Michigan Legislative Retirement System

Comprehensive Annual Financial Report for the Fiscal Year Ended September 30, 2014

M L R S

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

Prepared by:
Michigan Legislative Retirement System
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Lansing, Michigan 48909
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for the Fiscal Year Ended September 30, 2014

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INTRODUCTORY SECTION

Letter of Transmittal

CHRISTINE HAMMOND
DIRECTOR

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

March 30, 2015

The Honorable Rick Snyder
Governor, State of Michigan

Members of the Legislature
State of Michigan

Retirement Board Members
and
Members, Retirees, and Beneficiaries

Ladies and Gentlemen:

We are pleased to present the comprehensive annual report of the Michigan Legislative Retirement System (MLRS or System) for fiscal year 2014.

INTRODUCTION TO REPORT

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

Responsibility

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

Management's Discussion and Analysis (MD&A)

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

Letter of Transmittal (Continued)

FINANCIAL INFORMATION

Internal Control

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

INVESTMENT

The System Board of Trustees is the investment fiduciary for the System, and pursuant to state law, the state treasurer is the custodian of all investments of the System. The System's overall investment objective is to obtain a competitive total rate of return on investments commensurate with Act No. 314 of the Michigan Public Acts of 1965, as amended (MCL §38.1132 et seq., which is the Michigan statute governing the investments of public pension funds), the System's risk-taking ability, and the responsibilities of the System to provide retirement benefits for its members, retirees, and their beneficiaries. In absolute terms, this return objective should approximate the System's actuarial assumed rate of return, which is currently 7%. The investment activity for the year produced a total rate of return on the portfolio of 9.4%. A summary of asset allocation and investment portfolio information can be found in the investment section of this report.

FUNDING

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

Pension Plan

As of September 30, 2013, the actuarial value of the assets and actuarial accrued liability of the fund were $134.9 million and $180.9 million respectively, resulting in a funded ratio of 75%. As of September 30, 2012, the amounts were $136.9 million and $180.5 million respectively. A historical perspective of funding levels for the System is presented in the statistical section of this report.

Other Postemployment Benefits Plan (OPEB)

As of September 30, 2013, the actuarial value of the assets and actuarial accrued liability of the fund were $22.8 million and $153.7 million respectively, resulting in a funded ratio of 15%. As of September 30, 2012, the amounts were $20.8 million and $124.3 million respectively. OPEB valuations were required beginning fiscal year 2007 and do not require retroactive application. Therefore, six (6) valuation years of historical funding levels for the System are presented in the Required Supplementary Information in the financial section of this report.

Letter of Transmittal (Continued)

PROFESSIONAL SERVICES

Audit Services

The Office of the Auditor General (OAG), independent auditors, conducts audits of the System. The independent auditor's report on the System's financial statements is included in the financial section of this report. The financial statements of the System are audited by the Auditor General as part of his constitutional responsibility.

Actuarial Services

Statute requires an annual actuarial valuation be conducted for the pension benefits. The purpose of the valuation is to evaluate the mortality, service, compensation, and other financial experience of the System and to recommend funding rates. This annual actuarial valuation was completed for the fiscal years ended September 30, 2013 and 2012. Actuarial certification and supporting statistics are included in the actuarial section of this report.

Financial Services

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

ACKNOWLEDGEMENTS

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

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

Sincerely,

Christine Hammond, Director
Michigan Legislative Retirement System

Administrative Organization

Retirement Board Members

The Honorable R. Robert Geake Retiree Member Chairperson of the Board	The Honorable Alma Smith Retiree Member Vice-Chairperson of the Board	The Honorable Burton Leland Retiree Member
The Honorable John Cherry Retiree Member	The Honorable Philip Hoffman Retiree Member	Vacant Retiree Member
The Honorable Donald Gilmer Defined Contribution Plan Member	The Honorable John Jamian Retiree Member	Vacant Deferred Vested Member
The Honorable George McManus Retiree Member	The Honorable Gary Randall Retiree Member	

Administrative Organization

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

Organization Chart

Legislative Retirement System Board of Trustees*

Christine Hammond
Director

Advisors

Money managers, Financial consultants
Custodial services, Legal and Actuarial advisors

Lorie Blundy
Chief Accountant

Sylvia Hatcher
Sr. Admin. Assistant

*The investments of the System are managed by the System's Board of Trustees with the assistance of private investment professionals. Information regarding the System's investments can be found in the Investment Section.

Administrative Organization (continued)

Investment Advisors*

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

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

Lazard Asset Management
30 Rockefeller Plaza
New York, NY 10112

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

Cramer Rosenthal McGlynn, LLC
520 Madison Avenue, 20th Floor
New York, NY 10022

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

Franklin Templeton Investments
One Franklin Parkway
San Mateo, CA 94403

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

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

Parametric Clifton
3600 Minnesota Drive, Suite 325
Minneapolis, MN 55435

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

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

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

Advisors and Consultants

Actuary
Gabriel Roeder Smith & Company
Mark Buis
Southfield, MI 48076

Financial Consultant
Fund Evaluation Group
David Wetzel
Cincinnati, OH 45202

Independent Auditors
Doug A. Ringler, C.P.A., C.I.A
Auditor General
State of Michigan

Custodian
Kevin Clinton
State Treasurer
State of Michigan

Legal Advisor
Bill Schuette
Attorney General
State of Michigan

Michigan Legislative Retirement System

Comprehensive Annual Financial Report
for the Fiscal Year Ended September 30, 2014

FINANCIAL SECTION

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

OAG
Office of the Auditor General
Doug A. Ringler, CPA, CIA
Auditor General
201 N. Washington Square, Sixth Floor • Lansing, Michigan 48913 • Phone: (517) 334-8050 • http://audgen.michigan.gov

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

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

Dear Mr. Geake and Ms. Hammond:

Report on the Financial Statements

We have audited the accompanying financial statements of the Michigan Legislative Retirement System as of and for the fiscal years ended September 30, 2014 and September 30, 2013 and the related notes to the financial statements, which collectively comprise the System's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the fiduciary net position of the Michigan Legislative Retirement System as of September 30, 2014 and September 30, 2013 and the changes in fiduciary net position for the fiscal years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 6 to the financial statements, the Michigan Legislative Retirement System adopted Governmental Accounting Standards Board (GASB) Statement No. 67, *Financial Reporting for Pension Plans - an amendment of GASB Statement No. 25*, for the fiscal year ended September 30, 2014. Our opinion is not modified with respect to this matter.

Doug A. Ringler, CPA, CIA
Auditor General

The Honorable R. Robert Geake, Chair
Ms. Christine I. Hammond, Director
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Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 12 through 14 and the schedule of funding progress – other postemployment benefit plan, schedule of changes in net pension liability, schedule of net pension liability, schedules of contributions, schedule of investment returns, and related note on pages 33 through 36 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by GASB who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the System's basic financial statements. The supporting schedules and the introductory, investment, actuarial, and statistical sections are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

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

Other Reporting Required by *Government Auditing Standards*

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

Sincerely,

Doug Ringler

Doug Ringler
Auditor General
March 30, 2015

Management's Discussion and Analysis

The management's discussion and analysis (MD&A) of the System provides an overview of the financial activities and performance for the fiscal years ended September 30, 2014, 2013 and 2012. This should be read in conjunction with the financial statements and required supplemental information (RSI), which provides information for September 30, 2014 and 2013.

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

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

The Statement of Pension Plan and Other Postemployment Benefit Plan Fiduciary Net Position, presents all of the System's assets and liabilities, with the difference between the two reported as net position. Over time, increases and decreases in net position measure whether the System's financial position is improving or deteriorating. The Statement of Pension Plan and Other Postemployment Benefit Plan Fiduciary Net Position, presents how the System's net position changed during the most recent fiscal year. These two financial statements should be reviewed along with the Schedule of Net Pension Liability (page 34) and Schedules of Contributions (page 35) to determine whether the System is becoming financially stronger or weaker and to understand changes over time in the funded status of the System.

FINANCIAL ANALYSIS

The Statement of Pension Plan and Other Postemployment Benefit Plan Net Position, presents information on the System's assets and liabilities using the accrual basis of accounting. Over time, increases or decreases in net position may serve as a useful indicator of the System's financial strength or weakness. System's net position, for the fiscal year ending September 30, 2014, **increased** by $1.7 million or 1.0%, due to an increase in the market value of the System's investments. The System's net position for the fiscal year ending September 30, 2013, **increased** by $11.9 million or 7.2%, due to an increase in the market value of the System's investments.

Net Position
As of September 30
($ in Thousands)

	2014	Increase (Decrease)	2013	Increase (Decrease)	2012
Assets:					
Cash	$ 1,395	(66.5)%	$ 4,166	70.5 %	$ 2,444
Receivables	551	(40.1)	921	55.1	594
Investments	177,214	2.6	172,673	6.2	162,517
Total assets:	179,161	0.8	177,760	7.4	165,555
Liabilities:					
Warrants outstanding	31	2,471.7	1	(95.7)	28
Accounts payable	549	(38.3)	889	54.0	578
Total liabilities:	580	(35.0)	891	47.2	605
Total net position	$ 178,581	1.0 %	$ 176,869	7.2 %	$ 164,950

Management's Discussion and Analysis (continued)

ADDITIONS TO NET POSITION

The reserves needed to finance benefits provided by the System are accumulated through the collection of court fees, member and other contributions, State appropriations and through earnings on investments. Contributions and investment income/loss for fiscal year 2014 totaled $21.9 million. Total Additions to Net Position **decreased** in fiscal year 2014 by 29.6% from the prior year, primarily due to the fact that the System investments increased less than they did the prior year. Contributions and investment income/loss for fiscal year 2013 totaled $31.1 million. Total Additions to Net Position **decreased** in fiscal year 2013 by 16.9% from the prior year, primarily due to the fact that the System investments increased less than they did the prior year.

DEDUCTIONS FROM NET POSITION

The primary expenses of the System include the payment of pension and life insurance benefits to members and beneficiaries, the payments for health, dental, and vision benefits, the refund or transfer of contributions to former members, and the cost of administering the System. Total expenses for fiscal year 2014 were $20.2 million, an **increase** of 5.2% over 2013 expenses, primarily due to increased retirement and healthcare benefit expenses. Total expenses for fiscal year 2013 were $19.2 million, an **increase** of 1.9% over 2012 expenses, primarily due to increases in retirement and healthcare benefit expenses.

Changes in Net Position
For Fiscal Year Ended September 30
($ in Thousands)

	2014	Increase (Decrease)	2013	Increase (Decrease)	2012
Additions					
Member contributions	$ 12	(8.1)%	$ 13	(7.9)%	$ 14
DC health premiums	112	11.0	101	18.3	85
Other contributions	3,619	4.8	3,453	(51.7)	7,143
Court fees	871	(7.3)	940	(1.3)	953
Net Investment income/(loss)	17,256	(35.1)	26,568	(9.0)	29,198
Total Additions:	21,870	(29.6)	31,076	(16.9)	37,393
Deductions					
Pension benefits	13,148	3.1	12,757	2.3	12,470
Health care benefits	6,114	5.2	5,814	5.3	5,520
Death benefits/life ins.	382	184.7	134	(58.9)	326
Refunds/qual. rollover	21	78.7	12	(25.3)	16
Administrative exp.	494	12.3	440	(4.1)	459
Total deductions	20,158	5.2	19,156	1.9	18,790
Net Increase (decrease)	1,712	85.6	11,920	(35.9)	18,603
Net Position - Beginning of Year	176,869	7.2	164,950	12.7	146,347
Net Position - End of Year	$ 178,581	1.0 %	$ 176,869	7.2 %	$ 164,950

Management's Discussion and Analysis (continued)

Overall Financial Analysis

In accordance with its enabling statute, the MLRS Board of Trustees has fiduciary responsibility for the management of the system's funds, and it oversees its carefully structured and carefully monitored investment program to meet the system's financial goals, established through its Investment Policy Statement.

