Municipal Employees' Retirement Commission (MERC)

July 16, 2026

JEFF TOMCHIK: Sorry, Troy.

MEGAN PIWONSKI: Good afternoon, everyone.

TROY RACCUIA: No problem at all.

MEGAN PIWONSKI: The recording is now active.

This is a meeting of the Municipal Employees Retirement Commission. I am Megan Piwonski from the Retirement Services Division. And the time is 1:04. The meeting has been called to order.

Mr. Vice Chairman, would you like me to call attendance?

JEFF TOMCHIK: Yes, please. Thank you.

MEGAN PIWONSKI: Present for the Commission today, we have Vice Chairman Jeffrey Tomchik, Trustee Jeffrey Arn, Trustee Michelle Boyles, Trustee Carl Chisholm, Trustee Michael Frieda, Trustee David Glidden, Trustee Karen McDonough, Trustee Kurt Miller, Trustee Troy Raccuia, Trustee Steve Stefano, Ex Officio Member, CIO Ted Wright. From the Office of the State Comptroller, Retirement Services Division, Division Director John Herrington, Assistant Division Director and General Counsel to the

Municipal Employees Retirement Commission, Robert Helfand, Assistant Division Director Donald Wilkerson, Planning Specialist Benjamin Sidrowski, Brianna Nelson, and myself, Megan Piwonski.

Additionally present from the Office of the State Comptroller, Assistant Comptroller and General Counsel to the Comptroller, Jan Menon. And from GRS Consulting, we have Danny White.

Please let me know if I've missed anyone.

JEFF TOMCHIK: That's everyone. Thank you, Megan.

I'm going to move to the Section C of the first section approval of the agenda.

KURT MILLER: So moved. Kurt.

JEFF TOMCHIK: Thank you, Kurt.

Second?

TROY RACCUIA: I'll second it. Troy.

JEFF TOMCHIK: Thank you, Troy.

Under discussion for approval of the agenda?

Seeing none, all in favor signify by saying aye.

(All members say Aye.)

JEFF TOMCHIK: All against, signify by saying nay.

All right. We consent agenda. I had the meeting minutes, I mean -- sorry, the meeting agenda sent out, with the consent agenda items on it. I need a motion to accept the consent agenda.

KURT MILLER: We'll accept the consent agenda as presented. This is Kurt.

JEFF TOMCHIK: Thank you, Kurt.

STEVE STEFANO: Second.

JEFF TOMCHIK: Second. I'm sorry. I'm having trouble seeing everybody on the screen. Tell me --

STEVE STEFANO: Steve. Steve Stefano.

JEFF TOMCHIK: Thank you, Steve.

Oh, there you go. Thank you, Steve.

All those in favor of the motion to approve the consent agenda signify by saying aye.

(All members say Aye.)

JEFF TOMCHIK: All those against by nay. Unanimous that the consent agenda is accepted.

Section 3. We had no notes on set policies.

Megan, did you have policies that you wanted to go over?

MEGAN PIWONSKI: No, I don't. I don't believe we have anything.

JEFF TOMCHIK: Okay. Great. Thank you.

The next section is approvals are normal retroactive and disability retirements for June 2026. That was in your agenda packet.

KURT MILLER: This is Kurt, approve as presented.

JEFF TOMCHIK: Thank you. The motion is to approve those pension requests.

Do I have a second?

TROY RACCUIA: I'll second it. Troy.

JEFF TOMCHIK: Thank you, Troy.

Any discussion?

Okay. Under the motion. All those in favor signify by saying Aye.

(All members say Aye.)

JEFF TOMCHIK: Thank you.

All those against by Nay.

All right. Thank you.

Section 5 of our agenda is the oversight. So we have an actuarial presentation by a GRS consultant.

Megan, would you like to introduce our guests?

MEGAN PIWONSKI: Yes. GRS is an actuarial consulting firm. They provide valuation services to more than 500 clients nationwide. They're here today to talk to us about their experiences in changing the amortization policy, which is similar to what we'll be experiencing as we move from our traditional MERS to MERS 2.0.

So this goes along with some of the conversations that we had fairly recently, and I think we had met them in Vegas, and I think this is going to be really great for us to see what it's looked like as other locations have gone through this before.

DANNY WHITE (GRS): Thank you, Megan. It's a great introduction.

I provided a handout to the system in advance. I don't know if they have it available, or if they want me to share the screen of slides.

MEGAN PIWONSKI: Danny, if you're able to share the screen, that would be great. Otherwise, I can do it for you.

