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, 2011

M S E R S

Prepared by:
Financial Services
for
Office of Retirement Services
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INTRODUCTORY SECTION

Certificate of Achievement

Certificate of
Achievement
for Excellence
in Financial
Reporting

Presented to

Michigan State Employees'
Retirement System

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

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

Linda C. Davidson

President

Jeffrey R. Emer

Executive Director

Public Pension Standards Award

Public Pension Coordinating Council

Public Pension Standards Award For Funding and Administration 2011

Presented to

Michigan Office of Retirement Services

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

Presented by the Public Pension Coordinating Council, a confederation of

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

Alan H. Winkle
Program Administrator

INTRODUCTORY SECTION

Letter of Transmittal

State Employees' Retirement System
P.O. Box 30171
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 20, 2012

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 2011.

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.

Letter of Transmittal (continued)

Internal Control Structure

The leadership team of the System is responsible for maintaining adequate internal accounting controls designed to provide reasonable assurance that transactions are executed in accordance with management's general or specific authorization, and are recorded as necessary to maintain accountability for assets and to permit preparation of financial statements in accordance with accounting principles generally accepted in the United States of America. The internal control structure is designed to provide reasonable assurance regarding the safekeeping of assets and reliability of all financial records. The concept of reasonable assurance recognizes that the cost of a control should not exceed the benefits likely to be derived and that the valuation of costs and benefits requires estimates and judgments by management. This internal control structure includes maintaining written policies and procedures. Discussion and analysis of net assets and related additions and deductions are presented in the Management Discussion and Analysis which can be found immediately following the Independent Auditor's Report.

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, 2010. Actuarial certification and supporting statistics are included in the Actuarial Section of this report.

Management's Discussion and Analysis (MD&A)

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

PROFILE OF THE GOVERNMENT

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

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

ECONOMIC CONDITIONS AND OUTLOOK

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

Investments

The State Treasurer is the investment fiduciary and custodian of all investments of the System pursuant to State law. The primary investment objective is to maximize the rate of return on the total investment portfolio, consistent with a high degree of prudence and sufficient diversity to eliminate inordinate risks and to meet the actuarial assumption for the investment return rate. The investment activity for the year produced a total rate of return on the portfolio of 6.5%.

Letter of Transmittal (continued)

For the last five years, the System has experienced an annualized rate of return of 2.1%. A summary of asset allocation and rates of return can be found in the Investment Section of this report.

Accounting System

Transactions of the System are reported on the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when incurred. Participants' benefits are recorded when payable by law. We believe the accounting and administrative internal controls established by the System provide reasonable assurance the System is carrying out its responsibilities in safeguarding its assets, in maintaining the reliability of financial records for preparing the financial statements, and in maintaining accountability for its assets.

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, 2010. The actuarial value of the assets and actuarial accrued liability of the System were $10.8 billion and $14.7 billion, respectively, resulting in a funded ratio of 72.6% on September 30, 2010. 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, 2010 would be approximately $14.7 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 and Budget, Office of Retirement Services (ORS) is an innovative retirement organization driven to empower our customers for a successful today and a secure tomorrow. During fiscal year 2011, we refreshed our strategic plan, using input from staff members of the organization across multiple processes. The diverse opinions offered a unique opportunity to capture goals and successes from all aspects of the business, so we can offer our members the highest level of customer service. Below are some of the highlights from the last fiscal year.

Best In Class Business Practices

<u>Metrics for performance assessment</u>**:** Each of the five major business processes is developing balanced scorecards that will align across the organization. Our leaders are establishing performance projections and targets to help us measure and manage process performance. The scorecards will also measure performance at different levels within each process, including team-level scorecards and individual scorecards.

<u>Retirement benchmarking survey</u>**:** In September, we participated in a benchmarking survey with four other retirement systems. The survey helped us gather member satisfaction data, and allowed us to compare our results with those of our peers. We surveyed 1,415 recently retired members of all four of our retirement systems, and had a high response rate of 65.3 percent.

Letter of Transmittal (continued)

Innovate and Improve Customer Service

Improvements in call center operations: Our focus on people, processes, and technology has resulted in improved efficiency and accuracy in our call center. Improvements in the call routing system means customers can access relevant information faster, and call center representatives can spend more time answering questions. A team of part-time call center staff, coupled with a skills-based call routing system, ensures that customer calls are answered quickly by knowledgeable staff.

Message Board common answers: We created a series of instant answers to common questions on the miAccount message board. Instead of asking a representative technical questions about registration, usernames, and passwords, members can find these answers all in one place, and our representatives can answer more complex, account-specific questions.

Continuously Renewed Business-Driven Technology

Online retirement incentive and reform processing**:** The miAccount retirement application was customized to accommodate the new State Employees Retirement System rules. Members were able to estimate their pensions based on real-time employment information and to select the incentive retirement options in the estimate and retirement application. During the incentive, ORS helped retire 4,755 state employees online using miAccount.

Online member statement delivery**:** Member Statements are now available in miAccount for active and deferred public school, state, and state police members. Members can access their statements through the Member Statement option on miAccount's left navigation bar. Unlike paper statements printed at the end of the fiscal year, miAccount statements provide up-to-date information. In addition, they provide significant savings in both print and mailing costs and in staff time previously dedicated to the process. With this tool in place, paper statements will no longer be mailed to members.

Honors

NAGDCA recognition: The Office of Retirement Services is one of three systems to receive a Special Award of Distinction for our achievements in Effective Communication from The National Association of Government Defined Contribution Administrators (NAGDCA). This recognition was in response to our Personal Evaluation Campaign. Over 4,000 participants took action by getting involved in their retirement accounts and reviewing their asset allocation.

Public Pension Standards award: The Public Pension Coordinating Council awarded the retirement system with the 2011 Public Pension Standards Award for Funding and Administration.

Orion Development Group highlighted organizational success: Orion Development Group featured the Office of Retirement Services in their fall newsletter, highlighting the benefits of our process-focused management structure. In 1997, it could take up to six months for applicants to receive their first pension payments. As of July 2011, over 90 percent of initial pension payments are issued in the month of the retiree's effective date.

Government Finance Officers Association award: The Government Finance Officers Association (GFOA) of the United States and Canada awarded the retirement system with the Certificate of Achievement for Excellence in Financial Reporting for our fiscal year 2010 Comprehensive Annual Financial Report (CAFR). This marks the 20th consecutive year ORS has received this prestigious award

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.

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,

John E. Nixon, Director
Department of Technology, Management & Budget

Phillip J. Stoddard, Director
Office of Retirement Services

Administrative Organization

Retirement Board Members *

Douglas Drake, Chair
Retiree Member
Term Expires July 31, 2013

Matthew Fedorchuk
Employee Member
Term Expires July 31, 2012

Douglas Johnson
Retiree Member
Term Expires July 31, 2012

George M. Elworth
Representing Attorney General
Ex officio

Craig Murray, Vice Chair
Representing Deputy Auditor General
Ex officio

Randall S. Gregg
Representing Commissioner of
Financial & Insurance Regulation
Ex officio

John Gnodtke
Representing State Personnel Director
Ex officio

Robert L. Brackenbury
Representing State Treasurer
Ex officio

Vacant
Employee Member

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

Administrative Organization

Department of 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

Legal Advisor
Bill Schutte
Attorney General
State of Michigan

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

Investment Manager and Custodian
Andy Dillon
State Treasurer
State of Michigan

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

INTRODUCTORY SECTION

Administrative Organization (continued)

Organization Chart

Department of Technology, Management & Budget
John E. Nixon, Director

Department of Treasury *
Andy Dillon, State Treasurer

Bureau of Investments
Jon M. Braeutigam, Director

Financial Services
Michael Gilliland, Director

Fiscal Management Division
Ronald W. Foss, Director

Office of
Retirement Services
Phillip J. Stoddard, Director

Laurie Hill, Assistant Director

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

FINANCIAL SECTION

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

*F*INANCIAL *S*ECTION

Independent Auditor's Report

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

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

Independent Auditor's Report on
the Financial Statements

Mr. Douglas Drake, Chair
Michigan State Employees' Retirement System Board
General Office Building
and
John E. Nixon, C.P.A., Director
Department of Technology, Management, and Budget
George W. Romney Building
and
Mr. Phillip J. Stoddard, Director
Office of Retirement Services
Department of Technology, Management, and Budget
General Office Building - Third Floor
Lansing, Michigan

Dear Mr. Drake, Mr. Nixon, 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, 2011 and September 30, 2010, 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.

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, 2011 and September 30, 2010 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.

Independent Auditor's Report (continued)

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

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The introductory, investment, actuarial, and statistical sections and the supporting schedules are presented for the purposes of additional analysis and are not a required part of the basic financial statements. The supporting schedules on pages 46 through 49 have been subjected to 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.

Sincerely,

Thomas H. McTavish

Thomas H. McTavish, C.P.A.
Auditor General
January 19, 2012

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, 2011. 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 2011 by $8.8 billion (reported as *net assets*). Net assets are held in trust to meet future benefit payments.

- The System's funding objective is to meet long-term benefit obligations through contributions and investment income. As of September 30, 2010, the funded ratio was approximately 72.6% for pension benefits and the funded ratio for other postemployment benefits (OPEB) was 0.0%.

- Additions for the year were $1.3 billion, which are comprised primarily of contributions of $.9 billion and investment gains of $.4 billion.

- Deductions increased over the prior year from $1.3 billion to $1.6 billion or 23.7%. Most of this increase represented an increase in pension and health 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 43) and Schedules of Employer and Other Contributions (page 44) to determine whether the System is becoming financially stronger or weaker and to understand changes over time in the funded status of the System.

Management's Discussion and Analysis (continued)

FINANCIAL ANALYSIS

System total assets as of September 30, 2011, were $10.2 billion and were mostly comprised of cash, investments, and contributions due from employers. Total assets deceased $224.3 million or (2.2)% between fiscal years 2010 and 2011 and total assets increased $143.4 million or 1.4% between fiscal years 2009 and 2010 due primarily to net investment losses.

Total liabilities as of September 30, 2011, were $1.4 billion and were comprised of warrants outstanding, accounts payable, amounts due to other funds, and obligations under securities lending. Total liabilities increased $40.9 million or 3.0% between fiscal years 2010 and 2011 and total liabilities decreased $287.3 million or (17.5)% between fiscal years 2009 and 2010 due primarily to decreased obligations under securities lending.

System assets exceeded its liabilities at the close of fiscal year 2011 by $8.8 billion. Net assets held in trust for pension and OPEB benefits decreased $265.2 million or (2.9)% between fiscal years 2010 and 2011 due primarily to decreased obligations under securities lending and total net assets increased $4 million or (5.0)% between fiscal years 2009 and 2010 due primarily to investment losses.

Net Assets
(in thousands)

	2011	Increase (Decrease)	2010	Increase (Decrease)	2009
Assets					
Cash	$ 111,418	236.4 %	$ 33,125	66.6 %	$ 19,886
Receivables	178,809	20.0	149,042	30.2	114,466
Investments	9,876,636	(3.3)	10,209,004	0.9	10,113,390
Total Assets	10,166,862	(2.2)	10,391,172	1.4	10,247,742
Liabilities					
Warrants outstanding	1,144	(24.1)	1,507	(13.0)	1,732
Accounts payable and other accrued liabilities	120,903	61.7	74,756	(1.7)	76,057
Obligations under securities lending	1,269,714	(0.4)	1,274,563	(18.3)	1,560,297
Total Liabilities	1,391,760	3.0	1,350,826	(17.5)	1,638,086
Total Net Assets	$ 8,775,103	(2.9) %	$ 9,040,346	5.0 %	$ 8,609,656

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 2011 totaled $1.4 billion.

