Comprehensive Annual Financial Report
Of the

Michigan Public School Employees' Retirement System

A Pension Fund of the State of Michigan

For the Fiscal Year Ended September 30, 2005

M P S E R S

Prepared by:
Financial Services
For
Office of Retirement Services

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, 2005

M P S E R S

Prepared by:
Financial Services
For
Office of Retirement Services
P.O. Box 30171
Lansing, Michigan 48909-7671
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INTRODUCTORY SECTION

Certificate of Achievement

Certificate of Achievement for Excellence in Financial Reporting

Presented to

Michigan Public School Employees' Retirement System

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
September 30, 2004

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.

Nancy L. Zielke

President

Jeffrey R. Esser

Executive Director

Public Pension Standards Award

PPCC

Public Pension Coordinating Council

Public Pension Standards

2005 Award

Presented to

Michigan Office of Retirement Services

In recognition of meeting professional standards for
plan design and administration as
set forth in the Public Pension Standards.

Presented by the Public Pension Coordinating Council, a confederation of

National Association of State Retirement Administrators (NASRA)
National Conference on Public Employee Retirement Systems (NCPERS)
National Council on Teacher Retirement (NCTR)

Alan H. Winkle
Program Administrator

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, 2005

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 2005.

INTRODUCTION TO REPORT

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.

Responsibility

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.

Internal Control Structure

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.

Letter of Transmittal (Continued)

Independent Auditors

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

Statute requires that 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, 2004. Actuarial certification and supporting statistics are included in the Actuarial Section of this report.

Report

The 2005 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.

Management's Discussion and Analysis (MD&A)

Generally Accepted Accounting Principles (GAAP) requires that management provide a narrative introduction, overview, and analysis to accompany the Basic Financial Statements in the form of MD&A. This letter of transmittal is intended to complement MD&A and should be read in conjunction with it. The MD&A can be found immediately following the Independent Auditor's Report.

PROFILE OF THE GOVERNMENT

In accordance with Public Act 300 of 1980, on October 1, 1981, the Public School Employees' Chapter I Retirement Fund merged with the Public School Employees' Chapter II Retirement Fund to establish the Public School Employees' Retirement Fund. Public Acts 136 of 1945 and 259 of 1974, respectively, created the two original funds. An eight-member board governs administrative policy.

Employer contributions and investment earnings provide financing for the System. Under Public Act 91 of 1985, employees may contribute additional amounts into a "member investment plan."

ECONOMIC CONDITIONS AND OUTLOOK

Despite challenging economic times, the System continues to show strong performance.

Investments

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 12.8%. For the last five years, the System has experienced an annualized rate of return of 2.9%. A summary of asset allocation and rates of return can be found in the Investment Section of this report.

Letter of Transmittal (Continued)

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 the System is carrying out its responsibilities in safeguarding its assets, in maintaining the reliability of the financial records for preparing financial statements, and in maintaining accountability for its assets.

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, 2004. The actuarial value of the assets and actuarial accrued liability were $38.8 billion and $46.3 billion, respectively, resulting in a funded ratio of 83.7% at September 30, 2004. A historical perspective of funding levels for the System is presented on the Schedule of Funding Progress in the Required Supplementary Information in the Financial Section of this report.

Postemployment Benefits

The System also administers the post employment health benefits (health, dental, and vision) offered to retirees. The benefits are funded on a cash or "pay as you go" basis. An actuarial valuation was completed as of September 30, 2004, 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 $15.8 billion and the employer contribution for health care benefits would be 15.1% of payroll.

MAJOR GOALS ACCOMPLISHED

The Michigan Department of Management and Budget, Office of Retirement Services continues to anticipate and rise to the demands of an increasing retirement population. Budget concerns at the public schools have encouraged some members to retire earlier than anticipated. ORS is committed to being responsive to our customers' needs through the thoughtful application of technology and the streamlining of processes. In this fiscal year, we reaped the initial benefits of our Vision ORS technology in mail management, employer reporting and customer call management and settled in to work on the next set of system improvements. Here are some of the highlights.

Focus on Our Customer

To ensure we are giving customers the best possible service, ORS implemented a quality monitoring system in the call center. Through this tool, managers and employees can and do listen to their calls in an effort to improve and maintain the highest quality response/interaction with custormers. These calls, selected at random, are evaluated for completeness, quality and courtesy of the responses. This training and staff management tool has served to validate the quality we already offer and allow us to focus training and coaching in the right areas.

Employers who report wages and contributions for active members are also key customers. This year, we strengthened our services to employers, starting with a complete revision of our Administrative Seminar for employers, a seminar we delivered 21 times to over 380 employers. While these meetings are our most personal contact with the employers, we also revised the employer website, used an online Message Board and e-mail to deliver breaking news, and created the *Retirement Times,* an online quarterly employer newsletter. We also expanded our dedicated employer call center that allows employers to reach a reporting coordinator directly.

Letter of Transmittal (Continued)

Substantial redesign of the website allows members to find general information about their retirement plan at their convenience. The site continues our life stages education program by segmenting information along career and life events. We also introduced three new products in the life stages program: a poster to increase retirement awareness among new members, a *Leaving Public School Employment* brochure for people who are deferring their retirements, and *If You Become Disabled* for members facing serious injury or illness.

Continuously Improve Processes

Health care services continue to occupy the forefront of our policy. This year saw the closure of an important court case, *Studier v. Michigan Public School Employees' Retirement System*. This case was brought by a group of retirees who challenged the System's ability to make changes to the health care plan. The ruling by the Michigan Supreme Court has allowed the System to update the health plan as needed to provide high quality health care that is affordable to both members and schools.

Pharmaceutical expenses continue to be the primary cost driver for retiree health care. The passage of Medicare Part D provides the System with an opportunity to stabilize drug costs. We worked closely with Blue Cross Blue Shield of Michigan to combine our drug coverage with Medicare Part D – the same way we currently combine our medical coverage with Part A hospital and Part B medical. Medicare Part D begins January 1, 2006.

The Office of Retirement Services also looked at the issue of prescription drug safety. A "Drug Bag" campaign was launched to encourage retirees to gather their existing prescriptions, over the counter medications and herbal supplements and review them with their physician at their next office visit. Many retirees take multiple medications that may be prescribed by multiple physicians or take over-the-counter medications that their primary care doctor may not be aware of. The hope is that a review of medications can avoid duplication or harmful drug interactions.

Promote a Positive Work Environment

The 2005 fiscal year was a time to focus on who we are and what we believe. ORS participated with all of state government in living the values of Integrity, Inclusion, Teamwork and Excellence. As part of that effort, all managers and supervisors participated in an MI-360 evaluation. This evaluation gave staff insight as to how they were perceived by their direct reports, their peers and their managers. This enlightening training has helped ORS managers become more effective and understanding leaders. In addition to the MI-360, ORS embarked on organization-wide Foundation Training. This training helped all staff understand our process-based organization, why it is successful, and how each person contributes to making ORS even more successful.

To promote a safe working atmosphere, ORS articulated and documented the safeguards needed to protect ORS's staff, equipment, data and property. From what to do in case of a fire to discontinuing system access when an employee leaves, the Security Handbook addresses the steps needed to keep our employees safe and our data secure. We also renovated our Detroit office in a way that preserves the confidentiality of our customer conversations, but provides a greater measure of safety for our employees.

Optimize Technology

ORS continued our Vision ORS journey by completing the online reporting system for employer retirement reports. Through this new reporting tool, the most current information about service credit and wages is collected as early as two days after payroll instead of the 90 days or longer with our older technology. With this foundation solidly in place, we are advancing to the next phase of our project: replace the benefit processing and payment system. This new functionality will allow faster, easier completion of everyday transactions, allowing ORS to process the higher volumes of work expected from our growing and long-lived retiree population.

We continue to diminish the paper that travels through our office. The scanning and indexing solution has increased confidentiality and simplified access to files. Until 2005, we were still creating paper requests to fill a large number of customer requests. By deploying electronic ticketing, all those requests are created, tracked and resolved electronically.

Letter of Transmittal (Continued)

ORS regularly surveys it's customers to make certain we are meeting needs. Results from a recent retiree satisfaction survey showed an overall satisfaction rate of 93.9%. We also survey a random sample of active members and retirees who have called us during the year with questions or concerns. Results from this contact survey showed an overall satisfaction rate of 85.0%. The information gained from these surveys helps assure both active members and retirees of ever-improving customer service from ORS.

AWARDS AND ACKNOWLEDGEMENTS

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, 2004. 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. The System has received a Certificate of Achievement for 14 consecutive years. 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.

Public Pension Standards Award

The Public Pension Coordinating Council, a confederation of the National Association of State Retirement Administrators (NASRA), the National Conference on Public Employee Retirement Systems (NCPERS), and the National Council on Teacher Retirement (NCTR), awarded Michigan Office of Retirement Services (ORS) the Public Pension Standards Award for recognition of meeting professional standards for plan design and administration as set forth in the standards for fiscal year 2005. This is the second year ORS has achieved this distinction.

Acknowledgements

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 the many people who contributed to its preparation. We believe their combined efforts have produced a report that will enable 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,

Lisa Webb Sharpe

Lisa Webb Sharpe, Director
Department of Management and Budget

Chris DeRose

Christopher M. DeRose, Director
Office of Retirement Services

Administrative Organization

Retirement Board Members*

Ivy Bailey
Active Classroom Teacher
Term Expires March 30, 2008

William Lawson, Jr.
Retired Finance/Operations
Term Expires March 30, 2007

Lenore Croudy
Community College Trustee
Term Expires March 30, 2008

Diana Osborn, Chair
Active Non-Certified Support
Term Expires March 30, 2009

Gary Allen
Active Superintendent
Term Expires March 30, 2009

Marc Whitefield
General Public - Investments
Term Expires March 30, 2008

Richard Montcalm, Vice Chair
Active Finance/Operations,
Non-Superintendent
Term Expires March 30, 2008

Edwin Martinson
Reporting Unit Board of
Control
Term Expires March 30, 2008

Martha Pichla
Active Classroom Teacher
Term Expires March 30, 2009

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

Gail Nugent
Retired Teacher
Term Expires March 30, 2006

Dr. 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

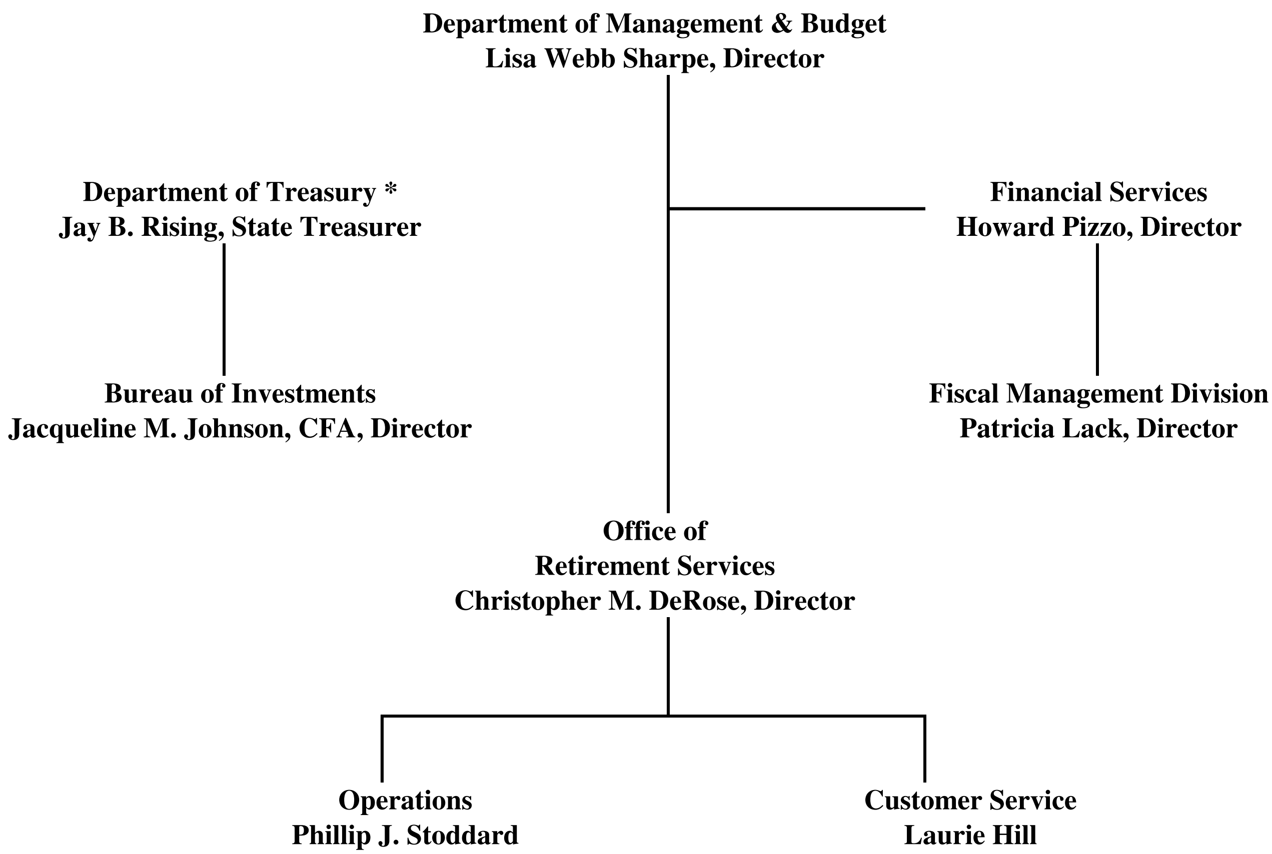
Legal Advisor
Mike Cox
Attorney General
State of Michigan

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

Investment Performance Measurement
State Street Corporation
State Street Analytics
Boston, MA

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

Ms. Lisa Webb Sharpe, 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, 2005 and 2004, 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, 2005 and 2004, 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 2, 2005 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, contracts, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis (MD&A) is not a required part of the basic financial statements but is supplemental information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of this required supplemental information. However, we did not audit the information and express no opinion on it.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The Introductory, Investment, Actuarial, and Statistical Sections and the required supplementary information and supporting schedules listed in the table of contents are presented for the purposes of additional analysis and are not a required part of the basic financial statements. The Introductory, Investment, Actuarial, and Statistical Sections and 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 Introductory, Investment, Actuarial, and Statistical Sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Andrews Hooper & Pavlik P.L.C.

