



SERA - Lansing Chapter

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Who we are



**MICHIGAN OFFICE OF
RETIREMENT SERVICES**
Big Plans. Small Steps.

Our purpose statement

ORS is an innovative retirement organization driven to empower our customers for a successful today and a secure tomorrow.

Who we are

RANKING

15th largest public pension system in the U.S.

21st largest pension system in the U.S.

49th largest pension system in the world

MEMBERS

589,893

all systems

ASSETS

\$108.8 billion

all systems

Defined Benefit (DB), Hybrid, Defined Contribution (DC) and Retiree Healthcare

PAID IN '22

\$7.8 billion

in pension and healthcare benefits

Who we serve

With over 580,000 customers, **1 in 14** Michigan adults living in **1 in 8** Michigan households benefit from our services.

- Public school employees
- State of Michigan employees
- Michigan State Police
- Judges
- Michigan National Guard
- Legislators



Economic value



\$12.4 billion circulates through the state each year because of retiree spending.

76,945 jobs in Michigan are supported because of retiree spending.

\$1.5 billion in federal, state and local tax revenues.

National Institute on Retirement Security, Pensionomics 2023: Measuring the Economic Impact of DB Pension Expenditures, Michigan (2023) www.nirsonline.org

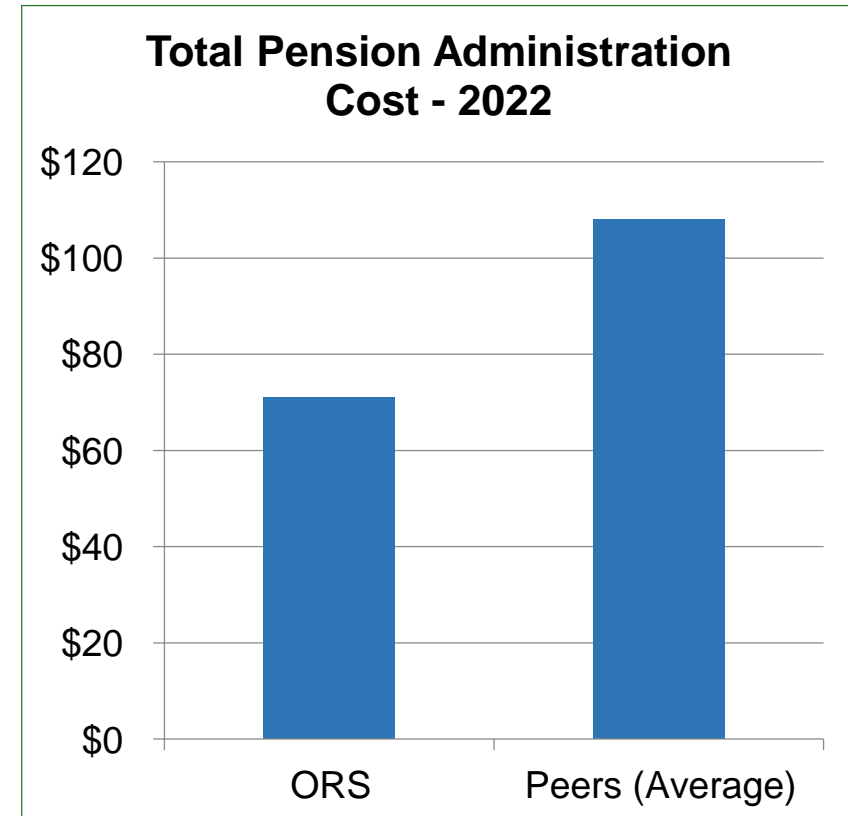
Impact

We provide these benefits in a **cost-effective** manner.

Total pension administration cost in 2022:

→ **\$71** per active member and retiree

→ **\$37 below** the peer average of \$108.



Retirement plan basics

Retirement plans are funded throughout an employee's career.

Generally speaking, there are three types of retirement plans:

1. Defined Benefit (DB) plans.
2. Defined Contribution (DC) plans.
3. Hybrid plans.



Retirement plan basics

DB pension plans

DB plans provide a specified monthly benefit for the retiree's life.

- The DB pension amount is generally calculated through a formula based on age, years of service, and compensation.
- The DB pension amount typically increases proportionately based on the years of service with the employer offering the plan.
- Pension plans accrue assets to provide pension benefits to retirees.
- The employer carries the risk.



Retirement plan basics

ORS DB pension plans

- All of our DB pension plans are **closed** to new members except for the Michigan National Guard plan.
- The pension benefits we provide are modest.
- **Over 60 percent** of each system's funding comes from investment earnings.



Source: National Institute on Retirement Security, *Pensionomics 2023: Measuring Impact of DB Pension Expenditures, Michigan 2023* www.nirsonline.org.

Retirement plan basics

DC plans

In a DC plan, individual accounts for each plan participant are established to accumulate assets for retirement.

