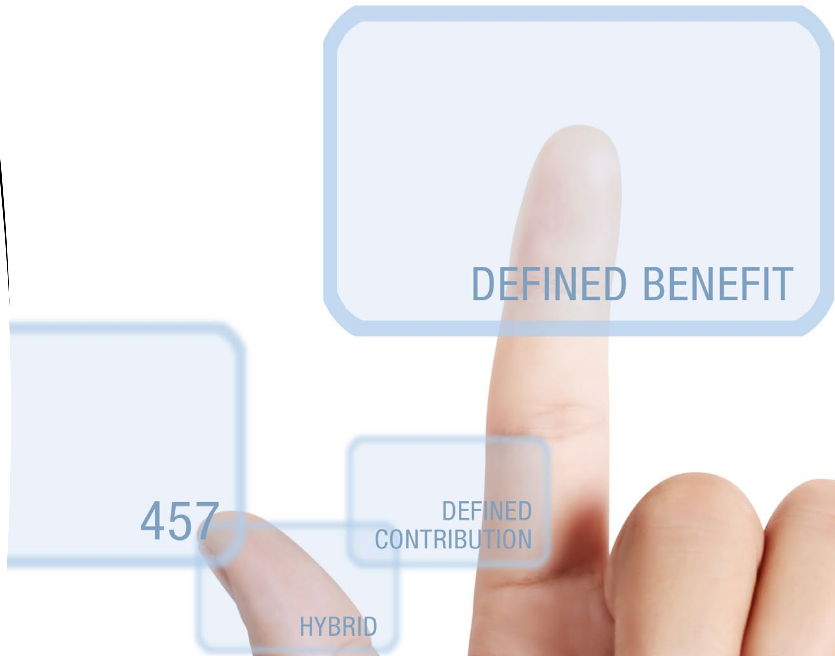



# Managing UAL

*Closing the Gap in Unfunded Accrued Liability*

*www.mersofmich.com*

## What is UAL?

In a defined benefit pension plan or retiree health care plan, ***unfunded accrued liability (UAL)*** is the difference between the estimated cost of future benefits that have been accrued to date, and the assets that have been set aside to pay for them.

This difference is represented by the municipality's pension funded level, which is reported in the ***Annual Actuarial Valuation*** the municipality receives each year. To learn more about your valuation, or to explore ways to reduce UAL, contact your MERS Regional Manager by visiting *www.mersofmich.com* or by calling 800.767.6377.

## Managing UAL

There are several ways a municipality can address unfunded accrued liability, including:

**− REDUCE LIABILITY**

Reduce or eliminate liability by offering a lower tier of benefits or different plan type for new hires.

Reduce the liability for existing employees by "bridging" their benefits to a lower tier and freezing final average compensation.

Eliminate future liability by closing or freezing the plan.

**+ INCREASE ASSETS**

Paying more than the required minimum contributions.

Bonding to fully fund the plan.

Cost sharing with employees.

## 1. PURPOSE

***Why do you offer your employees a retirement plan?***

For example: recruitment, retention, union negotiation, portability or security for your retirees. Compare your purpose for current employees to your purpose for future employees. Has the purpose changed?

## 2. BENEFIT

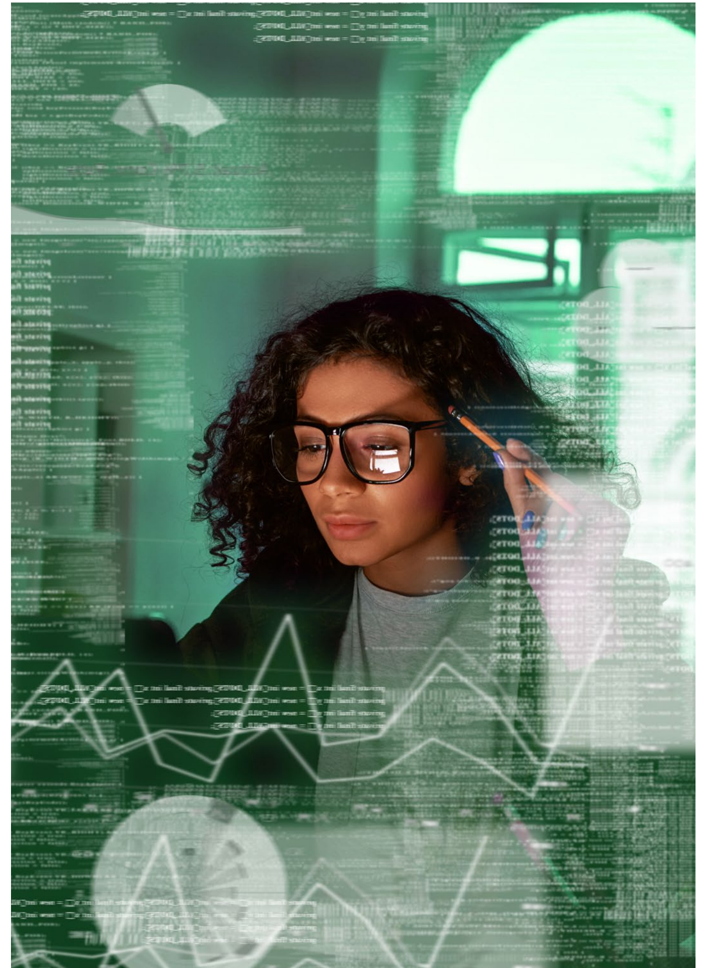
Be sure to ***understand the benefit*** your retirees receive compared to any change in the proposed benefit for a current or new employee. Then evaluate if the current proposed benefits fulfill the purpose.

