<u>**Michigan State Employees' Retirement System**</u>
A Pension and Other Employee Benefit Trust Fund of the State of Michigan

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

M S E R S

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

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INTRODUCTORY SECTION

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, 2008

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

President

Executive Director

Public Pension Standards Award

Public Pension Coordinating Council

Public Pension Standards Award For Funding and Administration 2009

Presented to

Michigan Office of Retirement Services

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

Presented by the Public Pension Coordinating Council, a confederation of

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

Alan H. Winkle

Alan H. Winkle
Program Administrator

INTRODUCTORY SECTION

Letter of Transmittal

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

STATE OF MICHIGAN

JENNIFER M. GRANHOLM, Governor

DEPARTMENT OF MANAGEMENT AND BUDGET

December 23, 2009

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

Members of the Legislature
State of Michigan,

Retirement Board Members
and
Members, Retirees and Beneficiaries

Ladies and Gentlemen:

We are pleased to present the comprehensive annual financial report of the Michigan State Employees' Retirement System (System) for fiscal year 2009.

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 and Actuary

The Office of the Auditor General (OAG), independent auditors, conducted an annual audit of the System. The independent auditor's report on the System's financial statements is included in the Financial Section of this report.

Statute requires an annual actuarial valuation be conducted. The purpose of the valuation is to evaluate the mortality, service, compensation and other financial experience of the System and to recommend employer-funding rates for the subsequent year. The annual actuarial valuation was completed by Gabriel Roeder Smith & Company for the fiscal year ended September 30, 2008. Actuarial certification and supporting statistics are included in the Actuarial Section of this report.

Management's Discussion and Analysis (MD&A)

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

PROFILE OF THE GOVERNMENT

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 (6.3)%. For the last five years, the System has experienced an annualized rate of return of 4.1%. A summary of asset allocation and rates of return can be found in the Investment Section of this report.

Accounting System

Transactions of the System are reported on the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when incurred. Participants' benefits are recorded when payable by law. We believe 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 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, 2008. The actuarial value of the assets and actuarial accrued liability of the System were $11.4 billion and $13.8 billion, respectively, resulting in a funded ratio of 82.8% on September 30, 2008. An historical perspective of funding levels for the System is presented on the Schedule of Funding Progress in the Required Supplementary Information in the Financial Section of this report.

Postemployment Benefits

In fiscal year 2007, the System implemented Governmental Accounting Standards Board (GASB) Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans.* A GASB 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, 2008 would be approximately $13.5 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 three valuation years are presented and 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 fiscal year 2008 activity, were accounted for within the Reserve for OPEB Related Benefits in fiscal year 2008. OPEB benefits were accounted for according to GASB Statement No. 45 guidance in fiscal year 2009.

MAJOR GOALS ACCOMPLISHED

The Michigan Department of Management and Budget, Office of Retirement Services (ORS) is an innovative retirement organization driven to empower our customers for a successful today and a secure tomorrow. During fiscal year 2009, we concluded our strategic planning process outlining the next three years of business goals. The project united staff members from across the organization, generated fresh and unique perspectives, and created broad staff support of the strategic objectives.

Focus on our Customer

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

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

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

Letter of Transmittal (continued)

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

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

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

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

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

New training sessions for soon-to-retire members - We crafted Ready Set Retire sessions to help members who are retiring in the next 12 months to better understand their pension estimates and assist with questions they may have as they prepare for this significant life change.

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

Online tutorials offer customers the option of self-education - We created and posted five tutorials to the state employee website covering pension eligibility, pension calculation, and pension payment options. Two additional tutorials cover specific information for conservation officers and those who are eligible for a supplemental pension because they work directly with prisoners.

Webinars offer new avenue for customer education - We began delivering pilot seminars to state employees via webinar. During this pilot, we served more than 350 members. Feedback has been positive as customers learn about their plan in an interactive way but in the comfort of their homes and at more convenient times.

Convenient services available through payroll deduction - Partnering with the Civil Service Commission Employee Benefits Division, we now offer retirees the option of using pension payroll deduction to participate in Benefits for Life, a voluntary benefits program. Retirees are able to choose from a combination of benefits and features that may help meet their personal and family insurance needs, and have their premiums withheld from their pension payments.

Letter of Transmittal (continued)

We're going green with ING - In a joint effort to be more earth friendly, we have paired with ING to offer 457 and 401(k) plan participants paperless statements. Within a month of making the offering, seven percent of customers signed up for the new service, and we expect this to grow as we continue to market the new service.

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

Continuously Improve Processes

Scanning decreases response time - We completed a massive imaging project converting member files into electronic files. Nearly 4,000 documents were imaged and now can be accessed within minutes, allowing us to quickly respond to customer queries.

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

Optimize Technology

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

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

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

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

Promote a Positive Work Environment

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

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

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

Letter of Transmittal (continued)

AWARDS AND ACKNOWLEDGEMENTS

ORS received the following recognitions:

- Certificate of Achievement for Excellence in Financial Reporting for our fiscal year 2008 *Comprehensive Annual Financial Report.* Awarded by the Government Finance Officers Association of the United States and Canada, 2008 marks the 18^{th} consecutive year we received this prestigious award.

- Public Pension Standards 2009 Award by the Public Pension Coordinating Council for meeting standards for public retirement system management and administration.

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

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

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

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, Director
Department of Management and Budget

Phillip J. Stoddard, Director
Office of Retirement Services

INTRODUCTORY SECTION

Administrative Organization

Retirement Board Members *

Douglas Drake, Chair
Retiree Member
Term Expires July 31, 2010

H. David Dekker
Employee Member
Term Expires July 31, 2011

Calvin Frappier
Retiree Member
Term Expires July 31, 2009
continues to Serve

George M. Elworth
Representing Attorney General
Ex officio

Craig Murray
Representing Deputy Auditor General
Ex officio

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

D. Daniel McLellan
Representing State Personnel Director
Ex officio

Vernon Johnson
Representing State Treasurer
Ex officio

Vacant
Employee Member

* 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

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

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

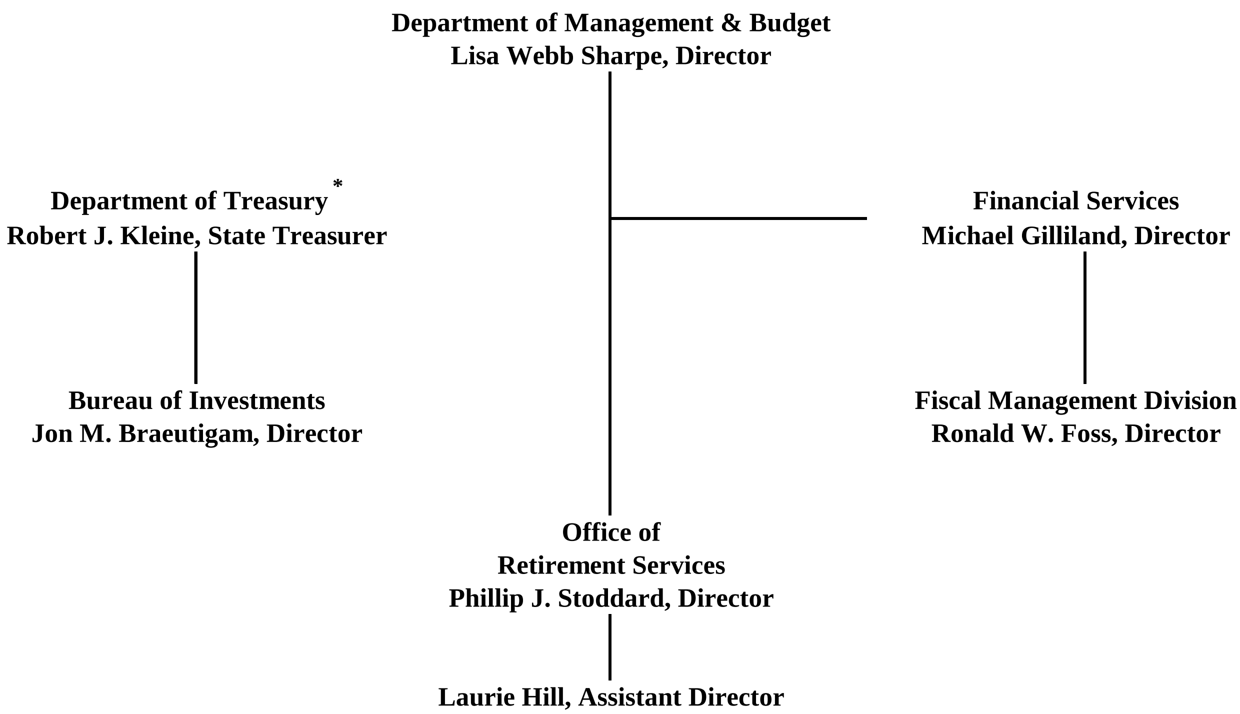
Investment Manager and Custodian
Robert J. Kleine
State Treasurer
State of Michigan

Legal Advisor
Mike Cox
Attorney General
State of Michigan

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

***F**INANCIAL* ***S**ECTION*

Independent Auditor's Report

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

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

Independent Auditor's Report on
the Financial Statements

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

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

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

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

Independent Auditor's Report (continued)

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

In accordance with *Government Auditing Standards*, we will also issue a report on our consideration of the Michigan 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 grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages 18 through 21 and the required supplementary information and corresponding note on pages 43 through 45 are not required parts of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The introductory, investment, actuarial, and statistical sections and the supporting schedules are presented for the purposes of additional analysis and are not a required part of the basic financial statements. The supporting schedules on pages 46 through 49 have been subjected to auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole. The introductory, investment, actuarial, and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

AUDITOR GENERAL

December 23, 2009

FINANCIAL SECTION

Management's Discussion and Analysis

Our discussion and analysis of the Michigan State Employees' Retirement System's (System) financial performance provides an overview of the System's financial activities for the fiscal year ended September 30, 2009. Please read it in conjunction with the transmittal letter in the Introductory Section on page 6 and the basic financial statements, which follow this discussion.

FINANCIAL HIGHLIGHTS

- System assets exceeded liabilities at the close of fiscal year 2009 by $8.6 billion (reported as *net assets*). Net assets are held in trust to meet future benefit payments.

- The System's funding objective is to meet long-term benefit obligations through contributions and investment income. As of September 30, 2008, the funded ratio was approximately 82.8% for pension benefits and the funded ratio for other postemployment benefits (OPEB) was 0.0%.

- Additions for the year were $79.7 million, which are comprised primarily of contributions of $756.2 million and investment losses of ($677.2) million.

- Deductions increased over the prior year from $1.27 billion to $1.29 billion or 1.5%. 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 and Other 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, 2009, were $10.2 billion and were mostly comprised of cash, investments, and contributions due from employers. Total assets decreased $1.4 billion or (11.7)% between fiscal years 2008 and 2009 and total assets decreased $3.1 billion or (21.1)% between fiscal years 2007 and 2008 due primarily to net investment losses.

Total liabilities as of September 30, 2009, were $1.6 billion and were comprised of warrants outstanding, accounts payable, and obligations under securities lending. Total liabilities decreased $146.4 million or (8.2)% between fiscal years 2008 and 2009 and total liabilities decreased $782.6 million or (30.5)% between fiscal years 2007 and 2008 due primarily to decreased obligations under securities lending.

System assets exceeded its liabilities at the close of fiscal year 2009 by $8.6 billion. Net assets held in trust for pension and OPEB benefits decreased $1.2 billion or (12.3)% between fiscal years 2008 and 2009 and total net assets decreased $2.3 billion or (19.1)% between fiscal years 2007 and 2008 due primarily to investment losses.

Net Assets
(in thousands)

	2009	Increase (Decrease)	2008	Increase (Decrease)	2007
Assets					
Cash	$ 19,886	(90.9) %	$ 217,372	695.6 %	$ 27,322
Receivables	114,466	2.0	112,269	20.6	93,055
Investments	10,113,390	(10.3)	11,273,316	(22.7)	14,577,093
Total Assets	10,247,742	(11.7)	11,602,957	(21.1)	14,697,470
Liabilities					
Warrants outstanding	1,732	(13.4)	1,999	(14.0)	2,324
Accounts payable and other accrued liabilities	76,057	(0.5)	76,426	5248.2	1,429
Obligations under securities lending	1,560,297	(8.5)	1,706,015	(33.4)	2,563,249
Total Liabilities	1,638,086	(8.2)	1,784,440	(30.5)	2,567,002
Total Net Assets	$ 8,609,656	(12.3) %	$ 9,818,517	(19.1) %	$ 12,130,468

Management's Discussion and Analysis (continued)

ADDITIONS TO PLAN NET ASSETS

The reserves needed to finance pension and other postemployment benefits are accumulated through the collection of employer contributions and through earnings on investments. Contributions and net investment losses for fiscal year 2009 totaled $79.7 million.

Total additions for fiscal year 2009 increased $1.2 billion from those of fiscal year 2008 due primarily to decreased net investment losses. Total additions decreased $3.5 billion between fiscal years 2007 and 2008 due primarily to net investment losses. Total employer contributions increased between fiscal years 2008 and 2009 by $8.3 million or 1.2% due to an increase in contribution rates. This compares to an increase in total employer contributions between fiscal years 2007 and 2008 of $187.7 million or 36.8% due to an increase in contribution rates. Member contributions increased between fiscal years 2008 and 2009 by $9.2 million or 49.3%, while member contributions between fiscal years 2007 and 2008 decreased by $12.7 million or (40.4)%. The System is non-contributory; however, members may purchase service credit. The increase in member contributions for fiscal year 2009 occurred because there was an increase in individuals purchasing service credit. Net investment income increased between fiscal years 2008 and 2009 by $1.2 billion. Net investment income decreased between fiscal years 2007 and 2008 by $3.6 billion. The Investment Section of this report reviews the results of investment activity for 2009.

