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, 2003

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 $2,112.12 ($7.04 each), which was paid for by the System at no cost to taxpayers.

INTRODUCTORY SECTION

Certificate of Achievement
Letter of Transmittal
Retirement Board Members
Advisors & Consultants
Organization Chart

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, 2002

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.

GOVERNMENT FINANCE OFFICERS ASSOCIATION OF THE UNITED STATES AND CANADA CORPORATION SEAL CHICAGO

President

Executive Director

Letter of Transmittal

Michigan Public School Employees' Retirement System
P.O. Box 30171
Lansing, Michigan 48909-7671
Telephone 517- 322-5103
Outside Lansing 1-800-381-5111

STATE OF MICHIGAN

JENNIFER M. GRANHOLM, Governor

DEPARTMENT OF MANAGEMENT AND BUDGET

December 5, 2003

The Honorable Jennifer M. Granholm
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 2003.

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 2003 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 continues to be resourceful and to drive forward creative innovations that build on our dedication to customer service. Our daily business activities are tied to achieving our mission of delivering pensions, related benefits, and services to promote the future financial security of our customers. In this fiscal year, we have welcomed our new governor, deployed the beginnings of our Vision ORS technology solutions, responded to new policies and legislation, and energized and trained our staff on the new tools available to them. Here are some of the highlights.

Focus on Our Customer

During the 2003 fiscal year, ORS hosted 9,282 members at our pre-retirement information meetings and personally counseled 7,632 members. This is on top of the 242,000 members who took advantage of our toll-free phone service for retirement information and services.

An independently-conducted survey of 519 retirees and active members tells us that our services met or exceeded the expectations of 87% of our customers. This survey was the last in a series of four conducted over the course of a year. The scores for this most recent survey show that our services are more accurate, our information is more useful, and the knowledge of our counselors has risen. We continue to work on providing services faster and on delivering services at the time our customers most need them.

The Health Insurance Portability and Accountability Act (HIPAA) triggered an important awareness of the large amount of private information we handle daily. It gave us the chance to evaluate existing policies and procedures and to ensure that member information is handled confidentially. Where needed, policies were revised and all ORS staff received training on HIPAA provisions.

Optimize Technology and Continuously Improve

To get the documents that drive our business processed faster, ORS deployed document scanning in our mailroom. With this innovation, documents are received, scanned and coded into a database, then delivered into electronic in-baskets. Applications, correspondence, insurance changes and other requests are now delivered to the people who process the requests within four hours of receiving the mail.

The challenge of reaching our membership in northern Michigan with quality retirement planning information is now being met with the help of videoconferencing tools. Videoconferencing allows ORS staff to provide face-to-face presentations for as many as three different locations at the same time. Attendees will be able to see the presenter, view the materials presented (such as Power Point slides and printed documents), and ask questions.

Employers of public school members have begun to report their wage, contribution and service credit information every pay period using our new web reporting system. About 25% of employers are participating in the program with 100% on schedule to be using the new reporting system by April 2004. This technology is the first step in delivering accurate information quickly and easily to our members. Using this tool, the most current information about service credit and wages is collected during payroll processing. As our technology grows to include member self-service, this information will be delivered to members almost immediately through secured web access.

This year, an independent actuarial firm reviewed the costs of service credit to confirm that the cost of service will support the eventual retirement benefit. This is essential to be certain that what we charge for service reflects the benefits purchased. As a result of this year’s review (the last review was conducted in 1999), the Public School Employees’ Retirement System Board of Directors enacted changes to the way we compute service credit costs and authorized the billing of 8% interest on all future tax-deferred payment purchases. Members and employers were notified of these changes which take effect January 1, 2004.

Letter of Transmittal (Continued)

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, 2002. 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.

FINANCIAL INFORMATION

Please refer to Management's Discussion and Analysis in the Financial Section for condensed financial information and activities of the current and prior fiscal years.

Accounting System

Transactions of the System are reported on the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when incurred. Participants' benefits are recorded when payable by law. We believe that the accounting and administrative internal controls established by the System provide reasonable assurance that the System is carrying out its responsibilities in safeguarding its assets, in the reliability of the financial records for preparing the financial statements, and in maintaining accountability for its assets.

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 14.8%. For the last five years, the System has experienced an annualized rate of return of 3.9%. A summary of asset allocation and rates of return can be found in the Investment Section of this report.

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, 2002. The actuarial value of the assets and actuarial accrued liability were $38.4 billion and $41.9 billion, respectively, resulting in a funded ratio of 91.5% at September 30, 2002. 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.

Letter of Transmittal (Continued)

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, 2002, 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 $14.7 billion and the employer contribution for health care benefits would be 14.8% 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, 2002. 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,

Mitch Irwin

Mitch Irwin, Director
Department of Management and Budget

Christopher M. DeRose

Christopher M. DeRose, Director
Office of Retirement Services

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 Active Classroom Teacher Term Expires March 30, 2004
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/Health Insurance Term Expires March 30, 2004
Michael R. Meyers Community College Trustee Term Expires March 30, 2004	Richard Montcalm Active Finance/Operations, Non-Superintendent Term Expires March 30, 2006	Gail Nugent Retired Teacher Term Expires March 30, 2006
Diana Osborn Active Non-Certified Support Term Expires March 30, 2005	Mark Pontti Reporting Unit Board of Control Term Expires March 30, 2005	Jeremy Hughes Statutory Member Representing State Superintendent of Education

* Statute provides that board members may continue to serve after their term expires until they are either replaced or reappointed.

Administrative Organization

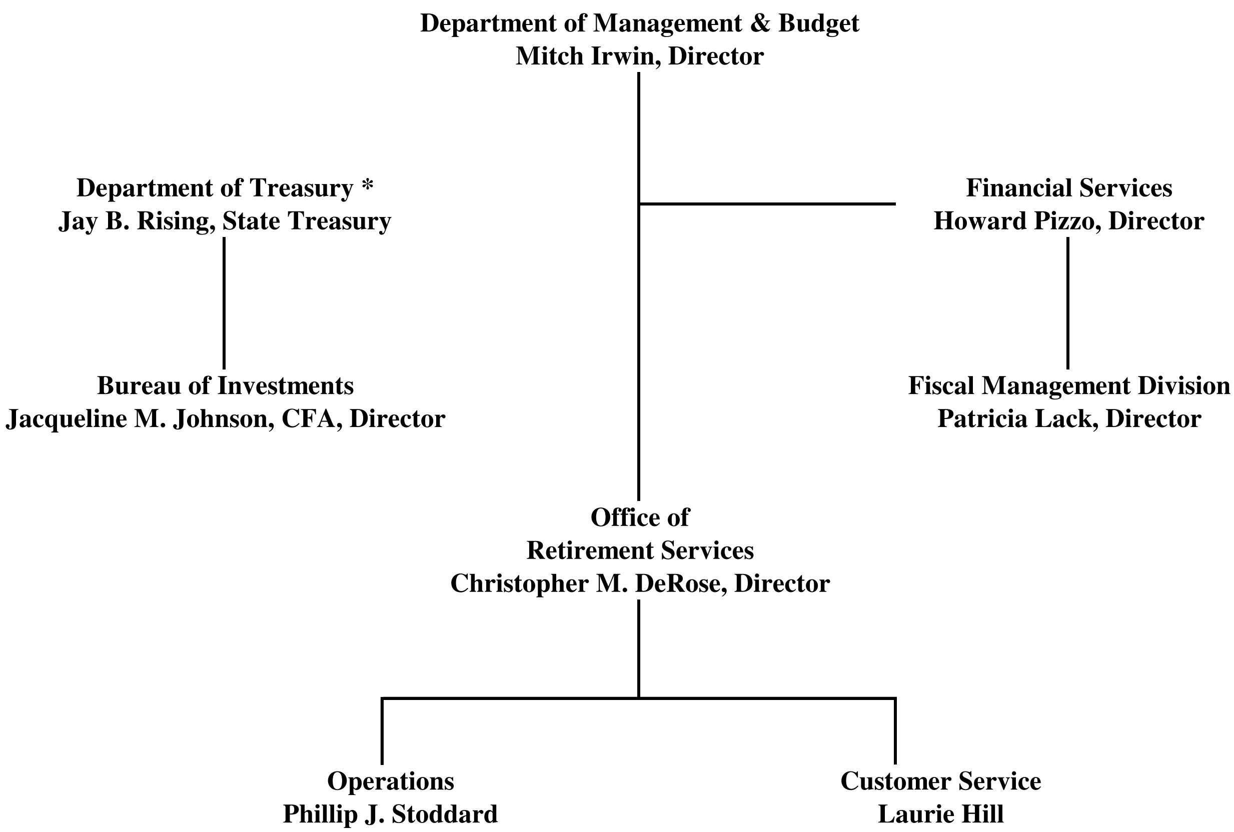
Department of Management and Budget
Office of Retirement Services
P.O. Box 30171
Lansing, Michigan 48909-7671
517-322-5103
1-800-381-5111

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** Jay B. Rising State Treasurer State of Michigan
Legal Advisor Mike Cox Attorney General State of Michigan	**Medical Advisors** Gabriel, Roeder, Smith and Company Southfield, Michigan	**Investment Performance Measurement** CRA RogersCasey Chicago, Illinois

Administrative Organization (Continued)

Organization Chart



*** 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.**

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. Mitch Irwin, 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, 2003 and 2002, 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, 2003 and 2002, 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 26, 2003 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 26, 2003

4295 Okemos Road, Suite 200 • Okemos, Michigan 48864 • ph 517.487.5000 fx 517.487.9535 • www.ahpplc.com

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, 2003. 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 2003 by $33.8 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, 2002, the funded ratio was approximately 91.5%.
- Revenues for the year were $6.3 billion, which is comprised of contributions of $1.8 billion and investment gains of $4.6 billion.
- Expenses increased over the prior year from $2.6 billion to $2.8 billion or 6.8%. 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 18) and *The Statement of Changes in Pension Plan and Postemployment Healthcare Plan Net Assets* (page 19). 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.

