MERS®
Municipal Employees' Retirement System

Readying Michigan for Retirement

Financial Wellness Report 2018

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Executive Summary

This inaugural report provides an in-depth look at the perceptions and feedback from our customers, both employers and participants. As MERS continues to collect data related to financial wellness and identify trends, we intend to build upon this report and its findings each year. While this is the first year this report is publicly available, some of the data being shared contains findings from previous years' research.

In addition to using this information to guide our activities and educational outreach, this report serves as a resource to provide employers, participants and key stakeholders data on our ongoing retirement readiness and financial wellness initiatives.

Retirement readiness is a gauge that determines whether or not a person will have enough money in retirement to enjoy a similar standard of living as in their time working. Research shows a majority of Americans are not financially prepared for retirement.

In 2014, MERS launched its Retirement Readiness initiative. It started with providing Snapshot reports to participants. These reports utilize behavioral finance research to assist participants in understanding their level of retirement readiness. It gives them a "snapshot" of their MERS benefits combined with Social Security projections along with customized actions they can take to improve their readiness.

Additionally, participants are encouraged to use MERS' free online Full Picture report builder to get a holistic look at their financial outlook in retirement. The report combines investment guidance with customizable data from outside accounts and spouses to provide a more detailed projection of a participant's financial future and suggestions to help them meet their personal goals.

It is imperative to provide participants with the skills, resources and know-how to successfully navigate their way to financial well-being.

Financial wellness is a pillar of retirement readiness. As a retirement system, it is imperative to provide participants with the skills, resources and know-how to successfully navigate their way to being financially well.

The US Consumer Financial Protection Bureau defines financial wellness as an individual's ability to:

- Control day-to-day, month-to-month finances (**budgeting**)
- Absorb a financial shock (**emergency savings**)
- Be on track to meet financial goals (**retirement readiness**)
- Make choices that allow them to enjoy life (**financial freedom**)

We are dedicated to helping participants understand their MERS plans and resources to find answers they need to prepare for retirement. As a result of this dedication, we are significantly increasing resources and awareness that help participants improve financial wellness to be ready for retirement.

In 2018, MERS launched a thorough financial wellness initiative, including our *CentsAbility* blog where participants can learn about topics ranging from Budgeting, Debt Management, Emergency Savings, Investments and Retirement Planning. We also introduced new topics like *"Financial Planning for your Future Self"* and *"Healthcare in Retirement"* at our Pizza & Planning participant events and will be adding even more new content in the next year. The summary of key findings on the next page will help guide our financial wellness initiative.

Financial Wellness:

Budgeting

Emergency Savings

Retirement Readiness

Financial Freedom

Summary of Key Findings:

1. The ability to attract and retain skilled employees is starting to become a problem and employers are more frequently using retirement benefits for retention and recruitment strategies.

2. Many employers have taken some action to improve their employees' financial wellness. Most offer a 457 Supplemental Retirement Savings Program or Health Care Savings Program.

3. Increasingly, employees either don't know how much to contribute, haven't thought about it, or haven't gotten around to contributing to their retirement savings. Employers can help offset this by offering automatic enrollment or escalation of employee contributions. Participation for default plans are 93%, compared to 47% of those with voluntary enrollment.

4. 67% of participants feel like they are doing a good job preparing for retirement, and that confidence grows the closer they get to retirement. However, only 14% of participants have a plan for retirement, suggesting there may be "retirement overconfidence."

5. Participants in a MERS plan are ahead of the national average in two important planning initiatives: estimating a monthly income needed in retirement, and preparing a formal, written retirement plan. While MERS is ahead of the national average, much work is yet to be done in getting everyone on the path to retirement readiness, especially the millennial generation.

This report is organized as follows:

SECTION I: Background

Background on MERS and why financial wellness is important

SECTION II: Employer Findings

Findings from employer responses

SECTION III: Participant Findings

Comparison of participants' financial wellness to national averages

SECTION IV: Employer Actions

Actions employers can take to better their employees' overall financial wellness

SECTION V: Participant Actions

Actions participants can take to improve their financial wellness

Methodology

This report uses data from the 2018 "Voice of the Customer" (MERS annual surveys of employers and participant employees). The surveys were conducted in May 2018.

The employer survey contains responses from more than 600 employer contacts, representing 447 different local units of government throughout the state of Michigan. The margin of error is +/- 3.5%.

The participant survey incorporates the views of more than 600 randomly selected, active employees. The margin of error is +/- 3.8%.

Participants have been categorized by generation using the following age groups: 22 to 37 (Millennials), 38 to 53 (Gen X) and 54 to 76 (Baby Boomers).