DEDUCTIONS FROM PLAN NET ASSETS

The primary expenses of the System include the payment of pension benefits to members and beneficiaries, payment for health, dental and vision benefits, refunds of contributions to former members, and the cost of administering the System. Total deductions for fiscal year 2009 were $1.29 billion, an increase of 1.5% over fiscal year 2008 expenses. Total deductions for fiscal year 2008 were $1.27 billion, an increase of 5.3% over fiscal year 2007 expenses.

Payments for health care benefits to members and beneficiaries increased by $14.6 million or 3.9% from $377.5 million to $392.1 million during the fiscal year. This compares to an increase of $13.5 million or 3.7% from $364.0 million to $377.5 million between fiscal years 2007 and 2008. The payment of pension benefits increased by $37.7 million or 4.5% between fiscal years 2008 and 2009 and by $36.7 million or 4.6% between fiscal years 2007 and 2008. In fiscal years 2008 and 2009, pension benefit expenses increased due to an increase in benefit payments to retirees and an increase of 1192 retirees and 945 retirees, respectively. Refunds increased by $27.0 thousand or 9.3% between fiscal years 2008 and 2009. This compares to an increase of $69.0 thousand or 31.1% between fiscal years 2007 and 2008. Administrative expenses increased by $1.3 million from $24.4 million in fiscal year 2008 to $25.8 million in fiscal year 2009, due primarily to an increase in OPEB administrative expenses paid to insurance carriers. 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.*

Management's Discussion and Analysis (continued)

Changes in Plan Net Assets
(in thousands)

	2009	Increase (Decrease)	2008	Increase (Decrease)	2007
Additions					
Member contributions	$ 27,978	49.3 %	$ 18,744	(40.4) %	$ 31,457
Employer contributions	706,207	1.2	697,919	36.8	510,233
Other governmental contributions	21,987	(4.4)	23,004	-	-
Net investment income	(677,229)	63.2	(1,839,930)	(202.0)	1,803,088
Transfers from other systems	93	(98.7)	7,074	6,573.6	106
Transfers from pension/OPEB plan	-	0.0	-	(100.0)	41,304
Miscellaneous income	649	(26.3)	881	15.0	766
Total Additions	79,684	107.3	(1,092,308)	(145.8)	2,386,954
Deductions					
Pension benefits	870,279	4.5	832,553	4.6	795,842
Health care benefits	392,135	3.9	377,513	3.7	363,975
Refunds of member contributions	318	9.3	291	31.1	222
Transfers to other systems	50	(99.9)	35,084	438,450.0	8
Transfers to pension/OPEB plan	-	0.0	-	(100.0)	41,304
Administrative expenses	25,762	5.4	24,442	377.8	5,115
Total Deductions	1,288,545	1.5	1,269,883	5.3	1,206,466
Net Increase (decrease)	(1,208,860)	(48.8)	(2,362,191)	(300.1)	1,180,488
Net Assets - Beginning of Year	9,818,516	(19.4)	12,180,708 *	11.2	10,949,980
Net Assets - End of Year	$ 8,609,656	(12.3) %	$ 9,818,516	(19.1) %	$ 12,130,468

*The October 1, 2007 net assets were 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 2009 after a decrease in 2008 and an increase in 2007. As was the case in fiscal year 2008, this decrease was the result of a struggling national economy that resulted in net investment losses. The last quarter of fiscal year 2009 was more encouraging with the system's rate of return increasing over 9.0%. Management believes that the system remains financially sound and positioned to meet its ongoing benefit obligations due, in part, to a prudent investment program, cost controls, and strategic planning.

CONTACTING SYSTEM FINANCIAL MANAGEMENT

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

Statements of Pension Plan and Other Postemployment Benefit Plan Net Assets

As of September 30, 2009 and 2008

	September 30, 2009			September 30, 2008		
	Pension Plan	OPEB Plan	Total	Pension Plan *	OPEB Plan *	Total
Assets:						
Equity in common cash	$ 19,670,004	$ 215,985	$ 19,885,989	$ 215,084,125	$ 2,288,016	$ 217,372,141
Receivables:						
Amounts due from employer	60,887,713	668,574	61,556,287	53,648,163	570,697	54,218,860
Amounts due from other funds		4,120,183	4,120,183		3,973,103	3,973,103
Amounts due from employer long term	47,318,607		47,318,607	53,817,123		53,817,123
Interest and dividends	1,455,141	15,978	1,471,119	257,322	2,737	260,059
Total receivables	109,661,461	4,804,735	114,466,196	107,722,608	4,546,537	112,269,145
Investments:						
Short term investment pools	193,891,407	2,129,014	196,020,421	74,237,050	789,717	75,026,767
Fixed income pools	1,624,865,766	17,841,753	1,642,707,519	1,686,389,906	17,939,430	1,704,329,336
Domestic equity pools	3,224,115,147	35,402,230	3,259,517,377	4,224,141,972	44,935,456	4,269,077,428
Real estate pool	816,049,108	8,960,584	825,009,692	1,177,009,608	12,520,760	1,189,530,368
Alternative investment pools	1,617,617,450	17,762,164	1,635,379,614	1,789,278,142	19,033,932	1,808,312,074
International equities pools	1,137,074,376	12,485,586	1,149,559,962	909,959,364	9,679,940	919,639,304
Absolute return pools	189,987,767	2,086,151	192,073,918			-
Securities lending collateral	1,199,945,715	13,175,941	1,213,121,656	1,293,638,868	13,761,434	1,307,400,302
Total investments	10,003,546,736	109,843,423	10,113,390,159	11,154,654,910	118,660,669	11,273,315,579
Total assets	10,132,878,201	114,864,143	10,247,742,344	11,477,461,643	125,495,222	11,602,956,865
Liabilities:						
Warrants outstanding	1,713,394	18,814	1,732,208	1,977,999	21,042	1,999,041
Accounts payable and other accrued liabilities	4,659,835	71,397,301	76,057,136	1,182,045	75,244,532	76,426,577
Obligations under securities lending	1,543,350,356	16,946,678	1,560,297,034	1,688,057,696	17,957,172	1,706,014,868
Total liabilities	1,549,723,585	88,362,793	1,638,086,378	1,691,217,740	93,222,746	1,784,440,486
Net Assets Held in Trust for Pension and OPEB Benefits	$ 8,583,154,616	$ 26,501,350	$ 8,609,655,966	$ 9,786,243,903	$ 32,272,476	$ 9,818,516,379

* Fiscal year 2008 activity reclassified.

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

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

For Fiscal Years Ended September 30, 2009 and 2008

	September 30, 2009			September 30, 2008		
	Pension Plan	OPEB Plan	Total	Pension Plan	OPEB Plan	Total
Additions:						
Contributions:						
Member contributions	$ 6,994,975	$ 20,982,595	$ 27,977,570	$ 5,643,805	$ 13,099,796	$ 18,743,601
Employer contributions	343,787,486	362,419,285	706,206,771	355,732,115	342,186,903	697,919,018
Other governmental contributions		21,986,686	21,986,686		23,003,762	23,003,762
Total contributions	350,782,461	405,388,566	756,171,027	361,375,920	378,290,461	739,666,381
Investment income:						
Net investment income	(669,845,950)	1,382,455	(668,463,495)	(1,828,668,876)	689,695	(1,827,979,181)
Investment expenses:						
Real estate operating expenses	(252,959)	(687)	(253,646)	(44,326)	(121)	(44,447)
Other investment expenses	(25,049,190)	(67,992)	(25,117,182)	(23,492,334)	(63,884)	(23,556,218)
Securities lending activities:						
Securities lending income	31,681,437	85,994	31,767,431	77,208,572	209,959	77,418,531
Securities lending expenses	(15,121,170)	(41,044)	(15,162,214)	(65,589,856)	(178,363)	(65,768,219)
Net investment income (loss) [2]	(678,587,832)	1,358,726	(677,229,106)	(1,840,586,820)	657,286	(1,839,929,534)
Transfers from other systems/funds	93,408		93,408	190,357	6,883,975	7,074,332
Miscellaneous income	132,810	516,063	648,873	183,624	697,567	881,191
Total additions	(327,579,153)	407,263,355	79,684,202	(1,478,836,919)	386,529,289	(1,092,307,630)
Deductions:						
Benefits paid to plan members and beneficiaries:						
Retirement benefits	870,278,863		870,278,863	832,553,176		832,553,176
Health benefits		358,691,332	358,691,332		345,286,591	345,286,591
Dental/vision benefits		33,444,054	33,444,054		32,227,282	32,227,282
Refunds of member contributions	315,991	2,431	318,422	290,778	295	291,073
Transfers to other systems/funds	50,048		50,048	83,138	35,000,768	35,083,906
Administrative expenses	4,865,232	20,896,664	25,761,896	5,048,737	19,393,665	24,442,402
Total deductions	875,510,134	413,034,481	1,288,544,615	837,975,829	431,908,601	1,269,884,430
Net Increase (Decrease)	(1,203,089,287)	(5,771,126)	(1,208,860,413)	(2,316,812,748)	(45,379,312)	(2,362,192,060)
Net Assets Held in Trust for Pension and OPEB Benefits:						
Beginning of Year	9,786,243,903	32,272,476	9,818,516,379	12,103,056,651	77,651,788 [1]	12,180,708,439
End of Year	$ 8,583,154,616	$ 26,501,350	$ 8,609,655,966	$ 9,786,243,903	$ 32,272,476	$ 9,818,516,379

[1] Restated

[2] Fiscal year 2008 activity reclassified.

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

Notes to Basic Financial Statements
September 30, 2009 and 2008

NOTE 1 - PLAN DESCRIPTION

ORGANIZATION

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

Retirees and beneficiaries currently receiving benefits:	**2009**	**2008**
Regular benefits	38,839	37,984
Survivor benefits	6,601	6,499
Disability benefits	3,589	3,595
Total	49,029	48,078
Current employees:		
Vested	26,923	27,995
Non-vested	532	573
Total	27,455	28,568
Inactive employees entitled to benefits and not yet receiving them	6,613	6,912
Total all members	83,097	83,558

Notes to Basic Financial Statements (continued)

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

Health, Dental, and Vision Plan	**2009**	**2008**
Eligible participants	49,029	48,078
Participants receiving benefits:		
Health	43,606	42,956
Dental	43,790	42,991
Vision	43,862	43,091

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 10% of the monthly premium amount for the health (including prescription coverage), dental and vision coverage. The employer's payroll contribution rate to provide this benefit was 11.80% and 11.40% for fiscal years 2009 and 2008, 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	**2009**	**2008**
Eligible Participants	49,029	48,078
Participants receiving benefits:		
Health	43,606	42,956
Dental	43,790	42,991
Vision	43,862	43,091
Expenses for the year	$ 392,135,386	$ 377,513,873
Employer payroll contribution rate	11.80%	11.40%

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, 2009, and 2008, the balance in this reserve was $197.3 million and $205.5 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, 2009, and 2008, the balance in this reserve was $1.3 billion and $3.0 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, 2009, and 2008, the balance in this reserve was $8.0 billion and $6.0 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, 2009, and 2008, the net balance of this reserve was ($879.6) million and $531.9 million, 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, 2009, and 2008, the balance in this reserve was $26.5 million and $32.3 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 204 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 Plan 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.

	2009	2008
Building Rentals	$ 193,427	$ 162,167
Technological Support	1,363,669	1,630,441
Attorney General	299,868	290,874
Investment Services	2,306,452	2,398,258
Personnel Services	1,690,822	1,652,391

Cash - On September 30, 2009, and 2008, the System had $19.9 million and $217.4 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 $248.7 thousand and $204.8 thousand for the years ended September 30, 2009, and 2008, 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 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 years 2008 and 2009, no retirees met the criteria.

Reclassification of Prior Year Amounts

Fiscal year 2008 activity related to net investments on the Statement of Plan Net Assets and the investment income (loss) on the statement of Changes in Plan Net Assets has been reclassified between the pension plan and OPEB plan columns in conformity with GASB Statement No. 43. The total investment activity for the System has remained the same.

Notes to Basic Financial Statements (continued)

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

Employer contributions to the System are determined on an actuarial basis using the entry age normal actuarial cost method. Under this method, the actuarial present value of the projected benefits of each individual included in the actuarial valuation is allocated on a level basis over the service of the individual between entry age and assumed exit age. The portion of this cost allocated to the current valuation year is called the normal cost. The remainder is called the actuarial accrued liability. Normal cost is funded on a current basis. For retirement and OPEB, the unfunded (overfunded) actuarial accrued liability will be amortized over a 27 year period for the 2009 fiscal year and is amortized over a 28 year period for the 2008 fiscal year.

Actual employer contributions for retirement benefits were $343.8 million and $355.7 million for fiscal years 2009 and 2008, respectively, representing 20.2% of annual covered payroll for the year ended September 30, 2008. The fiscal year 2009 annual covered payroll is not yet available. Required employer contributions based on previous year actuarial valuations for pensions included:

1. $146.0 million and $151.3 million for fiscal years 2009 and 2008, respectively, for the normal cost of pensions representing 8.3% and 8.3% (before reconciliation) of annual covered payroll for fiscal years 2008 and 2007, respectively.

2. $205.7 million and $156.7 million for fiscal years 2009 and 2008, respectively, for amortization of unfunded actuarial accrued liability representing 11.7% and 8.6% (before reconciliation) of annual covered payroll for fiscal years 2008 and 2007, respectively.

