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MEA
Michigan Education Association

New Hire Retirement Choices Made Easier

For employees hired on or after February 1, 2018

Use this guide if you are new to public school employment and within the first 75 days following your first payroll date.

Legal Disclaimer

The intent of this publication is to summarize and illustrate recent changes to the retirement system for Michigan public school employees. It is not intended, nor should it be construed as retirement, investment or legal advice. The examples included herein are based on recent legislative changes to the Michigan Public School Employees Retirement Act. How those changes are actually implemented may be affected by litigation or later legislation. Should there be discrepancies between this publication and the actual law, the provisions of the law govern. MEA neither warrants nor guarantees that the Act will be implemented as illustrated herein.

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Hire Dates: Beginning February 1, 2018

At MEA, we know that you didn't get into the education field to become a public policy plan specialist or financial advisor. Unfortunately, you only have 75 days from your first payroll date to choose which retirement plan you will take — and your decision cannot ever be changed. In order to aid you in your decision, MEA has boiled down the essential elements of the two retirement plans available to you, and created the following introductory guide. While the Office of Retirement Services is the final word on how these programs work, we hope you will find this tool useful in your research as you make this important decision.

Types of Retirement Plans

Retirement plans can be classified into one of three types: Defined Benefit Plans, Defined Contribution Plans, and Hybrid Plans.

Defined Benefit Plans guarantee/define the size of an employee's retirement benefit (money, insurance, etc.) when he or she retires; but because the stock market is unpredictable, cannot guarantee how much money the employer will need to pay the benefit when the employee retires. A pension is an example of a defined benefit.

A Defined Contribution Plan guarantees/defines how much money will go into the employee's retirement account(s); but because the stock market is unpredictable, there is no way to know how much money the employee will have to retire on. A 401k is an example of a defined contribution.

A Hybrid Plan is built by taking both defined benefit and defined contribution elements and having the employee and employer share the risk and rewards of the stock market.

Public school employers in Michigan have employees in all three types of plans, depending on when the employee was hired. Throughout this document, the issues of Healthcare, Pensions, and Investment accounts will be discussed – and information pertaining to individual components of the two plans available to you will be compared. Information about the Pension Plus 2 Plan will be highlighted in green and the Defined Contribution (DC) Plan information will be highlighted in red. **You have a choice between a Hybrid Plan (the Pension Plus 2 Plan) and a Defined Contribution Plan (the DC plan).**

Finally, it is worth mentioning that if you do NOT choose one plan or the other, the law treats it as if you had chosen the DC Plan. Therefore, if you decide that you want to choose the DC Plan, the law does not require you to do or say anything at all (although your employer may require you to fill something out for liability purposes).

Important Terms

Final Average Compensation (FAC)	-- The 12 month average of your highest 60 consecutive months of income. Used in calculating your pension amount (Pension Plus 2only).
Personal Healthcare Fund (PHF)	-- The first 2% contributed to your 457 and 401k accounts. The term is a bit of a misnomer as the PHF is not a separate fund, and has nothing to do with healthcare. It is additional money going into your accounts.
Vested / Vesting	-- How long you have to work (measured in YOS, below) before you are eligible to receive the retirement benefit in question.
Years of Service (YOS) / Service Credit	-- How much time you've got in the system. 1,020 or more hours earned between July 1 and June 30 of a school year equals one YOS.

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The Big Picture – Overview of Plan Benefits and Differences

Plan Benefit Component	Brief Description of the Component	Which Plans Include this Component?	Are There Differences Between How the Plans Handle This Component?
457 Account	An investment account YOU fund for your retirement with pre-tax money from your paychecks. You decide the percentage of your salary to invest.	Both Plans	Technically, yes. Realistically, no. The only difference between the two plans is that they have different default percentages. Consequently, the only way this difference comes into play is if you choose not to decide how much of your money to invest. **Advantage: None**
401k Account	An investment account funded by the employer for your retirement. The amount the employer puts in depends on the amount you invested into your 457 account. This is called a "match."	Both Plans	Yes. The DC Plan provides a 4% initial contribution and a better 457 match than what Pension Plus 2 Plan members receive. **Advantage: DC Plan**
Pension	A fixed monthly check that comes each month until you die – or if you choose to take a reduction in the size of your pension, until you and your named survivor beneficiary both die.	Pension Plus 2 Plan	Yes. Pension Plus 2 members who earn 10 years of service credit will receive a pension at retirement. DC Plan members never do. **Advantage: Pension Plus 2**
Health Reimbursement Arrangement (HRA)	An account given to the employee at retirement. The money in the account may only be used to reimburse the employee for out-of-pocket medical expenses or individual insurance premium payments.	Both Plans	No differences **Advantage: None**

