Michigan Judges' Retirement System

A Pension and Other Employee Benefit Trust Fund of the State of Michigan

Summary Annual Report for Fiscal Year 2013

Prepared by
The Office of Retirement Services
P.O. Box 30171
Lansing, MI 48909-7671

(517) 322-5103
(800) 381-5111

About the Michigan Judges' Retirement System

This report is in compliance with Public Act 314 of 1965, as amended. The contents came from the complete Michigan Judges' Retirement System 2013 Comprehensive Annual Financial Report (CAFR), an existing public data source available on our website at **www.michigan.gov/orsjudgesdb**, and additional analysis performed after September 30, 2013.

The Michigan Judges' Retirement System serves 553 retirees receiving monthly benefits, and 166 active members. State judge pensions are protected by Michigan's Constitution. The System's net assets are held in trust to meet future benefit payments.

The State Treasurer is the investment fiduciary and custodian of all investments of the System pursuant to State law.

Michigan Judges' Retirement System Service Providers

A service provider is any individual, third-party agent or consultant, or other entity that receives direct or indirect compensation for consulting, investment management, brokerage, or custody services related to the system's assets.

Accel
Advent
Aetos Capital
AEW Capital Management
Affinity
Alliance Bernstein
Ambassador Capital Management
Apax
Apollo Capital Management
Apollo Global Management
Arboretum
Ares
Argus
Artisan Partners
Attucks Asset Management
Austin Ventures
Avanath Capital Management
Avenue International
AXA
Axiom-Asia
Baillie Gifford Funds
Bain Capital
Balfour Beatty Group
Banc Funds
Bank of America/Merrill
Bank of Montreal
Barclays Capital
Battery Ventures
BB&T Capital Markets
BC European Capital
Beacon Capital Partners
Bentall Kennedy
Berkshire
BGC Partners
Bivium Capital Partners
BlackRock Inc.
Blackstone Alternative Asset Management
Blackstone Group
BMO Capital Markets
BNP Paribas
BNY Convergex
BOSC Inc.
Brevan Howard Asset Management
Bridgepoint
Brockway Moran & Partners
BTIG
Cantor Fitzgerald & Co.
Capital Institutional Services Inc.
Capri Capital Partners
Cargill Inc.
Carlyle
Castle Harlan
CCMP
Champlain Investment Partners
CIM Group
Citigroup Global Markets
Clarion Partners
Clarus
Clearstone
CMEA
Cobalt Capital Partners
Coller Capital
Columbia Management Investment Advisors
Cowen & Co.
Cramer Rosenthal McGlynn
Credit Suisse Group
Credit Suisse/DLJ
Crescent
Czech Asset Management
D.A. Davidson & Co.
Dalmore Capital Limited
Deutsche Bank
Devon Self Storage
Dodge & Cox
Domain Capital Advisors
Donald Smith & Company
Doughty Hanson
Dover Street
Drexel Hamilton
Edens Limited Partnership
EDF Ventures
Edgewood Management
Elliott Management Corp
EnTrust Capital
Epoch Investment Partners
Essex Woodlands
First Tennessee Financial
FirstMark Capital
Fisher Investments Institutional Group
Five Star Realty Partners
Flagship Ventures

