



**MICHIGAN OFFICE OF
RETIREMENT SERVICES**
Big Plans. Small Steps.

Summary Annual Report

for the Michigan Military Retirement Provisions,
a pension trust fund of the state of Michigan
fiscal year ended Sept. 30, 2020

Prepared by
Michigan Department of Technology, Management and Budget,
Office of Retirement Services

A message from the director



Director Anthony Estell

The Department of Technology, Management and Budget (DTMB), Office of Retirement Services (ORS) is pleased to present the Summary Annual Report for the Michigan Military Retirement Provisions (MMRP), henceforth referred to as the Provisions, for the fiscal year (FY) ended Sept. 30, 2020.

ORS assumed administration of the Provisions in 2015, and we are proud to provide this benefit to those who have served our state. Beginning in 2016, the state began pre-funding this benefit, as opposed to being pay as you go. This aligns with retirement industry best practices and these efforts will help ensure the security of this benefit for current and future generations of Michigan National Guard retirees.

Accomplishments

COVID-19 pandemic impact

In response to the COVID-19 pandemic, ORS utilized the Incident Management Plan governance to organize plans for response, business continuity, and recovery. In four days, ORS successfully transitioned 165 employees from working in the office to telecommuting. To facilitate this transition, ORS developed a process for taking inventory of equipment, packing, and loading it into staff vehicles. To support internal communications, the ORS executive team implemented weekly video updates for staff. Customer Education staff recorded and posted closed-captioned member presentations to the ORS website to replace in-person presentations and partnered with Disability Determination Services

to create a process to ensure continued disability file reviews. ORS staff successfully developed and implemented alternatives to walk-in services and in-person workshops to educate state of Michigan, Michigan public school, and state police customers about their retirement plans.

Streamlined survivor benefit process

ORS improved the process when an overpayment is issued on the retiree's behalf upon their death. Instead of requiring the deceased retiree's survivor to return any overpaid pension payments for which the retiree was not entitled to after their death, ORS can set up a recovery against the survivor's benefit to recoup the overpaid funds.

Honors

Government Finance Officers Association Award

The Government Finance Officers Association of the United States and Canada awarded the Provisions with the Certificate of Achievement for Excellence in Financial Reporting for our FY 2019 comprehensive annual financial report. This marks the 29th consecutive year ORS has received this prestigious award.

Public Pension Standards Award

ORS was awarded the 2020 Standards Award from the Public Pension Coordinating Council's Standards Program (PPCC) for both funding and administration. The PPCC Standards reflect expectations for public retirement system management and administration and serve as a benchmark for all defined benefit (DB) public plans to be measured.

About the Michigan Military Retirement Provisions

This report is issued in compliance with the Public Employee Retirement System Investment Act, 1965 Public Act (PA) 314, as amended. The contents come from the complete MMRP 2020 comprehensive annual financial report, available on our website at [Michigan.gov/ORSMilitary](https://www.michigan.gov/ORSMilitary), the annual actuarial valuations as of Sept. 30, 2020, and additional analysis performed after Sept. 30, 2020.

Military pensions are protected by Michigan's Constitution. The Provisions' net assets are held in trust to meet future benefit payments.

The State of Michigan Investment Board is the investment fiduciary and custodian of all investments of the Provisions pursuant to state law.

Executive summary

Prior to FY 2016 the Provisions were funded on a pay-as-you-go basis and the present value of assets reported in the valuation was \$0. Beginning with FY 2016 the Provisions are being funded on a pre-funding basis, which capitalizes on investment earnings on employer contributions to help fund the plan. Supplemental employer contributions made in FY 2018 and FY 2019 significantly increased the actuarial value of assets and improved the funded ratio.

The present value of assets as of Sept. 30, 2020, was \$56.8 million and the total actuarial accrued liability (AAL) was \$59.2 million resulting in a total unfunded actuarial accrued liability (UAAL) of \$2.4 million.

The AAL decreased by \$1.2 million due to a change in actuarial method to finance special duty officer benefits over their careers. This helped pension funding ratio increase 2.4% to 96.0% overall.

Statement of assets and liabilities

FY 2020	Pension ¹
AAL	\$59,220,399
Present value of assets	\$56,824,590
UAAL	\$2,395,809
Funding ratio	96.00%
FY 2019	Pension ²
AAL	\$60,386,206
Present value of assets	\$56,518,623
UAAL	\$3,867,583
Funding ratio	93.60%

1. 2020 MMRP Pension Actuarial Valuation, Page B-1.
2. 2019 MMRP Pension Actuarial Valuation, Page B-1.

