Michigan Public School Employees' Retirement System

a Pension Trust Fund of the State of Michigan

Comprehensive Annual Financial Report for the Fiscal Year Ended September 30, 2002

M P S E R S

Prepared by:
Financial Services
For
Office of Retirement Services
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The cost of printing this report was $2,343.63 ($1.62 each), which was paid for by the System at no cost to taxpayers.

INTRODUCTORY SECTION

Certificate of Achievement

Certificate of Achievement for Excellence in Financial Reporting

Presented to

Michigan Public School Employees' Retirement System

For its Comprehensive Annual Financial Report for the Fiscal Year Ended September 30, 2001

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.

President

Executive Director

Letter of Transmittal

Michigan Public School Employees' Retirement System
P.O. Box 30171
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STATE OF MICHIGAN

JOHN ENGLER, Governor

DEPARTMENT OF MANAGEMENT AND BUDGET

December 6, 2002

The Honorable John Engler
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 financial report of the Michigan Public School Employees' Retirement System (System) for fiscal year 2002.

Responsibility for both the accuracy of the data and the completeness and fairness of the presentation, including all disclosures, rests with the leadership team 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.

The System was established by legislation under Public Act 136 of 1945, and is administered by the Office of Retirement Services (ORS). The number of active and retired members and beneficiaries of the System is presented in Note 1 of the financial statements in the Financial Section of this report. The purpose of the System is to provide benefits for all public school employees. The services performed by the staff provide benefits to members.

The 2002 comprehensive annual financial report is presented in five sections. The Introductory Section contains the transmittal letter and identifies the administrative organization and professional consultants used by the System. The Financial Section contains the independent auditor's report, management's discussion and analysis, financial statements and notes of the System and certain supplemental schedules. The Investment Section summarizes investment activities. The Actuarial Section contains the independent consulting actuary's certification, an outline of actuarial assumptions and methods, and other actuarial statistics. The Statistical Section contains statistical tables of significant data pertaining to the System, and a schedule of participating employers.

Letter of Transmittal (Continued)

MAJOR GOALS ACCOMPLISHED

The Michigan Department of Management and Budget, Office of Retirement Services (ORS) is a customer-focused organization whose primary purpose is to deliver pensions, related benefits, and services that will enhance the future financial security of its customers. Five years ago, ORS acknowledged that the organization would need to transform itself in order to meet the challenges posed by a substantial increase in the number of new retirees without a corresponding increase in the size of the staff. Starting with a vision to provide *fast, easy access to complete and accurate information and exceptional service,* ORS developed a sound strategic plan that would strengthen the organization and foster financial stability, without losing sight of the needs of the customer.

The world has changed dramatically since the terrorist attacks on the United States on September 11, 2001. Faced with uncertainty in their personal lives, people are seeking some sense of stability and security, not only for themselves but for their financial future. ORS has been able to respond quickly and efficiently to the changing environment. Heightened security in government buildings has enhanced the safety and security of personnel and physical property, while new safeguards were added to protect vital records and other critical member data. For example, the State's Information Technology Services Division (ITSD) moved the web servers off-site to facilitate system recovery in the event of a disaster. To better safeguard ORS's employer web site and retirement member information, ITSD moved the employers' Member Inquiry System application to a more secure server and added a second level of firewall protection. In addition, ITSD implemented greater controls over content to restrict unauthorized changes to web content and applications.

Even before the 9-11 tragedy, ORS was learning to be adaptable and flexible when faced with a changing environment. In today's society little remains the same for very long, so ORS continues to be a proactive organization, rather than a reactionary one. However, through it all, ORS continues to focus on three primary interconnected objectives: *provide excellent customer service*; *improve business processes*; and *optimize technology*. Some of our accomplishments in these areas are presented below.

Provide Excellent Service to All Customers

Easily Accessible Information—ORS responded to customers' need for prompt, accurate information by offering several new and enhanced avenues for them to interact with their retirement system. In May 2002, ORS transitioned to a new www.michigan.gov web site that offers quick customer access to retirement information as well as smooth interface with all other State of Michigan web sites.

Personal Contact—Customers who preferred face-to-face interactions were able to visit the newly renovated main office at the Secondary Complex in the Lansing area, or meet with Detroit office staff in their new offices at the Cadillac Center in Detroit.

ORS continued to reach out to customers where they work and live by offering a variety of regional seminars. Approximately 7,470 pending public school retirees, administrators, and guests attended 117 PreRetirement Information Meetings (PRIMs) held across the State to learn more about their retirement eligibility and benefits. These seminars received an overall satisfaction rating of 99% from attendees.

Needs Assessment—ORS continues to assess customer needs and the quality of the service ORS offers by surveying both active employees and retirees. Depending on the audience being targeted, ORS conducts these surveys on a regular basis, annually, semiannually, or quarterly. The information gathered from these surveys results in ORS changing the way we do business to improve services to our customers.

Enhanced Benefits—Long-Term Care Insurance—In early 2002, ORS joined with the Office of the State Employer to make available a group long-term care (LTC) insurance plan for both active State employees and all ORS retirees. LTC insurance provides one of the few available means by which individuals can protect themselves against the cost of long-term care. The addition of the LTC insurance program helps promote the future financial security of ORS' customers.

Letter of Transmittal (Continued)

MetLife, the selected LTC carrier, offered 57 informational seminars in Michigan along with two seminars in Florida and one seminar in Arizona over the course of 20 days. Approximately 1,345 interested retirees were able to learn more about this LTC insurance.

Tax Relief—The Economic Growth and Tax Relief Reconciliation Act of 2001, or EGTRRA, provided higher contribution limits and greater flexibility for deferred compensation retirement accounts. ORS implemented all of the major provisions of EGTRRA as of January 1, 2002, the earliest effective date allowed by law. These provisions include:

- Increases to the maximum contribution limits
- Removal of the coordination limits between 457 and 401(k) plans
- Addition of new age-50+ catch-up provisions
- Allowing the purchase of service credit with 457 and 401(k) funds
- Greater payout flexibility for those retirees with 457 plans
- Enhanced portability options

Continuously improve the processes that direct how ORS conducts its business

Several years ago, ORS began implementing a process-based approach to conducting business. By focusing on how to eliminate unnecessary steps in the process and consolidate other parts of the process, ORS gained efficiencies and improved service to customers in a number of areas. Some of these successes are highlighted below.

Employee Development—One of the strategic goals this year for the Department of Management and Budget (DMB) was to invest in the workforce—providing employees with the knowledge they need to be successful. Using a Competency Based Training (CBT) approach, staff and supervisors work together to design an individualized development plan that will provide training targeted at the individual needs of each employee.

ORS has already seen the positive effects of this CBT effort. Employees are being cross-trained to fill a variety of roles, learning new skills that make them more adaptable to new job tasks and responsibilities, while promoting greater employee satisfaction. Employees feel they are valued members of the organization, and it shows through their positive interactions with co-workers and customers.

Partnership Building—ORS is building cooperative relationships not only internally with other DMB offices, but also outside the department with other State agencies and external partners. These partnerships improve the efficiency and quality of the product or service being provided. For example, ORS strengthened its relationship with the legislative process to facilitate more uniformity and consistency between the various retirement systems ORS oversees. ORS extended its partnership-building outside of the State to work with a representative group of school administrators and payroll personnel to prepare for upcoming system changes and how public schools will report wage and service information and submit contribution payments to ORS. By working cooperatively, potential problems can be identified earlier and resolved more efficiently.

Records Consolidation—ORS is preparing for the implementation of new technology and changes to its processes as they relate to storage and retrieval of records. In anticipation of this, staff purged unnecessary documents from member files in preparation for the future transfer of data to electronic imaging. Streamlining of the records retention process is underway. ORS completed several data purity projects to standardize existing data into uniform fields and formats, thereby facilitating the conversion to automated processing of records and applications.

Measurement Tools—ORS is an organization adept at implementing its strategic plan. In order to measure its success, ORS established quantifiable performance measures for its organizational goals along with metrics to measure the progress made towards attaining those goals. ORS has a clear direction—we can clearly see where we have been, where we are now, and what is still left to accomplish.

Letter of Transmittal (Continued)

Optimize technology

ORS proceeded with its Vision ORS project to incorporate leading-edge technology into its process-based approach to business. As part of the implementation of the first stage of Vision ORS, the team introduced the Customer Relationship Management (CRM) tool. This tool assists in the capturing of data to determine who is calling ORS, for what purpose, and what additional requests for service were made previously.

The Vision ORS team also implemented the new stage 2 tool, the Retirement Processing Application (RPA), on a small scale as a pilot project to help process a test group of retirement applications.

To improve efficiencies, ORS streamlined the Common Pension Payroll system to reduce the number of transactions required to process pension payments. In addition, ORS facilitated the electronic transmission of this pension data to the Department of Treasury, thereby enhancing the accuracy of the data records.

Looking to the future

In 1999, ORS embarked on a course of action that would produce an organization ready to provide for the changing needs of both active members and retirees. The plan requires ORS to invest in its *people*, its *processes*, and *technology*. By preparing staff for a changing environment through employee development, ORS invests in its *people*. By eliminating redundancies and becoming more efficient, ORS gains the benefits of a *process-based approach.* By implementing state-of-the-art *technology*, ORS has the tools it needs for the future. The future that ORS envisioned back in 1999 is nearly here, and ORS is well prepared to achieve its vision, to provide *fast, easy access to complete and accurate information and exceptional service.*

CERTIFICATE OF ACHIEVEMENT

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the System for its comprehensive annual financial report for the fiscal year ended September 30, 2001. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both accounting principles generally accepted in the United States of America and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe our current report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

INTERNAL CONTROL

The leadership team of the System is responsible for maintaining adequate internal accounting controls designed to provide reasonable assurance that transactions are executed in accordance with management's general or specific authorization, and are recorded as necessary to maintain accountability for assets and to permit preparation of financial statements in accordance with accounting principles generally accepted in the United States of America. The internal control structure is designed to provide reasonable assurance regarding the safekeeping of assets and reliability of all financial records.

INVESTMENT

The State Treasurer is the investment fiduciary and custodian of all investments of the System pursuant to State law. The primary investment objective is to maximize the rate of return on the total investment portfolio, consistent with a high degree of prudence and sufficient diversity to eliminate inordinate risks and to meet the actuarial assumption for the investment return rate. The investment activity for the year produced a total rate of return on the portfolio of -10.5%. For the last five years, the System has experienced an annualized rate of return of 2.7%. A summary of asset allocation and rates of return can be found in the Investment Section of this report.

Letter of Transmittal (Continued)

FUNDING

Funds are derived from the excess of additions to plan net assets over deductions from plan net assets. 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 by the actuarial accrued liability is referred to as the "funded ratio." This ratio provides an indication of the funding status of the System and generally, the greater this percentage, the stronger the System. Effective in fiscal year 2001, the System used the valuation from the previous fiscal year for this report. This approach is consistent with Governmental Accounting Standards Board (GASB) Statement Number 25. Consistent with this approach, the most recent actuarial valuation was performed as of September 30, 2001. The actuarial value of the assets and actuarial accrued liability were $38.4 billion and $39.8 billion, respectively, resulting in a funded ratio of 96.5% at September 30, 2001. A historical perspective of funding levels for the System is presented on the Schedule of Funding Progress in the Required Supplementary Information in the Financial Section of this report.

POSTEMPLOYMENT BENEFITS

The System also administers the post employment health benefits (health, dental, and vision) offered to retirees. The benefits are funded on a cash or "pay as you go" basis. An actuarial valuation was completed as of September 30, 2001 to determine the actuarial accrued liability if the benefits were to be pre-funded. If these benefits were pre-funded, the actuarial accrued liability for these benefits would be approximately $14.0 billion and the employer contribution for health care benefits would be 14.5% of payroll.

PROFESSIONAL SERVICES

An annual audit of the System was conducted by Andrews Hooper & Pavlik P.L.C., independent auditors. The independent auditor's report on the System's financial statements is included in the Financial Section of this report.

Statute requires an annual actuarial valuation be conducted. The purpose of the valuation is to evaluate the mortality, service, compensation and other financial experience of the System and to recommend employer-funding rates for the subsequent year. This annual actuarial valuation was completed by The Segal Company for the fiscal year ended September 30, 2001. Actuarial certification and supporting statistics are included in the Actuarial Section of this report.

ACKNOWLEDGMENTS

The preparation of this report was accomplished with the dedication and cooperation of many people. 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, therefore, like to express our appreciation for the assistance given by staff, the advisors and many people who contributed to its preparation. We believe their combined efforts have produced a report that will enable the employers and plan members to better evaluate and understand the Michigan Public School Employees' Retirement System. Their cooperation contributes significantly to the success of the System.

Sincerely,

Duane E. Berger, Director
Department of Management and Budget

Christopher M. DeRose

Christopher M. DeRose, Director
Office of Retirement Services

INTRODUCTORY SECTION

Administrative Organization

Retirement Board Members

Linda Adams
Active Classroom Teacher
Term Expires March 30, 2004

Susan Bolton
Active Superintendent
Term Expires March 30, 2005

Michael E. Cassady, Vice Chair
Active Classroom Teacher
Term Expires March 30. 2005

John Cook
Retired Finance/Operations
Term Expires March 30, 2003

Leon Hank
General Public - Investments
Term Expires March 30, 2004

Jeffrey Hoffman
General Public -
Actuary or Health Insurance
Term Expires March 30, 2006

Michael R. Meyer
Community College Trustee
Term Expires March 30, 2004

Richard Montcalm
Active Finance/Operations
Term Expires March 30, 2004

Gail Nugent
Retired Teacher
Term Expires March 30, 2005

Diane R. Osborn, Chair
Non-Certified Support Member
Term Expires March 30, 2005

Mark Pontti
School Board Member
Term Expires March 30, 2005

Dr. Donald Weatherspoon
Representing Thomas Watkins
State Superintendent of Education

Administrative Organization

Department of Management and Budget
Office of Retirement Services
P.O. Box 30171
Lansing, Michigan 48909-7671
517-322-5103
1-800-381-5111

Advisors and Consultants

Actuary
The Segal Company
Michael J. Karlin, F.S.A., M.A.A.A.
New York, New York

Auditors
Thomas H. McTavish, C.P.A.
Auditor General
State of Michigan

Andrews Hooper & Pavlik P.L.C.
Jeffrey J. Fineis, C.P.A.
Okemos, Michigan

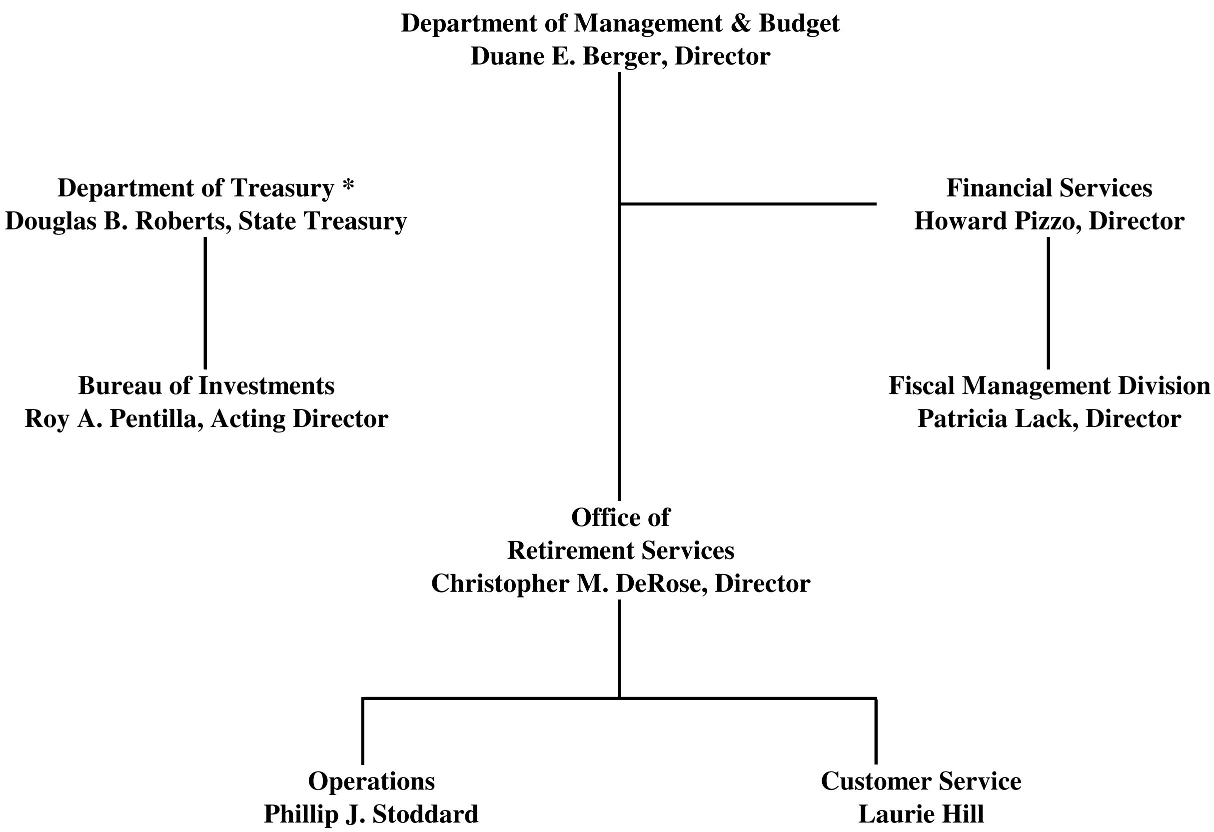
Investment Manager and Custodian
Douglas B. Roberts
State Treasurer
State of Michigan

Legal Advisor
Jennifer M. Granholm
Attorney General
State of Michigan

Medical Advisors
Gabriel, Roeder, Smith and Company
Southfield, Michigan

Investment Performance Measurement
Capitol Resource Advisors
Chicago, Illinois

Administrative Organization (Continued)



*** The investments of the System are managed by the Michigan Department of Treasury. Information on the investments and the fiduciary, Michigan Department of Treasury, can be found in the Investment Section, Introduction. In addition, see the Investment Section, Schedule of Investment Fees and Schedule of Investment Commissions for information regarding the investment fees and commissions paid as well as investment professionals utilized by the System.**

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FINANCIAL SECTION

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

Financial Section

Independent Auditor's Report

ANDREWS HOOPER & PAVLIK P.L.C.
Certified Public Accountants

Mr. Duane E. Berger, Director, Department of Management and Budget
Mr. Christopher M. DeRose, Director, Office of Retirement Services
Mr. Thomas H. McTavish, CPA, Auditor General, Office of the Auditor General
Michigan Public School Employees' Retirement System Board

We have audited the accompanying statements of pension plan and postemployment healthcare plan net assets of the Michigan Public School Employees' Retirement System, as of September 30, 2002 and 2001, and the related statements of changes in pension plan and postemployment healthcare plan net assets for the years then ended. These financial statements are the responsibility of the management of the Michigan Public School Employees' Retirement System. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial status of the Michigan Public School Employees' Retirement System, as of September 30, 2002 and 2001, and the changes in its financial status for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The required supplementary information and supporting schedules listed in the table of contents are presented for the purpose of additional analysis and are not a required part of the basic financial statements. The required supplementary information and supporting schedules are the responsibility of the Michigan Public School Employees' Retirement System's management. The Schedules of Funding Progress and Employer Contributions and related notes and the supporting schedules have been subjected to the auditing procedures applied in our audits of the basic financial statements, and in our opinion, are fairly stated in all material respects when considered in relation to the basic financial statements taken as a whole.

The Management's Discussion and Analysis (MD&A) is not a required part of the basic financial statements but is supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of this supplemental information. However, we did not audit the information and express no opinion on it. The Introductory, Investment, Actuarial, and Statistical Sections were not audited by us and, accordingly, we express no opinion on those sections.

