## Michigan State Employees' Retirement System

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

# Comprehensive Annual Financial Report for the Fiscal Year Ended September 30, 2010

# 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, 2009

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

GOVERNMENT FINANCE OFFICERS ASSOCIATION OF THE UNITED STATES AND CANADA CORPORATION SEAL CHICAGO

President

Executive Director

## Public Pension Standards Award

Public Pension Coordinating Council

**_Public Pension Standards Award_**
**_For Funding and Administration_**
**_2010_**

Presented to

**_Michigan Office of Retirement Services_**

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

*Presented by the Public Pension Coordinating Council, a confederation of*

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

Alan H. Winkle

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**

RICK SNYDER, Governor

**DEPARTMENT OF TECHNOLOGY, MANAGEMENT & BUDGET**

January 3, 2011

The Honorable Rick Snyder
Governor, State of Michigan,

Members of the Legislature
State of Michigan,

Retirement Board Members
and
Members, Retirees and Beneficiaries

Ladies and Gentlemen:

We are pleased to present the comprehensive annual financial report of the Michigan State Employees' Retirement System (System) for fiscal year 2010.

### 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

# Letter of Transmittal (continued)

authorization, and are recorded as necessary to maintain accountability for assets and to permit preparation of financial statements in accordance with accounting principles generally accepted in the United States of America. The internal control structure is designed to provide reasonable assurance regarding the safekeeping of assets and reliability of all financial records.

***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, 2009. Actuarial certification and supporting statistics are included in the Actuarial Section of this report.

***Management's Discussion and Analysis (MD&A)***

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

## PROFILE OF THE GOVERNMENT

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 8.5%. For the last five years, the System has experienced an annualized rate of return of 3.3%. 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

## Letter of Transmittal (continued)

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.

***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, 2009. The actuarial value of the assets and actuarial accrued liability of the System were $11.1 billion and $14.2 billion, respectively, resulting in a funded ratio of 78.0% on September 30, 2009. An historical perspective of funding levels for the System is presented on the Schedule of Funding Progress in the Required Supplementary Information in the Financial Section of this report.

***Postemployment Benefits***

An actuarial valuation is completed annually to determine the actuarial accrued liability if the postemployment benefits were to be pre-funded. If these benefits were pre-funded, the actuarial accrued liability as of September 30, 2009 would be approximately $12.6 billion. Only members of the defined benefit plan were included when calculating the actuarial accrued liability. GASB Statement No. 43 does not require retroactive application of the reporting changes. Therefore, only four valuation years are presented and included in the required supplementary information of this report.

**MAJOR ACCOMPLISHMENTS**

The Michigan Department of Technology, Management & Budget, Office of Retirement Services (ORS) is an innovative retirement organization driven to empower our customers for a successful today and a secure tomorrow. During fiscal year 2010, we continued to follow our strategic planning for our business goals. Strategic planning has united staff members from across the organization, generated fresh and unique perspectives, and created broad staff support of the strategic objectives.

Additional accomplishments are highlighted below:

***Best in Class Business Practices***

Statement printing keeps work and dollars in Michigan - We brought to the state of Michigan the printing of 401(k)/457 quarterly statements and newsletter. More than 69,000 statements and newsletters are printed quarterly, which keeps presses rolling and dollars flowing into Michigan's economy.

***Continuously Renewed Business-Driven Technology***

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

***Innovate & Improve Customer Service***

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

Promotion for self-service access a success - We sent more than 15,000 letters to members who had not yet registered for the online self-service tool miAccount. As a result, 12,666 active employees responded to our promotion request in advance of the retirement incentive. Nearly 92 percent of state employees now have registered for online access.

# Letter of Transmittal (continued)

Proactive preparation makes incentive smooth for staff and retirees - We ensured that, as soon the retirement incentive was signed into law, state employees had the tools to retire at their fingertips. We updated our website with a legislation summary, incentive/reform frequently asked questions, pre-retirement information and held several question and answer webinars. MiAccount, the online retirement application tool, was updated with incentive-specific functionality. One-hundred percent of the incentive applications were completed online. Over 4,750 applications were received which will save the state a projected $60 million in the first year.

**AWARDS AND ACKNOWLEDGEMENTS**

ORS received the following recognitions:

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

- Michigan's Roth 401(k) was awarded the 2009 Leadership Recognition Award for plan design and administration from the National Association of Government Defined Contribution Administrators (NAGDCA).

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

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

## Letter of Transmittal (continued)

***Acknowledgements***

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

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

Sincerely,

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

Phillip J. Stoddard, Director
Office of Retirement Services

# Administrative Organization

## Retirement Board Members *

| | | |
|---|---|---|
| Douglas Drake, Chair<br>Retiree Member<br>Term Expires July 31, 2013 | George M. Elworth<br>Representing Attorney General<br>Ex officio | D. Daniel McLellan<br>Representing State Personnel Director<br>Ex officio |
| H. David Dekker<br>Employee Member<br>Term Expires July 31, 2011 | Craig Murray<br>Representing Deputy Auditor General<br>Ex officio | Vernon Johnson<br>Representing State Treasurer<br>Ex officio |
| Douglas Johnson<br>Retiree Member<br>Term Expires July 31, 2012 | John Schoonmaker, Vice Chair<br>Representing Commissioner of<br>Financial & Insurance Regulation<br>Ex officio | Vacant<br>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 Technology,**
**Management & Budget**
**Office of Retirement Services**
**P.O. Box 30171**
**Lansing, Michigan 48909-7671**
**517-322-5103**
**1-800-381-5111**

## Advisors and Consultants

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

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

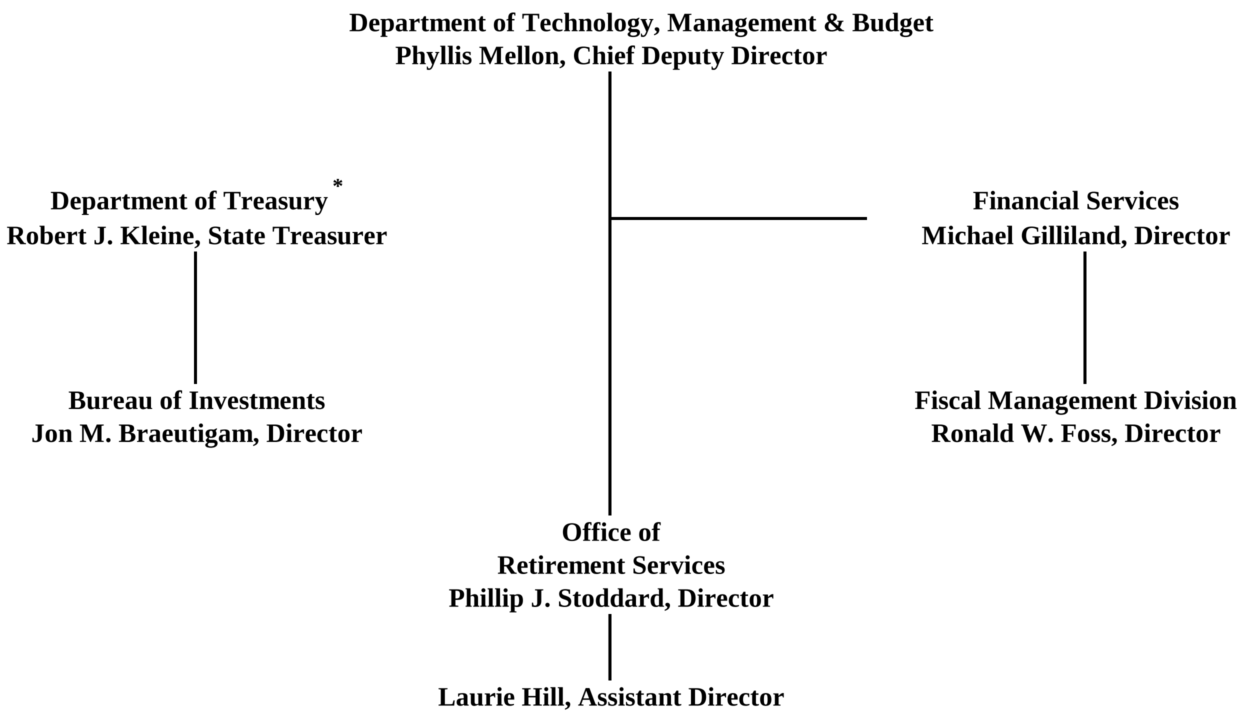
**Investment Manager and Custodian**
Robert J. Kleine
State Treasurer
State of Michigan

**Legal Advisor**
Mike Cox
Attorney General
State of Michigan

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

## Administrative Organization (continued)

### Organization Chart




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

# FINANCIAL SECTION

# FINANCIAL SECTION

## Independent Auditor's Report


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

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


Independent Auditor's Report on
the Financial Statements

Mr. Douglas Drake, Chair
Michigan State Employees' Retirement System Board
General Office Building
and
Ms. Phyllis Mellon, Chief Deputy Director
Department of Technology, Management & Budget
Lewis Cass Building
and
Mr. Phillip Stoddard, Director
Office of Retirement Services
Department of Technology, Management & Budget
General Office Building
Lansing, Michigan

Dear Mr. Drake, Ms. Mellon, and Mr. Stoddard:

We have audited the accompanying basic financial statements of the Michigan State Employees' Retirement System as of and for the fiscal years ended September 30, 2010 and September 30, 2009, as listed in the table of contents. These financial statements are the responsibility of the Michigan State Employees' Retirement System's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

# Independent Auditor's Report (continued)

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the plan net assets of the Michigan State Employees' Retirement System as of September 30, 2010 and September 30, 2009 and the changes in plan net assets for the fiscal years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we will also issue a report on our consideration of the Michigan 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 16 through 19 and the required supplementary information and corresponding note on pages 42 through 44 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 the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole. The introductory, investment, actuarial, and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

AUDITOR GENERAL

December 30, 2010

# FINANCIAL SECTION

## Management's Discussion and Analysis

Our discussion and analysis of the Michigan State Employees' Retirement System's (System) financial performance provides an overview of the System's financial activities for the fiscal year ended September 30, 2010. Please read it in conjunction with the transmittal letter in the Introductory Section on page 6 and the basic financial statements, which follow this discussion.

**FINANCIAL HIGHLIGHTS**

- System assets exceeded liabilities at the close of fiscal year 2010 by $9.0 billion (reported as *net assets*). Net assets are held in trust to meet future benefit payments.

- The System's funding objective is to meet long-term benefit obligations through contributions and investment income. As of September 30, 2009, the funded ratio was approximately 78.0% for pension benefits and the funded ratio for other postemployment benefits (OPEB) was 0.0%.

- Additions for the year were $1,699.9 million, which are comprised primarily of contributions of $804.1 million and investment gains of $895.3 million.

- Deductions decreased over the prior year from $1.29 billion to $1.27 billion or (1.5)%. Most of this decrease represented a decrease in other post employment 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 20) and *The Statements of Changes in Pension Plan and Other Postemployment Benefit Plan Net Assets* (page 21*)*. 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 42) and Schedules of Employer and Other Contributions (page 43) to determine whether the System is becoming financially stronger or weaker and to understand changes over time in the funded status of the System.

# Management's Discussion and Analysis (continued)

**FINANCIAL ANALYSIS**

System total assets as of September 30, 2010, were $10.4 billion and were mostly comprised of cash, investments, and contributions due from employers. Total assets increased $143.4 million or 1.4% between fiscal years 2009 and 2010 and total assets decreased $1.4 billion or (11.7)% between fiscal years 2008 and 2009 due primarily to net investment losses.

Total liabilities as of September 30, 2010, were $1.4 billion and were comprised of warrants outstanding, accounts payable, amounts due to other funds, and obligations under securities lending. Total liabilities decreased $287.3 million or (17.5)% between fiscal years 2009 and 2010 and total liabilities decreased $146.4 million or (8.2)% between fiscal years 2008 and 2009 due primarily to decreased obligations under securities lending.

System assets exceeded its liabilities at the close of fiscal year 2010 by $9.0 billion. Net assets held in trust for pension and OPEB benefits increased $0.4 billion or 5.0% between fiscal years 2009 and 2010 due primarily to decreased obligations under securities lending and total net assets decreased $1.2 billion or (12.3)% between fiscal years 2008 and 2009 due primarily to investment losses.

**Net Assets**
**(in thousands)**

| | 2010 | Increase (Decrease) | 2009 | Increase (Decrease) | 2008 |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| Cash | $ 33,125 | 66.6 % | $ 19,886 | (90.9) % | $ 217,372 |
| Receivables | 149,042 | 30.2 | 114,466 | 2.0 | 112,269 |
| Investments | 10,209,004 | 0.9 | 10,113,390 | (10.3) | 11,273,316 |
| **Total Assets** | 10,391,172 | 1.4 | 10,247,742 | (11.7) | 11,602,957 |
| **Liabilities** | | | | | |
| Warrants outstanding | 1,507 | (13.0) | 1,732 | (13.4) | 1,999 |
| Accounts payable and other accrued liabilities | 74,756 | (1.7) | 76,057 | (0.5) | 76,426 |
| Obligations under securities lending | 1,274,563 | (18.3) | 1,560,297 | (8.5) | 1,706,015 |
| **Total Liabilities** | 1,350,826 | (17.5) | 1,638,086 | (8.2) | 1,784,440 |
| **Total Net Assets** | $ 9,040,346 | 5.0 % | $ 8,609,656 | (12.3) % | $ 9,818,517 |

# 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 gains for fiscal year 2010 totaled $1.70 billion.

Total additions for fiscal year 2010 increased $1.6 billion from those of fiscal year 2009 due primarily to increased net investment gains. Total additions for fiscal year 2009 increased $1.2 billion from those of fiscal year 2008 due primarily to decreased net investment losses. Total employer contributions increased between fiscal years 2009 and 2010 by $23.9 million or 3.4% due to an increase in contribution rates. This compares to an increase in total employer contributions between fiscal years 2008 and 2009 of $8.3 million or 1.2% due to an increase in contribution rates. Member contributions increased between fiscal years 2009 and 2010 by $19.0 million or 67.9%, while member contributions between fiscal years 2008 and 2009 decreased by $9.2 million or 49.3%. The System is non-contributory; however, members may purchase service credit. The increase in member contributions for fiscal year 2010 occurred because there was an increase in individuals purchasing service credit. Net investment income increased between fiscal years 2009 and 2010 by $1.6 billion. Net investment income increased between fiscal years 2008 and 2009 by $1.2 billion. The Investment Section of this report reviews the results of investment activity for 2010.

