<u>Michigan Judges' Retirement System</u>

a Pension Trust Fund of the State of Michigan

Comprehensive Annual Financial Report for the Fiscal Year Ended September 30, 2007

M J R S

Prepared by:
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for
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Table of Contents

Introductory Section

Certificate of Achievement 4
Public Pension Standards Award 5
Letter of Transmittal 6
Retirement Board Members 12
Advisors and Consultants 12
Organization Chart 13

Financial Section

Independent Auditor's Report 16
Management's Discussion and Analysis 18
Basic Financial Statements
Statements of Pension Plan and Other Postemployment Plan Net Assets 22
Statements of Changes in Pension Plan and Other Postemployment Plan Net Assets 23
Notes to Basic Financial Statements 24
Required Supplementary Information
Schedules of Funding Progress 40
Schedules of Employer Contributions 41
Notes to Required Supplementary Information 42
Supporting Schedules 43

Investment Section

Report on Investment Activity 48
Asset Allocation 64
Investment Results 65
List of Largest Stock Holdings 66
List of Largest Bond Holdings 66
Schedule of Investment Fees 67
Schedule of Investment Commissions 68
Investment Summary 69

Actuarial Section

Actuary's Certification 72
Summary of Actuarial Assumptions and Methods 74
Schedule of Active Member Valuation Data 76
Schedule of Changes in the Retirement Rolls 76
Prioritized Solvency Test 77
Analysis of Financial Experience 78
Summary of Plan Provisions 79

Statistical Section

Schedules of Revenues by Source 83
Schedules of Expenses by Type 84
Schedules of Changes in Net Assets 85
Schedules of Benefits and Refunds by Type 86
Schedules of Retired Members by Type of Benefit 87
Schedules of Average Benefit Payments 89
Schedules of Principal Participating Employers 91
Ten Year History of Membership 92
Schedule of Participating Employers 93

Acknowledgements 95

INTRODUCTORY SECTION

Certificate of Achievement
Public Pension Standards Award
Letter of Transmittal
Retirement Board Members
Advisors and Consultants
Organization Chart

INTRODUCTORY SECTION

Certificate of Achievement

Certificate of
Achievement
for Excellence
in Financial
Reporting

Presented to

Michigan Judges' Retirement
System

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
September 30, 2006

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

President

Executive Director

Public Pension Standards Award

Public Pension Coordinating Council

Public Pension Standards

2007 Award

Presented to

Michigan Office of Retirement Services

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

Presented by the Public Pension Coordinating Council, a confederation of

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

Alan H. Winkle
Program Administrator

INTRODUCTORY SECTION

Letter of Transmittal

Michigan Judges' Retirement System
P.O. Box 30171
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STATE OF MICHIGAN

JENNIFER M. GRANHOLM, Governor

DEPARTMENT OF MANAGEMENT AND BUDGET

December 14, 2007

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

Members of the Legislature
State of Michigan,

Retirement Board Members
and
Members, Retirees and Beneficiaries

Ladies and Gentlemen:

We are pleased to present the comprehensive annual financial report of the Michigan Judges' Retirement System (System) for fiscal year 2007.

INTRODUCTION TO REPORT

The System was established by legislation under Public Act 234 of 1992 which consolidated the Judges' and former Probate Judges' retirement systems. The System is administered by the Office of Retirement Services (ORS). The number of active and retired members and beneficiaries of the System is presented in Note 1 of the financial statements in the Financial Section of this report. The purpose of the System is to provide benefits for all judges. The services performed by the staff provide benefits to members.

Responsibility

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

Letter of Transmittal (Continued)

Internal Control Structure

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

Independent Auditors

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

Statute requires that an annual actuarial valuation be conducted. The purpose of the valuation is to evaluate the mortality, service, compensation and other financial experience of the System and to recommend employer-funding rates for the subsequent year. This annual actuarial valuation was completed by Gabriel Roeder Smith & Co. Actuarial certification and supporting statistics are included in the Actuarial Section of this report.

Management's Discussion and Analysis (MD&A)

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

PROFILE OF THE GOVERNMENT

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

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

ECONOMIC CONDITIONS AND OUTLOOK

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

Investments

The State Treasurer is the investment fiduciary and custodian of all investments of the System pursuant to State law. The primary investment objective is to maximize the rate of return on the total investment portfolio, consistent with a high degree of prudence and sufficient diversity to eliminate inordinate risks and to meet the actuarial assumption for the investment return rate. The investment activity for the year produced a total rate of return on the portfolio of 17.0%. For the last five years, the System has experienced an annualized rate of return of 13.6%. A summary of asset allocation and rates of return can be found in the Investment Section of this report.

Letter of Transmittal (Continued)

Accounting System

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

Funding

Funds are derived from the excess of additions to plan net assets over deductions from plan net assets. Funds are accumulated by the System in order to meet future benefit obligations to retirees and beneficiaries. The percentage computed by dividing the actuarial value of assets by the actuarial accrued liability is referred to as the "funded ratio." This ratio provides an indication of the funding status of the System and generally, the greater this percentage, the stronger the System. As of September 30, 2007, the actuarial value of the assets and actuarial accrued liability of the System were $301.0 million and $247.1 million, respectively, resulting in a funded ratio of 121.8%. As of September 30, 2006, the amounts were $282.8 million and $243.7 million, respectively. A historical perspective of funding levels for the System is presented on the Schedule of Funding Progress in the Required Supplementary Information in the Financial Section of this report.

Postemployment Benefits

In fiscal year 2007 the System implemented Governmental Accounting Standards Board (GASB) Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans.* A GASB 43 compliant actuarial valuation was completed as of September 30, 2006, to determine the actuarial accrued liability if the postemployment benefits were to be pre-funded. If these benefits were pre-funded, the actuarial accrued liability would be $6.6 million. Statement No. 43 does not require retroactive application of the reporting changes. Therefore, in this year of transition, only two valuation years are presented and included in the required supplementary information of this report.

MAJOR GOALS ACCOMPLISHED

The Michigan Department of Management and Budget (DMB), Office of Retirement Services (ORS) is a customer focused organization that serves its members and employees today and prepares them for tomorrow. Progress in fiscal year 2007 has allowed us to do so better than ever before – we are providing better and faster service to customers, we reengineered our processes, and have nearly completed our "Vision ORS" technology project. Below are some of the highlights:

Focus on Our Customer

Customer contact - Most of our customers still view the telephone as their primary means of communicating; this year our representatives answered 225,611 calls. A growing number of customers have found email correspondence better meets their busy lifestyles as demonstrated by the 19,099 pieces of correspondence we responded to this year. Our staff also provided face-to-face interaction with 8,206 individuals who visited our office.

Pension payroll system - We deployed a new system that permits daily payroll runs; customers no longer have to wait for a monthly run to receive a refund, adjustment, or first pension payment. It also relieves bottlenecks in workload processing caused by trying to meet monthly deadlines.

Customer self-service - This project will allow active members and retirees to access account information and perform transactions via a secure website. In order to get to this point, subject matter experts gathered requirements to create bid documents for vendors. The planning sessions dove deep into the inner workings of our retirement administration system to finalize exactly what we wanted our members to do online and how they would go about doing it.

Letter of Transmittal (Continued)

Forms and publications - The Defined Contribution (DC) Plan has been in existence long enough to have members near retirement eligibility. In anticipation of their retirement needs we created forms and updated the DC website to include items necessary.

Continuously Improve Processes

Reengineering - To ensure we are making the most of our new technology tools, we reengineered 77 processes within the organization. This effort identified efficiencies, and found many ways to improve the speed and quality of services to our customers. We have expanded this reengineering to other administrations within the State's Department of Management and Budget.

File imaging - ORS is reaching "paperless" status: nearly all of our old paper files have now been scanned into electronic images. In 2007, we imaged 63,643 member files, 551,808 paper documents, and 254,630 microfiche documents so that staff can quickly access the files with a few clicks of a mouse rather than waiting for a paper file to be delivered. By dismantling and eliminating the need for our paper files prior to the office renovation we will save $7,040 in fiscal year 2007.

Promote a Positive Work Environment

Strategic planning - ORS engaged an all-inclusive approach to strategic planning. The entire staff participated in a group session to identify business issues of importance. Volunteer work groups also worked together to craft the seven strategic goals that will direct ORS for the next three-five years.

All-Staff meetings - ORS hosted two meetings to honor the hard work and dedication of its staff and to deliver direct, relevant business news. The first meeting included our annual presentation of the ORS Excellence Awards to celebrate staff nominated for awards in the categories of Customer Service, Every Day Hero, Innovator, Leadership, and Living the Values. The second meeting focused heavily on upcoming technology and customer service tools that will allow staff to do their jobs with greater ease.

Optimize Technology

Forms, letters, and bar-coding project - When a customer requests a form, the system will pre-populate certain form fields so the customer only needs to provide the information not already contained in our system. Adding barcodes to the forms streamlines the process. The project also includes a process that electronically collects all correspondence and forms requests each day, and uses a secure website to send documents to the State's central printing and mail facility, increasing the efficiency and security of our print and mail process.

In FY07 we reviewed, updated, and tested 160 forms, creating greater efficiencies and offering better customer service. We are nearing final implementation stages.

Server replacement - A major project to replace existing servers with new hardware and upgrade some of the middleware software versions is complete. This upgrade was accomplished with support from several different areas in the business and provides enhanced functionality and additional performance improvements.

Of special significance is the introduction of a separate set of servers that mirror our production servers and will serve as our disaster recovery site. The separate servers are located in a different building from our production servers and will be used for technical testing. The servers will always be ready to take over if there should be an emergency.

Letter of Transmittal (Continued)

Workforce management software - Software implemented in our customer service center uses historical activity data to forecast future customer demands. Monitoring the workload volumes for a variety of time intervals assists with scheduling staff for phone and nonphone activities to provide better customer service.

Invest in Employee Development

Customer Service Center training - Staff created and executed contact center training for new employees. Trainees attended formal classroom sessions and were tested on the information presented. Topics included an overview of the retirement systems, software programs, and telephone etiquette. Subject matter experts shared valuable knowledge on insurance, service credit, eligibility, and preretirement topics. Trainees also observed contact center staff during customer calls.

Workforce development staff - The development staff created a series of six training videos to help staff stay on top of new software and program features and techniques. The training videos utilized software that allowed us to connect with our audience by creating interactive video tutorials that were posted online and offered free of charge to all staff in DMB.

Competency Based Training reviews - Senior leadership met individually with every employee and their direct supervisor to ensure each employee is given the opportunity to do what they do best on a daily basis. In addition employees are able to share their personal progress and challenges from the past year, and speak out about any suggestions they have for ways our organization could best utilize their skills.

AWARDS AND ACKNOWLEDGEMENTS

ORS received the following recognitions:

- Certificate of Achievement for Excellence in Financial Reporting for our fiscal year 2006 *Comprehensive Annual Financial Report*. Awarded by the Government Finance Officers Association of the United States and Canada.
- Public Pension Standards 2007 Award for meeting standards for public retirement system management and administration. Awarded by the Public Pension Coordinating Council.
- Blue Pencil-Gold Screen Award for two online video tutorials produced in-house on the topics of earning and purchasing service credit. Awarded by the National Association of Government Communicators in the Shoestring Budget category.
- 2007 Outstanding Program Award for our reorganization and reengineering efforts as we transitioned to become a process-based organization. Awarded by the National Association of State Chief Administrators.
- Innovator Award for our introduction of a phone appointment process that provides high-quality counseling services with less travel time and cost. Awarded by the State of Michigan Department of Management and Budget.

Letter of Transmittal (Continued)

Acknowledgments

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

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

Sincerely,

Lisa Webb Sharpe, Director
Department of Management and Budget

Phillip J. Stoddard, Director
Office of Retirement Services

Administrative Organization

Retirement Board Members *

Francis Spaniola
Trustee (General Public)
Term Expires March 31, 2011

George M. Elworth
Representing Attorney General
Statutory Member

Vernon Johnson
Representing State Treasurer
Statutory Member

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

Chris J. Swope
Trustee (General Public)
Term Expires March 31, 2011

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

Administrative Organization

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

Advisors and Consultants

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

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

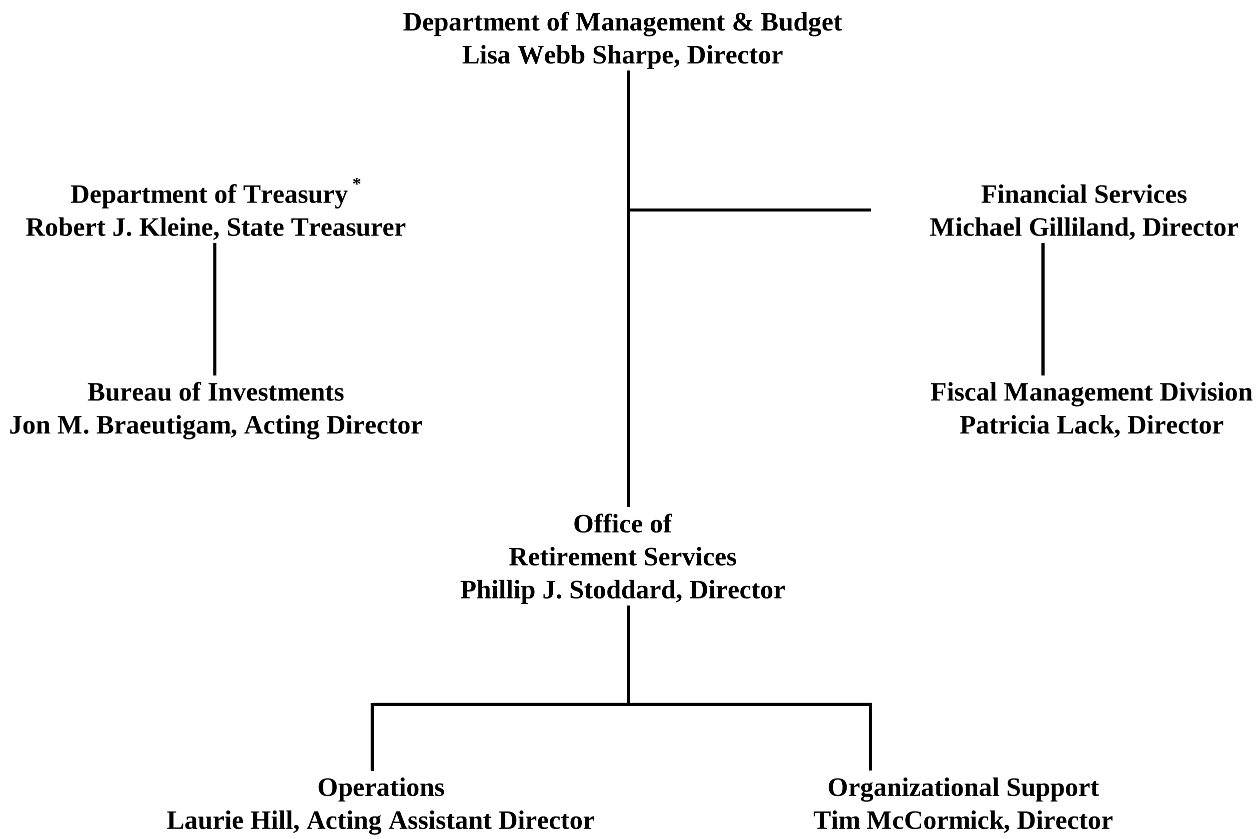
Investment Manager and Custodian
Robert J. Kleine
State Treasurer
State of Michigan

Legal Advisor
Mike Cox
Attorney General
State of Michigan

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

Administrative Organization (Continued)

Organization Chart



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

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FINANCIAL SECTION

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

Financial Section

Independent Auditor's Report

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

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

We have audited the accompanying statements of pension plan and postemployment healthcare plan net assets of the Michigan Judges' Retirement System, as of September 30, 2007 and 2006, and the related statements of changes in pension plan and postemployment healthcare plan net assets for the years then ended. These financial statements are the responsibility of the management of the Michigan Judges' Retirement System. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial status of the Michigan Judges' Retirement System, as of September 30, 2007 and 2006, and the changes in its financial status for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 14, 2007 on our consideration of the Michigan Judges' Retirement System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in conjunction with this report in considering the results of our audit.

4295 Okemos Road, Suite 200 • Okemos, Michigan 48864 • 517.706.0800 fax 517.706.0011 • www.ahpplc.com

Independent Auditor's Report (continued)

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

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

Andrews Hooper & Pavlik P.L.C.

Okemos, Michigan
December 14, 2007

FINANCIAL SECTION

Management's Discussion and Analysis

Our discussion and analysis of the Michigan Judges' Retirement System's (System) financial performance provides an overview of the System's financial activities for the fiscal year ended September 30, 2007. Please read it in conjunction with the transmittal letter in the Introductory Section on page 6 and the basic financial statements, which follow this discussion.

FINANCIAL HIGHLIGHTS

- System assets exceeded liabilities at the close of fiscal year 2007 by $335.7 million (reported as *net assets*). Net assets are held in trust to meet future benefit payments.
- The System's funding objective is to meet long-term benefit obligations through contributions and investment income. As of September 30, 2007, the funded ratio was approximately 121.8% for pension benefits and the funded ratio for other postemployment benefits was 0.0%.
- Revenues for the year were $52.5 million, which is comprised of member contributions of $2.4 million, court fees of $346 thousand, miscellaneous revenue of $28 thousand and investment gains of $49.7 million.
- Expenses increased over the prior year from $18.7 million to $20 million or 6.6%.