Membership

The Provisions' membership is comprised of former members of the Michigan National Guard (Army or Air) who have served a minimum of 19 years, six months, and one day of active National Guard service in the State Defense Forces and Michigan National Guard.

Plan membership and retirement allowances as of Sept. 30, 2020

Membership ¹	
Active plan members	10,919
Inactive plan members or their beneficiaries currently receiving benefits	4,547
Inactive plan members entitled to but not yet receiving benefits	1,021
Total All Members	16,487

1. Comprehensive annual financial report for the FY ended Sept. 30, 2020, Page 20.

Retirement allowances	
Average annual retirement allowance ²	
Non-special duty members	584
Special duty members	59,021
Total annual retirement allowances being paid³	3,989,252

2. MMRP Pension Actuarial Valuation for the FY ended Sept. 30, 2020, Page D-2. Special duty members are adjutants general and assistant adjutants general of the Michigan National Guard.

3. MMRP Pension Actuarial Valuation for the FY ended Sept. 30, 2020, Page C-2.

Assets and liabilities

The Provisions' total assets on a market basis as of Sept. 30, 2020, were \$58.3 million, mostly composed of cash and investments.

Total liabilities as of Sept. 30, 2020, were \$2.1 million and include accounts payable and obligations under securities lending.

Total net assets held in trust for pension decreased slightly by \$387,000 from the previous year.

Assets and liabilities (dollars in thousands) (combined pension and OPEB)

Assets	FY 2019 ¹	FY 2020 ²
Cash	\$ 597	\$ 1,548
Receivables	1	1
Investments	55,993	54,653
Securities lending collateral	2,131	2,060
Total assets	\$ 58,722	\$ 58,262
Liabilities	FY 2019 ¹	FY 2020 ²
Accounts payable and other liabilities	\$ 4	\$ 1
Obligations under securities lending	2,131	2,060
Total liabilities	2,134	2,061
Net assets	\$ 56,588	\$ 56,201

1. Comprehensive annual financial report for the FY ended Sept. 30, 2019, Page 15.
2. Comprehensive annual financial report for the FY ended Sept. 30, 2020, Page 15.
Liabilities in this context are exclusive of AAL for pension. The sum total of all the line items may not equal the total due to rounding.

Revenue and expenditures, change in net assets

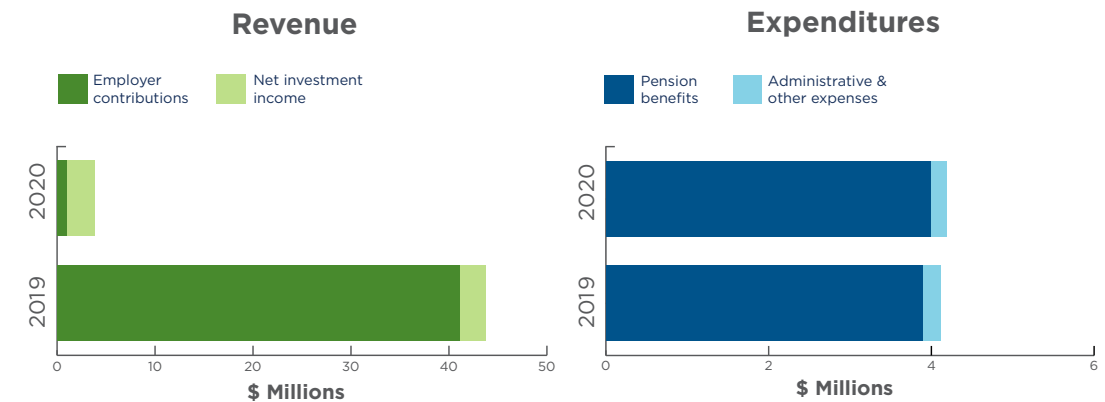
The reserves needed to finance pension benefits are accumulated through the collection of employer contributions including earnings on investments.

Contributions and net investment income for FY 2020 totaled \$3.8 million. The primary expenses of the Provisions include the payment of pension benefits to members and beneficiaries and the cost of administering the Provisions.

