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, 2010

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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INTRODUCTORY SECTION

INTRODUCTORY SECTION

Certificate of Achievement

Certificate of
Achievement
for Excellence
in Financial
Reporting

Presented to

Michigan Public School
Employees' Retirement System

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
September 30, 2009

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
_2010_

Presented to

Michigan Office of Retirement Services

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

Presented by the Public Pension Coordinating Council, a confederation of

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

Alan H. Winkle
Program Administrator

INTRODUCTORY SECTION

Letter of Transmittal

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

STATE OF MICHIGAN

RICK SNYDER, Governor

DEPARTMENT OF TECHNOLOGY, MANAGEMENT & BUDGET

January 3, 2011

The Honorable Rick Snyder
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 2010.

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, 2009. 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." Public Act 75 of 2010 established a new Pension Plus Plan which provides all individuals hired on or after July 1, 2010, with a combined Defined Benefit and Defined Contribution benefit structure.

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 8.8%. For the last five years, the System has experienced an annualized rate of return of 3.5%. 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.

Letter of Transmittal (continued)

Funding

Funds are derived from the excess of additions to plan net assets over deductions from plan net assets. Funds are accumulated by the System to meet future benefit obligations to retirees and beneficiaries. The percentage computed by dividing the actuarial value of assets by the actuarial accrued liability is referred to as the "funded ratio." This ratio provides an indication of the funding status of the System and generally, the greater this percentage, the stronger the System. Effective in fiscal year 2001, the System 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, 2009. The actuarial value of the assets and actuarial accrued liability were $44.7 billion and $56.7 billion, respectively, resulting in a funded ratio of 78.9% at September 30, 2009. 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

An 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, 2009, would be $28.3 billion. GASB Statement No. 43 (implemented in fiscal year 2007) does not require retroactive application of the reporting changes. Therefore, only four valuation years are presented and included in the required supplementary information in this report.

MAJOR GOALS ACCOMPLISHED

The Michigan Department of Technology, Management & 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 2010, we continued to follow our strategic planning for our business goals. Strategic planning has 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:

Best in Class Business Practices

<u>Pension Plus program implemented</u> - We debuted Pension Plus in August 2010. Pension Plus is a blend of defined benefit and defined contribution plans pairing a guaranteed retirement income with a flexible and transferable retirement savings account. The Pension Plus retirement plan saves the employer through lower employer contribution rates on both pension and healthcare. The normal pension cost of the Pension Plus member is less expensive for the employer and the health benefit costs are shared with the employee based on the employee's years of service.

Continuously Renewed Business-Driven Technology

<u>Digital file transfers make insurance enrollment fast and secure</u> - We replaced paper enrollment forms for our vision, dental and prescription insurance carriers with automatic digital file transfers. This new process improves the accuracy and timeliness of the process as well as the security of the transferred information.

<u>Employer electronic payments in place</u> - We implemented online payments and statements for school employers, eliminating the need for schools to write and mail paper checks. Public school employers can now view the retirement contributions they owe and make payments online. This eliminates mail delays, and provides employers their statements the next day. In addition, the payment is now tied to each pay period, making reconciliation of accounts easier for employers.

<u>Online final employee pay detail report improved</u> - We worked with school employers to enhance functionality of the online tool used to collect final pay and service information for retiring members. Employers can now search for previously completed reports, add comments and save a preliminary report.

Letter of Transmittal (continued)

Innovate & Improve Customer Service

Retiree health care trusts and reporting process in place - We put in place an IRS 115 Trust for the funding of retiree health care in accordance with the Public Employee Retirement Health Care Funding Act. The retirement board is the trustee and is required to administer the trust to pay for retiree health care. ORS also implemented the process for employers to report and submit member health care contributions.

LivingWell Program aids in a healthy retirement - Working with Blue Cross Blue Shield of Michigan, we introduced the LivingWell program to public school retirees. LivingWell gives retirees tools to help them establish and achieve their health goals. LivingWell encourages members to work with their primary care providers to make changes designed to improve their health, increase their quality of life and reduce their yearly deductibles.

Staff sets the pace for innovative and effective customer service - The number of retirement applications normally received during the summer months tripled during the recent early retirement incentive. Through resource optimization and innovation we expanded service hours, cross-trained staff, hired and trained additional temporary staff, and added a night shift. With 17,063 school employees filed for retirement, the incentive will save Michigan schools an estimated $515 million in its first year.

AWARDS AND ACKNOWLEDGEMENTS

ORS received the following recognitions:

- ORS won the Public Pension Standards 2010 Award by the Public Pension Coordinating Council for meeting standards for public retirement system management and administration.

- The Government Finance Officers Association (GFOA) of the United States and Canada awarded ORS with the Certificate of Achievement for Excellence in Financial Reporting for our fiscal year 2009 Comprehensive Annual Financial Report (CAFR). This marks the 19th consecutive year ORS has received this prestigious award.

- ORS was listed in the Information Technology Ideas and Noted Practices report of Cost Effectiveness Measurement, Inc. for our highly formalized testing process.

INTRODUCTORY SECTION

Letter of Transmittal (continued)

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,

Phyllis Mellon, Chief Deputy Director
Department of Technology, Management & Budget

Phillip J. Stoddard, Director
Office of Retirement Services

Administrative Organization

Retirement Board Members

Ivy Bailey
Active Classroom Teacher
Term Expires March 30, 2012

Susan W. Meston
Active Superintendent
Term Expires March 30, 2013

Jonathon Fielbrandt
Active Classroom Teacher
Term Expires March 30, 2013

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, 2014

Lenore Croudy
Community College Trustee
Term Expires March 30, 2012

Timothy Raymer
Active Finance/Operations,
Non-Superintendent
Term Expires March 30, 2012

John Olekszyk, Vice Chair
Retired Teacher
Term Expires March 30, 2014

Diana Osborn, Chair
Active Non-Certified Support
Term Expires March 30, 2013

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

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

Administrative Organization

Department of Technology, Management &
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

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

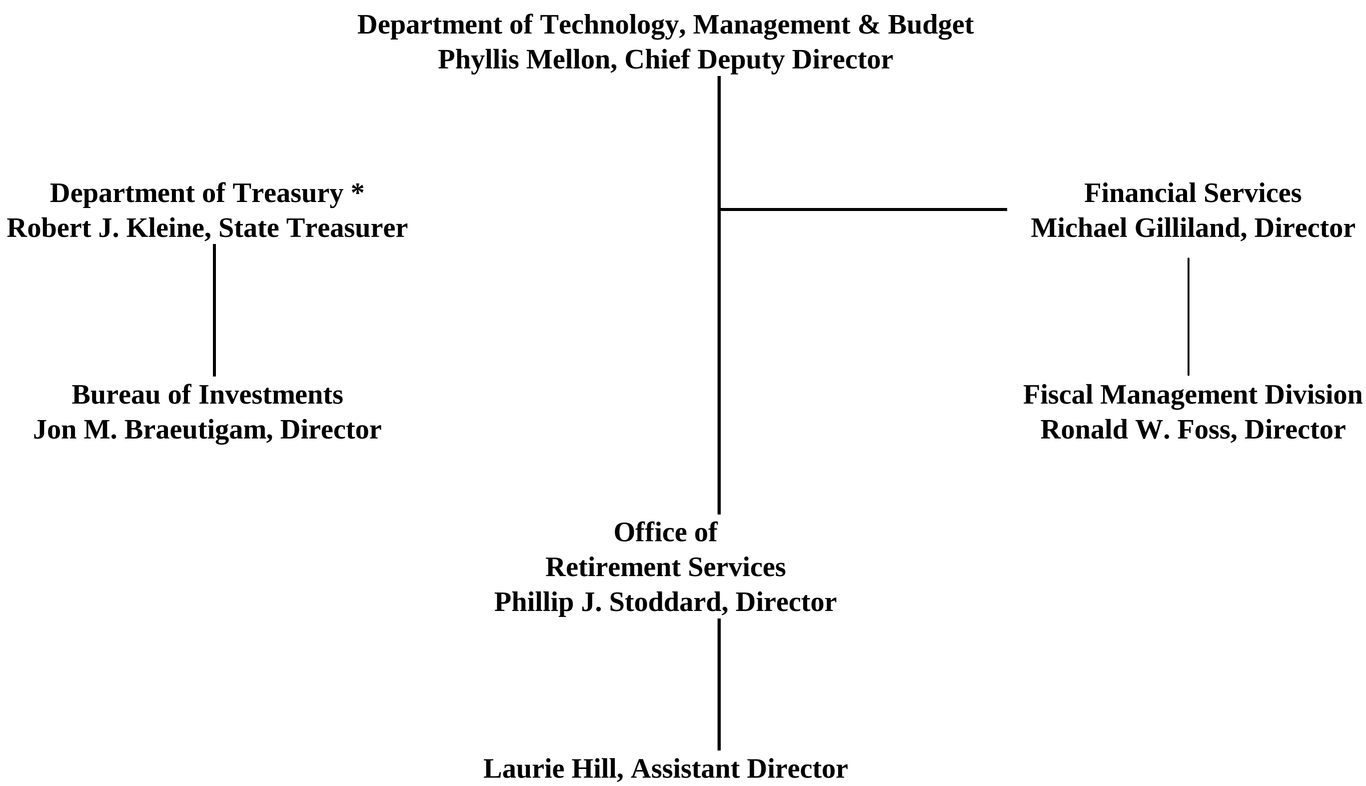
Legal Advisor
Mike Cox
Attorney General
State of Michigan

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



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

FINANCIAL SECTION

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. Phyllis Mellon, Chief Deputy Director
Department of Technology, Management & Budget
Lewis Cass Building
and
Mr. Phillip Stoddard, Director
Office of Retirement Services
Department of Technology, Management & Budget
General Office Building
Lansing, Michigan

Dear Ms. Osborn, Ms. Mellon, 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 years ended September 30, 2010 and 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.

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 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, 2010 and September 30, 2009 and the changes in plan net assets for the fiscal years 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 16 through 20 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 the 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 30, 2010

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, 2010. 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 2010 by $36.9 billion (reported as *net assets*). Net assets are held in trust to meet future benefit payments.
- The System's funding objective is to meet long-term benefit obligations through contributions and investment income. As of September 30, 2010, the funded ratio for pension benefits was approximately 78.9% and the funded ratio for other postemployment benefits (OPEB) was approximately 2.5%.
- Additions for the year were $5.9 billion, which are comprised primarily of contributions of $2.2 billion and investment gains of $3.7 billion.
- Deductions increased over the prior year from $4.1 billion to $4.3 billion or 3.9%. 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 22) and *The Statements of Changes in Pension Plan and Other Postemployment Benefit Plan Net Assets* (page 23*)*. 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, 2010, were $42.1 billion and were mostly comprised of cash, investments, and contributions due from employers. Total assets increased $0.3 billion or 0.8% between fiscal years 2009 and 2010 due primarily to net investment gains. Total assets decreased $5.3 billion or (11.3)% between fiscal years 2008 and 2009 due to net investment losses.

Total liabilities as of September 30, 2010, were $5.3 billion and were comprised of warrants outstanding, accounts payable, and obligations under securities lending. Total liabilities decreased $1.3 billion or (19.8)% between fiscal years 2009 and 2010 primarily due to decreased 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.

System assets exceeded its liabilities at the close of fiscal year 2010 by $36.9 billion. Total net assets held in trust for pension and OPEB benefits increased $1.6 billion or 4.7% from the previous year, primarily due to decreased obligations under securities lending. This compares to fiscal year 2009, when net assets decreased by $4.7 billion or (11.7)% from the prior year.

Net Assets
(in thousands)

	2010	Increase (Decrease)	2009	Increase (Decrease)	2008
Assets					
Cash	$ 53,116	(54.3) %	$ 116,225	(80.0) %	$ 580,659
Receivables	539,253	32.7	406,507	(6.8)	436,109
Investments	41,548,173	0.6	41,281,202	(10.5)	46,116,456
Total Assets	42,140,542	0.8	41,803,934	(11.3)	47,133,224
Liabilities					
Warrants outstanding	6,948	16.6	5,961	(7.2)	6,425
Accounts payable and other accrued liabilities	101,694	(50.8)	206,895	(13.1)	238,068
Obligations under securities lending	5,177,097	(18.8)	6,379,350	(8.7)	6,990,909
Total Liabilities	5,285,739	(19.8)	6,592,206	(8.9)	7,235,402
Total Net Assets	$ 36,854,803	4.7 %	$ 35,211,728	(11.7) %	$ 39,897,822

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 income for fiscal year 2010 totaled approximately $5.9 billion.

Total additions for fiscal year 2010 increased approximately $6.5 billion or 1,166.4% from those of fiscal year 2009 due primarily to increased net investment income. Total additions increased approximately $4.8 billion or 89.6% from fiscal year 2008 to fiscal year 2009 due primarily to decreased net investment losses. Total contributions increased between fiscal years 2009 and 2010 by $79.1 million or 3.7%, while net investment income increased $6.4 billion or 237.7%. 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%. The Investment Section of this report reviews the results of investment activity for fiscal year 2010.

