

Michigan State Police Retirement System

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

Summary Annual Report for Fiscal Year 2014



Prepared by
The Office of Retirement Services
P.O. Box 30171
Lansing, MI 48909-7671

(517) 322-5103
(800) 381-5111

About the Michigan State Police Retirement System

This report is in compliance with Public Act 314 of 1965, as amended. The contents came from the complete Michigan State Police Retirement System 2014 Comprehensive Annual Financial Report (CAFR), an existing public data source available on our website at www.michigan.gov/orsmsp, and additional analysis performed after September 30, 2014.

The Michigan State Police Retirement System serves 2,963 retirees receiving monthly benefits, and 1,603 active members. State police pensions are protected by Michigan's Constitution. The System's net assets are held in trust to meet future benefit payments.

The State Treasurer is the investment fiduciary and custodian of all investments of the System pursuant to State law.

Michigan State Police Retirement System 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 system's assets.

Accel	Bivium Capital Partners	Cramer Rosenthal McGlynn
Advent	BlackRock Inc.	Credit Suisse Securities, LLC
AEW Capital Management	Blackstone Group	Credit Suisse/DLJ
Affinity	BNP Paribas	Crescent
Apax	BNY ConvergeX	DA Davidson & Co.
Apollo Global Management	Bridgepoint	Dalmore Capital Limited
Arboretum	Brockway Moran & Partners	Deutsche Bank
Ardian	Brookfield Asset Management Inc	Devon Self Storage
Ares	BTIG, Inc	Dodge & Cox
Argus	Capital Institutional Services	Domain Capital Advisors
Attucks Asset Management	Capri Capital Partners	Doughty Hanson
Austin Ventures	Carlyle	Dover Street
Avanath Capital Management	Castle Harlan	Drexel Hamilton
Avenue International	CCMP	Edens Limited Partnership
AXA	Centerbridge Capital Partners	EDF Ventures
Axiom-Asia	Cerberus	Essex Woodlands
Baillie Gifford International, LLC	CIM Group	First Tennessee Financial
Balfour Beatty Group	Citigroup Global Markets, Inc.	FirstMark Capital
Banc Funds	Clarion Partners	Fisher Investments
Bank of America/Merrill	Clarkston Capital Partners	Five Star Realty Partners
Bank of Montreal	Clarus	Flagship Ventures
Barclay's Capital	Clearstone	Fox Paine
Battery Ventures	CMEA	Franklin Templeton
BB&T Capital Markets	Cobalt Capital Partners	Freeman Spogli Equity Partners
BC European Capital	Coller Capital	Frontenac
Beacon Capital Partners	Columbia Management Investment	Gateway Capital
Bentall Kennedy	Advisors	GE Capital
Berkshire	CoStar Realty Information Inc.	Glencoe
BGC Partners	Cowen Group	Globespan

