

Michigan State Police Retirement System
a Pension and Other Employee Benefit Trust Fund of the State of Michigan

**Comprehensive Annual Financial Report
for the Fiscal Year Ended September 30, 2013**



M S P R S

**Prepared by:
Financial Services
for
Office of Retirement Services
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INTRODUCTORY SECTION

Certificate of Achievement
Public Pension Standards Award
Letter of Transmittal
Retirement Board Members
Advisors and Consultants
Organization Chart

INTRODUCTORY SECTION

Certificate of Achievement



Government Finance Officers Association

Certificate of Achievement for Excellence in Financial Reporting

Presented to

Michigan State Police Retirement System

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

September 30, 2012

A handwritten signature in black ink, which appears to read 'Jeffrey R. Egan'.

Executive Director/CEO

Public Pension Standards Award



Public Pension Coordinating Council

***Public Pension Standards Award
For Funding and Administration***

2013

Presented to

Michigan Office of Retirement Services

In recognition of meeting professional standards for
plan funding and administration as
set forth in the Public Pension Standards.

Presented by the Public Pension Coordinating Council, a confederation of

National Association of State Retirement Administrators (NASRA)
National Conference on Public Employee Retirement Systems (NCPERS)
National Council on Teacher Retirement (NCTR)

A handwritten signature in cursive script that reads "Alan H. Winkle".

Alan H. Winkle
Program Administrator

INTRODUCTORY SECTION

Letter of Transmittal

State Police Retirement System
P.O. Box 30171
Lansing, Michigan 48909-7671
Telephone 517-322-5103
Outside Lansing 1-800-381-5111

STATE OF MICHIGAN

RICK SNYDER, Governor

DEPARTMENT OF TECHNOLOGY, MANAGEMENT & BUDGET

December 19, 2013

The Honorable Rick Snyder
Governor, State of Michigan,

Members of the Legislature
State of Michigan,

Retirement Board Members
and
Members, Retirees and Beneficiaries

Ladies and Gentlemen:

We are pleased to present the comprehensive annual financial report of the Michigan State Police Retirement System (System) for fiscal year 2013.

INTRODUCTION TO REPORT

The System was established by legislation under Public Act 251 of 1935. It now operates under the provisions of Public Act 182 of 1986, as amended, and is administrated by the Office of Retirement Services (ORS). The number of active and retired members and beneficiaries of the System is presented in Note 1 of the financial statements in the Financial Section of this report. The purpose of the System is to provide benefits for all State Police officers. The services performed by the ORS staff provide benefits to members.

Responsibility

Responsibility for both the accuracy of the data and the completeness and fairness of the presentation, including all disclosures, rests with the leadership team of the System. To the best of our knowledge and belief, the enclosed data is accurate in all material respects and is reported in a manner designed to present fairly the financial position and results of operations of the System.

Internal Control Structure

The leadership team of the System is responsible for maintaining adequate internal accounting controls designed to provide reasonable assurance that transactions are executed in accordance with management's general or specific authorization, and are recorded as necessary to maintain accountability for assets and to permit preparation of financial statements in accordance with accounting principles generally accepted in the United States of America. The internal control structure is designed to provide reasonable assurance regarding the safekeeping of assets and reliability of all financial records. The concept of reasonable assurance recognizes that the cost of a control should not exceed the benefits likely to be derived and that the valuation of costs and benefits requires estimates and judgments by management. This internal control structure includes maintaining written policies and procedures. Discussion and

INTRODUCTORY SECTION

Letter of Transmittal (continued)

analysis of net position and related additions and deductions are presented in the Management Discussion and Analysis which can be found immediately following the Independent Auditor's Report.

Independent Auditors and Actuary

The Office of the Auditor General (OAG), independent auditors, conducted an annual audit of the System. The independent auditor's report on the System's financial statements is included in the Financial Section of this report.

Statute requires that an annual actuarial valuation be conducted. The purpose of the valuation is to evaluate the mortality, service, compensation and other financial experience of the System and to recommend employer-funding rates for the subsequent year. The annual actuarial valuation was completed by Gabriel Roeder Smith & Company for the fiscal year ended September 30, 2012. Actuarial certification and supporting statistics are included in the Actuarial Section of this report.

Management's Discussion and Analysis (MD&A)

Generally Accepted Accounting Principles (GAAP) requires that management provide a narrative introduction, overview, and analysis to accompany the Basic Financial Statements in the form of MD&A. This letter of transmittal is intended to complement MD&A and should be read in conjunction with it. The MD&A can be found immediately following the Independent Auditor's Report.

PROFILE OF THE GOVERNMENT

The State Police Retirement System was created by Public Act 251 of 1935 and later superseded by Public Act 182 of 1986. A nine-member board, under the direction of a chairperson elected from the membership, administers the System to provide retirement benefits for State Police officers. Employee contributions, employer contributions, investment earnings, and an annual legislative appropriation provide financing for the System. All individuals hired on or after June 10, 2012 are members of the Pension Plus Plan with a combined Defined Benefit and Defined Contribution benefit structure.

ECONOMIC CONDITIONS AND OUTLOOK

Despite challenging economic times, the System continues to show steady performance over the long-term.

Investments

The State Treasurer is the investment fiduciary and custodian of all investments of the System pursuant to State law. The primary investment objective is to maximize the rate of return on the total investment portfolio, consistent with a high degree of prudence and sufficient diversity to eliminate inordinate risks and to meet the actuarial assumption for the investment return rate. The investment activity for the year produced a total rate of return on the portfolio of 12.4% for Pension and 11.6% for the Other Post-Employment Benefits (OPEB) Plans. For the last five years, the System has experienced an annualized rate of return of 6.6% for pension plan. A summary of asset allocation and rates of return can be found in the Investment Section of this report.

Accounting System

Transactions of the System are reported on the accrual basis of accounting. Additions are recorded when earned and deductions are recorded when incurred. Participants' benefits are recorded when payable by law. We believe the accounting and administrative internal controls established by the System provide reasonable assurance the System is carrying out its responsibilities in safeguarding its assets, in maintaining the reliability of the financial records for preparing financial statements, and in maintaining accountability for its assets.

INTRODUCTORY SECTION

Letter of Transmittal (continued)

Funding

Funds are derived from the excess of additions to plan net position over deductions from plan net position. Funds are accumulated by the System to meet future benefit obligations to retirees and beneficiaries. The percentage computed by dividing the actuarial value of assets by the actuarial accrued liability is referred to as the “funded ratio.” This ratio provides an indication of the funding status of the System and generally, the greater this percentage, the stronger the System. Effective in fiscal year 2001, the System uses the actuarial valuation from the previous fiscal year for this report in accordance with Governmental Accounting Standards Board (GASB) Statement No. 25. Consistent with this approach, the most recent actuarial valuation was performed as of September 30, 2012. The actuarial value of the assets and actuarial accrued liability of the System were \$1.1 billion and \$1.7 billion, respectively, resulting in a funded ratio of 64.0% at September 30, 2012. An historical perspective of funding levels for the System is presented on the Schedule of Funding Progress in the Required Supplementary Information in the Financial Section of this report.

Postemployment Benefits

An actuarial valuation is completed annually to determine the actuarial accrued liability if the postemployment benefits were to be pre-funded. As of September 30, 2012, the actuarial accrued liability for postemployment benefits based on pre-funding is \$599.1 million. Therefore, only six valuation years are presented and included in the required supplementary information of this report.

MAJOR GOALS ACCOMPLISHED

Social media presence for ORS begins

The Office of Retirement Services (ORS) completed an evaluation of social media as an additional way to communicate with customers. ORS determined that social media was a worthwhile communication channel and established five objectives: improve pre-retirement knowledge, improve post-retirement knowledge, increase online self-service, support existing processes, and share interesting news and resources from other sources. After developing an implementation and maintenance plan, ORS launched the official Facebook page in August 2013 and has documented early success with the number of engaged customers interacting with ORS and each other.

ORS continues innovative technology approach with User Experience Team

The Office of Retirement Services (ORS) joined forces with the State of Michigan User Experience (UX) team, a part of Department of Technology, Management & Budget Shared Services, to find out if our customers found miAccount and the ORS website easy to navigate. ORS has already improved the customer experience by creating a *What Happens Next* document that users receive when they apply for retirement in miAccount. The UX team also prepared miAccount prototypes for the processes that caused our customers the most confusion during user experience testing. ORS will use the prototypes to implement further changes in miAccount and the customer website.

ORS websites now mobile

To provide our customers with the best possible online experience, even on the go, the Office of Retirement Services’ eight member websites are now mobile. These versions of our websites are different from the desktop sites in that they have fewer navigation options and are tailored specifically to the mobile user. The pages are designed with each site’s most common tasks, like logging into miAccount or getting high-level plan information. Customers also have the option of visiting the full desktop site on their mobile device.

The Employee engagement

The Office of Retirement Services (ORS) leaders are increasing its employee engagement and developing high performance teams with the Power of Perspectives and Forging Breakthroughs workshops. We offered this experience to every employee over the last three years, sustained with quarterly team exercises and monthly communication. These activities foster a work climate where open-mindedness is practiced, respect is demonstrated, diversity is valued, and creativity and innovation thrive. Fellow co-workers, instead of management, lead the workshops. ORS has also embraced the importance of individual and team recognition for high performance in various ways including simple notecards to show appreciation to staff who do great work, or short-term reserved parking for employees.

Letter of Transmittal (continued)

Direct deposit campaign

To ensure secure, timely pension payments, the Office of Retirement Services began delivering all pensions through direct deposit beginning in 2013. Before the end of 2012, 11,500 paper check recipients switched to direct deposit. All new pension inceptions are established as direct deposit.

ORS takes on new retirement system: MRS

On October 1, 2012, the Office of Retirement Services (ORS) welcomed nearly 4,000 retired members of the Michigan National Guard as the Military Retirement System (MRS) transitioned from the Department of Military & Veterans Affairs to ORS, becoming ORS's fifth retirement system. ORS is handling all aspects of the pension plan from initial eligibility and retirement applications to processing pension payments to the retiree and subsequent pension beneficiaries.

ORS surveys caller experience

The Office of Retirement Services (ORS) has developed a digital after call survey that is delivered via email after a customer speaks with a customer service representative. If the customer meets certain criteria and has an email address on file, the survey is sent. It consists of four questions and a comment field. ORS's customer service area then uses a reporting tool to pull various reports on overall customer satisfaction and individual agent scores.

ORS establishes State's first HRA accounts

Health Reimbursement Arrangements (HRAs) are tax-advantaged health savings plans funded by employers to help retirees pay, tax-free, for qualified medical expenses incurred in retirement. Unused funds may be carried forward for reimbursement in future years. The recent reforms established HRAs as a benefit under the Personal Healthcare Fund (PHF) for participants in the state, public school, and state police retirement systems. The Office of Retirement Services established the State's first HRAs for qualifying former state employees who elected the PHF during the 2012 reform and whose lump sum credit at termination exceeds IRS contribution limits to their 401(k) and 457 accounts.

HONORS

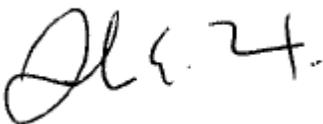
Public Pension Standards Award: The Public Pension Coordinating Council awarded the retirement system with the 2013 Public Pension Standards Award for Funding and Administration.

Government Finance Officers Association award: The Government Finance Officers Association of the United States and Canada awarded the retirement system with the Certificate of Achievement for Excellence in Financial Reporting for its fiscal year 2012 Comprehensive Annual Financial Report . This marks the 22nd consecutive year ORS has received this prestigious award.

Acknowledgements

The preparation of this report was accomplished with the dedication and cooperation of many people. It is intended to provide complete and reliable information as a basis for making management decisions, as a means of determining compliance with legal provisions, and as a means for determining responsible stewardship of the funds of the System.

We would, therefore, like to express our appreciation for the assistance given by staff, advisors and the many people who contributed to its preparation. We believe their combined efforts have produced a report that will enable employers and plan members to better evaluate and understand the Michigan State Police Retirement System. Their cooperation contributes significantly to the success of the System.



John E. Nixon, Director
Department of Technology, Management & Budget

INTRODUCTORY SECTION

Letter of Transmittal (continued)

A handwritten signature in cursive script that reads "Phillip J. Stoddard".

Phillip J. Stoddard, Director
Office of Retirement Services

INTRODUCTORY SECTION

Administrative Organization

Retirement Board Members *

Colonel Kriste Etue
Representing Director, Dept. of State Police
Statutory Member

Molly Jason
Representing Attorney General
Statutory Member

Detective Sergeant Mitchell Stevens
Representing Sergeants and Below
Term Expires December 31, 2015

Bernard Kent
General Public
Term Expires December 31, 2015

Cheryl Schmittiel
Representing Director, Office of State
Employer
Statutory Member

Craig Murray
Representing Deputy Auditor General
Statutory Member

Robert L. Brackenbury
Representing State Treasurer
Statutory Member

Captain Kevin P. McGaffigan,
Vice Chair
Representing Lieutenants and Above
Term Expires December 31, 2013

Retired First Lieutenant Diane Garrison
Chair
Retiree Member
Term Expires December 31, 2014

*upon expiration of a term a member may continue to serve, at the pleasure of the governor, until a successor is appointed.

Administrative Organization

Department of Technology, Management & Budget

Office of Retirement Services

P.O. Box 30171

Lansing, Michigan 48909-7671

517-322-5103

1-800-381-5111

Advisors and Consultants

Actuaries

Gabriel Roeder Smith & Co.
Mita D. Drazilov
Southfield, Michigan

Independent Auditors

Thomas H. McTavish, C.P.A.
Auditor General
State of Michigan

Investment Manager and Custodian

Andy Dillon
State Treasurer
State of Michigan

Legal Advisor

Bill Schuette
Attorney General
State of Michigan

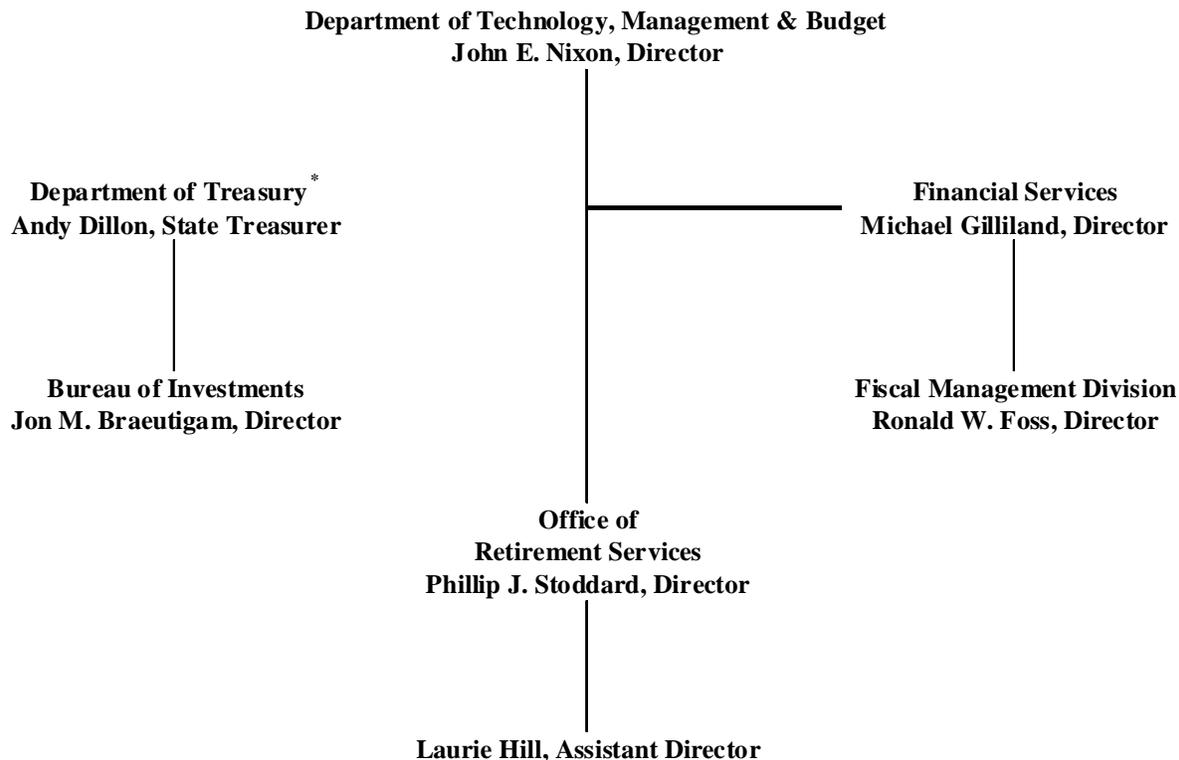
Investment Performance Measurement

State Street Corporation
State Street Investment Analytics
Boston, MA

INTRODUCTORY SECTION

Administrative Organization (continued)

Organization Chart



* The investments of the System are managed by the Michigan Department of Treasury. Information on the investments and the fiduciary, Michigan Department of Treasury, can be found in the Investment Section, Introduction. In addition, see the Investment Section, Schedule of Investment Fees and Schedule of Investment Commissions, for information regarding the investment fees and commissions paid as well as investment professionals utilized by the System.

FINANCIAL SECTION

Independent Auditor's Report
Management's Discussion and Analysis
Basic Financial Statements
Notes to Basic Financial Statements
Required Supplementary Information
Note to Required Supplementary Information
Supporting Schedules



STATE OF MICHIGAN
OFFICE OF THE AUDITOR GENERAL
201 N. WASHINGTON SQUARE
LANSING, MICHIGAN 48913
(517) 334-8050
FAX (517) 334-8079

THOMAS H. MCTAVISH, C.P.A.
AUDITOR GENERAL

Independent Auditor's Report on the Financial Statements
and Other Reporting Required by *Government Auditing Standards*

Ms. Diane Garrison, Chair
Michigan State Police Retirement System Board
and
John E. Nixon, C.P.A., Director
Department of Technology, Management, and Budget
and
Mr. Phillip J. Stoddard, Director
Office of Retirement Services

Report on the Financial Statements

We have audited the accompanying financial statements of the Michigan State Police Retirement System as of and for the fiscal year ended September 30, 2013 and the related notes to the financial statements, which collectively comprise the System's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the net position of the Michigan State Police Retirement System as of September 30, 2013 and the changes in net position for the fiscal year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 5 to the financial statements, beginning in fiscal year 2012-13, the System changed its other postemployment benefit funding policy to prefund benefits, formerly funded on a pay-as-you-go basis. As a result of this change in funding policy, the System's actuary used an investment rate of return of 8%, rather than the 4% that was previously used, to reflect the System's projected long-term investment rate of return. Our opinion is not modified with respect to this matter.



STATE OF MICHIGAN
OFFICE OF THE AUDITOR GENERAL

THOMAS H. MCTAVISH, C.P.A.
AUDITOR GENERAL

Ms. Diane Garrison, Chair
John E. Nixon, C.P.A., Director
Mr. Phillip J. Stoddard, Director
Page 2

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 16 through 20 and the schedules of funding progress and schedules of employer and other contributions on pages 41 through 43 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the System's basic financial statements. The supporting schedules on pages 44 through 47 are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The supporting schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supporting schedules are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The introductory, investment, actuarial, and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we will also issue a report on our consideration of the System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the System's internal control over financial reporting and compliance.

Sincerely,

Thomas H. McTavish, C.P.A.
Auditor General
December 18, 2013

FINANCIAL SECTION

Management's Discussion and Analysis

Our discussion and analysis of the Michigan State Police Retirement System's (System) financial performance provides an overview of the System's financial activities for the fiscal year ended September 30, 2013. Please read it in conjunction with the transmittal letter in the Introductory Section on page 6 and the basic financial statements, which follow this discussion.

FINANCIAL HIGHLIGHTS

- System assets exceeded its liabilities at the close of fiscal year 2013 by \$1.2 billion (reported as *net position*). Net assets are restricted to meet future benefit payments.
- The System's funding objective is to meet long-term benefit obligations through contributions and investment income. As of September 30, 2012 the funded ratio was approximately 64.0% for pension benefits and the funded ratio for other postemployment benefits (OPEB) was 5.5%.
- Additions for the year were \$236.6 million, which are comprised primarily of contributions of \$97.3 million and investment gains of \$139.3 million.
- Deductions increased over the prior year from \$135.0 million to \$143.1 million or 6.0%. This is largely due to increased retirement benefit payments from Deferred Retirement Option Plan (DROP) payoffs. As the number of members reaching the end date of their participation in the plan and withdrawing their accumulated benefits increased compared to last year. The number of retirees also increased compared to last year.

THE STATEMENT OF PLAN NET POSITION AND THE STATEMENT OF CHANGES IN PLAN NET POSITION

This Comprehensive Annual Financial Report (CAFR) consists of two financial statements; *The Statement of Pension Plan and Other Postemployment Benefit Plan Net Position* (page 22) and *The Statement of Changes in Pension Plan and Other Postemployment Benefit Plan Net Position* (page 23). These financial statements report information about the System, as a whole, and about its financial condition that should help answer the question: Is the System, as a whole, better off or worse off as a result of this year's activities? These statements include all assets and liabilities using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis of accounting, all additions and deductions are taken into account regardless of when cash is received or paid.