Okemos, Michigan
December 2, 2005

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Management's Discussion and Analysis

Our discussion and analysis of the Michigan Public School Employees' Retirement System's (System) financial performance provides an overview of the System's financial activities for the fiscal year ended September 30, 2005. Please read it in conjunction with the transmittal letter in the Introductory Section on page 6 and the basic financial statements, which follow this discussion.

FINANCIAL HIGHLIGHTS

- System assets exceeded liabilities at the close of fiscal year 2005 by $39.9 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, 2004, the funded ratio was approximately 83.7%.
- Revenues for the year were $6.5 billion, which is comprised of contributions of $1.9 billion and investment gains of $4.6 billion.
- Expenses increased over the prior year from $3.1 billion to $3.4 billion or 9.8%. 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 20) and *The Statement of Changes in Pension Plan and Postemployment Healthcare Plan Net Assets* (page 21*)*. These financial statements report information about the System, as a whole, and about its financial condition that should help answer the question: Is the System, as a whole, better off or worse off as a result of this year's activities? These statements include all assets and liabilities using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis of accounting, all revenues and expenses are taken into account regardless of when cash is received or paid.

The Statement of Pension Plan and Postemployment Healthcare Plan Net Assets presents all of the System's assets and liabilities, with the difference between the two reported as net assets. Over time, increases and decreases in net assets measure whether the System's financial position is improving or deteriorating. *The Statement of Changes in Pension Plan and Postemployment Healthcare Plan Net Assets* presents how the System's net assets changed during the most recent fiscal year. These two financial statements should be reviewed along with the Schedule of Funding Progress and Schedule of Employer Contributions to determine whether the System is becoming financially stronger or weaker and to understand changes over time in the funded status of the System.

Management's Discussion and Analysis (Continued)

FINANCIAL ANALYSIS

System total assets as of September 30, 2005, were $42.2 billion and were mostly comprised of cash, investments, and contributions due from employers. Total assets increased $3.2 billion or 8.2% between fiscal years 2004 and 2005 primarily due to investment earnings and contributions exceeding deductions, and increased $4.2 billion or 12.2% between fiscal years 2003 and 2004, primarily due to increased investment earnings and contributions exceeding deductions.

Total liabilities as of September 30, 2005, were $2.3 billion and were mostly comprised of warrants outstanding, accounts payable, and obligations under securities lending. Total liabilities increased $77.9 million or 3.5% between fiscal years 2004 and 2005 primarily due to a increase in obligations under securities lending, and increased $1.3 billion or 141.0% between fiscal year 2003 and fiscal year 2004 due to an increase in obligations under securities lending.

System assets exceeded its liabilities at the close of fiscal year 2005 by $39.9 billion. Total net assets held in trust for pension and health benefits increased $3.1 billion or 8.5% from the previous year, primarily due to investment earnings and contributions for the year exceeding total deductions to System net assets. This compares to fiscal year 2004, when net assets increased by $2.9 billion or 8.7% from the prior year.

Net Assets
(in thousands)

	2005	Increase/ (Decrease)	2004	Increase/ (Decrease)	2003
Assets					
Cash	$ 82,408	(47.5) %	$ 156,866	34.5 %	$ 116,628
Receivables	414,609	(9.6)	458,557	(11.4)	517,782
Investments	41,708,921	8.6	38,399,775	12.5	34,139,485
Total Assets	42,205,938	8.2	39,015,198	12.2	34,773,895
Liabilities					
Warrants outstanding	6,481	(7.5)	7,006	(24.7)	9,301
Accounts payable and other accrued liabilities	91,343	32.8	68,797	(16.1)	82,044
Obligations under securities lending	2,222,790	2.6	2,166,910	158.2	839,159
Total Liabilities	2,320,614	3.5	2,242,713	141.0	930,504
Total Net Assets	$ 39,885,324	8.5 %	$ 36,772,485	8.7 %	$ 33,843,391

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 2005 totaled approximately $6.5 billion.

Total contributions and net investment income of fiscal year 2005 increased approximately $483.0 million or 8.1% from those of fiscal year 2004 due primarily to increased investment earnings. Total contributions and net investment income decreased approximately $347.7 million or 5.5% from fiscal year 2003 to fiscal year 2004 due primarily to decreased investment earnings. Total contributions increased between fiscal years 2004 and 2005 by $79.8 million or 4.4%, while investment income increased $403.2 million or 9.7%. Total contributions increased from fiscal year 2003 to fiscal year 2004 by $43.8 million or 2.4%, while investment income decreased $391.5 million or 8.6% during that timeframe. The Investment Section of this report reviews the results of investment activity for fiscal year 2005.

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 2005 were $3.4 billion, an increase of 9.8% over fiscal year 2004 expenses. Total deductions for fiscal year 2004 were $3.1 billion, which was an increase of 8.5% over fiscal year 2003 expenses.

The growth of health, dental, and vision care expenses continued during the year and increased by $90.5 million or 14.7% from $615.5 million to $706.0 million during the fiscal year. This compares to an increase of $56.8 million or 10.2% from $558.7 million to $615.5 million between fiscal years 2003 and 2004. The payment of pension benefits increased by $199.8 million or 8.5% between fiscal years 2004 and 2005 and by $177.6 million or 8.1% from fiscal year 2003 to fiscal year 2004. In fiscal year 2005, the increase in pension benefit expenses resulted from an increase in retirees (6,328) and an increase in benefit payments to retirees. In fiscal year 2004, the increase in pension benefit expenses resulted from an increase in retirees (5,774) and an increase in benefit payments to retirees. Administrative expenses increased by $5.0 million or 7.1% between fiscal years 2004 and 2005, primarily due to an increase in personnel services and accounting expenses. Administrative expenses decreased by $0.5 million or 0.7% between fiscal years 2003 and 2004 primarily due to a decrease in equipment purchases/maintenance and a decrease in consulting expenses.

Management's Discussion and Analysis (Continued)

Changes in Plan Net Assets
(in millions)

	2005	Increase/ (Decrease)		2004	Increase/ (Decrease)		2003
Additions:							
Member Contributions	$ 430.7	(15.4)	%	$ 509.1	19.4	%	$ 426.5
Employer Contributions	1,474.7	12.0		1,316.5	(2.9)		1,355.3
Net Investment Income (Loss)	4,569.3	9.7		4,166.1	(8.6)		4,557.6
Miscellaneous Income	-	(100.0)		0.03	(25.0)		0.04
Total Additions	6,474.7	8.1		5,991.7	(5.5)		6,339.4
Deductions:							
Pension Benefits	2,558.0	8.5		2,358.2	8.1		2,180.6
Health Care Benefits	706.0	14.7		615.5	10.2		558.7
Refunds and Transfers to Other Sy:	22.4	21.1		18.5	35.0		13.7
Administrative Expenses	75.5	7.1		70.5	(0.7)		71.0
Total Deductions	3,361.9	9.8		3,062.7	8.5		2,824.0
Net Increase (Decrease)	3,112.8	6.3		2,929.0	(16.7)		3,515.4
Net Assets - Beginning of Year	36,772.4	8.7		33,843.4	11.6		30,328.0
Net Assets - End of Year	$ 39,885.2	8.5	%	$ 36,772.4	8.7	%	$ 33,843.4

Management's Discussion and Analysis (Continued)

RETIREMENT SYSTEM AS A WHOLE

The System's combined net assets experienced increases for 2005 and 2004 that preceded an increase for the prior year. 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, 2005 and 2004

	September 30, 2005			September 30, 2004		
	Pension Plan	Health Plan	Total	Pension Plan	Health Plan	Total
Assets:						
Equity in common cash	$ 81,193,729	$ 1,214,267	$ 82,407,996	$ 154,531,943	$ 2,333,742	$ 156,865,685
Receivables:						
Amounts due from employer	82,124,297	20,095	82,144,392	105,344,839	20,380	105,365,219
Amounts due from employer long term	332,159,770		332,159,770	353,099,855		353,099,855
Interest and dividends	299,921	4,485	304,406	90,736	1,370	92,106
Total receivables	414,583,988	24,580	414,608,568	458,535,430	21,750	458,557,180
Investments:						
Short term investment pool	1,370,605,330	20,497,645	1,391,102,975	1,136,429,852	17,162,370	1,153,592,222
Total fixed income investment pool	6,411,195,226	95,880,557	6,507,075,783	6,243,341,391	94,286,976	6,337,628,367
Total domestic equity investment pool	18,899,729,092	282,648,785	19,182,377,877	17,421,269,499	263,096,108	17,684,365,607
Real estate investment pool	2,914,822,160	43,591,680	2,958,413,840	2,397,129,985	36,201,470	2,433,331,455
Alternative investment pool	4,528,944,241	67,731,161	4,596,675,402	4,741,298,551	71,603,117	4,812,901,668
International equities investment pool	4,779,014,431	71,471,004	4,850,485,435	3,754,347,608	56,698,177	3,811,045,785
Cash collateral on loaned securities	2,190,037,542	32,752,398	2,222,789,940	2,134,672,280	32,237,833	2,166,910,113
Total investments	41,094,348,022	614,573,230	41,708,921,252	37,828,489,166	571,286,051	38,399,775,217
Total assets	41,590,125,739	615,812,077	42,205,937,816	38,441,556,539	573,641,543	39,015,198,082
Liabilities:						
Warrants outstanding	6,385,178	95,490	6,480,668	6,901,545	104,226	7,005,771
Accounts payable and other accrued liabilities	32,253,439	59,089,356	91,342,795	11,475,861	57,321,306	68,797,167
Obligations under securities lending	2,190,037,542	32,752,398	2,222,789,940	2,134,672,280	32,237,833	2,166,910,113
Total liabilities	2,228,676,159	91,937,244	2,320,613,403	2,153,049,686	89,663,365	2,242,713,051
Net Assets Held in Trust for Pension and Health Benefits*	$ 39,361,449,580	$ 523,874,833	$ 39,885,324,413	$ 36,288,506,853	$ 483,978,178	$ 36,772,485,031

*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, 2005 and 2004

	September 30, 2005			September 30, 2004		
	Pension Plan	Health Plan	Total	Pension Plan	Heath Plan	Total
Additions:						
Contributions:						
Member contributions	$ 368,240,837	$ 62,507,616	$ 430,748,453	$ 456,352,606	$ 52,765,881	$ 509,118,487
Employer contributions:						
Colleges, universities and federal	61,409,578	56,392,438	117,802,016	45,316,248	50,024,998	95,341,246
School districts and other	712,868,200	643,974,305	1,356,842,505	652,331,090	568,806,104	1,221,137,194
Total contributions	1,142,518,615	762,874,359	1,905,392,974	1,153,999,944	671,596,983	1,825,596,927
Investment income (loss):						
Investment income (loss)	4,580,597,331		4,580,597,331	4,189,348,017		4,189,348,017
Interest income		38,718,254	38,718,254		35,482,578	35,482,578
Investment expenses:						
Real estate operating expenses	(517,603)		(517,603)	(237,629)		(237,629)
Other investment expenses	(52,583,598)		(52,583,598)	(61,053,916)		(61,053,916)
Securities lending activities:						
Securities lending income	56,948,500		56,948,500	23,291,582		23,291,582
Securities lending expenses	(53,845,116)		(53,845,116)	(20,737,696)		(20,737,696)
Net investment income (loss)	4,530,599,514	38,718,254	4,569,317,768	4,130,610,358	35,482,578	4,166,092,936
Transfers from other systems	15,051		15,051	19,708		19,708
Miscellaneous income	6,523		6,523	31,680		31,680
Total additions	5,673,139,703	801,592,613	6,474,732,316	5,284,661,690	707,079,561	5,991,741,251
Deductions:						
Benefits and refunds paid to plan members and beneficiaries:						
Retirement benefits	2,558,017,710		2,558,017,710	2,358,216,073		2,358,216,073
Health benefits		641,616,478	641,616,478		554,472,234	554,472,234
Dental/vision benefits		64,367,305	64,367,305		60,944,669	60,944,669
Refunds of member contributions	22,061,718	192,144	22,253,862	18,397,014	97,849	18,494,863
Transfers to other systems	119,594		119,594	25,927		25,927
Administrative expenses	19,997,954	55,520,031	75,517,985	19,374,673	51,118,851	70,493,524
Total deductions	2,600,196,976	761,695,958	3,361,892,934	2,396,013,687	666,633,603	3,062,647,290
Net Increase	3,072,942,727	39,896,655	3,112,839,382	2,888,648,003	40,445,958	2,929,093,961
Net Assets Held in Trust for Pension and Health Benefits:						
Beginning of Year	36,288,506,853	483,978,178	36,772,485,031	33,399,858,850	443,532,220	33,843,391,070
End of Year*	$ 39,361,449,580	$ 523,874,833	$ 39,885,324,413	$ 36,288,506,853	$ 483,978,178	$ 36,772,485,031

* 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 717 participating employers. A list of employers is provided in the Statistical Section. The System is a qualified pension 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, 2005, and 2004, the System's membership consisted of the following:

Retirees and beneficiaries currently receiving benefits:	**2005**	**2004***
Regular benefits	133,564	127,745
Survivor benefits	12,932	12,620
Disability benefits	5,210	5,013
Total	151,706	145,378
Current Employees:		
Vested	118,520	121,190
Non-vested	202,537	201,304
Total	321,057	322,494
Inactive employees entitled to benefits and not yet receiving them	15,286	15,756
Total All Members	488,049	483,628

*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	**2005**	**2004**
Eligible participants	151,706	145,378
Participants receiving benefits:		
Health	115,071	110,654
Dental/Vision	122,291	117,726

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.