**DEDUCTIONS FROM PLAN NET ASSETS**

The primary expenses of the System include the payment of pension benefits to members and beneficiaries, payment for health, dental and vision benefits, refunds of contributions to former members, and the cost of administering the System. Total deductions for fiscal year 2010 were $1.27 billion, an decrease of 1.7% over fiscal year 2009 expenses. Total deductions for fiscal year 2009 were $1.29 billion, an increase of 1.5% over fiscal year 2008 expenses.

Payments for health care benefits to members and beneficiaries decreased by $61.6 million or 15.7% from $392.1 million to $330.5 million during the fiscal year. This compares to an increase of $14.6 million or 3.9% from $377.5 million to $392.1 million between fiscal years 2008 and 2009. The payment of pension benefits increased by $47.0 million or 5.4% between fiscal years 2009 and 2010 and by $37.7 million or 4.5% between fiscal years 2008 and 2009. In fiscal years 2009 and 2010, pension benefit expenses increased due to an increase in benefit payments to retirees and an increase of 951 retirees and 1,433 retirees, respectively. Refunds decreased by $8.8 thousand or 2.5% between fiscal years 2009 and 2010. This compares to an increase of $27.0 thousand or 9.3% between fiscal years 2008 and 2009. Administrative expenses decreased by $4.7 million from $25.8 million in fiscal year 2009 to $21.0 million in fiscal year 2010, due primarily to an decrease in OPEB administrative expenses paid to insurance carriers. 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.

# Management's Discussion and Analysis (continued)

**Changes in Plan Net Assets**
**(in thousands)**

| | 2010 | Increase (Decrease) | 2009 | Increase (Decrease) | 2008 |
|---|---|---|---|---|---|
| **Additions** | | | | | |
| Member contributions | $ 46,961 | 67.9 % | $ 27,978 | 49.3 % | $ 18,744 |
| Employer contributions | 730,078 | 3.4 | 706,207 | 1.2 | 697,919 |
| Other governmental contributions | 27,058 | 23.1 | 21,987 | (4.4) | 23,004 |
| Net investment income | 895,325 | 232.2 | (677,229) | 63.2 | (1,839,930) |
| Transfers from other systems | 50 | (46.2) | 93 | (98.7) | 7,074 |
| Miscellaneous income | 413 | (36.4) | 649 | (26.3) | 881 |
| **Total Additions** | 1,699,887 | 2033.3 | 79,685 | 107.3 | (1,092,308) |
| **Deductions** | | | | | |
| Pension benefits | 917,329 | 5.4 | 870,279 | 4.5 | 832,553 |
| Health care benefits | 330,513 | (15.7) | 392,135 | 3.9 | 377,513 |
| Refunds of member contributions | 310 | (2.8) | 318 | 9.3 | 291 |
| Transfers to other systems | 17 | (67.0) | 50 | (99.9) | 35,084 |
| Administrative expenses | 21,029 | (18.4) | 25,762 | 5.4 | 24,442 |
| **Total Deductions** | 1,269,197 | (1.5) | 1,288,544 | 1.5 | 1,269,883 |
| **Net Increase (decrease)** | 430,690 | 135.6 | (1,208,859) | 48.8 | (2,362,191) |
| **Net Assets - Beginning of Year** | 8,609,656 | (12.3) | 9,818,516 | (19.4) | 12,180,708 |
| **Net Assets - End of Year** | $ 9,040,346 | 5.0 % | $ 8,609,656 | (12.3) % | $ 9,818,516 |

## RETIREMENT SYSTEM AS A WHOLE

The System's combined net assets experienced a increase in 2010 after a decrease in 2009 and in 2008. Despite an economy that continues to struggle, the system recorded net investment income of $895 million; that is a 232% change for net investment activity from 2009. 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, 2010 and 2009**

| | September 30, 2010 | | | September 30, 2009 | | |
|---|---|---|---|---|---|---|
| | Pension Plan | OPEB Plan | Total | Pension Plan* | OPEB Plan | Total |
| **Assets:** | | | | | | |
| Equity in common cash | $ 33,125,264 | | $ 33,125,264 | $ 19,670,004 | $ 215,985 | $ 19,885,989 |
| Receivables: | | | | | | |
| Amounts due from members | 97,707 | | 97,707 | 165,987 | | 165,987 |
| Amounts due from employer | 33,504,578 | $ 11,271,680 | 44,776,258 | 60,721,726 | 668,574 | 61,390,300 |
| Amounts due from other funds | | 19,214,416 | 19,214,416 | | 4,120,183 | 4,120,183 |
| Amount due from other | | 43,475,936 | 43,475,936 | | | |
| Amounts due from employer long term | 40,022,285 | | 40,022,285 | 47,318,607 | | 47,318,607 |
| Interest and dividends | 1,439,594 | 15,920 | 1,455,514 | 1,455,141 | 15,978 | 1,471,119 |
| Total receivables | 75,064,164 | 73,977,952 | 149,042,116 | 109,661,461 | 4,804,735 | 114,466,196 |
| Investments: | | | | | | |
| Short term investment pools | 142,411,485 | 1,574,875 | 143,986,360 | 193,891,407 | 2,129,014 | 196,020,421 |
| Fixed income pools | 1,459,487,235 | 16,139,908 | 1,475,627,143 | 1,624,865,766 | 17,841,753 | 1,642,707,519 |
| Domestic equity pools | 3,205,117,687 | 35,444,165 | 3,240,561,852 | 3,224,115,147 | 35,402,230 | 3,259,517,377 |
| Real estate pool | 836,422,537 | 9,249,675 | 845,672,212 | 816,049,108 | 8,960,584 | 825,009,692 |
| Alternative investment pools | 1,886,869,106 | 20,866,160 | 1,907,735,266 | 1,617,617,450 | 17,762,164 | 1,635,379,614 |
| International equities pools | 1,243,837,282 | 13,755,118 | 1,257,592,400 | 1,137,074,376 | 12,485,586 | 1,149,559,962 |
| Absolute return pools | 341,174,724 | 3,772,920 | 344,947,644 | 189,987,767 | 2,086,151 | 192,073,918 |
| Securities lending collateral | 982,021,636 | 10,859,800 | 992,881,436 | 1,199,945,715 | 13,175,941 | 1,213,121,656 |
| Total investments | 10,097,341,692 | 111,662,621 | 10,209,004,313 | 10,003,546,736 | 109,843,423 | 10,113,390,159 |
| **Total assets** | 10,205,531,120 | 185,640,573 | 10,391,171,693 | 10,132,878,201 | 114,864,143 | 10,247,742,344 |
| **Liabilities:** | | | | | | |
| Warrants outstanding | 1,490,080 | 16,478 | 1,506,558 | 1,713,394 | 18,814 | 1,732,208 |
| Accounts payable and other accrued liabilities | 3,276,380 | 23,978,515 | 27,254,895 | 4,659,835 | 71,397,301 | 76,057,136 |
| Amounts Due to Other Funds | | 47,501,255 | 47,501,255 | | | |
| Obligations under securities lending | 1,260,622,687 | 13,940,742 | 1,274,563,429 | 1,543,350,356 | 16,946,678 | 1,560,297,034 |
| **Total liabilities** | 1,265,389,147 | 85,436,990 | 1,350,826,137 | 1,549,723,585 | 88,362,793 | 1,638,086,378 |
| **Net Assets Held in Trust for Pension and OPEB Benefits** | $ 8,940,141,973 | $ 100,203,583 | $ 9,040,345,556 | $ 8,583,154,616 | $ 26,501,350 | $ 8,609,655,966 |

* Fiscal year 2009 activity reclassified.

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

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

## For Fiscal Years Ended September 30, 2010 and 2009

| | September 30, 2010 | | | September 30, 2009 | | |
|---|---|---|---|---|---|---|
| | Pension Plan | OPEB Plan | Total | Pension Plan* | OPEB Plan* | Total |
| **Additions:** | | | | | | |
| Contributions: | | | | | | |
| Member contributions | $ 26,055,668 | $ 20,905,488 | $ 46,961,156 | $ 6,994,975 | $ 20,982,595 | $ 27,977,570 |
| Employer contributions | 369,952,868 | 360,125,502 | 730,078,370 | 343,787,486 | 362,419,285 | 706,206,771 |
| Other governmental contributions | | 27,058,460 | 27,058,460 | | 21,986,686 | 21,986,686 |
| Total contributions | 396,008,536 | 408,089,450 | 804,097,986 | 350,782,461 | 405,388,566 | 756,171,027 |
| Investment income (loss): | | | | | | |
| Net appreciation (depreciation) in fair value of investments | 700,371,759 | 7,683,819 | 708,055,578 | (862,148,982) | (2,340,172) | (864,489,154) |
| Interest, dividends, and other | 198,977,234 | 4,304,485 | 203,281,719 | 192,303,032 | 3,722,627 | 196,025,659 |
| Investment expenses: | | | | | | |
| Real estate operating expenses | (538,935) | (5,913) | (544,848) | (252,959) | (687) | (253,646) |
| Other investment expenses | (31,470,333) | (345,263) | (31,815,596) | (25,049,190) | (67,992) | (25,117,182) |
| Securities lending activities: | | | | | | |
| Securities lending income | 21,911,707 | 240,395 | 22,152,102 | 31,681,437 | 85,994 | 31,767,431 |
| Securities lending expenses | (5,740,487) | (62,980) | (5,803,467) | (15,121,170) | (41,044) | (15,162,214) |
| Net investment income (loss) | 883,510,945 | 11,814,543 | 895,325,488 | (678,587,832) | 1,358,726 | (677,229,106) |
| Transfers from other systems/funds | 50,212 | | 50,212 | 93,408 | | 93,408 |
| Miscellaneous income | 135,297 | 277,648 | 412,945 | 132,810 | 516,063 | 648,873 |
| **Total additions** | 1,279,704,990 | 420,181,641 | 1,699,886,631 | (327,579,153) | 407,263,355 | 79,684,202 |
| **Deductions:** | | | | | | |
| Benefits paid to plan members and beneficiaries: | | | | | | |
| Retirement benefits | 917,328,820 | | 917,328,820 | 870,278,863 | | 870,278,863 |
| Health benefits | | 295,928,047 | 295,928,047 | | 358,691,332 | 358,691,332 |
| Dental/vision benefits | | 34,584,657 | 34,584,657 | | 33,444,054 | 33,444,054 |
| Refunds of member contributions | 298,863 | 10,741 | 309,604 | 315,991 | 2,431 | 318,422 |
| Transfers to other systems/funds | 16,504 | | 16,504 | 50,048 | | 50,048 |
| Administrative expenses | 5,073,446 | 15,955,963 | 21,029,409 | 4,865,232 | 20,896,664 | 25,761,896 |
| **Total deductions** | 922,717,633 | 346,479,408 | 1,269,197,041 | 875,510,134 | 413,034,481 | 1,288,544,615 |
| **Net Increase (Decrease)** | 356,987,357 | 73,702,233 | 430,689,590 | (1,203,089,287) | (5,771,126) | (1,208,860,413) |
| **Net Assets Held in Trust for Pension and OPEB Benefits:** | | | | | | |
| **Beginning of Year** | 8,583,154,616 | 26,501,350 | 8,609,655,966 | 9,786,243,903 | 32,272,476 | 9,818,516,379 |
| **End of Year** | $ 8,940,141,973 | $ 100,203,583 | $ 9,040,345,556 | $ 8,583,154,616 | $ 26,501,350 | $ 8,609,655,966 |

* Fiscal year 2009 activity reclassified.

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

## Notes to Basic Financial Statements
## September 30, 2010 and 2009

## NOTE 1 - PLAN DESCRIPTION

### ORGANIZATION

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

### MEMBERSHIP

At September 30, 2010 and 2009, the System's membership consisted of the following:

| Retirees and beneficiaries currently receiving benefits: | **2010** | **2009** |
|---|---|---|
| Regular benefits | 40,152 | 38,839 |
| Survivor benefits | 6,745 | 6,601 |
| Disability benefits | 3,565 | 3,589 |
| **Total** | 50,462 | 49,029 |
| Current employees: | | |
| Vested | 24,829 | 26,923 |
| Non-vested | 649 | 532 |
| **Total** | 25,478 | 27,455 |
| Inactive employees entitled to benefits and not yet receiving them | 6,243 | 6,613 |
| **Total all members** | 82,183 | 83,097 |

## Notes to Basic Financial Statements (continued)

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

| **Health, Dental, and Vision Plan** | **2010** | **2009** |
|---|---|---|
| Eligible participants | 50,462 | 49,029 |
| | | |
| Participants receiving benefits: | | |
| Health | 44,711 | 43,606 |
| Dental | 45,004 | 43,790 |
| Vision | 45,033 | 43,862 |

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. The reduction factor is lower than the factor used in the 100% option previously described. 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.

## Notes to Basic Financial Statements (continued)

***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.

***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. Defined Benefit (Tier 1) and Defined Contribution (Tier 2) 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 DTMB and the Civil Service Commission to make changes to retiree medical benefit plans.

