



**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, 2019

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

A Message From The Director



Director Anthony Estell

The Department of Technology, Management and Budget's (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, 2019.

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

Paperless Options

A new feature was implemented in miAccount that lets customers opt out of receiving paper direct deposit statements as well as paper *Form 1099-R* annual statements. Both direct deposit and *Form 1099-R* statements are available electronically to view and print in miAccount for current and past years. If customers choose the paperless option, their *Form 1099-R* statements are available online a week or two before the printed one is mailed. They can also view their pension payment history on a monthly basis versus receiving a paper statement four to five times a year. In addition to providing the member with more personalized information faster, going paperless helps the environment and reduces print and mailing costs.

New E-Learning Modules

Customer Service now has online modules available to help train staff members. The training modules use realistic scenarios in simulated environments so staff members can practice completing various transactions and processes. The training helps ensure Customer Service staff members are completing tasks accurately and efficiently, improving customer experiences through consistent

account handling. Upon completion of each module, staff members take a quiz to evaluate their learning.

Mailing Security Process Improvement

An information security change was made that will improve end-to-end processing of the daily mailings and ensure that ORS customers are getting their mail and only their mail. The solution uses 2-D bar codes which are tracked by the automated print and mail equipment to ensure that each printed page is accounted for as it passes through various machines, reducing the risk of mail going to the wrong customer.

Supplemental Appropriation Boosts Pension Funded Ratio

In the FY 2018, the MMRP pension plan was only 30% funded and was not expected to be fully funded until 2038. A proposal was made to boost the funding of the MMRP pension plan through a supplemental appropriation in 2019. On Dec. 28, 2018, Public Act (PA) 618 was signed into law which appropriated \$35.8 million to the MMRP. The additional funding will be reflected in the Sept. 30, 2019, actuarial valuation and is expected to result in a funded ratio very close to 100%, 19 years ahead of schedule. This additional funding will result in greater benefit security to the membership and lower employer contributions in the future.

Honors

Government Finance Officers Association Award

The Government Finance Officers Association (GFOA) of the United States and Canada awarded the Provisions with the Certificate of Achievement for Excellence in Financial Reporting for our FY 2018 comprehensive annual financial report (CAFR).

Public Pension Standards Award

ORS was awarded the 2019 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 PA 314, as amended. The contents come from the complete MMRP 2019 CAFR, available on our website at [Michigan.gov/ORMilitary](https://www.michigan.gov/ORMilitary), the annual actuarial valuations as of Sept. 30, 2019, and additional analysis performed after Sept. 30, 2019.

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, 2019, was \$56.5 million and the total actuarial accrued liability (AAL) was \$60.4 million resulting in a total unfunded actuarial accrued liability (UAAL) of \$3.9 million.

PA 618 of 2018 appropriated an additional \$35.8 million contribution to the Provisions in FY 2019, which increased the pension funding ratio by 21 percentage points to 93.6%.

Statement Of Assets And Liabilities

FY 2019	Pension¹
AAL	\$60,386,206
Present Value Of Assets	\$56,518,623
UAAL	\$3,867,583
Funding Ratio	93.60%
FY 2018	Pension²
AAL	\$56,801,686
Present Value Of Assets	\$17,213,520
UAAL	\$39,588,166
Funding Ratio	30.31%

1. 2019 MMRP Pension Actuarial Valuation, Page B-1.
 2. 2018 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, 2019

Membership¹

Active plan members	10,717
Inactive plan members or their beneficiaries currently receiving benefits	4,524
Inactive plan members entitled to but not yet receiving benefits	1,039
Total All Members	16,280

1. CAFR for the FY ended Sept. 30, 2019, Page 20.

Retirement Allowances

Average annual retirement allowance ²	
Non-Special Duty Members	\$584
Special Duty Members	\$58,277
Total annual retirement allowances being paid³	\$3,895,264

2. MMRP Pension Actuarial Valuation for the FY ended Sept. 30, 2019, 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, 2019, Page C-2.

Assets And Liabilities

The Provisions' total assets on a market basis as of Sept. 30, 2019, were \$58.7 million, mostly composed of cash and investments.

Total liabilities as of Sept. 30, 2019, were \$2.1 million and include accounts payable and obligations under securities lending.

Total net assets held in trust for pension increased \$39.6 million from the previous year.

