



**MICHIGAN OFFICE OF
RETIREMENT SERVICES**
Big Plans. Small Steps.

School Aid Subcommittee

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Executive Director, ORS**

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**MICHIGAN OFFICE OF
RETIREMENT SERVICES**
Big Plans. Small Steps.

Our Purpose Statement

ORS is an innovative retirement organization driven to empower our customers for a successful today and a secure tomorrow.

Our Vision

ORS is an innovative retirement organization driven to empower our customers for a successful today and a secure tomorrow.

RANKING

18th largest public pension system in the U.S.

24th largest pension system in the U.S.

48th largest pension system in the world

ASSETS

\$90.9 Billion

all systems

Defined Benefit (DB), Hybrid, Defined Contribution (DC) and Retiree Healthcare

MEMBERS

575,775

all systems

PAID IN '20

\$7.5 Billion

in pension and healthcare benefits

With over 575,000 customers, **1 in 14** Michigan adults living in **1 in 9** Michigan households benefits from our services.



Serving:

- Public School employees
- State of Michigan employees
- Michigan State Police
- Judges
- Michigan National Guard
- Legislators in the Defined Contribution Plan

Guiding Principles

- Good public policy promotes financial security in retirement.
- Planning for healthcare is critical for financial security in retirement.
- Retirement benefits are valuable for employers in providing a quality workforce





- **68%** of the retirees stay in Michigan and spend their retirement income here.¹
- **\$13.2** billion is circulated through the state each year because of retiree spending.²
- **81,593** jobs in Michigan are supported because of retiree spending.²
- **\$2.1** billion in federal, state and local tax revenues.²

Sources: 1 ORS Retiree Survey, 2020 2 National Institute on Retirement Security, Pensionomics 2021: Measuring the Economic Impact of DB Pension Expenditures, Michigan (2021) www.nirsonline.org

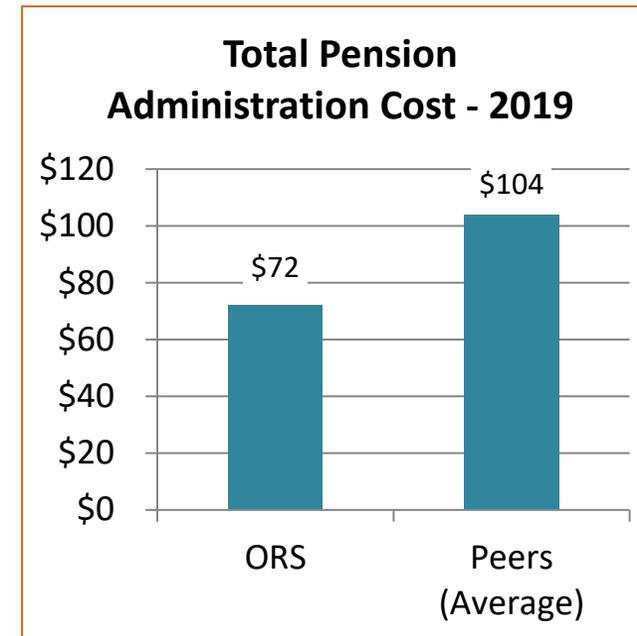
We provide these benefits **cost-effectively** while achieving **high customer satisfaction** scores.

Total pension administration cost in 2019:

→ **\$72** per active member and retiree

→ **\$32 Below** the peer average of \$104.

Percentage of customers satisfied
with our service: **88%**



Source: CEM Benchmarking



Public School Employees

Michigan Public School Employees' Retirement System (MPSERS)