Total additions for fiscal year 2011 decreased $.4 billion from those of fiscal year 2010 due primarily to decreased net investment gains. Total additions for fiscal year 2010 increased $1.6 billion from those of fiscal year 2009 due primarily to increased net investment gains. Total employer contributions increased between fiscal years 2010 and 2011 by $82.7 million or 11.3% due to an increase in contribution rates. This compares to an increase in total employer contributions between fiscal years 2009 and 2010 of $23.9 million or 3.4% due to an increase in contribution rates. Member contributions increased between fiscal years 2010 and 2011 by $.7 million or 13.9%, while member contributions between fiscal years 2009 and 2010 increased by $19.0 million or 67.9%. The System is non-contributory; however, members may purchase service credit. The increase in member contributions for fiscal year 2011 occurred because there was an increase in individuals purchasing service credit. Net investment income decreased between fiscal years 2010 and 2011 by $.5 billion. Net investment income increased between fiscal years 2009 and 2010 by $1.6 billion. The Investment Section of this report reviews the results of investment activity for 2011.

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 2011 were $1.6 billion, an increase of 23.7% over fiscal year 2010 expenses. Total deductions for fiscal year 2010 were $1.3 billion, a decrease of 1.5% over fiscal year 2009 expenses.

Payments for health care benefits to members and beneficiaries increased by $126.4 million or 38.2% from $330.5 million to $456.9 million during the fiscal year. This compares to a decrease of $61.6 million or 15.7% from $392.1 million to $330.5 million between fiscal years 2009 and 2010. The payment of pension benefits increased by $172.5 million or 18.8% between fiscal years 2010 and 2011 and by $47.0 million or 5.4% between fiscal years 2009 and 2010. In fiscal years 2010 and 2011, pension benefit expenses increased due to an increase in benefit payments to retirees and an increase of 1433 retirees and 5186 retirees, respectively. Refunds increased by $181.8 thousand or 58.7% between fiscal years 2010 and 2011. This compares to a decrease of $8.8 thousand or 2.5% between fiscal years 2009 and 2010. Administrative expenses increased by $1.6 million from $21 million in fiscal year 2010 to $22.6 million in fiscal year 2011, due primarily to an increase in OPEB administrative expenses paid to insurance carriers. 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 a decrease in OPEB administrative expenses paid to insurance carriers.

Management's Discussion and Analysis (continued)

Changes in Plan Net Assets
(in thousands)

	2011	Increase (Decrease)	2010	Increase (Decrease)	2009
Additions					
Member contributions	$ 53,478	13.9 %	$ 46,961	67.9 %	$ 27,978
Employer contributions	812,743	11.3	730,078	3.4	706,207
Other governmental contributions	64,773	139.4	27,058	23.1	21,987
Net investment income	373,135	(58.3)	895,325	232.2	(677,229)
Transfers from other systems	2	(95.7)	50	(46.2)	93
Miscellaneous income	439	6.3	413	(36.4)	649
Total Additions	1,304,570	(23.3)	1,699,887	(2,033.3)	79,685
Deductions					
Pension benefits	1,089,823	18.8	917,329	5.4	870,279
Health care benefits	456,879	38.2	330,513	(15.7)	392,135
Refunds of contributions	491	58.1	310	(2.8)	318
Transfers to other systems	5	(72.2)	17	(67.0)	50
Administrative expenses	22,615	7.5	21,029	(18.4)	25,762
Total Deductions	1,569,813	23.7	1,269,197	(1.5)	1,288,544
Net Increase (decrease)	(265,243)	(161.6)	430,690	135.6	(1,208,859)
Net Assets - Beginning of Year	9,040,346	5.0	8,609,656	(12.3)	9,818,516
Net Assets - End of Year	$ 8,775,103	(2.9) %	$ 9,040,346	5.0 %	$ 8,609,656

RETIREMENT SYSTEM AS A WHOLE

The System's combined net assets experienced a decrease in 2011 after an increase in 2010 and 2009. Despite an economy that continues to struggle, the system recorded net investment income of $373.1 million; that is a 58.3% change for net investment activity from 2010. Management believes that the system remains financially sound and positioned to meet its ongoing benefit obligations due, in part, to a prudent investment program, cost controls, and strategic planning.

CONTACTING SYSTEM FINANCIAL MANAGEMENT

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

Statements of Pension Plan and Other Postemployment Benefit Plan Net Assets

As of September 30, 2011 and 2010

	September 30, 2011			September 30, 2010		
	Pension Plan	OPEB Plan	Total	Pension Plan	OPEB Plan	Total
Assets:						
Equity in common cash	$110,046,584	$1,371,560	$111,418,144	$ 33,125,264		$ 33,125,264
Receivables:						
Amounts due from members	196,501		196,501	97,707		97,707
Amounts due from employer	44,095,619	$ 14,142,157	58,237,776	33,504,578	11,271,680	44,776,258
Amounts due from federal agencies		$ 23,631,891	23,631,891			
Amounts due from other funds					19,214,416	19,214,416
Amount due from other		13,266,583	13,266,583		43,475,936	43,475,936
Amounts due from employer long term	82,014,799		82,014,799	40,022,285		40,022,285
Interest and dividends	1,443,292	17,990	1,461,282	1,439,594	15,920	1,455,514
Total receivables	127,750,211	51,058,621	178,808,832	75,064,164	73,977,952	149,042,116
Investments:						
Short term investment pools	230,630,029	85,638,131	316,268,160	142,411,485	1,574,875	143,986,360
Fixed income pools	1,348,900,112	16,811,943	1,365,712,055	1,459,487,235	16,139,908	1,475,627,143
Domestic equity pools	2,492,633,167	31,066,797	2,523,699,964	3,205,117,687	35,444,165	3,240,561,852
Real estate pool	955,301,588	11,906,348	967,207,936	836,422,537	9,249,675	845,672,212
Alternative investment pools	1,975,423,460	24,620,581	2,000,044,041	1,886,869,106	20,866,160	1,907,735,266
International equities pools	1,121,629,228	13,979,364	1,135,608,592	1,243,837,282	13,755,118	1,257,592,400
Absolute return pools	542,348,073	6,759,526	549,107,599	341,174,724	3,772,920	344,947,644
Securities lending collateral	1,006,443,403	12,543,752	1,018,987,155	982,021,636	10,859,800	992,881,436
Total investments	9,673,309,060	203,326,442	9,876,635,502	10,097,341,692	111,662,621	10,209,004,313
Total assets	9,911,105,855	255,756,623	10,166,862,478	10,205,531,120	185,640,573	10,391,171,693
Liabilities:						
Warrants outstanding	1,129,491	14,079	1,143,570	1,490,080	16,478	1,506,558
Accounts payable and other accrued liabilities	1,318,333	119,584,363	120,902,696	3,276,380	23,978,515	27,254,895
Amounts Due to Other Funds					47,501,255	47,501,255
Obligations under securities lending	1,254,083,366	15,630,199	1,269,713,565	1,260,622,687	13,940,742	1,274,563,429
Total liabilities	1,256,531,190	135,228,641	1,391,759,831	1,265,389,147	85,436,990	1,350,826,137
Net Assets Held in Trust for Pension and OPEB Benefits	$ 8,654,574,665	$ 120,527,982	$ 8,775,102,647	$ 8,940,141,973	$ 100,203,583	$ 9,040,345,556

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, 2011 and 2010

	September 30, 2011			September 30, 2010		
	Pension Plan	OPEB Plan	Total	Pension Plan	OPEB Plan	Total
Additions:						
Contributions:						
Member contributions	$ 25,830,556	$ 27,647,644	$ 53,478,200	$ 26,055,668	$ 20,905,488	$ 46,961,156
Employer contributions	424,546,805	388,196,118	812,742,923	369,952,868	360,125,502	730,078,370
Other governmental contributions		64,773,181	64,773,181		27,058,460	27,058,460
Total contributions	450,377,361	480,616,943	930,994,304	396,008,536	408,089,450	804,097,986
Investment income (loss):						
Net appreciation (depreciation) in fair value of investments	184,704,283	2,397,902	187,102,185	700,371,759	7,683,819	708,055,578
Interest, dividends, and other	193,147,735	10,681,052	203,828,787	198,977,234	4,304,485	203,281,719
Investment expenses:						
Real estate operating expenses	(529,842)	(6,879)	(536,721)	(538,935)	(5,913)	(544,848)
Other investment expenses	(30,612,948)	(397,429)	(31,010,377)	(31,470,333)	(345,263)	(31,815,596)
Securities lending activities:						
Securities lending income	17,456,337	226,625	17,682,962	21,911,707	240,395	22,152,102
Securities lending expenses	(3,881,679)	(50,393)	(3,932,072)	(5,740,487)	(62,980)	(5,803,467)
Net investment income (loss)	360,283,886	12,850,878	373,134,764	883,510,945	11,814,543	895,325,488
Transfers from other systems/funds	2,169		2,169	50,212		50,212
Miscellaneous income	146,159	292,824	438,983	135,297	277,648	412,945
Total additions	810,809,575	493,760,645	1,304,570,220	1,279,704,990	420,181,641	1,699,886,631
Deductions:						
Benefits paid to plan members and beneficiaries:						
Retirement benefits	1,089,822,880		1,089,822,880	917,328,820		917,328,820
Health benefits		417,417,811	417,417,811		295,928,047	295,928,047
Dental/vision benefits		39,461,182	39,461,182		34,584,657	34,584,657
Refunds of contributions	470,403	21,085	491,488	298,863	10,741	309,604
Transfers to other systems/funds	4,583		4,583	16,504		16,504
Administrative expenses	6,079,017	16,536,168	22,615,185	5,073,446	15,955,963	21,029,409
Total deductions	1,096,376,883	473,436,246	1,569,813,129	922,717,633	346,479,408	1,269,197,041
Net Increase (Decrease)	(285,567,308)	20,324,399	(265,242,909)	356,987,357	73,702,233	430,689,590
Net Assets Held in Trust for Pension and OPEB Benefits:						
Beginning of Year	8,940,141,973	100,203,583	9,040,345,556	8,583,154,616	26,501,350	8,609,655,966
End of Year	$ 8,654,574,665	$ 120,527,982	$ 8,775,102,647	$ 8,940,141,973	$ 100,203,583	$ 9,040,345,556

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

Notes to Basic Financial Statements
September 30, 2011 and 2010

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, 2011 and 2010, the System's membership consisted of the following:

Retirees and beneficiaries currently receiving benefits:	2011	2010
Regular benefits	45,338	40,152
Survivor benefits	6,783	6,745
Disability benefits	3,527	3,565
Total	55,648	50,462
Current employees:		
Vested	19,080	24,829
Non-vested	570	649
Total	19,650	25,478
Inactive employees entitled to benefits and not yet receiving them	6,094	6,243
Total all members	81,392	82,183

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	2011	2010
Eligible participants	55,648	50,462
Participants receiving benefits:		
Health	49,171	44,711
Dental	49,585	45,004
Vision	49,575	45,033

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.

Effective September 30, 2010, Public Act 185 established a pension supplement. Beginning January 1, 2011, qualifying members who forfeit accumulated leave balances, excluding banked leave time, shall receive a pension supplement for 60 months to his or her retirement allowance payments equal to 1/60 of the amount forfeited from funds.

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.

Notes to Basic Financial Statements (continued)

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.

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.

Notes to Basic Financial Statements (continued)

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.

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.

Notes to Basic Financial Statements (continued)

Contributions

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

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

Transfers to Defined Contribution Plan

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

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.

Public Act 185 of 2010 requires that each actively employed member or qualified participant of SERS, beginning with the first pay date after November 1, 2010, and ending September 30, 2013, contribute an amount equal to 3.0% of the member's or qualified participant's compensation.

In addition to member conbributions, 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 13.40% and 11.90% for fiscal years 2011 and 2010, 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.

Notes to Basic Financial Statements (continued)

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

Health, Dental and Vision Plan		2011		2010
Eligible Participants		55,648		50,462
Participants receiving benefits:				
Health		49,171		44,711
Dental		49,585		45,004
Vision		49,575		45,033
Expenses for the year	$	473,436,246	$	346,479,408
Employer payroll contribution rate		13.4%		11.9%

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, 2011, and 2010, the balance in this reserve was $142.9 million and $205.1 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, 2011, and 2010, the balance in this reserve was $.7 billion and $1.1 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, 2011, and 2010, the balance in this reserve was $8.9 billion and $8.4 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, 2011, and 2010, the net balance of this reserve was ($1,155.1) million and ($746.7) million, respectively.

