



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

**School Aid Subcommittee**

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ORS Director**

February 6, 2019



## Who We Are



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

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### Our Purpose Statement

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

## Who We Are

### 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

**\$74.1 Billion**

all systems

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

MEMBERS

**572,330**

all systems

PAID IN '18

**\$7.3 Billion**

in pension and healthcare benefits

## Who We Serve

With over 570,000 customers, **1 in 14** Michigan adults living in **1 in 9** Michigan household 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

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



## Economic value



- **87%** of the retirees stay in Michigan and spend their retirement income here.<sup>1</sup>
- **\$12.2** billion is circulated through the state each year because of retiree spending.<sup>2</sup>
- **86,438** jobs in Michigan are supported because of retiree spending.<sup>2</sup>
- **\$2.2** billion in federal, state and local tax revenues.<sup>2</sup>

Sources: 1 ORS Retiree Survey, 2018. 2 National Institute on Retirement Security, Pensionomics 2018: Measuring the Economic Impact of DB Pension Expenditures, Michigan (2018) [www.nirsonline.org](http://www.nirsonline.org)

## Impact

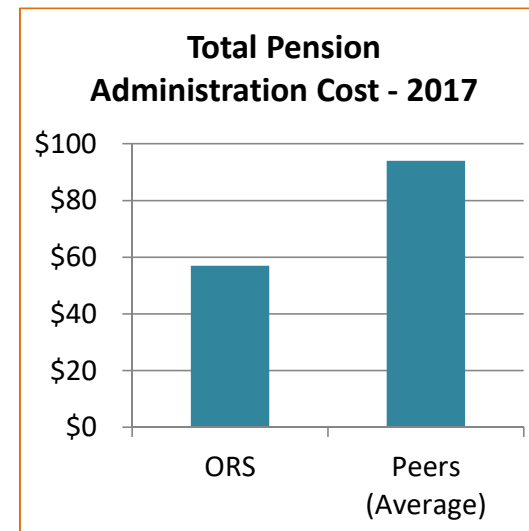
We provide these benefits **cost-effectively** while achieving **high customer satisfaction** scores.

Total pension administration cost in 2017:

→ **\$57** per active member and retiree

→ **\$37 Below** the peer average of \$94.

Percentage of customers satisfied  
with our service: **92%**



Source: CEM Benchmarking

# Michigan Public School Employees' Retirement System



## Public School Employees

Michigan Public School Employees' Retirement System (MPSERS)

440,479 Members

### Plan Types

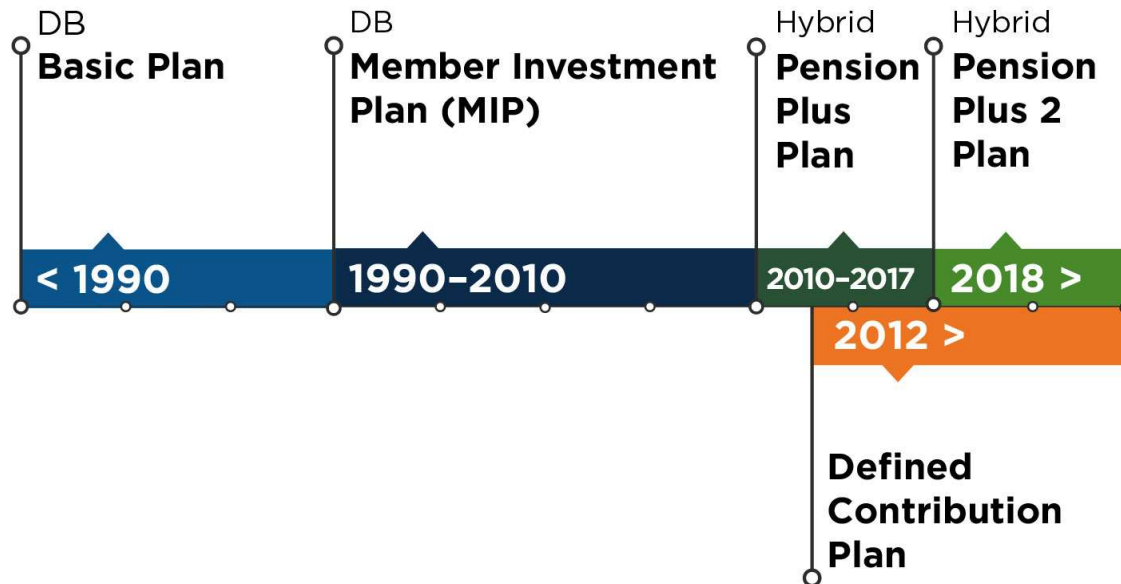
- Closed Defined Benefit (DB) Plan
- Open Hybrid Plan
- Open Defined Contribution (DC) Plan
  
