

STATE OF MICHIGAN
NOTES TO FINANCIAL STATEMENTS (Continued)
 FISCAL YEAR ENDED SEPTEMBER 30, 1999

NOTE 11 – PENSION BENEFITS AND OTHER POSTEMPLOYMENT BENEFITS

A. Defined Benefit Pension Plans

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

- Legislative Retirement System (LRS) - single employer
- State Police Retirement System (SPRS) - single employer
- State Employees' Retirement System (SERS) - single employer
- Public School Employees' Retirement System (PSERS) - cost sharing multi-employer
- Judges' Retirement System (JRS) - cost sharing multi-employer
- Military Retirement Plan (MRP) - single employer

Each plan provides retirement, disability, death benefits, and annual cost-of-living adjustments to plan members. 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 may be obtained by writing to the Department of Management and Budget, Office of Retirement Systems, 7150 Harris Drive, P.O. Box 30171, Lansing, MI 48909 or by calling (517) 322-6262.

As mandated by legislation, all new State of Michigan employees 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.

Plan Membership Data

	<u>LRS</u>	<u>SPRS</u>	<u>SERS</u>	<u>PSERS</u>	<u>JRS</u>	<u>MRP</u>
Current active:						
Vested	31	1,304	36,745	118,658	411	554
Nonvested	43	912	12,867	190,666	162	10,385
Retirees & beneficiaries receiving benefits	231	2,231	36,346	120,913	531	1,930
Terminated members with vested deferred benefits	77	15	7,376	8,655	22	810

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND PLAN ASSETS MATTERS

Basis of Accounting

The financial statements are prepared using the accrual basis of accounting. Employee and employer contributions are recognized as revenues in the period in which employee services are performed. Benefits and refunds are recognized when due and payable in accordance with the terms of each plan.

investments is based on independent appraisals. Investments that do not have an established market are reported at estimated fair value.

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.

Methods Used to Value Investments

Investments are reported at fair value. Short-term investments are reported at cost, which approximates fair value. Securities traded on a national exchange are valued at the last reported sales price. The fair value of real estate

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. Actual total contributions for pensions met or exceeded the contributions required by state law.

The statutory annual reconciliation process in the PSERS requires actuarial overages (shortages) to be funded in the following year. P.A. 158 of 1992 provided for funding under a five-year reconciliation smoothing method.

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The contributions for probate judges in the Judges' Retirement System are non-employer contributions to cost-sharing multiple-employer defined benefit pension systems.

The contributions to all other systems are employer contributions to single-employer defined benefit systems.

However, the State does not make actuarially computed contributions to the Military Retirement Plan (MRP). MRP benefits, which are funded on the pay-as-you-go basis, are paid from the General Fund.

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ANNUAL PENSION COST AND OTHER RELATED INFORMATION

*Current year contribution rates, annual pension cost, and related information for the current year for the State's single employer defined benefit plans are as follows:

	<u>LRS</u>	<u>SPRS</u>	<u>SERS</u>	<u>MRP</u>
Required contribution rates:				
State	-	20.76%	5.46%	-**
Plan Members	***	-	-	-
(Amounts are in millions)				
Annual Pension Cost and Net Pension Obligation:				
Annual required contribution	\$ -	\$ 22.73	\$ 111.42	\$ 2.53
Interest on net pension asset	(.18)	.86	(6.58)	.37
Adjustment to annual required contribution	.33	(.54)	6.69	(.36)
Annual pension cost	.15	23.05	111.53	2.54
Contributions made	-	21.60	121.12	2.15
Change in net pension asset/obligation	.15	1.45	(9.59)	.40
Net pension (asset) obligation at beginning of fiscal year	(2.63)	10.74	(82.21)	4.65
Net pension (asset) obligation at end of fiscal year	<u>\$ (2.48)</u>	<u>\$ 12.19</u>	<u>\$ (91.80)</u>	<u>\$ 5.05</u>

Significant Actuarial Assumptions used include:

Latest actuarial valuation date	9/30/99	9/30/99	9/30/99	9/30/99
Actuarial cost method	Entry Age	Entry Age	Entry Age	Entry Age
Amortization method	Level percent open	Level percent closed	Level percent closed	Level dollar closed
Remaining amortization period	12 years	37 years	37 years	37 years
Asset valuation method	5-year smoothed market	5-year smoothed market	5-year smoothed market	None, unfunded plan
Actuarial assumption:				
Investment rate of return	7%	8%	8%	8%
Projected salary increases	4%	3.7 - 84%	3 - 16%	4%
Includes inflation at	4%	4%	4%	4%
Cost-of-living adjustments	4% for members hired before 1/1/95	2%	3%	4% for special duty retirants

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

**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.

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***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%. All contributions are made to the Health Insurance Fund, as described in Section C.