Management's Discussion and Analysis (Continued)

FINANCIAL ANALYSIS

System total assets as of September 30, 2003, were $34.8 billion and were mostly comprised of cash, investments, and contributions due from employers. Total assets increased $2.9 billion or 9.2% between fiscal years 2002 and 2003 primarily due to increased investment earnings, and decreased $4.9 billion or 13.4% between fiscal years 2001 and 2002, primarily due to adverse market conditions and a decrease in investment earnings.

Total liabilities as of September 30, 2003, were $930.5 million and were mostly comprised of warrants outstanding, accounts payable, and obligations under securities lending. Total liabilities decreased $569.6 million or 38.0% between fiscal years 2002 and 2003 primarily due to a decrease in obligations under securities lending, and decreased $218.3 million or 12.7% between fiscal year 2002 and fiscal year 2001 due to a decrease in obligations under securities lending and a decrease in purchases of investments.

System assets exceeded its liabilities at the close of fiscal year 2003 by $33.8 billion. Total net assets held in trust for pension and health benefits increased $3.5 billion or 11.6% from the previous year, primarily due to an increase in investment earnings and a decrease in obligations under securities lending. This differs from fiscal year 2002, when net assets decreased by $4.7 billion or 13.4% from the prior year.

Net Assets
(In Thousands)

	2003	Increase/ (Decrease)	2002	Increase/ (Decrease)	2001
Assets					
Cash	$ 116,628	9.2 %	$ 106,811	10.3 %	$ 96,868
Receivables	517,782	(0.6)	520,692	7.8	482,866
Investments	34,139,485	9.4	31,200,393	(13.7)	36,161,810
Total Assets	34,773,895	9.3	31,827,896	(13.4)	36,741,544
Liabilities					
Warrants outstanding	9,301	6.9	8,697	(4.1)	9,073
Accounts payable and other accrued liabilities	82,044	(49.4)	162,033	(28.4)	226,191
Obligations under securities lending	839,159	(36.9)	1,329,335	(10.4)	1,483,052
Total Liabilities	930,504	(38.0)	1,500,065	(12.7)	1,718,316
Total Net Assets	$ 33,843,391	11.6 %	$ 30,327,831	(13.4) %	$ 35,023,228

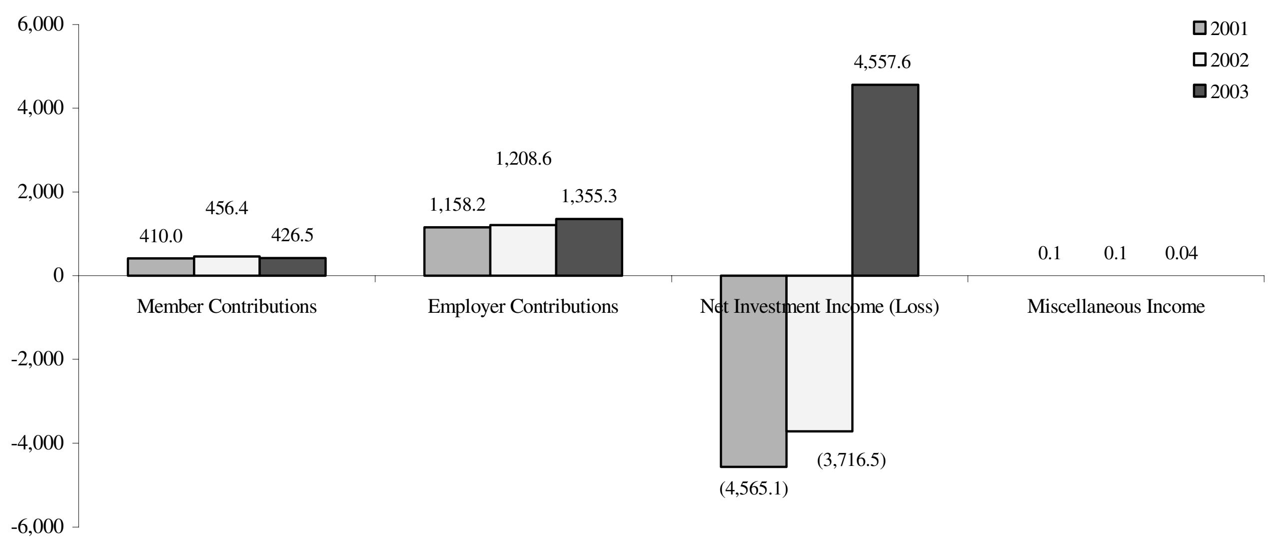
Management's Discussion and Analysis (Continued)

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 2003 totaled approximately $6.3 billion.

Total contributions and net investment income increased approximately $8.4 billion from those of fiscal year 2002 due primarily to changes in market conditions and investment earnings. Total contributions and net investment income increased approximately $945.3 million or 31.5% from fiscal year 2001 to fiscal year 2002 for the same reasons. Total contributions increased between fiscal years 2002 and 2003 by $116.8 million or 7.0%, while investment income increased $8.3 billion. Total contributions increased from fiscal year 2001 to fiscal year 2002 by $96.7 million or 6.2%, while investment income increased $848.6 million or 18.6% during that timeframe. The Investment Section of this report reviews the results of investment activity for fiscal year 2003.

Additions to Plan Net Assets
(In Millions)



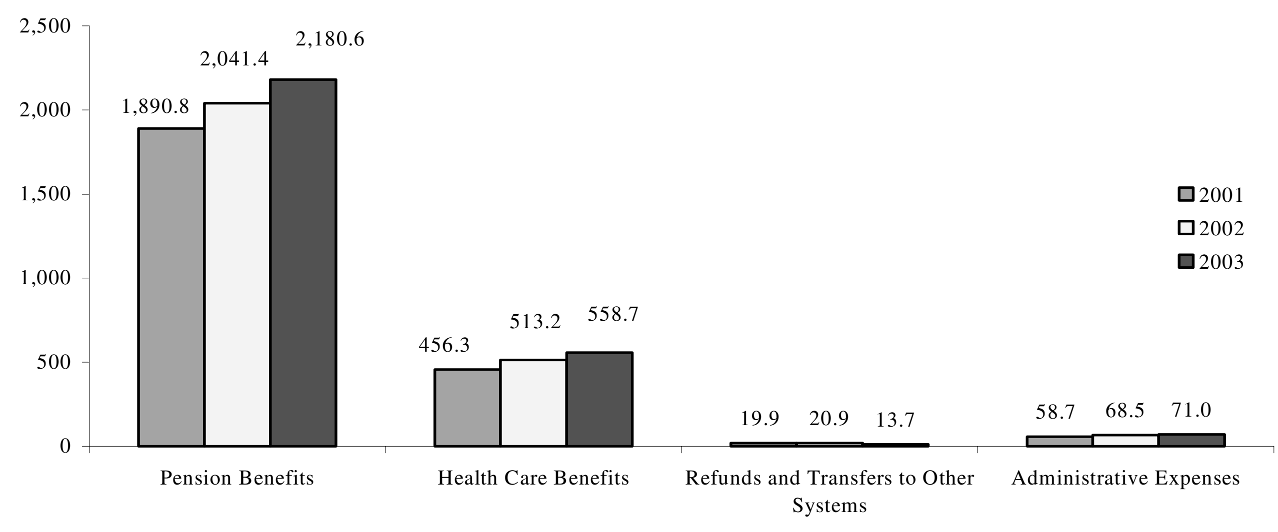
Management's Discussion and Analysis (Continued)

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 2003 were $2.8 billion, an increase of 6.8% over fiscal year 2002 expenses. Total deductions for fiscal year 2002 were $2.6 billion, which was an increase of 9.0% over fiscal year 2001 expenses.