## 3. COST

When comparing the costs of your current and proposed retirement plans, ensure you're comparing apples to apples. The long term cost of a defined benefit plan that is fully funded is the ***Normal Cost***. The Normal Cost can be found on Table 1 of your Annual Actuarial Valuation.

## 4. CASH FLOW URGENCY

***Consider your budget goal*** for both your current and proposed retirement plans. Do you have an immediate cost savings need or is this change aimed at longer term impact?



# Bridged Multiplier

Bridging the multiplier reduces the benefit multiplier for existing employees on a going-forward basis while leaving earned benefits unchanged.

## HOW DOES IT WORK?

- The first part of the bridge is the current benefit structure already adopted.
- The second part of the bridge allows for the benefit multiplier to be changed on a going-forward basis, impacting only future service.
- At the employee's retirement, the two parts are combined to complete the retirement benefit.

### Calculating the Final Average Compensation (FAC):

- You have the option to use a Frozen FAC for the first part of the bridge. This means the FAC for Part 1 of the benefit will be calculated at the time of the bridge and will not be affected by future pay increases. Choosing this option will typically provide the greatest cost impact.
- If FAC is not frozen, termination FAC will be used to calculate Part 1 of the benefit. Termination FAC calculates the FAC *throughout* the employee's career.

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Part 1

Final Average Compensation (May choose Frozen FAC) X Pre-Bridge Service Credit X Original Benefit Multiplier = Part 1 Benefit

+

Part 2

Final Average Compensation X Post-Bridge Service Credit X New Benefit Multiplier = Part 2 Benefit

$ Total Retirement Benefit

## EMPLOYEE BENEFIT EXAMPLE

Bob worked for 15 years when his employer decides to bridge from a 2.5% benefit multiplier to 1.5% with a frozen FAC. For the first 15 years, Bob's FAC is calculated at $40,000 with a 2.5% multiplier. Bob works another 10 years at the 1.5% benefit multiplier and when he retires his FAC is calculated at $50,000. Bob's benefit will look like the following:

### Calculated With Frozen FAC

| | | | | | | |
|---|---|---|---|---|---|---|
| Frozen FAC<br>$40,000 | x | Pre-Bridge Service Credit<br>15 years | x | Original Benefit Multiplier<br>2.5% | = | $15,000 |
| | | | | | | + |
| FAC<br>$50,000 | x | Post-Bridge Service Credit<br>10 years | x | New Benefit Multiplier<br>1.5% | = | $7,500 |
| | | | | | | $22,500 Annually/<br>$1,875 Monthly |

If Termination FAC was selected for Part 1 instead of Frozen, Bob's FAC at retirement will be used for both parts of the bridge and his total benefit would be **$26,250 annually**.

If Bridged Benefits had not been adopted, Bob would have accrued all 25 years at 2.5% and his retirement benefit would have been **$31,250 annually**.

## BENEFIT COST EXAMPLE

Bob's municipality has 29 employees, a current annual payroll of $1,532,757, a monthly contribution of $23,867 and a 2.5% benefit multiplier. Below are the results of their bridging from a 2.5% benefit multiplier to a 1.5% benefit multiplier:

### Frozen FAC Calculation for Part 1 of the Bridge

| | Current Benefits | Proposed Benefits | Difference |
|---|---|---|---|
| **Actuarial Accrued Liability** | $9,615,809 | $8,416,803 | ($1,199,006) |
| **Division Percent Funded** | 73.1% | 83.5% | 10.4% |
| **Employer Contribution** | $286,404 | $128,604 | ($157,800) |

### Termination FAC Calculation for Part 1 of the Bridge

| | Current Benefits | Proposed Benefits | Difference |
|---|---|---|---|
| **Actuarial Accrued Liability** | $9,615,809 | $9,316,155 | ($299,654) |
| **Division Percent Funded** | 73.1% | 75.4% | 2.3% |
| **Employer Contribution** | $286,404 | $198,936 | ($87,468) |

## CASH FLOW IMPACT

Implementing Bridged Benefits may provide immediate contribution rate relief by changing the Normal Cost moving forward (also UAL contributions in some cases). The impact will vary depending on each specific plan's details (provisions, demographics, etc.).

