MICHIGAN PUBLIC SCHOOL EMPLOYEES' RETIREMENT SYSTEM (MPSERS)

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PA 300 of 1980

The Public School Employees Retirement Act

What does the Act cover?

- **Pension**
  - **Pension system board creation, powers and duties,**
  - **Vesting in pension benefits**
  - **Employee and Employer contributions**
  - **Pension eligibility age and years of service**
  - **Calculation of service credit and purchase of credit rules**
  - **Pension allowance calculations**

- **Retiree Health Care (Medical, Dental, Vision, and Hearing)**
  - **Vesting in retirement health care benefits**
  - **Employee contribution rates**
  - **Retiree health care premium share**

PA 300 of 1980

The Public School Employees Retirement Act

What is *NOT* covered by the ACT?

- **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 Membership

MPSERS membership includes employees of the following:

- **Public School Districts –** Traditional Local Districts
- **Public School Academies (PSAs or Charter Schools) –** Only covers employees hired directly by the PSA as opposed to the management company. In FY 2013 48 PSAs were participating out of 277, and those 48 typically cover only a minimal portion of their total staff.
- **Intermediate School Districts**
- **Community Colleges**
- **District Libraries –** Only if the employee was hired prior to the library separating from the school district. Currently 13 libraries.
- **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 Basic Facts

For the Fiscal Year Ending September 30, 2013

▪ Retirees and Beneficiaries Receiving Benefits:	200,952
▪ Current Active Employees:	214,906
▪ Retirees receiving Health benefits:	147,260
▪ Pension Plan Actuarial Value of Assets:	$38.0 billion
▪ Pension Actuarial Funded Ratio:	59.6%
▪ Pension Unfunded Actuarial Accrued Liability (UAAL):	$25.8 billion
▪ Other Postemployment Benefits (OPEB) Costs, i.e. Health benefits:	$868.7 million
▪ OPEB UAAL:	$12.5 billion

Sources: MPSERS Comprehensive Annual Financial Report for the Fiscal Year Ending September 30, 2013
MPSERS Annual Actuarial Valuation Report, September 30, 2013

PENSION BENEFITS

Pension Plans

MPSERS has 3 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:**	**On or After July 1, 2010**
— **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 contribute to 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 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
$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 Optional 401k or 457 Plan

- Includes employees hired after September 4, 2012 if they opt out of the Pension Plan and into this instead.

- Plan with an employer contribution equal to a 50% match of an employee's contribution of up to 6% of compensation (maximum employer contribution of 3%)

- Employee vests in employer contributions as follows:
  - 50% after 2 years
  - 75% after 3 years
  - 100% after 4 years

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
  - 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.
- Employee vests in employer contributions as follows:
  - 50% after 2 years
  - 75% after 3 years
  - 100% after 4 years

2007 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 REVISIONS

2010 MPSERS Retirement Changes
Public Act 75 of 2010

- Required an employee contribution for all employees of 3% into an irrevocable health care trust to be used for current retiree health care costs. (Currently being litigated in *McMillan et al. v. MPSERS et al.* In the meantime, the 3% contribution collected prior to 2012 statutory revisions is being held in escrow.)

- Retirement Incentive - Increased pension multiplier from 1.5% to 1.6% for employees who were eligible and to 1.55% multiplier for those eligible under an 80 and out if they retired by July 1, 2010.

- Requires 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.

2010 MPSERS Retirement Changes
Public Act 75 of 2010

- Creates the Pension Plus Plan, a hybrid pension/defined contribution plan, for employees hired on or after 7/1/2010.
- Key Plan Characteristics:
  - Minimum Retirement Age of 60
  - Prohibits the purchase of service credit for retirement.
  - No COLA increases
  - Final Average Compensation based on 5 highest, consecutive years
  - Actuarial Assumed Rate of Return on Investments lowered from 8% to 7%
  - 50% Employer Match on a 2% Employee Contribution into a 401k or 457 retirement account.
  - Allows Districts to negotiate additional 50% match on up to an additional 4% Employee Contribution.

2012 REVISIONS

PA 300 of 2012 –
Active Employee Changes

Both current and new employees were given a number of choices to make regarding pension and health care benefits.

