Michigan State Employees' Retirement System

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

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

M S E R S

Prepared by:
Financial Services
for
Office of Retirement Services
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Introductory Section

Certificate of Achievement

Certificate of
Achievement
for Excellence
in Financial
Reporting

Presented to

Michigan State Employees'
Retirement System

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
September 30, 2007

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

President

Executive Director

Public Pension Standards Award

PPCC

Public Pension Coordinating Council

Public Pension Standards Award For Funding and Administration 2008

Presented to

Michigan Office of Retirement Services

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

Presented by the Public Pension Coordinating Council, a confederation of

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

Alan H. Winkle
Program Administrator

INTRODUCTORY SECTION

Letter of Transmittal

State Employees' Retirement System
P.O. Box 30171
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Telephone 517-322-5103
Outside Lansing 1-800-381-5111

STATE OF MICHIGAN

JENNIFER M. GRANHOLM, Governor

DEPARTMENT OF MANAGEMENT AND BUDGET

December 12, 2008

The Honorable Jennifer M. Granholm
Governor, State of Michigan,

Members of the Legislature
State of Michigan,

Retirement Board Members
and
Members, Retirees and Beneficiaries

Ladies and Gentlemen:

We are pleased to present the comprehensive annual financial report of the Michigan State Employees' Retirement System (System) for fiscal year 2008.

INTRODUCTION TO REPORT

The System was established by legislation under Public Act 240 of 1943 (the Michigan State Employees' Retirement Act) and is administered by the Office of Retirement Services (ORS). The number of active and retired members and beneficiaries of the System and a list of participating employers 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 State 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

Letter of Transmittal (continued)

control structure is designed to provide reasonable assurance regarding the safekeeping of assets and reliability of all financial records.

Independent Auditors

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

Statute requires an annual actuarial valuation be conducted. The purpose of the valuation is to evaluate the mortality, service, compensation and other financial experience of the System and to recommend employer-funding rates for the subsequent year. The annual actuarial valuation was completed by Gabriel Roeder Smith & Company for the fiscal year ended September 30, 2007. Actuarial certification and supporting statistics are included in the Actuarial Section of this report.

Management's Discussion and Analysis (MD&A)

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

PROFILE OF THE GOVERNMENT

The System was established by Public Act 240 of 1943 and is administered by a nine-member board under the direction of the Executive Secretary. Public Act 216 of 1974 eliminated the requirement for member contributions and provided for financing by legislative appropriation and investment earnings.

Effective March 31, 1997, Public Act 487 of 1996 closed the plan to new applicants. All new employees become members of the State's defined contribution plan. The public act also allows for returning employees and members who left state employment on or before March 31, 1997, to elect the defined benefit plan instead of the defined contribution plan.

ECONOMIC CONDITIONS AND OUTLOOK

Despite challenging economic times, the System continues to show steady performance over the long-term.

Investments

The State Treasurer is the investment fiduciary and custodian of all investments of the System pursuant to State law. The primary investment objective is to maximize the rate of return on the total investment portfolio, consistent with a high degree of prudence and sufficient diversity to eliminate inordinate risks and to meet the actuarial assumption for the investment return rate. The investment activity for the year produced a total rate of return on the portfolio of (12.5)%. For the last five years, the System has experienced an annualized rate of return of 8.0%. 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 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 financial records for preparing the 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 in order to meet future benefit obligations to retirees and beneficiaries. The percentage computed by dividing the actuarial value of assets by the actuarial accrued liability is referred to as the "funded ratio." This ratio provides an indication of the funding status of the System and generally, the greater this percentage, the stronger the System. Effective in fiscal year 2001, the System uses the actuarial valuation from the previous fiscal year for this report in accordance with Governmental Accounting Standards Board (GASB) Statement No. 25. Consistent with this approach, the most recent actuarial valuation was performed as of September 30, 2007. The actuarial value of the assets and actuarial accrued liability of the System were $11.3 billion and $13.2 billion, respectively, resulting in a funded ratio of 86.2% on September 30, 2007. An historical perspective of funding levels for the System is presented on the Schedule of Funding Progress in the Required Supplementary Information in the Financial Section of this report.

Postemployment Benefits

In fiscal year 2007, the System implemented Governmental Accounting Standards Board (GASB) Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans.* A GASB No. 43 compliant actuarial valuation is completed annually to determine the actuarial accrued liability if the postemployment benefits were to be pre-funded. If these benefits were pre-funded, the actuarial accrued liability as of September 30, 2007 would be approximately $13.0 billion. Only members of the defined benefit plan were included when calculating the actuarial accrued liability. Statement No. 43 does not require retroactive application of the reporting changes. Therefore, only two valuation years are presented and are included in the required supplementary information of this report.

In fiscal year 2008 the State of Michigan adopted Government Accounting Standards Board (GASB) Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions.* Because GASB Statement No. 45 requires the exclusion of all postemployment benefits, all assets accumulated as a result of retiree contributions collected in excess of retiree healthcare benefits, along with all current year activity, have been accounted for within the Reserve for OPEB Related Benefits in fiscal year 2008. Statement No. 45 does not require retroactive application of the reporting changes, therefore fiscal year 2007 information has not been restated.

MAJOR GOALS ACCOMPLISHED

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

Focus on our Customer

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

We implemented new group counseling sessions to better serve our customer base. These sessions help customers understand their pension estimate and the application process while providing face-to-face reassurance that they're not missing anything before submitting their retirement application. Besides reaching multiple customers at once with fewer

Letter of Transmittal (continued)

resources, the group sessions reduce walk-in traffic and reduce the number of incomplete applications that need to be returned.

Education efforts target younger members - ORS continues to address the urgent need for workers to plan and save for retirement earlier in their career. With our new active member newsletter, *PROactive*, sent with the annual *Member Statement*, we're able to reach members sooner with information on how best they can prepare for a secure future.

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

During fiscal year 2008 our Customer Service staff answered 215,949 customer telephone calls, assisted 6,952 customers face-to-face, and responded to 14,072 emails. We participated in 30 traditional pre-retirement meetings with 2,126 attendees and piloted one videoconference which reached another 20 members. We also introduced a new secure online message board as part of miAccount where customers receive a response to their questions within 12 business hours.

Continuously Improve Processes

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

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

Promote a Positive Work Environment

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

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

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

Letter of Transmittal (continued)

solutions. The Department of Management and Budget honored ORS employees with two of its five prestigious Employee Excellence Awards.

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

Optimize Technology

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

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

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

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

AWARDS AND ACKNOWLEDGEMENTS

ORS received the following recognitions:

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

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

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

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

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

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 State Employees' Retirement System. Their cooperation contributes significantly to the success of the System.

Sincerely,

Lisa Webb Sharpe
Lisa Webb Sharpe, Director
Department of Management and Budget

Phillip J. Stoddard
Phillip J. Stoddard, Director
Office of Retirement Services

Administrative Organization

Retirement Board Members *

Douglas Drake, Chair
Retiree Member
Term Expired July 31, 2007;
continues to serve

George M. Elworth
Representing Attorney General
Ex officio

D. Daniel McLellan
Representing State Personnel Director
Ex officio

H. David Dekker
Employee Member
Term Expired July 31, 2008;
continues to serve

Craig Murray
Representing Deputy Auditor General
Ex officio

Vernon Johnson
Representing State Treasurer
Ex officio

Calvin Frappier
Retiree Member
Term Expires July 31, 2009

John Schoonmaker, Vice Chair
Representing Commissioner of
Finance & Insurance Services
Ex officio

Harry Posner
Employee Member
Term Expires July 31, 2009

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

Administrative Organization

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

Advisors and Consultants

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

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

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

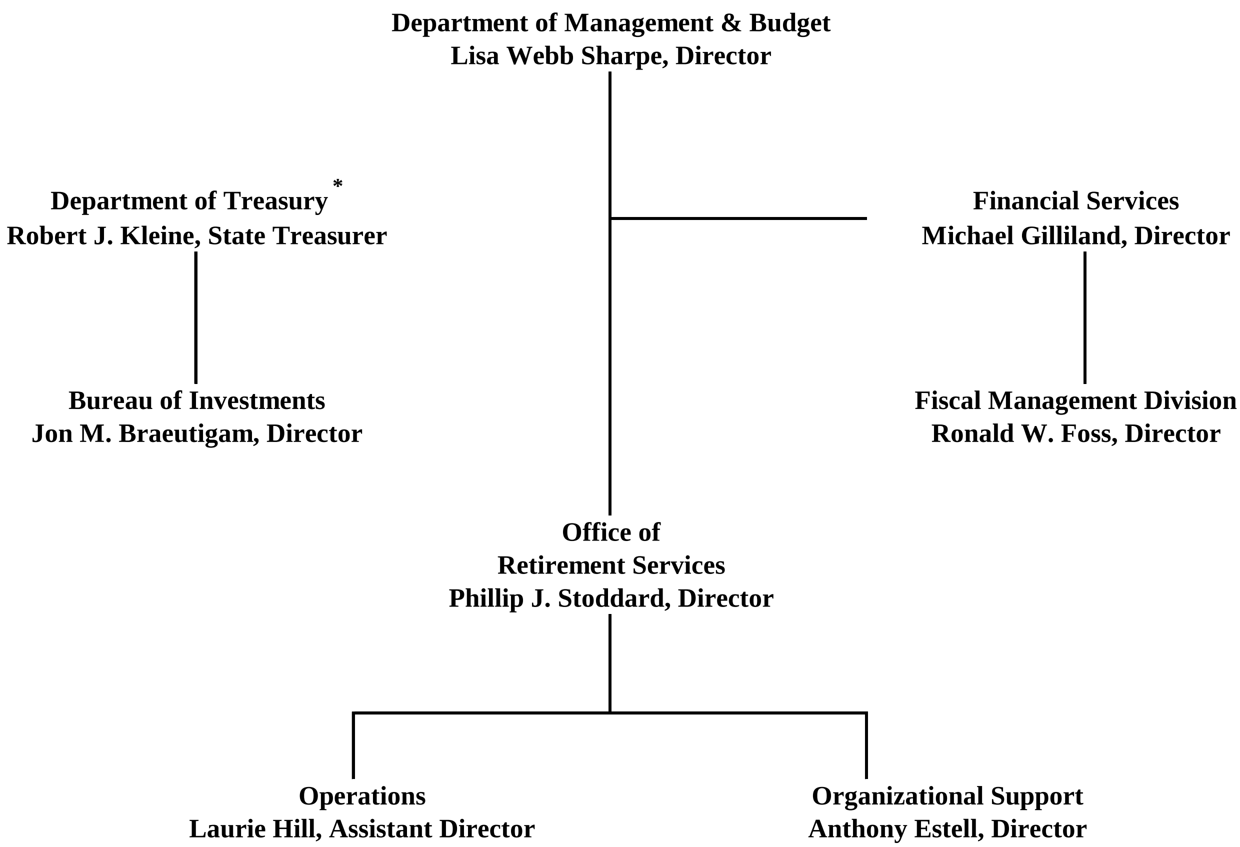
Investment Manager and Custodian
Robert J. Kleine
State Treasurer
State of Michigan

Legal Advisor
Mike Cox
Attorney General
State of 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.

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FINANCIAL SECTION

Independent Auditor’s Report
Management’s Discussion and Analysis
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Required Supplementary Information
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Supporting Schedules

*F*INANCIAL *S*ECTION

Independent Auditor's Report

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

Ms. Lisa Webb Sharpe, Director, Department of Management and Budget
Mr. Phillip Stoddard, Director, Office of Retirement Services
Mr. Thomas H. McTavish, CPA, Auditor General, Office of the Auditor General
Michigan State Employees' Retirement System Board

We have audited the accompanying statements of pension plan and other postemployment benefit plan net assets of the Michigan State Employees' Retirement System, as of September 30, 2008 and 2007, and the related statements of changes in pension plan and other postemployment benefit plan net assets for the years then ended. These financial statements are the responsibility of the Management of the Michigan State Employees' Retirement System. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by Management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial status of the Michigan State Employees' Retirement System, as of September 30, 2008 and 2007, and the changes in its financial status for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 12, 2008 on our consideration of the Michigan State Employees' Retirement System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in conjunction with this report in considering the results of our audit.

4295 Okemos Road, Suite 200 • Okemos, Michigan 48864 • 517.706.0800 fax 517.706.0011 • www.ahpplc.com

Independent Auditor's Report (continued)

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

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The Introductory, Investment, Actuarial, and Statistical Sections and the required supplementary information and supporting schedules listed in the table of contents are presented for the purposes of additional analysis and are not a required part of the basic financial statements. The Introductory, Investment, Actuarial, and Statistical Sections and the required supplementary information and supporting schedules are the responsibility of the Michigan State Employees' Retirement System's Management. The Schedules of Funding Progress and Employer Contributions and related notes and the supporting schedules have been subjected to the auditing procedures applied in our audits of the basic financial statements, and in our opinion, are fairly stated in all material respects when considered in relation to the basic financial statements taken as a whole. The Introductory, Investment, Actuarial, and Statistical Sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Andrews Hooper & Pavlik P.L.C.

Okemos, Michigan
December 12, 2008

FINANCIAL SECTION

Management's Discussion and Analysis

Our discussion and analysis of the Michigan State Employees' Retirement System's (System) financial performance provides an overview of the System's financial activities for the fiscal year ended September 30, 2008. Please read it in conjunction with the transmittal letter in the Introductory Section on page 6 and the basic financial statements, which follow this discussion.

FINANCIAL HIGHLIGHTS

- System assets exceeded liabilities at the close of fiscal year 2008 by $9.8 billion (reported as *net assets*). Net assets are held in trust to meet future benefit payments.

- The System's funding objective is to meet long-term benefit obligations through contributions and investment income. As of September 30, 2007, the funded ratio was approximately 86.2% for pension benefits and the funded ratio for other postemployment benefits was 0.0%.

- Revenues for the year were ($1.1) billion, which is comprised primarily of contributions of $739.7 million and investment losses of ($1.8) billion.

- Expenses increased over the prior year from $1.2 billion to $1.3 billion or 5.3%. Most of this increase represented an increase in 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 43) and Schedules of Employer Contributions (page 44) to determine whether the System is becoming financially stronger or weaker and to understand changes over time in the funded status of the System.

Management's Discussion and Analysis (continued)

FINANCIAL ANALYSIS

System total assets as of September 30, 2008, were $11.6 billion and were mostly comprised of cash, investments, and contributions due from employers. Total assets decreased $3.1 billion or (21.1)% between fiscal years 2007 and 2008 due primarily to net investment losses. Total assets increased $2.0 billion or 16.2% between fiscal years 2006 and 2007 due primarily to favorable operating results and increases to invested assets (primarily collateral on loaned securities).

Total liabilities as of September 30, 2008, were $1.8 billion and were mostly comprised of warrants outstanding, accounts payable, and obligations under securities lending. Total liabilities decreased $782.6 million or (30.5)% between fiscal years 2007 and 2008 due primarily to decreased obligations under securities lending. Total liabilities increased $864.6 million or 50.8% between fiscal years 2006 and 2007 due primarily to increases in obligations under securities lending.

System assets exceeded its liabilities at the close of fiscal year 2008 by $9.8 billion. Net assets held in trust for pension and OPEB benefits decreased $2.3 billion or (19.1)% between fiscal years 2007 and 2008 due primarily to net investment losses. Total net assets increased $1.2 billion or 10.8% between fiscal years 2006 and 2007 due primarily to investment earnings and contributions for the year exceeding total deductions of the System.

Net Assets
(in thousands)

	2008	Increase (Decrease)	2007	Increase (Decrease)	2006
Assets					
Cash	$ 217,372	695.6 %	$ 27,322	156.6 %	$ 10,647
Receivables	112,269	20.6	93,055	(20.8)	117,440
Investments	11,273,316	(22.7)	14,577,093	16.4	12,524,335
Total Assets	11,602,957	(21.1)	14,697,470	16.2	12,652,422
Liabilities					
Warrants outstanding	1,999	(14.0)	2,324	34.5	1,728
Accounts payable and other accrued liabilities	76,426	5,248.2	1,429	(13.3)	1,649
Obligations under securities lending	1,706,015	(33.4)	2,563,249	50.9	1,699,065
Total Liabilities	1,784,440	(30.5)	2,567,002	50.8	1,702,442
Net Assets - Health Advance Funding SubAccount	-	-	-	(100.0)	41,304
Net Assets - Pension and OPEB Benefits	9,818,517	(19.1)	12,130,468	11.2	10,908,676
Total Net Assets	$ 9,818,517	(19.1) %	$ 12,130,468	10.8 %	$ 10,949,980

Management's Discussion and Analysis (continued)

REVENUES - ADDITIONS TO PLAN NET ASSETS

The reserves needed to finance retirement and other postemployment benefits are accumulated through the collection of employer contributions and through earnings on investments. Contributions and net investment income/(losses) for fiscal year 2008 totaled ($1.1) billion.

Total additions for fiscal year 2008 decreased $3.5 billion from those of fiscal year 2007 due primarily to net investment losses. Total additions increased $484.1 million between fiscal years 2006 and 2007 due primarily to an increase in investment earnings. Total employer contributions increased between fiscal years 2007 and 2008 by $187.7 million or 36.8% due to an increase in contribution rates. This compares to a decrease in total employer contributions between fiscal years 2006 and 2007 by $117.1 million or (18.7)% due to contribution rates falling in April and again in August to achieve the savings required by Executive Order 2007-3. Member contributions decreased between fiscal years 2007 and 2008 by $12.7 million or (40.4)%, while member contributions between fiscal years 2006 and 2007 increased by $10.5 million or 50.1%. The System is non-contributory; however, members may purchase service credit. The increase in member contributions for fiscal year 2008 occurred because there was an increase in individuals purchasing service credit. Net investment income decreased between fiscal years 2007 and 2008 by $3.6 billion. Net investment income increased between fiscal years 2006 and 2007 by $548.8 million. The Investment Section of this report reviews the results of investment activity for 2008.

EXPENSES - DEDUCTIONS FROM PLAN NET ASSETS

The primary expenses of the System include the payment of pension benefits to members and beneficiaries, payment for health, dental and vision benefits, refunds of contributions to former members, and the cost of administering the System. Total deductions for fiscal year 2008 were $1.3 billion, an increase of 5.3% over fiscal year 2007 expenses. Total deductions for fiscal year 2007 were $1.2 billion, an increase of 6.3% over fiscal year 2006 expenses.

Payments for health care benefits to members and beneficiaries increased by $13.5 million or 3.7% from $364.0 million to $377.5 million during the fiscal year. This compares to an increase of $1.4 million or 0.4% from $362.6 million to $364.0 million between fiscal years 2006 and 2007. The payment of pension benefits increased by $36.7 million or 4.6% between fiscal years 2007 and 2008 and by $28.8 million or 3.8% between fiscal years 2006 and 2007. In fiscal years 2007 and 2008, pension benefit expenses increased due to an increase in benefit payments to retirees and an increase of 1,192 retirees and 906 retirees, respectively. Refunds increased by $69.0 thousand or 31.1% between fiscal years 2007 and 2008. This compares to a decrease of $32.0 thousand or (12.6)% between fiscal years 2006 and 2007. Administrative expenses increased by $19.3 million from $5.1 million in fiscal year 2007 to $24.4 million in fiscal year 2008, due primarily to the transfer of all retiree health related activity, including administrative fees paid to insurance carriers, from the State Sponsored Group Insurance Fund (SSGIF) to the OPEB Plan in accordance with GASB Statement No. 45. Note 5 to the basic financial statements describes the accounting change as required by Governmental Accounting Standards Board (GASB) Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions.* Administrative expenses increased by $487 thousand or 10.5% between fiscal years 2006 and 2007, due primarily to an increase in technological support.