The Statement of Pension Plan and Other Postemployment Benefit Plan Net Position presents all of the System's assets and liabilities, with the difference between the two reported as Net Position. Over time, increases and decreases in net position measure whether the System's financial position is improving or deteriorating. *The Statement of Changes in Pension Plan and Other Postemployment Benefit Plan Net Position* presents how the System's Net Position changed during the most recent fiscal year. These two financial statements should be reviewed along with the Schedules of Funding Progress (page 41) and Schedules of Employer and Other Contributions (page 42) to determine whether the System is becoming financially stronger or weaker and to understand changes over time in the funded status of the System.

FINANCIAL SECTION

Management's Discussion and Analysis (continued)

FINANCIAL ANALYSIS

System total assets as of September 30, 2013, were \$1.3 billion and were mostly comprised of cash, investments, and contributions due from employers. Total assets increased \$82.6 million or 6.9% from fiscal year 2012 due primarily to an increase in investment income.

Total liabilities as of September 30, 2013, were \$97.7 million and were comprised of warrants outstanding, accounts payable and other accrued liabilities, and obligations under securities lending. Total liabilities decreased \$10.9 million or (10.0)% between fiscal years 2012 and 2013 due primarily to a decrease in obligations under securities lending.

System assets exceeded its liabilities at the close of fiscal year 2013 by \$1.2 billion. Total net position restricted for pension and OPEB increased \$93.5 million or 8.6% between fiscal years 2012 and 2013.

	Net Position (in thousands)		
	<u>2013</u>	<u>2012</u>	<u>Increase</u> <u>(Decrease)</u>
Assets			
Equity in Common Cash	\$ 25,721	\$ 20,121	27.8 %
Receivables	6,150	4,725	30.2
Investments	1,244,750	1,169,131	6.5
Total Assets	<u>1,276,621</u>	<u>1,193,977</u>	<u>6.9</u>
Liabilities			
Warrants outstanding	336	57	489.5
Accounts payable and other accrued liabilities	2,237	3,012	(25.7)
Amounts due to other funds			N/A
Obligations under securities lending	95,164	105,530	(9.8)
Total Liabilities	<u>97,737</u>	<u>108,598</u>	<u>(10.0)</u>
Total Net Position	<u>\$ 1,178,884</u>	<u>\$ 1,085,378</u>	<u>8.6 %</u>

FINANCIAL SECTION

Management's Discussion and Analysis (continued)

ADDITIONS TO PLAN NET POSITION

The reserves needed to finance pension and other postemployment benefits are accumulated through the collection of employer contributions and through earnings on investments. Contributions and net investment gains for fiscal year 2013 totaled \$236.6 million.

Total additions decreased \$4.4 million from those of fiscal year 2012, due primarily to decreased net investment gains. Total contributions increased between fiscal years 2012 and 2013 by \$7.8 million or 8.7%. This increase is due primarily to activity related to larger employer contributions from an increase in the contribution rate and larger employee contributions. Net investment gains decreased from fiscal year 2012 by \$12.2 million. The Investment Section of this report reviews the results of investment activity for fiscal year 2013.

DEDUCTIONS FROM PLAN NET POSITION

The 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. Total deductions for fiscal year 2013 were \$143.1 million, an increase of 6.0% over fiscal year 2012 deductions.

The health, dental and vision care expenses to members and beneficiaries increased by \$2.2 million or 7.6% from \$28.4 million to \$30.6 million. Pension benefit payments increased by \$5.8 million or 5.5% between fiscal years 2012 and 2013. The increase in pension benefit deductions in 2013 is due primarily to the net affect of an increase in DROP distributions (for more information on DROP, see note 1) and an increase in retirees (38). Administrative and other expenses increased by \$81.4 thousand or 5.0% from \$1.6 million in fiscal year 2012 to \$1.7 million in fiscal year 2013, due primarily to an increase in OPEB administrative fees paid to insurance carriers.

FINANCIAL SECTION

Management's Discussion and Analysis (continued)

Changes in Plan Net Position (in thousands)

	<u>2013</u>	<u>2012</u>	<u>Increase (Decrease)</u>
Additions			
Member contributions	\$ 2,608	\$ 1,566	66.5 %
Employer contributions	91,863	86,878	5.7
Other governmental contributions	2,801	1,061	164.0
Net investment income (loss)	139,275	151,425	(8.0)
Miscellaneous income	46	30	53.3
Total Additions	<u>236,593</u>	<u>240,960</u>	<u>(1.8)</u>
Deductions			
Pension benefits	110,782	104,963	5.5
Health care benefits	30,572	28,421	7.6
Refunds of contributions	19		NA
Administrative and other expenses	1,714	1,632	5.0
Total Deductions	<u>143,087</u>	<u>135,017</u>	<u>6.0</u>
Net Increase (Decrease)	93,505	105,944	(11.7)
Net Position - Beginning of Year	<u>1,085,378</u>	<u>979,435</u>	<u>10.8</u>
Net Position - End of Year	<u>\$ 1,178,884</u>	<u>\$ 1,085,378</u>	<u>8.6 %</u>

FINANCIAL SECTION

Management's Discussion and Analysis (continued)

RETIREMENT SYSTEM AS A WHOLE

The System's combined net position experienced a decrease in 2013 after an increase in 2012. The System's rate of return decreased 0.9% from a 13.3% return in fiscal year 2012 to a 12.4% for the Pension Plan and decreased 1.2% from a 12.8% return in fiscal year 2012 to a 11.6% for the OPEB Plan return during fiscal year 2013. Management believes that the system remains financially sound and positioned to meet its ongoing benefit obligations due, in part, to a prudent investment program, cost controls, and strategic planning.

CONTACTING SYSTEM FINANCIAL MANAGEMENT

This financial report is designed to provide the Retirement Board, our membership, taxpayers, investors, and creditors with a general overview of the System's finances and to demonstrate the System's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the Office of Retirement Services, P.O. Box 30171, Lansing, MI 48909-7671.

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FINANCIAL SECTION

Statement of Pension Plan and Other Postemployment Benefit Plan Net Position

As of September 30, 2013

	Pension Plan	OPEB Plan	Total
Assets:			
Equity in common cash	\$ 19,293,333	\$ 6,427,536	\$ 25,720,868
Receivables:			
Amounts due from members	3,756		3,756
Amounts due from employers	2,085,979	1,833,716	3,919,695
Amounts due from federal agencies		1,741,152	1,741,152
Amounts due from other		325,896	325,896
Interest and dividends	153,647	5,983	159,630
Total receivables	2,243,382	3,906,747	6,150,129
Investments:			
Short term investment pools	39,625,544	1,579,386	41,204,930
Fixed income pools	139,204,045	5,540,299	144,744,344
Domestic equity pools	306,216,919	12,308,762	318,525,681
Real estate and infrastructure pools	124,462,416	4,961,348	129,423,764
Alternative investment pools	222,352,017	8,863,098	231,215,114
International equity pools	169,021,241	6,738,589	175,759,830
Absolute return pools	124,242,119	4,845,020	129,087,139
Securities lending collateral	71,942,847	2,846,010	74,788,856
Total investments	1,197,067,146	47,682,512	1,244,749,658
Total assets	1,218,603,861	58,016,794	1,276,620,655
Liabilities:			
Warrants outstanding	336,278		336,278
Accounts payable and other accrued liabilities	81,896	2,155,249	2,237,145
Obligations under securities lending	91,542,282	3,621,350	95,163,632
Total liabilities	91,960,456	5,776,599	97,737,055
Net Position Restricted for Pension Benefits and OPEB	\$ 1,126,643,405	\$ 52,240,196	\$ 1,178,883,601

The accompanying notes are an integral part of these financial statements.

FINANCIAL SECTION

Statement of Changes in Pension Plan and Other Postemployment Benefit Plan Net Position

For Fiscal Year Ended September 30, 2013

	Pension Plan	OPEB Plan	Total
Additions:			
Contributions:			
Member contributions	\$ 1,336,081	\$ 1,272,232	\$ 2,608,313
Employer contributions	49,004,314	42,858,381	91,862,695
Other governmental contributions		2,800,949	2,800,949
Total contributions	50,340,395	46,931,561	97,271,956
Investment income (loss):			
Net appreciation (depreciation) in fair value of investments	109,961,950	3,278,311	113,240,261
Interest, dividends, and other	26,593,168	822,841	27,416,009
Investment expenses:			
Real estate operating expenses	(27,918)	(955)	(28,873)
Other investment expenses	(3,191,944)	(90,820)	(3,282,764)
Securities lending activities:			
Securities lending income	2,147,613	74,747	2,222,360
Securities lending expenses	(280,916)	(11,079)	(291,994)
Net investment income (loss)	135,201,954	4,073,046	139,274,999
Miscellaneous income	28,304	17,311	45,615
Total additions	185,570,653	51,021,917	236,592,571
Deductions:			
Benefits paid to plan members and beneficiaries:			
Retirement benefits	110,782,367		110,782,367
Health benefits		27,881,426	27,881,426
Dental/vision benefits		2,690,082	2,690,082
Refunds of contributions	19,489		19,489
Administrative and other expenses	508,118	1,205,738	1,713,856
Total deductions	111,309,974	31,777,247	143,087,220
Net Increase (Decrease)	74,260,680	19,244,671	93,505,350
Net Position Restricted for Pension Benefits and OPEB			
Beginning of Year	1,052,382,725	32,995,525	1,085,378,250
End of Year	\$ 1,126,643,405	\$ 52,240,196	\$ 1,178,883,601

The accompanying notes are an integral part of these financial statements.

FINANCIAL SECTION

Notes to Basic Financial Statements September 30, 2013

NOTE 1 - PLAN DESCRIPTION

ORGANIZATION

The Michigan State Police Retirement System (System) is a single employer, state-wide, defined benefit public employee retirement plan governed by the State of Michigan (State), created under Public Act 251 of 1935, recodified and currently operating under Public Act 182 of 1986. Section 7 of this act establishes the board's authority to promulgate or amend the provisions of the System. The System's pension plan was established by the State to provide retirement, survivor, and disability benefits to Michigan State Police. In addition, the System's OPEB plan provides all retirees with the option of receiving health, dental, and vision coverage under the State Police Retirement Act. The System is a qualified pension trust fund under section 401(a) of the Internal Revenue Code.

A hybrid defined benefit and defined contribution plan was introduced for troopers and sergeants who became a member of SPRS on or after June 10, 2012 - this plan is called the Pension Plus plan for Michigan State Police.

The System's financial statements are included as a pension and other employee benefit trust fund in the State of Michigan Comprehensive Annual Financial Report.

The System is administered by the Office of Retirement Services within the Michigan Department of Technology, Management & Budget (DTMB). The Department Director appoints the Office Director who serves as Executive Secretary to the System's Board, with whom the general oversight of the System resides. The State Treasurer serves as the investment officer and custodian for the System.

MEMBERSHIP

At September 30, 2013 the System's membership consisted of the following:

Retirees and beneficiaries currently receiving benefits:	2013
Regular benefits	2,295
Survivor benefits	473
Disability benefits	183
Total	<u>2,951</u>
Current employees:	
Vested	1,065
Non-vested	458
Total	<u>1,523</u>
DROP program participants	221
Inactive employees entitled to benefits and not yet receiving them	<u>46</u>
Total all members	<u><u>4,741</u></u>

Enrollment in the health plan is voluntary. The number of participants is as follows:

Health, Dental, and Vision Plans	2013
Eligible participants	2,768
Participants receiving benefits:	
Health	2,673
Dental	2,627
Vision	2,634

FINANCIAL SECTION

Notes to Basic Financial Statements (continued)

BENEFIT PROVISIONS -- PENSION

Introduction

Benefit provisions of the defined benefit pension plan are established by State statute, which may be amended. Public Act 182 of 1986, Michigan State Police Retirement Act, as amended, establishes eligibility and benefit provisions for the defined benefit pension plan and the Pension Plus plan. Retirement benefits for defined benefit plan members are determined by final average compensation. Defined benefit members are eligible to receive a monthly benefit when they meet certain age and service requirements. The retirement benefit component for Pension Plus plan members is determined by final average compensation and years of service. In addition, the Pension Plus members' savings component includes the employee contributions into any combination of a member's 401(k), 457, or Roth 401(k) accounts, and an employer match into their 401(k) account. The System also provides duty disability, non-duty disability, and survivor benefits.

A member who leaves Michigan State Police employment may request a refund of his or her member contribution account. Effective in 2012, the System is contributory except for command officers. A refund cancels a former member's rights to future benefits and there is no provision for repaying the refund of contributions to restore the service represented by the refund.

Pension Reform 2012

The State Troopers' union and the State of Michigan negotiated a new retirement plan for new State Troopers and Sergeants. As a result, a State Trooper who became a member of SPRS on or after June 10, 2012, is a Pension Plus member. The Pension Plus plan pairs a guaranteed retirement income (Defined Benefit pension) with a flexible and transferable retirement savings (Defined Contribution) account.

Regular Retirement

The retirement benefit is available if a member retires after 25 years of credited service (employment). The retirement benefit equals 60% of a member's final average compensation and is payable monthly over the lifetime of a member. Final average compensation is the average annual salary for a member's last two years of service with the Department of State Police.

For a Pension Plus member, who became a member of SPRS on or after June 10, 2012, the retirement benefit equals 2% of a 5-year final average compensation (excluding overtime) multiplied by the total number of years of credited service, not to exceed 25 years. After 25 years of credited service, the benefit multiplier declines by 0.4% each year until reaching 0% at 30 years of service. The reduced benefit multiplier applies only to years 26 through 30, not the first 25 years. This benefit is paid monthly over the lifetime of a member. A Pension Plus Plan member who became a member of SPRS on or after June 10, 2012 may retire at age 55 with 25 years of service or age 60 with 10 or more years of service.

Deferred Retirement

Any member with 10 or more years of credited service who terminates employment but has not reached the age of 50 is a deferred member and is entitled to receive a monthly allowance upon reaching age 50, provided the member's accumulated contributions have not been refunded. The deferred benefit is equal to two percent of the final average compensation times the years and partial years of service credit.

A Pension Plus Plan member who became a member of SPRS on or after June 10, 2012, with 10 or more years of credited service who terminates employment but has not reached the age of 60 is a deferred member and is entitled to receive a monthly allowance upon reaching age 60, provided the member's accumulated contributions have not been refunded.

FINANCIAL SECTION

Notes to Basic Financial Statements (continued)

Non-Duty Disability Benefit

A member with 10 or more years of credited service who becomes totally and permanently disabled not due to performing duties as an employee of the Michigan State Police is eligible for a non-duty disability pension. The non-duty disability benefit is 2.4% of the final average compensation times years and partial years of credited service (but not more than 25 years).

Duty Disability Benefit

A member who becomes totally and permanently disabled from performing duties as a Michigan State Police Officer is eligible for a duty disability pension. The amount, payable monthly, is equal to 60% of the final average compensation.

Survivor Benefit

Upon the death of a member who completed at least 10 years of service, the surviving spouse receives a benefit based on 2.4% of the final average compensation for each year and partial year of credited service. If there is no spouse, surviving children are entitled to equally share the benefit until age 18. If death occurs in the line of duty, the surviving spouse receives a benefit of 60% of the final average compensation. Children receive \$100 each month until age 18. A \$1,500 funeral expense is also authorized by State statute.

Post Retirement Adjustments

Effective October 1, 1996, the monthly pension was increased 10% if certain requirements were met. This was a one-time increase.

Each October 1, the benefits of all pension recipients increase 2% (not to exceed \$500). This non-compounding increase is paid to persons who have been retired 12 months.

A Pension Plus member who became a member of SPRS on or after June 10, 2012, does not receive an annual post-retirement increase.

Contributions

Member Contributions – Command Officers currently participate on a noncontributory basis. Effective October 1, 2012, troopers and sergeants hired before June 10, 2012 began contributing 1% of their compensation. Troopers hired on or after June 10, 2012 contribute 4% of their compensation as described below. Under certain circumstances, members may contribute to the System for the purchase of creditable service, such as military, maternity or paternity leave, Peace Corps or VISTA service. If a member terminates employment before a retirement benefit is payable, the member's contribution and interest on deposit are available to be refunded. If the member dies before being vested, the member's contribution and interest are refunded to the designated beneficiaries.

Pension Plus members who became members of SPRS on or after June 10, 2012, contribute 4% of gross wages for the pension component of their plan. An additional, optional, 4% contribution of gross wages is withheld for the savings component of their plan. The first 2% employee contributions are identified as retirement savings and receive an employer match of 50% up to a maximum of 1%. The next 2% employee contributions are associated with the Personal Healthcare Fund at retirement and receive an employer match of 100%, up to a maximum of 2%. An additional maximum \$2,000 employer contribution is made into the Personal Healthcare Fund at retirement.

Employer Contributions - The statute requires that the employer contribute to finance the benefits of plan members. These employer contributions are determined annually by the System's actuary and are based upon level-percent-of-payroll funding principles so that the contribution rates do not have to increase over time. A chart showing the employer contribution rates is included on the Schedule of Additions by Source in the Statistical Section.

FINANCIAL SECTION

Notes to Basic Financial Statements (continued)

For a Pension Plus member who became a member of SPRS on or after June 10, 2012, there is an employer match for retirement of 50% of the first 2% of employee deferrals up to a maximum employer contribution of 1%. In addition, employers match for healthcare of 100% of the next 2% of employee deferrals up to a maximum employer contribution of 2%.

Deferred Retirement Option Plan

Public Act 83 of 2004 amended the State Police Retirement Act to create a Deferred Retirement Option Plan (DROP) for members with 25 years of service. This benefit program allows state police who are eligible to retire to defer their retirement and keep working for up to six years. The participant's pension amount is calculated on the day before the DROP period starts, and a percentage of the equivalent monthly pension is credited to an interest-bearing account in the participant's name. The DROP balance will be available at the time their DROP participation ends. At this time, only Defined Benefit members are eligible for DROP.

Banked Leave Time

Public Act 50 of 2004 amended the State Police Retirement Act to include Banked Leave Time (BLT) for members. BLT is an extension of the State's current annual leave program, which banks a predetermined number of hours per pay period. However, the BLT program will not have an effect on a member's Final Average Compensation calculation.

BENEFIT PROVISIONS – OTHER POSTEMPLOYMENT

Introduction

Benefit provisions of the postemployment benefit plan are established by State statute, which may be amended. Public Act 182 of 1986, as amended, establishes eligibility and benefit provisions for the OPEB plan. Defined members are eligible to receive health, prescription drug, dental, and vision coverage on the first day they start receiving pension benefits (this benefit does not apply to Pension Plus members). There are no ad hoc or automatic increases. The State Police Retirement Act requires joint authorization by DTMB and the Civil Service Commission to make changes to retiree medical benefit plans.

Under the Michigan State Police Retirement Act, all defined benefit retirees have the option of continuing health, dental, and vision coverage. Retirees with this coverage contribute 5%, 10%, and 10% of the monthly premium amount for the health, dental, and vision coverage, respectively. The State funds 95% of the health and 90% of the dental and vision insurance. The employer payroll contribution rate to provide these benefits was 38.3% for 2013.

The State Health Plan PPO is by far the most often selected health care option. This plan includes comprehensive coverage traditionally referred to as basic and major medical, with full coverage for most services received in-network after an annual deductible is met. Preventive services are not subject to a deductible and are fully covered if received in-network subject to an annual maximum. Both retail and mail order prescription drug coverage is included. Retiree health, dental, and vision plan benefits have generally matched those in place for active employees.

Retirees are also provided with life insurance coverage equal to 25% of the active life insurance coverage, \$1,000 for spouse and \$1,000 for each dependent under the age of 23. Premiums are fully paid by the State.

Personal Healthcare Fund

A Pension Plus member who became a member of SPRS on or after June 10, 2012 will be enrolled into a Personal Healthcare Fund (PHF), which is a separate account within the State of Michigan 401(k) Plan. The optional second 2% of their contributions plus their employer match are directed into the PHF. These members will also receive a credit into a Health Reimbursement Account (HRA) at termination if they have at least 10 years of service at termination. The credit will be up to \$2,000 for participants.

FINANCIAL SECTION

Notes to Basic Financial Statements (continued)

The number of participants and other relevant financial information are as follows:

Health, Dental, and Vision Plans	2013
Eligible participants	2,768
Participants receiving benefits:	
Health	2,673
Dental	2,627
Vision	2,634
Expenses for the year	\$ 31,777,247
Employer payroll contribution rate	38.3%

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting and Presentation

The System's 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 the System.

Reserves

Public Act 182 of 1986, as amended, created the Reserve for Employee Contributions, Reserve for Employer Contributions, Reserve for Retired Benefit Payments, Reserve for Undistributed Investment Income, and Reserve for Health (OPEB) Related Benefits. The financial transactions of the System are recorded in these reserves as required by Public Act 182 of 1986, as amended. The reserves are described below and details are provided in the supporting schedules.

Reserve for Employee Contributions – Command Officers currently participate on a noncontributory basis. Effective October 1, 2012, troopers and sergeants hired before June 10, 2012 began contributing 1% of their compensation. Troopers hired on or after June 10, 2012 contribute 4% of their compensation. This reserve represents active member contributions and interest less amounts transferred to the Reserve for Retired Benefit Payments for regular and disability retirement, amounts refunded to terminated members, and unclaimed amounts transferred to the income reserve. At September 30, 2013, the balance in this reserve was \$2.3 million.

Reserve for Employer Contributions - All employer contributions are credited to this reserve. Interest from the Reserve for Undistributed Investment Income is credited annually. Amounts are transferred annually from this reserve to the Reserve for Retired Benefit Payments to fund that reserve. At September 30, 2013, the balance in this reserve was (\$8.5) million.

