MPSERS 101

Michigan Public School Employees' Retirement System, PA 300 of 1980

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MPSERS 101 – Plans

- First Hired Prior to July 1, 2010 – Member Investment Plan or Basic – Defined Benefit
- First Hired on or after July 1, 2010 – Hybrid or "Pension Plus" – DB and Defined Contribution
- With PA 300 of 2012, options for all existing and new hires to choose straight DC plan with 3% match on 6% contributions
- Retiree health premiums if hired before Sept 4, 2012; otherwise, 401k for health (2% matching)

MPSERS 101 – Employer Rates

- Between FY 1994-95 and FY 2011-12, employers (K-12s, Community Colleges, ISDs, and Participating Charters and Libraries) paid full MPSERS rate applied to payroll
- Beginning in FY 2012-13 with PA 300 of 2012, the portion of the rate that is tied to the Unfunded Accrued Liability (UAL) is capped at 20.96% of payroll; the portion that is the normal cost can fluctuate.

MPSERS 101 – Rates (cont.)

- The MPSERS Rate is now made up of four components: the Pension Normal, the Pension UAL, the Health Normal, and the Health UAL.
- Prior to PA 300 of 2012, retiree health was paid on a cash basis; now it is prefunded, and the retiree health rate has two components (normal and UAL) like pension. Prefunding captures stock market investment returns to help defray the costs of retiree health care.
- Again, if the Pension UAL plus the Health UAL exceeds 20.96%, the State pays the difference; local employer costs for the UAL are capped at 20.96% applied to MPSERS payroll.

MPSERS 101 – Rates

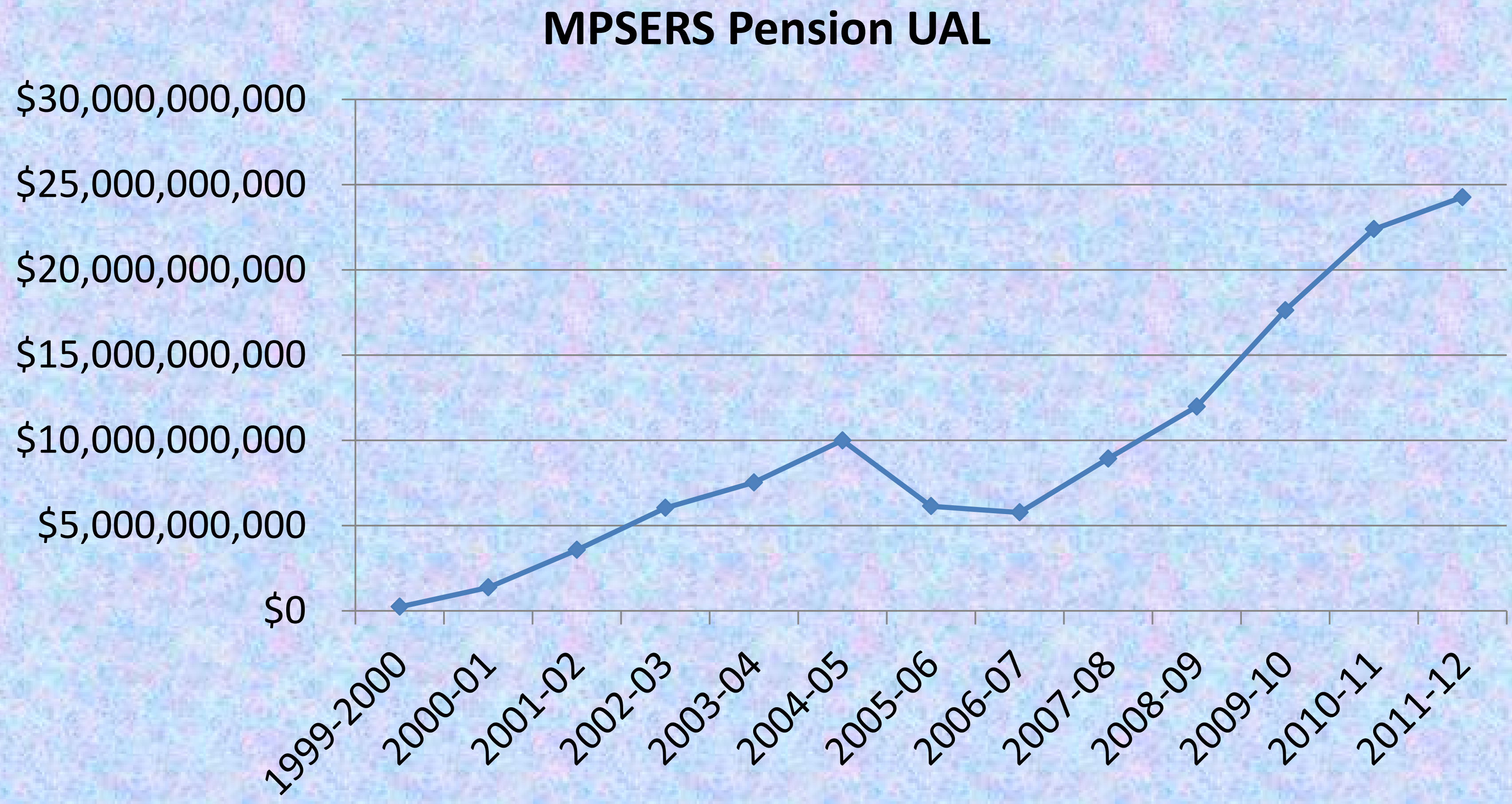
Basic/MIP with Premium Subsidy	2014	2015		Hybrid (Pension Plus) with Premium Subsidy	2014	2015
Pension Normal	2.90%	4.31%		Pension Normal	2.67%	3.23%
Pension UAL	14.08%	17.40%		Pension UAL	14.08%	17.40%
Early Retirement Incentive	1.36%	1.36%		Early Retirement Incentive	1.36%	1.36%
Total Pension	18.34%	23.07%		Total Pension	18.11%	21.99%
Health Normal	0.93%	0.51%		Health Normal	0.93%	0.51%
Health UAL	5.52%	2.20%		Health UAL	5.52%	2.20%
Total Health	6.45%	2.71%		Total Health	6.45%	2.71%
Total Local Employer Contribution	**24.79%**	**25.78%**		**Total Local Employer Contribution**	**24.56%**	**24.70%**
Total State Contribution (est. for FY 15)	4.56%	7.62%		Total State Contribution (est. for FY 15)	4.56%	7.62%
Total MPSERS Rate (Local plus State)	**29.35%**	**33.40%**		**Total MPSERS Rate (Local plus State)**	**29.12%**	**32.32%**

