

# **Michigan Public School Employees Retirement System**



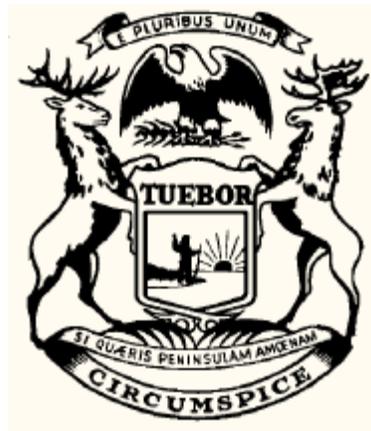
**Comprehensive Annual Financial Report  
for the Fiscal Year Ended  
September 30, 2000**

*A Pension Trust Fund of the State of Michigan*

John Engler, Governor

**Michigan Public School Employees' Retirement System**  
a Pension Trust Fund of the State of Michigan

**Comprehensive Annual Financial Report  
for the Fiscal Year Ended September 30, 2000**



**MPSERS**

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

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The cost of printing this report was \$2,681.63 (\$1.68 each), which was paid for by the System at no cost to taxpayers.

# INTRODUCTORY SECTION

Certificate of Achievement  
Letter of Transmittal  
Board Members  
Advisors & Consultants  
Organization Chart

# INTRODUCTORY SECTION

## Certificate of Achievement

# Certificate of Achievement for Excellence in Financial Reporting

Presented to

## Michigan Public School Employees' Retirement System

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended  
September 30, 1999

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.



*Anne Spray Kinney*  
President

*Jeffrey L. Esser*  
Executive Director

**Letter of Transmittal**

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

**STATE OF MICHIGAN**

JOHN ENGLER, Governor

**DEPARTMENT OF MANAGEMENT AND BUDGET**

February 9, 2001

The Honorable John Engler  
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 annual report of the Michigan Public School Employees' Retirement System (System) for fiscal year 2000.

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.

The Michigan Public School Employees' Retirement System was established by legislation under Public Act 136 of 1945, and is administered by the Office of Retirement Services (ORS). The number of active and retired members and beneficiaries for 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 public school employees. The services performed by the staff provides benefits to members.

The 2000 annual 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 auditors' report, financial statements 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.

# INTRODUCTORY SECTION

## Letter of Transmittal (Continued)

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### MAJOR GOALS ACCOMPLISHED

#### *Customer Service*

ORS continues its customer-focused direction, as evidenced by our mission and vision:

*ORS Mission: We deliver pensions, related benefits, and services to promote the future financial security of our customers.*

*ORS Vision: Fast, easy access to complete and accurate information and exceptional service.*

This year we conducted our semi-annual Retiree Customer Satisfaction Survey to assess how well we rated with what we currently offer our customers. The results were very positive with 94% rating ORS's service as "good" or "excellent." In addition, to find out what *other* needs our customers have, we conducted a Customer Needs and Expectations study. Using a series of focus groups and mail surveys, we learned what our customers want from this System, and their preferred method(s) of delivery.

One affirmation of how well ORS is doing came from a local organization, *Capital Quality Initiative*, that encourages the pursuit of excellence in business. ORS was one of three organizations recognized this year for excellence in serving customers' needs.

#### *Communications*

ORS continues to reach out to customers through a variety of media, allowing customers to use the one they find most comfortable. The ORS web site has a wealth of information about the System, along with publications, newsletters, frequently used forms, information about upcoming pre-retirement meetings, and links to other useful sites. Employers can also sign up to receive periodic special-interest e-mail updates via a subscription service called *ListServ*. The five ORS *ListServ* options now have over 900 subscribers.

Many individuals prefer traditional communications methods, such as the telephone, personal contact, and mail service. Because of this, ORS continues to refine and improve these services. In the past year, ORS handled 208,922 incoming phone calls through our Customer Information Center (CIC), a 27% increase over the previous year. Customers can call ORS via a toll-free number and receive direct, personal contact – not a series of telephone menu options. These customers reached CIC Retirement Information Representatives who were able to personally respond to 86% of their inquiries without transfers to others.

Customers who prefer one-on-one contact can arrange an appointment at an Outreach Office in Holland or Detroit, or come to the Main Office in Lansing anytime during normal business hours. There were 3,559 individuals who met with Retirement Information Representatives at the Main Office, while the Outreach Offices handled another 2,573.

A large number of individuals who are comfortable with electronic media contact ORS through our Customer Service e-mail address. This past year 5,099 e-mails were sent to this address – an increase of 205% over 1998-99. ORS staff members provide next-day turn-around time for most of these e-mail inquiries.

Retirement Information Representatives provided 89 Pre-Retirement Information Meetings (PRIMs) throughout the state for those seeking retirement information. Over 4,500 members attended PRIMs during the 1999-2000 school fiscal year, with 738 of them scheduling on-site appointments.

## Letter of Transmittal (Continued)

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ORS also offered 21 Administrative PRIM sessions to help train and mentor payroll personnel, human resource staff, and administrators regarding their interactions with the System. Over 500 school business officials participated in these sessions.

Our semi-annual retiree newsletter, the *ORS Connections*, continues to meet the original purpose: 1) To establish and maintain a direct connection with all retirees; 2) Remind retirees that we are available to assist them and how to access that assistance; 3) Provide information that will assist retirees in doing business with ORS.

### *Services*

ORS staff demonstrated their dedication and tenacity this past fiscal year as they placed 8,374 public school employees on payroll – the greatest number ever recorded. Over 3,000 of these were placed on payroll during July 2000 – almost 50% more than any previous July on record.

As of January 1, 2000, those choosing to retire were able to select from three different survivor pension options — the previous 100% and 50% survivor options, and a new 75% survivor option. Implementation of a new web-based pension estimator this year allows pending retirees and others to project what their pension payments might be, based on various scenarios.

Services to the public school reporting units were enhanced this year with greater utilization of the new Internet Member Inquiry System introduced last year. School business officials are now able to access select information about members any time of the day using a secure Internet web site. Over 70% of the reporting units used the new system, accessing it approximately 25,500 times in the past fiscal year to gather information on more than 87,000 members.

Several enhancements were added to the health care plans for retirees. The dental plan annual coverage maximum increased from \$900 to \$1,000 as of January 1, 2000. In addition, the dental plan added coverage for guided tissue regeneration and for caps on implants. ORS adopted the screening Prostate Specific Antigen (PSA) Test as part of the health plan and expanded the HMO pilot program where available.

### *Future Direction*

ORS recognizes that by 2003 there will be an anticipated growth of 40% in the number of new ORS retirees, requiring ORS to be more efficient and productive as we handle this rapidly increasing demand for services with no increase in personnel. Recognizing the need for change, this past year ORS began a systematic evaluation of how we can do a better job. We implemented Vision ORS to begin the transition to a Business Process focused organization. This approach delineates the interrelationships between the different core business functions within the organization, and assigns authority and accountability to specific individuals for each Business Process. Transitioning to this new organizational structure has helped us to identify and eliminate redundancies, streamline workflows, and focus on what is required to accomplish our business priorities and provide excellent customer service.

Having completed the first two steps in our Vision ORS plan, we now have a solid foundation and a clear understanding of how our business functions. Using this information, we can construct a new, more efficient organization to better serve our customers. Our next steps will be to look at many of the critical core processes and research “Best In Class” organizations to determine what tools or techniques make them outstanding in these areas. Utilizing the best of these ideas, we can create a new, forward-looking operational structure and identify innovative technology to help us effectively handle our future demands.

# INTRODUCTORY SECTION

## Letter of Transmittal (Continued)

### 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, 1999. 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 generally accepted accounting principles and applicable legal requirements.

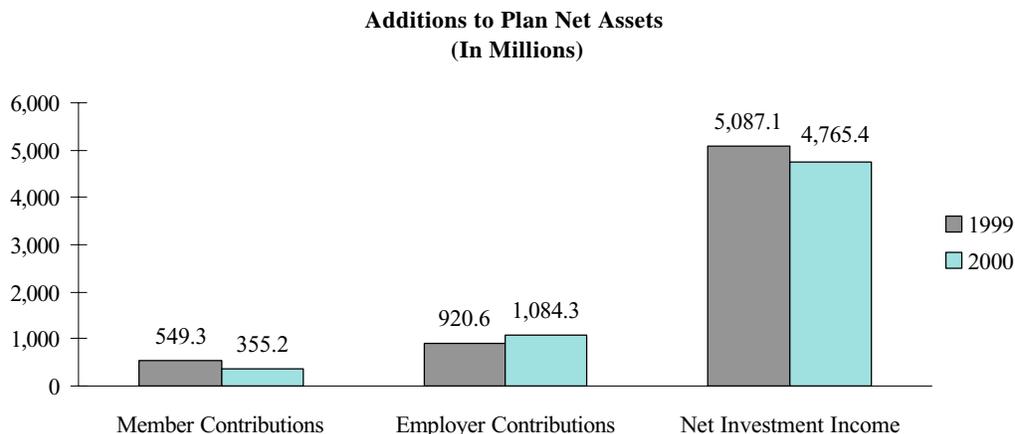
A Certificate of Achievement is valid for a period of one year only. We believe our current report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

### FINANCIAL INFORMATION

#### *Additions to Plan Net Assets*

The reserves needed to finance retirement and health benefits are accumulated through the collection of employer and employee contributions and through earnings on investments. Contributions and net investment income for fiscal year 2000 totaled approximately \$6.2 billion.

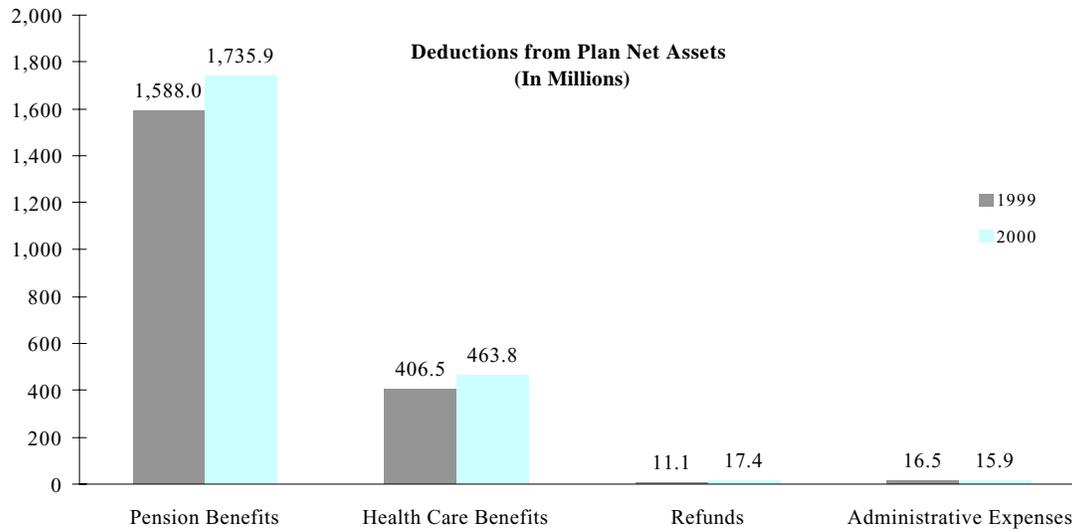
Total contributions and net investment income decreased 5.4% from those of the prior year due primarily to decreased investment earnings. Total member contributions decreased by \$194 million or 35.3%. The decrease is attributable to a decline in the tax-deferred purchase (TDP) program revenues on an accrual basis. The program began in fiscal year 1998. Many members signed the irrevocable agreement to purchase service credit on a tax-deferred basis. In addition, members can make the purchase over several years. The average length of a contract is 7.6 years and the average remaining length of a contract at September 30, 2000 is 6.6 years. Employer contributions increased 17.8% and net investment income decreased 6.3% from the prior year. The Investment Section of this report reviews the results of investment activity for 2000.



**Letter of Transmittal  
(Continued)**

***Deductions From Plan Net Assets***

The primary expenditures of the System include the payment of pension benefits to members and beneficiaries, payments for health, dental and vision benefits, refund of contributions to former members, and cost of administering the System. The growth of health care expenditures continued during the year and increased by \$57.3 million from \$406.5 million to \$463.8 million during the fiscal year. Total deductions for fiscal year 2000 were \$2.2 billion, an increase of 10.4% over 1999 expenditures. The increase in pension benefit expenditures resulted from an increase in retirees (5,202) and an increase in benefit payments to retirees.



***Internal Control***

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 generally accepted accounting principles. The internal control structure is designed to provide reasonable assurance regarding the safekeeping of assets and reliability of all financial records.

**INVESTMENT**

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 14.5%. For the last five years, the System has experienced an annualized dollar weighted rate of return of 15.4%. A summary of asset allocation and rates of return can be found in the Investment Section of this report.

# **INTRODUCTORY SECTION**

## **Letter of Transmittal (Continued)**

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### **FUNDING**

Funds are derived from the excess 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, 2000, the actuarial value of the assets and actuarial accrued liability were \$36.9 billion and \$37.1 billion, respectively, resulting in a funded ratio of 99.3%. As of September 30, 1999, the amounts were \$34.1 billion and \$34.3 billion, respectively. A historical perspective of funding is presented on the Schedule of Funding Progress in the Required Supplementary Information of the Financial Section.

### **POSTEMPLOYMENT BENEFITS**

The System also administers the post employment health benefits (health, dental, and vision) offered to 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 or advanced funded. If these benefits were pre-funded, or advance funded, the actuarial accrued liability for these benefits would be approximately \$12.7 billion and the employer contribution for health care benefits would be 13.5%.

### **PROFESSIONAL SERVICES**

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

Statute requires an annual actuarial valuation be conducted. The purpose of the valuation is to evaluate the mortality, service, compensation and other financial experience of the System and to recommend employer funding rates for the subsequent year. This annual actuarial valuation was completed by The Segal Company for the fiscal years ended September 30, 2000 and 1999. Actuarial certification and supporting statistics are included in the Actuarial Section of this report.

### **ACKNOWLEDGMENTS**

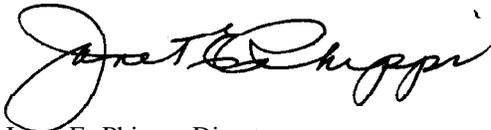
The preparation of this report was accomplished with the dedication and cooperation of many people. It is intended to provide complete and reliable information as a basis for making management decisions, as a means of determining compliance with legal provisions, and as a means for determining responsible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

**Letter of Transmittal  
(Continued)**

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

Sincerely,



Janet E. Phipps, Director  
Department of Management and Budget



Christopher M. DeRose, Director  
Office of Retirement Services

# INTRODUCTORY SECTION

## Administrative Organization

### Retirement Board Members

Linda Adams  
Term Expires March 30, 2002

Vacant  
Active Superintendent

Diana R. Osborn, Chair  
Term Expires March 30, 2001

Larry Moeller  
Term Expires March 30, 2003

John Cook  
Term Expires March 30, 2001

Michael R. Meyer  
Term Expires March 30, 2004

Vacant  
School Board Member

Robert Rietz  
Term Expires March 30, 2002

Michael E. Cassady, Vice Chair  
Term Expires March 30, 2004

Marsha Smith  
Term Expires March 30, 2001

Vacant  
Retired Teacher

Dr. Donald Weatherspoon  
Representing Arthur E. Ellis  
State Superintendent of Education

### 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**

Mark A. Murray  
State Treasurer  
State of Michigan

#### **Legal Advisor**

Jennifer M. Granholm  
Attorney General  
State of Michigan

#### **Medical Advisors**

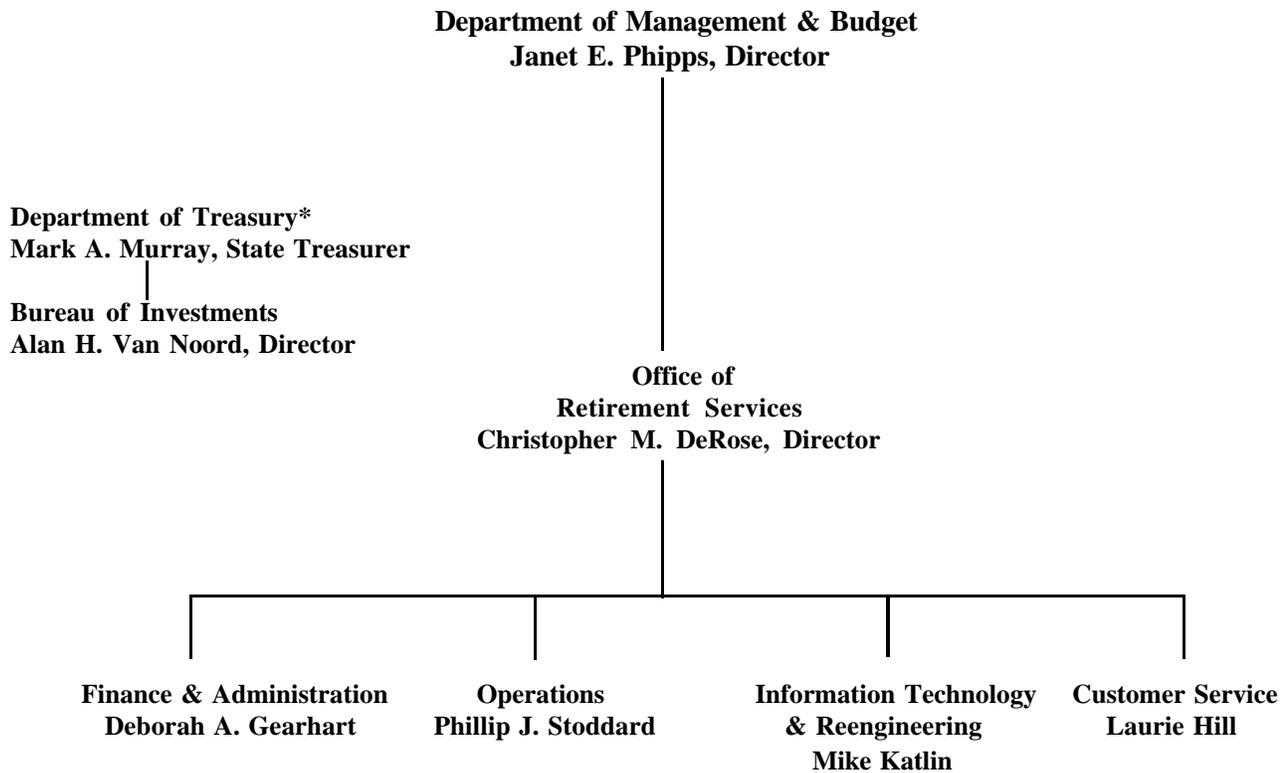
Gabriel, Roeder, Smith  
and Company  
Southfield, Michigan

#### **Investment Performance Measurement**

Capital Resource Advisors  
Chicago, Illinois

**Administrative Organization**

**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.

# FINANCIAL SECTION



Independent Auditors' Report  
Basic Financial Statements  
Notes to General Purpose Financial Statements  
Required Supplementary Information  
Supporting Schedules

Independent Auditors' Report



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

Ms. Janet Phipps, Director  
Department of Management and Budget  
Mr. Christopher M. DeRose, Director  
Office of Retirement Services  
Mr. Thomas H. McTavish, CPA  
Auditor General  
Michigan Public School Employees  
Retirement System Board

We have audited the accompanying statements of pension plan and postemployment healthcare plan net assets of the Michigan Public School Employees Retirement System, as of September 30, 2000 and 1999, 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 Public School Employees 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 plan net assets of the Michigan Public School Employees Retirement System, as of September 30, 2000 and 1999, and the changes in plan net assets for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Our audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The required supplementary information and supporting schedules listed in the table of contents are presented for the purpose of additional analysis and are not a required part of the basic financial statements. The required supplementary information and supporting schedules are the responsibility of the Michigan Public School Employees Retirement System's management. The Schedules of Funding Progress and Employer Contributions and related notes on pages 31 to 33 and the supporting schedules on pages 34 to 37 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.

