

Michigan Public School Employees Retirement System

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

Annual Supplemental Report for Fiscal Year 2013



Prepared by
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About the Michigan Public School Employees Retirement System

This report is in compliance with Public Act 300 of 1980, as amended. The contents came from the complete 2013 Comprehensive Annual Financial Report (CAFR), an existing public data source available on our website at www.michigan.gov/orsschools, and additional analysis performed after September 30, 2013.

The Michigan Public School Employees Retirement System serves 200,952 retirees receiving monthly benefits, and 214,906 active members. Public school employees' pensions are protected by Michigan's Constitution. The System's net assets are held in trust to meet future benefit payments.

Assets & Liabilities*

System total assets as of September 30, 2013, were \$46.3 billion and were mostly comprised of cash, investments, and contributions due from employers.

Total liabilities as of September 30, 2013, were \$3.7 billion and were comprised of accounts payable, deferred revenue, and obligations under securities lending.

System assets exceeded its liabilities at the close of fiscal year 2013 by \$42.6 billion. Total net assets held in trust for pension and Other Post-Employment Benefits (OPEB) increased \$3.0 billion from the previous year, primarily due to net investment gains.**

Assets & Liabilities* <i>(combined pension and healthcare)</i>		
	<u>FY 2013</u>	<u>FY 2012</u>
<u>Assets</u>		
Cash	\$ 302,755,787	\$ 152,974,513
Receivables	380,108,311	354,391,408
Securities Lending Collateral	2,703,163,096	3,043,514,865
Investments	<u>42,918,018,348</u>	<u>40,257,347,289</u>
Total Assets	\$ 46,304,045,542	\$ 43,808,228,075
<u>Liabilities</u>		
Accounts Payable and Other Liabilities	\$ 256,373,875	\$ 290,086,712
Obligations Under Securities Lending	<u>3,439,587,524</u>	<u>3,921,029,447</u>
Total Liabilities	\$ 3,695,961,399	\$ 4,211,116,159
Net Assets	<u>\$ 42,608,084,143</u>	<u>\$ 39,597,111,916</u>

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

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

** Source: Comprehensive Annual Financial Report (CAFR) for the Fiscal Year ended September 30, 2013, p. 17.

Revenue and Expenditures

The reserves needed to finance pension and other post-employment benefits are accumulated through the collection of employer and employee contributions and through earnings on investments. Contributions and net investment income for fiscal year 2013 totaled approximately \$8.2 billion.

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

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

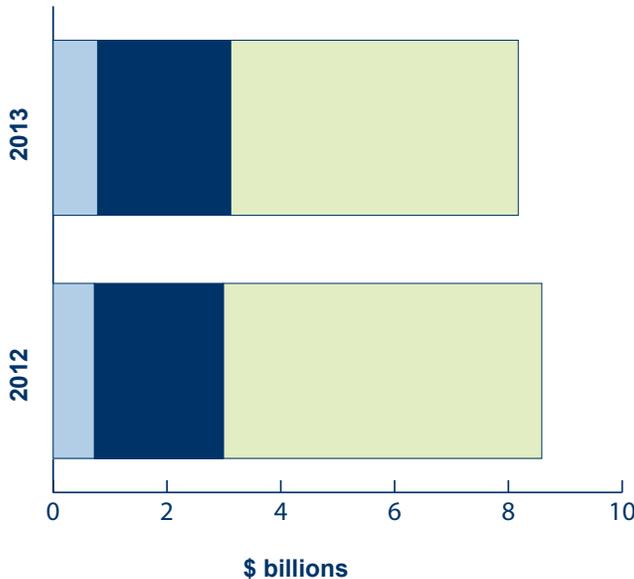
Additions & Deductions* <i>(combined pension and healthcare)</i>		
	<u>FY 2013</u>	<u>FY 2012</u>
Additions		
Member Contributions	\$ 779,846,634	\$ 723,037,751
Employer Contributions	\$ 2,337,148,289	\$ 2,267,440,743
Net Investment Income (loss)	<u>5,056,641,941</u>	<u>5,597,139,320</u>
Total Additions	\$ 8,173,636,864	\$ 8,587,617,814
Deductions		
Benefit Payments	\$ 4,238,482,066	\$ 4,082,242,506
Health, Dental, & Vision Benefits	711,578,683	823,447,206
Transfers & Refunds	39,628,893	34,326,666
Administrative Expenses	<u>172,974,995**</u>	<u>178,828,004**</u>
Total Deductions	\$ 5,162,664,637	\$ 5,118,844,382
Beginning of Year Assets	<u>39,597,111,916</u>	<u>36,126,969,248</u>
End of Year Net Assets	<u>\$ 42,608,084,143</u>	<u>\$ 39,597,111,916</u>