Reserve for Retired Benefit Payments - This represents the reserve for payment of future retirement benefits to current retirees. At retirement, a member's accumulated contributions plus interest are transferred into this reserve from the Reserve for Employee Contributions. Monthly benefits, which are paid to the retirees, reduce this reserve. At the end of each fiscal year, an amount is transferred from the Reserve for Employer Contributions to bring the reserve into balance with the actuarial present value of retirement allowances. Also included are reserves for casualty experience (injury or death of a member, or vested former member). The initial actuarial casualty valuation determined the full funding reserve requirements to be allocated from assets of the reserve. All retiree casualty payments are made from this reserve. At September 30, 2013, the balance in this reserve was \$1,181.1 million.

FINANCIAL SECTION

Notes to Basic Financial Statements (continued)

Reserve for Undistributed Investment Income – The net investment earnings (losses) are recorded in this reserve. Interest as authorized by the board is transferred annually to the other reserves. Administrative expenses are paid from this reserve. At September 30, 2013, the balance of this reserve was (\$48.2) million.

Reserve for Health (OPEB) Related Benefits - This reserve is credited with member and employer contributions for retirees' health (including prescription coverage), dental, and vision benefits. Starting in fiscal year 2012, the employer contribution is based on a prefunded basis and represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liability (or funding excess) over a period not to exceed thirty years. In addition, in fiscal year 2013, this reserve includes revenue from the federal government for retire drug subsidy payment (RDS) pursuant to the provisions of Medicare Part D and for the Employee Group Waiver Plan (EGWP). Premiums for health, dental and vision benefits are paid from this reserve. At September 30, 2013, the balance in this reserve was \$52.2 million.

Reporting Entity

The System is a pension and other employee benefit trust fund of the State. As such, the System is considered part of the State and is included in the State's Comprehensive Annual Financial Report as a pension and other employee benefit trust fund. The System and its Board are not financially accountable for any other entities or other organizations. Accordingly, the System is the only entity included in this financial report.

Benefit Protection

Public Act 100 of 2002 was passed by the Michigan Legislature to protect pension benefits of public employees from alienation (being transferred). Alienation is attachment, garnishment, levy, execution, bankruptcy or other legal process except for divorce orders or eligible domestic relation orders. The statutes governing the System contained an "anti-alienation" clause to provide for this protection; however, many smaller public pension systems did not have the benefit of this protection. Therefore, Public Act 100 of 2002 was passed to establish legal protection of pension assets that encompasses all public employees.

Fair Value of 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. The fair value of private investments is based on the net assets value reported in the financial statements of the respective investment entity. The net asset value is determined in accordance with governing documents of the investment entity, and is subject to an independent annual audit. Securities purchased with cash collateral under securities lending activities are recorded at estimated fair value. Other investments not having an established market are recorded at estimated fair value.

Investment Income

Dividend and interest income is recognized on the accrual basis. Fair value changes are recorded as investment income or loss. Purchases and sales of investments are recorded as of the trade date (the date upon which the transaction is initiated), except for purchase and sale of mortgages, real estate, and alternative investments, which are recorded as of the settlement date (the date upon which the transaction is ultimately completed). The effect of recording such transactions as of the settlement date does not materially affect the financial statements.

Costs of Administering the System

Each year a restricted general fund appropriation is requested to fund the on-going business operations of the System. These administrative costs are ultimately funded by the System through the regular transfer of funds from the System to the State's general fund based on either a direct cost or allocation basis depending on the nature of the expense. Costs of administering the System are financed by undistributed investment income of the System.

FINANCIAL SECTION

Notes to Basic Financial Statements (continued)

Property and Equipment

Office space is leased from the State on a year to year basis. Office equipment is capitalized if the value exceeds \$5,000. These assets are recorded at cost and are reported net of depreciation in the Statement of Pension Plan and Other Postemployment Benefit Plan Net Position. Such assets are depreciated on a straight-line basis over 10 years. The System does not have equipment that falls within these parameters.

Related Party Transactions

Leases and Services — The System leases operating space and purchases certain administrative, data processing, legal and investment services from the State. The space and services are not otherwise available by competitive bid. The following summarizes costs incurred by the System for such services.

	<u>2013</u>
Building Rentals	\$ 10,208
Technological Support	86,746
Attorney General	9,059
Investment Services	346,959
Personnel Services	308,799

Cash — On September 30, 2013, the System had \$25.7 million in a common cash investment pool maintained for various State operating funds. The participating funds in the common cash pool earn interest at various rates depending upon prevailing short-term interest rates. Earnings from these activities amounted to \$1,516 for the year ended September 30, 2013.

NOTE 3 – CONTRIBUTIONS AND FUNDED STATUS

Contributions

Command officers currently participate in the System on a noncontributory basis. Effective October 1, 2012, troopers and sergeants hired before June 10, 2012, began contributing 1% of their compensation. Troopers hired on or after June 10, 2012 contribute 4% of their compensation. Under certain circumstances, members may contribute to the System for the purchase of creditable service, such as military service or maternity leave. The State is required by Public Act 182 of 1986, as amended, to contribute amounts necessary to finance the benefits of its employee and retiree OPEB. Contribution provisions are specified by State statute and may be amended only by action of the State Legislature.

Employer contributions to the System are determined on an actuarial basis using the entry age normal actuarial cost method. Under this method, the actuarial present value of the projected benefits of each individual included in the actuarial valuation is allocated on a level basis over the service of the individual between entry age and assumed exit age. The portion of this cost allocated to the current valuation year is called the normal cost. The remainder is called the actuarial accrued liability. Normal cost is funded on a current basis. For retirement and OPEB benefits, the unfunded (overfunded) actuarial accrued liability will be amortized over a 23 year period for the 2013 fiscal year.

Actual employer contributions for retirement benefits were \$49.0 million for fiscal year 2013. The fiscal year 2013 annual covered payroll is not yet available. Required employer contributions, based on previous year actuarial valuations, for pensions included:

1. \$19.1 million for fiscal year 2013, for the normal cost of pensions representing 18.3% (before reconciliation) of annual covered payroll for fiscal year 2012.

FINANCIAL SECTION

Notes to Basic Financial Statements (continued)

2. \$38.5 million for fiscal year 2013, for amortization of underfunded actuarial accrued liability representing 36.7% (before reconciliation) of annual covered payroll for fiscal year 2012.

Actual employer contributions for OPEB were \$42.9 million for fiscal year 2013. The fiscal year 2013 annual covered payroll is not yet available. Required employer contributions, based on previous year actuarial valuations, for OPEB included:

1. \$8.5 million for fiscal year 2013, for the normal cost of OPEB representing 8.1% (before reconciliation) of annual covered payroll for fiscal year 2012.
2. \$38.2 million for fiscal year 2013, for amortization of unfunded actuarial accrued liability representing 36.5% (before reconciliation) of annual covered payroll for fiscal year 2012.

The system is required to reconcile with actuarial requirements annually. Any funding excess or deficiency for pension benefits is smoothed over five years. One-fifth (20%) of the funding excess or deficiency is included in each of the subsequent year's contribution, and is not recognized as a payable or receivable in the accounting records.

Funded Status

The employer is required to contribute at an actuarially determined rate for both pension benefits and OPEB. For fiscal year 2012, the actuarial accrued liability (AAL) for pension benefits was \$1.7 billion, and the actuarial value of assets was \$1.1 billion, resulting in an unfunded actuarial accrued liability (UAAL) of \$ 601.9 million and a funded ratio of 64.0%. The covered payroll (annual payroll of active employees covered by the plan) was \$104.9 million, and the ratio of the UAAL to the covered payroll was 573.9%.

For fiscal year 2012, the actuarial accrued liability (AAL) for OPEB was \$ 559.1 million, and the actuarial value of assets was \$33.0 million resulting in an unfunded actuarial accrued liability (UAAL) of \$566.1 million and a funded ratio of 5.5%. The covered payroll (annual payroll of active employees covered by the plan) was \$104.9 million, and the ratio of the UAAL to the covered payroll was 539.8%.

Actuarial Valuations and 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 trends. 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 (See Note 5).

The schedules of funding progress, presented as required supplementary information following the notes to the financial statements, present multi-year trend information about whether the actuarial value of plan net position for both pension and OPEB plans is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

The accompanying schedules of employer contributions present trend information about the amounts contributed to the plans by the employer in comparison to the ARC, an amount that is actuarially determined in accordance with the parameters of GASB Statement No. 25 for pension contributions and GASB Statement No. 43 for OPEB contributions.

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.

FINANCIAL SECTION

Notes to Basic Financial Statements (continued)

The information presented in the required supplementary schedules was determined as part of the actuarial valuations at the dates indicated. Additional information as of the latest actuarial valuation follows:

Summary of Actuarial Assumptions

Valuation Date	9/30/2012
Actuarial Cost Method	Entry Age, Normal
Amortization Method - Pension	Level Percent of Payroll, Closed
Amortization Method - OPEB	Level Percent of Payroll, Closed
Remaining Amortization Period - Pension	24 years ⁽¹⁾
Remaining Amortization Period - OPEB	24 years
Asset Valuation Method - Pension	5-Year Smoothed Market
Asset Valuation Method - OPEB	Market
Actuarial Assumptions:	
Wage Inflation Rate	3.5%
Investment Rate of Return--Pension	
- Non-Hybrid Plan	8.0%
- Hybrid Plan	7.0%
Investment Rate of Return--OPEB	8.0%
Projected Salary Increases	3.5% - 93.5%
Cost-of-Living Pension Adjustments	2% Annual Non-Compounded with Maximum Annual Increase of \$500 for those eligible ⁽²⁾
Healthcare Cost Trend Rate	9.0% Year 1 graded to 3.5% Year 10
Other Assumptions OPEB only ⁽²⁾ :	
Opt Out Assumption	6% of eligible participants are assumed to opt out of the retiree health plan
Survivor Coverage	85% of male retirees and 70% of female retirees are assumed to have coverage continuing after the retiree's death
Coverage Election at Retirement	85% of male and 70% of female future retirees are assumed to elect coverage for 1 or more dependents

⁽¹⁾ Based on the provisions 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.

⁽²⁾ Applies to individuals hired before June 10, 2012.

NOTE 4 - INVESTMENTS

Investment Authority

Under Public Act 380 of 1965, as amended, the authority for the purchase and the sale of investments resides with the State Treasurer. Investments are made subject to the Public Employee Retirement System Investment Act, Public Act 314 of 1965, as amended. The Public Employee Retirement System Investment Act authorizes, with certain restrictions, the investment of pension fund assets in stocks, corporate and government bonds and notes, mortgages, real

FINANCIAL SECTION

Notes to Basic Financial Statements (continued)

estate, and certain short-term and alternative investments. Investments must be made for the exclusive purposes of providing benefits to active members, retired members and beneficiaries, and for defraying the expenses of investing the assets.

Derivatives

The State Treasurer employs the use of derivatives in the investment of the pension and other employee benefit trust funds (the trust funds).

Derivatives are used in managing the trust fund portfolios, but uses do not include speculation or leverage of investments. Less than 12% of the total trust funds' portfolio has been invested from time to time in future contracts, swap agreements, structured notes, option and forward contracts. State investment statutes limit total derivative exposure to 15% of a fund's total asset value, and restrict uses to replication of returns and hedging of assets. Swap agreements represent the largest category of derivatives investments subject to this limitation. Option and Future contracts traded daily on an exchange and settling in cash daily or having a limited and fully defined risk profile at an identified, fixed cost are not subject to the derivative exposure limitation.

The derivative fair values are reported on the Statement of Pension Plan and Other Postemployment Benefit Plan Net Position as of September 30, 2013, in their respective investment pools market value. Derivative net appreciation and depreciation are reported on the Statement of Changes in Pension Plan and Other Postemployment Benefit Plan Net Position for fiscal year ended September 30, 2013, under "Investment income gain / (loss)", in "Net appreciation (depreciation) in fair value of investments". Bond interest, swap payments, and dividends are reported under "Investment Income", in "Interest, Dividends, and other".

Derivative Investment Table as of September 30, 2013 (In Thousands):

<u>Investment and Investment Type</u>	<u>Percentage of Market Value</u>	<u>Notional Value</u>	<u>Investments At Fair Value</u>	<u>Net Appreciation (Depreciation) in Fair Value</u>	<u>Investment Income FY 2013</u>	<u>Fair Value Subject to Credit Risk</u>
Structured Notes Absolute Return Investments	0.07%	\$ 8,735.5	\$ 7,813.0	\$ (1,033.2)		\$ 7,813.0
US Treasury Bond Future Contracts Fixed Income Investments	0.0%	605.5	7.9	12.1		
Option Contracts Equity Investments	0.0%	269.8	(2.0)	69.7		
Swap Agreements International Equity Investments	1.9%	26,504.1	22,401.4	4,658.6	\$ 58.1	3,216.3
Swap Agreements Equity Investments	0.0%	29,740.9	505.3	3,060.1	(74.8)	
Swap Agreements Currency Forward Opportunistic Investments	0.0%			(6.4)		

FINANCIAL SECTION

Notes to Basic Financial Statements (continued)

To diversify the trust funds' portfolio, the State Treasurer has entered into international swap agreements with investment grade counterparties, which are tied to stock market indices in forty foreign countries. Generally, one quarter or less of the notional amount tied to foreign stock market indices is usually hedged against foreign currency fluctuations. The swap agreements provide that the System will pay quarterly over the term of the swap agreements, interest indexed to the three month London Inter-Bank Offer Rate (LIBOR), adjusted for an interest rate spread, on the notional amount stated in the agreements. International equity swap agreement maturity dates range from October 2013 to September 2014. The U.S. Domestic LIBOR based floating rate notes and other investments interest are held to correspond with the notional amount of the international swap agreements. The value of the international synthetic equity structures is a combination of the value of the swap agreements and the value of the notes and other investments. The book value represents the cost of the notes and other investments. The current value represents the current value of the notes and other investments and the change in the value of the underlying indices from the inception of the swap agreements. The current value is used as a representation of the fair value based on the intention to hold all swap agreements until maturity. At the maturity of the swap agreements, the trust funds will either receive the increase in the value of the equity indices from the level at the inception of the agreements, or pay the decrease in the value of the indices. The combined swap structure generally realizes gains and losses on a rolling basis.

In May 2011, domestic equity swaps were added to the trust funds' portfolio for the Domestic Equity Pools. The swap agreements provide that the System will pay interest quarterly or annually over the term of the swap agreements, interest indexed to the LIBOR, adjusted for an interest rate spread, on the notional amount stated in the agreements. Domestic equity swap agreement maturity dates range from October 2013 to July 2014. Domestic equity swaps value is a combination of the value of the swap agreements and the value of short-term investments. Book value represents the cost of short-term and equity investments. Current value represents the fair value of the short-term investments and the change in the value of the underlying indices from the inception of the swap agreements. Domestic equity swaps' appreciation/(depreciation) primarily reflects the net changes in the domestic indices and short-term investments.

Counterparty credit risk is the maximum loss amount that would be incurred if the counterparties to the derivative instrument failed to perform according to the terms of the contract, without respect to any collateral or other security, or netting arrangement.

To get enhanced passive exposure to the Dow Jones UBS Commodity Total Return Index, the State Treasurer purchased structured notes from investment grade counterparties for the Absolute Return Pools. These notes are fully collateralized and pay cash rates on the underlying collateral, as well as, providing the enhanced index return. Similar to a swap agreement with prices changing with the underlying index fluctuations, the notes differ due to their daily put option which allows the structure to end and settle before the note's maturity. The maturity dates on the structured notes range from June 2014 through July 2019.

The State Treasurer traded U.S. Treasury bond future contracts to manage duration and yield curve exposure.

To provide downside protection and enhance current income, the State Treasurer traded covered equity options on single securities for the Absolute Return and Equity Investment pools. Put options are used to protect against large negative moves in single stocks, as well as, to express interest in a security that is trading well below its intrinsic value. Call options have been used to achieve current income on single equity securities that are trading near their intrinsic value.

Securities Lending

State statutes allow the System to participate in securities lending transactions, and the System has, by way of an Agreement, authorized Credit Suisse, the agent bank, to lend the System's securities to broker-dealers and banks pursuant to a form of loan agreement.

During the fiscal years, the agent bank lent, at the direction of the State Treasurer, the System's securities and received cash (United States) as collateral. The types of securities lent were equity, and fixed income, which includes government and corporate bonds and notes. Borrowers were required to deliver collateral for each loan equal to (i) in

FINANCIAL SECTION

Notes to Basic Financial Statements (continued)

case of loaned securities denominated in United States dollars or whose primary trading market was located in the United States or sovereign debt issued by foreign governments, 102% of the market value of the loaned securities; and (ii) in the case of loaned securities not denominated in United States dollars or whose primary trading market was not located in the United States, 105% of the market value of the loaned securities.

The agent bank agreed to indemnify the System by purchasing replacement securities, or returning cash collateral in the event borrower failed to return the loaned security or pay distributions thereon, due to the borrower's insolvency.

Under Master Securities Lending Agreements between the System and each borrower, the System and the borrowers have the right to terminate all securities lending transactions on demand. The cash collateral received on each loan was invested in assets held in a collateral account dedicated to the System. As of September 30, 2013, such assets had an average weighted maturity to next reset of 3.6 years and an average weighted maturity of 13.4 years. Because the loans are terminable at will, their duration did not generally match the duration of the investments made with cash collateral. On September 30, 2013, the System had no credit risk exposure to borrowers. The cash received for securities on loan for the System as of September 30, 2013, was \$95,163,632. The fair market value of assets held in the dedicated collateral account at the custodian for the System as of September 30, 2013 was \$74,788,856. The carrying amount, which is the fair market value, of securities on loan for the System as of September 30, 2013 was \$93,030,282.

Gross income, including capital gains and losses, from security lending for fiscal years ended September 30, 2013 with Credit Suisse was \$2,222,360. Expenses associated with this income were the borrower's rebate of \$88,750 and fees paid to the agent bank of \$203,244.

Risk

In accordance with GASB Statement No. 40, investments require certain disclosures regarding policies and practices, and the risks associated with them. The credit risk (including custodial credit risk and concentration of credit risk), the interest rate risk, and the foreign currency risk are discussed in the following paragraphs. Amounts represent the pro-rata share of the underlying investments as required by GASB Statement No. 40. These are held in internal investment pools and reported as such in the financial statements.

Credit Risk - Credit risk is the risk that an issuer will not fulfill its obligations.

- Short-Term Fixed Income Investments - Prime commercial paper investments must be rated A-1 or P-1 at the time of purchase as rated by the two major rating services Standard and Poor's Corporation (S&P) and Moody's Investor Service (Moody's), respectively. Borrowers must have at least \$400.0 million in commercial paper outstanding, and the State Treasurer may not invest in more than 10% of the borrowers' outstanding debt. The investments are further limited to \$200.0 million in any borrower, unless the borrower has an A-1+ rating in which case the investment is not to exceed \$300.0 million.
- Long-Term Fixed Income Investments - Investment grade and non-investment grade securities may be acquired in compliance with parameters set for in Public Act 314 of 1965, as amended, and the State Treasurer's investment policy. Law defines investment grade as investments in the top four major grades, rated by two national rating services, S&P (AAA, AA, A, BBB) and Moody's (Aaa, Aa, A, Baa). At September 30, 2013, the System was in compliance with the policy in all material aspects.

FINANCIAL SECTION

Notes to Basic Financial Statements (continued)

Rated Debt Investments
(In thousands)
As of September 30, 2013

Investment Type	Fair Value	S&P	Fair Value	Moody's
Short Term	\$48,619	A-1	\$48,619	P-1
Government Securities				
U.S. Agencies - Sponsored	-	AAA	15,281	Aaa
	15,281	AA	-	Aa
Corporate Bonds & Notes				
	858	AAA	1,838	Aaa
	14,633	AA	8,245	Aa
	49,421	A	47,451	A
	31,242	BBB	34,337	Baa
	3,108	BB	4,877	Ba
	2,525	B	2,755	B
	38	CCC	292	CAA
	-	CC	16	Ca
	33	D	-	D
	12,303	NR	14,350	NR
International ¹				
	8,301	AA	6,771	Aa
	2,807	A	7,686	A
	2,155	BBB	2,155	Baa
	5,401	NR	2,052	NR
Securities Lending Collateral				
Short Term	11,048	NR	11,048	NR
	-	AAA	8,096	Aaa
	8,096	AA	1,259	Aa
	1,323	A	65	A
	464	BB	47,747	Ba
	6,170	CCC	4,572	Caa
	-	CC	1,598	Ca
	47,284	NR	-	NR
Total	<u>\$ 271,110</u>		<u>\$ 271,110</u>	

NR - not rated

¹ International Investment types consist of domestic floating rate note used as part of a Swap strategy.

Custodial Credit Risk - Custodial credit risk for investments is the risk that, in the event of a failure of the counterparty, the State will not be able to recover the value of the investment or collateral securities that are in the possession of an outside party.

Investment securities are exposed to custodial credit risk if the securities are uninsured, are not registered in the name of the government and are held by either:

- The counterparty; or
- The counterparty's trust department or agent but not in the government name.

FINANCIAL SECTION

Notes to Basic Financial Statements (continued)

The State Treasurer does not have a policy for custodial credit risk. However, the State's custodial bank had a credit rating of A+ at September 30, 2013. As of September 30, 2013, no securities were exposed to custodial credit risk.

Concentration of Credit Risk - Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer.

