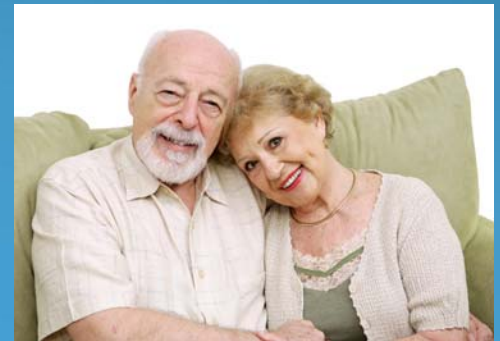
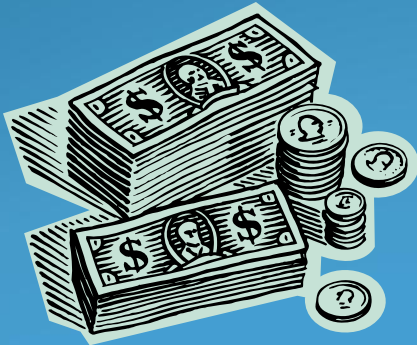


# Retirement?

## Want To Know More?

Lakeview's Attempt To Educate  
October 15, 2012



# Information We Will Try To Cover

- **Key Vocabulary**
- **What is included in the MPSER's pension for which we (and the District) pay?**
- **How do you calculate your pension?**
- **What are the changes/options that are pending I must make?**
- **How do they compare?**
- **How do I make a choice?**
- **Question/Answer and Computer Lab open**

**NOTE: LPS is NOT providing legal, tax, or retirement services nor are we guaranteeing a pension or suggesting a choice for any employee.**

# Know Key Vocabulary

- MPSERS-Michigan Public School Employees Retirement System
- ORS-Office of Retirement Services
- FAC-Final Average Compensation
- YOS-Years of Service
- Plans that we have employees under: Basic; Member Investment Plan-MIP Fixed, Graded, or Plus; or Pension Plus
- Pension Multiplier (1.5 or 1.25)
- Eligibility→Do you have enough years and age?
- **miaccount**→New on-line service portal for MPSEER's

# Thinking about retirement?

## Consider this...

- **At what age do I want I retire? (55? 58? 62? 65?)**
- **How many years of service will I have? (11? 28? 37?)**
- **What income will I need to continue my lifestyle?**
- **What income sources will I have? (pension, 403b, SS)**
- **How will those income sources serve my needs?**
- **Who else will depend on my income/pension? (spouse, children, etc.)**
- **How long do I expect to live after retiring? (20? 25?)**

# What do I get with MPSEER's?

- **Lifetime Pension Income** → an annual wage provided based on a calculation that includes FAC, YOS, and the multiplier
- **Lifetime Health Care/Rx Coverage** → Co-premium arrangement until Medicare Eligible
- **Choice to include a spouse/dependents in benefits**
- **Choice to claim a certain amount of pension earlier until you are social security eligible**

# Changes: What Will I Need To Do?

- Current statute → choices to be made in *miaccount* ([www.michigan.gov/orsmiaccount](http://www.michigan.gov/orsmiaccount)) between Sept 4 and Oct 26 (5PM) and are irrevocable after Oct 26. They become effective Dec 1, 2012 (note: Jan 1, 2013 for retiree health care subsidy changes)
  - You do NOT have to make choices until October 26
  - There are TWO choices to make, one for pension and another for retiree health care contributions and benefits (see table on next page)

A lawsuit is pending so October 26 in question right now

# What Member Type Am I\* and What Elections Will I Make?

First Hire Date	Elected MIP Conversion ?	Member Type	Pension Election	Retiree HC Election
Before 1990 (approx).	No	Basic	Yes	Yes
Before 1990 (approx.)	Yes	MIP (Fixed or Graded)	Yes	Yes
1990 – June 2008	NA	MIP (Graded)	Yes	Yes
July 2008 – June 2010	NA	MIP_Plus	Yes	Yes
July 2010 – Sep 3, 2012	NA	Pension Plus	No	Yes
Sep 4, 2012+	NA	“Future Hire”	Yes**	No

\* If you are unsure of your Member Type, check with ORS/miAccount or the payroll office for assistance.

\*\*Future Hires will make the election of Hybrid vs. DC/401k within 75 days after first hire date.

# Retirement Eligibility

When can you “retire” and thus start receiving a pension?