The employer funds OPEB benefits for both Tier 1 and Tier 2 members 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 11.90% and 11.80% for fiscal years 2010 and 2009, 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** | **2010** | **2009** |
|---|---|---|
| Eligible Participants | 50,462 | 49,029 |
| Participants receiving benefits: | | |
| Health | 44,711 | 43,606 |
| Dental | 45,004 | 43,790 |
| Vision | 45,033 | 43,862 |
| Expenses for the year | $ 330,512,704 | $ 392,135,386 |
| Employer payroll contribution rate | 11.90% | 11.80% |

## 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, 2010, and 2009, the balance in this reserve was $205.1 million and $197.3 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, 2010, and 2009, the balance in this reserve was $1.1 billion and $1.3 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, 2010, and 2009, the balance in this reserve was $8.4 billion and $8.0 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, 2010, and 2009, the net balance of this reserve was ($746.7) million and ($879.6) 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, 2010, and 2009, the balance in this reserve was $100.2 million and $26.5 million, respectively.

## Notes to Basic Financial Statements (continued)

***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.

***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.

## Notes to Basic Financial Statements (continued)

***Related Party Transactions***

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

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

| | 2010 | 2009 |
|---|---|---|
| Building Rentals | $ 200,151 | $ 193,427 |
| Technological Support | 1,482,271 | 1,363,669 |
| Attorney General | 350,358 | 299,868 |
| Investment Services | 2,481,468 | 2,306,452 |
| Personnel Services | 1,763,691 | 1,690,822 |

Cash - On September 30, 2010, and 2009, the System had $33.1 million and $19.9 million, respectively in a common cash investment pool maintained for various State operating funds. The participating funds in the common cash pool earn interest at various rates depending upon prevailing short-term interest rates. Earnings from these activities amounted to $16.3 thousand and $248.7 thousand for the years ended September 30, 2010, and 2009, 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 2009 and 2010, no retirees met the criteria.

***Reclassification of Prior Year Amounts:***

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

## 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 26 year period for the 2010 fiscal year and is amortized over a 27 year period for the 2009 fiscal year.

Actual employer contributions for retirement benefits were $370.0 million and $343.8 million for fiscal years 2010 and 2009, respectively, representing 19.8% of annual covered payroll for the year ended September 30, 2009. The fiscal year 2010 annual covered payroll is not yet available. Required employer contributions based on previous year actuarial valuations for pensions included:

1. $143.4 million and $146.0 million for fiscal years 2010 and 2009, respectively, for the normal cost of pensions representing 8.3% and 8.3% (before reconciliation) of annual covered payroll for fiscal years 2009 and 2008, respectively.

2. $275.1 million and $205.7 million for fiscal years 2010 and 2009, respectively, for amortization of unfunded actuarial accrued liability representing 15.9% and 11.7% (before reconciliation) of annual covered payroll for fiscal years 2009 and 2008, respectively.

Actual employer contributions for other postemployment benefits (OPEB) were $360.1 million and $362.4 million for fiscal years 2010 and 2009, respectively, representing 12.1% of annual covered payroll for the year ended September 30, 2009. The fiscal year 2010 annual covered payroll is not yet available. Required employer contributions based on previous year actuarial valuations for OPEB included:

1. $363.0 million and $396.9 million for fiscal years 2010 and 2009, respectively, for the normal cost of OPEB representing 12.2% and 14.1% (before reconciliation) of annual covered payroll for fiscal years 2009 and 2008, respectively.

2. $507.0 million and $525.9 million for fiscal years 2010 and 2009, respectively, for amortization of unfunded actuarial accrued liability representing 17.1% and 18.6% (before reconciliation) of annual covered payroll for fiscal years 2009 and 2008, respectively.

The System is required to reconcile with actuarial requirements annually. Any funding excess or deficiency for pension benefits is smoothed over 5 years. One fifth (20%) of the funding excess or deficiency is included in 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, 2010, and September 30, 2009, there were 4,809 and 5,397 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 11.9 and 12.6 years for 2010 and 2009. The short-term receivable was $8.5 million and the discounted long-term receivable was $40.0 million at September 30, 2010. At September 30, 2009, the short-term receivable was $9.7 million and the discounted long-term receivable was $47.3 million.

***Funded Status***

Participating employers are required to contribute at an actuarially determined rate for both pension benefits and OPEB. For fiscal year 2009, the actuarial accrued liability (AAL) for pension benefits was $14.2 billion, and the actuarial value of assets was $11.1 billion, resulting in an unfunded actuarial accrued liability (UAAL) of $3.1 billion and a funded ratio of 78.0%. The covered payroll (annual payroll of active employees covered by the plan) was $1.7 billion, and the ratio of the UAAL to the covered payroll was 180.3%.

For fiscal year 2009, the actuarial accrued liability (AAL) for OPEB was $12.6 billion, and the actuarial value of assets was $0, resulting in an unfunded actuarial accrued liability (UAAL) of $12.6 billion and a funded ratio of 0.0%. The covered payroll (annual payroll of active employees covered by the plan) was $3.0 billion, and the ratio of the UAAL to the covered payroll was 424.6%.

***Actuarial Valuations and Assumptions***

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

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

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

## Notes to Basic Financial Statements (continued)

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

### Summary of Actuarial Assumptions

| | |
|---|---|
| Valuation Date | 9/30/2009 |
| Actuarial Cost Method | Entry Age, Normal |
| Amortization Method - Pension | Level Dollar, Closed |
| Amortization Method - OPEB | Level Percent of Payroll, Closed |
| Remaining Amortization Period - Pension | 27 years * |
| Remaining Amortization Period - OPEB | 27 years |
| Asset Valuation Method - Pension | 5-Year Smoothed Market |
| Asset Valuation Method - OPEB | Market |
| Actuarial Assumptions: | |
| Wage Inflation Rate | 3.5% |
| Investment Rate of Return - Pension | 8.0% |
| Investment Rate of Return - OPEB | 4.0% |
| Projected Salary Increases | 3.5 - 14.4% |
| Cost-of-Living Pension Adjustments | 3% Annual Non-Compounded with Maximum Annual Increase of $300 for those eligible |
| Health Care Cost Trend Rate | 9.0% 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 future contracts, swap agreements, and option contracts. State investment statutes limit total derivative exposure to 15% of a fund's total asset value, and restrict uses to replication of returns and hedging of assets. Swap agreements represent the largest category of derivatives used, and they represented 6.3% of market value of total pooled assets on September 30, 2010 and 7.9% of market value of total pooled assets on September 30, 2009. In fiscal year 2010, structured notes were purchased. These notes represented 0.3% of market value of total pooled assets on September 30, 2010. Future contracts represented 0.0% of market value of total pooled assets on September 30, 2010, and September 30, 2009. Option contracts represented 0.0% of market value of total pooled assets on September 30, 2010, and September 30, 2009. The derivative fair values are reported on the Statements of Pension Plan and Other Postemployment Benefit Plan Net Assets as of September 30, 2010 and 2009 statements, in their respective investment pools market value. Derivative realized and unrealized gain (loss) are reported on the Statement of Changes in Pension Plan and Other Postemployment Benefit Plan Net Assets for fiscal years ended September 30, 2010 and 2009 statements, under "Investment income (loss)", in "Net appreciation (depreciation) in fair value of investments".

To diversify the trust funds' portfolio, the State Treasurer has entered into swap agreements with investment grade counterparties, which are tied to stock market indices in twenty-three foreign countries for the International Equity Pools. The notional amounts of the swap agreement at September 30, 2010 and 2009, were $589.9 million and $803.9 million, respectively. Approximately one quarter of the notional amount tied to foreign stock market indices is hedged against foreign currency fluctuations. The swap agreements provide that the System will pay quarterly, over the term of the swap agreements, interest indexed to the three month London Inter Bank Offer Rate (LIBOR), adjusted for an interest rate spread, on the notional amount stated in the agreements. The maximum loss due to counterparty credit risk is the amount that would be incurred if the counterparties to the derivative instrument failed to perform according to the terms of the contract, without respect to any collateral or other security, or netting arrangement. Counterparty credit risk will always be significantly less than the swap agreement notional totals. On September 30, 2010 and 2009, the maximum amount of counterparty credit risk was $70.7 million and $63.8 million, respectively. At the maturity of the swap agreements, the trust funds will either receive the increase in the value of the equity indices from the level at the inception of the agreements, or pay the decrease in the value of the indices. Swap agreement maturity dates range from October 2010 to April 2012. U.S. Domestic LIBOR based floating rate notes and other investments earning short-term interest are held to correspond with the notional amount of the swap agreements. The State Treasurer maintains custody and control of these dedicated notes and short-term investments.

The value of these synthetic equity structures is a combination of the value of the swap agreements and the value of the notes and short-term investments. The book value represents the cost of the notes and short-term investments. The current value represents the current value of the notes and short-term investments and the change in the value of the underlying indices from the inception of the swap agreements. The current value is used as a representation of the fair value based on the intention to hold all swap agreements until maturity. For fiscal years ending September 30, 2010 and 2009, international equity investment programs involving swaps, incurred a net realized investment income loss of $61.9 million and $33.0 million, respectively.

The net unrealized gain of $13.4 million at September 30, 2010, primarily reflects increases in bond market values, increases in international stock indices, and changes in currency exchange rates. The combined swap structure generally realizes gains and losses on a rolling multi-year basis.

## Notes to Basic Financial Statements (continued)

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

| | Notional Value | Current Value |
|---|---|---|
| 9/30/2010 (dollars in millions) | $ 589.9 | $ 582.5 |
| 9/30/2009 (dollars in millions) | $ 803.9 | $ 702.0 |

To get enhanced passive exposure to the Dow Jones UBS Commodity Total Return Index, the State Treasurer purchased structured notes from investment grade counterparties for the Absolute Return Pools. These notes are fully collateralized and pay cash rates on the underlying collateral, as well as providing the enhanced index return. Similar to a swap agreement with prices changing with the underlying index fluctuations, the notes differ due to their daily put option which allows the structure to end and settle before its final maturity in November 2016. For the fiscal year ending September 30, 2010, the notional value was $28.8 million and the fair value of the structured notes was $29.8 million. At September 30, 2010, the structured notes' fair value $29.8 million was subject to counterparty credit risk. The unrealized gain at September 30, 2010, was $0.7 million

To enhance management flexibility, the State Treasurer traded U.S. Treasury bond future contracts for the Fixed Income Pools. The U.S. Treasury bond future contracts were used to manage duration and yield curve exposure. U.S. Treasury bond future contracts' notional values at September 30, 2010 and 2009, were $2.1 million and ($2.1) million, respectively. For the fiscal year ending September 30, 2010 and 2009, the fair values were $4.5 thousand and $17.1 thousand, respectively. The realized gain at September 30, 2010, was $47.3 thousand and the realized loss at September 30, 2009, was $131.4 thousand.

To provide downside protection and enhance current income, the State Treasurer traded covered equity options on single securities for the Absolute Return Pools. Put options are used to protect against large negative moves in single stocks, as well as to express interest in a security that is trading well below its intrinsic value. Call options have been used to achieve current income on single equity securities that are trading near their intrinsic value. Equity options' notional values on September 30, 2010 and 2009 were $0 and $0.6 million, respectively. For the fiscal year ending September 30, 2010 and 2009, the fair values of the equity options were $0 and ($2.1) thousand, respectively. The realized gain on options at September 30, 2010 and 2009, was $0.4 million and $0.2 million, respectively.

***Securities Lending***

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

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

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

Under Master Securities Lending Agreements between the System and each borrower, the System and the borrowers have the right to terminate all securities lending transactions on demand. The cash collateral received on each loan was invested in assets held in a collateral account dedicated to the System. As of September 30, 2010, and 2009, such assets had an average weighted maturity to next reset of 3.8 years and 3.5 years respectively and an average weighted maturity of 12.6 years and 8.5 years respectively. Because the loans are terminable at will, their duration did not generally match the duration of the investments made with cash collateral. On September 30, 2010, and 2009, the System had no credit risk exposure to borrowers. The cash received for securities on loan for the System as of September 30, 2010, and 2009

## Notes to Basic Financial Statements (continued)

was $1,274,563,429 and $1,560,297,034 respectively. The fair market value of assets held in the dedicated collateral account at the custodian for the System as of September 30, 2010, and 2009, was $992,881,436 and $1,213,121,656 respectively. The carrying amount, which is the fair market value, of securities on loan for the System as of September 30, 2010 and 2009, was $1,243,882,480 and $1,518,306,603 respectively.

Gross income, including capital gains and losses, from security lending for fiscal years ended September 30, 2010, and 2009, with Credit Suisse was $22,152,102 and $31,767,431 respectively. Expenses associated with this income were the borrower's rebate of $1,983,777 and $12,227,748 and fees paid to the agent bank of $3,819,689 and $2,934,467 respectively.

In 2008, substantial volatility in the financial markets impacted the fair value estimates for securities lending collateral. The System recorded an unrealized loss of $398.6 million at September 30, 2008 and a reduction of losses of $65.5 million and $51.4 million at September 30, 2010, and 2009, respectively.

***Risk***

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

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, 2010, the System was in compliance with the policy in all material aspects.

