



Retirement Plan Changes for Public School Employees

A supplement to *Retirement Readiness: A Two-Year Countdown*

The Office of Retirement Services (ORS) offers eight retirement plans within the Michigan Public School Employees Retirement System – **Basic, Member Investment Plan (MIP), Basic 4%, MIP 7%, Basic DC Converted, MIP DC Converted, Pension Plus, and the Defined Contribution (DC) plan**. In addition, there are also two retiree healthcare plans – the **Premium Subsidy** benefit and the **Personal Healthcare Fund**.

It's important to understand which plans you're in and how those plans affect your retirement benefits. If you're not sure which plans you're in, log in to miAccount at www.michigan.gov/orsmiaccount. You'll see your plans on your account summary page.

For the most complete and accurate information about the plan changes, go to the Frequently Asked Questions (FAQs) on our website – www.michigan.gov/orsschools – by clicking on the Reform Tools Overview link under the 2012 Retirement Reform section.

Key Terms

401(k): Employer contributions to the DC plan are invested in a 401(k) administered by ING. Investment earnings accrue on a tax-deferred basis and are subject to market fluctuations. Withdrawals may be made from this account beginning at age 59-1/2 or 30 days after terminating from Michigan public school employment. An early withdrawal penalty will apply to distributions taken prior to age 59-1/2.

457: Employee contributions to the DC plan are invested in a 457 administered by ING. Investment earnings accrue on a tax-deferred basis and are subject to market fluctuations. Participants could begin making withdrawals from their 457 as early as 30 days after terminating from Michigan public school employment.

Defined Benefit (DB) plan: A retirement plan that provides a guaranteed, lifetime payments in retirement based on a set formula. To qualify for a pension at retirement, members must meet certain age and service requirements.

Defined Contribution (DC) plan: A retirement plan in which a certain percentage of earnings is set aside each year by the employer and the employee for the benefit of the employee. Employees choose how to invest their balances among the options provided in the plan. There are restrictions as to when and how the employee can withdraw these funds without penalties. DC contributions made by the employer and the employee are invested in the State of Michigan 401(k) and 457 plans administered by ING.

Pension Factor: The pension factor is used in the pension calculation, which multiplies a member's years of service times final average compensation, times the pension factor. For more information about the pension formula, go to www.michigan.gov/orsschools and click on About Your Plan, then on Estimating Your Pension in the left navigation bar.

Retirement Plans

Basic

The Basic Plan is a DB plan. As a Basic Plan member, you do not make personal contributions to the pension fund.

Your pension formula for your total years of service before February 1, 2013,* including tax-deferred payment agreements initiated by January 31, 2013, will include a 1.5 percent pension factor. The pension formula for any service thereafter will include a 1.25 percent pension factor.

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MIP

MIP is a DB plan. As a MIP member, your contribution rate to the pension fund depends on which MIP plan you're in:

MIP Fixed: 3.9 percent of your pretax salary.

MIP Graded:

| COMPENSATION (school fiscal year earnings) | MIP GRADED CONTRIBUTIONS |
|---|---|
| \$0 to \$5,000 | 3% of compensation (up to \$150 total) |
| \$5,000.01 to \$15,000 | \$150, plus 3.6% of compensation from \$5,000.01 up to and including \$15,000 (up to \$510 total) |
| \$15,000.01 and over | \$510, plus 4.3% of compensation over \$15,000 |

MIP Plus:

| COMPENSATION (school fiscal year earnings) | MIP PLUS CONTRIBUTIONS |
|---|---|
| \$0 to \$5,000 | 3% of compensation (up to \$150 total) |
| \$5,000.01 to \$15,000 | \$150, plus 3.6% of compensation from \$5,000.01 up to and including \$15,000 (up to \$510 total) |
| \$15,000.01 and over | \$510, plus 6.4% of compensation over \$15,000 |

Your pension formula for your total years of service before February 1, 2013,* including tax-deferred payment agreements initiated by January 31, 2013, will include a 1.5 percent pension factor. The pension formula for any service thereafter will include a 1.25 percent pension factor.

Basic 4%

Basic 4% is a DB plan. As a Basic 4% member who elected Option 1 during the reform election window, you contribute 4 percent of your pretax salary to the pension fund starting February 1, 2013,* until you terminate your public school employment. Your pension formula will be calculated using the 1.5 percent pension factor for all of your years of service.

As a Basic 4% member who elected Option 2 during the reform election window, you contribute 4 percent of your pretax salary to the pension fund starting February 1, 2013,* until you reach 30 years of service. Your pension formula will be calculated using the 1.5 percent pension factor for your total years of service, including tax-deferred payment agreements initiated by January 31, 2013, until you reach 30 years of service. When you reach 30 years of service, your contribution rate will return to zero and any service thereafter will use a 1.25 percent pension factor.

