Michigan Public School Employees' Retirement System

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

Comprehensive Annual Financial Report for the Fiscal Year Ended September 30, 2008

M P S E R S

Prepared by:
Financial Services
for
Office of Retirement Services
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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, 2007

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.

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Executive Director

Public Pension Standards Award

Public Pension Coordinating Council

Public Pension Standards Award
For Funding and Administration
2008

Presented to

Michigan Office of Retirement Services

In recognition of meeting professional standards for
plan funding 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

INTRODUCTORY SECTION

Letter of Transmittal

Michigan Public School Employees' Retirement System
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Lansing, Michigan 48909-7671
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STATE OF MICHIGAN

JENNIFER M. GRANHOLM, Governor

DEPARTMENT OF MANAGEMENT AND BUDGET

December 12, 2008

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 2008.

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. The annual actuarial valuation was completed by Gabriel Roeder Smith & Company for the fiscal year ended September 30, 2007. Actuarial certification and supporting statistics are included in the Actuarial Section of this report.

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 31, 1980, 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 System. Public Acts 136 of 1945 and 259 of 1974, respectively, created the two original funds. A twelve-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 steady performance over the long-term.

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 (12.3)%. For the last five years, the System has experienced an annualized rate of return of 8.1%. A summary of asset allocation and rates of return can be found in the Investment Section of this report.

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

Letter of Transmittal (continued)

stronger the System. Effective in fiscal year 2001, the System uses the valuation from the previous fiscal year for this report in accordance with Governmental Accounting Standards Board (GASB) Statement No. 25. Consistent with this approach, the most recent actuarial valuation was performed as of September 30, 2007. The actuarial value of the assets and actuarial accrued liability were $45.3 billion and $51.1 billion, respectively, resulting in a funded ratio of 88.7% at September 30, 2007. An 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

In fiscal year 2007 the System implemented Governmental Accounting Standards Board (GASB) Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans.* A GASB 43 compliant actuarial valuation is completed annually to determine the actuarial accrued liability if the postemployment benefits were to be pre-funded. If these benefits were pre-funded, the actuarial accrued liability as of September 30, 2007, would be $25.7 billion. Statement No. 43 does not require retroactive application of the reporting changes. Therefore, only two valuation years are presented and are included in the required supplementary information of this report.

MAJOR GOALS ACCOMPLISHED

The Michigan Department of Management and Budget, Office of Retirement Services (ORS) is an innovative retirement organization driven to empower our customers for a successful today and a secure tomorrow. During fiscal year 2008, we concluded our Vision ORS technology project by integrating additional tools to further streamline our processes and conduct our business more efficiently. One of the enhancements most visible to the public is miAccount, a web-based, self-service interactive system that allows active and retired members to safely access their personal retirement information, review and update personal information, and be more actively involved in their retirement planning. Additional accomplishments are highlighted below.

Focus on Our Customer

<u>Streamlined operations helped reduce expenses</u> - As fiscal year 2007-08 unfolded with state government facing a serious financial deficit, ORS worked diligently to improve customer services while reducing expenses. On the processing side of our operations, we've placed greater emphasis on retirees enrolling in electronic funds transfer (EFT, or direct deposit) which provides the pension recipient with a more secure way to receive pension payments, and saves us processing costs. We've also enhanced our EFT options, allowing them to split their payment between two accounts, either at the same financial institution or at different institutions.

We implemented new group counseling sessions to better serve our customer base. These sessions help customers understand their pension estimate and the application process while providing face-to-face reassurance that they're not missing anything before submitting their retirement application. Besides reaching multiple customers at once with fewer resources, the group sessions reduce walk-in traffic and reduce the number of incomplete applications that need to be returned.

<u>Videoconferencing and webinars improved efficiency</u> - For our off-site retirement information seminars, whenever possible, technology was utilized in order to reduce our costs yet maintain personal services. In addition to the 46 traditional preretirement meetings with 4,156 members attending we delivered 15 videoconferences which reached another 423 members. The introduction of webinars helped us reach specialty audiences such as payroll personnel and other employer groups quickly and efficiently. We conducted 29 reporting requirements webinars for school administrative personnel reaching 324 participants and held another 15 special topic webinars to inform 224 employers about how Public Acts 110 and 111 of 2007 would affect both them and their employees.

<u>Member statements sent the earliest ever</u> - *Member Statements* were mailed to active employees almost three months earlier than ever before. As employers have become more comfortable and efficient with electronic wage and contribution reporting, we can update employer records more timely, often shortly after the end of each pay period rather than the end of the quarter. With a greater number of employer year-end reports finalized earlier this year, member statements could be compiled, prepared for printing and mailed sooner.

Letter of Transmittal (continued)

Education efforts target younger members - ORS continues to address the urgent need for workers to plan and save for retirement earlier in their career. A new brochure is delivered to public school employees within weeks of being hired, along with a welcome letter introducing them to the retirement system, our member website, and miAccount. In addition, active members receive *PROactive*, an annual newsletter that shares ideas on how best to prepare for a secure future.

Customer contact options expanded - Through our websites, seminars, and publications, ORS continues to offer customers easily accessible sources of clear, concise information about their retirement plan. As more of our customers use these tools, they become more knowledgeable about their plan and have less need to contact us with basic retirement plan questions, freeing staff to respond to more complicated inquiries.

During fiscal year 2008 our Customer Service staff answered 215,949 customer telephone calls, assisted 6,952 customers face-to-face, and responded to 14,072 emails. We also introduced a new secure online message board as part of miAccount where customers receive a response to their questions within 12 business hours.

Employer surveys reflect high satisfaction rates - The third annual employer survey results show high rankings in customer service.

- Overall satisfaction with ORS services: 94.6 percent (This marks the second consecutive year the satisfaction score has reached or exceeded 90 percent.)
- Employer reporting call center courtesy: 98.8 percent positive.
- Employer reporting call center knowledge: 97.7 percent positive.
- Final Salary Affidavit (FSA) calls courtesy: 100 percent positive.
- FSA calls knowledge: 98.8 percent positive.

Continuously Improve Processes

Legislative changes prompt modifications to our system and processes - Two pieces of legislation, 2007 PA 110 and 111, required extensive programming changes to our system, our processes, and our operations. These two acts created a separate benefit structure for newly hired participants and changed requirements for service credit purchases and eligibility for insurance subsidies. New data fields and rules had to be added to the employer reporting system; changes to how the system tracks and reports service credit and retirement eligibility were required; and system screens and generated documents needed modifications. Related forms and publications plus the employer and member websites all needed to be revised to comply with the legislation.

Member ID replaces social security number references - Safeguarding our members' identity and financial information has always been a high priority for ORS. This year we initiated a process to use a unique Member ID number as our account reference number, rather than the customer's social security number (SSN). Members use their Member ID to set up and access account data through miAccount, which offers a secure environment for all online transactions. Member IDs also appear on EFT statements, personalized forms and letters sent from ORS, annual member statements, and other correspondence.

Staff trained on security awareness and identity theft protection - All ORS staff participated in mandatory security awareness and identity theft protection training, in response to the June 2007 amendment to the Identity Theft Protection Act (2004 PA 454). Everyone learned to identify a security risk versus a security breach, how to prevent security breaches, and what procedures to follow if one occurs. This training was incorporated into our new hire orientation as well, so it will remain a significant part of our culture.

Reconfiguration of insurance programs generate savings - As a result of ORS integrating its prescription drug, hospital and physician program with Medicare as a Medicare Advantage Prescription Drug plan during 2007, we realized associated cost avoidance savings of $150 million.

The most recent initiative package passed by the Board uses a combination of cost avoidance (e.g., Care Management Programs), cost reduction (e.g., Physical Therapy Network), and cost sharing (e.g., modest copay adjustments) to both the prescription drug plan and the medical plan. This is projected to save $62-68 million in 2008 and 2009.

Letter of Transmittal (continued)

Insurance processing goes paperless - In September, ORS and Blue Cross Blue Shield of Michigan (BCBSM) implemented electronic transaction transfers, making routine paper processing a thing of the past. Standard insurance transactions such as adds, deletes, and changes can now be transmitted electronically to BCBSM and updated weekly. For our retirees and our staff this means insurance processing can be done with fewer delays and increased accuracy.

Promote a Positive Work Environment

Staff engaged in strategic planning - Last year, staff from throughout ORS helped craft strategic goals that would direct ORS for the next three years. This endeavor allows the people who serve our customers to guide the organization's future direction, and to have a sense of ownership for these goals. The objectives are being included in our business plans over the next three years.

Cross-training enhances business operations and staff flexibility - Over the past several years, as we implemented new technology and automated many of our processes, day-to-day tasks have changed dramatically. With the elimination of many tedious manual operations, we've seen our business needs shift. We now have more staff resources dedicated to interacting directly with customers. We've also realized gains in our operations by cross-training staff so they are ready and able to assist wherever the workloads are the heaviest.

Celebrations, open forums, and recognition events help improve morale - This year ORS had much to celebrate. We implemented the last stages of Vision ORS, a tremendous endeavor that has totally revamped our retirement processing system from how we collect employee wage and contribution data to how we process pensions. In spite of tough economic times, we found ways to offer many thanks for jobs well done, completion of special projects, and innovative solutions. The Department of Management and Budget honored ORS employees with two of its five prestigious Employee Excellence Awards.

Semiannual ORS all-staff meetings provided opportunities for sharing business updates, responding to questions, and welcoming new staff. Two all-staff planning committees, comprised of staff volunteers from throughout ORS, determined each agenda and coordinated the meetings.

Optimize Technology

Forms, Letters, Barcode project reduces processing time - This year ORS implemented an integrated forms, letters, and barcoding solution that creates individually customized letters and forms, and print-on-demand information sheets. These documents are automatically imaged to the appropriate member's file then transmitted daily to the state's central facility for printing and mailing. The document images are immediately viewable by staff, allowing them to focus on serving the customer rather than processing mail.

Incoming forms carry barcodes identifying the document type, member account, and the workflow to be initiated. By automating the incoming scanning and indexing process, there will be less human intervention and shorter waits before processing can begin.

miAccount offers secure, online access to personal account information - The new online account access tool, miAccount, generated considerable excitement this year and received accolades from customers and various outside organizations. Introduced to retirees in February and to active members in August, by the end of September 23,580 registered miAccount users had completed 82,416 transactions or page views, a number that is steadily increasing. miAccount can be used to add or change a beneficiary, modify direct deposit accounts, change federal tax withholding, view past pension payments, check wage and service credit history, track contribution totals, create and save pension estimates, apply for retirement, or use a secure message board to correspond with staff about personal account information. The tool lets users conduct retirement-related business when it's convenient for them rather than being confined to traditional business hours.

Ever-changing technology requires updating - As more and more demands were placed on our equipment and technology, we needed to upgrade our hardware and software. This improved both online and batch processing time, and created system environment consistency for better disaster recovery and testing.

Letter of Transmittal (continued)

AWARDS AND ACKNOWLEDGEMENTS

ORS received the following recognitions:

- Certificate of Achievement for Excellence in Financial Reporting for our fiscal year 2007 *Comprehensive Annual Financial Report*. Awarded by the Government Finance Officers Association of the United States and Canada, 2007 marks the 17th consecutive year to receive this prestigious award.

- Public Pension Standards 2008 Award for meeting standards for public retirement system management and administration. Awarded by the Public Pension Coordinating Council.

- The Midwest Technology Leaders Council honored miAccount with the 2008 Midwest Collaboration Award (MCA08), for a Michigan-based partnership that achieves a specific technology goal.

- *Government Technology* magazine recognized miAccount as the best new application to directly deliver services more efficiently and effectively to the public.

- 2007 Council of State Government Innovations Award Program. Placed in the finals for the Medicare Advantage program which streamlines plan administration and provides greater access to health care providers, cost sharing, and savings.

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

Phillip J. Stoddard

Phillip J. Stoddard, Director
Office of Retirement Services

Administrative Organization

Retirement Board Members*

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

Administrative Organization

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Office of Retirement Services
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Investment Manager and Custodian
Robert J. Kleine
State Treasurer
State of Michigan

Legal Advisor
Mike Cox
Attorney General
State of Michigan

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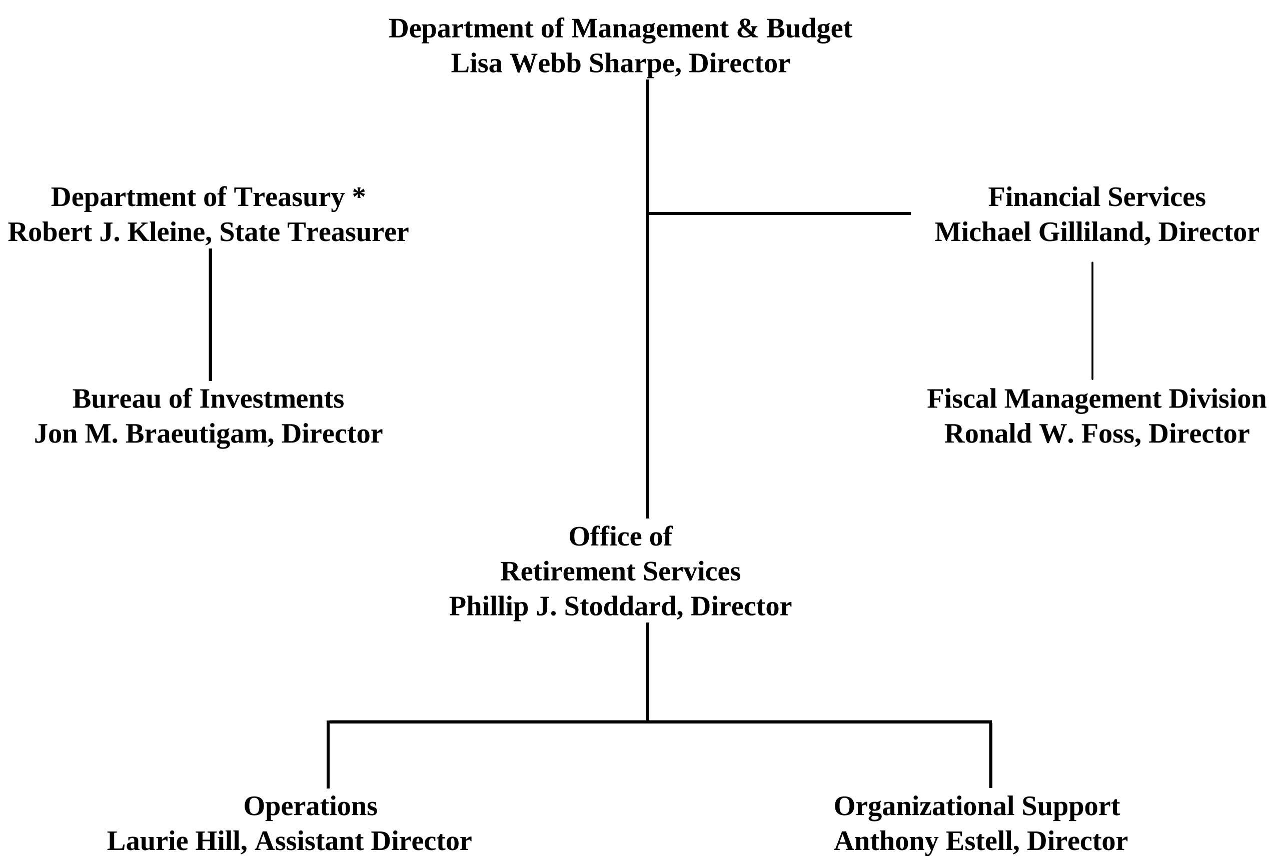
Investment Performance Measurement
State Street Corporation
State Street Investment Analytics
Boston, MA

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.

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FINANCIAL SECTION

Independent Auditor's Report
Management's Discussion and Analysis
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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. Phillip Stoddard, 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 other postemployment benefit plan net assets of the Michigan Public School Employees' Retirement System, as of September 30, 2008 and 2007, and the related statements of changes in pension plan and other postemployment benefit 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, 2008 and 2007, 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 12, 2008 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.

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Independent Auditor's Report (continued)

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 and Other 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 12, 2008

FINANCIAL SECTION

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, 2008. 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 2008 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, 2008, the funded ratio for pension benefits was approximately 88.7% and the funded ratio for other postemployment benefits was approximately 3.0%
- Revenues for the year were ($5.3) billion, which are comprised primarily of contributions of $2.1 billion and investment losses of ($7.4) billion.
- Expenses increased over the prior year from $3.7 billion to $3.9 billion or 7.0%. Most of this increase represented increased retirement benefits paid.

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

This Comprehensive Annual Financial Report (CAFR) consists of two financial statements; *The Statements of Pension Plan and Other Postemployment Benefit Plan Net Assets* (page 24) and *The Statements of Changes in Pension Plan and Other Postemployment Benefit Plan Net Assets* (page 25*)*. These financial statements report information about the System, as a whole, and about its financial condition that should help answer the question: Is the System, as a whole, better off or worse off as a result of this year's activities? These statements include all assets and liabilities using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis of accounting, all revenues and expenses are taken into account regardless of when cash is received or paid.

The Statement of Pension Plan and Other Postemployment Benefit Plan 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 Other Postemployment Benefit 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 Schedules of Funding Progress (page 46) and Schedules of Employer and Other Contributions (page 47) 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, 2008, were $47.1 billion and were mostly comprised of cash, investments, and contributions due from employers. Total assets decreased $12.6 billion or (21.1)% between fiscal years 2007 and 2008 due to net investment losses. Total assets increased $9.3 billion or 18.5% between fiscal years 2006 and 2007 primarily due to increased investment earnings and contributions exceeding deductions.

Total liabilities as of September 30, 2008, were $7.2 billion and were mostly comprised of warrants outstanding, accounts payable, and obligations under securities lending. Total liabilities decreased $3.4 billion or (31.9)% between fiscal years 2007 and 2008 due to decreased obligations under securities lending. Total liabilities increased $3.8 billion or 56.2% between fiscal year 2006 and fiscal year 2007 primarily due to an increase in obligations under securities lending.