## Notes to Basic Financial Statements (continued)

**Rated Debt Investments**
**(in thousands)**
**As of September 30, 2010 and 2009**

| | 2010 | | | | 2009 | | | |
|---|---|---|---|---|---|---|---|---|
| **Investment Type** | **Fair Value** | **S&P** | **Fair Value** | **Moody's** | **Fair Value** | **S&P** | **Fair Value** | **Moody's** |
| **Short Term** | $ 324,885 | A-1 | $ 319,374 | P-1 | $ 201,377 | A-1 | $ 201,377 | P-1 |
| | - | A-2 | 5,511 | P-2 | - | A-2 | - | P-2 |
| **Government Securities** | | | | | | | | |
| US Agencies - Sponsored | | | | | | | | |
| | 117,560 | AAA | 117,560 | Aaa | 133,374 | AAA | 133,374 | Aaa |
| **Corporate Bonds & Notes** | | | | | | | | |
| | 26,183 | AAA | 26,478 | Aaa | 46,396 | AAA | 26,089 | Aaa |
| | 178,060 | AA | 135,502 | Aa | 215,556 | AA | 186,514 | Aa |
| | 473,546 | A | 505,110 | A | 502,963 | A | 547,490 | A |
| | 275,716 | BBB | 274,918 | Baa | 298,695 | BBB | 315,606 | Baa |
| | 18,218 | BB | 12,350 | Ba | 41,758 | BB | 8,773 | Ba |
| | 3,814 | B | 3,197 | B | 4,036 | B | 1,766 | B |
| | 1,679 | CCC | 2,647 | Caa | 1,418 | CCC | 1,303 | Caa |
| | 1 | CC | 333 | Ca | 124 | CC | 147 | Ca |
| | - | C | 4 | C | - | C | 17 | C |
| | 165 | D | - | D | - | D | - | D |
| | 51,289 | NR | 68,132 | NR | 14,156 | NR | 37,397 | NR |
| **International** * | | | | | | | | |
| | - | AAA | - | Aaa | 38,783 | AAA | - | Aaa |
| | 205,208 | AA | 277,721 | Aa | 287,254 | AA | 311,317 | Aa |
| | 257,265 | A | 204,128 | A | 359,607 | A | 422,151 | A |
| | 29,113 | BBB | 66,136 | Baa | 47,714 | BBB | 61,170 | Baa |
| | 37,023 | BB | - | Ba | 32,223 | BB | - | Ba |
| | 19,376 | NR | - | NR | 29,057 | NR | - | NR |
| **Securities Lending Collateral** | | | | | | | | |
| | 8,653 | A-1 | 8,653 | P-1 | 38,260 | A-1 | 38,260 | P-1 |
| | 276,554 | AAA | 266,998 | Aaa | 358,131 | AAA | 315,625 | Aaa |
| | 125,836 | AA | 425,147 | Aa | 144,628 | AA | 399,075 | Aa |
| | 117,994 | A | 149,125 | A | 197,472 | A | 257,419 | A |
| | 349,589 | BBB | 7,801 | Baa | 369,386 | BBB | 20,130 | Baa |
| | - | BB | 5,438 | Ba | - | BB | 70,081 | Ba |
| | 49,080 | B | 2,119 | B | 16,863 | B | 28,207 | B |
| | 12,809 | CCC | 67,361 | Caa | 11,892 | CCC | 17,263 | Caa |
| | - | CC | 7,873 | Ca | - | CC | - | Ca |
| | 48,727 | NR | 48,727 | NR | 72,811 | NR | 63,383 | NR |
| **Total** | $ 3,008,343 | | $ 3,008,343 | | $ 3,463,934 | | $ 3,463,934 | |

NR - not rated
* International Investment types consist of domestic floating rate note used as part of a Swap strategy.

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

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

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

The State Treasurer does not have a policy for custodial credit risk. However, the State's custodial bank had a credit rating of A+ at September 30, 2010. As of September 30, 2010, and 2009, no securities were exposed to custodial credit risk.

## Notes to Basic Financial Statements (continued)

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

Other than obligations issued, assumed, or guaranteed by the United States, its agencies or United States government sponsored enterprises, the System is prohibited by Public Act 314 of 1965, as amended, from investing in more than 5.0% 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, 2010, and 2009, there were no investments in any single issuer that accounted for more than 5% of the System's assets nor were there any investments totaling more than 5% of the obligations of any one issuer, other than U.S. Government Securities as described above.

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

The State Treasurer's policy states that cash equivalents are invested in short-term fixed income securities with an average weighted maturity of less than one year to provide liquidity and safety of principal from capital market and default risk. At September 30, 2010, and 2009, the fair value of the System's prime commercial paper was $324.9 million and $201.4 million with the weighted average maturity of 8 days and 3 days, respectively.

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

## Notes to Basic Financial Statements (continued)

### Debt Securities
### (in thousands)
### As of September 30, 2010 and 2009

| | 2010 | | 2009 | |
|---|---|---|---|---|
| | Fair Value | Effective Duration in Years | Fair Value | Effective Duration in Years |
| **Government** | | | | |
| U. S. Treasury | $ 44,733 | 5.6 | $ 86,118 | 2.1 |
| U. S. Agencies - Backed | 271,573 | 4.4 | 362,679 | 4.7 |
| U. S. Agencies - Sponsored | 117,560 | 2.5 | 133,374 | 3.9 |
| **Corporate** | 1,028,670 | 4.7 | 1,125,102 | 4.9 |
| **International*** | | | | |
| Corporate | 547,985 | 0.2 | 794,638 | 0.1 |
| **Total** | $ 2,010,521 | | $ 2,501,911 | |

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, 2010, and 2009, the total amount of foreign investment subject to foreign currency risk was $1,008.8 million and $765.6 million which amounted to 10.9% and 8.6% of total investments (exclusive of securities lending collateral) of the System, respectively.

## Notes to Basic Financial Statements (continued)

### Foreign Currency Risk
### (in thousands)
### As of September 30, 2010

| Region | Country | Currency | Alt. Invest. Market Value In U.S. $ | Equity Market Value In U.S. $ | Real Estate Market Value In U.S. $ | International Equities Market Value In U.S. $ | International Derivatives Market Value In U.S. $* |
|---|---|---|---|---|---|---|---|
| **AMERICA** | | | | | | | |
| | Brazil | Real | | $ 447 | | | |
| | Canada | Dollar | | | | | $ 1,320 |
| **EUROPE** | | | | | | | |
| | European Union | Euro | $ 191,367 | 8,975 | | 912 | (5,356) |
| | Switzerland | Franc | | 28,333 | | | 2,227 |
| | Sweden | Krona | | | | 2,021 | 4,305 |
| | Denmark | Krone | | 292 | | | 455 |
| | Norway | Krone | | | | | 1,137 |
| | U.K. | Sterling | 2,709 | 23,866 | | | 3,489 |
| **PACIFIC** | | | | | | | |
| | Australia | Dollar | | | | | 6,143 |
| | China | Renminbi | | 981 | | | |
| | Hong Kong | Dollar | | 1,544 | | | 1,699 |
| | Japan | Yen | 302 | 123 | | | (249) |
| | New Zealand | Dollar | | | | | 408 |
| | Singapore | Dollar | | 1,578 | | 1,102 | 548 |
| | South Korea | Won | | | | 1,555 | 2,870 |
| **MIDDLE EAST** | | | | | | | |
| | Israel | Shekel | | 671 | | | |
| **AFRICA** | | | | | | | |
| | South Africa | Rand | | 79 | | | |
| **VARIOUS** | | | | 2,007 | $ 139,168 | 581,779 | |
| | Total | | $ 194,378 | $ 68,896 | $ 139,168 | $ 587,369 | $ 18,996 |

*International derivatives' market value exposure to foreign currency risk is the net amount of unrealized gains and unrealized losses. Maturity dates on these investments range from October 2010 through April 2012 with an average maturity of .8 years.

## Notes to Basic Financial Statements (continued)

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

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

## NOTE 5 - ACCOUNTING CHANGES AND RESTATEMENT

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. The requirements for this Statement are effective for financial statements for periods beginning after June 15, 2009.

## NOTE 6 - COMMITMENTS AND CONTINGENCIES

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

**Retirement Incentive**

In March 2010, members of the legislature proposed a retirement incentive for qualified State employees. On September 30, 2010, Governor Granholm signed Public Act 185 of 2010 into law. PA 185 provides a 1.6 percent multiplier for those who meet regular retirement age and service eligibility by December 31, 2010, for a January 1 retirement effective date (or earlier if retiring with effective dates of November 1 or December 1, 2010). In addition, PA 185 provides a 1.55 percent multiplier for those who do not meet the regular eligibility, but have either 30 years of service, or a combined age and years of service totaling 80 by the retirement effective dates of November 1 or December 1, 2010, or January 1, 2011. Those members wishing to retire under the incentive had until 5:00 p.m., EDT, Friday November 5, 2010 to file an application for retirement.

The legislature estimated that approximately 3,300 state employees would retire under the incentive; the actual number, as of November 8, 2010, was 4,755. Of those, approximately 1,000 individuals chose to retire in November, 450 in December, and 3,300 in January.

# 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) |
|---|---|---|---|---|---|---|
| 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 |
| 2009 | 11,107 | 14,234 | 3,127 | 78.0 | 1,734 | 180.3 |

[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 |
| 2009 | - | 12,618 | 12,618 | 0.0 | 2,972 | 424.6 |

* 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 |
|---|---|---|---|
| 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 |
| 2010 | 418,427,738 | 369,952,868 | 88.4 |

### 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 |
| 2010 | 870,011,953 | 360,125,502 | 27,058,460 | 44.5 |

[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 fourth year the System is reporting other postemployment benefits in accordance with GASB Statement No. 43, four years of historical trend information is provided.

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

The Schedules of Funding Progress and Schedules of Employer 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.

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## Supporting Schedules

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

| | 2010 | 2009 |
|---|---|---|
| **Personnel Services:** | | |
| Staff Salaries | $ 1,125,099 | $ 1,083,840 |
| Retirement and Social Security | 377,362 | 354,175 |
| Other Fringe Benefits | 261,230 | 252,807 |
| **Total** | 1,763,691 | 1,690,822 |
| **Professional Services:** | | |
| Accounting | 214,945 | 316,461 |
| Actuarial | 121,565 | 91,200 |
| Attorney General | 350,358 | 299,868 |
| Audit | 48,514 | 51,038 |
| Consulting | 104,912 | 100,307 |
| Medical | 270,863 | 297,782 |
| **Total** | 1,111,157 | 1,156,656 |
| **Building and Equipment:** | | |
| Building Rentals | 200,151 | 193,427 |
| Equipment Purchase, Maintenance, and Rentals | 5,857 | 9,218 |
| **Total** | 206,009 | 202,645 |
| **Miscellaneous:** | | |
| Travel and Board Meetings | 2,817 | 3,053 |
| Office Supplies | 6,214 | 6,294 |
| Postage, Telephone, and Other | 387,571 | 369,541 |
| Printing | 113,715 | 72,553 |
| Technological Support | 1,482,271 | 1,363,669 |
| **Total** | 1,992,589 | 1,815,110 |
| **Total Administrative Expenses** | $ 5,073,446 | $ 4,865,233 |

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

| | 2010 | 2009 |
|---|---|---|
| Health Fees | $ 14,141,655 | $ 18,986,817 |
| Dental Fees | 1,372,971 | 1,437,589 |
| Vision Fees | 441,337 | 472,258 |
| **Total Administrative Expenses** | $ 15,955,963 | $ 20,896,664 |

The OPEB plan administrative expenses of $15,955,963 in 2010 and $20,896,664 in 2009 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, 2010 and 2009**

| | 2010 | 2009 |
|---|---|---|
| Real Estate Operating Expenses | $ 544,848 | $ 253,646 |
| Securities Lending Expenses | 5,803,467 | 15,162,214 |
| Other Investment Expenses[1] | | |
| ORS-Investment Expenses[2] | 2,481,468 | 2,306,452 |
| Custody Fees | 159,259 | 181,891 |
| Management Fees | 28,736,088 | 21,951,430 |
| Research Fees | 438,781 | 677,408 |
| **Total Investment Expenses** | $ 38,163,911 | $ 40,533,041 |

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

[2] Does not exclude Treasury Civil Service fees of $28,809 recorded as a pass through in the Schedule of Investment Fees - State Treasurer.

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

| | 2010 | 2009 |
|---|---|---|
| Accounting | $ 214,945 | $ 316,461 |
| Actuary | 121,565 | 91,200 |
| Attorney General | 350,358 | 299,868 |
| Independent Auditors | 48,514 | 51,038 |
| Consulting | 104,912 | 100,307 |
| Medical Advisors | 270,863 | 297,782 |
| **Total Payment to Consultants** | $ 1,111,157 | $ 1,156,656 |

# Supporting Schedules (continued)

## Detail of Changes in Plan Net Assets (Pension and Other Postemployment Benefits)
## For the Year Ended September 30, 2010

| | Employee Contributions | Employer Contributions | Retired Benefit Payments | Undistributed Investment Income | OPEB | Total |
|---|---|---|---|---|---|---|
| **Additions:** | | | | | | |
| Contributions: | | | | | | |
| Member contributions | $ 26,055,668 | | | | $ 20,905,488 | $ 46,961,156 |
| Employer contributions | | $ 369,952,868 | | | 360,125,502 | 730,078,370 |
| Other governmental contributions | | | | | 27,058,460 | 27,058,460 |
| Total Contributions | 26,055,668 | 369,952,868 | - | - | 408,089,450 | 804,097,986 |
| Investment income: | | | | | | |
| Net appreciation (depreciation) in fair value of investments | | | | $ 700,371,759 | 7,683,819 | 708,055,578 |
| Interest, dividends, and other | | | | 198,977,234 | 4,304,485 | 203,281,719 |
| Investment expenses: | | | | | | |
| Real estate operating expenses | | | | (538,935) | (5,913) | (544,848) |
| Other investment expenses | | | | (31,470,333) | (345,263) | (31,815,596) |
| Securities lending activities: | | | | | | |
| Securities lending income | | | | 21,911,707 | 240,395 | 22,152,102 |
| Securities lending expenses | | | | (5,740,487) | (62,980) | (5,803,467) |
| Net investment income (loss) | - | - | - | 883,510,945 | 11,814,543 | 895,325,488 |
| Transfer from other systems/funds | 50,212 | | | | | 50,212 |
| Miscellaneous income | | | $ 126,256 | 9,041 | 277,648 | 412,945 |
| **Total additions** | 26,105,880 | 369,952,868 | 126,256 | 883,519,986 | 420,181,641 | 1,699,886,631 |
| **Deductions:** | | | | | | |
| Benefits paid to plan members and beneficiaries: | | | | | | |
| Retirement benefits | | | 917,328,820 | | | 917,328,820 |
| Health benefits | | | | | 295,928,047 | 295,928,047 |
| Dental/vision benefits | | | | | 34,584,657 | 34,584,657 |
| Refunds of member contributions | 12,698 | 280,046 | 6,119 | | 10,741 | 309,604 |
| Transfers to other systems/funds | 16,504 | | | | | 16,504 |
| Administrative expenses | | | | 5,073,446 | 15,955,963 | 21,029,409 |
| **Total deductions** | 29,202 | 280,046 | 917,334,939 | 5,073,446 | 346,479,408 | 1,269,197,041 |
| **Net Increase (Decrease) Before Other Changes** | 26,076,678 | 369,672,822 | (917,208,683) | 878,446,540 | 73,702,233 | 430,689,590 |
| **Other Changes in Net Assets:** | | | | | | |
| Interest allocation | 4,327,981 | 101,989,882 | 639,249,391 | (745,567,254) | | - |
| Transfers upon retirement | (22,630,727) | | 22,630,727 | | | - |
| Transfers of employer shares | | (690,193,826) | 690,193,826 | | | - |
| **Total other changes in net assets** | (18,302,746) | (588,203,944) | 1,352,073,944 | (745,567,254) | - | - |
| **Net Increase (Decrease)** | 7,773,932 | (218,531,122) | 434,865,261 | 132,879,286 | 73,702,233 | 430,689,590 |
| **Net Assets Held in Trust for Pension and OPEB Benefits:** | | | | | | |
| **Beginning of Year** | 197,290,743 | 1,274,873,531 | 7,990,617,389 | (879,627,047) | 26,501,350 | 8,609,655,966 |
| **End of Year** | $ 205,064,675 | $ 1,056,342,409 | $ 8,425,482,650 | $ (746,747,761) | $ 100,203,583 | $ 9,040,345,556 |

