MERS
Municipal Employees' Retirement System

Presentation to the Financial Liability Reform Committee

March 25, 2015

Municipal Employees' Retirement System of Michigan

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ABOUT MERS

- The Municipal Employees' Retirement System (MERS) of Michigan is an independent, professional retirement services company that serves municipal members across the state of Michigan
- The team at MERS is made up of top industry experts who use cutting-edge technology and fiscal best practices to give members peace of mind and security in their retirement
- MERS listens and works in partnership with our members to deliver a superior value that meets our members' needs

BY THE NUMBERS

Michigan counties represented

municipalities enrolled in MERS programs

participants

in combined total assets

AN INDEPENDENT ELECTED BOARD

- MERS is a nonprofit governed by an elected board that operates without compensation
- Our board is committed to accountability and transparency, holding the line on costs, and watching out for the best interest of our members
- Comprehensive Financial Reports are available on our website

Three Officer Members:
Officers of a participating municipality, elected by membership

Three Employee Members:
Non-officers of a participating municipality, elected by members

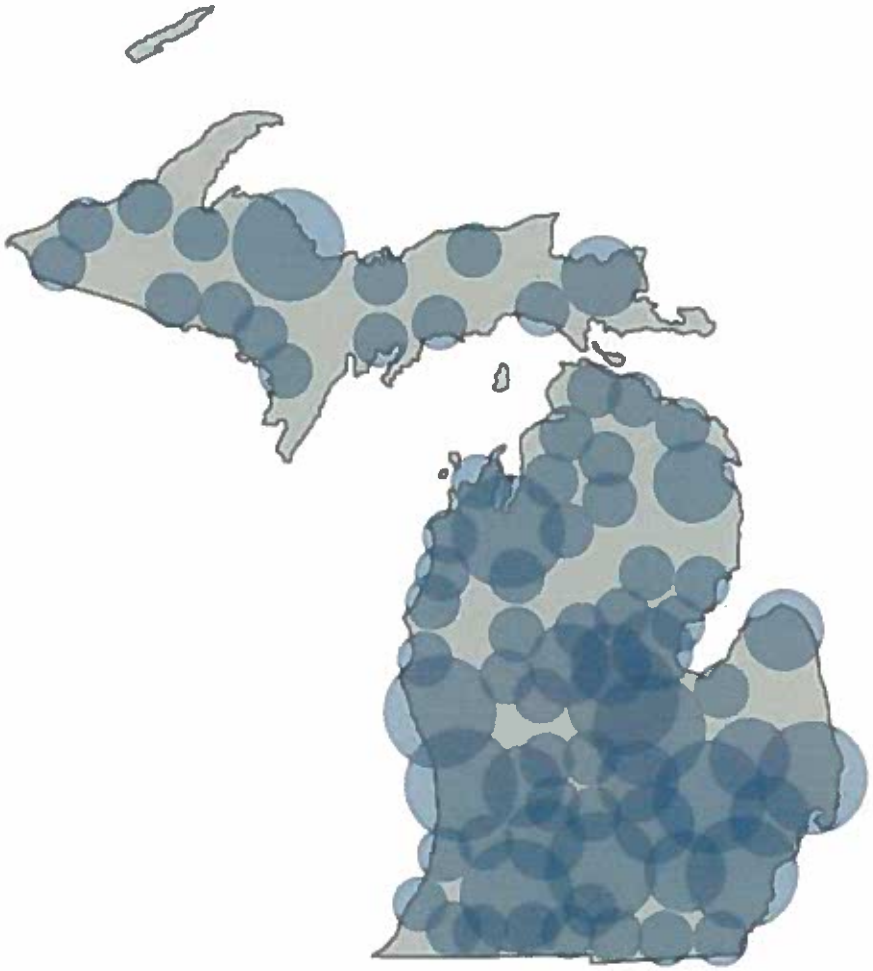
Two Expert Members:
With experience in retirement system or investment management, appointed by the Board

