Michigan SERS 401(k) Defined Contribution Plan

Type of Plan: Mandatory Defined Contribution Plan

Year Effective: 1997

Workers Covered: General state government employees hired after March 31, 1997. (Workers hired prior to this date were allowed a four-month window to switch, but only 6 percent did).

Active Participants: 25,540 members (as of 2009).

Contribution Rate: 4 percent of salary for each worker automatically. The State matches worker contributions one for one up to 3 percent for a maximum state contribution of 7 percent.

Vesting Schedule: State contributions to the defined contribution components are 50 percent vested after two years, 75 percent vested after three years, and fully vested after four years.

Investment Options: 22 different mutual funds, including index and asset allocation funds, or a self-managed account. The default portfolio is a fixed-income fund.

Origin of Plan: Michigan was the first state to switch to a defined contribution plan for its general employees. When Republican Governor John Engler first took office in 1991, Michigan was running a budget deficit and Engler was looking for ways to cut spending. In 1992, Engler proposed cutting the state contribution rate to the pension plan, but the Democrat-controlled state House of Representatives opposed this plan.

Although the 1994 elections brought a Republican-controlled House of Representatives, Engler was again unable to reduce the state contribution rate. With the budget crisis behind him, Engler then looked to redirect pension policy by advocating a new defined contribution plan. Engler’s third attempt (House Bill 6229) was passed by a lame-duck session of the Republican-controlled legislature in 1996.

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