Michigan Education Trust Plans B & C

Financial Report
with Supplemental Information
September 30, 2019

Contents

plante moran

Plante & Moran, PLLC
Suite 100
1111 Michigan Ave.
East Lansing, MI 48823
Tel: 517.332.6200
Fax: 517.332.8502
plantemoran.com

Independent Auditor's Report

To the Board of Directors and
Mr. Doug A. Ringler, CPA, CIA,
Auditor General, State of Michigan
Michigan Education Trust Plans B & C

Report on the Financial Statements

We have audited the accompanying financial statements of Michigan Education Trust Plans B & C, a discretely presented component unit of the State of Michigan, as of and for the years ended September 30, 2019 and 2018 and the related notes to the financial statements, which collectively comprise Michigan Education Trust Plans B & C'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 opinions on these financial statements based on our audits. We conducted our audits 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 audits 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 opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of Michigan Education Trust Plans B & C as of September 30, 2019 and 2018 and the respective changes in its financial position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As described in Note 4 to the financial statements, Michigan Education Trust Plans B & C holds investments valued at approximately $5.3 million (5 percent of assets) at September 30, 2019, whose fair values have been estimated by management in the absence of readily determinable market values. There were no such investments at September 30, 2018. Management's estimates are based on information provided by the fund managers of the limited partnerships. Our opinion is not modified with respect to this matter.

To the Board of Directors and
Mr. Doug A. Ringler, CPA, CIA,
Auditor General, State of Michigan
Michigan Education Trust Plans B & C

As described in Note 1 to the financial statements, the financial statements present only Michigan Education Trust Plans B & C. Accordingly, these financial statements do not purport to, and do not, present fairly the financial position and changes in financial position and, where applicable, cash flows of the State of Michigan or its component units, Michigan Education Trust as a whole, or Michigan Education Trust Plan D as of and for the years ended September 30, 2019 and 2018 in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matter

Required Supplemental Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the schedule of the trust's proportionate share of net pension liability, the schedule of the trust's pension contributions and related note, the schedule of the trust's proportionate share of the net OPEB liability related to healthcare, the schedule of the trust's OPEB contributions related to healthcare and related note, and the schedule of the trust's proportionate share of the net OPEB liability related to postemployment life insurance benefit 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, which 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 supplemental 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 Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 30, 2020 on our consideration of Michigan Education Trust Plans B & C's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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 the 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 Michigan Education Trust Plans B & C's internal control over financial reporting and compliance.

Plante & Moran, PLLC

January 30, 2020

Management's Discussion & Analysis

This is a discussion and analysis of the financial performance of the Michigan Education Trust (MET) Plans B and C for the fiscal years ended September 30, 2019 and September 30, 2018. MET is an Internal Revenue Code Section 529 qualified tuition program and is a discretely presented component unit of the State of Michigan, administratively located within the Department of Treasury. MET's management is responsible for the financial statements, notes to the financial statements, and this discussion.

Using the Financial Report

This financial report includes the report of independent auditors, management's discussion and analysis, the basic financial statements, and notes to the financial statements.

Generally accepted accounting principles applicable to governments require a statement of net position; a statement of revenues, expenses, and changes in net position; and a statement of cash flows. These financial statements are interrelated and represent the financial status of MET Plans B and C.

The statement of net position includes the assets, deferred outflows of resources related to pensions, OPEB - Life and Health insurance, liabilities, deferred inflows of resources related to pensions, OPEB - Life and Health insurance, and net position at the end of the fiscal year. The statement of revenues, expenses, and changes in net position presents the revenues earned and expenses incurred during the fiscal year. The statement of cash flows presents information related to cash inflows and outflows summarized by operating and investing activities.

Financial Analysis of MET Plans B and C

The MET Board of Directors approves an annual budget and the investment portfolio allocation. The Bureau of Investments, Department of Treasury, under the direction of the MET Board of Directors, is responsible for short-term and long-term investment of MET funds. The MET portfolio for Plans B and C is mainly invested in fixed income investments.

MET funds are invested to coincide with the students' expected years of high school graduation. Once students activate their contracts, colleges and universities submit invoices to MET every semester for tuition and mandatory fees. In 2006, the MET Board of Directors approved an amendment allowing students 15 years from the expected year of high school graduation to completely use MET contract benefits. Prior to that change, students had 9 years to use MET contract benefits.

Annually, the actuary determines the actuarial soundness of each MET plan. Key factors used in the soundness analysis are tuition increases (short-term and long-term), investment performance, and college selection by students and purchasers.

Comparison of Current Year and Prior Year Results

Condensed Financial Information
From the Statement of Net Position
As of September 30
(In Thousands)

	2019	2018	2017
Current assets	$ 22,266	$ 10,888	$ 14,269
Noncurrent assets	93,706	101,550	106,792
Total assets	$ 115,972	$ 112,438	$ 121,061
Deferred Outflow Related to Pensions, OPEB - Life and Health insurance	112	60	16
Total Assets and Deferred Outflows	$ 116,084	$ 112,498	$ 121,076
Current liabilities	$ 5,121	$ 6,310	$ 8,918
Noncurrent liabilities	53,012	56,690	70,307
Total liabilities	$ 58,133	$ 63,000	$ 79,225
Deferred Inflows Related to Pensions' OPEB Life and Health insurance	$ 105	$ 23	$ 3
Total Liabilities and Deferred Inflows	$ 58,238	$ 63,023	$ 79,228
Total net position - Restricted	$ 57,846	$ 49,474	$ 41,848

Total net position increased by $8.4 million in fiscal year 2018-18 and increased by $7.6 million in fiscal year 2017-18.

Current assets increased by $11.4 million in fiscal year 2018-19, primarily due to an increase in cash and cash equivalents, and decreased by $3.4 million in fiscal year 2017-18 primarily because of the decrease in cash and cash equivalents that were used to pay benefit payments

Noncurrent assets decreased by $7.8 million in fiscal year 2018-19 and decreased by $5.2 million in fiscal year 2017-18. The decrease in fiscal year 2018-19 was a result of the MET I plans B & C being closed to new contracts and the benefits liquidation of investment to meet the increase tuition benefit payments. The increase in fiscal year resulted primarily from the investment of short-term proceeds into the long-term portfolio.

Total liabilities decreased by $4.9 million in fiscal year 2018-19 and decreased by $16.2 million in fiscal year 2017-18. The tuition benefits payable decrease reflected the increase in tuition contract payments made to colleges.

Condensed Financial Information
From the Statement of Revenues, Expenses, and Changes in Net Position
Fiscal Years Ended September 30
(In Thousands)

	2019	2018	2017
Operating revenues			
Interest and dividends income	$ 3,565	$ 3,515	$ 3,022
Net increase (decrease) in the fair value of investments	7,053	(4,230)	(1,240)
Other miscellaneous income	19	20	28
Total operating revenues	$ 10,636	$ (695)	$ 1,810
Operating expenses			
Salaries and other administrative expenses	$ 496	$ 465	$ 335
Net increase (decrease) in the present value of tuition benefits payable	1,769	(9,096)	(5,895)
Total operating expenses	$ 2,265	$ (8,631)	$ (5,560)
Increase (Decrease) in net position	$ 8,372	$ 7,936	$ 7,370
Increase (Decrease) in net position	$ 8,372	$ 7,936	$ 7,370
Net Position – Beginning of fiscal year	49,474	41,848	34,478
Cumulative effect of a change in accounting principle (Note 8)	-	(310)	-
Net position - Beginning of year, as restated	49,474	41,539	34,478
Net position - End of year	$ 57,846	$ 49,474	$ 41,848

The **net increase (decrease) in the present value of tuition benefits payable** increased by $10.9 million in fiscal year 2018-19 and decreased by $3.2 million in fiscal year 2017-18. The increase and decrease in both fiscal years resulted from the change in the present value of the future tuition benefit obligation compared to actuarial tuition assumptions.

Condensed Financial Information
From the Statement of Cash Flows
Fiscal Years Ended September 30
(In Thousands)

	2019	2018	2017
Net cash provided (used) by:			
Operating activities	$ (6,848)	$ (8,051)	$ (3,809)
Investing activities	18,462	4,526	(8,744)
Net cash provided (used) - All activities	11,614	(3,525)	(12,553)
Cash and cash equivalents - Beginning of year	10,002	13,527	26,080
Cash and cash equivalents - End of year	21,616	10,002	13,527

The **net cash used by operating activities** decreased by $1.2 million in fiscal year 2018-19 and increased by $4.2 million in fiscal year 2016-17. The change in cash used by operating activities in both fiscal years were primarily the result of changes in tuition contract payments to colleges and refund designee.

The **net cash provided by investing activities** increased by $13.9 million in fiscal year 2018-19 and increased by $13.3 million in fiscal year 2017-18 because of the increased amount of cash available for investment purposes.

Overall, the **cash and cash equivalents at the end of the fiscal year** increased by $11.6 million in fiscal year 2018-19 and decreased by $3.5 million in fiscal year 2017-18.

Factors Impacting Future Periods

It is expected that Michigan public universities will adopt higher tuition increases next year if State-appropriated funds remain flat.

MET Plans B and C reached the peak matriculation period during fiscal year 2005-06. During fiscal year 2018-19, 68 students were eligible to begin using MET contracts to attend college along with 1,972 students currently in the process of using MET contracts. After fiscal year 2018-19, the number of students expected to enroll in college under MET Plans B and C will continue to decrease significantly because MET has fulfilled its contractual obligations for the majority of these contract holders and has not offered additional enrollments in these plans since 1990.

Financial information can be obtained on the MET website at www.SETwithMET.com or by mail at Michigan Education Trust, P.O. Box 30198, Lansing, Michigan 48909, phone 517-335-4767.

