



**MICHIGAN OFFICE OF  
RETIREMENT SERVICES**  
*Big Plans. Small Steps.*



## Summary Annual Report

for the Michigan Judges Retirement System,  
a Pension and Other Employee Benefit  
Trust Fund of the State of Michigan  
Fiscal Year Ended September 30, 2016

Prepared By  
Office of Retirement Services  
Department of Technology, Management and Budget

# About the Michigan Judges Retirement System

This report is in compliance with Public Employee Retirement System Investment Act, 1965 PA 314, as amended. The contents came from the complete Michigan Judges Retirement System 2016 Comprehensive Annual Financial Report (CAFR), an existing public data source available on our website at [www.michigan.gov/orsjudgesdb](http://www.michigan.gov/orsjudgesdb), and additional analysis performed after September 30, 2016.

The Michigan Judges Retirement System serves 547 retirees receiving monthly benefits, and 119 active defined benefit plan members. State judge pensions are protected by Michigan's Constitution. The System's net assets are held in trust to meet future benefit payments.

The State Treasurer is the investment fiduciary and custodian of all investments of the System pursuant to state law.

## Executive Summary

The System's assets increased by \$5.8 million in fiscal year 2016. The AAL for pension and OPEB decreased by approximately \$5.1 million.

Statement of Assets and Liabilities		
FY 2016	Pension*	OPEB**
Actuarial Accrued Liability	\$ 251,349,376	\$ 9,929,319
Present Value of Assets	\$ 254,067,169	\$ 1,029,669
Unfunded Actuarial Accrued Liability	\$ (2,717,793)	\$ 8,899,650
Funding Ratio	101.1%	10.37%

\*Source: 2016 JRS Pension Actuarial Valuation, page B-1  
\*\*Source: 2016 JRS OPEB Actuarial Valuation, page A-2

FY 2015	Pension*	OPEB**
Actuarial Accrued Liability	\$ 257,246,680	\$ 9,126,022
Present Value of Assets	\$ 249,332,975	-
Unfunded Actuarial Accrued Liability	\$ 7,913,705	\$ 9,126,022
Funding Ratio	96.9%	0.00%

\*Source: 2015 JRS Pension Actuarial Valuation, page B-1  
\*\*Source: 2015 JRS OPEB Actuarial Valuation, page A-2

# Membership

Members of this defined benefit plan were elected or appointed before March 31, 1997, unless they elected to transfer to the Defined Contribution (DC) Plan. This includes the Governor, Lieutenant Governor, Secretary of State, Attorney General, Legislative Auditor General, and the Constitutional Court Administrator.

<b>Plan Membership and Retirement Allowances as of September 30, 2016</b>	
<b>Membership</b>	
Retirees and Beneficiaries Currently Receiving Benefits	
Regular Benefits	370
Survivor Benefits	171
Disability Benefits	6
<b>Total</b>	<b>547</b>
Current Employees	
Vested	119
Non-vested	-
<b>Total</b>	<b>119</b>
Inactive Employees	
Entitled to benefits and not yet receiving them	4
<b>Total All Members</b>	<b>670</b>
Source: CAFR for the fiscal year ended September 30, 2016, p. 22	
<b>Retirement Allowances</b>	
Average annual retirement allowance	\$ 42,112
Total annual retirement allowances being paid	\$ 23,035,359
Source: Pension Actuarial Valuation for the fiscal year ended September 30, 2016, p. D-2	

# Benefit Structures

Members elected or appointed before March 31, 1997, and did not choose to transfer to the Defined Contribution (DC) plan under Public Act 487 of 1996, are in the Defined Benefit (DB) plan.

Effective March 31, 1997, Public Act 487 of 1996 closed the DB plan to new members. All newly-elected or appointed members are in the DC plan.

# Assets and Liabilities

The System's total market value of assets as of September 30, 2016, were \$274 million, mostly comprised of cash, investments, and contributions due from employers and members.

Total liabilities as of September 30, 2016, were \$18 million and include warrants outstanding, accounts payable and obligations under securities lending.

Total net assets held in trust for pension and Other Post-Employment Benefits (OPEB) decreased \$2 million from the previous year.

