

## NOTE 10 – PENSION BENEFITS AND OTHER POSTEMPLOYMENT BENEFITS

### **Defined Benefit Pension Plans**

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

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

Each plan provides retirement, disability, death benefits, and annual cost-of-living adjustments to plan members. Each plan, except MRP, is accounted for in a separate pension trust fund and also issues a publicly available financial report that includes financial statements and required supplementary information for that plan. Those reports, except LRS, may be obtained by writing to the Department of Management and Budget, Office of Retirement Services, 7150 Harris Drive, P.O. Box 30171, Lansing, MI 48909 or by calling the Customer Information Center at (517) 322-5103 or 1-800-381-5111. The LRS report may be obtained by writing to the Michigan Legislative Retirement System, House Office Building, Suite S0927, P.O. Box 30014, Lansing, MI 48909 or by calling (517) 373-0575.

As mandated by legislation, all new State of Michigan employees hired on or after March 31, 1997, are members of the defined contribution retirement plan as opposed to the LRS, SERS and JRS defined benefit plans. Employees hired before that date were given the option of remaining in the defined benefit plan or transferring to the defined contribution plan. The decision is irrevocable and transfers were completed by September 30, 1998. This was a one-time opportunity. With the passage of the legislation permitting the transfer, the LRS, SERS and JRS defined benefit plans became closed systems.

<b>Plan Membership Data</b>	<b>LRS</b>	<b>SPRS</b>	<b>SERS</b>	<b>PSERS</b>	<b>JRS</b>	<b>MRP</b>
Current active:						
Vested	16	1,123	29,991	119,989	259	679
Nonvested	-	497	873	175,995	1	11,157
Retirees & beneficiaries receiving benefits	286	2,735	46,886	162,844	542	3,351
Inactive members with vested deferred benefits	44	15	6,663	14,999	16	1,019
Current members with vested deferred benefits	-	148	-	-	-	-

### **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND PLAN ASSETS MATTERS**

#### **Basis of Accounting**

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

#### **Methods Used to Value Investments**

Investments are reported at fair value. Short-term investments are reported at cost, which approximates fair value. Securities traded on a national exchange are valued at the last reported sales price. The fair value of real estate investments is based on independent appraisals. Investments that do not have an established market are reported at estimated fair value.

#### **Significant Investments**

No investment of any of the pension plans comprises 5% or more of the net assets available for benefits. There are no significant investments made in securities issued by the State, nor are there any loans made from the pension plans to the State. Additional disclosures concerning investments are provided in Note 8 and, concerning State Treasurer's Common Cash, in Note 5.

#### **FUNDING POLICY**

The Legislature establishes the extent to which the employer and employees are required to make contributions and establishes the benefit provisions for each plan. Actual total contributions for pensions met or exceeded the contributions required by State law.

The Public School Employees' Retirement System (PSERS) is a cost-sharing, multiple-employer, State-wide defined benefit retirement system. Statute requires a reconciliation of required contributions and actual contributions in the PSERS. Michigan Compiled Laws Section 38.1341 provides that any overage or shortage must be paid in installments over five years.

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

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

Effective in fiscal year 2001, SPRS, SERS, and PSERS use the valuation for the previous fiscal year for their respective reports. This approach is consistent with Governmental Accounting Standards Board (GASB) Statement No. 25. Consistent with this approach the most recent actuarial valuation was performed as of September 30, 2006.

**ANNUAL PENSION COST AND OTHER RELATED INFORMATION**

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

	<u>LRS</u>	<u>SPRS</u>	<u>SERS</u>	<u>MRP</u>
<b>Required contribution rates:</b>				
State	-	31.54%	-****	-**
Plan Members	***	-	-	-
<b>Annual Pension Cost and Net Pension Obligation:</b>				
Annual required contribution	\$ .39	\$ 32.39	\$ 316.14	\$ 3.61
Interest on net pension asset (obligation)	(.10)	2.65	33.08	.83
Adjustment to annual required contribution	.35	(1.99)	(35.34)	(.89)
Annual pension cost	.64	33.05	313.88	3.55
Contributions made	.39	24.32	192.16	3.14
Change in net pension asset/obligation	.25	8.73	121.72	.41
Change in actuarial estimate	-	(.72)	-	(.07)
Net pension (asset) obligation at beginning of fiscal year	(1.45)	33.81	413.51	10.36
Net pension (asset) obligation at end of fiscal year	<u>\$ (1.20)</u>	<u>\$ 41.82</u>	<u>\$ 535.23</u>	<u>\$ 10.70</u>