Statement of Net Position

September 30, 2019 and 2018

	2019	2018
Assets		
Current assets:		
Cash and cash equivalents (Note 3)	$ 21,616,296	$ 10,002,235
Receivables:		
Other asset	-	2,272
Interest and dividends receivable	649,872	883,274
Total current assets	22,266,168	10,887,781
Noncurrent assets - Investments (Notes 3 and 4)	93,705,877	101,549,953
Total assets	115,972,045	112,437,734
Deferred Outflows of Resources		
Deferred outflows related to pensions (Note 7)	32,393	33,959
Deferred outflows related to OPEB - Life insurance (Note 9)	5,130	1,103
Deferred outflows related to OPEB - Health insurance (Note 9)	74,508	24,839
Total deferred outflows of resources	112,031	59,901
Liabilities		
Current liabilities:		
Amounts due to MET Program (Plan D)	238,674	463,320
Tuition benefits payable - Current portion (Note 5)	4,871,353	5,836,277
Compensated absences - Current portion	10,643	10,818
Total current liabilities	5,120,670	6,310,415
Noncurrent liabilities:		
Compensated absences - Net of current portion	196,509	200,580
Net pension liability (Note 7)	315,499	268,339
Net OPEB liability - Life insurance (Note 9)	47,831	43,825
Net OPEB liability - Health insurance (Note 9)	265,177	285,639
Tuition benefits payable - Net of current portion (Note 5)	52,187,475	55,891,183
Total noncurrent liabilities	53,012,491	56,689,566
Total liabilities	58,133,161	62,999,981
Deferred Inflows of Resources		
Deferred inflows related to pension (Note 7)	26,955	14,783
Deferred inflows related to OPEB - Life insurance (Note 9)	4,045	2,256
Deferred inflows related to OPEB - Health insurance (Note 9)	73,650	6,263
Total deferred inflows of resources	104,650	23,302
Net Position - Restricted for prepaid tuition contractual obligations	**$ 57,846,265**	**$ 49,474,352**

See notes to financial statements.

Statement of Revenue, Expenses, and Changes in Net Position

Years Ended September 30, 2019 and 2018

	2019	2018
Operating Revenue		
Interest and dividends	$ 3,564,353	$ 3,515,233
Net increase (decrease) in the fair value of investments	7,053,178	(4,230,448)
Other miscellaneous income	18,679	19,700
Total operating revenue	10,636,210	(695,515)
Operating Expenses		
Salaries and other administrative expenses	495,688	464,948
Net increase (decrease) in the present value of tuition benefits payable	1,768,609	(9,096,038)
Total operating expense (recovery)	2,264,297	(8,631,090)
Change in Net Position	8,371,913	7,935,575
Net Position - Beginning of year, as previously reported	49,474,352	41,848,342
Cumulative Effect of Change in Accounting (Note 8)	-	(309,565)
Net Position - Beginning of year, as restated	49,474,352	41,538,777
Net Position - End of year	**$ 57,846,265**	**$ 49,474,352**

See notes to financial statements.

Statement of Cash Flows

Years Ended September 30, 2019 and 2018

	2019	2018
Cash Flows from Operating Activities		
Benefits paid	$ (6,434,971)	$ (7,538,268)
Administrative and other expenses paid	(456,574)	(561,749)
Application and other fees collected	43,999	48,953
Net cash and cash equivalents used in operating activities	(6,847,546)	(8,051,064)
Cash Flows from Investing Activities		
Purchase of investment securities	(14,387,017)	(27,810,361)
Interest and dividends received	3,564,353	3,515,233
Proceeds from sale and maturities of investment securities	29,284,271	28,821,616
Net cash and cash equivalents provided by investing activities	18,461,607	4,526,488
Net Increase (Decrease) in Cash and Cash Equivalents	11,614,061	(3,524,576)
Cash and Cash Equivalents - Beginning of year	10,002,235	13,526,811
Cash and Cash Equivalents - End of year	**$ 21,616,296**	**$ 10,002,235**
Reconciliation of Operating Income to Net Cash from Operating Activities		
Operating income	$ 8,371,913	$ 7,935,575
Adjustments to reconcile operating income to net cash from operating activities:		
Unrealized and realized (gains) losses	(7,053,178)	4,230,448
Investment income	(3,564,353)	(3,515,233)
Changes in assets and liabilities:		
Amounts due (to) from MET Program (Plan D)	(222,374)	72,751
Interest and dividends receivable	233,402	(140,893)
Compensated absences	(4,246)	9,904
Pension liability and related deferrals	48,726	(12,287)
OPEB liability and related deferrals - Life insurance	8,145	354
OPEB liability and related deferrals - Health insurance	3,051	2,623
Tuition benefit payable	(4,668,632)	(16,634,306)
Total adjustments	(15,219,459)	(15,986,639)
Net cash and cash equivalents used in operating activities	**$ (6,847,546)**	**$ (8,051,064)**

See notes to financial statements.

Note 1 - Nature of Business

Reporting Entity

Michigan Education Trust (MET) was created under Act 316, P.A. 1986 (Sections 390.1421 - 390.1444 of the Michigan Compiled Laws) to operate a prepaid college tuition program. MET is governed by a nine-member board of directors that consists of one ex officio member (the state treasurer, acting as chair) and eight public members who are appointed by the governor with the advice and consent of the Senate. MET is administratively located within the Department of Treasury. The state treasurer, as MET's agent, may not commingle funds and must maintain a separate bank account for MET. MET is a proprietary component unit of the State of Michigan and is reported as such in the State of Michigan's Comprehensive Annual Financial Report. The accompanying financial statements present only MET Plans B & C. Accordingly, they do not purport to, and do not, present fairly the financial position and changes in financial position and cash flows of the State of Michigan or its component units, MET as a whole, or Michigan Education Trust Plan D in accordance with accounting principles generally accepted in the United States of America applicable to governmental units.

Act 316, P.A. 1986 (the "Act"), as amended, empowers MET, on behalf of itself and the State of Michigan, to enter into a contract with a purchaser that provides that, in return for a specified actuarially determined payment, MET will provide a Michigan child's undergraduate tuition at any Michigan public university or community college. The purchase amount is based on several factors, including tuition costs, anticipated investment earnings, anticipated tuition rate increases, and the type of contract purchased.

MET offers a full benefits contract, a limited benefits contract, and a community college contract. MET's property, income, and operations have been statutorily exempted from all taxation by the State and its political subdivisions. The Act and the contracts specifically provide that the State is not liable if MET becomes actuarially unsound. In that event, the contracts provide for refunds to participants based on a proportion of the remaining assets. In May 1997, MET submitted a request for ruling to the Internal Revenue Service (IRS) for verification that MET is in compliance with the Small Business Job Protection Act of 1996 (known as the 1996 Tax Act). On December 23, 1997, the IRS issued a favorable ruling, which confirms that MET meets the requirements for exemption from federal income tax as a state-qualified tuition program described in Section 529 of the Internal Revenue Code.

As of September 30, 2019, there have been 27 enrollment periods over 31 years for MET. The 1988, 1989, and 1990 enrollments are known as Plans B & C. The 1995, 1997, 1998, 1999, 2000, 2002, 2003, 2004, 2005, 2006, 2007 (two enrollment periods), 2008, 2009, 2010, 2011, 2012, 2013, 2014, 2015, 2016, 2017, 2018, and 2019 enrollments are known as Plan D. The Plan D enrollments are accounted for and reported separately from the Plans B & C enrollments. These financial statements report only Plans B & C enrollments. MET Plans B & C were not open to new enrollments during 2017 or 2018. Separate financial statements and actuarial valuation of Plan D enrollments are available from the MET office at P.O. Box 30198, Lansing, MI 48909.

Note 2 - Significant Accounting Policies

Accounting and Reporting Principles

Michigan Education Trust Plans B & C follows accounting principles generally accepted in the United States of America (GAAP) applicable to governmental units. Accounting and financial reporting pronouncements are promulgated by the Governmental Accounting Standards Board (GASB).

Basis of Accounting

Michigan Education Trust Plans B & C uses the economic resources measurement focus and the full accrual basis of accounting. Revenue is recorded when earned, and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

Note 2 - Significant Accounting Policies (Continued)

Cash and Cash Equivalents

Cash and cash equivalents include cash and balances with financial institutions and short-term investments with original maturities that are generally less than three months used for cash management rather than investing activities.

Investments

MET's deposits and investments are held in a fiduciary capacity by the state treasurer. Act 316, P.A. 1986, as amended, authorizes the MET board of directors to invest MET's assets in any instrument, obligation, security, or property that it considers to be appropriate. The Act also authorizes the pooling of MET's investments with investments of the State, such as the pension funds, for investment purposes. Investments are carried at fair value (see Note 4). Corporate bonds not traded on a national or international exchange are based on equivalent values of comparable securities with similar yield and risk. The fair value of private investments is based on net asset value reported in the financial statements of the respective investment entity. Net asset value is determined in accordance with governing documents of the investment entity and is subject to an independent annual audit.

Liabilities

The actuarial present value of the future tuition benefits obligation is recorded as a current and noncurrent liability of MET (see Note 5).

Net Position

MET's net position represents the investment appreciation and the investment revenue in excess of the actuarial present value of the future tuition benefits obligation and expenses (see Note 5). Net position is restricted because of the contractual obligations to which MET must adhere on behalf of the purchasers and beneficiaries for which prepaid tuition was collected and invested. Section 17 of Act 316, P.A. 1986, as amended, indicates that the assets of MET shall be preserved, invested, and expended solely pursuant to and for the purposes set forth in the Act and shall not be loaned or otherwise transferred or used by the State for any purpose other than the purposes of the Act.

Note 3 - Deposits and Investments

In accordance with GASB Statement No. 40, *Deposit and Investment Risk Disclosures*, MET's cash and investments are subject to several types of risk, which are examined in more detail below:

Deposits

Custodial Credit Risk for Deposits

Custodial credit risk for deposits is the risk that, in the event of the failure of the depository financial institution, MET will not be able to recover the value of its deposits or collateral securities that are in the possession of an outside party. MET does not have a policy for custodial credit risk. As of September 30, 2019 and 2018, MET's deposits for Plans B & C and the amounts reflected in the accounts of the banks were $9,698,848 and $2,014,679, respectively. The September 30, 2019 and 2018 balances were covered by federal depository insurance or collateral held with MET's agent in MET's name and, therefore, were not exposed to custodial credit risk. MET does not have a policy for custodial credit risk for deposits.

Foreign Currency Risk for Deposits

Foreign currency risk for deposits is the risk that a deposit denominated in the currency of a foreign country could reduce its U.S. dollar value as a result of changes in foreign currency exchange rates. As of September 30, 2019 and 2018, MET had no foreign deposits.

