



JENNIFER M. GRANHOLM
GOVERNOR

STATE OF MICHIGAN
DEPARTMENT OF TECHNOLOGY, MANAGEMENT & BUDGET
LANSING



September 28, 2010

All Reporting Unit Business and Payroll Personnel of the
Michigan Public School Employees Retirement System

Dear Michigan School Business Official:

Public Act 75 of 2010 established the Pension Plus hybrid plan for new employees, which is less expensive. Pension Plus Plan members are those who first work for a reporting unit July 1, 2010 or later.

Due to the increased number of retirees associated with the early retirement incentive, the revised contribution rate due on members' wages paid between November 1, 2010, and September 30, 2011, will be 20.66% for members who first worked prior to July 1, 2010, and 19.16% for members who first worked July 1, 2010 or later (Pension Plus Plan members). This rate is approximately 3% higher than it would be without the Preliminary Injunction, which prevents the use of employee contributions, ordered by the Court of Claims in the *McMillan et al v. MPSERS et al* lawsuit. At such time as this injunction may be lifted, the contribution rate will be reduced.

The breakdown of the rates is as follows:

	First Work Before July 1, 2010	First Work On or After July 1, 2010
Pension Normal Cost (Prefunded)	3.74%	2.24%
Pension Unfunded Accrued Liability	<u>8.42%</u>	<u>8.42%</u>
Pension Total Rate	12.16%	10.66%
Retiree Health (Cash Basis)	5.50%	5.50%
Surcharge due to Injunction	<u>3.00%</u>	<u>3.00%</u>
Health Total Rate	8.50%	8.50%
Grand Total	20.66%	19.16%

Please refer to the back of this letter for a description of what each of these elements of the contribution rate entails. If you have any questions, please contact Financial Services, Retirement Accounting at (517) 241-5042.

Sincerely,

Ronald W. Foss, Director
Fiscal Management Division

Pension Normal Cost: This portion of the contribution rate is determined each year by the retirement system's actuary and is charged as a percentage due on payroll. This represents the cost of pensions for active employees earning another year of service credit in the retirement system.

Pension Unfunded Accrued Liability (UAL): This portion of the contribution rate is also determined each year by the retirement system's actuary and is charged as a percentage of payroll. The UAL is the difference between the retirement system's assets and the pensions accrued (for past service) to current and future retirees. Each year, a payment is made against the UAL reflecting the amortization payment and interest. Beginning in FY 2012, the costs of the 2010 retirement incentive will be reflected in the UAL.

Retiree Health: This portion of the contribution rate is calculated using industry trend factors provided by the retirement system's health care actuary along with historical performance and is charged as a percentage due on payroll. Unlike pension, retiree health has not been prefunded; it has been paid on a cash basis.

Beginning on November 1, 2010 (rate reflected on previous page), the costs of the 2010 retirement incentive are reflected in the retiree health rate. At such time as the injunction in the *McMillan et al v. MPSERS et al* lawsuit is lifted, the retiree health care rate will be reduced to reflect the use of active member contributions to help fund retiree health care.