

Michigan State Employees' Retirement System

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

Schedule of Employer Allocations and Schedule of Pension Amounts by Employer for Fiscal Year Ended September 30, 2014



Prepared by

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Office of the Auditor General

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Doug A. Ringler, CPA, CIA
Auditor General

Independent Auditor's Report

Michigan State Employees' Retirement System Board
Office of Retirement Services
Stevens T. Mason Building
and
Mr. David B. Behen, Director
Department of Technology, Management, and Budget
Lewis Cass Building
and
Ms. Kerrie L. Vanden Bosch, Acting Director
Office of Retirement Services
Stevens T. Mason Building
Lansing, Michigan

Dear Board, Mr. Behen, and Ms. Vanden Bosch:

We have audited the accompanying schedule of employer allocations of the Michigan State Employees' Retirement System as of and for the fiscal year ended September 30, 2014 and the related notes. We have also audited the columns titled October 1, 2013 net pension liability, total deferred outflows of resources, total deferred inflows of resources, total employer pension expense, and September 30, 2014 net pension liability (specified column totals) included in the accompanying schedule of pension amounts by employer of the System as of and for the fiscal year ended September 30, 2014 and the related notes.

Management's Responsibility for the Schedules

Management is responsible for the preparation and fair presentation of these schedules in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of schedules that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on the schedule of employer allocations and the specified column totals included in the schedule of pension amounts by employer based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the schedule of employer allocations and the specified column totals included in the schedule of pension amounts by employer are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the schedule of employer allocations and the specified column totals included in the schedule of pension amounts by employer. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the schedule of employer allocations and the specified column totals included in the schedule of pension amounts by employer, whether due to fraud or error. In making those risk assessments, the auditor considers



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internal control relevant to the entity's preparation and fair presentation of the schedule of employer allocations and the specified column totals included in the schedule of pension amounts by employer in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the schedule of employer allocations and the specified column totals included in the schedule of pension amounts by employer.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the schedules referred to in the first paragraph present fairly, in all material respects, the employer allocations and the October 1, 2013 net pension liability, total deferred outflows of resources, total deferred inflows of resources, total employer pension expense, and September 30, 2014 net pension liability for the Michigan State Employees' Retirement System as of and for the fiscal year ended September 30, 2014 in accordance with accounting principles generally accepted in the United States of America.

Other Matter

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the System as of and for the fiscal year ended September 30, 2014, and our report thereon, dated January 16, 2015, expressed an unmodified opinion on those financial statements.

Restriction on Use

Our report is intended solely for the information and use of the Michigan State Employees' Retirement System Board, the Department of Technology, Management, and Budget, the Office of Retirement Services, and the System's participating employers and their auditors and is not intended to be and should not be used by anyone other than these specified parties.

Sincerely,

A handwritten signature in black ink that reads 'Doug Ringler'. The signature is written in a cursive, flowing style.

Doug Ringler
Auditor General
October 23, 2015

**MICHIGAN STATE EMPLOYEES' RETIREMENT SYSTEM
SCHEDULE OF EMPLOYER ALLOCATIONS
AS OF AND FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2014**

Employer Name	Total Required Employer Contributions	Proportionate Share
STATE OF MICHIGAN - PRIMARY GOVERNMENT	691,252,017	0.982016638
MICHIGAN STATE HOUSING DEVELOPMENT AUTHORITY	4,824,671	0.006854095
MICHIGAN STRATEGIC FUND	3,396,454	0.004825121
MICHIGAN ECONOMIC DEVELOPMENT CORPORATION	1,891,112	0.002686580
MICHIGAN FINANCE AUTHORITY	907,780	0.001289623
MACKINAC BRIDGE AUTHORITY	873,838	0.001241404
MACKINAC ISLAND STATE PARK COMMISSION	333,262	0.000473444
MICHIGAN EDUCATION TRUST	247,440	0.000351521
LAND BANK FAST TRACK AUTHORITY	91,772	0.000130375
STATE BUILDING AUTHORITY	58,141	0.000082598
STATE BAR OF MICHIGAN	34,211	0.000048602
 Total	 <u><u>703,910,698</u></u>	 <u><u>1.000000000</u></u>