- The individual may make voluntary contributions to the individual account.
- The employer makes contributions to the individual's account.
- The net retirement benefit is the amount in the account at the time of retirement.
- The employee exclusively carries the risk.



Retirement plan basics

ORS DC Plans

- We partner with Voya Financial® to provide our State of Michigan 401(k) and 457 Plans.
- Our plans offer a wide range of low-cost investment options and access to the Advisor Service and other resources.
- Our plan design helps set up participants for success.
 - Automatic enrollment.
 - Small Steps Program.
 - Target Date Funds.
- **96%** of our participants are taking full advantage of employer matching contributions.

Michigan's DC plans

Small Steps Program

Increases in participant savings and meeting the match are in due in large part to our Small Steps Program.

This program is an effort to improve participant retirement readiness by gradually increasing employee contributions to their State of Michigan 401(k) and 457 Plans by 1% each year (up to 15%).



Small Steps Program

	SERS	MPSERS	Total	% of Total Increased
Retained Small Steps Increase	29,053	115,104	144,157	96.2%
Increased	1,219	478	1,697	1.1%
			145,854	97.3%
Decreased	1,472	1,175	2,647	1.8%
Stopped	264	192	456	0.3%
Removed (SSN Merge, Suspended, Termed)	814	5	819	0.5%

ORS retirement plans

ORS responsibilities

We handle the ministerial functions of the DB Plans, DC Plans, and Retiree Health Care Plan, as well as the relationships with each retirement system's board, who handle the discretionary duties.

- Plan administration tasks
- Administration of retiree healthcare for public school employees
- Contract and vendor relationship management
- Member and participant communications
- Employer relations
- Member and retiree payments and account maintenance

State Employees' Retirement System

48,539 active members.

2,206 deferred members.

70,548 retirees and beneficiaries.

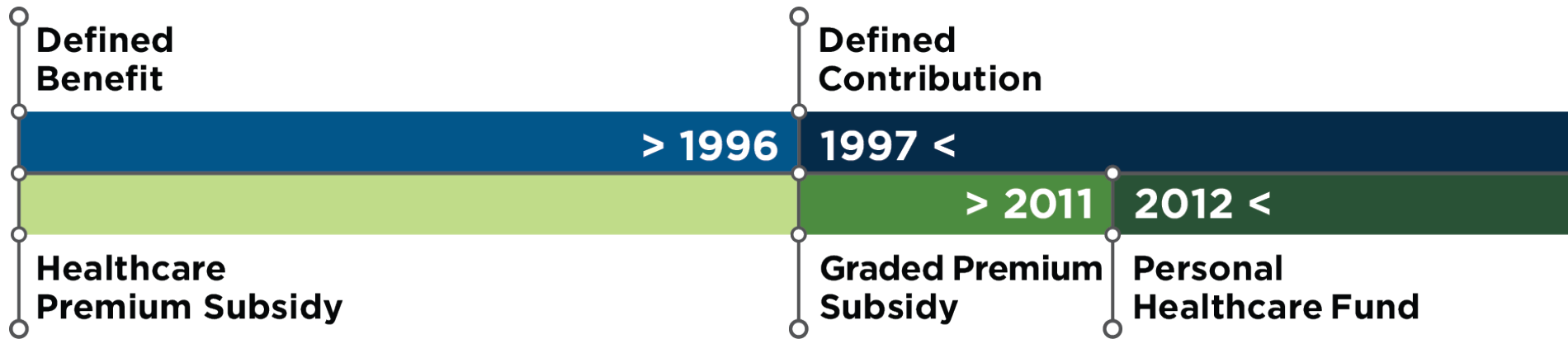
Plan types

- Closed DB plan.
- DC plan.
- Closed Retiree Healthcare Plan.
- Personal Healthcare Fund.



State Employees' Retirement System

Members belong to each plan based on the date they first work for the State of Michigan.



In some cases, benefits may be different based on reform elections that were made.

Michigan Public School Employees' Retirement System



205,055 active members.

16,152 deferred members.

231,134 retirees and beneficiaries.

Plan types

- Closed DB plan.
- Open hybrid plan.
- Open DC plan.
- Closed Retiree Healthcare Plan.
- Open Personal Healthcare Fund.

State Police Retirement System



3,103 active members.

18 deferred members.

3,440 retirees and beneficiaries.

Plan types

→ Closed DB plan.

→ Hybrid plan.

→ Closed Retiree Healthcare Plan.

→ Personal Healthcare Fund.

Judges Retirement System

564 active members.

849 retirees and beneficiaries.

Plan types

- Closed DB plan.
- DC plan.
- Retiree Healthcare Plan (for some judges)



Military Retirement Provisions



11,102 active members.

1,110 deferred members.

4,604 retirees and beneficiaries.

