

Michigan Judges' Retirement System

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

Summary Annual Report for Fiscal Year 2014



Prepared by
The Office of Retirement Services
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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 2014 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, 2014.

The Michigan Judges' Retirement System serves 554 retirees receiving monthly benefits, and 154 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	Bivium Capital Partners	Cramer Rosenthal McGlynn
Advent	BlackRock Inc.	Credit Suisse Securities, LLC
AEW Capital Management	Blackstone Group	Credit Suisse/DLJ
Affinity	BNP Paribas	Crescent
Apax	BNY ConvergeX	DA Davidson & Co.
Apollo Global Management	Bridgepoint	Dalmore Capital Limited
Arboretum	Brockway Moran & Partners	Deutsche Bank
Ardian	Brookfield Asset Management Inc	Devon Self Storage
Ares	BTIG, Inc	Dodge & Cox
Argus	Capital Institutional Services	Domain Capital Advisors
Attucks Asset Management	Capri Capital Partners	Doughty Hanson
Austin Ventures	Carlyle	Dover Street
Avanath Capital Management	Castle Harlan	Drexel Hamilton
Avenue International	CCMP	Edens Limited Partnership
AXA	Centerbridge Capital Partners	EDF Ventures
Axiom-Asia	Cerberus	Essex Woodlands
Baillie Gifford International, LLC	CIM Group	First Tennessee Financial
Balfour Beatty Group	Citigroup Global Markets, Inc.	FirstMark Capital
Banc Funds	Clarion Partners	Fisher Investments
Bank of America/Merrill	Clarkston Capital Partners	Five Star Realty Partners
Bank of Montreal	Clarus	Flagship Ventures
Barclay's Capital	Clearstone	Fox Paine
Battery Ventures	CMEA	Franklin Templeton
BB&T Capital Markets	Cobalt Capital Partners	Freeman Spogli Equity Partners
BC European Capital	Coller Capital	Frontenac
Beacon Capital Partners	Columbia Management Investment	Gateway Capital
Bentall Kennedy	Advisors	GE Capital
Berkshire	CoStar Realty Information Inc.	Glencoe
BGC Partners	Cowen Group	Globespan

Michigan Judges' Retirement System Service Providers, continued

Goldman Sachs	MFR Securities	Silver Lake
Green Equity Investors	MFS Institutional Advisors	Societe Generale
Grosvenor Capital Management	Mischler Financial Group	Southwest Securities
Grotech	Morgan Stanley	Sprout
GSO	MPM	State Street Bank
GW Capital, Inc.	Multi-Bank Securities	State Street Global Advisors
H.I.G.	New Leaf Ventures	Sterne Agee
Harbourvest	Nordic Capital	Stifel Nicolaus & Co
Healthcare Ventures	North Castle Partners	Stockbridge Capital Group
Heitman Capital Management	NorthPointe Capital	Stonepeak Advisors LLC
Henderson Global Investors	NV Partners	Sun Trust, Robinson, Humphrey
Hewitt Ennis Knupp	Oak Investment Partners	Susquehanna Intl Group
Huron	Oaktree	T Rowe Price Associates, Inc
Insight Venture Partners	One Liberty	TCW
InterWest Partners	OTA Ltd Partnership	The John Buck Company
Invesco Ltd	Paine & Partners	The Shansby Group
JAFCO	Paladin Realty Partners	TPG
JP Morgan Chase	Parthenon	Trilantic
JP Morgan Investment Management	Peninsula	True North Management Group
KBS Realty Advisors	Permira	Tullis Dickerson
Kelso	Philadelphia Financial Life Assurance Company	Turnbridge Capital Partners
Kensington Realty Advisors	Phoenix Equity Partners	UBS Securities
Kevin Miller Financial Services	Piper Jaffray	Unitas
Khosla	Primus	US Bank
KKR	Principal CMBS	Veritas Capital Partners
Kohlberg Kravis Roberts & Co	Principal Financial Group	Victory Capital Management
L&B Realty Advisors	Proprium Capital Partners	Vista Equity Partners
Landmark Realty Advisors	Providence Equity Partners	Warburg Pincus
LaSalle Investment Management	Prudential Investment Management	Wayne Co
Lazard Asset Management	Public Pension Capital	Weiss, Peck & Greer
Lightspeed Venture Partners	Pyramis Global Advisors	Wellington Management Company
Lion Capital	Questor	Wells Fargo Securities LLC
Lloyds Banking Group	Raymond James & Assoc	WestAm
Long Point Capital	RBC Capital Markets	Western National Group
Loomis Sayles & Company	RBS Greenwich	Windpoint
Los Angeles Capital Management	RFE	Winnington Capital Limited
Lowe Enterprises Investment Management	Rhone Partners	
Marathon Asset Management	Rialto Capital	
Matlin Patterson	Riverside	
Menlo Ventures	RW Baird	
Meritech	RW Pressprich & Co	
Merrill Lynch Pierce Fenner & Smith	Sanford C. Bernstein & Co, Inc.	
Mesirow Financial Inc	Seizert Capital Partners	
Metropolitan West Asset Management	SG Americas	