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 2010 were $4.3 billion, an increase of 3.9% over fiscal year 2009 expenses. Total deductions for fiscal year 2009 were $4.1 billion, which was an increase of 5.6% over fiscal year 2008 expenses.

The health, dental, and vision care expenses during the year decreased by $75.5 million or (10.4)% from $726.2 million to $650.7 million. This compares to an increase of $59.8 million or 9.0% from $666.4 million to $726.2 million between fiscal years 2008 and 2009. The payment of pension benefits increased by $246.9 million or 7.5% between fiscal years 2009 and 2010 and by $160.7 million or 5.2% from fiscal year 2008 to fiscal year 2009. In fiscal year 2010, the increase in pension benefit expenses resulted from an increase in retirees (15,800) and an increase in benefit payments to retirees. In fiscal year 2009, the increase in pension benefit expenses resulted from increases in retirees (4,657) and an increase in benefit payments to retirees. Administrative expenses decreased by $10.9 million or (11.9)% between fiscal years 2009 and 2010, primarily due to a decrease in OPEB plan administrative expenses. 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.

Management's Discussion and Analysis (continued)

Changes in Plan Net Assets
(in millions)

	2010	Increase (Decrease)	2009	Increase (Decrease)	2008
Additions					
Member contributions	$ 502.9	15.8 %	$ 434.3	(9.0) %	$ 477.3
Employer contributions	1,676.4	(1.7)	1,705.8	3.5	1,648.9
Other governmental contributions	40.0	72,270.6	0.1 *	-	0.1
Net investment income (loss)	3,713.1	237.7	(2,697.1)	63.8	(7,459.7)
Miscellaneous income	0.8	34.7	0.6	(57.1)	1.4
Total additions	5,933.2	1,166.4	(556.4)	89.6	(5,332.0)
Deductions					
Pension benefits	3,525.0	7.5	3,278.1	5.2	3,117.4
Health care benefits	650.7	(10.4)	726.3	9.0	666.4
Refunds and transfers to other systems	34.0	0.0	34.0	3.7	32.8
Administrative expenses	80.4	(11.9)	91.3	(1.6)	92.8
Total deductions	4,290.1	3.9	4,129.7	5.6	3,909.4
Net increase (decrease)	1,643.1	135.1	(4,686.1)	49.3	(9,241.4)
Net Assets - Beginning of Year	35,211.7	(11.7)	39,897.8	(18.8)	49,139.2
Net Assets - End of Year	$ 36,854.8	4.7 %	$ 35,211.7	(11.7) %	$ 39,897.8

* 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 an increase in 2010 after decreases in 2009 and 2008. This increase is a result of an improving national economy that resulted in net investment gains for fiscal year ended September 30, 2010. The System's rate of return increased an overall 14.9% from a (6.1)% loss in fiscal year 2009 to an 8.8% return during fiscal year 2010. 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, 2010 and 2009

	September 30, 2010			September 30, 2009		
	Pension Plan	OPEB Plan	Total	Pension Plan*	OPEB Plan	Total
Assets:						
Equity in common cash	$ 51,537,845	$ 1,578,148	$ 53,115,993	$ 113,238,544	$ 2,986,493	$ 116,225,037
Receivables:						
Amounts due from member	500,232		500,232	463,202		463,202
Amounts due from employer	145,452,585	28,467,526	173,920,111	179,530,443	4,747,057	184,277,500
Amounts due from federal agencies		9,442,646	9,442,646			
Amounts due from other funds	59,720,553		59,720,553			
Amounts due from other		106,540,744	106,540,744			
Amounts due from employer long term	183,250,331		183,250,331	215,746,589		215,746,589
Interest and dividends	5,729,787	148,820	5,878,607	5,864,587	154,669	6,019,256
Total receivables	394,653,488	144,599,736	539,253,224	401,604,821	4,901,726	406,506,547
Investments:						
Short term investment pools	334,020,337	8,675,523	342,695,860	792,418,383	20,898,821	813,317,204
Fixed income pools	6,035,961,419	156,772,259	6,192,733,678	6,686,446,346	176,344,776	6,862,791,122
Domestic equity pools	12,881,119,105	334,561,804	13,215,680,909	12,970,936,759	342,088,580	13,313,025,339
Real estate pool	3,118,647,580	81,000,754	3,199,648,334	3,035,118,231	80,046,592	3,115,164,823
Alternative investment pools	7,928,212,319	205,919,765	8,134,132,084	6,791,057,200	179,103,727	6,970,160,927
International equity pools	4,903,629,695	127,362,163	5,030,991,858	4,479,240,469	118,133,103	4,597,373,572
Absolute return pools	1,363,921,000	35,425,173	1,399,346,173	632,784,513	16,688,722	649,473,235
Securities lending collateral	3,930,848,298	102,096,075	4,032,944,373	4,832,448,098	127,448,413	4,959,896,511
Total investments	40,496,359,753	1,051,813,516	41,548,173,269	40,220,449,999	1,060,752,734	41,281,202,733
Total assets	40,942,551,086	1,197,991,400	42,140,542,486	40,735,293,364	1,068,640,953	41,803,934,317
Liabilities:						
Warrants outstanding	6,771,951	175,888	6,947,839	5,808,207	153,183	5,961,390
Accounts payable and other accrued liabilities	34,265,275	67,429,407	101,694,682	15,678,149	191,216,688	206,894,837
Obligations under securities lending	5,046,036,015	131,060,888	5,177,096,903	6,215,427,445	163,922,374	6,379,349,819
Total liabilities	5,087,073,241	198,666,183	5,285,739,424	6,236,913,801	355,292,245	6,592,206,046
Net Assets Held in Trust for Pension and OPEB Benefits	$ 35,855,477,845	$ 999,325,217	$ 36,854,803,062	$ 34,498,379,563	$ 713,348,708	$ 35,211,728,271

* Fiscal year 2009 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, 2010 and 2009

	September 30, 2010			September 30, 2009		
	Pension Plan	OPEB Plan	Total	Pension Plan*	OPEB Plan*	Total
Additions:						
Contributions:						
Member contributions	$ 377,748,755	$ 125,160,304	$ 502,909,059	$ 357,249,466	$ 77,034,085	$ 434,283,551
Employer contributions:						
Colleges, universities and federal	86,503,717	64,319,424	150,823,141	79,934,608	64,549,002	144,483,610
School districts and other	914,747,956	610,797,729	1,525,545,685	920,440,747	640,915,355	1,561,356,102
Other governmental contributions		39,979,715	39,979,715		55,243	55,243
Total contributions	1,379,000,428	840,257,172	2,219,257,600	1,357,624,821	782,553,685	2,140,178,506
Investment income (loss):						
Net appreciation (depreciation) in fair value of investments	2,871,968,729	75,472,172	2,947,440,901	(3,399,567,167)	(63,735,153)	(3,463,302,320)
Interest, dividends, and other	754,872,112	76,905,104	831,777,216	723,471,694	80,130,083	803,601,777
Investment expenses:						
Real estate operating expenses	(2,006,675)	(52,733)	(2,059,408)	(939,345)	(17,611)	(956,956)
Other investment expenses	(128,129,251)	(3,367,095)	(131,496,346)	(102,978,747)	(1,930,647)	(104,909,394)
Securities lending activities:						
Securities lending income	88,594,301	2,328,161	90,922,462	128,379,256	2,406,856	130,786,112
Securities lending expenses	(22,847,074)	(600,396)	(23,447,470)	(61,207,157)	(1,147,513)	(62,354,670)
Net investment income (loss)	3,562,452,142	150,685,213	3,713,137,355	(2,712,841,466)	15,706,015	(2,697,135,451)
Transfers from other systems	16,504		16,504	14,852		14,852
Miscellaneous income	573,818	195,136	768,954	412,065	156,296	568,361
Total additions	4,942,042,892	991,137,521	5,933,180,413	(1,354,789,728)	798,415,996	(556,373,732)
Deductions:						
Benefits and refunds paid to plan members and beneficiaries:						
Retirement benefits	3,525,020,341		3,525,020,341	3,278,118,116		3,278,118,116
Health benefits		566,550,299	566,550,299		644,811,396	644,811,396
Dental/vision benefits		84,127,158	84,127,158		81,423,756	81,423,756
Refunds of member contributions	33,873,358	52,545	33,925,903	33,864,974	63,247	33,928,221
Transfers to other systems	50,212		50,212	93,408		93,408
Administrative expenses	26,000,699	54,431,010	80,431,709	22,793,011	68,551,804	91,344,815
Total deductions	3,584,944,610	705,161,012	4,290,105,622	3,334,869,509	794,850,203	4,129,719,712
Net Increase (Decrease)	1,357,098,282	285,976,509	1,643,074,791	(4,689,659,237)	3,565,793	(4,686,093,444)
Net Assets Held in Trust for Pension and OPEB Benefits:						
Beginning of Year	34,498,379,563	713,348,708	35,211,728,271	39,188,038,800	709,782,915	39,897,821,715
End of Year	$ 35,855,477,845	$ 999,325,217	$ 36,854,803,062	$ 34,498,379,563	$ 713,348,708	$ 35,211,728,271

* Fiscal year 2009 activity reclassified.

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

Notes to Basic Financial Statements
September 30, 2010 and 2009

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 724 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 Technology, Management & 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, 2010 and 2009, the System's membership consisted of the following:

Retirees and beneficiaries currently receiving benefits:	**2010**	**2009**
Regular benefits	166,749	151,465
Survivor benefits	15,308	14,871
Disability benefits	5,665	5,586
Total	187,722	171,922
Current Employees:		
Vested	113,688	123,855
Non-vested	128,880	144,353
Total	242,568	268,208
Inactive employees entitled to benefits and not yet receiving them	15,026	14,454
Total all members	445,316	454,584

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	**2010**	**2009**
Eligible participants	187,722	171,922
Participants receiving benefits:		
Health	140,771	127,796
Dental/Vision	150,352	137,121

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.

Pension Reform 2010

On May 19, 2010, the Governor signed Public Act 75 of 2010 into law. As a result, any member of MPSERS who became a member of MPSERS after June 30, 2010 is a Pension Plus member. The Pension Plus Plan pairs a guaranteed retirement income (Defined Benefit pension) with a flexible and transferable retirement savings (Defined Contribution) account.

Regular Retirement

The retirement benefit is based on a member's years of credited service (employment) and final average compensation. Final average compensation is calculated based on 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, who became a member of MPSERS prior to July 1, 2010, the averaging period is 36 consecutive months. For a Pension Plus member, who became a member of MPSERS after June 30, 2010, the averaging period is 60 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 who became a member of MPSERS prior to July 1, 2010 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 Pension Plus member who became a member of MPSERS after June 30, 2010 may retire at age 60 with 10 or more years of credited service.

Notes to Basic Financial Statements (continued)

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.

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; first year 100%, next year 102%, etc).

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; first year 100%, next year 102%, etc).

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.

Notes to Basic Financial Statements (continued)

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.

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). If, however, a retiree was single at the time of retirement and subsequently married, the retiree can request to nominate a new spouse if they elected the straight life option at retirement. Also, if a retiree was married at the time of retirement and has since been widowed and remarried, the retiree can request to nominate a new spouse as a pension beneficiary as long as they elected a survivor option for the spouse at the time of retirement.

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.

Notes to Basic Financial Statements (continued)

Survivor Benefit

A non-duty survivor pension is available if a Member Investment Plan (MIP) member has 10 years of credited service or, if age 60 or older, with five years of credited service; the date they became a MIP member does not matter. 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 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.

Post Retirement Adjustments

A retiree who became a Member Investment Plan (MIP) member prior to July 1, 2010, receives an annual post-retirement non-compounded increase of three percent of the initial pension in the October following twelve months of retirement. Basic Plan members do not receive an annual post-retirement increase, but are eligible to receive a supplemental payment in those years when investment earnings exceed actuarial assumptions. Pension Plus members do not receive an annual post-retirement increase.

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.

Notes to Basic Financial Statements (continued)

MIP members enrolled 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 including Pension Plus Plan members, 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 coverage, which is currently funded on a cash disbursement basis. 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 of each retiree health care recipient. Public Act 75 of 2010 requires each actively employed member of MPSERS after June 30, 2010 to contribute 3% (or 1.5%) of their compensation to offset employer contributions for health care benefits of current retirees. For the school fiscal year that began July 1, 2010, members who were employed by a reporting unit and were paid less than $18,000 in the prior school fiscal year and members who were hired on or after July 1, 2010, with a starting salary less than $18,000 are required to contribute 1.5% of the member's compensation. For each school fiscal year that begins on or after July 1, 2011, members shall contribute 3% of compensation into the health care funding account.