Other than obligations issued, assumed or guaranteed by the United States, its agencies or United States government sponsored enterprises, the System is prohibited by Public Act 314 of 1965, as amended, from investing in more than 5% of the outstanding obligations of any one issuer or investing more than 5% of a System's assets in the obligations of any one issuer.

At September 30, 2013, there were no investments in any single issuer that accounted for more than 5% of the System's assets. The System held one investment that exceeded the 5% cap in obligations of any one issuer. The system is aware of the breach and, in accordance with MCL 38.1133(3)(g), is developing a prudent plan for reallocating assets to comply with the prescribed limitation.

Interest Rate Risk - Fixed Income Investments - Interest rate risk is the risk that changes in interest rates of debt investments will adversely affect the fair value of an investment.

The State Treasurer's policy states that cash equivalents are invested in short-term fixed income securities with an average weighted maturity of less than one year to provide liquidity and safety of principal from capital market and default risk. At September 30, 2013, the fair value of the System's prime commercial paper was \$48.6 million with the weighted average maturity of 19 days.

The State Treasurer does not have a policy regarding interest rate risk for long-term debt investments. However, the trust funds are invested with a long-term strategy. The goal is to balance higher returns while accepting minimum risk for the return. Analyzing the yield curve on individual securities as compared to U.S. Treasuries determines, in part, what is an acceptable risk for the return. Therefore, market conditions such as lower interest rates result in shorter duration and higher interest rates result in longer duration.

Debt Securities (in thousands) As of September 30, 2013

	2013	
	Fair Value	Effective Duration in Years
Government		
U. S. Treasury	\$ 11,519	2.2
U. S. Agencies - Backed	17,705	4.9
U. S. Agencies - Sponsored	15,281	6.8
Corporate	114,161	4.1
International*		
Corporate	18,664	0.3
Total	<u>\$ 177,330</u>	

Debt Securities are exclusive of Securities Lending Collateral.

*International contains Corporate Debt Securities as a part of their derivative strategies.

The interest rates reset on a quarterly basis for these securities.

FINANCIAL SECTION

Notes to Basic Financial Statements (continued)

Foreign Currency Risk - Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or deposit.

The System invests in various securities denominated in foreign currencies. Authorized global securities include equities, fixed income, mutual funds, real estate, and limited partnerships. These investments are limited to 30% of the total assets of the System with additional limits of not more than 5% of the outstanding global securities of any one issuer and no more than 5% of the system's assets in the global securities of any one issuer. In additions to these limits, the State Treasurer cannot acquire securities in companies that have active business operations in state sponsors of terror as identified by the United States Secretary of State.

At September 30, 2013, the total amount of foreign investment subject to foreign currency risk was \$208.7 million, which amounted to 17.5% of total investments (exclusive of securities lending collateral) of the System, respectively.

FINANCIAL SECTION

Notes to Basic Financial Statements (continued)

Foreign Currency Risk
(in thousands)
As of September 30, 2013

<u>Region</u>	<u>Country</u>	<u>Currency</u>	<u>Alt. Invest., Real Estate, & Infrastruc. Pools Market Value in U.S. \$</u>	<u>Equity Pools Market Value in U.S. \$</u>	<u>Fixed Income Pools Market Value in U.S. \$</u>	<u>International Equity Pools Derivatives * Market Value in U.S. \$</u>
<u>AMERICA</u>						
	Canada	Dollar		\$ 41		\$ 3
	Mexico	Peso			\$ 91	
<u>EUROPE</u>						
	European Union	Euro	\$ 25,735	1,605	96	16
	Switzerland	Franc		895		42
	Sweden	Krona		266		32
	Denmark	Krone		62		
	Norway	Krone		21		7
	U.K.	Sterling	247	2,053		157
<u>PACIFIC</u>						
	Australia	Dollar				82
	China	Renminbi		12		
	Hong Kong	Dollar		147		15
	Japan	Yen		920		1,645
	New Zealand	Dollar				2
	Philippines	Peso			18	
	Singapore	Dollar		244		12
	South Korea	Won		1,158		27
<u>MIDDLE EAST</u>						
	Israel	Shekel		2,628		
<u>VARIOUS</u>						
			25,432	145,037		(71)
	Total		<u>\$ 51,414</u>	<u>\$ 155,089</u>	<u>\$ 205</u>	<u>\$ 1,969</u>

* International derivatives' market value exposure to foreign currency risk is the net amount of unrealized gains and unrealized losses. Maturity dates on these investments range from October 2013 through June 2014 with an average maturity of 0.4 years.

FINANCIAL SECTION

Notes to Basic Financial Statements (continued)

NOTE 5 – ACCOUNTING CHANGES

GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. The Statement provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources and net position in a statement of financial position and also requires related disclosures. This statement was implemented in fiscal year 2013.

Beginning in fiscal year 2013, the System changed its OPEB funding policy to prefund benefits, formerly funded on a pay-as-you-go basis. As a result of this change in funding policy, the System's actuary used an investment rate of return of 8%, rather than the 4% that was previously used, to reflect the System's projected long-term investment rate of return. Adopting the 8% investment rate of return had the following impact on the System's OPEB actuarial valuations for fiscal year 2012:

- A reduction of the fiscal year 2013 annual required contribution for OPEB by \$20.2 million, or 30.1%.
- A reduction of the September 30, 2012 OPEB actuarial accrued liability by \$402.3 million or 40.2%.
- A reduction of the September 30, 2012 OPEB unfunded actuarial accrued liability by \$402.3 million, or 41.6%.

NOTE 6 – NEW ACCOUNTING PRONOUNCEMENTS

GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities*. This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2012. This Statement will be implemented in fiscal year 2014.

GASB issued Statement No. 67, *Financial Reporting for Pension Plans - An Amendment of GASB Statement No. 25*. The Statement's objective is to improve financial reporting by state and local governmental pension plans. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. This Statement replaces the requirements of Statements No. 25 *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, and No. 50 *Pension Disclosures*, as they relate to pension plans administered through trusts or equivalent arrangements. The requirements of Statements No. 25 and No. 50 remain applicable to pension plans that are not administered through trusts or equivalent arrangements. The provisions of this Statement are effective for financial statements for fiscal years beginning after June 15, 2013. This Statement will be implemented in fiscal year 2014.

NOTE 7 – COMMITMENTS AND CONTINGENCIES

Under the Administrative Procedures Act, members may appeal a decision by the Board. Once the administrative procedure has been exhausted, the decision may be appealed in Michigan's court system. Various cases that have exhausted the administrative procedures have been appealed in the court system. These cases are in the normal course of business and the System does not anticipate any material loss as a result of the contingent liabilities.

FINANCIAL SECTION

Required Supplementary Information

Schedules of Funding Progress

Expressing the net position restricted for benefits as a percentage of the actuarial accrued liability provides one indication of the System's funding status. Analysis of this percentage over time indicates whether the System is becoming financially stronger or weaker. Generally, the greater this percentage, the stronger the System. Trends in unfunded actuarial accrued liability and annual covered payroll are both affected by inflation. Expressing the unfunded or over-funded actuarial accrued liability as a percentage of annual covered payroll approximately adjusts for the effects of inflation and aids analysis of progress made in accumulating sufficient assets to pay benefits when due. Generally, the smaller this percentage, the stronger the System.

Valuation Date Sept 30	Pension Benefits (\$ in millions)					
	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded (Overfunded) Accrued Liability (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll ((b-a)/c)
2003	\$ 1,139.1	\$ 1,186.4	\$ 47.3	96.0 %	\$ 113.2	41.8 %
2004 ²	1,117.7	1,255.8	138.1	89.0	119.7	115.4
2005	1,090.3	1,300.3	210.0	83.8	117.6	178.5
2006	1,113.5	1,385.9	272.4	80.3	115.9	235.0
2006 ¹	1,204.2	1,385.9	181.7	86.9	115.9	156.8
2007	1,259.1	1,443.7	184.6	87.2	118.2	156.2
2007 ³	1,259.1	1,451.9	192.7	86.7	118.2	163.0
2008	1,265.7	1,496.3	230.6	84.6	120.7	191.0
2009	1,238.1	1,534.0	295.9	80.7	123.2	240.1
2010	1,202.0	1,565.2	363.2	76.8	118.6	306.3
2010 ⁴	1,202.0	1,594.3	392.3	75.4	118.6	330.9
2011	1,138.1	1,627.9	489.8	69.9	110.3	444.1
2012	1,069.2	1,671.0	601.9	64.0	104.9	573.9

1 Change in asset valuation method.

2 Revised actuarial assumptions and benefit provisions.

3 Revised benefit provisions.

4 Revised actuarial assumptions and/or methods.

Valuation Date Sept 30	Other Postemployment Benefits (\$ in millions)					
	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded (Overfunded) Accrued Liability (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll ((b-a)/c)
2007		\$ 918.1	\$ 918.1	0.0 %	\$ 118.2	776.7 %
2008		963.0	963.0	0.0	120.7	797.7
2009		882.3	882.3	0.0	123.2	715.9
2010		1,055.9	1,055.9	0.0	118.6	890.5
2011		994.7	994.7	0.0	110.3	902.0
2012 ¹	\$ 33.0	599.1	566.1	5.5	104.9	539.8

1 Revised investment rate of return from 4% to 8% due to prefunding

FINANCIAL SECTION

Required Supplementary Information (continued)

Schedules of Employer and Other Contributions

Pension Benefits

Fiscal Year Ended Sept. 30	Annual Required Contribution (ARC)	Actual Contribution	Percentage Contributed
2004	\$ 26,997,861	\$ 24,792,137	91.8 %
2005	32,151,494	26,607,572	82.8
2006	36,063,260	26,103,923	72.4
2007	32,386,761 ¹	24,323,324	75.1
2008	33,669,820	34,364,943	102.1
2009	36,697,604	35,434,912	96.6
2010	41,607,229	37,897,934	91.1
2011	47,247,573	38,573,946	81.6
2012	52,275,891	40,686,857	77.8
2013	57,667,657	49,004,314	85.0

¹ Pursuant to Public Act 22 of 2007, the System's assets were revalued to their actual market value as of September 30, 2006. The five-year smoothing began again in fiscal year 2008.

Other Postemployment Benefits

Fiscal Year Ended Sept. 30	Annual Required Contribution (ARC)	Actual Contribution	Other Governmental Contribution	Percentage Contributed
2007	\$ 59,691,819	\$ 27,840,439		46.6 %
2008	59,027,965	29,131,474	\$ 277,601	49.8
2009	63,928,600	29,841,208	371,752	47.3
2010	60,004,401	32,890,501	321,844	55.3
2011	73,690,143	31,627,140	3,643,725	47.9
2012	68,335,401	46,190,655	1,061,040	69.1
2013 ¹	46,803,163	42,858,381	2,800,949	97.6

¹ Revised actuarial assumptions.

FINANCIAL SECTION

Note to Required Supplementary Information

NOTE A - DESCRIPTION

Ten year historical trend information designed to provide information about the System's progress made in accumulating sufficient assets to pay benefits when due is presented in the preceding schedules. Other ten year historical trend information related to the System is presented in the Statistical and Actuarial Sections of the report. This information is presented to enable the reader to assess the progress made by the System in accumulating sufficient assets to pay pension and other postemployment benefits as they become due. Because this is the seventh year the system is reporting other postemployment benefits in accordance with GASB Statement No. 43, only seven years of historical trend information is provided.

The comparability of trend information is affected by changes in actuarial assumptions, benefit provisions, actuarial funding methods, accounting policies, and other changes. Those changes usually affect trends in contribution requirements and in ratios that use the pension and other postemployment benefit obligations as a factor.

The Schedules of Funding Progress and Schedules of Employer Contributions are reported as historical trend information. The Schedules of Funding Progress are presented to measure the progress being made to accumulate sufficient assets to pay benefits when due. The Schedules of Employer Contributions are presented to show the responsibility of the Employer in meeting the actuarial requirements to maintain the System on a sound financial basis.

FINANCIAL SECTION

Supporting Schedules

**Summary Schedule of
Pension Plan Administrative and Other Expenses
For Fiscal Year Ended September 30, 2013**

	<u>2013</u>
Personnel Services:	
Staff Salaries	\$ 199,542
Retirement and Social Security	38,130
Other Fringe Benefits	13,676
Total	<u>251,349</u>
Professional Services:	
Accounting	14,492
Actuarial	55,319
Attorney General	9,059
Audit	45,400
Consulting	3,424
Medical	5,067
Total	<u>132,760</u>
Building Equipment:	
Building Rentals	10,208
Equipment Purchase, Maintenance, and Rentals	660
Total	<u>10,869</u>
Miscellaneous:	
Travel and Board Meetings	465
Office Supplies	528
Postage, Telephone, and Other	21,859
Printing	3,542
Technological Support	86,746
Total	<u>113,141</u>
Total Administrative and Other Expenses	<u>\$ 508,118</u>

**Summary Schedule of
OPEB Plan Administrative and Other Expenses
For Fiscal Year Ended September 30, 2013**

	<u>2013</u>
Staff Salaries	\$ 57,450
Health Fees	1,036,820
Dental Fees	85,629
Vision Fees	25,839
Total Administrative and Other Expenses	<u>\$ 1,205,738</u>

FINANCIAL SECTION

Supporting Schedules (continued)

Schedule of Investment Expenses For Fiscal Year Ended September 30, 2013

	<u>2013</u>
Real Estate Operating Expenses	\$ 28,873
Securities Lending Expenses	291,994
Other Investment Expenses ¹	
ORS-Investment Expenses ²	346,959
Custody Fees	21,827
Management Fees	2,852,805
Research Fees	61,172
Total Investment Expenses	\$ 3,603,631

¹Refer to Investment Section for fees paid to investment professionals.

²Does not exclude Treasury Civil Service fees recorded as a pass through in the Schedule of Investment Fees - State Treasury. As of September 30, 2013 fees totaled \$3,703.

Schedule of Payments for Professional Services For Fiscal Years Ended September 30, 2013

	<u>2013</u>
Accounting	\$ 14,492
Actuary	55,319
Attorney General	9,059
Independent Auditors	45,400
Consulting	3,424
Medical	5,067
Total Payment to Consultants	\$ 132,760

FINANCIAL SECTION

Supporting Schedules (continued)

Detail of Changes in Plan Net Position (Pension and Other Postemployment Benefits)
For the Year Ended September 30, 2013

	<u>Employee Contributions</u>	<u>Employee Contributions Pension Plus</u>	<u>Employer Contributions</u>	<u>Employer Contributions Pension Plus</u>
Additions:				
Contributions:				
Member contributions	\$ 1,062,587	\$ 273,494		
Employer contributions			\$ 46,360,658	\$ 2,643,656
Other governmental contributions				
Total contributions	<u>1,062,587</u>	<u>273,494</u>	<u>46,360,658</u>	<u>2,643,656</u>
Investment income (loss):				
Net appreciation (depreciation) in fair value of investments				
Interest, dividends, and other				
Investment expenses:				
Real estate operating expenses				
Other investment expenses				
Securities lending activities:				
Securities lending income				
Securities lending expenses				
Net investment income (loss)				
Miscellaneous income				
Total additions	<u>1,062,587</u>	<u>273,494</u>	<u>46,360,658</u>	<u>2,643,656</u>
Deductions:				
Benefits paid to plan members and beneficiaries:				
Retirement benefits				
Health benefits				
Dental/vision benefits				
Refunds of contributions	19,489			
Administrative and other expenses				
Total deductions	<u>19,489</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net Increase (Decrease)				
Before Other Changes	<u>1,043,099</u>	<u>273,494</u>	<u>46,360,658</u>	<u>2,643,656</u>
Other Changes in Net Position:				
Interest allocation	29,772		1,050,083	
Transfers upon retirement	(121,412)			
Transfers of employer shares			(71,707,354)	
Total other changes in net position	<u>(91,640)</u>	<u>-</u>	<u>(70,657,271)</u>	<u>-</u>
Net Increase (Decrease)	951,459	273,494	(24,296,613)	2,643,656
Net Position Restricted for Pension Benefits and OPEB:				
Beginning of Year	<u>1,035,403</u>	<u>11,468</u>	<u>12,790,387</u>	<u>335,645</u>
End of Year	<u>\$ 1,986,862</u>	<u>\$ 284,963</u>	<u>\$ (11,506,226)</u>	<u>\$ 2,979,301</u>

FINANCIAL SECTION

Supporting Schedules (continued)

Retired Benefit Payments	Retired Benefit Payments Pension Plus	Undistributed Investment Income	OPEB Related Benefits	Total
			\$ 1,272,232	\$ 2,608,313
			42,858,381	91,862,695
			2,800,949	2,800,949
-	-	-	46,931,561	97,271,956
		\$ 109,961,950	3,278,311	113,240,261
		26,593,168	822,841	27,416,009
		(27,918)	(955)	(28,873)
		(3,191,944)	(90,820)	(3,282,764)
		2,147,613	74,747	2,222,360
		(280,916)	(11,079)	(291,994)
-	-	135,201,954	4,073,046	139,274,999
\$ 13,935		14,369	17,311	45,615
13,935	-	135,216,323	51,021,917	236,592,571
				110,782,367
			27,881,426	27,881,426
			2,690,082	2,690,082
				19,489
		508,118	1,205,738	1,713,856
110,782,367	-	508,118	31,777,247	143,087,220
(110,768,432)	-	134,708,205	19,244,671	93,505,350
143,217,293		(144,297,148)		
121,412				
71,707,354				
215,046,059	-	(144,297,148)		
104,277,627		(9,588,943)	19,244,671	93,505,350
1,076,821,750		(38,611,928)	32,995,525	1,085,378,250
\$ 1,181,099,377	\$ -	\$ (48,200,871)	\$ 52,240,196	\$ 1,178,883,601

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INVESTMENT SECTION

Prepared by Michigan Department of Treasury, Bureau of Investments

Jon M. Braeutigam, Director

Report on Investment Activity
Asset Allocation
Investment Results
List of Largest Stock Holdings
List of Largest Bond Holdings
Schedule of Investment Fees
Schedule of Investment Commissions
Investment Summary

INVESTMENT SECTION

Report on Investment Activity

INTRODUCTION

The State Treasurer reports investment activity quarterly to the Investment Advisory Committee (Committee), which reviews the investments, goals, and objectives of the retirement funds and may submit recommendations regarding them to the State Treasurer. The Investment Advisory Committee may also, by a majority vote, direct the State Treasurer to dispose of any holdings that, in the Committee's judgment, are not suitable for the funds involved, and may, by unanimous vote, direct the State Treasurer to make specific investments.

The Investment Advisory Committee was created by Act 380 of the Public Acts of 1965. The three public members of the five-member committee are appointed by the Governor with the advice and consent of the Senate for three-year terms. The Director of the Department of Licensing and Regulatory Affairs and the Director of the Department of Technology, Management & Budget are ex-officio members. As of September 30, 2013, members of the Committee were as follows: Naif A. Khouri (public member), James B. Nicholson (public member), L. Erik Lundberg, CFA (public member), Steve Arwood (ex-officio member), and John E. Nixon, CPA (ex-officio member). The public members serve without pay, but may be paid actual and necessary travel and other expenses.

INVESTMENT POLICY & GOALS

Investment policy states that the fiduciary will operate within standard investment practices of the prudent person and in accordance with Public Employee Retirement System Investment Act 314 of 1965. The fiduciary is authorized to invest in government obligations, corporate obligations, various short-term obligations, corporate (domestic and international) stocks, private equity interests, mutual funds, real estate interests, and other investments subject to specific parameters. Above all, trust fund assets are to be invested for the exclusive benefit of the members of the System, in a fiduciary capacity.

The System's Proxy Voting Policy sets forth directives on various issues including: Boards of Directors, corporate governance, social issues, corporate restructurings and defenses. All proxies are reviewed and voted in accordance with the System's policy.

The primary function of the System is to provide retirement, survivor and disability benefits along with health and other postemployment benefits to its members. The State Treasurer is the sole investment fiduciary and custodian of the System's investments pursuant to State law. The goals of the System are:

1. Maintain sufficient liquidity to pay benefits.
2. Meet or exceed the actuarial assumption over the long term.
3. Perform in the top half of the public plan universe over the long term.
4. Diversify assets to preserve capital and avoid large losses.
5. Exceed individual asset class benchmarks over the long term.

The strategy for achieving these goals is carried out by investing the assets of the System according to a five-year asset allocation model. The System currently invests in seven different asset classes, which provides for a well-diversified portfolio.

INVESTMENT SECTION

Report on Investment Activity (continued)

Asset Allocation (Excludes Collateral on Loaned Securities)

<u>Investment Category</u>	<u>As of 9/30/13 Actual %</u>	<u>Five-Year Target %</u>
Domestic Equity Pools	26.6 %	31.0 %
International Equity Pools	14.7	16.0
Alternative Investment Pools	19.4	16.0
Real Estate and Infrastructure Pools	10.8	9.0
Fixed Income Pools	12.1	15.0
Absolute Return Pools	10.8	9.0
Short Term Investment Pools	5.6	4.0
TOTAL	<u>100.0 %</u>	<u>100.0 %</u>

INVESTMENT AUTHORITY

Pursuant to State Law (Section 91 of Act No. 380 of the Public Acts of 1965, as amended, and Section 12c of Act No. 314 of 1965 as amended), the State Treasurer, State of Michigan, is the investment fiduciary for the following four State sponsored retirement systems: Michigan Public School Employees' Retirement System, Michigan State Employees' Retirement System, Michigan State Police Retirement System, and Michigan Judges' Retirement System.