System assets exceeded its liabilities at the close of fiscal year 2008 by $39.9 billion. Total net assets held in trust for pension and OPEB benefits decreased $9.2 billion or (18.8)% from the previous year, primarily due to net investment losses. This compares to fiscal year 2007, when net assets increased by $5.5 billion or 12.6% from the prior year.

Net Assets
(in thousands)

	2008	Increase/ (Decrease)	2007	Increase/ (Decrease)	2006
Assets					
Cash	$ 580,659	428.1 %	$ 109,955	34.7 %	$ 81,655
Receivables	436,109	(14.3)	508,718	(10.6)	569,167
Investments	46,116,456	(22.0)	59,142,263	18.8	49,775,568
Total Assets	47,133,224	(21.1)	59,760,936	18.5	50,426,390
Liabilities					
Warrants outstanding	6,425	(23.4)	8,388	45.0	5,785
Accounts payable and other accrued liabilities	238,068	(20.5)	299,464	259.3	83,339
Obligations under securities lending	6,990,909	(32.2)	10,313,816	53.7	6,711,645
Total Liabilities	7,235,402	(31.9)	10,621,668	56.2	6,800,769
Total Net Assets	$ 39,897,822	(18.8) %	$ 49,139,268	12.6 %	$ 43,625,621

Management's Discussion and Analysis (continued)

REVENUES - ADDITIONS TO PLAN NET ASSETS

The reserves needed to finance retirement and other postemployment 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 2008 totaled approximately ($5.3) billion.

Total additions for fiscal year 2008 decreased approximately $14.5 billion or (158.2)% from those of fiscal year 2007 due primarily to net investment losses. Total additions increased approximately $1.9 billion or 26.6% from fiscal year 2006 to fiscal year 2007 due primarily to increased investment earnings. Total contributions increased between fiscal years 2007 and 2008 by $0.2 billion or 9.6%, while net investment income (loss) decreased $14.7 billion or (203.3)%. Total contributions decreased from fiscal year 2006 to fiscal year 2007 by $0.3 billion or (14.6)%, while investment income increased $2.3 billion or 45.4% during that timeframe. The Investment Section of this report reviews the results of investment activity for fiscal year 2008.

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 2008 were $3.9 billion, an increase of 7.0% over fiscal year 2007 expenses. Total deductions for fiscal year 2007 were $3.6 billion, which was an increase of 4.4% over fiscal year 2006 expenses.

The health, dental, and vision care expenses during the year increased by $76.2 million or 12.9% from $590.2 million to $666.4 million. This compares to a decrease of $44.6 million or (7.0)% from $634.8 million to $590.2 million between fiscal years 2006 and 2007. The payment of pension benefits increased by $172.5 million or 5.9% between fiscal years 2007 and 2008 and by $183.6 million or 6.6% from fiscal year 2006 to fiscal year 2007. In fiscal year 2008, the increase in pension benefit expenses resulted from an increase in retirees (4,421) and an increase in benefit payments to retirees. In fiscal year 2007, the increase in pension benefit expenses resulted from an increase in retirees (5,681) and an increase in benefit payments to retirees. Administrative expenses increased by $5.0 million or 5.7% between fiscal years 2007 and 2008, primarily due to an increase in personnel services and accounting expenses. Administrative expenses increased by $5.9 million or 7.2% between fiscal years 2006 and 2007 due primarily to an increase in personnel services and accounting expenses.

Management's Discussion and Analysis (continued)

Changes in Plan Net Assets
(in millions)

	2008	Increase (Decrease)	2007	Increase (Decrease)	2006
Additions					
Member contributions	$ 477.3	10.0 %	$ 434.0	(26.5) %	$ 590.4
Employer contributions	1,648.9	9.4	1,507.0	(10.5)	1,682.9
Other governmental contributions	0.1	-	- *	-	- *
Net investment income (loss)	(7,459.7)	(203.2)	7,225.0	45.4	4,968.6
Miscellaneous income	1.4	(50.0)	2.8	460.0	0.5
Total additions	(5,332.0)	(158.2)	9,168.8	26.6	7,242.4
Deductions					
Pension benefits	3,117.4	5.9	2,944.9	6.6	2,761.3
Health care benefits	666.4	12.9	590.2	(7.0)	634.8
Refunds and transfers to other systems	32.8	1.5	32.3	34.0	24.1
Administrative expenses	92.8	5.7	87.8	7.2	81.9
Total deductions	3,909.4	7.0	3,655.2	4.4	3,502.1
Net increase (decrease)	(9,241.4)	(267.6)	5,513.6	47.4	3,740.3
Net Assets - Beginning of Year	49,139.3	12.6	43,625.6	9.4	39,885.3
Net Assets - End of Year	$ 39,897.9	(18.8) %	$ 49,139.2	12.6 %	$ 43,625.6

* The amount represents less than $100,000.

Management's Discussion and Analysis (continued)

RETIREMENT SYSTEM AS A WHOLE

The System's combined net assets experienced a decrease in 2008 after increases for both 2007 and 2006. This decrease is a result of a struggling national economy that resulted in net investment losses for fiscal year ended September 30, 2008. Management believes, and actuarial studies concur, that the System is in a financial position to meet its current obligations due, in part, 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.

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Statements of Pension Plan and Other Postemployment Benefit Plan Net Assets

As of September 30, 2008 and 2007

	September 30, 2008			September 30, 2007		
	Pension Plan	**OPEB Plan**	**Total**	**Pension Plan**	**OPEB Plan**	**Total**
Assets:						
Equity in common cash	$ 565,197,559	$ 15,461,404	$ 580,658,963	$ 107,566,776	$ 2,388,139	$ 109,954,915
Receivables:						
Amounts due from employer	183,648,155		183,648,155	238,796,864	28,920	238,825,784
Amounts due from employer long term	251,415,722		251,415,722	266,823,141		266,823,141
Interest and dividends	1,017,629	27,838	1,045,467	3,002,393	66,658	3,069,051
Total receivables	436,081,506	27,838	436,109,344	508,622,398	95,578	508,717,976
Investments:						
Short term investment pools	328,695,712	8,991,718	337,687,430	1,044,227,905	23,183,381	1,067,411,286
Fixed income pools	6,928,097,881	189,523,322	7,117,621,203	7,853,184,370	174,352,135	8,027,536,505
Domestic equity pools	16,948,852,673	463,648,597	17,412,501,270	22,491,305,149	499,339,742	22,990,644,891
Real estate pool	4,366,607,612	119,451,831	4,486,059,443	4,262,390,199	94,631,273	4,357,021,472
Alternative investment pools	7,526,501,188	205,893,094	7,732,394,282	6,696,601,576	148,674,312	6,845,275,888
International equities pools	3,574,931,658	97,794,941	3,672,726,599	5,420,219,819	120,336,777	5,540,556,596
Securities lending collateral	5,214,810,987	142,655,072	5,357,466,059	10,089,807,870	224,008,435	10,313,816,305
Total investments	44,888,497,711	1,227,958,575	46,116,456,286	57,857,736,888	1,284,526,055	59,142,262,943
Total assets	45,889,776,776	1,243,447,817	47,133,224,593	58,473,926,062	1,287,009,772	59,760,935,834
Liabilities:						
Warrants outstanding	6,254,363	171,092	6,425,455	8,205,995	182,184	8,388,179
Accounts payable and other accrued liabilities	13,021,111	225,047,149	238,068,260	12,979,302	286,484,956	299,464,258
Obligations under securities lending	6,804,759,846	186,149,317	6,990,909,163	10,089,807,870	224,008,435	10,313,816,305
Total liabilities	6,824,035,320	411,367,558	7,235,402,878	10,110,993,167	510,675,575	10,621,668,742
Net Assets Held in Trust for Pension and OPEB Benefits*	$ 39,065,741,456	$ 832,080,259	$ 39,897,821,715	$ 48,362,932,895	$ 776,334,197	$ 49,139,267,092

*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 Other Postemployment Benefit Plan Net Assets

For Fiscal Years Ended September 30, 2008 and 2007

	September 30, 2008			September 30, 2007		
	Pension Plan	OPEB Plan	Total	Pension Plan	OPEB Plan	Total
Additions:						
Contributions:						
Member contributions	$ 399,256,616	$ 78,088,861	$ 477,345,477	$ 356,761,212	$ 77,206,778	$ 433,967,990
Employer contributions:						
Colleges, universities and federal	77,058,563	56,467,828	133,526,391	63,505,126	57,764,985	121,270,111
School districts and other	922,316,316	593,103,243	1,515,419,559	771,861,256	613,915,415	1,385,776,671
Other governmental contributions		102,115	102,115		63,054	63,054
Total contributions	1,398,631,495	727,762,047	2,126,393,542	1,192,127,594	748,950,232	1,941,077,826
Investment income (loss):						
Net appreciation (depreciation) in fair value of investments	(8,337,977,388)		(8,337,977,388)	6,262,637,852		6,262,637,852
Interest, dividends, and other	867,322,386	62,106,736	929,429,122	961,168,862	50,417,122	1,011,585,984
Investment expenses:						
Real estate operating expenses	(166,293)		(166,293)	(1,011,213)		(1,011,213)
Other investment expenses	(98,741,517)		(98,741,517)	(67,046,587)		(67,046,587)
Securities lending activities:						
Securities lending income	317,987,338		317,987,338	470,628,987		470,628,987
Securities lending expenses	(270,249,018)		(270,249,018)	(451,816,635)		(451,816,635)
Net investment income (loss)	(7,521,824,492)	62,106,736	(7,459,717,756)	7,174,561,266	50,417,122	7,224,978,388
Transfers from other systems	83,138		83,138	5,794		5,794
Miscellaneous income	897,179	378,216	1,275,395	2,553,474	260,709	2,814,183
Total additions	(6,122,212,680)	790,246,999	(5,331,965,681)	8,369,248,128	799,628,063	9,168,876,191
Deductions:						
Benefits and refunds paid to plan members and beneficiaries:						
Retirement benefits	3,117,434,847		3,117,434,847	2,944,920,179		2,944,920,179
Health benefits		588,064,545	588,064,545		521,420,684	521,420,684
Dental/vision benefits		78,316,098	78,316,098		68,805,781	68,805,781
Refunds of member contributions	32,612,927	41,786	32,654,713	32,141,952	30,580	32,172,532
Transfers to other systems	190,357		190,357	105,572		105,572
Administrative expenses	24,740,628	68,078,508	92,819,136	24,489,202	63,315,419	87,804,621
Total deductions	3,174,978,759	734,500,937	3,909,479,696	3,001,656,905	653,572,464	3,655,229,369
Net Increase (Decrease)	(9,297,191,439)	55,746,062	(9,241,445,377)	5,367,591,223	146,055,599	5,513,646,822
Net Assets Held in Trust for Pension and OPEB Benefits:						
Beginning of Year	48,362,932,895	776,334,197	49,139,267,092	42,995,341,672	630,278,598	43,625,620,270
End of Year*	$ 39,065,741,456	$ 832,080,259	$ 39,897,821,715	$ 48,362,932,895	$ 776,334,197	$ 49,139,267,092

* 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
September 30, 2008 and 2007

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. Section 25 of this act establishes the board's authority to promulgate or amend the provisions of the System. The System's pension plan was established by the State to provide retirement, survivor and disability benefits to the public school employees. In addition, the System's health plan provides all retirees with the option of receiving health, dental and vision coverage under the Michigan Public School Employees' Retirement Act. There are 715 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 Michigan, Central Michigan, Northern Michigan, 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 and other employee benefit 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, 2008 and 2007, the System's membership consisted of the following:

Retirees and beneficiaries currently receiving benefits:	**2008**	**2007**
Regular benefits	147,323	143,394
Survivor benefits	14,401	13,941
Disability benefits	5,541	5,509
Total	167,265	162,844
Current Employees:		
Vested	121,232	119,989
Non-vested	157,410	175,995
Total	278,642	295,984
Inactive employees entitled to benefits and not yet receiving them	14,312	14,999
Total all members	460,219	473,827

Notes to Basic Financial Statements (continued)

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

Health, Dental and Vision Plan	**2008**	**2007***
Eligible participants	167,265	162,844
Participants receiving benefits:		
Health	123,897	121,333
Dental/Vision	132,728	129,605

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

BENEFIT PROVISIONS - PENSION

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.

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 MIP 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 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% dependent upon the 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 between January 1, 1990 and June 30, 2008, 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. Members first hired July 1, 2008, or later, contribute at the following graduated permanently fixed contribution rates: 3% of the first $5,000; 3.6% of $5,001 through $15,000; 6.4% 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 of 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.

BENEFIT PROVISIONS – OTHER POSTEMPLOYMENT

Introduction

Benefit provisions of the postemployment healthcare plan are established by State statute, which may be amended. Public Act 300 of 1980, as amended, establishes eligibility and benefit provisions. Retirees have the option of health

Notes to Basic Financial Statements (continued)

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

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

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).

3. To limit future liabilities of Other Postemployment Benefits a graded premium health insurance subsidy has been put into place for all members of the Michigan Public School Employees Retirement System who first work on or after July 1, 2008.

Dependents receive the same percentage of employer paid health subsidy as the retiree upon whom they are dependent.

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

	2008	2007*
Health, Dental and Vision Plan		
Eligible participants	167,265	162,844
Participants receiving benefits:		
Health	123,897	121,333
Dental/Vision	132,728	129,605
Expenses for the year	$ 734,500,937	$ 653,572,464
Employer payroll contribution rate	6.55%	6.55%

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

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

Notes to Basic Financial Statements (continued)

to terminated members, and amounts transferred to the Reserve for Employer Contributions representing unclaimed funds. At September 30, 2008, and 2007, the balance in this reserve was $1.6 billion for both years.

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, 2008, and 2007, the balance in this reserve was $4.2 billion and $3.8 billion, respectively.

Reserve for Employer Contributions - All reporting unit contributions, except payments for health benefits, are credited to this reserve. Interest from the Reserve for Undistributed Investment Income reserve 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, 2008, and 2007, the balance in this reserve was ($19.7) billion and ($18.5) billion, respectively.

Reserve for Retired Benefit Payments - This represents the reserves for payment of future retirement benefits to current retirees. At retirement, a member's accumulated contributions plus interest are transferred into this reserve. 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, 2008, and 2007, the balance in this reserve was $30.8 billion and $29.1 billion, respectively.

Reserve for Undistributed Investment Income - The Reserve for Undistributed Investment Income 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, 2008, and 2007, the balance in this reserve was $22.1 billion and $32.4 billion, respectively. The balance of this reserve includes the balance of the Stabilization Subaccount.

Stabilization Subaccount - Under Public Act 143, effective November 19, 1997, the actuarial value of assets was set at market at September 30, 1997, with the 5 year smoothing of investment gains or losses applied prospectively. Also, the inflation component of the salary scale was reduced from 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, 2008, the balance in the subaccount was zero. The balance of the subaccount is included the reserve for undistributed investment income which is a component of the pension plan net assets.

Reserve for Health (OPEB) Benefits - This reserve is credited with employee and employer contributions for retirees' health, dental and vision benefits. This reserve includes revenue from the federal government for retiree drug subsidy payments (RDS) pursuant to the provisions of Medicare Part D. Currently, the required contribution is based on pay-as-you-go funding. It represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liability (or funding excess) over a period not to exceed thirty years. However, the actual contributions have been less than the annual required contributions (the ARC). Interest is allocated based on the beginning balance of the reserve. Health, dental and vision benefits are paid from this reserve. The System pays 90% of the monthly premium, membership, or subscription fee for dental, vision and hearing benefits. At September 30, 2008, and 2007, the balance in this reserve was $832.1 million and $776.3 million, respectively.

Reporting Entity

The System is a pension and other employee benefit 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 and other employee benefit 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.

Notes to Basic Financial Statements (continued)

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. Securities purchased with cash collateral under securities lending activities are recorded at estimated fair value. Other investments not having an established market are recorded at estimated fair value.

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 State's general fund based on either a direct cost or allocation basis depending on the nature of the expense. Costs of administering the System are financed by undistributed investment income of 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 Benefit 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 schedule on the following page summarizes costs incurred by the System for such services.

Notes to Basic Financial Statements (continued)

	2008	2007
Building Rentals	$ 908,635	$ 793,603
Technological Support	9,152,047	9,079,681
Attorney General	221,317	223,467
Investment Services	9,617,670	8,559,613
Personnel Services	9,275,254	8,915,499

Cash — On September 30, 2008, and 2007, the System had $580.7 million and $109.9 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 $3.3 million and $7.0 million for the years ended September 30, 2008, and 2007, respectively.

NOTE 3 - CONTRIBUTIONS AND FUNDED STATUS

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 and retiree OPEB. 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. For retirement benefits, the unfunded (overfunded) actuarial accrued liability is amortized over a 28 year period for the 2008 fiscal year and 29 year period for the 2007 fiscal year. For OPEB, the unfunded (overfunded) actuarial accrued liability is amortized over a maximum period of 30 years.

Actual employer contributions for retirement benefits were $999.4 million and $835.4 million for fiscal years 2008 and 2007, respectively, representing 8.5% of annual covered payroll for the year ended September 30, 2007. The fiscal year 2008 annual covered payroll is not yet available. Required employer contributions based on previous year actuarial valuations for pensions included:

1. $551.6 million and $551.1 million for fiscal years 2008 and 2007, respectively, for the normal cost of pensions representing 5.6% and 5.6% (before reconciliation) of annual covered payroll for fiscal years 2007 and 2006, respectively.

2. $352.8 million and $368.4 million for fiscal years 2008 and 2007, respectively, for amortization of unfunded actuarial accrued liability representing 3.6% and 3.8% (before reconciliation) of annual covered payroll for fiscal years 2007 and 2006, respectively.

