

Office of the Auditor General
Financial Audit Including Report on Internal Control, Compliance, and
Other Matters

Michigan Education Trust Plan D
(A Discretely Presented Component Unit of the State of Michigan)

Fiscal Year Ended September 30, 2020

The auditor general shall conduct post audits of financial transactions and accounts of the state and of all branches, departments, offices, boards, commissions, agencies, authorities and institutions of the state established by this constitution or by law, and performance post audits thereof.

The auditor general may make investigations pertinent to the conduct of audits.

Article IV, Section 53 of the Michigan Constitution



OAG

Office of the Auditor General

Report Summary

Financial Audit Including Report on Internal Control, Compliance, and Other Matters Michigan Education Trust (MET) Plan D (A Discretely Presented Component Unit of the State of Michigan) Fiscal Year Ended September 30, 2020

Report Number:
271-0283-21

Released:
March 2021

MET was created by Public Act 316 of 1986 to operate a prepaid college tuition program. We conducted this financial audit in accordance with Section 18.1492 of the *Michigan Compiled Laws*.

Auditor's Report Issued

UNMODIFIED OPINION

MODIFIED OPINION

We issued an unmodified opinion on the MET Plan D's financial statements to reflect that they were fairly presented, in all material respects, in accordance with accounting principles generally accepted in the United States of America.

Report on Internal Control, Compliance, and Other Matters

We issued our report on our consideration of MET's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters.

Findings Related to Internal Control, Compliance, and Other Matters	Material Weakness	Significant Deficiency	Agency Preliminary Response
Financial reporting processes should be improved to help ensure that the MET Plan D financial statements are prepared efficiently and accurately (<u>Finding #1</u>).		X	Agrees

Obtain Audit Reports

Online: audgen.michigan.gov

Phone: (517) 334-8050

Office of the Auditor General
201 N. Washington Square, Sixth Floor
Lansing, Michigan 48913

Doug A. Ringler, CPA, CIA
Auditor General

Laura J. Hirst, CPA
Deputy Auditor General



OAG

Office of the Auditor General

201 N. Washington Square, Sixth Floor • Lansing, Michigan 48913 • Phone: (517) 334-8050 • audgen.michigan.gov

Doug A. Ringler, CPA, CIA
Auditor General

March 18, 2021

Ms. Rachael Eubanks, State Treasurer and Chair
Michigan Education Trust Board of Directors
and
Ms. Diane Brewer, Executive Director
Michigan Education Trust
Richard H. Austin Building
Lansing, Michigan

Dear Ms. Eubanks and Ms. Brewer:

This is our report on the financial audit including the report on internal control, compliance, and other matters of the Michigan Education Trust Plan D, a discretely presented component unit of the State of Michigan, for the fiscal year ended September 30, 2020. This financial audit is required by Section 18.1492 of the *Michigan Compiled Laws*.

Your agency provided the preliminary response to the recommendation at the end of our fieldwork. The *Michigan Compiled Laws* and administrative procedures require an audited agency to develop a plan to comply with the recommendations and to submit it to the State Budget Office upon completion of an audit. Within 30 days of receipt, the Office of Internal Audit Services, State Budget Office, is required to review the plan and either accept the plan as final or contact the agency to take additional steps to finalize the plan.

We appreciate the courtesy and cooperation extended to us during this audit.

Sincerely,

A handwritten signature in black ink that reads "Doug Ringler". The signature is written in a cursive, slightly slanted style.

Doug Ringler
Auditor General

TABLE OF CONTENTS

MICHIGAN EDUCATION TRUST PLAN D

	<u>Page</u>
Report Summary	1
Report Letter	3
Independent Auditor's Report on the Financial Statements and Other Reporting Required by <i>Government Auditing Standards</i>	8
Management's Discussion and Analysis	12
Basic Financial Statements	
Statement of Net Position	18
Statement of Revenues, Expenses, and Changes in Net Position	19
Statement of Cash Flows	20
Notes to Financial Statements	21
Required Supplementary Information	
Schedule of Proportionate Share of Net Pension Liability	54
Schedule of Pension Contributions	55
Notes to Required Supplementary Information - Pension Schedules	56
Schedule of Proportionate Share of the Net OPEB Liability - Healthcare	57
Schedule of OPEB Contributions - Healthcare	58
Schedule of Proportionate Share of the Net OPEB Liability - Postemployment Life Insurance Benefit	59
Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters	62
Findings, Recommendations, and Agency Preliminary Responses	
1. Financial reporting processes should be improved.	66
Glossary of Abbreviations and Terms	68

INDEPENDENT AUDITOR'S REPORT



OAG

Office of the Auditor General

201 N. Washington Square, Sixth Floor • Lansing, Michigan 48913 • Phone: (517) 334-8050 • audgen.michigan.gov

Doug A. Ringler, CPA, CIA
Auditor General

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

Ms. Rachael Eubanks, State Treasurer and Chair
Michigan Education Trust Board of Directors
and
Ms. Diane Brewer, Executive Director
Michigan Education Trust
Richard H. Austin Building
Lansing, Michigan

Dear Ms. Eubanks and Ms. Brewer:

Report on the Financial Statements

We have audited the accompanying financial statements of the Michigan Education Trust Plan D, a discretely presented component unit of the State of Michigan, as of and for the fiscal year ended September 30, 2020 and the related notes to the financial statements, which collectively comprise the Michigan Education Trust Plan D's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of the Michigan Education Trust Plan D as of September 30, 2020 and the changes in financial position and cash flows for the fiscal year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matters

As discussed in Note 1 to the financial statements, the financial statements present only the Michigan Education Trust Plan D and 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, the Michigan Education Trust as a whole, or the Michigan Education Trust Plans B and C as of and for the fiscal year ended September 30, 2020 in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

As discussed in Note 4 to the financial statements, the Michigan Education Trust Plan D held investments valued at approximately \$343.7 million (34.6% of total assets) on September 30, 2020, whose fair values were estimated by management in the absence of readily determinable market values. Management's estimates are based on information provided by the fund managers of the respective limited partnerships. Our opinion is not modified with respect to this matter.

Other Matters

Prior Year Audited by Other Auditor

The financial statements of the Michigan Education Trust Plan D as of and for the fiscal year ended September 30, 2019 were audited by a predecessor auditor. The predecessor auditor's report on the financial statements, dated January 30, 2020, expressed an unmodified opinion on those financial statements.

The predecessor auditor included emphasis of matter paragraphs stating:

- Michigan Education Trust Plan D held investments valued at approximately \$481.4 million (47.7% of assets) on September 30, 2019, whose fair values have been estimated by management in the absence of readily determinable market values.
- The financial statements present only Michigan Education Trust Plan D and 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, the Michigan Education Trust as a whole, or the Michigan Education Trust Plans B and C as of and for the fiscal year ended September 30, 2019.

The predecessor auditor's opinion was not modified with respect to these matters.

Also, the predecessor auditor included an other matter paragraph stating that it applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America. The predecessor auditor did not express an opinion or provide any assurance on the information because the limited procedures did not provide sufficient evidence to express an opinion or provide any assurance.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the required supplementary information other than management's discussion and analysis, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic

financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information as of and for the fiscal year ended September 30, 2020 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 15, 2021 on our consideration of the Michigan Education Trust's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely 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 effectiveness of the Michigan Education Trust's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Michigan Education Trust's internal control over financial reporting and compliance.

Sincerely,



Doug Ringler
Auditor General
January 15, 2021

MANAGEMENT'S DISCUSSION AND ANALYSIS

This is a discussion and analysis of the financial performance of the Michigan Education Trust (MET) Plan D for the fiscal years ended September 30, 2020 and September 30, 2019. 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 required supplementary information.

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 Plan D.

The statement of net position includes the assets, deferred outflows of resources related to pensions and other postemployment benefits (OPEB) life and health insurance, liabilities, deferred inflows of resources related to pensions and 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 Plan D

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 investment of MET funds. The MET portfolio for Plan D may be invested up to 75% in equities with the remainder invested in short-term investments, U.S. government securities and corporate bonds.

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. Before that change, students had 9 years to use MET contract benefits.

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

MET Plan D received 1,091 new contracts and \$16.6 million in prepaid tuition amounts related to new contracts and additions to pay as you go contracts during fiscal year 2020. In fiscal year 2019, MET received 1,635 new contracts and \$26.2 million in prepaid tuition amounts related to new contracts and additions to pay as you go contracts.