Notes to Basic Financial Statements (continued)

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. This reserve includes revenue from the federal government for early retiree reinsurance payment (ERRP) and retiree drug subsidy payment (RDS) pursuant to the provisions of Medicare Part D. In addition member contributions representing 3% of the member's or qualified participant's compensation, the required employer 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, 2011, and 2010, the balance in this reserve was $120.5 million and $100.2 million, respectively.

Reporting Entity

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

Benefit Protection

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

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.

Notes to Basic Financial Statements (continued)

Property and Equipment

Office space is leased from the State on a year-to-year basis. Office equipment is capitalized if the value exceeds $5,000. These assets are recorded at cost and are reported net of depreciation in the Statement of Pension Plan and Other Postemployment Benefit Plan Net Assets. Such assets are depreciated on a straight-line basis over 10 years. As of September 30 1998, all capitalized equipment was fully depreciated. No additional equipment has been capitalized for the System since that date.

Related Party Transactions

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

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

	2011	2010
Building Rentals	$ 166,190	$ 200,151
Technological Support	1,950,550	1,482,271
Attorney General	349,281	350,358
Investment Services	2,373,370	2,481,468
Personnel Services	2,182,758	1,763,691

Cash - On September 30, 2011, and 2010, the System had $111.4 million and $33.1 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 $6.4 thousand and $16.3 thousand for the years ended September 30, 2011, and 2010, 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 2010 and 2011, no retirees met the criteria.

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 25 year period for the 2011 fiscal year and is amortized over a 26 year period for the 2010 fiscal year.

Notes to Basic Financial Statements (continued)

Actual employer contributions for retirement benefits were $424.5 million and $370.0 million for fiscal years 2011 and 2010, respectively, representing 22.8% of annual covered payroll for the year ended September 30, 2010. The fiscal year 2011 annual covered payroll is not yet available. Required employer contributions based on previous year actuarial valuations for pensions included:

1. $116.0 million and $143.4 million for fiscal years 2011 and 2010, respectively, for the normal cost of pensions representing 7.2% and 8.3% (before reconciliation) of annual covered payroll for fiscal years 2010 and 2009, respectively.
2. $331.9 million and $275.1 million for fiscal years 2011 and 2010, respectively, for amortization of unfunded actuarial accrued liability representing 20.5% and 15.9% (before reconciliation) of annual covered payroll for fiscal years 2010 and 2009, respectively.

Actual employer contributions for other postemployment benefits (OPEB) were $388.2 million and $360.1 million for fiscal years 2011 and 2010, respectively, representing 12.3% of annual covered payroll for the year ended September 30, 2010. The fiscal year 2011 annual covered payroll is not yet available. Required employer contributions based on previous year actuarial valuations for OPEB included:

1. $409.6 million and $363.0 million for fiscal years 2011 and 2010, respectively, for the normal cost of OPEB representing 12.4% and 12.2% (before reconciliation) of annual covered payroll for fiscal years 2010 and 2009, respectively.
2. $610.5 million and $507.0 million for fiscal years 2011 and 2010, respectively, for amortization of unfunded actuarial accrued liability representing 17.3% and 17.1% (before reconciliation) of annual covered payroll for fiscal years 2010 and 2009, respectively.

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

In March 2001, the Internal Revenue Service issued a private letter ruling allowing the System's members to purchase service credit and repay refunds using tax-deferred (pre-tax) dollars. The program was implemented and payments began in fiscal year 2002.

The program allows members to purchase service credit and repay refunds on a tax-deferred basis. Members sign an irrevocable agreement that identifies the contract duration, monthly payment, total contract amount and years of service credit being purchased. The duration of the contract can range from 1 to 20 years. The amounts are withheld from the members' paycheck and are treated as employer pick-up contributions pursuant to Internal Revenue Code Section 414(h). At September 30, 2011, and September 30, 2010, there were 3,448 and 4,809 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 10.8 and 11.9 years for 2011 and 2010. The short-term receivable was $5.7 million and the discounted long-term receivable was $26.5 million at September 30, 2011. At September 30, 2010, the short-term receivable was $8.5 million and the discounted long-term receivable was $40.0 million.

Funded Status

Participating employers are required to contribute at an actuarially determined rate for both pension benefits and OPEB. For fiscal year 2010, the actuarial accrued liability (AAL) for pension benefits was $14.9 billion, and the actuarial value of assets was $10.8 billion, resulting in an unfunded actuarial accrued liability (UAAL) of $4.1 billion and a funded ratio of 72.6%. The covered payroll (annual payroll of active employees covered by the plan) was $1.6 billion, and the ratio of the UAAL to the covered payroll was 251.5%.

Notes to Basic Financial Statements (continued)

For fiscal year 2010, the actuarial accrued liability (AAL) for OPEB was $14.7 billion, and the actuarial value of assets was $0, resulting in an unfunded actuarial accrued liability (UAAL) of $14.7 billion and a funded ratio of 0.0%. The covered payroll (annual payroll of active employees covered by the plan) was $2.9 billion, and the ratio of the UAAL to the covered payroll was 499.2%.

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	9/30/2010
Actuarial Cost Method	Entry Age, Normal
Amortization Method - Pension	Level Dollar, Closed
Amortization Method - OPEB	Level Percent of Payroll, Closed
Remaining Amortization Period	26 years [1]
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 - 12.5%
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 Public Employees Retirement System Investment Act, Public Act 314 of 1965, as amended. The Public Employees Retirement System 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.

Notes to Basic Financial Statements (continued)

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.

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, structured notes, option and forward 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 4.3% of market value of total pooled assets on September 30, 2011 and 6.3% of market value of total pooled assets on September 30, 2010. Structured notes represented 0.7% of market value of total pooled assets on September 30, 2011 and 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, 2011 and 2010. Option contracts represented 0.0% of market value of total pooled assets on September 30, 2011, and 2010. Forward contracts represented 0.0% of market value of total pooled assets on September 30, 2011. The derivative fair values are reported on the Statements of Pension Plan and Other Postemployment Benefit Plan Net Assets as of September 30, 2011 and 2010 statements, in their respective investment pools market value. Derivative net appreciation and depreciation amounts are reported on the Statement of Changes in Pension Plan and Other Postemployment Benefit Plan Net Assets for fiscal years ended September 30, 2011 and 2010 statements, under "Investment income (loss)", in "Net appreciation (depreciation) in fair value of investments". Swap interest, payments, and dividends are reported under "Investment Income (loss)", in "Interest, Dividends, and other".

To diversify the trust funds' portfolio, the State Treasurer has entered into international swap agreements with investment grade counterparties, which are tied to stock market indices in twenty-two foreign countries. In May 2011, to provide downside protection and enhance cash returns in equity investments, swap agreements tied to domestic stock indices were added.

International Investments' swap equity agreement notional amounts at September 30, 2011 and 2010, were $348.0 million and $589.9 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. International equity swap agreement maturity dates range from October 2011 to July 2012. The 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 international swap agreements. The value of the international 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 $380.6 million is used as a representation of the fair value based on the intention to hold all swap agreements until maturity. 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. The combined swap structure generally realizes gains and losses on a rolling multi- year basis.

For fiscal years ending September 30, 2011 and 2010, international equity investment programs involving swaps, incurred an investment income loss of ($27.1) million and an investment income gain of $40.7 million, respectively.

Notes to Basic Financial Statements (continued)

International swaps appreciation/(depreciation) for fiscal year ending September 30, 2011 and 2010, was ($30.7) and $28.1 million respectively, primarily reflects fluctuations in currency exchange rates and increases in bond market values.

In May 2011, domestic equity swaps were added to the trust funds' portfolio for the Domestic Equity Pools. Equity Investments' domestic swap agreements notional amounts at September 30, 2011 were 141.2 million. Domestic equity swap agreement maturity dates range from October 2011 to July 2014. The swap agreements provide that the System will pay interest quarterly or annually over the term of the swap agreements, interest indexed to the LIBOR, adjusted for an interest rate spread, on the notional amount stated in the agreements. Domestic equity swaps value is a combination of the value of the swap agreements and the value of short-term investments. Book value represents the cost of short-term investments. Current value represents the fair value of the short-term investments and the change in the value of the underlying indices from the inception of the swap agreements. The current value $3.8 million is used as a representation of the fair value based on the intention to hold all swap agreements until maturity. For fiscal year ending September 30, 2011, the domestic equity investment swap program, incurred an investment income loss of ($5.0) million.

Domestic equity swaps' appreciation/(depreciation) of ($5.0) million for fiscal year ending September 30, 2011, primarily reflects the net changes in the domestic indices and increases in short-term investments.

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, 2011, and 2010, the maximum amount of counterparty credit risk for international equity swaps was $43.7 million and $70.7 million, respectively. Domestic equity swaps counterparty credit risk at September 30, 2011, was $4.1 million.

The respective September 30, 2011 and 2010, swap values are as follows:

		Notional Value	Current Value
International Swaps	9/30/2011 (dollars in millions)	$ 348.0	$ 380.6
International Swaps	9/30/2010 (dollars in millions)	$ 589.9	$ 582.5
Domestic Swaps	9/30/2011 (dollars in millions)	$ 141.2	$ 3.8

In July 2011, an international currency forward investment agreement was added to the trust funds' portfolio for the Absolute Return Pools. The international currency forward had a notional value of $1.8 million. Fair value at September 30, 2011 was $0.1 million. This currency forward agreement will mature in July 2012. The value of this investment is the change in the forward rate. For fiscal year ending September 30, 2011, the swap currency forward had an appreciation/(depreciation) of $0.1 million. Investment income for fiscal years ending September 30, 2011 and 2010, was $0.1 million. Counterparty credit risk for the international currency forward is $0.1 million.

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 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, 2011 and 2010, the notional value was $67.6 million and $28.8 million, respectively. The fair value of the structured notes for the fiscal years ending September 30, 2011 and 2010 was $65.5 million and $29.8 million, respectively. The structured notes' counterparty credit risk for fiscal year ending September 30, 2011 and 2010, was $65.5 million and $29.8 million, respectively. For fiscal year ending September 30, 2011, and 2010, the

Notes to Basic Financial Statements (continued)

Structured notes had appreciation/(depreciation) of ($3.2) million and $0.7 million respectively. Investment income for fiscal years ending September 30, 2011, and 2010, was ($3.2) million and $0.7 million respectively.

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, 2011, and 2010, were $2.3 million and $2.1 million, respectively. For the fiscal years ending September 30, 2011 and 2010, the fair values were $6.7 thousand and $4.5 thousand, respectively. For fiscal years ending September 30, 2011 and 2010, appreciation/(depreciation) was $53.9 thousand and $47.3 thousand, respectively.

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, 2011, and 2010, were $0.2 million and $0, respectively. For fiscal years ended September 30, 2011, and 2010, the fair values of the equity options were ($16.0) thousand and $0, respectively. The investment income on options for fiscal years ending September 30, 2011, and 2010, were $29.0 thousand and $0.4 million, respectively. Appreciation/(depreciation) for fiscal year ending September 30, 2011 and 2010, was $29.0 thousand and $0.4 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, 2011, and 2010, such assets had an average weighted maturity to next reset of 3.3 years and 3.8 years respectively and an average weighted maturity of 10.8 years and 12.6 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, 2011, and 2010, the System had no credit risk exposure to borrowers. The cash received for securities on loan for the System as of September 30, 2011, and 2010 was $1,269,713,565 and $1,274,563,429 respectively. The fair market value of assets held in the dedicated collateral account at the custodian for the System as of September 30, 2011, and 2010, was $1,018,987,155 and $992,881,436 respectively. The carrying amount, which is the fair market value, of securities on loan for the System as of September 30, 2011 and 2010, was $1,240,050,092 and $1,243,882,480 respectively.

Gross income, including capital gains and losses, from security lending for fiscal years ended September 30, 2011, and 2010, with Credit Suisse was $17,682,962 and $22,152,102 respectively. Expenses associated with this income were the borrower's rebate of $707,976 and $1,983,777 and fees paid to the agent bank of $3,224,096 and $3,819,689 respectively.