437,632 Members

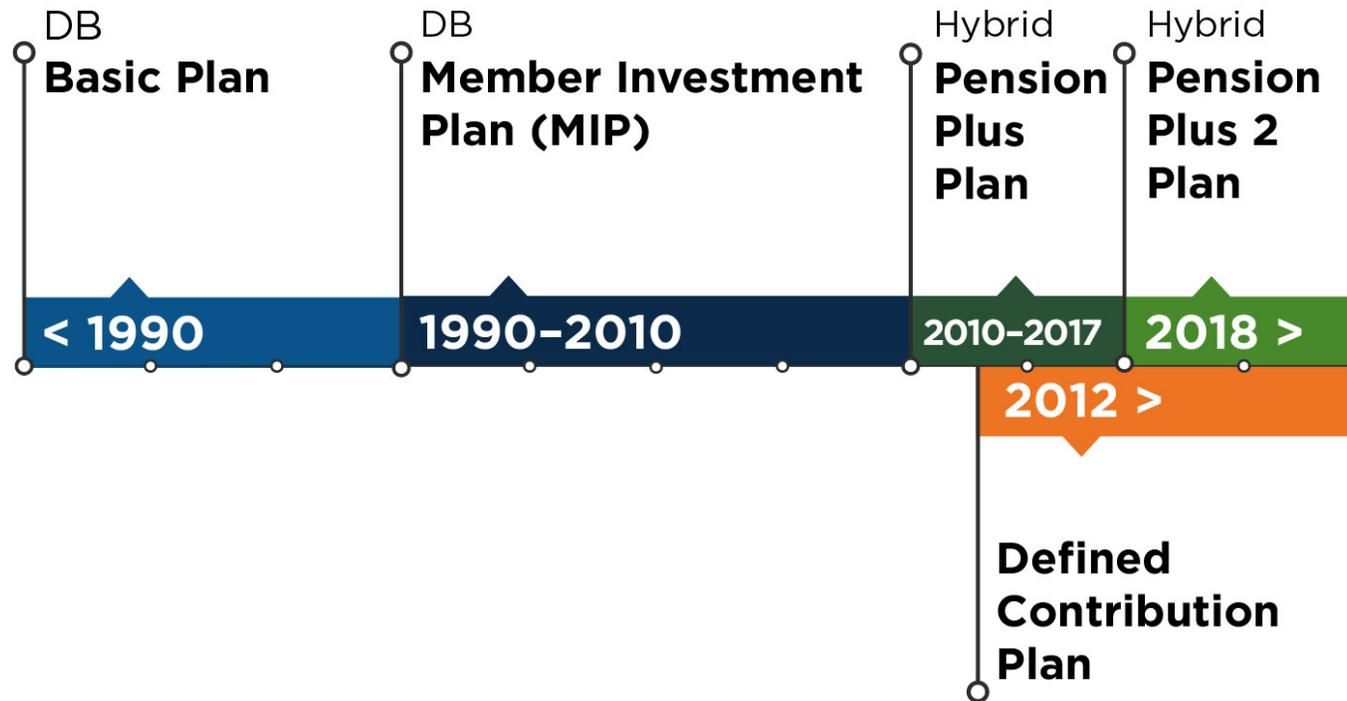
Plan Types

- Closed Defined Benefit (DB) Plan
- Open Hybrid Plan
- Open Defined Contribution (DC) Plan

- Closed Retiree Healthcare Plan
- Open Personal Healthcare Fund

Michigan Public School Retirement System

Members belong to each plan based on the date they first work for a Michigan public school.



In some cases benefits may be different based on reform elections that were made.

ORS Defined Benefit (DB) Pension Plans

- The MPSERS DB pension plan is **closed** to new members.
- A DB plan provides a guaranteed lifetime income based on the length a person worked for the schools and their final average salary.
- The pension benefits we provide are modest.
 - The average annual pension amount is **\$23,533**.
- Most of each system's funding comes from investment earnings.



Source: National Institute on Retirement Security, *Pensionomics 2021: Measuring Impact of DB Pension Expenditures, Michigan 2021* www.nirsonline.org.

Hybrid Plan

A Hybrid plan offers guaranteed DB benefit paired with a DC benefit. The hybrid plan was introduced in 2010 for public school employees. Risk is shared between the employer and employee.

More than **46,400** members are enrolled in the MPSERS Hybrid plans.

Defined Contribution (DC) Plans

In a DC plan, individual accounts for each plan participant are established to accumulate assets for retirement. There are more than **30,800** participants enrolled in the DC plan.

- Individuals may make voluntary contributions to the individual account.
- The employer makes contributions to the individual's account.
- The net retirement benefit is the amount in the account at the time of retirement.
- Risk is carried exclusively by the employee.

Public School Employees – Retiree Healthcare

The healthcare benefit for public school employees is based on the date they first worked for a Michigan public school.