In accordance with *Government Auditing Standards*, we have also issued a report dated January 31, 2001 on our consideration of the Michigan Public School Employees Retirement System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, and contracts. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

January 31, 2001

*Andrews Hooper & Pavlik P.L.C.*

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

# FINANCIAL SECTION

## Statements of Pension Plan and Postemployment Healthcare Plan Net Assets

As of Fiscal Years Ending September 30, 2000 and 1999

	September 30, 2000			September 30, 1999		
	Pension Plan	Health Plan	Total	Pension Plan	Health Plan	Total
<b>Assets:</b>						
Cash	\$ 87,823,317	\$ 292,051	\$ 88,115,368	\$ 94,945,803	\$ 327,336	\$ 95,273,139
Receivables:						
Amounts due						
from employer	167,392,229	355,782	167,748,011	119,424,128	254,496	119,678,624
Amounts due from						
employer Long Term	168,966,696		168,966,696	192,737,002		192,737,002
Interest and dividends	147,428,363	490,264	147,918,627	146,903,796	506,467	147,410,263
Sale of investments	180,516,040	600,295	181,116,335	25,771,328	88,850	25,860,178
Total receivables	664,303,328	1,446,341	665,749,669	484,836,254	849,813	485,686,067
Investments:						
Short term investments	1,961,333,444	6,522,289	1,967,855,733	1,843,254,840	6,354,828	1,849,609,668
Bonds, notes, mortgages and preferred stock	7,855,049,856	26,121,466	7,881,171,322	7,767,653,370	26,779,857	7,794,433,227
Common stock	17,965,585,107	59,743,405	18,025,328,512	18,104,408,019	62,416,979	18,166,824,998
Real estate	3,216,908,002	10,697,622	3,227,605,624	2,637,397,057	9,092,722	2,646,489,779
Alternative investments	6,150,796,201	20,454,079	6,171,250,280	3,547,485,384	12,230,354	3,559,715,738
International investments	2,504,611,917	8,328,927	2,512,940,844	2,008,086,191	6,923,103	2,015,009,294
Collateral on loaned securities	527,392,555	1,753,810	529,146,365	1,065,352,915	3,672,924	1,069,025,839
Total investments	40,181,677,082	133,621,598	40,315,298,680	36,973,637,776	127,470,767	37,101,108,543
<b>Total assets</b>	<b>40,933,803,727</b>	<b>135,359,990</b>	<b>41,069,163,717</b>	<b>37,553,419,833</b>	<b>128,647,916</b>	<b>37,682,067,749</b>
<b>Liabilities:</b>						
Warrants outstanding	5,973,779	19,866	5,993,645	10,002,665	34,485	10,037,150
Accounts payable and other accrued liabilities	88,096,509	292,959	88,389,468	129,101,234	445,091	129,546,325
Obligations under securities lending	527,392,555	1,753,810	529,146,365	1,065,352,915	3,672,924	1,069,025,839
<b>Total liabilities</b>	<b>621,462,843</b>	<b>2,066,635</b>	<b>623,529,478</b>	<b>1,204,456,814</b>	<b>4,152,500</b>	<b>1,208,609,314</b>
<b>Net Assets Held in Trust</b>						
<b>For Pension and Health</b>						
<b>Benefits*</b>	<b>\$ 40,312,340,884</b>	<b>\$ 133,293,355</b>	<b>\$ 40,445,634,239</b>	<b>\$ 36,348,963,019</b>	<b>\$ 124,495,416</b>	<b>\$ 36,473,458,435</b>

\*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 Fiscal Years Ended September 30, 2000 and 1999

	September 30, 2000			September 30, 1999		
	Pension	Health	Total	Pension	Health	Total
	Plan	Plan		Plan	Plan	
<b>Additions:</b>						
Members contributions	\$ 321,557,146	\$ 33,672,843	\$ 355,229,989	\$ 518,861,556	\$ 30,397,928	\$ 549,259,484
Employer contributions:						
Undistributed receipts and other	22,448,046		22,448,046	43,043,296		43,043,296
Colleges, universities and federal	43,602,930	46,391,525	89,994,455	37,714,523	28,871,647	66,586,170
School districts and other	589,207,946	382,605,103	971,813,049	493,679,110	317,293,345	810,972,455
Investment income:						
Investment income	4,804,544,663		4,804,544,663	5,109,635,758		5,109,635,758
Securities lending income	56,060,773		56,060,773	59,036,537		59,036,537
Investment expenses:						
Real estate operating expenses	(2,035,280)		(2,035,280)	(3,967,780)		(3,967,780)
Securities lending expenses	(52,441,587)		(52,441,587)	(55,673,467)		(55,673,467)
Other investment expenses	(50,654,787)		(50,654,787)	(33,471,920)		(33,471,920)
Interest Income		9,959,633	9,959,633		11,437,005	11,437,005
Miscellaneous income	398,288		398,288	89,972		89,972
<b>Total additions</b>	<b>5,732,688,138</b>	<b>472,629,104</b>	<b>6,205,317,242</b>	<b>6,168,947,585</b>	<b>387,999,925</b>	<b>6,556,947,510</b>
<b>Deductions:</b>						
Benefits and refunds paid to plan members and beneficiaries:						
Retirement benefits	1,735,936,328		1,735,936,328	1,587,992,361		1,587,992,361
Health benefits		386,583,485	386,583,485		331,522,164	331,522,164
Dental/vision benefits		39,177,206	39,177,206		40,499,045	40,499,045
Refunds of member contributions	17,353,351	30,902	17,384,253	11,145,521		11,145,521
Transfers to other systems	102,451		102,451	52,779		52,779
Administrative expenses	15,918,143	38,039,572	53,957,715	16,525,359	34,445,866	50,971,225
<b>Total deductions</b>	<b>1,769,310,273</b>	<b>463,831,165</b>	<b>2,233,141,438</b>	<b>1,615,716,020</b>	<b>406,467,075</b>	<b>2,022,183,095</b>
<b>Net Increase (Decrease)</b>	<b>3,963,377,865</b>	<b>8,797,939</b>	<b>3,972,175,804</b>	<b>4,553,231,565</b>	<b>(18,467,150)</b>	<b>4,534,764,415</b>
<b>Net Assets Held in Trust for Pension and Health Benefits:</b>						
<b>Beginning of Year</b>	<b>36,348,963,019</b>	<b>124,495,416</b>	<b>36,473,458,435</b>	<b>31,795,731,454</b>	<b>142,962,566</b>	<b>31,938,694,020</b>
<b>End of Year*</b>	<b>\$ 40,312,340,884</b>	<b>\$ 133,293,355</b>	<b>\$40,445,634,239</b>	<b>\$ 36,348,963,019</b>	<b>\$ 124,495,416</b>	<b>\$36,473,458,435</b>

\* 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.

# FINANCIAL SECTION

## Notes to General Purpose Financial Statements

### NOTE 1 - PLAN DESCRIPTION

#### ORGANIZATION

The Michigan Public School Employees' Retirement System is a cost-sharing, multiple employer, state-wide, defined benefit public employee retirement plan governed by the State of Michigan (State) originally created under Public Act 136 of 1945, recodified and currently operating under the provisions of Public Act 300 of 1980, as amended. The System was established to provide retirement, survivor and disability benefits to the public school employees. There are 715 participating employers. A list of employers is provided in the Statistical Section. The System is a qualified trust fund under section 401(a) of the Internal Revenue Code. By statute, employees of K-12 public school districts, public school academies, district libraries, tax-supported community colleges and seven universities may be members. The seven universities are: Eastern, Central, Northern, Western Michigan, Ferris State, Michigan Technological and Lake Superior State. Employees who first become employed by one of the seven universities on or after January 1, 1996, become members of an alternative plan.

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

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

#### MEMBERSHIP

At September 30, 2000, and 1999, the System's membership consisted of the following.

Retirees and beneficiaries		
currently receiving benefits:	<u>2000</u>	<u>1999</u>
Regular benefits .....	111,177	106,333
Survivor benefits .....	10,594	10,402
Disability benefits .....	<u>4,344</u>	<u>4,178</u>
<b>Total</b> .....	126,115	120,913
Current employees:		
Vested .....	118,677	118,658
Non-vested .....	<u>194,022</u>	<u>190,666</u>
<b>Total</b> .....	312,699	309,324
Inactive employees entitled to benefits and not yet receiving them .....	<u>8,045</u>	<u>8,655</u>
<b>Total All Members</b> .....	<u>446,859</u>	<u>438,892</u>

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

<b>Health/Dental/Vision Plan</b>	<u>2000</u>	<u>1999</u>
Eligible participants .....	126,115	120,913
Participants receiving benefits:		
Health .....	100,671	97,001
Dental/Vision .....	106,113	102,167

## Notes to General Purpose Financial Statements

### BENEFIT PROVISIONS

#### *Introduction*

Benefit provisions of the defined benefit pension plan are established by state statute, which may be amended. Public Act 300 of 1980, as amended, establishes eligibility and benefit provisions for the defined benefit pension plan. Retirement benefits are determined by final average compensation and years of service. Members are eligible to receive a monthly benefit when they meet certain age and service requirements. The System also provides disability and survivor benefits.

A member who leaves Michigan Public School employment may request a refund of his or her member contribution account. Returning members who previously received a refund of their contributions may reinstate their service through repayment of the refund upon satisfaction of certain requirements.

Under the Public School Employees' Retirement Act, all retirees have the option of health, dental and vision coverage. The employers fund health benefits on a pay-as-you-go basis. Retirees with this coverage contribute a portion of the monthly premium amount.

#### *Regular Retirement*

The retirement benefit is based on a member's years of credited service (employment) and final average compensation. Final average compensation is the member's highest total wages earned during a specific period of consecutive calendar months divided by the service credit accrued during that same time period. For a Member Investment Plan (MIP) member, the averaging period is 36 consecutive months. For a Basic Plan member, this period is the 60 consecutive months yielding the highest total wages. A pension is payable monthly for the lifetime of a retiree and equals 1.5% of a member's final average compensation multiplied by the total number of years of credited service.

A Member Investment Plan member may retire at:

1. any age with 30 or more years of credited service; or
2. age 60 with 10 or more years of credited service; or
3. age 60 with 5 years of credited service provided the member has worked through his or her 60th birthday and has credited service in each of the five school fiscal years immediately preceding the retirement effective date.

A Basic Plan member may retire at:

1. age 55 with 30 or more years of credited service; or
2. age 60 with 10 or more years of credited service.

There is no mandatory retirement age.

#### *Early Retirement*

A member may retire with an early permanently reduced pension:

1. after completing at least 15 but less than 30 years of credited service; and
2. after attaining age 55; and
3. with credited service in each of the 5 school years immediately preceding the pension effective date.

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.

# FINANCIAL SECTION

## Notes to General Purpose Financial Statements

### *Deferred Retirement*

If a member terminates employment before attaining the age qualification but after accruing 10 or more years of credited service, the member becomes a deferred member and is eligible for a pension at the time the age qualification is attained.

### *Non-Duty Disability Benefit*

A member with 10 or more years of credited service who becomes totally and permanently disabled due to any non-duty related cause and who has not met the age requirement for a regular pension is eligible for a non-duty disability pension computed in the same manner as an age and service pension, upon recommendation from the member's personal physician and the Retirement Board physician and the approval of the Retirement Board. An Annual Certification of Disability is conducted each January. Upon prior approval, total disability benefits plus authorized outside earnings are limited to 100% of final average compensation (increased by two percent for each year retired).

### *Duty Disability Benefit*

A member who becomes totally and permanently disabled as a result of a duty-related cause, who has not met the age and service requirement for a regular pension, and who is in receipt of Weekly Workers' Compensation is eligible for a duty disability pension computed in the same manner as an age and service pension (but based upon a minimum of 10 years of service) upon recommendation from the member's personal physician and the Retirement Board physician and the approval of the Retirement Board. An Annual Certification of Disability is conducted each January. Upon prior approval, total disability benefits plus authorized outside earnings are limited to 100% of final average compensation (increased by two percent for each year retired).

### *Forms of Payment*

The election of a pension option is made at the time of application. Once a member has retired, the option choice is irrevocable. The pension effective date is the first of the calendar month following the date the member has satisfied the age and service requirements, has terminated public school employment and has the completed application forms on file with the System for a period of 15 days. A retroactive pension can be paid for no more than 12 calendar months. Thus, delay in filing the application can result in a loss of some retroactive pension benefits. An applicant may select only one of the following options.

Straight Life Pension — The Straight Life Pension pays the largest level pension a retiree can receive during his or her lifetime and stops with the month of a retiree's death. There are no monthly benefits for a beneficiary. The pension benefit is computed with no beneficiary rights. If the retiree made contributions while an employee and has not received the total accumulated contributions before death, a refund of the balance of the contributions is made to the beneficiary of record. If the retiree did not make any contributions, there will not be payments to any beneficiaries.

Survivor Options — Under the Survivor Options, 100% Survivor Pension, 100% Equated, 50% Survivor Pension and 50% Equated, the reduction is an actuarial determination dependent upon the combined life expectancies of a retiree and a beneficiary, and varies from case to case. A beneficiary may only be a spouse, brother, sister, parent or child (including an adopted child) of a retiring member. If the beneficiary pre-deceases a retiree, the pension will revert to either the Straight Life or Straight Life Equated amount ("pop-up" provision). Beginning January 1, 2000, a 75% Survivor Pension was made available.

100% Survivor Pension — pays a reduced pension to a retiree. The month after a retiree's death, the same amount will be paid to a designated beneficiary for the remainder of his or her lifetime.

75% Survivor Pension — pays a reduced pension to a retiree. The month after a retiree's death, 75% of the pension amount will be paid to a designated beneficiary for the remainder of his or her lifetime.

## Notes to General Purpose Financial Statements

50% Survivor Pension — pays a reduced pension to a retiree. The month after a retiree's death, 50% of the pension amount will be paid to the designated beneficiary for the remainder of his or her lifetime.

Equated Plan — The Equated Plan may be combined with the Straight Life, 100% Survivor, 75% Survivor, or 50% Survivor Pension by any member under age 61, except a disability applicant. The Equated Plan provides a higher pension every month until age 62, at which time the monthly pension is permanently decreased to a lower amount than the Straight Life, 100%, 75%, or 50% Survivor alone would provide.

The intent of the Equated Plan is for the retiree's pension to decrease at age 62 by approximately the same amount as that person's Social Security benefit will provide. The System pension until age 62 should be about the same as the combined System pension and Social Security after age 62.

The actual projected Social Security pension the retiring member obtains from the Social Security Administration and furnishes to the Retirement System is used in the Equated Plan calculation. The actual Social Security pension may vary from the estimate.

NOTE: The reduction in the pension at age 62 pertains to the Equated Plan only and affects only the retiree. A beneficiary under 100% Equated, 75% Equated or 50% Equated will receive the 100%, 75%, or 50% Survivor amount the month following the retiree's death as if the Equated Plan had not been chosen. A beneficiary does not participate in the Equated Plan.

### ***Survivor Benefit***

A non-duty survivor pension is available if a Member Investment Plan participant has 10 years of credited service or, if age 60 or older, with five years of credited service. The Basic Plan provides a survivor pension with 15 years of credited service or, if age 60 or older, with 10 years of credited service. An active member may nominate as a survivor beneficiary a spouse, child(ren) (including adopted child(ren)), brother, sister, or a parent. If other than the spouse is nominated and a spouse exists, the spouse must waive this benefit. If no beneficiary has been nominated, the beneficiary is automatically the spouse; or, if there is no spouse, unmarried children under age 18 share the benefit equally until age 18. The benefit is computed as a regular pension but reduced in accordance with an Option 2 (100% survivor pension factor). The pension begins the first of the month following the member's death. In the event of the death of a deferred member, the System begins payment to the nominated beneficiary at the time the member would have attained the minimum age qualification.