Michigan Judges' Retirement System Service Providers, continued

Ford
Fortress Investment Group
Fox Paine
Frontenac
FrontPoint Partners
Gateway Capital
GE Capital
Gilford Securities
Glencoe
Globespan
Goldman Sachs
Green Equity Investors
Grotech
GSO
H.I.G.
Harbourvest
Healthcare Ventures
Heitman Capital Management
Highbridge Principal Strategies
Hopen Life Sciences Ventures
HSBC
Huntington Investment Company
Huron
InterWest Partners
Int'l Strategy Investment
Invesco Ltd.
JAFCO
JP Morgan Chase
JP Morgan Investment Management
JP Morgan Securities
KBS Realty Advisors
Kelso
Kensington Realty Advisors
Kevin Miller
Khosla
Kohlberg Kravis Roberts & Co
L&B Realty Advisors
Landmark Realty Advisors
LaSalle Investment Management
Lightspeed Venture Partners
Lion Capital
Lloyds Banking Group
Long Point Capital
Loomis Sayles & Company
Los Angeles Capital Management
Lowe Enterprises Investment Management
LSV Asset Management
Marathon London
Mastic Group
Matlin Patterson Global Advisors
Menlo Ventures
Meritech
Merrill Lynch Pierce Fenner & Smith LLC
Mesirow Financial
Metropolitan West Asset Management
MFR Securities
MFS Institutional Advisors
Mischler Financial Group
Morgan Stanley
MPM
Multi-Bank Securities
Munder Capital Management
New Leaf Ventures
Nordic Capital
North Castle Partners
NorthPointe Capital
NV Partners
Oak Investment Partners
Oaktree
Off the Record (OTR Global)
One Liberty
Oppenheimer
Orion/Red Kite
OTA Ltd Partnership
P. Schoenfeld Asset Management
Paine & Partners
Paladin Realty Partners
Parallel Resource Partners
Parthenon
Peninsula
Permira
Philadelphia Financial Life Assurance Company
Phoenix Equity Partners
Primus
Principal Capital
Principal Financial Group
Property & Portfolio Research, Inc
Proprium Capital Partners
Providence Equity Partners
Prudential Investment Management
Pyramis Global Advisors
Questor
Raymond James & Associates
RBC Capital Markets
Renaissance Venture Capital
RFE
Rialto Capital
Ridgewood Energy
Riverside
RV Kuhns
RW Baird
RW Pressprich & Co.
Sanford C. Bernstein Co.
Seizert Capital Partners
SG Americas (Societe Generale)
Silver Lake
Societe Generale
Southwest Securities
Sprout
State Street Bank
State Street Global Advisors
Sterne Agee
Stifel Nicolaus & Co.
Stockbridge Capital Group
Sun Trust, Robinson, Humphrey
TCW
Templeton International Trust Fund
The John Buck Company
The Shansby Group
TPG
Trilantic
True North Management Group
Tullis Dickerson
UBS Financial Services
UBS Securities
Unitas
Warburg Pincus
Wayne Co.
Weiss, Peck & Greer
Wellington Management Company
Wellington Trust Company
Wells Fargo & Company
Wells Fargo Securities LLC
WestAm
Western National Group
Williams Capital Group
Windpoint
Winnington Capital Limited
Woodcreek Capital Management

Membership

Members of this system were elected or appointed before March 31, 1997, unless they elected to transfer to the Defined Contribution (DC) Plan. This includes the Governor, Lieutenant Governor, Secretary of State, Attorney General, Legislative Auditor General, and the Constitutional Court Administrator.

Plan Membership and Retirement Allowances as of September 30, 2013

Membership	FY 2013
Retirees and Beneficiaries Currently Receiving Benefits	
Regular Benefits	370
Survivor Benefits	177
Disability Benefits	6
Total	**553**
Current Employees	
Vested	166
Non-vested	-
Total	**166**
Inactive Employees	
Entitled to benefits and not yet receiving them	8
Total All Members	**727**

Source: CAFR for the Fiscal Year ended September 30, 2013, p. 22.

Retirement Allowances		FY 2013
Average annual retirement allowance	$	40,260
Total annual retirement allowances being paid	$	22,304,141

Source: Actuarial Valuation for the Fiscal Year ended September 30, 2013.

Benefit Structures

Members elected or appointed before March 31, 1997, and did not choose to transfer to the Defined Contribution (DC) plan under Public Act 487 of 1996, are in the Defined Benefit (DB) plan.

Effective March 31, 1997, Public Act 487 of 1996 closed the DB plan to new members. All newly elected or appointed members are in the DC plan.

Assets & Liabilities*

System total assets as of September 30, 2013, were $273 million and were mostly comprised of cash, investments, and contributions due from employers.

Total liabilities as of September 30, 2013, were $20 million and were comprised of accounts payable, deferred revenue, and obligations under securities lending.