Management's Discussion and Analysis (continued)

Changes in Plan Net Assets
(in thousands)

	2008	Increase (Decrease)	2007	Increase (Decrease)	2006
Additions					
Member contributions	$ 18,744	(40.4) %	$ 31,457	50.1 %	$ 20,963
Employer contributions	697,919	36.8	510,233	(18.7)	627,379
Other governmental contributions	23,004	-	-	-	-
Net investment income	(1,839,930)	(202.0)	1,803,088	43.8	1,254,277
Transfers from other systems	7,074	6,573.6	106	(13.8)	123
Transfers from pension/OPEB plan	-	(100.0)	41,304	-	-
Miscellaneous income	881	15.0	766	622.6	106
Total Additions	(1,092,308)	(145.8)	2,386,954	25.4	1,902,848
Deductions					
Pension benefits	832,553	4.6	795,842	3.8	767,001
Health care benefits	377,513	3.7	363,975	0.4	362,597
Refunds of member contributions	291	31.1	222	(12.6)	254
Transfers to other systems	35,084	438,450.0	8	166.7	3
Transfers to pension/OPEB plan	-	(100.0)	41,304	-	-
Administrative expenses	24,442	377.8	5,115	10.5	4,628
Total Deductions	1,269,883	5.3	1,206,466	6.3	1,134,483
Net Increase (decrease)	(2,362,191)	(300.1)	1,180,488	53.6	768,365
Net Assets - Beginning of Year	12,180,708 *	11.2	10,949,980	7.5	10,181,615
Net Assets - End of Year	$ 9,818,517	(19.1) %	$ 12,130,468	10.8 %	$ 10,949,980

*The October 1, 2007 net assets have been restated by $50,240,270 due to the implementation of GASB Statement No. 45 as described in Note 5 to the basic financial statements.

RETIREMENT SYSTEM AS A WHOLE

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

CONTACTING SYSTEM FINANCIAL MANAGEMENT

This financial report is designed to provide the Retirement Board, our membership, taxpayers, investors, and creditors with a general overview of the System's finances and to demonstrate the System's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the Office of Retirement Services, P.O. Box 30171, Lansing, MI 48909-7671.

Statements of Pension Plan and Other Postemployment Benefit Plan Net Assets

As of September 30, 2008 and 2007

	September 30, 2008			September 30, 2007		
	Pension Plan	OPEB Plan	Total	Pension Plan	OPEB Plan	Total
Assets:						
Equity in common cash	$ 119,727,173	$ 97,644,968	$ 217,372,141	$ 27,259,395	$ 62,056	$ 27,321,451
Receivables:						
Amounts due from employer	44,695,465	9,523,395	54,218,860	30,168,875	68,680	30,237,555
Amounts due from other funds		3,973,103	3,973,103			
Amounts due from employer long term	53,817,123		53,817,123	62,057,975		62,057,975
Interest and dividends	260,023	36	260,059	758,034	1,726	759,760
Total receivables	98,772,611	13,496,534	112,269,145	92,984,884	70,406	93,055,290
Investments:						
Short term investment pools	75,016,370	10,397	75,026,767	183,233,342	417,134	183,650,476
Fixed income pools	1,704,093,157	236,179	1,704,329,336	1,988,414,292	4,526,656	1,992,940,948
Domestic equity pools	4,268,485,841	591,587	4,269,077,428	5,688,380,454	12,949,685	5,701,330,139
Real estate pool	1,189,365,529	164,839	1,189,530,368	1,163,702,848	2,649,187	1,166,352,035
Alternative investment pools	1,808,061,487	250,587	1,808,312,074	1,579,357,778	3,595,432	1,582,953,210
International equities pools	919,511,865	127,439	919,639,304	1,383,468,408	3,149,487	1,386,617,895
Securities lending collateral	1,307,178,057	222,245	1,307,400,302	2,557,426,371	5,822,020	2,563,248,391
Total investments	11,271,712,306	1,603,273	11,273,315,579	14,543,983,493	33,109,601	14,577,093,094
Total assets	11,490,212,090	112,744,775	11,602,956,865	14,664,227,772	33,242,063	14,697,469,835
Liabilities:						
Warrants outstanding	1,998,764	277	1,999,041	2,319,076	5,279	2,324,355
Accounts payable and other accrued liabilities	1,182,045	75,244,532	76,426,577	1,425,674	3,246	1,428,920
Obligations under securities lending	1,705,792,623	222,245	1,706,014,868	2,557,426,371	5,822,020	2,563,248,391
Total liabilities	1,708,973,432	75,467,054	1,784,440,486	2,561,171,121	5,830,545	2,567,001,666
Net Assets Held in Trust for Pension and OPEB Benefits*	$ 9,781,238,658	$ 37,277,721	$ 9,818,516,379	$ 12,103,056,651	$ 27,411,518	$ 12,130,468,169

*A schedule of funding progress is presented in the Required Supplementary Information in the Financial Section.

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

Statements of Changes in Pension Plan and Other Postemployment Benefit Plan Net Assets

For Fiscal Years Ended September 30, 2008 and 2007

	September 30, 2008			September 30, 2007		
	Pension Plan	OPEB Plan	Total	Pension Plan	OPEB Plan	Total
Additions:						
Contributions:						
Member contributions	$ 5,643,805	$ 13,099,796	$ 18,743,601	$ 19,696,132	$ 11,760,544	$ 31,456,676
Employer contributions	355,732,115	342,186,903	697,919,018	150,858,506	359,375,055	510,233,561
Other governmental contributions		23,003,762	23,003,762			
Total contributions	361,375,920	378,290,461	739,666,381	170,554,638	371,135,599	541,690,237
Investment income:						
Net appreciation (depreciation)						
in fair value of investments	(2,060,478,778)		(2,060,478,778)	1,564,590,781		1,564,590,781
Interest, dividends, and other	226,837,066	5,662,531	232,499,597	248,765,760	1,500,072	250,265,832
Investment expenses:						
Real estate operating expenses	(44,447)		(44,447)	(276,483)		(276,483)
Other investment expenses	(23,556,218)		(23,556,218)	(16,198,290)		(16,198,290)
Securities lending activities:						
Securities lending income	77,418,531		77,418,531	116,786,647		116,786,647
Securities lending expenses	(65,768,219)		(65,768,219)	(112,080,389)		(112,080,389)
Net investment income (loss)	(1,845,592,065)	5,662,531	(1,839,929,534)	1,801,588,026	1,500,072	1,803,088,098
Transfers from other systems/funds	190,357	6,883,975	7,074,332	105,572		105,572
Transfers from pension/OPEB plan			-	41,304,031		41,304,031
Miscellaneous income	183,624	697,567	881,191	765,996		765,996
Total additions	(1,483,842,164)	391,534,534	(1,092,307,630)	2,014,318,263	372,635,671	2,386,953,934
Deductions:						
Benefits paid to plan members and beneficiaries:						
Retirement benefits	832,553,176		832,553,176	795,842,013		795,842,013
Health benefits		345,286,591	345,286,591		329,714,449	329,714,449
Dental/vision benefits		32,227,282	32,227,282		34,260,602	34,260,602
Refunds of member contributions	290,778	295	291,073	222,039		222,039
Transfers to other systems/funds	83,138	35,000,768	35,083,906	7,561		7,561
Transfers to pension/OPEB plan			-		41,304,031	41,304,031
Administrative expenses	5,048,737	19,393,665	24,442,402	5,115,226		5,115,226
Total deductions	837,975,829	431,908,601	1,269,884,430	801,186,839	405,279,082	1,206,465,921
Net Increase (Decrease)	(2,321,817,993)	(40,374,067)	(2,362,192,060)	1,213,131,424	(32,643,411)	1,180,488,013
Net Assets Held in Trust for Pension and OPEB Benefits:						
Beginning of Year	12,103,056,651	77,651,788 [1]	12,180,708,439	10,889,925,227	60,054,929	10,949,980,156
End of Year[2]	$ 9,781,238,658	$ 37,277,721	$ 9,818,516,379	$ 12,103,056,651	$ 27,411,518	$ 12,130,468,169

[1] Restated

[2] A schedule of funding progress is presented in the Required Supplementary Information in the Financial Section.

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

Notes to Basic Financial Statements
September 30, 2008 and 2007

NOTE 1 - PLAN DESCRIPTION

ORGANIZATION

The Michigan State Employees' Retirement System (System) is a single-employer, state-wide, defined benefit public employee retirement plan governed by the State of Michigan (State) and created under Public Act 240 of 1943, as amended. Section 2 of this act establishes the board's authority to promulgate or amend the provisions of the System. The System's pension plan was established by the State to provide retirement, survivor and disability benefits to the State's government employees. In addition, the System's OPEB plan provides all retirees with the option of receiving health, dental and vision coverage under the Michigan State Employees' Retirement Act. The System is a qualified pension trust fund under section 401(a) of the Internal Revenue Code. By statute, employees of the following employers are also covered by this plan: American Legion, American Veterans, Veterans of Foreign Wars, Disabled American Veterans, Mackinac Island State Park, Marine Corps League, Michigan Bar Association, Business Enterprise Program, Third Circuit Court, Recorders Court and 36th District Court. Michigan judges and elected officials, legislators, National Guard and state police officers are covered by separate retirement plans. Although the System reports information for several small employers, the State is legally responsible for almost all contractually required contributions to the System. This level of responsibility is ongoing and is unlikely to change significantly in the foreseeable future. Therefore, the reporting requirements for a single employer plan have been adopted.

The System's financial statements are included as a pension and other employee benefit trust fund in the combined financial statements of the State.

The System is administered by the Office of Retirement Services within the Michigan Department of Management and Budget. The Department Director appoints the Office Director who serves as Executive Secretary to the System's Board, with whom the general oversight of the System resides. The State Treasurer serves as the investment officer and custodian for the System.

MEMBERSHIP

At September 30, 2008 and 2007, the System's membership consisted of the following:

Retirees and beneficiaries currently receiving benefits:	**2008**	**2007**
Regular benefits	37,984	36,963
Survivor benefits	6,499	6,308
Disability benefits	3,595	3,615
Total	48,078	46,886
Current employees:		
Vested	27,995	29,991
Non-vested	573	873
Total	28,568	30,864
Inactive employees entitled to benefits and not yet receiving them	6,912	6,663
Total all members	83,558	84,413

Notes to Basic Financial Statements (continued)

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

Health, Dental, and Vision Plan	**2008**	**2007***
Eligible participants	48,078	46,886
Participants receiving benefits:		
Health	42,956	42,120
Dental	42,991	42,062
Vision	43,091	42,176

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

At September 30, 2003, the System recognized 116 participants in the Defined Contribution (DC) Plan who elected to retire under the Early Out Retirement program. This program provided a .25% incentive for those DC members who qualified, which will be provided by the System. These 116 participants have not been included in the pension membership schedule on the previous page.

BENEFIT PROVISIONS - PENSION

Introduction

Benefit provisions of the defined benefit pension plan are established by State statute, which may be amended. Public Act 240 of 1943, State Employees' Retirement Act, 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 duty disability, non-duty disability and survivor benefits.

A member who has separated from employment may request a refund of his or her member contribution account. The System is currently non-contributory. A refund may cancel a former member's rights to future benefits. However, former members who return to employment and who previously received a refund of their contributions may reinstate their service through repayment of the refund upon satisfaction of certain requirements.

Effective March 31, 1997, Public Act 487 of 1996 closed the plan to new entrants. All new employees become members of the defined contribution plan. The Public Act allows returning employees and members who left State employment on or before March 31, 1997, to elect the defined benefit plan instead of the defined contribution plan.

Regular Retirement

The retirement benefit is based on a member's years of credited service (employment) and final average compensation. The normal benefit equals 1.5% of a member's final average compensation multiplied by the years and partial year of credited service and is payable monthly over the member's lifetime.

Final average compensation is the average of a member's monthly pay during 36 consecutive months of credited service. The 36 consecutive month period producing the highest monthly average is used. For most members, this is the last three years of employment.

A member may retire and receive a monthly benefit after attaining:
1. age 60 with 10 or more years of credited service; or
2. age 55 with 30 or more years of credited service; or
3. age 55 with at least 15 but less than 30 years of credited service. The benefit allowance is permanently reduced 0.5% for each month from the member's age on the effective date of retirement to the date the member will attain age 60.

Employees in covered positions are eligible for supplemental benefits and may retire after attaining:
1. age 51 with 25 or more years in a covered position; or
2. age 56 with 10 or more years in a covered position.

Notes to Basic Financial Statements (continued)

In either case, the three years immediately preceding retirement must have been in a covered position. Employees in covered positions are responsible for the custody and supervision of inmates.

Employees of closing Department of Community Health facilities are eligible for retirement under one of the following conditions:

1. age 51 with 25 years of service, the last 5 of which were rendered in the closing facility; or
2. age 56 with 10 years of service, the last 5 of which were rendered in the closing facility; or
3. 25 years of service at the closing facility regardless of age.

Employees of the State Accident Fund, Michigan Biologic Products, or Liquor Control Commission who were terminated as the result of privatization may retire if the member's age and length of service was equal to or greater than 70 on the date of transfer or termination.

Conservation Officers (CO) with a hire date on or before April 1, 1991, are eligible to retire after 25 years of service, 20 of which must have been rendered as a CO. COs hired after April 1, 1991, and before March 31, 1997, must have 23 years of service as a CO to be eligible for a full retirement benefit with only 25 years of service. In either case, 2 years immediately preceding retirement must be as a CO.

Deferred Retirement

Any member with 10 or more years of credited service who terminates employment but has not reached the age of retirement is a deferred member and is entitled to receive a monthly pension upon reaching age 60, provided the member's accumulated contributions have not been refunded. Deferred retirement is available after 5 years of service for State employees occupying unclassified positions in the executive and legislative branches and certain Department of Community Health employees subject to reduction in force lay-offs by reason of deinstitutionalization.

Non-Duty Disability Benefit

A member with 10 or more years of credited service who becomes totally and permanently disabled not due to performing duties as a State employee is eligible for a non-duty disability pension. The non-duty disability benefit is computed in the same manner as an age and service allowance based upon service and salary at the time of disability.

Duty Disability Benefit

A member who becomes totally and permanently disabled from performing duties as a State employee as a direct result of State employment and who has not met the age and service requirement for a regular pension, is eligible for a duty disability pension. Public Act 109 of 2004 amended the State Employees' Retirement Act to change the calculation of the pension benefit and increase the minimum annual payment. If the member is under age 60, the duty disability allowance is now a minimum of $6,000 payable annually. At age 60 the benefit is recomputed under service retirement.

Survivor Benefit

Upon the death of a member who was vested, the surviving spouse shall receive a benefit calculated as if the member had retired the day before the date of death and selected a survivor pension. Certain designated beneficiaries can be named to receive a survivor benefit. Public Act 109 of 2004 amended the State Employees' Retirement Act to change the calculation of Duty Death benefits and redefines eligibility for deceased member's survivors. The new minimum duty-related death benefit has been increased to $6,000.

Pension Payment Options

When applying for retirement, an employee may name a person other than his or her spouse as a beneficiary if the spouse waives this right. If a beneficiary is named, the employee must choose whether the beneficiary will receive 100%, 75% or 50% of the retiree's pension benefit after the retiree's death. The decision is irrevocable. A description of the options follows.

Notes to Basic Financial Statements (continued)

Regular Pension - 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 beneficiaries.

100% Survivor Pension - Under this option, after the retiree's death, the beneficiary will receive 100% of the pension for the remainder of the beneficiary's lifetime. If this option is elected, the normal retirement benefit is reduced by a factor based upon the ages of the retiree and of the beneficiary. If the beneficiary predeceases the retiree, the pension "pops-up" to the regular pension amount; another beneficiary cannot be named.

75% Survivor Pension - Under this option, after the retiree's death, the beneficiary will receive 75% of the pension for the remainder of the beneficiary's lifetime. If this option is elected, the normal retirement benefit is reduced by a factor based upon the ages of the retiree and of the beneficiary. If the beneficiary predeceases the retiree, the pension "pops-up" to the regular pension amount; another beneficiary cannot be named.

50% Survivor Pension - Under this option, after the retiree's death, the beneficiary will receive 50% of the pension for the remainder of the beneficiary's lifetime. If this option is elected, the normal retirement benefit is reduced by a factor based upon the ages of the retiree and of the beneficiary. The reduction factor is lower than the factor used in the 100% or 75% option previously described. If the beneficiary predeceases the retiree, the pension "pops-up" to the regular pension amount; another beneficiary cannot be named.

Equated Pension - An equated pension may be chosen by any member under age 65 except a disability retiree and an early supplemental retiree. Equated pensions provide an additional amount until age 65 and may be combined with Regular, 100%, 75% or 50% option. At age 65 the monthly amount is permanently reduced. The initial and reduced amounts are based on an estimate of social security benefits at age 65, provided by the Social Security Administration Office. In order to calculate this benefit, members choosing this option must provide ORS with an estimate from the Social Security Administration Office. The actual amount received from social security may vary from the estimate.

Post Retirement Adjustments

One-time upward benefit adjustments were made in 1972, 1974, 1976, 1977 and 1987. Beginning October 1, 1988, a 3% non-compounding increase, up to a maximum of $25 monthly, is paid each October to recipients who have been retired 12 full months. Beginning in 1983, eligible benefit recipients share in a distribution of investment income earned in excess of 8% annually. This distribution is known as the supplemental payment. The supplemental payment is offset by one year's cumulative increases received after the implementation of the annual 3% increase in benefits. These adjustment payments were not issued during fiscal years 1991 through 1994. Members who retired on or after October 1, 1987, are not eligible for the supplemental payment.

Contributions

Member Contributions - Members currently participate in the System on a non-contributory basis. Under certain circumstances, members may contribute to the System for the purchase of creditable service, such as military service or maternity leave, or a universal buy-in. If a member terminates the System employment before a retirement benefit is payable, the member's contribution and interest on deposit may be refunded. If the member dies before being vested, the member's contribution and interest are refunded to the designated beneficiaries.

Employer Contributions - The statute requires the employer to contribute to finance the benefits of plan members. These employer contributions are determined annually by the System's actuary and are based upon level-dollar value funding principles so the contribution rates do not have to increase over time.

Transfers to Defined Contribution Plan

During fiscal year 1998, the Michigan State Employees' Retirement Act provided members an opportunity to transfer to the Defined Contribution Plan. This was a one-time opportunity and the decision is irrevocable. The transfer must have been completed by September 30, 1998. With the passage of the legislation permitting the transfer, the System also became a closed system. All new employees are members of the Defined Contribution Plan.

