



# **PERA 2018 Legislative Proposals**

**January 10, 2018**





## PERA 2018 Legislative Proposals


	Police & Fire	General	Correctional
Full Funding Within 25 Years?	Yes	Yes	Yes
Increased Funding Required?	Yes	No	No
Broad Stakeholder Support?	Yes	Yes	Yes
Member Groups	MPPOA MPFF	AFSCME 5 AFSCME 65 Teamsters 320 PEPSA MMRA SEIU*	AFSCME 5 Teamsters 320 LELS MNPEA
Employer Groups	LMC AMC MICA	LMC AMC MICA	AMC MICA

\*SEIU was supportive of most changes, including the COLA change, but was not ready to support the early retirement augmentation change.



## Investment Return and Other Economic Assumptions

- PERA's Board reaffirmed its 2017 position to adopt the 7.5% investment return, 2.5% inflation, and 3.5% total payroll growth assumptions.
- The fund's actuary, Gabriel Roeder Smith & Co. believes the 8.0% statutory rate is outside the reasonable range for PERA valuations as of July 1, 2017.
- PERA has used 7.5% for accounting purposes in its FY16 and FY17 CAFR.
- All results within this presentation are based on a 7.5% investment return.

The background of the slide features a photograph of the Michigan State Capitol building. The image is partially obscured by a large, dark red diagonal shape that contains the title text. The visible portion of the photograph shows the ornate dome of the capitol and a large bronze statue in the foreground, which is the 'Spirit of the West' statue depicting a woman holding a torch and a scroll.

