

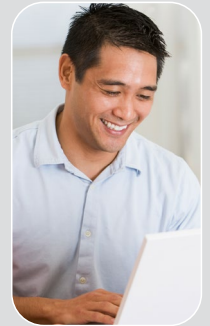


Finding the Right Retirement Fit

MERS Defined Benefit Plan • MERS Defined Contribution Plan • MERS Hybrid Plan • MERS 457 Program

www.mersofmich.com

*Looking for answers to your
municipality's pension puzzle?*



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.

Today MERS proudly counts over 900 municipalities and 139,000 participants all across the state, many of them your friends and family, neighbors and coworkers. MERS members are police officers and pipe fitters, lawyers, librarians and more, located everywhere from Marquette to Marshall, and plenty in between.

MERS can help you find the right retirement fit for your municipality, with a variety of innovative solutions designed for every need. This publication is designed with that in mind — helping you make an informed decision on the best way to prepare your employees for the future.

Whether it's a qualified retirement plan (such as our defined benefit, defined contribution or hybrid plan), a supplemental savings program, or both, MERS has a solution for every budget.

It helps to have all the facts, and to take an objective look at what's most economical and sustainable for the long term.

The challenges we face today may be difficult, but our choices don't have to be.

A MERS representative can help you find the right plan to meet the needs and objectives for you and your employees.

MERS can help you find the RIGHT Retirement Fit for your municipality

	401(a) Qualified Retirement Plans			457(b) Supplemental Savings
	Defined Benefit	Hybrid	Defined Contribution	457 Program
Summary	Provides lifetime retirement benefits	Offers stability of a traditional defined benefit plan, with the portability and investment choice of a defined contribution plan	Provides an account employees manage to best suit their needs and investment preferences	Supplemental savings program provides employees with an invested account they manage
Retirement Benefits	Defined upon retirement Determined by formula, based on the benefit multiplier, years of service, and highest wages over a period determined by employer	↔	Variable Depends on the amount of money in the employee's account (contributions and investment gains/losses). Fluctuates with market gain and losses Can work in tandem with 457(b) account	Variable Depends on participation level and the amount of money in the employee's account (contributions and investment gains/losses). Fluctuates with market gain and losses
Employee Participation	Mandatory	Mandatory	Mandatory	Voluntary
Vesting Requirements	Yes	Yes	Yes	No
Employer Contributions	Variable	↔	Defined Employers may also match voluntary employee 457 contribution	Employer may elect to make contributions or match employee contributions contribution account
Employee Contributions	Most often includes defined employee contributions	↔	Mandatory contributions are defined at date of hire and fixed for duration of employment	Contributions can start, stop and be changed at any time
Investment Risk	Employer assumes the investment risk/reward	↔	Employee assumes the investment risk/reward	Employee assumes the investment risk/reward

Note: Arrows signify a combination of both defined benefit and defined contribution attributes.



MERS Defined Benefit Plan Overview

The MERS Defined Benefit Plan is a traditional pension plan that rewards longevity by providing employees with a lifetime retirement benefit. At retirement, employees receive a specified monthly benefit calculated using the following formula:

The Benefit Formula

Final
Average
Compensation

X

Service
Credit

X

Benefit
Multiplier

=

\$ Annual Benefit

Components of the Formula

- **Final Average Compensation (FAC)**
The average of the highest wages over a period determined by employer.
- **Service Credit**
The total of all qualified periods of work, including purchases of service credit.
- **Benefit Multiplier**
The percentage in place at the time of an employee's retirement. There are several options available for adoption, ranging from 1.3% to 2.5% (multipliers of 2.25% and above have a maximum benefit of 80% of FAC).

Vesting Requirement

Vesting is the minimum amount of service credit an employee must earn to be eligible for a retirement benefit.

Retirement Eligibility

Employers can choose the age at which vested employees are eligible for a retirement, which can be from 60-70 years.