Additions and deductions¹ (dollars in thousands)

Additions	FY 2019	FY 2020
Employer contributions	\$ 41,045	\$ 1,000
Net investment income (loss)	2,711	2,805
Transfers and miscellaneous income	1	1
Total additions	\$ 43,756	\$ 3,806
Deductions	FY 2019	FY 2020
Pension benefits	\$ 3,895	\$ 3,989
Administrative and other expenses	223	203
Total deductions	\$ 4,119	\$ 4,192
Net position	FY 2019	FY 2020
Net increase (decrease) in net position	\$ 39,638	\$ (387)
Beginning of year	16,950	56,588
End of year	\$ 56,588	\$ 56,201

1. Comprehensive annual financial report for the FY ended Sept. 30, 2020, Page 16.



2020 plan expenditures

Plan expenses for FY ended Sept. 30, 2020 ^{1,2}	
Pension plan administrative and other expenses	Dollars
These expenditures are the administrative costs of running the Provisions and are paid by DTMB, ORS and DTMB, Financial Services through an annual appropriation.	
Personnel services	
Staff salaries	\$ 44,776
Retirement and Social Security	24,219
Other fringe benefits	9,057
Subtotal	\$ 78,052
Professional services	
Accounting	\$ 2,962
Actuarial	44,739
Attorney general	10,766
Audit	42,100
Consulting	96
Medical	-
Subtotal	\$ 100,663
Building and equipment	
Building rentals	\$ 1,372
Equipment purchase, maintenance, and rentals	58
Subtotal	\$ 1,430
Miscellaneous	
Travel and board meetings (excluding travel and education for board members)	\$ 14
Office supplies	11
Postage, telephone, and other	5,576
Printing	1,243
Technological support	16,057
Subtotal	22,900
Travel and education for board members	-
Total administrative and other expenses	\$ 203,045

2020 plan expenditures, continued

Investment expenses	Dollars
These expenditures are related to the Treasury, Bureau of Investments (BOI) for managing the Provisions' assets and are paid from the Provisions' trust fund.	
Real estate operating expenses	\$ 1,325
Securities lending expenses	18,659
Other investment expenses	
ORS-investment expenses	-
Custody fees	1,193
Management fees	149,374
Research fees	4,794
Total investment expenses	\$ 175,346
Benefits paid to members	Dollars
These were the retirement benefits paid to members of the Provisions during the FY.	
Retirement benefits	\$ 3,989,252
Total payments to members	\$ 3,989,252
Total of all sections	\$ 4,367,643
1. DTMB, Financial Services report. The sum total of all the line items may not equal the total due to rounding. 2. Treasury, BOI report.	

2021 budget for plan expenditures

Budget for plan expenses for FY ending Sept. 30, 2021^{1,2}	
Pension plan administrative and other expenses	Dollars
These expenditures are the administrative costs of running the Provisions and are paid by DTMB, ORS and DTMB, Financial Services through an annual appropriation.	
Personnel services	
Staff salaries	\$ 46,840
Retirement and Social Security	26,796
Other fringe benefits	9,931
Subtotal	\$ 83,567
Professional services	
Accounting	\$ 2,429
Actuarial	37,226
Attorney general	10,228
Audit	42,942
Consulting	1,000
Medical	-
Subtotal	\$ 93,825
Building and equipment	
Building rentals	\$ 1,372
Equipment purchase, maintenance, and rentals	74
Subtotal	\$ 1,446
Miscellaneous	
Travel and board meetings (excluding travel and education for board members)	\$ -
Office supplies	29
Postage, telephone, and other	32,156
Printing	2,017
Technological support	16,838
Subtotal	51,040
Travel and education for board members	-
Total administrative and other expenses	\$ 229,878

2021 budget, continued

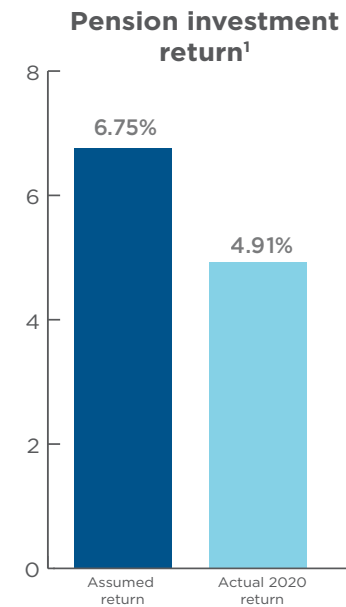
Investment expenses	Dollars
These expenditures are related to the Treasury, BOI for managing the Provisions' assets and are paid from the Provisions' trust fund.	
Real estate operating expenses	\$ 1,206
Securities lending expenses	19,032
Other investment expenses	
ORS-investment expenses	-
Custody fees	1,002
Management fees	129,955
Research fees	7,047
Total investment expenses	\$ 158,243
Benefits paid to members	Dollars
These are the projected retirement benefits paid to members of the Provisions.	
Retirement benefits	\$ 4,069,037
Total payments to members	\$ 4,069,037
Total of all sections	\$ 4,457,157
1. DTMB, Financial Services report. The sum total of all the line items may not equal the total due to rounding. 2. Treasury, BOI report.	