In some cases benefits may be different based on reform elections that were made.

Subsidized Retiree Healthcare

- Plans were closed in 2012 to new employees.
- Access to health, prescription drug, dental, and vision insurance plans administered by ORS.
- Maximum subsidy is 80% (Retirees who were Medicare-eligible and enrolled in the plan on January 1, 2013, have a 90% premium subsidy).

Personal Healthcare Fund

- Introduced in 2012
- Provides an additional 2% employer matching contribution to the State of Michigan 401(k) and 457 Plans to help members save for healthcare expenses in retirement.

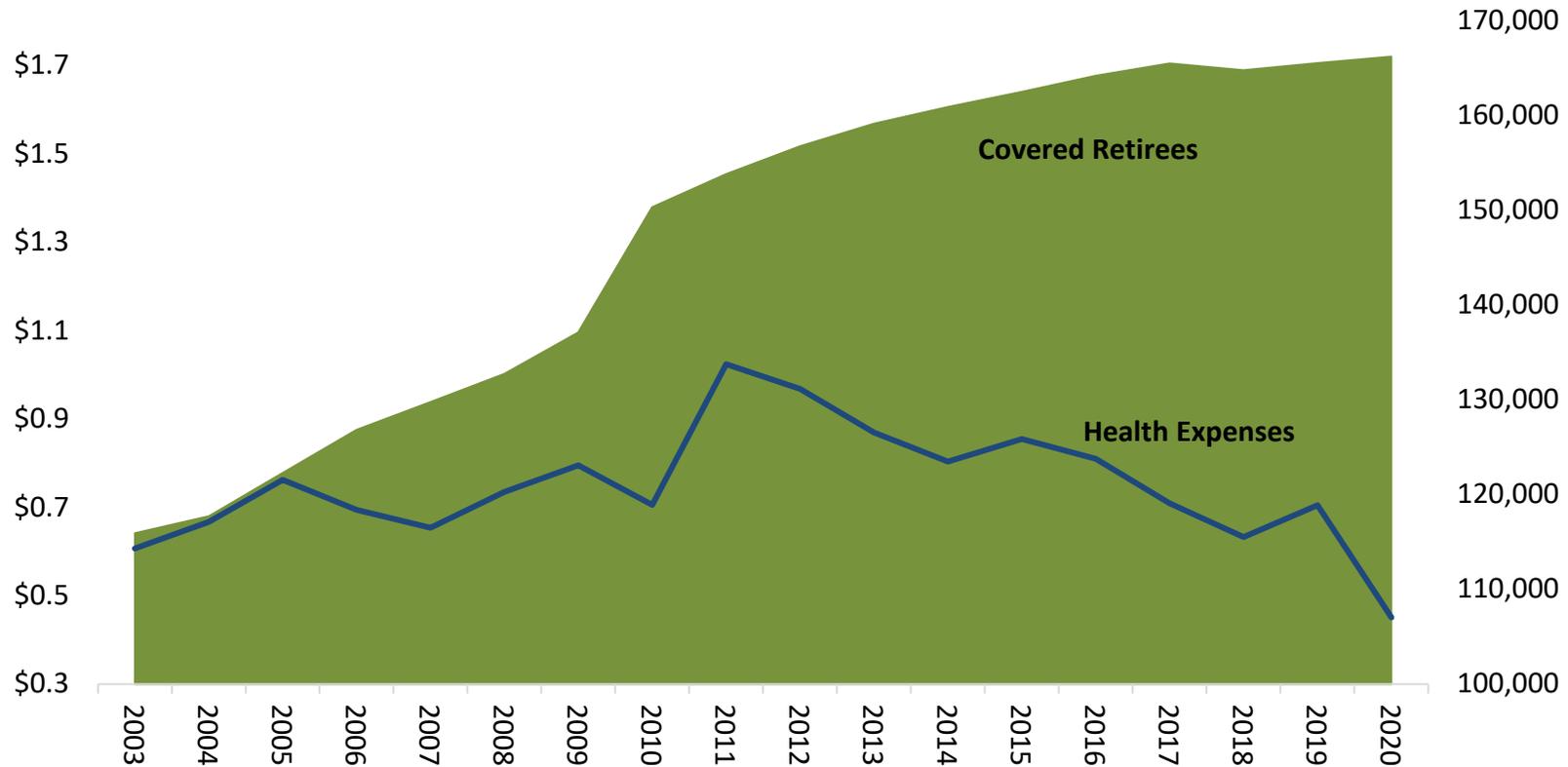
The state began prefunding in 2012, which allows investment gains to help fund the system.