One Retiree Member:
Retiree of the system, appointed by the Board

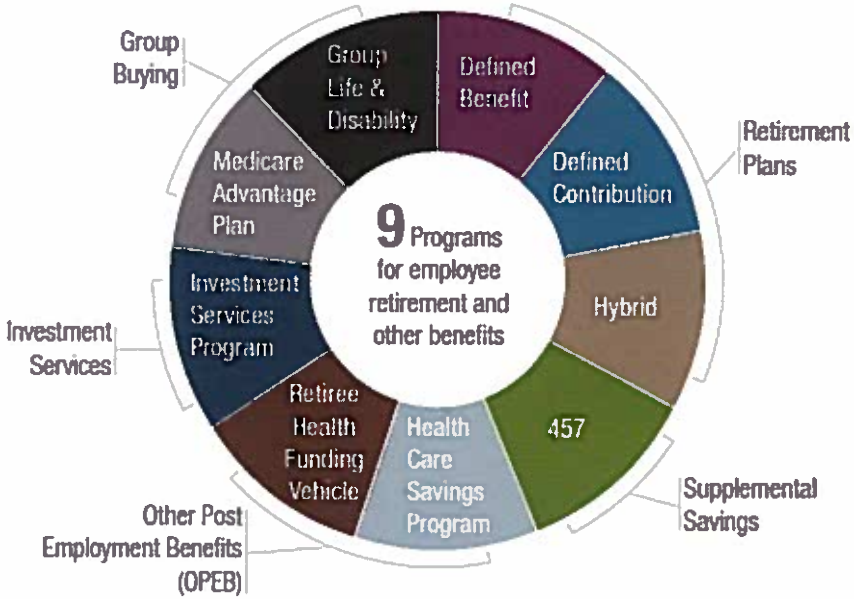
MERS Retirement Board
is responsible for administration of the system with fiduciary responsibility for the investment of assets and oversight.

STATEWIDE REPRESENTATION

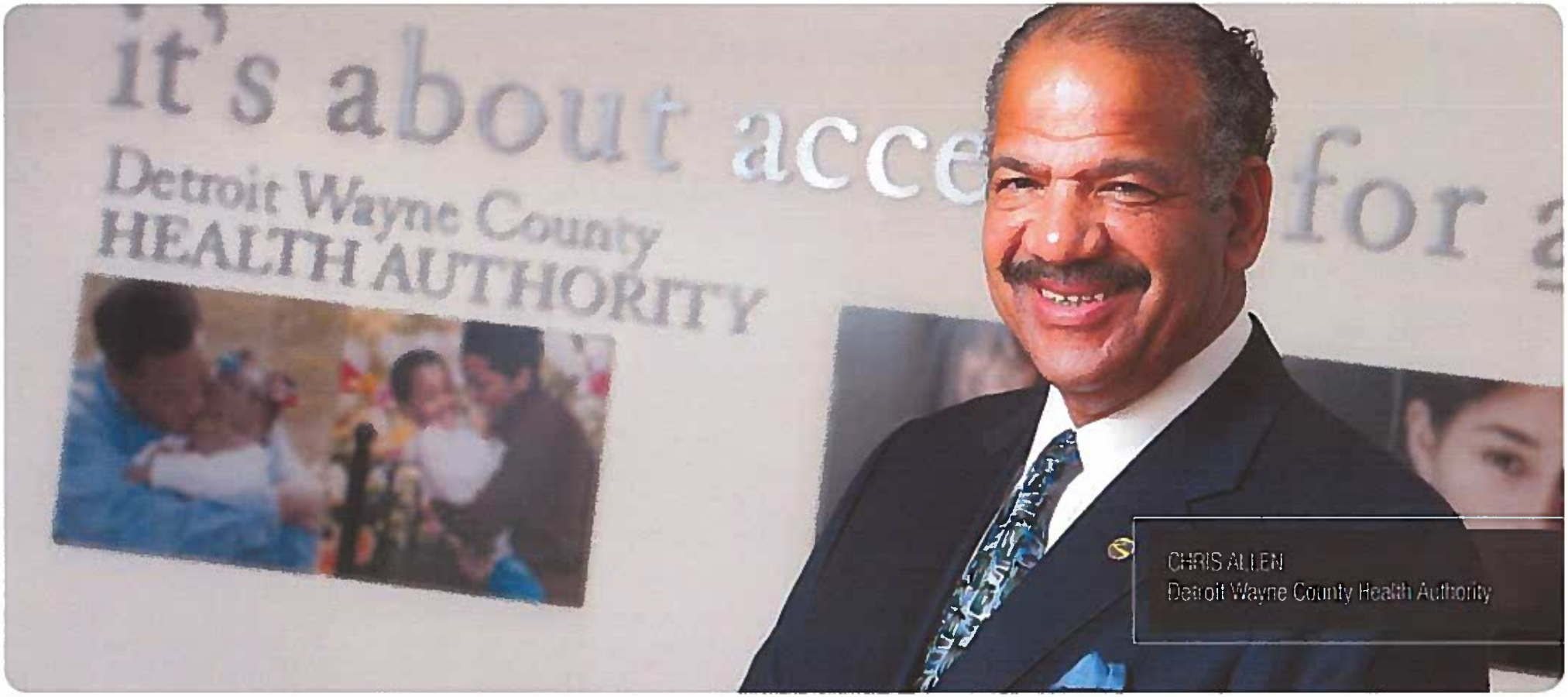
- Our members span across the state
- The bubbles below represent the population of MERS members in each Michigan county