DANNY WHITE (GRS): Great. Okay.

JEFF TOMCHIK: That was included in our packet, so we do have it, but thank you for sharing that on the screen.

DANNY WHITE (GRS): Very good. And I've noted on there Janie Shaw to join with me. She's familiar with both these systems, but she had something unexpected come up today, and so you're settling with me.

But anyway, this is just informational purposes, and think of it as educational for something in just consideration as we think through the purpose of why Megan and Michelle introduced me to speak to you today. It's really around the MERS 2.0.

You're now going to have a legacy system, and, you know, that system is going to exist for another 60, 70 years as people move through retirement, through active employment, into retirement, receiving a benefit. So you're going to continue to need at least a funding source if the system ever becomes unfunded afterwards, and payroll won't be that, or at least Tier 1 payroll. That payroll on MERS, you know, solely won't be available.

So we're going to give you two real-life cases of other sources that were used beyond the MERS payroll, and we'll go through how each example worked.

So the first case is Kentucky Employees Retirement System. If you're not familiar with it, if you ever look at the NASRA database pension plan funding, you go from least to most favorable. Of course, Connecticut MERS is on the more favorable side here, but if you go down to the bottom left, Kentucky Employees Retirement System is the worst funded, and as a result, they have some of the most high contribution rates as you look at as a percentage of payroll.

And so this was not sustainable. It was creating a lot of adverse experience. It was encouraging employers not to enroll active members into the system. You saw a lot of use of contract workers, other special employment arrangements, so they would be employed or provide services, but they weren't being provided KRS retirement benefits.

So you saw a decline in membership, decline in covered payroll, and that creates a spiral, and think of it as a death spiral in the contribution rate. So they had to be moved to something as an alternative. And so that alternative is a Fixed Allocation Contribution. And so that contribution consists of two parts, much like your current system does for all your four funds, you know, for general employees, public safety, with and without Social Security on your risk pools. You have a normal cost and the amortization cost.

The difference is the normal cost continues to be paid as a percentage of payroll, but here the amortization cost, which is by far the largest cost, it could no longer be collected as payroll because of the behaviors I described earlier.

So what they did was it's a fixed allocation. So they have -- each employer is a fixed percentage of what they're going to have to pay in terms of the amortization cost. It's invoiced like you would invoice some, you know, vendor or some other service, and those participating employers pay that invoice on a monthly basis.

And so the way it works, if you think of it, and this is the way they decided to do the allocation, and we'll go into policy matters after that, but you can see, let's take into account the executive branch. After you've got 100 employees, so you have a $20 billion system. The executive branch has roughly $15 billion of that. So they get assigned 75 percent of the amortization cost.

So you calculate a total amortization cost for the system, just like you do now with CavMac and your current actuary does. And then how is it going to be allocated to each individual employer? And you can see how that's assigned to the different various agencies.

And that percentage stays fixed from year to year. So as you move through, as we look towards the left side, you can see the actual amortization costs for all employers among the top, how it changes, and actually is declined over from year to year. So each proportion are assigned percentage of that amortization cost. That stays fixed, but the dollar amount for that employer can change from year to year.

So what you've done is you remove this incentive on payroll, and you provide this constant revenue source for collecting those contributions, which is really important. And so as a result, we've seen the KRS non-HAAS system go from a very low of 18 percent funded to now they're 31, 32 percent funded in a matter of three or four years. So they still have a long ways to go, but it is working.

There are some challenges and hurdles along the way, but, you know, once you got past that, they find out it is a success for them.

So when you look at the employers in totality, when you look at the two components together on the amortization, you have the monthly payments, you have the payroll, which is still considered into it for collecting the normal cost, which you see on that column there, that's a 7.76 percent. And so on the monthly billing, you still collect that normal cost as a percentage of pay, and then you have that fixed monthly allocation. So that's how it's set up and how it's administered.

You know, you can set up your own funding or amortization basis or policy after that, how many years, whether you want to do layered amortization or one aggregate amortization, that's still your complete flexibility. It's where the magic happens here is how is it allocated to each of the employers, how the employers pay for it.

On the benefit side, it removes the incentive to reduce payroll because that allocation is fixed, that's your largest part. And also on the incentive side, it doesn't penalize employers who want to add employees to the system or are growing because that amortization cost, again, is fixed. And so their incremental cost for adding employees is just the normal cost that they contribute on payroll.

This was a two-year process working with the legislators to get this in statute. There was a lot of discussion about what is the appropriate basis for allocating, for determining this initial allocation that's fixed.