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

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

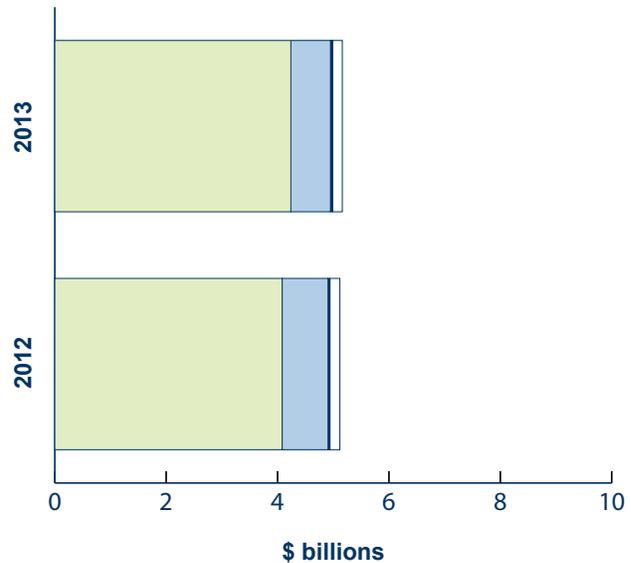
Revenues

Member Contributions Employer Contributions Net Investment Income



Expenditures

Benefit Payments Transfers & Refunds
Health, Dental, & Vision Benefits Administrative Expenses



Investments & Earnings

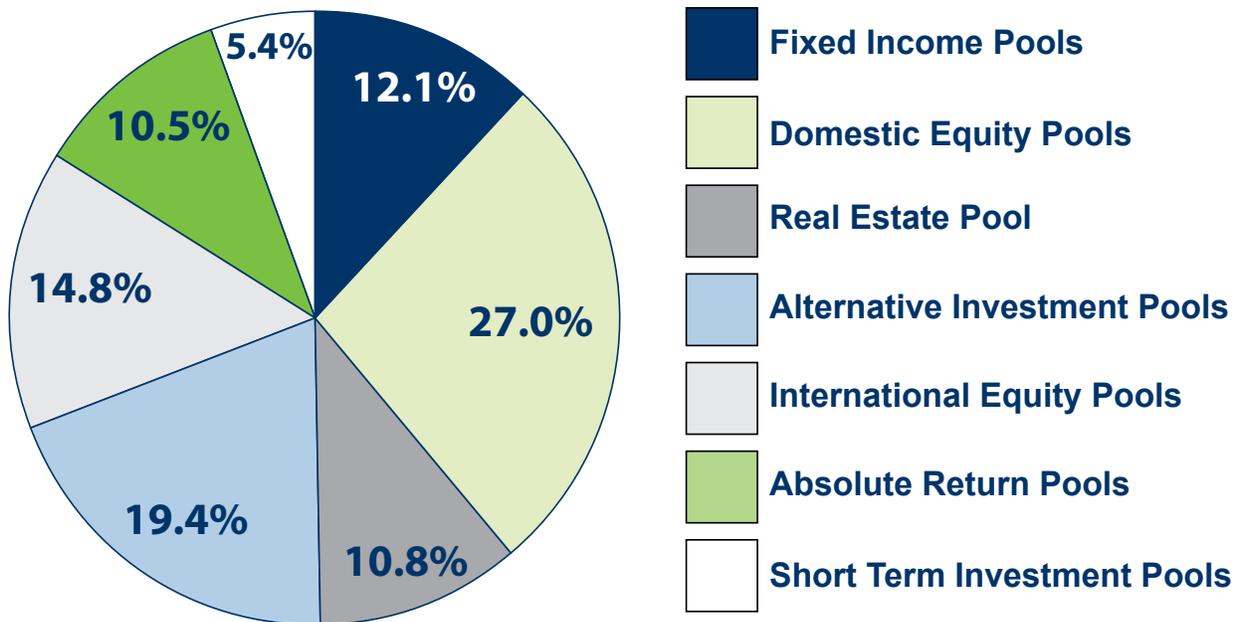
The State Treasurer administers all of the system's investments. The main objective is to maximize the return rate and meet the actuarial assumptions by being prudent with investments, and maintaining a diverse portfolio to eliminate unnecessary risk.

