Michigan Public School Employees' Retirement System (MPSERS)

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April 2024

Briefing Topics

- System Overview
- Pension Benefits
- Retiree Health Benefits
- Major Statutory Revisions

System Overview

PA 300 of 1980
The Public School Employees Retirement Act

MPSERS is a multi-employer system established in state statute, which determines all of the following:

- Pension
  - Pension system board creation, powers and duties,
  - Vesting in pension benefits
  - Employee and Employer contribution rates
  - Pension eligibility age and years of service
  - Calculation of service credit and purchase of service credit rules
  - Pension allowance calculations
- Retiree Health Care (Medical, Dental, Vision, and Hearing)
  - Vesting in retirement health care benefits
  - Employee and Employer contribution rates
  - Retiree health care premium share

PA 300 of 1980
The Public School Employees Retirement Act

The Act does not provide for the following:

- Retiree Health Care Benefit Co-Pays and Deductibles
  - Determined by the MPSERS Pension Board and administered by the Office of Retirement Services.
- Active Employee Health Care
  - Each local school district and ISD negotiates health care benefits for current employees.

MPSERS Basic Facts – FY 2022-23

○ Retirees and Beneficiaries Receiving Benefits:	226,087
○ Current Active Employees:	154,688
○ Retirees receiving Health benefits:	151,489
○ Pension Plan Actuarial Value of Assets:	$63.1 billion
○ Pension Plan Actuarial Value of Liabilities:	$98.1 billion
○ Pension Unfunded Actuarial Accrued Liability (UAAL):	$35.1 billion
○ Pension Actuarial Funded Ratio:	64.3%
○ Other Postemployment Benefits (OPEB) Costs, i.e. Health benefits:	$671.6 million
○ OPEB UAAL:	$89.0 million
○ OPEB Actuarial Funded Ratio:	99.2%

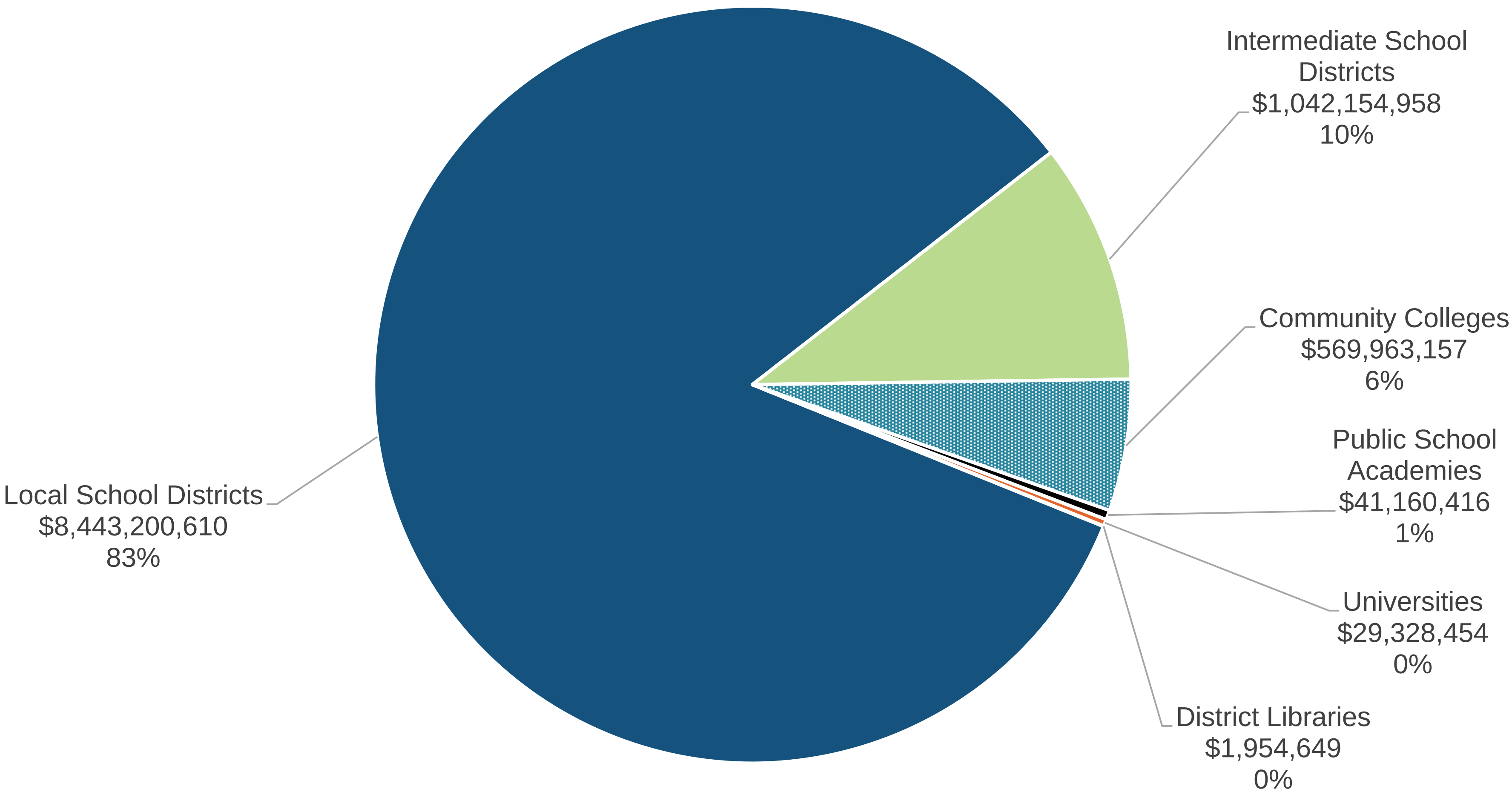
MPSERS Employers

MPSERS membership includes employees of the following:

- **537 Public School Districts** – Traditional Local Districts
- **59 Public School Academies** (PSAs or Charter Schools) – Only covers employees hired directly by the PSA as opposed to a management company.
- **56 Intermediate School Districts**
- **28 Community Colleges** – Excluding certain employees eligible for the optional retirement plan.
- **9 District Libraries** – Only if the employee was hired prior to the library separating from the school district.
- **7 Universities** – Only employees hired prior to January 1, 1996. Includes Central Michigan, Western Michigan, Eastern Michigan, Northern Michigan, Ferris State, Lake Superior State, and Michigan Technological Universities.

