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, 2013

M S E R S

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

INTRODUCTORY SECTION

Certificate of Achievement

Government Finance Officers Association

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, 2012

Jeffrey R. Emer

Executive Director/CEO

Public Pension Standards Award

Public Pension Coordinating Council

Public Pension Standards Award
For Funding and Administration
2013

Presented to

Michigan Office of Retirement Services

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

Presented by the Public Pension Coordinating Council, a confederation of

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

Alan H. Winkle
Alan H. Winkle
Program Administrator

INTRODUCTORY SECTION

Letter of Transmittal

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

STATE OF MICHIGAN

RICK SNYDER, Governor

DEPARTMENT OF TECHNOLOGY, MANAGEMENT & BUDGET

December 19, 2013

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 2013.

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 ORS 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 position 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, 2012. 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

Letter of Transmittal (continued)

the investment return rate. The investment activity for the year produced a total rate of return on the portfolio of 12.5% for the Pension Plan and 11.4% for the Other Postemployment Benefits (OPEB) Plan.

For the last five years, the System has experienced an annualized rate of return of 6.7% for the Pension Plan. 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 position over deductions from plan net position. 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, 2012. The actuarial value of the assets and actuarial accrued liability of the System were $9.4 billion and $15.7 billion, respectively, resulting in a funded ratio of 60.3% on September 30, 2012. A 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 and pay as you go. During fiscal year 2013, the postemployment benefits were prefunded. As of September 30, 2012, the actuarial accrued liability for postemployment benefits based on prefunding is $8.8 billion. If these benefits were pay as you go, the actuarial accrued liability as of September 30, 2012, would be $14.0 billion.

MAJOR GOALS ACCOMPLISHED

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 2013, 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.

Social media presence for ORS begins
The Office of Retirement Services (ORS) completed an evaluation of social media as an additional way to communicate with customers. ORS determined that social media was a worthwhile communication channel and established five objectives: improve pre-retirement knowledge, improve post-retirement knowledge, increase online self-service, support existing processes, and share interesting news and resources from other sources. After developing an implementation and maintenance plan, ORS launched the official Facebook page in August 2013 and has documented early success with the number of engaged customers interacting with ORS and each other.

Letter of Transmittal (continued)

ORS continues innovative technology approach with User Experience Team
The Office of Retirement Services (ORS) joined forces with the State of Michigan User Experience (UX) team, a part of Department of Technology, Management & Budget Shared Services, to find out if our customers found miAccount and the ORS website easy to navigate. ORS has already improved the customer experience by creating a *What Happens Next* document that users receive when they apply for retirement in miAccount. The UX team also prepared miAccount prototypes for the processes that caused our customers the most confusion during user experience testing. ORS will use the prototypes to implement further changes in miAccount and the customer website.

ORS websites now mobile
To provide our customers with the best possible online experience, even on the go, the Office of Retirement Services' eight member websites are now mobile. These versions of our websites are different from the desktop sites in that they have fewer navigation options and are tailored specifically to the mobile user. The pages are designed with each site's most common tasks, like logging into miAccount or getting high-level plan information. Customers also have the option of visiting the full desktop site on their mobile device.

Employee engagement
The Office of Retirement Services (ORS) leaders are increasing its employee engagement and developing high performance teams with the Power of Perspectives and Forging Breakthroughs workshops. We offered this experience to every employee over the last three years, sustained with quarterly team exercises and monthly communication. These activities foster a work climate where open-mindedness is practiced, respect is demonstrated, diversity is valued, and creativity and innovation thrive. Fellow co-workers, instead of management, lead the workshops. ORS has also embraced the importance of individual and team recognition for high performance in various ways including simple notecards to show appreciation to staff who do great work, or short-term reserved parking for employees.

Direct deposit campaign
To ensure secure, timely pension payments, the Office of Retirement Services began delivering all pensions through direct deposit beginning in 2013. Before the end of 2012, 11,500 paper check recipients switched to direct deposit. All new pension inceptions are established as direct deposit.

ORS takes on new retirement system: MRS
On October 1, 2012, the Office of Retirement Services (ORS) welcomed nearly 4,000 retired members of the Michigan National Guard as the Military Retirement System (MRS) transitioned from the Department of Military & Veterans Affairs to ORS, becoming ORS's fifth retirement system. ORS is handling all aspects of the pension plan from initial eligibility and retirement applications to processing pension payments to the retiree and subsequent pension beneficiaries.

ORS surveys caller experience
The Office of Retirement Services (ORS) has developed a digital after call survey that is delivered via email after a customer speaks with a customer service representative. If the customer meets certain criteria and has an email address on file, the survey is sent. It consists of four questions and a comment field. ORS's customer service area then uses a reporting tool to pull various reports on overall customer satisfaction and individual agent scores.

ORS establishes State's first HRA accounts
Health Reimbursement Arrangements (HRAs) are tax-advantaged health savings plans funded by employers to help retirees pay, tax-free, for qualified medical expenses incurred in retirement. Unused funds may be carried forward for reimbursement in future years. The recent reforms established HRAs as a benefit under the Personal Healthcare Fund (PHF) for participants in the state, public school, and state police retirement systems. The Office of Retirement Services established the State's first HRAs for qualifying former state employees who elected the PHF during the 2012 reform and whose lump sum credit at termination exceeds IRS contribution limits to their 401(k) and 457 accounts.

ORS surveys caller experience
The Office of Retirement Services (ORS) has developed a digital after call survey that is delivered via email after a customer speaks with a customer service representative. If the customer meets certain criteria and has an email address

Letter of Transmittal (continued)

on file, the survey is sent. It consists of four questions and a comment field. ORS's customer service area then uses a reporting tool to pull various reports on overall customer satisfaction and individual agent scores.

DB state employees receives ORS retirement planning packet
The Office of Retirement Services (ORS) mailed state employee Defined Benefit customers a packet of information to help them plan for a successful retirement. Each member will now have something tangible from ORS that will help with retirement planning, and can also be used to store future retirement information – a two-fold value. This is the first time ORS has designed this kind of a planning product. The first piece customers see is a folder designed to store retirement-related documents, like pension estimates, Social Security statements, account statements, and important mail. The folder is printed cover to cover with useful information including a retirement timeline, investment planning, deferred compensation, plan fundamentals, retirement qualifications, and more. The value packet also includes an asset tracking document, an instructional flyer, and an ORS/ING magnet. The asset tracker is a fillable chart that, once completed, will direct a member's loved ones to important documents and information they may need after the member passes away. The flyer gives direction on how to use the folder and reinforces the concepts used in the printed design while indicating the retirement plan of the addressee. The magnet is a quick reference for the ORS and 401(k) & 457 plan websites, perfect for any fridge or file cabinet.

HONORS

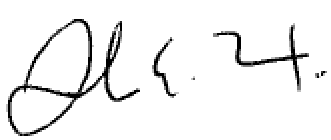
Public Pension Standards Award: The Public Pension Coordinating Council awarded the retirement system with the 2013 Public Pension Standards Award for Funding and Administration.

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 2012 Comprehensive Annual Financial Report (CAFR). This marks the 22nd consecutive year ORS has received this prestigious award.

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.



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

Phillip J. Stoddard, Director
Office of Retirement Services

Administrative Organization

Retirement Board Members *

Ronald C. Jones Retiree Member Term Expires July 31, 2016	Molly Jason Representing Attorney General Ex officio	John Gnodtke Representing State Personnel Director Ex officio
Matthew Fedorchuk Employee Member Term Expires July 31, 2015	Craig Murray, Chair Representing Deputy Auditor General Ex officio	Robert L. Brackenbury Representing State Treasurer Ex officio
Douglas Johnson, Vice Chair Retiree Member Term Expires July 31, 2015	Randall S. Gregg Representing Commissioner of Financial & Insurance Regulation Ex officio	Ruth Schwartz Employee Member Term Expires July 31, 2014

* 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.
Mita D. Drazilov
Southfield, Michigan

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

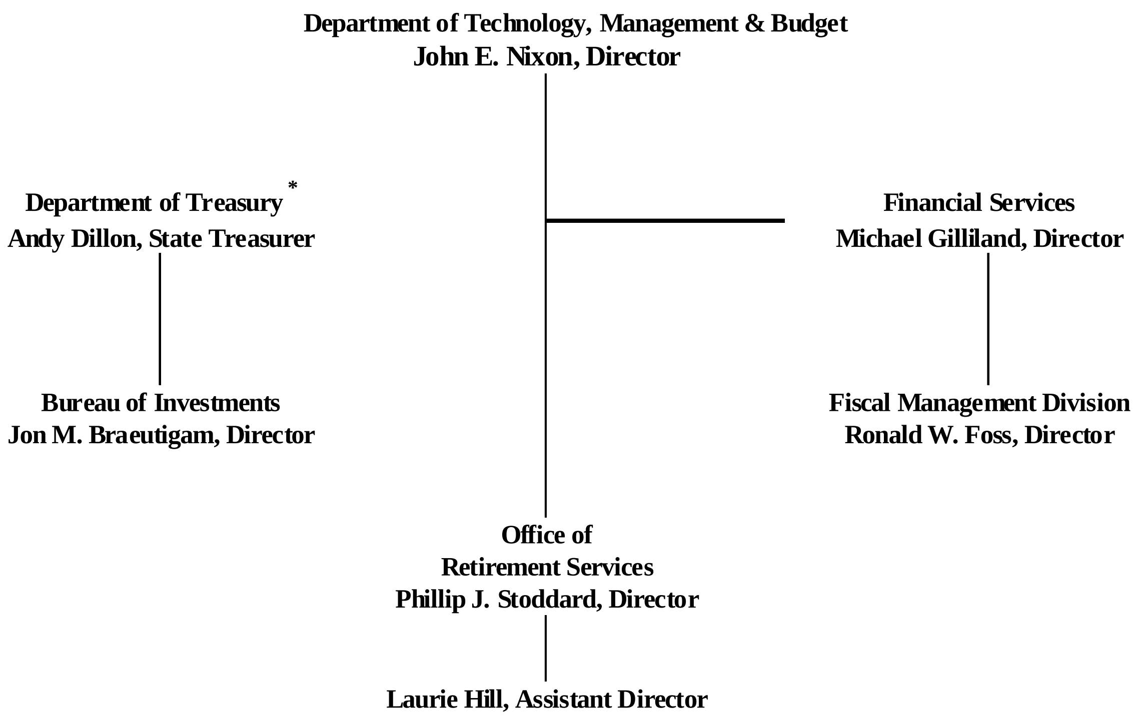
Investment Manager and Custodian
Andy Dillon
State Treasurer
State of Michigan

Legal Advisor
Bill Schutte
Attorney General
State of Michigan

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

Administrative Organization (continued)

Organization Chart



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

FINANCIAL SECTION

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

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

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

Independent Auditor's Report on the Financial Statements
and Other Reporting Required by *Government Auditing Standards*

Michigan State Employees' Retirement System Board
and
John E. Nixon, C.P.A., Director
Department of Technology, Management, and Budget
and
Mr. Phillip J. Stoddard, Director
Office of Retirement Services

Report on the Financial Statements
We have audited the accompanying financial statements of the Michigan State Employees' Retirement System as of and for the fiscal year ended September 30, 2013 and the related notes to the financial statements, which collectively comprise the System's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements
Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility
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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the net position of the Michigan State Employees' Retirement System as of September 30, 2013 and the changes in net position for the fiscal year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter
As discussed in Note 5 to the financial statements, beginning in fiscal year 2012-13, the System changed its other postemployment benefit funding policy to prefund benefits, formerly funded on a pay-as-you-go basis. As a result of this change in funding policy, the System's actuary used an investment rate of return of 8%, rather than the 4% that was previously used, to reflect the System's projected long-term investment rate of return. Our opinion is not modified with respect to this matter.

STATE OF MICHIGAN

OFFICE OF THE AUDITOR GENERAL

THOMAS H. MCTAVISH, C.P.A.

AUDITOR GENERAL

Michigan State Employees' Retirement System Board
John E. Nixon, C.P.A., Director
Mr. Phillip J. Stoddard, Director
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Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 16 through 19 and the schedules of funding progress and schedules of employer and other contributions on pages 43 through 45 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the System's basic financial statements. The supporting schedules on pages 46 through 48 are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The supporting schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supporting schedules are fairly stated, in all material respects, in relation to the basic financial statements 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 do not express an opinion or provide any assurance on them.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we will also issue a report on our consideration of the 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the System's internal control over financial reporting and compliance.

Sincerely,

Thomas H. McTavish

Thomas H. McTavish, C.P.A.
Auditor General
December 18, 2013

FINANICIAL 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, 2013. 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 2013 by $10.6 billion (reported as *net position*). Net position is restricted 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, 2012, the funded ratio was approximately 60.3% for pension benefits and the funded ratio for other postemployment benefits (OPEB) was 3.9%.

- Additions for the year were $2.7 billion, which are comprised primarily of contributions of $1.4 billion and investment gains of $1.2 billion.

- Deductions increased from prior year $1.66 billion to $1.70 billion or 2.6%. Most of this increase represented an increase in pension and health benefits paid.