System assets exceeded its liabilities at the close of fiscal year 2013 by $253 million. Total net assets held in trust for pension and Other Post-Employment Benefits (OPEB) increased $7.3 million from the previous year, primarily due to net investment gains.**

Assets & Liabilities
(combined pension and healthcare)

Assets	FY 2013*	FY 2012**
Cash	$ 2,752,043	$ 2,714,842
Receivables	127,798	151,280
Securities Lending Collateral	15,637,382	19,535,974
Investments	254,964,447	243,803,356
Total Assets	**$ 273,481,670**	**$ 266,205,452**

Liabilities	FY 2013*	FY 2012**
Accounts Payable and Other Liabilities	$ 38,687	$ 157,601
Obligations Under Securities Lending	19,897,484	25,168,640
Total Liabilities	**$ 19,936,171**	**$ 25,326,240**
Net Assets	**$ 253,545,499**	**$ 240,879,212**

**Source: CAFR for the Fiscal Year ended September 30, 2013, p. 20.*

***Source: CAFR for the Fiscal Year ended September 30, 2012, p. 20.*

** Liabilities in this context are exclusive of Unfunded Accrued Actuarial Liabilities (UAAL) for pension and health.*

*** Source: CAFR for the Fiscal Year ended September 30, 2013, p. 17.*

Revenue and Expenditures

The reserves needed to finance pension and OPEB are accumulated through the collection of employer and employee contributions and through earnings on investments. Contributions and net investment income for fiscal year 2013 totaled approximately $35.6 million.

The primary expenses of the System include the payment of pension benefits to members and beneficiaries, payment for health, dental and vision benefits, refund of contributions to former members, and the cost of administering the System.*

Additions & Deductions
(combined pension and healthcare)

Additions		FY 2013*		FY 2012**
Member Contributions	$	1,641,750	$	1,875,991
Employer Contributions		54,834		-
Net Investment Income (loss)		31,092,830		34,805,165
Court Fees and Misc. Income		2,804,684		1,212,132
Total Additions	**$**	**35,594,098**	**$**	**37,893,288**

Deductions		FY 2013*		FY 2012**
Benefit Payments	$	21,969,650	$	20,792,225
Health, Dental, & Vision Benefits		523,943		544,349
Transfers & Refunds		10		90
Administrative Expenses		434,208***		242,398***
Total Deductions	**$**	**22,927,811**	**$**	**21,579,063**
Beginning of Year Assets	$	240,879,212	$	224,564,987
End of Year Net Assets	$	253,545,499	$	240,879,212

** Source: CAFR for the Fiscal Year ended September 30, 2013, p. 21.*

*** Source: CAFR for the Fiscal Year ended September 30, 2012, p. 21.*

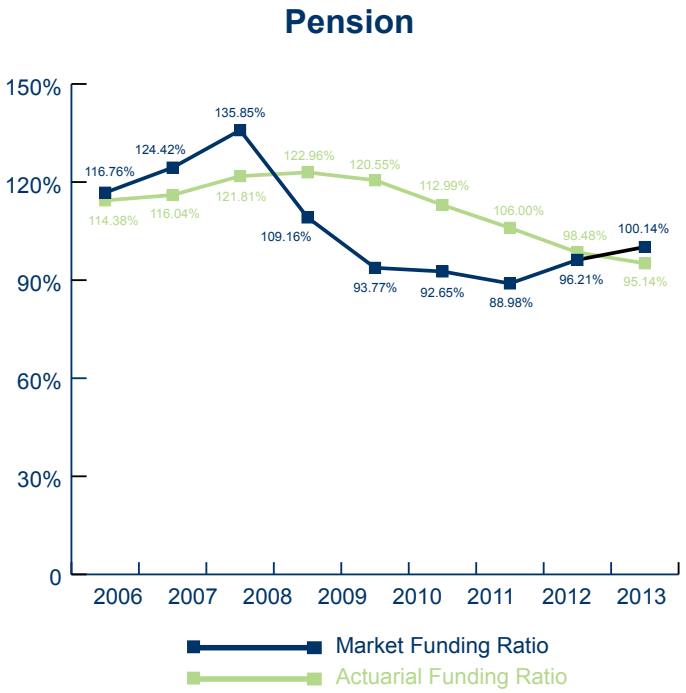
**** Reflects participation in federal programs that provide a federal subsidy for eligible healthcare claims, producing a net overall savings to the System.*