Notes to Basic Financial Statements (continued)

Early Out Retirement

In February 2002, former Governor John Engler proposed an early out retirement for qualified State employees. Approximately 2,850 State Employees retired by the end of the fiscal year 2002 and an additional 5,160 State employees retired in fiscal year 2003 under this program. Among those members who qualify are Tier 1 (defined benefit) participants and those former members who made an election under section 50 of Public Act 240 of 1943, as amended, to terminate membership in Tier 1 and transfer to become a qualified participant in Tier 2 (defined contribution). Upon their retirement, qualified Tier 2 participants shall receive a retirement allowance equal to the member's number of years of service and fraction of a year of credited service multiplied by .25% of his or her final compensation. For purposes of this section, such individuals shall be considered members of Tier 1 for the limited purpose of receiving a retirement allowance calculated under this section and paid by the System. This allowance will be paid from employer contributions to the System.

Banked Leave Time

Public Act 33 of 2004 amended the State Employees' Retirement Act to include Banked Leave Time (BLT) for members. BLT is an extension of the State's current annual leave program, which banks a predetermined number of hours per pay period. However, the BLT program will not have an effect on a member's Final Average Compensation calculation.

BENEFIT PROVISIONS – OTHER POSTEMPLOYMENT

Introduction

Benefit provisions of the postemployment benefit plan are established by State statute, which may be amended. Public Act 240 of 1943, as amended, establishes eligibility and benefit provisions for the OPEB plan. Members are eligible to receive health, prescription drug, dental and vision coverage on the first day they start receiving pension benefits. There is no provision for ad hoc or automatic increases. The State Employees' Retirement Act requires joint authorization by DMB and the Civil Service Commission to make changes to retiree medical benefit plans.

The employer funds OPEB benefits on a pay-as-you-go basis. Retirees with this coverage contribute 5%, 10%, and 10% of the monthly premium amount for the health (including prescription coverage), dental and vision coverage, respectively. The employer's payroll contribution rate to provide this benefit was 11.40% and 12.20% for fiscal years 2008 and 2007, respectively.

Retirees are provided with life insurance coverage equal to 25% of the active life insurance coverage, $1,000 for spouse and $1,000 for each dependent under age 23. Premiums are fully paid by the State.

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

Health, Dental and Vision Plan	**2008**	**2007***
Eligible Participants	48,078	46,886
Participants receiving benefits:		
Health	42,956	42,120
Dental	42,991	42,062
Vision	43,091	42,176
Expenses for the year	$ 377,513,873	$ 363,975,051
Employer payroll contribution rate	11.40%	12.20%

*Participant data was restated based on more complete information provided by the actuary.

Notes to Basic Financial Statements (continued)

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 State 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

Public Act 240 of 1943, as amended, created the Reserve for Employee Contributions, Reserve for Employer Contributions, Reserve for Retired Benefit Payments, Reserve for Undistributed Investment Income, and Reserve for Health (OPEB) Related Benefits. The financial transactions of the System are recorded in these reserves as required by Public Act 240 of 1943, as amended.

Reserve for Employee Contributions - Members no longer contribute to this reserve except to purchase eligible service credit or repay previously refunded contributions. This reserve represents active member contributions and interest less amounts transferred to the Reserve for Retired Benefit Payments for regular and disability retirement, amounts refunded to terminated members and unclaimed amounts transferred to the income account. At September 30, 2008, and 2007, the balance in this reserve was $205.5 million and $216.6 million, respectively.

Reserve for Employer Contributions - All employer contributions are credited to this reserve. Interest from the income account is credited annually. Amounts are transferred annually from this reserve to the Reserve for Retired Benefit Payments to fund that reserve. At September 30, 2008, and 2007, the balance in this reserve was $3.0 billion and $1.8 billion, respectively.

Reserve for Retired Benefit Payments - This represents the reserves for payment of future retirement benefits to current retirees. At retirement, a member's accumulated contributions plus interest are transferred into this reserve from the Reserve for Employee Contributions. Monthly benefits, which are paid to the retiree, reduce the 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 this reserve to bring the reserve into balance with the actuarial present value of retirement allowances. At September 30, 2008, and 2007, the balance in this reserve was $6.0 billion and $7.0 billion, respectively.

Reserve for Undistributed Investment Income – The net investment earnings (losses) are recorded in this reserve. Interest as authorized by the board is transferred annually to the other reserves. Administrative expenses are paid from this reserve. At September 30, 2008, and 2007, the net balance of this reserve was $526.9 million and $3.1 billion, respectively.

Reserve for Health (OPEB) Related Benefits - This reserve is credited with employee and employer contributions for retirees' health (including prescription coverage), dental, and vision benefits. 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 annual contributions have been less than the annual required contribution (the ARC). Interest is allocated based on the beginning balance of the reserve. Premiums for health, dental, and vision benefits are paid from this reserve. At September 30, 2008, and 2007, the balance in this reserve was $37.3 million and $27.4 million, respectively.

Notes to Basic Financial Statements (continued)

In fiscal year 2008 the State of Michigan adopted the reporting requirement promulgated by the Government Accounting Standards Board (GASB) Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions.* For fiscal years 2007 and previous, retiree related OPEB activity was accounted for in the State Sponsored Group Insurance (SSGI) Fund which, under section 24 of Public Act 431 of 1984, as amended, bore the risk of any losses in years where expenses exceeded revenues. The SSGI Fund is reported as an internal service fund in the State of Michigan's Comprehensive Annual Financial Report and GASB Statement No. 10 was the relevant guidance for retiree related OPEB. GASB Statement No. 45 amends GASB Statement No. 10 to require the exclusion of retiree OPEB activity from the SSGI Fund and account for it separately in other employee benefit trust funds. All retiree related activity, including the restatement of October 1, 2007 accumulated net assets in the amount of $50,240,270, is included in the reserve for OPEB related benefits.

<u>Health Advance Funding SubAccount</u> - This funding subaccount was created by Public Act 93 of 2002 as a means to begin pre-funding, on an actuarial basis, health benefits for participants in the System. Any amounts received in the Health Advance Funding SubAccount (HAFS) and accumulated earnings on those amounts shall not be expended until the actuarial accrued liability for health benefits is at least 100% funded. However, the System may transfer an amount from the HAFS to the employer's accumulation fund (Reserve for Employer Contributions) under certain conditions described in the enabling legislation. At September 30, 2007, the balance of this subaccount was zero.

Reporting Entity

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

Benefit Protection

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

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 are 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.

Notes to Basic Financial Statements (continued)

Cost 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 and Other Postemployment Benefit Plan Net Assets. Such assets are depreciated on a straight-line basis over 10 years. As of September 30 1998, all capitalized equipment was fully depreciated. No additional equipment has been capitalized for the System since that date.

Related Party Transactions

Leases and Services - The System leases operating space and purchases certain administrative, data processing, legal and investment services from the State. The space and services are not otherwise available by competitive bid.

The following summarizes costs incurred by the System for such services.

	2008	2007
Building Rentals	$ 162,167	$ 142,235
Technological Support	1,630,441	1,628,043
Attorney General	290,874	285,541
Investment Services	2,398,258	2,162,349
Personnel Services	1,652,391	1,598,604

Cash - On September 30, 2008, and 2007, the System had $217.4 million and $27.3 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 $204.8 thousand and $1.1 million for the years ended September 30, 2008, and 2007, respectively.

Excess Benefits

Internal Revenue Service (IRS) Code Section 415 requires that, for individuals who receive retirement benefits in excess of established limits, these benefits are recorded and reported outside of the pension plan in order to keep the qualified status of the plan. This includes coordination of benefit issues whereby a retiree participates in more than one qualified plan. In fiscal year 2008, no retirees met this criteria compared to one retiree in fiscal year 2007.

Reclassification of Prior Year Amounts

Certain prior year amounts have been reclassified to conform with the current year presentation.

NOTE 3 – CONTRIBUTIONS AND FUNDED STATUS

Contributions

Members currently participate in the System on a non-contributory basis. Under certain circumstances, members may contribute to the System for the purchase of creditable service, such as military service or maternity leave. Effective August 1, 1998, the retirement act was amended to permit a universal buy-in. With a universal buy-in, a member may elect to purchase no more than 5 years of service credit (less other service credit purchased). The State is required by Public Act 240 of 1943, as amended, to contribute amounts necessary to finance the coverage of members and retiree

Notes to Basic Financial Statements (continued)

OPEB. Contribution provisions are specified by State statute and may be amended only by action of the State Legislature.

Employer contributions to the System are determined on an actuarial basis using the entry age normal actuarial cost method. Under this method, the actuarial present value of the projected benefits of each individual included in the actuarial valuation is allocated on a level basis over the service of the individual between entry age and assumed exit age. The portion of this cost allocated to the current valuation year is called the normal cost. The remainder is called the actuarial accrued liability. Normal cost is funded on a current basis. For retirement benefits, the unfunded (overfunded) actuarial accrued liability is amortized over a 28 year period for the 2008 fiscal year and a 29 year period for the 2007 fiscal year. For OPEB, the unfunded (overfunded) actuarial accrued liability is amortized over a maximum period of 30 years.

Actual employer contributions for retirement benefits were $355.7 million and $150.9 million for fiscal years 2008 and 2007, respectively, representing 8.3% of annual covered payroll for the year ended September 30, 2007. The fiscal year 2008 annual covered payroll is not yet available. Required employer contributions based on previous year actuarial valuations for pensions included:

1. $151.3 million and $153.0 million for fiscal years 2008 and 2007, respectively, for the normal cost of pensions representing 8.3% and 8.3% (before reconciliation) of annual covered payroll for fiscal years 2007 and 2006, respectively.
2. $156.7 million and $163.1 million for fiscal years 2008 and 2007, respectively, for amortization of unfunded actuarial accrued liability representing 8.6% and 8.8% (before reconciliation) of annual covered payroll for fiscal years 2007 and 2006, respectively.

Actual employer contributions for other postemployment benefits (OPEB) were $342.2 million and $359.4 million for fiscal years 2008 and 2007, respectively, representing 12.2% of annual covered payroll for the year ended September 30, 2007. The fiscal year 2008 annual covered payroll is not yet available. Required employer contributions based on previous year actuarial valuations for OPEB included:

1. $391.9 million and $407.1 million for fiscal years 2008 and 2007, respectively, for the normal cost of OPEB representing 13.3% and 14.3% (before reconciliation) of annual covered payroll for fiscal years 2007 and 2006, respectively.
2. $487.3 million and $491.6 million for fiscal years 2008 and 2007, respectively, for amortization of unfunded actuarial accrued liability representing 16.5% and 17.3% (before reconciliation) of annual covered payroll for fiscal years 2007 and 2006, respectively.

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

In March 2001, 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 and payments began in fiscal year 2002.

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 the members' paycheck and are treated as employer pick-up contributions pursuant to Internal Revenue Code Section 414(h). At September 30, 2008, and September 30, 2007, there were 5,896 and 6,522 agreements, respectively. Agreement amounts that will not be collected within 12 months are discounted using the assumed actuarial rate of return of 8%. The average length remaining of a contract was approximately 13.3 and 14.0 years for 2008 and 2007. The short-term receivable was $10.6 million and the discounted long-term receivable was $53.8 million at September 30, 2008. At September 30, 2007, the short-term receivable was $11.6 million and the discounted long-term receivable was $62.1 million.

Notes to Basic Financial Statements (continued)

Funded Status

Participating employers are required to contribute at an actuarially determined rate for both pension benefits and OPEB. For fiscal year 2007, the actuarial accrued liability (AAL) for pension benefits was $13.2 billion, and the actuarial value of assets was $11.3 billion, resulting in an unfunded actuarial accrued liability (UAAL) of $1.8 billion and a funded ratio of 86.2%. The covered payroll (annual payroll of active employees covered by the plan) was $1.8 billion, and the ratio of the UAAL to the covered payroll was 99.6%.

For fiscal year 2007, the actuarial accrued liability (AAL) for OPEB was $13.0 billion, and the actuarial value of assets was $0, resulting in an unfunded actuarial accrued liability (UAAL) of $13.0 billion and a funded ratio of 0.0%. The covered payroll (annual payroll of active employees covered by the plan) was $2.9 billion, and the ratio of the UAAL to the covered payroll was 439.6%.

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 schedules of funding progress, presented as required supplementary information following the notes to the financial statements, present 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	9/30/2007
Actuarial Cost Method	Entry Age, Normal
Amortization Method - Pension	Level Dollar, Closed
Amortization Method - OPEB	Level Percent of Payroll, Closed
Remaining Amortization Period	29 years *
Asset Valuation Method - Pension	5-Year Smoothed Market
Asset Valuation Method - OPEB	Market
Actuarial Assumptions:	
Wage Inflation Rate	3.5%
Investment Rate of Return - Pension	8.0%
Investment Rate of Return - OPEB	4.0%
Projected Salary Increases	3.5 - 14.4%
Cost-of-Living Pension Adjustments	3% Annual Non-Compounded with Maximum Annual Increase of $300 for those eligible
Health Care Cost Trend Rate	9.5% Year 1 graded to 3.5% Year 11
Other Assumptions OPEB only:	
Opt Out Assumption	10% of eligible participants are assumed to opt out of the retiree health plan
Survivor coverage	80% of male retirees and 67% of female retirees are assumed to have coverage continuing after the retiree's death
Coverage Election at retirement	75% of male and 60% of female future retirees are assumed to elect coverage for 1 or more dependents

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

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 its 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 funds portfolios, but uses do not include speculation or leverage of investments. Less than 12% of the total pension funds' portfolio has been invested from time to time in futures contracts, collateralized mortgages, and swap agreements. State investment statutes limit total derivative exposure to 15% of a fund's total asset value, and restrict uses to replication of returns and hedging of assets. Swap agreements represent the largest category of derivatives used, and they represented 5.0% of market value of total pooled assets on September 30, 2008, and 6.6% of market value of total pooled assets on September 30, 2007. Futures contracts represent the second largest category of derivatives used, and they represented 0.6% of market value of total pooled assets on September 30, 2008, and 0.2% of market value of total pooled assets on September 30, 2007.

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

To diversify the trust funds' portfolio, the State Treasurer has entered into swap agreements with investment grade counterparties, which are tied to stock market indices in the United States and twenty-two foreign countries. The notional amounts of the swap agreements at September 30, 2008, and 2007, were $716.9 million and $611.3 million, respectively. Approximately one half of the notional amount tied to foreign stock market indices is hedged against foreign currency fluctuations. The swap agreements provide that the System will pay quarterly, over the term of the swap agreements, interest indexed to the three month London Inter Bank Offer Rate (LIBOR), adjusted for an interest rate spread, on the notional amount stated in the agreements. At the maturity of the swap agreements, the trust funds will either receive the increase in the value of the equity indices from the level at the inception of the agreements, or pay the decrease in the value of the indices. Swap agreement maturity dates range from October 2008 to July 2011. U.S. domestic LIBOR based floating rate notes and other investments earning short-term interest are held to correspond with the notional amount of the swap agreements. The State Treasurer maintains custody and control of these dedicated notes and short-term investments.

The value of these synthetic equity structures is a combination of the value of the swap agreements and the value of the notes and short-term investments. The book value represents the cost of the notes and short-term investments. The current value represents the current value of the notes and short-term investments and the change in value of the underlying indices from the inception of the swap agreements. The current value is used as a representation of the fair value based on the intention to hold all swap agreements until maturity. For fiscal years ending September 30, 2008, and 2007, international equity investment programs involving swaps, received realized gains and earned interest income of $142.9 million and $244.2 million, respectively.

The unrealized loss of $220.7 million at September 30, 2008, primarily reflects the decreases in international stock indices and changes in currency exchange rates. The combined swap structure generally realizes gains and losses on a rolling three-year basis.

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

	Notional Value	Current Value
9/30/2008 (dollars in millions)	$ 716.9	$ 511.7
9/30/2007 (dollars in millions)	611.3	799.5

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.

Notes to Basic Financial Statements (continued)

During the fiscal year, the agent bank lent, at the direction of the State Treasurer, the System's securities and received cash (United States) as collateral. Borrowers were required to deliver collateral for each loan equal to (i) in the case of loaned securities denominated in United States dollars or whose primary trading market was located in the United States or sovereign debt issued by foreign governments, 102% of the market value of the loaned securities; and (ii) in the case of loaned securities not denominated in United States dollars or whose primary trading market was not located in the United States, 105% of the market value of the loaned securities.

The System did not impose any restrictions during the fiscal year on the amount of loans that the agent bank made on its behalf and the agent bank indemnified the System by agreeing to purchase replacement securities, or return cash collateral in the event borrower failed to return the loaned security or pay distributions thereon. There was one such failure by a borrower during the fiscal year, Lehman Brothers, Inc. (September 2008). However, there were no losses during the fiscal year resulting from the default of the borrower, as the agent bank, Credit Suisse, has indemnified the System and has actively been replacing all outstanding loans with Lehman Brothers.

Under Master Securities Lending Agreements between the System and each borrower, the System and the borrowers have the right to terminate all securities lending transactions on demand. The cash collateral received on each loan was invested in assets held in a collateral account. As of September 30, 2008, such assets had an average weighted maturity to next reset of 32 days and an average weighted maturity of 3.3 years. Because the loans are terminable at will, their duration did not generally match the duration of the investments made with cash collateral. On September 30, 2008, the System had no credit risk exposure to borrowers. The cash received for securities on loan for the System as of September 30, 2008, was $1,706,014,868. The fair market value of assets held in the dedicated collateral account as managed by Credit Suisse and held by the custodian of the System as of September 30, 2008, was $1,307,400,302. The carrying amount, which is the fair market value, of securities on loan for the System as of September 30, 2008, was $1,553,794,594.

Gross income, including capital gains, from security lending for the fiscal year with Credit Suisse was $77,418,531. Expenses associated with this income were the borrower's rebate of $63,277,787 and fees paid to the agent bank of $2,490,432.

Substantial volatility in the financial markets impacted the fair value estimates for securities lending collateral held at September 30, 2008. The System recorded an unrealized loss of $398.6 million at September 30, 2008 for securities lending collateral.

Risk

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

<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 10.0% of the borrowers outstanding debt. The investments are further limited to $200.0 million in any borrower, unless the borrower has a A-1+ rating, in which case the investment is not to exceed $300.0 million.

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

Notes to Basic Financial Statements (continued)

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

	2008				2007			
Investment Type	**Fair Value**	**S&P**	**Fair Value**	**Moody's**	**Fair Value**	**S&P**	**Fair Value**	**Moody's**
Short Term	$ 266,057	A-1	$ 266,057	P-1	$ 535,747	A-1	$ 561,199	P-1
	-	NR	-	NR	57,144	NR	31,692	NR
Government Securities								
US Agencies - Sponsored								
	334,888	AAA	334,888	Aaa	682,120	AAA	682,120	Aaa
Corporate Bonds & Notes								
	121,625	AAA	101,078	Aaa	157,056	AAA	145,255	Aaa
	128,738	AA	141,065	Aa	180,557	AA	198,449	Aa
	401,573	A	390,659	A	320,704	A	309,731	A
	187,391	BBB	197,087	Baa	124,459	BBB	134,296	Baa
	2,911	BB	3,413	Ba	3,466	BB	3,332	Ba
	726	B	233	B	818	B	-	B
	93	CCC	619	Caa	-	CCC	354	Caa
	-	CC	77	Ca	-	CC	-	Ca
	-	C	14	C	-	C	-	C
	43	D	-	D	-	D	-	D
	19,848	NR	28,703	NR	34,532	NR	30,175	NR
International [1]								
	99,965	AAA	99,965	Aaa	63,948	AAA	63,948	Aaa
	258,433	AA	289,754	Aa	183,673	AA	303,833	Aa
	285,303	A	282,925	A	88,237	A	19,410	A
	48,308	NR	19,365	NR	70,705	NR	19,372	NR
Securities Lending Collateral [2]								
	397,454	AAA	408,357	Aaa	-		-	
	339,620	AA	384,970	Aa	-		-	
	351,872	A	301,301	A	-		-	
	90,868	BBB	144,087	Baa	-		-	
	17,942	BB	834	Ba	-		-	
	3,861	B	13,723	B	-		-	
	3,819	D	-	D	-		-	
	99,090	NR	51,254	NR	-		-	
Total	$ 3,460,428		$ 3,460,428		$ 2,503,166		$ 2,503,166	

NR - not rated

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

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

Notes to Basic Financial Statements (continued)

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

Investment securities are exposed to custodial credit risk if the securities are uninsured, are not registered in the name of the government and are held by either:

- The counterparty or
- The counterparty's trust department or agent but not in the government name.