Michigan State Police Retirement System Service Providers, continued

Goldman Sachs	MFR Securities	Silver Lake
Green Equity Investors	MFS Institutional Advisors	Societe Generale
Grosvenor Capital Management	Mischler Financial Group	Southwest Securities
Grotech	Morgan Stanley	Sprout
GSO	MPM	State Street Bank
GW Capital, Inc.	Multi-Bank Securities	State Street Global Advisors
H.I.G.	New Leaf Ventures	Sterne Agee
Harbourvest	Nordic Capital	Stifel Nicolaus & Co
Healthcare Ventures	North Castle Partners	Stockbridge Capital Group
Heitman Capital Management	NorthPointe Capital	Stonepeak Advisors LLC
Henderson Global Investors	NV Partners	Sun Trust, Robinson, Humphrey
Hewitt Ennis Knupp	Oak Investment Partners	Susquehanna Intl Group
Huron	Oaktree	T Rowe Price Associates, Inc
Insight Venture Partners	One Liberty	TCW
InterWest Partners	OTA Ltd Partnership	The John Buck Company
Invesco Ltd	Paine & Partners	The Shansby Group
JAFCO	Paladin Realty Partners	TPG
JP Morgan Chase	Parthenon	Trilantic
JP Morgan Investment Management	Peninsula	True North Management Group
KBS Realty Advisors	Permira	Tullis Dickerson
Kelso	Philadelphia Financial Life Assurance Company	Turnbridge Capital Partners
Kensington Realty Advisors	Phoenix Equity Partners	UBS Securities
Kevin Miller Financial Services	Piper Jaffray	Unitas
Khosla	Primus	US Bank
KKR	Principal CMBS	Veritas Capital Partners
Kohlberg Kravis Roberts & Co	Principal Financial Group	Victory Capital Management
L&B Realty Advisors	Proprium Capital Partners	Vista Equity Partners
Landmark Realty Advisors	Providence Equity Partners	Warburg Pincus
LaSalle Investment Management	Prudential Investment Management	Wayne Co
Lazard Asset Management	Public Pension Capital	Weiss, Peck & Greer
Lightspeed Venture Partners	Pyramis Global Advisors	Wellington Management Company
Lion Capital	Questor	Wells Fargo Securities LLC
Lloyds Banking Group	Raymond James & Assoc	WestAm
Long Point Capital	RBC Capital Markets	Western National Group
Loomis Sayles & Company	RBS Greenwich	Windpoint
Los Angeles Capital Management	RFE	Winnington Capital Limited
Lowe Enterprises Investment Management	Rhone Partners	
Marathon Asset Management	Rialto Capital	
Matlin Patterson	Riverside	
Menlo Ventures	RW Baird	
Meritech	RW Pressprich & Co	
Merrill Lynch Pierce Fenner & Smith	Sanford C. Bernstein & Co, Inc.	
Mesirow Financial Inc	Seizert Capital Partners	
Metropolitan West Asset Management	SG Americas	

Membership

Members of this system are enlisted Michigan State Police officers. Membership in the plan is automatic when officers complete recruit school and subscribe to the constitutional oath of office.

Members also include officers participating in the Deferred Retirement Option Plan (DROP) and receiving employee wages.

Employees who work for the Michigan State Police but are not enlisted officers are not members of this plan.

Plan Membership and Retirement Allowances as of September 30, 2014	
Membership	FY 2014
Retirees and Beneficiaries Currently Receiving Benefits	
Regular Benefits	2,289
Survivor Benefits	483
Disability Benefits	191
Total	2,963
Current Employees	
Vested	1,038
Non-vested	565
Total	1,603
DROP Participants	257
Inactive Employees	
Entitled to benefits and not yet receiving them	44
Total All Members	4,867
<i>Source: CAFR for the Fiscal Year ended September 30, 2014, p. 23.</i>	
Retirement Allowances	FY 2014
Average annual retirement allowance	\$ 36,521
Total annual retirement allowances being paid	\$ 108,211,509
<i>Source: Actuarial Valuation for the Fiscal Year ended September 30, 2014.</i>	

Benefit Structures

Michigan State Police troopers and sergeants enlisted before June 10, 2012, are in the Defined Benefit (DB) plan.

The Pension Plus retirement plan was introduced for troopers and sergeants enlisted on or after June 10, 2012. Pension Plus is a hybrid plan that contains a pension component with an employee contribution and a flexible and transferable defined contribution account.

Assets & Liabilities*

System total assets as of September 30, 2014, were \$1.4 billion and were mostly comprised of cash, investments, and contributions due from employers.

Total liabilities as of September 30, 2014, were \$93.6 million and were comprised of accounts payable, deferred revenue, and obligations under securities lending.

System assets exceeded its liabilities at the close of fiscal year 2014 by \$1.3 billion. Total net assets held in trust for pension and Other Post-Employment Benefits (OPEB) increased \$148.9 million from the previous year, primarily due to net investment gains.**

Assets & Liabilities (in thousands) <i>(combined pension and healthcare)</i>			
Assets	FY 2014*		FY 2013**
Cash	\$	14,125	\$ 25,721
Receivables		7,155	6,150
Securities Lending Collateral		88,398	74,789
Investments		1,311,794	1,169,961
Total Assets	\$	1,421,472	\$ 1,276,621
Liabilities	FY 2014*		FY 2013**
Accounts Payable and Other Liabilities	\$	2,159	\$ 2,573
Obligations Under Securities Lending		91,481	95,164
Total Liabilities	\$	93,640	\$ 97,737
Net Assets	\$	1,327,832	\$ 1,178,884

*Source: CAFR for the Fiscal Year ended September 30, 2014, p. 21.
**Source: CAFR for the Fiscal Year ended September 30, 2013, p. 22.