A PROGRAM FOR EVERY NEED



- Each municipality has unique needs
- We offer a broad range of customizable plans and services
- We listen to our members and constantly add new products and tools to meet their needs



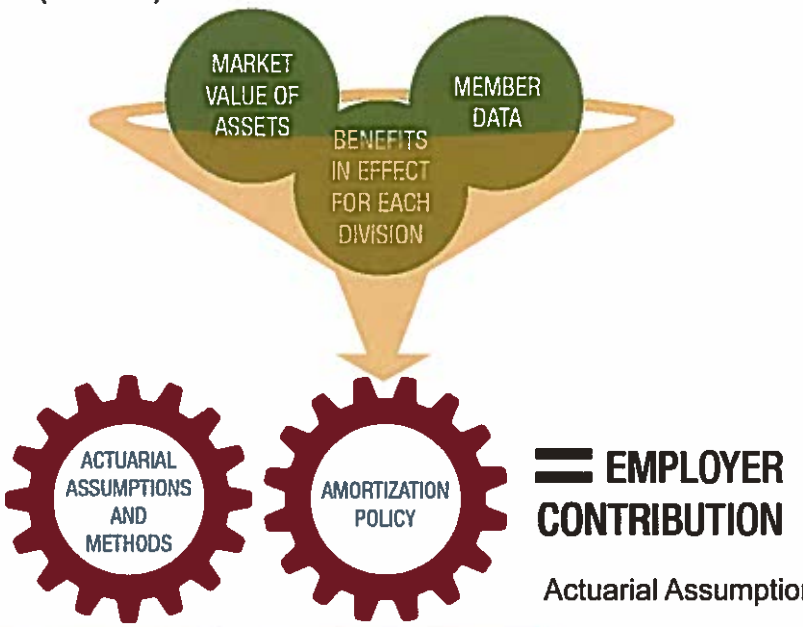
MERS®
Municipal Employees' Retirement System

Well-Funded Stability

PRINCIPLES OF FUNDING

- MERS provides an annual actuarial valuation for each defined benefit plan in our system

- This valuation is a mathematical process that provides:
  - Employer and employee contribution rates for the future fiscal year
  - Estimated plan liabilities and funding level
  - History of plan provisions and employee demographics
  - Governmental Accounting Standards Board (GASB) information for annual audits



Actuarial Assumptions and Methods established by the Retirement Board

- The employer contribution is the sum of Normal Cost and Amortization of the Unfunded Actuarial Accrued Liability, which is paid off over a period of years, similar to a mortgage
  - Normal Cost is the present value of benefits allocated to the current plan year less any employee contributions
  - Unfunded Actuarial Accrued Liability is the payment to reduce any shortfall between liability for past service and assets

- We perform an Experience Study every five years that analyzes the actual experience of our plans compared to the actuarial assumptions