Notes to Basic Financial Statements (continued)

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, 2011 and 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, 2011 and 2010

	2011				2010			
Investment Type	**Fair Value**	**S&P**	**Fair Value**	**Moody's**	**Fair Value**	**S&P**	**Fair Value**	**Moody's**
Short Term	$ 407,298	A-1	$ 399,224	P-1	$ 324,885	A-1	$ 319,374	P-1
	-	A-2	8,074	P-2	-	A-2	5,511	P-2
Government Securities								
US Agencies - Sponsored	-	AAA	99,222	Aaa	117,560	AAA	117,560	Aaa
	99,222	AA	-	Aa		AAA		Aaa
Corporate Bonds & Notes								
	16,889	AAA	22,941	Aaa	26,183	AAA	26,478	Aaa
	165,204	AA	133,112	Aa	178,060	AA	135,502	Aa
	474,410	A	491,238	A	473,546	A	505,110	A
	249,123	BBB	240,809	Baa	275,716	BBB	274,918	Baa
	27,484	BB	23,951	Ba	18,218	BB	12,350	Ba
	3,737	B	5,073	B	3,814	B	3,197	B
	2,090	CCC	1,823	Caa	1,679	CCC	2,647	Caa
	48	CC	212	Ca	1	CC	333	Ca
	-	C	2	C	-	C	4	C
	80	D	-	D	165	D	-	D
	92,584	NR	112,488	NR	51,289	NR	68,132	NR
International *								
	-	AAA	-	Aaa	-	AAA	-	Aaa
	156,407	AA	208,311	Aa	205,208	AA	277,721	Aa
	125,313	A	84,465	A	257,265	A	204,128	A
	-	BBB	35,164	Baa	29,113	BBB	66,136	Baa
	18,124	BB	-	Ba	37,023	BB	-	Ba
	65,296	NR	37,200	NR	19,376	NR	-	NR
Securities Lending Collateral								
	98,050	A-1	98,050	P-1	8,653	A-1	8,653	P-1
	190,315	AAA	184,592	Aaa	276,554	AAA	266,998	Aaa
	117,141	AA	453,496	Aa	125,836	AA	425,147	Aa
	67,691	A	62,060	A	117,994	A	149,125	A
	364,647	BBB	33,918	Baa	349,589	BBB	7,801	Baa
	-	BB	5,728	Ba	-	BB	5,438	Ba
	2,678	B	2,678	B	49,080	B	2,119	B
	52,892	CCC	41,099	Caa	12,809	CCC	67,361	Caa
	-	CC	11,793	Ca	-	CC	7,873	Ca
	122,005	NR	122,005	NR	48,727	NR	48,727	NR
Mutual Funds	985	A	-	A		A		A
	-	NR	985	NR		NR		NR
	$ 2,919,713		$ 2,919,713		$ 3,008,343		$ 3,008,343	

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, 2011. As of September 30, 2011, and 2010, 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, 2011, and 2010, 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, 2011, and 2010, the fair value of the System's prime commercial paper was $407.3 million and $324.9 million with the weighted average maturity of 13 days and 8 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, 2011 and 2010

	2011		2010	
	Fair Value	Effective Duration in Years	Fair Value	Effective Duration in Years
Government				
U. S. Treasury	$ 29,757	8.3	$ 44,733	5.6
U. S. Agencies - Backed	221,334	3.9	271,573	4.5
U. S. Agencies - Sponsored	99,222	3.0	117,560	2.5
Corporate	1,031,649	4.3	1,028,670	4.7
International*				
Corporate	365,140	0.2	547,985	0.2
Mutual Funds	985	4.4		
Total	$ 1,748,087		$ 2,010,521	

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, 2011, and 2010, the total amount of foreign investment subject to foreign currency risk was $1,137.5 million and $1,008.8 million which amounted to 12.7% and 10.9% 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, 2011

Region	Country	Currency	Alt. Invest. Market Value In U.S. $	Equity Market Value In U.S. $	Real Estate Market Value In U.S. $	International Equities Market Value In U.S. $	International Derivatives Market Value In U.S. $*
AMERICA							
	Canada	Dollar					
	Mexico	Peso		$ 336			$ 1,118
EUROPE							
	European Union	Euro	$ 212,794	1,444		$ 1,905	(1,795)
	Switzerland	Franc		16,157			3,520
	Sweden	Krona				1,583	2,733
	Denmark	Krone				291	224
	Norway	Krone					921
	U.K.	Sterling	2,756	17,386		624	4,124
PACIFIC							
	Australia	Dollar					3,387
	China	Renminbi		137			
	Hong Kong	Dollar		1,563			27
	Japan	Yen	159			72	7,337
	New Zealand	Dollar					678
	Singapore	Dollar		1,804		1,789	(319)
	South Korea	Won				1,336	1,471
MIDDLE EAST							
	Israel	Shekel		3,349			
AFRICA							
	South Africa	Rand		61			
VARIOUS					$ 175,199	673,348	
	Total		$ 215,708	$ 42,237	$ 175,199	$ 680,948	$ 23,426

*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 2011 through July 2012 with an average maturity of 0.3 years.

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	6,698		$ 3,189	(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	23,269		597	3,489
PACIFIC							
	Australia	Dollar					6,143
	China	Renminbi		981			
	Hong Kong	Dollar		1,544			1,699
	Japan	Yen	302	57		66	(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					$ 139,168	583,786	
	Total		$ 194,378	$ 63,657	$ 139,168	$ 592,608	$ 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 0.8 years.

Notes to Basic Financial Statements (continued)

NOTE 5 - ACCOUNTING CHANGES

During fiscal year 2010, the System implemented GASB Statement No. 53, *Accounting and Financial Reporting for Derivatives Instruments*. This statement addresses the recognition, measurement, and disclosure of information regarding derivative instruments. Note 4 includes disclosure regarding derivative instruments held as investments by the System; no other types of derivative instruments were used by System during the fiscal years.

As a result of the implementation, the System made additional note disclosures regarding the investment derivative instrument; however, since the derivative instruments were held and accounted for as investments, there were no accounting changes or restatements required.

NOTE 6 - COMMITMENTS AND CONTINGENCIES

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

NOTE 7 – SUBSEQUENT EVENTS

Passage of Public Acts 264 and 265 of 2011

Effective December 15, 2011, Public Act 264 and 265 of 2011 amended the State Employees' Retirement Act (PA 240 of 1943). These changes could significantly impact member benefits and future activity of the State Employees Retirement System. Below is a summary of the key changes:

• Provides for a refund of the 3% member contributions withheld under Public Act 185 of 2010. Contributions totaled $81.5 million as September 30, 2011, are reported as amounts held in custody for others.

• Existing defined benefit (DB) plan members will have the option to either remain in the DB plan and pay 4% of their compensation in to the plan or freeze their pension benefit and continue their future service under the defined contribution (DC) plan.

• Existing defined contribution (DC) plan members will have the option to retain the current retirement graded premium health insurance plan for retiree health care, or choose a portable Personal Healthcare Fund, which can be used to pay healthcare expenses in retirement. DC plan members electing to switch to the Personal Healthcare Fund would monetize existing years of service for deposit into a 401(k) or 457 plan and members would receive an employer match up to 2% of future compensation.

• Eliminates retiree health insurance for employees hired on or after January 1, 2012, and replace it with a portable Personal Healthcare Fund. Employees would receive an employer match of up to 2% of compensation plus a lump sum deposit of either $1,000 or $2,000 upon termination of employment.

• Allows employees who receive the 2% employer matching contribution in lieu of health benefits to purchase health care coverage from the State's health care plans upon retirement or separation from the state.

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)
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
2010	10,782	14,860	4,078	72.6	1,622	251.5

[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
2010	-	14,666	14,666	0.0	2,938	499.2

*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
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
2011	447,924,105	424,546,805	94.8

Other Postemployment Benefits

Fiscal Year Ended Sept. 30	Annual Required Contribution (ARC)	Actual Contribution	Other Governmental Contributions	Percentage Contributed
2007	$ 898,716,522	$ 359,375,055 [4]		40.0 %
2008	879,245,817	342,186,903	$ 23,003,762	41.5
2009	922,791,423	362,419,285	21,986,686	41.7
2010	870,011,953	360,125,502	27,058,460	44.5
2011	1,020,144,325	388,196,118	64,773,181	44.4

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

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

The Schedules of Funding Progress and Schedules of Employer Contributions are reported as historical trend information. The Schedules of Funding Progress are presented to measure the progress being made to accumulate sufficient assets to pay benefits when due. The Schedules of Employer Contributions are presented to show the responsibility of the Employer in meeting the actuarial requirements to maintain the System on a sound financial basis.

Supporting Schedules

Comparative Summary Schedule of
Pension Plan Administrative Expenses
For Fiscal Years Ended September 30, 2011 and 2010

	2011	2010
Personnel Services:		
Staff Salaries	$ 1,565,480	$ 1,125,099
Retirement and Social Security	364,861	377,362
Other Fringe Benefits	252,417	261,230
Total	2,182,758	1,763,691
Professional Services:		
Accounting	247,202	214,945
Actuarial	157,530	121,565
Attorney General	349,281	350,358
Audit	48,514	48,514
Consulting	328,227	104,912
Medical	156,428	270,863
Total	1,287,182	1,111,157
Building and Equipment:		
Building Rentals	166,190	200,151
Equipment Purchase, Maintenance, and Rentals	5,804	5,857
Total	171,994	206,008
Miscellaneous:		
Travel and Board Meetings	2,933	2,817
Office Supplies	7,435	6,214
Postage, Telephone, and Other	359,233	387,571
Printing	116,932	113,715
Technological Support	1,950,550	1,482,271
Total	2,437,083	1,992,588
Total Administrative Expenses	$ 6,079,017	$ 5,073,444

Comparative Summary Schedule of
OPEB Plan Administrative Expenses
For Fiscal Years Ended September 30, 2011 and 2010

	2011	2010
Health Fees	$ 14,527,350	$ 14,141,655
Dental Fees	1,530,399	1,372,971
Vision Fees	478,418	441,337
Total Administrative Expenses	$ 16,536,168	$ 15,955,963

The OPEB plan administrative expenses of $16,536,168 in 2011 and $15,955,963 in 2010 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, 2011 and 2010

	2011	2010
Real Estate Operating Expenses	$ 536,721	$ 544,848
Securities Lending Expenses	3,932,072	5,803,467
Other Investment Expenses[1]		
ORS-Investment Expenses[2]	2,373,370	2,481,468
Custody Fees	163,003	159,259
Management Fees	28,018,726	28,736,088
Research Fees	455,278	438,781
Total Investment Expenses	$ 35,479,170	$ 38,163,911

[1] Refer to the Investment Section for fees paid to investment professionals
[2] Does not exclude Treasury Civil Service fees of $28,608 recorded as a pass through in the Schedule of Investment Fees - State Treasurer.

