MERS®
Municipal Employees' Retirement System

Key Updates from THE EXPERIENCE STUDY (What You Should Know)

How are Defined Benefit Plans Funded?

Defined Benefit Plans may be funded by three sources; employer contributions, employee contributions and earnings on investments. For more than 20 years, approximately 2 out of every 3 dollars from MERS retirement benefits have come from investment earnings.

In a defined benefit plan contributions vary from one year to the next. Required contributions are reported in the Annual Actuarial Valuation and consist of two components; Normal Cost and Amortization of any Unfunded Accrued Liability (UAL).

What is an Experience Study?

The Experience Study is a comprehensive, detailed analysis MERS does every five years to review its funding policy for defined benefit plans and compare actual experience with current actuarial assumptions and make adjustments as necessary.

A comprehensive study of this kind is a fiscal best practice designed to ensure municipalities have enough assets in their plan to provide for the benefits that are expected to be paid. The study allows the municipality to assess the financial state of its plan and potentially implement changes.

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.

What is changing as a result?

There are three main changes. MERS is adjusting its **mortality table** because people are living longer, lowering its **assumed rate of return** from 8 percent to 7.75 percent, and requiring a **shorter fixed amortization period**.

The amortization period is the length of time needed to eliminate a pension plan's unfunded liability. Since 2005, MERS has been gradually reducing the amortization period to help ensure that pension costs of current employees do not shift onto future generations. Having a fixed amortization period gives a specific target date to each plan by which all known obligations will be fully funded.

What are the impacts?

As a multi-employer plan, MERS establishes a separate trust for each participating municipality. Each entity is responsible for the employer contributions needed to provide benefits for its employees and retirees. This gives our members the benefit of pooling for investments and administrative services, while maintaining the integrity and individuality of each plan.

The impact of these changes vary across municipalities because plans have different participant demographics, funded levels and benefit designs. The MERS Board approved a "phase in" for the total impact over the next 5 years (impacting fiscal years 2017 – 2021).

Recognizing that every member has unique needs, we offer a broad range of customizable plans to fit our members' budgets, needs and goals. We also partner with municipalities, helping them set fiscal goals and discussing options. Many are already taking proactive steps to reduce their UAL.