The growth of health, dental, and vision care expenses continued during the year and increased by $45.5 million or 8.9% from $513.2 million to $558.7 million during the fiscal year. This compares to an increase of $56.9 million or 12.5% from $456.3 million to $513.6 million between fiscal years 2001 and 2002. The payment of pension benefits increased by $139.1 million or 6.8% between fiscal years 2002 and 2003 and by $150.6 million or 8.0% from fiscal year 2001 to fiscal year 2002. In fiscal year 2003, increase in pension benefit expenses resulted from an increase in retirees (4,717) and an increase in benefit payments to retirees and in fiscal year 2002 the increase in pension benefit expenses resulted from an increase in retirees (4,487) and an increase in benefit payments to retirees. Administrative expenses increased by $2.5 million or 3.7% between fiscal years 2002 and 2003, primarily due to an increase in the costs allocated for postage, telephone and staff salaries. Administrative expenses increased by $9.8 million or 16.7% between fiscal years 2001 and 2002 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 once again experienced an increase following decreases in the previous two years. This increase is a result of a moderate national economic upturn that resulted in investment income earnings. 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 has improved, in part, 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, 2003 and 2002

	September 30, 2003			September 30, 2002		
	Pension Plan	Health Plan	Total	Pension Plan	Health Plan	Total
Assets:						
Cash	$ 114,904,803	$ 1,723,790	$ 116,628,593	$ 105,484,038	$ 1,326,428	$ 106,810,466
Receivables:						
Amounts due from employer	207,800,072	1,770,719	209,570,791	178,015,996	1,351,910	179,367,906
Amounts due from employer long term	221,262,489		221,262,489	221,306,724		221,306,724
Interest and dividends	84,106,554	1,261,758	85,368,312	113,113,038	1,422,360	114,535,398
Sale of investments	1,556,992	23,358	1,580,350	5,413,791	68,077	5,481,868
Total receivables	514,726,107	3,055,835	517,781,942	517,849,549	2,842,347	520,691,896
Investments:						
Short term investments	1,095,828,500	16,439,507	1,112,268,007	711,406,373	8,945,708	720,352,081
Bonds and notes	5,867,137,252	88,018,191	5,955,155,443	6,966,245,006	87,598,309	7,053,843,315
Common and preferred stock	15,225,381,068	228,409,604	15,453,790,672	12,437,920,910	156,402,889	12,594,323,799
Real estate and mortgages	2,871,466,713	43,077,449	2,914,544,162	2,922,165,839	36,745,303	2,958,911,142
Alternative investments	4,662,436,106	69,945,388	4,732,381,494	4,224,664,847	53,123,813	4,277,788,660
International investments	3,085,891,693	46,294,229	3,132,185,922	2,237,701,431	28,138,381	2,265,839,812
Collateral on loaned securities	826,756,022	12,402,909	839,158,931	1,312,826,123	16,508,370	1,329,334,493
Total investments	33,634,897,354	504,587,277	34,139,484,631	30,812,930,529	387,462,773	31,200,393,302
Total assets	34,264,528,264	509,366,902	34,773,895,166	31,436,264,116	391,631,548	31,827,895,664
Liabilities:						
Warrants outstanding	9,163,654	137,472	9,301,126	8,589,171	108,006	8,697,177
Accounts payable and other accrued liabilities	28,749,738	53,294,301	82,044,039	106,819,164	55,214,216	162,033,380
Obligations under securities lending	826,756,022	12,402,909	839,158,931	1,312,826,124	16,508,369	1,329,334,493
Total liabilities	864,669,414	65,834,682	930,504,096	1,428,234,459	71,830,591	1,500,065,050
Net Assets Held in Trust for Pension and Health Benefits*	$ 33,399,858,850	$ 443,532,220	$ 33,843,391,070	$ 30,008,029,657	$ 319,800,957	$ 30,327,830,614

*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, 2003 and 2002

	September 30, 2003			September 30, 2002		
	Pension Plan	Health Plan	Total	Pension Plan	Heath Plan	Total
Additions:						
Contributions:						
Member contributions	$ 379,084,549	$ 47,394,003	$ 426,478,552	$ 413,163,871	$ 43,217,520	$ 456,381,391
Employer contributions:						
Colleges, universities and federal	38,528,768	42,286,523	80,815,291	37,078,284	48,694,642	85,772,926
School districts and other	659,377,497	615,121,738	1,274,499,235	566,871,043	555,933,376	1,122,804,419
Total contributions	1,076,990,814	704,802,264	1,781,793,078	1,017,113,198	647,845,538	1,664,958,736
Investment income (loss):						
Investment income (loss)	4,593,907,350		4,593,907,350	(3,676,420,243)		(3,676,420,243)
Interest income		25,584,076	25,584,076		17,040,418	17,040,418
Investment expenses:						
Real estate operating expenses	(982,449)		(982,449)	(369,522)		(369,522)
Other investment expenses	(63,857,454)		(63,857,454)	(63,652,970)		(63,652,970)
Securities lending activities:						
Securities lending income	17,031,795		17,031,795	34,608,645		34,608,645
Securities lending expenses	(14,069,331)		(14,069,331)	(27,732,628)		(27,732,628)
Net investment income (loss)	4,532,029,911	25,584,076	4,557,613,987	(3,733,566,718)	17,040,418	(3,716,526,300)
Miscellaneous income	41,924	-	41,924	124,874	2,679	127,553
Total additions	5,609,062,649	730,386,340	6,339,448,989	(2,716,328,646)	664,888,635	(2,051,440,011)
Deductions:						
Benefits and refunds paid to plan members and beneficiaries:						
Retirement benefits	2,180,574,193		2,180,574,193	2,041,439,863		2,041,439,863
Health benefits		501,566,419	501,566,419		460,578,779	460,578,779
Dental/vision benefits		57,116,502	57,116,502		52,593,042	52,593,042
Refunds of member contributions	13,642,300	64,411	13,706,711	20,813,845	67,115	20,880,960
Administrative expenses	23,016,963	47,907,745	70,924,708	23,610,482	44,853,969	68,464,451
Total deductions	2,217,233,456	606,655,077	2,823,888,533	2,085,864,190	558,092,905	2,643,957,095
Net Increase (Decrease)	3,391,829,193	123,731,263	3,515,560,456	(4,802,192,836)	106,795,730	(4,695,397,106)
Net Assets Held in Trust for Pension and Health Benefits:						
Beginning of Year	30,008,029,657	319,800,957	30,327,830,614	34,810,222,493	213,005,227	35,023,227,720
End of Year*	$ 33,399,858,850	$ 443,532,220	$ 33,843,391,070	$ 30,008,029,657	$ 319,800,957	$ 30,327,830,614

* 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 715 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, 2003, and 2002, the System's membership consisted of the following:

Retirees and beneficiaries currently receiving benefits:	**2003**	**2002***
Regular benefits	122,869	118,833
Survivor benefits	12,237	11,745
Disability benefits	4,888	4,699
Total	139,994	135,277
Current Employees:		
Vested	125,567	118,814
Non-vested	187,455	207,536
Total	313,022	326,350
Inactive employees entitled to benefits and not yet receiving them:	14,780	14,403
Total All Members	467,796	476,030

*Restated based on more complete information provided by the actuary.

Notes to Basic Financial Statements (Continued)

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

Health/Dental/Vision Plan	2003	2002
Eligible participants	139,994	135,277
Participants receiving benefits:		
Health	109,642	106,298
Dental/Vision	115,908	112,357

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:

	2003	2002
Health, Dental and Vision Plan:		
Eligible Participants	139,994	135,277
Participants receiving benefits:		
Health	109,642	106,298
Dental/Vision	115,908	112,357
Expenses for the year	$606,655,077	$558,092,905
Employer payroll contribution rate	6.05%	6.05%

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 when due and payable. 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, 2003, and 2002, the balance in this account was $1.2 billion and $1.2 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, 2003, and 2002, the balance in this account was $3.2 billion and $3.0 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, 2003, and 2002, the balance in this account was ($1.3) billion and ($267.6) million, 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, 2003, and 2002, the balance in this account was $20.4 billion and $20.6 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, 2003, and 2002, the balance in this account was $9.8 billion and $5.4 billion, respectively. The balance of this reserve includes the balance of the Stabilization Subaccount.

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, 2003, the balance in the subaccount was $229.0 million ($212.0 million plus interest of $17.0 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, 2003, and 2002, the balance in this account was $443.5 million and $319.8 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.

	2003	2002
Building Rentals	$ 697,123	$ 2,089,922
Technological Support	7,741,499	8,717,721
Attorney General	219,074	128,131
Investment Services	7,109,971	7,447,787
Personnel Services	7,405,772	6,503,649

Commitment and Contingency – The State has signed a contract with a vendor for technological support through 2004. As of September 30, 2003, the System's portion of this commitment remaining is approximately $12,100,000.

Cash — On September 30, 2003, and 2002, the System had $117 million and $107 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 $1.3 million and $2.5 million for the years ended September 30, 2003, and 2002, 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 34 year period for the 2002 fiscal year and 33 year period for the 2003 fiscal year.

Actual employer contributions for retirement benefits were $697.9 million and $603.9 million for fiscal years 2003 and 2002, respectively, representing 6.2% annual covered payroll for the year ended September 30, 2002. The fiscal year 2003 annual covered payroll is not yet available. Required employer contributions for pensions included:

1. $626.2 million and $598.2 million for fiscal years 2003 and 2002, respectively, for the normal cost of pensions representing 6.2% (before reconciliation) of annual covered payroll for fiscal year 2002.