**MICHIGAN STATE EMPLOYEES' RETIREMENT SYSTEM
SCHEDULE OF PENSION AMOUNTS BY EMPLOYER
AS OF AND FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2014
AND BEGINNING NET PENSION LIABILITY AS OF OCTOBER 1, 2013**

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Employer Name	Deferred Outflows of Resources				
	Oct. 1, 2013 Net Pension Liability	Differences Between Expected and Actual Experience	Changes of Assumptions	Changes in Proportion and Differences Between Employer Contributions and Proportionate Share of Contributions	Total Deferred Outflows of Resources
STATE OF MICHIGAN - PRIMARY GOVERNMENT	5,622,243,678	-	146,384,137	-	146,384,137
MICHIGAN STATE HOUSING DEVELOPMENT AUTHORITY	39,241,080	-	1,021,704	-	1,021,704
MICHIGAN STRATEGIC FUND	27,624,790	-	719,256	100	719,356
MICHIGAN ECONOMIC DEVELOPMENT CORPORATION	15,381,211	-	400,475	-	400,475
MICHIGAN FINANCE AUTHORITY	7,383,353	-	192,237	-	192,237
MACKINAC BRIDGE AUTHORITY	7,107,291	-	185,050	3	185,053
MACKINAC ISLAND STATE PARK COMMISSION	2,710,562	-	70,574	11	70,585
MICHIGAN EDUCATION TRUST	2,012,531	-	52,399	-	52,399
LAND BANK FAST TRACK AUTHORITY	746,422	-	19,434	-	19,434
STATE BUILDING AUTHORITY	472,889	-	12,312	-	12,312
STATE BAR OF MICHIGAN	278,253	-	7,245	-	7,245
Total	5,725,202,060	-	149,064,823	114	149,064,937

**MICHIGAN STATE EMPLOYEES' RETIREMENT SYSTEM
SCHEDULE OF PENSION AMOUNTS BY EMPLOYER
AS OF AND FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2014
AND BEGINNING NET PENSION LIABILITY AS OF OCTOBER 1, 2013**

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Deferred Inflows of Resources				Pension Expense				
Differences Between Expected and Actual Experience	Net Difference Between Projected and Actual Investment Earnings on Pension Plan Investments	Changes of Assumptions	Changes in Proportion and Differences Between Employer Contributions and Proportionate Share of Contributions	Total Deferred Inflows of Resources	Proportionate Share of Pension Expense	Net Amortization of Deferred Amounts from Changes in Proportion and Differences Between Employer Contributions and Proportionate Share of Contributions	Total Employer Pension Expense	Sept. 30, 2014 Net Pension Liability
-	592,855,858	-	41,484	592,897,342	571,224,710	(71,772)	571,152,938	5,054,576,291
-	4,137,904	-	3	4,137,907	3,986,927	(6)	3,986,921	35,278,982
-	2,912,986	-	-	2,912,986	2,806,702	173	2,806,875	24,835,567
-	1,621,922	-	6	1,621,928	1,562,744	(10)	1,562,734	13,828,199
-	778,562	-	2	778,564	750,155	(3)	750,152	6,637,870
-	749,452	-	-	749,452	722,107	6	722,113	6,389,681
-	285,824	-	-	285,824	275,395	20	275,415	2,436,882
-	212,218	-	1	212,219	204,475	(2)	204,473	1,809,330
-	78,709	-	-	78,709	75,837	1	75,838	671,057
-	49,865	-	1	49,866	48,046	(1)	48,045	425,142
-	29,341	-	299	29,640	28,271	(518)	27,753	250,159
-	603,712,641	-	41,796	603,754,437	581,685,369	(72,112)	581,613,257	5,147,139,160

The accompanying notes are an integral part of this schedule.