Plan types

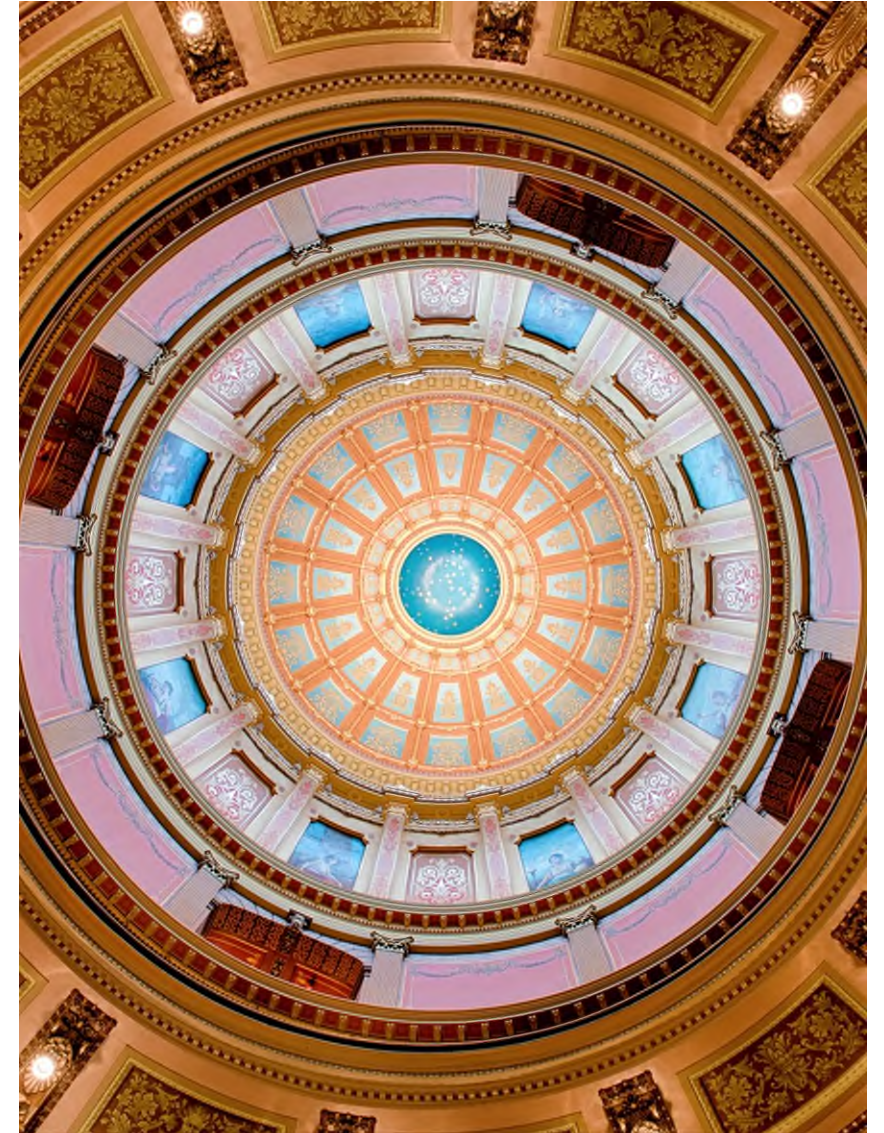
→ DB Plan

Michigan Legislators

148 active members.

Plan Types

- DC plan.
- DB plan administered by the Michigan Legislative Retirement System



Improving the member experience

Mapping the journey

- Mapped the state employee journey from hire to post-retirement in 2023
- Aim to improve our relationship with current state employees and retirees
- Connect members to the right resources with Voya to assist in planning and preparation.

Customer service

Getting in touch

Members can reach a call center representative by phone. Message Board responses are provided in less than 12 hours.

Common questions

- Insurance enrollment, including Medicare number
- MiLogin assistance
- Address and direct deposit updates
- Death reporting
- Life insurance verification

Navigating upcoming changes

Healthcare

- Beginning March 1, children can be covered up through the month they turn age 26.

State income tax

- Public Act 4 of 2023 phases in an income tax reduction over 4 years for retirees who receive a pension. More information is available at <https://www.michigan.gov/orsstatedb>

