AARP in the STATES

SNAPSHOT: Michigan State Employees' Retirement System

Overview

The Michigan State Employees' Retirement System (SERS) was established in 1943 to provide retirement, survivor and disability benefits to the state's government employees. The system provides a defined benefit (DB) pension for 18,376 active employees, and 56,288 retirees and beneficiaries.

Since 1997, new hires do not participate in SERS, but are offered a defined contribution (DC) plan (similar to a 401(k) plan). Those hired prior to 1997 had the option to participate either in SERS or the DC plan. As of 2010, 26,519 active employees and 6,340 non-active employees and retirees participated in the DC plan.

Key Facts

- Employees contribute 4% of salary to SERS.
- Employers contribute 33.3% to the fund.
- Each dollar invested by Michigan taxpayers in SERS supported $6.12 in total economic activity in the state.

A DB pension is a retirement plan that offers a modest but stable monthly retirement income that lasts the remainder of the retiree's life. DB pension benefits are a function of an employee's years of service and salary at the end of one's career. To manage costs, DB benefits are financed by a combination of employer and employee contributions under a shared financing model, and the fund grows with investment earnings. Contributions typically are pooled among employees and invested, with investment decisions made by professional asset managers overseen by trustees.

In a DC retirement plan, both employee and employer make specified contributions to an individual defined contribution (DC) account in the employee's name. Whether the DC account will provide sufficient resources at retirement to meet employee's retirement income needs depends on the amount contributed, investment returns and fees charged, withdrawals from the plan and how long the individual lives in retirement, unlike the DB pension formula which provides a replacement of a certain amount of pre-retirement earnings. The economic efficiencies found in DB pensions, where longevity and investment risks are shared across all employees, enable traditional DB pensions to provide the same level of benefits at half of the cost of individual DC accounts.

Research shows that Americans who have the three-legged retirement stool of a defined benefit (DB) pension, Social Security, and individual savings, such as a 401k-type plan, generally have the greatest opportunity to achieve financial security in retirement.

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Key Michigan Employees Data[1]

The chart below summarizes the key SERS data, as of June 30, 2012:

Total active employees*	18,376
Total retired members and beneficiaries	56,288
Average annual retirement allowance	$20,316
Employer contribution rate**	33.3%
Employee contribution rate***	4.0%
Actuarial value of assets**	$10.2 billion
Funded ratio**	65.5%
Unfunded actuarial accrued liability**	$5.4 billion
Percent of ARC paid	43.0% in 2003; 39.6% in 2004; 83.2% in 2005; 73.8% in 2006; 47.7% in 2007; 115.5% in 2008; 97.8% in 2009; 88.4% in 2010; 94.8% in 2011; 71.1% in 2012

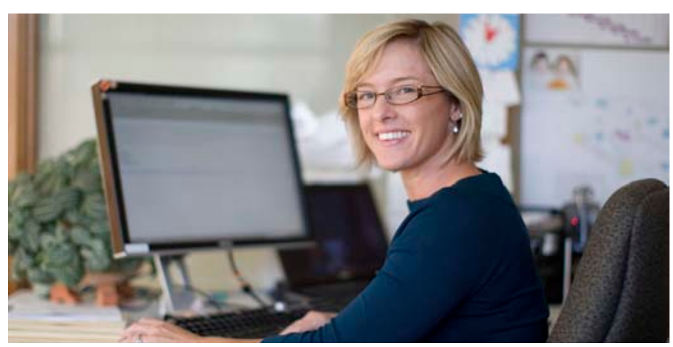
* Includes those active in the DC plan.
** As of September 30, 2011.
*** Employee contribution began April 1, 2012. The employee contribution is currently being challenged in court, but in the meantime, the contribution is being deducted from employees' pay.

