

**Michigan Legislative Retirement System**

**Comprehensive Annual Financial Report  
for the Fiscal Year Ended September 30, 2013**



**MLRS**

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

**Prepared by:  
Michigan Legislative Retirement System  
Anderson House Office Building, Suite S0927  
P.O. Box 30014  
Lansing, Michigan 48909  
(517) 373-0575**

# Table of Contents

## Introductory Section

|                                   |   |
|-----------------------------------|---|
| Letter of Transmittal .....       | 4 |
| Board Members .....               | 7 |
| Administrative Organization ..... | 7 |
| Advisors and Consultants .....    | 8 |

## Financial Section

|   |    |
|---|----|
| Independent Auditor's Report .....  | 10 |
| Management's Discussion and Analysis .....  | 12 |
| Basic Financial Statements  |    |
| <i>Statement of Net Position, Pension Plan and Other Postemployment Benefit Plan</i> .....            | 16 |
| <i>Statement of Changes in Net Position, Pension Plan and Other Postemployment Benefit Plan</i> ..... | 17 |
| <i>Notes to Basic Financial Statements</i> .....  | 18 |
| Required Supplementary Information  |    |
| Schedules of Funding Progress .....   | 30 |
| Schedules of Employer and Other Contributions.....  | 31 |
| Note to Required Supplementary Information .....  | 32 |
| Supporting Schedules  |    |
| Comparative Summary Schedule of Administrative Expenses.....  | 33 |
| Schedule of Investment Expenses.....  | 33 |
| Schedule of Payments to Consultants .....   | 33 |
| Detail of Changes in Plan Net Position (Pension and Other Postemployment Benefits).....               | 34 |

## Investment Section

|  |    |
|--|----|
| Report on Investment Activity .....    | 38 |
| Asset Allocation .....                 | 41 |
| List of Largest Assets Held.....       | 42 |
| Schedule of Investment Fees .....      | 42 |
| Schedule of Fees and Commissions ..... | 43 |

## Actuarial Section

|  |    |
|--|----|
| Actuary's Certification .....                      | 46 |
| Summary of Actuarial Assumptions and Methods ..... | 48 |
| Schedule of Member Data .....                      | 50 |
| Schedule of Changes in Retirement Rolls .....      | 50 |
| Prioritized Solvency Test.....                     | 51 |
| Summary of Plan Provisions .....                   | 52 |

## Statistical Section

|  |    |
|--|----|
| Schedule of Revenue by Source .....  | 57 |
| Schedule of Expenses by Type .....   | 57 |
| Schedule of Benefit Expenses by Type .....   | 58 |
| Actuarial Value of Assets compared to Actuarial Accrued Liability – Pension Plan ..... | 58 |
| Schedules of Changes in Net Position .....   | 59 |
| Schedules of Benefit and Refund Deductions from Net Position by Type.....              | 60 |
| Schedule of Retired Members by Type of Benefit – Pension Plan.....                     | 61 |
| Schedule of Average Benefit Payments – Pension Plan .....                              | 62 |

# **INTRODUCTORY SECTION**

**Michigan Legislative Retirement System**

**Comprehensive Annual Financial Report  
for the Fiscal Year Ended September 30, 2013**

## **INTRODUCTORY SECTION**



**Certificate of Achievement  
Letter of Transmittal  
Retirement Board Members  
Advisors and Consultants  
Organization Chart**

# INTRODUCTORY SECTION

## Letter of Transmittal

CHRISTINE HAMMOND  
DIRECTOR

TEL. NO.: (517) 373-0575  
FAX NO.: (517) 373-5639  
TOLL FREE: (877) 577-5628  
EMAIL: chammon@house.mi.gov



STATE OF MICHIGAN  
**LEGISLATIVE RETIREMENT SYSTEM**  
P.O. BOX 30014  
LANSING, MICHIGAN  
48909-7514

May 29, 2014

The Honorable Rick Snyder  
Governor, State of Michigan

Members of the Legislature  
State of Michigan

Retirement Board Members  
and  
Members, Retirees, and Beneficiaries

Ladies and Gentlemen:

We are pleased to present the comprehensive annual report of the Michigan Legislative Retirement System (MLRS or System) for fiscal year 2013.

### **INTRODUCTION TO REPORT**

The System was established by legislation under Public Act 261 of 1957. Information regarding the background and description of the System is presented in Note 1 in the financial section of this report. The purpose of the System is to provide benefits for eligible current and former state legislators. The services provided by the staff are performed to facilitate the payment of benefits to members.

#### ***Responsibility***

Responsibility for both the accuracy of the data and the completeness and fairness of the presentation, including all disclosures, rests with the management of the System. To the best of our knowledge and belief, the enclosed data is accurate in all material respects and is reported in a manner designed to present fairly the financial position and results of operations of the System.

#### ***Management's Discussion and Analysis (MD&A)***

Generally Accepted Accounting Principles (GAAP) requires that management provide an overview and analysis of the System's financial statements, which is called the MD&A. This letter of transmittal should be read in conjunction with the MD&A. The MD&A is found in the beginning of the financial section of this report.

## Letter of Transmittal (Continued)

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### FINANCIAL INFORMATION

#### *Internal Control*

The management of the System is responsible for maintaining a system of adequate internal accounting control designed to: (1) provide reasonable assurance that transactions are executed in accordance with management's general or specific authorization; (2) record transactions necessary to maintain accountability for assets; and (3) permit preparation of financial statements in accordance with generally accepted accounting principles in the United States of America. The internal control process is designed to provide reasonable assurance regarding the safekeeping of assets and reliability of all financial records. The concept of reasonable assurance recognizes that the cost of a control should not exceed the benefits likely to be derived and that the valuation of costs and benefits requires estimates and judgments by management. This internal control structure includes maintaining written policies and procedures.

#### INVESTMENT

The System Board of Trustees is the investment fiduciary for the System, and pursuant to state law, the state treasurer is the custodian of all investments of the System. The System's overall investment objective is to obtain a competitive total rate of return on investments commensurate with Act No. 314 of the Michigan Public Acts of 1965, as amended (MCL §38.1132 et seq., which is the Michigan statute governing the investments of public pension funds), the plan's risk-taking ability, and the responsibilities of the System to provide retirement benefits for its members, retirees, and their beneficiaries. In absolute terms, this return objective should approximate the System's actuarial assumed rate of return, which is currently 7%. The investment activity for the year produced a total rate of return on the portfolio of 17.2%. A summary of asset allocation and investment portfolio information can be found in the investment section of this report.

#### FUNDING

Funds are derived from the excess of revenue over expenses. Funds are accumulated by the System in order to meet future benefit obligations to retirees and beneficiaries. The percentage computed by dividing the actuarial value of assets over the actuarial accrued liability is referred to as the "funded ratio." This ratio provides an indication of the funded status of the System and, generally, the greater this percentage, the stronger the System. A higher level of funding gives participants a greater degree of assurance that their pension benefits are secure. Effective in fiscal year 2011, the system uses actuarial valuations from the previous fiscal year.

#### *Pension Plan*

As of September 30, 2012, the actuarial value of the assets and actuarial accrued liability of the fund were \$136.9 million and \$180.5 million respectively, resulting in a funded ratio of 76%. As of September 30, 2011, the amounts were \$149.0 million and \$181.8 million respectively. A historical perspective of funding levels for the System is presented in the Required Supplementary Information in the financial section of this report.

#### *Other Postemployment Benefits Plan (OPEB)*

As of September 30, 2012, the actuarial value of the assets and actuarial accrued liability of the fund were \$20.8 million and \$124.3 million respectively, resulting in a funded ratio of 14%. As of September 30, 2011, the amounts were \$15.2 million and \$140.7 million respectively. OPEB valuations were required beginning fiscal year 2007 and do not require retroactive application. Therefore, five (5) valuation years of historical funding levels for the System are presented in the Required Supplementary Information in the financial section of this report.

# **INTRODUCTORY SECTION**

## **Letter of Transmittal (Continued)**

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### **PROFESSIONAL SERVICES**

#### *Audit Services*

The Office of the Auditor General (OAG), independent auditors, conducts audits of the System. The financial statements of the System are audited by the Auditor General as part of his constitutional responsibility. A copy of the audit reports can be obtained from the MLRS or the Office of the Auditor General.

#### *Actuarial Services*

Statute requires an annual actuarial valuation be conducted for the pension benefits. The purpose of the valuation is to evaluate the mortality, service, compensation, and other financial experience of the System and to recommend funding rates. This annual actuarial valuation was completed for the fiscal years ended September 30, 2012 and 2011. Actuarial certification and supporting statistics are included in the actuarial section of this report.

#### *Financial Services*

The Board of Trustees for the System retains twelve (12) investment managers and a financial consultant to assist the board in its statutory responsibility to invest the System's funds. These advisors are identified in the introductory section of this report. By statute, the State Treasurer acts as the custodian for the System. Investment information is included in the investment section of this report.

### **ACKNOWLEDGEMENTS**

The preparation of this report was accomplished with the dedication and cooperation of several people, including Lorie Blundy, the System's Chief Accountant. It is intended to provide complete and reliable information as a basis for making management decisions, as a means of determining compliance with legal provisions, and as a means for determining responsible stewardship of the funds of the System.

We would like to express our appreciation for the assistance given by staff, the advisors, and other persons who contributed to the preparation of this report. We believe their combined efforts have produced a report that will enable the System Board of Trustees, plan members, and other interested parties to evaluate and understand the Michigan Legislative Retirement System.

Sincerely,



Christine Hammond, Director  
Michigan Legislative Retirement System

# INTRODUCTORY SECTION

## Administrative Organization

### Retirement Board Members

The Honorable R. Robert Geake  
Retiree Member  
Chairperson of the Board

The Honorable Alma Smith  
Retiree Member  
Vice-Chairperson of the Board

The Honorable Burton Leland  
Retiree Member

The Honorable George Cushingberry, Jr.  
Retiree Member

The Honorable Triette Reeves  
Deferred Vested Member

The Honorable John Cherry  
Retiree Member

The Honorable Donald Gilmer  
Defined Contribution Plan Member

The Honorable John Jamian  
Retiree Member

The Honorable Philip Hoffman  
Retiree Member

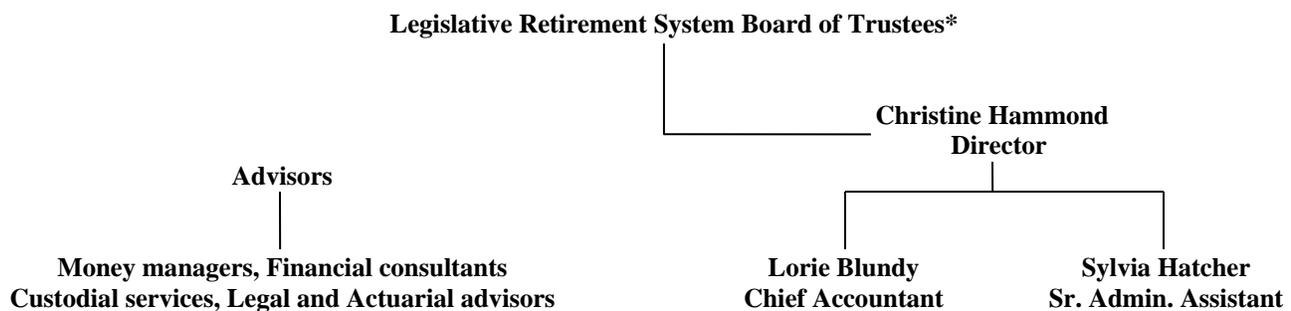
The Honorable George McManus  
Retiree Member

The Honorable Gary Randall  
Retiree Member

### Administrative Organization

Anderson House Office Building  
Suite S0927  
P.O. Box 30014  
Lansing, Michigan 48909  
(517) 373-0575  
(877) 577-5628 toll-free

### Organization Chart



\*The investments of the System are managed by the System's Board of Trustees with the assistance of private investment professionals. Information on the investments can be found in the Investment Section, Introduction. In addition, see the Investment Section Schedule of Investment Fees and Schedule of Investment Commissions, for information regarding the investment fees and commissions paid as well as investment professionals utilized by the System.

# INTRODUCTORY SECTION

## Administrative Organization (continued)

### Investment Advisors\*

The American Fund Group  
Capital Research and Management  
EuroPacific Growth Fund  
333 South Hope Street  
Los Angeles, CA 90071

Barrow Hanley Mewhinney & Strauss, Inc.  
JPMorgan Chase Tower  
2200 Ross Ave., 31<sup>st</sup> Floor  
Dallas, TX 75201

Lazard Asset Management  
30 Rockefeller Plaza  
New York, NY 10112

DoubleLine Funds Trust  
333 South Grand Ave., 18th Floor  
Los Angeles, CA 90071

Cramer Rosenthal McGlynn, LLC  
520 Madison Avenue, 20<sup>th</sup> Floor  
New York, NY 10022

JP Morgan Alerian MLP Index ETN  
270 Park Avenue  
New York, NY 10017

Franklin Templeton Investments  
One Franklin Parkway  
San Mateo, CA 94403

World Asset Management  
255 East Brown Street, Suite 250  
Mail Code 7997  
Birmingham, MI 48009

Ironwood Capital Management  
One Market Plaza  
Steuart Tower, Suite 2500  
San Francisco, CA 94105

PIMCO  
840 Newport Center Drive, Suite 100  
Newport Beach, CA 92660

Rice Hall James  
600 West Broadway, Suite 1000  
San Diego, CA 92101

Wellington Management Co., LLP  
280 Congress Street  
Boston, MA 02210

\*The investments of the System are managed by the Investment Advisors, in accordance with Board directive, and applicable law. Information on the investments and the fiduciary, the System's Board of Trustees, can be found in the Investment Section.

### Advisors and Consultants

#### **Actuary**

Gabriel Roeder Smith & Company  
Mark Buis  
Southfield, MI 48076

#### **Financial Consultant**

Fund Evaluation Group  
David Wetzel  
Cincinnati, OH 45202

#### **Independent Auditors**

Thomas H. McTavish, C.P.A.  
Auditor General  
State of Michigan

#### **Custodian**

Andy Dillon  
State Treasurer  
State of Michigan

#### **Legal Advisor**

Bill Schuette  
Attorney General  
State of Michigan

**Michigan Legislative Retirement System**

**Comprehensive Annual Financial Report  
for the Fiscal Year Ended September 30, 2013**

**FINANCIAL  
SECTION**



**Independent Auditor's Report  
Management's Discussion and Analysis  
Basic Financial Statements  
Notes to Basic Financial Statements  
Required Supplementary Information  
Note to Required Supplementary Information  
Supporting Schedules**



STATE OF MICHIGAN  
OFFICE OF THE AUDITOR GENERAL  
201 N. WASHINGTON SQUARE  
LANSING, MICHIGAN 48913  
(517) 334-8050  
FAX (517) 334-8079

THOMAS H. MCTAVISH, C.P.A.  
AUDITOR GENERAL

Independent Auditor's Report on the Financial Statements  
and Other Reporting Required by *Government Auditing Standards*

The Honorable R. Robert Geake, Chair  
Board of Trustees  
and  
Ms. Christine I. Hammond, Director  
Michigan Legislative Retirement System  
Anderson House Office Building  
Lansing, Michigan

Dear Mr. Geake and Ms. Hammond:

**Report on the Financial Statements**

We have audited the accompanying financial statements of the Michigan Legislative Retirement System as of and for the fiscal years ended September 30, 2013 and September 30, 2012 and the related notes to the financial statements, which collectively comprise the System's basic financial statements as listed in the table of contents.

***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements 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 financial statements that are free from material misstatement, whether due to fraud or error.

***Auditor's Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 financial statements.

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

***Opinion***

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the net position of the Michigan Legislative Retirement System as of September 30, 2013 and September 30, 2012 and the changes in net position for the fiscal years then ended in accordance with accounting principles generally accepted in the United States of America.

**Other Matters**

**Required Supplementary Information**

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 12 through 14 and the schedules of funding progress and schedules of employer and other contributions on pages 30 through 32 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

**Other Information**

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the System's basic financial statements. The supporting schedules on pages 33 through 35 are presented for purposes of additional analysis and are not a required part of the basic financial statements.

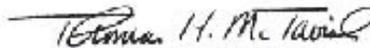
The supporting schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supporting schedules are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The introductory, investment, actuarial, and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated May 29, 2014 on our consideration of the System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the System's internal control over financial reporting and compliance.

Sincerely,



Thomas H. McTavish, C.P.A.  
Auditor General  
May 29, 2014

# FINANCIAL SECTION

## Management's Discussion and Analysis

The management's discussion and analysis (MD&A) of the System provides an overview of the financial activities and performance for the fiscal years ended September 30, 2013, 2012 and 2011. This should be read in conjunction with the financial statements and required supplemental information (RSI), which provides information for September 30, 2013 and 2012.

### THE STATEMENT OF NET POSITION AND THE STATEMENT OF CHANGES IN NET POSITION

This Comprehensive Annual Financial Report (CAFR) consists of two financial statements; Statement of Pension Plan and Other Postemployment Benefit Plan Net Position (page 16) and Statements of Changes in Pension Plan and Other Postemployment Benefit Plan Net Position (page 17). These financial statements report information about the System, as a whole, and about its financial condition that should help answer the question: Is the System, as a whole, better off or worse off as a result of this year's activities? These statements include all assets and liabilities using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis of accounting, all revenues and expenses are taken into account regardless of when cash is received or paid.

The Statement of Pension Plan and Other Postemployment Benefit Plan Net Position, presents all of the System's assets and liabilities, with the difference between the two reported as net position. Over time, increases and decreases in net position measure whether the System's financial position is improving or deteriorating. The Statement of Pension Plan and Other Postemployment Benefit Plan Net Position, presents how the System's net position changed during the most recent fiscal year. These two financial statements should be reviewed along with the Schedules of Funding Progress (page 30) and Schedules of Employer and Other Contributions (page 31) to determine whether the System is becoming financially stronger or weaker and to understand changes over time in the funded status of the System.

### FINANCIAL ANALYSIS

The Statement of Pension Plan and Other Postemployment Benefit Plan Net Position, presents information on the System's assets and liabilities using the accrual basis of accounting. Over time, increases or decreases in net position may serve as a useful indicator of the System's financial strength or weakness. System's net position, for the fiscal year ending September 30, 2013, **increased** by \$11.9 million or 7.2%, due to an increase in the market value of the System's investments. The System's net position for the fiscal year ending September 30, 2012, **increased** by \$18.6 million or 12.7%, due to an increase in the market value of the System's investments.