**Significant Actuarial Assumptions used include:**

Latest actuarial valuation date	9/30/07	9/30/06	9/30/06	9/30/07
Actuarial cost method	Entry Age	Entry Age	Entry Age	Entry Age
Amortization method	Level percent of payroll open	Level percent of payroll closed	Level dollar closed	Level dollar closed
Remaining amortization period	5 years	30 years	30 years	29 years
Asset valuation method	5-year smoothed market	5-year smoothed market	5-year smoothed market	market value
Actuarial assumption:				
Investment rate of return	7%	8%	8%	8%
Projected salary increases	4%	3.5 – 93.5%	3.5-14.4%	4%
Includes inflation at	4%	3.5%	3.5%	3.5%
Cost-of-living adjustments	4% annual compounded (not compounded for legislators who first became members after 1/1/95)	2% annual non-compounded with maximum annual increase \$500	3% annual non-compounded with maximum annual increase \$300	3.5% for special duty retirees

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

\*\*For MRP, there is no underlying payroll of participants. Except for five special duty members, retirees receive \$600 in annual pension benefits. Accordingly, the annual required contribution from the State is determined as a dollar amount, not as a percentage of payroll.

\*\*\*For participants prior to January 1, 1995, the required contribution rate is 9.0%. For participants after January 1, 1995, the required contribution rate is 7.0%. All contributions are made to the Health Insurance Fund, as described in Section C.

\*\*\*\*For SERS, the system is closed to new members. Accordingly, the annual required contribution from the State is determined as a dollar amount, not as a percentage of payroll.

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

	PSERS	JRS
<b>Required contribution rates:</b>		
State	N/A	**
Plan Members	4.0*	5.87
Number of participating employers	714	137

N/A - Not available

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

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

**THREE YEAR HISTORICAL TREND INFORMATION**

The following table provides a schedule of funding progress for the State's defined benefit plans (amounts in millions):

	Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded (Overfunded) AAL (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
<b>LRS</b>	9/30/07	\$ 167.8	\$ 163.3	\$ (4.4)	102.7%	\$ 1.3	(338.5)%
	9/30/06	159.3	158.4	(0.9)	100.6	2.0	(46.6)
	9/30/05	157.5	154.7	(2.8)	101.8	2.0	(139.2)
<b>SPRS**</b>	9/30/06	1,113.5	1,385.9	272.4	80.3	115.9	235.0
	9/30/05	1,090.3	1,300.3	210.0	83.8	117.6	178.5
	9/30/04	1,117.7	1,255.8	138.1	89.0	119.7	115.4
<b>SERS**</b>	9/30/06	10,110.7	12,798.5	2,687.9	79.0	1,847.7	145.5
	9/30/05	9,896.7	12,400.4	2,503.6	79.8	1,880.2	133.2
	9/30/04	10,149.3	12,004.0	1,854.7	84.5	1,889.4	98.2
<b>PSERS**</b>	9/30/06	39,893.0	49,136.0	9,243.0	81.2	9,806.0	94.3
	9/30/05	38,211.0	48,206.0	9,995.0	79.3	10,206.0	97.9
	9/30/04	38,784.0	46,317.0	7,533.0	83.7	10,407.0	72.4
<b>JRS</b>	9/30/07	301.0	247.1	(53.9)	121.8	29.7	(181.5)
	9/30/06	282.8	243.7	(39.1)	116.0	33.1	(118.1)
	9/30/05	278.4	243.4	(35.0)	114.4	34.9	(100.3)
<b>MRP*</b>	9/30/07	-	41.9	41.9	-	.6	6,983.3
	9/30/05	-	40.6	40.6	-	.5	8,120.0
	9/30/03	-	41.3	41.3	-	.6	6,883.0

\*Actuarial valuation performed biennially.

\*\*The most recent actuarial valuation was performed as of September 30, 2006.

