MPSERS
Projected Employer Contributions for Pension and Retiree Health Benefits
Effects of Proposed Provisions
(Draft - 05/04/2012)

Projected Employer Contribution Rates

Estimated employer contribution rates, as percentages of MPSERS active member payroll, are displayed in the chart below. Tabular values are provided as well.

Two alternative projections are shown:

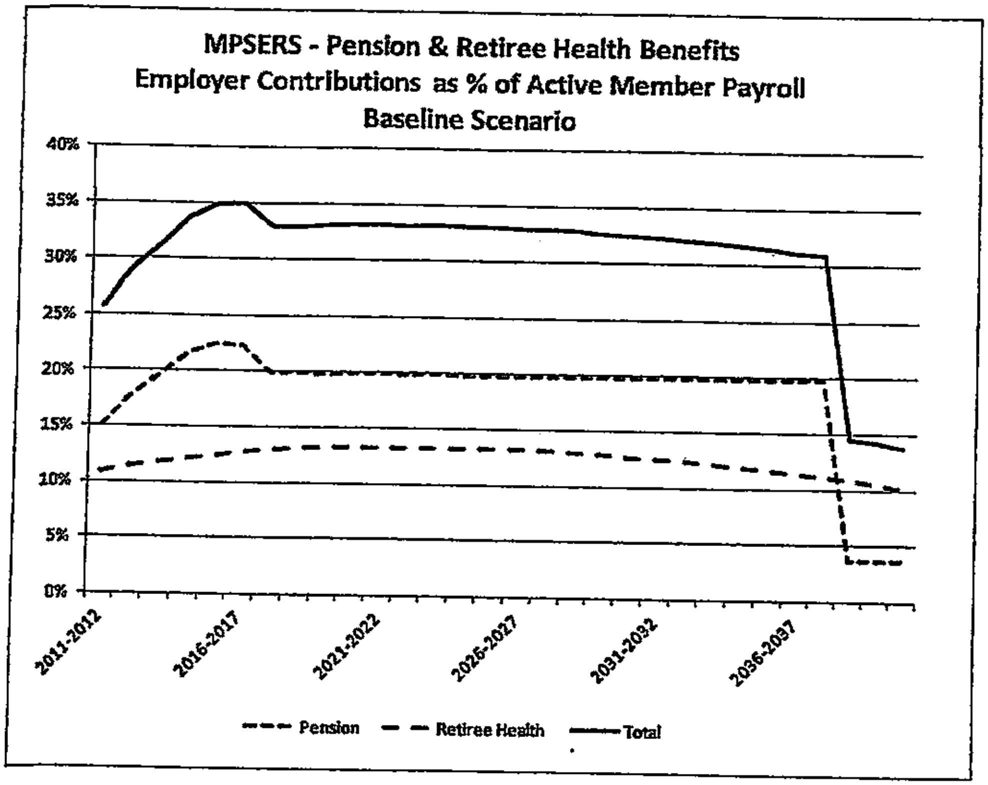
1. **Current Plan Provisions – Baseline Scenario**
   Current plan provisions are continued for both the pension and retiree health plans. New employees are covered by the Hybrid Plan (Pension Plus Plan) and receive graded coverage in the retiree health plan.

2. **Proposed Provisions – Full Funding – 10 Year Amortization of ERIP Scenario**
   Proposed Pension Provisions:
   Basic employees contribute 4% of pay to the pension plan, while MIP employees contribute 7% of pay to the pension plan.
   Proposed Retiree Health Provisions:
   80%/20% (employer/employee) cost share for all participants (active, deferred, and retired), 3% active member contributions to the health plan for current actives, new employees are covered by a 2% DC arrangement.
   This scenario assumes that employers and members are fully funding the retiree health ARC each year. Additionally, it is assumed that the employer fully funds the early retirement incentive over 10 years (starting with the 2012-2013 fiscal year, rather than over 5 years as currently scheduled.

All results in this illustration are based on September 30, 2010 valuation results. In all cases, FY 2010-2011 payroll is estimated to total $9.5 billion, consistent with the payroll estimated in the September 30, 2010 actuarial valuation. As of September 30, 2010, school employers had not yet completed their planned replacement of employees who retired under the 2010 Early Retirement Incentive Program, so that reported active member payroll dropped significantly. However, reported payroll began to increase after September 30, 2010. The actuary and the Office of Retirement Services estimated that actual payroll would be around $9.5 billion in FY 2010-2011.