Actual employer contributions for other postemployment benefits (OPEB) were $649.6 million and $671.7 million for fiscal years 2008 and 2007, respectively, representing 6.8% of annual covered payroll for the year ended September 30, 2007. The fiscal year 2008 annual covered payroll is not yet available. Required employer contributions based on previous year actuarial valuations for OPEB included:

Notes to Basic Financial Statements (continued)

1. $1,487.6 million and $ 1,595.5 million for fiscal years 2008 and 2007, respectively, for the normal cost of OPEB representing 15.1% and 16.3% (before reconciliation) of annual covered payroll for fiscal years 2007 and 2006, respectively.

2. $938.0 million and $901.6 million for fiscal years 2008 and 2007, respectively, for amortization of unfunded actuarial accrued liability representing 9.5% and 9.2% (before reconciliation) of annual covered payroll for fiscal years 2007 and 2006, respectively.

The System is required to reconcile with actuarial requirements annually. Any funding excess or deficiency for pension benefits is smoothed over 5 years. One-fifth (20%) of the funding excess or deficiency is included in the subsequent year's 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, 2008, and 2007, there were 41,175 and 42,658 agreements, respectively. The agreements were discounted using the assumed actuarial rate of return of 8% for September 30, 2008, and 2007. The average length of a contract was approximately 7.6 and 7.8 years for 2008 and 2007. The short-term receivable was $74 million and the discounted long-term receivable was $251 million at September 30, 2008. At September 30, 2007, the short-term receivable was $77 million and the discounted long-term receivable was $267 million.

In March 2007, Public Act 15 of 2007 and Executive Order 2007-3 were implemented to reduce System expenditures and revalue assets to their actual market value as of September 30, 2006. Through these two measures, the savings to the School Aid Fund (for K-12 and Intermediate School Districts), Community Colleges and Universities totaled approximately $297 million in the form of credits to offset an equal amount of pension obligation payments that those entities would otherwise have to pay.

Funded Status

Participating employers are required to contribute at an actuarially determined rate for both pension benefits and OPEB. For fiscal year 2007, the actuarial accrued liability (AAL) for pension benefits was $51.1 billion, and the actuarial value of assets was $45.3 billion, resulting in an unfunded actuarial accrued liability (UAAL) of $5.8 billion and a funded ratio of 88.7%. The covered payroll (annual payroll of active employees covered by the plan) was $9.9 billion, and the ratio of the UAAL to the covered payroll was 58.6%.

For fiscal year 2007, the actuarial accrued liability (AAL) for OPEB benefits was $25.7 billion, and the actuarial value of assets was $776.3 million, resulting in an unfunded actuarial accrued liability (UAAL) of $25.0 billion and a funded ratio of 3.0%. The covered payroll (annual payroll of active employees covered by the plan) was $9.9 billion, and the ratio of the UAAL to the covered payroll was 253.3%.

Actuarial Valuations and Assumptions

Actuarial valuations for both the pension and OPEB plans involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions (ARC) are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information about

Notes to Basic Financial Statements (continued)

whether the actuarial value of plan assets for both pension and OPEB plans is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

The accompanying schedules of employer contributions present trend information about the amounts contributed to the plan by employers in comparison to the ARC, an amount that is actuarially determined in accordance with the parameters of GASB Statement No. 25 for pension contributions and GASB Statement No. 43 for OPEB contributions.

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

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

Summary of Actuarial Assumptions

Valuation Date	9/30/2007
Actuarial Cost Method	Entry Age, Normal
Amortization Method - Pension	Level Percent of Payroll, Closed
Amortization Method - OPEB	Level Percent of Payroll, Closed
Remaining Amortization Period	29 years*
Asset Valuation Method - Pension	5-Year Smoothed Market
Asset Valuation Method - OPEB	Market
Actuarial Assumptions:	
Wage Inflation Rate	3.5%
Investment Rate of Return - Pension	8.0%
Investment Rate of Return - OPEB	4.0%
Projected Salary Increases	3.5 - 15.9%
Cost-of-Living Pension Adjustments	3% Annual Non-Compounded for MIP Members
Healthcare Cost Trend Rate	9.5% Year 1 graded to 3.5% Year 11
Other Assumptions OPEB only:	
Opt Out Assumption	21% of eligible participants are assumed to opt out of the retiree health plan
Survivor Coverage	80% of male retirees and 67% of female retirees are assumed to have coverage continuing after the retiree's death
Coverage Election at Retirement	75% of male and 60% of female future retirees are assumed to elect coverage for 1 or more dependents

*Based on the provisions of GASB Statement Nos. 25, 43, and 45, when the actuarial accrued liability for a defined benefit pension plan is underfunded or overfunded, the difference should be amortized over a period not to exceed thirty years for the fiscal periods beginning on or after June 15, 2006.

Notes to Basic Financial Statements (continued)

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.

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 and other employee benefit trust funds (the trust funds).

Derivatives are used in managing the trust fund portfolios, but uses do not include speculation or leverage of investments. Less than 12.0% of the total trust funds' portfolio has been invested from time to time in futures contracts, collateralized mortgages, swap agreements, and option contracts. 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 5.0% of market value of total pooled assets on September 30, 2008, and 6.6% of market value of total pooled assets on September 30, 2007. Futures contracts represent the second largest category of derivatives used, and they represented 0.6% of market value of total pooled assets on September 30, 2008, and 0.2% of market value of total pooled assets on September 30, 2007.

To enhance management flexibility, the State Treasurer has traded futures contracts tied to Bond indices and Standard and Poor's indices. The bond futures are combined with the rest of the fixed income investments to manage interest rate risk. The Standard and Poor's futures contracts are combined with short-term investments or with underlying stock to replicate or enhance the return of the Standard and Poor's indices.

To diversify the trust funds' 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, 2008, and 2007, were $2,885.1 million and $2,460.7 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 trust funds 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 2008 to July 2011. U.S. domestic LIBOR based floating rate notes and other investments earning short-term interest are held to correspond with the notional amount of the swap agreements. The State Treasurer maintains custody and control of these dedicated notes and short-term investments.

The value of these synthetic equity structures is a combination of the value of the swap agreements and the value of the notes and short-term investments. The book value represents the cost of the notes and short-term investments. The current value represents the current value of the notes and short-term investments and the change in value of the

Notes to Basic Financial Statements (continued)

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. For fiscal years ending September 30, 2008, and 2007, international equity investment programs involving swaps, received realized gains and earned interest income of $575.3 million and $978.8 million, respectively.

The unrealized loss of $888.1 million at September 30, 2008, primarily reflects decreases in international stock indices and changes in currency exchange rates. The combined swap structure generally realizes gains and losses on a rolling three year basis.

The respective September 30, 2008, and 2007 swap values are as follows:

	Notional Value	Current Value
9/30/2008 (dollars in millions)	$ 2,885.1	$ 2,059.1
9/30/2007 (dollars in millions)	2,460.7	3,217.9

Securities Lending

State statutes allow the System to participate in securities lending transactions, and the System has, by way of an Agreement, authorized Credit Suisse, 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 State Treasurer, the System's securities and received cash (United States) as collateral. Borrowers were required to deliver collateral for each loan equal to (i) in the case of loaned securities denominated in United States dollars or whose primary trading market was 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 was 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 a borrower failed to return the loaned security or pay distributions thereon, due to the borrower's insolvency. There was one such failure by a borrower during the fiscal year, Lehman Brothers, Inc. (September 2008). However, there were no losses during the fiscal year resulting from the default of the borrower as the agent bank, Credit Suisse, has indemnified the System and has actively been replacing all outstanding loans with Lehman Brothers.

Under Master Securities Lending Agreements between the System and each borrower, the System and the borrowers have the right to terminate all securities lending transactions on demand. The cash collateral received on each loan was invested in assets held in a collateral account. As of September 30, 2008, such assets had an average weighted maturity to next reset of 32 days and an average weighted maturity of 3.3 years. Because the loans are terminable at will, their duration did not generally match the duration of the investments made with cash collateral. On September 30, 2008, the System had no credit risk exposure to borrowers. The cash received for securities on loan for the System as of September 30, 2008, was $6,990,909,163. The fair market value of assets held in the dedicated collateral account as managed by Credit Suisse and held by the custodian for the System as of September 30, 2008, was $5,357,466,059. The carrying amount, which is the fair market value, of securities on loan for the System as of September 30, 2008, was $6,367,777,476.

Gross income, including capital gains, from security lending for the fiscal year with Credit Suisse was $317,987,338. Expenses associated with this income were the borrower's rebate of $260,015,554 and fees paid to the agent bank of $10,233,464.

Notes to Basic Financial Statements (continued)

Substantial volatility in the financial markets impacted the fair value estimates for securities lending collateral held at September 30, 2008. The System recorded an unrealized loss of $1.6 billion at September 30, 2008 for securities lending collateral.

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 Statement No. 40. These are held in internal investment pools and reported as such in the financial statements.

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 – These investments must be investment grade or better at the time of purchase unless specific requirements are met as defined in Public Act 314 of 1965, as amended, and the State Treasurer's investment policy. Law defines investment grade as investments in the top four major grades, rated by two national rating services, S&P (AAA, AA, A, BBB) and Moody's (Aaa, Aa, A, Baa). At September 30, 2008, the System was in compliance with the policy in all material aspects.

Notes to Basic Financial Statements (continued)

Rated Debt Investments
(in thousands)
As of September 30, 2008, and 2007

	2008				2007			
Investment Type	**Fair Value**	**S&P**	**Fair Value**	**Moody's**	**Fair Value**	**S&P**	**Fair Value**	**Moody's**
Short Term	$ 1,128,191	A-1	$ 1,128,191	P-1	$ 2,429,843	A-1	$ 2,545,309	P-1
	-	NR	-	NR	259,244	NR	143,778	NR
U.S. Agencies - Sponsored	1,381,368	AAA	1,381,368	Aaa	2,742,566	AAA	2,742,566	Aaa
Corporate Bonds & Notes								
	509,068	AAA	422,551	Aaa	636,618	AAA	588,635	Aaa
	542,952	AA	593,421	Aa	732,961	AA	804,985	Aa
	1,694,585	A	1,651,458	A	1,299,636	A	1,256,120	A
	776,269	BBB	816,157	Baa	497,912	BBB	537,344	Baa
	11,488	BB	13,470	Ba	13,678	BB	13,174	Ba
	2,864	B	921	B	3,250	B	-	B
	366	CCC	2,440	Caa	-	CCC	1,395	Caa
	-	CC	302	Ca	-	CC	-	Ca
	-	C	56	C	-	C	-	C
	169	D	-	D	-	D	-	D
	82,099	NR	119,085	NR	139,705	NR	122,107	NR
International [1]								
	402,285	AAA	402,285	Aaa	257,401	AAA	257,401	Aaa
	1,040,001	AA	1,166,044	Aa	739,311	AA	1,222,969	Aa
	1,148,131	A	1,138,563	A	355,166	A	78,130	A
	194,405	NR	77,929	NR	284,598	NR	77,976	NR
Securities Lending Collateral [2]								
	1,628,686	AAA	1,673,366	Aaa	-		-	
	1,391,697	AA	1,577,532	Aa	-		-	
	1,441,903	A	1,234,669	A	-		-	
	372,357	BBB	590,441	Baa	-		-	
	73,523	BB	3,419	Ba	-		-	
	15,823	B	56,235	B	-		-	
	15,648	D	-	D	-		-	
	406,051	NR	210,026	NR	-		-	
Total	$ 14,259,929		$ 14,259,929		$ 10,391,889		$ 10,391,889	

NR - not rated

[1] International Investment types consist of domestic floating rate note used as part of a Swap strategy.

[2] Securities lending collateral ratings are unavailable for September 30, 2007.

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, 2008. As of September 30, 2008 and 2007, government securities with a market value

Notes to Basic Financial Statements (continued)

of $19.6 million and $19.3 million, 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 Public Act 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, 2008 and 2007, there were no investments in any 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, 2008 and 2007, the fair value of the System's prime commercial paper was $1,128.2 million and $2,684.5 million with the weighted average maturity of 5 days and 12 days, respectively.

The State Treasurer does not have a policy regarding interest rate risk for long-term debt investments. However, the trust 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.

Debt Securities
(in thousands)
As of September 30, 2008, and 2007

	2008		2007	
	Fair Value	**Effective Duration in Years**	**Fair Value**	**Effective Duration in Years**
Government				
U. S. Treasury	$ 80,045	6.8	$ 415,558	4.8
U. S. Agencies - Backed	1,744,591	5.4	1,266,064	5.7
U. S. Agencies - Sponsored	1,381,368	4.1	2,742,566	3.3
Corporate	3,619,861	5.4	3,323,760	4.9
International*				
U. S. Treasury	-	-	77,611	0.1
Corporate	2,784,821	0.03	1,636,476	0.1
Total	$ 9,610,686		$ 9,462,035	

Debt securities are exclusive of securities lending collateral.

*International contains U.S. Government and Corporate Debt Securities as a part of their derivative strategies. The interest rates reset on a quarterly basis for these securities.

Notes to Basic Financial Statements (continued)

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 Public Act 314 of 1965, as amended. The types of foreign investments include equities, fixed income, mutual funds, real estate, and limited partnerships. At September 30, 2008, and 2007, the total amount of foreign investment subject to foreign currency risk was $2,900.2 million and $3,969.3 million which amounted to 7.0% and 8.1% of total investments (exclusive of securities lending collateral) of the System, respectively.

Notes to Basic Financial Statements (continued)

Foreign Currency Risk
(in thousands)
As of September 30, 2008

						International	
Region	Country	Currency	Alt. Invest. Market Value in U.S. $	Equity Market Value in U.S. $	Real Estate Market Value in U.S. $	Equities Market Value in U.S. $	Derivatives Market Value in U.S. $*
AMERICA							
	Brazil	Real		$ 58			
	Canada	Dollar				$ 4,820	
	Mexico	Peso		41,233			
EUROPE							
	European Union	Euro	$ 771,355	63,225		28,826	$ (75,807)
	Switzerland	Franc		61,945		2,870	(12,917)
	Sweden	Krona				861	(3,107)
	Denmark	Krone				1,075	(2,977)
	Norway	Krone				721	(3,839)
	U.K.	Sterling	31,005	419		14,583	(78,447)
PACIFIC							
	Australia	Dollar				3,537	(32,711)
	China	Renminbi		7,002			
	Hong Kong	Dollar				726	(8,598)
	India	Rupee		18			
	Japan	Yen	3,535	88,522		8,638	(46,302)
	Singapore	Dollar				1,233	(4,116)
	South Korea	Won					(19,570)
MIDDLE EAST							
	Israel	Shekel		232			
VARIOUS					$ 571,608	1,480,494	
	Total		$ 805,895	$ 262,654	$ 571,608	$ 1,548,384	$ (288,391)

* 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 2008 through July 2011 with an average maturity of 1.8 years.

Notes to Basic Financial Statements (continued)

Foreign Currency Risk
(in thousands)
As of September 30, 2007

Region	Country	Currency	Alt. Invest. Market Value in U.S. $	Equity Market Value in U.S. $	Real Estate Market Value in U.S. $	International Equities Market Value in U.S. $	International Derivatives Market Value in U.S. $*
AMERICA							
	Canada	Dollar				$ 46,424	
	Mexico	Peso		$ 80,022			
EUROPE							
	European Union	Euro	$ 632,055	44,542		183,473	$ 161,285
	Switzerland	Franc		53,879		33,830	29,913
	Sweden	Krona				15,055	9,257
	Denmark	Krone		722		10,096	2,636
	Norway	Krone				11,985	1,737
	U.K.	Sterling	25,748	3,524		90,079	67,058
PACIFIC							
	Australia	Dollar				44,667	27,677
	China	Renminbi		9,540			
	Hong Kong	Dollar				16,192	26,082
	India	Rupee		432			
	Japan	Yen	4,333	135,646		108,030	41,093
	Singapore	Dollar				5,731	4,539
	South Korea	Won				16,857	22,984
VARIOUS					$ 392,450	1,609,745	
	Total		$ 662,136	$ 328,307	$ 392,450	$ 2,192,164	$ 394,261

* 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 2007 through September 2010 with an average maturity of 1.2 years.

Notes to Basic Financial Statements (continued)

NOTE 5 - ACCOUNTING CHANGES

The Governmental Accounting Standards Board (GASB) has issued Statement No. 50, *Pension Disclosures*, which amends GASB Statements No. 25 and No. 27, and more closely aligns the financial reporting requirements for pensions with those for OPEB. This Statement was implemented in fiscal year 2007.

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.

NOTE 7 – SUBSEQUENT EVENTS

Since the close of the fiscal year, financial markets have experienced substantial volatility. Faced with the potential of increased problems in the financial markets, the Federal Reserve Board (Fed) and U.S. Department of Treasury implemented the Troubled Asset Relief Program (TARP) to free up liquidity to be used in the broader economy. Frozen credit markets are expected to continue to impact the economy and all investments.

Required Supplementary Information

Schedules 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.

Pension 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 (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll ((b-a)/c)
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
2005	38,211	48,206	9,995	79.3	10,206	97.9
2006	39,893	49,136	9,243	81.2	9,806	94.3
2006 [2]	42,995	49,136	6,141	87.5	9,806	62.6
2007	45,335	51,107	5,771	88.7	9,851	58.6

[1] Revised actuarial assumptions

[2] Revised asset valuation method.

