



**MICHIGAN OFFICE OF
RETIREMENT SERVICES**
Big Plans. Small Steps.



Executive Summary

Of the Comprehensive Annual Financial Reports
for The Defined Benefit Retirement Systems
Fiscal Year Ended September 30, 2016

Prepared By
Office of Retirement Services
Department of Technology, Management and Budget



A Message From the Director of the Office of Retirement Services

The Office of Retirement Services (ORS) is pleased to present the Executive Summary of the Comprehensive Annual Financial Reports (CAFR) of the defined benefit retirement systems for fiscal year ending September 30, 2016.

ORS provides retirement and related retiree healthcare plans to help more than 800 Michigan employers attract, retain, and reward a highly qualified workforce. This includes the valuable teachers and staff who educate and care for our children every day, the Michigan State Police officers who protect our communities, the hard-working State of Michigan employees and judges.

ORS is able to provide these benefits cost-effectively while achieving high customer satisfaction scores. In 2015, the total defined benefit pension administration cost was \$57 per active member and retiree. This was \$34 below the peer average of \$91 (CEM Benchmarking). In that same year, 89 percent of customers reported that they were satisfied with ORS services.

ACCOMPLISHMENTS

Customer Needs and Expectations Study

ORS surveyed active and retired customers to improve its understanding of what customers need and expect. The study's purpose was to measure customer perceptions, evaluate satisfaction levels with various services, and determine the areas in need of change. ORS used the findings to set priorities and develop improvements in its product and services.

New Michigan Public School Employees' Retirement System (MPSERS) Healthcare and Pharmacy Benefits Contracts

New contracts for MPSERS healthcare and pharmacy benefits resulted in savings of nearly \$500 million. ORS initiated a competitive bid process for both, and the new contracts resulted in significant savings to both the retirees and the school employers who fund the benefits. The savings were achieved while maintaining the highest quality plan.

CUSTOMERS

517,584

all systems

PAID IN FY16

\$7.3B

in pension and healthcare
benefits

RANKING
18th largest public pension system in US

Customer Education and Branding

ORS developed a comprehensive plan to better educate and support its members. The plan included the creation and introduction of a new logo. The new logo represents ORS as a trusted partner helping members navigate the path to retirement success. This will be an exciting story and a time that will bring the organization closer to the people who rely on ORS in their retirement journey.

RANKING
24th largest pension system in US

ORS Delivers 1095-B Statements

This was the first year that ORS was required to deliver 1095-B health coverage statements to all non-Medicare PPO healthcare plan recipients. ORS executed a communication plan that included FAQs, staff training, targeted email communication, web content, and the 1095-B form developed in compliance with IRS guidelines. ORS sent the 1095-B statements to approximately 52,000 recipients during the first week of February 2016. As a result of the proactive communication plan and clear communication, ORS minimized the need for customers to contact ORS with questions.

RANKING
48th largest public pension system in the world

HONORS

Public Pension Standards Award

ORS was awarded the 2016 Public Pension Coordinating Council Standards Awards from the Public Pension Coordinating Council Standards Program (PPCC) 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 serves as a benchmark for all defined benefit public plans to be measured.

Truven Advantage Award

For the fourth time, ORS has earned a Truven Advantage Award. The Truven award recognizes hospitals, health plans, government agencies, and employers that use data analytics to improve quality of care and business results. ORS was recognized for its partnership with Truven in developing a new process for improving the accuracy of invoices and claims for the Michigan Public School Employees' Retirement System healthcare plans.

FINANCIAL HIGHLIGHTS

Complete financial information on all funds administered by ORS can be found in each systems' Comprehensive Annual Financial Report for fiscal year ending September 30, 2016.