In accordance with *Government Auditing Standards*, we have also issued a report dated November 25, 2002 on our consideration of the Michigan Public School Employees' Retirement System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, and contracts. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Andrews Hooper & Pavlik P.L.C.

Okemos, Michigan
November 25, 2002

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Management's Discussion and Analysis

Our discussion and analysis of the Michigan Public School Employees' Retirement System's (System) financial performance provides an overview of the System's financial activities for the fiscal year ended September 30, 2002. Please read it in conjunction with the transmittal letter in the Introductory Section on page 5 and the basic financial statements, which follow this discussion.

FINANCIAL HIGHLIGHTS

- System assets exceeded liabilities at the close of fiscal year 2002 by $30.3 billion (reported as *net assets*). Net assets are held in trust to meet future benefit payments.
- The System's funding objective is to meet long-term benefit obligations through contributions and investment income. As of September 30, 2001, the funded ratio was approximately 96.5%.
- Revenues for the year were ($2.0 billion), which is comprised of contributions of $1.7 billion and investment losses of ($3.7 billion).
- Expenses increased over the prior year from $2.4 billion to $2.6 billion or 9.0%. Most of this increase represented increased retirement benefits paid.

THE STATEMENT OF PLAN NET ASSETS AND THE STATEMENT OF CHANGES IN PLAN NET ASSETS

This Comprehensive Annual Financial Report (CAFR) consists of two financial statements; *The Statement of Pension Plan and Postemployment Healthcare Plan Net Assets* (page 20) and *The Statement of Changes in Pension Plan and Postemployment Healthcare Plan Net Assets* (page 21*)*. 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 Postemployment Healthcare Plan Net Assets presents all of the System's assets and liabilities, with the difference between the two reported as net assets. Over time, increases and decreases in net assets measure whether the System's financial position is improving or deteriorating. *The Statement of Changes in Pension Plan and Postemployment Healthcare Plan Net Assets* presents how the System's net assets changed during the most recent fiscal year. These two financial statements should be reviewed along with the Schedule of Funding Progress and Schedule of Employer Contributions 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

System total assets as of September 30, 2002 were $31.8 billion and were mostly comprised of cash, investments, and contributions due from employers. Total assets decreased $4.9 billion or 13.4% from the prior year primarily due to decreased investment earnings.

Total liabilities as of September 30, 2002 were $1.5 billion and were mostly comprised of warrants outstanding, administrative costs, and obligations under securities lending. Total liabilities decreased $218.3 million or 12.7% from the prior year primarily due to a decrease in obligations under securities lending and a decrease in purchases of investments.

Management's Discussion and Analysis (Continued)

System assets exceeded its liabilities at the close of fiscal year 2002 by $30.3 billion. Total net assets held in trust for pension and health benefits decreased $4.7 billion or 13.4% from the previous year, primarily due to adverse market conditions and a decrease in investment earnings. This compares to the previous year, when net assets decreased by $5.4 billion or 13.4% from the prior year.

Michigan Public School Employees' Retirement System
Net Assets
(In Thousands)

	2002	2001	Total Percentage Change
Assets			
Cash	$ 106,811	$ 96,868	10.3 %
Receivables	520,692	482,866	7.8
Investments	31,200,393	36,161,810	(13.7)
Total Assets	31,827,896	36,741,544	(13.4)
Liabilities			
Warrants outstanding	8,697	9,073	(4.1)
Accounts payable and other accrued liabilities	162,033	226,191	(28.4)
Obligations under securities lending	1,329,335	1,483,052	(10.4)
Total Liabilities	1,500,065	1,718,316	(12.7)
Total Net Assets	$30,327,831	$35,023,228	(13.4) %

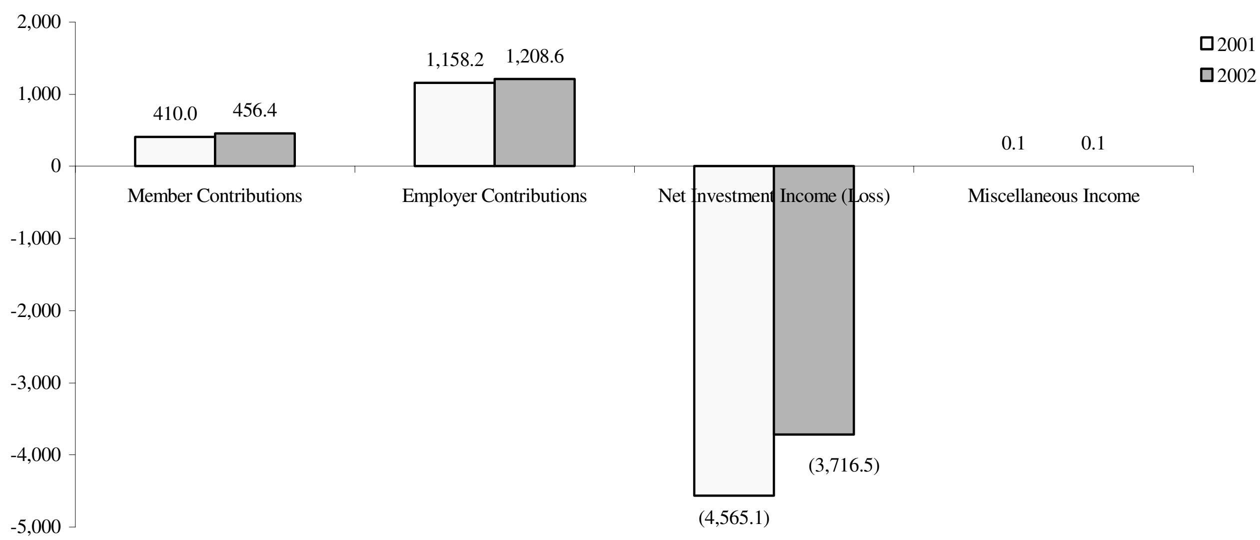
Management's Discussion and Analysis (Continued)

REVENUES - ADDITIONS TO PLAN NET ASSETS

The reserves needed to finance retirement and health benefits are accumulated through the collection of employer and employee contributions and through earnings on investments. Contributions and net investment income/(losses) for fiscal year 2002 totaled approximately ($2.0 billion).

Total contributions and net investment income increased approximately $945.3 million or 31.5% from those of the prior year due primarily to changes in market conditions and investment earnings. Total contributions increased from the previous year by $96.7 million or 6.2%, while investment income increased $848.6 million or 18.6%. The Investment Section of this report reviews the results of investment activity for 2002.

Additions to Plan Net Assets
(In Millions)



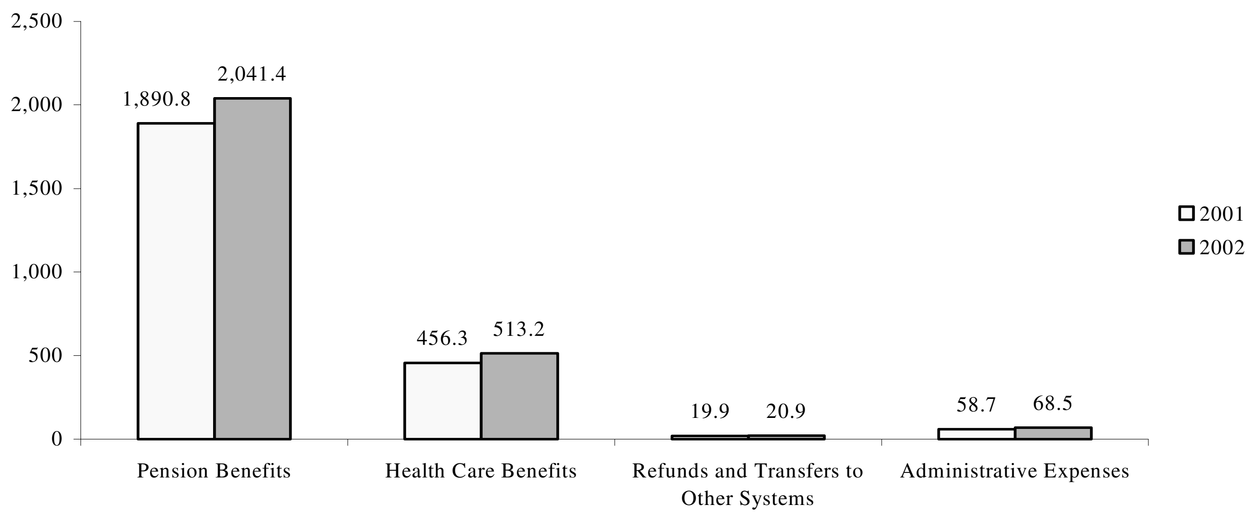
Management's Discussion and Analysis (Continued)

EXPENSES - DEDUCTIONS FROM PLAN NET ASSETS

The primary expenses of the System include the payment of pension benefits to members and beneficiaries, payment for health, dental and vision benefits, refund of contributions to former members, and the cost of administering the System. Total deductions for fiscal year 2002 were $2.6 million, an increase of 9.0% over year 2001 expenditures.

The growth of health, dental, and vision care expenditures continued during the year and increased by $56.9 million or 12.5% from $456.3 million to $513.2 million during the fiscal year. The payment of pension benefits increased by $150.6 million or 8.0% from the previous year. The increase in pension benefit expenditures resulted from an increase in retirees (4,487) and an increase in benefit payments to retirees. Administrative expenses increased by $9.8 million or 16.7% from the previous year, primarily due to an increase in the costs allocated for building occupancy and an increase in technological support.

Deductions from Plan Net Assets
(In Millions)



Management's Discussion and Analysis (Continued)

RETIREMENT SYSTEM AS A WHOLE

The System's combined net assets have experienced two years of decreases over the last five years. Again, this decrease is a result of a national economic slowdown that resulted in investment income decreases. Management believes, and actuarial studies concur, that the System is in a financial position to meet its current obligations. We believe the current financial position will improve due to a prudent investment program, cost controls, and strategic planning.

CONTACTING SYSTEM FINANCIAL MANAGEMENT

This financial report is designed to provide the Retirement Board, our membership, taxpayers, investors, and creditors with a general overview of the System's finances and to demonstrate the System's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the Office of Retirement Services, P.O. Box 30171, Lansing, MI 48909-7671.

Statements of Pension Plan and Postemployment Healthcare Plan Net Assets

As of Fiscal Years Ending September 30, 2002 and 2001

	September 30, 2002			September 30, 2001		
	Pension Plan	Health Plan	Total	Pension Plan	Health Plan	Total
Assets:						
Cash	$ 105,673,228	$ 1,137,238	$ 106,810,466	$ 96,274,936	$ 593,444	$ 96,868,380
Receivables:						
Amounts due from employer	178,208,822	1,159,085	179,367,907	164,281,695	622,866	164,904,561
Amounts due from employer long term	221,306,724		221,306,724	191,082,948		191,082,948
Interest and dividends	113,315,912	1,219,487	114,535,399	124,911,923	769,967	125,681,890
Sale of investments	5,423,501	58,367	5,481,868	1,188,920	7,329	1,196,249
Total receivables	518,254,959	2,436,939	520,691,898	481,465,486	1,400,162	482,865,648
Investments:						
Short term investments	712,682,313	7,669,768	720,352,081	2,687,232,311	16,564,304	2,703,796,615
Bonds, notes, mortgages, and preferred stock	6,999,502,170	75,327,471	7,074,829,641	6,931,818,310	42,728,255	6,974,546,565
Common stock	12,459,253,238	134,084,398	12,593,337,636	14,251,119,560	87,844,984	14,338,964,544
Real estate	2,907,619,663	31,291,316	2,938,910,979	3,153,186,727	19,436,483	3,172,623,210
Alternative investments	4,232,241,980	45,546,680	4,277,788,660	5,185,547,189	31,964,107	5,217,511,296
International investments	2,241,714,853	24,124,959	2,265,839,812	2,257,401,275	13,914,793	2,271,316,068
Collateral on loaned securities	1,315,180,738	14,153,755	1,329,334,493	1,473,966,033	9,085,639	1,483,051,672
Total investments	30,868,194,955	332,198,347	31,200,393,302	35,940,271,405	221,538,565	36,161,809,970
Total assets	31,492,123,142	335,772,524	31,827,895,666	36,518,011,827	223,532,171	36,741,543,998
Liabilities:						
Warrants outstanding	8,604,577	92,601	8,697,178	9,017,563	55,585	9,073,148
Accounts payable and other accrued liabilities	160,308,170	1,725,211	162,033,381	224,805,738	1,385,720	226,191,458
Obligations under securities lending	1,315,180,738	14,153,755	1,329,334,493	1,473,966,033	9,085,639	1,483,051,672
Total liabilities	1,484,093,485	15,971,567	1,500,065,052	1,707,789,334	10,526,944	1,718,316,278
Net Assets Held in Trust for Pension and Health Benefits*	$ 30,008,029,657	$ 319,800,957	$ 30,327,830,614	$ 34,810,222,493	$ 213,005,227	$ 35,023,227,720

*A schedule of funding progress is presented in the Required Supplementary Information in the Financial Section.

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

Statements of Changes in Pension Plan and Postemployment Healthcare Plan Net Assets

For Fiscal Years Ended September 30, 2002 and 2001

	September 30, 2002			September 30, 2001		
	Pension Plan	Health Plan	Total	Pension Plan	Heath Plan	Total
Additions:						
Contributions:						
Member contributions	$ 413,163,871	$ 43,217,520	$ 456,381,391	$ 371,548,016	$ 38,485,260	$ 410,033,276
Employer contributions:						
Colleges, universities and federal	37,078,284	48,694,642	85,772,926	43,932,336	44,273,791	88,206,127
School districts and other	566,871,043	555,933,376	1,122,804,419	585,992,491	483,998,534	1,069,991,025
Total contributions	1,017,113,198	647,845,538	1,664,958,736	1,001,472,843	566,757,585	1,568,230,428
Investment income (loss):						
Investment income (loss)	(3,676,420,243)		(3,676,420,243)	(4,526,333,834)		(4,526,333,834)
Securities lending income	34,608,645		34,608,645	49,219,088		49,219,088
Interest income		17,040,418	17,040,418		10,663,468	10,663,468
Investment expenses:						
Real estate operating expenses	(369,522)		(369,522)	(1,431,018)		(1,431,018)
Securities lending expenses	(27,732,628)		(27,732,628)	(45,312,263)		(45,312,263)
Other investment expenses	(63,652,970)		(63,652,970)	(51,910,386)		(51,910,386)
Net investment income	(3,733,566,718)	17,040,418	(3,716,526,300)	(4,575,768,412)	10,663,468	(4,565,104,945)
Miscellaneous income	124,874	2,679	127,553	137,558		137,558
Total additions	(2,716,328,646)	664,888,635	(2,051,440,011)	(3,574,158,012)	577,421,053	(2,996,736,959)
Deductions:						
Benefits and refunds paid to plan members and beneficiaries:						
Retirement benefits	2,041,439,863		2,041,439,863	1,890,812,400		1,890,812,400
Health benefits		460,578,779	460,578,779		407,833,031	407,833,031
Dental/vision benefits		52,593,042	52,593,042		48,424,385	48,424,385
Refunds of member contributions	20,813,845	67,115	20,880,960	19,835,729	72,407	19,908,136
Administrative expenses	23,610,482	44,853,969	68,464,451	17,312,250	41,379,358	58,691,608
Total deductions	2,085,864,190	558,092,905	2,643,957,095	1,927,960,379	497,709,181	2,425,669,560
Net Increase (Decrease)	(4,802,192,836)	106,795,730	(4,695,397,106)	(5,502,118,391)	79,711,872	(5,422,406,519)
Net Assets Held in Trust for Pension and Health Benefits:						
Beginning of Year	34,810,222,493	213,005,227	35,023,227,720	40,312,340,884	133,293,355	40,445,634,239
End of Year*	$ 30,008,029,657	$ 319,800,957	$ 30,327,830,614	$ 34,810,222,493	$ 213,005,227	$ 35,023,227,720

* A schedule of funding progress is presented in the Required Supplementary Information in the Financial Section.

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

Notes to Basic Financial Statements

NOTE 1 - PLAN DESCRIPTION

ORGANIZATION

The Michigan Public School Employees' Retirement System (System) is a cost-sharing, multiple employer, state-wide, defined benefit public employee retirement plan governed by the State of Michigan (State) originally created under Public Act 136 of 1945, recodified and currently operating under the provisions of Public Act 300 of 1980, as amended. The System was established to provide retirement, survivor and disability benefits to the public school employees. There are 716 participating employers. A list of employers is provided in the Statistical Section. The System is a qualified trust fund under section 401(a) of the Internal Revenue Code. By statute, employees of K-12 public school districts, public school academies, district libraries, tax-supported community colleges and seven universities may be members. The seven universities are: Eastern, Central, Northern, Western Michigan, Ferris State, Michigan Technological and Lake Superior State. Employees who first become employed by one of the seven universities on or after January 1, 1996, become members of an alternative plan.

The System's financial statements are included as a pension trust fund in the combined financial statements of the State.

The System is administered by the Office of Retirement Services within the Michigan Department of Management and Budget. The Department Director appoints the Office Director who serves as Executive Secretary to the System's Board, with whom the general oversight of the System resides. The State Treasurer serves as the investment officer and custodian for the System.

MEMBERSHIP

At September 30, 2002, and 2001, the System's membership consisted of the following:

Retirees and beneficiaries currently receiving benefits:	2002	2001
Regular benefits	118,833	114,936
Survivor benefits	11,745	11,316
Disability benefits	4,699	4,538
Total	135,277	130,790
Current Employees:		
Vested	120,787	118,969
Non-vested	205,751	199,569
Total	326,538	318,538
Inactive employees entitled to benefits and not yet receiving them:	14,403	14,313
Total All Members	476,218	463,641

Notes to Basic Financial Statements (Continued)

Enrollment in the health plan is voluntary. The number of participants is as follows:

Health/Dental/Vision Plan	2002	2001
Eligible participants	135,277	130,790
Participants receiving benefits:		
Health	106,298	103,505
Dental/Vision	112,357	109,249

BENEFIT PROVISIONS

Introduction

Benefit provisions of the defined benefit pension plan are established by State statute, which may be amended. Public Act 300 of 1980, as amended, establishes eligibility and benefit provisions for the defined benefit pension plan. Retirement benefits are determined by final average compensation and years of service. Members are eligible to receive a monthly benefit when they meet certain age and service requirements. The System also provides disability and survivor benefits.

A member who leaves Michigan public school employment may request a refund of his or her member contribution account. A refund cancels a former member's rights to future benefits. However, returning members who previously received a refund of their contributions may reinstate their service through repayment of the refund upon satisfaction of certain requirements.

Under the Michigan Public School Employees' Retirement Act, all retirees have the option of health, dental and vision coverage. The employers fund health benefits on a pay-as-you-go basis. Retirees with this coverage contribute a portion of the monthly premium amount.

Regular Retirement

The retirement benefit is based on a member's years of credited service (employment) and final average compensation. Final average compensation is the member's highest total wages earned during a specific period of consecutive calendar months divided by the service credit accrued during that same time period. For a Member Investment Plan (MIP) member, the averaging period is 36 consecutive months. For a Basic Plan member, this period is the 60 consecutive months yielding the highest total wages. The annual pension is paid monthly for the lifetime of a retiree and equals 1.5% of a member's final average compensation multiplied by the total number of years of credited service.

A Member Investment Plan member may retire at:

1. any age with 30 or more years of credited service; or
2. age 60 with 10 or more years of credited service; or
3. age 60 with 5 years of credited service provided the member has worked through his or her 60th birthday and has credited service in each of the five school fiscal years immediately preceding the retirement effective date.

A Basic Plan member may retire at:

1. age 55 with 30 or more years of credited service; or
2. age 60 with 10 or more years of credited service.

There is no mandatory retirement age.