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

** Source: CAFR for the Fiscal Year ended September 30, 2014, p. 17.

Revenue and Expenditures

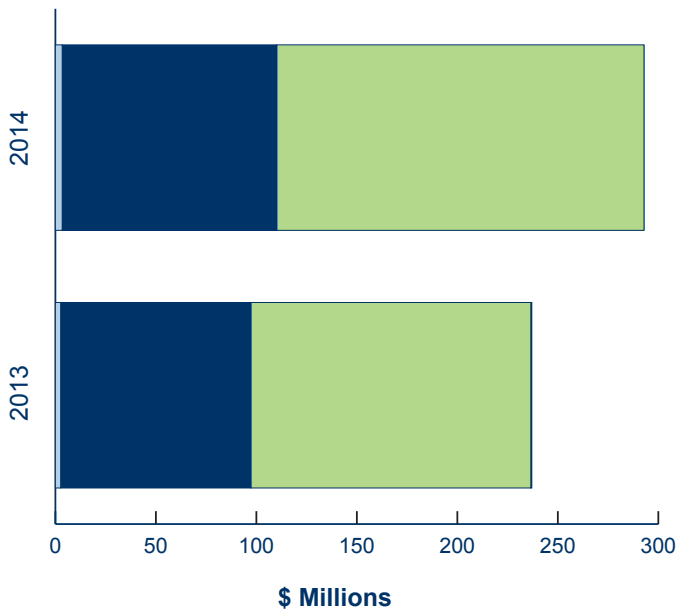
The reserves needed to finance pension and OPEB are accumulated through the collection of employer and employee contributions and through earnings on investments. Contributions and net investment income for fiscal year 2014 totaled approximately \$292.9 million.

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.*

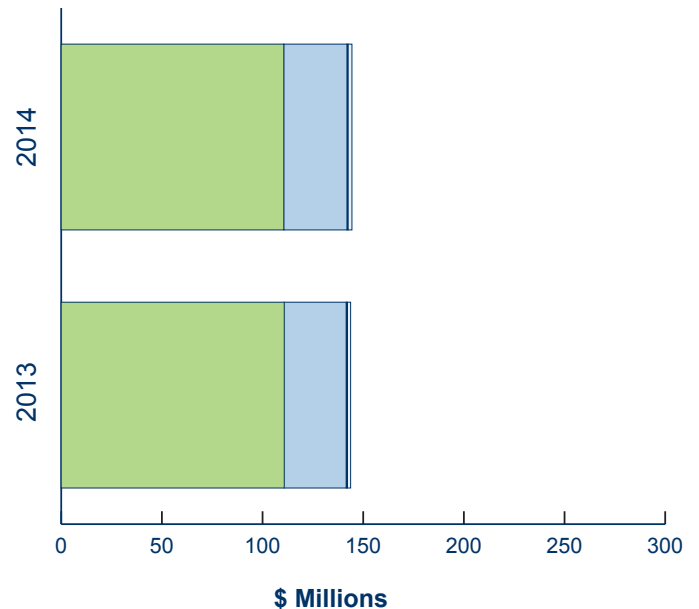
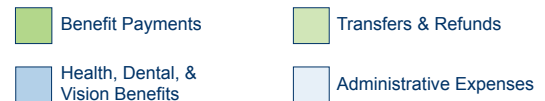
Additions & Deductions (in thousands) (combined pension and healthcare)			
Additions	FY 2014*		FY 2013**
Member Contributions	\$	3,373	\$ 2,608
Employer Contributions		106,764	94,664
Net Investment Income (loss)		182,722	139,275
Transfers and Misc. Income		0	46
Total Additions	\$	292,858	\$ 236,593
Deductions	FY 2014*		FY 2013**
Benefit Payments	\$	110,543	\$ 110,782
Health, Dental, & Vision Benefits		31,374	30,572
Transfers & Refunds		8	19
Administrative Expenses		1,985***	1,714***
Total Deductions	\$	143,909	\$ 143,087
Beginning of Year Assets	\$	1,178,884	\$ 1,085,378
End of Year Net Assets	\$	1,327,833	\$ 1,178,884

* Source: CAFR for the Fiscal Year ended September 30, 2014, p. 22.
 ** Source: CAFR for the Fiscal Year ended September 30, 2013, p. 23.
 *** Reflects participation in federal programs that provide a federal subsidy for eligible healthcare claims, producing a net overall savings to the System.