Assets And Liabilities (Dollars In Thousands) (Combined Pension And OPEB)

Assets	FY 2018 ¹	FY 2019 ²
Cash	\$ 559	\$ 597
Receivables	1	1
Investments	16,400	55,993
Securities Lending Collateral	730	2,131
Total Assets	\$ 17,690	\$ 58,722
Liabilities	FY 2018 ¹	FY 2019 ²
Accounts Payable and Other Liabilities	\$ 10	\$ 4
Obligations Under Securities Lending	730	2,131
Total Liabilities	740	2,134
Net Assets	\$ 16,950	\$ 56,588

1. CAFR for the FY ended Sept. 30, 2018, Page 15.

2. CAFR for the FY ended Sept. 30, 2019, Page 17.

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.

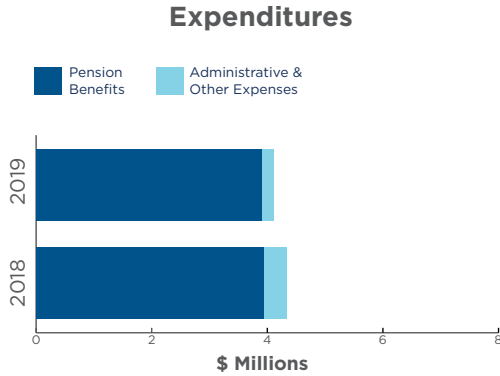
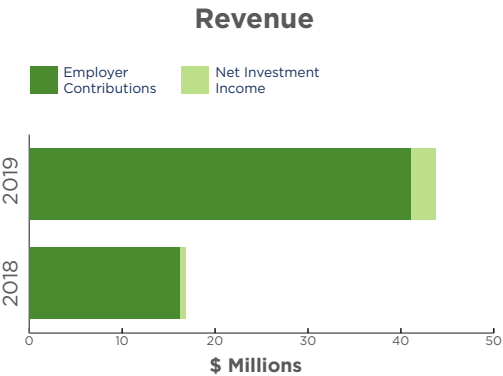
Revenue And Expenditures, Change In Net Assets

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 2019 totaled \$43.8 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 Deductions ¹ (Dollars In Thousands)		
Additions	FY 2018	FY 2019
Member Contributions	\$ -	\$ -
Employer Contributions	16,245	41,045
Net Investment Income (Loss)	569	2,711
Transfers and Miscellaneous Income	123	1
Total Additions	\$ 16,936	\$ 43,756
Deductions	FY 2018	FY 2019
Pension Benefits	\$ 3,939	\$ 3,895
Administrative and Other Expenses	396	223
Total Deductions	\$ 4,335	\$ 4,119
Net Position	FY 2018	FY 2019
Net Increase (Decrease) in Net Position	\$ 12,601	\$ 39,638
Beginning of Year	4,349	16,950
End Of Year	\$ 16,950	\$ 56,588

1. CAFR for the FY ended Sept. 30, 2019, Page 16.



2019 Plan Expenditures

Plan Expenses For Fiscal Year Ended Sept. 30, 2019¹

Pension Plan Administrative And Other Expenses

Dollars

These expenditures are the administrative costs of running the Provisions and are paid by DTMB's Office of Retirement Services and DTMB's Financial Services through an annual appropriation.

Personnel Services

Staff Salaries	\$	42,904
Retirement and Social Security		23,818
Other Fringe Benefits		8,429
Subtotal	\$	75,151

Professional Services

Accounting	\$	-
Actuarial		70,061
Attorney General		11,353
Audit		40,500
Consulting		1,072
Medical		-
Subtotal	\$	122,986

Building and Equipment

Building Rentals	\$	1,288
Equipment Purchase, Maintenance, and Rentals		37
Subtotal	\$	1,325

Miscellaneous

Travel and Board Meetings (Excluding Travel and Education for Board Members)	\$	41
Office Supplies		40
Postage, Telephone, and Other		3,847
Printing		1,248
Technological Support		18,626
Subtotal		23,801

Travel and Education for Board Members		-
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Total Administrative And Other Expenses	\$	223,263
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2019 Plan Expenditures, Continued

Investment Expenses	Dollars	
These expenditures are related to the Treasury's Bureau of Investments for managing the Provisions' assets and are paid from the Provisions' trust fund.		
Real Estate Operating Expenses	\$	1,460
Securities Lending Expenses		55,352
Other Investment Expenses		
ORS-Investment Expenses		-
Custody Fees		1,421
Management Fees		171,002
Research Fees		3,266
Total Investment Expenses	\$	232,501
Benefits Paid To Members	Dollars	
These were the retirement benefits paid to members of the Provisions during the fiscal year.		
Retirement Benefits	\$	3,895,264
Total Payments To Members	\$	3,895,264
Total Of All Sections	\$	4,351,028
<ol style="list-style-type: none"> 1. DTMB's Financial Services report. The sum total of all the line items may not equal the total due to rounding. 2. Treasury's Bureau of Investments report. 		

