

NOTE 11 - OTHER POSTEMPLOYMENT BENEFITS

Other Postemployment Benefit Plans

PLAN DESCRIPTION

The State of Michigan administers the following other postemployment benefit (OPEB) 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
Life Insurance	Single Employer	1

Each plan, except for life insurance, is accounted for in a separate OPEB 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.

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 provide certain other postemployment benefits (OPEB) to many of its retired employees. Health, dental, and vision benefits as well as life insurance coverage are provided to retirees. These benefits are funded on a pay-as-you-go basis. The net assets available for benefits relate to residual balances from funding provided in prior fiscal years.

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. The State is not required to fund the plans other than the pay-as-you-go amount necessary to provide current benefits to retirees. For the fiscal year ended September 30, 2008, the State paid the following amounts (in millions) on the behalf of the following plans: \$342.2, SERS; \$29.1, SPRS; \$4.6, LRS; \$18.2, life insurance.

Plan members for SPRS and SERS are required to contribute 5%, 10%, and 10% of the monthly premium amount for health, dental, and vision coverage, respectively. Plan members for JRS are required to contribute 5% of health care premiums. JRS plan members can also enroll in the vision and dental plans of which they are required to contribute 100% of the premium. Plan members for LRS that are part of the defined benefit plan are not required to contribute and the members of the defined contribution plan are required to contribute 10% of the premiums. Life insurance is provided to retirees with the employer required to contribute 100% of the premiums.

Michigan
Notes to the Financial Statements

ANNUAL OPEB COST AND OTHER RELATED INFORMATION

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

	<u>LRS</u>	<u>SPRS</u>	<u>SERS</u>	<u>Life Insurance</u>
Annual OPEB Cost and Net OPEB Obligation:				
Annual required contribution	\$ 7.98	\$ 59.03	\$ 879.25	\$ 57.40
Contributions made	4.64	29.13	342.19	18.21
Change in net OPEB asset/obligation	3.34	29.90	537.06	39.19
Net OPEB (asset) obligation at beginning of fiscal year*	-	-	-	-
Net OPEB (asset) obligation at end of fiscal year	<u>\$ 3.34</u>	<u>\$ 29.90</u>	<u>\$ 537.06</u>	<u>\$ 39.19</u>

*Effective October 1, 2007, the State implemented GASB Statement No. 45 prospectively, which requires reporting on an accrual basis the liability associated with other postemployment benefits and the net OPEB obligation at transition was zero.

Actuarial Valuations and Assumptions

Actuarial valuations for the OPEB 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 OPEB 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.

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>Life Insurance</u>
Latest actuarial valuation date	9/30/2008	9/30/2007	9/30/2007	9/30/2007
Actuarial cost method	Projected Unit Credit	Entry Age	Entry Age	Entry Age
Amortization method	Level percent open	Level percent of payroll closed	Level percent of payroll closed	Level percent of payroll closed
Remaining amortization period	30 years	29 years	29 years	30 years
Asset valuation method	Market Value	Market Value	Market Value	Market Value
Actuarial assumptions:				
Investment rate of return	4.5%	4%	4%	4%
Includes inflation at	4%	3.5%	3.5%	3.5%
Healthcare Cost Trend Rate	10% in 2009 grading to 4% in 2019	9.5% Year 1 graded to 3.5% Year 11	9.5% Year 1 graded to 3.5% Year 11	N/A

Michigan
Notes to the Financial Statements

THREE YEAR HISTORICAL TREND INFORMATION*

The following table provides a schedule of funding progress for the State's single employer OPEB 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	9/30/2008	\$14.3	\$132.6	\$ 118.3	10.8%	\$ 11.9	994.1%
	9/30/2005	11.9	111.4	99.5	11.0	11.9	838.0
SPRS**	9/30/2007	-	918.1	918.1	-	118.2	776.7
	9/30/2006	-	944.4	944.4	-	115.9	814.9
SERS**	9/30/2007	-	12,966.0	12,966.0	-	2,949.0	439.6
	9/30/2006	-	13,499.0	13,499.0	-	2,848.0	474.0
Life Insurance**	9/30/2007	-	912.5	912.5	-	3,131.9	29.1

*This schedule will be expanded to include three years as actuarial information becomes available.

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

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

	Year Ended September 30	Annual OPEB Cost	Percentage Contributed	Net OPEB Obligation (Asset)
LRS	2008	\$ 8.0	58.2%	\$ 3.3
SPRS	2008	59.0	49.4	29.9
SERS	2008	879.2	38.9	537.1
Life Insurance	2008	57.4	31.7	39.2

*This table will be expanded to include three years as actuarial information becomes available.