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, 2009

M P S E R S

Prepared by:
Financial Services
for
Office of Retirement Services
P.O. Box 30171
Lansing, Michigan 48909-7671
517-322-5103
1-800-381-5111

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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, 2008

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

President

Executive Director

Public Pension Standards Award

Public Pension Coordinating Council

Public Pension Standards Award For Funding and Administration 2009

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
Alan H. Winkle
Program Administrator

INTRODUCTORY SECTION

Letter of Transmittal

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

STATE OF MICHIGAN

JENNIFER M. GRANHOLM, Governor

DEPARTMENT OF MANAGEMENT AND BUDGET

December 23, 2009

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 2009.

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 and Actuary

The Office of the Auditor General (OAG), 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, 2008. 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) require 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 (6.1)%. For the last five years, the System has experienced an annualized rate of return of 4.2%. 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 to meet future benefit obligations to retirees and beneficiaries. The percentage computed by dividing the actuarial value of assets by the actuarial accrued liability is referred to as the "funded ratio." This ratio provides an indication of the funding status of the System and generally, the greater this percentage, the stronger

Letter of Transmittal (continued)

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, 2008. The actuarial value of the assets and actuarial accrued liability were $45.7 billion and $54.6 billion, respectively, resulting in a funded ratio of 83.6% at September 30, 2008. 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, 2008, would be $26.8 billion. Statement No. 43 does not require retroactive application of the reporting changes. Therefore, only three valuation years are presented and 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 2009, we concluded our strategic planning process outlining the next three years of business goals. The project united staff members from across the organization, generated fresh and unique perspectives, and created broad staff support of the strategic objectives. Additional accomplishments are highlighted below.

Focus on the Customer

miAccount offers secure, online access to personal account information - miAccount, which premiered in 2008, continues to grow in popularity. During its first full year of operations over 65,000 customers registered to use the system and performed more than 43,000 individual transactions without any support from ORS staff. Because of miAccount, we experienced a 30 percent reduction in paper forms for addresses and tax changes, a 62 percent reduction in paper beneficiary nomination forms, and a 33 percent reduction in telephone calls requesting pension estimates.

One of the most popular features of miAccount is the Message Board, which is a secure environment where members can leave account-specific questions; we respond to most of these messages within 12 business hours. Due to the popularity of this service, we completed 7.5 percent more customer contacts as compared to 2008.

Retirees who use miAccount reported a 91 percent satisfaction rate with the service. ORS will continue to focus resources to market the service to our members and to expand the services available through miAccount.

Saved millions on insurance contract - We contracted with Delta Dental and EyeMed Vision Care insurance to save an estimated $7 million this year while continuing to provide excellent dental and vision coverage.

Expanded services without increasing costs - We negotiated to maintain Medicare Advantage services with Blue Cross Blue Shield of Michigan, and saved the system $1 million dollars in administration fees in 2009.

Delivered 1099-Rs earlier than ever - For the first time, retirees were able to view and print their 1099-Rs through miAccount, our account access tool. We sent an email to registered miAccount users to let them know their 1099-Rs, a statement of distributions for tax purposes, were available on December 29, 2008, which was also the first time we have marketed our products or services through email. We delivered paper copies of 1099-Rs to retirees in the first full week of January. The combination of online accessibility and early delivery resulted in a 38 percent reduction in the number of calls received requesting 1099-R reprints.

Letter of Transmittal (continued)

Broad survey guides business practices - We conducted a Customer Needs and Expectations Study to determine what is important to our active and retired members. Study categories included accessibility, communication, education, flexibility, innovation, courtesy, and confidence. This study tells us what are our customers' expectations and helps us determine what services we will offer in the future.

Customer satisfaction is high - We conducted three annual surveys of our active members, retired members, and members who had recently contacted us. We asked a variety of questions including how they rated our service. Over 88 percent of active members rated our service good to excellent, and over 90 percent of retiree respondents rated our service good to excellent. Members who have recently contacted us echoed this satisfaction and gave us a customer satisfaction rating of 89 percent.

Thousands educated about their retirement benefits - We served about 4,000 customers at 39 in-person Preretirement Information Meetings (PRIMs). In addition, to meet the growing demands of customers, we began offering PRIMs via webinars. The webinars are held during nontraditional hours ranging from 4 to 7:30 p.m. This year, more than 1,000 members participated in webinars from the convenience of their home or office.

Customer service continues to drive daily business - We continue to be accessible and responsive to our customers. We answered 223,259 customer telephone calls, assisted 7,714 customers face-to-face, and replied to 51,826 electronic messages on the new, secure miAccount message board.

In addition to direct customer interaction, we continue to offer customers easily accessible sources of clear, concise information about their retirement plans through our websites, seminars, and publications. As more of our customers use these tools, they become more knowledgeable and have less need to contact us with basic questions, giving us capacity to respond to more complicated customer inquiries.

Member Statements feature new design - We mailed 264,000 *Member Statements* to our active members. The *Member Statements* featured a new efficient one-page, double-sided design displaying personal account details including service credit, contributions, wages, employer, and beneficiary data. The statement mailing included a *PROactive* newsletter, which provides retirement planning information to working employees.

New training sessions for soon-to-retire members - We crafted Ready Set Retire sessions to help members who are retiring in the next 12 months to better understand their pension estimates and assist with questions they may have on their retirement application forms. We served 311 customers with 41 Ready Set Retire seminars. This is an efficient alternative to expensive one-on-one counseling and still provides a personal touch for customers.

School employers value our customer service - We wrote, delivered and evaluated the results of the fourth annual public school reporting unit survey. The finding showed 93.5 percent of public school reporting units believe we provide good or excellent service. The survey also helped guide us in improving services to our school employer partners.

Supporting Pure Michigan efforts - We carried the efforts of the Pure Michigan marketing campaign into our websites and newsletters to support attracting tourism to our state.

Continuously Improve Processes

Insurance eligibility review completed - We remain committed to maintaining accurate insurance rosters. In 2009, we completed one of our most successful verification of coverage reviews to confirm and coordinate insurance benefits for members who are covered under another health insurance plan. In addition to this effort, ORS continues to improve our processes for verifying the ongoing eligibility of dependents.

Aligned staff to more efficiently meet customer demand - This year, we focused on our organizational goal of achieving a flexible, adaptable workforce by realigning processing staff into teams who share duties and a common goal. The small groups and team atmosphere allow ORS to shift resources rapidly to meet customer demand and to absorb seasonal business spikes. The realignment provided an opportunity for cross-training and enhanced additional quality assurance measures.

Letter of Transmittal (continued)

Employer training improves reporting process - We crafted a new training for recently-hired public school reporting staff members who are directly involved with reporting wages to the system. The training clarifies the reporting process, improves accuracy, and increases efficiencies for employers and us.

Amended Administrative Hearings Rules - We facilitated a public hearing on the recommended changes to the general procedural rules for Administrative Hearings. Changes were adopted and are now available to the public on our website.

Optimize Technology

Insurance processing goes paperless - Our health insurance carriers for vision, dental, and prescription coverage replaced paper insurance enrollments with automatic digital file transfers. The solution improves accuracy, timeliness, and security of our enrollment process. We successfully streamlined Blue Cross Blue Shield of Michigan enrollments similarly in September 2008.

Upgraded software saves money, customer wait time - We delivered an automated workforce management solution. The new technology automates the scheduling of staff based on projected customer demand for calls, applications, and correspondence. As a result, customers have shorter wait times and our monthly toll-free costs have decreased.

Enhanced Information Security - Our Security Awareness Committee implemented measures to define the acceptable use of mobile devices and portable media to ensure proper handling of sensitive data. Our Security Advisory Committee deployed an information security self-assessment that highlighted our strong internal controls and also identified opportunities for future focus.

Online tool makes final payroll reporting easy - We are dedicated to providing superior customer service. We created an online reporting tool that simplifies the process for public school employers when submitting final payroll information for retirement applicants. The new online data collection system shortens processing time for the retirement applicants by reducing batch processing and mailing delays.

Small technology changes yield large savings - We implemented several cost-saving measures to reduce technology energy usage, telecommunication, and personal computer costs. The annual saving is estimated to be $15 per personal computer.

Promote a Positive Work Environment

Unified staff events, celebrations strengthen culture - In spite of tough economic times, we found a number of ways to show staff appreciation. In our annual ORS Excellence Awards, we recognized 30 staff members for dedication. We supported the Department of Management and Budget’s value of fun with picnics and holiday events.

ORS staff also generously participated in charitable activities such as the State Employees Combined Campaign, Harvest Gathering, and hosted a giving tree through the holiday season.

Additionally, we held two ORS all-staff meetings, providing opportunities to share business updates, respond to questions, and welcome new staff. Two planning committees, comprised of staff volunteers from across our organization, determined each agenda and coordinated the meetings.

AWARDS AND ACKNOWLEDGEMENTS

ORS received the following recognitions:

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

- ORS was named in the Best Practices Report of Cost Effectiveness Measurement, Inc. for written product planning, desired branding image, redesign of welcome package, testing of online tutorial participant knowledge, and for a new tool that helps define education objectives and measurements for its products and services.

Letter of Transmittal (continued)

- ORS was given the Certificate of Achievement for Excellence in Financial Reporting for our fiscal year 2008 *Comprehensive Annual Financial Report* by the Government Finance Officers Association of the United States and Canada. This marks the 18th consecutive year ORS has received this prestigious award.

- The Office of the Governor honored an ORS employee for her embodiment of our shared values of Inclusion, Excellence, Integrity, and Teamwork.

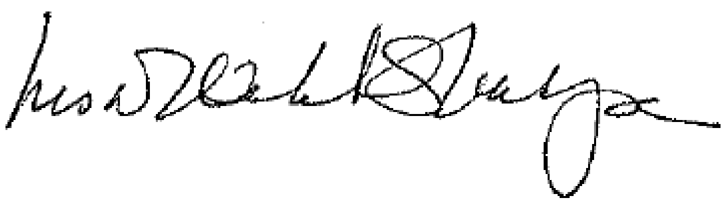
- The Department of Management and Budget honored an ORS employee for her leadership with one of its five prestigious Employee Excellence Awards.

Acknowledgements

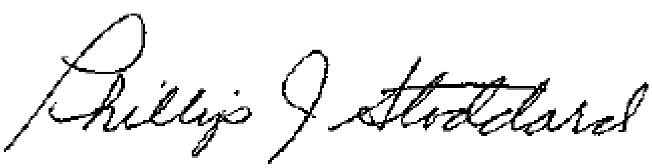
The preparation of this report was accomplished with the dedication and cooperation of many people. It is intended to provide complete and reliable information as a basis for making management decisions, as a means of determining compliance with legal provisions, and as a means for determining responsible stewardship of the funds of the System.

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

Sincerely,



Lisa Webb Sharpe, Director
Department of Management and Budget



Phillip J. Stoddard, Director
Office of Retirement Services

INTRODUCTORY SECTION

Administrative Organization

Retirement Board Members*

Ivy Bailey
Active Classroom Teacher
Term Expires March 30, 2012

Susan W. Meston
Active Superintendent
Term Expires March 30, 2009; continues to serve

Vacant
Active Classroom Teacher

Paul Lerg
Retired Finance/Operations
Term Expires March 30, 2011

Steven Jagusch
General Public - Investments
Term Expires March 30, 2012

Michael Ringuette
General Public - Actuary/Health Insurance
Term Expires March 30, 2010

Lenore Croudy
Community College Trustee
Term Expires March 30, 2012

Vacant
Active Finance/Operations, Non-Superintendent

John Olekszyk, Vice Chair
Retired Teacher
Term Expires March 30, 2010

Diana Osborn, Chair
Active Non-Certified Support
Term Expires March 30, 2009; continues to serve

Edwin Martinson
Reporting Unit Board of Control
Term Expires March 30, 2012

Michael P. Flanagan
Ex-officio Member
Representing State Superintendent of Education

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

Administrative Organization

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

Advisors and Consultants

Actuaries
Gabriel Roeder Smith & Co.
Alan Sonnanstine
Southfield, Michigan

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

Andrews Hooper & Pavlik P.L.C.
Jeffrey J. Fineis, C.P.A.
Okemos, Michigan
(2008)

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

Legal Advisor
Mike Cox
Attorney General
State of Michigan

Medical Advisors
Gabriel Roeder Smith & Co.
Southfield, Michigan

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

Administrative Organization (continued)

Organization Chart

Department of Management & Budget
Lisa Webb Sharpe, Director

Department of Treasury *
Robert J. Kleine, State Treasurer

Bureau of Investments
Jon M. Braeutigam, Director

Financial Services
Michael Gilliland, Director

Fiscal Management Division
Ronald W. Foss, Director

Office of
Retirement Services
Phillip J. Stoddard, Director

Laurie Hill, Assistant Director

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

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FINANCIAL SECTION

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

FINANCIAL SECTION

Independent Auditor's Report

STATE OF MICHIGAN
OFFICE OF THE AUDITOR GENERAL
201 N. WASHINGTON SQUARE
LANSING, MICHIGAN 48913
(517) 334-8050
FAX (517) 334-8079

THOMAS H. MCTAVISH, C.P.A.
AUDITOR GENERAL

Independent Auditor's Report on
the Financial Statements

Ms. Diana Osborn, Chair
Michigan Public School Employees' Retirement System Board
General Office Building
and
Ms. Lisa Webb Sharpe, Director
Department of Management and Budget
Lewis Cass Building
and
Mr. Phillip Stoddard, Director
Office of Retirement Services
Department of Management and Budget
General Office Building
Lansing, Michigan

Dear Ms. Osborn, Ms. Webb Sharpe, and Mr. Stoddard:

We have audited the accompanying basic financial statements of the Michigan Public School Employees' Retirement System as of and for the fiscal year ended September 30, 2009, as listed in the table of contents. These financial statements are the responsibility of the Michigan Public School Employees' Retirement System's management. Our responsibility is to express an opinion on these financial statements based on our audit. The basic financial statements of the Michigan Public School Employees' Retirement System as of and for the fiscal year ended September 30, 2008 were audited by other auditors whose report dated December 12, 2008 expressed an unqualified opinion on those statements.

We conducted our audit 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 audit 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 the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Independent Auditor's Report (continued)

In our opinion, the 2009 financial statements referred to in the first paragraph present fairly, in all material respects, the plan net assets of the Michigan Public School Employees' Retirement System as of September 30, 2009 and the changes in plan net assets for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we will also issue a report 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 grant agreements 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 assessing the results of our audit.

