



Special Meeting
7:00 p.m., Wednesday, March 26
Farmington City Hall
23600 Liberty Street
Farmington, MI 48335

STUDY SESSION AGENDA

- 1. Roll Call**
- 2. Approval of Agenda**
- 3. Public Comment**
- 4. Pension Discussion**
- 5. Other Business**
- 6. Public Comment**
- 7. Council Comment**
- 8. Adjournment**

The City will follow its normal procedures for accommodation of persons with disabilities. Those individuals needing accommodations for effective participation in this meeting should contact the City Clerk (248) 474-5500, ext. 2218 at least two working days in advance of the meeting. An attempt will be made to make reasonable accommodations.

Farmington City Council Staff Report	Council Meeting Date: March 26, 2025	Item Number 4
Submitted by: City Manager		
<u>Agenda Topic:</u> Discussion on Pensions		
<u>Proposed Motion:</u> N/A		
<p><u>Background:</u> One of the goals in the 2024-2026 Work Plan is to develop and present a cost/benefit analysis of transitioning to a defined contribution plan by 2030. Prior to spending a lot of resources on that, I thought it best to bring in representatives from MERS (Michigan Employees' Retirement System) to discuss the pros and cons of both defined contribution and defined benefit plans. Additionally, MERS will discuss the effect of going to a defined contribution pension plan and all that it entails.</p>		
<u>Materials</u> Handout from MERS.		



City of Farmington

AGENDA

About MERS

Public Sector Retirement Plan
Options

How Defined Benefit Works

How Defined Contribution
Works

Different Paths to the Same
Target

Comparing Retirement Plans
Bridging the Gap

The MERS 457 Program
Key Takeaways and Resources

The Municipal Employees' Retirement System (MERS) is an organization that administers retirement

units of government on a **not-for-profit basis**. We offer comprehensive services, keep costs low, and put our members' interests first.



Trusted with **84%** of municipal pension plans in the state



We provide reliable retirement benefits to over **140,000 participants**



We pool over **\$15 billion** in assets

Public Sector Retirement Options

Defined Benefit

- Lifetime benefit
- Does not fluctuate with investment gains or losses
- Contributions fluctuate
- Funded by the employer, employee and investment earnings

Defined Contribution

- Benefit based on account balance
- Fixed contributions
- Funded by the employer, employee and investment earnings

Hybrid

- Combines the best of both plans
- Benefit and contributions vary
- Funded by the employer, employee and investment earnings

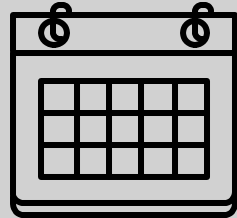
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- Supplemental savings account that can be added to any retirement plan
- Voluntary and flexible employee contributions
- Pre-tax and Roth options