Michigan State Employees' Retirement System Notes to the Schedule of Employer Allocations and Schedule of Pension Amounts by Employer

Note 1: Plan Description

Organization

The Michigan State Employees' Retirement System (System) is a single-employer, state-wide, defined benefit public employee retirement plan governed by the State of Michigan (State) and created under Public Act 240 of 1943, as amended. Section 2 of this act established the board's authority to promulgate or amend the provisions of the System. The board consists of nine members – four appointed by the Governor which consist of two employee members and two retirant members, the insurance commissioner, attorney general, state treasurer, deputy legislative auditor general, and state personnel director, who serves as an ex-officio member.

The System is administered by the Office of Retirement Services within the Michigan Department of Technology, Management & Budget. The Department Director appoints the Office Director, with whom the general oversight of the System resides. The State Treasurer serves as the investment officer and custodian for the System.

Plan Membership

The System's pension plan was established by the State to provide retirement, survivor and disability benefits to state employees. Members are eligible to receive a monthly benefit when they meet certain age and service requirements. The System also provides duty disability, non-duty disability and survivor benefits.

Effective March 31, 1997, Public Act 487 of 1996 closed the plan to new entrants. All new employees become members of the defined contribution plan. The Public Act allows returning employees and members who left State employment on or before March 31, 1997, to elect the defined benefit plan instead of the defined contribution plan.

Public Act 185 of 2010, established a pension supplement. Members who retired under the retirement incentive of the legislation agreed to forfeit accumulated leave balances, excluding banked leave time; in exchange they receive a pension supplement for 60 months to their retirement allowance payments equal to 1/60 of the amount forfeited from funds, beginning January 1, 2011.

The System's financial statements are available online at: http://www.michigan.gov/SERS_CAFR_FY14 .

Note 2: Summary of Significant Accounting Policies

Governmental Accounting Standards Board (GASB) Statement No. 68

Employers participating in the System are required to report pension information in their financial statements for fiscal periods beginning on or after June 15, 2014, in accordance with Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions*.

The requirements of GASB 68 incorporate provisions intended to reflect the effects of transactions and events related to pensions in the measurement of employer liabilities for pensions and recognition of pension expense and deferred outflows of resources and deferred inflows of resources related to pensions.

The Schedule of Employer Allocations recognizes the employers' proportionate share of net pension liability determined in conformity with GASB 68. The Schedule of Pension Amounts by Employer recognizes the pension expense, including beginning and ending net pension liability, deferred inflows of resources and deferred outflows of resources related to the System's pension plan. These schedules were prepared by ORS with assistance from its third-party actuaries and provide employers with the required information for financial reporting related to the System's pension plan as of and for the fiscal year ended September 30, 2014 (the measurement period).

Basis of Accounting and Presentation

The System's financial statements are prepared using the accrual basis of accounting, in accordance with accounting principles generally accepted in the United States (GAAP). Employer contributions are recognized as revenue when due and payable. Benefits and refunds are recognized when due and payable in accordance with the terms of the System.

The Schedule of Employer Allocations and Schedule of Pension Amounts by Employer were prepared in conformity with GAAP. The preparation of these schedules required management to make estimates and assumptions that affect certain amounts and disclosures. Actual results could differ from those estimates.

The schedules present elements of the financial statements of the System and its participating employers and are not a complete financial presentation of the System or its participating employers.

Proportionate Share Allocation Methodology

The primary government and certain component units participate in the System, which is classified for financial reporting purposes as a single-employer. However, GASB 68 requires that, in stand-alone financial statements, each government should account for and report its participation in the single-employer plan as if it was a cost-sharing employer. Therefore, this allocation is to identify the primary government and component units' proportionate shares of the collective net pension liability.

In determining the proportionate share allocation, GASB 68 requires that the proportion for each employer be consistent with the determination of the System's contributions. The System has determined that utilizing the statutorily required employer pension contributions based on reportable compensation during the System's fiscal year is an appropriate allocation methodology. Each employer's proportionate share allocation is determined by dividing each employer's statutorily required pension contributions to the system during the measurement period by the percent of pension contributions required from all applicable employers during the measurement period.

The Schedule of Employer Allocations has been rounded and presents the first b|bYdecimal places.

Note 3: Net Pension Liability

The System's net pension liability is measured as the total pension liability, less the amount of the pension plan's fiduciary net position. In actuarial terms, this is the accrued liability less the market value of assets.