Actual employer contributions for other postemployment benefits (OPEB) were $362.4 million and $342.2 million for fiscal years 2009 and 2008, respectively, representing 19.4% of annual covered payroll for the year ended September 30, 2008. The fiscal year 2009 annual covered payroll is not yet available. Required employer contributions based on previous year actuarial valuations for OPEB included:

1. $396.9 million and $391.9 million for fiscal years 2009 and 2008, respectively, for the normal cost of OPEB representing 14.1% and 13.3% (before reconciliation) of annual covered payroll for fiscal years 2008 and 2007, respectively.

2. $525.9 million and $487.3 million for fiscal years 2009 and 2008, respectively, for amortization of unfunded actuarial accrued liability representing 18.6% and 16.5% (before reconciliation) of annual covered payroll for fiscal years 2008 and 2007, 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.

Notes to Basic Financial Statements (continued)

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, 2009, and September 30, 2008, there were 5,531 and 5,896 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 12.6 and 13.3 years for 2009 and 2008. The short-term receivable was $10.0 million and the discounted long-term receivable was $48.5 million at September 30, 2009. At September 30, 2008, the short-term receivable was $10.6 million and the discounted long-term receivable was $53.8 million.

Funded Status

Participating employers are required to contribute at an actuarially determined rate for both pension benefits and OPEB. For fiscal year 2008, the actuarial accrued liability (AAL) for pension benefits was $13.8 billion, and the actuarial value of assets was $11.4 billion, resulting in an unfunded actuarial accrued liability (UAAL) of $2.4 billion and a funded ratio of 82.8%. 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 134.0%.

For fiscal year 2008, the actuarial accrued liability (AAL) for OPEB was $13.5 billion, and the actuarial value of assets was $0, resulting in an unfunded actuarial accrued liability (UAAL) of $13.5 billion and a funded ratio of 0.0%. The covered payroll (annual payroll of active employees covered by the plan) was $2.8 billion, and the ratio of the UAAL to the covered payroll was 479.9%.

Actuarial Valuations and Assumptions

Actuarial valuations for both the pension and OPEB plans involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions (ARC) are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The 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	9/30/2008
Actuarial Cost Method	Entry Age, Normal
Amortization Method - Pension	Level Dollar, Closed
Amortization Method - OPEB	Level Percent of Payroll, Closed
Remaining Amortization Period - Pension	28 years *
Remaining Amortization Period - OPEB	28 years
Asset Valuation Method - Pension	5-Year Smoothed Market
Asset Valuation Method - OPEB	Market
Actuarial Assumptions:	
Wage Inflation Rate	3.5%
Investment Rate of Return - Pension	8.0%
Investment Rate of Return - OPEB	4.0%
Projected Salary Increases	3.5 - 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	10.0% Year 1 graded to 3.5% Year 12
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 fund portfolios, but uses do not include speculation or leverage of investments. Less than 12% of the total trust funds' portfolio has been invested from time to time in futures contracts, collateralized mortgages, swap agreements, and option contracts. State investment statutes limit total derivative exposure to 15% of a fund's total asset value, and restrict uses to replication of returns and hedging of assets. Swap agreements represent the largest category of derivatives used, and they represented 7.9% of market value of total pooled assets on September 30, 2009 and 5.0% of market value of total pooled assets on September 30, 2008. Futures contracts represented 0.0% of market value of total pooled assets on September 30, 2009 and 0.6% of market value of total pooled assets on September 30, 2008.

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

To diversify the trust funds' portfolio, the State Treasurer has entered into swap agreements with investment grade counterparties, which are tied to stock market indices in twenty-three foreign countries. The notional amounts of the swap agreement at September 30, 2009, and 2008, were $803.9 million and $716.9 million, respectively. Approximately one half of the notional amount tied to foreign stock market indices is hedged against foreign currency fluctuations. The swap agreements provide that the System will pay quarterly, over the term of the swap agreements, interest indexed to the three month London Inter Bank Offer Rate (LIBOR), adjusted for an interest rate spread, on the notional amount stated in the agreements. The net change of the notional exposure of stock indices is the total amount of counterparty risk. That amount will always be significantly less than the swap agreement totals. At the maturing of the swap agreements, the trust funds will either receive the increase in the value of the equity indices from the level at the inception of the agreements, or pay the decrease in the value of the indices. Swap agreement maturity dates range from October 2009 to April 2012. U.S. Domestic LIBOR based floating rate notes and other investments earning short-term interest are held to correspond with the notional amount of the swap agreements. The State Treasurer maintains custody and control of these dedicated notes and short-term investments.

The value of these synthetic equity structures is a combination of the value of the swap agreements and the value of the notes and short-term investments. The book value represents the cost of the notes and short-term investments. The current value represents the current value of the notes and short-term investments and the change in the value of the underlying indices from the inception of the swap agreements. The current value is used as a representation of the fair value based on the intention to hold all swap agreements until maturity. For fiscal years ending September 30, 2009, and 2008, international equity investment programs involving swaps, received a net realized investment income loss of $33.0 and a net realized investment income gain of $142.9 million, respectively.

The unrealized loss of $89.3 million at September 30, 2009, primarily reflects decreases in international stock indices and changes in currency exchange rates. The combined swap structure generally realizes gains and losses on a rolling three year basis.

The respective September 30, 2009, and 2008 swap values are as follows:

	Notional Value	Current Value
9/30/2009 (dollars in millions)	803.9	702.0
9/30/2008 (dollars in millions)	716.9	511.7

Notes to Basic Financial Statements (continued)

Securities Lending

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

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

The system did not impose any restrictions during fiscal year 2008 on the amounts of loans that the agent bank made on its behalf. In fiscal year 2009 the System amended the agreement with the agent bank agreeing to reduce the loans of the program. The agent bank indemnified the System by agreeing to purchase replacement securities, or return cash collateral in the event borrower failed to return the loaned security or pay distributions thereon, due to the borrower's insolvency. In fiscal year 2008 there was one such failure by a borrower, Lehman Brothers, Inc (September 2008). However, there were no losses resulting from the default of the borrower as the agent bank, Credit Suisse, indemnified the System.

Under Master Securities Lending Agreements between the System and each borrower, the System and the borrowers have the right to terminate all securities lending transactions on demand. The cash collateral received on each loan was invested in assets held in a collateral account dedicated to the System. As of September 30, 2009 and 2008, such assets had an average weighted maturity to next reset of 3.5 years and 32 days respectively and an average weighted maturity of 8.5 years and 3.3 years respectively. Because the loans are terminable at will, their duration did not generally match the duration of the investments made with cash collateral. On September 30, 2009 and 2008, the System had no credit risk exposure to borrowers. The cash received for securities on loan for the System as of September 30, 2009 and 2008 was $1,560,297,034 and $1,706,014,868 respectively. The fair market value of assets held in the dedicated collateral account at the custodian for the System as of September 30, 2009 and 2008 was $1,213,121,656 and $1,307,400,302 respectively. The carrying amount, which is the fair market value, of securities on loan for the System as of September 30, 2009 and 2008, was $1,518,306,603 and $1,553,794,594 respectively.

Gross income, including capital gains, from security lending for fiscal years ended September 30, 2009 and 2008 with Credit Suisse was $31,767,431 and $77,418,531 respectively. Expenses associated with this income were the borrower's rebate of $12,227,748 and $63,277,787 and fees paid to the agent bank of $2,934,467 and $2,490,432 respectively.

Substantial volatility in the financial markets impacted the fair value extimates for securities lending collateral. The System recorded an unrealized loss of $398.6 million at September 30, 2008 and a reduction of the loss of $51.4 million at September 30, 2009.

Risk

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

Notes to Basic Financial Statements (continued)

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

- Short-Term Fixed Income Investments - Prime commercial paper investments must be rated A-1 or P-1 at the time of purchase as rated by the two major rating services Standard and Poor's Corporation (S&P) and Moody's Investor Service (Moody's), respectively. Borrowers must have at least $400.0 million in commercial paper outstanding, and the State Treasurer may not invest in more than 10.0% of the borrowers outstanding debt. The investments are further limited to $200.0 million in any borrower, unless the borrower has an A-1+ rating, in which case the investment is not to exceed $300.0 million.

- Long-Term Fixed Income Investments - These investments must be investment grade or better at the time of purchase unless specific requirements are met as defined 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, 2009, the System was in compliance with the policy in all material aspects.

Rated Debt Investments
(in thousands)
As of September 30, 2009 and 2008

	2009				2008			
Investment Type	**Fair Value**	**S&P**	**Fair Value**	**Moody's**	**Fair Value**	**S&P**	**Fair Value**	**Moody's**
Short Term	$ 201,377	A-1	$ 201,377	P-1	$ 266,057	A-1	$ 266,057	P-1
Government Securities								
US Agencies - Sponsored								
	133,374	AAA	133,374	Aaa	334,888	AAA	334,888	Aaa
Corporate Bonds & Notes								
	46,396	AAA	26,089	Aaa	121,625	AAA	101,078	Aaa
	215,556	AA	186,514	Aa	128,738	AA	141,065	Aa
	502,963	A	547,490	A	401,573	A	390,659	A
	298,695	BBB	315,606	Baa	187,391	BBB	197,087	Baa
	41,758	BB	8,773	Ba	2,911	BB	3,413	Ba
	4,036	B	1,766	B	726	B	233	B
	1,418	CCC	1,303	Caa	93	CCC	619	Caa
	124	CC	147	Ca	-	CC	77	Ca
	-	C	17	C	-	C	14	C
	-	D	-	D	43	D	-	D
	14,156	NR	37,397	NR	19,848	NR	28,703	NR
International *								
	38,783	AAA	-	Aaa	99,965	AAA	99,965	Aaa
	287,254	AA	311,317	Aa	258,433	AA	289,754	Aa
	359,607	A	422,151	A	285,303	A	282,925	A
	47,714	BBB	61,170	Baa	-	BBB	-	Baa
	32,223	BB	-	Ba	-	BB	-	Ba
	29,057	NR	-	NR	48,308	NR	19,365	NR
Securities Lending Collateral								
	38,260	A-1	38,260	P-1	-	A-1	-	P-1
	358,131	AAA	315,625	Aaa	397,454	AAA	408,357	Aaa
	144,628	AA	399,075	Aa	339,620	AA	384,970	Aa
	197,472	A	257,419	A	351,872	A	301,301	A
	369,386	BBB	20,130	Baa	90,868	BBB	144,087	Baa
	-	BB	70,081	Ba	17,942	BB	834	Ba
	16,863	B	28,207	B	3,861	B	13,723	B
	11,892	CCC	17,263	Caa	3,819	D	-	D
	72,811	NR	63,383	NR	99,090	NR	51,254	NR
Total	$ 3,463,934		$ 3,463,934		$ 3,460,428		$ 3,460,428	

NR - not rated

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

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 A+ at September 30, 2009. As of September 30, 2009, no securities were exposed to custodial credit risk. As of September 30, 2008, government securities with a market value of $4.7 million, were exposed to custodial credit risk. These securities were held by the counterparty not in the name of the System.

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

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

At September 30, 2009, and 2008, there were no investments in any single issuer that accounted for more than 5% of the System's assets nor were there any investments totaling more than 5% of the obligations of any one issuer, other than U.S. Government Securities as described above.

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

The State Treasurer's policy states that cash equivalents are invested in short-term fixed income securities with an average weighted maturity of less than one year to provide liquidity and safety of principal from capital market and default risk. At September 30, 2009, and 2008, the fair value of the System's prime commercial paper was $201.4 million and $266.1 million with the weighted average maturity of 3 days and 5 days, respectively.

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

Notes to Basic Financial Statements (continued)

Debt Securities
(in thousands)
As of September 30, 2009 and 2008

	2009		2008	
	Fair Value	Effective Duration in Years	Fair Value	Effective Duration in Years
Government				
U. S. Treasury	$ 86,118	2.1	$ 20,294	6.8
U. S. Agencies - Backed	362,679	4.7	416,287	5.4
U. S. Agencies - Sponsored	133,374	3.9	334,888	4.1
Corporate	1,125,102	4.9	862,948	5.4
International*				
Corporate	794,638	0.1	692,010	0.03
Total	$ 2,501,911		$ 2,326,427	

Debt securities are exclusive of securities lending collateral.

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

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

The System invests in various securities denominated in foreign currencies. These investments are limited to 20% of the total assets of the System with an additional limit of 5% of the outstanding foreign securities of any single issuer. No investment is allowed in a country that has been identified by the United States State Department as engaging in or sponsoring terrorism. These limits are set forth in Public Act 314 of 1965, as amended. The types of foreign investments include equities, fixed income, mutual funds, real estate, and limited partnerships. At September 30, 2009, and 2008, the total amount of foreign investment subject to foreign currency risk was $765.6 million and $723.0 million which amounted to 8.6% and 7.1% of total investments (exclusive of securities lending collateral) of the System, respectively.