Legislation

Year	System	Reform
1997	State Employees, Judges, Legislators	<ul style="list-style-type: none"> Closed DB plan and introduced DC plan for new employees.
2008	Public Schools	<ul style="list-style-type: none"> Retiree healthcare premium subsidy based on career length.
2010	Public Schools	<ul style="list-style-type: none"> Closed DB plan and introduced Hybrid Plan.
2012	State Employees	<ul style="list-style-type: none"> Closed retiree healthcare plan and began prefunding existing healthcare liabilities. New hires enroll in Personal Healthcare Fund. Employees given option of increasing contributions for DB pension or converting to DC plan.
2012	State Police	<ul style="list-style-type: none"> Closed DB plan and introduced Hybrid Plan.
2012	Public Schools	<ul style="list-style-type: none"> Closed retiree healthcare plan. New hires enroll in Personal Healthcare Fund. New hires given choice of Hybrid Plan or DC; hybrid is the default. Employees given option of increasing contributions for DB pension or reducing their multiplier for future service or converting to DC plan.
2013	Public Schools	<ul style="list-style-type: none"> Began prefunding existing retiree healthcare liability.
2016	Military	<ul style="list-style-type: none"> Began prefunding pension liability.
2018	Judges	<ul style="list-style-type: none"> Began prefunding existing retiree healthcare liability.
2017	Public Schools	<ul style="list-style-type: none"> Closed Pension Plus Hybrid Plan, Opened Pension Plus II Hybrid Plan and this plan will close if it becomes less than 85% funded for two years in a row. Switched new hire default to DC plan.
2018	Public Schools	<ul style="list-style-type: none"> Implemented a phased-in reduction of the payroll growth assumption for UAAL amortization to 0%.
2022	Public Schools	<ul style="list-style-type: none"> Implemented new simplified rules for retirees who wish to work after retirement without jeopardizing their pension or healthcare benefits. Implemented an acceleration of the payroll growth assumption reduction for UAAL amortization.
2024	Public Schools	<ul style="list-style-type: none"> New hire default is once again the Hybrid Plan.

Benefit structure complexity

Judges

District Court

Probate Court Judge 3%

Probate Court Judge 3.5%

Probate Court Judge
Population

State Officials

Trial Judges

Upper Judiciary

Military

Executive Staff

National Guard

Percent Members

State Police

Officer

Officer – 2012 Reform

Officer – Elected

Sergeant

Transferred – SERS to SPRS

Trooper

Trooper – 2012 Reform

DB Healthcare

Personal Healthcare Fund

Legislative

Plan 1

Plan 2

Public School Employees

MIP Fixed

MIP Graded

Basic

Limited Member – MIP

Limited Member – Basic

Transferred – SERS to MPSERS

MIP Plus

Pension Plus

Basic 4%

MIP 7%

Basic DC Converted

MIP DC Converted

DC

Graded Premium

Personal Healthcare Fund

State Employees

Community Health Facility Closure

Conservation Officer

Conservation Officer Converted

DB Classified

DB Converted

DB Unclassified

DB-DC Transfer Classified

DB-DC Transfer Unclassified

DC Classified

DC Unclassified

Supplemental Converted

Supplemental Member – Covered Position

Transferred – MPSERS to SERS

DB Healthcare

Graded Premium

Personal Healthcare Fund

Personal Healthcare Fund with HRA

Customer Service

The complexity of the benefit structures leads to an increased need for customer service.

Member communication

Each month we take calls and answer Message Board questions from members related to their benefit, insurance enrollment, demographic updates, death reporting, and more. On average, our Customer Service process handles over **16,000** calls, **3,500** Message Board requests, and **16,000** workflows each month.



Customer Service

Employer communication

The nearly 700 employers routinely have questions about how to report wages, validate member data, collect and validate member payments, and more. On average, our Employer Reporting process handles over **1,000** calls and **1,500** workflows each month.