None of the projected employer contribution rates include reconciliation payments. The projected pension employer contribution rates include the 2-year delay in the budgeting process beginning with the 2012-2013 fiscal year. (That is, the September 30, 2010 valuation was used to budget fiscal years ending 2012 and 2013. The September 30, 2011 valuation is used to budget fiscal year 2014.) For retiree health projected employer contribution rates, no delay was incorporated in the full funding scenario.

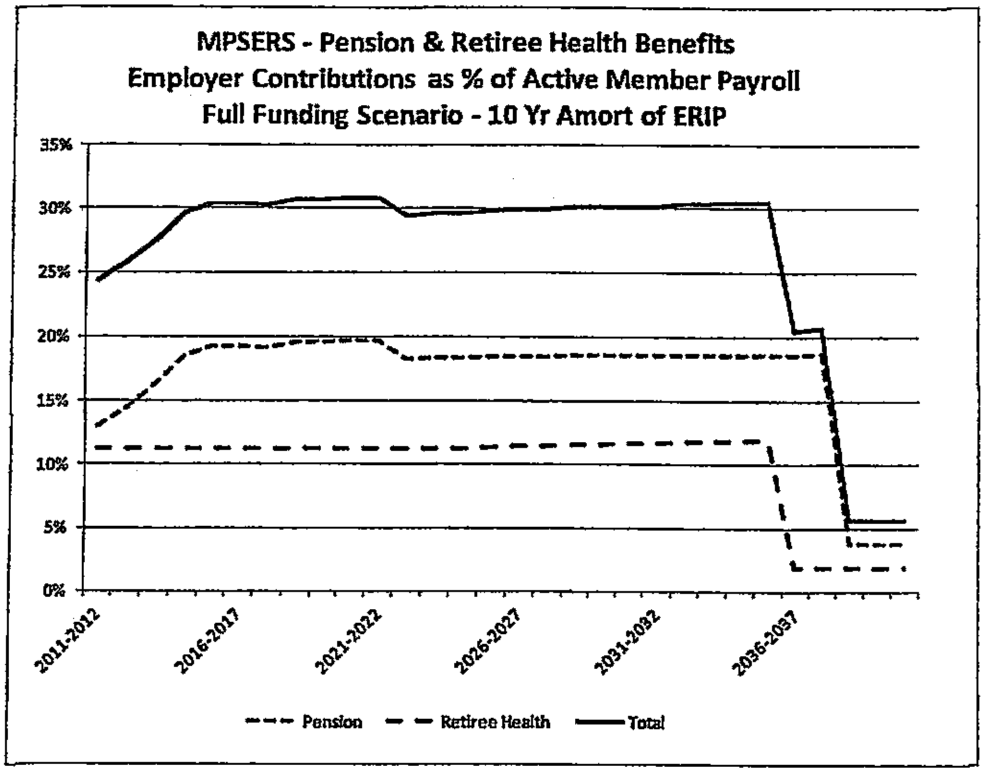
BASELINE SCENARIO (Draft - 05/04/2012)



Projected Payroll and Employer Contributions for Pension and Retiree Health Benefits (in millions)