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, 2014	
Membership	FY 2014
Retirees and Beneficiaries Currently Receiving Benefits	
Regular Benefits	365
Survivor Benefits	183
Disability Benefits	6
Total	554
Current Employees	
Vested	154
Non-vested	-
Total	154
Inactive Employees	
Entitled to benefits and not yet receiving them	7
Total All Members	715
<i>Source: CAFR for the Fiscal Year ended September 30, 2014, p. 23.</i>	
Retirement Allowances	FY 2014
Average annual retirement allowance	\$ 40,482
Total annual retirement allowances being paid	\$ 22,426,801
<i>Source: Actuarial Valuation for the Fiscal Year ended September 30, 2014.</i>	

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, 2014, were \$292.5 million and were mostly comprised of cash, investments, and contributions due from employers.

Total liabilities as of September 30, 2014, were \$20.4 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 2014 by \$272.1 million. Total net assets held in trust for pension and Other Post-Employment Benefits (OPEB) increased \$18.6 million from the previous year, primarily due to net investment gains.**

Assets & Liabilities (in thousands) <i>(combined pension and healthcare)</i>			
Assets	FY 2014*		FY 2013**
Cash	\$	5,041	\$ 2,752
Receivables		166	128
Securities Lending Collateral		19,673	15,637
Investments		267,639	254,964
Total Assets	\$	292,519	\$ 273,482
Liabilities	FY 2014*		FY 2013**
Accounts Payable and Other Liabilities	\$	40	\$ 39
Obligations Under Securities Lending		20,359	19,897
Total Liabilities	\$	20,399	\$ 19,936
Net Assets	\$	272,119	\$ 253,545

*Source: CAFR for the Fiscal Year ended September 30, 2014, pg. 20
**Source: CAFR for the Fiscal Year ended September 30, 2013, pg. 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, 2014, p. 17.

Revenue and Expenditures

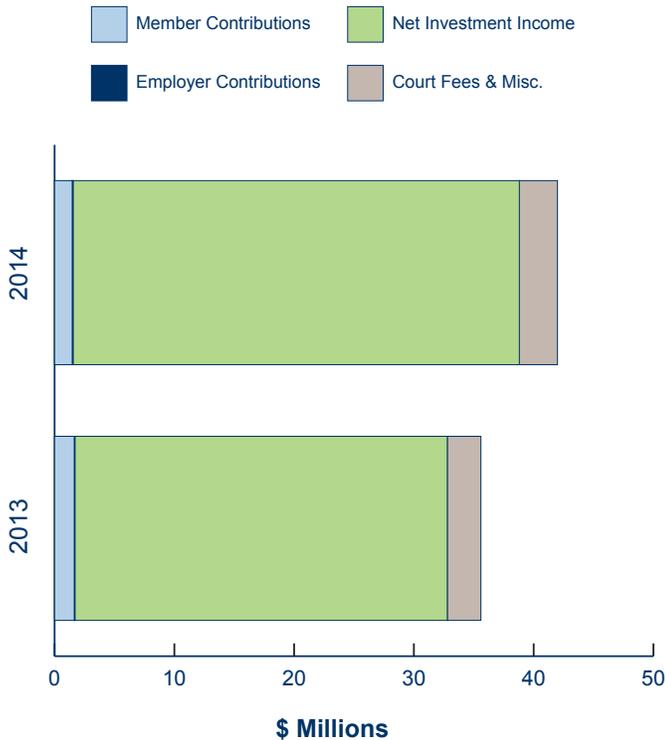
The reserves needed to finance pension and OPEB are accumulated through the collection of employer and employee contributions and through earnings on investments. Contributions and net investment income for fiscal year 2014 totaled approximately \$42 million.