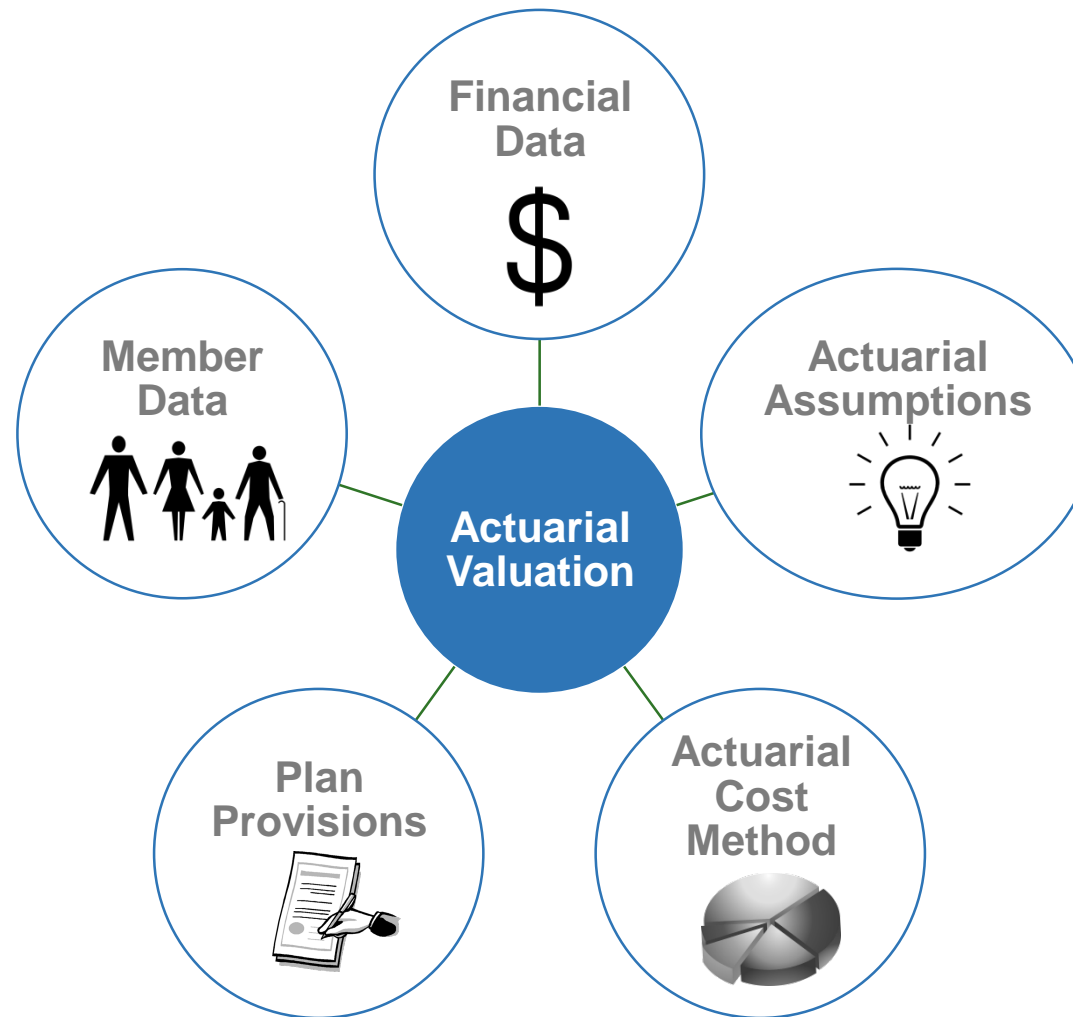
Actuarial Process 101

What is an actuarial valuation?

An annual report of the actuarial condition of the retirement system and required contributions to fund the system.

- Analysis of financial experience.
- Analysis of demographic data to determine what is happening to the workforce.
- Provides basis for plan financial measures.

Actuarial Process 101



Actuarial Process 101

Valuations provide us with the following details:

- Unfunded liabilities.
- Funded status.
- Required contributions.
 - Normal cost and UAAL amortization payment.
 - Calculated based on the practice of pre-funding.
 - Pre-funding is a best practice that invests assets and allows investment returns to help fund the plan.

Actuarial Process 101

Actuarially determined contribution (ADC)

- The ADC is composed of the normal cost and the UAAL amortization payment.
- Normal cost is the cost of funding an additional year of service.
 - If employees earn less than the actuary predicted, it reduces the normal cost payment without harming the system.
- UAAL amortization is the cost of funding the legacy debt.
 - Economic losses: e.g., investment losses.
 - Demographic losses: e.g., mortality experience.

Actuarial Process 101

UAAL payment calculation

Calculated based on the amortization *period* and *method*.

Amortization period. Liability will be paid off on a specified date.

2036	2038
State employees	State police
Judges	Military
Public schools (universities)	Public schools (non-universities)

Amortization method. There are two methods used by our systems:

1. Level dollar. Payment amount is the same every year.
 - Payments “front-loaded” — start out higher but stays level over time.
2. Level percent of payroll. Payment increases by payroll growth assumption.
 - Payments “back-loaded” — start out smaller but grow annually.