How Defined Benefit Works

Final Average Compensation X Service Credit X Benefit Multiplier =

\$50,000 X 30 years X 2.0% =

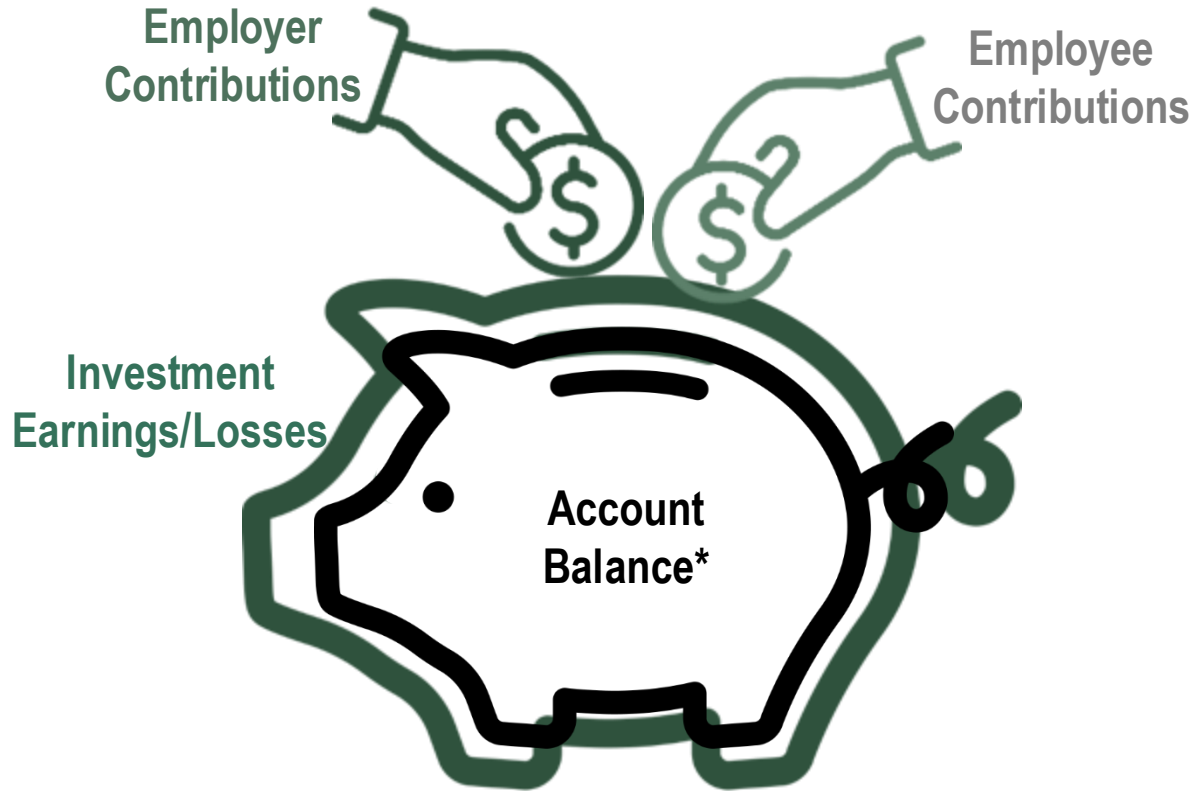


Annual Benefit

\$30,000/yr
(\$2,500/mo)



How Defined Contribution Works



**Investment and administrative-related expenses are deducted from your account.*

Different Paths to the Same Target

Income replacement

The percentage of preretirement income that you want to replace in retirement.

Income target

Participants may have a goal to replace roughly 80% of their working income in retirement.

How much will their employer-sponsored plan replace?

Savings goal

How much more do participants need to save to bridge any gaps?



Comparing Retirement Plans

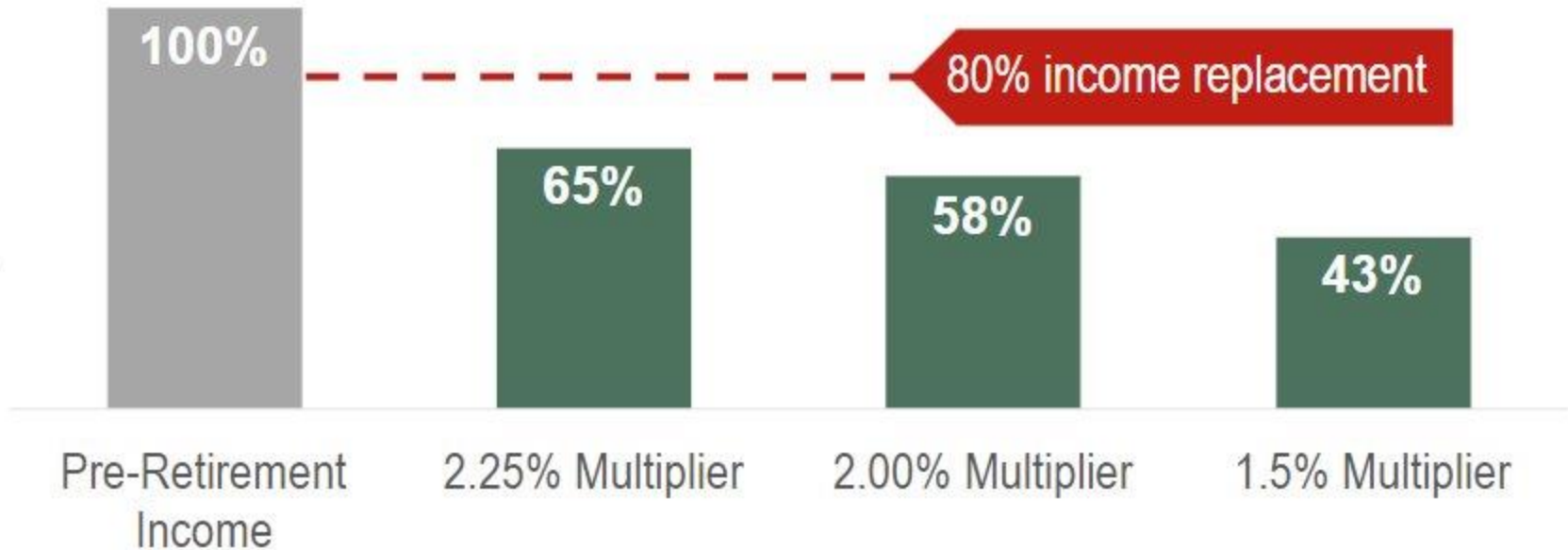
Projections assume a 30-year-old employee earns 30 years of service credit, retires at age 60, and lives until age 90. Assumed wage inflation is 2%.