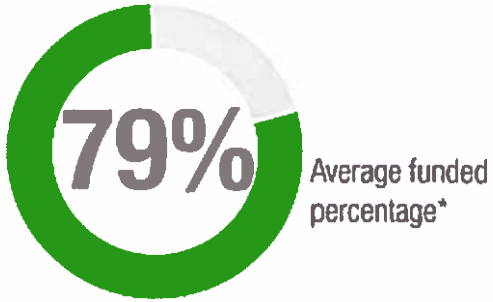
WELL-FUNDED STABILITY

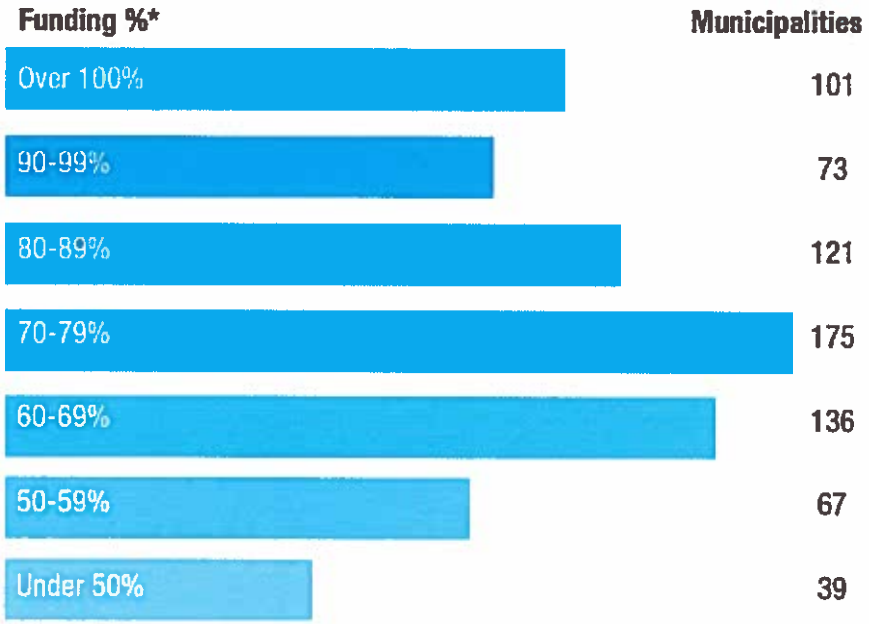
- Each member's retirement plan is maintained in a separate trust, which gives our members the benefits of pooling resources for investments while maintaining the integrity and individuality of each plan

- Our outreach to customers has been focused Unfunded Accrued Liability education, including regional meetings across the state and a dedicated resource page on our website

- We partner with municipalities, helping them set fiscal goals and discussing options, to find the programs and provisions that best fit the their needs

OUR PLANS

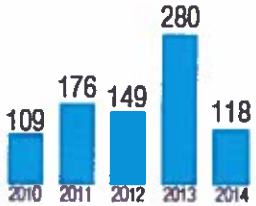




MUNICIPAL ACTIONS

Cost Sharing for Existing Employees

Employees contribute to help fund the overall cost of plan



Reduces the employer cost, but does ***not*** affect total cost or the plan's unfunded liability

Lower Benefit to New Hires

New hires receive a lower tier of Defined Benefit provisions

Existing employees are not affected

Reduces liability for new hires

Bridged Benefits for Existing Employees

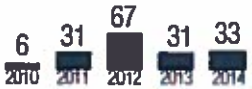
Benefits are offered in parts to existing employees. Multiplier is then lowered on a going-forward basis

Leaves earned benefits unchanged

Reduces liability for new hires and existing employees

Hybrid for New Hires

New hires receive a Hybrid Plan

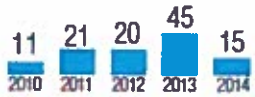


Existing employees are not affected

Reduces liability for new hires

Defined Contribution for New Hires

Employees contribute to help fund the overall cost of plan

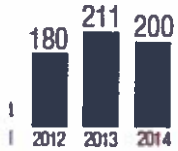


Existing employees are not affected

Eliminates liability for new hires

Voluntary Contributions

Additional payments made into plan toward unfunded liability



Reduces existing liability

Extra dollars are invested and recognize market returns

Bonding

Municipalities may bond for all or a portion of their unfunded accrued liabilities – pension or OPEB