Net Pension Liability As of October 1, 2013

Pension Liability	\$ 15,647,718,258
Fiduciary Net Position	<u>9,922,516,197</u>
Net Pension Liability	<u>\$ 5,725,202,061</u>

Net Pension Liability As of September 30, 2014

Pension Liability	\$ 16,121,945,250
Fiduciary Net Position	<u>10,974,806,091</u>
Net Pension Liability	<u>\$ 5,147,139,159</u>

Fiduciary Net Position as a Percentage of Total Pension Liability	68.07%
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Net Pension Liability as a Percentage of Covered-Employee Payroll	511.32%
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Note: The first year of implementation recognizes a 0.00% change in the employers' proportionate share between beginning net pension liability and ending net pension liability.

Discount Rate

A discount rate of 8.00% was used to measure the total pension liability. This discount rate was based on the expected rate of return on pension plan investments of 8.00%. The projection of cash flows used to determine this discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Net Pension Liability to Changes in the Discount Rate

As required by GASB Statement No. 68, the following presents the System's net pension liability, as well as what the System's net pension liability would be if it were calculated using a discount rate that is one percent lower or one percent higher.

	1% Decrease 7.0%	Current Discount Rate Assumption 8.0%	1% Increase 9.0%
Total Pension Liability	\$ 17,672,135,999	\$ 16,121,945,250	\$ 14,788,263,451
Fiduciary Net Position	10,974,806,091	10,974,806,091	10,974,806,091
Net Pension Liability	\$ 6,697,329,908	\$ 5,147,139,159	\$ 3,813,457,360

Timing of the Valuation

An actuarial valuation to determine the total pension liability is required to be performed every two years. If the actuarial valuation is not calculated as of the System's fiscal year end, the total pension liability is required to be rolled forward from the actuarial valuation date to the System's fiscal year end.

The total pension liability as of September 30, 2014, is based on the results of an actuarial valuation date of September 30, 2013, and rolled forward using generally accepted actuarial procedures.

Actuarial Valuations and 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 mortality.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

Additional information as of the latest actuarial valuation follows:

Summary of Actuarial Assumptions

Valuation Date:	September 30, 2013
Actuarial Cost Method:	Entry Age, Normal
Remaining Amortization Period:	23 years
Inflation:	2.5%
Salary Increases:	3.5% wage inflation
Investment Rate of Return	8.0% net of investment and administrative expenses
Mortality:	RP-2000 Combined Health Life Mortality Table, adjusted for mortality improvements to 2020 using projection scale AA (set forward 2 years for men, with 81% of the male rates used at ages 81-103 and 107% of the female rates).

Notes:

- Assumption changes as a result of an experience study for the periods 2007 through 2012 have been adopted by the System for use in the annual pension valuations beginning with the September 30, 2014 valuation.
- Recognition period for liabilities is the average of the expected remaining service lives of all employees in years is 1.5780.
- Recognition period for assets in years is 5.0000
- Full actuarial assumptions are available in the 2014 SERS CAFR (http://www.michigan.gov/SERS_CAFR_FY14).

Note 4: Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

The following table provides details of the System pension expense for the fiscal year ended September 30, 2014.

<u>Expense</u>	<u>Total</u>
Service Cost	\$ 84,039,836
Interest on the Total Pension Liability	1,206,257,733
Current-Period Benefit Changes	-
Employee Contributions (shown as negative for addition here)	(47,527,233)
Projected Earnings on Plan Investments (shown as negative for addition here)	(774,985,082)
Pension Plan Administrative Expense	6,930,656
Other Changes in Plan Fiduciary Net Position	-
Recognition of Outflow (Inflow) of Resources due to Liabilities	257,897,619
Recognition of Outflow (Inflow) of Resources due to Assets	(150,928,160)
Total Pension Expense	\$ 581,685,369

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in future years' pension expense as follows:

<u>Fiscal Year Ending September 30</u>	<u>Net Deferred Outflows of Resources</u>
2015	\$ (1,863,336)
2016	(150,928,160)
2017	(150,928,160)
2018	(150,928,161)
2019	-
Thereafter	-
Total	\$ (454,647,817)