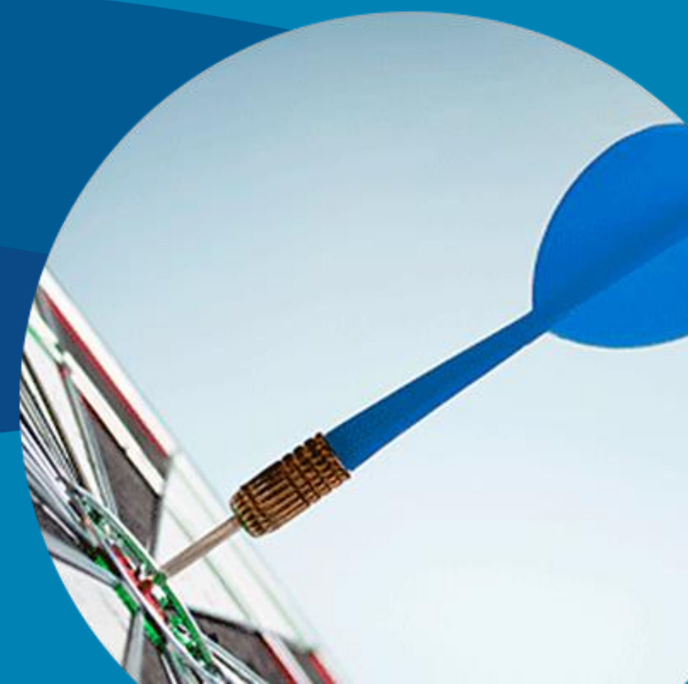
Michigan Public School Employees'

Retiree Health Actuarial Valuation Results as of September 30, 2024



Retiree Health Benefits
The Funding Issue

- Unlike pensions, health benefits have not been pre-funded for a long period of time
  - Most plan sponsors nationwide have not pre-funded health benefits either
- In general, costs rise as more members retire, and health inflation usually outpaces general inflation
- Pre-funding contributions have been calculated since 1999 – but full pre-funding started in Fiscal Year (FY) 2013

September 30, 2024 Valuation

- Purpose of the September 30, 2024 valuation is twofold:
  - Determines the actuarially computed employer contribution for FY 2027
  - Measures the retiree health plan's funding progress
- Computed liabilities are net of any expected retiree paid premiums required to receive retiree health benefits

GRS

September 30, 2024 Valuation

- Reflects the Dedicated Gains Policy adopted by the Board of Trustees
  - Starting with the September 30, 2021 funding valuation, in accordance with modifications to the Dedicated Gains Policy, the Policy cannot lower the investment return assumption below 6.00%
  - Investment return assumption remained at 6.00% as a result of the Policy
- Reflects plan changes resulting from Public Act 300 of 2012

September 30, 2024 Valuation

- Reflects the following provisions of Public Act 127 of 2024
  - The UAAL dollar contribution floor is reset to the actuarially determined UAAL contribution in FY 2025
  - The 3% employee contribution requirement for premium subsidy retiree medical coverage will be eliminated effective FY 2026
    - Reflecting this provision resulted in no impact to the actuarial accrued liability and an increase to the actuarially computed employer contribution
  - The employer normal cost contribution floor is eliminated for the retiree health plan effective FY 2026
- Additional provision of Public Act 127 of 2024 follows
  - The employer UAAL contribution rate cap is reduced from 20.96% to 15.21% for non-university reporting units effective FY 2026

September 30, 2024 Valuation

- Level dollar amortization for determining FY 2027 contribution (i.e., 0.00% payroll growth)
- The Retirement Board adopted a Funding Policy for use in the September 30, 2023 and later actuarial valuations
- Actuarially computed employer contributions included in this presentation do not incorporate the contribution floor provisions of Public Act 92 of 2017 or Public Act 181 of 2018 and as amended by Public Act 127 of 2024
- Actuarially computed employer contributions in this presentation are needed in addition to any reconciliation payments as required by subsection 41(9) of MPSERS statute

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FY 2024 – Expenditures vs. Contributions

- FY 2024 expenditures for employer paid retiree health care benefits:
  - $ 333.4 million
    - The following are netted off the amount shown above:
      - Retiree paid premiums
      - Other governmental contributions of $281.7 million
- FY 2024 contributions for retiree health care benefits:
  - $ 803.5 million – Employer contributions
    - Other governmental contributions of $281.7 million are not included in the amount shown above
  - $ 202.2 million – Employee contributions

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Actuarially Computed Employer Contribution FY 2027 ($ in Millions)

- Actuarially computed employer contribution for FYE September 30, 2027:

		FY 2027
Employer Normal Cost	$	226.8
UAAL Amortization Payment/(Credit)		
Preliminary UAAL Amortization Payment/(Credit)[1]	$	(626.7)
Funded Ratio		151.9%
Amortization of UAAL[1]	$	(142.9)
Actuarially Computed Employer Contribution	$	83.9

[1] Unfunded Actuarial Accrued Liabilities (UAAL) were amortized over 12 years from October 1, 2026.