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 are eligible for health care coverage if they meet the dependency requirements set forth in Public Act 300 of 1980, as amended.

Notes to Basic Financial Statements (continued)

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

	2010	2009
Health, Dental and Vision Plan		
Eligible participants	187,722	171,922
Participants receiving benefits:		
Health	140,771	127,796
Dental/Vision	150,352	137,121
Expenses for the year	$ 705,161,012	$ 794,850,203
Employer payroll contribution rate	6.81%	6.81%

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 - 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. Members no longer contribute to this reserve except to purchase eligible service credit or repay previously refunded contributions. At September 30, 2010, and 2009, the balance in this reserve was $1.5 billion and $1.6 billion, respectively.

Reserve for Pension Plus Employee Contributions - This reserve represents active member contributions and interest less amounts transferred to the Reserve for Pension Plus Retired Benefit Payments for regular retirement, amounts refunded to terminated members, and amounts transferred to the Reserve for Pension Plus Employer Contributions representing unclaimed funds. This reserve was established under the provisions of Public Act 75 of 2010. At September 30, 2010, the balance in this reserve was $16 thousand.

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, 2010, and 2009, the balance in this reserve was $4.2 billion and $4.5 billion, respectively.

Reserve for Employer Contributions – This reserve represents all reporting unit contributions, except payments for health benefits. 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, 2010, and 2009, the balance in this reserve was ($20.6) billion and ($8.0) billion, respectively.

Notes to Basic Financial Statements (continued)

Reserve for Pension Plus Employer Contributions – This reserve represents all reporting unit contributions for Pension Plus members, except payments for health benefits. Interest from the Reserve for Undistributed Investment Income reserve is credited annually at a rate of 7%. Amounts are transferred annually to the Reserve for Retired Pension Plus Benefit Payments to bring the balance of that reserve into balance with the actuarial present value of retirement allowances. This reserve was established under the provisions of Public Act 75 of 2010. The balance as of September 30, 2010, was $151 thousand.

Reserve for Retired Benefit Payments - This reserve represents payments 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, 2010, and 2009, the balance in this reserve was $33.2 billion and $20.5 billion, respectively.

Reserve for Retired Pension Plus Benefit Payments - This reserve represents payments of future retirement benefits to current Pension Plus 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 Pension Plus Employer Contributions to bring the balance of this reserve into balance with the actuarial present value of retirement allowances. This reserve was established under the provisions of Public Act 75 of 2010. Currently, there are no participants qualified to retire under this program. At September, 30, 2010, the balance in this reserve was $0.

Reserve for Undistributed Investment Income – This reserve represents 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. Public Act 143 of 1997 established a stabilization subaccount within the Reserve for Undistributed Investment Income to which any over funding is credited. As of September 30, 2010, the balance in the subaccount was zero. At September 30, 2010, and 2009, the balance in this reserve was $17.5 billion and $15.8 billion, respectively.

Reserve for Health (OPEB) Benefits - This reserve represents 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, 2010, and 2009, the balance in this reserve was $999.3 million and $713.3 million, respectively.

Reporting Entity

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

Notes to Basic Financial Statements (continued)

Benefit Protection

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

Fair Value of Investments

Plan investments are reported at fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Corporate bonds not traded on a national or international exchange are based on equivalent values of comparable securities with similar yield and risk. Real estate debt is valued on the basis of future principal and interest payments, and is discounted at prevailing interest rates for similar instruments. The fair value of real estate investments is based on independent appraisals. Securities purchased with cash collateral under securities lending activities are recorded at estimated fair value. Other investments not having an established market are recorded at estimated fair value.

Investment Income

Dividend and interest income is recognized on the accrual basis. Fair value changes are recorded as investment income or loss. Purchases and sales of investments are recorded as of the trade date (the date upon which the transaction is initiated), except for purchase and sale of mortgages, real estate, and alternative investments which are recorded as of the settlement date (the date upon which the transaction is ultimately completed). The effect of recording such transactions as of the settlement date does not materially affect the financial statements.

Costs of Administering the System

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

Property and Equipment

Office space is leased from the State on a year to year basis. Office equipment is capitalized if the value exceeds $5,000. These assets are recorded at cost and are reported net of depreciation in the Statement of Pension Plan and 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.

Notes to Basic Financial Statements (continued)

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.

	2010	2009
Building Rentals	$ 1,088,552	$ 1,061,825
Technological Support	9,481,715	7,510,576
Attorney General	305,632	278,947
Investment Services	10,077,528	9,422,827
Personnel Services	10,378,365	9,312,412

Cash - On September 30, 2010, and 2009, the System had $53.1 million and $116.2 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 $88 thousand and $1.0 million for the years ended September 30, 2010, and 2009, respectively.

Reclassification of Prior Year Amounts

Amounts due from members and amounts due from employers for fiscal year 2009 activity have been reclassified between line items on the Statement of Net Assets. Components of investment income(loss), specifically the net appreciation/(depreciation) in fair value of investments and interest, dividends and other lines on the fiscal year 2009 Statement of Changes in Plan Net Assets have been reclassified between line items. The total 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 26 year period for the 2010 fiscal year and is amortized over a 27 year period for the 2009 fiscal year.

Actual employer contributions for retirement benefits were $1,001.3 million and $1,000.4 million for fiscal years 2010 and 2009, respectively, representing 10.1% of annual covered payroll for the year ended September 30, 2009. The fiscal year 2010 annual covered payroll is not yet available. Required employer contributions based on previous year actuarial valuations for pensions included:

1. $422.3 million and $433.8 million for fiscal years 2010 and 2009, respectively, for the normal cost of pensions representing 4.3% and 4.4% (before reconciliation) of annual covered payroll for fiscal years 2009 and 2008, respectively.

Notes to Basic Financial Statements (continued)

2. $759.8 million and $555.4 million for fiscal years 2010 and 2009, respectively, for amortization of unfunded actuarial accrued liability representing 7.7% and 5.6% (before reconciliation) of annual covered payroll for fiscal years 2009 and 2008, respectively.

Actual employer contributions for other postemployment benefits (OPEB) were $675.1 million and $705.5 million for fiscal years 2010 and 2009, respectively, representing 6.8% of annual covered payroll for the year ended September 30, 2009. The fiscal year 2010 annual covered payroll is not yet available. Required employer contributions based on previous year actuarial valuations for OPEB included:

1. $1,254.8 million and $1,493.0 million for fiscal years 2010 and 2009, respectively, for the normal cost of OPEB representing 12.7% and 15.0% (before reconciliation) of annual covered payroll for fiscal years 2009 and 2008, respectively.

2. $1,108.3 million and $1,009.0 million for fiscal years 2010 and 2009, respectively, for amortization of unfunded actuarial accrued liability representing 11.2% and 10.1% (before reconciliation) of annual covered payroll for fiscal years 2009 and 2008, respectively.

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

In May 1996, the Internal Revenue Service issued a private letter ruling allowing the System's members to purchase service credit and repay refunds using tax-deferred (pre-tax) dollars. The program was implemented in fiscal year 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, 2010, and 2009, there were 31,916 and 36,164 agreements, respectively. The agreements were discounted using the assumed actuarial rate of return of 8% for September 30, 2010, and 2009. The average length of a contract was approximately 7.1 years and 7.6 years for 2010 and 2009. The short-term receivable was $55.6 million and the discounted long-term receivable was $183.3 million at September 30, 2010. At September 30, 2009, the short-term receivable was $63.4 million and the discounted long-term receivable was $215.7 million.

Funded Status

Participating employers are required to contribute at an actuarially determined rate for both pension benefits and OPEB. For fiscal year 2009, the actuarial accrued liability (AAL) for pension benefits was $56.7 billion, and the actuarial value of assets was $44.7 billion, resulting in an unfunded actuarial accrued liability (UAAL) of $12.0 billion and a funded ratio of 78.9%. The covered payroll (annual payroll of active employees covered by the plan) was $9.9 billion, and the ratio of the UAAL to the covered payroll was 121.2%.

For fiscal year 2009, the actuarial accrued liability (AAL) for OPEB benefits was $28.3 billion, and the actuarial value of assets was $713.3 million, resulting in an unfunded actuarial accrued liability (UAAL) of $27.6 billion and a funded ratio of 2.5%. The covered payroll (annual payroll of active employees covered by the plan) was $9.9 billion, and the ratio of the UAAL to the covered payroll was 279.1%.

Notes to Basic Financial Statements (continued)

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	9/30/2009
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	27 years*
Remaining Amortization Period - OPEB	27 years
Asset Valuation Method - Pension	5-Year Smoothed Market
Asset Valuation Method - OPEB	Market
Actuarial Assumptions:	
Wage Inflation Rate	3.5%
Investment Rate of Return - Pension	8.0%
Investment Rate of Return - OPEB	4.0%
Projected Salary Increases	3.5 - 15.9%
Cost-of-Living Pension Adjustments	3% Annual Non-Compounded for MIP Members
Healthcare Cost Trend Rate	9.0% Year 1 graded to 3.5% Year 12
Other Assumptions OPEB only:	
Opt Out Assumption	21% of eligible participants hired before 7/1/2008 and 30% of those hired after 6/30/2008 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.

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.

Notes to Basic Financial Statements (continued)

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% of the total trust funds' portfolio has been invested from time to time in futures contracts, swap agreements, and option contracts. State investment statutes limit total derivative exposure to 15% of a fund's total asset value, and restrict uses to replication of returns and hedging of assets. Swap agreements represent the largest category of derivatives used, and they represented 6.2% of market value of total pooled assets on September 30, 2010, and 7.8% of market value of total pooled assets on September 30, 2009. In fiscal year 2010, structured notes were purchased. These notes represented 0.3% of market value of total pooled assets on September 30, 2010. Future contracts represented 0.0% of market value of total pooled assets on September 30, 2010, and September 30, 2009. Option contracts represented 0.0% of market value of total pooled assets on September 30, 2010, and September 30, 2009. The derivative fair values are reported on the Statements of Pension Plan and Other Postemployment Benefit Plan Net Assets as of September 30, 2010 and 2009 statements, in their respective investment pools market value. Derivative realized and unrealized gain (loss) are reported on the Statement of Changes in Pension Plan and Other Postemployment Benefit Plan Net Assets for fiscal years ended September 30, 2010 and 2009 statements, under "Investment income (loss)", in "Net appreciation (depreciation) in fair value of investments".

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 for the International Equity Pools. The notional amounts of the swap agreement at September 30, 2010 and 2009, were $2,371.6 million and $3,234.6 million, respectively. Approximately one quarter 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 maximum loss due to counterparty credit risk is the amount that would be incurred if the counterparties to the derivative instrument failed to perform according to the terms of the contract, without respect to any collateral or other security, or netting arrangement. Counterparty credit risk will always be significantly less than the swap agreement notional totals. On September 30, 2010 and 2009, the maximum amount of counterparty credit risk was $284.4 million and $256.6 million, respectively. At the maturity of the swap agreements, the trust funds will either receive the increase in the value of the equity indices from the level at the inception of the agreements, or pay the decrease in the value of the indices. Swap agreement maturity dates range from October 2010 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.

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, 2010 and 2009, international equity investment programs involving swaps, incurred a net realized investment income loss of $248.7 million and $132.7 million, respectively.

The net unrealized gain of $53.7 million at September 30, 2010, primarily reflects increases in bond market values, increases in international indices, and changes in currency exchange rates. The combined swap structure generally realizes gains and losses on a rolling multi- year basis.

Notes to Basic Financial Statements (continued)

The respective September 30, 2010 and 2009, swap values are as follows:

	Notional Value	Current Value
9/30/2010 (dollars in millions)	$ 2,371.6	$ 2,341.9
9/30/2009 (dollars in millions)	3,234.6	2,824.8

To get enhanced passive exposure to the Dow Jones UBS Commodity Total Return Index, the State Treasurer purchased structured notes from investment grade counterparties for the Absolute Return Pools. These notes are fully collateralized and pay cash rates on the underlying collateral, as well as, providing the enhanced index return. Similar to a swap agreement with prices changing with the underlying index fluctuations, the notes differ due to their daily put option which allows the structure to end and settle before its final maturity in November 2016. For the fiscal year ending September 30, 2010, the notional value was $115.5 million and the fair value of the structured notes was $119.7 million. At September 30, 2010, the structured notes' fair value of $119.7 million is subject to counterparty credit risk. The unrealized gain at September 30, 2010, was $2.8 million

To enhance management flexibility, the State Treasurer traded U.S. Treasury bond future contracts for the Fixed Income Pools. The U. S. Treasury bond future contracts were used to manage duration and yield curve exposure. U.S. Treasury bond future contracts' notional values at September 30, 2010 and 2009, were $8.2 million and ($8.1) million, respectively. For the fiscal year ending September 30, 2010 and 2009, the fair values were $17.6 thousand and $67.5 thousand, respectively. The realized gain at September 30, 2010, was $0.2 million and the realized loss at September 30, 2009, was $0.5 million.

