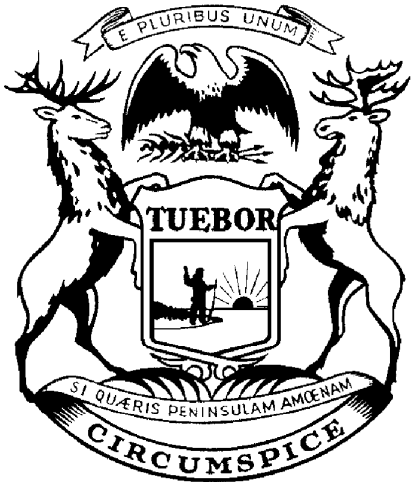
Comprehensive Annual Financial Report
Of the

Michigan Judges' Retirement System

A Pension Fund of the State of Michigan

For the Fiscal Year Ended September 30, 2005

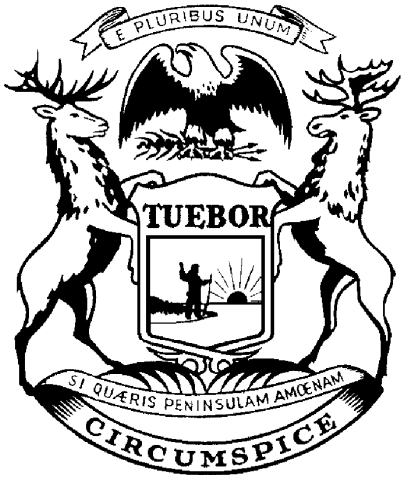


M J R S

Prepared by:
Financial Services
For
Office of Retirement Services

Michigan Judges' Retirement System
a Pension Trust Fund of the State of Michigan

Comprehensive Annual Financial Report for the Fiscal Year Ended September 30, 2005



M J R S

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

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INTRODUCTORY SECTION

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Certificate of Achievement

Certificate of Achievement for Excellence in Financial Reporting

Presented to

Michigan Judges' Retirement System

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
September 30, 2004

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

President

Executive Director

Public Pension Standards Award

Public Pension Coordinating Council

Public Pension Standards

2005 Award

Presented to

Michigan Office of Retirement Services

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

Presented by the Public Pension Coordinating Council, a confederation of

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

Alan H. Winkle
Program Administrator

INTRODUCTORY SECTION

Letter of Transmittal

Michigan Judges' Retirement System
P.O. Box 30171
Lansing, Michigan 48909-7671
Telephone 517- 322-5103
Outside Lansing 1-800-381-5111

STATE OF MICHIGAN

JENNIFER M. GRANHOLM, Governor

DEPARTMENT OF MANAGEMENT AND BUDGET

December 5, 2005

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

Members of the Legislature
State of Michigan,

Retirement Board Members
and
Members, Retirees and Beneficiaries

Ladies and Gentlemen:

We are pleased to present the comprehensive annual financial report of the Michigan Judges' Retirement System (System) for fiscal year 2005.

INTRODUCTION TO REPORT

The System was established by legislation under Public Act 234 of 1992 which consolidated the Judges' and former Probate Judges' retirement systems. The System is administered by the Office of Retirement Services (ORS). The number of active and retired members and beneficiaries of the System 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 judges. The services performed by the staff provide benefits to members.

Responsibility

Responsibility for both the accuracy of the data and the completeness and fairness of the presentation, including all disclosures, rests with the leadership team of the System. To the best of our knowledge and belief, the enclosed data is accurate in all material respects and is reported in a manner designed to present fairly the financial position and results of operations of the System.

Letter of Transmittal (Continued)

Internal Control Structure

The leadership team of the System is responsible for maintaining adequate internal accounting controls designed to provide reasonable assurance that transactions are executed in accordance with management's general or specific authorization, and are recorded as necessary to maintain accountability for assets and to permit preparation of financial statements in accordance with accounting principles generally accepted in the United States of America. The internal control structure is designed to provide reasonable assurance regarding the safekeeping of assets and reliability of all financial records.

Independent Auditors

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

Statute requires that 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. This annual actuarial valuation was completed by the Segal Company for the fiscal years ended September 30, 2005, and 2004. Actuarial certification and supporting statistics are included in the Actuarial Section of this report.

Report

The 2005 comprehensive annual financial report is presented in five sections. The Introductory Section contains the transmittal letter and identifies the administrative organization and professional consultants used by the System. The Financial Section contains the independent auditor's report, management's discussion and analysis, financial statements and notes of the System and certain supplemental schedules. The Investment Section summarizes investment activities. The Actuarial Section contains the independent consulting actuary's certification, an outline of actuarial assumptions and methods, and other actuarial statistics. The Statistical Section contains statistical tables of significant data pertaining to the System, and a schedule of participating employers.

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

Public Act 234 of 1992 authorized the merger of the Probate Judges' Retirement Fund into the Judges' Retirement Fund by requiring the consolidation of all assets, rights, and obligations under the former Judges' and Probate Judges' Retirement Funds. The Judges' Retirement Board, with the director of the Office of Retirement Services as the Executive Secretary, administers the consolidated fund. Financing comes from member contributions, court filing fees as provided under law, investment earnings, and legislative appropriations.

Public Act 523 of 1996, effective March 31, 1997, closed the plan to new entrants. Judges or state officials newly appointed or elected on or after March 31, 1997, become members of the State's defined contribution plan.

ECONOMIC CONDITIONS AND OUTLOOK

Despite challenging economic times, the System continues to show strong performance.

Letter of Transmittal (Continued)

Investments

The State Treasurer is the investment fiduciary and custodian of all investments of the System pursuant to State law. The primary investment objective is to maximize the rate of return on the total investment portfolio, consistent with a high degree of prudence and sufficient diversity to eliminate inordinate risks and to meet the actuarial assumption for the investment return rate. The investment activity for the year produced a total rate of return on the portfolio of 12.2%. For the last five years, the System has experienced an annualized rate of return of 3.1%. A summary of asset allocation and rates of return can be found in the Investment Section of this report.

Accounting System

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

Funding

Funds are derived from the excess of additions to plan net assets over deductions from plan net assets. Funds are accumulated by the System in order to meet future benefit obligations to retirees and beneficiaries. The percentage computed by dividing the actuarial value of assets by the actuarial accrued liability is referred to as the "funded ratio." This ratio provides an indication of the funding status of the System and generally, the greater this percentage, the stronger the System. As of September 30, 2005, the actuarial value of the assets and actuarial accrued liability of the System were $278.4 million and $243.4 million, respectively, resulting in a funded ratio of 114.4%. As of September 30, 2004, the amounts were $286.9 million and $236.4 million, respectively. 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

The System also administers the postemployment health benefits (health, dental, and vision) offered to eligible retirees. The benefits are funded on a cash or "pay-as-you-go" basis. An actuarial valuation was completed to determine the actuarial accrued liability if the benefits were to be pre-funded. If these benefits were pre-funded, the actuarial accrued liability for these benefits would be approximately $4.6 million and the employer contribution for health care benefits would be 6.12%.

MAJOR GOALS ACCOMPLISHED

The Michigan Department of Management and Budget, Office of Retirement Services continues to anticipate and rise to the demands of an increasing and longer-lived retirement population. ORS is committed to being responsive to our customers' needs through the thoughtful application of technology and the streamlining of processes. In this fiscal year, we reaped the initial benefits of our Vision ORS technology in mail management, employer reporting and customer call management and settled in to work on the next set of system improvements. Here are some of the highlights.

Focus on Our Customer

To ensure that we are giving customers the best possible service, ORS implemented a quality monitoring system in the call center. Through this tool, managers and employees can and do listen to their calls in an effort to improve and maintain the highest quality response/interaction with customers. These calls, selected at random, are evaluated for completeness, quality and courtesy of the responses. This training and staff management tool has served to validate the quality we already offer and allows us to focus training and coaching in the right areas.

Letter of Transmittal (Continued)

Promote a Positive Work Environment

The 2005 fiscal year was a time to focus on who we are and what we believe. ORS participated with all of state government in living the values of Integrity, Inclusion, Teamwork and Excellence. As part of that effort, all managers and supervisors participated in an MI-360 evaluation. This evaluation gave staff insight as to how they were perceived by their direct reports, their peers and their managers. This enlightening training has helped ORS managers become more effective and understanding leaders. In addition to the MI-360, ORS embarked on organization-wide Foundation Training. This training helped all staff understand our process-based organization, why it is successful, and how each person contributes to making ORS even more successful.

To promote a safe working atmosphere, ORS articulated and documented the safeguards needed to protect ORS's staff, equipment, data and property. From what to do in case of a fire to discontinuing system access when an employee leaves, the Security Handbook addresses the steps needed to keep our employees safe and our data secure. We also renovated our Detroit office in a way that preserves the confidentiality of our customer conversations, but provides a greater measure of safety for our employees.

Optimize Technology

ORS is advancing to the next phase of our Vision ORS project: replacing the benefit processing and payment system. This new functionality will allow faster, easier completion of everyday transactions, allowing ORS to process the higher volumes of work expected from our growing and long-lived retiree population.

We continue to diminish the paper that travels through our office. The scanning and indexing solution has increased confidentiality and simplified access to files. Until 2005, we were still creating paper requests to fill a large number of customer requests. By deploying electronic ticketing, all those requests are created, tracked and resolved electronically.

ORS regularly surveys its customers to make certain we are meeting needs. Results from a recent retiree satisfaction survey showed an overall satisfaction rate of 93.9%. We also survey a random sample of active members and retirees who have called us during the year with questions or concerns. Results from this contact survey showed an overall satisfaction rate of 85.0%. The information gained from these surveys helps assure both active members and retirees of ever-improving customer service from ORS.

AWARDS AND ACKNOWLEDGEMENTS

Certificate of Achievement

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the System for its comprehensive annual financial report for the fiscal year ended September 30, 2004. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both accounting principles generally accepted in the United States of America and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. The System has received a Certificate of Achievement for 14 consecutive years. We believe our current report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

Public Pension Standards Award

The Public Pension Coordinating Council, a confederation of the National Association of State Retirement Administrators (NASRA), the National Conference on Public Employee Retirement Systems (NCPERS), and the National Council on Teacher Retirement (NCTR), awarded Michigan Office of Retirement Services (ORS) the Public Pension Standards Award for recognition of meeting professional standards for plan design and administration as set forth in the standards for fiscal year 2005. This is the second year ORS has achieved this distinction.

INTRODUCTORY SECTION

Letter of Transmittal (Continued)

Acknowledgments

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, 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 Judges' Retirement System. Their cooperation contributes significantly to the success of the System.

Sincerely,

Lisa Webb Sharpe, Director
Department of Management and Budget

Christopher M. DeRose, Director
Office of Retirement Services

Administrative Organization

Retirement Board Members*

Francis Spaniola
Trustee (General Public)
Term Expires March 31, 2007

George M. Elworth
Representing Attorney General
Statutory Member

Mark Haas, Vice Chair
Representing State Treasurer
Statutory Member

Judge Alton Davis
Representing Active Judges
Term Expires March 31, 2009

Chris J. Swope
Trustee (General Public)
Term Expires March 31, 2007

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

Administrative Organization

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

Advisors and Consultants

Actuary
The Segal Company
Michael J. Karlin, F.S.A., M.A.A.A.
New York, New York

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

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

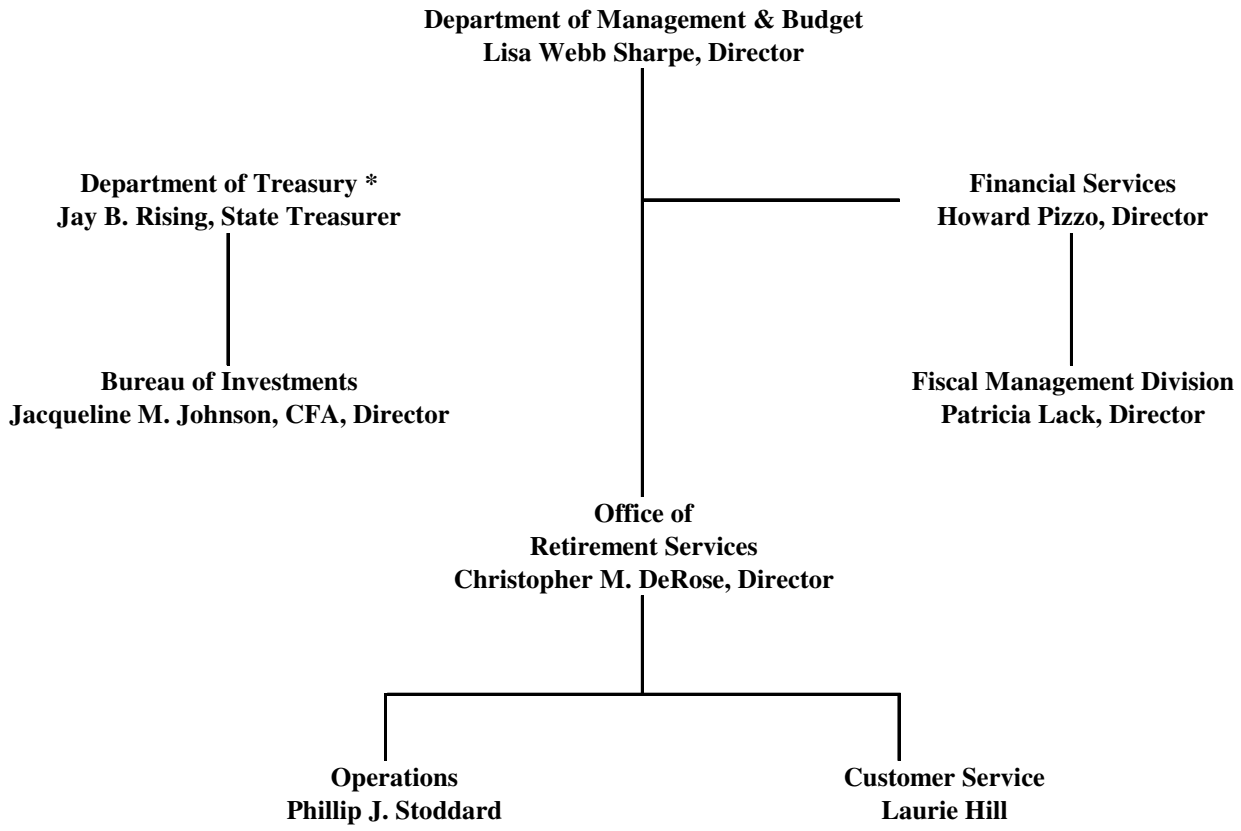
Investment Manager and Custodian
Jay B. Rising
State Treasurer
State of Michigan

Legal Advisor
Mike Cox
Attorney General
State of Michigan

Investment Performance Measurement
State Street Corporation
State Street 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
Notes to Required Supplementary Information
Supporting Schedules

FINANCIAL SECTION

Independent Auditor's Report

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

Ms. Lisa Webb Sharpe, Director, Department of Management and Budget
Mr. Christopher M. DeRose, Director, Office of Retirement Services
Mr. Thomas H. McTavish, CPA, Auditor General, Office of the Auditor General
Michigan Judges' Retirement System Board

We have audited the accompanying statements of pension plan and postemployment healthcare plan net assets of the Michigan Judges' Retirement System, as of September 30, 2005 and 2004, and the related statements of changes in pension plan and postemployment healthcare plan net assets for the years then ended. These financial statements are the responsibility of the management of the Michigan Judges' Retirement System. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial status of the Michigan Judges' Retirement System, as of September 30, 2005 and 2004, and the changes in its financial status for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 2, 2005 on our consideration of the Michigan Judges' Retirement System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in conjunction with this report in considering the results of our audit.

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

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

Andrews Hooper & Pavlik P.L.C.

Okemos, Michigan
December 2, 2005

4295 Okemos Road, Suite 200 • Okemos, Michigan 48864 • ph 517.487.5000 fx 517.487.9535 • www.ahpplc.com

Management's Discussion and Analysis

Our discussion and analysis of the Michigan Judges' Retirement System's (System) financial performance provides an overview of the System's financial activities for the fiscal year ended September 30, 2005. 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 2005 by $284.1 million (reported as *net assets*). Net assets are held in trust to meet future benefit payments.
- The System's funding objective is to meet long-term benefit obligations through contributions and investment income. As of September 30, 2005, the funded ratio was approximately 114.4 %.
- Revenues for the year were $34.8 million, which is comprised of member contributions of $2.5 million, court fees of $249.8 thousand, and investment gains of $32.0 million.
- Expenses increased over the prior year from $18.4 million to $18.5 million or 0.4%

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

This Comprehensive Annual Financial Report (CAFR) consists of two financial statements; *The Statement of Pension Plan and Postemployment Healthcare Plan Net Assets* (page 20) and *The Statement of Changes in Pension Plan and Postemployment Healthcare Plan Net Assets* (page 21*)*. These financial statements report information about the System, as a whole, and about its financial condition that should help answer the question: Is the System, as a whole, better off or worse off as a result of this year's activities? These statements include all assets and liabilities using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis of accounting, all revenues and expenses are taken into account regardless of when cash is received or paid.