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

This Comprehensive Annual Financial Report (CAFR) consists of two financial statements; *The Statements of Pension Plan and Other Postemployment Plan Net Assets* (page 22) and *The Statements of Changes in Pension Plan and Other Postemployment Plan Net Assets* (page 23*)*. These financial statements report information about the System, as a whole, and about its financial condition that should help answer the question: Is the System, as a whole, better off or worse off as a result of this year's activities? These statements include all assets and liabilities using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis of accounting, all revenues and expenses are taken into account regardless of when cash is received or paid.

The Statement of Pension Plan and Other Postemployment Plan Net Assets presents all of the System's assets and liabilities, with the difference between the two reported as net assets. Over time, increases and decreases in net assets measure whether the System's financial position is improving or deteriorating. *The Statement of Changes in Pension Plan and Other Postemployment Plan Net Assets* presents how the System's net assets changed during the most recent fiscal year. These two financial statements should be reviewed along with the Schedules of Funding Progress (page 40) and Schedules of Employer Contributions (page 41) to determine whether the System is becoming financially stronger or weaker and to understand changes over time in the funded status of the System.

Management's Discussion and Analysis (Continued)

FINANCIAL ANALYSIS

System total assets as of September 30, 2007, were $412.5 million and were mostly comprised of cash and investments. Total assets increased $60.6 million or 17.2% between fiscal years 2006 and 2007 and increased $50.9 million or 16.9% between fiscal years 2005 and 2006, primarily due to favorable operating results and increases to invested assets (primarily collateral on loaned securities).

Total liabilities as of September 30, 2007, were $76.8 million and were comprised of warrants outstanding, accounts payable, and obligations under securities lending. Total liabilities increased $28.0 million or 57.5% between fiscal years 2006 and 2007 and increased $31.7 million or 186.4% between fiscal years 2005 and 2006, primarily due to increases in obligations under securities lending.

System assets exceeded its liabilities at the close of fiscal year 2007 by $335.7 million. Total net assets held in trust for pension and health benefits increased $32.5 million or 10.7% between fiscal years 2006 and 2007 and increased $19.1 million or 6.7% between fiscal years 2005 and 2006, primarily due to increased investment earnings.

Net Assets
(in thousands)

	2007	Increase (Decrease)	2006	Increase (Decrease)	2005
Assets					
Cash	$ 1,181	7.0 %	$ 1,104	(23.1) %	$ 1,436
Receivables	87	(53.2)	186	106.7	90
Investments	411,221	17.3	350,659	17.1	299,568
Total Assets	412,489	17.2	351,949	16.9	301,094
Liabilities					
Warrants outstanding	52	8.3	48	9.1	44
Accounts payable and other accrued liabilities	13	1,300.0	-	(100.0)	1
Obligations under securities lending	76,705	57.5	48,687	186.8	16,973
Total Liabilities	76,770	57.5	48,735	186.4	17,018
Total Net Assets	$ 335,719	10.7 %	$ 303,214	6.7 %	$ 284,076

REVENUES - ADDITIONS TO PLAN NET ASSETS

The reserves needed to finance retirement and health benefits are accumulated through the collection of member contributions, earnings on investments, and court fees. Contributions, net investment income/(losses) and court fees for fiscal year 2007 totaled $52.5 million.

Total additions increased $14.6 million or 38.6% from those of fiscal year 2006 due primarily to increased investment earnings. Total additions increased $3.1 million or 8.9% from fiscal year 2005 to fiscal year 2006 due primarily to increased investment earnings. Investment income increased between fiscal years 2006 and 2007 by $15.2 million or 44.3%. Investment income increased between fiscal year 2005 and fiscal year 2006 by $2.5 million or 7.7%. Court fees totaled $346.2 thousand in fiscal year 2007 as compared to $868.6 thousand in fiscal year 2006. The decrease in court fees is based on the results of the actuarial valuation which required a lower contribution for fiscal year 2007 while allowing the System to remain actuarially fully funded. The Investment Section of this report reviews the results of investment activity for 2007.

Management's Discussion and Analysis (Continued)

EXPENSES - DEDUCTIONS FROM PLAN NET ASSETS

The primary expenses of the System include the payment of pension benefits to members and beneficiaries, payment for health, dental and vision benefits, and the cost of administering the System. Total deductions for fiscal year 2007 were $20.0 million, an increase of 6.6% from fiscal year 2006 expenses. Total deductions for fiscal year 2006 were $18.7 million, an increase of 1.3% from fiscal year 2005 expenses.

Health, dental and vision care expenses increased during the year by $14.4 thousand or 2.3% from $596.8 thousand to $611.2 thousand during the fiscal year due primarily to an increase in retiree health rates. This compares to an increase of $86.6 thousand or 17.1% from $510.2 thousand to $596.8 thousand between fiscal years 2005 and 2006 due primarily to an increase in retiree health rates. The payment of pension benefits increased by $966.7 thousand or 5.4% between fiscal years 2006 and 2007, and by $154.9 thousand or 0.9% from fiscal year 2005 to 2006. The increase between 2006 and 2007 was due primarily to an increase in the number of retirees while the increase between 2005 and 2006 was due primarily to increasing individual benefits for new retirees. Contribution refunds increased during the fiscal year by $247.9 thousand. The refunds listed in fiscal year 2007 were to three members. Administrative expenses increased by $11.8 thousand or 7.1% between fiscal years 2006 and 2007. This increase was due primarily to an increase in professional services expenses. Administrative expenses increased by $2.0 thousand or 1.2% between fiscal years 2005 and 2006. This increase was due primarily to an increase in technological support expenses.

Changes in Plan Net Assets
(in thousands)

	2007	Increase (Decrease)	2006	Increase (Decrease)	2005
Member contributions	$ 2,376	(6.3) %	$ 2,536	0.3 %	$ 2,528
Net investment income	49,716	44.3	34,453	7.7	31,977
Court fees and miscellaneous income	374	(57.0)	869	247.6	250
Total Additions	52,466	38.6	37,858	8.9	34,755
Pension benefits	18,920	5.4	17,953	0.9	17,798
Health Care benefits	611	2.3	597	17.1	510
Refunds of member contributions	248	N/A	-	-	-
Administrative expenses	182	7.1	170	1.2	168
Total Deductions	19,961	6.6	18,720	1.3	18,476
Net Increase	32,505	69.8	19,138	17.6	16,279
Net Assets Beginning of Year	303,214	6.7	284,076	6.1	267,797
Net Assets End of Year	$ 335,719	10.7 %	$ 303,214	6.7 %	$ 284,076

Management's Discussion and Analysis (Continued)

RETIREMENT SYSTEM AS A WHOLE

The System's combined net assets experienced an increase for the fifth consecutive year. This increase is a result of a moderate national economic upturn that resulted in improved investment income earnings. Management believes, and actuarial studies concur, that the System is in a financial position to meet its current obligations. We believe the current financial position has improved, in part, due to a prudent investment program, cost controls, and strategic planning.

CONTACTING SYSTEM FINANCIAL MANAGEMENT

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

Statements of Pension Plan and Other Postemployment Plan Net Assets

As of September 30, 2007 and 2006

	September 30, 2007			September 30, 2006		
	Pension Plan	OPEB Plan	Total	Pension Plan	OPEB Plan	Total
Assets:						
Equity in common cash	$ 1,180,416	$ 145	$ 1,180,561	$ 1,103,912	$ 24	$ 1,103,936
Receivables:						
Amounts due						
from employer	63,474	8	63,482	177,225	4	177,229
Interest and dividends	23,618	3	23,621	8,646		8,646
Total receivables	87,092	11	87,103	185,871	4	185,875
Investments:						
Short term investment pools	5,548,975	683	5,549,658	3,693,425	81	3,693,506
Fixed income pools	58,771,085	7,232	58,778,317	51,920,052	1,145	51,921,197
Domestic equity pools	154,895,097	19,061	154,914,158	146,677,314	3,233	146,680,547
Real estate pool	43,337,346	5,333	43,342,679	34,804,609	767	34,805,376
Alternative investment pools	35,011,068	4,308	35,015,376	29,833,654	657	29,834,311
International equities pools	36,912,657	4,542	36,917,199	35,037,200	772	35,037,972
Cash collateral on loaned securities	76,694,958	9,438	76,704,396	48,685,513	1,073	48,686,586
Total investments	411,171,186	50,597	411,221,783	350,651,767	7,728	350,659,495
Total assets	412,438,694	50,753	412,489,447	351,941,550	7,756	351,949,306
Liabilities:						
Warrants outstanding	51,785	6	51,791	48,491	1	48,492
Accounts payable and						
other accrued liabilities	13,353	2	13,355			
Obligations under						
securities lending	76,694,958	9,438	76,704,396	48,685,513	1,073	48,686,586
Total liabilities	76,760,096	9,446	76,769,542	48,734,004	1,074	48,735,078
Net Assets Held in Trust for						
Pension and OPEB Benefits*	$ 335,678,598	$ 41,307	$ 335,719,905	$ 303,207,546	$ 6,682	$ 303,214,228

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

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

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

For Fiscal Years Ended September 30, 2007 and 2006

	September 30, 2007			September 30, 2006		
	Pension Plan	OPEB Plan	Total	Pension Plan	OPEB Plan	Total
Additions:						
Contributions:						
Member contributions	$ 1,845,878	$ 530,336	$ 2,376,214	$ 2,017,943	$ 518,057	$ 2,536,000
Investment income (loss):						
Net appreciation (depreciation) of fair value of investments	43,142,762		43,142,762	27,240,896		27,240,896
Interest, dividends, and other	6,841,622		6,841,622	7,490,812		7,490,812
Investment expenses:						
Real estate operating expenses	(10,422)		(10,422)	(3,471)		(3,471)
Other investment expenses	(395,516)		(395,516)	(318,010)		(318,010)
Securities lending activities:						
Securities lending income	3,361,439		3,361,439	1,141,140		1,141,140
Securities lending expenses	(3,224,022)		(3,224,022)	(1,098,867)		(1,098,867)
Net investment income (loss)	49,715,863	-	49,715,863	34,452,500	-	34,452,500
Court Fees	231,235	115,000	346,235	653,587	215,000	868,587
Miscellaneous income	27,298	535	27,833	880		880
Total additions	51,820,274	645,871	52,466,145	37,124,910	733,057	37,857,967
Deductions:						
Benefits paid to plan members and beneficiaries:						
Retirement benefits	18,919,433		18,919,433	17,952,735		17,952,735
Health benefits		500,954	500,954		486,112	486,112
Dental/vision benefits		110,292	110,292		110,657	110,657
Refunds of member contributions	247,941		247,941			
Administrative expenses	181,848		181,848	170,023		170,023
Total deductions	19,349,222	611,246	19,960,468	18,122,758	596,769	18,719,527
Net Increase	32,471,052	34,625	32,505,677	19,002,152	136,288	19,138,440
Net Assets (Liabilities) Held in Trust for Pension and OPEB Benefits:						
Beginning of Year	303,207,546	6,682	303,214,228	284,205,394	(129,606)	284,075,788
End of Year*	$ 335,678,598	$ 41,307	$ 335,719,905	$ 303,207,546	$ 6,682	$ 303,214,228

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

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

Notes to Basic Financial Statements

NOTE 1 - PLAN DESCRIPTION

ORGANIZATION

The Michigan Judges' Retirement System (System) is a cost sharing, multiple employer, state-wide, defined benefit public employee retirement plan governed by the State of Michigan (State). The System, created under Public Act 234 of 1992, consolidated the former Judges' and Probate Judges' Retirement Systems into one retirement system. Section 204 of this Act establishes the board's authority to promulgate or amend the provisions of the System. The System's pension plan was established by the State to provide retirement, survivor and disability benefits to judges in the judicial branch of state government. In addition, the System's health plan provides all retirees with the option of receiving health, dental, and vision coverage under the Michigan Judges' Retirement Act. There are 137 participating employers. The System also includes the Governor of the State of Michigan, Lieutenant Governor, Secretary of State, Attorney General, Legislative Auditor General, and the Constitutional Court Administrator.

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

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

MEMBERSHIP

At September 30, 2007, and 2006, the System's membership consisted of the following:

Retirees and beneficiaries currently receiving benefits:	**2007**	**2006**
Regular benefits	368	352
Survivor benefits	167	174
Disability benefits	7	7
Total	542	533
Current employees:		
Vested	259	290
Non-vested	1	1
Total	260	291
Inactive employees entitled to benefits and not yet receiving them	16	16
	818	840

Plan 1 or 2 members (Supreme Court Justice, Court of Appeals, or elected officials) may enroll in State Health Plan when they retire and their premium rate is subsidized. All other judges may enroll in the State Health Plan if they wish to, but they must pay the entire premium cost. At September 30, 2007, and 2006, there were a total of 542 and 533 retirees, respectively, who are eligible to participate in the health/dental/vision plans. The number of participants is as follows:

Notes to Basic Financial Statements (Continued)

Health, Dental, and Vision Plan	2007	2006
Eligible participants	542	533
Participants receiving benefits:		
Health	87	82
Dental	150	145
Vision	120	113

BENEFIT PROVISIONS - PENSION

Benefit provisions of the defined benefit pension plan are established by State Statute, which may be amended. Public Act 234 of 1992, Michigan Judges' Retirement Act, as amended, establishes eligibility and benefit provisions for the defined benefit pension plan. Retirement benefits are determined by final compensation and years of service. Members are eligible to receive a monthly benefit when they meet certain age and service requirements. The System also provides disability and survivor benefits.

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

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

Regular Retirement

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

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

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

Early Retirement

A member may retire with an early permanently reduced pension:

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

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

Notes to Basic Financial Statements (Continued)

Deferred Retirement

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

Disability Benefit

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

Pension Payment Options

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

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

Option A — Under this option, after the retiree's death, the beneficiary will receive 100% of the pension for the remainder of the beneficiary's lifetime. If this option is elected, the normal retirement benefit is reduced by a factor based upon the ages of the retiree and of the beneficiary.

Option B — Under this option, after the retiree's death, the beneficiary will receive 50% of the pension for the remainder of the beneficiary's lifetime. If this option is elected, the normal retirement benefit is reduced by a factor based upon the ages of the retiree and of the beneficiary. The reduction factor is smaller than the factor used in Option A above.

Survivor Benefit

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

Contributions

Member Contributions — Members currently participate on a contributory basis. For contribution purposes, the membership of the System is categorized in seven plans, which are based on the position to which the member was elected or appointed. Under certain circumstances, members may contribute to the System for the purchase of creditable service, such as military service or other public service. If a member terminates covered employment before a retirement benefit is payable, the member's contribution and interest on deposit may be refunded. If the member dies before being vested, the member's contribution and interest are refunded to the designated beneficiaries.

Publicly Financed Contributions — There are two public sources which fund retirement benefits: Court fees and State appropriations. The State contributes annually the greater of 3.5% of the aggregate annual compensation of State paid base salaries, or the difference between the total actuarial requirement of current service and unfunded accrued liabilities minus the revenues from court filing fees and member contributions. For fiscal year 2007, an employer contribution rate of 0.56% of payroll was required based on the annual actuarial valuation. A contribution rate of 1.74% of payroll was required in fiscal year 2006. If the court fees deposited in the reserve for employer contributions equals the amount needed in addition to other publicly financed contributions to sustain the required level of publicly financed contributions, Section 304(4) requires court fees be deposited in the court fee fund. In accordance with Section 304(4) of the Judges' Retirement Act, the court fees are being deposited in the court fee fund in the State Treasury. A chart

Notes to Basic Financial Statements (Continued)

showing the publicly financed contribution rates is included in the Schedule of Revenue by Source in the Statistical Section.

Public Act 95 of 2002 authorizes the State Treasurer, if funds remain in the court fee fund after transfers, to transmit a portion of the money in the court fee fund and any earnings on those amounts to the reserve for health benefits. The purpose of this transfer is to pay expected health care costs for the subsequent fiscal year that are not covered as a result of employee contributions. For fiscal years 2007 and 2006, these amounts were $115,000 and $215,000, respectively.

BENEFIT PROVISIONS – OTHER POSTEMPLOYMENT

Introduction

Benefit provisions of the postemployment healthcare plan are established by State statute, which may be amended. Public Act 234 of 1992, as amended, establishes eligibility and benefit provisions for the health plan. Members are eligible to received health, prescription drug, dental and vision coverage on the first day they start receiving pension benefits. There is no provision for ad hoc or automatic increases. The Judges Retirement Act requires joint authorization by DMB and the Civil Service Commission to make changes to retiree medical benefit plans.

Under the Michigan Judges' Retirement Act, Plan 1 or 2, members may enroll in the State Health Plan when they retire. Five percent of the health insurance premium is deducted from the monthly pension check until age 65, at which time Medicare provides primary health insurance coverage. All other members may enroll in the State Health Plan during an open enrollment period. The total premium is deducted from the monthly pension check. The active employee payroll contribution rate to fund health benefits for the Plan 1 or 2 members was 2.0% for 2007 and 2006. There are no required employer contributions to fund health benefits.