Notes to Basic Financial Statements (continued)

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

Region	Country	Currency	Alt. Invest. Market Value In U.S. $	Equity Market Value In U.S. $	Real Estate Market Value In U.S. $	International Equities Market Value In U.S. $	International Derivatives Market Value In U.S. $*
AMERICA							
	Brazil	Real		$ 1,085			
	Canada	Dollar				$ 1,380	$ 949
EUROPE							
	European Union	Euro	$ 159,328	31,615		4,019	(2,665)
	Switzerland	Franc		22,540		816	207
	Sweden	Krona				171	1,721
	Denmark	Krone		186		261	(293)
	Norway	Krone				26	(153)
	U.K.	Sterling	5,309	26,584		2,131	(13,650)
PACIFIC							
	Australia	Dollar				997	152
	China	Renminbi		2,044		69	
	Hong Kong	Dollar				354	906
	Japan	Yen	318	4,184		3,164	(2,227)
	New Zealand	Dollar					447
	Singapore	Dollar				433	(434)
	South Korea	Won		13			(760)
MIDDLE EAST							
	Israel	Shekel		539			
VARIOUS					$ 110,308	403,570	
	Total		$ 164,955	$ 88,790	$ 110,308	$ 417,391	$ (15,800)

*International derivatives' market value exposure to foreign currency risk is the net amount of unrealized gains and unrealized losses. Maturity dates on these investments range from October 2009 through April 2012 with an average maturity of 1.3 years.

Notes to Basic Financial Statements (continued)

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

Region	Country	Currency	Alt. Invest. Market Value In U.S. $	Equity Market Value In U.S. $	Real Estate Market Value In U.S. $	International Equities Market Value In U.S. $	International Derivatives Market Value In U.S. $*
AMERICA							
	Brazil	Real		$ 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)

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. 53, *Accounting and Financial Reporting for Derivative Instruments*, which establishes accounting and financial reporting requirements for derivative instruments entered into by state and local governments. This statement will be implemented in fiscal year 2010.

NOTE 6 - COMMITMENTS AND CONTINGENCIES

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

Required Supplementary Information

Schedules of Funding Progress

Expressing the net assets available for benefits as a percentage of the actuarial accrued liability provides one indication of the System's funding status. Analysis of this percentage over time indicates whether the System is becoming financially stronger or weaker. Generally, the greater this percentage, the stronger the System. Trends in unfunded actuarial accrued liability and annual covered payroll are both affected by inflation. Expressing the 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)
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 [1]	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 [2]	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
2008	11,403	13,766	2,363	82.8	1,764	134.0

[1] Revised actuarial assumptions.

[2] Revised asset valuation method.

Other Postemployment Benefits[*] ($ in millions)

Valuation Date Sept 30	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded (Overfunded) Accrued Liability (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll ((b-a)/c)
2006	$ -	$ 13,499	$ 13,499	0.0 %	$ 2,848	474.0 %
2007	-	12,966	12,966	0.0	2,949	439.6
2008	-	13,542	13,542	0.0	2,822	479.9

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

Required Supplementary Information (continued)

Schedules of Employer and Other Contributions

Pension Benefits

Fiscal Year Ended Sept. 30	Annual Required Contribution (ARC)	Actual Contribution	Percentage Contributed
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
2009	351,646,663	343,787,486	97.8

Other Postemployment Benefits

Fiscal Year Ended Sept. 30	Annual Required Contribution (ARC)	Actual Contribution	Other Governmental Contributions	Percentage Contributed
2007	$ 898,716,522	$ 359,375,055 [4]		40.0 %
2008	879,245,817	342,186,903	$ 23,003,762	41.5
2009	922,791,423	362,419,285	21,986,686	41.7

[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.

Note to Required Supplementary Information

NOTE A - DESCRIPTION

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

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

The Schedules of Funding Progress and Schedules of Employer 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, 2009 and 2008

	2009	2008
Personnel Services:		
Staff Salaries	$ 1,083,840	$ 1,072,463
Retirement and Social Security	354,175	327,448
Other Fringe Benefits	252,807	252,480
Total	1,690,822	1,652,391
Professional Services:		
Accounting	316,461	278,574
Actuarial	91,200	78,000
Attorney General	299,868	290,874
Audit	51,038	44,153
Consulting	100,307	113,341
Medical	297,782	252,310
Total	1,156,656	1,057,252
Building and Equipment:		
Building Rentals	193,427	162,167
Equipment Purchase, Maintenance, and Rentals	9,218	12,598
Total	202,645	174,765
Miscellaneous:		
Travel and Board Meetings	3,053	3,220
Office Supplies	6,294	6,058
Postage, Telephone, and Other	369,541	440,732
Printing	72,553	83,878
Technological Support	1,363,669	1,630,441
Total	1,815,110	2,164,329
Total Administrative Expenses	$ 4,865,233	$ 5,048,737

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

	2009	2008
Health Fees	$ 18,986,817	$ 17,533,658
Dental Fees	1,437,589	1,401,894
Vision Fees	472,258	458,113
Total Administrative Expenses	$ 20,896,664	$ 19,393,665

The OPEB plan administrative expenses of $20,896,664 in 2009 and $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, 2009 and 2008

	2009	2008
Real Estate Operating Expenses	$ 253,646	$ 44,447
Securities Lending Expenses	15,162,214	65,768,219
Other Investment Expenses[1]		
ORS-Investment Expenses [2]	2,306,452	2,398,258
Custody Fees	181,891	238,233
Management Fees-Real Estate	2,426,199	2,376,127
Management Fees-Alternative	18,125,870	17,017,451
Management Fees-International	1,399,361	1,242,093
Research Fees	677,408	284,056
Total Investment Expenses	$ 40,533,041	$ 89,368,884

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

[2] Does not include prior year Treasury vendor refunds of $4,204 recorded as revenue, nor exclude Treasury Civil Service fees of $29,131 recorded as a pass through in the Schedule of Investment Fees - State Treasurer.

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

	2009	2008
Accounting	$ 316,461	$ 278,573
Actuary	91,200	78,000
Attorney General	299,868	290,874
Independent Auditors	51,038	44,153
Consulting	100,307	113,341
Medical Advisors	297,782	252,310
Total Payment to Consultants	$ 1,156,656	$ 1,057,251

Supporting Schedules (continued)

Detail of Changes in Plan Net Assets (Pension and Other Postemployment Benefits)
For the Year Ended September 30, 2009

	Employee Contributions	Employer Contributions	Retired Benefit Payments	Undistributed Investment Income	OPEB	Total
Additions:						
Contributions:						
Member contributions	$ 6,994,975				$ 20,982,595	$ 27,977,570
Employer contributions		$ 343,787,486			362,419,285	706,206,771
Other governmental contributions					21,986,686	21,986,686
Total Contributions	6,994,975	343,787,486	-	-	405,388,566	756,171,027
Investment income:						
Net investment income (loss)				$ (669,845,950)	1,382,455	(668,463,495)
Investment expenses:						
Real estate operating expenses				(252,959)	(687)	(253,646)
Other investment expenses				(25,049,190)	(67,992)	(25,117,182)
Securities lending activities:						
Securities lending income				31,681,437	85,994	31,767,431
Securities lending expenses				(15,121,170)	(41,044)	(15,162,214)
Net investment income (loss) *	-	-	-	(678,587,832)	1,358,726	(677,229,106)
Transfer from other systems/funds	93,408					93,408
Miscellaneous income			$ 130,847	1,963	516,063	648,873
Total additions	7,088,383	343,787,486	130,847	(678,585,869)	407,263,355	79,684,202
Deductions:						
Benefits paid to plan members and beneficiaries:						
Retirement benefits			870,278,863			870,278,863
Health benefits					358,691,332	358,691,332
Dental/vision benefits					33,444,054	33,444,054
Refunds of member contributions	177,079	133,294	5,618		2,431	318,422
Transfers to other systems/funds	14,852	35,196				50,048
Administrative expenses				4,865,232	20,896,664	25,761,896
Total deductions	191,931	168,490	870,284,481	4,865,232	413,034,481	1,288,544,615
Net Increase (Decrease) Before Other Changes	6,896,452	343,618,996	(870,153,634)	(683,451,101)	(5,771,126)	(1,208,860,413)
Other Changes in Net Assets:						
Interest allocation	4,138,491	242,938,414	480,968,884	(728,045,789)		-
Transfers upon retirement	(19,277,042)		19,277,042			-
Transfers of employer shares		(2,348,414,049)	2,348,414,049			-
Total other changes in net assets	(15,138,551)	(2,105,475,635)	2,848,659,975	(728,045,789)	-	-
Net Increase (Decrease)	(8,242,099)	(1,761,856,639)	1,978,506,341	(1,411,496,890)	(5,771,126)	(1,208,860,413)
Net Assets Held in Trust for Pension and OPEB Benefits:						
Beginning of Year	205,532,842	3,036,730,170	6,012,111,048	531,869,843	32,272,476	9,818,516,379
End of Year	$ 197,290,743	$ 1,274,873,531	$ 7,990,617,389	$ (879,627,047)	$ 26,501,350	$ 8,609,655,966

* Fiscal year 2008 activity reclassified.

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	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 investment income (loss)				(1,828,668,876)	689,695	(1,827,979,181)
Investment expenses:						
Real estate operating expenses				(44,326)	(121)	(44,447)
Other investment expenses				(23,492,334)	(63,884)	(23,556,218)
Securities lending activities:						
Securities lending income				77,208,572	209,959	77,418,531
Securities lending expenses				(65,589,856)	(178,363)	(65,768,219)
Net investment income (loss) [2]	-	-	-	(1,840,586,820)	657,286	(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	-	(1,840,403,196)	386,529,289	(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)	(1,845,451,933)	(45,379,312)	(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)	(2,553,424,852)	(45,379,312)	(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 [1]	12,180,708,439
End of Year	$ 205,532,842	$ 3,036,730,170	$ 6,012,111,048	$ 531,869,843	$ 32,272,476	$ 9,818,516,379

[1] Restated
[2] Fiscal year 2008 activity reclassified.

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INVESTMENT SECTION

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

INVESTMENT SECTION

Report on Investment Activity

INTRODUCTION

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

The Investment Advisory Committee was created by Act 380 of the Public Acts of 1965. The three public members of the five-member committee are appointed by the Governor with the advice and consent of the Senate for three-year terms. The Director of the Department of Energy, Labor and Economic Growth and the Director of the Department of Management and Budget are ex-officio members. As of September 30, 2009, members of the Committee were as follows: David G. Sowerby, CFA (public member), Glenn P. Murray (public member), James B. Jacobs (public member), Stanley Pruss (ex-officio member), and Lisa Webb Sharpe (ex-officio member). The public members serve without pay, but may be paid actual and necessary travel and other expenses.

INVESTMENT POLICY & GOALS

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

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

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

1. Achieve the optimal rate of return possible within prudent levels of risk.
2. Maintain sufficient liquidity to pay benefits.
3. Diversify assets to preserve capital and avoid large losses.
4. Meet or exceed the actuarial assumption over the long term.
5. Perform in the top half of the public plan universe over the long term.
6. Exceed individual asset class benchmarks over the long term.
7. Operate in a cost-effective manner.

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

Report on Investment Activity (continued)

Asset Allocation
(Excludes Collateral on Loaned Securities)

Investment Category	As of 9/30/09 Actual %		Two-Year Target %
Domestic Equities			34.0%
Domestic Equity - Active	23.3%		
Large Cap Core Pool		7.1%	
Large Cap Value Pool		3.5%	
Large Cap Growth Pool		5.4%	
Large Cap Dividend Growth Pool		0.9%	
Large Cap Growth Managers Pool		2.2%	
Manager of Managers Pool		0.3%	
Mid Cap Pool		2.1%	
Small Cap Pool		1.7%	
Tactical Asset Allocation Pool		0.1%	
Domestic Equity - Passive	13.3%		
S&P 500 Index Pool		12.1%	
S&P Mid Cap Index Pool		1.2%	
International Equity	12.9%		17.0%
International Equity Pool - Passive		10.0%	
International Equity Pool - Active		2.7%	
Emerging Markets Pool		0.2%	
Alternative Investments Pool	18.3%		16.0%
Real Estate Pool	9.2%		11.0%
Fixed Income	18.4%		17.0%
Government Bond Pool		4.8%	
Corporate Bond Pools		9.8%	
Fixed Income Bond Pools		3.6%	
CMBS Investment Pool		0.2%	
Absolute Return	2.2%		2.0%
Special Situations Fund Pool		0.3%	
Absolute Return Strategies Pool		1.9%	
Real Return	0.0%		1.0%
Short Term Investments	2.4%		2.0%
Short Term Fixed Income Pool		2.2%	
Short Term Investment Pool		0.2%	
TOTAL	**100.0%**		**100.0%**

Report on Investment Activity (continued)

INVESTMENT AUTHORITY

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

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

INVESTMENT RESULTS

Total Portfolio Results

For the fiscal year ended September 30, 2009, the total System's rate of return was (6.3)% as compiled by State Street Investment Analytics. Annualized rates of return for the three-year period ending September 30, 2009, were (1.3)%; for the five-year period were 4.1%; and for the ten-year period were 3.7%.