And the three that were discussed most often was the current payroll, like a historical average of the payroll for each employer, and then the actual accrued liability.

So we calculated a liability based on the members, who were they last, who are they currently employed with or last employed with in the case of retirees, and that's assigned to each employer.

The bottom Number 3 is what they thought was most equitable to go with. A covered payroll would be the least destructive. But what they found is in this case, which may not be the case of MERS, was, again, we talked about some employer behavior in terms of reporting and covered employees.

And there were many employers that cut their payroll, their covered payroll, their reported payroll in half. And so, you know, if you went by this basis, they would essentially be given a break for their behavior that they, their business decisions they made prior to that.

Any questions on this before I go to Case Study 2?

All right. Barring none, so we go to Case Study 2, Utah Retirement Systems. This is on the other side. This is a well-funded system similar to Connecticut MERS. What they did after the great financial crisis is they create a new Tier 2 benefits. Think of it as like your MERS 2.0. And they put in Tier 2 as a -- their Tier 2 as a separate risk pool.

So like you have four risk pools now,

you could potentially, depending on how you want to structure it, you can expand that to eight. You have your four for your MERS, and then you would have four new ones for your MERS 2.0, for your general employees, public safety, and whether or not they're covered by Social Security.

What they recognized up front is there needed to be a source, much as in MERS, there needed to be a source of revenue or a source where they could collect contributions as that payroll in Tier 1 declined.

So this was put in July 1, 2011, and currently about 65 -- here we are in 2025, 2026, and about 65 percent of the active members now are for URS earning benefits are earning benefits in Tier 2.

So it's less than half of that covered payroll in Tier 1. And that's going to continue just on that downward march.

So what they decided is on the mechanics, they're going to calculate, you know, an amortization cost or contribution rate with -- that includes an amortization cost, except now they're going to include that amortization cost on both covered payroll.

So on Tier 2, our MERS 2.0, you calculate a calculated rate, and then you have a surcharge or add-on that, oh, by the way, you're also going to be calculating -- you're also going to be paying an amortization cost. If there's an unfunded in liability in MERS, you're going to be paying an amortization cost to finance that liability, as well.

So the way it looks in practice, at least for their public employee system, you have Tier 1, again, just as similar as MERS, you have a normal cost, plus you have an amortization cost to finance their unfunded liability. And so that's their rate, 21.19 percent.

Now in the Tier 2 benefits, there's -- they put in a cost-sharing arrangement. And so the way the cost sharing arrangement works is the state pays up to 10 percent, everything above 10 percent, the member is on the hook. So on the Tier 2 benefit itself, you have a normal cost of 10.2, an amortization cost of 1.1. So a total actuarial rate of, of 11.3.

As you can see at the bottom, the member pays in excess of 10, that's where the, where the 1.3 member rate comes from. And so the, the employer rates 10 is what they contribute on Tier 2. And then they also contribute the 8.94 percent to contribution rate. And that money, that separate amortization costs or component is separately identified to the system and goes to finance or to fund Tier 1 benefits.

And so they think -- you look at an aggregate, the employer contribution rate here on the Tier 2 payroll is 18.94 with 10 percent going to Tier 2 benefits, plus 8.94 to finance that legacy liability.

So again, this has worked well for the system when in 2011, after the great financial crisis, URS was approximately 80 percent funded on that Tier 1 legacy benefit. And it's now up to close to 95 percent. And you also have a dedicated funding source after that in perpetuity. If the Tier 1 benefit, if that unfunded liability increased because of some reason, there's still that source to collect contributions and to pay that going forward.

So again, two real case scenarios, different approaches, again, educational for, you know, this board to consider and the system consider is what, you know, is it one of these two, or is it maybe some third that has, you know, some of these characteristics. But that was really the, the case of the discussion today. And that concludes my prepared remarks, and we'll open it up to any comments or questions from the board members.

JOHN HERRINGTON: Yes. So this is John Herrington, and I'm the director of the retirement division. And my question is both of these plans are statewide plans. And for all intents and purposes, the participating employers all were participating from the inception of the plan in both states.

DANNY WHITE (GRS): Well, so these are both statewide systems. Yes, sir. These are both cost-sharing, multi-employer cost sharing systems.

JOHN HERRINGTON: Okay.

DANNY WHITE (GRS): So it's not an agency.

JOHN HERRINGTON: Okay.

DANNY WHITE (GRS): There's -- they all pay the same rate, although, you know, conceptually you have a combined rate, but in the case of the KRS, they pay a different rate because of the way they choose the fixed allocation.