Retirement Payments

- Eight payment options available
- Cost-of-living adjustment (COLA) options are available for adoption to protect against inflation

Working Through an Example

Final Average
Compensation
\$45,000

X

Service Credit
25 years

X

2% Benefit
Multiplier
0.02

=

\$ 22,500 Annual Benefit

Monthly Straight Life Amount

$\$22,500 \div 12 \text{ months} = \$1,875$

Defined Benefit Funding

How it works

- Retirement benefits may be funded by both the employer and employee.
- Employee rate is typically a fixed percentage of pay.
 - 2/3 of MERS employers require an employee contribution.
- Employer rate in the annual actuarial valuation is calculated using:
 - Demographic and financial data
 - Funding method*
 - Actuarial assumptions*
 - Amortization Policy*
 - Benefit plan design adopted by municipality's governing body
- Employer rate is made up of two parts:
 - **Normal Cost** – Present value of benefits allocated to the current plan year, less any employee contribution.
 - Amortization payment of the **Unfunded Accrued Liability (UAL)** – 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.

**Adopted by the MERS Retirement Board*

Defined Benefit Characteristics

Advantages	Other Considerations
Rewards employee longevity	Limited portability options
Benefits do not decrease with investment losses	Benefits do not increase with investment gains
Employee past service may be included	Potential for unfunded accrued liabilities
Investment returns reduce long-term contributions – more than half of MERS employers' funding comes from investment earnings	Variable contributions
Death and disability benefit provisions	
Can allow additional service credit purchases	Employer must approve



MERS Defined Contribution Plan Overview

The MERS Defined Contribution Plan provides each participant with an account into which contributions are made and invested. Benefits are based on the total amount of money in the account. As a qualified plan, participants are not taxed on contributions or earnings until assets are withdrawn.

The Benefit Formula

Employer
Contributions

+

Employee
Contributions

+

Earnings or
Losses in
the Market

-

Fees

=

\$ Account Balance

Employer Contributions

Made on a pre-tax basis. Can be fixed dollar, percentage, or a matched percentage of employee contributions.

Employee Contributions

Mandatory Employee Contributions

Fixed dollar or percentage that employees are required to make on a pre-tax basis. However, contributions are subject to Social Security and FICA taxes.

Once established, an employee's contribution rate cannot be changed.

Voluntary After-Tax Contributions

Allowed through payroll deduction. Employees can start and stop contributions at any time. The maximum an employee can contribute is 25% of salary.

Encourage Employees to Save More with MERS Defined Contribution PLUS

*IRS requirements for defined contribution plans dictate that once an employee's mandatory pre-tax contribution rate has been established, it cannot be changed. **MERS Defined Contribution PLUS** uses the MERS Defined Contribution Plan and MERS 457 Program in tandem to enable employers to reward employees for choosing to save more. Employers can encourage employees to make voluntary pre-tax or Roth contributions to their MERS 457 account by offering a matching pre-tax contribution to their MERS Defined Contribution account.*

MERS Defined Contribution PLUS simplifies this two-account solution by looking and feeling like a single plan. Combined statements and online account access simplifies account management for participants.

Vesting Requirement

The vesting requirement is the minimum amount of service an employee is required to earn to be eligible for employer contributions. Employee contributions are always 100% vested. Vesting options include:

- Immediate vesting
- 100% vested after predetermined year(s)
- Graded vesting based on a certain percentage per year of service
 - 1 year equals 25% vested
 - 2 year equals 50% vested
 - 4 year equals 75% vested
 - 6 year equals 100% vested

Additionally, employees that reach the normal retirement age while actively working will become immediately vested.

MERS offers an elapsed time and hours reported method to calculate service.

Retirement Eligibility

Participants may begin to withdraw assets from the plan, without tax penalty, if they leave employment after January 1 of the year they turn 55. If they leave employment before this time, they must wait until they are age 59½ to take withdrawals without penalty.

Withdrawals

There are several ways participants may choose to receive payments — lump sum, substantially equal payments, periodic, amount certain, or period certain. Please note that payments are taxable in the calendar year the participant receives the money.