Notes to Basic Financial Statements (Continued)

Early Retirement

A member may retire with an early permanently reduced pension:

1. after completing at least 15 but less than 30 years of credited service; and
2. after attaining age 55; and
3. with credited service in each of the 5 school years immediately preceding the pension effective date.

The early pension is computed in the same manner as a regular pension, but is permanently reduced 0.5% for each full and partial month between the pension effective date and the date the member will attain age 60.

Deferred Retirement

If a member terminates employment before attaining the age qualification, but after accruing 10 or more years of credited service, the member becomes a deferred member and is eligible for a pension at the time the age qualification is attained.

Non-Duty Disability Benefit

A member with 10 or more years of credited service who becomes totally and permanently disabled due to any non-duty related cause and who has not met the age requirement for a regular pension is eligible for a non-duty disability pension computed in the same manner as an age and service pension, upon recommendation from the member's personal physician and the Retirement Board physician and the approval of the Retirement Board. An Annual Certification of Disability is conducted each January. Upon prior approval, total disability benefits plus authorized outside earnings are limited to 100% of final average compensation (increased by two percent for each year retired).

Duty Disability Benefit

A member who becomes totally and permanently disabled as a result of a duty-related cause, who has not met the age and service requirement for a regular pension, and who is in receipt of Weekly Workers' Compensation is eligible for a duty disability pension computed in the same manner as an age and service pension (but based upon a minimum of 10 years of service) upon recommendation from the member's personal physician and the Retirement Board physician and the approval of the Retirement Board. An Annual Certification of Disability is conducted each January. Upon prior approval, total disability benefits plus authorized outside earnings are limited to 100% of final average compensation (increased by two percent for each year retired).

Forms of Payment

The election of a pension option is made at the time of application. Once a member has retired, the option choice is irrevocable. The pension effective date is the first of the calendar month following the date the member has satisfied the age and service requirements, has terminated public school employment and has the completed application forms on file with the System for a period of 15 days. A retroactive pension can be paid for no more than 12 calendar months. Thus, delay in filing the application can result in a loss of some retroactive pension benefits. An applicant may select only one of the following options.

<u>Straight Life Pension</u> — The Straight Life Pension pays the largest level pension a retiree can receive during his or her lifetime and stops with the month of a retiree's death. There are no monthly benefits for a beneficiary. The pension benefit is computed with no beneficiary rights. If the retiree made contributions while an employee and has not received the total accumulated contributions before death, a refund of the balance of the contributions is made to the beneficiary of record. If the retiree did not make any contributions, there will not be payments to any beneficiaries.

<u>Survivor Options</u> — Under the Survivor Options, 100% Survivor Pension, 100% Equated, 75% Survivor Pension, 75% Equated, 50% Survivor Pension and 50% Equated, the reduction is an actuarial determination dependent upon the

Notes to Basic Financial Statements (Continued)

combined life expectancies of a retiree and a beneficiary, and varies from case to case. A beneficiary may only be a spouse, brother, sister, parent or child (including an adopted child) of a retiring member. If the beneficiary pre-deceases a retiree, the pension will revert to either the Straight Life or Straight Life Equated amount ("pop-up" provision).

<u>100% Survivor Pension</u> — pays a reduced pension to a retiree. The month after a retiree's death, the same amount will be paid to a designated beneficiary for the remainder of his or her lifetime.

<u>75% Survivor Pension</u> — pays a reduced pension to a retiree. The month after a retiree's death, 75% of the pension amount will be paid to a designated beneficiary for the remainder of his or her lifetime.

<u>50% Survivor Pension</u> — pays a reduced pension to a retiree. The month after a retiree's death, 50% of the pension amount will be paid to a designated beneficiary for the remainder of his or her lifetime.

<u>Equated Plan</u> — The Equated Plan may be combined with the Straight Life, 100% Survivor, 75% Survivor, or 50% Survivor Pension by any member under age 61, except a disability applicant. The Equated Plan provides a higher pension every month until age 62, at which time the monthly pension is permanently decreased to a lower amount than the Straight Life, 100%, 75%, or 50% Survivor alone would provide.

The intent of the Equated Plan is for the retiree's pension to decrease at age 62 by approximately the same amount as that person's Social Security benefit will provide. The System pension until age 62 should be about the same as the combined System pension and Social Security after age 62.

The actual projected Social Security pension the retiring member obtains from the Social Security Administration and furnishes to the System is used in the Equated Plan calculation. The actual Social Security pension may vary from the estimate.

NOTE: The reduction in the pension at age 62 pertains to the Equated Plan only and affects only the retiree. A beneficiary under 100% Equated, 75% Equated or 50% Equated will receive the 100%, 75%, or 50% Survivor amount the month following the retiree's death as if the Equated Plan had not been chosen. A beneficiary does not participate in the Equated Plan.

Survivor Benefit

A non-duty survivor pension is available if a Member Investment Plan participant has 10 years of credited service or, if age 60 or older, with five years of credited service. The Basic Plan provides a survivor pension with 15 years of credited service or, if age 60 or older, with 10 years of credited service. An active member may nominate as a survivor beneficiary a spouse, child(ren) (including adopted child(ren)), brother, sister, or a parent. If other than the spouse is nominated and a spouse exists, the spouse must waive this benefit. If no beneficiary has been nominated, the beneficiary is automatically the spouse; or, if there is no spouse, unmarried children under age 18 share the benefit equally until age 18. The benefit is computed as a regular pension but reduced in accordance with an Option 2 (100% survivor pension factor). The pension begins the first of the month following the member's death. In the event of the death of a deferred member, the System begins payment to the nominated beneficiary at the time the member would have attained the minimum age qualification.

A duty survivor pension is payable if weekly Workers' Compensation is being paid to the eligible beneficiary due to the member's death. A spouse receives the benefit (based on a minimum of 10 years of service credit) reduced in accordance with a l00% survivor pension factor. If there is no spouse, unmarried children under age 18 share the benefit equally until age 18; if there is no spouse or child(ren), a disabled and dependent parent is eligible.

Notes to Basic Financial Statements (Continued)

Post Retirement Adjustments

Member Investment Plan (MIP) recipients receive an annual post-retirement non-compounded increase of three percent of the initial pension in the October following twelve months of retirement. Basic Plan recipients receive a supplemental payment in those years when investment earnings exceed actuarial assumptions.

On January 1, 1990, pre-October 1, 1981, retirees received an increase that ranged from 1% to 22% depending on pension effective date. On October 1, 1990, the base pension of all retirees with an effective pension date of January 1, 1987, or earlier was increased to include all prior post-retirement adjustments.

On January 1, 1986, all recipients through calendar year 1985 received a permanent 8% increase that established the 1986 base pension. In addition, each October, retirees with a pension effective date of January 1, 1987, or earlier receive a fixed increase equal to 3% of the base pension. Both increases are deducted from the distribution of excess investment income, if any. Beginning in 1983, eligible recipients receive an annual distribution of excess investment income, if any.

One time upward adjustments were made in 1972, 1974, 1976, and 1977 for retirees who retired on or after July 1, 1956, and were eligible for Social Security benefits. (Social Security coverage was enacted by referendum in 1956). The minimum base pension of retirees who were unable to qualify for Social Security through their public school employment (essentially pre-July 1, 1956 retirees), was increased in 1965, 1971, 1972, 1974, and 1981 with a percentage increase granted in 1976 and 1977.

Member Contributions

Mandatory member contributions were phased out between 1974 and 1977, with the plan remaining noncontributory until January 1, 1987, when the Member Investment Plan (MIP) was enacted.

MIP members enrolled in MIP prior to January 1, 1990, contribute at a permanently fixed rate of 3.9% of gross wages. The MIP contribution rate was 4.0% from January 1, 1987, the effective date of the MIP, until January 1, 1990, when it was reduced to 3.9%. Members first hired January 1, 1990, or later and returning members who did not work between January 1, 1987, through December 31, 1989, contribute at the following graduated permanently fixed contribution rates: 3% of the first $5,000; 3.6% of $5,001 through $15,000; 4.3% of all wages over $15,000.

Basic Plan members make no contributions. For a limited period ending December 31, 1992, an active Basic Plan member could enroll in the MIP by paying the contributions that would have been made had enrollment occurred initially on January 1, 1987, or on the date of hire, plus interest. MIP contributions at the rate of 3.9% of gross wages begin at enrollment. Actuarial rate interest is posted to member accounts on July 1st on all MIP monies on deposit for 12 months. If a member leaves public school service and no pension is payable, the member's accumulated contributions plus interest, if any, are refundable.

Employer Contributions

Each school district or reporting entity is required to contribute the full actuarial funding contribution amount to fund pension benefits, plus an additional amount to fund retiree health care benefit amounts on a cash disbursement basis.

Other Postemployment Benefits

Retirees have the option of health coverage which is funded on a cash disbursement basis by the employers. The System has contracted to provide the comprehensive group medical, hearing, dental and vision coverages for retirees and beneficiaries. A significant portion of the premium is paid by the System with the balance deducted from the monthly pension.

Pension recipients are eligible for fully paid Master Health Plan coverage and 90% paid Dental Plan, Vision Plan and Hearing Plan coverage with the following exceptions:

Notes to Basic Financial Statements (Continued)

1. Retirees not yet eligible for Medicare coverage pay an amount equal to the Medicare Part B premiums.

2. Retirees with less than 30 years of service, who terminate employment after October 31, 1980 with vested deferred benefits, are eligible for partially employer paid health benefit coverage (no payment for less than 21 years of service).

Dependents may receive 90% employer paid health benefit coverages (partial payment for dependents of deferred vested members who had 21 or more years of service).

The number of participants and other relevant financial information are as follows:

	2002	2001
Health, Dental and Vision Plan:		
Eligible Participants	135,277	130,790
Participants receiving benefits:		
Health	106,298	103,505
Dental/Vision	112,357	109,249
Expenses for the year	$558,092,905	$497,709,181
Employer payroll contribution rate	6.05%	5.55%

The only requirements for health benefits are that the retiree or beneficiary make application and be in receipt of a monthly pension. Applications for enrollment after retirement are accepted anytime during the year, with coverage effective six months following the receipt of the application.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting and Presentation

The System's financial statements are prepared using the accrual basis of accounting. Contributions from the employers are recognized as revenue in the period in which employees provide service. Benefits and refunds are recognized when due and payable in accordance with the terms of the System.

Reserves

Reserve for Employees' Contributions — Members no longer contribute to this reserve except to purchase eligible service credit or repay previously refunded contributions. This reserve represents active member contributions and interest less amounts transferred to the Reserve for Retired Benefit Payments for regular and disability retirement, amounts refunded to terminated members, and amounts transferred to the Employers' Contribution Reserve representing unclaimed funds. At September 30, 2002, and 2001, the balance in this account was $1.2 billion and $1.1 billion, respectively.

Reserve for Member Investment Plan — This reserve represents MIP contributions and interest less refunds and transfers to the Reserve for Retired Benefit Payments. At September 30, 2002, and 2001, the balance in this account was $3.0 billion and $2.8 billion, respectively.

Reserve for Employer Contributions — All reporting unit contributions, except payments for health benefits, are credited to this reserve. Interest from the Reserve for Undistributed Investment Income account is credited annually. Amounts are transferred annually to the Reserve for Retired Benefit Payments to bring the balance of that reserve into balance with the actuarial present value of retirement allowances. At September 30, 2002, and 2001, the balance in this account was ($267.6) million and $1.1 billion, respectively.

Reserve for Retired Benefit Payments — This represents the reserves for payment of future retirement benefits to current retirees. At retirement, a member's accumulated contributions plus interest are transferred into this reserve.

Notes to Basic Financial Statements (Continued)

Monthly benefits, which are paid to the retiree, reduce this reserve. At the end of each fiscal year, an amount, determined by an annual actuarial valuation, is transferred from the Reserve for Employer Contributions to bring the balance of this reserve into balance with the actuarial present value of retirement allowances. At September 30, 2002, and 2001, the balance in this account was $20.6 billion and $18.9 billion, respectively.

Reserve for Undistributed Investment Income and Reserve for Administrative Expenses — The Reserve for Undistributed Investment Income account is credited with all investment earnings. Interest is transferred annually to the other reserves. Administrative expenses of the System are paid from the Reserve for Administrative Expense, which is credited with amounts from the Reserve for Undistributed Investment Income to cover the expenses. For ease of reporting and understanding, the two reserves are presented as one reserve in the supporting schedules. At September 30, 2002, and 2001, the balance in this account was $5.4 billion and $11.0 billion, respectively. The balance of this reserve includes the balance of the Stabilization Sub-account.

Stabilization Subaccount — Under Public Act 143, effective November 19, 1997, the actuarial value of assets was set at market at September 30, 1997, with the 5 year smoothing of investment gains or losses applied prospectively. Also, the inflation component of the salary scale was reduced from 5% to 4%. The act also established a stabilization subaccount of the Reserve for Undistributed Investment Income (income fund) to which any over funding is credited. As of September 30, 2002, the balance in the subaccount was $363.0 million ($268.8 million plus interest of $94.2 million). The balance in the subaccount is included in the balance of the income fund, which is included in pension plan net assets.

Reserve for Health Benefits — This fund is credited with employee and employer contributions for retirees' health, dental and vision benefits and interest is allocated on the beginning balance. Health, dental and vision benefits are paid from this fund. The System pays 90% of the monthly premium, membership, or subscription fee for health, dental, vision and hearing benefits. At September 30, 2002, and 2001, the balance in this account was $319.8 million and $213.0 million, respectively.

Reporting Entity

The System is a pension trust fund of the State. 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 its Board are not financially accountable for any other entities or other organizations. Accordingly, the System is the only entity included in this financial report.

Benefit Protection

Public Act 100 of 2002 was passed by the Michigan Legislature to protect pension benefits of public employees from alienation (being transferred). Alienation is attachment, garnishment, levy, execution, bankruptcy or other legal process except for divorce orders or eligible domestic relation orders. The statutes governing the System contained an "anti-alienation" clause to provide for this protection; however, many smaller public pension systems did not have the benefit of this protection. Therefore, Public Act 100 of 2002 was passed to establish legal protection of pension assets that encompasses all public employees.

Fair Value of Investments

Plan investments are reported at fair value, except for short-term investments. Short-term investments are carried at cost, which approximates fair value. Securities traded on a national or international 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. Real estate debt is valued on the basis of future principal and interest payments, and is discounted at prevailing interest rates for similar instruments. The fair value of real estate investments is based on independent appraisals. Other investments that do not have an established market are recorded at estimated fair value.

Notes to Basic Financial Statements (Continued)

Investment Income

Dividend income is recognized based 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 (the date upon which the transaction is initiated), except for purchase and sale of mortgages, real estate, and alternative investments which are recorded as of the settlement date (the date upon which the transaction is ultimately completed). The effect of recording such transactions as of the settlement date does not materially affect the financial statements.

Costs of Administering the System

Each year a restricted general fund appropriation is requested to fund the on-going business operations of the System. These administrative costs are ultimately funded by the System through the regular transfer of funds from the System to the general fund appropriation based on either a direct cost or allocation basis depending on the nature of the expense.

Property and Equipment

Office space is leased from the State on a year to year basis. Office equipment is capitalized if the value exceeds $5,000. These assets are recorded at cost and are reported net of depreciation in the Statement of Pension Plan and Post-employment Healthcare Plan Net Assets. Such assets are depreciated on a straight-line basis over 10 years. As of September 30, 1998, all capitalized equipment was fully depreciated. No additional equipment has been capitalized for the System since that date.

Related Party Transactions

Leases and services — The System leases operating space and purchases certain administrative, data processing, legal and investment services from the State. The space and services are not otherwise available by competitive bid. The following summarizes costs incurred by the System for such services.

	2002	2001
Building Rentals	$ 2,089,922	$ 841,781
Technological Support	8,717,721	3,950,999
Attorney General	128,131	186,431
Investment Services	7,447,787	7,323,769
Personnel Services	6,503,649	7,835,036

Commitment and Contingency – The State has signed a contract with a vendor for technological support through 2004. As of September 30, 2002, the System's portion of this commitment remaining is approximately $19.7 million.

Cash — On September 30, 2002 and 2001 the System had $107 million and $96 million, respectively, 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 $2.5 million and $6.4 million for the years ended September 30, 2002, and 2001, respectively.

Reclassification of Prior Year Amounts

Certain prior year amounts have been reclassified to conform with the current year presentation.

Notes to Basic Financial Statements (Continued)

NOTE 3 - CONTRIBUTIONS

The majority of the members currently participate on a contributory basis. Reporting units are required by Public Act 300 of 1980, as amended, to contribute amounts necessary to finance the coverage of members. Contribution provisions are specified by State statute and may be amended only by action of the State Legislature.

Employer contributions to the System are determined on an actuarial basis using the entry age normal actuarial cost method. Under this method, the actuarial present value of the projected benefits of each individual included in the actuarial valuation is allocated on a level basis over the service of the individual between entry age and assumed exit age. The portion of this cost allocated to the current valuation year is called the normal cost. The remainder is called the actuarial accrued liability. Normal cost is funded on a current basis. The unfunded (overfunded) actuarial accrued liability is amortized over a 35 year period for the 2001 fiscal year and 34 year period for the 2002 fiscal year.

Actual employer contributions for retirement benefits were $603.9 million and $629.9 million for fiscal years 2002 and 2001, respectively, representing 6.8% annual covered payroll for the year ended September 30, 2001. The fiscal year 2002 annual covered payroll is not yet available. Required employer contributions for pensions included:

1. $598.2 million and $569.9 million for fiscal years 2002 and 2001, respectively, for the normal cost of pensions representing 6.15% (before reconciliation) of annual covered payroll for fiscal year 2001.

2. $70.8 million and $12.5 million for fiscal years 2002 and 2001, respectively, for amortization of unfunded actuarial accrued liability representing .14% (before reconciliation) of annual covered payroll for fiscal year 2001.

The System is required to reconcile with actuarial requirements annually. Any funding excess or deficiency is smoothed over 5 years. One fifth (20%) of the funding excess or deficiency is included in the subsequent years' contribution, and is not recognized as a payable or receivable in the accounting records.

In May 1996, the Internal Revenue Service issued a private letter ruling allowing the System's members to purchase service credit and repay refunds using tax-deferred (pre-tax) dollars. The program was implemented in fiscal year 1997-1998, and payments began in fiscal year 1998-1999.

The program allows members to purchase service credit and repay refunds on a tax-deferred basis. Members sign an irrevocable agreement that identifies the contract duration, monthly payment, total contract amount and years of service credit being purchased. The duration of the contract can range from 1 to 20 years. The amounts are withheld from members' pay checks and are treated as employer pick-up contributions pursuant to Internal Revenue Code Section 414(h). At September 30, 2002 and 2001, there were 33,400 and 28,074 agreements, respectively. The agreements were discounted using the assumed actuarial rate of return of 8% for September 30, 2002 and 2001. The average length of a contract was approximately 9.3 and 8.4 years for 2002 and 2001. The short term receivable was $70 million and the discounted long term receivable was $221 million at September 30, 2002. At September 30, 2001, the discounted short term receivable was $63 million and the discounted long term receivable was $191 million.

NOTE 4 - INVESTMENTS

Risks and Uncertainties

The System's investments are exposed to various risks, such as interest rate, market, credit, and other. Due to these various risks, it is at least reasonably possible that changes in market values will occur in the near term and that such changes could materially affect the System and the amount reported in the statement of net assets as available for benefits.

Notes to Basic Financial Statements (Continued)

Investment Authority

Under Public Act 380 of 1965, as amended, the authority for the purchase and the sale of investments resides with the State Treasurer. Investments are made subject to the Michigan Public Pension Investment Act, Public Act 314 of 1965, as amended. The Michigan Public Pension Investment Act authorizes, with certain restrictions, the investment of pension fund assets in stock, corporate and government bonds and notes, mortgages, real estate, and certain short-term and alternative investments. Investments must be made for the exclusive purposes of providing benefits to active members, retired members and beneficiaries, and for defraying the expenses of investing the assets.