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

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

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

Health, Dental, and Vision Plan	**2007**	**2006**
Eligible participants	542	533
Participants receiving benefits:		
Health	87	82
Dental	150	145
Vision	120	113
Expenses for the year	$ 611,246	$ 596,769
Employer payroll contribution rate	0%	0%

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting and Presentation

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

Notes to Basic Financial Statements (Continued)

Reserves

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

Reserve for Employee Contributions — This reserve represents active member contributions, payments for the purchase of service credit, repayment of previously refunded contributions and interest less amounts transferred to the Reserve for Retirement Benefit Payments for regular and disability retirement, amounts refunded to terminated members, and transferring inactive accounts. At September 30, 2007, and 2006, the balance in this account was $44.6 million and $44.9 million, respectively.

Reserve for Employer Contributions — This reserve represents court fees, late fees, interest payments, employer contributions, and State appropriations. Amounts are transferred annually from this reserve to the Reserve for Retired Benefit Payments to fund that reserve. In addition, the reserve transfers court fees to the Supreme Court in accordance with statutory requirements. At September 30, 2007, and 2006, the balance in this account was $17.3 million and $20.9 million, respectively.

Reserve for Retired Benefit Payments — This reserve represents the reserves for payment of future retirement benefits to current retirees. At retirement, a member's accumulated contributions plus interest are transferred into this reserve from the Reserve for Employee Contributions and the Reserve for Employer Contributions. Monthly benefits, which are paid to the member, reduce the reserve. At the end of each fiscal year, an amount is transferred from the Reserve for Employer Contributions to bring the reserve into balance with the actuarial present value of retirement allowances. At September 30, 2007, and 2006, the balance in this account was $139.7 million and $137.0 million, respectively.

Reserve for Undistributed Investment Income — This reserve is credited with all investment earnings, changes in fair value, gifts to the System, and forfeited contributions. All administrative expenses are paid from this reserve and interest is transferred annually to the other reserves. At September 30, 2007, and 2006, the balance in this account was $134.1 million and $100.4 million, respectively.

Reserve for Health (OPEB) Related Benefits — This reserve is credited with member contributions for health, dental and vision benefits. The required contribution is based on pay-as-you-go funding. It represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liability (or funding excess) over a period not to exceed thirty years. Health, dental, and vision benefits are paid from this fund. At September 30, 2007, and 2006, the balance in this account was $41,307 and $6,682 respectively.

Reporting Entity

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

Benefit Protection

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

Fair Value of Investments

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

Notes to Basic Financial Statements (Continued)

The fair value of real estate investments is based on independent appraisals. Other investments not having an established market are recorded at estimated fair value.

Investment Income

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

Costs of Administering the System

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

Property and Equipment

Office space is leased from the State on a year to year basis. Office equipment is capitalized if the value exceeds $5,000. These assets are recorded at cost and are reported net of depreciation in the Statement of Pension Plan and Postemployment Healthcare Plan Net Assets. Such assets are depreciated on a straight-line basis over 10 years. The System does not have equipment that falls within these parameters.

Related Party Transactions

Leases and Services — The System leases operating space and purchases certain administrative, data processing, legal and investment services from the State. The space and services are not otherwise available by competitive bid. The following summarizes costs incurred by the System for such services.

	2007	2006
Building Rentals	$ 1,377	$ 1,071
Technological Support	15,998	14,487
Attorney General	12,415	34,064
Investment Services	60,907	57,581
Personnel Services	15,709	15,712

Commitment and Contingency – The State has signed a contract with a vendor for technological support through 2008. As of September 30, 2007, the System's portion of this commitment is approximately $2,938.

Cash – On September 30, 2007, and 2006, the System had $1.2 million and $1.1 million, respectively in a common cash investment pool maintained for various State operating funds. The participating funds in the common cash pool earn interest at various rates depending upon prevailing short-term interest rates. Earnings from these activities amounted to $82.4 thousand and $104.2 thousand for the years ended September 30, 2007, and 2006, respectively.

Excess Benefits

Internal Revenue Service (IRS) Code Section 415 requires that, for individuals who receive retirement benefits in excess of established limits, these benefits be recorded and reported outside of the pension plan in order to keep the qualified status of the plan. This includes coordination of benefit issues whereby a retiree participates in more than one qualified plan. In fiscal years 2007 and 2006 the System provided excess benefits to one retiree.

Notes to Basic Financial Statements (Continued)

Reclassification of Prior Year Amounts

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

NOTE 3 - CONTRIBUTIONS AND FUNDED STATUS

Contributions

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

The State contributes annually the greater of 3.5% of the aggregate annual compensation of State paid base salaries, or the difference between the total actuarial requirement of current service and unfunded actuarial liabilities minus the revenues from court filing fees and member contributions. In fiscal year 2007 an employer contribution rate of 0.56% of payroll was required based on the annual actuarial valuation. A contribution rate of 1.74% of payroll was required in fiscal year 2006. Although contributions are expressed as a percentage of payroll, because the system is a closed plan, the actuarial valuation calculates a level dollar amount for funding purposes. If the court fees deposited in the reserve for employer contributions equals the amount needed in addition to other publicly financed contributions to sustain the required level of publicly financed contributions, Section 304(4) requires court fees to be deposited in the court fee fund. In accordance with Section 304(4) of the Judges' Retirement Act, the court fees are being deposited in the court fee fund in the State Treasury. The State Treasurer transmits the money in the court fee fund, not exceeding $2.2 million in any fiscal year, to the court equity fund for operational expenses of trial courts.

Employer contributions to the System are determined on an actuarial basis using the entry age normal actuarial cost method. Under this method, the actuarial present value of the projected benefits of each individual included in the actuarial valuation is allocated on a level basis over the service of the individual between entry age and assumed exit age. The portion of this cost allocated to the current valuation year is called the normal cost. The remainder is called the actuarial accrued liability. Normal cost is funded on a current basis. For retirement benefits, the unfunded (overfunded) actuarial accrued liability is amortized over a 29 year period for the 2007 fiscal year and 30 year period for the 2006 fiscal year. For health benefits, the unfunded (overfunded) actuarial accrued liability is amortized over a maximum period of 30 years. Because this is the first year of OPEB reporting, comparative data is not yet available. GASB Statement No. 43 does not require retroactive presentation.

Actual employer contributions for retirement benefits were $231.2 thousand and $653.6 thousand for fiscal years 2007 and 2006, respectively, representing 0.69% of annual covered payroll for the year ended September 30, 2007 and 1.87% of annual covered payroll for the year ended September 30, 2006. Required employer contributions based on previous year actuarial valuations for pensions included:

1. $3.5 million and $3.6 million for fiscal years 2007 and 2006, respectively, for the normal cost of pensions representing 10.6% and 10.3% (before reconciliation) of annual covered payroll for fiscal years 2006 and 2005, respectively.

2. ($3.3) million and ($3.0) million for fiscal years 2007 and 2006, respectively, for amortization of overfunded actuarial accrued liability representing (10.0%) and (8.6%) (before reconciliation) of annual covered payroll for fiscal years 2006 and 2005, respectively.

Actual employer contributions for other postemployment benefits (OPEB) were $115.0 thousand and $215.0 thousand for fiscal years 2007 and 2006, respectively, representing 1.8% of annual covered payroll for the year ended September 30, 2007 and 3.5% of annual covered payroll for the year ended September 30, 2006. Required employer contributions based on previous year actuarial valuations for OPEB included:

Notes to Basic Financial Statements (Continued)

1. $240.2 thousand for fiscal year 2007 for the normal cost of pensions representing 3.9% (before reconciliation) of annual covered payroll for fiscal year 2006.

2. $233.5 thousand for fiscal year 2007 for amortization of unfunded actuarial accrued liability representing 3.8% (before reconciliation) of annual covered payroll for fiscal year 2006.

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

Funded Status

Participating employers are required to contribute at an actuarially determined rate for both pension benefits and OPEB. For fiscal year 2007, the actuarial accrued liability (AAL) for pension benefits was $247.1 million, and the actuarial value of assets was $301.0 million, resulting in an overfunded actuarial accrued liability (UAAL) of $(53.9) million and a funded ratio of 121.8%. The covered payroll (annual payroll of active employees covered by the plan) was $29.7 million and the ratio of the UAAL to the covered payroll was (181.5)%.

For fiscal year 2007, the actuarial accrued liability (AAL) for OPEB benefits was $6.6 million, and the actuarial value of assets was $0, resulting in an unfunded actuarial accrued liability (UAAL) of $6.6 million and a funded ratio of 0.0%. The covered payroll (annual payroll of active employees covered by the plan) was $6.1 million, and the ratio of the UAAL to the covered payroll was 107.5%.

Actuarial Valuations and Assumptions

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

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

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

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

Notes to Basic Financial Statements (Continued)

Valuation Date	9/30/2007
Actuarial Cost Method	Entry Age, Normal
Amortization Method	Level dollar, Closed
Remaining Amortization Period	29 years [1]
Asset Valuation Method	5-Year Smoothed Market
Actuarial Assumptions:	
Wage Inflation Rate	3.5%
Investment Rate of Return - Pension	8.0%
Investment Rate of Return - OPEB	4.0%
Projected Salary Increases	4.0%
Cost-of-Living Adjustments	Assumed 4% Compounded for those eligible
Healthcare Cost Trend Rate	9.5% Year 1 Graded to 3.5% Year 11

[1] Based on the provisions of GASB Statement No. 25, when the actuarial accrued liability for a defined benefit pension plan is under funded or over funded, the difference should be amortized over a period not to exceed thirty years for the fiscal periods beginning on or after June 15, 2006.

NOTE 4 - INVESTMENTS

Investment Authority

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

Under Public Act 314 of 1965, as amended, the State Treasurer may invest up to 5% of the System's assets in small businesses having more than one-half of assets or employees in Michigan as described in section 20(a) of the Act and up to 20% of the System's assets in investments not otherwise qualified under the Act as described in section 20(d).

Alternative investments include limited partnerships and distributions from these partnerships in the form of bonds, preferred stock, common stock and direct investments.

Derivatives

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

Derivatives are used in managing pension trust fund portfolios, but uses do not include speculation or leverage of investments. Less than 12% of the total pension trust fund's portfolio has been invested from time to time in futures contracts, collateralized mortgages, swap agreements, and option contracts. State investment statutes limit total derivative exposure to 15% of a fund's total asset value, and restrict uses to replication of returns and hedging of assets. Swap agreements represent the largest category of derivatives used, and they represented 6.2% of market value of total pooled assets on September 30, 2007, and 8.4% of market value of total pooled assets on September 30, 2006. Futures contracts represent the second largest category of derivatives used, and they represented 0.2% of market value of total pooled assets on September 30, 2007, and 0.0% of market value of total pooled assets on September 30, 2006. Option contracts represent the third largest category of derivatives used, and they represented 0.0% of market value of total pooled assets on September 30, 2007, and 0.6% of market value of total pooled assets on September 30, 2006.

Notes to Basic Financial Statements (Continued)

To enhance management flexibility, the State Treasurer has traded futures contracts tied to Bond indices and Standard and Poor's indices. The bond futures are combined with the rest of the fixed income investments to manage interest rate risk. Standard and Poor's futures contracts are combined with short-term investments or with underlying stock to replicate or enhance the return of the Standard and Poor's indices.

To capitalize on shorter-term windows of investment opportunities, the State Treasurer has traded option contracts. Options allow more flexibility in achieving investment goals without disturbing the return/risk profiles of the longer-term strategies of the underlying investments.

To diversify the pension fund's portfolio, the State Treasurer has entered into swap agreements with investment grade counterparties, which are tied to stock market indices in the United States and twenty-two foreign countries. The notional amounts of the swap agreements at September 30, 2007, and 2006, were $15.9 million and $18.5 million, respectively. Approximately one half of the notional amount tied to foreign stock market indices is hedged against foreign currency fluctuations. The swap agreements provide that the Retirement System will pay quarterly, over the term of the swap agreements, interest indexed to the three month London Inter Bank Offer Rate (LIBOR), adjusted for an interest rate spread, on the notional amount stated in the agreements. At the maturity of the swap agreements, the pension fund will either receive the increase in the value of the equity indices from the level at the inception of the agreements, or pay the decrease in the value of the indices. Swap agreement maturity dates range from October 2007 to September 2010.

U.S. domestic LIBOR based floating rate notes and other investments earning short-term interest are held to correspond with the notional amount of the swap agreements. The State Treasurer maintains custody and control of these dedicated notes and short-term investments.

The value of these synthetic equity structures is a combination of the value of the swap agreements and the value of the notes and short-term investments. The book value represents the cost of the notes and short-term investments. The current value represents the current value of the notes and short-term investments and the change in value of the underlying indices from the inception of the swap agreements. The current value is used as a representation of the fair value based on the intention to hold all swap agreements until maturity. For fiscal years ending, September 30, 2007 and 2006, international and domestic equity investment programs involving swaps realized gains and earned interest income of $6.3 million and $4.2 million, respectively.

The unrealized gain of $4.9 million at September 30, 2007, and $6.9 million at September 30, 2006, primarily reflects the increase in international stock indices and changes in currency exchange rates. The combined swap structure generally realizes gains and losses on a rolling three year basis.

The respective September 30, 2007, and 2006 swap values are as follows:

	Notional Value	Current Value
9/30/07 (dollars in millions)	$ 15.9	$ 20.7
9/30/06 (dollars in millions)	18.5	25.4

The September 30, 2006, amounts shown above reflect both the total International Equity Pool swap exposure, and the smaller swap exposure to the Standard and Poor's Small Cap Index Pool. Swap contracts in the Standard and Poor's Small Cap Index Pool matured during the year ending September 30, 2007, therefore, the September 30, 2007, amounts shown above include only swaps from the International Equity Pool.

Securities Lending

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

Notes to Basic Financial Statements (Continued)

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) in case of loaned securities denominated in United States dollars or whose primary trading market was located in the United States or sovereign debt issued by foreign governments, 102% of the market value of the loaned securities; and (ii) in the case of loaned securities not denominated in United States dollars or whose primary trading market was not located in the United States, 105% of the market value of the loaned securities.

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

During the fiscal year, the System and the borrowers maintained the right to terminate all securities lending transactions on demand. The cash collateral received on each loan was invested in a collateral account dedicated to the System. As of September 30, 2007, such account had an average weighted maturity to next reset of 25 days and an average weighted maturity of 710 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, 2007, the System had no credit risk exposure to borrowers. The cash collateral held for securities on loan for the System as of September 30, 2007, was $76,704,396. The carrying amount, which is the fair market value, of securities on loan for the System as of September 30, 2007, was $74,810,109.

Gross income from security lending for the fiscal year was $3,361,439. Expenses associated with this income were the borrower's rebate of $3,198,484 and fees paid to the agent of $25,538.

Risk

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

Credit Risk - Credit risk is the risk that an issuer will not fulfill its obligations.

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

- Long-Term Fixed Income Investments – These investments must be investment grade or better at the time of purchase unless specific requirements are met as defined by PA 314 of 1965, as amended, and the State Treasurer's investment policy. Law defines investment grade as investments in the top four major grades, rated by two national rating services, S&P (AAA, AA, A, BBB) and Moody's (Aaa, Aa, A, Baa). At September 30, 2007, the System was in compliance with the policy in all material aspects.

Notes to Basic Financial Statements (Continued)

Rated Debt Investments
(in thousands)
As of September 30, 2007 and 2006

	2007				2006			
Investment Type	**Fair Value**	**S&P**	**Fair Value**	**Moody's**	**Fair Value**	**S&P**	**Fair Value**	**Moody's**
Short Term	$ 15,213	A-1	$ 15,936	P-1	$ 12,509	A-1	$ 14,745	P-1
	-	A-2	-	P-2	430	A-2	602	P-2
	1,622	NR	900	NR	3,267	NR	859	NR
US Agency - Sponsored								
	18,922	AAA	18,922	Aaa	17,540	AAA	17,540	Aaa
	-	NR	-	NR	455	NR	455	NR
Corporate Bonds & Notes								
	3,559	AAA	3,301	Aaa	3,355	AAA	3,441	Aaa
	4,035	AA	4,473	Aa	4,698	AA	6,334	Aa
	7,309	A	6,999	A	8,513	A	5,657	A
	3,242	BBB	3,493	Baa	2,107	BBB	2,710	Baa
	102	BB	96	Ba	34	BB	126	Ba
	22	B	-	B	20	B	-	B
	-	CCC	10	Caa	-	CCC	-	Caa
	799	NR	696	NR	474	NR	933	NR
International *								
	1,659	AAA	1,659	Aaa	2,001	AAA	1,748	Aaa
	4,764	AA	7,881	Aa	4,460	AA	7,120	Aa
	2,289	A	503	A	5,878	A	2,813	A
	1,834	NR	502	NR	-	NR	658	NR
Equity*	-	AA	-	Aa	295	AA	1,863	Aa
	-	A	-	A	1,568	A	-	A
Total	$ 65,371		$ 65,371		$ 67,604		$ 67,604	

NR - not rated

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

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

- Investment securities are exposed to custodial credit risk if the securities are uninsured, are not registered in the name of the government and are held by either:
- The counterparty or
- The counterparty’s trust department or agent but not in the government name.

The State Treasurer does not have a policy for custodial credit risk. However, the State’s custodial bank had a credit rating of AA at September 30, 2007. As of September 30, 2007, and 2006, government securities with a market value of $132 thousand and $143 thousand, respectively, were exposed to custodial credit risk. These securities were held by the counterparty not in the name of the System.