The Statement of Pension Plan and Postemployment Healthcare Plan Net Assets presents all of the System's assets and liabilities, with the difference between the two reported as net assets. Over time, increases and decreases in net assets measure whether the System's financial position is improving or deteriorating. *The Statement of Changes in Pension Plan and Postemployment Healthcare Plan Net Assets* presents how the System's net assets changed during the most recent fiscal year. These two financial statements should be reviewed along with the Schedule of Funding Progress and Schedule of Employer Contributions 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, 2005, were $301.1 million and were mostly comprised of cash and investments. Total assets increased $15.2 million or 5.3% between fiscal years 2004 and 2005 and increased $24.3 million or 9.3% between fiscal years 2003 and 2004.

Total liabilities as of September 30, 2005, were $17.0 million and were comprised of warrants outstanding, accounts payable, and obligations under securities lending. Total liabilities decreased $1.1 million or 6.1% between fiscal years 2004 and 2005 and increased $11.0 million or 154.2% from fiscal year 2003 to fiscal year 2004.

System assets exceeded its liabilities at the close of fiscal year 2005 by $284.1 million. Total net assets held in trust for pension and health benefits increased $16.3 million or 6.1% between fiscal years 2004 and 2005 and increased $13.3 million or 5.2% between fiscal years 2003 and 2004.

Net Assets
(in thousands)

	2005	Increase/ (Decrease)	2004	Increase/ (Decrease)	2003
Assets					
Cash	$ 1,436	(33.4) %	$ 2,155	88.7 %	$ 1,142
Receivables	90	34.3	67	(91.4)	783
Investments	299,568	5.6	283,702	9.2	259,738
Total Assets	301,094	5.3	285,924	9.3	261,663
Liabilities					
Warrants Outstanding	44	(6.4)	47	(38.1)	76
Accounts payable and other accrued liabilities	1	(66.7)	3	(96.3)	82
Obligations under securities lending	16,973	(6.1)	18,077	159.2	6,974
Total Liabilities	17,018	(6.1)	18,127	154.2	7,132
Total Net Assets	$ 284,076	6.1 %	$ 267,797	5.2 %	$ 254,531

REVENUES - ADDITIONS TO PLAN NET ASSETS

The reserves needed to finance retirement and health benefits are accumulated through the collection of member contributions, earnings on investments, and court fees. Contributions, net investment income/(losses) and court fees for fiscal year 2005 totaled $34.8 million.

Total contributions, net investment income, and court fees increased $3.1 million from those of fiscal year 2004 due primarily to increased investment earnings. Total contributions, court fees and net investment income decreased $5.9 million or 15.7% from fiscal year 2003 to fiscal year 2004 due primarily to decreased investment earnings. Investment income increased between fiscal years 2004 and 2005 by $3.2 million or 11.0%. Investment income decreased between fiscal year 2003 and fiscal year 2004 by $5.7 million or 16.6%. Court fees totaled $249.8 thousand in fiscal year 2005 as compared to $215.0 thousand in fiscal year 2004. The Investment Section of this report reviews the results of investment activity for 2005.

Management's Discussion and Analysis (Continued)

EXPENSES - DEDUCTIONS FROM PLAN NET ASSETS

The primary expenses of the System include the payment of pension benefits to members and beneficiaries, payment for health, dental and vision benefits, refund of contributions to former members, and the cost of administering the System. Total deductions for fiscal year 2005 were $18.5 million, an increase of 0.4% from fiscal year 2004 expenses. Total deductions for fiscal year 2004 were $18.4 million, an increase of 3.4% from fiscal year 2003 expenses.

Health, dental and vision care expenses decreased during the year by $65.8 thousand or 11.5% from $576.0 thousand to $510.2 thousand during the fiscal year due primarily to a decrease in retiree health rates. This compares to an increase of $11.2 thousand or 1.9% from $564.8 thousand to $576.0 thousand between fiscal years 2003 and 2004. The payment of pension benefits increased by $257.0 thousand or 1.5% between fiscal years 2004 and 2005, and by $812.9 thousand or 4.9% from fiscal year 2003 to 2004. The increase between 2004 and 2005 was due primarily to increasing individual benefits for new retirees. The increase between 2003 and 2004 was due primarily to COLA adjustments as well as increasing individual benefits for new retirees. Refunds of contributions to members decreased by $67.8 thousand or 100.0% in fiscal year 2005, while refunds of contributions to members increased by $66.7 thousand or 6700.0% between fiscal years 2003 and 2004. This fluctuation is due to one refund of $67,792 to a single member in fiscal year 2004. Administrative expenses decreased by $42.2 thousand or 20.0% between fiscal years 2004 and 2005. This decrease was due primarily to declines in consulting and audit expenses. Administrative expenses decreased by $290.0 thousand or 58.0% between fiscal years 2003 and 2004. This decrease was due primarily to declines in staff salaries and actuarial expenses.

Changes in Plan Net Assets
(in thousands)

	2005	Increase/ (Decrease)	2004	Increase/ (Decrease)	2003
Member Contributions	$ 2,528	(3.8) %	$ 2,628	(4.1) %	$ 2,740
Net Investment Income/Loss	31,977	11.0	28,818	(16.6)	34,560
Miscellaneous Income	250	16.3	215	(18.9)	265
Total Additions	34,755	9.8	31,661	(15.7)	37,565
Pension Benefits	17,798	1.5	17,541	4.9	16,728
Health Care Benefits	510	(11.5)	576	1.9	565
Refunds & Transfers to Other Systems	0	(100.0)	68	6,700.0	1
Administrative Expenses	168	(20.0)	210	(58.0)	500
Total Deductions	18,476	0.4	18,395	3.4	17,794
Net Increase (Decrease)	16,279	22.7	13,266	(32.9)	19,771
Net Assets Beginning of Year	267,797	5.2	254,531	8.4	234,760
Net Assets End of Year	$ 284,076	6.1 %	$ 267,797	5.2 %	$ 254,531

Management's Discussion and Analysis (Continued)

RETIREMENT SYSTEM AS A WHOLE

The System's combined net assets have experienced increases for 2005, 2004 and 2003 that preceded decreases in the previous two years. This increase is a result of a moderate national economic upturn that resulted in investment income earnings. Management believes, and actuarial studies concur, that the System is in a financial position to meet its current obligations. We believe the current financial position has improved, in part, due 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.

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Statements of Pension Plan and Postemployment Healthcare Plan Net Assets

As of Fiscal Years Ending September 30, 2005 and 2004

	September 30, 2005			September 30, 2004		
	Pension Plan	Health Plan	Total	Pension Plan	Health Plan	Total
Assets:						
Equity in Common Cash	$ 1,436,110		$ 1,436,110	$ 2,155,181		$ 2,155,181
Receivables:						
Amounts due from employers	87,162	$ 40	87,202	66,479	$ 71	66,550
Interest and dividends	2,224		2,224	704		704
Sale of investments						
Total receivables	89,386	40	89,426	67,183	71	67,254
Investments:						
Short term investment pool	8,027,276		8,027,276	6,557,519		6,557,519
Total fixed income investment pool	51,498,667		51,498,667	53,559,367		53,559,367
Total domestic equity investment pool	136,403,015		136,403,015	128,971,485		128,971,485
Real estate investment pool	31,688,729		31,688,729	26,141,157		26,141,157
Alternative investment pool	23,554,735		23,554,735	25,002,751		25,002,751
International equities investment pool	31,422,137		31,422,137	25,392,430		25,392,430
Cash collateral on loaned securities	16,973,727		16,973,727	18,077,376		18,077,376
Total investments	299,568,286	-	299,568,286	283,702,085	-	283,702,085
Total assets	301,093,782	40	301,093,822	285,924,449	71	285,924,520
Liabilities:						
Warrants outstanding	43,732	20	43,752	47,482		47,482
Accounts payable and other accrued liabilities	555		555	2,591		2,591
Internal balances (Note 2)	(129,626)	129,626		(285,182)	285,182	
Obligations under securities lending	16,973,727		16,973,727	18,077,376		18,077,376
Total liabilities	16,888,388	129,646	17,018,034	17,842,267	285,182	18,127,449
Net Assets (Liabilities) Held in Trust for Pension and Health Benefits*	$ 284,205,394	$ (129,606)	$ 284,075,788	$ 268,082,182	$ (285,111)	$ 267,797,071

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

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

Statements of Changes in Pension Plan and Postemployment Healthcare Plan Net Assets

For the Fiscal Years Ending September 30, 2005 and 2004

	September 30, 2005			September 30, 2004		
	Pension Plan	Health Plan	Total	Pension Plan	Health Plan	Total
Additions:						
Member contributions	$ 2,077,550	$ 450,657	$ 2,528,207	$ 2,143,714	$ 483,966	$ 2,627,680
Investment income (loss):						
Investment income (loss)	32,254,311		32,254,311	29,145,657		29,145,657
Investment expenses:						
Real estate operating expenses	(5,548)		(5,548)	(2,467)		(2,467)
Other investment expenses	(295,058)		(295,058)	(346,090)		(346,090)
Securities lending activities:						
Securities lending income	435,812		435,812	193,922		193,922
Securities lending expenses	(412,813)		(412,813)	(172,742)		(172,742)
Net investment income (loss)	31,976,704	-	31,976,704	28,818,280	-	28,818,280
Court Fees	34,765	215,000	249,765		215,000	215,000
Miscellaneous	26		26	371		371
Total additions	34,089,045	665,657	34,754,702	30,962,365	698,966	31,661,331
Deductions:						
Benefits and refunds paid to plan members and beneficiaries:						
Retirement benefits	17,797,840		17,797,840	17,540,889		17,540,889
Health benefits		510,152	510,152		576,043	576,043
Return of contributions				67,792		67,792
Administrative expenses	167,993		167,993	210,178		210,178
Total deductions	17,965,833	510,152	18,475,985	17,818,859	576,043	18,394,902
Net increase	16,123,212	155,505	16,278,717	13,143,506	122,923	13,266,429
Net Assets (Liabilities) Held in Trust for Pension and Health Benefits:						
Beginning of year	268,082,182	(285,111)	267,797,071	254,938,676	(408,034)	254,530,642
End of year*	$ 284,205,394	$ (129,606)	$ 284,075,788	$ 268,082,182	$ (285,111)	$ 267,797,071

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

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

Notes to Basic Financial Statements

NOTE 1 - PLAN DESCRIPTION

ORGANIZATION

The Michigan Judges' Retirement System (System) is a cost sharing, multiple employer, state-wide, defined benefit public employee retirement plan governed by the State of Michigan (State). The System, created under Public Act 234 of 1992, consolidated the former Judges' and Probate Judges' Retirement Systems into one retirement system. The System was established by the State to provide retirement, survivor and disability benefits to judges in the judicial branch of state government. There are 165 participating employers. The System also includes the Governor of the State of Michigan, Lieutenant Governor, Secretary of State, Attorney General, Legislative Auditor General, and the Constitutional Court Administrator.

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

The System is administered by the Office of Retirement Services within the Michigan Department of Management and Budget. The Department Director appoints the Office Director who serves as Executive Secretary to the Systems' 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, 2005, and 2004, the System's membership consisted of the following:

Retirees and beneficiaries currently receiving benefits:	2005	2004
Regular benefits	367	362
Survivor benefits	179	181
Disability benefits	6	6
Total	552	549
Current employees:		
Vested	292	285
Non-vested	10	40
Total	302	325
Inactive employees entitled to benefits and not yet receiving them	18	11
Total members	872	885

Plan 1 or 2 members (Supreme Court Justice, Court of Appeals, or elected officials) may enroll in the State Health Plan when they retire and their premium rate is subsidized. All other judges may enroll in the State Health Plan if they wish to, but they must pay the entire premium cost. At September 30, 2005, and 2004, there are a total of 552 and 549 retirees, respectively, who are eligible to participate in the health/dental/vision plans. The number of participants is on the following page:

Notes to Basic Financial Statements (Continued)

	2005	2004
Participants receiving benefits:		
Health	76	75
Dental	148	145
Vision	112	107

BENEFIT PROVISIONS

Benefit provisions of the defined benefit pension plan are established by State Statute, which may be amended. Public Act 234 of 1992, Michigan Judges' Retirement Act, as amended, establishes eligibility and benefit provisions for the defined benefit pension plan. Retirement benefits are determined by final 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 disability and survivor benefits.

A member who leaves judicial service may request a refund of his or her member contribution account. A refund cancels a former member's rights to future benefits. Returning members who previously received a refund of their contributions may reinstate their service credit through repayment of the refund upon satisfaction of certain requirements. For salary, contribution and calculation of retirement benefit, the membership of the System is categorized into seven plans. The categories are based on the position to which the member was elected or appointed.

Public Act 523 of 1996, which was effective March 31, 1997, closed the plan to new entrants. Judges or State officials newly appointed or elected on or after March 31, 1997, become members of the defined contribution plan.

Regular Retirement

The retirement benefit or allowance is calculated in accordance with the formula of the plan, which applies to the member. The formula is based on a member's years of credited service (employment) and final compensation. The normal retirement benefit is payable monthly over the lifetime of a member.

A member may retire and receive a monthly benefit after attaining:

1. age 60 with 8 or more years of credited service; or
2. age 55 with 18 or more years of credited service (the last 6 years continuous); or
3. 25 or more years of service, the last 6 years continuous; no age requirement; or
4. age 60 with service of two full terms in the office of Governor, Lieutenant Governor, Secretary of State, or Attorney General, or one full term in the office of Legislative Auditor General.

Early Retirement

A member may retire with an early permanently reduced pension:

1. after completing at least 12 but less than 18 years of service, of which the last 6 years are continuous; and
2. after attaining age 55.

The early pension is computed in the same manner as a regular pension but is permanently reduced 0.5% for each full and partial month between the pension effective date and the date the member will attain age 60.

Notes to Basic Financial Statements (Continued)

Deferred Retirement

A member with 8 or more years of credited service who terminates judicial service before meeting the age requirements to receive a retirement allowance and who does not withdraw his or her contributions, is entitled to receive a monthly allowance upon reaching age 60 or age 55 with 18 years of service, the last 6 of which were continuous.

Disability Benefit

A member with 8 or more years of credited service, who is totally disabled from physically or mentally performing his or her duties, is eligible for a disability pension. The disability benefit is computed in the same manner as an age and service allowance based upon service and final salary at the time of disability.

Pension Payment Options

A pension is payable monthly for the lifetime of a System retiree and equals 3% of final salary times years of service for up to 12 years of service; or 50% of salary with 12 years, increased 2.5% for each additional year up to a maximum of 60% of salary. A former retiree of the Probate Judges' Retirement System receives 3% of salary times years of service, to a maximum of the greater of 40% of salary or $15,000 but not to exceed 66 2/3% of final salary when added to a county pension; or 3.5% of salary times years of service with a maximum of two thirds of final salary, if elected.

Straight Life — This option provides the highest monthly retirement allowance. Surviving spouse receives a 50% survivor's benefit.

Option A — 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.

Option B — 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 smaller than the factor used in Option A above.

Survivor Benefit

A survivor benefit may be paid if (i) a member who has 8 or more years of credited service dies while in office, (ii) a vested former member dies before retirement, or (iii) a retiree dies following retirement.

Contributions

Member Contributions — Members currently participate on a contributory basis. For contribution purposes, the membership of the System is categorized in seven plans, which are based on the position to which the member was elected or appointed. Under certain circumstances, members may contribute to the System for the purchase of creditable service, such as military service or other public service. If a member terminates covered 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)

Publicly Financed Contributions — There are two public sources which fund retirement benefits: Court fees and State appropriations. The State contributes annually the greater of 3.5% of the aggregate annual compensation of State paid base salaries, or the difference between the total actuarial requirement of current service and unfunded accrued liabilities minus the revenues from court filing fees and member contributions. Since the system was fully funded, the appropriation was not requested for fiscal years 2005 and 2004. If the court fees deposited in the reserve for employer contributions equals the amount needed in addition to other publicly financed contributions to sustain the required level of publicly financed contributions, Section 304(4) requires court fees be deposited in the court fee fund. In accordance with Section 304(4) of the Judges' Retirement Act, the court fees are being deposited in the court fee fund in the State Treasury. A chart showing the publicly financed contribution rates is included in the Schedule of Revenue by Source in the Statistical Section.

Public Act 95 of 2002 authorizes the State Treasurer, if funds remain in the court fee fund after transfers, to transmit a portion of the money in the court fee fund and any earnings on those amounts to the reserve for health benefits. The purpose of this transfer is to pay expected health care costs for the subsequent fiscal year that are not covered as a result of employee contributions. For fiscal year 2005, this amount was $115,000. In addition, the court fee fund shall transfer an amount not to exceed $100,000 in each fiscal year, to fund any health care costs not paid from the reserve for health benefits since fiscal year 1996-1997.