THE STATEMENT OF PLAN NET POSITION AND THE STATEMENT OF CHANGES IN PLAN NET POSITION

This Comprehensive Annual Financial Report (CAFR) consists of two financial statements; *The Statement of Pension Plan and Other Postemployment Benefit Plan Net Position* (page 20) and *The Statement of Changes in Pension Plan and Other Postemployment Benefit Plan Net Position* (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 Position presents all of the System's assets and liabilities, with the difference between the two reported as net position. Over time, increases and decreases in net position measures whether the System's financial position is improving or deteriorating. *The Statement of Changes in Pension Plan and Other Postemployment Benefit Plan Net Position* presents how the System's net position 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, 2013 were $11.5 billion and were mostly comprised of cash, investments, and contributions due from employers. Total assets increased $868.2 million or 8.2% between fiscal years 2012 and 2013 due primarily to net investment gains.

Total liabilities as of September 30, 2013, were $885.6 million and were comprised of warrants outstanding, accounts payable, amounts due to other funds, and obligations under securities lending. Total liabilities decreased $101.1 million or (10.2)% between fiscal years 2012 and 2013 due primarily to decreased obligations under securities lending.

System assets exceeded its liabilities at the close of fiscal year 2013 by $10.6 billion. Net position restricted for pension and OPEB increased $969.3 million or 10.1% between fiscal years 2012 and 2013 due primarily to increased investment income.

Net Position
(in thousands)

	2013	2012	Increase (Decrease)
Assets			
Equity in Common Cash	$ 187,774	$ 88,967	111.1 %
Receivables	144,930	144,703	0.2
Investments	11,138,882	10,369,705	7.4
Total Assets	11,471,585	10,603,375	8.2
Liabilities			
Warrants outstanding	95	964	(90.1)
Accounts payable and other accrued liabilities	33,072	43,718	(24.4)
Amounts due to other funds	97	397	(75.6)
Obligations under securities lending	852,350	941,649	(9.5)
Total Liabilities	885,614	986,728	(10.2)
Total Net Position	$ 10,585,971	$ 9,616,647	10.1 %

Management's Discussion and Analysis (continued)

ADDITIONS TO PLAN NET POSITION

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 2013 totaled $2.7 billion.

Total additions for fiscal year 2013 increased $171.2 million from those of fiscal year 2012 due primarily to an increase in contributions. Total employer contributions increased between fiscal years 2012 and 2013 by $224.4 million or 21.0% due to an increase in contribution rates. Member contributions increased between fiscal years 2012 and 2013 by $35.9 million or 59.1%. Net investment income decreased between fiscal years 2012 and 2013 by $107.2 million or 8.0%. The Investment Section of this report reviews the results of investment activity for 2013.

DEDUCTIONS FROM PLAN NET POSITION

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 2013 were $1.7 billion, an increase of 2.6% over fiscal year 2012 expenses.

Payments for health care benefits to members and beneficiaries increased by $9.2 million or 1.9% from $476.5 million to $485.7 million during the fiscal year. The payment of pension benefits increased by $31.9 million or 2.8% between fiscal years 2012 and 2013. In fiscal year 2013, pension benefit expenses increased due to an increase in benefit payments to retirees and an increase of 580 retirees. Refunds decreased by $86 thousand or (41.7)% between fiscal years 2012 and 2013. Administrative and other expenses increased by $2.4 million from $25.9 million in fiscal year 2012 to $28.3 million in fiscal year 2013.

Changes in Plan Net Position
(in thousands)

	2013	2012	Increase (Decrease)
Additions			
Member contributions	$ 96,625	$ 60,723	59.1 %
Employer contributions	1,293,194	1,068,808	21.0
Other governmental contributions	41,514	23,774	74.6
Net investment income	1,239,318	1,346,517	(8.0)
Transfers from other systems	1		0.0
Miscellaneous income	681	344	97.7
Total Additions	2,671,334	2,500,166	6.8
Deductions			
Pension benefits	1,187,911	1,156,035	2.8
Health care benefits	485,707	476,508	1.9
Refunds of contributions	120	206	(41.7)
Transfers to other systems	8		0.0
Administrative and other expenses	28,262	25,872	9.2
Total Deductions	1,702,009	1,658,622	2.6
Net Increase (decrease)	969,324	841,544	15.2
Net Position - Beginning of Year	9,616,647	8,775,103	9.6
Net Position - End of Year	$ 10,585,971	$ 9,616,647	10.1 %

Management's Discussion and Analysis (continued)

RETIREMENT SYSTEM AS A WHOLE

The System's combined net position experienced a increase in 2013. Despite an economy that continues to struggle, the System recorded net investment income of $1,239.3 million; that is a (8.0)% change for net investment activity from 2012. 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.

Statement of Pension Plan and Other Postemployment Benefit Plan Net Position

As of September 30, 2013

	Pension Plan	OPEB Plan	Total
Assets:			
Equity in common cash	$ 126,097,660	$ 61,675,900	$ 187,773,560
Receivables:			
Amounts due from members	271,624		271,624
Amounts due from employers	48,830,054	27,482,473	76,312,527
Amounts due from federal agencies		19,771,450	19,771,450
Amounts due from other funds	50,493		50,493
Amounts due from others		5,593,563	5,593,563
Amounts due from employer long term	41,507,850		41,507,850
Interest and dividends	1,344,474	77,624	1,422,098
Total receivables	92,004,495	52,925,110	144,929,605
Investments:			
Short term investment pools	347,769,182	20,825,341	368,594,523
Fixed income pools	1,220,702,039	73,180,440	1,293,882,479
Domestic equity pools	2,726,093,747	164,583,080	2,890,676,827
Real estate and infrastructure pools	1,093,158,907	65,505,468	1,158,664,375
Alternative investment pools	1,952,328,386	116,995,410	2,069,323,796
International equity pools	1,483,987,691	88,921,258	1,572,908,949
Absolute return pools	1,053,071,476	61,900,165	1,114,971,641
Securities lending collateral	632,350,832	37,508,561	669,859,393
Total investments	10,509,462,260	629,419,723	11,138,881,983
Total assets	10,727,564,415	744,020,733	11,471,585,148
Liabilities:			
Warrants outstanding	94,236	1,271	95,507
Accounts payable and other accrued liabilities	331,414	32,740,427	33,071,841
Amounts due to other funds		97,040	97,040
Obligations under securities lending	804,622,568	47,727,042	852,349,610
Total liabilities	805,048,218	80,565,780	885,613,998
Net Position Restricted for Pension Benefits and OPEB:	$ 9,922,516,197	$ 663,454,953	$ 10,585,971,150

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

Statement of Changes in Pension Plan and Other Postemployment Benefit Plan Net Position

For Fiscal Year Ended September 30, 2013

Additions:			
Contributions:			
Member contributions	$ 53,035,321	$ 43,590,023	$ 96,625,344
Employer contributions	604,845,495	688,348,987	1,293,194,482
Other governmental contributions		41,514,012	41,514,012
Total contributions	657,880,816	773,453,022	1,431,333,838
Investment income (loss):			
Net appreciation (depreciation) in fair value of investments	966,196,191	42,926,318	1,009,122,509
Interest, dividends, and other	231,505,731	11,028,282	242,534,013
Investment expenses:			
Real estate operating expenses	(242,618)	(12,842)	(255,460)
Other investment expenses	(27,992,928)	(1,222,181)	(29,215,109)
Securities lending activities:			
Securities lending income	18,746,298	1,018,759	19,765,057
Securities lending expenses	(2,486,485)	(146,343)	(2,632,828)
Net investment income (loss)	1,185,726,189	53,591,993	1,239,318,182
Transfers from other systems/funds	1,015		1,015
Miscellaneous income	255,975	424,665	680,640
Total additions	1,843,863,995	827,469,680	2,671,333,675
Deductions:			
Benefits paid to plan members and beneficiaries:			
Retirement benefits	1,187,911,357		1,187,911,357
Health benefits		440,159,387	440,159,387
Dental/vision benefits		41,104,415	41,104,415
Personal health care		4,433,182	4,433,182
Health reimbursement account		10,126	10,126
Refunds of contributions	105,257	14,735	119,992
Transfers to other systems	8,796		8,796
Administrative and other expenses	5,658,318	22,603,899	28,262,217
Total deductions	1,193,683,728	508,325,744	1,702,009,472
Net Increase (Decrease)	650,180,267	319,143,936	969,324,203
Net Position Restricted for Pension Benefits and OPEB:			
Beginning of Year	9,272,335,930	344,311,017	9,616,646,947
End of Year	$ 9,922,516,197	$ 663,454,953	$ 10,585,971,150

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

Notes to Basic Financial Statements
September 30, 2013

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. 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 State of Michigan Comprehensive Annual Financial Report.

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, 2013, the System's membership consisted of the following:

Retirees and beneficiaries currently receiving benefits:	**2013**
Regular benefits	46,436
Survivor benefits	6,926
Disability benefits	3,492
Total	56,854
Current employees:	
Vested	16,105
Non-vested	370
Total	16,475
Current employees active in defined contribution pension plan	437
Inactive employees entitled to benefits and not yet receiving them	4,897
Total all members	78,663

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	2013
Eligible participants	55,815
Participants receiving benefits:	
Health	49,625
Dental	50,276
Vision	50,208
Defined Contribution participants receiving benefits:	
Health	651
Dental	679
Vision	674

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. 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.

Public Act 185 of 2010, established a pension supplement. Members who retired under the retirement incentive of the legislation agreed to forfeit accumulated leave balances, excluding banked leave time; in exchange they receive a pension supplement for 60 months to their retirement allowance payments equal to 1/60 of the amount forfeited from funds, beginning January 1, 2011.

Pension Reform of 2012

On December 15, 2011, the Governor signed Public Act 264 of 2011 into law. The legislation granted members a choice regarding their future retirement plan. They had the following options:

- **Option 1: DB Classified.** Members voluntarily elected to remain in the DB plan for future service and contribute 4% of their annual compensation to the pension fund until they terminate state employment. The 4% contribution began on April 1, 2012.

Notes to Basic Financial Statements (continued)

- **Option 2: DB 30.** Members voluntarily elected to remain in the DB plan for future service and contribute 4% of pay until they reach 30 years of service. When they reach 30 years of service, they will switch to the State's DC plan. The 4% contribution began April 1, 2012, and continues until they switch to the DC plan or terminate employment, whichever comes first.

- **Option 3: DB/DC Blend.** Members voluntarily elected not to pay the 4% and therefore became participants in the DC plan for future service beginning April 1, 2012. As a DC plan participant they receive a 4% employer contribution to their 401(k) account and are eligible for an additional dollar-for-dollar employer match of up to 3% of pay to the plan.

Deferred members of the DB plan (with 10 or more years of service) who are reemployed by the State on or after January 1, 2012, become participants in the DC plan. Their pension calculation is determined by their final average compensation (FAC) and years of service as of March 31, 2012. They retain their eligibility for the retiree health insurance premium subsidy offered by the State.

Former nonvested members of the DB plan (with less than 10 years of service) who are reemployed by the State on or after January 1, 2012 and before January 1, 2014, become participants in the DC plan. When they have earned sufficient service credit for vesting (10 years) they would be eligible for a pension based on their FAC and years of service in the DB plan as of March 31, 2012. They retain their eligibility for the retiree health insurance premium subsidy offered by the State.

Former nonvested members (with less than 10 years of service) of the DB plan who are reemployed by the State on or after January 1, 2014 become members of the DC plan. Any service credit previously earned would count towards vesting for the DC plan. They will not be eligible for any pension or retiree health insurance coverage premium but will become a participant in the Personal Healthcare Fund where they will contribute up to 2% of their compensation to a 401(k) or 457 account, earning a matching 2% employer contribution. They will also receive a credit into a health reimbursement account (HRA) at termination if they terminate employment with at least 10 years of service. The credit will be $2,000 for participants who are at least 60 years old or $1,000 for participants who are less than 60 years old at termination.

Regular Retirement

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

Under PA 264 of 2011, FAC is initially determined as the annual average of the highest 3 years of compensation (including overtime paid before January 1, 2012, but excluding overtime paid after December 31, 2011). If the end date for the initial FAC calculation is between January 1, 2012, and January 1, 2015, then a prorated amount of post-2008 average overtime will be added to the initial FAC calculation. If the end date for the initial FAC calculation is January 1, 2015, or later, then an annual average of overtime – for the 6-year period ending on the FAC calculation date – will be added to that initial FAC calculation to get the final FAC number.

For members who switch to the DC plan for future service, the pension calculation FAC times 1.5% times years of service) will be determined as of the point the member switches to the DC plan. If the FAC period includes the date of the switch to the DC plan, then the FAC will include up to 240 hours of accrued annual leave multiplied by the rate of pay as of the date of the switch. The hours will be paid at separation.

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.

Notes to Basic Financial Statements (continued)

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.

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.

Notes to Basic Financial Statements (continued)

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 October1, 1987, are not eligible for the supplemental payment.

Contributions

Member Contributions - Under Public Act 264 of 2011, members who voluntarily elected to remain in the DB plan contribute 4% of compensation to the retirement system. In addition, members may voluntarily 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 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.

Notes to Basic Financial Statements (continued)

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.