Net Assets—Public Employees' Retirement Funds

Assets and Liabilities (in thousands)					
	SCHOOL	STATE	JUDGES	POLICE	TOTAL
Assets					
Cash	\$155,650	\$73,842	\$2,034	\$10,824	\$242,350
Receivables	446,907	154,090	190	9,228	610,415
Investments	47,919,271	12,378,716	253,737	1,376,741	61,928,465
Securities Lending Collateral	3,336,347	873,388	18,270	97,117	4,325,122
Total Assets	\$51,858,175	\$13,480,036	\$274,231	\$1,493,910	\$67,106,352
Liabilities					
Warrants Outstanding	\$373	\$53	\$0	\$309	\$735
Unearned Revenue	2,720	10	0	0	2,730
Accounts Payable and Other Liabilities	230,566	25,660	46	1,837	258,109
Obligations Under Securities Lending	3,331,758	872,187	18,244	96,983	4,319,172
Total Liabilities	\$3,565,417	\$897,910	\$18,290	\$99,129	\$4,580,746
Net Assets	\$48,292,758	\$12,582,126	\$255,941	\$1,394,781	\$62,525,606

Change In Net Assets

Additions and Deductions (in thousands)					
	SCHOOL	STATE	JUDGES	POLICE	TOTAL
Additions					
Members Contributions	\$781,150	\$85,327	\$1,238	\$4,170	\$871,885
Employer Contributions	3,192,600	1,334,127	2,292	115,662	4,644,681
Other Governmental Contributions	2,411	68,990	93	2,191	73,685
Net Investment Income (Loss)	3,384,338	883,648	18,481	98,207	4,384,674
Miscellaneous Income	642	322	57	115	1,136
Total Additions	\$7,361,141	\$2,372,414	\$22,161	\$220,345	\$9,976,061
Deductions					
Pension Benefits	\$4,671,315	\$1,289,598	\$23,302	\$119,081	\$6,103,296
Healthcare Benefits	653,071	502,317	459	32,668	1,188,515
Refunds & Transfers to Other Systems	27,090	169	0	13	27,272
Administrative and Other Expenses	182,571	32,235	419	1,997	217,222
Total Deductions	\$5,534,047	\$1,824,319	\$24,180	\$153,759	\$7,536,305
Net Position					
Net Increase (decrease) in Net Position	\$1,827,095	\$548,095	(\$2,018)	\$66,605	\$2,439,777
Beginning of Year	46,465,663	12,034,029	257,958	1,328,176	60,085,826
End of Year	\$48,292,758	\$12,582,124	\$255,940	\$1,394,781	\$62,525,603

Note: The numbers included in this report are rounded, and as a result, may be slightly different than the numbers released in the CAFR.

NET ASSETS

\$62.5B

all systems

MEMBER CONTRIBUTIONS

\$871.9M

all systems

EMPLOYER CONTRIBUTIONS

\$4.6B

all systems

INVESTMENT SUMMARY

Defined Benefit Plan Funding

The systems are funded through a combination of investment earnings along with member and employer contributions. The systems' net assets are held in trust to meet future benefit payments. Nearly 70 percent of the systems' DB plan funding comes from investment earnings.

Fixed Income Pools — \$8,111,698,173

These pools invest in fixed income and related securities in a diversified portfolio of investment grade corporate issues, treasuries, agencies, government-sponsored enterprises, and government-guaranteed mortgages. The pools diversify investments by allocating their strategies with consideration of credit risk.

Domestic Equity Pools — \$16,095,917,956

These pools invest in equities and equity-related securities that are listed on U.S. national securities exchanges, including American Depository Receipts.

Real Estate and Infrastructure Pools — \$6,563,819,699

Investments are typically held through investment entities, such as limited partnerships or limited liability companies, established for the specific purpose of owning, leasing, managing, financing, or developing real estate and infrastructure related investments.

Private Equity Pools — \$9,456,580,921

Private Equity Investments are investments in the private equity market, primarily through limited partnerships.

International Equity Pools — \$9,801,921,928

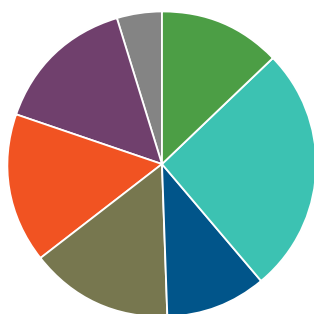
The objective for International Equity pools is to meet or exceed the total return of the MSCI ACWI Ex-US Net for one-, three-, and five-year periods and a market cycle.