The Board seeks to achieve an optimal rate of return balanced with prudent levels of risk, to preserve capital and avoid large losses, to meet or exceed the system's 7% rate of return actuarial assumption over the long-term, to ensure that the portfolio investment managers meet or exceed their benchmarks over the long-term, and to ensure that the portfolio is invested in a cost-effective manner.

In fiscal year 2014, a significant "unknown" factor for the system fiduciaries was how to prepare the fund for the market's reaction to the US Federal Reserve's effort to taper away from its program of "quantitative easing" ("QE"). The Fed's uncertain timing for QE tapering, and the expectant rise in the Fed's interest rate, caused the financial markets to fluctuate throughout most of the fiscal year.

In addition, concerns over the slower-than-average post-recession economic growth in the US (2.2% v 4.3%) tempered anticipated market increases. Despite these moderating influences, the portfolio posted a strong 9.4% annual rate of return, exceeding both its benchmark and the system's 7% expected rate of return actuarial assumption. This rate of return allowed the portfolio's 5-year rate of return to equal 11%, far exceeding the 7% actuarial assumption.

During fiscal year 2014, the MLRS Board reviewed capital markets studies in conjunction with its asset allocation review, and it chose to add the new alternative investment allocation of 5% commodities to the portfolio, in order to further fine-tune the fund's diversification. In addition, it chose to discontinue its long-time relationship with PIMCO Total Return Bond Fund, in light of the resignation of PIMCO's chief investment officer and founder.

Detailed information regarding the MLRS investment program and performance can be found in the Investment Section of this report (beginning on page 42).

Financial Questions or Requests

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

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

As of September 30, 2014 and 2013

	As of September 30, 2014			As of September 30, 2013		
	Pension Plan	OPEB Plan	Total	Pension Plan	OPEB Plan	Total
ASSETS						
Equity in common cash	$ 1,210,569	$ 184,565	$ 1,395,134	$ 3,628,656	$ 537,155	$ 4,165,811
Receivables						
Due from other funds	82,280		82,280	58,322	31,320	89,642
Due from federal agencies		160,827	160,827		153,256	153,256
Interest and dividends	40,644		40,644	47,951	7,098	55,049
Sale of investments	267,547		267,547	542,587	80,320	622,907
Total receivables:	390,471	160,827	551,298	648,860	271,994	920,854
Investments						
Equities	63,013,202	9,545,956	72,559,158	69,873,382	10,261,799	80,135,181
Alternative investments	16,870,318	2,555,708	19,426,026	7,770,801	1,141,241	8,912,042
Mutual funds	74,016,201	11,212,816	85,229,017	72,917,177	10,708,820	83,625,997
Total investments:	153,899,721	23,314,480	177,214,201	150,561,360	22,111,860	172,673,220
Total assets:	155,500,761	23,659,872	179,160,633	154,838,876	22,921,009	177,759,885
LIABILITIES						
Warrants outstanding	30,603		30,603	1,036	154	1,190
Accounts payable and other liabilities	513,594	35,040	548,634	774,751	114,687	889,438
Total liabilities:	544,197	35,040	579,237	775,787	114,841	890,628
Net position restricted for pension benefits and OPEB	$ 154,956,564	$ 23,624,832	$ 178,581,396	$ 154,063,089	$ 22,806,168	$ 176,869,257

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

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

For fiscal years ended September 30, 2014 and 2013

	For the year ended September 30, 2014			For the year ended September 30, 2013		
	Pension Plan	OPEB Plan	Total	Pension Plan	OPEB Plan	Total
ADDITIONS						
Member contributions:						
Other member contributions	$ 5,662	$ 6,268	$ 11,930	$ 6,527	$ 6,452	$ 12,979
DC health premium		111,861	111,861		100,805	100,805
Employer contributions		3,451,900	3,451,900		3,300,200	3,300,200
Other governmental contributions		167,078	167,078		153,256	153,256
Court fees		871,481	871,481		940,187	940,187
Total contributions:	5,662	4,608,588	4,614,250	6,527	4,500,900	4,507,427
Investment Income (Loss)						
Net increase (decrease) in fair value of investments	12,321,526	1,823,972	14,145,498	19,959,143	2,883,879	22,843,022
Interest, dividends and other	3,067,440	440,406	3,507,846	3,823,057	560,639	4,383,696
Total investment income (loss)	15,388,966	2,264,378	17,653,344	23,782,200	3,444,518	27,226,718
Less investment expenses	(520,847)	(77,102)	(597,949)	(575,164)	(83,105)	(658,269)
Net investment income (loss)	14,868,119	2,187,276	17,055,395	23,207,036	3,361,413	26,568,449
Miscellaneous income		200,690	200,690			
Total additions:	14,873,781	6,996,554	21,870,335	23,213,563	7,862,313	31,075,876
DEDUCTIONS						
Benefits & refunds paid to plan members and beneficiaries:						
Retirement benefits	13,147,695		13,147,695	12,757,228		12,757,228
Health benefits		5,696,894	5,696,894		5,396,456	5,396,456
Dental benefits		417,313	417,313		417,115	417,115
Death benefits	381,500		381,500	134,000		134,000
Refund of contribution & interest	20,911		20,911	11,700		11,700
Administrative expenses	430,200	63,683	493,883	372,703	67,088	439,791
Total deductions:	13,980,306	6,177,890	20,158,196	13,275,631	5,880,659	19,156,290
Net increase (decrease) in net position	893,475	818,664	1,712,139	9,937,932	1,981,654	11,919,586
Net position restricted for pension benefits and OPEB:						
Beginning of year	154,063,089	22,806,168	176,869,257	144,125,157	20,824,514	164,949,671
End of year	$ 154,956,564	$ 23,624,832	$ 178,581,396	$ 154,063,089	$ 22,806,168	$ 176,869,257

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

Notes to General Purpose Financial Statements

NOTE 1 - PLAN DESCRIPTION

ORGANIZATION

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

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

The System shall be administered by a board of trustees, consisting of eleven (11) members, and composed as defined in Public Act 261 of 1957, as amended, and in the bylaws. Board members are appointed for a 4-year term. The board of trustees oversee the Systems investments, advisors and consultants. Complete information on the retirement board, advisors and consultants are included in the introductory section of this report.

MEMBERSHIP

At September 30, 2014 and 2013, the System's membership consisted of the following:

Inactive plan members or their beneficiaries currently receiving benefits	**2014**	**2013**
Regular benefits	227	231
Survivor benefits	57	59
Disability benefits	0	0
Total	284 *	290 *
Inactive plan members entitled to but not yet receiving benefits	15	17
Active plan members:		
Vested	1	1
Non-vested	0	0
Total	1	1
Total Plan Members	300	308

*Includes 9 domestic relations orders (DRO) alternate payees for 2014 and 2013.

Notes to General Purpose Financial Statements (Continued)

MEMBERSHIP (continued)

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

Health/Dental/Vision Plan	**2014**	**2013**
Eligible participants……………………………	395 **	397 **
Participants receiving benefits…………………	370 **	377 **

Life Insurance Plan	**2014**	**2013**
Participants receiving benefits…………………	197	202

**Includes 90 defined contribution (DC) participants at September 30, 2014 and 88 DC participants at September 30, 2013, who are receiving health care insurance through System in accordance with state statute. At September 30, 2014 and 2013, the number of DC participants who were eligible for health care insurance but declined to receive the benefits were 23 and 19 respectively.

BENEFIT PROVISIONS

Introduction

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

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

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

Regular Retirement

A member may retire and receive retirement benefits based on age and service after: (1) attaining age 50, if age and years of credited service combined are equal to or greater than 70; or (2) attaining age 55 with 5 or more years of credited service if elected, qualified, and seated not less than (a) 3 full or partial terms in the House of Representatives, (b) 2 full or partial terms in the Senate, or (c) 1 term in the House of Representatives and 1 term in the Senate. Within 30 days after becoming 55 years of age, a deferred vested member may elect to defer receipt of the retirement allowance to which the member is entitled, not to exceed 70-1/2 years of age.

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

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

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

Notes to General Purpose Financial Statements (Continued)

BENEFIT PROVISIONS (continued)

Post Retirement Benefit Adjustment

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

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

Other Postemployment Benefits

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

Life Insurance Benefits

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

Disability Benefit

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

Survivor Benefit

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

Refunds

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting and Presentation

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

GASB Statement No. 67, which was adopted during the fiscal year ended September 30, 2014, addresses accounting and financial reporting requirements for pension plans. The requirements for GASB Statement No. 67 requires changes in presentation of the financial statements, notes to the financial statements, and required supplementary information. Significant changes include an actuarial calculation of total and net pension liability. It also includes comprehensive footnote disclosure regarding the pension liability, the sensitivity of the net pension liability to the discount rate, and increased investment activity disclosures. The implementation of GASB Statement No. 67 did not significantly impact the accounting for accounts receivables and investment balances. The total pension liability, determined in accordance with GASB Statement No. 67, is presented in Note 4 on page 25 and in the Required Supplementary Information on page 32.

Contributions and Reserves

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

Members' Savings Fund (MSF) — A member who first becomes a member on or before January 1, 1995, with less than 20 years of experience, contributed approximately 7% of salary to MSF. A member who first becomes a member after January 1, 1995, contributed approximately 5% of salary to MSF. Beginning January 1, 1999, there were no member contributions allocated to MSF except for approximately 4% of salary for the period beginning on January 1, 1999 and ending on December 31, 2000, for members who first becomes a member after December 1, 1994 and on or before January 1, 1995, in accordance with legislation. Eligible members may make other contributions to the MSF to purchase special service credit or to repay previously refunded contributions. MSF represents active member contributions (and interest credited from the Income Fund) less amounts transferred to reserves for retirement and amounts refunded to terminated members. At September 30, 2014, and 2013, the balance in this account was $0.4 million and $0.5 million, respectively.

Members' Retirement Fund (MRF) — The MRF represents the reserves for payment of retirement benefits. At retirement a member's accumulated contributions (with interest) are transferred to the MRF (from the MSF). Interest is credited to the MRF (from the Income Fund), and monthly allowances are debited. At each fiscal year end an actuarial valuation determines the 100% funding requirements for the MRF. Any amounts required to 100% fund the MRF are transferred in the next fiscal year. At September 30, 2014, and 2013, the balance in this account was $59.6 million and $64.6 million, respectively.

Survivors' Retirement Fund (SRF) — On and before January 1, 1999, all members with less than 20 years of service contributed 1/2% of salary to the SRF. After January 1, 1999, there are no member contributions allocated to the SRF. Interest is credited annually to the SRF (from the Income Fund), and member savings are transferred to the SRF from the MSF upon the death of a vested member, and additional state contributions may be made in order to make the SRF 100% funded. Survivors' monthly retirement allowances are paid from this fund upon the death of vested members, deferred vested members, and retirants. At September 30, 2014, and 2013, the balance in this account was $69.9 million and $65.8 million, respectively.

Insurance Revolving Fund (IRF) — On and before January 1, 1999, all members contributed 1/2% of salary to the Insurance Revolving Fund. After January 1, 1999, there are no member contributions allocated to the IRF. State contributions, if any, member premiums, and interest from the Income Fund are credited to this fund. Life insurance benefits are paid from the IRF to beneficiaries of members, retirants, and deferred vested members. At September 30, 2014, and 2013, the balance in this account was $25.0 million and $23.2 million, respectively.

Notes to General Purpose Financial Statements (Continued)

Contributions and Reserves (continued)

Health Insurance Fund (HIF) — On and before January 1, 1999, all members contributed 1% of salary to this fund. After January 1, 1999, member contributions are made as follows: (1) members who first became members on or before January 1, 1995, contribute 9% to the HIF; (2) members who first became members after January 1, 1995, contribute 7% to the HIF. This fund is also credited with employer contributions, court fees, other governmental contributions and interest income. Funds from this reserve are used to pay health care expenses and are accumulated to fully fund the future health insurance liabilities for the System. At September 30, 2014, and 2013, the balance in this account was $23.6 million and $22.8 million, respectively.