Bond proceeds are deposited and may fully fund the accrued liability

No guarantee that future unfunded liabilities won't occur

NEW PENSION REPORTING RULES

ABOUT THE CHANGE

- GASB 68 is a new rule adopted by the Governmental Accounting Standards Board that changes the way government entities that offer defined benefit plans report pension liabilities
- This change goes into effect for all annual reporting after June 15, 2014
- MERS was involved early and gave feedback on the new requirements on behalf of our membership

WHAT IS DIFFERENT

- Currently, government entities include only the yearly contributions as an expense on their financial statements, and the long-term cost of benefits, called Unfunded Accrued Liability, is included in the notes section of their CAFR
- After this change government entities will be required to include a new calculation of the long-term cost of benefits, called Net Pension Liability, as a liability on their balance sheet
- The new requirement does not change the way MERS calculates how much municipalities need to contribute to cover benefits in any given year

EXAMPLE 1 – 94% FUNDED

	2012	2012 with GASB
Assets		
Cash and Equivalents	$ 1,320,000	$ 1,320,000
Receivables, net	10,114,000	10,114,000
Capital Assets	27,442,000	27,442,000
Total Assets	38,876,000	38,876,000
Liabilities		
Accounts Payable/Accrued Liabilities	552,000	552,000
Long Term Debt	19,630,000	19,630,000
Net Pension Liability		1,178,000
Total Liabilities	20,182,000	21,360,000
Net Position		
Invested in Capital Assets, net of debt	10,003,000	10,003,000
Unrestricted	8,691,000	7,513,000
Total Net Position	$ 18,694,000	$ 17,516,000