Note 3 - Deposits and Investments (Continued)

Investments

Interest Rate Risk

Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. MET does not have a policy to restrict interest rate risk for long-term investments.

At September 30, 2019, MET had the following investments and maturities:

	2019				
Primary Government	Fair Value	Less Than 1 Year	1-5 Years	6-10 Years	More Than 10 Years
Commercial paper	$ 11,934,453	$ 11,934,453	$ -	$ -	$ -
U.S. Treasury securities	9,111,902	-	2,316,082	6,795,820	-
U.S. agencies - Backed securities	5,143,116	-	5,143,116	-	-
U.S. agencies - Sponsored securities	4,644,979	-	-	-	4,644,979
Corporate bonds and notes	69,472,218	-	25,671,857	36,175,584	7,624,777
Alternative investment	5,333,662	-	-	-	-
Total	105,640,330	$ 11,934,453	$ 33,131,055	$ 42,971,404	$ 12,269,756
Less investments reported as "cash equivalents" on statement of net position	(11,934,453)				
Total investments	$ 93,705,877				

At September 30, 2018, MET had the following investments and maturities:

	2018				
Primary Government	Fair Value	Less Than 1 Year	1-5 Years	6-10 Years	More Than 10 Years
Commercial paper	$ 7,998,667	$ 7,998,667	$ -	$ -	$ -
U.S. Treasury securities	5,051,223	-	2,239,895	2,811,328	-
U.S. agencies - Sponsored securities	4,419,439	-	-	-	4,419,439
Corporate bonds and notes	92,079,291	4,955,820	28,513,920	43,282,541	15,327,010
Total	109,548,620	$ 12,954,487	$ 30,753,815	$ 46,093,869	$ 19,746,449
Less investments reported as "cash equivalents" on statement of net position	(7,998,667)				
Total investments	$ 101,549,953				

Note 3 - Deposits and Investments (Continued)

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. State law limits investments in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations. MET limits investments in commercial paper, at the time of purchase, to the top two ratings issued by two national rating services: ratings of A-1 and A-2 from Standard & Poor's and ratings of P-1 and P-2 from Moody's Investors Service. MET's policy also limits investments in corporate bonds, at the time of purchase, to the top four ratings of the two rating services: ratings of AAA, AA, A, and BBB from Standard & Poor's (S&P) and ratings of Aaa, Aa, A, and Baa from Moody's Investors Service (Moody's). As of September 30, 2019, the ratings of corporate bonds, U.S. government securities, and commercial paper by Moody's and Standard & Poor's rating agencies are as follows:

	Moody's	Fair Value	S&P	Fair Value
Corporate bonds				
	A1	$ 9,399,307	A	$ 2,037,883
	A2	5,177,345	A-	6,200,741
	A3	3,059,280	A+	6,180,447
	Aa3	1,629,506	AA-	4,243,835
	Ba1	3,007,980	BBB	26,278,951
	Baa1	18,083,529	BBB-	3,159,031
	Baa2	19,960,967	BBB+	13,746,552
	Baa3	3,159,031	Not rated	7,624,778
	Not rated	5,995,273		-
Total corporate bonds		69,472,218		69,472,218
Commercial paper	P-1	11,934,453	A-1+	11,934,453
U.S. government		18,899,997		18,899,997
Total		$ 100,306,668		$ 100,306,668

As of September 30, 2018, the ratings of corporate bonds, U.S. government securities, and commercial paper by Moody's and Standard & Poor's rating agencies are as follows:

	Moody's	Fair Value	S&P	Fair Value
Corporate bonds				
	A1	$ 15,715,548	A	$ 6,838,642
	A2	6,838,642	A-	5,831,741
	A3	9,795,616	A+	7,936,624
	Aa3	3,502,511	AA	3,999,933
	Baa1	16,109,326	AA-	4,786,795
	Baa2	24,462,293	BBB	28,681,343
	Baa3	9,653,267	BBB-	5,703,763
	Not rated	6,002,088	BBB+	18,795,852
		-	Not rated	9,504,598
Total corporate bonds		92,079,291		92,079,291
Commercial paper	P-1	7,998,667	A-1+	7,998,667
U.S. government	N/A	9,470,662	N/A	9,470,662
Total		$ 109,548,620		$ 109,548,620

Note 3 - Deposits and Investments (Continued)

Concentration of Credit Risk

MET places no limit on the amount it may invest in any one issuer. As of September 30, 2018, MET held no investments that represented 5.00 percent or more of total investments. As of September 30, 2019, MET held the following investments that represented 5.00 percent or more of total investments:

	2019
Napier Park ABS Income Fund LP	$ 5,333,662

Custodial Credit Risk

Custodial credit risk for investments is the risk that, in the event of the failure of a counterparty to a transaction, MET will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. MET's investments are registered in its name and, therefore, are not subject to custodial credit risk. MET does not have an investment policy for custodial credit risk.

Foreign Currency Risk

Foreign currency risk is the risk that an investment denominated in the currency of a foreign country could reduce its U.S. dollar value as a result of changes in foreign currency exchange rates. As of September 30, 2019 and 2018, MET had no foreign investments.

Note 4 - Fair Value Measurements

Accounting standards require certain assets and liabilities be reported at fair value in the financial statements and provide a framework for establishing that fair value. The framework for determining fair value is based on a hierarchy that prioritizes the inputs and valuation techniques used to measure fair value.

The following tables present information about MET's assets measured at fair value on a recurring basis at September 30, 2019 and 2018 and the valuation techniques used by MET to determine those fair values.

Fair values determined by Level 1 inputs use quoted prices in active markets for identical assets that MET has the ability to access.

Fair values determined by Level 2 inputs use other inputs that are observable, either directly or indirectly. These Level 2 inputs include quoted prices for similar assets in active markets and other inputs, such as interest rates and yield curves, that are observable at commonly quoted intervals.

Level 3 inputs are unobservable inputs, including inputs that are available in situations where there is little, if any, market activity for the related asset. These Level 3 fair value measurements are based primarily on management's own estimates using pricing models, discounted cash flow methodologies, or similar techniques taking into account the characteristics of the asset.

In instances whereby inputs used to measure fair value fall into different levels in the above fair value hierarchy, fair value measurements in their entirety are categorized based on the lowest level input that is significant to the valuation. MET's assessment of the significance of particular inputs to these fair value measurements requires judgment and considers factors specific to each asset.

Note 4 - Fair Value Measurements (Continued)

The following tables summarize the fair value measurements of investments as of September 30, 2019 and 2018:

	Assets Measured at Fair Value on a Recurring Basis at September 30, 2019			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Investments Measured at NAV	Balance at September 30, 2019
Debt securities:				
U.S. Treasury securities	$ 9,111,902	$ -	$ -	$ 9,111,902
Corporate bonds and notes	-	69,472,218	-	69,472,218
U.S. agencies - Sponsored securities	-	9,788,095	-	9,788,095
Investments measured at net asset value (NAV) - Private equity funds	-	-	5,333,662	5,333,662
Total assets	$ 9,111,902	$ 79,260,313	$ 5,333,662	$ 93,705,877

	Assets Measured at Fair Value on a Recurring Basis at September 30, 2018		
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Balance at September 30, 2018
Debt securities:			
U.S. Treasury securities	$ 5,051,223	$ -	$ 5,051,223
Corporate bonds and notes	-	92,079,291	92,079,291
U.S. agencies - Sponsored securities	-	4,419,439	4,419,439
Total assets	$ 5,051,223	$ 96,498,730	$ 101,549,953

Debt securities classified as Level 1 in the fair value hierarchy are valued using prices quoted in active markets for those securities. Debt securities classified in Level 2 in the fair value hierarchy are valued using a matrix pricing technique.

Additional disclosures for fair value measurements of investments in certain entities that calculate net asset value per share are as follows:

Private Equity Funds

This type of investment includes investments in one partnership and zero partnerships as of September 30, 2019 and 2018, respectively, that invest in various credit strategies, real assets, and other investments. These types of investments can never be redeemed with the funds, but distributions are received through the liquidation of the underlying assets of the fund. It is expected that the underlying assets of the fund are liquidated over a period of five to eight years.

The total market value and unfunded commitments of these investments as of September 30, 2019 are approximately $5.3 million and $0 million, respectively. There were no private equity fund holdings as of September 30, 2018. However, it is probable that all of the investments in this type will be sold at an amount different from NAV per share of the plan's ownership interest in partners' capital. Therefore, the fair values of the investments in this type have been determined using MET's equity contributions, less any distributions or dividends received, adjusted for any gains or losses in the investment allocated to MET.

Note 5 - Tuition Benefits Payable and Net Position

The standardized measurement of the total tuition benefits obligation of MET is the actuarial present value of the future tuition benefits obligation that will be paid in future years. The tuition benefits obligation is actuarially calculated by projecting the weighted-average tuition cost, including mandatory fees, at the assumed annual rate of increase and then calculating the expected present value of the future distributions from MET based on the investment income, discount rate assumptions, and outstanding contracts. The following table shows the net value of total assets and deferred outflows of resources, less nontuition liabilities and deferred inflows of resources, the present value of total tuition benefits obligation, and the net position of Michigan Education Trust Plans B & C as of September 30:

	2019	2018
Net value of total assets and deferred outflows of resources - Less nontuition liabilities and deferred inflows of resources	$ 114,905,093	$ 111,201,812
Present value of total tuition benefits obligation	(57,058,828)	(61,727,460)
Total net position	$ 57,846,265	$ 49,474,352

The value of assets as a percentage of total actuarial liabilities (present value of tuition payments, fees, and administrative expenses) (i.e., the funded ratio) was 201.4 and 180.1 percent at September 30, 2019 and 2018, respectively.

The most important assumptions used in the actuarial valuations include the following:

(1) The investment yield that is applied to expected future cash flows to determine present value was 2.89 and 3.59 percent as of September 30, 2019 and 2018, respectively. The investment yield assumption is based on the earnings of MET's investment portfolio together with estimates of the yields that will be available on reinvestment of income.

(2) For the year ended September 30, 2019, the MET board of directors considered the relationship of tuition increases to the consumer price index in determining the tuition increase assumption of 5.50 percent for year one, 5.00 percent for year two, 4.50 percent for year three, and 4.50 for year four and beyond.