- Since the funded ratio as of September 30, 2024 is greater than 140%, assets in excess of 140% of the actuarial accrued liability were used in the development of the annual amortization credit

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Actuarial Gain/(Loss) ($ in Millions)

		Gain/(Loss)
1. **Premiums.** Gains and losses resulting from actual premiums in valuation year versus that assumed from prior valuation.	$	1,104.0
2. **Investment Income.** If there is greater investment income than assumed, there is a gain. If less income, a loss.		65.9
3. **Demographic and Other.** Gains and losses resulting from demographic experience, data adjustments, timing of financial transactions, etc.		264.9
4. **Composite Gain/(Loss) During Year.**	$	1,434.8

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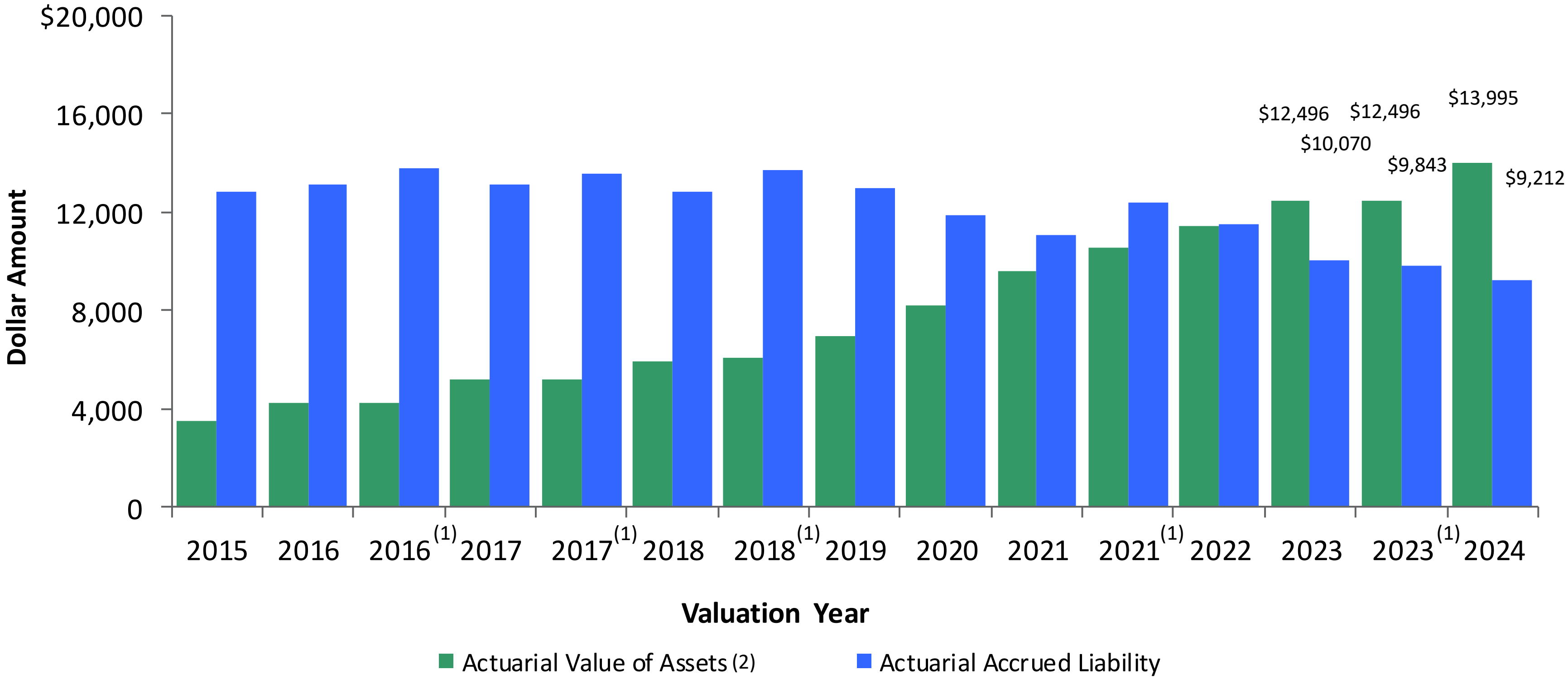
Circumstances That Would Increase Projected Costs