Comparison of Current Year and Prior Year Results

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

	2020	2019	2018
Current assets	\$ 64,782	\$ 84,852	\$ 76,895
Noncurrent assets	929,251	924,577	936,010
Total assets	<u>\$994,032</u>	<u>\$1,009,429</u>	<u>\$1,012,905</u>
Deferred outflows related to pensions, and OPEB life and health insurance	1,438	1,050	474
Total assets and deferred outflows of Resources	<u>\$995,470</u>	<u>\$1,010,479</u>	<u>\$1,013,378</u>
Current liabilities	\$ 62,764	\$ 62,700	\$ 64,995
Noncurrent liabilities	670,727	725,824	753,238
Total liabilities	<u>\$733,492</u>	<u>\$ 788,524</u>	<u>\$ 818,233</u>
Deferred inflows related to pensions, and OPEB life and health insurance	741	570	179
Total liabilities and deferred inflows	<u>\$734,233</u>	<u>\$ 789,094</u>	<u>\$ 818,412</u>
Total net position - Restricted	<u>\$261,237</u>	<u>\$ 221,385</u>	<u>\$ 194,965</u>

Total net position increased by \$39.9 million in fiscal year 2020 and increased by \$26.4 million in fiscal year 2019.

Total assets decreased by \$15.4 million in fiscal year 2020 because of a reduction in new contracts and decreased by \$3.5 million in fiscal year 2019 because of changing investment performance.

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

	2020	2019	2018
Operating revenues			
Interest and dividends income	\$ 29,148	\$ 32,987	\$ 28,925
Net increase (decrease) in the fair value of investments	11,073	12,428	26,730
Other miscellaneous income	434	381	478
Total operating revenues	<u>\$ 40,655</u>	<u>\$ 45,796</u>	<u>\$ 56,133</u>
Operating expenses			
Salaries and other administrative expenses	\$ 4,209	\$ 4,348	\$ 3,594
Net increase (decrease) in the present value of tuition benefits payable	(3,405)	15,029	(8,695)
Total operating expenses (recovery)	<u>\$ 803</u>	<u>\$ 19,377</u>	<u>\$ (5,101)</u>
Change in net position	\$ 39,852	\$ 26,420	\$ 61,234
Net position - Beginning of year, as previously reported	221,385	194,965	136,605
Cumulative effect of a change in accounting principle			(2,873)
Net position - Beginning of year, restated	<u>\$221,385</u>	<u>\$194,965</u>	<u>\$133,731</u>
Net position - End of year	<u>\$261,237</u>	<u>\$221,385</u>	<u>\$194,965</u>

Net position - end of year increased by \$39.9 million in fiscal year 2020 and increased by \$26.4 million in fiscal year 2019. These increases resulted from favorable investment returns and lower than expected tuition increases.

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

	2020	2019	2018
Net cash provided (used) by:			
Operating activities	\$(52,821)	\$(41,523)	\$(39,523)
Investing activities	32,446	51,721	14,887
Net cash provided (used) - All activities	\$(20,375)	\$10,198	\$(24,636)
Cash and cash equivalents - Beginning of year	72,072	61,874	86,510
Cash and cash equivalents - End of year	<u>\$51,697</u>	<u>\$72,072</u>	<u>\$61,874</u>

Net cash used by operating activities increased by \$11.3 million in fiscal year 2020 and increased by \$2.0 million in fiscal year 2019. These changes were primarily the result of changes in tuition contract payments to colleges and refund designees.

Net cash provided by investing activities decreased by \$19.3 million in fiscal year 2020 because of an increase in investments purchased and increased by \$36.8 million in fiscal year 2019 because of an increase in investment redemptions.

Overall, **cash and cash equivalents at the end of year** decreased by \$20.4 million in fiscal year 2020 and increased by \$10.2 million in fiscal year 2019.

Factors Impacting Future Periods

Prepaid tuition receipts translate into an increase in the tuition liability; however, the actuarial soundness of MET is based, in part, on new contracts being purchased, market performance of investments, and factors affecting estimates of future tuition benefits. As of September 30, 2020, MET Plan D is 136% funded and is expected to pay all contracted benefits. The MET Plan D actuary's cash flow report expects tuition payments to students activating their contracts to be:

<u>Fiscal Years Ending</u>	<u>Expected Gross Tuition Payments</u>	<u>Expected Number of Contracts</u>
2021 - 2023	\$202,522,497	6,783
2024 - 2026	\$219,035,705	5,117
2027 - 2029	\$205,846,187	3,523
2030 - 2032	\$168,262,497	2,299
After 2032	\$325,814,431	2,227

The enrollment period for 2020 was from December 1, 2019 through September 30, 2020. New enrollment contract prices are adjusted annually to reflect estimated changes in tuition costs and investment earnings and will increase cash, future tuition benefits payable, and the asset base of MET Plan D.

The MET Board of Directors reviews asset allocation and investment performance on a quarterly basis to balance investment risk and maximize rates of return. At the beginning of fiscal year 2008, the MET Board of Directors changed the long-term investment portfolio strategy to address the unfunded liability that existed at the time. The MET Plan D target portfolio for investment is 75% in equities (mutual funds and alternative investments) and 25% in fixed income securities (short-term investments, U.S. government securities, and corporate bonds).

It is expected that Michigan public universities will continue to adopt higher tuition rates in subsequent years as State-appropriated funds remain flat. The average yearly tuition increase over the last 10 years has been 3.7% for four-year universities and 4.7% for two-year community colleges, compared with the actuarial assumption of 5.5% for year 1, 5.0% for year 2, and 4.5% for year 3 and beyond.

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

BASIC FINANCIAL STATEMENTS

MICHIGAN EDUCATION TRUST PLAN D
Statement of Net Position
As of September 30

	2020	2019
Assets		
Current assets:		
Cash and cash equivalents (Note 3)	\$ 51,696,904	\$ 72,071,654
Receivables:		
Tuition contracts receivable - Current portion (Note 5)	6,716,124	7,707,022
Amounts due from contract purchaser	1,209,812	1,319,163
Amounts due from others	320,112	124,711
Amounts due from MET Plans B and C	394,261	238,674
Interest and dividends receivable	940,127	1,257,537
Amounts due from primary government	3,504,304	2,133,443
Total current assets	\$ 64,781,644	\$ 84,852,204
Noncurrent assets:		
Investments (Notes 3 and 4)	906,323,382	898,230,803
Tuition contracts receivable - Net of current portion (Note 5)	22,927,418	26,346,216
Total noncurrent assets	\$929,250,800	\$ 924,577,019
Total assets	\$994,032,444	\$1,009,429,223
Deferred Outflows of Resources		
Deferred outflows related to pensions (Note 9)	\$ 220,475	\$ 222,543
Deferred outflows related to OPEB - Life insurance (Note 10)	103,386	59,008
Deferred outflows related to OPEB - Health insurance (Note 10)	1,113,700	767,977
Total deferred outflows of resources	\$ 1,437,561	\$ 1,049,528
Liabilities		
Current liabilities - Tuition benefits payable - Current portion (Note 6)	62,764,336	62,699,979
Noncurrent liabilities:		
Net pension liability (Note 9)	2,610,324	2,197,730
Net OPEB liability - Life insurance (Note 10)	443,925	425,656
Net OPEB liability - Health insurance (Note 10)	3,042,475	2,870,421
Tuition benefits payable - Net of current portion (Note 6)	664,630,560	720,330,418
Total noncurrent liabilities	\$670,727,284	\$ 725,824,225
Total liabilities	\$733,491,620	\$ 788,524,204
Deferred Inflows of Resources		
Deferred inflows related to pension (Note 9)	\$ 102,044	\$ 187,764
Deferred inflows related to OPEB - Life insurance (Note 10)	79,453	39,538
Deferred inflows related to OPEB - Health insurance (Note 10)	559,981	342,247
Total deferred inflows of resources	\$ 741,478	\$ 569,549
Net Position - Restricted for prepaid tuition contractual obligations	\$261,236,906	\$ 221,384,998

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

MICHIGAN EDUCATION TRUST PLAN D
Statement of Revenues, Expenses, and Changes in Net Position
Fiscal Years Ended September 30