<b>Assets &amp; Liabilities (in thousands) (combined pension and OPEB)</b>				
<b>Assets</b>	<b>FY 2016</b>		<b>FY 2015</b>	
Cash	\$	2,034	\$	3,471
Receivables		190		174
Securities Lending Collateral		18,270		15,325
Investments		253,737		254,354
<b>Total Assets</b>	<b>\$</b>	<b>274,230</b>	<b>\$</b>	<b>273,323</b>
<b>Liabilities</b>	<b>FY 2016</b>		<b>FY 2015</b>	
Accounts Payable and Other Liabilities	\$	46	\$	42
Obligations Under Securities Lending		18,244		15,323
<b>Total Liabilities</b>	<b>\$</b>	<b>18,290</b>	<b>\$</b>	<b>15,365</b>
<b>Net Assets</b>	<b>\$</b>	<b>255,940</b>	<b>\$</b>	<b>257,958</b>

Source: CAFR for the fiscal year ended September 30, 2016, pg. 17

Note: Liabilities in this context are exclusive of Actuarial Accrued Liabilities (AAL) for pension and OPEB.

# Revenue and Expenditures

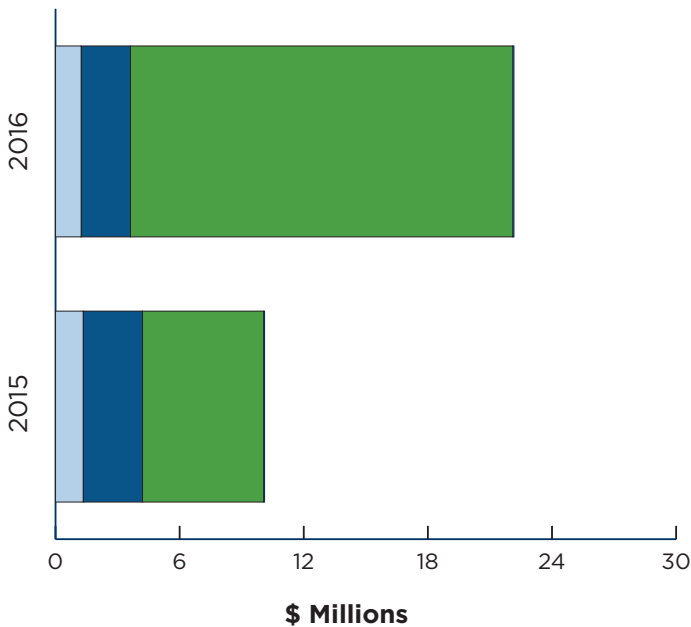
The reserves needed to finance pension and OPEB are accumulated through the collection of employer and employee contributions and through earnings on investments. Contributions and net investment income for fiscal year 2016 totaled approximately \$22.1 million.

The primary expenses of the System include the payment of pension benefits to members and beneficiaries, payment of health, dental and vision benefits, and the cost of administering the System.