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

Other than obligations issued, assumed or guaranteed by the United States, its agencies or United States government sponsored enterprises, the System is prohibited by P.A. 314 of 1965, as amended, from investing in more than 5% of the

Notes to Basic Financial Statements (Continued)

outstanding obligations of any one issuer or investing more than 5% of a system's assets in the obligations of any one issuer.

At September 30, 2007, and 2006, there were no investments in a single issuer that accounted for more than 5% of the System's assets nor were there any investments totaling more than 5% of the obligations of any one issuer, other than U.S. Government Securities as described above.

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

The State Treasurer's policy states that cash equivalents are invested in short-term fixed income securities with an average weighted maturity of less than one year to provide liquidity and safety of principal from capital market and default risk. At September 30, 2007, and 2006, the fair value of the System's prime commercial paper was $16,801 and $16,206 with the weighted average maturity of 12 days and 41 days, respectively.

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

Debt Securities
(in thousands)
As of September 30, 2007 and 2006

	2007		2006	
	Fair Value	**Effective Duration in Years**	**Fair Value**	**Effective Duration in Years**
Government				
U. S. Treasury	$ 10,151	4.8	$ 3,385	3.1
U. S. Agencies - Backed	8,664	5.7	7,360	5.7
U. S. Agencies - Sponsored	18,922	3.3	17,995	3.7
Corporate	19,068	4.9	19,200	4.4
International*				
U. S. Treasury	500	0.1	506	0.5
U. S. Agencies - Sponsored	-		252	0.1
Corporate	10,545	0.1	12,088	0.1
Equities*				
Corporate	-		1,863	0.6
Total	$ 67,850		$ 62,649	

*International and Equities contain U.S. Government and Corporate Debt Securities as a part of their derivative strategies. The interest rates reset on a quarterly basis for these securities.

Notes to Basic Financial Statements (Continued)

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

The System invests in various securities denominated in foreign currencies. These investments are limited to 20% of the total assets of the System with an additional limit of 5% of the outstanding foreign securities of any single issuer. No investment is allowed in a country that has been identified by the United States State Department as engaging in or sponsoring terrorism. These limits are set forth in P.A. 314 of 1965, as amended. The types of foreign investments include equities, fixed income, mutual funds, real estate, and limited partnerships. At September 30, 2007, and 2006, the total amount of foreign investment subject to foreign currency risk were $27,303 and $17,143 which amounted to 8.1% and 5.7% of total investments (exclusive of cash collateral on loaned securities) of the System, respectively.

Foreign Currency Risk
(in thousands)
As of 9/30/2007

						International	
Region	Country	Currency	Alt. Invest. Market Value in U.S. $	Equity Market Value in U.S. $	Real Estate Market Value in U.S. $	Equities Market Value in U.S. $	Derivatives Market Value in U.S. $ *
AMERICA							
	Canada	Dollar				$ 336	
	Mexico	Peso		$ 519			
EUROPE							
	European Union	Euro	$ 3,231	289		1,336	$ 1,039
	Switzerland	Franc		356		246	193
	Sweden	Krona				109	60
	Denmark	Krone		5		75	17
	Norway	Krone				88	11
	U.K.	Sterling	132	26		650	432
PACIFIC							
	Australia	Dollar				326	178
	China	Renminbi		71			
	Hong Kong	Dollar				115	168
	India	Rupee		3			
	Japan	Yen	22	868		790	265
	Singapore	Dollar				41	29
	South Korea	Won				123	148
VARIOUS					$ 3,904	11,102	
	Total		$ 3,385	$ 2,137	$ 3,904	$ 15,337	$ 2,540

* Note: International derivatives' market value exposure to foreign currency risk is the net amount of unrealized gains and unrealized losses. Maturity dates on these investments range from October 2007 through September 2010 with an average maturity of 1.2 years.

Notes to Basic Financial Statements (Continued)

Foreign Currency Risk
(in thousands)
As of 9/30/2006

Region	Country	Currency	Alt. Invest. Market Value in U.S. $	Equity Market Value in U.S. $	Real Estate Market Value in U.S. $	International Equities Market Value in U.S. $	International Derivatives Market Value in U.S. $ *
AMERICA							
	Canada	Dollar		$ 116			
	Mexico	Peso		394			
EUROPE							
	European Union	Euro	$ 1,980	778		$ 163	$ 1,190
	Switzerland	Franc		237			261
	Sweden	Krona		53			55
	Denmark	Krone				3	41
	Norway	Krone		26			44
	U.K.	Sterling	105	348		12	650
PACIFIC							
	Australia	Dollar		93			161
	Hong Kong	Dollar		18			110
	Japan	Yen	36	471		2	600
	Singapore	Dollar					25
	South Korea	Won		57			205
VARIOUS				3,664	$ 1,599	3,646	
	Total		$ 2,121	$ 6,255	$ 1,599	$ 3,826	$ 3,342

* Note: International derivatives' market value exposure to foreign currency risk is the net amount of unrealized gains and unrealized losses. Maturity dates on these investments range from October 2006 through November 2008 with an average maturity of 1.1 years.

Notes to Basic Financial Statements (Continued)

NOTE 5 – ACCOUNTING CHANGES

The GASB has issued Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, which establishes uniform standards of financial reporting by state and local governmental entities for other postemployment benefit (OPEB) plans. The requirements of this statement are effective one year prior to the effective date of the related statement (GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*) for the employer or the largest employer in the plan. Because the State of Michigan is a phase 1 government (those with total annual revenues of $100 million or more), the System is required to implement Statement No. 43 in financial statements for periods beginning after December 15, 2005. The Statement was adopted in fiscal year 2007 and is reflected in this report.

The GASB has issued Statement No. 50, *Pension Disclosures*, which amends GASB Statements No. 25 and No. 27, and more closely aligns the financial reporting requirements for pensions with those for OPEB. This Statement is effective for periods beginning after June 15, 2007. Early implementation is encouraged. With the implementation of Statement No. 43 in fiscal year 2007, we have chosen to early implement Statement No. 50 as reflected in this report.

NOTE 6 - COMMITMENTS AND CONTINGENCIES

Caprathe v Judges Retirement Board

Petitioner sought to transfer credits under the Reciprocal Retirement Act (RRA) for six months of service as a public defender to the Judges' Retirement System for use in calculating his retirement allowance. Section 6 of the RRA provides that each reciprocal unit "may enter into an agreement … to transfer credited service" and "shall establish a written policy to implement the provisions of this section in order to provide uniform application of this section to all members of the reciprocal retirement system." To preserve the financial integrity of the Judges' Retirement System, the Board, after remand from the Court of Appeals in 2004, adopted a policy to prohibit all transfers of service credits under the RRA to the Judges' Retirement System.

The Court of Appeals found that the Retirement Board's action was consistent with the statutory mandate regarding the adoption and implementation of a policy regarding service credits and upheld the Board's decision to prohibit all transfers of service credits under the RRA to the Judges' Retirement System. Petitioner has asked the Supreme Court for leave to appeal the Court of Appeal's decision.

The Judges' Retirement Board will continue to defend the litigation vigorously. We believe the Board's decision will be sustained.

Other

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

Required Supplementary Information

Schedules of Funding Progress

Expressing the net assets available for benefits as a percentage of the actuarial accrued liability provides one indication of the System's funding status. Analysis of this percentage over time indicates whether the System is becoming financially stronger or weaker. Generally, the greater this percentage, the stronger the System. Trends in unfunded actuarial accrued liability and annual covered payroll are both affected by inflation. Expressing the unfunded or over-funded 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 (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll ((b-a)/c)
1998	$ 288.7	$ 236.5	$ (52.2)	122.0 %	$ 48.9	(106.7) %
1998 [1]	288.7	230.3	(58.4)	125.3	48.9	(119.4)
1999	320.9	243.5	(77.4)	131.8	49.6	(155.9)
2000	274.8	204.2	(70.6)	134.6	37.0	(190.7)
2001	291.0	224.7	(66.3)	129.5	42.5	(155.7)
2002	291.7	229.2	(62.5)	127.3	42.4	(147.3)
2003	292.3	235.2	(57.1)	124.3	38.9	(146.6)
2004 [1]	286.9	236.4	(50.5)	121.3	37.5	(134.6)
2005	278.4	243.4	(35.0)	114.4	34.9	(100.3)
2006	282.8	243.7	(39.1)	116.0	33.1	(118.1)
2007	301.0	247.1	(53.9)	121.8	29.7	(181.5)

[1] Revised actuarial assumptions

Other Postemployment Benefits ($ in millions)

Valuation Date Sept 30	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded (Overfunded) Accrued Liability (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll ((b-a)/c)
2006	$ 0.0	$ 6.4	$ 6.4	0.0 %	$ 6.1	105.3 %
2007	0.0	6.6	6.6	0.0	6.1	107.5

Required Supplementary Information (Continued)

Schedules of Employer Contributions
Retirement Benefits

Fiscal Year Ended Sept. 30		Annual Required Contribution (ARC)	Actual Contribution	Percentage Contributed
1998		$ 5,040,121	$ 246,659	4.9 %
1999		4,673,433		0.0
1999	(1)	1,260,694	58,499	4.6
2000	(2)	(411,879)		0.0
2001	(2)	(955,186)		0.0
2002		(476,491)		0.0
2003		(135,812)		0.0
2004		(85,580)		0.0
2005	(1)	(441,948)	34,765	0.0
2006		607,883	653,587	108.0
2007		186,180	231,235	124.0

(1) Revised actuarial assumptions.
(2) ARC is calculated as percentage of payroll reported to actuary.

Other Postemployment Benefits

Fiscal Year Ended Sept. 30	Annual Required Contribution (ARC)	Actual Contribution	Percentage Contributed
2007	$ 473,742	$ 115,000	24.3 %

Notes to Required Supplementary Information

NOTE A - DESCRIPTION

Ten year historical trend information designed to provide information about the System's progress made in accumulating sufficient assets to pay benefits when due is presented in the preceding schedules. Other ten year historical trend information related to the System is presented in the Statistical and Actuarial Sections of the report. This information is presented to enable the reader to assess the progress made by the System in accumulating sufficient assets to pay pension and other postemployment benefits as they become due. Although this is the first year the system is reporting other postemployment benefits in accordance with GASB Statement No. 43, two years of historical trend information is provided. In the transition year and until three actuarial valuations have been performed in accordance with the parameters, the required schedules of funding progress and employer contributions will include information for as many valuations as are available.

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

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

Supporting Schedules

Comparative Summary Schedule of
Pension Plan Administrative Expenses
For Fiscal Years Ended September 30, 2007 and 2006

	2007	2006
Personnel Services:		
Staff Salaries	$ 10,711	$ 10,754
Retirement and Social Security	2,717	2,945
Other Fringe Benefits	2,281	2,013
Total	15,709	15,712
Professional Services:		
Accounting	2,709	2,262
Actuarial	89,300	63,752
Attorney General	12,415	34,064
Audit	31,426	27,570
Consulting	3,221	2,914
Total	139,071	130,562
Building Equipment		
Building Rentals	1,377	1,071
Equipment Purchase, Maintenance, and Rentals	102	95
Total	1,479	1,166
Miscellaneous:		
Travel and Board Meetings	25	99
Office Supplies	99	125
Postage, Telephone and Other	8,655	5,665
Printing	812	2,207
Technological Support	15,998	14,487
Total	25,589	22,583
Total Administrative Expenses	$ 181,848	$ 170,023

Supporting Schedules (Continued)

Schedule of Investment Expenses
For Fiscal Years Ended September 30, 2007 and 2006

	2007	2006
Real Estate Operating Expenses	$ 10,422	$ 3,471
Securities Lending Expenses	3,224,022	1,098,867
Other Investment Expenses*		
ORS-Investment Expenses	60,907	57,581
Custody Fees	7,106	6,554
Management Fees-Real Estate	35,237	22,520
Management Fees-Alternative	271,954	224,982
Management Fees-International	13,660	-
Research Fees	6,652	6,373
Total Investment Expenses	$ 3,629,960	$ 1,420,348

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

Schedule of Payments to Consultants
For Fiscal Years Ended September 30, 2007 and 2006

	2007	2006
Independent Auditors	$ 31,426	$ 27,570
Consulting	3,221	2,914
Attorney General	12,415	34,064
Accounting	2,709	2,262
Actuary	89,300	63,752
Total Payment to Consultants	$ 139,071	$ 130,562

Supporting Schedules (Continued)

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

For the Year Ended September 30, 2007

	Employee Contributions	Employer Contributions	Retired Benefit Payments	Undistributed Investment Income	OPEB Related Benefits	Total
Additions:						
Member contributions	$ 1,845,878				$ 530,336	$ 2,376,214
Investment income (loss):						
Net appreciation (depreciation) of fair value of investments				$ 43,142,762		43,142,762
Interest, dividends, and other				6,841,622		6,841,622
Investment expenses:						
Real estate operating expenses				(10,422)		(10,422)
Other investment expenses				(395,516)		(395,516)
Securities lending activities:						
Securities lending income				3,361,439		3,361,439
Securities lending expenses				(3,224,022)		(3,224,022)
Net investment income (loss)	-	-	-	49,715,863	-	49,715,863
Court fees		$ 186,180	$ 45,055		115,000	346,235
Miscellaneous income			27,333	500		27,833
Total additions	1,845,878	186,180	72,388	49,716,363	645,336	52,466,145
Deductions:						
Benefits paid to plan members and beneficiaries:						
Retirement benefits			18,919,433			18,919,433
Health benefits					500,954	500,954
Dental/vision benefits					110,292	110,292
Refunds of member contributions	246,389		1,552			247,941
Administrative expenses				181,848		181,848
Total deductions	246,389	-	18,920,985	181,848	611,246	19,960,468
Net Increase (Decrease) Before Other Changes	1,599,489	186,180	(18,848,597)	49,534,515	34,090	32,505,677
Other Changes in Net Assets:						
Interest allocation	3,238,807	1,671,176	10,958,001	(15,868,519)	535	-
Transfers upon retirement	(5,160,667)	(5,408,810)	10,569,477			-
Total other changes in net assets	(1,921,860)	(3,737,634)	21,527,478	(15,868,519)	535	-
Net Increase (Decrease)	(322,371)	(3,551,454)	2,678,881	33,665,996	34,625	32,505,677
Net Assets Held in Trust for Pension and OPEB Benefits:						
Beginning of Year	44,956,266	20,889,703	136,975,017	100,386,560	6,682	303,214,228
End of Year	$ 44,633,895	$ 17,338,249	$ 139,653,898	$ 134,052,556	$ 41,307	$ 335,719,905

Supporting Schedules (Continued)

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

For the Year Ended September 30, 2006

	Employee Contributions	Employer Contributions	Retired Benefit Payments	Undistributed Investment Income	OPEB Related Benefits	Total
Additions:						
Member contributions	$ 2,017,943				$ 518,057	$ 2,536,000
Investment income (loss):						
Net appreciation (depreciation) of fair value of investments				$ 27,240,896		27,240,896
Interest, dividends, and other				7,490,812		7,490,812
Investment expenses:						
Real estate operating expenses				(3,471)		(3,471)
Other investment expenses				(318,010)		(318,010)
Securities lending activities:						
Securities lending income				1,141,140		1,141,140
Securities lending expenses				(1,098,867)		(1,098,867)
Net investment income (loss)	-	-	-	34,452,500	-	34,452,500
Court fees		$ 607,883	$ 45,704		215,000	868,587
Miscellaneous income		194	686			880
Total additions	2,017,943	608,077	46,390	34,452,500	733,057	37,857,967
Deductions:						
Benefits paid to plan members and beneficiaries:						
Retirement benefits			17,952,735			17,952,735
Health benefits					486,112	486,112
Dental/vision benefits					110,657	110,657
Administrative expenses				170,023		170,023
Total deductions	-	-	17,952,735	170,023	596,769	18,719,527
Net Increase (Decrease) Before Other Changes	2,017,943	608,077	(17,906,345)	34,282,477	136,288	19,138,440
Other Changes in Net Assets:						
Interest allocation	3,148,083	2,228,116	10,631,300	(16,007,499)		-
Transfers upon retirement	(1,560,869)	(9,797,938)	11,358,807			-
Total other changes in net assets	1,587,214	(7,569,822)	21,990,107	(16,007,499)	-	-
Net Increase (Decrease)	3,605,157	(6,961,745)	4,083,762	18,274,978	136,288	19,138,440
Net Assets Held in Trust for Pension and OPEB Benefits:						
Beginning of Year	41,351,109	27,851,448	132,891,255	82,111,582	(129,606)	284,075,788
End of Year	$ 44,956,266	$ 20,889,703	$ 136,975,017	$ 100,386,560	$ 6,682	$ 303,214,228

INVESTMENT SECTION

Prepared by Michigan Department of Treasury, Bureau of Investments

Jon M. Braeutigam, Acting Director

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

INVESTMENT SECTION

Report on Investment Activity

INTRODUCTION

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

The Investment Advisory Committee was created by Act 380 of the Public Acts of 1965. The three public members of the five-member committee are appointed by the Governor with the advice and consent of the Senate for three-year terms. The Director of the Department of Labor and Economic Growth and the Director of the Department of Management and Budget are ex-officio members. As of September 30, 2007, members of the Committee were as follows: David G. Sowerby, CFA (public member), Robert E. Swaney, CFA (public member), James B. Jacobs (public member), Keith W. Cooley (ex-officio member), and Lisa Webb Sharpe (ex-officio member). The public members serve without pay, but may be paid actual and necessary travel and other expenses.