- Basic
  - 55+ Age and 30+ YOS<sup>1</sup>
  - 60+ Age and 10+ YOS
  - 55+ Age and 15+ YOS<sup>2</sup> – Early, Reduced option
- MIP Fixed, MIP Graded, MIP Plus, and Pension Plus
  - 46+ Age and 30+ YOS
  - 60+ Age and 10+ YOS
  - 55+ Age and 15+ YOS<sup>2</sup> – Early, Reduced option
  - 60+ Age and 5+ YOS<sup>2</sup> (MIP only)

<sup>1</sup>YOS = Years Of Service

<sup>2</sup>Extra requirements apply – see ORS website (<http://michigan.gov/orsschools>) for more information



# Calculate a Simple Pension

- Pension = (Years Of Service \* FAC \* 1.5) / 100
- Remember: FAC is Final Average Compensation
  - FAC is the annualized average of your 36 (MIP, MIP Plus) or 60 (Basic) highest *consecutive* months of earnings
- Remember: 1.5 is the current “multiplier” for YOS up to December 2012

Fun Fact: MPERS *already* has among the lowest multipliers in the country.

# No Pension is Simple!

- The Pension from the previous slide is the starting year “Regular, Straight-Life” pension amount
  - Your actual pension may be lower due to survivorship benefit choices that you make (the reduction is affected by survivorship level (50%, 75%, 100%, or 0%) and by your age and your survivor’s age on your retirement effective date)
  - Your actual pension may be higher until you reach age 62, then lower after that if you choose the “Equated Plan”
  - Your actual pension may be lower if you choose the “Early Reduced Retirement” option
- **For this presentation, we will be considering only the Regular, Straight-Life Pension scenario.** Contact ORS or use *miAccount* for details about survivorship options and costs, the Equated Plan, or the Early Reduced Retirement options.

# Pension Example - Basic

- Basic Member with 33 Years of Service
- Highest 60 *consecutive* months of earnings were five years of \$31,000; \$32,000; \$33,000; \$33,500; and \$33,500
  - The sum is \$163,000
  - Monthly Average =  $\text{Sum} / 60 = \$2,716.67$
  - FAC =  $\text{Monthly Average} * 12 = \$32,600$
- Annual Pension =  $(\text{YOS} * \text{FAC} * 1.5) / 100$   
=  $(33 * \$32,600 * 1.5) / 100 = \underline{\underline{\$16,137}}$

# Pension Example – MIP

- MIP Plus, Graded, Fixed with 35 Years of Svc
- Highest 36 *consecutive* months of earnings were three years of \$81,000; \$82,500; and \$83,700
  - The sum is \$247,200
  - Monthly Average = Sum / 36 = \$6866.67
  - FAC = Monthly Average \* 12 = \$82,400
- Annual Pension = (YOS \* FAC \* 1.5) / 100  
= (35 \* \$82,400 \* 1.5) / 100 = **\$43,260#**

#Member receives fixed annual increase (3% of first year or \$1,298)

# Current Pension – What Do I Pay?

Member Type	Current Pension Contrib. Rate
Basic	0%
MIP (Fixed or Graded)	up to 3.9%-4.3%
MIP_Plus	up to 6.4%

The amount you pay can be seen on the pay stub noted as: Retire-MIP

# Pension – What Do I Get Today?

- Everyone hired BEFORE September 4, 2012 currently receives a 1.5 multiplier applied to all years of service, earned or purchased, until the new system changes are implemented (current statute says Dec 2012)
- FAC is updated when earnings increase
- YOS is also updated
- Each employee could calculate what your pension would be now based on previous slide examples

**NOTE:** *miaccount* provides calculation tools

# Pension – What IS NOT Changing?

- Retirement Eligibility conditions are unchanged
- All Service Credit earned before Dec 1, 2012 will receive the 1.5 multiplier when you retire
- All Service Credit purchases underway or initiated as of Nov 30, 2012 will receive the 1.5 multiplier when you retire
- Unless you choose option 4 (Defined Contribution Plan – described later), FAC will continue to be updated when earnings increase

# Pension – What IS Changing?

- All active members have to choose 1 of 4 pension options to be applied beginning Dec 1, 2012, to future earned service credit, future service credit purchases, and compensation
- The options are summarized as:
  - Pay more until retirement, receive 1.5 multiplier
  - Pay more until 30 YOS, receive 1.5 multiplier; then pay today's rate after 30 YOS and receive 1.25 multiplier
  - Pay today's rate and receive 1.25 multiplier
  - End pension accrual and switch to DC plan (401k style)