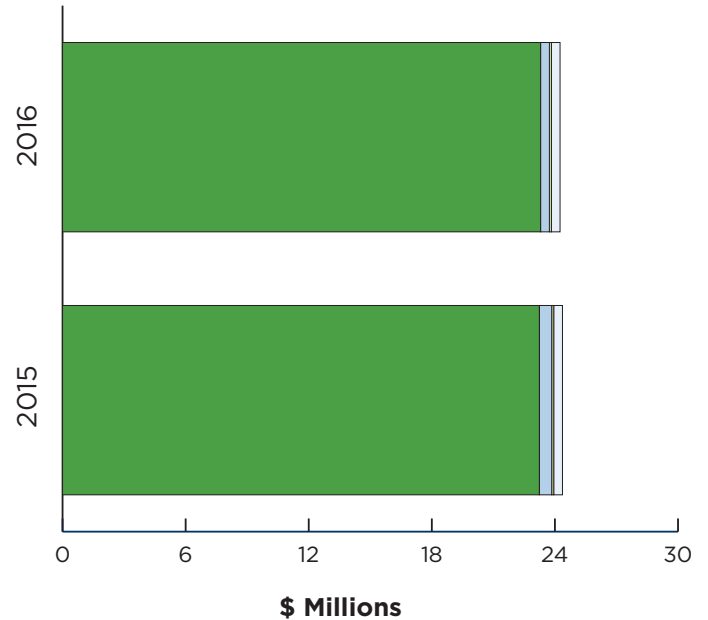
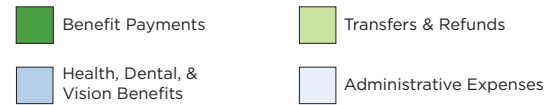
Additions & Deductions (in thousands) (combined pension and OPEB)				
Additions	FY 2016		FY 2015	
Member Contributions	\$	1,238	\$	1,336
Employer Contributions		2,385		2,868
Net Investment Income (loss)		18,481		5,858
Court Fees and Misc. Income		57		45
<b>Total Additions</b>	<b>\$</b>	<b>22,162</b>	<b>\$</b>	<b>10,107</b>
Deductions	FY 2016		FY 2015	
Benefit Payments	\$	23,302	\$	23,241
Health, Dental, & Vision Benefits		459		601
Administrative Expenses		419		426
<b>Total Deductions</b>	<b>\$</b>	<b>24,180</b>	<b>\$</b>	<b>24,268</b>
Beginning of Year Assets	\$	257,958	\$	272,119
End of Year Net Assets	\$	255,940	\$	257,958

Source: CAFR for the fiscal year ended September 30, 2016, p. 18

## Revenue



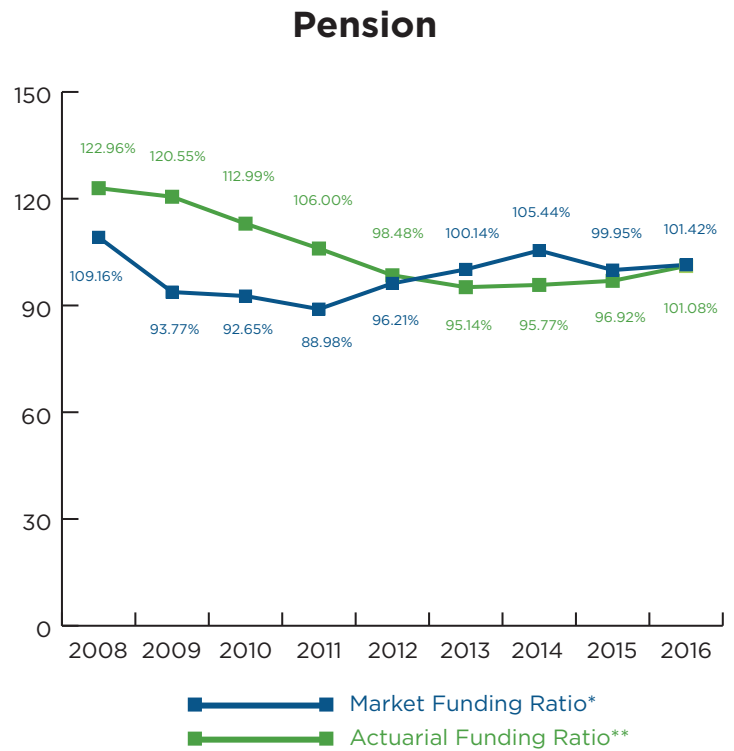
## Expenditures



# Market and Actuarial Funding Ratios

## Pension

The market funding ratio is based on the market value of assets at fiscal year end. The actuarial funding ratio is the best practice used by all pension plans nationwide. It incorporates a five-year “smoothing” period, which minimizes volatility in a pension system’s funding requirements.



## OPEB

Currently, the System is funded on a pay-as-you-go basis. As of September 30, 2016, there are \$1.03 million in valuation assets available to offset the liabilities of the plan. While this plan is currently not prefunding, this amount represents a 10.37 percent prefunding ratio.