	2020	2019
Operating Revenues		
Interest and dividends income	\$ 29,148,031	\$ 32,986,878
Net increase in the fair value of investments	11,073,241	12,428,622
Other miscellaneous income	434,051	380,904
Total operating revenues	\$ 40,655,323	\$ 45,796,404
Operating Expenses		
Salaries and other administrative expenses	4,208,856	4,347,854
Net (decrease) increase in the present value of tuition benefits payable	(3,405,441)	15,028,971
Total operating expenses	\$ 803,415	\$ 19,376,825
Change in Net Position	39,851,908	26,419,579
Net Position - Beginning of year	221,384,998	194,965,419
Net Position - End of year	\$261,236,906	\$221,384,998

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

MICHIGAN EDUCATION TRUST PLAN D
Statement of Cash Flows
Fiscal Years Ended September 30

	<u>2020</u>	<u>2019</u>
Cash Flows From Operating Activities		
Contract receipts	\$ 30,120,998	\$ 37,517,601
Benefits paid	(78,027,412)	(76,338,728)
Administrative and other expenses paid	(5,348,490)	(3,082,934)
Application and other fees collected	<u>434,051</u>	<u>380,904</u>
Net cash and cash equivalents used in operating activities	\$(52,820,853)	\$(41,523,157)
Cash Flows From Investing Activities		
Purchase of investment securities	(235,181,425)	(148,022,582)
Interest and dividends received	29,465,441	32,986,878
Proceeds from sale and maturities of investment securities	<u>238,162,088</u>	<u>166,756,654</u>
Net cash and cash equivalents provided by investing activities	<u>\$ 32,446,104</u>	<u>\$ 51,720,950</u>
Net Increase (Decrease) in Cash and Cash Equivalents	\$(20,374,750)	\$ 10,197,793
Cash and Cash Equivalents - Beginning of year	<u>72,071,654</u>	<u>61,873,861</u>
Cash and Cash Equivalents - End of year	<u><u>\$ 51,696,904</u></u>	<u><u>\$ 72,071,654</u></u>
Reconciliation of Change in Net Position to Net Cash From Operating Activities		
Change in net position	\$ 39,851,908	\$ 26,419,579
Adjustments to reconcile change in net position to net cash from operating activities:		
Unrealized and realized gains	(11,073,241)	(12,428,622)
Investment income	(29,465,441)	(32,986,878)
Changes in assets and liabilities:		
Amounts due to/from MET Plans B and C	(155,587)	224,646
Amounts due from primary government	(1,370,861)	322,127
Amounts due from others	(195,401)	(4,761)
Amounts due from contract purchaser	109,351	(182,027)
Interest and dividends receivable	317,410	266,960
Tuition contracts receivable	4,409,696	6,740,430
Pension liability and related deferrals	328,942	69,292
OPEB liability and related deferrals - Life insurance	13,807	61,029
OPEB liability and related deferrals - Health insurance	44,065	507,659
Tuition benefit payable	<u>(55,635,501)</u>	<u>(30,532,591)</u>
Total adjustments	<u>\$(92,672,761)</u>	<u>\$(67,942,736)</u>
Net cash and cash equivalents used in operating activities	<u><u>\$(52,820,853)</u></u>	<u><u>\$(41,523,157)</u></u>

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

NOTES TO FINANCIAL STATEMENTS

Note 1 Reporting Entity

Michigan Education Trust (MET) was created under Public Act 316 of 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 Comprehensive Annual Financial Report*. The accompanying financial statements present only MET Plan D. 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 Plans B and C in accordance with accounting principles generally accepted in the United States of America as applicable to governmental units.

Public Act 316 of 1986 (the Act), as amended, empowers MET, on behalf of itself and the State of Michigan, to enter into a contract with a purchaser which 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, 2020, there have been 28 enrollment periods over 32 years for MET. The 1988, 1989, and 1990 enrollments are known as MET Plans B and 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, 2019, and 2020 enrollments are known as MET Plan D. The MET Plan D enrollments are accounted for and reported separately from the MET Plans B and C enrollments. The accompanying financial statements report only MET Plan D enrollments. Separate financial statements and actuarial valuation of MET Plans B and C enrollments are available from the MET office at P.O. Box 30198, Lansing, MI 48909.

Note 2 Summary of Significant Accounting Policies

- a. Accounting and Reporting Principles
MET Plan D follows accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. Accounting and financial reporting pronouncements are promulgated by the Governmental Accounting Standards Board (GASB).

- b. Basis of Accounting
MET Plan D 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.
 - (1) 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.

 - (2) Investments
MET's deposits and investments are held in a fiduciary capacity by the State Treasurer. Public Act 316 of 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 the net asset value reported in the financial statements of the respective investment entity. The net asset value is determined in accordance with governing documents of the investment entity and is subject to an independent annual audit. Other investments not having an established market value are recorded at estimated fair value.

 - (3) Tuition Contracts Receivable
The present value of the future monthly purchase contract payments is recorded as a current and noncurrent asset of MET. For the years ended September 30, 2020 and September 30, 2019, the discount rate applied to expected future cash flows to determine present value was 5.50%.

 - (4) Liabilities
The actuarial present value of the future tuition benefits obligation is recorded as a current and noncurrent liability of MET (see Note 6).

 - (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 6). 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 Public Act 316 of 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:

a. Deposits

(1) 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, 2020 and September 30, 2019, MET's deposits for Plan D and the amounts reflected in the accounts of the banks were \$27,955,550 and \$8,930,195, respectively. In addition, as of September 30, 2020 and September 30, 2019, MET's money market funds for Plan D were \$23,741,354 and \$32,128,123, respectively. Of these amounts, \$250,000 was covered by Federal Deposit Insurance Corporation (FDIC) insurance, and MET's deposits as a whole (Plans B and C and Plan D) were further covered by \$5,000,000 of collateral held in trust in MET's name at both September 30, 2020 and September 30, 2019. MET believes that, due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits and money market funds. As a result, MET evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution and only those institutions with an acceptable estimated risk level are used as depositories.

(2) 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, 2020 and September 30, 2019, MET had no foreign deposits.

b. Investments

(1) 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.

The following tables summarize MET's investments and maturities as of September 30, 2020 and September 30, 2019:

Investment Type	As of September 30, 2020				
	Fair Value	Less Than 1 Year	1 to 5 Years	6 to 10 Years	More Than 10 Years
U.S. Treasury securities	\$124,815,722	\$72,464,534	\$16,256,445	\$27,226,367	\$8,868,375
U.S. agencies - backed securities	9,720,158				9,720,158
U.S. agencies - sponsored securities	2,232,723				2,232,723
Corporate bonds	84,837,512	5,055,747	23,305,178	28,678,346	27,798,242
Mutual funds*	340,970,766				
Alternative investments*	343,746,501				
Total	\$906,323,382	\$77,520,282	\$39,561,623	\$55,904,713	\$48,619,498
Less investments reported as "cash equivalents" on statement of net position	0				
Total investments	\$906,323,382				

* Mutual funds and alternative investments have no fixed income or duration and, therefore, are not segmented for time.

Investment Type	As of September 30, 2019				
	Fair Value	Less Than 1 Year	1 to 5 Years	6 to 10 Years	More Than 10 Years
Commercial paper	\$31,013,336	\$31,013,336	\$	\$	\$
U.S. Treasury securities	52,887,578		23,938,242	28,949,336	
U.S. agencies - backed securities	11,531,930				11,531,930
U.S. agencies - sponsored securities	8,860,425			6,225,877	2,634,548
Corporate bonds and notes	110,648,582	3,010,329	43,359,569	53,284,079	10,994,605
Mutual funds*	232,932,908				
Alternative investments*	481,369,380				
Total	\$929,244,139	\$34,023,665	\$67,297,811	\$88,459,292	\$25,161,083
Less investments reported as "cash equivalents" on statement of net position	(31,013,336)				
Total investments	\$898,230,803				

* Mutual funds and alternative investments have no fixed income or duration and, therefore, are not segmented for time.

(2) 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 and ratings of Aaa, Aa, A, and Baa from Moody's Investors Service.