MPSERS Covered Payroll by Employer Type

83% of the **$10.1 billion** covered payroll for FY 2022-23 is in local school districts.



Pension Benefits

Pension Plans

MPSERS has 4 different pension plans and an optional 401k plan depending on an employee's hire date. The benefits and eligibility rules vary for each plan. The plans include the following:

○ The Basic Plan:	Prior to January 1, 1990
○ The Member Investment Plan (MIP):	Prior to June 30, 2010
○ The Pension Plus Plan (hybrid):	Prior to January 31, 2018
○ The Pension Plus 2 Plan (hybrid):	On or After February 1, 2018
○ Optional 401k or 457 Plan:	On or After Sept. 4, 2012

The Basic Plan

The Basic Plan includes only employees who were hired prior to **January 1, 1990** and who did not opt into the MIP when it was introduced in 1987.

Key Basic Plan Characteristics:

- Began as a non-contributory plan, into which employees do not contribute, but beginning in 2012, they must contribute 4% or take a reduced pension multiplier.
- Members vest after 10 years of service.
- Normal Retirement eligibility = Age 55 with 30 years of service or Age 60 with 10 years of service
- Final Average Compensation (FAC) = Avg of 5 highest consecutive years
- Pension Allowance Formula = 1.5% x FAC x Years of Service (or 1.25% if employee opts not to make pension contributions.)
- Cost of living adjustments = NONE

The Member Investment Plan (MIP)

- Initially the plan began **January 1, 1987**, and members could choose to remain in the Basic Plan or change into the new MIP plan. The MIP plan had better benefits but required an employee contribution.

- Beginning **January 1, 1990** the Basic Plan was closed, and all new employees were automatically included in the MIP.

- The employee contribution has changed over time depending on when an employee was hired and the income level. The MIP plans and contribution rates prior to the 2012 statutory changes ranged from 3.0% to 6.4%.

- Since 2012 all MIP employees must contribute 7.0% or maintain their former contribution rate and take a reduced pension multiplier.

The Member Investment Plan (MIP)

Key MIP Characteristics (Fixed, Graded, and Plus Plans):

- The MIP Plan is a contributory plan, which means that the employees pay into the plan.
- Members vest after 10 years of service.
- Normal Retirement eligibility = Any Age with 30 years of service or Age 60 with 10 years of service
- Final Average Compensation (FAC) = Average of 3 highest years
- Pension Allowance Formula = 1.5% x FAC x Years of Service (or 1.25% if employee opts not to make pension contributions.)
- Cost of living adjustments = 3% fixed, non-compounding

The Pension Plus (Hybrid) Plan

The Pension Plus Plan is a hybrid plan including both a defined benefit pension component as well as a defined contribution 401k style component.

Includes employees hired after **July 1, 2010 and before January 31, 2018** unless they opt out.

Key Pension Plus Plan Characteristics:

- The Pension Plan is a contributory plan with the following contribution rates:
  - 3% on first $5,000 salary
  - $150 plus 3.6% on salary between $5,000 and $15,000
  - $510 plus 6.4% on salary in excess of $15,000
- Members vest after 10 years of service.
- Normal Retirement eligibility = Age 60 with 10 years of service
- Final Average Compensation (FAC) = Average of 5 highest years
- Pension Allowance Formula = 1.5% x FAC x Years of Service
- Cost of living adjustments = NONE

The Pension Plus 2 (Hybrid) Plan

The Pension Plus 2 Plan is a hybrid plan including both a defined benefit pension component as well as a defined contribution 401k style component.

Includes employees hired after **February 1, 2018** if they opt in (default is DC plan).

Key Pension Plus 2 Plan Characteristics:

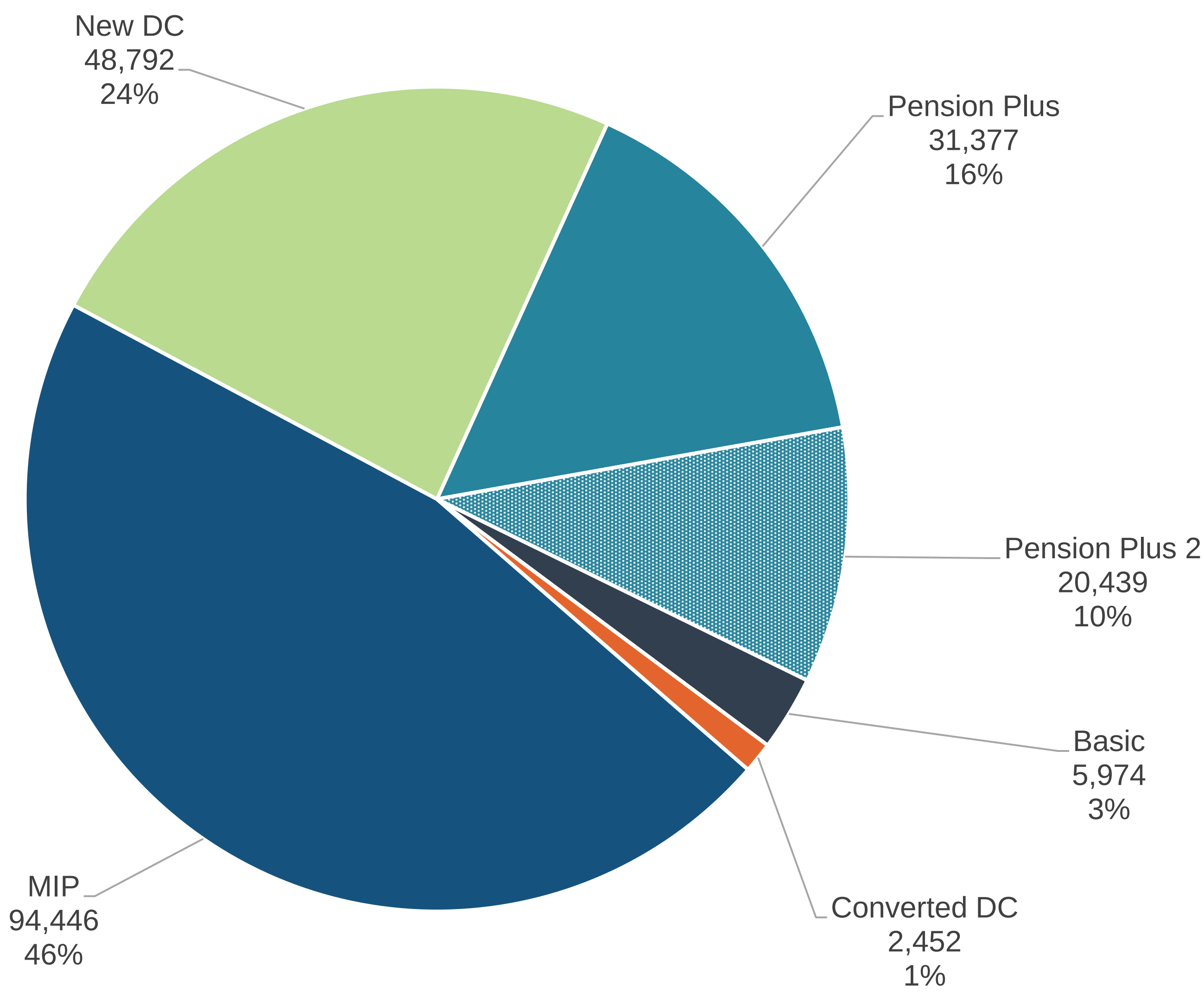
- The Pension Plan is a contributory plan with the following contribution rate whereby the employee contributes 6.2% of pay
- Members vest after 10 years of service.
- Normal Retirement eligibility = Age 60 with 10 years of service
- Final Average Compensation (FAC) = Average of 5 highest years
- Pension Allowance Formula = 1.5% x FAC x Years of Service
- Cost of living adjustments = NONE