The management's discussion and analysis on pages 18 through 22 and the required supplementary information and corresponding note on pages 46 through 48 are not required parts of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was 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 supporting schedules are presented for the purposes of additional analysis and are not a required part of the basic financial statements. The supporting schedules on pages 49 through 55 have been subjected to auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated, in all material respects, 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.

AUDITOR GENERAL

December 23, 2009

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, 2009. 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 2009 by $35.2 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, 2009, the funded ratio for pension benefits was approximately 83.6% and the funded ratio for other postemployment benefits (OPEB) was approximately 3.1%.
- Additions for the year were ($556.4) million, which are comprised primarily of contributions of $2.1 billion and investment losses of ($2.7) billion.
- Deductions increased over the prior year from $3.9 billion to $4.1 billion or 5.6%. Most of this increase represented increased pension 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, 2009, were $41.8 billion and were mostly comprised of cash, investments, and contributions due from employers. Total assets decreased $5.3 billion or (11.3)% between fiscal years 2008 and 2009 due to net investment losses. Total assets decreased $12.6 billion or (21.1)% between fiscal years 2007 and 2008 due to net investment losses.

Total liabilities as of September 30, 2009, were $6.6 billion and were comprised of warrants outstanding, accounts payable, and obligations under securities lending. Total liabilities decreased $643.2 million or (8.9)% between fiscal years 2008 and 2009 due to decreased 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.

System assets exceeded its liabilities at the close of fiscal year 2009 by $35.2 billion. Total net assets held in trust for pension and OPEB benefits decreased $4.7 billion or (11.7)% from the previous year, primarily due to net investment losses. This compares to fiscal year 2008, when net assets decreased by $9.2 billion or (18.8)% from the prior year.

Net Assets
(in thousands)

	2009	Increase (Decrease)	2008	Increase (Decrease)	2007
Assets					
Cash	$ 116,225	(80.0) %	$ 580,659	428.1 %	$ 109,955
Receivables	406,507	(6.8)	436,109	(14.3)	508,718
Investments	41,281,202	(10.5)	46,116,456	(22.0)	59,142,263
Total Assets	41,803,934	(11.3)	47,133,224	(21.1)	59,760,936
Liabilities					
Warrants outstanding	5,961	(7.2)	6,425	(23.4)	8,388
Accounts payable and other accrued liabilities	206,895	(13.1)	238,068	(20.5)	299,464
Obligations under securities lending	6,379,350	(8.7)	6,990,909	(32.2)	10,313,816
Total Liabilities	6,592,206	(8.9)	7,235,402	(31.9)	10,621,668
Total Net Assets	$ 35,211,728	(11.7) %	$ 39,897,822	(18.8) %	$ 49,139,268

Management's Discussion and Analysis (continued)

ADDITIONS TO PLAN NET ASSETS

The reserves needed to finance pension and other postemployment benefits are accumulated through the collection of employer and employee contributions and through earnings on investments. Contributions and net investment losses for fiscal year 2009 totaled approximately ($556.4) million.

Total additions for fiscal year 2009 increased approximately $4.8 billion or 89.6% from those of fiscal year 2008 due primarily to decreased net investment losses. Total additions decreased approximately $14.5 billion or (158.2)% from fiscal year 2007 to fiscal year 2008 due primarily to net investment losses. Total contributions increased between fiscal years 2008 and 2009 by $13.8 million or 0.65%, while net investment income increased $4.8 billion or 63.8%. 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 (203.2)%. The Investment Section of this report reviews the results of investment activity for fiscal year 2009.

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 2009 were $4.1 billion, an increase of 5.6% over fiscal year 2008 expenses. Total deductions for fiscal year 2008 were $3.9 billion, which was an increase of 7.0% over fiscal year 2007 expenses.

The health, dental, and vision care expenses during the year increased by $59.9 million or 9.0% from $666.4 million to $726.3 million. This compares to an increase of $76.2 million or 12.9% from $590.2 million to $666.4 million between fiscal years 2007 and 2008. The payment of pension benefits increased by $160.7 million or 5.2% between fiscal years 2008 and 2009 and by $172.5 million or 5.9% from fiscal year 2007 to fiscal year 2008. In fiscal year 2009, the increase in pension benefit expenses resulted from an increase in retirees (4,657) and an increase in benefit payments to retirees. In fiscal year 2008, the increase in pension benefit expenses resulted from increases in retirees (4,421) and an increase in benefit payments to retirees. Administrative expenses decreased by $1.5 million or (1.6)% between fiscal years 2008 and 2009, primarily due to a decrease in technological support expenses. Administrative expenses increased by $5.0 million or 5.7% between fiscal years 2007 and 2008 primarily due to an increase in OPEB plan administrative expenses.

Management's Discussion and Analysis (continued)

Changes in Plan Net Assets
(in millions)

	2009	Increase (Decrease)	2008	Increase (Decrease)	2007
Additions					
Member contributions	$ 434.3	(9.0) %	$ 477.3	10.0 %	$ 434.0
Employer contributions	1,705.8	3.5	1,648.9	9.4	1,507.0
Other governmental contributions	0.1 *	-	0.1	-	- *
Net investment income (loss)	(2,697.1)	63.8	(7,459.7)	(203.2)	7,225.0
Miscellaneous income	0.6	(57.1)	1.4	(50.0)	2.8
Total additions	(556.4)	89.6	(5,332.0)	(158.2)	9,168.8
Deductions					
Pension benefits	3,278.1	5.2	3,117.4	5.9	2,944.9
Health care benefits	726.3	9.0	666.4	12.9	590.2
Refunds and transfers to other systems	34.0	3.7	32.8	1.5	32.3
Administrative expenses	91.3	(1.6)	92.8	5.7	87.8
Total deductions	4,129.7	5.6	3,909.4	7.0	3,655.2
Net increase (decrease)	(4,686.1)	49.3	(9,241.4)	(267.6)	5,513.6
Net Assets - Beginning of Year	39,897.8	(18.8)	49,139.2	12.6	43,625.6
Net Assets - End of Year	$ 35,211.7	(11.7) %	$ 39,897.8	(18.8) %	$ 49,139.2

* 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 2009 after a decrease in 2008 and an increase in 2007. As was the case in fiscal year 2008, this decrease is a result of a struggling national economy that resulted in net investment losses for fiscal year ended September 30, 2009. The last quarter of fiscal year 2009 was more encouraging with the System's rate of return increasing over 9%. Management believes that the system remains financially sound and positioned to meet its ongoing benefit 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, 2009 and 2008

	September 30, 2009			September 30, 2008		
	Pension Plan	OPEB Plan	Total	Pension Plan *	OPEB Plan *	Total
Assets:						
Equity in common cash	$ 113,238,544	$ 2,986,493	$ 116,225,037	$ 567,054,405	$ 13,604,558	$ 580,658,963
Receivables:						
Amounts due from employer	179,993,645	4,747,057	184,740,702	179,345,368	4,302,787	183,648,155
Amounts due from employer long term	215,746,589		215,746,589	251,415,722		251,415,722
Interest and dividends	5,864,587	154,669	6,019,256	1,020,972	24,495	1,045,467
Total receivables	401,604,821	4,901,726	406,506,547	431,782,062	4,327,282	436,109,344
Investments:						
Short term investment pools	792,418,383	20,898,821	813,317,204	329,775,578	7,911,852	337,687,430
Fixed income pools	6,686,446,346	176,344,776	6,862,791,122	6,950,858,795	166,762,408	7,117,621,203
Domestic equity pools	12,970,936,759	342,088,580	13,313,025,339	17,004,534,822	407,966,448	17,412,501,270
Real estate pool	3,035,118,231	80,046,592	3,115,164,823	4,380,953,249	105,106,194	4,486,059,443
Alternative investments pool	6,791,057,200	179,103,727	6,970,160,927	7,551,228,039	181,166,243	7,732,394,282
International equities pools	4,479,240,469	118,133,103	4,597,373,572	3,586,676,398	86,050,201	3,672,726,599
Absolute return pools	632,784,513	16,688,722	649,473,235			-
Securities lending collateral	4,832,448,098	127,448,413	4,959,896,511	5,231,943,231	125,522,828	5,357,466,059
Total investments	40,220,449,999	1,060,752,734	41,281,202,733	45,035,970,112	1,080,486,174	46,116,456,286
Total assets	40,735,293,364	1,068,640,953	41,803,934,317	46,034,806,579	1,098,418,014	47,133,224,593
Liabilities:						
Warrants outstanding	5,808,207	153,183	5,961,390	6,274,910	150,545	6,425,455
Accounts payable and other accrued liabilities	15,678,149	191,216,688	206,894,837	13,377,313	224,690,947	238,068,260
Obligations under securities lending	6,215,427,445	163,922,374	6,379,349,819	6,827,115,556	163,793,607	6,990,909,163
Total liabilities	6,236,913,801	355,292,245	6,592,206,046	6,846,767,779	388,635,099	7,235,402,878
Net Assets Held in Trust for Pension and OPEB Benefits	$ 34,498,379,563	$ 713,348,708	$ 35,211,728,271	$ 39,188,038,800	$ 709,782,915	$ 39,897,821,715

* Fiscal year 2008 activity reclassified.

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, 2009 and 2008

	September 30, 2009			September 30, 2008		
	Pension Plan	OPEB Plan	Total	Pension Plan	OPEB Plan	Total
Additions:						
Contributions:						
Member contributions	$ 357,249,466	$ 77,034,085	$ 434,283,551	$ 399,256,616	$ 78,088,861	$ 477,345,477
Employer contributions:						
Colleges, universities and federal	79,934,608	64,549,002	144,483,610	77,058,563	56,467,828	133,526,391
School districts and other	920,440,747	640,915,355	1,561,356,102	922,316,316	593,103,243	1,515,419,559
Other governmental contributions		55,243	55,243		102,115	102,115
Total contributions	1,357,624,821	782,553,685	2,140,178,506	1,398,631,495	727,762,047	2,126,393,542
Investment income (loss):						
Net investment income (loss)	(2,676,095,473)	16,394,930	(2,659,700,543)	(7,349,189,623)	(59,358,643)	(7,408,548,266)
Investment expenses:						
Real estate operating expenses	(939,345)	(17,611)	(956,956)	(163,589)	(2,704)	(166,293)
Other investment expenses	(102,978,747)	(1,930,647)	(104,909,394)	(97,136,079)	(1,605,438)	(98,741,517)
Securities lending activities:						
Securities lending income	128,379,256	2,406,856	130,786,112	312,817,182	5,170,156	317,987,338
Securities lending expenses	(61,207,157)	(1,147,513)	(62,354,670)	(265,855,039)	(4,393,979)	(270,249,018)
Net investment income (loss) *	(2,712,841,466)	15,706,015	(2,697,135,451)	(7,399,527,148)	(60,190,608)	(7,459,717,756)
Transfers from other systems	14,852		14,852	83,138		83,138
Miscellaneous income	412,065	156,296	568,361	897,179	378,216	1,275,395
Total additions	(1,354,789,728)	798,415,996	(556,373,732)	(5,999,915,336)	667,949,655	(5,331,965,681)
Deductions:						
Benefits and refunds paid to plan members and beneficiaries:						
Retirement benefits	3,278,118,116		3,278,118,116	3,117,434,847		3,117,434,847
Health benefits		644,811,396	644,811,396		588,064,545	588,064,545
Dental/vision benefits		81,423,756	81,423,756		78,316,098	78,316,098
Refunds of member contributions	33,864,974	63,247	33,928,221	32,612,927	41,786	32,654,713
Transfers to other systems	93,408		93,408	190,357		190,357
Administrative expenses	22,793,011	68,551,804	91,344,815	24,740,628	68,078,508	92,819,136
Total deductions	3,334,869,509	794,850,203	4,129,719,712	3,174,978,759	734,500,937	3,909,479,696
Net Increase (Decrease)	(4,689,659,237)	3,565,793	(4,686,093,444)	(9,174,894,095)	(66,551,282)	(9,241,445,377)
Net Assets Held in Trust for Pension and OPEB Benefits:						
Beginning of Year	39,188,038,800	709,782,915	39,897,821,715	48,362,932,895	776,334,197	49,139,267,092
End of Year	$ 34,498,379,563	$ 713,348,708	$ 35,211,728,271	$ 39,188,038,800	$ 709,782,915	$ 39,897,821,715

* Fiscal year 2008 activity reclassified.

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

Notes to Basic Financial Statements
September 30, 2009 and 2008

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 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 721 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, 2009 and 2008, the System's membership consisted of the following:

Retirees and beneficiaries currently receiving benefits:	**2009**	**2008**
Regular benefits	151,465	147,323
Survivor benefits	14,871	14,401
Disability benefits	5,586	5,541
Total	171,922	167,265
Current Employees:		
Vested	123,855	121,232
Non-vested	144,353	157,410
Total	268,208	278,642
Inactive employees entitled to benefits and not yet receiving them	14,454	14,312
Total all members	454,584	460,219

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	2009	2008
Eligible participants	171,922	167,265
Participants receiving benefits:		
Health	127,796	123,897
Dental/Vision	137,121	132,728

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:

	2009	2008
Health, Dental and Vision Plan		
Eligible participants	171,922	167,265
Participants receiving benefits:		
Health	127,796	123,897
Dental/Vision	137,121	132,728
Expenses for the year	$ 794,850,203	$ 734,500,937
Employer payroll contribution rate	6.55%	6.55%

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting and Presentation

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

Reserves

Reserve for Employee Contributions - Members no longer contribute to this reserve except to purchase eligible service credit or repay previously refunded contributions. This reserve represents active member contributions and interest less amounts transferred to the Reserve for Retired Benefit Payments for regular and disability retirement, amounts refunded to terminated members, and amounts transferred to the Reserve for Employer Contributions representing unclaimed funds. At September 30, 2009, and 2008, the balance in this reserve was $1.6 billion for both years.

Notes to Basic Financial Statements (continued)

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, 2009, and 2008, the balance in this reserve was $4.5 billion and $4.2 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, 2009, and 2008, the balance in this reserve was ($8.0) billion and ($19.7) 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, 2009, and 2008, the balance in this reserve was $20.5 billion and $30.8 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, 2009, and 2008, the balance in this reserve was $15.8 billion and $22.2 billion, respectively. The balance of this reserve includes the balance of the Stabilization Subaccount.

