Municipal Employees' Retirement System

OPEB Management Strategies

As a not-for-profit that was created to administer the retirement plans for Michigan's municipalities, in 2004 MERS created a **Section 115 Governmental Integral Part Trust with a Private Letter Ruling from the IRS**. From this trust we created two programs that can be used together or independently; the Health Care Savings Program and the Retiree Health Funding Vehicle. Today, **over 300 municipalities** use these programs to manage their Other Post-Employment Benefits (OPEB) unfunded liabilities by using one or a combination of both to **fund, reduce and eliminate their OPEB liabilities**.

Retiree Health Funding Vehicle (RHFV)

The MERS Retiree Health Funding Vehicle offers an established qualified medical trust with pooled, cost-effective, diversified investments. Assets held in the trust are legally protected from creditors and may only be used for OPEB. Pooling municipal assets for investment purposes provides substantial benefits, including lower administrative costs. Municipalities choose how to invest their assets, and determine the frequency of contributions.

RHFV Quick Stats

- 159 municipalities
- Setting aside and investing over $788 million in assets

Health Care Savings Program (HCSP)

The MERS HCSP is an employer-sponsored program designed specifically for public sector employees. The program provides individual health care reimbursement accounts to employees, so they can cover the costs of health care after they leave employment. The program does not create unfunded liability for the employer.

HCSP Quick Stats

- 298 municipalities
- Nearly 18,000 participants
- Setting aside and investing over $155 million in assets
- Average employer contribution is 4% of salary

Benefits

1. Unlike pre-tax savings accounts for retirement purposes, this health care reimbursement account provides for **tax-free savings**. This provides the opportunity to put more money to work for the individual, while the employer also saves FICA taxes (7.65%) on any contributions made.
2. Account can be used for post-employment medical expenses, **including health insurance premiums**, unlike Health Savings Accounts (HSAs).
3. Program has an easy to use **medical debit card** for simplified reimbursements and can be designed to coordinate with **private health care exchanges**.
4. Unique to MERS is the ability for a **designated beneficiary** to use the balance of the account for qualified health related expenses after primary account holder passes away. Listening to our members, this was a special provision we advocated for in the Pension Protection Act.

Strategies Implemented

The following is a sample of strategies that have been used by municipalities to restructure their OPEB benefits:

- Fund OPEB liabilities for existing retirees with the RHFV
- New hires receive a stipend in HCSP in lieu of retiree health care
- Provide retirees with HCSP to supplement increased cost sharing
- Buy out active employees' and/or retirees' health care benefits placing lump sums and future stipends into HCSP

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	MEDICAL SAVINGS		RETIREMENT SAVINGS	
Program	***MERS Retiree Health Care Savings Program***	***Health Savings Account***	***401(a) Defined Contribution***	***457(b) Deferred Compensation***
Overview	An employer-sponsored **tax-free** retiree health care reimbursement account designed specifically for public sector employees created through a Section 115 Trust.	A health savings account (HSA) is a tax-advantaged account for use for qualified medical expenses available to individuals who are enrolled in a high-deductible health plan (HDHP).	A qualified retirement plan under Section 401(a) of the Internal Revenue Code. *Note:* After May 6, 1986, state and local governments are not eligible to adopt 401(k) plans.	A nonqualified, tax advantaged deferred-compensation retirement plan that is available for governmental and certain non-governmental employers.
Types of Contributions	Employer ° May include a vesting schedule ° Assets from an employer retiree health funding vehicle can be transferred to HCSP ° Employers may make contributions for retirees	Employer ° No vesting schedule ° Contributions are limited to active employees	Employer ° May include a vesting schedule ° Contributions are limited to active employees	Employer ° Considered compensation in the year the participant vests, thus vesting schedules are typically not used ° Contributions are limited to active employees
	Mandatory employee	Voluntary employee	Mandatory employee	Voluntary employee
Contribution Limits	n/a	Both employer and employee contributions count towards limits of: Self-only: $3,550 Family: $7,100 ° Catch-up contributions available	Both employer and employee contributions count towards limit of $57,000.	Both employer and employee contributions count towards limit of $19,500. ° Catch-up contributions available
Tax Benefits	Exempt from federal and state income & FICA.	Exempt from federal and state income & FICA.	Exempt from federal and state income & FICA.	Exempt from federal and state income. **Subject to FICA.**
Using the Account	Participants can begin using the account as soon as they leave employment. Account can be used tax free for qualified medical expenses, including health insurance premiums.	Participants can use the account at any time. For qualified medical expenses, withdrawals are tax exempt. ° Health insurance premiums are **excluded** ° Non-qualifying expenses are subject to a 20% penalty ° Once 65, monies can be withdrawn penalty free, but not tax-free	Participants can begin to use the account at age 59½ ° 10% early withdrawal penalty ° Required Minimum Distributions at age 72 ° Subject to income tax	Participants can begin using the account as soon as they leave employment ° No early withdrawal penalty ° Required Minimum Distributions at age 72 ° Subject to income tax
Key Takeaway	Tax free retiree health care reimbursement account.	HDHP required, not able to be used for insurance premiums.	Retirement account	Employer contributions are subject to FICA and increase compensation.