

MICHIGAN STATE EMPLOYEES' RETIREMENT SYSTEM
ANNUAL ACTUARIAL VALUATION REPORT
SEPTEMBER 30, 2015

May 4, 2016

The Retirement Board
Michigan State Employees' Retirement System
530 W. Allegan
Lansing, Michigan 48909

Re: Michigan State Employees' Retirement System - Actuarial Valuation as of September 30, 2015

Dear Board Members:

The results of the September 30, 2015 annual actuarial valuation of the Michigan State Employees' Retirement System pension benefits are presented in this report. The purpose of the valuation was to measure the System's funding progress and to determine the employer contribution for the 2015-2016 fiscal year. The report should not be relied upon for any other purpose. This report may be provided to parties other than the Office of Retirement Services only in its entirety and only with the permission of the Office of Retirement Services.

The valuation was based upon information, furnished by the Office of Retirement Services, concerning Retirement System benefits, financial transactions, and active members, terminated members, retirees and beneficiaries. Data was checked for internal and year-to-year consistency, but was not otherwise audited by us. As a result, we are unable to assume responsibility for the accuracy or completeness of the data provided. Year 2005 and prior years' valuation results back to 1993 were not prepared by GRS and are presented for comparison with the current year's results.

The valuation summarized in this report involves actuarial calculations that require making assumptions about future events. We believe that the assumptions and methods used in this report are reasonable and appropriate. However, other assumptions and methods could also be reasonable and could result in materially different results. Some of the numbers in this report are rounded. The use of the rounded numbers for plan liabilities should not imply a lack of precision. In addition, because it is not possible or practical to consider every possible contingency, we may use summary information, estimates or simplifications or calculations to facilitate the modeling of future events. We may also exclude factors or data that we deem to be immaterial.

Future actuarial measurements may differ significantly from the current measurements presented in this report due to such factors as the following: plan experience differing from that anticipated by the economic or demographic assumptions; changes in economic or demographic assumptions; increases or decreases expected as part of the natural operation of the methodology used for these measurements (such as the end of an amortization period or additional cost or contribution requirements based on the plan's funded status); and changes in plan provisions or applicable law.

The Retirement Board
May 4, 2016
Page 2

To the best of our knowledge, this report is accurate and fairly presents the actuarial position of the Retirement System. The valuation was conducted in accordance with standards of practice prescribed by the Actuarial Standards Board and in compliance with the applicable state statutes. Mita D. Drazilov and Louise M. Gates are independent of the plan sponsor and are members of the American Academy of Actuaries (MAAA) who meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinions contained herein. It is our opinion that the actuarial assumptions used for the valuation produce results which are reasonable.

Sincerely,



Mita D. Drazilov, ASA, MAAA



Louise M. Gates, ASA, MAAA

MDD/LMG:mrh

TABLE OF CONTENTS

	<u>Page</u>
Executive Summary/Board Summary	1
Section A Introduction	
Contribution Requirements.....	1
Discussion of Changes.....	3
Measures of Financial Soundness.....	4
Other Observations	6
Section B Funding Results	
Present Value of Future Benefits and Accrued Liability.....	1
Experience Gain/(Loss)	2
Historical Schedules	5
Section C Fund Assets	
Statement of Plan Net Assets.....	1
Reconciliation of Plan Net Assets	2
Development of Valuation Assets	3
Historical Schedules	5
Section D Census Data	
Summary of Participant Data by Category	1
Retirees and Beneficiaries	2
Active Members.....	4
Section E Methods and Assumptions	
Valuation Methods.....	1
Valuation Assumptions.....	2
Miscellaneous and Technical Assumptions.....	8
Section F Plan Provisions	1
Section G Glossary	1

EXECUTIVE SUMMARY/BOARD SUMMARY

1. Required Employer Contributions to Support Retirement Benefits

The computed employer contribution for the fiscal year beginning October 1, 2015 is shown below. Computed contributions are displayed as annual dollar amounts. The Retirement System is closed to new members and as a result, contributions expressed as percentages of active member payroll are not useful. We understand that the current policy is to contribute on the basis of the dollar amount shown below.

Contribution \$
\$645,508,641

2. Contribution Comparison

The chart below compares the results of this valuation of the Retirement System with the results of the prior year’s valuation.

Valuation Date	9/30/2014	9/30/2015
Contribution \$	\$654,515,057	\$645,508,641

3. Reasons for Change

There are three general reasons why contribution rates change from one valuation to the next. The first is a change in the benefits or eligibility conditions of the plan. The second is a change in the valuation assumptions used to predict future occurrences. The third is the difference during the year between the plan’s actual experience and what the assumptions predicted.

There were no material benefit changes reported to the actuary and no changes were made to the valuation assumptions for the year ended September 30, 2015. Experience for the year ended September 30, 2015 was overall favorable and is described in more detail in Section B of this report.

SECTION A
INTRODUCTION

CONTRIBUTION REQUIREMENTS

Development of Employer Contributions for the Indicated Valuation Date

Contributions for	September 30	
	2014	2015
(1) Fiscal Year Ending September 30,	2015	2016
(2) Total Normal Cost of Benefits (as a % of member pay)	7.44%	7.38%
(3) Member Contribution %	<u>4.00%</u>	<u>4.00%</u>
(4) Employer Normal Cost % = (2) - (3)	3.44%	3.38%
(5) Projected Tier1 Active Member Payroll for Coming Year	\$ 999,226,396	\$ 909,820,011
(6) Employer Normal Cost \$ = (4) x (5)	34,373,388	30,751,916
a. Tier 2 Employer Normal Cost \$	6,070,121	6,896,913
b. Total Employer Normal Cost \$ = (6) + (6a)	<u>\$ 40,443,509</u>	<u>\$ 37,648,829</u>
(7) Total Accrued Liability	16,172,937,851	16,237,489,614
(8) Funding Value of Assets	<u>9,961,903,019</u>	<u>10,416,577,282</u>
(9) Unfunded Actuarial Accrued Liabilities (UAAL) = (7) - (8)	\$ 6,211,034,832	\$ 5,820,912,332
a. Present Value of Budgeted Early Retirement Incentive Payments	144,467,485	144,467,485
b. Present Value of Remaining Early Retirement Incentive Payments	64,310,668	0
c. Present Value of Future Reconciliation Payments	<u>317,520,340</u>	<u>158,894,741</u>
d. Net UAAL to be Amortized = (9) - (9a) - (9b) - (9c)	\$ 5,684,736,339	\$ 5,517,550,106
(10) Amortization Period (years)	22	21
(11) Amortization Factor (level dollar payments)	10.60354019	10.41233643
(12) Amortization Payment (Credit) = (9d) / (11)	\$ 536,116,829	\$ 529,905,093
(13) Scheduled Amortization Payment (ERI) [^] (reflected in (9a))	\$ 77,954,719	\$ 77,954,719
(14) Total Computed Employer Contribution = (6b) + (12) + (13)	\$ 654,515,057	\$ 645,508,641

[^] The first amortization payment for the Early Retirement Incentive (ERI) was paid Fiscal Year (FY) 2013 and the last payment is assumed to be paid FY 2017.

Computed Employer Contributions

Based on the assumptions outlined in Section E, the long term employer contribution rate for Tier 1 members of the Michigan State Employees' Retirement System is expected to be 3.38% of payroll (the employer normal cost rate) until the last active member retires. However, there is also an employer normal cost contribution needed to fund the disability and death-in-service benefits for the Tier 2 member population. For the current year, a contribution is also needed to fund the unfunded actuarial accrued liability (UAAL). The sum of these contributions is the recommended employer contribution.

Please note that if the above is used to budget for the fiscal year beginning October 1, 2017, the ERI contribution should not be included.

CONTRIBUTION REQUIREMENTS

Determining Employer Dollar Contributions

For any period of time, the percent-of-payroll contribution rate needs to be converted to dollars, then promptly contributed to the Retirement System. The employer normal cost rate (expressed as a % of active member payroll) is 3.38%. Applying the employer normal cost contribution rate of 3.38% to the projected payroll for the coming fiscal year, produces annual employer normal cost contributions of \$30,751,916. The Tier 2 annual employer normal cost contributions are \$6,896,913. The amortization payment for funding the remaining liability resulting from the ERI is \$77,954,719. The amortization payment for funding the UAAL, \$529,905,093, when added to the two normal cost contributions and the ERI amortization payment produces a total employer contribution of \$645,508,641. This contribution requirement is in addition to the reconciliation payments required by subsection 38(5) of the SERS statute.

Disability and Death-In-Service Benefits for Tier 2 Participants

Section 67a of the SERS statute provides that if a Tier 2 participant (defined contribution plan) becomes disabled or dies in employment, there may be a disability pension or survivor pension payable from the defined benefit plan. The pension amount would be based on the regular disability and death-in-service provisions of the defined benefit plan (Tier 1), but would be reduced to reflect the lump sum payment from the participant's defined contribution account. Beginning with the September 30, 2010 annual actuarial valuation, this Tier 2 benefit provision is included in the calculation of liabilities and the employer contribution requirement. In prior years, there was no advance funding for this benefit provision. When a Tier 2 participant became disabled or died in employment and a defined benefit pension was payable, an actuarial loss occurred and future employer contribution requirements were increased.