#### Net Position

As of September 30

(\$ in Thousands)

|                           | 2013              | Increase<br>(Decrease) | 2012              | Increase<br>(Decrease) | 2011              |
|---------------------------|-------------------|------------------------|-------------------|------------------------|-------------------|
| Assets:                   |                   |                        |                   |                        |                   |
| Cash                      | \$ 4,166          | 70.5 %                 | \$ 2,444          | (20.4)%                | \$ 3,069          |
| Receivables               | 921               | 55.1                   | 594               | (44.0)                 | 1,061             |
| Investments               | 172,673           | 6.2                    | 162,517           | 13.5                   | 143,146           |
| <b>Total assets:</b>      | <u>177,760</u>    | <u>7.4</u>             | <u>165,555</u>    | <u>12.4</u>            | <u>147,277</u>    |
| Liabilities:              |                   |                        |                   |                        |                   |
| Warrants<br>outstanding   | 1                 | (95.7)                 | 28                | 11.2                   | 25                |
| Accounts<br>payable       | 889               | 54.0                   | 578               | (36.2)                 | 905               |
| <b>Total liabilities:</b> | <u>891</u>        | <u>47.2</u>            | <u>605</u>        | <u>(34.9)</u>          | <u>930</u>        |
| <b>Total net position</b> | <u>\$ 176,869</u> | <u>7.2 %</u>           | <u>\$ 164,950</u> | <u>12.7 %</u>          | <u>\$ 146,347</u> |

# FINANCIAL SECTION

## Management's Discussion and Analysis (continued)

### ADDITIONS TO NET POSITION

The reserves needed to finance benefits provided by the System are accumulated through the collection of court fees, member and other contributions, State appropriations and through earnings on investments. Contributions and investment income/loss for fiscal year 2013 totaled \$31.1 million. Total Additions to Net Position **decreased** in fiscal year 2013 by 16.9% from the prior year, primarily due to the fact that the System investments increased less than they did the prior year. Contributions and investment income/loss for fiscal year 2012 totaled \$37.4 million. Total Additions to Net Position **increased** in fiscal year 2012 by 807.3% from the prior year, primarily due to the fact that the System investments increased.

### DEDUCTIONS FROM NET POSITION

The primary expenses of the System include the payment of pension and life insurance benefits to members and beneficiaries, the payments for health, dental, and vision benefits, the refund or transfer of contributions to former members, and the cost of administering the System. Total expenses for fiscal year 2013 were \$19.2 million an **increase** of 1.9% over 2012 expenses, primarily due to increased retirement and healthcare benefit expenses. Total expenses for fiscal year 2012 were \$18.8 million, an **increase** of 2.4% over 2011 expenses, primarily due to increases in retirement expenses.

### Changes in Net Position

For Fiscal Year Ended September 30

(\$ in Thousands)

|                                   | 2013              | Increase<br>(Decrease) | 2012              | Increase<br>(Decrease) | 2011              |
|-----------------------------------|-------------------|------------------------|-------------------|------------------------|-------------------|
| <b>ADDITIONS</b>                  |                   |                        |                   |                        |                   |
| Member contributions              | \$ 13             | (7.9)%                 | \$ 14             | (61.7)%                | \$ 37             |
| DC health premiums                | 101               | 18.3                   | 85                | 9.5                    | 78                |
| Other contributions               | 3,453             | (51.7)                 | 7,143             | 71.4                   | 4,168             |
| Court fees                        | 940               | (1.3)                  | 953               | (4.7)                  | 1,000             |
| Net Investment<br>income/(loss)   | 26,568            | (9.0)                  | 29,198            | 2,615.3                | (1,161)           |
| <b>Total Additions:</b>           | <b>31,076</b>     | <b>(16.9)</b>          | <b>37,393</b>     | <b>807.3</b>           | <b>4,122</b>      |
| <b>DEDUCTIONS</b>                 |                   |                        |                   |                        |                   |
| Pension benefits                  | 12,757            | 2.3                    | 12,470            | 4.1                    | 11,974            |
| Health care benefits              | 5,814             | 5.3                    | 5,520             | (3.2)                  | 5,705             |
| Death benefits/life ins.          | 134               | (58.9)                 | 326               | 132.7                  | 140               |
| Refunds/qual. rollover            | 12                | (25.3)                 | 16                | 36.3                   | 11                |
| Administrative exp.               | 440               | (4.1)                  | 459               | (10.2)                 | 511               |
| <b>Total deductions</b>           | <b>19,156</b>     | <b>1.9</b>             | <b>18,790</b>     | <b>2.4</b>             | <b>18,342</b>     |
| <b>CHANGE IN<br/>NET POSITION</b> |                   |                        |                   |                        |                   |
|                                   | <b>11,920</b>     | <b>(35.9)</b>          | <b>18,603</b>     | <b>230.8</b>           | <b>(14,220)</b>   |
| <b>Ending Net Position</b>        | <b>\$ 176,869</b> | <b>7.2 %</b>           | <b>\$ 164,950</b> | <b>12.7 %</b>          | <b>\$ 146,347</b> |

# FINANCIAL SECTION

## Management's Discussion and Analysis (continued)

### *Overall Financial Analysis*

Performance for the system's portfolio was impressive in the 2013 fiscal year, with the total portfolio returning 17.2% for the one-year period ending September 30, 2013. The total return compares favorably to the actuarially assumed rate of return and the specific benchmarks the Board of Trustees has established for the portfolio.

Specific allocations in the portfolio were affected in different ways by increasingly complex and volatile investment environments. The broad US stock market performed surprisingly strongly, considering the negative political and monetary policy factors that could have, but did not, undermine overall performance. Large cap equities rose 20.9% (Russell 1000 Index) and other market capitalization indices performed even better, with the Russell Mid-Cap returning 27.9% and the Russell 2000 with 30.1%. The LRS investments benefitted greatly from the positive domestic equity market environment.

Internationally, the developed markets were boosted by the solid performance from the US markets and a declining US dollar; the MSCI EAFE Index rose 23.8%. Unfortunately, emerging markets were significantly affected by concerns that China's future growth may be slowing; the MSCI Emerging Markets Index posted only 1% returns, still positive, but unimpressive when compared to other equity indices that posted between 20% - 30%.

The fixed income market was the most challenging for the LRS portfolio in FY 2013, and it is expected to remain a challenging allocation in the future, perhaps especially as the Federal Reserve transitions to a new chairperson. Diversification in the LRS fixed income portfolio was crucial to offsetting losses in the fixed income market: Barclay's Aggregate Bond Index ended the year at - 1.7%, but high yield bonds rose 7.1% (Barclay's High Yield Index). In addition, the portfolio benefitted from its manager selection for global bonds; the manager posted a remarkably strong +3.5% while its index was at - 6.3% (JP Morgan Non-US Government Bond Index).

Other diversification steps taken by the LRS Board contributed to the strength of the portfolio's overall, fiscal year-to-date performance, including the addition of two (2) new managers, the JP Morgan Alerian MLP Fund, which invests in energy infrastructure, and the Templeton Foreign Small Companies Fund, a small-cap developed international market allocation.

### *Financial Questions or Requests*

This financial report is designed to provide a general overview of the System's financial position. Requests for additional information or questions about this report should be addressed to: Michigan Legislative Retirement System, P.O. Box 30014, Lansing, MI 48909.

# *FINANCIAL SECTION*

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# FINANCIAL SECTION

## Statement of Pension Plan and Other Postemployment Benefit Plan Net Position

As of September 30, 2013 and 2012

|  | As of September 30, 2013 |                      |                       | As of September 30, 2012 |                      |                       |
|--|--------------------------|----------------------|-----------------------|--------------------------|----------------------|-----------------------|
|  | Pension                  | OPEB                 | Total                 | Pension                  | OPEB                 | Total                 |
|  | Plan                     | Plan                 |                       | Plan                     | Plan                 |                       |
| <b>ASSETS</b>  |                          |                      |                       |                          |                      |                       |
| Equity in common cash  | \$ 3,628,656             | \$ 537,155           | \$ 4,165,811          | \$ 2,135,359             | \$ 308,536           | \$ 2,443,895          |
| Receivables  |                          |                      |                       |                          |                      |                       |
| Due from other funds   | 58,322                   | 31,320               | 89,642                | 71,278                   | 10,312               | 81,590                |
| Due from federal agencies  |                          | 153,256              | 153,256               |                          | 176,987              | 176,987               |
| Interest and dividends   | 47,951                   | 7,098                | 55,049                | 47,312                   | 6,836                | 54,148                |
| Sale of investments  | 542,587                  | 80,320               | 622,907               | 245,419                  | 35,461               | 280,880               |
| Total receivables:   | 648,860                  | 271,994              | 920,854               | 364,009                  | 229,596              | 593,605               |
| Investments  |                          |                      |                       |                          |                      |                       |
| Equities   | 69,873,382               | 10,261,799           | 80,135,181            | 59,966,167               | 8,589,791            | 68,555,958            |
| Alternative investments  | 7,770,801                | 1,141,241            | 8,912,042             | 7,073,424                | 1,013,226            | 8,086,650             |
| Mutual funds   | 72,917,177               | 10,708,820           | 83,625,997            | 75,115,022               | 10,759,774           | 85,874,796            |
| Total investments:   | 150,561,360              | 22,111,860           | 172,673,220           | 142,154,613              | 20,362,791           | 162,517,404           |
| <b>Total assets:</b>   | <b>154,838,876</b>       | <b>22,921,009</b>    | <b>177,759,885</b>    | <b>144,653,981</b>       | <b>20,900,923</b>    | <b>165,554,904</b>    |
| <b>LIABILITIES</b>   |                          |                      |                       |                          |                      |                       |
| Warrants outstanding   | 1,036                    | 154                  | 1,190                 | 24,197                   | 3,496                | 27,693                |
| Accounts payable and<br>other liabilities                        | 774,751                  | 114,687              | 889,438               | 504,627                  | 72,913               | 577,540               |
| <b>Total liabilities:</b>  | <b>775,787</b>           | <b>114,841</b>       | <b>890,628</b>        | <b>528,824</b>           | <b>76,409</b>        | <b>605,233</b>        |
| <b>Net position restricted for<br/>pension benefits and OPEB</b> | <b>\$ 154,063,089</b>    | <b>\$ 22,806,168</b> | <b>\$ 176,869,257</b> | <b>\$ 144,125,157</b>    | <b>\$ 20,824,514</b> | <b>\$ 164,949,671</b> |

The accompanying notes are an integral part of these financial statements.

# FINANCIAL SECTION

## Statement of Changes in Pension Plan and Other Postemployment Benefit Plan Net Position

For fiscal years ended September 30, 2013 and 2012

|   | For the year ended September 30, 2013 |               |                | For the year ended September 30, 2012 |               |                |
|---|---------------------------------------|---------------|----------------|---------------------------------------|---------------|----------------|
|   | Pension                               | OPEB          | Total          | Pension                               | OPEB          | Total          |
|   | Plan                                  | Plan          |                | Plan                                  | Plan          |                |
| <b>ADDITIONS</b>  |                                       |               |                |                                       |               |                |
| Member contributions:   |                                       |               |                |                                       |               |                |
| Other member contributions                                    | \$ 6,527                              | \$ 6,452      | \$ 12,979      | \$ 7,635                              | \$ 6,452      | \$ 14,087      |
| DC health premium   |                                       | 100,805       | 100,805        |                                       | 85,235        | 85,235         |
| Employer contributions  |                                       | 3,300,200     | 3,300,200      |                                       | 6,887,400     | 6,887,400      |
| Other governmental contributions                              |                                       | 153,256       | 153,256        |                                       | 255,590       | 255,590        |
| Court fees  |                                       | 940,187       | 940,187        |                                       | 952,922       | 952,922        |
| Total contributions:  | 6,527                                 | 4,500,900     | 4,507,427      | 7,635                                 | 8,187,599     | 8,195,234      |
| Investment Income (Loss)                                      |                                       |               |                |                                       |               |                |
| Net appreciation (depreciation) in fair value of investments  | 19,959,143                            | 2,883,879     | 22,843,022     | 23,844,986                            | 2,759,306     | 26,604,292     |
| Interest, dividends and other                                 | 3,823,057                             | 560,639       | 4,383,696      | 2,874,476                             | 330,131       | 3,204,607      |
| Total investment income (loss)                                | 23,782,200                            | 3,444,518     | 27,226,718     | 26,719,462                            | 3,089,437     | 29,808,899     |
| Less investment expenses                                      | (575,164)                             | (83,105)      | (658,269)      | (547,803)                             | (63,391)      | (611,194)      |
| Net investment income (loss)                                  | 23,207,036                            | 3,361,413     | 26,568,449     | 26,171,659                            | 3,026,046     | 29,197,705     |
| Miscellaneous income  |                                       |               |                |                                       |               |                |
| <b>Total additions:</b>                                       | 23,213,563                            | 7,862,313     | 31,075,876     | 26,179,294                            | 11,213,645    | 37,392,939     |
| <b>DEDUCTIONS</b>   |                                       |               |                |                                       |               |                |
| Benefits & refunds paid to plan members and beneficiaries:    |                                       |               |                |                                       |               |                |
| Retirement benefits   | 12,757,228                            |               | 12,757,228     | 12,469,893                            |               | 12,469,893     |
| Health benefits   |                                       | 5,396,456     | 5,396,456      |                                       | 5,102,861     | 5,102,861      |
| Dental benefits   |                                       | 417,115       | 417,115        |                                       | 417,299       | 417,299        |
| Death benefits  | 134,000                               |               | 134,000        | 325,796                               |               | 325,796        |
| Refund of contribution & interest                             | 11,700                                |               | 11,700         | 15,672                                |               | 15,672         |
| Administrative expenses                                       | 372,703                               | 67,088        | 439,791        | 411,128                               | 47,574        | 458,702        |
| <b>Total deductions:</b>                                      | 13,275,631                            | 5,880,659     | 19,156,290     | 13,222,489                            | 5,567,734     | 18,790,223     |
| Net increase (decrease)                                       | 9,937,932                             | 1,981,654     | 11,919,586     | 12,956,805                            | 5,645,911     | 18,602,716     |
| <b>Net position restricted for pension benefits and OPEB:</b> |                                       |               |                |                                       |               |                |
| <b>Beginning of year</b>                                      | 144,125,157                           | 20,824,514    | 164,949,671    | 131,168,352                           | 15,178,603    | 146,346,955    |
| <b>End of year</b>  | \$ 154,063,089                        | \$ 22,806,168 | \$ 176,869,257 | \$ 144,125,157                        | \$ 20,824,514 | \$ 164,949,671 |

The accompanying notes are an integral part of these financial statements.

# FINANCIAL SECTION

## Notes to General Purpose Financial Statements

### NOTE 1 - PLAN DESCRIPTION

#### ORGANIZATION

The Michigan Legislative Retirement System (MLRS or System) is a single employer, public employee, defined benefit retirement plan and post-employment healthcare plan governed by the State of Michigan (the "State"). The System was created by Public Act 261 of 1957, as amended, and provides retirement and ancillary benefits to eligible current and former state legislators. The System's pension plan was established by the State to provide retirement, survivor and disability benefits to the Michigan Legislature, elected for the first time before March 31, 1997. In addition, the System's health plan provides to eligible vested members, the option of receiving health, prescription, dental and vision coverage under the Michigan Legislative Retirement Act. The System's financial statements are included as a pension trust fund in the combined financial statements of the State of Michigan.

The System operates within the legislative branch of state government. The System's Board of Trustees appoints the director who serves as executive secretary to the System's board, with whom the general oversight of the System resides. Public Act 486 of 1996 amended the System's enabling statute to mandate that persons elected to the Michigan Legislature after March 30, 1997, participate in a state-wide defined contribution pension plan administered by the State of Michigan Department of Technology, Management and Budget. Thus the defined benefit plan is a closed plan. The defined contribution retirement plan operates as a 401(k) plan and is part of the State of Michigan 401K plan. The State of Michigan 401K plan annual financial report is issued separately.

#### MEMBERSHIP

At September 30, 2013 and 2012, the System's membership consisted of the following:

|  |                       |                       |
|--|-----------------------|-----------------------|
| Retirees and beneficiaries   |                       |                       |
| currently receiving benefits:  | <b><u>2013</u></b>    | <b><u>2012</u></b>    |
| Regular benefits.....  | 231                   | 233                   |
| Survivor benefits.....   | 59                    | 60                    |
| Disability benefits.....   | <u>0</u>              | <u>0</u>              |
| <b>Total.....</b>  | <b>290 *</b>          | <b>293 *</b>          |
| <br>Current members:   |                       |                       |
| Vested.....  | 2                     | 2                     |
| Non-vested.....  | <u>0</u>              | <u>0</u>              |
| <b>Total.....</b>  | <b>2</b>              | <b>2</b>              |
| <br>Inactive members entitled to benefits and<br>not yet receiving them..... | <br><u>16</u>         | <br><u>18</u>         |
| <br><b>Total All Members</b>   | <br><b><u>308</u></b> | <br><b><u>313</u></b> |

\*Includes 9 domestic relations orders (DRO) alternate payees for 2013 and 2012.

# FINANCIAL SECTION

## Notes to General Purpose Financial Statements (Continued)

### MEMBERSHIP (continued)

The System provides health and life insurance benefits. The number of plan participants is as follows:

| <b>Health/Dental/Vision Plan</b>     | <b>2013</b> | <b>2012</b> |
|--------------------------------------|-------------|-------------|
| Eligible participants.....           | 397 **      | 393 **      |
| Participants receiving benefits..... | 377 **      | 375 **      |
| <br>                                 |             |             |
| <b>Life Insurance Plan</b>           | <b>2013</b> | <b>2012</b> |
| Participants receiving benefits..... | 202         | 209         |

\*\*Includes 88 defined contribution (DC) participants at September 30, 2013 and 81 DC participants at September 30, 2012, who are receiving health care insurance through System in accordance with state statute. At September 30, 2013 and 2012, the number of DC participants who were eligible for health care insurance but declined to receive the benefits were 19 and 16 respectively.

### BENEFIT PROVISIONS

#### *Introduction*

Public Act 261 of 1957, the Michigan Legislative Retirement System Act, as amended, establishes eligibility and benefit provisions for this defined benefit pension plan.

Michigan's constitutional term-limit amendment limits members of the House of Representatives to six (6) years in office and members of the Michigan Senate to eight (8) years in office. Effective March 31, 1997, Public Act 486 of 1996 closed the System to new legislators. The act provides certain re-elected former legislators the option to rejoin the system. All legislators who first take office after 1997 are automatically enrolled in the State of Michigan Defined Contribution Plan.

Benefit provisions of the post-employment healthcare plan are established by State statute, which may be amended. Public Act 261 of 1957, as amended, establishes eligibility and benefit provisions for the health plan. Eligible members may receive health, prescription, hearing, dental and vision coverage.

#### *Regular Retirement*

A member may retire and receive retirement benefits based on age and service after: (1) attaining age 50, if age and years of credited service combined are equal to or greater than 70; or (2) attaining age 55 with 5 or more years of credited service if elected, qualified, and seated not less than (a) 3 full or partial terms in the House of Representatives, (b) 2 full or partial terms in the Senate, or (c) 1 term in the House of Representatives and 1 term in the Senate.

A member's retirement benefit is computed using a benefit formula prescribed by the enabling statute and described below. The benefit is paid on a monthly basis.

For those legislators who first became members on or before January 1, 1995, the retirement benefit is calculated by multiplying 20% of the highest salary earned for the first 5 years of service, plus 4% of highest salary for each of the next 11 years of service, plus 1% of the highest salary for each additional year.

For those legislators who first became members after January 1, 1995, the retirement benefit is calculated by multiplying 3% of the highest salary for each year of service.

# FINANCIAL SECTION

## Notes to General Purpose Financial Statements (Continued)

### *Post Retirement Benefit Adjustment*

For those legislators who first became members on or before January 1, 1995, the annual retirement benefit payable to a retiree and/or his/her survivor is increased by 4% compounded annually. The adjustment is effective each January.

For those legislators who first became members after January 1, 1995, the annual retirement benefit payable to a retiree and/or his/her survivor is increased by 4%, but it is not compounded annually. The adjustment is effective each January.