Use of Health Insurance Reserve Funds

In July, 2011, the Michigan Legislature passed, and Governor Rick Snyder signed, a new law that provides for the use of the health insurance reserve funds to pay for the current costs associated with the retiree health insurance plan. Before the passage of the new law, Public Act 99 of 2011, the system statute prohibited the use of certain prefunding dollars maintained in the health insurance reserve, and their investment income, until the retiree health insurance (OPEB) liabilities in the system became 100% funded. Public Act 99 of 2011 removed the 100%-funding requirement, and thus allows for the immediate use of the funds for health insurance costs of the system. The system used $1.3 million and $1.3 million from the reserve to pay health insurance costs for fiscal year ending September 30, 2014 and 2013, respectively.

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

Fair Value of Investments

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

Reporting Entity

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

Investment Income

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

Cost of Administering the System

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

Related Party Transactions

The cash account includes $1.4 million and $4.2 million, on September 30, 2014, and 2013, respectively, which represents funds deposited in a common cash investment pool maintained for various State operating funds. The participating funds in the common cash pool earn interest at various rates depending upon prevailing short-term interest rates. Earnings from these activities amounted to $2,173 and $3,505 for the years ended September 30, 2014 and 2013, respectively.

Notes to General Purpose Financial Statements (Continued)

Fixed Assets

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

Excess Benefits

Internal Revenue Service (IRS) Code Section 415 requires that, for individuals who receive retirement benefits in excess of established limits, these benefits should be recorded and reported outside of the pension fund in order to keep the qualified status of the plan. This includes coordination of benefits issued where a retiree participates in more than one qualified plan. The System provided excess benefits to five (5) retirees, for a total amount of $101,852 as of September 30, 2014 and $89,907 as of September 30, 2013.

NOTE 3 - CONTRIBUTIONS AND FUNDED STATUS

Member Contributions

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

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

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

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

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

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

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

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

State Contributions

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

Notes to General Purpose Financial Statements (Continued)

State Contributions (continued)

Pension Plan: State contributions are determined based on a statutorily required annual actuarial valuation. Actual employer contributions for retirement benefits were $0 and $0 for fiscal years 2014 and 2013, respectively. Annual required employer contributions based on the previous year actuarial valuations for pension included (percentage of annual covered payroll is not computed because the System is closed):

1. $0.0 million and $0.0 million for fiscal years 2014 and 2013, respectively, for normal cost.

2. $6.3 million and $6.0 million for fiscal years 2014 and 2013, respectively, for amortization of unfunded actuarial accrued liabilities.

Other Postemployment Health Plan (OPEB): Public Act 64 of 2012 began prefunding state contributions for prefunding OPEB costs in fiscal year 2012. Actual employer contributions for other postemployment benefits were $4.3 million and $4.2 million for fiscal years 2014 and 2013, respectively. Annual required employer contributions based on the previous year actuarial valuations for pension included:

1. $1.5 million and $1.9 million for fiscal years 2014 and 2013, respectively, for normal cost of OPEB representing 46.0% and 53.1% (before reconciliation) of annual covered payroll for fiscal years 2013 and 2012 respectively.

2. $7.9 million and $7.7 million for fiscal years 2014 and 2013, respectively, for amortization of unfunded actuarial accrued liability representing 237.2% and 215.4% (before reconciliation) of annual covered payroll for fiscal years 2013 and 2012 respectively.

Funded Status

Due to the implementation of GASB 67 beginning fiscal year 2014 (see Note 6), the Funded Status is replaced by the Net Pension Liability. Therefore, since the System uses a prior year actuarial valuations and uses comparative financial statements, only fiscal year 2012 for the funded status will be presented for pension benefits.

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

For fiscal year 2013, the actuarial accrued liability (AAL) for OPEB was $153.7 million, and the actuarial value of assets was $22.8 million, resulting in an unfunded actuarial accrued liability (UAAL) of $130.9 million and a funded ratio of 15%. The covered payroll (annual payroll of active members covered by the plan) was $3.3 million, and the ratio of the UAAL to the covered payroll was 3,951%. For fiscal year 2012, the actuarial accrued liability (AAL) for OPEB was $145.2 million, and the actuarial value of assets was $20.8 million, resulting in an unfunded actuarial accrued liability (UAAL) of $124.3 million and a funded ratio of 14%. The covered payroll (annual payroll of active members covered by the plan) was $3.6 million, and the ratio of the UAAL to the covered payroll was 3,466%.

Notes to General Purpose Financial Statements (Continued)

NOTE 4 – NET PENSION LIABILITY

Measurement of the Net Pension Liability

The net pension liability is to be measured as the total pension liability, less the amount of the pension plan's fiduciary net position. In actuarial terms, this will be the accrued liability less the market value of assets (not the smoothed actuarial value of assets that is often encountered in actuarial valuations performed to determine the employer's contribution requirement)

Net Pension Liability	
Total Pension Liability	$ 205,207,843
Plan Fiduciary Net Position	154,956,564
Net Pension Liability	$ 50,251,279
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	75.51%
Net Pension Liability as a percentage of Covered Payroll	70100.13%
Total Covered Payroll	71,685

Long-Term Expected Return on Plan Assets

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. 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, 2014, are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return*
Large Cap Equity	25.0 %	4.9 %
Small Cap Equity	12.0	6.6
International Developed Equity	10.0	6.9
International Small Cap Equity	5.0	8.1
Emerging Markets	9.0	11.7
Fixed Income	15.0	0.3
High Yield	9.0	4.1
Hedge Fund	5.0	4.2
Commodities	5.0	5.2
MLPs (Energy)	5.0	9.0
Cash	-	(1.0)
Total	100.0 %	

*Rate of return does not include 2.5% inflation

Rate of Return

For the year ended September 30, 2014, the annual money-weighted rate of return on pension plan investments, net pension plan investment expense, was 9.76%. The money weighted rate of return expresses investment performances, net of investment expense, adjusted for the changing amounts actually invested.

Discount Rate

The single discount rate of 5.63% was used to measure the total pension liability. This single discount rate was based on an expected rate of return on pension plan investments of 7.0% and a municipal bond rate of 4.11% (the municipal bond rate is based on an index of 20-year general obligation bonds with an average AA credit rating, which is published by the Federal Reserve). The projection of cash flows used to determine this single 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 contributions rates and the member rate. Based on these assumptions, the pension plan's fiduciary net position and future contributions were sufficient to finance the benefit payments through the year 2033. As a result, the long-term expected rate of return on pension plan investments was applied to projected benefit payments through the year 2033, and the municipal bond rate was applied to all benefit payments after that date.

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

As required by GASB Statement No. 67, the following presents the plan's net pension liability, in thousands, calculated using a single discount rate of 5.63%, as well as what the plan's net pension liability would be if it were calculated using a single discount rate that is 1-percentage-point lower or 1-percentage-point higher:

	1% Decrease 4.63%	Current Single Discount Rate Assumption 5.63%	1% Increase 6.63%
Net Pension Liability/(Asset)	$73,538,288	$50,251,279	$30,796,488

Timing of the Valuation

An actuarial valuation to determine the total pension liability is required to be performed at least every two years. If the actuarial valuation is not calculated as of the plan's fiscal year end, the total pension liability is required to be rolled forward from the actuarial valuation date to the pension plan's fiscal year end. The total pension liability as of September 30, 2014, is based on the results of an actuarial valuation performed as of September 30, 2013 and rolled forward using generally accepted actuarial procedures.

Actuarial Valuations and Assumptions

Actuarial valuations for both the pension and OPEB plans involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions (ARC) are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

The Schedule of Funding Progress, presented as required supplementary information following the notes to the financial statements, present multi-year trend information about whether the actuarial value of plan assets for the OPEB plan is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

The Schedule of Contributions in RSI present trend information about the amounts contributed to the plans by employers in comparison to the ARC, an amount that is actuarially determined.

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

The information presented in the required supplementary schedules was determined as part of the actuarial valuations at the dates indicated. Additional information as of the latest actuarial valuation follows:

Summary of Actuarial Assumptions

Valuation Date	09/30/2013
Actuarial Cost Method	Entry Age Normal
Amortization Method - OPEB	Level Dollar Closed
Remaining Amortization Method - OPEB	27 Years Closed
Asset Valuation Method - Pension	Market Value
Asset Valuation Method - OPEB	Market Value
Actuarial Assumptions:	
Inflation Rate	4%
Investment Rate of Return - Pension	5.63%
Projected Salary Increases	4%
Retirement Age	Age-based table of rates with 100% probability of Retirement once a member is subject to term limits
Investment Rate of Return - OPEB	4% Per Year
Healthcare Cost Trend Rate - OPEB	8.75% in 2014, grading to 4% in 2023
Mortality	RP-2000 Combined Healthy Mortality Table (unadjusted)
Note	Actuarial assumptions are periodically reviewed and modified, if needed, upon the recommendation of the actuary, and with approval of the board.

Notes to General Purpose Financial Statements (Continued)

NOTE 5 - INVESTMENTS

Investment Authority

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

Derivatives

State investment statutes limits total derivative exposure to 15% of a fund's total asset value, and restricts uses to replication of returns and hedging of assets. The System Investment Policy Statement (IPS) has a target asset allocation of 5% for hedge funds, which may include derivatives. Systems investment in hedge funds has an exposure to derivatives of approximately 15-20%. The System invests in derivatives for investment purposes and not hedging purposes. As of September 30, 2014 and 2013, total investments in hedge funds were 5.5% and 5.0%, respectively. The market value of the hedge funds at September 30, 2014 and 2013 were $9,856,890 and $8,912,041, respectively.

Securities Lending

The System did not participate in any securities lending activities.

Risk

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

Credit risk

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

Debt Securities
As of September 30, 2014 and 2013

	2014			2013		
		Rating			Rating	
Investment Type	Fair Value	S & P	Moody's	Fair Value	S & P	Moody's
Mutual Funds**	$ -	AA	Aa	$ 15,887,269	AA	Aa
	30,589,099	A	A	13,438,861	A	A
	$ 30,589,099			$ 29,326,130		

**** Average Rating**

Notes to General Purpose Financial Statements (Continued)

Custodial credit risk

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

The common cash pool is managed by the State Treasurer and is authorized to invest surplus funds in depository accounts at financial institutions, bonds, notes, and other U.S. government debt, prime commercial paper, certificates of deposits, and special State investment programs. At September 30, 2014, the common cash pool held the majority of its funds in depository accounts 52.7% and prime commercial paper 44.8%. At September 30, 2013, the common cash pool held the majority of its funds in depository accounts 63.7% and prime commercial paper 34.5%. The State Treasurer's policy for common cash depository accounts requires financial institutions to secure State funds with collateral, to be organized under federal or State law, and to maintain an office in Michigan. The policy also restricts deposits to a maximum of 50% of the financial institution's net worth. As of September 30, 2014 and September 30, 2013, 100% of the State's common cash depository accounts were either covered by federal depository insurance or collateralized with securities held in the State's name by the State's agent. The State Treasurer's policy requires prime commercial paper to be rated "A-1" by S&P or "P-1" by Moody's or higher at purchase and places requirements and restrictions on the borrower. Additional details on the common cash pool policies and risk disclosures are described in the State of Michigan Comprehensive Annual Financial Report.

Concentration of Credit Risk

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

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

At September 30, 2014 and 2013, there were no investments in any one issuer that accounted for more than 5% of System's assets nor were there any investments totaling more than 5% of the stock or obligations of any one issuer.

Foreign currency risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of deposits. Public Act 35 of 1997 requires State deposits be held in a financial institution which maintains a principal office or branch office located in the State of Michigan. The System had no common cash deposits subject to foreign currency risk at September 30, 2014.

Custodial credit risk associated with investments

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

Investment securities are exposed to custodial credit risk if the securities are uninsured, are not registered in the name of the government and are held by either: a.) the counterparty, or b.) the counterparty's trust department or agent but are not in the government's name. The State Treasurer does not have an investment policy for managing custodial credit risk. At September 30, 2014 and September 30, 2013, the System's investments were not exposed to custodial credit risk.