\*Calculated on Market Value of Assets

\*\*Source: Pension Actuarial Valuation for the fiscal year ended September 30, 2016, p. B-8

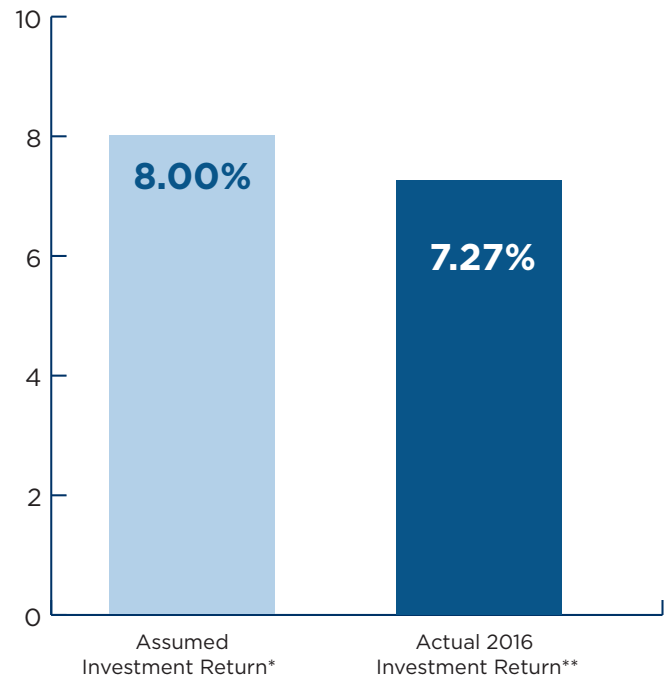
\*\*\*Source: OPEB Actuarial Valuation for the fiscal year ended September 30, 2016, Appendix A-1

# Assumed and Actual Investment Returns

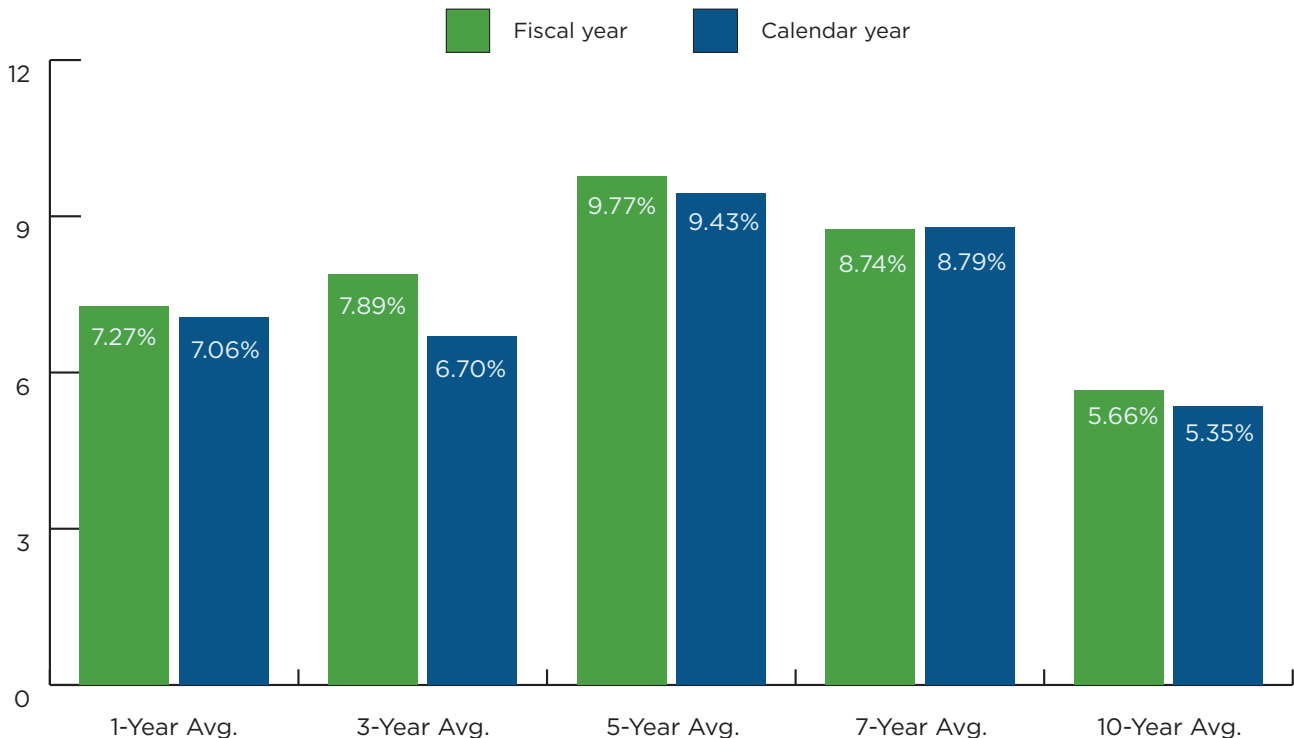
The State Treasurer administers all of the System's investments in accordance with the Public Employee Retirement System Investment Act, Public Act 314 of 1965. The main objective is maximizing the rate of return while meeting the actuarial assumptions through maintaining a diverse portfolio, eliminating unnecessary risks, and investing prudently.