As of September 30, 2020, the ratings of U.S. government securities and corporate bonds by Moody's and Standard and Poor's were:

	<u>Moody's</u>	<u>Fair Value</u>	<u>S&P</u>	<u>Fair Value</u>
Corporate bonds	A2	\$ 15,213,374	A	\$ 5,433,956
	A3	6,482,284	A-	9,001,044
	Aaa	8,125,984	AAA	5,990,818
	Baa1	18,712,038	BB+	2,981,371
	Baa2	7,512,448	BBB	26,439,011
	Baa3	7,661,588	BBB-	3,358,140
	Not rated	21,129,796	BBB+	9,825,749
			Not rated	21,807,423
Total corporate bonds		<u>\$ 84,837,512</u>		<u>\$84,837,512</u>
U.S. Government	N/A	<u>136,768,603</u>	N/A	<u>136,768,603</u>
Total debt securities		<u>\$221,606,115</u>		<u>\$221,606,115</u>

As of September 30, 2019, the ratings of commercial paper, U.S. government securities, and corporate bonds by Moody's and Standard and Poor's were:

	<u>Moody's</u>	<u>Fair Value</u>	<u>S&P</u>	<u>Fair Value</u>
Corporate bonds	A1	\$ 8,239,384	A	\$ 7,830,738
	A2	16,391,800	A-	14,562,823
	A3	14,697,181	A+	10,068,361
	Ba1	5,013,300	AAA	2,998,403
	Baa1	28,785,525	BBB	37,942,423
	Baa2	15,955,677	BBB-	3,159,031
	Baa3	3,159,031	BBB+	26,090,600
	Not rated	18,406,684	Not rated	7,996,203
Total corporate bonds		<u>\$110,648,582</u>		<u>\$110,648,582</u>
Commercial paper	P-1	31,013,336	A-1+	31,013,336
U.S. Government	N/A	<u>73,279,933</u>	N/A	<u>73,279,933</u>
Total debt securities		<u>\$214,941,851</u>		<u>\$214,941,851</u>

(3) Concentration of Credit Risk

MET places no limit on the amount it may invest in any one issuer. As of September 30, 2020 and September 30, 2019, MET held the following investments that represented 5.00% or more of total investments:

	2020	2019
Dodge & Cox	\$ 56,198,878	\$ 57,576,982
Napier Park ABS Income Fund LP	\$ 0	\$ 56,161,070
Parametric Defense	\$ 95,842,425	\$ 91,260,787
Tahquamenon LP-DCT	\$ 91,850,202	\$ 92,735,725
The Vanguard Group	\$159,801,076	\$147,010,814

None of these investments were rated by either Standard & Poor's or Moody's Investors Service as of September 30, 2020 and September 30, 2019.

(4) 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.

(5) 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, 2020 and September 30, 2019, MET had two investments involved with foreign investments and no foreign investments, respectively.

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 as of September 30, 2020 and September 30, 2019 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.

The following tables summarize the fair value measurements of investments as of September 30, 2020 and September 30, 2019:

Investments Measured at Fair Value on a Recurring Basis
As of September 30, 2020

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Investments Measured at NAV	Balance as of September 30, 2020
Debt Securities:				
U.S. Treasury securities	\$124,815,722	\$	\$	\$124,815,722
U.S. agencies - Sponsored securities		2,232,723		2,232,723
Corporate bonds and notes		84,837,512		84,837,512
U.S. agencies - Backed securities		9,720,158		9,720,158
Total debt securities	\$124,815,722	\$96,790,393	\$	\$221,606,115
Equity securities - Mutual funds	340,970,768			340,970,768
Investments measured at net asset value (NAV):				
Private equity funds			120,394,543	120,394,543
Real estate funds			97,503,693	97,503,693
Multi-strategy hedge funds			91,850,202	91,850,202
Event-driven hedge fund			33,998,063	33,998,063
Total Investment Measured at NAV	\$ 0	\$ 0	\$343,746,501	\$343,746,501
Total Investments	\$465,786,488	\$96,790,393	\$343,746,501	\$906,323,382

Investments Measured at Fair Value on a Recurring Basis
As of September 30, 2019

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Investments Measured at NAV	Balance as of September 30, 2019
Debt Securities:				
U.S. Treasury securities	\$ 52,887,578	\$	\$	\$ 52,887,578
U.S. agencies - Sponsored securities		8,860,425		8,860,425
Corporate bonds and notes		110,648,582		110,648,582
U.S. agencies - Backed securities		11,531,930		11,531,930
Total debt securities	\$ 52,887,578	\$131,040,937	\$	\$183,928,515
Equity securities - Mutual funds	232,932,908			232,932,908
Investments measured at net asset value (NAV):				
Private equity funds			167,270,468	167,270,468
Real estate funds			97,755,108	97,755,108
Multi-strategy hedge funds			183,996,513	183,996,513
Event-driven hedge fund			32,347,291	32,347,291
Total Investment Measured at NAV	\$ 0	\$ 0	\$481,369,380	\$481,369,380
Total Investments	\$285,820,486	\$131,040,937	\$481,369,380	\$898,230,803

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 the net asset value per share are as follows:

a. Private Equity Funds

This type of investment includes investments in fourteen partnerships and eleven partnerships as of September 30, 2020 and September 30, 2019, 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, 2020 are approximately \$120.4 million and \$157.7 million, respectively. The total market value and unfunded commitments of these investments as of September 30, 2019 are approximately \$167.3 million and \$43.0 million, respectively. 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.

b. Real Estate

This type of investment includes investments in eight partnerships and six partnerships as of September 30, 2020 and September 30, 2019, respectively, that invest primarily in multi-family preferred equity structure in the United States. This type of investment 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 10 to 12 years.

This type of investment also includes an investment in one partnership that invested in a commercial real estate-related debt structure in the U.S. This type of investment cannot be redeemed with the funds. Distributions from this fund will be received as the underlying investments are paid down or otherwise liquidated over time. It is expected that the underlying assets of the fund are paid down or otherwise liquidated over a period of two to five years.

The total market value and unfunded commitment of this investment as of September 30, 2020 are approximately \$97.5 million and \$32.6 million, respectively. The total market value and unfunded commitment of this investment as of September 30, 2019 are approximately \$97.8 million and \$3.8 million, respectively. 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.

c. Multi-Strategy Hedge Funds

This type of investment includes investments in one fund for September 30, 2020 and September 30, 2019 that pursues multiple strategies to diversify risks and reduce volatility. The fund is organized for the primary purpose of developing and actively managing an investment portfolio of nontraditional portfolio managers. This is an open-ended fund that invests in equities, credit-driven, global macro, relative value, interest rate-driven, commodities, managed-futures, and event-driven, with redemption restriction terms ranging from 0 to 96 months.

The fund offers limited partnership "Class A" interests, as well as strategic interests. Generally, the limited partner may withdraw all or any portion of its Class A and strategic interests capital account at any time upon not less than 95 days' prior written notice to the fund. The general partner will submit withdrawal requests with respect to the fund's investments. Payment of the withdrawal proceeds will be made promptly after the fund receives withdrawal proceeds from such investments.

The fair value of investments in limited partnerships and investment funds and affiliated limited partnerships and investment funds is generally determined using the reported net asset value per share of the investee fund as a practical expedient for fair value.

The total market value of these investments as of September 30, 2020 and September 30, 2019 is approximately \$91.9 and \$184.0 million, respectively. There were no remaining commitments associated with these funds as of September 30, 2020 or September 30, 2019. Due to the inherent uncertainty of these estimates, these values may differ from the values that would have been used had a ready market for these investments existed, and the differences could be material.

d. Event-Driven Hedge Funds

This type includes two investments as of September 30, 2020 and one investment as of September 30, 2019 specializing in event-driven investing. It typically applies a fundamental value discipline to identify undervalued companies that have one or more specific catalysts to unlock value. It focuses on "active shareholder engagement" and invests both long and short and across the capital structure, including equity and debt.

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. Distribution proceeds from the sale of partnership investments, dividends, or interest must be returned to the limited partners within 90 days following receipt by the partnership. Such distributable amounts shall increase the unfunded portion of the limited partner commitment and may be called again for contribution to the partnership by the general partner.

It is expected that the underlying assets of the fund are liquidated over a period of three to six years. The total market value and unfunded commitments of these investments as of September 30, 2020 are approximately \$34.0 million and \$28.1 million, respectively. The total market value and unfunded commitments of these investments as of September 30, 2019 are approximately \$32.3 million and \$9.0 million, respectively. Market price observability is impacted by a number of factors, including the type of investment and characteristics specific to the investment.