- Closed Retiree Healthcare Plan
- Open Personal Healthcare Fund



# Michigan Public School Employees' Retirement Plan

## 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.*

## Retirement Plan Basics

### 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 **\$22,307**.
- Most of each system's funding comes from investment earnings.



Source: National Institute on Retirement Security, *Pensionomics 2018: Measuring Impact of DB Pension Expenditures, Michigan 2016* [www.nirsonline.org](http://www.nirsonline.org).

## Retirement Plan Basics

### Hybrid Plans

A Hybrid plan offers a more economical, guaranteed DB benefit paired with a DC benefit. The hybrid plan was introduced in 2010 in conjunction with closing the DB plan to help lower risk associated with the retirement plans. Risk is shared between the employer and employee.

- The Hybrid plans are:
  - Funded through member and employer contributions
  - Cost effective.
  - More than 1/3 less risky than the DB plan.
  - Provide adequate retirement benefits.
  - More than 100% funded.
- More than **47,000** members are enrolled in the MPSERS Hybrid plans.



## Retirement Plan Basics

### Defined Contribution (DC) Plan

- DC members receive a mandatory 4% employer contribution as of 10/1/17.
- DC members are automatically enrolled to receive the maximum employer matching contribution
  - Effective 2/1/18, the DC plan offers a maximum 3% employer matching contribution when the member contributes 3%.
- The DC plan is the default option for new employees effective 2/1/18.



## Michigan Public School Employees' Retiree Healthcare

### 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.*

## Retiree Healthcare

### 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

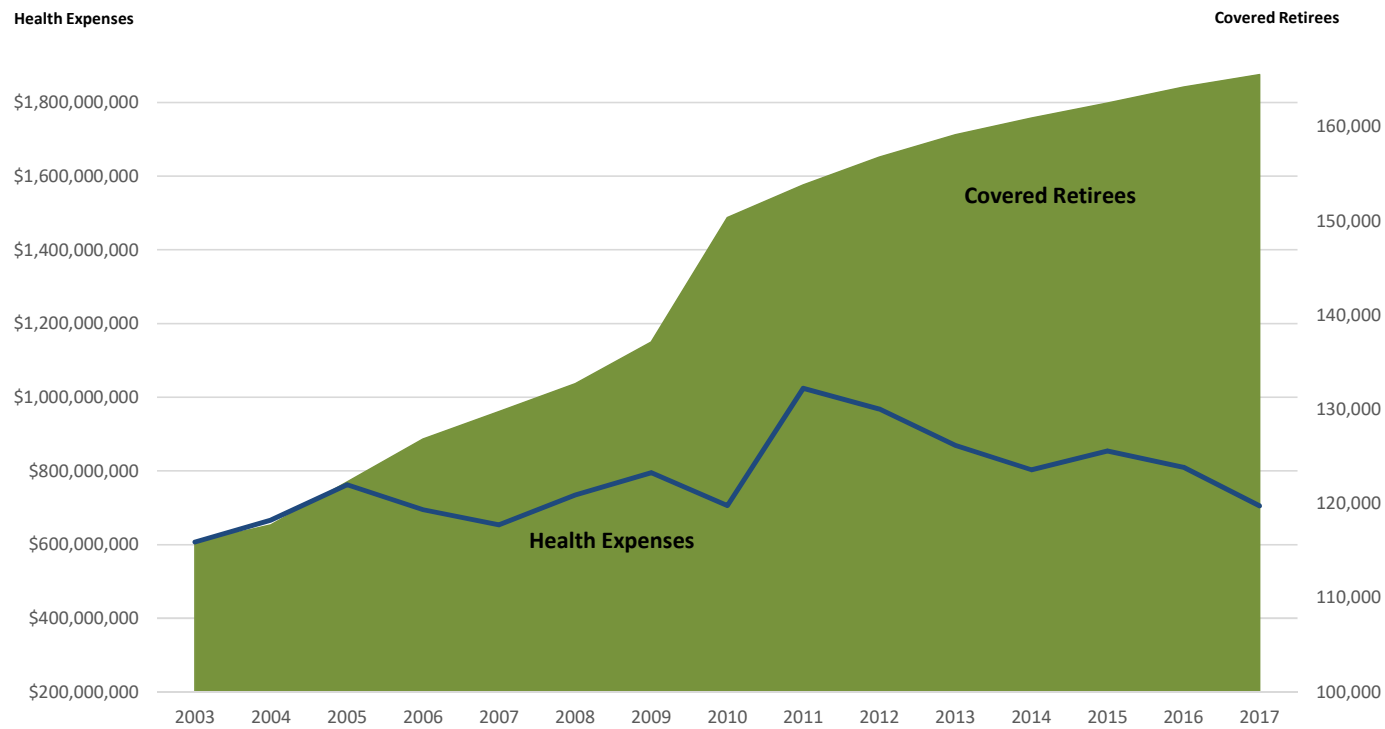
- Introduced in 2012
- Provides an additional 2% employer matching contribution to the State of Michigan 401(k) and 457 Plans to help members save for healthcare expenses in retirement.