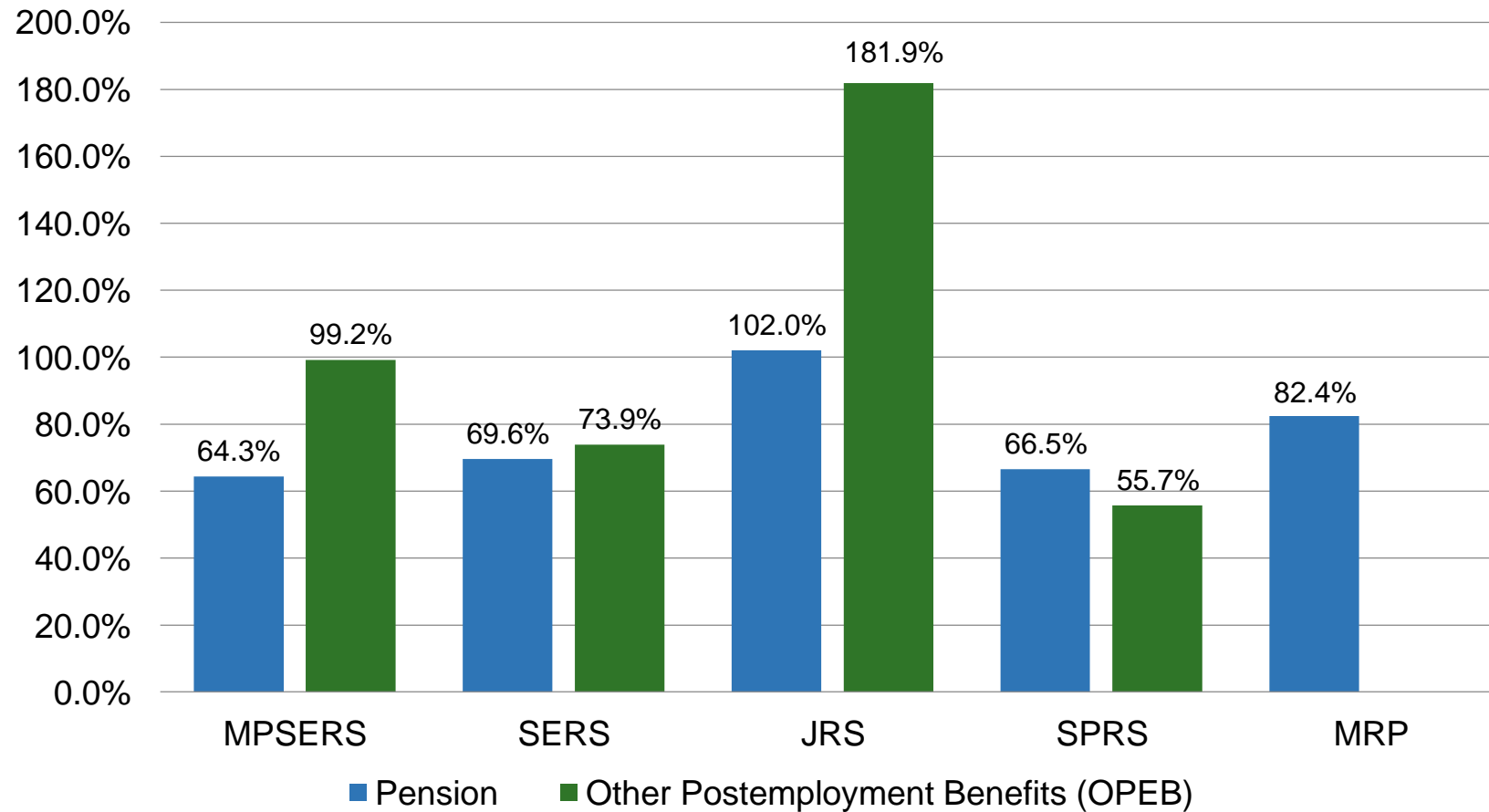
Actuarial Process 101

Funding the ADC

- Because of budget timelines, there is a two- to three-year time frame inherent between the ADC being established and the dollars being collected.
 - For example, the contribution rates for fiscal year (FY) 2024 were set in 2022, based on information from the FY 2021 valuation.
- If contributions fall short of the ADC — for example, if reported payroll is lower than expected — the deficiency is reconciled over the subsequent five years, with interest.