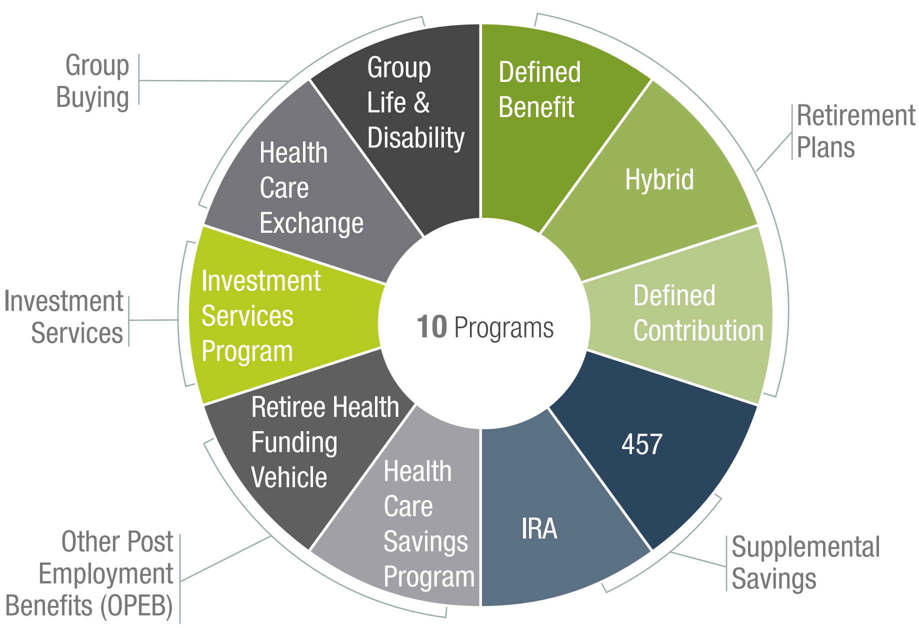
SECTION I: Background

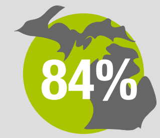
Our unique customer base means there is no simple solution to financial wellness.

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's local units of government on a not-for-profit basis.

We proudly serve more than 100,000 participants, including local firefighters, nurses, and the men and women who plow our roads and keep our communities safe.

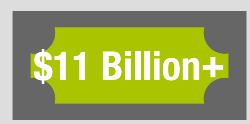
There is no one-size-fits-all approach to providing secure retirements for Michigan's public servants. Each local unit has unique needs. MERS offers a broad range of customizable plans to fit our customers' budgets, needs and goals.





of Michigan's pension plans participate with MERS

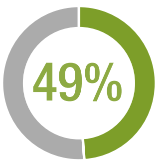
participants statewide



in combined total assets

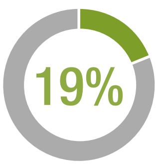
MERS Retirement Program Breakdown:

Retirement benefits are determined at the local level. As of December 31st, 2017, MERS has over 65,000 total active accounts* enrolled in its programs.



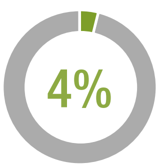
Defined Benefit

Traditional pension plan. Benefit is determined by three-part formula: (1) Final Average Compensation, (2) Service Credit, and (3) Benefit Multiplier.



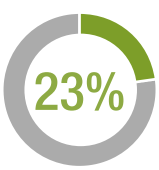
Defined Contribution

Qualified retirement plan under Section 401(a) of the Internal Revenue Code. Benefit is determined by the employee's account balance, which is affected by how much is contributed, investment performance and how many years the funds are invested.



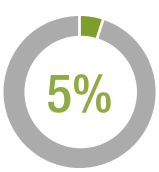
Hybrid

Combines the stability and security of a Defined Benefit plan (Part I) and the flexibility and investment choice of a Defined Contribution plan (Part II). At retirement, employees receive both a modest lifetime benefit (Part I) and an invested account that fluctuates with the market (Part II).



Health Care Savings Program

Individual employee accounts are invested in MERS funds for post-employment healthcare expenses and grow tax-free. After leaving employment, the vested account balance is available for tax-free reimbursement of IRS-approved medical expenses.



457 Supplemental Retirement Program

Deferred compensation program. Offers individuals a self-directed account in which they choose a portion of their salary to be contributed through payroll deductions (pre-tax or Roth options, post-tax, available). The benefit is based on the total amount of money in the account.

*Individuals may be represented multiple times across programs.

What is Financial Wellness?

The US Consumer Financial Protection Bureau defines financial wellness as an individual's ability to:

- Control day-to-day, month-to-month finances (budgeting)
- Absorb a financial shock (emergency savings)
- Be on track to meet financial goals (retirement readiness)
- Make choices that allow them to enjoy life (financial freedom)

Financial wellness is holistic and defined by health, not wealth. Research shows a majority of Americans are not financially prepared for retirement, regardless of their age, gender, education or income.

MERS recognizes that it takes more than a single program or simple solution. The financial success people achieve is built on foundations of lifelong habits, goals, education, and decisions.

This report provides an in-depth look at the thoughts and perceptions of our customers. We take this input very seriously, analyzing it to guide our direction, gauge opinion, and look for the best ways to continue providing comprehensive education and guidance designed to put our customers on the right path towards financial wellness.

Financial wellness is a win-win:

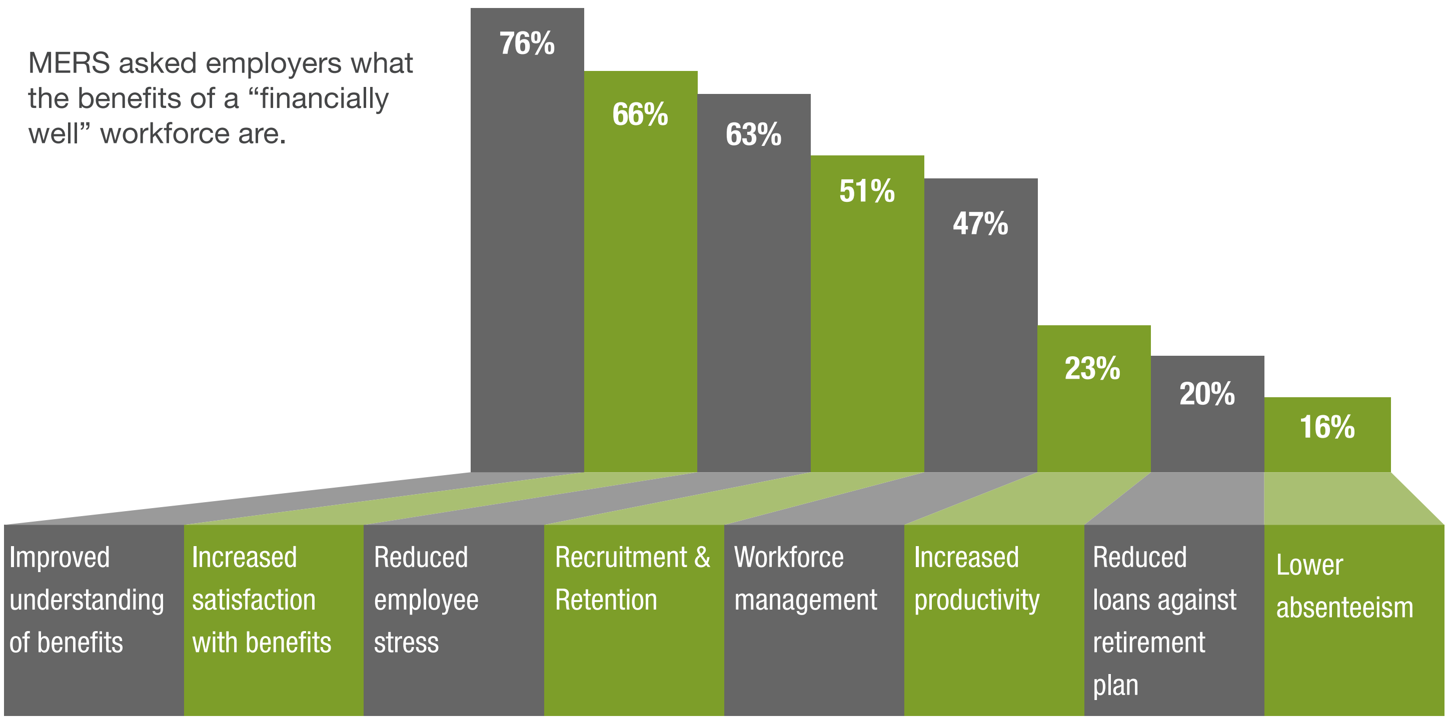
Beneficial for the employees and the organizations they work for

SECTION II: Employer Findings

Employers have taken action, but additional steps may help improve their employees' financial wellness.

Employers have a vested interest in the financial well-being of their employees. Being financially well serves as a means to retirement readiness and eventually retirement security. Wellness is a win-win, beneficial for the employees (lower levels of stress, and ultimately so they're able to comfortably retire) and the organizations they work for (improved recruitment, retention and workforce management.)

MERS asked employers what the benefits of a "financially well" workforce are.



We took a look to see if there were outliers or differences of opinion within the data. Generally, regardless of the employer's size, location or which retirement programs they're currently enrolled in, the top selected benefits remained nearly the same.

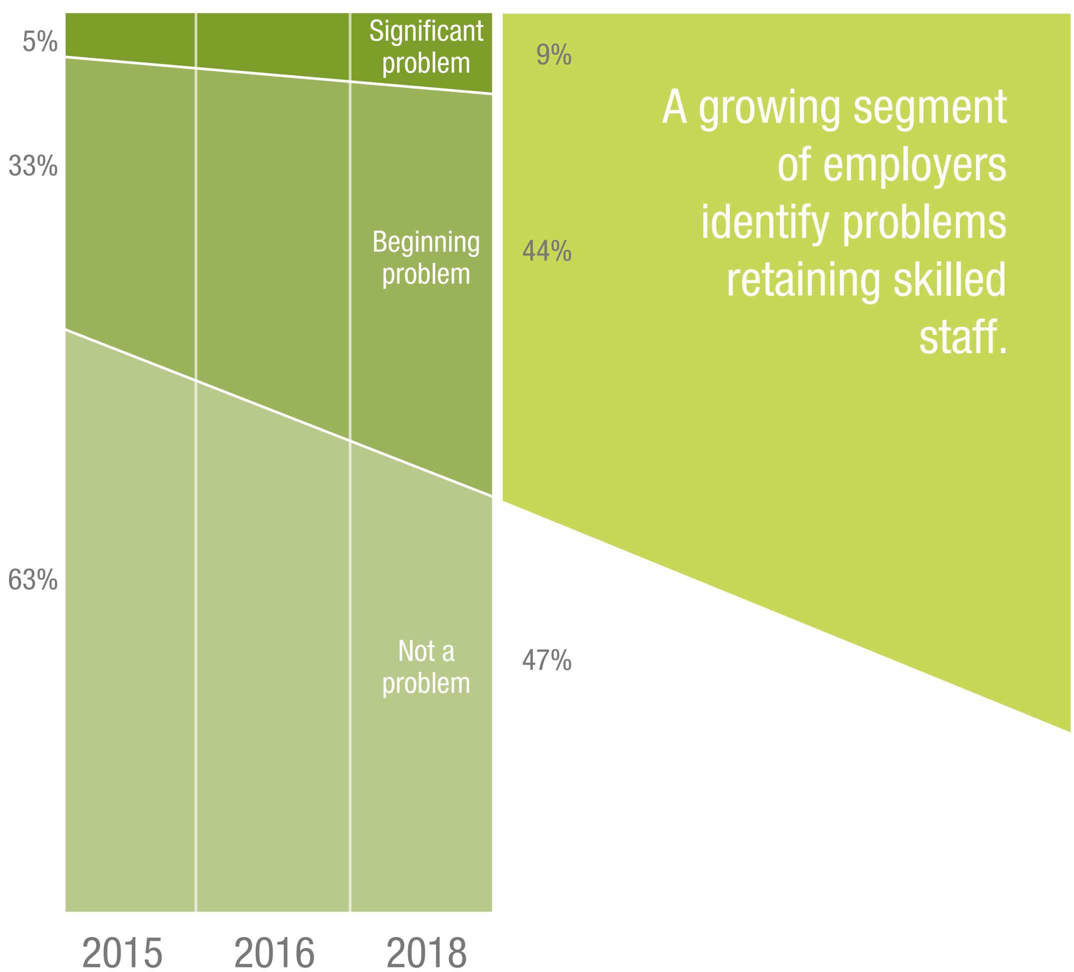
> Employers with more than 100 active employees indicated
>
> **financially well employees impact their organization's ability to recruit and retain employees (58%)**
>
> than employers with 26-100 (54%) or fewer than 25 employees (47%).