** Source: CAFR for the Fiscal Year ended September 30, 2013, p. 18.*

Market Funded Ratios & Actuarial Funded Ratios

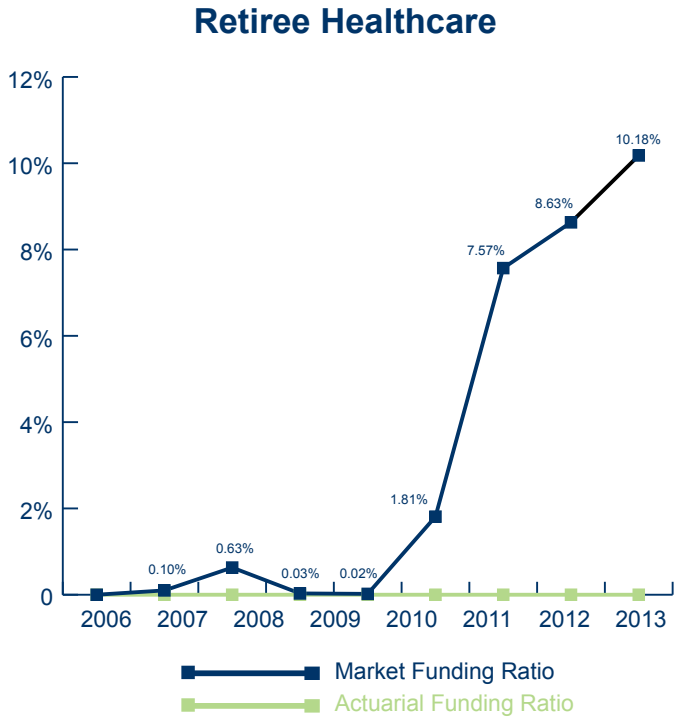
Pension

The market funding ratio is based only on the market value of assets at fiscal year end. The actuarial funding ratio incorporates a 5-year "smoothing" period that reduces volatility. The actuarial funding ratio is the common metric used by all pension plans nationwide. This smoothing process is used by almost every retirement system in the country; it helps avoid volatility in the pension systems' funding requirements. As the economy improves, the funding ratio will also improve.



Retiree Healthcare

Currently, the system is funded on a pay-as-you-go basis. While there are some assets set aside, these are counted in the market value, but not the actuarial value.



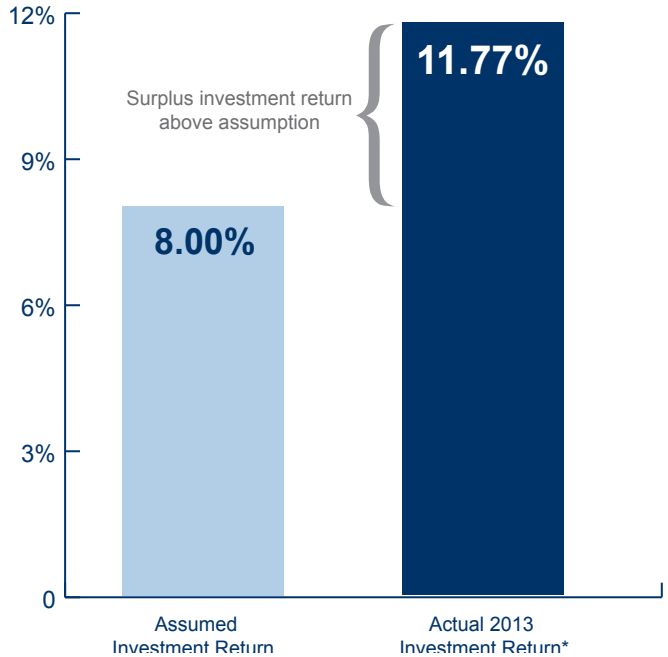
Source: CAFR for the Fiscal Year ended September 30, 2013, p. 20, 40

Discount Rates and Actual Investment Return

The State Treasurer administers all of the System's investments in accordance with the Public Employee Retirement System Investment Act, Public Act 314 of 1965. The main objective is maximizing the rate of return while meeting the actuarial assumptions through maintaining a diverse portfolio, eliminating unnecessary risks, and investing prudently.