The assumed rate of investment return is a key assumption used by the plan actuary in determining the contribution rates each year. When investments do not exceed the assumed rates of return, this results in an actuarial loss for the System. The actual rate of investment return in FY 2016 was 7.27 percent, which is less than the assumed return of 8 percent.

## Assumed and Actual Investment Returns for Fiscal Year 2016



## Historical Investment Returns as of Fiscal Year 2016\*\*



Note: These figures are shown net of fees. Information shown in the CAFR is shown gross of fees.

\*Source: Pension Actuarial Valuation for the fiscal year ended Sept. 30, 2016, p. E-2

\*\* Source: Treasury Bureau of Investments FY2016

# Member and Employer Contributions

## Employer Contributions

The statute requires the employer to contribute to finance the benefits of plan members. These employer contributions are determined annually by the System's actuary and are based upon level-dollar funding principles so the contributions do not have to increase over time.

## Definition of Normal Cost

Normal Cost is the actual cost of the retirement benefit a member earns each year, and is set using the assumed rate of investment return in addition to other actuarial assumptions. After member contributions are accounted for, the employer pays the remainder of the Normal Cost as shown here.

Member and Employer Pension Contributions	
<b>Member Contributions</b>	
Weighted Average	5.63%
<b>Employer Contributions</b>	
Normal Cost of benefits expressed as a percentage of valuation payroll	9.42%*
UAAL contribution rate expressed as a percentage of valuation payroll	19.50%*
Valuation Payroll	\$13,652,991
*Computed contributions are displayed as annual dollar amounts in the actuarial valuation. The Retirement System is closed to new judges and as a result, contributions expressed as percentages of active member payroll are not useful.	
Source: Pension Actuarial Valuation for the fiscal year ended Sept. 30, 2016, p. A-1	