DISCUSSION OF CHANGES

Revisions in Benefits

There have been no material revisions in plan benefits reported to GRS in connection with this valuation of the Retirement System.

Revisions in Actuarial Assumptions or Methods

There have been no material revisions in the assumptions or methods since the last valuation of the System.

Actuarial Experience

Actuarial Experience during the year ended September 30, 2015 was more favorable than anticipated by the actuarial assumptions. The net actuarial gain was approximately \$143 million. The gain was primarily due to recognized investment gains during the last plan year. Pages B-2 and B-3 describe this in detail.

Comment on the Investment Markets

Investment markets continue to be volatile. The actuarial value of assets (funding value), used to determine both the funded status and the required employer contribution, is based on a 5-year smoothed value of assets. This reduces the volatility of the valuation results.

As of September 30, 2015, the actuarial value of assets was 97% of the market value of assets. If the September 30, 2015 results were based on the market value of assets instead of the actuarial value of assets, the funded percent of the plan would be 66.1% (instead of 64.2%).

MEASURES OF FINANCIAL SOUNDNESS

The purpose of this section of the report is to provide certain measures which indicate the financial soundness of the program. These measures relate to long term solvency and level funding.

The various percentages listed in this section as of a single valuation date are not overly significant standing alone. What is more significant is the trend of the rates over a period of years. It is also important to keep in mind that each time benefits or assumptions are revised, actuarial liabilities are created or diminished. Any newly created liabilities are financed systematically over a period of future years. All actuarially computed values in this analysis are based on the actuarial assumptions utilized in the respective years' actuarial valuations.

Long Term Solvency

Over the longer term, the solvency of an ongoing plan can be measured by comparing the actuarial value of assets to an amount known as the actuarial accrued liability (AAL) under the Entry Age actuarial cost method. This item has often been called the “past service liability”. The AAL may be affected immediately by any revisions in benefits or assumptions. The accumulation of assets to equal the AAL can be considered a long range funding goal. Largely because of periodic benefit increases, very few retirement programs have attained this goal.

Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability	% of AAL Covered by Assets
9/30/2015	\$ 10,416,577,282	\$16,237,489,614	64.2%
9/30/2014 *	9,961,903,019	16,172,937,851	61.6
9/30/2014	9,961,903,019	15,770,544,428	63.2

** Revised actuarial assumptions and/or methods.*

The chart above illustrates that the funded percent has increased since the prior year. Page B-7 of this report shows the funded percent for a longer period and in greater detail. In particular, the funded percent for current benefit recipients is now 81.7% (compared to 80.4% last year).

MEASURES OF FINANCIAL SOUNDNESS

Level Contributions

The actuarial assumptions and cost methods have been chosen with the intent of producing required employer contributions which remain fairly level. In a closed plan, the normal cost dollar amount will eventually decline as active members retire and terminate employment.

Valuation Date	Employer Normal Cost	Amortization Payment	Total Contribution
9/30/2015 ¹	\$ 37,648,829	\$607,859,812	\$645,508,641
9/30/2014 ^{1*}	40,443,509	614,071,548	654,515,057
9/30/2014 ¹	38,683,208	576,122,578	614,805,786

¹ Reflects the amortization of the remaining liability for the ERI.

* Revised actuarial assumptions and/or methods.

A major factor affecting the stability of the contribution requirements shown above is how well the actual plan experience compares to the actuarial assumptions. The value of the difference between what actually occurred and what was assumed to occur is called the actuarial gain or loss. Gains tend to lower the subsequent cost of the program while losses tend to cause subsequent costs to rise.

Year Ending	Actuarial Gain/(Loss)
9/30/2015	\$142,773,154
9/30/2014	202,925,386

Analysis of all the benchmarks listed above, over a period of years, will provide an indication of whether the program is becoming financially stronger or weaker.

OTHER OBSERVATIONS

General Implications of Contribution Allocation Procedure or Funding Policy on Future Expected Plan Contributions and Funded Status

Given the plan's contribution allocation procedure, if all actuarial assumptions are met (including the assumption of the plan earning 8.0% on the actuarial value of assets), it is expected that:

- (1) employer normal cost dollar amounts will eventually decrease as active payroll declines due to the closed nature of the plan,
- (2) amortization payment dollar amounts (excluding ERI payments) will remain level over the next 21 years,
- (3) the unfunded actuarial accrued liability will be fully amortized after 21 years, and
- (4) the funded status of the plan will increase gradually towards a 100% funded ratio.

Limitations of Funded Status Measurements

Unless otherwise indicated, a funded status measurement presented in this report is based upon the actuarial accrued liability and the actuarial value of assets. Unless otherwise indicated, with regards to any funded status measurements presented in this report:

- (1) The measurement is inappropriate for assessing the sufficiency of plan assets to cover the estimated cost of settling the plan's benefit obligations.
- (2) The measurement is inappropriate for assessing the need for or the amount of future employer contributions.
- (3) The measurement would produce a different result if the market value of assets were used instead of the actuarial value of assets, unless the market value of assets is used in the measurement.

SECTION B
FUNDING RESULTS

PRESENT VALUE OF FUTURE BENEFITS AND ACCRUED LIABILITY

**Determination of Unfunded Accrued Liability
as of September 30, 2015**

	<u>All Divisions</u>
A. Accrued Liability	
1. For retirees and beneficiaries	\$ 12,483,342,085
2. For vested and other terminated members [#]	409,759,734
3. For other inactive members*	56,934,664
4. For present active members	
a. Value of expected future benefit payments	3,673,910,729
b. Value of future normal costs	<u>386,457,598</u>
c. Active member accrued liability: (a) - (b)	<u>3,287,453,131</u>
5. Total accrued liability	16,237,489,614
B. Present Valuation Assets (Funding Value)	<u>10,416,577,282</u>
C. Unfunded Accrued Liability: (A.5) - (B)	<u><u>5,820,912,332</u></u>
D. Funding Ratio: (B) / (A.5)	<u><u>64.2%</u></u>

[#] Includes pending refunds.

* Liability for employees who transferred to the DC pension plan in connection with PA 264 of 2011.

EXPERIENCE GAIN/(LOSS)

A. Derivation of Actuarial Gain/(Loss):	
1. Unfunded Actuarial Accrued Liability (UAAL) - Previous Valuation	\$6,211,034,832
2. Total Normal Cost (employer plus member) for Year Ending 9/30/2015	80,412,565
3. Total Contributions (employer plus member) for Year Ending 9/30/2015	796,020,385
4. Interest at 8% on:	
a. UAAL: $.08 \times (1)$	496,882,787
b. Normal Cost and Contributions: $.04 \times [(2) - (3)]$	(28,624,313)
c. Net Total: (a) + (b)	468,258,474
5. Change in UAAL due to Benefit Changes	0
6. Change in UAAL due to Assumption Changes	0
7. Expected UAAL Current Year:	
(1) + (2) - (3) + (4c) + (5) + (6)	5,963,685,486
8. Actual UAAL Current Year	5,820,912,332
9. Experience Gain/(Loss): (7) - (8)	142,773,154
B. Approximate Portion of Gain/(Loss) due to Investments	145,959,597
C. Approximate Portion of Gain/(Loss) due to Liabilities: (A.9) - (B)	(3,186,443)

The schedule above shows the net aggregate experience for the System. The next page shows this experience in detail.