Other Postemployment 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 (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll ((b-a)/c)
2006	$ 630	$ 25,387	$ 24,757	2.5 %	$ 9,806	252.5 %
2007	776	25,733	24,957	3.0	9,851	253.3

Required Supplementary Information (continued)

Schedules of Employer and Other Contributions

Pension Benefits

Fiscal Year Ended Sept. 30	Annual Required Contribution (ARC)[1]	Actual Contribution[2]	Percentage Contributed
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
2006	1,161,843,239	995,932,425	85.72
2007	919,560,821 [3]	835,366,382	90.84
2008	904,409,331 [3]	999,374,879	110.50

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

[2] Differences between the ARC and the actual contributions are the result of a timing difference between when the actuarial valuation is completed and the contributions are made. In addition, for fiscal years 2004, 2005, and 2006, transfers from the stabilization sub-account in the amount of $143.0 million, $187.4 million, and $54.2 million, respectively, were made to intentionally stabilize the contribution rates. The sub-account has no balance or activity since 2006.

[3]Pursuant to Public Act 15 of 2007, the System's assets were revalued to their actual market value as of September 30, 2006. The five-year smoothing began again in fiscal year 2008.

Other Postemployment Benefits

Fiscal Year Ended Sept. 30	Annual Required Contribution (ARC)	Actual Contributions	Other Governmental Contributions	Percentage Contributed
2007	$ 2,497,157,802	$ 671,680,400	$ 63,054	26.90 %
2008	2,425,676,758	649,571,071	102,115	26.78

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 and other postemployment benefits as they become due. Because this is the second year the System is reporting other postemployment benefits in accordance with GASB Statement No. 43, only two years of historical trend information is provided.

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 and other postemployment benefit obligations as a factor.

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

Supporting Schedules

Comparative Summary Schedule of Pension Plan Administrative Expenses For Fiscal Years Ended September 30, 2008, and 2007

	2008	2007
Personnel Services:		
Staff Salaries	$ 6,019,986	$ 6,078,833
Retirement and Social Security	1,838,041	1,541,969
Other Fringe Benefits	1,417,227	1,294,697
Total	9,275,254	8,915,499
Professional Services:		
Accounting	1,563,697	1,537,394
Actuarial	193,000	245,500
Attorney General	221,317	223,467
Audit	55,267	51,700
Consulting	143,994	79,021
Medical	386,138	384,215
Total	2,563,413	2,521,297
Building and Equipment:		
Building Rentals	908,635	793,603
Equipment Purchase, Maintenance, and Rentals	70,717	57,804
Total	979,352	851,407
Miscellaneous:		
Travel and Board Meetings	27,441	24,130
Office Supplies	34,005	57,619
Postage, Telephone, and Other	2,338,569	2,783,564
Printing	370,547	256,005
Technological Support	9,152,047	9,079,681
Total	11,922,609	12,200,999
Total Administrative Expenses	$ 24,740,628	$ 24,489,202

Comparative Summary Schedule of OPEB Plan Administrative Expenses For Fiscal Years Ended September 30, 2008, and 2007

	2008	2007
Health Fees	$ 62,343,660	$ 57,906,980
Dental Fees	5,734,847	5,408,439
Total Administrative Expenses	$ 68,078,508	$ 63,315,419

Supporting Schedules (continued)

Schedule of Investment Expenses
For Fiscal Years Ended September 30, 2008, and 2007

	2008	2007
Real Estate Operating Expenses	$ 166,293	$ 1,011,213
Securities Lending Expenses	270,249,018	451,816,635
Other Investment Expenses*		
ORS-Investment Expenses	9,617,670	8,559,613
Custody Fees	969,436	1,043,686
Management Fees-Real Estate	8,900,928	3,398,427
Management Fees-Alternative	73,231,983	51,248,340
Management Fees-International	4,873,419	1,884,423
Research Fees	1,148,081	912,099
Total Investment Expenses	$ 369,156,828	$ 519,874,436

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

Schedule of Payments to Consultants
For Fiscal Years Ended September 30, 2008, and 2007

	2008	2007
Independent Auditors	$ 55,267	$ 51,700
Consulting	143,994	79,021
Medical Advisor	386,138	384,215
Attorney General	221,317	223,467
Accounting	1,563,697	1,537,394
Actuary	193,000	245,500
Total Payments	$ 2,563,413	$ 2,521,297

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Supporting Schedules (continued)

Detail of Changes in Plan Net Assets (Pension and Other Postemployment Benefits)
For the Year Ended September 30, 2008

	Employee Contributions	Member Investment Plan	Employer Contributions
Additions:			
Contributions:			
Member contributions	$ 92,988,163	$ 306,268,453	
Employer contributions:			
Colleges, universities and federal			$ 77,058,563
School districts and other			922,316,316
Other governmental contributions			
Total contributions	92,988,163	306,268,453	999,374,879
Investment income (loss):			
Net appreciation (depreciation) in fair value of investments			
Interest, dividends, and other			
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	83,138		
Miscellaneous income			
Total additions	93,071,301	306,268,453	999,374,879
Deductions:			
Benefits and refunds paid to plan members and beneficiaries:			
Retirement benefits			
Health benefits			
Dental/vision benefits			
Refund of member contributions	4,197,801	27,719,426	672,583
Transfers to other systems	152,529	37,828	
Administrative expenses			
Total deductions	4,350,330	27,757,254	672,583
Net Increase (Decrease) before other changes	88,720,971	278,511,199	998,702,296
Other Changes in Net Assets:			
Interest allocation	55,193,180	367,193,919	
Transfers upon retirement	(87,944,434)	(215,752,238)	
Transfers of employer shares			(2,186,639,345)
Total other changes in net assets	(32,751,254)	151,441,681	(2,186,639,345)
Net Increase (Decrease)	55,969,717	429,952,880	(1,187,937,049)
Net Assets Held in Trust for Pension and OPEB Benefits:			
Beginning of Year	1,579,822,503	3,817,742,394	(18,522,572,237)
End of Year	$ 1,635,792,220	$ 4,247,695,274	$ (19,710,509,286)

Supporting Schedules (continued)

Retired Benefit Payments	Undistributed Investment Income	OPEB Benefits	Total
		$ 78,088,861	$ 477,345,477
		56,467,828	133,526,391
		593,103,243	1,515,419,559
		102,115	102,115
-	-	727,762,047	2,126,393,542
	$ (8,337,977,388)		(8,337,977,388)
	867,322,386	62,106,736	929,429,122
	(166,293)		(166,293)
	(98,741,517)		(98,741,517)
	317,987,338		317,987,338
	(270,249,018)		(270,249,018)
-	(7,521,824,492)	62,106,736	(7,459,717,756)
			83,138
$ 771,677	125,502	378,216	1,275,395
771,677	(7,521,698,990)	790,246,999	(5,331,965,681)
3,117,434,847			3,117,434,847
		588,064,545	588,064,545
		78,316,098	78,316,098
23,117		41,786	32,654,713
			190,357
	24,740,628	68,078,508	92,819,136
3,117,457,964	24,740,628	734,500,937	3,909,479,696
(3,116,686,287)	(7,546,439,618)	55,746,062	(9,241,445,377)
2,325,385,953	(2,747,773,052)		-
303,696,672			-
2,186,639,345			-
4,815,721,970	(2,747,773,052)	-	-
1,699,035,683	(10,294,212,670)	55,746,062	(9,241,445,377)
29,067,324,410	32,420,615,825	776,334,197	49,139,267,092
$ 30,766,360,093	$ 22,126,403,155	$ 832,080,259	$ 39,897,821,715

Supporting Schedules (continued)

Detail of Changes in Plan Net Assets (Pension and Other Postemployment Benefits)
For the Year Ended September 30, 2007

	Employee Contributions	Member Investment Plan	Employer Contributions
Additions:			
Contributions:			
Member contributions	$ 50,117,301	$ 306,643,911	
Employer contributions:			
Colleges, universities and federal			$ 63,505,126
School districts and other			771,861,256
Other governmental contributions			
Total contributions	50,117,301	306,643,911	835,366,382
Investment income (loss):			
Net appreciation (depreciation) in fair value of investments			
Interest, dividends, and other			
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	5,794		
Miscellaneous income			22,989
Total additions	50,123,095	306,643,911	835,389,371
Deductions:			
Benefits and refunds paid to plan members and beneficiaries:			
Retirement benefits			
Health benefits			
Dental/vision benefits			
Refund of member contributions	3,802,635	27,744,845	580,684
Transfers to other systems	65,587	39,985	
Administrative expenses			
Total deductions	3,868,222	27,784,830	580,684
Net Increase (Decrease) before other changes	46,254,873	278,859,081	834,808,687
Other Changes in Net Assets:			
Interest allocation	52,543,707	257,744,140	
Transfers upon retirement	(102,849,659)	(224,896,110)	
Transfers of employer shares			(2,292,319,836)
Total other changes in net assets	(50,305,952)	32,848,030	(2,292,319,836)
Net Increase (Decrease)	(4,051,079)	311,707,111	(1,457,511,149)
Net Assets Held in Trust for Pension and OPEB Benefits:			
Beginning of Year	1,583,873,582	3,506,035,283	(17,065,061,088)
End of Year	$ 1,579,822,503	$ 3,817,742,394	$ (18,522,572,237)

Supporting Schedules (continued)

Retired Benefit Payments	Undistributed Investment Income	OPEB Benefits	Total
		$ 77,206,778	$ 433,967,990
		57,764,985	121,270,111
		613,915,415	1,385,776,671
		63,054	63,054
-	-	748,950,232	1,941,077,826
	$ 6,262,637,852		6,262,637,852
	961,168,862	50,417,122	1,011,585,984
	(1,011,213)		(1,011,213)
	(67,046,587)		(67,046,587)
	470,628,987		470,628,987
	(451,816,635)		(451,816,635)
-	7,174,561,266	50,417,122	7,224,978,388
			5,794
$ 2,459,768	70,717	260,709	2,814,183
2,459,768	7,174,631,983	799,628,063	9,168,876,191
2,944,920,179			2,944,920,179
		521,420,684	521,420,684
		68,805,781	68,805,781
13,788		30,580	32,172,532
			105,572
	24,489,202	63,315,419	87,804,621
2,944,933,967	24,489,202	653,572,464	3,655,229,369
(2,942,474,199)	7,150,142,781	146,055,599	5,513,646,822
2,177,017,260	(2,487,305,107)		-
327,745,769			-
2,292,319,836			-
4,797,082,865	(2,487,305,107)	-	-
1,854,608,666	4,662,837,674	146,055,599	5,513,646,822
27,212,715,744	27,757,778,151	630,278,598	43,625,620,270
$ 29,067,324,410	$ 32,420,615,825	$ 776,334,197	$ 49,139,267,092

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INVESTMENT SECTION

Prepared by Michigan Department of Treasury, Bureau of Investments
Jon M. Braeutigam, Director

INVESTMENT SECTION

Report on Investment Activity

INTRODUCTION

The State Treasurer reports investment activity quarterly 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. As of September 30, 2008, members of the Committee were as follows: David G. Sowerby, CFA (public member), Glenn P. Murray (public member), James B. Jacobs (public member), Keith W. Cooley (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, private equity interests, mutual funds, real estate interests, and other investments subject to specific parameters. Above all, trust fund assets are to be invested for the exclusive benefit of the members of the System, in a fiduciary capacity.

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 along with health and other postemployment benefits to its members. The State Treasurer is the sole investment fiduciary and custodian of the System's investments pursuant to State law. 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 assumptions 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.

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

Report on Investment Activity (continued)

Asset Allocation
(Excludes Collateral on Loaned Securities)

Investment Category	As of 9/30/08 Actual %		Two-Year Target %
Domestic Equities			34.0%
Domestic Equity - Active	26.8%		
Large Cap Core Pool		13.1%	
Large Cap Value Pool		4.5%	
Large Cap Growth Pool		5.2%	
Large Cap Sectors Pool		0.2%	
Large Cap Enhanced Pool		0.4%	
Manager of Managers Pool		0.3%	
Mid Cap Pool		2.1%	
Small Cap Pool		1.0%	
Domestic Equity - Passive	15.3%		
S&P 500 Index Pool		13.8%	
S&P MidCap Index Pool		1.5%	
International Equity	8.9%		17.0%
International Equity Pool - Passive		6.6%	
International Equity Pool - Active		2.3%	
Alternative Investments Pool	18.7%		16.0%
Real Estate Pool	10.9%		11.0%
Fixed Income	17.2%		17.0%
Government Bond Pool		7.0%	
Corporate Bond Pool		7.1%	
Fixed Income Bond Pools		2.9%	
Treasury Inflation Prot. Sec. Pool		0.0%	
CMBS Investment Pool		0.2%	
Short Term Investment Pool	2.2%		2.0%
Absolute Return	0.0%		2.0%
Real Return	0.0%		1.0%
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, 2008, the total System's rate of return was (12.3)% as compiled by State Street Analytics. Annualized rates of return for the three-year period ending September 30, 2008, were 5.1%; for the five-year period were 8.1%; and for the ten-year period were 5.9%.

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

The fiscal year's results were driven by double-digit declines in equities. Modest gains in real estate, alternative investments, and fixed income helped to moderate the decline in equities. Large Cap domestic equities peaked early in the fiscal year and began trending down as the collapse of the sub-prime market continued to reveal weakness in the financial markets. The decline deepened throughout the year as growing uncertainty about the macro economy gave way to de-leveraging across many asset classes. Early gains in the Real Estate pool were somewhat offset by lower valuations in the back half of the year as turmoil in the housing market began to spread to the commercial real estate market. Alternative Investments yielded mid-single digit returns and were also hampered by tighter credit markets and general economic weakness. Fixed Income also contributed positive returns but these returns also were hurt late in the fiscal year as spreads widened in response to fear of default in investment grade debt.

For the fiscal year, the Dow Jones Industrial Average provided a total return of (19.9)%, while the broader based S&P 500 declined (22.0)%. The Lehman Brothers U.S. Government/Credit Bond Index appreciated 2.4%.

The US economy grew at an estimated rate of 2.4% in fiscal year 2008 as measured by real gross domestic product. While the growth rate was steady through each of the quarters, the mix did change as domestic investment spending weakened, but was offset by strong export growth. Residential fixed investment spending remained weak throughout all four quarters. The continued decline in housing values throughout the period, combined with declining equity markets, led to a severe negative wealth impact, which slowed personal consumption each quarter. Commodity prices continued their upward climb through the fiscal year, which helped to push the inflation rate up from 2.4% in the first quarter of the fiscal year, to an estimated 4.3% in the fourth. However, as problem consumer loans weighed on the global financial system, credit conditions deteriorated, and the global economic growth began to slow, which started to bring down commodity prices late in the fourth quarter of the fiscal year. Oil started the year near $80 a barrel, peaked near $145, before dropping to near $100 in late September.

The Federal Reserve continued to cut interest rates, moving the Federal Funds rate from 4.75% in September 2007, to 2.00% in September of 2008. Faced with the potential of increased problems in the financial markets, the Fed and Treasury proposed a distressed asset purchase plan to Congress that could act as a backstop to pricing for certain illiquid assets, and free up liquidity to be used in the broader economy.

The System remains well diversified, both across and within asset classes, and positioned to benefit from long-term moderate economic growth.

Large Cap Core Pool

The objective of the pool of large company core stocks is to generate a rate of return from investment in common stocks and equity equivalents that exceeds that of the S&P 500 Index.

The pool invests primarily in equities and equity-related securities of U.S. companies with market capitalization generally greater than $5 billion that have passed several screens based on the stocks' valuation, risk attributes and tracking error relative to the overall index. The goal is to build a portfolio of stocks that will provide excess returns relative to the S&P 500 while providing minimal tracking error to the index. At times a portion of the pool may be invested in exchange traded funds (ETFs) and 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 with consideration of the weightings of the S&P 500 Index.

The following summarizes the weightings of the pool as of September 30, 2008:

Technology	22.5 %
Healthcare	16.8
Energy	11.1
Financials	10.6
Industrials	9.7
Other (ETFs)	8.9
Consumer Discretionary	8.5
Consumer Staples	3.8
Utilities	3.0
Materials	2.2
Telecom	2.1
Short Term Investments	0.8
Total	**100.0 %**

The Large Cap Core pool total rate of return was (22.3)% for fiscal year 2008. This compared with (22.0)% for the S&P 500 Index.

At the close of fiscal year 2008, the Large Cap Core pool represented 13.1% of total investments. This compares to 15.6% for fiscal year 2007. The following summarizes the System's 78.2% ownership share of the Large Cap Core pool at September 30, 2008:

Large Cap Core Pool
(in thousands)

Short Term Pooled Investments	$ 5,149
Equities	5,376,448
Settlement Principal Payable	(196,976)
Settlement Proceeds Receivable	212,914
Accrued dividends	7,135
Total	**$ 5,404,670**

Large Cap Value Pool

The 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 Citigroup Value Index.

The pool invests primarily in equities and equity-related securities of U.S. companies with market capitalization generally greater than $5 billion that are significantly under-priced as measured by several valuation criteria, including price-to-earnings and price-to-book value ratios, as well as below fair value as determined by several quantitative and qualitative valuation models. The focus is on companies trading 25% or more below estimated fair value with

Report on Investment Activity (continued)

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 among ten sectors with some consideration to the weightings of the S&P Citigroup Value Index.

The following summarizes the weightings of the pool as of September 30, 2008:

Financials	22.0 %
Healthcare	21.4
Short Term Investments	14.3
Consumer Discretionary	10.5
Technology	9.8
Consumer Staples	6.7
Energy	5.8
Other (ETFs)	3.1
Industrials	2.9
Materials	2.0
Telecom	1.1
Utitilies	0.4
Total	**100.0 %**

The Large Cap Value pool total rate of return was (23.7)% for fiscal year 2008. This compared with (24.5)% for the S&P Citigroup Value Index.

At the close of fiscal year 2008, the Large Cap Value pool represented 4.5% of total investments. This compares to 5.0% for fiscal year 2007. The following summarizes the System's 79.8% ownership share of the Large Cap Value pool at September 30, 2008:

Large Cap Value Pool
(in thousands)

Short Term Pooled Investments	$ 212,806
Equities	1,638,207
Settlement Principal Payable	(59,958)
Settlement Proceeds Receivable	59,826
Accrued dividends	2,964
Total	**$ 1,853,845**

Report on Investment Activity (continued)

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 Citigroup Growth Index.

