

NOTE 10 – PENSION BENEFITS

Defined Benefit Pension Plans

PLAN DESCRIPTION

The State of Michigan administers the following defined benefit pension plans:

Name	Type of Plan	Participating Employers
Legislative Retirement System (LRS)	Single Employer	1
State Police Retirement System (SPRS)	Single Employer	1
State Employees' Retirement System (SERS)	Single Employer	1
Public School Employees' Retirement System (PSERS)	Cost sharing multi-employer	715
Judges' Retirement System (JRS)	Cost sharing multi-employer	141
Military Retirement Plan (MRP)	Single Employer	1

Each plan, except MRP, is accounted for in a separate pension trust fund and also issues a publicly available financial report that includes financial statements and required supplementary information for that plan. Those reports, except LRS, may be obtained by writing to the Department of Management and Budget, Office of Retirement Services, 7150 Harris Drive, P.O. Box 30171, Lansing, MI 48909 or by calling the Customer Information Center at (517) 322-5103 or 1-800-381-5111. The LRS report may be obtained by writing to the Michigan Legislative Retirement System, House Office Building, Suite S0927, P.O. Box 30014, Lansing, MI 48909 or by calling (517) 373-0575.

As mandated by legislation, all new State of Michigan employees (except Michigan State Police officers) hired on or after March 31, 1997, are members of the defined contribution retirement plan as opposed to the LRS, SERS and JRS defined benefit plans. Employees hired before that date were given the option of remaining in the defined benefit plan or transferring to the defined contribution plan. The decision is irrevocable and transfers were completed by September 30, 1998. This was a one-time opportunity. With the passage of the legislation permitting the transfer, the LRS, SERS and JRS defined benefit plans became closed systems.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND PLAN ASSETS MATTERS

Basis of Accounting

The financial statements are prepared using the accrual basis of accounting. Contributions from the State are recognized as revenue when due and payable. Benefits and refunds are recognized when due and payable in accordance with the terms of each plan.

Methods Used to Value Investments

Plan investments are reported at fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Corporate bonds not traded on a national or international exchange are based on equivalent values of comparable securities with similar yield and risk. Real estate debt is valued on the basis of future principal and interest payments, and is discounted at prevailing interest rates for similar instruments. The fair value of real estate investments is based on independent appraisals. Other investments not having an established market are recorded at estimated fair value.

Description of Benefits

State statutes require that the State plans provide certain retirement, disability, death benefits, and annual cost-of-living adjustments to plan members. LRS life insurance benefits are provided through the defined benefit pension plan and are accounted for as pension benefits. The LRS life insurance benefits are paid on an advance-funded basis. The actuarial cost method and actuarial assumptions are the same as for the pension plan.

Contributions and Reserves

SERS members are allowed to purchase service credits by entering into a contract with duration of up to 20 years. At September 30, 2008, the short term receivable was \$10.6 million and the discounted long term receivable was \$53.8 million.

Significant Investments

No investment of any of the pension plans comprises 5% or more of the net assets available for benefits. There are no significant investments made in securities issued by the State, nor are there any loans made from the pension plans to the State. Additional disclosures concerning investments are provided in Note 8 and, concerning State Treasurer's Common Cash, in Note 5.

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FUNDING POLICY

The Legislature establishes the extent to which the employer and employees are required to make contributions and establishes the benefit provisions for each plan.

Plan members for SPRS, SERS, and MRP are not required to contribute to the plans. Plan members for LRS are required to contribute based on the following: for participants prior to January 1, 1995, the required contribution rate is 9.0%; for participants after January 1, 1995, the required contribution rate is 7.0%. Plan members for JRS are required to contribute 5.87% (weighted average) of annual covered salary.

For MRP, there is no underlying payroll of participants. Except for five special duty members, retirants receive \$600 in annual pension benefits. Accordingly, the annual required contribution from the State is determined as a dollar amount, not as a percentage of payroll. For fiscal year ending September 30, 2008, this amount was \$3.8 million.