The Optional 401k or 457 Plan

- Includes employees hired after **September 4, 2012** if they opted out of the Pension Plus Plan or failed to opt into the Pension Plus 2 Plan and opted into or defaulted into this instead.
- 4% employer contribution is mandatory
- Automatically enrolled at 3% employee contribution to received employer match of 100% of first 3% of employee contributions (maximum employer contribution of 3%)
- Employee vests in employer contributions as follows:
  - 50% after 2 years
  - 75% after 3 years
  - 100% after 4 years

MPSERS Membership by Plan

Nearly half of active employees in FY 2022-23 were in the Member Investment Plan (MIP).



Retiree Health Benefits

Retiree Health Benefits

Retiree health benefits include medical, prescription drug, dental, vision, and hearing for employees hired before **September 4, 2012**. Active employees must pay 3% of compensation unless they opt out of retiree health benefits.

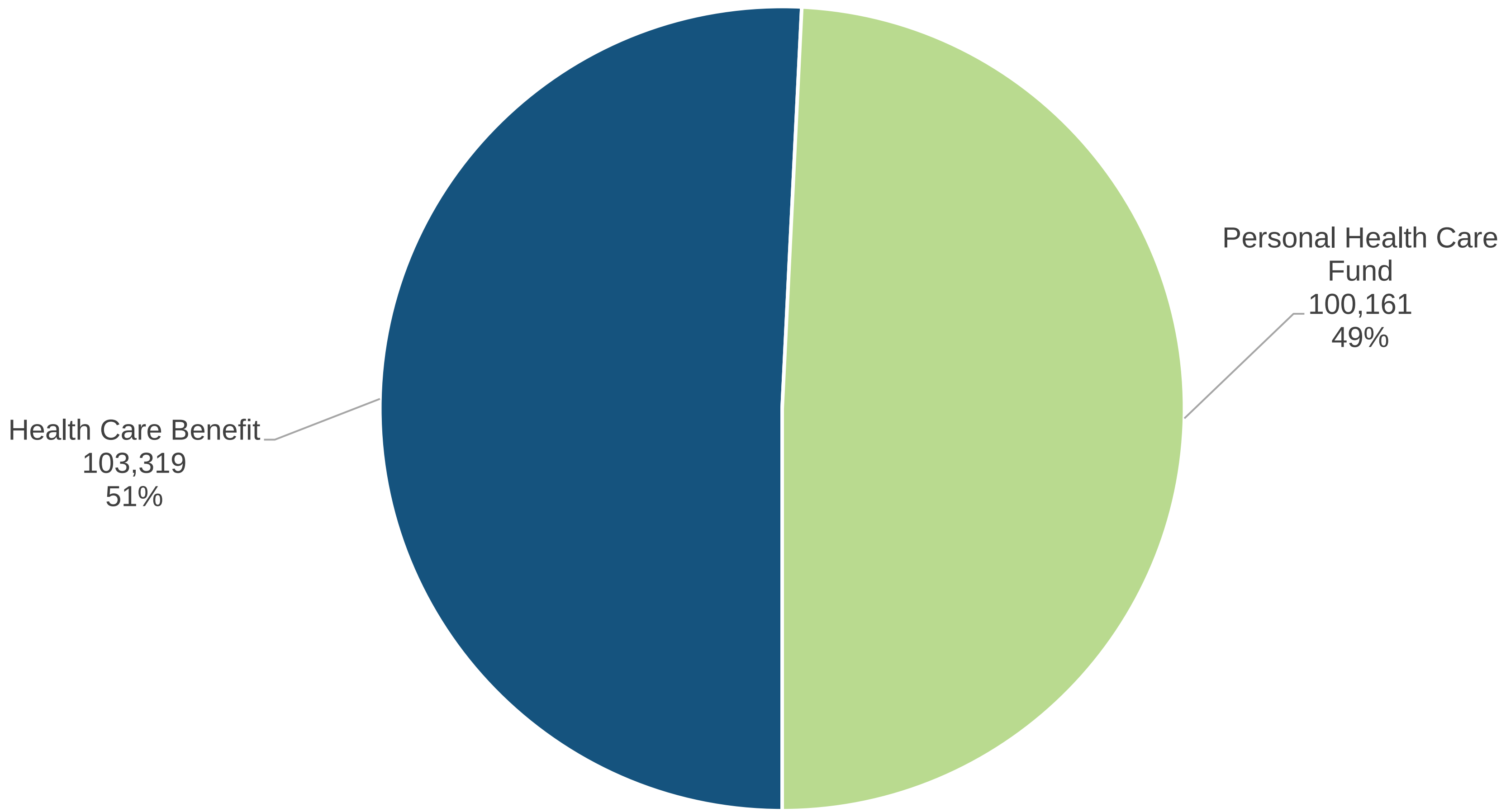
- For members hired BEFORE **July 1, 2008**, MPSERS pays as follows:
  - Fully vested upon eligibility for retirement, after a minimum of 10 years.
  - 80% of the premium for a retiree and dependents
  - However, for a retiree not yet eligible for Medicare, an amount equal to the cost chargeable to a Medicare recipient for Part B Medicare is deducted from a retiree's retirement allowance.
- For members hired AFTER **July 1, 2008**, but BEFORE **September 4, 2012** MPSERS pays a graded premium depending on the retiree's years of service:
  - Minimum 10 years of service required to vest in health benefits.
  - 30% of premium beginning with 10 years of service.
  - An additional 4% per year for each year after 10
  - Capped at 80% premium share.