Stabilization Subaccount - Public Act 143 established a stabilization subaccount of the Reserve for Undistributed Investment Income (income fund) to which any over funding is credited. As of September 30, 2009, 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, 2009, and 2008, the balance in this reserve was $713.3 million and $709.8 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.

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.

Notes to Basic Financial Statements (continued)

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 Other 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 below summarizes costs incurred by the System for such services.

	2009	2008
Building Rentals	$ 1,061,825	$ 908,635
Technological Support	7,510,576	9,152,047
Attorney General	278,947	221,317
Investment Services	9,422,827	9,617,670
Personnel Services	9,312,412	9,275,254

Notes to Basic Financial Statements (continued)

Cash - On September 30, 2009, and 2008, the System had $116.2 million and $580.7 million, respectively, in a common cash investment pool maintained for various State operating funds. The participating funds in the common cash pool earn interest at various rates depending upon prevailing short-term interest rates. Earnings from these activities amounted to $1.0 million and $3.3 million for the years ended September 30, 2009, and 2008, respectively.

Reclassification of Prior Year Amounts

Fiscal year 2008 activity related to net investments on the Statement of Plan Net Assets and the investment income (loss) on the Statement of Changes in Plan Net Assets has been reclassified between the pension plan and the OPEB plan columns in conformity with GASB 43. The total investment activity for the System has remained the same.

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 and OPEB benefits, the unfunded (overfunded) actuarial accrued liability will be amortized over a 27 year period for the 2009 fiscal year and is amortized over a 28 year period for the 2008 fiscal year.

Actual employer contributions for retirement benefits were $1,000.4 million and $999.4 million for fiscal years 2009 and 2008, respectively, representing 10.0% of annual covered payroll for the year ended September 30, 2008. The fiscal year 2009 annual covered payroll is not yet available. Required employer contributions based on previous year actuarial valuations for pensions included:

1. $433.8 million and $551.6 million for fiscal years 2009 and 2008, respectively, for the normal cost of pensions representing 4.4% and 5.6% (before reconciliation) of annual covered payroll for fiscal years 2008 and 2007, respectively.

2. $555.4 million and $352.8 million for fiscal years 2009 and 2008, respectively, for amortization of unfunded actuarial accrued liability representing 5.6% and 3.6% (before reconciliation) of annual covered payroll for fiscal years 2008 and 2007, respectively.

Actual employer contributions for other postemployment benefits (OPEB) were $705.5 million and $649.6 million for fiscal years 2009 and 2008, respectively, representing 7.1% of annual covered payroll for the year ended September 30, 2008. The fiscal year 2009 annual covered payroll is not yet available. Required employer contributions based on previous year actuarial valuations for OPEB included:

1. $1,493.0 million and $1,487.6 million for fiscal years 2009 and 2008, respectively, for the normal cost of OPEB representing 15.0% and 15.1% (before reconciliation) of annual covered payroll for fiscal years 2008 and 2007, respectively.

2. $1,009.0 million and $938.0 million for fiscal years 2009 and 2008, respectively, for amortization of unfunded actuarial accrued liability representing 10.1% and 9.5% (before reconciliation) of annual covered payroll for fiscal years 2008 and 2007, respectively.

Notes to Basic Financial Statements (continued)

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 1998, and payments began in fiscal year 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, 2009, and 2008, there were 36,164 and 41,175 agreements, respectively. The agreements were discounted using the assumed actuarial rate of return of 8% for September 30, 2009, and 2008. The average length of a contract was approximately 7.6 years for 2009 and 2008. The short-term receivable was $63.4 million and the discounted long-term receivable was $215.7 million at September 30, 2009. At September 30, 2008, the short-term receivable was $74.4 million and the discounted long-term receivable was $251.4 million.

Funded Status

Participating employers are required to contribute at an actuarially determined rate for both pension benefits and OPEB. For fiscal year 2008, the actuarial accrued liability (AAL) for pension benefits was $54.6 billion, and the actuarial value of assets was $45.7 billion, resulting in an unfunded actuarial accrued liability (UAAL) of $8.9 billion and a funded ratio of 83.6%. The covered payroll (annual payroll of active employees covered by the plan) was $10.0 billion, and the ratio of the UAAL to the covered payroll was 89.7%.

For fiscal year 2008, the actuarial accrued liability (AAL) for OPEB benefits was $26.8 billion, and the actuarial value of assets was $832.1 million, resulting in an unfunded actuarial accrued liability (UAAL) of $26.0 billion and a funded ratio of 3.1%. The covered payroll (annual payroll of active employees covered by the plan) was $10.0 billion, and the ratio of the UAAL to the covered payroll was 260.9%.

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 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.

Notes to Basic Financial Statements (continued)

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	9/30/2008
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 - Pension	28 years*
Remaining Amortization Period - OPEB	28 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	10.0% Year 1 graded to 3.5% Year 12
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 7.8% of market value of total pooled assets on September 30, 2009, and 5.0% of market value of total pooled assets on September 30, 2008. Futures contracts represented 0.0% of market value of total pooled assets on September 30, 2009 and 0.6% of market value of total pooled assets on September 30, 2008.

To enhance management flexibility, the State Treasurer has traded futures contracts tied to Bond indices and Standard and Poor's stock indices. The bond futures are combined with the rest of the fixed income investments to manage interest rate risk. The Standard and Poor's stock futures contracts are combined with short-term investments or with underlying stock to replicate or enhance the return of the Standard and Poor's stock 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 twenty-three foreign countries. The notional amounts of the swap agreements at September 30, 2009, and 2008, were $3,234.6 million and $2,885.1 million, respectively. Approximately one half of the notional amount tied to foreign stock market indices is hedged against foreign currency fluctuations. The swap agreements provide that the System will pay quarterly, over the term of the swap agreements, interest indexed to the three month London Inter Bank Offer Rate (LIBOR), adjusted for an interest rate spread, on the notional amount stated in the agreements. The net change of the notional exposure of stock indices is the total amount of counterparty risk. That amount will always be significantly less than the swap agreement totals. At the maturing 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 2009 to April 2012. 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.

Notes to Basic Financial Statements (continued)

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 the value of the underlying indices from the inception of the swap agreements. The current value is used as a representation of the fair value based on the intention to hold all swap agreements until maturity. For fiscal years ending September 30, 2009, and 2008, international equity investment programs involving swaps, received a net realized investment income loss of $132.7 million and a net realized investment income gain of $575.3 million, respectively.

The unrealized loss of $359.2 million at September 30, 2009, 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, 2009, and 2008 swap values are as follows:

	Notional Value	Current Value
9/30/2009 (dollars in millions)	$ 3,234.6	$ 2,824.8
9/30/2008 (dollars in millions)	2,885.1	2,059.1

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 years, 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 fiscal year 2008 on the amounts of loans that the agent bank made on its behalf. In fiscal year 2009 the System amended the agreement with the agent bank agreeing to reduce the loans of the program. 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. In fiscal year 2008 there was one such failure by a borrower, Lehman Brothers, Inc (September 2008). However, there were no losses resulting from the default of the borrower as the agent bank, Credit Suisse, indemnified the System.

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 dedicated to the System. As of September 30, 2009 and 2008, such assets had an average weighted maturity to next reset of 3.5 years and 32 days respectively and an average weighted maturity of 8.5 years and 3.3 years respectively. 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, 2009 and 2008, the System had no credit risk exposure to borrowers. The cash received for securities on loan for the System as of September 30, 2009 and 2008, was $6,379,349,819 and $6,990,909,163 respectively. The fair market value of assets held in the dedicated collateral account at the custodian for the System as of September 30, 2009 and 2008, was $4,959,896,511 and $5,357,466,059 respectively. The carrying amount, which is the fair market value, of securities on loan for the System as of September 30, 2009 and 2008, was $6,207,214,358 and $6,367,777,476 respectively.

Notes to Basic Financial Statements (continued)

Gross income, including capital gains, from security lending for fiscal years ended September 30, 2009 and 2008, with Credit Suisse was $130,786,112 and $317,987,338 respectively. Expenses associated with this income were the borrower's rebate of $50,286,661 and $260,015,554 and fees paid to the agent bank of $12,068,009 and $10,233,464 respectively.

Substantial volatility in the financial markets impacted the fair value estimates for securities lending collateral. The System recorded an unrealized loss of $1.6 billion at September 30, 2008 and a reduction of the loss of $.2 billion at September 30, 2009.

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 an 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, 2009, 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, 2009, and 2008

	2009				2008			
Investment Type	**Fair Value**	**S&P**	**Fair Value**	**Moody's**	**Fair Value**	**S&P**	**Fair Value**	**Moody's**
Short Term	$ 847,674	A-1	$ 847,674	P-1	$ 1,128,191	A-1	$ 1,128,191	P-1
Government Securities								
U.S. Agencies - Sponsored	542,660	AAA	542,660	Aaa	1,381,368	AAA	1,381,368	Aaa
Corporate Bonds & Notes								
	190,893	AAA	105,864	Aaa	509,068	AAA	422,551	Aaa
	911,502	AA	788,095	Aa	542,952	AA	593,421	Aa
	2,117,735	A	2,308,460	A	1,694,585	A	1,651,458	A
	1,246,138	BBB	1,313,677	Baa	776,269	BBB	816,157	Baa
	173,134	BB	35,550	Ba	11,488	BB	13,470	Ba
	16,179	B	6,967	B	2,864	B	921	B
	5,591	CCC	5,140	Caa	366	CCC	2,440	Caa
	490	CC	580	Ca	-	CC	302	Ca
	-	C	65	C	-	C	56	C
	-	D	-	D	169	D	-	D
	58,901	NR	156,165	NR	82,099	NR	119,085	NR
International *								
	156,054	AAA	-	Aaa	402,285	AAA	402,285	Aaa
	1,155,854	AA	1,252,677	Aa	1,040,001	AA	1,166,044	Aa
	1,446,985	A	1,698,648	A	1,148,131	A	1,138,563	A
	191,991	BBB	246,137	Baa	-	BBB	-	Baa
	129,658	BB	-	Ba	-	BB	-	Ba
	116,920	NR	-	NR	194,405	NR	77,929	NR
Securities Lending Collateral								
	156,430	A-1	156,430	P-1	-	A-1	-	P-1
	1,464,236	AAA	1,290,448	Aaa	1,628,686	AAA	1,673,366	Aaa
	591,319	AA	1,631,637	Aa	1,391,697	AA	1,577,532	Aa
	807,375	A	1,052,469	A	1,441,903	A	1,234,669	A
	1,510,252	BBB	82,304	Baa	372,357	BBB	590,441	Baa
	-	BB	286,532	Ba	73,523	BB	3,419	Ba
	68,946	B	115,325	B	15,823	B	56,235	B
	48,620	CCC	70,581	Caa	15,648	D	-	D
	297,691	NR	259,143	NR	406,051	NR	210,026	NR
Total	$ 14,253,228		$ 14,253,228		$ 14,259,929		$ 14,259,929	

NR - not rated

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

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.

Notes to Basic Financial Statements (continued)

The State Treasurer does not have a policy for custodial credit risk. However, the State's custodial bank had a credit rating of A+ at September 30, 2009. As of September 30, 2009, no securities were exposed to custodial credit risk. As of September 30, 2008, government securities with a market value of $19.6 million 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, 2009 and 2008, 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, 2009 and 2008, the fair value of the System's prime commercial paper was $847.7 million and $1,128.2 million with the weighted average maturity of 3 days and 5 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, 2009, and 2008

	2009		2008	
	Fair Value	Effective Duration in Years	Fair Value	Effective Duration in Years
Government				
U. S. Treasury	$ 351,648	2.1	$ 80,045	6.8
U. S. Agencies - Backed	1,518,068	4.7	1,744,591	5.4
U. S. Agencies - Sponsored	542,660	3.9	1,381,368	4.1
Corporate	4,720,563	4.9	3,619,861	5.4
International*				
Corporate	3,197,462	0.1	2,784,821	0.03
Total	$ 10,330,401		$ 9,610,686	

Debt securities are exclusive of securities lending collateral.

*International contains 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, 2009, and 2008, the total amount of foreign investment subject to foreign currency risk was $3,077.90 million and $2,900.20 million which amounted to 8.4% and 7.0% 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, 2009

						International	
			Alt. Invest.	Equity	Real Estate	Equities	Derivatives
Region	**Country**	**Currency**	**Market Value in U.S. $**	**Market Value in U.S. $**	**Market Value in U.S. $**	**Market Value in U.S. $**	**Market Value in U.S. $***
AMERICA							
	Brazil	Real		$ 4,420			
	Canada	Dollar				$ 5,534	$ 3,817
EUROPE							
	European Union	Euro	$ 678,988	132,996		16,117	(10,723)
	Switzerland	Franc		94,985		3,271	832
	Sweden	Krona				689	6,926
	Denmark	Krone		751		1,048	(1,181)
	Norway	Krone				103	(617)
	U.K.	Sterling	22,625	108,416		8,545	(54,919)
PACIFIC							
	Australia	Dollar				3,998	610
	China	Renminbi		8,008		278	
	Hong Kong	Dollar				1,421	3,644
	Japan	Yen	1,353	18,883		12,689	(8,959)
	New Zealand	Dollar					1,801
	Singapore	Dollar				1,735	(1,748)
	South Korea	Won		52			(3,059)
MIDDLE EAST							
	Israel	Shekel		2,023			
VARIOUS					$ 416,512	1,596,040	
	Total		$ 702,966	$ 370,534	$ 416,512	$ 1,651,468	$ (63,576)

* 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 2009 through April 2012 with an average maturity of 1.3 years.

Notes to Basic Financial Statements (continued)

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

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							
	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)

NOTE 5 - ACCOUNTING CHANGES

The Governmental Accounting Standards Board (GASB) has issued Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments.* This Statement establishes accounting and financial reporting requirements for derivative instruments entered into by state and local governments. The requirements of this new Statement are effective for financial statements for periods beginning after June 15, 2009. This Statement will be implemented in fiscal year 2010.

