



**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, 2022

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, 2022.

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

Project Agile

The Project Agile initiative targets information technology (IT) changes at ORS by utilizing the Agile methodology to get the most value into users' hands more quickly through small and frequent releases. The initiative is using the Microsoft DevOps platform in conjunction with Git for changes on all related Clarity, miAccount, and Employer Self-Service efforts. The project is replacing Solutions Business Manager, a process management platform for tracking IT work, and Perforce, a version control software for storing IT project coding. Another Project Agile accomplishment is the implementation of a new process for submitting critical issue work requests. In the past, these were submitted by email. Now, they're submitted in DevOps, which brings improved transparency, operational efficiencies, and tracking.

Website migration project

Changes were made for 10 websites managed by ORS as part of a web migration project enhancing and aligning all State of Michigan Michigan.gov websites to replace a 20-year-old platform. The changeover to the new Sitecore web platform from the Vignette content management system started in January 2022 and was completed in late April 2022.

Women & Retirement campaign

ORS and Voya Financial partnered on a yearlong focus on women and retirement. The multi-platform Women & Retirement campaign targeted women who may enter the workforce later than men; are more likely to take time off to care for elderly parents or to raise children; tend to live longer; and, on average, spend more years in retirement. Launched in November 2021 and wrapped up in October 2022, the campaign highlighted the importance of women actively engaging in planning their retirement, covered a range of topics, and provided resources, information, and advice for the small steps they can take now to achieve their retirement goals. The campaign landing page is the second longest viewed and 13th most-viewed page on the ORS website.

Design Style Guide expansion

The ORS Design Style Guide was revised in May 2022 after its initial release in September 2020. The 80-page guide expanded by 38 pages, adding sections on email; forms, letters, and barcodes; and instructional design. The updates help keep more deliverables on-brand with the appropriate and consistent look, feel, and tone that is recognizable to ORS customers.

Honors

Government Finance Officers Association Award

The Government Finance Officers Association of the United States and Canada awarded the System with the Certificate of Achievement for Excellence in Financial Reporting for our FY 2021 annual comprehensive financial report (ACFR). This marks the 31st consecutive year ORS has received this prestigious award.

Public Pension Standards Award

ORS was awarded the 2022 Standards Award from the Public Pension Coordinating Council's (PPCC) Standards Program for both funding and administration. ORS has received this award every year since 2004. The PPCC Standards reflect expectations for public retirement system management and administration and serve as a benchmark for all defined benefit 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 2022 ACFR**, available on our website at [Michigan.gov/ORSMilitary](https://www.michigan.gov/ORSMilitary), the annual actuarial valuations as of Sept. 30, 2022, and additional analysis performed after Sept. 30, 2022.

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, 2022, was \$63.3 million and the total actuarial accrued liability (AAL) was \$76.8 million resulting in a total unfunded actuarial accrued liability (UAAL) of \$13.5 million. The Provision's assets increased by \$0.1 million in FY 2022 on an actuarial basis. Asset increases were primarily due to actuarial investment return smoothing. The AAL increased by \$12.9 million primarily due to a large increase in the vested deferred member population.

The pension funding ratio decreased by 16.4 percentage points due to the large increase in vested deferred member population.

Statement of assets and liabilities

FY 2022	Pension ¹
AAL	\$76,825,355
Present value of assets	\$63,300,233
UAAL	\$13,525,122
Funding ratio	82.40%
FY 2021	Pension ²
AAL	\$63,895,269
Present value of assets	\$63,156,676
UAAL	\$738,593
Funding ratio	98.80%

1. 2022 MMRP Pension Actuarial Valuation, Page B-1.
2. 2021 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, 6 months, and 1 day of active National Guard service in the State Defense Forces and Michigan National Guard.

Plan membership and retirement allowances as of Sept. 30, 2022

Membership¹

Active plan members	9,851
Inactive plan members or their beneficiaries currently receiving benefits	4,584
Inactive plan members entitled to but not yet receiving benefits	2,964
Total plan members	17,399

Retirement allowances

Average annual retirement allowance ²	
Non-special duty members	\$584
Special duty members	\$55,367

Total annual retirement allowances being paid³ \$3,954,363

1. MMRP Pension Actuarial Valuation for the FY ended Sept. 30, 2022, Page D-1.
2. MMRP Pension Actuarial Valuation for the FY ended Sept. 30, 2022, 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, 2022, Page C-2.