Excludes DC contributions for hybrid and excludes DC-health or DC-only plans.

MPSERS 101 – Rates

- The costs of each year's benefits are fully paid in that year. This is the normal cost. It is the amount that must be set aside today to fund the year of service earned this year, which will be paid out upon retirement. If all actuarial assumptions were 100% accurate and realized, there only would be a normal cost.
- Unfunded actuarial liability (UAL) results from market crashes, recessions, population loss/ privatization, unfunded benefit giveaways (e.g., early outs at the local or statewide level), and other factors that throw the actuarial assumptions off.
- When assumptions are off, it is not always to the bad. Sometimes there is negative UAL (i.e., the plan is overfunded, which has happened before). More recently, there has been positive UAL, meaning the plan is currently underfunded. Therefore, the UAL measures the difference between the costs of providing benefits that were promised and earned and the assets on hand.

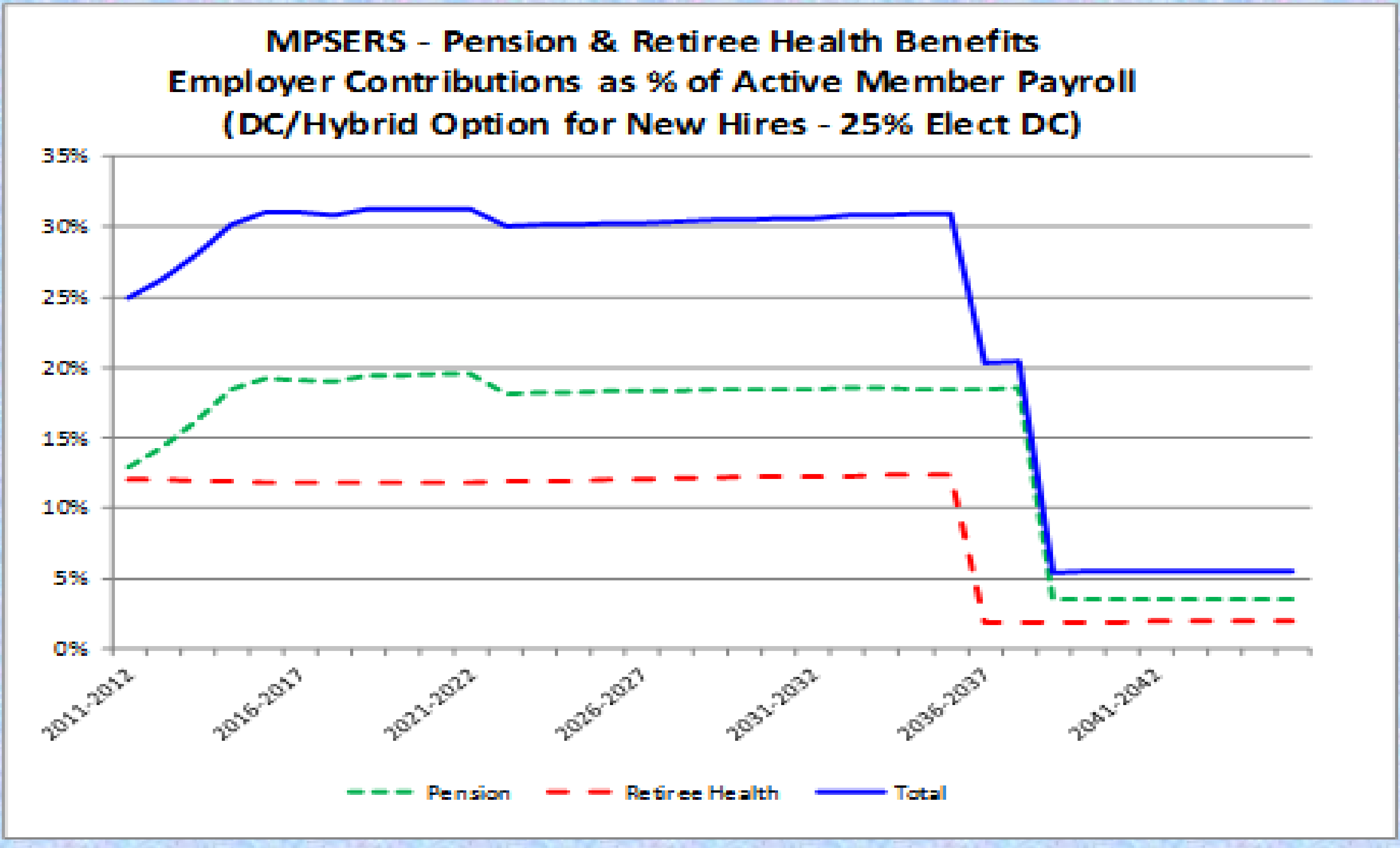
MPSERS 101 – Pension UAL



MPSERS 101 - UAL

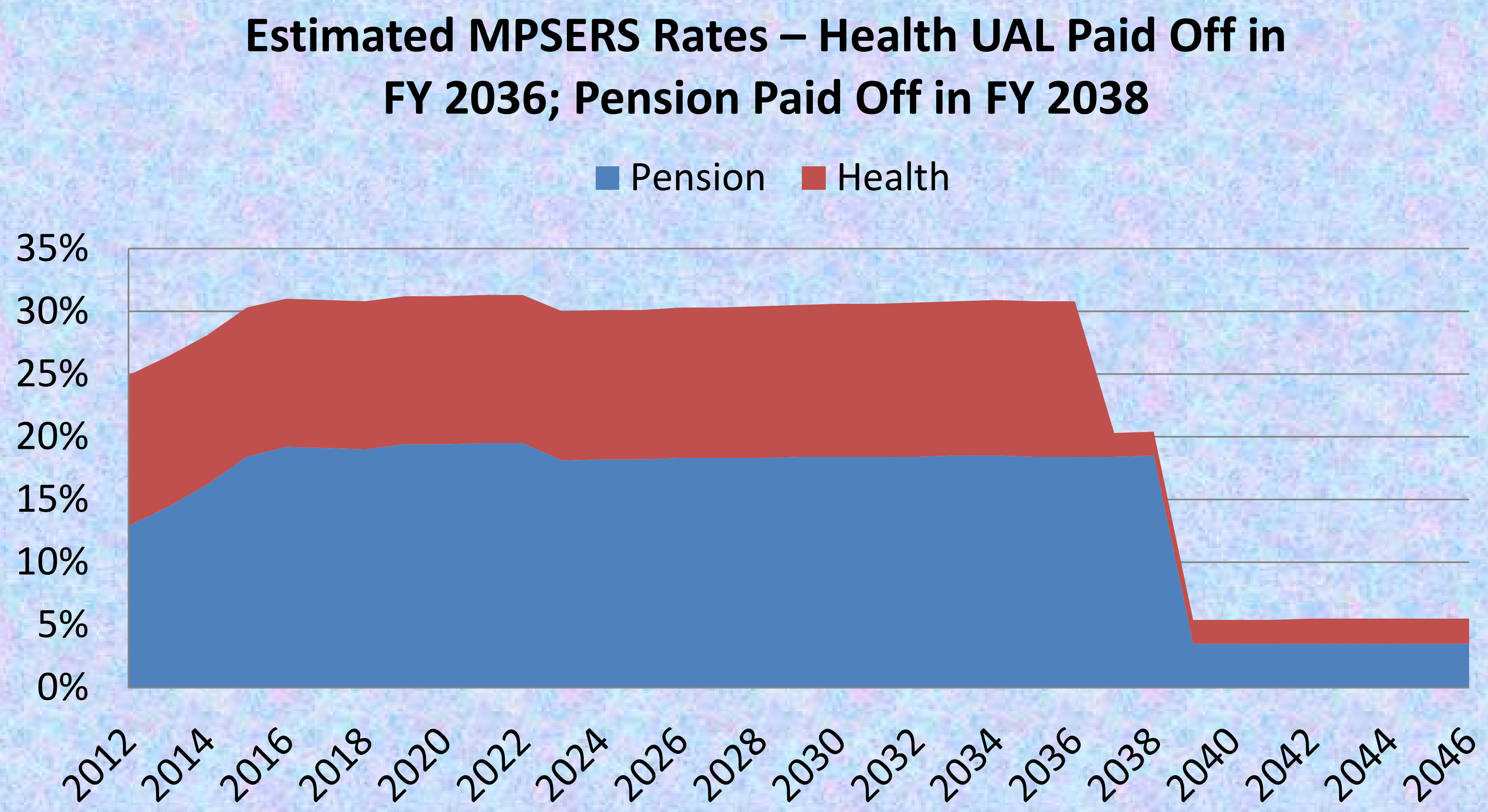
- Primary reason for large growth in Pension UAL due to stock market losses in 2008 and 2009.
- Any deviations in actual conditions compared to actuarial assumptions are smoothed in over five years.
- With the next valuation, we should drop off the 2008 stock year losses and the UAL should stabilize (with respect to market returns) more than the recent past.
- Lack of growth in statewide payroll will mean additional State dollars necessary to pay the MPSERS rate cap (assumption is 3.5% growth).
- The UAL can be thought of like a mortgage: it is currently on a schedule to be paid off in 25 years.

MPSERS 101 – Total Rate Estimates (as of Aug. 2012) including Health Care Prefunding and DC-only Option



