DEDICATED GAINS POLICY

MERS
Municipal Employees' Retirement System

To support MERS' funding policy, MERS worked with external accredited actuaries to develop a Dedicated Gains Policy that will allow us to systematically reduce the assumed investment rate of return in a way that reduces the financial impact on our members by using excess market gains to offset the increase in contributions.

What is the assumed rate of return?

The MERS Defined Benefit Plan is funded by employer contributions, participant contributions and investment earnings.

To determine how much is required from contributions to save for promised retirement benefits, we need to determine how much investment earnings are expected to add to the fund over a long period of time.

We call this estimate the *assumed rate of return* (also known as the investment return assumption). The larger the share of benefits being provided by investment return, the smaller the share of contributions, and vice versa.

As part of our fiduciary responsibility, MERS checks this assumption each year and adjusts as needed to ensure plans are properly funded.

How does this approach work?

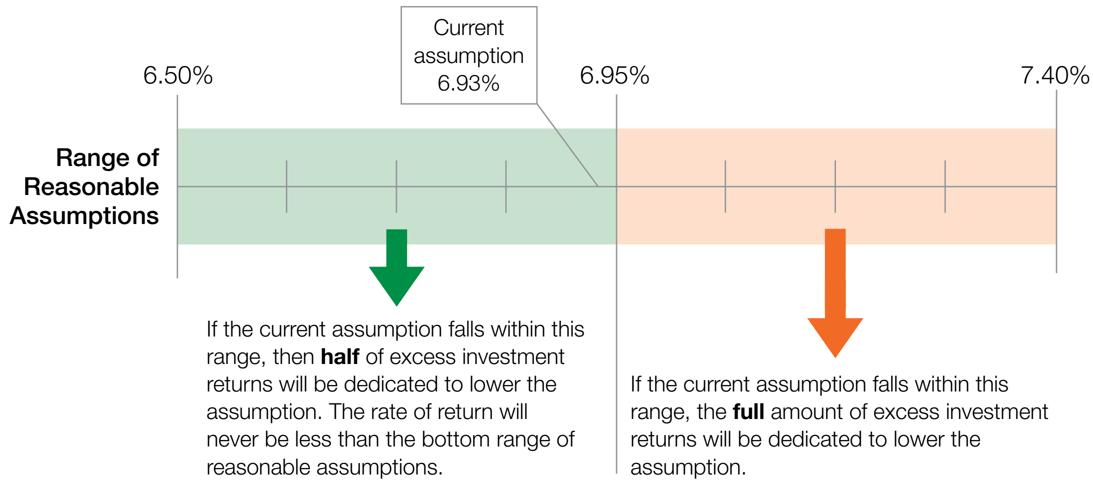
The process for reducing the rate of return is automatic, with some parameters in place.

Each year, we will automatically adjust the investment return using excess market gains. While a portion of the excess returns will continue to be smoothed over a five-year period, some of the excess returns will be immediately recognized to offset the increase in contributions. In other words, MERS will be "dedicating" some of our investment returns to pay for the decrease in the return assumption.

Adjusting the investment return assumption this way uses the investment gains to absorb the impact, rather than passing the impact directly on to funded levels and increasing required contributions.

How long will MERS continue to lower the assumed rate of return?

Following each capital market analysis, MERS will use the data provided to establish a range of reasonable assumptions that will be used for the next three years. Then, each year, if the current assumption falls above the midpoint of that range, the full amount of excess investment returns will be dedicated to lowering the assumption. If the current assumption falls below the midpoint, then only half of the excess investment returns will be dedicated to lowering the assumption. Any gains not used to buy down the assumed rate of return will continue to be smoothed over a five-year period.



The assumed rate of return should always fall within the range of reasonable assumptions. It will never be reduced beyond the bottom of the range. Similarly, if the assumed rate of return exceeds the top of the range, MERS will reduce the assumption so that it falls within the high end of the range.

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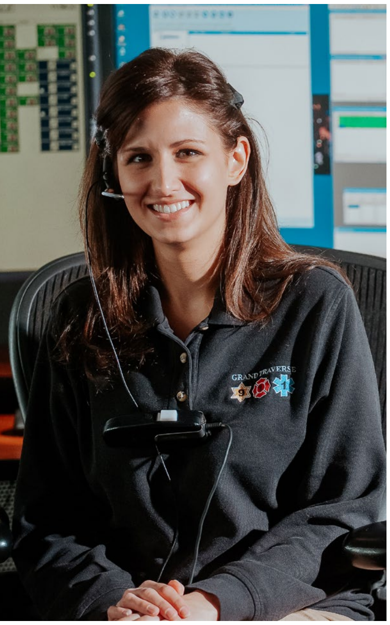

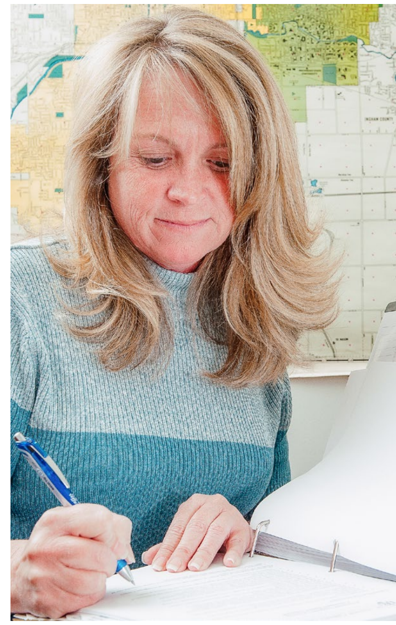

2023 Investment Performance

In 2023, the Defined Benefit Portfolio returned 11.92%, significantly outperforming our actuarial assumed rate of return of 7.00%.

Based on this performance, excess gains from 2023 will be used in lowering the assumed rate of investment return (previously 7%) within the 2023 Annual Actuarial Valuations. The new assumption (6.93%) will be reflected in your Employer Portal by the end of June 2024.

Impact on Contributions to the Plan

Reducing the assumed rate of return this way uses the investment gains to absorb the impact, rather than passing the impact directly on to funded levels and increasing required contributions. For the majority of plans, the excess gains will cover BOTH the *normal cost* and payment toward unfunded accrued liability (UAL) for the next fiscal year. Going forward, the normal cost will continue to be calculated using the lower assumed rate of return, which means the normal cost of the plan will be higher.

Watch this video for a comprehensive exploration of investment return assumptions and the dedicated gains policy!

Scan Me

For more information about how MERS uses dedicated gains to reduce the assumed rate of return, contact us at www.mersofmich.com or call our Service Center at 800.767.6377.