Straight Life Pension — 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.

Notes to Basic Financial Statements (Continued)

Survivor Options — 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 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).

100% Survivor Pension — 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.

75% Survivor Pension — 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.

50% Survivor Pension — 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.

Equated Plan — 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.

Notes to Basic Financial Statements (Continued)

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:

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:

	2005	2004
Health, Dental and Vision Plan:		
Eligible Participants	151,706	145,378
Participants receiving benefits:		
Health	115,071	110,654
Dental/Vision	122,291	117,726
Expenses for the year	$761,695,958	$666,633,603
Employer payroll contribution rate	6.55%	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 Employee 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 Reserve for Employer Contributions representing unclaimed funds. At September 30, 2005, and 2004, the balance in this account was $1.4 billion and $1.4 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, 2005, and 2004, the balance in this account was $3.4 billion and $3.3 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, 2005, and 2004, the balance in this account was ($9.4) billion and ($4.1) billion, respectively.

Notes to Basic Financial Statements (Continued)

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. 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, 2005, and 2004, the balance in this account was $19.4 billion and $20.0 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 Expenses, 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, 2005, and 2004, the balance in this account was $24.5 billion and $15.7 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 4% to 3.5%. 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, 2005, the balance in the subaccount was zero. 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. Interest is allocated based on the beginning balance of the fund. Health, dental and vision benefits are paid from this fund. The System pays 90% of the monthly premium, membership, or subscription fee for dental, vision and hearing benefits. At September 30, 2005, and 2004, the balance in this account was $523.9 million and $484.0 million, respectively.

Reporting Entity

The System is a pension trust fund of the State. As such, the System is considered part of the State and is included in the State's Comprehensive Annual Financial Report as a pension trust fund. The System and its Board are not financially accountable for any other entities or other organizations. Accordingly, the System is the only entity included in this financial report.

Benefit Protection

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

Fair Value of Investments

Plan investments are reported at fair value. 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 and interest income is recognized on the accrual basis. 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 based on either a direct cost or allocation basis depending on the nature of the expense. Costs of administering the System are not financed by investment income or contributions to the System.

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.

	2005	**2004**
Building Rentals	$ 484,598	$ 610,306
Technological Support	5,784,887	7,014,443
Attorney General	205,856	214,302
Investment Services	7,483,904	6,595,189
Personnel Services	7,980,394	7,147,840

Commitment and Contingency – The State has signed a contract with a vendor for technological support through 2005. As of September 30, 2005, the System's portion of this commitment is approximately $8.2 million.

Cash — On September 30, 2005, and 2004, the System had $82.4 million and $156.9 million, respectively, in a common cash investment pool maintained for various State operating funds. The participating funds in the common cash pool earn interest at various rates depending upon prevailing short-term interest rates. Earnings from these activities amounted to $2.9 million and $0.9 million for the years ended September 30, 2005, and 2004, 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 32 year period for the 2004 fiscal year and 31 year period for the 2005 fiscal year.

Actual employer contributions for retirement benefits were $774.3 million and $697.6 million for fiscal years 2005 and 2004, respectively, representing 6.7% annual covered payroll for the year ended September 30, 2004. The fiscal year 2005 annual covered payroll is not yet available. Required employer contributions for pensions included:

1. $592.3 million and $657.8 million for fiscal years 2005 and 2004, respectively, for the normal cost of pensions representing 6.3% (before reconciliation) of annual covered payroll for fiscal year 2004.

2. $431.1 million and $320.3 million for fiscal years 2005 and 2004, respectively, for amortization of unfunded actuarial accrued liability representing 3.1% (before reconciliation) of annual covered payroll for fiscal year 2004.

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' paychecks and are treated as employer pick-up contributions pursuant to Internal Revenue Code Section 414(h). At September 30, 2005, and 2004, there were 48,459 and 49,764 agreements, respectively. The agreements were discounted using the assumed actuarial rate of return of 8% for September 30, 2005, and 2004. The average length of a contract was approximately 11.6 and 12.8 years for 2005 and 2004. The short term receivable was $91 million and the discounted long term receivable was $332 million at September 30, 2005. At September 30, 2004, the short term receivable was $89 million and the discounted long term receivable was $353 million.

NOTE 4 - INVESTMENTS

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 stocks, 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.

Notes to Basic Financial Statements (Continued)

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 employs the use of derivatives in the investment of the pension trust funds.

Derivatives are used in managing pension trust fund portfolios, but uses do not include speculation or leveraging of investments. Less than 12.0% 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 15.0% 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 10.7% of market value of total System's pooled assets on September 30, 2005, and 9.7% of market value of total System's pooled assets on September 30, 2004. Futures contracts represent the second largest category of derivatives used, and they represented 0.3% of market value of total System's pooled assets on September 30, 2005, and 0.3% of market value of total System's pooled assets on September 30, 2004.

To enhance management flexibility, the State Treasurer has purchased futures contracts tied to S&P indices. The futures contracts are combined with short-term investments to replicate the return of the S&P indices. The value of these synthetic equity structures is a combination of the value of the futures contract and the value of the dedicated short-term investments.

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, 2005, and 2004, were $3,215.7 million and $3,153.7 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 2005 to September 2008.

U.S. domestic LIBOR based floating rate notes were purchased in the open market to correspond with the notional amount of the swap agreements. The State Treasurer maintains custody and control of these notes.

The value of these synthetic equity structures is a combination of the value of the swap agreements and the value of the notes. The book value represents the cost of the notes. The current value represents the current value of the notes and the change in value of the underlying indices from the inception of the swap agreements. The current value is used as a representation of the fair value based on the intention to hold all swap agreements until maturity. Since the inception of the International equity investment program involving swaps, over $754.8 million of gains on equity exposure and excess interest received have been realized on matured swap agreements.

The unrealized gain of $1,019.9 million at September 30, 2005, primarily reflects the increase in international stock indices and changes in currency exchange rates. The combined swap structure realizes gains and losses on a rolling three year basis.

Notes to Basic Financial Statements (Continued)

The respective September 30, 2005, and 2004 swap values are as follows:

	Notional Value	Current Value
9/30/2005 (dollars in millions)	$ 3,215.7	$ 4,229.5
9/30/2004 (dollars in millions)	3,153.7	$ 3,497.6

The amounts shown above reflect both the total International Equity Pool swap exposure, and the smaller swap exposure to the S&P Small Cap Index Pool.

Securities Lending

State statutes allow the System to participate in securities lending transactions, and the System has, by way of a Security Lending Authorization Agreement, authorized the agent bank to lend the System's 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 does not have the ability to pledge or sell collateral securities delivered absent a borrower default. Borrowers are required to deliver collateral for each loan equal to (i) in case of loaned securities denominated in United States dollars or whose primary trading market is located in the United States or sovereign debt issued by foreign governments, 102% of the market value of the loaned securities; and (ii) in the case of loaned securities not denominated in United States dollars or whose primary trading market is not located in the United States, 105% of the market value of the loaned securities.

The System did not impose any restrictions during the fiscal year on the amount of loans that the agent bank made on its behalf and the agent bank indemnified the System by agreeing to purchase replacement securities, or return cash collateral in the event borrower failed to return the loaned security or pay distributions thereon. There were no such failures by any borrowers 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 in a collective investment pool. As of September 30, 2005, such Trust had an average maturity of 45 days and an average weighted maturity of 404 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, 2005, the System had no credit risk exposure to borrowers. The cash and non-cash collateral held for securities on loan for the System as of September 30, 2005, were $2,222,789,940 and $78,907,550, respectively. The carrying amount, which is the fair market value, of securities on loan for the System as of September 30, 2005, was $2,247,044,503.

Gross income from security lending for the fiscal year was $56,948,500. Expenses associated with this income were the borrower's rebate of $52,809,754 and fees paid to the agent of $1,035,362.

Risk

In accordance with GASB Statement No. 40, investments require certain disclosures regarding policies and practices and the risks associated with them. The credit risk, (including custodial credit risk and concentration of credit risk), the interest rate risk, and the foreign currency risk are discussed in the following paragraphs. Amounts represent the pro rata share of the underlying investments as required by GASB 40. These are held in internal investment pools and reported as such in the financial statements.

Notes to Basic Financial Statements (Continued)

Credit Risk **-** Credit risk is the risk that an issuer will not fulfill its obligations.

- Short Term Fixed Income Investments - Prime commercial paper investments must be rated A-1 or P-1 at the time of purchase as rated by the two major rating services Standard and Poor's Corporation (S&P); and Moody's Investor Service (Moody's), respectively. Borrowers must have at least $400.0 million in commercial paper outstanding, and the State Treasurer may not invest in more than 10% of the borrower's outstanding debt. The investments are further limited to $200.0 million in any borrower, unless the borrower has a A-1+ rating in which case the investment is not to exceed $300.0 million.

- Long Term Fixed Income Investments - All long term fixed income investments, that are rated, must be investment grade at time of purchase. Investment grade is defined in P.A. 314 of 1965, as amended: as investments in the top four major grades, rated by two national rating services. The State Treasurer's policy is to use S&P's (AAA, AA, A, BBB); and Moody's (Aaa, Aa, A, Baa).

Rated Debt Investments
(in thousands)
For the Year Ended September 30, 2005

Investment Type	Fair Value	S&P	Fair Value	Moody's
Short Term	$ 1,709,365	A-1	$ 1,872,640	P-1
	77,526	A-2	77,526	P-2
	376,903	NR	213,628	NR
Government Securities				
U.S. Agencies- Sponsored	1,937,079	AAA	1,937,079	Aaa
Corporate Bonds & Notes				
	546,213	AAA	546,213	Aaa
	743,987	AA	884,604	Aa
	1,314,890	A	1,153,370	A
	307,403	BBB	387,313	Baa
	247,571	BB	109,443	Ba
	50,071	NR	129,192	NR
International *				
	672,518	AAA	672,518	Aaa
	770,374	AA	1,317,824	Aa
	1,611,000	A	1,040,091	A
	78,211	BB	78,212	Ba
			23,458	NR
Equity*	38,198	AA	76,392	Aa
	38,194	A	-	
Total	$ 10,519,503		$ 10,519,503	

* International and Equity Investment types consist of domestic floating rate note used as part of a Swap strategy.

NR - not rated

Notes to Basic Financial Statements (Continued)

Custodial Credit Risk - Custodial credit risk for investments is the risk that, in the event of a failure of the counterparty, the State will not be able to recover the value of the investment or collateral securities that are in the possession of an outside party.

- Investment securities are exposed to custodial credit risk if the securities are uninsured, are not registered in the name of the government and are held by either:
- The counterparty or
- The counterparty's trust department or agent but not in the government name.

The State Treasurer does not have a policy for custodial credit risk. However, the State's custodial bank had a credit rating of AA at September 30, 2005. As of September 30, 2005, and 2004, Government securities with a market value of $38,671 thousand and $38,554 thousand, respectively, were exposed to custodial credit risk. These securities were held by the counterparty not in the name of the System.

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

Other than obligations issued, assumed or guaranteed by the United States, its agencies or United States government sponsored enterprises, the System is prohibited by P.A. 314 of 1965, as amended, from investing in more than 5% of the outstanding obligations of any one issuer or investing more than 5% of a system's assets in the obligations of any one issuer.

At September 30, 2005, and 2004, there were no investments in a single issuer that accounted for more than 5% of the System's assets nor were there any investments totaling more than 5% of the obligations of any one issuer, other than U.S. Government Securities as described above.

Interest Rate Risk - Fixed Income Investments - Interest rate risk is the risk that changes in interest rates of debt investments will adversely affect the fair value of an investment.

The State Treasurer's policy states that cash equivalents are invested in short term fixed income securities with an average weighted maturity of less than one year to provide liquidity and safety of principal from capital market and default risk. At September 30, 2005, and 2004, the fair value of the System's prime commercial paper was $2,163,794 thousand and $2,575,523 thousand with the weighted average maturity of 38 days and 41 days, respectively.

The State Treasurer does not have a policy regarding interest rate risk for long term debt investments. However, the pension funds are invested with a long-term strategy. The goal is to balance higher returns while accepting minimum risk for the return. Analyzing the yield curve on individual securities as compared to U.S. Treasuries determines, in part, what is an acceptable risk for the return. Therefore, market conditions such as lower interest rates result in shorter duration and higher interest rates result in longer duration.

Notes to Basic Financial Statements (Continued)

Debt Securities
(in thousands)
For the Years Ended September 30, 2005 and 2004

	2005		2004**
	Fair Value	Effective Duration in Years	Fair Value
Government			
U. S. Treasury	$ 308,741	4.3	$ 354,740
U. S. Agencies - Backed	879,200	5.3	777,918
U. S. Agencies - Sponsored	1,937,079	2.5	1,522,456
Corporate	3,210,135	4	3,224,529
International*			
	39,073	0.1	38,343
	3,093,030	0.2	3,032,619
Equities*	76,392	0.2	76,405
Total	$ 9,543,650		$ 9,027,010

*International and Equities contain Domestic Government and Corporate Securities as a part of their derivative strategies. The interest rates reset on a quarterly basis for these securities.

**Effective duration ratings are not available for fiscal year 2004.

Foreign Currency Risk - Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or deposit.

The System invests in various securities denominated in foreign currencies. These investments are limited to 20% of the total assets of the system with an additional limit of 5% of the outstanding foreign securities of any single issuer. No investment is allowed in a country that has been identified by the United States State Department as engaging in or sponsoring terrorism. These limits are set forth in P.A. 314 of 1965, as amended. The types of foreign securities include equities, fixed income, mutual funds, and limited partnerships. At September 30, 2005, and September 30, 2004, the total amount of foreign investment subject to foreign currency risk were $1,764,697 thousand and $1,235,852 thousand which amounted to 4.5% and 3.4% of total investments of the System, respectively.