Note 5 Tuition Contracts Receivable

The future monthly purchase contract receipts are actuarially calculated based on the present value of future receipts and projected investment performance. The following table summarizes tuition contracts receivable for monthly purchase contracts as of September 30:

	<u>2020</u>	<u>2019</u>
Long-term tuition contracts receivable	\$22,927,418	\$26,346,216
Current tuition contracts receivable	<u>6,716,124</u>	<u>7,707,022</u>
Total tuition contracts receivable	<u>\$29,643,542</u>	<u>\$34,053,238</u>

Note 6 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 approximate 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 MET Plan D as of September 30:

	<u>2020</u>	<u>2019</u>
Net value of total assets and deferred outflows of resources -		
Less nontuition liabilities and deferred inflows of resources	\$988,631,802	\$1,004,415,395
Present value of total tuition benefits obligation	<u>(727,394,896)</u>	<u>(783,030,397)</u>
Total net position	<u>\$261,236,906</u>	<u>\$ 221,384,998</u>

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 136% and 128% as of September 30, 2020 and September 30, 2019, respectively.

The surplus in net assets for the years ended September 30, 2020 and September 30, 2019 is the direct result of the value of assets exceeding the future tuition benefits obligation. Differences between future assumptions related to actual investment returns and actual tuition increases will affect the net assets or unfunded tuition liability.

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

- a. The investment yield that is applied to expected future cash flows to determine present value was 5.50% as of September 30, 2020 and September 30, 2019. 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.
- b. For the year ended September 30, 2020, 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% for year one, 5.00% for year two, and 4.50% for year three and beyond.

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% for year one, 5.00% for year two, and 4.50% for year three and beyond.

- c. There was no tax effect from federal income tax.
- d. MET will pay 105% of the MET weighted-average tuition in benefits and refunds.

The key tuition increase assumptions used in the actuarial valuations for MET Plan D are as follows for the years ended September 30:

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>
Year 1	5.50%	5.50%	6.00%	7.10%	
Years 1 through 2					7.10%
Years 1 through 3					
Year 2	5.00%	5.00%	5.50%	5.75%	
Year 3	4.50%	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	5.50%	5.50%	5.50%	6.00%	6.00%

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

	<u>2020</u>	<u>2019</u>
Balance - Beginning of year	\$783,030,397	\$813,562,988
Tuition benefit expense provision	22,391,911	45,806,137
Payments	(78,027,412)	(76,338,728)
Total benefits payable	<u>\$727,394,896</u>	<u>\$783,030,397</u>

The amounts due within one year for tuition benefits payable for the years ended September 30, 2020 and September 30, 2019 are \$62,764,336 and \$62,699,979, 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 7 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 of 2020, 2019, or 2018.

Note 8 Undistributed Charitable Tuition

Since the year ended September 30, 2012, MET has hosted numerous fundraisers throughout the year to help eligible foster care students attend college through the MET Charitable Tuition Program. In 2015, the Michigan Legislature established the Fostering Futures Scholarship Trust Fund within the Department of Treasury. The distribution of scholarships was moved to the Student Scholarships and Grants office (SSG). SSG disburses the charitable tuition donations to colleges for students who submitted applications during the application period.

Note 9 General Information on Employee Pension Plans

a. 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 (the State) and created under Public Act 240 of 1943, as amended. Section 2 of this Act established the Board's authority to promulgate or amend the provisions of the System. Executive Order No. 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 Michigan Judges' Retirement System; one current or former officer or enlisted person in the Michigan Military Establishment who is a member or retirant under the Michigan Military Retirement Provisions; one member of the general public; and the Attorney General, State Treasurer, Legislative Auditor General, and State Personnel Director.

SERS is accounted for in a separate pension trust and issues a publicly available financial report that includes financial statements, notes to financial statements, and required supplementary information. That report is available at michigan.gov/ors or by calling the Office of Retirement Services (ORS) at (517) 322-5103 or (800) 381-5111.

b. 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 DB plan. Retirement benefits are determined by final average compensation (FAC) 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 DB plan to new entrants. All new employees become members of the defined contribution (DC) plan. The Public Act allows returning employees and members who left State employment on or before March 31, 1997 to elect the DB plan instead of the DC plan.

c. 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% of their annual compensation to the pension fund until they terminate State employment. The 4% 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% of their annual compensation 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% 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% and, therefore, became participants of the DC plan for future service beginning on April 1, 2012. As a DC plan participant, they receive a 4% employer contribution to their 401(k) account and are eligible for an additional dollar-for-dollar employer match of up to 3% of their annual compensation to their 401(k) account.

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 of the DC plan. Their pension calculation is determined by their 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 reemployed by the State on or after January 1, 2012 and before January 1, 2014 become participants of 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.

Former nonvested members of the DB plan (with less than 10 years of service) who are reemployed by the State on or after January 1, 2014 become members of the DC plan. Any service credit previously earned would count toward 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% of their compensation to a 401(k) or 457 account, earning a matching 2% 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.

d. Regular Retirement

The retirement benefit is based on a member's years of credited service (employment) and FAC. The normal benefit equals 1.5% 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 Public Act 264 of 2011, the 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% 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:

- (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% 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.

e. 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 Michigan Department of Health and Human Services employees subject to reduction in force lay-offs by reason of deinstitutionalization.

f. 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.

- g. 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.
- h. 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.
- i. 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% 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% 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% Survivor Pension
Under this option, after the retiree's death, the beneficiary will receive 75% 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% option previously described. If the beneficiary predeceases the retiree, the pension "pops up" to the regular pension amount; another beneficiary cannot be named.
 - 50% Survivor Pension
Under this option, after the retiree's death, the beneficiary will receive 50% 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% option 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% 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 the Social Security Administration Office may vary from the estimate.

- j. Postretirement Adjustments

One-time upward benefit adjustments were made in 1972, 1974, 1976, 1977, and 1987. Beginning October 1, 1988, a 3% 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% 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% 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.

- k. Contributions

Under Public Act 264 of 2011, members who voluntarily elected to remain in the DB plan contribute 4% 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 2020, the component unit's contribution rate was 23.82% for the defined benefit employee wages and 16.99% of the defined contribution wages. MET Plan D's contributions to SERS for the fiscal year ended September 30, 2020 was \$220,475.

For fiscal year 2019, the component unit's contribution rate was 21.98% to 24.60% for the defined benefit employee wages and 17.69% to 19.70% of the defined contribution wages. MET Plan D's contributions to SERS for the fiscal year ended September 30, 2019 was \$222,543.

- l. Net Pension Liability

As of September 30, 2020, MET Plan D reported a liability of \$2,610,324 for its proportionate share of SERS's net pension liability. The net pension liability was measured as of September 30, 2019, and the total pension liability used to

calculate the net pension liability was determined by an actuarial valuation as of September 30, 2018 and rolled forward using generally accepted actuarial procedures. MET Plan D's proportion of the net pension liability was based on MET Plan D's required pension contributions received by SERS during the measurement period from October 1, 2018 through September 30, 2019, relative to the total required employer contributions from all of SERS's participating employers. MET Plan D's proportionate share of the pension liability for the year ended September 30, 2020 was 0.04%.

As of September 30, 2019, MET Plan D reported a liability of \$2,197,730 for its proportionate share of SERS's 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. MET Plan D's proportion of the net pension liability was based on MET Plan D'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's participating employers. MET Plan D's proportionate share of the pension liability for the year ended September 30, 2019 was 0.037%.

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

For the years ended September 30, 2020 and September 30, 2019, MET Plan D recognized pension expense (recovery) of \$328,942 and \$674,883, respectively.

As of September 30, 2020 and September 30, 2019, MET Plan D reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	2020		2019	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$	\$	\$	\$
Net difference between projected and actual investment earnings		102,044		187,764
Changes in proportion and differences between contributions and proportionate share of contributions				
Changes in assumption				
Employer contributions to the plan subsequent to the measurement date	220,475		222,543	
Total	<u>\$220,475</u>	<u>\$102,044</u>	<u>\$222,543</u>	<u>\$187,764</u>

Amounts reported as deferred outflows of resources related to pensions resulting from MET Plan D's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending September 30, 2021. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Years Ending September 30	Amount
2021	\$ (53,564)
2022	(57,945)
2023	4,958
2024	4,507
Total	<u>\$(102,044)</u>

n. Actuarial Assumptions

MET Plan D's net pension liability for the year ended September 30, 2020 was measured as of September 30, 2019, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of September 30, 2018 and rolled forward using generally accepted actuarial procedures. MET Plan D'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. The total pension liability was determined using the following actuarial assumptions, at the valuation date:

	September 30, 2018	September 30, 2017
Wage inflation rate	2.75%	2.75%
Projected salary increase	2.75% through 11.75%	2.75% through 11.75%
Investment rate of return	6.7%	7.00%
Cost of living pension adjustment	3% annual noncompounded with maximum annual increases of \$300 for those eligible.	3% 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-2014 Male and Female Employee Annuitant Mortality Table, adjusted for mortality improvements using the projection scale MP-2017 from 2006.
Notes	The actuarial assumptions were based upon the results of an experience study covering the period September 30, 2012 through September 30, 2017.	The actuarial assumptions were based upon the results of an experience study covering the period October 1, 2012 through September 30, 2017.