For LRS, SERS, and SPRS, statute requires the employer to contribute to finance the benefits of plan members. These employer contributions are determined annually by the System's actuary and are based upon level-dollar value funding or a level-percent-of-payroll principles so the contribution rates do not have to increase over time. The following are the required contribution rates for the fiscal year ending September 30, 2008: SPRS, 27.52% of annual active payroll; SERS, \$308.02 million; LRS, no required contribution.

For JRS, the State contributes annually the greater of 3.5% of the aggregate annual compensation of State paid base salaries, or the difference between the total actuarial requirement of current service and unfunded accrued liabilities minus the revenues from court filing fees and member contributions. The following table provides a schedule of annual required employer contributions for JRS.

Year Ended September 30	Annual Required Contribution (ARC)	Percentage of ARC Contributed
2008	-	-
2007	.2	124.0
2006	.6	108.0

ANNUAL PENSION COST AND OTHER RELATED INFORMATION

Annual pension cost and related information for the current year for the State's single employer defined benefit plans is as follows (amounts in millions):

	LRS	SPRS	SERS	MRP*
Annual Pension Cost and Net Pension Obligation:				
Annual required contribution	\$ -	\$ 33.67	\$ 308.02	\$ 3.81
Interest on net pension asset (obligation)	(.08)	3.35	42.82	.86
Adjustment to annual required contribution	.29	(2.55)	(46.14)	(.92)
Annual pension cost	.21	34.46	304.70	3.74
Contributions made	-	34.36	355.73	3.20
Change in net pension asset/obligation	.21	.10	(51.04)	.55
Net pension (asset) obligation at beginning of fiscal year	(1.20)	41.82	535.23	10.70
Net pension (asset) obligation at end of fiscal year	\$ (.99)	\$ 41.91	\$ 484.19	\$ 11.25

*For MRP, information provided is based on most recent biennial actuarial valuation.

Actuarial Valuations and Assumptions

Actuarial valuations for the pension plans involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions (ARC) are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedules of funding progress present multi-year trend information about whether the actuarial value of plan assets for the pension plans is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point.

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The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

	<u>LRS</u>	<u>SPRS</u>	<u>SERS</u>	<u>MRP</u>
Latest actuarial valuation date	9/30/2008	9/30/2007	9/30/2007	9/30/2007
Actuarial cost method	Entry Age	Entry Age	Entry Age	Entry Age
Amortization method	Level percent of payroll open	Level percent of payroll closed	Level dollar closed	Level dollar closed
Remaining amortization period	5 years	29 years	29 years	28 years
Asset valuation method	5-year smoothed market	5-year smoothed market	5-year smoothed market	Market value
Actuarial assumption: Investment rate of return	7%	8%	8%	8%
Projected salary increases	4%	3.5-93.5%	3.5-14.4%	4%
Includes inflation at	4%	3.5%	3.5%	3.5%
Cost-of-living adjustments	4% annual compounded (non-compounded for legislators who first became members after 1/1/95)	2% annual non- compounded with maximum annual increase \$500	3% annual non- compounded with maximum annual increase \$300	3.5% for special duty retirants

THREE YEAR HISTORICAL TREND INFORMATION

The following table provides a schedule of funding progress for the State's single employer defined benefit plans (amounts in millions):

	Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded (Overfunded) AAL (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
LRS	9/30/08	\$ 170.0	\$ 169.4	\$ (0.6)	100.3%	\$ 1.3	(44.3)%
	9/30/07	167.8	163.3	(4.4)	102.7	1.3	(338.5)
	9/30/06	159.3	158.4	(0.9)	100.6	2.0	(46.6)
SPRS**	9/30/07	1,259.1	1,451.9	192.7	86.7	118.2	163.0
	9/30/06	1,204.2	1,385.9	181.6	86.9	115.9	156.7
	9/30/05	1,090.3	1,300.3	210.0	83.8	117.6	178.5
SERS**	9/30/07	11,343.5	13,161.7	1,818.1	86.2	1,825.9	99.6
	9/30/06	10,889.9	12,798.5	1,908.6	85.1	1,847.7	103.3
	9/30/05	9,896.7	12,400.4	2,503.6	79.8	1,880.2	133.2
MRP*	9/30/07	-	41.9	41.9	-	.6	6,983.3
	9/30/05	-	40.6	40.6	-	.5	8,120.0
	9/30/03	-	41.3	41.3	-	.6	6,883.0

*Actuarial valuation performed biennially.

**The most recent actuarial valuation was performed as of September 30, 2007.

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The following table provides a schedule of annual pension cost and net pension obligation for the State's single employer defined benefit plans (amounts in millions):

	Year Ended September 30	Annual Cost	Percentage Contributed	Net Obligation (Asset)
LRS	2008	.2	-	(1.0)
	2007	.6	-	(1.2)
	2006	.3	-	(1.5)
SPRS	2008	34.5	99.7	41.9
	2007	33.1	73.6	41.8
	2006	36.6	68.5	33.8
SERS	2008	304.7	116.7	484.2
	2007	313.9	61.2	535.2
	2006	365.1	74.1	413.5
MRP	2008	3.7	85.4	11.2
	2007	3.6	88.5	10.7
	2006	3.6	82.9	10.4

Defined Contribution Pension Plans

State of Michigan Defined Contribution Retirement Plan

The State of Michigan Defined Contribution Retirement Plan (Plan) was established to provide benefits at retirement to employees of the State (except Michigan State Police officers) who were hired after March 31, 1997, and to those members of the State Employees' Retirement System (defined benefit), Judges' Retirement System, and Legislative Retirement System who elected to transfer to this plan. The Plan is administered by the Department of Management and Budget. The State is required to contribute 4% of annual covered payroll. The State is also required to match employee contributions up to 3% of annual covered payroll. Plan provisions and contribution requirements are established and may be amended by the Legislature. Employer contributions to the plan for the year totaled \$81.6 million. Participant contributions to the plan were \$30.7 million. The reports may be obtained by writing to the Department of Management and Budget, Office of Retirement Services, 7150 Harris Drive, P.O. Box 30171, Lansing, MI 48909 or by calling (517) 322-5103.

The following investments represent 5% or more of net plan assets at September 30, 2008: Common Trust Funds: Traditional GICs/BICs, \$49.4 million; Global Wrap Synthetic Contracts, \$369.3 million; SSGA Daily Bond Market Index Fund, \$112.4 million; Money Market Funds, \$228.1 million.

Component Units

In addition to the Public School Employees' Retirement System (PSERS), the State university component units participate in the Teachers' Insurance and Annuity Association and College Retirement Equities Fund (TIAA-CREF). The TIAA-CREF is a defined contribution multiple-employer pension plan. The State university component units are required to contribute between 4% and 15% of annual covered payroll, as determined by each institution's employment agreements. The total contribution to the TIAA-CREF for all State university component units was \$75.3 million for the year ending June 30, 2008.

Additional plan information may be found in the separately issued financial reports of the State university component units.

Effective January 1, 2004, the State Bar of Michigan assumed responsibility for the retirement plans of State Bar employees who participated in the State of Michigan Defined Contribution Retirement Plan (Plan). All monies held in the Plan on behalf of participating State Bar employees were subsequently transferred to the newly established State Bar 401(a) retirement plan and the 457(b) retirement plan. The State Bar of Michigan is required to make minimum contributions and may establish other benefit provisions for their retirement plans. The State Bar of Michigan's contribution to the new plans was \$.4 million for the year ended September 30, 2008.

Additional information for the retirement plan can be obtained by contacting the State Bar at (517) 372-9030.