Notes to Basic Financial Statements (Continued)

Foreign Currency Risk
(in thousands)
For the Year Ended September 30, 2005

Region	Country	Currency	Alt. Invest. Market Value in U.S. $	Equity Market Value in U.S. $	International Equities Market Value in U.S. $	International Derivatives Market Value in U.S. $*
AMERICA						
	Mexico	Peso		$ 201,405		
EUROPE						
	European Union	Euro	$ 265,324		$ 53,135	$ 131,974
	Switzerland	Franc		24,896		20,190
	Sweden	Krona			340	11,713
	Denmark	Krone			1,243	7,273
	Norway	Krone			1,389	7,009
	U.K.	Sterling	23,351	135,280	32,556	73,594
PACIFIC						
	Australia	Dollar			345	32,901
	Hong Kong	Dollar			4,764	8,829
	Japan	Yen	6,767		3,510	100,299
	New Zealand	Dollar				1,453
	Singapore	Dollar				4,932
	South Korea	Won				19,303
VARIOUS						
	Mutual Funds	Various			590,922	
	Total		$ 295,442	$ 361,581	$ 688,204	$ 419,470

* Note: International derivatives market value exposure to foreign currency risk is the net amount of unrealized gains and unrealized losses. Maturity dates on these investments range from October 2005 through September 2008 with an average maturity of 1.5 years. For more information on derivatives see Note 4.

Notes to Basic Financial Statements (Continued)

Foreign Currency Risk
(in thousands)
For the Year Ended September 30, 2004

					International	
			Alt. Invest.	Equity	Equities	Derivatives
Region	Country	Currency	Market Value in U.S. $	Market Value in U.S. $	Market Value in U.S. $	Market Value in U.S. $*
AMERICA						
	Mexico	Peso		$ 96,928		
EUROPE						
	European Union	Euro	$ 272,497		$ 41,600	$ 74,761
	Switzerland	Franc		15,244		9,396
	Sweden	Krona			283	9,309
	Denmark	Krone			1,509	3,064
	Norway	Krone			886	2,524
	U.K.	Sterling	23,924	257,779	26,469	48,197
PACIFIC						
	Australia	Dollar			340	19,147
	Hong Kong	Dollar			3,954	3,997
	Japan	Yen	4,836		2,961	38,799
	New Zealand	Dollar				1,262
	Singapore	Dollar				4,318
	South Korea	Won				5,864
VARIOUS						
	Mutual Funds	Various			266,004	
	Total		$ 301,257	$ 369,951	$ 344,006	$ 220,638

* Note: International derivatives market value exposure to foreign currency risk is the net amount of unrealized gains and unrealized losses. Maturity dates on these investments range from October 2004 through September 2007 with an average maturity of 1.5 years. For more information on derivatives see Note 4.

Notes to Basic Financial Statements (Continued)

NOTE 5 — ACCOUNTING CHANGES

In fiscal year 2005, the State implemented Governmental Accounting Standards Board (GASB) Statement No. 40, *Deposit and Investment Risk Disclosures* (an amendment of GASB No. 3), which modifies and expands disclosure requirements for deposits and investments. The new requirements are effective for fiscal periods beginning after June 15, 2004. Information within this financial report is presented on a comparative basis.

The GASB has issued Statement No. 44, *Economic Condition Reporting: The Statistical Section*, which provides guidance on the tables and narrative explanations in the statistical section. The requirements of this statement are effective for fiscal periods beginning after June 15, 2005.

The GASB has issued Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, which establishes uniform standards of financial reporting by state and local governmental entities for other postemployment benefit plans (OPEB plans). The requirements of this statement are effective one year prior to the effective date of the related Statement (GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits other than Pensions*) for the employer or the largest employer in the plan. Because the State of Michigan is a phase 1 government (those with total annual revenues of $100 million or more), the System is required to implement this statement in financial statements for periods beginning after December 15, 2005.

NOTE 6 — COMMITMENTS AND CONTINGENCIES

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.

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)
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 [2]	30,051	29,792	(259)	100.9	8,027	(3.2)
1998	31,870	32,137	267	99.2	8,265	3.2
1998 [1]	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
2003	38,726	44,769	6,043	86.5	10,044	60.2
2004 [1]	38,784	46,317	7,533	83.7	10,407	72.4

[1] Revised actuarial assumptions

[2] 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
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	674,716,330	125.52
1999	593,525,284	574,436,929	96.78
2000	572,605,695	655,258,923	114.43
2001	582,404,345	756,002,136	129.81
2002	668,956,633	603,949,327	90.28
2003	812,891,416	697,906,265	85.85
2004	978,035,492	697,647,338	71.33
2005	1,023,336,739	774,277,778	75.66

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

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	9/30/2004
Actuarial Cost Method	Entry Age, Normal
Amortization Method	Level Percent of Payroll, Closed
Remaining Amortization Period	32 years
Asset Valuation Method	5-Year Smoothed Market Value
Actuarial Assumptions:	
Inflation Rate	3.5%
Investment Rate of Return	8%
Projected Salary Increases	3.5 to 15.9 %
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, 2005 and 2004

	2005	2004
Personnel Services:		
Staff Salaries	$ 5,486,980	$ 5,035,919
Retirement and Social Security	1,513,067	1,181,823
Other Fringe Benefits	980,347	930,098
Total	7,980,394	7,147,840
Professional Services:		
Accounting	1,309,978	850,445
Actuarial	185,000	225,578
Attorney General	205,856	214,302
Audit	29,965	44,711
Consulting	78,725	66,650
Medical	361,995	352,406
Total	2,171,519	1,754,092
Building and Equipment:		
Building Rentals	484,598	610,306
Equipment Purchase, Maintenance, and Rentals	68,375	32,476
Total	552,973	642,782
Miscellaneous:		
Travel and Board Meetings	26,466	17,336
Office Supplies	74,785	74,063
Postage, Telephone and Other	3,081,280	2,417,041
Printing	325,650	307,076
Technological Support	5,784,887	7,014,443
Total	9,293,068	9,829,959
Total Administrative Expenses	$ 19,997,954	$ 19,374,673

Comparative Summary Schedule of Health Plan Administrative Expenses For the Years Ended September 30, 2005 and 2004

	2005	2004
Health Fees	$ 50,583,117	$ 46,834,374
Dental Fees	3,948,848	3,332,990
Vision Fees	988,066	951,487
Total Administrative Expenses	$ 55,520,031	$ 51,118,851

Supporting Schedules (Continued)

Schedule of Investment Expenses

	2005	2004
Real Estate Operating Expenses	$ 517,603	$ 237,629
Securities Lending Expenses	53,845,116	20,737,696
Other Investment Expenses*	52,583,598	61,053,916
Total Investment Expenses	$ 106,946,317	$ 82,029,241

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

Schedule of Payments to Consultants

	2005	2004
Accounting	$ 1,309,978	$ 850,445
Independent Auditors	29,965	44,711
Medical Advisor	361,995	352,406
Actuary	185,000	225,578
Consulting	78,725	66,650
Attorney General	205,856	214,302
Total Payments	$ 2,171,519	$ 1,754,092

Supporting Schedules (Continued)

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

For the Year Ended September 30, 2005

	Employee Contributions	Member Investment Plan	Employer Contributions
Additions:			
Contributions:			
Member contributions	$ 101,171,884	$ 267,068,953	
Employer contributions:			
Colleges, universities and federal			$ 61,409,578
School districts and other			712,868,200
Total contributions	101,171,884	267,068,953	774,277,778
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)	-	-	-
Transfers from other systems	15,051		
Miscellaneous income			
Total additions	101,186,935	267,068,953	774,277,778
Deductions:			
Benefits and refunds paid to plan members and beneficiaries:			
Retirement benefits			
Health benefits			
Dental/vision benefits			
Refund of member contributions	2,995,432	18,380,694	685,592
Transfers to other systems	75,809	43,785	
Administrative expenses			
Total deductions	3,071,241	18,424,479	685,592
Net Increase (Decrease)	98,115,694	248,644,474	773,592,186
Other Changes in Net Assets:			
Interest allocation	49,210,878	94,112,837	-
Transfers upon retirement	(101,900,306)	(237,555,528)	-
Transfer - stabilization account			54,247,323
Transfers of employer shares			(6,166,731,694)
Total other changes in net assets	(52,689,428)	(143,442,691)	(6,112,484,371)
Net Increase (Decrease) After Other Changes	45,426,266	105,201,783	(5,338,892,185)
Net Assets Held in Trust for Pension and Health Benefits:			
Beginning of Year	1,359,662,572	3,327,269,740	(4,068,688,974)
End of Year	$ 1,405,088,838	$ 3,432,471,523	$ (9,407,581,159)

Supporting Schedules (Continued)

Retired Benefit Payments	Undistributed Investment Income	Health Benefits	Total
		$ 62,507,616	$ 430,748,453
		56,392,438	117,802,016
		643,974,305	1,356,842,505
-	-	762,874,359	1,905,392,974
	$ 4,580,597,331		4,580,597,331
		38,718,254	38,718,254
	(517,603)		(517,603)
	(52,583,598)		(52,583,598)
	56,948,500		56,948,500
	(53,845,116)		(53,845,116)
-	4,530,599,514	38,718,254	4,569,317,768
			15,051
	6,523		6,523
-	4,530,606,037	801,592,613	6,474,732,316
$ 2,558,017,710			2,558,017,710
		641,616,478	641,616,478
		64,367,305	64,367,305
-		192,144	22,253,862
			119,594
	19,997,954	55,520,031	75,517,985
2,558,017,710	19,997,954	761,695,958	3,361,892,934
(2,558,017,710)	4,510,608,083	39,896,655	3,112,839,382
1,600,920,988	(1,744,244,703)		-
339,455,834	-		-
	(54,247,323)		-
	6,166,731,694		-
1,940,376,822	4,368,239,668	-	-
(617,640,888)	8,878,847,751	39,896,655	3,112,839,382
20,011,512,347	15,658,751,168	483,978,178	36,772,485,031
$ 19,393,871,459	$ 24,537,598,919	$ 523,874,833	$ 39,885,324,413

Supporting Schedules (Continued)

Detail of Changes in Plan Net Assets (Pension and Postemployment Healthcare Benefits)
For the Year Ended September 30, 2004

	Employee Contributions	Member Investment Plan	Employer Contributions
Additions:			
Contributions:			
Member contributions	$ 172,704,980	$ 283,647,626	
Employer contributions:			
Colleges, universities and federal			$ 45,316,248
School districts and other			652,331,090
Total contributions	172,704,980	283,647,626	697,647,338
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)	-	-	-
Transfers from other systems	19,708		
Miscellaneous income			
Total additions	172,724,688	283,647,626	697,647,338
Deductions:			
Benefits and refunds paid to plan members and beneficiaries:			
Retirement benefits			
Health benefits			
Dental/vision benefits			
Refund of member contributions	1,990,789	15,887,785	518,392
Transfers to other systems	21,495	4,432	
Administrative expenses			
Total deductions	2,012,284	15,892,217	518,392
Net Increase (Decrease)	170,712,404	267,755,409	697,128,946
Other Changes in Net Assets:			
Interest allocation	46,035,462	112,591,404	-
Transfers upon retirement	(105,473,114)	(229,720,900)	-
Transfer - stabilization account			187,355,700
Transfers of employer shares			(3,677,727,011)
Total other changes in net assets	(59,437,652)	(117,129,496)	(3,490,371,311)
Net Increase (Decrease) After Other Changes	111,274,752	150,625,913	(2,793,242,365)
Net Assets Held in Trust for Pension and Health Benefits:			
Beginning of Year	1,248,387,820	3,176,643,827	(1,275,446,609)
End of Year	$ 1,359,662,572	$ 3,327,269,740	$ (4,068,688,974)

Supporting Schedules (Continued)

Retired Benefit Payments	Undistributed Investment Income	Health Benefits	Total
		$ 52,765,881	$ 509,118,487
		50,024,998	95,341,246
		568,806,104	1,221,137,194
-	-	671,596,983	1,825,596,927
	$ 4,189,348,017		4,189,348,017
		35,482,578	35,482,578
	(237,629)		(237,629)
	(61,053,916)		(61,053,916)
	23,291,582		23,291,582
	(20,737,696)		(20,737,696)
-	4,130,610,358	35,482,578	4,166,092,936
			19,708
	31,680	-	31,680
-	4,130,642,038	707,079,561	5,991,741,251
$ 2,358,216,073			2,358,216,073
		554,472,234	554,472,234
		60,944,669	60,944,669
48		97,849	18,494,863
			25,927
	19,374,673	51,118,851	70,493,524
2,358,216,121	19,374,673	666,633,603	3,062,647,290
(2,358,216,121)	4,111,267,365	40,445,958	2,929,093,961
1,632,187,737	(1,790,814,603)		-
335,194,014			-
	(187,355,700)		-
	3,677,727,011		-
1,967,381,751	1,699,556,708	-	-
(390,834,370)	5,810,824,073	40,445,958	2,929,093,961
20,402,346,717	9,847,927,095	443,532,220	33,843,391,070
$ 20,011,512,347	$ 15,658,751,168	$ 483,978,178	$ 36,772,485,031

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INVESTMENT SECTION

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

INVESTMENT SECTION

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 Labor and Economic Growth and the Director of the Department of Management and Budget are ex-officio members. In fiscal 2005, members of the Committee were as follows: David G. Sowerby, CFA (public member), Robert E. Swaney, CFA (public member), Marina v.N. Whitman (public member), David Hollister (ex-officio member), and Lisa Webb Sharpe (ex-officio member). The public members serve without pay, but may be paid actual and necessary travel and other expenses.