DETAILED EXPERIENCE GAIN/(LOSS)

**Gains/(Losses) during the Year Ended September 30, 2015
Resulting from Differences between Assumed and Actual Experience**

TYPE OF ACTIVITY	<u>Gain/(Loss)</u>
1. Retirements (including disability retirement). If members retire at older ages or with lower final average pay than assumed, there is a gain. If younger ages or higher average pays, a loss.	\$ (31,329,281)
2. Withdrawal from Employment (including death-in-service). If more liabilities are released by withdrawals and deaths than assumed, there is a gain. If smaller releases, a loss.	(1,304,578)
3. Pay Increases . If there are smaller pay increases than assumed, there is a gain. If greater increases, a loss.	39,606,596
4. Investment Income . If there is greater investment income than assumed, there is a gain. If less income, a loss.	145,959,597
5. Death After Retirement . If retirants and inactive vested members live longer than assumed, there is a loss. If not as long, a gain.	3,402,783
6. Rehires . Rehires into the System will generally result in an actuarial loss.	(9,946,642)
7. Other . Miscellaneous gains and losses resulting from data adjustments, timing of financial transactions, etc.	<u>(3,615,321)</u>
8. Composite Gain/(Loss) During Year.	\$ 142,773,154

EXPERIENCE GAIN/(LOSS)

Five-Year History
(Amounts Shown in Thousands)

Plan Year Ending September 30	Experience Gain/(Loss)	Gain/(Loss) Due to Investments	Actuarial Value of Investments	Investment Gain/(Loss) as % of Assets
2015	\$ 142,773	\$ 145,960	\$ 10,416,577	1.40%
2014	202,925	258,487	9,961,903	2.59
2013	(96,787)	(213,845)	9,437,627	(2.27)
2012	(807,610)	(850,815)	9,447,057	(9.01)
2011	(1,004,765)	(767,318)	10,212,036	(7.51)

Plan Year Ending September 30	Gain/(Loss) Due to Liabilities	Actuarial Accrued Liability	Liability Gain/(Loss) as % of Accrued Liability
2015	\$ (3,187)	\$ 16,237,490	(0.02)%
2014	(55,562)	16,172,938	(0.34)
2013	117,058	15,647,718	0.75
2012	43,205	15,654,138	0.28
2011	(237,447)	15,596,984	(1.52)

HISTORICAL FUNDING LEVELS FOR ACTUARIAL ACCRUED LIABILITIES

(Dollar Amounts Shown in Thousands)

Valuation Date September 30	Actuarial Accrued Liability	Actuarial Value of Assets	Funded Ratio	Unfunded/ (Overfunded) Accrued Liability	Active Member Reported Payroll	Unfunded/(Overfunded) As % of Active Payroll
2000	\$ 9,473,873	\$ 10,336,872	109.1%	\$ (863,000)	\$ 2,253,818	(38.3) %
2001	9,878,161	10,632,677	107.6	(754,516)	2,230,562	(33.8)
2002	10,752,684	10,616,278	98.7	136,406	2,133,477	6.4
2003	11,761,147	10,440,611	88.8	1,320,536	1,859,555	71.0
2004	12,166,603	10,149,275	83.4	2,017,328	1,889,410	106.8
2004 ²	12,003,995	10,149,275	84.6	1,854,719	1,889,410	98.2
2005	12,400,361	9,896,760	79.8	2,503,601	1,880,179	133.2
2006	12,798,520	10,110,658	79.0	2,687,861	1,847,653	145.5
2006 ¹	12,798,520	10,889,925	85.1	1,908,595	1,847,653	103.3
2007	13,161,656	11,343,529	86.2	1,818,126	1,825,889	99.6
2008	13,765,638	11,402,861	82.8	2,362,777	1,763,672	134.0
2009	14,233,710	11,106,969	78.0	3,126,741	1,734,325	180.3
2010	14,527,692	10,782,287	74.2	3,745,405	1,621,709	231.0
2010 ²	14,860,375	10,782,287	72.6	4,078,088	1,621,709	251.5
2011	15,596,984	10,212,036	65.5	5,384,948	1,276,058	422.0
2012	15,654,138	9,447,057	60.3	6,207,081	1,155,591	537.1
2013	15,647,718	9,437,627	60.3	6,210,091	1,081,729	574.1
2014	15,770,544	9,961,903	63.2	5,808,641	1,010,987	574.6
2014 ²	16,172,938	9,961,903	61.6	6,211,035	1,010,987	614.4
2015	16,237,490	10,416,577	64.2	5,820,913	922,093	631.3

¹ Revised asset valuation method.

² Revised actuarial assumptions and/or methods.

**RECOMMENDED AND ACTUAL STATE CONTRIBUTIONS
HISTORICAL COMPARISON**

Fiscal Year Ending September 30	Valuation Date September 30	Contribution Rates As Percents of Valuation Payroll	Actual Payroll	Employer Contribution for Fiscal Year	
				Computed	Actual
2004	2003	14.12 %	\$ 1,759,588,178	\$ 248,453,851	\$ 128,326,810 ⁴
2005	2004	17.30	1,844,786,278	319,148,026	-
2005	2004 ²	16.31	1,844,786,278	300,884,642	256,433,052
2006	2005	19.50	1,789,601,622	348,972,316	270,705,017
2007	2006	N/A	1,783,386,714	380,308,846	-
2007	2006 ³	N/A ⁶	1,783,386,714	382,729,234	-
2007	2006 ¹	N/A	1,783,386,714	316,138,419	-
2007	2006 ⁷	N/A	1,783,386,714	238,929,773	192,162,537 ⁸
2008	2007	N/A	1,775,357,906	308,019,761	355,732,115
2009	2008	N/A	1,698,833,836	351,646,663	343,787,486
2010	2009	N/A	1,603,842,498	418,427,738	369,952,868
2011	2010	N/A	1,321,472,297	467,008,177	-
2011	2010 ²	N/A	1,321,472,297	447,924,105	424,546,805
2012	2011	N/A	1,155,756,859	512,615,918	419,926,997
2013	2012 ³	N/A	1,104,669,153	611,132,218	604,845,495
2014	2013	N/A	1,006,632,785	624,467,122	705,100,454
2015	2014	N/A	946,976,960	614,805,786	-
2015	2014 ²	N/A	946,976,960	654,515,057	749,332,013
2016 ⁵	2015	N/A		645,508,641	

¹ Revised asset valuation method.

² Revised actuarial assumptions and/or methods.

³ Revised benefit provisions.

⁴ Net after transfer was made to the Health Advance Funding Subaccount from employer contributions.

⁵ For the year ending September 30, 2016 the actual payroll and actual contributions are not yet known.

⁶ For the 2006 and later valuations a contribution percentage is not computed because the Retirement System is closed.

⁷ Interest-only funding adopted for one year only.

⁸ Includes transfer from the Health Advance Funding Subaccount.

HISTORICAL FUNDING LEVELS FOR PRIORITIZED ACTUARIAL ACCRUED LIABILITY

Valuation Date	Actuarial Accrued Liability (\$ in Millions)			Valuation Assets (\$ in Millions)	Portion of Actuarial Accrued Liability Covered by Assets			
	(1) Active Member Contributions	(2) Retirants and Beneficiaries	(3) Active and Inactive Members (Employer Financed Portion)		(1)	(2)	(3)	(4) ³
	September 30							
2000	\$ 29	\$ 4,659	\$ 4,786	\$ 10,337	100%	100.0%	118.0%	109.1%
2001	34	4,677	5,167	10,633	100	100.0	114.6	107.6
2002	123	5,512	5,118	10,616	100	100.0	97.3	98.7
2003	57	7,386	4,318	10,441	100	100.0	69.4	88.8
2004	78	7,503	4,586	10,149	100	100.0	56.0	83.4
2004 ²	78	7,503	4,423	10,149	100	100.0	58.1	84.5
2005	97	7,607	4,696	9,896	100	100.0	46.7	79.8
2006	107	7,607	5,085	10,111	100	100.0	47.1	79.0
2006 ¹	107	7,607	5,085	10,890	100	100.0	62.5	85.1
2007	116	7,847	5,199	11,344	100	100.0	65.0	86.2
2008	119	8,361	5,286	11,403	100	100.0	55.3	82.8
2009	127	8,681	5,426	11,107	100	100.0	42.4	78.0
2010	138	9,151	5,239	10,782	100	100.0	28.5	74.2
2010 ²	138	9,265	5,457	10,782	100	100.0	25.3	72.6
2011	93	11,197	4,307	10,212	100	90.4	0.0	65.5
2012	121	11,392	4,141	9,447	100	81.9	0.0	60.3
2013	162	11,612	3,874	9,438	100	79.9	0.0	60.3
2014	195	11,869	3,707	9,962	100	82.3	0.0	63.2
2014 ²	195	12,149	3,829	9,962	100	80.4	0.0	61.6
2015	220	12,483	3,534	10,417	100	81.7	0.0	64.2

¹ Revised asset valuation method.

² Revised actuarial assumptions and/or methods.

³ Percent funded on a total valuation asset and total actuarial accrued liability basis.

FINANCIAL OBJECTIVE ACHIEVEMENT INDICATORS – HISTORICAL COMPARISON
(DOLLAR AMOUNTS IN THOUSANDS)

Valuation September 30	Valuation Assets	Termination Indicator		Experience Indicator
		Actuarial Present Value of Vested Benefits	Funded Ratio	Actuarial Gain/(Loss)
2000	\$ 10,336,872	\$ 7,535,245	137.2 %	\$ 252,243
2001	10,632,677	7,917,271	134.3	(106,544)
2002	10,616,278	8,861,608	119.8	(553,528)
2003	10,440,611	10,146,046	102.9	(460,905)
2004	10,149,275	10,513,034	96.5	(560,154)
2004 ²	10,149,275	10,503,835	96.6	(560,154)
2005	9,896,760	10,886,913	90.9	(600,525)
2006	10,110,658	12,122,695	83.4	26,951
2006 ¹	10,889,925	12,122,695	89.8	806,218
2007	11,343,529	12,516,362	90.6	181,987
2008	11,402,861	13,144,428	86.8	(436,904)
2009	11,106,969	13,638,715	81.4	(787,953)
2010	10,782,287	13,976,277	77.1	(631,285)
2010 ²	10,782,287	14,361,594	75.1	(631,285)
2011	10,212,036	15,193,088	67.2	(1,004,765)
2012	9,447,057	15,318,309	61.7	(807,610)
2013	9,437,627	15,338,434	61.5	(96,787)
2014	9,961,903	15,487,041	64.3	202,925
2014 ²	9,961,903	15,880,526	62.7	202,925
2015	10,416,577	15,971,116	65.2	142,773

¹ Revised asset valuation method.