The State Treasurer does not have a policy for custodial credit risk. However, the State's custodial bank had a credit rating of AA at September 30, 2008. As of September 30, 2008, and 2007, government securities with a market value of $4.7 million and $4.8 million, respectively, were exposed to custodial credit risk. These securities were held by the counterparty not in the name of the System.

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

Other than obligations issued, assumed or guaranteed by the United States, its agencies or United States government sponsored enterprises, the System is prohibited by Public Act 314 of 1965, as amended, from investing in more than 5.0% of the outstanding obligations of any one issuer or investing more than 5% of a System's assets in the obligations of any one issuer.

At September 30, 2008, and 2007, there were no investments in any single issuer that accounted for more than 5% of the System's assets nor were there any investments totaling more than 5% of the obligations of any one issuer, other than U.S. Government Securities as described above.

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

The State Treasurer's policy states that cash equivalents are invested in short-term fixed income securities with an average weighted maturity of less than one year to provide liquidity and safety of principal from capital market and default risk. At September 30, 2008, and 2007, the fair value of the System's prime commercial paper was $266.1 million and $591.7 million with the weighted average maturity of 5 days and 12 days, respectively.

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

Notes to Basic Financial Statements (continued)

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

	2008		2007	
	Fair Value	Effective Duration in Years	Fair Value	Effective Duration in Years
Government				
U. S. Treasury	$ 20,294	6.8	$ 105,677	4.8
U. S. Agencies - Backed	416,287	5.4	314,192	5.7
U. S. Agencies - Sponsored	334,888	4.1	682,120	3.3
Corporate	862,948	5.4	821,591	4.9
International*				
U. S. Treasury	-		19,282	0.1
Corporate	692,010	0.03	406,563	0.1
Total	$ 2,326,427		$ 2,349,425	

Debt securities are exclusive of securities lending collateral.

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

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

The System invests in various securities denominated in foreign currencies. These investments are limited to 20% of the total assets of the System with an additional limit of 5% of the outstanding foreign securities of any single issuer. No investment is allowed in a country that has been identified by the United States State Department as engaging in or sponsoring terrorism. These limits are set forth in Public Act 314 of 1965, as amended. The types of foreign investments include equities, fixed income, mutual funds, real estate, and limited partnerships. At September 30, 2008, and 2007, the total amount of foreign investment subject to foreign currency risk was $723.0 million and $992.1 million which amounted to 7.1% and 8.2% of total investments (exclusive of securities lending collateral) of the System, respectively.

Notes to Basic Financial Statements (continued)

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

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		$ 14			
	Canada	Dollar				$ 1,202	
	Mexico	Peso		10,013			
EUROPE							
	European Union	Euro	$ 180,396	15,121		7,173	$ (18,838)
	Switzerland	Franc		14,967		716	(3,210)
	Sweden	Krona				215	(772)
	Denmark	Krone				268	(740)
	Norway	Krone				180	(954)
	U.K.	Sterling	7,251	104		3,631	(19,493)
PACIFIC							
	Australia	Dollar				882	(8,128)
	China	Renminbi		1,830			
	Hong Kong	Dollar				181	(2,137)
	India	Rupee		5			
	Japan	Yen	827	20,780		2,154	(11,506)
	Singapore	Dollar				308	(1,023)
	South Korea	Won					(4,863)
MIDDLE EAST							
	Israel	Shekel		57			
VARIOUS					$ 151,568	374,838	
	Total		$ 188,474	$ 62,891	$ 151,568	$ 391,748	$ (71,664)

*International derivatives' market value exposure to foreign currency risk is the net amount of unrealized gains and unrealized losses. Maturity dates on these investments range from October 2008 through July 2011 with an average maturity of 1.8 years.

Notes to Basic Financial Statements (continued)

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

Region	Country	Currency	Alt. Invest. Market Value In U.S. $	Equity Market Value In U.S. $	Real Estate Market Value In U.S. $	International Equities Market Value In U.S. $	International Derivatives Market Value In U.S. $*
AMERICA							
	Canada	Dollar				$ 11,881	
	Mexico	Peso		$ 19,732			
EUROPE							
	European Union	Euro	$ 146,208	11,088		47,001	$ 40,069
	Switzerland	Franc		13,344		8,663	7,432
	Sweden	Krona				3,849	2,300
	Denmark	Krone		179		2,595	655
	Norway	Krone				3,080	431
	U.K	Sterling	5,956	920		23,030	16,660
PACIFIC							
	Australia	Dollar				11,448	6,876
	China	Renminbi		2,518			
	Hong Kong	Dollar				4,130	6,480
	India	Rupee		116			
	Japan	Yen	1,002	33,303		27,700	10,209
	Singapore	Dollar				1,463	1,128
	South Korea	Won				4,320	5,710
VARIOUS					$ 105,057	405,552	
	Total		$ 153,166	$ 81,200	$ 105,057	$ 554,712	$ 97,950

*International derivatives' market value exposure to foreign currency risk is the net amount of unrealized gains and unrealized losses. Maturity dates on these investments range from October 2007 through September 2010 with an average maturity of 1.2 years.

Notes to Basic Financial Statements (continued)

NOTE 5 - ACCOUNTING CHANGES AND RESTATEMENT

The Governmental Accounting Standards Board (GASB) Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, has been adopted by the State of Michigan for fiscal year 2008. Statement No. 45 prohibits the reporting of retiree related postemployment benefits within the State Sponsored Group Insurance Fund, an internal service fund administratively established to provide health, long-term disability, life, vision, and dental coverage for participating employees and retirees. Beginning October 1, 2007, all retiree related activity, including an equity transfer of $50,240,270 in accumulated net assets, is included in the Statements of OPEB Plan Net Assets and Changes in OPEB Plan Net Assets as reflected in this report.

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

NOTE 6 - COMMITMENTS AND CONTINGENCIES

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

NOTE 7 – SUBSEQUENT EVENTS

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

Required Supplementary Information

Schedules of Funding Progress

Expressing the net assets available for benefits as a percentage of the actuarial accrued liability provides one indication of the System's funding status. Analysis of this percentage over time indicates whether the System is becoming financially stronger or weaker. Generally, the greater this percentage, the stronger the System. Trends in unfunded actuarial accrued liability and annual covered payroll are both affected by inflation. Expressing the unfunded or overfunded actuarial accrued liability as a percentage of annual covered payroll approximately adjusts for the effects of inflation and aids analysis of progress made in accumulating sufficient assets to pay benefits when due. Generally, the smaller this percentage, the stronger the System.

Pension Benefits ($ in millions)

Valuation Date Sept 30	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded (Overfunded) Accrued Liability (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll ((b-a)/c)
1998	$ 9,109	$ 8,374	$ (735)	108.8 %	$ 2,108	(34.9) %
1998 [1]	9,109	8,497	(612)	107.2	2,108	(29.0)
1999	9,648	9,029	(619)	106.9	2,214	(28.0)
2000	10,337	9,474	(863)	109.1	2,254	(38.3)
2001	10,633	9,878	(755)	107.6	2,231	(33.8)
2002	10,616	10,753	137	98.7	2,133	6.4
2003	10,441	11,761	1,320	88.8	1,860	71.0
2004 [2]	10,149	12,004	1,855	84.5	1,889	98.2
2005	9,897	12,400	2,503	79.8	1,880	133.1
2006	10,111	12,799	2,688	79.0	1,848	145.5
2006 [3]	10,890	12,799	1,909	85.1	1,848	103.3
2007	11,344	13,162	1,818	86.2	1,826	99.6

[1] Revised actuarial assumptions and revised asset valuation method.

[2] Revised actuarial assumptions.

[3] Revised asset valuation method.

Other Postemployment Benefits[1] ($ 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	$ -	$ 13,499	$ 13,499	0.0 %	$ 2,848	474.0 %
2007	-	12,966	12,966	0.0	2,949	439.6

[1] Includes members from both the defined benefit and defined contribution plans

Required Supplementary Information (continued)

Schedules of Employer Contributions

Pension Benefits

Fiscal Year Ended Sept. 30	Annual Required Contribution (ARC)	Actual Contribution	Percentage Contributed
1999	$ 111,415,984	$ 121,119,857	108.7 %
2000	120,906,261	121,817,366	100.8
2001	102,989,963	112,299,808	109.0
2002	111,551,549	87,486,128 [1]	78.4
2003	184,214,419	79,291,845	43.0 [2]
2004	262,546,900	103,873,294 [3]	39.6
2005	308,208,544	256,433,052	83.2
2006	366,650,515	270,705,017	73.8
2007	316,138,419 [5]	150,858,506 [4]	47.7
2008	308,019,761	355,732,115	115.5

Other Postemployment Benefits

Fiscal Year Ended Sept. 30	Annual Required Contribution (ARC)	Actual Contribution	Percentage Contributed
2007	$ 898,716,522	$ 359,375,055 [4]	40.0 %
2008	879,245,817	342,186,903	38.9

[1] Employer contributions for fiscal year 2002 were transferred at year-end into the Health Advance Funding SubAccount established under Public Act 93 of 2002. Public Act 93 states in part that, "For each fiscal year that begins on or after October 1, 2001, if the actuarial valuation prepared … demonstrates that as of the beginning of the fiscal year, and after all credits and transfers required by this act for the previous fiscal year have been made … the annual level percent of payroll contribution rate … may be deposited into the Health Advance Funding SubAccount…" Pursuant to this legislation, a transfer was made into the subaccount in the amount of $87.5 million. The transfer effectively brought the contribution percentage to 0.0% for the fiscal year ended September 30, 2002.

[2] The ARC and percentage contributed are due to the $87.5 million transfer in fiscal year 2002 and an additional transfer of $17.4 million into the Health Advance Funding SubAccount in fiscal year 2003.

[3] In fiscal year 2004, $24.4 million was transferred from the Health Advance Funding SubAccount to the Pension Plan at the request of the State Budget Director and with the approval of the legislature. The purpose of this transfer was to reduce the contribution rates charged to State agencies for fiscal year 2003-2004 to help bring the general fund budget back into balance.

[4] In fiscal year 2007, $41.3 million was transferred from the Health Advance Funding SubAccount to the Reserve for Employer Contributions in accordance with the provisions set forth in the State Employees' Retirement Act to comply with Executive Order 2007-3 and the subaccount was brought to $0.

[5] Pursuant to Public Act 22 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.

Notes to Required Supplementary Information

NOTE A - DESCRIPTION

Ten-year historical trend information designed to provide information about the System's progress made in accumulating sufficient assets to pay benefits when due is presented in the preceding schedules. Other ten-year historical trend information related to the System is presented in the Statistical and Actuarial Sections of the report. This information is presented to enable the reader to assess the progress made by the System in accumulating sufficient assets to pay pension and other postemployment benefits as they become due. Because this is the second year the System is reporting other postemployment benefits in accordance with GASB Statement No. 43, two years of historical trend information is provided.

The comparability of trend information is affected by changes in actuarial assumptions, benefit provisions, actuarial funding methods, accounting policies, and other changes. Those changes usually affect trends in contribution requirements and in ratios that use the pension and other postemployment benefit obligations as a factor.

The Schedules of Funding Progress and Schedules of Employer 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 Contributions are presented to show the responsibility of the Employer in meeting the actuarial requirements to maintain the System on a sound financial basis.

Supporting Schedules

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

	2008	2007
Personnel Services:		
Staff Salaries	$ 1,072,463	$ 1,089,972
Retirement and Social Security	327,448	276,485
Other Fringe Benefits	252,480	232,147
Total	1,652,391	1,598,604
Professional Services:		
Accounting	278,574	275,740
Actuarial	78,000	133,900
Attorney General	290,874	285,541
Audit	44,153	41,301
Consulting	113,341	109,320
Medical	252,310	266,928
Total	1,057,252	1,112,730
Building and Equipment:		
Building Rentals	162,167	142,235
Equipment Purchase, Maintenance, and Rentals	12,598	10,365
Total	174,765	152,600
Miscellaneous:		
Travel and Board Meetings	3,220	2,571
Office Supplies	6,058	11,466
Postage, Telephone, and Other	440,732	543,767
Printing	83,878	65,445
Technological Support	1,630,441	1,628,043
Total	2,164,329	2,251,292
Total Administrative Expenses	$ 5,048,737	$ 5,115,226

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

	2008	2007
Health Fees	$ 17,533,658	
Dental Fees	1,401,894	
Vision Fees	458,113	
Total Administrative Expenses	$ 19,393,665	-

The OPEB plan administrative expenses of $19,393,665 in 2008 result from the transfer of all retiree related OPEB activity, including administrative fees paid to insurance carriers, from the State Sponsored Group Insurance Fund in accordance with GASB Statement No. 45.

Supporting Schedules (continued)

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

	2008	2007
Real Estate Operating Expenses	$ 44,447	$ 276,483
Securities Lending Expenses	65,768,219	112,080,389
Other Investment Expenses*		
ORS-Investment Expenses	2,398,258	2,162,349
Custody Fees	238,233	260,796
Management Fees-Real Estate	2,376,127	942,271
Management Fees-Alternative	17,017,451	12,121,821
Management Fees-International	1,242,093	480,159
Research Fees	284,056	230,894
Total Investment Expenses	$ 89,368,884	$ 128,555,162

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

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

	2008	2007
Independent Auditors	$ 44,153	$ 41,301
Consulting	113,341	109,320
Medical	252,310	266,928
Attorney General	290,874	285,541
Accounting	278,573	275,740
Actuary	78,000	133,900
Total Payment to Consultants	$ 1,057,251	$ 1,112,730

Supporting Schedules (continued)

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

	Employee Contributions	Employer Contributions	Retired Benefit Payments	Undistributed Investment Income	OPEB Benefits	Total
Additions:						
Contributions:						
Member contributions	$ 5,643,805				$ 13,099,796	$ 18,743,601
Employer contributions		$ 355,732,115			342,186,903	697,919,018
Other governmental contributions					23,003,762	23,003,762
Total Contributions	5,643,805	355,732,115	-	-	378,290,461	739,666,381
Investment income:						
Net appreciation (depreciation) in fair value of investments				$ (2,060,478,778)		(2,060,478,778)
Interest, dividends, and other				226,837,066	5,662,531	232,499,597
Investment expenses:						
Real estate operating expenses				(44,447)		(44,447)
Other investment expenses				(23,556,218)		(23,556,218)
Securities lending activities:						
Securities lending income				77,418,531		77,418,531
Securities lending expenses				(65,768,219)		(65,768,219)
Net investment income (loss)	-	-	-	(1,845,592,065)	5,662,531	(1,839,929,534)
Transfer from other systems/funds	190,357				6,883,975	7,074,332
Miscellaneous income				183,624	697,567	881,191
Total additions	5,834,162	355,732,115	-	(1,845,408,441)	391,534,534	(1,092,307,630)
Deductions:						
Benefits paid to plan members and beneficiaries:						
Retirement benefits			$ 832,553,176			832,553,176
Health benefits					345,286,591	345,286,591
Dental/vision benefits					32,227,282	32,227,282
Refunds of member contributions	69,741	219,335	1,702		295	291,073
Transfers to other systems/funds	83,138				35,000,768	35,083,906
Administrative expenses				5,048,737	19,393,665	24,442,402
Total deductions	152,879	219,335	832,554,878	5,048,737	431,908,601	1,269,884,430
Net Increase (Decrease) Before Other Changes	5,681,283	355,512,780	(832,554,878)	(1,850,457,178)	(40,374,067)	(2,362,192,060)
Other Changes in Net Assets:						
Interest allocation	3,881,053	9,486,781	694,605,085	(707,972,919)		-
Transfers upon retirement	(20,643,122)		20,643,122			-
Transfers of employer shares		835,358,782	(835,358,782)			-
Total other changes in net assets	(16,762,069)	844,845,563	(120,110,575)	(707,972,919)	-	-
Net Increase (Decrease)	(11,080,786)	1,200,358,343	(952,665,453)	(2,558,430,097)	(40,374,067)	(2,362,192,060)
Net Assets Held in Trust for Pension and OPEB Benefits:						
Beginning of Year	216,613,628	1,836,371,827	6,964,776,501	3,085,294,695	77,651,788 *	12,180,708,439
End of Year	$ 205,532,842	$ 3,036,730,170	$ 6,012,111,048	$ 526,864,598	$ 37,277,721	$ 9,818,516,379

* Restated

Supporting Schedules (continued)

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

	Employee Contributions	Employer Contributions	Retired Benefit Payments	Undistributed Investment Income	OPEB Benefits	Total
Additions:						
Contributions:						
Member contributions	$ 19,696,132				$ 11,760,544	$ 31,456,676
Employer contributions		$ 150,858,506			359,375,055	510,233,561
Total Contributions	19,696,132	150,858,506	-	-	371,135,599	541,690,237
Investment income (loss):						
Net appreciation (depreciation) in fair value of investments				$ 1,564,590,781		1,564,590,781
Interest, dividends, and other				248,765,760	1,500,072	250,265,832
Investment expenses:						
Real estate operating expenses				(276,483)		(276,483)
Other investment expenses				(16,198,290)		(16,198,290)
Securities lending activities:						
Securities lending income				116,786,647		116,786,647
Securities lending expenses				(112,080,389)		(112,080,389)
Net investment income (loss)	-	-	-	1,801,588,026	1,500,072	1,803,088,098
Transfer from other systems	105,572					105,572
Transfer from pension/OPEB plan		41,304,031				41,304,031
Miscellaneous income			$ 24,299	741,697		765,996
Total additions	19,801,704	192,162,537	24,299	1,802,329,723	372,635,671	2,386,953,934
Deductions:						
Benefits paid to plan members and beneficiaries:						
Retirement benefits			795,842,013			795,842,013
Health benefits					329,714,449	329,714,449
Dental/vision benefits					34,260,602	34,260,602
Refunds of member contributions	42,892	178,316	831			222,039
Transfers to other systems	7,561					7,561
Transfer to pension/OPEB plan					41,304,031	41,304,031
Administrative expenses				5,115,226		5,115,226
Total deductions	50,453	178,316	795,842,844	5,115,226	405,279,082	1,206,465,921
Net Increase (Decrease) Before Other Changes	19,751,251	191,984,221	(795,818,545)	1,797,214,497	(32,643,411)	1,180,488,013
Other Changes in Net Assets:						
Interest allocation	3,463,632	561,830,405	136,665,302	(701,959,339)		-
Transfers upon retirement	(16,594,635)		16,594,635			-
Transfers of employer shares		(625,759,073)	625,759,073			-
Total other changes in net assets	(13,131,003)	(63,928,668)	779,019,010	(701,959,339)	-	-
Net Increase (Decrease)	6,620,248	128,055,553	(16,799,535)	1,095,255,158	(32,643,411)	1,180,488,013
Net Assets Held in Trust for Pension and OPEB Benefits:						
Beginning of Year	209,993,380	1,708,316,274	6,981,576,036	1,990,039,537	60,054,929	10,949,980,156
End of Year	$ 216,613,628	$ 1,836,371,827	$ 6,964,776,501	$ 3,085,294,695	$ 27,411,518	$ 12,130,468,169

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INVESTMENT SECTION

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

INVESTMENT SECTION

Report on Investment Activity

INTRODUCTION

The State Treasurer reports investment activity quarterly to the Investment Advisory Committee (Committee), which reviews the investments, goals, and objectives of the retirement funds and may submit recommendations regarding them to the State Treasurer. The Investment Advisory Committee may also, by a majority vote, direct the State Treasurer to dispose of any holdings that, in the Committee's judgment, are not suitable for the funds involved, and may, by unanimous vote, direct the State Treasurer to make specific investments.