Defined Contribution Characteristics

<i>Advantages</i>	<i>Other Considerations</i>
Employees understand the account balance concept	In order for the benefit to work at full potential, employees must be educated about investments
No investment risk to the employer	Employer does not benefit from investment gains
Constant contribution level is easy to budget for	Variable retirement benefit
Portability	No death or disability monthly benefits*
No unfunded accrued liability	Inflation protection must be financed from the account balances (no COLA)

**The employee becomes 100% vested, if while actively working, he/she becomes disabled or dies. The employee or beneficiary receives access to the account balance without penalty.*



MERS Hybrid Plan Overview

The MERS Hybrid Plan is a combination of a fixed defined benefit plan with a flexible defined contribution plan. Hybrid shares the rewards of both plans while maintaining predictable costs. Hybrid offers your employees flexibility of investment choice, while also providing stability.

The Benefit Formula

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Part I – Defined Benefit

Final Average Compensation	X	Service Credit	X	Benefit Multiplier	=	\$ Annual Benefit
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Part II – Defined Contribution

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

\$ Total Retirement Benefit

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Please see the “Components of the Formula” sections in the Defined Benefit Plan Overview (pg. 4) and Defined Contribution Plan Overview (pg. 6) for more information.

Hybrid Characteristics

	<i>Part I – Defined Benefit</i>	<i>Part II – Defined Contribution</i>
Funding	Funded by the municipality; employee contribution provision available for adoption by eligible employers	Employer and employee contributions allowed
Benefit	3-year final average compensation 1.0%, 1.25%, 1.50%, 1.75%* or 2.0%* benefit multiplier to choose from <i>Note: once adopted, benefits cannot be changed</i>	Depends on the amount of money in the employee's account (based on contributions and investment gains/losses)
Vesting Requirement	6-year vesting	Immediate, 100% vested after predetermined year(s), or graded vesting applies to employer contributions
Retirement Eligibility	Participants can begin to receive benefit payments at age 60 Optional 55/25 provision also available for adoption	Participants may begin to withdraw assets from the plan, without tax penalty, if they leave employment after January 1 of the year they turn 55. If they leave employment before this time, they must wait until they are age 59½ to take withdrawals without penalty
Withdrawals	Same as MERS Defined Benefit Plan	Same as MERS Defined Contribution Plan

**Available only for divisions that do not participate in Social Security.*

<i>Advantages</i>	<i>Other Considerations</i>
Offers stability of a traditional defined benefit plan	Employees may lose Hybrid Plan Part I benefits if they leave their employer before vesting
Portability	Employees are responsible for selecting and monitoring investments
Offers investment choice of a defined contribution plan	Once adopted, Hybrid Plan provisions can't be changed
Gives employees a wide variety of retirement tools	



MERS 457 Program Overview

The MERS 457 Program is a deferred compensation program for public sector employees, helping them save for the future above and beyond other retirement plans from their employers. The program offers each participant a self-directed account.

Flexible Enrollment Options

Traditional Enrollment

Employees who want to participate in the program can do so by completing the MERS 457 Enrollment Form.

Automatic Enrollment

Employers may choose automatic enrollment of their employees in MERS 457 Program. Employers must notify employees of the automatic enrollment, and any employee who does not want to participate may opt out.

Contributions

The MERS 457 Program offers ultimate flexibility in contributions. Each employee can choose to participate in the program and decides the level of their contributions. With the MERS 457 Program, employees can increase, decrease, start and stop contributions at any time, without any fees or penalties. The employee may select a percentage or flat dollar amount of their paycheck to be contributed to the program.

Pre-tax Contributions

For **pre-tax** contributions, the contribution is deducted prior to calculating taxes thereby reducing the amount of taxes paid. No taxes are due on investment earnings until the money is withdrawn.

Roth Contributions

Roth contributions are made on an **after-tax** basis, so contributions will not reduce the employee's income taxes for the year (unlike pre-tax contributions). Roth contributions and associated earnings can be withdrawn tax-free if the requirements for a qualified distribution are met.

The IRS allows for a maximum annual contribution limit on all employer and employee contributions to the program. Please see the MERS website for up-to-date information on this limit. Money paid into a defined contribution or defined benefit plan has no impact on the employee's annual maximum contribution in MERS 457.

Using the Account After Employment

Participants have the flexibility to choose when to receive payments any time after termination.

- The IRS requires participants to begin receiving payments no later than April 1 the calendar year in which they turn age 70½ (if born before July 1, 1949), age 72 (if born between July 1, 1949 and January 1, 1951), or age 73 (if born on or after January 1, 1951).