NOTE 6 - COMMITMENTS AND CONTINGENCIES

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

Required Supplementary Information

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)
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
2008	45,677	53,555	7,878	85.3	9,958	79.1
2008 [3]	45,677	54,608	8,931	83.6	9,958	89.7

[1] Revised actuarial assumptions
[2] Revised asset valuation method
[3] Revised benefit provisions

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
2008	832	26,811	25,979	3.1	9,958	260.9

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
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
2009	989,150,149	1,000,375,355	101.13

[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
2009	2,501,979,818	705,464,357	55,243	28.20

Note 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 third year the System is reporting other postemployment benefits in accordance with GASB Statement No. 43, only three 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, 2009, and 2008

	2009	2008
Personnel Services:		
Staff Salaries	$ 5,969,385	$ 6,019,986
Retirement and Social Security	1,950,660	1,838,041
Other Fringe Benefits	1,392,367	1,417,227
Total	9,312,412	9,275,254
Professional Services:		
Accounting	1,742,947	1,563,697
Actuarial	167,200	193,000
Attorney General	278,947	221,317
Audit	64,304	55,267
Consulting	134,878	143,994
Medical	381,433	386,138
Total	2,769,709	2,563,413
Building and Equipment:		
Building Rentals	1,061,825	908,635
Equipment Purchase, Maintenance, and Rentals	50,768	70,717
Total	1,112,593	979,352
Miscellaneous:		
Travel and Board Meetings	28,487	27,441
Office Supplies	34,663	34,005
Postage, Telephone, and Other	1,731,469	2,338,569
Printing	293,102	370,547
Technological Support	7,510,576	9,152,047
Total	9,598,297	11,922,609
Total Administrative Expenses	$ 22,793,011	$ 24,740,628

Comparative Summary Schedule of OPEB Plan Administrative Expenses For Fiscal Years Ended September 30, 2009, and 2008

	2009	2008
Health Fees	$ 64,137,268	$ 62,343,660
Dental Fees	4,414,536	5,734,847
Total Administrative Expenses	$ 68,551,804	$ 68,078,508

Supporting Schedules (continued)

Schedule of Investment Expenses
For Fiscal Years Ended September 30, 2009, and 2008

	2009	2008
Real Estate Operating Expenses	$ 956,956	$ 166,293
Securities Lending Expenses	62,354,670	270,249,018
Other Investment Expenses[1]		
ORS-Investment Expenses[2]	9,422,827	9,617,670
Custody Fees	746,669	969,436
Management Fees-Real Estate	9,155,185	8,900,928
Management Fees-Alternative	77,382,838	73,231,983
Management Fees-International	5,483,418	4,873,419
Research Fees	2,718,457	1,148,081
Total Investment Expenses	$ 168,221,020	$ 369,156,828

[1] Refer to the Investment Section for fees paid to investment professionals

[2] Does not include prior year Treasury vendor refunds of $17,322 recorded as revenue, nor exclude Treasury Civil Service fees of $119,012 recorded as a pass through in the Schedule of Investment Fees - State Treasurer.

Schedule of Payments to Consultants
For Fiscal Years Ended September 30, 2009, and 2008

	2009	2008
Accounting	$ 1,742,947	$ 1,563,697
Actuary	167,200	193,000
Attorney General	278,947	221,317
Independent Auditors	64,304	55,267
Consulting	134,878	143,994
Medical Advisor	381,433	386,138
Total Payments	$ 2,769,709	$ 2,563,413

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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, 2009

	Employee Contributions	Member Investment Plan	Employer Contributions
Additions:			
Contributions:			
Member contributions	$ 41,221,207	$ 316,028,259	
Employer contributions:			
Colleges, universities and federal			$ 79,934,608
School districts and other			920,440,747
Other governmental contributions			
Total contributions	41,221,207	316,028,259	1,000,375,355
Investment income (loss):			
Net investment income (loss)			
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	14,852		
Miscellaneous income		1,378	
Total additions	41,236,059	316,029,637	1,000,375,355
Deductions:			
Benefits and refunds paid to plan members and beneficiaries:			
Retirement benefits			
Health benefits			
Dental/vision benefits			
Refund of member contributions	6,679,878	26,788,694	383,851
Transfers to other systems	53,584	39,824	
Administrative expenses			
Total deductions	6,733,462	26,828,518	383,851
Net Increase (Decrease) before other changes	34,502,597	289,201,119	999,991,504
Other Changes in Net Assets:			
Interest allocation	59,142,021	196,448,141	
Transfers upon retirement	(91,371,472)	(238,817,206)	
Transfers of employer shares			10,750,431,030
Total other changes in net assets	(32,229,451)	(42,369,065)	10,750,431,030
Net Increase (Decrease)	2,273,146	246,832,054	11,750,422,534
Net Assets Held in Trust for Pension and OPEB Benefits:			
Beginning of Year	1,635,792,220	4,247,695,274	(19,710,509,286)
End of Year	$ 1,638,065,366	$ 4,494,527,328	$ (7,960,086,752)

* Fiscal year 2008 activity reclassified.

Supporting Schedules (continued)

Retired Benefit Payments	Undistributed Investment Income	OPEB	Total
		$ 77,034,085	$ 434,283,551
		64,549,002	144,483,610
		640,915,355	1,561,356,102
		55,243	55,243
-	-	782,553,685	2,140,178,506
	$ (2,676,095,473)	16,394,930	(2,659,700,543)
	(939,345)	(17,611)	(956,956)
	(102,978,747)	(1,930,647)	(104,909,394)
	128,379,256	2,406,856	130,786,112
	(61,207,157)	(1,147,513)	(62,354,670)
-	(2,712,841,466)	15,706,015	(2,697,135,451)
			14,852
$ 452,666	(41,979)	156,296	568,361
452,666	(2,712,883,445)	798,415,996	(556,373,732)
3,278,118,116			3,278,118,116
		644,811,396	644,811,396
		81,423,756	81,423,756
11,792	759	63,247	33,928,221
			93,408
	22,793,011	68,551,804	91,344,815
3,278,129,908	22,793,770	794,850,203	4,129,719,712
(3,277,677,242)	(2,735,677,215)	3,565,793	(4,686,093,444)
3,477,861,330	(3,733,451,492)		-
330,188,678			-
(10,750,431,030)			-
(6,942,381,022)	(3,733,451,492)	-	-
(10,220,058,264)	(6,469,128,707)	3,565,793	(4,686,093,444)
30,766,360,093	22,248,700,499	709,782,915	39,897,821,715
$ 20,546,301,829	$ 15,779,571,792	$ 713,348,708	$ 35,211,728,271

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 investment income (loss)			
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)

* Fiscal year 2008 activity reclassified.

Supporting Schedules (continued)

Retired Benefit Payments	Undistributed Investment Income	OPEB	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
	$ (7,349,189,623)	(59,358,643)	(7,408,548,266)
	(163,589)	(2,704)	(166,293)
	(97,136,079)	(1,605,438)	(98,741,517)
	312,817,182	5,170,156	317,987,338
	(265,855,039)	(4,393,979)	(270,249,018)
-	(7,399,527,148)	(60,190,608)	(7,459,717,756)
			83,138
$ 771,677	125,502	378,216	1,275,395
771,677	(7,399,401,646)	667,949,655	(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)	(7,424,142,274)	(66,551,282)	(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	(10,171,915,326)	(66,551,282)	(9,241,445,377)
29,067,324,410	32,420,615,825	776,334,197	49,139,267,092
$ 30,766,360,093	$ 22,248,700,499	$ 709,782,915	$ 39,897,821,715

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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 Energy, Labor and Economic Growth and the Director of the Department of Management and Budget are ex-officio members. As of September 30, 2009, members of the Committee were as follows: David G. Sowerby, CFA (public member), Glenn P. Murray (public member), James B. Jacobs (public member), Stanley Pruss (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 assumption over the long term.
5. Perform in the top half of the public plan universe over the long term.
6. Exceed individual asset class benchmarks over the long term.
7. Operate in a cost-effective manner.

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 9/30/09 Actual %		Two-Year Target %
Domestic Equities			34.0%
Domestic Equity - Active	23.3%		
Large Cap Core Pool		7.1%	
Large Cap Value Pool		3.9%	
Large Cap Growth Pool		5.4%	
Large Cap Dividend Growth Pool		0.8%	
Large Cap Growth Managers Pool		2.2%	
Manager of Managers Pool		0.3%	
Mid Cap Pool		1.9%	
Small Cap Pool		1.6%	
Tactical Asset Allocation Pool		0.1%	
Domestic Equity - Passive	13.2%		
S&P 500 Index Pool		12.0%	
S&P Mid Cap Index Pool		1.2%	
International Equities	12.6%		17.0%
International Equity Pool - Passive		9.8%	
International Equity Pool - Active		2.6%	
Emerging Markets Pool		0.2%	
Alternative Investments Pool	19.1%		16.0%
Real Estate Pool	8.6%		11.0%
Fixed Income	18.8%		17.0%
Government Bond Pool		5.0%	
Corporate Bond Pools		10.2%	
Fixed Income Bond Pools		3.4%	
CMBS Investment Pool		0.2%	
Absolute Return	1.8%		2.0%
Special Situations Fund Pool		0.3%	
Absolute Return Strategies Pool		1.5%	
Real Return	0.0%		1.0%
Short Term Investment	2.6%		2.0%
Short Term Fixed Income Pool		2.3%	
Short Term Investment Pool		0.3%	
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, 2009, the total System's rate of return was (6.1)% as compiled by State Street Investment Analytics. Annualized rates of return for the three-year period ending September 30, 2009, were (1.2)%; for the five-year period were 4.2%; and for the ten-year period were 3.7%.

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.

Fiscal year 2009 marked one of the most turbulent and volatile years in the capital markets and overall economy in several generations. Though a great deal of uncertainty and distress remains evident throughout the global economy and capital markets, the System's investments ended the year on a more positive note rising in the final three months of the fiscal year driven by a sharp recovery in the U.S. and international equity markets. Moreover, as challenging as the investment environment has been for pension plan investments across the country, the System has ample assets to provide benefits now and far into the future.

In the fall of 2008, the financial markets were in the midst of a truly historic period marked by precipitous declines in the U.S. and international equity markets, sharp declines in large portions of the bond market, and major signs of stress in alternative investments as well. Alternative investments are generally considered to include those outside the traditional stock and bond markets such as real estate, private equity, hedge funds, etc. The stress on the investment markets was so severe at times, major portions of the capital markets ceased to function effectively, or for a period of time, function at all.

The investment markets were reacting to many factors including the massive amount of debt that had accumulated throughout the economy generally, but particularly in the residential mortgage markets. Powered by years of borrowed funds, asset prices, most notably home prices in the U.S. and in a number of foreign countries as well, rose dramatically. The price increases outpaced both inflation and the growth of the incomes of those borrowing. Lenders, able to themselves borrow funds at low rates under a liberal monetary policy, lowered lending standards making subprime loans to homebuyers with little capital for down payments and uncertain ability to repay the loans. A subprime loan is defined generally as those where the borrower has a FICO score below 640.

The contraction of credit available to companies and consumers led to a dramatic decline in the overall U.S. and global economies. The U.S. unemployment rate ended fiscal year 2009 at 9.8%. Paralleling the effects on the financial services sector, investors witnessed bankruptcies and cutbacks in many non-financial companies, such as GM and Chrysler (which the System did not materially own).

Faced with a sharply contracting economy and the nearly frozen financial sector, the U.S. government (and many foreign governments) enacted a series of programs designed to assist the lending markets. Programs such as the Troubled Asset Relief Program (TARP) and Term Asset-Backed Securities Loan Facility (TALF) were enacted to help areas such as commercial paper and mortgages regain normal operation and allow a sense of confidence and normalcy to re-emerge among investors, depositors, lenders, consumers, and corporate managements.

Equity Markets were extremely turbulent given the upheaval in the credit markets and general economy. As fiscal year 2009 began, the S&P 500 stood at 1,166. It subsequently plunged to a low of 666 on March 9, 2009, a 43% decline from the beginning of fiscal year 2009, and a 58% decline from its all time high of 1,576 on October 12, 2007. Yet, as rapid as the equity markets decline was during the first half of fiscal 2009, so too was the dramatic recovery in equity markets during the last half of the fiscal year. From its March 9th bottom of 666, the S&P 500 rose 59% to 1,057 at fiscal year end. This substantial gain has not yet fully offset the collapse that occurred in the period September 2008 to March of 2009.

Report on Investment Activity (continued)

Prior to the equity market collapse the System made some strategic moves in the equity markets over this period: First, selling $2 billion in equities in the twelve months leading up to the March 9, 2009, market low; second, underweighting the financial sector of the market prior to the collapse; third, selling the stock of several financial sector companies prior to the collapse; fourth, the System entered this period with a conservatively positioned fixed income portfolio; and fifth, the System made few new commitments to its real estate and private equity portfolios over fiscal year 2009

To conclude, the market environment created significant investment challenges for nearly all public pension systems in fiscal year 2009, since almost all public pension systems must invest in equities in order to meet their required future long-term liabilities. Fortunately, public defined benefit pension systems have a long term investment horizon, which allows the System to invest for the long term. This allows the System to be patient as markets rebound. Though this major recovery in values across multiple asset classes in the final half of the fiscal year was encouraging, the intent is to maintain a careful balance between actions designed to earn the returns necessary to meet the System's obligation and the risk management needed to protect the System's assets.

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.

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, 2009:

Technology	21.0 %
Financials	17.9
Healthcare	14.0
Industrials	10.9
Consumer Discretionary	10.5
Telecom	7.2
Energy	7.1
Consumer Staples	6.6
Materials	2.3
Utilities	2.0
Short Term Investments	0.5
Total	**100.0 %**

The System's Large Cap Core pool total rate of return was (2.1)% for fiscal year 2009. This compared with (6.9)% for the S&P 500 Index.

Report on Investment Activity (continued)

At the close of fiscal year 2009, the Large Cap Core pool represented 7.1% of total investments. This compares to 13.1% for fiscal year 2008. The following summarizes the System's 78.2% ownership share of the Large Cap Core pool at September 30, 2009:

Large Cap Core Pool
(in thousands)

Short Term Pooled Investments	$ 13,747
Equities	2,564,307
Settlement Principal Payable	(54,481)
Settlement Proceeds Receivable	56,665
Accrued Dividends	1,569
Total	**$ 2,581,807**

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 500 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 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 500 Value Index.