2020 Budget For Plan Expenditures

Budget For Plan Expenses For Fiscal Year Ending Sept. 30, 2020¹		
Pension Plan Administrative And Other Expenses		Dollars
These expenditures are the administrative costs of running the Provisions and are paid by DTMB's Office of Retirement Services and DTMB's Financial Services through an annual appropriation.		
Personnel Services		
Staff Salaries	\$	41,705
Retirement and Social Security		34,011
Other Fringe Benefits		12,582
Subtotal	\$	88,297
Professional Services		
Accounting	\$	-
Actuarial		40,500
Attorney General		7,493
Audit		34,100
Consulting		391
Medical		-
Subtotal	\$	82,484
Building and Equipment		
Building Rentals	\$	1,382
Equipment Purchase, Maintenance, and Rentals		77
Subtotal	\$	1,459
Miscellaneous		
Travel and Board Meetings (Excluding Travel and Education for Board Members)	\$	105
Office Supplies		28
Postage, Telephone, and Other		55,690
Printing		2,112
Technological Support		16,406
Subtotal		74,341
Travel and Education for Board Members		-
Total Administrative And Other Expenses	\$	246,581

2020 Budget, Continued

Investment Expenses		Dollars
These expenditures are related to the Treasury's Bureau of Investments for managing the Provisions' assets and are paid from the Provisions' trust fund.		
Real Estate Operating Expenses	\$	1,591
Securities Lending Expenses		60,334
Other Investment Expenses		
ORS-Investment Expenses		-
Custody Fees		1,549
Management Fees		186,392
Research Fees		3,560
Total Investment Expenses	\$	253,426
Benefits Paid To Members		Dollars
These are the projected retirement benefits paid to members of the Provisions.		
Retirement Benefits	\$	3,856,311
Total Payments To Members	\$	3,856,311
Total Of All Sections	\$	4,356,319
1. DTMB's Financial Services report. The sum total of all the line items may not equal the total due to rounding. 2. Treasury's Bureau of Investments report.		

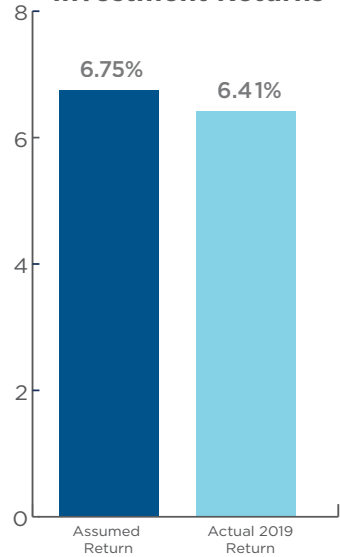
Assumed And Actual Investment Returns

The Michigan Department of Treasury's Bureau of Investments 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 2019 was 6.41%. 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.

Assumed and Actual Investment Returns¹

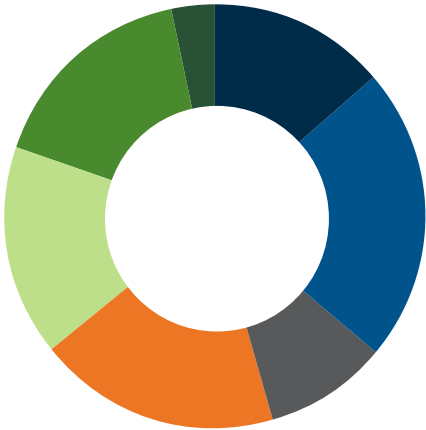


1. 2019 MMRP Pension Actuarial Valuation, Page C-3.