INVESTMENT POLICY & GOALS

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

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

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

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

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

Report on Investment Activity (Continued)

Asset Allocation
(Excludes Collateral on Loaned Securities)

Investment Category	As of 9/30/07 Actual %		Three-Year Target %
Domestic Equity - Active	28.3%		24.0%
Large Cap Core Pool		15.0%	
Large Cap Value Pool		4.5%	
Large Cap Growth Pool		5.4%	
Mid Cap Pool		2.3%	
Small Cap Pool		1.1%	
Domestic Equity - Passive	17.9%		16.0%
S&P 500 Index Pool		16.2%	
S&P MidCap Index Pool		1.7%	
International Equity	11.0%		12.0%
International Equity Pool - Passive		7.9%	
International Equity Pool - Active		3.1%	
Alternative Investments Pool	10.4%		12.0%
Real Estate Pool	12.9%		12.0%
Fixed Income	17.5%		22.0%
Government Bond Pool		7.9%	
Corporate Bond Pools		4.3%	
Fixed Income Bond Pools		2.7%	
Treasury Inflation Prot. Sec. Pool		2.6%	
Short Term Investment Pool	2.0%		2.0%
TOTAL	**100.0%**		**100.0%**

INVESTMENT AUTHORITY

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

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

INVESTMENT RESULTS

Total Portfolio Results

For the fiscal year ended September 30, 2007, the total System's rate of return was 17.0% as compiled by State Street Analytics. Annualized rates of return for the three-year period ending September 30, 2007, were 13.9%; for the five-year period were 13.6%; and for the ten-year period were 8.1%.

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

Report on Investment Activity (Continued)

Investment results were once again driven by double-digit returns from every major asset class except fixed income and short-term investments. Equity performance was strong much of the year in spite of soaring commodity and energy prices. International stocks turned in the best performance, led by emerging markets and the benefit of a declining dollar. Domestic equities were also strong, with mid cap stocks (S&P 400) turning in the best performance for the period, followed by larger companies (S&P 500) then small cap (S&P 600). Credit markets experienced turmoil in July and August due to problems associated with subprime mortgages and concerns with housing. However, a 50 basis point cut in the federal funds rate in mid September provided some stability to the credit markets as well as a positive lift to the equity markets. The Alternative Investments Division continued to benefit from an extraordinarily liquid credit environment that fueled strong mergers and acquisitions, for most of the year, and refinancing activity for its buyout sector. Robust commercial real estate markets allowed the Real Estate pool to experience strong gains from both sales and appraisals of property. Investment grade bonds generally had positive returns for the year. The yield curve shifted from being inverted to being positively sloped as ten to thirty year rates remained relatively unchanged while short-term to ten year rates declined.

For the fiscal year, the Dow Jones Industrial Average provided a total return of 21.7%, while the broader based S&P 500 returned 16.4%. The Lehman Brothers U.S. Government/Credit Bond Index appreciated 5.08%.

The U.S. economy grew at an estimated rate of 2.6% in fiscal year 2007 as measured by real gross domestic product. The first half was weak due to a significant rise in imports and a decline in inventories. The second half of the fiscal year picked up due to a narrowing of the trade deficit, a pick up in defense spending and a surge in commercial construction. Corporate earnings remained strong for most of the year, led by robust profits from energy companies and a rebound in technology, but earnings growth slowed for some sectors, namely housing and financials, late in the year. Strong demand sent commodity and energy prices climbing during most of the year, with oil moving close to $80 per barrel in September.

For the first time since June of 2003, Federal Reserve Chairman Ben Bernanke and the Federal Reserve decided unanimously to cut the federal funds rate from 5.25% to 4.75%. They expressed a general concern that tightening credit conditions and disruptions in the financial markets might have the potential to intensify the housing correction and possibly restrain future economic growth.

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

Large Cap Core Pool

The objective of the pool of large company core stocks is to generate a rate of return from investment in common stocks and equity equivalents that exceeds that of the S&P 500 Index.

The pool invests primarily in equities and equity-related securities of U.S. companies with market capitalization generally greater than $5 billion that have passed several screens based on the stocks' valuation, risk attributes and tracking error relative to the overall index. The goal is to build a portfolio of stocks that will provide excess returns relative to the S&P 500 while providing minimal tracking error to the index. At times a portion of the pool may be invested in exchange traded funds (ETFs) and fixed-income short-term securities with maturities of less than one year.

The pool invests in equities and equity related securities that are listed on U.S. national securities exchanges, including American Depository Receipts (ADRs). It may also invest in stocks that are traded over-the-counter. The pool diversifies its investments by allocating its equities with consideration of the weightings of the S&P 500 Index.

Report on Investment Activity (Continued)

The following summarizes the weightings of the pool as of September 30, 2007:

Financials	20.5 %
Technology	17.2
Healthcare	12.9
Consumer Discretionary	11.5
Industrials	10.3
Consumer Staples	9.3
Energy	8.7
Utilities	3.2
Telecom	3.0
Materials	2.5
Short Term Investments	0.9
Total	**100.0 %**

The System's Large Cap Core pool was established in July of 2007, and therefore does not have performance for the entire 2007 fiscal year.

At the close of fiscal year 2007, the Large Cap Core pool represented 15.0% of total investments. The following summarizes the System's 0.5% ownership share of the Large Cap Core pool at September 30, 2007:

Large Cap Core Pool
(in thousands)

Short Term Pooled Investments	$	143
Equities		50,176
Settlement Principal Payable		(92)
Accrued dividends		62
Total	**$**	**50,289**

Large Cap Value Pool

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

The pool invests primarily in equities and equity-related securities of U.S. companies with market capitalization generally greater than $5 billion that are significantly under-priced as measured by several valuation criteria, including price-to-earnings and price-to-book value ratios, as well as below fair value as determined by several quantitative and qualitative valuation models. The focus is on companies trading 25% or more below estimated fair value with experienced management and conservative accounting practices. At times a portion of the pool may be invested in fixed-income short-term securities with maturities of less than one year.

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

Report on Investment Activity (Continued)

The following summarizes the weightings of the pool as of September 30, 2007:

Financials	33.0 %
Healthcare	17.8
Consumer Discretionary	9.5
Energy	9.3
Technology	8.1
Short Term Investments	6.6
Consumer Staples	5.9
Industrials	3.7
Telecom	3.2
Materials	2.2
Utilities	0.7
Total	**100.0 %**

The System's Large Cap Value pool achieved a total rate of return of 13.7% for fiscal year 2007. This compared with 16.1% for the S&P 500 Citigroup Value Index.

At the close of fiscal year 2007, the Large Cap Value pool represented 4.5% of total investments. This compares to 12.8% for fiscal year 2006. The following summarizes the System's 0.5% ownership share of the Large Cap Value pool at September 30, 2007:

Large Cap Value Pool
(in thousands)

Short Term Pooled Investments	$	589
Equities		14,581
Accrued dividends		11
Total	**$**	**15,181**

Large Cap Growth Pool

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

The pool invests primarily in equities and equity-related securities of U.S. companies with market capitalization generally greater than $3 billion and which offer above-average and sustainable growth in revenues, earnings, cash flow, identifiable catalysts, and reasonable valuations relative to their fundamentals. The focus is on companies with a strong presence in categories anticipated to be fast growing, with high rates of unit sales growth and seasoned management. At times a portion of the pool may be invested in fixed-income short-term securities with maturities of less than one year.

The pool invests in equities and equity related securities that are listed on U.S. national securities exchanges, including American Depository Receipts (ADRs). It may also invest in stocks that are traded over-the-counter. The pool diversifies its investments by allocating its equities with weightings that approximate the weightings of the S&P Citigroup Growth Index.

Report on Investment Activity (Continued)

The following summarizes the weightings of various sectors in the pool as of September 30, 2007:

Technology	22.9 %
Healthcare	17.2
Energy	14.7
Consumer Staples	13.0
Industrials	11.1
Financials	8.7
Consumer Discretionary	8.3
Short Term Investments	3.4
Utilities	0.4
Materials	0.3
Total	**100.0 %**

The Large Cap Growth pool's total rate of return was 19.8% for fiscal year 2007 versus 16.8% for the S&P 500 Citigroup Growth Index.

At the close of fiscal year 2007, the Large Cap Growth pool represented 5.4% of total investments. This compares to 13.0% for fiscal year 2006. The following summarizes the System's 0.5% ownership share of the Large Cap Growth pool at September 30, 2007:

Large Cap Growth Pool
(in thousands)

Short Term Pooled Investments	$	246
Equities		17,870
Accrued dividends		7
Total	**$**	**18,123**

Mid Cap Pool

Nine Mid Cap managers were selected in 2005 and they were funded out of the Large Cap Value and Growth pools. The manager's investment styles range from value, growth and core and they select stocks with average market capitalizations greater than $1 billion but less than $5 billion. The investment objective of the Mid Cap manager pool is to generate a combined rate of return from investment in common stocks and equivalents that exceeds the S&P 400 Mid Cap Index.

The Mid Cap pool return for fiscal year 2007 was 22.6% versus the benchmark's 18.8%.

At the close of fiscal year 2007, the Mid Cap pool represented 2.3% of total investments. This compares to 2.1% for fiscal year 2006. The following summarizes the System's ownership share and composition of the Mid Cap pool at September 30, 2007:

Report on Investment Activity (Continued)

Mid Cap Value and Core Pools
(in thousands)

	Artisan Mid Cap Value	Cramer Rosenthal McGlynn Mid Cap Value	Los Angeles Capital Mid Cap Core	Wellington Management Mid Cap Core
Total Investment	$ 1,238	$ 1,238	$ 780	$ 1,091
Ownership Percentage	0.5%	0.6%	0.5%	0.5%

Mid Cap Growth Pools
(in thousands)

	Alliance Mid Cap Growth	Putnam Mid Cap Growth	Rainer Mid Cap Growth	UBS Mid Cap Growth	Wellington Management Mid Cap Growth
Total Investment	$ 842	$ 328	$ 809	$ 730	$ 750
Ownership Percentage	0.6%	0.5%	0.5%	0.5%	0.5%

Small Cap Pool

The primary investment objective is to generate a rate of return from investment in common stocks and equivalents that exceeds the S&P 600 Small Cap Index by selecting stocks with market capitalizations greater than $60 million but less than $3 billion.

In December of 2006, five new small cap managers were hired in the Small Cap pool, and in January of 2007, three managers were terminated for performance reasons. The current System's Small Cap pool is invested with one Growth, one Core, and five Value managers.

The Small Cap pool return for fiscal year 2007 was 17.7% versus the benchmark's 14.9%.

At the close of fiscal year 2007, the Small Cap pool represented 1.1% of total investments. This compares to 1.0% for fiscal year 2006. The following summarizes the System's ownership share and composition of the Small Cap Pool at September 30, 2007:

Report on Investment Activity (Continued)

Small Cap Value Pool
(in thousands)

	Donald Smith Small Cap Value	Fisher Small Cap Value	GW Capital Small Cap Value	Northpointe Small Cap Value	Opus Capital Small Cap Value
Total Investment	$ 576	$ 659	$ 462	$ 534	$ 155
Ownership Percentage	0.6%	0.5%	0.6%	0.6%	0.6%

Small Cap Growth and Core Pool
(in thousands)

	Champlain Small Cap Core	Pier Capital Small Cap Growth
Total Investment	$ 503	$ 672
Ownership Percentage	0.6%	0.6%

S&P 500 Index Pool

The objective of the enhanced S&P 500 Index pool is to closely match the return performance of its benchmark, the S&P 500 Index, and to use low risk strategies to offset transaction costs and add to performance when possible. The pool generally holds all 500 stocks that make up the Standard & Poor's 500 Index in proportion to their weighting in the index. The following summarizes the sector weightings of the pool as of September 30, 2007:

Financials	19.8 %
Information Technology	16.2
Healthcare	11.7
Energy	11.7
Industrials	11.5
Consumer Staples	9.5
Consumer Discretionary	9.2
Telecomm. Services	3.7
Utilities	3.5
Materials	3.2
Total	**100.0 %**

The S&P 500 Index pool return for the fiscal year was 16.5% versus the benchmark's 16.4%.

At the close of fiscal year 2007, the S&P 500 Index pool represented 16.2% of total investments. This compares to 16.5% for fiscal year 2006. The following summarizes the System's 0.5% ownership share of the S&P 500 Index pool at September 30, 2007:

Report on Investment Activity (Continued)

S&P 500 Index Pool
(in thousands)

Short Term Pooled investments	$	732
Equities		53,497
Futures Contracts		1
Accrued dividends		61
Total	**$**	**54,291**

S&P MidCap Index Pool

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

The S&P MidCap Index pool return for the fiscal year was 18.7% versus its benchmark's 18.8%.

At the close of fiscal year 2007, the S&P MidCap Index pool represented 1.7% of total investments. This compares to 2.2% for fiscal year 2006. The following summarizes the System's 0.6% ownership share of the S&P MidCap Index pool at September 30, 2007:

S&P MidCap Index Pool
(in thousands)

Short Term Pooled investments	$	80
Equities		5,606
Settlement Principal Payable		(26)
Accrued dividends		4
Total	**$**	**5,664**

International Equity Pool - Passive

The objective of the International Equity Pool - Passive is to match the return performance of the S&P/Citigroup Broad Market Index (BMI) Europe and Pacific Composite (EPAC) adjusted for net dividends. Fifty percent of the benchmark is hedged to the U.S. Dollar and the other half is impacted by foreign currency exchange rate changes. The total passive international return for the fiscal year was 20.7% compared to the Citigroup BMI-EPAC return of 19.8%.

Core passive exposure to international equity returns is achieved primarily by investing in a combination of fixed income LIBOR notes, short-term fixed income investments, and equity swap agreements on foreign stock indices in developed markets. Interest on the dedicated notes and short-term fixed income investments is exchanged for international stock returns, and the total notional amount of the swap agreements is invested in the approximate proportions of the S&P/Citigroup Broad Market Index (BMI) Europe and Pacific Composite (EPAC) country weightings in related indices. Use of swap agreements for a core position began in 1993, an American Depository

Report on Investment Activity (Continued)

Receipts (ADR) and index-related security portfolio was added in June of 1999 to increase portfolio management flexibility, and a country fund portfolio with targeted capitalization was added in September of 2002 to improve exposure to the smallest companies in the BMI index.

The combination of notes, dedicated short-term investments and equity swap agreements was valued at $20.7 million on September 30, 2007. That valuation included a net unrealized gain of $4.9 million. The combined Swap agreements, notes and short-term investments together continue to perform like a stock index fund that realizes all gains and losses on a rolling three year basis. During fiscal year 2007, the pool received realized gains of $5.7 million on swap equity exposures and dedicated short-term investments. During the same period, $434 thousand of interest income was earned from international equity swaps.

At the close of fiscal year 2007, the International Equity – Passive pool represented 7.9% of total investments. This compares to 9.7% for fiscal year 2006. The following summarizes the System's 0.5% ownership share of the International Equity Pool - Passive at September 30, 2007:

International Equity Pool - Passive
(in thousands)

Short Term Pooled investments	$	5,291
Equities		5,406
Fixed Income Securities		11,045
Market Value of Equity Contracts		4,841
Accrued dividends and interest		78
Total	**$**	**26,661**

International Equity Pool - Active

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

In fiscal year 2005, the System invested in AllianceBernstein International Style Blend, a mix of Large Cap Growth and Value. During fiscal year 2006, investments were made in the following funds: The Wellington Trust Company International Research Equity Fund and the State Street Global Asset International Alpha Select Pool. Two international managers, SSgA Int’l Small Cap Alpha and GlobeFlex Int’l Small Cap, were selected and funded during April 2007, and added to the three managers already in the pool.

The International Equity Pool – Active return for the fiscal year was 26.6% versus the benchmark’s 26.0%.

At the close of fiscal year 2007, the International Equity - Active pool represented 3.1% of total investments. This compares to 1.9% for fiscal year 2006. The following summarizes the System’s ownership share and composition of the pool at September 30, 2007:

Report on Investment Activity (Continued)

International Equity Pool - Active
(in thousands)

	AllianceBernstein International	Wellington International	SSGA International	Globeflex Int'l Small Cap	SSGA Int'l Small Cap
Total Investment	$ 3,166	$ 2,815	$ 3,275	$ 482	$ 518
Ownership Percentage	0.6%	0.6%	0.6%	0.5%	0.5%

Alternative Investments Pool

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

Alternative Investments are investments in the private equity market, primarily through limited partnerships. The following summarizes the weightings of the pool as of September 30, 2007:

Buyout Funds	52.3 %
Special Situation Funds	16.8
Venture Capital Funds	10.9
Liquidation Portfolio	7.0
Fund of Funds	6.4
Hedge Funds	2.5
Short Term Investments	2.3
Mezzanine Funds	1.8
Total	**100.0 %**

The Alternative Investments pool had a return of 30.7% for the fiscal year ended September 30, 2007, versus the benchmark of 19.2%.

T. Rowe Price managed the stock distributions of the Alternative Investments beginning in October 2006. The T. Rowe Price return for the fiscal year ending September 30, 2007, was 4.8%.