Other Postemployment Benefits

Under the Michigan Judges' Retirement Act, Plan 1 or 2, members may enroll in the State Health Plan when they retire. Five percent of the health insurance premium is deducted from the monthly pension check until age 65, at which time Medicare provides primary health insurance coverage. All other members may enroll in the State Health Plan during an open enrollment period. The total premium is deducted from the monthly pension check. The active employee payroll contribution rate to fund health benefits for the Plan 1 or 2 members was 2.0% for 2005 and 2004. There are no required employer contributions to fund health benefits.

All retirees may enroll in the State Dental and/or Vision Plan during an open enrollment period. The cost of the premiums is deducted from the monthly pension check.

Retirees of Plan 1 and 2 are provided with life insurance coverage equal to 25% of the active life insurance coverage and $1,000 for each dependent. Premiums are fully paid by the State for Plan 1 and 2 members. All others must pay the full premium.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting and Presentation

These financial statements are prepared using the accrual basis of accounting. Court filing fees are recognized as revenue in the period received. Contributions from the State are recognized as revenue when due and payable and expenses are recorded when incurred regardless of when payment is made. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

Reserves

Public Act 234 of 1992, as amended, created several reserve accounts. The reserves are described below.

Reserve for Employee Contributions — This fund represents active member contributions, payments for the purchase of service credit, repayment of previously refunded contributions and interest less amounts transferred to the Reserve for Retirement Benefits for regular and disability retirement, amounts refunded to terminated members, and transferring inactive accounts. At September 30, 2005, and 2004, the balance in this account was $41.4 million and $38.8 million, respectively.

Notes to Basic Financial Statements (Continued)

Reserve for Employer Contributions — This reserve represents Court fees, late fees, interest payments, employer contributions, and State appropriations. Amounts are transferred annually from this reserve to the Reserve for Retired Benefit Payments to fund that reserve. In addition, the reserve transfers court fees to the Supreme Court in accordance with statutory requirements. At September 30, 2005, and 2004, the balance in this account was $27.9 million and $37.2 million, respectively.

Reserve for Retired Benefit Payments — This reserve 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 and the Reserve for Employer Contributions. Monthly benefits, which are paid to the member, reduce the reserve. At the end of each fiscal year, an amount is transferred from the Reserve for Employer Contributions to bring the reserve into balance with the actuarial present value of retirement allowances. At September 30, 2005, and 2004, the balance in this account was $132.9 million and $125.8 million, respectively.

Reserve for Undistributed Investment Income — This reserve is credited with all investment earnings, changes in fair value, gifts to the System, and forfeited contributions. All administrative expenses are paid from this reserve and interest is transferred annually to the other reserves. At September 30, 2005, and 2004, the balance in this account was $82.1 million and $66.3 million, respectively.

Reserve for Health Benefits — This reserve is credited with member contributions for health benefits. Health benefits are paid from this reserve. At September 30, 2005, and 2004, the balance in this account was ($129.6 thousand) and ($285.1 thousand), respectively. PA 95 of 2002 requires that an amount not to exceed $100,000 be transferred each fiscal year towards any health care costs not paid from the reserve for health benefits since fiscal year 1996-1997.

Internal Balances – At September 30, 2005 and 2004, the System reported deficits in the Health Plan. As a result, amounts reported in the Statement of Plan Net Assets have been recognized and eliminated using the internal balances process described in GASB Statement No. 34. While this concept was devised to eliminate the "grossing-up" effect within the governmental and business-type activities columns of the primary government, because of the relationship of the Health Plan to the Pension Plan, the concept was deemed to be appropriate for System presentation.

Reporting Entity

The System is a pension 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 trust fund. The System and its Board are not financially accountable for any other entities. Accordingly, the System is the only entity included in this financial report.

Benefit Protection

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

Fair Value of Investments

Plan investments are reported at fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Corporate bonds not traded on a national or international exchange are based on equivalent values of comparable securities with similar yield and risk. Real estate debt is valued on the basis of future principal and interest payments, and is discounted at prevailing interest rates for similar instruments. The fair value of real estate investments is based on independent appraisals. Other investments not having an established market are recorded at estimated fair value.

Notes to Basic Financial Statements (Continued)

Investment Income

Dividend and interest income is 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.

Costs 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 general fund based on either a direct cost or allocation basis depending on the nature of the expense. Costs of administering the System are not financed by investment income or contributions to 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 Postemployment Healthcare Plan Net Assets. Such assets are depreciated on a straight-line basis over 10 years. The System does not have equipment that falls within these parameters.

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.

	2005	2004
Building Rentals	$ 867	$ 1,153
Technological Support	10,550	13,495
Attorney General	47,053	25,048
Investment Services	56,199	56,187
Personnel Services	14,726	13,752

Commitment and Contingency – The State has signed a contract with a vendor for technological support through 2005. As of September 30, 2005, the System's portion of this commitment is approximately $15,000.

Cash – On September 30, 2005, and 2004, the System had $1.4 million and $2.2 million, respectively in a common cash investment pool maintained for various State operating funds. The participating funds in the common cash pool earn interest at various rates depending upon prevailing short-term interest rates. Earnings from these activities amounted to $54.2 thousand and $8.2 thousand for the years ended September 30, 2005, and 2004, respectively.

Excess Benefits

Internal Revenue Service (IRS) Code Section 415 requires that, for individuals who receive retirement benefits in excess of established limits, these benefits be recorded and reported outside of the pension plan in order to keep the qualified status of the plan. This includes coordination of benefit issues whereby a retiree participates in more than one qualified plan. In fiscal year 2005 the System provided excess benefits to one retiree.

Notes to Basic Financial Statements (Continued)

Reclassification of Prior Year Amounts

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

NOTE 3 - CONTRIBUTIONS

Members' contributions range from 3.5% to 7% of their salary depending on the plan (described in statute). Contributions are tax deferred under Section 414(h)(2) of the Internal Revenue Code, except for probate judges whose contributions are tax deferred only if the local unit of government has adopted a resolution to do so. Contribution provisions are specified by State statute and may be amended only by action of the State Legislature.

The State contributes annually the greater of 3.5% of the aggregate annual compensation of State paid base salaries, or the difference between the total actuarial requirement of current service and unfunded accrued liabilities minus the revenues from court filing fees and member contributions. Since the System was fully funded, the appropriation was not requested for fiscal years 2004 or 2005. If the court fees deposited in the reserve for employer contributions equals the amount needed in addition to other publicly financed contributions to sustain the required level of publicly financed contributions, Section 304(4) requires court fees be deposited in the court fee fund. In accordance with Section 304(4) of the Judges' Retirement Act, the court fees are being deposited in the court fee fund in the State Treasury. The State Treasurer transmits the money in the court fee fund, not exceeding $2.2 million in any fiscal year, to the court equity fund for operational expenses of trial courts.

Employer contributions are determined annually by the System's actuary and are based upon level-percent-of-payroll funding principles. Under this method, amortization payments are calculated so that they are a constant percentage of the projected payroll of active plan members over a given period of time.

There were no actual or required employer contributions for the fiscal years 2004 or 2005 because the contribution rate was negative.

NOTE 4 – INVESTMENTS

Investment Authority

Under Public Act 380 of 1965, as amended, the authority for the purchase and the sale of investments resides with the State Treasurer. Investments are made subject to the Michigan Public Pension Investment Act, Public Act 314 of 1965, as amended. The Michigan Public Pension Investment Act authorizes, with certain restrictions, the investment of pension fund assets in stocks, corporate and government bonds and notes, mortgages, real estate, and certain short-term and alternative investments. Investments must be made for the exclusive purposes of providing benefits to active members, retired members and beneficiaries, and for defraying the expenses of investing the assets.

Under Public Act 314 of 1965, as amended, the State Treasurer may invest up to 5% of the System's assets in small businesses having more than one-half of assets or employees in Michigan as described in section 20(a) of the Act and up to 20% of the System's assets in investments not otherwise qualified under the Act as described in section 20(d). Alternative investments include limited partnerships and distributions from these partnerships in the form of bonds, preferred stock, common stock and direct investments.

Notes to Basic Financial Statements (Continued)

Derivatives

The State Treasurer employs the use of derivatives in the investment of the pension trust funds.

Derivatives are used in managing pension trust fund portfolios, but uses do not include speculation or leveraging of investments. Less than 12.0% of the total pension trust fund's portfolio has been invested from time to time in futures contracts, collateralized mortgages and swap agreements. State investment statutes limit total derivative exposure to 15.0% of a fund's total asset value, and restrict uses to replication of returns and hedging of assets. Swap agreements represent the largest category of derivatives used, and they represented 9.6% of market value of total System's pooled assets on September 30, 2005, and 8.8% of market value of total System's pooled assets on September 30, 2004. Futures contracts represent the second largest category of derivatives used, and they represented 0.3% of market value of total System's pooled assets on September 30, 2005, and 0.3% of market value of total System's pooled assets on September 30, 2004.

To enhance management flexibility, the State Treasurer has purchased futures contracts tied to S&P indices. The futures contracts are combined with short-term investments to replicate the return of the S&P indices. The value of these synthetic equity structures is a combination of the value of the futures contract and the value of the dedicated short-term investments.

To diversify the pension fund's portfolio, the State Treasurer has entered into swap agreements with investment grade counterparties, which are tied to stock market indices in the United States and twenty-two foreign countries. The notional amounts of the swap agreements at September 30, 2005, and 2004, were $20.8 million and $21.1 million, respectively. Approximately one half of the notional amount tied to foreign stock market indices is hedged against foreign currency fluctuations. The swap agreements provide that the Retirement System will pay quarterly, over the term of the swap agreements, interest indexed to the three month London Inter Bank Offer Rate (LIBOR), adjusted for an interest rate spread, on the notional amount stated in the agreements. At the maturity of the swap agreements, the pension fund will either receive the increase in the value of the equity indices from the level at the inception of the agreements, or pay the decrease in the value of the indices. Swap agreement maturity dates range from October 2005 to September 2008. U.S. domestic LIBOR based floating rate notes were purchased in the open market to correspond with the notional amount of the swap agreements. The State Treasurer maintains custody and control of these notes.

The value of these synthetic equity structures is a combination of the value of the swap agreements and the value of the notes. The book value represents the cost of the notes. The current value represents the current value of the notes and the change in value of the underlying indices from the inception of the swap agreements. The current value is used as a representation of the fair value based on the intention to hold all swap agreements until maturity. Since the inception of the international equity investment program, over $6.1 million of gains on equity exposure and excess interest received have been realized on matured swap agreements.

The unrealized gain of $6.6 million at September 30, 2005, primarily reflects the increase in international stock indices and changes in currency exchange rates. The combined swap structure realizes gains and losses on a rolling three year basis.

The respective September 30, 2005, and 2004 swap values are as follows:

	Notional Value	Current Value
9/30/05 (dollars in millions)	$ 20.8	$ 27.4
9/30/04 (dollars in millions)	21.1	23.4

The amounts shown above reflect both the total International Equity Pool swap exposure, and the smaller swap exposure to the S&P Small Cap Index Pool.

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 a Security Lending Authorization Agreement, authorized 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 System, the System's securities and received cash (United States and foreign currency), securities issued or guaranteed by the United States government, sovereign debt rated A or better, convertible bonds and irrevocable bank letters of credit as collateral. The agent bank does not have the ability to pledge or sell collateral securities delivered absent a borrower default. Borrowers are 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 is 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 is not located in the United States, 105% of the market value of the loaned securities.

The System did not impose any restrictions during the fiscal year on the amount of loans that the agent bank made on its behalf and the agent bank indemnified the System by agreeing to purchase replacement securities, or return cash collateral in the event a borrower failed to return the loaned security or pay distributions thereon. There were no such failures by any borrowers during the fiscal year. Moreover, there were no losses during the fiscal year resulting from a default of the borrowers or the agent bank.

During the fiscal year, the System and the borrowers maintained the right to terminate all securities lending transactions on demand. The cash collateral received on each loan was invested in a collective investment pool. As of September 30, 2005, such Trust had an average maturity of 45 days and an average weighted maturity of 404 days. Because the loans were terminable at will, their duration did not generally match the duration of the investments made with cash collateral. On September 30, 2005, the System had no credit risk exposure to borrowers. The cash and non-cash collateral held for securities on loan for the System as of September 30, 2005, were $16,973,727 and $602,366, respectively. The carrying amount, which is the fair market value, of securities on loan for the System as of September 30, 2005, was $17,155,395.

Gross income from security lending for the fiscal year was $435,812. Expenses associated with this income were the borrower's rebate of $405,190 and fees paid to the agent of $7,623.

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 40. These are held in internal investment pools and reported as such in the financial statements.

<u>Credit Risk</u> - Credit risk is the risk that an issuer will not fulfill its obligations.

- Short Term Fixed Income Investments - Prime commercial paper investments must be rated A-1 or P-1 at the time of purchase as rated by the two major rating services Standard and Poor's Corporation (S&P); and Moody's Investor Service (Moody's) respectively. Borrowers must have at least $400.0 million in commercial paper outstanding, and the State Treasurer may not invest in more than 10% of the borrowers outstanding debt. The investments are further limited to $200.0 million in any borrower, unless the borrower has a A-1+ rating in which case the investment is not to exceed $300.0 million.

Notes to Basic Financial Statements (Continued)

- Long Term Fixed Income Investments - All Long term fixed income investments, that are rated, must be investment grade at time of purchase. Investment grade is defined in P.A. 314 of 1965, as amended: as investments in the top four major grades, rated by two national rating services. The State Treasurer's policy is to use S&P (AAA, AA, A, BBB); and Moody's (Aaa, Aa, A, Baa).

Rated Debt Investments
(in thousands)
September 30, 2005

Investment Type	Fair Value	Rating S&P	Fair Value	Moody's
Short Term	$ 10,872	A-1	$ 11,910	P-1
	493	A-2	493	P-2
	2,397	NR	1,359	NR
Government Securities				
U.S. Agencies- Sponsored	15,651	AAA	15,651	Aaa
Corporate Bonds & Notes	4,236	AAA	4,236	Aaa
	5,770	AA	6,861	Aa
	10,198	A	8,945	A
	2,384	BBB	3,004	Baa
	1,920	BB	849	Ba
	388	NR	1,002	NR
International *	4,335	AAA	4,335	Aaa
	4,966	AA	8,494	Aa
	10,384	A	6,704	A
	504	BB	504	Ba
			151	NR
Equity*	295	AA	590	Aa
	295	A	0	
Total	**$ 75,088**		**$ 75,088**	

NR - not rated

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

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

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

- The counterparty or

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

The State Treasurer does not have a policy for custodial credit risk. However, the State's custodial bank had a credit rating of AA at September 30, 2005. As of September 30, 2005, and 2004 Government securities with a market value of $312 thousand and $336 thousand respectively were exposed to custodial credit risk. These securities were held by the counterparty not in the name of the System.

Notes to Basic Financial Statements (Continued)

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

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

At September 30, 2005, and 2004 there were no investments in a single issuer that accounted for more than 5% of the System's assets nor were there any investments totaling more than 5% of the obligations of any one issuer, other than U.S. Government Securities as described above.

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

The State Treasurer's policy states that cash equivalents are invested in short term fixed income securities with an average weighted maturity of less than one year to provide liquidity and safety of principal from capital market and default risk. At September 30, 2005, and September 30, 2004, the fair value of the System's prime commercial paper was $13,762 thousand and $17,581 thousand with the weighted average maturity of 38 days and 41 days, respectively.

The State Treasurer does not have a policy regarding interest rate risk for long term debt investments. However, the pension 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.

Debt Securities
(in thousands)
For the Years Ended September 30, 2005 and 2004

	2005		2004**
	Fair Value	Effective Duration in Years	Fair Value
Government			
U. S. Treasury	$ 2,494	4.3	$ 3,087
U. S. Agencies - Backed	7,103	5.3	6,770
U. S. Agencies - Sponsored	15,651	2.5	13,250
Corporate	24,896	4.1	26,480
International*			
U. S. Agencies - Sponsored	252	0.2	255
Corporate	19,937	0.1	20,206
Equities*	590	0.2	590
Total	$ 70,923		$ 70,638

*International and Equities contain Domestic Government and Corporate Securities as a part of their derivative strategies. The interest rates reset on a quarterly basis for these securities.
**Effective duration ratings are not available for fiscal year 2004.

Notes to Basic Financial Statements (Continued)

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

The System invests in various securities denominated in foreign currencies. These investments are limited to 20% of the total assets of the System with an additional limit of 5% of the outstanding foreign securities of any single issuer. No investment is allowed in a country that has been identified by the United States State Department as engaging in or sponsoring terrorism. These limits are set forth in P.A. 314 of 1965, as amended. The types of foreign securities include equities, fixed income, mutual funds, and limited partnerships. At September 30, 2005, and September 30, 2004, the total amount of foreign investment subject to foreign currency risk were $11,337 thousand and $8,028 thousand which amounted to 4.0% and 3.0% of total investments of the System, respectively.