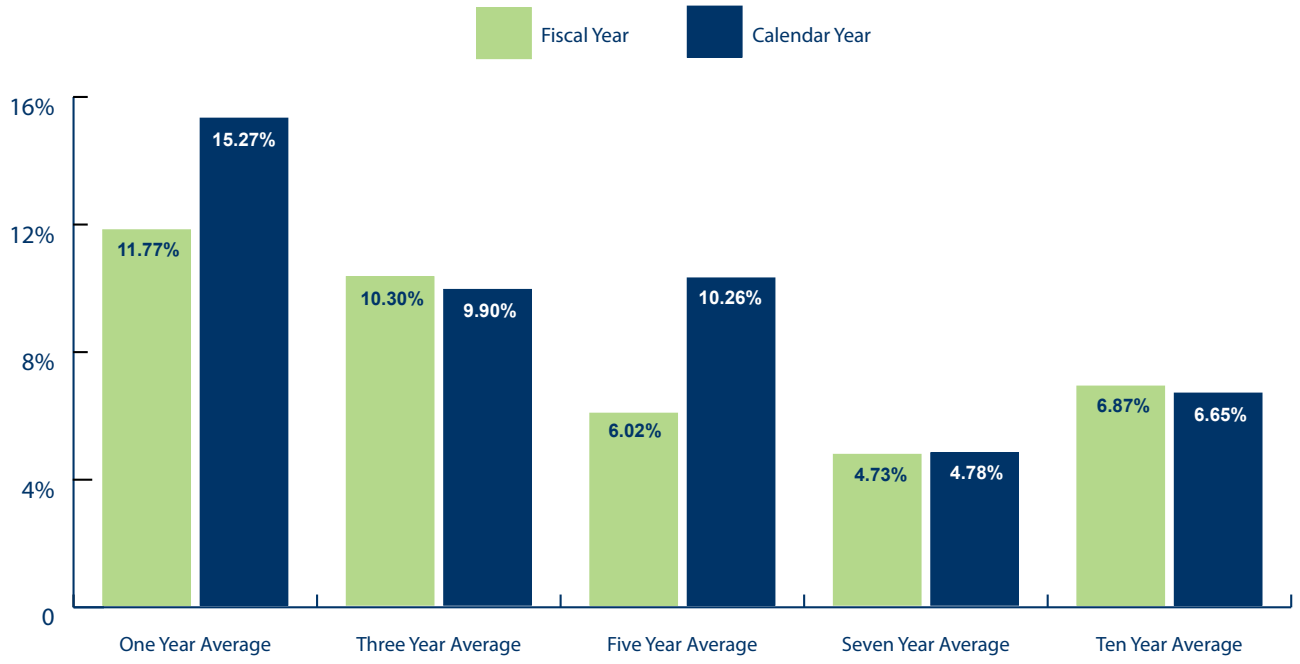
Contribution rates are determined by actuaries based in part on an assumed investment return each year. When investments exceed the assumed rates of return, as they did in 2013, this results in a gain for the System. The actual rate of investment return in FY 2013 was 11.77 percent*, which is greater than the assumed rate of return.

