

# AARP IN THE STATES



## OVERVIEW: Michigan State Employees' Retirement System



The **Michigan State Employees' Retirement System (SERS)** provides a defined contribution (DC) plan for public employees. It offers a portable, individual account where the amount of money accumulated at the time of retirement depends on contributions, investment earnings, and age.

### Key facts about the plan and its benefits:



**4,509**

Total active members of Michigan State Employees' Retirement System.



**Varies**

The amount of money accumulated in a DC retirement account at the time the employee decides to retire depends on contributions, investment earnings, and age.



**\$2,050**

Average plan benefit paid to retired members in the closed DB plan each month.

### Public plans are a good deal for taxpayers:

Funding of public employee pensions is shared by employees and employers. New employees contribute 3% of pay into the DC plan. Over time, investment income earned by the plan does most of the work. In fact, between 1993 and 2022, taxpayers (via employer contributions) paid only 31.3% of the cost of the pension benefits in Michigan.

**61.5%**  
Investment  
Earnings



**31.3%**  
Employer  
Contributions

**7.2%**  
Employee  
Contributions

### The spending from the retirement checks of the 60,174 retired public employees helps support:



**\$13.0 billion**

in economic output in Michigan.



**70,189 jobs**

paying \$4.1 billion in wages supported by retirees' spending from public pensions in Michigan.



**\$1.9 billion**

in federal, state, and local tax revenues based on spending of pension benefits in Michigan.

### Pension benefits are a good deal for the economy too:

Each dollar "invested" by Michigan taxpayers (employers) in these DB plans supported **\$4.21** in total economic activity in the state.



**\$1.00**



**\$4.21**

All data come from retirement system financial reports, Public Plans Database, or the National Institute on Retirement Security.



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## PRIMER: Michigan State Employees' Retirement System

The Michigan State Employees' Retirement System (SERS) provides benefits to qualified public employees. It provides a defined contribution (DC) retirement plan to employees. Michigan's public employees are covered by Social Security.

### Pensions Would Work Better for Michigan Stakeholders



Defined benefit (DB) pensions help recruit and retain effective and experienced public employees, which is essential to delivering high quality service to citizens.



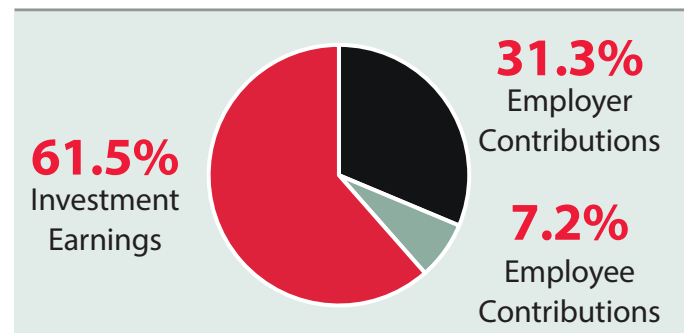
The spending by retired public employees from pension checks supports jobs, greater tax revenues and economic growth in our communities.



Pensions offer employees the best path to retirement security. They are cost-effective and provide modest lifetime income that will not run out.

### Taxpayers Only Pay a Small Part of Pension Costs

The funding of public employee pensions is shared by employees and employers. New employees contribute 3% of pay into the DC plan. Over time, investment income earned by the fund does most of the work. In fact, between 1993 and 2022, taxpayers paid only 31.3% of the cost of benefits in Michigan.



### Pensions Cost Half as Much as a 401(k) Plan

Pensions can provide the same benefit as a 401(k) retirement account at about half the cost because of the following key factors:



### Pensions Disproportionately Benefit Rural Areas

Rural counties have the largest percentage of their population receiving a public pension benefit, as 3% of residents in rural areas received benefits in 2018. Excluding counties that are home to a state capitol, public pension benefits in rural and small town counties accounted for a larger share of total personal income than in denser metropolitan counties.

## SERS Key Facts



SERS serves 4,509 active employees and 60,174 retired members and survivor beneficiaries.



New employees contribute 3% of pay to the plan.



Employers contribute 4-7% of pay to the plan.



The average monthly retirement benefit for members in the closed DB plan is \$2,050.



The amount of money accumulated in a DC retirement account at the time the employee decides to retire depends on contributions, investment earnings, and age.

## Historical SERS Funding Experience

Michigan established long-term funding policies to provide for the cost of public pension benefits. The employee contribution is set by law and the actuary calculates the employers' contributions each year. As of the end of its 2023 year, SERS had \$13.6 billion in assets in the fund.

The Actuarially Determined Contribution (ADC) is the amount needed to fund benefits earned in the year and to pay down the plans' unfunded actuarial accrued liability. Paying the full ADC each year is important to ensure that the fund is financially sound over time.