Revenue



Expenditures

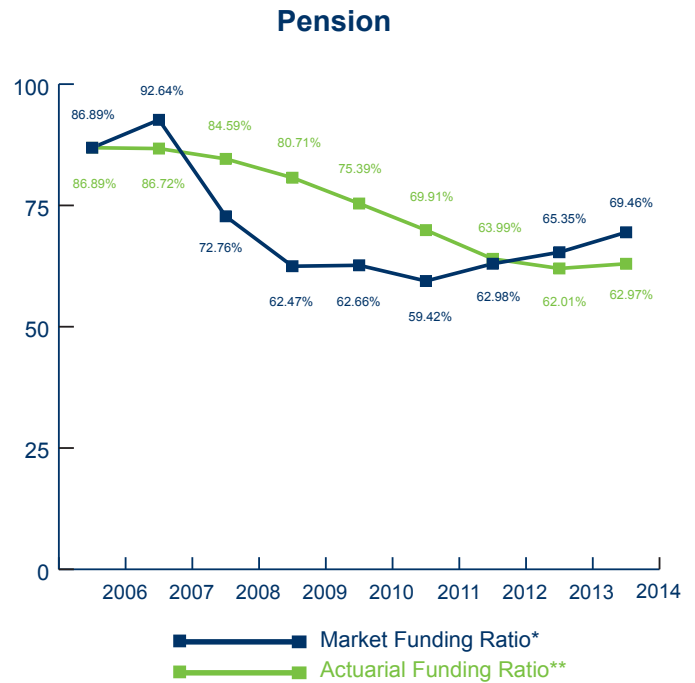


* Source: CAFR for the Fiscal Year ended September 30, 2014, p. 18.

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.

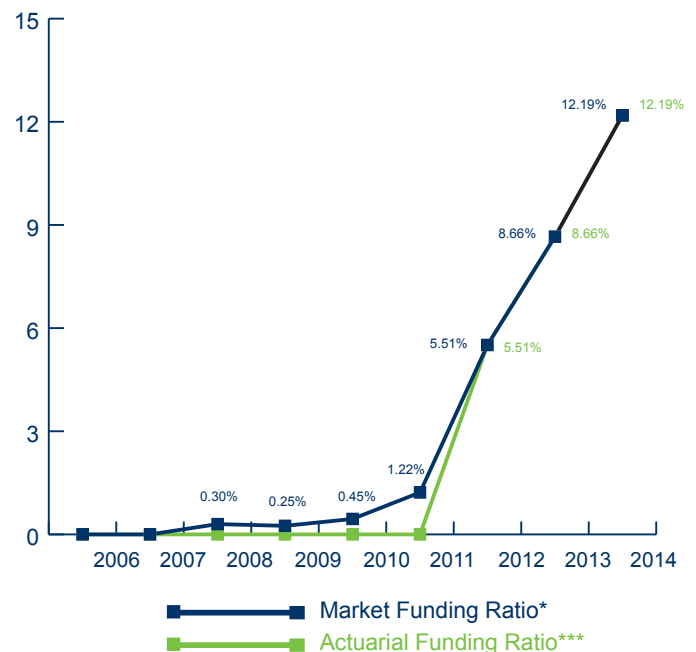


Retiree Healthcare

Starting in 2012, the System began pre-funding retiree healthcare 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. 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. While there were some assets set aside, these 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.

Retiree Healthcare



*Calculated on Market Value of Assets.