A duty survivor pension is payable if weekly Workers' Compensation is being paid to the eligible beneficiary due to the member's death. A spouse receives the benefit (based on a minimum of 10 years of service credit) reduced in accordance with a 100% survivor pension factor. If there is no spouse, unmarried children under age 18 share the benefit equally until age 18; if there is no spouse or child(ren), a disabled and dependent parent is eligible.

### ***Post Retirement Adjustments***

Member Investment Plan (MIP) recipients receive an annual post-retirement non-compounded increase of three percent of the initial pension in the October following twelve months of retirement. Basic Plan recipients receive a supplemental payment in those years when investment earnings exceed actuarial assumptions.

On January 1, 1990, pre-October 1, 1981, retirees received an increase that ranged from 1% to 22% depending on pension effective date. On October 1, 1990, the base pension of all retirees with an effective pension date of January 1, 1987, or earlier was increased to include all prior post-retirement adjustments.

# FINANCIAL SECTION

## Notes to General Purpose Financial Statements

On January 1, 1986, all recipients through calendar year 1985 received a permanent 8% increase that established the 1986 base pension. In addition, each October, retirees with a pension effective date of January 1, 1987, or earlier receive a fixed increase equal to 3% of the base pension. Both increases are deducted from the distribution of excess investment income, if any. Beginning in 1983, eligible recipients receive an annual distribution of excess investment income, if any.

One time upward adjustments were made in 1972, 1974, 1976, and 1977 for retirees who retired on or after July 1, 1956, and were eligible for Social Security benefits. (Social Security coverage was enacted by referendum in 1956.) The minimum base pension of retirees who were unable to qualify for Social Security through their public school employment (essentially pre-July 1, 1956 retirees), was increased in 1965, 1971, 1972, 1974, and 1981 with a percentage increase granted in 1976 and 1977.

### ***Member Contributions***

Mandatory member contributions were phased out between 1974 and 1977, with the plan remaining noncontributory until January 1, 1987, when the Member Investment Plan (MIP) was enacted.

MIP members enrolled in MIP prior to January 1, 1990, contribute at a permanently fixed rate of 3.9% of gross wages. The MIP contribution rate was 4.0% from January 1, 1987, the effective date of the MIP, until January 1, 1990, when it was reduced to 3.9%. Members first hired January 1, 1990, or later and returning members who did not work between January 1, 1987, through December 31, 1989, contribute at the following graduated permanently fixed contribution rates: 3% of the first \$5,000; 3.6% of \$5,001 through \$15,000; 4.3% of all wages over \$15,000.

Basic Plan members make no contributions. For a limited period ending December 31, 1992, an active Basic Plan member could enroll in the MIP by paying the contributions that would have been made had enrollment occurred initially on January 1, 1987, or on the date of hire, plus interest. MIP contributions at the rate of 3.9% of gross wages begin at enrollment. Actuarial rate interest is posted to member accounts on July 1st on all MIP monies on deposit for 12 months. If a member leaves public school service and no pension is payable, the member's accumulated contributions plus interest, if any, are refundable.

### ***Employer Contributions***

Each school district or reporting entity is required to contribute the full actuarial funding contribution amount to fund pension benefits, plus an additional amount to fund retiree health care benefit amounts on a cash disbursement basis.

### ***Other Postemployment Benefits***

Retirees have the option of health coverage which is funded on a cash disbursement basis by the employers. The System has contracted to provide the comprehensive group medical, hearing, dental and vision coverages for retirees and beneficiaries. A significant portion of the premium is paid by the System with the balance deducted from the monthly pension.

Pension recipients are eligible for fully paid Master Health Plan coverage and 90% paid Dental Plan, Vision Plan and Hearing Plan coverage with the following exceptions:

1. Retirees not yet eligible for Medicare coverage pay an amount equal to the Medicare Part B premiums.
2. Retirees with less than 30 years of service, who terminate employment after October 31, 1980 with vested deferred benefits, are eligible for partially employer paid health benefit coverage (no payment for less than 21 years of service).

Dependents may receive 90% employer paid health benefit coverages (partial payment for dependents of deferred vested members who had 21 or more years of service).

## Notes to General Purpose Financial Statements

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

	2000	1999
<b>Health, Dental and Vision Plan:</b>		
Eligible participants	126,115	120,913
Participants receiving benefits:		
Health	100,671	97,001
Dental/Vision	106,113	102,167
Expenses for the year	\$ 463,831,165	\$ 406,467,075
Payroll contribution rate	4.6%	4.04%

The only requirements for health benefits are that the retiree or beneficiary make application and be in receipt of a monthly pension. Applications for enrollment after retirement are accepted anytime during the year, with coverage effective six months following the receipt of the application.

### NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### *Basis of Accounting and Presentation*

The System's financial statements are prepared using the accrual basis of accounting. Contributions from the employers are recognized as revenue in the period in which employees provide service. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

#### *Reserves*

Reserve for Employees' Contributions — Members no longer contribute to this reserve except to purchase eligible service credit or repay previously refunded contributions. This reserve represents active member contributions and interest less amounts transferred to the Reserve for Retired Benefit Payments for regular and disability retirement, amounts refunded to terminated members, and amounts transferred to the Employers' Contribution Reserve representing unclaimed funds. At September 30, 2000, and 1999, the balance in this account was \$996 million and \$977 million, respectively.

Reserve for Member Investment Plan — This reserve represents MIP contributions and interest less refunds and transfers to the Reserve for Retired Benefit Payments. At September 30, 2000, and 1999, the balance in this account was \$2.5 billion and \$2.2 billion, respectively.

Reserve for Employer Contributions — All reporting unit contributions, except payments for health benefits, are credited to this reserve. Interest from the Reserve for Undistributed Investment Income account is credited annually. Amounts are transferred annually to the Reserve for Retired Benefit Payments to bring the balance of that reserve into balance with the actuarial present value of retirement allowances. At September 30, 2000, and 1999, the balance in this account was \$2.4 billion and \$3.3 billion, respectively.

Reserve for Retired Benefit Payments — This represents the reserves for payment of future retirement benefits to current retirees. At retirement, a member's accumulated contributions plus interest are transferred into this reserve. Monthly benefits, which are paid to the retiree, reduce this reserve. At the end of each fiscal year, an amount, determined by an annual actuarial valuation, is transferred from the Reserve for Employer Contributions to bring the balance of this reserve into balance with the actuarial present value of retirement allowances. At September 30, 2000, and 1999, the balance in this account was \$17.1 billion and \$15.5 billion, respectively.

Reserve for Undistributed Investment Income and Reserve for Administrative Expenses — The Reserve for Undistributed Investment Income account is credited with all investment earnings. Interest is transferred annually to the other reserves.

# FINANCIAL SECTION

## Notes to General Purpose Financial Statements

Administrative expenses of the retirement system are paid from the Reserve for Administrative Expense, which is credited with amounts from the Reserve for Undistributed Investment Income to cover the expenses. For ease of reporting and understanding, the two reserves are presented as one reserve in the supporting schedules. At September 30, 2000, and 1999, the balance in this account was \$17.4 billion and \$14.4 billion, respectively. The balance of this reserve includes the balance of the Stabilization Subaccount.

Stabilization Subaccount — Under Public Act 143, effective November 19, 1997, the actuarial value of assets was set at market at September 30, 1997, with the 5 year smoothing of investment gains or losses applied prospectively. Also, the inflation component of the salary scale was reduced from 5% to 4%. The act also established a stabilization subaccount of the Reserve for Undistributed Investment Income (income fund) to which any overfunding is credited. As of October 1, 2000, the balance in the subaccount was \$302 million (\$259 million plus interest of \$43 million). The balance in the subaccount is included in the balance of the income fund, which is included in pension plan net assets.

Reserve for Health Benefits — This fund is credited with employee and employer contributions for retirees' health, dental and vision benefits and interest is allocated on the beginning balance. Health, dental and vision benefits are paid from this fund. The Retirement System pays 90% of the monthly premium, membership, or subscription fee for health, dental, vision and hearing benefits. At September 30, 2000, and 1999, the balance in this account was \$133.3 million and \$124.5 million, respectively.

### ***Reporting Entity***

The Michigan Public School Employees' Retirement System is a pension trust fund of the State of Michigan. 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 or other organizations. Accordingly, the System is the only entity included in this financial report.

### ***Fair Value of Investments***

Plan investments are reported at fair value, except for short-term investments. Short-term investments are carried at cost, which approximates 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 that do not have an established market are recorded at estimated fair value.

### ***Investment Income***

Dividend income is recognized based on the ex-dividend date and interest income is recognized on the accrual basis as earned. 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.

### ***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. As of September 30, 1998, all capitalized equipment was fully depreciated. No additional equipment has been capitalized for the system since that date.

## Notes to General Purpose Financial Statements

### *Related Party Transactions*

Leases and services — The Michigan Public School Employees' Retirement 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.

	2000	1999
Building rentals .....	\$ 483,164	\$ 460,004
Technological Support .....	3,381,095	5,454,483
Attorney General .....	91,997	37,763
Investment Services .....	5,961,000	5,596,300

Cash — On September 30, 2000 and 1999 the System had \$84 million and \$85 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 \$7.0 million and \$5.6 million for the years ended September 30, 2000, and 1999, respectively.

### *Reclassification of Prior Year Amounts*

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

### **NOTE 3 - CONTRIBUTIONS**

The majority of the members currently participate on a contributory basis. Reporting units are required by Public Act 300 of 1980, as amended, to contribute amounts necessary to finance the coverage of members. Contribution provisions are specified by state statute and may be amended only by action of the state legislature.

Employer contributions to the System are determined on an actuarial basis using the entry age normal actuarial cost method. Under this method, the actuarial present value of the projected benefits of each individual included in the actuarial valuation is allocated on a level basis over the service of the individual between entry age and assumed exit age. The portion of this cost allocated to the current valuation year is called the normal cost. The remainder is called the actuarial accrued liability. Normal cost is funded on a current basis. The unfunded (overfunded) actuarial accrued liability is amortized over a 36 year period for the 1999-2000 fiscal year.

Actual employer contributions for retirement benefits were \$655,258,923 and \$574,436,929 representing 7.1% and 6.8% of reported annual payroll, for the years ended September 30, 2000, and 1999, respectively. Required employer contributions for pensions included:

1. \$559,909,917 and \$544,330,974 for fiscal years 2000 and 1999, respectively, for normal cost of pensions representing 6.48% and 6.59%, respectively, of annual covered payroll.
2. \$12,695,778 and \$49,194,310 for fiscal years 2000 and 1999, respectively, for amortization of unfunded actuarial accrued liability, representing 0.15% and .59%, respectively, of annual covered payroll.

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

# FINANCIAL SECTION

## Notes to General Purpose Financial Statements

In May 1996, the Internal Revenue Service issued a private letter ruling allowing the System's members to purchase service credit and repay refunds using tax-deferred (pre-tax) dollars. The program was implemented in Fiscal Year 1997-1998, and payments began in Fiscal Year 1998-1999.

The program allows members to purchase service credit and repay refunds on a tax deferred basis. Members sign an irrevocable agreement that identifies the contract duration, monthly payment, total contract amount and years of service credit being purchased. The duration of the contract can range from 1 year to 20 years. The amounts are withheld from members' pay checks and are treated as employer pick-up contributions pursuant to Internal Revenue Code Section 414(h). At September 30, 2000, there were 23,051 agreements. The agreements were discounted using the assumed actuarial rate of return of 8% for September 30, 2000. The average length of a contract is approximately 7.6 years. The discounted receivable was \$60 million and \$169 million for the short and long term receivable respectively.

### 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 stock, 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 business having more than one-half of assets or employees in Michigan as described in section 20(a) of the act and up to 15% (20% as of October 16, 2000) of the System's assets in investments not otherwise qualified under the act as described in section 20(d). Alternative investments include limited partnerships and distributions from these partnerships in the form of bonds, preferred stock, common stock and direct investments.

#### *Derivatives*

The State Treasurer does not employ the use of derivatives in the investment of the Common Cash or the investment of trust funds other than the pension trust funds.

Derivatives are used in managing pension trust fund portfolios, but uses do not include speculation or leverage of investments. Less than 7% 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% 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 represented 6.1% of the September 30, 2000 portfolio using market values.

To diversify the pension fund's portfolio into international equities, the State Treasurer has entered into swap agreements with investment grade counterparties which are tied to stock market indices in eighteen foreign countries. The notional amounts of the swap agreements at September 30, 2000, and 1999, were \$2,191.7 million and \$1,650.2 million, respectively. Approximately one half of the notional amount 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 InterBank 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 international equity indices from the level at the inception of the agreements, or pay the decrease in the

## Notes to General Purpose Financial Statements

value of the indices. Swap agreement maturities range from October 2000 to October 2003. 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 \$717.2 million of gains on international equity exposure and excess interest received have been realized. The unrealized gain of \$243.0 million at September 30, 2000, reflects the increase in international stock indices and changes in currency exchange rates.

The respective September 30, 2000 and 1999 values are as follows:

	<u>Notional Value</u>	<u>Current Value</u>
9/30/00 (dollars in millions)	\$2,191.7	\$2,426.5
9/30/99 (dollars in millions)	1,650.2	1,980.2

### *Investments Exceeding 5% of Plan Net Assets*

The System did not hold an individual investment (other than U.S. Government securities) that exceeded 5% of net assets available for benefits at September 30, 2000 or 1999.

### *Securities Lending*

State statutes allow the System to participate in securities lending transactions, and the System has, via a Securities Lending Authorization Agreement, authorized the agent bank to lend its 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 did not have the ability to pledge or sell collateral securities delivered absent a borrower default. Borrowers were required to deliver collateral for each loan equal to: (i) at least 102% of the market value of the loaned securities in the case of loaned securities denominated in United States dollars or whose primary trading market was located in the United States or sovereign debt issued by foreign governments or (ii) 105% of the market value of the loaned securities in the case of loaned securities not denominated in United States dollars or whose primary trading market was not located in the United States.

The System did not impose any restrictions during the fiscal year on the amount of the loans that the agent bank made on its behalf. There were no failures by any borrowers to return loaned securities or pay distributions thereon 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, together with the cash collateral of other qualified tax-exempt plan lenders, in a collective investment pool. As of September 30, 2000, such investment pool had an

# FINANCIAL SECTION

## Notes to General Purpose Financial Statements

average duration of 75 days and an average weighted maturity of 490 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, 2000, the System had no credit risk exposure to borrowers because the collateral is marked to the required market value collateral percentage daily. The collateral held and the market value of securities on loan for the retirement system as of September 30, 2000, were \$954,357,046 and \$896,452,187 respectively.

Gross income from security lending for the fiscal year was \$56,060,773. Expenses associated with this income amounted to \$51,235,677 for the borrower's rebate and \$1,205,910 for fees paid to the agent.

### *Categories of Investment Risk*

Investments made by the fund, including repurchase agreements and information concerning reverse repurchase agreements, are summarized below. The investments that are represented by specific identifiable investment securities are classified as to credit risk in three categories.

Category 1 includes investments insured, registered, or held by the Michigan Public School Employees' Retirement System or its agent in the System's name. Category 3 includes uninsured and unregistered investments held by the counterparty, its trust department, or agent, but not in the System's name.

At September 30, 2000, all investments of the pension trust fund were classified as Category 1, except for certain investments not categorized. The following table summarizes the investments at market value:

# FINANCIAL SECTION

## Notes to General Purpose Financial Statements

<u>Category 1</u>	<u>2000</u>	<u>1999 (Reclassified)</u>
Prime Commercial Paper	\$ 1,792,259,375	\$ 1,264,399,341
Short Term Notes	175,596,358	585,210,327
Government Securities	4,290,552,019	4,045,333,367
Corporate Bonds & Notes	2,946,046,382	2,639,856,571
Preferred Stock	1,133	729
Common Stock	17,884,860,101	17,883,477,198 <sup>3</sup>
Real Estate	189,731,275 <sup>1</sup>	218,104,652 <sup>1</sup>
Alternative Investments	491,469,994 <sup>2</sup>	136,861,989 <sup>2</sup>
International Investments	2,512,940,844	2,015,009,293 <sup>4</sup>
<b>Total Category 1</b>	<u>\$ 30,283,457,481</u>	<u>\$ 28,788,253,467</u>
<u>Category 3</u>		
Government Securities	\$ -	\$ 18,777,500
<u>Non-Categorized</u>		
Private Placements	\$ 226,635,081	\$ 284,990,896
Mortgages	43,391,068	43,911,305
Real Estate	3,037,874,349 <sup>1</sup>	2,428,385,127 <sup>1</sup>
Alternative Investments	5,679,780,286 <sup>2</sup>	3,422,853,749 <sup>2</sup>
Cash Collateral	529,146,365	1,069,025,839
Securities on Loan:		
Government Securities	359,550,985	738,616,765
Corporate Bonds & Notes	14,994,654	22,946,094
Common Stock	140,468,411	283,347,801
<b>Total Non-Categorized</b>	<u>\$ 10,031,841,199</u>	<u>\$ 8,294,077,576</u>
<b>Grand Total</b>	<u><u>\$ 40,315,298,680</u></u>	<u><u>\$ 37,101,108,543</u></u>

<sup>1</sup> In Category 1, the real estate investments are all publicly traded real estate investment trusts. Non-categorized real estate consists of investments through various legal entities.

<sup>2</sup> In Category 1, the alternative investments are publicly traded stocks and bonds. Non-categorized investments consist of limited partnerships and non publicly traded stocks and bonds.

<sup>3</sup> Changed name of Equities to Common Stock and moved the American Depository Receipts (ADR) Equities of \$34,851,171 from Common Stock to International Investments.

<sup>4</sup> Changed name of Derivative (International) to International Investments.

# FINANCIAL SECTION

## Notes to General Purpose Financial Statements

### NOTE 5 — COMMITMENTS AND CONTINGENCIES

#### *Studer vs. Michigan Public School Employees' Retirement System*

Plaintiffs, who are retired members of the system, allege that the increases in prescription co-pays and health insurance deductibles and development of a formulary plan amounted to a diminishment and impairment of their accrued financial benefits under the State of Michigan Constitution.