DC projection assumes the investment rate of return is 6% while working and 4% after retirement. The participant is assumed to take equal monthly distributions until age 90.



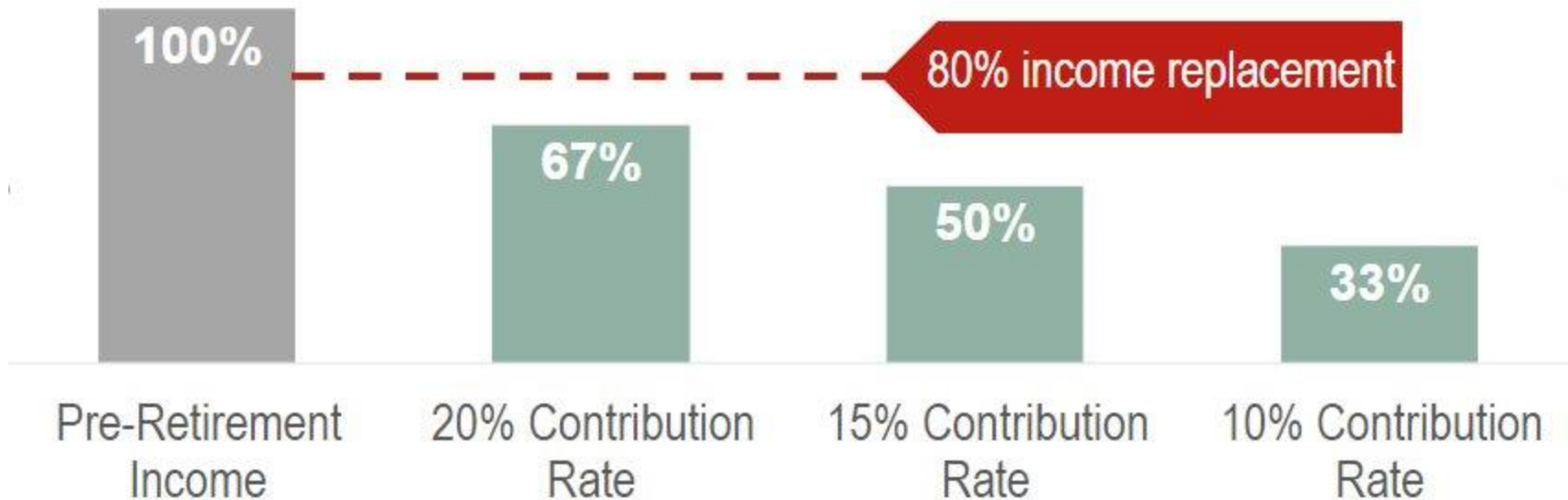
Defined Benefit Retirement Income

Projected Income Replacement Rates for Career Employees by Multiplier



Defined Contribution Retirement Income

Projected Income Replacement Rates for C:



Bridging the Gap



MERS 457 Program

Voluntary savings account

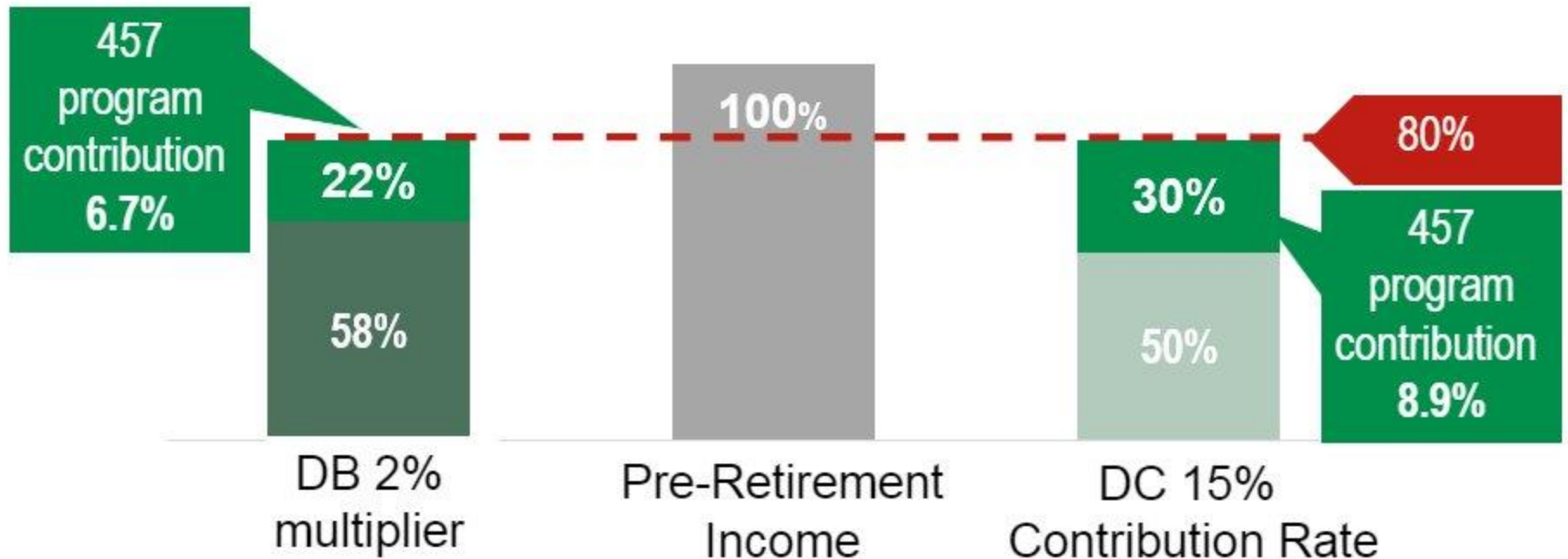
Contributions are invested and managed by account holder

The employee decides how much to contribute and can start, stop or change contributions at any time

Account balance can be used at separation from employment without penalty, regardless of age