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

# Retiree Healthcare

## Retiree Healthcare Costs: Defying Trends

Combined Health, Dental, and Vision Cost for School Retirees



## Recent Changes to the Retirement Plan

### Recent Retirement Reforms

Pension and retiree healthcare reforms have reduced risk, implemented cost-sharing initiatives, and reduced unfunded long-term liabilities by **more than \$20 billion** since 2012.

Year	System	Reform
2008	Public Schools	<ul style="list-style-type: none"><li>• Retiree healthcare premium subsidy based on career length.</li></ul>
2010	Public Schools	<ul style="list-style-type: none"><li>• Closed DB plan and introduced 1/3 less risky Hybrid Plan.</li></ul>
2012	Public Schools	<ul style="list-style-type: none"><li>• Closed retiree healthcare plan. New hires enroll in Personal Healthcare Fund.</li><li>• New hires given choice of Hybrid Plan or DC.</li><li>• Employees given option of increasing contributions for DB pension or reducing their multiplier for future service or converting to DC plan.</li></ul>
2013	Public Schools	<ul style="list-style-type: none"><li>• Began prefunding existing retiree healthcare liability.</li></ul>
2017	Public Schools	<ul style="list-style-type: none"><li>• Closed Pension Plus Hybrid Plan, Opened Pension Plus II Hybrid Plan and this plan will close if it becomes less than 85% funded for two years in a row.</li></ul>



## Actuarial Assumptions

- In order to measure the value of the benefits (liabilities) promised by the system to the membership, the actuary must make a number of economic and demographic assumptions regarding future experience.
- These assumptions impact the annual Actuarially Determined Contribution funded by employers and the State.
- Actuarial assumptions are set with joint approval by the DTMB director and the MPSERS board after consultation with the State Treasurer and the plan actuary.

### **Aligning our Assumptions with our Experience**

Recent changes:

- Assumed rate of return reductions/dedicated gains policy
- 5-year experience study implementation
- Legislative change in the amortization policy to “level-dollar”

## 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.

## 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.



## Assumed Rate of Return



### Dedicated Gains and the Michigan Public School Employees' Retirement System

- The Dedicated Gains Policy is working to bring down the AROR below the current assumption.
  - Pension from 7.5% to 7.05% (FY2017) to 6.80% (FY2018)
  - Retiree healthcare from 7.5% to 7.15% (FY2017) to 6.95% (FY2018)
- Normal cost contributions increased as a result.
  - \$90.4M in FY20
  - \$50-60M in FY21
- The System's liabilities will be more stable moving forward.