On October 23, 2000, the System responded that health benefits are not considered accrued financial benefits and there has not been a diminishment or impairment of health benefits.

While the case has not been certified as a class action, an adverse decision could have a bearing on how the System responds to increasing prescription drug costs.

It is not possible to determine the outcome, amount, or range of potential loss.

#### ***Other***

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

## Required Supplementary Information

### Schedule of Funding Progress

Expressing the net assets available for benefits as a percentage of the actuarial accrued liability provides one indication of the Michigan Public School Employees' Retirement 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 underfunded 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)
1991	\$14,653	\$18,032	\$3,379	81.3%	\$6,248	54.1%
1992	15,333	19,563	4,230	78.4	6,592	64.2
1993 <sup>#</sup>	16,999	21,699	4,700	78.3	7,070	66.5
1994	18,503	23,500	4,997	78.7	7,344	68.0
1994 <sup>@</sup>	18,503	25,014	6,511	74.0	7,344	88.7
1995	20,455	27,402	6,947	74.6	7,565	91.8
1996	22,529	28,571	6,042	78.9	7,807	77.4
1997	25,485	30,179	4,694	84.4	8,027	58.5
1997 <sup>**</sup>	30,051	29,792	(259)	100.9	8,027	(3.2)
1998	31,870	32,137	267	99.2	8,265	3.2
1998 <sup>@</sup>	31,870	32,863	993	97.0	8,265	12.0
1999	34,095	34,348	253	99.3	8,644	2.9
2000	36,893	37,139	246	99.3	8,985	2.7

<sup>#</sup> Revised asset valuation method

<sup>@</sup> Revised actuarial assumptions

<sup>\*\*</sup> Revised actuarial assumptions and revised asset valuation method

# FINANCIAL SECTION

## Required Supplementary Information (Continued)

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### Schedule of Employer Contributions

<u>Fiscal Year Ended Sept. 30</u>	<u>Actuarial Required Contribution (ARC)*</u>	<u>Actual Contributions</u>	<u>Percentage Contributed</u>
1990	\$ 406,883,785	\$ 472,111,990	116.03%
1991	454,091,937	502,698,431	110.70
1992	524,225,380	533,039,483	101.68
1993	582,356,415	612,207,802	105.13
1994	594,601,049	809,749,551	136.18
1995	781,680,444	770,526,207	98.57
1996	848,022,600	829,626,962	97.83
1997	855,978,220	904,165,262	105.63
1998	537,557,091	622,254,551	115.76
1999	593,525,284	574,436,929	96.78
2000	572,606,395	655,258,923	114.43

\* The ARC has been recalculated for all years presented in order to reflect only the employer's share of the actuarial required contributions.

## Notes to Required Supplemental Information

### NOTE A - DESCRIPTION

Ten year historical trend information designed to provide information about the Michigan Public School Employees' Retirement 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 pension plan 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	09/30/00
Actuarial Cost Method	Entry Age, Normal
Amortization Method	Level Percent of Payroll, Closed
Remaining Amortization Period	36 years
Asset Valuation Method	5-Year Smoothed Market Value
Actuarial Assumptions:	
Inflation Rate	4%
Investment Rate of Return	8%
Projected Salary Increases	4-13.5%
Cost-of-Living Adjustments	3% annual non-compounded for MIP members

# FINANCIAL SECTION

## Supporting Schedules

### Comparative Summary Schedule of Pension Plan Administrative Expenses for the Years Ended September 30, 2000 and 1999

	<u>2000</u>	<u>1999</u>
<b>Personnel Services:</b>		
Staff Salaries	\$ 5,525,539	\$ 5,305,494
Retirement and Social Security	1,066,634	913,723
Other Fringe Benefits	<u>847,748</u>	<u>733,886</u>
<b>Total</b>	<u>7,439,921</u>	<u>6,953,103</u>
<b>Professional Services:</b>		
Actuarial	108,343	174,944
Attorney General	91,997	37,763
Audit	53,336	35,968
Consulting	1,115,393	517,536
Medical	<u>329,661</u>	<u>171,436</u>
<b>Total</b>	<u>1,698,730</u>	<u>937,647</u>
<b>Building and Equipment:</b>		
Building Rentals	483,164	460,004
Equipment Purchase, Maintenance, and Rentals	<u>454,891</u>	<u>272,752</u>
<b>Total</b>	<u>938,055</u>	<u>732,756</u>
<b>Travel and General:</b>		
Travel and Board Meetings	59,713	69,920
Office Supplies	125,682	221,577
Postage, Telephone and Other	2,046,732	1,965,425
Printing	228,215	190,448
Technological Support	<u>3,381,095</u>	<u>5,454,483</u>
<b>Total</b>	<u>5,841,437</u>	<u>7,901,853</u>
<b>Total Administrative Expenses</b>	<u>\$15,918,143</u>	<u>\$16,525,359</u>

**Supporting Schedules (Continued)**

**Schedule of Investment Expenses**

	<b>2000</b>	<b>1999</b>
Real Estate	\$ 2,035,280	\$ 3,967,780
Securities Lending Expense	52,441,587	55,673,467
Other Investment Expenses*	50,654,787	33,471,920
<b>Total Investment Expenses</b>	<b>\$ 105,131,654</b>	<b>\$ 93,113,167</b>

\*Refer to the investment section for fees paid to investment professionals

**Schedule of Payments to Consultants**

	<b>2000</b>	<b>1999</b>
Independent Auditors	\$ 53,336	\$ 35,968
Medical Advisor	329,661	171,436
Actuary	108,343	174,944
<b>Total Payments</b>	<b>\$ 491,340</b>	<b>\$ 382,348</b>

**Supporting Schedules (Continued)**

**Detail of Changes in Plan Net Assets (Pension and Postemployment Healthcare Benefits)  
For the Year Ended September 30, 2000**

	Employee Contributions	Member Investment Plan	Employer Contributions	Retired Benefit Payments	Undistributed Investment Income	Health Benefits	Total
<b>Additions:</b>							
Members contributions	\$ 81,141,695	\$ 240,415,451				\$ 33,672,843	\$ 355,229,989
Employer contributions :							
Undistributed receipts and other			\$ 22,448,046				22,448,046
Colleges, universities and federal			43,602,930			46,391,525	89,994,455
School districts and other			589,207,946			382,605,103	971,813,049
Investment income:							
Investment income					\$ 4,804,544,663		4,804,544,663
Securities lending income					56,060,773		56,060,773
Investment expenses							
Real estate operating expenses					(2,035,280)		(2,035,280)
Securities lending expenses					(52,441,587)		(52,441,587)
Other investment expenses					(50,654,787)		(50,654,787)
Interest Income						9,959,633	9,959,633
Miscellaneous income					398,288		398,288
<b>Total additions</b>	81,141,695	240,415,451	655,258,922		4,755,872,070	472,629,104	6,205,317,242
<b>Deductions:</b>							
Benefits and refunds paid to plan members and beneficiaries:				\$ 1,735,936,328			1,735,936,328
Retirement benefits						386,583,485	386,583,485
Health benefits						39,177,206	39,177,206
Dental/vision benefits						30,902	17,384,253
Refund of member contributions	2,045,353	11,076,652	4,231,346				102,451
Transfers to other systems	102,451						
Administrative expenses					15,918,143	38,039,572	53,957,715
<b>Total deductions</b>	2,147,804	11,076,652	4,231,346	1,735,936,328	15,918,143	463,831,165	2,233,141,438
<b>Net Increase (Decrease)</b>	78,993,891	229,338,799	651,027,576	(1,735,936,328)	4,739,953,927	8,797,939	3,972,175,804
<b>Other Changes in Net Assets:</b>							
Interest allocation	30,317,443	200,807,712	260,926,034	1,239,614,195	(1,731,665,384)		-
Transfers upon retirement	(89,957,743)	(191,211,420)		281,169,163			-
Transfers of employer shares			(1,795,776,456)	1,795,776,456			-
Total other changes in net assets	(59,640,300)	9,596,292	(1,534,850,422)	3,316,559,814	(1,731,665,384)		-
<b>Net Increase (Decrease)</b>	19,353,591	238,935,091	(883,822,846)	1,580,623,486	3,008,288,543	8,797,939	3,972,175,804
<b>Net Assets Held in Trust for Pension and Health Benefits:</b>							
Beginning of Year	977,065,446	2,237,412,754	3,261,575,429	15,495,177,435	14,377,731,955	124,495,416	36,473,458,435
End of Year	\$ 996,419,037	\$ 2,476,347,845	\$ 2,377,752,583	\$ 17,075,800,921	\$ 17,386,020,498	\$ 133,293,355	\$ 40,445,634,239

# Supporting Schedules (Continued)

## Detail of Changes in Plan Net Assets (Pension and Postemployment Healthcare Benefits) For the Year Ended September 30, 1999

	Employee Contributions	Member Investment Plan	Employer Contributions	Retired Benefit Payments	Undistributed Investment Income	Health Benefits	Total
<b>Additions:</b>							
Members contributions	\$ 306,956,808	\$ 211,904,748				\$ 30,397,928	\$ 549,259,484
Employer contributions:							
Undistributed receipts and other			\$ 43,043,296				43,043,296
Colleges, universities and federal			37,714,523			28,871,647	66,586,170
School districts and other			493,679,110			317,293,345	810,972,455
Investment income:					\$ 5,109,635,758		5,109,635,758
Investment income					59,036,537		59,036,537
Securities lending income							
Investment expenses:							
Real estate operating expenses				(3,967,780)			(3,967,780)
Securities lending expenses				(55,673,467)			(55,673,467)
Other investment expenses				(33,471,920)			(33,471,920)
Interest Income					11,437,005		11,437,005
Miscellaneous income					89,972		89,972
<b>Total additions</b>	<b>306,956,808</b>	<b>211,904,748</b>	<b>574,436,929</b>		<b>5,075,649,100</b>	<b>387,999,925</b>	<b>6,556,947,510</b>
<b>Deductions:</b>							
Benefits and refunds paid to plan members and beneficiaries:				\$ 1,587,992,361			1,587,992,361
Retirement benefits						331,522,164	331,522,164
Health benefits						40,499,046	40,499,046
Dental/vision benefits			575,139				575,139
Refund of member contributions	1,726,327	8,844,055					10,570,382
Transfers to other systems	52,779						52,779
Administrative expenses					16,525,359		16,525,359
<b>Total deductions</b>	<b>1,779,106</b>	<b>8,844,055</b>	<b>575,139</b>	<b>1,587,992,361</b>	<b>16,525,359</b>	<b>406,467,075</b>	<b>2,022,183,095</b>
<b>Net Increase (Decrease)</b>	<b>305,177,702</b>	<b>203,060,693</b>	<b>573,861,790</b>	<b>(1,587,992,361)</b>	<b>5,059,123,741</b>	<b>(18,467,150)</b>	<b>4,534,764,415</b>
<b>Other Changes in Net Assets:</b>							
Interest allocation	31,105,081	152,724,550	284,574,466	1,162,829,682	(1,631,233,779)		-
Transfers upon retirement	(96,912,346)	(134,015,098)		230,927,444			-
Transfers of employer shares			(1,154,041,649)	1,154,041,649			-
Total other changes in net assets	(65,807,265)	18,709,452	(869,467,183)	2,547,798,775	(1,631,233,779)		-
<b>Net Increase (Decrease)</b>	<b>239,370,437</b>	<b>221,770,145</b>	<b>(295,605,393)</b>	<b>959,806,414</b>	<b>3,427,889,962</b>	<b>(18,467,150)</b>	<b>4,534,764,415</b>
<b>Net Assets Held in Trust for Pension and Health Benefits:</b>							
<b>Beginning of Year</b>	<b>737,695,009</b>	<b>2,015,642,609</b>	<b>3,557,180,822</b>	<b>14,535,371,021</b>	<b>10,949,841,993</b>	<b>142,962,566</b>	<b>31,938,694,020</b>
<b>End of Year</b>	<b>\$ 977,065,446</b>	<b>\$ 2,237,412,754</b>	<b>\$ 3,261,575,429</b>	<b>\$ 15,495,177,435</b>	<b>\$ 14,377,731,955</b>	<b>\$ 124,495,416</b>	<b>\$ 36,473,458,435</b>

# INVESTMENT SECTION

Prepared by Michigan Department of Treasury, Bureau of Investments

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

## Report on Investment Activity

### INTRODUCTION

The State Treasurer reports quarterly the investment activity to the Investment Advisory 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 judgement, 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 Consumer and Industry Services and the Director of the Department of Management and Budget are ex-officio members. The members of the committee are as follows: Mr. Samuel Valenti III (public member), Robert E. Swaney, CFA (public member), David G. Sowerby (public member), Kathleen M. Wilbur (ex-officio member), and Janet E. Phipps (ex-officio member). The public members serve without pay, but are paid actual and necessary travel and other expenses.

### INVESTMENT POLICY & GOAL

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 fund are:

1. To outperform the actuarial assumptions over the long-term.
2. To produce competitive results at a low cost.
3. To achieve a balance between risk and return.
4. To perform in the top half of the Capital Resource Advisors public plan universe.
5. To exceed individual asset class benchmarks over the long-term.

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

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

<b>Investment Category</b>	<b>As of 9/30/00</b>	
	<b>Actual %</b>	<b>Target %</b>
Mortgages	0.1%	0.0%
International Equities-Passive	6.3%	12.0%
Real Estate	8.1%	8.5%
Alternative Investments	15.4%	14.0%
Short Term Investments	5.2%	2.5%
Fixed Income	19.7%	20.0%
Domestic Equity	45.2%	43.0%
<b>TOTAL</b>	<b>100.0%</b>	<b>100.0%</b>

# INVESTMENT SECTION

## Report on Investment Activity

### STATE LAW

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 Act 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.

### PROXY VOTING POLICY

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

### INVESTMENT RESULTS

#### *Total Portfolio Result*

For the fiscal year ended September 30, 2000, the total portfolio returned 14.5% as compiled by Capital Resource Advisors. Annualized, for the three-year period, the fund returned 12.9%, and for the five-year period the fund returned 15.4%.

During the fiscal year ending September 30, 2000, the nation's economy was characterized by full employment, low inflation, and moderate economic growth. The equity market experienced a dichotomy as growth stocks, paced by technology stocks, outperformed the broad averages during the first half of the fiscal year and value stocks, paced by capital goods stocks, outperformed in the second half of the fiscal year.

By index, the NASDAQ increased 84.0% during the first half of the fiscal year, fell 27.0% over the second half, yet ended with a net gain of 34.0%. The S&P 500 increased 13.3% while the Dow Jones Industrial Average was ahead 4.6%. The Federal Reserve increased the federal funds rate by 1 1/4% points during the fiscal year. In spite of the tightening moves, the Lehman Government/Corporate Index still managed to post a 6.7% increase.

The returns were calculated using a time-weighted rate of return in accordance with standards of the Association for Investment Management and Research (AIMR), unless a modification is described in the discussion of the return.

The System is well diversified among asset classes. As of September 30, 2000, the portfolio consisted of 45.2% domestic equities, 19.8% fixed income (includes 0.1% in mortgages), 15.4% alternative investments, 8.1% real estate, 5.2% short-term investments, and 6.3% international equities.

#### *Domestic Stocks - Active*

The objective of actively managed domestic stock investments is long-term capital appreciation by investing in publicly-traded stocks of primarily U.S.-based companies. The portfolio is diversified among various securities and industries.

Equity markets began the fiscal year with leadership concentrated in the technology sector. However, the exuberance peaked in March, accompanied by a flurry of initial public offerings (IPOs), primarily in the technology and telecommunication equipment sectors. In the meantime, corporate earnings continued their double-digit gains, employment remained high, and energy and other commodity prices came roaring back from the 1998 lows. In response, the Federal Reserve acted to put the brakes on the economy by raising rates four times during the fiscal year for a total of 1 1/4% points. This created even more market volatility than had been witnessed in recent years, with both the S&P 500 and

# INVESTMENT SECTION

## Report on Investment Activity

Dow Jones Industrial Average finishing the fiscal year 6% below their springtime peaks and the NASDAQ 27% off its peak.

The actively managed domestic stock portfolio achieved a total rate of return of 9.1% for the fiscal year, compared with 13.3% for the S&P 500 Index and 4.6% for the Dow Jones Industrial Average. The markets were led by a 34.0% gain for financial stocks, followed closely by 33.0% for capital goods. Three-year and five-year annualized returns for the actively managed domestic stock portfolio were 12.3% and 18.7%, respectively. This compared with 16.4% and 21.7% for the S&P 500.

At the close of fiscal year 2000, actively managed domestic stocks represented 30.1% of total System investments, compared to 36.7% at the end of fiscal year 1999.

Effective January 31, 2000, the actively managed domestic stock portfolio was divided into two distinct portfolios: Growth and Value. Since historical returns for value and growth strategies have been negatively correlated, this will allow for further diversification and more focused selection of investments. Value investing derives its returns from the market's tendency to periodically undershoot a stock's fair value and then eventually correct back to fair value. Growth stock returns accrue from longer-term broad themes from which companies evolve that will grow faster than the economy. Performance and other pertinent data on the separate portfolios will be provided in future reports.

### *Domestic Stocks - Passive*

The objective of the enhanced S&P 500 and S&P MidCap Index Funds is to closely match the return performance of their benchmarks, and use low risk strategies to offset transaction costs and add to performance when possible. The S&P 500 Index Fund return for the fiscal year was 13.7% versus the benchmark's 13.3%. The S&P MidCap Index Fund return for the fiscal year was 45.0% versus its benchmark's 43.2%. The enhancements to the returns were the result of strategic allocations of additional funds to passive equity investments during market corrections and the opportunistic use of derivative programs. During fiscal year 2000, \$250.3 million was added to U.S. index funds. At the end of the fiscal year, passive domestic stock portfolios represented 14.9% of total assets, the S&P 500 Index Fund accounting for 13.7% and the S&P MidCap Index Fund 1.2%. Indexed stock portfolios represented 13.6% of total investment assets at the end of the prior fiscal year.