MIP 7%

MIP 7% is a DB plan. As a MIP 7% member who elected Option 1 during the reform election window, you contribute 7 percent of your pretax salary to the pension fund starting February 1, 2013,* until you terminate your public school employment. Your pension formula will be calculated using the 1.5 percent pension factor for all of your years of service.

As a MIP 7% member who elected Option 2 during the reform election window, you contribute 7 percent of your pretax salary to the pension fund starting February 1, 2013,* until you reach 30 years of service. Your pension formula will be calculated using the 1.5 percent pension factor for your total years of service, including tax-deferred payment agreements initiated by January 31, 2013, until you reach 30 years of service. When you reach 30 years of service, your contribution rate will return to the previous level (3.9 percent for MIP Fixed, up to 4.3 percent for MIP Graded, or up to 6.4 percent for MIP Plus) and any service thereafter will use a 1.25 percent pension factor.

Basic DC Converted and MIP DC Converted

The Basic DC Converted and MIP DC Converted plans include a DB plan component and a DC plan component. As a Basic DC Converted or MIP DC Converted member, you will keep any DB service credit you accumulated before February 1, 2013,* but will then switch to the DC plan for future service.

As a participant in the DC plan, you will receive a 4 percent employer contribution to a tax-deferred 401(k) account. You can also choose to make contributions to a 457 account up to the maximum amounts permitted by the IRS.

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You vest in your employer's contributions and related earnings in your 401(k) based on the following schedule: 50 percent at 2 years of service, 75 percent at 3 years of service, and 100 percent at 4 years of service. Vesting is based on your original date of hire. You are immediately 100 percent vested in any personal contributions and related earnings in your 457 account.

If you meet age and service requirements (including total years of service) to be eligible for a DB retirement, you will receive a monthly pension in addition to the accumulated value of your 401(k) and 457 accounts. Your pension will be calculated based on your years of service (including tax-deferred payment agreements initiated by January 31, 2013) and final average compensation before February 1, 2013,* using a 1.5 percent pension factor.

For more information about the DC component of your plan, contact ING at **(800) 748-6128**.

Pension Plus

You are a member of the Pension Plus retirement plan if you worked under the Michigan Public School Employees Retirement System on or after July 1, 2010. If you first worked under the retirement system on or after September 4, 2012, you're in the Pension Plus plan if you elected that plan or if you did not submit an election within 75 days of the first pay period end date. For more information about the Pension Plus retirement plan, go to www.mipensionplus.org.

Defined Contribution (DC) Plan

You are a participant in the DC plan if you first worked under the Michigan Public School Employees Retirement System on or after September 4, 2012, and you elected the DC retirement plan. For more information about the DC plan, contact ING at **(800) 748-6128**.

Retiree Healthcare Plans

Premium Subsidy

You have the Premium Subsidy benefit if you first worked under the retirement system before September 4, 2012, and you chose to keep the Premium Subsidy benefit during the 2012 Retirement Reform. As a member with the Premium Subsidy benefit, you contribute 3 percent of your compensation to the Retiree Healthcare Fund to retain eligibility for the retiree health insurance premium subsidy offered by the state upon your retirement.

If you first worked under the retirement system before July 1, 2008, you'll receive the maximum subsidy allowed by statute when you meet the eligibility requirements.

If you first worked under the retirement system on or after July 1, 2008, but before September 4, 2012, your insurance premium subsidy is graded based on career length—the longer you work, the greater your premium subsidy is, up to the maximum subsidy allowed by statute.

The maximum subsidy is currently set at 80 percent.

Personal Healthcare Fund

You have the Personal Healthcare Fund if you chose that benefit during the 2012 Retirement Reform, or you first worked under the retirement system on or after September 4, 2012. As a member with the Personal Healthcare Fund, you will establish a portable, tax-deferred fund that can be used to pay for healthcare expenses in retirement.

You will automatically be enrolled in a 2 percent employee contribution to a 457 account as of February 1, 2013,* or on your first day worked if your employment began on or after September 4. You can also receive a 2 percent employer match, which will go into a 401(k) account.

If you began your employment before September 4, 2012, you will stop paying the 3 percent Retiree Healthcare Fund contribution as of February 1, 2013,* and the amount of the Retiree Healthcare Fund contributions you made since September 4, 2012, (shown above) will be paid to your 401(k) account no later than your first pay date after March 1, 2013. You are fully vested in these contributions. The amount of any Retiree Healthcare Fund contributions made before September 4, 2012, are pending a Supreme Court resolution regarding PA 75 of 2010.

For more information about the Personal Healthcare Fund, contact ING at **(800) 748-6128**.

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