The following summarizes the weightings of the pool as of September 30, 2009:

Healthcare	22.0 %
Financials	17.9
Consumer Staples	11.4
Technology	10.6
Short Term Investments	9.8
Consumer Discretionary	9.5
Energy	9.3
Industrials	5.7
Telecom	3.3
Materials	0.5
Total	**100.0 %**

Report on Investment Activity (continued)

The System's Large Cap Value pool total rate of return was (11.7)% for fiscal year 2009. This compared with (11.4)% for the S&P 500 Value Index.

At the close of fiscal year 2009, the Large Cap Value pool represented 3.9% of total investments. This compares to 4.5% for fiscal year 2008. The following summarizes the System's 79.8% ownership share of the Large Cap Value pool at September 30, 2009:

Large Cap Value Pool
(in thousands)

Short Term Pooled Investments	$ 139,064
Equities	1,281,189
Accrued Dividends	2,204
Total	**$ 1,422,457**

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 500 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 500 Growth Index.

The following summarizes the weightings of various sectors in the pool as of September 30, 2009:

Technology	30.6 %
Energy	16.9
Healthcare	15.0
Industrials	9.6
Consumer Staples	9.4
Financials	6.9
Consumer Discretionary	4.3
Short Term Investments	3.9
Other	2.0
Materials	1.4
Total	**100.0 %**

Report on Investment Activity (continued)

The Large Cap Growth pool total rate of return was 1.2% for fiscal year 2009 versus (2.6)% for the S&P 500 Growth Index.

At the close of fiscal year 2009, the Large Cap Growth pool represented 5.4% of total investments. This compares to 5.2% for fiscal year 2008. The following summarizes the System's 78.2% ownership share of the Large Cap Growth pool at September 30, 2009:

Large Cap Growth Pool
(in thousands)

Short Term Pooled Investments	$	77,349
Equities		1,903,851
Settlement Principal Payable		(13,470)
Settlement Proceeds Receivable		1,927
Accrued Dividends		777
Total	**$**	**1,970,434**

Large Cap Dividend 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 500 Growth Index.

The Large Cap Dividend Growth pool rate of return from inception to fiscal year end was 53.9%.

At the close of fiscal year 2009, the Large Cap Dividend Growth pool represented 0.8% of total investments. The following summarizes the System's 78.2% ownership share of the Large Cap Dividend Growth pool at September 30, 2009:

Large Cap Dividend Growth Pool
(in thousands)

Short Term Pooled Investments	$	6,110
Equities		300,837
Accrued Dividends		179
Total	**$**	**307,126**

Large Cap Growth Managers 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 500 Growth Index.

The rate of return from inception to fiscal year end for Edgewood Large Cap Growth was 27.6% and for Aletheia Large Cap Growth was 42.1%.

Report on Investment Activity (continued)

At the close of fiscal year 2009, the Large Cap Growth Managers pool represented 2.2% of total investments. The following summarizes the System's ownership share and composition of the Large Cap Growth Managers pool at September 30, 2009:

Large Cap Growth Managers Pool
(in thousands)

	Edgewood Large Cap Growth	Aletheia Large Cap Growth
Total Investment	$ 509,373	$ 283,719
Ownership Percentage	78.2%	78.2%

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 total rate of return was (6.1)% for fiscal year 2009 versus (6.8)% for the S&P 1500 Index.

At the close of fiscal year 2009, the Manager of Managers pool represented 0.3% of total investments. This compares to 0.3% for fiscal year 2008. The following summarizes the System's ownership share and composition of the Manager of Managers pool at September 30, 2009:

Manager of Managers Pool
(in thousands)

	Attucks Asset Management	Bivium Capital Partners	Leading Edge Investment Advisors
Total Investment	$ 53,965	$ 40,791	$ 28,967
Ownership Percentage	78.1%	78.1%	78.1%

Report on Investment Activity (continued)

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 total rate of return was (3.9)% for fiscal year 2009 versus (3.1)% for the S&P 400 Mid Cap Index.

At the close of fiscal year 2009, the Mid Cap pool represented 1.9% of total investments. This compares to 2.1% for fiscal year 2008. The following summarizes the System's ownership share and composition of the Mid Cap pool at September 30, 2009:

Mid Cap Value and Core Pool
(in thousands)

	Artisan Mid Cap Value	Cramer Rosenthal McGlynn Mid Cap Value	Champlain Mid Cap Core	Los Angeles Capital Mid Cap Core	Munder Mid Cap Core
Total Investment	$ 129,109	$ 111,851	$ 51,555	$ 91,128	$ 103,789
Ownership Percentage	77.4%	77.2%	77.2%	77.4%	77.4%

Mid Cap Growth Pool
(in thousands)

	Rainer Mid Cap Growth	UBS Mid Cap Growth	Wellington Management Mid Cap Growth
Total Investment	$ 69,498	$ 71,701	$ 78,365
Ownership Percentage	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.

Report on Investment Activity (continued)

The Small Cap pool total rate of return was (0.3)% for fiscal year 2009 versus (10.6)% for the S&P 600 Small Cap Index.

At the close of fiscal year 2009, the Small Cap pool represented 1.6% of total investments. This compares to 1.0% for fiscal year 2008. The following summarizes the System's ownership share and composition of the Small Cap Pool at September 30, 2009:

Small Cap Value Pool
(in thousands)

	Donald Smith Small Cap Value	Fisher Small Cap Value	GW Capital Small Cap Value	Northpointe Small Cap Value	Opus Capital Small Cap Value
Total Investment	$ 83,506	$ 144,457	$ 67,882	$ 50,454	$ 48,099
Ownership Percentage	76.5%	79.5%	76.5%	77.1%	76.5%

Small Cap Growth and Core Pool
(in thousands)

	Champlain Small Cap Core	Pier Capital Small Cap Growth
Total Investment	$ 57,147	$ 142,383
Ownership Percentage	76.5%	76.5%

Tactical Asset Allocation Pool

The pool invests primarily in equities and equity-related securities of U.S. companies. 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 Tactical Asset Allocation pool rate of return from inception to fiscal year end was 19.4%.

At the close of fiscal year 2009, the Tactical Asset Allocation pool represented 0.1% of total investments. The following summarizes the System's 77.2% ownership share of the Tactical Asset Allocation pool at September 30, 2009:

Tactical Asset Allocation Pool
(in thousands)

Equities	$ 18,087

Report on Investment Activity (continued)

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, 2009:

Information Technology	18.6	%
Financials	15.2	
Healthcare	13.1	
Energy	11.7	
Consumer Staples	11.5	
Industrials	10.3	
Consumer Discretionary	9.1	
Utilities	3.7	
Materials	3.6	
Telecomm. Services	3.2	
Total	**100.0**	**%**

The S&P 500 Index pool total rate of return was (6.5)% for fiscal year 2009 versus (6.9)% for the S&P 500 Index.

At the close of fiscal year 2009, the S&P 500 Index pool represented 12.0% of total investments. This compares to 13.8% for fiscal year 2008. The following summarizes the System's 78.0% ownership share of the S&P 500 Index pool at September 30, 2009:

S&P 500 Index Pool
(in thousands)

Short Term Pooled Investments	$	8,903
Equities		4,348,050
Accrued Dividends		6,449
Total	**$**	**4,363,402**

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 total rate of return was (1.4)% for fiscal year 2009 versus (3.1)% for the S&P Mid Cap Index.

Report on Investment Activity (continued)

At the close of fiscal year 2009, the S&P MidCap Index pool represented 1.2% of total investments. This compares to 1.5% for fiscal year 2008. The following summarizes the System's 78.0% ownership share of the S&P MidCap Index pool at September 30, 2009:

S&P MidCap Index Pool
(in thousands)

Short Term Pooled Investments	$	1,267
Equities		430,324
Accrued Dividends		381
Total	**$**	**431,972**

International Equity Pool - Passive

The objective of the International Equity Pool - Passive is to match the return performance of the S&P 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. In January 2009, a global stock portfolio, having above average dividend yields, was added to increase portfolio management flexibility. The total passive international return for the fiscal year was 8.5% compared to the S&P Developed BMI-EPAC Net 50/50 return of 3.0%.

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 Broad Market Index (BMI) Europe and Pacific Composite (EPAC) country weightings in related indices. Use of swap agreements for a core position began in 1993, an American Depository Receipts (ADR) and index-related security portfolio was added in June of 1999 to increase portfolio management flexibility, and a multiple country fund portfolio with smaller capitalization stocks was added in September of 2002 to improve exposure to the smallest companies in the BMI index. Use of futures as an investment to hedge cash flows and balances began in December of 2008, and this use is expected to continue in the future. 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.

The combination of stock, notes, dedicated short-term investments, futures and equity swap agreements was valued at $3,584.9 million on September 30, 2009. That valuation included a net unrealized loss of $228.6 million. During fiscal year 2009, the pool received realized losses of $223.1 million on stock, futures, swap equity exposures and dedicated short-term investments. During the same period, $67.0 million of dividend and interest income was earned from the international equity pool.

Report on Investment Activity (continued)

At the close of fiscal year 2009, the International Equity – Passive pool represented 9.8% of total investments. This compares to 6.6% for fiscal year 2008. The following summarizes the System's 78.0% ownership share of the International Equity Pool - Passive at September 30, 2009:

International Equity Pool - Passive
(in thousands)

Short Term Pooled Investments	$ 9,925
Equities	738,971
Fixed Income Securities	3,197,462
Market Value of Equity Contracts	(366,533)
Accrued Dividends and Interest	5,029
Total	**$ 3,584,854**

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 AllianceBernstein 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 total rate of return was (1.0)% for fiscal year 2009 versus 4.9% for the S&P Broad Market Index (BMI) World Ex-United States.

At the close of fiscal year 2009, the International Equity - Active pool represented 2.6% of total investments. This compares to 2.3% for fiscal year 2008. The following summarizes the System’s ownership share and composition of the pool at September 30, 2009:

International Equity Pool - Active
(in thousands)

	AllianceBernstein International	Wellington International	SSGA International	Globeflex Int'l Small Cap	SSGA Int'l Small Cap
Total Investment	$ 278,011	$ 263,639	$ 303,481	$ 55,539	$ 55,114
Ownership Percentage	77.6%	77.4%	77.4%	77.9%	77.9%

Emerging Markets Pool

The objective of the Emerging Markets pool is to closely match the return performance of its benchmark, the MSCI Emerging Markets Index. The pool invests in equities and equity-related securities in emerging countries in Europe,

Report on Investment Activity (continued)

Asia, Africa, and Latin America. 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 foreign securities exchanges. It may also invest in stocks that are traded on U.S. national securities exchanges, including American Depository Receipts (ADRs) and in stocks that are traded over-the-counter. At September 30, 2009 the LA Capital Emerging Markets component of the pool was temporarily invested in cash equivalents.

The Emerging Markets pool rate of return from inception to fiscal year end was 20.1%.

At the close of fiscal year 2009, the Emerging Markets pool represented 0.2% of total investments. The following summarizes the System's ownership share and composition of the Emerging Markets pool at September 30, 2009:

Emerging Markets Pool
(in thousands)

	Vanguard Emerging Markets	LA Capital Emerging Markets
Total Investment	$ 45,051	$ 11,685
Ownership Percentage	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, 2009:

Buyout Funds	51.6 %
Special Situation Funds	19.9
Venture Capital Funds	10.8
Fund of Funds	6.4
Liquidation Portfolio	5.7
Other	3.1
Mezzanine Funds	2.5
Total	**100.0** %

The Alternative Investments pool had a return of (21.8)% for the fiscal year ended September 30, 2009, versus the benchmark of (1.8)%.

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, 2009, was (5.0)%.

Report on Investment Activity (continued)

At the close of fiscal year 2009, the Alternative Investments pool represented 19.1% of total investments and T. Rowe Price represented 0.02% of total investments. This compares to 18.7% for Alternative and 0.02% for T. Rowe Price for fiscal year 2008. The following summarizes the System's ownership share and composition of the Alternative Investments pool and T. Rowe Price at September 30, 2009:

Alternative Investments Pool
(in thousands)

	Alternative	T. Rowe Price
Short Term Pooled Investments	$ 83,538	$ 5,529
Equities	6,878,256	918
Settlement Proceeds Receivable	-	1,920
Total	**$ 6,961,794**	**$ 8,367**
Ownership Percentage	78.9%	80.0%

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 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	25.6 %
Hotels	20.9
Commercial office buildings	19.3
Retail shopping centers	15.7
Industrial warehouse buildings	8.8
For Sale Housing	4.3
Senior Living	3.1
Land	1.8
Short Term Investments	0.5
Total	**100.0 %**

Report on Investment Activity (continued)

The Real Estate pool generated a return of (23.3)% for fiscal year 2009. The benchmark return of (23.1)% is the National Council of Real Estate Investment Fiduciaries Property Index less 130 basis points. Commercial real estate values declined during the fiscal year due to economic recession. Transaction activity slowed considerably due to more conservative underwriting, and commercial real estate investors were forced to reduce debt levels due to a lack of available credit.

At the close of fiscal year 2009, the Real Estate pool represented 8.6% of total investments. This compares to 10.9% for fiscal year 2008. The following summarizes the System's 76.6% ownership share of the Real Estate pool at September 30, 2009:

Real Estate Pool
(in thousands)

Short Term Pooled Investments	$	21,696
Equities		3,093,467
Fixed Income Securities		2
Total	**$**	**3,115,165**

Government Bond Pool

The objectives are to maximize the rate of return consistent with sound portfolio management principles and to outperform the Barclays 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 3.7%, rose to 4.1%, then declined to 2.1% and ended at 3.3%. 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, 2009, the Government Bond pool returned 8.8% compared to the 6.7% return of the Barclays Government Index.

The following summarizes the security type breakdown of the pool as of September 30, 2009:

GNMA	52.7	%
U.S. Guaranteed	28.8	
U.S. Agency	15.5	
U.S. Treasury	2.2	
Short Term Investments/Accruals	0.8	
Total	**100.0**	**%**

Report on Investment Activity (continued)

At the close of fiscal year 2009, the Government Bond pool represented 5.0% of total investments. This compares to 7.0% for fiscal year 2008. The following summarizes the System's 78.6% ownership share of the Government Bond pool at September 30, 2009:

Government Bond Pool
(in thousands)

Short Term Pooled Investments	$ 1,275
Fixed Income Securities	1,795,838
Accrued Interest	13,301
Total	**$ 1,810,414**

Corporate Bond Pool

The objectives are to maximize the rate of return consistent with sound portfolio management principles and to outperform the Barclays 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, 2009, the Corporate Bond pool returned 15.6% compared to the 19.5% return of the Barclays Credit Index. The pool’s performance improved as the year progressed due to the decline in rates later in the year.