For the year ended September 30, 2018, the MET board of directors considered the relationship of tuition increases to the consumer price index in determining the tuition increase assumption of 6.00 percent for year one, 5.50 percent for year two, 5.00 percent for year three, and 4.50 percent for year four and beyond.

(3) There was no tax effect from federal income tax.

(4) MET will pay 105 percent of the MET weighted-average tuition in benefits and refunds.

The key tuition increase assumptions used in the actuarial valuations for Plans B & C are as follows for the plan years ended September 30:

	2019	2018	2017	2016	2015
Year 1	5.50 %	6.00 %	7.10 %	- %	- %
Years 1 through 2	-	-	-	7.10	-
Years 1 through 3	-	-	-	-	7.10
Year 2	5.00	5.50	5.75	-	-
Year 3	4.50	5.00	5.00	5.75	-
Year 4	-	-	-	5.00	-
Year 4 and beyond	4.50	4.50	4.50	-	4.50
Year 5 and beyond	-	-	-	4.50	-
Present value discount rate	2.89	3.59	2.21	1.35	1.49

Note 5 - Tuition Benefits Payable and Net Position (Continued)

The following summarizes the approximate tuition benefits payable as of and for the years ended September 30, 2019 and 2018:

	2019	2018
Balance - Beginning of year	$ 61,727,460	$ 78,361,766
Tuition benefit expenses provision (recovery)	1,766,339	(9,096,038)
Payments	(6,434,971)	(7,538,268)
Total benefits payable	$ 57,058,828	$ 61,727,460

The amounts due within one year for tuition benefits payable for the years ended September 30, 2019 and 2018 are $4,871,353 and $5,836,277, respectively. The actuarial assumptions described in this note have a significant impact on the tuition benefit liability. Actual results may differ from the assumptions utilized.

Note 6 - Risk Management

MET participates in the State of Michigan's (primary government) risk management program. The State is self-insured for most general liability and property losses; portions of its employee insurance benefit and bonding programs; and automobile liability, workers' compensation, and unemployment claims. The State Sponsored Group Insurance Fund and Risk Management Fund (internal service funds) have been established by the State to account for these self-insured risk management programs. As a participant, MET recognizes expenses for payments made to the State in a manner similar to purchasing commercial insurance. Charges to finance the self-insured programs are based on estimates of amounts needed to pay prior and current year claims, as determined annually by the Department of Technology, Management, and Budget. There were no settlements exceeding coverage provided through MET's risk management program during the years ended September 30, 2019, 2018, or 2017.

Note 7 - General Information on Employee Pension Plans

Plan Description

MET participates in the Michigan State Employees' Retirement System (SERS or the "System"), a statewide, cost-sharing, single-employer defined benefit public employee retirement system governed by the State of Michigan (the "State") that covers substantially all employees of MET. SERS was 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. Executive Order 2015-13, signed by the governor on October 27, 2015, established the State of Michigan Retirement Board. The board consists of nine members - five appointed by the governor (which consist of two members of the State Employees' Retirement System, at least one of whom is a retirant; one member of the Judges Retirement System; one current or former officer or enlisted person in the Michigan Military Establishment who is a member or retirant under the Military Retirement Provisions; and one member of the general public), the attorney general, the state treasurer, the legislative auditor general, and the state personnel director.

The Michigan State Employees' Retirement System is accounted for in a separate pension trust and issues a publicly available financial report that includes financial statements and required supplemental information. That report is available on the web at http://www.michigan.gov/ors or by calling the Office of Retirement System (ORS) at (517) 322-5103 or (800) 381-5111.

Note 7 - General Information on Employee Pension Plans (Continued)

Benefits Provided

Benefit provisions of the defined benefit (DB) pension plan are established by state statute, which may be amended. Public Act 240 of 1943, State Employees' Retirement Act, as amended, establishes eligibility and benefit provisions for the defined benefit plan. Retirement benefits are determined by final average compensation and years of service. Members are eligible to receive a monthly benefit when they meet certain age and service requirements. The System also provides duty disability, nonduty disability, and survivor benefits.

A member who has separated from employment may request a refund of his or her member contribution account. A refund may cancel a former member's rights to future benefits. However, former members who return to employment and who previously received a refund of their contributions may reinstate their service through repayment of the refund upon satisfaction of certain requirements.

Effective March 31, 1997, Public Act 487 of 1996 (the "Public Act") 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.

Pension Reform of 2012

On December 15, 2011, the governor signed Public Act 264 of 2011 into law. The legislation granted members a choice regarding their future retirement plan. They had the following options:

• Option 1: DB Classified. Members voluntarily elected to remain in the DB plan for future service and contribute 4 percent of their annual compensation to the pension fund until they terminate state employment. The 4 percent contribution began on April 1, 2012.

• Option 2: DB 30. Members voluntarily elected to remain in the DB plan for future service and contribute 4 percent of pay until they reach 30 years of service. When they reach 30 years of service, they will switch to the State's DC plan. The 4 percent contribution began on April 1, 2012 and continues until they switch to the DC plan or terminate employment, whichever comes first.

• Option 3: DB/DC Blend. Members voluntarily elected not to pay the 4 percent and, therefore, became participants in the DC plan for future service beginning on April 1, 2012. As a DC plan participant, they receive a 4 percent employer contribution to their 401(k) account and are eligible for an additional dollar-for-dollar employer match of up to 3 percent of pay to the plan.

Deferred members of the DB plan (with 10 or more years of service) who are reemployed by the State on or after January 1, 2012 become participants in the DC plan. Their pension calculation is determined by their final average compensation (FAC) and years of service as of March 31, 2012. They retain their eligibility for the retiree health insurance premium subsidy offered by the State.

Former nonvested members of the DB plan (with less than 10 years of service) who are re-employed by the State on or after January 1, 2012 and before January 1, 2014 become participants in the DC plan. When they have earned sufficient service credit for vesting (10 years), they would be eligible for a pension based on their FAC and years of service in the DB plan as of March 31, 2012. They retain their eligibility for the retiree health insurance premium subsidy offered by the State.

Note 7 - General Information on Employee Pension Plans (Continued)

Former nonvested members (with less than 10 years of service) of the DB plan who are re-employed by the State on or after January 1, 2014 become members of the DC plan. Any service credit previously earned would count towards vesting for the DC plan. They will not be eligible for any pension or retiree health insurance coverage premium, but will become a participant in the Personal Healthcare Fund where they will contribute up to 2 percent of their compensation to a 401(k) or 457 account, earning a matching 2 percent employer contribution. They will also receive a credit into a health reimbursement account (HRA) at termination if they terminate employment with at least 10 years of service. The credit will be $2,000 for participants who are at least 60 years old or $1,000 for participants who are less than 60 years old at termination.

Regular Retirement

The retirement benefit is based on a member's years of credited service (employment) and FAC. The normal benefit equals 1.5 percent of a member's FAC multiplied by the years and partial year of credited service and is payable monthly over the member's lifetime.

Under PA 264 of 2011, FAC is initially determined as the annual average of the highest three years of compensation (including overtime paid before January 1, 2012 but excluding overtime paid after December 31, 2011). If the end date for the initial FAC calculation is between January 1, 2012 and January 1, 2015, then a prorated amount of post-2008 average overtime will be added to the initial FAC calculation. If the end date for the initial FAC calculation is January 1, 2015 or later, then an annual average of overtime - for the six-year period ending on the FAC calculation date - will be added to that initial FAC calculation to get the final FAC number.

For members who switch to the DC plan for future service, the pension calculation FAC times 1.5 percent times years of service will be determined as of the point the member switches to the DC plan. If the FAC period includes the date of the switch to the DC plan, then the FAC will include up to 240 hours of accrued annual leave multiplied by the rate of pay as of the date of the switch. The hours will be paid at separation. A member may retire and receive a monthly benefit after attaining the following:

(1) Age 60 with 10 or more years of credited service

(2) Age 55 with 30 or more years of credited service

(3) Age 55 with at least 15 but less than 30 years of credited service. The benefit allowance is permanently reduced 0.5 percent for each month from the member's age on the effective date of retirement to the date the member will attain age 60.

Employees in covered positions are eligible for supplemental benefits and may retire after attaining the following:

(1) Age 51 with 25 or more years in a covered position

(2) Age 56 with 10 or more years in a covered position

In either case, the three years immediately preceding retirement must have been in a covered position. Employees in covered positions are responsible for the custody and supervision of incarcerated prisoners.

Deferred Retirement

Any member with 10 or more years of credited service who terminates employment, but has not reached the age of retirement, is a deferred member and is entitled to receive a monthly pension upon reaching age 60, provided the member's accumulated contributions have not been refunded. Deferred retirement is available after five years of service for state employees occupying unclassified positions in the executive and legislative branches and certain Department of Community Health employees subject to reduction in force layoffs by reason of deinstitutionalization.

Note 7 - General Information on Employee Pension Plans (Continued)

Nonduty Disability Benefit

A member with 10 or more years of credited service who becomes totally and permanently disabled not due to performing duties as a state employee is eligible for a nonduty disability pension. The nonduty disability benefit is computed in the same manner as an age and service allowance based upon service and salary at the time of disability.

Duty Disability Benefit

A member who becomes totally and permanently disabled from performing duties as a state employee as a direct result of state employment and who has not met the age and service requirement for a regular pension is eligible for a duty disability pension. Public Act 109 of 2004 amended the State Employees' Retirement Act to change the calculation of the pension benefit and increase the minimum annual payment. If the member is under age 60, the duty disability allowance is now a minimum of $6,000 payable annually. At age 60, the benefit is recomputed under service retirement.

Survivor Benefit

Upon the death of a member who was vested, the surviving spouse shall receive a benefit calculated as if the member had retired the day before the date of death and selected a survivor pension. Certain designated beneficiaries can be named to receive a survivor benefit. Public Act 109 of 2004 amended the State Employees' Retirement Act to change the calculation of duty death benefits and redefined eligibility for deceased members' survivors. The new minimum duty-related death benefit has been increased to $6,000.