### *Other Postemployment Benefits*

Under Section 50a and 50b of the Legislative Retirement System Act, all retirees and their dependents and survivors receive health, dental, vision, and hearing insurance coverage. The System also provides health, dental, vision, and hearing insurance coverage for deferred vested members who were members on or before January 1, 1995, and for their survivors and dependents. In addition, in accordance with state law, the System provides health insurance coverage to eligible former legislators (and their dependents) who meet certain vesting requirements established by statute and who belong to the State's Defined Contribution Plan. Member enrollment to the System's health plan is voluntary. The System pays for health, dental, vision, and hearing benefits on a modified pay-as-you-go basis; however, the State has begun to advance fund for future System health insurance costs. Public Act 200 of 2011 amended the System's enabling statute and closed the OPEB Plan. All qualified participants must have completed six (6) years of service before January 1, 2013 to qualify for health insurance in the System.

### *Life Insurance Benefits*

The System provides \$150,000 in life insurance coverage to active members. Deferred vested members are covered by varying amounts of life insurance, ranging from \$5,000 to \$150,000, depending on the member's date of deferral and, in some instances, the payment of an annual premium. Retirees are covered by varying amounts of life insurance, ranging from \$2,500 to \$75,000, depending on their retirement dates and, in some instances, the payment of an annual premium. The System prefunds life insurance benefits using the entry age actuarial cost method. The life insurance plan and the pension plan use the same actuarial assumptions, which are stated in the actuarial section.

### *Disability Benefit*

A member or deferred vested member who becomes disabled as determined by at least (2) licensed physicians appointed by the board of trustees is eligible for a disability benefit computed in the same manner described under Regular Retirement.

### *Survivor Benefit*

Upon the death of a vested member or deferred vested member who meets the service, but not the age requirements, for regular retirement (see Regular Retirement), or upon the death of a retiree, a surviving spouse shall be entitled to a benefit equal to 66 2/3% of the benefit the member would have received or was receiving at the time of death. Special provisions apply to surviving minor children and surviving spouses with minor children.

### *Refunds*

A member who leaves legislative service may request a refund of his/her contributions from the Members' Saving Fund. A member who receives a refund of contributions forfeits all rights to any future System benefits. Members who return to legislative service and who previously received a refund of their contributions may reinstate their service through repayment of the refund plus interest in accordance with the statute.

# FINANCIAL SECTION

## Notes to General Purpose Financial Statements (Continued)

### NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### *Basis of Accounting and Presentation*

The System's financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting, as provided by generally accepted accounting principles for governments. Contributions are recognized as revenue when due, pursuant to formal commitments, as well as statutory requirements. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

#### *Contributions and Reserves*

The Legislative Retirement System Act provides for several "reserves" or "funds." These funds and the contributions and other monies allocated to them are described below.

Members' Savings Fund (MSF) — A member who first becomes a member on or before January 1, 1995, with less than 20 years of experience, contributed approximately 7% of salary to MSF. A member who first becomes a member after January 1, 1995, contributed approximately 5% of salary to MSF. Beginning January 1, 1999, there were no member contributions allocated to MSF except for approximately 4% of salary for the period beginning on January 1, 1999 and ending on December 31, 2000, for members who first becomes a member after December 1, 1994 and on or before January 1, 1995, in accordance with legislation. Eligible members may make other contributions to the MSF to purchase special service credit or to repay previously refunded contributions. MSF represents active member contributions (and interest credited from the Income Fund) less amounts transferred to reserves for retirement and amounts refunded to terminated members. At September 30, 2013, and 2012, the balance in this account was \$0.5 million and \$0.6 million, respectively.

Members' Retirement Fund (MRF) — The MRF represents the reserves for payment of retirement benefits. At retirement a member's accumulated contributions (with interest) are transferred to the MRF (from the MSF). Interest is credited to the MRF (from the Income Fund), and monthly allowances are debited. At each fiscal year end an actuarial valuation determines the 100% funding requirements for the MRF. Any amounts required to 100% fund the MRF are transferred in the next fiscal year. At September 30, 2013, and 2012, the balance in this account was \$64.6 million and \$65.0 million, respectively.

Survivors' Retirement Fund (SRF) — On and before January 1, 1999, all members with less than 20 years of service contributed 1/2% of salary to the SRF. After January 1, 1999, there are no member contributions allocated to the SRF. Interest is credited annually to the SRF (from the Income Fund), and member savings are transferred to the SRF from the MSF upon the death of a vested member, and additional state contributions may be made in order to make the SRF 100% funded. Survivors' monthly retirement allowances are paid from this fund upon the death of vested members, deferred vested members, and retirants. At September 30, 2013, and 2012, the balance in this account was \$65.8 million and \$58.4 million, respectively.

Insurance Revolving Fund (IRF) — On and before January 1, 1999, all members contributed 1/2% of salary to the Insurance Revolving Fund. After January 1, 1999, there are no member contributions allocated to the IRF. State contributions, if any, member premiums, and interest from the Income Fund are credited to this fund. Life insurance benefits are paid from the IRF to beneficiaries of members, retirants, and deferred vested members. At September 30, 2013, and 2012, the balance in this account was \$23.2 million and \$20.2 million, respectively.

Health Insurance Fund (HIF) — On and before January 1, 1999, all members contributed 1% of salary to this fund. After January 1, 1999, member contributions are made as follows: (1) members who first became members on or before January 1, 1995, contribute 9% to the HIF; (2) members who first became members after January 1, 1995, contribute 7% to the HIF. This fund is also credited with employer contributions, court fees, other governmental contributions and interest income. Funds from this reserve are used to pay health care expenses and are accumulated to fully fund the future health insurance liabilities for the System. At September 30, 2013, and 2012, the balance in this account was \$22.8 million and \$20.8 million, respectively.

# FINANCIAL SECTION

## Notes to General Purpose Financial Statements (Continued)

### *Contributions and Reserves (continued)*

#### Use of Health Insurance Reserve Funds

In July, 2011, the Michigan Legislature passed, and Governor Rick Snyder signed, a new law that provides for the use of the health insurance reserve funds to pay for the current costs associated with the retiree health insurance plan. Before the passage of the new law, Public Act 99 of 2011, the system statute prohibited the use of certain prefunding dollars maintained in the health insurance reserve, and their investment income, until the retiree health insurance (OPEB) liabilities in the system became 100% funded. Public Act 99 of 2011 removed the 100%-funding requirement, and thus allows for the immediate use of the funds for health insurance costs of the system. The system used \$1.3 million and \$1.1 million from the reserve to pay health insurance costs for fiscal year ending September 30, 2013 and 2012, respectively.

Income Fund (IF) — The IF is credited with all investment earnings and other miscellaneous income. Interest transfers are made annually to the other reserves, based on beginning balance. This fund also accounts for investment and administrative expenses and interest on refunds and transfers.

### *Fair Value of Investments*

Plan investments are presented at fair value. Securities traded on a national exchange are valued at the last reported sales price at current exchange rates. Corporate bonds not traded on a national or international exchange are based on equivalent values of comparable securities with similar yield and risk. Other investments that do not have an established market are recorded at estimated fair value. Short-term investments are carried at cost, which approximates fair value.

### *Reporting Entity*

The System is a pension trust fund of the State of Michigan. As such, the System is considered part of the State and is included in the State's comprehensive annual financial report as a pension trust fund. The System and the System's Board of Trustees are not financially accountable for any other entities. Accordingly, the System is the only entity included in this financial report.

### *Investment Income*

Dividend income is recognized on the ex-dividend date, and interest income is recognized on the accrual basis as earned. Fair value changes are recorded as investment income or loss. Purchases and sales of investments are recorded as of the trade date.

### *Cost of Administering the System*

The retirement system shall pay the expenses for the administration of the retirement system, exclusive of amounts payable as retirement allowances and other benefits provided in this act, from the income fund.

### *Related Party Transactions*

The cash account includes \$4.2 million and \$2.4 million, on September 30, 2013, and 2012, respectively, which represents funds deposited in a common cash investment pool maintained for various State operating funds. The participating funds in the common cash pool earn interest at various rates depending upon prevailing short-term interest rates. Earnings from these activities amounted to \$3,505 and \$3,176 for the years ended September 30, 2013 and 2012, respectively.

### *Fixed Assets*

Fixed assets, which are immaterial in amount, are not recognized on the accounting records. Administrative disbursements are treated as expenses, and equipment expenses are not capitalized.

# FINANCIAL SECTION

## Notes to General Purpose Financial Statements (Continued)

### *Excess Benefits*

Internal Revenue Service (IRS) Code Section 415 requires that, for individuals who receive retirement benefits in excess of established limits, these benefits should be recorded and reported outside of the pension fund in order to keep the qualified status of the plan. This includes coordination of benefits issued where a retiree participates in more than one qualified plan. The System provided excess benefits to five (5) retirees, for a total amount of \$89,907 as of September 30, 2013 and \$78,907 as of September 30, 2012.

## NOTE 3 - CONTRIBUTIONS AND FUNDED STATUS

### *Member Contributions*

On or before January 1, 1999, the following contributions were made by members of the System:

Members who first became members on or before January 1, 1995, contributed 9% of their salaries to the System. The contributions were placed in the following reserves created by the enabling statute: 7% to the Members' Savings Fund for the first 20 years of service; 0.5% to the Insurance Revolving Fund; 0.5% to the Survivors' Retirement Fund for the first 20 years of service; and 1% to the Health Insurance Fund.

Members who first became members on or after January 1, 1995, contributed 7% of their salaries to the System. The contributions were placed in the following reserves created by the enabling statute: 5% to the Members' Savings Fund; 0.5% to the Insurance Revolving Fund; 0.5% to the Survivors' Retirement Fund; and 1% to the Health Insurance Fund.

After January 1, 1999, the following contributions are made by the members of the System:

Members who first became members after December 1, 1994, contribute 9% of their salaries to the System. The contributions are placed in accordance with enabling statute to Health Insurance Fund.

Members who first became members after December 1, 1994 and on or before January 1, 1995, contributed 13% of their salaries to the System. The contributions were placed in the following reserves in accordance with the enabling statute: 9% to the Health Insurance Fund and 4% to the Members' Savings Fund until December 31, 2000. After December 31, 2000, these members contribute 9% of their salaries to the System. The contributions are placed in accordance with enabling statute to Health Insurance Fund.

Members who first became members after January 1, 1995, contribute 7% of their salaries to the System. The contributions are placed in the following reserve in accordance with the enabling statute: 7% to the Health Insurance Fund.

Member contributions are tax-deferred through the provisions of section 414(h)(2) of the Internal Revenue Code.

### *State Contributions*

State contributions are made on the basis of actuarial requirements as determined by the System actuary and approved by the Board of Trustees. Through the annual state budgetary process, the Legislature annually appropriates, and the Governor approves, the State contributions along with certain court fee revenues, which are paid to the System pursuant to state statute. A chart showing State contributions is presented in the Required Supplementary Information in the financial section of this report.

# FINANCIAL SECTION

## Notes to General Purpose Financial Statements (Continued)

### *State Contributions (continued)*

Pension Plan: State contributions are determined based on a statutorily required annual actuarial valuation. Actual employer contributions for retirement benefits were \$0 and \$0 for fiscal years 2013 and 2012, respectively. Annual required employer contributions based on the previous year actuarial valuations for pension included (percentage of annual covered payroll is not computed because the System is closed):

1. \$0.0 million and \$0.0 million for fiscal years 2013 and 2012, respectively, for normal cost.
2. \$6.0 million and \$4.4 million for fiscal years 2013 and 2012, respectively, for amortization of unfunded actuarial accrued liabilities.

Other Postemployment Health Plan (OPEB): Public Act 64 of 2012 began prefunding state contributions for prefunding OPEB costs in fiscal year 2012. Actual employer contributions for other postemployment benefits were \$4.2 million and \$7.8 million for fiscal years 2013 and 2012, respectively. Annual required employer contributions based on the previous year actuarial valuations for pension included:

1. \$1.9 million and \$2.0 million for fiscal years 2013 and 2012, respectively, for normal cost of OPEB representing 53.1% and 55.0% (before reconciliation) of annual covered payroll for fiscal years 2012 and 2011 respectively.
2. \$7.7 million and \$7.7 million for fiscal years 2013 and 2012, respectively, for amortization of unfunded actuarial accrued liability representing 215.4% and 209.5% (before reconciliation) of annual covered payroll for fiscal years 2012 and 2011 respectively.

### *Funded Status*

For fiscal year 2012, the actuarial accrued liability (AAL) for pension benefits was \$180.5 million, and the actuarial value of assets was \$136.9 million, resulting in a unfunded actuarial accrued liability of \$43.6 million and a funded ratio of 76%. The covered payroll (annual payroll of active members covered by the plan) was \$0.1 million.

For fiscal year 2012, the actuarial accrued liability (AAL) for OPEB was \$145.2 million, and the actuarial value of assets was \$20.8 million, resulting in an unfunded actuarial accrued liability (UAAL) of \$124.3 million and a funded ratio of 14%. The covered payroll (annual payroll of active members covered by the plan) was \$3.6 million, and the ratio of the UAAL to the covered payroll was 3,466%.

### *Actuarial Valuations and 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. Actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. Examples include assumptions about future employment, mortality, and trends. The actuarial methods and assumptions used are designed to reduce the effects of short-term volatility. The schedules of funding progress, presented as required supplementary information following the notes to financial statements, present multi-year trend information about whether the actuarial value of plan assets, for both pension and OPEB plans, is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

# FINANCIAL SECTION

## Notes to General Purpose Financial Statements (Continued)

Calculations are based on the benefits provided under the terms of the substantive plan in effect at the time of each valuation and on the historical pattern of sharing of costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets. Beginning fiscal years 2011, the prior fiscal year actuarial report is used in the annual report for the System.

### *Summary of Actuarial Assumptions*

|                            | <u>Pension Plan</u> |   |
|----------------------------|---------------------|---|
| Valuation Date             |                     | 09/30/2012  |
| Actuarial Cost Method      |                     | Entry Age Normal  |
| Amortization Method        |                     | Level Dollar  |
| Amortization Period        |                     | 10 years Open   |
| Asset Valuation Method     |                     | 5-Year Smoothed Market  |
| Actuarial Assumptions:     |                     |   |
| Inflation Rate             |                     | 4%  |
| Investment Rate of Return  |                     | 7%  |
| Projected Salary Increases |                     | 4%  |
| Cost-of-Living Adjustments |                     | 4% Annual compounded (non-compounded for legislators who first became members after 1/1/95) |

|                                      | <u>Other Postemployment Benefits Plan</u> |                                      |
|--------------------------------------|---|--------------------------------------|
| Valuation Date                       |   | 09/30/2012                           |
| Actuarial Cost Method                |   | Unit Credit                          |
| Amortization Method                  |   | Level Dollar Closed                  |
| Amortization Period                  |   | 28 Year Closed                       |
| Asset Valuation Method               |   | Market Value                         |
| Actuarial Assumptions:               |   |                                      |
| Inflation Rate                       |   | 4%                                   |
| Discount Rate                        |   | 4.5% Per Year                        |
| Projected Salary Increases           |   | 4%                                   |
| Valuation Healthcare Cost Trend Rate |   | 8.75% in 2013, grading to 4% in 2022 |

# FINANCIAL SECTION

## Notes to General Purpose Financial Statements (Continued)

### NOTE 4 - INVESTMENTS

#### *Investment Authority*

All investments made are subject to approval by the Board of Trustees, which has investment authority under the act. Investments made are subject to statutory regulations imposed under the Michigan Public Employee Retirement System Investment Act, Public Act 314 of 1965, as amended. The Public Employee Retirement System Investment Act authorizes, with certain restrictions, the investment of pension fund assets in stocks, corporate and governmental bonds and notes, mortgages, real estate, and certain short-term and alternative investments. The System also contracts with independent investment advisors.

#### *Derivatives*

State investment statutes limits total derivative exposure to 15% of a fund's total asset value, and restricts uses to replication of returns and hedging of assets. The System Investment Policy Statement (IPS) has a target asset allocation of 5% for hedge funds, which may include derivatives. Systems investment in hedge funds has an exposure to derivatives of approximately 15-20%. The System invests in derivatives for investment purposes and not hedging purposes. As of September 30, 2013 and 2012, total investments in hedge funds were 5.0% and 4.9%, respectively. The market value of the hedge funds at September 30, 2013 and 2012 were \$8,912,041 and \$8,086,648, respectively.

#### *Securities Lending*

The System did not participate in any securities lending activities.

#### *Risk*

In accordance with GASB statement 40, investments require certain disclosure regarding policies and the risks associated with them. The credit risk, custodial credit risk, foreign currency risk and interest rate risk are discussed in the following paragraphs.

#### *Credit risk*

Credit risk is the risk that an issuer will not fulfill its obligations. The System has a policy to maintain an overall weighted average of "Aa" or better by Moody's Investors Service and "AA" or better by Standards & Poor's for active management of fixed income securities. Mutual fund fixed income investments are not subject to this constraint; they are governed by the terms of their prospectuses. GASB 40 states that governments should disclose the credit quality ratings of external investment pools, money market funds, bond mutual funds and other pooled investments of fixed income securities in which they invest.

#### Debt Securities As of September 30, 2013 and 2012

| Investment Type | 2013                 |                            |    | 2012                 |                            |    |
|-----------------|----------------------|----------------------------|----|----------------------|----------------------------|----|
|                 | Fair Value           | Rating<br>S & P    Moody's |    | Fair Value           | Rating<br>S & P    Moody's |    |
| Mutual Funds**  | \$ 15,887,269        | AA                         | Aa | \$ 16,600,767        | AA                         | Aa |
|                 | 13,438,861           | A                          | A  | 13,171,434           | A                          | A  |
|                 | <u>\$ 29,326,130</u> |                            |    | <u>\$ 29,772,201</u> |                            |    |

\*\* Average Rating

## Notes to General Purpose Financial Statements (Continued)

### *Custodial credit risk*

The custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the System's deposits may not be recovered. Deposits are exposed to custodial credit risk if they are not covered by depository insurance and the deposits are: a.) Uncollateralized, b.) Collateralized with securities held by the pledging financial institution, or c.) Collateralized with securities held by the pledging financial institution's trust department or agent but not in the depositor-government's name.

The common cash pool is managed by the State Treasurer and is authorized to invest surplus funds in depository accounts at financial institutions, bonds, notes, and other U.S. government debt, prime commercial paper, certificates of deposits, and special State investment programs. At September 30, 2013, the common cash pool held the majority of its funds in depository accounts 63.7% and prime commercial paper 34.5%. At September 30, 2012, the common cash pool held the majority of its funds in depository accounts 48.0% and prime commercial paper 50.2%. The State Treasurer's policy for common cash depository accounts requires financial institutions to secure State funds with collateral, to be organized under federal or State law, and to maintain an office in Michigan. The policy also restricts deposits to a maximum of 50% of the financial institution's net worth. As of September 30, 2013, 100% of the State's common cash depository accounts were either covered by federal depository insurance or collateralized with securities held in the State's name by the State's agent. The State Treasurer's policy requires prime commercial paper to be rated "A-1" by S&P or "P-1" by Moody's or higher at purchase and places requirements and restrictions on the borrower. Additional details on the common cash pool policies and risk disclosures are described in the State of Michigan Comprehensive Annual Financial Report.

### *Concentration of Credit Risk*

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer.

System is prohibited by Public Act 314 of 1965, as amended, from investing in more than 5% of the outstanding stock or obligations of any one issuer or investing more than 5% of its assets in the stock or obligations of any one issuer.

At September 30, 2013 and 2012, there were no investments in any one issuer that accounted for more than 5% of System's assets nor were there any investments totaling more than 5% of the stock or obligations of any one issuer.

### *Foreign currency risk*

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of deposits. Public Act 35 of 1997 requires State deposits be held in a financial institution which maintains a principal office or branch office located in the State of Michigan. The System had no common cash deposits subject to foreign currency risk at September 30, 2013.