2. $186.7 million and $70.8 million for fiscal years 2003 and 2002, respectively, for amortization of unfunded actuarial accrued liability representing .7% (before reconciliation) of annual covered payroll for fiscal year 2002.

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, 2003, and 2002, there were 35,551 and 33,400 agreements, respectively. The agreements were discounted using the assumed actuarial rate of return of 8% for September 30, 2003, and 2002. The average length of a contract was approximately 9.9 and 9.3 years for 2003 and 2002. The short term receivable was $67 million and the discounted long term receivable was $221 million at September 30, 2003. At September 30, 2002, the short term receivable was $70 million and the discounted long term receivable was $221 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 10% 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 8.8% of market value of total assets on September 30, 2003, and 7.6% of market value of total assets on September 30, 2002.

To diversify the pension fund's portfolio, the State Treasurer has entered into swap agreements with investment grade counterparties which are tied to stock market indices in the United States and twenty-two foreign countries. The notional amounts of the swap agreements at September 30, 2003, and 2002, were $3,185.1 million and $3,205.1 million, respectively. Approximately one half of the notional amount tied to foreign stock market indices 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 Inter Bank 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 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 2003 to September 2006. 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 equity investment programs involving swaps, over $484.5 million of gains on equity exposure and excess interest received have been realized on matured swap agreements. The unrealized loss of $ 252.5 million at September 30, 2003, primarily 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.

Notes to Basic Financial Statements (Continued)

The respective September 30, 2003, and 2002 derivative values are as follows:

		Notional Value		Current Value
9/30/2003 (dollars in millions)	$	3,185.1	$	2,933.7
9/30/2002 (dollars in millions)		3,205.1		2,194.9

The amounts shown above 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, 2003, or 2002.

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 loans 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, 2003, such investment pool had an average duration of 81 days and an average weighted maturity of 420 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, 2003 the retirement system had no credit risk exposure to borrowers. The cash collateral, non-cash collateral, and market value of securities on loan for the System as of September 30, 2003, was $839,158,931, $26,196,059, and $842,921,815 respectively.

Gross income from security lending for the fiscal year was $17,031,795. Expenses associated with this income were the borrower's rebate of $13,071,808 and fees paid to the agent of $997,523.

Notes to Basic Financial Statements (Continued)

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, 2003, 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)

	2003	2002
Category 1		
Prime Commercial Paper	$ 1,112,268,007	$ 720,352,081
Government Securities	3,034,905,034	3,315,172,856
Corporate Bonds & Notes	2,460,891,520	2,826,564,329
Common and Preferred Stock	15,057,040,933	12,146,831,902
Alternative Investments[2]	45,623,714	54,594,719
International Investments[3]	2,900,314,404	2,192,581,907
Total Category 1	$ 24,611,043,612	$ 21,256,097,794
Category 3		
Government Securities	$ 38,340,915	$ 76,450,000
Non-Categorized		
Real Estate and Mortgages[1]	2,914,544,162	2,958,911,142
Alternative Investments[2]	4,686,444,870	4,223,193,941
International Investments[3]	207,030,326	73,257,905
Cash Collateral	839,158,931	1,329,334,493
Securities on Loan:		
Government Securities	346,626,664	763,959,688
Corporate Bonds & Notes	74,391,310	71,696,442
Alternative Investments[2]	312,910	-
International Investments[3]	24,841,192	-
Common Stock	396,749,739	447,491,897
Total Non-Categorized	$ 9,490,100,104	$ 9,867,845,508
Grand Total	$ 34,139,484,631	$ 31,200,393,302

[1] Non-Categorized Real Estate consists of investments in real estate through various legal entities.

[2] In Category 1, the Alternative Investments are small-cap equities. Non-Categorized Alternative Investments consist of limited partnerships and securities on loan.

[3] In Category 1, the International Investments consist of International Swap Derivatives and ADRs (American Depository Receipts), the Non-Categorized International Investments consist of Primary Market and Extended Market Index Funds and securities on loan.

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 filed by the parties; and oral arguments on the motions were 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. Both parties have now filed briefs and are awaiting scheduling of oral argument.

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 System to come up with an additional $181 million, 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)
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
2002	38,382	41,957	3,575	91.5	9,707	36.8

[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
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
2003	812,891,416	697,906,265	85.85

* 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	9/30/2002
Actuarial Cost Method	Entry Age, Normal
Amortization Method	Level Percent of Payroll, Closed
Remaining Amortization Period	34 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, 2003 and 2002

	2003	2002
Personnel Services:		
Staff Salaries	$ 5,479,047	$ 4,599,226
Retirement and Social Security	1,144,569	1,036,275
Other Fringe Benefits	782,156	868,148
Total	7,405,772	6,503,649
Professional Services:		
Actuarial	185,000	183,436
Attorney General	219,074	128,131
Audit	49,188	46,138
Consulting	517,685	1,041,166
Medical	380,620	310,714
Total	1,351,567	1,709,585
Building and Equipment:		
Building Rentals	697,123	2,089,922
Equipment Purchase, Maintenance, and Rentals	196,728	283,680
Total	893,851	2,373,602
Miscellaneous:		
Travel and Board Meetings	41,137	48,781
Office Supplies	64,754	92,818
Postage, Telephone and Other	5,284,826	3,868,909
Printing	233,557	295,417
Technological Support	7,741,499	8,717,721
Total	13,365,773	13,023,646
Total Administrative Expenses	$ 23,016,963	$ 23,610,482

Supporting Schedules (Continued)

Schedule of Investment Expenses

	2003	2002
Real Estate Operating Expenses	$ 982,449	$ 369,522
Securities Lending Expenses	14,069,331	27,732,628
Other Investment Expenses*	63,857,454	63,652,970
Total Investment Expenses	$ 78,909,234	$ 91,755,120

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

Schedule of Payments to Consultants

	2003	2002
Independent Auditors	$ 49,188	$ 46,138
Medical Advisor	380,620	310,714
Actuary	185,000	183,436
Consulting	517,685	1,041,166
Attorney General	219,074	128,131
Total Payments	$ 1,351,567	$ 1,709,585

Supporting Schedules (Continued)

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

For the Year Ended September 30, 2003

	Employee Contributions	Member Investment Plan	Employer Contributions
Additions:			
Contributions:			
Member contributions	$ 95,999,241	$ 283,085,308	
Employer contributions:			
Colleges, universities and federal			$ 38,528,768
School districts and other			659,377,497
Total contributions	95,999,241	283,085,308	697,906,265
Investment income (loss):			
Investment income (loss)			
Interest income			
Investment expenses:			
Real estate operating expenses			
Other investment expenses			
Securities lending activities:			
Securities lending income			
Securities lending expenses			
Net investment income (loss)	-	-	-
Miscellaneous income			
Total additions	95,999,241	283,085,308	697,906,265
Deductions:			
Benefits and refunds paid to plan members and beneficiaries:			
Retirement benefits			
Health benefits			
Dental/vision benefits			
Refund of member contributions	1,396,656	9,701,949	2,543,597
Administrative expenses			
Total deductions	1,396,656	9,701,949	2,543,597
Net Increase (Decrease)	94,602,585	273,383,359	695,362,668
Other Changes in Net Assets:			
Interest allocation	38,832,095	78,226,530	-
Transfers upon retirement	(94,865,287)	(203,054,751)	-
Transfer - stabilization account			142,965,105
Transfers of employer shares			(1,846,160,443)
Total other changes in net assets	(56,033,192)	(124,828,221)	(1,703,195,338)
Net Increase (Decrease) After Other Changes	38,569,393	148,555,138	(1,007,832,670)
Net Assets Held in Trust for Pension and Health Benefits:			
Beginning of Year	1,209,818,427	3,028,088,689	(267,613,939)
End of Year	$ 1,248,387,820	$ 3,176,643,827	$ (1,275,446,609)

Retired Benefit Payments	Undistributed Investment Income	Health Benefits	Total
		$ 47,394,003	$ 426,478,552
		42,286,523	80,815,291
		615,121,738	1,274,499,235
-	-	704,802,264	1,781,793,078
	$ 4,593,907,350		4,593,907,350
		25,584,076	25,584,076
	(982,449)		(982,449)
	(63,857,454)		(63,857,454)
	17,031,795		17,031,795
	(14,069,331)		(14,069,331)
-	4,532,029,911	25,584,076	4,557,613,987
	41,924	-	41,924
-	4,532,071,835	730,386,340	6,339,448,989
$ 2,180,574,193			2,180,574,193
		501,566,419	501,566,419
		57,116,502	57,116,502
98		64,411	13,706,711
	23,016,963	47,907,745	70,924,708
2,180,574,291	23,016,963	606,655,077	2,823,888,533
(2,180,574,291)	4,509,054,872	123,731,263	3,515,560,456
1,650,740,813	(1,767,799,438)		-
297,920,038			-
	(142,965,105)		-
	1,846,160,443		-
1,948,660,851	(64,604,100)	-	-
(231,913,440)	4,444,450,772	123,731,263	3,515,560,456
20,634,260,157	5,403,476,323	319,800,957	30,327,830,614
$ 20,402,346,717	$ 9,847,927,095	$ 443,532,220	$ 33,843,391,070