Bottom Line: As a new employee, there is no way that your MEA representatives know you nearly well enough to be able to advise you as to which plan is "best" for you. Every person is an individual with his or her own goals and needs, and it would be terribly arrogant of us to try to tell you what decision to make for yourself and your family before we had even had the time to get to know you and become friends. What we CAN say, however, is that most (but not all) people who choose the Pension Plus 2 Plan do so for the extra retirement income security provided by the pension component and that the best (but not the only) reason for a member to choose the DC Plan is because he or she is not planning to earn at least 10 years of service in public education.

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YOUR 457 ACCOUNT

Your 457 account is one of two defined contribution investment accounts that you will have access to upon your retirement. The amount that you choose to invest in the 457 account will determine how much money your employer will contribute into the 401k account they hold in your name, so if you choose not to have any money withdrawn from your paycheck into your 457 account, it means your employer doesn't have to have to place any matching funds into your 401k account. You would basically be giving yourself a pay-cut!

Because this is your money already (it's coming out of your paychecks), you don't have to worry about being "vested" (more on this later) in your 457 account. What you do need to understand is that because a 457 account is a "tax-advantaged" account, the IRS has rules about things like how much money you can contribute to the plan each year and when you can begin taking money out of the account. While most employees don't plan on investing enough to exceed this contribution limit (set at $18,500 for 2018), MEA members whose total investments may exceed this amount are strongly advised to contact MEA Financial Services and/or their own tax/financial adviser before doing so.

Unless you choose to do something else, your contribution level to your 457 account will be set to match the default contributions for your plan from the chart below. You have the ability to increase or decrease your investment into your 457 account at any time, but changes must be made in whole percentages. Investing 1%, 6% or 10% is allowed. Investing 4.5% is not. A word of caution: as the default strategy for each plan outlined in the chart below is not likely the optimal investment strategy for most people, we encourage our MEA members to contact MEA Financial Services for a free investment consultation.

	Pension Plus 2 Plan	DC Plan
Default Employee Contribution into 457 plan (pulled pre-tax from employee paychecks).	The default is 4%[1] of salary, with an annual increase of 1% until a total of 15%[1] is reached.	The default is 5%[1] of salary with an annual increase of 1% until a total of 15%[1] is reached.

QUICK TIP:

Probably the best thing about investing in your 457 account through your employer is the employer match into your 401k. Once you've reached the point where the employer no longer matches your contributions, you may wish to look outside of the MPSERS system before making any additional contributions into your 457. Check with your local UniServ office to find out what outside investment opportunities have been negotiated into your local contract. Some vendors have investment products that allow you to have access to your money with almost no notice or options that go up when the stock market does, while still guaranteeing a certain minimum increase even if the market doesn't meet that number.

[1] The number listed includes the 2% for the Personal Healthcare Fund. Some ORS and Voya publications treat the PHF as a separate issue, which is why the numbers in those publications are 2% lower than those mentioned here. It's something of a semantic argument. Once you add everything together, the total amounts in our publications and theirs match because the 2% in question exists either way. We've decided that because the PHF is not actually a separate fund, that we would not list it in a separate section.

YOUR 401K ACCOUNT

Your 401k account is the second of two defined contribution investment accounts that you will have access to upon your retirement (the first is your 457 account). The 401k is actually your employer's 401k account – at least until you have spent enough time working for the Michigan public school system for you to become "vested" in it. Once you have earned four years of service credit in the Michigan Public School Employees Retirement System (MPSERS), you become fully vested in the 401k account, and the money in it is yours at retirement.