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

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

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

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

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

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

Report on Investment Activity (continued)

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

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

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

Large Cap Core Pool

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

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

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

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

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

Report on Investment Activity (continued)

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

At the close of fiscal year 2009, the Large Cap Core pool represented 7.1% of total investments. This compares to 13.0% for fiscal year 2008. The following summarizes the System's 19.2% ownership share of the Large Cap Core pool at September 30, 2009:

Large Cap Core Pool
(in thousands)

Short Term Pooled Investments	$	3,366
Equities		627,897
Settlement Principal Payable		(13,340)
Settlement Proceeds Receivable		13,875
Accrued Dividends		384
Total	**$**	**632,182**

Large Cap Value Pool

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

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

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

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

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

Report on Investment Activity (continued)

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

At the close of fiscal year 2009, the Large Cap Value pool represented 3.5% of total investments. This compares to 4.0% for fiscal year 2008. The following summarizes the System's 17.7% ownership share of the Large Cap Value pool at September 30, 2009:

Large Cap Value Pool
(in thousands)

Short Term Pooled Investments	$	30,760
Equities		283,388
Accrued Dividends		487
Total	**$**	**314,635**

Large Cap Growth Pool

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

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

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

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

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

Report on Investment Activity (continued)

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

At the close of fiscal year 2009, the Large Cap Growth pool represented 5.4% of total investments. This compares to 5.2% for fiscal year 2008. The following summarizes the System's 19.2% ownership share of the Large Cap Growth pool at September 30, 2009:

Large Cap Growth Pool
(in thousands)

Short Term Pooled Investments	$	18,980
Equities		467,177
Settlement Principal Payable		(3,305)
Settlement Proceeds Receivable		473
Accrued Dividends		191
Total	**$**	**483,516**

Large Cap Dividend Growth Pool

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

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

At the close of fiscal year 2009, the Large Cap Dividend Growth pool represented 0.9% of total investments. The following summarizes the System's 19.2% ownership share of the Large Cap Dividend Growth pool at September 30, 2009:

Large Cap Dividend Growth Pool
(in thousands)

Short Term Pooled Investments	$	1,500
Equities		73,858
Accrued Dividends		44
Total	**$**	**75,402**

Large Cap Growth Managers Pool

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

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

Report on Investment Activity (continued)

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

Large Cap Growth Managers Pool
(in thousands)

	Edgewood Large Cap Growth	Aletheia Large Cap Growth
Total Investment	$ 125,055	$ 69,655
Ownership Percentage	19.2%	19.2%

Manager of Managers Pool

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

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

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

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

Manager of Managers Pool
(in thousands)

	Attucks Asset Management	Bivium Capital Partners	Leading Edge Investment Advisors
Total Investment	$ 13,365	$ 10,103	$ 7,174
Ownership Percentage	19.3%	19.3%	19.3%

Report on Investment Activity (continued)

Mid Cap Pool

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

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

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

Mid Cap Value and Core Pool
(in thousands)

	Artisan Mid Cap Value	Cramer Rosenthal McGlynn Mid Cap Value	Champlain Mid Cap Core	Los Angeles Capital Mid Cap Core	Munder Mid Cap Core
Total Investment	$ 33,132	$ 29,014	$ 13,395	$ 23,377	$ 26,624
Ownership Percentage	19.9%	20.0%	20.1%	19.9%	19.9%

Mid Cap Growth Pool
(in thousands)

	Rainer Mid Cap Growth	UBS Mid Cap Growth	Wellington Management Mid Cap Growth
Total Investment	$ 18,147	$ 18,722	$ 20,462
Ownership Percentage	20.1%	20.1%	20.1%

Report on Investment Activity (continued)

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 total rate of return was (0.2)% for fiscal year 2009 versus (10.6)% for the S&P 600 Small Cap Index.

At the close of fiscal year 2009, the Small Cap pool represented 1.7% of total investments. This compares to 1.1% for fiscal year 2008. The following summarizes the System's ownership share and composition of the Small Cap Pool at September 30, 2009:

Small Cap Value Pool
(in thousands)

	Donald Smith Small Cap Value	Fisher Small Cap Value	GW Capital Small Cap Value	Northpointe Small Cap Value	Opus Capital Small Cap Value
Total Investment	$ 22,472	$ 32,338	$ 18,267	$ 12,985	$ 12,944
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	$ 15,379	$ 38,316
Ownership Percentage	20.6%	20.6%

Report on Investment Activity (continued)

Tactical Asset Allocation Pool

The pool invests primarily in equities and equity-related securities of U.S. companies. At times a portion of the pool may be invested in fixed income short-term securities with maturities of less than one year. The pool invests in equities and equity-related securities that are listed on U.S. national securities exchanges, including American Depository Receipts (ADRs). It may also invest in stocks that are traded over-the-counter.

The Tactical Asset Allocation pool rate of return from inception to fiscal year end was 19.4%.

At the close of fiscal year 2009, the Tactical Asset Allocation pool represented 0.1% of total investments. The following summarizes the System's 20.1% ownership share of the Tactical Asset Allocation pool at September 30, 2009:

Tactical Asset Allocation Pool
(in thousands)

Equities	$	4,700

S&P 500 Index Pool

The objective of the enhanced S&P 500 Index pool is to closely match the return performance of its benchmark, the S&P 500 Index, and to use low risk strategies to offset transaction costs and add to performance when possible. The pool generally holds all 500 stocks that make up the Standard & Poor's 500 Index in proportion to their weighting in the index. The following summarizes the sector weightings of the pool as of September 30, 2009:

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

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

At the close of fiscal year 2009, the S&P 500 Index pool represented 12.1% of total investments. This compares to 13.9% for fiscal year 2008. The following summarizes the System's 19.3% ownership share of the S&P 500 Index pool at September 30, 2009:

S&P 500 Index Pool
(in thousands)

Short Term Pooled Investments	$	2,205
Equities		1,077,190
Accrued Dividends		1,598
Total	**$**	**1,080,993**

Report on Investment Activity (continued)

S&P MidCap Index Pool

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

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

At the close of fiscal year 2009, the S&P MidCap Index pool represented 1.2% of total investments. This compares to 1.5% for fiscal year 2008. The following summarizes the System's 19.3% ownership share of the S&P MidCap Index pool at September 30, 2009:

S&P MidCap Index Pool
(in thousands)

Short Term Pooled Investments	$ 314
Equities	106,753
Accrued Dividends	95
Total	**$ 107,162**

International Equity Pool - Passive

The objective of the International Equity Pool - Passive is to match the return performance of the S&P Broad Market Index (BMI) Europe and Pacific Composite (EPAC) adjusted for net dividends. Fifty percent of the benchmark is hedged to the U.S. Dollar and the other half is impacted by foreign currency exchange rate changes. In January 2009, a global stock portfolio, having above average dividend yields, was added to increase portfolio management flexibility. The total passive international return for the fiscal year was 8.5% compared to the S&P Developed BMI-EPAC Net 50/50 return of 3.0%.

Core passive exposure to international equity returns is achieved primarily by investing in a combination of fixed income LIBOR notes, short-term fixed income investments, and equity swap agreements on foreign stock indices in developed markets. Interest on the dedicated notes and short-term fixed income investments is exchanged for international stock returns, and the total notional amount of the swap agreements is invested in the approximate proportions of the S&P Broad Market Index (BMI) Europe and Pacific Composite (EPAC) country weightings in related indices. Use of swap agreements for a core position began in 1993, an American Depository Receipts (ADR) and index-related security portfolio was added in June of 1999 to increase portfolio management flexibility, and a multiple country fund portfolio with smaller capitalization stocks was added in September of 2002 to improve exposure to the smallest companies in the BMI index. Use of futures as an investment to hedge cash flows and balances began in December of 2008, and this use is expected to continue in the future. The combined Swap agreements, notes and short-term investments together continue to perform like a stock index fund that realizes all gains and losses on a rolling three year basis.

The combination of stock, notes, dedicated short-term investments, futures and equity swap agreements was valued at $891.0 million on September 30, 2009. That valuation included a net unrealized loss of $56.8 million. During fiscal year 2009, the pool received realized losses of $55.4 million on stock, futures, swap equity exposures and dedicated short-term investments. During the same period, $16.6 million of dividend and interest income was earned from the international equity pool.

Report on Investment Activity (continued)

At the close of fiscal year 2009, the International Equity – Passive pool represented 10.0% of total investments. This compares to 6.6% for fiscal year 2008. The following summarizes the System's 19.4% ownership share of the International Equity Pool - Passive at September 30, 2009:

International Equity Pool - Passive
(in thousands)

Short Term Pooled Investments	$	2,467
Equities		183,689
Fixed Income Securities		794,638
Market Value of Equity Contracts		(91,091)
Accrued Dividends and Interest		1,250
Total	**$**	**890,953**

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 Broad Market Index (BMI) World Ex-United States. That benchmark is impacted by foreign currency exchange rate changes.

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

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

At the close of fiscal year 2009, the International Equity - Active pool represented 2.7% of total investments. This compares to 2.4% for fiscal year 2008. The following summarizes the System’s ownership share and composition of the pool at September 30, 2009:

International Equity Pool - Active
(in thousands)

	AllianceBernstein International	Wellington International	SSGA International	Globeflex Int'l Small Cap	SSGA Int'l Small Cap
Total Investment	$ 70,249	$ 68,163	$ 78,461	$ 13,848	$ 13,742
Ownership Percentage	19.6%	20.0%	20.0%	19.4%	19.4%

Report on Investment Activity (continued)

Emerging Markets Pool

The objective of the Emerging Markets pool is to closely match the return performance of its benchmark, the MSCI Emerging Markets Index. The pool invests in equities and equity-related securities in emerging countries in Europe, Asia, Africa, and Latin America. At times a portion of the pool may be invested in fixed income short-term securities with maturities of less than one year.

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

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

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

Emerging Markets Pool
(in thousands)

	Vanguard Emerging Markets	LA Capital Emerging Markets
Total Investment	$ 11,231	$ 2,913
Ownership Percentage	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.

Alternative Investments are investments in the private equity market, primarily through limited partnerships. The following summarizes the weightings of the pool as of September 30, 2009:

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

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

Report on Investment Activity (continued)

T. Rowe Price managed the stock distributions of the Alternative Investments beginning in October 2006. The T. Rowe Price return for the fiscal year ending September 30, 2009, was (5.0)%.

At the close of fiscal year 2009, the Alternative Investments pool represented 18.3% of total investments and T. Rowe Price represented 0.02% of total investments. This compares to 17.8% for Alternative and 0.01% for T. Rowe Price for fiscal year 2008. The following summarizes the System's ownership share and composition of the Alternative Investments pool and T. Rowe Price at September 30, 2009:

Alternative Investments Pool
(in thousands)

	Alternative	T. Rowe Price
Short Term Pooled Investments	$ 19,602	$ 1,160
Equities	1,614,022	193
Settlement Proceeds Receivable	-	403
Total	**$ 1,633,624**	**$ 1,756**
Ownership Percentage	18.5%	16.8%

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 market values.

The Real Estate pool diversifies its holdings by:

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

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

Report on Investment Activity (continued)

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

At the close of fiscal year 2009, the Real Estate pool represented 9.2% of total investments. This compares to 11.7% for fiscal year 2008. The following summarizes the System's 20.3% ownership share of the Real Estate pool at September 30, 2009:

Real Estate Pool
(in thousands)

Short Term Pooled Investments	$	5,746
Equities		819,264
Total	**$**	**825,010**

Government Bond Pool

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

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

During the fiscal year, rates continued to be volatile. Ten-year treasuries started the year at 3.7%, rose to 4.1%, then declined to 2.1% and ended at 3.3%. During the year, the curve declined through its entirety, though rates from three months to ten years showed a steeper decline.

For the fiscal year ending September 30, 2009, the Government Bond pool returned 8.8% compared to the 6.7% return of the Barclays Government Index.

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

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

Report on Investment Activity (continued)

At the close of fiscal year 2009, the Government Bond pool represented 4.8% of total investments. This compares to 6.7% for fiscal year 2008. The following summarizes the System's 18.7% ownership share of the Government Bond pool at September 30, 2009:

Government Bond Pool
(in thousands)

Short Term Pooled Investments	$	304
Fixed Income Securities		428,269
Accrued Dividends		3,172
Total	**$**	**431,745**

Corporate Bond Pool

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

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

For the fiscal year ending September 30, 2009, the Corporate Bond pool returned 15.6% compared to the 19.5% return of the Barclays Credit Index. The pool’s performance improved as the year progressed due to the decline in rates later in the year.

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

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

Report on Investment Activity (continued)

At the close of fiscal year 2009, the Corporate Bond pool represented 9.8% of total investments. This compares to 6.8% for fiscal year 2008. The following summarizes the System's 18.6% ownership share of the Corporate Bond pool at September 30, 2009:

Corporate Bond Pool
(in thousands)

Short Term Pooled Investments	$	11,529
Fixed Income Securities		856,964
Settlement Principal Payable		(682)
Accrued Interest		10,955
Total	**$**	**878,766**

Fixed Income Core Pools

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

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

The Fixed Income Core pools combined rate of return for the fiscal year was 12.5% versus the benchmark’s 10.6%.

At the close of fiscal year 2009, the Fixed Income Core pools represented 2.3% of total investments. This compares to 1.7% for fiscal year 2008. The following summarizes the System's ownership share and composition of the five Fixed Income Core pools at September 30, 2009:

Fixed Income Core Pools
(in thousands)

	Delaware Fixed Income Core	Dodge & Cox Fixed Income Core	Dupont Fixed Income Core	Pyramis Fixed Income Core	Metro West Fixed Income Core
Total Investment	$ 24,460	$ 42,256	$ 35,128	$ 58,364	$ 42,050
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 Barclays Credit Index net of fees.

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

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

Report on Investment Activity (continued)

At the close of fiscal year 2009, the Fixed Income Corporate Manager pools represented 1.3% of total investments. This compares to 1.3% for fiscal year 2008. The following summarizes the System's ownership share and composition of the two Fixed Income Corporate Manager pools at September 30, 2009:

Fixed Income Corporate Manager Pools
(in thousands)

	Alliance Bernstien Corporate	Prudential Financial Corporate
Total Investment	$ 34,333	$ 78,612
Ownership Percentage	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-.

The CMBS Investment pool rate of return for the fiscal year was (17.5)% versus the benchmark’s (11.0)%.