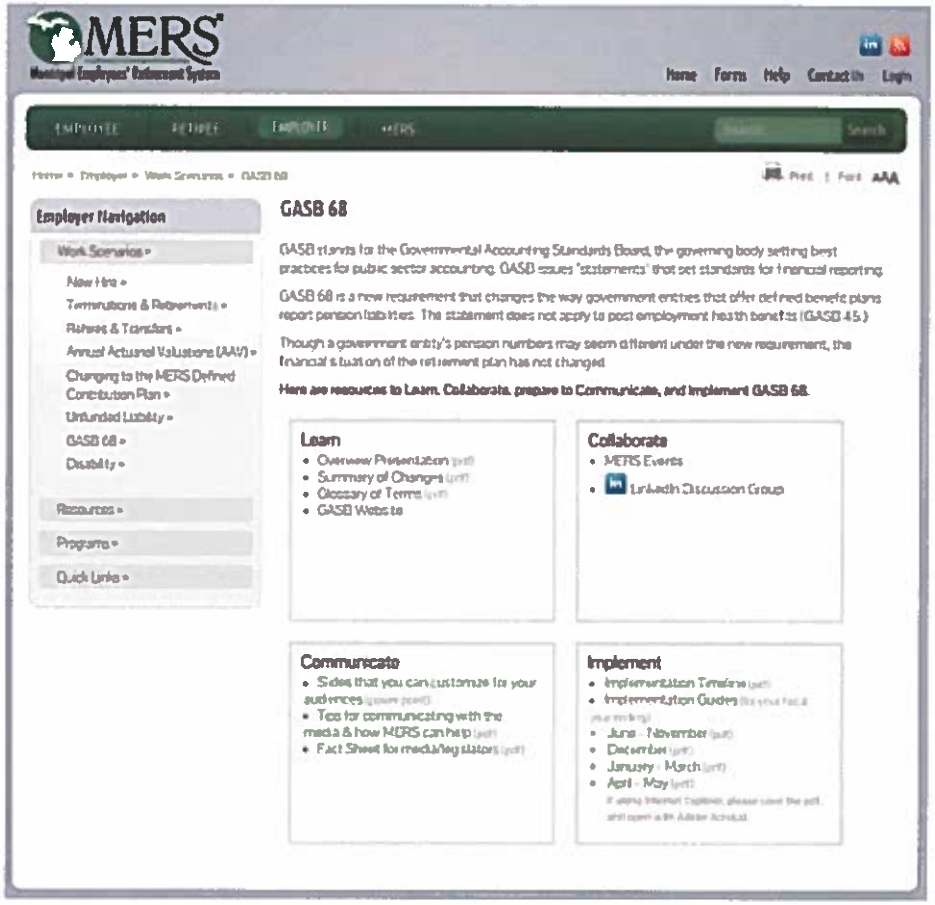
EXAMPLE 2 – 63% FUNDED

	2012	2012 with GASB
Assets		
Cash and Equivalents	$ 9,900,200	$ 9,900,200
Receivables, net	24,300,000	24,300,000
Capital Assets, net	14,970,000	14,970,000
Total Assets	49,170,200	49,170,200
Liabilities		
Accounts Payable/Accrued Liabilities	5,590,000	5,590,000
Unearned Revenue	5,011,000	5,011,000
Long Term Debt	26,380,000	26,380,000
Net Pension Liability		35,444,000
Total Liabilities	36,981,000	72,425,000
Net Position		
Invested in Capital Assets, net of debt	5,690,000	5,690,000
Unrestricted	6,499,200	-28,944,800
Total Net Position	$ 12,189,200	$ (23,254,800)

NEW PENSION REPORTING RULES

HOW MERS IS HELPING

- While the new requirement will provide an accurate picture of all future costs, it may overstate a government entity's current financial challenges
- Though a government entity's pension numbers may seem different under the new requirement, the financial situation of the retirement plan has not actually changed
- The team at MERS is working closely with our members to provide all of the information required to comply with new reporting rules, including an easy to use resource page on our website
- We are proud of our successful track record of helping our members improve the financial health of their retirement plans
- This includes managing reporting changes like GASB 68 and turning around and rehabilitating plans that are struggling financially when they enter MERS



MERS®
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Security of MERS Investments

TEAM OF PROFESSIONALS

MERS BOARD

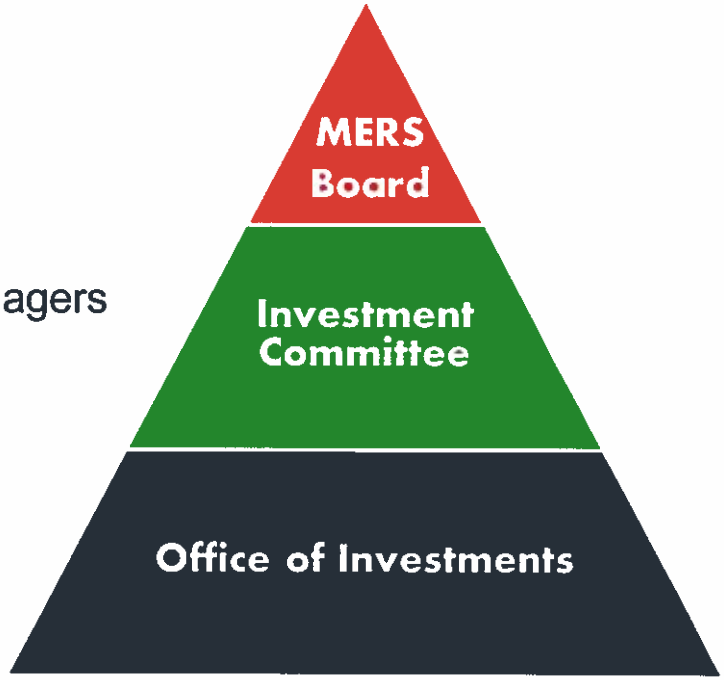
- Acts as sole fiduciary and sets general investment policy

INVESTMENT COMMITTEE

- Serves as the Board's investment policy development arm
- Approves recommendations to hire and fire core mandate managers

OFFICE OF INVESTMENTS

- Internal decision making group
- Makes recommendations to Investment Committee
- Responsible for day-to-day investment management activities



LAW AND REGULATION

- MERS follows Michigan state law and prudent person standards of diligence
- We maintain strict oversight and management
- Our assets are invested in accordance with the Public Employee Retirement System Investment Act (PERSIA)
- MERS conducts quarterly compliance reviews