**Michigan Paid 90% of Weighted Average Percent of ADC from FY2001-FY2022 for SERS**



## Michigan Plan Changes in Recent Years

Following the global stock market crash in 2008-2009, Michigan policymakers proactively made changes to the plan designed to ensure long-term sustainability. These included:

- Since March 1997, state employees participated in a defined contribution plan. Employees hired before March 1997 had to begin contributing 4% of their contribution in 2012 to remain in the closed DB plan until retirement or 30 years of service.
- Effective 7/1/2024, changed the default option for new Michigan public school employees from the defined contribution plan to the hybrid plan. This change reverses 2017 legislation that established the defined contribution plan as the default plan option for new hires on or after 2/1/2018.

## The Economic Impact of Michigan Pensions:



**\$13.0 billion**

in economic output generated by retirees' spending from public pensions in Michigan.



**70,189 jobs**

paying \$4.1 billion in wages supported by retirees' spending from public pensions in Michigan.



**\$1.9 billion**

in federal, state, and local tax revenues based on spending of pension benefits in Michigan.

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## OVERVIEW: Michigan Public School Employees' Retirement System




The **Michigan Public School Employees' Retirement System (PSERS)** provides a combination plan for teachers. It offers participation in both a traditional defined benefit (DB) pension and a defined contribution (DC) retirement plan. A DB pension provides a modest, but stable monthly income over a retiree's life, while a DC plan provides a portable, individual account where the amount of money accumulated at retirement depends on contributions, investment earnings, and age.

### Key facts about the plan and its benefits:

 **155,229**  
Total active members of Michigan Public School Employees' Retirement System.

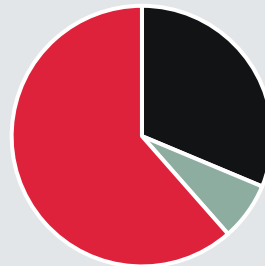
 **37.5%**  
After a 30-year career, a pension benefit from PSERS will replace 37.5% of an employee's pre-retirement income.

 **\$2,016**  
Average plan benefit paid to retired PSERS members each month.

### Pensions are a good deal for taxpayers:

Funding of teacher pensions is shared by employees and employers. New PSERS employees contribute either 6.2% of pay to the DB plan and 4% of pay to their DC plan, or contribute 5% of pay to their DC plan. Over time, investment income earned by the fund does most of the work. In fact, between 1993 and 2022, taxpayers (via employer contributions) paid only 31.3% of the cost of pension benefits in Michigan.

**61.5%**  
Investment Earnings




**31.3%**  
Employer Contributions

**7.2%**  
Employee Contributions

### The spending from the retirement checks of the 225,215 retired public employees helps support:

 **\$13.0 billion**  
in economic output in Michigan.

 **70,189 jobs**  
paying \$4.1 billion in wages supported by retirees' spending from public pensions in Michigan.

 **\$1.9 billion**  
in federal, state, and local tax revenues based on spending of pension benefits in Michigan.

### Pension benefits are a good deal for the economy too:

Each dollar "invested" by Michigan taxpayers (employers) in these DB plans supported **\$4.21** in total economic activity in the state.



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## PRIMER: Michigan Public School Employees' Retirement System

The Michigan Public School Employees' Retirement System (PSERS) provides benefits to qualified public school employees. The system provides a defined benefit (DB) pension to employees hired before 7/1/2010. New employees participate in a combination plan that offers a DB pension and a defined contribution (DC) retirement plan, and more recently, have the choice of a DC-only system.

### The PSERS Pension Works for Michigan Stakeholders



Effective teachers are the cornerstone of education quality, but teachers are underpaid. Pensions help schools keep teachers and compensate for low pay.



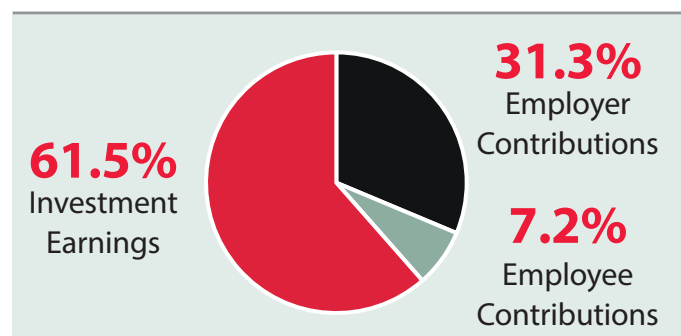
Retaining experienced midcareer teachers boosts student performance. Pensions help keep effective midcareer teachers in the classroom, increasing education quality.



Pensions offer teachers the best path to retirement security. They are cost-effective and provide modest lifetime income that will not run out.