Assets and liabilities

The Provisions' total assets on a market basis as of Sept. 30, 2022, were \$63.5 million, mostly composed of cash and investments.

Total liabilities as of Sept. 30, 2022, were \$2.2 million and included accounts payable and obligations under securities lending.

Total net assets held in trust for pension benefits decreased by \$6.4 million from the previous year.

Assets and liabilities (dollars in thousands)

Assets	FY 2021 ¹	FY 2022 ²
Cash	\$ 865	\$ 1,183
Receivables	3	1
Investments	66,774	60,102
Securities lending collateral	2,203	2,191
Total assets	\$ 69,845	\$ 63,477
Liabilities	FY 2021 ¹	FY 2022 ²
Accounts payable and other liabilities	\$ 1	\$ 4
Obligations under securities lending	2,203	2,191
Total liabilities	2,204	2,195
Net assets	\$ 67,641	\$ 61,282

1. ACFR for the FY ended Sept. 30, 2021, Page 15.
2. ACFR for the FY ended Sept. 30, 2022, Page 16. 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.

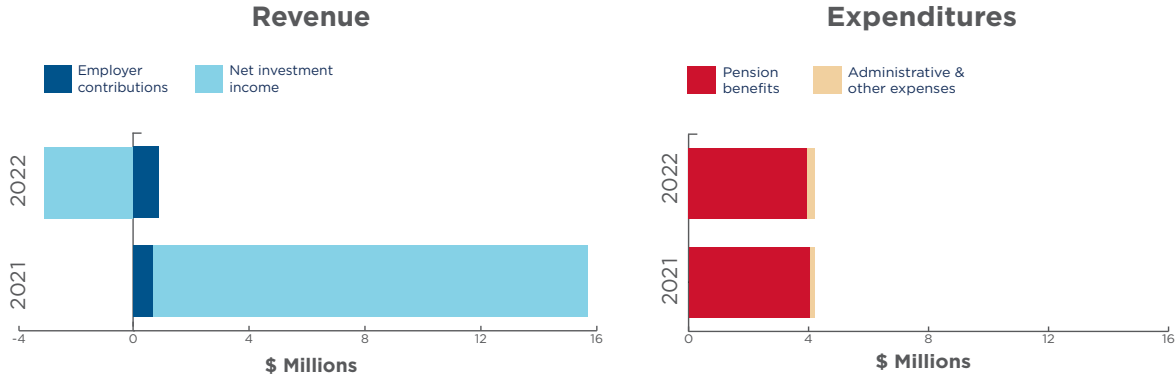
Revenue and expenditures, change in net assets

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 2022 totaled -\$2.2 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 2021	FY 2022
Employer contributions	\$	657	\$ 875
Net investment income (loss)		15,012	(3,036)
Total additions	\$	15,670	\$ (2,161)
Deductions		FY 2021	FY 2022
Pension benefits	\$	4,029	\$ 3,954
Administrative and other expenses		200	243
Total deductions	\$	4,230	\$ 4,197
Net position		FY 2021	FY 2022
Net increase (decrease) in net position	\$	11,440	\$ (6,358)
Beginning of year		56,201	67,641
End of year	\$	67,641	\$ 61,282

1. ACFR for the FY ended Sept. 30, 2022, Page 17.



2022 plan expenditures

Plan expenses for FY ended Sept. 30, 2022^{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	\$	66,109
Retirement and Social Security		32,473
Other fringe benefits		11,927
Subtotal	\$	110,509

Professional services

Accounting	\$	3,101
Actuarial		44,361
Attorney general		12,550
Audit		46,200
Consulting		-
Medical		-
Subtotal	\$	106,212

Building and equipment

Building rentals	\$	1,349
Equipment purchase, maintenance, and rentals		26
Subtotal	\$	1,375

Miscellaneous

Travel and board meetings (excluding travel and education for board members)	\$	-
Office supplies		5
Postage, telephone, and other		7,128
Printing		674
Technological support		16,713
Subtotal		24,520