The following five slides lay out the changes and options for 3 groups of employees depending on hire date:

- **Basic/MIP employees hired before July 1, 2010**
  - **Pension and Health**
- **Pension Plus (Hybrid) employees hired after July 1, 2010**
  - **Health**
- **New Employees hired beginning September 4, 2012**
  - **Pension and Health**

Basic/MIP Current Employees – PENSION (Hired Before July 1, 2010)

Choose between 1 of 4 Pension Options:

- **Increase contribution rates and maintain a 1.5% Pension Multiplier for all future years of service.**
  - **Basic members from 0% to 4%**
  - **MIP members from between 3% and 6.4% to 7%**
- **Increase contribution rates and maintain a 1.5% Pension Multiplier until you reach 30 years of service after which the employee would receive a 1.25% multiplier for future service.**
- **Maintain current contributions with a lower 1.25% Pension Multiplier for all future years of service.**
- **Freeze existing pension and FAC and receive a flat 4% DC contribution for all future service.**

Basic/MIP Current Employees – HEALTH (Hired Before July 1, 2010)

Choose between 1 of 2 Retiree Health Care Options:

- **Continue to pay 3% of compensation for future retiree health insurance premium subsidy capped at 80% (reduced from 90%-100%). Employee contributions would be returned if an employee is not eligible to receive health benefits upon request of employee after reaching age 60.**

- **Discontinue paying 3% and opt out of retiree health insurance. Previous 3% contributions would be deposited into a 401(k) or 457 plan. Employers contribute 100% match of an employee's contribution up to a maximum of 2% of compensation into the 401(k) plan.**

Pension Plus (Hybrid) Current Employees (Hired After July 1, 2010)

No Change to Pension for Existing Hybrid Employees

Choose between 1 of 2 Retiree Health Care Options:

- **Continue to pay 3% of compensation for future retiree health insurance premium subsidy capped at 80% (down from the previous 90%).**
- **Discontinue paying 3% and opt out of retiree health insurance. Previous 3% contributions would be deposited into a 401(k) plan. Employers would contribute 100% match of an employee's contribution up to a maximum of 2% of compensation into the 401(k) plan.**

New Employees – PENSION (Hired After September 4, 2012)

Choose between 1 of 2 Retirement Savings Options:

- **Participate in the Pension Plus (Hybrid Plan) described above. Contribution rates are the same, 6.4% for pension component and optional DC match of up to 2% of compensation.**

- **Choose a 401(k) or 457 plan with an employer contribution equal to a 50% match of an employee's contribution of up to 6% of compensation (maximum employer contribution of 3%)**

New Employees – HEALTH
(Hired After September 4, 2012)

No retiree health insurance offered to new employees. 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) plan.**

- **Additionally, upon retirement and reaching age 60, an employee receives either $1,000 or $2,000 (depending on whether they had less than or more than 10 years of service) deposited into a health reimbursement account.**