A TRACK RECORD OF SUCCESS

- MERS Investment Policy Statement outlines the investment goals, objectives, and policies of the plan
- The policy assists the MERS Retirement Board, MERS Investment Committee, and MERS staff in effectively monitoring the MERS Investments and offers a map to assist in making prudent and informed investment decisions
- Primary investment objectives:
  - Exceed the actuarial investment assumption on a long-term basis, which is currently 8% annually
  - More specifically, earn a minimum real rate of return of at least 3.5% per year above inflation
  - Maintain adequate liquidity to pay benefits
  - Adopt a strategic asset allocation plan that reflects current and future liabilities, minimizes volatility and maximizes the long-term total rate of return
  - Minimize costs associated through efficient use of internal and external resources

Performance

MERS consistently **outperforms its benchmarks** and market averages, with a prudent, long-term approach designed to provide downside protection and upside market participation.

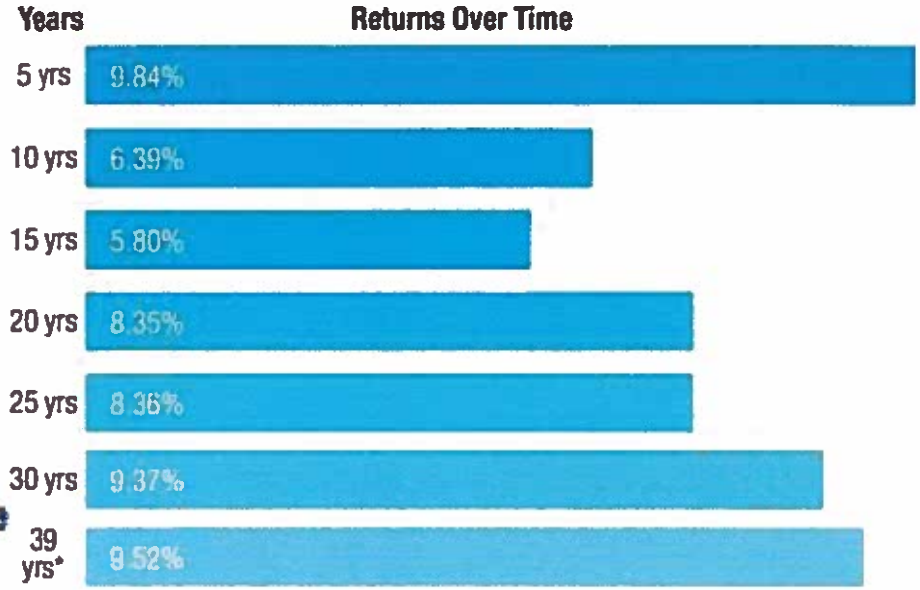
Investment Earnings

For more than 20 years, approximately **2 out of every 3 dollars** from MERS retirement benefits have come from Investment earnings, not taxpayer dollars. Investing your assets into a total asset allocation portfolio means that administrative and investment costs are shared and affordable.

INVESTMENT HISTORY

POLICY ASSET ALLOCATION

MERS Long-Term Investment Returns
October 1975 – December 2014
Not annualized if less than 1 year



** Since inception*
All rates are shown as gross of fees

"When we made the decision to go to MERS, we were to save well over a million dollars, we were not required to make any pension contribution that year, and we were able to put our city's pension system on much more stable footing.

It basically saved the City of Hazel Park as we know it. And that is a true story.

I am MERS for peace of mind."