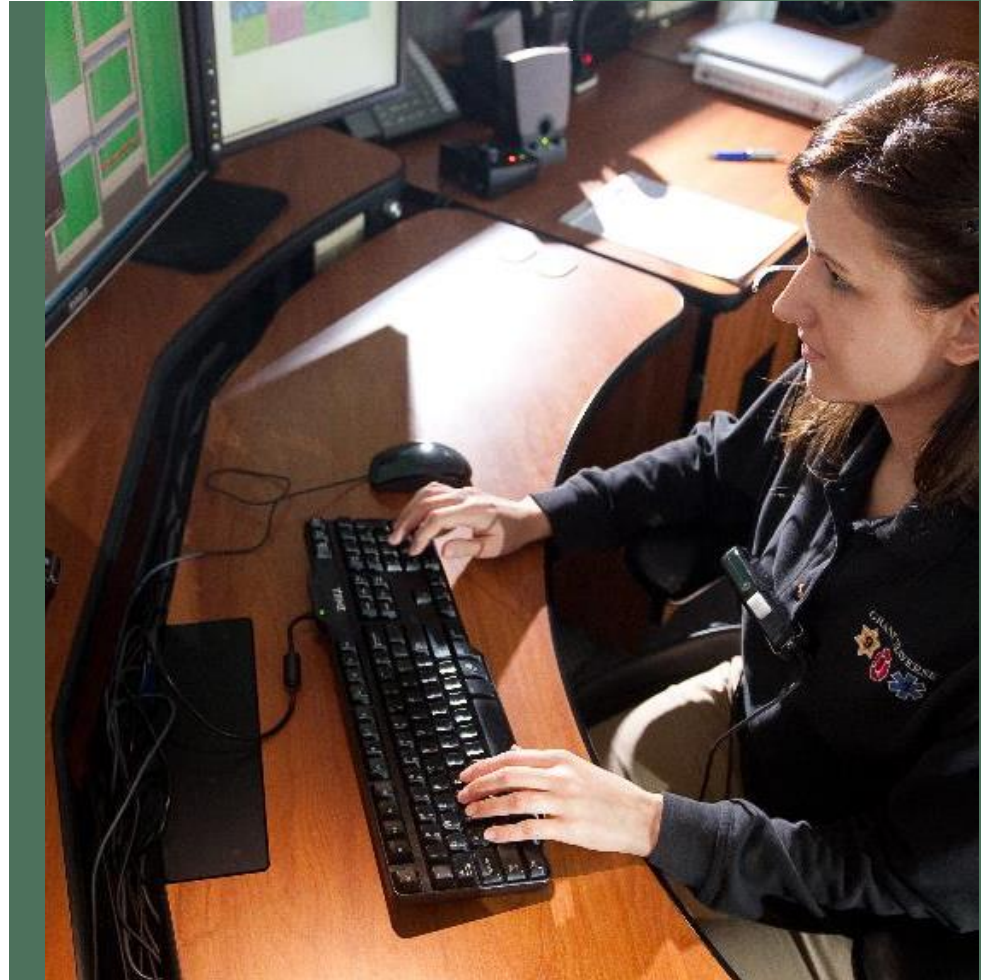


Taking Aim at the Income Target



Key Takeaways

and Resources



Key Takeaways

Defined Benefit

Provides a lifetime benefit

Employer contributions will fluctuate over time

Defined Contribution

Employer contributions do not fluctuate

No future liability when employee terminates employment

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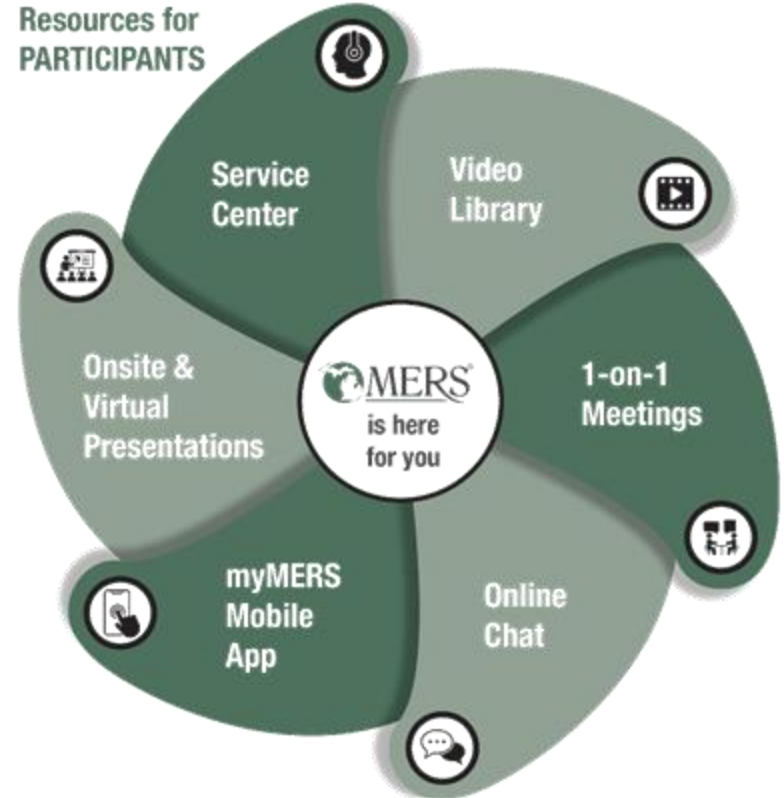
Combine with any plan with for saving flexibility

Resources

Resources for EMPLOYERS



Resources for PARTICIPANTS



MERS of Michigan

1134 Municipal Way
Lansing, MI 48917

800.767.6377

www.mersofmich.com



This publication contains a summary description of MERS' benefits, policies or procedures. MERS has endeavored to ensure that the information provided is accurate and up to date. Where the publication conflicts with the relevant Plan Document, the Plan Document controls.

