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# Curious about fiduciary responsibility?

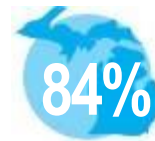




The Municipal Employees' Retirement System (MERS) of Michigan is an independent, professional retirement services company that was created to administer the retirement plans for Michigan municipalities on a not-for-profit basis.

The team at MERS is made up of top industry experts who use fiscal best practices to provide our members with peace of mind and security in their retirement. MERS listens and works in partnership with our members to deliver a superior value that meets our members' needs.

## BY THE NUMBERS



of Michigan's pension plans participate with MERS



participants



in combined total assets



## MERS Is Governed by an Independent, Elected Retirement Board

The MERS Retirement Board has the fiduciary responsibility for the investment of assets and oversees the retirement system.

The nine-member Retirement Board is an independent, elected board that operates without compensation.

As the fiduciary, the Board ensures that MERS operates in the best interest of our members and uses fiscal best practices to hold the line on expenses.



### MERS Retirement Board

is responsible for administration of the system with fiduciary responsibility for the investment of assets and oversight.

#### Three Employee Members:

Non-officers of a participating municipality, elected by membership

#### Two Expert Members:

With experience in retirement systems or investment management, appointed by the Board

#### Three Officer Members:

Officers of a participating municipality, elected by membership

#### One Retiree Member:

Retiree of the System, appointed by the Board



## Fiduciary Responsibility

Offering a retirement plan can be one of the most challenging, yet rewarding, decisions an employer can make.

Administering a plan and managing its assets, however, requires certain actions and involves specific responsibilities.

Those who manage an employee benefit plan and its assets have the fiduciary responsibility for the plan.





## Duties of a Fiduciary

Fiduciaries have important responsibilities and are subject to standards of conduct because they act on behalf of participants in a retirement plan.

### Adherence to Plan Document

Following the terms of the plan document, which is the foundation for plan operations, is an important responsibility.

Employers will want to be familiar with their plan document, especially when it is drawn up by a third-party service provider, and periodically review the document to make sure it remains current.

### Investment Oversight

Review and adherence to an [Investment Policy Statement](#) is another important fiduciary role.

Participants should have access to a core investment fund line-up with choices that are monitored and modified as needed. In addition, participants need to be provided sufficient information and education to make informed decisions.

Diversification is also critical, as it helps to minimize the risk of large investment losses to the plan.

### Reasonable Expenses

Fiduciaries must understand the fees and expenses charged and the services provided. The law requires that fiduciaries ensure that fees charged to a plan are "reasonable" expenses.



## A Hot Topic Facing Municipalities

With recent high-profile class action suits alleging violation of fiduciary duty—and with the potential for personal liability—employers universally want to manage fiduciary risks.

In particular, they're looking for tools to mitigate the risks associated with selecting and monitoring their plans' investment line-up.

When fiduciary breaches occur there can be:

- Personal liability
- Fines and penalties
- Legal action
- Plan disqualification
- Higher operating expenses

MERS provides employers with the peace of mind that comes with knowing that the ***MERS Retirement Board takes on the sole fiduciary responsibility of their retirement plan.***