Investment Return Assumed and Actual
for Fiscal Year 2013



Source: CAFR for the Fiscal Year ended September 30, 2013, p. 49

Historical Investment Returns
as of Fiscal Year 2013



** These figures are shown net of fees. Information shown in the CAFR is shown gross of fees.*

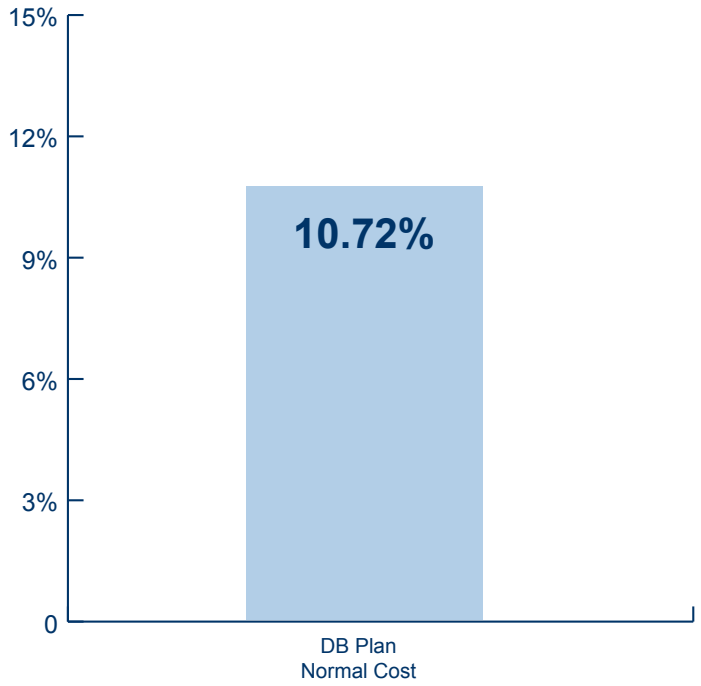
Member and Employer Contributions

Definition of Normal Cost

Normal Cost is the actual cost of the retirement benefit a member earns each year, and is set using the assumed rate of investment return in addition to other actuarial assumptions. After member contributions are accounted for, the employer pays the remainder of the Normal Cost as shown here.

Employer Pension Normal Cost Contribution Rates

for Fiscal Year 2014*



** Based on 2013 Actuarial Valuation. Computed contributions are displayed as annual dollar amounts in the actuarial valuation. The Retirement System is closed to new judges and as a result, contributions expressed as percentages of active member payroll are not useful.*

Member and Employer Pension Contributions	
Member Contributions	**Based on FY 2013 Actuarial Valuation**
Weighted Average	5.73%
Employer Contributions	**Based on FY 2013 Actuarial Valuation**
Computed Normal Cost of benefits expressed as a percentage of valuation payroll	10.72%*
UAAL contribution rate expressed as a percentage of valuation payroll	6.14%*
Valuation Payroll	$ 18,523,224

**Computed contributions are displayed as annual dollar amounts in the actuarial valuation. The Retirement System is closed to new judges and as a result, contributions expressed as percentages of active member payroll are not useful.*

Receipt of Employer Contributions

There are two public sources which fund retirement benefits: Court fees and State appropriations. 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.