### *Custodial credit risk associated with investments*

In accordance with GASB statement 40, investments also require certain disclosures regarding policies and procedures with respect to the risks associated with them. The custodial credit risk for investments is the risk that, in the event of a failure of the counterparty, the System will not be able to recover the value of the investment or collateral securities that are in the possession of an outside party.

Investment securities are exposed to custodial credit risk if the securities are uninsured, are not registered in the name of the government and are held by either: a.) the counterparty, or b.) the counterparty's trust department or agent but are not in the government's name. The State Treasurer does not have an investment policy for managing custodial credit risk. At September 30, 2013, the System's investments were not exposed to custodial credit risk.

# FINANCIAL SECTION

## Notes to General Purpose Financial Statements (Continued)

### *Interest rate risk associated with investments*

Interest rate risk is the risk that changes in interest rates of debt investments will adversely affect the fair value of an investment. The System has an 18% target allocation of fixed income securities, which are affected by interest rates because they are a debt investment. At September 30, 2013 and September 30, 2012, the fair value was \$29,326,130 and \$29,772,201, respectively, with the investment activity for the year producing a total rate of return of 0.6% and 8.7%, respectively, and a rate of return since inception of 5.0% and 5.3%, respectively. The projected duration is 3.8 and 3.0 years, respectively. The System does not have a policy for controlling interest rate risk.

### *Foreign currency risk associated with investments*

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of investments. The System invests in various foreign investments (including, but not limited to, equities, fixed income, and mutual funds), which are subject to various limitations in accordance with the System's Investment Policy Statement (or "IPS") (which incorporates the provisions of the Public Employee Retirement System Investment Act, or Public Act 314 of 1965, as amended). IPS foreign investment restrictions include a 20% limitation of the total assets of the system and, additionally, a 5% limitation in the outstanding foreign securities of a single issuer (allowances are made for the daily market pricing fluctuations of an investment). New investments in countries that have been identified by the United States Department of State as engaging in or sponsoring terrorism are prohibited, and existing investments in any such newly-identified country shall be quickly divested in accordance with the law. At September 30, 2013 and September 30, 2012, the System held the following investments subject to foreign currency risk:

### Foreign Currency Risk

As of September 30, 2013

(Value in US dollars)

| Country                   | Currency | Alt. Invest         | Mutual<br>Funds      | Equities | International<br>Equities | TOTAL                |
|---------------------------|----------|---------------------|----------------------|----------|---------------------------|----------------------|
| <b><u>EUROPE</u></b>      |          |                     |                      |          |                           |                      |
| European Union            | Euro     |                     |                      |          | 306,032                   | <b>306,032</b>       |
| U.K.                      | Sterling |                     |                      |          | 878,390                   | <b>878,390</b>       |
| <b><u>MIDDLE EAST</u></b> |          |                     |                      |          |                           |                      |
| Israel                    | Shekel   |                     |                      |          | 845,253                   | <b>845,253</b>       |
| <b><u>VARIOUS</u></b>     |          | 8,912,042           | 47,027,545           |          |                           | <b>55,939,587</b>    |
| Total                     |          | <b>\$ 8,912,042</b> | <b>\$ 47,027,545</b> |          | <b>\$ 2,029,675</b>       | <b>\$ 57,969,262</b> |

# FINANCIAL SECTION

## Notes to General Purpose Financial Statements (Continued)

### Foreign Currency Risk

As of September 30, 2012

(Value in US dollars)

| Country                   | Currency | Alt. Invest  | Mutual<br>Funds | Equities   | International<br>Equities | TOTAL                |
|---------------------------|----------|--------------|-----------------|------------|---------------------------|----------------------|
| <b><u>EUROPE</u></b>      |          |              |                 |            |                           |                      |
| European Union            | Euro     |              |                 |            | 452,130                   | <b>452,130</b>       |
| U.K.                      | Sterling |              |                 |            | 1,390,690                 | <b>1,390,690</b>     |
| <b><u>MIDDLE EAST</u></b> |          |              |                 |            |                           |                      |
| Israel                    | Shekel   |              |                 |            | 302,293                   | <b>302,293</b>       |
| <b><u>VARIOUS</u></b>     |          | 8,086,650    | 47,628,616      | 273,829    |                           | <b>55,989,095</b>    |
| Total                     |          | \$ 8,086,650 | \$ 47,628,616   | \$ 273,829 | \$ 2,145,113              | <b>\$ 58,134,208</b> |

## NOTE 5 - ACCOUNTING CHANGES AND PRONOUNCEMENTS

### GASB Statement 63

During fiscal year 2013, the System implemented GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. The objective of this statement is to improve financial reporting by standardizing the presentation of deferred outflows of resources and deferred inflows of resources and their effects on a government's net position. As a result of the implementation, financial statements are now presented as Statement of Net Position and Statement of Changes in Net Position.

### GASB Statement 65

GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities*. This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2012. This Statement will be implemented in fiscal year 2014.

### GASB Statement 67

GASB issued Statement No. 67, *Financial Reporting for Pension Plans - An Amendment of GASB Statement No. 25*. The Statement's objective is to improve financial reporting by state and local governmental pension plans. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. This Statement replaces the requirements of Statements No. 25 *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, and No. 50 *Pension Disclosures*, as they relate to pension plans administered through trusts or equivalent arrangements. The requirements of Statements No. 25 and No. 50 remain applicable to pension plans that are not administered through trusts or equivalent arrangements. The provisions of this Statement are effective for financial statements for fiscal years beginning after June 15, 2013. This Statement will be implemented in fiscal year 2014.

# FINANCIAL SECTION

## Required Supplementary Information

### Schedules of Funding Progress

Each time a higher level of benefit is adopted, unfunded obligations are created. The law governing the System requires that these additional obligations be financed systematically over a period of future years.

Analysis of the dollar amounts of actuarial value of assets, actuarial accrued liability, or unfunded actuarial accrued liability in isolation can be misleading. Expressing the actuarial value of assets as a percentage of the actuarial accrued liability provides one (1) indication of the System funding status on a going-concern basis. Analysis of this percentage over time indicates whether the system is becoming financially stronger or weaker. Generally, the greater this percentage, the stronger the system. Trends in unfunded actuarial accrued liability and annual covered payroll are both affected by inflation. Expressing the unfunded actuarial accrued liability as a percentage of annual covered payroll approximately adjusts for the effects of inflation and aids analysis of the System's progress in accumulating sufficient assets to pay benefits when due. Generally, the smaller this percentage, the stronger the system.

#### Pension Benefits

(in thousands)

| Valuation Date<br>Sept 30 | Actuarial Value of Assets<br>(a) | Actuarial Accrued Liability (AAL) Entry Age<br>(b) | Unfunded (Overfunded) Accrued Liability (UAAL)<br>(b-a) | Funded Ratio AAL<br>(a/b) | Covered Payroll <sup>(1)</sup><br>(c) | UAAL as a % of Covered Payroll <sup>(2)</sup><br>((b-a)/c) |
|---------------------------|----------------------------------|--|---|---------------------------|---------------------------------------|--|
| 2003                      | 164,950                          | 147,431  | (17,519)  | 112                       | 2,016                                 | N/A  |
| 2004                      | 161,905                          | 151,938  | (9,967)   | 107                       | 2,016                                 | N/A  |
| 2005                      | 157,456                          | 154,650  | (2,806)   | 102                       | 2,016                                 | N/A  |
| 2006                      | 159,347                          | 158,407  | (940)   | 101                       | 2,016                                 | N/A  |
| 2007                      | 167,750                          | 163,313  | (4,437)   | 103                       | 1,332                                 | N/A  |
| 2008                      | 169,986                          | 169,396  | (590)   | 100                       | 1,332                                 | N/A  |
| 2009                      | 165,810                          | 171,441  | 5,631   | 97                        | 1,151                                 | N/A  |
| 2010                      | 158,952                          | 172,694  | 13,741  | 92                        | 1,173                                 | N/A  |
| 2011                      | 149,940                          | 181,847  | 31,907  | 82                        | 143                                   | N/A  |
| 2012                      | 136,916                          | 180,466  | 43,550  | 76                        | 72                                    | N/A  |

<sup>(1)</sup> October based payrolls

<sup>(2)</sup> Percentage of covered payroll is not applicable (N/A) as the System is closed.

#### Other Post-Employment Benefits<sup>(2)</sup>

(in thousands)

| Valuation Date<br>Sept 30 | Actuarial Value of Assets<br>(a) | Actuarial Accrued Liability (AAL) Entry Age<br>(b) | Unfunded (Overfunded) Accrued Liability (UAAL)<br>(b-a) | Funded Ratio AAL<br>(a/b) | Covered Payroll <sup>(1)</sup><br>(c) | UAAL as a % of Covered Payroll<br>((b-a)/c) |
|---------------------------|----------------------------------|--|---|---------------------------|---------------------------------------|---|
| 2008                      | 14,319                           | 132,628  | 118,309   | 11                        | 11,859                                | 998   |
| 2009                      | 14,588                           | 136,870  | 122,282   | 11                        | 11,718                                | 1,044                                       |
| 2010                      | 15,886                           | 155,259  | 139,373   | 10                        | 11,598                                | 1,202                                       |
| 2011                      | 15,179                           | 140,696  | 125,517   | 11                        | 3,659                                 | 3,431                                       |
| 2012                      | 20,825                           | 145,161  | 124,337   | 14                        | 3,587                                 | 3,466                                       |

<sup>(1)</sup> October based payrolls

<sup>(2)</sup> Includes members in both the defined benefit plan and the defined contribution plan

**Required Supplementary Information (continued)**

**Schedules of Employer and Other Contributions**

**Pension Benefits**

| <b>Fiscal Year<br/>Ended<br/>Sept. 30</b> | <b>Valuation<br/>Date<br/>Sept. 30</b> | <b>Annual<br/>Required<br/>Contribution<br/>(ARC)</b> | <b>Actual<br/>Contributions</b> | <b>Percent<br/>Contributed</b> |
|---|--|---|---------------------------------|--------------------------------|
| 2004                                      | 2003                                   | \$ 0  | \$ 0                            | N/A                            |
| 2005                                      | 2004                                   | 0   | 0                               | N/A                            |
| 2006                                      | 2005                                   | 0   | 0                               | N/A                            |
| 2007                                      | 2006                                   | 394,957   | 394,957                         | 100%                           |
| 2008                                      | 2007                                   | 0   | 0                               | N/A                            |
| 2009                                      | 2008                                   | 269,944   | 269,944                         | 100%                           |
| 2010                                      | 2009                                   | 774,898   | 0                               | 0                              |
| 2011                                      | 2010                                   | 1,890,998   | 0                               | 0                              |
| 2011 <sup>^</sup>                         | 2010                                   | 2,915,182   | 0                               | 0                              |
| 2012                                      | 2011                                   | 4,390,831   | 0                               | 0                              |
| 2013                                      | 2012                                   | 5,993,209   | 0                               | 0                              |

<sup>^</sup>Under revised mortality assumptions.

**Other Post-Employment Benefits<sup>(1)</sup>**

| <b>Fiscal Year<br/>Ended<br/>Sept. 30</b> | <b>Valuation<br/>Date<br/>Sept. 30</b> | <b>Annual<br/>Required<br/>Contribution<br/>(ARC)</b> | <b>Actual<br/>Contributions</b> | <b>Other<br/>Governmental<br/>Contributions</b> | <b>Percent<br/>Contributed</b> |
|---|--|---|---------------------------------|---|--------------------------------|
| 2009                                      | 2005                                   | \$ 7,978,764  | \$ 4,302,354                    | \$ 160,758                                      | 56%                            |
| 2010                                      | 2009                                   | 10,842,010  | 4,514,665                       | 150,113   | 43                             |
| 2011                                      | 2010                                   | 11,817,097  | 4,287,509                       | 880,159   | 44                             |
| 2012                                      | 2011                                   | 9,674,141   | 7,840,322                       | 225,590   | 83                             |
| 2013                                      | 2012                                   | 9,630,395   | 4,240,388                       | 153,256   | 46                             |

<sup>(1)</sup> Includes members in both the defined benefit plan and the defined contribution plan

# **FINANCIAL SECTION**

## **Note to Required Supplementary Information**

### **NOTE A - DESCRIPTION**

Ten-year historical trend information designed to provide information about the System's progress in accumulating sufficient assets to pay benefits when due is presented in the preceding schedules. Other ten-year historical trend information related to the System is presented in the Statistical and Actuarial sections of the report. This information is presented to enable the interested parties to assess the progress made by the System in accumulating sufficient assets to pay pension benefits and other postemployment benefits as they become due.

The comparability of trend information is affected by changes in actuarial assumptions, benefit provisions, actuarial funding methods, accounting policies, and other changes. Those changes usually affect trends in contribution requirements and in ratios that use the pension benefit obligation as a factor.

The Schedule of Funding Progress and Schedule of Employer Contributions are reported as historical trend information. The Schedule of Funding Progress is presented to measure the progress being made to accumulate sufficient assets to pay benefits when due. The Schedule of Employer Contributions is presented to show the responsibility of the State in meeting the actuarial requirements to maintain the System on a sound financial basis.

# FINANCIAL SECTION

## Supporting Schedules

### Comparative Summary Schedule of Administrative Expenses For Years Ended September 30, 2013 and 2012

|  | <u>2013</u>       | <u>2012</u>       |
|--|-------------------|-------------------|
| Personnel Services                     | \$ 381,720        | \$ 373,174        |
| Actuarial Services                     | 32,250            | 30,875            |
| Audit                                  | -                 | 14,000            |
| Attorney & other Professional Services | 10,227            | 21,788            |
| Postage, Telephone and other           | 15,594            | 18,865            |
| <b>Total Administrative Expenses</b>   | <u>\$ 439,791</u> | <u>\$ 458,702</u> |

### Schedule of Investment Expenses\* For Years Ended September 30, 2013 and 2012

|                                  | <u>2013</u>       | <u>2012</u>       |
|----------------------------------|-------------------|-------------------|
| Management Fees                  | \$ 563,567        | \$ 522,408        |
| State Treasurer and custody fees | 26,252            | 23,706            |
| Other investment expenses        | 68,450            | 65,080            |
| <b>Total Investment Expenses</b> | <u>\$ 658,269</u> | <u>\$ 611,194</u> |

\*Mutual fund management fees are netted against returns earned.

### Schedule of Payments to Consultants For Years Ended September 30, 2013 and 2012

|                                      | <u>2013</u>      | <u>2012</u>      |
|--------------------------------------|------------------|------------------|
| Dykema Gossett                       | \$ 10,227        | \$ 21,788        |
| Gabriel Roeder                       | 32,250           | 30,875           |
| <b>Total Payments to Consultants</b> | <u>\$ 42,477</u> | <u>\$ 52,663</u> |

# FINANCIAL SECTION

## Supporting Schedules (continued)

### Detail of Changes in Plan Net Position (Pension and Other Postemployment Benefits)

For Years Ended September 30, 2013 and 2012

|   | Reserves for year ended September 30, 2013 |                        |                           |                          |                       |              | Total          |
|---|--|------------------------|---------------------------|--------------------------|-----------------------|--------------|----------------|
|   | Member Savings Fund                        | Member Retirement Fund | Survivors Retirement Fund | Insurance Revolving Fund | Health Insurance Fund | Income Fund  |                |
| <b>ADDITIONS</b>  |  |                        |                           |                          |                       |              |                |
| Member contributions:   |  |                        |                           |                          |                       |              |                |
| Other member contributions                                    | \$   | \$                     | \$                        | \$ 6,527                 | \$ 6,452              | \$           | \$ 12,979      |
| DC health premium   |  |                        |                           |                          | 100,805               |              | 100,805        |
| Employer contributions  |  |                        |                           |                          | 3,300,200             |              | 3,300,200      |
| Other governmental contributions                              |  |                        |                           |                          | 153,256               |              | 153,256        |
| Court fees  |  |                        |                           |                          | 940,187               |              | 940,187        |
| Total contributions:  |  |                        |                           | 6,527                    | 4,500,900             |              | 4,507,427      |
| Investment income (loss)                                      |  |                        |                           |                          |                       |              |                |
| Net appreciation (depreciation) in fair value of investments  |  |                        |                           |                          | 2,883,879             | 19,959,143   | 22,843,022     |
| Interest, dividends and other                                 |  |                        |                           |                          | 560,639               | 3,823,057    | 4,383,696      |
| Total investment income (loss)                                |  |                        |                           |                          | 3,444,518             | 23,782,200   | 27,226,718     |
| Less investment expenses                                      |  |                        |                           |                          | (83,105)              | (575,164)    | (658,269)      |
| Net investment income (loss)                                  |  |                        |                           |                          | 3,361,413             | 23,207,036   | 26,568,449     |
| Miscellaneous income  |  |                        |                           |                          |                       |              |                |
| Total additions:  |  |                        |                           | 6,527                    | 7,862,313             | 23,207,036   | 31,075,876     |
| <b>DEDUCTIONS</b>   |  |                        |                           |                          |                       |              |                |
| Benefits & refunds paid to plan members & beneficiaries:      |  |                        |                           |                          |                       |              |                |
| Retirement benefits   |  | 10,850,420             | 1,906,808                 |                          |                       |              | 12,757,228     |
| Health benefits   |  |                        |                           |                          | 5,396,456             |              | 5,396,456      |
| Dental benefits   |  |                        |                           |                          | 417,115               |              | 417,115        |
| Death benefits  |  |                        |                           | 134,000                  |                       |              | 134,000        |
| Refund of contribution & interest                             |  |                        | 11,700                    |                          |                       |              | 11,700         |
| Qualified rollover  |  |                        |                           |                          |                       |              |                |
| Administrative expenses                                       |  |                        |                           |                          | 67,088                | 372,703      | 439,791        |
| Total deductions:   |  | 10,850,420             | 1,918,508                 | 134,000                  | 5,880,659             | 372,703      | 19,156,290     |
| Net increase (decrease)                                       |  | (10,850,420)           | (1,918,508)               | (127,473)                | 1,981,654             | 22,834,333   | 11,919,586     |
| Other changes in net position:                                |  |                        |                           |                          |                       |              |                |
| Interest/loss allocations                                     | 23,405                                     | 10,326,147             | 9,282,164                 | 3,202,617                |                       | (22,834,333) | -              |
| Transfer upon retirements                                     | (110,933)                                  | 110,933                |                           |                          |                       |              |                |
| Total other changes in net position                           | (87,528)                                   | 10,437,080             | 9,282,164                 | 3,202,617                |                       | (22,834,333) |                |
| Net increase(decrease) after changes                          | (87,528)                                   | (413,340)              | 7,363,656                 | 3,075,144                | 1,981,654             |              | 11,919,586     |
| <b>Net position restricted for pension benefits and OPEB:</b> |  |                        |                           |                          |                       |              |                |
| <b>Beginning of Year:</b>                                     | 587,665                                    | 64,977,157             | 58,407,904                | 20,152,431               | 20,824,514            |              | 164,949,671    |
| <b>End of Year:</b>   | \$ 500,137                                 | \$ 64,563,817          | \$ 65,771,560             | \$ 23,227,575            | \$ 22,806,168         | \$           | \$ 176,869,257 |