For pre-tax contributions or rollovers, withdrawals are subject to a 20% federal income tax withholding and any applicable state taxes.

For Roth contributions or rollovers, withdrawals and associated earnings are tax-free, as long as the requirements for a “qualified distribution” are met:

- A period of 5 years has passed since January 1 of the year you first made a Roth contribution, and you are at least 59½
- If the requirements for a qualified distribution are not met, then Roth withdrawals are tax-free, but the earnings portion of the distribution will be taxed

457 Characteristics

Advantages	Other Considerations
Employees understand the account balance concept	In order for the benefit to work at full potential, employees must be educated about investments
No investment risk to the employer	Employer does not benefit from investment gains
Offers investment choice of a defined contribution plan	Once adopted, Hybrid Plan provisions can't be changed
Portability	Can be combined with MERS Defined Contribution Plan



MERS Investments and Fees

MERS Investments

The MERS Defined Contribution Plan, Hybrid Plan and 457 Program each provide invested accounts, meaning participants take an active role in determining their financial goals, making investment choices, and monitoring their own portfolio.

The MERS Investment Menu is simplified into three categories:

“Do it for me”

1

LifePath target date funds are a simplified way to invest. These options are fully diversified, professionally managed, and automatically adjust over time as you get closer to retirement.

“Help me do it”

2

These **Premium Selected Options** were actively chosen by MERS and include pre-built portfolios that MERS helps manage by monitoring the investment managers and rebalancing the portfolio quarterly. Participants can also access a variety of pre-selected funds to help build their own portfolio.

“I’ll do it myself”

3

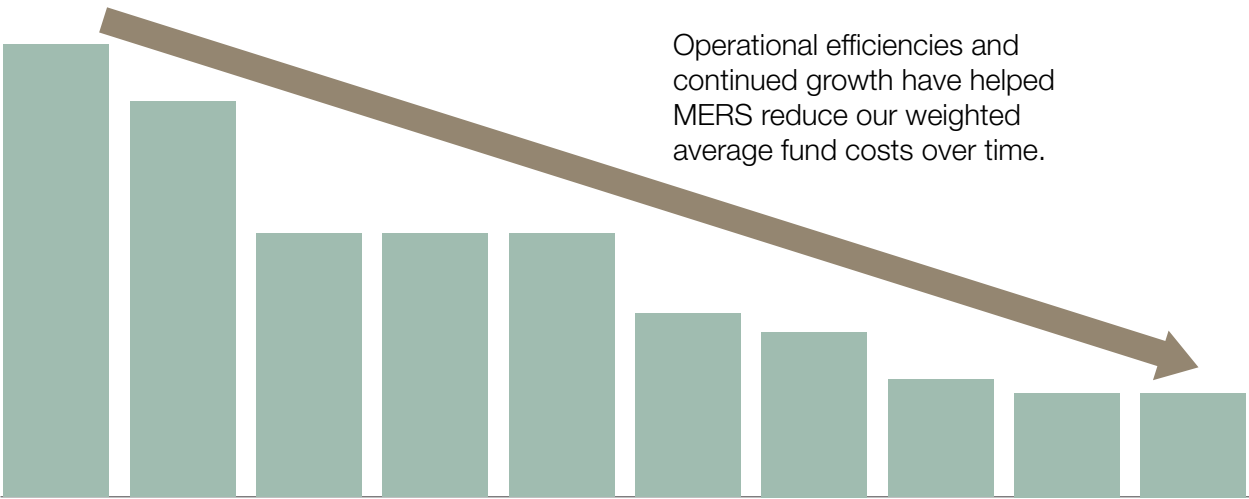
The **Self-Directed Brokerage Account (SDBA)** gives participants access to funds outside of MERS investment menu. The investments under this window offer participants who seek the responsibility to select and monitor their own investments in a wider range of investment possibilities.

Low Cost

As a multiple-employer plan, MERS creates economies of scale by pooling together assets for investment purposes. This approach provides you and your employees with the substantial buying power of more than \$14 billion in assets, including access to trusted MERS funds and publicly traded mutual funds not otherwise available to individual groups.