## Experience Study



### Three Most Significant Subject Areas

- Wage Inflation
- Payroll Growth
- Mortality Tables

Experience studies were conducted for all retirement systems in 2018 for the period 2012-2017. Today, we will specifically look at the Michigan Public School Employees' Retirement System.

## Wage Inflation

- Wage inflation describes increases in salary for public school employees that are related to price inflation, as well as changes in average pay levels for school employees due to market forces.
- Pay increases in MPSERS have typically lagged behind the current assumption.
  - Observed wage inflation during the 5 year study was 0.8%.
- The director and board reduced the wage inflation assumption from 3.5% to 2.75%.
- This will lower plan liabilities.



## Payroll Growth Rate



- The payroll growth assumption is dependent on wage inflation as well as the total number of active school employees in the system.
- The payroll growth assumption is used to calculate the UAAL payments required to fully fund the system by 2038.
- The current payroll growth assumption is 3.5%.
  - MPSERS actual payroll growth over the past 15 years is -1.0%
- No immediate changes were made because the actuary was comfortable with the phase-in approach to level dollar implemented through Public Act 181.



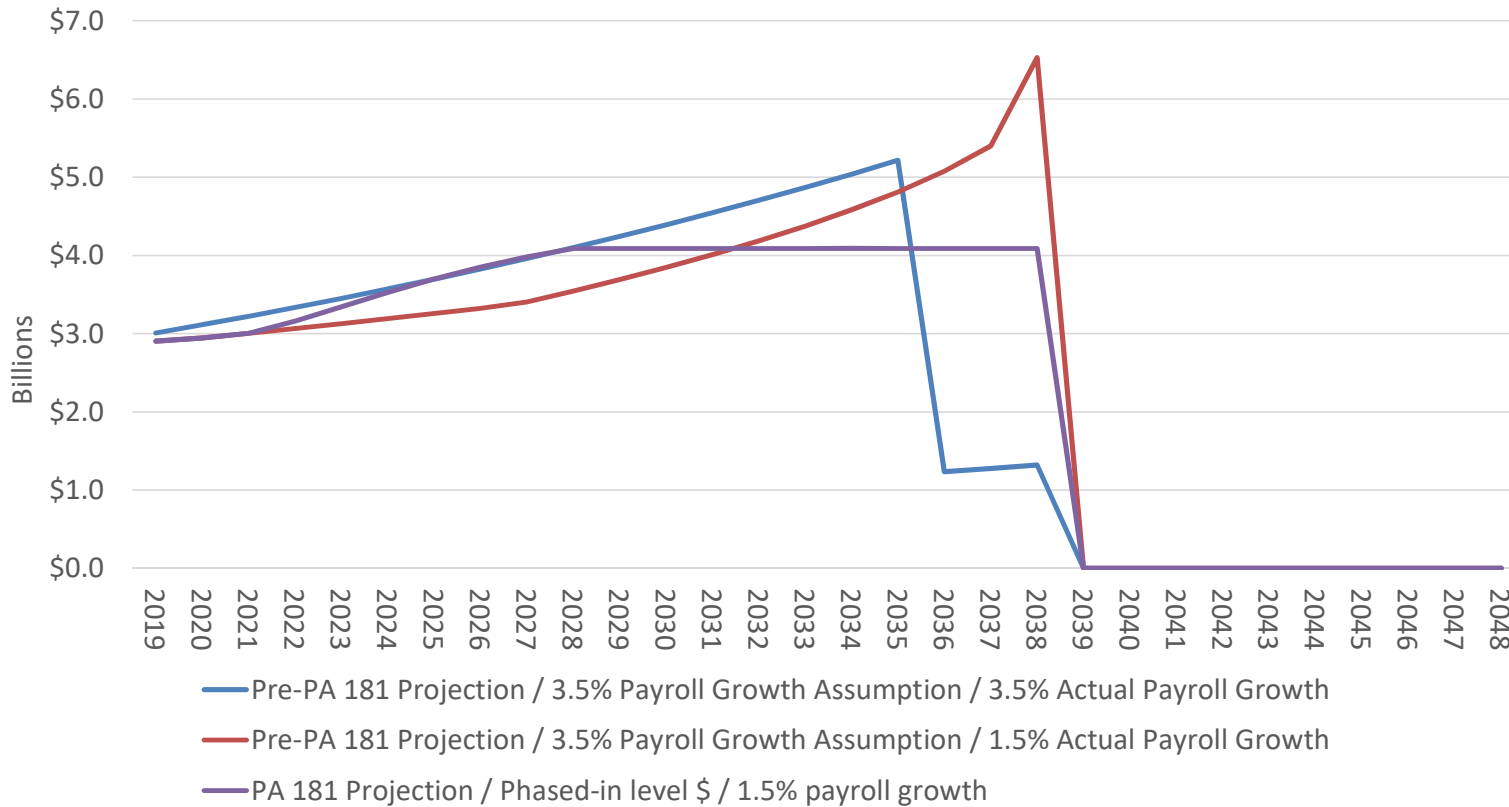
## Public Act 181

PA 181 says the current 3.5% payroll growth assumption will be reduced by 0.5% per year unless the resulting UAAL contribution increase is greater than 7% of the previous year, then a 0.25% decrease is acceptable.