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)			
Interest Income			
Investment expenses:			
Real estate operating expenses			
Other investment expenses			
Securities lending activites:			
Securities lending income			
Securities lending expenses			
Net investment income (loss)	-	-	-
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)

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)
		17,040,418	17,040,418
	(369,522)		(369,522)
	(63,652,970)		(63,652,970)
	34,608,645		34,608,645
	(27,732,628)		(27,732,628)
-	(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

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INVESTMENT SECTION

Prepared by Michigan Department of Treasury, Bureau of Investments
Jacqueline M. Johnson, CFA, Director

Report on Investment Activity
Asset Allocation
Investment Results
List of Largest Stock Holdings
List of Largest Bond Holdings
Schedule of Investment Fees
Schedule of Investment Commissions
Investment Summary

Report on Investment Activity

INTRODUCTION

The State Treasurer reports quarterly the investment activity to the Investment Advisory Committee (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, CFA (public member), David Hollister (ex-officio member), and Mitch Irwin (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. Maintain sufficient diversification to avoid large losses and preserve capital.
3. Achieve the optimal rate of return possible within prudent levels of risk and liquidity.
4. Meet or exceed the actuarial assumption over the long term.
5. Perform in the top half of the CRA RogersCasey public plan universe over the long term.
6. Exceed individual asset class benchmarks over the long term.
7. Operate in a cost-effective manner relative to peers.

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)

	As of 9/30/03		Five-Year
Investment Category	**Security Type**	**Strategy***	**Target %**
Domestic Equity	46.2%	47.5%	48.0%
International Equity	9.4%	9.4%	11.0%
Fixed Income	17.8%	18.8%	18.0%
Real Estate and Mortgages	8.7%	8.8%	8.0%
Alternative Investments	14.2%	14.3%	14.0%
Short Term Investments	3.7%	1.2%	1.0%
TOTAL	100.0%	100.0%	100.0%

*The Strategy column reflects the investment strategies and includes allocated short term, which is directly comparable to the Five-Year Target.

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 Fund Results

For the fiscal year ended September 30, 2003, the total fund's rate of return was 14.8% as compiled by CRA RogersCasey. Annualized rates of return for the three-year period ending September 30, 2003, were –3.1%; for the five-year period were 3.9%; and for the ten-year period were 8.3%.

Returns were calculated using a time-weighted rate of return based on the market 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 reported return.

The solid returns were the result of strong performance by our equity portfolios. At the end of fiscal year 2002 and the first quarter of fiscal year 2003, investment staff increased the fund's weightings in depressed equity markets. This allowed the fund to benefit from the significant recovery experienced in equity markets as the year unfolded.

The U.S. economy gathered momentum in fiscal year 2003, except for the March quarter, which was buffeted by the headwinds of severe weather, the threat of war, high energy prices, and SARS. Growth resumed in the June quarter when weather patterns normalized, Baghdad fell quickly, energy prices stabilized, and SARS appeared contained. The economy was supported by the American consumer who took advantage of rising home values and very low interest rates. Corporate earnings rebounded at a double-digit rate, boosted by relentless cost cutting.

The Federal Reserve provided stimulus by lowering interest rates in November 2002 and again in June 2003, taking the Fed Funds rate to 1.00%, a level not seen since the 1950s. Inflation, as measured by the CPI, remained low at an annualized rate of 2.3%.

For the fiscal year, the Dow Jones Industrial provided a total return of 25.1%, while the broader S&P 500 returned 24.4%. The Lehman Brothers U.S. Aggregate Bond Index appreciated 6.5%.

The fund is well-positioned to benefit from continued economic recovery. It remains well-diversified both across and within asset classes.

Report on Investment Activity (Continued)

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, large company Growth stocks, and small 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.

The U.S. economy slumped early in fiscal year 2003 as a dockworker's strike in Los Angeles, rising energy prices and the prospects of war in Iraq weighed on both consumer and business spending. The weakness carried into the new calendar year as concerns over imminent war with Iraq grew. This was compounded by an outbreak of SARS in China, which slowed Asian markets. By late March, the economy began to recover as Baghdad fell, energy prices stabilized, and SARS appeared contained. The consumer drove economic growth as low interest rates allowed for cash out refinancing, putting money into the consumer's pocket. This was followed by the tax rebate checks sent in July and August, which further increased the cash holdings for consumers.

Early in the fiscal year, corporate earnings began to recover as companies relentlessly cut costs. The earnings recovery picked up steam later in the fiscal year as the economic recovery gained momentum. This provided a solid base for the positive performance in the equity markets in the second half of the fiscal year. The total return for the Dow Jones Industrial Average was 25.1% for the 12 months ending September 2003, while the return for the broader S&P 500 was 24.4%. The NASDAQ's price rose 52.5% during the fiscal year. The Federal Reserve lowered interest rates first in November and again in June, bringing the Federal Funds rate down to 1.00%. Inflation remained subdued during the period as the CPI held at an annualized rate of 2.3%

The System's large company Value portfolio achieved a total rate of return of 26.4% for fiscal 2003. This compared favorably with 26.5% 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 25.6% for the fiscal year versus 22.5% for the S&P 500 BARRA Growth Index. Relative out-performance can be attributed to positioning the portfolio for strong economic and market recoveries that began to materialize in the second half of the fiscal year.

On a consolidated basis, the domestic actively managed large capitalization stock portfolio had a total rate of return of 26.1% for fiscal year 2003 compared to 24.4% for the S&P 500 Index. Three-year and five-year annualized returns were –7.1% and 1.6%. This compared with –10.1% and 1.0% for the S&P 500.

At the close of fiscal year 2003, large company Value stocks represented 15.4% of total investments versus 14.2% at the end of fiscal year 2002. Large company Growth stocks represented 14.9% versus 13.7%. Consolidated actively managed large company domestic stocks represented 30.3% of total investments, compared to 27.9% at the end of fiscal year 2002.

The System maintains an investment position with the small company growth managers at Delaware Investment Advisors (Delaware) and Putnam Investments (Putnam).

The System's small company growth portfolio invested with Delaware achieved a total rate of return of 32.5% for fiscal 2003. This under-performed the Russell 2000 Growth Index, which was 41.7% for the same period.

The System's small company growth portfolio invested with Putnam achieved a total rate of return of 41.7% for fiscal 2003. This compares favorably with 41.7% for the Russell 2000 Growth Index. Performance was positively impacted by selectivity and an overweight in technology.

At the close of fiscal year 2003, small company growth stocks represented 0.4% of total investments.

Report on Investment Activity (Continued)

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 24.4% versus the benchmark's 24.4%. The S&P MidCap Index Fund return for the fiscal year was 26.8% versus its benchmark's 26.8%. During fiscal year 2003, $26.8 million was withdrawn from 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. The S&P Small Cap Index Fund return for the fiscal year was 26.6% versus the benchmark's 26.9%. At the end of the fiscal year, passive domestic stock portfolios represented 15.6% of total assets, the S&P 500 Index Fund accounting for 13.7%, the S&P MidCap Index Fund 1.6%, and the S&P Small Cap Index Fund 0.2%. Indexed stock portfolios 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 Citigroup 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 22.0% in the fiscal year approximately matched the Citigroup BMI-EPAC return of 21.3%. The passive international return of –9.3% for three years approximately matched the benchmark's return of -9.5% 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 Citigroup 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 2003, $325.4 million was invested, raising passive international investments to 9.4% of total investment assets.

The combination of fixed income LIBOR notes and equity swap agreements was valued at $2,861.0 million on September 30, 2003. That valuation included a net unrealized loss of $ 248.8 million on equity index exposures and an unrealized loss of $ .8 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 2003, $306.2 million of losses on equity exposures were realized, $41.8 million of interest in excess of obligations on completed swaps was recognized, and $1.3 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 was $484.5 million since the program began.

Fixed Income

For the fiscal year ending September 30, 2003, the Fixed Income portfolio returned 5.4% as compiled by CRA RogersCasey. For three years the return was 8.4% and 6.3% for five years.

Rates continued to decline during the year in response to the Federal Reserve's repeated reduction in rates until the middle of June. Bond prices peaked on June 13 and rates, which are inversely related to prices, rose irregularly through the end of the fiscal year validating the fund's earlier shift to a defensive policy.

Fixed Income represented 17.8% of the total portfolio compared with 23.6% last year. Corporates represented 42.6% of fixed income securities and governments accounted for 57.4%. Last year corporates were 41.1% of the total and governments were 58.9%. Government securities continued to outweigh corporates as corporate spreads continued to be narrow.