Retiree Healthcare Costs: Defying Trends

Combined Health, Dental, and Vision Cost for School Retirees

Health Expenses (\$ billions)

Covered Retirees



Changes to MPSERS

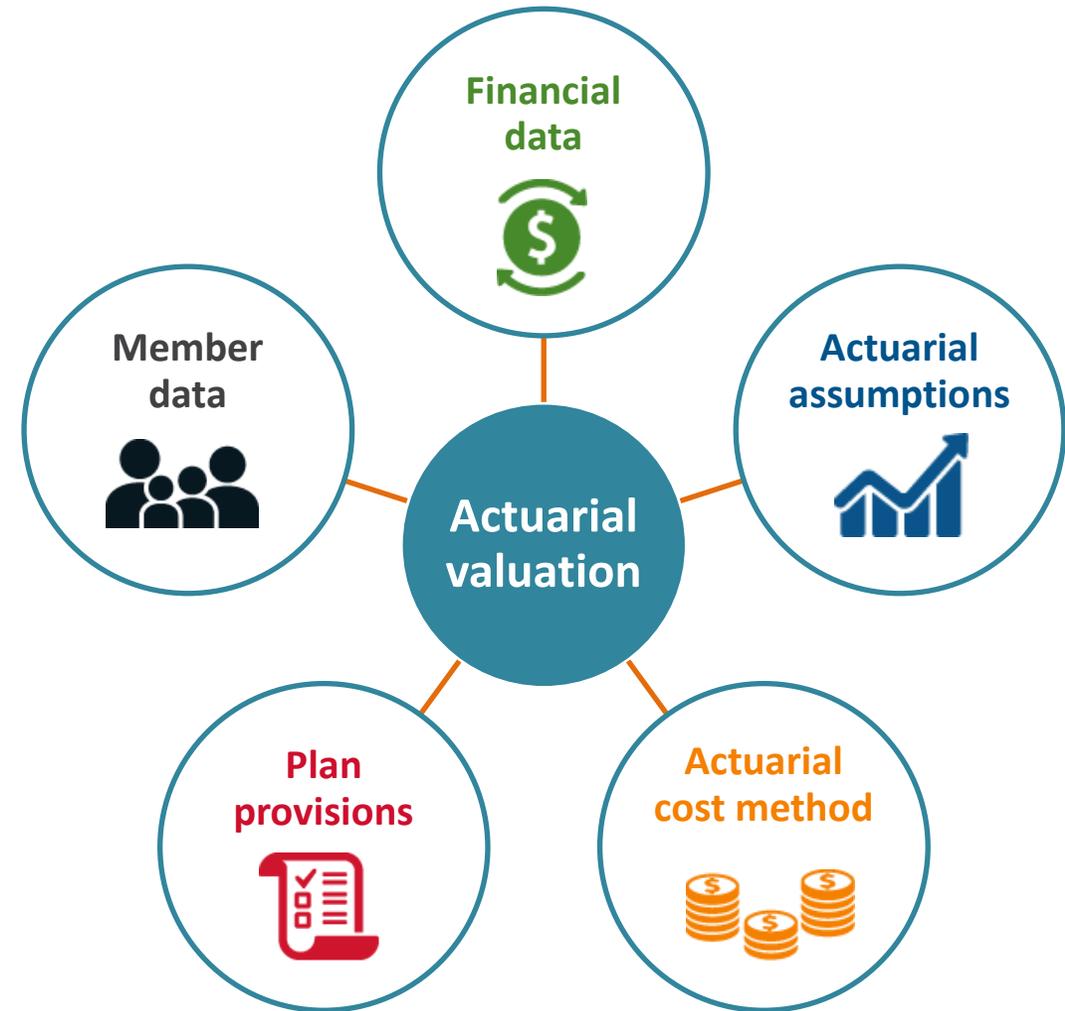
Significant pension and retiree healthcare changes have been made to MPSERS since 2008.