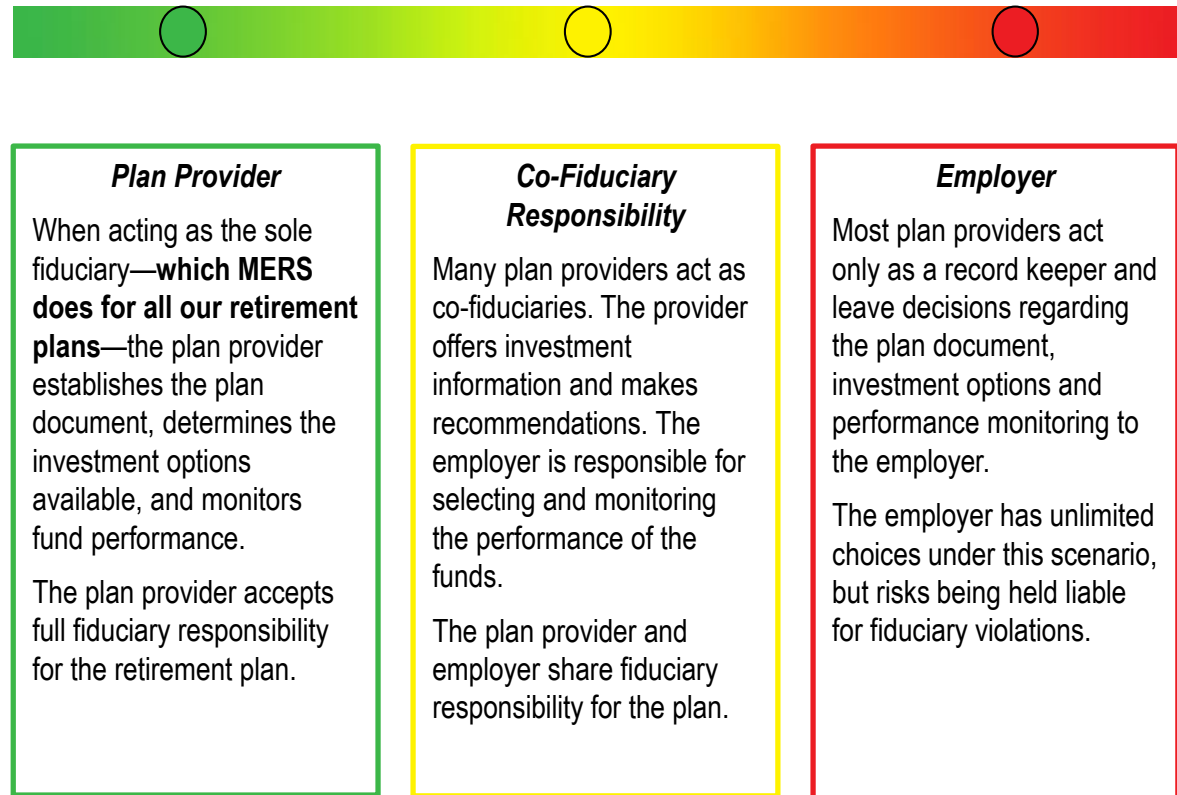


## Who Is Taking Fiduciary Responsibility for Your Retirement Plan?

It is important to note that when it comes to the fiduciary responsibility for your retirement plan, not all plan providers will assume the role of fiduciary for your plan.

Plan providers and employers can share varying degrees of responsibility depending upon who is responsible for the core functions of the plan, including: establishing the plan document, remaining current on legislative changes, selection of the investment options, monitoring fund performance, and ensuring fees are reasonable.

### *Degrees of Fiduciary Responsibility*







## MERS Acts as the Sole Fiduciary for our Retirement Plans

As sole fiduciary, MERS takes on the fiduciary responsibility and legal liability for:

- Selecting and monitoring investment options used by participants
- Employing in-house legal staff to monitor state and federal laws, and ensure compliance
- Actively maintaining our tax exempt status with the IRS





## Plan Document Fiduciary

Our in-house legal staff actively monitors state and federal laws, ensuring that our plans are in compliance. In addition, we actively maintain our qualified status as a 401(a) plan with the Internal Revenue Service.

We are required to follow Michigan state law and prudent standards of diligence, and we are dedicated to maintaining the strict oversight and management necessary to meet those requirements.

<b>MERS Retirement Board</b>	<ul style="list-style-type: none"><li>• Acts as sole fiduciary over the Plan Document</li><li>• Delegates responsibilities to maintain the plan's qualified status</li></ul>
<b>MERS Legal Department</b>	<ul style="list-style-type: none"><li>• Monitors changes in laws and regulations</li><li>• Oversees the plan's administrative forms</li><li>• Recommends any changes to the Plan Document to the MERS Retirement Board</li></ul>
<b>MERS Administrative Offices</b>	<ul style="list-style-type: none"><li>• Carries out administrative and operational duties by creating and monitoring operational structure of the plan</li><li>• Makes vendor recommendations to the MERS Board</li><li>• Monitors the plan's operations</li></ul>



## Investment Fiduciary

The MERS Retirement Board, Investment Committee and Office of Investments actively:

- Establish and implement the investment performance objectives and research, perform due diligence and monitor the different managers and funds
- Oversee the investment, offerings, ensure quality choices, and make changes as necessary

The MERS Investments Team is dedicated to providing excellent returns at affordable costs, while protecting the pension assets of our many members.

### MERS Retirement Board

- Acts as sole investment fiduciary
- Sets the investment policy statements and investment guidelines

### MERS Investment Committee

- Serves as the investment policy development arm
- Monitors investment management activity and policy recommendations made by MERS Office of Investments
- Approves recommendations to retain/remove investment managers

### MERS Office of Investments

- Provides quarterly performance reports
- Manages Internal Fixed Income and Equity Management
- Monitors external investment managers



## A Prudent Long-Term Strategy and Proven Track Record of Success

The MERS Investments Team is responsible for selecting the investment options available under our retirement plans.

They are dedicated to providing our member municipalities with excellent returns at affordable costs, while protecting the pensions and assets of our many members.