Schedule of Payments to Professional Services
For Fiscal Years Ended September 30, 2011 and 2010

	2011	2010
Accounting	$ 247,202	$ 214,945
Actuary	157,530	121,565
Attorney General	349,281	350,358
Independent Auditors	48,514	48,514
Consulting	328,227	104,912
Medical Advisors	156,428	270,863
Total Payment to Consultants	$ 1,287,182	$ 1,111,157

Supporting Schedules (continued)

Detail of Changes in Plan Net Assets (Pension and Other Postemployment Benefits)
For the Year Ended September 30, 2011

	Employee Contributions	Employer Contributions	Retired Benefit Payments	Undistributed Investment Income	OPEB	Total
Additions:						
Contributions:						
Member contributions	$ 25,830,556				$ 27,647,644	$ 53,478,200
Employer contributions		$ 424,546,805			388,196,118	812,742,923
Other governmental contributions					64,773,181	64,773,181
Total Contributions	25,830,556	424,546,805	-	-	480,616,943	930,994,304
Investment income:						
Net appreciation (depreciation) in fair value of investments				$ 184,704,283	2,397,902	187,102,185
Interest, dividends, and other				193,147,735	10,681,052	203,828,787
Investment expenses:						
Real estate operating expenses				(529,842)	(6,879)	(536,721)
Other investment expenses				(30,612,948)	(397,429)	(31,010,377)
Securities lending activities:						
Securities lending income				17,456,337	226,625	17,682,962
Securities lending expenses				(3,881,679)	(50,393)	(3,932,072)
Net investment income (loss)	-	-	-	360,283,886	12,850,878	373,134,764
Transfer from other systems/funds	2,169					2,169
Miscellaneous income			$ 102,886	43,273	292,824	438,983
Total additions	25,832,725	424,546,805	102,886	360,327,159	493,760,645	1,304,570,220
Deductions:						
Benefits paid to plan members and beneficiaries:						
Retirement benefits			1,089,822,880			1,089,822,880
Health benefits					417,417,811	417,417,811
Dental/vision benefits					39,461,182	39,461,182
Refunds of contributions	44,655	417,337	8,411		21,085	491,488
Transfers to other systems/funds	4,583					4,583
Administrative expenses				6,079,017	16,536,168	22,615,185
Total deductions	49,238	417,337	1,089,831,291	6,079,017	473,436,246	1,569,813,129
Net Increase (Decrease) Before Other Changes	25,783,487	424,129,468	(1,089,728,405)	354,248,142	20,324,399	(265,242,909)
Other Changes in Net Assets:						
Interest allocation	4,068,318	84,507,393	674,038,612	(762,614,323)		-
Transfers upon retirement	(92,062,398)		92,062,398			-
Transfers of employer shares		(839,063,750)	839,063,750			-
Total other changes in net assets	(87,994,080)	(754,556,357)	1,605,164,760	(762,614,323)	-	-
Net Increase (Decrease)	(62,210,593)	(330,426,889)	515,436,355	(408,366,181)	20,324,399	(265,242,909)
Net Assets Held in Trust for Pension and OPEB Benefits:						
Beginning of Year	205,064,675	1,056,342,409	8,425,482,650	(746,747,761)	100,203,583	9,040,345,556
End of Year	$ 142,854,082	$ 725,915,520	$ 8,940,919,005	$ (1,155,113,942)	$ 120,527,982	$ 8,775,102,647

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 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

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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 Licensing and Regulatory and Affairs and the Director of the Department of Technology, Management & Budget are ex-officio members. As of September 30, 2011, members of the Committee were as follows: David G. Sowerby, CFA (public member), James B. Nicholson (public member), Roger Robinson (public member), Steven H. Hilfinger (ex-officio member), and Phillip J. Stoddard (ex-officio member). The public members serve without pay, but may be paid actual and necessary travel and other expenses.

INVESTMENT POLICY & GOALS

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

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

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

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

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

Report on Investment Activity (continued)

Asset Allocation
(Excludes Collateral on Loaned Securities)

Investment Category	As of 9/30/11 Actual %	Two-Year Target %
Domestic Equity Pools	28.1 %	33.0 %
International Equity Pools	12.7	16.0
Alternative Investment Pools	22.3	14.0
Real Estate Pool	10.8	9.0
Fixed Income Pools	15.2	16.0
Absolute Return Pools	6.1	10.0
Short Term Investment Pools	4.8	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, 2011, the total System's rate of return was 6.5% as compiled by State Street Investment Analytics. Annualized rates of return for the three, five, and ten year periods ending September 30, 2011 were: 2.7%, 2.1%, and 5.0% respectively.

At the beginning of the 2011 fiscal year, the health of the United State's economy was in question. The unemployment rate was 9.7%, GDP was growing only at a 2% annualized rate, and inflation (CPI) was measured at 1.1%. On November 3, 2010 the Federal Open Market Committee (FOMC) determined that a second round of quantitative easing was necessary in order to reduce the unemployment rate and to fight a threat of deflation. The policy, sometimes referred to as QE2, called for a purchase of $600 billion of longer-term Treasury securities by the end of June 30, 2011. The adoption of the policy was controversial and its overall effectiveness is likely to be debated for years to come. However, during the first three quarters of the fiscal year, when QE2 was implemented, the System's rate of return was 13.6% earning a positive rate of return in each quarter.

In February, the 10-Year U.S. Treasury hit its highest yield for the fiscal year at just over 3.7%. Global equity markets peaked in the spring of 2011 and the S&P 500 hit its closing fiscal year high at 1363.61 on April 29, 2011. On March 11, 2011 a massive 9.1-magnitude earthquake struck an area of the Pacific Ocean east of Japan. As a result of the earthquake, a giant tsunami devastated parts of the country. Hit especially hard was the Fukushima Daiichi nuclear power plant, the largest nuclear accident since the 1986 Chernobyl disaster. As a result, many Japanese companies were unable to operate. Since Japan is a major supplier to the global economy, manufacturers reported shortages for key components, crimping global output.

Report on Investment Activity (continued)

The price paid for a barrel of crude oil was especially volatile in the winter months due to a loosely-linked series of demonstrations, government protests, and revolutions known as “Arab Spring”. These events occurred across a number of Middle East and North African countries, many of which are oil producing exporters. In one instance, oil prices jumped by over 8.5% as unrest in Libya intensified.

By early summer, many economists came to believe that the Arab Spring and the Japanese tsunami caused a temporary weakness in the global economy that would resolve itself in the second half of the year. About the same time, however, European sovereign debt concerns began to re-emerge. Soaring interest rates in some highly indebted countries were forcing politicians to adopt various austerity measures. Adding complexity to the situation, many large European banks are holding sovereign debt as low-risk capital, placing an enormous strain on the health of the European banking industry.

At home, U.S. politicians were debating the wisdom for raising the federal debt ceiling as the legal limit would be reached by July 31. After tense negotiations, a last hour compromise was reached, but not without consequence. Five days later Standard & Poor’s, a major debt rating agency, down-graded the credit rating of U.S. debt from AAA to AA.

The prospects of slower global growth, austerity measures, sovereign credit risks, and the end of QE2 apparently were too much for the capital markets to bear. In the final two months of the fiscal year, the S&P 500 lost over 12% of its value while foreign markets lost over 18% in value. Despite the downgrade by Standard & Poor’s, the 10-year U.S. Treasury hit an all time low of 1.72% on September 22, as it remained a global safe-haven. The System ended the fiscal 2011 year with a positive 6.5% return.

At the end of Fiscal 2011, the health of the U.S. economy remained a top concern. The unemployment rate is still over 9% and GDP is barely growing at a rate of 1.3%. The inflation rate has increased to 3.8%, though many economists believe the elevated inflation rate to be transitory given the employment situation and the sluggish economy. In response to the weak economic backdrop, the FOMC is again attempting to stimulate growth. On September 21, 2011 a plan to purchase $400 billion of bonds with maturities of 6 to 30 years by selling bonds with maturities of less than 3 years was announced. Like QE2, the plan known as “Operation Twist” is an attempt to lower longer-term borrowing rates. However, unlike QE2 this plan is not an expansion for the Federal Reserve’s balance sheet or seen as printing money. While it is still too early to determine the effects of Operation Twist; it will be important to closely monitor its success, the 2012 presidential election, the European debt situation, the Arab Spring, and the slowing global growth well into the 2012 fiscal year.

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.

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.

Report on Investment Activity (continued)

The pools invest in equities and equity related securities that are listed on U.S. national securities exchanges, including American Depository Receipts (ADRs). It may also invest in stocks that are traded over-the-counter. The 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, 2011:

Active	60.3 %
Passive	39.7
Total	**100.0 %**

Large Cap	82.7 %
Mid Cap	9.4
Small Cap	7.9
Total	**100.0 %**

The System's Domestic Equity pools total rate of return was (1.5)% for fiscal year 2011. This compared with 0.9% for the S&P 1500 Index.

At the close of fiscal year 2011, the Domestic Equity pools represented 28.1% of total investments. This compares to 35.0% for fiscal year 2010. The following summarizes the System's 19.9% ownership share of the Domestic Equity pools at September 30, 2011:

Domestic Equity Pools
(in thousands)

Short Term Pooled Investments	$ 56,029
Equities	2,472,368
Market Value of Equity Contracts	(4,941)
Settlement Principal Payable	(8,745)
Settlement Proceeds Receivable	6,471
Accrued Dividends	2,518
Total	**$ 2,523,700**

International Equity Pools

The objective for investments made in International Equity pools is to meet or exceed the total return of the MSCI ACWI Ex-US Gross for one, three, and five-year periods and a market cycle.

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

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

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

Report on Investment Activity (continued)

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, 2011:

Active	38.9 %
Passive	61.1
Total	**100.0 %**

Developed	82.6 %
Emerging	17.4
Total	**100.0 %**

The System's International Equity pools total rate of return was (10.0)% for fiscal year 2011. This compared with (10.4)% for the MSCI ACWI Ex US Gross.

At the close of fiscal year 2011, the International Equity pools represented 12.7% of total investments. This compares to 13.6% for fiscal year 2010. The following summarizes the System's 19.7% ownership share of the International Equity pools at September 30, 2011:

International Equity Pools
(in thousands)

Short Term Pooled Investments	$	21,670
Equities		732,798
Fixed Income Securities		365,140
Market Value of Equity Contracts		15,289
Accrued Dividends and Interest		712
Total	**$**	**1,135,609**

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, 2011:

Buyout Funds	55.6	%
Special Situation Funds	20.0	
Venture Capital Funds	10.8	
Fund of Funds	5.1	
Liquidation Portfolio	3.8	
Other	2.5	
Mezzanine Funds	2.2	
Total	**100.0**	**%**

The Alternative Investment pools had a return of 29.9% for the fiscal year ended September 30, 2011, versus the benchmark of 33.2%.

At the close of fiscal year 2011, the Alternative Investment pools represented 22.3% of total investments. This compares to 20.6% for fiscal year 2010. The following summarizes the System's 18.1% ownership share of the Alternative Investment pools at September 30, 2011:

Alternative Investment Pools
(in thousands)

Short Term Pooled Investments	$	22,752
Equities		1,977,292
Total	**$**	**2,000,044**

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	22.4	%
Commercial office buildings	19.2	
Hotel	22.5	
Retail shopping centers	17.0	
Industrial warehouse buildings	7.6	
For Sale Housing	6.5	
Land	2.5	
Senior Living	1.1	
Short Term Investments	1.2	
Total	**100.0**	**%**

The Real Estate pool generated a return of 16.9% for fiscal year 2011. The two benchmark returns from the National Council of Real Estate Investment Fiduciaries (NCREIF): The National Property Blended Index (less 130 basis points) was 14.6% and the Open-End Diversified Core Equity Index was 17.2%. The Real Estate pool benefited from increased valuations as commercial real estate fundamentals improved in all property types. Transaction activity increased from historical low levels as investors bid up property prices on top quality cash flowing assets in major markets.

At the close of fiscal year 2011, the Real Estate pool represented 10.8% of total investments. This compares to 9.2% for fiscal year 2010. The following summarizes the System's 19.5% ownership share of the Real Estate pool at September 30, 2011:

Real Estate Pool
(in thousands)

Short Term Pooled Investments	$	12,711
Equities		954,497
Total	**$**	**967,208**

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 System's Fixed Income pools total rate of return was 4.5% for fiscal year 2011. This compared with 5.1% 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 2011, the Fixed Income pools represented 15.2% of total investments. This compares to 16.0% for fiscal year 2010. The following summarizes the System's 19.6% ownership share of the Fixed Income pools at September 30, 2011:

Fixed Income Pools
(in thousands)

Short Term Pooled Investments	$ 51,847
Fixed Income Securities	1,316,056
Settlement Proceeds Receivable	28
Settlement Principal Payable	(12,328)
Accrued interest	10,109
Total	**$ 1,365,712**

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 (1.9)% versus the benchmark's (2.4)%.

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.

The Real Return and Opportunistic Investments pool rate of return for the fiscal year was 5.2%.

At the close of fiscal year 2011, the Absolute Return pools represented 6.1% of total investments. This compares to 3.7% for fiscal year 2010. The following summarizes the System's 18.7% ownership share of the Absolute Return Strategies pool at September 30, 2011:

Report on Investment Activity (continued)

Absolute Return Pools
(in thousands)

Absolute Return Strategies Pool	$	328,457
Real Return and Opportunistic Investment Pool		
Short Term Pooled investments	$	6,228
Equities		208,607
Market Value of Equity Contracts		59
Fixed Income Securities		6,081
Settlement Principal Payable		(509)
Accrued Dividends and Interest		185
Total	**$**	**549,108**

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 0.3% 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.