Report on Investment Activity (Continued)

Real Estate and Mortgages

The System, through real estate advisors and operating joint ventures, acquires, develops, redevelops, and disposes of real estate related investments with the goal of maximizing returns while maintaining an acceptable level of risk. The investments are held in various investment vehicles that allow the System to enjoy the benefits of real estate ownership while limiting the liability associated with the asset class. The real estate is regularly valued by independent third parties to establish fair market values.

For the fiscal year ending September 30, 2003, 8.7% of the System's total investment portfolio was invested in real estate. This compares to 9.9% and 9.2% for the fiscal years ending September 30, 2002 and 2001, respectively.

The real estate portfolio is broadly diversified geographically across the country, by type of property and by class of property. Major property types as of September 30, 2003, included apartments (39%); commercial office buildings (23%); retail centers, including regional malls and grocery-anchored neighborhood shopping centers (20%); and industrial buildings (7%). The remaining 11% of the real estate portfolio was invested in: for sale housing, senior living facilities, hotels, land, and self-storage facilities. For comparison purposes, the System benchmarks its real estate portfolio against the National Council of Real Estate Investment Fiduciaries Property Index (NPI), which is comprised of commercial office buildings (39%), retail centers (20%), apartments (20%), industrial buildings (19%), and hotels (2%).

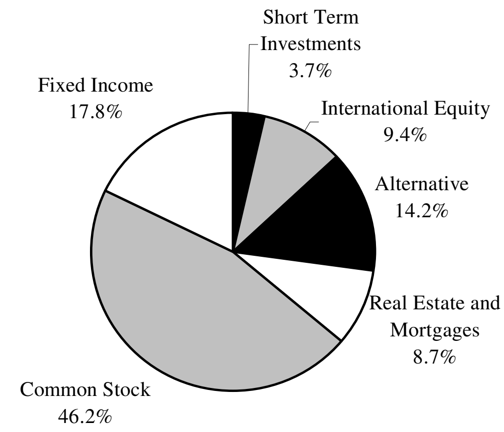
The one-year, three-year, five-year, and ten-year net real estate returns for the fiscal year ending September 30, 2003, were 6.5%, 7.9%, 9.6%, and 8.8% respectively, as compiled by CRA RogersCasey. This compares to NPI returns of 7.1%, 7.1%, 8.7%, and 9.0% relating to the same periods. NPI returns are calculated before advisor fees/overhead while the System's returns are calculated after all advisor fees/overhead, therefore, the NPI returns stated above have been adjusted downward by 75 basis points to approximate comparable industry returns.

Alternative Investments

Alternative Investments are investments in the private equity market, primarily through limited partnerships. Of the investments in limited partnerships, approximately 61% were in partnerships investing in buyouts, 15% in venture capital, 11% in special situations, and 6% in mezzanine. The remaining 7% were investments in fund of funds, hedge funds, and cash. The percentage of assets in alternative investments as of September 30, 2003 is 14.2%. The asset allocation range for alternative investments is 13% to 18%, while the long-term target asset allocation target is 14.0%.

The one-year, three-year, five-year, and ten-year total alternative investment returns for the fiscal year ending September 30, 2003, were 0.5%, -11.2%, 2.3%, and 11.7%, respectively.

Asset Allocation – Security Type Only



Investment Results for the Period Ending September 30, 2003

Investment Category	Current Year	Annualized Rate of Return[1] 3 Years	5 Years	10 Years
Total Portfolio	14.8 %	(3.1) %	3.9 %	8.3 %
Domestic Equities Stock - Active	26.1	(7.1)	1.6	9.2
Domestic Equities Stock - Passive[2]	24.7	(9.0)	2.2	10.4
Standard & Poor's (S&P 500)	24.4	(10.1)	1.0	10.1
Standard & Poor's (MidCap)	26.8	(0.7)	12.0	12.8
International Equities	22.0	(9.3)	1.7	4.1
Net Citigroup BMI - EPAC 50/50	21.3	(9.5)	1.5	3.7
Fixed Income Bonds (U.S. Corp and Govt)	5.4	8.4	6.3	7.0
Citigroup Broad Investment Grade Bond Index	5.5	8.9	6.6	6.9
Lehman Brothers Government/Corporate	6.5	9.6	6.7	7.0
Real Estate and Mortgages	6.5	7.9	9.6	8.8
NCREIF minus 75 Basis Points	7.1	7.1	8.7	9.0
Alternative Investments	0.5	(11.2)	2.3	11.7

[1] Calculations used a time-weighted rate of return based on the market rate of return in accordance with AIMR's Performance Presentation Standards.

[2] 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.

Largest Assets Held

Largest Stock Holdings (By Market Value)*
September 30, 2003

Rank	Shares	Stocks	Market Value
1	12,390,571	Citigroup Incorporated	$ 563,894,891
2	20,102,738	Microsoft Corporation	558,655,089
3	17,725,939	General Electric Corporation	528,410,246
4	17,021,341	Pfizer Incorporated	517,108,338
5	8,034,569	Wal-Mart Stores Incorporated	448,730,658
6	11,294,047	Exxon Mobil Corporation	413,362,123
7	5,514,972	Wells Fargo & Company	284,021,060
8	3,628,323	Bank of America Corporation	283,154,335
9	10,086,303	Intel Corporation	277,474,184
10	3,734,844	Federal National Mortgage Association	262,186,045

Largest Bond Holdings (By Market Value)*
September 30, 2003

Rank	Par Amount	Bonds & Notes	Market Value
1	$ 174,067,752	U.S. Treasury 0% Coupon Strips Due 11-15-2011	$ 163,171,111
2	153,363,658	FHLB FRN Due 1-12-2007	153,327,511
3	122,328,222	U.S. Treasury TIGER 0% Coupon Due 8-15-2004	120,911,539
4	76,681,829	FHLMC 6 1/2% Due 5-23-2011	78,883,365
5	77,903,442	Keycorp FRN Due 6-23-2006	77,866,711
6	76,681,829	FHLB 2.2% Due 5/25/2018	76,827,525
7	76,681,829	FHLB FRN Due 7-19-2007	76,656,033
8	76,681,829	FHLB FRN Due 2-3-2006	76,634,547
9	76,681,829	FHLB FRN Due 8-1-2017	76,625,514
10	76,681,829	FHLMC FRN Due 10-28-2014	76,612,593

*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 14.6% 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 $7.1 million or less than three basis points (.03%) of the average market value of the portfolio.

State law created an Investment Advisory Committee (Committee) comprised of the directors of the Department of Consumer and Industry Services and the Department of 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		$ 28,522,411.2	$ 7,110.0	2.5
Outside Advisors-	Alternative	4,732,381.5	55,131.9	116.5
	Real Estate	162,161.6	-	-
	Total	$ 33,416,954.3		
Other Investment Services Fees:				
Assets in Custody		$ 33,404,558.9	$ 1,615.6	
Securities on Loan		842,921.8	14,069.3	

* 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, 2003		
	Commissions Paid [1]	Number of Shares Traded	Average Commission Rate Per Share
Investment Brokerage Firms:			
Citigroup Global Markets, Inc.	$ 424,255	10,925,776	$ 0.04
Lehman Brothers, Inc.	351,073	8,303,626	0.04
Morgan Stanley	295,769	6,727,890	0.04
Merrill Lynch & Co. Pearce, Fenner & Smith Inc.	256,760	6,174,420	0.04
Bernstein Investment Research & Management	236,153	4,986,618	0.05
Bridge Trading, A Reuters Company	214,536	5,063,182	0.04
Bear, Stearns & Co. Inc.	212,655	4,801,676	0.04
Prudential Securities Incorporated	190,087	3,848,066	0.05
Credit Suisse First Boston Corporation	188,284	3,894,753	0.05
Goldman, Sachs & Co.	160,961	3,520,281	0.05
UBS Financial Securities	142,723	2,980,569	0.05
J.P. Morgan Securities Inc.	127,333	2,546,660	0.05
Deutsche Bank Securities Inc.	71,970	1,439,390	0.05
SG Cowen Securities Corporation	68,107	1,362,145	0.05
International Strategy & Investment Group Inc.	53,162	1,063,236	0.05
Banc of America Securities, LLC	48,576	971,517	0.05
OTA LLC	37,267	912,809	0.04
Charles Schwab & Co., Inc.	30,949	618,980	0.05
Cantor Fitzgerald & Co.	26,694	889,800	0.03
Keefe, Bruyette & Woods, Inc.	19,080	381,600	0.05
Howard, Weil, Labouisse, Friedrichs Inc.	15,486	309,720	0.05
CL Global	30	1,475	0.02
Total	$ 3,171,910	71,724,189	$ 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, 2003

	Market Value [(a)]	Percent of Market Value	Investment & Interest Income [(c)]	Percent of Investment & Interest Income
Fixed Income:				
Government Bonds	$ 3,419,872,609	10.2%	$ 110,981,495	2.4%
Corporate Bonds	2,535,282,834	7.6%	221,772,532	4.8%
Total Fixed Income	5,955,155,443	17.8%	332,754,027	7.2%
Common and Preferred Stock	15,453,790,672	46.2%	3,252,727,321	70.4%
Real Estate and Mortgages	2,914,544,162	8.7%	189,932,754	4.1%
Alternative	4,732,381,494	14.2%	272,444,930	5.9%
International Equities	3,132,185,922	9.4%	553,573,338	12.0%
Short Term Investments [(b)]	1,228,896,600	3.7%	18,059,056	0.4%
Total	$ 33,416,954,293	100.0%	$ 4,619,491,426	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 for each fiscal year. Amount also excludes $839,158,931 in cash collateral for security lending for fiscal year 2003.