### Taxpayers Only Pay a Small Part of Pension Costs

The funding of public employee pensions is shared by employees and employers. New PSERS employees contribute either 6.2% of pay to the DB plan and 4% of pay to their DC plan, or contribute 5% of pay to their DC plan. Over time, investment income earned by the fund does most of the work. In fact, between 1993 and 2022, taxpayers paid only 31.3% of the cost of benefits in Michigan.



### Pensions Cost Half as Much as a 401(k) Plan

Pensions can provide the same benefit as a 401(k) retirement account at about half the cost because of the following key factors:



### Pensions Disproportionately Benefit Rural Areas

Rural counties have the largest percentage of their population receiving a public pension benefit, as 3% of residents in rural areas received benefits in 2018. Excluding counties that are home to a state capitol, public pension benefits in rural and small town counties accounted for a larger share of total personal income than in denser metropolitan counties.

## PSERS Key Facts



PSERS serves 155,229 active employees and 225,215 retired members and survivor beneficiaries.



New PSERS employees contribute either 6.2% of pay to the DB plan and 4% of pay to their DC plan, or contribute 5% of pay to their DC plan.



Employers contribute either 6.2% of salary to the DB plan and 3% of pay to DC plans, or contribute 9% of pay to DC plans for employees.



The average monthly retirement benefit for members is \$2,016.



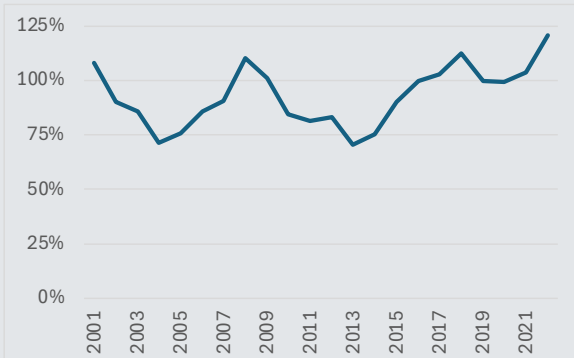
After a 30-year career, a pension benefit from PSERS will replace 37.5% of an employee's final average salary.

## Historical PSERS Funding Experience

Michigan established long-term funding policies to provide for the cost of public pension benefits. The employee contribution is set by law and the actuary calculates the employers' contributions each year. As of the end of its 2023 year, PSERS had \$63.1 billion in assets in the fund.

The Actuarially Determined Contribution (ADC) is the amount needed to fund benefits earned in the year and to pay down the plans' unfunded actuarial accrued liability. Paying the full ADC each year is important to ensure that the fund is financially sound over time.

**Michigan Paid 93% of Weighted Average Percent of ADC from FY2001-FY2022 for PSERS**



## Michigan Made Plan Changes to PSERS in Recent Years

Following the global stock market crash in 2008-2009, Michigan policymakers proactively made changes to the plan designed to ensure long-term sustainability. These included:

- While offering an early retirement incentive to active employees in 2010, new teachers were covered by combined DB/DC plan with the same benefit multiplier, no cost of living adjustment (COLA), higher contributions, and some funding toward a DC account. Two years later, employees in the DB plan had to pay higher contributions, receive lower benefits, or move to the new DC plan for teachers. New employees were defaulted into the combined plan but could choose a DC only option. In 2017, the state changed the default to the DC only plan.

## The Economic Impact of Michigan Pensions:



**\$13.0 billion**

in economic output generated by retirees' spending from public pensions in Michigan.



**70,189 jobs**

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### Pensions Help Deliver Quality Education in Michigan

There are important policy reasons to continue offering teachers defined benefit (DB) pensions. DB pensions give schools an effective tool to retain high-quality, experienced teachers. These teachers are the most important school-based element that provides positive educational outcomes for our children.

Pension benefits provide teachers an incentive to continue delivering quality education to K-12 students. This incentive becomes all the more important over a teaching career as the erosion of teachers' wages, when compared to the wages of similar college-educated workers, widens for more experienced teachers.<sup>1</sup>

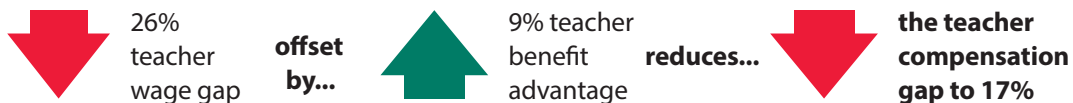
Because pensions help attract and retain workers, Michigan can keep skilled teachers in the classroom and empower students to achieve their highest potential. The nationwide teacher shortage is impacting Michigan, as enrollment in traditional teacher preparation programs has *declined by 53%* between 2009-2010 and 2021-2022.

### Pensions Disproportionately Benefit Rural Areas

Rural counties have the largest percentage of their population receiving a public pension benefit, as 3% of residents in rural areas received benefits in 2018. Excluding counties that are home to a state capitol, public pension benefits in rural and small town counties accounted for a larger share of total personal income than in denser metropolitan counties.