# **PERA 2018 Police & Fire Plan Legislative Proposal**



## Police & Fire Plan – 2018 Legislative Proposal

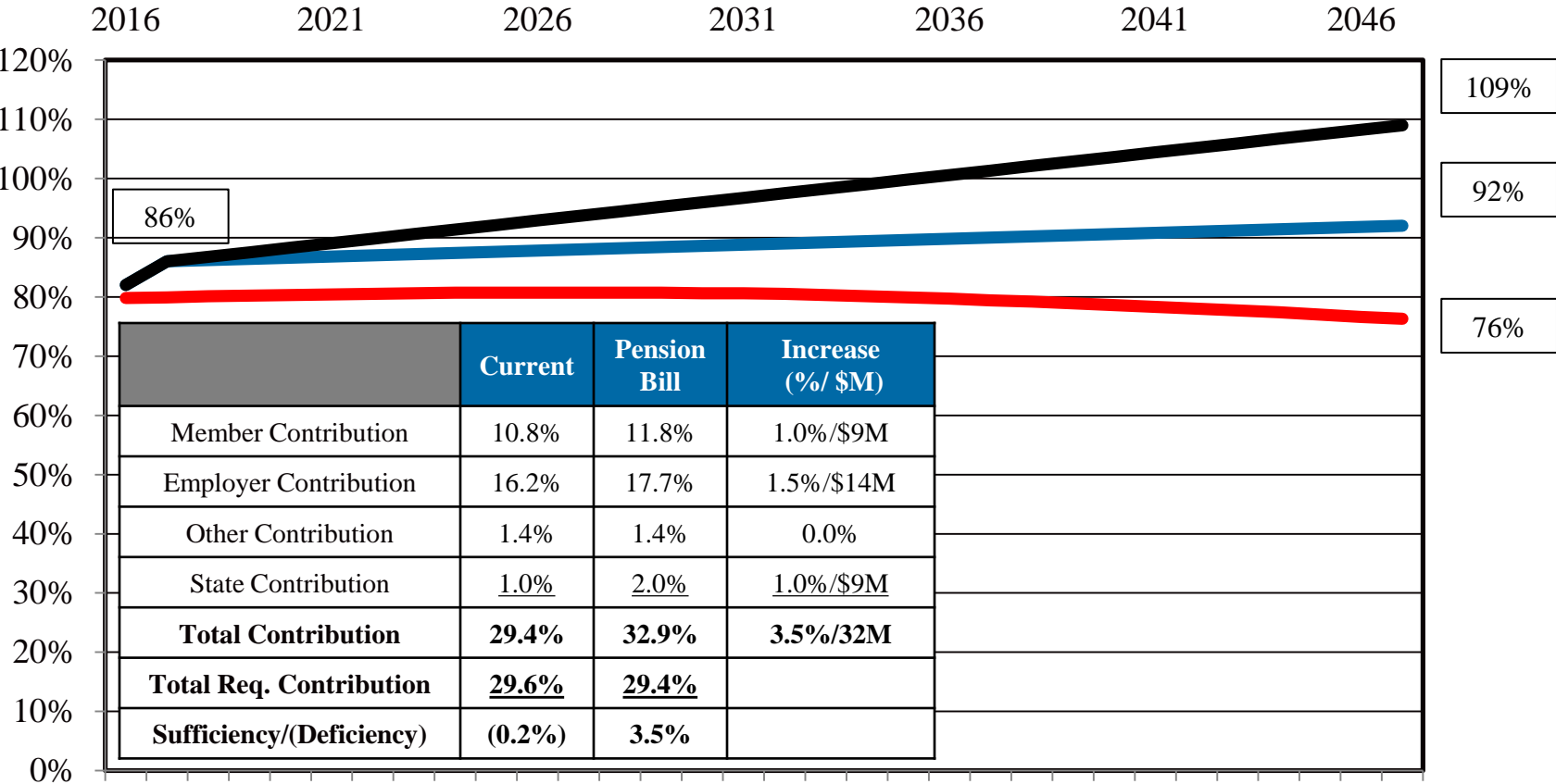
	Current Plan Provision	2017 Pension Bill
Amortization Period	2043	2047
Postretirement Increases	1% is in effect, 2.5% projected to start in 2066	Eliminate Trigger (Fixed 1%)
Member Contribution Rate	10.8%	11.3% effective 1/1/18, 11.8% effective 1/1/19
Employer Contribution Rate	16.2%	16.95% effective 1/1/18, 17.7% effective 1/1/19
State Contributions	\$9M/year until both PERA P&F and MSRS State Patrol reach 90% funding	An additional \$4.5M in FY18, \$4.5M in FY19, and \$9M/year thereafter

PERA's board affirmed support for the provisions in the 2017 pension bill, including support of additional funding provided by the legislature. It is presumed that the contribution increase effective dates will be changed by one year.





# Police & Fire Plan – Funding Ratios and Contributions




**Black line**      Projection based on 2017 Valuation – Pension Bill (**No Trigger – 1% Fixed COLA**)  
**Blue line:**      Projection based on 2017 Valuation – No Changes (2066 Trigger Date)  
**Red line:**        Projection based on 2016 Valuation – No Changes (No Trigger Date)



## GASB Whiplash (in \$B, Police & Fire Only)

	2015	2016	2017
Total Pension Liability	\$8.5	\$11.1	\$9.3
Fiduciary Net Position (Assets)	<u>7.4</u>	<u>7.1</u>	<u>7.9</u>
Net Pension Liability (NPL)	\$1.1	\$4.0	\$1.4
Funded Ratio	87%	64%	85%

1. GASB liability volatility can be significantly larger than asset volatility.
2. Rating agencies noticed the 2016 results and have issued negative outlooks to cities and school districts.
3. The legislative proposals helps address rating agency concerns.

A photograph of a large, ornate building with a dome, featuring a prominent statue of a woman standing next to a horse. The statue is made of a golden material. The building's architecture is classical, with a large dome and intricate carvings. The image is partially obscured by a large red triangle on the right side of the slide.