# Bridged COLA

Bridging the Cost of Living Adjustment (COLA) eliminates the COLA on future service credit for participants. Going forward, the COLA will only be applied to the portion of the benefit earned before the bridge. This is known as the COLA Base.

## HOW DOES IT WORK?

The FAC is frozen as of the date of the bridge for purposes of calculating the COLA Base.

### COLA Base is Calculated as of the Bridge Date

FAC as of Bridge Date **X** Service Credit as of Bridge Date **X** Benefit Multiplier **=** COLA Base

The annual COLA is determined by applying the COLA percentage (typically 2.5%) to the COLA Base only.

### Calculating the Annual COLA

COLA Base **X** COLA % **=** Annual COLA

At termination, the annual retirement benefit is calculated using the full termination FAC and service credit.

### Calculating the benefit in the first year

FAC as of Termination Date **X** Service Credit as of Termination Date **X** Benefit Multiplier **=** First Year Benefit

The Annual COLA is applied to the annual benefit of participants beginning with the January after a retiree has been on pension payroll at least 6 months.

### Applying the annual COLA

First Year Benefit **+** Annual COLA **=** Second Year Benefit

Second Year Benefit **+** Annual COLA **=** Third Year Benefit

Third Year Benefit **+** Annual COLA **=** Fourth Year Benefit

## FOR EXAMPLE

Bob has worked and earned service credit for 20 years when his employer adopted the bridged COLA, which will reduce the COLA from 2.5% to 0% going forward. His FAC from his date of hire to the effective date of bridge is determined to be $50,000.

Bob continues to work for his employer for 10 more years, earning a total of 30 years of service credit. At that time, his FAC from his date of hire to his date of termination is determined to be $75,000. The benefit multiplier is 2.0%.

Bob's retirement benefit will be calculated as follows:

### COLA Base is Calculated as of the Bridge Date

| Frozen FAC | x | Service Credit | x | Benefit Multiplier | = | COLA Base |
|---|---|---|---|---|---|---|
| $50,000 | | 20 years | | 2.0% | | $20,000 |

### Calculating the Annual COLA

| COLA Base | x | COLA % | = | Annual COLA |
|---|---|---|---|---|
| $20,000 | | 2.5% | | $500 |

### Calculating the First Year Benefit

| Termination FAC | x | Service Credit | x | Benefit Multiplier | = | Annual Benefit |
|---|---|---|---|---|---|---|
| $75,000 | | 30 years | | 2.0% | | $45,000 |

### Applying the annual COLA

| First Year Benefit | + | COLA | = | Second Year Benefit |
|---|---|---|---|---|
| $45,000 | | $500 | | $45,500 |

| Second Year Benefit | + | COLA | = | Third Year Benefit |
|---|---|---|---|---|
| $45,500 | | $500 | | $46,000 |

| Third Year Benefit | + | COLA | = | Fourth Year Benefit |
|---|---|---|---|---|
| $46,000 | | $500 | | $46,500 |

## BENEFIT COST EXAMPLE

Bob's municipality has six active employees, a current annual payroll of $197,502, a monthly contribution of $24,636 and a 2.5% non-compound COLA for future retirees. Below are the results of their bridging the COLA from 2.5% to 0% using frozen FAC:

| | 2.5% COLA | Bridged to 0.0% COLA | Difference |
|---|---|---|---|
| Active Participant Actuarial Accrued Liability | $298,535 | $280,414 | **($18,121)** |
| Total Actuarial Accrued Liability | $861,613 | $843,492 | **($18,121)** |
| Division % Funded | 95.2% | 97.3% | **2.1%** |
| Annual Employer Contribution | $24,636 | $18,516 | **($6,120)** |
| Monthly Employer Contribution | $2,053 | $1,543 | **($510)** |

## CASH FLOW IMPACT

Implementing a Bridged COLA may provide immediate contribution rate relief by reducing the Normal Cost and contributions toward UAL moving forward. The impact will vary depending on each specific plan's details.

Demographic factors to look for in your own plan to gauge potential cost savings:

- **A high ratio of Active Participant Liability to Total Actuarial Accrued Liability –** A Bridged COLA will only affect liability for active participants, therefore the greater the number of active participants in your plan, the greater the potential savings.
- **A young active participant population –** Bridged COLA adoptions create more savings if done earlier rather than later in a participant's career.