Ability to attract and retain skilled employees is starting to become a problem.

Starting with the 2015 Employer Survey, we began tracking employers' ability to attract and retain skilled employees. Retirement benefits are just one part of a total compensation package, but according to the Society of Human Resource Management, employers are more frequently using retirement benefits for retention and recruitment strategies at all levels of their organizations.

Over the last few years, there is growth in the number of local units of government who are saying the ability to attract and retain skilled employees is either starting to become a problem or already is a significant problem.

As the graph on page 9 highlighted, the more financially well participants are, the more they'll understand their benefits. In turn, their satisfaction with those benefits will increase. Retirement benefits can play an important role in attracting and retaining skilled employees.



Attracting and retaining skilled employees is not unique to Michigan's public employers.

Recruitment and retention of qualified personnel was listed as the most important workforce issue facing organizations in a 2018 report*.

82% of respondents selected this as an important issue, a substantial increase from 39% in 2012.

* *State and Local Government Workforce: 2018 Data and 10 Year Trends* – Center for State & Local Government Excellence (May 2018).

Looking in greater detail, employers enrolled in MERS' three retirement programs (Defined Benefit, Defined Contribution, and Hybrid) all saw increases in recruitment and retention starting to become or already is a problem.

There is no significant difference between Defined Benefit and Defined Contribution employers' ability to attract and retain skilled employees.

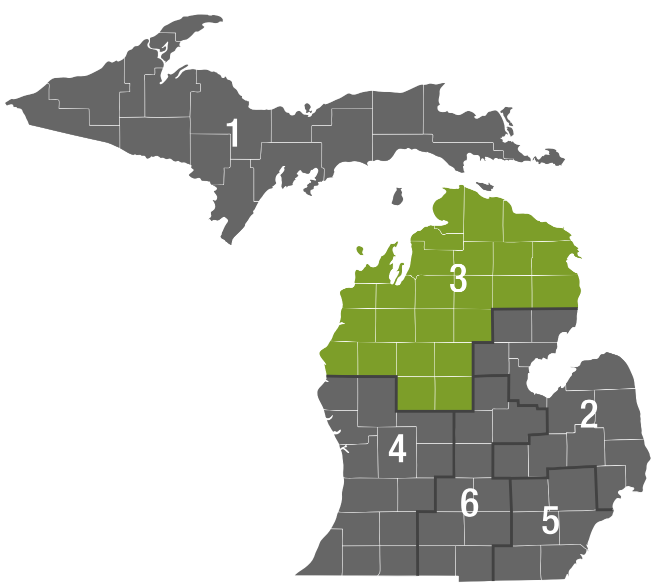
+20%
Defined Contribution

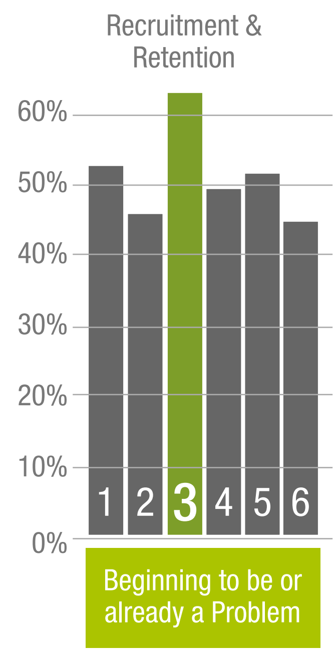
+17%
Defined Benefit

Amount of increase in difficulty of attracting/retaining workers, from 2015 to 2018, by retirement plan type.

It is important to note that only 10% of the local units of government that have MERS retirement plan have a Hybrid Plan. Due to the lower number, there is more volatility in the Hybrid percentage, thus, it isn't shown above.

MERS also reviewed the recruitment and retention issue based on where the employer is located in Michigan. Employers in Region 3 were almost 10% *more* likely to indicate it's becoming or already a problem compared to those in other regions of the State.