Foreign Currency Risk
(in thousands)
September 30, 2005

					International	
Region	**Country**	**Currency**	**Alt. Invest. Market Value in U.S.$**	**Equity Market Value in U.S.$**	**Equities Market Value in U.S.$**	**Derivatives Market Value in U.S.$***
America						
	Mexico	Peso		$ 1,407		
Europe						
	European Union	Euro	$ 1,358		$ 342	$ 851
	Switzerland	Franc		176		130
	Sweden	Krona			2	76
	Denmark	Krone			8	47
	Norway	Krone			9	45
	U.K.	Sterling	119	945	210	474
Pacific						
	Australia	Dollar			2	212
	Hong Kong	Dollar			31	57
	Japan	Yen	35		23	647
	New Zealand	Dollar				9
	Singapore	Dollar				32
	South Korea	Won				124
Various						
	Mutual Funds	Various			3,966	
	Total		$ 1,512	$ 2,528	$ 4,593	$ 2,704

*Note: 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 2005 through September 2008 with an average maturity of 1.5 years. For more information on derivatives see Note 4.

Notes to Basic Financial Statements (Continued)

Foreign Currency Risk
(in thousands)
September 30, 2004

Region	Country	Currency	Alt. Invest. Market Value in U.S.$	Equity Market Value in U.S.$	International Equities Market Value in U.S.$	International Derivatives Market Value in U.S.$*
America						
	Mexico	Peso		$ 708		
Europe						
	European Union	Euro	$ 1,412		$ 277	$ 498
	Switzerland	Franc		113		63
	Sweden	Krona			2	62
	Denmark	Krone			10	20
	Norway	Krone			6	17
	U.K.	Sterling	124	1,882	177	321
Pacific						
	Australia	Dollar			2	128
	Hong Kong	Dollar			26	27
	Japan	Yen	25		20	259
	New Zealand	Dollar				9
	Singapore	Dollar				29
	South Korea	Won				39
Various						
	Mutual Funds	Various			1,772	
	Total		$ 1,561	$ 2,703	$ 2,292	$ 1,472

*Note: 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 2004 through September 2007 with an average maturity of 1.5 years. For more information on derivatives see Note 4.

NOTE 5 – ACCOUNTING CHANGES

In fiscal year 2005, the State implemented Governmental Accounting Standards Board (GASB) Statement No. 40, *Deposit and Investment Risk Disclosures* (an amendment of GASB No. 3), which modifies and expands disclosure requirements for deposits and investments. The new requirements are effective for fiscal periods beginning after June 15, 2004. Information within this financial report is presented on a comparative basis.

The GASB has issued Statement No. 44, *Economic Condition Reporting: The Statistical Section*, which provides guidance on the tables and narrative explanations in the statistical section. The requirements of this statement are effective for fiscal periods beginning after June 15, 2005.

Notes to Basic Financial Statements (Continued)

The GASB has issued Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, which establishes uniform standards of financial reporting by state and local governmental entities for other postemployment benefit plans (OPEB plans). The requirements of this statement are effective one year prior to the effective date of the related statement (GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*) for the employer or the largest employer in the plan. Because the State of Michigan is a phase 1 government (those with total annual revenues of $100 million or more), the System is required to implement this statement in financial statements for periods beginning after December 15, 2005.

NOTE 6 - COMMITMENT AND CONTINGENCIES

Ernst et al v. Murray et al

On September 5, 2001, legal action was initiated in U.S. District Court against members of the Judges' Retirement Board named as defendants. Plaintiffs were seeking monetary damages, and injunctive and declaratory relief for alleged equal protection violations, violations of common law wasting trust doctrine, and breach of fiduciary duties. In a motion for abstention, the State argued that equal protection complaints are essentially the same as those involved at the State appellate court in the recent Harvey case. Arguments supporting the State's motion for dismissal/summary judgment include State immunity from civil suits under the Eleventh Amendment, rejection of equal protection violations due to dissimilarities among plaintiffs, and defects within claims of wasting trust and breach of fiduciary duties.

On September 30, 2002, the Court dismissed all of Plaintiffs' claims. Plaintiffs appealed this decision. In an opinion issued August 12, 2004, the Court of Appeals reversed the District Court's decision. On November 17, 2004, the Court of Appeals granted Defendants' motion for rehearing before the entire Court of Appeals' bench.

The plaintiffs also filed an Ingham County Circuit Court action on December 4, 2002, raising many of the same claims as the federal litigation. That action has not proceeded because each judge assigned to the case has disqualified themselves.

Hon. Barry Grant v. Michigan Judges Retirement Board

On July 28, 2000, Petitioner requested an administrative hearing to challenge the lump sum amount used in calculating his final compensation, because it took into account his membership in the local county plan. On October 23, 2001, the Board adopted the recommendation of the Hearing Officer in the PFD to deny the relief requested by Petitioner. Petitioner filed a Petition for Review on June 7, 2002. The parties filed briefs in 2002. Since Petitioner filed this claim in the same circuit in which he sits, there have been several changes in the assigned judge. Oral argument was heard and the court remanded the matter to the Board. At the Board's November 5, 2004 scheduled meeting, the Board remanded the matter to a hearing officer for a new hearing.

The parties stipulated to a set of facts and waived further testimony. On November, 3, 2005, the Hearing Officer issued a Proposal for Decision, recommending that the Board take into consideration the Petitioner's local retirement plan when calculating the APV for transfer to the JRS defined contribution plan, using the pension benefit calculation formula for Plan 6 eligible JRS members. The Proposal for Decision will be considered at the next Board meeting.

At this time, management is unable to determine the ultimate outcome or an estimate of any potential losses for these cases.

Other

Under the Administrative Procedures Act, members may appeal a decision made by the Board to the Circuit Court. Various cases that have exhausted the administrative procedures have been appealed in the court system. The cases are in the normal course of business and the System does not anticipate any material loss as a result of the contingent liabilities.

Notes to Basic Financial Statements (Continued)

NOTE 7 – SUBSEQUENT EVENTS

Ernst et al v. Murray et al

In an opinion dated October 26, 2005, the Court affirmed the District Court decision with regard to the Eleventh Amendment. Thus, Plaintiffs may not seek money damages in the federal courts against the State. However, the Court reversed the District Court's decision dismissing Plaintiffs' federal claims with prejudice, stating that they could not, based on the pleadings, reach whether Plaintiffs could fashion a narrow request for future injunctive relief. Plaintiffs have 90 days from the date of the decision to seek reversal in the United States Supreme Court.

Required Supplementary Information

Schedule of Funding Progress

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

Retirement 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 AAL (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll ((b-a)/c)
1996	$ 243.2	$ 211.5	$ (31.7)	115.0 %	$ 49.4	(64.3) %
1997	271.5	230.5	(41.0)	117.8	49.0	(83.6)
1998	288.7	236.5	(52.2)	122.0	48.9	(106.7)
1998 *	288.7	230.3	(58.4)	125.3	48.9	(119.4)
1999	320.9	243.5	(77.4)	131.8	49.6	(155.9)
2000	274.8	204.2	(70.6)	134.6	37.0	(190.7)
2001	291.0	224.7	(66.3)	129.5	42.5	(155.7)
2002	291.7	229.2	(62.5)	127.3	42.4	(147.3)
2003	292.3	235.2	(57.1)	124.3	38.9	(146.6)
2004 *	286.9	236.4	(50.5)	121.3	37.5	(134.6)
2005	278.4	243.4	(35.0)	114.4	34.9	(100.3)

* Revised actuarial assumptions

Required Supplementary Information (Continued)

Schedule of Employer Contributions

Fiscal Year Ended Sept. 30		Actuarial Required Contribution (ARC)*	Actual Contributions	Percentage Contributed
1996		$ 5,992,698	$ 6,191,607	103.3 %
1997		5,527,350	5,673,583	102.6
1998		5,040,121	246,659	4.9
1999		4,673,433		0.0
1999	*	1,260,694	58,499	4.6
2000	**	(411,879)		0.0
2001	**	(955,186)		0.0
2002		(476,491)		0.0
2003		(135,812)		0.0
2004	*	(85,580)		0.0
2005		(441,948)		N/A

* Revised actuarial assumptions.
** ARC is calculated as percentage of payroll reported to actuary.

Notes to Required Supplementary Information

NOTE A - DESCRIPTION

Ten year historical trend information designed to provide information about the System's progress made in accumulating sufficient assets to pay benefits when due is presented in the preceding schedules. Other ten year historical trend information related to the System is presented in the Statistical and Actuarial Sections of the report. This information is presented to enable the reader to assess the progress made by the System in accumulating sufficient assets to pay pension benefits as they become due.

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 benefit obligation as a factor.

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

NOTE B - SUMMARY OF ACTUARIAL ASSUMPTIONS

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.

Valuation Date	9/30/2005
Actuarial Cost Method	Entry Age, Normal
Amortization Method	Level Percent of Payroll, Closed
Remaining Amortization Period	31 years
Asset Valuation Method	5-Year Smoothed Market
Actuarial Assumptions:	
Inflation Rate	3.5%
Investment Rate of Return	8%
Projected Salary Increases	4.0%
Cost-of-Living Adjustments	None

Supporting Schedules

Comparative Summary Schedule of Pension Plan Administrative Expenses For the Years Ended September 30, 2005 and 2004

	2005	2004
Personnel Services:		
Staff Salaries	$ 10,143	$ 9,689
Retirement and Social Security	2,781	2,274
Other Fringe Benefits	1,802	1,789
Total	14,726	13,752
Professional Services:		
Accounting	2,408	1,636
Actuarial	65,000	65,000
Attorney General	47,053	25,048
Audit	10,479	27,646
Consulting	7,179	48,586
Total	132,119	167,916
Building and Equipment:		
Building Rentals	867	1,153
Equipment Purchase, Maintenance and Rentals	126	62
Total	993	1,215
Miscellaneous:		
Travel and Board Meetings	132	130
Office Supplies	137	142
Postage, Telephone and Other	7,745	10,876
Printing	1,591	2,652
Technological Support	10,550	13,495
Total	20,155	27,295
Total Administrative Expenses	$ 167,993	$ 210,178

Supporting Schedules (Continued)

Schedule of Investment Expenses

	2005	2004
Real Estate Operating Expenses	$ 5,548	$ 2,467
Securities Lending Expenses	412,813	172,742
Other Investment Expenses*	295,058	346,090
Total Investment Expenses	$ 713,419	$ 521,299

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

Schedule of Payments to Consultants

	2005	2004
Independent Auditors	$ 10,479	$ 27,646
Accounting	2,408	1,636
Attorney General	47,053	25,048
Actuary	65,000	65,000
Consulting	7,179	48,586
Total Payment to Consultants	$ 132,119	$ 167,916

Supporting Schedules (Continued)

Detail of Changes in Plan Net Assets (Pension and Postemployment Healthcare Benefits)
For the Year Ended September 30, 2005

	Employee Contributions	Employer Contributions	Retired Benefit Payments	Undistributed Investment Income	Health Benefits	Total
Additions:						
Member contributions	$ 2,077,550				$ 450,657	$ 2,528,207
Investment income (loss):						
Investment income (loss)				$ 32,254,311		32,254,311
Investment expenses:						
Real estate operating expenses				(5,548)		(5,548)
Other investment expenses				(295,058)		(295,058)
Securities lending activities:						
Securities lending income				435,812		435,812
Securities lending expenses				(412,813)		(412,813)
Net investment income (loss)	-	-	-	31,976,704	-	31,976,704
Court fees		$ 34,765			215,000	249,765
Miscellaneous				26		26
Total additions	2,077,550	34,765	-	31,976,730	665,657	34,754,702
Deductions:						
Benefits and refunds paid to plan members and beneficiaries:						
Retirement benefits			$ 17,797,840			17,797,840
Health benefits					510,152	510,152
Return of contributions						-
Administrative expenses				167,993		167,993
Total deductions	-	-	17,797,840	167,993	510,152	18,475,985
Net increase (decrease)	2,077,550	34,765	(17,797,840)	31,808,737	155,505	16,278,717
Other changes in net assets:						
Interest allocation	2,941,772	2,976,135	10,062,418	(15,980,325)		-
Transfers upon retirement	(2,485,310)	(12,361,139)	14,846,449			-
Total other changes in net assets	456,462	(9,385,004)	24,908,867	(15,980,325)	-	-
Net Increase (Decrease) After Other Changes	2,534,012	(9,350,239)	7,111,027	15,828,412	155,505	16,278,717
Net Assets (Liabilities) Held in Trust for Pension and Health Benefits:						
Beginning of year	38,817,097	37,201,687	125,780,228	66,283,170	(285,111)	267,797,071
End of year	$ 41,351,109	$ 27,851,448	$ 132,891,255	$ 82,111,582	$ (129,606)	$ 284,075,788

Supporting Schedules (Continued)

Detail of Changes in Plan Net Assets (Pension and Postemployment Healthcare Benefits)
For the Year Ended September 30, 2004

	Employee Contributions	Employer Contributions	Retired Benefit Payments	Undistributed Investment Income	Health Benefits	Total
Additions:						
Member contributions	$ 2,143,714				$ 483,966	$ 2,627,680
Investment income (loss):						
Investment income (loss)				$ 29,145,657		29,145,657
Investment expenses:						
Real estate operating expenses				(2,467)		(2,467)
Other investment expenses				(346,090)		(346,090)
Securities lending activities:						
Securities lending income				193,922		193,922
Securities lending expenses				(172,742)		(172,742)
Net investment income (loss)	-	-	-	28,818,280	-	28,818,280
Court fees					215,000	215,000
Miscellaneous				371		371
Total additions	2,143,714	-	-	28,818,651	698,966	31,661,331
Deductions:						
Benefits and refunds paid to plan members and beneficiaries:						
Retirement benefits			$ 17,540,889			17,540,889
Health benefits					576,043	576,043
Return of contributions	67,792					67,792
Administrative expenses				210,178		210,178
Total deductions	67,792	-	17,540,889	210,178	576,043	18,394,902
Net increase (decrease)	2,075,922	-	(17,540,889)	28,608,473	122,923	13,266,429
Other changes in net assets:						
Interest allocation	2,670,433	$ 3,844,264	9,361,815	(15,876,512)		-
Transfers upon retirement	(2,240,733)	(14,695,879)	16,936,612			-
Total other changes in net assets	429,700	(10,851,615)	26,298,427	(15,876,512)	-	-
Net Increase (Decrease) After Other Changes	2,505,622	(10,851,615)	8,757,538	12,731,961	122,923	13,266,429
Net Assets (Liabilities) Held in Trust for Pension and Health Benefits:						
Beginning of year	36,311,475	48,053,302	117,022,690	53,551,209	(408,034)	254,530,642
End of year	$ 38,817,097	$ 37,201,687	$ 125,780,228	$ 66,283,170	$ (285,111)	$ 267,797,071

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INVESTMENT SECTION

Prepared by Michigan Department of Treasury, Bureau of Investments
Jacqueline M. Johnson, CFA, Director

Report on Investment Activity
Asset Allocation
Investment Results
List of Largest Stock Holdings
List of Largest Bond Holdings
Schedule of Investment Fees
Schedule of Investment Commissions
Investment Summary

INVESTMENT SECTION

Report on Investment Activity

INTRODUCTION

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

The Investment Advisory Committee was created by Act 380 of the Public Acts of 1965. The three public members of the five-member committee are appointed by the Governor with the advice and consent of the Senate for three-year terms. The Director of the Department of Labor and Economic Growth and the Director of the Department of Management and Budget are ex-officio members. In fiscal 2005, members of the Committee were as follows: David G. Sowerby, CFA (public member), Robert E. Swaney, CFA (public member), Marina v.N. Whitman (public member), David Hollister (ex-officio member), and Lisa Webb Sharpe (ex-officio member). The public members serve without pay, but may be paid actual and necessary travel and other expenses.

INVESTMENT POLICY & GOALS

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

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

The primary function of the System is to provide retirement, survivor and disability benefits to its members. The State Treasurer is the sole investment fiduciary and custodian of the System's investments pursuant to State law. The primary investment objective is to maximize the rate of return on the total investment portfolio, consistent with a high degree of prudence and sufficient diversity to eliminate inordinate risks and to meet the actuarial assumption for the investment rate of return, at a reasonable cost achieved by cultivating a motivated team of dedicated professionals. The goals of the System are:

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

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 has 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 9/30/05 Actual %		Five-Year Target %
Domestic Equity – Active	32.2%		31.5%
Large Cap Value Pool		15.0%	
Large Cap Growth Pool		15.5%	
Mid Cap Pools		0.9%	
Small Cap Pools		0.8%	
Domestic Equity – Passive	15.8%		13.5%
S&P 500 Index Pool		13.4%	
S&P MidCap Index Pool		2.1%	
S&P Small Cap Index Pool		0.3%	
International Equity	11.1%		10.0%
International Equity Pool – Passive		10.5%	
International Equity Pool – Active		0.6%	
Alternative Investments Pool	8.3%		10.0%
Real Estate Pool	11.2%		16.0%
Fixed Income	18.1%		17.0%
Government Bond Pool		9.0%	
Corporate Bond Pool		9.1%	
Short Term Investment Pool	3.3%		2.0%
Total	**100.0%**		**100.0%**

INVESTMENT AUTHORITY

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

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

INVESTMENT RESULTS

Total Portfolio Results

For the fiscal year ended September 30, 2005, the total System's rate of return was 12.2% as compiled by State Street Analytics. Annualized rates of return for the three-year period ending September 30, 2005, were 12.8%; for the five-year period were 3.1%; and for the ten-year period were 8.9%.