² Revised actuarial assumptions and/or method.

SECTION C
FUND ASSETS

STATEMENT OF PLAN NET ASSETS (ASSETS AT MARKET OR FAIR VALUE)

	September 30	
	2014	2015
Cash	\$ 117,593,301	\$ 5,395,111
Total Receivables	75,732,702	95,177,304
Short Term Investment Pools	573,185,426	438,501,304
Fixed Income Pools	1,271,342,563	1,300,082,881
Domestic Equity Pools	3,266,962,256	2,978,255,991
Real Estate Pool	1,004,240,866	1,077,648,943
Alternative Investment Pools	1,873,669,988	1,797,407,173
International Equity Pools	1,664,427,525	1,471,204,264
Absolute Return Pools	1,153,386,785	1,568,401,444
Securities Lending Collateral less Obligations	(25,307,990)	94,454
Total Assets	10,975,233,422	10,732,168,869
Other Liabilities	(427,331)	(406,469)
Net Assets Held in Trust for Pension Benefits	\$10,974,806,091	\$10,731,762,400

Note: Asset amounts exclude assets held for health benefits.

RECONCILIATION OF PLAN NET ASSETS

	September 30, 2014	September 30, 2015
Market Value, Beginning of Year	\$9,922,516,197	\$10,974,806,091
Additions		
Member Contributions	47,527,233	46,688,372
Employer Contributions	705,100,454	749,332,013
Net Investment Income	1,529,625,883	232,643,264
Audit Adjustment	0	0
Total Additions	2,282,253,570	\$1,028,663,649
Deductions		
Benefit Payments	1,222,881,091	1,265,335,477
Contribution Refunds/Transfers	151,929	144,115
Administrative Expenses	6,930,656	6,227,748
Total Deductions	1,229,963,676	1,271,707,340
Market Value, End of Year	\$10,974,806,091	\$10,731,762,400

DEVELOPMENT OF VALUATION ASSETS

	2015	2016	2017	2018	2019
1. Beginning of Year Assets					
a. Market Value	\$ 10,974,806,091				
b. Valuation Assets	9,961,903,019				
2. End of Year Assets at Market Value	10,731,762,400				
3. Net Additions to Market Value					
a. Member Contributions	46,688,372				
b. Employer Contributions	749,332,013				
c. Investment Income	232,643,264				
d. Benefit Payments	(1,265,335,477)				
e. Contribution Refunds/Transfers	(144,115)				
f. Administrative Expenses	(6,227,748)				
g. Transfer (to) from Stabilization Subaccount	0				
h. Audit Adjustment	0				
i. Total Additions to Market Value	(243,043,691)				
4. Summary of Net Additions to Market Value					
a. Net Contributions = 3a + 3b + 3e + 3g	795,876,270				
b. Net Investment Income = 3c + 3f	226,415,516				
c. Benefit Payments = 3d	(1,265,335,477)				
d. Audit Adjustment = 3h	0				
e. Total Additions to Market Value	(243,043,691)				
5. Average Valuation Assets =					
1b + .5 x (4a + 4c) + 4d	9,727,173,416				
6. Imputed Income at Valuation Rate = 8.00% x 5	778,173,873				
7. Gain (Loss) from Investments = 4b - 6	(551,758,357)				
8. Portion of Gains (Losses) Recognized from Prior Years					
a. From this year = .2 * 7	(110,351,671)				
b. From one year ago	157,300,250	\$ (110,351,671)			
c. From two years ago	89,153,004	157,300,250	\$ (110,351,671)		
d. From three years ago	106,385,047	89,153,004	157,300,250	\$ (110,351,671)	
e. From four years ago	(96,527,033)	106,385,046	89,153,003	157,300,251	\$ (110,351,673)
f. Total	145,959,597	242,486,629	136,101,582	46,948,580	(110,351,673)
9. Change in Valuation Assets = 4a + 4c + 4d + 6 + 8f	454,674,263				
10. End of Year Assets					
a. Market Value = 2	10,731,762,400				
b. Valuation Assets					
b1. Preliminary Valuation Assets = 1b + 9	10,416,577,282				
b2. Corridor Percent	30%				
b3. Upper Corridor Limit: (100% + 10b2) x 10a	13,951,291,120				
b4. Lower Corridor Limit: (100% - 10b2) x 10a	7,512,233,680				
b5. Final Valuation Assets	10,416,577,282				
11. Actuarial Rate of Return	9.50%				
12. Market Rate of Return	2.11%				

DEVELOPMENT OF VALUATION ASSETS

	2010	2011	2012	2013	2014
1. Beginning of Year Assets					
a. Market Value	\$ 8,583,154,616	\$ 8,940,141,973	\$ 8,654,574,665	\$ 9,272,335,930	\$ 9,922,516,197
b. Valuation Assets	11,106,969,100	10,782,286,541	10,212,036,130	9,447,057,129	9,437,627,369
2. End of Year Assets at Market Value	8,940,141,973	8,654,574,665	9,272,335,930	9,922,516,197	10,974,806,091
3. Net Additions to Market Value					
a. Member Contributions	26,055,668	25,830,556	33,290,784	53,035,321	47,527,233
b. Employer Contributions	369,952,868	424,546,805	419,926,997	604,845,495	705,100,454
c. Investment Income	883,646,242	360,430,046	1,330,021,741	1,185,982,164	1,529,625,883
d. Benefit Payments	(917,328,820)	(1,089,822,880)	(1,156,035,451)	(1,187,911,357)	(1,222,881,091)
e. Contribution Refunds/Transfers	(265,155)	(472,818)	(188,926)	(113,038)	(151,929)
f. Administrative Expenses	(5,073,446)	(6,079,017)	(9,253,880)	(5,658,318)	(6,930,656)
g. Transfer (to) from Stabilization Subaccount	0	0	0	0	0
h. Audit Adjustment	0	0	0	0	0
i. Total Additions to Market Value	356,987,357	(285,567,308)	617,761,265	650,180,267	1,052,289,894
4. Summary of Net Additions to Market Value					
a. Net Contributions = 3a + 3b + 3e + 3g	395,743,381	449,904,543	453,028,855	657,767,778	752,475,758
b. Net Investment Income = 3c + 3f	878,572,796	354,351,029	1,320,767,861	1,180,323,846	1,522,695,227
c. Benefit Payments = 3d	(917,328,820)	(1,089,822,880)	(1,156,035,451)	(1,187,911,357)	(1,222,881,091)
d. Audit Adjustment = 3h	0	0	0	0	0
e. Total Additions to Market Value	356,987,357	(285,567,308)	617,761,265	650,180,267	1,052,289,894
5. Average Valuation Assets = 1b + .5 x (4a + 4c) + 4d	10,846,176,381	10,462,327,373	9,860,532,832	9,181,985,340	9,202,424,703
6. Imputed Income at Valuation Rate = 8.00% x 5	867,694,110	836,986,190	788,842,627	734,558,827	736,193,976
7. Gain (Loss) from Investments = 4b - 6	10,878,686	(482,635,161)	531,925,234	445,765,019	786,501,251
8. Portion of Gains (Losses) Recognized from Prior Years					
a. From this year = .2 * 7	2,175,737	(96,527,032)	106,385,047	89,153,004	157,300,250
b. From one year ago	(315,031,763)	2,175,737	(96,527,032)	106,385,047	89,153,004
c. From two years ago	(547,817,019)	(315,031,763)	2,175,737	(96,527,032)	106,385,047
d. From three years ago	189,881,815	(547,817,019)	(315,031,763)	2,175,737	(96,527,032)
e. From four years ago	0	189,881,813	(547,817,021)	(315,031,764)	2,175,738
f. Total	(670,791,230)	(767,318,264)	(850,815,032)	(213,845,008)	258,487,007
9. Change in Valuation Assets = 4a + 4c + 4d + 6 + 8f	(324,682,559)	(570,250,411)	(764,979,001)	(9,429,760)	524,275,650
10. End of Year Assets					
a. Market Value = 2	8,940,141,973	8,654,574,665	9,272,335,930	9,922,516,197	10,974,806,091
b. Valuation Assets					
b1. Preliminary Valuation Assets = 1b + 9	10,782,286,541	10,212,036,130	9,447,057,129	9,437,627,369	9,961,903,019
b2. Corridor Percent					30%
b3. Upper Corridor Limit: (100% + 10b2) x 10a					14,267,247,918
b4. Lower Corridor Limit: (100% - 10b2) x 10a					7,682,364,264
b5. Final Valuation Assets	10,782,286,541	10,212,036,130	9,447,057,129	9,437,627,369	9,961,903,019
11. Actuarial Rate of Return	1.82 %	0.67 %	(0.63)%	5.67 %	10.81 %
12. Market Rate of Return	10.56 %	4.11 %	15.91 %	13.10 %	15.72 %

HISTORY OF APPROXIMATE INVESTMENT RETURN RATES

Plan Year Ending September 30	Approximate Rate of Return ¹	
	Market	Actuarial
2006	12.58	7.24 %
2006 ²	12.58	15.31 ²
2007	16.96	9.79
2008	(15.59)	4.78
2009	(7.17)	1.96
2010	10.56	1.82
2011	4.11	0.67
2012	15.91	(0.63)
2013	13.10	5.67
2014	15.72	10.81
2015	2.11	9.50
Average Returns:		
Last five years:	10.03 %	5.10 %
Last ten years:	6.29 %	5.85 %

¹ Approximate return based on ratio of total investment return to average asset value, using an assumed beginning-of-year timing of audit adjustments (if any) and an assumed mid-year timing of other asset flows (see previous two pages).