Under Public Act 314 of 1965, as amended, the State Treasurer may invest up to 5% of the System's assets in small businesses having more than one-half of assets or employees in Michigan as described in section 20(a) of the act and up to 20% of the System's assets in investments not otherwise qualified under the act as described in section 20(d). Alternative investments include limited partnerships and distributions from these partnerships in the form of bonds, preferred stock, common stock and direct investments.

Derivatives

The State Treasurer does not employ the use of derivatives in the investment of the Common Cash or the investment of trust funds other than the pension trust funds.

Derivatives are used in managing pension trust fund portfolios, but uses do not include speculation or leverage of investments. Less than 8% of the total pension trust fund's portfolio has been invested from time to time in futures contracts, collateralized mortgages and swap agreements. State investment statutes limit total derivative exposure to 15% of a fund's total asset value, and restrict uses to replication of returns and hedging of assets. Swap agreements represent the largest category of derivatives used, and they represented 7.6% of market value of total assets on September 30, 2002 and 6.4% of market value of total assets on September 30, 2001.

To diversify the pension fund's portfolio into international equities, the State Treasurer has entered into swap agreements with investment grade counterparties, which are tied to stock market indices in twenty-three foreign countries. The notional amounts of the swap agreements at September 30, 2002, and 2001, were $3,128.7 million and $2,796.1 million, respectively. Approximately one half of the notional amount is hedged against foreign currency fluctuations. The swap agreements provide that the System will pay quarterly, over the term of the swap agreements, interest indexed to the three month London InterBank Offer Rate (LIBOR), adjusted for an interest rate spread, on the notional amount stated in the agreements. At the maturity of the swap agreements, the pension fund will either receive the increase in the value of the international equity indices from the level at the inception of the agreements, or pay the decrease in the value of the indices. Swap agreement maturity dates range from October 2002 to September 2005. U.S. domestic LIBOR based floating rate notes were purchased in the open market to correspond with the notional amount of the swap agreements. The State Treasurer maintains custody and control of these notes.

The value of these synthetic equity structures is a combination of the value of the swap agreements and the value of the notes. The book value represents the cost of the notes. The current value represents the current value of the notes and the change in value of the underlying indices from the inception of the swap agreements. The current value is used as a representation of the fair value based on the intention to hold all swap agreements until maturity. Since the inception of the international equity investment program, over $747.6 million of gains on international equity exposure and excess interest received have been realized.

The unrealized loss of $1,007.1 million at September 30, 2002, reflects the decline in international stock indices and changes in currency exchange rates. Many of the international indices peaked in 1999 and 2000, and the combined swap structure realizes gains and losses on a rolling three-year basis.

To complete domestic market exposure, in June 2002, the State Treasurer entered into two swap agreements, which are tied to the S&P 600 Small Cap index. The notional and current values of these swaps are $76.4 and $57.9, in millions, respectively, as of September 30, 2002.

Notes to Basic Financial Statements (Continued)

The unrealized loss of $18.5 million on September 30, 2002 reflects the decline in the S&P 600 Small Cap index due to market conditions. The swap agreements provide that the System will pay quarterly, over the term of the swap agreements, interest indexed to the three month LIBOR, adjusted for an interest rate spread, on the notional amount stated in the agreements. At the maturity of the swap agreements, the pension fund will either receive the increase in the value of the international equity indices from the level at the inception of the agreements, or pay the decrease in the value of the index. U.S. domestic LIBOR based floating rate notes were purchased in the open market to correspond with the notional amount of the swap agreements. The State Treasurer maintains custody and control of these notes.

The respective September 30, 2002 and 2001 values are as follows:

	Notional Value	Current Value
9/30/2002 (dollars in millions)	$ 3,205.1	$ 2,194.9
9/30/2001 (dollars in millions)	2,796.1	2,213.3

The amounts shown for September 30, 2002 reflect both the total international swap exposure, and the smaller derivative exposure to the S&P 600.

Investments Exceeding 5% of Plan Net Assets

The System did not hold an individual investment (other than U.S. Government securities) that exceeded 5% of net assets available for benefits at September 30, 2002 or 2001.

Securities Lending

State statutes allow the System to participate in securities lending transactions, and the System has, via a Securities Lending Authorization Agreement, authorized the agent bank to lend its securities to broker-dealers and banks pursuant to a form of loan agreement.

During the fiscal year, the agent bank lent, at the direction of the System, the System's securities and received cash (United States and foreign currency), securities issued or guaranteed by the United States government, sovereign debt rated A or better, convertible bonds and irrevocable bank letters of credit as collateral. The agent bank did not have the ability to pledge or sell collateral securities delivered absent a borrower default. Borrowers were required to deliver collateral for each loan equal to (i) at least 102% of the market value of the loaned securities in the case of loaned securities denominated in the United States dollars or whose primary trading market was located in the United States or sovereign debt issued by foreign governments or (ii) 105% of the market value of the loaned securities in the case of loaned securities not denominated in the United States dollars or whose primary trading market was not located in the United States.

The System did not impose any restrictions during the fiscal year on the amount of the loan that the agent bank made on its behalf. There were no failures by any borrowers to return loaned securities or pay distributions thereon during the fiscal year. Moreover, there were no losses during the fiscal year resulting from a default of the borrowers or the agent bank.

During the fiscal year, the System and the borrowers maintained the right to terminate all securities lending transactions on demand. The cash collateral received on each loan was invested, together with the cash collateral or other qualified tax-exempt plan lenders, in a collective investment pool. As of September 30, 2002, such investment pool had an average duration of 66 days and an average weighted maturity of 471 days. Because the loans were terminable at will their duration did not generally match the duration of the investments made with cash collateral. On September 30, 2002 the System had no credit risk exposure to borrowers. The collateral held and the market value of securities on loan for the System as of September 30, 2002 were $1,351,185,401 and $1,303,348,116, respectively.

Notes to Basic Financial Statements (Continued)

Gross income from security lending for the fiscal year was $34,608,645. Expenses associated with this income amounted to $25,412,892 for the borrower's rebate and $2,319,736 for fees paid to the agent.

Categories of Investment Risk

Investments made by the fund are summarized on the following page. The investments that are represented by specific identifiable investment securities are classified as to credit risk in three categories.

Category 1 includes investments insured, registered, or held by the System or its agent in the System's name. Category 3 includes uninsured and unregistered investments held by the counterparty, its trust department, or agent, but not in the System's name.

At September 30, 2002, all investments of the System were classified as Category 1 or Category 3, except for certain investments not categorized.

The table on the following page summarizes the investments at fair value:

Notes to Basic Financial Statements (Continued)

	2002	2001
Category 1		
Prime Commercial Paper	$ 720,352,081	$ 2,475,046,615
Short Term Investments	-	152,650,000
Government Securities	3,315,172,856	2,320,655,968
Corporate Bonds & Notes	2,826,564,329	3,418,469,724
Preferred Stock	986,163	1,382
Common Stock	12,145,845,739	14,033,843,489
Real Estate	-	69,553,628 [1]
Alternative Investments	54,594,719	217,867,221 [3]
International Investments	2,192,581,907	2,271,316,068
Total Category 1	$ 21,256,097,794	$ 24,959,404,095
Category 3		
Government Securities	$ 76,450,000	$ 62,463,473
Non-Categorized		
Short Term Investments	$ -	$ 76,100,000 [2]
Mortgages	20,000,163	39,625,443
Real Estate	2,938,910,979	3,103,069,582 [1]
Alternative Investments	4,223,193,941	4,999,644,075 [3]
International Investments	73,257,905	-
Cash Collateral	1,329,334,493	1,483,051,672
Securities on Loan:		
Government Securities	763,959,688	1,087,807,955
Corporate Bonds & Notes	71,696,442	45,522,620
Common Stock	447,491,897	305,121,055
Total Non-Categorized	$ 9,867,845,508	$ 11,139,942,402
Grand Total	$ 31,200,393,302	$ 36,161,809,970

[1] In Category 1, the Real Estate investments are all publicly traded real estate investment trusts. Non-Categorized Real Estate consists of investments through various legal entities.

[2] Non-Categorized Short-Term Investments relate to an STIF (Short-Term Investment Fund).

[3] In Category 1, the Alternative Investments are small-cap equities. Non-Categorized Alternative Investments consist of limited partnerships.

Notes to Basic Financial Statements (Continued)

NOTE 5 — COMMITMENTS AND CONTINGENCIES

Studier et al vs. Michigan Public School Employees' Retirement System

Plaintiffs, who are retired members of the System, allege that the increases in prescription co-pays and health insurance deductibles and development of a formulary plan amounted to a diminishment and impairment of their accrued financial benefits under the State Constitution.

On October 23, 2000, the System responded that health benefits are not considered accrued financial benefits and there has not been a diminishment or impairment of health benefits. On August 28, 2001, an order denying injunction was issued. Motions for summary disposition were files by the parties; and oral argument on the motions was heard on April 5, 2002. Subsequent to a September 3, 2000, Circuit Court opinion for the System, an order was issued granting the System's motion for summary disposition and dismissing the case. On September 16, 2002, plaintiffs filed a claim of appeals with the Court of Appeals.

While the case has not been certified as a class action, an adverse decision could have a bearing on how the System responds to increasing prescription drug costs. It is estimated an adverse ruling would require the pension fund to come up with an additional $181 million by 2003, assuming current benefits are continued. That figure would be proportionally higher if population growth in the System continues at about 4% annually.

Other

Under the Administrative Procedures Act, members may appeal a decision made by the Board. Once the administrative procedure has been exhausted, the decision may be appealed in Michigan's court system. Various cases that have exhausted the administrative procedures have been appealed in the court system. These cases are in the normal course of business and the System does not anticipate any material loss as a result of the contingent liabilities.

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Required Supplementary Information

Schedule of Funding Progress

Expressing the net assets available for benefits as a percentage of the actuarial accrued liability provides one indication of the System's funding status. Analysis of this percentage over time indicates whether the System 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 underfunded or overfunded actuarial accrued liability as a percentage of annual covered payroll approximately adjusts for the effects of inflation and aids analysis of progress made in accumulating sufficient assets to pay benefits when due. Generally, the smaller this percentage, the stronger the System.

Retirement Benefits ($ in Millions)

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 (c)	UAAL as a % of Covered Payroll ((b-a)/c)
1992	$ 15,333	$ 19,563	$ 4,230	78.4 %	$ 6,593	64.2 %
1993 [1]	16,999	21,699	4,700	78.3	7,070	66.5
1994	18,502	23,500	4,998	78.7	7,344	68.0
1994 [2]	18,502	25,014	6,512	74.0	7,344	88.7
1995	20,455	27,402	6,947	74.6	7,565	91.8
1996	22,529	28,571	6,042	78.9	7,807	77.4
1997	25,485	30,179	4,694	84.4	8,027	58.5
1997 [3]	30,051	29,792	(259)	100.9	8,027	(3.2)
1998	31,870	32,137	267	99.2	8,265	3.2
1998 [2]	31,870	32,863	993	97.0	8,265	12.0
1999	34,095	34,348	253	99.3	8,644	2.9
2000	36,893	37,139	246	99.3	8,985	2.7
2001	38,399	39,774	1,375	96.5	9,264	14.8

[1] Revised asset valuation method

[2] Revised actuarial assumptions

[3] Revised actuarial assumptions and revised asset valuation method

Required Supplementary Information (Continued)

Schedule of Employer Contributions

Fiscal Year Ended Sept. 30	Actuarial Required Contribution (ARC)*	Actual Contributions	Percentage Contributed
1993	$ 582,356,415	$ 612,207,802	105.13 %
1994	594,601,049	809,749,551	136.18
1995	781,680,444	770,526,207	98.57
1996	848,022,600	829,626,962	97.83
1997	855,978,200	904,165,262	105.63
1998	537,557,091	622,254,551	115.76
1999	593,525,284	574,436,929	96.78
2000	572,605,695	655,258,922	114.43
2001	582,404,345	629,924,827	108.16
2002	668,956,633	603,949,327	90.28

* The ARC has been recalculated for all years presented in order to reflect only the employer's share of the actuarial required contributions.

Notes to Required Supplementary Information

NOTE A - DESCRIPTION

Ten year historical trend information designed to provide information about the System's progress made 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 reader to assess the progress made by the System in accumulating sufficient assets to pay pension 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 Employer 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 Employer in meeting the actuarial requirements to maintain the System on a sound financial basis.

NOTE B - SUMMARY OF ACTUARIAL ASSUMPTIONS

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:

Valuation Date	9/30/2001
Actuarial Cost Method	Entry Age, Normal
Amortization Method	Level Percent of Payroll, Closed
Remaining Amortization Period	35 years
Asset Valuation Method	5-Year Smoothed Market Value
Actuarial Assumptions:	
Inflation Rate	4%
Investment Rate of Return	8%
Projected Salary Increases	4 to 13.5 %
Cost-of-Living Adjustments	3 % annual non-compounded for MIP members

Supporting Schedules

Comparative Summary Schedule of
Pension Plan Administrative Expenses
For the Years Ended September 30, 2002 and 2001

	2002	2001
Personnel Services:		
Staff Salaries	$ 4,599,226	$ 5,672,802
Retirement and Social Security	1,036,275	1,210,981
Other Fringe Benefits	868,148	951,253
Total	6,503,649	7,835,036
Professional Services:		
Actuarial	183,436	165,555
Attorney General	128,131	186,431
Audit	46,138	30,508
Consulting	1,041,166	1,139,378
Medical	310,714	280,688
Total	1,709,585	1,802,560
Building and Equipment:		
Building Rentals	2,089,922	841,781
Equipment Purchase, Maintenance, and Rentals	283,680	268,173
Total	2,373,602	1,109,954
Miscellaneous:		
Travel and Board Meetings	48,781	76,263
Office Supplies	92,818	144,994
Postage, Telephone and Other	3,868,909	2,144,596
Printing	295,417	247,848
Technological Support	8,717,721	3,950,999
Total	13,023,646	6,564,700
Total Administrative Expenses	$ 23,610,482	$ 17,312,250

Supporting Schedules (Continued)

Schedule of Investment Expenses

	2002	2001
Real Estate Operating Expenses	$ 369,522	$ 1,431,018
Securities Lending Expenses	27,732,628	45,312,263
Other Investment Expenses*	63,652,970	51,910,386
Total Investment Expenses	$ 91,755,120	$ 98,653,667

*Refer to the Investment Section for fees paid to investment professionals

Schedule of Payments to Consultants

	2002	2001
Independent Auditors	$ 46,138	$ 30,508
Medical Advisor	310,714	280,688
Actuary	183,436	165,555
Consulting	1,041,166	1,139,378
Attorney General	128,131	186,431
Total Payments	$ 1,709,585	$ 1,802,560

Supporting Schedules (Continued)

Detail of Changes in Plan Net Assets (Pension and Postemployment Healthcare Benefits)

For the Year Ended September 30, 2002

	Employee Contributions	Member Investment Plan	Employer Contributions
Additions:			
Contributions:			
Member contributions	$ 140,784,037	$ 272,379,834	
Employer contributions:			
Colleges, universities and federal			$ 37,078,284
School districts and other			566,871,043
Total contributions	140,784,037	272,379,834	603,949,327
Investment income (loss):			
Investment income (loss)			
Securities lending income			
Interest income			
Investment expenses:			
Real estate operating expenses			
Securities lending expenses			
Other investment expenses			
Net investment income	-	-	-
Miscellaneous income			
Total additions	140,784,037	272,379,834	603,949,327
Deductions:			
Benefits and refunds paid to plan members and beneficiaries:			
Retirement benefits			
Health benefits			
Dental/vision benefits			
Refund of member contributions	1,667,089	12,930,817	6,215,939
Administrative expenses			
Total deductions	1,667,089	12,930,817	6,215,939
Net Increase (Decrease)	139,116,948	259,449,017	597,733,388
Other Changes in Net Assets:			
Interest allocation	33,748,562	169,651,359	84,643,301
Transfers upon retirement	(35,056,154)	(182,984,489)	(2,008,031,885)
Transfer - stabilization account			
Transfers of employer shares			
Total other changes in net assets	(1,307,592)	(13,333,130)	(1,923,388,584)
Net Increase (Decrease) After Other Changes	137,809,356	246,115,887	(1,325,655,196)
Net Assets Held in Trust for Pension and Health Benefits:			
Beginning of Year	1,072,009,071	2,781,972,802	1,058,041,257
End of Year	$ 1,209,818,427	$ 3,028,088,689	$ (267,613,939)

Supporting Schedules (Continued)

Retired Benefit Payments	Undistributed Investment Income	Health Benefits	Total
		$ 43,217,520	$ 456,381,391
		48,694,642	85,772,926
		555,933,376	1,122,804,419
-	-	647,845,538	1,664,958,736
	$ (3,676,420,243)		(3,676,420,243)
	34,608,645		34,608,645
		17,040,418	17,040,418
	(369,522)		(369,522)
	(27,732,628)		(27,732,628)
	(63,652,970)		(63,652,970)
-	(3,733,566,718)	17,040,418	(3,716,526,300)
	124,874	2,679	127,553
-	(3,733,441,844)	664,888,635	(2,051,440,011)
$ 2,041,439,863			2,041,439,863
		460,578,779	460,578,779
		52,593,042	52,593,042
		67,115	20,880,960
	23,610,482	44,853,969	68,464,451
2,041,439,863	23,610,482	558,092,905	2,643,957,095
(2,041,439,863)	(3,757,052,326)	106,795,730	(4,695,397,106)
1,514,787,222	(1,802,830,444)		-
2,226,072,528			-
			-
			-
3,740,859,750	(1,802,830,444)	-	-
1,699,419,887	(5,559,882,770)	106,795,730	(4,695,397,106)
18,934,840,270	10,963,359,093	213,005,227	35,023,227,720
$ 20,634,260,157	$ 5,403,476,323	$ 319,800,957	$ 30,327,830,614

Supporting Schedules (Continued)

Detail of Changes in Plan Net Assets (Pension and Postemployment Healthcare Benefits)
For the Year Ended September 30, 2001

	Employee Contributions	Member Investment Plan	Employer Contributions
Additions:			
Contributions:			
Member contributions	$ 117,839,690	$ 253,708,326	
Employer contributions:			
Colleges, universities and federal			$ 43,932,336
School districts and other			585,992,491
Total contributions	117,839,690	253,708,326	629,924,827
Investment income (loss):			
Investment income (loss)			
Securities lending income			
Interest Income			
Investment expenses:			
Real estate operating expenses			
Securities lending expenses			
Other investment expenses			
Net investment income	-	-	-
Miscellaneous income			
Total additions	117,839,690	253,708,326	629,924,827
Deductions:			
Benefits and refunds paid to plan members and beneficiaries:			
Retirement benefits			
Health benefits			
Dental/vision benefits			
Refund of member contributions	2,204,945	11,769,724	5,861,060
Transfers to other systems			
Administrative expenses			
Total deductions	2,204,945	11,769,724	5,861,060
Net Increase (Decrease)	115,634,745	241,938,602	624,063,767
Other Changes in Net Assets:			
Interest allocation	31,979,860	251,190,233	190,220,207
Transfers upon retirement	(72,024,571)	(187,503,878)	
Transfer - stabilization account			(9,736,074)
Transfers of employer shares			(2,124,259,226)
Total other changes in net assets	(40,044,711)	63,686,355	(1,943,775,093)
Net Increase (Decrease) After Other Changes	75,590,034	305,624,957	(1,319,711,326)
Net Assets Held in Trust for Pension and Health Benefits:			
Beginning of Year	996,419,037	2,476,347,845	2,377,752,583
End of Year	$ 1,072,009,071	$ 2,781,972,802	$ 1,058,041,257

Supporting Schedules (Continued)

Retired Benefit Payments	Undistributed Investment Income	Health Benefits	Total
		$ 38,485,260	$ 410,033,276
		44,273,791	88,206,127
		483,998,534	1,069,991,025
-	-	566,757,585	1,568,230,428
	$ (4,526,333,834)		(4,526,333,834)
	49,219,088		49,219,088
		10,663,468	10,663,468
	(1,431,018)		(1,431,018)
	(45,312,263)		(45,312,263)
	(51,910,386)		(51,910,386)
-	(4,575,768,413)	10,663,468	(4,565,104,945)
	137,558		137,558
-	(4,575,630,855)	577,421,053	(2,996,736,959)
$ 1,890,812,400			1,890,812,400
		407,833,031	407,833,031
		48,424,385	48,424,385
		72,407	19,908,136
	17,312,250	41,379,358	58,691,608
1,890,812,400	17,312,250	497,709,181	2,425,669,560
(1,890,812,400)	(4,592,943,105)	79,711,872	(5,422,406,519)
1,366,064,074	(1,839,454,374)		-
259,528,449			-
	9,736,074		-
2,124,259,226			-
3,749,851,749	(1,829,718,300)	-	-
1,859,039,349	(6,422,661,405)	79,711,872	(5,422,406,519)
17,075,800,921	17,386,020,498	133,293,355	40,445,634,239
$ 18,934,840,270	$ 10,963,359,093	$ 213,005,227	$ 35,023,227,720

INVESTMENT SECTION

Prepared by Michigan Department of Treasury, Bureau of Investments
Roy A. Pentilla, Acting Director

Report on Investment Activity

INTRODUCTION

The State Treasurer reports quarterly the investment activity to the Investment Advisory Committee, which reviews the investments, goals and objectives of the retirement funds and may submit recommendations regarding them to the State Treasurer. The Investment Advisory Committee may also, by a majority vote, direct the State Treasurer to dispose of any holdings that, in the Committee's judgment, are not suitable for the funds involved, and may, by unanimous vote, direct the State Treasurer to make specific investments.