# Lower Defined Benefit for New Hires

Offering a lower tier of benefits to new hires can help lower future liability while keeping benefits the same for current employees. This option maintains the Defined Benefit Plan, but with lower plan provisions for new hires after a specified date.

## HOW DOES IT WORK?

- New hires, transfers, and rehires are covered by a different tier of Defined Benefit Plan retirement benefits.
- Current division is closed and new hires are enrolled in the new division with lower tier of benefits.
- Accelerated funding may not be required with this change.
- The closed division can be billed as a flat dollar amount or as a “blended” rate of the two divisions.

There are a variety of options available for your new plan for new hires, including: benefit multiplier, employee contributions, vesting, early retirement, etc. Your MERS Regional Manager can help you determine the best options for your new plan, whether it’s changing the final average compensation or increasing your vesting schedule. We can work together to determine the best solution for your needs.

To show you the financial cost and savings of your new plan, we’ll run actuarial reports for your municipality, giving you a clearer picture and helping you understand the impact it can have. Your MERS Regional Team will be available throughout the process to help you review the results of the reports and discuss your options.

## FOR EXAMPLE

A municipality is adopting a lower Defined Benefit Plan for new hires after August 1 in the General Division. The municipality currently has a benefit multiplier of 2.25% for active employees. They want to change the benefit multiplier to 1.50% for anyone hired after August 1. In addition, the FAC will be raised to five years with a 10-year vesting schedule.

## RESULTS

The General Division is closed to new hires and the new lower Defined Benefit Plan Normal Cost is 6.95%*, a long-term savings of 8.27%* of payroll. All new hires, transfers, and rehires will be enrolled in the new lower Defined Benefit Plan (Tier II).

* Assumes average new hire age of 35. Payroll and impacts vary by municipality.

## CASH FLOW IMPACT

Implementing a lower Defined Benefit Plan is a long-term cost savings approach because future benefits will be lower and less expensive than what was previously offered. How quickly savings are realized depends on how soon new hires are enrolled in the plan.

# Defined Contribution

MERS Defined Contribution Plan is a qualified retirement plan under Section 401(a) of the Internal Revenue Code. Each participant has a plan account to which contributions are made and assets are invested. When an employee retires, their benefits are based on the total amount of money in the account. As a qualified plan, participants are not taxed on employer contributions or earnings until assets are withdrawn.

## HOW DOES IT WORK?

- New hires, transfers, and rehires are covered by the MERS Defined Contribution Plan.
  - Current employees may be given a one-time option to switch plans, so long as the employee contributions in each plan are the same.
  - Employers may opt to freeze the Defined Benefit Plan and move current employees into the Defined Contribution Plan.
- Once closed, the Defined Benefit Plan will be billed as a flat dollar amount.

### No Elective Choice

Under IRS Rules, once enrolled in a 401(a) retirement plan, an employee cannot elect to change their contribution rate. Therefore, if an employee opts to convert their existing defined benefit to an actuarially determined cash equivalent amount in a Defined Contribution Plan, the employee contributions required under each of the plans must be the same.

### How is a 401(a) different than a 401(k)?

By law, all public sector plans are required to be a 401(a) defined contribution plan, which is different than the private-sector counterpart, the 401(k). The IRS states that 401(a) defined contribution plans require all eligible employees be enrolled into the plan at a contribution rate determined by the employer. The plan may allow employees to choose from a range of contributions rates at enrollment, but once enrolled, the employee cannot change their rate. In contrast, with the more familiar 401(k) plans, participation is voluntary and participants may increase, decrease, start or stop contributions at any time.

For more flexible contribution options, you can pair a traditional 401(a) plan with the *MERS 457 Supplemental Retirement Program*, which enables employers to require participation in the plan, while providing participants with 401(k)-like flexibility to individually control additional contributions.

## CASH FLOW IMPACT

Closing a Defined Benefit Plan and implementing a Defined Contribution Plan for new hires may not provide immediate cost savings. The accrued benefits of the active participants remaining in the Defined Benefit Plan are unaffected and will continue to accrue. You will continue to contribute a Normal Cost payment, plus any payment toward UAL. The payment toward UAL will not go away by closing the plan.

To compare your long term cost savings, you compare the Normal Cost of the Defined Benefit Plan (found on Table 1 of your AAV) to your proposed employer contribution of the Defined Contribution Plan. This will give you a better idea of the ultimate, long-term costs.

In addition, a projection study is required for groups moving from a Defined Benefit Plan to a Defined Contribution Plan. The results of the study may indicate that an accelerated amortization and funding schedule is required to ensure adequate funding of the closed plan.