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

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) members are eligible to receive health, prescription drug, dental, and vision coverage on the first day they start receiving pension benefits. Defined Contribution (Tier 2) participants who elected to retain the graded premium subsidy benefit under the reform elections of Public Act 264 of 2011, are also eligible to receive subsidized health, prescription drug, dental and vision coverage after terminating employment, if they meet eligibility requirements. 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. Defined Contribution (Tier 2) participants who elected the Personal Healthcare Fund under Public Act 264 of 2011, and those hired on or after January 1, 2012, are not eligible for any subsidized health, prescription drug, dental or vision coverage in retirement, but may purchase it at their own expense (certain conditions apply).

Former nonvested members of the DB plan who are reemployed by the state on or after January 1, 2014 are not eligible for retiree health insurance coverage premium but will become a participant in the Personal Healthcare Fund described on page 26.

Public Act 185 of 2010 required that each actively employed member or qualified participants of the system, 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 toward retiree healthcare. Public Act 264 of 2011 rescinded that provision and refunded any collected contributions to all members.

In addition to member contributions, the employer funds OPEB benefits for both Tier 1 and Tier 2 members on a prefunded basis. Retirees with the premium subsidy benefit contribute 20% of the monthly premium amount for the health (including prescription coverage), dental and vision coverage. Retirees with a graded premium subsidy benefit accrue credit towards insurance premiums in retirement, earnings a 30% subsidy with ten years of service, with an additional 3% subsidy for each year of service thereafter, not to exceed the maximum allowed by statute, or 80%. The employer's payroll contribution rate to provide this benefit was 23.60% for fiscal year 2013.

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		2013
Eligible Participants		55,815
Participants receiving benefits:		
Health		49,625
Dental		50,276
Vision		50,208
Defined Contribution participants receiving benefits:		
Health		651
Dental		679
Vision		674
Expenses for the year	$	508,325,744
Employer payroll contribution rate		23.6%

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 – Beginning April 2012, members contribute 4% of their compensation to this reserve as well as purchases of eligible service credit and 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, 2013, the balance in this reserve was $207.9 million.

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, 2013, the balance in this reserve was ($1.2) billion.

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, 2013, the balance in this reserve was $11.6 billion.

Notes to Basic Financial Statements (continued)

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, 2013, the net balance of this reserve was ($725.1) million.

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. Starting in fiscal year 2012, the employer contribution is based on a prefunded basis and 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. In addition, in fiscal year 2013, this reserve includes revenue from the federal government for retiree drug subsidy payment (RDS) pursuant to the provisions of Medicare Part D and for the Employee Group Waiver Plan (EGWP). Premiums for health, dental and vision benefits are paid from this reserve. At September 30, 2013, the balance in this reserve was $663.5 million.

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. The fair value of private investments is based on the net asset value reported in the financial statements of the respective investment entity. The net asset value is determined in accordance with governing documents of the investment entity, and is subject to an independent annual audit. Securities purchased with cash collateral under securities lending activities are recorded at estimated fair value. Other investments not having an established market are recorded at estimated fair value.

Investment Income

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

Notes to Basic Financial Statements (continued)

Cost of Administering the System

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

Property and Equipment

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

	2013
Building Rentals	$ 179,698
Technological Support	1,516,277
Attorney General	375,097
Investment Services	3,069,871
Personnel Services	2,872,202

Cash - On September 30, 2013, the System had $187.8 million 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. Expenses from these activities amounted to $5.8 thousand for the year ended September 30, 2013.

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 year 2013, no retirees met the criteria.

NOTE 3 – CONTRIBUTIONS AND FUNDED STATUS

Contributions

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. Members currently participate in the System on a contributory basis of 4% of the annual compensation. 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). Contribution provisions are specified by State statute and may be amended only by action of the State Legislature.

Notes to Basic Financial Statements (continued)

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 23 year period for the 2013 fiscal year.

Actual employer contributions for retirement benefits were $604.8 million for fiscal year 2013, representing 52.3% of annual covered payroll for the year ended September 30, 2012. The fiscal year 2013 annual covered payroll is not yet available. Required employer contributions based on previous year actuarial valuations for pensions included:

1. $44.3 million for fiscal year 2013 for the normal cost of pensions representing 3.8% (before reconciliation) of annual covered payroll for fiscal year 2012.
2. $566.9 million for fiscal year 2013 for amortization of unfunded actuarial accrued liability representing 49.0% (before reconciliation) of annual covered payroll for fiscal year 2012.

Actual employer contributions for other postemployment benefits (OPEB) were $688.3 million for fiscal year 2013, representing 59.6% of annual covered payroll for the year ended September 30, 2012. The fiscal year 2013 annual covered payroll is not yet available. Required employer contributions based on previous year actuarial valuations for OPEB included:

1. $109.5 million for fiscal year 2013 for the normal cost of OPEB representing 3.8`% (before reconciliation) of annual covered payroll for fiscal years 2012.
2. $569.1 million for fiscal year 2013 for amortization of unfunded actuarial accrued liability representing 19.7% (before reconciliation) of annual covered payroll for fiscal years 2012.

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, 2013, there were 2,810 agreements. 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 9.8 years for 2013. The short-term receivable was $4.6 million and the discounted long-term receivable was $19.5 million at September 30, 2013.

Notes to Basic Financial Statements (continued)

Funded Status

Participating employers are required to contribute at an actuarially determined rate for both pension benefits and OPEB. For fiscal year 2012, the actuarial accrued liability (AAL) for pension benefits was $15.7 billion, and the actuarial value of assets was $9.4 billion, resulting in an unfunded actuarial accrued liability (UAAL) of $6.2 billion and a funded ratio of 60.3%. The covered payroll (annual payroll of active employees covered by the plan) was $1.2 billion, and the ratio of the UAAL to the covered payroll was 537.1%.

For fiscal year 2012, the actuarial accrued liability (AAL) for OPEB was $8.8 billion, and the actuarial value of assets was $344.3 million, resulting in an unfunded actuarial accrued liability (UAAL) of $8.4 billion and a funded ratio of 3.9%. 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 290.6%.

Actuarial Valuations and Assumptions

Actuarial valuations for both the pension and OPEB plans involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions (ARC) are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future (see note 5).

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	9/30/2012
Actuarial Cost Method	Entry Age, Normal
Amortization Method - Pension	Level Dollar, Closed
Amortization Method - OPEB	Level Percent of Payroll, Closed
Remaining Amortization Period	24 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	8.0%
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 10
Other Assumptions OPEB only: (2)	
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

(1) 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.

(2) Applies to individuals hired before January 1, 2012

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)

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 derivative investments subject to this limitation. Option and Future contracts traded daily on an exchange and settling in cash daily or having a limited and fully defined risk profile at an identified, fixed cost are not subject to the derivative exposure limitation.

The derivative fair values are reported on the Statement of Pension Plan and Other Postemployment Benefit Plan Net Position as of September 30, 2013 in their respective investment pools market value. Derivative net appreciation and depreciation are reported on the Statement of Changes in Pension Plan and Other Postemployment Benefit Plan Net Position for fiscal year ended September 30, 2013 under "Investment income gain / (loss)", in "Net appreciation (depreciation) in fair value of investments". Bond interest, swap payments, and dividends are reported under "Investment Income", in "Interest, Dividends, and other".

Derivative Investment Table as of September 30, 2013 (In Millions):

Investment and Investment Type	Percentage of Market Value	Notional Value	Investments At Fair Value	Net Appreciation (Depreciation) in Fair Value	Investment Income FY 2013	Fair Value Subject to Credit Risk
Structured Notes Absolute Return Investments	0.6%	66.5	59.5	(8.2)		59.5
US Treasury Bond Future Contracts Fixed Income Investments	0.0%	5.6	0.1	0.1		
Option Contracts Equity Investments	0.0%	2.3		0.6		
Swap Agreements International Equity Investments	1.9%	235.6	199.1	38.7	0.5	28.6
Swap Agreements Equity Investments	0.0%	259.9	4.4	26.5	(0.6)	
Swap Agreements Currency Forward Opportunistic Investments	0.0%			(0.1)		

Notes to Basic Financial Statements (continued)

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 forty foreign countries. Generally, one quarter or less 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 2013 to September 2014. The U.S. Domestic LIBOR based floating rate notes and other investments 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 other investments. The book value represents the cost of the notes and other investments. The current value represents the current value of the notes and other investments and the change in the value of the underlying indices from the inception of the swap agreements. The current value is used as a representation of the fair value based on the intention to hold all swap agreements until maturity. 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 basis.

In May 2011, domestic equity swaps were added to the trust funds' portfolio for the Domestic Equity Pools. 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 swap agreement maturity dates range from October 2013 to July 2014. 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 and equity 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. Domestic equity swaps' appreciation/(depreciation) primarily reflects the net changes in the domestic indices and short-term investments.

Counterparty credit risk is the maximum loss 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.

To get enhanced passive exposure to the Dow Jones UBS Commodity Total Return Index, the State Treasurer purchased structured notes from investment grade counterparties for the Absolute Return Pools. These notes are fully collateralized and pay cash rates on the underlying collateral, as well as, providing the enhanced index return. Similar to a swap agreement with prices changing with the underlying index fluctuations, the notes differ due to their daily put option which allows the structure to end and settle before the note's maturity. The maturity dates on the structural notes range from June 2014 to July 2019.

The State Treasurer traded U. S. Treasury bond future contracts to manage duration and yield curve exposure.

To provide downside protection and enhance current income, the State Treasurer traded covered equity options on single securities for the Absolute Return and Equity Investment 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.

Notes to Basic Financial Statements (continued)

Securities Lending

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

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

The agent bank agreed to indemnify the System by purchasing replacement securities, or returning cash collateral in the event borrower failed to return the loaned security of 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, 2013, such assets had an average weighted maturity to next reset of 3.6 years and an average weighted maturity of 13.4 years. Because the loans are terminable at will, their duration did not generally match the duration of the investments made with cash collateral. On September 30, 2013, the System had no credit risk exposure to borrowers. The cash received for securities on loan for the System as of September 30, 2013 was $852,349,610. The fair market value of assets held in the dedicated collateral account at the custodian for the System as of September 30, 2013 was $669,859,393. The carrying amount, which is the fair market value, of securities on loan for the System as of September 30, 2013 was $833,236,336.

Gross income, including capital gains/losses, from security lending for the fiscal years ended September 30, 2013 with Credit Suisse was $19,765,057. Expenses associated with this income were the borrower's rebate of $800,233, and fees paid to the agent bank of $1,832,594.

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 - Investment grade and noninvestment grade securities may be acquired in compliance with parameters set forth in Public Act 314 of 1965, as amended, and the State Treasurer's investment policy . Law defines investment grade as investments in the top four major grades, rated by two national rating services, S&P(AAA, AA, A, BBB) and Moody's (Aaa, Aa, A, Baa). At September 30, 2013, the System was in compliance with the policy in all material aspects.

Notes to Basic Financial Statements (continued)

Rated Debt Investments
(In thousands of dollars)
FOR THE YEAR ENDED SEPTEMBER 30, 2013

Investment Type	Fair Value	Rating S&P	Fair Value	Moody's
Short Term	$429,551	A-1	$429,551	P-1
Government Securities				
U.S. Agencies- Sponsored	-	AAA	137,474	Aaa
	137,474	AA	-	Aa
Corporate Bonds & Notes				
	7,824	AAA	16,551	Aaa
	130,366	AA	73,395	Aa
	440,518	A	422,536	A
	279,920	BBB	307,978	Baa
	23,161	BB	40,161	Ba
	18,585	B	19,601	B
	335	CCC	2,619	CAA
	-	CC	151	Ca
	-	C	1	C
	300	D	-	D
	99,398	NR	117,414	NR
International *				
	73,790	AA	60,192	Aa
	24,952	A	68,324	A
	19,156	BBB	19,156	Baa
	48,012	NR	18,238	NR
Securities Lending Collateral				
Short Term	98,957	NR	98,957	NR
	-	AAA	72,513	Aaa
	72,513	AA	11,273	Aa
	11,854	A	581	A
	4,152	BB	427,656	Ba
	55,265	CCC	40,948	Caa
	-	CC	14,317	Ca
	423,504	NR	-	NR
Total	$2,399,587		$2,399,587	

NR - not rated

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

Notes to Basic Financial Statements (continued)

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

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

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

The State Treasurer does not have a policy for custodial credit risk. However, the State's custodial bank had a credit rating of A+ at September 30, 2013. As of September 30, 2013, no securities were exposed to custodial credit risk.

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, 2013, there were no investments in any single issuer that accounted for more than 5% of the System's assets. The System held one investment that exceeded the 5% cap in obligations of any one issuer. The System is aware of the breach and, in accordance with MCL 38.1133(3)(g), is developing a prudent plan for reallocating assets to comply with the prescribed limitation.

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, 2013, the fair value of the System's prime commercial paper was $429.5 million with the weighted average maturity of 19 days.