Fiscal Year	Projected Payroll	Pension		Retiree Health		Total	
		Dollars	% of Pay	Dollars	% of Pay	Dollars	% of Pay
2011-2012	$9,833	$1,471	15.0%	$1,063	10.8%	$2,534	25.8%
2012-2013	$10,177	$1,801	17.7%	$1,147	11.3%	$2,948	29.0%
2013-2014	$10,533	$2,054	19.5%	$1,231	11.7%	$3,285	31.2%
2014-2015	$10,902	$2,355	21.6%	$1,317	12.1%	$3,672	33.7%
2015-2016	$11,284	$2,528	22.4%	$1,403	12.4%	$3,931	34.8%
2016-2017	$11,679	$2,604	22.3%	$1,485	12.7%	$4,089	35.0%
2017-2018	$12,088	$2,406	19.9%	$1,566	13.0%	$3,972	32.9%
2018-2019	$12,511	$2,490	19.9%	$1,644	13.1%	$4,134	33.0%
2019-2020	$12,949	$2,564	19.8%	$1,717	13.3%	$4,281	33.1%
2020-2021	$13,402	$2,667	19.9%	$1,786	13.3%	$4,453	33.2%
2021-2022	$13,871	$2,760	19.9%	$1,850	13.3%	$4,610	33.2%
2022-2023	$14,356	$2,842	19.8%	$1,915	13.3%	$4,757	33.1%
2023-2024	$14,858	$2,957	19.9%	$1,982	13.3%	$4,939	33.2%
2024-2025	$15,378	$3,045	19.8%	$2,049	13.3%	$5,094	33.1%
2025-2026	$15,916	$3,151	19.8%	$2,115	13.3%	$5,266	33.1%
2026-2027	$16,473	$3,262	19.8%	$2,178	13.2%	$5,440	33.0%
2027-2028	$17,050	$3,376	19.8%	$2,238	13.1%	$5,614	32.9%
2028-2029	$17,647	$3,494	19.8%	$2,291	13.0%	$5,785	32.8%
2029-2030	$18,265	$3,616	19.8%	$2,340	12.8%	$5,956	32.6%
2030-2031	$18,904	$3,743	19.8%	$2,389	12.6%	$6,132	32.4%
2031-2032	$19,566	$3,874	19.8%	$2,442	12.5%	$6,316	32.3%
2032-2033	$20,251	$4,010	19.8%	$2,491	12.3%	$6,501	32.1%
2033-2034	$20,960	$4,150	19.8%	$2,535	12.1%	$6,685	31.9%
2034-2035	$21,694	$4,295	19.8%	$2,573	11.9%	$6,868	31.7%
2035-2036	$22,453	$4,446	19.8%	$2,605	11.6%	$7,051	31.4%
2036-2037	$23,239	$4,601	19.8%	$2,634	11.3%	$7,235	31.1%
2037-2038	$24,052	$4,762	19.8%	$2,661	11.1%	$7,423	30.9%
2038-2039	$24,894	$921	3.7%	$2,682	10.8%	$3,603	14.5%
2039-2040	$25,765	$953	3.7%	$2,696	10.5%	$3,649	14.2%
2040-2041	$26,667	$987	3.7%	$2,704	10.1%	$3,691	13.8%

PROPOSED PROVISIONS – FULL FUNDING SCENARIO (Draft - 05/04/2012)



Projected Payroll and Employer Contributions for Pension and Retiree Health Benefits (in millions)