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	\$	7,727,449	\$	530,636
Domestic Equity Pools		12,759,545		672,496
Real Estate and Infrastructure Pools		5,402,892		306,618
Private Equity Pools		10,563,578		804,710
International Equity Pools		9,067,069		85,339
Absolute Return Pools		9,254,768		455,245
Short-Term Investment Pools		1,814,305		26,248
Market Value And Net Investment Gain	\$	56,589,606	\$	2,881,292



- Fixed Income Pools - 13.7%**
- Domestic Equity Pools - 22.5%**
- Real Estate and Infrastructure Pools - 9.5%**
- Private Equity Pools - 18.7%**
- International Equity Pools - 16.0%**
- Absolute Pools - 16.4%**
- Short-Term Investment Pools - 3.2%**

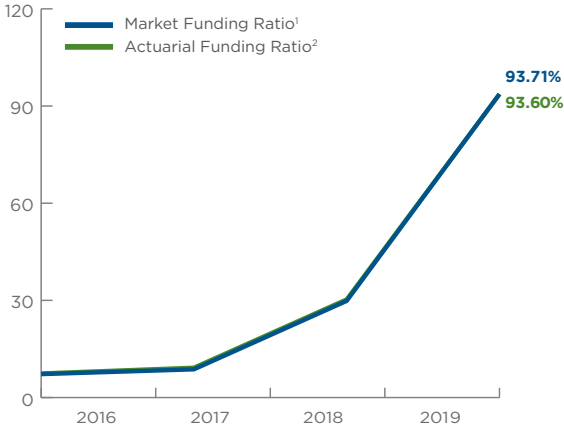
1. CAFR for the FY ended Sept. 30, 2019, Page 58.

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, 2019, there were \$56.5 million in actuarial assets available to offset the liabilities of the plan. This amount represents a 93.60% actuarial funding ratio. There were \$56.6 million in net assets on a market basis as of Sept. 30, 2019. This represents a 93.71% market funding ratio.



1. Calculated on market value of assets.
2. MMRP Pension Actuarial Valuation for the FY ended Sept. 30, 2019, 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	\$ 483,124
UAAL Contribution ¹	391,156
Valuation Payroll ²	\$ 493,005

1. MMRP Pension Actuarial Valuation for the FY ended Sept. 30, 2019, Page A-1.
 2. MMRP Pension Actuarial Valuation for the FY ended Sept. 30, 2019, Page D-3.
 Note: 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 involves 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 Fiscal Year Ended Sept. 30, 2019 ¹	
Actuarial Cost Method	Entry Age, Normal
Amortization Method	Level-Dollar
Amortization Period	Closed Period, 17 Years Beginning Oct. 1, 2021
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, 2019, Page 40.

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.

5AM Ventures	BTIG	Flagship Ventures
Accel Partners	Cantor Fitzgerald	Fortress Investment Group LLC
Advent International Corp.	Capital Institutional Services Inc.	Fox Paine & Company LLC
AEW Capital Management LP	Capri Capital Partners LLC	Freeman Spogli & Co.
Affinity Equity Partners	The Carlyle Group LP	FTN Financial
Ancora Advisors LLC	Carlyle Investment Management LLC	Gateway Capital Management
Aon Hewitt	Centerbridge	Genstart Capital LLC
Apax Partners Worldwide LLP	Centerbridge Capital Partners	Goldman Sachs Group Inc.
Apollo Capital Management LP	Cerberus Capital Management LP	Greenspring Associates
Apollo Global Management Inc.	Charlesbank Capital Partners	Grosvenor Capital Management
Apollo-Stonetower	CIE Management-BC Partners	GSO Capital Partners
Arboretum Ventures	CIM Investment Management Inc.	H.C. Wainwright & Co.
ArcLight Capital Partners LLC	Citigroup Global Markets Inc.	HarbourVest Partners LLC
Ardian	Clarion Partners	HarbourVest TOPE LLC
Ares Management LLC	Clarkston Capital Partners LLC	Harvest Partners LLC
Ark Investment Management LLC	Coller Capital	Heitman Capital Management LLC
Asana Partners	Columbia Management	Highbridge Principal Strategies
Attucks Asset Management LLC	Convergex Group LLC	Hilltop Securities Inc.
Avanath Capital Management LLC	CoStar Realty Information Inc.	Hopen Life Sciences Ventures
Axiom Asia Private Capital	Cowen & Co. LLC	HPS Investment Partners III LLC
Bank of America Merrill Lynch	Credit Suisse Group	Huron Capital Partners LLC
Bank of Montreal	Credit Suisse-Commercial Paper	ICG Advisors LLC
Barclays Capital	Crescent Capital Group	InSight Venture Partners
Barings	Crescent Direct Lending	Invesco Ltd.
Basalt Infrastructure Partners LLP	CVC Capital Partners	JANA Partners LLC
BB&T Capital Markets	Czech Asset Management LP	JANA Special Situations Management
BC Partners	D.A. Davidson Companies	J.P. Morgan
Beacon Capital Partners LLC	Dalmore Capital Limited	J.P. Morgan Asset Management
Bentall Kennedy	Deutsche Bank	J.P. Morgan Private Equity Fund
Beringea	Dodge & Cox	Services
Berkshire Partners LLC	Domain Capital Advisors LLC	Kayne Anderson Capital Advisors LP
BGC Financial	Domain Mercury/Ploutos	KBS Realty Advisors
Bivium Capital Partners LLC	Drexel Hamilton	Kelso & Company
BlackRock	Effissimo	Kensington Realty Advisors
BlackRock Financial Management	EleganTree Fund	Kevin Miller Financial Services
Blackstone Alternative Asset	EnCap Investments LP	Khosla Ventures
Management LP	EnTrust Capital	Kohlberg, Kravis, Roberts & Co.
The Blackstone Group Inc.	Fidelity Institutional Asset	L&B Realty Advisors LLP
BMO Capital Markets	Management	Landmark Realty Advisors
BNP Paribas	FIMI Opportunity Funds	LaSalle Investment Management
Bridgepoint Capital	FirstMark Capital	Lazard Asset Management
BroadRiver Asset Management LP	Fisher Investments	Lead Edge Capital
Brookfield Asset Management Inc.	Five Star Realty Partners	Leonard Green & Partners LP