Act No. 314 of the Public Acts of 1965, as amended, authorizes the investment of assets of public employee retirement systems or plans created and established by the State or any political subdivision.

INVESTMENT RESULTS

Total Portfolio Results

For the fiscal year ended September 30, 2013, the total System's rate of return was 12.4% for the Pension Plan and 11.6% for the OPEB Plan as compiled by State Street Investment Analytics. Annualized rates of return for the three, five, and ten year periods ending September 30, 2013 were: 10.8%, 6.6%, and 7.4% respectively for the Pension Plan.

There were several positive economic developments during the fiscal year 2013. To highlight a few; the U.S. stock market S&P 500 returned 19.3% over the year, the U.S. economy added 2.1 million jobs, and home prices were higher than the prior year.

At times, though, it was not at all certain that the economy was doing well. In October 2012, hurricane Sandy hit the eastern seaboard causing an estimated damage of \$68 billion, the second costliest hurricane on record. In late December 2012 and early January 2013, the U.S. Legislature finally addressed the "Fiscal Cliff". The buildup to the December 31 deadline is believed to have slowed the economy somewhat due to the uncertainty of the resolution. Anticipating some economic fall-out of these events, the FOMC in December 2012 announced an increase in the amount of open-ended purchases (also known as Quantitative Easing or "QE") from \$40 billion to \$85 billion per month.

INVESTMENT SECTION

Report on Investment Activity (continued)

By springtime 2013, it became evident that the policies adopted by the Federal Reserve Board were having a desirable effect on the economy as well as the financial markets. There was a feeling that given some growth in GDP, the jobs recovery, the housing recovery, strong corporate profits, etc., that conditions were getting back to normal, thus requiring normal Fed policy.

In his testimony to Congress in May 2013, Federal Reserve Chairman Ben Bernanke explained that if the economy continued to show improvements, and if the board became confident in the sustainability of the improvements, the rate of \$85 billion per month bond purchases would be reduced or tapered. One consequence of this statement was an increase in long-term interest rates. Between the end of April 2013 and the end of September 2013, the 10-year Treasury rate increased by roughly 0.9% to end the fiscal year at a rate of 2.6%.

Many market prognosticators came to believe that the Fed would begin to taper in September 2013. However, in September the Fed surprised the markets by announcing that the current accommodations would continue because of risks that still exist in the economy. One such risk on the minds of the Federal Reserve Board could have been the possibility of the U.S. Government shutting down. By September 30, 2013, lawmakers were at an impasse on many issues, but the fight was particularly acute along the issues of raising the debt ceiling and the funding of the Patient Protection and Affordable Care Act, also known as Obamacare.

As the fiscal year draws to an end, the grumblings of the effectiveness and the consequences of the QE policies are becoming more audible. In 1998 Long Term Capital Management (LTCM) required a \$3.6 billion bailout. At the time, it was believed that this action was necessary in order to save the financial system. This year, the Fed's QE program is the size of over 70 LTCM bailouts per quarter. Regardless, the prognosticators are now predicting tapering will begin sometime in 2014. By then, at the current rates, the jobs lost during the financial crisis will likely be fully recovered and the unemployment rate close to the Fed's target of 6.5%. By that time, the new Fed Chair, Janet Yellen, will be in control as Fed Chairman Ben Bernanke will end his term in January 2014.

Domestic Equity Pools

The objective for investments made in domestic equities is to meet or exceed the total return of the S&P 1500 Super Composite for one, three, and five-year periods and a market cycle.

For active management strategies, the objective is to earn returns that exceed the most relevant S&P Index (or the most relevant Russell Index), adjusting for market capitalization and style, for one, three, and five-year periods and a market cycle. Rank above median in a universe of managers possessing a similar market cap and style characteristics.

For index, or passive return strategies, the objective is to return within 20 basis points of the S&P 500 Index, 50 basis points for the S&P 400 mid-cap, and 60 basis points for the S&P 600 small-cap over one, three, and five-year periods and a market cycle.

The pools are invested primarily in equities or equity-related securities of U.S. companies through internal and externally managed strategies. The goal is to build a portfolio of strategies that will provide excess returns relative to the S&P 1500 while providing minimal tracking error to the index. At times a portion of these pools may be invested in exchange traded funds (ETFs) and fixed-income short-term securities with maturities of less than one year.

The pools invest in equities and equity related securities that are listed on U.S. national securities exchanges, including American Depository Receipts (ADRs). They may also invest in stocks that are traded over-the-counter. The pools diversify their investments by allocating their equity strategies with consideration of the capitalization weightings of the S&P 1500 Index.

INVESTMENT SECTION

Report on Investment Activity (continued)

The following summarizes the weightings of the pools as of September 30, 2013:

Active	52.1 %
Passive	47.9
Total	<u>100.0</u> %

Large Cap	76.4 %
Mid Cap	10.9
Multi Cap	9.8
Small Cap	2.9
Total	<u>100.0</u> %

The System's Domestic Equity pools total rate of return was 21.6% for the Pension Plan and 21.8% for the OPEB Plan for fiscal year 2013. This compared with 20.4% for the S&P 1500 Index.

At the close of fiscal year 2013, the Domestic Equity pools represented 26.6% of total investments. The following summarizes the System's 2.2% ownership share of the Domestic Equity pools at September 30, 2013:

Domestic Equity Pools (in thousands)

Short Term Pooled Investments	\$ 3,513
Equities	315,580
Market Value of Equity Contracts	(569)
Other Investments	(2)
Long Term Obligations	21
Settlement Principal Payable	(1,480)
Settlement Proceeds Receivable	1,188
Accrued Dividends	275
Total	<u>\$ 318,526</u>

International Equity Pools

The objective for investments made in International Equity pools is to meet or exceed the total return of the MSCI ACWI Ex-US Gross for one, three, and five-year periods and a market cycle.

For active management strategies, the objective is to earn returns that exceed the most relevant S&P Index (or the most relevant Russell Index), adjusting for market capitalization, style and geography for one, three, and five-year periods and a market cycle. Rank above median in a universe of managers possessing a similar market capitalization, style and geography characteristics.

For index, or passive return strategies, the objective is to return within 250 basis points of the S&P/Citigroup BMI-EPAC Index with 25% of the currency hedged for one, three, and five-year periods and a market cycle. Return within 400 basis points of the MSCI Emerging Markets Index, for one, three, and five-year periods and a market cycle.

INVESTMENT SECTION

Report on Investment Activity (continued)

Active exposure is invested primarily in equities or equity-related securities of non-U.S. companies through externally managed strategies.

Passive exposure to international equity returns is achieved primarily by investing in a combination of fixed income LIBOR notes, short-term fixed income investments, and equity swap agreements on foreign stock indices in developed markets. Interest on the dedicated notes and short-term fixed income investments is exchanged for international stock returns, and the total notional amount of the swap agreements is invested in the approximate proportions of the S&P Broad Market Index (BMI) Europe and Pacific Composite (EPAC) country weightings in related indices. Use of swap agreements for a core position began in 1993, an American Depository Receipts (ADR) and index-related security portfolio was added in June of 1999 to increase portfolio management flexibility, and a multiple country fund portfolio with smaller capitalization stocks was added in September of 2002 to improve exposure to the smallest companies in the BMI index. Use of futures as an investment to hedge cash flows and balances began in December of 2008, and this use is expected to continue in the future. The combined Swap agreements, notes and short-term investments together continue to perform like a stock index fund that realizes all gains and losses on a rolling three year basis.

The pools diversify their investments by allocating their equity strategies with consideration of the economic development status weightings of the S&P/Citigroup BMI -World ex-US Index.

The following summarizes the weightings of the pools as of September 30, 2013:

Active	56.2 %
Passive	43.8
Total	<u>100.0 %</u>

Developed	76.5 %
Emerging	23.5
Total	<u>100.0 %</u>

The System's International Equity pools total rate of return was 16.2% for fiscal year 2013. This compared with 17.0% for the MSCI ACWI Ex US Gross.

At the close of fiscal year 2013, the International Equity pools represented 14.7% of total investments. The following summarizes the System's 2.1% ownership share of the International Equity Pools at September 30, 2013:

International Equity Pools (in thousands)

Short Term Pooled Investments	\$	1,073
Equities		153,237
Fixed Income Securities		18,664
Market Value of Equity Contracts		3,126
Settlement Principal Payable		(379)
Accrued Dividends and Interest		39
Total	\$	<u>175,760</u>

INVESTMENT SECTION

Report on Investment Activity (continued)

Alternative Investment Pools

The Alternative Investment pools objective is to meet or exceed the benchmark for all private equity investments over long time periods. The benchmark is a blend of the S&P 500 Index plus 300 basis points and the 10 Year Yield plus 300 basis points using ending weights of equity and fixed income holdings within the portfolio.

Alternative Investments are investments in the private equity market, primarily through limited partnerships. The following summarizes the weightings of the pools as of September 30, 2013:

Buyout Funds	57.4 %
Special Situation Funds	20.5
Venture Capital Funds	10.0
Fund of Funds	4.8
Liquidation Portfolio	3.8
Other	1.4
Mezzanine Funds	2.1
Total	<u>100.0 %</u>

The Alternative Investment pools had a return of 14.8% for the fiscal year ended September 30, 2013, versus the benchmark of 23.5%.

At the close of fiscal year 2013, the Alternative Investment pools represented 19.4% of total investments. The following summarizes the System's 2.6% ownership share of the Alternative Investment pools at September 30, 2013:

Alternative Investment Pools (in thousands)

Short Term Pooled Investments	\$ 2,660
Equities	228,466
Settlement Proceeds Receivable	89
Total	<u>\$ 231,215</u>

Real Estate and Infrastructure Pools

The objective of the Real Estate and Infrastructure pools is to provide diversification and favorable risk adjusted returns primarily through income and appreciation of investments. Investments are typically held through investment entities, such as limited partnerships or limited liability companies, established for the specific purpose of owning, leasing, managing, financing, or developing real estate and infrastructure related investments.

The Real Estate and Infrastructure pools diversify its holdings by:

- Geography - The pools are invested globally and are diversified geographically so that it is not concentrated in a limited number of cities or geographic areas.
- Size and Value - The pools diversify its holdings by size so that it is not concentrated in a limited number of large investments.
- Investment Type – The pools are diversified by investment type as summarized below.

INVESTMENT SECTION

Report on Investment Activity (continued)

Multi-family apartments	23.4 %
Commercial office buildings	13.6
Hotel	19.2
Retail shopping centers	16.9
Industrial warehouse buildings	7.2
For Sale Homes	4.2
For Rent Homes	5.1
Infrastructure	5.4
Land	2.4
Senior Living	1.0
Short Term Investments	1.6
Total	<u>100.0 %</u>

The Real Estate pool generated a return of 8.2% for fiscal year 2013. The two benchmark returns from the National Council of Real Estate Investment Fiduciaries: the National Property Index (less 130 basis points) was 9.6% and the Open-End Diversified Core Equity Index was 12.0%. The Infrastructure pool had a return of 13.9% for fiscal year 2013. The benchmark, CPI +4% lagged 3M was 5.8%

At the close of fiscal year 2013, the Real Estate and Infrastructure pools represented 10.8% of total investments. The following summarizes the System's 2.2% ownership share of the Real Estate and Infrastructure pools at September 30, 2013:

Real Estate and Infrastructure Pools (in thousands)

Short Term Pooled Investments	\$	2,082
Real Estate Equities		120,193
Infrastructure Equities		7,149
Total	\$	<u>129,424</u>

Fixed Income Pools

The objective for investments made in the Fixed Income pools is to meet or exceed the Barclays Aggregate Bond Index over one, three, and five-year periods and market cycles. Rank above median in a nationally recognized universe of managers possessing a similar style.

For fixed income sub-strategies, the objective return is to meet or exceed the most relevant Barclays benchmark index.

The pools are invested primarily in fixed income securities of U.S. companies through internal and externally managed strategies. The goal is to build a portfolio of strategies that will provide excess returns relative to the blended benchmark while providing minimal tracking error to the index. At times a portion of the pools may be invested in exchange traded funds (ETFs) and fixed-income short-term securities with maturities of less than one year.

The pools invest in fixed income and related securities in a diversified portfolio of investment grade corporate issues, treasuries, agencies, government sponsored enterprises and government guaranteed mortgages. The pools diversify their investments by allocating their strategies with consideration of credit risk.

INVESTMENT SECTION

Report on Investment Activity (continued)

The System's Fixed Income pools total rate of return was (0.2)% for fiscal year 2013. This compared with (1.7)% for the Barclays Aggregate Bond Index.

At the close of fiscal year 2013, the Fixed Income pools represented 12.1% of total investments. The following summarizes the System's 2.2% ownership share of the Fixed Income pools at September 30, 2013:

Fixed Income Pools (in thousands)

Short Term Pooled Investments	\$	3,463
Fixed Income Securities		140,474
Settlement Principal Payable		(150)
Accrued interest		957
Total	\$	<u>144,744</u>

Absolute Return Pools

The Absolute Return Pools consist of the Absolute Return Strategies Pool and the Real Return and Opportunistic Investment Pool.

The primary investment objective of the Absolute Return Strategies Pool is to generate a rate of return that meets or exceeds T-bills by 400 basis points net of fees over the one, three, and five-year periods and a market cycle. Also, exceed the appropriate HFN Fund of Funds median net of fees over one, three, and five-year periods and a market cycle.

The Absolute Return Strategies pool rate of return for the fiscal year was 10.2% versus the benchmark's 6.2%.

The primary investment objective of the Real Return and Opportunistic Pool is to generate a rate of return that meets or exceeds the increase in the CPI by at least five percent (5%) annually net of fees over one, three, and five-year periods and a market cycle. If a peer universe is available, rank above median in a nationally recognized universe of managers possessing a similar style.

For sub-strategies targeting a commodities index, the objective is to generate a rate of return that meets or exceeds the Dow Jones-AIG Total Return Commodities Index over one, three, and five year periods and a market cycle. Rank above median in a nationally recognized universe of managers possessing a similar style.

The Real Return and Opportunistic Investments pool rate for the fiscal year was 6.6% versus the benchmark's 7.1%.

At the close of fiscal year 2013, the Absolute Return pools represented 10.8% of total investments. The following summarizes the System's 2.2% ownership share of the Absolute Return Pools at September 30, 2013:

INVESTMENT SECTION

Report on Investment Activity (continued)

Absolute Return Pools (in thousands)

Short Term Pooled investments	\$ 9,652
Equities	113,885
Long Term Obligations	5,420
Accrued Interest and Dividends	130
Total	<u>\$ 129,087</u>

Short Term Investment Pools

The objective of the Short Term Investment pools is to closely match the return performance of its benchmark, the 30 day Treasury bill. The Short Term Investment pools return for the fiscal year was 0.5% for the Pension Plan and 0.4% for the OPEB Plan versus the benchmark's 0.0%.

Potential areas of investment are:

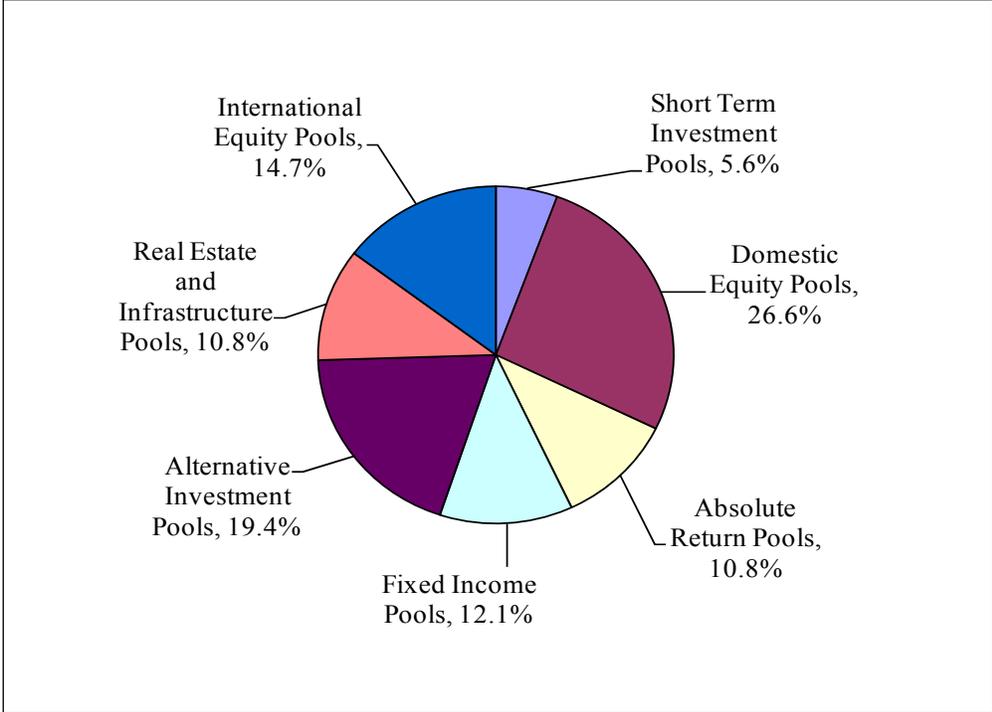
- Obligations of the United States or its agencies.
- Banker's acceptances, commercial accounts, certificates of deposit or depository receipts.
- Repurchase agreements for the purchase of securities issued by the US government or its agencies.
- Commercial paper rated at the time of purchase within the two highest classifications established by not less than two national rating services as determined by the State Treasurer.
- Short duration investment grade corporate issues.

At the close of fiscal year 2013, the Short Term Investment pools represented 5.6% of total investments. The following summarizes the System's 4.2% ownership share of the Short Term Investment pools at September 30, 2013:

Short Term Investment Pools (in thousands)

Short Term Pooled Investments	\$ 41,205
Fixed Income Securities	25,721
Total	<u>\$ 66,926</u>

Asset Allocation – Security Type Only



INVESTMENT SECTION

Pension Plan Investment Results for the Period Ending September 30, 2013

Investment Category	Current Year	Annualized Rate of Return ¹		
		3 Years	5 Years	10 Years
Total Portfolio	12.4 %	10.8 %	6.6 %	7.4 %
Domestic Equity Pools	21.6	15.8	10.4	7.7
S&P 1500 Index	20.4	16.5	10.4	8.0
International Equity Pools	16.2	7.1	6.9	7.5
International Blended Benchmark ²	17.0	6.4	5.4	7.2
Alternative Investment Pools	14.8	15.8	7.8	14.2
Alternative Blended Benchmark ³	23.5	21.3	14.3	11.4
Real Estate and Infrastructure Pools				
Real Estate Pool	8.2	11.1	(2.5)	5.2
NCREIF Property Blended Index ⁴	9.6	11.2	2.0	7.4
Infrastructure Pools	13.9			
CPI +4% lagged 3M	5.8			
Fixed Income Pools	(0.2)	3.5	6.7	5.3
Barclays Aggregate Bond	(1.7)	2.9	5.4	4.6
Absolute Return Pools				
Total Absolute Return	10.2	5.6	1.3	
HFRI Fund of Funds Cons 1 month lag	6.2	2.8	0.1	
Total Real Return and Opportunistic	6.6	6.4		
Real Return and Opportunistic Benchmark ⁵	7.1	7.7		
Short Term Investment Pools	0.5	0.3	0.8	1.4
30 Day Treasury Bill	0.0	0.1	0.1	1.5

¹ Calculations used a time-weighted rate of return based on the market rate of return in accordance with industry standards.

Excludes income and investment gains and losses from securities lending.

² As of 10/01/10, index is MSCI ACWI Ex US Gross.

History 1/1/10 to 9/30/10 is S&P Developed BMI EPAC Net 75/25.

History prior to 1/1/10 is S&P Developed BMI EPAC Net 50/50.

³ As of 1/1/07, index is blend of S&P 500 plus 300 bps and 10 year yield plus 300 bps based on ending weights.

History prior to 1/1/07 is S&P500 plus 300 bps.

⁴ As of 10/1/05, index is NCREIF less 130 bp. History prior to 10/1/05 reflects NCREIF less 75 bp.

⁵ Benchmark is 50% (CPI +5%) and 50% (actuarial rate 8%).

INVESTMENT SECTION

OPEB Investment Results for the Period Ending September 30, 2013

<u>Investment Category</u>	<u>Current Year</u>
Total Portfolio	11.6 %
Domestic Equity Pools	21.8
S&P 1500 Index	20.4
International Equity Pools	16.2
International Blended Benchmark ¹	17.0
Alternative Investment Pools	14.8
Alternative Blended Benchmark ²	23.5
Real Estate and Infrastructure Pools	
Real Estate Pool	8.2
NCREIF Property Blended Index ³	9.6
Fixed Income Pools	(0.2)
Barclays Aggregate Bond	(1.7)
Absolute Return Pools	
Total Absolute Return	10.2
HFRI Fund of Funds Cons 1 month lag	6.2
Total Real Return and Opportunistic	6.6
Real Return and Opportunistic Benchmark ⁴	7.1
Short Term Investment Pools	0.4
30 Day Treasury Bill	0.0

¹ As of 10/01/10, index is MSCI ACWI Ex US Gross.

History 1/1/10 to 9/30/10 is S&P Developed BMI EPAC Net 75/25.

History prior to 1/1/10 is S&P Developed BMI EPAC Net 50/50.

² As of 1/1/07, index is blend of S&P 500 plus 300 bps and 10 year yield plus 300 bps based on ending weights.

History prior to 1/1/07 is S&P500 plus 300 bps.

³ As of 10/1/05, index is NCREIF less 130 bp. History prior to 10/1/05 reflects NCREIF less 75 bp.