² After adjusting to market value as of September 30, 2006.

HISTORICAL GROWTH OF ASSETS AT MARKET VALUE

Fiscal Year Ended September 30	Revenues by Source			Expenses by Type			Market Value of Assets
	Member Contributions	Employer Contributions	Net Investment Income ¹	Retirement Benefits	Return of Contributions and Transfers	Administrative Expenses	
1996	\$ 2,619,067	\$ 285,766,953	\$ 1,939,209,206 ³	\$ 321,314,081	\$ 30,082	\$ 3,489,761	\$ 7,214,999,393
1997	12,144,153	288,590,215	1,677,780,071	382,866,379	7,848,649	5,247,943	8,797,550,861
1998	5,158,744	147,599,551	702,058,316	429,879,875	134,533,763	4,297,092	9,083,656,742
1999	6,186,018	121,119,857	1,465,196,232	446,219,254	728,366	4,330,623	10,224,880,606
2000	4,606,662	121,817,366	1,359,608,718	458,803,774	222,163	3,954,992	11,247,932,423
2001	3,341,381	112,299,808	(1,264,290,456)	478,525,328	91,699	4,149,284	9,616,516,845
2002	173,232,835	87,486,128	(1,005,732,436)	503,453,879	87,504,459 ²	6,432,819	8,274,112,215
2003	80,185,475	79,291,845	1,215,018,189	701,664,432	17,484,652 ²	5,192,039	8,924,266,601
2004	37,682,883	103,873,294	1,073,759,972	731,009,109	(24,206,316) ²	4,316,433	9,428,463,524
2005	30,395,040	256,433,052	1,168,692,344	746,673,263	187,049	4,297,985	10,132,825,663
2006	9,434,310	270,705,017	1,248,722,460	767,000,706	133,474	4,628,043	10,889,925,227
2007	19,696,132	150,858,506	1,802,354,022	795,842,013	(41,180,003) ²	5,115,226	12,103,056,651
2008	5,643,805	355,732,115	(1,840,403,196)	832,553,176	183,559	5,048,737	9,786,243,903
2009	6,994,975	343,787,486	(678,455,022)	870,278,863	272,631	4,865,232	8,583,154,616
2010	26,055,668	369,952,868	883,646,242	917,328,820	265,155	5,073,446	8,940,141,973
2011	25,830,556	424,546,805	360,430,046	1,089,822,880	472,818	6,079,017	8,654,574,665
2012	33,290,784	419,926,997	1,330,021,741	1,156,035,451	188,926	9,253,880	9,272,335,930
2013	53,035,321	604,845,495	1,185,982,164	1,187,911,357	113,038	5,658,318	9,922,516,197
2014	47,527,233	705,100,454	1,529,625,883	1,222,881,091	151,929	6,930,656	10,974,806,091
2015	46,688,372	749,332,013	232,643,264	1,265,335,477	144,115	6,227,748	10,731,762,400

¹ Includes miscellaneous income.

² Includes transfers to/from the Health Advance Funding Subaccount.

³ Includes other changes in net assets/reserves/fund balances and, in 1996, a \$990,253,705 cumulative adjustment due to GASB Statement Nos. 25 and 26.

Note: Data for the year 2007 and prior years was provided by the State of Michigan Department of Technology, Management and Budget - Financial Services.

SECTION D
CENSUS DATA

SUMMARY OF PARTICIPANT DATA BY CATEGORY

	As of September 30	
	2014	2015
Retirees and beneficiaries currently receiving benefits:		
Regular benefits	47,103	47,923
Survivor benefits	7,001	7,063
Disability benefits	3,511	3,467
Total	<u>57,615</u>	<u>58,453</u>
Current Employees:		
Vested	14,682	13,129
Non-vested	303	275
Total	<u>14,985</u>	<u>13,404</u>
Inactive participants entitled to benefits and not yet receiving them*:	<u>5,007</u>	<u>4,606</u>
Total Participants	<u><u>77,607</u></u>	<u><u>76,463</u></u>

* Includes members who have chosen to participate in Group 3 (DB/DC Blend) and have not yet commenced their pension benefits.

RETIREES AND BENEFICIARIES – HISTORICAL COMPARISON

Year Ended September 30	Number Added	Number Removed	Rolls End of Year		% Increase in Annual Benefits	Average Annual Benefit
			Number	Annual Benefit ¹		
1996	1,595	1,064	31,093	\$ 307,933	5.9 %	\$ 9,904
1997 ²	6,098	1,068	36,123	421,060	36.7	11,656
1998	1,279	1,217	36,185	432,456	2.7	11,951
1999	1,409	1,248	36,346	444,167	2.7	12,221
2000	1,540	1,181	36,705	463,969	4.5	12,640
2001	1,648	1,242	37,111	471,407	1.6	12,703
2002 ²	3,806	1,251	39,666	546,968	16.0	13,789
2003 ²	6,448	623	45,491	708,607	29.6	15,577
2004	1,561	1,433	45,619	729,087	2.9	15,982
2005	1,542	1,360	45,801	747,428	2.5	16,319
2006	1,728	1,549	45,980	769,096	2.9	16,727
2007	2,206	1,300	46,886	802,018	4.3	17,106
2008	2,653	1,461	48,078	842,612	5.1	17,526
2009	2,423	1,472	49,029	880,763	4.5	17,964
2010	2,937	1,504	50,462	934,092	6.1	18,511
2011 ²	6,656	1,470	55,648	1,113,963	19.3	20,018
2012	2,186	1,546	56,288	1,143,400	2.6	20,313
2013	2,181	1,615	56,854	1,175,329	2.8	20,673
2014	2,421	1,660	57,615	1,212,333	3.1	21,042
2015	2,490	1,652	58,453	1,254,602	3.5	21,463

¹ Amounts shown in thousands of dollars.

² ERI.

**RETIREES AND BENEFICIARIES
AS OF SEPTEMBER 30, 2015
BY TYPE OF RETIREMENT AND SELECTED OPTION**

Amount of Monthly Benefit	Number of Retirees	Type of Retirement*							
		1	2	3	4	5	6	7	8
\$ 1 - 200	368	243	85	6	24	0	6	1	3
201 - 400	1,929	1,327	305	12	182	2	42	3	56
401 - 600	3,500	2,235	518	20	437	0	123	8	159
601 - 800	4,507	2,557	588	146	692	16	212	31	265
801 - 1,000	4,466	2,719	606	5	605	0	193	81	257
1,001 - 1,200	4,312	2,672	443	17	587	2	198	151	242
1,201 - 1,400	4,249	2,627	365	17	588	0	194	252	206
1,401 - 1,600	4,416	2,914	415	10	424	1	169	346	137
1,601 - 1,800	4,415	3,173	355	12	252	1	116	417	89
1,801 - 2,000	4,181	3,180	249	9	147	0	92	455	49
Over 2,000	22,110	17,588	687	6	159	0	190	3,388	92
Totals	58,453	41,235	4,616	260	4,097	22	1,535	5,133	1,555

Amount of Monthly Benefit	Number of Retirees	Selected Option**							
		Reg.	Opt. A	Opt. B	Opt. C	Opt. E	Opt. E1	Opt. E2	Opt. E3
\$ 1 - 200	368	130	100	98	5	26	4	5	0
201 - 400	1,929	782	528	397	48	102	36	34	2
401 - 600	3,500	1,418	1,012	592	85	210	66	109	8
601 - 800	4,507	1,923	1,175	692	116	331	103	160	7
801 - 1,000	4,466	1,613	1,134	771	124	519	100	188	17
1,001 - 1,200	4,312	1,718	1,165	634	132	370	85	180	28
1,201 - 1,400	4,249	1,804	1,207	598	165	280	70	107	18
1,401 - 1,600	4,416	1,944	1,343	631	176	180	66	63	13
1,601 - 1,800	4,415	1,823	1,409	745	216	117	60	33	12
1,801 - 2,000	4,181	1,736	1,249	719	285	86	58	33	15
Over 2,000	22,110	8,919	6,179	3,862	1,642	742	292	343	131
Totals	58,453	23,810	16,501	9,739	2,994	2,963	940	1,255	251