Notes to General Purpose Financial Statements (Continued)

Interest rate risk associated with investments

Interest rate risk is the risk that changes in interest rates of debt investments will adversely affect the fair value of an investment. The System has an 18% target allocation of fixed income securities, which are affected by interest rates because they are a debt investment. At September 30, 2014 and September 30, 2013, the fair value was $30,589,099 and $29,326,130, respectively, with the investment activity for the year producing a total rate of return of 5.2% and 0.6%, respectively, and a rate of return since inception of 3.7% and 5.0%, respectively. The projected duration is 3.0 and 3.8 years, respectively. The System does not have a policy for controlling interest rate risk.

Foreign currency risk associated with investments

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of investments. The System invests in various foreign investments (including, but not limited to, equities, fixed income, and mutual funds), which are subject to various limitations in accordance with the System's Investment Policy Statement (or "IPS") (which incorporates the provisions of the Public Employee Retirement System Investment Act, or Public Act 314 of 1965, as amended). IPS foreign investment restrictions include a 20% limitation of the total assets of the system and, additionally, a 5% limitation in the outstanding foreign securities of a single issuer (allowances are made for the daily market pricing fluctuations of an investment). New investments in countries that have been identified by the United States Department of State as engaging in or sponsoring terrorism are prohibited, and existing investments in any such newly-identified country shall be quickly divested in accordance with the law. At September 30, 2014 and September 30, 2013, the System held the following investments subject to foreign currency risk:

Foreign Currency Risk

As of September 30, 2014

(Value in US dollars)

Country	Currency	Alt. Invest	Mutual Funds	Equities	International Equities	**TOTAL**
CARIBBEAN						
Cayman Islands	Dollar				370,521	**370,521**
EUROPE						
European Union	Euro			259,331	1,060,435	**1,319,766**
U.K.	Sterling				461,475	**461,475**
MIDDLE EAST						
Israel	Shekel				860,672	**860,672**
VARIOUS		19,426,022	47,461,641			**66,887,663**
	Total	$ 19,426,022	$ 47,461,641	$ 259,331	$ 2,753,103	**$ 69,900,097**

Notes to General Purpose Financial Statements (Continued)

Foreign Currency Risk

As of September 30, 2013

(Value in US dollars)

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

NOTE 6 - ACCOUNTING CHANGES

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

GASB issued Statement No. 67; *Financial Reporting for Pension Plans*. The primary purpose of the valuation for financial reporting is to provide a consistent, standardized methodology that allows comparability of data and increased transparency of the pension liability across plans. To do so, GASB requires a different approach for determining the reported NPL, as compared to the previously disclosed unfunded actuarial accrued liability (UAAL). The UAAL mirrored the unfunded actuarial obligation calculated by an external actuary for funding purposes and represented the excess of the actuarial accrued liability (AAL) over the actuarial value of assets (AVA). Under GASB Statement No. 67, the UAAL has been replaced by the NPL, which represents the excess of the total pension liability (TPL) over fiduciary net position. There are considerable differences between the two methods. Conceptually, the UAAL is the actuary's measure of the additional amount of assets needed to pay all benefits earned to date by current plan members, while the new NPL is a calculation of the actuarial present value of projected benefit payments to be provided through the pension plan to current active and inactive plan members that is attributed to those members' past periods of service in excess of the plan's fiduciary net position. The difference between the UAAL and NPL is reflected in the different methodologies used to calculate the TPL and AAL. The System's first actuarial valuation for GASB 67 requirements is for fiscal year 2014. The schedules will be built prospectively because it was not practical to restate based on the size of the System and because the System is closed. This statement was implemented in fiscal year 2014.

NOTE 7 - NEW ACCOUNTING PRONOUNCEMENTS

GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions – An Amendment of GASB Statement No. 27, Accounting for Pensions by State and Local Governmental Employers,* as well as the requirements of Statement No. 50, *Pension Disclosures,* as they relate to pensions that are provided through pension plans administered as trusts or equivalent arrangements that meet certain criteria. The requirements of Statements 27 and 50 remain applicable for pensions that are not covered by the scope of this Statement. The objective of this Statement is to improve the decision-usefulness of information in employer and governmental nonemployer contributing entity financial reports and will enhance its value for assessing accountability and interperiod equity by requiring recognition of the entire net pension liability and a more comprehensive measure of pension expense. This Statement is effective for participating employers for their fiscal years beginning after June 15, 2014.

Required Supplementary Information

Schedule of Funding Progress – Other Postemployment Benefit Plan

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

Other Post-Employment Benefits[2]

(in thousands)

Valuation Date Sept 30	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded (Overfunded) Accrued Liability (UAAL) (b-a)	Funded Ratio AAL (a/b)	Covered Payroll[1] (c)	UAAL as a % of Covered Payroll ((b-a)/c)
2008	14,319	132,628	118,309	11	11,859	998
2009	14,588	136,870	122,282	11	11,718	1,044
2010	15,886	155,259	139,373	10	11,598	1,202
2011	15,179	140,696	125,517	11	3,659	3,431
2012	20,825	145,161	124,337	14	3,587	3,466
2013	22,806	153,666	130,860	15	3,312	3,951

(1) October based payrolls
(2) Includes members in both the defined benefit plan and the defined contribution plan

Required Supplementary Information (continued)

Schedule of Changes in Net Pension Liability

Fiscal year ending September 30,	2014
Total pension liability	
Service Cost	$ 56,715
Interest on the Total Pension Liability	11,297,018
Benefit Changes	-
Difference between expected and actual experience of the Total Pension Liability	-
Assumption Changes	-
Benefit Payments and Refunds	(13,550,106)
Net Changes in Total Pension Liability	(2,196,373)
Total Pension Liability - Beginning	207,404,216
Total Pension Liability - Ending (a)	$ 205,207,843
Plan Fiduciary Net Position	
Contributions - Employer	$ -
Contributions - Member	5,662
Pension Plan Net Investment Income	14,868,119
Benefit Payments and Refunds	(13,550,106)
Pension Plan Administrative Expense	(430,200)
Other	-
Net Change in Plan Fiduciary Net Position	893,475
Plan Fiduciary Net Position - Beginning	154,063,089
Plan Fiduciary Net Position - Ending (b)	$ 154,956,564
Total Pension Liability - (a) - (b)	50,251,279
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	75.51%
Covered Employee Payroll	$ 71,685
Net Pension Liability as a Percentage of Covered Employee Payroll	70,100.13%

Schedule of Net Pension Liability

Fiscal Year Ending September 30	Total Pension Liability	Plan Net Position	Net Pension Liability	Plan Net Position as a % of Total Pension Liability	Covered Payroll	Net Pension as a % of Covered Payroll
2014	$205,207,843	$154,956,564	$50,251,279	75.5%	$71,685	70100.13%

Required Supplementary Information (continued)

Schedules of Contributions

Pension Benefits

Fiscal Year Ended Sept. 30	Actuarially Determined Contribution	Actual Employer Contributions	Contribution Deficiency (Excess)	Covered Payroll	Actual Contribution as a % of Covered Payroll
2005	$0	$0	$0	$2,016,113	0.0 %
2006	0	0	0	2,016,113	0.0
2007	394,957	394,957	0	1,332,400	29.6
2008	0	0	0	1,332,400	0.0
2009	269,944	269,944	0	1,151,100	23.5
2010	774,898	0	774,898	1,173,100	0.0
2011	1,890,998	0	1,890,998	143,370	0.0
2011^	2,915,182	0	2,915,182	143,370	0.0
2012	4,390,831	0	4,390,831	71,685	0.0
2013	5,993,209	0	5,993,209	71,685	0.0
2014	6,327,209	0	6,327,209	71,685	0.0

^Under revised mortality assumptions.

Other Post-Employment Benefits(1)

Fiscal Year Ended Sept. 30	Valuation Date Sept. 30	Annual Required Contribution (ARC)	Actual Contributions	Other Governmental Contributions	Percent Contributed
2009	2005	$ 7,978,764	$ 4,302,354	$ 160,758	55.9 %
2010	2009	10,842,010	4,514,665	150,113	43.0
2011	2010	11,817,097	4,287,509	880,159	43.7
2012	2011	9,674,141	7,840,322	225,590	83.4
2013	2012	9,630,395	4,240,388	153,256	45.6
2014	2013	9,381,877	4,323,381	167,078	47.9

(1) Includes members in both the defined benefit plan and the defined contribution plan

Required Supplementary Information (continued)

Schedule of Investment Returns

Fiscal Year Ending September 30,	Annual Return*
2014	9.76%

* Annual money-weighted rate of return, net of investment expenses

NOTE A - DESCRIPTION

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

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

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

The Schedule of Changes in Net Pension Liability, Schedule of Net Pension Liability, Schedule of Contributions, and Schedule of Investment Returns are schedules that are required in implementing GASB Statement No. 67. The two schedules of the Net pension Liability represents in actuarial terms, the accrued liability less the market value of assets. The Schedule of Contributions is a comparison of the employer’s contributions to the actuarially determined contributions. The Schedule of Investment Returns represents a money-weighted rate of return that expresses investment performances, net of pension plan investment expense, adjusted for the changing amounts actually invested.

The information presented in the Schedule of Contributions was used in the actuarial valuation for the purposes of determining actuarially determined contribution rate. Additional information as of the latest actuarial valuation for the pension plan follows:

Valuation Date: Actuarially determined rates are calculated as of September 30, each year, which is 1 day prior to the beginning of the fiscal year in which contributions are reported.

Methods and Assumptions Used to Determine Contribution Rates:

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Dollar
Remaining Amortization Method	10 Years Open
Asset Valuation Method	5-Year Smoothed Market
Inflation Rate	4%
Salary Increases	4%
Investment Rate of Return	7%
Retirement Age	Age-based table of rates with 100% probability of retirement once a member is subject to term limits
Retirement Age Mortality	RP-2000 Combined Healthy Mortality Table (unadjusted)

Supporting Schedules

Comparative Summary Schedule of Administrative Expenses For Years Ended September 30, 2014 and 2013

	2014	2013
Personnel Services	$ 400,269	$ 381,720
Actuarial Services	35,200	32,250
Audit	15,000	-
Attorney & other Professional Services	27,009	10,227
Postage, Telephone and other	16,405	15,594
Total Administrative Expenses	$ 493,883	$ 439,791

Schedule of Investment Expenses* For Years Ended September 30, 2014 and 2013

	2014	2013
Management Fees	$ 499,660	$ 563,567
State Treasurer and custody fees	26,336	26,252
Other investment expenses	71,953	68,450
Total Investment Expenses	$ 597,949	$ 658,269

*Mutual fund management fees are netted againt returns earned.

