

# Michigan State Employees' Retirement System

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

## **Schedule of Employer Allocations and Schedule of Pension Amounts by Employer for Fiscal Year Ended September 30, 2015**



### **Prepared by**

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Office of the Auditor General

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**Doug A. Ringler, CPA, CIA**  
Auditor General

## Independent Auditor's Report

Ms. Laurie Hill, Chair  
State of Michigan Retirement Board  
Office of Retirement Services  
Stevens T. Mason Building  
and  
Mr. David B. Behen, Director  
Department of Technology, Management, and Budget  
Lewis Cass Building  
and  
Ms. Kerrie L. Vanden Bosch, Director  
Office of Retirement Services  
Stevens T. Mason Building  
Lansing, Michigan

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

We have audited the accompanying schedule of employer allocations of the Michigan State Employees' Retirement System as of and for the fiscal year ended September 30, 2015 and the related notes. We have also audited the respective totals by employer for the columns titled September 30, 2015 net pension liability, total deferred outflows of resources, total deferred inflows of resources, and total employer pension expense (specified column totals) included in the accompanying schedule of pension amounts by employer of the System as of and for the fiscal year ended September 30, 2015 and the related notes.

### **Management's Responsibility for the Schedules**

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

### **Auditor's Responsibility**

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the schedule of employer allocations and the specified column totals included in the schedule of pension amounts by employer. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the schedule of employer allocations and the specified column totals included in the schedule of



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

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

### Opinions

In our opinion, the schedules referred to in the first paragraph present fairly, in all material respects, the employer allocations and the respective employers' September 30, 2015 net pension liability, total deferred outflows of resources, total deferred inflows of resources, and total employer pension expense for the Michigan State Employees' Retirement System as of and for the fiscal year ended September 30, 2015 in accordance with accounting principles generally accepted in the United States of America.

### Other Matter

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

### Restriction on Use

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

Sincerely,

Doug Ringler  
Auditor General  
September 16, 2016

**MICHIGAN STATE EMPLOYEES' RETIREMENT SYSTEM**  
**SCHEDULE OF EMPLOYER ALLOCATIONS**  
**AS OF AND FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2015**

Employer Name	Total Required Employer Contributions	Proportionate Share
<b>GOVERNMENTAL ACTIVITIES</b>		
State of Michigan	\$ 692,406,234	0.9265941640
State Building Authority	67,431	0.0000902372
<b>BUSINESS TYPE ACTIVITIES</b>		
Information Technology Fund	32,325,295	0.0432584633
State Lottery Fund	3,046,344	0.0040766885
Liquor Purchase Revolving Fund	2,259,259	0.0030233931
Office Services Revolving Fund	1,848,611	0.0024738540
Correctional Industries Revolving Fund	964,861	0.0012911998
Motor Transport Fund	482,075	0.0006451242
Attorney Discipline System	121,905	0.0001631363
Risk Management Fund	82,552	0.0001104730
<b>COMPONENT UNITS</b>		
Michigan State Housing Development Authority	5,283,947	0.0070711005
Michigan Strategic Fund	3,382,626	0.0045267084
Michigan Economic Development Corporation	2,311,339	0.0030930872
Michigan Finance Authority	1,020,562	0.0013657403
Mackinac Bridge Authority	937,250	0.0012542492
Mackinac Island State Park Commission	346,283	0.0004634035
Michigan Education Trust	271,477	0.0003632963
Land Bank Fast Track Authority	64,144	0.0000858383
State Bar of Michigan	37,245	0.0000498427
<b>Total</b>	<b>\$ 747,259,440</b>	<b>0.9999999998</b>

Employer-level results may not add to SERS System-wide results due to rounding.  
The accompanying notes are an integral part of this schedule.