INVESTMENT POLICY & GOALS

Investment policy states that the fiduciary will operate within standard investment practices of the prudent person and in accordance with Public Employee Retirement System Investment Act 314 of 1965. The fiduciary is authorized to invest in government obligations, corporate obligations, various short-term obligations, corporate (domestic and international) stocks, venture capital interests, mutual funds, real estate interests, and other investments subject to specific parameters. Above all, pension fund assets are to be invested for the exclusive benefit of the members of the System.

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

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 System are:

1. Achieve the optimal rate of return possible within prudent levels of risk.
2. Maintain sufficient liquidity to pay benefits.
3. Diversify assets to preserve capital and avoid large losses.
4. Meet or exceed the actuarial assumption over the long term.
5. Perform in the top half of the 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.

Report on Investment Activity (Continued)

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 seven different asset classes, which provides for a well-diversified portfolio.

Asset Allocation
(Excludes Collateral on Loaned Securities)

Investment Category	As of 9/30/05 Actual %		Five-Year Target %
Domestic Equity - Active	32.8%		34.0%
Large Cap Value Pool		15.4%	
Large Cap Growth Pool		15.7%	
Mid Cap Pools		0.9%	
Small Cap Pools		0.8%	
Domestic Equity - Passive	15.7%		14.0%
S&P 500 Index Pool		13.5%	
S&P MidCap Index Pool		1.9%	
S&P Small Cap Index Pool		0.3%	
International Equity	12.3%		11.0%
International Equity Pool - Passive		11.7%	
International Equity Pool - Active		0.6%	
Alternative Investments Pool	11.6%		13.0%
Real Estate Pool	7.5%		10.0%
Fixed Income	16.4%		16.0%
Government Bond Pool		8.0%	
Corporate Bond Pool		8.4%	
Short Term Investment Pool	3.7%		2.0%
TOTAL	**100.0%**		**100.0%**

INVESTMENT AUTHORITY

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.

Report on Investment Activity (Continued)

INVESTMENT RESULTS

Total Portfolio Results

For the fiscal year ended September 30, 2005, the total System's rate of return was 12.8% as compiled by State Street Analytics. Annualized rates of return for the three-year period ending September 30, 2005, were 13.4%; for the five-year period were 2.9%; and for the ten-year period were 9.0%.

Returns were calculated using a time-weighted rate of return in accordance with standards of the CFA Institute, unless a modification is described in the discussion of the reported return.

These results were driven by double-digit returns from every major asset class except fixed income. Equity performance was a mirrored reflection of the previous year. Stocks started the year on a very strong note, reflecting the solid economy and low inflation. As the year drew to a close, several factors caused equity markets to level off. The U.S. Gulf Coast was wracked by Hurricanes Katrina and Rita that hindered oil and gas production. This sent energy prices soaring and inflation climbing. Interest rates were again volatile throughout the year. Alternative Investments continued to reap the benefits of a series of investments that were made in prior years. Real Estate gains reflected a favorable environment to also realize double-digit gains. Bonds experienced a relatively volatile year as the markets struggled with rising short-term rates countered by strong demand for long-term bonds. As a result, bonds turned in low single-digit gains for the year. Conversely, returns for the short-term pool improved throughout the year, benefiting from rising short-term rates.

For the fiscal year, the Dow Jones Industrial Average provided a total return of 7.2%, while the broader S&P 500 returned 12.3%. The Lehman Brothers U.S. Government/Credit Bond Index appreciated 2.6%.

The U.S. economy grew at a rate of 3.0% in fiscal year 2005 as measured by real gross domestic product. The first half of the period was stronger while the second half was buffeted by soaring energy prices and the devastation caused by twin hurricanes in the Gulf States. Corporate earnings remained robust, led by record earnings for energy companies. Inflation, as measured by the consumer price index, increased a relatively tame 3.2% in spite of higher energy prices.

The Federal Reserve continued its "measured pace" of monetary tightening in spite of economic disruptions caused by the hurricanes and with no apparent intention of stopping. It raised the Fed Funds rate by 0.25% at each of its eight Federal Open Market Committee meetings during the fiscal year. This resulted in a Fed Funds rate of 3.75% by the end of fiscal 2005, up two full percentage points from the prior year.

The System remains well diversified, both across and within asset classes, and positioned to benefit from moderate economic growth and rising interest rates.

Large Cap Value Pool

The primary objective of the pool of large company value stocks is to generate a rate of return from investment in common stocks and equity equivalents that exceeds that of the S & P Barra Value Index.

The pool invests in equities and equity-related securities primarily of U.S. companies with market capitalization generally greater than $5 billion that are significantly under-priced as measured by price-to-earnings and/or price-to-book value ratios and below fair value as determined by quantitative and qualitative models. The focus is on companies with a strong presence in depressed categories, experienced management and conservative accounting practices. At times a portion of the pool may be invested in fixed-income short-term securities with maturities of less than one year.

The pool invests in equities and equity related securities that are listed on U.S. national securities exchanges, including American Depository Receipts (ADRs). It may also invest in stocks that are traded over-the-counter. The pool diversifies its investments by allocating its equities into ten sectors, and monitors the weightings and performance of these sectors relative to that of the S & P Barra Value Index.

Report on Investment Activity (Continued)

The following summarizes the weightings of the pool as of September 30, 2005:

Finance	40.6 %
Consumer Discretionary	9.8
Energy	9.7
Industrials	8.6
Utilities	8.4
Technology	7.2
Health Care	7.0
Short Term Investments	3.7
Materials	3.0
Other	1.8
Consumer Staples	0.2
Total	**100.0 %**

The System's Large Cap Value pool achieved a total rate of return of 12.7% for fiscal 2005. This compared with 13.8% for the S&P 500 Barra Value Index.

At the close of fiscal year 2005, the Large Cap Value pool represented 15.4% of total investments. This compares to 16.9% for fiscal year 2004. The following summarizes the System's 77.5 % ownership share of the Large Cap Value pool at September 30, 2005:

Large Cap Value Pool
(in thousands)

Short Term Pooled investments	$ 218,680
Equities	5,909,835
Settlement Principal Payable	(50,127)
Settlement Proceeds Receivable	26,243
Accrued dividends	4,781
Total	**$ 6,109,412**

Large Cap Growth Pool

The primary investment objective is to generate a rate of return from investment in common stocks and equity equivalents that exceeds that of the S & P Barra Growth Index.

The pool invests in equities and equity-related securities primarily of U.S. companies with market capitalization generally greater than $5 billion whose earnings growth rates are expected to exceed the growth rate of the S & P 500 Index and are priced at or below fair value as determined by quantitative and qualitative models. The focus is on companies with a strong presence in categories anticipated to be fast growing, with high rates of unit sales growth and seasoned management. At times a portion of the pool may be invested in fixed-income short-term securities with maturities of less than one year.

Report on Investment Activity (Continued)

The pool invests in equities and equity related securities that are listed on U.S. national securities exchanges, including American Depository Receipts (ADRs). It may also invest in stocks that are traded over-the-counter. The pool diversifies its investments by allocating its equities into ten sectors, and monitors the weightings and performance of these sectors relative to that of the S & P Barra Growth Index.

The following summarizes the sector weightings of various sectors in the pool as of September 30, 2005:

Technology	25.6 %
Health Care	16.9
Consumer Staples	14.5
Industrials	14.1
Energy	9.7
Consumer Discretionary	9.3
Financials	4.0
Short Term Investments	1.8
Utilities	1.5
Other	1.4
Materials	1.2
Total	**100.0 %**

The Large Cap Growth pool's total rate of return was 8.5% for the fiscal year versus 10.7% for the S&P 500 Barra Growth Index.

At the close of fiscal year 2005, the Large Cap Growth pool represented 15.7% of total investments. This compares to 15.3% for fiscal year 2004. The following summarizes the System's 77.3% ownership share of the Large Cap Growth pool at September 30, 2005:

Large Cap Growth Pool
(in thousands)

Short Term Pooled investments	$ 130,962
Equities	6,079,179
Settlement Principal Payable	(22,903)
Settlement Proceeds Receivable	12,674
Accrued dividends	6,822
Total	**$ 6,206,734**

Mid Cap Pools

Four Mid Cap managers were selected in fiscal year 2005, and they began managing money for the System beginning May 2, 2005. They were funded from short-term investments out of the Large Cap Value and Large Cap Growth pools. Their investment objective is to generate a rate of return from investment in common stocks and equivalents that exceeds that of the S&P 400 MidCap Index.

The System invests in the Artisan MidCap, the Cramer Rosenthal McGlynn MidCap, the Los Angeles Capital MidCap Plus, and the Wellington Management MidCap pools.

Report on Investment Activity (Continued)

The Mid Cap pools combined rate of return from inception to fiscal year end was 11.6%.

At the close of fiscal year 2005, the Mid Cap pools represented 0.9% of total investments. The following summarizes the System's ownership share and composition of the four Mid Cap pools at September 30, 2005:

Mid Cap Pools
(in thousands)

	Artisan MidCap	Cramer Rosenthal McGlynn MidCap	Los Angeles Capital MidCap	Wellington Management MidCap
Total Equities	$ 63,489	$ 104,211	$ 65,093	$ 108,399
Ownership Percentage	77.2%	77.2%	77.4%	77.4%

Small Cap Pools

The System invests in the Delaware and Putnam small cap growth pools. These are investment positions with the small company growth managers at Delaware Investment Advisors (Delaware) and Putnam Investments (Putnam). The primary investment objective of the small cap growth pools is to generate a rate of return from investment in common stocks and equivalents that exceeds that of the Russell 2000 Growth Index.

The System's Small Cap Growth pool invested with Delaware achieved a total rate of return of 11.7% for fiscal 2005, while Putnam's total rate of return was 22.6%, resulting in a combined return of 15.1%. The Russell 2000 Growth Index total return was 18.0%.

Three Small Cap Value managers were selected at the beginning of the fiscal year to manage money for the System beginning October 1, 2004. They were funded from short term investments out of the Large Cap Value pool. The primary investment objective of the small cap value pools is to generate a rate of return from investment in common stocks and equivalents that exceeds the Russell 2000 Value Index.

The System invests in the Putnam, Northpointe, and Fisher small cap value pools. These are investment positions with the small company value managers at Putnam Investments (Putnam), Northpointe Capital (Northpointe) and Fisher Investments, Inc. (Fisher).

The System's Small Cap Value pool invested with Putnam achieved a total rate of return of 18.3% for fiscal 2005, Northpointe's total rate of return was 20.8% and Fisher's total rate of return was 18.1%, resulting in a combined return of 19.1%. This compared favorably with the Russell 2000 Value Index total return of 17.8%.

At the close of fiscal year 2005, the five Small Cap pools represented 0.8% of total investments. The chart on the following page summarizes the System's ownership share and composition of the five pools at September 30, 2005:

Report on Investment Activity (Continued)

Small Cap Pools
(in thousands)

	Delaware Growth	Putnam Growth	Putnam Value	Northpointe Value	Fisher Value
Total Equities	$ 114,562	$ 57,563	$ 45,574	$ 46,536	$ 45,448
Ownership Percentage	76.3%	76.1%	77.4%	77.4%	77.4%

S&P 500 Index Pool

The objective of the enhanced S&P 500 Index pool is to closely match the return performance of its benchmark, the S&P 500 Index, and to use low risk strategies to offset transaction costs and add to performance when possible. The pool generally holds all 500 stocks that make up the Standard & Poor's 500 Index in proportion to their weighting in the index. The following summarizes the sector weightings of the pool as of September 30, 2005:

Financials	20.1 %
Information Technology	15.3
Health Care	13.3
Industrials	11.1
Consumer Discretionary	10.7
Energy	10.3
Consumer Staples	9.6
Utilities	3.6
Telecomm. Services	3.1
Materials	2.9
Total	**100.0 %**

The S&P 500 Index pool return for the fiscal year was 12.3% versus the benchmark's 12.3%.

At the close of fiscal year 2005, the S&P 500 Index pool represented 13.5% of total investments. This compares to 14.1% for fiscal year 2004. The following summarizes the System's 77.6% ownership share of the S&P 500 Index pool at September 30, 2005:

S&P 500 Index Pool
(in thousands)

Short Term Pooled investments	$ 132,266
Equities	5,208,352
Hedge Contracts	243
Settlement Principal Payable	(2,448)
Accrued dividends	5,799
Total	**$ 5,344,212**

Report on Investment Activity (Continued)

S&P MidCap Index Pool

The objective of the S&P MidCap Index pool is to closely match the return performance of its benchmark, the S&P MidCap, and use low risk strategies to offset transaction costs and add to performance when possible. The pool invests in equities of mid-size firms.

The S&P MidCap Index pool return for the fiscal year was 22.3% versus its benchmark's 22.2%.

At the close of fiscal year 2005, the S&P MidCap Index pool represented 1.9% of total investments. This compares to 1.8% for fiscal year 2004. The following summarizes the System's 76.0% ownership share of the S&P MidCap Index pool at September 30, 2005:

S&P MidCap Index Pool
(in thousands)

Short Term Pooled investments	$	38,070
Equities		722,767
Hedge Contracts		115
Accrued dividends		421
Total	**$**	**761,373**

S&P Small Cap Index Pool

The objective of the S&P Small Cap Index pool is to match the return of its benchmark, the S&P 600 Small Cap Index. The S&P Small Cap Index pool return for the fiscal year was 21.2% versus the benchmark's 21.2%.

The pool achieves exposure to small cap equity returns primarily by investing in a combination of fixed income notes and equity swap agreements tied to the S&P 600 index. The total notional amount of the S&P 600 swap agreements is invested in dedicated fixed income notes. Interest from the dedicated notes is exchanged for S&P 600 stock returns. Use of swap agreements for a core position began in 2002, and an S&P 600 Exchange Traded Fund was added to this pool in 2004 to enhance management flexibility.