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)

Michigan State Employees' Retirement System
Debt Securities
(In thousands of dollars)
As of September 30, 2013

	2013	
	Fair Value	**Effective Duration in Years**
Government		
U. S. Treasury	$ 103,952	2.2
U. S. Agencies - Backed	157,235	4.9
U. S. Agencies - Sponsored	137,475	6.8
Corporate	1,000,407	4.1
International*		
Corporate	165,910	0.3
Total	$ 1,564,979	

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. Authorized global securities include equities, fixed income, mutual funds, real estate, and limited partnerships. These investments are limited to 30% of the total assets of the System with additional limits of not more than 5% of the outstanding global securities of any one issuer and no more than 5% of the system’s assets in the global securities of any one issuer. In addition to these limits, the State Treasurer cannot acquire securities in companies that have active business operations in state sponsors of terror as identified by the United States Secretary of State. At September 30, 2013, the total amount of foreign investment subject to foreign currency risk was $1,865.5 million, which amounted to 17.5 % of total investments (exclusive of securities lending collateral) of the System.

Notes to Basic Financial Statements (continued)

State Employees' Retirement and OPEB Funds
Foreign Currency Risk
(in Thousands)
September 30, 2013

Region	Country	Currency	Alternative Investments, Real Estate, and Infrastructure Pools Market Value In US$	Equity Pools Market Value In US$	Fixed Income Pools Market Value In US$	International Equity Pools Derivatives* Market Value In US$
AMERICA						
	CANADA	DOLLAR		$371		$24
	MEXICO	PESO			$807	
EUROPE						
	EUROPEAN UNION	EURO	$231,125	14,701	851	139
	SWITZERLAND	FRANC		6,022		377
	SWEDEN	KRONA		2,360		283
	DENMARK	KRONE		553		
	NORWAY	KRONE		191		63
	U.K.	STERLING	2,221	16,414		1,400
PACIFIC						
	AUSTRALIA	DOLLAR				730
	CHINA	RENMINBI		111		
	HONG KONG	DOLLAR		1,306		136
	JAPAN	YEN		8,424		14,622
	NEW ZEALAND	DOLLAR				18
	PHILIPPINES	PESO			159	
	SINGAPORE	DOLLAR		2,240		110
	SOUTH KOREA	WON		10,652		240
MIDDLE EAST						
	ISRAEL	SHEKEL		24,076		
VARIOUS						
	VARIOUS		227,674	1,297,777		(635)
	TOTAL		**$461,020**	**$1,385,198**	**$1,817**	**$17,507**

*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 2013 through June 2014, with an average maturity of .4 years.

NOTE 5 - ACCOUNTING CHANGES

GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. The Statement provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources and net position in a statement of financial position and also requires related disclosures. This statement was implemented in fiscal year 2013.

Notes to Basic Financial Statements (continued)

Beginning in fiscal year 2013, the System changed its OPEB funding policy to prefund benefits, formerly funded on a pay-as-you-go basis. As a result of this change in funding policy, the System's actuary used an investment rate of return of 8%, rather than the 4% that was previously used, to reflect the System's projected long-term investment rate of return. Adopting the 8% investment rate of return had the following impact on the System's OPEB actuarial valuations for fiscal year 2012:

- A reduction of the fiscal year 2013 annual required contribution for OPEB by $234.2 million, or 25.7%.
- A reduction of the September 30, 2012 OPEB actuarial accrued liability by $5.2 billion or 37.4%.
- A reduction of the September 30, 2012 OPEB unfunded actuarial accrued liability by $5.2 billion, or 38.4%.

NOTE 6 - NEW ACCOUNTING PRONOUNCEMENTS

GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities*. This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2012. This Statement will be implemented in fiscal year 2014.

GASB issued Statement No. 67, *Financial Reporting for Pension Plans – An Amendment of GASB Statement No. 25*. The Statement's objective is to improve financial reporting by state and local governmental pension plans. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. This Statement replaces the requirements of Statements No. 25 *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans,* and No. 50 *Pension Disclosures*, as they relate to pension plans administered through trusts or equivalent arrangements. The requirements of Statements No. 25 and No. 50 remain applicable to pension plans that are not administered through trusts or equivalent arrangements. The provisions of this Statement are effective for financial statements for fiscal years beginning after June 15, 2013. This Statement will be implemented in fiscal year 2014.

NOTE 7 - 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.

Pending Litigation

In Michigan Coalition SEW, et al v State of Michigan, et al, Plaintiffs filed suit on February 13, 2012 alleging that 2011 PA 264 and, in particular, MCL 38.35a and 38.50a were unconstitutional because they were enacted without the approval of the Civil Commission, which has the authority of "fix rates of compensation" and regulate all conditions of employment under Const 1962, art 11, sec 5.

On September 25, 2012 the trial court granted summary disposition for Plaintiffs finding that PA 264 was a violation of art 11, sec 5. This was not a final order and Plaintiffs have subsequently submitted a second motion for partial summary disposition asserting that the overtime provisions found in section 1(e) of PA 264 also violate art 11, sec 5. The hearing on the partial motion for summary disposition was heard November 28, 2012 and the the Court, consistent with its earlier decision, found section 1(e) also violated art 11 sec 5. Oral agruments before the Court of Appeals (COA) took place on June 12, 2013

Notes to Basic Financial Statements (continued)

On August 13, 2013 the Court of Appeals (COA) affirmed the trial court ruling finding that portion of 2011 PA 264 are unconstitutional because they are incompatible with Const. 1963, art. 11, sec. 5. On September 24, 2013, the State of Michigan filed an application for leave to appeal to the Michigan Supreme Court. The application remains pending and has been assigned docket number 147758.

The COA decision is not effective until expiration of the time for filing the application for leave or if an application is filed until disposition of the case by the Supreme Court. In addition, pursuant to a stipulation between the parties the 4% deduction will continue while the State pursues its appellate remedies and in the event the appellate courts affirm the trial court decision, Plaintiffs will be made whole.

Required Supplementary Information

Schedules of Funding Progress

Expressing the net position restricted 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)
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 [1]	10,782	14,860	4,078	72.6	1,622	251.5
2011	10,212	15,597	5,385	65.5	1,276	422.0
2012	9,447	15,654	6,207	60.3	1,156	537.1

[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
2011		14,251	14,251	0.0	3,040	468.8
2012 [1]	344	8,757	8,413	3.9	2,895	290.6

[1] Revised investment reate of return from 4% to 8% due to prefunding

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

FINANICIAL SECTION

Required Supplementary Information (continued)

Schedule of Employer and Other Contributions

Pension Benefits

Fiscal Year Ended Sept. 30	Annual Required Contribution (ARC)	Actual Contribution	Percentage Contributed
2004	$ 262,546,900	$ 103,873,294 [1]	39.6 %
2005	308,208,544	256,433,052	83.2
2006	366,650,515	270,705,017	73.8
2007	316,138,419 [3]	150,858,506 [2]	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
2012 [4]	512,615,918	419,926,997	81.9
2013	611,132,218	604,845,495	99.0

Other Postemployment Benefits

Fiscal Year Ended Sept. 30	Annual Required Contribution (ARC)	Actual Contribution	Other Governmental Contribution	Percentage Contributed
2007	$ 898,716,522	$ 359,375,055 [2]		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
2012	960,639,525	648,881,078	23,774,071	70.0
2013 [4]	678,649,668	688,348,988	41,514,012	107.5

[1] 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.

[2] 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.

[3] 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.

[4] Revised actuarial assumptions.

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 seventh year the System is reporting other postemployment benefits in accordance with GASB Statement No. 43, seven 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

Summary Schedule of
Pension Plan Administrative and Other Expenses
For Fiscal Year Ended September 30, 2013

	2013
Personnel Services:	
Staff Salaries	$ 1,379,139
Retirement and Social Security	666,499
Other Fringe Benefits	239,050
Total	2,284,688
Professional Services:	
Accounting	253,316
Actuarial	107,240
Attorney General	375,097
Audit	54,695
Consulting	58,379
Medical	181,675
Total	1,030,402
Building and Equipment:	
Building Rentals	179,698
Equipment Purchase, Maintenance, and Rentals	11,541
Total	191,239
Miscellaneous:	
Travel and Board Meetings	8,695
Office Supplies	9,227
Postage, Telephone, and Other	554,684
Printing	63,104
Technological Support	1,516,277
Total	2,151,987
Total Administrative and Other Expenses	$ 5,658,318

Summary Schedule of
OPEB Plan Administrative and other Expenses
For Fiscal Year Ended September 30, 2013

	2013
Staff Salaries	$ 587,514
Health Fees	19,855,750
Dental Fees	1,659,991
Vision Fees	500,644
Total Administrative and Other Expenses	$ 22,603,899

The OPEB plan administrative expenses of $22,603,899 in 2013 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 Year Ended September 30, 2013

	2013
Real Estate Operating Expenses	$ 255,460
Securities Lending Expenses	2,632,828
Other Investment Expenses[1]	
ORS-Investment Expenses[2]	3,069,871
Custody Fees	192,939
Management Fees	25,415,270
Research Fees	537,029
Total Investment Expenses	$ 32,103,397

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

[2] Does not exclude Treasury Civil Service fees of $32,761 for fiscal year 2013 recorded as a pass through in the Schedule of Investment Fees - State Treasurer.

Schedule of Payments for Professional Services
For Fiscal Year Ended September 30, 2013

	2013
Accounting	$ 253,316
Actuary	107,240
Attorney General	375,097
Independent Auditors	54,695
Consulting	58,379
Medical Advisors	181,675
Total Payment for Professional Services	$ 1,030,402

Supporting Schedules (continued)

Detail of Changes in Plan Net Position (Pension and Other Postemployment Benefits)

	Employee Contributions	Employer Contributions	Retired Benefit Payments	Undistributed Investment Income	OPEB Benefits	Total
Additions:						
Contributions						
Member contributions	$ 53,035,321				$ 43,590,023	$ 96,625,344
Employer contributions		$ 604,845,495			688,348,987	1,293,194,482
Other governmental contributions					41,514,012	41,514,012
Total contributions	53,035,321	604,845,495			773,453,022	1,431,333,838
Investment income (loss):						
Net appreciation (depreciation) in fair value of investments				966,196,191	42,926,318	1,009,122,509
Interest, dividends, and other				231,505,731	11,028,282	242,534,013
Miscellaneous						
Real estate operating expenses				(242,618)	(12,842)	(255,460)
Other investment expenses				(27,992,928)	(1,222,181)	(29,215,109)
Securities lending activities:						
Securities lending income				18,746,298	1,018,759	19,765,057
Securities lending expenses				(2,486,485)	(146,343)	(2,632,828)
Net investment income (loss)				1,185,726,189	53,591,993	1,239,318,182
Transfer from other systems/funds	1,015					1,015
Miscellaneous income			132,350	123,625	424,665	680,640
Total additions	53,036,336	604,845,495	132,350	1,185,849,814	827,469,680	2,671,333,675
Deductions:						
Benefits paid to plan members and beneficiaries:						
Retirement benefits			$ 1,187,911,357			1,187,911,357
Health benefits					440,159,387	440,159,387
Dental/vision benefits					41,104,415	41,104,415
Personal health care					4,433,182	4,433,182
Health reibursement account					10,126	10,126
Refunds of contributions	46,830	47,317	11,110		14,735	119,992
Transfers to other systems	8,796					8,796
Administrative and other expenses				5,658,318	22,603,899	28,262,217
Total deductions	55,626	47,317	1,187,922,467	5,658,318	508,325,744	1,702,009,472
Net Increase (Decrease)	52,980,710	604,798,178	(1,187,790,117)	1,180,191,496	319,143,936	969,324,203
Other Changes in Net Position:						
Interest allocation	3,495,544		1,424,832,730	(1,428,328,274)		
Transfers upon retirement	(17,272,473)		17,272,473			
Transfers of employer shares		(759,238,684)	759,238,684			
Total other changes in net position	(13,776,929)	(759,238,684)	2,201,343,887	(1,428,328,274)		
Net Increase (Decrease)	39,203,781	(154,440,506)	1,013,553,770	(248,136,778)	319,143,936	969,324,203
Net Position Restricted for Pension Benefit and OPEB:						
Beginning of Year	168,678,151	(1,052,442,498)	10,633,080,076	(476,979,799)	344,311,017	9,616,646,947
End of Year	$ 207,881,932	$(1,206,883,004)	$ 11,646,633,846	$ (725,116,577)	663,454,953	$ 10,585,971,150

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 Affairs and the Director of the Department of Technology, Management and Budget are ex-officio members. As of September 30, 2013, members of the Committee were as follows: Naif A. Khouri (public member), James B. Nicholson (public member), L. Erik Lundberg, CFA (public member), Steve Arwood (ex-officio member), and John E. Nixon, CPA (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 various issues including: 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. Maintain sufficient liquidity to pay benefits.
2. Meet or exceed the actuarial assumption over the long term.
3. Perform in the top half of the public plan universe over the long term
4. Diversify assets to preserve capital and avoid large losses.
5. Exceed individual asset class benchmarks over the long term.

The strategy for achieving these goals is carried out by investing the assets of the System according to a five 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 9/30/13 Actual %	Five-Year Target %
Domestic Equity Pools	27.1 %	31.0 %
International Equity Pools	14.8	16.0
Alternative Investment Pools	19.4	16.0
Real Estate and Infrastrucure Pools	10.9	9.0
Fixed Income Pools	12.1	15.0
Absolute Return Pools	10.5	9.0
Short Term Investment Pools	5.2	4.0
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, and Section 12c of Act No. 314 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, 2013, the total System's rate of return was 12.5% for the Pension Plan and 11.4% for the OPEB Plan as compiled by State Street Investment Analytics. Annualized rates of return for the three, five, and ten year periods ending September 30, 2013 were: 10.7%, 6.7%, and 7.3% respectively, for the pension plan.