And, you know, your question about employers coming and going, KRS allows, does allow -- does have new entities to enter the system from time to time, whether it's new townships or otherwise.

Same thing with Utah. They can, usually it's by and far these are smaller entities that for whatever are formed, water districts or whatnot, other authorities that participate in the system.

In the case of URS, they do not allow members to leave or agencies to leave. In the case of KRS, they do allow agencies to leave, but they have to pay an actuarial cost to do so.

They -- it's not just to get out. It is a commitment. But by and large, for practical purposes, you can think these, the vast majority of these employers have been in since inception in both instances.

JOHN HERRINGTON: Right. And I'm just wondering, you know, what -- one of the issues that we have is that we have employers that have joined at various times. And the idea would be allocating for unfunded liability for a town that's been in the plan for five years, as opposed to one that's been in for 50.

DANNY WHITE (GRS): Absolutely. And so this was one case that if you have a new plan coming in that they, since if you took a KRS approach, they would not be paying an amortization cost because they -- so that would be one benefit if that's --

In the case of URS, they would be paying a Tier 1 amortization cost. But like I said, these -- the units that come in, make a choice. They ask -- Utah is also unique in all state agencies, except for higher ed have to stay in. There is an exception regarding higher ed that gives them some additional flexibility, but those are just, you know, maybe about 15 employers there.

JOHN HERRINGTON: Okay. Thank you.

DANNY WHITE (GRS): Fifteen agencies.

JOHN HERRINGTON: Thank you.

JEFF TOMCHIK: Danny, in these two examples that is -- was this developed just as a generalization or do each one of those two have multiple levels of benefits for each plan like a hazardous duty or non-hazardous duty classification, which would change the cost value of each plan?

DANNY WHITE (GRS): Absolutely. So the answer is each one's different. In the case of Utah Retirement Systems, they have one benefit. Their Tier 1 is all one benefit tier in terms of retirement. All employers, they do have separate for hazardous and non-hazardous, and they're actually separate risk pools.

So the example I showed is just Tier 2 public employees. They have a separate for public safety and firefighters that we could show, and theirs is different, but conceptually they operate the same way, that conceptually there's an amortization cost on Tier 1 that's collected on Tier 2 payroll.

So much like MERS, they have different tiers, but they're separate in risk pools. Now, in the case of KRS, there's one risk pool. So what we showed there is they have one -- you know, they do have a KRS non-haz and a haz, like you do, but with what we showed you there in this example, they actually have three tiers within that same risk pool that we showed.

They had a Tier 1 back to 2000 -- pre-2008. They had a Tier 2 from 2008 to 2014. Employees after 2014 are earning benefits in a cash balance plan, but that's all encompassed in that one liability that we showed. If I'm still sharing my screen, it's all within there. So what you've seen is just the KRS non-haz portion.

And quite frankly, this is the, since it's so -- this was the worst funded, it's the only one that has the risk -- this fixed allocation. Their non-haz and the other systems all collect contributions as a percentage payroll. They just didn't have -- they're better well-funded, lower contribution rates. They weren't experiencing this negative employer behavior that you saw with -- that I showed earlier.

Often with these big statewide systems, they're complicated, a lot of moving parts. I'm sure MERS is the same way.

MICHELLE L. BOYLES: Just wanted to add a comment. When we were in Vegas and I saw Danny's presentation on this, I went, oh my goodness, this is real world example of basically everything we've been talking about for the last year. So thought this was really important to get to see that we're not the first one to have to go through this discussion of how do we change our funding? Should we change our funding policy because of a change in the formula and change in benefits?

And so I thought this was really valuable to have this information presented and the opportunity to ask questions and lessons learned from their experience of going through changing a funding policy. Because I think that's part of the questions we've had as well is how do we do this? What are the risks? Because we're going to set this up and say this is what it is, but make sure that we have all the considerations in advance.

So definitely want to encourage further questions, and I'm sure Danny would agree that if we go back and we sleep on it for a week and go, wait a second, what? Then I'm sure Danny would very much welcome questions and we could probably have further discussions too of their experiences and lessons learned so that we can be very informed in establishing our funding policy.

DANNY WHITE (GRS): Absolutely. And if there's one takeaway, one message, it is my suggestion, I'm sure CavMac's the same way with Mr. McDonald, that he's going to say we've got to identify a long-term source of revenue to fund that legacy liability.

And that could be a number of ways. I've given you two examples, but it's not the only two. There might be other creative ways that are fit for MERS.