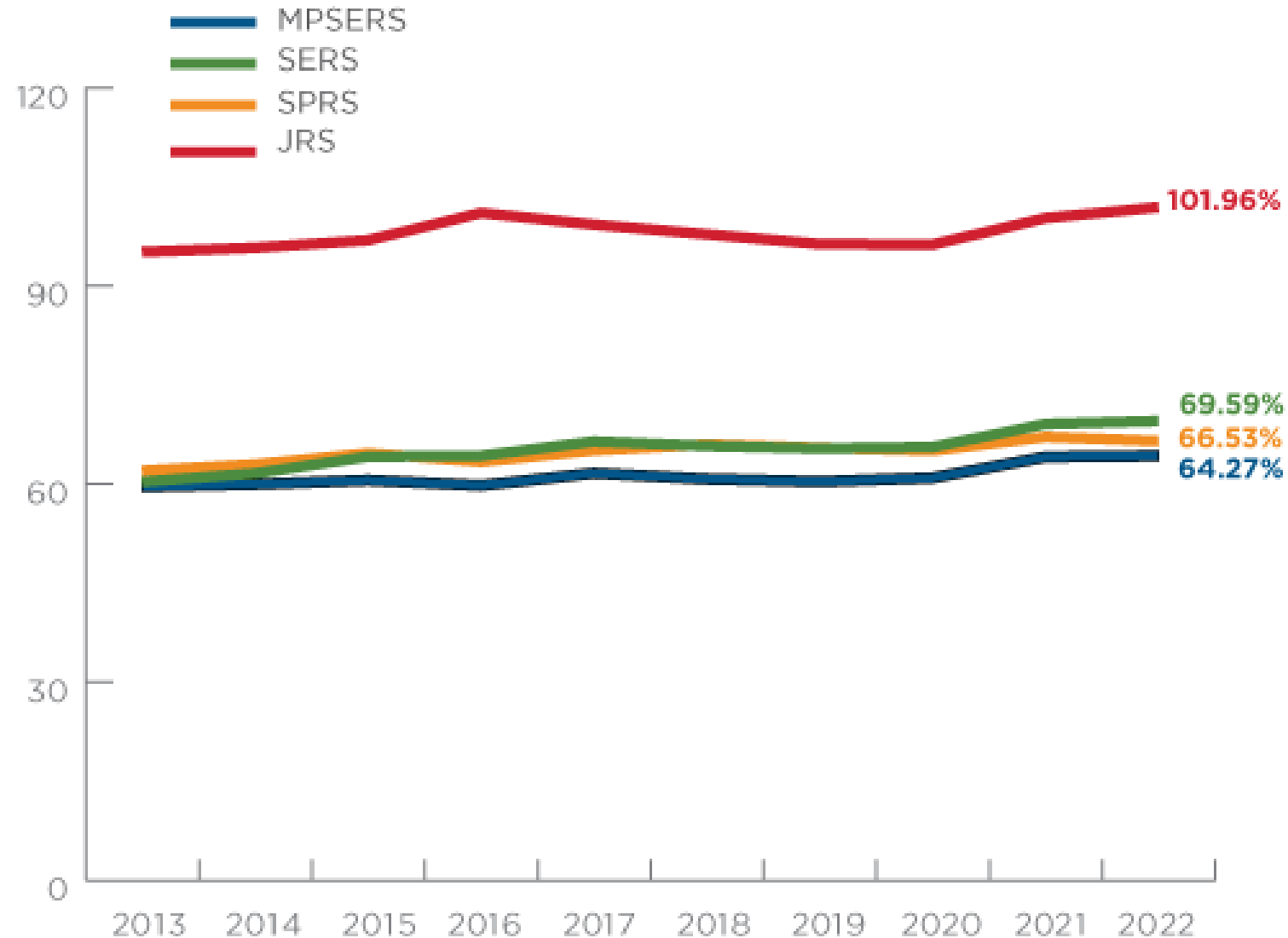
System funding status

Funded Status of ORS Administered Plans as of
Sept. 30, 2022



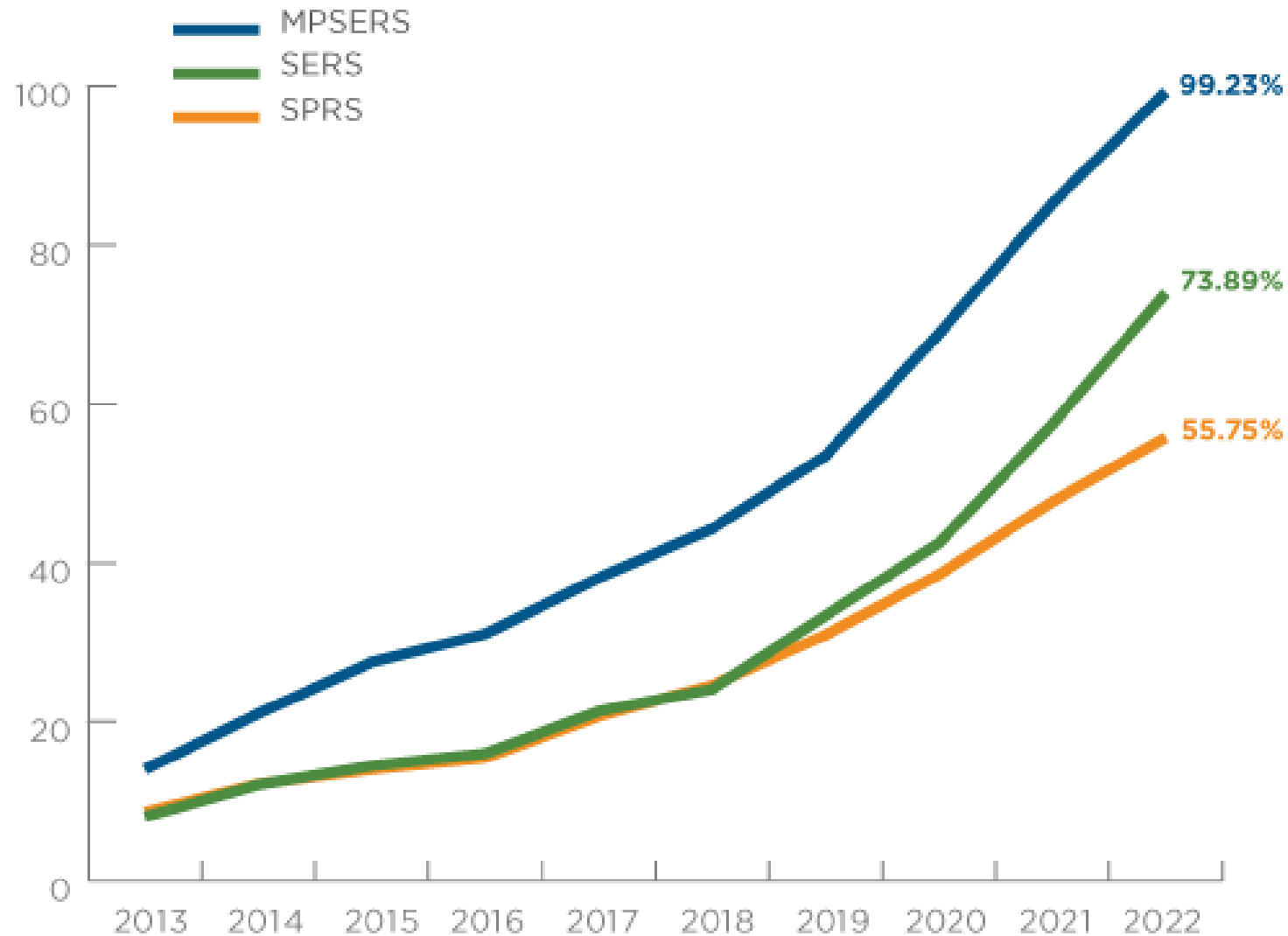
System funding status

Pension funding ratio



System funding status

Retiree healthcare funding ratio



System funding status

Pension and OPEB UAAL in Dollars as of Sept. 30, 2022

System	Pension UAAL	OPEB UAAL
Public school employees	\$35 B	\$88 M
State employees	\$5.9 B	\$1.9 B
State police	\$896 M	\$322 M
Military	\$13.5 M	N/A
Judges	(\$5.03) M	(\$5.51) M

Our pension plans are on a schedule to be **fully funded** in less than 14 years.

→ Public schools (non-universities), state police, and military systems in 2038.

→ State employees, judges, and universities in 2036.

System funding status

What factors impact the funding status?

The biggest factors impacting the funded status are:

- Large market losses from global economic downturns in the early 2000s and 2008-2009.
- Early retirement incentives.
 - State employees: 1984, 1988-89, 1992, 1997, 2002, 2003, and 2010.
 - Public school employees: 2010 and other district-sponsored retirement incentives.

System funding

	Public School Employees' Retirement System	State Employees' Retirement System	State Police Retirement System	Judges Retirement System	Military Retirement Provisions
Member contributions	X	X	X	X	
Employer contributions	X	X	X		
School Aid Fund contributions	X				
Court fees				X	
General Fund appropriation	*		*	X	X

**Several one-time amounts have been appropriated for the public school and state police retirement systems over the past few years.*

Fiscal responsibility

Actuarial assumptions

- In order to measure the value of the benefits (liabilities) promised by the system to the membership, the actuary must make a number of economic and demographic assumptions regarding future experience including:
 - Long-term rates of investment return.