Assumed and actual investment returns

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

The assumed rate of return (AROR) is a key assumption used by the plan actuary in determining the employer contribution each year. When investments do not meet the AROR, this results in an actuarial loss for the Provisions. The AROR for the plan was 6.75%.

The actual rate of investment return for the plan in FY 2020 was 4.91%. Because the Provisions began pre-funding in FY 2016, long-term investment results are not available. As the Provisions gain investment experience, these elements will be included in future reports.

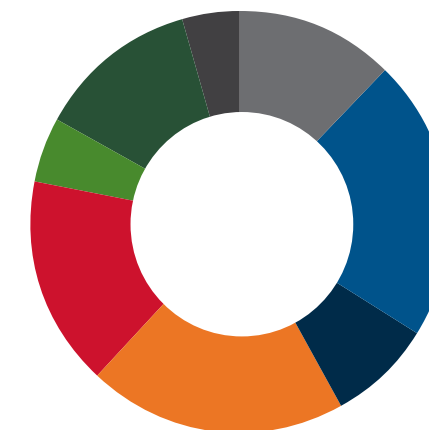


1. 2020 MMRP Pension Actuarial Valuation, Page C-3.

Investments and earnings

A key function of the investment fiduciary is to ensure the Provisions' investment portfolio is diversified. Having a diverse portfolio helps to maximize investment income responsibly while minimizing risk. Even though market performance may fluctuate, the long-term performance of the Provisions' portfolio is stable.

Investments and earnings ¹		
	Market value	Total investment and interest income
Fixed income pools	\$ 6,973,789	\$ 309,243
Domestic equity pools	12,170,630	1,227,804
Real estate and infrastructure pools	4,562,964	(308,940)
Private equity pools	11,218,076	682,666
International equity pools	9,093,815	534,357
Absolute return pools	2,733,563	51,323
Real return and opportunistic pools	6,977,639	458,819
Short-term investment pools	2,469,504	(811)
Market value and net investment gain	\$ 56,199,980	\$ 2,954,461



Fixed income pools - 12.4%
 Domestic equity pools - 21.6%
 Real estate and infrastructure pools - 8.1%
 Private equity pools - 20.0%
 International equity pools - 16.2%
 Absolute return pools - 4.9%
 Real return and opportunistic pools - 12.4%
 Short-term investment pools - 4.4%

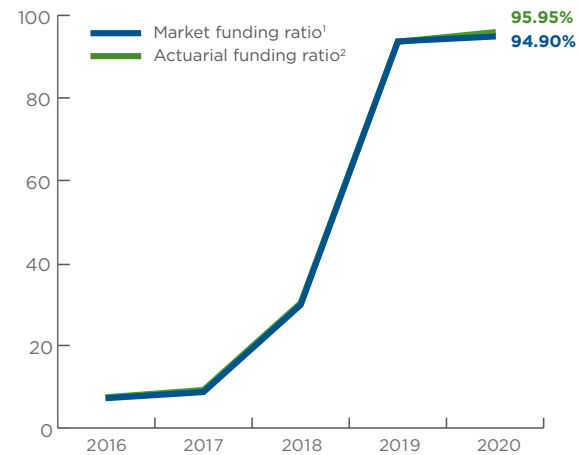
1. Comprehensive annual financial report for the FY ended Sept. 30, 2020, Page 59.

Market and actuarial funding ratios

Pension

The market funding ratio is based on the market value of assets at FY end. The actuarial funding ratio is the best practice used by all pension plans nationwide. It incorporates a five-year smoothing period, which minimizes volatility in a pension system's funding requirements.

The Provisions began pre-funding in FY 2016. As of Sept. 30, 2020, there were \$56.8 million in actuarial assets available to offset the liabilities of the plan. This amount represents a 95.95% actuarial funding ratio. There were \$56.2 million in net assets on a market basis as of Sept. 30, 2020. This represents a 94.90% market funding ratio.