Schedule of Payments to Consultants For Years Ended September 30, 2014 and 2013

	2014	2013
Dykema Gossett	$ 22,231	$ 10,227
VanOverbeke Michaud & Timmony	$ 4,778	
Gabriel Roeder	35,200	32,250
Total Payments to Consultants	$ 62,209	$ 42,477

Supporting Schedules (continued)

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

For Years Ended September 30, 2014 and 2013

	Reserves for year ended September 30, 2014						
	Member Savings Fund	Member Retirement Fund	Survivors Retirement Fund	Insurance Revolving Fund	Health Insurance Fund	Income Fund	Total
ADDITIONS							
Member contributions:							
Other member contributions	$	$	$	$ 5,662	$ 6,268	$	$ 11,930
DC health premium					111,861		111,861
Employer contributions					3,451,900		3,451,900
Other governmental contributions					167,078		167,078
Court fees					871,481		871,481
Total contributions:				5,662	4,608,588		4,614,250
Investment income (loss)							
Net increase (decrease) in fair value of investments					1,823,972	12,321,526	14,145,498
Interest, dividends and other					440,406	3,067,440	3,507,846
Total investment income (loss)					2,264,378	15,388,966	17,653,344
Less investment expenses					(77,102)	(520,847)	(597,949)
Net investment income (loss)					2,187,276	14,868,119	17,055,395
Miscellaneous income					200,690		200,690
Total additions:				5,662	6,996,554	14,868,119	21,870,335
DEDUCTIONS							
Benefits & refunds paid to plan members & beneficiaries:							
Retirement benefits		11,137,006	2,010,689				13,147,695
Health benefits					5,696,894		5,696,894
Dental benefits					417,313		417,313
Death benefits				381,500			381,500
Refund of contribution & interest			20,911				20,911
Qualified rollover							
Administrative expenses					63,683	430,200	493,883
Total deductions:		11,137,006	2,031,600	381,500	6,177,890	430,200	20,158,196
Net increase (decrease) in net position		(11,137,006)	(2,031,600)	(375,838)	818,664	14,437,919	1,712,139
Other changes in net position:							
Interest/loss allocations	17,054	6,063,091	6,176,507	2,181,267		(14,437,919)	
Transfer upon retirements	(71,259)	71,259					
Total other changes in net position	(54,205)	6,134,350	6,176,507	2,181,267		(14,437,919)	
Net increase(decrease) after changes	(54,205)	(5,002,656)	4,144,907	1,805,429	818,664		1,712,139
Net position restricted for pension benefits and OPEB:							
Beginning of Year:	500,137	64,563,817	65,771,560	23,227,575	22,806,168		176,869,257
End of Year:	$ 445,932	$ 59,561,161	$ 69,916,467	$ 25,033,004	$ 23,624,832	$	$ 178,581,396

Supporting Schedules (continued)

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

For Years Ended September 30, 2014 and 2013

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

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Michigan Legislative Retirement System

Comprehensive Annual Financial Report
for the Fiscal Year Ended September 30, 2014

INVESTMENT SECTION

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

Report on Investment Activity

INTRODUCTION

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

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

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

INVESTMENT OBJECTIVES

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

MARKET REVIEW

The market review is prepared by the Fund Evaluation Group (FEG). FEG is the investment advisor for the System and they monitor all the investments and the performance of the investments.

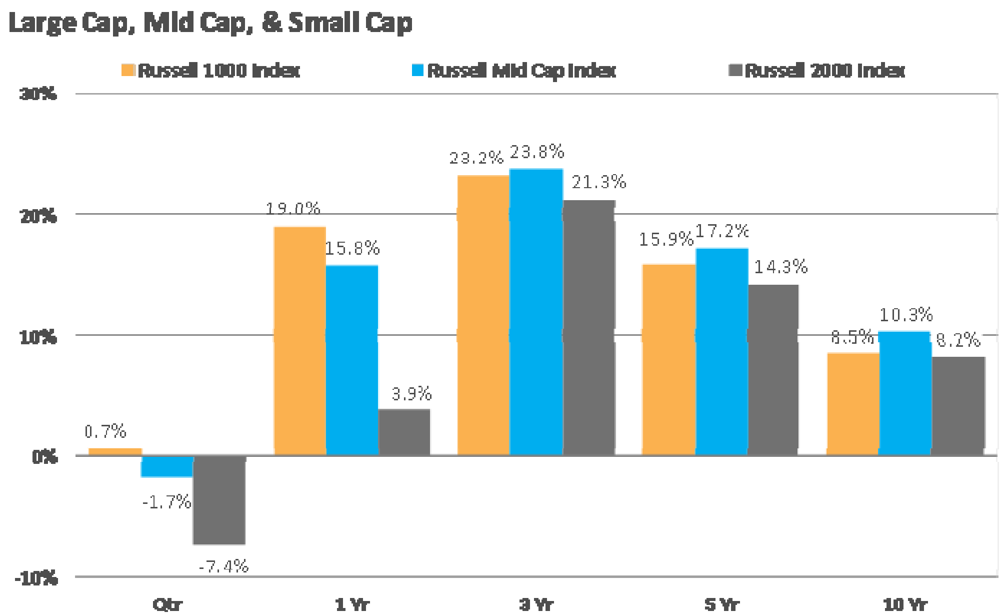
Twelve Months Ending September 30, 2014

From an investment perspective, one of the most significant unknowns during the Legislative Retirement System’s (LRS) fiscal year was the markets’ reaction to the end of quantitative easing. Consensus expectations were for the U.S. Federal Reserve (Fed) to continue to slow (taper) the pace of their bond buying program with its termination slated for just after the close of the LRS fiscal year (which is September). The uncertainty as to the timing and the impending “lift off” (i.e., an initial move up in the Federal funds rate) caused the markets to fluctuate during the fiscal year, but the diversification of the portfolio helped reduce overall volatility and generate solid returns during the period.

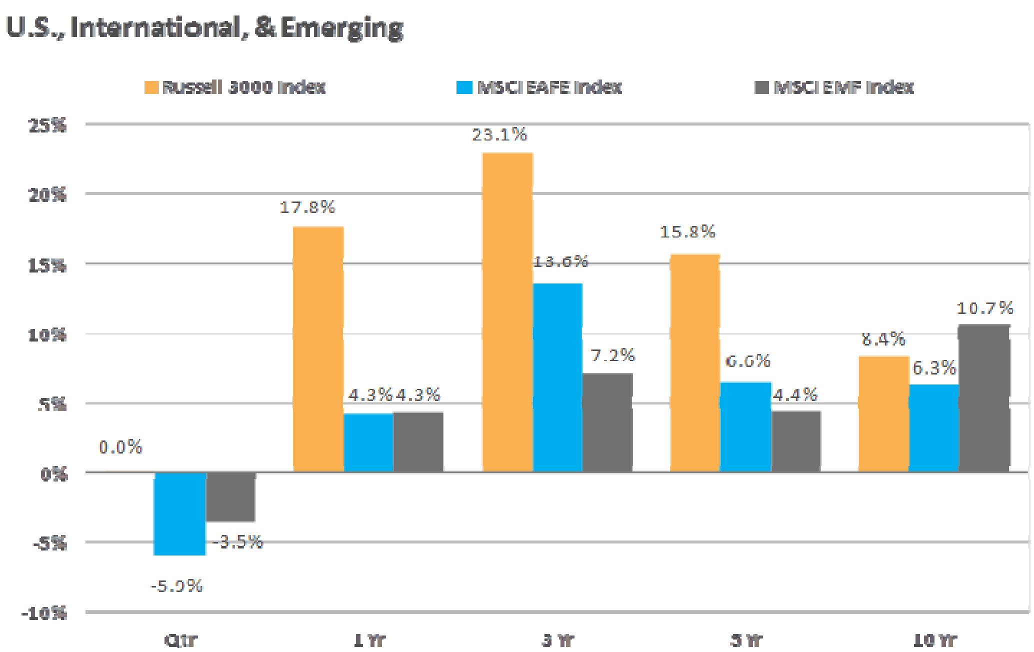
Overall, the economy has been growing, but only at an annualized rate of 2.2% since the end of the recession in 2009. While positive, this growth rate pales in comparison to the 4.3% average rate during other economic recoveries since World War II. Despite this slower-than-average post-recession growth, the LRS’s investment portfolio had another strong fiscal year posting a 9.4% (net-of-fees) total return for the one year period ending September 30, 2014.

MARKET REVIEW (continued)

Large cap U.S. equities were mixed as the fiscal year ended, but over the one-year period posted positive returns. However, the disparity between U.S. large company and small company stocks was vast, with small cap stocks generating positive results but not nearly as strong as the larger capitalized holdings.

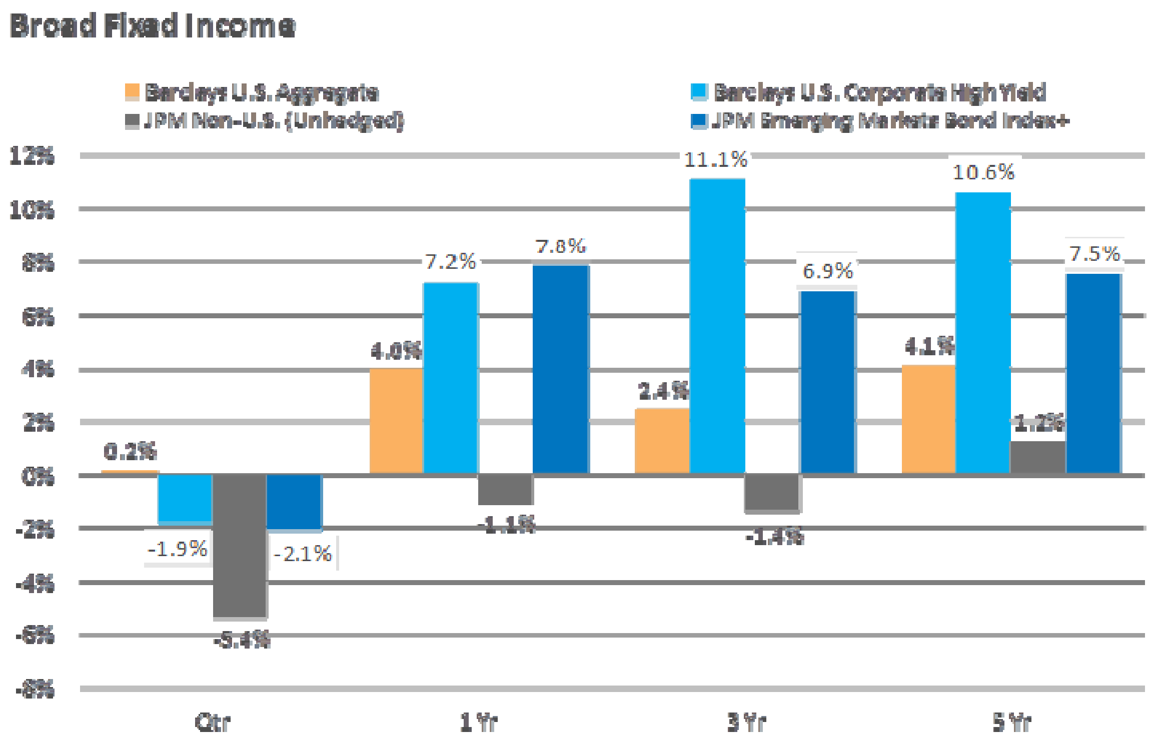


The U.S. dollar strengthened on the expectation of further intervention on the part of the European Central Bank (ECB) to prop up the floundering European economy. This strengthening dollar placed downward pressure on U.S. dollars invested in international stocks during the fiscal year. However, longer-term (three, five and ten years ending September, 2014), allocations to the international markets has benefited the LRS portfolio.



MARKET REVIEW (continued)

With all the talk about quantitative easing and the expectation of rising interest rates, it was a challenging time for fixed income investments during the fiscal year. Depending on the market segment, investors either saw a modest or a strong gain during the period. The LRS fixed income segment is well diversified and as a result, that segment (in total) performed well during the period in spite of the difficulties with the fixed income markets in general.



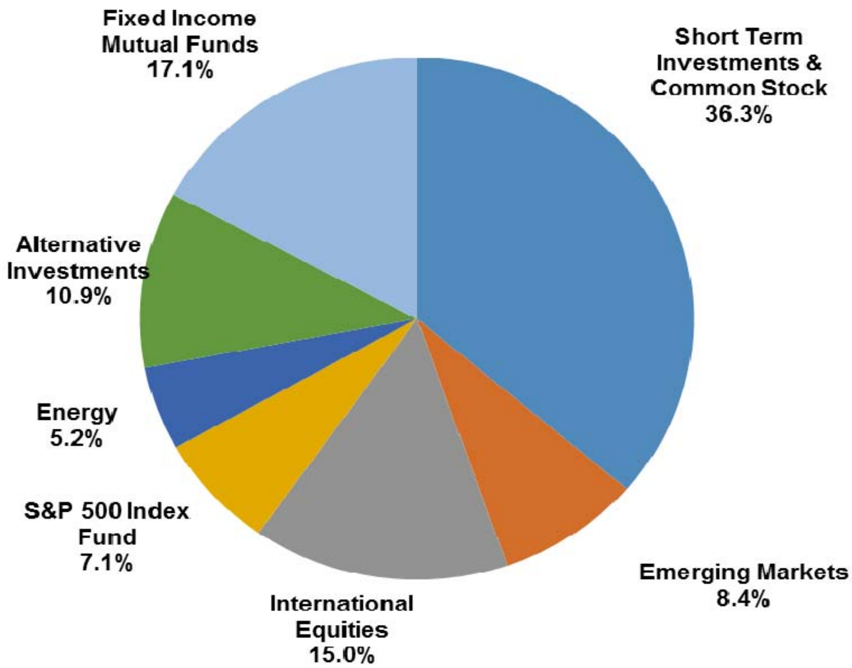
During the fiscal year, the Trustees of LRS continued their ongoing due diligence reviews of the managers working for the System. In addition to this time consuming work, the Trustees reviewed performance (every quarter), the asset allocation of the System and analyzed the overall fee structure. The asset allocation work culminated in decision to add commodities to the portfolio in an effort to provide inflation protection over the long-term.