Travel and education for board members		-
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Total administrative and other expenses	\$	242,616
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2022 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	\$	-
Securities lending expenses		17,341
Other investment expenses		
ORS-investment expenses		12,783
Custody fees		1,325
Management fees		246,662
Research fees		6,964
Total investment expenses	\$	285,075
Benefits paid to members		
These were the retirement benefits paid to members of the Provisions during the FY.		
Retirement benefits	\$	3,954,323
Refunds of member contributions		40
Total payments to members	\$	3,954,363
Total of all sections	\$	4,482,054
<small>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.</small>		

2023 budget for plan expenditures

Budget for plan expenses for FY ending Sept. 30, 2023^{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	\$	68,067
Retirement and Social Security		33,119
Other fringe benefits		12,624
Subtotal	\$	113,811
Professional services		
Accounting	\$	3,256
Actuarial		44,653
Attorney general		13,554
Audit		44,230
Consulting		500
Medical		-
Subtotal	\$	106,193
Building and equipment		
Building rentals	\$	1,408
Equipment purchase, maintenance, and rentals		41
Subtotal	\$	1,449
Miscellaneous		
Travel and board meetings (excluding travel and education for board members)	\$	11
Office supplies		24
Postage, telephone, and other		5,538
Printing		822
Technological support		22,105
Subtotal		28,500
Travel and education for board members		-
Total administrative and other expenses	\$	249,953

2023 budget, continued

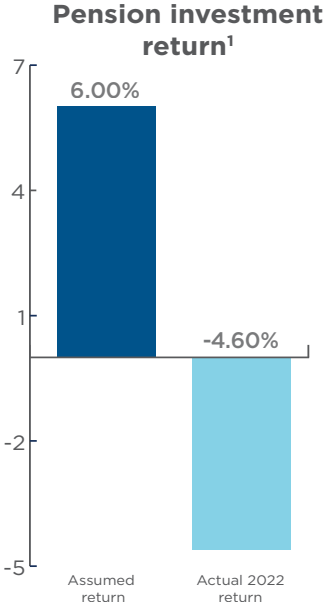
Investment expenses	Dollars	
These expenditures are related to the Treasury, BOI for managing the Provisions' assets and are paid from the Provisions' trust fund.		
Real estate operating expenses	\$	-
Securities lending expenses		53,931
Other investment expenses		
ORS-investment expenses		13,039
Custody fees		1,391
Management fees		236,796
Research fees		6,546
Total investment expenses	\$	311,702
Benefits paid to members	Dollars	
These are the projected retirement benefits paid to members of the Provisions.		
Retirement benefits	\$	3,875,236
Refunds of member contributions		28
Total payments to members	\$	3,875,264
Total of all sections	\$	4,436,919
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 FY 2022 was 6.00%.

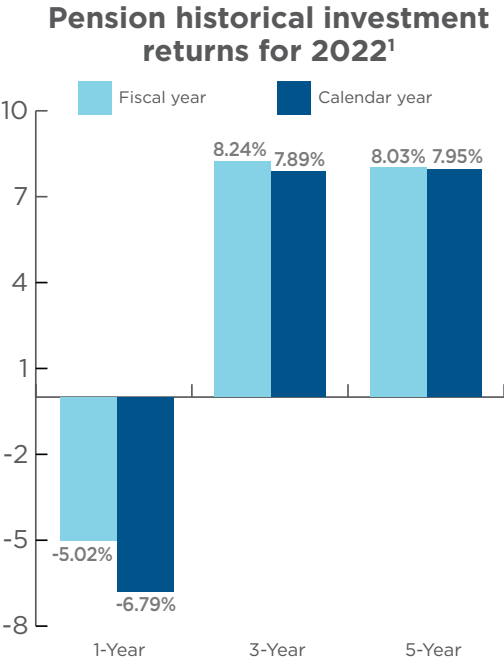
The actual market investment return for the Provisions in FY 2022 was -4.60%.



1. 2022 MMRP Pension Actuarial Valuation, Page C-3.

Historical investment returns

Pension historical investment returns are presented in the following chart.