# FINANCIAL SECTION

## Supporting Schedules (continued)

### Detail of Changes in Plan Net Position (Pension and Other Postemployment Benefits)

For Years Ended September 30, 2013 and 2012

|  | Reserves for year ended September 30, 2012 |                              |                                 |                                |                             |                | Total          |
|--|--|------------------------------|---------------------------------|--------------------------------|-----------------------------|----------------|----------------|
|  | Member<br>Savings<br>Fund                  | Member<br>Retirement<br>Fund | Survivors<br>Retirement<br>Fund | Insurance<br>Revolving<br>Fund | Health<br>Insurance<br>Fund | Income<br>Fund |                |
| <b>ADDITIONS</b>   |  |                              |                                 |                                |                             |                |                |
| Member contributions:  |  |                              |                                 |                                |                             |                |                |
| Other member contributions                                   | \$   | \$                           | \$                              | \$ 7,635                       | \$ 6,452                    | \$             | \$ 14,087      |
| DC health premium  |  |                              |                                 |                                | 85,235                      |                | 85,235         |
| Employer contributions                                       |  |                              |                                 |                                | 6,887,400                   |                | 6,887,400      |
| Other governmental contributions                             |  |                              |                                 |                                | 255,590                     |                | 255,590        |
| Court fees   |  |                              |                                 |                                | 952,922                     |                | 952,922        |
| Total contributions:   |  |                              |                                 | 7,635                          | 8,187,599                   |                | 8,195,234      |
| Investment income (loss)                                     |  |                              |                                 |                                |                             |                |                |
| Net appreciation (depreciation) in fair value of investments |  |                              |                                 |                                | 2,759,306                   | 23,844,986     | 26,604,292     |
| Interest, dividends and other                                |  |                              |                                 |                                | 330,131                     | 2,874,476      | 3,204,607      |
| Total investment income (loss)                               |  |                              |                                 |                                | 3,089,437                   | 26,719,462     | 29,808,899     |
| Less investment expenses                                     |  |                              |                                 |                                | (63,391)                    | (547,803)      | (611,194)      |
| Net investment income (loss)                                 |  |                              |                                 |                                | 3,026,046                   | 26,171,659     | 29,197,705     |
| Miscellaneous income   |  |                              |                                 |                                |                             |                |                |
| Total additions:   |  |                              |                                 | 7,635                          | 11,213,645                  | 26,171,659     | 37,392,939     |
| <b>DEDUCTIONS</b>  |  |                              |                                 |                                |                             |                |                |
| Benefits & refunds paid to plan members & beneficiaries:     |  |                              |                                 |                                |                             |                |                |
| Retirement benefits  |  | 10,669,077                   | 1,800,816                       |                                |                             |                | 12,469,893     |
| Health benefits  |  |                              |                                 |                                | 5,102,861                   |                | 5,102,861      |
| Dental benefits  |  |                              |                                 |                                | 417,299                     |                | 417,299        |
| Death benefits   |  |                              |                                 | 325,796                        |                             |                | 325,796        |
| Refund of contribution & interest                            |  |                              | 15,672                          |                                |                             |                | 15,672         |
| Qualified rollover   |  |                              |                                 |                                |                             |                |                |
| Administrative expenses                                      |  |                              |                                 |                                | 47,574                      | 411,128        | 458,702        |
| Total deductions:  |  | 10,669,077                   | 1,816,488                       | 325,796                        | 5,567,734                   | 411,128        | 18,790,223     |
| Net increase (decrease)                                      |  | (10,669,077)                 | (1,816,488)                     | (318,161)                      | 5,645,911                   | 25,760,531     | 18,602,716     |
| Other changes in net assets:                                 |  |                              |                                 |                                |                             |                |                |
| Interest/loss allocations                                    | 26,265                                     | 12,443,301                   | 9,919,332                       | 3,371,633                      |                             | (25,760,531)   |                |
| Transfer upon retirements                                    | (97,776)                                   | 97,776                       |                                 |                                |                             |                |                |
| Total other changes in net position                          | (71,511)                                   | 12,541,077                   | 9,919,332                       | 3,371,633                      |                             | (25,760,531)   |                |
| Net increase(decrease) after changes                         | (71,511)                                   | 1,872,000                    | 8,102,844                       | 3,053,472                      | 5,645,911                   |                | 18,602,716     |
| <b>Net position for pension benefits and OPEB:</b>           |  |                              |                                 |                                |                             |                |                |
| <b>Beginning of Year:</b>                                    | 659,176                                    | 63,105,157                   | 50,305,060                      | 17,098,959                     | 15,178,603                  |                | 146,346,955    |
| <b>End of Year:</b>  | \$ 587,665                                 | \$ 64,977,157                | \$ 58,407,904                   | \$ 20,152,431                  | \$ 20,824,514               | \$             | \$ 164,949,671 |

# *FINANCIAL SECTION*

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# **INVESTMENT SECTION**

**Michigan Legislative Retirement System**

**Comprehensive Annual Financial Report  
for the Fiscal Year Ended September 30, 2013**

## **INVESTMENT SECTION**



**Report on Investment Activity  
Asset Allocation  
List of Largest Assets Held  
Schedule of Investment Fees  
Schedule of Fees and Commissions**

# INVESTMENT SECTION

## Report on Investment Activity

### INTRODUCTION

The System's Board of Trustees is the investment fiduciary for the system in accordance with the law. Investment decisions, including investment policies and procedures, are subject to statutory regulations imposed by the Michigan Public Employee Retirement System Investment Act, Public Act 314 of 1965, as amended.

As the investment fiduciary for the system, the board's responsibilities include, but are not limited to: (1) establishing an investment policy and asset allocation for the System pension fund; (2) prudently selecting investment managers and consultants for the system, and (3) conducting periodic reviews to ensure that its policies are followed and that its investment professionals perform satisfactorily in accordance with established standards and goals.

The State Treasurer for the State of Michigan acts as the custodian for the System funds pursuant to state law, and the board has also contracted with independent investment advisors to assist with investment decisions and to manage the pension fund assets.

### INVESTMENT OBJECTIVES

The System's primary investment objective is to provide a real rate of return, net of inflation, administrative and investment expenses, sufficient to support the system's ability to meet its obligations to plan participants and beneficiaries without undue exposure to risk. In absolute terms, this return objective should approximate the System's actuarial assumed rate of return, which is currently 7%. The System seeks to attain investment results over a full market cycle. It does not expect that all investment objectives will be attained in each year and recognizes that over various periods of time the System investment results may produce significant "over" or "under" performance relative to broad markets. For this reason, the board of trustees takes a LONG-TERM perspective and will measure quantitative investment returns over a 5-year moving period. Managers and other parties are also expected to meet qualitative performance objectives (adherence to its investment philosophy and System policies, continuity of firm personnel and practices, etc.) as established by the board.

### MARKET REVIEW

#### *Twelve Months Ending September 30, 2013*

As the Legislative Retirement System (LRS) closes its fiscal year, it is hard to believe that it has been five years since the crisis of 2007 and 2008 occurred. The market turmoil and investment losses inflicted upon asset pools remain etched in our collective memories. Amid fits and starts, the general investment environment since 2009 has been primarily positive for both the bond and equity markets. Since 2008, the Legislative Retirement System (LRS) has not only weathered the crises but has participated in the positive growth, posting a strong net-of-fees return of 10.2% for the five-year period ending September 30, 2013.

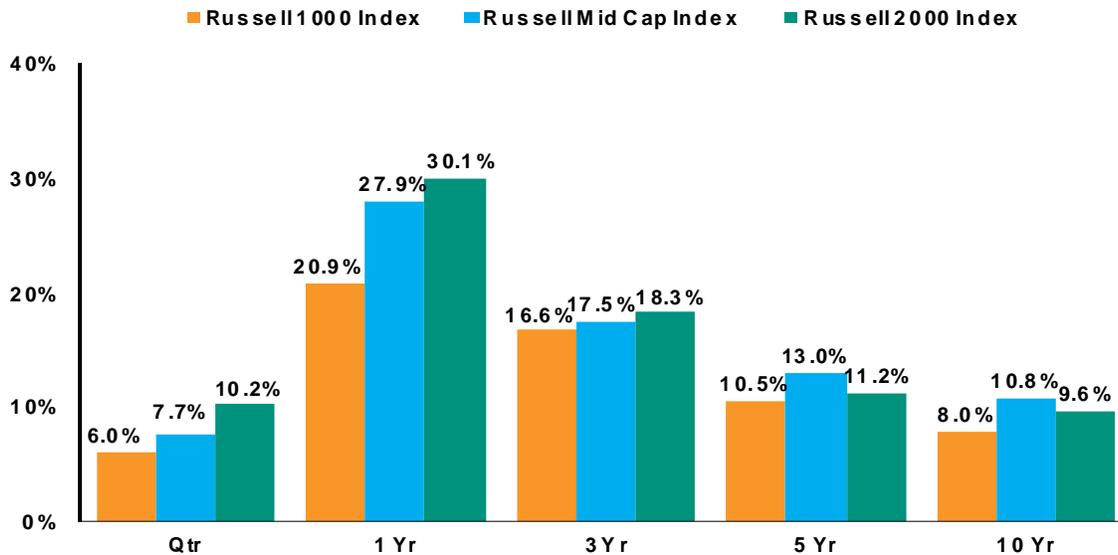
Over a shorter time frame, the fiscal year return for LRS was equally impressive with the total portfolio returning 17.2% for the one-year period ending September 30, 2013. This total return compares favorably to the actuarial assumed rate of 7.0% and the specific benchmarks the Trustees have established for the portfolio.

During LRS's fiscal year, the broad U.S. Stock market, as measured by the Russell 1000 Index remained remarkably resilient in spite of the being on the brink of the fiscal cliff, talk of tapering and overall difficulties in Congress. For the one-year period ending September 30, 2013, the large cap segment (Russell 1000 Index) rose 20.9% with all other market capitalization (as measured by the Russell MidCap and Russell 2000) generating returns of 27.9% and 30.1%, respectively.

# INVESTMENT SECTION

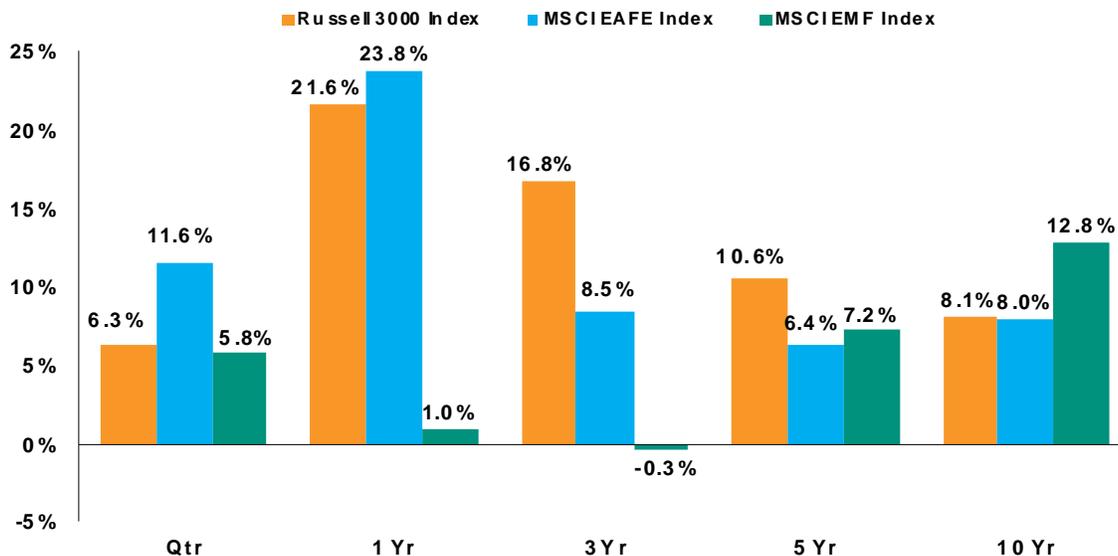
## MARKET REVIEW (continued)

### Large Cap, Mid Cap, & Small Cap



Buoyed by the domestic markets' solid performance, the international investment segments also did well during LRS's fiscal year. Helped by a declining US dollar (relative to other major currencies), the international developed market posted strong returns during the LRS' fiscal year. Specifically, the international developed countries (as measured by the MSCI EAFE Index) rose 23.8%. However, the emerging market segment, while positive (1.0% as measured by the MSCI Emerging Markets Index) was impacted by concerns that China's future growth rate may be slowing.

### U.S., International, & Emerging



# INVESTMENT SECTION

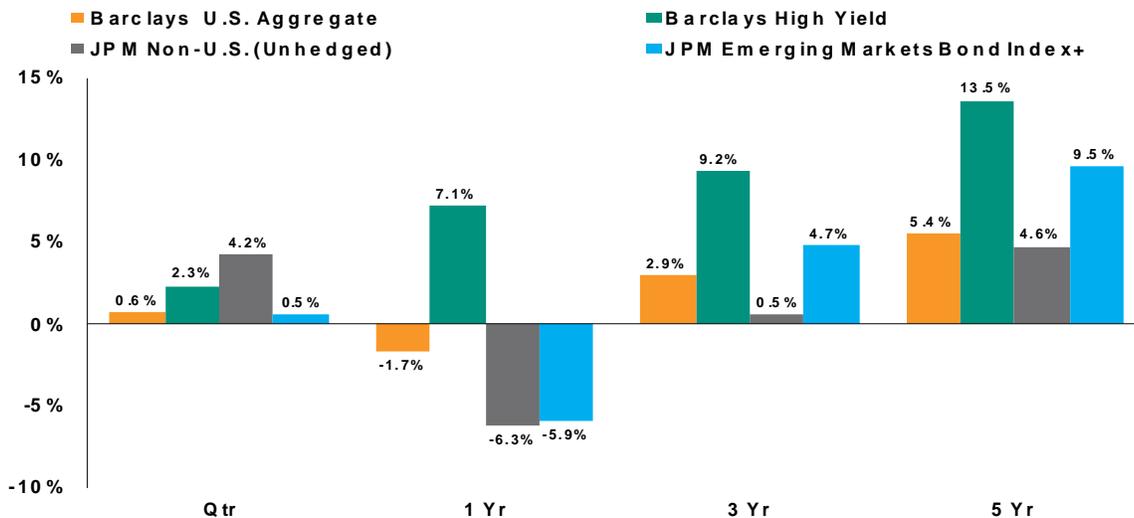
## MARKET REVIEW (continued)

Headwinds created by uncertainty in the fixed income markets made it difficult for LRS to generate positive returns in the fixed income segment of the portfolio. However, the diversification and manager due diligence process employed by the LRS Board mitigated the negative impact and, in some cases, provided good results in an otherwise volatile arena.

When viewed in the context of individual fixed income segments, the Barclays Aggregate Bond Index ended the fiscal year down 1.7%. By contrast, high yield securities (as measured by the Barclay's High Yield Index) rose 7.1% during the fiscal year. Importantly, while the global bond index was down 6.3% (as measured by the JP Morgan Non-US Government Bond Index), the LRS manager in this segment was up a remarkable 3.5% on a net-of-fees basis, strongly shoring up the otherwise struggling fixed income segment. Other diversification steps taken by the LRS Board contributed to the strength of the portfolio's overall, fiscal year-to-date performance.

The year 2013 also marked the 100th anniversary of the Federal Reserve (the Fed), the central banking authority of the United States. As central bank, the Fed is tasked with the dual mandate of promoting price stability and maximum employment. The Fed seeks to accomplish this objective by dictating and implementing monetary policy. Looking ahead, 2014 represents a pivotal confluence of events, including transition of the chairmanship from Benjamin S. Bernanke to an unknown successor, as well as the potential scaling-back of the committee's current expansive monetary policy (a.k.a Quantitative Easing or QE3). We do not have any historical precedents to help us understand the impact of QE tapering and how the unwinding of large amount of liquidity may affect the economic relationships of global assets.

### Broad Fixed Income



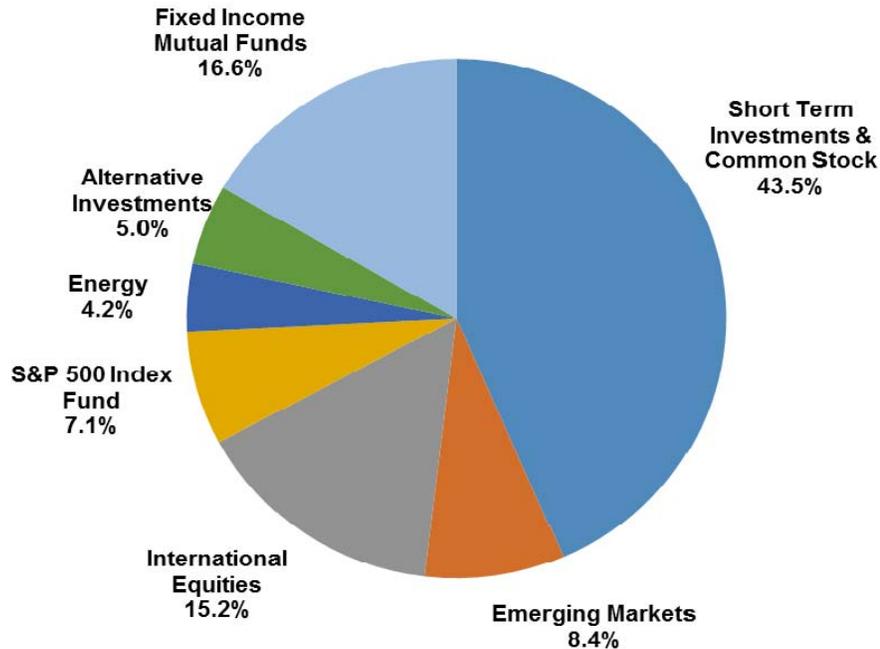
During the fiscal year, the trustees undertook an extensive review of the portfolio's asset allocation. Taking guidance from the asset allocation studies we conducted during the fiscal year, the trustees made small but strategic revisions to the portfolio to include international small capitalization securities and allocations to energy and commodities, the latter two (2) whose goal is to provide protection to the portfolio in the event of unexpected inflation. As part of its ongoing due-diligence and fiduciary responsibilities, the Board also continued to interview their existing managers and updated the Investment Policy Statement (IPS).

While pleased with the performance over the short and longer-term, the LRS Board of Trustees continues to examine the asset allocation structure and manager contributions to the portfolio. Quarterly performance reports, periodic manager due diligence interviews with monthly reporting, and educational presentations are a standard part of its process. As of the fiscal year ending September 30, 2013, the trustees, in conjunction with their consultant, believe the LRS portfolio is properly prepared for a wide variety of economic environments. To date, the changes they have implemented have been instrumental in generating returns that exceed the actuarial assumed rate of return and have contributed to solid portfolio performance in the face of an increasingly complex and sometimes difficult investment climate.

# INVESTMENT SECTION

## Asset Allocation

As of September 30, 2013



## Investment Portfolio As of September 30, 2013

| Investment Category                        | Market Value          | Percentages of Market Value | Percentages of Income/(Loss) | Fiscal Year Income/(Loss) <sup>®</sup> |
|--|-----------------------|-----------------------------|------------------------------|--|
| Short Term Investments*<br>& Common Stocks | 77,130,136            | 43.5 %                      | 69.9 %                       | \$ 19,035,886                          |
| S&P 500 Index Fund                         | 12,543,288            | 7.1                         | 9.1                          | 2,477,684                              |
| Global Real Estate                         | N/A                   | N/A                         | 3.7                          | 1,009,493                              |
| Energy                                     | 7,381,300             | 4.2                         | (2.2)                        | (613,370)                              |
| Emerging Markets                           | 14,839,344            | 8.4                         | 1.7                          | 452,335                                |
| Alternative Investments                    | 8,912,042             | 5.0                         | 3.0                          | 825,391                                |
| Fixed Income Mutual Funds                  | 29,326,130            | 16.6                        | 1.2                          | 337,539                                |
| International Equity                       | 26,917,235            | 15.2                        | 13.6                         | 3,701,760                              |
| <b>Total Investments</b>                   | <b>\$ 177,049,475</b> | <b>100 %</b>                | <b>100.0 %</b>               | <b>\$ 27,226,718</b>                   |

\* Short Term Investments are equity in the State Treasurer's Common Cash Fund.

