

## MPSERS Pension Explainer: Contributions to the Current Hybrid Plan are Only Half of What is Necessary

*The most recent actuarial valuations of the MPSERS Pension Plus, or "Hybrid," plan, suggest that if employers contribute 4.1% of payroll, then the plan will be fully funded. This contribution is comprised of a 3.1% payment into the Hybrid's defined benefit plan, and a 1% employer match of employee contributions towards personal retirement accounts. However, almost all of the same inaccurate assumptions used by the pre-2010 pension plan are still being used to calculate that 3.1% employer contribution towards Hybrid plan. Using more accurate and realistic accounting methods would show the Hybrid plan should cost employers closer to 8.1%.*



### 1. The Hybrid Plan Uses the Same Assumptions as the Old Pension Plan

- ❖ The Hybrid plan and pre-2010 pension plan **both use the same assumptions** for how long people will live (mortality) and how fast the teaching workforce will grow (payroll growth), as well as assumptions like inflation and when teachers will quit or retire (retention).
- ❖ The Hybrid plan uses a 7% assumed rate of return instead of the 7.5% now being used for the old plan, but this is the only meaningfully different assumption.
  - Unfortunately since there is **only about a 40% chance of earning even a 7% return**, the lower assumption does not adequately protect the Hybrid plan from future unfunded liability growth.
- ❖ This means the defined benefit portion of **the Hybrid plan is exposed to nearly all of the same risks as the pre-2010 pension plan.**

### 2. Employers Should Be Contributing 8.1% for the Hybrid Plan

- ❖ Using its current assumptions, the Office of Retirement Services asks employers to contribute 4.1% per Hybrid plan member towards their retirement benefits — 3.1% to the defined benefit plan and 1% to the defined contribution plan.
- ❖ Changing the assumptions to use a more realistic 6% assumed rate of return, up-to-date mortality assumptions, and a payroll growth assumption matching the historic trend would add about 4% of payroll to the contribution rate of the defined benefit portion of the Hybrid.<sup>1</sup>
- ❖ Thus, a more honest accounting would require employers to make a 7.1% contribution to the Hybrid plan's defined benefit fund plus the 1% match to the defined contribution plan.

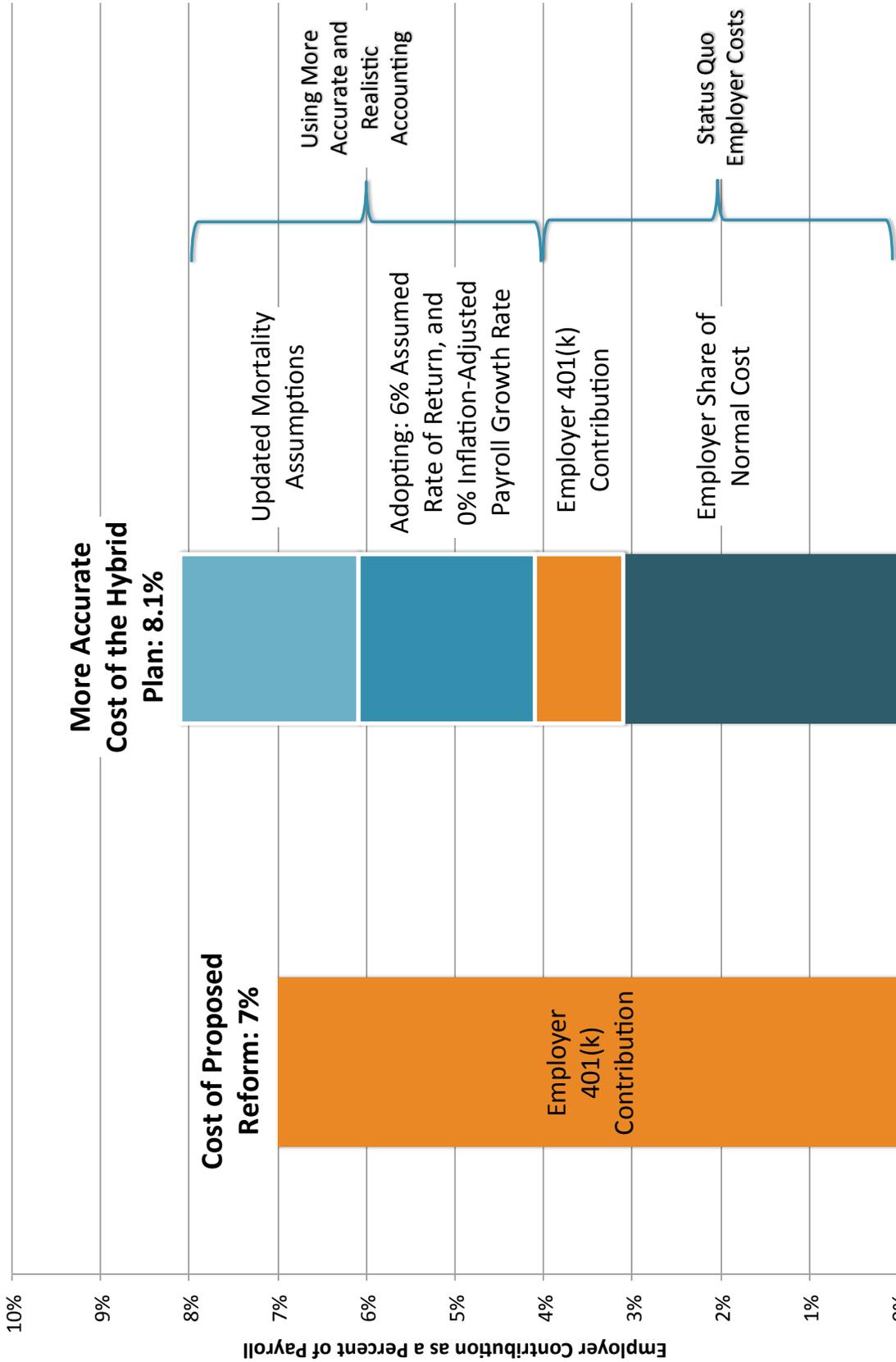
### 3. The Proposed Defined Contribution Plan (7%) Would Cost Less Than A More Realistically Priced Hybrid Plan (8.1%)

- ❖ The cost of the current Hybrid plan (4.1%) only appears lower than the proposed defined contribution retirement plan (7%) because of the unrealistic assumptions.

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<sup>1</sup> We modeled the change from adopting a 6% assumed rate of return and discount rate, dropping the real payroll growth assumption to 0%, keeping the 2.75% inflation assumption, and updating the mortality tables to RP-2014.

## Comparison: The Cost of Proposed Reform is Less Than the Cost of a More Accurately Priced Hybrid Plan



Questions about pension reform? Want to see the sources for the numbers quoted here?  
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