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.*

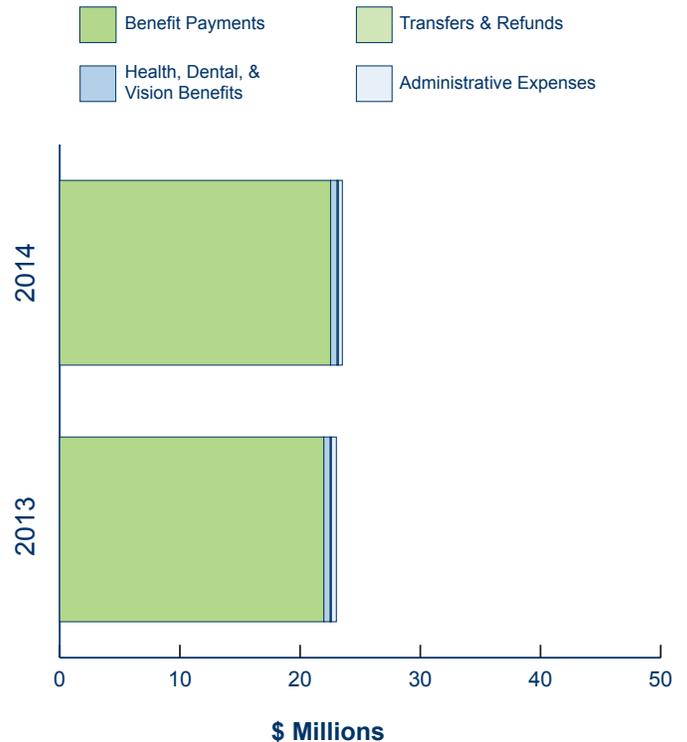
Additions & Deductions (in thousands) (combined pension and healthcare)				
Additions	FY 2014*		FY 2013**	
Member Contributions	\$	1,472	\$	1,642
Employer Contributions		69		55
Net Investment Income (loss)		37,264		31,093
Court Fees and Misc. Income		3,184		2,805
Total Additions	\$	41,988	\$	35,594
Deductions	FY 2014*		FY 2013**	
Benefit Payments	\$	22,536	\$	21,970
Health, Dental, & Vision Benefits		530		524
Transfers & Refunds		-		0
Administrative Expenses		348***		434***
Total Deductions	\$	23,414	\$	22,928
Beginning of Year Assets	\$	253,546	\$	240,879
End of Year Net Assets	\$	272,120	\$	253,546

* Source: CAFR for the Fiscal Year ended September 30, 2014, p. 21.
 ** Source: CAFR for the Fiscal Year ended September 30, 2013, p. 21.
 *** Reflects participation in federal programs that provide a federal subsidy for eligible healthcare claims, producing a net overall savings to the System.

Revenue



Expenditures

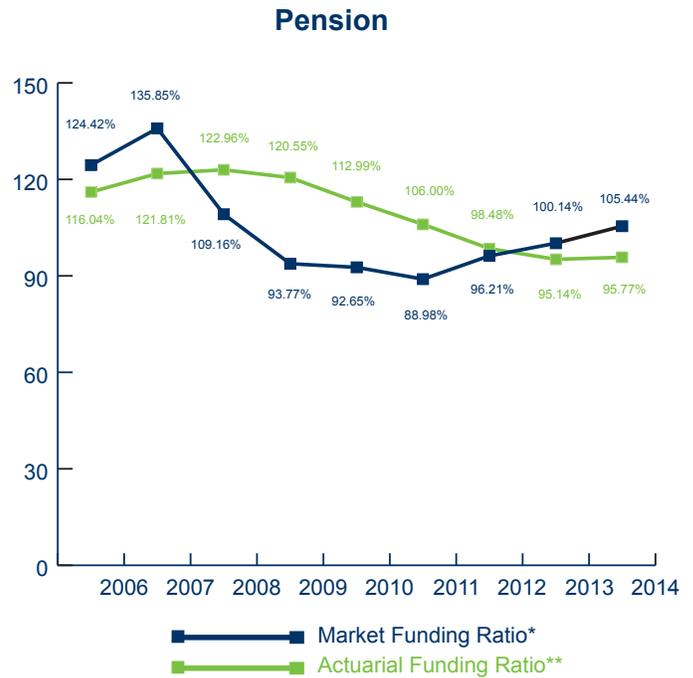


* Source: CAFR for the Fiscal Year ended September 30, 2014, p. 18.

