



Michigan Public School Employees Retirement System



Office of
**Retirement
Services**

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Agenda

- Overview of ORS and its Customers
- Financial Update
- Employer Contribution Rates
- GASB Reporting
- 3% Healthcare Contributions

Office of Retirement Services

- Serving Michigan customers:
 - 1 of every 14 adults
 - 1 of every 9 households
- Market value of defined benefit assets is approx. \$64 Billion.
 - 48th Largest Pension Fund in the world.
 - 18th Largest Public Pension Fund in the U.S.
- Defined Contribution and Deferred Compensation assets of approx. \$6 Billion.

Sources: Census.gov; FY15 CAFR and Financial Statement; and 2014 Towers Watson P&I / TW 300 Analysis

Michigan Public School Employees Retirement System

The membership includes:

- 234,700 current employees
- 207,600 retirees and beneficiaries

The membership comes from:

- Public school districts, ISDs and libraries
- Some public school academies
- Community colleges
- Central, Eastern, Western, and Northern Michigan Universities, Ferris State, Lake Superior State and Michigan Technological Universities*

*Closed to new members on or after January 1, 1996

Source: FY15 CAFR and Financial Statement

Other Customers of ORS

State Employees' Retirement System

- 121,000 customers

State Police Retirement System

- 4,800 customers

Judges Retirement System

- 1,200 customers

Military Retirement System

- 10,900 customers

Source: FY15 CAFRs and Financial Statements

Guiding Principles

- It is good public policy to promote financial security in retirement.
- Planning for healthcare is a critical component of financial security in retirement.
- Retirement benefits are valuable for employers in providing a quality workforce.
- Provide the best service to our communities – educationally and economically.

Failing to Plan for Retirement – Not an Option

- Retirement plans are a necessity.
- Retirement plans help people stand on their own two feet.
- When people are unable to be self-sufficient in retirement, they:
 - Work indefinitely, for those who are physically able and can find a job.
 - Live in poverty.
 - Turn to outside assistance – Family, Government (taxpayers).

83% of Americans are concerned about their ability to retire in the current economic environment.

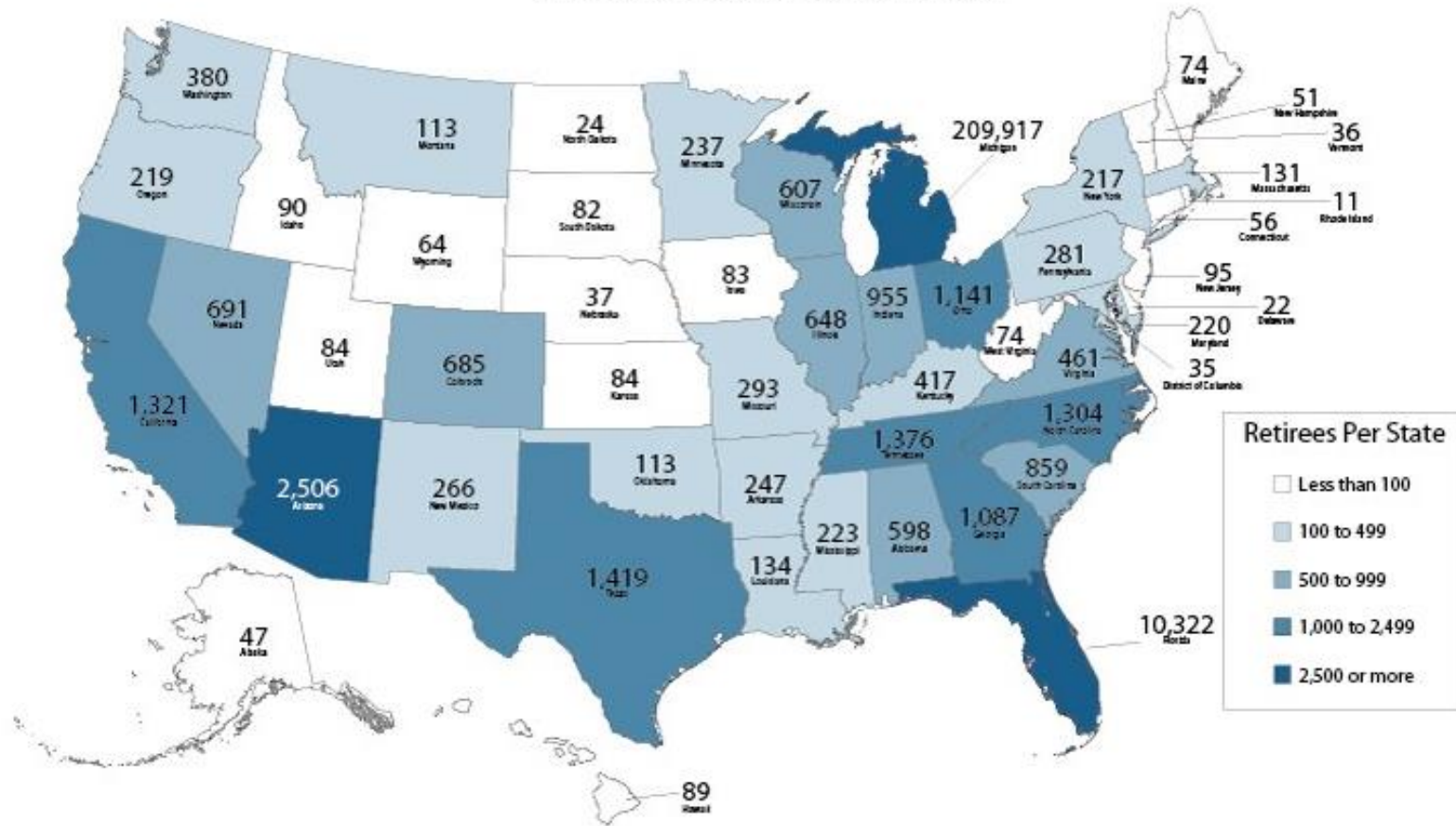
(Source: National Institute on Retirement Security)