There were several positive economic developments during the fiscal year 2013. To highlight a few; the U.S. stock market S&P 500 returned 19.3% over the year, the U.S. economy added 2.1 million jobs, and home prices were higher than the prior year.

At times, though, it was not at all certain that the economy was doing well. In October 2012, hurricane Sandy hit the eastern seaboard causing an estimated damage of $68 billion, the second costliest hurricane on record. In late December 2012 and early January 2013, the U.S. Legislature finally addressed the "Fiscal Cliff". The buildup to the December 31 deadline is believed to have slowed the economy somewhat due to the uncertainty of the resolution. Anticipating some economic fall-out of these events, the FOMC in December 2012 announced an increase in the amount of open-ended purchases (also known as Quantitative Easing or "QE") from $40 billion to $85 billion per month.

Report on Investment Activity (continued)

By springtime 2013, it became evident that the policies adopted by the Federal Reserve Board were having a desirable effect on the economy as well as the financial markets. There was a feeling that given some growth in GDP, the jobs recovery, the housing recovery, strong corporate profits, etc., that conditions were getting back to normal, thus requiring normal Fed policy.

In his testimony to Congress in May 2013, Federal Reserve Chairman Ben Bernanke explained that if the economy continued to show improvements, and if the board became confident in the sustainability of the improvements, the rate of $85 billion per month bond purchases would be reduced or tapered. One consequence of this statement was an increase in long-term interest rates. Between the end of April 2013 and the end of September 2013, the 10-year Treasury rate increased by roughly 0.9% to end the fiscal year at a rate of 2.6%.

Many market prognosticators came to believe that the Fed would begin to taper in September 2013. However, in September the Fed surprised the markets by announcing that the current accommodations would continue because of risks that still exist in the economy. One such risk on the minds of the Federal Reserve Board could have been the possibility of the U.S. Government shutting down. By September 30, 2013, lawmakers were at an impasse on many issues, but the fight was particularly acute along the issues of raising the debt ceiling and the funding of the Patient Protection and Affordable Care Act, also known as Obamacare.

As the fiscal year draws to an end, the grumblings of the effectiveness and the consequences of the QE policies are becoming more audible. In 1998 Long Term Capital Management (LTCM) required a $3.6 billion bailout. At the time, it was believed that this action was necessary in order to save the financial system. This year, the Fed's QE program is the size of over 70 LTCM bailouts per quarter. Regardless, the prognosticators are now predicting tapering will begin sometime in 2014. By then, at the current rates, the jobs lost during the financial crisis will likely be fully recovered and the unemployment rate close to the Fed's target of 6.5%. By that time, the new Fed Chair, Janet Yellen, will be in control as Fed Chairman Ben Bernanke will end his term in January 2014.

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, 2013:

Active	52.1 %
Passive	47.9
Total	**100.0 %**

Large Cap	76.4 %
Mid Cap	10.9
Multi Cap	9.8
Small Cap	2.9
Total	**100.0 %**

The System’s Domestic Equity pools total rate of return was 21.7% for the Pension Plan and 22.0% for the OPEB Plan for fiscal year 2013. This compared with 20.4% for the S&P 1500 Index.

At the close of fiscal year 2013, the Domestic Equity pools represented 27.1% of total investments. The following summarizes the System's 19.8% ownership share of the Domestic Equity pools at September 30, 2013:

Domestic Equity Pools
(in thousands)

Short Term Pooled Investments	$ 31,120
Equities	2,864,529
Market Value of Equity Contracts	(4,970)
Other Investments	(17)
Long Term Obligations	185
Settlement Principal Payable	(13,471)
Settlement Proceeds Receivable	10,820
Accrued Dividends	2,481
Total	**$ 2,890,677**

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.

Report on Investment Activity (continued)

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

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

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

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

The following summarizes the weightings of the pools as of September 30, 2013:

Active	56.2 %
Passive	43.8
Total	**100.0 %**

Developed	76.5 %
Emerging	23.5
Total	**100.0 %**

The System's International Equity pools total rate of return was 16.3% for the Pension Plan and 16.2% for the OPEB Plan for fiscal year 2013. This compared with 17.0% for the MSCI ACWI Ex US Gross.

At the close of fiscal year 2013, the International Equity pools represented 14.8% of total investments. The following summarizes the System's 19.5% ownership share of the International Equity Pools at September 30, 2013:

International Equity Pools
(in thousands)

Short Term Pooled Investments	$ 9,566
Equities	1,372,661
Fixed Income Securities	165,910
Market Value of Equity Contracts	27,786
Settlement Principal Payable	(3,370)
Accrued Dividends and Interest	356
Total	**$ 1,572,909**

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, 2013:

Buyout Funds	57.4 %
Special Situation Funds	20.5
Venture Capital Funds	10.0
Fund of Funds	4.8
Liquidation Portfolio	3.8
Other	1.4
Mezzanine Funds	2.1
Total	**100.0 %**

The Alternative Investment pools had a return of 14.9% for the fiscal year ended September 30, 2013, versus the benchmark of 23.5%.

At the close of fiscal year 2013, the Alternative Investment pools represented 19.4% of total investments. The following summarizes the System's 17.4% ownership share of the Alternative Investment pools at September 30, 2013:

Alternative Investment Pools
(in thousands)

Short Term Pooled Investments	$ 20,422
Equities	2,048,484
Settlement Proceeds Receivable	418
Total	**$ 2,069,324**

Report on Investment Activity (continued)

Real Estate and Infrastructure Pools

The objective of the Real Estate and Infrastructure pools is to provide diversification and favorable risk adjusted returns primarily through income and appreciation of investments. Investments are typically held through 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 infrastructure related investments.

The Real Estate and Infrastructure pools diversify its holdings by:

- Geography - The pools are invested globally and are diversified geographically so that it is not concentrated in a limited number of markets or geographic areas.
- Size and Value - The pools diversify its holdings by size so that it is not concentrated in a limited number of large investments.
- Investment Type – The pools are diversified by investment type as summarized below.

Multi-family apartments	23.4 %
Commercial office buildings	13.6
Hotel	19.2
Retail shopping centers	16.9
Industrial warehouse buildings	7.2
For Sale Homes	4.2
For Rent Homes	5.1
Infrastructure	5.4
Land	2.4
Senior Living	1.0
Short Term Investments	1.6
Total	**100.0 %**

The Real Estate pool generated a return of 8.2% for fiscal year 2013. The two benchmark returns from the National Council of Real Estate Investment Fiduciaries: the National Property Blended Index (less 130 basis points) was 9.6% and the Open-End Diversified Core Equity Index was 12.0%. The Infrastructure Pool had a return of 13.9% for fiscal year 2013. The benchmark, CPI + 4% lagged 3 m was 5.8%.

At the close of fiscal year 2013, the Real Estate and Infrastructure pools represented 10.9% of total investments. The following summarizes the System's 19.3% ownership share of the Real Estate and Infrastructure pools at September 30, 2013:

Real Estate and Infrastructure Pools
(in thousands)

Short Term Pooled Investments	$ 18,635
Real Estate Equities	1,076,033
Infrastructure Equities	63,996
Total	1,158,664

Report on Investment Activity (continued)

Fixed Income Pools

The objective for investments made in the Fixed Income pools is to meet or exceed the Barclays Aggregate Bond 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.

The System’s Fixed Income pools total rate of return was (0.2)% for fiscal year 2013. This compared with (1.7)% for the Barclays Aggregate Bond Index.

At the close of fiscal year 2013, the Fixed Income pools represented 12.1% of total investments. The following summarizes the System's 20.0% ownership share of the Fixed Income pools at September 30, 2013:

Fixed Income Pools
(in thousands)

Short Term Pooled Investments	$ 30,694
Fixed Income Securities	1,256,033
Settlement Principal Payable	(1,331)
Accrued interest	8,486
Total	**$ 1,293,882**

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 10.2% versus the benchmark’s 6.2%.

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

Report on Investment Activity (continued)

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

The Real Return and Opportunistic Investments pool rate of return for the fiscal year was 6.6% versus the benchmark's 7.1%.

At the close of fiscal year 2013, the Absolute Return pools represented 10.5% of total investments. The following summarizes the System's 19.3% ownership share of the Absolute Return Strategies pool at September 30, 2013:

Absolute Return Pools
(in thousands)

Short Term Pooled Investments	$ 74,517
Equities	999,752
Long Term Obligations	39,773
Accrued Interest and Dividends	930
Total	**$ 1,114,972**

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 0.5% for the Pension Plan and 0.4% for the OPEB Plan versus the benchmark's 0.0%.

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.

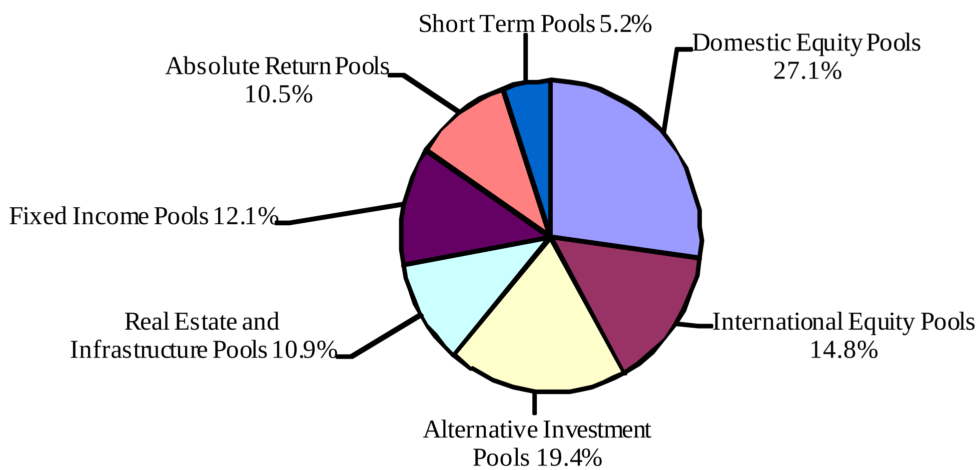
At the close of fiscal year 2013, the Short Term Investment pools represented 5.2% of total investments. The following summarizes the System's 33.3% ownership share of the Short Term Investment pools at September 30, 2013:

Short Term Investment Pools
(in thousands)

Short Term Pooled Investments	$ 368,595
Equity in Common Cash	187,774
Accrued interest	1
Total	**$ 556,370**

Report on Investment Activity (continued)

Asset Allocation – Security Type Only



Report on Investment Activity (continued)

Pension Plan Investment Results for the Period Ending September 30, 2013

		Annualized Rate of Return[1]		
Investment Category	**Current Year**	**3 Years**	**5 Years**	**10 Years**
Total Portfolio	12.5 %	10.7 %	6.7 %	7.3 %
Domestic Equity Pools	21.7	15.8	10.4	7.7
S&P 1500 Index	20.4	16.5	10.4	8.0
International Equity Pools	16.3	7.1	6.9	7.5
International Blended Benchmark [2]	17.0	6.4	5.4	7.2
Alternative Investment Pools	14.9	15.8	7.8	14.2
Alternative Blended Benchmark [3]	23.5	21.3	14.3	11.4
Real Estate and Infrastructure Pools				
Real Estate Pool	8.2	11.1	(2.5)	5.2
NCREIF Property Blended Index [4]	9.6	11.2	2.0	7.4
Infrastrucutre Pool	13.9			
CPI + 4% lagged 3m	5.8			
Fixed Income Pools	(0.2)	3.5	6.8	5.3
Barclays Aggregate Bond	(1.7)	2.9	5.4	4.6
Absolute Return Pools				
Total Absolute Return	10.2	5.6	0.6	
HFRI Fund of Fund Cons 1 month lag	6.2	2.8	0.1	
Total Real Return and Opportunistic	6.6	6.5		
Real Return and Opportunistic Benchmark [5]	7.1	7.7		
Short Term Investment Pools	0.5	0.3	0.8	1.4
30 Day Treasury Bill	0.0	0.1	0.1	1.5

1 Calculations 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 1/1/10 to 9/30/10 is S&P Developed BMI-EPAC Net 75/25. History prior to 1/1/10 is S&P Developed BMI-EPAC Net 50/50.

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

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

5 Benchmark is 50% (CPI + 5%) and 50% (actuarial rate 8%).

OPEB Investment Results for the Period Ending September 30, 2013

Investment Category	Current Year [1]
Total Portfolio	11.4 %
Domestic Equity Pools	22.0
S&P 1500 Index	20.4
International Equity Pools	16.2
International Blended Benchmark [2]	17.0
Alternative Investment Pools	14.9
Alternative Blended Benchmark [3]	23.5
Real Estate and Infrastructure Pool	
Real Estate Pool	8.2
NCREIF Property Blended Index [4]	9.6
Fixed Income Pools	(0.2)
Barclays Aggregate Bond	(1.7)
Absolute Return Pools	
Total Absolute Return	10.2
HFRI Fund of Fund Cons 1 month lag	6.2
Total Real Return and Opportunistic	6.6
Real Return and Opportunistic Benchmark [5]	7.1
Short Term Investment Pools	0.4
30 Day Treasury Bill	0.0

1 Calculations 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 1/1/10 to 9/30/10 is S&P Developed BMI-EPAC Net 75/25. History prior to 1/1/10 is S&P Developed BMI-EPAC Net 50/50.