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

Report on Investment Activity (Continued)

These results were driven by double-digit returns from every major asset class except fixed income. Equity performance was a mirrored reflection of the previous year. Stocks started the year on a very strong note, reflecting the solid economy and low inflation. As the year drew to a close, several factors caused equity markets to level off. The U.S. Gulf Coast was wracked by Hurricanes Katrina and Rita that hindered oil and gas production. This sent energy prices soaring and inflation climbing. Interest rates were again volatile throughout the year. Alternative Investments continued to reap the benefits of a series of investments that were made in prior years. Real Estate gains reflected a favorable environment to also realize double-digit gains. Bonds experienced a relatively volatile year as the markets struggled with rising short-term rates countered by strong demand for long-term bonds. As a result, bonds turned in low single-digit gains for the year. Conversely, returns for the short-term pool improved throughout the year, benefiting from rising short-term rates.

For the fiscal year, the Dow Jones Industrial Average provided a total return of 7.2%, while the broader S&P 500 returned 12.3%. The Lehman Brothers U.S. Government/Credit Bond Index appreciated 2.6%.

The U.S. economy grew at a rate of 3.0% in fiscal year 2005 as measured by real gross domestic product. The first half of the period was stronger while the second half was buffeted by soaring energy prices and the devastation caused by twin hurricanes in the Gulf States. Corporate earnings remained robust, led by record earnings for energy companies. Inflation, as measured by the consumer price index, increased a relatively tame 3.2% in spite of higher energy prices.

The Federal Reserve continued its "measured pace" of monetary tightening in spite of economic disruptions caused by the hurricanes and with no apparent intention of stopping. It raised the Fed Funds rate by 0.25% at each of its eight Federal Open Market Committee meetings during the fiscal year. This resulted in a Fed Funds rate of 3.75% by the end of fiscal 2005, up two full percentage points from the prior year.

The System remains well diversified, both across and within asset classes, and positioned to benefit from moderate economic growth and rising interest rates.

Large Cap Value Pool

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

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

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

Report on Investment Activity (Continued)

The following summarizes the weightings of the pool as of September 30, 2005:

Finance	40.6 %
Consumer Discretionary	9.8
Energy	9.7
Industrials	8.6
Utilities	8.4
Technology	7.2
Health Care	7.0
Short Term Investments	3.7
Materials	3.0
Other	1.8
Consumer Staples	0.2
Total	**100.0 %**

The System's Large Cap Value pool achieved a total rate of return of 12.7% for fiscal 2005. This compared with 13.8% for the S&P 500 Barra Value Index.

At the close of fiscal year 2005, the Large Cap Value pool represented 15.0% of total investments. This compares to 16.8% for fiscal year 2004. The following summarizes the System's 0.5% ownership share of the Large Cap Value pool at September 30, 2005:

Large Cap Value Pool (in thousands)	
Short Term Pooled investments	$ 1,528
Equities	41,279
Settlement Principal Payable	(350)
Settlement Proceeds Receivable	183
Accrued dividends	33
Total	**$ 42,673**

Large Cap Growth Pool

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

The pool invests in equities and equity-related securities primarily of U.S. companies with market capitalization generally greater than $5 billion whose earnings growth rates are expected to exceed the growth rate of the S&P 500 Index and are priced at or below fair value as determined by quantitative and qualitative models. The focus is on companies with a strong presence in categories anticipated to be fast growing, with high rates of unit sales growth and seasoned management. At times a portion of the pool may be invested in fixed-income short-term securities with maturities of less than one year.

Report on Investment Activity (Continued)

The pool invests in equities and equity related securities that are listed on U.S. national securities exchanges, including American Depository Receipts (ADRs). It may also invest in stocks that are traded over-the-counter. The pool diversifies its investments by allocating its equities into ten sectors, and monitors the weightings and performance of these sectors relative to that of the S&P Barra Growth Index.

The following summarizes the sector weightings of various sectors in the pool as of September 30, 2005:

Technology	25.6 %
Health Care	16.9
Consumer Staples	14.5
Industrials	14.1
Energy	9.7
Consumer Discretionary	9.3
Financials	4.0
Short Term Investments	1.8
Utilities	1.5
Other	1.4
Materials	1.2
Total	**100.0 %**

The Large Cap Growth pool's total rate of return was 8.5% for the fiscal year versus 10.7% for the S&P 500 Barra Growth Index.

At the close of fiscal year 2005, the Large Cap Growth pool represented 15.5% of total investments. This compares to 15.6% for fiscal year 2004. The following summarizes the System's 0.6% ownership share of the Large Cap Growth pool at September 30, 2005:

Large Cap Growth Pool (in thousands)		
Short Term Pooled investments	$	928
Equities		43,065
Settlement Principal Payable		(162)
Settlement Proceeds Receivable		90
Accrued dividends		48
Total	**$**	**43,969**

Mid Cap Pools

Four Mid Cap managers were selected in fiscal year 2005, and they began managing money for the System beginning May 2, 2005. They were funded from short-term investments out of the Large Cap Value and Large Cap Growth pools. Their investment objective is to generate a rate of return from investment in common stocks and equivalents that exceeds the S&P 400 Mid Cap Index.

The System invests in the Artisan Midcap, the Cramer Rosenthal McGlynn Midcap, the Los Angeles Capital Midcap Plus, and the Wellington Management Midcap pools.

The Mid Cap pools combined rate of return from inception to fiscal year end was 11.6%.

Report on Investment Activity (Continued)

At the close of fiscal year 2005, the Mid Cap pools represented 0.9% of total investments. The following summarizes the System's ownership share and composition of the four Mid Cap pools at September 30, 2005:

Mid Cap Pools
(in thousands)

	Artisan Midcap	Cramer Rosenthal McGlynn	Los Angeles Capital Midcap	Wellington Management Midcap
Total Equities	$ 455	$ 746	$ 460	$ 765
Ownership Percentage	0.6%	0.6%	0.6%	0.6%

Small Cap Pools

The System invests in the Delaware and Putnam Small Cap Growth pools. These are investment positions with the small company growth managers at Delaware Investment Advisors (Delaware) and Putnam Investments (Putnam). The primary investment objective of the Small Cap Growth pools is to generate a rate of return from investment in common stocks and equivalents that exceeds that of the Russell 2000 Growth Index.

The System's Small Cap Growth pool invested with Delaware achieved a total rate of return of 11.7% for fiscal 2005, while Putnam's total rate of return was 22.6%, resulting in a combined return of 15.2%. The Russell 2000 Growth Index total return was 18.0%.

Three Small Cap Value managers were selected at the beginning of the fiscal year to manage money for the System beginning October 1, 2004. They were funded from short term investments out of the Large Cap Value pool. The primary investment objective of the Small Cap Value pools is to generate a rate of return from investment in common stocks and equivalents that exceeds that of the Russell 2000 Value Index.

The System invests in the Putnam, Northpointe, and Fisher Small Cap Value pools. These are investment positions with the small company value managers at Putnam Investments (Putnam), Northpointe Capital (Northpointe) and Fisher Investments, Inc. (Fisher).

The System's Small Cap Value pool invested with Putnam achieved a total rate of return of 18.3% for fiscal 2005, Northpointe's total rate of return was 20.8% and Fisher's total rate of return was 18.1%, resulting in a combined return of 19.1%. This compared favorably with the Russell 2000 Value Index total return of 17.8%.

At the close of fiscal year 2005, the five Small Cap pools represented 0.8% of total investments. The following summarizes the System's ownership share and composition of the five pools at September 30, 2005:

Small Cap Pools
(in thousands)

	Delaware Growth	Putnam Growth	Putnam Value	Northpointe Value	Fisher Value
Total Equities	$894	$454	$333	$340	$332
Ownership percentage	0.6%	0.6%	0.6%	0.6%	0.6%

Report on Investment Activity (Continued)

S&P 500 Index Pool

The objective of the enhanced S&P 500 Index pool is to closely match the return performance of its benchmark, the S&P 500 Index, and to use low risk strategies to offset transaction costs and add to performance when possible. The pool generally holds all 500 stocks that make up the Standard & Poor's 500 Index in proportion to their weighting in the index. The following summarizes the sector weightings of the pool as of September 30, 2005:

Financials	20.1 %
Information Technology	15.3
Health Care	13.3
Industrials	11.1
Consumer Discretionary	10.7
Energy	10.3
Consumer Staples	9.6
Utilities	3.6
Telecomm. Services	3.1
Materials	2.9
Total	**100.0 %**

The S&P 500 Index pool return for the fiscal year was 12.3% versus the benchmark's 12.3%.

At the close of fiscal year 2005, the S&P 500 Index pool represented 13.4% of total investments. This compares to 13.5% for fiscal year 2004. The following summarizes the System's 0.6% ownership share of the S&P 500 Index pool at September 30, 2005:

S&P 500 Index Pool (in thousands)		
Short Term Pooled investments	$	940
Equities		37,013
Hedge Contracts		1
Settlement Principal Payable		(17)
Accrued dividends		41
Total	**$**	**37,978**

S&P MidCap Index Pool

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

The S&P MidCap Index pool return for the fiscal year was 22.3% versus its benchmark's 22.2%.

Report on Investment Activity (Continued)

At the close of fiscal year 2005, the S&P MidCap Index pool represented 2.1% of total investments. This compares to 2.0% for fiscal year 2004. The following summarizes the System's 0.6% ownership share of the S&P MidCap Index pool at September 30, 2005:

S&P MidCap Index Pool (in thousands)		
Short Term Pooled investments	$	308
Equities		5,846
Hedge Contracts		1
Accrued dividends		3
Total	**$**	**6,158**

S&P Small Cap Index Pool

The objective of the S&P Small Cap Index pool is to match the return of its benchmark, the S&P 600 Small Cap Index. The S&P Small Cap Index pool return for the fiscal year was 21.2% versus the benchmark's 21.2%.

The pool achieves exposure to small cap equity returns primarily by investing in a combination of fixed income notes and equity swap agreements tied to the S&P 600 index. The total notional amount of the S&P 600 swap agreements is invested in dedicated fixed income notes. Interest from the dedicated notes is exchanged for S&P 600 stock returns. Use of swap agreements for a core position began in 2002, and an S&P 600 Exchange Traded Fund was added to this pool in 2004 to enhance management flexibility.

At the close of fiscal year 2005, the S&P Small Cap Index pool represented 0.3% of total investments. This compares to 0.3% for fiscal year 2004. The following summarizes the System's 0.6% ownership share of the S&P Small Cap Index pool at September 30, 2005:

S&P Small Cap Index Pool (in thousands)		
Short Term Pooled investments	$	6
Equities		139
Debt Securities		590
Hedge Contracts		111
Accrued dividends and interest		1
Total	**$**	**847**

International Equities Pool - Passive

The objective of the International Equities Pool - Passive is to match the return performance of the S&P/Citigroup Broad Market Index (BMI) Europe and Pacific Composite (EPAC) adjusted for net dividends. Fifty percent of the benchmark is hedged to the U.S. Dollar and the other half is impacted by foreign currency exchange rate changes. The total passive international return was 27.3% in the fiscal year compared to the Citigroup BMI-EPAC return of 29.4%. The passive international return was 22.8% for three years compared to the benchmark's return of 23.3% over the same period.

Report on Investment Activity (Continued)

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

The combination of fixed income LIBOR notes and equity swap agreements was valued at $26.7 million on September 30, 2005. That valuation included a net unrealized gain of $6.5 million on equity index exposures and an unrealized loss of $7 thousand on LIBOR note investments held. The combined Swap agreement and LIBOR portfolio structure continues to perform like a stock index fund that realizes all gains and losses on a rolling three year basis. During fiscal year 2005, $1.5 million of gains on equity exposures were realized, $403 thousand of interest in excess of obligations on completed swaps were recognized, and $3 thousand of gains on LIBOR notes were realized.

At the close of fiscal year 2005, the International Equities – Passive pool represented 10.5% of total investments. This compares to 9.6% for fiscal year 2004. The following summarizes the System's 0.5% ownership share of the International Equities Pool - Passive at September 30, 2005:

International Equities Pool - Passive
(in thousands)

Short Term Pooled investments	$	106
Equities		2,914
Debt Securities		20,189
Hedge Contracts		6,426
Accrued dividends and interest		109
Total	**$**	**29,744**

International Equities Pool – Active

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

The System invests in the Alliance International Large Cap Growth and Value pools. The pools represent equity investments managed by international value and growth managers at Alliance Capital. The pool is composed of 49.8% Large Cap Growth and 50.2% Large Cap Value.

The System's pool invested with Alliance Large Cap Growth achieved a total rate of return of 13.3% since the fund's inception on May 2, 2005, while Alliance Large Cap Value achieved a total rate of return was 16.1%, resulting in a combined return of 14.7%. This compared favorably with the S&P Citigroup Broad Market Index (BMI) World Ex-United States total return of 13.9%

Report on Investment Activity (Continued)

At the close of fiscal year 2005, the International Equities - Active pool represented 0.6% of total investments. The following summarizes the System's 0.6% ownership share and composition of the pool at September 30, 2005:

International Equities Pools - Active
(in thousands)

	Alliance
Total Equities	$ 1,678

Alternative Investments Pool

The Alternative Investments pool objective is to meet or exceed the S&P 500 Index plus 300 basis points for all private equity pools over long time periods.

Alternative Investments are investments in the private equity market, primarily through limited partnerships. The following summarizes the weightings of the pool as of September 30, 2005:

Buyout Funds	59.7 %
Venture Capital Funds	16.4
Special Situation Funds	11.4
Fund of Funds and Hedge Funds	7.8
Mezzanine Funds	3.7
Short Term Investments	1.0
Total	**100.0 %**

The Alternative Investments pool had a return of 21.8% for the fiscal year ended September 30, 2005, as compiled by State Street Analytics versus the S&P 500 Index plus 300 basis points of 15.4%.

Credit Suisse Asset Management (CSAM) manages the stock distributions of the Alternative Investments. The CSAM pool return for the fiscal year ending September 30, 2005, was -9.0%.

At the close of fiscal year 2005, the Alternative Investments pool represented 8.2% of total investments and Credit Suisse Asset Management pool represented 0.1% of total investments. This compares to 9.3% for Alternative and 0.1% for CSAM for fiscal year 2004. The following summarizes the System's ownership share and composition of the Alternative Investments pool and the Credit Suisse Asset Management pool at September 30, 2005:

Alternative Investments Pool
(in thousands)

	Alternative	CSAM
Short Term Pooled investments	$ 248	$ 6
Settlement Proceeds Receivable	-	2
Equities	23,162	137
Total	**$ 23,410**	**$ 145**
Ownership percentage	0.4%	0.5%

Report on Investment Activity (Continued)

Real Estate Pool

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

The Real Estate pool may invest in each of the following four quadrants of the real estate capital markets:

- Private equity markets - An ownership interest in stabilized real estate assets, which may also include development and redevelopment of real estate.
- Public equity markets - Securities of publicly traded equity real estate companies whose primary purpose is to own, lease, manage, and develop real estate.
- Private debt markets - Mortgage loans secured by real estate.
- Public debt markets - Publicly traded commercial mortgage-backed securities market.

The Real Estate pool diversifies its holdings by:

- Geographic region - The pool is broadly diversified geographically across the country. Emphasis is placed upon U.S. real estate investments, but may also include foreign real estate investments. Foreign investments are currently less than one percent of the total equity value of the pool, and are not expected to exceed ten percent of the total equity value of the pool.
- Property (size and value) - The pool diversifies its holdings so that it is not concentrated in a few large real estate assets.
- Property type - The pool is diversified by type of property and by class of property.

Major property types as of September 30, 2005:

Multi-family apartments	33.5	%
Commercial office buildings	22.1	
Retail shopping centers	13.0	
Hotels	11.1	
For sale housing, land, self storage, and senior living	10.5	
Industrial warehouse buildings	7.4	
Short Term Investments	2.4	
Total	**100.0**	**%**

The net total return for the fiscal year ending September 30, 2005, was 14.4%, as compiled by State Street Analytics. This compares to the benchmark return of 18.4%. The benchmark is the National Council of Real Estate Investment Fiduciaries Property Index (NPI) less 75 basis points. The adjustment to the NPI is made to approximate industry comparable returns due to the fact that the Real Estate pool's returns are calculated net of all overhead and management fees, while the NPI calculates returns on a gross property level basis before overhead and standard investment management fees. The benchmark does not include short term investments, and the amount of purchase and sale activity during the fiscal year resulted in a high average short term investment balance that dampened performance within the Real Estate pool.