Investment Service Providers, Continued

LGT Capital Partners	Preqin	TPG Inc.
Lightspeed Venture Partners	Principal CMBS	Tradition Securities
Lombard International Life Assurance Company	Principal Financial Group	Transwestern Investment Group
Lonestar	Pritzker Group	Trilantic Capital Management LLC
Loomis Sayles & Company	Proprium Capital Partners LP	True North Management Group
Los Angeles Capital Management	Prudential	Trusted Insight
Lubert-Adler Management Company	Prudential Fixed Income	TSG Consumer Partners
Marathon Asset Management	Public Pension Capital	Turnbridge Capital Management LLC
Marathon London	R.W. Baird	U.S. Bank
MarketAxess Corporation	Raymond James	Veritas Capital Fund Management LLC
Martin Currie	RBC Capital Markets	Vida Capital Inc.
MatlinPatterson Global Advisors	Renaissance Venture Capital	Visium Capital Management
MBS Securities	Rhone Capital	Vista Equity Partners
Mellon Capital Management	Rialto Capital	Warburg Pincus LLC
Menlo Management Partners	Ridgewood Capital Management LLC	Warwick Energy Group
Merit Energy Company	Ridgewood Energy	Wayne Co.
Meritech Capital Partners	Riverside	Wellington Trust Company
Mesirow Financial	The Rohatyn Group	Wells Fargo
Metropolitan West Asset Management	RPEP Energy & RPEP Holdings	Western National Group
MFR Securities	Sanford C. Bernstein & Co. LLC	
MI Growth Capital Partners SBIC	Science Media LLC	
Mischler Financial Group	Scotiabank	
Morgan Stanley	Seizert Capital Partners	
Morgan Stanley Smith Barney LLC	Shamrock Capital Advisors LLC	
Multi-Bank Securities Inc.	Silver Lake	
Munder Capital Management AKA	SJC Direct Lending & Onshore	
Victory Capital Management Inc.	SK Capital Partners LP	
Napier Park Global Capital	Societe Generale	
Natural Gas Partners	Southwest Securities Inc.	
New Leaf Venture Partners	Sprott Resource	
Nordic Capital	State Street Bank	
NorthPointe Capital	State Street Global Advisors	
Oak Investment Partners	Stifel	
Oaktree Capital Management LLC	Stockbridge Capital Group	
Oppenheimer	Stonepeak Advisors LLC	
Orchard Global Asset Management	Sycamore Partners	
Orion Resource Partners	T. Rowe Price	
OTA Ltd Partnership	T. Rowe Price Trust Company	
Paladin Realty Partners LLC	Tahquamenon	
Parallel Resource Partners LLC	TH Real Estate Limited	
Parthenon Capital Inc.	The John Buck Company	
Peninsula Capital Partners LLC	The Riverside Company	
Permira	The TCW Group Inc.	
PIMCO	Thomas Bravo	
Piper Jaffray	TICP Fund	
PitchBook	TPG Real Estate Advisors	
	TPG TSSP	



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.

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