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

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

5 Benchmark is 50% (CPI + 5%) and 50% (actuarial rate 8%).

Largest Assets Held

Largest Stock Holdings (By Market Value)[1]
September 30, 2013

Rank	Shares	Stocks	Market Value
1	$ 207,570	Apple Inc	$ 98,959,113
2	897,329	Johnson & Johnson	77,789,476
3	69,885	Google Inc	61,213,022
4	3,532,262	Bank of America Corp	48,745,217
5	435,595	Exxon Mobil Corporation	37,478,594
6	1,755,554	Schwab (Charles) Corp	37,112,407
7	1,071,115	Microsoft Corp	35,678,829
8	840,830	Wells Fargo & Co	34,743,097
9	427,776	Pepsico Inc	34,008,190
10	273,444	Chevron Corp	33,223,414

Largest Bond Holdings (By Market Value)[2]
September 30, 2013

Rank	Par Amount	Description	Market Value
1	$ 49,120,532	General Electric Cap Corp .4342% FRN Due 2-15-2017	$ 48,318,198
2	19,164,401	Barclays Bank PLC 1.1291% FRN Due 1-13-2014	19,203,458
3	21,035,727	Barclays Bank PLC Due 7-24-2019	19,098,336
4	14,482,367	General Electric Cap Corp .5144% FRN Due 9-15-2014	14,523,121
5	11,569,002	Dow Chemical Co 5.7% Due 5-15-2018	13,353,728
6	12,401,524	Wachovia Corp .5244% FRN Due 6-15-2017	12,239,957
7	12,073,573	Total Capital Canada LTD .6476% FRN Due 1-17-2014	12,086,854
8	9,520,715	Target Corp 5.375% Due 5/1/2017	10,840,476
9	10,540,421	Berkshire Hathaway Fin .5986% FRN Due 1-10-2014	10,549,549
10	9,520,715	Private Export Funding 4.95% Due 11-15-2015	10,395,383

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. 62.95% of the total investment portfolio is managed by fully discretionary outside advisors. The Michigan Department of Treasury's cost of operations applicable to the System for the fiscal year amounted to $3,076 thousand or seven and eight tenths basis points (.078%) of the market value of the Assets under Management of the State Treasurer.

Act 380 of the Public Acts of 1965 created an Investment Advisory Committee (Committee) comprised of the directors of the Department of Licensing and Regulatory 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

	Assets under Management (in thousands)	Fees (in thousands)	Basis Points *
Investment Managers' Fees:			
State Treasurer	$3,948,807	$3,076	7.8
Outside Advisors for			
Fixed Income	361,466	685	18.9
Absolute Return	1,045,973	2,925	28.0
International Equity	1,295,503	2,253	17.4
Domestic Equity	777,059	3,534	45.5
Alternative	2,069,324	13,956	67.4
Real Estate/Infrastructure	1,158,664	2,062	17.8
Total	$10,656,796	$28,491	
Other Investment Services Fees:			
Assets in Custody	$10,469,023	$730	
Securities on Loan	833,236	1,833	

* 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/Infrastructure, the asset management fees range from 40 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, 2013

	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:							
Baird, Robert W., & Co. Inc.	$ 200	5,548	$ 0.04	$ 0.01	$ 0.03	$ 56	$ 166
Banc Of America Securities LLC	19,069	593,973	0.03	0.01	0.02	5,940	11,879
Barclays Capital Inc.	53,147	1,771,578	0.03	0.01	0.02	17,715	35,432
BNY Convergex Execution Solutions LLC	7,084	354,186	0.02	0.01	0.01	3,542	3,542
BTIG LLC	92,474	8,193,588	0.01	0.01		81,936	
Cantor Fitzgerald & Co.	2,626	203,104	0.01	0.01		2,031	
Capital Institutional Services Inc.	32,660	950,111	0.03	0.01	0.02	9,501	19,002
Citigroup Global Markets Inc.	18,606	921,102	0.02	0.01	0.01	9,211	9,211
Cowen & Company LLC	28,544	950,973	0.03	0.01	0.02	9,510	19,020
Credit Suisse Securities LLC	81,055	2,999,217	0.03	0.01	0.02	29,992	59,984
Dahlman Rose & Company LLC	4,470	223,490	0.02	0.01	0.01	2,235	2,235
Deutsche Bank - Alex Brown	493	12,343	0.04	0.01	0.03	123	371
Deutsche Bank Securities Inc.	183	12,123	0.01	0.01		121	
Drexel Hamilton	14,945	498,169	0.03	0.01	0.02	4,982	9,963
Goldman, Sachs & Co.	37	3,719	0.01	0.01		36	
The Griswold Company Inc.	1,721	114,741	0.02	0.01	0.01	1,148	1,148
Guggenhiem Partners LLC	4,029	134,287	0.03	0.01	0.02	1,343	2,686
ISI Capital LLC	45,196	1,506,487	0.03	0.01	0.02	15,065	30,129
Investment Technology Group Inc.	3	268	0.01	0.01		3	
J. P. Morgan Securities Inc.	46,540	1,583,901	0.03	0.01	0.02	15,839	31,678
Keefe, Bruyette & Woods Inc.	535	13,386	0.04	0.01	0.03	134	402
Mischler Financial Group Inc.	13,773	459,106	0.03	0.01	0.02	4,590	9,182
Morgan Stanley & Co. Inc.	67,640	2,304,802	0.03	0.01	0.02	23,048	46,096
OTA LLC	12,634	421,138	0.03	0.01	0.02	4,211	8,423
Pershing LLC	18	1,829	0.01	0.01		18	
RBC Capital Markets	658	65,843	0.01	0.01		659	
Sanford C. Bernstein & Co. LLC	52,204	1,741,315	0.03	0.01	0.02	17,414	34,826
Stifel, Nicolaus & Co. Inc.	1,120	28,193	0.04	0.01	0.03	282	846
UBS Securities LLC	82	8,181	0.01	0.01		82	
Western International Securities Inc.	3,217	160,815	0.02	0.01	0.01	1,608	1,608
William Blair & Co. LLC	297	7,437	0.04	0.01	0.03	75	223
Total	$ 605,260	26,244,953	$ 0.02 (2)	$ 0.01	$ 0.01	$ 262,450	$ 338,052

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

2 The average commission per share for all brokerage firms.

Investment Summary

Fiscal Year Ended September 30, 2013

	Market Value (1)	Percent of Total Market Value	Investment & Interest Income (2)	Percent of Investment & Interest Income
Fixed Income Pools	$ 1,293,882,479	12.1%	$ (4,061,003)	-0.3%
Domestic Equity Pools	2,890,676,827	27.1%	522,128,612	42.6%
Real Estate and Infrastructure Pools	1,158,664,375	10.9%	100,243,417	8.2%
Alternative Investment Pools	2,069,323,796	19.4%	317,484,788	26.0%
International Equity Pools	1,572,908,949	14.8%	220,293,783	18.0%
Absolute Return Pools	1,114,971,641	10.5%	66,211,158	5.4%
Short Term Investment Pools (3)	556,368,083	5.2%	1,107,664	0.1%
Total	$ 10,656,796,150	100.0%	$ 1,223,408,419	100.0%

1 Market value excludes $669,859,393 in security lending collateral for fiscal year 2013.

2 Total Investment & Interest Income excludes net security lending income of $17,132,229 and unrealized gain of $28,248,100 for securities lending collateral.

3 Short term investment pools market value includes $187,773,560 of equity in common cash.

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ACTUARIAL SECTION

ACTUARIAL SECTION

Actuary's Certification

GRS

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Consultants & Actuaries

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October 21, 2013

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 progress towards meeting those financial objectives is illustrated in the Schedules of Funding Progress and the Schedules of Employer Contributions.

We performed actuarial valuations and issued actuarial reports for SERS as of September 30, 2012. The purpose of the September 30, 2012 annual actuarial valuations was to determine the contribution requirements for the fiscal year ending September 30, 2013, 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, 2012.

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, 2013
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 Pension Valuation Data
- Schedule of Changes in the Retirement Rolls
- Prioritized Solvency Tests
- Analysis of System Experience
- Schedule of Active Member OPEB Valuation Data
- Schedule of Changes in the OPEB Rolls

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, 2012 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.

Actuary's Certification (continued

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The signing actuaries are independent of the plan sponsor.

The actuarial valuations of SERS as of September 30, 2012 were performed by qualified actuaries in accordance with standards of practice prescribed by the Actuarial Standards Board and in compliance with applicable State statutes. Louise Gates and Mita Drazilov 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, ASA, MAAA

Mita D. Drazilov, ASA, MAAA

LMG:MDD:mrb

ACTUARIAL SECTION

Summary of Actuarial Assumptions and Methods used in the Pension Valuation

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

2. The healthy life mortality table used in evaluating allowances to be paid was the RP-2000 Combined 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 Pension Valuation Data

Valuation Date Sept. 30	Number	Reported Annual Payroll*	Average Annual Pay	% Increase	Average Age	Average Service
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
2011	19,650	1,276,058	64,939	2.0	51.9	23.3
2012 [1]	17,860	1,551,591	64,703	(0.4)	52.5	24.2

[1] Excludes 516 individuals who became active members of Defined Contribution Plan during the 2011-2012 plan year

* In thousands of dollars

Schedule of Active Member OPEB Valuation Data

Valuation Date Sept. 30	Number	Reported Annual Payroll*	Average Annual Pay	% Increase	Average Age	Average Service
2012	50,609	$ 2,895	$ 57,207		45.4	13.3

* In millions of dollars

Schedule of
Changes in the Retirement Rolls

Year Ended Sept. 30	Added to Rolls No.	Added to Rolls Annual Allowances*	Removed from Rolls No.	Removed from Rolls Annual Allowances*	Rolls–End of Year No.	Rolls–End of Year Annual Allowances*	% Increase in Annual Allowances	Average Annual Allowances
2003 **	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
2011	6,656	205,413	1,470	25,542	55,648	1,113,963	19.3	20,018
2012	2,186	59,238	1,546	29,801	56,288	1,143,400	2.6	20,313

*In thousands of dollars

** Revised actuarial data

Schedule of
Changes in the OPEB Rolls

Year Ended Sept. 30	Added to Rolls No.	Added to Rolls Annual Allowances	Removed from Rolls No.	Removed from Rolls Annual Allowances	Rolls–End of Year No.	Rolls–End of Year Annual Allowances	% Increase in Annual Allowances	Average Annual Allowances
2011					50,194	$ 476,201,244		
2012	1,915	$ 22,869,532	1,530	$ 27,051,759	45,491	472,019,017	(0.9) %	$ 9,332

Notes:

No. refers to the number of retiree health contracts

Annual Allowance added to rolls includes increases due to medical inflation and contract changes.

Annual allowances removed from rolls includes decreases due to contract changes

Prioritized Solvency Test

The System's funding objective is to meet long-term benefit promises through contributions that remain approximately level from year to year as a percent of member payroll. If the contributions to the System are level in concept and soundly executed, the System will pay all promised benefits when due, the ultimate test of financial soundness. Testing for level contribution rates is the long-term solvency test.

A prioritized solvency test is another means of checking a System's progress under its funding program. In a short condition test, the System's present assets (cash and investments) are compared with: (1) active member contributions on deposit; (2) the liabilities for future benefits to present retired lives; and (3) the liabilities for service already rendered by active and inactive members. In a system following the discipline of level percent of payroll financing, the liabilities for active member contributions on deposit (liability 1) and the liabilities for future benefits to present retired lives (liability 2) will be fully covered by present assets (except in rare circumstances). In addition, the liabilities for service already rendered by active members (liability 3) are normally partially covered by the remainder of present assets. Generally, if the System has been using level-cost financing, the funded portion of liability 3 will increase over time. Liability 3 being fully funded is not necessarily a by-product of level percent of payroll funding methods.