*** Type of Retirement**

- 1 – Normal retirement for age & service
- 2 – Survivor payment – normal or early retirement
- 3 – Duty disability retirement (incl. survivors)
- 4 – Non-duty disability retirement (incl. survivors)
- 5 – Survivor payment – duty death in service
- 6 – Survivor payment – non-duty death in service
- 7 – Retirees with supplemental benefits for early retirement incentive factors
- 8 – Retirees with reduced benefits for early retirement reduction factors

**** Selected Option**

- Reg. – Straight life allowance
- Opt. A – 100% survivor option
- Opt. B – 50% survivor option
- Opt. C – 75% survivor option
- Opt. E – Social Security equated
- Opt. E1 – Social Security equated w/100% survivor option
- Opt. E2 – Social Security equated w/50% survivor option
- Opt. E3 – Social Security equated w/75% survivor option

ACTIVE MEMBERS BY CLASSIFICATION

	September 30, 2014	September 30, 2015
Conservation Officers		
Number	62	52
Average Age	48.4	48.0
Average Service	21.3	21.8
Reported Payroll	\$ 4,887,658	\$ 4,204,248
Average Annual Payroll	78,833	80,851
Corrections Officers		
Number	3,850	3,229
Average Age	50.5	50.7
Average Service	23.7	24.4
Reported Payroll	\$ 259,535,809	\$ 222,119,801
Average Annual Payroll	67,412	68,789
All Other		
Number	11,073	10,123
Average Age	54.9	55.3
Average Service	26.6	27.2
Reported Payroll	\$746,563,485	\$ 695,768,878
Average Annual Payroll	67,422	68,731
Total		
Number	14,985	13,404
Average Age	53.7	54.2
Average Service	25.8	26.5
Reported Payroll	\$1,010,986,952	\$922,092,927
Average Annual Payroll	67,467	68,792

ACTIVE MEMBERS

**Members in Active Service as of September 30, 2015
by Age and Years of Service**

Age	Years of Service							Total Count	Total Pay ¹	Average Pay
	0 - 4	5 - 9	10 - 14	15 - 19	20 - 24	25 - 29	30 & up			
Less than 30	-	-	-	-	-	-	-	-	\$ -	\$ -
30 - 34	-	-	-	-	-	-	-	-	-	-
35 - 39	7	17	15	38	12	-	-	89	5,707,204	64,126
40 - 44	13	36	43	358	306	55	-	811	55,838,521	68,851
45 - 49	17	42	61	486	1,022	674	113	2,415	166,208,934	68,824
50 - 54	12	36	51	319	944	1,647	647	3,656	251,882,564	68,896
55 - 59	8	38	59	264	663	1,133	1,434	3,599	242,871,953	67,483
60 - 64	7	25	27	100	318	507	1,140	2,124	147,251,983	69,328
65 - 69	2	9	9	36	66	122	320	564	41,657,954	73,862
70 & up	3	3	1	7	13	22	97	146	10,673,814	73,108
Total	69	206	266	1,608	3,344	4,160	3,751	13,404	\$ 922,092,927	\$68,792

¹ Total payroll for Group 1 active members is \$906,211,271. Total payroll for Group 2 active members is \$15,881,656.

**ACTIVE AND INACTIVE MEMBERS REPORTED FOR VALUATION
HISTORICAL COMPARISON**

Valuation Date September 30	Number of Inactive Vested Members ²	Active Members					
		Number	Reported Payroll ¹	Average			
				Annual Pay	% Increase	Age	Years of Service
1996	6,667	63,807	\$ 2,515,420	\$ 39,422	9.3 %	43.8	13.0
1997	7,656	55,434	2,273,203	41,007	4.0	43.7	13.1
1998	8,021	49,717	2,107,996	42,400	3.4	44.8	14.8
1999	7,376	49,612	2,213,851	44,623	5.2	45.9	15.8
2000	7,556	47,778	2,253,818	47,173	5.7	46.7	16.7
2001	8,809	45,852	2,230,562	48,647	3.1	47.4	17.7
2002	7,917	43,064	2,133,477	49,542	1.8	48.0	18.6
2003	7,528	36,536	1,859,555	50,897	2.7	47.7	17.9
2004	7,397	34,749	1,889,410	54,373	6.8	48.4	19.0
2005	7,200	33,770	1,880,179	55,676	2.4	49.3	20.0
2006	7,217	32,575	1,847,653	56,720	1.9	50.1	21.0
2007	6,663	30,864	1,825,889	59,159	4.3	50.8	21.8
2008	6,912	28,568	1,763,672	61,736	4.4	51.4	22.7
2009	6,613	27,455	1,734,325	63,170	2.3	52.1	23.5
2010	6,243	25,478	1,621,709	63,651	0.8	52.6	24.1
2011	6,094	19,650	1,276,058	64,939	2.0	51.9	23.3
2012	6,271	17,860	1,155,591	64,703	(0.4)	52.5	24.2
2013	5,343	16,466	1,081,729	65,695	1.5	53.2	25.0
2014	5,007	14,985	1,010,987	67,467	2.7	53.7	25.8
2015	4,606	13,404	922,093	68,792	2.0	54.2	26.5

¹ Amounts shown in thousands of dollars.

² Includes group 3 members.

SECTION E
METHODS AND ASSUMPTIONS

VALUATION METHODS

Actuarial Cost Method - 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 having the following characteristics:

- (i) 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;
- (ii) each annual normal cost is a constant percentage of the member's year by year projected covered pay.

Actuarial gains (losses), as they occur, reduce (increase) the Unfunded Actuarial Accrued Liability.

Financing of Unfunded Actuarial Accrued Liabilities - Unfunded actuarial accrued liabilities (full funding credit if assets exceed liabilities) were amortized by level (principal and interest combined) dollar contributions over a reasonable period of future years.

Present Value of Future Reconciliation Payments – Subsection 38(5) of the SERS statute provides for a process to reconcile actual employer contributions to the actuarially computed contribution requirements. In order to avoid duplication of the employer contributions, the present value of future reconciliation payments is subtracted from the unfunded actuarial accrued liability. The net unfunded actuarial accrued liability is then amortized, resulting in the required amortization payment. Please refer to page A-1 and page E-9.

Actuarial Value of System Assets - The actuarial value of assets recognizes assumed investment income fully each year. Differences between actual and assumed investment income are phased in over a closed five-year period. During periods when investment performance exceeds the assumed rate, actuarial value of assets will tend to be less than market value. During periods when investment performance is less than the assumed rate, actuarial value of assets will tend to be greater than market value. The actuarial value of assets is not permitted to deviate from the market value of assets by more than 30%.

VALUATION ASSUMPTIONS

In accordance with section 38(1) of the MSERS statute (Act 240 of the Public Acts of 1943, as amended), the actuarial assumptions are adopted by the Retirement Board and the Department of Management and Budget after consultation with the actuary and investment counsel. The actuarial assumptions were based upon the results of an Experience Study for MSERS covering the period October 1, 2007 through September 30, 2012. A report dated April 21, 2014 presented the results of the Experience Study. The actuarial assumptions represent estimates of future experience.

The rate of investment return was 8.0% a year, compounded annually net of investment and administrative expenses.

The assumed real rate of investment return is the rate of investment return in excess of either wage inflation or price inflation. Considering a wage inflation assumption of 3.5% and a price inflation assumption of 2.5%, the 8.0% nominal rate of investment return translates into a real rate of investment return of 4.5% over wage inflation and 5.5% over price inflation.

The rates of pay increase used for individual members are in accordance with the table below. This assumption is used to project a member’s current pay to the pay upon which System benefits will be based. These rates were first used for the September 30, 2010 valuation of the System.

Sample Ages	Salary Increase Assumptions For an Individual Member		
	Merit & Seniority	Base (Economy)	Increase Next Year
20	9.0%	3.5%	12.5%
25	6.0	3.5	9.5
30	2.6	3.5	6.1
35	1.2	3.5	4.7
40	0.8	3.5	4.3
45	0.5	3.5	4.0
50	0.4	3.5	3.9
55	0.4	3.5	3.9
60	0.0	3.5	3.5
65	0.0	3.5	3.5
Ref	326		

The charts shown in this section of the report may include a reference number (for example, 326 is used above). These reference numbers are used by GRS to track and identify assumption tables.