At the close of fiscal year 2005, the S&P Small Cap Index pool represented 0.3% of total investments. This compares to 0.3% for fiscal year 2004. The following summarizes the System's 76.4% ownership share of the S&P Small Cap Index pool at September 30, 2005:

S&P Small Cap Index Pool
(in thousands)

Short Term Pooled investments	$	826
Equities		17,948
Debt Securities		76,392
Hedge Contracts		14,435
Accrued dividends and interest		170
Total	**$**	**109,771**

Report on Investment Activity (Continued)

International Equities Pool - Passive

The objective of the International Equities Pool - Passive is to match the return performance of the S&P/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 was 27.3% compared to the Citigroup BMI-EPAC return of 29.4%. The passive international return was 22.8% for three years compared to the benchmark's return of 23.3% over the same period.

Core passive exposure to international equity returns is achieved primarily by investing in a combination of fixed income notes and equity swap agreements on foreign stock indices in developed markets. Interest on the dedicated notes is exchanged for international stock returns, and the total notional amount of the swap agreements is invested in the approximate proportions of the S&P/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.

The combination of fixed income LIBOR notes and equity swap agreements was valued at $4,138.4 million on September 30, 2005. That valuation included a net unrealized gain of $1,006.3 million on equity index exposures and an unrealized loss of $1.1 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 2005, $223.0 million of gains on equity exposures were realized, $60.1 million of interest in excess of obligations on completed swaps were recognized, and $0.4 million of gains on LIBOR notes were realized.

At the close of fiscal year 2005, the International Equities – Passive pool represented 11.7% of total investments. This compares to 10.5% for fiscal year 2004. The following summarizes the System's 78.2% ownership share of the International Equities Pool - Passive at September 30, 2005:

International Equities Pool - Passive
(in thousands)

Short Term Pooled investments	$ 16,452
Equities	452,145
Debt Securities	3,132,103
Hedge Contracts	996,891
Accrued dividends and interest	16,835
Total	**$ 4,614,426**

International Equities Pool - Active

The primary investment objective is to generate a rate of return from investment in common stocks and equivalents that exceeds the S&P Citigroup Broad Market Index (BMI) World Ex-United States. All of the benchmark is impacted by foreign currency exchange rate changes.

The System invests in the Alliance International Large Cap Growth and Value pools. The pools represent equity investments managed by international value and growth managers at Alliance Capital. The pool is composed of 49.8% Large Cap Growth and 50.2% Large Cap Value.

Report on Investment Activity (Continued)

The System's pool invested with Alliance Large Cap Growth achieved a total rate of return of 13.3% since the fund's inception on May 2, 2005, while Alliance Large Cap Value achieved a total rate of return was 16.1%, resulting in a combined return of 14.7%. This compared favorably with the S&P Citigroup Broad Market Index (BMI) World Ex-United States total return of 13.9%

At the close of fiscal year 2005, the International Equities - Active pool represented 0.6% of total investments. The following summarizes the System's 77.6% ownership share and composition of the pool at September 30, 2005:

International Equities Pools - Active
(in thousands)

	Alliance
Total Equities	$ 236,059

Alternative Investments Pool

The Alternative Investments pool objective is to meet or exceed the S&P 500 Index plus 300 basis points for all private equity pools over long time periods.

Alternative Investments are investments in the private equity market, primarily through limited partnerships. The following summarizes the weightings of the pool as of September 30, 2005:

Buyout Funds	59.7 %
Venture Capital Funds	16.4
Special Situation Funds	11.4
Fund of Funds and Hedge Funds	7.8
Mezzanine Funds	3.7
Short Term Investments	1.0
Total	**100.0 %**

The Alternative Investments pool had a return of 21.8% for the fiscal year ended September 30, 2005, as compiled by State Street Analytics versus the S&P 500 Index plus 300 basis points of 15.4%.

Credit Suisse Asset Management (CSAM) manages the stock distributions of the Alternative Investments. The CSAM pool return for the fiscal year ending September 30, 2005, was -9.0%.

At the close of fiscal year 2005, the Alternative Investments pool represented 11.5% of total investments and Credit Suisse Asset Management pool represented 0.1% of total investments. This compares to 13.2% for Alternative and 0.1% for CSAM for fiscal year 2004. The chart on the following page summarizes the System's ownership share and composition of the Alternative Investments pool and the Credit Suisse Asset Management pool at September 30, 2005:

Report on Investment Activity (Continued)

Alternative Investments Pool
(in thousands)

	Alternative	CSAM
Short Term Pooled Investments	$ 48,382	$ 897
Settlement Proceeds Receivable	-	251
Equities	4,526,770	20,376
Total	**$ 4,575,152**	**$ 21,524**
Ownership Percentage	78.3%	78.2%

Real Estate Pool

The Real Estate pool seeks favorable risk-adjusted returns through rental income and appreciation of real estate investments. Real estate investments are typically held through various legal investment entities, such as limited partnerships or limited liability companies, established for the specific purpose of owning, leasing, managing, financing, or developing real estate and real estate related investments. Independent third parties regularly value the real estate investments to establish current market values.

The Real Estate pool may invest in each of the following four quadrants of the real estate capital markets:

- Private equity markets - An ownership interest in stabilized real estate assets, which may also include development and redevelopment of real estate.
- Public equity markets - Securities of publicly traded equity real estate companies whose primary purpose is to own, lease, manage, and develop real estate.
- Private debt markets - Mortgage loans secured by real estate.
- Public debt markets - Publicly traded commercial mortgage-backed securities market.

The Real Estate pool diversifies its holdings by:

- Geographic region - The pool is broadly diversified geographically across the country. Emphasis is placed upon U.S. real estate investments, but may also include foreign real estate investments. Foreign investments are currently less than one percent of the total equity value of the pool, and are not expected to exceed ten percent of the total equity value of the pool.
- Property (size and value) - The pool diversifies its holdings so that it is not concentrated in a few large real estate assets.
- Property type - The pool is diversified by type of property and by class of property.

Major property types as of September 30, 2005:

Multi-family apartments	33.5 %
Commercial office buildings	22.1
Retail shopping centers	13.0
Hotels	11.1
For sale housing, land, self storage, and senior living	10.5
Industrial warehouse buildings	7.4
Short Term Investments	2.4
Total	**100.0 %**

Report on Investment Activity (Continued)

The net total return for the fiscal year ending September 30, 2005, was 14.4%, as compiled by State Street Analytics. This compares to the benchmark return of 18.4%. The benchmark is the National Council of Real Estate Investment Fiduciaries Property Index (NPI) less 75 basis points. The adjustment to the NPI is made to approximate industry comparable returns due to the fact that the Real Estate pool's returns are calculated net of all overhead and management fees, while the NPI calculates returns on a gross property level basis before overhead and standard investment management fees. The benchmark does not include short term investments, and the amount of purchase and sale activity during the fiscal year resulted in a high average short term investment balance that dampened performance within the Real Estate pool.

At the close of fiscal year 2005, the Real Estate pool had a total net equity value of $3.0 billion that represented 7.5% of total investments. This compares to 6.7% for fiscal year 2004. The following summarizes the System's 75.1% ownership share of the Real Estate pool at September 30, 2005:

Real Estate Pool
(in thousands)

Short Term Pooled investments	$ 71,357
Equities	2,887,050
Debt Securities	7
Total	**$ 2,958,414**

Government Bond Pool

The objectives are to maximize the rate of return consistent with sound portfolio management principles and to outperform the benchmark, Lehman Brothers Government Index.

The pool invests in a diversified portfolio of government bonds including, but not limited to, treasuries, agencies, and government sponsored enterprises. To achieve above average returns, the pool emphasizes those sectors exhibiting the best risk reward relationship relative to historical norms and the outlook for interest rates.

For the fiscal year ending September 30, 2005, the Government Bond pool returned 3.4% which compared favorably to the Lehman Brothers Government Index of 2.5%.

Rates continued to be volatile during the year. Ten-year treasuries started the year at 4.11%, rose to 4.64%, plunged to 3.89%, and ended at 4.33%. The yield curve continued to flatten with short and intermediate rates continuing to rise over the year while long rates declined marginally.

The following summarizes the security type breakdown of the pool as of September 30, 2005:

U.S. Agency	60.4 %
GNMA	21.7
U.S. Treasury	9.7
U.S. Guaranteed	6.3
Short Term Investments	1.9
Total	**100.0 %**

Report on Investment Activity (Continued)

At the close of fiscal year 2005, the Government Bond pool represented 8.0% of total investments. This compares to 8.5% for fiscal year 2004. The following summarizes the System's 77.5% ownership share of the Government Bond pool at September 30, 2005:

Government Bond Pool
(in thousands)

Short Term Pooled investments	$	34,755
Debt Securities		3,125,021
Accrued dividends		26,171
Total	**$**	**3,185,947**

Corporate Bond Pool

The objectives are to maximize the rate of return consistent with sound portfolio management principles and to outperform the Lehman Brothers Credit Index.

The pool invests in a diversified portfolio of investment grade corporate issues. Such issues are rated in the top four categories by nationally recognized rating agencies. Non-rated bonds are acceptable if they are determined to be of comparable quality. To achieve above average returns, the pool emphasizes those sectors exhibiting the best risk reward relationship relative to historical norms and the outlook for interest rates.

For the fiscal year ending September 30, 2005, the Corporate Bond pool returned 2.1% compared to the Lehman Brothers Credit Index of 2.8%.

The pool's performance improved as the year progressed due to the continued rise in rates later in the year. The underperformance for the fiscal year reflected the strength of long rates early in the year declining from 4.9% in October 2004 to 4.19% in June before rising to 4.57% at year-end.

The following summarizes the security type breakdown of the pool as of September 30, 2005:

Financials	39.9	%
Health Care	11.9	
Consumer Discretionary	10.7	
Industrials	9.4	
Consumer Staples	7.3	
Utilities	5.9	
Materials	5.4	
Other	4.0	
Short Term Investments	3.3	
Information Technology	2.2	
Total	**100.0**	**%**

Report on Investment Activity (Continued)

At the close of fiscal year 2005, the Corporate Bond pool represented 8.4% of total investments. This compares to 9.0% for fiscal year 2004. The following summarizes the System's 78.2% ownership share of the Corporate Bond pool at September 30, 2005:

Corporate Bond Pool
(in thousands)

Short Term Pooled investments	$ 80,045
Debt Securities	3,210,134
Settlement Principal Payable	(6,024)
Accrued dividends	36,974
Total	**$ 3,321,129**

Short Term Investment Pool

The objective of the Short Term Investment pool is to closely match the return performance of its benchmark, the 30 day Treasury bill. The Short Term Investment pool return for the fiscal year was 2.3% versus the benchmark's 2.5%.

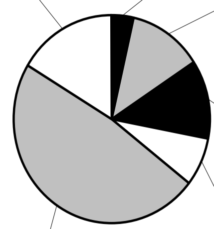
Potential areas of investment are:

- Obligations of the United States or its agencies.
- Banker's acceptances, commercial accounts, certificates of deposit or depository receipts.
- Repurchase agreements for the purchase of securities issued by the US government or its agencies.
- Commercial paper rated at the time of purchase within the two highest classifications established by not less than two national rating services as determined by the State Treasurer.

As of September 30, 2005, the Short Term Investment pool was 100% invested in commercial paper because of its advantages in yield and flexibility in maturities.

At the close of fiscal year 2005, the Short Term Investment pool represented 3.7% of total investments. This compares to 3.2% for fiscal year 2004. The System's ownership of the Short Term Investment pool at September 30, 2005, was $1,473,510,971 composed of debt securities and equity in common cash.

ASSET ALLOCATION



Investment Results for the Period Ending September 30, 2005

		Annualized Rate of Return[1]		
Investment Category	**Current Year**	**3 Years**	**5 Years**	**10 Years**
Total Portfolio	12.8 %	13.4 %	2.9 %	9.0 %
Total Domestic Equity	11.8	16.8	0.0	9.4
S&P 1500 Index	13.4	17.5	(0.5)	9.8
Large Cap Value Pool	12.7			
Large Cap Growth Pool	8.5			
Mid Cap Pools	11.6			
Small Cap Value Pools	19.1			
Small Cap Growth Pools	15.1			
S&P 500 Index Pool	12.3			
S&P MidCap Index Pool	22.3			
S&P Small Cap Index Pool	21.2			
International Equity Pool - Passive	27.3	22.8	2.6	7.7
S&P Citigroup BMI - EPAC 50/50	29.4	23.3	2.8	7.3
International Equity Pool - Active	14.7			
Alternative Investments Pool	21.8	14.5	0.9	12.8
S&P 500 Index plus 300 Basis Points	15.4	19.9	2.0	13.0
Credit Suisse Asset Management (Stock Distributions)	(9.0)			
Real Estate Pool	14.4	9.6	9.2	10.3
NCREIF Property Index minus 75 Basis Points	18.4	12.3	10.2	10.9
Total Fixed Income	2.7	3.9	6.3	6.4
Lehman Brothers Government/Credit	2.6	4.1	6.9	6.6
Government Bond Pool	3.4			
Corportate Bond Pool	2.1			
Short Term Investment Pool	2.3	1.6	2.4	4.3
30 Day Treasury Bill	2.5	1.5	2.2	3.5

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

Largest Assets Held

Largest Stock Holdings (By Market Value)*
September 30, 2005

Rank	Shares	Stocks	Market Value
1	10,606,029	Exxon Mobil Corporation	$ 673,907,085
2	17,263,933	General Electric Corporation	581,276,615
3	11,962,348	Citigroup Incorporated	544,526,081
4	17,914,385	Microsoft Corporation	460,937,114
5	15,878,769	Pfizer Incorporated	396,492,852
6	7,390,377	Bank of America Corporation	311,134,860
7	4,735,111	Johnson and Johnson	299,637,816
8	4,693,917	American International Group	290,835,114
9	9,951,265	Intel Corporation	245,298,681
10	3,280,195	Altria Group Incorporated	241,783,168

Largest Bond Holdings (By Market Value)*
September 30, 2005

Rank	Par Amount	Bonds & Notes	Market Value
1	$ 175,948,131	U.S. Treasury Strip 0% Coupon Due 11-15-2011	$ 168,100,845
2	156,422,474	US Bank NA 4.07688% FRN Due 4-5-2007	156,414,121
3	156,446,000	Bank Nova Scotia FRN Due 10-12-2007	156,427,758
4	121,245,650	Wells Fargo & Company 3.75% FRN Due 8-4-2006	121,222,262
5	117,295,290	Canadian Imperial Bank 4.12688% FRN Due 1-5-2007	117,289,015
6	117,334,500	Household Finance Corporation 3.75% FRN Due 10-22-2007	117,313,521
7	117,295,290	Wells Fargo & Company 4.06% FRN Due 9-28-2007	117,273,931
8	117,334,500	Bayerische Landesbank NY 3.91063 FRN Due 3-17-2006	117,292,729
9	101,689,900	Citigroup Global Markets 3.75% FRN Due 1-30-2007	101,669,847
10	97,778,750	JPMorgan Chase & Co 3.76913% FRN Due 7-28-2006	97,760,739

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

*The System's investments are commingled in various pooled accounts. Shares, par and market value represent the System's pro rata ownership through it's ownership of the pool.