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

Pension Benefits
($ in millions)

	Actuarial Accrued Liability (AAL)							
	(1)	(2)	(3)					
Valuation Date Sept. 30	Active Member Contributions	Retirants and Beneficiaries	Active and Inactive Members (Employer Financed Portion)	Valuation Assets	Portion of AAL Covered by Assets (1)	(2)	(3)	(4) [3]
2003	$ 57	$ 7,386	$ 4,318	$ 10,441	100 %	100 %	69.4 %	88.8 %
2004	78	7,503	4,586	10,149	100	100	56.0	83.4
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	138	9,151	5,239	10,782	100	100	28.5	74.2
2010 [2]	138	9,265	5,457	10,782	100	100	25.3	72.6
2011	93	11,197	4,307	10,212	100	90.4	0.0	65.5
2012	121	11,392	4,141	9,447	100	81.9	0.0	60.3

[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)				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)[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
2011		8,418	5,833		0	0	0	0
2012[2]		5,633	3,124	344	0	6.1	0	3.9

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

[2] Revised actuarial assumptions

Analysis of System Experience

Gains/(Losses) in Accrued Liabilities During Year Ended September 30, 2012
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.	$ (4,431,213)
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.	(1,633,660)
3.	**Pay Increases.** If there are smaller pay increases than assumed, there is a gain. If greater increases, a loss.	152,179,426
4.	**Investment Income.** If there is greater investment income than assumed, there is a gain. If less income, a loss.	(850,815,032)
5.	**Death After Retirement.** If retirants live longer than assumed, there is a loss. If not as long, a gain.	(36,066,911)
6.	**Rehires.** Rehires will generally result in an actuarial loss.	(15,044,046)
7.	**Other.** Miscellaneous gains and losses resulting from data adjustments, timing of financial transactions, etc.	(51,798,322)
8.	**Composite Gain (or Loss) During Year**	$ (807,609,758)

Summary of Plan Provisions

Our actuarial valuation of the System as of September 30, 2011, is based on the present provisions of the Michigan State Employees' Retirement Act (Public Act 240 of 1943, as amended).

Regular Retirement (no reduction factor for age)

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

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

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

Early Retirement (age reduction factor used)

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

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

Deferred Retirement (vested benefit)

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

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

Duty Disability Retirement

Eligibility - No age or service requirement.

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

Non-Duty Disability Retirement

Eligibility - 10 years of service.

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

Duty Death Before Retirement

Eligibility - No age or service requirement.

Summary of Plan Provisions (continued)

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

Non-Duty Death Before Retirement

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

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

Post-Retirement Cost-of-Living Adjustments

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

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

Post-Retirement Health Benefits Coverage

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

Member Contributions

None.

Defined Contribution (Public Act 487 of 1996)

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

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

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

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STATISTICAL SECTION

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

STATISTICAL SECTION

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

Contents

Financial Trends

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

- Schedule of Pension Plan Additions by Source
- Schedule of OPEB Plan Additions by Source
- Schedule of Pension Plan Deductions by Type
- Schedule of OPEB Plan Deductions by Type
- Schedule of Changes in Net Position - Pension Plan
- Schedule of Changes in Net Position - 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 Postemployment 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

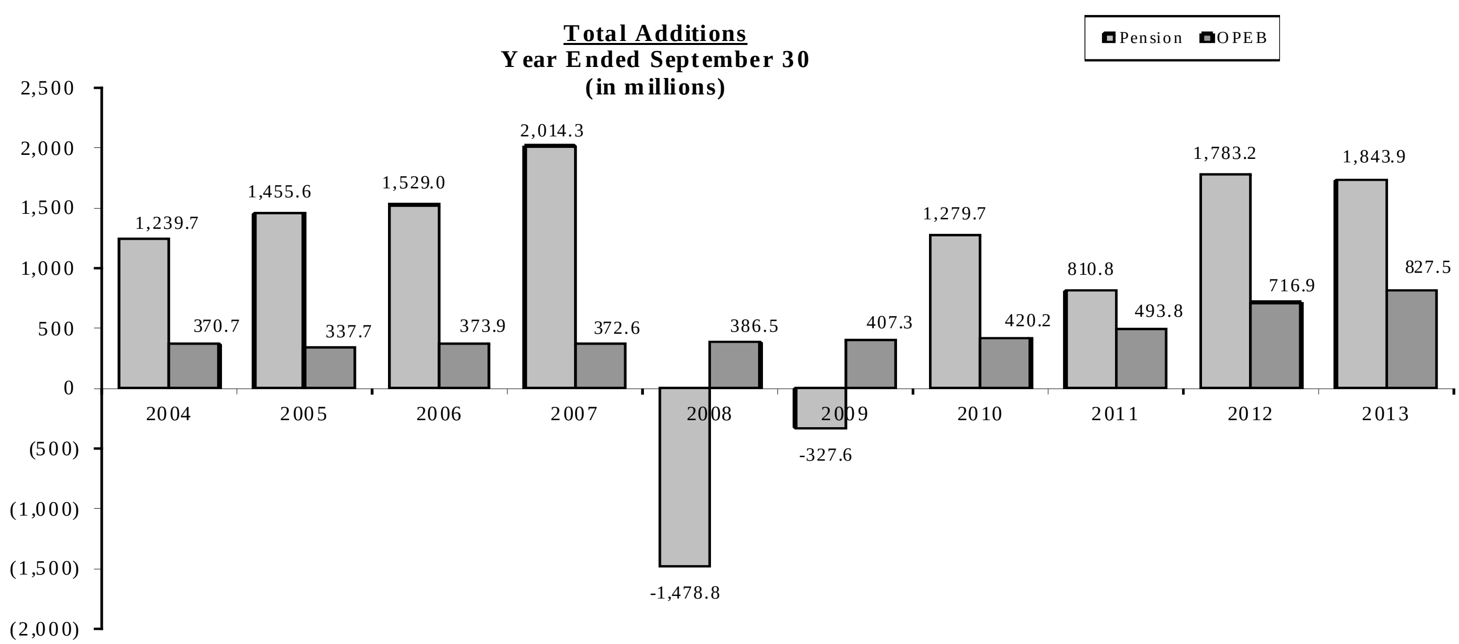
Last Ten Years

Fiscal Year Ended Sept. 30	Member Contributions	Employer Contributions Dollars	Employer Contributions % of Annual Covered Payroll	Net Investment & Other Income	Total
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	3.3	360,432,214	810,809,575
2012	33,290,784	419,926,997	36.3	1,330,021,741	1,783,239,522
2013	53,035,321	604,845,495	NA	1,185,983,179	1,843,863,995

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
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	30.4	77,916,883	493,760,645
2012	27,431,916	648,881,078	56.1	40,613,600	716,926,650
2013	43,590,023	688,348,987	NA	95,530,670	827,469,680



Schedule of Pension Plan Deductions by Type

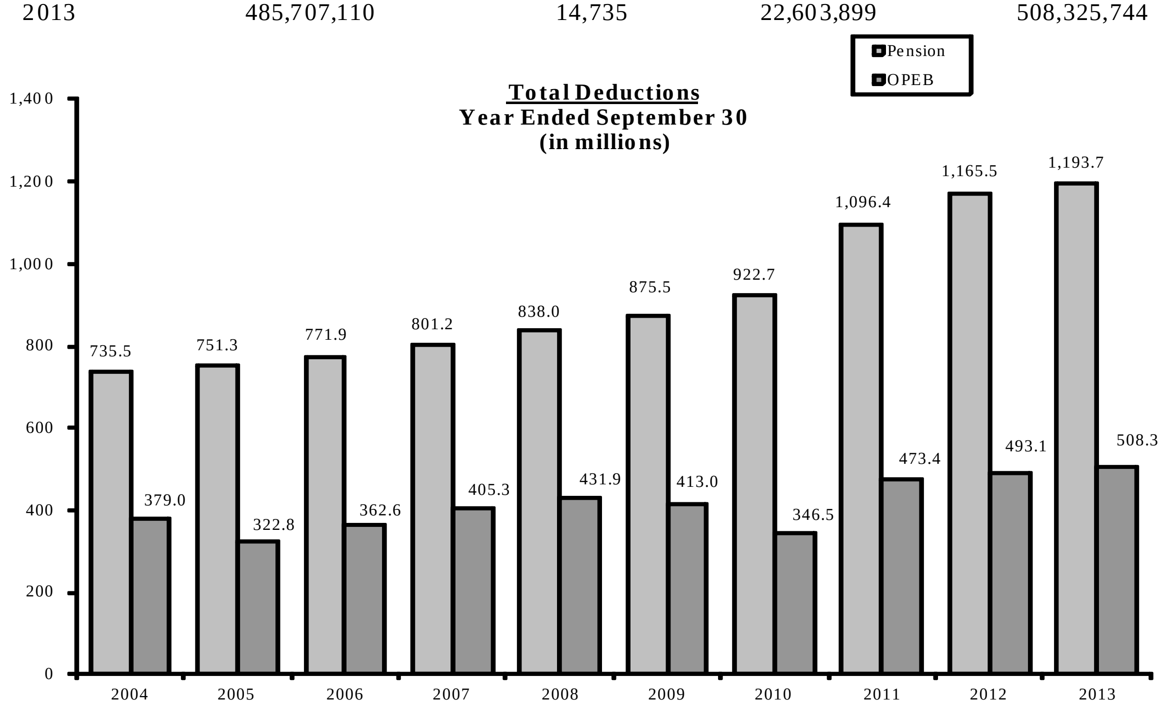
Last Ten Years

Fiscal Year Ended Sept. 30	Benefit Payments	Refunds and Transfers	Administrative and Other Expenses	Total
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
2012	1,156,035,451	188,926	9,253,880	1,165,478,257
2013	1,187,911,357	114,053	5,658,318	1,193,683,728

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
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
2012	476,508,499	16,904	16,618,156	493,143,559
2013	485,707,110	14,735	22,603,899	508,325,744



Schedule of Changes in Net Position - Pension Plan

Last Ten Years
(in thousands)

	Fiscal Year									
	2004	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**
Member contributions	$ 37,683	$ 30,395	$ 9,435	$ 19,696	$ 5,644	$ 6,995	$ 26,056	$ 25,831	$ 33,291	$ 53,035
Employer contributions	103,873	256,433	270,705	150,858	355,732	343,787	369,953	424,547	419,927	604,845
DC savings subaccount										
Net investment income	1,073,758	1,168,690	1,248,616	1,801,588	(1,840,587)	(678,588)	883,511	360,284	1,329,925	1,185,726
Transfer from other systems	26	120	123	106	190	93	50	2		1
Transfer from pension/ OPEB plan	24,364			41,304						
Miscellaneous income	2	2	106	766	184	133	135	146	96	256
Total Additions	1,239,706	1,455,640	1,528,985	2,014,318	(1,478,837)	(327,579)	1,279,705	810,810	1,783,240	1,843,864
Pension benefits	731,009	746,673	767,000	795,842	832,553	870,279	917,329	1,089,823	1,156,035	1,187,911
Refunds of member contributions	163	292	254	222	291	316	299	470	189	105
Transfer to pension/ OPEB plan										
Transfers to other systems	20	15	3	8	83	50	17	5		9
Administrative and other expenses	4,317	4,298	4,628	5,115	5,049	4,865	5,073	6,079	9,254	5,658
Total Deductions	735,509	751,278	771,885	801,187	837,976	875,510	922,718	1,096,377	1,165,478	1,193,684
Changes in net position	$ 504,197	$ 704,362	$ 757,100	$ 1,213,131	$ (2,316,813)	$ (1,203,089)	$ 356,987	$ (285,567)	$ 617,762	$ 650,180

Schedule of Changes in Net Position - OPEB Plan

Last Ten Years
(in thousands)

	Fiscal Year									
	2004	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**
Member contributions	$ 9,723	$ 10,702	$ 11,528	$ 11,761	$ 13,100	$ 20,983	$ 20,905	$ 27,648	$ 27,432	$ 43,590
Employer contributions	357,555	324,305	356,674	359,375	342,187	362,419	360,126	388,196	648,881	688,349
Other governmental contributions					23,004	21,987	27,058	64,773	23,774	41,514
DC savings subaccount										
Net investment income	3,381	2,712	5,661	1,500	657	1,359	11,815	12,851	16,592	53,592
Transfers from other systems					6,884					
Transfer from pension/ OPEB plan										
Miscellaneous income					698	516	278	293	248	425
Total Additions	370,659	337,719	373,863	372,636	386,530	407,263	420,182	493,761	716,927	827,470
Health care benefits	354,650	322,834	362,598	363,975	377,513	392,135	330,513	456,879	476,508	485,707
Refunds of member contributions					2	2	11	21	17	15
Transfer to pension/ OPEB plan	24,364			41,304						
Transfers to other systems					35,000					
Administrative and other expenses					19,394	20,897	15,956	16,536	16,618	22,604
Total Deductions	379,014	322,834	362,598	405,279	431,909	413,034	346,479	473,436	493,144	508,326
Changes in net position	$ (8,355)	$ 14,885	$ 11,265	$ (32,643)	$ (45,379)	$ (5,771)	$ 73,702	$ 20,325	$ 223,783	$ 319,144