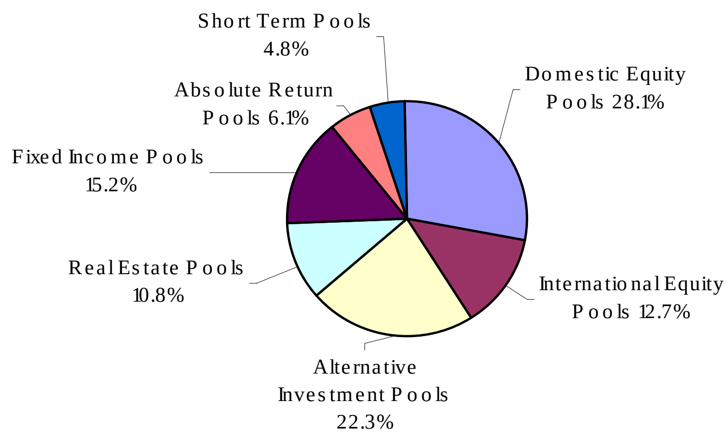
At the close of fiscal year 2011, the Short Term Investment pools represented 4.8% of total investments. This compares to 1.9% for fiscal year 2010. The following summarizes the System's 24.5% ownership share of the Short Term Investment pools at September 30, 2011:

Short Term Investment Pools
(in thousands)

Short Term Pooled Investments	$	347,479
Fixed Income Securities		1,426
Healthcare Contributions*		78,780
Accrued interest		1
Total	**$**	**427,686**

*PA 185 of 2010 requires each actively employed member of MSERS to contribute toward health care benefits. Contributions to this account are held and invested separately.

Asset Allocation – Security Type Only



Investment Results for the Period Ending September 30, 2011

		Annualized Rate of Return[1]		
Investment Category	**Current Year**	**3 Years**	**5 Years**	**10 Years**
Total Portfolio	6.5 %	2.7 %	2.1 %	5.0 %
Domestic Equity Pools	(1.5)	1.4	(1.0)	3.1
S&P 1500 Index	0.9	1.4	(0.9)	3.3
International Equity Pools	(10.0)	0.8	(3.4)	4.5
International Blended Benchmark [2]	(10.4)	(1.2)	(4.1)	4.3
Alternative Investment Pools	29.9	6.7	10.8	10.2
Alternative Blended Benchmark [3]	33.2	13.3	7.3	8.8
Real Estate Pool	16.9	(9.2)	(0.8)	5.0
NCREIF Property Blended Index [4]	14.6	(2.7)	2.1	6.7
Fixed Income Pools	4.5	9.3	7.3	6.0
Barclays Government/Credit	5.1	8.4	6.5	5.7
Absolute Return Pools				
Total Absolute Return	1.9	(3.8)		
HFRI Fund of Fund Cons 1 month lag	2.4	(1.9)		
Total Real Return and Opportunistic	5.2			
Short Term Investment Pools	0.3	1.1	1.1	1.7
30 Day Treasury Bill	0.1	0.1	1.5	1.8

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

2 As of 10/1/10, index is MSCI ACWI Ex US Gross.
History prior to 1/1/10 is S & P Developed BMI EPAC Net 50/50
History 1/1/10 to 9/30/10 is S & P Developed BMI EPAC Net 75/25

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)[1]
September 30, 2011

Rank	Shares	Stocks		Market Value
1	202,758	Apple Inc.	$	77,287,151
2	99,657	Google Inc.		51,261,595
3	730,380	Johnson & Johnson		46,532,519
4	538,751	Exxon Mobil Corporation		39,129,509
5	695,325	Abbott Laboratories		35,558,897
6	1,072,610	Merck & Company Inc.		35,085,088
7	1,376,582	Microsoft Corp		34,263,124
8	1,847,471	Pfizer Inc.		32,663,295
9	563,713	Amgen Inc.		30,976,044
10	255,423	SPDR S&P 500 ETF Trust		28,906,179

Largest Bond Holdings (By Market Value)[2]
September 30, 2011

Rank		Par Amount	Description		Market Value
1	$	47,829,493	JPMorgan Chase & Co .40395% FRN Due 11-1-2012	$	47,705,615
2		49,025,381	General Electric Cap Corp .45617% FRN Due 2-15-2017		43,760,399
3		33,480,645	Wachovia Corp .383% FRN Due 4-23-2012		33,484,998
4		28,697,696	Toyota Motor Credit Corp 3.74605% Due 1-9-2012		28,958,673
5		28,697,696	JPMorgan Chase & Co .8525% FRN Due 9-21-2012		28,719,879
6		19,059,953	Barclays Bank PLC Due 11-7-2016		21,356,677
7		19,131,797	Wells Fargo & Company .343% FRN Due 1-24-2012		19,133,481
8		19,131,797	Rabobank Nederland .59975% FRN Due 1-17-2014		19,132,123
9		19,131,797	Barclays Bank PLC 1.10605% FRN Due 1-13-2014		18,501,405
10		19,131,797	Textron Financial Corp 1.21428% FRN Due 2-26-2013		18,123,858

1 A complete list of holdings is available from the Michigan Department of Treasury.
The System's assets 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.

2 Largest Bond Holdings are exclusive of securities lending collateral.

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. 56.07% 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 end amounted to $2,373 thousand or six and one-tenth basis points (0.060%) 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 Licensing and Regulatory and Affairs 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	$ 3,940,272	$ 2,373	6.0
Outside Advisors for			
Fixed Income	279,426	558	20.0
Absolute Return	523,039	1,850	35.4
International Equity	554,415	1,311	23.6
Domestic Equity	704,662	5,347	75.9
Alternative	2,000,044	15,652	78.3
Real Estate	967,208	3,301	34.1
Total	$ 8,969,066	$ 30,392	
Other Investment Services Fees:			
Assets in Custody	$ 8,778,678	$ 618	
Securities on Loan	1,240,050	3,224	

* 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. For Absolute Return, the asset management fees range from 20 to 200 basis points. These fees, in most cases, are netted against income.

Schedule of Investment Commissions

	Fiscal Year Ended September 30, 2011						
	Actual Commissions Paid [1]	Actual Number of Shares Traded [1]	Average Commission Per Share	Estimated Trade Costs Per Share	Estimated Research Costs Per Share	Estimated Trade Costs	Estimated Research Costs
Investment Brokerage Firms:							
Banc Of America Securities LLC	$ 7,397	189,589	$ 0.04	$ 0.01	$ 0.03	$ 1,896	$ 5,687
Barclays Capital Inc.	41,654	1,464,896	0.03	0.01	0.02	14,649	29,297
BNY Convergex Execution Solutions LLC	8,853	445,236	0.02	0.01	0.01	4,452	4,452
BTIG LLC	98,463	8,721,847	0.01	0.01	-	87,218	-
The Buckingham Research Group Inc.	25,665	855,508	0.03	0.01	0.02	8,555	17,110
Cantor Fitzgerald & Co.	61,192	3,059,563	0.02	0.01	0.01	30,596	30,596
Capital Institutional Services Inc.	46,569	1,552,296	0.03	0.01	0.02	15,523	31,046
Citigroup Global Markets Inc.	65,774	2,456,178	0.03	0.01	0.02	24,562	49,124
Cowen & Company LLC	41,532	1,384,391	0.03	0.01	0.02	13,844	27,688
Credit Suisse Securities LLC	120,261	5,364,754	0.02	0.01	0.01	53,648	53,648
Deutsche Bank - Alex Brown	70	2,343	0.03	0.01	0.02	23	47
Deutsche Bank Securities Inc.	446	14,869	0.03	0.01	0.02	149	297
Goldman, Sachs & Co.	38,735	1,291,182	0.03	0.01	0.02	12,912	25,824
The Griswold Company Inc.	29,521	2,142,825	0.01	0.01	-	21,428	-
ISI Capital LLC	51,235	1,750,755	0.03	0.01	0.02	17,508	35,015
J. P. Morgan Securities Inc.	42,119	1,899,678	0.02	0.01	0.01	18,997	18,997
Keefe, Bruyette & Woods Inc.	1,494	43,928	0.03	0.01	0.02	439	879
Merrill Lynch,Pierce,Fenner & Smith Inc.	73,523	2,450,757	0.03	0.01	0.02	24,508	49,015
MF Global Inc	8,763	292,096	0.03	0.01	0.02	2,921	5,842
Mischler Financial Group Inc.	21,304	710,148	0.03	0.01	0.02	7,101	14,203
Morgan Stanley & Co. Inc.	35,596	1,146,030	0.03	0.01	0.02	11,460	22,921
Oppenheimer & Co. Inc.	1,029	34,313	0.03	0.01	0.02	343	686
OTA LLC	23,209	773,626	0.03	0.01	0.02	7,736	15,473
Raymond James and Associates Inc.	9,033	273,011	0.03	0.01	0.02	2,730	5,460
Sanford C. Bernstein & Co. LLC	46,161	1,548,949	0.03	0.01	0.02	15,489	30,979
Soleil Securities Corporation	5,490	183,001	0.03	0.01	0.02	1,830	3,660
Stifel, Nicolaus & Co. Inc.	2,243	56,740	0.04	0.01	0.03	568	1,702
UBS Securities LLC	21,752	807,071	0.03	0.01	0.02	8,071	16,141
Weeden & Co. LP	123,608	12,360,631	0.01	0.01	-	123,606	-
Western International Securities Inc.	5,832	291,583	0.02	0.01	0.01	2,916	2,916
Total	$ 1,058,523	53,567,794	$ 0.03 [2]	$ 0.01 [2]	$ 0.02 [2]	$ 535,678	$ 498,705

[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 per share for all brokerage firms.

Investment Summary

Fiscal Year Ended September 30, 2011

	Market Value[1]	Percent of Total Market Value	Investment & Interest Income[2]	Percent of Total Investment & Interest Income
Fixed Income Pools	$ 1,365,712,055	15.2 %	$ 59,073,485	16.4 %
Domestic Equity Pools	2,523,699,964	28.1	(2,524,831)	(0.7)
Real Estate Pool	967,207,936	10.8	110,539,962	30.7
Alternative Investment Pools	2,000,044,041	22.3	313,670,855	87.2
International Equity Pools	1,135,608,592	12.7	(126,072,165)	(35.0)
Absolute Return Pools	549,107,599	6.1	4,658,803	1.3
Short Term Investment Pools	316,268,160	4.8	550,692	0.2
Total	$ 8,857,648,347	100.0 %	$ 359,896,801	100.0 %

1 Market value excludes $1,018,987,155 in securities lending collateral for fiscal year 2011.

2 Total Investment & Interest Income excludes net security lending income of $13,750,890 and gain of $30,955,583 for securities lending collateral.

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.

ACTUARIAL SECTION

ACTUARIAL SECTION

Actuary's Certification

GRS

Gabriel Roeder Smith & Company
Consultants & Actuaries

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October 21, 2011

Mr. John E. Nixon, 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 purpose of the September 30, 2010 annual actuarial valuations was to determine the contribution requirements for the fiscal year ending September 30, 2011, to measure the System's funding progress, and to provide actuarial information in connection with applicable Governmental Accounting Standards Board statements. The valuations should not be relied upon for any other purpose. The valuation process develops employer contributions that are sufficient to fund the System'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 valuation was completed based upon population data, asset data and plan provisions in effect on September 30, 2010.

The valuation was based upon information provided by the System's administrative staff concerning System benefit provisions, financial transactions, and individual members, terminated members, retirees and beneficiaries. We checked the data for internal and year to year consistency, but did not otherwise audit the data. As a result, we do not assume responsibility for the accuracy or completeness of the data provided by the System's administrative staff. The actuary summarizes and tabulates population data in order to analyze long term trends. The System's external auditor 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 requirements as needed.