- Medicare funding reductions or cost shifting
- Unexpected new benefit recipients (from health benefit cutbacks of other employers)
- Actual health inflation worse than assumed; the actual future contributions will depend on future per capita health cost increases*
- Active member population decline (contribution rates as a percentage of payroll would increase)
- Lower than expected investment returns; bigger impact for well funded plans
- This is not a complete list

* *Pre-65 per capita costs are projected to increase 7.75% the first year (6.50% for post-65 per capita costs), graded down to 3.5% in the fifteenth year.*

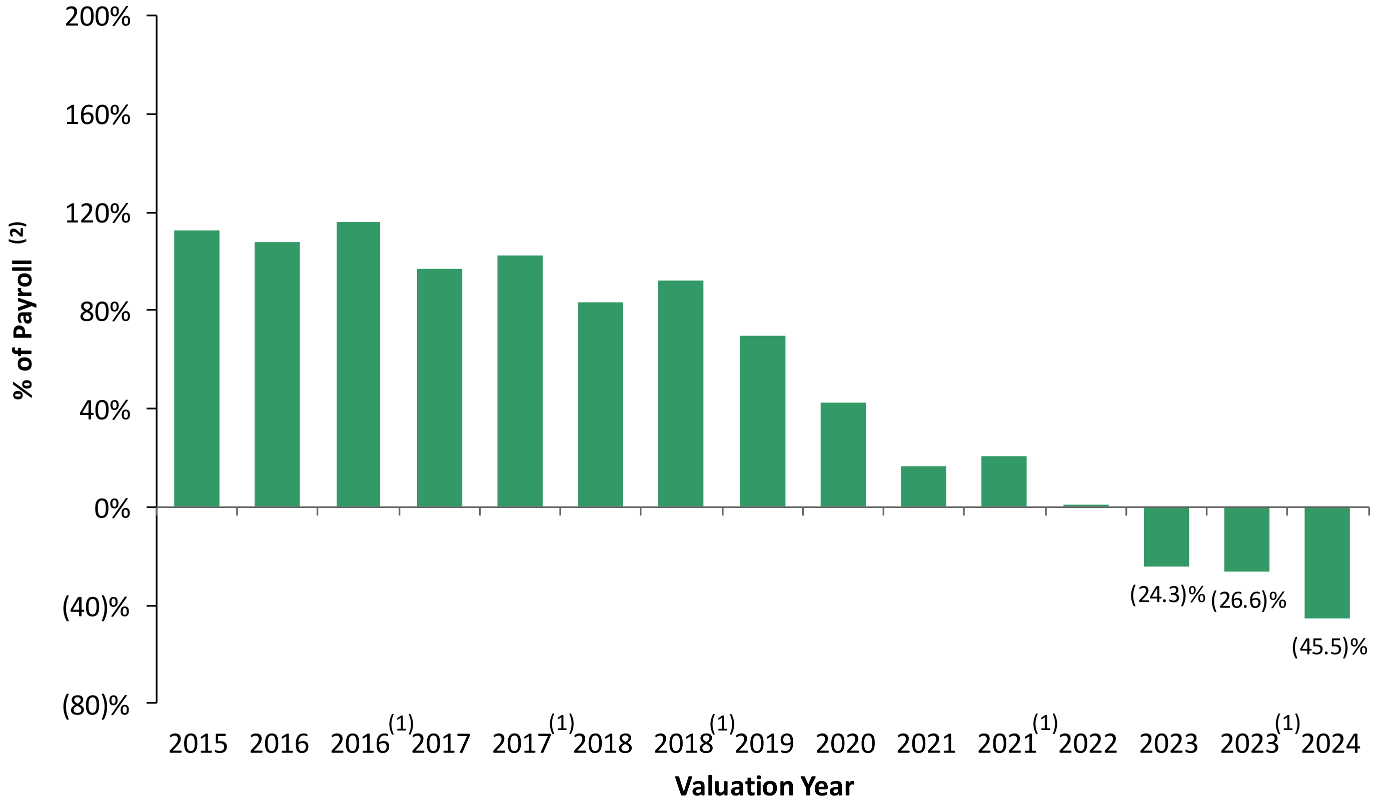
Retiree Health Assets & Accrued Liabilities Full Actuarial Funding ($ in Millions)



(1) Change in assumptions for years where assumptions other than the trend assumption changed. Beginning with the September 30, 2021 valuation, results as of the same valuation date prior to the assumption change reflect expected trend from the prior year's valuation.