Retiree Health Benefits

- No retiree health insurance offered to new employees AFTER **September 4, 2012**. In lieu of retiree health care, they receive the following:
- Employer contributes 100% match of an employee's contribution up to a maximum of 2% of compensation into a 401(k) or 457 plan, (a personal health care fund).
- Employee vests in employer contributions as follows:
  - 50% after 2 years
  - 75% after 3 years
  - 100% after 4 years

MPSERS Membership by Health Benefit

About half of active employees have a health care benefit rather than a personal health care fund.



Major Statutory Revisions

2007 MPSERS Retirement Changes
Public Acts 110 and 111 of 2007

- Increased the top rate of the employee contribution from 4.3% to 6.4% for employees hired after **July 1, 2008** (MIP Plus).

- Created Graded Premiums for Retiree Health Care Benefits.

- Revised the Service Credit rules to :

  - Prohibit employees from purchasing service credit without having earned at least 2 years of service credit.

  - Prohibit the purchase of service credit from being used as a credit toward vesting in retiree health benefits.

  - Prohibits employees from earning retiree health benefits unless they had been employed and earned at least half a year of service credit during the last 2 fiscal years or at least 1/10 of a year of service credit during each of the last five fiscal years immediately preceding the effective date of the retirement.

2010 MPSERS Retirement Changes
Public Act 75 of 2010

- Created the Pension Plus Plan, a hybrid pension/defined contribution plan, for all employees hired on or after **July 1, 2010** with following key characteristics:
  - Increased Minimum Retirement Age to 60.
  - Prohibited the purchase of service credit for retirement.
  - Eliminated cost of living adjustments (COLA).
  - Increased Final Average Compensation (FAC) period to 5 highest, consecutive years.
  - Decreased the Actuarial Assumed Rate of Return on Investments from 8% to 7%.
  - Included a 50% Employer Match on a 2% Employee Contribution into a 401k or 457 retirement account.
- Required an employee contribution of 3% into an irrevocable health care trust for current retiree health care costs. (Currently being litigated in McMillan et al. v. MPSERS et al. In the meantime, funds collected prior to **2012** revisions are in escrow.)
- Offered Early Retirement Incentive with increased pension multiplier from 1.5% to 1.6% for those already eligible and to 1.55% multiplier for those eligible under an 80 and out (age plus years of service).
- Required a retiree to forfeit pension benefits and health care during the period in which they return to work if they earn more than 1/3 of their final salary and are directly employed or more than $0 if contracted independently or by a third-party.

2012 MPSERS Retirement Changes
Public Act 300 of 2012

- Began prefunding retiree health care benefits rather than using former “pay-as-you-go” funding method.
- Capped the employer’s contribution rate for the unfunded liability at 20.96% of payroll (with an additional estimated annual normal rate of approximately 5%).
- Provided balance of funding necessary to meet the annual required contribution for unfunded liabilities using School Aid Funds.
- Increased employee contributions for pension (4% for Basic and 7% for MIP), with an option to opt out and choose either a reduced pension multiplier or a freeze in benefits with an employer 401k contribution going forward.
- Revised retiree health care 3% contribution to be used for individual benefits with an option to opt out of retiree health care benefits and choose an employer matching contribution of up to 2% of salary into a personal health care fund.
- Eliminated retiree health benefits for new employees after **September 4, 2012** and replaced them with an employer matching contribution of up to 2% of salary into a personal health care fund.
- Increased health care premiums for existing retirees (10% if over 65 by January 1, 2013; 20% if under 65 on January 1, 2013).
- Created an optional DC plan for new employees with a 50% employer match up to a total of 3% of salary.