“If you fail to plan, you are planning to fail.”

– Benjamin Franklin

Communities

Where ORS Retirees Live



Data current as of January 1, 2016.
ReportX

Strengthening Communities

- Retirees inject more than \$4.6 billion into Michigan communities.
 - 88% of ORS retirees stay in Michigan.
 - 97% actively vote in elections.
 - 98% give to charity.
 - 85% actively volunteer.
 - 84% are financially self-sufficient.

Sources: 2013 ORS Demographic and Financial Data; 2014 ORS Retiree Survey

ORS Retirees on the Value of a Retirement Benefit

"It means the difference between being self-sufficient and needing financial help. I value my ability to live independently, and my pension allows me to do that."

"Every month we contribute to a number of charities, including those for veterans, people with disabilities, and people who need help with food and utilities. We also faithfully pay tithes to our church. I volunteer 2-4 hours per week at the local food bank. Without our pensions, we would be unable to do many of those things, and we would not be able to maintain our current standard of living."

"My pension has given me the ability to retire from full time work to take care of my 91-year-old mother, care for my own health needs, serve my church and community, travel, and ease into aging with security."

"... without it, I'd have to sell our house and live in our truck."

Source: 2014 ORS Retiree Survey

FY 17 Contribution Rates

MPSERS ESTIMATED PENSION CONTRIBUTION RATE

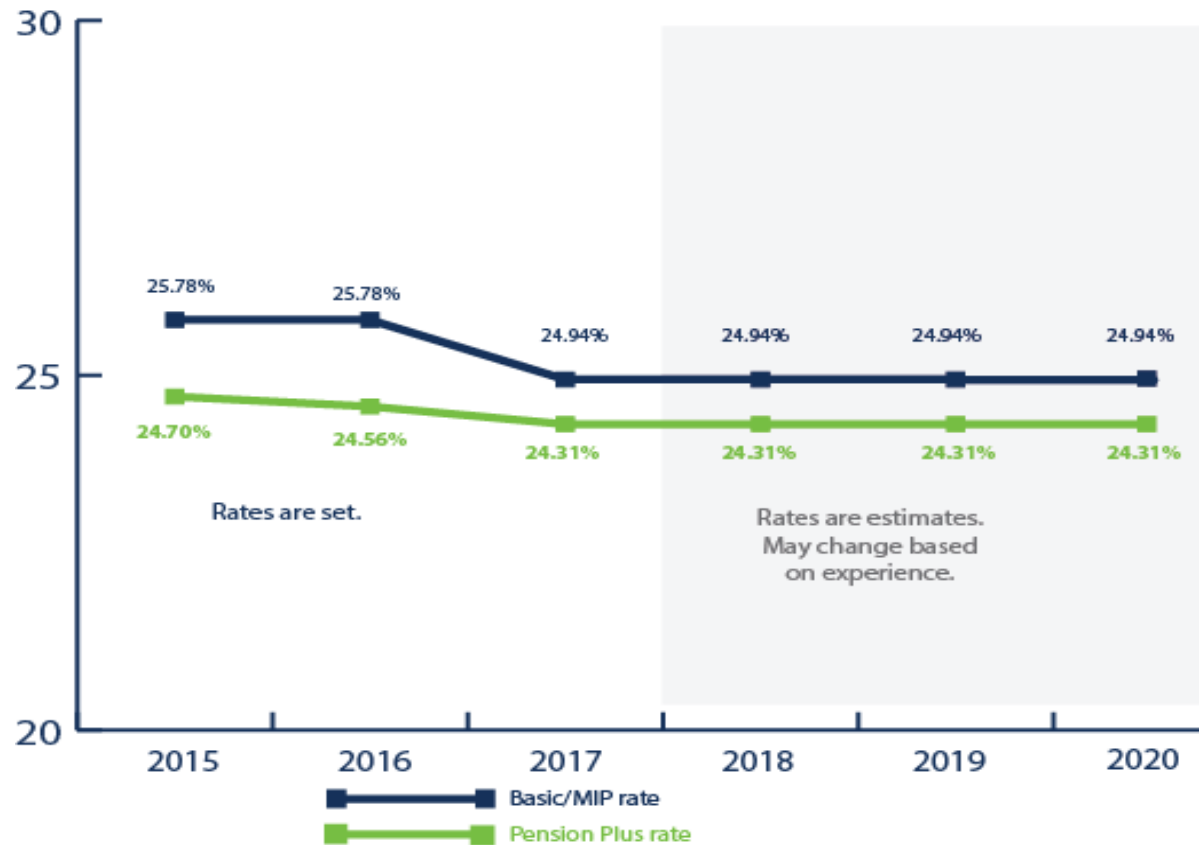
Includes reconciliation

October 1, 2016 - September 30, 2017

	Basic/MIP with Premium Subsidy	Pension Plus with Premium Subsidy	Pension Plus PHF	Pension Plus to DC with PHF	Basic/MIP to DC with Premium Subsidy	Basic/MIP to DC with PHF	Basic/MIP with PHF	Retirees Returned to Work *
Pension Normal Cost	3.76%	3.13%	3.13%	0.00%	0.00%	0.00%	3.76%	0.00%
Pension UAL	13.91%	13.91%	13.91%	13.91%	13.91%	13.91%	13.91%	13.91%
Pension UAL - Early Retirement Incentive	1.36%	1.36%	1.36%	1.36%	1.36%	1.36%	1.36%	1.36%
Total Pension	19.03%	18.40%	18.40%	15.27%	15.27%	15.27%	19.03%	15.27%
Health Normal Cost	0.22%	0.22%	0.00%	0.00%	0.22%	0.00%	0.00%	0.00%
Health UAL	5.69%	5.69%	5.69%	5.69%	5.69%	5.69%	5.69%	5.69%
Total Health	5.91%	5.91%	5.69%	5.69%	5.91%	5.69%	5.69%	5.69%
Total Contributed by Schools for DB	<u>24.94%</u>	<u>24.31%</u>	<u>24.09%</u>	<u>20.96%</u>	<u>21.18%</u>	<u>20.96%</u>	<u>24.72%</u>	<u>20.96%</u>
DC employer match	0.00%	1.00%	1.00%	3.00%	4.00%	4.00%	0.00%	0.00%
PHF employer match	0.00%	0.00%	2.00%	2.00%	0.00%	2.00%	2.00%	0.00%
Total DC	0.00%	1.00%	3.00%	5.00%	4.00%	6.00%	2.00%	0.00%
Total Contributed by Schools for DB & DC (percentages match the rate communication)	<u>24.94%</u>	<u>25.31%</u>	<u>27.09%</u>	<u>25.96%</u>	<u>25.18%</u>	<u>26.96%</u>	<u>26.72%</u>	<u>20.96%</u>