To provide downside protection and enhance current income, the State Treasurer traded covered equity options on single securities for the Absolute Return pools. Put options are used to protect against large negative moves in single stocks, as well as, to express interest in a security that is trading well below its intrinsic value. Call options have been used to achieve current income on single equity securities that are trading near their intrinsic value. Equity options' notional values on September 30, 2010 and 2009, were $0 and $3.0 million, respectively. For fiscal years ended September 30, 2010 and 2009, the fair values of the equity options were $0 and ($9.4) thousand, respectively. The realized gain on options at September 30, 2010 and 2009, was $2.0 million and $0.7 million, respectively.

Securities Lending

State statutes allow the System to participate in securities lending transactions, and the System has, by way of an Agreement, authorized Credit Suisse, the agent bank, to lend the System's securities to broker-dealers and banks pursuant to a form of loan agreement.

During the fiscal year, the agent bank lent, at the direction of the State Treasurer, the System's securities and received cash (United States) as collateral. The types of securities lent were equity, and fixed income, which includes government and corporate bonds and notes. 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 fair 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 fair value of the loaned securities.

The agent bank agreed to indemnify the System by purchasing replacement securities, or returning cash collateral in the event the borrower failed to return the loaned security or pay distributions thereon, due to the borrower's insolvency.

Notes to Basic Financial Statements (continued)

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, 2010 and 2009, such assets had an average weighted maturity to next reset of 3.8 years and 3.5 years respectively and an average weighted maturity of 12.6 years and 8.5 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, 2010 and 2009, the System had no credit risk exposure to borrowers. The cash received for securities on loan for the System as of September 30, 2010 and 2009, was $5,177,096,903 and $6,379,349,819 respectively. The fair market value of assets held in the dedicated collateral account at the custodian for the System as of September 30, 2010 and 2009, was $4,032,944,373 and $4,959,896,511 respectively. The carrying amount, which is the fair market value, of securities on loan for the System as of September 30, 2010 and 2009, was $5,052,573,776 and $6,207,214,358 respectively.

Gross income, including capital gains and losses, from security lending for fiscal years ended September 30, 2010 and 2009, with Credit Suisse was $90,922,462 and $130,786,112 respectively. Expenses associated with this income were the borrower's rebate of $8,014,960 and $50,286,661 and fees paid to the agent bank of $15,432,509 and $12,068,009 respectively.

In 2008, 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 $.3 billion and $.2 billion at September 30, 2010 and 2009 respectively.

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.

<u>Credit Risk</u> **-** 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, 2010 and 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, 2010, and 2009

	2010				2009			
Investment Type	**Fair Value**	**S&P**	**Fair Value**	**Moody's**	**Fair Value**	**S&P**	**Fair Value**	**Moody's**
Short Term	$ 1,103,960	A-1	$ 1,085,232	P-1	$ 847,674	A-1	$ 847,674	P-1
		A-2	18,728	P-2		A-2		P-2
Government Securities								
U.S. Agencies - Sponsored	478,954	AAA	478,954	Aaa	542,660	AAA	542,660	Aaa
Corporate Bonds & Notes								
	106,961	AAA	108,174	Aaa	190,893	AAA	105,864	Aaa
	750,160	AA	575,460	Aa	911,502	AA	788,095	Aa
	2,000,692	A	2,126,434	A	2,117,735	A	2,308,460	A
	1,155,352	BBB	1,152,497	Baa	1,246,138	BBB	1,313,677	Baa
	76,549	BB	50,826	Ba	173,134	BB	35,550	Ba
	16,030	B	13,704	B	16,179	B	6,967	B
	6,610	CCC	10,429	Caa	5,591	CCC	5,140	Caa
	2	CC	1,311	Ca	490	CC	580	Ca
		C	17	C		C	65	C
	649	D		D		D		D
	206,641	NR	280,793	NR	58,901	NR	156,165	NR
International *								
		AAA		Aaa	156,054	AAA		Aaa
	825,034	AA	1,116,570	Aa	1,155,854	AA	1,252,677	Aa
	1,034,325	A	820,689	A	1,446,985	A	1,698,648	A
	117,048	BBB	265,897	Baa	191,991	BBB	246,137	Baa
	148,849	BB		Ba	129,658	BB		Ba
	77,900	NR		NR	116,920	NR		NR
Securities Lending Collateral								
	35,147	A-1	35,147	P-1	156,430	A-1	156,430	P-1
	1,123,322	AAA	1,084,510	Aaa	1,464,236	AAA	1,290,448	Aaa
	511,130	AA	1,726,888	Aa	591,319	AA	1,631,637	Aa
	479,275	A	605,723	A	807,375	A	1,052,469	A
	1,419,982	BBB	31,685	Baa	1,510,252	BBB	82,304	Baa
		BB	22,087	Ba		BB	286,532	Ba
	199,357	B	8,606	B	68,946	B	115,325	B
	52,026	CCC	273,613	Caa	48,620	CCC	70,581	Caa
		CC	31,981	Ca		CC		Ca
	197,923	NR	197,923	NR	297,691	NR	259,143	NR
Total	$ 12,123,878		$ 12,123,878		$ 14,253,228		$ 14,253,228	

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.

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, 2010. As of September 30, 2010 and September 30, 2009, no securities were exposed to custodial credit risk.

Notes to Basic Financial Statements (continued)

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, 2010 and 2009, 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, 2010 and 2009, the fair value of the System's prime commercial paper was $1,103.9 million and $847.7 million with the weighted average maturity of 8 days and 3 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, 2010, and 2009

	2010		2009	
	Fair Value	Effective Duration in Years	Fair Value	Effective Duration in Years
Government				
U. S. Treasury	$ 179,288	5.6	$ 351,648	2.1
U. S. Agencies - Backed	1,136,365	4.4	1,518,068	4.7
U. S. Agencies - Sponsored	478,954	2.5	542,660	3.9
Corporate	4,319,645	4.7	4,720,563	4.9
International*				
Corporate	2,203,156	0.2	3,197,462	0.1
Total	$ 8,317,408		$ 10,330,401	

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, 2010, and 2009, the total amount of foreign investment subject to foreign currency risk was $4,059 million and $3,077.9 million which amounted to 10.8% and 8.4% 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, 2010

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		$ 1,819			
	Canada	Dollar					$ 5,307
EUROPE							
	European Union	Euro	$ 815,823	38,477		$ 3,666	(21,532)
	Switzerland	Franc		118,742			8,954
	Sweden	Krona				8,127	17,307
	Denmark	Krone		1,174			1,829
	Norway	Krone					4,573
	U.K.	Sterling	11,549	103,047			14,027
PACIFIC							
	Australia	Dollar					24,698
	China	Renminbi		3,701			
	Hong Kong	Dollar		6,207			6,830
	Japan	Yen	1,290	496			(1,002)
	New Zealand	Dollar					1,640
	Singapore	Dollar		6,341		4,430	2,204
	South Korea	Won				6,252	11,539
MIDDLE EAST							
	Israel	Shekel		2,521			
AFRICA							
	South Africa	Rand		320			
VARIOUS				8,070	$ 526,552	2,314,054	
	Total		$ 828,662	$ 290,915	$ 526,552	$ 2,336,529	$ 76,374

* 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 2010 through April 2012 with an average maturity of .8 years.

Notes to Basic Financial Statements (continued)

Foreign Currency Risk
(in thousands)
As of September 30, 2009

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		$ 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)

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.

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)
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
2009	44,703	56,685	11,982	78.9	9,884	121.2

[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
2009	713	28,295	27,582	2.5	9,884	279.1

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
2001	$ 582,404,345	$ 756,002,136	129.8 %
2002	668,956,633	603,949,327	90.3
2003	812,891,416	697,906,265	85.9
2004	978,035,492	697,647,338	71.3
2005	1,023,336,739	774,277,778	75.7
2006	1,161,843,239	995,932,425	85.7
2007	919,560,821 [3]	835,366,382	90.8
2008	904,409,331 [3]	999,374,879	110.5
2009	989,150,149	1,000,375,355	101.1
2010	1,182,164,061	1,001,251,673	84.7

[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	26.9 %
2008	2,425,676,758	649,571,071	102,115	26.8
2009	2,501,979,818	705,464,357	55,243	28.2
2010	2,363,039,053	675,117,153	39,979,715	30.3

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 fourth year the System is reporting other postemployment benefits in accordance with GASB Statement No. 43, only four 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, 2010, and 2009

	2010	2009
Personnel Services:		
Staff Salaries	$ 6,884,991	$ 5,969,385
Retirement and Social Security	2,064,333	1,950,660
Other Fringe Benefits	1,429,041	1,392,367
Total	10,378,365	9,312,412
Professional Services:		
Accounting	1,175,842	1,742,947
Actuarial	237,481	167,200
Attorney General	305,632	278,947
Audit	61,081	64,304
Consulting	253,983	134,878
Medical	469,184	381,433
Total	2,503,203	2,769,709
Building and Equipment:		
Building Rentals	1,088,552	1,061,825
Equipment Purchase, Maintenance, and Rentals	33,630	50,768
Total	1,122,182	1,112,593
Miscellaneous:		
Travel and Board Meetings	24,562	28,487
Office Supplies	40,996	34,663
Postage, Telephone, and Other	1,914,723	1,731,469
Printing	534,953	293,102
Technological Support	9,481,715	7,510,576
Total	11,996,949	9,598,297
Total Administrative Expenses	$ 26,000,699	$ 22,793,011

Comparative Summary Schedule of
OPEB Plan Administrative Expenses
For Fiscal Years Ended September 30, 2010, and 2009

	2010	2009
Health Fees	$ 50,000,427	$ 64,137,268
Dental Fees	4,430,583	4,414,536
Total Administrative Expenses	$ 54,431,010	$ 68,551,804

Supporting Schedules (continued)

Schedule of Investment Expenses
For Fiscal Years Ended September 30, 2010, and 2009

	2010	2009
Real Estate Operating Expenses	$ 2,059,408	$ 956,956
Securities Lending Expenses	23,477,470	62,354,670
Other Investment Expenses[1]		
ORS-Investment Expenses[2]	10,077,528	9,422,827
Custody Fees	658,247	746,669
Management Fees	118,987,927	92,021,441
Research Fees	1,772,644	2,718,457
Total Investment Expenses	$ 157,033,224	$ 168,221,020

[1] Refer to the Investment Section for fees paid to investment professionals
[2] Does not exclude Treasury Civil Service fees of $116,997 recorded as a pass through in the Schedule of Investment Fees - State Treasurer.

Schedule of Payments to Consultants
For Fiscal Years Ended September 30, 2010, and 2009

	2010	2009
Accounting	$ 1,175,842	$ 1,742,947
Actuary	237,481	167,200
Attorney General	305,632	278,947
Independent Auditors	61,081	64,304
Consulting	253,983	134,878
Medical Advisor	469,184	381,433
Total Payments	$ 2,503,203	$ 2,769,709

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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, 2010

	Employee Contributions	Employee Contributions Pension Plus	Member Investment Plan	Employer Contributions
Additions:				
Contributions:				
Member contributions	$ 58,263,354	$ 16,400	$ 319,469,001	
Employer contributions:				
Colleges, universities and federal				$ 86,500,219
School districts and other				914,600,406
Other governmental contributions				
Total contributions	58,263,354	16,400	319,469,001	1,001,100,625
Investment income (loss):				
Net appreciation (depreciation) in fair value of investments				
Interest, dividends, and other				
Investment expenses:				
Real estate operating expenses				
Other investment expenses				
Securities lending activities:				
Securities lending income				
Securities lending expenses				
Net investment income (loss)	-	-	-	-
Transfers from other systems	16,504			
Miscellaneous income			36,697	355
Total additions	58,279,858	16,400	319,505,698	1,001,100,980
Deductions:				
Benefits and refunds paid to plan members and beneficiaries:				
Retirement benefits				
Health benefits				
Dental/vision benefits				
Refund of member contributions	4,284,864		29,077,445	507,347
Transfers to other systems	34,848		15,364	
Administrative expenses				
Total deductions	4,319,712	-	29,092,809	507,347
Net Increase (Decrease) before other changes	53,960,146	16,400	290,412,889	1,000,593,633
Other Changes in Net Assets:				
Interest allocation	61,939,189		84,050,039	
Transfers upon retirement	(246,868,852)		(649,142,546)	
Transfers of employer shares				(13,612,846,880)
Total other changes in net assets	(184,929,663)	-	(565,092,507)	(13,612,846,880)
Net Increase (Decrease)	(130,969,517)	16,400	(274,679,618)	(12,612,253,247)
Net Assets Held in Trust for Pension and OPEB Benefits:				
Beginning of Year	1,638,065,366	-	4,494,527,328	(7,960,086,752)
End of Year	$ 1,507,095,849	$ 16,400	$ 4,219,847,710	$ (20,572,339,999)