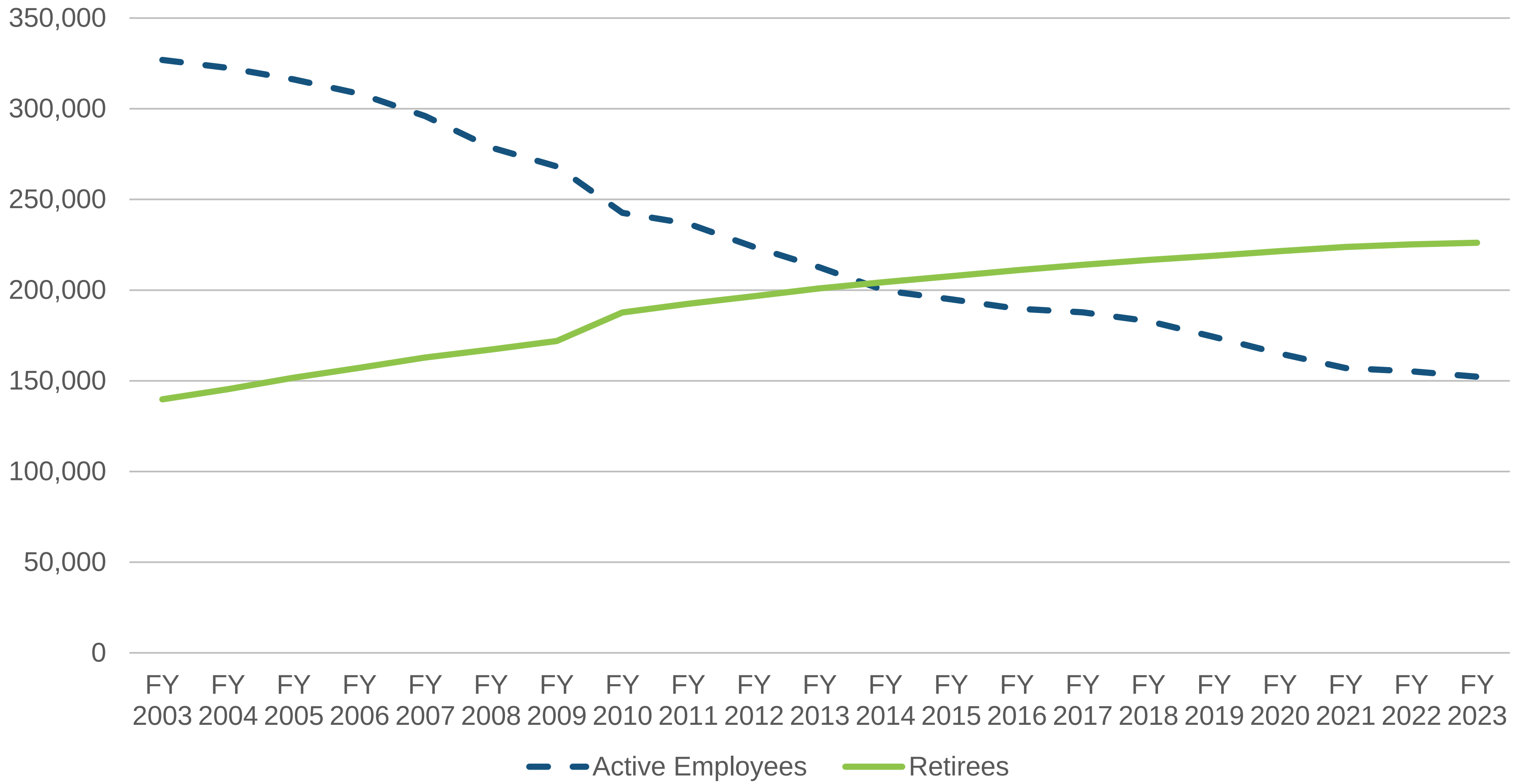
2017, 2018, 2022, and 2023 MPSERS Retirement Changes Public Act 92 of 2017 and Public Act 181 of 2018

- 2017 PA 92 implemented a contribution rate floor whereby the contribution rate could not decline from one year to the next until the UAAL is paid off.
  - 2018 PA 181 revised this to a dollar contribution floor – beginning in FY 2021-22 the employer dollar contribution amount could not decline from one year to the next until the UAAL is paid off.
- Began process of moving the MPSERS UAAL amortization method from payroll growth assumption from “level percent of payroll” to “level dollar.”
- Required payroll growth assumption to be reduced by 50 basis points each year until it hit 0%, or level dollar (initially scheduled for FY 2027-28).
  - 2022 PA 220 accelerated the reduction in the payroll growth assumption by 75 basis points.
  - 2023 PA 198 accelerated the reduction in the payroll growth assumption by another 50 basis points.
  - Due to the accelerated reduction of the payroll growth assumption, level dollar will be reached in FY 2025-26, or two years earlier than initially anticipated.