Actuary's Certification (continued)

Mr. John E. Nixon
October 21, 2011
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 September 30, 2010 valuations were based upon assumptions that were recommended in connection with a study of System experience covering the period from October 1, 2002 through September 30, 2007. Future actuarial measurements may differ significantly from those presented in the annual valuations due to such factors as experience differing from that anticipated by actuarial assumptions, or changes in plan provisions, actuarial assumption/methods or applicable law. Due to the limited scope of the assignment, we did not perform an analysis of the potential range of future measurements.

Gabriel Roeder Smith & Company

Actuary's Certification (continued)

Mr. John E. Nixon
October 21, 2011
Page 3

The signing actuaries are independent of the plan sponsor.

The actuarial valuations of SERS as of September 30, 2010 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

LMG:AS:mrb

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%. Adopted2004.

2. The healthy life mortality table used in evaluating allowances to be paid was the RP-2000Combined Healthy Mortality Table, adjusted for mortality improvements to 2020 using projection scale AA. Adopted 2010.

3. Sample probabilities of regular, unreduced retirement are shown in Schedule 1 on the next page. Adopted 2010.

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 2010.

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.

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

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

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

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

10. A 5-year experience investigation, covering the period from October 1, 2002 through September 30, 2007 was completed in 2010. The purpose of the study was to analyze the actual experience of the System versus that anticipated by actuarial assumptions then in use. Adopted 2010.

11. Gabriel Roeder Smith & Company 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		28 %	
48		28	
51	27 %	28	
55	16	28	15 %
58	12	28	10
61	18	28	13
64	22	40	16
67	30	50	21
70	100	100	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 %	0.00 %	9.5 %
35		2.50	0.10	0.01	4.7
45		2.00	0.34	0.04	4.0
55		1.75	0.92	0.08	3.9
60		1.75	2.10	0.11	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
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
2010	25,478	1,621,709	63,651	0.8	52.6	24.1

*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]		
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
2010	2,937	78,647	1,504	23,518	50,462	934,092	6.1	18,511

[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]
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
2010[2]	138	9,265	5,457	10,782	100	100	25.3	72.6

[1] Revised asset valuation method.

[2] Revised actuarial assumptions.

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

Prioritized Solvency Test (continued)

Other Postemployment Benefits
($ in millions)

	Actuarial Accrued Liability (AAL)							
	(1)	(2)	(3)					
Valuation Date Sept. 30	Active Member Contributions	Retirants and Beneficiaries	Active and Inactive Members (Employer Financed Portion)	Valuation Assets	Portion of AAL Covered by Assets (1)	(2)	(3)	(4) [1]
2007	$ -	$ 6,389	$ 6,576	$ -	0 %	0 %	0 %	0 %
2008	-	6,759	6,783	-	0	0	0	0
2009	-	6,425	6,193	-	0	0	0	0
2010	-	7,655	7,011	-	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, 2010
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.	$ (23,456,656)
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.	(3,512,147)
3.	**Pay Increases.** If there are smaller pay increases than assumed, there is a gain. If greater increases, a loss.	127,511,562
4.	**Investment Income.** If there is greater investment income than assumed, there is a gain. If less income, a loss.	(670,791,230)
5.	**Death After Retirement.** If retirants live longer than assumed, there is a loss. If not as long, a gain.	(27,001,785)
6.	**Rehires.** Rehires will generally result in an actuarial loss.	(33,963,793)
7.	**Other.** Miscellaneous gains and losses resulting from data adjustments, timing of financial transactions, etc.	(71,360)
8.	**Composite Gain (or Loss) During Year**	$ (631,285,409)

Summary of Plan Provisions

Our actuarial valuation of the System as of September 30, 2010, 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.

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

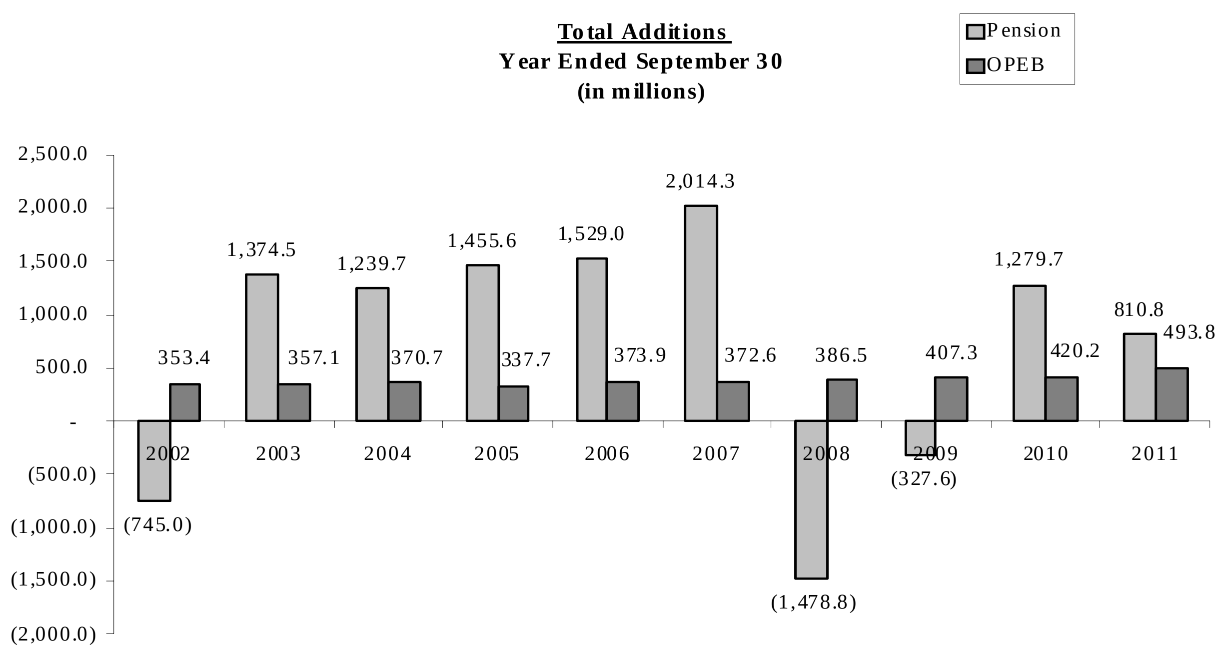
Last Ten Years

Fiscal Year Ended Sept. 30	Member Contributions	Employer Contributions: Dollars	Employer Contributions: % of Annual Covered Payroll	Net Investment & Other Income	Total
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	22.8	883,696,454	1,279,704,990
2011	25,830,556	424,546,805	NA	360,432,214	810,809,575

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
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	12.3	39,150,651	420,181,641
2011	27,647,644	388,196,118	N/A	77,916,883	493,760,645



Schedule of Pension Plan Deductions by Type

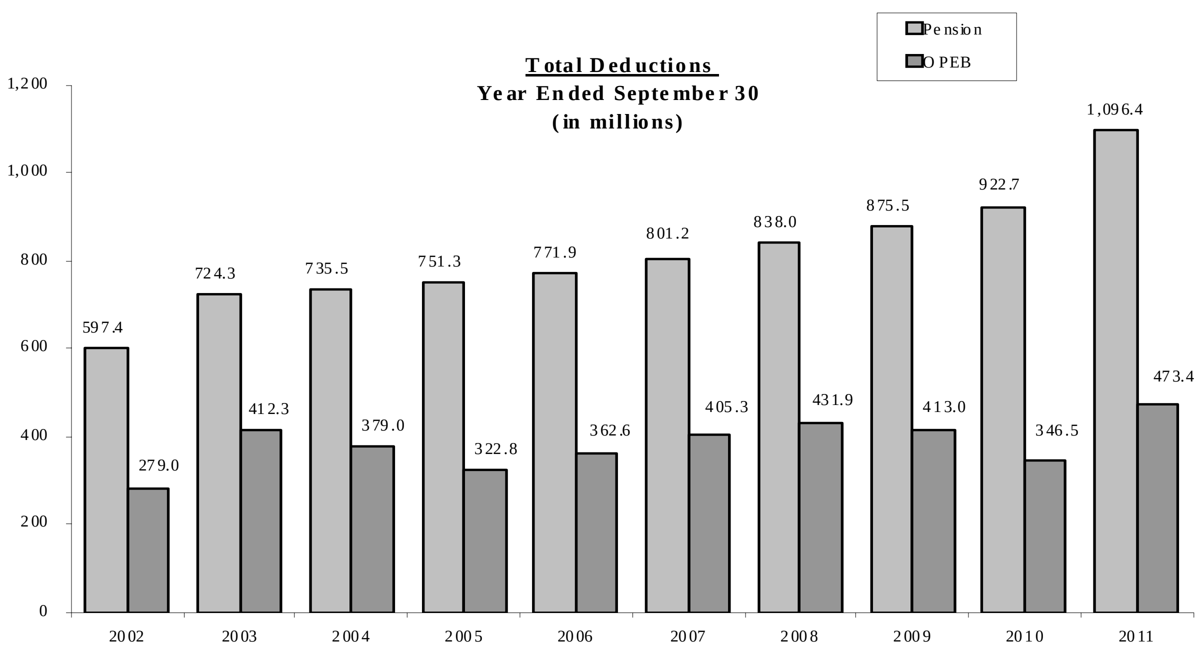
Last Ten Years

Fiscal Year Ended Sept. 30	Benefit Payments	Refunds and Transfers	Administrative and Other Expenses	Total
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
2011	1,089,822,880	474,986	6,079,017	1,096,376,883

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
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
2011	456,878,993	21,085	16,536,168	473,436,246



Schedule of Changes in Net Assets - Pension Plan

Last Ten Years
(in thousands)

	Fiscal Year									
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Member contributions	$ 173,233	$ 80,185	$ 37,683	$ 30,395	$ 9,435	$ 19,696	$ 5,644	$ 6,995	$ 26,056	$ 25,831
Employer contributions	87,486	79,292	103,873	256,433	270,705	150,858	355,732	343,787	369,953	424,547
DC savings subaccount										
Net investment income	(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	360,284
Transfer from other systems			26	120	123	106	190	93	50	2
Transfer from pension/ OPEB plan			24,364			41,304				
Miscellaneous income			2	2	106	766	184	133	135	146
Total Additions	(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	810,810
Pension benefits	503,454	701,664	731,009	746,673	767,000	795,842	832,553	870,279	917,329	1,089,823
Refunds of member contributions	5	118	163	292	254	222	291	316	299	470
Transfer to pension/ OPEB plan	87,486	17,365								
Tranfer to other systems	13	2	20	15	3	8	83	50	17	5
Administrative expenses	6,433	5,192	4,317	4,298	4,628	5,115	5,049	4,865	5,073	6,079
Total Deductions	597,391	724,341	735,509	751,278	771,885	801,187	837,976	875,510	922,718	1,096,377
Changes in net assets	$ (1,342,405)	$ 650,154	$ 504,197	$ 704,362	$ 757,100	$ 1,213,131	$ (2,316,813)	$ (1,203,089)	$ 356,987	$ (285,567)

Schedule of Changes in Net Assets - OPEB Plan

Last Ten Years
(in thousands)

	Fiscal Year									
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Member contributions	$ 6,326	$ 11,145	$ 9,723	$ 10,702	$ 11,528	$ 11,761	$ 13,100	$ 20,983	$ 20,905	$ 27,648
Employer contributions	257,731	320,838	357,555	324,305	356,674	359,375	342,187	362,419	360,126	388,196
Other governmental contributions							23,004	21,987	27,058	64,773
DC savings subaccount										
Net investment income	1,842	7,793	3,381	2,712	5,661	1,500	657	1,359	11,815	12,851
Transfer from other systems							6,884			
Transfer from pension/ OPEB plan	87,486	17,365								
Miscellaneous income							698	516	278	293
Total Additions	353,385	357,141	370,659	337,719	373,863	372,636	386,530	407,263	420,182	493,761
Health care benefits	278,998	354,085	354,650	322,834	362,598	363,975	377,513	392,135	330,513	456,879
Refunds of member contributions							2	2	11	21
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	16,536
Total Deductions	278,998	412,296	379,014	322,834	362,598	405,279	431,909	413,034	346,479	473,436
Changes in net assets	$ 74,387	$ (55,155)	$ (8,355)	$ 14,885	$ 11,265	$ (32,643)	$ (45,379)	$ (5,771)	$ 73,702	$ 20,325

