Purpose:
In fiscal years where actual market rate of investment returns exceed the assumed rate of investment return (AROR) in place for a retirement system pension plan or other postemployment benefits (OPEB) plan for the same fiscal year (FY), the exceeding actual market rate of investment returns will be used in actuarially determined increments to reduce the AROR for the actuarial valuation for that FY and forward for that retirement system plan.

Notes: None.

Policy:
1. Separate schedules of AROR reduction for pension are in place for all systems. Separate schedules of AROR reduction for OPEB are in place for the following systems – Michigan Public School Employees’ Retirement System (MPSERS), State Employees’ Retirement System (SERS), State Police Retirement System (SPRS), and Judges Retirement System (JRS).
   1.1. Military Retirement Provisions (MRP) does not have a separate OPEB schedule, as their health care benefits are part of the SERS OPEB plan.
   1.2. For SERS, SPRS, JRS, and MRP pension and OPEB plans, AROR reduction schedules account for the increases in both unfunded actuarial accrued liability (UAAL) and the first year of normal cost. That is, the excess gains will cover both the increases in the UAAL and the first year of normal cost, so the total contribution rate will not go up due to the reduction in the AROR for the first year. It will go up in subsequent years to account for the increase in normal cost.
   1.3. For MPSERS plans, due to the UAAL and normal cost contribution floors created through Public Act (PA) 92 of 2017, AROR reduction schedules account only for the increases in UAAL. Normal cost will increase because of lowering the AROR starting from the first year of the decrease.
   1.4. Schedules will be reviewed by the actuary with every experience study to determine if any adjustments are necessary based on plan experience.
2. AROR reduction is automatic in a plan in which the actual market rate of investment returns for a FY exceeds the AROR in place for that plan as described in the schedule for each system and will apply to the actuarial valuation starting with that FY.
2.1. For systems with both pension and OPEB, the AROR reduction is applied independently to each plan, which can result in each plan having a different AROR.
3. AROR will be reduced through this policy by 5 basis points (0.05%) per increment described in the schedule for each system. The AROR can be reduced by multiple increments at a time, depending on market performance and in accordance with the schedules created by the actuary.
4. For systems that have hybrid plans (i.e., MPSERS and SPRS) with a 7% AROR, this policy will apply initially only to the legacy defined benefit (DB) plans and OPEB.
   4.1. This policy will apply to hybrid plans’ AROR when the legacy DB plan AROR for that system reaches 7%. At that time, actual market rates of investment return for the legacy DB plan and the hybrid plan will be used to reduce the AROR of both plans in tandem.
5. Effective with the FY 2021 valuation, the AROR for the pension plan and OPEB plan for each system, where applicable, may be reduced until it reaches 6.0%.
6. AROR reduction will continue as specified in this policy until such a time that systems’ retirement boards and the Department of Transportation, Management, and Budget (DTMB) director revise or discontinue the policy.
Articles: None.

Materials:
Dedicated Gains AROR reduction schedules, As of August 12, 2021:
S:\BPD_Legislative\Dedicated Gains 2021\Reduction Schedules

Key Words: AROR, OPEB, plan

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