Recent Trends

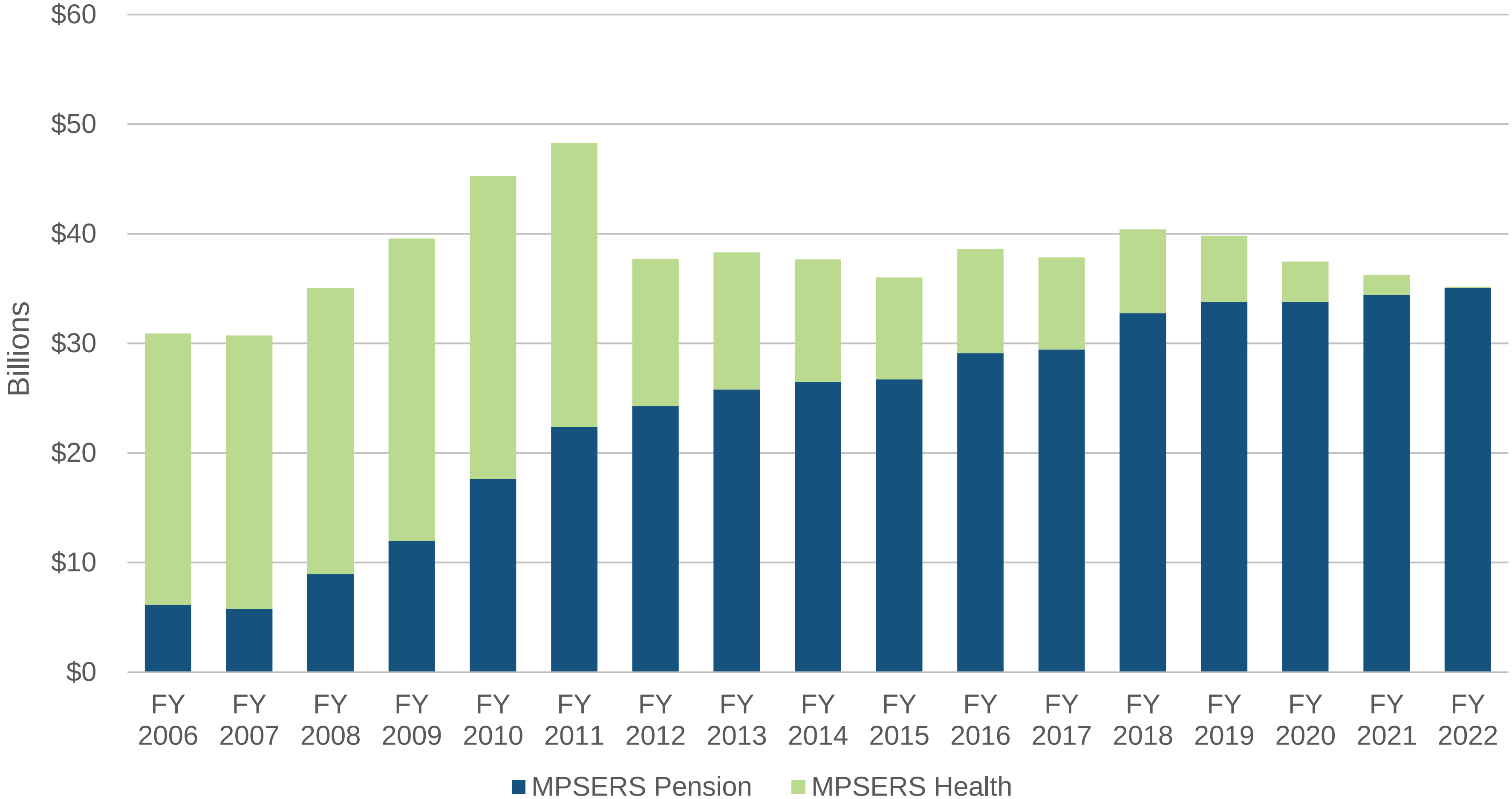
MPSERS Retirees and Active Employees

The number of active employees in MPSERS has declined 53.4% since its peak in FY 2002-03. In FY 2013-14 the number of retirees surpassed active employees.



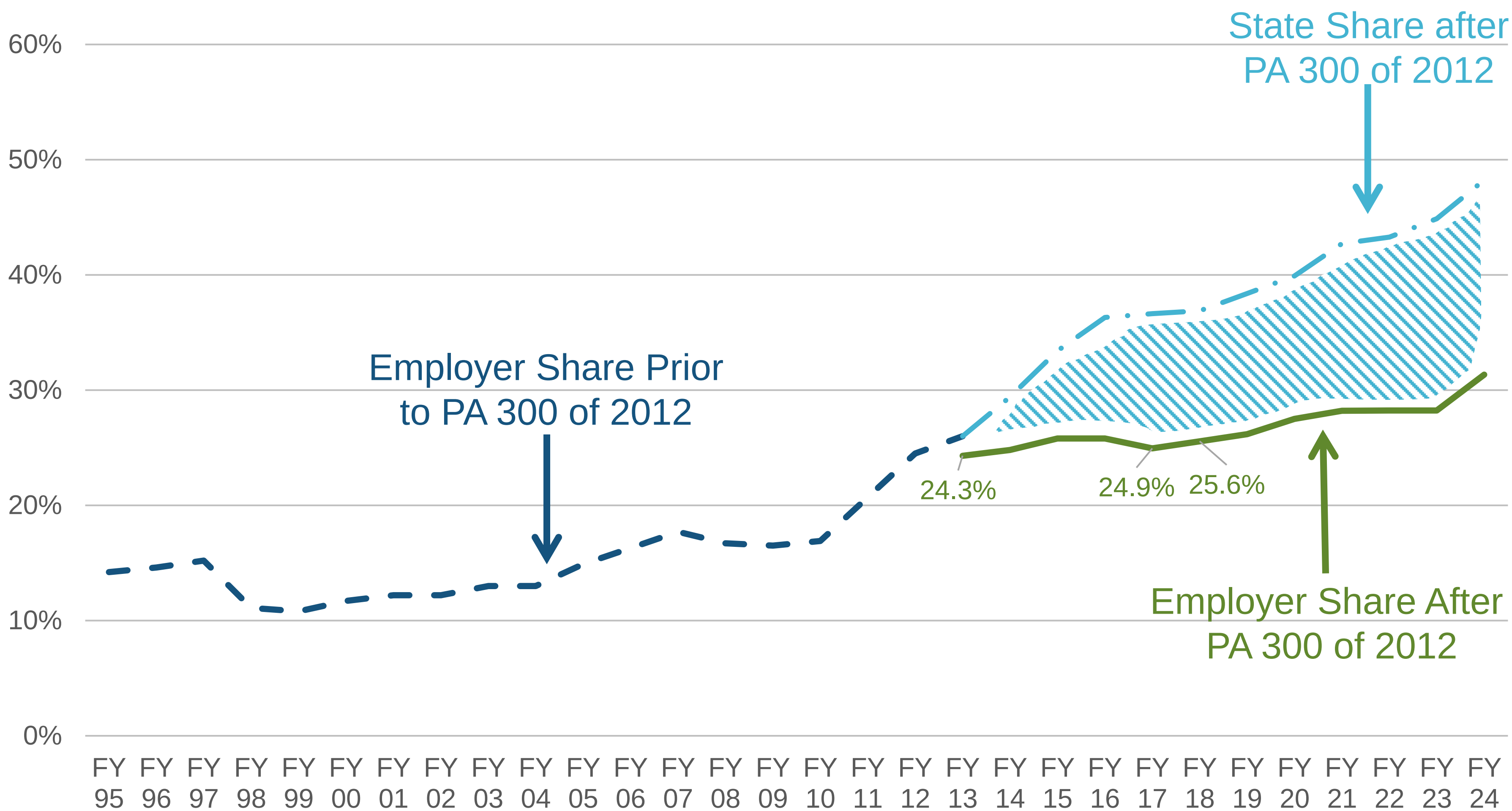
MPSERS Unfunded Liabilities

Total unfunded liabilities for the public school employee retirement system (MPSERS) have declined by $13.1 billion since FY 2010-11, due primarily to an accounting change related to the decision to begin prefunding retiree health benefits under PA 300. Since FY 2015-16, the unfunded liabilities increased due to the adoption of more conservative assumptions and policies reducing exposure to risk, including lowering the assumed rate of return from 8.0% to 6.0%, moving to level dollar amortization, and a contribution floor.