### *International Equities - Passive*

The objective of the passive international equity portfolio is to match the return performance of the Salomon Smith Barney 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 of 10.6% in the fiscal year compared favorably with the Salomon Smith Barney BMI-EPAC return of 10.4%. The passive international return of 11.6% for three years compared well with the benchmark's return of 10.1% over the same period.

Core passive exposure to international equity returns is achieved 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 Salomon Smith Barney Broad Market Index (BMI) Europe and Pacific Composite (EPAC) country weightings in those country indices. Use of swap agreements for a core position began in 1993, and an American Depository Receipts (ADR) and index-related security portfolio was added in June of 1999 to increase management flexibility. During fiscal year 2000, \$282.3 million of exposure was added, raising passive international investments to 6.3% of total investments assets.

The combination of fixed income LIBOR notes and equity swap agreements was valued at \$2,426 million on September 30, 2000. That valuation included a net unrealized gain of \$243.0 million on equity index exposures and an unrealized gain of \$0.6 million on LIBOR note investments held. During fiscal year 2000, \$242.0 million of gains on equity

# INVESTMENT SECTION

## Report on Investment Activity

exposures were realized, and \$17.0 million of interest in excess of obligations on completed swaps was also recognized. At the end of the fiscal year, total realized gains and net interest received in excess of counterparty obligations on completed agreements reached a record \$717.2 million since the program began.

### *Fixed Income (Excluding Mortgages)*

For the fiscal year September 30, 2000, the fixed income portfolio returned 6.9% as compiled by Capital Resource Advisors. The portfolio returned 5.5% for the three-year period and 6.5% for the five-year period.

During the year, treasury rates decreased but spreads widened. Fixed income markets rewarded higher grade portfolios. MPSERS' fixed income portfolio was weighted toward governments. The fund outperformed the Lehman index for the one-year period 6.9% versus 6.7%, was behind for the three-year period 5.5% versus 5.8% and outperformed the index for the five-year period 6.5% versus 6.3%. Relative to the Salomon Brothers Broad Grade Index, MPSERS' was even in the one-year time horizon 6.9% to 6.9%, was behind in the three-year period 5.5% to 5.9% and was in line in the five-year period 6.5% to 6.5%.

Fixed Income represented 19.7% of the total portfolio compared with 21.6% last year. The corporate sector represented 40.7% of fixed income securities with government securities accounting for 59.3%. Last year corporates were 38.0% of the total with governments representing 62.0%. The increased level of corporates was the result of quality spreads widening.

### *Real Estate Equity*

For the fiscal year ending September 30, 2000, 8.1% of the total investment portfolio was invested in equity real estate. This compares to 7.3% for the fiscal year ending September 30, 1999. The target asset allocation for equity real estate investments is 8.5%.

The one-year, three-year and five-year total equity real estate net returns for the fiscal year ending September 30, 2000, were 11.4, 11.7% and 11.8%, respectively, as compiled by Capital Resource Advisors. This compares to the National Council of Real Estate Investment Fiduciaries (NCREIF) Property Index returns of 10.9%, 12.9% and 11.5% relating to the same periods. As of September 30, 2000, the NCREIF portfolio of properties is heavily weighted in the office sector at 40.0%, versus the System's portfolio at 27.0%. The historical volatility of the office sector returns makes it a more risky property type. Because the NCREIF Property Index returns are quoted before advisor fees/overhead and the System's returns are quoted after all advisor fees/overhead, the NCREIF returns stated above have been adjusted downward by 75 basis points to approximate comparable returns.

To reduce risk, the real estate investments are broadly diversified geographically, across the country, by type of property, and by class of property. Major property types as of September 30, 2000, included: apartments (41%), retail centers, including regional malls and neighborhood/community shopping centers (27%), commercial office buildings (27%), and miscellaneous property types such as industrial and self storage (5%). The System, through its advisors, acquires, develops, redevelops and disposes of real estate with the goal of maximizing returns while maintaining an *acceptable* level of risk. The properties are held in various investment vehicles: partnerships, LLC's, trusts, commingled funds, and REIT stock. These legal entities allow the System to enjoy the benefits of real estate ownership while limiting the liability associated with the asset class. In all new investments, the System retains approval rights over critical decisions in order to further mitigate risk. The properties are regularly valued by independent appraisers to establish fair market values.

## Report on Investment Activity

### *Real Estate Debt (Mortgages)*

For the year ending September 30, 2000, 0.1% of the total investment portfolio was invested in direct mortgages. The asset allocation objective is to reduce mortgage holdings to 0.0% over time; a majority of the mortgage portfolio was sold in 1997 and 1998 to take advantage of the favorable low interest rate environment. The one-year, three-year and five-year total returns for the mortgage portfolio for the fiscal year ending September 30, 2000, were 9.0%, 7.0% and 7.1%, respectively.

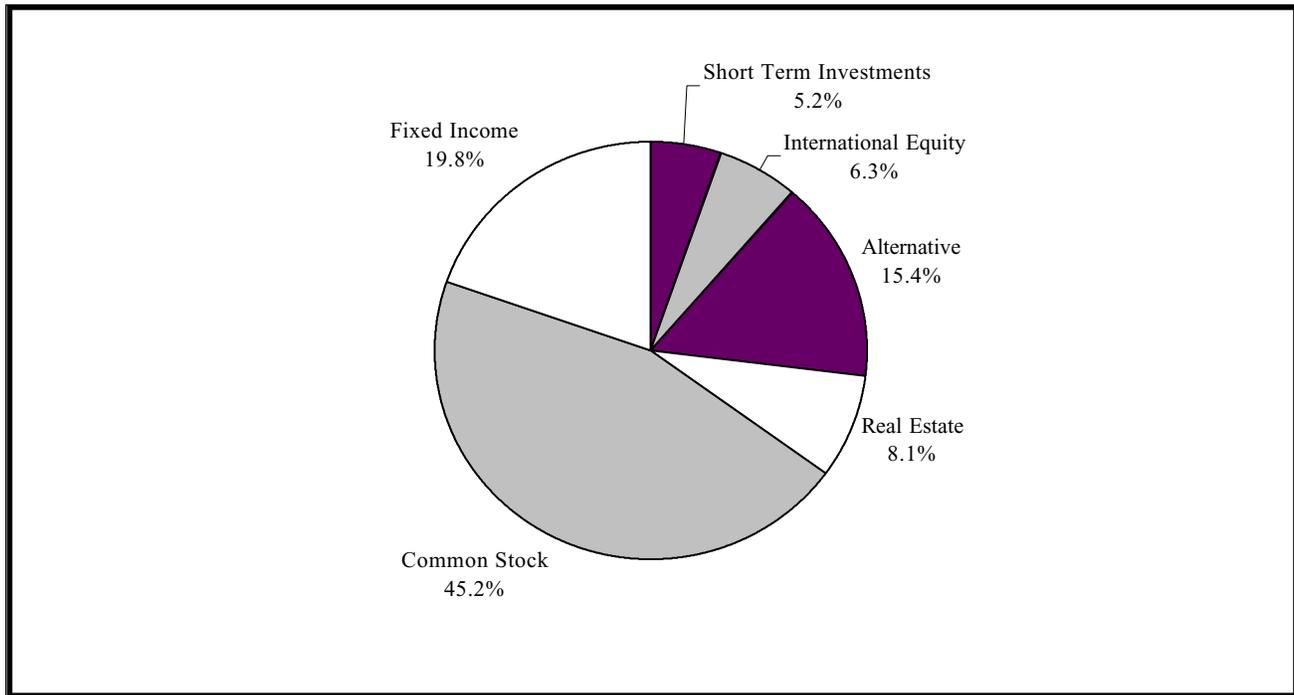
### *Alternative Investments*

Alternative Investments are investments in the private equity market either directly in operating companies or indirectly through limited partnerships. Through September 30, 2000, approximately 89.0% of alternative investments were made through limited partnerships. Of the investments in limited partnerships, approximately 11.0% were in partnerships investing internationally. The remaining 11.0% were direct private equity investments and public stock distributions received from the limited partnerships. The percentage of assets in alternative investments has consistently increased from 4.8% as of September 30, 1993, to 15.4% as of September 30, 2000. The target asset allocation for alternative investments is 14.0%. The System operates within a five-year range of 10%-15%. The one-year, three-year and five-year total alternative investment returns for the fiscal year ending September 30, 2000, were 43.3%, 26.5%, and 26.0%, respectively.

# INVESTMENT SECTION

## Report on Investment Activity

### Asset Allocation



### Investment Results Period Ending September 30, 2000

Investment Category	Current Year	Annualized Rate of Return		
		3 Years	5 Years	10 Years
Total Portfolio	14.5 %	12.9 %	15.4 %	13.4 %
Domestic Equities Stock - Active	9.1	12.3	18.7	16.9
Domestic Equities Stock - Passive*	15.6	17.0	22.0	19.9
Standard & Poor's ( S&P 500 )	13.3	16.4	21.7	19.4
Standard & Poor's (MidCap)	43.2	19.0	21.7	21.8
International Equities - Passive	10.6	11.6	13.2	N/A
Net Salomon BMI - EPAC 50/50	10.4	10.1	12.0	N/A
Fixed Income Bonds ( U.S. Corp and Govt )	6.9	5.5	6.5	8.4
Salomon Smith Barney Broad Investment Grade Bond Index	6.9	5.9	6.5	8.1
Lehman Brothers Government/Corporate	6.7	5.8	6.3	8.1
Mortgages	9.0	7.0	7.1	8.3
Salomon Smith Barney Broad Investment Grade Bond Index	6.9	5.9	6.5	8.1
Real Estate - Equity	11.4	11.7	11.8	6.0
NCREIF minus 75 Basis Points	10.9	12.9	11.5	5.4
Alternative Investments	43.3	26.5	26.0	19.9

\* Passive portfolio consists of a S&P 500 fund and a S&P Midcap fund. The return is a weighted average of the two funds.

# INVESTMENT SECTION

## Report on Investment Activity

### Largest Assets Held

#### Largest Stock Holdings (By Market Value) September 30, 2000

<u>Rank</u>	<u>Shares</u>	<u>Stocks</u>	<u>Market Value</u>
1	15,092,426	General Electric Corporation	\$ 870,644,325
2	16,609,746	Pfizer Incorporated	746,400,461
3	10,474,349	Cisco Systems Incorporated	578,707,782
4	10,386,646	Citigroup Incorporated	561,528,049
5	9,057,783	Microsoft Corporation	546,297,537
6	5,418,656	Exxon Mobil Corporation	482,937,716
7	7,634,004	Wal-Mart Stores Incorporated	367,386,443
8	8,445,825	Intel Corporation	351,029,602
9	3,927,644	Coastal Corporation	291,136,611
10	5,301,126	Home Depot Incorporated	281,290,998

#### Largest Bond Holdings (By Market Value) September 30, 2000

<u>Rank</u>	<u>Par Amount</u>	<u>Bonds &amp; Notes</u>	<u>Market Value</u>
1	\$ 256,047,000	U.S. Treasury Bonds at 9.125% Due 5-15-2009	\$ 280,571,182
2	206,552,500	U.S. Treasury 0% Coupon Strips Due 8-15-2003	174,956,164
3	150,820,000	Ford Motor Credit Corp FRN 6.59125% Due 10-9-2001	151,197,050
4	120,176,000	Bankers Trust Corp FRN 6.74% Due 3-16-2001	120,242,097
5	170,499,700	U.S. Treasury 0% Coupon Strips Due 11-15-2011	119,571,440
6	112,665,000	FHLMC Debenture 6.70% Due 7-23-2008	107,472,270
7	119,821,000	U.S. Treasury Tiger 0% Coupon Due 8-15-2004	94,089,440
8	92,024,463	Chemical Bank FRN 6.775% Due 7-29-2003	92,865,666
9	91,595,105	First Chicago Corp FRN 6.8375% Due 7-28-2003	91,747,771
10	87,066,000	U.S. Treasury Bonds at 5.625% Due 11-30-2000	86,971,098

A complete list of stock and bond holdings is available from the Michigan Department of Treasury.

# INVESTMENT SECTION

## Report on Investment Activity

### 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 in the real estate and alternative investment markets. Only 14.1% of the total investment portfolio is managed by fully discretionary outside advisors. Outside advisors' fees are netted against the partnership or trust fund income. The Michigan Department of Treasury's cost of operations applicable to the System for the fiscal year amounted to \$5,961.0 thousand or less than two basis points (.02%) of the market value of the portfolio.

State law created an Investment Advisory Committee comprised of the directors of the Department of Consumer and Industry Services and 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 are 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 judgement 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:*

	<b>Asset under Management ( in thousands)</b>	<b>Fees ( in thousands)</b>	<b>Basis Points*</b>
State Treasurer	\$ 34,241,626.8	\$ 5,961.0	1.7
Outside Advisors - Alternative	5,503,783.3	43,992.8	79.9
Real Estate	128,613.7	-	-
<b>Total</b>	<b>\$ 39,874,023.8</b>		

##### *Other Investment Services Fees:*

	<b>Assets in Custody** ( in thousands)</b>	<b>Fees ( in thousands)</b>
Custody & Research Fees	\$ 28,759,531.8	\$ 703.5
Security Lending Fees	896,452.2	52,441.6

\* Outside Advisors Fees are netted against the income of the partnership and trust income. The partnership agreements define the management fees, which range from 150 to 250 basis points of the committed capital, in most cases the fees are netted against income. For Real Estate the asset management fees normally range from 25 to 90 basis points and are netted against current year's income.

\*\* Other investment service fees are charged on assets managed by the State Treasurer at its custodial bank in the amount of \$28,759,531.8 thousand; \$896,452.2 thousand of assets were on loan at fiscal year end.

# INVESTMENT SECTION

## Report on Investment Activity

### Schedule of Investment Commissions

	Fiscal Year Ended September 30, 2000		
	Commissions Paid <sup>(1)</sup>	Number of Shares Traded	Average Commission Rate Per Share
<b>Investment Brokerage Firms:</b>			
Merrill Lynch & Co.	\$ 665,433	13,415,277	0.05
Goldman, Sachs & Co.	630,961	12,290,982	0.05
C.S. First Boston Corporation	564,772	11,295,439	0.05
Morgan Stanley Dean Witter & Co.	561,748	11,092,087	0.05
Salomon Smith Barney, Inc.	508,556	11,428,911	0.04
Bridge Trading Company	416,218	8,247,957	0.05
UBS Warburg	390,810	7,996,409	0.05
Lehman Brothers, Inc.	376,177	7,328,354	0.05
Bear, Stearns & Co.	372,539	7,997,192	0.05
Donaldson, Lufkin & Jenrette Securities Corp.	362,698	7,535,272	0.05
Prudential Securities Inc.	251,564	4,935,498	0.05
J.P. Morgan Securities, Inc.	196,076	3,921,513	0.05
Sanford C. Bernstein & Co.	187,948	3,569,159	0.05
S.G. Cowen & Company	171,453	3,375,988	0.05
CIBC World Market	154,775	3,095,497	0.05
Deutsche Bank	117,702	2,354,047	0.05
Standard & Poor's Securities	89,287	1,785,747	0.05
Cantor Fitzgerald & Co	72,841	1,918,755	0.04
BancBoston Robertson Stephens	68,225	1,170,440	0.06
Schroder & Co., Inc.	57,600	1,151,992	0.05
Charles Schwab & Co., Inc.	55,013	1,100,252	0.05
Banc of America Securities, LLC	45,281	905,611	0.05
First Union Securities	41,739	834,771	0.05
ISI Group, Inc.	34,850	697,001	0.05
Howard Weil Labouisse, Friedrichs, Inc.	29,928	522,351	0.06
Subtotal ( 25 highest)	\$ 6,424,194	129,966,502	0.05 <sup>(2)</sup>
All Other Brokerage Firms	89,052	1,613,535	0.06 <sup>(3)</sup>
Total	\$ 6,513,246	131,580,037	0.05 <sup>(4)</sup>

<sup>(1)</sup> These amounts are included in purchase and sale prices of investments.

<sup>(2)</sup> The average commission rate per share for the top 25 brokerage firms.

<sup>(3)</sup> The average commission rate per share for all other brokerage firms, excluding the top 25 brokerage firms.

<sup>(4)</sup> The average commission rate per share for all brokerage firms.

**Investment Summary**

	Fiscal Year Ended September 30, 2000				Fiscal Year Ended September 30, 1999			
	Market Value <sup>(a)</sup>	Percent of Total Market Value	Investment & Interest Income <sup>(c)</sup>	Percent of Investment & Interest Income	Market Value <sup>(a)</sup>	Percent of Total Market Value	Investment & Interest Income <sup>(c)</sup>	Percent of Investment & Interest Income
Fixed Income:								
Government Bonds	\$ 4,650,103,004	11.7%	\$ 324,692,236	6.8%	\$ 4,802,727,632	13.3%	\$ (150,113,669)	(0.3)%
Corporate Bonds								
& Preferred Stocks	3,187,677,250	8.0%	178,293,387	3.7%	2,947,794,289	8.2%	27,149,378	0.5%
Mortgages	43,391,068	0.1%	460,212	0.1%	43,911,306	0.1%	(1,555,752)	0.0%
Total Fixed Income	7,881,171,322	19.8%	507,587,835	10.6%	7,794,433,227	21.6%	10,582,257	0.2%
Common Stock	18,025,328,512	45.2%	1,948,214,383	40.5%	18,166,824,998	50.3%	3,744,927,176	73.1%
Real Estate	3,227,605,624	8.1%	313,795,641	6.5%	2,646,489,779	7.3%	302,481,705	5.9%
Alternative Investments	6,171,250,280	15.4%	1,729,629,677	35.9%	3,559,715,738	9.9%	484,739,910	9.5%
International Equities - Passive	2,512,940,844	6.3%	203,087,947	4.2%	2,015,009,294	5.5%	463,057,187	9.0%
Short Term Investments <sup>(b)</sup>	2,055,971,101	5.2%	112,188,813	2.3%	1,944,882,807	5.4%	115,284,528	2.3%
<b>Total</b>	<b>\$ 39,874,267,683</b>	<b>100.0%</b>	<b>\$ 4,814,504,296</b>	<b>100.0%</b>	<b>\$ 36,127,355,843</b>	<b>100.0%</b>	<b>\$ 5,121,072,763</b>	<b>100.0%</b>

<sup>(a)</sup> Short Term Investments are at cost, which approximates market.