1. Treasury, BOI report. These figures are shown net of fees. Information shown in the ACFR is shown gross of fees.

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 earnings¹				
	Market value		Total investment and interest income	
Fixed income pools	\$	5,584,527	\$	(798,819)
Domestic equity pools		10,985,096		(3,019,625)
Real estate and infrastructure pools		6,577,280		1,326,738
Private equity pools		15,570,578		1,509,330
International equity pools		7,440,437		(2,910,392)
Absolute return pools		6,132,882		156,031
Real return and opportunistic pools		7,196,351		952,087
Short-term investment pools		1,797,805		5,784
Market value and net investment gain	\$	61,284,956	\$	(2,778,866)



- Fixed income pools - 9.1%**
- Domestic equity pools - 17.9%**
- Real estate and infrastructure pools - 10.7%**
- Private equity pools - 25.4%**
- International equity pools - 12.2%**
- Absolute return pools - 10.0%**
- Real return and opportunistic pools - 11.8%**
- Short-term investment pools - 2.9%**

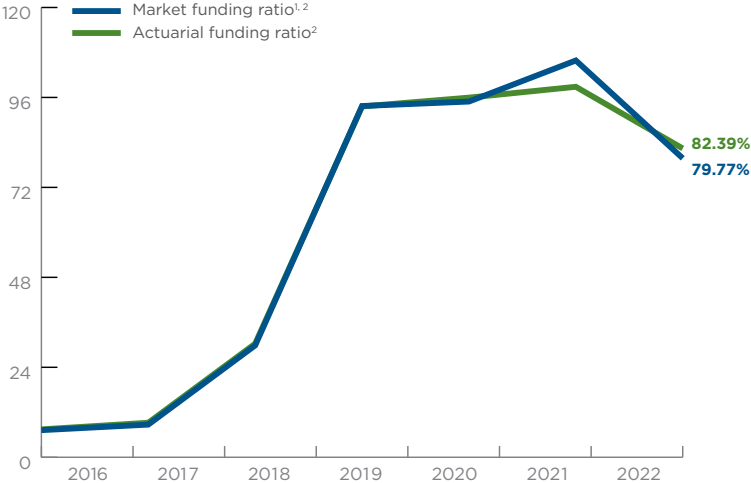
1. ACFR for the FY ended Sept. 30, 2022, Page 59.

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, 2022, there were \$63.3 million in actuarial assets available to offset the liabilities of the plan. This amount represents an 82.39% actuarial funding ratio. There were \$61.3 million in net assets on a market basis as of Sept. 30, 2022. This represents a 79.77% market funding ratio.



1. Calculated on market value of assets.
 2. MMRP Pension Actuarial Valuation for the FY ended Sept. 30, 2022, pages B-1 and C-2.

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	\$ 1,232,133
UAAL contribution ¹	1,538,374
Valuation payroll ²	\$ 543,190

1. MMRP Pension Actuarial Valuation for the FY ended Sept. 30, 2022, Page A-1.
 2. MMRP Pension Actuarial Valuation for the FY ended Sept. 30, 2022, 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 the occurrence of events far into the future. Examples include assumptions about future employment and investment performance.

Actuarial assumptions for FY ended Sept. 30, 2022 ¹	
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	6.00%

1. MMRP Pension Actuarial Valuation for the FY ended Sept. 30, 2022, 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.