⁴ Benchmark is 50% (CPI +5%) and 50% (actuarial rate 8%).

INVESTMENT SECTION

Largest Assets Held¹

Largest Stock Holdings (By Market Value) September 30, 2013

Rank	Shares	Stocks	Market Value
1	22,862	Apple Inc	\$ 10,899,597
2	99,047	Johnson & Johnson	8,586,349
3	7,711	Google Inc	6,754,286
4	396,879	Bank of America Corp	5,476,927
5	48,053	Exxon Mobil Corporation	4,134,444
6	192,835	Schwab (Charles) Corp	4,076,528
7	118,319	Microsoft Corp	3,941,209
8	95,374	Wells Fargo & Co	3,940,868
9	46,909	Pepsico Inc	3,729,227
10	30,180	Chevron Corp	3,666,851

Largest Bond Holdings (By Market Value)² September 30, 2013

Rank	Par Amount	Description	Market Value
1	\$ 5,529,216	General Electric Cap Corp .4342% FRN Due 2-15-2017	\$ 5,438,902
2	3,207,124	Barclays Bank PLC Due 11-1-2018	2,705,530
3	2,764,166	Barclays Bank PLC Due 7-24-2019	2,509,586
4	2,155,855	Barclays Bank PLC 1.1291% FRN Due 1-13-2014	2,160,249
5	1,633,082	General Electric Cap Corp .5144% FRN Due 9-15-2014	1,637,678
6	1,305,196	Dow Chemical Co 5.7% Due 5-15-2018	1,506,546
7	1,397,872	Wachovia Corp .5244% FRN Due 6-15-2017	1,379,660
8	1,358,189	Total Capital Canada LTD .6476% FRN Due 1-17-2014	1,359,683
9	1,382,083	Cargill Proalpha Ex NG4 Due 6-4-2014	1,298,962
10	1,382,083	Cargill Proalpha Ex NG5 Due 6-4-2014	1,298,962

¹ A complete list of holdings is available from the Michigan Department of Treasury.

² Largest bond holdings are exclusive of securities lending collateral.

The System's assets are commingled in various pooled accounts. Amounts, par value and number of shares represents the System's pro-rata share based on its ownership of the investment pools.

INVESTMENT SECTION

Schedule of Investment Fees

The State Treasurer is the investment fiduciary and custodian of the System's funds pursuant to State law. Outside advisors are utilized to augment the State Treasurer's internal staff. 62.45% of the total investment portfolio is managed by fully discretionary outside advisors. The Michigan Department of Treasury's cost of operations applicable to the retirement system for the fiscal year amounted to \$348 thousand or seven and seven tenths basis points (0.077%) of the market value of the Assets under Management by the State Treasurer.

Act 380 of the Public Acts of 1965 created an Investment Advisory Committee (Committee) comprised of the directors of the Department of Licensing and Regulatory Affairs and the Department of Technology, Management & Budget, or their duly authorized representatives, and three public members appointed by the Governor with the advice and consent of the Senate. The public members serve without pay, but may be paid actual and necessary travel and other expenses. The Committee meets quarterly to review investments, goals and objectives and may submit recommendations to the State Treasurer. The Committee may also, by a majority vote, direct the State Treasurer to dispose of any holding, which in the Committee's judgment is not suitable for the fund involved, and may by unanimous vote direct the State Treasurer to make specific investments.

Schedule of Investment Fees

Investment Managers' Fees:

	Assets under Management (in thousands)	Fees (in thousands)	Basis Points *
State Treasurer	\$ 448,987	\$ 348	7.7
Outside Advisors for			
Fixed Income	39,551	76	19.2
Absolute Return	116,851	320	27.4
International Equity	144,781	249	17.2
Domestic Equity	84,873	391	46.1
Alternative	231,215	1,584	68.5
Real Estate/Infrastructure	129,424	233	18.0
Total	\$ 1,195,682	\$ 3,201	

Other Investment Services Fees:

Assets in Custody	\$ 1,169,961	\$ 83
Securities on Loan	93,030	203

* Alternative Investment partnership agreements that define the management fees, the asset management fees range from 75 basis points on remaining assets under management to 250 basis points of the committed capital. For Real Estate/Infrastructure, the asset management fees range from 40 to 200 basis points. For Absolute Return, the asset management fees range from 20 to 200 basis points. These fees, in most cases, are netted against income.

INVESTMENT SECTION

Schedule of Investment Commissions

Fiscal Year Ended September 30, 2013							
	Actual	Actual	Average	Estimated	Estimated	Estimated	Estimated
	Commissions	Number of	Commission	Trade	Research	Trade	Research
	Paid ¹	Shares	Per Share	Costs	Costs	Costs	Costs
		Traded ¹		Per Share	Per Share		
Investment Brokerage Firms:							
Baird, Robert W., & Co. Inc.	\$ 43	1,203	\$ 0.04	\$ 0.01	\$ 0.03	\$ 12	\$ 36
Banc Of America Securities LLC	4,135	128,807	0.03	0.01	0.02	1,288	2,576
Barclays Capital Inc.	6,162	205,403	0.03	0.01	0.02	2,054	4,107
BNY Convergenx Execution Solutions LLC	803	40,189	0.02	0.01	0.01	402	402
BTIG LLC	10,398	921,906	0.01	0.01	-	9,218	-
Cantor Fitzgerald & Co.	296	22,917	0.01	0.01	-	229	-
Capital Institutional Services Inc.	3,722	107,772	0.03	0.01	0.02	1,078	2,155
Citigroup Global Markets Inc.	2,127	105,410	0.02	0.01	0.01	1,054	1,054
Cowen & Company LLC	3,241	107,895	0.03	0.01	0.02	1,078	2,158
Credit Suisse Securities LLC	9,191	340,138	0.03	0.01	0.02	3,402	6,802
Dahlman Rose & Company LLC	513	25,620	0.02	0.01	0.01	256	256
Deutsche Bank - Alex Brown	107	2,677	0.04	0.01	0.03	27	80
Deutsche Bank Securities Inc.	27	1,980	0.01	0.01	-	20	-
Drexel Hamilton	1,691	56,362	0.03	0.01	0.02	564	1,128
Goldman, Sachs & Co.	8	806	0.01	0.01	-	8	-
The Griswold Company Inc.	190	12,676	0.02	0.01	0.01	127	127
Guggenheim Partners LLC	454	15,142	0.03	0.01	0.02	151	303
ISI Capital LLC	5,070	169,022	0.03	0.01	0.02	1,690	3,381
Investment Technology Group Inc.	1	58	0.01	0.01	-	1	-
J. P. Morgan Securities Inc.	5,295	180,233	0.03	0.01	0.02	1,802	3,605
Keefe, Bruyette & Woods Inc.	116	2,902	0.04	0.01	0.03	29	88
Mischler Financial Group Inc.	1,545	51,498	0.03	0.01	0.02	515	1,030
Morgan Stanley & Co. Inc.	8,359	289,512	0.03	0.01	0.02	2,895	5,790
OTA LLC	1,401	46,701	0.03	0.01	0.02	467	934
Pershing LLC	4	397	0.01	0.01	-	4	-
RBC Capital Markets	143	14,278	0.01	0.01	-	143	-
Sanford C. Bernstein & Co. LLC	5,846	195,126	0.03	0.01	0.02	1,951	3,904
Stifel, Nicolaus & Co. Inc.	243	6,114	0.04	0.01	0.03	61	183
UBS Securities LLC	18	1,774	0.01	0.01	-	18	-
Western International Securities Inc.	359	17,945	0.02	0.01	0.01	179	179
William Blair & Co. LLC	65	1,613	0.04	0.01	0.03	16	48
Total	\$ 71,573	3,074,076	\$ 0.02²	\$ 0.01	\$ 0.01	\$ 30,739	\$ 40,326

¹ Commissions are included in purchase and sale prices of investments. The commissions and shares represent the System's pro-rata share based on ownership of commission and share transactions in the investment pools.

² The average commission per share for all brokerage firms.

INVESTMENT SECTION

Investment Summary

Fiscal Year Ended September 30, 2013

	<u>Market Value</u> ¹	<u>Percent of Total Market Value</u>	<u>Investment & Interest Income</u> ²	<u>Percent of Total Investment & Interest Income</u>
Fixed Income Pools	\$ 144,744,344	12.1 %	\$ (466,230)	(0.3) %
Domestic Equity Pools	318,525,681	26.6	58,163,252	42.3
Real Estate and Infrastructure Pools	129,423,764	10.8	11,294,252	8.2
Alternative Investment Pools	231,215,114	19.4	35,694,985	26.0
International Equities Pools	175,759,830	14.7	24,791,861	18.0
Absolute Return Pools	129,087,139	10.8	7,800,089	5.7
Short Term Investment Pools	<u>66,925,799</u> ³	<u>5.6</u>	<u>135,575</u>	<u>0.1</u>
Total	<u>\$ 1,195,681,670</u>	<u>100.0 %</u>	<u>\$ 137,413,784</u>	<u>100.0 %</u>

¹ Market value excludes \$74,788,856 in securities lending collateral for fiscal year 2013.

² Total Investment & Interest Income excludes net security lending income of \$1,930,366 and unrealized gain of \$3,242,486 for securities lending collateral.

³ Short term investment pools market value includes \$25,720,868 of equity in common cash.

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ACTUARIAL SECTION

Actuary's Certification
Summary of Actuarial Assumptions and Methods
Schedule of Active Member Valuation Data
Schedule of Changes in the Retirement Rolls
Prioritized Solvency Test
Analysis of System Experience
Summary of Plan Provisions

ACTUARIAL SECTION

Actuary's Certification



Gabriel Roeder Smith & Company
Consultants & Actuaries

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October 21, 2013

Mr. John E. Nixon, Director
Department of Technology, Management and Budget
and
The Retirement Board
Michigan State Police Retirement System
P.O. Box 30171
Lansing, Michigan 48909

Ladies and Gentlemen:

The basic financial objective of the Michigan State Police Retirement System (SPRS) is to establish and receive contributions which when combined with present assets and future investment return will be sufficient to meet the financial obligations of the System to present and future benefit recipients. The progress towards meeting these financial objectives is illustrated in the Schedules of Funding Progress and the Schedules of Employer Contributions.

We performed actuarial valuations and issued actuarial reports for SPRS as of September 30, 2012. The purposes of the September 30, 2012 annual actuarial valuations were to determine the contribution requirements for the fiscal year ending September 30, 2013, to measure the System's funding progress, and to provide actuarial information in connection with applicable Governmental Accounting Standards Board statements. The valuations should not be relied upon for any other purpose. The valuation process develops employer contributions that are sufficient to fund the System's normal cost (i.e., the costs assigned by the valuation method to the year of service about to be rendered), as well as to fund any unfunded accrued liabilities over a reasonable period. The valuation was completed based upon population data, asset data and plan provisions in effect on September 30, 2012.

The valuation was based upon information provided by the System's administrative staff concerning System benefit provisions, financial transactions, and individual members, terminated members, retirees and beneficiaries. We checked the data for internal and year to year consistency, but did not otherwise audit the data. As a result, we do not assume responsibility for the accuracy or completeness of the data provided by the System's administrative staff. The actuary summarizes and tabulates population data in order to analyze long term trends. The System's external auditor audits the actuarial data annually.

Annual actuarial valuations are based upon assumptions regarding future activity in specific risk areas including the rate of investment return and payroll growth, eligibility for the various classes of benefits and longevity among retired lives. These assumptions are adopted by the Board and the Department after considering the advice of the actuary and other professionals. The assumptions and the methods comply with the disclosure requirements of GASB Statement Nos. 25 and 43. Each actuarial valuation takes into account all prior differences between actual and assumed experience in each risk area and adjusts the contribution requirements as needed.

Actuary's Certification (continued)

Mr. John E. Nixon
October 21, 2013
Page 2

Our firm provided the following supporting schedules for use in the Comprehensive Annual Financial Report:

Financial Section

- Note 1 - Table of System's Membership
- Note 3 - Summary of Actuarial Assumptions
- Schedules of Funding Progress
- Schedules of Employer Contributions (Annual Required Contribution)

Actuarial Section

- Summary of Actuarial Assumptions and Methods
- Percent of Eligible Active Members Retiring Within Next Year
- Separation from Active Employment Before Age and Service Retirement and Individual Pay Increase Assumptions
- Schedule of Active Member Pension Valuation Data
- Schedule of Changes in the Retirement Rolls
- Prioritized Solvency Tests
- Analysis of System Experience
- Schedule of Active Member OPEB Valuation Data
- Schedule of Changes in OPEB Rolls

Statistical Section

- Schedule of Retired Members by Type of Pension Benefit (Retirement Type and Option)
- Schedule of Retired Members by Type of Health Benefit
- Schedules of Average Benefit Payments – Pension, Medical, Dental, and Vision

Although our firm provided supporting schedules in connection with GASB Statement Nos. 43 and 45, we recommend consultation with legal counsel and the auditors to determine whether Statement No. 43 applies.

The September 30, 2012 valuations were based upon assumptions that were recommended in connection with a study of System experience covering the period from October 1, 2002 through September 30, 2007. Future actuarial measurements may differ significantly from those presented in the annual valuations due to such factors as experience differing from that anticipated by actuarial assumptions, or changes in plan provisions, actuarial assumption/methods or applicable law. Due to the limited scope of the assignment, we did not perform an analysis of the potential range of future measurements.

Gabriel Roeder Smith & Company

ACTUARIAL SECTION

Actuary's Certification (continued)

Mr. John E. Nixon
October 21, 2013
Page 3

The signing actuaries are independent of the plan sponsor.

The actuarial valuations of SPRS as of September 30, 2012 were performed by qualified actuaries in accordance with standards of practice prescribed by the Actuarial Standards Board and in compliance with applicable State statutes. Louise Gates and Mita Drazilov are Members of the American Academy of Actuaries (MAAA) and meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion contained herein. It is our opinion that the calculated employer contribution meets the financial objective of the Retirement System.

Respectfully submitted,



Louise M. Gates, ASA, MAAA



Mita D. Drazilov, ASA, MAAA

LMG:MDD:mrB

Gabriel Roeder Smith & Company

Summary of Actuarial Assumptions and Methods

1. The investment return rate used in the valuations was 8% per year net of expenses, (7.0% for the Hybrid Plan)), compounded annually. This rate of return is not the assumed real rate of return. Considering other financial assumptions, this 8% investment return rate translates to an assumed real rate of return of 4.5%. Adopted 2004.
2. The healthy life mortality table used in evaluating allowances to be paid was the RP-2000 Combined Healthy Mortality Table adjusted for mortality improvements to 2020 using projection scale AA. Adopted 2010.
3. Sample probabilities of retirement with an age and service allowance are shown in Schedule 1 on the next page. Adopted 2010.
4. Sample probabilities of withdrawal from service and disability, together with individual pay increase assumptions, are shown in Schedule 2 on the next page. Adopted 2010.
5. Total active member payroll is assumed to increase 3.5% per year. This represents the portion of the individual pay increase assumptions attributable to inflation. In effect, this assumes no change in the number of active members. Adopted 1998.
6. An individual entry age actuarial cost method of valuation was used in determining actuarial liabilities and normal cost. Unfunded actuarial accrued liabilities, including actuarial gains and losses, are financed over a declining 40-year period for years beginning October 1, 1986. Adopted or readopted 1996.
7. The Department of Technology, Management & Budget approved the use of market value of assets as of September 30, 2006, for actuarial valuation purposes. For investment gains and losses that occur after that date, a 5-year smoothing technique will be used. Specifically, the excess (shortfall) of actual investment income (including interest, dividends, realized and unrealized gains or losses) over the imputed income at the valuation interest rate is considered the gain (loss), which is spread over five years. Adopted 2007.
8. The data about persons now covered and about present assets was furnished by the System's administrative staff. Although examined for general reasonableness, the data was not audited by the actuary.
9. The actuarial valuation computations were made by or under the supervision of a Member of the American Academy of Actuaries (MAAA). The assumptions used in the actuarial valuations were adopted by the System's Board and the Department of Technology, Management & Budget after consulting with the actuary.
10. A 5-year experience investigation, covering the period from October 1, 2002 through September 30, 2007, was completed in 2010. The purpose of the study was to analyze the actual experience of the System versus that anticipated by the actuarial assumptions then in use. Adopted 2010.
11. Gabriel Roeder Smith & Co. was awarded the actuarial and consulting services contract beginning October 4, 2006.

ACTUARIAL SECTION

Summary of Actuarial Assumptions and Methods (continued)

SCHEDULE 1

Percent of Eligible Active Members Retiring Within Next Year¹

Retirement After 25 or More Years of Service (Non Hybrid Plan)

<u>Service</u>	<u>% Retiring</u>
25-27	50 %
28-44	35
45 and over	100

Retirement at or After Age 50 (55 for Hybrid Plan)

10 Years of Service (25 for Hybrid Plan)

<u>Age</u>	<u>% Retiring</u>
50	20 %
51-53	25
54-60	40
61-66	50
67 and over	100

¹ Of those Non Hybrid Plan members assumed to retire with 25 or more years of service, based on the percents above, 80% are assumed to elect the DROP and 20% are assumed to retire without the DROP.

SCHEDULE 2

Separation From Active Employment Before Age & Service Retirement & Individual Pay Increase Assumptions

<u>Sample Ages</u>	<u>Years of Service</u>	<u>Percent of Active Members Withdrawing Within Next Year (Men and Women)</u>	<u>Percent of Active Members Becoming Disabled Within Next Year</u>		<u>Percent Increase In Pay During Next Year</u>
			<u>Duty</u>	<u>Non-duty</u>	
All	0	10.00 %			93.50 %
	1	8.00			21.50
20	2 & Over	1.35	<u>0.27</u> %	<u>0.00</u> %	9.92
25		1.10	0.27	0.00	9.40
30		0.88	0.27	0.02	6.60
35		0.62	0.27	0.04	5.26
40		0.47	0.27	0.10	4.54
45		0.42	0.27	0.22	4.28
50		0.34	0.27	0.38	4.22
55		0.27	0.54	4.02	
60 & Over	0.27	0.76	4.02		

Actuarial Valuation Data

Schedule of Active Member Pension Valuation Data

Valuation Date Sept. 30	Number	Reported Annual Payroll	Average Annual Pay	% Increase (Decrease)	Average Age	Average Service
2003	1,848	\$ 113,201,430	\$ 61,256	0.9 %	38.3	12.5
2004	1,831	119,721,613	65,386	6.7	38.1	11.8
2005	1,708	117,648,748	68,881	5.3	38.3	12.0
2006	1,678	115,894,652	69,067	0.3	39.2	12.9
2007	1,620	118,209,401	72,969	5.6	40.0	13.6
2008	1,660	120,723,943	72,725	(0.3)	40.1	13.8
2009	1,655	123,237,957	74,464	2.4	41.0	14.6
2010	1,556	118,570,985	76,202	2.3	41.8	15.5
2011	1,451	110,279,709	76,003	(0.3)	41.7	15.4
2012	1,426	104,875,847	73,545	(3.2)	41.0	14.9

Excludes DROP program participants who are still actively employed.

Schedule of Active Member OPEB Valuation Data

Valuation Date Sept. 30	Number	Reported Annual Payroll	Average Annual Pay	% Increase (Decrease)	Average Age	Average Service
2012	1,426	\$ 104,875,847	\$ 73,545		42.0	15.8

ACTUARIAL SECTION

Actuarial Valuation Data (continued)

Schedule of Changes in the Retirement Rolls

Year Ended Sept. 30	Added to Rolls ²		Removed from Rolls ²		Rolls-End of Year		% Increase in Annual Allowances	Average Annual Allowances
	No.	Annual Allowances ¹	No.	Annual Allowances ¹	No.	Annual Allowances ¹		
2003	211		24		2,649	\$ 74,976	13.7 %	\$ 28,303
2004	102		54		2,697	78,096	4.2	28,957
2005	66		37		2,726	80,669	3.3	29,592
2006	67		81		2,712	82,255	2.0	30,330
2007	61		40		2,733	85,416	3.8	31,253
2008	62	\$ 2,964	59	\$ 1,317	2,736	87,063	1.9	31,821
2009	51	2,692	66	1,471	2,721	88,284	1.4	32,446
2010	110	5,572	69	1,586	2,762	92,270	4.5	33,407
2011	157	7,362	62	1,522	2,857	98,110	6.3	34,340
2012	93	5,115	37	972	2,913	102,253	4.2	35,102

¹ In thousands of dollars.

² Annual allowance amounts are not available for fiscal years 2007 and prior.

Schedule of Changes in the OPEB Rolls

Year Ended Sept. 30	Added to Rolls ²		Removed from Rolls ²		Rolls-End of Year		% Increase in Annual Allowances	Average Annual Allowances
	No.	Annual Allowances ¹	No.	Annual Allowances ¹	No.	Annual Allowances ¹		
2011					2,566	\$ 33,561		\$ 13,079
2012	86	\$ 1,340	31	\$ 976	2,621	33,926	1.1 %	12,944

¹ In thousands of dollars.

² Annual allowance amounts are not available for fiscal years 2011 and prior.

Notes:

No. Refers to the number of retiree health contracts.

Annual allowances added to rolls includes increases due to medical inflation and contract changes.

Annual allowances removed from rolls includes decreases due to contract changes.

Prioritized Solvency Test

The System's funding objective is to meet long-term benefit promises through contributions that remain approximately level from year to year as a percent of member payroll. If the contributions to the System are level in concept and soundly executed, the System will pay all promised benefits when due, the ultimate test of financial soundness. Testing for level contribution rates is the long-term solvency test.