The Economic Impact of Michigan Pensions[2]

Expenditures made by retirees of state and local government provide a steady economic stimulus to Michigan communities and the state economy. Within the state of Michigan, 2012 expenditures stemming from state and local pensions supported:

- 95,208 jobs that paid $4.0 billion in wages and salaries
- $12.7 billion in total economic output
- $1.7 billion in federal, state, and local tax revenues

Each dollar paid out in pension benefits supported $1.72 in total economic activity in Michigan.
Each dollar "invested" by Michigan taxpayers in these plans supported $6.17.



[1] All data, unless otherwise noted, as of June 30, 201.

[2] Rhee, N. 2014. *Pensionomics 2014 Measuring the Economic Impacts of DB Pension Expenditures.* Washington, DC: National Institute on Retirement Security.

Michigan State Employees' Retirement System By the Numbers

The following provides a snapshot of key data relative to the **Michigan State Employees' Retirement System (SERS**). SERS provides retirement benefits for state employees hired before 1997. The system provides a defined benefit (DB) pension, a retirement plan that typically offers a modest but stable monthly retirement income that lasts the remainder of a retiree's life.

$5.73 The total economic activity in Michigan for each dollar invested by Michigan taxpayers in SERS.

$9.2 billion Total economic output in Michigan created in 2012 when public sector retirees spent their pension income.

$1.3 billion Federal, state and local tax revenues generated by spending of Michigan public pension income.

71,894 Jobs created from pension income spending by Michigan state and local government retirees.

18,376 Total active members of SERS.

$20,018 Average annual pension benefit for a SERS retiree.

4.0 Percentage of salary that Michigan employees contribute from every paycheck to their pension benefit to share the funding responsibility.

5.0 Median employee contribution rate nationally.

45 Percentage of pre-retirement income replaced by the defined benefit (DB) plan for a new employee with 30 years of service.

80 Percentage of pre-retirement income from all income sources that is considered adequate for a secure retirement.

All data come from either SERS or the National Institute on Retirement Security.

AARP in the STATES

SNAPSHOT: Michigan Public School Employees' Retirement System

Overview

The Michigan Public School Employees' Retirement System was established in 1945 to provide retirement benefit for all public school employees. The system provides defined benefit (DB) pension benefits for its 223,769 active public school employees and 196,661 retirees and beneficiaries. More recently hired employees are covered by a hybrid retirement plan or a defined contribution plan.

Teachers hired since June 2010 do not participate in the DB pension plan, but have the option of participating in a hybrid plan or a defined contribution (401k-style) plan. The hybrid plan contains a pension component that includes a graded employee contribution (up to 6.4% of pay) and an employer matching contribution of 50% up to 1% of pay. The defined contribution plan provides a 50% employer match on employee contributions, up to 3% of pay.

Legislation in 2012 gave DB plan participants the option of increasing their out of pocket contribution to keep the same benefit multiplier, to keep their same contribution rate and have a reduced multiplier for future years of service, or to instead participate only in a defined contribution plan for future years of service.

Key Facts

- Employees contribute 4% of salary to the basic contributory pension plan.
- Employers contribute 12.6% of salary to the fund.
- Each dollar invested by Michigan taxpayers in the pension fund supported $6.17 in total economic activity in the state.

A DB pension is a retirement plan that offers a modest but stable monthly retirement income that lasts the remainder of the retiree's life. DB pension benefits are a function of an employee's years of service and salary at the end of one's career. To manage costs, DB benefits are financed by a combination of employer and employee contributions under a shared financing model, and the fund grows with investment earnings. Contributions typically are pooled and invested, with investment decisions made by professional asset managers overseen by trustees.

A hybrid retirement plan combines the important retention feature of a DB pension, typically with lower benefits, with the portability of an individual defined contribution (DC) account should an employee leave before retirement age. Whether the DC account will add or provide on its own sufficient resources to meet employee's retirement income needs depends on the amount contributed, investment returns and fees charged, withdrawals from the plan and how long the individual lives in retirement, unlike the DB pension formula which provides a replacement of a certain amount of pre-retirement earnings.