**Source: CAFR for the Fiscal Year ended September 20, 2014, p. 93.

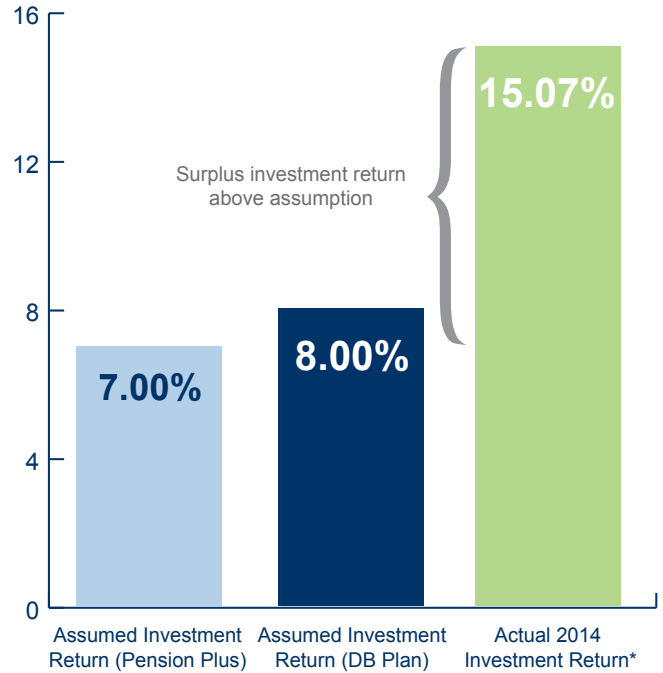
***Source: CAFR for the Fiscal Year ended September 20, 2014, p. 42

Discount Rates and Actual Investment Return

The State Treasurer administers all of the System's investments in accordance with the Public Employee Retirement System Investment Act, Public Act 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.

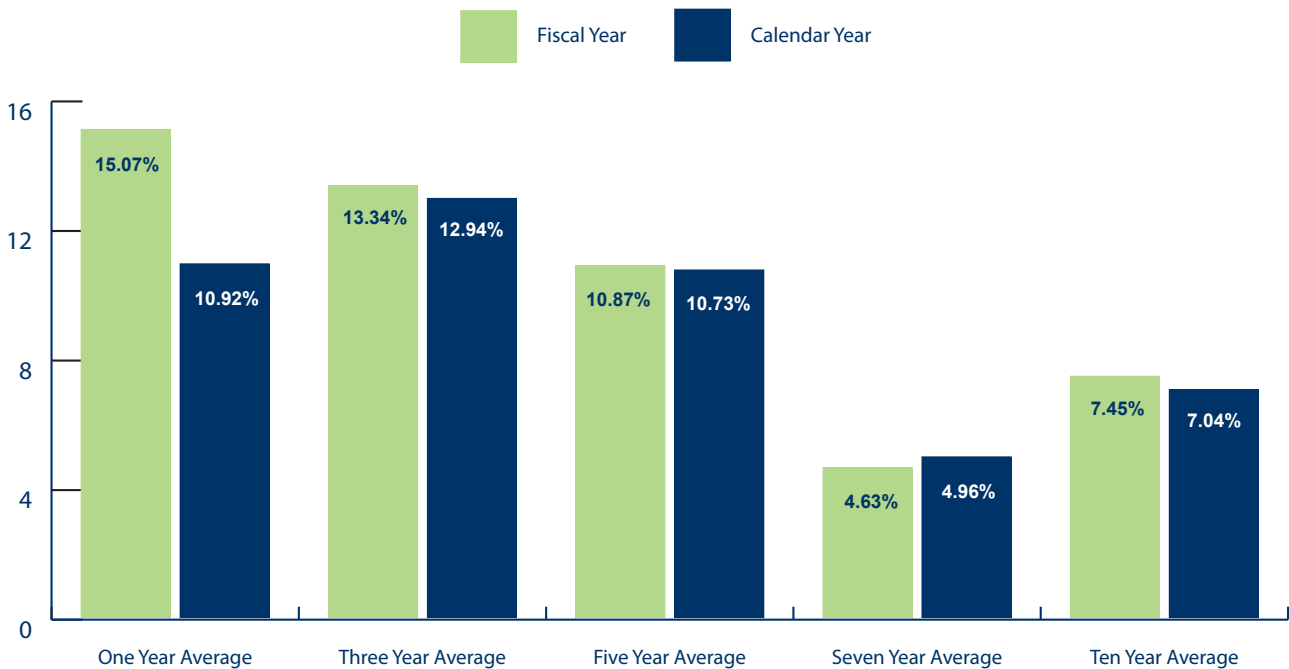
Contribution rates are determined by actuaries based in part on an assumed investment return each year. When investments exceed the assumed rates of return, as they did in 2014, this results in a gain for the System. The actual rate of investment return in FY 2014 was 15.07 percent*, which is greater than the assumed rate of return.