At the close of fiscal year 2007, the Alternative Investments pool represented 10.4% of total investments and T. Rowe Price represented 0.04% of total investments. This compares to 9.8% for Alternative and 0.01% for Credit Suisse Asset Management for fiscal year 2006. The following summarizes the System's ownership share and composition of the Alternative Investments pool and T. Rowe Price at September 30, 2007:

Report on Investment Activity (Continued)

Alternative Investments Pool
(in thousands)

	Alternative	T. Rowe Price
Short Term Pooled Investments	$ 814	$ 69
Equities	34,074	41
Settlement Proceeds Receivable		17
Total	**$ 34,888**	**$ 127**
Ownership Percentage	0.4%	0.5%

Real Estate Pool

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

The Real Estate pool diversifies its holdings by:

- Geography - The pool is diversified geographically with emphasis placed upon domestic (U.S.) real estate investments. The pool may also make foreign real estate investments, which are not expected to exceed 15% of the value of the pool.
- Property Size and Value - The pool diversifies its holdings so that it is not concentrated in a limited number of large real estate investments.
- Property Type - The pool is diversified by type of property as summarized in the table below.

Multi-family apartments	22.8 %
Commercial office buildings	22.3
Hotels	19.4
Retail shopping centers	14.4
Industrial warehouse buildings	7.5
Short Term Investments	5.7
Senior Living	3.3
Land	2.3
For Sale Housing	2.3
Total	**100.0 %**

The Real Estate pool generated a return of 20.5% for fiscal year 2007, while the benchmark return was 16.0%. The benchmark is the National Council of Real Estate Investment Fiduciaries Property Index less 130 basis points. During the year the pool benefited from continued strong flow of capital into the commercial real estate market from both domestic and foreign investors coupled with improvement in commercial real estate fundamentals, which resulted in the pool realizing strong appreciation and gains on asset sales.

Report on Investment Activity (Continued)

At the close of fiscal year 2007, the Real Estate pool represented 12.9% of total investments. This compares to 11.5% for fiscal year 2006. The following summarizes the System's 0.7% ownership share of the Real Estate pool at September 30, 2007:

Real Estate Pool
(in thousands)

Short Term Pooled investments	$	2,454
Equities		40,889
Total	**$**	**43,343**

Government Bond Pool

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

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

During the fiscal year, rates continued to be volatile. Ten-year treasuries started the year at 4.6%, rose to 5.3%, then declined and ended at 4.6%. The yield curve shifted from inverted to positively sloped. Ten to thirty-year rates remained relatively unchanged while short-term to ten-year rates declined.

For the fiscal year ending September 30, 2007, the Government Bond pool returned 5.9% which compared favorably to the 5.6% return of the Lehman Brothers Government Index.

The following summarizes the security type breakdown of the pool as of September 30, 2007:

U.S. Agency	62.8	%
GNMA	20.5	
U.S. Guaranteed	11.9	
Short Term Investments/Accruals	4.8	
Total	**100.0**	**%**

At the close of fiscal year 2007, the Government Bond pool represented 7.9% of total investments. This compares to 8.9% for fiscal year 2006. The following summarizes the System's 0.5% ownership share of the Government Bond pool at September 30, 2007:

Report on Investment Activity (Continued)

Government Bond Pool
(in thousands)

Short Term Pooled investments	$	1,036
Fixed Income Securities		25,273
Accrued interest		245
Total	**$**	**26,554**

Treasury Inflation Protected Securities Pool

A Treasury Inflation Protected Securities (TIPS) Pool was established in January 2007. Transfer of TIPS holdings in the Government Bond Pool provided the initial funding for the TIPS pool.

The TIPS pool return from inception to fiscal year end was 6.3%.

At the close of fiscal year 2007, the Treasury Inflation Protected Securities pool represented 2.6% of total investments. The following summarizes the System's 3.1% ownership share of the TIPS pool at September 30, 2007:

TIPS Pool
(in thousands)

Short Term Pooled investments	$	132
Fixed Income Securities		8,646
Accrued Interest		42
Total	**$**	**8,820**

Corporate Bond Pool

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

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

For the fiscal year ending September 30, 2007, the Corporate Bond pool returned 5.3% compared to the 4.2% return of the Lehman Brothers Credit Index. The pool’s performance improved as the year progressed due to the decline in rates later in the year.

Report on Investment Activity (Continued)

The following summarizes the security type breakdown of the pool as of September 30, 2007:

Financials	23.7 %
Healthcare	17.9
Industrials	13.1
Consumer Staples	11.9
Consumer Discretionary	10.3
Other	7.3
Utilities	5.5
Energy	2.7
Materials	2.6
Information Technology	2.6
Short Term Investments/Accruals	2.4
Total	**100.0 %**

At the close of fiscal year 2007, the Corporate Bond pool represented 4.3% of total investments. This compares to 6.2% for fiscal year 2006. The following summarizes the System's 0.4% ownership share of the Corporate Bond pool at September 30, 2007:

Corporate Bond Pool
(in thousands)

Short Term Pooled investments	$	168
Fixed Income Securities		13,957
Accrued interest		170
Total	**$**	**14,295**

Fixed Income Core Pools

Five Fixed Income Core managers were selected in fiscal year 2006, beginning March 31, 2006. Their objective is to generate a rate of return exceeding the Lehman Aggregate Index net of fees.

Delaware Investments, Dodge & Cox, Dupont Capital Management, Pyramis Global Advisors, and Metropolitan West Asset Management were the firms hired.

The Fixed Income Core pools combined rate of return for the fiscal year was 5.3% versus the benchmark’s 5.1%.

At the close of fiscal year 2007, the Fixed Income Core pools represented 1.5% of total investments. This compares to 1.0% for fiscal year 2006. The following summarizes the System's ownership share and composition of the five Fixed Income Core pools at September 30, 2007:

Report on Investment Activity (Continued)

Fixed Income Core Pools
(in thousands)

	Delaware Fixed Income Core	Dodge & Cox Fixed Income Core	Dupont Fixed Income Core	Pyramis Fixed Income Core	Metro West Fixed Income Core
Total Investment	$ 619	$ 1,062	$ 755	$ 1,518	$ 1,070
Ownership Percentage	0.6%	0.6%	0.6%	0.6%	0.6%

Fixed Income Corporate Manager Pools

Four fixed income corporate managers were selected and commenced management on September 15, 2006, with an objective of exceeding the return of the Lehman Credit Index net of fees.

The four managers hired were AllianceBernstein, Prudential Financial, Western Asset, and Taplin, Canida & Habacht.

The Fixed Income Corporate Manager pools combined rate of return for the fiscal year was 4.7% versus the benchmark's 4.2%.

At the close of fiscal year 2007, the Fixed Income Corporate Manager pools represented 1.2% of total investments. This compares to 1.0% for fiscal year 2006. The following summarizes the System's ownership share and composition of the four Fixed Income Corporate Manager pools at September 30, 2007:

Fixed Income Corporate Manager Pools
(in thousands)

	Alliance Bernstein Corporate	Prudential Financial Corporate	Western Asset Corporate	Taplin, Canida & Habacht Corporate
Total Investment	$ 907	$ 1,372	$ 904	$ 901
Ownership Percentage	0.6%	0.6%	0.6%	0.6%

Short Term Investment Pool

The objective of the Short Term Investment pool is to closely match the return performance of its benchmark, the 30 day Treasury bill. The Short Term Investment pool return for the fiscal year was 5.4% versus the benchmark's 4.9%.

Potential areas of investment are:

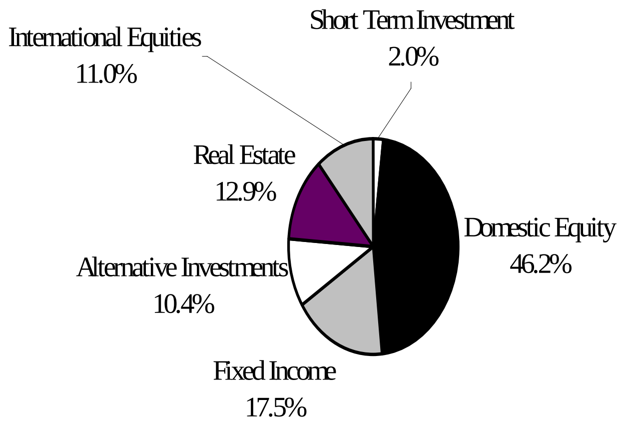
- Obligations of the United States or its agencies.
- Bankers' acceptances, commercial accounts, certificates of deposit or depository receipts.
- Repurchase agreements for the purchase of securities issued by the US government or its agencies.
- Commercial paper rated at the time of purchase within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

Report on Investment Activity (Continued)

As of September 30, 2007, the Short Term Investment pool was 100% invested in commercial paper because of its advantages in yield and flexibility in maturities.

At the close of fiscal year 2007, the Short Term Investment pool represented 2.0% of total investments. This compares to 1.6% for fiscal year 2006. The System's ownership share of the Short Term Investment pool at September 30, 2007 was $6,730,219 composed of fixed income securities and equity in common cash.

ASSET ALLOCATION – SECURITY TYPE ONLY



Investment Results for the Period Ending September 30, 2007

Investment Category	Current Year	Annualized Rate of Return[1] 3 Years	5 Years	10 Years
Total Portfolio	17.0 %	13.9 %	13.6 %	8.1 %
Total Domestic Equity	16.7	13.1	15.6	7.0
S&P 1500 Index	16.6	13.4	15.8	7.0
Large Cap Value Pool	13.7	14.1		
Large Cap Growth Pool	19.8	11.7		
Mid Cap Pool	22.6			
Small Cap Pool	17.7			
S&P 500 Index Pool	16.5			
S&P MidCap Index Pool	18.7			
International Equity Pool - Passive	20.7	21.8	21.3	8.4
S&P Citigroup BMI - EPAC 50/50	19.8	22.5	21.6	8.1
International Equity Pool - Active	26.6			
Alternative Investments Pool	30.7	26.2	19.9	13.3
Alternative Blended Benchmark[2]	19.2	16.1	18.6	10.0
T. Rowe Price (Stock Distributions)	4.8			
Real Estate Pool	20.5	17.9	13.5	12.0
NCREIF Property Blended Index[3]	16.0	16.9	13.8	12.2
Total Fixed Income	5.8	4.2	4.3	5.7
Lehman Brothers Government/Credit	5.1	3.7	4.2	6.0
Government Bond Pool	5.9	4.5		
Corporate Bond Pool	5.3	3.7		
Fixed Income Core Pool	5.3			
Fixed Income Managers Pool	4.7			
Short Term Investment Pool	5.4	4.2	3.0	4.0
30 Day Treasury Bill	4.9	3.9	2.8	3.5

1 Calculations used a time-weighted rate of return based on the market rate of return in accordance with industry standards.

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

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

Largest Assets Held

Largest Stock Holdings (By Market Value)[1]
September 30, 2007

Rank	Shares	Stocks	Market Value
1	41,148	Exxon Mobil Corporation	$ 3,808,672
2	87,718	General Electric Corporation	3,631,506
3	20,798	SPDR Trust	3,173,288
4	106,246	Microsoft Corporation	3,130,009
5	44,119	American International Group	2,984,631
6	59,263	Citigroup Incorporated	2,765,821
7	40,840	Johnson and Johnson	2,683,204
8	35,029	Procter and Gamble Corporation	2,463,962
9	24,312	Chevron Corporation	2,275,157
10	68,166	Cisco Systems Inc	2,256,970

Largest Bond Holdings (By Market Value)[1]
September 30, 2007

Rank	Par Amount	Description	Market Value
1	$ 6,161,140	Treasury Inflation Index Due 7-15-14	$ 6,714,282
2	1,212,125	General Electric Cap Cor 5.7275% FRN Due 2-15-2017	1,184,799
3	1,004,920	Bank Novia Scotia 5.37% FRN Due 10-12-2007	1,004,998
4	971,207	Wachovia Corp 5.28125% FRN Due 4-23-2012	962,830
5	753,690	HSBC Finance Corp 5.46% FRN Due 10-22-2007	753,845
6	753,690	JP Morgan Chase & Co 5.7375% FRN Due 9-21-2012	750,742
7	617,827	Treasury Inflation Index Due 4-15-2011	652,283
8	614,114	Treasury Inflation Index Due 1-15-2015	642,909
9	618,244	Treasury Inflation Index Due 7-15-2017	640,475
10	527,583	American Honda Finance 5.25% FRN Due 1-22-2008	527,681

[1] A complete list of holdings is available from the Michigan Department of Treasury.

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

Schedule of Investment Fees

The State Treasurer is the investment fiduciary and custodian of the System's funds pursuant to State law. Outside advisors are utilized to augment the State Treasurer's internal staff. Only 30.4% of the total investment portfolio is managed by fully discretionary outside advisors. The Michigan Department of Treasury's cost of operations applicable to the retirement system for the fiscal year end amounted to $61 thousand or two and six tenths basis points (.026%) of the market value of the Assets under Management by the State Treasurer.

Act 380 of the Public Acts of 1965 created an Investment Advisory Committee (Committee) comprised of the directors of the Department of Labor and Economic Growth and the Department of Management and Budget, or their duly authorized representatives, and three public members appointed by the Governor with the advice and consent of the Senate. The public members serve without pay, but may be paid actual and necessary travel and other expenses. The Committee meets quarterly to review investments, goals and objectives and may submit recommendations to the State Treasurer. The Committee may also, by a majority vote, direct the State Treasurer to dispose of any holding, which in the Committee's judgment is not suitable for the fund involved, and may by unanimous vote direct the State Treasurer to make specific investments.

Schedule of Investment Fees

Investment Managers' Fees:

	Assets under Management (in thousands)	Fees (in thousands)	Basis Points *
State Treasurer	$ 233,752	$ 61	2.6
Outside Advisors for			
Fixed Income	9,108	11	12.1
Mid Cap Equity	7,805	39	50.0
Small Cap Equity	3,562	25	70.2
International Equity	15,376	30	19.5
Alternative	34,107	272	79.7
Real Estate	31,988	35	10.9
Total	$ 335,698	$ 473	

Other Investment Services Fees:

Assets in Custody	$ 328,968	$ 14	
Securities on Loan	74,810	26	

* Outside Advisors Fees are netted against the income for Fixed Income, Small Cap Equity, Mid Cap Equity, and International Equity. For Alternative partnership agreements that define the management fees, the asset management fees range from 100 on remaining assets under management to 250 basis points of the committed capital. For Real Estate, the asset management fees range from 50 to 175 basis points. Alternative and Real Estate fees, in most cases, are netted against income.

Schedule of Investment Commissions

	Fiscal Year Ended September 30, 2007						
	Actual Commissions Paid [1]	Actual Number of Shares Traded [1]	Average Commission Per Share	Estimated Trade Costs Per Share	Estimated Research Costs Per Share	Estimated Trade Costs	Estimated Research Costs
Investment Brokerage Firms:							
Banc of America Securities LLC	$ 168	5,607	$ 0.03	$ 0.01	$ 0.02	$ 56	$ 112
Bear, Stearns & Co Inc	3,994	194,537	0.02	0.01	0.01	1,945	2,048
Broadcort Capital	677	22,567	0.03	0.01	0.02	226	451
Cantor Fitzgerald & Co.	1,309	52,649	0.02	0.01	0.01	526	783
Citigroup Global Markets Inc	3,773	124,133	0.03	0.01	0.02	1,241	2,531
Cowen & Co., LLC	1,656	55,196	0.03	0.01	0.02	552	1,104
Credit Suisse Securities LLC	3,563	122,825	0.03	0.01	0.02	1,228	2,334
Deutsche Bank Securities Inc	1,437	47,665	0.03	0.01	0.02	477	960
Goldman, Sachs & Co	2,808	93,575	0.03	0.01	0.02	936	1,872
The Griswold Company Incorporated	1,041	52,055	0.02	0.01	0.01	521	521
Investment Technology Group Inc.	1	100	0.01	0.01	-	1	-
ISI Capital LLC	800	25,884	0.03	0.01	0.02	259	542
J P Morgan Securities Inc	1,652	54,750	0.03	0.01	0.02	548	1,104
Labranche Financial Services Inc (MARA)	201	9,901	0.02	0.01	0.01	99	102
Lehman Brothers Inc	2,231	74,332	0.03	0.01	0.02	743	1,488
Liquidnet Inc	1	52	0.02	0.01	0.01	1	1
Merrill Lynch, Pierce, Fenner & Smith, Incorporated	5,194	170,563	0.03	0.01	0.02	1,706	3,488
Mischler Financial Group, Inc	169	5,646	0.03	0.01	0.02	56	113
Morgan Stanley	2,715	90,502	0.03	0.01	0.02	905	1,810
OTA LLC	291	9,712	0.03	0.01	0.02	97	194
Prudential Equity Group LLC	1,120	37,318	0.03	0.01	0.02	373	746
Punk, Ziegel & Company	632	21,080	0.03	0.01	0.02	211	422
Sanford C. Bernstein & Co LLC	2,450	81,666	0.03	0.01	0.02	817	1,633
Stanford Group Co	431	13,719	0.03	0.01	0.02	137	293
State Street Brokerage Services	10,381	909,870	0.01	0.01	-	9,099	1,282
Thinkequity Partners LLC	19	522	0.04	0.01	0.03	5	14
Thomas Weisel Partners	221	5,831	0.04	0.01	0.03	58	163
UBS Securities LLC	2,369	78,980	0.03	0.01	0.02	790	1,580
Wachovia Capital Markets, LLC	1	50	0.03	0.01	0.02	-	1
Wayne Company	101	3,080	0.03	0.01	0.02	31	70
Weeden & Co	453	45,343	0.01	0.01	-	453	-
Total	$ 51,859	2,409,710	$ 0.03 [2]	$ 0.01	$ 0.02	$ 24,097	$ 27,762

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

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

Investment Summary

Fiscal Year Ended September 30, 2007

	Market Value (a)	Percent of Total Market Value	Investment & Interest Income (b)	Percent of Investment & Interest Income
Fixed Income Pools	$ 58,778,317	17.5%	$ 3,175,488	6.4%
Domestic Equity Pools	154,914,158	46.2%	23,149,307	46.3%
Real Estate Pool	43,342,679	12.9%	7,246,437	14.5%
Alternative Investment Pools	35,015,376	10.4%	8,820,422	17.6%
International Equities Pools	36,917,199	11.0%	7,241,505	14.5%
Short Term Investment Pools	6,730,219	2.0%	351,225	0.7%
Total	$ 335,697,948	100.0%	$ 49,984,384	100.0%

(a) Market value excludes $76,704,396 in cash collateral for security lending for fiscal year 2007.
(b) Total Investment & Interest Income excludes net security lending income of $137,417.