VALUATION ASSUMPTIONS

The healthy life post-retirement mortality table used in this valuation of the System was the RP-2000 Combined Healthy Mortality Table, adjusted for mortality improvements to 2015 using projection scale BB. This assumption was first used for the September 30, 2014 valuation of the System. Sample rates of mortality and years of life expectancy are shown below. This assumption is used to measure the probabilities of each benefit payment being made after retirement. With regard to a margin for mortality improvement, based upon the results of the last Experience Study, the assumed rates assume 9% fewer deaths for males and 13% fewer deaths for females than those observed during the period 2007-2012.

Sample Attained Ages	Probability of Dying Next Year		Future Life Expectancy (years)	
	Men	Women	Men	Women
50	0.20%	0.16%	32.44	35.09
55	0.35	0.25	27.83	30.41
60	0.61	0.43	23.39	25.85
65	1.06	0.81	19.21	21.52
70	1.77	1.40	15.34	17.51
75	3.02	2.35	11.83	13.87
80	5.13	3.83	8.79	10.64
Ref:	713 x 1.00 sf 0	714 x 1.00 sf 0		

For active members the probabilities of dying before retirement were based upon the RP-2000 Combined Healthy Mortality Table, adjusted for mortality improvements to 2015 using projection scale BB. For men, 50% of the male table rates were used. For women, 50% of the female table rates were used. This assumption was first used for the September 30, 2014 valuation of the System. Sample rates of mortality and years of life expectancy are shown on the following page.

VALUATION ASSUMPTIONS

Sample Attained Ages	Probability of Dying Next Year		Future Life Expectancy (years)	
	Men	Women	Men	Women
20	0.02%	0.01%	68.30	71.55
25	0.02	0.01	63.35	66.59
30	0.02	0.01	58.41	61.62
35	0.04	0.02	53.49	56.67
40	0.05	0.03	48.60	51.74
45	0.07	0.05	43.73	46.84
50	0.10	0.08	38.90	41.98
55	0.17	0.13	34.14	37.17
60	0.30	0.22	29.49	32.45
65	0.53	0.40	25.01	27.87
Ref:	713 x 0.50	714 x 0.50		

For Conservation Officers, 80% of active member deaths are assumed to be non-duty deaths and 20% of the deaths are assumed to be duty related. For Correction Officers, 70% of active member deaths are assumed to be non-duty deaths and 30% of the deaths are assumed to be duty related. For all others, 90% of active member deaths are assumed to be non-duty deaths and 10% of the deaths are assumed to be duty related.

The disabled life mortality table used in this valuation of the System was RP-2000 Combined Healthy Mortality Table, adjusted for mortality improvements to 2015 using projection scale BB, set-forward 10 years. This assumption was first used for the September 30, 2014 valuation of the System. For disabled retirees, the sample rates of mortality and years of life expectancy are shown below. This assumption is used to measure the probabilities of each benefit payment being made after retirement.

Sample Attained Ages	Probability of Dying Next Year		Future Life Expectancy (years)	
	Men	Women	Men	Women
50	0.61%	0.43%	23.39	25.85
55	1.06	0.81	19.21	21.52
60	1.77	1.40	15.34	17.51
65	3.02	2.35	11.83	13.87
70	5.13	3.83	8.79	10.64
75	8.83	6.46	6.25	7.85
80	15.54	11.16	4.29	5.64
Ref:	713 x 1.00 sf 10	714 x 1.00 sf 10		

VALUATION ASSUMPTIONS

The rates of regular retirement used to measure the probability of eligible members retiring with an unreduced benefit during the next year are shown below. This assumption was first used for the September 30, 2010 valuation of the System.

Retirement Ages	Percent of Eligible Members Retiring		
	Conservation Officers	Corrections Officers	Others
45	28%		
46	28		
47	28		
48	28		
49	28		
50	28		
51	28	27%	
52	28	21	
53	28	14	
54	28	16	
55	28	16	15%
56	28	22	14
57	28	15	10
58	28	12	10
59	28	12	11
60	28	18	14
61	28	18	13
62	50	32	22
63	40	24	19
64	40	22	16
65	60	16	25
66	50	22	22
67	50	30	21
68	50	40	20
69	50	50	22
70	100	100	50
71	100	100	60
72	100	100	70
73	100	100	80
74	100	100	90
75	100	100	100
Ref	1603	1604	1605

Note: For Conservation Officers, 40% are assumed to retire in their first year of eligibility for unreduced benefits (completion of 25 years of service).

VALUATION ASSUMPTIONS

The rates of early retirement used to measure the probability of eligible members retiring with reduced retirement benefits during the next year are shown below. These rates were first used for the September 30, 2010 valuation of the System.

Retirement Ages	Percent of Eligible Members Retiring
55	5.5%
56	8.0
57	7.0
58	7.0
59	7.0
Ref	1606

The rates of separation from active membership used in the valuation are shown below (rates do not apply to members eligible to retire and do not include separation on account of death or disability). This assumption measures the probabilities of members remaining in employment, and was first used for the September 30, 2014 actuarial valuation of the System.

Sample Ages	Years of Service	Percent Separating Within Next Year
All	0	12.00%
	1	8.50
	2	6.50
	3	5.00
	4	4.00
20	5 & Over	4.00
25		3.50
30		2.82
35		2.38
40		2.06
45		1.84
50		1.68
55		1.60
60		1.60
Ref		405

VALUATION ASSUMPTIONS

Rates of disability among active members used in the valuation are shown below, and were first used for the September 30, 2010 valuation of the System.

Sample Ages	Percent Becoming Disabled Within Next Year	
	Non-Duty Disability	Duty Disability
25	0.03%	0.00%
30	0.05	0.01
35	0.10	0.01
40	0.20	0.02
45	0.34	0.04
50	0.47	0.06
55	0.92	0.08
60	2.10	0.11
65	2.30	0.16
Ref.	571	14 x .20

MISCELLANEOUS AND TECHNICAL ASSUMPTIONS

<i>Benefit Service</i>	Exact fractional service is used to determine the amount of benefit payable.
<i>Decrement Operation</i>	Disability and withdrawal decrements do not operate during retirement eligibility.
<i>Decrement Timing</i>	Decrements of all types are assumed to occur mid-year.
<i>Eligibility Testing</i>	Eligibility for benefits is determined based upon the age nearest birthday and service nearest whole year on the date the decrement is assumed to occur.
<i>Forfeitures</i>	For vested separations from service, it is assumed that 0% of members separating will withdraw their contributions and forfeit an employer financed benefit. It was further assumed that the liability at termination is the greater of the vested deferred benefit (if any) or the member's accumulated contributions.
<i>Incidence of Contributions</i>	Contributions are assumed to be received continuously throughout the year.
<i>Liability Adjustments</i>	Retirement liabilities were increased by 1% to account for unused vacation time. Inactive vested member liabilities were increased by 2% to reflect the value of the death benefit provision.
<i>Marriage Assumption</i>	75% of males and 60% of females were assumed to be married for purposes of death-in-service benefits. Male spouses are assumed to be three years older than female spouses for active member valuation purposes.
<i>Normal Form of Benefit</i>	A straight life benefit is the normal form of benefit.
<i>Pay Increase Timing</i>	Pay increases were assumed to be at the beginning of the fiscal year. This is equivalent to assuming that reported pays represent amounts paid to members during the year ended on the valuation date.
<i>Service Credit Accruals</i>	Members were assumed to accrue one year of service credit per year.
<i>Service Purchase Load</i>	A \$16,027,237 load has been included in the accrued liability, to account for the amounts included in the plan's reported assets for purchased service that has not been paid for yet by the members.

MISCELLANEOUS AND TECHNICAL ASSUMPTIONS

Reconciliation Payments

ORS provided the following schedule of reconciliation payments. For purposes of determining the present value of the reconciliation payments, it was assumed that payments occur in the middle of the fiscal period.

Fiscal Year	Reconciliation Payment/(Credit)
2016	\$106,652,850
2017	64,142,479
2018	23,884,732
2019	(10,737,352)
2020	(12,372,693)
2021	(5,546,903)

SECTION F
PLAN PROVISIONS

PLAN PROVISIONS AS OF SEPTEMBER 30, 2015

On December 15, 2011, the Governor signed Public Act 264 of 2011 into law. The legislation granted members a one-time opportunity to choose their future retirement plan which resulted in three distinct benefit groups within the State Employees Retirement System Defined Benefit (DB) pension plan.

Group 1: DB Classified: Members who elected to remain in the DB plan for future years of service and contribute 4% of their annual compensation to the pension fund until they terminate state employment. The 4% member contributions began on April 1, 2012.

Group 2: DB 30: Members who elected to remain in the DB plan for future years of service and contribute 4% of pay until they complete 30 years of service. When they complete 30 years of service, they will switch to the State's Defined Contribution (DC) pension plan. The 4% member contributions began on April 1, 2012, and will continue until they switch to the DC plan or terminate state employment, whichever comes first.

Group 3: DB/DC Blend: Members who chose not to pay the 4% contributions and therefore became active participants in the DC pension plan for future years of service beginning April 1, 2012.