The pool invests primarily in equities and equity-related securities of U.S. companies with market capitalization generally greater than $3 billion and which offer above-average and sustainable growth in revenues, earnings, and cash flow, identifiable catalysts, and reasonable valuations relative to their fundamentals. 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.

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 with weightings that approximate the weightings of the S&P Citigroup Growth Index.

The following summarizes the weightings of various sectors in the pool as of September 30, 2008:

Technology	26.1 %
Energy	17.5
Healthcare	15.8
Industrials	11.2
Consumer Staples	10.4
Consumer Discretionary	6.8
Financials	5.3
Short Term Investments	3.2
Other (EFTs)	2.5
Materials	1.2
Total	**100.0 %**

The Large Cap Growth pool total rate of return was (21.2)% for fiscal year 2008 versus (19.4)% for the S&P 500 Citigroup Growth Index.

At the close of fiscal year 2008, the Large Cap Growth pool represented 5.2% of total investments. This compares to 5.4% for fiscal year 2007. The following summarizes the System's 78.2% ownership share of the Large Cap Growth pool at September 30, 2008:

Large Cap Growth Pool
(in thousands)

Short Term Pooled Investments	$ 49,399
Equities	2,108,818
Settlement Principal Payable	(55,254)
Settlement Proceeds Receivable	56,990
Accrued dividends	1,442
Total	**$ 2,161,395**

Report on Investment Activity (continued)

Large Cap Sectors Pool

The primary investment objective is to generate a rate of return from investments in exchange traded funds (ETFs) and equivalents that exceeds the S&P 500 Index.

The pool was created in January 2008 and invests primarily in ETFs of sectors and broad market indices that offer above-average return potential based on pricing anomalies and timeliness within the investment life cycle.

The Large Cap Sectors pool return from inception to fiscal year end was (14.9)%.

At the close of fiscal year 2008, the Large Cap Sectors pool represented 0.2% of total investments. The following summarizes the System's 79.2% ownership share of the Large Cap Sectors pool at September 30, 2008:

Large Cap Sectors Pool
(in thousands)

Short Term Pooled Investments	$	31,539
Equities		48,435
Accrued dividends		1,187
Total	**$**	**81,161**

Large Cap Enhanced Pool

The primary investment objective is to generate a rate of return that exceeds the S&P 500 Index by producing a variety of absolute return strategies across multiple asset classes.

In February 2008, FrontPoint Partners LLC was hired to specialize in producing a diverse group of alternative investment strategies that aims to deliver risk-adjusted absolute returns uncorrelated to broad market indices.

The Large Cap Enhanced pool return from inception to fiscal year end was (20.8)%.

At the close of fiscal year 2008, the Large Cap Enhanced pool represented 0.4% of total investments. The following summarizes the System's 75.0% ownership share of the Large Cap Enhanced pool at September 30, 2008:

Large Cap Enhanced Pool
(in thousands)

Total Investment	$	178,230

Manager of Managers Pool

The primary investment objective is to generate a rate of return from investment in common stocks and equivalents that exceeds the S&P 1500 Index by selecting stocks of all market capitalizations and investment styles.

In October 2007, three new managers were hired that specialize in creating manager-of-manager portfolios, allowing the System an opportunity to invest in minority- and women-owned and emerging investment managers in a risk-controlled environment.

The Manager of Managers pool return from inception to fiscal year end was (21.5)%.

Report on Investment Activity (continued)

At the close of fiscal year 2008, the Manager of Managers pool represented 0.3% of total investments. The following summarizes the System's ownership share and composition of the Manager of Managers pool at September 30, 2008:

Manager of Managers Pool
(in thousands)

	Attucks Asset Management	Bivium Capital Partners	Leading Edge Investment Advisors
Total Investment	$ 58,234	$ 43,592	$ 30,828
Ownership Percentage	78.1%	78.1%	78.1%

Mid Cap Pool

Nine Mid Cap managers were selected in 2005 and they were funded out of the Large Cap Value and Growth pools. The manager's investment styles range from value, growth and core and they select stocks with average market capitalizations greater than $1 billion but less than $5 billion. The investment objective of the Mid Cap manager pool is to generate a combined rate of return from investment in common stocks and equivalents that exceeds the S&P 400 Mid Cap Index.

The Mid Cap pool return for fiscal year 2008 was (20.4)% versus the benchmark's (16.7)%.

At the close of fiscal year 2008, the Mid Cap pool represented 2.1% of total investments. This compares to 2.2% for fiscal year 2007. The schedule on the following page summarizes the System's ownership share and composition of the Mid Cap pool at September 30, 2008:

Report on Investment Activity (continued)

Mid Cap Value and Core Pool
(in thousands)

	Artisan MidCap Value	Cramer Rosenthal McGlynn MidCap Value	Los Angeles Capital MidCap Core	Wellington Management MidCap Core
Total Investment	$ 156,764	$ 143,262	$ 92,007	$ 117,415
Ownership Percentage	77.4%	77.2%	77.4%	77.4%

Mid Cap Growth Pool
(in thousands)

	Alliance MidCap Growth	Putnam MidCap Growth	Rainer MidCap Growth	UBS MidCap Growth	Wellington Management MidCap Growth
Total Investment	$ 83,312	$ 32,947	$ 82,820	$ 74,237	$ 77,036
Ownership Percentage	77.2%	77.1%	77.1%	77.1%	77.1%

Small Cap Pool

The primary investment objective is to generate a rate of return from investment in common stocks and equivalents that exceeds the S&P 600 Small Cap Index by selecting stocks with market capitalizations greater than $60 million but less than $3 billion.

In December of 2006, five new small cap managers were hired in the Small Cap pool, and in January of 2007, three managers were terminated for performance reasons. The current System's Small Cap pool is invested with one Growth, one Core, and five Value managers.

The Small Cap pool return for fiscal year 2008 was (11.9)% versus the benchmark's (13.8)%.

At the close of fiscal year 2008, the Small Cap pool represented 1.0% of total investments. This compares to 1.0% for fiscal year 2007. The schedule on the following page summarizes the System's ownership share and composition of the Small Cap Pool at September 30, 2008:

Report on Investment Activity (continued)

Small Cap Value Pool
(in thousands)

	Donald Smith SmallCap Value	Fisher SmallCap Value	GW Capital SmallCap Value	Northpointe SmallCap Value	Opus Capital SmallCap Value
Total Investment	$ 65,227	$ 89,827	$ 52,375	$ 51,803	$ 16,308
Ownership Percentage	76.5%	79.5%	76.5%	77.1%	76.5%

Small Cap Growth and Core Pool
(in thousands)

	Champlain SmallCap Core	Pier Capital SmallCap Growth
Total Investment	$ 62,350	$ 75,112
Ownership Percentage	76.5%	76.5%

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, 2008:

Information Technology	16.0 %
Financials	15.8
Energy	13.4
Healthcare	13.1
Consumer Staples	12.2
Industrials	11.1
Consumer Discretionary	8.5
Utilities	3.5
Materials	3.4
Telecomm. Services	3.0
Total	**100.0 %**

The S&P 500 Index pool return for the fiscal year was (21.9)% versus the benchmark's (22.0)%.

Report on Investment Activity (continued)

At the close of fiscal year 2008, the S&P 500 Index pool represented 13.8% of total investments. This compares to 16.1% for fiscal year 2007. The following summarizes the System's 78.0% ownership share of the S&P 500 Index pool at September 30, 2008:

S&P 500 Index Pool
(in thousands)

Short Term Pooled Investments	$ 223,696
Equities	5,464,493
Futures Contracts	8,272
Settlement Principal Payable	(316,139)
Settlement Proceeds Receivable	307,312
Accrued dividends	8,929
Total	**$ 5,696,563**

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 (15.9)% versus the benchmark's (16.7)%.

At the close of fiscal year 2008, the S&P MidCap Index pool represented 1.5% of total investments. This compares to 1.7% for fiscal year 2007. The following summarizes the System's 78.0% ownership share of the S&P MidCap Index pool at September 30, 2008:

S&P MidCap Index Pool
(in thousands)

Short Term Pooled Investments	$ 6,939
Equities	619,104
Settlement Principal Payable	(71)
Settlement Proceeds Receivable	4,509
Accrued dividends	702
Total	**$ 631,183**

International Equity Pool - Passive

The objective of the International Equity 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 for the fiscal year was (32.9)% compared to the Citigroup BMI-EPAC return of (30.1)%.

Core passive exposure to international equity returns is achieved primarily by investing in a combination of fixed income LIBOR notes, short-term fixed income investments, and equity swap agreements on foreign stock indices in developed markets. Interest on the dedicated notes and short-term fixed income investments 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

Report on Investment Activity (continued)

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 portfolio management flexibility, and a country fund portfolio with targeted capitalization was added in September of 2002 to improve exposure to the smallest companies in the BMI index.

The combination of notes, dedicated short-term investments and equity swap agreements was valued at $2,059.1 million on September 30, 2008. That valuation included a net unrealized loss of $888.1 million. The combined swap agreements, notes and short-term investments together continue to perform like a stock index fund that realizes all gains and losses on a rolling three year basis. During fiscal year 2008, the pool received realized gains of $475.9 million on swap equity exposures and dedicated short-term investments. During the same period, $99.4 million of interest income was earned from international equity swaps.

At the close of fiscal year 2008, the International Equity – Passive pool represented 6.6% of total investments. This compares to 8.4% for fiscal year 2007. The following summarizes the System's 78.0% ownership share of the International Equity Pool - Passive at September 30, 2008:

International Equity Pool - Passive
(in thousands)

Short Term Pooled Investments	$	55,136
Equities		596,332
Fixed Income Securities		2,784,821
Market Value of Equity Contracts		(727,946)
Accrued dividends and interest		11,688
Total	**$**	**2,720,031**

International Equity Pool - Active

The 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. That benchmark is impacted by foreign currency exchange rate changes.

In fiscal year 2005, the System invested in Alliance Bernstein International Style Blend, a mix of Large Cap Growth and Value. During fiscal year 2006, investments were made in the following funds: The Wellington Trust Company International Research Equity Fund and the State Street Global Asset International Alpha Select Pool. Two international managers, SSgA Int’l Small Cap Alpha and GlobeFlex Int’l Small Cap, were selected and funded during April 2007, and added to the three managers already in the pool.

The International Equity Pool – Active return for the fiscal year was (31.8)% versus the benchmark’s (30.5)%.

At the close of fiscal year 2008, the International Equity - Active pool represented 2.3% of total investments. This compares to 2.9% for fiscal year 2007. The schedule on the following page summarizes the System’s ownership share and composition of the pool at September 30, 2008:

Report on Investment Activity (continued)

International Equity Pools - Active
(in thousands)

	Alliance Bernstein International	Wellington International	SSgA International	Globeflex International SmallCap	SSgA International SmallCap
Total Investment	$ 289,310	$ 256,171	$ 310,685	$ 43,475	$ 53,054
Ownership Percentage	77.6%	77.4%	77.4%	77.9%	77.9%

Alternative Investments Pool

The Alternative Investments pool objective is to meet or exceed the benchmark for all private equity investments over long time periods. The benchmark is a blend of the S&P 500 Index plus 300 basis points and the 10 Year Yield plus 300 basis points using ending weights of equity and fixed income holdings within the portfolio.

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, 2008:

Buyout Funds	54.0 %
Special Situation Funds	18.1
Venture Capital Funds	9.8
Funds of Funds	6.4
Liquidation Portfolio	6.0
Mezzanine Funds	2.4
Hedge Funds	2.0
Short Term Investments	1.2
Active Small Cap	0.1
Total	**100.0 %**

The Alternative Investments pool had a return of 4.9% for the fiscal year ended September 30, 2008, versus the benchmark of (17.4)%.

T. Rowe Price managed the stock distributions of the Alternative Investments beginning in October 2006. The T. Rowe Price return for the fiscal year ending September 30, 2008, was (53.7)%.

At the close of fiscal year 2008, the Alternative Investments pool represented 18.7% of total investments and T. Rowe Price represented 0.02% of total investments. This compares to 14.0% for Alternative and 0.04% for T. Rowe Price for fiscal year 2007. The schedule on the following page summarizes the System's ownership share and composition of the Alternative Investments pool and T. Rowe Price at September 30, 2008:

Report on Investment Activity (continued)

Alternative Investments Pool
(in thousands)

	Alternative	T. Rowe Price
Short Term Pooled Investments	$ 94,764	$ 1,187
Equities	7,631,179	5,199
Settlement Proceeds Receivable	-	65
Total	**$ 7,725,943**	**$ 6,451**
Ownership Percentage	79.0%	79.2%

Real Estate Pool

The Real Estate pool seeks favorable returns primarily 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 diversifies its holdings by:

- Geography - The pool is diversified geographically with emphasis placed upon domestic (U.S.) real estate investments. The pool may also make foreign real estate investments, which are not expected to exceed 20% of the value of the pool.
- Property Size and Value - The pool diversifies its holdings so that it is not concentrated in a limited number of large real estate investments.
- Property Type - The pool is diversified by type of property as summarized in the table below:

Multi-family apartments	23.5 %
Hotels	21.7
Commercial office buildings	19.8
Retail shopping centers	16.1
Industrial warehouse buildings	8.7
For Sale Housing	4.3
Senior Living	2.7
Land	1.7
Short Term Investments	1.5
Total	**100.0 %**

The Real Estate pool generated a return of 6.1% for fiscal year 2008. The benchmark return of 4.0% is the National Council of Real Estate Investment Fiduciaries Property Index less 130 basis points. The Real Estate pool continued to benefit from gains on asset sales during the first half of the fiscal year, but turmoil in the residential housing market and the resulting credit crunch spread into the commercial real estate market during the second half of the fiscal year and has begun to negatively impact commercial real estate values that are coming off from historical highs the past few years.

Report on Investment Activity (continued)

At the close of fiscal year 2008, the Real Estate pool represented 10.9% of total investments. This compares to 8.9% for fiscal year 2007. The following summarizes the System's 76.6% ownership share of the Real Estate pool at September 30, 2008:

Real Estate Pool
(in thousands)

Short Term Pooled Investments	$	68,362
Equities		4,417,694
Fixed Income Securities		3
Total	**$**	**4,486,059**

Government Bond Pool

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

The Government Bond Pool invests in a diversified portfolio of United States' government bonds including, but not limited to: treasuries, agencies, government sponsored enterprises and government guaranteed mortgages. 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.

During the fiscal year, rates continued to be volatile. Ten-year treasuries started the year at 4.5%, rose to 4.7%, then declined to 3.3% and ended at 3.9%. During the year, the curve declined through its entirety, though rates from three months to ten years showed a steeper decline.

For the fiscal year ending September 30, 2008, the Government Bond pool returned 5.7% which underperformed the 7.9% return of the Lehman Brothers Government Index.

The following summarizes the security type breakdown of the pool as of September 30, 2008:

GNMA	38.4	%
U.S. Agency	37.4	
U.S. Guaranteed	19.5	
Short Term Investments/Accruals	4.7	
Total	**100.0**	**%**

At the close of fiscal year 2008, the Government Bond pool represented 7.0% of total investments. This compares to 7.9% for fiscal year 2007. The schedule on the following page summarizes the System's 78.6% ownership share of the Government Bond pool at September 30, 2008:

Report on Investment Activity (continued)

Government Bond Pool
(in thousands)

Short Term Pooled Investments	$	39,617
Fixed Income Securities		2,739,983
Settlement Proceeds Receivable		72,363
Accrued interest		23,392
Total	**$**	**2,875,355**

Treasury Inflation Protected Securities Pool

A Treasury Inflation Protected Securities (TIPS) Pool was established in January 2007. Transfer of TIPS holdings in the Government Bond Pool provided the initial funding for the TIPS pool.

The TIPS pool had a return of 17.6% for the fiscal year ended September 30, 2008, versus the benchmark of 6.2%. During the year, bonds were sold when prices yielded a negative real rate of return.

At the close of fiscal year 2008, the Treasury Inflation Protected Securities pool represented 0.01% of total investments. This compares to 0.5% for fiscal year 2007. The following summarizes the System's 75.7% ownership share of the TIPS pool at September 30, 2008:

TIPS Pool
(in thousands)

Short Term Pooled Investments	$	2,246

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 Corporate Bond 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 issues may be 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 ratio relative to historical norms and the outlook for interest rates.

For the fiscal year ending September 30, 2008, the Corporate Bond pool returned 3.0% compared to the (4.8)% return of the Lehman Brothers Credit Index. The pool’s performance improved as the year progressed due to the decline in rates later in the year.

The schedule on the following page summarizes the security type breakdown of the pool as of September 30, 2008:

Report on Investment Activity (continued)

Healthcare	18.2 %
Financials	16.5
Consumer Staples	13.8
Industrials	12.4
Utilities	12.2
Consumer Discretionary	9.5
Materials	6.4
Short Term Investments/Accruals	3.6
Energy	3.4
Information Technology	3.0
Other	1.0
Total	**100.0 %**

At the close of fiscal year 2008, the Corporate Bond pool represented 7.1% of total investments. This compares to 5.5% for fiscal year 2007. The following summarizes the System's 79.1% ownership share of the Corporate Bond pool at September 30, 2008:

Corporate Bond Pool
(in thousands)

Short Term Pooled Investments	$	19,389
Fixed Income Securities		2,841,181
Settlement Proceeds Receivable		46,319
Accrued interest		39,491
Total	**$**	**2,946,380**

Fixed Income Core Pools

Five Fixed Income Core managers were selected in fiscal year 2006, beginning March 31, 2006. Their objective is to generate a rate of return exceeding the Lehman Aggregate Index net of fees.

Delaware Investments, Dodge & Cox, Dupont Capital Management, Pyramis Global Advisors, and Metropolitan West Asset Management were the firms hired.