<sup>®</sup> Includes realized gains and losses.

# INVESTMENT SECTION

## Largest Assets Held

### Largest Stock Holdings (By Market Value)

September 30, 2013

| Rank | Shares | Stocks                | Market Value |
|------|--------|-----------------------|--------------|
| 1    | 970    | GOOGLE INC CL A       | \$ 849,633   |
| 2    | 16,885 | LOWE S COS INC        | 803,895      |
| 3    | 14,338 | UMB FINANCIAL CORP    | 779,127      |
| 4    | 36,402 | BRUKER CORP           | 751,701      |
| 5    | 9,600  | AMERICAN EXPRESS CO   | 724,992      |
| 6    | 10,880 | GILEAD SCIENCES INC   | 683,699      |
| 7    | 13,135 | JPMORGAN CHASE + CO   | 678,948      |
| 8    | 10,658 | EBAY INC              | 594,610      |
| 9    | 11,375 | FACEBOOK INC A        | 571,480      |
| 10   | 9,600  | DELPHI AUTOMOTIVE PLC | 560,832      |

A complete list of stock holdings is available from the System.

## Schedule of Investment Fees

### Schedule of Investment Fees at September 30, 2013

#### Investment Managers Fees\*:

|                                   | <u>Assets under Management</u> | <u>Fees</u>       |
|-----------------------------------|--------------------------------|-------------------|
| World Asset Mgt/Comerica          | \$12,543,288                   | \$ 8,301          |
| Cramer Rosenthal McGlynn          | 16,852,975                     | 163,488           |
| Barrow Hanley Mewhinney & Strauss | 16,102,509                     | 125,973           |
| Rice Hall James                   | 18,488,441                     | 136,458           |
| Wellington                        | 22,955,600                     | 129,347           |
|                                   |                                | <u>563,567</u>    |
| Other Investment Fees             |                                |                   |
| State Treasurer                   |                                | 26,252            |
| Fund Evaluation Group             |                                | 68,450            |
|                                   |                                | <u>94,702</u>     |
|                                   | TOTAL                          | <u>\$ 658,269</u> |

\*Europacific Growth Fund, ING Global Real Estate, Lazard Emerging Markets, Ironwood International Ltd., PIMCO Total Return Fund, DoubleLine, JPM Alerian and Franklin Templeton management fees are netted against return earned by mutual fund money managers.

# INVESTMENT SECTION

## Schedule of Fees and Commissions

| <u>Investment Broker Name</u>            | <u>Shares Traded</u> | <u>Total Value of Commissions</u> | <u>Average Commission Per Share</u> |
|--|----------------------|-----------------------------------|-------------------------------------|
| ACADEMY SECURITIES INC                   | 175                  | 6.13                              | 0.04                                |
| ANCORA SECIRITIES INC                    | 3,900                | 136.50                            | 0.04                                |
| AVONDALE PARTNERS LLC                    | 8,685                | 347.40                            | 0.04                                |
| BARCLAYS CAPITAL LE                      | 38,375               | 815.85                            | 0.02                                |
| BLOOMBERGTRADEBOOK LLC                   | 18,359               | 195.91                            | 0.01                                |
| BMO CAPITAL MARKETS                      | 7,180                | 268.80                            | 0.04                                |
| BREAN MURRAY, CARRET& CO., LLC           | 21,546               | 829.84                            | 0.04                                |
| BROADCORTCAPITAL (THRU ML)               | 3,900                | 136.50                            | 0.04                                |
| BTIG, LLC                                | 33,515               | 923.82                            | 0.03                                |
| BUCKINGHAM RESEARCH GROUP INC            | 6,000                | 231.50                            | 0.04                                |
| BURKE ANDQUICK PARTNERS LLC              | 3,640                | 144.40                            | 0.04                                |
| CANTOR FITZGERALD + CO.                  | 9,100                | 227.50                            | 0.03                                |
| CAPITAL INSTITUTIONAL SVCS INC EQUITIES  | 9,500                | 339.50                            | 0.04                                |
| CITIGROUPGLOBAL MARKETS INC              | 31,630               | 968.03                            | 0.03                                |
| CJS SECURITIES INC                       | 8,878                | 355.12                            | 0.04                                |
| COLLINS STEWART LLC                      | 280                  | 11.20                             | 0.04                                |
| COMPASS POINT RESEARCH + TRADING, LLC    | 100                  | 4.00                              | 0.04                                |
| CONVERGEXEXECUTION SOLUTIONS LLC         | 275,492              | 8,791.74                          | 0.03                                |
| COWEN ANDCOMPANY, LLC                    | 37,400               | 1,205.50                          | 0.03                                |
| CRAIG - HALLUM                           | 45,913               | 1,449.86                          | 0.03                                |
| CREDIT RESEARCH + TRADING LLC            | 3,862                | 154.48                            | 0.04                                |
| CREDIT SUISSE SECURITIES (USA) LLC       | 65,611               | 1,519.74                          | 0.02                                |
| CSI US INSTITUTIONAL DESK                | 8,755                | 388.85                            | 0.04                                |
| CUTTONE &CO.                             | 140                  | 4.90                              | 0.04                                |
| DAVENPORT& CO. OF VIRGINIA, INC.         | 500                  | 20.00                             | 0.04                                |
| DAVIDSON D.A. + COMPANY INC.             | 1,300                | 52.00                             | 0.04                                |
| DEUTSCHE BANK SECURITIES INC             | 48,885               | 1,329.93                          | 0.03                                |
| DOWLING &PARTNERS                        | 200                  | 8.00                              | 0.04                                |
| EVERCORE GROUP LLC                       | 700                  | 28.00                             | 0.04                                |
| FIDELITY CAPITAL MARKETS                 | 24,000               | 960.00                            | 0.04                                |
| FIRST ANALYSIS SECURITIES CORP           | 3,790                | 151.60                            | 0.04                                |
| FRANK RUSSELL SEC/BROADCORT CAP CLEARING | 2,700                | 94.50                             | 0.04                                |
| FRIEDMAN BILLINGS + RAMSEY               | 525                  | 21.00                             | 0.04                                |
| GFI SECURITIES LLC                       | 170                  | 5.95                              | 0.04                                |
| GLOBAL HUNTER SECURITIES                 | 13,018               | 520.72                            | 0.04                                |
| GOLDMAN SACHS + CO                       | 87,590               | 2,422.72                          | 0.03                                |
| GOLDMAN SACHS INTERNATIONAL              | 55,537               | 323.69                            | 0.01                                |
| GORDON, HASKETT & COMPANY                | 8,400                | 336.00                            | 0.04                                |
| GREEN STREET ADVISORS                    | 1,200                | 48.00                             | 0.04                                |
| GUGGENHEIM CAPITAL MARKETS LLC           | 1,335                | 49.93                             | 0.04                                |
| HIBERNIA SOUTHCOAST CAPITAL INC          | 3,274                | 130.96                            | 0.04                                |
| HSBC BROKERAGE (USA) INC.                | 125                  | 4.38                              | 0.04                                |
| IMPERIAL CAPITAL LLC                     | 5,803                | 193.09                            | 0.03                                |
| INSTINET                                 | 188,190              | 2,933.40                          | 0.02                                |
| INVESTMENT TECHNOLOGY GROUP INC.         | 103,070              | 1,064.31                          | 0.01                                |
| ISI GROUPINC                             | 20,580               | 366.38                            | 0.02                                |
| ISLAND TRADER SECURITIES INC             | 15,150               | 572.50                            | 0.04                                |
| J.P. MORGAN SECURITIES INC.              | 101,556              | 2,356.02                          | 0.02                                |
| JANNEY MONTGOMERY, SCOTT INC             | 9,651                | 343.81                            | 0.04                                |
| JEFFERIES+ COMPANY INC                   | 161,525              | 2,782.35                          | 0.02                                |
| JMP SECURITIES                           | 2,350                | 94.00                             | 0.04                                |
| JNK SECURITIES INC                       | 3,400                | 119.00                            | 0.04                                |

# INVESTMENT SECTION

## Schedule of Fees and Commissions (continued)

| <u>Investment Broker Name</u>            | <u>Shares Traded</u> | <u>Total Value of Commissions</u> | <u>Average Commission Per Share</u> |
|--|----------------------|-----------------------------------|-------------------------------------|
| JOHNSON RICE + CO                        | 54,893               | 1,776.55                          | 0.03                                |
| JONESTRADING INSTITUTIONAL SERVICES LLC  | 72,309               | 1,822.52                          | 0.03                                |
| KEEFE BRUYETTE + WOODS INC               | 20,200               | 702.00                            | 0.03                                |
| KEYBANC CAPITAL MARKETS INC              | 50,103               | 1,775.63                          | 0.04                                |
| KING, CL,& ASSOCIATES, INC               | 12,166               | 468.64                            | 0.04                                |
| KNIGHT EQUITY MARKETS L.P.               | 3,490                | 125.45                            | 0.04                                |
| LADENBURGTHALMAN + CO                    | 10,061               | 402.44                            | 0.04                                |
| LAZARD CAPITAL MARKETS LLC               | 10,900               | 436.00                            | 0.04                                |
| LEERINK SWANN AND COMPANY                | 600                  | 24.00                             | 0.04                                |
| LIQUIDNETINC                             | 45,800               | 916.00                            | 0.02                                |
| LONGBOW SECURITIES LLC                   | 760                  | 30.40                             | 0.04                                |
| MACQUARIESECURITIES (USA) INC            | 2,000                | 78.00                             | 0.04                                |
| MAXIM GROUP                              | 21,847               | 709.54                            | 0.03                                |
| MERRILL LYNCH PIERCE FENNER + SMITH INC  | 141,395              | 2,279.00                          | 0.02                                |
| MERRILL LYNCH PROFESSIONAL CLEARING CORP | 8,575                | 306.43                            | 0.04                                |
| MILLER TABAK + COMPANY, LLC              | 100                  | 4.00                              | 0.04                                |
| MIZUHO SECURITIES USA INC.               | 2,423                | 84.81                             | 0.04                                |
| MKM PARTNERS LLC                         | 1,300                | 26.00                             | 0.02                                |
| MORGAN STANLEY CO INCORPORATED           | 76,645               | 2,058.10                          | 0.03                                |
| NATIONAL FINANCIAL SERVICES CORP.        | 1,900                | 76.00                             | 0.04                                |
| NEEDHAM +COMPANY                         | 7,126                | 265.27                            | 0.04                                |
| NORTHLANDSECURITIES INC.                 | 2,313                | 92.52                             | 0.04                                |
| OPPENHEIMER + CO. INC.                   | 11,000               | 427.50                            | 0.04                                |
| PACIFIC CREST SECURITIES                 | 590                  | 23.60                             | 0.04                                |
| PICKERINGENERGY PARTNERS, INC            | 10,734               | 376.86                            | 0.04                                |
| PIPER JAFFRAY                            | 14,075               | 521.00                            | 0.04                                |
| PULSE TRADING LLC                        | 4,720                | 119.50                            | 0.03                                |
| RAYMOND JAMES AND ASSOCIATES INC         | 23,727               | 874.38                            | 0.04                                |
| RBC CAPITAL MARKETS                      | 37,000               | 917.33                            | 0.02                                |
| ROBERT W.BAIRD CO.INCORPORATE            | 86,117               | 2,986.90                          | 0.03                                |
| SANDLER ONEILL + PART LP                 | 400                  | 16.00                             | 0.04                                |
| SANFORD CBERNSTEIN CO LLC                | 10,681               | 231.96                            | 0.02                                |
| SCOTIA CAPITAL (USA) INC                 | 7,600                | 266.00                            | 0.04                                |
| SCOTT & STRINGFELLOW, INC                | 15,000               | 595.50                            | 0.04                                |
| SIDOTI + COMPANY LLC                     | 27,992               | 1,050.92                          | 0.04                                |
| SIMMONS +COMPANY INTERNATIONAL           | 505                  | 17.68                             | 0.04                                |
| SJ LEVINSON & SONS LLC                   | 6,750                | 137.75                            | 0.02                                |
| STATE STREET GLOBAL MARKETS, LLC         | 165,855              | 4,977.15                          | 0.03                                |
| STEPHENS,INC.                            | 71,249               | 2,440.24                          | 0.03                                |
| STERNE AGEE & LEACH INC.                 | 2,100                | 76.50                             | 0.04                                |
| STERNE, AGEE, AND LEACH INC              | 485                  | 16.99                             | 0.04                                |
| STIFEL NICOLAUS + CO INC                 | 28,438               | 1,135.67                          | 0.04                                |
| STRATEGASSECURITIES LLC                  | 1,800                | 65.50                             | 0.04                                |
| SUNTRUST CAPITAL MARKETS, INC.           | 79,015               | 2,298.20                          | 0.03                                |
| UBS SECURITIES LLC                       | 29,930               | 995.69                            | 0.03                                |
| WEDBUSH MORGAN SECURITIES INC            | 16,364               | 603.36                            | 0.04                                |
| WEEDEN + CO.                             | 128,400              | 2,727.75                          | 0.02                                |
| WELLS FARGO SECURITIES, LLC              | 25,952               | 1,032.24                          | 0.04                                |
| WILLIAM BLAIR & COMPANY L.L.C            | 13,752               | 428.56                            | 0.03                                |
| WOLFE TRAHAN SECURITIES                  | 300                  | 10.50                             | 0.04                                |
| WUNDERLICH SECURITIES INC.               | 14,140               | 565.60                            | 0.04                                |
| TOTALS                                   | <u>2,888,037</u>     | <u>\$ 77,185.44</u>               |                                     |

**Michigan Legislative Retirement System**

**Comprehensive Annual Financial Report  
for the Fiscal Year Ended September 30, 2013**

**ACTUARIAL  
SECTION**



**Actuary's Certification  
Summary of Actuarial Assumptions and Methods  
Schedule of Member Data  
Schedule of Changes in Retirement Rolls  
Prioritized Solvency Test  
Summary of Plan Provisions**

# ACTUARIAL SECTION

## Actuary's Certification



Gabriel Roeder Smith & Company  
Consultants & Actuaries

One Towne Square  
Suite 800  
Southfield, MI 48076-3723

248.799.9000 phone  
248.799.9020 fax  
www.gabrielroeder.com

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March 28, 2014

The Board of Trustees  
Michigan Legislative Retirement System  
124 North Capitol Avenue – Suite S0927  
Lansing, Michigan 48933

Ladies and Gentlemen:

The basic financial objective of the Tier 1 Defined Benefit Plan of the Michigan Legislative Retirement System (MLRS) is to establish and receive contributions which when combined with present assets and future investment return will be sufficient to meet the financial obligations of the System to present and future benefit recipients.

The purpose of the September 30, 2012 annual actuarial valuations was to determine the contribution requirements for the fiscal year ending September 30, 2013, to measure the System's funding progress, and to provide actuarial information in connection with applicable Governmental Accounting Standards Board statements. The valuations should not be relied upon for any other purpose. The valuation process develops employer contributions that are sufficient to fund any unfunded accrued liabilities over a reasonable period. The valuation was completed based upon population data, asset data and plan provisions in effect on September 30, 2012.

The valuation was based upon information provided by the System's administrative staff concerning System benefit provisions, financial transactions, and individual members, terminated members, retirees and beneficiaries. We checked the data for internal and year to year consistency, but did not otherwise audit the data. As a result, we do not assume responsibility for the accuracy or completeness of the data provided by the System's administrative staff. The actuary summarizes and tabulates population data in order to analyze long term trends. The System's external auditor audits the actuarial data annually.

Annual actuarial valuations are based upon assumptions regarding future activity in specific risk areas including the rate of investment return and payroll growth, eligibility for the various classes of benefits and longevity among retired lives. These assumptions are adopted by the Board of Trustees after considering the advice of the actuary and other professionals. Each actuarial valuation takes into account all prior differences between actual and assumed experience in each risk area and adjusts the contribution requirements as needed. Assets are valued according to a method that fully recognizes expected investment return, and recognizes unanticipated market return over a five-year period. The assumptions and the methods comply with the disclosure requirements of GASB Statement Nos. 25 and 43.

## Actuary's Certification (continued)

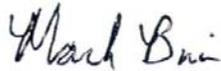
The Board of Trustees  
March 28, 2014  
Page 2

The current benefit structure is outlined in the actuarial section of the Comprehensive Annual Financial Report. We provided the information used in the supporting schedules in the actuarial section and the Schedule of Funding Progress in the financial section, as well as the Employer Contributions – Computed and Actual Historical Comparison schedule in the financial section.

The signing actuaries are independent of the plan sponsor.

The actuarial valuations of MLRS as of September 30, 2012 were performed by qualified actuaries in accordance with standards of practice prescribed by the Actuarial Standards Board and in compliance with applicable State statutes. Mark Buis and Francois Pieterse are Members of the American Academy of Actuaries (MAAA) and meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion contained herein. It is our opinion that the calculated employer contribution meets the financial objective of the Retirement System.

Respectfully submitted,



Mark Buis, FSA, EA, MAAA



Francois Pieterse, ASA, MAAA

MHB:rmn

Gabriel Roeder Smith & Company

# ***ACTUARIAL SECTION***

## **Summary of Actuarial Assumptions and Methods**

1. The investment return rate used in making the valuations was 7% per year, compounded annually. This rate of return is not the assumed real rate of return. The real rate of return is the rate of investment return in excess of the inflation rate. Considering other financial assumptions, this 7% investment return rate translates to an assumed real rate of return of 3%. Adopted 1987.
2. The mortality table used in evaluating allowances to be paid was the RP-2000 Combined Healthy Mortality Table, set back zero (0) years for men and zero (0) years for women. Adopted 2010.
3. Sample probabilities of retirement with an age and service allowance are shown in Schedule 1. Adopted 1987.
4. Sample probabilities of withdrawal from service and disability, together with individual pay increase assumptions, are shown in Schedule 2. Adopted 1993, 1979, and 1987, respectively.
5. Total active member payroll is assumed to increase 4% per year. This represents the portion of the individual pay increase assumptions attributable to inflation.
6. An individual entry age actuarial cost method of valuation was used in determining age and service allowance actuarial liabilities and normal cost. Adopted 1987. Unfunded actuarial accrued liabilities, including actuarial gains and losses, are financed over a period of 10 years.
7. Effective for the September 30, 1993 valuation, valuation assets were equal to valuation assets (prior method) as of September 30, 1992, with subsequent differences between total investment income and projected investment income (actuarial assumption) being spread over a five (5) year period.
8. Member data and asset information was furnished by the System's administrative staff. Although examined for general reasonableness, the data was not audited by the actuary.
9. The actuarial valuation computations were made by or under the supervision of a Member of the American Academy of Actuaries (MAAA). The assumptions used in the actuarial valuations were adopted by the board of trustees after consulting with the actuary.
10. Beginning fiscal year 2011, the System board approved using the prior year actuarial report for the System current year comprehensive annual financial report.