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The following table provides a schedule of annual pension cost and net pension obligation for the State's single employer defined benefit plans (amounts in millions):

	Year	Annual Cost (APC)	Percentage Contributed	Net Pension Obligation (Asset)
<b>LRS</b>				
	2004-05	.1	-	(1.8)
	2005-06	.3	-	(1.5)
	2006-07	.6	-	(1.2)
<b>SPRS</b>				
	2004-05	32.5	81.8	22.6
	2005-06	36.6	68.5	33.8
	2006-07	33.1	73.6	41.8
<b>SERS</b>				
	2004-05	307.1	83.5	316.8
	2005-06	365.1	74.1	413.5
	2006-07	313.9	61.2	535.2
<b>MRP</b>				
	2004-05	3.6	78.7	9.8
	2005-06	3.6	82.9	10.4
	2006-07	3.6	88.5	10.7

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

	Fiscal Year	Annual Required Contribution (ARC)	Percentage of ARC Contributed
<b>PSERS</b>			
	2004-05	1,023.3	75.7
	2005-06	1,161.8	85.7
	2006-07	919.6	90.8
<b>JRS</b>			
	2004-05	-	-
	2005-06	.6	108.0
	2006-07	.2	124.0

**REQUIRED SUPPLEMENTARY INFORMATION**

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

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

**Schedule of funding progress for MRP**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered ((b-a)/c)
9/30/03	-	41.3	41.3	-	.6	6,883.0
9/30/05	-	40.6	40.6	-	.5	8,120.0
9/30/07	-	41.9	41.9	-	.6	6,983.3

Actuarial valuation performed biennially; plans with biennial valuations need not present duplicate information for the intervening years.

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**Schedule of Employer Contributions for MRP:**

Year Ended September 30	Annual Required Contribution	Percentage Contributed
2007	3.6	88.5
2006	3.6	82.9
2005	3.6	78.7
2004	3.6	76.8
2003	3.3	79.5
2002	3.3	81.9

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

**Defined Contribution Pension Plans**

**State Employees' Defined Contribution Retirement Plan**

The State Employees' Defined Contribution Retirement Plan (Plan) was established to provide benefits at retirement to employees of the State who were hired after March 31, 1997, and to those members of the State Employees' Retirement System (defined benefit), Judges' Retirement System, and Legislative Retirement System who elected to transfer to this plan. The Plan is administered by the Department of Management and Budget. The State is required to contribute 4% of annual covered payroll. The State is also required to match employee contributions up to 3% of annual covered payroll. Plan provisions and contribution requirements are established and may be amended by the Legislature. Employer contributions to the plan for the year totaled \$76.2 million. Participant contributions to the plan were \$28.3 million. The reports may be obtained by writing to the Department of Management and Budget, Office of Retirement Services, 7150 Harris Drive, P.O. Box 30171, Lansing, MI 48909 or by calling (517) 322-5103.

The following investments represent 5% or more of net plan assets at September 30, 2007: Common Trust Funds: Traditional GICs/BICs, \$54.0 million; Global Wrap Synthetic Contracts, \$339.7 million; SSGA Daily Bond Market Index Fund, \$69.5 million; Money Market Funds, \$168.4 million; Mutual Funds, \$41.6 million.

Effective September 30, 2000, the assets and coverage of members of the Judges' Retirement System were transferred to the State Employees' Defined Contribution Retirement Plan.

**Component Units**

In addition to the Public School Employees' Retirement System (PSERS), the State university component units participate in the Teachers' Insurance and Annuity Association and College Retirement Equities Fund (TIAA-CREF). The TIAA-CREF is a defined contribution multiple-employer pension plan. The State university component units are required to contribute between 4% and 15% of annual covered payroll, as determined by each institution's employment agreements. The total contribution to the TIAA-CREF for all State university component units was \$70.7 million for the year ending June 30, 2007.

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

Effective January 1, 2004, the State Bar of Michigan assumed responsibility for the retirement plans of State Bar employees who participated in the State of Michigan's Defined Contribution Retirement Plan (Plan). All monies held in the Plan on behalf of participating State Bar employees were subsequently transferred to the newly established State Bar 401(a) retirement plan and the 457(b) retirement plan. The State Bar of Michigan is required to make minimum contributions and may establish other benefit provisions for their retirement plans. The State Bar of Michigan's contribution to the new plans was \$.4 million for the year ended September 30, 2007.