PA 300 of 2012 –
Existing Retirees

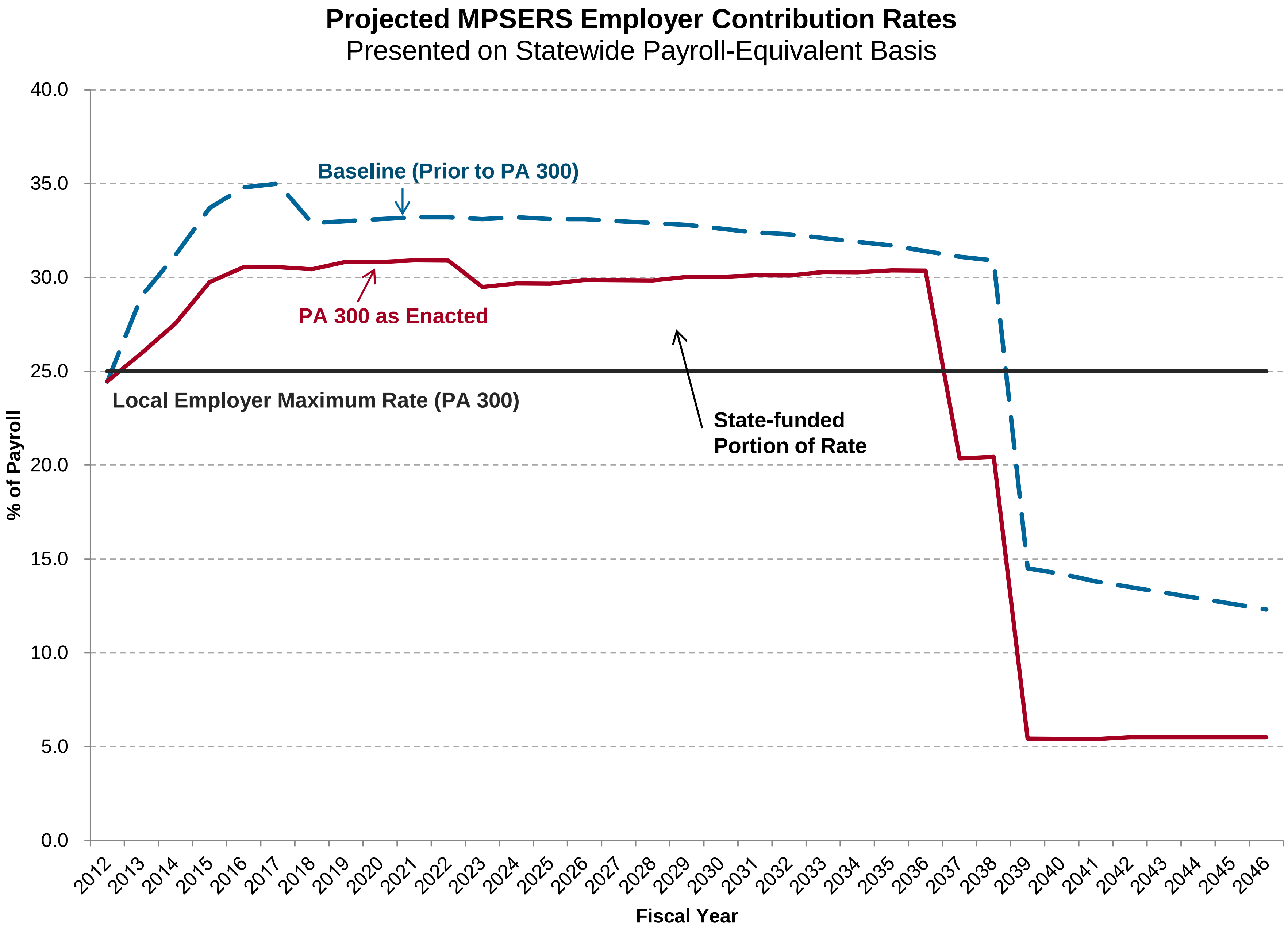
No pension changes, but increased health insurance premium contributions beginning January 1, 2013:

- **Existing retirees who are 65 by January 1, 2013 will have to pay 10% of their insurance premium.**

- **Existing retirees who are not 65 by January 1, 2013 will have to pay 20% of their insurance premium.**

PA 300 of 2012 – Additional MPSERS Reforms

- Begin Prefunding retiree health care using a combination of the employee's 3% contributions, employer contributions, and a State contribution from the School Aid Fund.
- Cap the employer's contribution rate for the unfunded liability at 20.96% with an estimated annual normal rate of approximately 5%.
- Provide balance of funding necessary to meet the annual required contribution for unfunded liabilities using School Aid Funds.



Projected MPSERS Employer Contribution Rates
Presented on Statewide Payroll-Equivalent Basis
Baseline (Prior to PA 300)
PA 300 as Enacted
Local Employer Maximum Rate (PA 300)
State-funded Portion of Rate
% of Payroll
Fiscal Year
40.0
35.0
30.0
25.0
20.0
15.0
10.0
5.0
0.0
2012 2013 2014 2015 2016 2017 2018 2019 2020 2021 2022 2023 2024 2025 2026 2027 2028 2029 2030 2031 2032 2033 2034 2035 2036 2037 2038 2039 2040 2041 2042 2043 2044 2045 2046

MPSERS Appropriations: K-12 Districts and ISDs

- **MPSERS Cost Offset (Districts Only)**
  - **FY 12 = $155.0 million**
  - **FY 13 = $155.0 million**
  - **FY 14 = $100.0 million**
  - **FY 15 = $100.0 million**
- **MPSERS Unfunded Liability – State Share**
  - **FY 13 = $160.0 million**
  - **FY 14 = $405.5 million**
  - **FY 15 = $674.7 million**
- **MPSERS One-time Additional Liability Payment**
  - **FY 15 = $108.0 million**

MPSERS Appropriations: Higher Ed, Community Colleges, Libraries

- MPSERS Unfunded Liability – State Share for Community Colleges and Libraries
  - FY 13 = $13.0 million
  - FY 14 = $34.4 million
  - FY 15 = $56.6 million
- MPSERS One-time Additional Liability Payment for Higher Education
  - FY 15 = $4.0 million

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