Year	System	Reform
2008	Public Schools	<ul style="list-style-type: none">• Introduced new plan with higher employee pension contributions• Retiree healthcare premium subsidy based on career length.
2010	Public Schools	<ul style="list-style-type: none">• Closed DB plan and introduced Pension Plus I Hybrid Plan.
2012	Public Schools	<ul style="list-style-type: none">• Closed retiree healthcare plan. New hires enroll in Personal Healthcare Fund.• New hires given choice of Hybrid Plan or DC.• Employees given option of increasing contributions for DB pension or reducing their multiplier for future service or converting to DC plan.
2013	Public Schools	<ul style="list-style-type: none">• Began prefunding existing retiree healthcare liability.
2017	Public Schools	<ul style="list-style-type: none">• Closed Pension Plus Hybrid Plan, Opened Pension Plus II Hybrid Plan.
2018	Public Schools	<ul style="list-style-type: none">• Implemented a phased-in reduction of the payroll growth assumption for UAAL amortization to 0%

MPSERS has an actuarial valuation completed each year by an independent actuary.

What is an actuarial valuation?

An annual report of the actuarial condition of the retirement system and required contributions to fund the system.



Actuarial valuations provide us with the following important details:

- Plan liabilities (including the funded and unfunded portions)
 - Actuarial Accrued Liability (AAL) is the total plan liability. An Unfunded Actuarial Accrued Liability (UAAL) occurs when the Actuarial Value of Assets (AVA) is less than the AAL.
 - Example: If $AVA = \$1$ and $AAL = \$2$, $UAAL = \$2 - \$1 \Rightarrow \$1$
- Funded ratio $[AVA/AAL]$
 - Example: If $AVA = \$1$ and $AAL = \$2$, funded ratio = $1/2 \Rightarrow 50\%$ funded
- Required contributions

The accuracy of the valuation depends on the accuracy of the actuarial assumptions and reported data.

Actuarially Determined Contribution (ADC)

- The ADC is composed of the normal cost and the UAAL amortization payment
- Normal cost is the cost of funding an additional year of service
 - If employees earn less than the actuary predicted, it reduces the normal cost payment without harming the system
- UAAL amortization is the cost of paying down the UAAL
 - Economic losses: e.g. investment losses
 - Demographic losses: e.g. mortality experience

How MPSERS is funded:

	MPSERS
Member contributions	✓
Employer contributions	✓
School Aid Fund contributions	✓

Intergenerational equity

- In public pension plans, it's important to find the right balance to avoid one generation becoming a burden to another.
- If assumptions are overly aggressive, it may burden future generations.
- If assumptions are overly conservative, it may burden the current generation.
- With overly conservative assumptions, the Bureau of Investments may need to move to more conservative investments, potentially leaving investment earnings on the table.

Assumed Rate of Return



- The investment return assumption (AROR) typically has the largest effect of any assumptions on the liabilities and therefore required contributions.
- Plans around the country are making significant reductions to their AROR and planning on higher contributions.
- 8% is no longer considered a reasonable AROR in the industry.
- The AROR was reduced from 8% to 7.5% in 2017 and the dedicated gains policy resulted in AROR reductions below 7% by 2018 for all MPSERS plans.

Assumed Rate of Return

- The Dedicated Gains policy was adopted in 2017.
- When investment earnings exceed our assumptions, we dedicate the excess investment gains to lower the AROR.
- Lowers the assumed rate of investment return (AROR) for all pension and retiree healthcare plans, while offsetting increases in required contributions to the UAAL.