The Fixed Income Core pools combined rate of return for the fiscal year was 1.7% versus the benchmark's 3.7%.

At the close of fiscal year 2008, the Fixed Income Core pools represented 1.7% of total investments. This compares to 1.4% for fiscal year 2007. The schedule on the following page summarizes the System's ownership share and composition of the five Fixed Income Core pools at September 30, 2008:

Report on Investment Activity (continued)

Fixed Income Core Pools
(in thousands)

	Delaware Fixed Income Core	Dodge & Cox Fixed Income Core	Dupont Fixed Income Core	Pyramis Fixed Income Core	Metro West Fixed Income Core
Total Investment	$ 83,265	$ 144,933	$ 107,958	$ 206,480	$ 148,208
Ownership Percentage	77.5%	77.5%	77.5%	77.5%	77.5%

Fixed Income Corporate Manager Pools

Four fixed income corporate managers were selected and commenced management on September 15, 2006, with an objective of exceeding the return of the Lehman Credit Index net of fees.

The four managers hired were AllianceBernstein, Prudential Financial, Western Asset, and Taplin, Canida & Habacht.

The Fixed Income Corporate Manager pools combined rate of return for the fiscal year was (7.4)% versus the benchmark's (4.8)%.

At the close of fiscal year 2008, the Fixed Income Corporate Manager pools represented 1.2% of total investments. This compares to 1.1% for fiscal year 2007. The following summarizes the System's ownership share and composition of the four Fixed Income Corporate Manager pools at September 30, 2008:

Fixed Income Corporate Manager Pools
(in thousands)

	Alliance Bernstein Corporate	Prudential Financial Corporate	Western Asset Corporate	Taplin, Canida & Habacht Corporate
Total Investment	$ 113,646	$ 177,194	$ 108,102	$ 105,892
Ownership Percentage	77.6%	77.6%	77.6%	77.6%

CMBS Investment Pool

In May 2008, the System received approval for an investment in a core Commercial Mortgage Backed Securities (CMBS) Investment Pool. This pool was developed in conjunction with Principal Real Estate Investors (PREI), an SEC registered Real Estate Advisory firm located in Des Moines, Iowa. The overall investment will be operated on a separate account basis with PREI providing investment selection, ongoing servicing and reporting. The mandate will allow PREI to purchase and trade up and down the "A" tranche capital structure to achieve the best risk adjusted return trade off. The pool places certain percentage limitations on how much may be invested in each of the "A" tranches from AAA to AA-.

The CMBS Investment pool return from inception to fiscal year end was (16.3)%.

Report on Investment Activity (continued)

At the close of fiscal year 2008, the CMBS Investment pool represented 0.2% of total investments. The following summarizes the System's 78.2% ownership share of the CMBS Investment pool at September 30, 2008:

CMBS Investment Pool
(in thousands)

Total Investment	$	97,962

Short Term Investment Pool

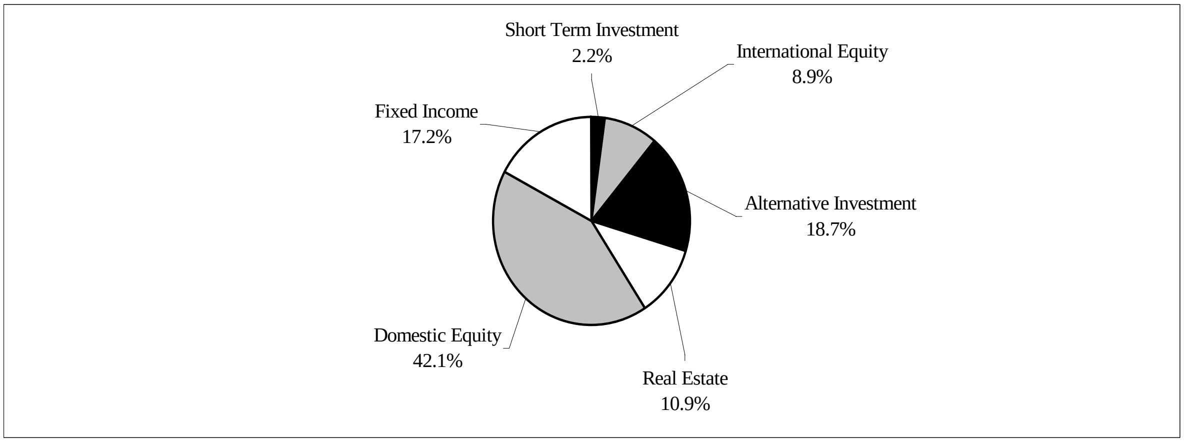
The objective of the Short Term Investment pool is to closely match the return performance of its benchmark, the 30 day Treasury bill. The Short Term Investment pool return for the fiscal year was (1.8)% versus the benchmark's 2.2%.

Potential areas of investment are:
- Obligations of the United States or its agencies.
- Bankers' 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, 2008, 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 2008, the Short Term Investment pool represented 2.2% of total investments. This compares to 2.4 % for fiscal year 2007. The System's ownership share of the Short Term Investment pool at September 30, 2008, was $918,346,393 composed of fixed income securities and equity in common cash.

Asset Allocation – Security Type Only



Investment Results for the Period Ending September 30, 2008

Investment Category	Current Year	Annualized Rate of Return[1] 3 Years	5 Years	10 Years
Total Portfolio	(12.3) %	5.1 %	8.1 %	5.9 %
Total Domestic Equity	(21.7)	0.4	5.1	3.5
S&P 1500 Index	(21.3)	0.4	5.6	3.8
Large Cap Core Equity Pool	(22.3)			
Large Cap Value Pool	(23.7)	0.2	6.2	
Large Cap Growth Pool	(21.2)	0.4	3.2	
Mid Cap Pool	(20.4)	1.5		
Small Cap Pool	(11.9)	4.0	8.2	
S&P 500 Index Pool	(21.9)	0.3	5.2	
S&P MidCap Index Pool	(15.9)	2.2	9.0	
International Equity Pool - Passive	(32.9)	(1.6)	7.7	4.6
S&P Citigroup BMI - EPAC 50/50	(30.1)	(0.2)	9.0	5.2
International Equity Pool - Active	(31.8)	1.1		
Alternative Investments Pool	4.9	20.1	21.0	11.2
Alternative Blended Benchmark[2]	(17.4)	3.9	8.7	6.6
T. Rowe Price (Stock Distributions)	(53.7)			
Real Estate Pool	6.1	15.0	13.5	11.5
NCREIF Property Blended Index[3]	4.0	11.9	13.1	10.9
Total Fixed Income	3.1	4.2	3.8	5.1
Lehman Brothers Government/Credit	2.4	3.6	3.3	5.0
Government Bond Pool	5.7	5.3	4.5	
Corporate Bond Pool	3.0	4.0	3.6	
Fixed Income Core Pool	1.7			
Fixed Income Managers Pool	(7.4)			
Treasury Inflation Protected Securities	17.6			
Short Term Investment Pool	(1.8)	2.9	2.4	3.3
30 Day Treasury Bill	2.2	3.8	3.0	3.2

[1]Calculations used a time-weighted rate of return based on the market rate of return in accordance with industry standards. Excludes income and investment gains and losses from securities lending.
[2]As of 1/1/07, index is blend of S&P 500 plus 300 bps and 10 year yield plus 300 bps based on ending weights. History prior to 1/1/07 is S&P 500 plus 300 bps.
[3]As of 10/1/05, index is NCREIF less 130 bps. History prior to 10/1/05 reflects NCREIF less 75 bps.

Largest Assets Held

Largest Stock Holdings (By Market Value)*
September 30, 2008

Rank	Shares	Stocks	Market Value
1	7,168,377	SPDR Trust	$ 831,460,034
2	19,896,112	Microsoft Corporation	531,027,233
3	6,251,527	Exxon Mobil Corporation	485,493,626
4	6,043,068	Johnson and Johnson	418,663,754
5	12,852,021	General Electric Corporation	327,726,534
6	15,838,480	Pfizer Inc.	292,061,576
7	11,946,166	Cisco Systems Inc.	269,505,514
8	3,239,262	Chevron Corporation	267,174,323
9	544,148	Google Inc.	217,942,180
10	9,954,830	Oracle Corporation	202,182,600

Largest Bond Holdings (By Market Value)*
September 30, 2008

Rank	Par Amount	Bonds & Notes	Market Value
1	$ 195,475,972	General Electric Cap Corp 2.97438% FRN Due 2-15-2017	$ 177,815,109
2	155,946,586	Berkshire Hathaway Fin 5.11875% FRN Due 1-11-2011	155,740,269
3	116,959,940	John Deere Capital Corp 3.26063% FRN Due 2-26-2010	116,933,507
4	116,959,940	American Honda Finance 3.01% FRN Due 11-20-2009	116,475,609
5	116,959,940	JP Morgan Chase & Co 3.70375% FRN Due 9-21-2012	116,030,810
6	116,959,940	Vulcan Materials 4.06875% FRN Due 12-15-2010	115,869,756
7	116,959,940	Citigroup Funding Inc 4.30875% FRN Due 10-22-2009	111,933,001
8	89,669,287	American Honda Finance 3.265% FRN Due 6-07-2010	89,499,812
9	177,378,787	Wachovia Corp 3.96375% FRN Due 4-23-2012	81,594,242
10	77,973,293	John Deere Capital Corp 5.2025% FRN Due 1-18-2011	77,954,268

Largest Bond Holdings are exclusive of securities lending collateral.

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

The System's investments are commingled in various pooled accounts. Amounts, par value and number of shares represent the System's pro-rata share based on its ownership of the investment pools.

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. Only 37.43% of the total investment portfolio is managed by fully discretionary outside advisors. The Michigan Department of Treasury's cost of operations applicable to the System for the fiscal year amounted to $9,618 thousand or three and seven tenths basis points (.037%) of the market value of the Assets under Management of the State Treasurer.

Act 380 of the Public Acts of 1965 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 which, in the Committee's judgment, is not suitable for the fund involved, and may by unanimous vote direct the State Treasurer to make specific investments.

Schedule of Investment Fees

Investment Managers' Fees:

	Assets under Management (in thousands)	Fees (in thousands)	Basis Points*
State Treasurer	$ 25,865,998	$ 9,618	3.7
Outside Advisors for			
Fixed Income	1,293,641	2,291	17.7
Mid Cap Equity	859,799	6,118	71.2
Small Cap Equity	413,001	3,361	81.4
International Equity	1,524,783	7,617	50.0
Equity	310,884	674	21.7
Alternative	7,631,179	73,232	96.0
Real Estate	3,440,366	8,901	25.9
Total	$ 41,339,651	$ 111,812	

Other Investment Services Fees:

Assets in Custody	$ 40,421,303	$ 2,118
Securities on Loan	6,367,777	10,233

*Outside Advisors Fees are netted against income for Fixed Income, Equity, Small Cap Equity, Mid Cap Equity, and International Equity. For Alternative Investment partnership agreements that define the management fees, the asset management fees range from 75 basis points on remaining assets under management to 250 basis points of the committed capital. For Real Estate, the asset management fees range from 50 to 175 basis points. Alternative and Real Estate fees, in most cases, are netted against income.

Schedule of Investment Commissions

	Fiscal Year Ended September 30, 2008						
	Actual Commissions Paid [1]	Actual Number of Shares Traded [1]	Average Commission Per Share	Estimated Trade Costs Per Share	Estimated Research Costs Per Share	Estimated Trade Costs	Estimated Research Costs
Investment Brokerage Firms:							
Banc of America Securities LLC	$ 326,673	10,889,091	$ 0.03	$ 0.01	$ 0.02	$ 108,891	$ 217,782
Bear Stearns & Co Inc.	761,388	41,034,400	0.02	0.01	0.01	410,344	410,344
Broadcort Capital	67,717	2,257,226	0.03	0.01	0.02	22,572	45,145
Cantor Fitzgerald & Co.	234,918	11,768,056	0.02	0.01	0.01	117,681	117,681
Citigroup Global Markets Inc.	1,233,893	60,469,756	0.02	0.01	0.01	604,698	604,698
Cowen & Co., LLC	352,136	11,737,889	0.03	0.01	0.02	117,379	234,758
Credit Suisse Securities LLC	702,112	29,009,541	0.02	0.01	0.01	290,095	290,095
Deutsche Bank - Alex Brown	1,778	44,442	0.04	0.01	0.03	444	1,333
Deutsche Bank Securities Inc.	188,904	6,557,975	0.03	0.01	0.02	65,580	131,159
Goldman Sachs & Co.	583,800	25,305,391	0.02	0.01	0.01	253,054	253,054
The Griswold Company, Incorporated	438,544	22,475,684	0.02	0.01	0.01	224,757	224,757
ISI Capital LLC	372,302	12,410,065	0.03	0.01	0.02	124,101	248,201
J P Morgan Securities Inc.	505,488	16,937,723	0.03	0.01	0.02	169,377	338,754
Ladenburg Thalman	55,403	1,846,757	0.03	0.01	0.02	18,468	36,935
Leerink Swann & Company	477	11,917	0.04	0.01	0.03	119	358
Lehman Brothers Inc.	421,581	14,315,666	0.03	0.01	0.02	143,157	286,313
Liquidnet Inc.	135	6,769	0.02	0.01	0.01	68	68
Merrill Lynch, Pierce, Fenner & Smith, Inc.	811,808	27,698,013	0.03	0.01	0.02	276,980	553,960
Mischler Financial Group, Inc.	58,626	1,954,209	0.03	0.01	0.02	19,542	39,084
Morgan Stanley & Co. Incorporated	218,717	8,465,837	0.03	0.01	0.02	84,658	169,317
OTA LLC	85,109	2,836,953	0.03	0.01	0.02	28,369	56,739
Punk, Ziegel & Company	58,192	1,939,747	0.03	0.01	0.02	19,397	38,795
Sandford C. Bernstein & Co. LLC	772,235	26,313,827	0.03	0.01	0.02	263,138	526,277
Stanford Group Co.	44,081	1,730,569	0.03	0.01	0.02	17,306	34,611
Thomas Weisel Partners LLC	74,206	1,884,165	0.04	0.01	0.03	18,842	56,525
UBS Securities LLC	431,802	14,400,976	0.03	0.01	0.02	144,010	288,019
Wayne Company	80,252	2,675,050	0.03	0.01	0.02	26,750	53,501
Weeden & Co., L.P.	329,382	33,334,756	0.01	0.01	-	333,348	-
Total	$ 9,211,659	390,312,450	$ 0.03 [2]	$ 0.01	$ 0.02	$ 3,903,125	$ 5,258,263

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

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

Investment Summary

Fiscal Year Ended September 30, 2008

	Market Value [1]	Percent of Total Market Value	Investment & Interest Income [2]	Percent of Total Investment & Interest Income
Fixed Income Pools	$ 7,117,621,203	17.2 %	$ 267,773,845	(4.6) %
Domestic Equity Pools	17,412,501,270	42.1 %	(4,911,525,577)	85.1 %
Real Estate Pool	4,486,059,443	10.9 %	275,244,747	(4.8) %
Alternative Investment Pools	7,732,394,282	18.7 %	413,903,117	(7.2) %
International Equities Pools	3,672,726,599	8.9 %	(1,796,147,644)	31.1 %
Short Term Investment Pools	918,346,393	2.2 %	(24,353,651)	0.4 %
Total	$ 41,339,649,190	100.0 %	$ (5,775,105,163)	100.0 %

[1] Market value excludes $5,357,466,059 in securities lending collateral for fiscal year 2008.

[2] Total Investment & Interest Income excludes net security lending income of $47,738,320 and unrealized loss of $1,633,443,104 for securities lending collateral.

Investment Summary

Fiscal Year Ended September 30, 2007

	Market Value [1]	Percent of Total Market Value	Investment & Interest Income [2]	Percent of Total Investment & Interest Income
Fixed Income Pools	$ 8,027,536,505	16.4 %	$ 411,794,782	5.7 %
Domestic Equity Pools	22,990,644,891	47.0 %	3,321,673,296	45.7 %
Real Estate Pool	4,357,021,472	8.9 %	698,138,988	9.6 %
Alternative Investment Pools	6,845,275,888	14.0 %	1,675,439,461	23.0 %
International Equities Pools	5,540,556,596	11.3 %	1,096,721,528	15.0 %
Short Term Investment Pools	1,177,366,201	2.4 %	70,455,781	1.0 %
Total	$ 48,938,401,553	100.0 %	$ 7,274,223,836	100.0 %

1 Market value excludes $10,313,816,305 in securities lending collateral for fiscal year 2007.

2 Total Investment & Interest Income excludes net security lending income of $18,812,352.

ACTUARIAL SECTION

Actuary's Certification

GRS
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Consultants & Actuaries
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October 14, 2008

Ms. Lisa Webb Sharpe, Director
Department of Management and Budget
and
The Retirement Board
Michigan Public School Employees' Retirement System
P.O. Box 30171
Lansing, Michigan 48909

Ladies and Gentlemen:

The basic financial objective of the Michigan Public School Employees' Retirement System (MPSERS) is to establish and receive contributions which when combined with present assets and future investment return will be sufficient to meet the financial obligations of the system to present and future benefit recipients.

The financial objective is addressed within the actuarial valuation. The valuation process develops employer contributions that are sufficient to fund the plan's normal cost (i.e., the costs assigned by the valuation method to the year of service about to be rendered), as well as to fund any unfunded accrued liabilities over a reasonable period. The most recent valuation was completed based upon population data, asset data, and plan provisions as of September 30, 2007.

The Retirement System provides the actuary with data for the actuarial valuation. The actuary relies on the data after reviewing it for internal and year to year consistency. The actuary summarizes and tabulates population data in order to analyze long term trends. The plan's external auditor also audits the actuarial data annually.