2013 Pension Plan Expenditures

Pension Plan Expenses for Fiscal Year Ended September 30, 2013			
Administrative and Other Expenses		**Dollars**	**% of Total**
These expenditures are the administrative costs of running the retirement system, and are paid by DTMB - Office of Retirement Services and DTMB - Financial Services through an annual appropriation.			
Personnel Services			
Staff Salaries	$	227,868	0.96238%
Retirement and Social Security		6,224	0.02629%
Other Fringe Benefits		2,233	0.00943%
Total		**$236,325**	**0.99809%**
Professional Services			
Accounting		$2,368	0.01000%
Actuarial		30,213	0.12760%
Attorney General		8,876	0.03749%
Audit		39,650	0.16746%
Consulting		19,833	0.08376%
Total	**$**	**100,940**	**0.42631%**
Building and Equipment			
Building Rentals		$1,666	0.00704%
Equipment Purchase, Maintenance, and Rentals		108	0.00046%
Total	**$**	**1,774**	**0.00749%**
Miscellaneous			
Travel and Board Meetings (Excluding Travel and Education for Board Members)		$220	0.00093%
Office Supplies		86	0.00036%
Postage, Telephone, and Other		4,651	0.01964%
Printing		871	0.00368%
Technological Support		14,163	0.05982%
Subtotal	**$**	**19,989**	**0.08442%**
Travel and Education for Board Members	$	-	-
Total	**$**	**19,989**	**0.08442%**
Total Administrative and Other Expenses	**$**	**359,028**	**1.51632%**
Health, Dental & Vision Fees		**Dollars**	**% of Total**
These expenditures are for self-insurance of the health, dental, and vision plans, and are paid from the retirement system's trust fund.			
Staff Salaries	$	45,710	0.19305%
Health Fees		24,918	0.10524%
Dental Fees		3,496	0.01476%
Vision Fees		1,056	0.00446%
Total Health, Dental & Vision Fees	**$**	**75,180**	**0.31751%**
Investment Expenses		**Dollars**	**% of Total**
These expenditures are related to the Department of Treasury (Bureau of Investments) for managing the retirement system's assets, and are paid from the retirement system's trust fund.			
Real Estate Operating Expenses	$	6,916	0.02921%
Securities Lending Expenses		60,943	0.25739%
Other Investment Expenses			
ORS-Investment Expenses		78,642	0.33214%
Custody Fees		4,810	0.02031%
Management Fees		584,651	2.46921%
Research Fees		13,653	0.05766%
Total Investment Expenses	**$**	**749,615**	**3.16592%**
Benefits Paid to Members		**Dollars**	**% of Total**
These are the actual retirement benefits paid to members of the retirement system.			
Retirement Benefits	$	21,969,650	92.78638%
Health Benefits		379,741	1.60379%
Dental/Vision Benefits		144,202	0.60902%
Refunds of Member Contributions		10	0.00004%
Total Payments to Members	**$**	**22,493,603**	**94.99924%**
Soft Dollar Expenses		**Dollars**	**% of Total**
These expenditures are for research provided by the retirement system's service providers, and are incorporated into the brokerage fees and commissions.			
Bass Trading Int'l Group (BTIG)			
The Wall Street Transcript	$	15	0.00006%
Gary Schilling Newsletter		2	0.00001%
Grant's Interest Rate Observer		3	0.00001%
Macro Mavens Newsletter		190	0.00080%
Welling on Wall Street		29	0.00012%
Total Soft Dollar Expenditures	**$**	**239**	**0.00101%**