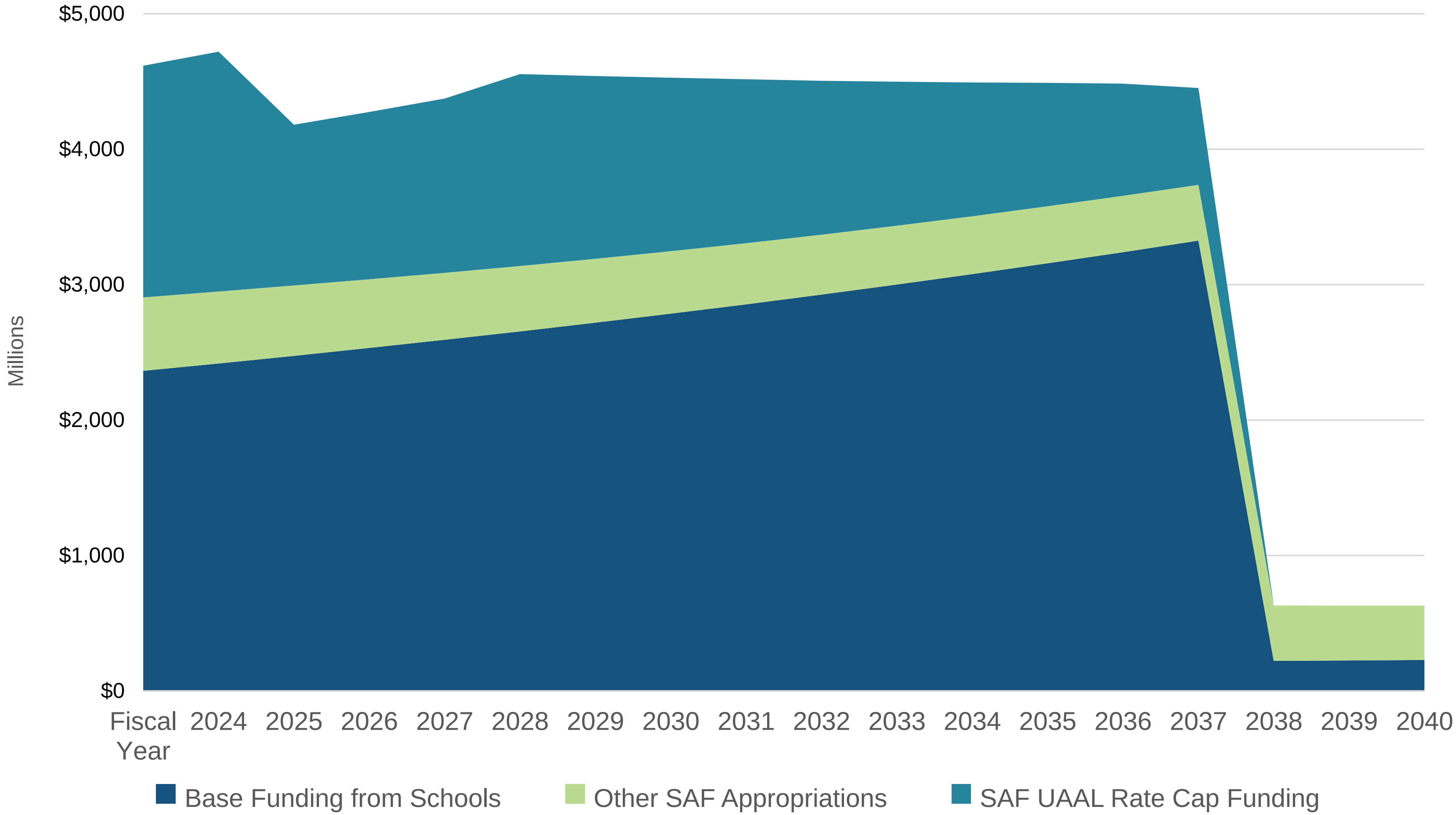
MPSERS Employer Contribution Rates History and Future Projections

The state portion of the MPSERS contribution rate is $1,572 million in FY 2022-23 and is increasing to $1,629 million in FY 2023-24. The employer contribution rate is capped at 20.96% for the unfunded liability plus the normal costs for retirement benefits newly earned each year.