# Hybrid Plan

MERS Hybrid Plan is two plans in one — offering the security of a defined benefit and the flexibility and investment choice of a defined contribution.

At retirement, employees receive a lifetime benefit and a separate account of their invested assets.

## HOW DOES IT WORK?

- The current Defined Benefit Plan is closed, and new hires, transfers and rehires are covered by the Hybrid Plan:
  - Current employees may be given a one-time option to switch plans, so long as the employee contributions in each plan are the same.
  - Employers may opt to freeze the Defined Benefit plan and move current employees into the Hybrid Plan.
- The closed Defined Benefit division is billed as a flat dollar amount, or you may choose to blend the rates of the Defined Benefit divisions by combining the assets and liabilities of both divisions and calculating one rate.
- The Defined Benefit portion of the Hybrid Plan has a select menu of provision options and requires an actuarial report to calculate the cost.
- The Defined Contribution portion allows both employer and employee contributions as a fixed percentage of pay.

### *Part I – Defined Benefit*

Final Average Compensation X Service Credit X Benefit Multiplier = $ Annual Benefit

+

### *Part II – Defined Contribution*

Employer Contributions + Employee Contributions + Earnings or Losses in the Market - Fees = $ Account Balance

$ Total Retirement Benefit

## FOR EXAMPLE

A municipality is adopting a Hybrid Plan for new hires after August 1. The Employer Normal Cost is currently 9.81%. Below is an example of their current plan, and the new Hybrid Plan.

**Defined Benefit Plan**

2.25% Multiplier
FAC 3
10 year vesting

9.81% Normal Cost

**Hybrid Plan**

| | |
|---|---|
| **Part I** | 1.50% Multiplier |
| | FAC 3 |
| | 6 year vesting |
| | 6.27% Normal Cost |
| **Part II** | Employer contribution 1% |
| | Employee contribution 5% |
| | 6 year vesting |

## RESULTS

The Defined Benefit Plan is closed and all new hires, transfers, and rehires are enrolled in the Hybrid Plan. The new cost for the municipality is 6.27% (Normal Cost for the Defined Benefit portion) plus the 1% employer contribution to the Defined Contribution portion, totaling 7.27%. This reflects a long-term savings of 2.54% (9.81% minus 7.27%) of payroll.

## CASH FLOW IMPACT

Implementing a Hybrid Plan for new hires is a long-term cost savings approach because it reduces the future accrual of liabilities. Future benefits will be lower, and potentially less expensive than the previous benefits. How quickly savings are realized depends on how soon new hires are enrolled in the plan.

# Plan Freeze

Unlike closing a plan, which affects only new hires who would have been enrolled in the covered plan while current employees continue to accrue service credit, a "plan freeze" also affects current employees by freezing any accrued benefit as of a specified effective date. Employers can choose to either enroll all employees into a new plan type (with MERS or another provider) or to stop offering a retirement plan entirely.

## HOW DOES IT WORK?

As of the date that a Defined Benefit or Hybrid Plan is frozen, the following will occur:

- Current participants do not accrue additional service credit, final average compensation (FAC) is frozen.
  - An employee's FAC will be calculated based on the highest wages earned prior to the plan freeze.
  - Employees who are enrolled into another 401(a) plan with MERS will continue to earn service time to fulfill vesting and/or early retirement requirements. If employees are enrolled in a non-qualified plan, a plan with another provider or no retirement plan at all, service accrual will stop entirely.
  - Employees will not accrue additional service credit as part of the benefit formula used to calculate their benefit.
- Employers may allow current employees who are enrolled into another MERS 401(a) plan to convert the value of their benefit to a cash equivalent. However, the value of the conversion cannot be less than the funded level of the division. (e.g. if the division is 75% funded, the conversion amount must equal at least 75% of the value of the benefit.)
- Freezing a plan eliminates the Normal Cost of the plan going forward, but it does not eliminate the UAL.