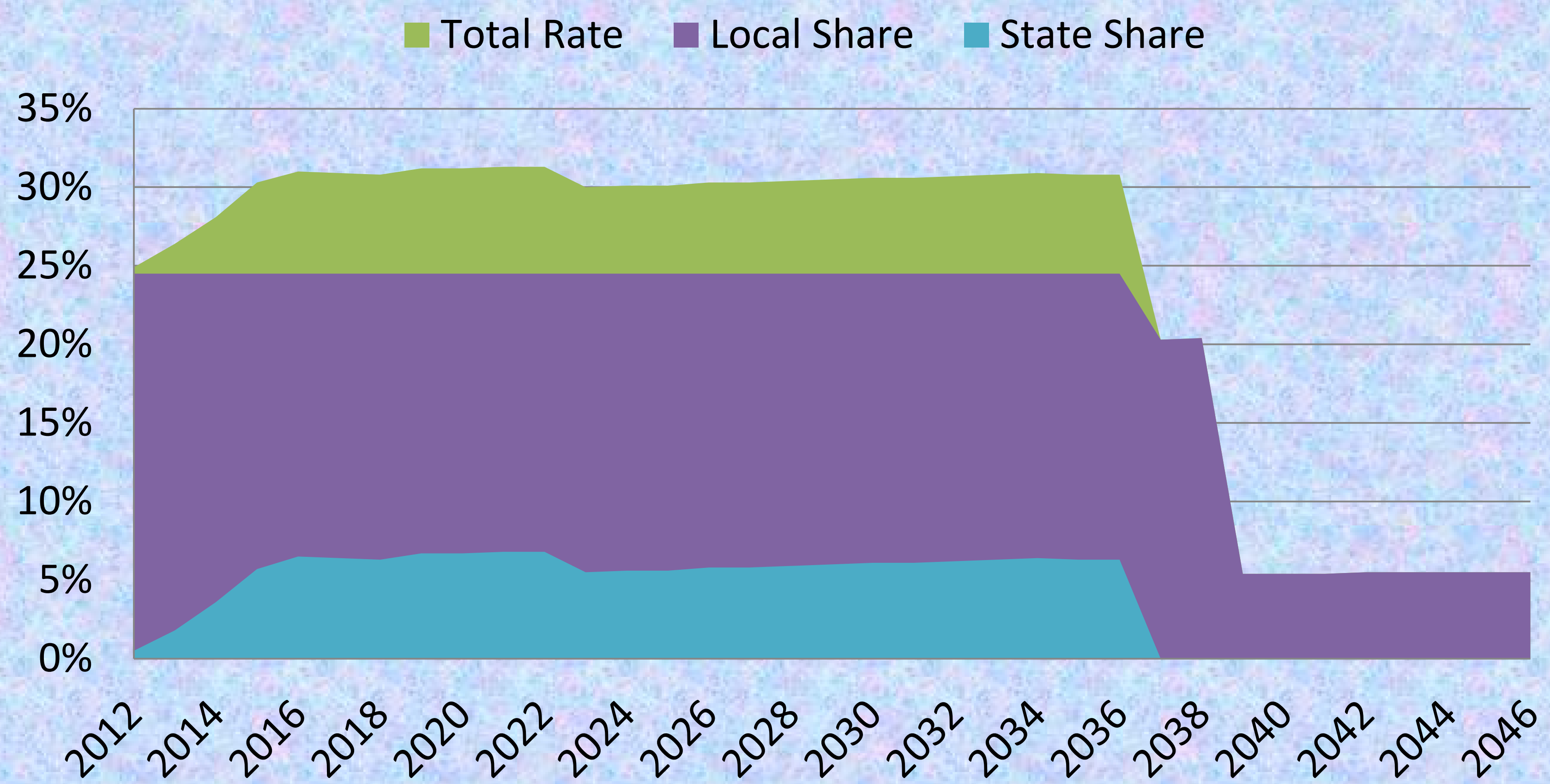
Source: Office of Retirement Services, August 2012 during passage of SB 1040, PA 300 of 2012

MPSERS 101 - Rate Estimates August 2012



Prefunding retiree health, while costing more in the short term, reduces estimated costs by $10 billion over lifetime.