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.

o. Discount Rate

A discount rate of 6.7% and 7.0% was used to measure the total pension liability as of September 30, 2019 and September 30, 2018, respectively. This discount rate was based on the long-term expected rate of return on pension plan investments of 6.7% and 7.0% as of September 30, 2019 and September 30, 2018, 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, 2019 and September 30, 2018 are summarized in the following tables:

Asset Class	2019	
	Target Allocation	Long-term Expected Real Rate of Return*
Domestic equity pools	28.00%	5.50%
Private equity pools	18.00%	8.60%
International equity pools	16.00%	7.30%
Fixed-income pools	10.50%	1.20%
Real estate and infrastructure pools	10.00%	4.20%
Absolute return pools	15.50%	5.40%
Short-term investment pools	2.00%	0.80%

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

Asset Class	2018	
	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% inflation.

- p. Sensitivity of the Net Pension Liability to Changes in the Discount Rate
 The following presents MET Plan D'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 one percentage point lower or one percentage point higher than the current discount rate:

	September 30, 2020		
	One Percentage Point Decrease (5.7%)	Current Discount Rate (6.70%)	One Percentage Point Increase (7.7%)
Net Pension Liability of MET	\$3,358,663	\$2,610,324	\$1,974,337

	September 30, 2019		
	One Percentage Point Decrease (6.00%)	Current Discount Rate (7.00%)	One Percentage Point Increase (8.00%)
Net Pension Liability of MET	\$2,874,599	\$2,197,730	\$1,621,279

- q. Pension Plan Fiduciary Net Position
 The SERS plan fiduciary net position has been determined using the accrual basis of accounting. Benefit payment 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 michigan.gov/ors.
- r. 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% of payroll with an additional match of up to 3.0%. 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 Plan D's contributions to the plan were \$112,335 and \$115,192 for the years ended September 30, 2020 and September 30, 2019, respectively, and are recorded in salaries and benefits expense.

Note 10 Other Postemployment Benefits (OPEB) Plan

- a. Defined Benefit OPEB Plan - Healthcare

(1) 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 No. 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 SERS, at least one of whom is a retirant; one member of the Michigan Judges' Retirement System; one current or former officer or enlisted person in the

Michigan Military Establishment who is a member or retirant under the Michigan Military Retirement Provisions; one member of the general public; and the Attorney General, State Treasurer, Legislative Auditor General, and 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 System's OPEB plan is accounted for in a separate OPEB trust fund and also issues a publicly available financial report that includes financial statements, notes to the financial statements, and required supplementary information. That report may be obtained by visiting michigan.gov/ors or by calling the Customer Information Center at (517) 322-5103 or (800) 381-5111.

(2) Benefits Provided

Benefit provisions of the 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% of the monthly premium amount for the health (including prescription coverage), dental, and vision coverage. Retirees with a graded premium subsidy benefit accrue credit toward insurance premiums in retirement, earning a 30% subsidy with 10 years of service, with an additional 3% subsidy for each year of service thereafter, not to exceed the maximum allowed by statute or 80%. There is no provision for ad hoc or automatic increases. The State Employees' Retirement Act requires joint authorization by the Department of Technology, Management, and Budget 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 reemployed 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.

(3) 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 2020, MET Plan D's contribution rate was 20.67% of the defined benefit employee wages and 20.67% of the defined contribution employee wages. MET Plan D's contribution to SERS for the fiscal year ended September 30, 2020 was \$284,533. Active employees are not required to contribute to SERS OPEB.

For fiscal year 2019, MET Plan D's contribution rate was 23.80% to 22.10% of the defined benefit employee wages and 23.80% to 22.10% of the defined contribution employee wages. MET Plan D's contribution to SERS for the fiscal year ended September 30, 2019 was \$282,038. Active employees are not required to contribute to SERS OPEB.

(4) Net OPEB Liability

As of September 30, 2020, MET Plan D reported a liability of \$3,042,475 for its proportionate share of SERS's net OPEB liability. The net OPEB liability was measured as of September 30, 2019, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of September 30, 2018 and rolled forward using generally accepted actuarial procedures. MET Plan D's proportionate share of the net OPEB liability was based on MET Plan D's required pension contributions received by SERS during the measurement period from October 1, 2018 through September 30, 2019, relative to the total required employer contributions from all of SERS's participating employers. MET Plan D's proportionate share of the healthcare OPEB liability for the year ended September 30, 2020 was 0.039%.

As of September 30, 2019, MET Plan D reported a liability of \$2,870,421 for its proportionate share of SERS's 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. MET Plan D's proportionate share of the net OPEB liability was based on MET Plan D'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's participating employers. MET Plan D's proportionate share of the healthcare OPEB liability for the year ended September 30, 2019 was 0.036%.

(5) OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

For the years ended September 30, 2020 and September 30, 2019, MET Plan D recognized OPEB expense of \$328,942 and \$268,696.

As of September 30, 2020 and September 30, 2019, MET Plan D reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	2020		2019	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$	\$536,175	\$	\$296,380
Changes in assumption	481,753		238,421	
Net difference between projected and actual earnings on OPEB plan investments		13,859		34,393
Changes in proportion and differences between contributions and proportionate share of contributions	347,414	9,947	247,518	11,474
Employer contributions to the plan subsequent to the measurement date	284,533		282,038	
Total	<u>\$1,113,700</u>	<u>\$559,981</u>	<u>\$767,977</u>	<u>\$342,247</u>

Amounts reported as deferred outflows of resources related to OPEB resulting from MET Plan D's contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ending September 30, 2021. 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
2021	\$ 67,297
2022	67,297
2023	67,296
2024	67,296
Total	<u>\$269,186</u>

(6) Actuarial Assumptions

MET Plan D's net OPEB liability for the year ended September 30, 2020 was measured as of September 30, 2019, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of September 30, 2018 and rolled forward using generally accepted actuarial procedures. MET Plan D'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. The total OPEB liability was determined using the following actuarial assumptions, at the valuation date:

	September 30, 2018	September 30, 2017
Wage inflation rate	2.75%	2.75%
Investment rate of return	6.9%	7.00%
Projected salary increases	2.75% through 11.75%	2.75% through 11.75%
Healthcare cost trend rate	8.25% Year 1 graded to 3.0% Year 10	8.25% Year 1 graded to 3.0% Year 10
Mortality	RP-2014 Male and Female Employee Annuitant Mortality Table, adjusted for mortality improvements using the projection scale MP-2017 from 2006.	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, 2017 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, 2018 valuation in accordance with the dedicated gains policy adopted by the Board of Trustees. This assumption change will increase the computed liabilities.

The actuarial assumptions as of September 30, 2018 and September 30, 2017 were based upon the results of an experience study covering the period from October 1, 2012 through September 30, 2017.

(7) Discount Rate

A single discount rate of 6.9% and 7.0% was used to measure the total OPEB liability as of September 30, 2019 and September 30, 2018, respectively. This single discount rate was based on the expected rate of return on OPEB plan investments of 6.9% and 7.0% as of September 30, 2019 and September 30, 2018, 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.