Supporting Schedules (continued)

Employer Contributions Pension Plus	Retired Benefit Payments	Retired Benefit Payments Pension Plus	Undistributed Investment Income	OPEB	Total
				$ 125,160,304	$ 502,909,059
$ 3,498				64,319,424	150,823,141
147,550				610,797,729	1,525,545,685
				39,979,715	39,979,715
151,048	-	-	-	840,257,172	2,219,257,600
			$ 2,871,968,729	75,472,172	2,947,440,901
			754,872,112	76,905,104	831,777,216
			(2,006,675)	(52,733)	(2,059,408)
			(128,129,251)	(3,367,095)	(131,496,346)
			88,594,301	2,328,161	90,922,462
			(22,847,074)	(600,396)	(23,447,470)
-	-	-	3,562,452,142	150,685,213	3,713,137,355
					16,504
	$ 484,833		51,933	195,136	768,954
151,048	484,833	-	3,562,504,075	991,137,521	5,933,180,413
	3,525,020,341				3,525,020,341
				566,550,299	566,550,299
				84,127,158	84,127,158
	1,755		1,947	52,545	33,925,903
					50,212
			26,000,699	54,431,010	80,431,709
-	3,525,022,096	-	26,002,646	705,161,012	4,290,105,622
151,048	(3,524,537,263)	-	3,536,501,429	285,976,509	1,643,074,791
	1,643,704,146		(1,789,693,374)		
	896,011,398				
	13,612,846,880				
-	16,152,562,424	-	(1,789,693,374)	-	-
151,048	12,628,025,161	-	1,746,808,055	285,976,509	1,643,074,791
-	20,546,301,829	-	15,779,571,792	713,348,708	35,211,728,271
$ 151,048	$ 33,174,326,990	$ -	$ 17,526,379,847	$ 999,325,217	$ 36,854,803,062

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 appreciation (depreciation) in fair value of investments*			
Interest, dividends, and other*			
Investment expenses:			
Real estate operating expenses			
Other investment expenses			
Securities lending activities:			
Securities lending income			
Securities lending expenses			
Net investment income (loss)	-	-	-
Transfers from other systems	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 2009 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
	$ (3,399,567,167)	(63,735,153)	(3,463,302,320)
	723,471,694	80,130,083	803,601,777
	(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

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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 Technology, Management & Budget are ex-officio members. As of September 30, 2010, members of the Committee were as follows: David G. Sowerby, CFA (public member), Glenn P. Murray (public member), Roger Robinson (public member), Andrew S. Levin (ex-officio member), and Kenneth D. Theis (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 9/30/10 Actual %	Two-Year Target %
Domestic Equity Pools	35.2 %	33.0 %
International Equity Pools	13.4	16.0
Alternative Investment Pools	21.6	14.0
Real Estate Pool	8.5	9.0
Fixed Income Pools	16.5	16.0
Absolute Return Pools	3.7	10.0
Short Term Investment Pools	1.1	2.0
TOTAL	**100.0 %**	**100.0 %**

INVESTMENT AUTHORITY

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

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

INVESTMENT RESULTS

Total Portfolio Results

For the fiscal year ended September 30, 2010, the total System's rate of return was 8.8% as compiled by State Street Investment Analytics. Annualized rates of return for the three, five, seven, and ten year periods ending September 30, 2010 were: (3.6)%, 3.5%, 6.0%, and 3.2% respectively.

At the beginning of the 2010 fiscal year, it appeared as though the multitudes of responses to the global financial crisis of 2007-2009 were taking hold, and it had appeared that the worst of the damage was in the past. The System's returns, reflecting this, were steady and positive during the first two quarters of the fiscal year. In April, the S&P 500 hit its closing fiscal year high at 1217.28 and the 10-year U.S. Treasury rate hit its highest yield for the year at just under 4%.

As spring was in full bloom, the path towards recovery became much less certain. The credit quality of European sovereign debt had come into question. It became less certain if countries such as Portugal, Ireland, Italy, Greece, and Spain that have a high level of debt when compared to their economic output would have the ability to honor the repayment of their debts.

Report on Investment Activity (continued)

With the market meltdown of 2007 still fresh on the minds of investors, anxiety began to be re-priced into the markets. Ultimately, the European Central Bank was able to step-in and avert more severe problems. However, confidence was shaken and the recovery appeared to be frail at best. In the media, questions were beginning to appear wondering if the economy would experience a “double dip”.

Adding to matters was the occurrence of two global events and the passage of major legislative reform. On April 14th, the Icelandic volcano Eyjafjallajökull erupted sending an ash plume high into the atmosphere. This enormous plume made the airspace unsafe for aviation travel for an extended period, and so a very high proportion of flights within, to, and from Europe were cancelled. On April 20th, a drilling rig named Deepwater Horizon, licensed by British Petroleum, exploded in the Gulf of Mexico. Subsequent to the explosion, oil spewed from the damaged well over the next 3 months. Finally, in the United States, sweeping legislative reforms targeting the financial and health care sectors were passed into law. The long-term impact on the operations of these companies due to the new laws is not yet certain. The end result was that the fiscal third quarter returns suffered during this time of uncertainty, giving up a large portion of the previous two quarter’s gains.

The spring gloom continued into the summer months. In July, during his semi-annual testimony before congress, Federal Reserve Chairman Ben Bernanke described the economic outlook as “unusually uncertain”. In September 2010, the National Bureau of Economic Research (NBER) officially declared the severe recession that started in December of 2007 actually ended in June 2009. As measured by duration or by contraction in real GDP, this recession was the worst on record since the Great Depression; however, not nearly as bad as the Great Depression. Of concern is the stunted and slow rate of recovery. At the end of September, 2010 the unemployment rate remained at a stubbornly high rate of 9.6% and from the calendar second quarter to third quarter, GDP was measured as growing at a mere 1.7% annual rate.

During the final fiscal quarter, many market pundits came to believe that the likelihood for an announcement by the Fed of a second round of quantitative easing (QE2) became highly probable. In anticipation of QE2, equity markets responded favorably. By September’s end, the 10-year Treasury rate closed near a 1-year low of just over 2.5%. September is notoriously bad for domestic equities historically; however, not this year as the S&P 500 Index return of 8.92% was the best return for the month since 1939. In other areas, commodities performed well during the last fiscal quarter and commercial real estate also rebounding off its bottom returning positive returns in both the 3rd and 4th quarter.

The positive returns experienced across the capital markets during the last-leg of the fiscal year were well welcomed. Although the timing of the returns coincides with the increased likelihood for QE2, such policies are not without costs. Because of the actions taken by the Federal Reserve, the returns associated with safer assets are very much below normal. Cash equivalents, as an example, now currently yield approximately 0.25% per annum. Treasuries maturing in 5 years yield just 1.27%, and as mentioned above, 10-year Treasuries earn a paltry 2.5%.

Domestic Equity Pools

The objective for investments made in domestic equities is to meet or exceed the total return of the S&P 1500 Super Composite for one, three, and five-year periods and a market cycle.

For active management strategies, the objective is to earn returns that exceed the most relevant S&P Index (or the most relevant Russell Index), adjusting for market capitalization and style, for one, three, and five-year periods and a market cycle. Rank above median in a universe of managers possessing a similar market cap and style characteristics.

For index, or passive return strategies, the objective is to return within 20 basis points of the S&P 500 Index, 50 basis points for the S&P 400 mid-cap, and 60 basis points for the S&P 600 small-cap over one, three, and five-year periods and a market cycle.

Report on Investment Activity (continued)

The pools are invested primarily in equities or equity-related securities of U.S. companies through internal and externally managed strategies. The goal is to build a portfolio of strategies that will provide excess returns relative to the S&P 1500 while providing minimal tracking error to the index. At times a portion of these pools may be invested in exchange traded funds (ETFs) and fixed-income short-term securities with maturities of less than one year.

The pools invest in equities and equity related securities that are listed on U.S. national securities exchanges, including American Depository Receipts (ADRs). They may also invest in stocks that are traded over-the-counter. The pools diversify their investments by allocating their equity strategies with consideration of the capitalization weightings of the S&P 1500 Index.

The following summarizes the weightings of the pools as of September 30, 2010:

Active	65.2 %
Passive	34.8
Total	**100.0 %**

Large Cap	83.8 %
Mid Cap	10.3
Small Cap	5.9
Total	**100.0 %**

The System’s Domestic Equity pools total rate of return was 10.7% for fiscal year 2010. This compared with 10.9% for the S&P 1500 Index.

At the close of fiscal year 2010, the Domestic Equity pools represented 35.2% of total investments. This compares to 36.5% for fiscal year 2009. The following summarizes the System's 77.3% ownership share of the Domestic Equity pools at September 30, 2010:

Domestic Equity Pools
(in thousands)

Short Term Pooled Investments	$ 214,310
Equities	12,984,059
Settlement Principal Payable	(25,946)
Settlement Proceeds Receivable	32,444
Accrued Dividends	10,814
Total	**$ 13,215,681**

Report on Investment Activity (continued)

International Equity Pools

The objective for investments made in international equity pools is to meet or exceed the total return of the S&P/Citigroup BMI -World ex-US with 25% of the currency hedged for one, three, and five-year periods and a market cycle.

For active management strategies, the objective is to earn returns that exceed the most relevant S&P Index (or the most relevant Russell Index), adjusting for market capitalization, style and geography for one, three, and five-year periods and a market cycle. Rank above median in a universe of managers possessing a similar market capitalization, style and geography characteristics.

For index, or passive return strategies, the objective is to Return within 250 basis points of the S&P/Citigroup BMI-EPAC Index with 25% of the currency hedged for one, three, and five-year periods and a market cycle. Return within 400 basis points of the MSCI Emerging Markets Index, for one, three, and five-year periods and a market cycle.

Active exposure is invested primarily in equities or equity-related securities of non-U.S. companies through externally managed strategies.

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 pools diversify their investments by allocating their equity strategies with consideration of the economic development status weightings of the S&P/Citigroup BMI -World ex-US Index.

The following summarizes the weightings of the pools as of September 30, 2010:

Active	23.7 %
Passive	76.3
Total	**100.0 %**

Developed	89.5 %
Emerging	10.5
Total	**100.0 %**

The System’s International Equity pools total rate of return was 6.5% for fiscal year 2010. This compared with 4.7% for the S&P/Citigroup BMI -World ex-US Index.

Report on Investment Activity (continued)

At the close of fiscal year 2010, the International Equity pools represented 13.4% of total investments. This compares to 12.6% for fiscal year 2009. The following summarizes the System's 77.5% ownership share of the International Equity Pools at September 30, 2010:

International Equity Pools
(in thousands)

Short Term Pooled Investments	$ 288,830
Equities	2,542,645
Fixed Income Securities	2,203,156
Market Value of Equity Contracts	(7,972)
Accrued Dividends and Interest	4,333
Total	**$ 5,030,992**

Alternative Investment Pools

The Alternative Investment pools 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 pools as of September 30, 2010:

Buyout Funds	53.7 %
Special Situation Funds	21.3
Venture Capital Funds	9.8
Fund of Funds	5.5
Liquidation Portfolio	4.6
Other	2.8
Mezzanine Funds	2.3
Total	**100.0 %**

The Alternative Investment pools had a return of 19.8% for the fiscal year ended September 30, 2010, versus the benchmark of 13.1%.

At the close of fiscal year 2010, the Alternative Investment pools represented 21.6% of total investments. This compares to 19.1% for fiscal year 2009. The following summarizes the System's 79.1% ownership share of the Alternative Investment pools at September 30, 2010:

Alternative Investment Pools
(in thousands)

Short Term Pooled Investments	$ 109,348
Equities	8,024,784
Total	**$ 8,134,132**

Report on Investment Activity (continued)

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. Foreign real estate investments are limited to 20% of the value of the pool.
- Property Size and Value - The pool diversifies its holdings by size so that it is not concentrated in a limited number of large real estate investments.
- Property Type - The pool is diversified by type of property as summarized in the table below.

Multi-family apartments	23.8 %
Commercial office buildings	19.7
Hotel	19.2
Retail shopping centers	16.6
Industrial warehouse buildings	8.7
For Sale Housing	6.9
Land	2.6
Senior Living	1.6
Short Term Investments	0.9
Total	**100.0 %**

The Real Estate pool generated a return of (16.4)% for fiscal year 2010. The two benchmark returns from the National Council of Real Estate Investment Fiduciaries: the National Property Index (less 130 basis points) was 4.5% and the Open-End Diversified Core Equity Index was 6.0%. Real estate fundamentals and values appear to have stabilized with improvement in nearly all property types. The slow economic recovery limited any real estate value appreciation to the fourth quarter of the fiscal year. Transaction activity remained at low levels as commercial real estate investors remained cautious and only investing in quality, cash flowing assets in prime markets.