Pension Payment Options

When applying for retirement, an employee may name a person other than his or her spouse as a beneficiary if the spouse waives this right. If a beneficiary is named, the employee must choose whether the beneficiary will receive 100, 75, or 50 percent of the retiree's pension benefit after the retiree's death. The decision is irrevocable. A description of the options follows:

Regular Pension

The pension benefit is computed with no beneficiary rights. If the retiree made contributions while an employee and has not received the total accumulated contributions before death, a refund of the balance of the contributions is made to the beneficiary of record. If the retiree did not make any contributions, there will not be payments to beneficiaries.

100 Survivor Pension

Under this option, after the retiree's death, the beneficiary will receive 100 percent of the pension for the remainder of the beneficiary's lifetime. If this option is elected, the normal retirement benefit is reduced by a factor based upon the ages of the retiree and of the beneficiary. If the beneficiary predeceases the retiree, the pension “pops up” to the regular pension amount; another beneficiary cannot be named.

75 Percent Survivor Pension

Under this option, after the retiree's death, the beneficiary will receive 75 percent of the pension for the remainder of the beneficiary's lifetime. If this option is elected, the normal retirement benefit is reduced by a factor based upon the ages of the retiree and of the beneficiary. The reduction factor is lower than the factor used in the 100 percent option previously described. If the beneficiary predeceases the retiree, the pension “pops up” to the regular pension amount; another beneficiary cannot be named.

Note 7 - General Information on Employee Pension Plans (Continued)

50 Percent Survivor Pension

Under this option, after the retiree's death, the beneficiary will receive 50 percent of the pension for the remainder of the beneficiary's lifetime. If this option is elected, the normal retirement benefit is reduced by a factor based upon the ages of the retiree and of the beneficiary. The reduction factor is lower than the factor used in the 100 or 75 percent options previously described. If the beneficiary predeceases the retiree, the pension “pops up” to the regular pension amount; another beneficiary cannot be named.

Equated Pension

An equated pension may be chosen by any member under age 65 except a disability retiree and an early supplemental retiree. Equated pensions provide an additional amount until age 65 and may be combined with the regular, 100, 75, or 50 percent option. At age 65, the monthly amount is permanently reduced. The initial and reduced amounts are based on an estimate of Social Security benefits at age 65, provided by the Social Security Administration Office. In order to calculate this benefit, members choosing this option must provide ORS with an estimate from the Social Security Administration Office. The actual amount received from Social Security may vary from the estimate.

Postretirement Adjustments

One-time upward benefit adjustments were made in 1972, 1974, 1976, 1977, and 1987. Beginning on October 1, 1988, a 3 percent noncompounding increase, up to a maximum of $25 monthly, is paid each October to recipients who have been retired 12 full months. Beginning in 1983, eligible benefit recipients share in a distribution of investment income earned in excess of 8 percent annually. This distribution is known as the supplemental payment. The supplemental payment is offset by one year's cumulative increases received after the implementation of the annual 3 percent increase in benefits. These adjustment payments were not issued during fiscal years 1991 through 1994. Members who retired on or after October 1, 1987 are not eligible for the supplemental payment.

Contributions

Under Public Act 264 of 2011, members who voluntarily elected to remain in the DB plan contribute 4 percent of compensation to the retirement system. In addition, members may voluntarily contribute to the System for the purchase of creditable service, such as military service or maternity leave, or a universal buy-in. If a member terminates employment before a retirement benefit is payable, the member's contribution and interest on deposit may be refunded. If the member dies before being vested, the member's contribution and interest are refunded to the designated beneficiaries.

The statute requires the employer to contribute to finance the benefits of plan members. These employer contributions are determined annually by the System's actuary and are based upon level-dollar value funding principles, so the contribution rates do not have to increase over time. For fiscal year 2019, the component unit's contribution rate was 21.98 to 24.60 percent of the defined benefit employee wages and 17.69 to 19.70 percent of the defined contribution wages. Michigan Education Trust's contribution to SERS for the fiscal year ended September 30, 2019 was $32,393.

For fiscal year 2018, the component unit's contribution rate was 24.60 to 25.50 percent of the defined benefit employee wages and 19.73 to 22.20 percent of the defined contribution employee wages. Michigan Education Trust's contribution to SERS for the fiscal year ended September 30, 2018 was $39,062.

Note 7 - General Information on Employee Pension Plans (Continued)

Net Pension Liability

At September 30, 2019, MET reported a liability of $315,499 for its proportionate share of SERS' net pension liability. The net pension liability was measured as of September 30, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of September 30, 2017 and rolled forward using generally accepted actuarial procedures. The MET's proportion of the net pension liability was based on MET's required pension contributions received by SERS during the measurement period from October 1, 2017 through September 30, 2018, relative to the total required employer contributions from all of SERS' participating employers. MET's proportionate share of the pension liability for the year ended September 30, 2019 was 0.004 percent.

At September 30, 2018, MET reported a liability of $268,339 for its proportionate share of SERS' net pension liability. The net pension liability was measured as of September 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of September 30, 2016 and rolled forward using generally accepted actuarial procedures. The MET's proportion of the net pension liability was based on MET's required pension contributions received by SERS during the measurement period from October 1, 2016 through September 30, 2017, relative to the total required employer contributions from all of SERS' participating employers. MET's proportionate share of the pension liability for the year ended September 30, 2018 was 0.004 percent.

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

For the years ended September 30, 2019 and 2018, MET recognized pension expense (recovery) of $62,365 and $(11,786), respectively. At September 30, 2019 and 2018, MET reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	2019		2018	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	$ -	$ -	$ 55	$ -
Net difference between projected and actual investment earnings	-	26,955	-	14,676
Changes in assumption	-	-	1,983	-
Change in proportion and difference between actual contributions and proportionate share of contributions	-	-	11	107
MET's contributions to the plan subsequent to the measurement date	32,393	-	31,910	-
Total	$ 32,393	$ 26,955	$ 33,959	$ 14,783

Note 7 - General Information on Employee Pension Plans (Continued)

Amounts reported as deferred outflows of resources related to pensions resulting from MET's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending September 30, 2020. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Years Ending	Amount
2020	$ (2,993)
2021	(9,532)
2022	(10,116)
2023	(4,314)
Total	$ (26,955)

Actuarial Assumptions

Michigan Education Trust Plans B & C's net pension liability for the year ended September 30, 2019 was measured as of September 30, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of September 30, 2017 and rolled forward using generally accepted actuarial procedures. Michigan Education Trust Plans B & C's net pension liability for the year ended September 30, 2018 was measured as of September 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of September 30, 2016 and rolled forward using generally accepted actuarial procedures. The total pension liability was determined using the following actuarial assumptions at the valuation date:

	September 30, 2017	September 30, 2016
Wage inflation rate	2.75 percent	3.50 percent
Projected salary increase	2.75 though 11.75	3.5 through 12.50 percent
Investment rate of return	7.00 percent	7.50 percent
Cost of living pension adjustment	3 percent annual noncompounded with maximum annual increases of $300 for those eligible	3 percent annual noncompounded with maximum annual increases of $300 for those eligible
Mortality basis	RP-2014 Male and Female Employee Annuitant Mortality Table, adjusted for mortality improvements using the projection scale MP-2017 from 2006	RP-2000 Male and Female combined Healthy Life Mortality Table, adjusted for mortality improvements. For active members, 50 percent of the male table rates were used. For women, 50 percent of the female table rates were used.
Notes	The actuarial assumptions were based upon the results of an experience study covering the period October 1, 2012 through September 30, 2017.	The actuarial assumptions were based upon the results of an experience study covering the period October 1, 2007 through September 30, 2012.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

Note 7 - General Information on Employee Pension Plans (Continued)

Discount Rate

A discount rate of 7.0 and 7.5 percent was used to measure the total pension liability as of September 30, 2018 and 2017, respectively. This discount rate was based on the long-term expected rate of return on pension plan investments of 7.0 and 7.5 percent as of September 30, 2018 and 2017, respectively. 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.

Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of September 30, 2018 and 2017 are summarized in the following table:

	2018	
Asset Class	Target Allocation	Long-term Expected Real Rate of Return
Domestic equity pools	28.00 %	5.70 %
Private equity pools	18.00	9.20
International equity pools	16.00	7.20
Fixed-income pools	10.50	0.50
Real estate and infrastructure pools	10.00	3.90
Absolute return pools	15.50	5.20
Short-term investment pools	2.00	-

Long-term rates of return are net of administrative expenses and 2.30 percent inflation.

	2017	
Asset Class	Target Allocation	Long-term Expected Real Rate of Return
Domestic equity pools	28.00 %	5.60 %
Private equity pools	18.00	8.70
International equity pools	16.00	7.20
Fixed-income pools	10.50	(0.10)
Real estate and infrastructure pools	10.00	4.20
Absolute return pools	15.50	5.00
Short-term investment pools	2.00	(0.90)

Long-term rates of return are net of administrative expenses and 2.30 percent inflation.

Note 7 - General Information on Employee Pension Plans (Continued)

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

The following presents MET's proportionate share of the net pension liability calculated using the discount rate, as well as what the proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage point higher than the current discount rate:

	2019		
	1 Percentage Point Decrease (6.00%)	Current Discount Rate (7.00%)	1 Percentage Point Increase (8.00%)
Net pension liability of MET	$ 412,668	$ 315,499	$ 232,745

	2018		
	1 Percentage Point Decrease (6.50%)	Current Discount Rate (7.50%)	1 Percentage Point Increase (8.50%)
Net pension liability of MET	$ 350,572	$ 268,339	$ 197,467

Pension Plan Fiduciary Net Position

The SERS plan fiduciary net position has been determined using SERS' accrual basis of accounting. Benefit payments and refunds are recognized when due and payable in accordance with the terms of the System. Detailed information about the pension plan's fiduciary net position is available in the SERS Comprehensive Annual Financial Report that may be obtained by visiting www.michigan.gov/ors.

Defined Contribution Plan

MET participates in the State of Michigan's defined contribution plan system. MET is required to contribute to the defined contribution plan 4.0 percent of payroll with an additional match of up to 3.0 percent. The contribution requirements of plan members and MET are established and may be amended by the state Legislature. The state Legislature establishes the extent to which the employer and employees are required to make contributions and establishes the benefit provisions for the plan. MET's contributions to the plan were $12,799 and $11,365 for the years ended September 30, 2019 and 2018, respectively, and are recorded in salaries and benefits expense.