# ACTUARIAL SECTION

## Summary of Actuarial Assumptions and Methods

(Continued)

### SCHEDULE 1

| <u>Retirement<br/>Ages</u> | <u>Percent of Eligible Active Members<br/>Retiring Within Next Year</u> |
|----------------------------|---|
| 50                         | 10 %  |
| 52                         | 10  |
| 55                         | 10  |
| 58                         | 10  |
| 61                         | 10  |
| 64                         | 10  |
| 67                         | 10  |
| 70                         | 100   |

### SCHEDULE 2

#### Separation From Active Employment Before Age & Service Retirement & Individual Pay Increase Assumptions

| <u>Years of<br/>Service<sup>#</sup></u> | <u>Percent of Active<br/>Members Withdrawing<br/>Within Next Year</u> |               | <u>Sample<br/>Ages</u> | <u>Percent of Active<br/>Members Becoming<br/>Disabled Within Next Year</u> |              | <u>Percent Increase<br/>In Pay During<br/>Next Year</u> |
|---|---|---------------|------------------------|---|--------------|---|
|   | <u>House</u>  | <u>Senate</u> |                        | <u>Men</u>  | <u>Women</u> |   |
| 0                                       | 6 %   | 6 %           | 25                     | 0.08 %  | 0.10 %       | 4 %   |
| 1                                       | 6   | 6             | 35                     | 0.08  | 0.10         | 4   |
| 2                                       | 6   | 6             | 40                     | 0.20  | 0.36         | 4   |
| 3                                       | 6   | 6             | 45                     | 0.26  | 0.41         | 4   |
| 4                                       | 6   | 6             | 50                     | 0.49  | 0.57         | 4   |
| 5                                       | 4   | 4             | 55                     | 0.89  | 0.77         | 4   |
| 6                                       | 100   | 4             | 60                     | 1.41  | 1.02         | 4   |
| 7                                       |   | 4             | 65                     | 1.66  | 1.23         | 4   |
| 8                                       |   | 100           |                        |   |              |   |

<sup>#</sup> Years after 1992, for persons who were members on December 31, 1992

# ACTUARIAL SECTION

## Actuarial Valuation Data

### Schedule of Member Data

| <u>Valuation<br/>Date<br/>Sept. 30</u> | <u>Active Members</u> |                              | <u>Inactive Members</u> |                             | <u>Retirants and Survivors</u> |                              |
|--|-----------------------|------------------------------|-------------------------|-----------------------------|--------------------------------|------------------------------|
|  | <u>Number</u>         | <u>Valuation<br/>Payroll</u> | <u>Number</u>           | <u>Deferred<br/>Payroll</u> | <u>Numbers</u>                 | <u>Annual<br/>Allowances</u> |
| 2003                                   | 24                    | \$ 2,016,113                 | 79                      | \$ 2,366,361                | 262                            | \$ 7,602,242                 |
| 2004                                   | 24                    | 2,016,113                    | 71                      | 2,133,602                   | 268                            | 8,044,781                    |
| 2005                                   | 24                    | 2,016,113                    | 62                      | 1,799,013                   | 268                            | 8,517,118                    |
| 2006                                   | 24                    | 2,016,113                    | 51                      | 1,505,232                   | 276                            | 9,057,257                    |
| 2007                                   | 16                    | 1,332,400                    | 44                      | 1,357,865                   | 286                            | 9,980,341                    |
| 2008                                   | 16                    | 1,332,400                    | 39                      | 1,151,838                   | 284                            | 10,422,716                   |
| 2009                                   | 14                    | 1,151,100                    | 33                      | 1,011,752                   | 288                            | 10,853,048                   |
| 2010                                   | 14                    | 1,173,100                    | 28                      | 866,069                     | 288                            | 11,195,853                   |
| 2011                                   | 2                     | 143,370                      | 22                      | 712,342                     | 299                            | 12,175,532                   |
| 2012                                   | 2                     | 143,370                      | 18                      | 603,639                     | 293                            | 12,499,050                   |

### Schedule of Changes in the Retirement Rolls

| <u>Year<br/>Ended<br/>Sept. 30</u> | <u>Added to Rolls</u> |                              | <u>Removed from Rolls</u> |                              | <u>Rolls-End of Year</u> |                              | <u>% Increase<br/>in Annual<br/>Allowances</u> | <u>Average<br/>Annual<br/>Allowances</u> |
|------------------------------------|-----------------------|------------------------------|---------------------------|------------------------------|--------------------------|------------------------------|--|--|
|                                    | <u>No.</u>            | <u>Annual<br/>Allowances</u> | <u>No.</u>                | <u>Annual<br/>Allowances</u> | <u>No.</u>               | <u>Annual<br/>Allowances</u> |  |  |
| 2003                               | 29                    | \$1,374,384                  | 14                        | \$403,330                    | 262                      | \$7,602,242                  | 14.6   | \$29,016                                 |
| 2004                               | 11                    | 555,079                      | 5                         | 112,540                      | 268                      | 8,044,781                    | 5.8  | 30,018                                   |
| 2005                               | 13                    | 787,749                      | 13                        | 315,412                      | 268                      | 8,517,118                    | 5.9  | 31,780                                   |
| 2006                               | 14                    | 683,314                      | 6                         | 143,175                      | 276                      | 9,057,257                    | 6.3  | 32,816                                   |
| 2007                               | 18                    | 1,081,331                    | 8                         | 158,247                      | 286                      | 9,980,341                    | 10.2   | 34,896                                   |
| 2008                               | 7                     | 625,054                      | 9                         | 182,679                      | 284                      | 10,422,716                   | 4.4  | 36,700                                   |
| 2009                               | 13                    | 783,304                      | 9                         | 352,972                      | 288                      | 10,853,048                   | 4.1  | 37,684                                   |
| 2010                               | 8                     | 629,090                      | 8                         | 286,285                      | 288                      | 11,195,853                   | 3.2  | 38,874                                   |
| 2011                               | 22                    | 1,279,764                    | 10                        | 300,085                      | 300                      | 12,175,532                   | 8.8  | 40,585                                   |
| 2012                               | 8                     | 752,346                      | 15                        | 428,828                      | 293                      | 12,499,050                   | 2.7  | 42,659                                   |

## Prioritized Solvency Test

The System's funding objective is to meet long-term benefit promises through contributions that remain approximately level from year to year as a percent of member payroll. If the contributions to the System are level in concept and soundly executed, the System will pay all promised benefits when due -- the ultimate test of financial soundness. Testing for level contribution rates is the long-term solvency test.

A prioritized solvency test is another means of checking a system's progress under its funding program. In a short condition test, the plan's present assets (cash and investments) are compared with: (1) liability for active member contributions on deposit; (2) the liabilities for future benefits to present retired lives; and (3) the liabilities for service already rendered by active members. In a system that has been following the discipline of level percent of payroll financing, the liabilities for active member contributions on deposit (liability 1) and the liabilities for future benefits to present retired lives (liability 2) will be fully covered by present assets (except in rare circumstances). In addition, the liabilities for service already rendered by active members (liability 3) is normally partially covered by the remainder of present assets. Generally, if the System has been using level-cost financing, the funded portion of liability 3 will increase over time. Liability 3 being fully funded is not necessarily a byproduct of level percent of payroll funding methods.

The schedule below illustrates the history of the liabilities of the System and is indicative of the System's policy of following the discipline of level percent of payroll financing.

| <b>Actuarial Accrued Liability</b> |                      |                      |                                    |               |                                    |      |       |
|------------------------------------|----------------------|----------------------|------------------------------------|---------------|------------------------------------|------|-------|
| (\$ in Thousands)                  |                      |                      |                                    |               |                                    |      |       |
|                                    |                      | (1)                  | (2)                                | (3)           |                                    |      |       |
| Valuation Date                     | Active Member        | Retirants and        | Active Members                     | Valuation     | Portion of Actuarial Accrued       |      |       |
| <u>Sept. 30</u>                    | <u>Contributions</u> | <u>Beneficiaries</u> | <u>(Employer Financed Portion)</u> | <u>Assets</u> | <u>Liability Covered by Assets</u> |      |       |
|                                    |                      |                      |                                    |               | (1)                                | (2)  | (3)   |
| 2003                               | \$3,477              | \$106,164            | \$37,790                           | \$164,950     | 100%                               | 100% | 146%  |
| 2004                               | 3,284                | 111,682              | 36,972                             | 161,905       | 100                                | 100  | 127   |
| 2005                               | 2,892                | 117,593              | 34,165                             | 157,456       | 100                                | 100  | 108   |
| 2006                               | 2,560                | 124,040              | 31,807                             | 159,347       | 100                                | 100  | 103   |
| 2007                               | 1,833                | 137,179              | 24,301                             | 167,750       | 100                                | 100  | 118   |
| 2008                               | 1,660                | 145,110              | 22,626                             | 169,986       | 100                                | 100  | 103   |
| 2009                               | 1,483                | 149,132              | 20,826                             | 165,810       | 100                                | 100  | 73    |
| 2010                               | 1,280                | 151,675              | 19,739                             | 158,952       | 100                                | 100  | 30    |
| 2011                               | 659                  | 171,022              | 10,165                             | 149,940       | 100                                | 100  | (214) |
| 2012                               | 587                  | 171,388              | 8,491                              | 136,916       | 100                                | 100  | (413) |

# ACTUARIAL SECTION

## Summary Of Plan Provisions

### Membership

Legislators who first become legislators after March 30, 1997, will *not* be members of the Tier 1 defined benefit plan. This summary of benefits applies only to persons who first became legislators on or before March 30, 1997, and who did not elect to transfer to Tier 2, the defined contribution plan.

### Term Limits

For terms of office beginning on or after January 1, 1993, no person shall be elected to the House of Representatives (House) more than three (3) times and no person shall be elected to the Senate more than two (2) times. With the exception of persons who fill vacancies for partial terms and persons who serve in both the House and the Senate, the normal service limits are:

House - 6 years (three 2-year terms)  
Senate - 8 years (two 4-year terms)

### Regular Retirement

**Eligibility** - At least age 50 with age plus service equal to or exceeding 70; or at least age 55 with 5 or more years service if seated either: a) 3 times in the House or b) 2 times in the Senate or c) 1 time in the House and 1 time in the Senate.

**Annual Amount** - Persons who first became members on or before January 1, 1995: 20% of the highest salary earned for the first 5 years of service, plus 4% of highest salary for each of the next 11 years of service, plus 1% of highest salary for each additional year of service.

Persons who first became members after January 1, 1995: 3% of highest salary for each year of service.

### Deferred Retirement (Vested Benefit)

**Eligibility** - 5 or more years of service if seated either: a) 3 times in the House or b) 2 times in the Senate or c) 1 time in the House and 1 time in the Senate. Benefit begins at age 55 (as early as age 50 if age plus service equals or exceeds 70). Member may delay commencement of benefits to an age not greater than age 70-1/2.

**Annual Amount** - Computed as regular retirement benefit based on service and highest salary at termination. For persons who first became members on or before January 1, 1995, the benefit is increased 4% annually (compounded) between termination of membership and the earlier of a) benefit commencement or b) age 55. Benefits delayed beyond age 55 are actuarially equivalent to the age 55 benefit.

### Disability Retirement

**Eligibility** - Disability before becoming eligible to retire or during a benefit deferral period.

**Annual Amount** - Computed as a regular retirement benefit based on service and highest salary at time of disability.

## Summary Of Plan Provisions (continued)

### **Death Benefit**

*Eligibility* - 5 or more years of service if seated either: a) 3 times in the House or b) 2 times in the Senate or c) 1 time in the House and 1 time in the Senate. Benefit is paid immediately.

*Annual Amount* - Surviving spouse receives 66 2/3% of the retirement allowance earned as of the date of death of the member. If there are eligible dependent children in his or her care, the surviving spouse receives 75% of the retirement allowance earned as of the date of death until the children are no longer dependent, at which time 66-2/3% then becomes payable. Special conditions apply if there is no surviving spouse, or if the eligible children are not under the care of the surviving spouse.

### **Post-Retirement Cost-of-Living Adjustments**

The annual retirement allowance payable to a retirant or survivor is increased by 4% per year, compounded annually (non-compounded for persons first becoming members after January 1, 1995), each January 1.

### **Life Insurance**

Life insurance coverage is provided from the Insurance Revolving Fund for active members, retirants, and deferred vested members. Coverage varies from \$2,500 to \$150,000 depending on premium payments, board policy, and statutory provisions in place at deferral and/or retirement.

### **Post-Retirement Health Insurance**

Hospital, medical, and dental insurance shall be provided from the Health Insurance Fund for retirants, deferred vested members who first became members on or before January 1, 1995, and their survivors, and to the spouses and eligible children of retirants and of deferred vested members who first became members on or before January 1, 1995.

In addition, the System provides health insurance coverage to eligible former legislators who belong to the State's Defined Contribution Plan (Tier 2).

### **Member Contributions**

For members who first became a member on or before January 1, 1995: 9% of annual salary to the Health Insurance Fund.

For members who first became a member after January 1, 1995: 7% of annual salary to the Health Insurance Fund.

# *ACTUARIAL SECTION*

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**Michigan Legislative Retirement System**

**Comprehensive Annual Financial Report  
for the Fiscal Year Ended September 30, 2013**

**STATISTICAL  
SECTION**



- Schedule of Revenue by Source**
- Schedule of Expenses by Type**
- Schedule of Benefit Expenses by Type**
- Actuarial Value of Assets compared to Actuarial Accrued Liability-Pension Plan**
- Schedules of Changes in Net Position**
- Schedules of Benefit and Refund Deductions from Net Assets by Type**
- Schedules of Retired Members by Type of Benefit – Pension Plan**
- Schedule of Average Benefit Payments – Pension Plan**

# STATISTICAL SECTION

## Narrative Explanation to Statistical Section

The intention of this narrative description is to explain the System's financial and operating trends of the schedules in the statistical section. It is important that this section be written clearly and accurately to help improve the understandability and usefulness of the statistical information. The statistical section contains the following schedules:

*Schedule of Revenue By Source - Pension Plan and Other Postemployment Benefit Plan (OPEB)*

*Schedule of Expenses By Type - Pension Plan and OPEB*

*Schedule of Benefit Expenses By Type - Pension Plan and OPEB*

*Schedule of Changes in Net Position - Pension Plan*

*Schedule of Changes in Net Position - OPEB*

*Schedule of Benefit and Refund Deductions from Net Position by Type – Pension Plan*

*Schedule of Benefit and Refund Deductions from Net Position by Type – OPEB*

These schedules are a ten (10) year comparison of the Statement of Changes in Pension Plan and Postemployment Benefits Net Position found in the Financial Section of this report. This is to provide a longer time period for reference and show possible trends.

*Actuarial Value of Pension Plan Assets compared to Actuarial Accrued Pension Plan Liability*

This is to show the trend of the actuarial value of assets compared to the actuarial accrued liability for the pension plan.

*Schedule of Retired Members by Type of Benefit – Pension Plan*

This schedule is to show the average amount of retirement pension benefits. It is broken out by amount and type of retirement to show possible trends in types of retirement. And to show the average pension amounts by types. The data is compiled by the actuary.

*Schedule of Average Benefit Payments – Pension Plan*

This schedule is to show the average amount of retirement pension benefits by years of service. The data is compiled by the actuary.

# STATISTICAL SECTION

## Schedule of Revenue By Source Pension Plan and Other Postemployment Benefit Plan

| Fiscal<br>Year<br>Ended | Member<br>Contributions | Employer<br>Contributions | Other<br>Governmental<br>Contributions | Court<br>Fees | Investment<br>& Other<br>Income(Loss) | Total           |
|-------------------------|-------------------------|---------------------------|--|---------------|---------------------------------------|-----------------|
| 2004                    | 197,499                 | 2,947,200                 | N/A                                    | 1,230,812     | 19,009,580                            | \$23,385,091    |
| 2005                    | 200,218                 | 3,274,600                 | N/A                                    | 1,205,846     | 20,303,607                            | \$24,984,271    |
| 2006                    | 201,758                 | 3,340,100                 | N/A                                    | 1,215,803     | 12,721,187                            | \$17,478,848    |
| 2007                    | 164,129                 | 3,424,100                 | 257,079                                | 1,237,607     | 30,246,532                            | \$35,329,447    |
| 2008                    | 145,038                 | 3,424,100                 | 153,982                                | 1,219,327     | (31,512,684)                          | \$ (26,570,237) |
| 2009                    | 156,385                 | 3,424,100                 | 160,758                                | 1,148,198     | 6,414,695                             | \$11,304,136    |
| 2010                    | 164,411                 | 3,424,100                 | 150,113                                | 1,090,565     | 16,840,841                            | \$21,670,030    |
| 2011                    | 114,663                 | 3,287,900                 | 880,159                                | 999,609       | (1,160,783)                           | \$4,121,548     |
| 2012                    | 99,322                  | 6,887,400                 | 255,590                                | 952,922       | 29,197,705                            | \$37,392,939    |
| 2013                    | 113,784                 | 3,300,200                 | 153,256                                | 940,187       | 26,568,449                            | \$31,075,876    |

## Schedule of Expenses By Type Pension Plan and Other Postemployment Benefit Plan

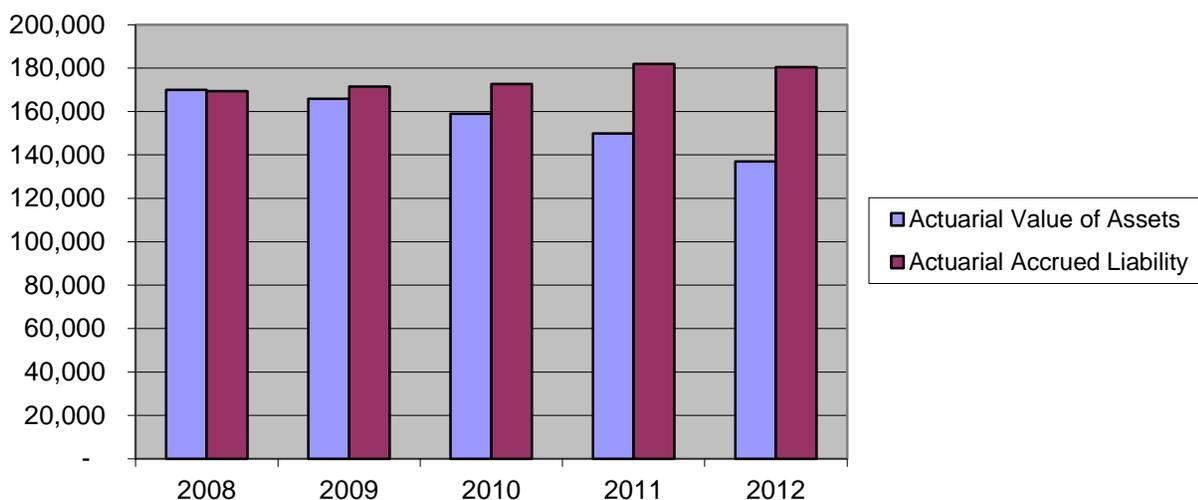
| Fiscal<br>Year<br>Ended | Benefits   | Refunds<br>and Transfers | Administrative<br>Expenses | Total        |
|-------------------------|------------|--------------------------|----------------------------|--------------|
| 2004                    | 11,980,741 | 16,062                   | 304,402                    | \$12,301,205 |
| 2005                    | 12,962,271 | 3,707                    | 326,066                    | \$13,292,044 |
| 2006                    | 13,538,242 | 5,367                    | 330,920                    | \$13,874,529 |
| 2007                    | 14,288,543 | 193,191                  | 342,251                    | \$14,823,985 |
| 2008                    | 15,136,792 | 9,095                    | 380,774                    | \$15,526,661 |
| 2009                    | 16,405,441 | 108,461                  | 370,185                    | \$16,884,087 |
| 2010                    | 16,747,744 | 305,475                  | 391,145                    | \$17,444,364 |
| 2011                    | 17,819,328 | 11,496                   | 510,858                    | \$18,341,682 |
| 2012                    | 18,315,849 | 15,672                   | 458,702                    | \$18,790,223 |
| 2013                    | 18,704,799 | 11,700                   | 439,791                    | \$19,156,290 |