### Pensions Help to Bridge the Teacher Wage Gap

A national study of K-12 public school teachers' wages identified a 26 percent pay gap relative to comparable private sector workers in 2022. At the same time, teachers' benefits, including pensions, help bridge that gap and allow states to attract and retain highly qualified educators by reducing that overall gap in compensation to 17 percent. In Michigan, teachers experience a 20.7% wage gap when compared to other college graduates in the workforce.<sup>2</sup>



Americans understand that teacher pensions play an important role in retaining quality teachers and in offsetting the impact of their lower salaries.



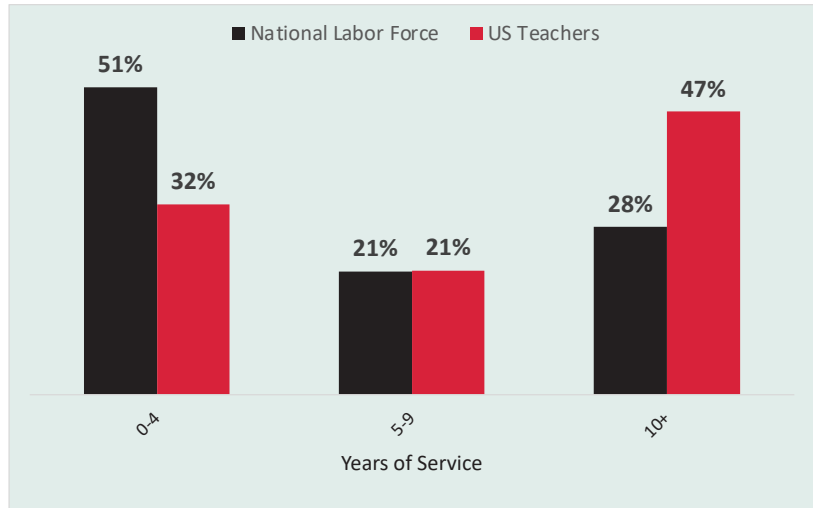
82 percent of Americans say pensions are a good way to recruit and retain qualified teachers.

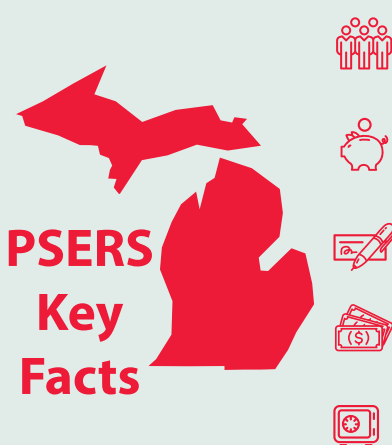







78 percent of Americans agree that teachers deserve pensions to compensate for lower pay.<sup>3</sup>

# Pensions Reduce Teacher Turnover and Save Money

Experienced teachers are more effective teachers. DB pensions help to retain highly productive teachers longer, as compared with individual 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.<sup>4</sup>





-  PSERS serves 155,229 active employees and 225,215 retired members and survivor beneficiaries.
-  New PSERS employees contribute either 6.2% of pay to the DB plan and 4% of pay to their DC plan, or contribute 5% of pay to their DC plan.
-  Employers contribute either 6.2% of salary to the DB plan and 3% of pay to DC plans, or contribute 9% of pay to DC plans for employees.
-  The average monthly retirement benefit for members is \$2,016.
-  PSERS has \$63.1 billion in assets and \$35.1 billion in unfunded actuarial accrued liability.<sup>5</sup>

## The Economic Impact of Michigan Pensions

**\$13.0 billion**



in economic output generated by retirees' spending from public pensions in Michigan.

**70,189 jobs**



paying \$4.1 billion in wages supported by retirees' spending from public pensions in Michigan.

**\$1.9 billion**



in federal, state, and local tax revenues based on spending of pension benefits in Michigan.<sup>6</sup>

<sup>1</sup> Weller, C. 2017. "Win-Win: Pensions Effectively Serve American Schools and Teachers." Washington, DC. National Institute of Retirement Security (NIRS).

<sup>2</sup> Allegretto, S. 2023. "Teacher pay penalty still looms large." Washington, DC. Economic Policy Institute.

<sup>3</sup> Doonan, D. and Kenneally, K. 2024. "Retirement Insecurity 2024: Americans' Views of Retirement." Washington, DC. NIRS.

<sup>4</sup> Copeland, C. 2023. "Trends in Employee Tenure, 1983–2022." Washington, DC. Employee Benefit Research Institute.

<sup>5</sup> All data, unless otherwise noted, as of fiscal year ended 2023.

<sup>6</sup> Boivie, I. 2025. "Pensionomics 2025: Measuring the Economic Impact of DB Pension Expenditures." Washington, DC. NIRS.