Note 8 - Change in Accounting Principle

During the year ended September 30, 2018, MET adopted Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. As a result, the financial statements now include a net other postemployment benefit (OPEB) liability for MET's unfunded postemployment benefit plan legacy costs. Some of the changes in this net OPEB liability each year will be recognized immediately as part of the OPEB expense measurement, and part will be deferred and recognized over future years. Refer to Note 9 for further details. As a result of implementing this statement, the net position of MET as of October 1, 2017 has been restated by $(309,565) to $41,538,777. Of the $(309,565) restatement, $(335,643) was related to the beginning of year net OPEB liability, and $26,078 was related to the beginning of year deferred outflows for employer contributions made subsequent to the measurement date.

Note 9 - Other Postemployment Benefit (OPEB) Plan

Defined Benefit OPEB Plan - Healthcare

Plan Description

The Michigan State Employees' Retirement System (the “System” or SERS) is a single-employer, statewide, defined benefit public employee retirement plan governed by the State of Michigan 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. Executive Order 2015-13, signed by the governor on October 27, 2016, established the State of Michigan Retirement Board. The board consists of nine members - five appointed by the governor (which consist of two members of the State Employees' Retirement System, at least one of whom is a retirant; one member of the Judges Retirement System; one current or former officer or enlisted person in the Michigan Military Establishment who is a member or retirant under the Military Retirement Provisions; and one member of the general public), the attorney general, the state treasurer, the legislative auditor general, and the state personnel director, who serves as an ex officio member. The System's OPEB plan provides all retirees with the option of receiving health, dental, and vision coverage under the Michigan State Employees' Retirement Act.

The Michigan State Employees' Retirement System is accounted for in a separate OPEB trust fund and also issues a publicly available financial report that includes financial statements and required supplemental information. That report may be obtained by visiting www.michigan.gov/ors or by calling the Customer Information Center at (517) 322-5103 or (800) 381-5111.

Benefits Provided

Benefit provisions of the other postemployment benefit (OPEB) plan are established by state statute, which may be amended. Public Act 240 of 1943, as amended, establishes eligibility and benefit provisions for the OPEB plan. Defined benefit (Tier 1) members are eligible to receive health, prescription drug, dental, and vision coverage on the first day they start receiving pension benefits. Defined contribution (Tier 2) participants who elected to retain the graded premium subsidy benefit under the reform elections of Public Act 264 of 2011 are also eligible to receive subsidized health prescription drug, dental, and vision coverage after terminating employment, if they meet eligibility requirements. Retirees with the premium subsidy benefit contribute 20 percent of the monthly premium amount for the health (including prescription coverage), dental, and vision coverage. Retirees with a graded premium subsidy benefit accrue credit towards insurance premiums in retirement, earning a 30 percent subsidy with 10 years of service, with an additional 3 percent subsidy for each year of service thereafter, not to exceed the maximum allowed by statute or 80 percent. There is no provision for ad hoc or automatic increases. The State Employees' Retirement Act requires joint authorization by DTMB and the Civil Service Commission to make changes to retiree medical benefit plans. Defined contribution (Tier 2) participants who elected the Personal Healthcare Fund under Public Act 264 of 2011 and those hired on or after January 1, 2012 are not eligible for any subsidized health, prescription drug, dental, or vision coverage in retirement, but may purchase it at their own expense (certain conditions apply).

Former nonvested members of the DB plan who are re-employed by the State on or after January 1, 2014 are not eligible for retiree health insurance coverage premium subsidy, but will become a participant in the Personal Healthcare Fund. This plan is closed to new hires.

Contributions

The statute requires the employer to contribute to finance the benefits of plan members. These employer contributions are determined annually by the System's actuary and are based upon level percent of payroll value funding principles, so the contribution rates do not have to increase over time. For fiscal year 2019, MET's contribution rate was 23.80 to 22.10 percent of the defined benefit employee wages and 23.80 to 22.10 percent of the defined contribution employee wages. MET's contribution to SERS for the fiscal year ended September 30, 2019 was $27,363. Active employees are not required to contribute to SERS OPEB.

Note 9 - Other Postemployment Benefit (OPEB) Plan (Continued)

For fiscal year 2018, MET's contribution rate was 21.10 to 22.14 percent of the defined benefit employee wages and 21.10 to 22.14 percent of the defined contribution employee wages. MET's contribution to SERS for the fiscal year ended September 30, 2018 was $22,877. Active employees are not required to contribute to SERS OPEB.

Net OPEB Liability

At September 30, 2019, MET reported a liability of $265,177 for its proportionate share of SERS' net OPEB liability. The net OPEB liability was measured as of September 30, 2018, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of September 30, 2017 and rolled forward using generally accepted actuarial procedures. The Authority's proportion of the net OPEB liability was based on MET's required pension contributions received by SERS during the measurement period from October 1, 2017 through September 30, 2018, relative to the total required employer contributions from all of SERS' participating employers. MET's proportionate share of the healthcare OPEB liability for the year ended September 30, 2019 was 0.004 percent.

At September 30, 2018, MET reported a liability of $285,639 for its proportionate share of SERS' net OPEB liability. The net OPEB liability was measured as of September 30, 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of September 30, 2016 and rolled forward using generally accepted actuarial procedures. The Authority's proportion of the net OPEB liability was based on MET's required pension contributions received by SERS during the measurement period from October 1, 2016 through September 30, 2017, relative to the total required employer contributions from all of SERS' participating employers. MET's proportionate share of the healthcare OPEB liability for the year ended September 30, 2018 was 0.005 percent.

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

For the year ended September 30, 2019 and 2018, MET recognized OPEB expense of $7,016 and $9,034, respectively. At September 30, 2019 and 2018, MET reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	2019		2018	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	$ -	$ 63,780	$ -	$ 2,078
Changes in assumptions	23,131	-	-	-
Net difference between projected and actual earnings on OPEB plan investments	-	7,401	-	2,481
Changes in proportionate share or difference between amount contributed and proportionate share of contributions	24,014	2,469	-	1,704
Employer contributions to the plan subsequent to the measurement date	27,363	-	24,839	-
Total	$ 74,508	$ 73,650	$ 24,839	$ 6,263

Note 9 - Other Postemployment Benefit (OPEB) Plan (Continued)

Amounts reported as deferred outflows of resources related to OPEB resulting from MET's contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ending September 30, 2020. Other amounts reported as deferred outflows and inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Years Ending September 30	Amount
2020	$ (6,334)
2021	(6,334)
2022	(6,334)
2023	(4,334)
2024	(3,169)
Total	$ (26,505)

Actuarial Assumptions

Michigan Education Trust Plans B & C's net OPEB liability for the year ended September 30, 2019 was measured as of September 30, 2018, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of September 30, 2017 and rolled forward using generally accepted actuarial procedures. Michigan Education Trust Plans B & C's net OPEB liability for the year ended September 30, 2018 was measured as of September 30, 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of September 30, 2016 and rolled forward using generally accepted actuarial procedures. The total OPEB liability was determined using the following actuarial assumptions at the valuation date:

	September 30, 2017	September 30, 2016
Wage inflation rate	2.75 percent	3.50 percent
Investment rate of return	7.0 percent	7.5 percent
Projected salary increases	2.75 - 11.75 percent	3.5- 12.5 percent
Healthcare cost trend rate	8.25 percent year 1 graded to 3.0 percent year 10	9 percent year 1 graded to 3.5 percent year 10
Mortality basis	RP-2014 Male and Female Employee Annuitant Mortality Table, adjusted for mortality improvements using the projection scale MP-2017 from 2006	RP-2000 Combined Healthy Life Mortality Table, adjusted for mortality improvements. For active members, 50 percent of the male table rates were used. For women, 50 percent of the female table rates were used.

Wage inflation rate	2.75 percent
Investment rate of return	7.0 percent at September 30, 2018 and 7.5 percent at September 30, 2017
Projected salary increases	2.75 - 11.75 percent
Healthcare cost trend rate	8.25 percent year 1 graded to 3.0 percent year 10 at September 30, 2018 and 9 percent year 1 graded to 3.5 percent year 10
Mortality	RP-2014 Male and Female Employee Annuitant Mortality Table, adjusted for mortality improvements using the projection scale MP-2017 from 2006

The investment return assumption was updated beginning with the September 30, 2016 valuation to reflect reductions in capital market assumptions for the asset classes in which the System invests. The investment return assumption was updated again beginning with the September 30, 2017 valuation in accordance with the dedicated gains policy adopted by the board of trustees. This assumption change will increase the computed liabilities.

Note 9 - Other Postemployment Benefit (OPEB) Plan (Continued)

The actuarial assumptions as of September 30, 2017 were based upon the results of an experience study covering the period from October 1, 2012 through September 30, 2017. The actuarial assumptions as of September 30, 2016 were based upon the results of an experience study covering the period from October 1, 2007 through September 30, 2012.

Discount Rate

A single discount rate of 7.0 and 7.5 percent was used to measure the total OPEB liability as of September 30, 2018 and 2017, respectively. This single discount rate was based on the expected rate of return on OPEB plan investments of 7.0 and 7.5 percent as of September 30, 2018 and 2017, respectively. The projection of cash flows used to determine this single discount rate assumed that, in the future, 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 (retiree) rate. Based on these assumptions, the OPEB 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 OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

Investment Rate of Return

The long-term expected rate of return on OPEB plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the OPEB plan's target asset allocation as of September 30, 2018 and 2017 are summarized in the following tables:

	2018	
Asset Class	Target Allocation	Long-term Expected Real Rate of Return
Domestic equity	28.00 %	5.70 %
International equity	18.00	9.20
Private equity	16.00	7.20
Real estate and infrastructure	10.50	0.50
Fixed income	10.00	3.90
Absolute return	15.50	5.20
Short-term investment	2.00	-

*Long-term rates of return are net of administrative expenses and 2.3 percent inflation.

	2017	
Asset Class	Target Allocation	Long-term Expected Real Rate of Return
Domestic equity	28.00 %	5.60 %
International equity	16.00	7.20
Private equity	18.00	8.70
Real estate and infrastructure	10.00	4.20
Fixed income	10.50	(0.10)
Absolute return	15.50	5.00
Short-term investment	2.00	(0.90)

*Long-term rates of return are net of administrative expenses and 2.3 percent inflation.