Market Funded Ratios & Actuarial Funded Ratios

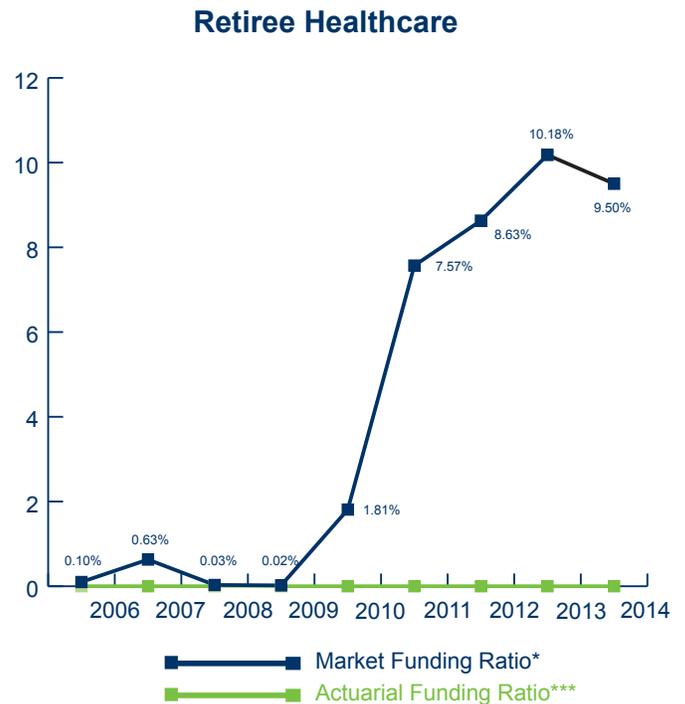
Pension

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.



*Calculated on Market Value of Assets.

**Source: CAFR for the Fiscal Year ended September 20, 2014, p. 89.

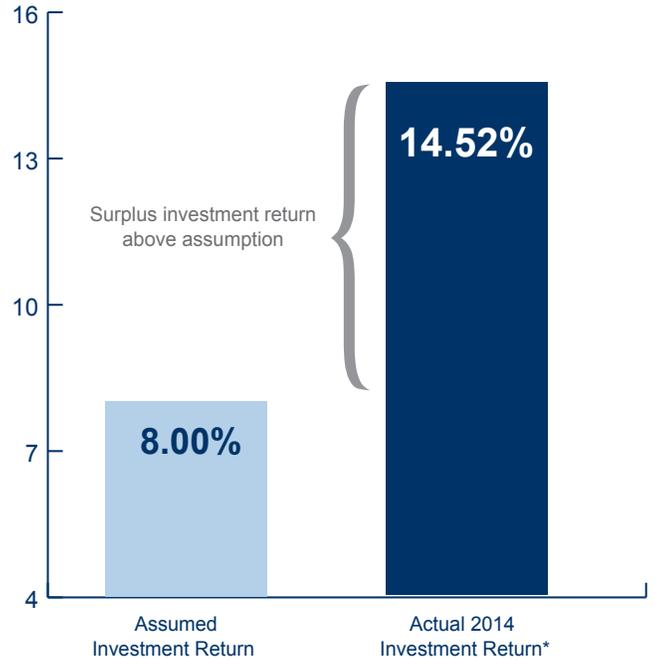
***Source: CAFR for the Fiscal Year ended September 20, 2014, p. 43

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.