From a return perspective, the one-year total return of the LRS portfolio exceeded the pre-established targets. Specifically, the LRS portfolio returned 9.4% (net-of-fees) while the representative Balanced Index was calculated to be 9.2% over the same period. Extending the analysis out over the five-year period ending September 30, 2014 finds the portfolio returning 11.0% (net), well in excess of the actuarially assumed return of 7% during the same period. This five-year performance also out-paced the Balanced Index's return of 10.5% for the period ending September 30, 2014.

Looking ahead, the first increase in interest rates is anticipated to occur in 2015, but like most things in life, nothing is certain. The idea that interest rates will rise in the near future is based on the Fed's comments that the U.S. economy has turned the corner and may be in a position to sustain itself even in the face of rising interest rates. Without the benefit of perfect clarity, the Trustees have prudently positioned the assets to take advantage of all investment environments. So regardless of if/when interest rates will change, or how the dollar or oil will fare in the near-term, the portfolio is diversified and well positioned for the future.

Asset Allocation

As of September 30, 2014



Investment Summary
As of September 30, 2014

Investment Category	Market Value	Percentages of Market Value	Percentages of Income/ (Loss)	Fiscal Year Income/(Loss)**
Short Term Investments* & Common Stocks	64,940,994	36.3 %	54.3 %	$ 9,585,532
S&P 500 Index Fund	12,783,259	7.1	13.8	2,439,971
Energy	9,312,727	5.2	4.7	826,609
Emerging Markets	15,054,517	8.4	4.1	715,172
Alternative Investments	19,426,026	10.9	8.6	1,513,984
Fixed Income Mutual Funds	30,589,099	17.1	5.9	1,037,169
International Equity	26,802,143	15.0	8.7	1,534,907
Total Investments	$ 178,908,765	100 %	100.0 %	$ 17,653,344

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

**Includes realized gains and losses.

Largest Assets Held

Largest Stock Holdings (By Market Value)
September 30, 2014

Rank	Shares	Stocks	Market Value
1	10,141	APPLE INC	$ 1,021,706
2	21,000	MICROSOFT CORP	973,560
3	8,015	AMERICAN EXPRESS CO	701,633
4	6,530	GILEAD SCIENCES INC	695,119
5	7,125	HOME DEPOT INC	653,648
6	1,125	GOOGLE INC CL C	649,530
7	10,396	UMB FINANCIAL CORP	567,102
8	9,315	MERCK + CO. INC.	552,193
9	6,920	FACEBOOK INC A	546,957
10	17,801	PFIZER INC	526,376

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

Schedule of Investment Fees

Schedule of Investment Fees at September 30, 2014

	Assets under Management	Fees
Investment Managers Fees*:		
World Asset Mgt/Comerica	$12,783,259	$ 8,186
Cramer Rosenthal McGlynn	11,064,453	114,617
Barrow Hanley Mewhinney & Strauss	16,852,634	112,941
Rice Hall James	16,089,927	133,365
Wellington	20,783,397	130,551
		499,660
Other Investment Fees		
State Treasurer		26,336
Fund Evaluation Group		71,953
		98,289
	TOTAL	$ 597,949

*Europacific Growth Fund, Lazard Emerging Markets, Ironwood International Ltd., Parametric Clifton, DoubleLine, JPM Alerian and Franklin Templeton management fees are netted against return earned by mutual fund money managers.

Schedule of Fees and Commissions

	Fiscal Year Ended September 30, 2014		
Investment Broker Name	Shares Traded	Total Value of Commissions	Average Commission Per Share
AQUA SECURITIES LP	100	2.00	0.02
AVONDALE PARTNERS LLC	5,464	218.56	0.04
B.RILEY &CO., LLC	15,089	602.89	0.04
BARCLAYS CAPITAL LE	51,876	1,551.84	0.03
BB&T SECURITIES, LLC	2,700	105.00	0.04
BLOOMBERGTRADEBOOK LLC	51,100	557.72	0.01
BLUEFIN RESEARCH PARTNER INC.	400	16.00	0.04
BMO CAPITAL MARKETS	840	30.34	0.04
BNP PARIBAS PRIME BROKERAGE ACTING AGENT	1,500	52.50	0.04
BREAN CAPITAL LLC	6,305	251.08	0.04
BTIG, LLC	15,346	384.65	0.03
BUCKINGHAM RESEARCH GROUP INC	2,300	82.00	0.04
BURKE ANDQUICK PARTNERS LLC	12,050	482.00	0.04
CANACCORDGENUITY INC.	115	4.03	0.04
CANTOR FITZGERALD + CO.	8,800	220.00	0.03
CAPITAL INSTITUTIONAL SVCS INC EQUITIES	3,600	126.00	0.04
CITIGROUPGLOBAL MARKETS INC	31,140	1,111.65	0.04
CJS SECURITIES INC	13,183	527.32	0.04
CONVERGEXEXECUTION SOLUTIONS LLC	157,204	5,500.38	0.03
COWEN ANDCOMPANY, LLC	28,940	1,145.32	0.04
CRAIG - HALLUM	14,532	581.28	0.04
CREDIT SUISSE SECURITIES (USA) LLC	75,945	2,346.39	0.03
CSI US INSTITUTIONAL DESK	5,090	178.15	0.04
DAIWA SECURITIES AMERICA INC	400	14.00	0.04
DAVIDSON D.A. + COMPANY INC.	21,566	862.64	0.04
DEUTSCHE BANK SECURITIES INC	374,718	3,308.16	0.01
DOUGHERTYCOMPANY	21,782	724.59	0.03
DOWLING &PARTNERS	1,400	49.00	0.04
EVERCORE GROUP LLC	950	36.00	0.04
FIDELITY CAPITAL MARKETS	14,750	590.00	0.04
FIRST ANALYSIS SECURITIES CORP	8,633	345.32	0.04
FRANK RUSSELL SEC/BROADCORT CAP CLEARING	200	7.00	0.04
FRIEDMAN BILLINGS + RAMSEY	40	1.40	0.04
GOLDMAN SACHS + CO	76,090	1,888.32	0.02
GOLDMAN SACHS INTERNATIONAL	24,395	201.40	0.01
GORDON, HASKETT & COMPANY	1,200	48.00	0.04
GUGGENHEIM CAPITAL MARKETS LLC	6,890	261.90	0.04
HEIGHT SECURITIES, LLC	60	2.10	0.04
IMPERIAL CAPITAL LLC	1,350	54.00	0.04
INSTINET	46,065	772.40	0.02
INVESTMENT TECHNOLOGY GROUP INC.	30,102	263.57	0.01
ISI GROUPINC	8,265	229.71	0.03
ITT FINL CORP	14,961	-	-
J.P. MORGAN SECURITIES INC.	60,500	2,095.32	0.03
JANNEY MONTGOMERY, SCOTT INC	21,395	666.03	0.03
JEFFERIES+ COMPANY INC	148,349	2,716.04	0.02

Schedule of Fees and Commissions (continued)

	Fiscal Year Ended September 30, 2014		
Investment Broker Name	Shares Traded	Total Value of Commissions	Average Commission Per Share
JMP SECURITIES	550	22.00	0.04
JOHNSON RICE + CO	30,788	1,167.52	0.04
JONESTRADING INSTITUTIONAL SERVICES LLC	25,288	663.89	0.03
KEEFE BRUYETTE + WOODS INC	22,400	793.50	0.04
KEYBANC CAPITAL MARKETS INC	24,399	965.46	0.04
KING, CL,& ASSOCIATES, INC	44,004	1,360.62	0.03
KNIGHT EQUITY MARKETS L.P.	10,762	379.17	0.04
LEERINK SWANN AND COMPANY	140	4.90	0.04
LIQUIDNETINC	31,850	616.50	0.02
MACQUARIESECURITIES (USA) INC	2,365	97.70	0.04
MERRILL LYNCH PIERCE FENNER + SMITH INC	139,585	2,230.67	0.02
MERRILL LYNCH PROFESSIONAL CLEARING CORP	2,300	92.00	0.04
MIZUHO SECURITIES USA INC.	1,400	56.00	0.04
MORGAN STANLEY CO INCORPORATED	57,398	1,261.88	0.02
NEEDHAM +COMPANY	9,858	394.32	0.04
NOBLE INTERNATIONAL INVESTMENTS INC.	1,444	57.76	0.04
NORTHLANDSECURITIES INC.	1,398	55.92	0.04
OPPENHEIMER + CO. INC.	10,370	411.65	0.04
PACIFIC CREST SECURITIES	10,573	396.92	0.04
PAVILLIONGLOBAL MARKETS LTD.	500	10.00	0.02
PIPER JAFFRAY	12,498	496.21	0.04
PULSE TRADING LLC	5,035	106.85	0.02
RAYMOND JAMES AND ASSOCIATES INC	41,862	1,625.47	0.04
RBC CAPITAL MARKETS	50,580	677.63	0.01
ROBERT W.BAIRD CO.INCORPORATE	36,302	1,314.97	0.04
SANDLER ONEILL + PART LP	7,123	284.92	0.04
SANFORD CBERNSTEIN CO LLC	21,310	433.94	0.02
SCOTIA CAPITAL (USA) INC	4,800	168.00	0.04
SIDOTI + COMPANY LLC	30,670	938.12	0.03
SIMMONS +COMPANY INTERNATIONAL	1,500	52.50	0.04
SJ LEVINSON & SONS LLC	2,600	65.00	0.03
STATE STREET GLOBAL MARKETS, LLC	67,616	1,594.09	0.02
STEPHENS,INC.	53,371	1,936.08	0.04
STERNE AGEE & LEACH INC.	21,498	767.68	0.04
STIFEL NICOLAUS + CO INC	96,094	3,389.21	0.04
STRATEGASSECURITIES LLC	1,700	59.50	0.04
STUART FRANKEL + CO INC	10,325	154.88	0.02
SUNGARD BROKERAGE & SECURITIES SVCS LLC	4,900	49.00	0.01
SUNTRUST CAPITAL MARKETS, INC.	23,679	837.89	0.04
TELSEY ADVISORY GROUP LLC	12,310	432.35	0.04
UBS SECURITIES LLC	50,340	1,089.53	0.02
WEDBUSH MORGAN SECURITIES INC	18,619	652.72	0.04
WEEDEN + CO.	106,780	2,120.07	0.02
WELLS FARGO SECURITIES, LLC	20,786	770.89	0.04
WILLIAM BLAIR & COMPANY L.L.C	7,045	280.74	0.04
WUNDERLICH SECURITIES INC.	3,369	134.76	0.04
TOTALS	2,527,764	$ 62,685.38	

Michigan Legislative Retirement System

Comprehensive Annual Financial Report
for the Fiscal Year Ended September 30, 2014

ACTUARIAL SECTION

Actuary's Certification

GRS
Gabriel Roeder Smith & Company
Consultants & Actuaries
One Towne Square
Suite 800
Southfield, MI 48076-3723
248.799.9000 phone
248.799.9020 fax
www.gabrielroeder.com

March 20, 2015

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

Ladies and Gentlemen:

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

The purpose of the September 30, 2013 annual actuarial valuations was to determine the contribution requirements for the fiscal year ending September 30, 2014, to measure the System's funding progress, and to provide actuarial information in connection with applicable Governmental Accounting Standards Board statements. The valuations should not be relied upon for any other purpose. The valuation process develops employer contributions that are sufficient to fund any unfunded accrued liabilities over a reasonable period. The valuation was completed based upon population data, asset data and plan provisions in effect on September 30, 2013.