# STATISTICAL SECTION

## Schedule of Benefit Expenses by Type Pension Plan and Other Postemployment Benefit Plan

| Fiscal Year Ended | Regular & Survivor |                |                 |                 | Total        |
|-------------------|--------------------|----------------|-----------------|-----------------|--------------|
|                   | Pension Benefits   | Death Benefits | Dental Benefits | Health Benefits |              |
| 2004              | 7,875,376          | 140,500        | 312,548         | 3,652,317       | \$11,980,741 |
| 2005              | 8,402,490          | 319,580        | 321,609         | 3,918,592       | \$12,962,271 |
| 2006              | 8,942,596          | 150,000        | 329,767         | 4,115,879       | \$13,538,242 |
| 2007              | 9,681,902          | 115,800        | 341,899         | 4,148,942       | \$14,288,543 |
| 2008              | 10,264,373         | 154,398        | 360,697         | 4,357,324       | \$15,136,792 |
| 2009              | 10,793,318         | 457,500        | 394,566         | 4,760,057       | \$16,405,441 |
| 2010              | 11,121,971         | 333,172        | 426,560         | 4,866,041       | \$16,747,744 |
| 2011              | 11,974,289         | 140,000        | 448,263         | 5,256,776       | \$17,819,328 |
| 2012              | 12,469,893         | 325,796        | 417,299         | 5,102,861       | \$18,315,849 |
| 2013              | 12,757,228         | 134,000        | 417,115         | 5,396,456       | \$18,704,799 |

## Actuarial Value of Pension Plan Assets compared to Actuarial Accrued Pension Plan Liability Fiscal Years Ended September 30 (In Thousands)



# STATISTICAL SECTION

## Schedule of Changes in Net Position - Pension Plan (Ten Years)

|                                    | Fiscal Year         |                     |                     |                      |                        |                       |                     |                        |                      |                     |
|------------------------------------|---------------------|---------------------|---------------------|----------------------|------------------------|-----------------------|---------------------|------------------------|----------------------|---------------------|
|                                    | 2004                | 2005                | 2006                | 2007                 | 2008                   | 2009                  | 2010                | 2011                   | 2012                 | 2013                |
| <b>Additions</b>                   |                     |                     |                     |                      |                        |                       |                     |                        |                      |                     |
| Member contributions               | \$ 27,628           | \$ 23,192           | \$ 19,568           | \$ 18,288            | \$ 13,286              | \$ 11,581             | \$ 11,044           | \$ 10,343              | \$ 7,635             | \$ 6,527            |
| Employer contributions             |                     |                     |                     |                      |                        |                       |                     |                        |                      |                     |
| Other Gov't contributions          | N/A                 | N/A                 |                     |                      |                        |                       |                     |                        |                      |                     |
| Court fees                         |                     |                     |                     | 394,957              |                        | 269,944               |                     |                        |                      |                     |
| Net Investment income              | 17,995,059          | 18,535,862          | 11,500,577          | 27,445,951           | (29,281,389)           | 5,564,681             | 15,031,593          | (1,001,060)            | 26,171,659           | 23,207,036          |
| Other income                       |                     | 48,775              | 21,593              |                      |                        |                       |                     | 1                      |                      |                     |
| <b>Total additions</b>             | <b>18,022,687</b>   | <b>18,607,829</b>   | <b>11,541,738</b>   | <b>27,859,196</b>    | <b>(29,268,103)</b>    | <b>5,846,206</b>      | <b>15,042,637</b>   | <b>(990,716)</b>       | <b>26,179,294</b>    | <b>23,213,563</b>   |
| <b>Deductions (See Schedule 3)</b> |                     |                     |                     |                      |                        |                       |                     |                        |                      |                     |
| Benefit payments                   | 8,015,876           | 8,722,070           | 9,092,596           | 9,797,702            | 10,418,771             | 11,250,818            | 11,455,143          | 12,114,289             | 12,795,689           | 12,891,228          |
| Refunds                            | 16,062              | 3,707               | 5,367               | 2,546                | 9,095                  | 14,638                | 17,506              | 11,496                 | 15,672               | 11,700              |
| Qualified rollovers                |                     |                     |                     | 190,645              |                        | 93,823                | 287,969             |                        |                      |                     |
| Administrative expenses            | 304,402             | 326,066             | 330,920             | 314,785              | 347,102                | 335,644               | 354,649             | 396,358                | 411,128              | 372,703             |
| <b>Total deductions</b>            | <b>8,336,340</b>    | <b>9,051,843</b>    | <b>9,428,883</b>    | <b>10,305,678</b>    | <b>10,774,968</b>      | <b>11,694,923</b>     | <b>12,115,267</b>   | <b>12,522,143</b>      | <b>13,222,489</b>    | <b>13,275,631</b>   |
| <b>Changes in Net position</b>     | <b>\$ 9,686,347</b> | <b>\$ 9,555,986</b> | <b>\$ 2,112,855</b> | <b>\$ 17,553,518</b> | <b>\$ (40,043,071)</b> | <b>\$ (5,848,717)</b> | <b>\$ 2,927,370</b> | <b>\$ (13,512,859)</b> | <b>\$ 12,956,805</b> | <b>\$ 9,937,932</b> |

## Schedule of Changes in Net Position - Other Postemployment Benefit Plan (Ten Years)

|                                    | Fiscal Year         |                     |                     |                     |                       |                   |                     |                     |                     |                     |
|------------------------------------|---------------------|---------------------|---------------------|---------------------|-----------------------|-------------------|---------------------|---------------------|---------------------|---------------------|
|                                    | 2004                | 2005                | 2006                | 2007                | 2008                  | 2009              | 2010                | 2011                | 2012                | 2013                |
| <b>Additions</b>                   |                     |                     |                     |                     |                       |                   |                     |                     |                     |                     |
| Member contributions               | \$ 169,871          | \$ 177,026          | \$ 182,190          | \$ 145,840          | \$ 131,752            | \$ 144,804        | \$ 153,367          | \$ 104,320          | \$ 91,687           | \$ 107,257          |
| Employer contributions             | 2,947,200           | 3,274,600           | 3,340,100           | 3,424,100           | 3,424,100             | 3,424,100         | 3,424,100           | 3,287,900           | 6,887,400           | 3,300,200           |
| Other Gov't contributions          | N/A                 | N/A                 | -                   | 257,079             | 153,982               | 160,758           | 150,113             | 880,159             | 255,590             | 153,256             |
| Court fees                         | 1,230,812           | 1,205,846           | 1,215,803           | 842,651             | 1,219,327             | 878,254           | 1,090,565           | 999,609             | 952,922             | 940,187             |
| Net Investment income              | 1,014,521           | 1,141,548           | 799,017             | 2,192,699           | (2,583,379)           | 541,287           | 1,556,845           | (159,724)           | 3,026,046           | 3,361,413           |
| Other income                       |                     | 577,422             | 400,000             | 607,882             | 352,084               | 308,727           | 252,403             |                     |                     |                     |
| <b>Total additions</b>             | <b>5,362,404</b>    | <b>6,376,442</b>    | <b>5,937,110</b>    | <b>7,470,251</b>    | <b>2,697,866</b>      | <b>5,457,930</b>  | <b>6,627,393</b>    | <b>5,112,264</b>    | <b>11,213,645</b>   | <b>7,862,313</b>    |
| <b>Deductions (See Schedule 4)</b> |                     |                     |                     |                     |                       |                   |                     |                     |                     |                     |
| Benefit payments                   | 3,964,865           | 4,240,201           | 4,445,646           | 4,490,841           | 4,718,021             | 5,154,623         | 5,292,601           | 5,705,039           | 5,520,160           | 5,813,571           |
| Refunds                            |                     |                     |                     |                     |                       |                   |                     |                     |                     |                     |
| Qualified rollovers                |                     |                     |                     |                     |                       |                   |                     |                     |                     |                     |
| Administrative expenses            |                     |                     |                     | 27,466              | 33,672                | 34,540            | 36,496              | 114,500             | 47,574              | 67,088              |
| <b>Total deductions</b>            | <b>3,964,865</b>    | <b>4,240,201</b>    | <b>4,445,646</b>    | <b>4,518,307</b>    | <b>4,751,693</b>      | <b>5,189,163</b>  | <b>5,329,097</b>    | <b>5,819,539</b>    | <b>5,567,734</b>    | <b>5,880,659</b>    |
| <b>Changes in Net position</b>     | <b>\$ 1,397,539</b> | <b>\$ 2,136,241</b> | <b>\$ 1,491,464</b> | <b>\$ 2,951,944</b> | <b>\$ (2,053,827)</b> | <b>\$ 268,767</b> | <b>\$ 1,298,296</b> | <b>\$ (707,275)</b> | <b>\$ 5,645,911</b> | <b>\$ 1,981,654</b> |

# STATISTICAL SECTION

## Schedule of Benefit and Refund Deductions from Net Position by Type Pension Plan (Ten Years)

|                           | Fiscal Year         |                     |                     |                     |                     |                     |                     |                     |                     |                     |
|---------------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|
|                           | <u>2004</u>         | <u>2005</u>         | <u>2006</u>         | <u>2007</u>         | <u>2008</u>         | <u>2009</u>         | <u>2010</u>         | <u>2011</u>         | <u>2012</u>         | <u>2013</u>         |
| <b>Type of Benefit</b>    |                     |                     |                     |                     |                     |                     |                     |                     |                     |                     |
| Age and service benefits: |                     |                     |                     |                     |                     |                     |                     |                     |                     |                     |
| Retirees                  | \$ 6,420,855        | \$ 6,822,464        | \$ 7,430,838        | \$ 8,185,845        | \$ 8,745,818        | \$ 9,219,700        | \$ 9,403,769        | \$10,178,018        | \$10,669,077        | \$10,850,420        |
| Survivors                 | 1,454,521           | 1,580,026           | 1,511,758           | 1,496,057           | 1,518,555           | 1,573,618           | 1,718,202           | 1,796,271           | 1,800,816           | 1,906,808           |
| Death in service benefits | <u>140,500</u>      | <u>319,580</u>      | <u>150,000</u>      | <u>115,800</u>      | <u>154,398</u>      | <u>457,500</u>      | <u>333,172</u>      | <u>140,000</u>      | <u>325,796</u>      | <u>134,000</u>      |
| Total benefits            | <u>\$ 8,015,876</u> | <u>\$ 8,722,070</u> | <u>\$ 9,092,596</u> | <u>\$ 9,797,702</u> | <u>\$10,418,771</u> | <u>\$11,250,818</u> | <u>\$11,455,143</u> | <u>\$12,114,289</u> | <u>\$12,795,689</u> | <u>\$12,891,228</u> |
| <b>Type of refund</b>     |                     |                     |                     |                     |                     |                     |                     |                     |                     |                     |
| Death                     | \$ 9,233            | \$ 3,590            | \$ 5,367            | \$ 2,214            | \$ 9,095            | \$ 14,638           | \$ 17,506           | \$ 11,098           | \$ 15,672           | \$ 11,700           |
| Separation                | 6,829               |                     |                     |                     |                     |                     |                     |                     |                     |                     |
| Other                     |                     | 117                 |                     | 332                 |                     | 93,823              | 287,969             | 398                 |                     |                     |
| Total Refunds             | <u>\$ 16,062</u>    | <u>\$ 3,707</u>     | <u>\$ 5,367</u>     | <u>\$ 2,546</u>     | <u>\$ 9,095</u>     | <u>\$ 108,461</u>   | <u>\$ 305,475</u>   | <u>\$ 11,496</u>    | <u>\$ 15,672</u>    | <u>\$ 11,700</u>    |

## Schedule of Benefit and Refund Deductions from Net Position by Type Other Postemployment Benefit Plan (Ten Years)

|                        | Fiscal Year         |                     |                     |                     |                     |                     |                     |                     |                     |                     |
|------------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|
|                        | <u>2004</u>         | <u>2005</u>         | <u>2006</u>         | <u>2007</u>         | <u>2008</u>         | <u>2009</u>         | <u>2010</u>         | <u>2011</u>         | <u>2012</u>         | <u>2013</u>         |
| <b>Type of Benefit</b> |                     |                     |                     |                     |                     |                     |                     |                     |                     |                     |
| Healthcare benefits:   |                     |                     |                     |                     |                     |                     |                     |                     |                     |                     |
| Health benefits        | \$ 3,652,317        | \$ 3,918,592        | \$ 4,115,879        | \$ 4,148,942        | \$ 4,387,409        | \$ 4,760,057        | \$ 4,866,041        | \$ 5,256,776        | \$ 5,102,861        | \$ 5,396,456        |
| Dental benefits        | <u>312,548</u>      | <u>321,609</u>      | <u>329,767</u>      | <u>341,899</u>      | <u>330,612</u>      | <u>394,566</u>      | <u>426,560</u>      | <u>448,263</u>      | <u>417,299</u>      | <u>417,115</u>      |
| Total benefits         | <u>\$ 3,964,865</u> | <u>\$ 4,240,201</u> | <u>\$ 4,445,646</u> | <u>\$ 4,490,841</u> | <u>\$ 4,718,021</u> | <u>\$ 5,154,623</u> | <u>\$ 5,292,601</u> | <u>\$ 5,705,039</u> | <u>\$ 5,520,160</u> | <u>\$ 5,813,571</u> |

# STATISTICAL SECTION

## Schedule of Retired Members by Type of Benefit - Pension Plan As of September 30, 2013

| Amount of<br>Monthly Benefit | Number of<br>Retired<br>Members | Type of Retirement* |    |    |   |   |
|------------------------------|---------------------------------|---------------------|----|----|---|---|
|                              |                                 | 1                   | 2  | 3  | 4 | 5 |
| Deferred                     | 16                              | 10                  | 6  | 0  | 0 | 0 |
| \$ 1 - \$ 500                | 2                               | 2                   | 0  | 0  | 0 | 0 |
| 501 - 1,000                  | 13                              | 6                   | 0  | 6  | 1 | 0 |
| 1,001 - 1,500                | 14                              | 4                   | 3  | 7  | 0 | 0 |
| 1,501 - 2,000                | 38                              | 25                  | 7  | 6  | 0 | 0 |
| 2,001 - 2,500                | 24                              | 19                  | 0  | 5  | 0 | 0 |
| 2,501 - 3,000                | 34                              | 24                  | 0  | 10 | 0 | 0 |
| 3,001 - 3,500                | 31                              | 20                  | 4  | 7  | 0 | 0 |
| 3,501 - 4,000                | 16                              | 9                   | 0  | 7  | 0 | 0 |
| 4,001 - 4,500                | 27                              | 22                  | 0  | 5  | 0 | 0 |
| 4,501 - 5,000                | 22                              | 18                  | 0  | 4  | 0 | 0 |
| Over 5,000                   | 69                              | 67                  | 0  | 2  | 0 | 0 |
| Total                        | 306                             | 226                 | 20 | 59 | 1 | 0 |

**Notes:**

\*Type of Retirement

- 1 - Regular retirement - first became members on or before 1/1/95
- 2 - Regular retirement - first became members after 1/1/95
- 3 - Survivor payment - survivor of type 1 regular retiree
- 4 - Survivor payment - survivor of type 2 regular retiree
- 5 - Disability Retirement

# STATISTICAL SECTION

## Schedule of Average Benefit Payments - Pension Plan (Ten Years)

| Retirement Effective Dates   | Years of Credited Services |             |              |              |              |              |            |
|------------------------------|----------------------------|-------------|--------------|--------------|--------------|--------------|------------|
|                              | <u>0-5</u>                 | <u>5-10</u> | <u>10-15</u> | <u>15-20</u> | <u>20-25</u> | <u>25-30</u> | <u>30+</u> |
| Period 10/1/03 to 9/30/04    |                            |             |              |              |              |              |            |
| Average monthly benefit      |                            | \$1,436     | \$3,187      | \$5,857      |              |              |            |
| Average final average salary |                            | \$56,055    | \$51,911     | \$74,192     |              |              |            |
| Number of retired members    |                            | 5           | 2            | 1            |              |              |            |
| Period 10/1/04 to 9/30/05    |                            |             |              |              |              |              |            |
| Average monthly benefit      |                            | \$1,880     |              | \$4,812      | \$4,248      |              |            |
| Average final average salary |                            | \$51,671    |              | \$64,192     | \$79,493     |              |            |
| Number of retired members    |                            | 4           |              | 3            | 2            |              |            |
| Period 10/1/05 to 9/30/06    |                            |             |              |              |              |              |            |
| Average monthly benefit      |                            | \$1,947     | \$2,741      |              |              |              |            |
| Average final average salary |                            | \$54,821    | \$46,426     |              |              |              |            |
| Number of retired members    |                            | 6           | 5            |              |              |              |            |
| Period 10/1/06 to 9/30/07    |                            |             |              |              |              |              |            |
| Average monthly benefit      |                            | \$1,556     | \$3,488      | \$3,756      | \$6,308      | \$5,791      |            |
| Average final average salary |                            | \$56,586    | \$57,323     | \$62,550     | \$95,150     | \$89,317     |            |
| Number of retired members    |                            | 4           | 4            | 2            | 2            | 3            |            |
| Period 10/1/07 to 9/30/08    |                            |             |              |              |              |              |            |
| Average monthly benefit      |                            | \$1,560     | \$3,487      | \$5,610      |              |              |            |
| Average final average salary |                            | \$56,981    | \$60,188     | \$101,650    |              |              |            |
| Number of retired members    |                            | 1           | 3            | 1            |              |              |            |
| Period 10/1/08 to 9/30/09    |                            |             |              |              |              |              |            |
| Average monthly benefit      |                            | \$2,001     | \$3,566      |              |              |              |            |
| Average final average salary |                            | \$60,842    | \$62,550     |              |              |              |            |
| Number of retired members    |                            | 5           | 2            |              |              |              |            |
| Period 10/1/09 to 9/30/10    |                            |             |              |              |              |              |            |
| Average monthly benefit      |                            | \$1,950     |              | \$4,767      |              |              |            |
| Average final average salary |                            | \$52,551    |              | \$47,723     |              |              |            |
| Number of retired members    |                            | 4           |              | 1            |              |              |            |
| Period 10/1/10 to 9/30/11    |                            |             |              |              |              |              |            |
| Average monthly benefit      |                            | \$1,857     | \$3,511      | \$5,067      |              |              |            |
| Average final average salary |                            | \$68,654    | \$80,425     | \$75,210     |              |              |            |
| Number of retired members    |                            | 5           | 9            | 5            |              |              |            |
| Period 10/1/11 to 9/30/12    |                            |             |              |              |              |              |            |
| Average monthly benefit      |                            | \$1,746     | \$4,020      |              |              |              |            |
| Average final average salary |                            | \$59,431    | \$79,650     |              |              |              |            |
| Number of retired members    |                            | 3           | 1            |              |              |              |            |
| Period 10/1/12 to 9/30/13    |                            |             |              |              |              |              |            |
| Average monthly benefit      |                            | \$1,916     | \$5,245      |              |              |              |            |
| Average final average salary |                            | \$53,192    | \$77,400     |              |              |              |            |
| Number of retired members    |                            | 1           | 1            |              |              |              |            |