Why are there different types of assets in the retirement plan's portfolio? Having a diverse portfolio is like having shocks on a car. It minimizes the volatility, so the returns vary less from year to year. Even though market performance may fluctuate, the long-term performance of the retirement system's portfolio remains stable. This ensures our funds are financially sound.

Investments & Earnings*		
	Market Value	Total Investment and Interest Income
Fixed Income Pools	\$ 5,230,264,964	\$ (15,969,959)
Domestic Equity Pools	11,674,988,601	2,106,191,809
Real Estate Pool	4,684,246,878	404,944,132
Alternative Investment Pools	8,379,289,747	1,288,732,950
International Equity Pools	6,368,173,026	896,195,311
Absolute Return Pools	4,538,440,621	277,146,812
Short Term Investment Pools	2,345,370,298	5,353,525
Market Value and Net Investment Gain	<u>\$ 43,220,774,135</u>	<u>\$ 4,962,594,580</u>

*Source: CAFR for the Fiscal Year ended September 30, 2013, p. 71.

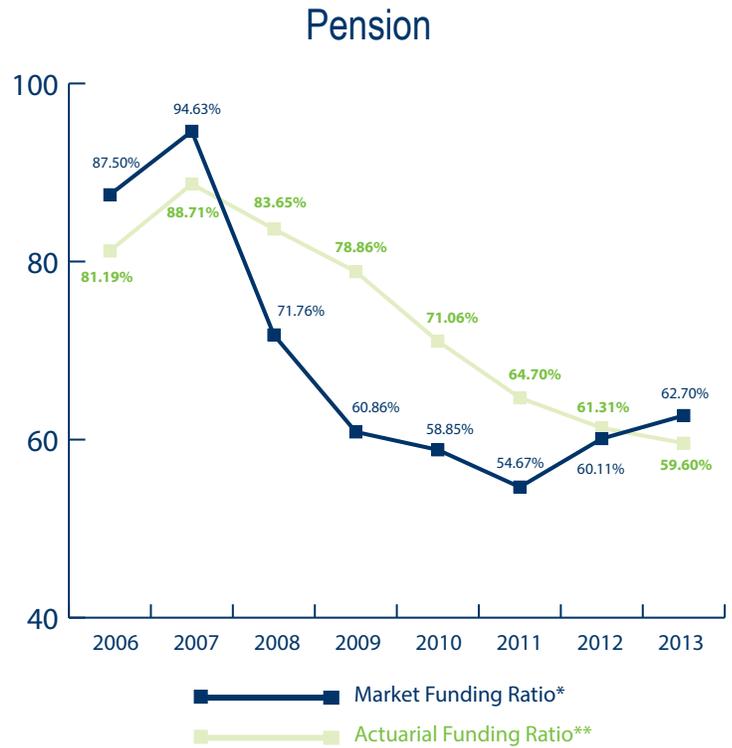
Investment Classes



Market Funded Ratios & Actuarial Funded Ratios

Pension

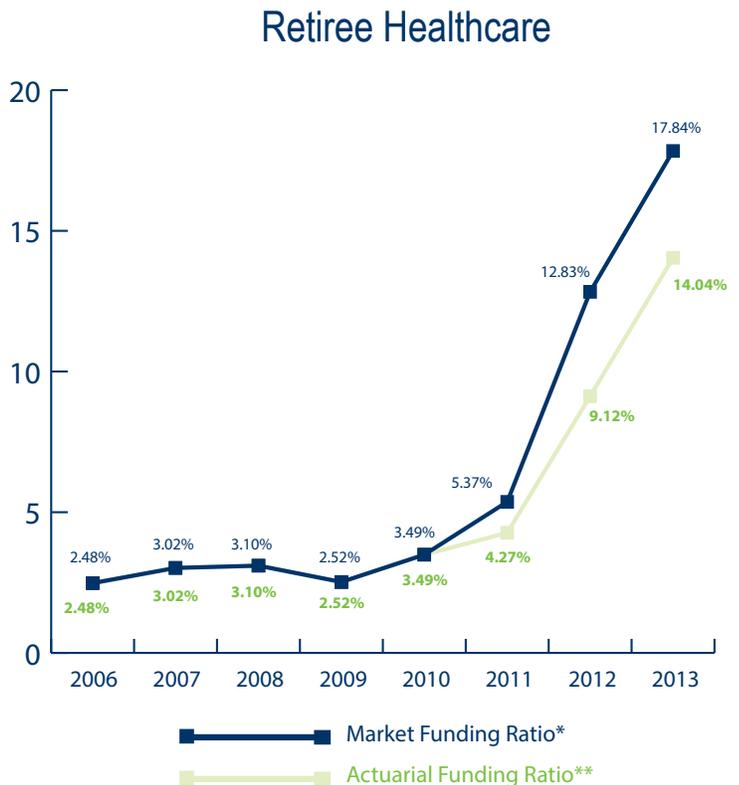
The market funding ratio is based only on the market value of assets at fiscal year end. The actuarial funding ratio incorporates a 5-year “smoothing” period that reduces volatility. The actuarial funding ratio is the common metric used by all pension plans nationwide. This smoothing process is used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