The Investment Advisory Committee was created by Act 380 of the Public Acts of 1965. The three public members of the five-member committee are appointed by the Governor with the advice and consent of the Senate for three-year terms. The Director of the Department of Consumer and Industry Services and the Director of the Department of Management and Budget are ex-officio members. The members of the Committee are as follows: James B. Henry, PHD (public member), Robert E. Swaney, CFA (public member), David G. Sowerby (public member), Noelle Clark (ex-officio member), and Duane E. Berger (ex-officio member). The public members serve without pay, but are paid actual and necessary travel and other expenses.

INVESTMENT POLICY & GOAL

The primary function of the System is to provide retirement, survivor and disability benefits to its members. The State Treasurer is the sole investment fiduciary and custodian of the System's investments pursuant to State law. The primary investment objective is to maximize the rate of return on the total investment portfolio, consistent with a high degree of prudence and sufficient diversity to eliminate inordinate risks and to meet the actuarial assumption for the investment rate of return, at a reasonable cost achieved by cultivating a motivated team of dedicated professionals. The goals of the fund are:

1. Assure the availability of sufficient assets to pay benefits.
2. Achieve the optimal rate of return possible within prudent levels of risk and liquidity.
3. To outperform the actuarial assumption over the long term.
4. To perform in the top half of the Capital Resource Advisors public plan universe.
5. To exceed individual asset class benchmarks over the long term.
6. To produce competitive results while operating in a cost-effective manner relative to peers.
7. Maintain sufficient diversification to avoid large losses and preserve capital.

The strategy for achieving these goals is carried out by investing the assets of the System according to a five-year asset allocation model. The System currently has six different asset classes, which provides for a well-diversified portfolio.

Asset Allocation
(Excludes Collateral on Loaned Securities)

Investment Category	As of 9/30/02 Actual %	Five-Year Target %
International Equities-Passive	7.5%	9.0%
Real Estate	9.8%	9.0%
Alternative Investments	14.3%	13.0%
Short Term Investments	2.8%	1.0%
Fixed Income	23.6%	18.0%
Domestic Equity	42.0%	50.0%
TOTAL	100.0%	100.0%

Report on Investment Activity (Continued)

STATE LAW

Pursuant to State Law (Section 91 of Act No. 380 of the Public Acts of 1965, as amended), the State Treasurer, State of Michigan, is the investment fiduciary for the following four State sponsored retirement systems: Michigan Public School Employees' Retirement System, Michigan State Employees' Retirement System, Michigan State Police Retirement System, and Michigan Judges' Retirement System.

Act No. 314 of the Public Acts of 1965, as amended, authorizes the investment of assets of public employee retirement systems or plans created and established by the State or any political subdivision.

PROXY VOTING POLICY

The System's Proxy Voting Policy sets forth directives on the following issues: Board of Directors, corporate governance, social issues, corporate restructurings and defenses. All proxies are reviewed and voted in accordance with the above-mentioned items.

INVESTMENT RESULTS

Total Portfolio Result

For the fiscal year ended September 30, 2002, the total portfolio returned -10.5% as compiled by Capital Resource Advisors. Annualized for the three-year period, the fund returned -3.2%; for the five-year period, the fund returned 2.7%; and for the ten-year period, the fund returned 8.1%.

During the fiscal year ending September 30, 2002, the nation's economy experienced a slow economic recovery and reduced consumer spending with corporate earnings slowly recovering. The real economy is doing better than the financial markets. Uncertainty caused by the possibility of war in Iraq and the frauds and accounting irregularities are all negatively impacting the markets.

As a result of the economic conditions, the broad based S&P 500 index declined –20.5% over the fiscal year with the Dow Jones Industrial Average off -12.5%. Growth stocks outperformed value stocks during this period. Given an accommodative Federal Reserve, the Lehman Brothers Government/Corporate bond index appreciated 9.2%.

The returns were calculated using a time-weighted rate of return in accordance with standards of the Association for Investment Management and Research (AIMR), unless a modification is described in the discussion of the return.

The System is well-diversified among asset classes. As of September 30, 2002, the portfolio consisted of 42.0% domestic equities, 23.6% fixed income, 14.3% alternative investments, 9.8% real estate, 2.8% short-term investments, and 7.5% international equities.

Domestic Stocks - Active

The objective of actively managed domestic stock investments is long-term capital appreciation by investing in publicly traded stocks of primarily U.S. based companies. Monies are invested in a portfolio of large company value stocks and a portfolio of large company growth stocks. Since historical rates of return for value and growth strategies have been negatively correlated, this allows for further diversification and focused selection of investments. Value investing derives its returns from the market's tendency to periodically undershoot a stock's fair value and then eventually correct to fair value. Growth stock returns accrue from longer-term broad themes from which companies evolve that will grow faster than the economy. Both portfolios are diversified among various securities and industries.

Report on Investment Activity (Continued)

The U.S. economy began fiscal year 2002 on the heels of a recession marked by three consecutive quarters of negative real GDP and reeling from the terrorist attacks of September 11, 2001. Corporate earnings continued the double-digit declines begun in fiscal 2001, finally showing positive comparisons in the quarter ending March of 2002. The Federal Reserve lowered rates four times between September 2001 and December 2001, taking the Federal Funds rate from 3.50% to 1.75%. Inflation, as measured by the CPI, remained very subdued at an annualized rate of 1.5%. Interest rates plummeted, with ten-year U.S. Treasury notes yielding 3.60% by the end of fiscal 2002 compared to 4.59% at the beginning of the fiscal year. A number of retailers even offered 0% financing.

The U.S. economy staged a modest recovery and U.S. equity markets bounced back remarkably from the lows reached after September 11, 2001. However, incessant news of accounting fraud and management scandals, combined with escalating fears of military action against Iraq, rocked the equity markets throughout the remainder of the year. Total return for the Dow Jones Industrial Average was –12.5% for the 12 months ending September 2002, while return for the broader S&P 500 was –20.5%. The NASDAQ's price fell by 21.8% during the fiscal year.

The System's large company Value portfolio achieved a total rate of return of –15.2% for fiscal 2002. This compared favorably with –22.2% for the S&P 500 BARRA Value Index due to the fund's investment in defense and financial stocks and little exposure to technology and telecommunication stocks. The large company Growth portfolio's total rate of return was –24.5% for the fiscal year versus –19.3% for the S&P 500 BARRA Growth Index. Relative underperformance can be attributed to positioning the portfolio for strong economic and market recoveries that failed to materialize before the end of the fiscal year. Because these two portfolios were created effective January 31, 2000, three-year or five-year rates of return are not available.

On a consolidated basis, the actively managed large company domestic stock portfolio had a total rate of return of –20.3% for fiscal year 2002 compared to –20.5% for the S&P 500 Index. Three-year and five-year annualized returns were –11.4% and –2.1%. This compared with –12.9% and –1.6% for the S&P 500.

At the close of fiscal year 2002, large company value stocks represented 14.2% of total investments versus 14.2% at the end of fiscal year 2001. Large company growth stocks represented 13.7% of total investments versus 13.2% at the end of fiscal year 2001. Consolidated actively managed large company domestic stocks represented 27.9% of total investments, compared to 27.4% at the end of fiscal year 2001.

The System established an investment position with the small company growth managers at Delaware Investment Advisors (Delaware) and Putnam Investments (Putnam). An initial investment of $38 million was placed with each of these managers as of October 1, 2001.

The System's small company growth portfolio invested with Delaware achieved a total rate of return of -8.0% for fiscal 2002. This compares favorably with -18.2% for the Russell 2000 Growth Index. An underweight and positive selectivity in the technology sector provided much of the outperformance. This positive result was partially offset by underperformance in the consumer/retail sector in which the fund had an overweight position.

The System's small company growth portfolio invested with Putnam achieved a total rate of return of -18.5% for fiscal 2002. This compares with -18.2% for the Russell 2000 Growth Index. Performance was negatively impacted by two sectors: financials in which the portfolio was underweighted and technology in which underperformance was the culprit. This was offset somewhat by strength in the portfolio's investments in consumer cyclicals.

At the close of fiscal year 2002, small company growth stocks represented 0.22% of total investments.

Domestic Stocks - Passive

The objective of the enhanced S&P 500 and S&P MidCap Index Funds is to closely match the return performance of their benchmarks, and use low risk strategies to offset transaction costs and add to performance when possible. The S&P 500 Index Fund return for the fiscal year was -20.0% versus the benchmark's -20.5%. The S&P MidCap Index Fund return for the fiscal year was –4.9% versus its benchmark's –4.7%. The relative enhancement to the S&P 500 Index Fund return was the result of strategic allocations of additional funds to passive equity investments during market

Report on Investment Activity (Continued)

corrections and the opportunistic use of derivative programs. During fiscal year 2002, $179.8 million was added to U.S. index funds. An S&P Small Cap index fund was established in June of 2002 to match the return of that targeted benchmark. At the end of the fiscal year, passive domestic stock portfolios represented 14.0% of total assets, the S&P 500 Index Fund accounting for 12.4%, the S&P MidCap Index Fund 1.4%, and the S&P Small Cap Index Fund 0.2% of total investment assets. Indexed stock portfolios also represented 14.0% of total investment assets at the end of the prior fiscal year.

International Equities - Passive

The objective of passive international equity portfolios is to match the return performance of the Salomon Smith Barney Broad Market Index (BMI) Europe and Pacific Composite (EPAC) adjusted for net dividends. Fifty percent of the benchmark is hedged to the U.S. Dollar and the other half is impacted by foreign currency exchange rate changes. The total passive international return of -16.0% in the fiscal year approximately matched the Salomon Smith Barney BMI-EPAC return of -15.5%. The passive international return of -12.2% for three years approximately matched the benchmark's return of -12.3% over the same period.

Core passive exposure to international equity returns is achieved primarily by investing in a combination of fixed income notes and equity swap agreements on foreign stock indices in developed markets. Interest on the dedicated notes is exchanged for international stock returns, and the total notional amount of the swap agreements is invested in the approximate proportions of the Salomon Smith Barney Broad Market Index (BMI) Europe and Pacific Composite (EPAC) country weightings in related indices. Use of swap agreements for a core position began in 1993, an American Depository Receipts (ADR) and index-related security portfolio was added in June of 1999 to increase management flexibility, and a country fund portfolio was added in September of 2002 to improve exposure to the smallest companies in the BMI index. During fiscal year 2002, $407.6 million of exposure was added, raising passive international investments to 7.5% of total investment assets.

The combination of fixed income LIBOR notes and equity swap agreements was valued at $2,137.0 million on September 30, 2002. That valuation included a net unrealized loss of $1,007.1 million on equity index exposures and an unrealized gain of $11.2 million on LIBOR note investments held. The combined Swap agreement and LIBOR portfolio structure continues to perform like a stock index fund that realizes all gains and losses on a rolling three year basis. During fiscal year 2002, $84.0 million of losses on equity exposures were realized, $30.4 million of interest in excess of obligations on completed swaps, and $2.2 million of gains on LIBOR notes were realized. At the end of the fiscal year, total realized gains and net interest received in excess of counterparty obligations on completed agreements were $747.6 million since the program began.

Fixed Income (Excluding Mortgages)

For the fiscal year ending September 30, 2002, the fixed income portfolio returned 7.7% as compiled by Capital Resource Advisors. The portfolio also returned 8.9% for three years, and 7.2% for five years.

Rates continued to decline during the year in response to the Federal Reserve's repeated reductions in rates and the flight to quality in view of stock market declines. In addition to rates declining in all maturities there was also the continuation of a steep yield curve. Given the mathematics of bond calculation, long-term government bonds tended to outperform most other sectors.

As rates approached their lowest levels in forty or more years, a defensive reinvestment program concentrating on shorter-term intermediate issues and floating rate securities was chosen. While offering greater liquidity and protection from rising rates they tend to under perform in a declining rate market.

Fixed income represented 23.6% of the total portfolio compared with 20.0% last year. The corporate sector represented 41.1% of fixed income securities with government securities accounting for 58.9%. Last year corporates were 50.0% of the total with government securities representing 50.0%. The increased level of government securities was in response to increased uncertainty and volatility in the corporate sector.

Report on Investment Activity (Continued)

Real Estate (including Mortgages)

A majority of the direct mortgage holdings were sold in 1997 and 1998, and the equity real estate portfolio and mortgage portfolio were therefore combined into a single "Real Estate" allocation during the current fiscal year. For the fiscal year ending September 30, 2002, 9.8% of the System's total investment portfolio was invested in real estate. This compares to 9.2% and 8.2% for the fiscal years ending September 30, 2001 and 2000, respectively. The current target allocation to real estate is 8.5%, and the five year target asset allocation for real estate is 9%.

The one-year, three-year, five-year, and ten-year net real estate returns for the fiscal year ending September 30, 2002, were 8.0%, 9.5%, 10.4%, and 8.7% respectively, as compiled by Capital Resource Advisors. This compares to the National Council of Real Estate Investment Fiduciaries Property Index (NCREIF) returns of 4.8%, 8.4%, 10.6%, and 8.0% relating to same periods. As of September 30, 2002, the NCREIF portfolio of properties is more weighted in the office sector at 42%, versus the System's portfolio at 25%. Because the NCREIF returns are calculated before advisor fees/overhead and the System's returns are calculated after all advisor fees/overhead, the NCREIF returns stated above have been adjusted downward by 75 basis points to approximate comparable returns.

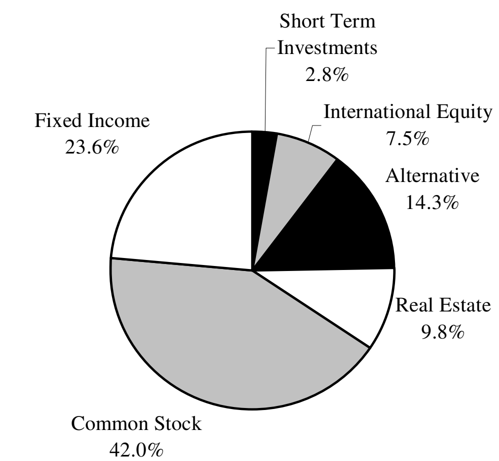
The real estate portfolio is broadly diversified geographically across the country, by type of property and class of property, to reduce risk. Major property types as of September 30, 2002, included apartments (44%); retail centers, including regional malls and grocery-anchored neighborhood/community shopping centers (23%); commercial office buildings (25%); and miscellaneous other property types, such as industrial and self storage (8%). The System, through its advisors and operating joint ventures, acquires, develops, redevelops, and disposes of real estate with the goal of maximizing returns while maintaining an *acceptable* level of risk. The properties are held in various investment vehicles: partnerships, LLCs and trusts. These legal entities allow the System to enjoy the benefits of real estate ownership while limiting the liability associated with the asset class. In all new investments, the System negotiates key terms in order to further mitigate risk. The properties are regularly valued by independent third parties to establish fair market values.

Alternative Investments

Alternative Investments are investments in the private equity market, either directly in companies or indirectly through limited partnerships. Through September 30, 2002, approximately 92% of alternative investments were made through limited partnerships. Of the investments in limited partnerships, approximately 14% were in partnerships investing internationally, 15% in venture capital and 63% in special situations/LBOs. The remaining 8% were direct private equity investments and public stock distributions received from the limited partnerships. The percentage of assets in alternative investments has consistently increased from 4.8% as of September 30, 1993, to 14.3% as of September 30, 2002. The asset allocation range for alternative investments is 14% to 20% while the long-term target asset allocation is 13.0%.

The one-year, three-year, five-year, and ten-year total alternative investment returns for the fiscal year ending September 30, 2002, were -16.3%, -0.1%, 7.1%, and 12.9%, respectively.

Asset Allocation



Investment Results for the Period Ending September 30, 2002

Investment Category	Current Year	Annualized Rate of Return 3 Years	5 Years	10 Years
Total Portfolio	(10.5) %	(3.2) %	2.7 %	8.1 %
Domestic Equities Stock - Active	(20.3)	(11.4)	(2.1)	9.3
Domestic Equities Stock - Passive*	(18.7)	(11.3)	(0.7)	9.8
Standard & Poor's (S&P 500)	(20.5)	(12.9)	(1.6)	9.0
Standard & Poor's (MidCap)	(4.7)	3.4	5.4	12.6
International Equities	(16.0)	(12.2)	(3.2)	N/A
Net Salomon BMI - EPAC 50/50	(15.5)	(12.3)	(4.0)	N/A
Fixed Income Bonds (U.S. Corp and Govt)	7.7	8.9	7.2	7.5
Salomon Smith Barney Broad Investment Grade Bond Index	8.4	9.4	7.8	7.4
Lehman Brothers Government/Corporate	9.2	9.7	7.9	7.4
Real Estate**	8.0	9.5	10.4	8.7
NCREIF minus 75 Basis Points	4.8	8.4	10.6	8.0
Alternative Investments	(16.3)	(0.1)	7.1	12.9

* Passive portfolio consists of a S&P 500 fund and a S&P Midcap fund. The return is a weighted average of the two funds.
**Real Estate Includes mortgages.

N/A Not available.