# 2016 Plan Expenditures

Plan Expenses for Fiscal Year Ended September 30, 2016*		
Administrative and Other Expenses	Dollars	% of Total
These expenditures are the administrative costs of running the retirement system, and are paid by DTMB – Office of Retirement Services and DTMB – Financial Services through an annual appropriation.		
<b>Personnel Services</b>		
Staff Salaries	\$ 123,798	0.49295%
Retirement and Social Security	6,498	0.02587%
Other Fringe Benefits	2,360	0.00940%
Total	\$ 132,656	0.52822%
<b>Professional Services</b>		
Accounting	\$ 2,681	0.01068%
Actuarial	110,837	0.44134%
Attorney General	10,322	0.04110%
Audit	46,000	0.18317%
Consulting	128	0.00051%
Total	\$ 169,968	0.67679%
<b>Building and Equipment</b>		
Building Rentals	\$ 1,426	0.00568%
Equipment Purchase, Maintenance, and Rentals	221	0.00088%
Total	\$ 1,648	0.00656%
<b>Miscellaneous</b>		
Travel & Board Meetings (Excluding Travel & Education for Board Members)	\$ 54	0.00022%
Office Supplies	120	0.00048%
Postage, Telephone, and Other	12,869	0.05124%
Printing	353	0.00141%
Technological Support	17,716	0.07054%
Subtotal	31,112	0.12388%
Travel and Education for Board Members	0	0.00000%
Total Administrative and Other Expenses	\$ 335,384	1.33545%
Health, Dental & Vision Fees	Dollars	% of Total
These expenditures are for self-insurance of the health, dental, and vision plans, and are paid from the retirement system's trust fund.		
Staff Salaries	\$ 52,045	0.20724%
Health Fees	27,382	0.10903%
Dental Fees	4,015	0.01599%
Vision Fees	590	0.00235%
Total Health, Dental & Vision Fees	\$ 84,032	0.33460%
Investment Expenses	Dollars	% of Total
These expenditures are related to the Department of Treasury (Bureau of Investments) for managing the retirement system's assets, and are paid from the retirement system's trust fund.		
Real Estate Operating Expenses	\$ 6,149	0.02448%
Securities Lending Expenses	72,347	0.28808%
<b>Other Investment Expenses</b>		
ORS-Investment Expenses	75,717	0.30150%
Custody Fees	6,619	0.02636%
Management Fees	754,102	3.00274%
Research Fees	18,561	0.07391%
Total Investment Expenses	\$ 933,495	3.71706%
Benefits Paid to Members	Dollars	% of Total
These are the actual retirement benefits paid to members of the retirement system.		
Retirement Benefits	\$ 23,301,601	92.78402%
Health Benefits	346,436	1.37946%
Dental/Vision Benefits	112,683	0.44869%
Refunds of Member Contributions	50	0.00000%
Total Payments to Members	\$ 23,760,770	94.61237%
Soft Dollar Expenses	Dollars	% of Total
These expenditures are for research provided by the retirement system's service providers, and are incorporated into the brokerage fees and commissions.		
<b>Bass Trading Int'l Group (BTIG)</b>		
Macro Mavens Newsletter	\$ 127	0.00051%
High Tech Strategist	1	0.00000%
Total Soft Dollar Expenditures	\$ 128	0.00051%
Total of All Sections Above	\$ 25,113,808	100%
*Source: DTMB Financial Services report		
**Source: Treasury Bureau of Investments		

# 2017 Budget for Plan Expenditures

Budget for Plan Expenses for Fiscal Year Ending September 30, 2017*		
<b>Administrative and Other Expenses</b>	<b>Dollars</b>	<b>% of Total</b>
These expenditures are the administrative costs of running the retirement system, and are paid by DTMB – Office of Retirement Services and DTMB – Financial Services through an annual appropriation.		
Personnel Services		
Staff Salaries	\$ 140,634	0.54943%
Retirement and Social Security	6,164	0.02408%
Other Fringe Benefits	2,199	0.00859%
Total	\$ 148,997	0.58211%
Professional Services		
Accounting	\$ 2,861	0.01118%
Actuarial	112,000	0.43757%
Attorney General	9,923	0.03877%
Audit	46,000	0.17971%
Consulting	1,000	0.00391%
Total	\$ 171,783	0.67113%
Building and Equipment		
Building Rentals	\$ 1,268	0.00495%
Equipment Purchase, Maintenance, and Rentals	217	0.00085%
Total	\$ 1,485	0.00580%
Miscellaneous		
Travel & Board Meetings (Excluding Travel & Education for Board Members)	\$ 48	0.00019%
Office Supplies	34	0.00013%
Postage, Telephone, and Other	11,647	0.04550%
Printing	188	0.00073%
Technological Support	17,794	0.06952%
Subtotal	29,710	0.11607%
Travel and Education for Board Members		0.00000%
Total Administrative and Other Expenses	\$ 351,975	1.37511%
<b>Health, Dental &amp; Vision Fees</b>	<b>Dollars</b>	<b>% of Total</b>
These expenditures are for self-insurance of the health, dental, and vision plans, and are paid from the retirement system's trust fund.		
Staff Salaries	\$ 59,123	0.23098%
Health Fees	27,492	0.10740%
Dental Fees	4,031	0.01575%
Vision Fees	592	0.00231%
Total Health and Dental Fees	\$ 91,238	0.35645%
<b>Investment Expenses</b>	<b>Dollars</b>	<b>% of Total</b>
These expenditures are related to the Department of Treasury (Bureau of Investments) for managing the retirement system's assets, and are paid from the retirement system's trust fund.		
Real Estate Operating Expenses	\$ 2,829	0.01105%
Securities Lending Expenses	76,710	0.29970%
Other Investment Expenses		
ORS-Investment Expenses	82,820	0.32356%
Custody Fees	5,638	0.02203%
Management Fees	713,112	2.78601%
Research Fees	15,115	0.05905%
Total Investment Expenses	\$ 896,224	3.50140%
<b>Benefits Paid to Members</b>	<b>Dollars</b>	<b>% of Total</b>
These are the projected retirement benefits paid to members of the retirement system.		
Retirement Benefits	\$ 23,673,710	92.48926%
Health Benefits	489,562	1.91264%
Dental/Vision Benefits	93,334	0.36464%
Refunds of Member Contributions		0.00000%
Total Payments to Members	\$ 24,256,606	94.76654%
<b>Soft Dollar Expenses**</b>	<b>Dollars</b>	<b>% of Total</b>
These expenditures are for research provided by the retirement system's service providers, and are incorporated into the brokerage fees and commissions.		
Bass Trading Int'l Group (BTIG)		
Macro Mavens Newsletter	\$ 127	0.00050%
High Tech Strategist	1	0.00000%
Total Soft Dollar Expenditures	\$ 128	0.00050%
Total of All Sections Above	\$ 25,596,171	100%
*Source: DTMB Financial Services report		
**Source: Treasury Bureau of Investments		

