



## RFC FINANCIAL PLANNERS

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### **Attn: Members of the Michigan Public School Employees Retirement System**

Given the timeliness and significance of a current proposal relating to retirement and health care benefit changes affecting members of the Michigan Public School Employees Retirement System, we are sharing information to help prepare those affected to make informed decisions. Below you will find a summary of our current interpretation, links with additional details, and our initial thoughts of the proposal. We welcome anyone to contact us with questions, to discuss this in further detail, and to review specifics of your particular situation. If you know anyone that may benefit from this information, please feel free to forward this to them, as it may impact their decisions relating to their long-term benefits

#### **Current members of the retirement system (hired before July 1, 2010) will face the decision of whether to do one of the following relating to their retirement pension benefits:**

- a. Make an increased contribution rate (to 5% or 8%), to keep the current 1.5% multiplier for future years of service in calculating the pension benefits. This option is not expected to be available for those who already have 30+ years of service.
- b. Continue making the same contributions for a reduced multiplier of 1.25% vs 1.5% for future years of service.
- c. Freeze their pension benefits and switch to the defined contribution retirement plan (401K) in exchange for a 4% employer contribution to the 401K.

#### **Health Care changes:**

- a. All existing retirees of the retirement system would see their portion of health insurance premiums double from what they are currently paying due to a drop in the employer paid premium coverage.
- b. Regardless of years of service, all current employees that retire after July 1, 2012 would be required to be age 60 or older before they can receive retiree health care benefits. There is a one year phase-in, which allows those people who have a combined age plus years of service equal to at least 85 by July 1, 2013 to be grandfathered under the current rules.
- c. All current employees who retire after July 1, 2012 would become part of the graded health care premium coverage plan (this currently only covers employees hired since July 1, 2008).
- d. Elimination of retiree health care coverage for any employee first hired on or after July 1, 2012.

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- If you choose to make the higher pension contributions under this proposal, then the 1.5% multiplier would apply on all of your earned and purchased years up until 10/1/12 **and only** your earned years after 10/1/12 (until you reach 30 years of service). Future earned years after 10/1/12 that are over the 30 years would be at 1.25% with the contributions required reducing as well. For those that can afford the extra contributions, we encourage most people to consider electing this option if they are in good health because the break-even time frame is 15-20 years from the time you begin collecting pension payments, at which time the accumulated pension benefits begin to surpass your cost of extra contributions. <sup>1</sup>

We think it would be wise to take the time to evaluate the option of beginning a contract to purchase years prior to 10/01/12. <sup>1</sup>

Summary of the recent proposal:

<http://msbo.org/HomePage/2012/SB1040SummarySheet.pdf>

Section by section breakdown of the proposed reform:

[http://msbo.org/HomePage/2012/sb1040\\_finimp.pdf](http://msbo.org/HomePage/2012/sb1040_finimp.pdf)

Proposed bill:

<http://msbo.org/HomePage/2012/2012-SIB-1040.pdf>

As further details are released we will plan to share additional information.

. \*\*If you or someone you know is considering the option of freezing the pension and instead participating in the 401K savings plan, it is critical that they have all of the facts and evaluate this decision with a financial professional before they finalize their selection, which may prove to be irreversible.

Keep in mind that this is still only a proposal, but it is expected that some variation of this reform bill will pass quickly, and that the final implementation will soon follow.

**Our business continues to be successful because of great clients like you. If you know anyone else who is looking to simplify and organize their financial lives, please let us know. With their permission, we would be happy to contact them and introduce ourselves.**

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