Also, research shows that the rates of poverty for older American households without DB pension income were nine times grater than the rates of poverty among older households with DB pension income in 2010.[1]

Key Michigan Teachers Data[2]

The chart below summarizes the key Michigan Public School Employees' Retirement System data, as of June 30, 2012:

Total active employees	223,769
Total retired members and beneficiaries	196,661
Average annual retirement income*	$20,720
Employer contribution rate*	12.6%
Employee contribution rate**	4% for those choosing the higher multiplier; 0% for those choosing the lower multiplier
Actuarial value of assets*	$41.0 billion
Funded ratio*	64.7%
Unfunded actuarial accrued liability*	$22.4 billion
Percent of ARC paid	85.9% in 2003; 71.3% in 2004; 75.7% in 2005; 85.7% in 2006; 90.8% in 2007; 110.5% in 2008; 101.1% in 2009; 84.7% in 2010; 81.5% in 2011; 83.4% in 2012

*As of September 30, 2011.
** For basic plan members. Employees also have the option of contributing more to participate in the Member Investment Plan (MIP), for a higher pension benefit.

The Economic Impact of Michigan Pensions[3]

Expenditures made by retirees of state and local government provide a steady economic stimulus to Michigan communities and the state economy. Within the state of Michigan, 2012 expenditures stemming from state and local pensions supported:

- 95,208 jobs that paid $4.0 billion in wages and salaries
- $12.7 billion in total economic output
- $1.7 billion in federal, state, and local tax revenues

Each dollar paid out in pension benefits supported $1.72 in total economic activity in Michigan.

Each dollar "invested" by Michigan taxpayers in these plans supported $6.17 in total economic activity in the state.

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[1] Porell, F. and Oakley, D. 2012. *The Pension Factor 2012: The Role of Defined Benefit Pensions in Reducing Elderly Economic Hardship*. Washington, DC: National Institute on Retirement Security.
[2] All data, unless otherwise noted, as of fiscal year ended June 30, 2012.
[3] Rhee, N. 2014. *Pensionomics 2014 Measuring the Economic Impacts of DB Pension Expenditures.* Washington, DC: National Institute on Retirement Security.

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Michigan Public School Employees' Retirement System By the Numbers

The following provides a snapshot of key data relative to the **Michigan Public School Employees' Retirement System**. The system provides retirement benefits for public school employees in Michigan. The system provides a defined benefit (DB) pension, a retirement plan that typically offers a modest but stable monthly retirement income that lasts the remainder of a retiree's life. Teachers hired since 2010 have a hybrid DB/DC plan or a DC-only plan.

$6.17 The total economic activity in Michigan for each dollar invested by Michigan taxpayers in SERS.

$12.7 billion Total economic output in Michigan created in 2012 when public sector retirees spent their pension income.

$1.7 billion Federal, state and local tax revenues generated by spending of Michigan public pension income.

95,208 Jobs created from pension income spending by Michigan state and local government retirees.

223,769 Total active members of the Michigan Public School Employees' Retirement System.

$20,720 Average annual pension income for a retired teacher in Michigan.

4.0 Percentage of salary that teachers in the basic contributory plan contribute from every paycheck to their pension benefit to share the funding responsibility. Nationally, the median employee contribution rate is 5%.

45 Percentage of pre-retirement income replaced by the defined benefit (DB) plan for an employee with 30 years of service in the basic contributory plan. A replacement ratio of 80% from all income sources is considered adequate for a secure retirement.

577 The number of teachers retained each year solely due to the defined benefit (DB) plan.

$8.5 million Teacher turnover cost savings generated by the retention effect of the defined benefit (DB) pension.

All data come from either the Michigan Public School Employees' Retirement System or the National Institute on Retirement Security.

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SNAPSHOT: Pensions for Michigan Teachers

Overview

As early as the turn of the 20th century, American legislators seemed to understand the importance of teacher quality to students' education. A 1917 report on public education noted that, "A school teacher's work is personal, direct, and positive. It works for the good or the ill of each pupil."[1]

Key Facts

- Employees in the basic contributory plan contribute 4% of salary out of each paycheck to the pension fund.
- The average retirement benefit is $20,720 per year, or $1,723 per month.
- The pension covers 223,769 active school employees and 196,661 retired school employees and beneficiaries.
- Teachers are paid 14.3% less than comparable private sector workers.
- The pension replaces 45% of pre-retirement income for a teacher with 30 years of service in the basic contributory plan.
- Most experts find that a replacement ratio of 80% or more, from all income sources, is adequate for a secure retirement.