Well, I thank Megan and Michelle for inviting me for this opportunity. We're always happy to share and help the profession, share information, help the profession, educate others. We want to see success across the board for all systems.

MEGAN PIWONSKI: Thank you so much. It was really a pleasure having you join us today.

DANNY WHITE (GRS): Thank you.

JEFF TOMCHIK: Yes. Thank you, Danny. That was good information for us to take a look at as we kind of work our policy and try and get the best possible scenario, always recognizing that, you know, when we face issues like this, we're not on an island and there's people like you and people on our team that work hard to come up with concepts to try and get positive results.

And it's always good to see feedback on places that have put this into action. So thanks for the information. I appreciate it.

DANNY WHITE (GRS): Absolutely. You guys take care and thank you again. I'm going to sign off. All right.

JEFF TOMCHIK: All right. Good to have you.

DANNY WHITE (GRS): Bye-bye.

JEFF TOMCHIK: All right. That's good information there. I think our policy committee's got a lot to discuss with that information.

Moving on in our agenda, Director's Report. So I'll move that over to John.

JOHN HERRINGTON: Right. So we definitely have quite a bit of information to discuss today. So I'll keep this relatively brief. In terms of the issues that we're working through, this tends to be the heaviest month for us as a system in terms of the retirements.

The retirements are -- the annual COLA

is paid July 1st. So individuals tend to retire on June 30th. Historically, that would mean that they would be entitled to an immediate COLA the next month.

But now that would also coincide with the shortest wait period for an annual COLA. And also as we phased in the different changes to the COLA over time, June 30th was a deadline to lock in a higher COLA than for someone that would retire July 1st or forward.

So we have quite a bit of retirement volume that we're working through. And as I've mentioned in past meetings, unfortunately, one of our key auditors has been called up to active duty. So we do have some stress there in keeping pace with the increase in work.

But other than that, we continue to improve our process for employer reporting, identifying issues with towns and entities that are presenting information in either a less than standard process or not necessarily as timely as we would hope.

And those are challenges that we really need to work through as we implement MERS 2.0, particularly with respect to the defined contributions that the employers are going to have to pay because those are going to have to be paid timely where there's more of a grace period right now for the DB contributions, for the DC contributions. As I've mentioned many times, if those come in untimely, there would be penalties that would be assessed to the employers.

But we continue to work through that and we've made a great deal of process, a great deal of progress in improving the existing process. But the harder part is to build the new process that should work much more efficiently going forward.

And hopefully, it would be perhaps next month, if not the month before we would have a presentation from one of the vendors that has some ideas on how they can assist us.

That's my report for this month.

JEFF TOMCHIK: Thank you, John. And thanks for picking up the slack there. I think that on the record, I'd like to say that safe deployment for your member there. And we thank him or her for their service and always appreciate the work that your team does, even though they're shorthanded now.

JOHN HERRINGTON: Perfect. Thank you.

JEFF TOMCHIK: Just a question, a brief question.

We've talked about this in the past, the cyclical timeframe of filing, pension filing or requests that come in. Are we seeing a spike in those numbers that we have anticipated or talked about in the past since it is the summer months now?

JOHN HERRINGTON: Right. What I would say is that we've seen a spike in the June and July retirements relative to other months in the year. But in terms of other years at this time period, it's, you know, something much closer to what we would expect as standard.

JEFF TOMCHIK: Okay. Great. Thank you.

JOHN HERRINGTON: Yeah.

JEFF TOMCHIK: Any other questions for John?

All right. Thank you, John.

Our next item on our agenda is new business. As you were made aware in your packets, we have a item for discussion on our executive session. I would need a motion to move to executive session.

STEVE STEFANO: So moved. Steve Stefano.

TONY RACCUIA: I'd make that motion. Troy.

KURY MILLER: Sorry, I was on mute.

JEFF TOMCHIK: You all jumped in at once. So I get this. I'll take Steve's motion. And can I get a second, please? Troy?

TROY RACCUIA: I'll second it. Troy.

JEFF TOMCHIK: All right. Great. Thank you.

All right. Motion made. Motion and seconded to move to executive session. All in favor signify by saying aye.

(All members say Aye.)

JEFF TOMCHIK: All against.

Okay. We will have Megan cease the recording and somebody from the staff remove the non-commissioned members from the chat.

C E R T I F I C A T I O N

I, Sonya Ledanski Hyde, certify that the foregoing transcript is a true and accurate record of the proceedings.

Sonya M. Ledanski Hyde

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