# 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 appreciation (depreciation) in fair value of investments* | | | | $ (862,148,982) | (2,340,172) | (864,489,154) |
| Interest, dividends, and other* | | | | 192,303,032 | 3,722,627 | 196,025,659 |
| 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 2009 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 Technology, Management & Budget are ex-officio members. As of September 30, 2010, members of the Committee were as follows: David G. Sowerby, CFA (public member), Glenn P. Murray (public member), Roger Robinson (public member), Andrew S. Levin (ex-officio member), and Kenneth D. Theis (ex-officio member). The public members serve without pay, but may be paid actual and necessary travel and other expenses.

**INVESTMENT POLICY & GOALS**

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

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

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

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

## Report on Investment Activity (continued)

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.

**Asset Allocation**
**(Excludes Collateral on Loaned Securities)**

| Investment Category | As of 9/30/10 Actual % | Two-Year Target % |
|---|---|---|
| Domestic Equity Pools | 35.0 % | 33.0 % |
| International Equity Pools | 13.6 | 16.0 |
| Alternative Investment Pools | 20.6 | 14.0 |
| Real Estate Pool | 9.2 | 9.0 |
| Fixed Income Pools | 16.0 | 16.0 |
| Absolute Return Pools | 3.7 | 10.0 |
| Short Term Investment Pools | 1.9 | 2.0 |
| **TOTAL** | **100.0 %** | **100.0 %** |

### INVESTMENT AUTHORITY

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

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

### INVESTMENT RESULTS

***Total Portfolio Results***

For the fiscal year ended September 30, 2010, the total System's rate of return was 8.5% as compiled by State Street Investment Analytics. Annualized rates of return for the three, five, seven, and ten year periods ending September 30, 2010 were: (3.8)%, 3.3%, 5.9%, and 3.1% respectively.

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

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

With the market meltdown of 2007 still fresh on the minds of investors, anxiety began to be re-priced into the markets.

## Report on Investment Activity (continued)

Ultimately, the European Central Bank was able to step-in and avert more severe problems. However, confidence was shaken and the recovery appeared to be frail at best. In the media, questions were beginning to appear wondering if the economy would experience a "double dip".

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

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

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

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

***Domestic Equity Pools***

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

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

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

## Report on Investment Activity (continued)

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

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

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

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

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

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

At the close of fiscal year 2010, the Domestic Equity pools represented 35.0% of total investments. This compares to 36.6% for fiscal year 2009. The following summarizes the System's 19.9% ownership share of the Domestic Equity pools at September 30, 2010:

**Domestic Equity Pools**
**(in thousands)**

| | | |
|---|---|---|
| Short Term Pooled Investments | $ | 50,066 |
| Equities | | 3,186,241 |
| Settlement Principal Payable | | (6,323) |
| Settlement Proceeds Receivable | | 7,956 |
| Accrued Dividends | | 2,622 |
| **Total** | **$** | **3,240,562** |

***International Equity Pools***

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

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

## Report on Investment Activity (continued)

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

.

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

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

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

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

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

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

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

At the close of fiscal year 2010, the International Equity pools represented 13.6% of total investments. This compares to 12.9% for fiscal year 2009. The following summarizes the System's 19.8% ownership share of the International Equity Pools at September 30, 2010:

**International Equity Pools**
**(in thousands)**

| | |
|---|---|
| Short Term Pooled Investments | $ 71,840 |
| Equities | 638,673 |
| Fixed Income Securities | 547,984 |
| Market Value of Equity Contracts | (1,983) |
| Accrued Dividends and Interest | 1,078 |
| **Total** | **$ 1,257,592** |

## Report on Investment Activity (continued)

***Alternative Investment Pools***

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

Alternative Investments are investments in the private equity market, primarily through limited partnerships. The following summarizes the weightings of the pools as of September 30, 2010:

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

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

At the close of fiscal year 2010, the Alternative Investment pools represented 20.6% of total investments. This compares to 18.3% for fiscal year 2009. The following summarizes the System's 18.3% ownership share of the Alternative Investment pools at September 30, 2010:

**Alternative Investment Pools**
**(in thousands)**

| | | |
|---|---|---|
| Short Term Pooled Investments | $ | 25,412 |
| Equities | | 1,882,323 |
| **Total** | **$** | **1,907,735** |

***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.

## Report on Investment Activity (continued)

The Real Estate pool diversifies its holdings by:

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

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

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

At the close of fiscal year 2010, the Real Estate pool represented 9.2% of total investments. This compares to 9.2% for fiscal year 2009. The following summarizes the System's 20.3% ownership share of the Real Estate pool at September 30, 2010:

**Real Estate Pool**
**(in thousands)**

| | | |
|---|---|---|
| Short Term Pooled Investments | $ | 7,658 |
| Equities | | 838,014 |
| **Total** | **$** | **845,672** |

***Fixed Income Pools***

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

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

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

The pools invest in fixed income and related securities in a diversified portfolio of investment grade corporate issues, treasuries, agencies, government sponsored enterprises and government guaranteed mortgages. The pools diversify its investments by allocating its strategies with consideration of credit risk.

## Report on Investment Activity (continued)

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

| | | |
|---|---|---|
| AAA | 24.1 | % |
| AA | 12.5 | |
| A | 29.3 | |
| BBB | 11.1 | |
| Not Rated | 0.2 | |
| Cash Equivalents | 3.2 | |
| Externally Managed | 19.6 | |
| **Total** | **100.0** | **%** |

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

At the close of fiscal year 2010, the Fixed Income pools represented 16.0% of total investments. This compares to 18.4% for fiscal year 2009. The following summarizes the System's 19.6% ownership share of the Corporate Bond pool at September 30, 2010:

**Fixed Income Pools**
**(in thousands)**

| | |
|---|---|
| Short Term Pooled Investments | $ 35,333 |
| Fixed Income Securities | 1,428,851 |
| Settlement Proceeds Receivable | 27 |
| Accrued interest | 11,416 |
| **Total** | **$ 1,475,627** |

### *Absolute Return Pools*

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

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

The Absolute Return Strategies pool rate of return for the fiscal year was 8.6% versus the benchmark's (0.6)%.

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

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

## Report on Investment Activity (continued)

The Real Return and Opportunistic Investments pool rate of return inception to fiscal year end was 5.0%.

At the close of fiscal year 2010, the Absolute Return Pools represented 3.7% of total investments. This compares to 2.2% for fiscal year 2009. The following summarizes the System's 19.3% ownership share of the Absolute Return Pools at September 30, 2010:

**Absolute Return Pools**
**(in thousands)**

| | | |
|---|---|---|
| Absolute Return Strategies Pool | $ | 238,736 |
| Real Return and Opportunistic Investment Pool | | |
| Short Term Pooled investments | $ | 2,573 |
| Equities | | 96,522 |
| Fixed Income Securities | | 6,421 |
| Settlement Proceeds Receivable | | 516 |
| Accrued Dividends and Interest | | 180 |
| **Total** | **$** | **344,948** |

### *Short Term Investment Pools*

The objective of the Short Term Investment pools is to closely match the return performance of its benchmark, the 30 day Treasury bill. The Short Term Investment pools return for the fiscal year was 1.0% versus the benchmark's 0.1%.

Potential areas of investment are:

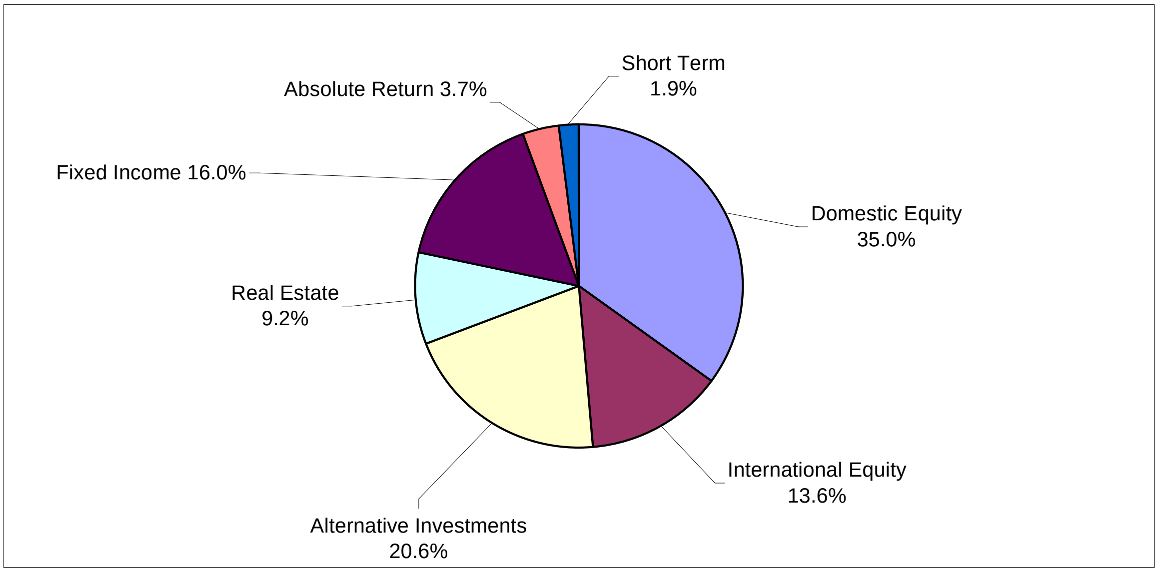
- Obligations of the United States or its agencies.
- Banker's acceptances, commercial accounts, certificates of deposit or depository receipts.
- Repurchase agreements for the purchase of securities issued by the US government or its agencies.
- Commercial paper rated at the time of purchase within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

At the close of fiscal year 2010, the Short Term Investment pools represented 1.9% of total investments. This compares to 2.4% for fiscal year 2009. The following summarizes the System's 21.8% ownership share of the Short Term Fixed Income pool at September 30, 2010:

**Short Term Investment Pools**
**(in thousands)**

| | | |
|---|---|---|
| Short Term Pooled Investments | $ | 132,035 |
| Fixed Income Securities | | 44,976 |
| Accrued interest | | 101 |
| **Total** | **$** | **177,112** |

## Asset Allocation – Security Type Only




## Investment Results for the Period Ending September 30, 2010

| Investment Category | Current Year | Annualized Rate of Return[1] 3 Years | 5 Years | 10 Years |
|---|---|---|---|---|
| Total Portfolio | 8.5 % | (3.8) % | 3.3 % | 3.1 % |
| Total Domestic Equity Pools | 10.7 | (6.1) | 1.4 | 0.5 |
| S&P 1500 Index | 10.9 | (6.6) | 0.9 | 0.2 |
| International Equity Pools | 6.5 | (8.7) | 1.9 | 2.2 |
| S&P Developed BMI - EPAC 75/25 [2] | 4.7 | (8.9) | 1.4 | 2.1 |
| Alternative Investments Pools | 19.8 | (0.6) | 10.2 | 5.4 |
| Alternative Blended Benchmark [3] | 13.1 | (2.8) | 4.5 | 3.2 |
| Real Estate Pool | (16.4) | (12.0) | (0.5) | 4.3 |
| NCREIF Property Blended Index [4] | 4.5 | (5.9) | 2.3 | 6.2 |
| Total Fixed Income Pools | 10.2 | 8.8 | 7.2 | 6.7 |
| Barclays Government/Credit | 8.7 | 7.5 | 6.2 | 6.5 |
| Absolute Return Pools | 8.6 | | | |
| HFRX Absolute Return | (0.6) | | | |
| Short Term Investment Pools | 1.0 | (0.1) | 1.9 | 2.2 |
| 30 Day Treasury Bill | 0.1 | 0.8 | 2.3 | 2.3 |

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

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

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

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

## Largest Assets Held

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

| Rank | Shares | Stocks | Market Value |
|---|---|---|---|
| 1 | 286,772 | Apple Inc. | $ 81,371,534 |
| 2 | 1,645,680 | Merck and Company, Inc. | 60,577,498 |
| 3 | 111,617 | Google Inc. | 58,687,262 |
| 4 | 3,349,335 | Pfizer Inc. | 57,508,077 |
| 5 | 920,117 | Johnson & Johnson | 57,010,433 |
| 6 | 4,061,576 | Bank of America Corporation | 53,247,263 |
| 7 | 1,191,098 | United Health Group Inc. | 41,819,454 |
| 8 | 663,905 | Exxon Mobil Corporation | 41,022,667 |
| 9 | 805,397 | Baxter International Inc. | 38,425,505 |
| 10 | 256,700 | Goldman Sachs Group Inc. | 37,113,754 |

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

| Rank | Par Amount | Description | Market Value |
|---|---|---|---|
| 1 | $ 48,455,365 | JPMorgan Chase & Co .61563% FRN Due 11-1-2012 | $ 48,113,706 |
| 2 | 49,220,686 | General Electric Cap Corp .54625% FRN Due 2-15-2017 | 44,268,101 |
| 3 | 38,764,292 | Berkshire Hathaway Fin .82750% FRN Due 1-11-2011 | 38,803,948 |
| 4 | 33,918,755 | Wachovia Corp .63625% FRN Due 4-23-2012 | 33,776,025 |
| 5 | 29,073,219 | Toyota Motor Credit Corp 4.02988% Due 1-9-2012 | 30,271,181 |
| 6 | 29,073,219 | Vulcan Materials 1.54219% FRN Due 12-15-2010 | 29,112,962 |
| 7 | 29,073,219 | JPMorgan Chase & Co .79156% FRN Due 9-21-2012 | 29,072,899 |
| 8 | 21,320,360 | General Electric Cap Corp .66094% FRN Due 1-15-2013 | 21,003,135 |
| 9 | 19,059,953 | Barclays Bank PLC Due 11-7-2016 | 20,506,603 |
| 10 | 19,382,146 | Wells Fargo & Company .94938% FRN Due 8-29-2011 | 19,492,411 |

Largest Bond Holdings are exclusive of securities lending collateral.