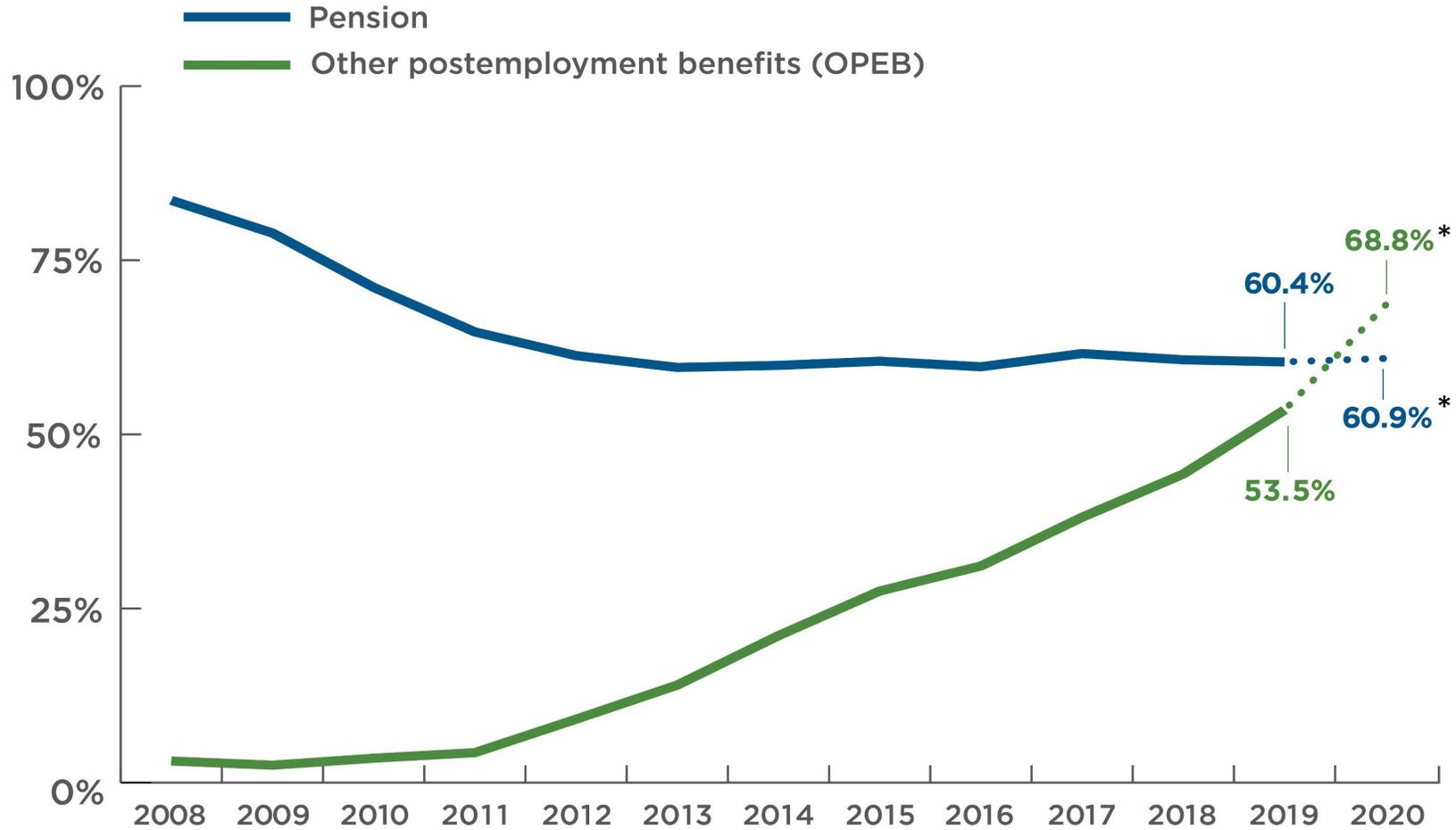


Dedicated Gains Policy Results 2017-18

	Pension	OPEB
MPSERS	6.80% (7.50%)	6.95% (7.50%)
Legacy DB	6.80% (7.50%)	
Pension Plus	6.80% (7.00%)	
Pension Plus 2	6.00%	