# Actuarial Assumptions

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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, investment performance, and the healthcare cost trend.

Actuarial Assumptions for Fiscal Year Ended September 30, 2016	
Actuarial Cost Method	Entry Age, Normal
Amortization Method – Pension	Level Dollar
Amortization Method – OPEB	Level Percent of Payroll
Amortization Period	Ending Sept. 30, 2036
Asset Valuation Method	Fair Value
Wage Inflation Rate	3.5%
Investment Rate of Return – Pension – Closed	8.0%
Investment Rate of Return – OPEB – Open	4.0%
Healthcare Cost Trend Rate	9.0% Year 1 graded to 3.5% Year 10

Source: Pension and OPEB Actuarial Valuations for the fiscal year ended September 30, 2016

# Michigan Judges Retirement System Service Providers

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A service provider is any individual, third-party agent or consultant, or other entity that receives direct or indirect compensation for consulting, investment management, brokerage, or custody services related to the system's assets.

Accel Partners	Carlyle Group LP	Fortress Investment Group
Advent International Corp	Carlyle Investment Management	Fox Paine & Company LLC
AEW Capital Management	Castle Harlan Inc	Freeman, Spogli & Co
Affinity Equity Partners	CCMP Capital Advisors LLC	FrontPoint Partners
Apax Partners Worldwide LLP	Centerbridge Capital	FTN Financial
Apollo Capital Management	Cerberus Capital Management LP	Gateway Capital
Apollo Global Management LLC	CIE Management - BC Partners	Genstar, LLC
Arboretum Ventures	CIM Investment Advisors	Goldman Sachs
Arclight Capital Partners	Citigroup	Grosvenor Capital Management LP
Aradian	Citigroup Global Markets Inc	GSO Capital Partners
Ares Management LLC	Clarion Partners	HC Wainwright
ARK Investment Management	Clarkston Capital Partners LLC	HarbourVest Partners LLC
Attucks Asset Management	Coller Capital	Harvest Partners LLC
Avanath Capital Management	Columbia Management Investment Advisors	Heitman Capital Management
Axiom Asia Private Capital	CoStar Realty Information Inc	Highbridge Principal Strategies
Bank of America/Merrill	Cowen Group	Hilltop Securities
Bank of Montreal	Credit Suisse Securities LLC	Hopen Life Sciences Ventures
Barclay's Capital	Crescent Capital Group	HPS Investment Partners III LLC
Barings	Czech Asset Management	Huron Capital Partners LLC
Basalt Infrastructure Partners	DA Davidson & Co	InSight Venture Partners
BB&T Capital Markets	Dalmore Capital Limited	Invesco Ltd
Beacon Capital Partners	Deutsche Bank	Jana Partners
Bentall Kennedy	Devon Self Storage	Jefferies
Beringea	DLJ Merchant Banking Partners	JP Morgan Asset Management
Berkshire Partners LLC	Dodge & Cox	JP Morgan Investment Management
BGC Partners	Domain Capital Advisors	JP Morgan Securities LLC
Bivium Capital Partners	Drexel Hamilton	Kayne Anderson
BlackRock Financial Management	EDF Ventures	KBS Realty Advisors
Blackstone Alternative Asset Management	Effissimo Capital Management	Kelso & Company
Blackstone Group	EnCap Investments LP	Kensington Realty Advisors
BMO Capital Markets	EnTrust Capital	Kevin Miller Financial Services
BNP Paribas Finance	Fidelity Institutional Asset Management	Khosla Ventures
BNY ConverEx	FIMI Opportunity Funds	Kohlberg Kravis Roberts & Co
Brevan Howard Asset Management	First Reserve Management	L&B Realty Advisors
Bridgepoint Capital	FirstMark Capital	Landmark Realty Advisors
Brookfield Asset Management Inc	Fisher Investments Institutional Group	LaSalle Investment Management
BTIG Inc	Five Star Realty Partners	Lazard Asset Management
Cantor Fitzgerald	Flagship Ventures	Leonard Green & Partners LP
Capital Institutional Services		LGT Capital Partners
Capri Capital Partners		Lightspeed Ventures