**MICHIGAN STATE EMPLOYEES' RETIREMENT SYSTEM**  
**SCHEDULE OF PENSION AMOUNTS BY EMPLOYER**  
**AS OF AND FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2015**  
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Employer Name	September 30, 2015 Net Pension Liability	Deferred Outflows of Resources				
		Differences Between Expected and Actual Experience	Net Difference Between Projected and Actual Investment Earnings on Pension Plan Investments	Changes of Assumptions	Changes in Proportion and Differences Between Employer Contributions and Proportionate Share of Contributions	Total Deferred Outflows of Resources
GOVERNMENTAL ACTIVITIES						
State of Michigan	\$ 5,098,622,166	\$ 14,383,512	\$ 44,950,526	\$ -	\$ -	\$ 59,334,038
State Building Authority	496,534	1,401	4,378	-	12,063	17,842
BUSINESS TYPE ACTIVITES						
Information Technology Fund	238,031,458	671,501	2,098,535	-	3,024,326	5,794,362
State Lottery Fund	22,432,145	63,282	197,767	-	79,972	341,021
Liquor Purchase Revolving Fund	16,636,344	46,932	146,670	-	-	193,602
Office Services Revolving Fund	13,612,482	38,402	120,011	-	368	158,781
Correctional Industries Revolving Fund	7,104,880	20,043	62,638	-	-	82,681
Motor Transport Fund	3,549,822	10,014	31,296	-	79,377	120,687
Attorney Discipline System	897,664	2,532	7,914	-	-	10,446
Risk Management Fund	607,882	1,715	5,359	-	44,175	51,249
COMPONENT UNITS						
Michigan State Housing Development Authority	38,909,019	109,765	343,030	-	342,642	795,437
Michigan Strategic Fund	24,908,398	70,268	219,598	-	-	289,866
Michigan Economic Development Corporation	17,019,838	48,014	150,050	-	641,859	839,923
Michigan Finance Authority	7,515,042	21,200	66,254	-	120,186	207,640
Mackinac Bridge Authority	6,901,557	19,470	60,846	-	20,281	100,597
Mackinac Island State Park Commission	2,549,897	7,193	22,480	-	-	29,673
Michigan Education Trust	1,999,053	5,639	17,624	-	18,592	41,855
Land Bank Fast Track Authority	472,329	1,332	4,164	-	-	5,496
State Bar of Michigan	274,261	774	2,418	-	1,960	5,152
Total	\$ 5,502,540,771	\$ 15,522,989	\$ 48,511,558	\$ -	\$ 4,385,801	\$ 68,420,348

**MICHIGAN STATE EMPLOYEES' RETIREMENT SYSTEM**  
**SCHEDULE OF PENSION AMOUNTS BY EMPLOYER**  
**AS OF AND FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2015**  
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Deferred Inflows of Resources					Pension Expense		
Differences Between Expected and Actual Experience	Changes of Assumptions	Changes in Proportion and Differences Between Employer Contributions and Proportionate Share of Contributions	Total Deferred Inflows of Resources	Proportionate Share of Pension Expense	Net Amortization of Deferred Amounts from Changes in Proportion and Differences Between Employer Contributions and Proportionate Share of Contributions	Total Employer Pension Expense	
\$ -	\$ -	\$ 2,876,708	\$ 2,876,708	\$ 543,031,678	\$ (7,370,674)	\$ 535,661,004	
-	-	13	13	52,884	30,697	83,581	
-	-	8,159	8,159	25,351,677	7,684,502	33,036,179	
-	-	777	777	2,389,148	201,773	2,590,921	
-	-	134,502	134,502	1,771,863	(342,678)	1,429,185	
-	-	97,856	97,856	1,449,805	(248,377)	1,201,428	
-	-	849,591	849,591	756,709	(2,164,561)	(1,407,852)	
-	-	111	111	378,076	201,952	580,028	
-	-	45,503	45,503	95,606	(115,931)	(20,325)	
-	-	18	18	64,743	112,503	177,246	
-	-	1,290	1,290	4,144,027	869,685	5,013,712	
-	-	472,069	472,069	2,652,883	(1,202,622)	1,450,261	
-	-	635	635	1,812,708	1,633,687	3,446,395	
-	-	116	116	800,394	305,907	1,106,301	
-	-	263	263	735,054	51,006	786,060	
-	-	15,901	15,901	271,578	(40,501)	231,077	
-	-	63	63	212,910	47,206	260,116	
-	-	70,335	70,335	50,306	(179,197)	(128,891)	
-	-	-	-	29,210	4,694	33,904	
\$ -	\$ -	\$ 4,573,910	\$ 4,573,910	\$ 586,051,259	\$ (520,929)	\$ 585,530,330	

# **Michigan State Employees' Retirement System**

## **Notes to the Schedule of Employer Allocations and Schedule of Pension Amounts by Employer**

### **Note 1: Plan Description**

#### **Organization**

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

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

#### **Plan Membership**

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

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

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

The System's financial statements are available online at: [www.michigan.gov/SERS-CAFR](http://www.michigan.gov/SERS-CAFR).



## **Note 2: Summary of Significant Accounting Policies**

### **Governmental Accounting Standards Board (GASB) Statement No. 68**

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

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

The Schedule of Employer Allocations recognizes the employers' proportionate share of net pension liability determined in conformity with GASB 68. The Schedule of Pension Amounts by Employer recognizes the pension expense, including ending net pension liability, deferred inflows of resources and deferred outflows of resources related to the System's pension plan. These schedules were prepared by ORS with assistance from its third-party actuaries and provide employers with the required information for financial reporting related to the System's pension plan as of and for the fiscal year ended September 30, 2015 (the measurement period).