Largest Assets Held

Largest Stock Holdings (By Market Value)*
September 30, 2002

Rank	Shares	Stocks	Market Value
1	14,827,673	Pfizer Incorporated	$ 430,299,070
2	16,914,209	General Electric Corporation	416,935,252
3	9,336,392	Microsoft Corporation	408,373,786
4	8,055,816	Wal-Mart Stores Incorporated	396,668,380
5	11,889,071	Citigroup Incorporated	352,510,955
6	10,652,055	Exxon Mobil Corporation	339,800,555
7	5,305,687	Wells Fargo & Company	255,521,886
8	3,597,536	Federal National Mortgage Association	214,197,293
9	3,348,419	Bank of America Corporation	213,629,132
10	2,204,739	Procter & Gamble Corporation	197,059,572

Largest Bond Holdings (By Market Value)*
September 30, 2002

Rank	Par Amount	Bonds & Notes	Market Value
1	$ 256,047,000	U.S. Treasury Bonds at 9.125% Due 5-15-2009	$ 286,311,755
2	212,905,000	U.S. Treasury 0% Coupon Strips Due 8-15-2003	210,675,885
3	170,499,700	U.S. Treasury 0% Coupon Strips Due 11-15-2011	159,485,419
4	152,840,000	FHLB 2.51% FRN Due 1-12-2007	152,699,387
5	122,320,000	Bank One NA Chicago ILL MTN 2.026% Due 3-16-2004	122,382,383
6	119,821,000	U.S. Treasury Tiger 0% Coupon Due 8-15-2004	115,322,920
7	93,594,735	Chase Manhattan Bank FRN 4.20% Due 7-29-2003	95,394,562
8	92,890,887	First Chicago Corp FRN 4.25% Due 7-28-2003	94,661,387
9	91,725,000	VW Credit Inc FRN 2.14% Due 1-21-2005	91,867,174
10	84,095,000	MTN Nations Bank FRN 1.926% Due 1-05-2004	84,131,161

*A complete list of stock and bond holdings is available from the Michigan Department of Treasury.

Schedule of Investment Fees

The State Treasurer is the investment fiduciary and custodian of the System's funds pursuant to State law. Outside advisors are utilized to augment the State Treasurer's internal staff in the real estate and alternative investment markets. Only 14.8% of the total investment portfolio is managed by fully discretionary outside advisors. Outside advisors' fees are netted against the partnership or trust fund income. The Michigan Department of Treasury's cost of operations applicable to the System for the fiscal year amounted to $7.4 million or less than three basis points (.03%) of the average market value of the portfolio.

State law created an Investment Advisory Committee comprised of the directors of the Department of Consumer and Industry Services and Management and Budget, or their duly authorized representatives, and three public members appointed by the Governor with the advice and consent of the Senate. The public members serve without pay, but are paid actual and necessary travel and other expenses. The committee meets quarterly to review investments, goals and objectives and may submit recommendations to the State Treasurer. The committee may also, by a majority vote, direct the State Treasurer to dispose of any holding which in the committee's judgment is not suitable for the fund involved, and may by unanimous vote direct the State Treasurer to make specific investments.

Schedule of Investment Fees

Investment Managers' Fees:	**Assets under Management (in thousands)**	**Fees (in thousands)**	**Basis Points***
State Treasurer	$ 25,544,308.6	$ 7,449.7	2.9
Outside Advisors- Alternative	4,277,788.7	54,518.3	127.4
Real Estate	155,772.0	-	-
Total	$ 29,977,869.3		
Other Investment Services Fees:			
Assets in Custody	$ 29,427,706.8	$ 1,684.9	
Securities on Loan	1,303,348.1	27,732.6	

* Outside Advisors Fees are netted against the income of the partnership and trust income. The partnership agreements define the management fees, which range from 150 to 250 basis points of the committed capital, in most cases the fees are netted against income. For Real Estate the asset management fees normally range from 25 to 90 basis points and are netted against current year's income.

Schedule of Investment Commissions

	Fiscal Year Ended September 30, 2002		
	Commissions Paid [1]	Number of Shares Traded	Average Commission Rate Per Share
Investment Brokerage Firms:			
Salomon Smith Barney, Inc.	$ 630,278	20,500,098	$ 0.03
Bear Stearns & Co.	471,366	11,597,055	0.04
Bridge Trading Company	421,815	8,436,309	0.05
C.S. First Boston Corporation	395,051	9,210,813	0.04
Lehman Brothers, Inc.	382,791	9,971,233	0.04
Goldman, Sachs & Co.	356,672	7,767,067	0.05
Merrill Lynch & Co.	262,100	9,448,127	0.03
Morgan Stanley Dean Witter & Co.	250,998	5,402,053	0.05
J. P. Morgan Securities, Inc.	240,590	4,811,796	0.05
UBS Warburg LLC.	190,801	3,816,024	0.05
Deutsche Bank	98,490	1,969,802	0.05
Sanford C. Bernstein & Co.	86,653	1,733,053	0.05
ISI Group, Inc.	81,785	1,626,523	0.05
S.G. Cowen & Company	78,907	1,578,149	0.05
Prudential Securities, Inc.	77,585	1,551,708	0.05
Charles Schwab & Co., Inc.	71,682	1,433,639	0.05
OTA Research	44,437	888,733	0.05
Soundview Financial	40,040	800,805	0.05
CIBC World Markets Corp.	39,303	786,056	0.05
Instinet Group Inc	32,698	1,312,086	0.02
Banc of America Securities, LLC.	27,664	553,281	0.05
Barrington Research	19,709	394,174	0.05
Keefe Bruyette	12,533	250,658	0.05
Howard Weil	12,449	248,976	0.05
Total	$ 4,326,397	106,088,218	$ 0.04 [2]

[1] These amounts are included in purchase and sale prices of investments.

[2] The average commission rate per share for all brokerage firms.

Investment Summary
Fiscal Year Ended September 30, 2002

	Market Value [a]	Percent of Market Value	Investment & Interest Income [c]	Percent of Investment & Interest Income
Fixed Income:				
Government Bonds	$ 4,155,582,544	13.8%	$ 277,949,002	-7.5%
Corporate Bonds & Preferred Stocks	2,899,246,934	9.7%	247,417,754	-6.8%
Mortgages	20,000,163	0.1%	(2,524,698)	0.1%
Total Fixed Income	7,074,829,641	23.6%	522,842,058	-14.2%
Common Stocks	12,593,337,636	42.0%	(3,082,683,193)	84.2%
Real Estate	2,938,910,979	9.8%	236,136,243	-6.5%
Alternative	4,277,788,660	14.3%	(960,474,170)	26.2%
International Equities	2,265,839,812	7.5%	(416,986,687)	11.4%
Short Term Investments [b]	827,162,547	2.8%	41,785,924	-1.1%
Total	$ 29,977,869,275	100.0%	$ (3,659,379,825)	100.0%

[a] Short Term Investments are at cost, which approximates market value.

[b] Excludes the amounts payable and receivable for sales and purchases of securities with a settlement date after September 30, 2002. Amount also excludes $1,329,334,493 in cash collateral for security lending for fiscal year 2002.

[c] Total Investment & Interest Income excludes net security lending income of $6,876,017 for fiscal year 2002.

Investment Summary (Continued)

Fiscal Year Ended September 30, 2001

	Market Value [(a)]	Percent of Total Market Value	Investment & Interest Income [(c)]	Percent of Investment & Interest Income
Fixed Income:				
Government Bonds	$ 3,470,927,395	10.0%	$ 557,320,873	-12.3%
Corporate Bonds & Preferred Stocks	3,463,993,727	10.0%	347,613,221	-7.7%
Mortgages	39,625,443	0.1%	1,013,655	0.0%
Total Fixed Income	6,974,546,565	20.1%	905,947,749	-20.0%
Common Stocks	14,338,964,544	41.2%	(4,015,262,815)	88.9%
Real Estate	3,172,623,210	9.1%	282,963,496	-6.3%
Alternative	5,217,511,296	15.0%	(1,006,514,378)	22.3%
International Equities	2,271,316,068	6.5%	(790,307,736)	17.5%
Short Term Investments [(b)]	2,800,664,995	8.1%	107,503,318	-2.4%
Total	$ 34,775,626,678	100.0%	$ (4,515,670,366)	100.0%

[a] Short Term Investments are at cost, which approximates market value.

[b] Excludes the amounts payable and receivable for sales and purchases of securities with a settlement date after September 30, 2001. Amount also excludes $1,483,051,672 in cash collateral for security lending for fiscal year 2001.

[c] Total Investment & Interest Income excludes net security lending income of $3,906,825 for fiscal year 2001.

ACTUARIAL SECTION

Actuary's Certification

SEGAL

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Michael J. Karlin, F.S.A., M.A.A.A.
Senior Vice President & Actuary
mkarlin@segalco.com

December 3, 2002

Mr. Duane E. Berger
Director
Department of Management and Budget
and
Retirement Board
Michigan Public School Employees Retirement System
P.O. Box 30176
Lansing, Michigan 48909

Ladies and Gentlemen:

The Michigan Public School Employees Retirement System (MPSERS) is funded on an actuarial reserve basis. The basic financial objective of MPSERS is to establish and receive contributions that remain approximately level as a percentage of active member payroll over a long period of years.

Actuarial valuations are prepared annually to determine MPSERS's actuarial liabilities and the employer contributions required to fund the System in accordance with the actuarial reserve funding provisions of the governing State Statute. The most recent actuarial valuation as of September 30, 2001 included a total of 463,641 members of MPSERS. The actuarial value of MPSERS's assets amounted to approximately $38.40 billion on September 30, 2001.

The actuarial assumptions used in the 2001 valuation are the same as those used in the previous annual actuarial valuation. These assumptions produce valuation results which we consider to be reasonably indicative of the plan's underlying cost. Also, in our opinion, the actuarial assumptions and methods used for funding purposes meet the parameters for the disclosures presented in the financial section by GASB Statement No. 25.

Our actuarial valuation of MPSERS as of September 30, 2001 was performed by qualified actuaries in accordance with accepted actuarial procedures. In our opinion, the calculated contribution rate meets the fundamental objectives of State law. Based on the 2001 valuation results, it is also our opinion that the Michigan Public School Employees Retirement System continues in sound condition, in accordance with actuarial principles of level cost financing.

Most of the information used in the supporting schedules in the Actuarial and Statistical Sections, as well as the Schedules of Funding Progress and the employer contributions shown in the Schedules of Employer Contributions in the Financial Section of this report were provided by our firm.

Sincerely,

Michael Karlin

Michael Karlin, F.S.A., M.A.A.A.
Senior Vice President & Actuary

Benefits, Compensation and HR Consulting ATLANTA BOSTON CHICAGO CLEVELAND DENVER HARTFORD HOUSTON LOS ANGELES MINNEAPOLIS NEW ORLEANS NEW YORK PHILADELPHIA PHOENIX SAN FRANCISCO SEATTLE TORONTO WASHINGTON, DC

Multinational Group of Actuaries and Consultants AMSTERDAM BARCELONA GENEVA HAMBURG LONDON MELBOURNE MEXICO CITY OSLO PARIS

Summary of Actuarial Assumptions and Methods

1. The investment return rate used in making the valuations was 8% 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, the 8% long-range investment return rate translates to an assumed real rate of return of 4%. Adopted 1997.

2. The mortality table used in evaluating allowances to be paid was the 1994 Group Annuity Mortality Table. Adopted 1998.

3. Sample probabilities of retirement with an age and service allowance are shown in Schedule 1 on the next page. Adopted 1998.

4. Sample probabilities of withdrawal from service and disability, together with individual pay increase assumptions, are shown in Schedule 2 on the next page of this report. Adopted 1998.

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. In effect, this assumes no change in the number of active members. Adopted 1997.

6. An individual entry age actuarial cost method of valuation was used in determining age and service allowance actuarial liabilities and normal cost. Adopted 1975. Unfunded actuarial accrued liabilities, including actuarial gains and losses, are funded over 50 years and over 40 years on a declining basis beginning October 1, 1996. Adopted 1996.

7. Valuation assets (cash and investment) were reset to market value as of September 30, 1997. After this date, they will again be valued using a five year smoothed market value method. The excess (shortfall) of actual investment income (including interest, dividends, realized and unrealized gains or losses) that occurs after September 30, 1997 over the imputed income at the valuation interest rate is considered the gain (loss), which is spread over five years. Adopted 1997.

8. The data about persons now covered and about present assets 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 System's Board and the Department of Management and Budget after consulting with the actuary.

Summary of Actuarial Assumptions and Methods (Continued)

SCHEDULE 1

Percent of Eligible Active Members Retiring Within Next Year

Retirement Ages	Basic	MIP
50		50 %
52		25
55	28 %	20
58	22	25
61	20	23
64	25	28
67	25	25
70	30	30
71	40	40
72	50	50
73	60	60
74	70	70
75	100	100

SCHEDULE 2

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

Sample Ages	Years of Service	Percent of Active Members Withdrawing Within Next Year (Men and Women)	Percent of Active Members Becoming Disabled Within Next Year	Percent Increase In Pay During Next Year
All	0	35.00 %		
	1	18.00		
	2	11.00		
	3	8.00		
	4	6.50		
25	5 & Over	4.00	0.01 %	12.50 %
35		2.40	0.02	7.55
45		1.40	0.13	5.65
55		1.40	0.33	4.60
60		1.40	0.45	4.00

Actuarial Valuation Data

Schedule of Active Member Valuation Data

Valuation Date Sept. 30	Number	Reported Annual Payroll*	Average Annual Pay	% Increase	Average Age	Average Service
1992	297,230	$6,427,775	$21,626	5.2 %	41.7	9.5
1993	296,585	6,897,924	23,258	7.5	42.2	9.8
1994	291,006	7,164,806	24,621	5.9	42.5	10.0
1995	294,911	7,564,876	25,651	4.2	43.4	10.1
1996	295,096	7,807,029	26,456	3.1	43.6	9.9
1997	295,691	8,027,450	27,148	2.6	43.6	10.0
1998	302,016	8,265,463	27,368	0.8	43.5	9.7
1999	309,324	8,643,718	27,944	2.1	43.6	9.5
2000	312,699	8,984,737	28,733	2.8	43.6	9.7
2001	318,538	9,264,183	29,083	1.2	43.6	9.6

* July 1 through June 30 payrolls in thousands of dollars through 1993, October 1 through September 30 annualized payments for fiscal years beginning October 1, 1993.

Schedule of Changes in the Retirement Rolls

Year Ended Sept. 30	Added to Rolls		Removed from Rolls		Rolls-End of Year		% Increase in Annual Allowances	Average Annual Allowances
	No.	Annual Allowances*	No.	Annual Allowances*	No.	Annual Allowances*		
1992	6,651	$104,184	2,703	$22,611	90,201	$831,290	10.9 %	$9,216
1993	6,278	100,691	2,905	20,295	93,574	911,686	9.7	9,743
1994	7,451	129,506	3,036	22,373	97,989	1,018,819	11.8	10,397
1995	8,192	146,151	3,030	22,998	103,151	1,141,972	12.1	11,071
1996	7,443	135,326	3,129	25,487	107,465	1,251,811	9.6	11,649
1997	7,691	147,433	3,314	27,765	111,842	1,371,479	9.6	12,263
1998	8,384	165,312	3,606	31,429	116,620	1,505,362	9.8	12,908
1999	7,842	166,104	3,549	31,641	120,913	1,639,825	8.9	13,562
2000	8,816	185,545	3,614	27,342	126,115	1,798,028	9.6	14,257
2001	8,125	146,907	3,450	1,491	130,790	1,943,444	8.1	14,859

* In thousands of dollars.

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) 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 and inactive 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 by-product 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.

	Actuarial Present Value of Actuarial Accrued Liability ($ in Millions)				Portion of Present Value Covered by Assets			
	(1)	(2)	(3)					
Valuation Date Sept. 30	Active Member Contributions	Retirants and Beneficiaries	Active and Inactive Members (Employer Financed Portion)	Valuation Assets	(1)	(2)	(3)	(4)***
1992	$ 1,510	$ 8,212	$ 9,841	$ 15,333	100%	100%	57.0 %	78.4 %
1993 +	1,700	9,177	10,822	16,999	100	100	56.6	78.3
1994	1,892	10,051	11,557	18,502	100	100	56.7	78.7
1994 @	1,892	10,312	12,810	18,502	100	100	49.2	73.9
1995	2,057	11,569	13,776	20,455	100	100	49.6	74.6
1996	2,261	12,590	13,720	22,529	100	100	56.0	78.9
1997	2,500	14,303	13,376	25,485	100	100	64.9	84.4
1997 @+	2,500	14,303	12,989	30,051	100	100	102.0	100.9
1998	2,505	15,689	13,943	31,870	100	100	98.1	99.2
1998 @	2,505	15,888	14,470	31,870	100	100	93.1	97.0
1999	2,706	17,291	14,351	34,095	100	100	98.2	99.3
2000	2,932	19,200	15,007	36,893	100	100	98.4	99.3
2001	3,244	20,943	15,587	38,399	100	100	91.2	96.5

*** Percents funded on a total valuation asset and total actuarial accrued liability basis.

+ Revised asset valuation method.

@ Revised actuarial assumptions.

Analysis of Financial Experience

Gains/(Losses) in Accrued Liabilities During Year Ended September 30, 2001
Resulting from Differences Between Assumed Experience & Actual Experience

	Type of Activity	Gain/(Loss)
1.	**Retirements (including Disability Retirement).** If members retire at older ages or with lower final average pay than assumed, there is a gain. If younger ages or higher average pays, a loss.	$ (234,600,000)
2.	**Withdrawal From Employment** (including death-in-service). If more liabilities are released by withdrawals and deaths than assumed, there is a gain. If smaller releases, a loss.	(91,300,000)
3.	**Pay Increases.** If there are smaller pay increases than assumed, there is a gain. If greater increases, a loss.	195,000,000
4.	**Investment Income.** If there is greater investment income than assumed, there is a gain. If less income, a loss.	(601,300,000)
5.	**Death After Retirement**. If retirants live longer than assumed, there is a loss. If not as long, a gain.	(156,400,000)
6.	**New entrants.** New entrants into the plan will generally result in an actuarial loss. This does not apply to plans closed to new entrants.	(93,300,000)
7.	**Other.** Miscellaneous gains and losses resulting from data adjustments, timing of financial transactions, etc.	(277,000,000)
8.	**Composite Gain (or Loss) During Year**	$ (1,258,900,000)

Summary of Plan Provisions

Our actuarial valuation of the System as of September 30, 2001 is based on the present provisions of the Michigan Public School Employees' Retirement Act (Act 300 of 1980, as amended).

Regular Retirement (no reduction factor for age)

Eligibility — Age 55 with 30 years credited service; or age 60 with 10 years credited service. For Member Investment Plan (MIP) members, any age with 30 years credited service; or age 60 with 10 years credited service; or age 60 with 5 years of credited service provided member worked through 60th birthday and has credited service in each of the last 5 years.

Mandatory Retirement Age — None.

Annual Amount — Total credited service times 1.5% of final average compensation.

Final Average Compensation — Average of highest 5 consecutive years. (3 years for MIP members).

Early Retirement (age reduction factor used)

Eligibility — Age 55 with 15 or more years credited service and earned credited service in each of the last 5 years.

Annual Amount — Regular retirement benefit, reduced by 1/2% for each month by which the commencement age is less than 60.

Deferred Retirement (vested benefit)

Eligibility — 10 years of credited service. Benefit commences at the time age qualification is met.

Annual Amount — Regular retirement benefit based on service and final average compensation at time of termination.

Duty Disability Retirement

Eligibility — No age or service requirement; in receipt of workers' disability compensation.

Annual Amount — Computed as regular retirement benefit with minimum benefit based on 10 years credited service. Additional limitation such that disability benefits plus authorized outside earnings limited to 100% of final average compensation (increased by 2% each year retired).

Non-Duty Disability Retirement

Eligibility — 10 years of credited service.

Annual Amount — Computed as regular retirement benefit based on credited service and final average compensation at time of disability. Additional limitation such that disability benefits plus authorized outside earnings limited to 100% of final average compensation (increased by 2% each year retired).

Duty Death Before Retirement

Eligibility — No age or service requirement. Beneficiary is in receipt of workers' compensation. Also applies to "duty disability" retirees during first three years of disability.

Summary of Plan Provisions (Continued)

Annual Amount — Spouse benefit computed as regular retirement benefit with minimum benefit based on ten years of credited service, reduced for 100% joint and survivor election. If no surviving spouse, children under 18 share in benefit; if no spouse or children, a disabled and dependent parent is eligible.