2021	2022	2023	2024	2025	2026	2027	2028
3.5%	3.0%	2.5%	2.0%	1.5%	1.0%	0.5%	0.0%

# Payroll Growth

Effect of Payroll Growth Assumption on UAAL Contributions 2019-48



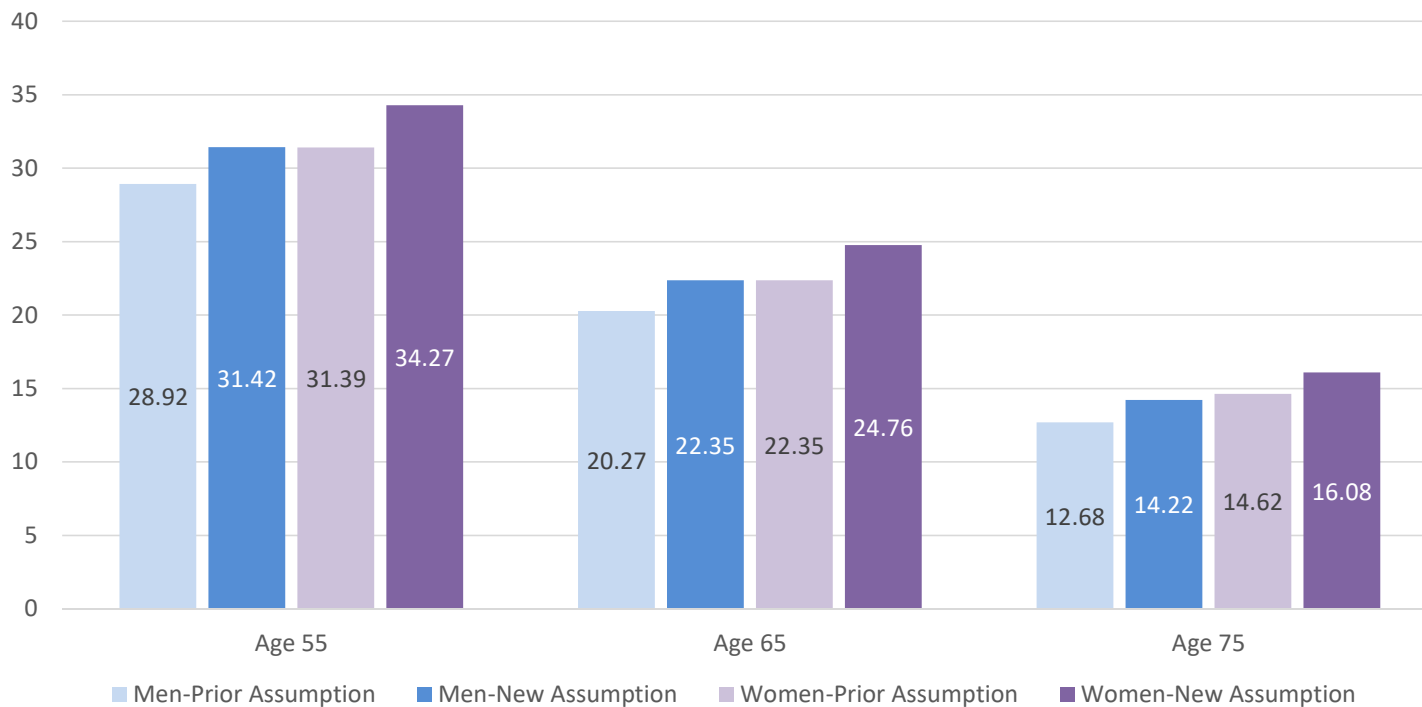
## Mortality Tables



- The actuary reviewed the mortality of regular retirees during the 5 year period.
  - Both men and women are living longer than was projected by the present assumptions.
- The director and the board adopted assumptions reflecting longer lifespans and a margin for future lifespan improvements.
  - This will result in higher computed liabilities and contributions.