(2) Actuarial value of assets were equal to the market value of assets prior to 2018.

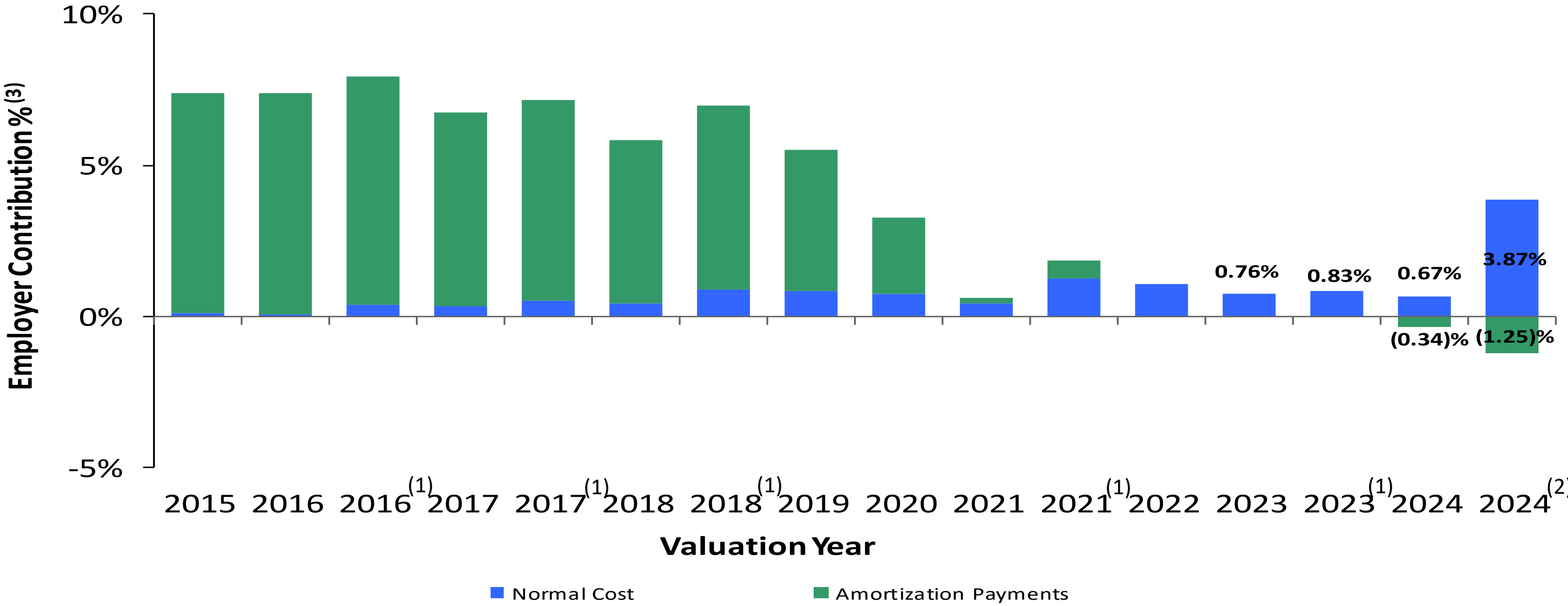
Unfunded Accrued Liabilities as %'s of Payroll Full Actuarial Funding



(1) Change in assumptions shown for years where assumptions other than the trend assumption changed. Beginning with the September 30, 2021 valuation, results as of the same valuation date prior to the assumption change reflect expected trend from the prior year's valuation.

(2) Percentage of total MPSERS payroll (including both PHF and non-PHF members).