5AM Ventures	BNY ConvergeX Group	Great Mountain Partners LLC
Accel	BroadRiver	Green Street
Accel-KKR	Brookfield Asset Management Inc.	Grosvenor Capital Management LP
Acorn Bioventures	Brown Capital	GTCR LLC
Advent International	BTIG Brokers	Guggenheim
AEW Capital Management	Cantor Fitzgerald	HarbourVest Partners
Affinity Equity Partners	Capital Institutional Services Inc.	Harvest Partners
American Industrial Partners	Capri Capital Partners LLC	Heitman Capital Management LLC
Ancora Advisors	The Carlyle Group	Hellman & Friedman
Apax Partners	Centerbridge Partners LP	HgCapital
Apollo Global Management	Cerberus Capital Management	Hopen Life Science Ventures
Apollo Private Equity	Charlesbank Capital Partners	Insight Partners
AQR	CIM Investment Advisors LLC	Intermediate Capital
Arboretum Ventures	CircleUp	Invesco Ltd.
ArcLight Capital Partners	Citigroup	Investors Diversified Realty
Ardian Investment	Citigroup Global Markets Inc.	Irradiant
Ares Management	Clarion Partners	Jeffries
ARK Investment Management	Clarkston Capital Partners	J.P. Morgan
Asana Partners	Clearlake Capital Group	J.P. Morgan Securities
Attucks Asset Management	CMBS	KBS Realty Advisors
Avanath Capital Management	Coller Capital	Kelso & Co.
Axiom Asia Private Capital	Columbia Management Investment	Khosla Ventures
Baillie Gifford	Advisers	Kohlberg Kravis Roberts & Co.
Bank of Montreal	CoStar Realty Information Inc.	L&B Realty Advisors
Barclays Capital Inc.	Cowen & Co. LLC	Landmark Realty Advisors LLC
Barings	Credit Suisse	LaSalle Investment Management
Barings Alternative Investments	CVC Capital Partners	Lazard Asset Management
Baron (GTC)	D.A. Davidson & Co.	Lead Edge Capital
Basalt Infrastructure Partners	DAIWA	Leonard Green & Partners LP
BB&T Capital Markets	Dalmore Capital Limited	LGT Capital Partners
BC Partners	Deutsche Bank	Lightspeed Venture Partners
Bentall Green Oak	Direct Investment Fund Manager	Lombard International Life Assurance
Beringea LLC	Domain Capital Advisors LLC	Company
Berkshire Partners	Drexel Hamilton	Lonestar
BGC Partners Inc.	eFront (Via Domain)	Los Angeles Capital Management
Bivium Capital Partners	eSecLending LLC	Lubert-Adler Management Company LP
BlackRock	Fidelity Institutional Asset Management	Managed Assets Portfolio
Blackstone Alternative Asset	FirstMark Capital	Marathon Asset Management
Management	Flagship Pioneering	MarketAxess
Blackstone Credit	Fortress Investment Group LLC	Martin Currie
Blackstone Group	Gaw Capital	Menlo Ventures
Blackstone Private Equity	Genstar Capital	Merrill Lynch (Bank of America)
BNP Paribas Finance	Goldman Sachs & Co. LLC	Merrill Lynch, Pierce, Fenner & Smith LLC

Investment service providers, continued

Meritech Capital Partners
Mesirow Financial Inc.
Metropolitan West Asset Management
MetWest
MFR Securities Inc.
Mischler Financial Group
MKM Holdings LLC
MKM Partners
Morgan Stanley
MUFG
Multi-Bank Securities Inc.
Napier Park Global Advisors
New Leaf Venture Partners
Oak Investment Partners
Odyssey Investment Partners
Paladin Realty Partners LLC
Patient Capital
Permira
PGIM Inc.
PIMCO
Piper Jaffray
PPC Enterprises
Principal Financial Group
Proprium Capital Partners
Prudential Investment Management
Raymond James & Associates Inc.
RBC Capital Markets LLC
Renaissance Venture Capital
Rialto Capital
Ridgewood Capital Management
The Riverside Company
Robert W. Baird & Co. Inc.
Roberts & Ryan
The Rohatyn Group
RW Pressprich & Co.
Science
Scotia Capital (USA) Inc.
Seizert Capital Partners
Shamrock Capital Advisors
Silver Lake
Sixth Street Partners
SK Capital Partners
Societe Generale
State Street Bank
State Street Global Advisors
StepStone Group
Stifel Nicolaus & Co. Inc.
Stockbridge Capital Group
Stonepeak Advisors LLC
Summit Partners
SunTrust Robinson Humphrey Inc.
Susquehanna International Group LLP
Sycamore Partners
T. Rowe Price
TCW Group Inc.
The John Buck Company
Thoma Bravo LLC
TICP SMA Management LLC
TPG
Transpose Platform
Transwestern Investment Management
Triton
True North Management Group LLC
TSG Consumer Partners LLC
UBS China
U.S. Bancorp Investments Inc.
Veritas Capital
Vida Capital Inc.
Vontobel
Warburg Pincus LLC
Warwick Capital
Wayne Co.
WCM Focused Growth
Wellington Trust Company NA
Wells Fargo Securities LLC



Michigan 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

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