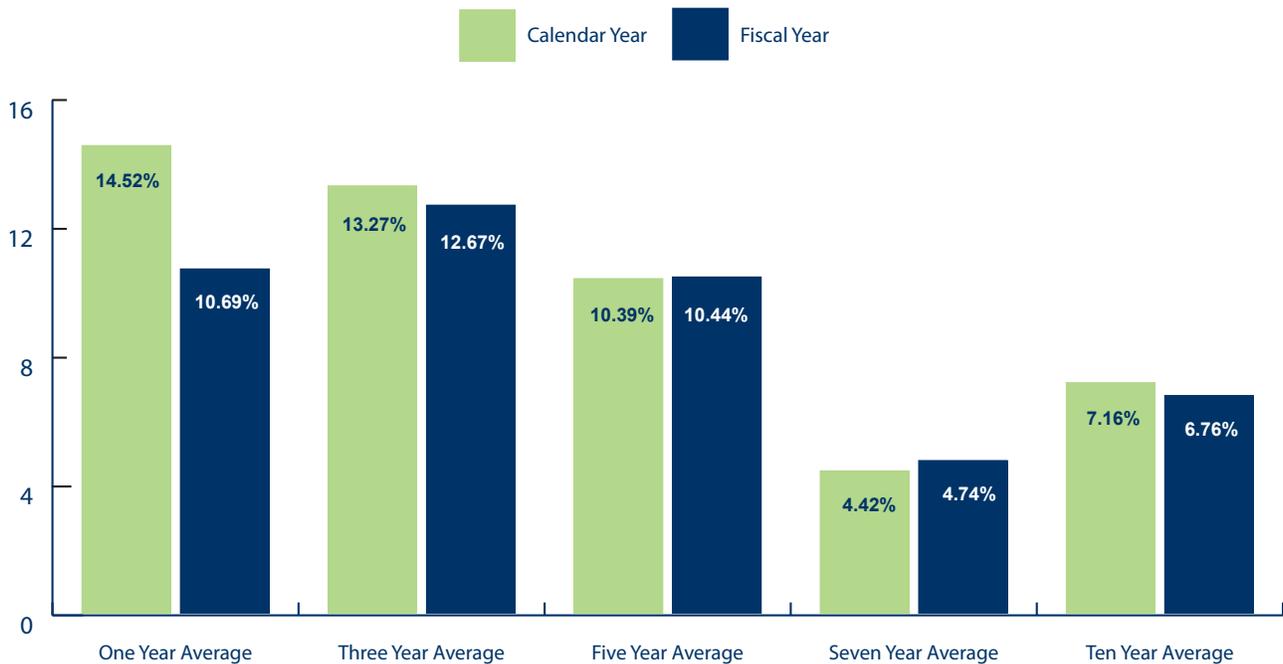
Contribution rates are determined by actuaries based in part on an assumed investment return each year. When investments exceed the assumed rates of return, as they did in 2014, this results in a gain for the System. The actual rate of investment return in FY 2014 was 14.52 percent*, which is greater than the assumed rate of return.

Investment Return Assumed and Actual for Fiscal Year 2014



*Source: CAFR for the Fiscal Year ended September 30, 2014, p. 53

Historical Investment Returns as of Fiscal Year 2014



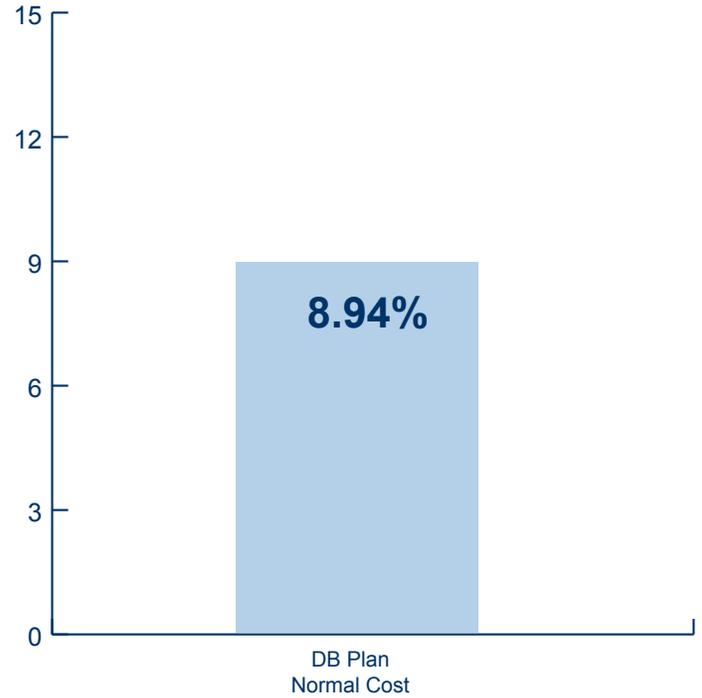
* These figures are shown net of fees. Information shown in the CAFR is shown gross of fees.