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

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

# Schedule of Investment Fees

The State Treasurer is the investment fiduciary and custodian of the System's funds pursuant to State law. Outside advisors are utilized to augment the State Treasurer's internal staff. Only 49.5% of the total investment portfolio is managed by fully discretionary outside advisors. The Michigan Department of Treasury's cost of operations applicable to the retirement system for the fiscal year amounted to $2,453 thousand or five and two-tenths basis points (.052%) 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 Technology, Management & Budget, or their duly authorized representatives, and three public members appointed by the Governor with the advice and consent of the Senate. The public members serve without pay, but may be paid actual and necessary travel and other expenses. The Committee meets quarterly to review investments, goals and objectives and may submit recommendations to the State Treasurer. The Committee may also, by a majority vote, direct the State Treasurer to dispose of any holding which, in the Committee's judgment, is not suitable for the fund involved, and may by unanimous vote direct the State Treasurer to make specific investments.

**Schedule of Investment Fees**

**Investment Managers' Fees:**

| | Assets under Management (in thousands) | Fees (in thousands) | Basis Points* |
|---|---|---|---|
| State Treasurer | $ 4,673,624 | $ 2,453 | 5.2 |
| Outside Advisors for | | | |
| Fixed Income | 302,520 | 650 | 21.5 |
| Absolute Return | 289,620 | 1,008 | 34.8 |
| International Equity | 465,278 | 1,472 | 31.6 |
| Domestic Equity | 848,974 | 4,746 | 55.9 |
| Alternative | 1,907,735 | 18,309 | 96.0 |
| Real Estate | 761,496 | 2,551 | 33.5 |
| **Total** | $ 9,249,247 | $ 31,189 | |
| ***Other Investment Services Fees:*** | | | |
| Assets in Custody | $ 9,215,931 | $ 598 | |
| Securities on Loan | 1,243,882 | 3,820 | |

* Outside Advisors Fees are netted against the income for Fixed Income, Domestic Equity, International Equity, and Absolute Return. For Alternative Investment partnership agreements that define the management fees, the asset management fees range from 75 basis points on remaining assets under management to 250 basis points of the committed capital. For Real Estate, the asset management fees range from 50 to 200 basis points. Alternative and Real Estate fees, in most cases, are netted against income.

# Schedule of Investment Commissions

| | Actual Commissions Paid [1] | Actual Number of Shares Traded [1] | Average Commission Per Share | Estimated Trade Costs Per Share | Estimated Research Costs Per Share | Estimated Trade Costs | Estimated Research Costs |
|---|---|---|---|---|---|---|---|
| | Fiscal Year Ended September 30, 2010 | | | | | | |
| **Investment Brokerage Firms:** | | | | | | | |
| Banc Of America Securities LLC | $ 1,667 | 44,565 | $ 0.04 | $ 0.01 | $ 0.03 | $ 446 | $ 1,337 |
| Barclays Capital Inc. | 49,168 | 2,144,450 | 0.02 | 0.01 | 0.01 | 21,444 | 21,444 |
| BNY Convergex Execution Solutions LLC | 45,860 | 2,374,954 | 0.02 | 0.01 | 0.01 | 23,749 | 23,749 |
| BTIG LLC | 127,911 | 10,553,665 | 0.01 | 0.01 | - | 105,537 | - |
| The Buckingham Research Group Inc. | 48,304 | 1,618,429 | 0.03 | 0.01 | 0.02 | 16,184 | 32,369 |
| Cantor Fitzgerald & Co. | 23,209 | 1,160,479 | 0.02 | 0.01 | 0.01 | 11,605 | 11,605 |
| Capital Institutional Services Inc. | 46,500 | 1,550,004 | 0.03 | 0.01 | 0.02 | 15,500 | 31,000 |
| Citigroup Global Markets Inc. | 76,464 | 2,856,916 | 0.03 | 0.01 | 0.02 | 28,569 | 57,138 |
| Cowen & Company LLC | 149,414 | 5,288,260 | 0.03 | 0.01 | 0.02 | 52,883 | 105,765 |
| Credit Suisse Securities LLC | 298,865 | 13,451,929 | 0.02 | 0.01 | 0.01 | 134,519 | 134,519 |
| Deutsche Bank - Alex Brown | 99 | 3,300 | 0.03 | 0.01 | 0.02 | 33 | 66 |
| Deutsche Bank Securities Inc. | 44,767 | 1,563,188 | 0.03 | 0.01 | 0.02 | 15,632 | 31,264 |
| Goldman, Sachs & Co. | 45,564 | 1,674,263 | 0.03 | 0.01 | 0.02 | 16,743 | 33,485 |
| The Griswold Company Inc. | 122,471 | 9,704,903 | 0.01 | 0.01 | - | 97,049 | - |
| ISI Capital LLC | 149,744 | 5,048,144 | 0.03 | 0.01 | 0.02 | 50,481 | 100,963 |
| Investment Technology Group Inc. | 3 | 412 | 0.01 | 0.01 | - | 4 | - |
| J. P. Morgan Securities Inc. | 133,502 | 5,567,643 | 0.02 | 0.01 | 0.01 | 55,676 | 55,676 |
| Merrill Lynch,Pierce,Fenner & Smith Inc. | 169,923 | 6,917,591 | 0.02 | 0.01 | 0.01 | 69,176 | 69,176 |
| Mischler Financial Group Inc. | 25,021 | 834,041 | 0.03 | 0.01 | 0.02 | 8,340 | 16,681 |
| Morgan Stanley & Co. Inc. | 40,963 | 1,362,791 | 0.03 | 0.01 | 0.02 | 13,628 | 27,256 |
| Oppenheimer & Co. Inc. | 297 | 9,905 | 0.03 | 0.01 | 0.02 | 99 | 198 |
| OTA LLC | 30,650 | 1,066,382 | 0.03 | 0.01 | 0.02 | 10,664 | 21,328 |
| Sanders Morris Harris Inc. | 16,467 | 548,886 | 0.03 | 0.01 | 0.02 | 5,489 | 10,978 |
| Sanford C. Bernstein & Co. LLC | 163,047 | 5,714,891 | 0.03 | 0.01 | 0.02 | 57,149 | 114,298 |
| Soleil Securities Corporation | 22,667 | 755,579 | 0.03 | 0.01 | 0.02 | 7,556 | 15,112 |
| Stifel, Nicolaus & Co. Inc. | 455 | 11,368 | 0.04 | 0.01 | 0.03 | 114 | 341 |
| Thomas Weisel Partners LLC | 2,735 | 85,645 | 0.03 | 0.01 | 0.02 | 857 | 1,713 |
| UBS Securities LLC | 65,772 | 2,239,477 | 0.03 | 0.01 | 0.02 | 22,395 | 44,789 |
| Weeden & Co. LP | 151,659 | 15,214,993 | 0.01 | 0.01 | - | 152,150 | - |
| Western International Securities Inc. | 15,383 | 769,171 | 0.02 | 0.01 | 0.01 | 7,692 | 7,692 |
| William Blair & Co. LLC | 142 | 3,556 | 0.04 | 0.01 | 0.03 | 35 | 107 |
| Total | $ 2,068,693 | 100,139,780 | $ 0.03 [2] | $ 0.01 | $ 0.02 | $ 1,001,398 | $ 970,049 |

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

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

## Investment Summary
**Fiscal Year Ended September 30, 2010**

| | Market Value[1] | Percent of Total Market Value | Investment & Interest Income[2] | Percent of Total Investment & Interest Income |
|---|---|---|---|---|
| Fixed Income Pools | $ 1,475,627,143 | 16.0 % | $ 147,365,476 | 17.4 % |
| Domestic Equity Pools | 3,240,561,852 | 35.0 | 327,043,404 | 38.7 |
| Real Estate Pool | 845,672,212 | 9.2 | (15,467,509) | (1.8) |
| Alternative Investment Pools | 1,907,735,266 | 20.6 | 281,082,440 | 33.2 |
| International Equity Pools | 1,257,592,400 | 13.6 | 83,680,651 | 9.9 |
| Absolute Return Pools | 344,947,644 | 3.7 | 20,005,236 | 2.4 |
| Short Term Investment Pools | 177,111,624 | 1.9 | 2,132,828 | 0.2 |
| **Total** | $ 9,249,248,141 | 100.0 % | $ 845,842,526 | 100.0 % |

[1] Market value excludes $992,881,436 in securities lending collateral for fiscal year 2010.

[2] Total Investment & Interest Income excludes net security lending income of $16,348,635 and unrealized gain of $65,493,385 for securities lending collateral.

# INVESTMENT SECTION

## 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 | (28.7) % |
| Domestic Equity Pools | 3,259,517,377 | 36.6 | (366,889,867) | 50.9 |
| Real Estate Pool | 825,009,692 | 9.2 | (387,907,741) | 53.9 |
| Alternative Investment Pools | 1,635,379,614 | 18.3 | (262,800,672) | 36.5 |
| International Equity Pools | 1,149,559,962 | 12.9 | 104,623,508 | (14.5) |
| Absolute Return Pools | 192,073,918 | 2.2 | (3,791,018) | 0.5 |
| Short Term Investment Pools | 215,906,410 | 2.4 | (9,836,565) | 1.4 |
| **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.

# ACTUARIAL SECTION

# *ACTUARIAL SECTION*

## Actuary's Certification

GRS

Gabriel Roeder Smith & Company
Consultants & Actuaries

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October 26, 2010

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

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

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

## Actuary's Certification (continued)

Ms. Phyllis Mellon
October 26, 2010
Page 2

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

Financial Section

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

Actuarial Section

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

Statistical Section

- Schedule of Retired Members by Type of Pension Benefit (Retirement Type)
- 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 Statement Nos. 43 and 45, we recommend consultation with legal counsel and the auditors to determine whether Statement No. 43 applies.

The actuarial valuations of SERS as of September 30, 2009 were performed by qualified actuaries in accordance with standards of practice prescribed by the Actuarial Standards Board and in compliance with applicable state statutes. The undersigned are Members of the American Academy of Actuaries (MAAA) and meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion contained herein. It is our opinion that the calculated employer contribution meets the financial objective of the Retirement System.

Respectfully submitted,

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.

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

8. The data 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 Technology, Management & Budget after consulting with the actuary.

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

# 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 % | 10.7 % |
| 35 | | 2.50 | 0.10 | 0.05 | 4.9 |
| 45 | | 2.00 | 0.34 | 0.05 | 4.1 |
| 55 | | 1.75 | 0.62 | 0.05 | 3.9 |
| 60 | | 1.75 | 0.82 | 0.05 | 3.5 |

# Actuarial Valuation Data

### Schedule of
### Active Member Valuation Data

| Valuation Date Sept. 30 | Number | Reported Annual Payroll* | Average Annual Pay | % Increase | Average Age | Average Service |
|---|---|---|---|---|---|---|
| 2000 | 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 |
| 2009 | 27,455 | 1,734,325 | 63,170 | 2.3 | 52.1 | 23.5 |

*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] | | |
| 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 |
| 2009 | 2,423 | 61,683 | 1,472 | 23,531 | 49,029 | 880,763 | 4.5 | 17,964 |

[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) | | | | Portion of AAL Covered by Assets | | | |
|---|---|---|---|---|---|---|---|---|
| | (1) | (2) | (3) | | | | | |
| Valuation Date Sept. 30 | Active Member Contributions | Retirants and Beneficiaries | Active and Inactive Members (Employer Financed Portion) | Valuation Assets | (1) | (2) | (3) | (4) [3] |
| 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 |
| 2009 | 127 | 8,681 | 5,426 | 11,107 | 100 | 100 | 42.4 | 78.0 |

[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)**

| Valuation Date Sept. 30 | Actuarial Accrued Liability (AAL) (1) Active Member Contributions | (2) Retirants and Beneficiaries | (3) Active and Inactive Members (Employer Financed Portion) | Valuation Assets | Portion of AAL Covered by Assets (1) | (2) | (3) | (4) [1] |
|---|---|---|---|---|---|---|---|---|
| 2007 | $ - | $ 6,389 | $ 6,576 | $ - | 0 % | 0 % | 0 % | 0 % |
| 2008 | - | 6,759 | 6,783 | - | 0 | 0 | 0 | 0 |
| 2009 | - | 6,425 | 6,193 | - | 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, 2009**
**Resulting from Differences Between Assumed Experience & Actual Experience**

| | Type of Activity | Gain/(Loss) |
|---|---|---|
| 1. | **Retirements (including Disability Retirement).** If members retire at older ages or with lower final average pay than assumed, there is a gain. If younger ages or higher average pays, a loss. | $ 17,885,210 |
| 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. | (6,436,592) |
| 3. | **Pay Increases.** If there are smaller pay increases than assumed, there is a gain. If greater increases, a loss. | 59,578,393 |
| 4. | **Investment Income.** If there is greater investment income than assumed, there is a gain. If less income, a loss. | (672,966,967) |
| 5. | **Death After Retirement.** If retirants live longer than assumed, there is a loss. If not as long, a gain. | (80,101,879) |
| 6. | **Rehires.** Rehires will generally result in an actuarial loss. | (52,282,789) |
| 7. | **Other.** Miscellaneous gains and losses resulting from data adjustments, timing of financial transactions, etc. | (53,628,777) |
| 8. | **Composite Gain (or Loss) During Year** | $ (787,953,401) |

# Summary of Plan Provisions

Our actuarial valuation of the System as of September 30, 2009, 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 90% 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.