Annual actuarial valuations are based upon assumptions regarding future activity in specific risk areas including the rate of investment return and payroll growth, eligibility for the various classes of benefits and longevity among retired lives. These assumptions are adopted by the Board and the Department after considering the advice of the actuary and other professionals. The assumptions and the methods comply with the disclosure requirements of GASB Statement Nos. 25 and 43. Each actuarial valuation takes into account all prior differences between actual and assumed experience in each risk area and adjusts the contribution rates as needed.

Ms. Lisa Webb Sharpe
October 14, 2008
Page 2

Our firm provided the following supporting schedules for use in the Comprehensive Annual Financial Report:

Financial Section

- Note 1 Table of System's Membership
- Note 3 - Summary of Actuarial Assumptions
- Schedules of Funding Progress
- Schedules of Employer Contributions (Annual Required Contribution)

Actuarial Section

- Summary of Actuarial Assumptions and Methods
- Percent of Eligible Active Members Retiring Within Next Year
- Separation from Active Employment Before Age and Service Retirement and Individual Pay Increase Assumptions
- Schedule of Active Member Valuation Data
- Schedule of Changes in the Retirement Rolls
- Prioritized Solvency Test
- Analysis of System Experience

Statistical Section

- Schedule of Retired Members by Type of Pension Benefit (Retirement Type and Option)
- Schedule of Retired Members by Type of Health Benefit
- Schedules of Average Benefit Payments – Pension, Health and Dental/Vision

Although our firm provided supporting schedules in connection with GASB statements numbers 43 and 45, we recommend consultation with legal counsel and the auditors to determine whether Statement 43 applies.

The actuarial valuations of MPSERS as of September 30, 2007 were performed by qualified actuaries in accordance with standards of practice prescribed by the Actuarial Standards Board and in compliance with applicable state statutes. The undersigned are Members of the American Academy of Actuaries (MAAA) and meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion contained herein. It is our opinion that the calculated employer contribution meets the financial objective of the Retirement System.

Respectfully submitted,

Cathy Nagy

Cathy Nagy, FSA, MAAA

Alan E. Sonnanstine

Alan Sonnanstine, ASA, MAAA

Gabriel Roeder Smith & Company

Summary of Actuarial Assumptions and Methods

1. The investment return rate used in the valuations was 8% per year net of expenses, compounded annually. This rate of return is not the assumed real rate of return. The real rate of return is the rate of investment return in excess of the inflation rate. Considering other financial assumptions, this investment return rate translates to an assumed long-term real rate of return of 4.5%. Adopted 2004.

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

3. Sample probabilities of regular, unreduced retirement 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 and deferred retirement actuarial liabilities and normal cost. Adopted 1975. Unfunded actuarial accrued liabilities, are financed over a declining 40-year period beginning October 1, 1996. Adopted 1996.

7. The Department of Management and Budget approved the use of market value of assets as of September 30, 2006, for valuation purposes. For investment gains and losses that occur after that date, a 5-year smoothing technique will be used. Specifically, the excess (shortfall) of actual investment income (including interest, dividends, realized and unrealized gains or losses) over the imputed-income at the valuation interest rate is considered the gain (loss), which is spread over five years. Adopted 2007.

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.

10. A 5-year experience investigation, covering the period from September 30, 1997, through September 30, 2002, was completed in April 2004. The purpose of the study was to analyze the actual experience of the System versus that anticipated by the actuarial assumptions then in use. The combined effect of the recommended changes in assumptions was a decrease in actuarial accrued liabilities of approximately 1.6% and a 8.3% decrease in computed employer contributions. Adopted 2004.

11. Gabriel Roeder Smith and Co. was awarded the actuarial and consulting services contract beginning October 4, 2006.

12. Seventy-five percent of male and sixty percent of female future retirees are assumed to elect coverage for one or more dependants. Adpoted 2007.

13. Eighty percent of male retires and sixty-seven percent of female retirees are assumed to have coverage continuing after the retiree's death. Adopted 2007.

14. Twenty-one percent of eligible participants are assumed to opt out of the retiree health plan. Adopted 2007.

Summary of Actuarial Assumptions and Methods (continued)

SCHEDULE 1

Percent of Eligible Active Members Retiring Within Next Year

Retirement Ages	Basic	MIP
46-50		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

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
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
2005	316,151	10,205,972	32,282	0.0	43.7	9.7
2006	308,233	9,806,452	31,815	(1.4)	44.1	9.9
2007	295,984	9,851,471	33,284	4.6	44.5	10.3

* In thousands of dollars.

Schedule of Changes in the Retirement Rolls

Year Ended Sept. 30	Added to Rolls No.	Added to Rolls Annual Allowances*	Removed from Rolls No.	Removed from Rolls Annual Allowances*	Rolls-End of Year No.	Rolls-End of Year Annual Allowances*	% Increase in Annual Allowances	Average Annual Allowances
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
2005	10,165	249,907	3,837	36,843	151,706	2,644,700	8.8	17,433
2006	9,853	248,852	4,396	65,092	157,163	2,828,460	6.9	17,997
2007	9,704	247,807	4,023	63,192	162,844	3,013,075	6.5	18,503

* 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) are 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.

($ in millions)

	Actuarial Accrued Liability (AAL)							
	(1)	(2)	(3)					
Valuation Date Sept. 30	Active Member Contributions	Retirants and Beneficiaries	Active and Inactive Members (Employer Financed Portion)	Valuation Assets	Portion of AAL Covered by Assets (1)	(2)	(3)	(4)[1]
1998	$ 2,505	$ 15,689	$ 13,943	$ 31,870	100 %	100 %	98.1 %	99.2 %
1998 [3]	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
2005	3,898	28,047	16,261	38,211	100	100	38.5	79.3
2006	4,082	29,505	15,549	39,893	100	100	40.6	81.2
2006 [2]	4,082	29,505	15,549	42,995	100	100	60.5	87.5
2007	4,376	31,254	15,477	45,335	100	100	62.7	88.7

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

[2] Revised asset valuation method.

[3] Revised actuarial assumptions.

Analysis of System Experience

Gains/(Losses) in Accrued Liabilities During Year Ended September 30, 2007
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.	$ 35,353,917
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.	3,088,291
3.	**Pay Increases.** If there are smaller pay increases than assumed, there is a gain. If greater increases, a loss.	17,182,307
4.	**Investment Income.** If there is greater investment income than assumed, there is a gain. If less income, a loss.	756,879,915
5.	**Death After Retirement**. If retirants live longer than assumed, there is a loss. If not as long, a gain.	(231,416,672)
6.	**New entrants/Rehires.** New entrants into the System will generally result in an actuarial loss.	(90,007,837)
7.	**Other.** Miscellaneous gains and losses resulting from data adjustments, timing of financial transactions, etc.	123,005,780
8.	**Composite Gain (or Loss) During Year**	$ 614,085,701

Summary of Plan Provisions

Our actuarial valuation of the System as of September 30, 2007, is based on the present provisions of the Michigan Public School Employees' Retirement Act (Public 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 0.5% 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.

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STATISTICAL SECTION

Schedules of Revenues by Source
Schedules of Expenses by Type
Schedules of Changes in Net Assets
Schedules of Benefits and Refunds by Type
Schedules of Retired Members by Type of Benefit
Schedule of Other Postemployment Benefits
Schedules of Average Benefit Payments
Schedule of Principal Participating Employers
Ten Year History of Membership
Schedule of Participating Employers

STATISTICAL SECTION

This part of the System's comprehensive annual financial report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the System's overall financial health.

Contents

Financial Trends

These schedules contain trend information to help the reader understand how the System's financial performance and fiscal health has changed over time. The schedules are presented for the last ten fiscal years. Schedules included are:

- Schedule of Pension Plan Revenues by Source
- Schedule of OPEB Plan Revenues by Source
- Schedule of Pension Plan Expenses by Type
- Schedule of OPEB Plan Expenses by Type
- Schedule of Changes in Net Assets - Pension Plan
- Schedule of Changes in Net Assets - OPEB Plan
- Schedule of Pension Benefit and Refunds by Type
- Schedule of OPEB Benefit and Refunds by Type

Operating Information

These schedules contain contextual information to assist the reader's understanding of how the System's financial information relates to the combination of participating members and the benefits it provides. Schedules are presented for the last ten fiscal years, except where noted. Schedules included are:

- Schedule of Retired Members by Type of Pension Benefit
- Schedule of Retired Members by Type of Other Postemployment Benefits
- Schedule of Other Postemployment Benefits
- Schedule of Average Benefit Payments - Pension
- Schedule of Average Benefit Payments - Health
- Schedule of Average Benefit Payments - Dental/Vision
- Schedule of Principal Participating Employers
- Ten Year History of Membership
- Schedule of Participating Employers

Schedule of Pension Plan Revenues by Source

Last Ten Years

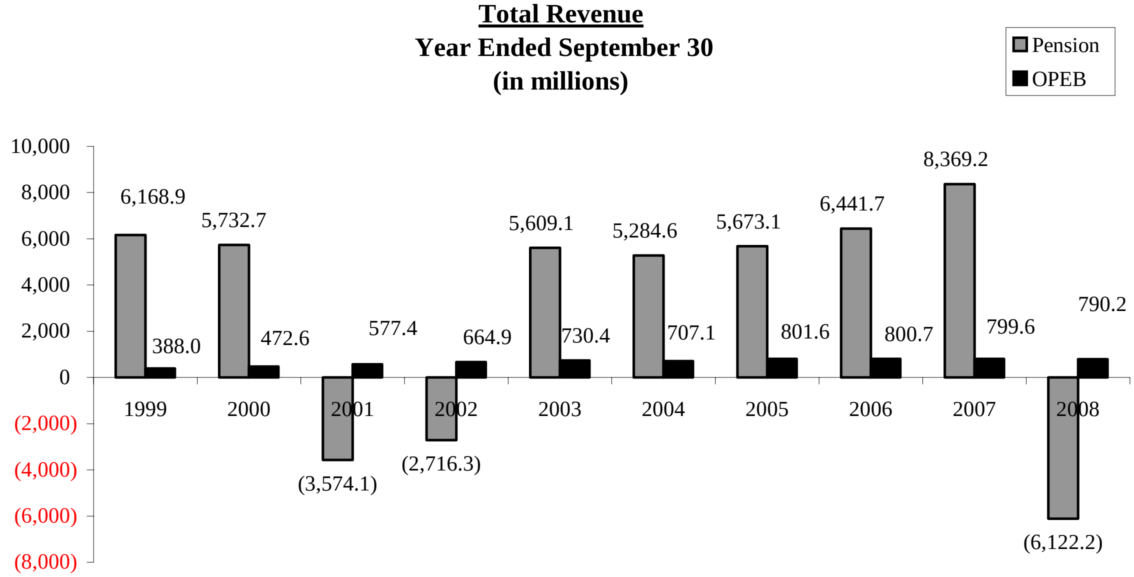
Fiscal Year Ended Sept. 30	Member Contributions	Employer Contributions Dollars	Employer Contributions % of Annual Covered Payroll	Net Investment & Other Income	Total
1999	$ 518,861,556	$ 574,436,929	6.65 %	$ 5,075,649,100	$ 6,168,947,585
2000	321,557,146	655,258,922	7.29	4,755,872,070	5,732,688,138
2001	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	7.59	4,530,621,088	5,673,139,703
2006	518,599,720	995,932,425	10.15	4,927,180,143	6,441,712,288
2007	356,761,212	835,366,382	8.48	7,177,120,534	8,369,248,128
2008	399,256,616	999,374,879	N/A	(7,520,844,175)	(6,122,212,680)

Schedule of OPEB Plan Revenues by Source

Last Ten Years

Fiscal Year Ended Sept. 30	Member Contributions	Employer Contributions Dollars	Employer Contributions % of Annual Covered Payroll	Net Investment & Other Income	Total
1999	$ 30,397,928	$ 346,164,992	4.01 %	$ 11,437,005	$ 387,999,925
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	6.86	38,718,254	801,592,613
2006	71,813,553	686,929,558	7.00	41,974,561	800,717,672
2007	77,206,778	671,680,400	6.85	50,740,885	799,628,063
2008	78,088,861	649,571,071	N/A	62,587,067	790,246,999

Total Revenue
Year Ended September 30
(in millions)



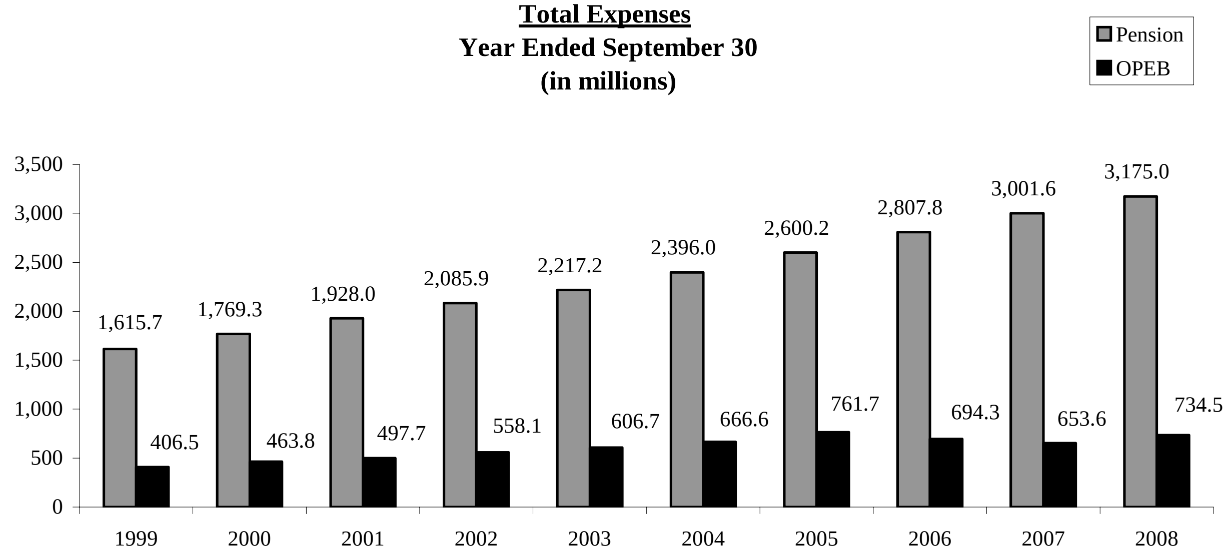
Schedule of Pension Plan Expenses by Type
Last Ten Years

Fiscal Year Ended Sept. 30	Benefit Payments	Refunds and Transfers	Administrative Expenses	Total
1999	$ 1,587,992,361	$ 11,198,300	$ 16,525,359	$ 1,615,716,020
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
2006	2,761,292,217	24,026,881	22,501,098	2,807,820,196
2007	2,944,920,179	32,247,524	24,489,202	3,001,656,905
2008	3,117,434,847	32,803,284	24,740,628	3,174,978,759

Schedule of OPEB Plan Expenses by Type
Last Ten Years

Fiscal Year Ended Sept. 30	Benefit Payments	Refunds and Transfers	Administrative Expenses	Total
1999	$ 372,021,209		$ 34,445,866	$ 406,467,075
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
2006	634,811,847	42,370	59,459,690	694,313,907
2007	590,226,465	30,580	63,315,419	653,572,464
2008	666,380,643	41,786	68,078,508	734,500,937

Total Expenses
Year Ended September 30
(in millions)



Schedule of Changes in Net Assets - Pension Plan

Last Ten Years

(in thousands)

	Fiscal Year									
	1999	**2000**	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**
Member contributions	$ 518,862	$ 321,557	$ 371,548	$ 413,164	$ 379,085	$ 456,353	$ 368,241	$ 518,600	$ 356,761	$ 399,257
Employer contributions	574,436	655,259	629,924	603,949	697,906	697,647	774,277	995,932	835,366	999,375
Net investment income	5,075,559	4,755,474	(4,575,768)	(3,733,567)	4,532,030	4,130,610	4,530,600	4,926,708	7,174,561	(7,521,824)
Transfer from other systems						20	15	3	6	83
Miscellaneous income	90	398	138	125	42	32	7	469	2,553	897
Total Additions	6,168,947	5,732,688	(3,574,158)	(2,716,329)	5,609,063	5,284,662	5,673,140	6,441,712	8,369,247	(6,122,212)
Pension benefits	1,587,992	1,735,936	1,890,812	2,041,440	2,180,574	2,358,216	2,558,018	2,761,292	2,944,920	3,117,435
Refunds of member contributions	11,146	17,353	19,836	20,814	13,642	18,397	22,062	23,904	32,142	32,613
Tranfer to other systems	53	102	17,312			26	119	123	106	190
Administrative expenses	16,525	15,918		23,610	23,017	19,375	19,998	22,501	24,489	24,741
Total Deductions	1,615,716	1,769,309	1,927,960	2,085,864	2,217,233	2,396,014	2,600,197	2,807,820	3,001,657	3,174,979
Changes in net assets	$ 4,553,231	$ 3,963,379	$ (5,502,118)	$ (4,802,193)	$ 3,391,830	$ 2,888,648	$ 3,072,943	$ 3,633,892	$ 5,367,590	$ (9,297,191)

Schedule of Changes in Net Assets - OPEB Plan

Last Ten Years

(in thousands)

	Fiscal Year									
	1999	**2000**	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**
Member contributions	$ 30,398	$ 33,673	$ 38,485	$ 43,218	$ 47,394	$ 52,766	$ 62,508	$ 71,814	$ 77,207	$ 78,089
Employer contributions	346,165	428,997	528,273	604,628	657,409	618,831	700,366	686,929	671,680	649,571
Other governmental contributions								65	63	102
Net investment income	11,437	9,959	10,663	17,040	25,584	35,483	38,718	41,910	50,417	62,107
Miscellaneous income				3					261	378
Total Additions	388,000	472,629	577,421	664,889	730,387	707,080	801,592	800,718	799,628	790,247
Health care benefits	372,021	425,760	456,257	513,172	558,683	615,417	705,983	634,812	590,226	666,381
Refunds of member contributions		31	72	67	64	98	192	42	31	42
Administrative expenses	34,446	38,040	41,379	44,854	47,908	51,119	55,520	59,460	63,315	68,078
Total Deductions	406,467	463,831	497,708	558,093	606,655	666,634	761,695	694,314	653,572	734,501
Changes in net assets	$ (18,467)	$ 8,798	$ 79,713	$ 106,796	$ 123,732	$ 40,446	$ 39,897	$ 106,404	$ 146,056	$ 55,746

