MERS®

Municipal Employees' Retirement System

Fixed Amortization Policy

Funding of Defined Benefit Plans

Defined Benefit Plans may be funded by three sources; employer contributions, employee contributions and earnings on investments. **For more than 20 years, approximately half of retirement benefits have come from MERS' investment earnings, not taxpayer dollars.**

As a multiple-employer plan, MERS establishes a separate trust for each municipality. Each entity is responsible for the employer contributions needed to provide benefits for its employees and retirees. Each year MERS provides each employer with an annual actuarial report. This report provides insight to the plan's liabilities, funding levels, contributions for both the employer and employee, and important GASB Information. The information in the report provides contribution rates for the following fiscal year.

Minimum required contributions consist of two components; Normal Cost and Amortization of Unfunded Accrued Liability (UAL).

Normal Cost

The present value of the benefits as of the valuation date for the current plan year

\+

Amortization of UAL

The amount of benefits that have accrued to current and former employees that have not been funded by contributions and investment earnings

=

Required Contributions

Using a Shorter Amortization Period that is Fixed

The amortization policy sets 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. Today many open plans are at a 20-year amortization period, while closed groups are at various stages based on when they closed their plan.

We will continue to reduce this down, by one year, every year until the UAL is completely paid off. To reduce contribution volatility, any future liability gains or losses will be spread over a 15-year fixed period for open plans. Closed plans will use a 10-year fixed period. This transparent method allows tracking of any change to UAL, and when the change will be paid off.

Sound Funding Policy

As the plan fiduciary, our primary goal is to ensure that plan assets are sufficient to provide for the benefits that are expected to be paid and that each plan is making reasonable progress to achieve full funding. Having a fixed amortization period gives a specific target date to each plan by which all known obligations will be fully funded.

Our secondary goal is to have each generation incur the cost of benefits for the employees who provide service in that generation, rather than deferring those costs to future employees. Shorter amortization periods support this goal.

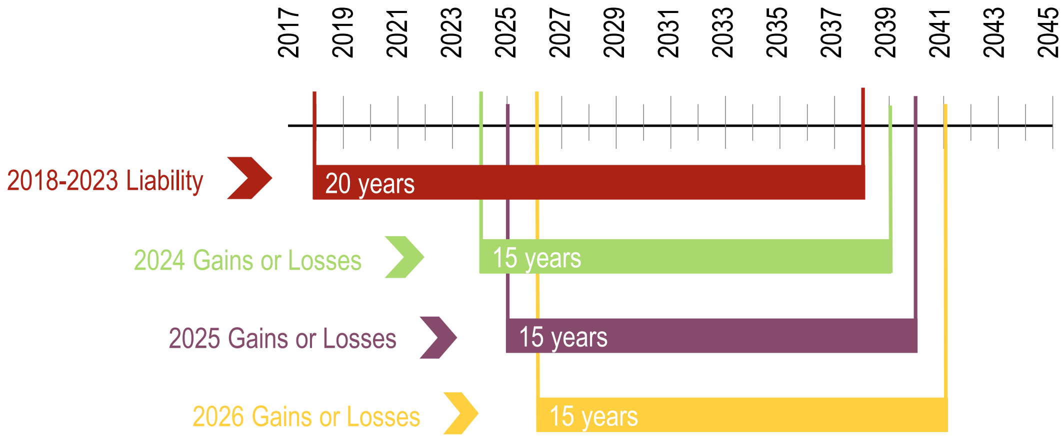
Our funding policy also supports our overarching organizational goals of transparency and accountability. This change promotes clarity of what changed the UAL, and when the change will be paid off.

It is important to note that the amortization policy doesn't make the benefits cheaper or more expensive; it simply impacts the pattern of contributions.

Municipal Employees' Retirement System of Michigan • 1134 Municipal Way • Lansing, MI 48917
800.767.MERS (6377) • www.mersofmich.com

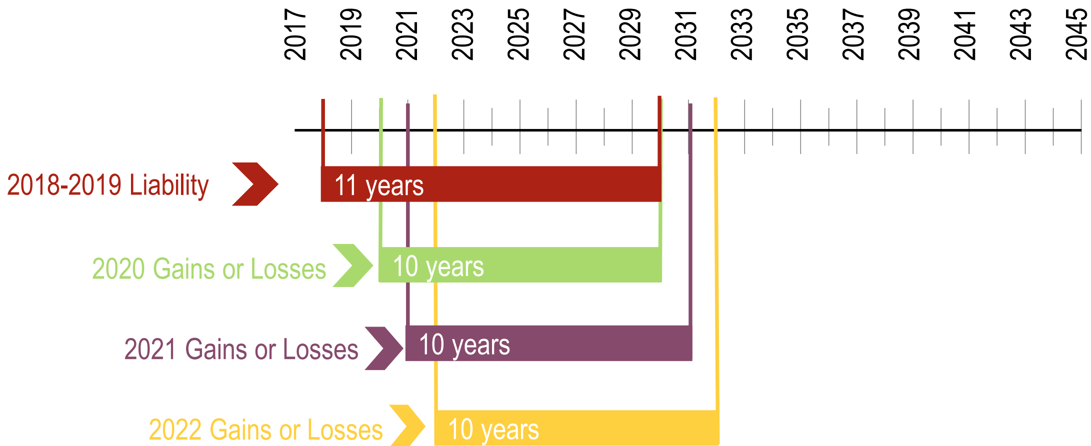
Example of an Open Division

The image below shows the period of time in which specific UAL will be paid off. Any unfunded liability for 2018 through 2023 will be paid off by 2038, in 20 years. Beginning in 2024 any new gains or losses to UAL will be paid off in 15 years.



Example of a Closed Division

The image below shows the period of time in which specific UAL will be paid off. In this example the closed plan is at a 11-year fixed amortization, which will continue to be reduced each year until the liability is paid off. Beginning in 2020 any new gains or losses to UAL will be paid off in 10 years.



Will MERS allow my municipality additional time to adhere to this best practice?

Based on feedback from our customers, we recognize that some municipalities may need additional time in adhering to this best practice. While we strongly suggest groups use the funding policy in place, at your request, we will provide a sustainability analysis to determine if a one-time extension of the amortization schedule for existing UAL is possible. Since each plan is different, it is important that a sustainability analysis is performed to ensure there are enough assets in the plan to pay for the accrued benefits.

By extending the amortization period the municipality is deferring costs into the future, which will result in higher overall costs in the long term. Any new UAL will be layered based on the plan's original schedule.

To request an actuarial sustainability analysis, please contact your Regional Manager.