 - Retirement rates among active members.
 - Mortality rates among active members, retirees, and beneficiaries.
- These assumptions impact the annual actuarially determined contribution funded by employers and the state.
- Actuarial assumptions are set with joint approval by the DTMB director and the retirement boards after consultation with the state treasurer and the plan actuary.

Intergenerational equity

- The assumptions impact intergenerational equity.

Fiscal responsibility

Experience studies

- Every five years, the assumptions are evaluated to see how closely they are matching actual experience.
- The package of assumptions is then adjusted to reflect basic experience trends — but not random year-to-year fluctuations.
- With each experience study, the actuarial assumptions should be more accurate representations of actual experience.

Fiscal responsibility

Aligning our assumptions with our experience

Recent changes:

- Assumed rate of return (AROR) reductions/dedicated gains policy.
- Five-year experience study implementation.
- Legislative change in the amortization policy to “level-dollar.”

AROR



- The investment return assumption (AROR) typically has the largest effect of any assumptions on the liabilities and, therefore, required contributions.
- The dedicated gains policy was adopted in 2017.
- When investment earnings exceed our assumptions, we dedicate the excess investment gains to lower the AROR until they reach a board-approved floor of 6.0%.
- The system's liabilities will be more stable moving forward.

Dedicated gains policy

Assumed rates of return as of Sept. 30, 2023

System	<u>Pension</u>	<u>Pension Plus</u>	<u>Pension Plus II</u>	<u>OPEB</u>
MPSERS	6.00%	6.00%	6.00%	6.00%
SERS	6.00%	N/A	N/A	6.20%
SPRS	6.15%	6.15%	N/A	6.25%
JRS	6.00%	N/A	N/A	6.00%
MRP	6.00%	N/A	N/A	N/A



HELP. CONNECT. SOLVE.

Thank you

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