more ways.

You can view a list of upcoming events and register to attend on our website.
## A Focus on Retirement Readiness

- Retirement readiness is a gauge that determines whether or not a person will have enough money in retirement to enjoy a similar standard of living as in their time working.

- The MERS approach utilizes behavioral finance research to help your employees understand their level of preparedness.

- Employers will also receive reports that provide an overview of plan metrics to help you understand the advantages of having retirement-ready employees, and how MERS programs help make that happen.

### MERS Approach

**Snapshot** reports give participants a “snapshot” of their projected income in retirement using the information that MERS has along with Social Security.

There is no action required by the participant to receive these free reports.

Our goal is to give participants an understanding of where they are in meeting an industry standard definition of retirement readiness and drive them online to complete their **Full Picture**.

Free investment guidance is offered to assist participants in achieving their retirement goals if they are not on track to do so.
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.