1. Calculated on market value of assets.
2. MMRP Pension Actuarial Valuation for the FY ended Sept. 30, 2020, pages B-1 and C-2.

Member and employer contributions

Employer contributions

Statute requires the employer to contribute to finance 100% of the benefits of plan members. These employer contributions are determined annually by the Provisions' actuary and are based upon level-dollar funding principles so the contributions remain stable.

Definition of normal cost and UAAL

Normal cost is the cost of the retirement benefit a member earns each year and is set using the AROR in addition to other

Member and employer pension contributions

Employer contributions

Normal cost of benefits ¹	\$	1,096,562
UAAL contribution ¹		360,082
Valuation payroll ²	\$	509,540

1. MMRP Pension Actuarial Valuation for the FY ended Sept. 30, 2020, Page A-1.
2. MMRP Pension Actuarial Valuation for the FY ended Sept. 30, 2020, Page D-3. Valuation payroll represents only special duty member's payroll.

actuarial assumptions. The UAAL contribution is the cost of gradually bringing the Provisions' funding level to 100% over the amortization period. The state pays 100% of both the normal cost and the UAAL contribution.

Actuarial assumptions

Actuarial valuations for the pension plan 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 and investment performance.

Actuarial assumptions for FY ended Sept. 30, 2020¹

Actuarial cost method	Entry age, normal
Amortization method	Level-dollar
Amortization period	Closed period, ending Sept. 30, 2038
Asset valuation method	5-year smoothed
Wage inflation rate	2.75%
AROR—open plan	6.75%

1. MMRP Pension Actuarial Valuation for the FY ended Sept. 30, 2020, Page E-2.

Investment service providers

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

Accel Partners	Bridgepoint Capital	Flagship Ventures
Acorn Bioventures	BroadRiver Asset Management LP	Fortress Investment Group LLC
Advent International Corp.	Brookfield Asset Management Inc.	Fox Paine & Company LLC
AEW Capital Management LP	BTIG Brokers	Freeman Spogli & Co.
Affinity Equity Partners	Cantor Fitzgerald	FTN Financial
American Industrial Partners	Capital Institutional Services Inc.	Gaw Capital
Ancora Advisors LLC	Capri Capital Partners LLC	Genstart Capital LLC
Angelo Gordon	The Carlyle Group LP	Glen Eagle Wealth
Aon Hewitt	Carlyle Investment Management LLC	Glencoe Capital
Apax Partners Worldwide LLP	Centerbridge Capital	Goldman Sachs Group Inc.
Apollo Global Management Inc.	Cerberus Capital Management LP	Great Mountain Partners
Arboretum Ventures	Charlesbank Capital Partners	Greenspring Associates
ArcLight Capital Partners LLC	CIE Management-BC Partners	Grosvenor Capital Management
Ardian	CIM Investment Advisors	HarbourVest Partners LLC
Ares Management LLC	CircleUp Network Inc.	Harvest Partners LLC
Ark Investment Management LLC	Citigroup	Heitman Capital Management LLC
Asana Partners	Citigroup Global Markets Inc.	Highbridge Principal Strategies
Attucks Asset Management LLC	Clarion Partners	Hilltop Securities Inc.
Avanath Capital Management LLC	Clarkston Capital Partners LLC	Hopen Life Sciences Ventures
Axiom Asia Private Capital	Coller Capital	HPS Investment Partners III LLC
Bank of America Merrill Lynch	Columbia Management Investment	Huron Capital Partners LLC
Bank of Montreal	Advisors	ICG Advisors LLC
Barclays Capital	CoStar Realty Information Inc.	InSight Venture Partners
Barings Alternative Investments	Cowen & Co. LLC	Invesco Ltd.
Basalt Infrastructure Partners LLP	Credit Suisse	Investors Diversified Realty
BB&T Capital Markets	Credit Suisse Securities	Jefferies
BentallGreenOak	Crescent Capital Group	J.P. Morgan
Beringea	CVC Capital Partners	J.P. Morgan Asset Management
Berkshire Partners LLC	Czech Asset Management LP	J.P. Morgan Securities LLC
BGC Partners	D.A. Davidson Companies	Kayne Anderson
Bivium Capital Partners LLC	DAIWA	Kayne Anderson Capital Advisors LP
BlackRock	Dalmore Capital Limited	KBS Realty Advisors
BlackRock Financial Management	Deutsche Bank	Kelso & Company
BlackRock Institutional Trust Company	Deutsche Bank Securities Inc.	Kensington Realty Advisors
Blackstone Alternative Asset Management LP	Domain Capital Advisors LLC	Khosla Ventures
Blackstone Credit	Drexel Hamilton	Kohlberg, Kravis, Roberts & Co.
The Blackstone Group Inc.	Effissimo Capital Management	L&B Realty Advisors LLP
Bluescape/Carlson	eFront (Via Domain)	Landmark Realty Advisors
BNP Paribas	EnCap Investments LP	LaSalle Investment Management
BNP Paribas Finance	Fidelity Institutional Asset Management	Lazard Asset Management
BNY Convergenx G.	FIMI Opportunity Funds	Lead Edge Capital
	FirstMark Capital	Leonard Green & Partners LP
		LGT Capital Partners

