

# Connections

An Office of Retirement Services Publication

March 2012, Vol. 15 No. 1

State Employees'  
Retirement System

## Our Purpose

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

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## From the Director

### The health of your retirement plan in plain English

Each year, the March issue of *Connections* includes a financial summary of the State Employees' Retirement System. Starting this year, we're enhancing the format to give you an easy-to-understand summary that highlights the details and clearly communicates the health of the retirement system – see the new design on pages 2 and 3.

The new dashboard format not only helps us to better align with Governor Snyder's initiative to measure and report the performance of Michigan's government, but it also helps us be transparent in our communications to you.

Having a prudent, long-term investment strategy keeps the system financially stable and in a position to continue funding your benefits. In addition, ORS strives to operate at the lowest cost possible. Our total pension administrative cost is more than 27 percent lower than similar retirement systems.\*

Though our pension administrative cost remains low, I am proud to report that our staff remain innovative and continue to provide quality service.

As always, feel free to contact us with any questions you have, and let us know how we can improve our service to you.

Sincerely,

Phil Stoddard, Director  
Office of Retirement Services



\*Source: CEM Defined Benefit Administration Benchmarking Analysis, 2011.

## All payments going paperless in 2013

Last October, we reported that all federal benefits (including Social Security and Veterans Affairs benefits) will be paid electronically beginning March of 2013. At the same time, ORS will be discontinuing paper checks and moving all pension payments to direct deposit.

If you're one of the few still receiving pension payments by check, make the switch! Signing up for direct deposit is easy. Use miAccount, our secure online tool, and make the change instantly. You can also find the direct deposit enrollment form on our website.

## Why use miAccount?

You can quickly and easily view your account details, update your address, change your tax withholding, enroll in direct deposit, print your 1099-R, change your insurance information including Medicare dates and policy numbers, or ask ORS a question using our secure Message Board. Signing up is easy!

[www.michigan.gov/orsmiaccount](http://www.michigan.gov/orsmiaccount).

**miACCOUNT**  
[www.michigan.gov/orsmiaccount](http://www.michigan.gov/orsmiaccount)

# State Employees Retirement System

for Fiscal Year ending September 30, 2011

This summary came from the complete 2011 *Comprehensive Annual Financial Report*, available on our website at [www.michigan.gov/ORSstateDB](http://www.michigan.gov/ORSstateDB).

## About Your Plan

The State Employees' Retirement System serves 55,648 retirees receiving monthly benefits, and 19,650 active members. Of those active employees, 19,080 are eligible to receive benefits now or in a few years.

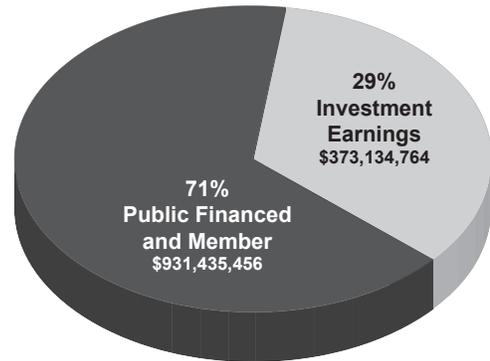
Your pension is protected by Michigan's Constitution. The Office of Retirement Service's net assets are held in trust to meet future benefit payments.

## Plan Net Assets

As of September 30, 2011, the retirement system's net assets were about \$8.7 billion.

The system is funded through a combination of investment earnings, and member and employer contributions.

FY 2011 ADDITIONS

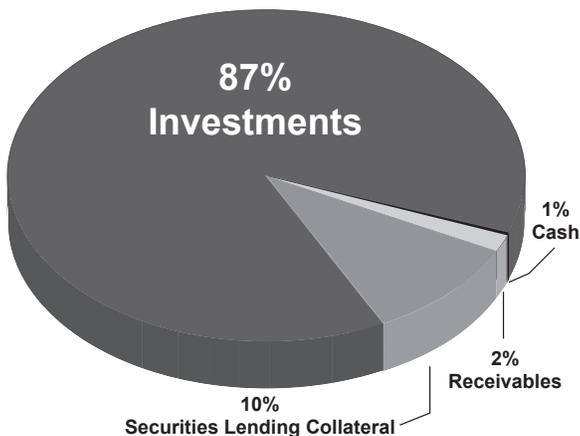


Assets & Liabilities		
	FY 2011	FY 2010
<b>Assets</b>		
Cash	\$ 111,418,144	\$ 33,125,264
Receivables	178,808,832	149,042,116
Securities Lending Collateral	1,018,987,155	992,881,436
Investments	<u>8,857,648,347</u>	<u>9,216,122,877</u>
<b>Total Assets</b>	<b>\$ 10,166,862,478</b>	<b>\$ 10,391,171,693</b>
<b>Liabilities</b>		
Accounts Payable and Other Liabilities	\$ 122,046,266	\$ 76,262,708
Obligations Under Securities Lending	<u>1,269,713,565</u>	<u>1,274,563,429</u>
<b>Total Liabilities</b>	<b>\$ 1,391,759,831</b>	<b>\$ 1,350,826,137</b>
<b>Net Assets</b>	<b><u>\$ 8,775,102,647</u></b>	<b><u>\$ 9,040,345,556</u></b>