STATISTICAL SECTION

Schedule of Pension Benefits and Refunds by Type
Last Ten Years

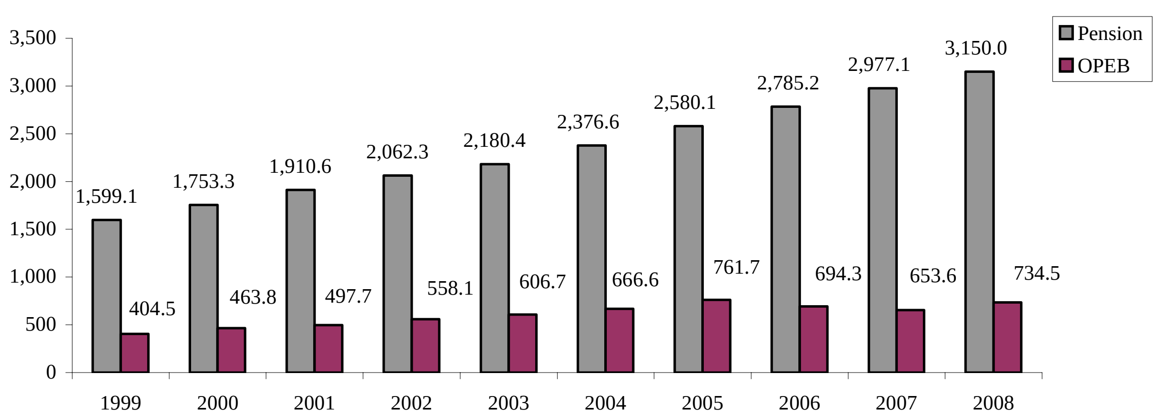
Fiscal Year Ended Sept. 30	Regular Benefits*	Disability Benefits	Survivor Benefits	Supplemental Check	Refunds			Total
					Employer	Employee	Retired Benefits	
1999	$ 1,540,039,404	$ 38,546,646		$ 9,406,311	$ 575,139	$ 10,570,382		$ 1,599,137,882
2000	1,684,018,116	40,453,574		11,464,638	4,231,346	13,122,005		1,753,289,679
2001	1,831,809,193	45,203,866		13,799,341	5,861,060	13,974,669		1,910,648,129
2002	1,976,611,796	48,253,882		16,574,185	6,215,939	14,597,906		2,062,253,708
2003	2,115,423,232	51,351,620			2,543,597	11,098,605	$ 98	2,180,417,152
2004	2,304,740,438	53,475,635			518,392	17,878,574	48	2,376,613,087
2005	2,500,815,986	57,201,724			685,592	21,376,126		2,580,079,428
2006	2,573,912,214	52,500,929	$ 134,879,074		474,347	23,422,647	6,828	2,785,196,039
2007	2,717,579,495	53,505,192	173,835,492		580,684	31,547,480	13,788	2,977,062,131
2008	2,876,064,246	54,989,520	186,381,081		672,583	31,917,227	23,117	3,150,047,774

*Includes prior post retirement adjustments

Schedule of OPEB and Refunds by Type
Last Ten Years

Fiscal Year Ended Sept. 30	OPEB Benefits	Dental/Vision Benefits	Administrative Expenses	OPEB Refunds	Total
1999	$ 331,522,164	$ 40,499,045	$ 34,445,866		$ 406,467,075
2000	386,583,485	39,177,206	38,039,572	$ 30,902	463,831,165
2001	407,833,031	48,424,385	41,379,358	72,407	497,709,181
2002	460,578,779	52,593,042	44,853,969	67,115	558,092,905
2003	501,566,419	57,116,502	47,907,745	64,411	606,655,077
2004	554,472,234	60,944,669	51,118,851	97,849	666,633,603
2005	641,616,478	64,367,305	55,520,031	192,144	761,695,958
2006	565,261,409	69,550,438	59,459,690	42,370	694,313,907
2007	521,420,684	68,805,781	63,315,419	30,580	653,572,464
2008	588,064,545	78,316,098	68,078,508	41,786	734,500,937

Total Benefit Expenses
Year Ended September 30
(in millions)



Schedule of Retired Members by Type of Pension Benefit
September 30, 2007

Amount of Monthly Pension Benefit	Number of Retirees	Type of Retirement * 1	2	3	4	5	6	Selected Option** Opt. 1	Opt. 2	Opt. 3	Opt. 4	Opt.1E 2E,3E,4E
$ 1 - 200	13,413	11,620	1,085	106	426	1	175	7,685	2,653	1,924	123	1,028
201 - 400	19,817	16,437	1,495	124	1,356	1	404	11,193	3,795	3,284	266	1,279
401 - 600	14,673	11,928	1,124	83	1,113	1	424	7,821	3,006	2,622	259	965
601 - 800	11,441	9,207	890	44	884	1	415	5,793	2,261	2,191	252	944
801 - 1000	9,225	7,407	788	26	620	-	384	4,444	1,882	1,774	231	894
1001 - 1200	7,992	6,548	679	15	479	-	271	3,623	1,689	1,403	205	1,072
1201 - 1400	7,328	6,122	596	13	355	-	242	3,005	1,490	1,333	197	1,303
1401 - 1600	6,899	5,891	518	4	262	-	224	2,648	1,473	1,150	183	1,445
1601 - 1800	6,969	6,139	409	1	249	-	171	2,616	1,498	1,190	220	1,445
1801 - 2000	7,099	6,349	389	7	180	-	174	2,617	1,744	1,236	299	1,203
over 2000	57,988	55,746	1,385	6	309	1	541	24,815	11,183	11,972	3429	6,589
Totals	162,844	143,394	9,358	429	6,233	5	3,425	76,260	32,674	30,079	5,664	18,167

* Type of Retirement
1 - Normal retirement for age & service
2 - Survivor payment - normal retirement
3 - Duty disability retirement (including survivors)
4 - Non-duty disability retirement (including survivors)
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: Gabriel Roeder Smith & Co.

Schedule of Retired Members by Type of Other Postemployment Benefits
September 30, 2007

		Type of Other Postemployment Benefits	
Amount of Monthly Pension Benefit	**Eligible Retirees**	**Health**	**Dental/Vision**
$ 1 - 200	13,413	7,250	8,125
201 - 400	19,817	12,234	13,446
401 - 600	14,673	9,967	10,834
601 - 800	11,441	8,342	8,968
801 - 1,000	9,225	6,909	7,402
1,001 - 1,200	7,992	6,186	6,566
1,201 - 1,400	7,328	5,842	6,194
1,401 - 1,600	6,899	5,552	5,870
1,601 - 1,800	6,969	5,643	5,951
1,801 - 2,000	7,099	5,751	6,077
Over 2,000	57,988	47,657	50,172
Totals	162,844	121,333	129,605

Source: Gabriel Roeder Smith & Co.

Schedule of Other Postemployement Benefits
For Years Ended September 30, 2008 and 2007

	2008	2007
Claims		
Health insurance	$ 365,611,852	$ 237,048,768
Vision insurance	8,592,940	2,467,684
Dental insurance	67,484,903	64,513,216
Total Claims	441,689,695	304,029,668
Estimated Claims Liability		
Health insurance	222,452,692	284,371,916
Vision insurance	332,455	257,881
Dental insurance	1,905,800	1,567,000
Total Estimated Claims Liability	224,690,947	286,196,797
Administrative Fees		
Health insurance	62,343,661	57,906,980
Vision insurance	-	-
Dental insurance	5,734,847	5,408,439
Total Administrative Fees	68,078,508	63,315,419
Subtotal	734,459,151	653,541,884
Refunds	41,786	30,580
Grand Total	$ 734,500,937	$ 653,572,464

Schedule of Average Benefit Payments - Pension

Last Ten Years

Payment Periods	Credited Service (Years) as of September 30							
	0 - 5	5 - 10	10 - 15	15 - 20	20 - 25	25 - 30	30+	Total
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
Period 10/1/04 to 9/30/05								
Average Monthly Benefit	$ 583	$ 170	$ 298	$ 540	$ 887	$ 1,346	$ 2,374	$ 1,453
Average Final Average Salary	1,542	16,607	16,719	22,539	28,288	34,036	50,418	35,938
Number of Active Retirants	1,396	4,601	17,884	22,502	21,321	16,548	67,454	151,706
Period 10/1/05 to 9/30/06								
Average Monthly Benefit	$ 388	$ 176	$ 308	$ 557	$ 912	$ 1,381	$ 2,419	$ 1,500
Average Final Average Salary	8,395	17,286	17,447	23,464	29,324	35,216	53,049	38,048
Number of Active Retirants	406	4,921	18,378	23,204	21,814	17,107	71,333	157,163
Period 10/1/06 to 9/30/07								
Average Monthly Benefit	$ 643	$ 186	$ 318	$ 574	$ 938	$ 1,419	$ 2,481	$ 1,542
Average Final Average Salary	18,219	18,069	18,125	24,255	30,284	36,138	54,189	39,069
Number of Active Retirants	540	5,266	19,007	23,933	22,390	17,478	74,230	162,844

Source: Gabriel Roeder Smith & Co.

Schedule of Average Benefit Payments - Health

Last Three Years

Payment Periods	Credited Service (Years) as of September 30							
	0 - 5	5 - 10	10 - 15	15 - 20	20 - 25	25 - 30	30+	Total
Period 10/1/04 to 9/30/05								
Average Monthly Benefit	114	188	337	587	937	1,678	2,505	1,592
Average Final Average Salary	14,348	16,926	17,732	23,228	28,848	40,434	51,670	38,192
Number of Active Retirants	200	3,602	10,994	15,777	16,341	20,508	48,162	115,584
Period 10/1/05 to 9/30/06								
Average Monthly Benefit	174	190	341	593	952	1,684	2,493	1,606
Average Final Average Salary	17,201	17,372	18,411	24,056	29,679	40,967	52,919	39,334
Number of Active Retirants	217	3,710	10,952	15,987	16,465	20,803	50,401	118,535
Period 10/1/06 to 9/30/07								
Average Monthly Benefit	583	198	354	611	981	1,718	2,562	1,663
Average Final Average Salary	27,114	18,084	19,129	24,906	30,751	41,666	54,256	40,602
Number of Active Retirants	284	3,857	10,787	16,158	16,680	20,990	52,577	121,333

Source: Gabriel Roeder Smith & Co. - for all periods except 10/1/04 to 9/30/05

Schedule of Average Benefit Payments - Dental/Vision

Last Three Years

Payment Periods	Credited Service (Years) as of September 30							
	0 - 5	5 - 10	10 - 15	15 - 20	20 - 25	25 - 30	30+	Total
Period 10/1/04 to 9/30/05								
Average Monthly Benefit	121	188	336	582	933	1,685	2,503	1,581
Average Final Average Salary	14,741	16,957	17,768	23,221	28,858	40,661	51,804	38,138
Number of Active Retirants	228	3,858	11,858	16,959	17,352	21,664	50,334	122,253
Period 10/1/05 to 9/30/06								
Average Monthly Benefit	178	190	340	588	947	1,691	2,489	1,592
Average Final Average Salary	17,087	17,378	18,437	24,041	29,696	41,171	53,026	39,231
Number of Active Retirants	247	4,009	11,884	17,278	17,576	22,022	52,736	125,752
Period 10/1/06 to 9/30/07								
Average Monthly Benefit	584	198	352	607	974	1,721	2,556	1,643
Average Final Average Salary	27,200	18,134	19,143	24,868	30,674	41,746	54,309	40,374
Number of Active Retirants	319	4,221	11,947	17,648	17,942	22,362	55,166	129,605

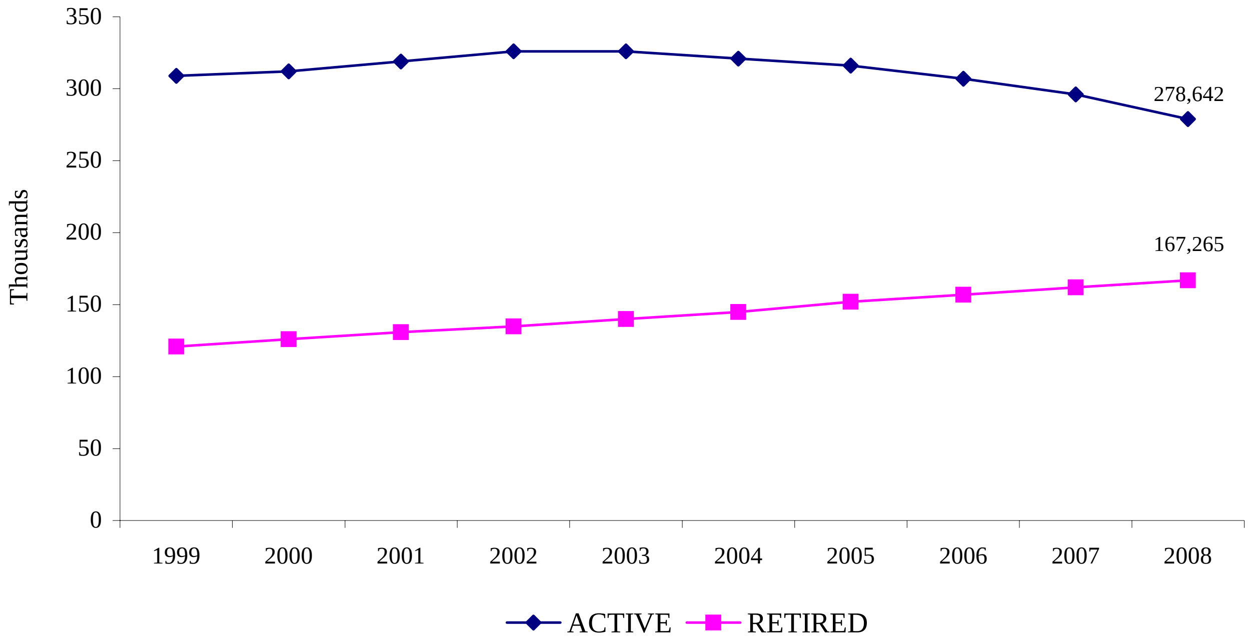
Source: Gabriel Roeder Smith & Co. - for all periods except 10/1/04 to 9/30/05

Schedule of Principal Participating Employers

For Fiscal Years Ending September 30, 2007 and 1998

	2007		1998	
Participating Employer	Employees	Percentage of Total System	Employees	Percentage of Total System
Detroit Public Schools	15,836	5.35 %	23,833	7.02 %
Utica Community Schools	3,742	1.26	4,234	1.25
Flint Community Schools	3,407	1.15	5,073	1.49
Ann Arbor Public Schools	3,298	1.11	3,855	1.14
Grand Rapids Public Schools	3,183	1.08	5,121	1.51
Dearborn Public Schools	2,789	0.94	2,869	0.85
Lansing Public Schools	2,712	0.92	3,507	1.03
Livonia Public Schools	2,471	0.83	3,144	0.93
Plymouth-Canton Community S D	2,468	0.83	2,479	0.73
Kalamazoo Public Schools	2,403	0.81	2,886	0.85
All other	253,675	85.71	282,446	83.22
Total	295,984	100.00 %	339,447	100.00 %

Ten Year History of Membership
Fiscal Year Ended September 30



Source: Gabriel Roeder Smith & Co.

Schedule of Participating Employers at 9/30/08

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
COOR 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 at 9/30/08 (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

Schedule of Participating Employers at 9/30/08 (continued)

K - 12 School Districts (continued):

Central Montcalm Public Schools
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

Schedule of Participating Employers at 9/30/08 (continued)

K - 12 School Districts (continued):

Gladstone Area Schools
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

Schedule of Participating Employers at 9/30/08 (continued)

K - 12 School Districts (continued):

Lincoln Consolidated Schools
Lincoln Park Public Schools
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

Pennfield Schools

Schedule of Participating Employers at 9/30/08 (continued)

K - 12 School Districts (continued):

Pellston Public Schools
Pennfield Public Schools
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

Schedule of Participating Employers at 9/30/08 (continued)

K - 12 School Districts (continued):

Vicksburg Community Schools
Wakefield Township Schools
Walden Green Day School
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
AGBU Alex & Marie Manoogian School
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
Countryside Charter School
Creative Technologies Academy
Da Vinci Institute
Dearborn Academy
Detroit Academy of Arts & Sciences
Detroit Community High School
Detroit Service Learning Academy
Discovery Elementary School
Edison Oakland Public School Academy
Edison Public School Academy
El-Hajj Malik El-Shabazz Academy
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
International Academy of Saginaw
Joseph K. Lumsden Public.School Academy
Macomb Academy
Martin Luther King, Jr. Public School Academy
Merritt Academy
Michigan Technological Academy
Nah Tah Wahsh Public School Academy
New Beginnings Academy
New Branches School
North Star Academy
Oakland International Academy
Outlook Academy
Plymouth Educational Center Charter School
Public Safety Academy of St. Clair County
St. Clair County Academy of Style
St. Clair County Learning Academy
St. Clair County Intervention Academy
Summit Academy
Washtenaw Technical Middle College
Wavecrest Career Academy
West Village Academy
Woodland Park Academy
Youth Advancement Academy

Schedule of Participating Employers at 9/30/08 (continued)

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 2007-2008 report included:

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Cindy Peters, Accounting Manager

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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., Gabriel Roeder Smith & Co., 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