Report on Investment Activity (Continued)

At the close of fiscal year 2005, the Real Estate pool had a total net equity value of $31.7 million that represented 11.2% of total investments. This compares to 9.8% for fiscal year 2004. The following summarizes the System's 0.8% ownership share of the Real Estate pool at September 30, 2005:

Real Estate Pool (in thousands)		
Short Term Pooled investments	$	765
Equities		30,924
Total	**$**	**31,689**

Government Bond Pool

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

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

For the fiscal year ending September 30, 2005, the Government Bond pool returned 3.4% which compared favorably to the Lehman Brothers Government Index of 2.5%.

Rates continued to be volatile during the year. Ten-year treasuries started the year at 4.11%, rose to 4.64%, plunged to 3.89%, and ended at 4.33%. The yield curve continued to flatten with short and intermediate rates continuing to rise over the year while long rates declined marginally.

The following summarizes the security type breakdown of the pool as of September 30, 2005:

U.S. Agency	60.4 %
GNMA	21.7
U.S. Treasury	9.7
U.S. Guaranteed	6.3
Short Term Investments	1.9
Total	**100.0 %**

At the close of fiscal year 2005, the Government Bond pool represented 9.0% of total investments. This compares to 10.0% for fiscal year 2004. The following summarizes the System's 0.6% ownership share of the Government Bond pool at September 30, 2005:

Government Bond Pool (in thousands)		
Short Term Pooled investments	$	281
Debt Securities		25,248
Accrued dividends		212
Total	**$**	**25,741**

Report on Investment Activity (Continued)

Corporate Bond Pool

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

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

For the fiscal year ending September 30, 2005, the Corporate Bond pool returned 2.1% compared to the Lehman Brothers Credit Index of 2.8%.

The pool's performance improved as the year progressed due to the continued rise in rates later in the year. The underperformance for the fiscal year reflected the strength of long rates early in the year declining from 4.9% in October 2004 to 4.19% in June before rising to 4.57% at year-end.

The following summarizes the security type breakdown of the pool as of September 30, 2005:

Financials	39.9 %
Health Care	11.9
Consumer Discretionary	10.7
Industrials	9.4
Consumer Staples	7.3
Utilities	5.9
Materials	5.4
Other	4.0
Short Term Investments	3.3
Information Technology	2.2
Total	**100.0 %**

At the close of fiscal year 2005, the Corporate Bond pool represented 9.1% of total investments. This compares to 10.0% for fiscal year 2004. The following summarizes the System's 0.6% ownership share of the Corporate Bond pool at September 30, 2005:

Corporate Bond Pool
(in thousands)

Short Term Pooled investments	$	621
Debt Securities		24,897
Settlement Principal Payable		(47)
Accrued dividends		287
Total	**$**	**25,758**

Report on Investment Activity (Continued)

Short Term Investment Pool

The objective of the Short Term Investment pool is to closely match the return performance of its benchmark, the 30 day Treasury bill. The Short Term Investment pool return for the fiscal year was 2.2% versus the benchmark's 2.5%.

Potential areas of investment are:

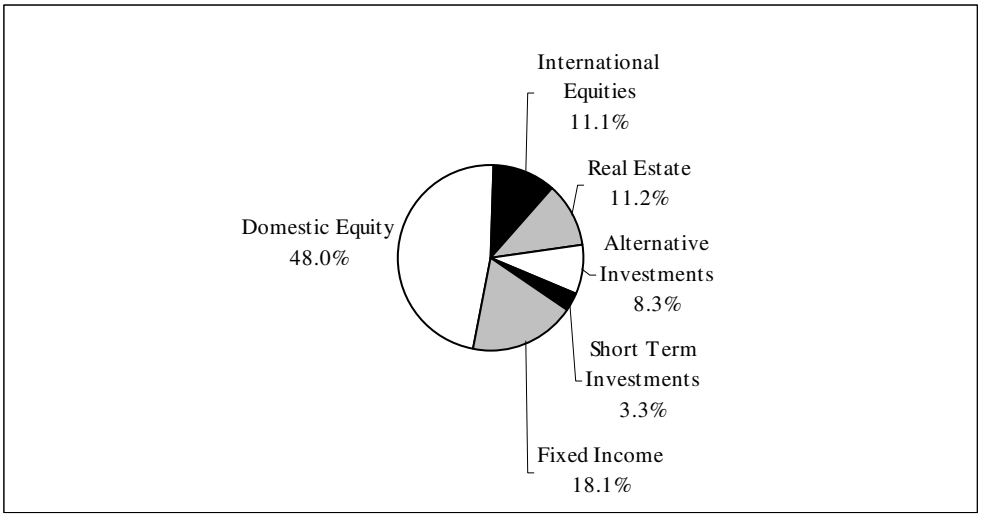
- Obligations of the United States or its agencies.
- Banker's acceptances, commercial accounts, certificates of deposit or depository receipts.
- Repurchase agreements for the purchase of securities issued by the US government or its agencies.
- Commercial paper rated at the time of purchase within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

As of September 30, 2005, the Short Term Investment pool was 100% invested in commercial paper because of its advantages in yield and flexibility in maturities.

At the close of fiscal year 2005, the Short Term Investment pool represented 3.3% of total investments. This compares to 2.5% for fiscal year 2004. The System's ownership of the Short Term Investment pool at September 30, 2005 was $9,463,386 composed of debt securities and equity in common cash.

INVESTMENT SECTION

Asset Allocation – Security Type Only



Investment Results for the Period Ending September 30, 2005

Investment Category	Current Year	Annualized Rates of Return[1] 3 Years	5 Years	10 Years
Total Portfolio	12.2 %	12.8 %	3.1 %	8.9 %
Total Domestic Equity	11.8	16.8	(0.7)	9.9
S&P 1500 Index	13.4	17.5	(0.5)	9.8
Large Cap Value Pool	12.7			
Large Cap Growth Pool	8.5			
Mid Cap Pools	11.6			
Small Cap Value Pools	19.1			
Small Cap Growth Pools	15.2			
S&P 500 Index Pool	12.3			
S&P MidCap Index Pool	22.3			
S&P Small Cap Index Pool	21.2			
International Equity Pool - Passive	27.3	22.8	2.6	7.7
S&P Citigroup BMI - EPAC 50/50	29.4	23.3	2.8	7.3
International Equity Pool - Active	14.7			
Alternative Investments Pool	21.8	14.5	0.9	12.8
S&P 500 Index plus 300 Basis Points	15.4	19.9	2.0	13.0
Credit Suisse Asset Management (Stock Distributions)	(9.0)			
Real Estate Pool	14.4	9.6	9.3	10.6
NCREIF Property Index minus 75 Basis Points	18.4	12.3	10.2	10.9
Total Fixed Income	2.7	3.8	6.2	6.3
Lehman Brothers Government/Credit	2.6	4.1	6.9	6.6
Government Bond Pool	3.4			
Corporate Bond Pool	2.1			
Short Term Investment Pool	2.2	1.6	2.4	4.2
30 Day Treasury Bill	2.5	1.5	2.2	3.5

[1] Calculations used a time-weighted rate of return based on the market rate of return in accordance with the CFA Institute's Performance Presentation Standards.

Largest Assets Held

Largest Stock Holdings (By Market Value)*
September 30, 2005

Rank	Shares	Stocks	Market Value
1	75,200	Exxon Mobil Corporation	$ 4,778,194
2	122,410	General Electric Corporation	4,121,538
3	83,850	Citigroup Incorporated	3,816,849
4	127,003	Microsoft Corporation	3,267,786
5	111,331	Pfizer Incorporated	2,779,937
6	51,850	Bank of America Corporation	2,182,879
7	33,575	Johnson and Johnson	2,124,625
8	32,934	American International Group	2,040,611
9	70,559	Intel Corporation	1,739,284
10	23,259	Altria Group Incorporated	1,714,409

Largest Bond Holdings (By Market Value)*
September 30, 2005

Rank	Par Amount	Bonds & Notes	Market Value
1	$ 1,421,565	U.S. Treasury Strip 0% Coupon Due 11-15-2011	$ 1,358,163
2	1,069,722	US Bank NA 4.07688% FRN Due 4-5-2007	1,069,665
3	1,008,420	Bank Nova Scotia FRN Due 10-12-2007	1,008,302
4	858,485	Canadian Imperial Bank 4.12688% FRN Due 1-5-2007	858,439
5	858,485	Wells Fargo & Company 4.06% FRN Due 9-28-2007	858,329
6	781,526	Wells Fargo & Company 3.75% FRN Due 8-4-2006	781,375
7	756,315	Household Finance Corporation 3.75% FRN Due 10-22-2007	756,180
8	756,315	Bayerische Landesbank NY 3.91063% FRN Due 3-17-2006	756,046
9	655,473	Citigroup Global Markets 3.75% FRN Due 1-30-2007	655,344
10	630,262	JPMorgan Chase & Co 3.76913% FRN Due 7-28-2006	630,146

* A complete list of stock and bond holdings is available from the Michigan Department of Treasury.
* The System investments are commingled in various pooled accounts. Shares, par and market value represent the System's pro rata ownership through its ownership of the pool.

INVESTMENT SECTION

Schedule of Investment Fees

The State Treasurer is the investment fiduciary and custodian of the System's funds pursuant to state law. Outside advisors are utilized to augment the State Treasurer's internal staff. Only 21.0% of the total investment portfolio is managed by fully discretionary outside advisors. The Michigan Department of Treasury's cost of operations applicable to the retirement system for the fiscal year end amounted to $56 thousand or two and five tenths basis points (.025%) of the market value of the portfolio.

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

Schedule of Investment Fees

Investment Managers' Fees:

	Assets under Management	Fees	Basis Points*
State Treasurer	$ 224,474,122	$ 56,199	2.5
Outside Advisors for			
Mid Cap Equity	2,426,031	0	0.0
Small Cap Equity	2,351,875	18,211	77.4
International Equity	3,965,804	613	1.5
Alternative	23,299,415	219,068	94.0
Real Estate	27,513,422	6,007	2.2
Total	$ 284,030,669		

Other Investment Services Fees:

Custody & Research Fees	$ 274,567,185	$ 13,158
Securities Lending Fees	17,155,395	7,623

* Outside Advisors Fees are netted against income for Small Cap, Mid Cap, and International Equity. For Alternative partnership agreements that define the management fees, the asset management fees range from 150 to 250 basis points of the committed capital. For Real Estate the asset management fee ranges from 50 to 125 basis points. Alternative and Real Estate fees, in most cases, are netted against income.

Schedule of Investment Commissions

	Fiscal Year Ended September 30, 2005						
	Commissions Paid [1]	Number of Shares Traded [1]	Average Commission Rate Per Share	Estimated Trade Costs Per Share	Estimated Research Costs Per Share	Estimated Trade Costs	Estimated Research Costs
Investment Brokerage Firms:							
Banc/America Securities LLC Montgomey Div.	$ 1,089	22,553	$ 0.05	$ 0.03	$ 0.02	$ 677	$ 412
Bear, Stearns & Co. Inc.	3,665	82,737	0.04	0.03	0.01	2,482	1,183
Bridge Trading	2,955	65,054	0.05	0.03	0.02	1,952	1,004
BNY Brokerage Inc.	9	184	0.05	0.03	0.02	6	4
B-Trade Services LLC	19	955	0.02	0.02	0.00	19	0
Buckingham Research Group	1	11	0.05	0.03	0.02	0	0
Cantor Fitzgerald & Co.	722	23,817	0.03	0.02	0.01	476	246
Cap Institutional Services Inc. Equities	17	339	0.05	0.03	0.02	10	7
Charles Schwab Co., Inc.	182	3,640	0.05	0.03	0.02	109	73
Citigroup Global Markets, Inc.	5,968	147,524	0.04	0.03	0.01	4,426	1,542
Credit Suisse First Boston Corporation	4,206	93,128	0.05	0.03	0.02	2,794	1,413
Deutsche Bank Securities Inc.	848	18,153	0.05	0.03	0.02	545	304
Friedman Billings Ramsey	3	75	0.04	0.03	0.01	2	1
Fulcrum Global Partners	31	622	0.05	0.03	0.02	19	12
Goldman Sachs	5,475	130,155	0.04	0.03	0.01	3,905	1,570
Griswold Company	1,715	104,992	0.02	0.02	0.00	1,715	0
Howard Weil Division Legg Mason	137	3,434	0.04	0.03	0.01	103	34
Investment Technology Group Inc.	5	254	0.02	0.02	0.00	5	0
Instinet	37	1,243	0.03	0.03	0.00	37	0
ISI Group Inc.	1,211	25,134	0.05	0.03	0.02	754	457
J P Morgan Securities Inc.	2,204	49,599	0.04	0.03	0.01	1,488	716
Jones & Associates	10	191	0.05	0.03	0.02	6	4
Leerink Swann & Co.	24	500	0.05	0.03	0.02	15	9
Legg Mason Wood Walker	176	3,511	0.05	0.03	0.02	105	70
Lehman Brothers Inc.	5,946	153,892	0.04	0.03	0.01	4,617	1,329
Liquidnet Inc.	24	1,222	0.02	0.02	0.00	24	0
Merrill Lynch, Pierce, Fenner & Smith, Inc.	6,034	141,189	0.04	0.03	0.01	4,236	1,798
Morgan Stanley Co. Inc.	3,029	63,504	0.05	0.03	0.02	1,905	1,124
OTA Research	1,345	27,810	0.05	0.03	0.02	834	510
Pershing LLC	53	1,756	0.03	0.03	0.00	53	0
Pipeline Trading Systems LLC	3	155	0.02	0.02	0.00	3	0
Prudential Equity Group	2,682	59,400	0.05	0.03	0.02	1,782	900
Raymond James & Associates Inc.	4	74	0.05	0.03	0.02	2	1
RBC Capital Markets	29	579	0.05	0.03	0.02	17	12
SG Americas Securities LLC	3	55	0.05	0.03	0.02	2	1
S.G. Cowen & Co., LLC	2,044	42,102	0.05	0.03	0.02	1,263	781
Sanders Morris Mundy	41	813	0.05	0.03	0.02	24	16
Sanford Bernstein Co. LLC	1,617	34,935	0.05	0.03	0.02	1,048	569
State Street Brokerage Services	8	166	0.05	0.03	0.02	5	3
Suntrust Capital Markets Inc.	5	107	0.05	0.03	0.02	3	2
Thomas Weisel Partners	74	1,493	0.05	0.03	0.02	45	29
US Bancorp Piper Jaffray Inc.	23	457	0.05	0.03	0.02	14	9
UBS Securities LLC	3,463	79,414	0.04	0.03	0.01	2,382	1,081
US Clearing Corporation	5	101	0.05	0.03	0.02	3	2
Wayne Company	85	1,908	0.04	0.03	0.01	57	28
Weeden & Co.	80	1,613	0.05	0.03	0.02	48	32
Total	$ 57,306	1,390,550	$ 0.04 [2]	$ 0.03	$ 0.01	$ 40,017	$ 17,288

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

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

INVESTMENT SECTION

Investment Summary

Fiscal Year Ended September 30, 2005

	Market Value [a]	Percent of Total Market Value	Investment & Interest Income [b]	Percent of Investment & Interest Income
Fixed Income:				
Government Bond Pool	$ 25,740,592	9.0%	$ 839,646	2.6%
Corporate Bond Pool	25,758,075	9.1%	552,457	1.7%
Total Fixed Income Pools	51,498,667	18.1%	1,392,103	4.3%
Equity Pools	136,403,015	48.0%	14,938,236	46.3%
Real Estate Pool	31,688,729	11.2%	3,956,411	12.3%
Alternative Investment Pool	23,554,735	8.3%	4,865,398	15.1%
International Equities Pool	31,422,137	11.1%	6,865,642	21.3%
Short Term Investments Pool	9,463,386	3.3%	236,521	0.7%
Total	$ 284,030,669	100.0%	$ 32,254,311	100.0%

[a] Market value excludes $16,973,727 in cash collateral for security lending for fiscal year 2005.

[b] Total Investment & Interest Income excludes net security lending income of $22,999.

Investment Summary (Continued)

Fiscal Year Ended September 30, 2004

	Market Value [a]	Percent of Total Market Value	Investment & Interest Income [b, c]	Percent of Investment & Interest Income
Fixed Income:				
Government Bond Pool	$ 26,851,173	10.0%	$ 895,637	3.07%
Corporate Bond Pool	26,708,194	10.0%	941,170	3.23%
Total Fixed Income Pools	53,559,367	20.0%	1,836,807	6.30%
Equity Pools	128,971,485	48.7%	15,452,752	53.02%
Real Estate Pool	26,141,157	9.8%	2,152,654	7.38%
Alternative Investment Pool	25,002,751	9.4%	5,352,976	18.37%
International Equities Pool	25,392,430	9.6%	4,140,876	14.21%
Short Term Investments Pool	6,557,519	2.5%	209,592	0.72%
Total	$ 265,624,709	100.0%	$ 29,145,657	100.0%

[a] Market value excludes $2,155,181 in equity in common cash and $18,077,376 in cash collateral for security lending for fiscal year 2004.