(8) 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, 2019 and September 30, 2018 are summarized in the following tables:

Asset Class	2019	
	Target Allocation	Long-term Expected Real Rate of Return*
Domestic equity	28.00%	5.50%
International equity	18.00%	8.60%
Private equity	16.00%	7.30%
Real estate and infrastructure	10.50%	1.20%
Fixed-income	10.00%	4.20%
Absolute return	15.50%	5.40%
Short-term investment	2.00%	0.80%

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

Asset Class	2018	
	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%	5.70%

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

- (9) Sensitivity of the Net OPEB Liability to Changes in the Discount Rate
 The following presents the MET Plan D'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 one percentage point lower or one percentage point higher than the current discount rate:

	September 30, 2020		
	One Percentage Point Decrease (5.9%)	Current Discount Rate (6.9%)	One Percentage Point Increase (8.0%)
Proportionate share of the net OPEB liability	\$ 3,419,721	\$ 3,042,475	\$ 2,525,239

	September 30, 2019		
	One Percentage Point Decrease (6.5%)	Current Discount Rate (7.5%)	One Percentage Point Increase (8.5%)
Proportionate share of the net OPEB liability	\$ 3,013,721	\$ 2,647,154	\$ 2,336,534

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

The following presents MET Plan D'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:

	September 30, 2020		
	One Percentage Point Decrease (7.25% to 2.5%)	Current Healthcare Cost Trend Rate (8.25% to 3.5%)	One Percentage Point Increase (9.25% to 4.5%)
Proportionate share of the net OPEB liability	\$ 2,503,379	\$ 3,042,475	\$ 3,431,445

	September 30, 2019		
	One Percentage Point Decrease (7.25% to 2.0%)	Current Healthcare Cost Trend Rate (8.25% to 3.0%)	One Percentage Point Increase (9.25% to 4.0%)
Proportionate share of the net OPEB liability	\$ 2,474,985	\$ 2,870,421	\$ 3,329,878

(11) 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 michigan.gov/ors.

b. Postemployment Life Insurance Benefits

(1) Plan Description

The State of Michigan provides postemployment life insurance benefits (the Plan) to eligible individuals upon retirement from State employment. Members of SERS, the Michigan State Police Retirement System (SPRS), the Michigan Judges' Retirement System (JRS), and certain members of the Michigan Military Retirement Provisions may receive a life insurance benefit if they meet the benefit eligibility requirements. The Plan is a single-employer, Statewide, defined 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 (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.

(2) 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 excluding employees with noncareer appointments and those working less than 40% 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 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% of the active life insurance coverage (which 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.

(3) Contributions

The State contributes 100% of the premiums for employee and retiree life insurance coverage. The premium rate for fiscal year 2019 was \$0.28 for each \$1,000 of coverage. The employee contributes 100% 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.

(4) Actuarial Valuations and Assumptions

MET Plan D's total OPEB liability for the year ended September 30, 2020 was measured as of September 30, 2019 and is based on an actuarial valuation performed as of September 30, 2018 and rolled forward using generally accepted actuarial procedures. MET Plan D'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 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:

- (a) Wage Inflation Rate: 2.75%
- (b) Investment Rate of Return (discount rate): 2.75% per year as of September 30, 2019 and 3.85% per year as of September 30, 2018.
- (c) Mortality: The post-retirement mortality tables used in this valuation were 100% of the Healthy Life and Disabled Life Mortality.
- (d) IBNR: A liability equal to 25% of expected first year cash flow was held for postemployment life insurance benefits claims incurred but not reported (IBNR).
- (e) 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% for SERS retirees.
- (f) 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% for SERS retirees.
- (g) Compensation: For some SERS retirees, FAC was not reported. The FAC for these members was assumed to be \$54,575 (the average of all SERS retiree records reported with FAC).

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 0.986618 (two-year FAC) for conservation and 0.973475 (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.

(h) 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% 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.

(5) Discount Rate

A discount rate of 2.75% and 3.83% was used to measure the ending total OPEB liability for postemployment life insurance benefits as of September 30, 2019 and September 30, 2018, 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.

(6) Total OPEB Liability for Postemployment Life Insurance Benefits

As of September 30, 2020, MET Plan D reported a liability of \$443,925 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, 2019 based on an actuarial valuation as of September 30, 2018 and rolled-forward using generally accepted actuarial procedures. MET Plan D's proportionate share of the total OPEB liability was determined by dividing MET Plan D's actual contributions to the Plan during the measurement period from October 1, 2018 through September 30, 2019 by the percent of OPEB actual contributions received from all applicable employers. MET Plan D's proportionate share of the life insurance OPEB liability for the year ended September 30, 2020 was 0.036%.

As of September 30, 2019, MET Plan D reported a liability of \$425,656 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 Plan D's proportionate share of the total OPEB liability was determined by dividing MET Plan D'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 Plan D's proportionate share of the life insurance OPEB liability for the year ended September 30, 2019 was 0.034%.

- (7) Sensitivity of the Total OPEB Liability for Postemployment Life Insurance
 The following presents MET Plan D'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 one percentage point lower or one percentage point higher than the current discount:

	September 30, 2020		
	One Percentage Point Decrease (1.75%)	Current Discount Rate (2.75%)	One Percentage Point Increase (3.75%)
Proportionate share of the net OPEB liability	\$ 518,817	\$ 443,925	\$ 369,990

	September 30, 2019		
	One Percentage Point Decrease (2.83%)	Current Discount Rate (3.83%)	One Percentage Point Increase (4.83%)
Proportionate share of the net OPEB liability	\$ 497,685	\$ 425,656	\$ 368,118

- (8) OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB for Postemployment Life Insurance Benefits
 For the year ended September 30, 2020 and September 30, 2019, MET Plan D recognized OPEB expense (recovery) of \$39,019 and \$25,212, respectively.

As of September 30, 2020 and September 30, 2019, MET Plan D reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	2020		2019	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ 225	\$ 4,641	\$ 298	\$ 2,178
Changes in assumption	89,497	74,812		37,360
Employer contributions subsequent to the measurement date	13,664		12,302	
Changes in proportion and differences between contributions and proportionate share of contributions			46,408	
Total	\$103,386	\$79,453	\$59,008	\$39,538

Amounts reported as deferred outflows of resources related to OPEB resulting from MET Plan D's contributions subsequent to the measurement date will be recognized as a reduction of the total OPEB liability in the year ending September 30, 2021. 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
2021	\$ 2,568
2022	2,567
2023	2,567
2024	2,567
Total	<u>\$10,269</u>

c. 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% of their compensation into a 401(k) or 457 account, earning a matching 2% 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 SUPPLEMENTARY INFORMATION

MICHIGAN EDUCATION TRUST PLAN D
 Required Supplementary Information
 Schedule of Proportionate Share of Net Pension Liability
 Michigan State Employees' Retirement System
Fiscal Years 2015 Through 2020

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Proportion of the net pension liability	0.03915%	.03741%	.03675%	.03147%	.03128%	.03022%
Proportionate share of the net pension liability	\$2,610,324	\$2,197,730	\$1,640,061	\$1,685,545	\$1,721,115	\$1,555,317
Covered payroll	\$1,049,389	\$1,055,453	\$ 935,614	\$ 896,058	\$1,319,430	Not available
Proportionate share of the net pension liability as a percentage of its covered payroll	248.75%	208.23%	155.39%	180.15%	192.08%	117.88%
Plan fiduciary net position as a percentage of total pension liability	64.71%	67.22%	69.45%	67.47%	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.

See accompanying notes to required supplementary information – pension schedules.

MICHIGAN EDUCATION TRUST PLAN D
 Required Supplementary Information
 Schedule of Pension Contributions
 Michigan State Employees' Retirement System
Fiscal Years 2015 Through 2020

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Statutorily required contribution	\$ 220,475	\$ 222,543	\$ 221,349	\$224,863	\$216,757	\$ 427,405
Contributions in relation to the statutorily required contribution	<u>220,475</u>	<u>222,543</u>	<u>221,349</u>	<u>224,863</u>	<u>216,578</u>	<u>427,405</u>
Contribution deficiency	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 179</u>	<u>\$ 0</u>
Covered payroll	\$1,049,389	\$1,171,708	\$1,055,453	\$935,614	\$896,058	\$1,319,430
Contributions as a percentage of covered payroll	21.01%	18.99%	20.97%	24.03%	24.17%	32.39%

See accompanying notes to required supplementary information - pension schedules.

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - PENSION SCHEDULES

(1) Actuarial valuation information relative to the determination of contributions:

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

(2) Methods and assumptions used to determine contribution rates for fiscal year 2020:

Actuarial cost method:	Entry age, normal
Amortization method:	Level dollar, closed
Remaining amortization period:	18 years, closed ending September 30, 2036
Asset valuation method:	Five-year smoothed market
Inflation:	2.7%
Salary increase:	2.7% to 12.5% wage inflation
Investment rate of return:	6.7% per year
Retirement age:	Experience-based table of rates that are specific to the type of eligibility condition.
Mortality:	RP-2014 Male and Female Employee Annuitant Mortality Table, adjusted for mortality improvements using the projection scale MP-2017 from 2006.