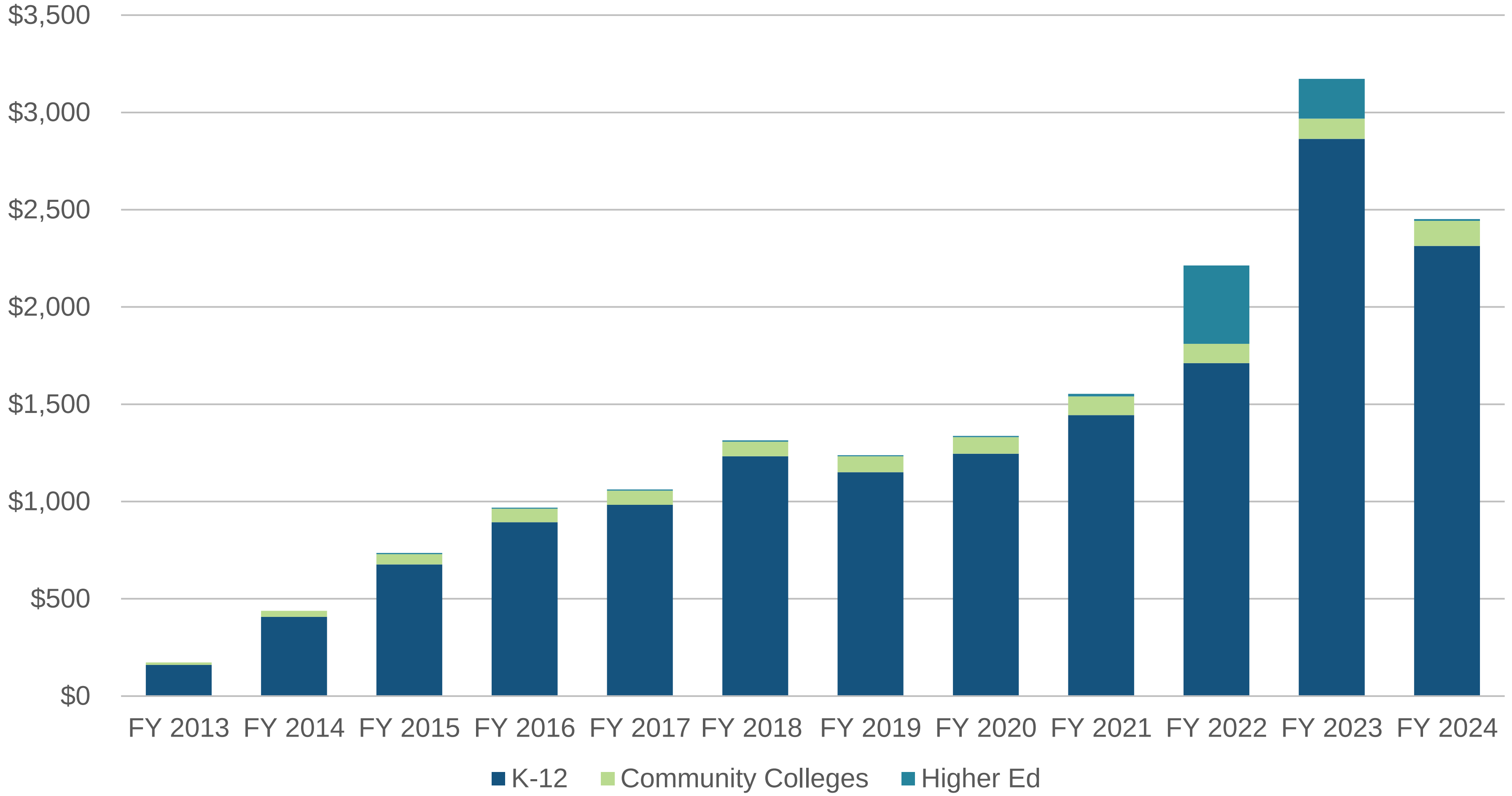
Projected MPSERS Costs

The one-time deposit of **$1.0 billion** into the system and **$425.0 million** into a reserve fund to help pay for an accelerated reduction in the payroll growth assumption in FY 2022-23 reduced state UAAL costs over the remaining amortization term. Unfunded liabilities are still scheduled to be paid off by 2038.



MPSERS State Appropriations

For FY 2023-24, the state share of public school employee retirement system (MPSERS) costs totals about $2.45 billion. The UAAL for the seven Higher Ed Institutions was paid off between FY 2021-22 and FY 2022-23. Prior to 2012 PA 300, MPSERS employers paid the full costs of MPSERS directly.



Contribution Rates

- Contribution rates are charged to all employers on an equal percentage of MPSERS payroll.
- Contribution rates are a combination of the following:
  - Normal Cost rate: Reflects the costs of the additional benefits accrued by an employee in a given year due to additional service time, calculated based on the system's actuarial assumptions.
  - Unfunded Actuarial Accrued Liability (UAAL) rate: Reflects the costs of previously earned benefits when the actuarial value of the plan assets fall short of the actuarial cost of providing those benefits.
  - Early Retirement Incentive (ERI) rate: Reflects the cost of the early retirement incentive offered in 2010, which were amortized over a 10-year period.
- The UAAL and ERI rates are applied equally across all MPSERS payroll, while the normal rate varies depending on the employee benefit group. A detailed breakdown of the contribution rates for FY 2023-24 follow on slide 31.

FY 2023-24 Contribution Rates
As a percent of Payroll

	Basic/MIP with Premium Subsidy	Pension Plus with Premium Subsidy	Pension Plus with PHF	Elected DC with PHF	Basic/MIP to DC with Premium Subsidy	Basic/MIP to DC with PHF	Basic/MIP with PHF	Pension Plus 2 with PHF
Pension/DC Contributions*								
Normal Cost	9.13	6.27	6.27	7.00	7.00	7.00	9.13	7.20
UAAL	13.90	13.90	13.90	13.90	13.90	13.90	13.90	13.90
Pension Total	**23.03**	**20.17**	**20.17**	**20.90**	**20.90**	**20.90**	**23.03**	**21.10**
Health Contributions*								
Normal Cost	1.25	1.25	2.00	2.00	1.25	2.00	2.00	2.00
UAAL	7.06	7.06	7.06	7.06	7.06	7.06	7.06	7.06
Health Total	**8.31**	**8.31**	**9.06**	**9.06**	**8.31**	**9.06**	**9.06**	**9.06**
Employer Total	**31.34**	**28.48**	**29.23**	**29.96**	**29.21**	**29.96**	**32.09**	**30.16**
State Share	**16.89**	**16.89**	**16.89**	**16.89**	**16.89**	**16.89**	**16.89**	**16.89**
TOTAL	**48.23**	**45.37**	**46.12**	**46.85**	**46.10**	**46.85**	**48.98**	**47.05**

* Assumes 100% participation in employee DC contributions and Personal Healthcare Fund contributions.

MPSERS Investment Rate of Return History

Long-term investment revenue makes up about 80% of actual benefits paid out. Actuarial estimates are based on an 6% assumed rate of return for the Basic, MIP, and Hybrid plans. If actual rates exceed assumptions, it reduce unfunded liabilities, while underperforming compared to the assumed rate increases unfunded liabilities.

Year	Rate of Return		Year	Rate of Return
2002	(10.5%)		2013	12.5%
2003	14.8%		2014	15.6%
2004	12.6%		2015	2.6%
2005	12.8%		2016	7.6%
2006	12.8%		2017	13.8%
2007	17.2%		2018	11.6%
2008	(12.3%)		2019	5.6%
2009	(6.1%)		2020	5.3%
2010	8.8%		2021	27.7%
2011	6.6%		2022	(4.4%)
2012	13.5%		2023	8.7%

Source: Office of Retirement Services

For more information about MPSERS:

HFA Resources

http://www.house.mi.gov/hfa/Retirement.asp

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