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Contribution rates for the current year for the State's cost-sharing multiple-employer defined benefit plans are as follows:

	<u>PSERS</u>	<u>JRS</u>
Required contribution rates:		
State	6.63%	**
Plan Members	3.88*	6.08
 Number of participating employers	 718	 316

*For those members who elect to participate in the "Member Investment Plan," the rate is 3.9%. Members hired after December 31, 1989, are required to participate in the "Member Investment Plan," and their contribution rate varies from 3.0-4.3% as salary increases.

**The State is required to contribute annually the greater of 3.5% of the aggregate annual compensation of State paid based salaries or required amount. However, the plan in the current year is fully funded; therefore, no contribution is required.

THREE YEAR HISTORICAL TREND INFORMATION

The following table provides a schedule of funding progress for the State's defined benefit plans:

(Amounts in millions)

	(a) Actuarial Valuation Date	(a) Actuarial Value of Assets	(b) Actuarial Accrued Liability (AAL)	(b-a) Unfunded (Overfunded) AAL	(a/b) Funded Ratio	(c) Covered Payroll	((b-a)/c) UAAL as a Percentage of Covered Payroll
LRS	9/30/99	\$ 146.1	\$ 127.1	\$ (19.0)	115.0%	\$ 4.2	(452.4)%
	9/30/98	131.8	112.9	(18.9)	116.7	6.6	(286.4)
	9/30/97	126.8	116.3	(10.5)	109.0	7.8	(134.6)
SPRS	9/30/99	1,036.8	1,006.5	(30.3)	103.0	116.9	(25.9)
	9/30/98	974.4	943.7	(30.7)	103.2	108.2	(28.3)
	9/30/97	928.7	876.8	(51.9)	105.9	110.1	(47.2)
SERS	9/30/99	9,648.3	9,028.6	(619.7)	106.8	2,213.8	(28.0)
	9/30/98	9,109.0	8,374.0	(735.0)	108.8	2,108.0	(34.9)
	9/30/97	8,834.4	8,100.6	(733.8)	109.1	2,273.2	(32.3)
PSERS	9/30/99	34,095.0	34,348.0	253.0	99.3	8,644.0	2.9
	9/30/98	31,870.0	32,137.0	267.0	99.2	8,265.0	3.2
	9/30/97	30,051.0	29,792.0	(259.0)	100.9	8,027.0	(3.2)
JRS	9/30/99	320.9	243.5	(77.4)	131.8	49.6	(155.9)
	9/30/98	288.7	236.5	(52.2)	122.0	48.9	(106.7)
	9/30/97	271.5	230.5	(41.0)	117.8	49.0	(83.6)

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MRP*	9/30/99	-	33.5	33.5	-	.5	6,771.4
	9/30/97	-	30.3	30.3	-	.4	7,575.0

*Actuarial valuation performed biennially; September 30, 1999, is the most recent valuation date.

Note 11 continued on next page.

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):

	<u>Year</u>	<u>Annual Cost (APC)</u>	<u>Percentage Contributed</u>	<u>Net Pension Obligation</u>
LRS				
	1996-97	2.0	104.9	(.7)
	1997-98	.1	1,814.7	(2.6)
	1998-99	.1	-	(2.5)
SPRS				
	1996-97	31.3	112.2	10.2
	1997-98	20.6	97.3	10.7
	1998-99	23.0	93.7	12.2
SERS				
	1996-97	243.5	118.4	(63.0)
	1997-98	126.5	115.2	(82.2)
	1998-99	111.5	108.6	(91.8)
MRP				
	1996-97	2.3	84.7	4.2
	1997-98	2.5	78.7	4.7
	1998-99	2.5	84.4	5.0

The following table provides a schedule of annual required contributions for the State's cost-sharing multiple-employer defined benefit plans (amounts in millions):

	<u>Fiscal Year</u>	<u>Annual Required Contribution (ARC)</u>	<u>Percentage of ARC Contributed</u>
PSERS			
	1996-97	880.6	102.7 %
	1997-98	551.1	122.4
	1998-99	606.5	94.7
JRS			
	1996-97	5.6	102.6
	1997-98	5.0	4.9
	1998-99	1.3	4.6

REQUIRED SUPPLEMENTAL INFORMATION

GASB Statement No. 25 requires the disclosure of certain six-year historical trend information. This information, except for MRP, is available from the separately issued financial reports of the retirement systems. For MRP, this information is presented below.