- (3) 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.
- (4) The schedule of pension contributions is presented to show the responsibility of the employer in meeting the actuarial requirements to maintain the System on a sound financial basis.
- (5) The schedule of the proportionate share of the net pension liability and schedule of pension 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 pension contributions is a comparison of the employer's contributions to the actuarially determined contributions.
- (6) The information presented in the schedule of pension contributions was used in the actuarial valuation for the purpose of determining the actuarially determined contribution rate.

MICHIGAN EDUCATION TRUST PLAN D
 Required Supplementary Information
 Schedule of Proportionate Share of the Net OPEB Liability - Healthcare
 Michigan State Employees' Retirement System
Plan Years 2018 Through 2020

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Proportion of the net OPEB liability	0.03864%	0.03556%	0.02837%
Proportionate share of the net OPEB liability	\$3,042,475	\$2,870,421	\$2,647,154
Covered payroll	\$1,049,389	\$1,055,453	\$ 935,614
Proportionate share of the net OPEB liability as a percentage of its covered payroll	289.93%	271.96%	250.81%
Plan fiduciary net position as a percentage of total OPEB liability	27.88%	24.41%	19.89%

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.

MICHIGAN EDUCATION TRUST PLAN D
Required Supplementary Information
Schedule of OPEB Contributions - Healthcare
Michigan State Employees' Retirement System
Plan Years 2018 Through 2020

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Statutorily required contribution	\$ 284,533	\$ 282,038	\$ 205,890
Contributions in relation to the statutorily required contribution	284,533	282,038	205,890
Contribution deficiency	\$ 0	\$ 0	\$ 0
Covered payroll	\$1,049,389	\$1,717,708	\$1,055,453
Contributions as a percentage of covered payroll	27.11 %	24.07 %	19.51%

Notes to Schedule of OPEB Contributions

- (1) Actuarial valuation information relative to the determination of contributions:

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

- (2) Methods and assumptions used to determine contribution rates:

Actuarial cost method: Entry age, normal
Amortization method: Level-Percent of Payroll
Remaining amortization period: 18 years
Asset valuation method: Market Value of Assets
Salary increase: 2.75% through 11.75%
Investment rate of return: 6.9% per year
Health care cost trend rate: 8.25% year 1 graded to 3.5% year 10
Mortality: RP-2014 Combined Healthy Mortality Table, adjusted for mortality improvements using projection scale MP-2017 from 2006.

MICHIGAN EDUCATION TRUST PLAN D
 Required Supplementary Information
 Schedule of Proportionate Share of the Net OPEB Liability -
 Postemployment Life Insurance Benefit
Plan Years 2018 Through 2020

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Proportion of the net OPEB liability	0.03625%	0.03411%	0.03338%
Proportionate share of the net OPEB liability	\$ 443,925	\$ 425,656	\$ 383,266
Covered employee payroll	\$1,049,389	\$1,171,708	\$1,055,453
Proportionate share of the net OPEB liability as a percentage of its covered employee payroll	42.30%	36.33%	36.31%

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.

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL AND COMPLIANCE



Office of the Auditor General

201 N. Washington Square, Sixth Floor • Lansing, Michigan 48913 • Phone: (517) 334-8050 • audgen.michigan.gov

Doug A. Ringler, CPA, CIA
Auditor General

Independent Auditor's Report on Internal Control Over
Financial Reporting and on Compliance and Other Matters

Ms. Rachael Eubanks, State Treasurer and Chair
Michigan Education Trust Board of Directors
and

Ms. Diane Brewer, Executive Director
Michigan Education Trust
Richard H. Austin Building
Lansing, Michigan

Dear Ms. Eubanks and Ms. Brewer:

We have audited, in accordance with the 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 basic financial statements of the Michigan Education Trust Plan D, a discretely presented component unit of the State of Michigan, as of and for the fiscal year ended September 30, 2020 and the related notes to the basic financial statements and have issued our report thereon dated January 15, 2021.

Internal Control Over Financial Reporting

In planning and performing our audit of the basic financial statements, we considered the Michigan Education Trust's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the basic financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Michigan Education Trust's internal control. Accordingly, we do not express an opinion on the effectiveness of the Michigan Education Trust'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 the entity's basic 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 have not been 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 deficiency in internal control, as described in Finding #1, that we consider to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Michigan Education Trust Plan D's basic 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 financial statements. 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*.

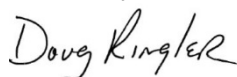
Michigan Education Trust's Response to Finding

The Michigan Education Trust's preliminary response to the finding identified in our audit is included in the body of our report. The Michigan Education Trust's response was not subjected to the auditing procedures applied in the audit of the basic 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 the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Sincerely,



Doug Ringler
Auditor General
January 15, 2021

FINDINGS, RECOMMENDATIONS, AND AGENCY PRELIMINARY RESPONSES

FINDING #1

Financial reporting processes should be improved.

The Michigan Education Trust (MET) should improve its financial reporting processes to help ensure efficient and accurate preparation of the MET Plan D financial statements.

Section 18.1485 of the *Michigan Compiled Laws* requires each department to establish and maintain an internal accounting and administrative control system using generally accepted accounting principles*. It further explains that the controls should include a system of practices to be followed in the performance of duties; techniques that are effective, efficient, and documented; and assurance that the system is functioning as intended.

Although we issued an unmodified opinion on the MET Plan D financial statements, our review of MET's financial reporting processes disclosed that MET did not always prepare the financial statement and note drafts efficiently or ensure that information included was relevant, complete, accurate, and consistently presented in the statements and notes.

MET indicated that working from home because of the COVID-19* pandemic and a loss of accounting staff just before and during the financial statement preparation process contributed to the issues noted above.

RECOMMENDATION

We recommend that MET improve its financial reporting processes.

AGENCY PRELIMINARY RESPONSE

MET provided us with the following response:

MET agrees with the recommendation and will work to implement improvements with its financial reporting processes.

* See glossary at end of report for definition.

**PRIOR AUDIT
FOLLOW-UP**

Following is the status of the reported findings from the 2019 Michigan Education Trust Plan D report on internal control, compliance, and other matters:

<u>Prior Audit Finding Number</u>	<u>Topic Area</u>	<u>Current Status</u>	<u>Current Finding Number</u>
1	Cash Deposit Allocation	Complied	Not applicable

GLOSSARY OF ABBREVIATIONS AND TERMS

COVID-19	The infectious disease caused by the most recently discovered coronavirus. This new virus and disease were unknown before the outbreak began in Wuhan, China, in December 2019. COVID-19 is now a pandemic affecting many countries globally.
DB plan	defined benefit plan.
DC plan	defined contribution plan.
deficiency in internal control over financial reporting	The design or operation of a control that 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.
FAC	final average compensation.
FDIC	Federal Deposit Insurance Corporation.
financial audit	An audit that is designed to provide reasonable assurance about whether the basic financial statements of an audited entity are presented fairly, in all material respects, in accordance with the applicable financial reporting framework.
generally accepted accounting principles (GAAP)	A technical accounting term that encompasses the conventions, rules, guidelines, and procedures necessary to define accepted accounting practice at a particular time; also cited as "accounting principles generally accepted in the United States of America."
Governmental Accounting Standards Board (GASB)	An arm of the Financial Accounting Foundation established to promulgate standards of financial accounting and reporting with respect to activities and transactions of state and local governmental entities.
HRA	health reimbursement account.
internal control	A process, effected by those charged with governance, management, and other personnel, designed to provide reasonable assurance about the achievement of the entity's objectives with regard to the reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations.

IRS	Internal Revenue Service.
material misstatement	A misstatement in the basic financial statements that causes the statements to not present fairly the financial position or the changes in financial position, and, where applicable, cash flows thereof, in accordance with the applicable financial reporting framework.
material weakness in internal control over financial reporting	A deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the basic financial statements will not be prevented, or detected and corrected, on a timely basis.
MET	Michigan Education Trust.
modified opinion	A qualified opinion, an adverse opinion, or a disclaimer of opinion.
NAV	net asset value.
OPEB	other postemployment benefits.
SERS	Michigan State Employees' Retirement System.
significant deficiency in internal control over financial reporting	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.
SOMCAFR	<i>State of Michigan Comprehensive Annual Financial Report.</i>
SPRS	Michigan State Police Retirement System.
unmodified opinion	The opinion expressed by the auditor when the auditor, having obtained sufficient appropriate audit evidence, concludes that the basic financial statements are presented fairly, in all material respects, in accordance with the applicable financial reporting framework.



Report Fraud/Waste/Abuse

Online: audgen.michigan.gov/report-fraud

Hotline: (517) 334-8070