# **PERA 2018 General Employees Plan Legislative Proposal**



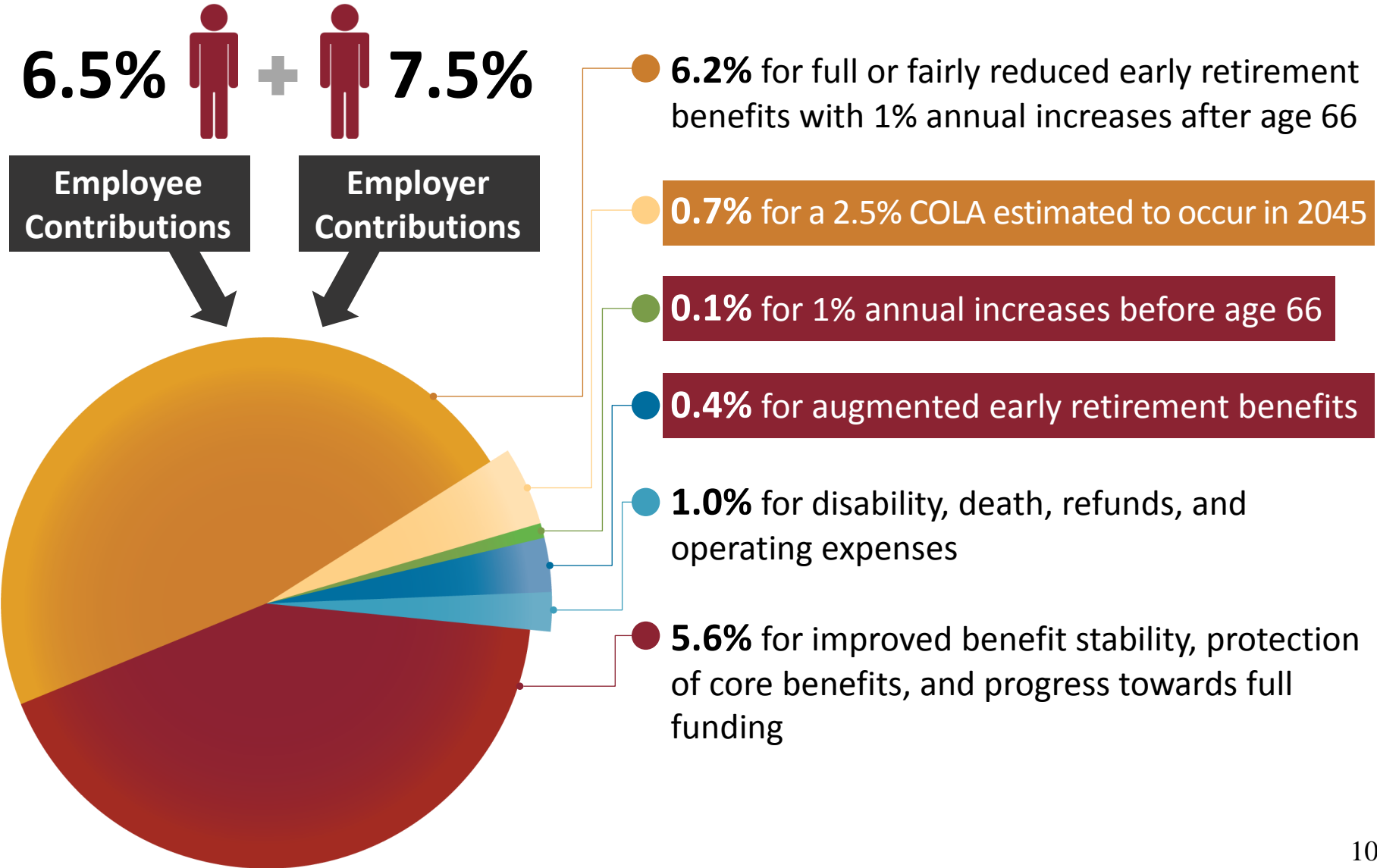


## General Employees Plan – 2018 Legislative Proposal

	Members Affected	Current Plan Provision	2017 Legislature Proposal	2018 PERA Proposal
Amortization Period	None	2033	2047	2047
Early Retirement Augmentation	Early Retirees	3.0% if hired < 7/1/06; 2.5% if hired > 6/30/06	Eliminate	Eliminate
Early Retirement COLAs	Early Retirees	1% until 2044, 2.5% after 2044	Eliminate	Eliminate
Terminated Member Deferred Augmentation	Pre 2012 Terminated Members	1% if termed < 2012; 0% if termed > 2011	Eliminate	Eliminate
Interest Rate on Refunds	Terminated Members	4%	3%	3%
Postretirement Increases	All	1% until 2044, 2.5% after 2044	1%	1% floor 50% of CPI 1.5% cap
Neither the 2017 Legislative Proposal nor the 2018 PERA Proposal includes funding changes.			MSRS Proposal	1% for 5 years, 1.5% thereafter
			TRA Proposal	1% for 5 years, then 5-year phase-in up to 1.5%