<sup>(b)</sup> Includes equity in the State Treasurer's Common Cash Fund. Market Values for short term investments excludes the amounts payable and receivable for sales and purchases of securities with a settlement date after September 30 for each fiscal year. The amount also excludes \$29,146,365 and \$1,069,025,839 in cash collateral for security lending for fiscal year 2000 and 1999, respectively.

<sup>(c)</sup> Total Investment & Interest Income excludes net security lending income of \$3,619,186 and \$3,363,070 for fiscal year 2000 and 1999, respectively.

# 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  
Summary of Plan Provisions

# ACTUARIAL SECTION

## Actuary's Certification

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### THE SEGAL COMPANY

One Park Avenue  
New York, New York  
10016-5895  
212-251-5000  
FAX: 212-251-5490

January 18, 2001

Ms. Janet E. Phipps  
Director  
Department of Management and Budget  
and  
Retirement Board  
Michigan Public School Employees Retirement System  
P.O. Box 30176  
Lansing, Michigan 48909

Ladies and Gentlemen:

The Michigan Public School Employees Retirement System (MPERS) is funded on an actuarial reserve basis. The basic financial objective of MPERS 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 MPERS'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, 2000 included a total of 446,859 members of MPERS. The actuarial value of MPERS's assets amounted to approximately \$36.89 billion on September 30, 2000.

The actuarial assumptions used in the 2000 valuation are the same as those used in the previous annual actuarial valuation. 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 MPERS as of September 30, 2000 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 2000 valuation results, it is also our opinion that the Michigan Public School Employees 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,



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

## **Summary of Actuarial Assumptions and Methods**

1. The investment return rate used in making the valuations was 8% per year, compounded annually. This rate of return is not the assumed real rate of return. The real rate of return is the rate of investment return in excess of the inflation rate. Considering other financial assumptions, the 8% long range investment return rate translates to an assumed real rate of return of 4%. Adopted 1997.
2. The mortality table used in evaluating allowances to be paid was the 1994 Group Annuity Mortality Table. Adopted 1998.
3. Sample probabilities of retirement with an age and service allowance are shown in Schedule 1 on the next page. Adopted 1998.
4. Sample probabilities of withdrawal from service and disability, together with individual pay increase assumptions, are shown in Schedule 2 on the next page of this report. Adopted 1998.
5. Total active member payroll is assumed to increase 4% per year. This represents the portion of the individual pay increase assumptions attributable to inflation. In effect, this assumes no change in the number of active members. Adopted 1997.
6. An individual entry age actuarial cost method of valuation was used in determining age and service allowance actuarial liabilities and normal cost. Adopted 1975. Unfunded actuarial accrued liabilities, including actuarial gains and losses, are funded over 50 years and over 40 years on a declining basis beginning October 1, 1996. Adopted 1996.
7. Valuation assets (cash and investment) were reset to market value as of September 30, 1997. After this date, they will again be valued using a five year smoothed market value method. The excess (shortfall) of actual investment income (including interest, dividends, realized and unrealized gains or losses) that occurs after September 30, 1997 over the imputed income at the valuation interest rate is considered the gain (loss), which is spread over five years. Adopted 1997.
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 and the Department of Management and Budget after consulting with the actuary.

# ACTUARIAL SECTION

## Summary of Actuarial Assumptions and Methods (Continued)

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### SCHEDULE 1

#### Percent of Eligible Active Members Retiring Within Next Year

<u>Retirement Ages</u>	<u>Basic</u>	<u>MP</u>
50		50 %
52		25
55	28 %	20
58	22	25
61	20	23
64	25	28
67	25	25
70	30	30
71	40	40
72	50	50
73	60	60
74	70	70
75	100	100

### SCHEDULE 2

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

<u>Sample Ages</u>	<u>Years of Service</u>	<u>Percent of Active Members Withdrawing Within Next Year (Men and Women)</u>	<u>Percent of Active Members Becoming Disabled Within Next Year</u>	<u>Percent Increase In Pay During Next Year</u>
All	0	35.00 %		
	1	18.00		
	2	11.00		
	3	8.00		
	4	6.50		
25	5 & Over	4.00	0.01 %	12.50 %
35		2.40	0.02	7.55
45		1.40	0.13	5.65
55		1.40	0.33	4.60
60		1.40	0.45	4.00

## Actuarial Valuation Data

### Schedule of Active Member Valuation Data

Valuation Date Sept. 30	Number	Reported Annual Payroll*	Average Annual Pay	% Increase	Average Age	Average Service
1991	293,503	\$ 6,032,513	\$ 20,553	5.4%	41.5 years	9.6 years
1992	297,230	6,427,775	21,626	5.2	43.2	10.2
1993	296,585	6,897,924	23,258	7.5	42.2	9.8
1994	291,006	7,164,806	24,621	5.9	42.5	10.0
1995	294,911	7,564,876	25,651	4.2	43.4	10.1
1996	295,096	7,807,029	26,456	3.1	43.6	9.9
1997	295,691	8,027,450	27,148	2.6	43.6	10.0
1998	302,016	8,265,463	27,368	0.8	43.5	9.7
1999	309,324	8,643,718	27,944	2.1	43.6	9.5
2000	312,699	8,984,737	28,733	2.8	43.6	9.7

\* July 1 through June 30 payrolls in thousands of dollars through 1993, October 1 through September 30 annualized payments for fiscal years beginning October 1, 1993.

### Schedule of Changes in the Retirement Rolls

Year Ended Sept. 30	Added to Rolls		Removed from Rolls		Rolls—End of Year		% Increase in Annual Allowances	Average Annual Allowances
	No.	Annual Allowances*	No.	Annual Allowances*	No.	Allowances*		
1991	5,595	\$ 83,226	2,628	\$ 20,359	86,253	\$ 749,717	9.2%	\$ 8,692
1992	6,651	104,184	2,703	22,611	90,201	831,290	10.9	9,216
1993	6,278	100,691	2,905	20,295	93,574	911,686	9.7	9,743
1994	7,451	129,506	3,036	22,373	97,989	1,018,819	11.8	10,397
1995	8,192	146,151	3,030	22,998	103,151	1,141,972	12.1	11,071
1996	7,443	135,326	3,129	25,487	107,465	1,251,811	9.6	11,649
1997	7,691	147,433	3,314	27,765	111,842	1,371,479	9.6	12,263
1998	8,384	165,312	3,606	31,429	116,620	1,505,362	9.8	12,908
1999	7,842	166,104	3,549	31,641	120,913	1,639,825	8.9	13,562
2000	8,816	185,545	3,614	27,342	126,115	1,798,028	9.6	14,257

\* In thousands of dollars

# 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 Accrued Liabilities (\$ in Millions)			Valuation Assets	Portion of Present Value Covered by Assets			
	(1)	(2)	(3)		(1)	(2)	(3)	(4) <sup>***</sup>
	Active Member Contributions	Retirants and Beneficiaries	Active and Inactive Members (Employers Financed Portion)					
1991	\$ 1,365	\$ 7,505	\$ 9,162	\$ 14,653	100 %	100 %	63.1 %	81.3 %
1992	1,510	8,212	9,841	15,333	100	100	57.0	78.4
1993 <sup>+</sup>	1,700	9,177	10,822	16,999	100	100	56.6	78.3
1994	1,892	10,051	11,557	18,502	100	100	56.7	78.7
1994 <sup>@</sup>	1,892	10,312	12,810	18,502	100	100	49.2	73.9
1995	2,057	11,569	13,776	20,455	100	100	49.6	74.6
1996	2,261	12,590	13,720	22,529	100	100	56.0	78.9
1997	2,500	14,303	13,376	25,485	100	100	64.9	84.4
1997 <sup>@+</sup>	2,500	14,303	12,989	30,051	100	100	102.0	100.9
1998	2,505	15,689	13,943	31,870	100	100	98.1	99.2
1998 <sup>@</sup>	2,505	15,888	14,470	31,870	100	100	93.1	97.0
1999	2,706	17,291	14,351	34,095	100	100	98.2	99.3
2000	2,932	19,200	15,007	36,893	100	100	98.9	99.3

<sup>\*\*\*</sup> Percents funded on a total valuation asset and total actuarial accrued liability basis.

<sup>+</sup> Revised asset valuation method.

<sup>@</sup> Revised actuarial assumptions.

## **Summary Of Plan Provisions**

Our actuarial valuation of the System as of September 30, 2000 is based on the present provisions of the Michigan Public School Employees' Retirement Act (Act 300 of 1980, as amended).

### ***Regular Retirement (no reduction factor for age)***

Eligibility — Age 55 with 30 years credited service; or age 60 with 10 years credited service. For Member Investment Plan (MIP) members, any age with 30 years credited service; or age 60 with 10 years credited service; or age 60 with 5 years of credited service provided member worked through 60th birthday and has credited service in each of the last 5 years.

Mandatory Retirement Age — None.

Annual Amount — Total credited service times 1.5% of final average compensation.

Final Average Compensation — Average of highest 5 consecutive years. (3 years for MIP members).

### ***Early Retirement (age reduction factor used)***

Eligibility — Age 55 with 15 or more years credited service and earned credited service in each of the last 5 years.

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 — 10 years of credited service. Benefit commences at the time age qualification is met.

Annual Amount — Regular retirement benefit based on service and final average compensation at time of termination.

### ***Duty Disability Retirement***

Eligibility — No age or service requirement; in receipt of workers' disability compensation.

Annual Amount — Computed as regular retirement benefit with minimum benefit based on 10 years credited service. Additional limitation such that disability benefits plus authorized outside earnings limited to 100% of final average compensation (increased by 2% each year retired).

### ***Non-Duty Disability Retirement***

Eligibility — 10 years of credited service.

Annual Amount — Computed as regular retirement benefit based on credited service and final average compensation at time of disability. Additional limitation such that disability benefits plus authorized outside earnings limited to 100% of final average compensation (increased by 2% each year retired).

### ***Duty Death Before Retirement***

Eligibility — No age or service requirement. Beneficiary is in receipt of workers' compensation. Also applies to "duty disability" retirees during first three years of disability.

# ACTUARIAL SECTION

## Summary Of Plan Provisions (Continued)

Annual Amount — Spouse benefit computed as regular retirement benefit with minimum benefit based on ten years of credited service, reduced for 100% joint and survivor election. If no surviving spouse, children under 18 share in benefit; if no spouse or children, a disabled and dependent parent is eligible.

### *Non-Duty Death Before Retirement*

Eligibility — 15 years of credited service, or age 60 and 10 years of credited service. 10 years of credited service, or age 60 and 5 years of credited service for MIP members.

Annual Amount — Computed as regular retirement benefit, reduced in accordance with a 100% joint and survivor election, with payments commencing first of month following death. For the beneficiary of a deferred member, benefit commences at the time a member would have attained the minimum age qualification.

### *Post-Retirement Cost-of-Living Adjustments*

One-time upward adjustments have been made in 1972, 1974, 1976 and 1977 for members retired on or after July 1, 1956 and prior to July 1, 1976 who were eligible for Social Security benefits. For members who retired prior to July 1, 1956 and not eligible for Social Security benefits based upon membership service, the minimum base pension was increased in 1965, 1971, 1972, 1974 and 1981, and in 1976 and 1977 one-time upward adjustments were made.

Beginning in 1983, eligible recipients received an annual distribution of investment earnings in excess of 8% (supplemental payment). On January 1, 1986, all members who retired prior to January 1, 1986 were given a permanent 8% increase. On January 1, 1990 a one-time upward adjustment for members who retired prior to October 1, 1981 was made.

Currently members receive annual increases based on the following schedule:

- Retired before January 1, 1987 -- Greater of Supplemental payment or automatic 3% increase
- Retired on or after January 1, 1987 under MIP - Automatic 3% increase only
- Retired on or after January 1, 1987 not under MIP - Supplemental payment only

### *Post-Retirement Health Benefits*

Members in receipt of pension benefits are eligible for fully System paid Master Health Care Plan coverage (90% System paid Dental Plan, Vision Plan and Hearing Plan coverage) with the following exceptions:

1. Members not yet eligible for Medicare coverage pay an amount equal to the Medicare Part B premiums.
2. Members with less than 30 years of service, who terminate employment after October 31, 1980 with vested deferred benefits, are eligible for partially System paid health benefit coverage (no System payment if less than 21 years service).

Dependents are eligible for 90% System paid health benefit coverage (partial System payment for dependents of deferred vested members who had 21 or more years of service).

**Summary Of Plan Provisions (Continued)**

*Member Contributions*

MIP Participants hired before January 1, 1990 — 3.9% of pay.

MIP Participants hired on or after January 1, 1990 — 3.0% of first \$5,000 of pay, plus 3.6% of next \$10,000 of pay, plus 4.3% pay in excess of \$15,000.

Non-MIP Participants — None.

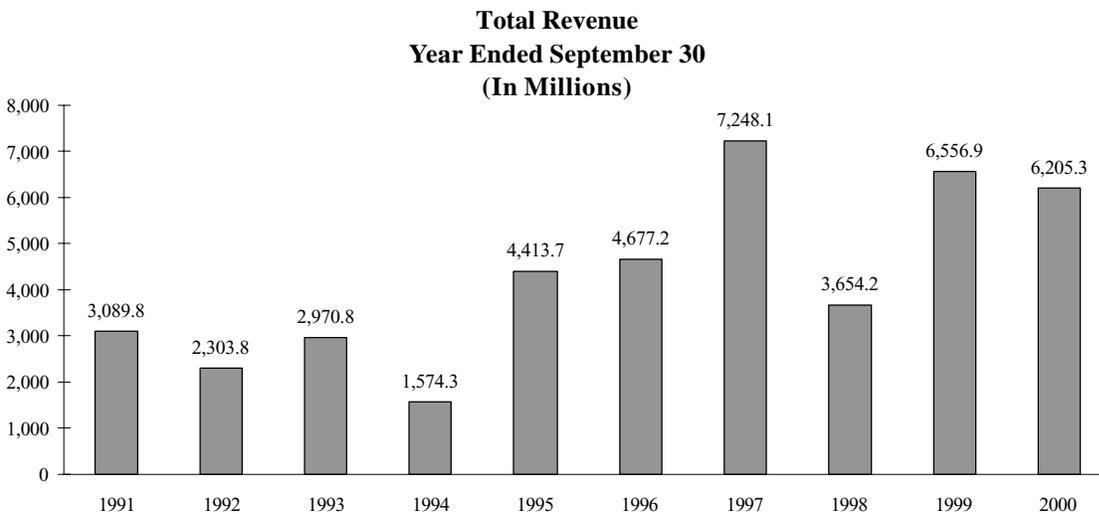
# STATISTICAL SECTION



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 Health Benefits  
Schedule of Average Benefit Payments  
Ten Year History of Membership  
Schedule of Participating Employers

Schedule of Revenues by Source

Fiscal Year Ended Sept. 30	Member & Employer Health Contributions	Member Contributions	Employer Contributions		Net Investment & Other Income	Total
			Dollars	% of Annual Covered Payroll		
1991	\$171,007,634	\$174,835,458	\$502,685,310	8.33	\$2,241,235,939	\$3,089,764,341
1992	231,559,072	196,103,714	533,025,550	8.29	1,343,143,928	2,303,832,264
1993	166,642,908	223,584,885	612,220,399	8.88	1,968,375,434	2,970,823,626
1994	88,178,299	244,086,635	809,768,082	11.30	432,291,116	1,574,324,132
1995	271,031,481	248,662,424	770,541,054	10.19	3,123,477,389	4,413,712,348
1996	305,173,023	255,085,948	829,600,401	10.63	3,287,367,155	4,677,226,527
1997	342,675,636	253,358,290	904,817,513	11.27	5,747,292,566	7,248,144,005
1998	359,266,764	252,672,436	622,437,022	7.53	2,419,775,950	3,654,152,172
1999	376,562,920	518,861,556	574,436,929	6.80	5,087,086,105	6,556,947,510
2000	472,629,104	321,557,146	655,258,922	7.10	4,755,872,070	6,205,317,242