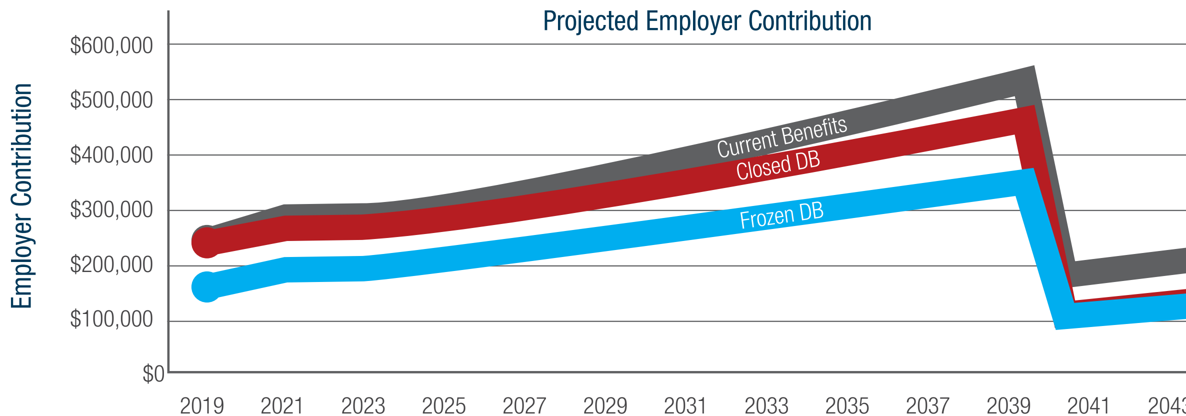
## BENEFIT COST EXAMPLE

A municipality is moving to a Defined Contribution Plan with a 6% employer contribution and can choose to either close the existing Defined Benefit Plan to new hires, or freeze the existing Defined Benefit Plan and move all employees to a Defined Contribution Plan. While both closing and freezing a Defined Benefit plan will reduce the cost of the plan going forward, how quickly that savings is realized can be very different.

Below, see the impact that *closing* or *freezing* the plan would have ***in the first year***. *Closing* the plan only affects future employees, so the actuarially determined contribution to the Defined Benefit Plan does not change in the first year. By contrast, *freezing* the plan also affects existing employees, eliminating the Normal Cost and replacing it with the 6% contribution into the new Defined Contribution Plan. In either case, payments towards UAL will continue until the plan is fully funded.

| | Current Benefits | Closed DB to 6% Employer DC | Frozen DB to 6% Employer DC |
|---|---|---|---|
| Actuarial Accrued Liability | $8,050,000 | $8,050,000 | $7,425,000 |
| Funded Ratio | 72% | 72% | 78% |
| Employer DB Contribution | $245,000 | $245,000 | $110,000 |
| Employer DC Contribution | $0 | $0 | $55,000 |
| Total Employer Contribution | $245,000 | $245,000 | $165,000 |

The long-term savings of both closing and freezing a Defined Benefit Plan are more apparent, as seen in the below graph.



# Defined Benefit Lump Sum Buyout

Municipalities may adopt a Lump Sum Buyout Option to allow vested former employees the option to receive an immediate one-time lump sum payment in lieu of a future monthly retirement benefit.

## HOW DOES IT WORK?

Each vested participant who has been terminated is due a monthly retirement benefit at some point in the future. This outstanding obligation is part of your actuarial accrued liability (AAL).

An employer who wishes to reduce or eliminate AAL may adopt the Lump Sum Buyout Option, which allows them to offer terminated-vested participants a lump sum payment in lieu of future monthly benefit payments. If the Lump Sum Buyout payment for a participant is less than their associated individual AAL, then the employer's overall plan liability would decrease.

**The Lump Sum Buyout Option works as follows:**

- The Lump Sum Buyout Option is adopted for one or more division(s) for a limited window of time, which is determined by the employer at the time of adoption. The window must be at least six months, but no more than 24 months.
- Terminated-vested participants are offered the option to receive an immediate one-time payment in lieu of the future monthly retirement benefit that is owed to them.
- Each participant's Present Value of Accrued Benefit (PVAB) is individually determined according to their accumulated future monthly benefit, future retirement payment start date, and assumed longevity of the payments to the participant. In short, the PVAB is the actuarially determined asset amount the plan would need to hold today, growing at the assumed rate of return, in order to cover the promised future monthly payments.
- Each participant's lump sum buyout amount will be actuarially determined using the PVAB and a Payout Percentage, which is a percentage selected by the employer.
- The employer must offer all terminated-vested participants the same Payout Percentage.
- The Lump Sum Buyout Option is not available to participants already in payment status.

## BENEFIT COST EXAMPLE

The City's defined benefit plan is 75% funded. The City adopts the Lump Sum Buyout Option for a period of one year, with a Payout Percentage of 75%. Jan is a former employee of the City who is fully vested in her retirement benefit, but at 57 years old, has not yet begun collecting her monthly pension benefit. Her PVAB is determined to be $200,000. At a Payout Percentage of 75%, Jan will be offered the option to receive a one-time lump sum buyout of $150,000 in lieu of her future monthly pension benefit.

| Present Value of Accrued Benefit | | Payout Percentage | | Lump Sum Buyout Amount |
|---|---|---|---|---|
| $200,000 | X | 75% | = | $150,000 |

If Jan accepts the Lump Sum Buyout Amount, then the AAL for her future benefit will be eliminated.