Actuarially Computed Employer Contributions as %'s of Payroll (Full Actuarial Funding)

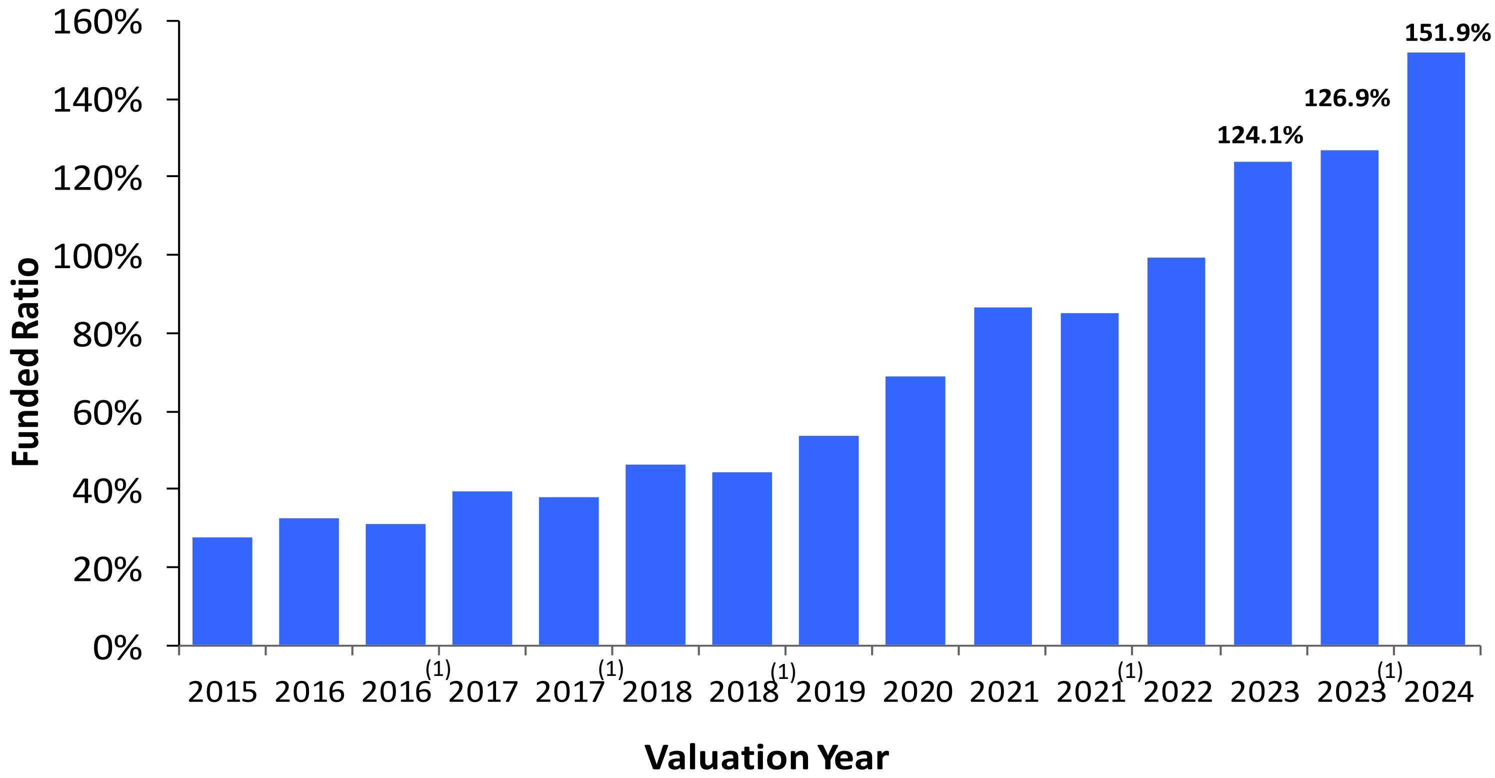


(1) Change in assumptions shown for years where assumptions other than the trend assumption changed. Beginning with the September 30, 2021 valuation, results as of the same valuation date prior to the assumption change reflect expected trend from the prior year's valuation.

(2) Revised benefit provisions.

(3) Note the following: (a) the normal cost is expressed as a percentage of non-PHF active member payroll, (b) the Amortization Payment is expressed as a percentage of total MPSERS active member payroll (including PHF and non-PHF), and (c) the required employer contribution is for the fiscal year beginning two years after the valuation date.

Funded Ratio



(1) Change in assumptions shown for years where assumptions other than the trend assumption changed. Beginning with the September 30, 2021 valuation, results as of the same valuation date prior to the assumption change reflect expected trend from the prior year's valuation.

Disclaimers

- This presentation is intended to be used in conjunction with the September 30, 2024 retiree health actuarial valuation report. This presentation should not be relied on for any purpose other than the purpose described in the valuation report.
- This presentation shall not be construed to provide tax advice, legal advice or investment advice.
- The actuaries submitting this presentation (Mita Drazilov, Louise Gates, and Christopher Smith) are Members of the American Academy of Actuaries and meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinions contained herein.