MPSERS 101 – Rate Estimates August 2012: State and Local Shares



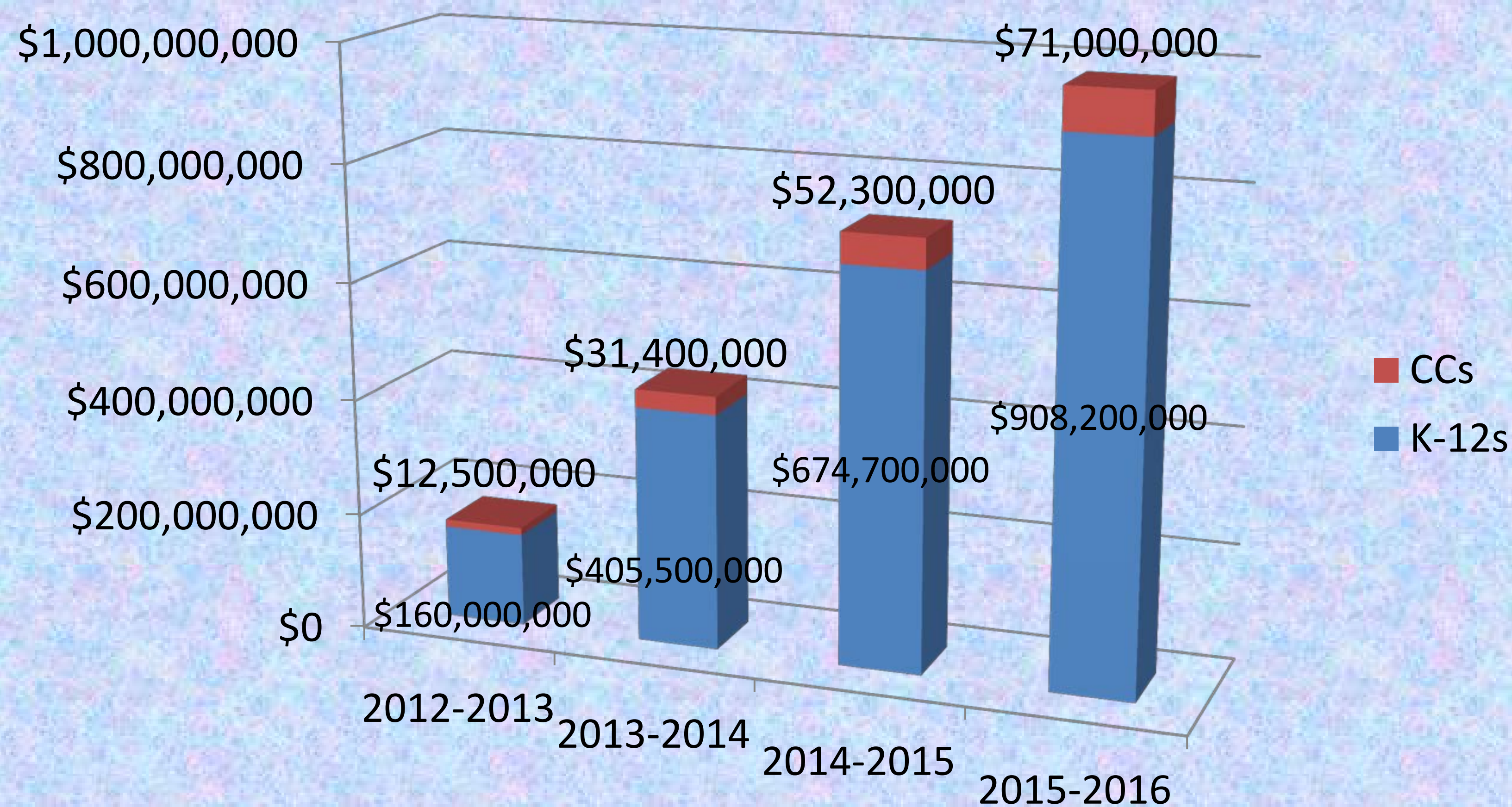
MPSERS 101 – Normal

- The portion of the MPSERS rate that is the 'normal' rate can fluctuate somewhat from year to year based on changes in actuarial tables and assumptions or plan changes.
- There will be an increase in the normal rate for FY 2014-15 due to the final plan changes enacted under PA 300 of 2012 (the addition of the DC option and the final pension contribution options).

MPSERS 101 – Fluctuations

- If payroll growth doesn't materialize at 3.5% per year, then the system is shorted in payments toward UAL.
- If the stock market performs at less than 8% (or 7% for hybrid), then losses are added to UAL.
- If stock market performs at greater than 8%/7%, it will lessen the UAL.
- If UAL increases, cost to State increases since Local contribution to UAL is capped.

MPSERS 101 – Estimated Rate Cap Costs to the State (GF and SAF)



MPSERS 101 – Population Trends