[c] Total Investment & Interest Income excludes net security lending income of $2,962,464 for fiscal year 2003.

Investment Summary (Continued)

Fiscal Year Ended September 30, 2002

	Market Value [(a)]	Percent of Total Market Value	Investment & Interest Income [(c)]	Percent of Investment & Interest Income
Fixed Income:				
Government Bonds	$ 4,155,582,544	13.9%	$ 277,949,002	-7.6%
Corporate Bonds	2,898,260,771	9.7%	246,402,259	-6.7%
Total Fixed Income	7,053,843,315	23.6%	524,351,261	-14.3%
Common and Preferred Stocks	12,594,323,799	42.0%	(3,081,617,698)	84.2%
Real Estate and Mortgages	2,958,911,142	9.9%	233,611,545	-6.4%
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	2.7%	41,785,924	-1.1%
Total	$ 29,977,869,275	100.0%	$ (3,659,329,825)	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 for each fiscal year. 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.

ACTUARIAL SECTION

Actuary's Certification
Summary of Actuarial Assumptions and Methods
Schedule of Active Member Valuation Data
Schedule of Changes in the Retirement Rolls
Prioritized Solvency Test
Analysis of Financial Experience
Summary of Plan Provisions

Actuary's Certification

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November 12, 2003

Mr. Mitch Irwin
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, 2002 included a total of 476,030 members of MPSERS. The actuarial value of MPSERS's assets amounted to approximately $38.38 billion on September 30, 2002.

The actuarial assumptions used in the 2002 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, 2002 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 2002 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

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 and over	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

* 4% per year, plus percentage based on age-related scale.

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
1993	296,585	$ 6,897,924	$ 23,258	7.5 %	42.2	9.8
1994	291,006	7,164,807	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
2002	326,350	9,707,281	29,745	2.3	43.6	9.5

* 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*		
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
2002	8,187	154,958	3,700	4,020	135,277	2,094,382	7.8	15,482

* 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)***
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	56.8	78.7
1994 @	1,892	10,312	12,810	18,502	100	100	49.2	74.0
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
2002	3,490	22,480	15,987	38,382	100	100	77.6	91.5

*** 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, 2002
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.	$ 90,580,804
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.	(115,198,101)
3.	**Pay Increases.** If there are smaller pay increases than assumed, there is a gain. If greater increases, a loss.	29,628,935
4.	**Investment Income.** If there is greater investment income than assumed, there is a gain. If less income, a loss.	(1,984,913,290)
5.	**Death After Retirement**. If retirants live longer than assumed, there is a loss. If not as long, a gain.	6,211,923
6.	**New entrants.** New entrants into the System will generally result in an actuarial loss. This does not apply to plans closed to new entrants.	(97,482,047)
7.	**Other.** Miscellaneous gains and losses resulting from data adjustments, timing of financial transactions, etc.	(24,654,475)
8.	**Composite Gain (or Loss) During Year**	$ (2,095,826,251)

Summary of Plan Provisions

Our actuarial valuation of the System as of September 30, 2002 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

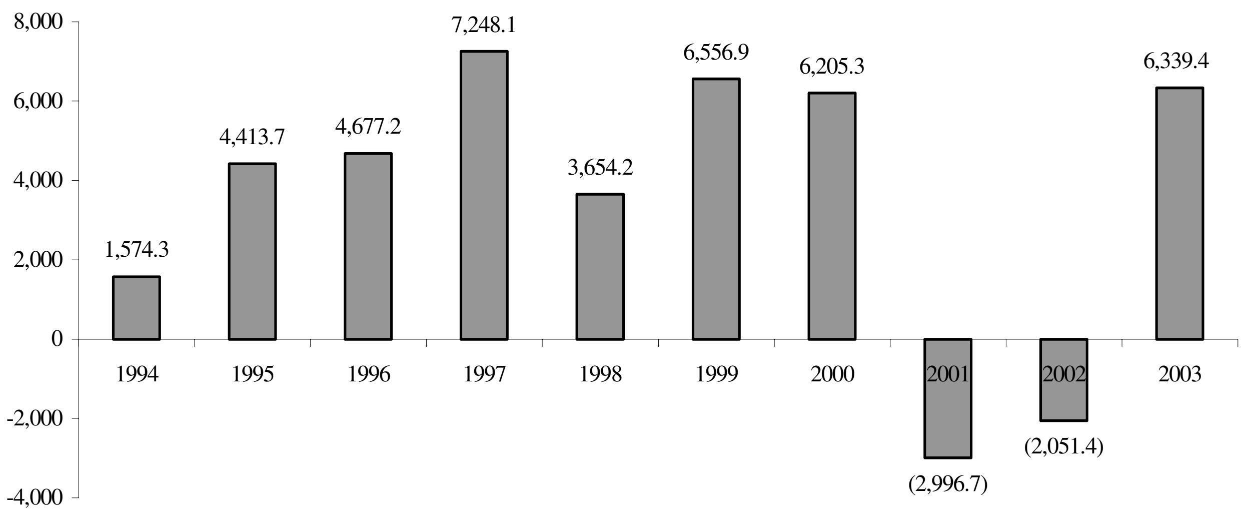
Schedule of Revenues by Source
Schedule of Expenses by Type
Schedule of Benefit Expenses by Type
Schedule of Retired Members by Type of Benefit
Schedule of Health Benefits
Schedule of Average Benefit Payments
Ten Year History of Membership
Schedule of Participating Employers

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
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	6.22	(3,716,398,747)	(2,051,440,011)
2003	704,802,264	379,084,549	697,906,265	N/A	4,557,655,911	6,339,448,989

N/A Not available

Total Revenue
Year Ended September 30
(In Millions)



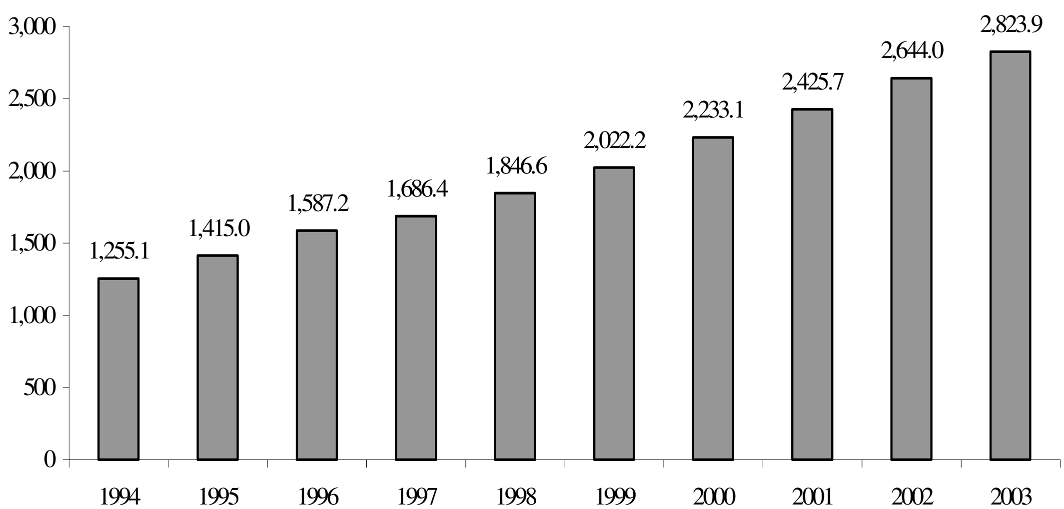
Schedule of Expenses by Type

Fiscal Year Ended Sept. 30	Benefit Payments*	Refunds and Transfers	Administrative Expenses**	Total
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
2003	2,787,164,859	13,706,711	23,016,963	2,823,888,533

* Includes health, dental and vision benefits and the administrative costs associated with providing these benefits.