## Michigan Judges Retirement System Service Providers, continued

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Lion Capital	Paladin Realty Partners	Stifel Nicolaus & Co
Lombard International Life Assurance Company	Parallel Resource Partners	Stockbridge Capital Group
Lonestar	Parthenon Capital Inc	Stonepeak Advisors LLC
Loomis Sayles & Co	Peninsula Capital Partners LLC	Sun Trust, Robinson, Humphrey
Los Angeles Capital Management	Phoenix Equity Partners	Susquehanna Intl Group
Lowe Enterprises Investment Management	PIMCO	T Rowe Price Associates
Lubert-Adler Management Company	Piper Jaffray	TCW Group Inc
Marathon Asset Management	Principal CMBS	TH Real Estate Limited
MarketAxess	Principal Financial Group	The John Buck Company
Matlin Patterson Global Advisors	Proprium Capital Partners	Thomas Bravo
Menlo Management Partners	Prudential Fixed Income	TPG Real Estate Advisors
Merit Energy	Prudential Insurance Co	TPG Inc
Meritech Capital Partners	Prudential Investment Management	Transwestern Investment Management
Merrill Lynch Pierce Fenner & Smith	Public Pension Capital	Trilantic Capital Management LLC
Mesirow Financial Inc	Questor Management Company LLC	True North Management Group
Metropolitan West Asset Management	Raymond James & Assoc	TSG Consumer Partners
MFR Securities Inc	RBC Capital Markets	Turnbridge Capital Management LLC
Mischler Financial Group	RBS Securities	UBS
Morgan Stanley	Renaissance Venture Capital	US Bancorp
Multi-Bank Securities	Rhone Capital	Venator Real Estate
Napier Park Global Capital	Rialto Capital	Veritas Capital Fund LP
New Leaf Venture Partners	Ridgewood Energy	Victory Capital
Nordic Capital	Riverside	Visium Capital Management
NorthPointe Capital	RW Baird	Vista Equity Partners
Oak Investment Partners	RW Pressprich & Co	Warburg, Pincus LLC
Oaktree Capital Management LLC	Sanford C. Bernstein & Co Inc	Warwick Energy Group
One Liberty Ventures	Scotia Capital (USA) Inc	Wayne Co
Oppenheimer & Co	Seizert Capital Partners	Wellington Management Co
Orchard Global Asset Management	Shamrock Capital Advisors	Wellington Trust Co
Orion Resource Partners	Siguler, Guff & Co LLC	Wells Fargo Securities LLC
OTA Ltd Partnership	Silver Lake	Western National Group
P Schoenfeld Asset Management	Societe Generale	
	Sprott Resources	
	Sprout Group	
	State Street Global Advisors	

Our website is available seven days a week, even when our office is closed:  
[www.michigan.gov/orsjudgesdb](http://www.michigan.gov/orsjudgesdb)

**Office of Retirement Services (ORS)**

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**Director Kerrie Vanden Bosch**

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