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 2015*



** Based on 2014 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 2014 Actuarial Valuation
Weighted Average	5.78%
Employer Contributions	Based on FY 2014 Actuarial Valuation
Computed Normal Cost of benefits expressed as a percentage of valuation payroll	8.94%*
UAAL contribution rate expressed as a percentage of valuation payroll	5.86%*
Valuation Payroll	\$ 17,517,763

**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.

2014 Pension Plan Expenditures

Pension Plan Expenses for Fiscal Year Ended September 30, 2014		
Administrative and Other Expenses	Dollars	% of Total
<i>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.</i>		
Personnel Services		
Staff Salaries	\$ 168,989	0.68921%
Retirement and Social Security	6,693	0.02730%
Other Fringe Benefits	2,312	0.00943%
Total	\$ 177,994	0.72593%
Professional Services		
Accounting	\$ 2,162	0.00882%
Actuarial	29,784	0.12147%
Attorney General	9,468	0.03861%
Audit	41,655	0.16989%
Consulting	-	0.00000%
Total	\$ 83,069	0.33879%
Building and Equipment		
Building Rentals	\$ 1,309	0.00534%
Equipment Purchase, Maintenance, and Rentals	52	0.00021%
Total	\$ 1,361	0.00555%
Miscellaneous		
Travel and Board Meetings (Excluding Travel and Education for Board Members)	\$ 53	0.00022%
Office Supplies	59	0.00024%
Postage, Telephone, and Other	7,960	0.03246%
Printing	708	0.00289%
Technological Support	17,187	0.07010%
Subtotal	25,967	0.10590%
Travel and Education for Board Members	0	0.00000%
Total	25,967	0.10590%
Total Administrative and Other Expenses	\$ 288,391	1.17618%
Health, Dental & Vision Fees	Dollars	% of Total
<i>These expenditures are for self-insurance of the health, dental, and vision plans, and are paid from the retirement system's trust fund.</i>		
Staff Salaries	28,052	0.11441%
Health Fees	26,844	0.10948%
Dental Fees	3,660	0.01493%
Vision Fees	529	0.00216%
Total Health, Dental & Vision Fees	\$ 59,085	0.24097%
Investment Expenses	Dollars	% of Total
<i>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.</i>		
Real Estate Operating Expenses	\$ 12,312	0.05021%
Securities Lending Expenses	305,266	1.24500%
Other Investment Expenses		
ORS-Investment Expenses	77,204	0.31487%
Custody Fees	4,927	0.02009%
Management Fees	691,198	2.81899%
Research Fees	14,242	0.05808%
Total Investment Expenses	\$ 1,105,149	4.50725%
Benefits Paid to Members	Dollars	% of Total
<i>These are the actual retirement benefits paid to members of the retirement system.</i>		
Retirement Benefits	\$ 22,536,376	91.91262%
Health Benefits	410,344	1.67355%
Dental/Vision Benefits	119,840	0.48876%
Refunds of Member Contributions	-	0.00000%
Total Payments to Members	\$ 23,066,560	94.07493%
Soft Dollar Expenses	Dollars	% of Total
<i>These expenditures are for research provided by the retirement system's service providers, and are incorporated into the brokerage fees and commissions.</i>		
Bass Trading Int'l Group (BTIG)		
High Tech Strategist	\$ 0.36	0.00000%
Macro Mavens Newsletter	136	0.00055%
Welling on Wall Street	27	0.00011%
Total Soft Dollar Expenditures	\$ 164	0.00067%
*Source: CAFR for the Fiscal Year ended September 30, 2014, p. 48-50.		