If for some reason you leave employment before earning four years of service credit, then you may still be eligible to receive a portion of the money in the 401k account. Members who leave with four or more years of service receive 100% of the money invested in the account, members with three years of service 75%, and members with two years of service have earned a 50% share. Members who have earned less than two years of service credit will not receive any portion of the 401k, and any employee claim to the matching funds invested by the employer is forfeit.

As an added bonus, because it is (at least theoretically) your employer's account, you don't have to worry about your employer's contributions counting against your annual IRS contribution limitations.

	Pension Plus 2 Plan	DC Plan
Employer Contribution into 401k plan.	0% initial employer contribution. 100% match for the first 2% the employee invests into his/her 457 plan (this is the so-called PHF). 50% match for the next 2% the employee invests into his/her 457 plan. No employer match for any employee investment beyond 4%.	4% initial employer contribution. 100% match for the first 2% the employee invests into his/her 457 plan (this is the so-called PHF). 100% match for the next 3% the employee invests into his/her 457 plan. No employer match for any employee investment beyond 5%.

Health Reimbursement Arrangement (HRA)

In addition to the 457 and 401k accounts (and the pension, if you select the Pension Plus 2 Plan), public school employees also receive a Health Reimbursement Arrangement (HRA). This is the only actual healthcare-specific benefit received by employees on this plan. The lack of any real healthcare benefit in retirement is one reason why it is so vitally important that members be educated and proactive in their retirement plan choices.

Regardless of plan choice, after 10 years of service, all members will receive a one-time credit of $1,000 which may be accessed before the member turns 60 years old. If the member does not access his or her HRA before age 60, the member's HRA is credited an additional $1,000.

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PENSION BENEFIT

The final component of the Pension Plus 2 Plan is the pension benefit itself. In this case, both the employee and the employer contribute equally into the employee's pension fund. The employee then receives a guaranteed, formula-based pension amount from the time he or she retires until his or her death (or longer, if the employee chooses to accept a small reduction in the amount of the pension in order to make sure that an eligible family member is able to receive the checks after the employee/retiree has passed away).

The pension benefit is the defined benefit that makes the Pension Plus 2 Plan a Hybrid Plan, and as such, is NOT a part of the DC Plan.

	Pension Plus 2 Plan	DC Plan
Pension retirement age	60 years old[2]	Not applicable
Vested[3] after	10 years of earned service credit	Not applicable
Pension amount	FAC[3] x YOS[3] x 1.5%	None
Service credit purchase available	Generally not available	Not applicable
Expected annual pension payout for a member with 30 Years of Service[3]	45% of your Final Average Compensation[3]	None
Employee contribution into his/her pension fund (pulled pre-tax from employee paychecks)	Currently 6.2% (½ of the Normal Retirement Cost + ½ of the plan's Unfunded Accrued Actuarial Liability is the actual cost)[4]	None
Investment risk	Shared with the employer, rather than entirely the concern of the employee[5]	Not applicable

[2] The initial Pension Plus 2 retirement age is set at 60 years old, but if the life-expectancy of the average 65 year old member increases by one or more whole years according to an annual study done by the ORS, then the retirement age may increase one or more whole years to cover this increase in life expectancy. This increase will NOT occur if the plan's funding over 100% will cover this increase in life expectancy, and will not apply to any member who is within 5 years of retirement in any case. The MPSERS Board has the right to extend this 5 year exception to employees who are within 8 years of retirement.

[3] See Important Terms on the bottom of page 1 for definitions of Vested, Years of Service (YOS), and Final Average Compensation (FAC).