Fiscal Year	Projected Payroll	Pension Dollars	Pension % of Pay	Retiree Health Dollars	Retiree Health % of Pay	Total Dollars	Total % of Pay	School District Rate	School Aid Rate
2011-2012	$9,833	$1,275	13.0%	$1,114	11.3%	$2,389	24.3%		
2012-2013	$10,177	$1,465	14.4%	$1,147	11.3%	$2,612	25.7%	24.5%	1.2%
2013-2014	$10,533	$1,706	16.2%	$1,183	11.2%	$2,889	27.4%	24.5%	2.9%
2014-2015	$10,902	$2,006	18.4%	$1,221	11.2%	$3,227	29.6%	24.5%	5.1%
2015-2016	$11,284	$2,167	19.2%	$1,261	11.2%	$3,428	30.4%	24.5%	5.9%
2016-2017	$11,679	$2,242	19.2%	$1,303	11.2%	$3,545	30.4%	24.5%	5.9%
2017-2018	$12,088	$2,309	19.1%	$1,348	11.2%	$3,657	30.3%	24.5%	5.8%
2018-2019	$12,511	$2,440	19.5%	$1,395	11.2%	$3,835	30.7%	24.5%	6.2%
2019-2020	$12,949	$2,525	19.5%	$1,445	11.2%	$3,970	30.7%	24.5%	6.2%
2020-2021	$13,402	$2,627	19.6%	$1,498	11.2%	$4,125	30.8%	24.5%	6.3%
2021-2022	$13,871	$2,719	19.6%	$1,555	11.2%	$4,274	30.8%	24.5%	6.3%
2022-2023	$14,356	$2,613	18.2%	$1,614	11.2%	$4,227	29.4%	24.5%	4.9%
2023-2024	$14,858	$2,719	18.3%	$1,677	11.3%	$4,396	29.6%	24.5%	5.1%
2024-2025	$15,378	$2,814	18.3%	$1,743	11.3%	$4,557	29.6%	24.5%	5.1%
2025-2026	$15,916	$2,929	18.4%	$1,813	11.4%	$4,742	29.8%	24.5%	5.3%
2026-2027	$16,473	$3,031	18.4%	$1,887	11.5%	$4,918	29.9%	24.5%	5.4%
2027-2028	$17,050	$3,137	18.4%	$1,964	11.5%	$5,101	29.9%	24.5%	5.4%
2028-2029	$17,647	$3,265	18.5%	$2,043	11.6%	$5,308	30.1%	24.5%	5.6%
2029-2030	$18,265	$3,379	18.5%	$2,123	11.6%	$5,502	30.1%	24.5%	5.6%
2030-2031	$18,904	$3,497	18.5%	$2,206	11.7%	$5,703	30.2%	24.5%	5.7%
2031-2032	$19,566	$3,620	18.5%	$2,292	11.7%	$5,912	30.2%	24.5%	5.7%
2032-2033	$20,251	$3,767	18.6%	$2,383	11.8%	$6,150	30.4%	24.5%	5.9%
2033-2034	$20,960	$3,899	18.6%	$2,476	11.8%	$6,375	30.4%	24.5%	5.9%
2034-2035	$21,694	$4,035	18.6%	$2,572	11.9%	$6,607	30.5%	24.5%	6.0%
2035-2036	$22,453	$4,176	18.6%	$2,671	11.9%	$6,847	30.5%	24.5%	6.0%
2036-2037	$23,239	$4,322	18.6%	$430	1.9%	$4,752	20.4%		
2037-2038	$24,052	$4,498	18.7%	$453	1.9%	$4,951	20.6%		
2038-2039	$24,894	$921	3.7%	$475	1.9%	$1,396	5.6%		
2039-2040	$25,765	$953	3.7%	$497	1.9%	$1,450	5.6%		
2040-2041	$26,667	$987	3.7%	$519	1.9%	$1,506	5.6%		

MPSERS Impact on Funding Worksheet

PRELIMINARY AND DRAFT

5/4/2012

If the system were fully pre-funding Retiree Health Care like we do pension, the Unfunded Accrued Liability (UAL) could be calculated using an 8% discount rate. The current pay-as-you-go system calculates the UAL using a 4% discount rate. Partial pre-funding of Retiree Health Care allows the actuary to calculate the UAL with a discount rate between 4% and 8%, dependent on the level of pre-funding.

		Pension Funding ($ in billions)	Health Care Funding ($ in billions)
	Illustrative Impact on 2013 Rate (for employees hired Since 7/1/2010)	Unfunded Accrued Liability	Unfunded Accrued Liability (Full Funding)
Today's (As-Is) Funding Requirements	27.37%	$ 17.600	$ 27.600
Positive health experience in FY 2011	-0.70%		$ (1.600)
Revised UAL			$ 26.000
1 Reduce liability by establishing a maximum subsidy of 80% for retiree health care	-1.00%		$ (1.900)
Revised UAL			$ 24.100
2 New employees will receive a Personal Healthcare Fund (2% matching contribution + $2,000/$1000 upon termination)			Eliminates the growth of the liability for new employees
Revised UAL			$ 24.100
3 Partially fund retiree health care liability using 3% member contributions.	-2.58%		$ (5.500)
Revised UAL			$ 18.600
4 Fully prefund health care	6.13%		$ (5.300)
Revised UAL			$ 13.300
5 Pension Choice	-2.07%	$ (1.560)	
Revised UAL		$ 16.040	
6a Reamortize early retirement incentive program	-1.30%		
6b Prelimary budgetary adjustment projection	-1.39%		
New retirement rate	24.46%		
Overall reduction in liabilities:		$1.56 Billion (Pension)	$14.3 Billion (Health)
		$15.86 Billion (Overall)	

How changing the definition of "compensation" in SB 1040 has a negative fiscal impact

Projected MPSERS Contribution =
27.37% Employer contribution plus 11.30% Employee contribution