The following summarizes the security type breakdown of the pool as of September 30, 2009:

Financials	16.9 %
Healthcare	14.9
Utilities	14.8
Consumer Staples	11.8
Industrials	11.4
Consumer Discretionary	11.0
Energy	6.6
Materials	5.8
Information Technology	3.3
Short Term Investments/Accruals	2.5
Other	0.7
Telecommunications	0.3
Total	**100.0 %**

Report on Investment Activity (continued)

At the close of fiscal year 2009, the Corporate Bond pool represented 10.2% of total investments. This compares to 7.1% for fiscal year 2008. The following summarizes the System's 79.0% ownership share of the Corporate Bond pool at September 30, 2009:

Corporate Bond Pool
(in thousands)

Short Term Pooled Investments	$ 49,057
Fixed Income Securities	3,646,613
Settlement Principal Payable	(2,900)
Accrued interest	46,618
Total	**$ 3,739,388**

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 Barclays 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 12.5% versus the benchmark's 10.6%.

At the close of fiscal year 2009, the Fixed Income Core pools represented 2.2% of total investments. This compares to 1.7% for fiscal year 2008. The following summarizes the System's ownership share and composition of the five Fixed Income Core pools at September 30, 2009:

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	$ 96,445	$ 166,615	$ 138,508	$ 230,127	$ 165,800
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 Barclays Credit Index net of fees.

Report on Investment Activity (continued)

The four managers hired were AllianceBernstein, Prudential Financial, Western Asset, and Taplin, Canida & Habacht. In the interim, Western Asset and Taplin, Canida, & Habacht have been terminated.

The Fixed Income Corporate Manager pools combined rate of return for the fiscal year was 20.4% versus the benchmark's 19.5%.

At the close of fiscal year 2009, the Fixed Income Corporate Manager pools represented 1.2% of total investments. This compares to 1.2% for fiscal year 2008. The following summarizes the System's ownership share and composition of the Fixed Income Corporate Manager pools at September 30, 2009:

Fixed Income Corporate Manager Pools
(in thousands)

	Alliance Bernstien Corporate	Prudential Financial Corporate
Total Investment	$ 135,551	$ 310,368
Ownership Percentage	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 rate of return for the fiscal year was (17.5)% versus the benchmark's (11.0)%.

At the close of fiscal year 2009, the CMBS Investment pool represented 0.2% of total investments. This compares to 0.2% for fiscal year 2008. The following summarizes the System's 78.2% ownership share of the CMBS Investment pool at September 30, 2009:

CMBS Investment Pool
(in thousands)

Total Investment	$ 69,575

Special Situations Fund I Pool

The pool seeks to provide capital growth, current income, and preservation of capital through a portfolio of large cap equities, fixed income securities, and option strategies. The pool is measured against the HFRX Absolute Return Index.

The Special Situations Fund I pool rate of return from inception to fiscal year end was 14.9%.

Report on Investment Activity (continued)

At the close of fiscal year 2009, the Special Situations Fund I pool represented 0.3% of total investments. The following summarizes the System's 79.0% ownership share of the Special Situations Fund I pool at September 30, 2009:

Special Situations Fund I Pool
(in thousands)

Short Term Pooled investments	$	10,860
Equities		55,525
Fixed Income Securities		27,133
Other Investments		(9)
Accrued Dividends and Interest		755
Total	**$**	**94,264**

Absolute Return Strategies Pool

The primary investment objective is to generate a rate of return that exceeds the HFRX Absolute Return Index, driven by a diverse group of alternative investment strategies that aim to deliver risk-adjusted absolute returns uncorrelated to broad market indices.

The Absolute Return Strategies pool rate of return for the fiscal year was (22.0)% versus the benchmark's (11.8)%.

At the close of fiscal year 2009, the Absolute Return Strategies pool represented 1.5% of total investments. The following summarizes the System's 75.0% ownership share of the Absolute Return Strategies pool at September 30, 2009:

Absolute Return Strategies Pool
(in thousands)

Total Investment	$	555,209

Short Term Fixed Income Pool

The objective of the Short Term Fixed Income pool is to closely match the return performance of its benchmark, the 30 day Treasury bill.

Potential areas of investment are:
- Obligations of the United States or its agencies.
- Short duration investment grade corporate issues.

The Short Term Fixed Income pool rate of return from inception to fiscal year end was 1.3%.

Report on Investment Activity (continued)

At the close of fiscal year 2009, the Short Term Fixed Income pool represented 2.3% of total investments. The following summarizes the System's 78.1% ownership share of the Short Term Fixed Income pool at September 30, 2009:

Short Term Fixed Income Pool
(in thousands)

Short Term Pooled Investments	$	418,573
Fixed Income Securities		393,475
Accrued interest		487
Total	**$**	**812,535**

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 0.9% versus the benchmark's 0.1%.

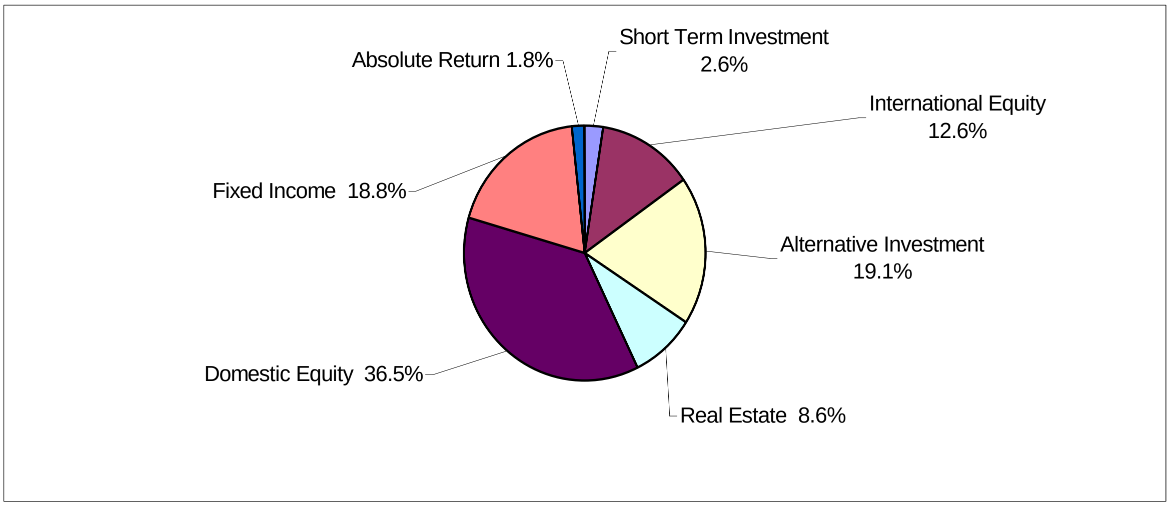
Potential areas of investment are:

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

As of September 30, 2009, 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 2009, the Short Term Investment pool represented 0.3% of total investments. This compares to 2.2% for fiscal year 2008. The System's ownership share of the Short Term Investment pool at September 30, 2009 was $117,007,192 composed of fixed income securities and equity in common cash.

Asset Allocation – Security Type Only



Investment Results for the Period Ending September 30, 2009

		Annualized Rate of Return[1]		
Investment Category	**Current Year**	**3 Years**	**5 Years**	**10 Years**
Total Portfolio	(6.1) %	(1.2) %	4.2 %	3.7 %
Total Domestic Equity	(4.6)	(4.5)	1.6	0.7
S&P 1500 Index	(6.8)	(5.1)	1.4	0.6
Large Cap Core Equity Pool	(2.1)			
Large Cap Value Pool	(11.7)	(8.5)	0.0	
Large Cap Growth Pool	1.2	(1.5)	2.1	
Mid Cap Pool	(3.9)	(2.1)		
Small Cap Pool	(0.3)	1.2	5.6	
Manager of Managers Pool	(6.1)			
S&P 500 Index Pool	(6.5)	(5.2)	1.2	
S&P MidCap Index Pool	(1.4)	(0.5)	5.2	
International Equities Pool - Passive	8.5	(4.2)	5.6	2.6
S&P Citigroup BMI - EPAC 50/50	3.0	(4.7)	5.8	2.6
International Equities Pool - Active	(1.0)	(5.1)		
Alternative Investments Pool	(21.8)	2.3	10.5	7.3
Alternative Blended Benchmark[2]	(1.8)	(1.1)	4.9	3.6
T. Rowe Price (Stock Distributions)	(5.0)	(22.8)		
Real Estate Pool	(23.3)	(0.6)	6.0	7.3
NCREIF Property Blended Index[3]	(23.1)	(2.5)	5.0	6.9
Total Fixed Income	13.4	7.3	5.7	6.4
Barclays Government/Credit	11.5	6.3	4.9	6.3
Government Bond Pool	8.8	6.8	5.6	
Corporate Bond Pool	15.6	7.8	5.8	
Fixed Income Core Pool	12.5	6.4		
Fixed Income Managers Pool	20.4	5.3		
CMBS Investment Pool	(17.5)			
Absolute and Real Return Strategies	(18.6)			
Short Term Investment Pool	2.0	1.9	2.6	2.9
30 Day Treasury Bill	0.1	2.4	2.8	2.8

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&P500 plus 300 bps.

3 As of 10/1/05, index is NCREIF less 130 bp. History prior to 10/1/05 reflects NCREIF less 75 bp.

Largest Assets Held

Largest Stock Holdings (By Market Value)*
September 30, 2009

Rank	Shares	Stocks	Market Value
1	4,639,061	Exxon Mobil Corporation	$ 318,285,981
2	11,509,213	Microsoft Corporation	297,973,514
3	1,557,668	Apple Inc.	288,744,860
4	2,609,054	SPDR Trust Series I	275,411,737
5	5,218,554	Wal-Mart Stores, Inc.	256,178,799
6	513,211	Google Inc.	254,475,513
7	7,976,416	AT&T Inc.	215,443,007
8	3,384,604	Johnson & Johnson	206,088,528
9	10,835,613	Bank of America Corporation	183,338,575
10	7,574,693	Cisco Systems, Inc.	178,308,284

Largest Bond Holdings (By Market Value)*
September 30, 2009

Rank	Par Amount	Bonds & Notes	Market Value
1	$ 195,205,597	Treasury Bill Due 10-22-2009	$ 195,201,303
2	194,933,694	JPMorgan Chase & Co .63313% FRN Due 11-1-2012	191,429,371
3	176,548,028	Wachovia Corp .63313% FRN Due 4-23-2012	172,763,368
4	156,472,935	Toyota Motor Credit Corp 4.0375% Due 1-9-2012	165,719,077
5	195,459,674	General Electric Cap Corp .61% FRN Due 2-15-2017	160,604,132
6	155,946,955	Berkshire Hathaway Fin .81% FRN Due 1-11-2011	156,053,935
7	116,960,216	John Deere Capital Corp .83688% FRN Due 2-26-2010	117,158,347
8	116,960,216	Citigroup Funding Inc .755% FRN Due 10-22-2009	116,980,333
9	116,960,216	American Honda Finance .625% FRN Due 11-20-2009	116,920,567
10	116,960,216	Vulcan Materials 1.549% FRN Due 12-15-2010	116,479,042

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 represents 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 41.22% 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 $9,321 thousand or four and four tenths basis points (.044)% 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 Energy, 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	$ 21,455,092	$ 9,321	4.4
Outside Advisors for			
Fixed Income	1,312,989	2,189	16.7
Mid Cap Equity	706,995	4,089	57.8
Small Cap Equity	593,929	2,542	42.8
International Equity	1,663,264	5,753	34.6
Equity	1,472,024	1,670	11.3
Alternative	6,970,161	77,383	111.0
Real Estate	2,263,077	9,155	40.5
Total	$ 36,437,531	$ 112,102	

Other Investment Services Fees:

Assets in Custody	$ 36,228,993	$ 3,465
Securities on Loan	6,207,214	12,068

*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, 2009						
	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	$ 76,482	4,895,126	$ 0.02	$ 0.01	$ 0.01	$ 48,951	$ 48,951
Barclays Capital Inc.	212,047	7,764,434	0.03	0.01	0.02	77,644	155,289
Bear, Stearns & Co Inc	4,692	156,381	0.03	0.01	0.02	1,564	3,128
BNY Convergex	35,488	1,774,403	0.02	0.01	0.01	17,744	17,744
BTIG, LLC	334,359	26,868,847	0.01	0.01	-	268,688	-
Cantor Fitzgerald & Co.	88,744	4,468,648	0.02	0.01	0.01	44,687	44,687
Capital Institutional Services, Inc.	28,909	963,618	0.03	0.01	0.02	9,636	19,272
Citigroup Global Markets, Inc.	712,063	26,623,343	0.03	0.01	0.02	266,233	532,467
Cowen & Company, LLC	446,340	15,898,869	0.03	0.01	0.02	158,989	317,977
Credit Suisse Securities LLC	704,282	31,280,719	0.02	0.01	0.01	312,807	312,807
Deutsche Bank - Alex Brown	33,274	2,807,734	0.01	0.01	-	28,077	-
Deutsche Bank Securities Inc.	144,253	6,190,246	0.02	0.01	0.01	61,902	61,903
Goldman, Sachs & Co.	390,683	15,251,192	0.03	0.01	0.02	152,512	305,024
The Griswold Company, Incorporated	662,392	42,366,523	0.02	0.01	0.01	423,665	423,665
ISI Capital, LLC	597,376	21,643,250	0.03	0.01	0.02	216,433	432,865
J P Morgan Securities Inc.	1,047,675	45,066,529	0.02	0.01	0.01	450,665	450,665
Keefe, Bruyette & Woods, Inc.	666	16,659	0.04	0.01	0.03	167	500
Ladenburg Thalman	8,210	273,667	0.03	0.01	0.02	2,737	5,473
Merrill Lynch, Pierce, Fenner & Smith, Incorporated	789,153	31,382,614	0.03	0.01	0.02	313,826	627,652
Mischler Financial Group, Inc.	198,207	6,832,129	0.03	0.01	0.02	68,321	136,643
Morgan Stanley & Co., Incorporated	236,850	9,369,143	0.03	0.01	0.02	93,691	187,383
OTA LLC	73,134	2,827,926	0.03	0.01	0.02	28,280	56,559
Sanford C. Bernstein & Co., LLC	658,844	23,925,592	0.03	0.01	0.02	239,256	478,512
Soleil Securities Corporation	76,310	2,543,663	0.03	0.01	0.02	25,437	50,873
Stanford Group Company	69,550	2,318,316	0.03	0.01	0.02	23,183	46,366
Thomas Weisel Partners LLC	26,230	681,308	0.04	0.01	0.03	6,813	20,439
UBS Securities LLC	488,347	19,929,013	0.02	0.01	0.01	199,290	199,290
Wayne Company	89,363	3,914,971	0.02	0.01	0.01	39,150	39,150
Weeden & Co., LP	738,567	73,856,074	0.01	0.01	-	738,561	-
Total	$ 8,972,490	431,890,937	$ 0.03 [2]	$ 0.01	$ 0.02	$ 4,318,909	$ 4,975,284

[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, 2009

	Market Value [1]	Percent of Total Market Value	Investment & Interest Income [2]	Percent of Total Investment & Interest Income
Fixed Income Pools	$ 6,862,791,122	18.8 %	$ 864,029,137	(30.1) %
Domestic Equity Pools	13,313,025,339	36.5	(1,509,056,757)	52.5
Real Estate Pool	3,115,164,823	8.6	(1,463,858,887)	50.9
Alternative Investments Pool	6,970,160,927	19.1	(1,124,499,386)	39.1
International Equities Pools	4,597,373,572	12.6	420,949,109	(14.6)
Absolute Return Pools	649,473,235	1.8	(13,402,890)	0.5
Short Term Investment Pools	929,542,241	2.6	(47,850,665)	1.7
Total	$ 36,437,531,259	100.0 %	$ (2,873,690,339)	100.0 %

[1] Market value excludes $4,959,896,511 in securities lending collateral for fiscal year 2009.