[4] The law states that *"all normal cost and any unfunded actuarial accrued liability contributions as determined under subsection (2) must be paid on a cost-sharing basis of 50% by the employer and 50% by the employee."* The current (02/01/18) normal cost is 12.4%, so the contribution rate for employees (and employers) is 6.2%. Unlike the MIP and Basic Plans, the Pension Plus 2 Plan has no Unfunded Accrued Actuarial Liability (UAAL – the debt associated with those plans being underfunded) costs at this time. While this is certainly attributable to the fact that a brand-new plan cannot have any debt associated with it, there is good reason to believe that the Pension Plus 2 Plan will never have the kind of UAAL costs associated with it that the MIP and Basic Plans do. The law that created Pension Plus 2 provides numerous funding safeguards compared to those plans – and to those already in place for the now closed Pension Plus Plan which was fully-funded. These safeguards include the assumption of a lower assumed rate of return on investments (6% in PP2, as opposed to 7% in PP, and 8% in MIP & Basic), a higher employee contribution rate (the contribution rate of the old Pension Plus was income-graded from 3% to >6.4%, while the various MIP contribution amounts ranged from 3.9% to 7%, and the two Basic plans required either a 4% employee contribution or none whatsoever), and a few other, more technical, changes. In the unlikely event that a future UAAL for Pension Plus 2 does occur, the law offers the employee the additional protection of time, stating that *"any increase or decrease in the unfunded actuarial accrued liabilities associated with members who first became members on or after February 1, 2018 must be amortized on a 10-year level-dollar schedule with a new contribution rate calculated for each year."*

[5] All risks associated with retirement investments in 457 and 401k accounts are solely born by the member. If the market drops, any lost dollars needed to fund the employee's retirement are the responsibility of the employee – the employer, the State of Michigan, ORS, and Voya are all off the hook. Half of any lost investment dollars needed to fund the Pension Plus 2 Plan, however, must be funded by the employer.

Disability Benefits

No one likes to think about the possibility of becoming disabled or dying before retirement, but these things DO happen. In the unlikely event that you should suffer some kind of accident, contract a disease, or suffer some other problem that ends your career prematurely, you (or, in the event of death, your spouse or other eligible survivor) will receive early access to both your own contributions into your 457 account and any vested employer contributions into your 401k.

In addition to early access to your 457 and 401k accounts (and normal termination of employment credit into your HRA based on your age and years of service, if applicable), you (or, in the event of death, your spouse or other eligible survivor) may be eligible to receive additional benefits in the event that you are disabled or die before retirement.

	Pension Plus 2 Plan	DC Plan
Duty[6] Disability	Immediate lifetime pension based on the normal pension formula. Members are automatically vested, and credited with a minimum of 10 years of service.	None
Non-Duty[7] Disability	Immediate lifetime pension based on the normal pension formula. Members that are not vested do not receive this benefit.	None
Duty[6] Death	Benefits as Duty[6] Disability above, with the lifetime pension going to your named survivor (at the 100% survivor rate). Replacement of PHF monies with 80% insurance premium subsidy for spouse (lifetime) and all other eligible dependents (based on rules).	None
Non-Duty[7] Death	Benefits as Non-Duty[7] Disability above, with the lifetime pension going to your named survivor (at the 100% survivor rate).	None
Deferred[8] Death	Benefits paid to named survivor (at the 100% survivor rate) following the date of the member's normal retirement age.	None
Death After Retirement[9]	Benefits are paid per the member's beneficiary survivor selection at retirement.	None

[6] Duty Disability/Deaths are defined as career-ending illnesses or injuries caused at work, such as a slip and fall at work.
[7] Non-Duty Disability/Deaths are defined as career-ending illnesses or injuries caused somewhere other than at work, such as most cancers.
[8] Deferred Deaths are those that occur after a member leaves public school employment, but before retiring (this can only happen to someone who quits before retirement).
[9]A Death after retirement is one that occurs after the member has retired.

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Are MPSERS Pensions Safe?

The Michigan State Constitution guarantees payment of the pensions of its public school employees. This is true regardless of the state of the pension fund (the Pension Plus 2 fund is currently fully-funded at 100%). This means that even if the stock market crashes or the legislature fails to properly fund the system, the pension checks still need to go out and the State of Michigan is constitutionally required to cover the shortfall.

Additionally, the federal law that allowed the City of Detroit to break its word to its employees and caused retired Teamsters to see their pension checks slashed does NOT apply to plans like ours.

Further, if, for some reason, a member wanted to get his or her money out of the pension system, the Pension Plus 2 Plan allows for members to receive a full refund of their pension contributions PLUS 6% annual interest. This refund with interest is guaranteed regardless of how well the stock market did or did not perform. This refund can even be made by employees who have not vested in their pensions – making the pension contributions of an employee fully portable.