Investment Summary (Continued)

Fiscal Year Ended September 30, 2006

	Market Value (a)	Percent of Total Market Value	Investment & Interest Income (b)	Percent of Investment & Interest
Fixed Income Pools	$ 51,921,197	17.1%	$ 2,033,264	5.8%
Domestic Equity Pools	146,680,547	48.4%	14,302,479	41.2%
Real Estate Pool	34,805,376	11.5%	5,904,771	17.0%
Alternative Investment Pools	29,834,311	9.8%	6,320,502	18.2%
International Equities Pools	35,037,972	11.6%	5,798,485	16.7%
Short Term Investment Pools	4,797,442	1.6%	372,207	1.1%
Total	$ 303,076,845	100.0%	$ 34,731,708	100.0%

(a) Market value excludes $48,686,586 in cash collateral for security lending for fiscal year 2006.
(b) Total Investment & Interest Income excludes net security lending income of $42,273.

ACTUARIAL SECTION

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

ACTUARIAL SECTION

Actuary's Certification

GRS

Gabriel Roeder Smith & Company
Consultants & Actuaries

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November 1, 2007

Ms. Lisa Webb Sharpe, Director
Department of Management and Budget
and
The Retirement Board
Michigan Judges Retirement System
P.O. Box 30171
Lansing, Michigan 48909

Ladies and Gentlemen:

The basic financial objective of the Michigan Judges Retirement System (JRS) is to establish and receive contributions which when combined with present assets and future investment return will be sufficient to meet the financial obligations of the system to present and future benefit recipients.

The financial objective is addressed within the actuarial valuation. The valuation process develops employer contributions that are sufficient to fund the plan's normal cost (i.e., the costs assigned by the valuation method to the year of service about to be rendered), as well as to fund any unfunded accrued liabilities over a reasonable period. The most recent valuation was completed based upon population data, asset data, and plan provisions as of September 30, 2007.

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

Annual actuarial valuations are based upon assumptions regarding future activity in specific risk areas including the rate of investment return and payroll growth, eligibility for the various classes of benefits and longevity among retired lives. These assumptions are adopted by the Board and the Department after considering the advice of the actuary and other professionals. The assumptions and the methods comply with the requirements of GASB Statement No. 25. Each actuarial valuation takes into account all prior differences between actual and assumed experience in each risk area and adjusts the contribution rates as needed.

Actuary's Certification (continued)

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

Financial Section

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

Actuarial Section

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

Statistical Section

- Schedule of Retired Members by Type of Pension Benefit
- Schedule of Average Benefit Payments - Pension

The actuarial valuation of JRS as of September 30, 2007 was performed by qualified actuaries in accordance with standards of practice prescribed by the Actuarial Standards Board and in compliance with applicable state statutes. It is our opinion that the calculated employer contribution meets the financial objective of the Retirement System.

Respectfully submitted,

Mark Buis

Mark Buis, FSA, EA, MAAA

Alan E. Sonnanstine

Alan Sonnanstine, ASA, MAAA

MB/AS:lr

Gabriel Roeder Smith & Company

Summary of Actuarial Assumptions and Methods

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

2. The healthy life mortality table used in evaluating allowances to be paid was the 1994 Group Annuity Mortality Table. Adopted 2004.

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

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

5. The active member population is closed to new hires. This will result in a gradual reduction in the total active member payroll over time.

6. An individual entry age actuarial cost method of valuation was used in determining age and service and deferred retirement actuarial liabilities and normal cost. Unfunded actuarial accrued liabilities, including actuarial gains and losses, are financed over a declining 40-year period beginning October 1, 1996. Adopted or re-adopted 1996.

7. The Department of Management and Budget approved the use of market value of assets as of September 30, 1997, for actuarial valuation purposes. For investment gains or losses that occur after that date, a 5-year smoothing technique will be used. Specifically, the excess (shortfall) of actual investment income (including interest, dividends, realized and unrealized gains or losses) over the imputed income at the valuation interest rate is considered the gain (loss), which is spread over five years. Adopted 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 after consulting with the actuary.

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

11. Gabriel, Roeder, Smith and Company was awarded the actuarial and consulting services contract beginning October 4, 2006.

12. Election of two person retiree health coverage is assumed to be 75% for males and 60% for females depending on participant type.

13. A retiring active Tier 1 member will have joint and survivor pension coverage for 75% of male retirees and 60% of female retirees.

Summary of Actuarial Assumptions and Methods (Continued)

SCHEDULE 1

Percent of Eligible Active Members Retiring Within Next Year

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

SCHEDULE 2

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

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

Actuarial Valuation Data

Schedule of Active Member Valuation Data

Valuation Date Sept. 30	Inactive Members Number	Active					
		Members Number	Reported Annual Payroll*	Average Annual Pay	% Increase	Average Age	Average Service
1998	24	600	$ 48,865,572	$ 81,443	1.2 %	53.6	12.2
1999	22	573	49,626,160	86,608	6.3	54.8	13.5
2000	17	399	37,022,723	92,789	7.1	54.0	11.0
2001	15	380	42,543,811	111,957	20.7	54.4	11.7
2002	16	367	42,441,201	115,644	3.3	55.3	12.4
2003	13	337	38,900,163	115,431	(0.2)	55.4	13.2
2004	11	325	37,453,179	115,241	(0.2)	56.1	13.6
2005	18	302	34,935,846	115,682	0.4	57.0	14.8
2006	16	291	33,066,573	113,631	(1.8)	57.8	15.9
2007	16	260	29,716,615	114,295	0.6	58.4	16.5

* Prior to 2006, reported annual payroll in this schedule is 2% higher than the actual data reported to the actuary.

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.	Annual Allowances		
1998	26	$ 696,745	24	$ 556,833	514	$ 14,343,525	1.0 %	$ 27,906
1999	35	1,182,957	18	514,936	531	15,011,546	4.7	28,270
2000	16	656,659	12	449,123	535	15,219,082	1.4	28,447
2001	30	1,027,902	19	399,313	546	16,027,671	5.3	29,355
2002	8	310,381	19	659,722	535	15,678,330	(2.2)	29,305
2003	27	1,099,372	11	520,658	551	17,144,956	9.4	31,116
2004	13	836,992	15	562,582	549	17,572,770	2.5	32,009
2005	16	816,849	13	387,731	552	18,001,888	2.4	32,612
2006	19	827,419	38	877,683	533	17,951,624	(0.3)	33,680
2007	38	1,797,377	29	657,528	542	19,091,473	6.3	35,224

* Restated based on more complete information.

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.

($ in thousands)

	Actuarial Accrued Liability				Portion of Present Value Covered by Assets			
Valuation Date Sept. 30	(1) Active Member Contributions	(2) Retirants and Beneficiaries	(3) Active and Inactive Members (Employer Financed Portion)	Valuation Assets	(1)	(2)	(3)	(4) [1]
1998	$ 43,378	$ 116,264	$ 76,879	$ 288,671	100 %	100 %	167.8 %	122.0 %
1998 [2]	43,378	116,645	70,294	288,671	100	100	183.0	125.3
1999	43,047	121,856	78,600	320,869	100	100	198.4	131.8
2000	28,812	120,480	54,933	274,843	100	100	228.6	134.6
2001	29,469	125,097	70,171	290,998	100	100	194.4	129.5
2002	33,457	120,456	75,309	291,730	100	100	183.0	127.3
2003	34,355	131,719	69,167	292,258	100	100	182.4	124.2
2004 [2]	37,089	138,141	61,219	286,873	100	100	182.4	121.3
2005	38,695	142,689	61,987	278,423	100	100	156.5	114.4
2006	43,094	142,384	58,230	282,822	100	100	167.2	116.0
2007	42,250	151,691	53,142	301,047	100	100	201.5	121.8

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

[2] Revised actuarial assumptions.

Analysis of System Experience

Gains/(Losses) in Accrued Liabilities During Year Ended September 30, 2007
Resulting from Differences Between Assumed Experience & Actual Experience

	Type of Activity	Gain/(Loss)
1.	**Retirements (including Disability Retirement).** If members retire at older ages or with lower final average pay than assumed, there is a gain. If younger ages or higher average pays, a loss.	$ (2,696,886)
2.	**Withdrawal From Employment** (including death-in-service). If more liabilities are released by withdrawals and deaths than assumed, there is a gain. If smaller releases, a loss.	1,110,070
3.	**Pay Increases.** If there are smaller pay increases than assumed, there is a gain. If greater increases, a loss.	3,227,898
4.	**Investment Income.** If there is greater investment income than assumed, there is a gain. If less income, a loss.	13,373,282
5.	**Death After Retirement.** If retirants live longer than assumed, there is a loss. If not as long, a gain.	368,602
6.	**New entrants / rehires.** New entrants into the System will generally result in an actuarial loss. This does not apply to plans closed to new entrants.	-
7.	**Other.** Miscellaneous gains and losses resulting from data adjustments, timing of financial transactions, etc.	(119,608)
8.	**Composite Gain (or Loss) During Year**	$ 15,263,358

Summary of Plan Provisions

Our actuarial valuation of the System as of September 30, 2007, is based on the present provision of Public Act No. 234 of 1992.

Regular Retirement

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

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

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

Early Retirement (age reduction factor used)

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

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

Deferred Retirement (vested benefit)

Eligibility — 8 years of credited service.

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

Disability Retirement

Eligibility — 8 years of credited service.

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

Death Before or After Retirement (Spouse or Dependent Children)

Eligibility — 8 years of credited service.

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

Summary of Plan Provisions (Continued)

Post Retirement Cost-of-Living Adjustments

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

Member Contributions

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

Trial Judges with Full Standardization: 7% of salary.

Trial Judges without Full Standardization: 3.5% of salary.

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

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

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

Defined Contribution Legislation — Public Act 523 of 1996

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

Active members on March 30, 1997, had an opportunity to irrevocably elect to terminate membership in Tier 1 and become participants in Tier 2. Elections were in writing and submitted between January 2, 1998, and April 30, 1998. Such members became Tier 2 participants on June 1, 1998, and had the actuarial present value of their Tier 1 accrued benefit transferred into Tier 2 by September 30, 1998.

STATISTICAL SECTION

Schedules of Revenues by Source
Schedules of Expenses by Type
Schedules of Changes in Net Assets
Schedules of Benefits and Refunds by Type
Schedules of Retired Members by Type of Benefit
Schedules of Average Benefit Payments
Schedule of Principal Participating Employers
Ten Year History of Membership
Schedule of Participating Employers

STATISTICAL SECTION

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

Contents

Financial Trends

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

- Schedule of Pension Plan Revenues by Source
- Schedule of Health Plan Revenues by Source
- Schedule of Pension Plan Expenses by Type
- Schedule of Health Plan Expenses by Type
- Schedule of Changes in Net Assets – Pension Plan
- Schedule of Changes in Net Assets – Health Plan
- Schedule of Pension Benefits and Refunds by Type
- Schedule of Health Benefits by Type

Operating Information

These schedules contain contextual information to assist the reader's understanding of how the System's financial information relates to the combination of participating members and the benefits it provides. Schedules are presented for the last ten fiscal years, except where noted. Schedules included are:

- Schedule of Retired Members by Type of Pension Benefit
- Schedule of Retired Members by Type of Health Benefit
- Schedule of Average Pension Benefit Payments
- Schedule of Average Health Benefit Payments
- Schedule of Principal Participating Employers
- Ten Year History of Membership
- Schedule of Participating Employers

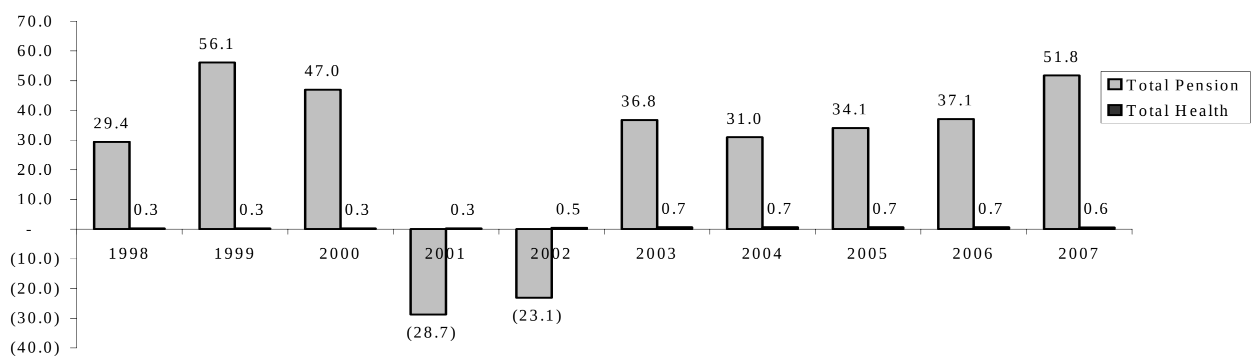
Schedule of Pension Plan Revenues by Source
Last Ten Years

Fiscal Year Ended Sept. 30	Member Contributions	Employer Contributions Dollars	Employer Contributions % of Annual Covered Payroll	Net Investment & Other Income	Total
1998	$ 2,930,870	$ 246,659	N/A	$ 26,250,205	$ 29,427,734
1999	3,019,443	58,499	N/A	53,008,576	56,086,518
2000	2,874,966	-	0.00	44,164,101	47,039,067
2001	2,304,041	-	0.00	(30,995,562)	(28,691,521)
2002	2,857,224	-	0.00	(25,998,096)	(23,140,872)
2003	2,288,608	-	0.00	34,560,288	36,848,896
2004	2,143,714	-	0.00	28,818,651	30,962,365
2005	2,077,550	-	0.00	32,011,495	34,089,045
2006	2,017,943	-	0.00	35,106,967	37,124,910
2007	1,845,878	-	0.00	49,974,396	51,820,274

Schedule of Health Plan Revenues by Source
Last Ten Years

Fiscal Year Ended Sept. 30	Member Contributions	Court Fees & Other Income	Total
1998	$ 283,836	$ -	$ 283,836
1999	297,397	-	297,397
2000	324,441	-	324,441
2001	345,851	-	345,851
2002	362,987	100,000	462,987
2003	451,035	265,000	716,035
2004	483,966	215,000	698,966
2005	450,657	215,000	665,657
2006	518,057	215,000	733,057
2007	530,336	115,535	645,871

Total Revenue
Year Ended September 30
(in millions)



Schedule of Pension Plan Expenses by Type

Last Ten Years

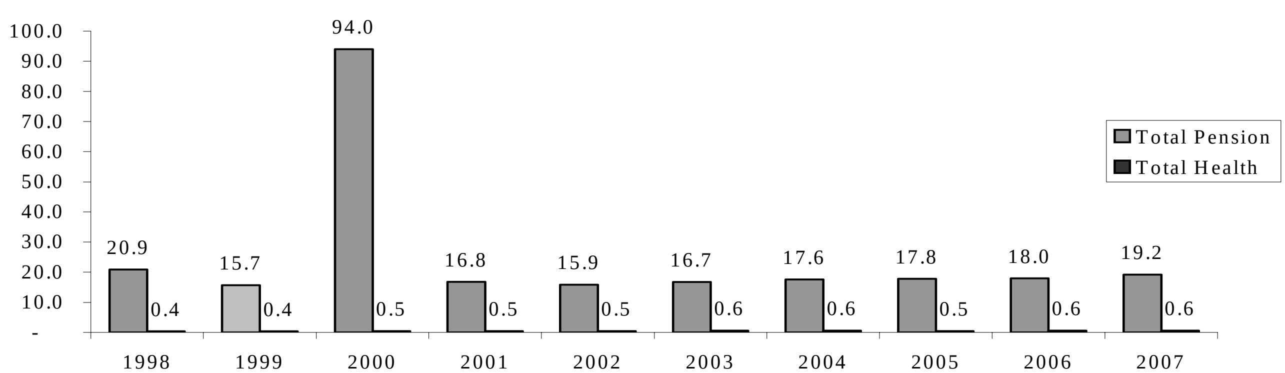
Fiscal Year Ended Sept. 30	Benefit Payments	Refunds and Transfers	Administrative and Other Expenses	Total
1998	$ 14,304,553	$ 6,641,662	$ 197,743	$ 21,143,958
1999	14,832,575	913,381	148,116	15,894,072
2000	15,260,878	78,765,632	517,046	94,543,556
2001	15,793,191	975,633	500,501	17,269,325
2002	15,809,951	52,862	404,983	16,267,796
2003	16,728,017	1,074	500,590	17,229,681
2004	17,540,889	67,792	210,178	17,818,859
2005	17,797,840	-	167,993	17,965,833
2006	17,952,735	-	170,023	18,122,758
2007	18,919,433	247,941	181,848	19,349,222