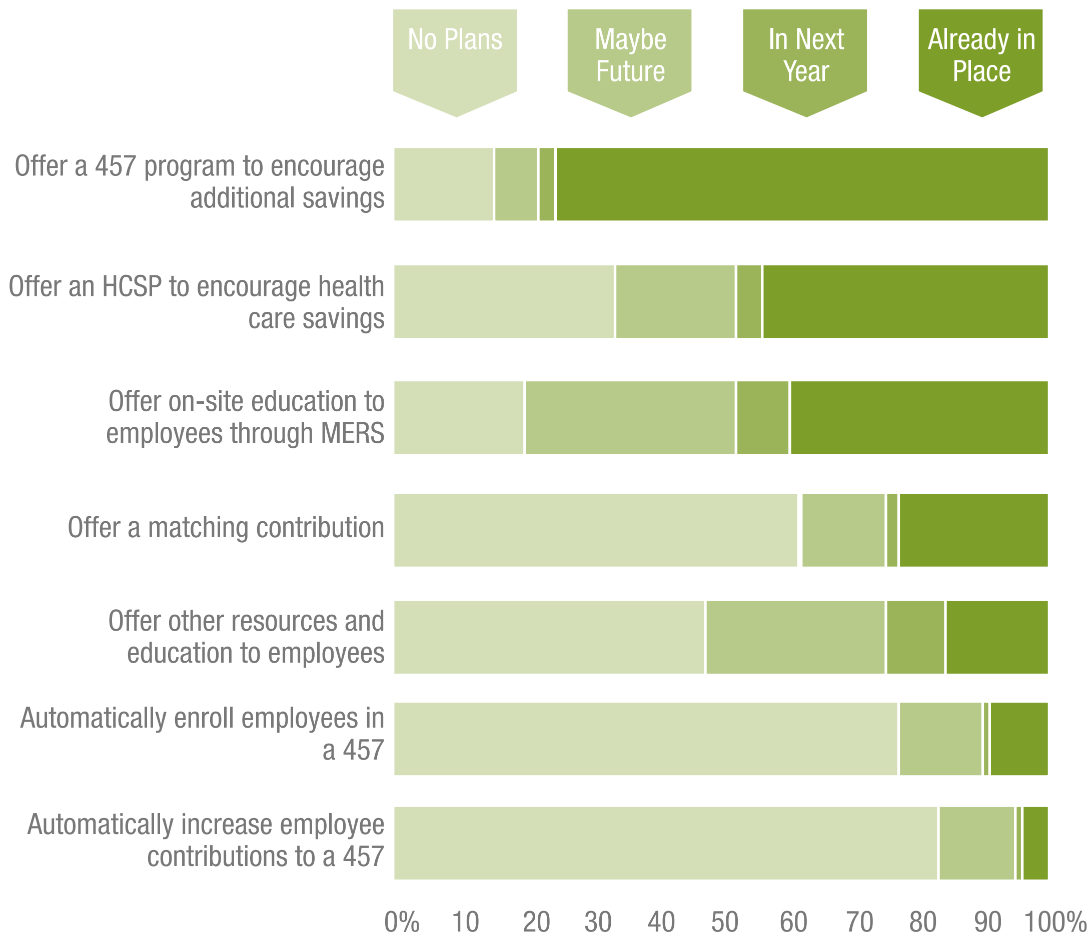




Actions employers are taking to improve their employees' wellness:

Achieving financial wellness can appear as a complex, overwhelming task for many employees. However, it is possible for employers to assist turning complex tasks into attainable goals. For instance, 22% of employees have either not thought about how much they should be saving, don't know how much they should be contributing or haven't gotten around to saving for retirement.

While employers understand the benefits of having financially well employees, most have not taken actions to increase their employees' wellness beyond offering supplemental retirement and health care savings programs.



"The secret of getting ahead is getting started.

The secret of getting started is breaking complex, overwhelming tasks into small manageable tasks, then starting on the first one."

– Mark Twain

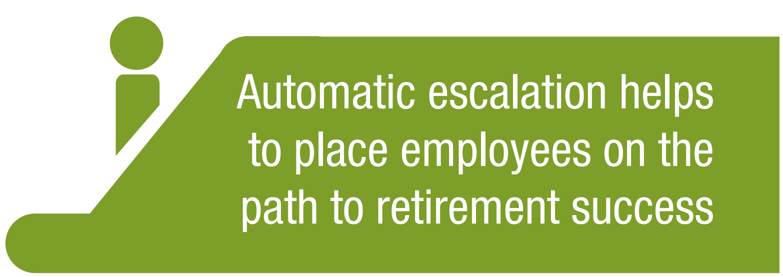
There are a couple of ways to boost participation and savings in these programs. The first is to automatically enroll employees into the program. With **automatic enrollment**, the default option is to join the plan, and opting-out requires the employees to take action. This is called inertia. Employees are more likely to participate if they have to take some action to opt out. Inertia can be a powerful element to help employees achieve wellness.

According to Vanguard, plans who offer automatic enrollment see participation rates nearly double among new hires. Participation rates for default plans are 93%, compared to 47% of those with voluntary enrollment.

Source: "Automatic enrollment: The power of the default", Vanguard Research, February 2018.

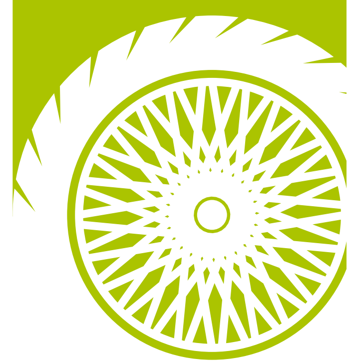
MERS data shows 76% of employer respondents have offered a supplemental retirement savings program, however, only 9% implemented automatic enrollment. 13% are considering it, and 77% have no plans to implement with this program.

Automatically increasing employee contributions is another great way for employers to boost savings in supplemental retirement saving programs. Employees can be slow to change the portion of their salary directed savings. **Automatic escalation** increases their contributions each and every year, helping to place employees on the path to retirement success.



84% of employers have no plans to implement automatic increases to employees' supplemental retirement savings contributions, 13% are considering taking action, while 4% have already implemented the automatic escalator.

Inertia can be a powerful element to help employees achieve wellness



In recent years, employers have begun exploring plan design strategies that encourage employees to save more for retirement. One strategy is using the concept of "**loss aversion**" to restructure matching contribution formulas in retirement plans. Loss aversion is the tendency for people to be driven more by the fear of potential loss than the possibility of acquiring gains. In other words, it's better to *NOT LOSE $5* than to find $5.

Maximizing the Match is a strategy that revises employer matching formulas to incentivize higher employee contributions. This strategy does not require increasing the level of employer contributions. Instead, they reduce matching percentages at lower contribution amounts, creating the perception that employees are losing out on higher reward.

Employers could implement the Maximizing the Match strategy, using the *Defined Contribution Plus* option that pairs a traditional defined contribution plan with a 457 supplemental savings program.