### **Basis of Accounting and Presentation**

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

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

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

### **Proportionate Share Allocation Methodology**

The primary government and certain component units participate in the System, which is classified for financial reporting purposes as a single-employer. However, GASB 68 requires that, in stand-alone financial statements, each government should account for and report its participation in the single-employer plan as if it was a cost-sharing employer. Therefore, this allocation is to identify the primary government's governmental activities, the primary government's business-type activities, and component units' proportionate shares of the collective net pension liability. The fiscal year ended September 30, 2014 Schedule of Employer Allocations and Schedule of Pension Amounts by Employer included one allocation amount for the State of Michigan – Primary Government.

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

The Schedule of Employer Allocations has been rounded and presents the first ten decimal places.

### Note 3: Net Pension Liability

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

#### Net Pension Liability As of September 30, 2014

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

Fiduciary Net Position as a Percentage of Total Pension Liability	68.07%
Net Pension Liability as a Percentage of Covered-Employee Payroll	511.32%

#### Net Pension Liability As of September 30, 2015

Pension Liability	\$ 16,234,303,171
Fiduciary Net Position	(10,731,762,400)
<b>Net Pension Liability</b>	<b>\$ 5,502,540,771</b>

Fiduciary Net Position as a Percentage of Total Pension Liability	66.11%
Net Pension Liability as a Percentage of Covered-Employee Payroll	581.06%

### Discount Rate

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

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

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

	<b>1% Decrease</b> 7.0%	<b>Current Discount Rate Assumption</b> 8.0%	<b>1% Increase</b> 9.0%
Total Pension Liability	\$ 17,763,583,995	\$ 16,234,303,171	\$ 14,916,587,400
Fiduciary Net Position	(10,731,762,400)	(10,731,762,400)	(10,731,762,400)
<b>Net Pension Liability</b>	<b>\$ 7,031,821,595</b>	<b>\$ 5,502,540,771</b>	<b>\$ 4,184,825,000</b>

### Timing of the Valuation

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

The total pension liability as of September 30, 2015, is based on the results of an actuarial valuation date of September 30, 2014, and rolled forward using generally accepted actuarial procedures.

### Actuarial Valuations and Assumptions

Actuarial valuations for the pension plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment and mortality.

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

Additional information as of the latest actuarial valuation follows:

### Summary of Actuarial Assumptions

Valuation Date:	September 30, 2014
Actuarial Cost Method:	Entry-Age, Normal
Remaining Amortization Period:	22 years
Inflation:	2.5%
Salary Increases:	3.5% wage inflation
Investment Rate of Return	8.0% net of investment and administrative expenses
Mortality:	RP-2000 Male and Female Combined Healthy Life Mortality Tables, adjusted for mortality improvements to 2015 using projections scale BB. For retirees, 100% of the table rates were used. For active members, 50% of the table rates were used for males and females.

### Notes:

- Assumption changes as a result of an experience study for the period 2007 through 2012 have been adopted by the System for use in the Pension annual valuations beginning with the September 30, 2014 valuation.
- Recognition period for liabilities is the average of the expected remaining service lives of all employees in years is 1.3925.
- Recognition period for assets in years is 5.0000.
- Full actuarial assumptions are available in the 2015 SERS CAFR: [www.michigan.gov/SERS-CAFR](http://www.michigan.gov/SERS-CAFR).

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

The following table provides details of the System pension expense for the fiscal year ended September 30, 2015.

<b>Expense</b>	<b>Total</b>
Service Cost	\$ 80,412,565
Interest on the Total Pension Liability	1,242,352,939
Current-Period Benefit Changes	-
Employee Contributions (shown as negative for addition here)	(46,688,372)
Projected Earnings on Plan Investments (shown as negative for addition here)	(859,208,319)
Pension Plan Administrative Expense	6,227,748
Other Changes in Plan Fiduciary Net Position	(54,992)
Recognition of Outflow (Inflow) of Resources due to Liabilities	188,613,843
Recognition of Outflow (Inflow) of Resources due to Assets	(25,604,151)
<b>Total Pension Expense</b>	<b>\$ 586,051,261</b>

Employer-level results may not add to SERS system-wide results due to rounding.

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

<b>Fiscal Year Ending September 30</b>	<b>Net Deferred (Inflows) and Outflows of Resources</b>
2016	\$ (10,081,161)
2017	(25,604,151)
2018	(25,604,152)
2019	125,324,011
2020	-
Thereafter	-
<b>Total</b>	<b>\$ 64,034,547</b>