At the close of fiscal year 2009, the CMBS Investment pool represented 0.2% of total investments. This compares to 0.2% for fiscal year 2008. The following summarizes the System's 19.1% ownership share of the CMBS Investment pool at September 30, 2009:

CMBS Investment Pool
(in thousands)

Total Investment	$ 16,993

Special Situations Fund I Pool

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

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

Report on Investment Activity (continued)

At the close of fiscal year 2009, the Special Situations Fund I pool represented 0.3% of total investments. The following summarizes the System's 17.2% ownership share of the Special Situations Fund I pool at September 30, 2009:

Special Situations Fund I Pool
(in thousands)

Short Term Pooled investments	$	2,370
Equities		12,120
Fixed Income Securities		5,923
Other Investments		(2)
Accrued Dividends and Interest		165
Total	**$**	**20,576**

Absolute Return Strategies Pool

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

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

At the close of fiscal year 2009, the Absolute Return Strategies pool represented 1.9% of total investments. The following summarizes the System's 23.1% ownership share of the Absolute Return Strategies pool at September 30, 2009:

Absolute Return Strategies Pool
(in thousands)

Total Investment	$	171,498

Short Term Fixed Income Pool

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

Potential areas of investment are:

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

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

Report on Investment Activity (continued)

At the close of fiscal year 2009, the Short Term Fixed Income pool represented 2.2% of total investments. The following summarizes the System's 18.8% ownership share of the Short Term Fixed Income pool at September 30, 2009:

Short Term Fixed Income Pool
(in thousands)

Short Term Pooled Investments	$	100,879
Fixed Income Securities		94,831
Accrued interest		117
Total	**$**	**195,827**

Short Term Investment Pool

The objective of the Short Term Investment pool is to closely match the return performance of its benchmark, the 30 day Treasury bill. The Short Term Investment pool return for the fiscal year was 0.7% versus the benchmark's 0.1%.

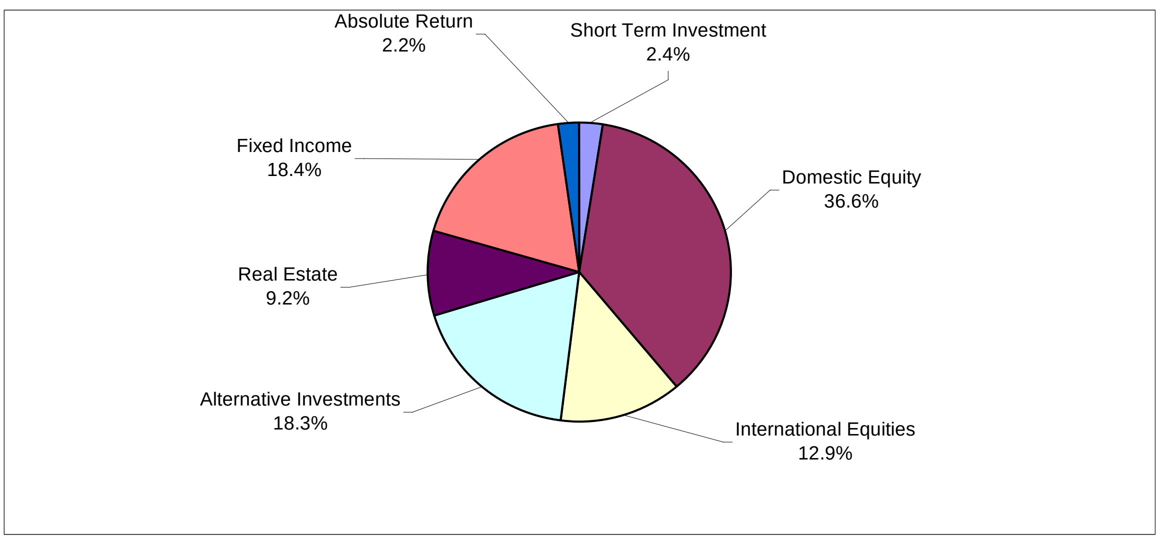
Potential areas of investment are:

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

As of September 30, 2009, the Short Term Investment pool was 100% invested in commercial paper because of its advantages in yield and flexibility in maturities.

At the close of fiscal year 2009, the Short Term Investment pool represented 0.2% of total investments. This compares to 2.9% for fiscal year 2008. The System's ownership share of the Short Term Investment pool at September 30, 2009, was $20,078,969 composed of fixed income securities and equity in common cash.

Asset Allocation – Security Type Only



Investment Results for the Period Ending September 30, 2009

		Annualized Rate of Return[1]		
Investment Category	**Current Year**	**3 Years**	**5 Years**	**10 Years**
Total Portfolio	(6.3) %	(1.3) %	4.1 %	3.7 %
Total Domestic Equity	(4.5)	(4.5)	1.6	0.7
S&P 1500 Index	(6.8)	(5.1)	1.4	0.6
Large Cap Core Equity Pool	(2.1)			
Large Cap Value Pool	(11.7)	(8.5)	0.0	
Large Cap Growth Pool	1.2	(1.5)	2.1	
Mid Cap Pool	(3.9)	(2.2)		
Small Cap Pool	(0.2)	1.2	5.5	
Manager of Managers Pool	(6.1)			
S&P 500 Index Pool	(6.5)	(5.2)	1.2	
S&P MidCap Index Pool	(1.4)	(0.5)	5.2	
International Equity Pool - Passive	8.5	(4.2)	5.6	2.6
S&P Citigroup BMI - EPAC 50/50	3.0	(4.7)	5.8	2.6
International Equity Pool - Active	(1.0)	(5.1)		
Alternative Investments Pool	(21.8)	2.4	10.5	7.3
Alternative Blended Benchmark[2]	(1.8)	(1.1)	4.9	3.6
T. Rowe Price (Stock Distributions)	(5.0)	(22.8)		
Real Estate Pool	(23.3)	(0.6)	6.0	7.3
NCREIF Property Blended Index[3]	(23.1)	(2.5)	5.0	6.9
Total Fixed Income	13.4	7.3	5.7	6.4
Barclays Government/Credit	11.5	6.3	4.9	6.3
Government Bond Pool	8.8	6.8	5.6	
Corporate Bond Pool	15.6	7.8	5.8	
Fixed Income Core Pool	12.5	6.4		
Fixed Income Managers Pool	20.4	5.3		
CMS Investment Pool	(17.5)			
Absolute and Real Return Strategies	(19.4)			
Short Term Investment Pool	2.2	1.4	2.2	2.8
30 Day Treasury Bill	0.1	2.4	2.8	2.8

1Calculations used a time-weighted rate of return based on the market rate of return in accordance with industry standards. Excludes income and investment gains and losses from securities lending.

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

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

Largest Assets Held

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

Rank	Shares	Stocks	Market Value
1	1,142,328	Exxon Mobil Corporation	$ 78,375,130
2	2,790,691	Microsoft Corporation	72,250,984
3	382,905	Apple Inc.	70,979,022
4	646,369	SPDR Trust Series I	68,230,737
5	126,070	Google Inc	62,511,578
6	1,260,358	Wal-Mart Stores, Inc.	61,870,974
7	1,931,578	AT&T Inc.	52,171,932
8	806,406	Johnson & Johnson	49,102,073
9	2,633,870	Bank of America Corporation	44,565,078
10	1,835,996	Cisco Systems, Inc.	43,219,341

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

Rank	Par Amount	Description	Market Value
1	$ 48,445,192	JPMorgan Chase & Co .63313% FRN Due 11-1-2012	$ 47,574,293
2	47,046,109	Treasury Bill Due 10-22-2009	47,045,074
3	43,344,766	Wachovia Corp .63313% FRN Due 4-23-2012	42,415,584
4	38,352,711	Toyota Motor Credit Corp 4.0375% Due 1-9-2012	40,619,011
5	48,041,750	General Electric Cap Corp .61% FRN Due 2-15-2017	39,474,657
6	38,756,153	Berkshire Hathaway Fin .81% FRN Due 1-11-2011	38,782,740
7	29,067,115	John Deere Capital Corp .83688% FRN Due 2-26-2010	29,116,355
8	29,067,115	Citigroup Funding Inc .755% FRN Due 10-22-2009	29,072,115
9	29,067,115	American Honda Finance .625% FRN Due 11-20-2009	29,057,261
10	29,067,115	Vulcan Materials 1.549% FRN Due 12-15-2010	28,947,533

Largest Bond Holdings are exclusive of securities lending collateral.

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

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

Schedule of Investment Fees

The State Treasurer is the investment fiduciary and custodian of the System’s funds pursuant to State law. Outside advisors are utilized to augment the State Treasurer’s internal staff. Only 41.74% 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 $2,282 thousand or four and four-tenths basis points (.044%) 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 Energy, Labor and Economic Growth and the Department of Management and Budget, or their duly authorized representatives, and three public members appointed by the Governor with the advice and consent of the Senate. The public members serve without pay, but may be paid actual and necessary travel and other expenses. The Committee meets quarterly to review investments, goals and objectives and may submit recommendations to the State Treasurer. The Committee may also, by a majority vote, direct the State Treasurer to dispose of any holding which, in the Committee’s judgment, is not suitable for the fund involved, and may by unanimous vote direct the State Treasurer to make specific investments.

Schedule of Investment Fees

Investment Managers' Fees:

	Assets under Management (in thousands)	Fees (in thousands)	Basis Points*
State Treasurer	$ 5,200,476	$ 2,282	4.4
Outside Advisors for			
Fixed Income	332,196	554	16.7
Mid Cap Equity	182,874	1,059	57.9
Small Cap Equity	152,701	656	42.9
International Equity	420,331	1,467	34.9
Equity	396,850	411	10.4
Alternative	1,635,380	18,126	110.8
Real Estate	599,347	2,426	40.5
Total	$ 8,920,155	$ 26,981	
Other Investment Services Fees:			
Assets in Custody	$ 8,891,120	$ 859	
Securities on Loan	1,518,307	2,934	

* 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

	Fiscal Year Ended September 30, 2009						
	Actual Commissions Paid [1]	Actual Number of Shares Traded [1]	Average Commission Per Share	Estimated Trade Costs Per Share	Estimated Research Costs Per Share	Estimated Trade Costs	Estimated Research Costs
Investment Brokerage Firms:							
Banc of America Securities LLC	$ 18,773	1,201,536	$ 0.02	$ 0.01	$ 0.01	$ 12,015	$ 12,015
Barclays Capital Inc.	51,373	1,862,935	0.03	0.01	0.02	18,629	37,259
Bear, Stearns & Co Inc	1,151	38,385	0.03	0.01	0.02	384	768
BNY Convergex	9,409	470,462	0.02	0.01	0.01	4,705	4,705
BTIG, LLC	86,152	6,877,537	0.01	0.01	-	68,775	-
Cantor Fitzgerald & Co.	24,041	1,210,849	0.02	0.01	0.01	12,109	12,109
Capital Institutional Services, Inc.	7,096	236,525	0.03	0.01	0.02	2,365	4,731
Citigroup Global Markets, Inc.	179,528	6,693,662	0.03	0.01	0.02	66,937	133,873
Cowen & Company, LLC	111,151	3,955,627	0.03	0.01	0.02	39,556	79,113
Credit Suisse Securities LLC	177,191	7,872,099	0.02	0.01	0.01	78,721	78,721
Deutsche Bank - Alex Brown	8,012	676,699	0.01	0.01	-	6,767	-
Deutsche Bank Securities Inc.	43,149	1,898,208	0.02	0.01	0.01	18,982	18,982
Goldman, Sachs & Co.	95,894	3,743,454	0.03	0.01	0.02	37,435	74,869
The Griswold Company, Incorporated	169,674	10,870,389	0.02	0.01	0.01	108,704	108,704
ISI Capital, LLC	149,918	5,423,608	0.03	0.01	0.02	54,236	108,472
J P Morgan Securities Inc.	261,640	11,297,346	0.02	0.01	0.01	112,974	112,974
Keefe, Bruyette & Woods, Inc.	148	3,699	0.04	0.01	0.03	37	111
Ladenburg Thalman	2,015	67,173	0.03	0.01	0.02	672	1,343
Merrill Lynch, Pierce, Fenner & Smith, Incorporated	201,576	8,080,640	0.03	0.01	0.02	80,806	161,613
Mischler Financial Group, Inc.	49,022	1,689,342	0.03	0.01	0.02	16,893	33,787
Morgan Stanley & Co., Incorporated	58,397	2,312,424	0.03	0.01	0.02	23,124	46,248
OTA LLC	17,951	694,120	0.03	0.01	0.02	6,941	13,882
Sanford C. Bernstein & Co., LLC	162,119	5,891,569	0.03	0.01	0.02	58,916	117,831
Soleil Securities Corporation	18,731	624,351	0.03	0.01	0.02	6,244	12,487
Stanford Group Company	17,071	569,038	0.03	0.01	0.02	5,690	11,380
Thomas Weisel Partners LLC	5,824	151,266	0.04	0.01	0.03	1,513	4,538
UBS Securities LLC	120,009	4,898,946	0.02	0.01	0.01	48,989	48,989
Wayne Company	22,618	995,102	0.02	0.01	0.01	9,951	9,951
Weeden & Co., LP	188,746	18,874,464	0.01	0.01	-	188,745	-
Total	$ 2,258,379	109,181,455	$ 0.03 [2]	$ 0.01	$ 0.02	$ 1,091,815	$ 1,249,455

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

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

Investment Summary

Fiscal Year Ended September 30, 2009

	Market Value[1]	Percent of Total Market Value	Investment & Interest Income[2]	Percent of Total Investment & Interest Income
Fixed Income Pools	$ 1,642,707,519	18.4%	$ 206,481,241	(28.70)%
Domestic Equity Pools	3,259,517,377	36.6%	(366,889,867)	50.90%
Real Estate Pool	825,009,692	9.2%	(387,907,741)	53.90%
Alternative Investments Pool	1,635,379,614	18.3%	(262,800,672)	36.50%
International Equities Pools	1,149,559,962	12.9%	104,623,508	(14.50)%
Absolute Return Pools	192,073,918	2.2%	(3,791,018)	0.50%
Short Term Investment Pools	215,906,410	2.4%	(9,836,565)	1.40%
Total	$ 8,920,154,492	100.0%	$ (720,121,114)	100.0%

[1] Market value excludes $1,213,121,656 in securities lending collateral for fiscal year 2009.