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

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

Actuary's Certification
(continued)

The Board of Trustees
March 20, 2014
Page 2

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

Based upon the results of the September 30, 2013 valuation, the actuarial liabilities are less than fully funded on a funding value of assets basis and market value of assets basis. It is most important that this plan receive contributions at least equal to the actuarial rates. The actual public financed contribution for the year ended September 30, 2013 was zero, instead of the actuarially computed $5,993,209. Lower-than-recommended actual contributions will increase future required contributions or possibly lead to a depletion in fund assets.

The signing actuaries are independent of the plan sponsor.

The actuarial valuations of MLRS as of September 30, 2013 were performed by qualified actuaries in accordance with standards of practice prescribed by the Actuarial Standards Board and in compliance with applicable State statutes. Mark Buis and Francois Pieterse are Members of the American Academy of Actuaries (MAAA) and meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion contained herein. It is our opinion that the calculated employer contribution meets the financial objective of the Retirement System.

Respectfully submitted,

Mark Buis

Mark Buis, FSA, EA, MAAA

F Pieterse

Francois Pieterse, ASA, MAAA

MHB:mrb

Gabriel Roeder Smith & Company

Summary of Actuarial Assumptions and Methods

1. The investment return rate used in making the valuations was 7% per year, compounded annually. This rate of return is not the assumed real rate of return. The real rate of return is the rate of investment return in excess of the inflation rate. Considering other financial assumptions, this 7% investment return rate translates to an assumed real rate of return of 3%. Adopted 1987.

2. The mortality table used in evaluating allowances to be paid was the RP-2000 Combined Healthy Mortality Table, set back zero (0) years for men and zero (0) years for women. Adopted 2010.

3. Sample probabilities of retirement with an age and service allowance are shown in Schedule 1. Adopted 1987.

4. Sample probabilities of withdrawal from service and disability, together with individual pay increase assumptions, are shown in Schedule 2. Adopted 1993, 1979, and 1987, respectively.

5. Total active member payroll is assumed to increase 4% per year. This represents the portion of the individual pay increase assumptions attributable to inflation.

6. An individual entry age actuarial cost method of valuation was used in determining age and service allowance actuarial liabilities and normal cost. Adopted 1987. Unfunded actuarial accrued liabilities, including actuarial gains and losses, are financed over a period of 10 years.

7. Effective for the September 30, 1993 valuation, valuation assets were equal to valuation assets (prior method) as of September 30, 1992, with subsequent differences between total investment income and projected investment income (actuarial assumption) being spread over a five (5) year period.

8. Member data and asset information was furnished by the System's administrative staff. Although examined for general reasonableness, the data was not audited by the actuary.

9. The actuarial valuation computations were made by or under the supervision of a Member of the American Academy of Actuaries (MAAA). The assumptions used in the actuarial valuations were adopted by the board of trustees after consulting with the actuary.

10. Beginning fiscal year 2011, the System board approved using the prior year actuarial report for the System current year comprehensive annual financial report.

Summary of Actuarial Assumptions and Methods
(Continued)

SCHEDULE 1

Retirement Ages	Percent of Eligible Active Members Retiring Within Next Year
50	10 %
52	10
55	10
58	10
61	10
64	10
67	10
70	100

SCHEDULE 2

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

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

[#] Years after 1992, for persons who were members on December 31, 1992

Actuarial Valuation Data

Schedule of Active Member Pension Valuation Data

Valuation Date Sept. 30	Number	Reported Annual Payroll	Average Annual Pay	% Increase (Decrease)	Average Age	Average Service
2004	24	2,016,113	84,005	0.0%	53.4	12.1
2005	24	2,016,113	84,005	0.0	55.1	12.7
2006	24	2,016,113	84,005	0.0	56.1	13.6
2007	16	1,332,400	83,275	(0.9)	55.4	11.2
2008	16	1,332,400	83,275	0.0	56.4	12.2
2009	14	1,151,100	82,221	(1.3)	58.6	13.6
2010	14	1,151,100	83,739	1.9	59.6	14.6
2011	1	71,685	71,685	(14.4)	57.2	9.6
2012	1	71,685	71,685	0.0	52.3	9.8
2013	1	71,685	71,685	0.0	53.3	10.8

Schedule of Active Member OPEB Valuation Data

Valuation Date Sept. 30	Number	Reported Annual Payroll	Average Annual Pay	% Increase (Decrease)	Average Age	Average Service
2012	48	$ 3,515,187	$ 73,233	%	52.6	7.7
2013	44	3,240,447	73,647	(7.8)	52.9	8.6

Actuarial Valuation Data
(Continued)

Schedule of Changes in the Pension Retirement Rolls

Year Ended Sept. 30	Added to Rolls No.	Added to Rolls Annual Allowances	Removed from Rolls No.	Removed from Rolls Annual Allowances	Rolls–End of Year No.	Rolls–End of Year Annual Allowances	% Increase in Annual Allowances	Average Annual Allowances
2004	11	$ 555,079	5	$ 112,540	268	$ 8,044,781	5.8	$ 30,018
2005	13	787,749	13	315,412	268	8,517,118	5.9	31,780
2006	14	683,314	6	143,175	276	9,057,257	6.3	32,816
2007	18	1,081,331	8	158,247	286	9,980,341	10.2	34,896
2008	7	625,054	9	182,679	284	10,422,716	4.4	36,700
2009	13	783,304	9	352,972	288	10,853,048	4.1	37,684
2010	8	629,090	8	286,285	288	11,195,853	3.2	38,874
2011	22	1,279,764	10	300,085	300	12,175,532	8.8	40,585
2012	8	752,346	15	428,828	293	12,499,050	2.7	42,659
2013	5	631,881	8	278,216	290	12,852,715	2.8	44,320

Schedule of Changes in the OPEB Retirement Rolls

Year Ended Sept. 30	Added to Rolls No.	Added to Rolls Annual Allowances	Removed from Rolls No.	Removed from Rolls Annual Allowances	Rolls–End of Year No.	Rolls–End of Year Annual Allowances	% Increase in Annual Allowances	Average Annual Allowances
2011		$		$	356	5,225,619		
2012	18	175,876	12	415,990	362	4,979,441	(4.6) %	$ 13,755
2013	16	381,825	9	61,892	369	5,299,374	6.4	14,361

Prioritized Solvency Test

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

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

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

Pension Benefits
($ in thousands)

	Actuarial Accrued Liability (AAL)				Portion of AAL Covered by Assets			
	(1)	(2)	(3)					
Valuation Date Sept. 30	Active Member Contributions	Retirants and Beneficiaries	Active Members (Employer Financed Portion)	Valuation Assets	(1)	(2)	(3)	(4)[1]
2004	$ 3,284	$ 111,682	$ 36,972	$ 161,905	100 %	100 %	127 %	107 %
2005	2,892	117,593	34,165	157,456	100	100	108	102
2006	2,560	124,040	31,807	159,347	100	100	103	101
2007	1,833	137,179	24,301	167,750	100	100	118	103
2008	1,660	145,110	22,626	169,986	100	100	103	100
2009	1,483	149,132	20,826	165,810	100	100	73	97
2010	1,280	151,675	19,739	158,952	100	100	30	92
2011	659	171,022	10,165	149,940	100	87	0	82
2012	587	171,388	8,491	136,916	100	80	0	76
2013	500	172,877	7,532	134,932	100	78	0	75

[1]percents funded on a total valuation asset and total actuarial accrued liability basis

Prioritized Solvency Test (continued)

Other Postemployment Benefits
($ in thousands)

	Actuarial Accrued Liability (AAL)				Portion of AAL Covered by Assets			
	(1)	(2)	(3)					
Valuation Date Sept. 30	Active Member Contributions	Retirants and Beneficiaries	Active Members (Employer Financed Portion)	Valuation Assets	(1)	(2)	(3)	(4)[1]
2008	$ -	$ 75,777	$ 56,850	$ 14,319	0 %	19 %	0 %	11 %
2009	-	80,198	56,672	14,588	0	18	0	11
2010	-	86,786	68,473	15,886	0	18	0	10
2011	-	92,385	48,311	15,179	0	16	0	11
2012	-	98,511	46,650	20,825	0	21	0	14
2013	-	103,824	49,842	22,806	0	22	0	15

[1]percents funded on a total valuation asset and total actuarial accrued liability basis

Summary Of Plan Provisions

Membership

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

Term Limits

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

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

Regular Retirement

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

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

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

Deferred Retirement (Vested Benefit)

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

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

Disability Retirement

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

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

Summary Of Plan Provisions (continued)

Death Benefit

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

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

Post-Retirement Cost-of-Living Adjustments

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

Life Insurance

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

Post-Retirement Health Insurance

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

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

Member Contributions

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

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

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Michigan Legislative Retirement System

Comprehensive Annual Financial Report
for the Fiscal Year Ended September 30, 2014

STATISTICAL SECTION

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

STATISTICAL SECTION

Narrative Explanation to Statistical Section

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

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

Schedule of Expenses By Type - Pension Plan and OPEB

Schedule of Benefit Expenses By Type - Pension Plan and OPEB

Schedule of Changes in Net Position - Pension Plan

Schedule of Changes in Net Position - OPEB

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

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

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

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

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

Schedule of Retired Members by Type of Benefit – Pension Plan

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

Schedule of Funding Progress – Pension Plan

This schedule is to show the System funding status on a going-concern basis. Analysis of this percentage over time indicates whether the system is becoming financially stronger or weaker. This schedule was in the financial section, but was replaced by the Net Pension Liability for the pension plan.

Schedule of Average Benefit Payments – Pension Plan

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

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

Fiscal Year Ended	Member Contributions	Employer Contributions	Other Governmental Contributions	Court Fees	Investment & Other Income(Loss)	Total
2005	200,218	3,274,600	N/A	1,205,846	20,303,607	$24,984,271
2006	201,758	3,340,100	N/A	1,215,803	12,721,187	$17,478,848
2007	164,129	3,424,100	257,079	1,237,607	30,246,532	$35,329,447
2008	145,038	3,424,100	153,982	1,219,327	(31,512,684)	$ (26,570,237)
2009	156,385	3,424,100	160,758	1,148,198	6,414,695	$11,304,136
2010	164,411	3,424,100	150,113	1,090,565	16,840,841	$21,670,030
2011	114,663	3,287,900	880,159	999,609	(1,160,783)	$4,121,548
2012	99,322	6,887,400	255,590	952,922	29,197,705	$37,392,939
2013	113,784	3,300,200	153,256	940,187	26,568,449	$31,075,876
2014	123,791	3,451,900	167,078	871,481	17,256,085	$21,870,335

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

Fiscal Year Ended	Benefits*	Refunds and Transfers	Administrative Expenses	Total
2005	12,962,271	3,707	326,066	$13,292,044
2006	13,538,242	5,367	330,920	$13,874,529
2007	14,288,543	193,191	342,251	$14,823,985
2008	15,136,792	9,095	380,774	$15,526,661
2009	16,405,441	108,461	370,185	$16,884,087
2010	16,747,744	305,475	391,145	$17,444,364
2011	17,819,328	11,496	510,858	$18,341,682
2012	18,315,849	15,672	458,702	$18,790,223
2013	18,704,799	11,700	439,791	$19,156,290
2014	19,643,402	20,911	493,883	$20,158,196