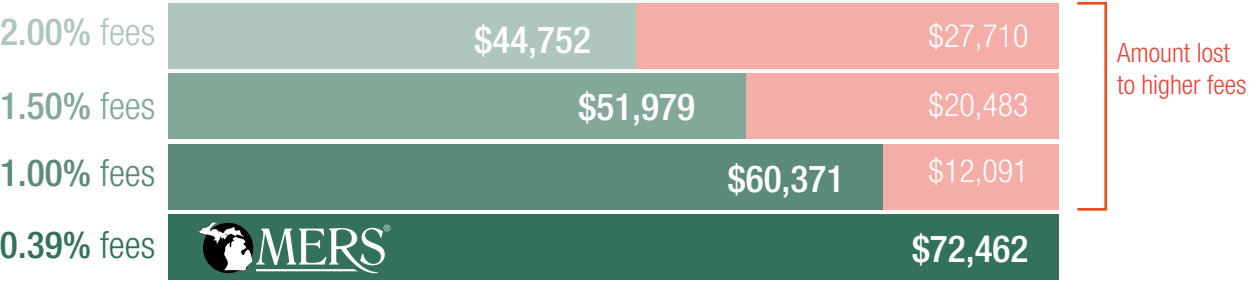
Because we operate on a not-for-profit basis, the same low cost funds are available to all participants at the same rate, regardless of the size of your plan. As our membership continues to grow, so do our operational efficiencies, and these savings are passed along to participants.

MERS has a History of Cost Reduction



Why Do Fees Matter? Fees Reduce an Account's Growth Over Time

Growth of \$10,000 over 30 Years (After Fund Expenses)



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.

**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.*



Benefits of Working With MERS of Michigan

For more than 70 years, MERS has offered municipalities affordable, innovative retirement solutions for their employees. The secret to our success is simple: We're dedicated to providing you with the service you deserve, the solutions you want, and the security you need.

Fiduciary Responsibility

MERS is governed by a board that operates without compensation and serves as the sole fiduciary for all of our retirement plans. Our members enjoy the peace of mind that comes with knowing that the Retirement Board takes on the fiduciary responsibility and legal liability for: establishing the plan document; selecting and monitoring investment options; ensuring our programs are in compliance with state and federal laws; and actively maintaining our tax exempt status with the IRS.

Service

Our Regional Team is ready to deliver you personal, professional service — answering any questions and guiding you from benefit adoption to administration.

Solutions

As a organization working on a not-for-profit basis, we're committed to building long-term relationships that support your local community's well-being. We are continually growing and building cost-effective programs to fit our members' needs.

Participant Engagement and Education

Providing superior service to our municipal members means being committed to helping your employees reach their retirement goals. We actively engage with plan participants throughout their careers and provide ongoing educational opportunities and resources to help them plan for a financially secure retirement.

Security

With in-house investments, actuarial, and legal services, we keep our municipalities ahead of the curve. Our investments staff provides internal consulting for the MERS Retirement Board, investment management, and customized fund development. Detailed calculations are handled by our own actuarial experts focused on providing the best service to our municipalities. Our in-house legal team actively monitors the legislative process and promotes legislation that is in the best interest of our members.

Portability

Employees with 12 or more months at two or more MERS municipalities may combine service credit to meet vesting and retirement eligibility requirements.

Act 88 (the Reciprocal Retirement Act) may be adopted by the governing body so service earned at non-MERS municipalities will be recognized for vesting and retirement eligibility requirements. Employees must have at least 30 months of service at the adopting municipality to be eligible.

Ready to Get Started?

It's easy to start adopting a MERS retirement solution for your municipality. Just call us at 800.767.6377. A member of your MERS Regional Team will walk you through the adoption process, answer your questions and assist you every step of the way.

Let us help you find the right retirement fit, call us today.



Retirement Solutions

- MERS Defined Benefit Plan, including Investment Services Program
- MERS Defined Contribution Plan
- MERS Hybrid Plan
- MERS 457 Program
- MERS Health Care Savings Program
- MERS Retiree Health Funding Vehicle
- MERS IRA
- Health Care Exchange
- Group Life & Disability Insurance

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 the 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.

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For more information about MERS retirement plans, contact a member of your Regional Team at

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