A prioritized solvency test is another means of checking a system's progress under its funding program. In a short condition test, the System's present assets (cash and investments) are compared with: (1) active member contributions on deposit; (2) the liabilities for future benefits to present retired lives; and (3) the liabilities for service already rendered by active and inactive members. In a system that has been following the discipline of level percent of payroll financing, the liabilities for active member contributions on deposit (liability 1) and the liabilities for future benefits to present retired lives (liability 2) will be fully covered by present assets (except in rare circumstances). In addition, the liabilities for service already rendered by active members (liability 3) are normally partially covered by the remainder of present assets. Generally, if the System has been using level-cost financing, the funded portion of liability 3 will increase over time. Liability 3 being fully funded is not necessarily a by-product of level percent of payroll funding methods.

The schedule below illustrates the history of the liabilities of the System and is indicative of the System's policy of following the discipline of level percent of payroll financing.

Pension Benefits									
(\$ in thousands)									
Valuation Date	<u>Actuarial Accrued Liability (AAL)</u>			Valuation Assets	<u>Portion of AAL Covered by Assets</u>				
	(1)	(2)	(3)		(1)	(2)	(3)	(4) ²	
Sept. 30	Active Member Contributions	Retirants and Beneficiaries	Active and Inactive Members (Employer Financed Portion) ⁵						
2003	\$ 240	\$ 861,504	\$ 324,666	1,139,138	100	100	85.4	96.0	
2004 ³	217	894,962	360,646	1,117,704	100	100	61.7	89.0	
2005	295	909,741	390,307	1,090,327	100	100	46.2	83.8	
2006	268	981,994	403,591	1,113,455	100	100	32.5	80.3	
2006 ¹	268	981,994	403,591	1,204,248	100	100	55.0	86.9	
2007	398	995,714	447,619	1,259,129	100	100	58.8	87.2	
2007 ⁴	398	1,003,835	447,619	1,259,129	100	100	56.9	86.7	
2008	453	1,010,206	485,638	1,265,725	100	100	52.5	84.6	
2009	487	1,010,464	523,028	1,238,089	100	100	43.4	80.7	
2010	485	1,047,318	517,379	1,201,968	100	100	29.8	76.8	
2010 ⁶	485	1,052,454	541,361	1,201,968	100	100	27.5	75.4	
2011	451	1,111,282	516,192	1,318,129	100	100	5.1	69.9	
2012	480	1,145,516	525,042	1,069,179	100	93	0.0	64.0	

¹ Revised asset valuation method.

² Percent funded on a total valuation asset and total actuarial accrued liability basis.

³ Change in assumptions and benefit provisions.

⁴ Revised benefit provisions.

⁵ Includes DROP members.

⁶ Revised actuarial assumptions.

ACTUARIAL SECTION

Prioritized Solvency Test (continued)

Other Postemployment Benefits (\$ in thousands)

Valuation Date	Actuarial Accrued Liability (AAL)			Valuation Assets	Portion of AAL Covered by Assets			
	(1) Active Member Contributions	(2) Retirants and Beneficiaries	(3) Active and Inactive Members (Employer Financed Portion) ²		(1)	(2)	(3)	(4) ¹
2007	\$ -	\$ 584,668	\$ 333,456	\$ -	0 %	0 %	0 %	0 %
2008	-	590,311	372,711	-	0	0	0	0
2009	-	528,354	353,908	-	0	0	0	0
2010	-	615,468	440,407	-	0	0	0	0
2011	-	596,842	397,839	-	0	0	0	0
2012 ³	-	397,041	202,054	32,996	0	8.3	0	5.5

¹ Percent funded on a total valuation asset and total actuarial accrued liability basis.

² Includes DROP members.

³ Revised actuarial assumptions

ACTUARIAL SECTION

Analysis of System Experience

Gains/(Losses) in Accrued Liabilities During Year Ended September 30, 2012 Resulting from Differences Between Assumed Experience & Actual Experience

<u>Type of Activity</u>	<u>Gain/(Loss)</u>
1. Retirements (including Disability Retirement). If members retire at older ages or with lower final average pay than assumed, there is a gain. If younger ages or higher average pays, a loss.	\$ (2,401,341)
2. Withdrawal From Employment (including death-in-service). If more liabilities are released by withdrawals and deaths than assumed, there is a gain. If smaller releases, a loss.	(18,566)
3. Pay Increases. If there are smaller pay increases than assumed, there is a gain. If greater increases, a loss.	11,937,337
4. Investment Income. If there is greater investment income than assumed, there is a gain. If less income, a loss.	(93,389,067)
5. Death After Retirement. If retirants live longer than assumed, there is a loss. If not as long, a gain.	(5,566,258)
6. New entrants/Rehires. New entrants into the System will generally result in an actuarial loss.	(731,779)
7. Other. Miscellaneous gains and losses resulting from data adjustments, timing of financial transactions, etc.	<u>(2,933,422)</u>
8. Composite Gain (or Loss) During Year	<u>\$ (93,103,096)</u>

ACTUARIAL SECTION

Summary of Plan Provisions

Our actuarial valuation of the System as of September 30, 2012, is based on the present provisions of Michigan State Police Retirement Act (Public Act 182 of 1986, as amended).

Regular Retirement

Eligibility - 25 years of credited service with no age requirement; or age 50 with 10 years credited service.

Annual Amount - If member has 25 or more years of credited service, 60% of final average compensation; if member has less than 25 years of credited service, total credited service times 2% of final average compensation.

Type of Final Average Compensation - Average of 2 final years.

Early Retirement

None.

Deferred Retirement (vested benefit)

Eligibility - 10 years of credited service. Benefit commences at age 50.

Annual Amount - Computed as Regular Retirement benefit based on credited service and final average compensation at termination.

Duty-Disability Retirement

Eligibility - No age or service requirement.

Annual Amount - 60% of final average compensation. Disability benefit plus workers' compensation benefit, if any, shall not exceed 100% of final average compensation.

Non-Duty Disability Retirement

Eligibility - 10 years of credited service.

Annual Amount - 2.4% of final average compensation times years of credited service, to a maximum of 60% of final average compensation.

Duty Death Before Retirement

Eligibility - No age or service requirement.

Annual Amount - 60% of final average compensation is payable to surviving spouse; additional \$1,200 per year for each child under 18 is also payable. If no surviving spouse, children under 18 share in 60% benefit until attainment of age 18. If no spouse or children, dependent parents are eligible for 60% benefit (plus \$1,200 per dependent sibling under 18). Retirement benefit plus workers' compensation, if any, shall not exceed 100% of final average compensation.

Lump Sum Payment - A \$1,500 funeral benefit is also payable.

Summary of Plan Provisions (continued)

Non-Duty Death Before Retirement

Eligibility - 10 years of credited service.

Annual Amount - 2.4% of final average compensation times years of credited service, to a maximum of 60% of final average compensation, payable to surviving spouse. If no surviving spouse, children under 18 share in benefit until attainment of age 18.

Death After Retirement

The retired member's benefit continues to the surviving spouse. If no surviving spouse, children under 18 share in the continued benefit until attainment of age 18.

DROP Program Provisions

DROP Eligibility - Any age with 25 years of service.

Maximum Years of DROP - 6 years.

Retirement Benefit - Monthly benefit frozen at date of DROP election.

DROP Account - Amount credited - 100% of the participant's Retirement Benefit if stay full six years (for all 6 years); 90% if stay 5 years; 80% if stay 4 years; 70% if stay 3 years; 60% if stay 2 years; 50% if stay 1 year; 30% if stay less than 1 year.

Interest Credit Rate - 3%

COLA - No COLA adjustment on Retirement Benefit until the end of the DROP period.

Benefit Options - At termination of DROP participation and commencement of retirement, options are lump sum of DROP account, partial lump sum, or maintain funds in account.

Post-Retirement Cost-of-Living Adjustments

All members retiring (or leaving employment with vested benefits), and their survivors, are eligible for automatic 2% annual (non-compounded) benefit increases, with a maximum annual increase of \$500.

Post-Retirement Health Insurance Coverage

Persons in receipt of retirement allowances (including members who did not retire directly from the System, but come from a vested deferred status), and their dependents, are eligible for 95% State-paid health insurance coverage and 90% State-paid dental and vision insurance.

Member Contributions

Command Officers currently participate on a noncontributory basis. Troopers hired on or after June 10, 2012 contribute 4% of their compensation. Effective October 1, 2012, troopers and sergeants hired before June 10, 2012 began contributing 1% of their compensation. These contributions are for the pension component of their plan.

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STATISTICAL SECTION

Schedules of Additions by Source
Schedules of Deductions by Type
Schedules of Changes in Net Position
Schedules of Benefits and Refunds by Type
Schedules of Retired Members by Type of Benefit
Schedule of Other Postemployment Benefits
Schedules of Average Benefit Payments
Ten Year History of Membership

STATISTICAL SECTION

This part of the System's comprehensive annual financial report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the System's overall financial health.

Contents

Financial Trends

These schedules contain trend information to help the reader understand how the System's financial performance and fiscal health has changed over time. The schedules are presented for the last ten fiscal years. Schedules included are:

- Schedule of Pension Plan Additions by Source
- Schedule of OPEB Plan Additions by Source
- Schedule of Pension Plan Deductions by Type
- Schedule of OPEB Plan Deductions by Type
- Schedule of Changes in Net Position - Pension Plan
- Schedule of Changes in Net Position - OPEB Plan
- Schedule of Pension Benefits and Refunds by Type
- Schedule of OPEB Benefits and Refunds by Type

Operating Information

These schedules contain contextual information to assist the reader's understanding of how the System's financial information relates to the combination of participating members and the benefits it provides. Schedules are presented for the last ten fiscal years, except where noted. Schedules included are:

- Schedule of Retired Members by Type of Pension Benefit
- Schedule of Retired Members by Type of Other Postemployment Benefits
- Schedule of Other Postemployment Benefits
- Schedule of Average Benefit Payments - Pension
- Schedule of Average Benefit Payments - Health
- Schedule of Average Benefit Payments - Dental
- Schedule of Average Benefit Payments - Vision
- Ten Year History of Membership

STATISTICAL SECTION

Schedule of Pension Plan Additions by Source

Last Ten Years

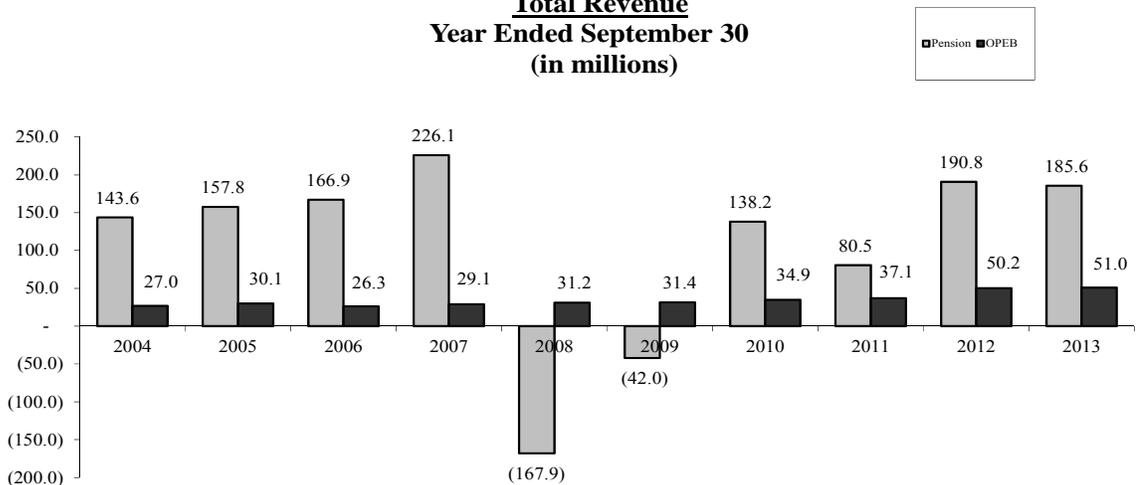
Fiscal Year Ended Sept. 30	Member Contributions	Employer Contributions		Net Investment & Other Income	Total
		Dollars	% of Annual Covered Payroll		
2004	\$ 30,062	\$ 24,792,137	20.7 %	\$ 118,817,294	\$ 143,639,493
2005	112,303	26,607,572	22.6	131,111,123	157,830,998
2006	252,805	26,103,923	22.5	140,565,537	166,922,265
2007	101,205	24,323,324	20.6	201,660,589	226,085,118
2008	95,904	34,364,943	28.5	(202,365,084)	(167,904,237)
2009	139,924	35,434,912	28.8	(77,524,873)	(41,950,037)
2010	172,387	37,897,934	32.0	100,179,113	138,249,434
2011	207,384	38,573,946	35.0	41,746,238	80,527,568
2012	229,085	40,686,857	38.8	149,844,852	190,760,794
2013	1,336,081	49,004,314	N/A	135,230,258	185,570,653

Schedule of OPEB Plan Additions by Source

Last Ten Years

Fiscal Year Ended Sept. 30	Member Contributions	Employer Contributions		Net Investment & Other Income	Total
		Dollars	% of Annual Covered Payroll		
2004	\$ 1,572,372	\$ 25,426,780	21.2 %		\$ 26,999,152
2005	1,566,646	28,488,384	24.2		30,055,030
2006	1,254,352	25,021,287	21.6	\$ 4,319	26,279,958
2007	1,219,760	27,840,439	23.6		29,060,199
2008	1,274,189	29,131,474	24.1	747,263	31,152,926
2009	1,244,169	29,841,207	24.2	276,098	31,361,474
2010	1,157,358	32,890,501	27.7	813,870	34,861,729
2011	1,333,174	31,627,140	28.7	4,178,390	37,138,704
2012	1,337,205	46,190,655	41.9	2,671,348	50,199,208
2013	1,272,232	42,858,381	N/A	6,891,305	51,021,917

Total Revenue
Year Ended September 30
(in millions)



STATISTICAL SECTION

Schedule of Pension Plan Deductions by Type

Last Ten Years

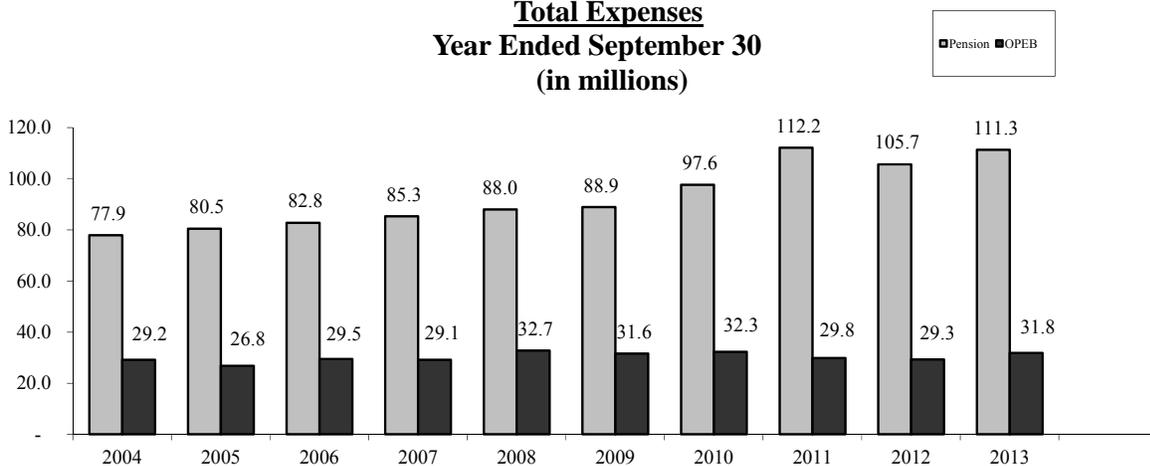
Fiscal Year Ended Sept. 30	Benefit Payments	Refunds and Transfers	Administrative and Other Expenses	Total
2004	\$ 77,591,542	\$ 1,434	\$ 316,890	\$ 77,909,866
2005	80,169,608	358	294,183	80,464,149
2006	82,316,931	142,979	343,205	82,803,115
2007	84,930,044	1,087	401,570	85,332,701
2008	87,590,337		361,652	87,951,989
2009	88,492,159		386,146	88,878,305
2010	97,194,529	7,166	372,728	97,574,423
2011	111,809,981	5,177	361,611	112,176,769
2012	104,962,793		756,602	105,719,395
2013	110,782,367	19,489	508,118	111,309,974

Schedule of OPEB Plan Deductions by Type

Last Ten Years

Fiscal Year Ended Sept. 30	Benefit Payments	Refunds and Transfers	Administrative and Other Expenses	Total
2004	\$ 29,195,471			\$ 29,195,471
2005	26,842,248			26,842,248
2006	29,492,740			29,492,740
2007	29,060,199			29,060,199
2008	29,672,228	\$1,502,006	\$ 1,553,172	32,727,406
2009	30,007,135		1,624,795	31,631,930
2010	31,378,928		876,797	32,255,725
2011	28,954,352		875,530	29,829,882
2012	28,421,260		875,883	29,297,144
2013	30,571,508		1,205,738	31,777,247

Total Expenses
Year Ended September 30
(in millions)



STATISTICAL SECTION

Schedule of Changes in Net Position - Pension Plan

Last Ten Years

(in thousands)

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Member contributions	\$ 30	\$ 112	\$ 253	\$ 101	\$ 96	\$ 140	\$ 172	\$ 207	\$ 229	\$ 1,336
Employer contributions	24,792	26,608	26,104	24,323	34,365	35,435	37,898	38,574	40,687	49,004
Net investment income	118,817	131,111	140,565	201,614	(202,388)	(77,536)	100,144	41,731	149,832	135,202
Miscellaneous income				47	23	11	35	15	13	28
Total Additions	143,639	157,831	166,922	226,085	(167,904)	(41,950)	138,249	80,528	190,761	185,571
Pension benefits	77,592	80,170	82,317	84,930	87,590	88,492	97,194	111,810	104,963	110,782
Refunds of contributions	1		143	1			7	5		19
Administrative and other expenses	317	294	343	402	362	386	373	362	757	508
Total Deductions	77,910	80,464	82,803	85,333	87,952	88,878	97,574	112,177	105,719	111,310
Changes in net position	\$ 65,729	\$ 77,367	\$ 84,119	\$ 140,752	\$ (255,856)	\$ (130,828)	\$ 40,675	\$ (31,649)	\$ 85,041	\$ 74,261

Schedule of Changes in Net Position - OPEB Plan

Last Ten Years

(in thousands)

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Member contributions	\$ 1,572	\$ 1,567	\$ 1,255	\$ 1,220	\$ 1,274	\$ 1,244	\$ 1,157	\$ 1,333	\$ 1,337	\$ 1,272
Employer contributions	25,427	28,488	25,021	27,840	29,131	29,841	32,891	31,627	46,191	42,858
Other governmental contributions					278	372	322	3,644	1,061	2,801
Net investment income			4		(125)	(158)	480	527	1,594	4,073
Transfer from other systems					551					
Miscellaneous income					44	62	12	8	17	17
Total Additions	26,999	30,055	26,280	29,060	31,153	31,361	34,862	37,139	50,199	51,022
Health care benefits	29,195	26,842	29,493	29,060	29,672	30,007	31,379	28,954	28,421	30,572
Refunds of contributions										-
Transfer to other systems					1,502					
Administrative and other expenses					1,553	1,625	877	876	876	1,206
Total Deductions	29,195	26,842	29,493	29,060	32,727	31,632	32,256	29,830	29,297	31,777
Changes in net position	\$ (2,196)	\$ 3,213	\$ (3,213)	\$ -	\$ (1,574)	\$ (271)	\$ 2,606	\$ 7,309	\$ 20,902	\$ 19,245

STATISTICAL SECTION

Schedule of Pension Benefits and Refunds by Type

Last Ten Years

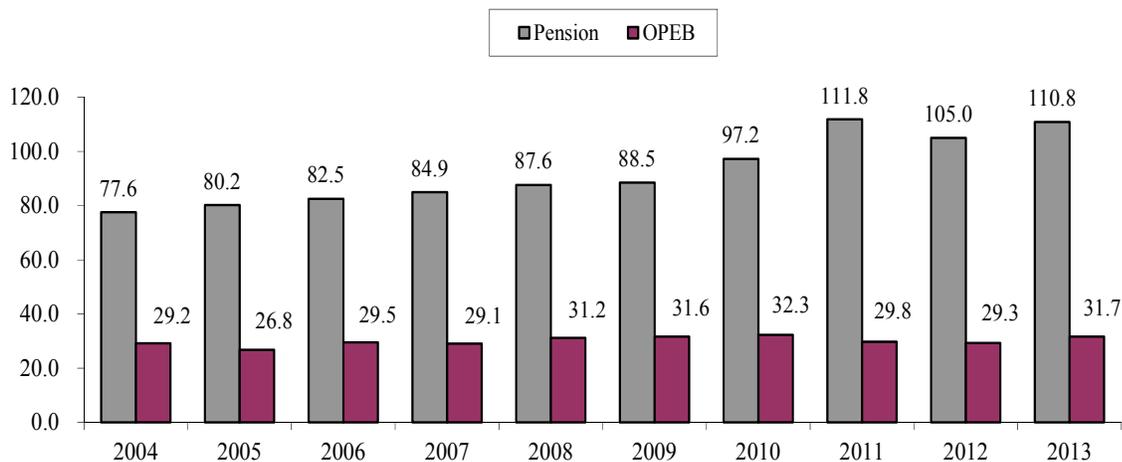
Fiscal Year Ended Sept. 30	Regular Benefits	Disability Benefits	Survivor Benefits	Funeral Benefits	Refunds		Total
					Employee Contribution	Employer Contribution	
2004	\$ 73,358,911	\$ 4,232,631			\$ 1,434		\$ 77,592,976
2005	75,606,407	4,563,201			358		80,169,966
2006	71,830,448	3,993,123	\$ 6,493,360		802	\$ 142,177	82,459,910
2007	72,275,182	4,100,010	8,554,852			1,087	84,931,131
2008	73,769,670	4,407,127	9,413,540				87,590,337
2009	74,051,305	4,452,564	9,988,290				88,492,159
2010	81,958,482	4,814,513	10,421,533		4,353	2,813	97,201,695
2011	95,613,346	5,226,631	10,968,504	\$ 1,500		5,177	111,815,158
2012	87,999,851	5,370,427	11,592,515				104,962,793
2013	93,031,493	5,675,801	12,073,573	1,500	19,489		110,801,855