Absolute Return Pools — \$9,374,945,238

These pools are to generate a rate of return that meets or exceeds Treasury bills by 400 basis points net of fees over the one-, three-, and five-year periods and a market cycle. Also, they exceed the appropriate HFN Fund of Funds median net of fees over one-, three-, and five-year periods and a market cycle.

Short-Term Investment Pools — \$2,765,931,038

The objective of Short-Term Investment pools is to closely match the return performance of its benchmark, the 30-day Treasury bill.



Investment Summary (Fair Value)

	SCHOOL	STATE	JUDGES	POLICE	TOTAL
Fixed Income Pools	\$6,258,404,299	\$1,637,286,092	\$33,668,346	\$182,339,436	\$8,111,698,173
Domestic Equity Pools	12,418,741,762	3,248,470,491	66,826,433	361,879,270	16,095,917,956
Real Estate and Infrastructure Pools	5,064,233,343	1,324,804,545	27,238,598	147,543,213	6,563,819,699
Private Equity Pools	7,296,798,061	1,907,770,436	39,257,953	212,754,471	9,456,580,921
International Equity Pools	7,563,276,044	1,977,603,442	40,698,853	220,343,589	9,801,921,928
Absolute Return Pools	7,233,372,040	1,891,908,846	38,930,381	210,733,971	9,374,945,238
Short-Term Investment Pools	2,240,096,019	464,713,612	9,149,835	51,971,572	2,765,931,038
Totals	\$48,074,921,568	\$12,452,557,464	\$255,770,399	\$1,387,565,522	\$62,170,814,953

MEMBERSHIP

ORS administers retirement plans that provide members with a means for a secure future, serving more than 517,000 active members and retirees. Eighty percent of the plan membership is composed of public school employees and retirees.

BENEFIT RECIPIENTS

273,610
all systems

Membership					
	SCHOOL	STATE	JUDGES	POLICE	TOTAL
Retirees and Beneficiaries Currently Receiving Benefits					
Regular Benefits	187,546	48,479	370	2,325	238,720
Survivor Benefits	17,274	7,155	171	496	25,096
Disability Benefits	6,187	3,404	6	197	9,794
Total	211,007	59,038	547	3,018	273,610
Current Employees					
Vested	104,159	12,124	119	935	117,337
Non-vested	103,486	257	0	753	104,496
Total	207,645	12,381	119	1,688	221,833
Inactive Plan Members Entitled to But Not Yet Receiving Benefits	17,868	4,225	4	44	22,141
Total Plan Members	436,520	75,644	670	4,750	517,584

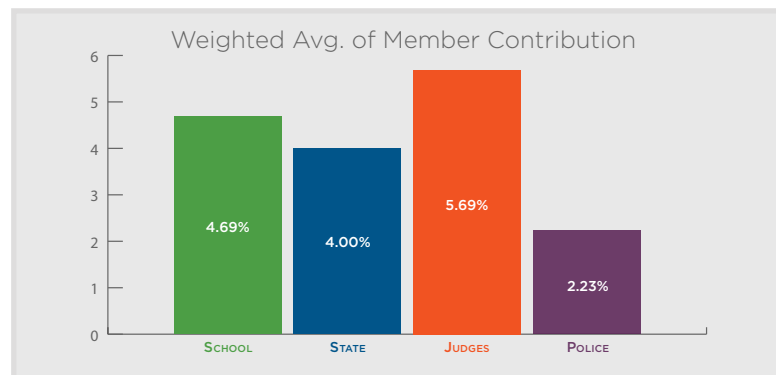
ANNUAL RETIREMENT PAID

\$5.96B
all systems

Actuarial Data

The figures below are from the 2015 actuarial valuation reports and the CAFRs. The 2015 valuation establishes the employer contribution for fiscal year 2018.

Actuarial Valuation for FY Ending Sept 30, 2015 (in thousands)					
	SCHOOL	STATE	JUDGES	POLICE	TOTAL
Avg. Annual Retirement Allowance	\$22,003	\$21,463	\$41,693	\$37,260	N/A
Total Annual Retirement Allowances Paid	\$4,568,852	\$1,254,602	\$23,348	\$111,295	\$5,958,097
Valuation Payroll	\$8,864,012	\$909,820	\$14,757	\$116,047	\$9,904,636



Note: The numbers included in this report are rounded, and as a result, may be slightly different than the numbers released in the CAFR.