Maximizing the Match example

Employee Contribution	Employer Contribution	Total
3%	50% match (contributes 1.5%)	4.5%
6%	75% match (contributes 4.5%)	10.5%
7%	**100% match (contributes 7%)**	**14%**

The fear of losing out on higher rewards drives people to increase contributions

LOSS AVERSION

Behavioral research reveals that people are driven more by the fear of loss that the possibility of gain.

SECTION III: Participant Findings

Participants in a MERS plan outpace the national average in several retirement readiness areas, but need help overcoming barriers to contributing more.

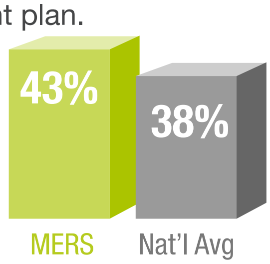
Personal financial issues have a significant impact on overall job performance. Unfortunately, financial stress often follows people to work resulting in reduced productivity, increased absenteeism and higher health care costs. According to a PwC survey*, nearly 50% of employees say they spend three hours or more each week at work dealing with issues related to their personal finances.

*Source: "Employee Financial Wellness Survey 2016 Results", PriceWaterhouseCoopers, April 2016.

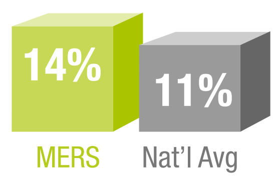
As part of MERS' efforts in improving our participants' financial wellness, it is important to understand where they stand in retirement planning and confidence. Data collected from actively employed participants was compared to the Employee Benefit Research Institute's Retirement Confidence Survey, a national assessment containing over 1,000 actively employed individuals.

Retirement Planning:

Participants in a MERS plan are ahead of the national average when it comes to estimating income needed in retirement, and preparing a formal, written retirement plan.

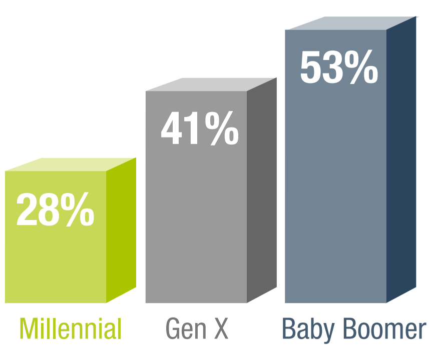


Estimated income needed in retirement

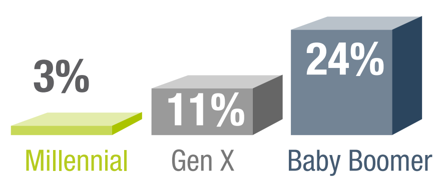


Prepared a financial plan for retirement

While MERS is ahead of the national average in both categories, much work is yet to be done in getting participants on the path to retirement readiness. Below is a detailed breakdown of retirement planning based on generation:



Estimated income needed in retirement



Prepared a financial plan for retirement

For purposes of this report, participants are categorized by generation using the following age groups:

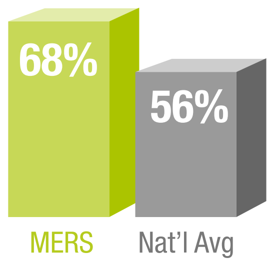
Millenial
ages 22-37

Generation X
ages 38-53

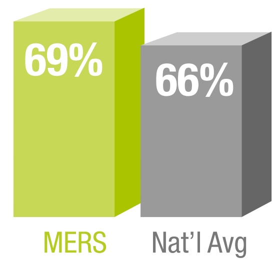
Baby Boomer
ages 54-76

Retirement Confidence: MERS Compared to National Average

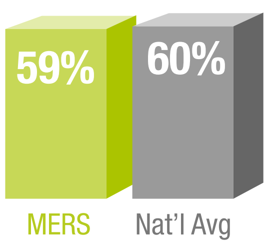
While participants are considerably more confident in their feeling of doing a good job financially preparing for retirement, they are less confident in having enough money to live comfortably throughout retirement, covering medical expenses, and taking care of long-term care (nursing home, in-home health care) during retirement.



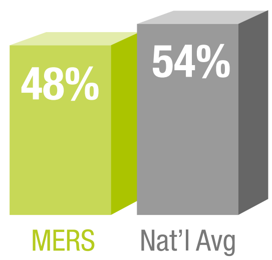
You are doing a good job of preparing financially for your retirement



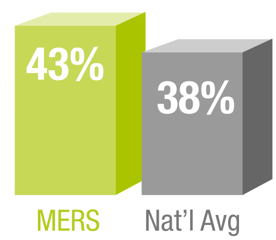
You will have enough money for basic expenses during your retirement



You will have enough money to live comfortably throughout your retirement



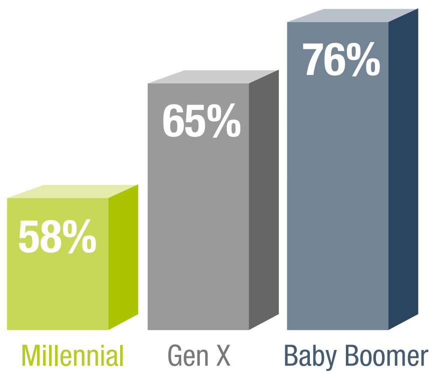
You will have enough money for medical expenses during your retirement



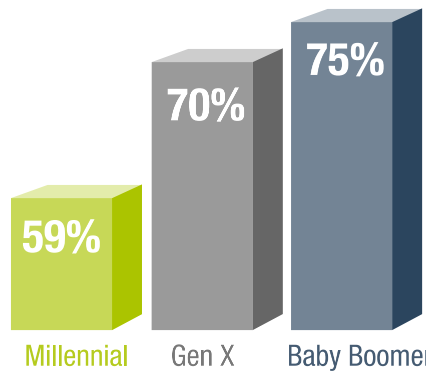
You will have enough money to take care of your long-term care through retirement

Retirement Confidence: Comparing Generations

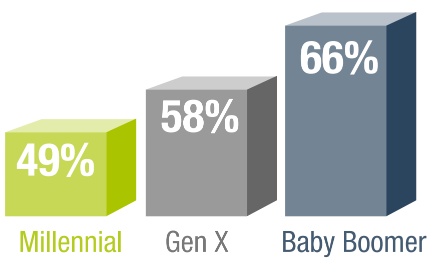
Data shows Millennials lagging the other cohorts in confidence by a wide margin in terms of doing a good job preparing financially, having enough money to live comfortably throughout retirement and covering medical expenses during retirement.