Investment Return Assumed and Actual for Fiscal Year 2014



* Source: CAFR for the Fiscal Year ended September 30, 2014, p. 51

Historical Investment Returns as of Fiscal Year 2014



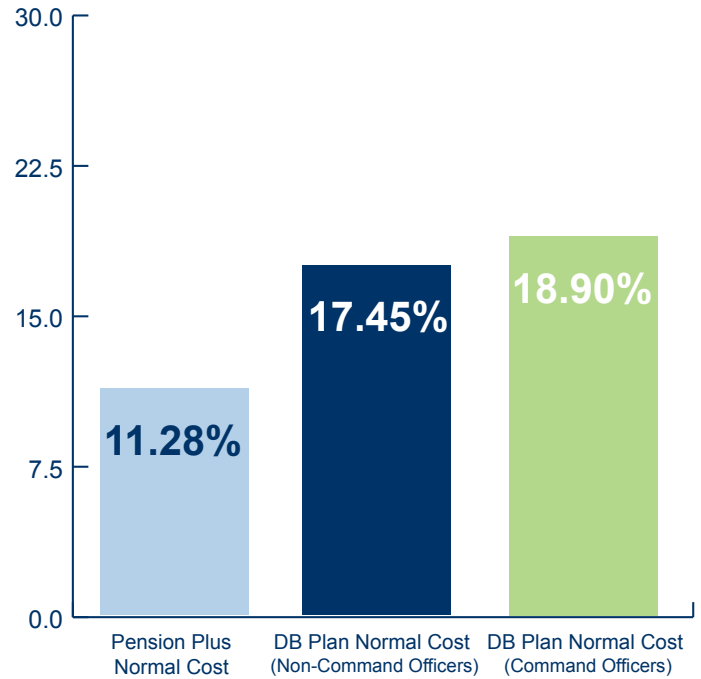
* These figures are shown net of fees. Information shown in the CAFR is shown gross of fees.

Member and Employer Contributions

Definition of Normal Cost

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 in addition to other actuarial assumptions. After member contributions are accounted for, the employer pays the remainder of the Normal Cost as shown here.

Employer Pension Normal Cost Contribution Rates for Fiscal Year 2015*



* Based on 2012 Actuarial Valuation

Member and Employer Pension Contributions	
Member Contributions	Based on FY 2014 Actuarial Valuation
Weighted Average	
Pension Plus	4.00%
Defined Benefit (DB) Plan	1.76%
Employer Contributions	Based on FY 2014 Actuarial Valuation
Computed Normal Cost of benefits expressed as a percentage of valuation payroll	
Pension Plus	10.59%
Defined Benefit (DB) Plan	16.40%
UAAL contribution rate expressed as a percentage of valuation payroll	
Pension Plus	39.05%
Defined Benefit (DB) Plan	39.05%
Valuation Payroll	\$ 116,389,437

Receipt of Employer Contributions

The statute requires the employer to contribute to finance the benefits of plan members. These employer contributions are determined annually by the System's actuary and are based upon level-dollar value funding principles so the contribution rates do not have to increase over time. Differences between the Annual Required Contribution (ARC) and the actual contributions are the result of a timing difference between when the actuarial valuation is completed and the contributions are made.