# Pension – Option 1

- Pay Higher Rate until Retirement, receive 1.5 multiplier for future service

Member Type	Current Rate	To Pay Future Rate
Basic	0%	4%
MIP Fixed, Graded	3.9-4.3%	7%
MIP_Plus	6.4%	7%

# Pension – Option 2

- Pay Higher Rate until 30 YOS, receive 1.5 multiplier for future service

Member Type	Current Rate	Future Rate Until 30 YOS
Basic	0%	4%
MIP Fixed, Graded	3.9-4.3%	7%
MIP_Plus	6.4%	7%

- After 30 YOS, pay Current Rate but receive 1.25 multiplier for service after that

# Pension – Option 3

- Do NOT Pay Higher Rate, receive 1.25 multiplier for future service

Member Type	Current Rate	Future Rate
Basic	0%	0%
MIP Fixed, Graded	3.9-4.3%	3.9-4.3%
MIP_Plus	6.4%	6.4%

→ 1.25 multiplier is a 16.7% reduction in pension benefit as compared to the 1.5 multiplier.

# Pension – Option 4

- Stop paying toward pension, freeze YOS & FAC
- Receive 4% as employer contribution into state 401k style account.
- Pension will be calculated on Nov 30, 2012 values for FAC and YOS (allowing for service credit purchases to complete), with 1.5 multiplier.
- Eligibility to retire is not changed.

# How Will They Calculate Pension If I Choose A 1.25 Multiplier Option?

- A simple way to think of it is that there will be two “sub-pensions”, one calculated for all service that is eligible for the 1.5 multiplier, and another for all the service that is eligible for the 1.25 multiplier. They will add these two “sub-pensions” together to arrive at your total pension. The FAC that will be used will be the same for both “sub-pensions” – your highest 3 or 5 years as explained previously.

**NOTE: This is relevant for choice Option 2 and Option 3**

# Calculating Pension With 1.25

- Example: Pension = YOS x FAC x multiplier
  - 10 YOS at 1.5, 20 YOS at 1.25
  - FAC is \$25,000 for current wages
  - SubPension(A) =  $(10 * \$25,000 * 1.50) / 100 = \$3,750$
  - FAC is \$32,000 for future wages
  - SubPension(B) =  $(20 * \$32,000 * 1.25) / 100 = \$8,000$
  - Pension = SP(A)+SP(B) =  $\$3,750 + \$8,000 = \$11,750$

**NOTE: This is relevant for choice Option 2 and Option 3**

# Which Option is “Better”?

- Each person’s situation is unique!
- Some factors to consider may include:
  - Desired/required pension amount
  - Desire/need to continue income stream vs. assets
  - Will you save into a 403b on your own?
  - Ability to manage funds or manage “retirement” help
  - Risk Aversion—MPSER’s has State backing it
  - Cash needs while employed (affordability)
  - Cash assets available when you are alive (save now)

# Retiree Health Care

- What is a retiree health care subsidy schedule?
  - When you meet the retirement eligibility conditions for the pension (discussed earlier), and you actually retire, you may apply for health care insurance (medical, pharmacy, dental, and vision insurance) through the MPSERS plan for retirees. The percentage of the insurance premiums that the MPSERS system pays for you, your spouse, and your eligible dependents is determined by your subsidy schedule.



# Retiree Health Care

- Basic and MIP Fixed/Graded – Subsidy Schedule:
  - If you retire directly from service, your current subsidy rate is 90% (system 90%, retiree 10%).
  - If vested (10+ YOS), but are unable to retire directly from service, your subsidy schedule is:
    - 20 YOS or less: 0% subsidy
    - 21-29 YOS: 10% subsidy for each YOS over 20
    - 30+ YOS: 90% subsidy

# Retiree Health Care

- MIP Plus members – Subsidy Schedule:
  - If vested (10+ YOS), your subsidy schedule is:
    - 10 YOS: 30% subsidy
    - 11-25 YOS: additional 4% subsidy for each YOS over 10
    - 26+ YOS: 90% subsidy
  - Example: 17 YOS = 30% + 7\*4% = 58% subsidy
- Note: MIP Plus members do NOT have to retire directly from service...their subsidy schedule is based solely on YOS

# Retiree Health Care

- What am I paying toward retiree HC today?
  - Since July 2010, all employees have been paying 3% of earnings into MPERS health care fund for all retirees
- You may have heard that 3% was ruled unconstitutional recently...will I be getting it back?
  - We don't know. The ruling is being appealed to the state Supreme Court. Stay Tuned.
- Will I have to keep paying that 3%?
  - Until Dec 1, 2012, probably. We're not sure.