The Investment Advisory Committee was created by Act 380 of the Public Acts of 1965. The three public members of the five-member committee are appointed by the Governor with the advice and consent of the Senate for three-year terms. The Director of the Department of Labor and Economic Growth and the Director of the Department of Management and Budget are ex-officio members. As of September 30, 2008, members of the Committee were as follows: David G. Sowerby, CFA (public member), Glenn P. Murray (public member), James B. Jacobs (public member), Keith W. Cooley (ex-officio member), and Lisa Webb Sharpe (ex-officio member). The public members serve without pay, but may be paid actual and necessary travel and other expenses.

INVESTMENT POLICY & GOALS

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

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

The primary function of the System is to provide retirement, survivor and disability benefits along with health and other postemployment benefits to its members. The State Treasurer is the sole investment fiduciary and custodian of the System's investments pursuant to State law. The goals of the System are:

1. Achieve the optimal rate of return possible within prudent levels of risk.
2. Maintain sufficient liquidity to pay benefits.
3. Diversify assets to preserve capital and avoid large losses.
4. Meet or exceed the actuarial 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 9/30/08 Actual %		Two-Year Target %
Domestic Equities			34.0%
Domestic Equity - Active	26.5%		
Large Cap Core Pool		13.0%	
Large Cap Value Pool		4.0%	
Large Cap Growth Pool		5.2%	
Large Cap Sectors Pool		0.2%	
Large Cap Enhanced Pool		0.5%	
Manager of Managers Pool		0.3%	
Mid Cap Pool		2.2%	
Small Cap Pool		1.1%	
Domestic Equity - Passive	15.4%		
S&P 500 Index Pool		13.9%	
S&P MidCap Index Pool		1.5%	
International Equity	9.0%		17.0%
International Equity Pool - Passive		6.6%	
International Equity Pool - Active		2.4%	
Alternative Investments Pool	17.8%		16.0%
Real Estate Pool	11.7%		11.0%
Fixed Income	16.7%		17.0%
Government Bond Pool		6.7%	
Corporate Bond Pools		6.8%	
Fixed Income Bond Pools		3.0%	
Treasury Inflation Prot. Sec. Pool		0.0%	
CMBS Investment Pool		0.2%	
Short Term Investment Pool	2.9%		2.0%
Absolute Return	0.0%		2.0%
Real Return	0.0%		1.0%
TOTAL	**100.0%**		**100.0%**

INVESTMENT AUTHORITY

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

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

Report on Investment Activity (continued)

INVESTMENT RESULTS

Total Portfolio Results

For the fiscal year ended September 30, 2008, the total System's rate of return was (12.5)% as compiled by State Street Investment Analytics. Annualized rates of return for the three-year period ending September 30, 2008, were 5.0%; for the five-year period were 8.0%; and for the ten-year period were 6.0%.

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

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

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

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

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

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

Large Cap Core Pool

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

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

Report on Investment Activity (continued)

The pool invests in equities and equity related securities that are listed on U.S. national securities exchanges, including American Depository Receipts (ADRs). It may also invest in stocks that are traded over-the-counter. The pool diversifies its investments by allocating its equities with consideration of the weightings of the S&P 500 Index.

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

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

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

At the close of fiscal year 2008, the Large Cap Core pool represented 13.0% of total investments. This compares to 15.6% for fiscal year 2007. The following summarizes the System's 19.2% ownership share of the Large Cap Core pool at September 30, 2008:

Large Cap Core Pool
(in thousands)

Short Term Pooled Investments	$ 1,264
Equities	1,319,959
Settlement Principal Payable	(48,359)
Settlement Proceeds Receivable	52,272
Accrued Dividends	1,752
Total	**$ 1,326,888**

Large Cap Value Pool

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

The pool invests primarily in equities and equity-related securities of U.S. companies with market capitalization generally greater than $5 billion that are significantly under-priced as measured by several valuation criteria, including price-to-earnings and price-to-book value ratios, as well as below fair value as determined by several quantitative and qualitative valuation models. The focus is on companies trading 25% or more below estimated fair value with experienced management and conservative accounting practices. At times a portion of the pool may be invested in fixed-income short-term securities with maturities of less than one year.

Report on Investment Activity (continued)

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

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

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

The System's Large Cap Value pool total rate of return was (23.7)% for fiscal year 2008. This compared with (24.5)% for the S&P 500 Citigroup Value Index.

At the close of fiscal year 2008, the Large Cap Value pool represented 4.0% of total investments. This compares to 5.0% for fiscal year 2007. The following summarizes the System's 17.7% ownership share of the Large Cap Value pool at September 30, 2008:

Large Cap Value Pool
(in thousands)

Short Term Pooled Investments	$ 47,071
Equities	362,357
Settlement Principal Payable	(13,262)
Settlement Proceeds Receivable	13,233
Accrued Dividends	656
Total	**$ 410,055**

Large Cap Growth Pool

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

The pool invests primarily in equities and equity-related securities of U.S. companies with market capitalization generally greater than $3 billion and which offer above-average and sustainable growth in revenues, earnings, and cash flow, identifiable catalysts, and reasonable valuations relative to their fundamentals. The focus is on companies with a strong presence in categories anticipated to be fast growing, with high rates of unit sales growth and seasoned management. At times a portion of the pool may be invested in fixed-income short-term securities with maturities of less than one year.

Report on Investment Activity (continued)

The pool invests in equities and equity related securities that are listed on U.S. national securities exchanges, including American Depository Receipts (ADRs). It may also invest in stocks that are traded over-the-counter. The pool diversifies its investments by allocating its equities with weightings that approximate the weightings of the S&P Citigroup Growth Index.

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

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

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

At the close of fiscal year 2008, the Large Cap Growth pool represented 5.2% of total investments. This compares to 5.5% for fiscal year 2007. The following summarizes the System's 19.2% ownership share of the Large Cap Growth pool at September 30, 2008:

Large Cap Growth Pool
(in thousands)

Short Term Pooled Investments	$ 12,122
Equities	517,473
Settlement Principal Payable	(13,559)
Settlement Proceeds Receivable	13,985
Accrued Dividends	354
Total	**$ 530,375**

Large Cap Sectors Pool

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

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

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

Report on Investment Activity (continued)

At the close of fiscal year 2008, the Large Cap Sectors pool represented 0.2% of total investments. The following summarizes the System's 16.8% ownership share of the Large Cap Sectors pool at September 30, 2008:

Large Cap Sectors Pool
(in thousands)

Short Term Pooled Investments	$	6,698
Equities		10,287
Accrued Dividends		252
Total	**$**	**17,237**

Large Cap Enhanced Pool

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

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

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

At the close of fiscal year 2008, the Large Cap Enhanced pool represented 0.5% of total investments. The following summarizes the System's 23.1% ownership share of the Large Cap Enhanced pool at September 30, 2008:

Large Cap Enhanced Pool
(in thousands)

Total Investment	$	55,053

Manager of Managers Pool

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

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

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

Report on Investment Activity (continued)

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

Manager of Managers Pool
(in thousands)

	Attucks Asset Management	Bivium Capital Partners	Leading Edge Investment Advisors
Total Investment	$ 14,423	$ 10,796	$ 7,635
Ownership Percentage	19.3%	19.3%	19.3%

Mid Cap Pool

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

The Mid Cap pool return for fiscal year 2008 was (20.5)% versus the benchmark's (16.7)%.

At the close of fiscal year 2008, the Mid Cap pool represented 2.2% of total investments. This compares to 2.3% for fiscal year 2007. The following summarizes the System's ownership share and composition of the Mid Cap pool at September 30, 2008:

Mid Cap Value and Core Pools
(in thousands)

	Artisan Mid Cap Value	Cramer Rosenthal McGlynn Mid Cap Value	Los Angeles Capital Mid Cap Core	Wellington Management Mid Cap Core
Total Investment	$ 40,229	$ 37,162	$ 23,602	$ 30,120
Ownership Percentage	19.9%	20.0%	19.9%	19.9%

Report on Investment Activity (continued)

Mid Cap Growth Pools
(in thousands)

	Alliance Mid Cap Growth	Putnam Mid Cap Growth	Rainer Mid Cap Growth	UBS Mid Cap Growth	Wellington Management Mid Cap Growth
Total Investment	$ 21,604	$ 8,603	$ 21,625	$ 19,384	$ 20,115
Ownership Percentage	20.0%	20.1%	20.1%	20.1%	20.1%

Small Cap Pool

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

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

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

At the close of fiscal year 2008, the Small Cap pool represented 1.1% of total investments. This compares to 1.0% for fiscal year 2007. The following summarizes the System's ownership share and composition of the Small Cap Pool at September 30, 2008:

Small Cap Value Pool
(in thousands)

	Donald Smith Small Cap Value	Fisher Small Cap Value	GW Capital Small Cap Value	Northpointe Small Cap Value	Opus Capital Small Cap Value
Total Investment	$ 17,553	$ 20,109	$ 14,094	$ 13,332	$ 4,389
Ownership Percentage	20.6%	17.8%	20.6%	19.9%	20.6%

Small Cap Growth and Core Pool
(in thousands)

	Champlain Small Cap Core	Pier Capital Small Cap Growth
Total Investment	$ 16,779	$ 20,213
Ownership Percentage	20.6%	20.6%

Report on Investment Activity (continued)

S&P 500 Index Pool

The objective of the enhanced S&P 500 Index pool is to closely match the return performance of its benchmark, the S&P 500 Index, and to use low risk strategies to offset transaction costs and add to performance when possible. The pool generally holds all 500 stocks that make up the Standard & Poor's 500 Index in proportion to their weighting in the index. The following summarizes the sector weightings of the pool as of September 30, 2008:

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

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

At the close of fiscal year 2008, the S&P 500 Index pool represented 13.9% of total investments. This compares to 16.2% for fiscal year 2007. The following summarizes the System's 19.3% ownership share of the S&P 500 Index pool at September 30, 2008:

S&P 500 Index Pool
(in thousands)

Short Term Pooled Investments	$ 55,416
Equities	1,353,701
Futures Contracts	2,049
Settlement Principal Payable	(78,316)
Settlement Proceeds Receivable	76,129
Accrued Dividends	2,212
Total	**$ 1,411,191**

S&P MidCap Index Pool

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

The S&P MidCap Index pool return for the fiscal year was (15.9)% versus its benchmark's (16.7)%.

Report on Investment Activity (continued)

At the close of fiscal year 2008, the S&P MidCap Index pool represented 1.5% of total investments. This compares to 1.7% for fiscal year 2007. The following summarizes the System's 19.4% ownership share of the S&P MidCap Index pool at September 30, 2008:

S&P MidCap Index Pool
(in thousands)

Short Term Pooled Investments	$	1,721
Equities		153,516
Settlement Principal Payable		(18)
Settlement Proceeds Receivable		1,118
Accrued Dividends		174
Total	**$**	**156,511**

International Equity Pool - Passive

The objective of the International Equity Pool - Passive is to match the return performance of the S&P/Citigroup Broad Market Index (BMI) Europe and Pacific Composite (EPAC) adjusted for net dividends. Fifty percent of the benchmark is hedged to the U.S. Dollar and the other half is impacted by foreign currency exchange rate changes. The total passive international return for the fiscal year was (32.9)% compared to the Citigroup BMI-EPAC return of (30.1)%.

Core passive exposure to international equity returns is achieved primarily by investing in a combination of fixed income LIBOR notes, short-term fixed income investments, and equity swap agreements on foreign stock indices in developed markets. Interest on the dedicated notes and short-term fixed income investments is exchanged for international stock returns, and the total notional amount of the swap agreements is invested in the approximate proportions of the S&P/Citigroup Broad Market Index (BMI) Europe and Pacific Composite (EPAC) country weightings in related indices. Use of swap agreements for a core position began in 1993, an American Depository Receipts (ADR) and index-related security portfolio was added in June of 1999 to increase portfolio management flexibility, and a country fund portfolio with targeted capitalization was added in September of 2002 to improve exposure to the smallest companies in the BMI index.

The combination of notes, dedicated short-term investments and equity swap agreements was valued at $511.7 million on September 30, 2008. That valuation included a net unrealized loss of $220.7 million. The combined Swap agreements, notes and short-term investments together continue to perform like a stock index fund that realizes all gains and losses on a rolling three year basis. During fiscal year 2008, the pool received realized gains of $118.3 million on swap equity exposures and dedicated short-term investments. During the same period, $24.7 million of interest income was earned from international equity swaps.

Report on Investment Activity (continued)

At the close of fiscal year 2008, the International Equity - Passive pool represented 6.6% of total investments. This compares to 8.5% for fiscal year 2007. The following summarizes the System's 19.4% ownership share of the International Equity Pool - Passive at September 30, 2008:

International Equity Pool - Passive
(in thousands)

Short Term Pooled Investments	$	13,701
Equities		148,185
Fixed Income Securities		692,010
Market Value of Equity Contracts		(180,890)
Accrued Dividends and Interest		2,904
Total	**$**	**675,910**

International Equity Pool - Active

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

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

The International Equity Pool - Active return for the fiscal year was (31.7)% versus the benchmark's (30.5)%.

At the close of fiscal year 2008, the International Equity - Active pool represented 2.4% of total investments. This compares to 3.0% for fiscal year 2007. The following summarizes the System's ownership share and composition of the pool at September 30, 2008:

International Equity Pool - Active
(in thousands)

	AllianceBernstein International	Wellington International	SSgA International	Globeflex Int'l Small Cap	SSgA Int'l Small Cap
Total Investment	$ 73,105	$ 66,232	$ 80,324	$ 10,841	$ 13,228
Ownership Percentage	19.6%	20.0%	20.0%	19.4%	19.4%

Alternative Investments Pool

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

Report on Investment Activity (continued)

Alternative Investments are investments in the private equity market, primarily through limited partnerships. The following summarizes the weightings of the pool as of September 30, 2008:

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

The Alternative Investments pool had a return of 5.0% for the fiscal year ended September 30, 2008, versus the benchmark of (17.4)%.

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

At the close of fiscal year 2008, the Alternative Investments pool represented 17.8% of total investments and T. Rowe Price represented 0.01% of total investments. This compares to 13.1% for Alternative and 0.04% for T. Rowe Price for fiscal year 2007. The following summarizes the System's ownership share and composition of the Alternative Investments pool and T. Rowe Price at September 30, 2008:

Alternative Investments Pool
(in thousands)

	Alternative	T. Rowe Price
Short Term Pooled Investments	$ 22,162	$ 267
Equities	1,784,697	1,170
Settlement Proceeds Receivable		15
Total	**$ 1,806,859**	**$ 1,452**
Ownership Percentage	18.5%	17.8%

Real Estate Pool

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

Report on Investment Activity (continued)

The Real Estate pool diversifies its holdings by:

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

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

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

At the close of fiscal year 2008, the Real Estate pool represented 11.7% of total investments. This compares to 9.7% for fiscal year 2007. The following summarizes the System's 20.3% ownership share of the Real Estate pool at September 30, 2008:

Real Estate Pool
(in thousands)

Short Term Pooled Investments	$ 18,127
Equities	1,171,402
Fixed Income Securities	1
Total	**$ 1,189,530**

Government Bond Pool

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

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

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

Report on Investment Activity (continued)

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

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

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

At the close of fiscal year 2008, the Government Bond pool represented 6.7% of total investments. This compares to 8.0% for fiscal year 2007. The following summarizes the System's 18.7% ownership share of the Government Bond pool at September 30, 2008:

Government Bond Pool
(in thousands)

Short Term Pooled Investments	$	9,446
Fixed Income Securities		653,292
Settlement Proceeds Receivable		17,254
Accrued Dividends		5,577
Total	**$**	**685,569**

Treasury Inflation Protected Securities Pool

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

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

At the close of fiscal year 2008, the Treasury Inflation Protected Securities pool represented 0.01% of total investments. This compares to 0.5% for fiscal year 2007. The following summarizes the System's 19.4% ownership share of the TIPS pool at September 30, 2008:

TIPS Pool
(in thousands)

Short Term Pooled Investments	$	577

Corporate Bond Pool

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

Report on Investment Activity (continued)

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

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

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

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

At the close of fiscal year 2008, the Corporate Bond pool represented 6.8% of total investments. This compares to 5.5% for fiscal year 2007. The following summarizes the System's 18.5% ownership share of the Corporate Bond pool at September 30, 2008:

Corporate Bond Pool
(in thousands)

Short Term Pooled Investments	$	4,548
Fixed Income Securities		666,502
Settlement Proceeds Receivable		10,866
Accrued Interest		9,264
Total	**$**	**691,180**

Fixed Income Core Pools

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

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

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

Report on Investment Activity (continued)

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

Fixed Income Core Pools
(in thousands)

	Delaware Fixed Income Core	Dodge & Cox Fixed Income Core	Dupont Fixed Income Core	Pyramis Fixed Income Core	Metro West Fixed Income Core
Total Investment	$ 21,118	$ 36,757	$ 27,380	$ 52,367	$ 37,588
Ownership Percentage	19.7%	19.7%	19.7%	19.7%	19.7%

Fixed Income Corporate Manager Pools

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

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

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

At the close of fiscal year 2008, the Fixed Income Corporate Manager pools represented 1.3% of total investments. This compares to 1.2% for fiscal year 2007. The following summarizes the System's ownership share and composition of the four Fixed Income Corporate Manager pools at September 30, 2008:

Fixed Income Corporate Manager Pools
(in thousands)

	Alliance Bernstien Corporate	Prudential Financial Corporate	Western Asset Corporate	Taplin, Canida & Habacht Corporate
Total Investment	$ 28,785	$ 44,881	$ 27,381	$ 26,821
Ownership Percentage	19.6%	19.6%	19.6%	19.6%

CMBS Investment Pool

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

Report on Investment Activity (continued)

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

At the close of fiscal year 2008, the CMBS Investment pool represented 0.2% of total investments. The following summarizes the System's 19.1% ownership share of the CMBS Investment pool at September 30, 2008:

CMBS Investment Pool
(in thousands)

Total Investment	$	23,927

Short Term Investment Pool

The objective of the Short Term Investment pool is to closely match the return performance of its benchmark, the 30 day Treasury bill. The Short Term Investment pool return for the fiscal year was (3.4)% versus the benchmark's 2.2%.