%age	Purpose	Paid by	Notes
3.47	Pension	Employer	Actuarial cost of pension benefit
12.49	Unfunded liability	Employer	Due to privatization losses, staff reductions, market decline 2009, etc.
2.66	2010 early retirement		PA 75 1910 / SB 1227
5.75	Health	Employer	Cost of health coverage
3.00	Health "surcharge" due to injunction	Employer	Collected as a safeguard against losing the injunction on 3% Employee contribution
3.00	Health	Employee	PA 75 1910 / SB 1227; currently in escrow, ultimately destined for MPSERS after settlement
4.30	MIP contribution	Employee	Employee contribution
4.00	New MIP contribution	Employee	Proposed in SB 1040 to maintain DB

For every $100 of payroll Employer to pay $27.37 and Employee to pay $11.30 to MPSERS.

If future earnings in form of annuity (or longevity or merit pay) are not considered "compensation" then no MPSERS contribution can occur on these amounts and MPSERS revenues would decline.

Reducing payroll dollars due to change in definition of compensation has same negative impact on MPSERS as loss of payroll dollars due to early retirement and privatization has had.

The result of redefining "compensation":

On **revenue** side MPSERS would lose $35.20 of contributions targeted for health & unfunded liability costs, and $3.47 related to future pension costs.

On **expense** side MPSERS would see no reduction or increase in expenses for health, unfunded liability, or 2010 early retirement (which 86% of revenues go to cover); future pension costs, because they are projected actuarially, would be neutral.

Bottom line: changing definition of "compensation" eliminates $35.20 from MPSER revenue stream to pay for health and unfunded liabilities, while eliminating $0 from the expense side; thereby not capturing opportunity to pay down these liabilities and a practice of "kicking the can down the road" yet again.

DRAFT

CONTINUE THE 3% RETIREE HEALTH CARE CONTRIBUTION, USE IT TOWARD PREFUNDING, BUT RETURN ANY FUNDS IF A MEMBER OPTS OUT OR DOES NOT QUALIFY FOR HEALTH CARE BENEFITS.

The following general framework[1] could be used in conjunction with the continuation of the 3% retiree health care contribution. It would promote the goals of not only allowing for the prefunding of the MPSERS retiree health care system, but also providing the ability to receive individual tangible benefits as a result of the contributions that have been made, especially in the case where an employee does not qualify for a retiree health care benefit.

Election Provided to Forgo 3% Payment and Health Benefits. Each member is provided with a one-time irrevocable choice to choose between two retiree health care benefit options. Option 1 would be to opt out of any retiree health care provided by MPSERS and instead receive funds deposited into a Personal Healthcare Fund account within the State 401K plan, similar to the option recently provided to State employees. Option 2 would be to continue receiving years of service toward the qualification of health care benefits provided by MPSERS. Those not making an election would be deemed to have elected Option 2.

Option 1. Opting Out of Health Care and Receiving DC Health Care Payments. Those electing to opt out would not continue to pay the 3%, would receive the amount that they paid into their State 401K accounts (immediately vested), and would receive up to 2% of compensation in matching contributions from their employer to the State 401K account (subject to normal DC vesting schedule), based on their employee contributions to the State 457 Plan.

Option 2. Choosing to Pay 3% to Continue With Current Health Care. Those electing to remain in their current health care benefit program would also elect to continue to pay the 3% to be eligible for the health care as currently provided under MPSERS. Each member making the 3% contributions would be guaranteed to receive an individual benefit from those contributions, either in the form of retiree health care or a supplemental pension payment from MPSERS (for those who do not qualify for retiree health care).

For those who do not qualify for retiree health care, but who paid the 3% contributions, those contributions would be paid out as a supplemental defined benefit upon application by the member. In such case, the retiree health care contributions would be forfeited, but an equivalent amount would be paid to that member as a supplemental retirement allowance under MPSERS.

Any members with breaks in service would retain their election upon reemployment, allowing them to either continue receiving the Personal Healthcare Fund contributions (2% matching contributions) under Option 1, or returning and continuing to pay 3% and accruing years of service toward qualification for a MPSERS health benefit under Option 2.

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[1] Each option would need to determine the degree to which the contributions are specified to be contractual obligations of the retirement system, the classification and features of the funding account to house such funds, and the Federal tax treatment of such funds.