2014 Pension Plan Expenditures

Pension Plan Expenses for Fiscal Year Ended September 30, 2014		
Administrative and Other Expenses	Dollars	% of Total
<i>These expenditures are the administrative costs of running the retirement system, and are paid by DTMB - Office of Retirement Services and DTMB - Financial Services through an annual appropriation.</i>		
Personnel Services		
Staff Salaries	\$ 229,889	0.15398%
Retirement and Social Security	43,574	0.02919%
Other Fringe Benefits	15,052	0.01008%
Total	\$ 288,515	0.19325%
Professional Services		
Accounting	\$ 14,103	0.00945%
Actuarial	42,127	0.02822%
Attorney General	18,937	0.01268%
Audit	47,695	0.03195%
Consulting	1,364	0.00091%
Medical	9,711	0.00650%
Total	\$ 133,937	0.08971%
Building and Equipment		
Building Rentals	\$ 8,525	0.00571%
Equipment Purchase, Maintenance, and Rentals	336	0.00023%
Total	\$ 8,862	0.00594%
Miscellaneous		
Travel and Board Meetings (Excluding Travel and Education for Board Members)	\$ 422	0.00028%
Office Supplies	382	0.00026%
Postage, Telephone, and Other	24,745	0.01657%
Printing	6,203	0.00415%
Technological Support	111,898	0.07495%
Subtotal	\$ 143,650	0.09622%
Travel and Education for Board Members	\$ 145	0.00010%
Total	\$ 143,795	0.09631%
Total Administrative and Other Expenses	\$575,108	0.38521%
Health, Dental & Vision Fees	Dollars	% of Total
<i>These expenditures are for self-insurance of the health, dental, and vision plans, and are paid from the retirement system's trust fund.</i>		
Staff Salaries	\$ 62,694	0.04199%
Health Fees	1,246,354	0.83481%
Dental Fees	87,837	0.05883%
Vision Fees	12,978	0.00869%
Total Health and Dental Fees	\$ 1,409,863	0.94433%
Investment Expenses	Dollars	% of Total
<i>These expenditures are related to the Department of Treasury (Bureau of Investments) for managing the retirement system's assets, and are paid from the retirement system's trust fund.</i>		
Real Estate Operating Expenses	\$ 52,824	0.03538%
Securities Lending Expenses	1,497,249	1.00286%
Other Investment Expenses		
ORS-Investment Expenses	353,646	0.23687%
Custody Fees	23,461	0.01571%
Management Fees	3,394,336	2.27353%
Research Fees	66,054	0.04424%
Total Investment Expenses	\$ 5,387,568	3.60860%
Benefits Paid to Members	Dollars	% of Total
<i>These are the actual retirement benefits paid to members of the retirement system.</i>		
Retirement Benefits	\$ 110,542,930	74.04187%
Health Benefits	28,748,890	19.25606%
Dental/Vision Benefits	2,624,593	1.75796%
Refunds of Member Contributions	7,977	0.00534%
Total Payments to Members	\$ 141,924,390	95.06123%
Soft Dollar Expenses	Dollars	% of Total
<i>These expenditures are for research provided by the retirement system's service providers, and are incorporated into the brokerage fees and commissions.</i>		
Bass Trading Int'l Group (BTIG)		
High Tech Strategist	\$ 2	0.00000%
Macro Mavens Newsletter	784	0.00053%
Welling on Wall Street	157	0.00011%
Total Soft Dollar Expenditures	\$ 943	0.00063%

*Source: CAFR for the Fiscal Year ended September 30, 2014, p. 47-51.