Defined benefit (DB) pension plans were first introduced for teachers in the United States to help with the recruitment of high quality educators, and as an incentive to keep those educators in the teaching profession. By 1916, some form of retirement plan was available to public schoolteachers in 33 states. It was thought that such a retirement system might serve two purposes: 1) bringing more diverse, and highly qualified teachers into the profession; and 2) creating a more productive workforce that actually saves public employers money, as one dollar in pension benefits was seen as worth more than a dollar in salary.[2]

Public school teachers in Michigan have pension coverage through the Michigan Public School Employees' Retirement System.

The pension covers 223,769 active employees of public educational institutions, and 196,661 retired school employees and beneficiaries. Employees in the basic contributory plan contribute 4% out of each of their paychecks to the pension fund. The average retirement benefit is $20,720 per year, or $1,723 per month.

The pension replaces 45% of pre-retirement income for a teacher with 30 years of service in the basic contributory plan. Most experts find that a replacement ratio of 80% or more, from all income sources, is adequate for a secure retirement.

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Teachers Receive Lower Compensation

Public employees receive lower wages than their private sector counterparts. Even after accounting for pensions and other benefits, on average, state and local workers receive 7% less than those in the private sector.[3] More specifically, teachers are paid 14.3% less than comparable private sector workers—and this pay gap has increased in the last decade.[4] Teacher pensions play an important role in offsetting the financial impact of lower salaries.

Research shows that pensions are reliable and relieve retirement anxiety. Some 82% of Americans indicated that those with pensions are more likely to have a secure retirement, and 82% believe all workers should have access to a pension plan.[5]

Pensions Help Retain Quality Teachers in Michigan[6]

Better teachers are experienced teachers. DB pensions help to retain highly productive teachers longer, as compared with individual defined contribution (DC) accounts. Moreover, the cost of teacher turnover is quite high, both in terms of financial cost and loss of productivity to the school district.

In Michigan:

- The cost of turnover in Michigan is $14,712 per teacher.
- 577 teachers are retained each year due to the defined benefit (DB) plan.
- The defined benefit (DB) pension system saved $8.5 million in teacher turnover costs in 2003 in school districts across the state.

About NRTA

NRTA: *AARP's Educator Community* is a national umbrella organization for the nation's largest network of retired educators. For nearly 65 years, NRTA has worked with state and local Retired Educators Associations (REAs) across the country on areas of mutual interest in advocacy and community outreach.

Collectively, NRTA and REAs engage and advocate on behalf of nearly one-million retired educators. Our shared priorities are to protect earned pension benefits and to assure access to affordable retiree healthcare. Additionally, NRTA helps inspire and honor the work of REA volunteers through NRTA's With our Youth! national recognition program.

[1, 2] Graebner, W. 1978. Retirement in education: The economic and social functions of the teachers' pension. *History of Education Quarterly*, 18(4), 397-417.

[3] Heywood, J., and K. Bender. 2010. *Out of Balance: Comparing Public and Private Sector Pay over Twenty Years*. Washington, DC: National Institute on Retirement Security.

[4] Allegretto, S., S. Corcoran, and L. Mishel. 2008. *Teachers' Pay Continues to Slide.* Washington, DC: Economic Policy Institute.

[5] Oakley, D., and K. Kenneally. 2013. *Pensions and Retirement Security 2013: A Roadmap for Policy Makers.* Washington, DC: National Institute on Retirement Security.

[6] Boivie, I. 2011. *The Three Rs of Teacher Pension Plans: Recruitment, Retention, and Retirement*. Washington, DC: National Institute on Retirement Security.