## MERS Investments

### Our Philosophy

- **Capital preservation is paramount**
- Keep it simple – if it cannot be understood, do not invest in it
- A clearly defined and sound governance structure is a prerequisite for the successful management of any investment strategy
- Asset allocation is the most important decision investors face
- A valuation-driven investment process can generate outperformance by exploiting market inefficiencies
- Low-cost implementation is fundamental to achieving required returns
- Diversification is critical because the future is unknown

- The fund's long-term time horizon allows it to capitalize on the constraints of short-term focused investors

### Primary Investment Objectives

- Exceed the actuarial investment assumption on a **long-term** basis
- Maintain adequate liquidity to pay benefits
- Adopt a strategic asset allocation plan
- Minimize the costs through the efficient use of internal and external resources
- Maintain above median peer rankings for 3, 5 and 10-year time periods
- Exceed the fund's policy benchmark



## Is a Bigger Investment Menu Better?

Although it has long been common wisdom in our country that there is no such thing as too many choices, psychologists and economists are concluding that an overload of options may actually paralyze people or push them into decisions that are **against their own best interest**.

A large number of fund choices actually discourages participation, even amongst well-informed participants<sup>1, 2</sup>

Research also shows that an excess of choices often leads us to be less, not more, satisfied once we actually decide.

<sup>1</sup> Mottola, Gary and Utkus, Stephen. "Can There Be Too Much Choice In a Retirement Savings Plan?" *The Vanguard Center for Retirement Research*, June 2003

<sup>2</sup> Schwartz, Barry. "More Isn't Always Better." *Harvard Business Review*, 01 June 2006. Web. 24 Feb. 2016



A study on consumer behavior experimented with jam displays. One table held 24 varieties of gourmet jam; the other held only six varieties. The large display attracted more interest, but people were **10 times more likely** to purchase from the small display.



## Simplified Investment Options

Understanding how people choose has helped MERS to design a menu that is meant guide participants in helping them make better decisions.

While our streamlined investment menu appears simple, it is the result of sophisticated selections made by our experienced team of investment professionals who perform the necessary research, due diligence and monitoring of the various fund managers to ensure that high quality options are available.

For more information on each of our funds, please consult our [Investment Menu Summary](#) or read our investment menu guide [Understanding the MERS Investment Menu](#).

## Logical Investment Categories

We have grouped our investment options into three logical categories that the participant can identify with.

1

### ***“Do it for me”***

Fully diversified target date funds that automatically adjust over time

2

### ***“Help me do it”***

Prebuilt portfolios and individual funds to build your own portfolio

3

### ***“I’ll do it myself”***

Self-directed brokerage account to access funds outside of MERS\*

\* Self-directed brokerage account not available under Health Care Savings Program





## Commitment to Transparency and Accountability

As the fiduciary, the MERS Retirement Board is committed to accountability and transparency, holding the line on costs and operating in the best interest of our members.



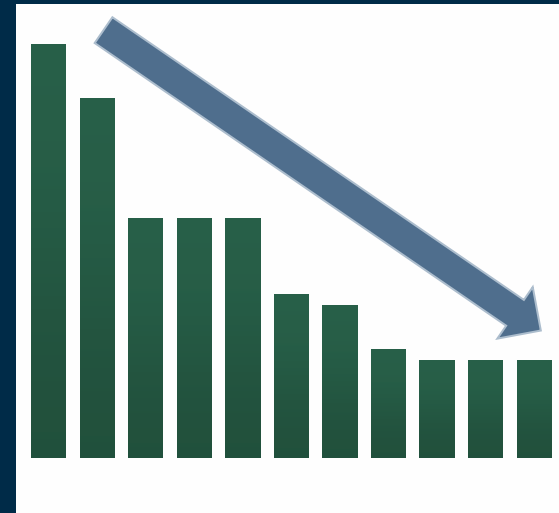
## Straightforward Costs

Our members benefit from the economies of scale and low administrative cost that come with being part of a large pool of assets. MERS charges the same administrative fees and expenses on each fund, regardless of plan size.

Our [fund sheets](#) are readily available on our website and clearly disclose our low fees and recordkeeping expenses.

Operational efficiencies and continued growth have reduced expenses. **As of 12/31/2022, our weighted average fund cost is just 0.39%.**

Investment expenses have been **reduced by 43%** since bringing our 457 Program in-house



The MERS weighted average fund cost is determined by the percentage of assets participants invest in each fund offered on the MERS Defined Contribution Plan, 457 Program and Health Care Savings Program Investment Menus.



## Investing More Dollars Makes a Lot of Sense

Lower costs can make a big difference over time. For example, if you invested \$10,000 for 30 years, you could **earn as much as \$27,710 more by investing with MERS.**

Fund Expense

2.00%

\$44,752

\$27,710

1.50%

\$51,979

\$20,483

1.00%

\$60,371

\$12,091

0.39%

\$72,462



*This hypothetical example illustrates the effect fees can have on \$10,000 growing for 30 years, at an **annual return of 7%**, before the different investment costs are considered.*



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*This presentation contains a summary description of MERS benefits, policies or procedures. MERS has made every effort to ensure that the information provided is accurate and up to date. Where the publication conflicts with the relevant Plan Document, the Plan Document controls.*