Group 2 and Group 3 members may be eligible to receive a pension benefit from the SERS DB plan based on service, compensation and the retirement benefit formula in effect as of their date of transfer into the DC plan. This benefit is payable upon meeting the retirement or other eligibility conditions of the DB plan.

Regular Retirement (no reduction factor for age):

Eligibility - Age 55 with 30 years of service; or age 60 with 10 or more years of service. Unclassified Legislative employees, Executive Branch employees, or Judicial Branch employees are eligible for full retirement at age 60 with 5 or more years of service. Corrections Officers may retire at age 51 with 25 or more years of service; or age 56 with 10 or more years of service (the last 3 years must be in a covered position). Conservation Officers may retire after 25 years of service regardless of age. If a Conservation Officer is hired before 4/1/1991, 20 of the 25 years must be as a Conservation Officer. For those hired after 4/1/1991, 23 of the 25 years must be as a Conservation Officer (the last 2 years must be as a Conservation Officer).

PLAN PROVISIONS AS OF SEPTEMBER 30, 2015

Final Average Compensation - Regular retirement benefit is based on Final Average Compensation (FAC), which is usually the average of highest 3 consecutive years (2 years for Conservation Officers).

Annual Amount - Total service times 1.5% of FAC. For members with 20 or more years of service, a \$3,000 minimum annual benefit is payable. Corrections Officers receive an additional temporary supplement to age 62 equal to the product of supplemental service times 0.5% of FAC. Conservation Officers retiring after 25 years receive a benefit equal to 60% of FAC. For eligible Group 2 and Group 3 members, the benefit amount (regular retirement and any supplemental benefit) is determined as of the date of transfer to the DC pension plan, based on FAC and service at the time of transfer.

Early Retirement (age reduction factor used):

Eligibility - Age 55 with 15 or more years of service.

Annual Amount - Computed as described above under “regular retirement” but reduced by ½ % for each month under age 60.

Deferred Retirement (vested benefit):

Eligibility - 10 years of service (5 years for unclassified persons in the executive or legislative branch). Benefit commences at age 60.

Annual Amount - Computed as described above under “regular retirement” based on service and FAC at termination of State employment for Group 1.

Duty Disability Retirement:

Eligibility - No age or service requirement.

Annual Amount - Disability age 60+: Computed as a regular retirement benefit with minimum benefit based on 10 years of service. Disability prior to age 60: To age 60, benefit is computed as a regular retirement benefit using service at the time of disability retirement with a minimum benefit of \$6,000 per year. Additional limitation such that benefit plus workers’ compensation does not exceed final compensation. At age 60, benefit is recomputed as a regular retirement benefit with service granted for period in receipt of disability benefit before age 60. If the member dies before age 60, benefits are payable to a surviving spouse computed as a regular retirement benefit but based on service at time of disability retirement plus elapsed time between date of retirement and age 60. Eligible Group 2 and Group 3 members may elect this benefit (in lieu of PA 264 benefits).

PLAN PROVISIONS AS OF SEPTEMBER 30, 2015

Non-Duty Disability Retirement:

Eligibility - 10 years of service.

Annual Amount - Computed as regular retirement benefit based on service and FAC at time of disability. Minimum annual benefit is \$600. Eligible Group 2 and Group 3 members may elect this benefit (in lieu of PA 264 benefits).

Duty Death Before Retirement:

Eligibility - No age or service requirement.

Annual Amount - Surviving spouse receives annual benefit computed as a regular retirement benefit as if the deceased member retired the day before date of death and elected Option A. Benefit is based on member's service at time of death, or 10 years of service, whichever is greater. A minimum benefit of \$6,000 per year is payable. Children under age 21 each receive an equal share of 1/2 of the benefit payable (surviving spouse receives the other 1/2), to a maximum of 1/2 for all children. A given child's share of benefits terminates upon the child's marriage, death or attainment of age 21. In the event that there is no surviving spouse, the benefit is allocated equally among all children subject to the limitations described above. In the event that there is no surviving spouse or eligible children, benefits may be paid to an eligible, dependent parent. Benefits end upon the marriage or death of the surviving parent. Additional limitation such that benefit plus workers' compensation does not exceed final compensation. Eligible Group 2 and Group 3 members may elect this benefit (in lieu of PA 264 benefits).

Non-Duty Death Before Retirement:

Eligibility - 10 years of service. In the case of a deceased vested former member, the survivor benefit commences when the deceased former member would have attained age 60.

Annual Amount - Computed as a regular retirement benefit but reduced in accordance with a 100% Joint and Survivor form of payment. Eligible Group 2 and Group 3 members may elect this benefit (in lieu of PA 264 benefits).

PLAN PROVISIONS AS OF SEPTEMBER 30, 2015

Post Retirement Cost-of-Living Adjustments (COLA):

One-time upward adjustments have been made in 1972, 1974, 1976, 1977, and 1987. Beginning in 1983 some benefit recipients share in a distribution of a portion of investment income earned in excess of 8% annually (supplemental payment). Beginning in 1988 all benefit recipients are eligible for automatic 3% annual (non-compounded) benefit increases, with a maximum \$300 annual increase. Eligibility for the above benefits:

Retired before October 1, 1987 - Greater of supplemental payment or the combination of the 1987 one-time adjustment and the automatic increases.

Retired on or after October 1, 1987 - Automatic increases only.

Eligible members of Groups 1, 2 and 3 receive automatic post retirement COLA.

Member Contributions:

Group 1 Members: 4% of annual pay effective April 1, 2012.

Group 2 Members: 4% of annual pay effective April 1, 2012 until the date of transfer to DC pension plan.

Group 3 Members: N/A

Defined Contribution Legislation (Public Act 487 of 1996):

New state employees hired on or after March 31, 1997 become participants in Tier 2 (*i.e.*, a defined contribution plan) rather than Tier 1 (*i.e.*, the above described defined benefit plan).

Active members on March 30, 1997 could irrevocably elect to terminate membership in Tier 1 and become participants in Tier 2. Elections had to be in writing and submitted between January 2, 1998 and April 30, 1998. Such members became Tier 2 participants on June 1, 1998, and had the actuarial present value of their Tier 1 accrued benefit transferred into Tier 2 by November 30, 1998.

A defined benefit disability pension or death-in-service pension may be payable if a Tier 2 participant becomes disabled or dies in service.

PLAN PROVISIONS AS OF SEPTEMBER 30, 2015

Former Tier 1 Members:

A former non-vested member who is reemployed on or after January 1, 2014 is not eligible for membership in Tier 1. This type of member shall become a qualified participant in Tier 2, and shall be treated as being first employed by the State as of his or her date of reemployment.

SECTION G
GLOSSARY

GLOSSARY

<i>Actuarial Accrued Liability</i>	The difference between (i) the actuarial present value of future plan benefits, and (ii) the actuarial present value of future normal cost. Sometimes referred to as “accrued liability” or “past service liability.”
<i>Accrued Service</i>	The service credited under the plan which was rendered before the date of the actuarial valuation.
<i>Actuarial Assumptions</i>	Estimates of future plan experience with respect to rates of mortality, disability, turnover, retirement, rate or rates of investment income and salary increases. Decrement assumptions (rates of mortality, disability, turnover and retirement) are generally based on past experience, often modified for projected changes in conditions. Economic assumptions (salary increases and investment income) consist of an underlying rate in an inflation-free environment plus a provision for a long-term average rate of inflation.
<i>Actuarial Cost Method</i>	A mathematical budgeting procedure for allocating the dollar amount of the “actuarial present value of future plan benefits” between the actuarial present value of future normal cost and the actuarial accrued liability. Sometimes referred to as the “actuarial funding method.”
<i>Actuarial Equivalent</i>	A single amount or series of amounts of equal value to another single amount or series of amounts, computed on the basis of the rate(s) of interest and mortality tables used by the plan.
<i>Actuarial Present Value</i>	The amount of funds presently required to provide a payment or series of payments in the future. It is determined by discounting the future payments at a predetermined rate of interest, taking into account the probability of payment.
<i>Amortization</i>	Paying off an interest-bearing liability by means of periodic payments of interest and principal, as opposed to paying it off with a lump sum payment.
<i>Experience Gain/(Loss)</i>	A measure of the difference between actual experience and that expected based upon a set of actuarial assumptions during the period between two actuarial valuation dates, in accordance with the actuarial cost method being used.

GLOSSARY

<i>Normal Cost</i>	The annual cost assigned, under the actuarial funding method, to current and subsequent plan years. Sometimes referred to as “current service cost.” Any payment toward the unfunded actuarial accrued liability is not part of the normal cost.
<i>Reserve Account</i>	An account used to indicate that funds have been set aside for a specific purpose and is not generally available for other uses.
<i>Unfunded Actuarial Accrued Liability</i>	The difference between the actuarial accrued liability and valuation assets. Sometimes referred to as “unfunded accrued liability.”
<i>Valuation Assets</i>	The value of current plan assets recognized for valuation purposes. Generally based on market value plus a portion of unrealized appreciation or depreciation.