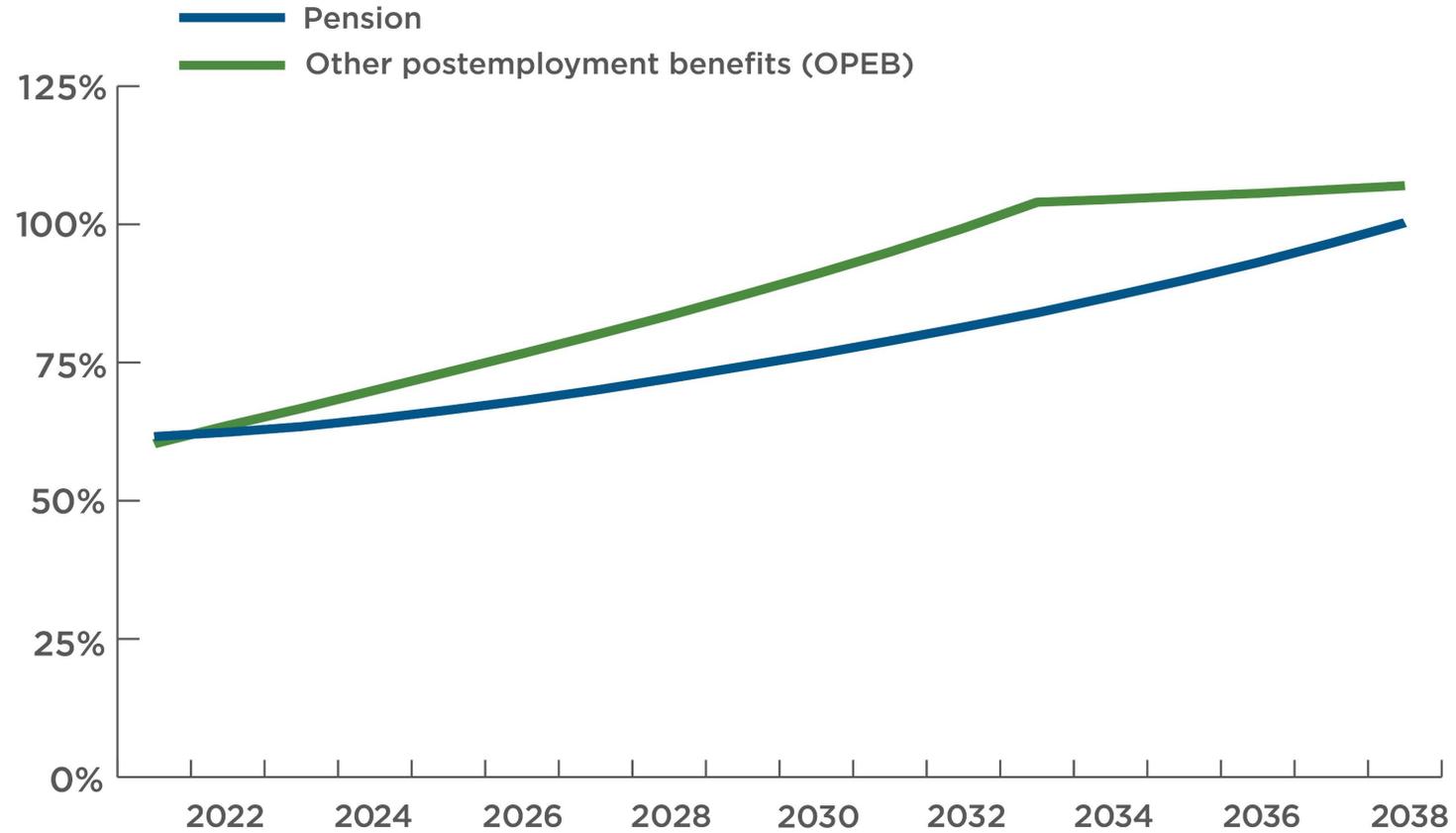
Current rates in black, pre-dedicated gains assumptions in red