Schedule of OPEB Benefits and Refunds by Type

Last Ten Years

Fiscal Year Ended Sept. 30	Health Benefits	Dental Benefits	Vision Benefits	Administrative Expenses	Health Refunds	Total
2004	\$ 27,245,933	\$ 1,693,471	\$ 256,067			\$ 29,195,471
2005	24,894,119	1,692,391	255,738			26,842,248
2006	27,090,226	2,091,393	311,121			29,492,740
2007	26,675,560	2,075,976	308,663			29,060,199
2008	27,093,222	2,324,543	254,463	\$ 1,553,172		31,225,400
2009	27,404,439	2,345,481	257,216	1,624,795		31,631,930
2010	28,398,257	2,568,972	411,698	876,797		32,255,725
2011	26,456,992	2,272,568	224,792	875,530		29,829,882
2012	26,071,869	2,282,682	66,709	875,883		29,297,144
2013	27,881,426	2,314,422	375,661	1,205,738		31,777,247

Total Benefit Deductions
For Year Ended September 30
(in millions)



STATISTICAL SECTION

Schedule of Retired Members by Type of Pension Benefit

September 30, 2012

Amount of Monthly Pension Benefit	Number of Retirees	Type of Retirement *						Selected Option **
		1	2	3	4	5	6	Life
\$ 1 - 400	31	24	-	2	1	4	-	31
401 - 800	115	95	5	2	3	-	10	115
801 - 1,200	141	72	34	8	6	14	7	141
1,201 - 1,600	222	100	85	28	4	3	2	222
1,601 - 2,000	239	118	73	20	16	7	5	239
2,001 - 2,400	168	115	31	9	6	2	5	168
2,401 - 2,800	161	110	23	15	8	1	4	161
2,801 - 3,200	402	313	53	22	7	2	5	402
3,201 - 3,600	532	480	20	24	5	1	2	532
3,601 - 4,000	455	418	19	13	2	1	2	455
Over 4,000	447	424	11	11	-	-	1	447
Totals	<u>2,913</u>	<u>2,269</u>	<u>354</u>	<u>154</u>	<u>58</u>	<u>35</u>	<u>43</u>	<u>2,913</u>

* Type of Retirement

- 1 - Normal retirement for age & service
- 2 - Survivor payment - normal retirement
- 3 - Duty disability retirement (incl. survivors)
- 4 - Non-duty disability retirement (incl. survivors)
- 5 - Survivor payment - duty death in service
- 6 - Survivor payment - non-duty death in service

**Selected Option

Life - 100% joint and survivor

Source: Gabriel Roeder Smith & Co.

STATISTICAL SECTION

Schedule of Retired Members by Type of Other Postemployment Benefits September 30, 2012

Amount of Monthly Pension Benefit	Number of Retirees	Type of Other Postemployment Benefits		
		Health	Dental	Vision
\$ 1-400	31	3	3	3
401-800	115	52	50	52
801-1,200	141	73	72	72
1,201-1,600	222	183	180	179
1,601-2,000	239	210	205	205
2,001-2,400	168	152	148	150
2,401-2,800	161	156	155	156
2,801-3,200	402	397	397	397
3,201-3,600	532	522	523	524
3,601-4,000	455	435	440	441
Over 4,000	447	419	424	427
Totals	2,913	2,602	2,597	2,606

Source: Gabriel Roeder Smith & Co.

STATISTICAL SECTION

Schedule of Other Postemployment Benefits For Year Ended September 30, 2013

	<u>2013</u>
Claims	
Health insurance	\$ 26,161,693
Vision insurance	345,927
Dental insurance	<u>2,254,646</u>
Total Claims	<u>28,762,266</u>
Estimated Claims Liability	
Health insurance	1,719,733
Vision insurance	29,733
Dental insurance	<u>59,776</u>
Total Estimated Claims Liability	<u>1,809,243</u>
Administrative Fees	
Staff Salaries	57,450
Health insurance	1,036,820
Vision insurance	25,839
Dental insurance	<u>85,629</u>
Total Administrative Fees	<u>1,205,738</u>
Subtotal	31,777,247
Grand Total	<u>\$ 31,777,247</u>

STATISTICAL SECTION

Schedule of Average Benefit Payments - Pension

Last Ten Years

Payment Periods	Credited Service (Years) as of September 30							Total
	0-5	5-10	10-15	15-20	20-25	25-30	30+	
Period 10/1/02 to 9/30/03:								
Average Monthly Benefit	\$ 1,689	\$ 1,579	\$ 915	\$ 1,299	\$ 1,572	\$ 2,546	\$ 2,848	\$ 2,359
Average Final Average Salary	14,507	31,832	25,938	27,928	29,701	44,536	50,383	39,364
Number of Active Retirants	240	32	94	69	105	1,838	271	2,649
Period 10/1/03 to 9/30/04:								
Average Monthly Benefit	\$ 860	\$ 1,613	\$ 1,010	\$ 1,425	\$ 1,638	\$ 2,642	\$ 2,896	\$ 2,413
Average Final Average Salary	1,192	32,786	27,675	30,487	30,472	46,696	52,623	42,564
Number of Active Retirants	165	30	101	77	105	1,940	279	2,697
Period 10/1/04 to 9/30/05:								
Average Monthly Benefit	\$ 881	\$ 1,692	\$ 1,023	\$ 1,494	\$ 1,688	\$ 2,704	\$ 2,955	\$ 2,466
Average Final Average Salary	1,150	34,621	28,069	31,362	30,799	46,663	51,067	42,364
Number of Active Retirants	171	32	103	79	105	1,955	281	2,726
Period 10/1/05 to 9/30/06:								
Average Monthly Benefit	\$ 1,074	\$ 1,803	\$ 1,034	\$ 1,534	\$ 1,708	\$ 2,672	\$ 2,908	\$ 2,528
Average Final Average Salary	7,023	36,079	30,151	33,407	32,097	48,479	53,890	46,586
Number of Active Retirants	28	33	115	83	110	2,048	295	2,712
Period 10/1/06 to 9/30/07:								
Average Monthly Benefit	\$ 1,204	\$ 1,953	\$ 1,090	\$ 1,567	\$ 1,812	\$ 2,752	\$ 3,054	\$ 2,604
Average Final Average Salary	13,908	35,752	31,922	33,416	33,727	49,100	54,008	47,113
Number of Active Retirants	37	31	123	83	113	2,053	293	2,733
Period 10/1/07 to 9/30/08:								
Average Monthly Benefit	\$ 1,409	\$ 1,958	\$ 1,133	\$ 1,618	\$ 1,881	\$ 2,801	\$ 3,094	\$ 2,652
Average Final Average Salary	25,371	36,598	33,124	33,774	34,889	49,530	54,550	47,774
Number of Active Retirants	32	33	127	88	116	2,046	294	2,736
Period 10/1/08 to 9/30/09:								
Average Monthly Benefit	\$ 1,577	\$ 1,988	\$ 1,164	\$ 1,677	\$ 2,004	\$ 2,857	\$ 3,146	\$ 2,704
Average Final Average Salary	46,745	38,004	33,515	36,187	37,184	50,070	55,329	48,649
Number of Active Retirants	41	35	127	88	117	2,023	290	2,721
Period 10/1/09 to 9/30/10:								
Average Monthly Benefit	\$ 1,934	\$ 2,139	\$ 1,221	\$ 1,704	\$ 2,182	\$ 2,936	\$ 3,226	\$ 2,784
Average Final Average Salary	48,354	37,160	34,502	36,152	40,307	51,475	56,908	50,021
Number of Active Retirants	50	33	132	88	125	2,040	294	2,762
Period 10/1/10 to 9/30/11:								
Average Monthly Benefit	\$ 1,946	\$ 2,169	\$ 1,307	\$ 1,801	\$ 2,525	\$ 3,018	\$ 3,293	\$ 2,862
Average Final Average Salary	42,720	37,160	35,669	39,170	47,658	53,194	58,578	51,716
Number of Active Retirants	79	33	135	93	143	2,078	296	2,857
Period 10/1/11 to 9/30/12:								
Average Monthly Benefit	\$ 2,232	\$ 2,181	\$ 1,362	\$ 1,851	\$ 2,779	\$ 3,111	\$ 3,340	\$ 2,925
Average Final Average Salary	40,154	37,217	38,697	40,877	53,981	54,808	59,266	52,867
Number of Active Retirants	178	31	145	94	148	2,033	284	2,913

STATISTICAL SECTION

Schedule of Average Benefit Payments - Health Last Seven Years

Payment Periods	Credited Service (Years) as of September 30							Total
	0-5	5-10	10-15	15-20	20-25	25-30	30 +	
Period 10/1/05 to 9/30/06								
Average Monthly Benefit	\$ 1,426	\$ 1,992	\$ 1,167	\$ 1,577	\$ 2,547	\$ 2,821	\$ 3,018	\$ 2,657
Average Final Average Salary	17,123	34,797	28,154	32,493	43,596	49,238	53,401	46,579
Number of Active Retirants	9	27	81	69	707	1,249	269	2,411
Period 10/1/06 to 9/30/07								
Average Monthly Benefit	\$ 1,667	\$ 2,060	\$ 1,231	\$ 1,607	\$ 2,621	\$ 2,915	\$ 3,163	\$ 2,741
Average Final Average Salary	21,265	33,615	31,012	32,504	44,052	50,004	53,445	47,112
Number of Active Retirants	14	25	89	69	711	1,253	267	2,428
Period 10/1/07 to 9/30/08								
Average Monthly Benefit	\$ 2,109	\$ 2,173	\$ 1,256	\$ 1,666	\$ 2,668	\$ 2,974	\$ 3,216	\$ 2,792
Average Final Average Salary	35,474	35,421	32,171	34,365	44,369	50,596	53,934	47,706
Number of Active Retirants	14	27	94	73	703	1,253	267	2,431
Period 10/1/08 to 9/30/09								
Average Monthly Benefit	\$ 2,148	\$ 2,229	\$ 1,276	\$ 1,729	\$ 2,733	\$ 3,029	\$ 3,277	\$ 2,845
Average Final Average Salary	41,318	35,421	32,572	35,861	45,021	51,038	54,550	48,236
Number of Active Retirants	17	27	97	74	697	1,248	260	2,420
Period 10/1/09 to 9/30/10								
Average Monthly Benefit	\$ 2,774	\$ 2,266	\$ 1,334	\$ 1,756	\$ 2,800	\$ 3,120	\$ 3,364	\$ 2,927
Average Final Average Salary	52,130	35,421	33,845	35,819	45,993	52,808	56,040	49,727
Number of Active Retirants	24	27	103	74	694	1,276	262	2,460
Period 10/1/10 to 9/30/11								
Average Monthly Benefit	\$ 2,342	\$ 2,298	\$ 1,406	\$ 1,863	\$ 2,906	\$ 3,212	\$ 3,458	\$ 3,011
Average Final Average Salary	36,454	35,421	34,597	39,393	47,821	54,685	58,042	51,289
Number of Active Retirants	51	27	105	79	696	1,328	264	2,550
Period 10/1/11 to 9/30/12								
Average Monthly Benefit	\$ 2,423	\$ 2,319	\$ 1,495	\$ 1,940	\$ 3,011	\$ 3,316	\$ 3,519	\$ 3,076
Average Final Average Salary	35,943	35,352	37,432	41,389	49,669	56,573	58,839	52,335
Number of Active Retirants	148	25	111	80	678	1,305	255	2,602

STATISTICAL SECTION

Schedule of Average Benefit Payments - Dental Last Seven Years

Payment Periods	Credited Service (Years) as of September 30							Total
	0-5	5-10	10-15	15-20	20-25	25-30	30 +	
Period 10/1/05 to 9/30/06								
Average Monthly Benefit	\$ 1,426	\$ 1,992	\$ 1,172	\$ 1,575	\$ 2,573	\$ 2,836	\$ 3,023	\$ 2,675
Average Final Average Salary	17,123	34,797	28,084	32,097	44,239	49,573	53,502	46,970
Number of Active Retirants	9	27	79	68	695	1,248	268	2,394
Period 10/1/06 to 9/30/07								
Average Monthly Benefit	\$ 1,667	\$ 2,060	\$ 1,237	\$ 1,605	\$ 2,644	\$ 2,928	\$ 3,171	\$ 2,758
Average Final Average Salary	21,265	33,615	31,015	32,102	44,638	50,293	53,637	47,475
Number of Active Retirants	14	25	87	68	700	1,253	267	2,414
Period 10/1/07 to 9/30/08								
Average Monthly Benefit	\$ 2,109	\$ 2,173	\$ 1,274	\$ 1,659	\$ 2,689	\$ 2,987	\$ 3,224	\$ 2,810
Average Final Average Salary	35,474	35,421	32,475	33,454	44,915	50,915	54,126	48,072
Number of Active Retirants	14	27	92	71	692	1,252	267	2,415
Period 10/1/08 to 9/30/09								
Average Monthly Benefit	\$ 2,148	\$ 2,229	\$ 1,293	\$ 1,728	\$ 2,747	\$ 3,039	\$ 3,284	\$ 2,858
Average Final Average Salary	41,318	35,421	32,875	35,532	45,400	51,261	54,685	48,504
Number of Active Retirants	17	27	95	73	688	1,246	260	2,406
Period 10/1/09 to 9/30/10								
Average Monthly Benefit	\$ 2,774	\$ 2,266	\$ 1,352	\$ 1,755	\$ 2,815	\$ 3,124	\$ 3,379	\$ 2,938
Average Final Average Salary	52,130	35,421	34,155	35,490	46,395	52,910	56,366	49,958
Number of Active Retirants	24	27	101	73	687	1,272	263	2,447
Period 10/1/10 to 9/30/11								
Average Monthly Benefit	\$ 2,342	\$ 2,298	\$ 1,446	\$ 1,863	\$ 2,921	\$ 3,220	\$ 3,472	\$ 3,023
Average Final Average Salary	36,454	35,421	35,530	39,131	48,187	54,871	58,357	51,562
Number of Active Retirants	51	27	105	78	690	1,326	265	2,542
Period 10/1/11 to 9/30/12								
Average Monthly Benefit	\$ 2,435	\$ 2,319	\$ 1,534	\$ 1,940	\$ 3,026	\$ 3,327	\$ 3,527	\$ 3,089
Average Final Average Salary	36,182	35,352	38,315	41,155	50,071	56,833	59,026	52,642
Number of Active Retirants	148	25	111	79	674	1,304	256	2,597

STATISTICAL SECTION

Schedule of Average Benefit Payments - Vision

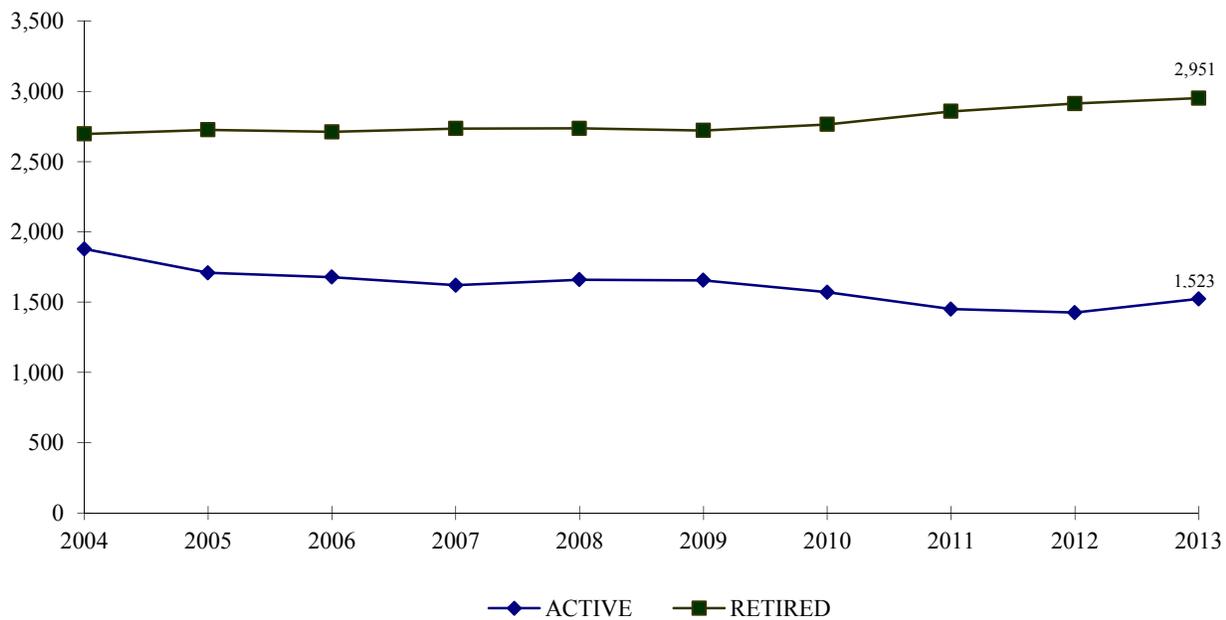
Last Seven Years

Payment Periods	Credited Service (Years) as of September 30							Total
	0-5	5-10	10-15	15-20	20-25	25-30	30 +	
Period 10/1/05 to 9/30/06								
Average Monthly Benefit	\$ 1,426	\$ 1,992	\$ 1,161	\$ 1,561	\$ 2,571	\$ 2,836	\$ 3,023	\$ 2,673
Average Final Average Salary	17,123	34,797	28,418	31,669	44,168	49,574	53,502	46,936
Number of Active Retirants	9	27	80	69	696	1,250	268	2,399
Period 10/1/06 to 9/30/07								
Average Monthly Benefit	\$ 1,667	\$ 2,060	\$ 1,226	\$ 1,591	\$ 2,643	\$ 2,927	\$ 3,171	\$ 2,755
Average Final Average Salary	21,265	33,615	31,285	31,674	44,568	50,293	53,637	47,440
Number of Active Retirants	14	25	88	69	701	1,255	267	2,419
Period 10/1/07 to 9/30/08								
Average Monthly Benefit	\$ 2,109	\$ 2,173	\$ 1,265	\$ 1,645	\$ 2,686	\$ 2,987	\$ 3,224	\$ 2,807
Average Final Average Salary	35,474	35,421	32,576	33,025	44,813	50,914	54,126	48,027
Number of Active Retirants	14	27	92	72	694	1,254	267	2,420
Period 10/1/08 to 9/30/09								
Average Monthly Benefit	\$ 2,148	\$ 2,229	\$ 1,284	\$ 1,713	\$ 2,746	\$ 3,039	\$ 3,284	\$ 2,857
Average Final Average Salary	41,318	35,421	32,973	35,087	45,327	51,258	54,685	48,469
Number of Active Retirants	17	27	95	74	689	1,249	260	2,411
Period 10/1/09 to 9/30/10								
Average Monthly Benefit	\$ 2,774	\$ 2,266	\$ 1,343	\$ 1,740	\$ 2,813	\$ 3,125	\$ 3,379	\$ 2,937
Average Final Average Salary	52,130	35,421	34,248	35,045	46,321	52,929	56,366	49,936
Number of Active Retirants	24	27	101	74	688	1,277	263	2,454
Period 10/1/10 to 9/30/11								
Average Monthly Benefit	\$ 2,342	\$ 2,298	\$ 1,438	\$ 1,848	\$ 2,919	\$ 3,220	\$ 3,472	\$ 3,021
Average Final Average Salary	36,454	35,421	35,619	38,668	48,110	54,882	58,357	51,537
Number of Active Retirants	51	27	105	79	691	1,331	265	2,549
Period 10/1/11 to 9/30/12								
Average Monthly Benefit	\$ 2,435	\$ 2,319	\$ 1,525	\$ 1,924	\$ 3,026	\$ 3,328	\$ 3,527	\$ 3,089
Average Final Average Salary	36,182	35,352	38,399	40,673	50,036	56,857	59,026	52,637
Number of Active Retirants	148	25	111	80	676	1,310	256	2,606

Source: Gabriel Roeder Smith & Co.

STATISTICAL SECTION

Ten Year History of Membership Fiscal Year Ended September 30



Source: Gabriel Roeder Smith & Co.

STATISTICAL SECTION

ACKNOWLEDGMENTS

The *Michigan State Police Retirement System Comprehensive Annual Financial Report* is prepared by Financial Services, Fiscal Management Division. Staff of the division for the fiscal year 2013 report included:

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The report may be viewed on-line at: www.michigan.gov/ors