Ed Klobucher, City of Hazel Park

MERS®
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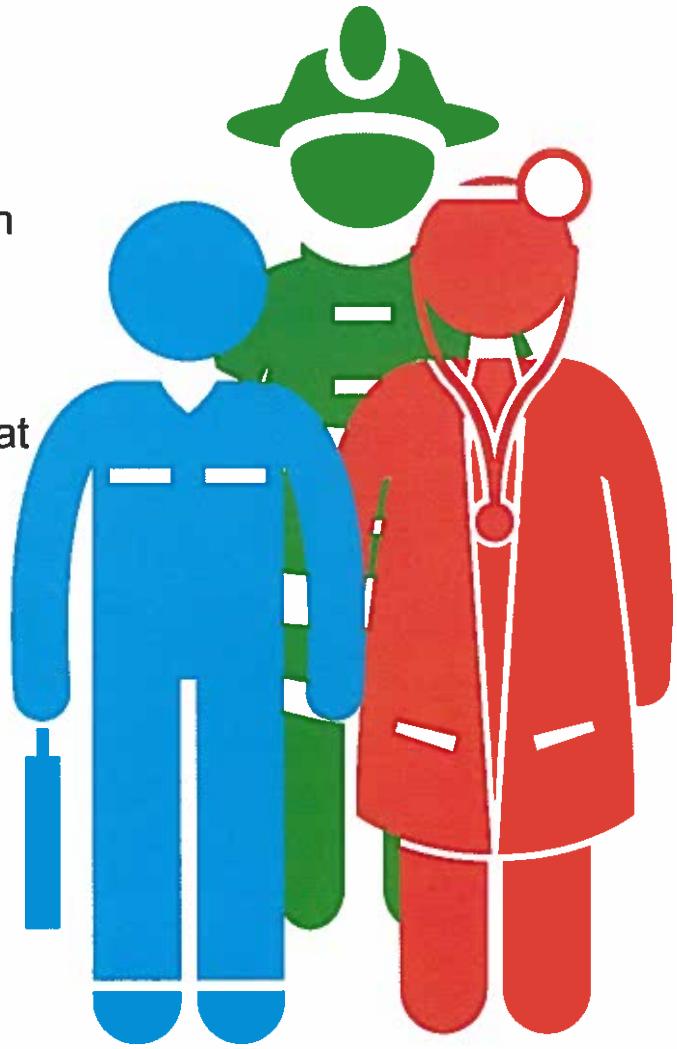
Pooling Powers Financial Security

READYING MICHIGAN FOR RETIREMENT

myMERS offers participants account information, online calculators, and other resources to help stay on the right retirement track

MERS Regional Teams hold quarterly meetings at convenient locations throughout the state

We are available to hold group presentations, attend benefit fairs, and hold one-on-one meetings for all MERS programs



Individualized retirement readiness reports will be sent to participants, offering a comprehensive view of how MERS benefits can work with other retirement income – and whether they're on track to meet their retirement goals

MERS provides employers and participants with a variety of publications and resources about their retirement plan

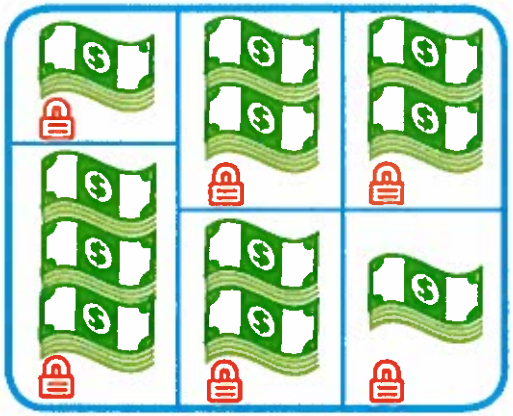
MERS Service Center offers, knowledgeable, over-the-phone assistance

POWER OF POOLING

SUMMARY

- Investing assets for public retirement plans is what MERS was created to do and our focus and expertise is in public sector
- MERS is one of the Top 200 U.S. Pension Systems ranked by Pensions & Investments
- Each municipality's retirement plan is maintained in a separate trust, which gives our members the benefits of pooling resources for investments while maintaining the integrity and individuality of each plan
- MERS has a successful track record of improving the financial health of our members' retirement plans
- MERS is one of the largest, most established, and most successful shared services stories in Michigan, providing administration, investment expertise, fiduciary responsibility, and oversight for benefit plans

Pooled assets for buying power



Separate trusts to maintain each municipality's security

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. If this presentation conflicts with the relevant provisions of the Plan Document, the Plan Document controls. MERS, as a governmental plan, is exempted by state and federal law from registration with the SEC. However, it employs registered investment advisors to manage the trust fund in compliance with Michigan Public Employee Retirement System Investment Act. Past performance is not a guarantee of future returns. Please make independent investment decisions carefully and seek the assistance of independent experts when appropriate.

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