Potential areas of investment are:

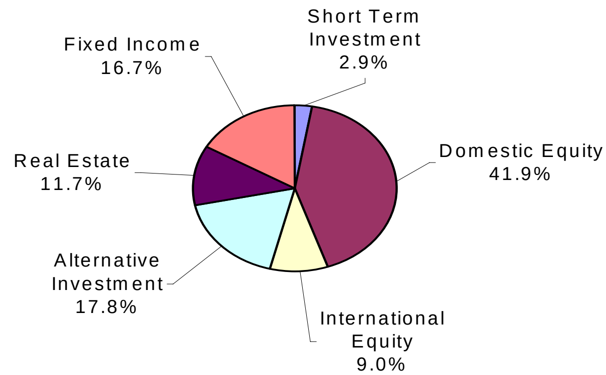
- Obligations of the United States or its agencies.
- Bankers' acceptances, commercial accounts, certificates of deposit or depository receipts.
- Repurchase agreements for the purchase of securities issued by the U.S. government or its agencies.
- Commercial paper rated at the time of purchase within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

As of September 30, 2008, the Short Term Investment pool was 100% invested in commercial paper because of its advantages in yield and flexibility in maturities.

At the close of fiscal year 2008, the Short Term Investment pool represented 2.9% of total investments. This compares to 1.8% for fiscal year 2007. The System's ownership share of the Short Term Investment pool at September 30, 2008, was $292,398,908 composed of fixed income securities and equity in common cash.

INVESTMENT SECTION

Asset Allocation – Security Type Only



Investment Results for the Period Ending September 30, 2008

Investment Category	Current Year	Annualized Rate of Return[1] 3 Years	5 Years	10 Years
Total Portfolio	(12.5) %	5.0 %	8.0 %	6.0 %
Total Domestic Equity	(21.7)	0.4	5.1	3.5
S&P 1500 Index	(21.3)	0.4	5.6	3.8
Large Cap Core Equity Pool	(22.3)			
Large Cap Value Pool	(23.7)	0.2	6.2	
Large Cap Growth Pool	(21.2)	0.4	3.2	
Mid Cap Pool	(20.5)	1.5		
Small Cap Pool	(11.9)	3.9	8.1	
S&P 500 Index Pool	(21.9)	0.3	5.2	
S&P MidCap Index Pool	(15.9)	2.2	9.0	
International Equity Pool - Passive	(32.9)	(1.6)	7.7	4.6
S&P Citigroup BMI - EPAC 50/50	(30.1)	(0.2)	9.0	5.2
International Equity Pool - Active	(31.7)	1.1		
Alternative Investments Pool	5.0	20.1	21.0	11.2
Alternative Blended Benchmark[2]	(17.4)	3.9	8.7	6.6
T. Rowe Price (Stock Distributions)	(53.7)			
Real Estate Pool	6.1	15.0	13.5	11.6
NCREIF Property Blended Index[3]	4.0	11.9	13.1	10.9
Total Fixed Income	3.1	4.2	3.8	5.1
Lehman Brothers Government/Credit	2.4	3.6	3.3	5.0
Government Bond Pool	5.7	5.3	4.5	
Corporate Bond Pool	3.0	4.0	3.6	
Fixed Income Core Pool	1.7			
Fixed Income Managers Pool	(7.4)			
Treasury Inflation Protected Securities	17.6			
Short Term Investment Pool	(3.4)	2.2	2.0	3.1
30 Day Treasury Bill	2.2	3.8	3.0	3.2

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/losses from securities lending.

2 As of 1/1/07, index is blend of S&P 500 plus 300 bps and 10 year yield plus 300 bps based on ending weights. History prior to 1/1/07 is S&P500 plus 300 bps.

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

Largest Assets Held

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

Rank	Shares	Stocks	Market Value
1	1,753,849	SPDR Trust	$ 203,428,900
2	4,836,910	Microsoft Corporation	129,097,118
3	1,540,503	Exxon Mobil Corporation	119,635,454
4	1,452,537	Johnson and Johnson	100,631,787
5	3,114,253	General Electric Corporation	79,413,464
6	3,788,081	Pfizer Inc	69,852,215
7	2,939,188	Cisco Systems Inc	66,308,088
8	791,589	Chevron Corporation	65,290,245
9	133,839	Google Inc	53,605,184
10	2,448,159	Oracle Corporation	49,722,099

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

Rank	Par Amount	Description	Market Value
1	$ 48,024,737	General Electric Cap Corp 2.97438% FRN Due 2-15-2017	$ 43,685,798
2	38,751,687	Berkshire Hathaway Fin 5.11875% FRN Due 1-11-2011	38,700,419
3	29,063,765	John Deere Capital Corp 3.26063% FRN Due 2-26-2010	29,057,197
4	29,063,765	American Honda Finance 3.01% FRN Due 11-20-2009	28,943,412
5	29,063,765	JP Morgan Chase & Co 3.70375% FRN Due 9-21-2012	28,832,883
6	29,063,765	Vulcan Materials 4.06875% FRN Due 12-15-2010	28,792,862
7	29,063,765	Citigroup Funding Inc 4.30875% FRN Due 10-22-2009	27,814,605
8	22,282,220	American Honda Finance 3.265% FRN Due 6-07-2010	22,240,107
9	43,534,861	Wachovia Corp 3.96375% FRN Due 4-23-2012	20,026,036
10	19,375,844	John Deere Capital Corp 5.2025% FRN Due 1-18-2011	19,371,116

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 37.58% of the total investment portfolio is managed by fully discretionary outside advisors. The Michigan Department of Treasury's cost of operations applicable to the retirement system for the fiscal year amounted to $2,398 thousand or three and eight-tenths basis points (.038)% of the market value of the Assets under Management by the State Treasurer.

Act 380 of the Public Acts of 1965 created an Investment Advisory Committee (Committee) comprised of the directors of the Department of Labor and Economic Growth and the Department of Management and Budget, or their duly authorized representatives, and three public members appointed by the Governor with the advice and consent of the Senate. The public members serve without pay, but may be paid actual and necessary travel and other expenses. The Committee meets quarterly to review investments, goals and objectives and may submit recommendations to the State Treasurer. The Committee may also, by a majority vote, direct the State Treasurer to dispose of any holding which, in the Committee's judgment, is not suitable for the fund involved, and may by unanimous vote direct the State Treasurer to make specific investments.

Schedule of Investment Fees

Investment Managers' Fees:

	Assets under Management (in thousands)	Fees (in thousands)	Basis Points*
State Treasurer	$ 6,356,623	$ 2,398	3.8
Outside Advisors for			
Fixed Income	327,004	581	17.8
Mid Cap Equity	222,445	1,584	71.2
Small Cap Equity	106,468	865	81.3
International Equity	385,890	1,942	50.3
Equity	87,907	167	19.0
Alternative	1,784,697	17,017	95.4
Real Estate	912,253	2,376	26.0
Total	$ 10,183,287	$ 26,930	
Other Investment Services Fees:			
Assets in Custody	$ 9,890,889	$ 522	
Securities on Loan	1,553,795	2,490	

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

Schedule of Investment Commissions

	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
	Fiscal Year Ended September 30, 2008						
Investment Brokerage Firms:							
Banc of America Securities LLC	$ 79,936	2,664,524	$ 0.03	$ 0.01	$ 0.02	$ 26,645	$ 53,291
Bear, Stearns & Co Inc.	185,618	10,004,643	0.02	0.01	0.01	100,046	100,046
Broadcort Capital	16,419	547,292	0.03	0.01	0.02	5,473	10,946
Cantor Fitzgerald & Co.	61,577	3,084,437	0.02	0.01	0.01	30,844	30,844
Citigroup Global Markets Inc.	304,583	15,031,166	0.02	0.01	0.01	150,312	150,312
Cowen & Co., LLC	86,026	2,867,528	0.03	0.01	0.02	28,675	57,351
Credit Suisse Securities LLC	172,598	7,143,027	0.02	0.01	0.01	71,430	71,430
Deutsche Bank - Alex Brown	375	9,374	0.04	0.01	0.03	94	281
Deutsche Bank Securities Inc.	46,897	1,626,738	0.03	0.01	0.02	16,267	32,535
Goldman, Sachs & Co.	140,439	6,062,384	0.02	0.01	0.01	60,624	60,624
The Griswold Company, Incorporated	107,841	5,525,369	0.02	0.01	0.01	55,254	55,254
ISI Capital LLC	91,155	3,038,489	0.03	0.01	0.02	30,385	60,770
J P Morgan Securities Inc.	124,342	4,166,003	0.03	0.01	0.02	41,660	83,320
Ladenburg Thalman	13,883	462,754	0.03	0.01	0.02	4,628	9,255
Leerink Swann & Company	101	2,514	0.04	0.01	0.03	25	75
Lehman Brothers Inc.	103,358	3,509,178	0.03	0.01	0.02	35,092	70,184
Liquidnet Inc.	28	1,428	0.02	0.01	0.01	14	14
Merrill Lynch, Pierce, Fenner & Smith, Inc.	194,546	6,655,758	0.03	0.01	0.02	66,558	133,115
Mischler Financial Group, Inc.	14,285	476,168	0.03	0.01	0.02	4,762	9,523
Morgan Stanley & Co Incorporated	53,919	2,096,539	0.03	0.01	0.02	20,965	41,931
OTA LLC	20,734	691,144	0.03	0.01	0.02	6,911	13,823
Punk, Ziegel & Company	14,355	478,506	0.03	0.01	0.02	4,785	9,570
Sandford C. Bernstein & Co. LLC	190,080	6,477,095	0.03	0.01	0.02	64,771	129,542
Stanford Group Co.	10,793	423,259	0.03	0.01	0.02	4,233	8,465
Thomas Weisel Partners LLC	15,652	397,416	0.04	0.01	0.03	3,974	11,923
UBS Securities LLC	105,627	3,522,514	0.03	0.01	0.02	35,225	70,450
Wayne Company	19,664	655,454	0.03	0.01	0.02	6,555	13,109
Weeden & Co. L.P.	82,411	8,341,414	0.01	0.01	-	83,414	-
Total	$ 2,257,242	95,962,115	$ 0.03 [2]	$ 0.01	$ 0.02	$ 959,621	$ 1,287,983

[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 comission and share transactions in the investment pools.

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

Investment Summary
Fiscal Year Ended September 30, 2008

	Market Value[1]	Percent of Total Market Value	Investment & Interest Income[2]	Percent of Total Investment & Interest Income
Fixed Income Pools	$ 1,704,329,336	16.7%	$ 66,452,010	(4.6)%
Domestic Equity Pools	4,269,077,428	41.9%	(1,213,311,770)	84.9%
Real Estate Pool	1,189,530,368	11.7%	73,719,912	(5.2)%
Alternative Investment Pools	1,808,312,074	17.8%	95,778,869	(6.7)%
International Equities Pools	919,639,304	9.0%	(449,317,287)	31.4%
Short Term Investment Pools	292,398,908	2.9%	(2,686,349)	0.2%
Total	$ 10,183,287,418	100.0%	$ (1,429,364,615)	100.0%

[1] Market value excludes $1,307,400,302 in securities lending collateral for fiscal year 2008.

[2] Total Investment & Interest Income excludes net security lending income of $11,650,312 and unrealized loss of $398,614,566 for securities lending collateral.

Investment Summary

Fiscal Year Ended September 30, 2007

	Market Value[1]	Percent of Total Market Value	Investment & Interest Income[2]	Percent of Total Investment & Interest Income
Fixed Income Pools	$ 1,992,940,948	16.6%	$ 102,917,375	5.7%
Domestic Equity Pools	5,701,330,139	47.3%	834,484,298	45.9%
Real Estate Pool	1,166,352,035	9.7%	193,332,964	10.6%
Alternative Investment Pools	1,582,953,210	13.1%	395,053,763	21.8%
International Equities Pools	1,386,617,895	11.5%	274,987,420	15.2%
Short Term Investment Pools	210,971,927	1.8%	14,080,793	0.8%
Total	$ 12,041,166,154	100.0%	$ 1,814,856,613	100.0%

1 Market value excludes $2,563,248,391 in securities lending collateral for fiscal year 2007.

2 Total Investment & Interest Income excludes net security lending income of $4,706,258.

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ACTUARIAL SECTION

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

Actuary's Certification

GRS

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September 24, 2008

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

Ladies and Gentlemen:

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

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

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

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

Actuary's Certification (continued)

Ms. Lisa Webb Sharpe
September 24, 2008
Page 2

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

Financial Section

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

Actuarial Section

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

Statistical Section

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

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

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

Respectfully submitted,

Louise Gates   Alan E. Sonnanstine

Louise Gates, ASA, MAAA   Alan Sonnanstine, ASA, MAAA

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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, set forward one year for both men and women. 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. The active member population is closed to new hires. This will result in a gradual reduction in the total active member payroll over time. Adopted 1997.

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 for years beginning October 1, 1996. Adopted 1996.

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

8. The data including people now covered and about present assets was furnished by the System's administrative staff. Although examined for general reasonableness, the data was not audited by the actuary.

9. The actuarial valuation computations were made by or under the supervision of a Member of the American Academy of Actuaries (MAAA). The assumptions used in the actuarial valuations were adopted by the System's Board and the Department of Management and Budget after consulting with the actuary.

10. A 5-year experience investigation, covering the period from September 30, 1997, through September 30, 2002, was completed in April 2004. The purpose of the study was to analyze the actual experience of the System versus that anticipated by actuarial assumptions then in use. The combined effect of the recommended changes in assumptions was a decrease in actuarial accrued liabilities of approximately 1.3% and a 5.7% decrease in computed employer contributions. Adopted 2004.

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

12. Seventy-five percent of male and sixty percent of female future retirees are assumed to elect coverage for 1 or more dependents. Adopted 2007.

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

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

Summary of Actuarial Assumptions and Methods (continued)

SCHEDULE 1

Percent of Eligible Active Members Retiring Within Next Year

Retirement Ages	Correction Officers	Conservation Officers	Other Members
45		16 %	
48		16	
51	25 %	16	
55	15	16	18 %
58	12	15	12
61	15	15	14
64	22	22	20
67	25	25	25
70	50	50	50
75	100	100	100

SCHEDULE 2

Separation From Active Employment Before Age & Service Retirement & Individual Pay Increase Assumptions

			Percent of Active Members Becoming Disabled Within Next Year		
Sample Ages	Years of Service	Percent of Active Members Withdrawing Within Next Year (Men and Women)	Non-Duty Disabilities	Duty Disabilities	Percent Increase In Pay During Next Year
All	0	12.00 %			
	1	8.50			
	2	6.50			
	3	5.00			
	4	4.00			
25	5 & Over	3.50	0.03 %	0.05 %	10.74 %
35		2.50	0.10	0.05	4.95
45		2.00	0.34	0.05	4.12
55		1.75	0.62	0.05	3.91
60		1.75	0.82	0.05	3.50

Actuarial Valuation Data

Schedule of Active Member Valuation Data

Valuation Date Sept. 30	Number	Reported Annual Payroll*	Average Annual Pay	% Increase	Average Age	Average Service
1998	49,717	$ 2,107,996	$ 42,400	3.4%	44.8	14.8
1999	49,612	2,213,851	44,623	5.2	45.9	15.8
2000	47,778	2,253,818	47,173	5.7	46.7	16.7
2001	45,852	2,230,562	48,647	3.1	47.4	17.7
2002	43,064	2,133,477	49,542	1.8	48.0	18.6
2003	36,536	1,859,555	50,897	2.7	47.7	17.9
2004	34,749	1,889,410	54,373	6.8	48.4	19.0
2005	33,770	1,880,179	55,676	2.4	49.3	20.0
2006	32,575	1,847,653	56,720	1.9	50.1	21.0
2007	30,864	1,825,889	59,159	4.3	50.8	21.8

*In thousands of dollars.

Schedule of Changes in the Retirement Rolls

Year Ended Sept. 30	Added to Rolls		Removed from Rolls		Rolls–End of Year		% Increase in Annual Allowances	Average Annual Allowances
	No.	Annual Allowances[1]	No.	Annual Allowances[1]	No.	Annual Allowances[1]		
1998	1,279	$ 21,085	1,217	$ 9,689	36,185	$ 432,456	2.7 %	$ 11,951
1999	1,409	21,227	1,248	9,516	36,346	444,167	2.7	12,221
2000	1,540	22,421	1,181	2,619	36,705	463,969	4.5	12,640
2001	1,648	22,501	1,242	15,063	37,111	471,407	1.6	12,703
2002	3,806	80,871	1,251	5,310	39,666	546,968	16.0	13,789
2003[2]	6,448	163,673	623	2,034	45,491	708,607	29.6	15,577
2004	1,561	23,195	1,433	2,715	45,619	729,087	2.9	15,982
2005	1,542	25,024	1,360	6,683	45,801	747,428	2.5	16,319
2006	1,728	41,794	1,549	20,126	45,980	769,096	2.9	16,727
2007	2,206	52,687	1,300	19,765	46,886	802,018	4.3	17,106

[1] In thousands of dollars

[2] 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 System'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 following the discipline of level percent of payroll financing, the liabilities for active member contributions on deposit (liability 1) and the liabilities for future benefits to present retired lives (liability 2) will be fully covered by present assets (except in rare circumstances). In addition, the liabilities for service already rendered by active members (liability 3) are normally partially covered by the remainder of present assets. Generally, if the System has been using level-cost financing, the funded portion of liability 3 will increase over time. Liability 3 being fully funded is not necessarily a by-product of level percent of payroll funding methods.

The schedule below illustrates the history of the liabilities of the System and is indicative of the System's policy of following the discipline of level percent of payroll financing.

($ in millions)

	Actuarial Accrued Liability (AAL)							
	(1)	(2)	(3)					
Valuation Date Sept. 30	Active Member Contributions	Retirants and Beneficiaries	Active and Inactive Members (Employer Financed Portion)	Valuation Assets	Portion of AAL Covered by Assets (1)	(2)	(3)	(4) [3]
1998	$ 27	$ 4,360	$ 3,987	$ 9,109	100 %	100 %	118.4 %	108.8 %
1998 [2]	27	4,484	3,986	9,109	100	100	115.4	107.2
1999	35	4,538	4,456	9,648	100	100	113.9	106.9
2000	29	4,659	4,786	10,337	100	100	118.0	109.1
2001	34	4,677	5,167	10,633	100	100	114.6	107.6
2002	123	5,512	5,118	10,616	100	100	97.3	98.7
2003	57	7,386	4,318	10,441	100	100	69.4	88.8
2004 [2]	78	7,503	4,423	10,149	100	100	58.1	84.5
2005	97	7,607	4,696	9,897	100	100	46.7	79.8
2006	107	7,607	5,085	10,111	100	100	47.1	79.0
2006 [1]	107	7,607	5,085	10,890	100	100	62.5	85.1
2007	116	7,847	5,199	11,344	100	100	65.0	86.2

[1] Revised asset valuation method.