2015 Budget for Pension Plan Expenditures

Budget for Pension Plan Expenses for Fiscal Year Ending September 30, 2015		
Administrative and Other Expenses	Dollars	% of Total
<i>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.</i>		
Personnel Services		
Staff Salaries	\$ 187,578	0.75016%
Retirement and Social Security	7,565	0.03025%
Other Fringe Benefits	2,612	0.01045%
Total	\$ 197,755	0.79086%
Professional Services		
Accounting	\$ 2,071	0.00828%
Actuarial	30,070	0.12026%
Attorney General	9,768	0.03906%
Audit	42,000	0.16797%
Consulting	0	0.00000%
Total	\$ 83,909	0.33557%
Building and Equipment		
Building Rentals	\$ 1,442	0.00577%
Equipment Purchase, Maintenance, and Rentals	94	0.00038%
Total	\$ 1,536	0.00614%
Miscellaneous		
Travel and Board Meetings (Excluding Travel and Education for Board Members)	\$ 61	0.00024%
Office Supplies	82	0.00033%
Postage, Telephone, and Other	9,525	0.03809%
Printing	635	0.00254%
Technological Support	15,514	0.06204%
Subtotal	\$ 25,817	0.10325%
Travel and Education for Board Members	\$ -	-
Total	\$ 25,817	0.10325%
Total Administrative and Other Expenses	\$ 309,017	1.23582%
Health, Dental & Vision Fees	Dollars	% of Total
<i>These expenditures are for self-insurance of the health, dental, and vision plans, and are paid from the retirement system's trust fund.</i>		
Staff Salaries	\$ 26,485	0.10592%
Health Fees	27,452	0.10979%
Dental Fees	3,861	0.01544%
Vision Fees	541	0.00216%
Total Health and Dental Fees	\$ 58,339	0.23331%
Investment Expenses	Dollars	% of Total
<i>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.</i>		
Real Estate Operating Expenses	\$ 12,928	0.05170%
Securities Lending Expenses	46,716	0.18683%
Other Investment Expenses		
ORS-Investment Expenses	70,727	0.28285%
Custody Fees	4,790	0.01916%
Management Fees	725,758	2.90246%
Research Fees	14,954	0.05980%
Total Investment Expenses	\$ 875,872	3.50280%
Benefits Paid to Members	Dollars	% of Total
<i>These are the projected retirement benefits paid to members of the retirement system.</i>		
Retirement Benefits	\$ 23,218,063	92.85389%
Health Benefits	444,521	1.77773%
Dental/Vision Benefits	98,967	0.39579%
Total Payments to Members	\$ 23,761,551	95.02742%
Soft Dollar Expenses	Dollars	% of Total
<i>These expenditures are for research provided by the retirement system's service providers, and are incorporated into the brokerage fees and commissions.</i>		
Bass Trading Int'l Group (BTIG)		
High Tech Strategist	\$ 0.36	0.00000%
Macro Mavens Newsletter	136	0.00054%
Welling on Wall Street	27	0.00011%
Total Soft Dollar Expenditures	\$ 164	0.00065%

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, 2014	
Valuation Date	9/30/2013
Actuarial Cost Method	Entry Age, Normal
Amortization Method - Pension	Level Dollar, Closed
Amortization Method - OPEB	Level Percent of Payroll, Closed
Remaining Amortization Period - Pension	23 Years*
Remaining Amortization Period - OPEB	23 Years*
Asset Valuation Method - OPEB	Market
Actuarial Assumptions FY 2014	
Wage Inflation Rate	3.5%
Investment Rate of Return - Pension	8.0% net of investment and admin expenses
Investment Rate of Return - OPEB	4.0%
Projected Salary Increases	3.5 - 4% including wage inflation rate at 3.5%
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
Mortality - Pension	RP - 2000 Male and Female Combined Healthy Life Mortality Tables, adjusted for mortality improvements to 2020 using projection scale BB. For retired and active members, 100% of the table rates were used.
Mortality - OPEB	RP - 2000 Combined Healthy Life Mortality Table, adjusted for mortality improvements to 2020 using projection scale AA (95% of male rates and 107% of female rates).
Other Assumptions OPEB Only FY 2014	
Opt Out Assumption	0% of eligible participants are assumed to opt out of the retiree health plan
Survivor Coverage	100% of male retirees and 100% 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
<small>*Based on the provision of GASB Statement Nos. 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.</small>	
<small>Source: CAFR for the Fiscal Year ended September 30, 2014, p. 33.</small>	

Office Closures

May 25 - Memorial Day
July 3 - Independence Day
September 7 - Labor Day

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

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Office of Retirement Services
Director Phil Stoddard

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