# Retiree HC – What IS NOT Changing?

- The eligibility conditions are unchanged.\*
- The subsidy schedules are unchanged.\*

\*Assuming you choose Retiree Health Care Option 1  
(pay the “new” 3% starting Dec 1, 2012)

# Retiree HC – What IS Changing?

- All active members have to choose between 1 of 2 retiree health care options to be applied beginning Dec 1, 2012
- Maximum Subsidy is changing from 90% to 80% effective Jan 1, 2013

# Retiree HC – Option 1

- Pay “new” 3% beginning Dec 1, 2012
- Continues current subsidy schedule with planned reduction in maximum subsidy of 80% effective Jan 1, 2013
- The “new” 3% replaces the “old” (currently in court) 3%
- The total is not 6%; the “old” 3% will stop being collected by Dec 1, 2012 (maybe sooner depending on court) and the “new” 3% won’t start being collected until the “old” 3% is stopped

# Retiree HC – Option 2

- Do NOT pay “new” 3% beginning Dec 1, 2012
- Abandon/Forfeit current subsidy schedule
  - No subsidy will be available in retirement for the health care insurances
  - Can not be “undone”
- Option of contributing up to 2% of compensation into your state 457 account, with mandatory employer matching contributions into your state 401K-type account
- Retains (we believe) access to the MPSERS retiree HC insurance pool, but retiree would have to pay 100% of premiums.

# Retiree HC – Which Option is Best?

- Each person's situation is unique!
- Some factors to consider may include:
  - How much would health care be “on my own”? (this is a future cost to think about )
  - Family/Marital status, current and future
  - Insurance coverage from previous employer
  - Insurance coverage from spouse
  - Likelihood of staying married? (sorry)
  - Survivorship benefit level election at retirement
- Remember: the decision is irrevocable



# Future Hires

- Future hires (first employed after Sep 3, 2012) :
  - Pension: can choose existing hybrid pension plan (aka Pension Plus) or state employees' defined contribution (with up to 3% match for up to 6% contribution)
  - Retiree Health Care: No retiree health care subsidy. Option for 2% employee contribution to state 457 account with employee match in state 403b. It appears that future hires would have access to the retiree HC pool/plan, but would have to pay full cost.

# Retiree HC – “Grandfathering”

- Effective Jan 1, 2013, cap is 80/20 for all retirees, including current retirees, but with the following exception:
  - If retiree is Medicare eligible AND is retired AND is enrolled in MPERS medical insurance as of Jan 1, 2013, cap stays at 90/10 for medical insurance
  - If retiree is age 65 AND is retired AND is enrolled in MPERS dental and vision insurance as of Jan 1, 2013, cap stays at 90/10 for dental and vision insurance

# What Should I Do and When?

- Now: Verify your **miAccount** access is working
- Now: Learn and understand your options
- Soon: Make your choices in **miAccount**
- **What if I don't make my choices by Oct 26<sup>th</sup>?**
  - Pension: option 3 (no increase in cost to employee, but multiplier drops to 1.25 for future service credit)
  - Retiree HC: pay 3<sup>0</sup>% until termination and retain subsidy schedule
  - In other words → A choice is being made for you

# Website for ORS/MPSERS

- Provides calculation tools

[www.michigan.gov/orsmiaccount](http://www.michigan.gov/orsmiaccount)

- Provides FAQ on the various choices
- Provides each employee personal access to your information

# Resources

The Office of Retirement Services (ORS) provides online resources to assist you in your retirement planning at:

**[www.michigan.gov/orsmiaccount](http://www.michigan.gov/orsmiaccount)**

You will find recorded tutorials on qualifying for a pension, calculating a pension, pension payment options, and insurance after retirement.

The information contained herein is not to be construed or interpreted as legal or financial advice. Seek independent counsel for any questions as appropriate. LPS is NOT providing legal, tax, or retirement services nor are we guaranteeing a pension or suggesting a choice for any employee.