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 21.1% 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 $7,486,012 or two and four tenths basis points (.024%) of the average market value of the portfolio.

State law created an Investment Advisory Committee (Committee) comprised of the directors of the Department of Labor and Economic Growth 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 may be 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 in 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	Fees	Basis Points*
State Treasurer	31,210,987,539	7,483,904	2.4
Outside Advisors for			
Mid Cap Equity	341,192,980	0	0.0
Small Cap Equity	309,684,603	2,373,668	76.6
International	590,922,270	95,137	1.6
Alternative	4,547,138,690	42,659,735	93.8
Real Estate	2,568,613,226	561,489	2.2
Total	39,568,539,308		

Other Investment Services Fees:

Custody & Research Fees	39,568,527,556	1,783,495
Security Lending Fees	8,357,551,769	1,035,362

* Outside Advisors Fees are netted against income for Small Cap, Midcap, and International Equity. For Alternative partnership agreements that define the management fees, the asset management fees range from 150 to 250 basis points of the committed capital. For Real Estate, the asset management fees normally range from 50 to 125 basis points. Alternative and Real Estate fees, in most cases, are netted against income.

Schedule of Investment Commissions

	Fiscal Year Ended September 30, 2005						
	Actual Commissions Paid [1]	Actual Number of Shares Traded	Average Commission Rate Per Share	Estimated Trade Costs Per Share	Estimated Research Costs Per Share	Estimated Trade Costs	Estimated Research Costs
Investment Brokerage Firms:							
Banc America Securities, LLC Montgomey	$ 150,577	3,119,048	$ 0.05	$ 0.03	$ 0.02	$ 93,571	$ 57,006
Bear, Stearns & Co. Inc.	504,779	11,367,375	0.04	0.03	0.01	341,021	163,757
Bridge Trading	407,390	8,967,894	0.05	0.03	0.02	269,037	138,354
BNY Brokerage, Inc.	1,342	26,830	0.05	0.03	0.02	805	537
B-Trade Services, LLC	2,790	139,521	0.02	0.02	-	2,790	-
Buckingham Research Group	84	1,676	0.05	0.03	0.02	50	34
Cantor Fitzgerald & Co.	101,101	3,334,232	0.03	0.02	0.01	66,685	34,417
CAP Institutional Services, Inc.	2,478	49,567	0.05	0.03	0.02	1,487	991
Charles Schwab & Co., Inc.	25,165	503,295	0.05	0.03	0.02	15,099	10,066
Citigroup Global Markets Inc.	822,317	20,378,672	0.04	0.03	0.01	611,360	210,957
Credit Suisse First Boston Corporation	579,507	12,828,917	0.05	0.03	0.02	384,868	194,639
Deutsche Bank Securities Inc.	117,205	2,510,757	0.05	0.03	0.02	75,323	41,882
Friedman, Billings, Ramsey	441	11,015	0.04	0.03	0.01	330	110
Fulcrum Global Partners	4,545	90,893	0.05	0.03	0.02	2,727	1,818
Goldman, Sachs & Co.	759,744	18,114,104	0.04	0.03	0.01	543,423	216,321
Griswold Company	236,510	14,470,137	0.02	0.02	-	236,510	-
Howard Weil Division Legg Mason	18,995	474,878	0.04	0.03	0.01	14,246	4,749
Investment Technology Group Inc.	742	37,116	0.02	0.02	-	742	-
Instinet	5,450	181,667	0.03	0.03	-	5,450	-
ISI Group, Inc.	167,846	3,483,318	0.05	0.03	0.02	104,500	63,347
J.P. Morgan Securities Inc.	304,081	6,854,630	0.04	0.03	0.01	205,639	98,442
Jones & Associates	1,397	27,936	0.05	0.03	0.02	838	559
Leerink, Swann & Co.	3,463	72,984	0.05	0.03	0.02	2,190	1,274
Legg, Mason, Wood, Walker	25,650	512,993	0.05	0.03	0.02	15,390	10,260
Lehman Brothers, Inc.	824,696	21,365,118	0.04	0.03	0.01	640,954	183,743
Liquidnet, Inc.	3,569	178,474	0.02	0.02	-	3,569	-
Merrill Lynch, Pierce, Fenner & Smith, Inc.	833,266	19,500,234	0.04	0.03	0.01	585,007	248,259
Morgan Stanley Co, Inc.	417,636	8,756,569	0.05	0.03	0.02	262,697	154,939
OTA Research	185,036	3,827,082	0.05	0.03	0.02	114,812	70,224
Pershing, LLC	7,695	256,504	0.03	0.03	-	7,695	-
Pipeline Trading Systems, LLC	453	22,668	0.02	0.02	-	453	-
Prudential Equity Group	370,217	8,201,175	0.05	0.03	0.02	246,035	124,182
Raymond, James, and Associates, Inc.	538	10,751	0.05	0.03	0.02	323	215
RBC Capital Markets	4,229	84,577	0.05	0.03	0.02	2,537	1,692
SG Americas Securities, LLC	399	7,982	0.05	0.03	0.02	239	160
S.G. Cowen & Co,. LLC	281,907	5,806,029	0.05	0.03	0.02	174,181	107,726
Sanders, Morris, Mundy	5,938	118,770	0.05	0.03	0.02	3,563	2,375
Sanford Bernstein Co., LLC	223,020	4,818,623	0.05	0.03	0.02	144,559	78,461
State Street Brokerage Services	1,209	24,185	0.05	0.03	0.02	726	484
Suntrust Capital Markets, Inc.	781	15,628	0.05	0.03	0.02	469	313
Thomas Weisel Partners	10,827	218,174	0.05	0.03	0.02	6,545	4,282
US Bancorp, Piper, Jaffray, Inc.	3,336	66,728	0.05	0.03	0.02	2,002	1,335
UBS Securities, LLC	479,704	10,998,981	0.04	0.03	0.01	329,969	149,734
US Clearing Corporation	734	14,687	0.05	0.03	0.02	441	294
Wayne Company	11,658	262,524	0.04	0.03	0.01	7,876	3,783
Weeden & Co.	11,736	235,716	0.05	0.03	0.02	7,071	4,665
Total	$ 7,922,183	192,350,634	$ 0.04 [2]	$ 0.03	$ 0.01	$ 5,535,804	$ 2,386,386

[1] Commissions are included in purchase and sale prices of investments. The commissions and shares represent the System's pro-rata share of commission and share transactions based on ownership in the investment pools.

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

Investment Summary

Fiscal Year Ended September 30, 2005

	Market Value [(a)]	Percent of Market Value	Investment & Interest Income [(b)]	Percent of Investment & Interest Income
Fixed Income:				
Government Bond Pool	$ 3,185,946,919	8.0%	$ 100,652,198	2.2%
Corporate Bond Pool	3,321,128,864	8.4%	69,146,944	1.5%
Total Fixed Income Pools	6,507,075,783	16.4%	169,799,142	3.7%
Equity Pools	19,182,377,877	48.5%	2,049,402,827	44.4%
Real Estate Pool	2,958,413,840	7.5%	369,518,923	8.0%
Alternative Investment Pool	4,596,675,402	11.6%	952,485,347	20.6%
International Equities Pool	4,850,485,435	12.3%	1,044,791,324	22.6%
Short Term Investments Pool	1,473,510,971	3.7%	33,318,022	0.7%
Total	$ 39,568,539,308	100.0%	$ 4,619,315,585	100.0%

[a] Market value excludes $2,222,789,940 in cash collateral for security lending for fiscal year 2005.

[b] Total Investment & Interest Income excludes net security lending income of $3,103,384.

Investment Summary (Continued)

Fiscal Year Ended September 30, 2004

	Market Value [a]	Percent of Market Value	Investment & Interest Income [b,c]	Percent of Investment & Interest Income
Fixed Income:				
Government Bond Pool	$ 3,085,322,382	8.5%	$ 96,141,771	2.3%
Corporate Bond Pool	3,252,305,985	9.0%	122,922,884	2.9%
Total Fixed Income Pools	6,337,628,367	17.5%	219,064,655	5.2%
Equity Pools	17,684,365,607	48.8%	2,125,036,563	50.3%
Real Estate Pool	2,433,331,455	6.7%	209,027,535	5.0%
Alternative Investment Pool	4,812,901,668	13.3%	1,036,053,759	24.5%
International Equities Pool	3,811,045,785	10.5%	613,899,730	14.5%
Short Term Investments Pool	1,153,592,222	3.2%	21,748,353	0.5%
Total	$ 36,232,865,104	100.0%	$ 4,224,830,595	100.0%

[a] Market value excludes $156,865,685 in equity in common cash and $2,166,910,113 in cash collateral for security lending for fiscal year 2004.

[b] Total Investment & Interest Income excludes net security lending income of $2,553,886.

[c] Effective July 1, 2004, the Systems' investments were contributed to the various investment pools listed above. The income on investments for the first nine months of the fiscal year is reported as income for the pool to which the security was contributed.

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ACTUARIAL SECTION

Actuary's Certification

SEGAL

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

November 22, 2005

Ms. Lisa Webb Sharpe
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, 2004 included a total of 483,628 members of MPSERS. The actuarial value of MPSERS's assets amounted to approximately $38.78 billion on September 30, 2004.

The assumptions used in the 2004 valuation 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, 2004 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 2004 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 4.5%. Adopted 2004.

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 2004.

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 2004.

5. Total active member payroll is assumed to increase 3.5% 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 2004.

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		40 %
52		25
55	35 %	20
58	20	22
61	20	22
64	23	23
67	22	22
70	25	25
71	25	25
72	25	25
73	25	25
74	25	25
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	28.00 %		
	1	15.00		
	2	9.00		
	3	7.00		
	4	5.50		
25	5 & Over	5.00	.01 %	12.30 %
35		2.65	.02	7.18
45		1.60	.13	5.21
55		1.40	.33	3.81
60		1.40	.45	3.50

* 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
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
2003	326,938	10,043,862	30,721	3.3	43.8	9.7
2004	322,494	10,407,072	32,271	5.0	43.8	9.7

* 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*		
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
2003**	8,512	163,752	3,975	6,368	139,814	2,251,766	7.5	16,105
2004	9,824	197,680	4,260	17,810	145,378	2,431,636	8.0	16,726

* In thousands of dollars.
** Revised actuarial data.

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)***
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
2003	3,720	24,080	16,969	38,726	100	100	64.4	86.5
2004	3,800	26,178	16,339	38,784	100	100	53.9	83.7

*** 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, 2004
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.	$ 12,315,373	
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.	43,781,403	
3.	**Pay Increases.** If there are smaller pay increases than assumed, there is a gain. If greater increases, a loss.	(162,444,380)	
4.	**Investment Income.** If there is greater investment income than assumed, there is a gain. If less income, a loss.	(1,959,619,995)	
5.	**Death After Retirement**. If retirants live longer than assumed, there is a loss. If not as long, a gain.	(127,339,279)	
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.	(46,357,369)	
7.	**Other.** Miscellaneous gains and losses resulting from data adjustments, timing of financial transactions, etc.	239,109,793	**
8.	**Composite Gain (or Loss) During Year**	$ (2,000,554,454)	

** Consists primarily of approximately $240 million due to change in reported benefit service.

Summary of Plan Provisions

Our actuarial valuation of the System as of September 30, 2004, 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).

Summary of Plan Provisions (Continued)

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.

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.