STATISTICAL SECTION

Schedule of Pension Benefits and Refunds by Type

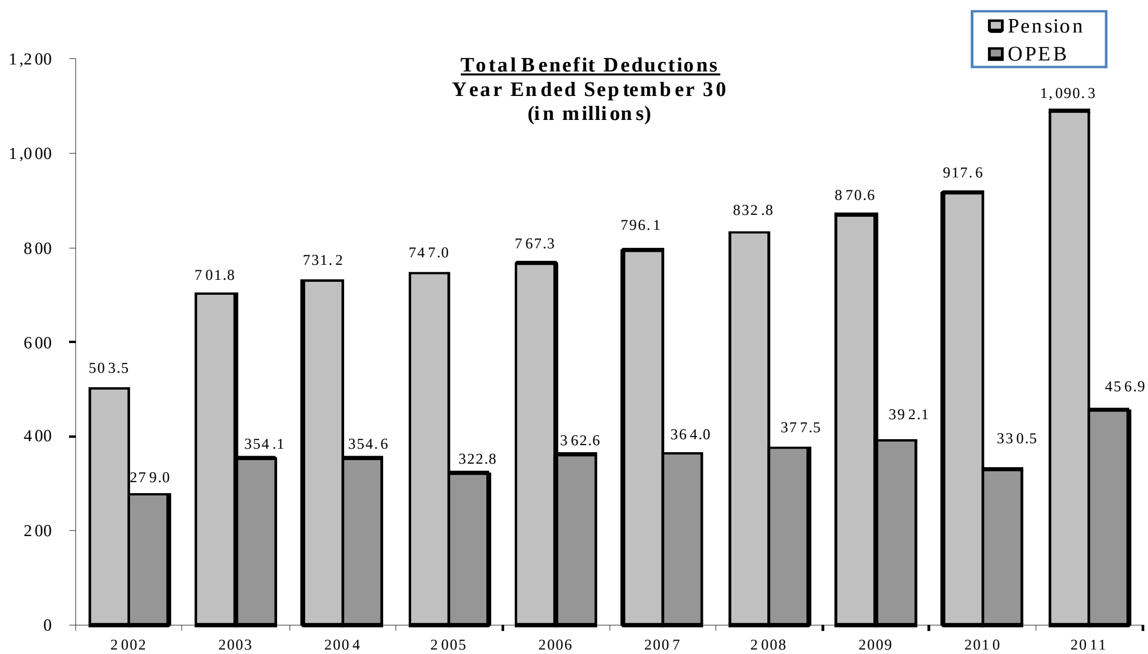
Last Ten Years

Fiscal Year Ended Sept. 30	Regular Benefits	Disability Benefits	Survivor Benefits	Refunds: Employee Contribution	Refunds: Employer Contribution	Refunds: Retired Benefit	Total
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
2011	960,389,210	42,816,787	86,616,883	44,655	417,337	8,411	1,090,293,283

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
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
2011	417,417,811	35,820,611	3,640,571	21,085	456,900,078



Schedule of Retired Members by Type of Pension Benefit

September 30, 2010

Amount of Monthly Pension Benefit	Number of Retirees	Type of Retirement * 1	2	3	4	5	6	7	8
$ 1 - 200	481	254	160	7	42	-	9	1	8
201 - 400	2,398	1,496	485	8	255	-	48	2	104
401 - 600	4,600	2,562	707	256	624	16	165	11	259
601 - 800	4,940	2,894	656	9	784	1	232	33	331
801 - 1,000	4,524	2,679	520	8	722	1	226	91	277
1,001 - 1,200	4,121	2,539	377	16	618	1	216	122	232
1,201 - 1,400	4,048	2,735	342	7	489	-	187	149	139
1,401 - 1,600	4,143	3,058	343	3	300	-	130	218	91
1,601 - 1,800	3,684	2,898	224	4	150	1	94	258	55
1,801 - 2,000	3,361	2,735	177	3	86	-	61	258	41
Over 2,000	14,162	11,941	345	2	78	-	115	1,625	56
Totals	50,462	35,791	4,336	323	4,148	20	1,483	2,768	1,593

* 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, 2010

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	481	116	145	153	5	45	9	8	-
201 - 400	2,398	929	642	511	38	173	49	55	1
401 - 600	4,600	1,927	1,223	751	84	366	100	142	7
601 - 800	4,940	1,932	1,327	826	96	487	105	163	4
801 - 1,000	4,524	1,831	1,181	774	95	404	80	148	11
1,001 - 1,200	4,121	1,794	1,200	630	113	233	53	87	11
1,201 - 1,400	4,048	1,836	1,215	653	109	131	50	52	2
1,401 - 1,600	4,143	1,795	1,307	724	137	99	45	32	4
1,601 - 1,800	3,684	1,487	1,180	685	165	76	49	36	6
1,801 - 2,000	3,361	1,347	1,003	592	200	95	60	43	21
Over 2,000	14,162	5,091	3,867	2,511	951	895	298	418	131
Totals	50,462	20,085	14,290	8,810	1,993	3,004	898	1,184	198

**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, 2010

Amount of Monthly Pension Benefit	Eligible Retirees	Type of Other Postemployment Benefits: Health	Dental	Vision
$ 1 - 200	481	288	287	286
201 - 400	2,398	1,636	1,627	1,635
401 - 600	4,600	3,670	3,693	3,704
601 - 800	4,940	4,181	4,210	4,204
801 - 1,000	4,524	3,969	3,994	4,002
1,001 - 1,200	4,121	3,707	3,711	3,725
1,201 - 1,400	4,048	3,692	3,704	3,702
1,401 - 1,600	4,143	3,842	3,852	3,860
1,601 - 1,800	3,684	3,423	3,438	3,440
1,801 - 2,000	3,361	3,129	3,163	3,154
Over 2,000	14,162	13,174	13,325	13,321
Totals	50,462	44,711	45,004	45,033

Source: Gabriel Roeder Smith & Co.

Schedule of Other Postemployment Benefits

For Years Ended September 30, 2011 and 2010

	2011	2010
Claims		
Health Insurance	$ 389,773,243	$ 273,257,310
Vision Insurance	3,301,667	2,767,010
Dental Insurance	34,848,038	30,529,734
Total Claims	427,922,948	306,554,054
Estimated Claims Liability		
Health Insurance	27,644,568	22,670,737
Vision Insurance	338,905	285,026
Dental Insurance	972,572	1,002,887
Total Estimated Claims Liability	28,956,045	23,958,650
Administrative Fees		
Health Insurance	14,527,350	14,141,655
Vision Insurance	478,418	441,337
Dental Insurance	1,530,399	1,372,971
Total Administrative Fees	16,536,167	15,955,963
Subtotal		
Refunds	21,085	10,741
Transfers to Other Systems		
Grand Total	$ 473,436,245	$ 346,479,408

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 10/1/00 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
Period 10/1/09 to 9/30/10								
Average Monthly Benefit	$ 942	$ 940	$ 650	$ 958	$ 1,315	$ 1,788	$ 2,292	$ 1,543
Average Final Average Salary	30,076	39,552	34,746	37,805	41,761	44,946	50,437	43,123
Number of Active Retirants	1,227	1,218	7,106	7,531	7,734	10,402	15,224	50,462

Source: Gabriel Roeder Smith & Co.

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 10/1/05 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
Period 10/1/09 to 9/30/10								
Average Monthly Benefit	$ 1,018	$ 922	$ 682	$ 982	$ 1,344	$ 1,813	$ 2,329	$ 1,591
Average Final Average Salary	31,884	38,449	35,351	37,985	41,901	44,759	50,256	42,190
Number of Active Retirants	982	1,218	5,721	6,487	7,046	9,516	13,741	44,711

Source: Gabriel Roeder Smith & Co.

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 10/1/05 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
Period 10/1/09 to 9/30/10								
Average Monthly Benefit	$ 1,018	$ 920	$ 682	$ 984	$ 1,347	$ 1,817	$ 2,335	$ 1,593
Average Final Average Salary	31,970	38,623	35,431	38,181	42,047	44,884	50,397	43,487
Number of Active Retirants	988	1,232	5,806	6,523	7,063	9,559	13,833	45,004

Source: Gabriel Roeder Smith & Co.

Schedule of Average Benefit Payments - Vision

Last Five Years

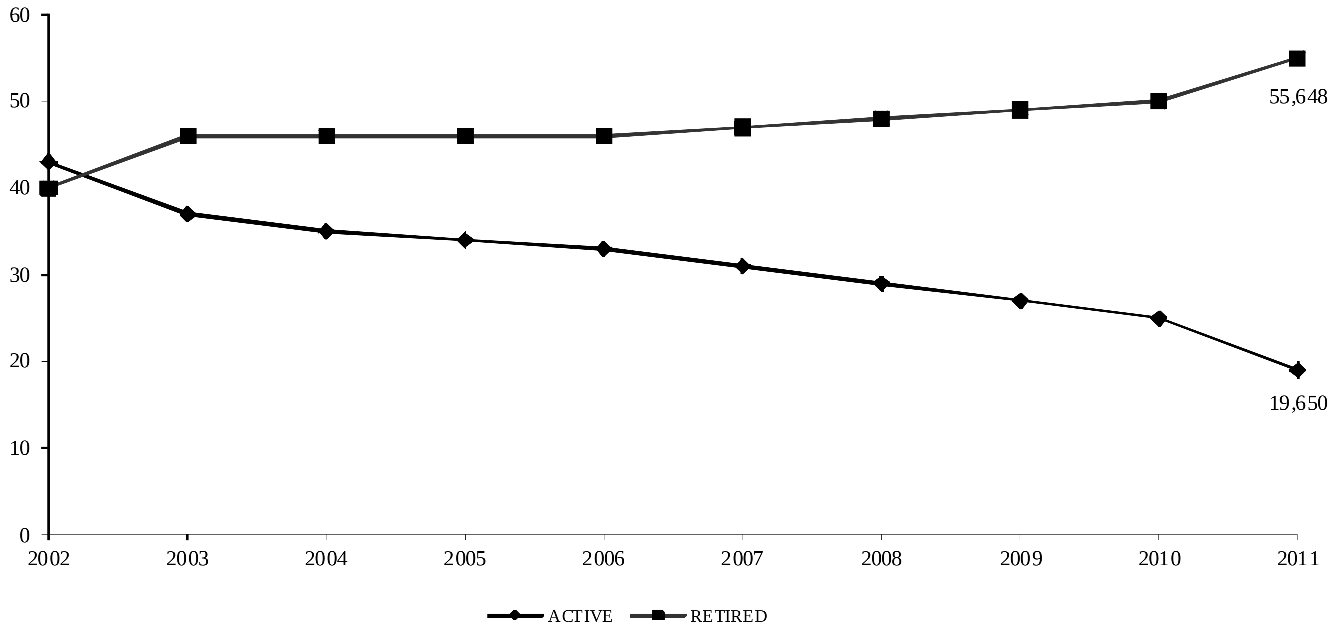
Payment Periods	Credited Service (Years) as of September 30							
	0 - 5	5 - 10	10 - 15	15 - 20	20 - 25	25 - 30	30+	Total
Period 10/1/05 to 9/30/06								
Average Monthly Benefit	$ 342	$ 447	$ 583	$ 855	$ 1,194	$ 1,698	$ 2,135	$ 1,432
Average Final Average Salary	25,428	33,135	32,307	34,214	37,321	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
Period 10/1/09 to 9/30/10								
Average Monthly Benefit	$ 1,002	$ 920	$ 681	$ 984	$ 1,346	$ 1,815	$ 2,334	$ 1,592
Average Final Average Salary	32,028	38,597	35,398	38,124	42,003	44,829	50,368	43,449
Number of Active Retirants	983	1,230	5,798	6,539	7,072	9,583	13,828	45,033

Source: Gabriel Roeder Smith & Co.

STATISTICAL SECTION

Ten Year History of Membership (In thousands)

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 2010-2011 report included:

Management:

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Paula Webb, Accounting Manager

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