Schedule of Pension Benefits and Refunds by Type

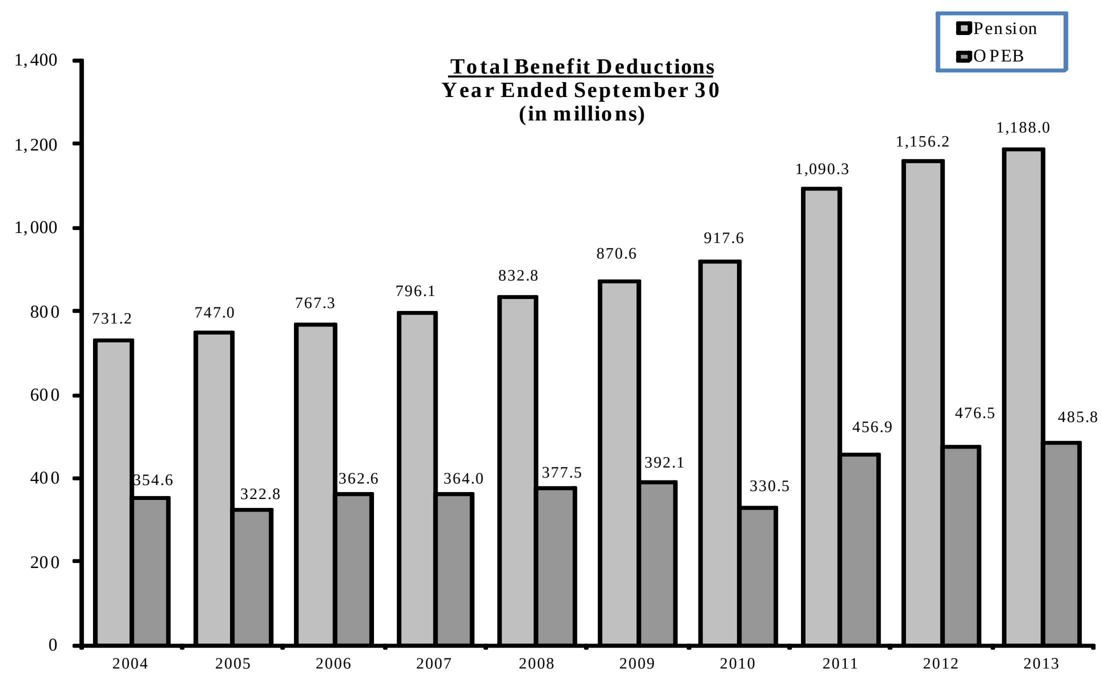
Last Ten Years

Fiscal Year Ended Sept. 30	Regular Benefits	Disability Benefits	Survivor Benefits	Refunds: Employee Contribution	Refunds: Employer Contribution	Refunds: Retired Benefit	Refunds: Investment Income	Total
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
2012	1,020,591,855	44,263,358	91,180,238	54,635	111,837	20,419	$ 2,035	1,156,224,377
2013	1,046,440,379	44,960,182	96,510,796	46,830	47,317	11,111		1,188,016,615

Schedule of OPEB Benefits and Refunds by Type

Last Ten Years

Fiscal Year Ended Sept. 30	Health Benefits	Dental Benefits	Vision Benefits	Personal Health Care	Health Reimbursement Acct	Health Refunds	Total
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
2012	433,878,978	37,327,504	3,961,792	$ 1,340,225		16,904	476,525,403
2013	440,197,204	37,726,459	3,377,956	$ 4,433,182	$10,126	14,735	485,759,661



Schedule of Retired Members by Type of Pension Benefit

September 30, 2013

Amount of Monthly Pension Benefit	Number of Retirees	Type of Retirement * 1	2	3	4	5	6	7	8
$ 1 - 200	437	254	127	5	34		9	1	7
201 - 400	2,179	1,423	405	11	216	1	42	2	79
401 - 600	3,983	2,417	625	28	549	1	138	9	216
601 - 800	4,965	2,836	634	189	726	16	236	27	301
801 - 1,000	4,614	2,800	554	7	678	1	214	91	269
1,001 - 1,200	4,241	2,585	409	18	634	1	204	145	245
1,201 - 1,400	4,213	2,760	364	9	532		191	204	153
1,401 - 1,600	4,363	3,088	365	11	344		151	289	115
1,601 - 1,800	4,178	3,234	287	5	192	1	95	302	62
1,801 - 2,000	3,921	3,094	221	7	119		77	357	46
Over 2,000	19,194	16,053	470	3	105		141	2,355	67
Totals	56,288	40,544	4,461	293	4,129	21	1,498	3,782	1,560

* 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, 2013

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	437	116	134	128	5	37	7	10	
201 - 400	2,179	852	588	469	43	144	38	43	2
401 - 600	3,983	1,565	1,134	676	87	293	89	128	11
601 - 800	4,965	2,043	1,266	792	105	464	117	174	4
801 - 1,000	4,614	1,786	1,204	748	116	484	93	171	12
1,001 - 1,200	4,241	1,787	1,210	646	126	265	65	129	13
1,201 - 1,400	4,213	1,881	1,241	645	125	186	50	76	9
1,401 - 1,600	4,363	1,921	1,336	704	177	129	54	39	3
1,601 - 1,800	4,178	1,730	1,310	764	200	84	49	32	9
1,801 - 2,000	3,921	1,594	1,191	671	254	86	65	43	17
Over 2,000	19,194	7,230	5,133	3,458	1,399	997	341	468	168
Totals	56,288	22,505	15,747	9,701	2,637	3,169	968	1,313	248

**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, 2012

Amount of Monthly Pension Benefit	Retired Members	Type of Other Postemployment Benefits		
		Health	Dental	Vision
$ 1 - 200	437	232	238	238
201 - 400	2,179	1,372	1,394	1,387
401 - 600	3,983	2,986	3,030	3,037
601 - 800	4,965	4,107	4,147	4,130
801 - 1,000	4,614	3,971	4,001	4,011
1,001 - 1,200	4,241	3,748	3,774	3,779
1,201 - 1,400	4,213	3,814	3,832	3,831
1,401 - 1,600	4,363	4,014	4,041	4,042
1,601 - 1,800	4,178	3,843	3,869	3,867
1,801 - 2,000	3,921	3,646	3,682	3,671
Over 2,000	19,194	17,787	18,002	17,966
Totals	56,288	49,520	50,010	49,959

Source: Gabriel Roeder Smith & Co.

Schedule of Other Postemployment Benefits

For the Year Ended September 30, 2013

	2013
Claims	
Health Insurance	$ 415,040,813
Vision Insurance	3,068,318
Dental Insurance	36,753,378
Total Claims	454,862,509
Estimated Claims Liability	
Health Insurance	25,118,574
Vision Insurance	309,638
Dental Insurance	973,081
Total Estimated Claims Liability	26,401,293
Administrative Fees	
Health Insurance	20,443,264
Vision Insurance	500,644
Dental Insurance	1,659,991
Total Administrative Fees	22,603,899
Subtotal	
Refunds	14,735
Personal Health Care	4,433,182
Health Reimbursement Account	10,126
Grand Total	$ 508,325,744

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 10/1/02 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
Period 10/1/10 to 9/30/11								
Average Monthly Benefit	$ 987	$ 1,005	$ 670	$ 993	$ 1,373	$ 1,850	$ 2,440	$ 1,668
Average Final Average Salary	31,075	39,981	35,412	39,132	43,695	47,053	54,109	45,804
Number of Active Retirants	1,298	1,386	7,139	7,656	8,199	11,216	18,754	55,648
Period 10/1/11 to 9/30/12								
Average Monthly Benefit	$ 1,048	$ 1,079	$ 692	$ 1,027	$ 1,407	$ 1,881	$ 2,464	$ 1,693
Average Final Average Salary	31,733	41,222	36,014	40,175	44,698	48,067	54,671	46,556
Number of Active Retirants	1,539	1,592	7,155	7,655	8,279	11,311	18,757	56,288

Source: Gabriel Roeder Smith & Co.

Schedule of Average Benefit Payments - Health

Last Six 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 10/1/06 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
Period 10/1/10 to 9/30/11								
Average Monthly Benefit	$ 1,060	$ 995	$ 707	$ 1,017	$ 1,402	$ 1,875	$ 2,484	$ 1,721
Average Final Average Salary	32,687	39,054	36,121	39,281	43,823	46,829	53,921	46,043
Number of Active Retirants	1,057	1,358	5,678	6,542	7,454	10,241	16,843	49,171
Period 10/1/11 to 9/30/12								
Average Monthly Benefit	$ 1,120	$ 1,075	$ 731	$ 1,055	$ 1,439	$ 1,910	$ 2,512	$ 1,751
Average Final Average Salary	33,240	40,547	36,734	40,426	44,805	47,850	54,591	46,845
Number of Active Retirants	1,257	1,526	5,612	6,520	7,503	10,286	16,816	49,520

Source: Gabriel Roeder Smith & Co.

Schedule of Average Benefit Payments - Dental

Last Six 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 10/1/06 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
Period 10/1/10 to 9/30/11								
Average Monthly Benefit	$ 1,060	$ 985	$ 706	$ 1,020	$ 1,404	$ 1,879	$ 2,488	$ 1,724
Average Final Average Salary	32,815	39,018	36,186	39,483	43,935	46,955	54,041	46,163
Number of Active Retirants	1,058	1,380	5,761	6,587	7,487	10,300	17,014	49,585
Period 10/1/11 to 9/30/12								
Average Monthly Benefit	$ 1,116	$ 1,061	$ 730	$ 1,056	$ 1,440	$ 1,912	$ 2,515	$ 1,752
Average Final Average Salary	33,242	40,446	36,738	40,577	44,914	47,929	54,697	46,926
Number of Active Retirants	1,265	1,552	5,722	6,574	7,533	10,360	17,004	50,010

Source: Gabriel Roeder Smith & Co.

Schedule of Average Benefit Payments - Vision

Last Six Years

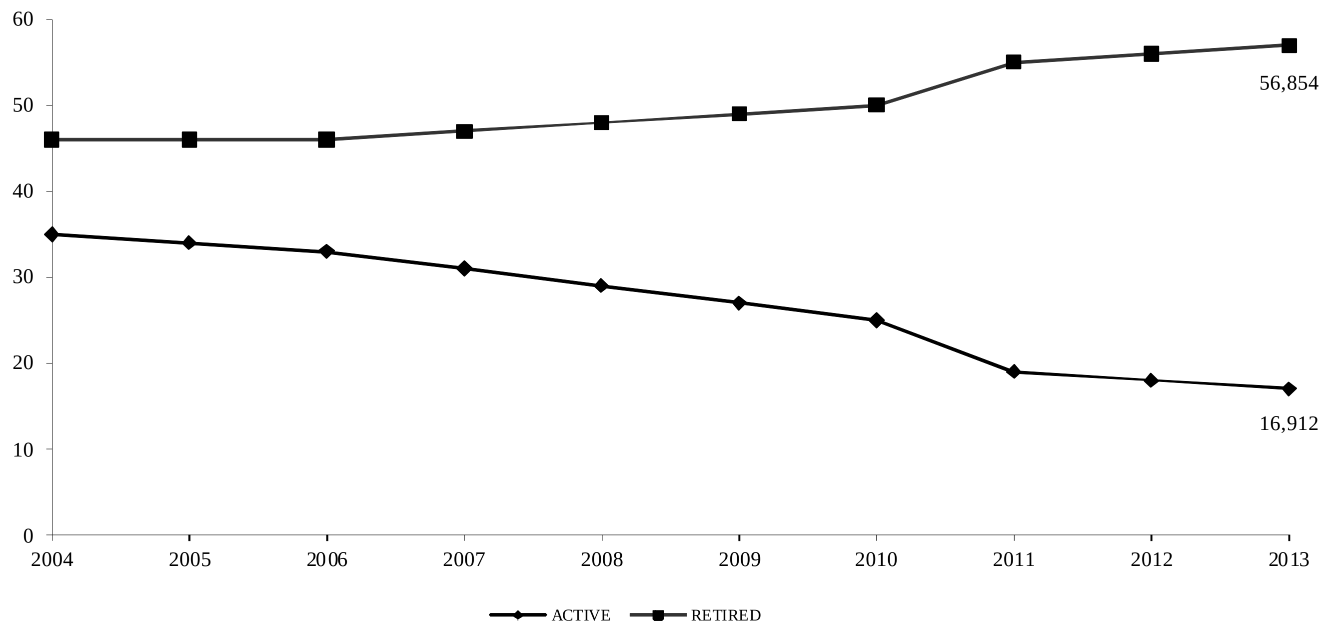
Payment Periods	Credited Service (Years) as of September 30							
	0 - 5	5 - 10	10 - 15	15 - 20	20 - 25	25 - 30	30+	Total
Period 10/1/06 to 9/30/07								
Average Monthly Benefit	$ 367	$ 465	$ 596	$ 882	$ 1,225	$ 1,727	$ 2,175	$ 1,467
Average Final Average Salary	26,042	34,121	32,874	35,234	38,304	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
Period 10/1/10 to 9/30/11								
Average Monthly Benefit	$ 1,060	$ 986	$ 706	$ 1,019	$ 1,404	$ 1,878	$ 2,487	$ 1,723
Average Final Average Salary	32,787	39,015	36,150	39,380	43,901	46,904	54,014	46,119
Number of Active Retirants	1,059	1,379	5,745	6,600	7,485	10,312	16,995	49,575
Period 10/1/11 to 9/30/12								
Average Monthly Benefit	$ 1,119	$ 1,064	$ 731	$ 1,055	$ 1,439	$ 1,910	$ 2,514	$ 1,751
Average Final Average Salary	33,334	40,464	36,727	40,487	44,846	47,885	54,663	46,886
Number of Active Retirants	1,262	1,549	5,695	6,583	7,528	10,363	16,979	49,959

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 2012-2013 report included:

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Special thanks are also extended to the Office of Retirement Services personnel, accounting and support personnel throughout Financial Services, Department of Community Health cashiering personnel, Investments Division of Treasury, Office of the Auditor General, Gabriel Roeder Smith & Co., and the staff at the Office of Financial Management. Preparation of this report would not have been possible without the efforts of these individuals.

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