Additional information for the retirement plan can be obtained by contacting the State Bar at (517) 372-9030.

**Other Postemployment Benefit Plans**

The State implemented GASB Statement No. 43 during fiscal year 2007. This statement provides financial reporting requirements for postemployment benefit plans other than pension plans.

The State of Michigan administers the following other postemployment benefit plans:

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

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**Notes to the Financial Statements**

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Each plan is accounted for in a separate other postemployment benefits trust fund and also issues a publicly available financial report that includes financial statements and required supplementary information for that plan. Those reports, except LRS, may be obtained by writing to the Department of Management and Budget, Office of Retirement Services, 7150 Harris Drive, P.O. Box 30171, Lansing, MI 48909 or by calling the Customer Information Center at (517) 322-5103 or 1-800-381-5111. The LRS report may be obtained by writing to the Michigan Legislative Retirement System, House Office Building, Suite S0927, P.O. Box 30014, Lansing, MI 48909 or by calling (517) 373-0575.

**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND PLAN ASSETS MATTERS**

**Basis of Accounting**

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

**Methods Used to Value Investments**

Investments are reported at fair value. Short-term investments are reported at cost, which approximates fair value. Securities traded on a national exchange are valued at the last reported sales price. The fair value of real estate investments is based on independent appraisals. Investments that do not have an established market are reported at estimated fair value.

**Description of Benefits**

State statutes require that the State provide certain other postemployment benefits (OPEB) to many of its retired employees. Health, dental, and vision benefits as well as life insurance coverage are provided to retirees of all pension plans except MRP. These benefits are funded on a pay-as-you-go basis, except for LRS life insurance coverage, as explained below. The net assets available for benefits relate to residual balances from funding provided in prior fiscal years.

The LRS life insurance benefits are paid on an advance-funded basis. The actuarial cost method and actuarial assumptions are the same as for the pension plan. At September 30, 2007, the actuarial accrued liability for life insurance premiums was \$9.8 million with net assets available for benefits of \$19.1 million. The expense for life insurance premiums was \$.1 million in fiscal year 2007.

Following is a brief summary of the other postemployment benefits as of September 30, 2007:

	<u>LRS</u>	<u>SPRS</u>	<u>SERS</u>	<u>JRS</u>	<u>PSERS</u>	<u>TOTAL</u>
Participating Employers	1	1	1	137	714	
Participants eligible for benefits	363	2,735	46,886	542	162,844	213,370
Contribution rates for current employees (% of payroll)	0.0%	N/A	N/A	2.0%	N/A	
Percentage of pre-Medicare premiums paid by participants	0.0%	5%	5%	5%	10%*	
Expense for year (in millions)	\$ 4.5	\$29.1	\$364.0	\$.6	\$590.2	\$988.4
Net assets available for benefits (in millions)	\$16.4	\$ -	\$ 27.4	\$ -	\$776.3	\$820.1

\*The schools that employ the plan's members pay the employer share of health costs. PSERS retirees pay the same share of health care costs required from Social Security retirees for part B Medicare coverage until Medicare coverage begins at age 65. Dental, vision, and hearing benefits are also extended to all retirees and their beneficiaries, for which retirees pay 10% of the health premiums.

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**THREE YEAR HISTORICAL TREND INFORMATION\***

The following table provides a schedule of funding progress for the State's other postemployment benefit plans (amounts in millions):

	Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded (Overfunded) AAL (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
<b>LRS</b>	9/30/05	\$ 11.9	\$ 111.4	\$ 99.5	11.0%	\$ 11.9	838.0%
<b>SPRS</b>	9/30/06	-	944.4	944.4	-	115.9	814.9
<b>SERS</b>	9/30/06	-	13,499.0	13,499.0	-	2,848.0	474.0
<b>PSERS</b>	9/30/06	630.0	25,387.0	24,757.0	2.5	9,806.0	252.5
<b>JRS</b>	9/30/07	-	6.6	6.6	-	6.1	107.5
	9/30/06	-	6.4	6.4	-	6.1	105.3

\*This schedule will be expanded to include three years as actuarial information becomes available.