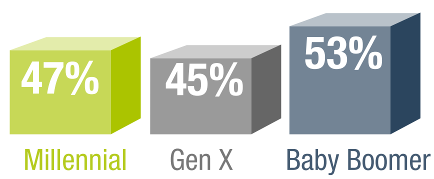
You are doing a good job of preparing financially for your retirement



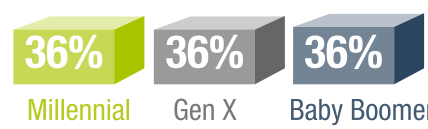
You will have enough money for basic expenses during your retirement



You will have enough money to live comfortably throughout your retirement

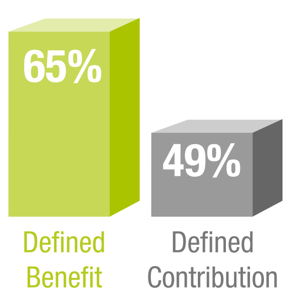


You will have enough money for medical expenses during your retirement



You will have enough money to take care of your long-term care through retirement

Looking at the same data by products, employees enrolled in the Defined Benefit Plan are considerably more confident (65%) in having enough money to live comfortably throughout retirement compared to those in Defined Contribution (49%).



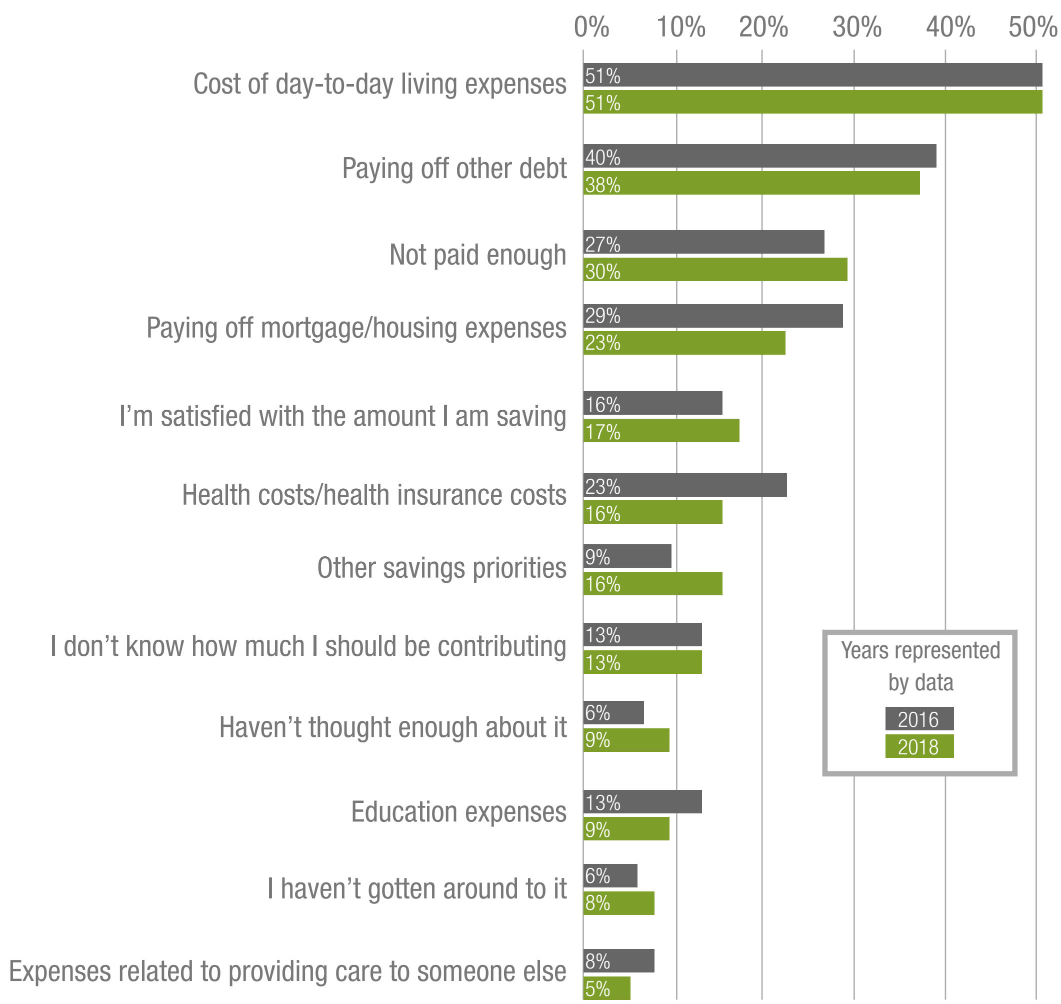
You will have enough money to live comfortably throughout your retirement

Barriers to Saving for Retirement:

Saving is one of the most significant factors in retirement confidence. Participants were asked what prevents them from contributing more to their retirement. They were asked to select from a list of common barriers.