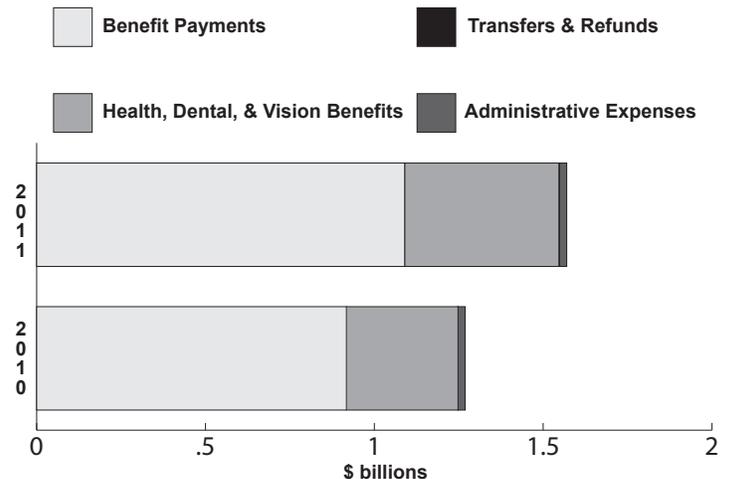
Deductions from net assets are primarily for the payment of benefits to retirees. Administrative expenses for ORS are low compared to similarly sized retirement systems (see the Director's Message).

Deductions		
	FY 2011	FY 2010
<b>Deductions</b>		
Benefit Payments	\$ 1,089,822,880	\$ 917,328,820
Health, Dental, & Vision Benefits	456,878,993	330,512,704
Transfers & Refunds	496,071	326,108
Administrative Expenses	<u>22,615,185</u>	<u>21,029,409</u>
<b>Total Deductions</b>	<b>\$ 1,569,813,129</b>	<b>\$ 1,269,197,041</b>

FY 2011 RETIREMENT PLAN ASSETS



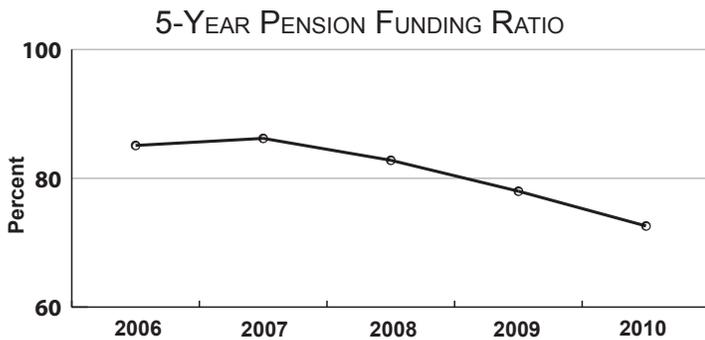
FY 2010 & 2011 RETIREMENT PLAN DEDUCTIONS



## Pension Funding Ratio

A pension plan is 100 percent funded when it has enough money in reserve to meet all expected future obligations to members. Funding a pension plan is similar to a mortgage. If you have a \$100,000 mortgage, and \$1,000 in the bank, your mortgage is 1 percent funded. You have 30 years to fund your mortgage, as long as you keep making your payments.

As of September 30, 2010, your retirement system is funded at 72.6 percent.



### Why does the funding ratio change?

One of the main contributors to the rise or fall of the funding ratio is investment performance. Performance affects the amount of assets available to offset the system's liabilities. Any liabilities that aren't offset make up the unfunded accrued liability (UAL).

## Investments

The State Treasurer administers all of the system's investments. The main objective is to maximize the return rate and meet the actuarial assumption by being prudent with investments, and maintaining a diverse portfolio to eliminate unnecessary risk.

With retirement plans, especially plans as big as yours, it's important to plan for investment performance over the long term. In this way, investments are not heavily impacted by short term fluctuations in the market.