[2] Total Investment & Interest Income excludes net security lending income of $68,431,442 and unrealized gain of $213,989,796 for securities lending collateral.

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.

ACTUARIAL SECTION

Actuary's Certification

GRS
Gabriel Roeder Smith & Company
Consultants & Actuaries
One Towne Square
Suite 800
Southfield, MI 48076-3723
248.799.9000 phone
248.799.9020 fax
www.gabrielroeder.com

October 8, 2009

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, 2008.

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.

Actuary's Certification (continued)

Ms. Lisa Webb Sharpe
October 8, 2009
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 Tests
- 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, Medical 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, 2008 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 | Alan E. Sonnanstine

Cathy Nagy, FSA, MAAA | 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 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. Adopted 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
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
2008	278,642	9,958,132	35,738	7.4	44.9	10.8

* In thousands of dollars.

Schedule of Changes in the Retirement Rolls

Year Ended Sept. 30	Added to Rolls		Removed from Rolls		Rolls-End of Year		% Increase in Annual Allowances	Average Annual Allowances
	No.	Annual Allowances*	No.	Annual Allowances*	No.	Annual Allowances*		
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
2008	9,091	234,047	4,670	75,861	167,265	3,171,261	5.3	18,960

* 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 schedules that follow illustrate the history of the liabilities of the System and are indicative of the System's policy of following the discipline of level percent of payroll financing.

Pension Benefits
($ 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]
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
2008	5,168	32,723	15,664	45,677	100	100	49.7	85.3
2008 [3]	5,168	32,723	16,717	45,677	100	100	46.6	83.6

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

[2] Revised asset valuation method.

[3] Revised benefit provisions.

Prioritized Solvency Test (continued)

Other Postemployment Benefits
($ in millions)

Valuation Date Sept. 30	Actuarial Accrued Liability (AAL) (1) Active Member Contributions	(2) Retirants and Beneficiaries	(3) Active and Inactive Members (Employer Financed Portion)	Valuation Assets	Portion of AAL Covered by Assets (1)	(2)	(3)	(4)[1]
2007	$ -	$ 13,977	$ 11,755	$ 776	0 %	5.6 %	0 %	3.0 %
2008	-	14,553	12,258	832	0	5.7	0	3.1

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

Analysis of System Experience

Gains/(Losses) in Accrued Liabilities During Year Ended September 30, 2008
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.	$ 80,522,091
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.	10,473,207
3.	**Pay Increases.** If there are smaller pay increases than assumed, there is a gain. If greater increases, a loss.	(320,170,969)
4.	**Investment Income.** If there is greater investment income than assumed, there is a gain. If less income, a loss.	(1,463,608,097)
5.	**Death After Retirement**. If retirants live longer than assumed, there is a loss. If not as long, a gain.	(158,045,971)
6.	**New entrants/Rehires.** New entrants into the System will generally result in an actuarial loss.	(97,195,342)
7.	**Other.** Miscellaneous gains and losses resulting from data adjustments, timing of financial transactions, etc.	113,725,907
8.	**Composite Gain (or Loss) During Year**	$ (1,834,299,174)

Summary of Plan Provisions

Our actuarial valuation of the System as of September 30, 2008, 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.

STATISTICAL SECTION

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 Additions by Source
- Schedule of OPEB Plan Additions by Source
- Schedule of Pension Plan Deductions by Type
- Schedule of OPEB Plan Deductions 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 Benefits 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 Additions by Source

Last Ten Years

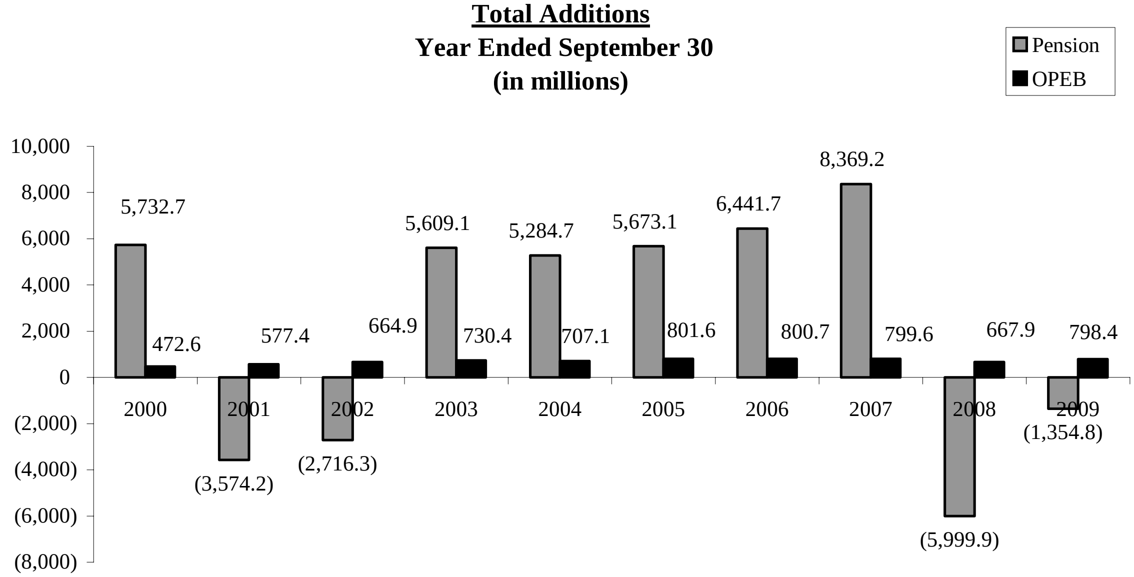
Fiscal Year Ended Sept. 30	Member Contributions	Employer Contributions		Net Investment & Other Income	Total
		Dollars	% of Annual Covered Payroll		
2000	$ 321,557,146	$ 655,258,922	7.29 %	$ 4,755,872,070	$ 5,732,688,138
2001	371,548,016	629,924,827	6.80	(4,575,630,855)	(3,574,158,012)
2002	413,163,871	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	10.04	(7,398,546,831)	(5,999,915,336)
2009	357,249,466	1,000,375,355	N/A	(2,712,414,549)	(1,354,789,728)

Schedule of OPEB Plan Additions by Source

Last Ten Years

Fiscal Year Ended Sept. 30	Member Contributions	Employer Contributions		Net Investment & Other Income	Total
		Dollars	% of Annual Covered Payroll		
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	6.52	(59,710,277)	667,949,655
2009	77,034,085	705,464,357	N/A	15,917,554	798,415,996

Total Additions
Year Ended September 30
(in millions)



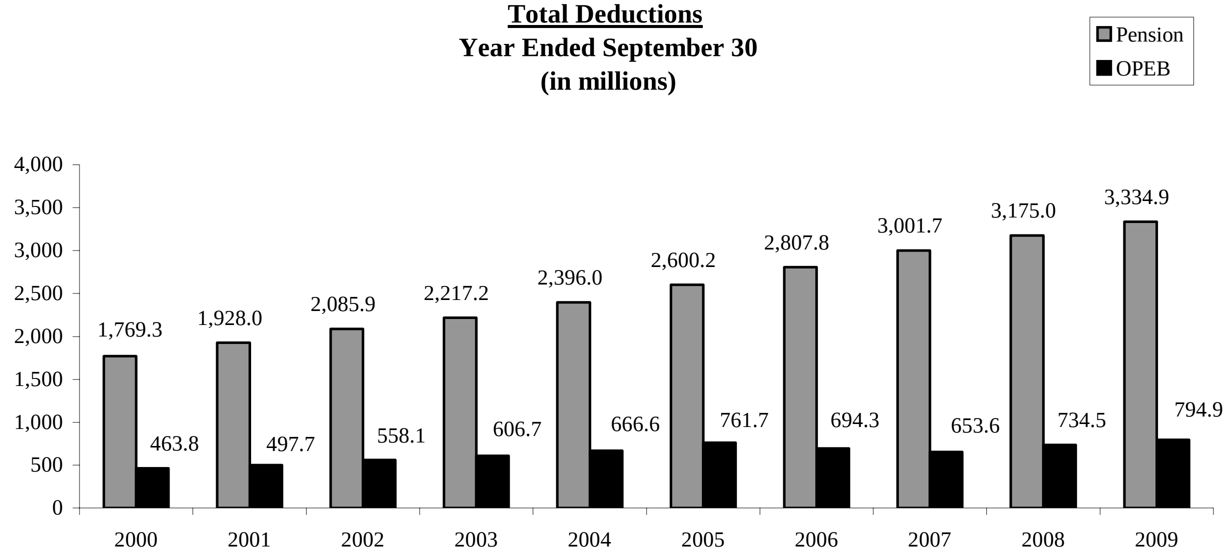
Schedule of Pension Plan Deductions by Type
Last Ten Years

Fiscal Year Ended Sept. 30	Benefit Payments	Refunds and Transfers	Administrative Expenses	Total
2000	$ 1,735,936,328	$ 17,455,802	$ 15,918,143	$ 1,769,310,273
2001	1,890,812,400	19,835,729	17,312,250	1,927,960,379
2002	2,041,439,863	20,813,845	23,610,482	2,085,864,190
2003	2,180,574,193	13,642,300	23,016,963	2,217,233,456
2004	2,358,216,073	18,422,941	19,374,673	2,396,013,687
2005	2,558,017,710	22,181,312	19,997,954	2,600,196,976
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
2009	3,278,118,116	33,958,382	22,793,011	3,334,869,509

Schedule of OPEB Plan Deductions by Type
Last Ten Years

Fiscal Year Ended Sept. 30	Benefit Payments	Refunds and Transfers	Administrative Expenses	Total
2000	$ 425,760,691	$ 30,902	$ 38,039,572	$ 463,831,165
2001	456,257,416	72,407	41,379,358	497,709,181
2002	513,171,821	67,115	44,853,969	558,092,905
2003	558,682,921	64,411	47,907,745	606,655,077
2004	615,416,903	97,849	51,118,851	666,633,603
2005	705,983,783	192,144	55,520,031	761,695,958
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
2009	726,235,152	63,247	68,551,804	794,850,203

Total Deductions
Year Ended September 30
(in millions)



Schedule of Changes in Net Assets - Pension Plan

Last Ten Years

(in thousands)

	Fiscal Year									
	2000	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**
Member contributions	$ 321,557	$ 371,548	$ 413,164	$ 379,085	$ 456,353	$ 368,241	$ 518,600	$ 356,761	$ 399,257	$ 357,249
Employer contributions	655,259	629,924	603,949	697,906	697,647	774,277	995,932	835,366	999,375	1,000,375
Net investment income	4,755,474	(4,575,768)	(3,733,567)	4,532,030	4,130,610	4,530,600	4,926,708	7,174,561	(7,399,527)	(2,712,841)
Transfer from other systems					20	15	3	6	83	15
Miscellaneous income	398	138	125	42	32	7	469	2,553	897	412
Total Additions	5,732,688	(3,574,158)	(2,716,329)	5,609,063	5,284,662	5,673,140	6,441,712	8,369,247	(5,999,915)	(1,354,790)
Pension benefits	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	3,278,118
Refunds of member contributions	17,353	19,836	20,814	13,642	18,397	22,062	23,904	32,142	32,613	33,865
Tranfer to other systems	102	17,312			26	119	123	106	190	93
Administrative expenses	15,918		23,610	23,017	19,375	19,998	22,501	24,489	24,741	22,793
Total Deductions	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	3,334,869
Changes in net assets	$ 3,963,379	$ (5,502,118)	$ (4,802,193)	$ 3,391,830	$ 2,888,648	$ 3,072,943	$ 3,633,892	$ 5,367,590	(9,174,894)	$ (4,689,659)

Schedule of Changes in Net Assets - OPEB Plan

Last Ten Years

(in thousands)

	Fiscal Year									
	2000	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**
Member contributions	$ 33,673	$ 38,485	$ 43,218	$ 47,394	$ 52,766	$ 62,508	$ 71,814	$ 77,207	$ 78,089	$ 77,034
Employer contributions	428,997	528,273	604,628	657,409	618,831	700,366	686,929	671,680	649,571	705,465
Other governmental contributions							65	63	102	55
Net investment income	9,959	10,663	17,040	25,584	35,483	38,718	41,910	50,417	(60,190)	15,706
Miscellaneous income			3					261	378	156
Total Additions	472,629	577,421	664,889	730,387	707,080	801,592	800,718	799,628	667,950	798,416
Health care benefits	425,760	456,257	513,172	558,683	615,417	705,983	634,812	590,226	666,381	726,235
Refunds of member contributions	31	72	67	64	98	192	42	31	42	63
Administrative expenses	38,040	41,379	44,854	47,908	51,119	55,520	59,460	63,315	68,078	68,552
Total Deductions	463,831	497,708	558,093	606,655	666,634	761,695	694,314	653,572	734,501	794,850
Changes in net assets	$ 8,798	$ 79,713	$ 106,796	$ 123,732	$ 40,446	$ 39,897	$ 106,404	$ 146,056	$ (66,551)	$ 3,566