[2] Revised actuarial assumptions.

[3] 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, 2007
Resulting from Differences Between Assumed Experience & Actual Experience

	Type of Activity	Gain/(Loss)
1.	**Retirements (including Disability Retirement).** If members retire at older ages or with lower final average pay than assumed, there is a gain. If younger ages or higher average pays, a loss.	$ (664,534)
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.	5,750,276
3.	**Pay Increases.** If there are smaller pay increases than assumed, there is a gain. If greater increases, a loss.	(8,349,630)
4.	**Investment Income.** If there is greater investment income than assumed, there is a gain. If less income, a loss.	189,881,815
5.	**Death After Retirement.** If retirants live longer than assumed, there is a loss. If not as long, a gain.	21,929,529
6.	**Rehires.** Rehires will generally result in an actuarial loss.	(6,790,534)
7.	**Other.** Miscellaneous gains and losses resulting from data adjustments, timing of financial transactions, etc.	(19,769,652)
8.	**Composite Gain (or Loss) During Year**	$ 181,987,270

Summary of Plan Provisions

Our actuarial valuation of the System as of September 30, 2007, is based on the present provisions of the Michigan State Employees' Retirement Act (Public Act 240 of 1943, as amended).

Regular Retirement (no reduction factor for age)

Eligibility - Age 55 with 30 years service, or age 60 with 10 or more years of service. Corrections Officers may retire at age 51 with 25 or more years of service, or age 56 with 10 or more years of service. Conservation Officers may retire after 25 years of service regardless of age.

Final Average Compensation - Regular retirement benefit is based on final average compensation (FAC), which is the average of highest 3 consecutive years (2 years for Conservation Officers).

Annual Amount - Total service times 1.5% of FAC. For members with 20 or more years of service, a $3,000 minimum annual benefit is payable. Corrections Officers receive an additional temporary supplement to age 62 equal to the product of supplemental service times 0.5% of FAC. Conservation Officers retiring after 25 years receive a benefit equal to 60% of FAC.

Early Retirement (age reduction factor used)

Eligibility - Age 55 with 15 or more years of service.

Annual Amount - Computed as regular retirement benefit but reduced by 0.5% for each month under age 60.

Deferred Retirement (vested benefit)

Eligibility - 10 years of service (5 years for unclassified persons in the executive or legislative branch). Benefit commences at age 60.

Annual Amount - Computed as regular retirement benefit based on service and FAC at termination.

Duty Disability Retirement

Eligibility - No age or service requirement.

Annual Amount - Disability age 60+: Computed as regular retirement benefit with minimum benefit based on 10 years service. Disability prior to age 60: To age 60, benefit is computed as a regular retirement benefit using service at the time of disability retirement with a minimum benefit of $6,000 per year. Additional limitation such that benefit plus workers' compensation does not exceed final compensation. At age 60, benefit is recomputed as a regular retirement benefit with service granted for period in receipt of disability benefit before age 60. If the member dies before age 60, benefits are payable to a surviving spouse computed as a regular retirement benefit but based on service at time of disability retirement plus elapsed time between date of retirement and age 60.

Non-Duty Disability Retirement

Eligibility - 10 years of service.

Annual Amount - Computed as regular retirement benefit based on service and FAC at time of disability. Minimum annual benefit is $600.

Summary of Plan Provisions (continued)

Duty Death Before Retirement

Eligibility - No age or service requirement.

Annual Amount - Accumulated employee contributions are refunded. Surviving spouse receives annual benefit computed as a regular retirement benefit as if the deceased member retired the day before date of death and elected Option A. Benefit is based on member's service at time of death, or 10 years of service, whichever is greater. A minimum benefit of $6,000 per year is payable. Children under age 21 each receive equal share of one-half of the benefit payable (surviving spouse receives the other half), to a maximum of one-half for all children. A given child's share of benefits terminates upon the child's marriage, death or attainment of age 21. In the event that there is no surviving spouse, the benefit is allocated equally among all children subject to the limitations described above. In the event that there is no surviving spouse or eligible children, benefits may be paid to an eligible, dependent parent. Benefits end upon the marriage or death of the surviving parent. Additional limitation such that benefit plus workers' compensation does not exceed final compensation.

Non-Duty Death Before Retirement

Eligibility - 10 years of service. In the case of a deceased vested former member, the survivor benefit commences when the deceased former member would have attained age 60.

Annual Amount - Computed as regular retirement benefit but reduced in accordance with a 100% joint and survivor election.

Post-Retirement Cost-of-Living Adjustments

One-time upward adjustments have been made in 1972, 1974, 1976, 1977 and 1987. Beginning in 1983, some benefit recipients share in a distribution of a portion of investment income earned in excess of 8% annually (supplemental payment). Beginning in 1988, all benefit recipients are eligible for automatic 3% annual (non-compounded) benefit increases, with a maximum $300 annual increase. Eligibility for the above benefits:

Retired before October 1, 1987	Greater of supplemental payment or the combination of the 1987 one-time adjustment and the automatic increases.
Retired on or after October 1, 1987	Automatic increases only.

Post-Retirement Health Benefits Coverage

Persons in receipt of retirement allowance (including members who did not retire directly from the System, but come from a vested deferred status), and their dependents, are eligible for 95% System paid health insurance coverage and 90% System paid dental and vision insurance.

Member Contributions

None.

Defined Contribution (Public Act 487 of 1996)

New employees hired on or after March 31, 1997, become participants in Tier 2 (i.e., the defined contribution plan) rather than Tier 1 (i.e., the above described defined benefit plan).

Active members on March 30, 1997, had an opportunity to irrevocably elect to terminate membership in Tier 1 and become participants in Tier 2. Elections were in writing and submitted between January 2, 1998, and April 30, 1998.

Summary of Plan Provisions (continued)

Such members became Tier 2 participants on June 1, 1998, and had the actuarial present value of their Tier 1 accrued benefit transferred into Tier 2 by September 30, 1998.

2002 Early Out Window

Members who retired between April 1, 2002, and November 1, 2002, and whose combined age and service equaled 80 points, or who were age 60 or older with 10 or more years of service were eligible to receive a benefit equal to 1.75% of their final average compensation multiplied by years of credited service. Members, who had previously transferred to the Defined Contribution plan, were eligible to receive a benefit equal to 0.25% of their final average compensation multiplied by years of credited service.

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STATISTICAL SECTION

STATISTICAL SECTION

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

Contents

Financial Trends

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

- Schedule of Pension Plan Revenues by Source
- Schedule of OPEB Plan Revenues by Source
- Schedule of Pension Plan Expenses by Type
- Schedule of OPEB Plan Expenses by Type
- Schedule of Changes in Net Assets - Pension Plan
- Schedule of Changes in Net Assets - OPEB Plan
- Schedule of Pension Benefits 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 Benefit
- Schedule of Average Benefit Payments - Pension
- Schedule of Average Benefit Payments - Health
- Schedule of Average Benefit Payments - Dental
- Schedule of Average Benefit Payments - Vision
- Ten Year History of Membership

Schedule of Pension Plan Revenues by Source

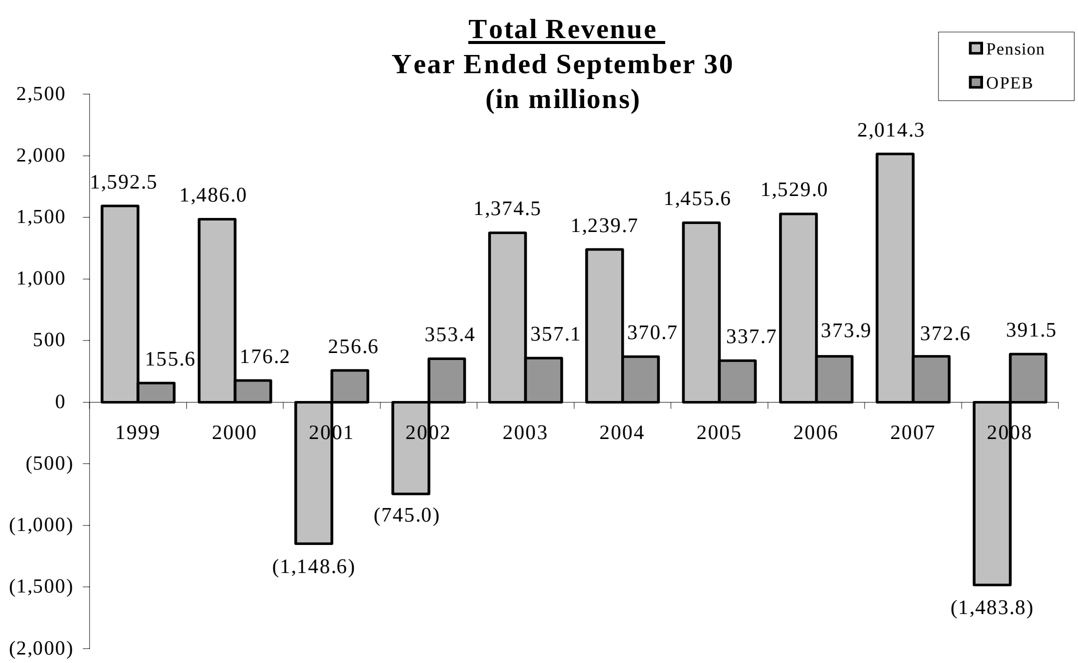
Last Ten Years

Fiscal Year Ended Sept. 30	Member Contributions	Employer Contributions Dollars	Employer Contributions % of Annual Covered Payroll	Net Investment & Other Income	Total
1999	$ 6,186,018	$ 121,119,857	5.5 %	$ 1,465,196,232	$ 1,592,502,107
2000	4,606,662	121,817,366	5.4	1,359,608,718	1,486,032,746
2001	3,341,381	112,299,808	5.0	(1,264,290,456)	(1,148,649,267)
2002	173,232,835	87,486,128	4.1	(1,005,732,436)	(745,013,473)
2003	80,185,475	79,291,845	4.3	1,215,018,189	1,374,495,509
2004	37,682,883	103,873,294	5.5	1,098,149,414	1,239,705,591
2005	30,395,040	256,433,052	13.6	1,168,811,938	1,455,640,030
2006	9,434,310	270,705,017	14.7	1,248,845,519	1,528,984,846
2007	19,696,132	150,858,506	8.3	1,843,763,625	2,014,318,263
2008	5,643,805	355,732,115	N/A	(1,845,218,084)	(1,483,842,164)

Schedule of OPEB Plan Revenues by Source

Last Ten Years

Fiscal Year Ended Sept. 30	Member Contributions	Employer Contributions Dollars	Employer Contributions % of Annual Covered Payroll	Net Investment & Other Income	Total
1999	$ 4,861,628	$ 144,515,766	6.5 %	$ 6,219,220	$ 155,596,614
2000	5,056,971	166,833,573	7.4	4,339,752	176,230,296
2001	5,793,284	249,214,002	11.2	1,586,567	256,593,853
2002	6,326,267	257,730,817	12.1	89,328,292	353,385,376
2003	11,144,737	320,838,540	17.2	25,157,754	357,141,031
2004	9,723,230	357,554,699	18.9	3,380,735	370,658,664
2005	10,701,614	324,305,023	17.3	2,712,374	337,719,011
2006	11,528,041	356,674,243	19.3	5,660,782	373,863,066
2007	11,760,544	359,375,055	19.4	1,500,072	372,635,671
2008	13,099,796	342,186,903	N/A	36,247,835	391,534,534



Schedule of Pension Plan Expenses by Type

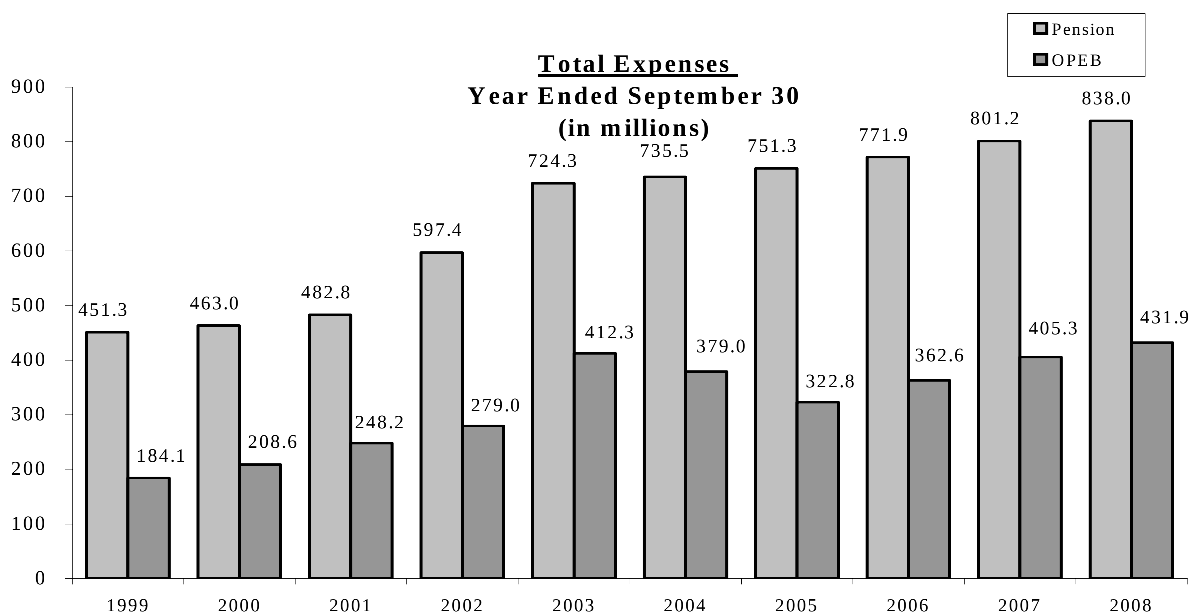
Last Ten Years

Fiscal Year Ended Sept. 30	Benefit Payments	Refunds and Transfers	Administrative and Other Expenses	Total
1999	$ 446,219,254	$ 728,366	$ 4,330,623	$ 451,278,243
2000	458,803,774	222,163	3,954,992	462,980,929
2001	478,525,328	91,699	4,149,284	482,766,311
2002	503,453,879	87,504,459	6,432,819	597,391,157
2003	701,664,432	17,484,652	5,192,039	724,341,123
2004	731,009,109	183,126	4,316,433	735,508,668
2005	746,673,263	306,643	4,297,985	751,277,891
2006	767,000,706	256,533	4,628,043	771,885,282
2007	795,842,013	229,600	5,115,226	801,186,839
2008	832,553,176	373,916	5,048,737	837,975,829

Schedule of OPEB Plan Expenses by Type

Last Ten Years

Fiscal Year Ended Sept. 30	Benefit Payments	Refunds and Transfers	Administrative and Other Expenses	Total
1999	$ 184,127,475			$ 184,127,475
2000	208,627,602	$ 8		208,627,610
2001	248,246,380			248,246,380
2002	278,998,333			278,998,333
2003	354,084,838	58,211,100		412,295,938
2004	354,649,665	24,363,516		379,013,181
2005	322,834,138			322,834,138
2006	362,597,685			362,597,685
2007	363,975,051	41,304,031		405,279,082
2008	377,513,873	35,001,063	$ 19,393,665	431,908,601



Schedule of Changes in Net Assets - Pension Plan

Last Ten Years
(in thousands)

	Fiscal Year									
	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Member contributions	$ 6,186	$ 4,607	$ 3,341	$ 173,233	$ 80,185	$ 37,683	$ 30,395	$ 9,435	$ 19,696	$ 5,644
Employer contributions	121,120	121,817	112,300	87,486	79,292	103,873	256,433	270,705	150,858	355,732
DC savings subaccount										
Net investment income	1,465,196	1,359,606	(1,264,292)	(1,005,733)	1,215,018	1,073,758	1,168,690	1,248,616	1,801,588	(1,845,592)
Transfer from other systems						26	120	123	106	190
Transfer from pension/ OPEB plan						24,364			41,304	
Miscellaneous income		3	2			2	2	106	766	184
Total Additions	1,592,502	1,486,033	(1,148,649)	(745,014)	1,374,495	1,239,706	1,455,640	1,528,985	2,014,318	(1,483,842)
Pension benefits	446,219	458,804	478,525	503,454	701,664	731,009	746,673	767,000	795,842	832,553
Refunds of member contributions	21	43	15	5	118	163	292	254	222	291
Transfer to pension/ OPEB plan				87,486	17,365					
Tranfer to other systems	707	179	77	13	2	20	15	3	8	83
Administrative expenses	4,331	3,955	4,149	6,433	5,192	4,317	4,298	4,628	5,115	5,049
Total Deductions	451,278	462,981	482,766	597,391	724,341	735,509	751,278	771,885	801,187	837,976
Changes in net assets	$ 1,141,224	$ 1,023,052	$ (1,631,415)	$ (1,342,405)	$ 650,154	$ 504,197	$ 704,362	$ 757,100	$ 1,213,131	$ (2,321,818)

Schedule of Changes in Net Assets - OPEB Plan

Last Ten Years
(in thousands)

	Fiscal Year									
	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Member contributions	$ 4,862	$ 5,057	$ 5,793	$ 6,326	$ 11,145	$ 9,723	$ 10,702	$ 11,528	$ 11,761	$ 13,100
Employer contributions	144,516	166,833	249,214	257,731	320,838	357,555	324,305	356,674	359,375	342,187
Other governmental contributions										23,004
DC savings subaccount	170	574	412							
Net investment income	6,049	3,766	1,175	1,842	7,793	3,381	2,712	5,661	1,500	5,662
Transfer from other systems										6,884
Transfer from pension/ OPEB plan				87,486	17,365					
Miscellaneous income										698
Total Additions	155,597	176,230	256,594	353,385	357,141	370,659	337,719	373,863	372,636	391,535
Health care benefits	184,128	208,628	248,246	278,998	354,085	354,650	322,834	362,598	363,975	377,513
Refunds of member contributions										2
Transfer to pension/ OPEB plan						24,364			41,304	
Tranfer to other systems					58,211					35,000
Administrative expenses										19,394
Total Deductions	184,128	208,628	248,246	278,998	412,296	379,014	322,834	362,598	405,279	431,909
Changes in net assets	$ (28,531)	$ (32,398)	$ 8,348	$ 74,387	$ (55,155)	$ (8,355)	$ 14,885	$ 11,265	$ (32,643)	$ (40,374)