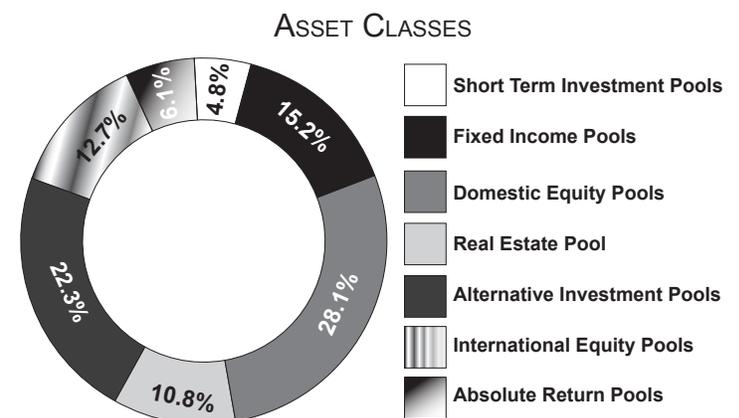
### Diversification in the portfolio

Diversity in an investment portfolio works almost like

Investments & Earnings		
	Market Value*	Total Investment and Interest Income**
Fixed Income Pools	\$ 1,365,712,055	\$ 59,073,485
Domestic Equity Pools	2,523,699,964	(2,524,831)
Real Estate Pool	967,207,936	110,539,962
Alternative Investment Pools	2,000,044,041	313,670,855
International Equity Pools	1,135,608,592	(126,072,165)
Absolute Return Pools	549,107,599	4,658,803
Short Term Investment Pools	316,268,160	550,692
Securities Lending Income		17,682,962
Investment Expenses		(35,479,170)
<b>Market Value and Net Investment Gain</b>	<b>\$ 8,857,648,347</b>	<b>\$ 342,100,593</b>

\* Market value excludes \$1,018,987,155 in securities lending collateral for fiscal year 2011.  
 \*\* Total Investment & Interest Income excludes net security lending income of \$13,750,890 and unrealized gain of \$30,955,583 for securities lending collateral for fiscal year 2011.

shocks on a car. Asset diversity minimizes the volatility in a portfolio, so the returns vary less from year to year. Even though market performance may fluctuate, the performance of retirement system's portfolio remains stable. This ensures that our funds are financially sound.



## Finance in Plain English

**Actuary:** Actuaries manage risk and uncertainty. At ORS, actuaries measure the system's funding progress and determine the employer contribution for the next fiscal year.

**Asset class:** Types of investments that have similar features, behave similarly in the market, and are subject to the same laws and regulations.

**Unfunded accrued liability (UAL):** Costs to the plan that are not covered with current assets.

## Ask an Expert

### ORS experts answer frequently asked questions



**Q:** *Why did my tax withholding change?*

**A:** IRS tax tables change every year. The changes may or may not have affected your federal tax withholding starting with your January pension payment.

Also, starting in January, some pension payments were subject to Michigan income tax. For information on how the changes affect you, visit the Department of Treasury website at [www.michigan.gov/withholding](http://www.michigan.gov/withholding).

**Q:** *Where can I find my pension payment details?*

**A:** You can get details on your pension benefits in miAccount. Under the Pension Payments section, you can find your pension payment history, tax withholding information, federal 1099R to view or print, direct deposit information, and your proof of income.

**Q:** *What's the best way to contact ORS?*

**A:** The best way to contact ORS is through the miAccount Message Board. An ORS representative will respond to your message within one to two business days. If you need to speak to someone on the phone, the best time to call our office is before 1 p.m.

## Pension Pay Dates

Pension payments are issued on the 25th of the month. If the 25th falls on a weekend or holiday, your pension will be paid the previous business day. If your electronic funds transfer (EFT) is not credited within three days after that date, contact ORS. Paper checks are sent one day before the pay date. If you haven't received your paper check by the seventh day of the following month, contact ORS.

## When to contact ORS

*Not sure what to report when? Here are the most common situations that would require you to update your information.*

**Address, email, tax, or changing banks: right away.** It's critical that you make these changes with our office.

**Death: right away.** If a pension recipient, a pension beneficiary, or anyone enrolled in your health, prescription drug, dental, or vision insurances dies.

**Divorce: right away.**

**Marriage: within 30 days.**

**Medicare: right away,** if you, your spouse, or any of your dependents become eligible for Medicare before age 65. Be sure to have the enrollment dates and policy numbers ready.

*The fastest, easiest way to report these and other life events is through miAccount. You can make instant changes from 5 a.m. to midnight, rather than calling our office during work hours.*

### Office Closures

ORS offices will be closed on the dates listed below.

May 28 - Memorial Day

July 4 - Independence Day

September 3 - Labor Day

Our website is available seven days a week, even when our office is closed: [www.michigan.gov/ORSstateDB](http://www.michigan.gov/ORSstateDB)

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[www.michigan.gov/ors](http://www.michigan.gov/ors)

[www.michigan.gov/orsmiaccount](http://www.michigan.gov/orsmiaccount)

Office of Retirement Services

Director Phil Stoddard

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