Schedule of Pension Benefits and Refunds by Type
Last Ten Years

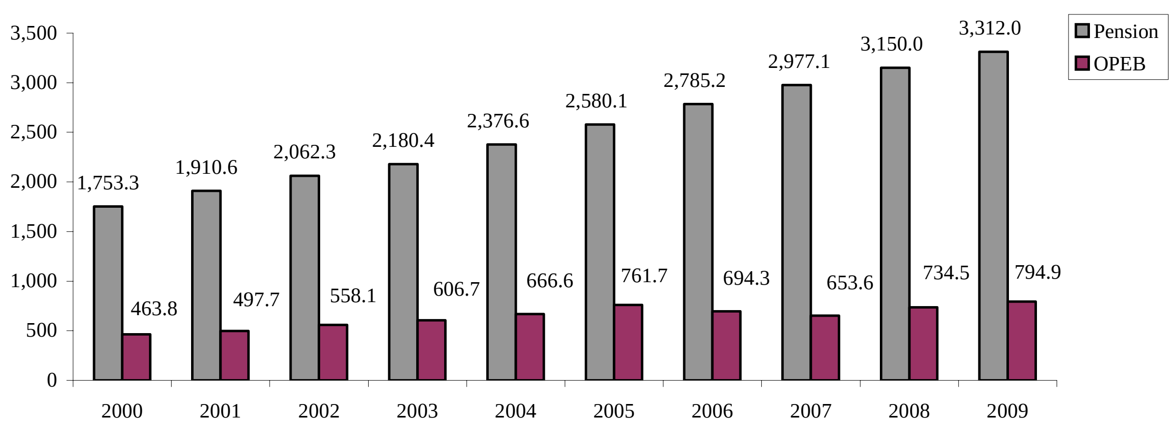
Fiscal Year Ended Sept. 30	Regular Benefits*	Disability Benefits	Survivor Benefits	Supplemental Check	Refunds: Employer	Refunds: Employee	Refunds: Retired Benefits	Total
2000	$ 1,684,018,116	$ 40,453,574		$ 11,464,638	$ 4,231,346	$ 13,122,005		$ 1,753,289,679
2001	1,831,809,193	45,203,866		13,799,341	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
2009	3,022,567,501	56,243,731	199,306,884		383,851	33,469,331	11,792	3,311,983,090

*Includes prior post retirement adjustments

Schedule of OPEB Benefits and Refunds by Type
Last Ten Years

Fiscal Year Ended Sept. 30	OPEB Benefits	Dental/Vision Benefits	Administrative Expenses	OPEB Refunds	Total
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
2009	644,811,396	81,423,756	68,551,804	63,247	794,850,203

Total Benefit Deductions
Year Ended September 30
(in millions)



Schedule of Retired Members by Type of Pension Benefit

September 30, 2008

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	13,343	11,592	1,071	101	412	1	166	7,609	2,673	1,918	137	1,006
201 - 400	20,067	16,737	1,484	127	1,317	1	401	11,316	3,814	3,360	305	1,272
401 - 600	14,907	12,122	1,154	82	1,132	1	416	7,912	3,063	2,680	280	972
601 - 800	11,553	9,319	869	49	896	2	418	5,834	2,265	2,251	281	922
801 - 1000	9,352	7,485	820	29	636	-	382	4,487	1,927	1,831	260	847
1001 - 1200	8,168	6,677	702	19	487	-	283	3,715	1,703	1,462	234	1,054
1201 - 1400	7,387	6,119	652	13	357	-	246	3,019	1,531	1,354	224	1,259
1401 - 1600	6,973	5,925	546	5	273	-	224	2,659	1,457	1,184	204	1,469
1601 - 1800	6,951	6,071	451	2	254	1	172	2,575	1,475	1,173	243	1,485
1801 - 2000	7,176	6,412	390	7	186	-	181	2,604	1,719	1,219	289	1,345
over 2000	61,388	58,864	1,586	6	343	1	588	26,355	11,942	12,634	3,854	6,603
Totals	167,265	147,323	9,725	440	6,293	7	3,477	78,085	33,569	31,066	6,311	18,234

* 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, 2008

Amount of Monthly Pension Benefit	Eligible Retirees	Type of Other Postemployment Benefits: Health	Dental/Vision
$ 1 - 200	13,343	7,034	7,971
201 - 400	20,067	12,017	13,337
401 - 600	14,907	9,918	10,852
601 - 800	11,553	8,338	9,028
801 - 1,000	9,352	6,941	7,490
1,001 - 1,200	8,168	6,247	6,666
1,201 - 1,400	7,387	5,828	6,191
1,401 - 1,600	6,973	5,556	5,899
1,601 - 1,800	6,951	5,617	5,935
1,801 - 2,000	7,176	5,818	6,170
Over 2,000	61,388	50,583	53,189
Totals	167,265	123,897	132,728

Source: Gabriel Roeder Smith & Co.

Schedule of Other Postemployement Benefits
For Years Ended September 30, 2009 and 2008

	2009	2008
Claims		
Health insurance	$ 455,767,068	$ 365,611,852
Vision insurance	6,967,166	8,592,940
Dental insurance	72,284,230	67,484,903
Total Claims	535,018,464	441,689,695
Estimated Claims Liability		
Health insurance	189,044,327	222,452,692
Vision insurance	361	332,455
Dental insurance	2,172,000	1,905,800
Total Estimated Claims Liability	191,216,688	224,690,947
Administrative Fees		
Health insurance	64,137,268	62,343,661
Dental/Vision insurance	4,414,536	5,734,847
Total Administrative Fees	68,551,804	68,078,508
Subtotal	794,786,956	734,459,151
Refunds	63,247	41,786
Grand Total	$ 794,850,203	$ 734,500,937

STATISTICAL SECTION

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 10/1/98 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
Period 10/1/07 to 9/30/08								
Average Monthly Benefit	$ 1,112	$ 194	$ 328	$ 591	$ 966	$ 1,457	$ 2,537	$ 1,580
Average Final Average Salary	30,583	18,574	18,753	25,023	31,222	37,076	55,184	39,973
Number of Active Retirants	1,199	5,586	19,514	24,309	22,791	17,673	76,193	167,265

Source: Gabriel Roeder Smith & Co.

Schedule of Average Benefit Payments - Health
Last Four 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
Period 10/1/07 to 9/30/08								
Average Monthly Benefit	$ 1,270	$ 207	$ 365	$ 631	$ 1,012	$ 1,752	$ 2,626	$ 1,714
Average Final Average Salary	37,614	18,738	19,794	25,836	31,743	42,336	55,404	41,714
Number of Active Retirants	803	4,009	10,668	16,237	16,871	21,095	54,214	123,897

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

Schedule of Average Benefit Payments - Dental/Vision
Last Four 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
Period 10/1/07 to 9/30/08								
Average Monthly Benefit	$ 1,234	$ 206	$ 363	$ 624	$ 1,003	$ 1,752	$ 2,618	$ 1,689
Average Final Average Salary	37,093	18,709	19,789	25,686	31,584	42,341	55,394	41,375
Number of Active Retirants	865	4,416	11,957	17,817	18,222	22,524	56,927	132,728

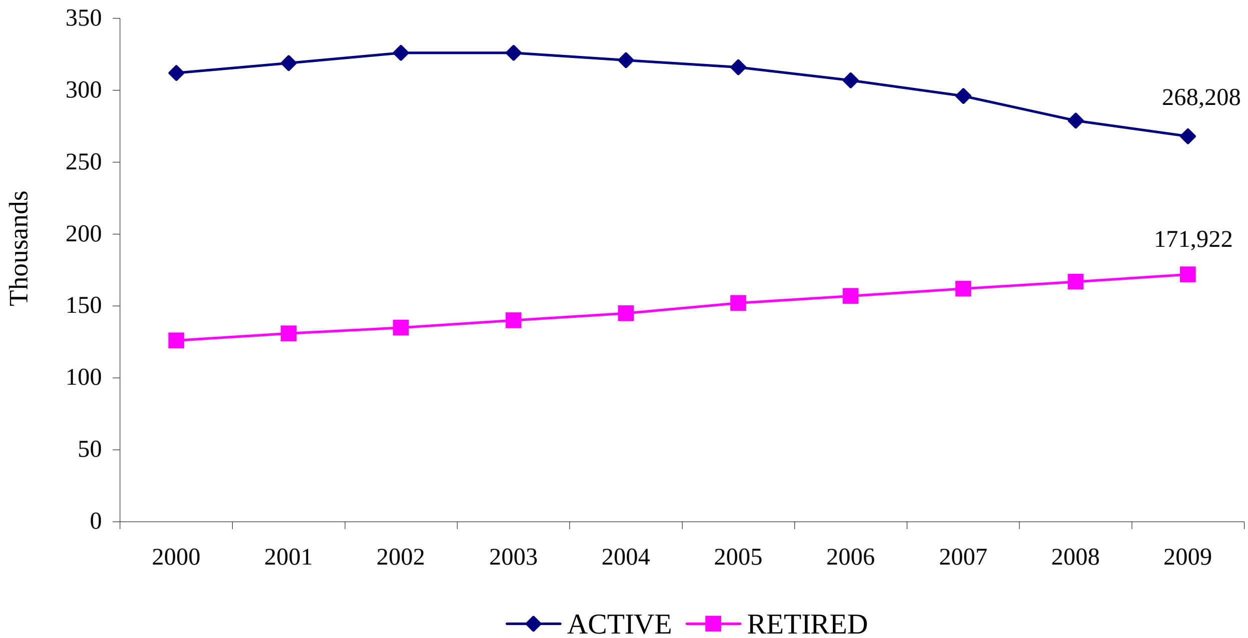
Source: Gabriel Roeder Smith & Co. - for all periods except 10/1/04 to 9/30/05

Schedule of Principal Participating Employers

For Fiscal Years Ending September 30, 2008 and 1999

	2008		1999	
Participating Employer	**Employees**	**Percentage of Total System**	**Covered Employees**	**Percentage of Total System**
Detroit Public Schools	14,954	5.37 %	22,459	6.64 %
Utica Community Schools	3,941	1.41	4,191	1.24
Flint Community Schools	3,305	1.19	4,983	1.47
Grand Rapids Public Schools	3,202	1.15	4,984	1.47
Ann Arbor Public Schools	3,191	1.15	3,771	1.11
Lansing Public Schools	2,722	0.98	3,439	1.02
Dearborn Public Schools	2,707	0.97	3,001	0.89
Northville Public Schools	2,650	0.95	1,026	0.30
Kalamazoo Public Schools	2,549	0.91	2,898	0.86
Plymouth-Canton Community School District	2,379	0.85	2,484	0.73
All other	237,042	85.07	285,071	84.26
Total	278,642	100.00 %	338,307	100.00 %

Ten Year History of Membership
Fiscal Year Ended September 30



Source: Gabriel Roeder Smith & Co.

STATISTICAL SECTION

Schedule of Participating Employers at 9/30/09

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 Area Educational Service Agency
Alpena-Montmorency-Alcona E. S. D.
Barry Intermediate School District
Bay-Arenac Intermediate School District
Berrien Intermediate School District
Branch 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.
Coor Intermediate School District
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 9/30/09 (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 Hills School District
Bloomingdale Public Schools
Bois Blanc Township School District
Boyne City Public Schools
Boyne Falls Public Schools
Brandon School District
Brandywine Public Schools
Breckenridge Community Schools
Breitung Township Schools
Bridgeport-Spaulding Comm. School District
Bridgman Public Schools
Brighton Area Schools
Brimley Public Schools
Britton-Macon Area School
Bronson Community Schools
Brown City Community Schools
Buchanan Community Schools
Buckley Community Schools
Buena Vista School District
Bullock Creek School District
Burr Oak Community Schools
Burt Township School District
Byron Area Schools
Byron Center Public Schools
Cadillac Area Public Schools
Caledonia Community Schools
Calumet Public Schools
Camden-Frontier School
Capac Community Schools
Carman-Ainsworth Community School District
Carney-Nadeau Public Schools
Caro Community Schools
Carrollton School District
Carson City-Crystal Area Schools
Carsonville-Port Sanilac School
Caseville Public Schools
Cass City Public Schools
Cassopolis Public Schools
Cedar Springs Public Schools
Center Line Public Schools
Central Lake-Antrim County Public Schools
Central Montcalm Public Schools

Schedule of Participating Employers at 9/30/09 (continued)

K - 12 School Districts (continued):

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

Schedule of Participating Employers at 9/30/09 (continued)

K - 12 School Districts (continued):

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

Schedule of Participating Employers at 9/30/09 (continued)

K - 12 School Districts (continued):

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

Schedule of Participating Employers at 9/30/09 (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 9/30/09 (continued)

K - 12 School Districts (continued):

Vicksburg Community Schools
Wakefield Township Schools
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
Whitefish Township School
Whiteford Agricultural School
Whitehall District Schools
Whitmore Lake Public Schools
Whittemore-Prescott Area Schools
Williamston Community Schools
Willow Run Community Schools
Wolverine Community Schools
Wood School District #8, Bangor Township
Woodhaven-Brownstown School District
Wyandotte Public Schools
Wyoming Public Schools
Yale Public School District
Ypsilanti Public Schools
Zeeland Public Schools

Public School Academies:

Academic Transitional Academy of St. Clair
Academy of Flint
AGBU Alex & Marie Manoogian School
Arts Academy in the Woods
Bay-Arenac Community High School
Ben Ross Public School Academy
Blanche Kelso Bruce 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
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
Northwest 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 Intervention Academy
St. Clair County Learning Academy
Summit Academy
Summit Academy North
Virtual Learning Academy of St. Clair
Walden Green Day School

Schedule of Participating Employers at 9/30/09 (continued)

Washtenaw Technical Middle College
Wavecrest Career Academy
West Michigan Academy of Environmental Science
West Village Academy
Windover High School
Woodland Park Academy
Woodward Academy
YMCA Service Learning Academy
Youth Advancement Academy

Libraries:

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

ACKNOWLEDGMENTS

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