MPSERS pension and OPEB funding ratios 2008-2020



*Provisional 2020 results

Projected MPSERS pension and OPEB funding ratios 2021-2038



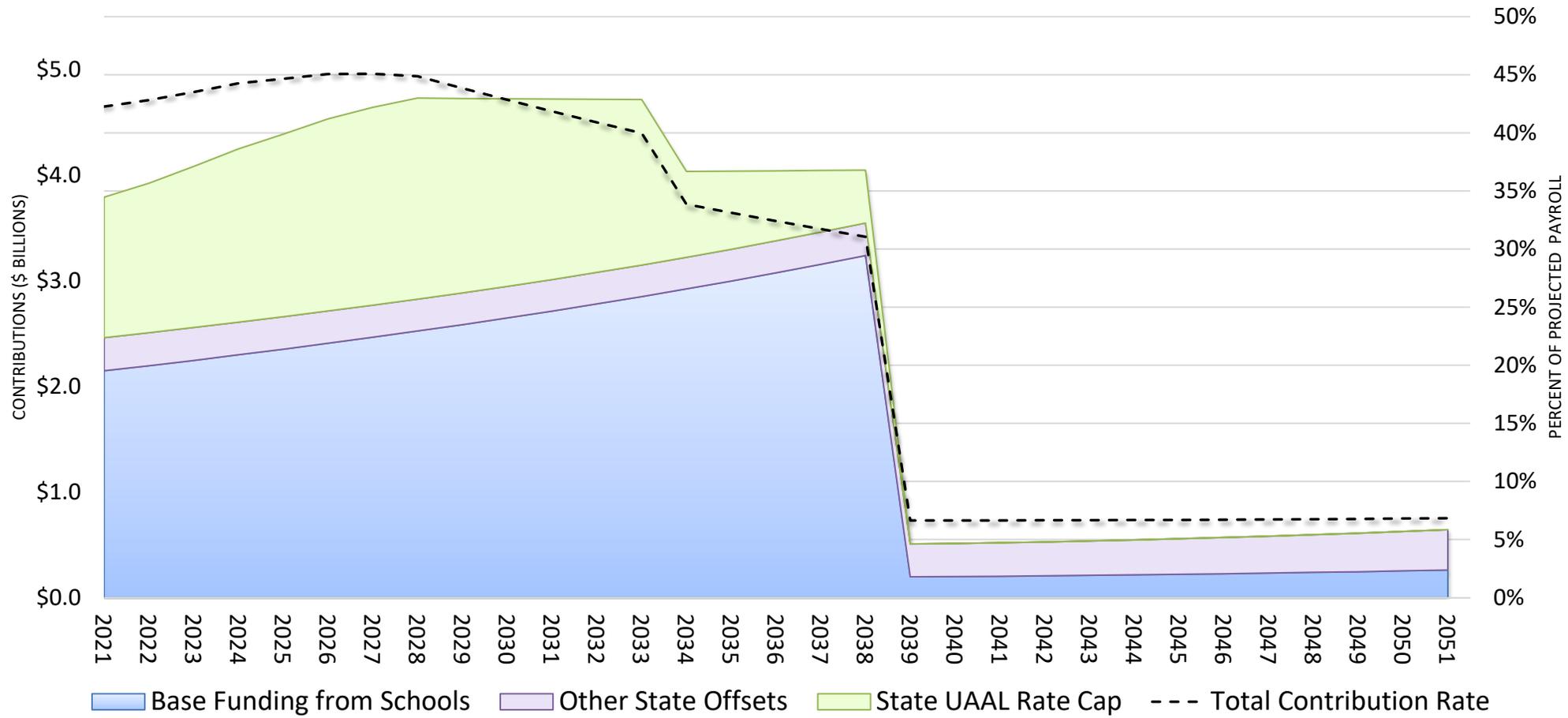
What Factors Impact the Funding Status?

The biggest factors impacting the funded status are:

- Large market losses from global economic downturns in the early 2000s and 2008-2009.
- Early retirement incentives in 2010 and other district-sponsored retirement incentives.

Projected Contributions

Projected MPSERS Total Contributions (2021-2051)



Projected State Appropriations for Retirement Costs

MPSERS Projected State Payments – FY22 to FY26 K-12, Libraries, Community Colleges, and Universities (in millions)

	FY22	FY23	FY24	FY25	FY26
State UAAL Rate Cap	\$1,429.6	\$1,538.5	\$1,657.3	\$1,745.8	\$1,837.9
2017 Reform Costs	\$65.3	\$83.3	\$101.9	\$121.2	\$141.2
MPSERS Offset	\$101.7	\$101.7	\$101.7	\$101.7	\$101.7
Normal Cost Offset	\$193.9	\$185.7	\$177.1	\$168.1	\$158.7
Total Est. State Costs	\$1,790.5	\$1,909.2	\$2,038.0	\$2,136.8	\$2,239.4
<i>Increase</i>	<i>\$153.3</i>	<i>\$118.8</i>	<i>\$128.8</i>	<i>\$98.7</i>	<i>\$102.7</i>

3/4/2021

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