Non-Duty Death Before Retirement

Eligibility — 15 years of credited service, or age 60 and 10 years of credited service. 10 years of credited service, or age 60 and 5 years of credited service for MIP members.

Annual Amount — Computed as regular retirement benefit, reduced in accordance with a 100% joint and survivor election, with payments commencing first of month following death. For the beneficiary of a deferred member, benefit commences at the time a member would have attained the minimum age qualification.

Post-Retirement Cost-of-Living Adjustments

One-time upward adjustments have been made in 1972, 1974, 1976 and 1977 for members retired on or after July 1, 1956 and prior to July 1, 1976 who were eligible for Social Security benefits. For members who retired prior to July 1, 1956 and not eligible for Social Security benefits based upon membership service, the minimum base pension was increased in 1965, 1971, 1972, 1974 and 1981, and in 1976 and 1977 one-time upward adjustments were made.

Beginning in 1983, eligible recipients received an annual distribution of investment earnings in excess of 8% (supplemental payment). On January 1, 1986, all members who retired prior to January 1, 1986 were given a permanent 8% increase. On January 1, 1990 a one-time upward adjustment for members who retired prior to October 1, 1981 was made.

Currently members receive annual increases based on the following schedule:

Retired before January 1, 1987 — Greater of Supplemental payment or automatic 3% increase
Retired on or after January 1, 1987 under MIP - Automatic 3% increase only
Retired on or after January 1, 1987 not under MIP - Supplemental payment only

Post-Retirement Health Benefits

Members in receipt of pension benefits are eligible for fully System paid Master Health Care Plan coverage (90% System paid Dental Plan, Vision Plan and Hearing Plan coverage) with the following exceptions:

1. Members not yet eligible for Medicare coverage pay an amount equal to the Medicare Part B premiums.

2. Members with less than 30 years of service, who terminate employment after October 31, 1980 with vested deferred benefits, are eligible for partially System paid health benefit coverage (no System payment if less than 21 years service).

Dependents are eligible for 90% System paid health benefit coverage (partial System payment for dependents of deferred vested members who had 21 or more years of service).

Summary of Plan Provisions (Continued)

Member Contributions

MIP Participants hired before January 1, 1990 — 3.9% of pay.

MIP Participants hired on or after January 1, 1990 — 3.0% of first $5,000 of pay, plus 3.6% of next $10,000 of pay, plus 4.3% pay in excess of $15,000.

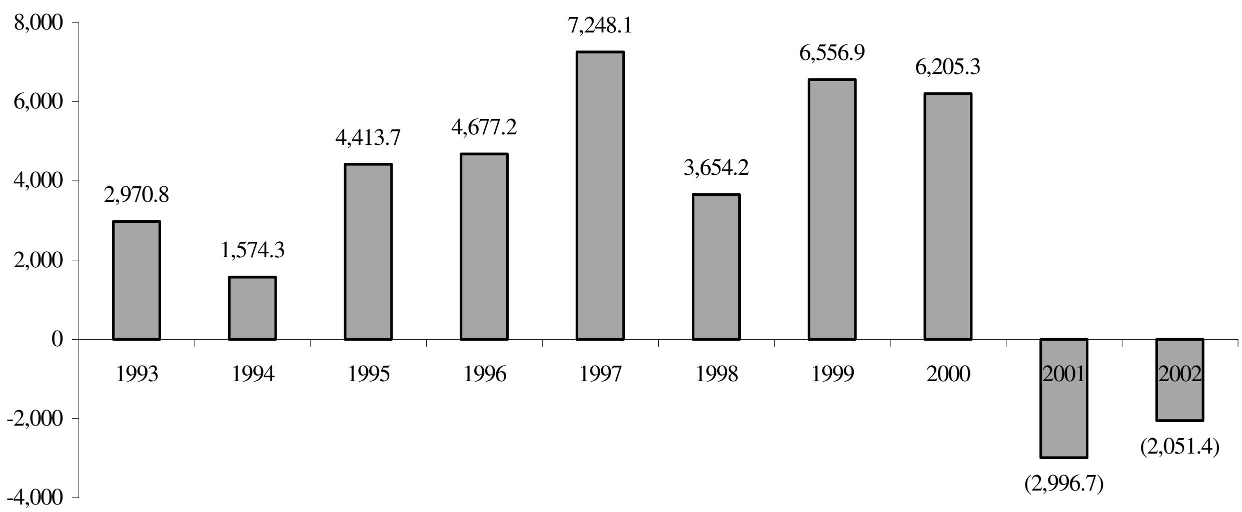
Non-MIP Participants — None.

STATISTICAL SECTION

Schedule of Revenues by Source

Fiscal Year Ended Sept. 30	Member & Employer Health Contributions	Member Contributions	Employer Contributions Dollars	Employer Contributions % of Annual Covered Payroll	Net Investment & Other Income	Total
1993	$ 166,642,908	$223,584,885	$612,220,399	8.66%	$1,968,375,434	$2,970,823,626
1994	88,178,299	244,086,635	809,768,082	11.03	432,291,116	1,574,324,132
1995	271,031,481	248,662,424	770,541,054	10.19	3,123,477,389	4,413,712,348
1996	305,173,023	255,085,948	829,600,401	10.63	3,287,367,155	4,677,226,527
1997	342,675,636	253,358,290	904,817,513	11.27	5,747,292,566	7,248,144,005
1998	359,266,764	252,672,436	622,437,022	7.53	2,419,775,950	3,654,152,172
1999	376,562,920	518,861,556	574,436,929	6.65	5,087,086,105	6,556,947,510
2000	462,669,471	321,557,146	655,258,922	7.29	4,765,831,703	6,205,317,242
2001	566,757,585	371,548,016	629,924,827	6.80	(4,564,967,387)	(2,996,736,959)
2002	647,845,538	413,163,871	603,949,327	6.50	(3,716,398,747)	(2,051,440,011)

Total Revenue
Year Ended September 30
(In Millions)

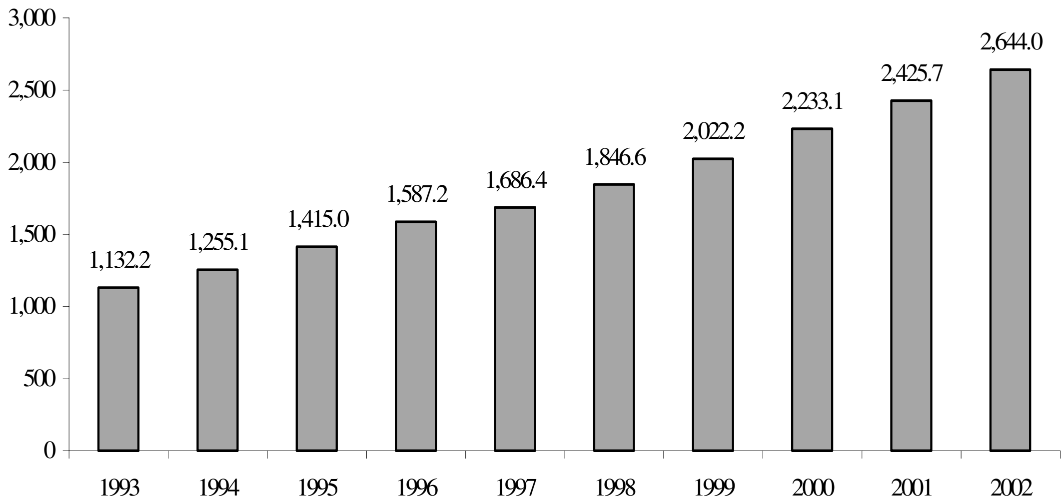


Schedule of Expenses by Type

Fiscal Year Ended Sept. 30	Benefit Payments*	Refunds and Transfers	Administrative Expenses	Total
1993	$ 1,115,092,306	$ 3,940,883	$ 13,121,256	$ 1,132,154,445
1994	1,234,384,948	5,457,370	15,307,293	1,255,149,611
1995	1,391,780,504	7,926,131	15,343,147	1,415,049,782
1996	1,565,111,270	11,698,045	10,381,801	1,587,191,116
1997	1,656,442,197	17,904,602	12,102,095	1,686,448,894
1998	1,810,891,942	21,252,147	14,463,339	1,846,607,428
1999	1,994,459,436	11,198,300	16,525,359	2,022,183,095
2000	2,199,736,591	17,486,704	15,918,143	2,233,141,438
2001	2,388,449,174	19,908,136	17,312,250	2,425,669,561
2002	2,599,465,653	20,880,960	23,610,482	2,643,957,095

*Includes health, dental and vision benefits

Total Expenses
Year Ended September 30
(In Millions)

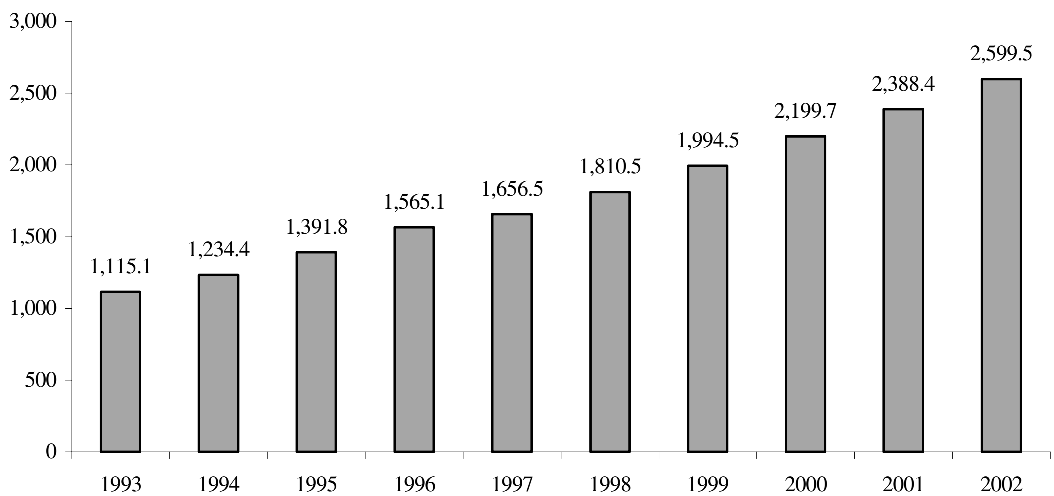


Schedule of Benefit Expenses by Type

Fiscal Year Ended Sept. 30	Regular Benefits*	Disability Benefits	Supplemental Check	Health Benefits**	Total
1993	$ 855,363,962	$ 23,909,603		$ 235,818,741	$ 1,115,092,306
1994	952,147,141	25,839,763		256,398,044	1,234,384,948
1995	1,071,950,982	28,257,525		291,571,997	1,391,780,504
1996	1,178,250,042	31,209,798	$ 58,800,478	296,850,952	1,565,111,270
1997	1,274,469,892	37,129,588	6,228,620	338,659,636	1,656,487,736
1998	1,412,550,359	35,908,817	5,992,263	356,065,946	1,810,517,385
1999	1,540,039,404	38,546,646	9,406,311	406,467,075	1,994,459,436
2000	1,684,018,116	40,453,574	11,464,638	463,800,263	2,199,736,591
2001	1,831,809,193	45,203,866	13,799,341	497,636,774	2,388,449,174
2002	1,976,611,796	48,253,882	16,574,185	558,025,790	2,599,465,653

*Includes prior post retirement adjustments
**Includes dental and vision benefits

Total Benefit Expenses
Year Ended September 30
(In Millions)



Schedule of Retired Members by Type of Benefit

September 30, 2001

Amount Monthly Benefit	Number of Retirees	Type of Retirement *						Selected Option**				
		1	2	3	4	5	6	Opt. 1	Opt. 2	Opt. 3	Opt. 4	Opt.1E 2E,3E,4E
$ 1-200	13,909	11,821	1,214	108	554	1	211	8,419	2,635	1,871	32	952
201-400	18,665	15,168	1,598	116	1,316		467	11,015	3,683	2,791	58	1,118
401-600	13,726	10,948	1,241	69	991	1	476	7,596	2,792	2,303	51	984
601-800	10,529	8,523	922	28	631		425	5,696	2,070	1,798	47	918
801-1000	8,623	7,094	678	22	470		359	4,428	1,757	1,396	43	999
1001-1200	7,334	6,125	563	11	361		274	3,451	1,554	1,183	39	1,107
1201-1400	6,812	5,855	420	2	289		246	2,977	1,562	1,122	31	1,120
1401-1600	6,401	5,673	344	2	205		177	2,663	1,612	1,071	48	1,007
1601-1800	6,487	5,902	275	2	135		173	2,673	1,750	1,201	78	785
1801-2000	6,931	6,495	214	2	91		129	2,830	1,769	1,423	112	797
over 2000	31,373	30,516	509	3	91	1	253	13,044	5,865	6,233	569	5,662
Totals	130,790	114,120	7,978	365	5,134	3	3,190	64,792	27,049	22,392	1,108	15,449

* Type of Retirement

1 - Normal retirement for age & service
2 - Survivor payment - normal retirement
3 - Duty disability retirement
4 - Non-duty disability retirement
5 - Survivor payment - duty death in service
6 - Survivor payment - non-duty death in service

**Selected Option

Opt. 1. - Straight life allowance
Opt. 2 - 100% survivor option
Opt. 3 - 50% survivor option
Opt. 4 - 75% survivor option
Opt. 1E, 2E, 3E, 4E - Equated retirement plans

Source: Segal Company

Schedule of Health Benefits
For Years Ended September 30, 2002 and 2001

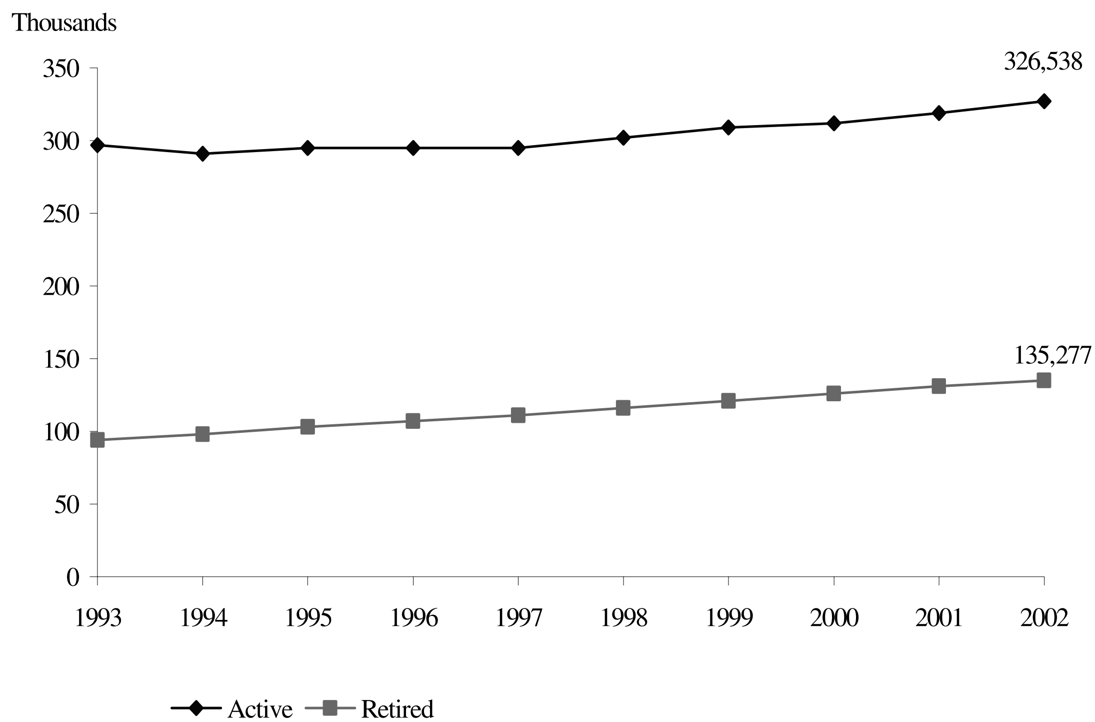
	2002	2001
Claims		
Health Insurance	$ 409,087,779	$ 360,442,031
Vision Insurance	5,366,525	5,299,129
Dental Insurance	44,846,517	40,364,555
Total Claims	$ 459,300,821	$ 406,105,715
IBNR (Incurred but not reported claims)		
Health Insurance	$ 51,491,000	$ 47,391,000
Vision Insurance	436,000	535,700
Dental Insurance	1,944,000	2,225,000
Total IBNR	$ 53,871,000	$ 50,151,700
Administrative Fees		
Health Insurance	$ 41,119,808	$ 37,781,180
Vision Insurance	845,949	821,755
Dental Insurance	2,888,212	2,776,424
Total Administrative Fees	44,853,969	41,379,359
Subtotal	558,025,790	497,636,774
Refunds	67,115	72,407
Grand Total	$ 558,092,905	$ 497,709,181

Schedule of Average Benefit Payments

Retirement Effective Dates	Years Credited Service							
	0-5	5-10	10-15	15-20	20-25	25-30	30+	Total
Period 10/1/95 to 9/30/96:								
Average Monthly Benefit	$ 336	$ 131	$ 224	$ 411	$ 683	$ 1,030	$ 1,694	$ 971
Average Final Average Salary	5,151	13,787	12,373	16,852	22,019	26,608	36,341	25,327
Number of Active Retirants	277	2,729	15,659	18,519	17,082	13,615	39,584	107,465
Period 10/1/96 to 9/30/97:								
Average Monthly Benefit	$ 359	$ 134	$ 230	$ 424	$ 703	$ 1,064	$ 1,779	$ 1,022
Average Final Average Salary	4,725	13,993	12,738	17,348	22,636	27,515	38,285	26,540
Number of Active Retirants	333	2,742	15,893	18,982	17,724	13,941	42,027	111,842
Period 10/1/97 to 9/30/98:								
Average Monthly Benefit	$ 390	$ 139	$ 238	$ 438	$ 726	$ 1,097	$ 1,864	$ 1,076
Average Final Average Salary	4,043	14,351	13,165	17,927	23,340	28,399	40,260	27,831
Number of Active Retirants	416	3,136	16,145	19,479	18,358	14,337	44,749	116,620
Period 10/1/98 to 9/30/99:								
Average Monthly Benefit	$ 439	$ 143	$ 246	$ 452	$ 746	$ 1,131	$ 1,944	$ 1,130
Average Final Average Salary	3,467	14,633	13,635	18,462	23,931	29,187	42,081	29,072
Number of Active Retirants	528	3,338	16,299	19,815	18,838	14,535	47,560	120,913
Period 10/1/99 to 9/30/00:								
Average Monthly Benefit	$ 480	$ 147	$ 255	$ 466	$ 769	$ 1,167	$ 2,024	$ 1,188
Average Final Average Salary	2,964	14,900	14,121	19,103	24,654	29,984	43,957	30,424
Number of Active Retirants	666	3,545	16,545	20,206	19,332	14,839	50,982	126,115
Period 10/1/00 to 9/30/01:								
Average Monthly Benefit	$ 500	$ 154	$ 268	$ 483	$ 793	$ 1,201	$ 2,092	$ 1,238
Average Final Average Salary	2,492	15,236	14,669	19,730	25,420	30,751	45,564	31,613
Number of Active Retirants	814	3,783	16,842	20,543	19,844	15,128	53,836	130,790

Source: Segal Company

Ten Year History of Membership
Fiscal Year Ended September 30



Source: Segal Company

Schedule of Participating Employers through 9/30/02

Universities:

Central Michigan University
Eastern Michigan University
Ferris State University
Lake Superior State University
Michigan Technological University
Northern Michigan University
Western Michigan University

Community Colleges:

Alpena Community College
Bay De Noc Community College
Charles S Mott Community College
Delta College
Glen Oaks Community College
Gogebic Community College
Grand Rapids Community College
Henry Ford Community College
Jackson County Community College
Kalamazoo Valley Community College
Kellogg Community College
Kirtland Community College
Lake Michigan College
Lansing Community College
Macomb Community College
Mid-Michigan Community College
Monroe County Community College
Montcalm Community College
Muskegon Community College
North Central Michigan College
Northwestern Michigan College
Oakland Community College
Schoolcraft Community College
Southwestern Michigan College
St Clair County Community College
Washtenaw Community College
Wayne County Community College
West Shore Community College

Intermediate School Districts:

Allegan County Intermediate School District
Alpena-Montmorency-Alcona E. S. D.
Barry Intermediate School District
Bay-Arenac Intermediate School District
Berrien Intermediate School District
Branch Intermediate School District
C.O.O.R. Intermediate School District
Calhoun Intermediate School District
Charlevoix-Emmet Intermediate School District
Cheboygan-Otsego-Presque Isle ISD
Clare-Gladwin Intermediate School District
Clinton County R. E. S. A.
Copper Country Intermediate School District
Delta-Schoolcraft Intermediate School District
Dickinson-Iron Intermediate School District
Eastern U P Intermediate School District
Eaton Intermediate School District
Genesee Intermediate School District
Gogebic-Ontonagon Intermediate School District
Gratiot-Isabella R. E. S. D.
Hillsdale Intermediate School District
Huron Intermediate School District
Ingham Intermediate School District
Ionia Intermediate School District
Iosco Intermediate School District
Jackson Intermediate School District
Kalamazoo Valley Intermediate School District
Kent Intermediate School District
Lapeer Intermediate School District
Lenawee Intermediate School District
Lewis Cass Intermediate School District
Livingston Intermediate School District
Macomb Intermediate School District
Manistee Intermediate School District
Marquette-Alger Intermediate School District
Mason Lake Intermediate School District
Mecosta-Osceola Intermediate School District
Menominee Intermediate School District
Midland County Ed Service Agency
Monroe Intermediate School District
Montcalm Area Intermediate School District
Muskegon Area Intermediate School District
Newaygo Intermediate School District
Oakland Intermediate School District
Oceana Intermediate School District
Ottawa Area Intermediate School District
Saginaw Intermediate School District
Sanilac Intermediate School District
Shiawassee R. E. S. D.
St. Clair Intermediate School District
St. Joseph Intermediate School District
Traverse Bay Area Intermediate School District
Tuscola Intermediate School District
Van Buren Intermediate School District
Washtenaw Intermediate School District
Wayne R. E. S. A.
Wexford-Missaukee Intermediate School District

Schedule of Participating Employers through 9/30/02 (Continued)

K – 12 School Districts:

Adams Township School District
Adams-Sigel #3 School
Addison Community Schools
Adrian Public Schools
Airport Community Schools
Akron-Fairgrove Schools
Alba Public Schools
Albion Public Schools
Alcona Community Schools
Algonac Community Schools
Allegan Public Schools
Allen Park Public Schools
Allendale Public Schools
Alma Public Schools
Almont Community Schools
Alpena Public Schools
Anchor Bay School District
Ann Arbor Public Schools
Arenac-Eastern High School
Armada Area Schools
Arvon Township Schools
Ashley Community Schools
Athens Area Schools
Atherton Community Schools
Atlanta Community Schools
Au Gres-Sims School District
Autrain-Onota Public Schools
Avondale School District
Bad Axe Public Schools
Baldwin Community Schools
Bangor Public Schools
Bangor Township Schools
Baraga Township Schools
Bark River - Harris Schools
Bath Community Schools
Battle Creek Public Schools
Bay City Public Schools
Beal City Schools
Bear Lake School
Beaver Island Community Schools
Beaverton Rural School District
Bedford Public Schools
Beecher Community School District
Belding Area Schools
Bellaire Public Schools
Bellevue Community Schools
Bendle Public Schools
Bentley Community Schools
Benton Harbor Area Schools
Benzie County Central Schools
Berkley City School District
Berrien Springs Public Schools
Bessemer Area School District
Big Bay De Noc School District
Big Burning-Colfax #1f School
Big Jackson School District
Big Rapids Public Schools
Birch Run Area Schools
Birmingham City Schools
Blissfield Community School District
Bloomfield #7 Frl-Rapson School
Bloomfield Hills School District
Bloomingdale Public Schools
Bois Blanc Township School District
Boyne City Public Schools
Boyne Falls Public Schools
Brandon School District
Brandywine Public Schools
Breckenridge Community Schools
Breitung Township Schools
Bridgeport-Spaulding Comm. School District
Bridgman Public Schools
Brighton Area Schools
Brimley Public Schools
Britton-Macon Area School
Bronson Community Schools
Brown City Community Schools
Buchanan Community Schools
Buckley Community Schools
Buena Vista School District
Bullock Creek School District
Burr Oak Community Schools
Burt Township School District
Byron Area Schools
Byron Center Public Schools
Cadillac Area Public Schools
Caledonia Community Schools
Calumet Public Schools
Camden-Frontier School
Capac Community Schools
Carman-Ainsworth Community School District
Carney-Nadeau Public Schools
Caro Community Schools
Carrollton School District
Carson City-Crystal Area Schools
Carsonville-Port Sanilac School
Caseville Public Schools
Cass City Public Schools
Cassopolis Public Schools
Cedar Springs Public Schools
Center Line Public Schools
Central Lake-Antrim County Public Schools
Central Montcalm Public Schools

Schedule of Participating Employers through 9/30/02 (Continued)

K - 12 School Districts (continued):

Centreville Public Schools
Charlevoix Public Schools
Charlotte Public Schools
Chassell Township Schools
Cheboygan Area School District
Chelsea School District
Chesaning-Union Schools
Chippewa Hills School District
Chippewa Valley Schools
Church School
Clare Public Schools
Clarenceville School District
Clarkston Community Schools
Clawson City School District
Climax-Scotts Community Schools
Clinton Community Schools
Clintondale Community Schools
Clio Area School District
Coldwater Community Schools
Coleman Community Schools
Coloma Community Schools
Colon Community School
Columbia School District
Comstock Park Public Schools
Comstock Public Schools
Concord Community Schools
Constantine Public Schools
Coon-Berlin Township School District #3
Coopersville Public Schools
Corunna Public Schools
Covert Public Schools
Crawford-AuSable School District
Crawford-Excelsior School District #1
Crestwood School District
Croswell-Lexington Schools
Dansville Agricultural School
Davison Community Schools
Dearborn Heights School District #7
Dearborn Public Schools
Decatur Public Schools
Deckerville Community School District
Deerfield Public Schools
Delton-Kellogg Schools
DeTour Area Schools
Detroit Public Schools
Dewitt Public Schools
Dexter Community Schools
Dollar Bay-Tamarack School District
Dowagiac-Union School District
Dryden Community Schools
Dundee Community Schools
Durand Area Schools
East China Township School District
East Detroit School District
East Grand Rapids Public Schools
East Jackson Public Schools
East Jordan Public Schools
East Lansing Public Schools
Eaton Rapids Public Schools
Eau Claire Public Schools
Eccles-Sigel #4 School
Ecorse Public Schools
Edwardsburg Public Schools
Elk Rapids Schools
Elkton-Pigeon-Bay Port Schools
Ellsworth Community Schools
Elm River Township Schools
Engadine Consolidated School District #4
Escanaba Area Public Schools
Essexville-Hampton Public Schools
Evart Public Schools
Ewen-Trout Creek Consolidated School District
Fairview Area Schools
Farmington Public Schools
Farwell Area Schools
Fennville Public Schools
Fenton Area Public Schools
Ferndale City School District
Fitzgerald Public Schools
Flat Rock Community Schools
Flint City School District
Flushing Community Schools
Forest Area Schools
Forest Hills Public Schools
Forest Park School District
Fowler Public Schools
Fowlerville Community Schools
Frankenmuth School District
Frankfort-Elberta Area Schools
Fraser Public Schools
Free Soil Community School District # 8
Freeland Community Schools
Fremont Public Schools
Fruitport Community Schools
Fulton Schools
Galesburg-Augusta Community School District
Galien Township School
Garden City Public Schools
Gaylord Community Schools
Genesee School District
Gerrish-Higgins School District
Gibraltar School District
Gladstone Area Schools

Schedule of Participating Employers through 9/30/02 (Continued)

K - 12 School Districts (continued):

Gladwin Community Schools
Glen Lake Community Schools
Glenn-Ganges School District #4
Gobles Public Schools
Godfrey-Lee Public Schools
Godwin Heights Public Schools
Goodrich Area Schools
Grand Blanc Community Schools
Grand Haven Public Schools
Grand Ledge Public Schools
Grand Rapids Public Schools
Grandville Public Schools
Grant Public Schools
Grant Township School
Grass Lake Community Schools
Greenville Public Schools
Grosse Ile Township Schools
Grosse Pointe Public Schools
Gull Lake Community Schools
Gwinn Area Community Schools
Hale Area Schools
Hamilton Community Schools
Hamtramck Public Schools
Hancock Public Schools
Hanover Horton School District
Harbor Beach Community School District
Harbor Springs Public Schools
Harper Creek Community Schools
Harper Woods Public Schools
Harrison Community Schools
Hart Public Schools
Hartford Public Schools
Hartland Consolidated Schools
Haslett Public Schools
Hastings Area School District
Haynor- Easton Township School District #6
Hazel Park Public Schools
Hemlock Public Schools
Hesperia Community Schools
Highland Park School District
Hillman Community Schools
Hillsdale Community Schools
Holland Public Schools
Holly Area Schools
Holt Public Schools
Holton Public Schools
Homer Community Schools
Hopkins Public Schools
Houghton Lake Community Schools
Houghton-Portage Township School District
Howell Public Schools
Hudson Area Schools
Hudsonville Public Schools
Huron School District
Huron Valley School District
Ida Public Schools
Imlay City Community Schools
Inkster Public Schools
Inland Lakes Schools
Ionia Public Schools
Iron Mountain Public Schools
Ironwood-Gogebic City Area Schools
Ishpeming Public Schools
Ithaca Public Schools
Jackson Public Schools
Jefferson Schools
Jenison Public Schools
Johannesburg-Lewiston Area Schools
Jonesville Community Schools
Kalamazoo Public Schools
Kaleva Norman Dickson School District
Kalkaska Public Schools
Kearsley Community Schools
Kelloggsville Public Schools
Kenowa Hills Public Schools
Kent City Community Schools
Kentwood Public Schools
Kingsley Area Schools
Kingston Community Schools
Kipper School
L'Anse Creuse Public Schools
L'Anse Public Schools
Laingsburg Community Schools
Lake City Area Schools
Lake Fenton Community School District
Lake Linden-Hubbell Public Schools
Lake Orion Community School #3
Lake Shore Public Schools
Lakeview Community Schools
Lakeview Public Schools
Lakeview School District
Lakeville Community Schools
Lakewood School District
Lamphere Public Schools
Lansing Public Schools
Lapeer Public Schools
Lawrence Public Schools
Lawton Community Schools
Leland Public Schools
Les Cheneaux Community Schools
Leslie Public Schools
Lincoln Consolidated Schools
Lincoln Park Public Schools
Linden Community Schools

Schedule of Participating Employers through 9/30/02 (Continued)

K - 12 School Districts (continued):

Litchfield Community Schools
Littlefield Public Schools
Livonia Public Schools
Loucks-Roxend Township School District #12
Lowell Area Schools
Ludington Area Schools
Mackinaw City Public Schools
Mackinaw Island Public Schools
Madison District Public Schools
Madison School District #2
Mancelona Public Schools
Manchester Community Schools
Manistee Public Schools
Manistique Area Schools
Manton Consolidated School District
Maple Valley Schools
Mar Lee School District
Marcellus Community Schools
Marenisco School District
Marion Public Schools
Marlette Community Schools
Marquette Area Public Schools
Marshall Public Schools
Martin Public Schools
Marysville Public Schools
Mason Co.-Eastern-Custer #5 School District
Mason Consolidated Schools
Mason County Central School District
Mason Public Schools
Mattawan Consolidated Schools
Mayville Community Schools
McBain Rural Agricultural School
Melvindale-Northern Allen Park School District
Memphis Community Schools
Mendon Community School
Menominee Area Public Schools
Meridian Public Schools
Merrill Community Schools
Mesick Consolidated Schools
Michigan Center School District
Mid Peninsula Schools
Midland City Schools
Milan Area Schools
Millington Community School District
Mio-Ausable Schools
Mona Shores School District #29
Monroe Public Schools
Montabella Community Schools
Montague Area Public Schools
Montrose Community Schools
Moran Township School District
Morenci Area Schools
Morley-Stanwood Community Schools
Morrice Area Schools
Mt Clemens Community Schools
Mt Morris Consolidated Schools
Mt Pleasant Public Schools
Munising Public Schools
Muskegon City Public Schools
Muskegon Heights City Public Schools
Napoleon Comm. School District
Negaunee Public Schools
New Buffalo Area Schools
New Haven Community Schools
New Lothrup Area Public Schools
Newaygo Public Schools
Nice Community Schools
Niles Public Schools
North Adams-Jerome Public Schools
North Branch Area Schools
North Central Area Schools
North Dickinson School
North Huron Schools
North Levalley School #2
North Muskegon Public Schools
Northport Public Schools
Northview Public Schools
Northville Public Schools
Northwest School District
Norway-Vulcan Area Schools
Nottawa Community Schools
Novi Community School District
Oak Park School District
Oakridge Public Schools
Okemos Public Schools
Olivet Community Schools
Onaway Area Community Schools
Onekama Consolidated Schools
Onsted Community Schools
Ontonagon Area School District
Orchard View Schools
Oscoda Area Schools
Otsego Public Schools
Ovid-Elsie Area Schools
Owendale-Gagetown Area Schools
Owosso Public Schools
Oxford Area Community Schools
Palo Community Schools
Parchment School District
Paw Paw Public Schools
Peck Community Schools
Pellston Public Schools
Pennfield Schools

Schedule of Participating Employers through 9/30/02 (Continued)

K - 12 School Districts (continued):

Pentwater Public Schools
Perry Public Schools
Petoskey Public Schools
Pewamo-Westphalia Comm School District
Pickford Public Schools
Pinckney Community Schools
Pinconning Area Schools
Pine River Area Schools
Pittsford Area Schools
Plainwell Community Schools
Plymouth-Canton Community School District
Pontiac City School District
Port Hope Community Schools
Port Huron Area Schools
Portage Public Schools
Portland Public Schools
Posen Consolidated Schools
Potterville Public Schools
Powell Township School District
Quincy Community Schools
Rapid River Public Schools
Ravenna Public Schools #24
Reading Community Schools
Redford-Union School District #1
Reed City Public School District
Reese Public Schools
Reeths-Puffer Schools
Republic-Michigamme Schools
Richmond Community Schools
River Rouge Public Schools
River School
River Valley School District
Riverside-Hagar School District #6
Riverview Public Schools
Rochester Community Schools
Rockford Public Schools
Rogers City Area Schools
Romeo Community Schools
Romulus Community Schools
Roseville Community Schools
Royal Oak City School District
Rudyard Public Schools
Saginaw City Schools
Saginaw Township Community Schools
Saline Area Schools
Sand Creek Community Schools
Sandusky Community Schools
Saranac Community Schools
Saugatuck Public Schools
Sault Ste Marie Public Schools
Schoolcraft Community Schools
Shelby Public Schools
Shepherd Public Schools
South Haven Public Schools
South Lake Public Schools
South Lyon Community Schools
South Redford School District
Southfield Public Schools
Southgate Community School District
Sparta Area Schools
Spring Lake Public Schools
Springport Public Schools
St Charles Community Schools
St Ignace Public Schools
St Johns Public Schools
St Joseph Public Schools
St Louis Public Schools
Standish-Sterling Community School District
Stanton Twnshp. Public Schools
Stephenson Area Public Schools
Stockbridge Community Schools
Strange-Oneida School #3
Sturgis Public Schools
Summerfield Schools
Superior Central School District
Suttons Bay Public Schools
Swan Valley School District
Swartz Creek Community Schools
Tahquamenon Area School District
Tawas Area Schools
Taylor Township Schools
Tecumseh Public Schools
Tekonsha Community Schools
Thornapple-Kellogg School
Three Rivers Community Schools
Traverse City Public Schools
Trenton Public Schools
Tri-County Area Schools
Troy City School District
Ubly Community Schools
Union City Community Schools
Unionville-Sebewaing Area Schools
Utica Community Schools
Van Buren Public Schools
Vanderbilt Area Schools
Vandercook Lake Public Schools
Vandyke Public Schools
Vassar Public Schools
Verona Mills School
Vestaburg Community Schools
Vicksburg Community Schools
Wakefield Township Schools
Waldron Area Schools

Schedule of Participating Employers through 9/30/02 (Continued)

K - 12 School Districts (continued):

Walkerville Rural Community School District
Walled Lake Consolidated Schools
Warren Consolidated Schools
Warren Woods Public Schools
Waterford School District
Watersmeet Township School District
Watervliet Public Schools
Waverly Community Schools
Wayland Union Schools
Wayne-Westland Community Schools
Webberville Community Schools
Wells Township School #18
West Bloomfield Schools
West Branch-Rose City Area Schools
West Iron County Public Schools
West Ottawa Public Schools
Western School District
Westwood Community Schools
Westwood Heights Schools
White Cloud Public Schools
White Pigeon Community Schools
White Pine School District
Whitefish Township School
Whiteford Agricultural School
Whitehall District Schools
Whitmore Lake Public Schools
Whittemore-Prescott Area Schools
Williamston Community Schools
Willow Run Community Schools
Windover High School
Wolverine Community Schools
Wood School District #8
Woodhaven-Brownstown School District
Wyandotte Public Schools
Wyoming Public Schools
Yale Public School District
Ypsilanti Public Schools
Zeeland Public Schools

Public School Academies:

Academy for Plastics Manufacturing Technology
AGBU Alex & Marie Manoogian School
Ann Arbor Learning Community
Arts Academy in the Woods
Bahweting Anishnabe Public School Academy
Bay-Arenac Community High School
Benito Juarez Academy
Blue Water Learning Academy
Casman Alternative Academy
Central Academy
Colin Powell Academy
Commonwealth Community Development Academy
Concord Academy
Concord Academy Antrim
Countryside Charter School
Creative Technologies Academy
Da Vinci Institute
Dearborn Academy
Detroit Academy of Arts & Sciences
Detroit Community High School
Discovery Elementary School
Edison Oakland Public School Academy
Edison Public School Academy
El-Hajj Malik El-Shabazz Academy
Gateway Middle High School
Gaudior Academy
Grand Rapids Child Discovery Center
Grand Traverse Academy
Health Career Academy of St Clair Co
Henry Ford Academy
Holly Academy
Honey Creek Community School
Hope Academy
Horizons Community High School
Hospitality Academy of St. Clair County
Information Technology Academy of St Clair County
International Academy of Flint
Lakeshore Public Academy
Macomb Academy
Martin Luther King, Jr. Public School Academy
Metropolitan Transitional Academy
Michigan Early Elementary Center
Mid-Michigan Public School Academy
Nah Tah Wahsh Public School Academy
Nataki Talibah School of Detroit
New Beginnings Academy
New Branches School
North Star Academy
Plymouth Educational Center Charter School
Presque Isle Academy II
Sankofa Shule
Sankore Marine Immersion H.S. Academy
St. Clair County Learning Academy
Summit Academy
Warrendale Charter
Warwick Pointe Academy
Washtenaw Technical Middle College

Schedule of Participating Employers through 9/30/02 (Continued)

Public School Academies (Continued):
West Village Academy
YMCA Service Learning Academy

Libraries:

Ann Arbor District Library
Bacon Memorial District Library
Cheboygan Area Public Library
Flint Public Library
Grosse Pointe Public Library
Hackley Public Library
Houghton Lake Public Library
Kalamazoo Public Library
Public Libraries of Saginaw
Willard District Library