## CASH FLOW IMPACT

If the Payout Percentage selected by the employer is ***less*** than the plan's current funded level, then for each participant who accepts the Lump Sum Buyout, the plan's liability would decrease.

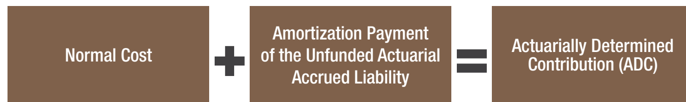
If the Payout Percentage selected by the employer exceeds the plan's current funded level, the employer must deposit the difference into the plan at the time the Lump Sum Buyout is transacted. In the example above, if the Payout Percentage is 75% but the plan is only 65% funded, the employer must make up the difference of 10% (or $20,000), which must be deposited into the plan at the time the Lump Sum Buyout is transacted.

# Funding Options

The most direct way of addressing UAL is by making additional payments into the plan. Let's consider three ways your municipality could approach this.

## Additional Voluntary Contributions

The Actuarially Determined Contribution (ADC) is actuarially determined, and consists of the ***Normal Cost*** plus any ***Amortization Payment of Unfunded Accrued Liability***. Making this contribution ensures movement to a fully funded position over time, and is required by state statute.




### Additional Voluntary Contributions to the Plan

By making additional payments into the plan above and beyond the ADC, the UAL will be funded faster. These contributions may be made as an additional percent above the minimum or in a lump sum payment. These extra dollars are invested and have the ability to recognize market returns and will reduce future ADC payments.

### Additional Voluntary Contributions to a Surplus Division

Local governments can choose to apply those assets directly to the UAL by establishing a ***surplus division***. Funds allocated to a surplus division can be associated with the plan as a whole, or can be tied to specific employee divisions. Assets held in a surplus division are not considered when calculating future required contributions. This means that additional voluntary contributions made to a surplus division will increase the funding level of the plan, without affecting future ADC payments.

FOR EXAMPLE

**Baseline –** No Additional Voluntary Contributions Made

| Year | Funded Percentage | ADC | Additional Contributions | Total Annual Employer Contribution |
|---|---|---|---|---|
| 1 | 56% | $114,000 | $0 | $114,000 |
| 2 | 56% | $121,000 | $0 | $121,000 |
| 3 | 57% | $128,000 | $0 | $128,000 |
| 4 | 57% | $136,000 | $0 | $136,000 |
| 5 | 59% | $141,000 | $0 | $141,000 |
| 6 | 61% | $146,000 | $0 | $146,000 |
| 7 | 63% | $152,000 | $0 | $152,000 |
| 8 | 64% | $157,000 | $0 | $157,000 |
| 9 | 66% | $163,000 | $0 | $163,000 |
| 10 | 68% | $169,000 | $0 | $169,000 |
| 11 | 70% | $175,000 | $0 | $175,000 |
| 12 | 71% | $182,000 | $0 | $182,000 |
| 13 | 73% | $188,000 | $0 | $188,000 |
| 14 | 75% | $195,000 | $0 | $195,000 |
| 15 | 77% | $203,000 | $0 | $203,000 |
| 16 | 79% | $210,000 | $0 | $210,000 |
| 17 | 81% | $218,000 | $0 | $218,000 |
| 18 | 83% | $226,000 | $0 | $226,000 |
| 19 | 86% | $234,000 | $0 | $234,000 |
| 20 | 88% | $243,000 | $0 | $243,000 |
| 21 | 91% | $252,000 | $0 | $252,000 |
| 22 | 94% | $261,000 | $0 | $261,000 |
| 23 | 96% | $118,000 | $0 | $118,000 |
| 24 | 99% | $122,000 | $0 | $122,000 |
| 25 | 100% | $127,000 | $0 | $127,000 |

**Additional Voluntary Contributions to the Plan –**
$50,000/year for five years increases the funding level ***while*** decreasing the ADC

| Funded Percentage | ADC | Additional Contributions to Plan | Total Annual Employer Contribution |
|---|---|---|---|
| 56% | $114,000 | $50,000 | $164,000 |
| 56% | $117,000 | $50,000 | $167,000 |
| 58% | $120,000 | $50,000 | $170,000 |
| 61% | $124,000 | $50,000 | $174,000 |
| 65% | $125,000 | $50,000 | $175,000 |
| 68% | $125,000 | $0 | $125,000 |
| 72% | $130,000 | $0 | $130,000 |
| 73% | $135,000 | $0 | $135,000 |
| 75% | $140,000 | $0 | $140,000 |
| 76% | $145,000 | $0 | $145,000 |
| 77% | $150,000 | $0 | $150,000 |
| 79% | $155,000 | $0 | $155,000 |
| 80% | $161,000 | $0 | $161,000 |
| 81% | $167,000 | $0 | $167,000 |
| 83% | $173,000 | $0 | $173,000 |
| 84% | $180,000 | $0 | $180,000 |
| 86% | $186,000 | $0 | $186,000 |
| 88% | $193,000 | $0 | $193,000 |
| 89% | $200,000 | $0 | $200,000 |
| 91% | $208,000 | $0 | $208,000 |
| 93% | $215,000 | $0 | $215,000 |
| 95% | $224,000 | $0 | $224,000 |
| 97% | $118,000 | $0 | $118,000 |
| 99% | $122,000 | $0 | $122,000 |
| 100% | $127,000 | $0 | $127,000 |