** Pension plan only.

Total Expenses
Year Ended September 30
(In Millions)

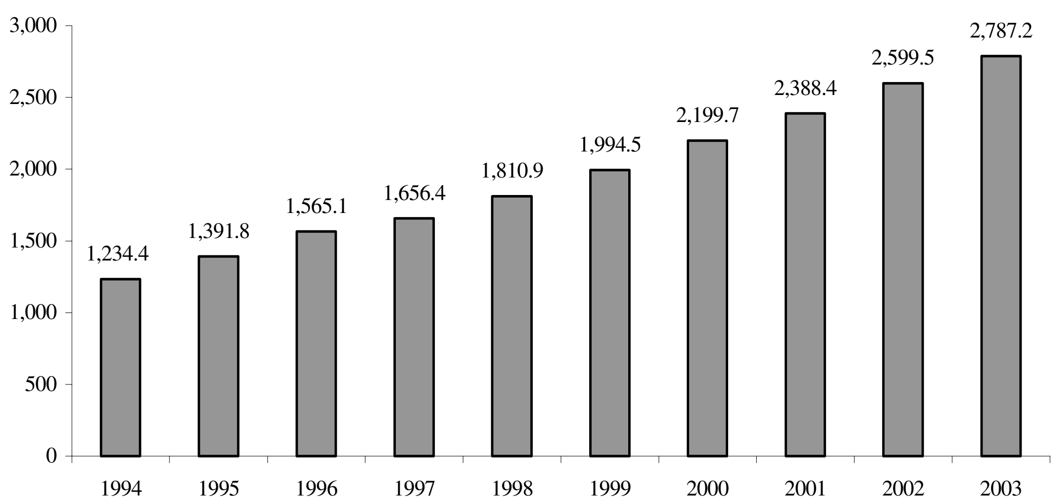


Schedule of Benefit Expenses by Type

Fiscal Year Ended Sept. 30	Regular Benefits*	Disability Benefits	Supplemental Check	Health Benefits**	Total
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	338,614,097	1,656,442,197
1998	1,412,550,359	35,908,817	5,992,263	356,440,503	1,810,891,942
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
2003	2,115,423,232	51,351,620	13,799,341	606,590,666	2,787,164,859

*Includes prior post retirement adjustments
**Includes dental and vision benefits and their associated administrative costs.

Total Benefit Expenses
Year Ended September 30
(In Millions)



Schedule of Retired Members by Type of Benefit
September 30, 2002

Amount Monthly Benefit	Number of Retirees	Type of Retirement * 1	2	3	4	5	6	Selected Option** Opt. 1	Opt. 2	Opt. 3	Opt. 4	Opt.1E 2E,3E,4E
$ 1-200	13,889	11,832	1,212	111	526		208	8,362	2,624	1,873	48	982
201-400	18,761	15,216	1,647	114	1,341	1	442	10,991	3,695	2,868	80	1,127
401-600	13,808	10,974	1,272	67	1,012	1	482	7,555	2,863	2,339	87	964
601-800	10,501	8,409	972	27	675		418	5,602	2,073	1,854	63	909
801-1000	8,651	7,054	737	22	491		347	4,402	1,748	1,482	70	949
1001-1200	7,329	6,085	596	12	372		264	3,422	1,550	1,224	54	1,079
1201-1400	6,796	5,761	475	4	310		246	2,891	1,546	1,130	49	1,180
1401-1600	6,468	5,687	362	4	215		200	2,690	1,607	1,052	68	1,051
1601-1800	6,577	5,949	285	3	160		180	2,664	1,723	1,170	119	901
1801-2000	6,947	6,443	247	3	103		151	2,769	1,828	1,390	157	803
over 2000	35,550	34,493	636	3	115	1	302	14,971	6,733	7,078	928	5,840
Totals	135,277	117,903	8,441	370	5,320	3	3,240	66,319	27,990	23,460	1,723	15,785

* 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: The Segal Company

Schedule of Health Benefits
For Years Ended September 30, 2003 and 2002

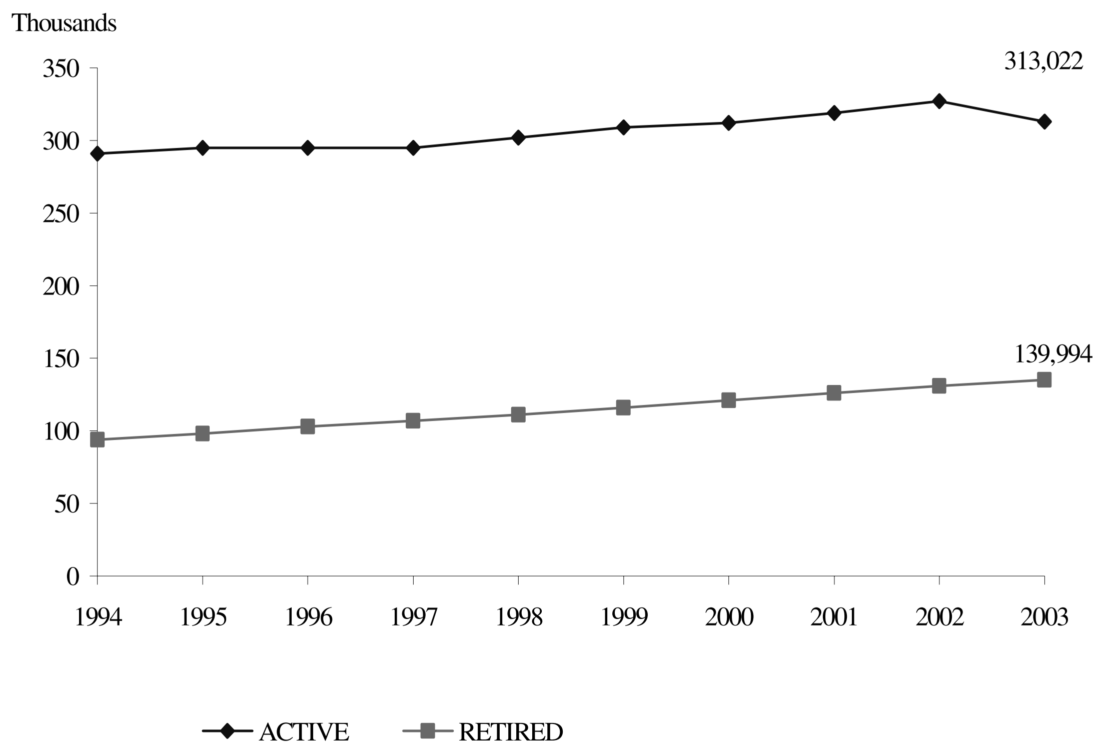
	2003	2002
Claims		
Health Insurance	$ 451,295,419	$ 409,087,779
Vision Insurance	6,199,786	5,366,525
Dental Insurance	48,324,716	44,846,517
Total Claims	505,819,921	459,300,821
IBNR (Incurred but not reported claims)		
Health Insurance	50,271,000	51,491,000
Vision Insurance	443,000	436,000
Dental Insurance	2,149,000	1,944,000
Total IBNR	52,863,000	53,871,000
Administrative Fees		
Health Insurance	43,942,073	41,119,808
Vision Insurance	911,523	845,949
Dental Insurance	3,054,149	2,888,212
Total Administrative Fees	47,907,745	44,853,969
Subtotal	606,590,666	558,025,790
Refunds	64,411	67,115
Grand Total	$ 606,655,077	$ 558,092,905

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
Period 10/1/01 to 9/30/02:								
Average Monthly Benefit	$ 527	$ 154	$ 272	$ 495	$ 815	$ 1,237	$ 2,166	$ 1,290
Average Final Average Salary	2,171	15,438	15,160	20,407	26,097	31,542	47,124	32,795
Number of Active Retirants	934	3,951	17,068	20,977	20,201	15,427	56,719	135,277

Source: The Segal Company

Ten Year History of Membership
Fiscal Year Ended September 30



Source: The Segal Company

Schedule of Participating Employers through 9/30/03

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 9/30/03 (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 9/30/03 (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 9/30/03 (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 9/30/03 (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
Mackinac 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 9/30/03 (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
Walden Green Day School

Schedule of Participating Employers through 9/30/03 (Continued)

K - 12 School Districts (continued):

Waldron Area Schools
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
Blanche Kelso Bruce 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
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
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
Outlook Academy
Plymouth Educational Center Charter School
Questar Academy
Sankofa Shule
St. Clair County Learning Academy
Summit Academy
University Prepatory Academy
Warwick Pointe Academy
Washtenaw Technical Middle College

Schedule of Participating Employers through 9/30/03 (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

ACKNOWLEDGMENTS

The *Michigan Public School Employees' Retirement System Comprehensive Annual Financial Report* is prepared by Financial Services, Fiscal Management Division. Staff of the division for the fiscal year 2002-2003 report included:

Management:

Patricia Lack, CPA, Director
Ronald Foss, Accounting Manager
Cindy Moerdyk, Accounting Manager

Accountants:

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Randy Bitner
Gina Feguer
Nonnie Struble
Paula Webb

Technical and Support Staff:

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Anthony Krause
D. Joseph Perrone
Jamin Schroeder
Judith A. Such

Special thanks are also extended to the Office of Retirement Services personnel, accounting and support personnel throughout Financial Services, DMB Print & Graphic Services, Investments Division of Treasury, Office of the Auditor General, Andrews Hooper & Pavlik P.L.C., The Segal Company, and the staff at the Office of Financial Management. Preparation of this report would not have been possible without the efforts of these individuals.

The report may be viewed on-line at: www.michigan.gov/ors

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

Mr. Mitch Irwin, 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, 2003 and 2002, 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, 2003 and 2002, 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 26, 2003 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 26, 2003