**Source: CAFR for the Fiscal Year ended September 30, 2013, p. 43, 44.*

2014 Budget for Pension Plan Expenditures

Budget for Pension Plan Expenses for Fiscal Year Ending September 30, 2014			
Administrative and Other Expenses		**Dollars**	**% of Total**
These expenditures are the administrative costs of running the retirement system, and are paid by DTMB - Office of Retirement Services and DTMB - Financial Services through an annual appropriation.			
Personnel Services			
Staff Salaries	$	126,276	0.51815%
Retirement and Social Security		29,793	0.12225%
Other Fringe Benefits		89,184	0.36595%
Total	**$**	**245,253**	**1.00635%**
Professional Services			
Accounting	$	1,876	0.00770%
Actuarial		30,200	0.12392%
Attorney General		8,376	0.03437%
Audit		41,655	0.17092%
Consulting		19,800	0.08125%
Total	**$**	**101,907**	**0.41815%**
Building and Equipment			
Building Rentals	$	1,700	0.00698%
Equipment Purchase, Maintenance, and Rentals		100	0.00041%
Total	**$**	**1,800**	**0.00739%**
Miscellaneous			
Travel and Board Meetings (Excluding Travel and Education for Board Members)	$	250	0.00103%
Office Supplies		100	0.00041%
Postage, Telephone, and Other		4,700	0.01929%
Printing		900	0.00369%
Technological Support		15,000	0.06155%
Subtotal	**$**	**20,950**	**0.08596%**
Travel and Education for Board Members	$	-	-
Total	**$**	**20,950**	**0.08596%**
Total Administrative and Other Expenses	**$**	**369,910**	**1.51785%**
Health, Dental & Vision Fees		**Dollars**	**% of Total**
These expenditures are for self-insurance of the health, dental, and vision plans, and are paid from the retirement system's trust fund.			
Staff Salaries	$	47,213	0.19373%
Health Fees		26,105	0.10712%
Dental Fees		3,662	0.01503%
Vision Fees		1,085	0.00445%
Total Health and Dental Fees	**$**	**78,065**	**0.32032%**
Investment Expenses		**Dollars**	**% of Total**
These expenditures are related to the Department of Treasury (Bureau of Investments) for managing the retirement system's assets, and are paid from the retirement system's trust fund.			
Real Estate Operating Expenses	$	7,262	0.02980%
Securities Lending Expenses		63,990	0.26257%
Other Investment Expenses			
ORS-Investment Expenses		89,961	0.36914%
Custody Fees		5,852	0.02401%
Management Fees		613,884	2.51894%
Research Fees		14,336	0.05882%
Total Investment Expenses	**$**	**795,284**	**3.26328%**
Benefits Paid to Members		**Dollars**	**% of Total**
These are the actual retirement benefits paid to members of the retirement system.			
Retirement Benefits	$	22,586,757	92.68011%
Health Benefits		435,366	1.78643%
Dental/Vision Benefits		105,045	0.43103%
Total Payments to Members	**$**	**23,127,168**	**94.89758%**
Soft Dollar Expenses		**Dollars**	**% of Total**
These expenditures are for research provided by the retirement system's service providers, and are incorporated into the brokerage fees and commissions.			
Bass Trading Int'l Group (BTIG)			
The Wall Street Transcript	$	15	0.00006%
Gary Schilling Newsletter		2	0.00001%
Macro Mavens Newsletter		190	0.00078%
Welling on Wall Street		29	0.00012%
Total Soft Dollar Expenditures	**$**	**236**	**0.00097%**

Actuarial Assumptions

Actuarial valuations for both the pension and 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.

Actuarial Assumptions for Fiscal Year Ending September 30, 2013	
Valuation Date	9/30/2012
Actuarial Cost Method	Entry Age, Normal
Amortization Method - Pension	Level Dollar, Closed
Amortization Method - OPEB	Level Percent of Payroll, Closed
Remaining Amortization Period - Pension	24 Years*
Remaining Amortization Period - OPEB	24 Years*
Asset Valuation Method - Pension	5-Year Smoothed Market
Asset Valuation Method - OPEB	Market
Actuarial Assumptions	**FY 2013**
Wage Inflation Rate	3.5%
Investment Rate of Return - Pension	8.0%
Investment Rate of Return - OPEB	4.0%
Projected Salary Increases	4.0%
Cost-of-Living Pension Adjustments	Assumed 4.0% compounded for those eligible
Healthcare Cost Trend Rate	9.0% Year 1 graded to 3.5% Year 10
Other Assumptions OPEB Only	**FY 2013**
Opt Out Assumption	0% of eligible participants are assumed to opt out of the retiree health plan
Survivor Coverage	75% of male retirees and 60% of female retirees are assumed to have coverage continuing after the retiree's death
Coverage Election at Retirement	75% of male and 60% of female future retirees are assumed to elect coverage for 1 or more dependents

**Based on the provision of GASB Statement Nos. 25, 43 and 45 when the actuarial accrued liability for a defined benefit pension plan is underfunded or overfunded, the difference should be amortized over a period not to exceed thirty years for the fiscal periods beginning on or after June 15, 2006.*

Source: CAFR for the Fiscal Year ended September 30, 2013, p. 30.

Office Closures

May 26 – Memorial Day
July 4 – Independence Day
September 1 – Labor Day

Our website is available seven days a week, even when our office is closed: **www.michigan.gov/orsjudgesdb**

Office of Retirement Services (ORS)
P.O. Box 30171
Lansing, MI 48909-7671
www.michigan.gov/ors
www.michigan.gov/orsmiaccount

Office of Retirement Services
Director Phil Stoddard

Printed by authority of 1965 P.A. 314, as amended.