At the close of fiscal year 2010, the Real Estate pool represented 8.5% of total investments. This compares to 8.6% for fiscal year 2009. The following summarizes the System’s 76.7% ownership share of the Real Estate pool at September 30, 2010:

Real Estate Pool
(in thousands)

Short Term Pooled Investments	$ 28,976
Equities	3,170,672
Total	**$ 3,199,648**

Report on Investment Activity (continued)

Fixed Income Pools

The objective for investments made in the fixed income pools is to meet or exceed the total blended return of 50% of the Barclays U.S. Government Index and 50% of the Barclays U.S. Credit Index over one, three, and five-year periods and market cycles. Rank above median in a nationally recognized universe of managers possessing a similar style.

For fixed income sub-strategies, the objective return is to meet or exceed the most relevant Barclays benchmark index.

The pools are invested primarily in fixed income securities of U.S. companies through internal and externally managed strategies. The goal is to build a portfolio of strategies that will provide excess returns relative to the blended benchmark 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 pools invest in fixed income and related securities in a diversified portfolio of investment grade corporate issues, treasuries, agencies, government sponsored enterprises and government guaranteed mortgages. The pools diversify its investments by allocating its strategies with consideration of credit risk.

The System's Fixed Income pools total rate of return was 10.2% for fiscal year 2010. This compared with 8.7% for the blended return of 50% of the Barclays U.S. Government Index and 50% of the Barclays U.S. Credit Index.

At the close of fiscal year 2010, the Fixed Income pools represented 16.5% of total investments. This compares to 18.8% for fiscal year 2009. The following summarizes the System's 77.7% ownership share of the Fixed Income pools at September 30, 2010:

Fixed Income Pools
(in thousands)

Short Term Pooled Investments	$	149,079
Fixed Income Securities		5,994,773
Settlement Proceeds Receivable		118
Accrued interest		48,764
Total	**$**	**6,192,734**

Absolute Return Pools

The Absolute Return Pools consist of the Absolute Return Strategies Pool and the Real Return and Opportunistic Investment Pool.

The primary investment objective of the Absolute Return Strategies Pool is to generate a rate of return that meets or exceeds T-bills by 400 basis points net of fees over the one, three, and five-year periods and a market cycle. Also, exceed the appropriate HFN Fund of Funds median net of fees over one, three, and five-year periods and a market cycle.

The Absolute Return Strategies pool rate of return for the fiscal year was 8.7% versus the benchmark's (0.6)%.

The primary investment objective of the Real Return and Opportunistic Pool is to generate a rate of return that meets or exceeds the increase in the CPI by at least five percent (5%) annually net of fees over one, three, and five-year periods and a market cycle. If a peer universe is available, rank above median in a nationally recognized universe of managers possessing a similar style.

Report on Investment Activity (continued)

For sub-strategies targeting a commodities index, the objective is to generate a rate of return that meets or exceeds the Dow Jones-AIG Total Return Commodities Index over one, three, and five year periods and a market cycle. Rank above median in a nationally recognized universe of managers possessing a similar style.

The Real Return and Opportunistic Investments pool rate of return inception to fiscal year end was 5.1%.

At the close of fiscal year 2010, the Absolute Return Pools represented 3.7% of total investments. This compares to 1.8% for fiscal year 2009. The following summarizes the System's 78.0% ownership share of the Absolute Return Pools at September 30, 2010:

Absolute Return Pools
(in thousands)

Absolute Return Strategies Pool	$	959,019
Real Return and Opportunistic Investment Pool		
Short Term Pooled investments	$	11,762
Equities		396,031
Fixed Income Securities		29,350
Settlement Proceeds Receivable		2,360
Accrued Dividends and Interest		824
Total	**$**	**1,399,346**

Short Term Investment Pools

The objective of the Short Term Investment pools is to closely match the return performance of its benchmark, the 30 day Treasury bill. The Short Term Investment pools return for the fiscal year was 1.0% 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.
- Short duration investment grade corporate issues.

Report on Investment Activity (continued)

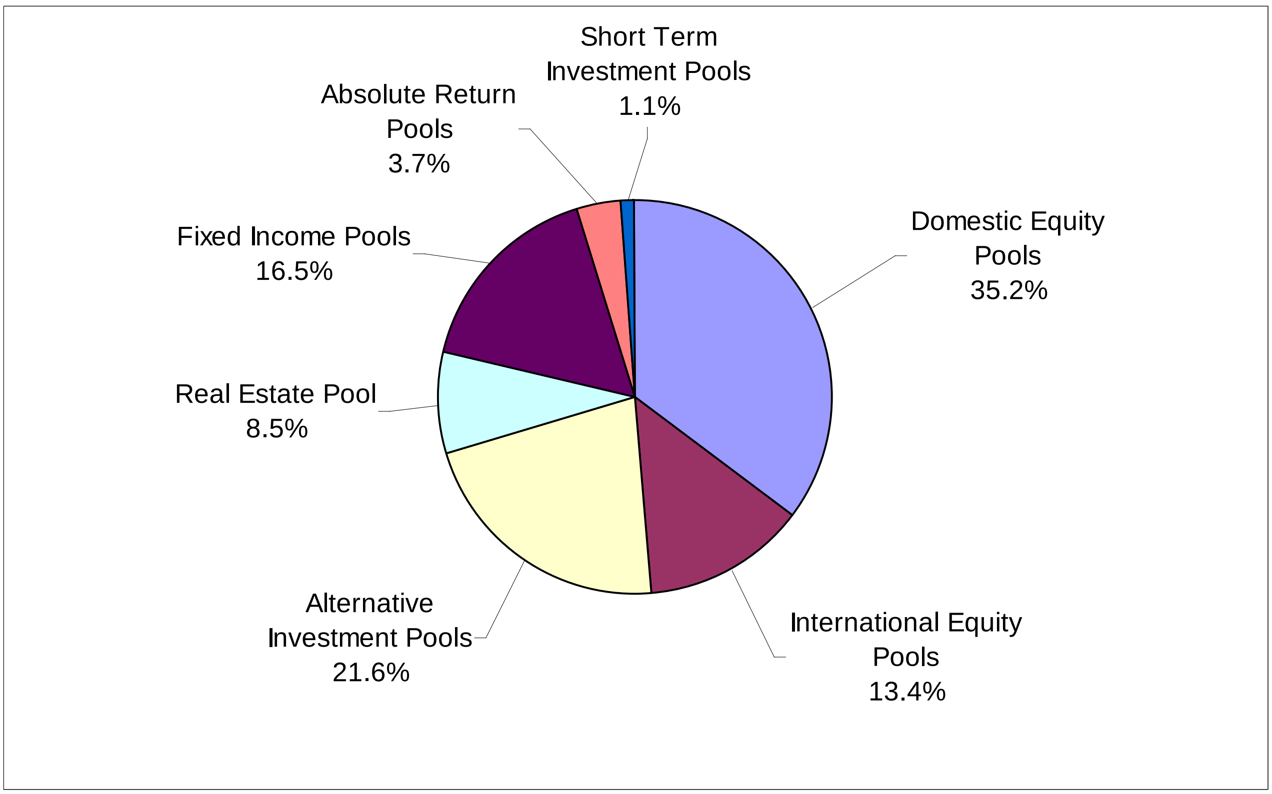
At the close of fiscal year 2010, the Short Term Investment pools represented 1.1% of total investments. This compares to 2.6% for fiscal year 2009. The following summarizes the System's 74.8% ownership share of the Short Term Investment pools at September 30, 2010:

Short Term Investment Pools
(in thousands)

Short Term Pooled Investments	$	239,597
Healthcare Contribution*		13,688
Fixed Income Securities		142,296
Accrued interest		230
Total	**$**	**395,811**

*PA 75 of 2010 requires each actively employed member of MPSERS to contribute toward health care benefits. Contributions to this account are held and invested separately.

Asset Allocation – Security Type Only



Investment Results for the Period Ending September 30, 2010

Investment Category	Current Year	Annualized Rate of Return[1] 3 Years	5 Years	10 Years
Total Portfolio	8.8 %	(3.6) %	3.5 %	3.2 %
Domestic Equity Pools	10.7	(6.1)	1.4	0.7
S&P 1500 Index	10.9	(6.6)	0.9	0.2
International Equity Pools	6.5	(8.7)	1.9	2.2
S&P Developed BMI-EPAC 75/25[2]	4.7	(8.9)	1.4	2.1
Alternative Investment Pools	19.8	(0.6)	10.2	5.4
Alternative Blended Benchmark [3]	13.1	(2.8)	4.5	3.2
Real Estate Pool	(16.4)	(12.0)	(0.5)	4.2
NCREIF Property Blended Index [4]	4.5	(5.9)	2.3	6.2
Fixed Income Pools	10.2	8.8	7.2	6.7
Barclays Government/Credit	8.7	7.5	6.2	6.5
Absolute Return Pools	8.7			
HFRX Absolute Return	(0.6)			
Short Term Investment Pools	1.0	0.4	2.3	2.4
30 Day Treasury Bill	0.1	0.8	2.3	2.3

1Calculations 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 1/1/10, index is blend of S&P Developed BMI-EPAC 75 local/ 25 USD and S&P Developed BMI-EPAC 50/50. History prior to 1/1/10 is S&P Developed BMI-EPAC 50/50.

3 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.

4 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, 2010

Rank	Shares	Stocks	Market Value
1	1,165,812	Apple Inc.	$ 330,799,198
2	6,772,688	Merck & Company Inc.	249,302,638
3	13,937,024	Pfizer Inc.	239,298,696
4	454,357	Google Inc.	238,896,559
5	3,828,214	Johnson & Johnson	237,196,145
6	16,762,989	Bank of America Corporation	219,762,790
7	4,944,224	United Health Group Inc.	173,591,697
8	2,721,192	Exxon Mobil Corporation	168,142,474
9	3,363,154	Baxter International Inc.	160,456,053
10	2,797,343	Amgen Inc.	154,161,556

Largest Bond Holdings (By Market Value)*
September 30, 2010

Rank	Par Amount	Bonds & Notes	Market Value
1	$ 194,813,390	JPMorgan Chase & Co .61563% FRN Due 11-1-2012	$ 193,439,761
2	200,734,033	General Electric Cap Corp .54625% FRN Due 2-15-2017	180,536,175
3	155,850,712	Berkshire Hathaway Fin .82750% FRN Due 1-11-2011	156,010,147
4	136,369,373	Wachovia Corp .63625% FRN Due 4-23-2012	135,795,531
5	116,888,034	Toyota Motor Credit Corp 4.02988% Due 1-9-2012	121,704,406
6	116,888,034	Vulcan Materials 1.54219% FRN Due 12-15-2010	117,047,820
7	116,888,034	JPMorgan Chase & Co .79156% FRN Due 9-21-2012	116,886,748
8	85,717,892	General Electric Cap Corp .66094% FRN Due 1-15-2013	84,442,495
9	76,455,734	Barclays Bank PLC Due 11-7-2016	82,258,724
10	77,925,356	Wells Fargo & Company .94938% FRN Due 8-29-2011	78,368,673

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 49.5% 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 $9,961 thousand or five and three tenths basis points (.053%) 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 Technology, Management & 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	$ 18,968,675	$ 9,961	5.3
Outside Advisors for			
Fixed Income	1,193,880	2,575	21.6
Absolute Return	1,163,133	4,048	34.8
International Equity	1,845,561	5,807	31.5
Domestic Equity	3,381,800	18,866	55.8
Alternative	8,134,132	78,047	96.0
Real Estate	2,881,163	9,644	33.5
Total	$ 37,568,344	$ 128,948	

Other Investment Services Fees:

Assets in Custody	$ 37,500,758	$ 2,431
Securities on Loan	5,052,574	15,433

*Outside Advisors Fees are netted against income for Fixed Income, Domestic Equity, International Equity, and Absolute Return. 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 200 basis points. Alternative and Real Estate fees, in most cases, are netted against income.