[b] Total Investment & Interest Income excludes net security lending income of $21,180.

[c] Effective July 1, 2004, the System's investments were contributed to the various investment pools listed above. The income on investments for the first nine months of the fiscal year is reported as income for the pool to which the security was contributed.

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ACTUARIAL SECTION

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

ACTUARIAL SECTION

Actuary's Certification

THE SEGAL COMPANY
One Park Avenue New York, NY 10016-5895
T 212.251.5321 F 212.251.5490 www.segalco.com

Michael J. Karlin, F.S.A., M.A.A.A.
Senior Vice President & Actuary
mkarlin@segalco.com

November 22, 2005

Ms. Lisa Webb Sharpe
Director
Department of Management and Budget
and
Retirement Board
Michigan Judges Retirement System
P.O. Box 30176
Lansing, Michigan 48909

Ladies and Gentlemen:

The Michigan Judges Retirement System (MJRS) is funded on an actuarial reserve basis. The basic financial objective of MJRS is to establish and receive contributions that remain approximately level as a percentage of active member payroll over a long period of years.

Actuarial valuations are prepared annually to determine MJRS's actuarial liabilities and the employer contributions required to fund the System in accordance with the actuarial reserve funding provisions of the governing State Statute. The most recent actuarial valuation as of September 30, 2005 included a total of 872 members of MJRS. The actuarial value of MJRS's assets amounted to approximately $278 million on September 30, 2005.

The actuarial assumptions used in the 2005 valuation are the same as those used in 2004 which reflect the results and recommendations of the 1997-2002 actuarial experience investigation. These assumptions produce valuation results which we consider to be reasonably indicative of the plan's underlying cost. Also, in our opinion, the actuarial assumptions and methods used for funding purposes meet the parameters for the disclosures presented in the financial section by GASB Statement No. 25.

Our actuarial valuation of MJRS as of September 30, 2005 was performed by qualified actuaries in accordance with accepted actuarial procedures. In our opinion, the calculated contribution rate meets the fundamental objectives of State law. Based on the 2005 valuation results, it is also our opinion that the Michigan Judges Retirement System continues in sound condition, in accordance with actuarial principles of level cost financing.

Most of the information used in the supporting schedules in the Actuarial and Statistical Sections, as well as the Schedules of Funding Progress and the employer contributions shown in the Schedules of Employer Contributions in the Financial Section of this report were provided by our firm.

Sincerely,

Michael Karlin, F.S.A., M.A.A.A.
Senior Vice President & Actuary

Benefits, Compensation and HR Consulting ATLANTA BOSTON CHICAGO CLEVELAND DENVER HARTFORD HOUSTON LOS ANGELES MINNEAPOLIS NEW ORLEANS NEW YORK PHILADELPHIA PHOENIX SAN FRANCISCO SEATTLE TORONTO WASHINGTON, DC

Multinational Group of Actuaries and Consultants AMSTERDAM BARCELONA GENEVA HAMBURG LONDON MELBOURNE MEXICO CITY OSLO PARIS

Summary of Actuarial Assumptions and Methods

1. The investment return rate used in making the valuations was 8% per year, compounded annually and the inflation assumption is 3.5%. Thus the 8% investment return rate translates to an assumed real rate of 4.5%. Adopted 2004.

2. The mortality table used in evaluating allowances to be paid was the 1994 Group Annuity Mortality Table, set forward one year for both men and women. Adopted 1998.

3. Sample probabilities of retirement with an age and service allowance are shown in Schedule 1 on the next page. Adopted 2004.

4. Sample probabilities of withdrawal from service and disability, together with individual pay increase assumptions, are shown in Schedule 2 on the next page. Adopted 2004.

5. Total active member payroll is assumed to increase 0% per year, because new employees participate in the defined contribution program. Adopted 1996.

6. An individual entry age actuarial cost method of valuation was used in determining age and service allowance actuarial liabilities and normal cost. Unfunded actuarial accrued liabilities, including actuarial gain and losses, are financed over a period of 40 years on a declining basis beginning October 1, 1996. Adopted 1996.

7. Valuation assets (cash and investments) were valued using a five-year smoothed market value method. For the 1993 valuation and later, 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 1993.

8. The data about persons 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 after consulting with the actuary.

Summary of Actuarial Assumptions and Methods (Continued)

Schedule 1

Percent of Eligible Active Members Retiring Within Next Year

Retirement Ages	Percent of Eligible Active Members Retiring Within Next Year
55-59	6 %
60	10
61	8
62	10
63	8
64	8
65	18
66-68	8
69	12
70	25
71	30
72	35
73	40
74	50
75	100

Schedule 2

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

Sample Ages	Percent of Active Members Withdrawing Within Next Year (Men and Women)	Percent of Active Members Becoming Disabled Within Next Year (Men and Women)	Percent Increase In Pay During Next Year
20		0.00 %	4.0 %
25		0.00	4.0
30	0.75 %	0.00	4.0
35	0.75	0.01	4.0
40	0.75	0.03	4.0
45	0.75	0.06	4.0
50	0.75	0.09	4.0
55	0.75	0.12	4.0
60	0.75	0.18	4.0

Actuarial Valuation Data

Schedule of Active Member Valuation Data

Valuation Date Sept. 30	Inactive Members Number	Active Members Number	Active Reported Annual Payroll	Active Average Annual Payroll	Active % Increase	Active Average Age	Active Average Service
1996	28	610	$ 49,350,572	$ 80,903	3.1 %	53.6	11.7
1997	25	609	49,000,856	80,461	(0.5)	52.8	11.4
1998	24	600	48,865,572	81,443	1.2	53.6	12.2
1999	22	573	49,626,160	86,608	6.3	54.8	13.5
2000	17	399	37,022,723	92,789	7.1	54.0	11.0
2001	15	380	42,543,811	111,957	20.7	54.4	11.7
2002	16	367	42,441,201	115,644	3.3	55.3	12.4
2003	13	337	38,900,163	115,431	(0.2)	55.4	13.2
2004	11	325	37,453,179	115,241	(0.2)	56.1	13.6
2005	18	302	34,935,846	115,682	0.4	57.0	14.8

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
1996	19	$ 708,409	19	$ 424,164	481	$ 12,899,398	2.3 %	$ 26,818
1997	40	1,663,656	9	359,441	512	14,203,613	10.1	27,741
1998	26	696,745	24	556,833	514	14,343,525	1.0	27,906
1999	35	1,182,957	18	514,936	531	15,011,546	4.7	28,270
2000	16	656,659	12	449,123	535	15,219,082	1.4	28,447
2001	30	1,027,902	19	399,313	546	16,027,671	5.3	29,355
2002	8	310,381	19	659,722	535	15,678,330	(2.2)	29,305
2003	27	1,099,372	11	520,658	551	17,144,956	9.4	31,116
2004	13	836,992	15	562,582	549	17,572,770	2.5	32,009
2005	16	816,849	13	387,731	552	18,001,888	2.4	32,612

* Restated based on more complete information.

ACTUARIAL SECTION

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 plan'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 that has been 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) is normally partially covered by the remainder of present assets. Generally, if the System has been using level-cost financing, the funded portion of liability 3 will increase over time. Liability 3 being fully funded is not necessarily a by-product of level percent of payroll funding methods.

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

Valuation Date Sept. 30	Actuarial Present Value of Actuarial Accrued Liability ($ in thousands) (1) Active Member Contributions	(2) Retirants and Beneficiaries	(3) Active and Inactive Members (Employer Financed Portion)	Valuation Assets	Portion of Present Value Covered by Assets (1)	(2)	(3)	(4) [1]
1996	$ 38,766	$ 96,633	$ 76,102	$243,248	100 %	100 %	141.7 %	115.0 %
1997	39,637	118,717	72,157	271,458	100	100	156.7	117.8
1998	43,378	116,264	76,879	288,671	100	100	167.8	122.0
1998 [2]	43,378	116,645	70,294	288,671	100	100	183.0	125.3
1999	43,047	121,856	78,600	320,869	100	100	198.4	131.8
2000	28,812	120,480	54,933	274,843	100	100	228.6	134.6
2001	29,469	125,097	70,171	290,998	100	100	194.4	129.5
2002	33,457	120,456	75,309	291,730	100	100	183.0	127.3
2003	34,355	131,719	69,167	292,258	100	100	182.4	124.2
2004	37,089	138,141	61,219	286,873	100	100	182.4	121.3
2005	38,695	142,689	61,987	278,423	100	100	156.5	114.4

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

[2] Revised actuarial assumptions

Analysis of Financial Experience

Gains/(Losses) in Accrued Liabilities During Year Ended September 30, 2005
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.	$ 446,470
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.	(1,502,175)
3.	**Pay Increases.** If there are smaller pay increases than assumed, there is a gain. If greater increases, a loss.	4,684,624
4.	**Investment Income.** If there is greater investment income than assumed, there is a gain. If less income, a loss.	(15,087,183)
5.	**Death After Retirement**. If retirants live longer than assumed, there is a loss. If not as long, a gain.	(3,738,420)
6.	**New entrants.** New entrants into the System will generally result in an actuarial loss. This does not apply to plans closed to new entrants.	-
7.	**Other.** Miscellaneous gains and losses resulting from data adjustments, timing of financial transactions, etc.	100,800
8.	**Composite Gain (or Loss) During Year**	$ (15,095,884)

ACTUARIAL SECTION

Summary of Plan Provisions

Our actuarial valuation of the System as of September 30, 2005, is based on the present provision of Public Act No. 234 of 1992.

Regular Retirement

Eligibility — Age 60 with 8 years credited service; or age 55 with 18 years credited service, or 25 years with no age requirement.

Annual Amount — If less than 12 years of credited service, 3% of final annual compensation times years of credited service; for 12 or more years of credited service, 50% of final annual compensation plus 2.5% of such compensation for each year of credited service in excess of 12 years to a maximum of 60%. Former System members receive 3% of final annual compensation times years of credited service to a maximum of the greater of 40% of final annual compensation or $15,000, but not to exceed 66 2/3% of final annual compensation when added to a local retirement system benefit; or 3.5% of final annual compensation times years of credited service to a maximum of 66 2/3% of final annual compensation if elected.

Final Annual Compensation — Annual State salary at time of retirement plus State salary standardization, if any. For former System members, final annual compensation is member's certified salary at time of retirement. For 36th District Court judges, final annual compensation is total State and district control unit salary at time of retirement. For probate judges serving in a single county of less than 15,000 population, final annual compensation is total judicial salary at the time of retirement.

Early Retirement (age reduction factor used)

Eligibility — Age 55 with 12 but less than 18 years credited service.

Annual Amount — Regular retirement benefit, reduced by 1/2% for each month by which the commencement age is less than 60.

Deferred Retirement (vested benefit)

Eligibility — 8 years of credited service.

Annual Amount — Regular retirement benefit. If less than 12 years of credited service, payable at age 60; if 18 or more years of credited service payable at age 55; if more than 12 but less than 18 years of credited service reduced amount payable at age 55.

Disability Retirement

Eligibility — 8 years of credited service.

Annual Amount — Regular retirement benefit, based upon member's credited service and final salary at time of disability.

Death Before or After Retirement (Spouse or Dependent Children)

Eligibility — 8 years of credited service.

Annual Amount — 50% of the member's accrued pension.

Summary of Plan Provisions (Continued)

Post Retirement Cost-of-Living Adjustments

None, except that judges who were active judges prior to September 8, 1961, (and their survivors) have their benefits adjusted as active judges' salaries change.

Member Contributions

Non-Trial Judges: 5% of salary (2% for health benefits).

Trial Judges with Full Standardization: 7% of salary.

Trial Judges without Full Standardization: 3.5% of salary.

Probate Judges under 3% Formula: 7% of salary to maximum of $980.

Probate Judges under 3.5% Formula: 7% of salary (no maximum).

District Court Judges of the Thirty-sixth District: 3.5% of salary.

Defined Contribution Legislation — Public Act 523 of 1996

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

On June 30, 1998, a case was filed by various Judges' Associations and Judges in connection with the Defined Contribution Plan. On November 22, 1999, a tentative settlement was read into the record. This settlement includes resolutions regarding the participation of trial judges in the DC plan, as well as a number of enhancements which have been thoroughly discussed with the Office of Retirement Services and are supported by the Governor's office. The proposed settlement was effectuated through passage of legislation. Approximately $76.9 million was transferred to the Defined Contribution Retirement Plan in October 2000.

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STATISTICAL SECTION

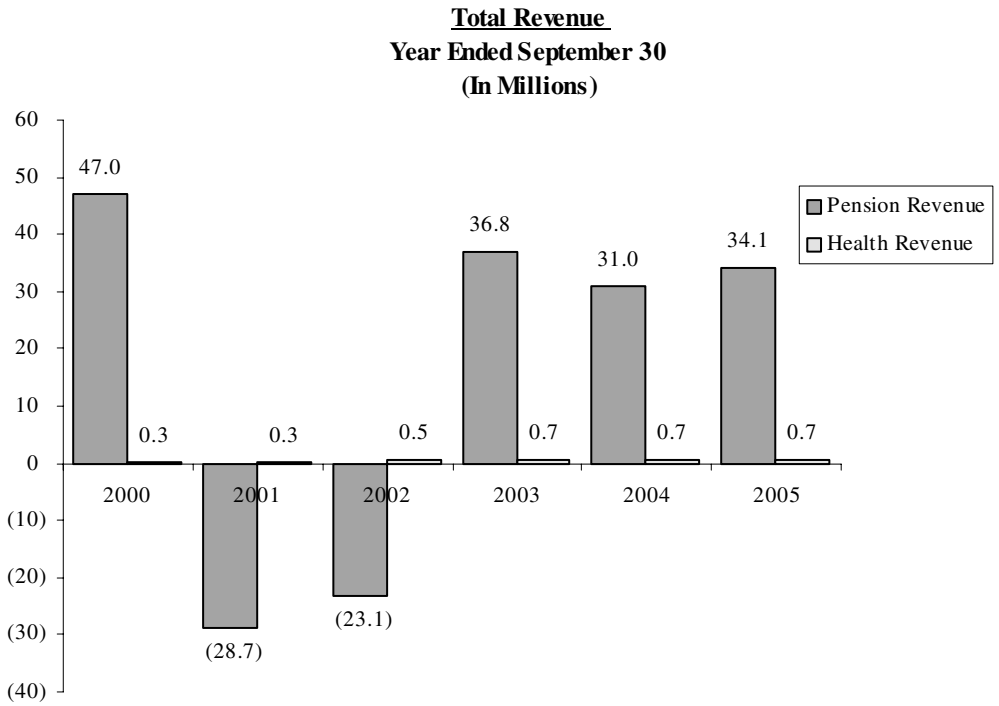
Schedule of Revenues by Source
Schedule of Expenses by Type
Schedule of Benefit Expenses by Type
Schedule of Retired Members by Type of Benefit
Schedule of Average Benefit Payments
Ten Year History of Membership
Schedule of Participating Employers

Schedule of Pension Plan Revenues by Source

Fiscal Year Ended Sept. 30	Member Contributions	Employer Contributions Dollars	Employer Contributions % of Annual Covered Payroll	Net Investment & Other Income	Total
2000	$ 2,874,966	$ -	0.00 %	$ 44,164,101	$ 47,039,067
2001	2,304,041	-	0.00	(30,995,562)	(28,691,521)
2002	2,857,224	-	0.00	(25,998,096)	(23,140,872)
2003	2,288,608	-	0.00	34,560,288	36,848,896
2004	2,143,714	-	0.00	28,818,651	30,962,365
2005	2,077,550	-	0.00	32,011,495	34,089,045

Schedule of Health Plan Revenues by Source

Fiscal Year Ended Sept. 30	Member Contributions	Net Court Fees	Total
2000	$ 324,441	$ -	$ 324,441
2001	345,851	-	345,851
2002	362,987	100,000	462,987
2003	451,035	265,000	716,035
2004	483,966	215,000	698,966
2005	450,657	215,000	665,657