Note 9 - Other Postemployment Benefit (OPEB) Plan (Continued)

Sensitivity of the Net OPEB Liability to Changes in the Discount Rate

The following presents MET's proportionate share of the net OPEB liability calculated using the discount rate, as well as what the proportionate share of the net OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage point higher than the current discount rate:

	2019		
	1 Percentage Point Decrease (6.0%)	Current Discount Rate (7.0%)	1 Percentage Point Increase (8.0%)
MET's proportionate share of the net OPEB liability	$ 306,235	$ 265,177	$ 230,741

	2018		
	1 Percentage Point Decrease (6.5%)	Current Discount Rate (7.5%)	1 Percentage Point Increase (8.5%)
MET's proportionate share of the net OPEB liability	$ 325,193	$ 285,639	$ 252,122

Sensitivity of the Net OPEB Liability to Changes in the Healthcare Cost Trend Rate

The following presents MET's proportionate share of the net OPEB liability calculated using the assumed trend rate, as well as what the proportionate share of the net OPEB liability would be if it were calculated using a trend rate that is one percentage point lower or one percentage point higher than the current trend rate:

	2019		
	1 Percentage Point Decrease (7.25% to 2.0%)	Current Healthcare Cost Trend Rate (8.25% to 3.0%)	1 Percentage Point Increase (9.25% to 4.0%)
MET's proportionate share of the net OPEB liability	$ 228,646	$ 265,177	$ 307,623

	2018		
	1 Percentage Point Decrease (8.0% to 2.5%)	Current Healthcare Cost Trend Rate (9.0% to 3.5%)	1 Percentage Point Increase (10.0% to 4.5%)
Net OPEB liability	$ 250,172	$ 285,639	$ 326,315

OPEB Plan Fiduciary Net Position

Detailed information about the OPEB plan's fiduciary net position is available in the SERS Comprehensive Annual Financial Report that may be obtained by visiting www.michigan.gov/ors.

Note 9 - Other Postemployment Benefit (OPEB) Plan (Continued)

Postemployment Life Insurance Benefits

Plan Description

The State of Michigan provides postemployment life insurance benefits (the "Plan") to eligible individuals upon retirement from state employment. Members of the State Employees' Retirement System (SERS), the State Police Retirement System (SPRS), the Judges Retirement System (JRS), and certain members of the Military Retirement Provisions (MMRP) may receive a life insurance benefit if they meet the benefit eligibility requirements. The Plan is a single-employer, statewide, defined benefit other postemployment benefit (OPEB) plan. The State contracts with Minnesota Life to administer the payout of life insurance benefits. The Plan is administered by the Michigan Civil Service Commission under Article XI, Section 5 of the Michigan Constitution of 1963 and Michigan Civil Service Commission Rule 5-11.

Activity of the Plan is accounted for in the State Sponsored Group Insurance Fund (the "Fund"), an internal service fund in the State of Michigan Comprehensive Annual Financial Report (SOMCAFR). The Fund was administratively established to account for employee insurance benefit programs, which are largely self-funded. Five group insurance programs are offered to state employees: health, dental, vision, long-term disability, and life.

The Plan is not a trust and has no assets.

Benefits Provided

The State's group policy with Minnesota Life includes any active employee in the category of classified state service with an appointment of at least 720 hours duration but excludes employees with noncareer appointments and those working less than 40 percent of full time; any active official or active unclassified employee of the State who has been approved for coverage by the Michigan Civil Service Commission; any retired employee or official who was insured under this policy or the prior policies it replaced prior to entry into a State Retirement System; and Wayne County, Michigan employees who (a) were State Judicial Council employees on October 1, 1996 and whose employment was transferred to the Recorder's Court on October 1, 1996 and (b) whose employer subsequently became the Wayne County Clerk's Office.

Eligible retirees are provided with life insurance coverage equal to 25 percent of the active life insurance coverage (whose amount is rounded to the next higher $100 provided the retiree retired after July 1, 1974), $1,000 for spouse, and $1,000 for each dependent under age 23.

The active life insurance amount is either (a) two times the employee's basic annual salary, the result rounded to the next higher $1,000 if not already a multiple thereof, with a minimum of $10,000 and a maximum of $200,000 or (b) one times the employee's basic annual salary, the result rounded to the next higher $1,000 if not already a multiple thereof, with a minimum of $10,000 and a maximum of $50,000.

Contributions

The State contributes 100 percent of the premiums for employee and retiree life insurance coverage. The premium rate for FY 2018 was $0.24 for each $1,000 of coverage through October 8, 2017. It was then updated to $0.28 for each $1,000 of coverage for the remainder of the fiscal year. The employee contributes 100 percent of the premiums for dependent life coverage, and an employee must have been enrolled in dependent life insurance to maintain eligibility for dependent coverage as a retiree. The State is liable for benefit payments that exceed premiums paid. The Michigan Civil Service Commission is responsible for establishing and amending funding policies.

More specific information concerning eligibility requirements, benefit level, and funding policies is included in employee collective bargaining agreements, benefit plan booklets, and rules and regulations issued by the Michigan Civil Service Commission.

Note 9 - Other Postemployment Benefit (OPEB) Plan (Continued)

Actuarial Valuations and Assumptions

MET's total OPEB liability for the year ended September 30, 2019 was measured as of September 30, 2018 and is based on an actuarial valuation performed as of September 30, 2017 and rolled forward using generally accepted actuarial procedures. MET's total OPEB liability for the year ended September 30, 2018 was measured as of September 30, 2017 and is based on an actuarial valuation performed as of that date.

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 consistent with the long-term perspective of the calculations.

The normal cost and the allocation of benefit values between service rendered before and after the valuation date was determined using an individual entry age actuarial cost method with these characteristics: (a) the annual normal cost for each individual active member, payable from the date of employment to the date of retirement is sufficient to accumulate the value of the member's benefit at the time of retirement and (b) each annual normal cost is a constant percentage of the member's year-by-year projected covered pay.

The total OPEB liability was measured using the following actuarial assumptions:

Wage Inflation Rate

3.5 percent per year

Investment Rate of Return (Discount Rate)

3.83 percent per year at September 30, 2018 and 3.5 percent per year at September 30, 2017

Mortality

Healthy Life and Disabled Life Mortality, with 115 percent of the male rates and 121 percent of the female rates used in the pension valuations for SERS plan members

IBNR

A liability equal to 25 percent of expected first year cash flow was held for postemployment life insurance benefits claims incurred but not reported (IBNR).

Spouse Benefits for Future Retirees

The liabilities for active members were loaded to account for potential postemployment life insurance benefits payable to spouses of future retirees at 3 percent for SERS retirees.

Spouse Benefits for Current Retirees

Data regarding postemployment life insurance benefits coverage for spouses of current retirees was not available. Liabilities for retired members were loaded to account for postemployment life insurance benefits payable to the spouses of current retirees at 4 percent for SERS retirees.

Compensation

For some SERS retirees, FAC was not reported. The FAC for these members was assumed to be $51,045 (the average of all SERS retiree records reported with FAC).

Note 9 - Other Postemployment Benefit (OPEB) Plan (Continued)

For the purpose of valuing the postemployment life insurance benefit policies for retirees, base wage at retirement was not available and was approximated by applying a factor to the reported FAC at retirement. The factor used to convert a FAC to a base wage is based on the length of the FAC period for each group. The factor used for SERS was 0.983092 (two-year FAC) for conservation and 0.966565 (three-year FAC) for corrections and all others.

For SERS DC plan retirees, compensation at retirement and other information was not provided to the actuary. The postemployment life insurance benefit policies for this group were assumed to have the same average value as the policies for retirees in the SERS DB plan.

Other

The face values of the plan policies currently in force were requested by the actuary but were not available for use in this valuation. The actuary estimated the value of the postemployment life insurance benefit policies for retirees as follows:

Individuals retired after July 1974: 50 percent times compensation at retirement (compensation reported for the 2017 retirement system valuations):

Spousal benefits: $1,000

Individuals retired on or before July 1974: $3,000

Spousal benefits: $1,000

Data for current retiree members of the Plan was not available for use in this valuation. All current retiree members of the retirement plans deemed eligible for postemployment life insurance benefits and reported in connection with the 2017 retirement valuations were included in this valuation of the Plan.

Discount Rate

A discount rate of 3.83 and 3.5 percent was used to measure the ending total OPEB liability for postemployment life insurance benefits as of September 30, 2018 and 2017, respectively. This discount rate was based on the tax-exempt municipal bond rate based on an index of 20-year general obligation bonds with an average AA credit rating as of the measurement date since the Plan has no assets.

Total OPEB Liability for Postemployment Life Insurance Benefits

As of September 30, 2019, MET reported a liability of $47,831 for its proportionate share of the State's postemployment life insurance benefit's total OPEB liability. The total OPEB liability was measured as of September 30, 2018 based on an actuarial valuation as of September 30, 2017 and rolled forward using generally accepted actuarial procedures. MET's proportion of the total OPEB liability was determined by dividing MET's actual contributions to the Plan during the measurement period from October 1, 2017 through September 30, 2018 by the percent of OPEB actual contributions received from all applicable employers. MET's proportionate share of the life insurance OPEB liability for the year ended September 30, 2019 was 0.004 percent.

As of September 30, 2018, MET reported a liability of $43,825 for its proportionate share of the State's postemployment life insurance benefit's total OPEB liability. The total OPEB liability was measured as of September 30, 2017 based on an actuarial valuation as of that date. MET's proportion of the total OPEB liability was determined by dividing MET's actual contributions to the Plan during the measurement period from October 1, 2016 through September 30, 2017 by the percent of OPEB actual contributions received from all applicable employers. MET's proportionate share of the life insurance OPEB liability for the year ended September 30, 2018 was 0.005 percent.