Healthcare

Starting in 2012, the Public School Employees Retirement System began pre-funding retiree health care costs, which significantly decreased the liability and increased the asset levels. Pre-funding is a best practice that invests assets and allows investment returns to help fund the plan - many states do not pre-fund, and this reform puts Michigan on the leading edge of retirement funding practices.

Before 2012, the system was funded on a pay-as-you-go basis, so market and actuarial funded ratio were the same. Beginning in 2011, active member contributions required by Public Act 75 of 2010 were counted in the market value, but not the actuarial value. Over time, as pre-funding and member contributions ramp up, the funding ratio will improve significantly.



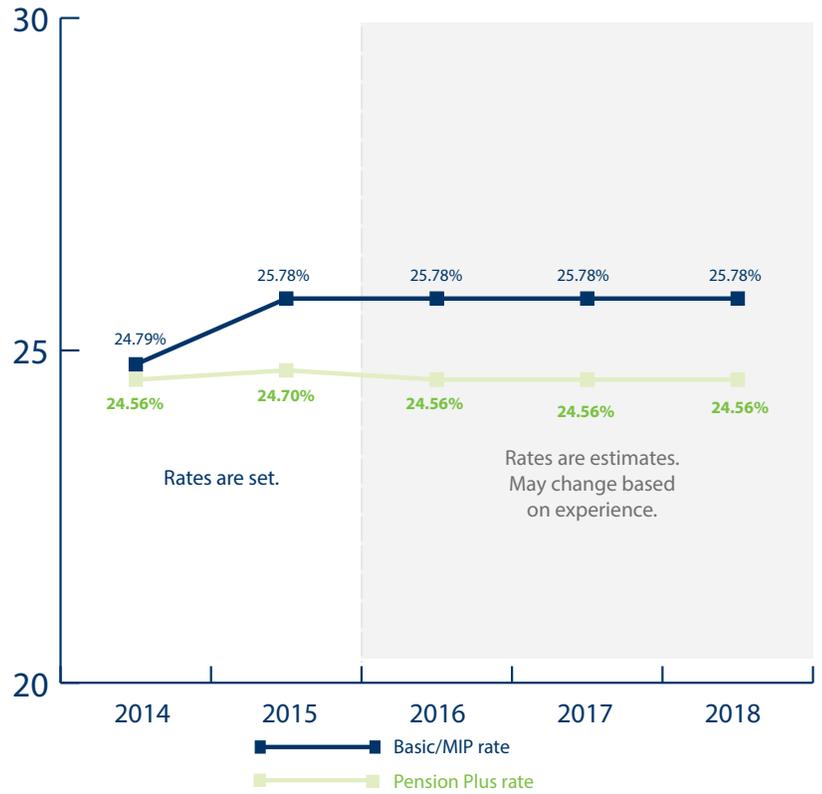
* Source: CAFR for the Fiscal Year ended September 30, 2013, p. 46

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

Contribution Rates

Contribution rates are determined actuarially based on the economic conditions and an assumed investment return each year. Contribution rates for fiscal years 14 and 15 have been calculated, provided to the employers, and published on the employer website.