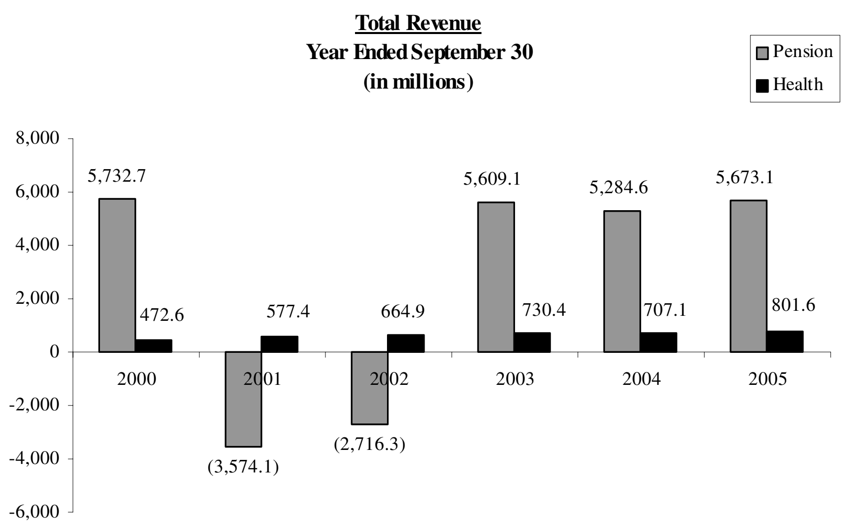
STATISTICAL SECTION

Schedule of Pension Plan Revenues by Source

Fiscal Year Ended Sept. 30	Member Contributions	Employer Contributions Dollars	Employer Contributions % of Annual Covered Payroll	Net Investment & Other Income	Total
2000	$ 321,557,146	$ 655,258,922	7.29 %	$ 4,755,872,070	$ 5,732,688,138
2001	371,548,016	629,924,827	6.80	(4,575,630,855)	(3,574,158,012)
2002	413,163,871	603,949,327	6.22	(3,733,441,844)	(2,716,328,646)
2003	379,084,549	697,906,265	6.95	4,532,071,835	5,609,062,649
2004	456,352,606	697,647,338	6.70	4,130,661,746	5,284,661,690
2005	368,240,837	774,277,778	N/A	4,530,621,088	5,673,139,703

Schedule of Health Plan Revenues by Source

Fiscal Year Ended Sept. 30	Member Contributions	Employer Contributions Dollars	Employer Contributions % of Annual Covered Payroll	Net Investment & Other Income	Total
2000	$ 33,672,843	$ 428,996,628	4.77 %	$ 9,959,633	$ 472,629,104
2001	38,485,260	528,272,325	5.70	10,663,468	577,421,053
2002	43,217,520	604,628,018	6.23	17,043,097	664,888,635
2003	47,394,003	657,408,261	6.55	25,584,076	730,386,340
2004	52,765,881	618,831,102	5.95	35,482,578	707,079,561
2005	62,507,616	700,366,743	N/A	38,718,254	801,592,613

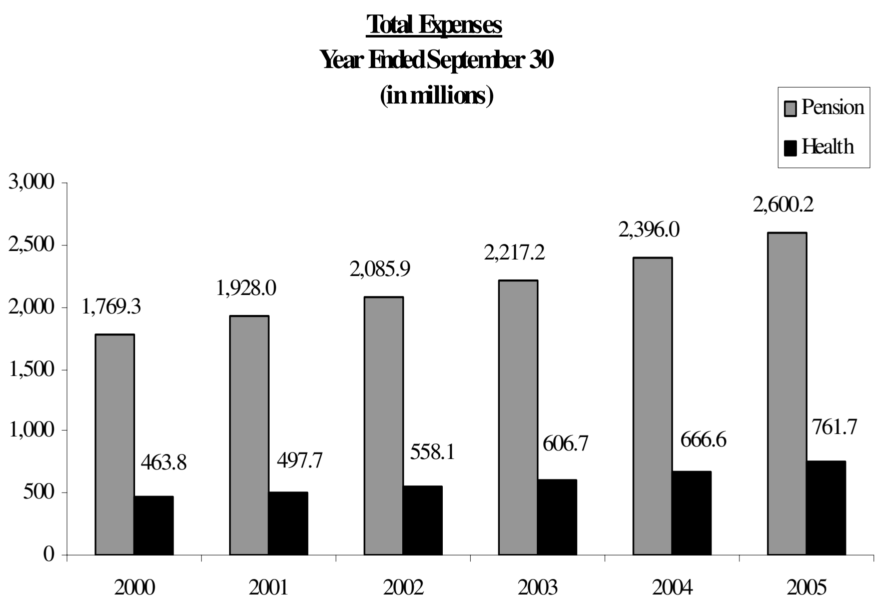


Schedule of Pension Plan Expenses by Type

Fiscal Year Ended Sept. 30	Benefit Payments	Refunds and Transfers	Administrative Expenses	Total
2000	$ 1,735,936,328	$ 17,455,802	$ 15,918,143	$ 1,769,310,273
2001	1,890,812,400	19,835,729	17,312,250	1,927,960,379
2002	2,041,439,863	20,813,845	23,610,482	2,085,864,190
2003	2,180,574,193	13,642,300	23,016,963	2,217,233,456
2004	2,358,216,073	18,422,941	19,374,673	2,396,013,687
2005	2,558,017,710	22,181,312	19,997,954	2,600,196,976

Schedule of Health Plan Expenses by Type

Fiscal Year Ended Sept. 30	Benefit Payments	Refunds and Transfers	Administrative Expenses	Total
2000	$ 425,760,691	$ 30,902	$ 38,039,572	$ 463,831,165
2001	456,257,416	72,407	41,379,358	497,709,181
2002	513,171,821	67,115	44,853,969	558,092,905
2003	558,682,921	64,411	47,907,745	606,655,077
2004	615,416,903	97,849	51,118,851	666,633,603
2005	705,983,783	192,144	55,520,031	761,695,958

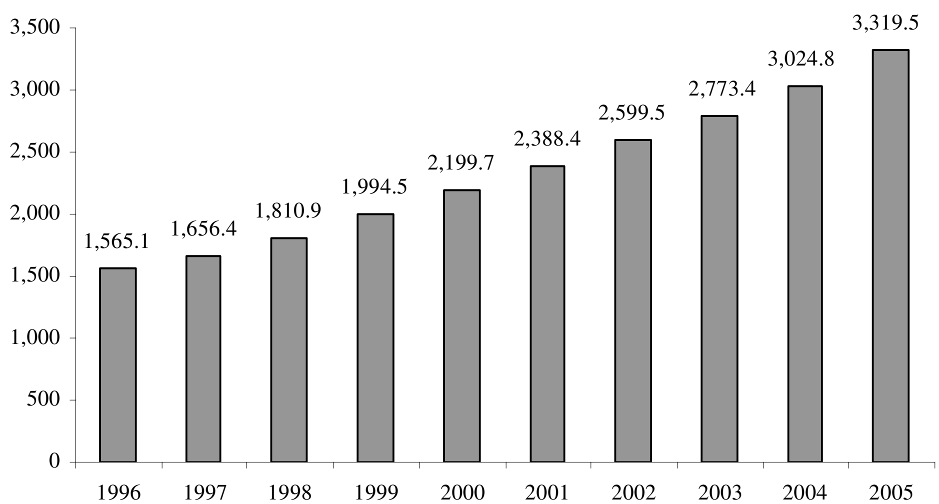


Schedule of Benefit Expenses by Type

Fiscal Year Ended Sept. 30	Regular Benefits*	Disability Benefits	Supplemental Check	Health Benefits**	Total
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		606,590,666	2,773,365,518
2004	2,304,740,438	53,475,635		666,535,754	3,024,751,827
2005	2,500,815,986	57,201,724		761,503,814	3,319,521,524

*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, 2004

Amount Monthly Benefit	Number of Retirees	Type of Retirement * 1	2	3	4	5	6	Selected Option** Opt. 1	Opt. 2	Opt. 3	Opt. 10	Opt.1E 2E,3E,4E
$ 1-200	13,437	11,448	1,210	105	480		194	7,852	2,609	1,894	75	1,007
201-400	19,050	15,404	1,756	119	1,347	1	423	10,963	3,709	3,055	139	1,184
401-600	14,063	11,152	1,344	69	1,050	2	446	7,621	2,912	2,456	155	919
601-800	10,850	8,597	1,025	47	770		411	5,683	2,169	1,978	126	894
801-1000	8,759	6,992	835	22	551		359	4,361	1,773	1,646	129	850
1001-1200	7,649	6,240	704	17	413		275	3,561	1,592	1,326	96	1,074
1201-1400	6,959	5,862	547	5	303		242	2,920	1,535	1,199	106	1,199
1401-1600	6,669	5,779	443	3	252	1	191	2,711	1,515	1,093	112	1,238
1601-1800	6,711	5,963	375	4	191		178	2,619	1,717	1,165	159	1,051
1801-2000	6,967	6,376	286	6	141		158	2,688	1,812	1,315	231	921
over 2000	44,264	42,747	911	4	187		415	18,663	8,632	8,960	1915	6,094
Totals	145,378	126,560	9,436	401	5,685	4	3,292	69,642	29,975	26,087	3,243	16,431

* 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, 2005 and 2004

	2005	2004
Claims		
Health Insurance	$ 585,316,478	$ 499,869,234
Vision Insurance	6,691,135	6,513,031
Dental Insurance	55,369,170	51,886,638
Total Claims	647,376,783	558,268,903
IBNR (Incurred but not reported claims)		
Health Insurance	56,300,000	54,603,000
Vision Insurance	300,000	323,000
Dental Insurance	2,007,000	2,222,000
Total IBNR	58,607,000	57,148,000
Administrative Fees		
Health Insurance	50,583,117	46,834,374
Vision Insurance	988,066	951,487
Dental Insurance	3,948,848	3,332,990
Total Administrative Fees	55,520,031	51,118,851
Subtotal	761,503,814	666,535,754
Refunds	192,144	97,849
Grand Total	$ 761,695,958	$ 666,633,603

Schedule of Average Benefit Payments

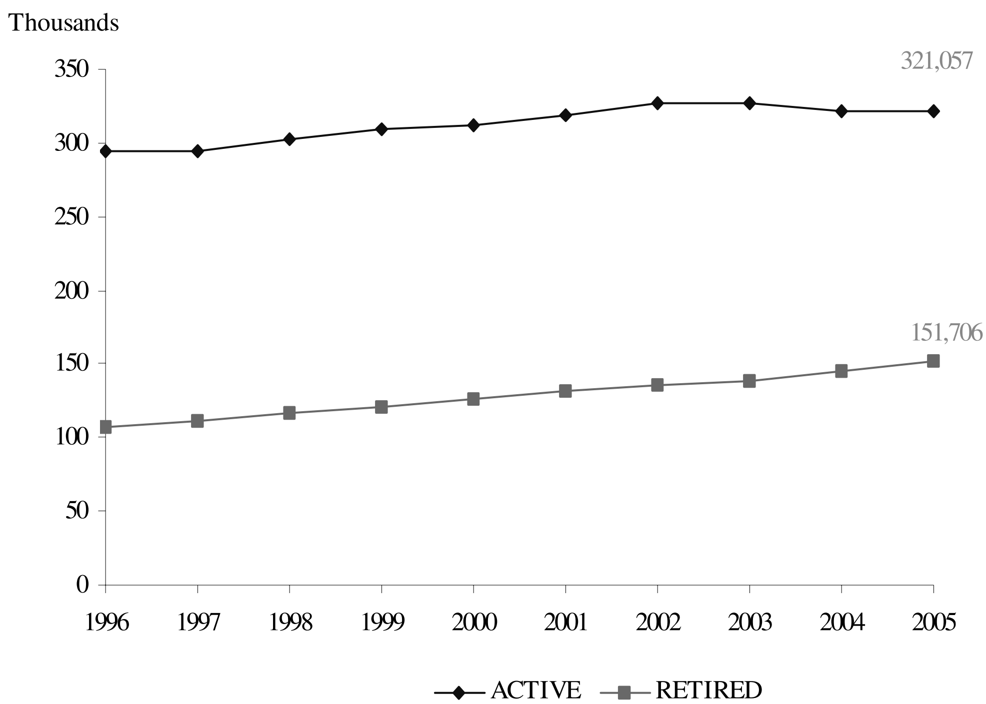
Retirement Effective Dates	Years Credited Service							
	0-5	5-10	10-15	15-20	20-25	25-30	30+	Total
Period 10/1/96 to 9/30/97:								
Average Monthly Benefit	$ 359	$ 134	$ 230	$ 424	$ 703	$ 1,064	$ 1,779	$ 1,022
Average Final Average Salary	4,725	13,993	12,738	17,348	22,636	27,515	38,285	26,540
Number of Active Retirants	333	2,742	15,893	18,982	17,724	13,941	42,027	111,642
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
Period 10/1/02 to 9/30/03:								
Average Monthly Benefit	$ 543	$ 159	$ 280	$ 510	$ 837	$ 1,273	$ 2,232	$ 1,342
Average Final Average Salary	2,225	15,789	15,635	21,059	26,790	32,349	48,604	34,014
Number of Active Retirants	896	4,139	17,285	21,404	20,533	15,698	59,859	139,814
Period 10/1/03 to 9/30/04:								
Average Monthly Benefit	$ 607	$ 181	$ 309	$ 514	$ 881	$ 1,238	$ 2,288	$ 1,394
Average Final Average Salary	1,640	16,138	16,357	21,257	27,798	32,353	50,198	35,268
Number of Active Retirants	1,178	4,386	15,706	23,764	18,842	18,076	63,426	145,378

Source: The Segal Company

STATISTICAL SECTION

Ten Year History of Membership

Fiscal Year Ended September 30



Source: The Segal Company

Schedule of Participating Employers through 9/30/05

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 9/30/05 (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 9/30/05 (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
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 9/30/05 (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
Laker Schools
LakeShore 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

Schedule of Participating Employers through 9/30/05 (Continued)

K - 12 School Districts (continued):

Linden Community Schools
Litchfield Community Schools
Littlefield Public Schools
Livonia Public Schools
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
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 9/30/05 (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 9/30/05 (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:

Academic Transitional Academy of St. Clair
Academy for Plastics Manufacturing Technology
Academy of Style
AGBU Alex & Marie Manoogian School
Ann Arbor Learning Community
Arts Academy in the Woods
Bay-Arenac Community High School
Ben Ross Public School Academy
Blue Water Learning Academy
Casman Alternative Academy
Central Academy
Cole 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
Industrial Technology Academy
Information Technology Academy of St Clair County
International Academy of Flint
Joseph K Lumsden Public School Academy
Lakeshore Public Academy
Macomb Academy
Martin Luther King, Jr. Public School Academy
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
Public Safety Academy of St. Clair County
Riverside Academy
Sankofa Shule
St. Clair County Learning Academy
Summit Academy
Washtenaw Technical Middle College

Schedule of Participating Employers through 9/30/05 (Continued)

Public School Academies (Continued):

West Village Academy
Woodland Park 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
Tecumseh Public Library
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 2004-2005 report included:

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Special thanks are also extended to the Office of Retirement Services personnel, accounting and support personnel throughout Financial 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