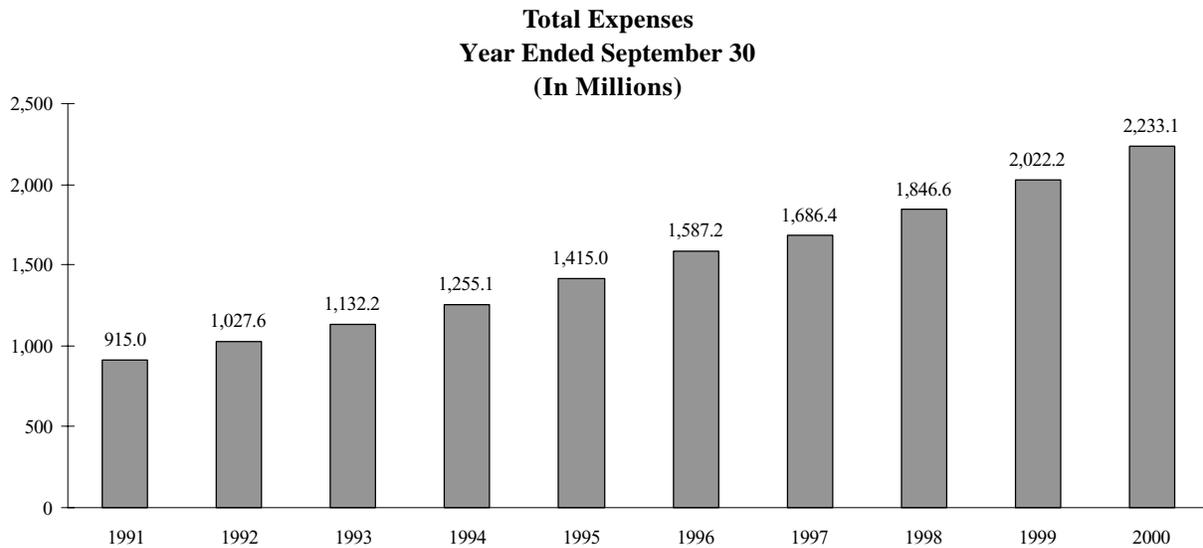


# STATISTICAL SECTION

## Schedule of Expenses by Type

<b>Fiscal Year Ended Sept. 30</b>	<b>Benefit Payments*</b>	<b>Refunds and Transfers</b>	<b>Administrative Expenses</b>	<b>Total</b>
1991	\$ 898,321,741	\$ 4,630,054	\$ 12,095,624	\$ 915,047,419
1992	1,010,916,803	3,453,420	13,229,581	1,027,599,804
1993	1,115,092,306	3,940,883	13,121,256	1,132,154,445
1994	1,234,384,948	5,457,370	15,307,293	1,255,149,611
1995	1,391,780,504	7,926,131	15,343,147	1,415,049,782
1996	1,565,111,270	11,698,045	10,381,801	1,587,191,116
1997	1,656,442,197	17,904,602	12,102,095	1,686,448,894
1998	1,810,891,942	21,252,147	14,463,339	1,846,607,428
1999	1,994,459,436	11,198,300	16,525,359	2,022,183,095
2000	2,199,736,591	17,486,704	15,918,143	2,233,141,438

\*Includes health benefits

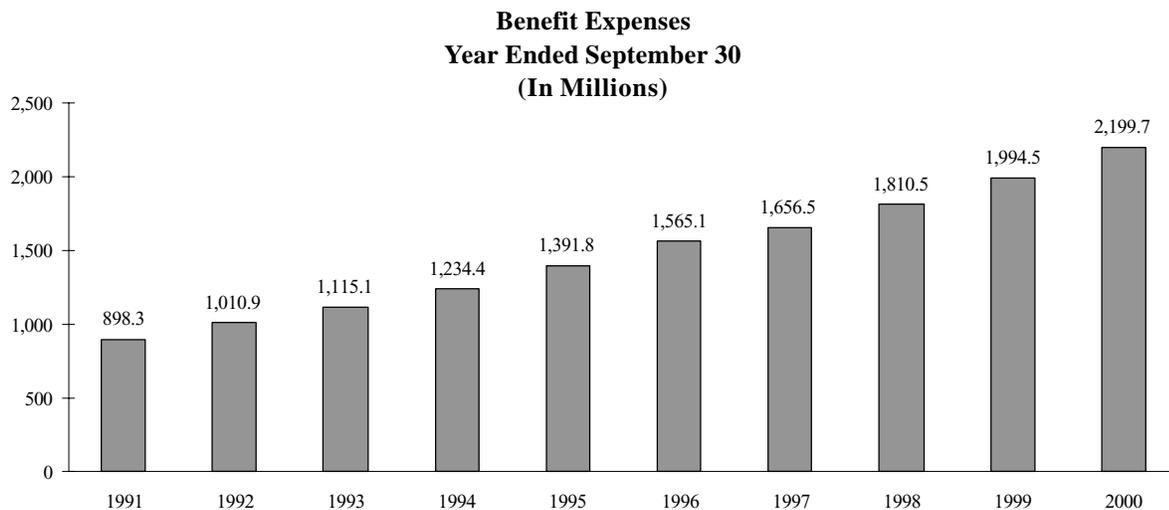


## Schedule of Benefit Expenses by Type

Fiscal Year Ended Sept. 30	Regular Benefits*	Disability Benefits	Supplemental Check	Health Benefits**	Total
1991	\$ 706,806,593	\$ 19,979,268		\$ 171,535,880	\$ 898,321,741
1992	775,316,096	21,836,151		213,764,556	1,010,916,803
1993	855,363,962	23,909,603		235,818,741	1,115,092,306
1994	952,147,141	25,839,763		256,398,044	1,234,384,948
1995	1,071,950,982	28,257,525		291,571,997	1,391,780,504
1996	1,178,250,042	31,209,798	\$ 58,800,478	296,850,952	1,565,111,270
1997	1,274,469,892	37,129,588	6,228,620	338,659,636	1,656,487,736
1998	1,412,550,359	35,908,817	5,992,263	356,065,946	1,810,517,485
1999	1,540,039,404	38,546,646	9,406,311	406,467,075	1,994,459,436
2000	1,684,018,116	40,453,574	11,464,638	463,800,263	2,199,736,591

\*Includes prior post retirement adjustments

\*\*Includes dental and vision benefits



# STATISTICAL SECTION

## Schedule of Retired Members by Type of Benefit September 30, 2000

Amount Monthly Benefit	Number of Retirees	Type of Retirement *						Selected Option**				Opt.1E 2E,3E,4E
		1	2	3	4	5	6	Opt. 1	Opt. 2	Opt. 3	Opt. 4	
\$ 1-200	14,137	12,077	1,155	105	574	1	225	8,645	2,674	1,866	12	940
201-400	18,604	15,872	1,714	88	462		468	11,081	3,721	2,685	28	1,089
401-600	13,575	10,971	1,154	59	910		481	7,574	2,730	2,237	23	1,011
601-800	10,357	8,461	862	24	596		414	5,644	2,031	1,714	24	944
801-1000	8,493	7,084	602	17	451	1	338	4,399	1,720	1,321	23	1,030
1001-1200	7,210	6,079	503	10	340		278	3,424	1,525	1,174	13	1,074
1201-1400	6,738	5,863	379	2	259		235	2,947	1,565	1,104	23	1,099
1401-1600	6,359	5,702	294	1	190		172	2,680	1,645	1,102	20	912
1601-1800	6,352	5,822	242	2	117		169	2,616	1,749	1,224	39	724
1801-2000	6,723	6,336	192	2	71		122	2,798	1,710	1,390	59	766
over 2000	27,567	26,910	390	2	62	1	202	11,375	5,062	5,437	258	5,435
Totals	126,115	111,177	7,487	312	4,032	3	3,104	63,183	26,132	21,254	522	15,024

### \* Type of Retirement

- 1 - Normal retirement for age & service
- 2 - Survivor payment - normal retirement
- 3 - Duty disability retirement
- 4 - Non-duty disability retirement
- 5 - Survivor payment - duty death in service
- 6 - Survivor payment - non-duty death in service

### \*\*Selected Option

- Opt. 1. - Straight life allowance
- Opt. 2 - 100% survivor option
- Opt. 3 - 50% survivor option
- Opt. 4 - 75 % survivor option
- Opt. 1E, 2E, 3E, 4E - Equated retirement plans

**Schedule of Health Benefits  
For Years Ended September 30, 2000 and 1999**

<b>Claims</b>	<u>2000</u>	<u>1999</u>
<b>Total Claims</b>	\$ 380,837,428	\$ 329,141,279
<b>IBNR</b> (Incurred but not reported claims)		
Health Insurance	\$ 41,870,846	\$ 39,633,518
Vision Insurance	723,417	385,950
Dental Insurance	<u>2,329,000</u>	<u>2,860,462</u>
<b>Total IBNR</b>	\$ <u>44,923,263</u>	\$ <u>42,879,930</u>
<b>Administrative Fees</b>		
Health Insurance	\$ 34,498,111	\$ 31,617,500
Vision Insurance	794,551	258,575
Dental Insurance	<u>2,746,910</u>	<u>2,569,791</u>
<b>Total Administrative Fees</b>	<u>38,039,572</u>	<u>34,445,866</u>
<b>Subtotal</b>	<u>463,800,263</u>	<u>406,467,075</u>
Refunds	<u>30,902</u>	<u>-0-</u>
<b>Grand Total</b>	<u>\$ 463,831,165</u>	<u>\$ 406,467,075</u>

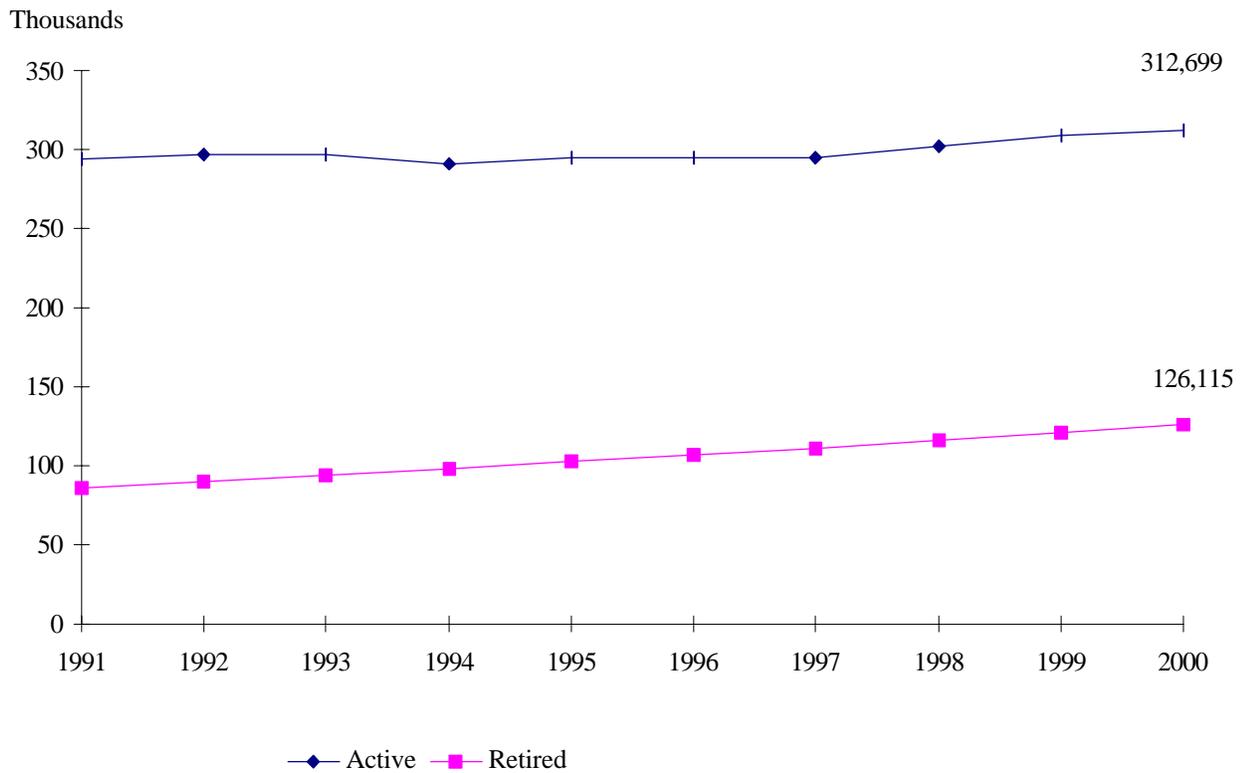
# STATISTICAL SECTION

## Schedule of Average Benefit Payments

Retirement Effective Dates	Years Credited Service							Total
	0-5	5-10	10-15	15-20	20-25	25-30	30+	
Period 10/1/94 to 9/30/95:								
Average Monthly Benefit	\$ 305	\$ 127	\$ 216	\$ 399	\$ 660	\$ 1,000	\$ 1,609	\$ 922
Average Final Average Salary	5,577	13,480	11,960	16,363	21,333	25,673	34,402	24,144
Number of Active Retirants	226	2,504	15,390	17,934	16,455	13,205	37,437	103,151
Period 10/1/95 to 9/30/96:								
Average Monthly Benefit	\$ 336	\$ 131	\$ 224	\$ 411	\$ 683	\$ 1,030	\$ 1,694	\$ 971
Average Final Average Salary	5,151	13,787	12,373	16,852	22,019	26,608	36,341	25,327
Number of Active Retirants	277	2,729	15,659	18,519	17,082	13,615	39,584	107,465
Period 10/1/96 to 9/30/97:								
Average Monthly Benefit	\$ 359	\$ 134	\$ 230	\$ 424	\$ 703	\$ 1,064	\$ 1,779	\$ 1,022
Average Final Average Salary	4,725	13,993	12,738	17,348	22,636	27,515	38,285	26,540
Number of Active Retirants	333	2,742	15,893	18,982	17,724	13,941	42,027	111,842
Period 10/1/97 to 9/30/98:								
Average Monthly Benefit	\$ 390	\$ 139	\$ 238	\$ 438	\$ 726	\$ 1,097	\$ 1,864	\$ 1,076
Average Final Average Salary	4,043	14,351	13,165	17,927	23,340	28,399	40,260	27,831
Number of Active Retirants	416	3,136	16,145	19,479	18,358	14,337	44,749	116,620
Period 10/1/98 to 9/30/99:								
Average Monthly Benefit	\$ 439	\$ 143	\$ 246	\$ 452	\$ 746	\$ 1,131	\$ 1,944	\$ 1,130
Average Final Average Salary	3,467	14,633	13,635	18,462	23,931	29,187	42,081	29,072
Number of Active Retirants	528	3,338	16,299	19,815	18,838	14,535	47,560	120,913
Period 10/1/99 to 9/30/00:								
Average Monthly Benefit	\$ 480	\$ 147	\$ 255	\$ 466	\$ 769	\$ 1,167	\$ 2,024	\$ 1,188
Average Final Average Salary	2,964	14,900	14,121	19,103	24,654	29,984	43,957	30,424
Number of Active Retirants	666	3,545	16,545	20,206	19,332	14,839	50,982	126,115

## 10 Year History of Membership Fiscal Year Ended September 30

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# STATISTICAL SECTION

## Schedule of Participating Employers thru FY 9/30/00

### Universities:

Central Michigan University  
Eastern Michigan University  
Ferris State University  
Lake Superior State University  
Michigan Technological University  
Northern Michigan University  
Western Michigan University

### Community Colleges:

Alpena Community College  
Bay De Noc Community College  
Charles S Mott Community College  
Delta College  
Glen Oaks Community College  
Gogebic Community College  
Grand Rapids Community College  
Henry Ford Community College  
Jackson County Community College  
Kalamazoo Valley Community College  
Kellogg Community College  
Kirtland Community College  
Lake Michigan College  
Lansing Community College  
Macomb Community College  
Mid-Michigan Community College  
Monroe County Community College  
Montcalm Community College  
Muskegon Community College  
North Central Michigan College  
Northwestern Michigan College  
Oakland Community College  
Schoolcraft Community College  
Southwestern Michigan College  
St Clair County Community College  
Washtenaw Community College  
Wayne County Community College  
West Shore Community College

### Intermediate School Districts:

Allegan County Intermediate School District  
Alpena-Montmorency-Alcona E. S. D.  
Barry Intermediate School District  
Bay-Arenac Intermediate School District  
Berrien Intermediate School District  
Branch Intermediate School District  
C.O.O.R. Intermediate School District  
Calhoun Intermediate School District

### Intermediate School Districts (continued):

Charlevoix-Emmet Intermediate School District  
Cheboygan-Otsego-Presque Isle ISD  
Clare-Gladwin Intermediate School District  
Clinton County R. E. S. A.  
Copper Country Intermediate School District  
Delta-Schoolcraft Intermediate School District  
Dickinson-Iron Intermediate School District  
Eastern U P Intermediate School District  
Eaton Intermediate School District  
Genesee Intermediate School District  
Gogebic-Ontonagon Intermediate School District  
Gratiot-Isabella R. E. S. D.  
Hillsdale Intermediate School District  
Huron Intermediate School District  
Ingham Intermediate School District  
Ionia Intermediate School District  
Iosco Intermediate School District  
Jackson Intermediate School District  
Kalamazoo Valley Intermediate School District  
Kent Intermediate School District  
Lapeer Intermediate School District  
Lenawee Intermediate School District  
Lewis Cass Intermediate School District  
Livingston E. S. A.  
Macomb Intermediate School District  
Manistee Intermediate School District  
Marquette-Alger Intermediate School District  
Mason Lake Intermediate School District  
Mecosta-Osceola Intermediate School District  
Menominee Intermediate School District  
Midland Intermediate School District  
Monroe Intermediate School District  
Montcalm Area Intermediate School District  
Muskegon Area Intermediate School District  
Newaygo Intermediate School District  
Oakland Intermediate School District  
Oceana Intermediate School District  
Ottawa Area Intermediate School District  
Saginaw Intermediate School District  
Sanilac Intermediate School District  
Shiawassee R. E. S. D.  
St. Clair Intermediate School District  
St. Joseph Intermediate School District  
Traverse Bay Area Intermediate School District  
Tuscola Intermediate School District  
Van Buren Intermediate School District  
Washtenaw Intermediate School District  
Wayne R. E. S. A.  
Wexford-Missaukee Intermediate School District