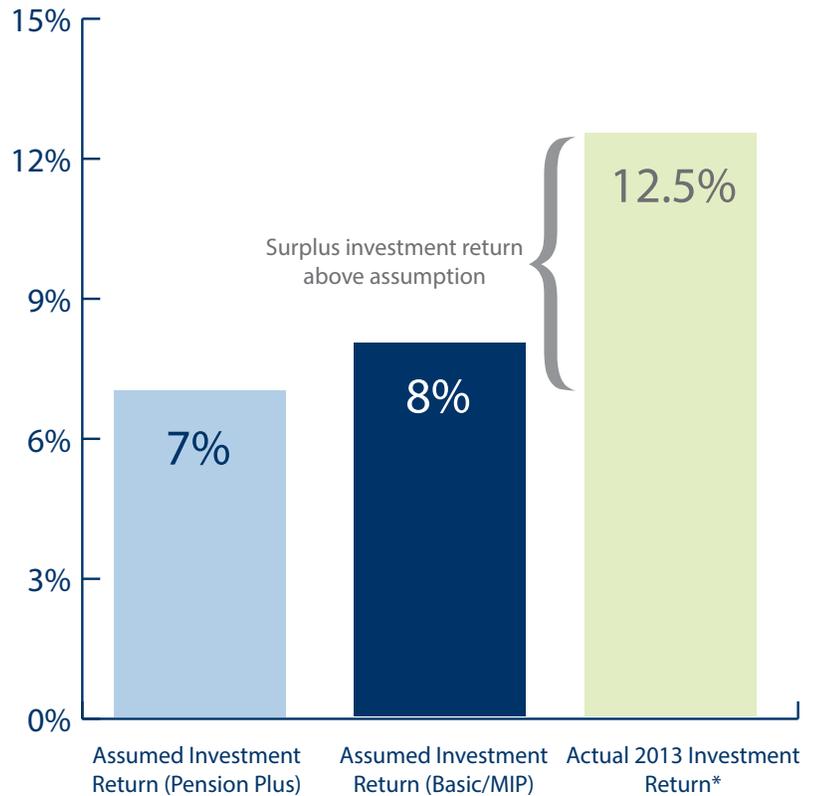
Rates for fiscal years 16, 17, and 18 are estimated using the most recent data available.



Discount Rates and Actual Investment Return

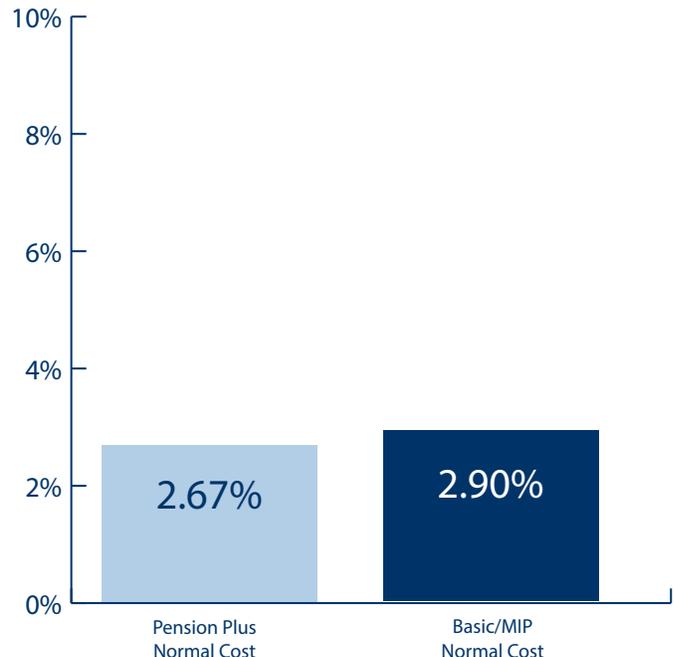
Contribution rates are determined by actuaries based on an assumed investment return each year. These assumptions are different for the Basic Plan/Member Investment Plan (MIP) and Pension Plus plan: 8 percent and 7 percent, respectively. When investments exceed the assumed rates of return, as they did in 2013, this results in a gain for the retirement system. The actual rate of investment return in FY 2013 was 12.5 percent, which is greater than the assumed rate of return.

* Source: CAFR for the Fiscal Year ended September 30, 2013, p. 57



Employer Normal Cost Contribution Rates for FY 14

Normal Cost is the actual cost of the retirement benefit a member earns each year, and is set using the assumed rate of investment return shown above in addition to other actuarial assumptions. All Pension Plus members, all MIP members, and some Basic members contribute toward the cost of their retirement benefits. After member contributions are accounted for, the employer pays the remainder of the Normal Cost as shown here.



Office Closures

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

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

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