Schedule of Pension Benefits and Refunds by Type

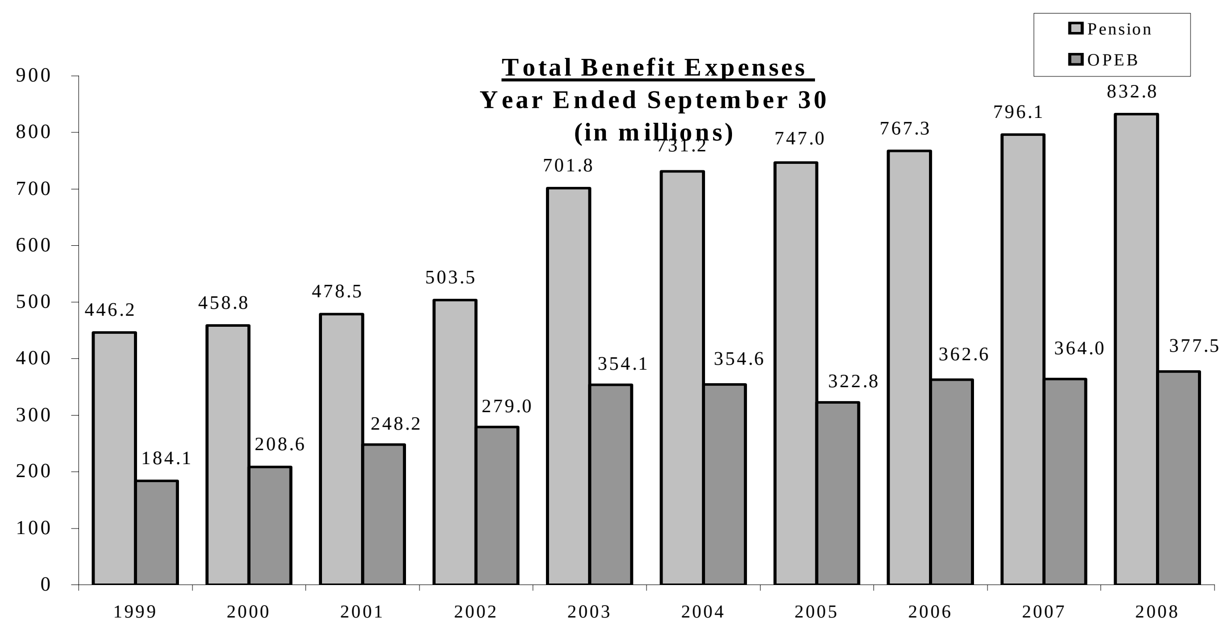
Last Ten Years

Fiscal Year Ended Sept. 30	Regular Benefits	Disability Benefits	Survivor Benefits	Supplemental Check	Refunds			Total
					Employee Contribution	Employer Contribution	Retired Benefit	
1999	$ 417,313,133	$ 28,227,807		$ 678,314	$ 21,110			$ 446,240,364
2000	427,500,808	30,867,062		435,896	43,486			458,847,252
2001	444,244,814	33,902,047		378,467	14,900			478,540,228
2002	467,909,032	35,544,847			4,870			503,458,749
2003	664,188,203	37,476,229			60,536	$ 57,059		701,782,027
2004	690,942,422	40,066,687			72,838	90,580		731,172,527
2005	704,890,377	41,782,886			63,782	227,810		746,964,855
2006	676,029,503	37,961,735	$ 53,009,468		145,554	105,809	$ 2,523	767,254,592
2007	688,989,246	38,666,660	68,186,107		42,892	178,316	831	796,064,052
2008	720,224,862	39,877,844	72,450,470		69,741	219,335	1,702	832,843,954

Schedule of OPEB Benefits and Refunds by Type

Last Ten Years

Fiscal Year Ended Sept. 30	Health Benefits	Dental Benefits	Vision Benefits	Health Refunds	Total
1999	$ 169,003,923	$ 12,501,788	$ 2,621,764		$ 184,127,475
2000	193,427,912	12,548,519	2,651,171	$ 8	208,627,610
2001	229,870,026	15,737,224	2,639,130		248,246,380
2002	257,587,230	18,453,322	2,957,781		278,998,333
2003	327,707,446	22,732,630	3,644,762		354,084,838
2004	327,143,997	23,831,344	3,674,324		354,649,665
2005	295,431,830	23,740,953	3,661,355		322,834,138
2006	328,528,595	29,583,938	4,485,152		362,597,685
2007	329,714,449	29,750,672	4,509,930		363,975,051
2008	345,286,591	29,046,230	3,181,052	295	377,514,168



Schedule of Retired Members by Type of Pension Benefit

September 30, 2007

Amount of Monthly Pension Benefit	Number of Retirees	Type of Retirement *							
		1	2	3	4	5	6	7	8
$ 1 - 200	588	269	223	12	61	-	10	-	13
201 - 400	2,925	1,697	641	7	363	-	71	1	145
401 - 600	5,141	2,824	684	346	750	17	201	9	310
601 - 800	5,024	2,942	605	5	849	-	257	20	346
801 - 1,000	4,325	2,614	448	9	709	1	218	66	260
1,001 - 1,200	3,921	2,523	327	7	581	-	206	93	184
1,201 - 1,400	4,004	2,940	294	6	392	-	162	84	126
1,401 - 1,600	3,674	2,898	253	1	201	-	119	125	77
1,601 - 1,800	3,280	2,734	157	1	116	-	73	164	35
1,801 - 2,000	2,877	2,484	113	-	55	-	41	165	19
Over 2,000	11,127	9,757	211	2	36	-	82	1,003	36
Totals	46,886	33,682	3,956	396	4,113	18	1,440	1,730	1,551

* Type of Retirement

1 - Normal retirement for age & service
2 - Survivor payment - normal or early retirement
3 - Duty disability retirement (incl. survivors)
4 - Non-duty disability retirement (incl. survivors)
5 - Survivor payment - duty death in service
6 - Survivor payment - non-duty death in service
7 - Retirees with supplemental benefits for early retirement incentive factors
8 - Retirees with reduced benefits for early retirement reduction factors

Source: Gabriel Roeder Smith & Co.

Schedule of Retired Members by Type of Pension Benefit (continued)

September 30, 2007

Amount of Monthly Pension Benefit	Number of Retirees	Selected Option **							
		Reg.	Opt. A	Opt. B	Opt. C	Opt. E	Opt. E1	Opt. E2	Opt. E3
$ 1 - 200	588	140	166	201	4	50	12	13	2
201 - 400	2,925	1,101	765	657	34	242	61	65	-
401 - 600	5,141	2,192	1,349	798	73	451	110	162	6
601 - 800	5,024	2,069	1,344	835	77	471	74	151	3
801 - 1,000	4,325	1,807	1,201	783	71	308	62	90	3
1,001 - 1,200	3,921	1,788	1,126	659	77	156	49	64	2
1,201 - 1,400	4,004	1,855	1,188	690	77	107	44	40	3
1,401 - 1,600	3,674	1,499	1,185	713	105	92	38	37	5
1,601 - 1,800	3,280	1,294	1,005	631	145	86	60	47	12
1,801 - 2,000	2,877	1,063	829	544	142	144	64	69	22
Over 2,000	11,127	3,727	2,951	2,036	713	868	284	429	119
Totals	46,886	18,535	13,109	8,547	1,518	2,975	858	1,167	177

**Selected Option

Reg. - Straight life allowance
Opt. A - 100% survivor option
Opt. B - 50% survivor option
Opt. C - 75% survivor option
Opt. E - Social Security equated
Opt. E1 - Social Security equated w/100% survivor option
Opt. E2 - Social Security equated w/50% survivor option
Opt. E3 - Social Security equated w/75% survivor option

Source: Gabriel Roeder Smith & Co.

Schedule of Retired Members by Type of Other Postemployment Benefit

September 30, 2007

Amount of Monthly Pension Benefit	Eligible Retirees	Type of Other Postemployment Benefits		
		Health	Dental	Vision
$ 1 - 200	588	385	373	378
201 - 400	2,925	2,218	2,138	2,176
401 - 600	5,141	4,329	4,307	4,324
601 - 800	5,024	4,401	4,350	4,367
801 - 1,000	4,325	3,896	3,885	3,907
1,001 - 1,200	3,921	3,601	3,573	3,583
1,201 - 1,400	4,004	3,708	3,699	3,708
1,401 - 1,600	3,674	3,438	3,447	3,448
1,601 - 1,800	3,280	3,070	3,078	3,084
1,801 - 2,000	2,877	2,702	2,727	2,718
Over 2,000	11,127	10,372	10,485	10,483
Totals	46,886	42,120	42,062	42,176

Source: Gabriel Roeder Smith & Co.

Schedule of Average Benefit Payments - Pension

Last Ten Years

Payment Periods	Credited Service (Years) as of September 30							
	0 - 5	**5 - 10**	**10 - 15**	**15 - 20**	**20 - 25**	**25 - 30**	**30+**	**Total**
Period 10/1/97 to 9/30/98								
Average Monthly Benefit	$ 373	$ 369	$ 414	$ 651	$ 901	$ 1,298	$ 1,571	$ 996
Average Final Average Salary	10,322	28,458	23,509	26,087	28,395	33,076	33,906	29,148
Number of Active Retirants	411	449	6,246	6,906	6,389	7,074	8,710	36,185
Period 10/1/98 to 9/30/99								
Average Monthly Benefit	$ 375	$ 379	$ 433	$ 673	$ 926	$ 1,329	$ 1,600	$ 1,018
Average Final Average Salary	9,939	29,279	24,597	26,881	29,163	33,685	34,435	29,846
Number of Active Retirants	432	457	6,328	6,939	6,421	7,091	8,678	36,346
Period 10/1/99 to 9/30/00								
Average Monthly Benefit	$ 398	$ 390	$ 453	$ 694	$ 952	$ 1,388	$ 1,656	$ 1,053
Average Final Average Salary	9,908	30,734	25,784	27,734	29,943	34,218	35,149	30,620
Number of Active Retirants	450	454	6,476	6,984	6,488	7,145	8,708	36,705
Period 10/1/00 to 9/30/01								
Average Monthly Benefit	$ 663	$ 578	$ 474	$ 711	$ 970	$ 1,373	$ 1,653	$ 1,059
Average Final Average Salary	22,101	29,518	26,928	28,637	30,998	34,818	35,868	31,509
Number of Active Retirants	771	697	6,429	6,929	6,485	7,204	8,598	37,113
Period 10/1/01 to 9/30/02								
Average Monthly Benefit	$ 670	$ 542	$ 491	$ 733	$ 1,007	$ 1,460	$ 1,789	$ 1,149
Average Final Average Salary	18,504	31,089	27,935	29,554	32,211	36,772	38,742	33,313
Number of Active Retirants	827	626	6,505	6,962	6,710	7,985	10,051	39,666
Period 10/1/02 to 9/30/03								
Average Monthly Benefit	$ 731	$ 559	$ 510	$ 758	$ 1,074	$ 1,573	$ 1,990	$ 1,298
Average Final Average Salary	23,640	29,738	28,338	29,985	33,205	39,023	42,071	35,175
Number of Active Retirants	1,056	653	6,632	7,036	7,221	9,889	13,004	45,491
Period 10/1/03 to 9/30/04								
Average Monthly Benefit	$ 475	$ 429	$ 528	$ 783	$ 1,112	$ 1,618	$ 2,036	$ 1,332
Average Final Average Salary	6,315	34,463	29,897	31,520	34,992	40,396	43,751	36,939
Number of Active Retirants	687	454	6,842	7,262	7,287	9,951	13,136	45,619
Period 10/1/04 to 9/30/05								
Average Monthly Benefit	$ 491	$ 437	$ 545	$ 807	$ 1,136	$ 1,650	$ 2,077	$ 1,360
Average Final Average Salary	5,754	34,264	29,838	31,806	34,749	40,329	43,302	36,774
Number of Active Retirants	712	453	6,850	7,272	7,303	10,035	13,176	45,801
Period 10/1/05 to 9/30/06								
Average Monthly Benefit	$ 381	$ 432	$ 562	$ 831	$ 1,158	$ 1,673	$ 2,094	$ 1,394
Average Final Average Salary	20,190	35,841	31,723	33,730	36,861	41,827	45,468	39,123
Number of Active Retirants	221	459	6,896	7,340	7,380	10,235	13,449	45,980
Period 10/1/06 to 9/30/07								
Average Monthly Benefit	$ 410	$ 449	$ 575	$ 856	$ 1,189	$ 1,702	$ 2,133	$ 1,425
Average Final Average Salary	20,673	36,684	32,290	34,739	37,877	42,531	46,435	40,007
Number of Active Retirants	229	481	6,980	7,470	7,499	10,380	13,847	46,886

Source: Gabriel Roeder Smith & Co.

Schedule of Average Benefit Payments - Health

Last Three Years

Payment Periods	Credited Service (Years) as of September 30							
	0 - 5	**5 - 10**	**10 - 15**	**15 - 20**	**20 - 25**	**25 - 30**	**30+**	**Total**
Period 10/1/04 to 9/30/05								
Average Monthly Benefit	$ 303	$ 447	$ 568	$ 837	$ 1,169	$ 1,665	$ 2,097	$ 1,403
Average Final Average Salary	24,519	32,338	31,463	33,062	36,386	41,099	44,724	38,580
Number of Active Retirants	139	625	5,807	6,476	6,787	9,409	12,064	41,307*
Period 10/1/05 to 9/30/06								
Average Monthly Benefit	$ 337	$ 446	$ 582	$ 851	$ 1,190	$ 1,693	$ 2,127	$ 1,427
Average Final Average Salary	25,056	32,732	32,188	34,003	37,149	41,689	45,360	39,296
Number of Active Retirants	136	623	5,812	6,510	6,805	9,469	12,158	41,513
Period 10/1/06 to 9/30/07								
Average Monthly Benefit	$ 362	$ 464	$ 596	$ 879	$ 1,220	$ 1,723	$ 2,167	$ 1,462
Average Final Average Salary	25,607	33,691	32,779	35,044	38,135	42,355	46,304	40,186
Number of Active Retirants	137	625	5,833	6,568	6,892	9,574	12,491	42,120

*Participating member totals displayed in this schedule and the information presented in Note 1 of this report may differ. These variances are the result of a mid-year data conversion.

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

Schedule of Average Benefit Payments - Dental

Last Three Years

Payment Periods	Credited Service (Years) as of September 30							
	0 - 5	**5 - 10**	**10 - 15**	**15 - 20**	**20 - 25**	**25 - 30**	**30+**	**Total**
Period 10/1/04 to 9/30/05								
Average Monthly Benefit	$ 306	$ 452	$ 571	$ 843	$ 1,175	$ 1,673	$ 2,107	$ 1,412
Average Final Average Salary	25,022	32,929	31,707	33,355	36,623	41,323	44,940	38,843
Number of Active Retirants	139	623	5,782	6,413	6,732	9,378	12,098	41,165*
Period 10/1/05 to 9/30/06								
Average Monthly Benefit	$ 340	$ 450	$ 585	$ 856	$ 1,196	$ 1,700	$ 2,135	$ 1,435
Average Final Average Salary	25,468	33,213	32,422	34,280	37,377	41,889	45,557	39,535
Number of Active Retirants	138	620	5,810	6,457	6,754	9,444	12,199	41,422
Period 10/1/06 to 9/30/07								
Average Monthly Benefit	$ 364	$ 468	$ 598	$ 884	$ 1,225	$ 1,730	$ 2,176	$ 1,469
Average Final Average Salary	26,051	34,210	32,996	35,318	38,325	42,551	46,514	40,418
Number of Active Retirants	140	621	5,841	6,520	6,849	9,559	12,532	42,062

*Participating member totals displayed in this schedule and the information presented in Note 1 of this report may differ. These variances are the result of a mid-year data conversion.

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

Schedule of Average Benefit Payments - Vision

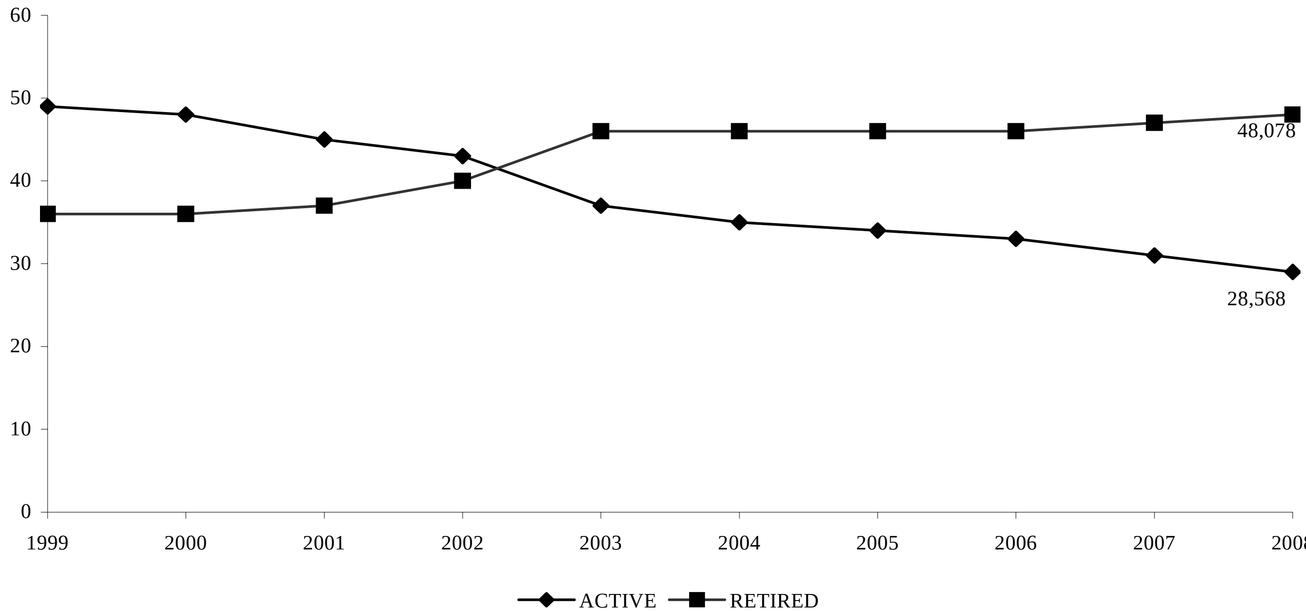
Last Three Years

Payment Periods	Credited Service (Years) as of September 30							
	0 - 5	**5 - 10**	**10 - 15**	**15 - 20**	**20 - 25**	**25 - 30**	**30+**	**Total**
Period 10/1/04 to 9/30/05								
Average Monthly Benefit	$ 308	$ 449	$ 570	$ 841	$ 1,174	$ 1,670	$ 2,106	$ 1,409
Average Final Average Salary	24,976	32,829	31,607	33,272	36,587	41,240	44,911	38,774
Number of Active Retirants	131	627	5,809	6,449	6,752	9,410	12,095	41,273*
Period 10/1/05 to 9/30/06								
Average Monthly Benefit	$ 342	$ 447	$ 583	$ 855	$ 1,194	$ 1,698	$ 2,135	$ 1,432
Average Final Average Salary	25,428	33,135	32,307	34,214	37,321	41,802	45,536	39,465
Number of Active Retirants	131	624	5,835	6,490	6,777	9,477	12,195	41,529
Period 10/1/06 to 9/30/07								
Average Monthly Benefit	$ 367	$ 465	$ 596	$ 882	$ 1,225	$ 1,727	$ 2,175	$ 1,467
Average Final Average Salary	26,042	34,121	32,874	35,234	38,304	42,459	46,480	40,345
Number of Active Retirants	133	626	5,870	6,553	6,865	9,596	12,533	42,176

*Participating member totals displayed in this schedule and the information presented in Note 1 of this report may differ. These variances are the result of a mid-year data conversion.

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

Ten Year History of Membership
Fiscal Year Ended September 30



Source: Gabriel Roeder Smith & Co.

ACKNOWLEDGMENTS

The *Michigan State Employees' Retirement System Comprehensive Annual Financial Report* is prepared by Financial Services, Fiscal Management Division. Staff of the division for the fiscal year 2007-2008 report included:

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