2015 Budget for Pension Plan Expenditures

Budget for Pension Plan Expenses for Fiscal Year Ending September 30, 2015		
Administrative and Other Expenses	Dollars	% of Total
<i>These expenditures are the administrative costs of running the retirement system, and are paid by DTMB - Office of Retirement Services and DTMB - Financial Services through an annual appropriation.</i>		
Personnel Services		
Staff Salaries	\$ 250,809	0.16109%
Retirement and Social Security	48,708	0.03128%
Other Fringe Benefits	16,818	0.01080%
Total	\$ 316,335	0.20317%
Professional Services		
Accounting	\$ 14,030	0.00901%
Actuarial	42,448	0.02726%
Attorney General	19,536	0.01255%
Audit	47,700	0.03064%
Consulting	1,400	0.00090%
Medical	11,200	0.00719%
Total	\$ 136,314	0.08755%
Building and Equipment		
Building Rentals	\$ 9,684	0.00622%
Equipment Purchase, Maintenance, and Rentals	607	0.00039%
Total	\$ 10,291	0.00661%
Miscellaneous		
Travel and Board Meetings (Excluding Travel and Education for Board Members)	\$ 345	0.00022%
Office Supplies	529	0.00034%
Postage, Telephone, and Other	32,568	0.02092%
Printing	5,625	0.00361%
Technological Support	99,892	0.06416%
Subtotal	\$ 138,959	0.08925%
Travel and Education for Board Members	150	0.00010%
Total Administrative and Other Expenses	\$ 602,049	0.38668%
Health, Dental & Vision Fees	Dollars	% of Total
<i>These expenditures are for self-insurance of the health, dental, and vision plans, and are paid from the retirement system's trust fund.</i>		
Staff Salaries	\$ 68,399	0.04393%
Health Fees	1,435,800	0.92217%
Dental Fees	90,033	0.05783%
Vision Fees	13,733	0.00882%
Total Health and Dental Fees	\$ 1,607,965	1.03275%
Investment Expenses	Dollars	% of Total
<i>These expenditures are related to the Department of Treasury (Bureau of Investments) for managing the retirement system's assets, and are paid from the retirement system's trust fund.</i>		
Real Estate Operating Expenses	\$ 55,465	0.03562%
Securities Lending Expenses	221,051	0.14197%
Other Investment Expenses		
ORS-Investment Expenses	410,608	0.26372%
Custody Fees	27,810	0.01786%
Management Fees	3,564,053	2.28909%
Research Fees	69,357	0.04455%
Total Investment Expenses	\$ 4,348,343	2.79282%
Benefits Paid to Members	Dollars	% of Total
<i>These are the projected retirement benefits paid to members of the retirement system.</i>		
Retirement Benefits	\$ 115,484,642	74.17251%
Health Benefits	30,962,094	19.88608%
Dental/Vision Benefits	2,683,156	1.72332%
Refunds of Member Contributions	8,161	0.00524%
Total Payments to Members	\$ 149,138,053	95.78715%
Soft Dollar Expenses	Dollars	% of Total
<i>These expenditures are for research provided by the retirement system's service providers, and are incorporated into the brokerage fees and commissions.</i>		
Bass Trading Int'l Group (BTIG)		
High Tech Strategist	\$ 2	0.00000%
Macro Mavens Newsletter	784	0.00050%
Welling on Wall Street	157	0.00010%
Total Soft Dollar Expenditures	\$ 943	0.00061%

Actuarial 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 trend. 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.

Actuarial Assumptions for Fiscal Year Ending September 30, 2014	
Valuation Date	9/30/2013
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	23 Years ¹
Remaining Amortization Period - OPEB	23 Years
Asset Valuation Method - Pension	5-Year Smoothed Market
Asset Valuation Method - OPEB	Market
Actuarial Assumptions	
FY 2014	
Wage Inflation Rate	3.5%
Investment Rate of Return - Pension	
Defined Benefit (DB) Plan	8.0%
Pension Plus Plan	7.0%
Investment Rate of Return - OPEB	8.0%
Projected Salary Increases	4.02 - 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
Mortality - Pension	RP - 2000 Male and Female Combined Healthy Life Mortality Table, adjusted for mortality improvements to 2030 for males and to 2015 for females, using projection scale BB. For retirees, 100% of the table rates were used. For active members, the table is adjusted for mortality improvements to 2030 for males and to 2020 for females, 50% of the table rates were used.
Mortality - OPEB	RP - 2000 Male and Female Combined Healthy Life Mortality Table, adjusted for mortality improvements to 2020 using projection scale AA. (110% of the male rates were used for ages under 80 plus other adjustments for ages 80-100 and 105% of the female rates were used).
Other Assumptions OPEB Only²	
FY 2014	
Opt out Assumption	6% of eligible participants are assumed to opt out of the retiree health plan
Survivor Coverage	100% of male retirees and 100% of female retirees are assumed to have coverage continuing after the retiree's death when 2-person coverage was assumed to be elected
Coverage Election at Retirement	85% of male and 70% of female future retirees are assumed to elect coverage for 1 or more dependents
<p>¹ Based on the provision of GASB Statement Nos. 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.</p> <p>² Applies to individuals hired before June 10, 2012.</p>	
Source: CAFR for the Fiscal Year ended September 30, 2014, p. 33.	

Office Closures

May 25 - Memorial Day
July 3 - Independence Day
September 7 - Labor Day

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

Office of Retirement Services (ORS)

P.O. Box 30171
Lansing, MI 48909-7671
www.michigan.gov/ors
www.michigan.gov/orsmiaccount

Office of Retirement Services
Director Phil Stoddard

Printed by authority of 1965 P.A. 314, as amended.