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# STATISTICAL SECTION

# STATISTICAL SECTION

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

## Contents

### *Financial Trends*

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

- Schedule of Pension Plan 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

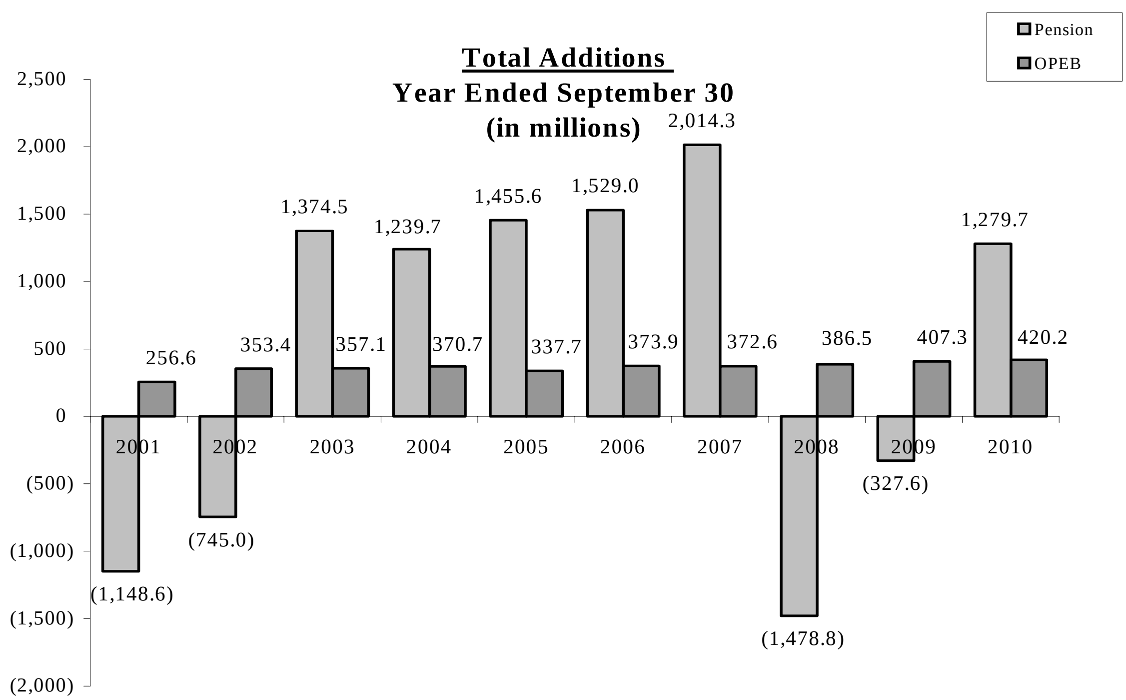
**Last Ten Years**

| Fiscal Year Ended Sept. 30 | Member Contributions | Employer Contributions Dollars | Employer Contributions % of Annual Covered Payroll | Net Investment & Other Income | Total |
|---|---|---|---|---|---|
| 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 | 19.8 | (678,361,614) | (327,579,153) |
| 2010 | 26,055,668 | 369,952,868 | N/A | 883,696,454 | 1,279,704,990 |

## Schedule of OPEB Plan Additions by Source

**Last Ten Years**

| Fiscal Year Ended Sept. 30 | Member Contributions | Employer Contributions Dollars | Employer Contributions % of Annual Covered Payroll | Net Investment & Other Income | Total |
|---|---|---|---|---|---|
| 2001 | $ 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 | 20.9 | 23,861,475 | 407,263,355 |
| 2010 | 20,905,488 | 360,125,502 | N/A | 39,150,651 | 420,181,641 |



## Schedule of Pension Plan Deductions by Type

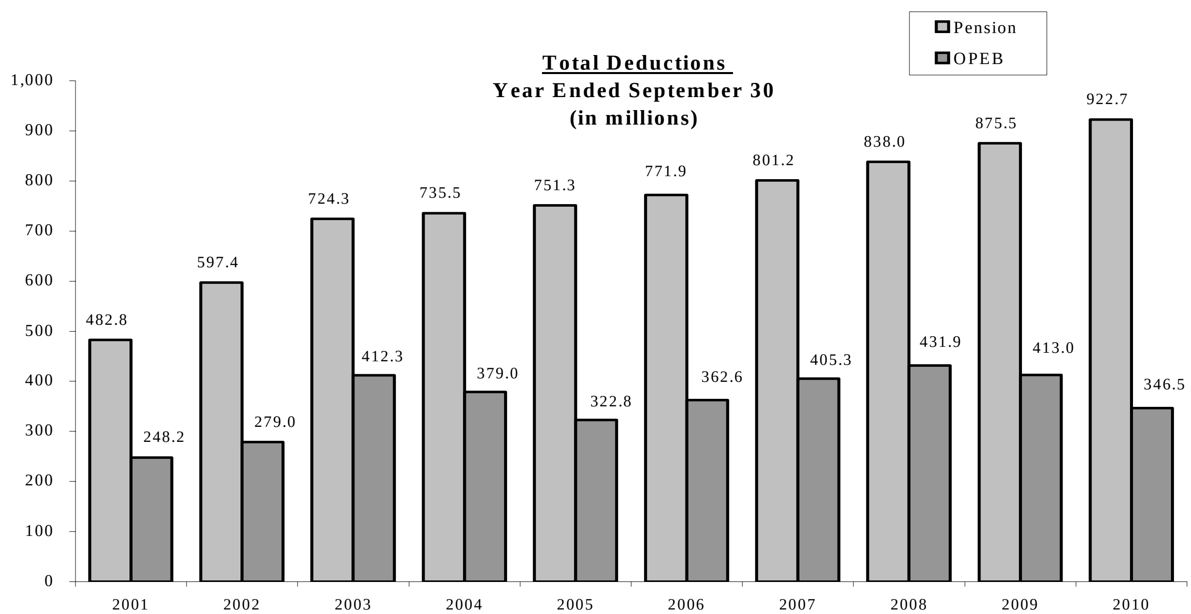
**Last Ten Years**

| Fiscal Year Ended Sept. 30 | Benefit Payments | Refunds and Transfers | Administrative and Other Expenses | Total |
|---|---|---|---|---|
| 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 |
| 2010 | 917,328,820 | 315,367 | 5,073,446 | 922,717,633 |

## 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 |
|---|---|---|---|---|
| 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 |
| 2010 | 330,512,704 | 10,741 | 15,955,963 | 346,479,408 |



## Schedule of Changes in Net Assets - Pension Plan

**Last Ten Years**
**(in thousands)**

| | Fiscal Year | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 |
| Member contributions | $ 3,341 | $ 173,233 | $ 80,185 | $ 37,683 | $ 30,395 | $ 9,435 | $ 19,696 | $ 5,644 | $ 6,995 | $ 26,056 |
| Employer contributions | 112,300 | 87,486 | 79,292 | 103,873 | 256,433 | 270,705 | 150,858 | 355,732 | 343,787 | 369,953 |
| DC savings subaccount | | | | | | | | | | |
| Net investment income | (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) | 883,511 |
| Transfer from other systems | | | | 26 | 120 | 123 | 106 | 190 | 93 | 50 |
| Transfer from pension/ OPEB plan | | | | 24,364 | | | 41,304 | | | |
| Miscellaneous income | 2 | | | 2 | 2 | 106 | 766 | 184 | 133 | 135 |
| **Total Additions** | (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) | 1,279,705 |
| Pension benefits | 478,525 | 503,454 | 701,664 | 731,009 | 746,673 | 767,000 | 795,842 | 832,553 | 870,279 | 917,329 |
| Refunds of member contributions | 15 | 5 | 118 | 163 | 292 | 254 | 222 | 291 | 316 | 299 |
| Transfer to pension/ OPEB plan | | 87,486 | 17,365 | | | | | | | |
| Tranfer to other systems | 77 | 13 | 2 | 20 | 15 | 3 | 8 | 83 | 50 | 17 |
| Administrative expenses | 4,149 | 6,433 | 5,192 | 4,317 | 4,298 | 4,628 | 5,115 | 5,049 | 4,865 | 5,073 |
| **Total Deductions** | 482,766 | 597,391 | 724,341 | 735,509 | 751,278 | 771,885 | 801,187 | 837,976 | 875,510 | 922,718 |
| **Changes in net assets** | $ (1,631,415) | $ (1,342,405) | $ 650,154 | $ 504,197 | $ 704,362 | $ 757,100 | $ 1,213,131 | $ (2,316,813) | $ (1,203,089) | $ 356,987 |

## Schedule of Changes in Net Assets - OPEB Plan

**Last Ten Years**
**(in thousands)**

| | Fiscal Year | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 |
| Member contributions | $ 5,793 | $ 6,326 | $ 11,145 | $ 9,723 | $ 10,702 | $ 11,528 | $ 11,761 | $ 13,100 | $ 20,983 | $ 20,905 |
| Employer contributions | 249,214 | 257,731 | 320,838 | 357,555 | 324,305 | 356,674 | 359,375 | 342,187 | 362,419 | 360,126 |
| Other governmental contributions | | | | | | | | 23,004 | 21,987 | 27,058 |
| DC savings subaccount | 412 | | | | | | | | | |
| Net investment income | 1,175 | 1,842 | 7,793 | 3,381 | 2,712 | 5,661 | 1,500 | 657 | 1,359 | 11,815 |
| Transfer from other systems | | | | | | | | 6,884 | | |
| Transfer from pension/ OPEB plan | | 87,486 | 17,365 | | | | | | | |
| Miscellaneous income | | | | | | | | 698 | 516 | 278 |
| **Total Additions** | 256,594 | 353,385 | 357,141 | 370,659 | 337,719 | 373,863 | 372,636 | 386,530 | 407,263 | 420,182 |
| Health care benefits | 248,246 | 278,998 | 354,085 | 354,650 | 322,834 | 362,598 | 363,975 | 377,513 | 392,135 | 330,513 |
| Refunds of member contributions | | | | | | | | 2 | 2 | 11 |
| Transfer to pension/ OPEB plan | | | | 24,364 | | | 41,304 | | | |
| Tranfer to other systems | | | 58,211 | | | | | 35,000 | | |
| Administrative expenses | | | | | | | | 19,394 | 20,897 | 15,956 |
| **Total Deductions** | 248,246 | 278,998 | 412,296 | 379,014 | 322,834 | 362,598 | 405,279 | 431,909 | 413,034 | 346,479 |
| **Changes in net assets** | $ 8,348 | $ 74,387 | $ (55,155) | $ (8,355) | $ 14,885 | $ 11,265 | $ (32,643) | $ (45,379) | $ (5,771) | $ 73,702 |

## Schedule of Pension Benefits and Refunds by Type

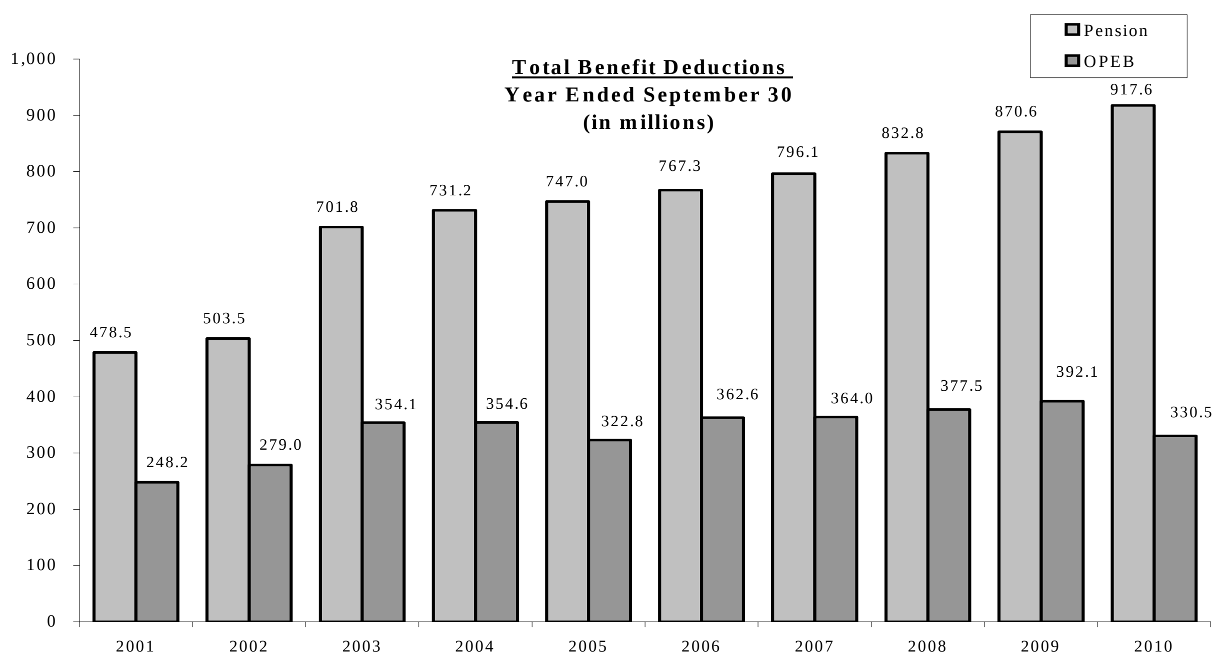
**Last Ten Years**

| Fiscal Year Ended Sept. 30 | Regular Benefits | Disability Benefits | Survivor Benefits | Supplemental Check | Refunds: Employee Contribution | Refunds: Employer Contribution | Refunds: Retired Benefit | Total |
|---|---|---|---|---|---|---|---|---|
| 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 |
| 2010 | 793,100,996 | 42,118,014 | 82,109,810 | | 12,698 | 280,046 | 6,119 | 917,627,683 |