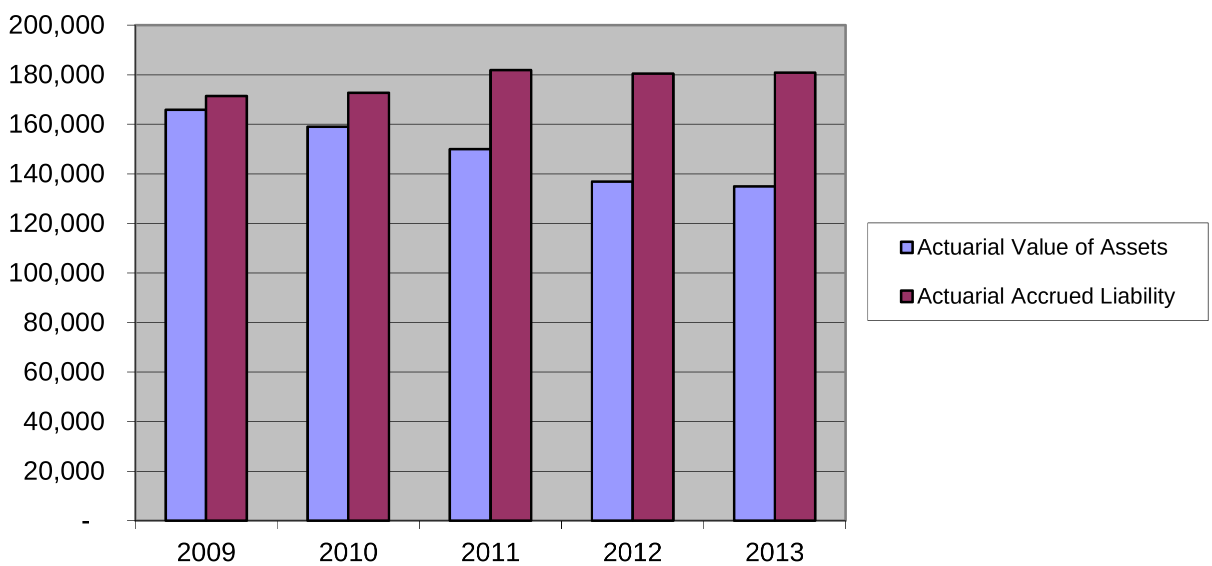
* Includes health benefits

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

Fiscal Year Ended	Regular & Survivor Pension Benefits	Death Benefits	Dental Benefits	Health Benefits	Total
2005	8,402,490	319,580	321,609	3,918,592	$12,962,271
2006	8,942,596	150,000	329,767	4,115,879	$13,538,242
2007	9,681,902	115,800	341,899	4,148,942	$14,288,543
2008	10,264,373	154,398	360,697	4,357,324	$15,136,792
2009	10,793,318	457,500	394,566	4,760,057	$16,405,441
2010	11,121,971	333,172	426,560	4,866,041	$16,747,744
2011	11,974,289	140,000	448,263	5,256,776	$17,819,328
2012	12,469,893	325,796	417,299	5,102,861	$18,315,849
2013	12,757,228	134,000	417,115	5,396,456	$18,704,799
2014	13,147,695	381,500	417,313	5,696,894	$19,643,402

Actuarial Value of Pension Plan Assets compared to Actuarial Accrued Pension Plan Liability Fiscal Years Ended September 30

(In Thousands)



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

	Fiscal Year									
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Additions										
Member contributions	$ 23,192	$ 19,568	$ 18,288	$ 13,286	$ 11,581	$ 11,044	$ 10,343	$ 7,635	$ 6,527	$ 5,662
Employer contributions										
Other Gov't contributions	N/A									
Court fees			394,957		269,944					
Net Investment income	18,535,862	11,500,577	27,445,951	(29,281,389)	5,564,681	15,031,593	(1,001,060)	26,171,659	23,207,036	14,868,119
Other income	48,775	21,593					1			
Total additions	18,607,829	11,541,738	27,859,196	(29,268,103)	5,846,206	15,042,637	(990,716)	26,179,294	23,213,563	14,873,781
Deductions (See Schedule 3)										
Benefit payments	8,722,070	9,092,596	9,797,702	10,418,771	11,250,818	11,455,143	12,114,289	12,795,689	12,891,228	13,529,195
Refunds	3,707	5,367	2,546	9,095	14,638	17,506	11,496	15,672	11,700	20,911
Qualified rollovers			190,645		93,823	287,969				
Administrative expenses	326,066	330,920	314,785	347,102	335,644	354,649	396,358	411,128	372,703	430,200
Total deductions	9,051,843	9,428,883	10,305,678	10,774,968	11,694,923	12,115,267	12,522,143	13,222,489	13,275,631	13,980,306
Changes in Net position	$ 9,555,986	$ 2,112,855	$ 17,553,518	$(40,043,071)	$ (5,848,717)	$ 2,927,370	$(13,512,859)	$ 12,956,805	$ 9,937,932	$ 893,475

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

	Fiscal Year									
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Additions										
Member contributions	$ 177,026	$ 182,190	$ 145,840	$ 131,752	$ 144,804	$ 153,367	$ 104,320	$ 91,687	$ 107,257	$ 118,129
Employer contributions	3,274,600	3,340,100	3,424,100	3,424,100	3,424,100	3,424,100	3,287,900	6,887,400	3,300,200	3,451,900
Other Gov't contributions	N/A	-	257,079	153,982	160,758	150,113	880,159	255,590	153,256	167,078
Court fees	1,205,846	1,215,803	842,651	1,219,327	878,254	1,090,565	999,609	952,922	940,187	871,481
Net Investment income	1,141,548	799,017	2,192,699	(2,583,379)	541,287	1,556,845	(159,724)	3,026,046	3,361,413	2,187,276
Other income	577,422	400,000	607,882	352,084	308,727	252,403				200,690
Total additions	6,376,442	5,937,110	7,470,251	2,697,866	5,457,930	6,627,393	5,112,264	11,213,645	7,862,313	6,996,554
Deductions (See Schedule 4)										
Benefit payments	4,240,201	4,445,646	4,490,841	4,718,021	5,154,623	5,292,601	5,705,039	5,520,160	5,813,571	6,114,207
Refunds										
Qualified rollovers										
Administrative expenses			27,466	33,672	34,540	36,496	114,500	47,574	67,088	63,683
Total deductions	4,240,201	4,445,646	4,518,307	4,751,693	5,189,163	5,329,097	5,819,539	5,567,734	5,880,659	6,177,890
Changes in Net position	$ 2,136,241	$ 1,491,464	$ 2,951,944	$ (2,053,827)	$ 268,767	$ 1,298,296	$ (707,275)	$ 5,645,911	$ 1,981,654	$ 818,664

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

	Fiscal Year									
	2005	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**
Type of Benefit										
Age and service benefits:										
Retirees	$ 6,822,464	$ 7,430,838	$ 8,185,845	$ 8,745,818	$ 9,219,700	$ 9,403,769	$10,178,018	$10,669,077	$10,850,420	$11,137,006
Survivors	1,580,026	1,511,758	1,496,057	1,518,555	1,573,618	1,718,202	1,796,271	1,800,816	1,906,808	2,010,689
Death in service benefits	319,580	150,000	115,800	154,398	457,500	333,172	140,000	325,796	134,000	381,500
Total benefits	$ 8,722,070	$ 9,092,596	$ 9,797,702	$10,418,771	$11,250,818	$11,455,143	$12,114,289	$12,795,689	$12,891,228	$13,529,195
Type of refund										
Death	$ 3,590	$ 5,367	$ 2,214	$ 9,095	$ 14,638	$ 17,506	$ 11,098	$ 15,672	$ 11,700	$ 20,911
Separation										
Other	117		332		93,823	287,969	398			
Total Refunds	$ 3,707	$ 5,367	$ 2,546	$ 9,095	$ 108,461	$ 305,475	$ 11,496	$ 15,672	$ 11,700	$ 20,911

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

	Fiscal Year									
	2005	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**
Type of Benefit										
Heathcare benefits:										
Health benefits	$ 3,918,592	$ 4,115,879	$ 4,148,942	$ 4,387,409	$ 4,760,057	$ 4,866,041	$ 5,256,776	$ 5,102,861	$ 5,396,456	$ 5,696,894
Dental benefits	321,609	329,767	341,899	330,612	394,566	426,560	448,263	417,299	417,115	417,313
Total benefits	$ 4,240,201	$ 4,445,646	$ 4,490,841	$ 4,718,021	$ 5,154,623	$ 5,292,601	$ 5,705,039	$ 5,520,160	$ 5,813,571	$ 6,114,207

Schedule of Retired Members by Type of Benefit - Pension Plan
As of September 30, 2014

Amount of Monthly Benefit	Number of Retired Members	Type of Retirement* 1	2	3	4	5
Deferred	14	8	6	0	0	0
$ 1 - $ 500	2	2	0	0	0	0
501 - 1,000	7	4	0	2	1	0
1,001 - 1,500	18	5	3	10	0	0
1,501 - 2,000	33	22	7	4	0	0
2,001 - 2,500	27	21	0	6	0	0
2,501 - 3,000	35	23	0	12	0	0
3,001 - 3,500	21	13	3	5	0	0
3,501 - 4,000	21	15	1	5	0	0
4,001 - 4,500	21	16	0	5	0	0
4,501 - 5,000	24	21	0	3	0	0
Over 5,000	75	71	0	4	0	0
Total	298	221	20	56	1	0

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

Schedule of Funding Progress – Pension Plan

(in thousands)

Valuation Date Sept 30	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded (Overfunded) Accrued Liability (UAAL) (b-a)	Funded Ratio AAL (a/b)	Covered Payroll(1) (c)	UAAL as a % of Covered Payroll(2) ((b-a)/c)
2003	164,950	147,431	(17,519)	112	2,016	N/A
2004	161,905	151,938	(9,967)	107	2,016	N/A
2005	157,456	154,650	(2,806)	102	2,016	N/A
2006	159,347	158,407	(940)	101	2,016	N/A
2007	167,750	163,313	(4,437)	103	1,332	N/A
2008	169,986	169,396	(590)	100	1,332	N/A
2009	165,810	171,441	5,631	97	1,151	N/A
2010	158,952	172,694	13,741	92	1,173	N/A
2011	149,940	181,847	31,907	82	143	N/A
2012	136,916	180,466	43,550	76	72	N/A
2013	134,932	180,909	45,978	75	72	N/A

(1) October based payrolls

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

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

	Years of Credited Services						
	0-5	5-10	10-15	15-20	20-25	25-30	30+
Retirement Effective Dates							
Period 10/1/04 to 9/30/05							
Average monthly benefit		$1,880		$4,812	$4,248		
Average final average salary		$51,671		$64,192	$79,493		
Number of retired members		4		3	2		
Period 10/1/05 to 9/30/06							
Average monthly benefit		$1,947	$2,741				
Average final average salary		$54,821	$46,426				
Number of retired members		6	5				
Period 10/1/06 to 9/30/07							
Average monthly benefit		$1,556	$3,488	$3,756	$6,308	$5,791	
Average final average salary		$56,586	$57,323	$62,550	$95,150	$89,317	
Number of retired members		4	4	2	2	3	
Period 10/1/07 to 9/30/08							
Average monthly benefit		$1,560	$3,487	$5,610			
Average final average salary		$56,981	$60,188	$101,650			
Number of retired members		1	3	1			
Period 10/1/08 to 9/30/09							
Average monthly benefit		$2,001	$3,566				
Average final average salary		$60,842	$62,550				
Number of retired members		5	2				
Period 10/1/09 to 9/30/10							
Average monthly benefit		$1,950		$4,767			
Average final average salary		$52,551		$47,723			
Number of retired members		4		1			
Period 10/1/10 to 9/30/11							
Average monthly benefit		$1,857	$3,511	$5,067			
Average final average salary		$68,654	$80,425	$75,210			
Number of retired members		5	9	5			
Period 10/1/11 to 9/30/12							
Average monthly benefit		$1,746	$4,020				
Average final average salary		$59,431	$79,650				
Number of retired members		3	1				
Period 10/1/12 to 9/30/13							
Average monthly benefit		$1,916	$5,245				
Average final average salary		$53,192	$77,400				
Number of retired members		1	1				
Period 10/1/13 to 9/30/14							
Average monthly benefit		$2,844					
Average final average salary		$70,421					
Number of retired members		2					