**Schedule of Participating Employers (Continued)**

**K – 12 School Districts:**

Adams Township School District	Benzie County Central Schools
Adams-Sigel #3 School	Berkley City School District
Addison Community Schools	Berrien Springs Public Schools
Adrian Public Schools	Bessemer Area School District
Airport Community Schools	Big Bay De Noc School District
Akron-Fairgrove Schools	Big Burning-Colfax #1f School
Alba Public Schools	Big Jackson School District
Albion Public Schools	Big Rapids Public Schools
Alcona Community Schools	Birch Run Area Schools
Algonac Community Schools	Birmingham City Schools
Allegan Public Schools	Blissfield Community School District
Allen Park Public Schools	Bloomfield #1-Red School
Allendale Public Schools	Bloomfield #7 Frl-Rapson School
Alma Public Schools	Bloomfield Hills School District
Almont Community Schools	Bloomington Public Schools
Alpena Public Schools	Bois Blanc Township School District
Anchor Bay School District	Boyne City Public Schools
Ann Arbor Public Schools	Boyne Falls Public Schools
Arenac-Eastern High School	Brandon School District
Armada Area Schools	Brandywine Public Schools
Arvon Township Schools	Breckenridge Community Schools
Ashley Community Schools	Breitung Township Schools
Athens Area Schools	Bridgeport-Spaulding Comm. School District
Atherton Community Schools	Bridgman Public Schools
Atlanta Community Schools	Brighton Area Schools
Au Gres-Sims School District	Brimley Public Schools
Autrain-Onota Public Schools	Britton-Macon Area School
Avondale School District	Bronson Community Schools
Bad Axe Public Schools	Brown City Community Schools
Baldwin Community Schools	Buchanan Community Schools
Bangor Public Schools	Buckley Community Schools
Bangor Township Schools	Buena Vista School District
Baraga Township Schools	Bullock Creek School District
Bark River - Harris Schools	Burr Oak Community Schools
Bath Community Schools	Burt Township School District
Battle Creek Public Schools	Byron Area Schools
Bay City Public Schools	Byron Center Public Schools
Beal City Schools	Cadillac Area Public Schools
Bear Lake School	Caledonia Community Schools
Beaver Island Community Schools	Calumet Public Schools
Beaverton Rural School District	Camden-Frontier School
Bedford Public Schools	Capac Community Schools
Beecher Community School District	Carman-Ainsworth Community School District
Belding Area Schools	Carney-Nadeau Public Schools
Bellaire Public Schools	Caro Community Schools
Bellevue Community Schools	Carrollton School District
Bendle Public Schools	Carson City-Crystal Area Schools
Bentley Community Schools	Carsonville-Port Sanilac School
Benton Harbor Area Schools	Caseville Public Schools
	Cass City Public Schools
	Cassopolis Public Schools
	Cedar Springs Public Schools

# STATISTICAL SECTION

## Schedule of Participating Employers (Continued)

### **K – 12 School Districts (continued):**

Center Line Public Schools  
Central Lake-Antrim County Public Schools  
Central Montcalm Public Schools  
Centreville Public Schools  
Charlevoix Public Schools  
Charlotte Public Schools  
Chassell Township Schools  
Cheboygan Area School District  
Chelsea School District  
Chesaning-Union Schools  
Chippewa Hills School District  
Chippewa Valley Schools  
Church School  
Clare Public Schools  
Clarenceville School District  
Clarkston Community Schools  
Clawson City School District  
Climax-Scotts Community Schools  
Clinton Community Schools  
Clintondale Community Schools  
Clio Area School District  
Coldwater Community Schools  
Coleman Community Schools  
Coloma Community Schools  
Colon Community School  
Columbia School District  
Comstock Park Public Schools  
Comstock Public Schools  
Concord Community Schools  
Constantine Public Schools  
Coon-Berlin Township School District #3  
Coopersville Public Schools  
Corunna Public Schools  
Covert Public Schools  
Crawford-AuSable School District  
Crawford-Excelsior School District #1  
Crestwood School District  
Croswell-Lexington Schools  
Dansville Agricultural School  
Davison Community Schools  
Dearborn Heights School District #7  
Dearborn Public Schools  
Decatur Public Schools  
Deckerville Community School District  
Deerfield Public Schools  
Delton-Kellogg Schools  
DeTour Area Schools  
Detroit Public Schools  
Dewitt Public Schools  
Dexter Community Schools  
Dowagiac-Union School District  
Dryden Community Schools  
Dundee Community Schools  
Durand Area Schools  
East China Township School District  
East Detroit School District  
East Grand Rapids Public Schools  
East Jackson Public Schools  
East Jordan Public Schools  
East Lansing Public Schools  
Eaton Rapids Public Schools  
Eau Claire Public Schools  
Eccles-Sigel #4 School  
Ecorse Public Schools  
Edwardsburg Public Schools  
Elk Rapids Schools  
Elkton-Pigeon-Bay Port Schools  
Ellsworth Community Schools  
Elm River Township Schools  
Engadine Consolidated School District #4  
Escanaba Area Public Schools  
Essexville-Hampton Public Schools  
Ewart Public Schools  
Ewen-Trout Creek Consolidated School District  
Fairview Area Schools  
Farmington Public Schools  
Farwell Area Schools  
Fennville Public Schools  
Fenton Area Public Schools  
Ferndale City School District  
Fitzgerald Public Schools  
Flat Rock Community Schools  
Flint City School District  
Flushing Community Schools  
Forest Area Schools  
Forest Hills Public Schools  
Forest Park School District  
Fowler Public Schools  
Fowlerville Community Schools  
Frankenmuth School District  
Frankfort-Elberta Area Schools  
Fraser Public Schools  
Free Soil Community School District # 8  
Freeland Community Schools  
Fremont Public Schools  
Fruitport Community Schools  
Fulton Schools  
Galesburg-Augusta Community School District  
Galien Township School  
Garden City Public Schools  
Gaylord Community Schools

**Schedule of Participating Employers (Continued)**

**K – 12 School Districts (continued):**

- |  |   |
|--|---|
| Genesee School District                    | Holton Public Schools                     |
| Gerrish-Higgins School District            | Homer Community Schools                   |
| Gibraltar School District                  | Hopkins Public Schools                    |
| Gladstone Area Schools                     | Houghton Lake Community Schools           |
| Gladwin Community Schools                  | Houghton-Portage Township School District |
| Glen Lake Community Schools                | Howell Public Schools                     |
| Glenn-Ganges School District #4            | Hudson Area Schools                       |
| Gobles Public Schools                      | Hudsonville Public Schools                |
| Godfrey-Lee Public Schools                 | Huron School District                     |
| Godwin Heights Public Schools              | Huron Valley School District              |
| Goodrich Area Schools                      | Ida Public Schools                        |
| Grand Blanc Community Schools              | Imlay City Community Schools              |
| Grand Haven Public Schools                 | Inkster Public Schools                    |
| Grand Ledge Public Schools                 | Inland Lakes Schools                      |
| Grand Rapids Public Schools                | Ionia Public Schools                      |
| Grandville Public Schools                  | Iron Mountain Public Schools              |
| Grant Public Schools                       | Ironwood-Gogebic City Area Schools        |
| Grant Township School                      | Ishpeming Public Schools                  |
| Grass Lake Community Schools               | Ithaca Public Schools                     |
| Greenville Public Schools                  | Jackson Public Schools                    |
| Grosse Ile Township Schools                | Jefferson Schools                         |
| Grosse Pointe Public Schools               | Jenison Public Schools                    |
| Gull Lake Community Schools                | Johannesburg-Lewiston Area Schools        |
| Gwinn Area Community Schools               | Jonesville Community Schools              |
| Hale Area Schools                          | Kalamazoo Public Schools                  |
| Hamilton Community Schools                 | Kaleva Norman Dickson School District     |
| Hamtramck Public Schools                   | Kalkaska Public Schools                   |
| Hancock Public Schools                     | Kearsley Community Schools                |
| Hanover Horton School District             | Kelloggsville Public Schools              |
| Harbor Beach Community School District     | Kenowa Hills Public Schools               |
| Harbor Springs Public Schools              | Kent City Community Schools               |
| Harper Creek Community Schools             | Kentwood Public Schools                   |
| Harper Woods Public Schools                | Kingsley Area Schools                     |
| Harrison Community Schools                 | Kingston Community Schools                |
| Hart Public Schools                        | Kipper School                             |
| Hartford Public Schools                    | L'Anse Creuse Public Schools              |
| Hartland Consolidated Schools              | L'Anse Public Schools                     |
| Haslett Public Schools                     | Laingsburg Community Schools              |
| Hastings Area School District              | Lake City Area Schools                    |
| Haynor- Easton Township School District #6 | Lake Fenton Community School District     |
| Hazel Park Public Schools                  | Lake Linden-Hubbell Public Schools        |
| Hemlock Public Schools                     | Lake Orion Community School #3            |
| Hesperia Community Schools                 | Lake Shore Public Schools                 |
| Highland Park School District              | Lakeshore Public Schools                  |
| Hillman Community Schools                  | Lakeview Community Schools                |
| Hillsdale Community Schools                | Lakeview Public Schools                   |
| Holland Public Schools                     | Lakeview School District                  |
| Holly Area Schools                         | Lakeville Community Schools               |
| Holt Public Schools                        | Lakewood School District                  |
|  | Lamphere Public Schools                   |
|  | Lansing Public Schools                    |

# STATISTICAL SECTION

## Schedule of Participating Employers (Continued)

### **K – 12 School Districts (continued):**

Lapeer Public Schools  
Lawrence Public Schools  
Lawton Community Schools  
Leland Public Schools  
Les Cheneaux Community Schools  
Leslie Public Schools  
Lincoln Consolidated Schools  
Lincoln Park Public Schools  
Linden Community Schools  
Litchfield Community Schools  
Littlefield Public Schools  
Livonia Public Schools  
Loucks-Roxend Township School District #12  
Lowell Area Schools  
Ludington Area Schools  
Mackinaw City Public Schools  
Mackinaw Island Public Schools  
Madison District Public Schools  
Madison School District #2  
Mancelona Public Schools  
Manchester Community Schools  
Manistee Public Schools  
Manistique Area Schools  
Manton Consolidated School District  
Maple Valley Schools  
Mar Lee School District  
Marcellus Community Schools  
Marenisco School District  
Marion Public Schools  
Marlette Community Schools  
Marquette Area Public Schools  
Marshall Public Schools  
Martin Public Schools  
Marysville Public Schools  
Mason Co.-Eastern-Custer #5 School District  
Mason Consolidated Schools  
Mason County Central School District  
Mason Public Schools  
Mattawan Consolidated Schools  
Mayville Community Schools  
McBain Rural Agricultural School  
Melvindale-Northern Allen Park School District  
Memphis Community Schools  
Mendon Community School  
Menominee Area Public Schools  
Meridian Public Schools  
Merrill Community Schools  
Mesick Consolidated Schools  
Michigan Center School District  
Mid Peninsula Schools  
Midland City Schools  
Milan Area Schools  
Millington Community School District  
Mio-Ausable Schools  
Mona Shores School District #29  
Monroe Public Schools  
Montabella Community Schools  
Montague Area Public Schools  
Montrose Community Schools  
Moran Township School District  
Morenci Area Schools  
Morley-Stanwood Community Schools  
Morrice Area Schools  
Mt Clemens Community Schools  
Mt Morris Consolidated Schools  
Mt Pleasant Public Schools  
Munising Public Schools  
Muskegon City Public Schools  
Muskegon Heights City Public Schools  
Napoleon Comm. School District  
Negaunee Public Schools  
New Buffalo Area Schools  
New Haven Community Schools  
New Lothrop Area Public Schools  
Newaygo Public Schools  
Nice Community Schools  
Niles Public Schools  
North Adams-Jerome Public Schools  
North Branch Area Schools  
North Central Area Schools  
North Dickinson School  
North Huron Schools  
North Levalley School #2  
North Muskegon Public Schools  
Northport Public Schools  
Northview Public Schools  
Northville Public Schools  
Northwest School District  
Norway-Vulcan Area Schools  
Nottawa Community Schools  
Novi Community School District  
Oak Park School District  
Oakridge Public Schools  
Okemos Public Schools  
Olivet Community Schools  
Onaway Area Community Schools  
Onkama Consolidated Schools  
Onsted Community Schools  
Ontonagon Area School District  
Orchard View Schools  
Osceola Township Schools

**Schedule of Participating Employers (Continued)**

Oscoda Area Schools	Royal Oak City School District
Otsego Public Schools	Rudyard Public Schools
Ovid-Elsie Area Schools	Saginaw City Schools
Owendale-Gagetown Area Schools	Saginaw Township Community Schools
Owosso Public Schools	Saline Area Schools
Oxford Area Community Schools	Sand Creek Community Schools
Palo Community Schools	Sandusky Community Schools
Parchment School District	Saranac Community Schools
Paw Paw Public Schools	Saugatuck Public Schools
Peck Community Schools	Sault Ste Marie Public Schools
Pellston Public Schools	Schoolcraft Community Schools
Pennfield Schools	Shelby Public Schools
Pentwater Public Schools	Shepherd Public Schools
Perry Public Schools	South Haven Public Schools
Petoskey Public Schools	South Lake Public Schools
Pewamo-Westphalia Comm School District	South Lyon Community Schools
Pickford Public Schools	South Redford School District
Pinckney Community Schools	Southfield Public Schools
Pinconning Area Schools	Southgate Community School District
Pine River Area Schools	Sparta Area Schools
Pittsford Area Schools	Spring Lake Public Schools
Plainwell Community Schools	Springport Public Schools
Plymouth-Canton Community School District	St Charles Community Schools
Pontiac City School District	St Ignace Public Schools
Port Hope Community Schools	St Johns Public Schools
Port Huron Area Schools	St Joseph Public Schools
Portage Public Schools	St Louis Public Schools
Portland Public Schools	Standish-Sterling Community School District
Posen Consolidated Schools	Stanton Twnshp. Public Schools
Potterville Public Schools	Stephenson Area Public Schools
Powell Township School District	Stockbridge Community Schools
Quincy Community Schools	Strange-Oneida School #3
Rapid River Public Schools	Sturgis Public Schools
Ravenna Public Schools #24	Summerfield Schools
Reading Community Schools	Superior Central School District
Redford-Union School District #1	Suttons Bay Public Schools
Reed City Public School District	Swan Valley School District
Reese Public Schools	Swartz Creek Community Schools
Reeths-Puffer Schools	Tahquamenon Area School District
Republic-Michigamme Schools	Tawas Area Schools
Richmond Community Schools	Taylor Township Schools
River Rouge Public Schools	Tecumseh Public Schools
River School	Tekonsha Community Schools
River Valley School District	Thornapple-Kellogg School
Riverside-Hagar School District #6	Three Rivers Community Schools
Riverview Public Schools	Traverse City Public Schools
Rochester Community Schools	Trenton Public Schools
Rockford Public Schools	Tri-County Area Schools
Rogers City Area Schools	Troy City School District
Romeo Community Schools	Udly Community Schools
Romulus Community Schools	Union City Community Schools
Roseville Community Schools	Unionville-Sebewaing Area Schools

# STATISTICAL SECTION

## Schedule of Participating Employers (Continued)

### **K – 12 School Districts (continued):**

Utica Community Schools  
Van Buren Public Schools  
Vanderbilt Area Schools  
Vandercook Lake Public Schools  
Vandyke Public Schools  
Vassar Public Schools  
Verona Mills School  
Vestaburg Community Schools  
Vicksburg Community Schools  
Wakefield Township Schools  
Waldron Area Schools  
Walkerville Rural Community School District  
Walled Lake Consolidated Schools  
Warren Consolidated Schools  
Warren Woods Public Schools  
Waterford School District  
Watersmeet Township School District  
Watervliet Public Schools  
Waverly Community Schools  
Wayland Union Schools  
Wayne-Westland Community Schools  
Webberville Community Schools  
Wells Township School #18  
West Bloomfield Schools  
West Branch-Rose City Area Schools  
West Iron County Public Schools  
West Ottawa Public Schools  
Western School District  
Westwood Community Schools  
Westwood Heights Schools  
White Cloud Public Schools  
White Pigeon Community Schools  
White Pine School District  
Whitefish Township School  
Whiteford Agricultural School  
Whitehall District Schools  
Whitmore Lake Public Schools  
Whittemore-Prescott Area Schools  
Williamston Community Schools  
Willow Run Community Schools  
Wolverine Community Schools  
Wood School District #8  
Woodhaven-Brownstown School District  
Wyandotte Public Schools  
Wyoming Public Schools  
Yale Public School District  
Ypsilanti Public Schools  
Zeeland Public Schools

### **Public School Academies:**

Academy for Plastics Mfg. Technology  
AGBU Alex & Marie Manoogian School  
Ann Arbor Learning Community  
Bahweting Anishnabe Public School Academy  
Bay-Arenac Community High School  
Benito Juarez Academy  
Blue Water Learning Academy  
Casman Alternative Academy  
Central Academy  
Colin Powell Academy  
Commonwealth Community Development Academy  
Concord Academy  
Countryside Charter School  
Creative Technologies Academy  
Dearborn Academy  
Detroit Academy of Arts & Sciences  
Detroit Community High School  
Discovery Elementary School  
Edison-Oakland Academy  
Edison Public School Academy  
El-Hajj Malik El-Shabazz Academy  
Excel Charter Academy  
Gateway Middle High School  
Gaudior Academy  
Grand Rapids Child Discovery Center  
Grand Traverse Academy  
Health Career Academy of St Clair Co  
Henry Ford Academy  
Honey Creek Community School  
Hope Academy  
Horizons Community High School  
Hospitality Academy of St. Clair County  
Information Technology Ac of St Clair County  
International Academy of Flint  
Lakeshore Public Academy  
Macomb Academy  
Martin Luther King, Jr. Public School Academy  
Michigan Early Elementary Center  
Mid-Michigan Public School Academy  
Nah Tah Wahsh Public School Academy  
Nataki Talibah School of Detroit  
New Beginnings Academy  
New Branches School  
North Star Academy  
Plymouth Educational Center Charter School  
Questar Academy  
Sankofa Shule  
Sankore Marine Immersion H.S. Academy  
St. Clair County Learning Academy

**Public School Academies (continued):**

Summit Academy  
Warwick Pointe Academy  
Warwick Pointe Holly Academy  
Washtenaw Technical Middle College  
West Michigan Academy of Environmental Science  
West Village Academy  
Windover High School  
YMCA Service Learning Academy

**Libraries:**

Ann Arbor District Library  
Bacon Memorial District Library  
Capital Area District Library  
Cheboygan Area Public Library  
Flint Public Library  
Grosse Pointe Public Library