Employer Contribution Rates

Rates remain relatively constant



Funding Notes

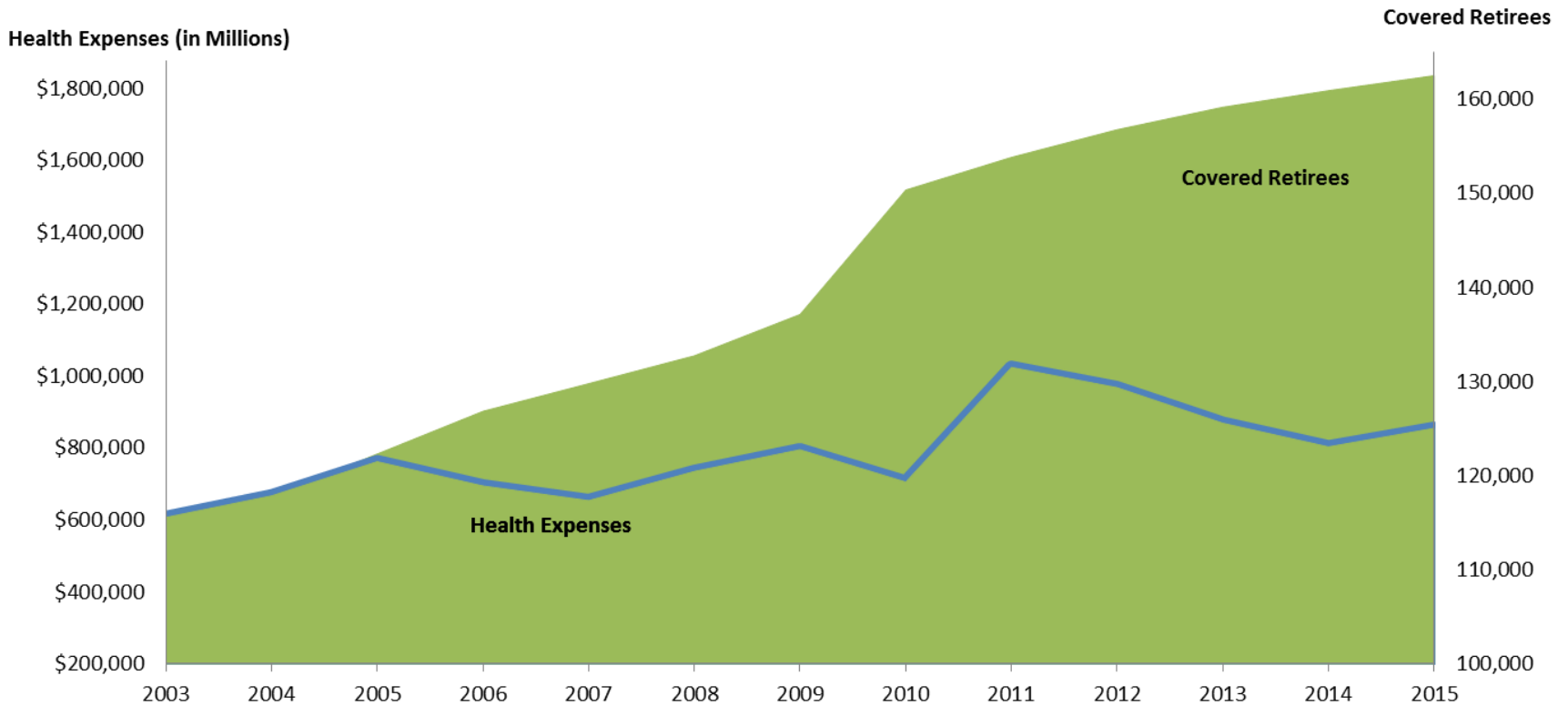
- The effects of the 2008/2009 recession have now fully phased in.
- Retiree healthcare pre-funding and asset levels continue to improve.
- Stranded costs have an impact.

Healthcare Goals

- Healthcare Mission
 - To maintain a quality health care plan that is affordable to both the member and the schools.
- Quality Goal
 - Measurably improve the quality of care enjoyed by members.
- Cost Goal
 - Limit the rate of cost growth to the compound rate of inflation (CPI) and real economic growth.

Defying the Trends

Combined Health, Dental, and Vision Cost for School Retirees



GASB OPEB

- Government Accounting Standards Board (GASB) Statements No. 74 & 75.
 - No. 74 sets reporting guidance for the plan
 - No. 75 sets guidance for the reporting units
- No. 75 goes into effect on 06/30/2018 financial statements.
- Similar to pensions, liability now reported on balance sheet.
- Reporting units can expect similar service to what is provided for GASB 68 reporting from ORS.

3% Healthcare Contribution FICA Tax

- ORS has been made aware of recent determinations, which ruled in part that the contributions are subject to FICA taxes.
- ORS has not changed the previous guidance made to school districts on the federal tax treatment of the retiree healthcare contributions.
- ORS has created an Overview and Analysis document.
 - Sets forth some of the best arguments for favorable tax treatment.
 - Supports the upcoming Private Letter Ruling Request.
 - Reporting units will each have to make their own determination with regard to their federal tax analysis.

Discussion

- What have we missed?
- What questions do you have?

Contact Information

- Office of Retirement Services
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