Note 9 - Other Postemployment Benefit (OPEB) Plan (Continued)

Sensitivity of the Total OPEB Liability for Postemployment Life Insurance

The following presents MET's proportionate share of the total OPEB liability calculated using the discount rate, as well as what the proportionate share of the total OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage point higher than the current discount rate:

	2019		
	1 Percentage Point Decrease (2.83%)	Current Discount Rate (3.83%)	1 Percentage Point Increase (4.83%)
MET's proportionate share of the net OPEB liability	$ 55,925	$ 47,831	$ 41,366

	2018		
	1 Percentage Point Decrease (2.5%)	Current Discount Rate (3.5%)	1 Percentage Point Increase (4.5%)
MET's proportionate share of the net OPEB liability	$ 51,512	$ 43,825	$ 37,697

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB for Postemployment Life Insurance Benefits

For the years ended September 30, 2019 and 2018, MET recognized OPEB expense (recovery) of $3,052 and $(7,366), respectively. At September 30, 2019 and 2018, MET reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	2019		2018	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 25	$ 223	$ 34	$ -
Changes of assumptions	-	3,822	-	2,256
MET's contributions subsequent to the measurement date	1,070	-	1,069	-
Changes in proportionate share or difference between amount contributed and proportionate share of contributions	4,035	-	-	-
Total	$ 5,130	$ 4,045	$ 1,103	$ 2,256

Amounts reported as deferred outflows of resources related to OPEB resulting from MET's contributions subsequent to the measurement date will be recognized as a reduction of the total OPEB liability in the year ending September 30, 2020. Other amounts reported as deferred outflows and inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Years Ending	Amount
2020	$ 4
2021	4
2022	4
2023	3
Total	$ 15

Note 9 - Other Postemployment Benefit (OPEB) Plan (Continued)

Defined Contribution OPEB Plan

Employees hired on or after January 1, 2012 will not be eligible for any retiree health insurance coverage but will become participants in the Personal Healthcare Fund wherein they will contribute up to 2 percent of their compensation into a 401(k) or 457 account, earning a matching 2 percent employer contribution. Also, the employee will receive a credit into a health reimbursement at termination of employment if he or she has at least 10 years of service at termination. The credit will be $2,000 for participants who are at least 60 years old or $1,000 for participants who are less than 60 years old at termination.

Required Supplemental Information

Required Supplemental Information
Schedule of MET's Proportionate Share of the Net Pension Liability - State Employees' Retirement System
State Employees' Retirement System

Last Five Fiscal Years

Plan Year Ended September 30

	2019	2018	2017	2016	2015
MET's proportion of the net pension liability	0.00416 %	0.00368 %	0.00555 %	0.00505 %	0.00049 %
MET's proportionate share of the net pension liability	$ 315,499	$ 268,339	$ 273,426	$ 277,938	$ 254,013
MET's covered payroll	$ 117,273	$ 165,108	$ 144,702	$ 214,791	Not available
MET's proportionate share of the net pension liability as a percentage of its covered payroll	269.03 %	228.82 %	165.60 %	192.08 %	118.26 %
Plan fiduciary net position as a percentage of total pension liability	67.22 %	69.45 %	67.48 %	66.10 %	68.07 %

The amounts presented for each fiscal year were determined as of the measurement date of September 30 of the previous year. This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, MET presents information for those years for which information is available.

Required Supplemental Information
Schedule of MET's Pension Contributions
State Employees' Retirement System

Last Five Fiscal Years

Years Ended September 30

	2019	2018	2017	2016	2015
Statutorily required contribution	$ 32,393	$ 39,062	$ 39,682	$ 35,003	$ 69,578
Contributions in relation to the statutorily required contribution	32,393	39,062	39,682	34,975	69,578
Contribution Deficiency	**$ -**	**$ -**	**$ -**	**$ 28**	$ -
MET's Covered Payroll	$ 130,190	$ 117,273	$ 165,108	$ 144,702	$ 214,791
Contributions as a Percentage of Covered Payroll	24.88 %	33.31 %	24.03 %	24.17 %	32.39 %

See note to required supplemental information.

Pension Information

Actuarial valuation information relative to the determination of contributions is as follows:

Valuation date	Actuarially determined contribution amounts are calculated as of September 30 each year.

Methods and assumptions used to determine contribution rates for fiscal year 2019:

Actuarial cost method	Entry age, normal
Amortization method	Level dollar, closed
Remaining amortization period	20 years
Asset valuation method	Five-year smoothed market
Inflation	3.5 percent
Salary increase	3.5 to 12.5 percent wage inflation
Investment rate of return	7.5 percent net of investment and administrative expenses
Retirement age	Experience-based table of rates that are specific to the type of eligibility condition
Mortality	RP-2000 Combined Healthy Mortality Table, adjusted for mortality improvements to 2015 using projection scale BB. For men and women, 50 percent of the male table rates were used.

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 and other postemployment benefit obligations as a factor.

The schedule of MET's contributions is presented to show the responsibility of the employer in meeting the actuarial requirements to maintain the System on a sound financial basis.

The schedule of the proportionate share of the net pension liability and schedule of MET's contributions are schedules that are required in implementing GASB Statement No. 68. The schedule of the proportionate share of the net pension liability represents, in actuarial terms, the accrued liability less the market value of assets. The schedule of MET's contributions is a comparison of the employer's contributions to the actuarially determined contributions.

The information presented in the schedule of MET's contributions was used in the actuarial valuation for the purpose of determining actuarially determined contribution rates.

Required Supplemental Information
Schedule of MET's Proportionate Share of the Net OPEB Liability
Healthcare
State Employees' Retirement System

Last Fiscal Years

Plan Year Ended September 30

	2019	2018
MET's proportion of the net OPEB liability	0.00395 %	0.00533 %
MET's proportionate share of the net OPEB liability	$ 265,177	$ 285,639
MET's covered payroll	$ 117,273	$ 165,108
MET's proportionate share of the net OPEB liability as a percentage of its covered payroll	226.12 %	243.57 %
Plan fiduciary net position as a percentage of total OPEB liability	24.41 %	19.89 %

See note to required supplemental information.

Required Supplemental Information
Schedule of MET's OPEB Contributions
Healthcare
State Employees' Retirement System

Last Two Fiscal Years

Years Ended September 30

	2019	2018
Statutorily determined contribution	$ 27,363	$ 22,877
Contributions in relation to the statutorily determined contribution	27,363	22,877
Contribution Deficiency	**$ -**	**$ -**
Covered Payroll	$ 130,190	$ 117,273
Contributions as a Percentage of Covered Payroll	21.02 %	19.51 %

Notes to Schedule of Contributions

Actuarial valuation information relative to the determination of contributions:

Valuation date	Actuarial determined contribution amounts are calculated as of September 30 each year.

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry age, normal
Amortization method	Level percent of payroll
Remaining amortization period	20 years
Asset valuation method	Market value of assets
Salary increase	3.5 percent
Investment rate of return	7.5 percent per year
Healthcare cost trend rate	9.0 percent year 1 graded to 3.5 percent year 10
Mortality	RP-2000 Combined Healthy Mortality Table, adjusted for mortality improvements to 2015 using projection scale BB. For men and women, 50 percent of the male table rates were used.

See note to required supplemental information.

Required Supplemental Information
Schedule of MET's Proportionate Share of the Net OPEB Liability
Postemployment Life Insurance Benefit

Last Fiscal Year

Plan Year Ended September 30

	2019	2018
MET's proportion of the net OPEB liability	0.00379 %	0.00501 %
MET's proportionate share of the net OPEB liability	$ 47,831	$ 43,825
MET's covered employee payroll	$ 117,273	$ 165,108
MET's proportionate share of the net OPEB liability as a percentage of its covered employee payroll	40.79 %	37.37 %

The amounts presented for each fiscal year were determined as of the measurement date of September 30 of the previous year. This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, the Authority presents information for those years for which information is available.

The Plan is not a trust and has no assets.

plante moran

Plante & Moran, PLLC
Suite 100
1111 Michigan Ave.
East Lansing, MI 48823
Tel: 517.332.6200
Fax: 517.332.8502
plantemoran.com

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

Independent Auditor's Report

To Management; the Board of Directors; and
Mr. Doug A. Ringler, CPA, CIA,
Auditor General, State of Michigan
Michigan Education Trust Plans B & C

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 Michigan Education Trust Plans B & C, a discretely presented component unit of the State of Michigan, as of and for the year ended September 30, 2019 and the related notes to the financial statements, which collectively comprise Michigan Education Trust Plans B & C's basic financial statements, and have issued our report thereon dated January 30, 2020.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Michigan Education Trust Plans B & C's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Michigan Education Trust Plans B & C's internal control. Accordingly, we do not express an opinion on the effectiveness of Michigan Education Trust Plans B & C's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of Michigan Education Trust Plans B & C's financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies, and, therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings as Finding 2019-001, that we consider to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Michigan Education Trust Plans B & C's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards.*

To Management; the Board of Directors; and
Mr. Doug A. Ringler, CPA, CIA,
Auditor General, State of Michigan
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Michigan Education Trust Plans B & C's Response to the Finding

Michigan Education Trust Plans B & C's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. Michigan Education Trust Plans B & C's response was not subjected to the auditing procedures applied in the audit of the financial statements, and, accordingly, we express no opinion on it.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Michigan Education Trust Plans B & C's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Plante & Moran, PLLC

January 30, 2020

Schedule of Findings

Financial Statement Audit Findings

Reference Number	Finding
2019-001	**Finding Type** - Significant deficiency
	Criteria - Cash deposits from colleges and individuals should be allocated between Michigan Education Trust (MET) Plans B & C and MET Plan D for refunds, based on the plan of the underlying contract.
	Condition - As MET Plans B & C is closed to new contracts, some deposits, including refunds and fees, were deposited into MET Plan D accounts during the fiscal year.
	Context - Management reviewed fiscal year 2019 deposit activity and posted a receivable/payable journal entry to correct the net position of each plan by approximately $184,000.
	Cause - MET did not review deposits related to refunds during the fiscal year to allocate them between Plans B & C and Plan D.
	Effect - As a result, during the fiscal year, deposits relating to refunds of MET Plans B & C contracts were deposited into MET Plan D accounts, and an adjusting journal entry was required to properly state the financial statements of both plans.
	Recommendation - We recommend MET put procedures in place to periodically review deposit activity to determine the appropriate plan, based on the plan of the underlying contract.
	Views of Responsible Officials and Planned Corrective Actions - We agree with the finding. We have modified our procedures to review refunds from higher education institutions and individuals to determine whether they should be posted to the MET B & C or MET Plan D account upon receipt. If a deposit is made into the wrong account, we plan to transfer the funds to the correct account on a quarterly basis.