Schedule of Investment Commissions

	Fiscal Year Ended September 30, 2010						
	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	$ 8,106	216,674	$ 0.04	$ 0.01	$ 0.03	$ 2,167	$ 6,500
Barclays Capital Inc.	205,920	9,003,195	0.02	0.01	0.01	90,032	90,032
BNY Convergex Execution Solutions LLC	180,819	9,364,818	0.02	0.01	0.01	93,648	93,648
BTIG LLC	513,106	42,561,799	0.01	0.01	-	425,618	-
The Buckingham Research Group Inc.	197,050	6,602,232	0.03	0.01	0.02	66,022	132,045
Cantor Fitzgerald & Co.	90,839	4,541,949	0.02	0.01	0.01	45,419	45,419
Capital Institutional Services Inc.	189,537	6,317,887	0.03	0.01	0.02	63,179	126,358
Citigroup Global Markets Inc.	310,690	11,604,376	0.03	0.01	0.02	116,044	232,087
Cowen & Company LLC	609,803	21,583,772	0.03	0.01	0.02	215,838	431,675
Credit Suisse Securities LLC	1,214,926	54,579,784	0.02	0.01	0.01	545,798	545,798
Deutsche Bank - Alex Brown	481	16,043	0.03	0.01	0.02	160	321
Deutsche Bank Securities Inc.	182,512	6,372,545	0.03	0.01	0.02	63,725	127,451
Goldman, Sachs & Co.	185,958	6,833,042	0.03	0.01	0.02	68,330	136,661
The Griswold Company Inc.	499,000	39,555,085	0.01	0.01	-	395,551	-
ISI Capital LLC	610,825	20,591,751	0.03	0.01	0.02	205,918	411,835
Investment Technology Group Inc.	15	2,005	0.01	0.01	-	20	-
J.P. Morgan Securities Inc.	543,108	22,631,907	0.02	0.01	0.01	226,319	226,319
Merrill Lynch, Pierce, Fenner & Smith Inc.	693,694	28,231,854	0.02	0.01	0.01	282,318	282,318
Mischler Financial Group Inc.	102,126	3,404,204	0.03	0.01	0.02	34,042	68,084
Morgan Stanley & Co. Inc.	167,460	5,569,164	0.03	0.01	0.02	55,692	111,383
Oppenheimer & Co, Inc.	1,193	39,780	0.03	0.01	0.02	398	796
OTA LLC	125,124	4,353,349	0.03	0.01	0.02	43,533	87,067
Sanders Morris Harris Inc.	67,244	2,241,462	0.03	0.01	0.02	22,415	44,829
Sanford C. Bernstein & Co. LLC	664,851	23,304,039	0.03	0.01	0.02	233,040	466,081
Soleil Securities Corporation	92,492	3,083,052	0.03	0.01	0.02	30,831	61,661
Stifel, Nicolaus & Co. Inc.	2,211	55,269	0.04	0.01	0.03	553	1,658
Thomas Weisel Partners LLC	13,298	416,405	0.03	0.01	0.02	4,164	8,328
UBS Securities LLC	268,647	9,146,733	0.03	0.01	0.02	91,467	182,935
Weeden & Co. LP	607,849	60,978,855	0.01	0.01	-	609,789	-
Western International Securities Inc.	62,659	3,132,963	0.02	0.01	0.01	31,330	31,330
William Blair & Co. LLC	691	17,287	0.04	0.01	0.03	173	519
Total	$ 8,412,234	406,353,280	$ 0.03 [2]	$ 0.01	$ 0.02	$ 4,063,533	$ 3,953,138

[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, 2010

	Market Value [1]	Percent of Total Market Value	Investment & Interest Income [2]	Percent of Total Investment & Interest Income
Fixed Income Pools	$ 6,192,733,678	16.5 %	$ 617,176,046	17.6 %
Domestic Equity Pools	13,215,680,909	35.2	1,327,052,280	37.9
Real Estate Pool	3,199,648,334	8.5	(58,190,522)	(1.7)
Alternative Investment Pools	8,134,132,084	21.6	1,198,202,543	34.2
International Equity Pools	5,030,991,858	13.4	334,837,159	9.6
Absolute Return Pools	1,399,346,173	3.7	76,959,195	2.2
Short Term Investment Pools	395,811,853	1.1	7,880,639	0.2
Total	$ 37,568,344,889	100.0 %	$ 3,503,917,340	100.0 %

[1] Market value excludes $4,032,944,373 in securities lending collateral for fiscal year 2010.

[2] Total Investment & Interest Income excludes net security lending income of $67,474,992 and unrealized gain of $275,300,778 for securities lending collateral.

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 Investment Pools	6,970,160,927	19.1	(1,124,499,386)	39.1
International Equity 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.

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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 26, 2010

Ms. Phyllis Mellon, Acting Director
Department of Technology, 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, 2009.

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. Phyllis Mellon
October 26, 2010
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 Statement Nos. 43 and 45, we recommend consultation with legal counsel and the auditors to determine whether Statement No. 43 applies.

The actuarial valuations of MPSERS as of September 30, 2009 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,

Curtis Powell, EA, MAAA

Alan E. Sonnanstine

Alan Sonnanstine, ASA, MAAA

Gabriel Roeder Smith & Company

Summary of Actuarial Assumptions and Methods

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

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

3. Sample probabilities of regular, unreduced retirement are shown in Schedule 1 on the next page. Adopted 2004.

4. Sample probabilities of withdrawal from service and disability, together with individual pay increase assumptions, are shown in Schedule 2 on the next page of this report. Adopted 2004.

5. Total active member payroll is assumed to increase 3.5% per year. This represents the portion of the individual pay increase assumptions attributable to inflation. In effect, this assumes no change in the number of active members. Adopted 2004.

6. An individual entry age actuarial cost method of valuation was used in determining age and service and deferred retirement actuarial liabilities and normal cost. Adopted 1975. Unfunded actuarial accrued liabilities, are financed over a declining 40-year period beginning October 1, 1996. Adopted 1996.

7. The Department of Technology, Management & 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 Technology, Management & 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.

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	7.20
45		1.60	.13	5.20
55		1.40	.33	3.80
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
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
2009	268,208	9,883,674	36,851	3.1	45.4	11.4

* 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*		
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
2009	8,817	239,774	4,160	74,870	171,922	3,336,165	5.2	19,405

* 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]
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
2009	5,449	34,159	17,077	44,703	100	100	29.8	78.9

[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
2009	-	13,805	14,490	713	0	5.2	0	2.5

[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, 2009
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.	$ 150,706,630
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.	(21,393,067)
3.	**Pay Increases.** If there are smaller pay increases than assumed, there is a gain. If greater increases, a loss.	487,788,765
4.	**Investment Income.** If there is greater investment income than assumed, there is a gain. If less income, a loss.	(2,727,806,702)
5.	**Death After Retirement**. If retirants live longer than assumed, there is a loss. If not as long, a gain.	(259,405,425)
6.	**New entrants/Rehires.** New entrants into the System will generally result in an actuarial loss.	(91,109,697)
7.	**Other.** Miscellaneous gains and losses resulting from data adjustments, timing of financial transactions, etc.	(257,974,773)
8.	**Composite Gain (or Loss) During Year**	$ (2,719,194,269)

Summary of Plan Provisions

Our actuarial valuation of the System as of September 30, 2009, 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

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

STATISTICAL SECTION

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

Contents

Financial Trends

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

- Schedule of Pension Plan 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

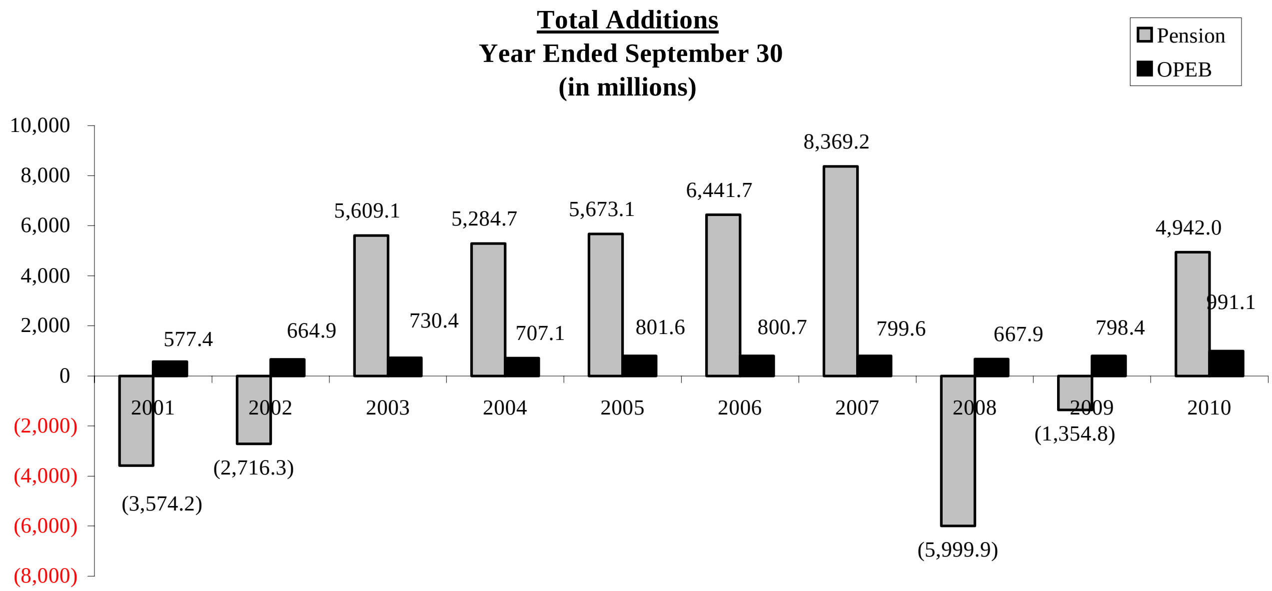
Fiscal Year Ended Sept. 30	Member Contributions	Employer Contributions Dollars	Employer Contributions % of Annual Covered Payroll	Net Investment & Other Income	Total
2001	$ 371,548,016	$ 629,924,827	6.80 %	$ (4,575,630,855)	$ (3,574,158,012)
2002	413,163,871	603,949,327	6.22	(3,733,441,844)	(2,716,328,646)
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	10.12	(2,712,414,549)	(1,354,789,728)
2010	377,748,755	1,001,251,673	N/A	3,563,042,464	4,942,042,892

Schedule of OPEB Plan Additions by Source

Last Ten Years

Fiscal Year Ended Sept. 30	Member Contributions	Employer Contributions Dollars	Employer Contributions % of Annual Covered Payroll	Net Investment & Other Income	Total
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	7.14	15,917,554	798,415,996
2010	125,160,304	675,117,153	N/A	190,860,064	991,137,521

Total Additions
Year Ended September 30
(in millions)



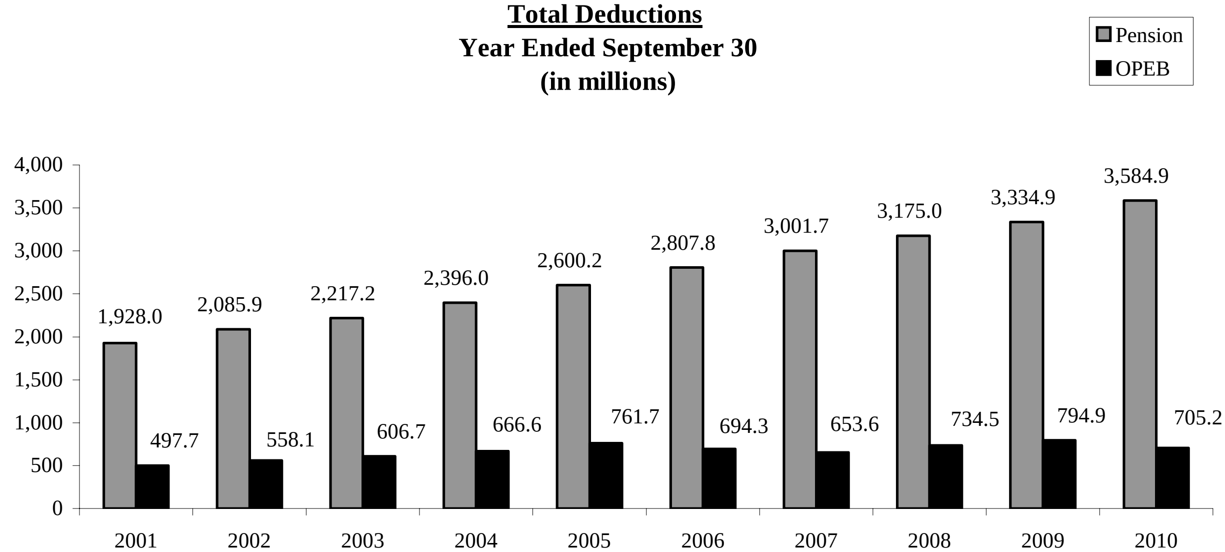
Schedule of Pension Plan Deductions by Type
Last Ten Years

Fiscal Year Ended Sept. 30	Benefit Payments	Refunds and Transfers	Administrative Expenses	Total
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
2010	3,525,020,341	33,923,570	26,000,699	3,584,944,610

Schedule of OPEB Plan Deductions by Type
Last Ten Years

Fiscal Year Ended Sept. 30	Benefit Payments	Refunds and Transfers	Administrative Expenses	Total
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
2010	650,677,457	52,545	54,431,010	705,161,012

Total Deductions
Year Ended September 30
(in millions)



Schedule of Changes in Net Assets - Pension Plan

Last Ten Years

(in thousands)