Investment service providers, continued

Lightspeed Venture Partners	Proprium Capital Partners LP	TSG Consumer Partners
Lombard International Life Assurance Company	Prudential Investment Management	Turnbridge Capital Management LLC
Lonestar	Public Pension Capital	Turning Rock Partners
Loomis Sayles & Company	Putnam Advisory Company	U.S. Bancorp Investments Inc.
Los Angeles Capital Management	Raymond James & Associates Inc	Veritas Capital Fund Management LLC
Lubert-Adler Management Company	RBC Capital Markets LLC	Vida Capital Inc.
Marathon Asset Management	Renaissance Venture Capital	Vista Equity Partners
MarketAxess Corporation	Rhone Capital	Warburg Pincus LLC
Martin Currie	Rialto Capital	Warwick Energy Group
Mellon Capital Management	Ridgewood Capital Management LLC	Wayne Co.
Menlo Management Partners	Ridgewood Energy	Wellington Trust Company
Merill Lynch (Bank of America)	Riverside	Wells Fargo Securities LLC
Merill Lynch Pierce Fenner & Smith LLC	Robert W. Baird & Co. Inc.	WestLB Asset Management LLC
Merit Energy Company	Roberts & Ryan	
Meritech Capital Partners	The Rohatyn Group	
Mesirow Financial	R.W. Pressprich & Co.	
Metropolitan West Asset Management	Science Media LLC	
MFR Securities	Scotia Capital Inc.	
MI Growth Capital Partners SBIC	Seizert Capital Partners	
Mischler Financial Group	Shamrock Capital Advisors LLC	
MKM Holdings LLC	Silver Lake	
MKM Partners	Sixth Street Partners	
Morgan Stanley	SK Capital Partners LP	
MUFG	Societe Generale	
Multi-Bank Securities Inc.	Sprott Resource	
Napier Park Global Advisors	State Street Bank	
Napier Park Global Capital	State Street Global Advisors	
Natural Gas Partners	Stifel Nicolaus & Co. Inc.	
New Leaf Venture Partners	Stockbridge Capital Group	
Nordic Capital	Stonepeak Advisors LLC	
NorthPointe Capital	Summit Partners	
Oak Investment Partners	SunTrust Robinson Humphrey	
Oaktree Capital Management LLC	Susquehanna International Group LLP	
Odyssey Investment Partners	Sycamore Partners	
Orion Resource Partners	T. Rowe Price	
Pacific Investment Management LLC	The John Buck Company	
Paladin Realty Partners LLC	The Riverside Company	
Parthenon Capital Inc.	The TCW Group Inc.	
Peninsula Capital Partners LLC	Thomas Bravo	
Permira	TICP SMA Management	
PGIM Inc.	TPG Real Estate Advisors	
PIMCO Mortgage Fund	TPG Inc.	
Piper Jaffray	Transwestern Investment Group	
PPC Partners Inc.	Trilantic Capital Management LLC	
Principal Financial Group	Trophy Property	
Principal Real Estate Advisors	True North Management Group	
	Trusted Insight Inc.	



Office of Retirement Services

Department of Technology, Management and Budget
Anthony Estell, director

Our purpose

ORS is an innovative retirement organization driven to empower our customers for a successful today and a secure tomorrow.

Mailing Address: PO Box 30171, Lansing, MI 48909-7671
Phone: 800-381-5111 Fax: 517-284-4416

Michigan.gov/ORSMilitary

Published by authority of PA 314 of 1965, and PA 234 of 1992, as amended.