## 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 |
|---|---|---|---|---|---|
| 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 |
| 2010 | 295,928,047 | 31,532,621 | 3,052,036 | 10,741 | 330,523,445 |



## Schedule of Retired Members by Type of Pension Benefit

**September 30, 2009**

| Amount of Monthly Pension Benefit | Number of Retirees | Type of Retirement * 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 |
|---|---|---|---|---|---|---|---|---|---|
| $ 1 - 200 | 512 | 262 | 178 | 9 | 41 | - | 10 | 1 | 11 |
| 201 - 400 | 2,504 | 1,547 | 508 | 9 | 279 | - | 52 | 1 | 108 |
| 401 - 600 | 4,851 | 2,680 | 743 | 278 | 668 | 16 | 178 | 11 | 277 |
| 601 - 800 | 5,013 | 2,921 | 639 | 10 | 808 | 1 | 248 | 32 | 354 |
| 801 - 1,000 | 4,483 | 2,651 | 515 | 9 | 728 | 2 | 223 | 82 | 273 |
| 1,001 - 1,200 | 4,028 | 2,507 | 340 | 11 | 632 | - | 209 | 113 | 216 |
| 1,201 - 1,400 | 4,043 | 2,817 | 344 | 7 | 454 | - | 172 | 121 | 128 |
| 1,401 - 1,600 | 4,032 | 3,053 | 313 | 2 | 272 | - | 130 | 173 | 89 |
| 1,601 - 1,800 | 3,474 | 2,805 | 189 | 2 | 122 | - | 84 | 225 | 47 |
| 1,801 - 2,000 | 3,193 | 2,664 | 147 | 2 | 77 | - | 56 | 216 | 31 |
| Over 2,000 | 12,896 | 11,019 | 306 | 2 | 62 | - | 103 | 1,355 | 49 |
| Totals | 49,029 | 34,926 | 4,222 | 341 | 4,143 | 19 | 1,465 | 2,330 | 1,583 |

* 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, 2009**

| 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 | 512 | 122 | 152 | 165 | 5 | 49 | 9 | 10 | - |
| 201 - 400 | 2,504 | 982 | 655 | 526 | 37 | 190 | 60 | 53 | 1 |
| 401 - 600 | 4,851 | 2,014 | 1,301 | 792 | 82 | 397 | 109 | 149 | 7 |
| 601 - 800 | 5,013 | 1,982 | 1,346 | 842 | 89 | 497 | 91 | 160 | 6 |
| 801 - 1,000 | 4,483 | 1,836 | 1,189 | 783 | 91 | 370 | 72 | 131 | 11 |
| 1,001 - 1,200 | 4,028 | 1,812 | 1,157 | 627 | 105 | 196 | 49 | 77 | 5 |
| 1,201 - 1,400 | 4,043 | 1,846 | 1,196 | 669 | 101 | 121 | 53 | 55 | 2 |
| 1,401 - 1,600 | 4,032 | 1,697 | 1,298 | 734 | 130 | 98 | 38 | 34 | 3 |
| 1,601 - 1,800 | 3,474 | 1,378 | 1,104 | 667 | 149 | 81 | 49 | 41 | 5 |
| 1,801 - 2,000 | 3,193 | 1,270 | 924 | 563 | 185 | 112 | 62 | 56 | 21 |
| Over 2,000 | 12,896 | 4,512 | 3,514 | 2,320 | 844 | 883 | 295 | 405 | 123 |
| Totals | 49,029 | 19,451 | 13,836 | 8,688 | 1,818 | 2,994 | 887 | 1,171 | 184 |

**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, 2009**

| Amount of Monthly Pension Benefit | Eligible Retirees | Type of Other Postemployment Benefits | | |
|---|---|---|---|---|
| | | Health | Dental | Vision |
| $ 1 - 200 | 512 | 314 | 312 | 313 |
| 201 - 400 | 2,504 | 1,775 | 1,746 | 1,761 |
| 401 - 600 | 4,851 | 3,930 | 3,938 | 3,962 |
| 601 - 800 | 5,013 | 4,293 | 4,296 | 4,299 |
| 801 - 1,000 | 4,483 | 3,977 | 3,986 | 3,998 |
| 1,001 - 1,200 | 4,028 | 3,630 | 3,634 | 3,644 |
| 1,201 - 1,400 | 4,043 | 3,720 | 3,713 | 3,719 |
| 1,401 - 1,600 | 4,032 | 3,745 | 3,761 | 3,766 |
| 1,601 - 1,800 | 3,474 | 3,236 | 3,249 | 3,252 |
| 1,801 - 2,000 | 3,193 | 2,980 | 3,016 | 3,008 |
| Over 2,000 | 12,896 | 12,006 | 12,139 | 12,140 |
| **Totals** | 49,029 | 43,606 | 43,790 | 43,862 |

Source: Gabriel Roeder Smith & Co.

## Schedule of Other Postemployment Benefits

**For Years Ended September 30, 2010 and 2009**

| | 2010 | 2009 |
|---|---|---|
| **Claims** | | |
| Health Insurance | $ 273,257,310 | $ 288,555,075 |
| Vision Insurance | 2,767,010 | 2,951,172 |
| Dental Insurance | 30,529,734 | 29,261,053 |
| **Total Claims** | 306,554,054 | 320,767,300 |
| Estimated Claims Liability | | |
| Health Insurance | 22,670,737 | 70,136,257 |
| Vision Insurance | 285,026 | 352,220 |
| Dental Insurance | 1,002,887 | 879,609 |
| **Total Estimated Claims Liability** | 23,958,650 | 71,368,086 |
| **Administrative Fees** | | |
| Health Insurance | 14,141,655 | 18,986,817 |
| Vision Insurance | 441,337 | 472,258 |
| Dental Insurance | 1,372,971 | 1,437,589 |
| **Total Administrative Fees** | 15,955,963 | 20,896,664 |
| **Subtotal** | | |
| Refunds | 10,741 | 2,431 |
| Transfers to Other Systems | | |
| **Grand Total** | $ 346,479,408 | $ 413,034,481 |

## Schedule of Average Benefit Payments - Pension

**Last Ten Years**

| Payment Periods | Credited Service (Years) as of September 30 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | 0 - 5 | 5 - 10 | 10 - 15 | 15 - 20 | 20 - 25 | 25 - 30 | 30+ | Total |
| Period 10/1/99 to 9/30/00 | | | | | | | | |
| Average Monthly Benefit | $ 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 |
| Period 10/1/08 to 9/30/09 | | | | | | | | |
| Average Monthly Benefit | $ 870 | $ 847 | $ 624 | $ 924 | $ 1,268 | $ 1,757 | $ 2,234 | $ 1,497 |
| Average Final Average Salary | 28,021 | 39,237 | 34,045 | 36,778 | 40,234 | 44,008 | 48,993 | 41,965 |
| Number of Active Retirants | 915 | 956 | 7,070 | 7,554 | 7,578 | 10,378 | 14,578 | 49,029 |

## Schedule of Average Benefit Payments - Health

**Last Five Years**

| Payment Periods | Credited Service (Years) as of September 30 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | **0 - 5** | **5 - 10** | **10 - 15** | **15 - 20** | **20 - 25** | **25 - 30** | **30+** | **Total** |
| Period 10/1/04 to 9/30/05 | | | | | | | | |
| Average Monthly Benefit | $ 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 |
| Period 10/1/08 to 9/30/09 | | | | | | | | |
| Average Monthly Benefit | $ 956 | $ 822 | $ 652 | $ 947 | $ 1,299 | $ 1,779 | $ 2,271 | $ 1,541 |
| Average Final Average Salary | 30,647 | 37,602 | 34,597 | 37,020 | 40,435 | 5 | 48,829 | 42,190 |
| Number of Active Retirants | 713 | 1,000 | 5,778 | 6,538 | 6,929 | 9,519 | 13,129 | 43,606 |

*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 Five Years**

| Payment Periods | Credited Service (Years) as of September 30 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | 0 - 5 | 5 - 10 | 10 - 15 | 15 - 20 | 20 - 25 | 25 - 30 | 30+ | Total |
| Period 10/1/04 to 9/30/05 | | | | | | | | |
| Average Monthly Benefit | $ 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 |
| Period 10/1/08 to 9/30/09 | | | | | | | | |
| Average Monthly Benefit | $ 958 | $ 823 | $ 652 | $ 950 | $ 1,302 | $ 1,784 | $ 2,277 | $ 1,545 |
| Average Final Average Salary | 30,843 | 37,869 | 34,704 | 37,227 | 40,591 | 43,967 | 48,964 | 42,344 |
| Number of Active Retirants | 712 | 1,009 | 5,835 | 6,548 | 6,928 | 9,549 | 13,209 | 43,790 |

*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 Five Years**

| Payment Periods | Credited Service (Years) as of September 30 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | **0 - 5** | **5 - 10** | **10 - 15** | **15 - 20** | **20 - 25** | **25 - 30** | **30+** | **Total** |
| Period 10/1/04 to 9/30/05 | | | | | | | | |
| Average Monthly Benefit | $ 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 |
| Period 10/1/08 to 9/30/09 | | | | | | | | |
| Average Monthly Benefit | $ 962 | $ 820 | $ 651 | $ 949 | $ 1,301 | $ 1,782 | $ 2,276 | $ 1,544 |
| Average Final Average Salary | 30,904 | 37,745 | 34,664 | 37,158 | 40,563 | 43,908 | 48,936 | 42,298 |
| Number of Active Retirants | 705 | 1,012 | 5,844 | 6,572 | 6,944 | 9,578 | 13,207 | 43,862 |

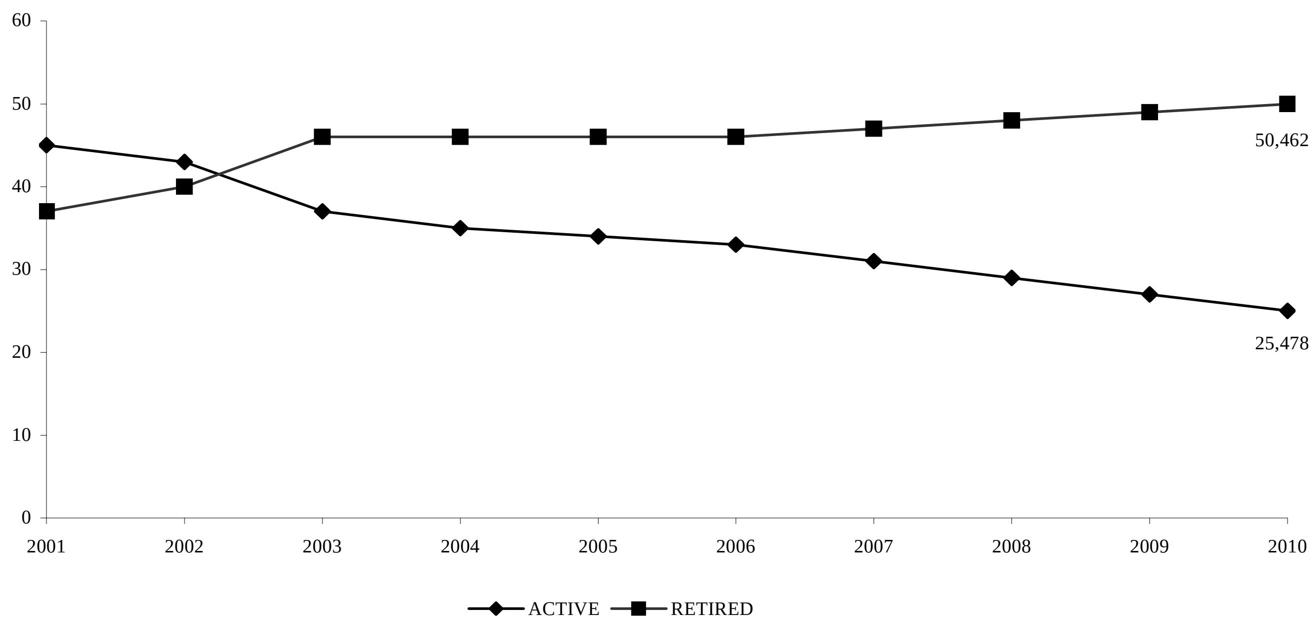
*Participating member totals displayed in this schedule and the information presented in Note 1 of this report may differ. These variances are the result of a mid-year data conversion.

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.

## ACKNOWLEDGMENTS

The *Michigan State Employees' Retirement System Comprehensive Annual Financial Report* is prepared by Financial Services, Fiscal Management Division. Staff of the division for the fiscal year 2009-2010 report included:

Management:

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Cindy Peters, Accounting Manager

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Jamin Schroeder

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