[2] Total Investment & Interest Income excludes net security lending income of $16,605,216 and unrealized gain of $51,439,188 for securities lending collateral.

Investment Summary
Fiscal Year Ended September 30, 2008

	Market Value[1]	Percent of Total Market Value	Investment & Interest Income[2]	Percent of Total Investment & Interest Income
Fixed Income Pools	$ 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 Investments Pool	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.

ACTUARIAL SECTION

Actuary's Certification

GRS

Gabriel Roeder Smith & Company
Consultants & Actuaries

One Towne Square
Suite 800
Southfield, MI 48076-3723

248.799.9000 phone
248.799.9020 fax
www.gabrielroeder.com

October 8, 2009

Ms. Lisa Webb Sharpe, Director
Department of Management and Budget
and
The Retirement Board
Michigan 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, 2008.

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

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

Actuary's Certification (continued)

Ms. Lisa Webb Sharpe
October 8, 2009
Page 2

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

Financial Section

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

Actuarial Section

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

Statistical Section

- Schedule of Retired Members by Type of Pension Benefit (Retirement Type)
- 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, Medical, 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, 2008 were performed by qualified actuaries in accordance with standards of practice prescribed by the Actuarial Standards Board and in compliance with applicable state statutes. The undersigned are Members of the American Academy of Actuaries (MAAA) and meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion contained herein. It is our opinion that the calculated employer contribution meets the financial objective of the Retirement System.

Respectfully submitted,

Louise Gates　　　　Alan E. Sonnanstine

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

Gabriel Roeder Smith & Company

Summary of Actuarial Assumptions and Methods

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

2. The healthy life mortality table used in evaluating allowances to be paid was the 1994 Group Annuity Mortality Table, 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
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
2008	28,568	1,763,672	61,736	4.4	51.4	22.7

*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]		
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
2008	2,653	63,219	1,461	22,625	48,078	842,612	5.1	17,526

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

Pension Benefits
($ in millions)

	Actuarial Accrued Liability (AAL)							
	(1)	(2)	(3)					
Valuation Date Sept. 30	Active Member Contributions	Retirants and Beneficiaries	Active and Inactive Members (Employer Financed Portion)	Valuation Assets	Portion of AAL Covered by Assets (1)	(2)	(3)	(4) [3]
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
2008	119	8,361	5,286	11,403	100	100	55.3	82.8

[1] Revised asset valuation method.

[2] Revised actuarial assumptions.

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

Prioritized Solvency Test (continued)

Other Postemployment Benefits
($ in millions)

	Actuarial Accrued Liability (AAL)							
	(1)	(2)	(3)					
Valuation Date Sept. 30	Active Member Contributions	Retirants and Beneficiaries	Active and Inactive Members (Employer Financed Portion)	Valuation Assets	Portion of AAL Covered by Assets (1)	(2)	(3)	(4) [1]
2007	$ -	$ 6,389	$ 6,576	$ -	0 %	0 %	0 %	0 %
2008	-	6,759	6,783	-	0	0	0	0

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

Analysis of System Experience

Gains/(Losses) in Accrued Liabilities During Year Ended September 30, 2008
Resulting from Differences Between Assumed Experience & Actual Experience

	Type of Activity	Gain/(Loss)
1.	**Retirements (including Disability Retirement).** If members retire at older ages or with lower final average pay than assumed, there is a gain. If younger ages or higher average pays, a loss.	$ (5,096,183)
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.	20,076,547
3.	**Pay Increases.** If there are smaller pay increases than assumed, there is a gain. If greater increases, a loss.	(14,661,117)
4.	**Investment Income.** If there is greater investment income than assumed, there is a gain. If less income, a loss.	(357,935,204)
5.	**Death After Retirement.** If retirants live longer than assumed, there is a loss. If not as long, a gain.	(38,477,272)
6.	**Rehires.** Rehires will generally result in an actuarial loss.	(1,849,864)
7.	**Other.** Miscellaneous gains and losses resulting from data adjustments, timing of financial transactions, etc.	(38,960,971)
8.	**Composite Gain (or Loss) During Year**	$ (436,904,064)

ACTUARIAL SECTION

Summary of Plan Provisions

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

Duty Death Before Retirement

Eligibility - No age or service requirement.

Summary of Plan Provisions (continued)

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.

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.

Summary of Plan Provisions (continued)

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.

STATISTICAL SECTION

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

STATISTICAL SECTION

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

Contents

Financial Trends

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

- Schedule of Pension Plan Additions by Source
- Schedule of OPEB Plan Additions by Source
- Schedule of Pension Plan Deductions by Type
- Schedule of OPEB Plan Deductions by Type
- Schedule of Changes in Net Assets - Pension Plan
- Schedule of Changes in Net Assets - OPEB Plan
- Schedule of Pension 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 Other Post Employment Benefits
- 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 Additions by Source

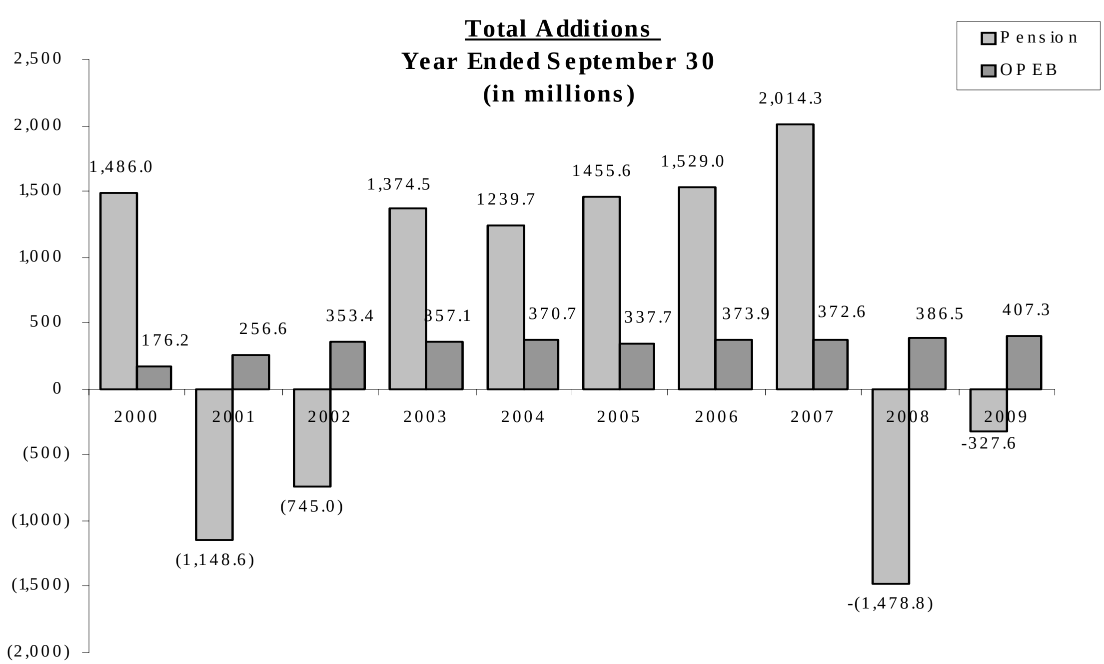
Last Ten Years

Fiscal Year Ended Sept. 30	Member Contributions	Employer Contributions Dollars	Employer Contributions % of Annual Covered Payroll	Net Investment & Other Income	Total
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	20.2	(1,840,212,839)	(1,478,836,919)
2009	6,994,975	343,787,486	N/A	(678,361,614)	(327,579,153)

Schedule of OPEB Plan Additions by Source

Last Ten Years

Fiscal Year Ended Sept. 30	Member Contributions	Employer Contributions Dollars	Employer Contributions % of Annual Covered Payroll	Net Investment & Other Income	Total
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	19.4	31,242,590	386,529,289
2009	20,982,595	362,419,285	N/A	23,861,475	407,263,355

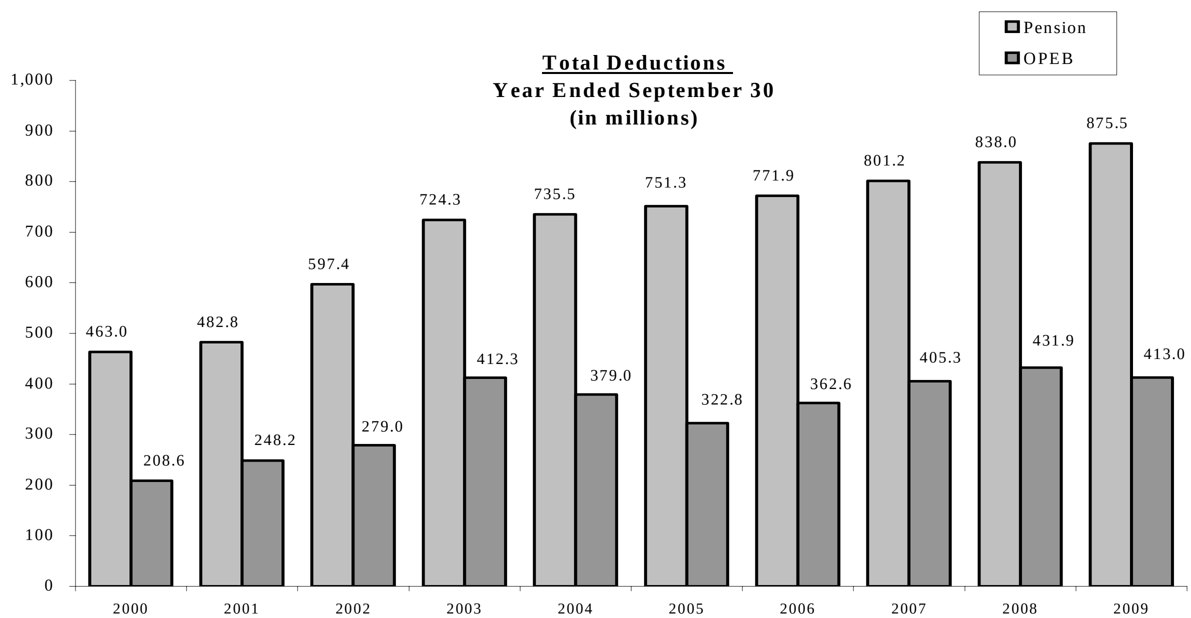


Schedule of Pension Plan Deductions by Type
Last Ten Years

Fiscal Year Ended Sept. 30	Benefit Payments	Refunds and Transfers	Administrative and Other Expenses	Total
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
2009	870,278,863	366,039	4,865,232	875,510,134

Schedule of OPEB Plan Deductions by Type
Last Ten Years

Fiscal Year Ended Sept. 30	Benefit Payments	Refunds and Transfers	Administrative and Other Expenses	Total
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
2009	392,135,386	2,431	20,896,664	413,034,481



Schedule of Changes in Net Assets - Pension Plan

Last Ten Years
(in thousands)

	Fiscal Year 2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Member contributions	$ 4,607	$ 3,341	$ 173,233	$ 80,185	$ 37,683	$ 30,395	$ 9,435	$ 19,696	$ 5,644	$ 6,995
Employer contributions	121,817	112,300	87,486	79,292	103,873	256,433	270,705	150,858	355,732	343,787
DC savings subaccount										
Net investment income	1,359,606	(1,264,292)	(1,005,733)	1,215,018	1,073,758	1,168,690	1,248,616	1,801,588	(1,840,587)	(678,588)
Transfer from other systems					26	120	123	106	190	93
Transfer from pension/ OPEB plan					24,364			41,304		
Miscellaneous income	3	2			2	2	106	766	184	133
Total Additions	1,486,033	(1,148,649)	(745,014)	1,374,495	1,239,706	1,455,640	1,528,985	2,014,318	(1,478,837)	(327,579)
Pension benefits	458,804	478,525	503,454	701,664	731,009	746,673	767,000	795,842	832,553	870,279
Refunds of member contributions	43	15	5	118	163	292	254	222	291	316
Transfer to pension/ OPEB plan			87,486	17,365						
Tranfer to other systems	179	77	13	2	20	15	3	8	83	50
Administrative expenses	3,955	4,149	6,433	5,192	4,317	4,298	4,628	5,115	5,049	4,865
Total Deductions	462,981	482,766	597,391	724,341	735,509	751,278	771,885	801,187	837,976	875,510
Changes in net assets	$ 1,023,052	$ (1,631,415)	$ (1,342,405)	$ 650,154	$ 504,197	$ 704,362	$ 757,100	$ 1,213,131	$ (2,316,813)	$ (1,203,089)

Schedule of Changes in Net Assets - OPEB Plan

Last Ten Years
(in thousands)