# General Employees Plan – Current Contribution Allocation





# General Employees Plan – 2018 Proposal

6.5%  +  7.5%

Employee  
Contributions

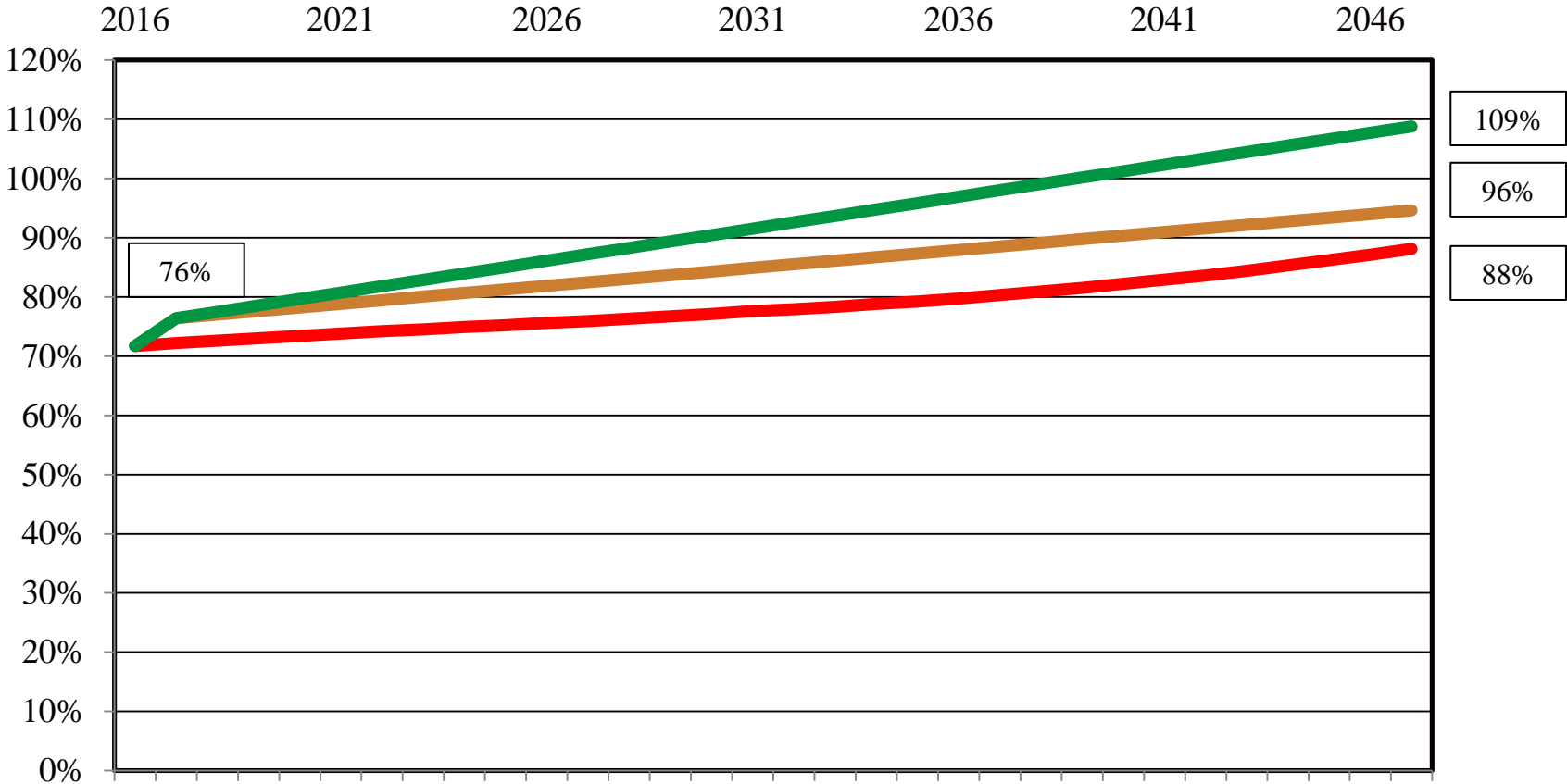
Employer  
Contributions

**Change 1:**  
Replace uncertain trigger (0.7% savings)  
with 50% of CPI increase with 1.0% floor  
and 1.5 cap (0.6% cost)

**Change 2:**  
Redirect 0.5% of contributions primarily  
used for augmented early retirement  
benefits and 1% pre-66 increases towards  
improved future benefit security



# General Employees Plan – Funding Ratios and Contributions



**Green line:** PERA Proposal  
**Orange line:** Projection based on 2017 Valuation – No Changes (2045 Trigger Date)  
**Red line:** Projection based on 2016 Valuation – No Changes (2053 Trigger Date)



# **PERA 2018 Correctional Plan Legislative Proposal**







## Correctional Plan – Current Situation

- Retirees have received a 2.5% increase each year since January 1, 2015.
- The funding ratio as of July 1, 2017 is 87%.
- If assumptions are met or exceeded (i.e. investment returns exceed 7.5%), contributions are sufficient to provide 2.5% increases and improve the funding ratio.
- If assumptions are not met, and the funding ratio declines to less than 80% for one year or less than 85% for two consecutive years, the benefit increase will decrease to 1%. A return to a 90% funding ratio would be needed to increase back to 2.5%.
- Intergenerational equity is uncertain. Some members may get 2.5% during low inflation periods, while some may get 1% during high inflation periods.