The *cost of day-to-day living* and *paying off other debt* were listed as the two biggest barriers to saving more for retirement. *Other savings priorities* and *not being paid enough* saw the largest increases from the last time we measured participants back in 2016. *Health care* and *housing costs* saw the biggest decreases from 2016.

There were several areas that saw increases between 2016 and 2018. *Other savings priorities* saw an increase of 6%, *Haven't thought about it/no planning* and *Not paid enough* were both up 3% from the last measurement.



The top barriers to contributing more to retirement savings:

1. Cost of day-to-day living expenses

2. Paying off other debt

3. Not paid enough

4. Paying off mortgage/ housing expenses

5. Health costs/health insurance costs

Looking at the top selections by **age cohort**, the top three remained the same. After that, there was movement in the other barriers as *Paying off mortgage/ housing expenses* was listed by Millennials and Gen X'ers, while *Health costs/ health insurance costs* appeared on both Gen X and Baby Boomer lists.

	Millennial (age 22-37)	**Generation X** (age 38-53)	**Baby Boomer** (age 54-76)
1	Cost of living/day-to-day expenses	Cost of living/day-to-day expenses	Cost of living/day-to-day expenses
2	Paying off other debt	Paying off other debt	Paying off other debt
3	Not paid enough	Not paid enough	Not paid enough
4	Paying off mortgage/ housing expenses	Paying off mortgage/ housing expenses	I'm satisfied with the amount I currently contribute
5	Other savings priorities	Health costs/health insurance costs	Health costs/health insurance costs

MILLENNIALS –

Largest increases in barriers for saving between 2016 and 2018:

Other savings priorities

+11%

Day-to-day expenses

+6%

Paying off other debt

+3%

I don't know how much I should be contributing

+3%

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Financial Wellness Topics

In order for participants to achieve complex goals like retirement security, they first need to conquer foundational financial topics like budgeting and debt management. As MERS looks to expand the educational topics and resources it provides to participants, we asked them what topics they would like to receive education or assistance from MERS.

The top four selections varied based on the participant's age group. *Paying off mortgage/housing expenses* and *How to create a budget* were the only topics that appeared in all three groups.

	Millennial (age 22-37)	**Generation X** (age 38-53)	**Baby Boomer** (age 54-76)
1	Saving for my child's education	Paying off mortgage/ housing expenses	Paying off mortgage/ housing expenses
2	Paying off mortgage/ housing expenses	How to establish emergency savings	How to create a budget
3	Paying off student loans	How to create a budget	How to establish emergency savings
4	How to create a budget	Assistance with debt management	Managing day-to-day expenses

Top topics:

1. Paying off mortgage/ housing expenses
2. Establishing emergency savings
3. Creating a budget
4. Debt management
5. Managing day-to-day expenses

Available Resources

MERS offers the following resources where we will continue to provide actionable information on foundational topics to participants.

CentsAbility
Making sense of your financial future

A blog on the MERS of Michigan website covering topics ranging from Budgeting, Debt Management, Emergency Savings, Investments, and Retirement Planning.

Pizza & Planning

Free in-person regional events throughout the state.

Quick Bite webinars

Live and on-demand topics.

Facebook Live events

Live and on-demand topics.

Snapshot Reports

Participants enrolled in the MERS Defined Benefit, Defined Contribution or Hybrid plan receive a report each fall. This customized report uses information provided by employers along with projected Social Security income to show participants how well financially prepared they are for retirement.

Full Picture Retirement Builder

Available to all participants by logging in to our free and secure myMERS online account access. Participants can customize retirement goals, add in spouse information, and include non-MERS retirement accounts to create a “full picture” of their retirement readiness.

Calculators (Website)

Whether it’s paying off debt, analyzing your personal budget and much more, we have a variety of calculators available to help.

SECTION IV: Employer Actions

Taking time to understand how employees' financial wellness impacts their work life, and performance can help employers better serve not only their employees but also the communities in which they reside.

MERS data shows employees are less likely to interact with MERS or engage with educational resources before they reach an age or stage in their employment that is closer to retirement. The earlier employees begin engaging with their retirement programs, the better prepared for retirement they are expected to be in the future.

Employers who want to create deeper connections with their employee's financial wellness may want to consider:

- [ ] **Scheduling onsite education** by contacting a MERS Benefit Education Specialist
- [ ] **Reviewing Snapshot employer summary report** shows whether employees are on-track or at-risk of achieving 80% income replacement rate in retirement
- [ ] **Revisiting the list of educational resources** available and actively promote those financial tools and services offered to employees
- [ ] **Paying close attention to MERS quarterly communications** and sharing them with employees
- [ ] **Establishing financial wellness goals** by scheduling a meeting with MERS to help customize goals based on unique workforce needs

The earlier your employees begin engaging in their retirement programs, the better prepared for retirement they are expected to be in the future.

SECTION V: Participant Actions

If participants are looking for ways to improve their financial wellness, they can consider taking these steps:

- [ ] Completing **Full Picture report**
- [ ] Attending an upcoming **Pizza & Planning** meeting
- [ ] Checking out our **CentsAbility** blog
- [ ] Enrolling in a **supplemental retirement savings program**. A 457 program is a great way to help prepare for life after the workplace

  If they are already enrolled, consider:

    Increasing contribution amount

    Changing **contribution amount to a percentage of pay** – as their pay increases, the dollar amount they are contributing automatically increases

- [ ] **Rolling over assets** from a previous employer. Consolidating retirement savings under one plan makes it easier to track investments and manage accounts
- [ ] **Following MERS of Michigan on social media** to stay up to date on all things related to retirement programs and financial wellness

Take action to improve your financial wellness today.

Your future self will thank you.

Readying Michigan for Retirement
Financial Wellness Report 2018

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