	Fiscal Year 2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Member contributions	$ 5,057	$ 5,793	$ 6,326	$ 11,145	$ 9,723	$ 10,702	$ 11,528	$ 11,761	$ 13,100	$ 20,983
Employer contributions	166,833	249,214	257,731	320,838	357,555	324,305	356,674	359,375	342,187	362,419
Other governmental contributions									23,004	21,987
DC savings subaccount	574	412								
Net investment income	3,766	1,175	1,842	7,793	3,381	2,712	5,661	1,500	657	1,359
Transfer from other systems									6,884	
Transfer from pension/ OPEB plan			87,486	17,365						
Miscellaneous income									698	516
Total Additions	176,230	256,594	353,385	357,141	370,659	337,719	373,863	372,636	386,530	407,263
Health care benefits	208,628	248,246	278,998	354,085	354,650	322,834	362,598	363,975	377,513	392,135
Refunds of member contributions									2	2
Transfer to pension/ OPEB plan					24,364			41,304		
Tranfer to other systems				58,211					35,000	
Administrative expenses									19,394	20,897
Total Deductions	208,628	248,246	278,998	412,296	379,014	322,834	362,598	405,279	431,909	413,034
Changes in net assets	$ (32,398)	$ 8,348	$ 74,387	$ (55,155)	$ (8,355)	$ 14,885	$ 11,265	$ (32,643)	$ (45,379)	$ (5,771)

Schedule of Pension Benefits and Refunds by Type

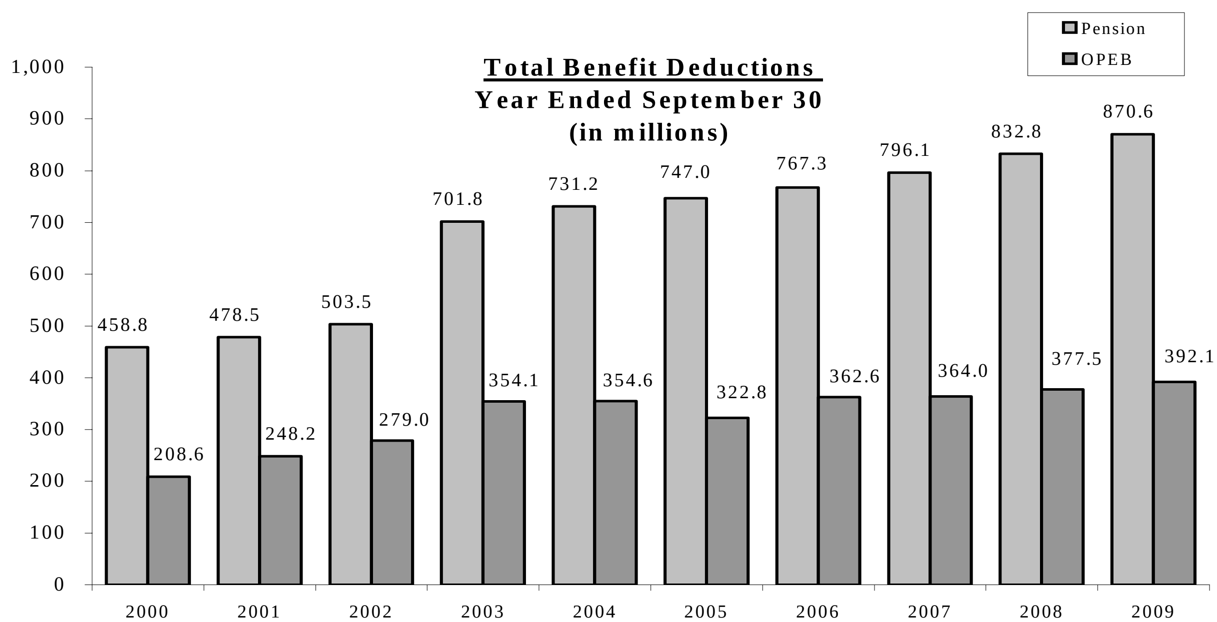
Last Ten Years

Fiscal Year Ended Sept. 30	Regular Benefits	Disability Benefits	Survivor Benefits	Supplemental Check	Refunds: Employee Contribution	Refunds: Employer Contribution	Refunds: Retired Benefit	Total
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
2009	752,155,935	40,876,663	77,246,265		177,079	133,294	5,618	870,594,854

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
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
2009	358,691,332	30,140,662	3,303,392	2,431	392,137,817



Schedule of Retired Members by Type of Pension Benefit

September 30, 2008

Amount of Monthly Pension Benefit	Number of Retirees	Type of Retirement * 1	2	3	4	5	6	7	8
$ 1 - 200	543	260	200	12	49	-	10	1	11
201 - 400	2,784	1,643	599	10	335	-	67	1	129
401 - 600	4,932	2,745	680	301	701	16	180	8	301
601 - 800	5,074	2,955	641	8	831	1	256	33	349
801 - 1,000	4,412	2,637	482	9	725	2	221	70	266
1,001 - 1,200	3,965	2,497	338	9	613	-	209	98	201
1,201 - 1,400	4,037	2,886	322	5	424	-	168	96	136
1,401 - 1,600	3,918	3,016	294	2	238	-	123	157	88
1,601 - 1,800	3,379	2,769	179	2	120	-	78	190	41
1,801 - 2,000	3,025	2,582	127	-	59	-	45	191	21
Over 2,000	12,009	10,355	260	2	49	-	92	1,209	42
Totals	48,078	34,345	4,122	360	4,144	19	1,449	2,054	1,585

* 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, 2008

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	543	129	156	182	4	51	9	11	1
201 - 400	2,784	1,053	741	613	37	217	60	61	2
401 - 600	4,932	2,102	1,306	763	80	414	111	152	4
601 - 800	5,074	2,036	1,366	846	82	492	95	151	6
801 - 1,000	4,412	1,833	1,186	792	83	337	59	116	6
1,001 - 1,200	3,965	1,787	1,141	644	101	174	44	69	5
1,201 - 1,400	4,037	1,873	1,206	668	84	108	49	47	2
1,401 - 1,600	3,918	1,624	1,237	753	120	106	36	37	5
1,601 - 1,800	3,379	1,342	1,070	633	144	81	58	43	8
1,801 - 2,000	3,025	1,169	858	553	165	133	64	63	20
Over 2,000	12,009	4,085	3,257	2,184	783	871	285	425	119
Totals	48,078	19,033	13,524	8,631	1,683	2,984	870	1,175	178

**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, 2008

Amount of Monthly Pension Benefit	Eligible Retirees	Type of Other Postemployment Benefits: Health	Dental	Vision
$ 1 - 200	543	341	337	337
201 - 400	2,784	2,044	1,984	2,019
401 - 600	4,932	4,059	4,062	4,074
601 - 800	5,074	4,388	4,352	4,370
801 - 1,000	4,412	3,933	3,928	3,946
1,001 - 1,200	3,965	3,623	3,601	3,612
1,201 - 1,400	4,037	3,726	3,720	3,725
1,401 - 1,600	3,918	3,664	3,677	3,677
1,601 - 1,800	3,379	3,151	3,159	3,167
1,801 - 2,000	3,025	2,828	2,862	2,851
Over 2,000	12,009	11,199	11,309	11,313
Totals	48,078	42,956	42,991	43,091

Source: Gabriel Roeder Smith & Co.

Schedule of Other Postemployment Benefits

For Years Ended September 30, 2009 and 2008

	2009	2008
Claims		
Health Insurance	288,555,075	275,108,533
Vision Insurance	2,951,172	2,835,477
Dental Insurance	29,261,053	28,148,101
Total Claims	320,767,300	306,092,111
Estimated Claims Liability		
Health Insurance	70,136,257	70,178,058
Vision Insurance	352,220	345,576
Dental Insurance	879,609	898,128
Total Estimated Claims Liability	71,368,086	71,421,762
Administrative Fees		
Health Insurance	18,986,817	17,533,658
Vision Insurance	472,258	458,113
Dental Insurance	1,437,589	1,401,894
Total Administrative Fees	20,896,664	19,393,665
Subtotal		
Refunds	2,431	295
Transfers to Other Systems		35,000,768
Grand Total	413,034,481	431,908,601

Schedule of Average Benefit Payments - Pension

Last Ten Years

Payment Periods	0 - 5	5 - 10	10 - 15	15 - 20	20 - 25	25 - 30	30+	Total
	Credited Service (Years) as of September 30							
Period 10/1/98 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
Period 10/1/07 to 9/30/08								
Average Monthly Benefit	$ 751	$ 645	$ 594	$ 888	$ 1,227	$ 1,731	$ 2,182	$ 1,460
Average Final Average Salary	25,963	38,066	33,076	35,846	39,066	43,268	47,724	40,996
Number of Active Retirants	571	640	7,054	7,550	7,553	10,428	14,282	48,078

Source: Gabriel Roeder Smith & Co.

Schedule of Average Benefit Payments - Health

Last Four Years

Payment Periods	Credited Service (Years) as of September 30							
	0 - 5	**5 - 10**	**10 - 15**	**15 - 20**	**20 - 25**	**25 - 30**	**30+**	**Total**
Period 10/1/04 to 9/30/05								
Average Monthly Benefit	$ 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
Period 10/1/07 to 9/30/08								
Average Monthly Benefit	$ 836	$ 622	$ 618	$ 912	$ 1,258	$ 1,752	$ 2,218	$ 1,502
Average Final Average Salary	29,453	35,651	33,645	36,130	39,275	43,094	47,598	41,221
Number of Active Retirants	423	730	5,821	6,572	6,933	9,596	12,881	42,956

*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 Four Years

Payment Periods	Credited Service (Years) as of September 30							
	0 - 5	**5 - 10**	**10 - 15**	**15 - 20**	**20 - 25**	**25 - 30**	**30+**	**Total**
Period 10/1/04 to 9/30/05								
Average Monthly Benefit	$ 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
Period 10/1/07 to 9/30/08								
Average Monthly Benefit	$ 830	$ 627	$ 619	$ 916	$ 1,262	$ 1,758	$ 2,226	$ 1,507
Average Final Average Salary	29,547	36,106	33,801	36,371	39,459	43,267	47,776	41,414
Number of Active Retirants	425	733	5,857	6,546	6,901	9,599	12,930	42,991

*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 Four Years

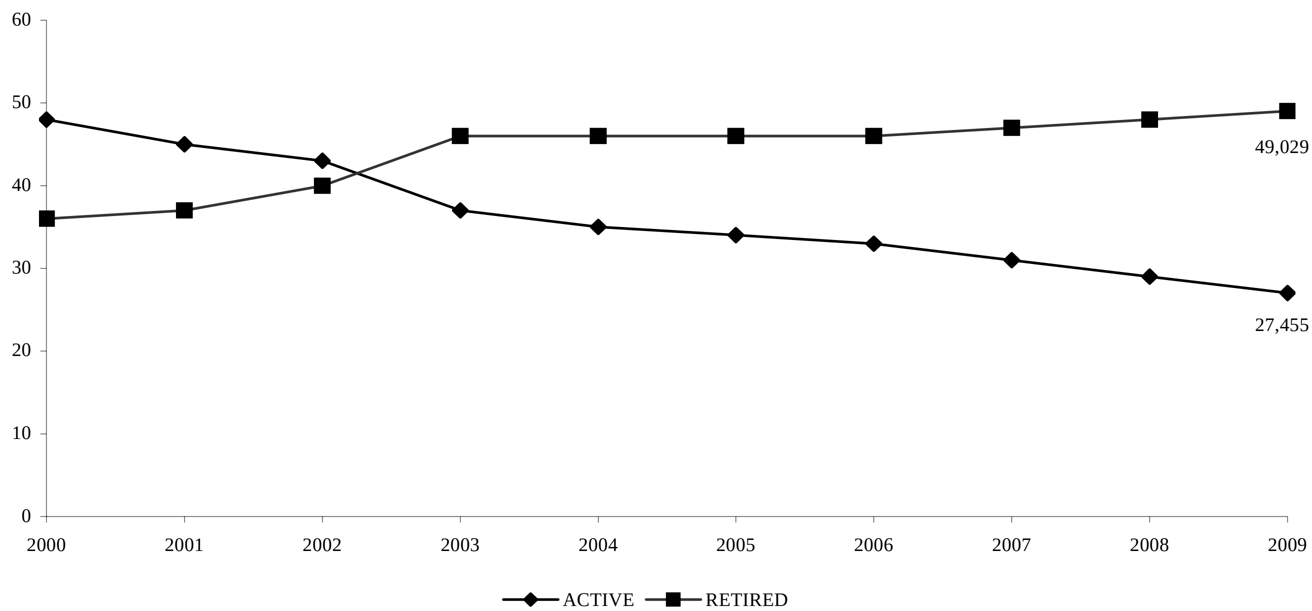
Payment Periods	Credited Service (Years) as of September 30							
	0 - 5	**5 - 10**	**10 - 15**	**15 - 20**	**20 - 25**	**25 - 30**	**30+**	**Total**
Period 10/1/04 to 9/30/05								
Average Monthly Benefit	$ 308	$ 449	$ 570	$ 841	$ 1,174	$ 1,670	$ 2,106	$ 1,409
Average Final Average Salary	24,976	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
Period 10/1/07 to 9/30/08								
Average Monthly Benefit	$ 837	$ 624	$ 617	$ 915	$ 1,262	$ 1,755	$ 2,225	$ 1,505
Average Final Average Salary	29,578	36,009	33,699	36,302	39,449	43,189	47,742	41,355
Number of Active Retirants	418	739	5,877	6,577	6,915	9,632	12,933	43,091

*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

STATISTICAL SECTION

Ten Year History of Membership
Fiscal Year Ended September 30



Source: Gabriel Roeder Smith & Co.

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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 2008-2009 report included:

Management:

Ronald W. Foss, Director
Cindy Peters, Accounting Manager

Accountants:

Randy Bitner
Dan Harry
Erik Simmer
Paula Webb
Julie Zolnai

Technical and Support Staff:

Patricia Jorae
Jamin Schroeder
Marilyn Williams

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