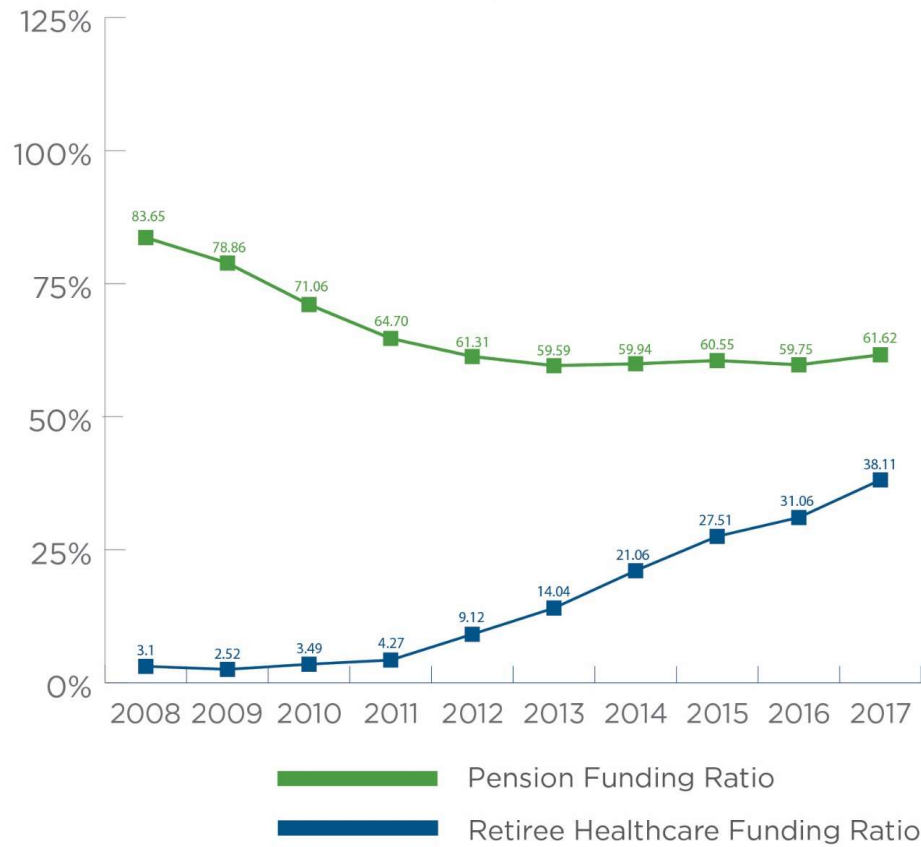
# Mortality Tables

## MPSERS Mortality Assumption Illustration



# System Funding Status

## Funding Ratios



## System Funding Status

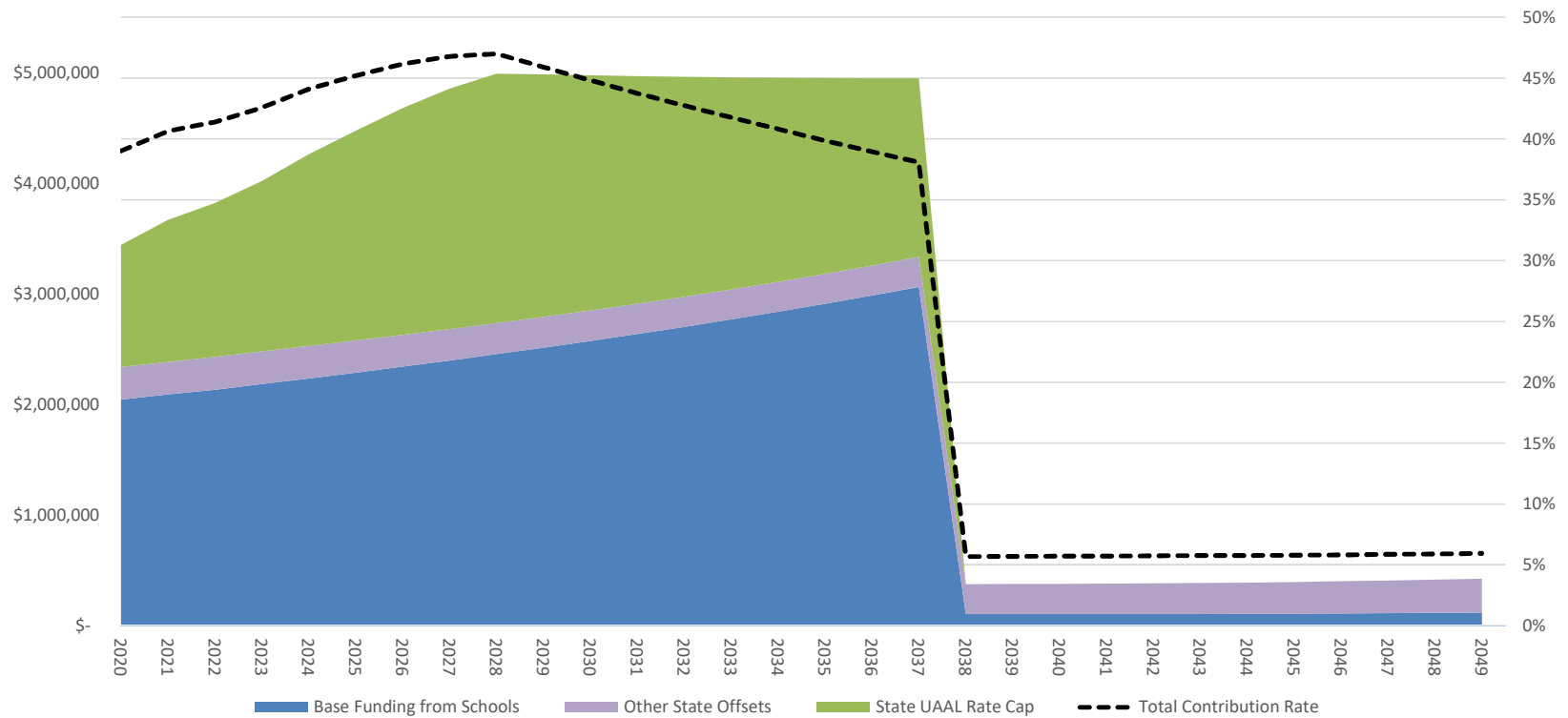
### What Factors Impact the Funding Status?

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  
(2020-2049)  
Pension and Retiree Healthcare*



## Projected State Appropriations for Retirement Costs

MPSERS Projected State Payments – FY20 to FY24 K-12, Libraries, Community Colleges, and Universities (in millions)					
	FY20	FY21	FY22	FY23	FY24
State UAAL Rate Cap	\$1,109.0	\$1,289.3	\$1,396.1	\$1,548.3	\$1,743.6
2017 Reform Costs	\$42.6	\$57.7	\$72.7	\$88.2	\$104.2
MPSERS Offset	\$101.7	\$101.7	\$101.7	\$101.7	\$101.7
Normal Cost Offset	\$185.5	\$178.9	\$171.4	\$164.6	\$158.0
NC Offset - 2018 Gains		\$17.0	\$17.6	\$15.3	\$13.1
<b>Total Est. State Costs</b>	<b>\$1,438.8</b>	<b>\$1,644.6</b>	<b>\$1,759.5</b>	<b>\$1,918.1</b>	<b>\$2,120.6</b>
<i>Increase</i>		\$205.8	\$114.9	\$158.6	\$202.5

1/30/2019



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