	Fiscal Year									
	2001	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**
Member contributions	$ 371,548	$ 413,164	$ 379,085	$ 456,353	$ 368,241	$ 518,600	$ 356,761	$ 399,257	$ 357,249	$ 377,749
Employer contributions	629,924	603,949	697,906	697,647	774,277	995,932	835,366	999,375	1,000,375	1,001,252
Net investment income	(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)	3,562,452
Transfer from other systems				20	15	3	6	83	15	16
Miscellaneous income	138	125	42	32	7	469	2,553	897	412	574
Total Additions	(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)	4,942,042
Pension benefits	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	3,525,020
Refunds of member contributions	19,836	20,814	13,642	18,397	22,062	23,904	32,142	32,613	33,865	33,873
Tranfer to other systems	17,312			26	119	123	106	190	93	50
Administrative expenses		23,610	23,017	19,375	19,998	22,501	24,489	24,741	22,793	26,001
Total Deductions	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	3,584,945
Changes in net assets	$ (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)	$ 1,357,098

Schedule of Changes in Net Assets - OPEB Plan

Last Ten Years

(in thousands)

	Fiscal Year									
	2001	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**
Member contributions	$ 38,485	$ 43,218	$ 47,394	$ 52,766	$ 62,508	$ 71,814	$ 77,207	$ 78,089	$ 77,034	$ 125,160
Employer contributions	528,273	604,628	657,409	618,831	700,366	686,929	671,680	649,571	705,465	675,117
Other governmental contributions						65	63	102	55	39,980
Net investment income	10,663	17,040	25,584	35,483	38,718	41,910	50,417	(60,190)	15,706	150,686
Miscellaneous income		3					261	378	156	195
Total Additions	577,421	664,889	730,387	707,080	801,592	800,718	799,628	667,950	798,416	991,138
Health care benefits	456,257	513,172	558,683	615,417	705,983	634,812	590,226	666,381	726,235	650,677
Refunds of member contributions	72	67	64	98	192	42	31	42	63	53
Administrative expenses	41,379	44,854	47,908	51,119	55,520	59,460	63,315	68,078	68,552	54,431
Total Deductions	497,708	558,093	606,655	666,634	761,695	694,314	653,572	734,501	794,850	705,161
Changes in net assets	$ 79,713	$ 106,796	$ 123,732	$ 40,446	$ 39,897	$ 106,404	$ 146,056	$ (66,551)	$ 3,566	$ 285,977

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
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
2010	3,254,752,971	58,015,212	212,252,158		507,347	33,364,256	1,755	3,558,893,699

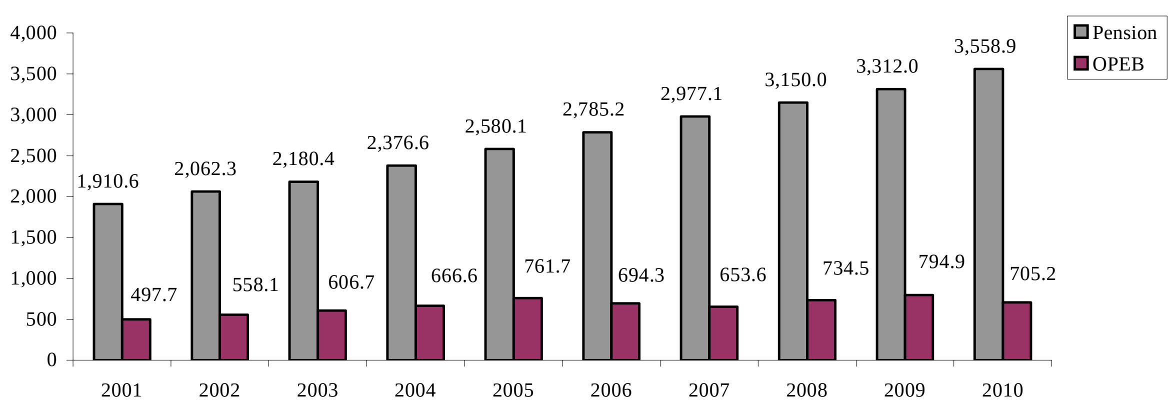
*Includes prior post retirement adjustments

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
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
2010	566,550,299	84,127,158	54,431,010	52,545	705,161,012

Total Benefit Deductions
Year Ended September 30
(in millions)



Schedule of Retired Members by Type of Pension Benefit

September 30, 2009

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	13,289	11,565	1,059	102	399	2	162	7,486	2,728	1,925	148	1,002
201 - 400	20,289	16,998	1,467	123	1,309	1	391	11,408	3,874	3,403	324	1,280
401 - 600	15,164	12,317	1,194	86	1,148	1	418	7,979	3,116	2,764	312	993
601 - 800	11,685	9,450	888	50	895	2	400	5,894	2,323	2,271	312	885
801 - 1000	9,525	7,638	820	33	651		383	4,547	1,946	1,901	287	844
1001 - 1200	8,277	6,728	751	18	492		288	3,741	1,754	1,530	246	1,006
1201 - 1400	7,560	6,239	692	13	367		249	3,101	1,559	1,396	252	1,252
1401 - 1600	7,126	6,000	601	5	290		230	2,697	1,509	1,220	247	1,453
1601 - 1800	6,970	6,077	460	3	251	1	178	2,573	1,460	1,150	246	1,541
1801 - 2000	7,211	6,418	419	7	194		173	2,556	1,676	1,210	306	1,463
over 2000	64,826	62,035	1,765	7	380	1	638	27,857	12,732	13,397	4,264	6,576
Totals	171,922	151,465	10,116	447	6,376	8	3,510	79,839	34,677	32,167	6,944	18,295

* 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, 2009

Amount of Monthly Pension Benefit	Eligible Retirees	Type of Other Postemployment Benefits: Health	Type of Other Postemployment Benefits: Dental/Vision
$ 1 - 200	13,289	6,997	7,980
201 - 400	20,289	12,059	13,559
401 - 600	15,164	10,069	11,107
601 - 800	11,685	8,399	9,162
801 - 1,000	9,525	7,077	7,635
1,001 - 1,200	8,277	6,331	6,782
1,201 - 1,400	7,560	5,943	6,333
1,401 - 1,600	7,126	5,687	6,046
1,601 - 1,800	6,970	5,687	6,001
1,801 - 2,000	7,211	5,854	6,217
Over 2,000	64,826	53,693	56,299
Totals	171,922	127,796	137,121

Source: Gabriel Roeder Smith & Co.

Schedule of Other Postemployement Benefits

For Years Ended September 30, 2010 and 2009

	2010	2009
Claims		
Health insurance	$ 501,455,398	$ 455,767,068
Vision insurance	7,116,639	6,967,166
Dental insurance	74,676,013	72,284,230
Total Claims	583,248,050	535,018,464
Estimated Claims Liability		
Health insurance	65,094,901	189,044,327
Vision insurance		361
Dental insurance	2,334,506	2,172,000
Total Estimated Claims Liability	67,429,407	191,216,688
Administrative Fees		
Health insurance	50,000,427	64,137,268
Dental/Vision insurance	4,430,583	4,414,536
Total Administrative Fees	54,431,010	68,551,804
Subtotal	705,108,467	794,786,956
Refunds	52,545	63,247
Grand Total	$ 705,161,012	$ 794,850,203

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 10/1/99 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
Period 10/1/08 to 9/30/09								
Average Monthly Benefit	$ 1,095	$ 201	$ 337	$ 606	$ 994	$ 1,494	$ 2,590	$ 1,617
Average Final Average Salary	32,482	19,036	19,343	25,731	32,097	37,379	56,113	40,843
Number of Active Retirants	1,515	5,875	19,988	24,746	23,314	17,912	78,572	171,922

Source: Gabriel Roeder Smith & Co.

Schedule of Average Benefit Payments - Health

Last Five Years

Payment Periods	0 - 5	5 - 10	10 - 15	15 - 20	20 - 25	25 - 30	30+	Total
	Credited Service (Years) as of September 30							
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
Period 10/1/08 to 9/30/09								
Average Monthly Benefit	$ 1,230	$ 216	$ 376	$ 647	$ 1,039	$ 1,782	$ 2,683	$ 1,757
Average Final Average Salary	38,012	19,252	20,328	26,525	32,575	42,936	56,446	42,631
Number of Active Retirants	1,053	4,212	10,757	16,602	17,376	21,419	56,377	127,796

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

Schedule of Average Benefit Payments - Dental/Vision

Last Five 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
Period 10/1/08 to 9/30/09								
Average Monthly Benefit	$ 1,194	$ 215	$ 372	$ 639	$ 1,027	$ 1,779	$ 2,673	$ 1,726
Average Final Average Salary	37,407	19,216	20,292	26,357	32,340	42,861	56,379	42,185
Number of Active Retirants	1,143	4,665	12,170	18,337	18,816	22,872	59,118	137,121

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

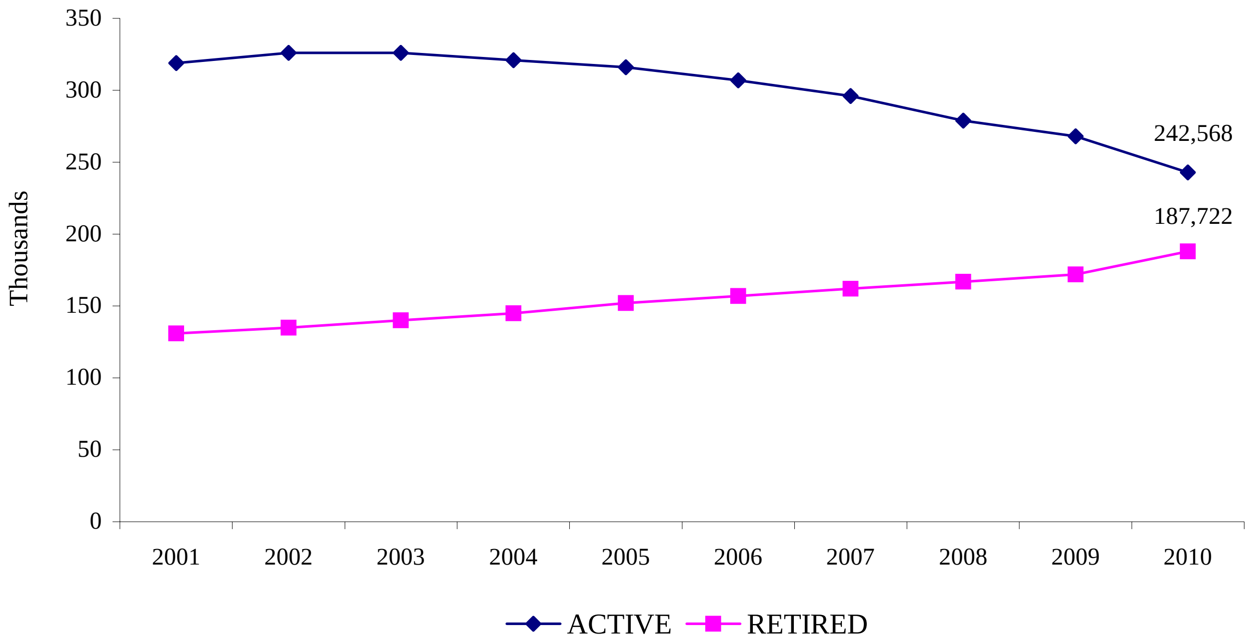
Schedule of Principal Participating Employers

For Fiscal Years Ending September 30, 2009 and 2000

	2009		2000	
Participating Employer	**Employees**	**Percentage of Total System**	**Covered Employees**	**Percentage of Total System**
Detroit Public Schools	13,817	5.15 %	21,233	6.49 %
Utica Community Schools	3,942	1.47	4,253	1.30
Grand Rapids Public Schools	3,280	1.22	4,785	1.46
Ann Arbor Public Schools	3,107	1.16	3,444	1.05
Flint Community Schools	3,047	1.14	4,508	1.38
Livonia Public Schools	2,695	1.00	3,084	0.94
Dearborn Public Schools	2,688	1.00	3,043	0.93
Kalamazoo Public Schools	2,571	0.96	2,766	0.84
Oakland Community College	2,504	0.93	2,147	0.66
Warren Consolidated Schools	2,382	0.89	2,350	0.72
All other	228,175	85.07	275,780	84.24
Total	268,208	100.00 %	327,393	100.00 %

Statistical Section

Ten Year History of Membership
Fiscal Year Ended September 30



Source: Gabriel Roeder Smith & Co.

Schedule of Participating Employers at 9/30/10

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 Intermediate School District
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 9/30/10 (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 9/30/10 (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 9/30/10 (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 9/30/10 (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 9/30/10 (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 9/30/10 (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 Math and Science Academy
Michigan Technological Academy
Mid-Michigan Leadership 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
Three Lakes Academy
Virtual Learning Academy of St. Clair

Schedule of Participating Employers at 9/30/10 (continued)

Walden Green Day School
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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Management:

Ronald W. Foss, Director
Cindy Peters, Accounting Manager

Accountants:

Randy Bitner
Rob Feguer
Dan Harry
Erik Simmer
Paula Webb

Technical and Support Staff:

Patricia Jorae
Jamin Schroeder

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