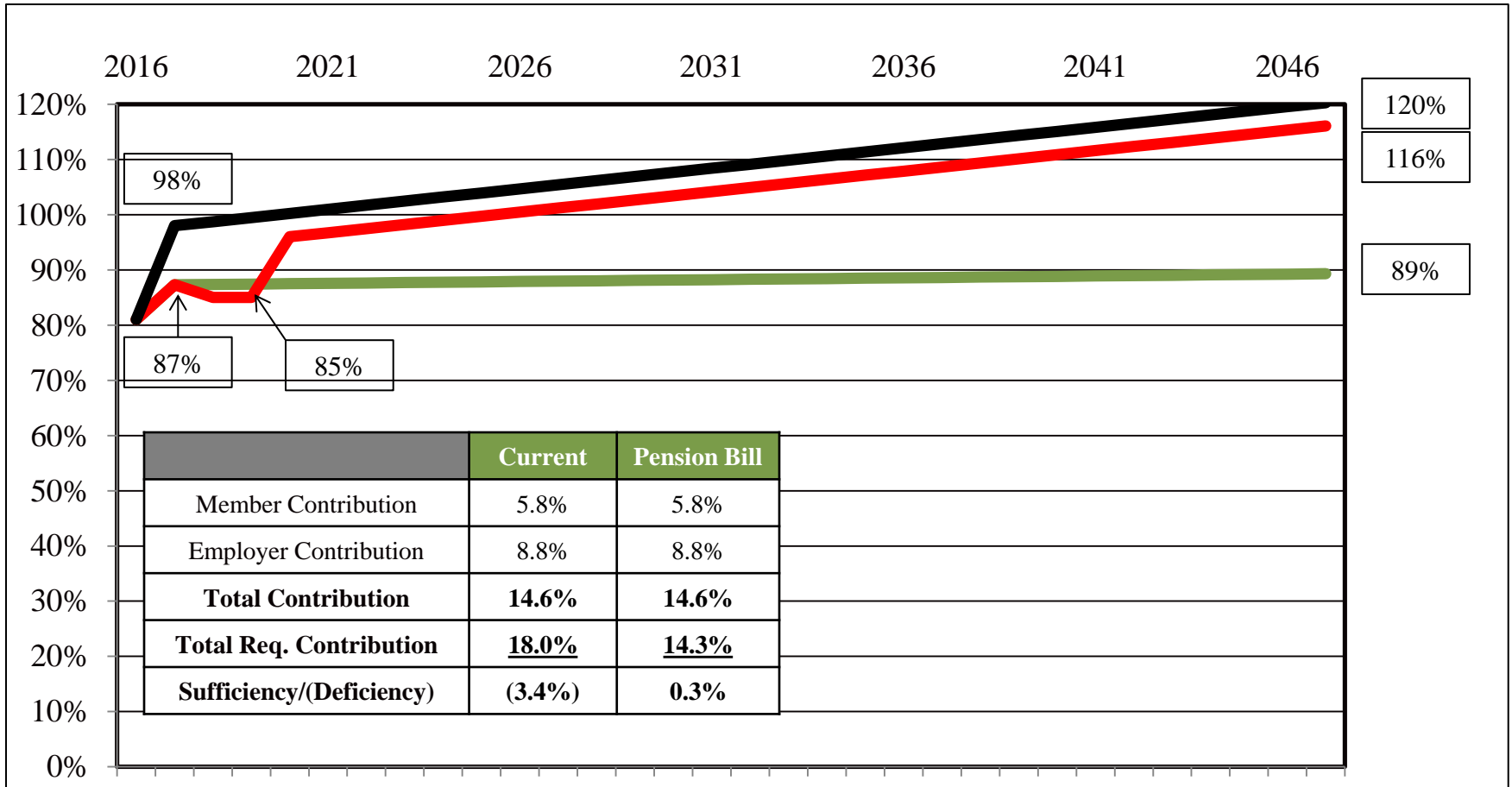


## Correctional Plan – 2018 Legislative Proposal

Funding Status	Current Plan Provision	PERA 2018 Proposal	2017 Legislature Proposal
From now until the funding ratio drops below 80% once or 85% twice	2.5%	100% of CPI, 1% floor, <u>2.5%</u> cap	1.5%
If/when funding ratio drops below 80% once or 85% twice	1.0%	100% of CPI, 1% floor, <u>1.5%</u> cap	1.5%
If/when plan regains 90%	2.5%	100% of CPI, 1% floor, <u>1.5%</u> cap	1.5%
<p>The proposal:</p> <ol style="list-style-type: none"><li>1. Avoids reducing benefits, unless it is necessary to do so.</li><li>2. Ensures that increases do not exceed inflation (unless <math>CPI &lt; 1\%</math>).</li><li>3. Eliminates a future trigger to a higher benefit.</li><li>4. Improves intergenerational equity.</li><li>5. Ensures funding improvement whether assumptions are met or not.</li></ol>			



## Correctional Plan – Funding Ratios and Contributions



**Black line** Projection based on 2017 Valuation – Pension Bill (**No Trigger - 1.5% Fixed COLA**)  
**Green line:** Projection based on 2017 Valuation – No Changes (Assumes 2.5% for all years)  
**Red line:** Projection based on 2017 Valuation – PERA proposal with hypothetical trigger off in 2020