Additional contributions lower the ADC

Fully funded same time as Baseline.

**Additional Voluntary Contributions to a Surplus Division –**
$50,000/year applied directly to UAL for five years increases the funding level ***without*** decreasing the ADC

| Funded Percentage | ADC | Additional Contributions to Surplus Division | Total Annual Employer Contribution |
|---|---|---|---|
| 56% | $114,000 | $50,000 | $164,000 |
| 56% | $121,000 | $50,000 | $171,000 |
| 58% | $128,000 | $50,000 | $178,000 |
| 61% | $136,000 | $50,000 | $186,000 |
| 65% | $141,000 | $50,000 | $191,000 |
| 69% | $146,000 | $0 | $146,000 |
| 73% | $152,000 | $0 | $152,000 |
| 76% | $157,000 | $0 | $157,000 |
| 78% | $163,000 | $0 | $163,000 |
| 80% | $169,000 | $0 | $169,000 |
| 82% | $175,000 | $0 | $175,000 |
| 84% | $182,000 | $0 | $182,000 |
| 87% | $188,000 | $0 | $188,000 |
| 89% | $195,000 | $0 | $195,000 |
| 92% | $203,000 | $0 | $203,000 |
| 95% | $210,000 | $0 | $210,000 |
| 97% | $218,000 | $0 | $218,000 |
| 100% | $226,000 | $0 | $226,000 |
| 103% | $234,000 | $0 | $234,000 |
| 106% | $243,000 | $0 | $243,000 |
| 110% | $252,000 | $0 | $252,000 |
| 113% | $261,000 | $0 | $261,000 |
| 117% | $118,000 | $0 | $118,000 |
| 120% | $122,000 | $0 | $122,000 |
| 121% | $127,000 | $0 | $127,000 |

Additional contributions don’t affect the ADC

Fully funded much sooner than Baseline.

## Bonding For Unfunded Accrued Liabilities

The Revised Municipal Finance Act (Section 518) allows some municipalities to bond for all or a portion of their UAL. To bond, your Defined Benefit Plan must be closed with a Defined Contribution Plan established for new hires. It's important to remember that bonding to fund the plan does not guarantee that UAL will not develop in the future, as plan experience may never match the assumptions used. Even if your plan becomes funded at or above 100%, the required payment is equal to the Normal Cost of the closed Defined Benefit Plan.

## Cost-Sharing With Employees

Nearly 3/4 of MERS Defined Benefit Plans have employee contributions to the plan. The average employee contribution rate is approximately 5%. This contribution is deducted (pre-tax) from the employees' paycheck as a percentage of pay.

The employee contribution may be applied in one of two ways:

- As an additional payment over and above the ADC; or
- To offset the employer contribution.

Whether you offer a Defined Benefit, Defined Contribution or Hybrid Plan these additional programs can provide benefits to employees without incurring unfunded liabilities. Each can be designed to meet various needs while providing flexible solutions for the challenges facing your municipality.

## MERS 457 Supplemental Retirement Program

MERS 457 Program is a great supplement to any MERS retirement plan, providing employees with flexible contribution options and an invested account they manage themselves. The program is an employer-sponsored deferred compensation program, meaning taxes on the contributions are deferred until they are withdrawn. A post-tax Roth option is also available.

MERS 457 offers individuals a self-directed account in which they choose a portion of their salary to be contributed. They decide the level of contributions and how to invest the assets. After leaving employment, their benefit is based on the total amount of money in the account.

*This publication 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. If this publication conflicts with the relevant provisions of the Plan Document, the Plan Document Controls. MERS, as a governmental plan, is exempted by state and federal law from registration with the SEC. However, it employs registered investment advisors to manage the trust fund in compliance with Michigan Public Employee Retirement System Investment Act. Past performance is not a guarantee of future returns. Please make independent investment decisions carefully and seek the assistance of independent experts when appropriate.*

**For more information about MERS, contact a member of your Regional Team at 800.767.6377, or visit www.mersofmich.com/myteam to find a representative in your area.**

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PUB 4644 (2022-08-01)