Trend information is intended to help users assess the funding status on a going-concern basis, assess progress made in accumulating assets to pay benefits when due, and make comparisons with other public employee retirement systems.

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Schedule of funding progress for MRP

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (b)-(a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
9/30/97	-	30.3	30.3	-	.4	7,575.0
9/30/99	-	33.5	33.5	-	.5	6,771.4

Information for prior years is not available. Actuarial valuation performed biennially. This schedule will be expanded until six years of information is presented.

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Schedule of Employer Contributions for MRP:

Year ended September 30	Annual required contribution	Percentage contributed
1999	2.5	84.4
1998	2.5	82.3
1997	2.3	85.0
1996	2.3	94.3
1995	2.3	94.3
1994	2.4	81.1

Actuarial information for MRP is provided in the annual pension cost and other related information section.

B. Defined Contribution Pension Plans

State Employees' Defined Contribution Retirement Plan

The State Employees' Defined Contribution Retirement Plan (Plan) was established to provide benefits at retirement to employees of the State who were hired after March 31, 1997, and to those members of the State Employees' Retirement (defined benefit) System, Judges' Retirement System, and Legislative Retirement System who elected to transfer to this plan. The Plan is administered by the State Treasurer. 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 \$24.4 million. Employee contributions to the plan were \$8.7 million.

The following investments represent 5% or more of net plan assets at September 30, 1999: SSGA Stable Value GIC Fund, \$17.2 million; Yield Enhanced Short-Term Fund, \$36.4 million; SSGA S&P 500 Index Fund, \$22.4 million; Dodge & Cox Stock Fund, \$11.2 million; Fidelity Magellan Fund, \$27.0 million; Putnam Voyager, \$18.4 million.

As disclosed in Section A, members of the LRS, SERS and JRS were allowed to make a one-time election to transfer from the defined benefit plan into the defined contribution plan. All transfers were completed as of September 30, 1998, and totalled \$148.8 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 8% and 12% 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 \$49.3 million for the year ending June 30, 1999.

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

C. Other Postemployment Benefits

In addition to the pension benefits previously described in this note, State statutes require that the State provide certain postemployment benefits (OPEB) to many of its retired employees. Health, dental and vision benefits as well as life insurance coverage are provided to retirees of all pension plans except MRP. These benefits are funded on a pay-as-you-go basis, except for LRS life insurance coverage, as explained below.

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, as discussed in Section A. At September 30, 1999, the actuarial accrued liability for life insurance premiums was \$8.0 million with net assets available for benefits of \$11.4 million. The expense for life insurance premiums was \$.2 million in fiscal year 1998-99.

The net assets available for benefits relate to residual balances from funding provided in prior fiscal years. There were no material changes in the OPEB provisions during fiscal year 1998-99.

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Following is a brief summary of the other postemployment benefits as of September 30, 1999:

	<u>LRS</u>	<u>SPRS</u>	<u>SERS</u>	<u>JRS</u>	<u>PSERS</u>	<u>TOTAL</u>
Participants eligible for benefits	316	2,231	36,346	531	120,913	160,337
Contribution rates for current employees (% of payroll)	None	None	None	1.5%	None	
Percentage of pre-Medicare premiums paid by participants	None	5%	5%	10%	10% *	
Expense for year (in millions)	\$ 2.3	\$16.2	\$184.1	\$.4	\$ 372.0	\$575.0
Net assets available for benefits (in millions)	2.5	2.1	47.1	(.2)	124.5	175.9

*The schools that employ the plan's members pay the employer share of health costs. PSERS retirees pay the same share of health care costs required from Social Security retirees for part B Medicare coverage until Medicare coverage

begins at age 65. Dental, vision, and hearing benefits are also extended to all retirees and their beneficiaries, for which retirees pay 10% of the health premiums.