ADMINISTRATIVE EXPENSES

Costs of Administering the Systems

Each year an appropriation is requested to fund the ongoing business operations of the systems. These administrative costs are ultimately funded by dollars appropriated from the systems' trust fund.

PROFESSIONAL SERVICES

\$4.6M

all systems

Pension Plan Administrative and Other Expenses (in thousands)					
	SCHOOL	STATE	JUDGES	POLICE	TOTAL
Personnel Services					
Staff Salaries	\$2,344	\$1,859	\$124	\$163	\$4,490
Retirement and Social Security	4,049	713	6	42	4,810
Other Fringe Benefits	1,467	259	2	15	1,743
Total	\$7,860	\$2,832	\$132	\$220	\$11,044
Professional Services					
Accounting	\$1,612	\$293	\$2	\$18	\$1,925
Actuarial	484	196	111	91	882
Attorney General	413	306	10	21	750
Audit	366	112	46	54	578
Consulting	36	16	0	1	53
Medical	304	140	0	11	455
Total	\$3,215	\$1,063	\$169	\$196	\$4,644
Building & Equipment					
Building Rentals	\$911	\$160	\$1	\$10	\$1,082
Equipment Purchases, Maintenance, and Rentals	139	24	0	1	164
Total	\$1,050	\$184	\$1	\$11	\$1,246
Miscellaneous					
Travel and Board Expenses	\$32	\$6	\$0	\$1	\$39
Office Supplies	76	13	0	1	90
Postage, Telephone, and Other	2,591	527	13	28	3,159
Printing	237	51	0	2	290
Technological Support	11,152	1,952	18	116	13,238
Total	\$14,088	\$2,549	\$31	\$148	\$16,816
Total Administrative and Other Expenses	\$26,213	\$6,628	\$333	\$575	\$33,749

Note: The numbers included in this report are rounded, and as a result, may be slightly different than the numbers released in the CAFR.

OTHER EXPENSES

Investment Expenses

These expenditures are related to the Department of Treasury (Bureau of Investments) for managing the retirement systems' assets, and are paid from the retirement systems' trust fund.

INVESTMENT EXPENSES

\$220M

all systems

Investment Expenses (in thousands)					
	SCHOOL	STATE	JUDGES	POLICE	TOTAL
Real Estate Operating Expenses	\$1,111	\$291	\$6	\$32	\$1,440
Security Lending Expenses	12,736	3,273	72	365	16,446
Other Investment Expenses					
ORS-Investment Expenses	13,465	3,442	76	381	17,364
Custody Fees	1,237	317	7	35	1,596
Management Fees	138,018	36,189	754	4,019	178,980
Research Fees	3,449	875	19	98	4,441
Total:	\$170,016	\$44,387	\$934	\$4,930	\$220,267

Health Plan Enrollees

The systems health plans provide eligible retirees with the option of receiving health, prescription drug, dental, and vision coverage under each retirement act. Enrollment is voluntary for each of the provided coverages.

HEALTH PLAN ENROLLEES

204,442

all systems

Health Plan Enrollees					
	SCHOOL	STATE	JUDGES	POLICE	TOTAL
Health	150,966	50,732	64	2,680	204,442
Dental	164,206	51,559	107	2,671	136,440
Vision	164,206	51,421	93	2,675	136,292

Healthcare Expenses

Other Post-Employment Benefits (OPEB) expenditures for health, prescription drug, dental, and vision plans are paid from the retirement systems' trust fund. These expenses reflect the cost of administering the plans and do not include claims.

OPEB Plan Expenses (in thousands)					
	SCHOOL	STATE	JUDGES	POLICE	TOTAL
Staff Salaries	\$2,302	\$377	\$52	\$72	\$2,803
Health Fees	148,620	23,040	27	1,218	172,905
Dental Fees	4,757	1,909	4	96	6,766
Vision Fees	679	281	1	14	975
Total:	\$156,358	\$25,607	\$84	\$1,400	\$183,449

Note: The numbers included in this report are rounded, and as a result, may be slightly different than the numbers released in the CAFR.

NOTES



Office of Retirement Services

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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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