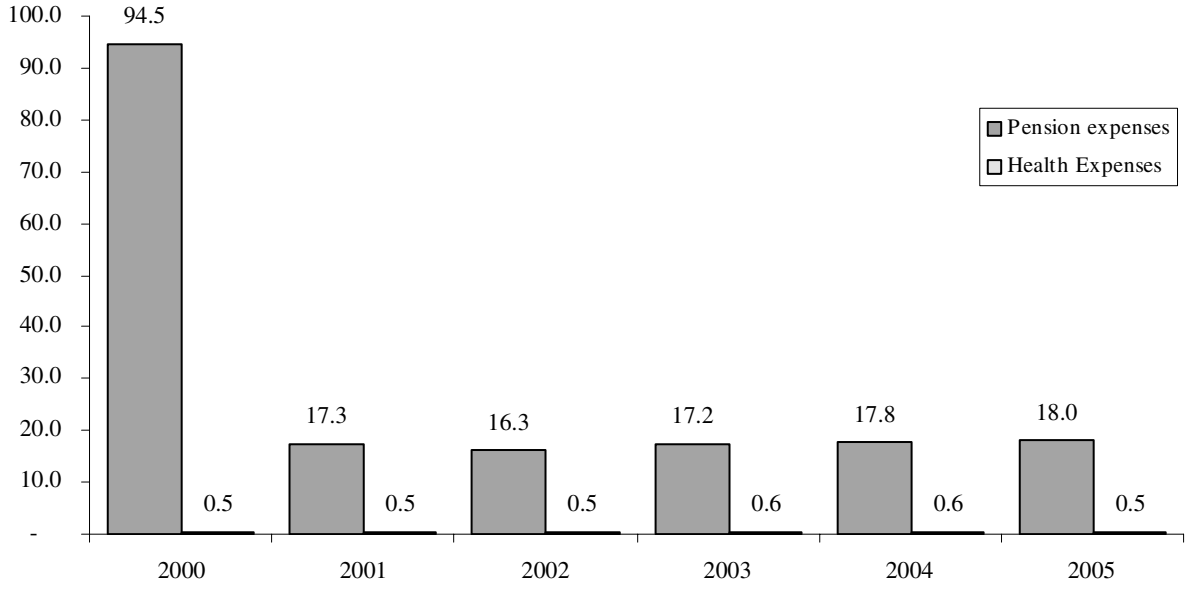
Schedule of Pension Plan Expenses by Type

Fiscal Year Ended Sept. 30	Benefit Payments	Refunds and Transfers	Administrative Expenses	Total
2000	$ 15,260,878	$ 78,765,632	$ 517,046	$ 94,543,556
2001	15,793,191	975,633	500,501	17,269,325
2002	15,809,951	52,862	404,983	16,267,796
2003	16,728,017	1,074	500,590	17,229,681
2004	17,540,889	67,792	210,178	17,818,859
2005	17,797,840	-	167,993	17,965,833

Schedule of Health Plan Expenses by Type

Fiscal Year Ended Sept. 30	Benefit Payments
2000	$ 450,345
2001	505,459
2002	519,669
2003	564,801
2004	576,043
2005	510,152

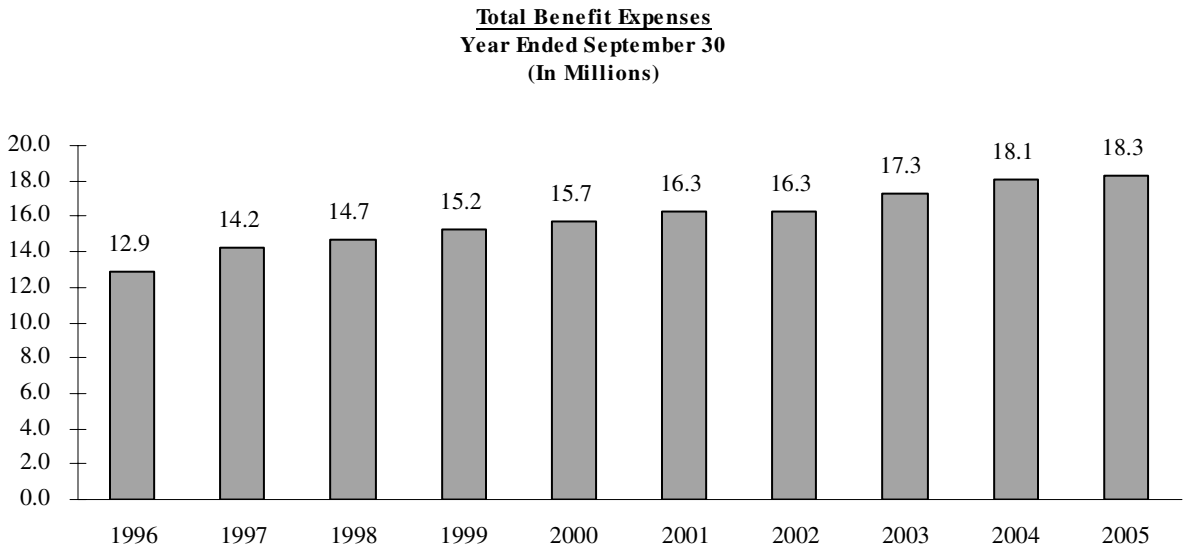
Total Expenses
Year Ended September 30
(In Millions)



Schedule of Benefit Expenses by Type

Fiscal Year Ended Sept. 30	Regular Benefits	Disability Benefits	Health Benefits*	Total
1996	$12,464,285	$ 294,976	$ 118,267	$ 12,877,528
1997	13,491,097	348,192	317,751	14,157,040
1998	13,922,718	381,835	355,523	14,660,076
1999	14,435,420	397,155	398,997	15,231,572
2000	14,818,706	442,172	450,345	15,711,223
2001	15,352,750	440,441	505,459	16,298,650
2002	15,375,626	434,325	519,669	16,329,620
2003	16,236,804	491,213	564,801	17,292,818
2004	17,011,125	529,764	576,043	18,116,932
2005	17,269,422	528,418	510,152	18,307,992

* Includes dental and vision benefits.



Schedule of Retired Members by Type of Benefit

September 30, 2005

Amount Monthly Benefit	Number of Retirees	Type of Retirement*					Selected Option**		
		1	2	3	4	5	Opt 1	Opt 2	Opt 3
$ 1-400	6	1	3	2	0	0	6	0	0
401-800	44	12	27	5	0	0	37	6	1
801-1,200	52	26	18	5	3	0	41	10	1
1,201-1,600	54	28	19	7	0	0	45	8	1
1,601-2,000	72	30	30	10	2	0	62	7	3
2,001-2,400	34	15	15	2	2	0	16	17	1
2,401-2,800	42	31	10	0	1	0	32	8	2
2,801-3,200	25	21	2	0	2	0	13	12	0
3,201-3,600	45	39	5	1	0	0	29	15	1
3,601-4,000	71	64	2	3	1	1	56	14	1
4,001-4,400	107	100	3	1	3	0	96	11	0
Totals	552	367	134	36	14	1	433	108	11

* Type of Retirement
1 - Normal retirement for age & service
2 - Survivor payment - Normal retirement
3 - Survivor payment - Death in service
4 - Non-duty disability retirement
5 - Survivor payment - Disability retirement

**Selected Option
Opt. 1. - Straight life allowan
Opt. 2 - 100% survivor optio
Opt. 3 - 50% survivor option

Source: The Segal Company

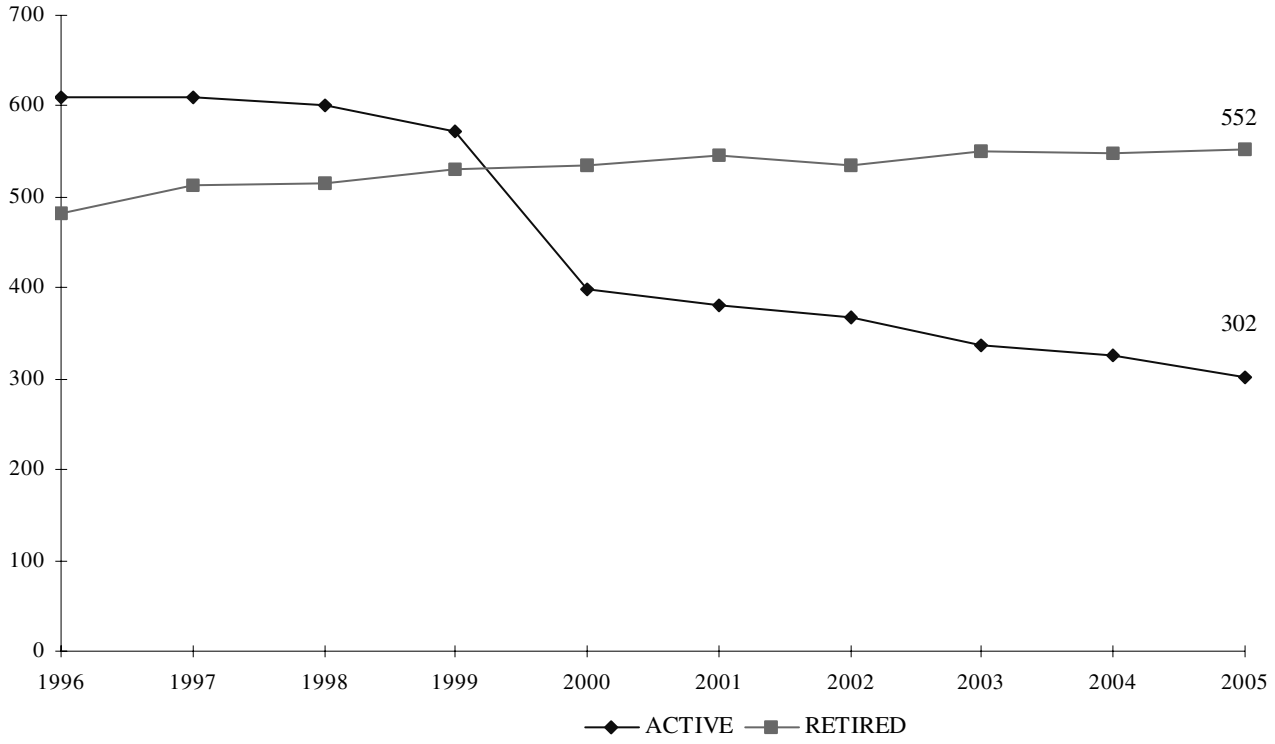
STATISTICAL SECTION

Schedule of Average Benefit Payments

Retirement Effective Dates	Years Credited Service							
	0-4	5-9	10-14	15-19	20-24	25-29	30+	Total
Period 10/1/97 to 9/30/98:								
Average Monthly Benefit	$ 860	$ 1,161	$ 1,568	$ 2,478	$ 2,942	$ 2,499	$ 3,113	$ 2,325
Average Final Average Salary	2,437	53,853	49,030	57,069	64,355	76,821	63,379	58,228
Number of Active Retirants	8	26	110	180	119	51	20	514
Period 10/1/98 to 9/30/99:								
Average Monthly Benefit	$ 908	$ 1,148	$ 1,630	$ 2,522	$ 2,948	$ 2,476	$ 3,409	$ 2,356
Average Final Average Salary	1,950	55,804	50,535	59,340	65,753	76,643	68,504	68,504
Number of Active Retirants	10	29	113	181	127	52	19	531
Period 10/1/99 to 9/30/00:								
Average Monthly Benefit	$ 923	$ 1,240	$ 1,637	$ 2,588	$ 2,990	$ 2,429	$ 3,477	$ 2,371
Average Final Average Salary	1,147	58,188	49,653	58,814	66,470	77,869	68,504	58,893
Number of Active Retirants	17	30	112	184	124	49	19	535
Period 10/1/00 to 9/30/01:								
Average Monthly Benefit	$ 1,144	$ 1,365	$ 1,668	$ 2,618	$ 3,080	$ 2,628	$ 3,761	$ 2,446
Average Final Average Salary	7,066	59,526	51,362	60,795	67,803	83,459	73,014	60,618
Number of Active Retirants	23	31	109	188	128	47	20	546
Period 10/1/01 to 9/30/02:								
Average Monthly Benefit	$ 1,144	$ 1,363	$ 1,712	$ 2,618	$ 3,015	$ 2,718	$ 3,904	$ 2,442
Average Final Average Salary	7,066	60,075	53,476	62,450	67,578	84,054	76,199	61,683
Number of Active Retirants	23	32	109	180	125	47	19	535
Period 10/1/02 to 9/30/03:								
Average Monthly Benefit	$ 1,026	$ 1,251	$ 1,978	$ 2,771	$ 3,217	$ 2,722	$ 4,197	$ 2,593
Average Final Average Salary	813	49,406	48,531	56,406	61,051	58,177	59,739	53,211
Number of Active Retirants	24	31	118	188	121	46	23	551
Period 10/1/03 to 9/30/04:								
Average Monthly Benefit	$ 1,026	$ 1,247	$ 2,016	$ 2,917	$ 3,317	$ 2,940	$ 3,871	$ 2,667
Average Final Average Salary	813	49,810	48,982	55,299	61,840	59,355	59,739	53,149
Number of Active Retirants	24	33	118	188	117	46	23	549
Period 10/1/04 to 9/30/05:								
Average Monthly Benefit	$ 1,057	$ 1,263	$ 2,074	$ 2,984	$ 3,382	$ 2,986	$ 3,850	$ 2,718
Average Final Average Salary	780	51,605	48,782	53,902	62,131	58,827	59,739	52,634
Number of Active Retirants	25	34	117	193	116	44	23	552

Source: The Segal Company

Ten Year History of Membership
Fiscal Years Ended September 30



Source: The Segal Company

STATISTICAL SECTION

Schedule of Participating Employers through 9/30/05

Elected Offices
Supreme Court
Court Of Appeals
Berrien County Trial Court
Barry County Trial Court
Isabella County Trial Court
Livingston County Probate Court
03rd Circuit Court
04th Circuit Court
06th Circuit Court
07th Circuit Court
08th Circuit Court
09th Circuit Court
10th Circuit Court
12th Circuit Court
13th Circuit Court
14th Circuit Court
15th Circuit Court
16th Circuit Court
17th Circuit Court
18th Circuit Court
20th Circuit Court
22nd Circuit Court
23rd Circuit Court
24th Circuit Court
25th Circuit Court
26th Circuit Court
27th Circuit Court
28th Circuit Court
29th Circuit Court
30th Circuit Court
31st Circuit Court
32nd Circuit Court
34th Circuit Court
35th Circuit Court
36th Circuit Court
37th Circuit Court
38th Circuit Court
39th Circuit Court
40th Circuit Court
41st Circuit Court
42nd Circuit Court
46th Circuit Trial Court
56th Circuit Court
57th Circuit Court
03B District Court
05th District Court
07th District Court
08th District Court
10th District Court
12th District Court
14A District Court
15th District Court
16th District Court
17th District Court
18th District Court
19th District Court
21st District Court
22nd District Court
25th District Court
26th District Court
28th District Court
31st District Court
33rd District Court
36th District Court
37th District Court
39th District Court
40th District Court
41A District Court
41B District Court
42nd District Court
43rd District Court
44th District Court
45A District Court
46th District Court
50th District Court
51st District Court
52nd District Court
53rd District Court
54B District Court
56A District Court
57th District Court
58th District Court
60th District Court
61st District Court
63rd District Court
64B District Court
65A District Court
66th District Court
67th District Court
68th District Court
70th District Court
71A District Court
71B District Court
72nd District Court
73A District Court
73B District Court
74th District Court
76th District Court
77th District Court
78th District Court
80th District Court

Schedule of Participating Employers through 9/30/05 (Continued)

81st District Court
82nd District Court
84th District Court
85th District Court
86th District Court
88th District Court
90th District Court
91st District Court
95A District Court
95B District Court
97th District Court
98th District Court
Alcona County Probate Court
Alpena County Probate Court
Bay County Probate Court
Benzie County Probate Court
Berrien County Probate Court
Branch County Probate Court
Calhoun County Probate Court
Cass County Probate Court
Chippewa County Probate Court
Genesee County Probate Court
Gogebic County Probate Court
Huron County Probate Court
Iosco County Probate Court
Iron County Probate Court
Jackson County Probate Court
Kalamazoo County Probate Court
Kent County Probate Court
Lake County Trial Court
Leelanau County Probate Court
Macomb County Probate Court
Mason County Probate Court
Monroe County Probate Court
Montcalm County Probate Court
Muskegon County Probate Court
Oceana County Probate Court
Ogemaw County Probate Court
Ontonagon County Probate Court
Oscoda County Probate Court
Ottawa County Probate Court
Presque Isle County Probate Court
St Clair County Probate Court
St Joseph County Probate Court
Sanilac County Probate Court
Shiawassee County Probate Court
Washtenaw County Probate Court
Wayne County Probate Court
Wexford County Probate Court
Clare/Gladwin Probate District 17
Mecosta/Osceola Probate District 18
Mackinac/Luce Probate District 6
Emmet/Charlevoix Probate District 7

ACKNOWLEDGMENTS

The *Michigan Judges' Retirement System Comprehensive Annual Financial Report* is prepared by Financial Services, Fiscal Management Division. Staff of the division for the fiscal year 2004-2005 report included:

Management:

Patricia Lack, CPA, Director
Ronald Foss, Accounting Manager
Cindy Moerdyk, Accounting Manager

Accountants:

Jennifer Ashton
Randy Bitner
Trina Guy
Jackie Huhn
Kelly Manning, CPA
Paula Webb

Technical and Support Staff:

Robert Johnson
Patricia Jorae
Jamin Schroeder

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