Schedule of Health Plan Expenses by Type

Last Ten Years

Fiscal Year Ended Sept. 30	Benefit Payments	Total
1998	$ 355,523	$ 355,523
1999	398,997	398,997
2000	450,345	450,345
2001	505,459	505,459
2002	519,669	519,669
2003	564,801	564,801
2004	576,043	576,043
2005	510,152	510,152
2006	596,769	596,769
2007	611,246	611,246

Total Expenses
Year Ended September 30
(in millions)



Schedule of Changes in Net Assets-Pension Plan

Last Ten Years

(in thousands)

	Fiscal Year									
	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Member contributions	$ 2,930	$ 3,019	$ 2,875	$ 2,304	$ 2,857	$ 2,289	$ 2,144	$ 2,078	$ 2,018	$ 1,846
Employer contributions	247	58	-	-	-	-	-	-	-	-
Net investment income	26,251	53,010	44,164	(30,996)	(25,998)	34,560	28,818	32,011	35,107	49,974
Total Additions	29,428	56,087	47,039	(28,692)	(23,141)	36,849	30,962	34,089	37,125	51,820
Pension benefits	14,305	14,833	15,261	15,793	15,810	16,728	17,541	17,798	17,953	18,919
Refunds of member contributions	6,642	913	78,766	976	53	1	67	-	-	248
Administrative expenses	197	148	517	500	405	501	210	168	170	182
Total Deductions	21,144	15,894	94,544	17,269	16,268	17,230	17,818	17,966	18,123	19,349
Changes in net assets	$ 8,284	$ 40,193	$ (47,505)	$ (45,961)	$ (39,409)	$ 19,619	$ 13,144	$ 16,123	$ 19,002	$ 32,471

Schedule of Changes in Net Assets-Health Plan

Last Ten Years

(in thousands)

	Fiscal Year									
	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Member contributions	$ 284	$ 297	$ 324	$ 346	$ 363	$ 451	$ 484	$ 451	$ 518	$ 530
Employer contributions	-	-	-	-	-	-	-	-	-	-
Court fees	-	-	-	-	100	265	215	215	215	116
Net investment income	-	-	-	-	-	-	-	-	-	-
Total Additions	284	297	324	346	463	716	699	666	733	646
Pension benefits	-	-	-	-	-	-	-	-	-	-
Health care benefits	356	399	450	505	520	565	576	510	597	611
Refunds of member contributions	-	-	-	-	-	-	-	-	-	-
Administrative expenses	-	-	-	-	-	-	-	-	-	-
Total Deductions	356	399	450	505	520	565	576	510	597	611
Changes in net assets	$ (72)	$ (102)	$ (126)	$ (159)	$ (57)	$ 151	$ 123	$ 156	$ 136	$ 35

STATISTICAL SECTION

Schedule of Pension Benefits and Refunds by Type

Last Ten Years

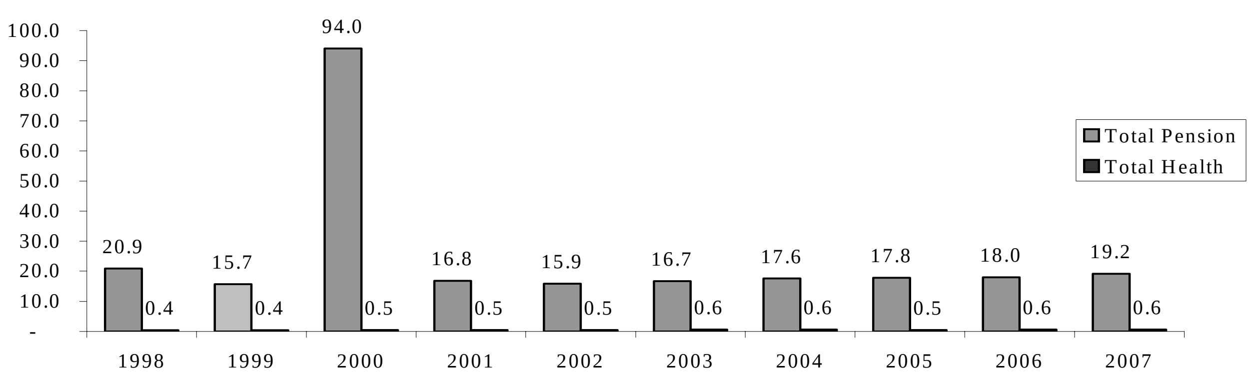
Fiscal Year Ended Sept. 30	Regular Benefits	Disability Benefits	Survivor Benefits	Refunds	Transfers	Total
1998	$ 13,922,718	$ 381,835	$ -	$ -	$ 6,641,662	$ 20,946,215
1999	14,435,420	397,155	-	-	913,381	15,745,956
2000	14,818,706	442,172	-	1,854,135	76,911,497	94,026,510
2001	15,352,750	440,441	-	64,954	910,679	16,768,824
2002	15,375,626	434,325	-	52,862	-	15,862,813
2003	16,236,804	491,213	-	1,074	-	16,729,091
2004	17,011,125	529,764	-	67,792	-	17,608,681
2005	17,269,422	528,418	-	-	-	17,797,840
2006	14,611,531	297,408	3,043,796	-	-	17,952,735
2007	14,996,160	260,585	3,662,688	247,941	-	19,167,374

Schedule of Health Benefits by Type

Last Ten Years

Fiscal Year Ended Sept. 30	Health Benefits	Dental Benefits	Vision Benefits	Total
1998	$ 300,051	$ 47,800	$ 7,672	$ 355,523
1999	341,384	49,578	8,035	398,997
2000	391,355	50,660	8,330	450,345
2001	435,444	61,978	8,037	505,459
2002	441,453	69,927	8,289	519,669
2003	482,449	73,619	8,733	564,801
2004	489,225	77,691	9,127	576,043
2005	422,261	78,495	9,396	510,152
2006	486,112	98,652	12,005	596,769
2007	500,954	98,160	12,132	611,246

Total Expenses
Year Ended September 30
(in millions)



Schedule of Retired Members by Type of Pension Benefit

September 30, 2007

Amount of Monthly Pension Benefit	Number of Retirees	Type of Retirement *					Selected Option**		
		1	2	3	4	5	Opt 1	Opt 2	Opt 3
$ 001 - 400	4	2	1	1	0	0	4	0	0
401 - 800	34	7	22	5	0	0	31	3	0
801 - 1,200	50	24	18	4	2	2	40	9	1
1,201 - 1,600	49	22	20	7	0	0	42	6	1
1,601 - 2,000	66	26	30	8	1	1	58	8	0
2,001 - 2,400	30	16	10	2	1	1	17	13	0
2,401 - 2,800	40	28	11	0	0	1	31	8	1
2,801 - 3,200	27	21	4	0	0	2	13	14	0
3,201 - 3,600	40	36	3	1	0	0	27	12	1
3,601 - 4,000	69	60	4	3	1	1	54	14	1
Over 4,000	133	126	3	1	2	1	119	14	0
Totals	542	368	126	32	7	9	436	101	5

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

**Selected Option
Opt 1 - Straight life allowance
Opt 2 - 100% Survivor option
Opt 3 - 50% Survivor option

Source: Gabriel Roeder Smith & Co.

Schedule of Retired Members by Type of Health Benefit

September 30, 2007

		Type of Other Postemployment Benefit		
Amount of Monthly Pension Benefit	**Eligible Retirees**	**Health**	**Dental**	**Vision**
$ 001 – 400	38	5	6	5
401 – 800	99	11	22	13
801 – 1,200	96	16	21	16
1,201 – 1,600	67	9	17	11
1,601 – 2,000	109	16	34	27
Over 2,000	133	30	50	48
Totals	542	87	150	120

Source: Gabriel Roeder Smith & Co.

Schedule of Average Pension Benefit Payments

Last Ten Years

Payment Periods	Credited Service (Years) 0-5	5-10	10-15	15-20	20-25	25-30	30+	Total
Period 10/1/97 to 9/30/98:								
Average Monthly Benefit	$ 860	$ 1,161	$ 1,568	$ 2,478	$ 2,942	$ 2,499	$ 3,113	$ 2,325
Average Final Average Salary	2,437	53,853	49,030	57,069	64,355	76,821	63,379	58,228
Number of Active Retirants	8	26	110	180	119	51	20	514
Period 10/1/98 to 9/30/99:								
Average Monthly Benefit	$ 908	$ 1,148	$ 1,630	$ 2,522	$ 2,948	$ 2,476	$ 3,409	$ 2,356
Average Final Average Salary	1,950	55,804	50,535	59,340	65,753	76,643	68,504	68,504
Number of Active Retirants	10	29	113	181	127	52	19	531
Period 10/1/99 to 9/30/00:								
Average Monthly Benefit	$ 923	$ 1,240	$ 1,637	$ 2,588	$ 2,990	$ 2,429	$ 3,477	$ 2,371
Average Final Average Salary	1,147	58,188	49,653	58,814	66,470	77,869	68,504	58,893
Number of Active Retirants	17	30	112	184	124	49	19	535
Period 10/1/00 to 9/30/01:								
Average Monthly Benefit	$ 1,144	$ 1,365	$ 1,668	$ 2,618	$ 3,080	$ 2,628	$ 3,761	$ 2,446
Average Final Average Salary	7,066	59,526	51,362	60,795	67,803	83,459	73,014	60,618
Number of Active Retirants	23	31	109	188	128	47	20	546
Period 10/1/01 to 9/30/02:								
Average Monthly Benefit	$ 1,144	$ 1,363	$ 1,712	$ 2,618	$ 3,015	$ 2,718	$ 3,904	$ 2,442
Average Final Average Salary	7,066	60,075	53,476	62,450	67,578	84,054	76,199	61,683
Number of Active Retirants	23	32	109	180	125	47	19	535
Period 10/1/02 to 9/30/03:								
Average Monthly Benefit	$ 1,026	$ 1,251	$ 1,978	$ 2,771	$ 3,217	$ 2,722	$ 4,197	$ 2,593
Average Final Average Salary	813	49,406	48,531	56,406	61,051	58,177	59,739	53,211
Number of Active Retirants	24	31	118	188	121	46	23	551
Period 10/1/03 to 9/30/04:								
Average Monthly Benefit	$ 1,026	$ 1,247	$ 2,016	$ 2,917	$ 3,317	$ 2,940	$ 3,871	$ 2,667
Average Final Average Salary	813	49,810	48,982	55,299	61,840	59,355	59,739	53,149
Number of Active Retirants	24	33	118	188	117	46	23	549
Period 10/1/04 to 9/30/05:								
Average Monthly Benefit	$ 1,057	$ 1,263	$ 2,074	$ 2,984	$ 3,382	$ 2,986	$ 3,850	$ 2,718
Average Final Average Salary	780	51,605	48,782	53,902	62,131	58,827	59,739	52,634
Number of Active Retirants	25	34	117	193	116	44	23	552
Period 10/1/05 to 9/30/06:								
Average Monthly Benefit	$ 1,023	$ 1,411	$ 2,098	$ 3,013	$ 3,364	$ 2,953	$ 3,569	$ 2,807
Average Final Average Salary	3,250	71,249	61,140	69,683	76,983	75,353	92,016	70,441
Number of Active Retirants	6	30	112	193	117	49	26	533
Period 10/1/06 to 9/30/07:								
Average Monthly Benefit	$ 888	$ 1,467	$ 2,126	$ 3,228	$ 3,440	$ 3,064	$ 3,569	$ 2,935
Average Final Average Salary	3,900	70,222	63,067	72,137	80,455	81,286	93,887	73,280
Number of Active Retirants	5	31	109	202	124	45	26	542

Source: Gabriel Roeder Smith & Co.

Schedule of Average Benefit Payments - Health

September 30, 2007

Retirement Effective Dates	Years Credited Service							
	0 - 5	5 - 10	10 - 15	15 - 20	20 - 25	25 - 30	30 +	Total
Period 10/1/06 to 9/30/07								
Average Monthly Benefit	17	2,102	2,235	3,544	3,791	4,426	5,859	3,351
Average FAC	19,500	84,638	63,913	79,862	88,876	105,084	131,721	81,436
Number of Active Retirants	1	3	20	33	19	9	2	87

Schedule of Average Benefit Payments - Dental

September 30, 2007

Retirement Effective Dates	Years Credited Service							
	0 - 5	5 - 10	10 - 15	15 - 20	20 - 25	25 - 30	30 +	Total
Period 10/1/06 to 9/30/07								
Average Monthly Benefit	-	1,923	2,408	3,471	3,599	4,088	4,017	3,349
Average FAC	-	84,070	65,954	76,790	79,234	95,142	88,821	78,270
Number of Active Retirants	-	5	28	55	38	17	7	150

Schedule of Average Benefit Payments - Vision

September 30, 2007

Retirement Effective Dates	Years Credited Service							
	0 - 5	5 - 10	10 - 15	15 - 20	20 - 25	25 - 30	30 +	Total
Period 10/1/06 to 9/30/07								
Average Monthly Benefit	17	2,186	2,526	3,795	4,003	4,377	4,065	3,651
Average FAC	19,500	96,442	67,760	80,314	86,286	102,028	99,110	83,177
Number of Active Retirants	1	3	20	42	35	14	5	120

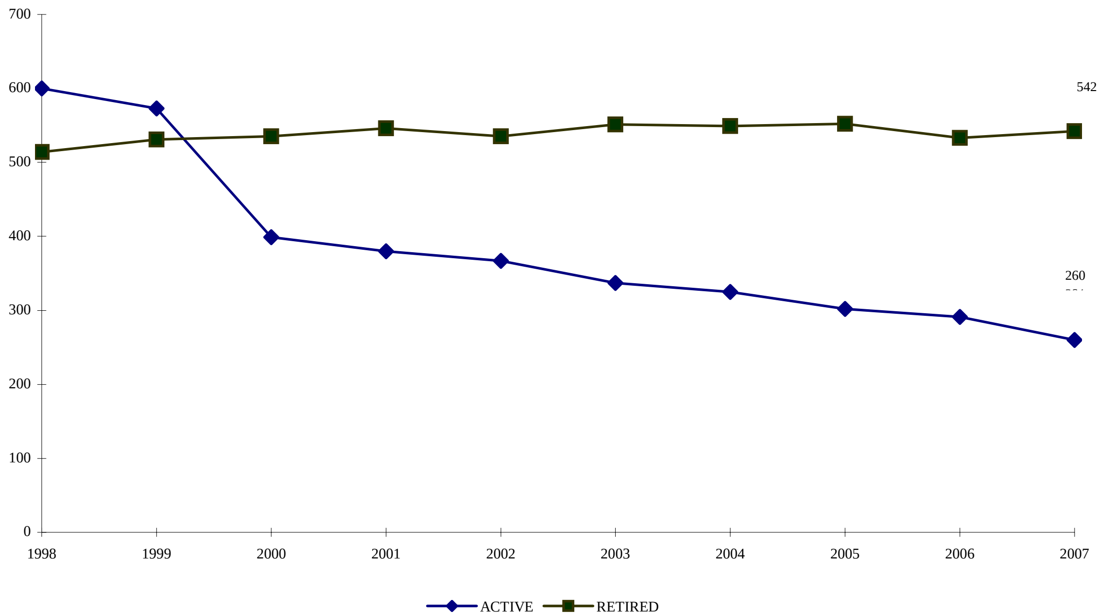
Source: Gabriel Roeder Smith & Co.

Schedule of Principal Participating Employers

	2007			1998	
Participating Employers	Covered Employees	Percentage of Total System	Participating Employers	Covered Employees	Percentage of Total System
3rd Circuit Court	19	2.32%	Court of Appeals	36	3.16%
Court of Appeals	16	1.96%	3rd Circuit Court	36	3.16%
36th District Court	13	1.59%	36th District Court	28	2.46%
6th Circuit Court	7	0.86%	Recorders Court	23	2.02%
Wayne County Probate Court	6	0.73%	6th Circuit Court	14	1.23%
61st District Court	5	0.61%	Wayne County Probate Court	9	0.79%
16th Circuit Court	5	0.61%	30th Circuit Court	9	0.79%
Supreme Court	4	0.49%	16th Circuit Court	9	0.79%
14th Circuit Court	4	0.49%	52nd District Court	8	0.70%
70th District Court	4	0.49%	Supreme Court	7	0.62%
All other	735	89.85%	All Other	959	84.28%
Total	818	100.00%	Total	1,138	100.00%

STATISTICAL SECTION

Ten Year History of Membership
Fiscal Year Ended September 30, 2007



Source: Gabriel Roeder Smith & Co.

Schedule of Participating Employers through 9/30/07

Elected Offices
Supreme Court
Court Of Appeals
03rd Circuit Court
04th Circuit Court
05th Circuit Court
06th Circuit Court
07th Circuit Court
08th Circuit Court
09th Circuit Court
10th Circuit Court
12th Circuit Court
13th Circuit Court
14th Circuit Court
15th Circuit Court
16th Circuit Court
17th Circuit Court
18th Circuit Court
20th Circuit Court
21st Circuit Court
22nd Circuit Court
24th Circuit Court
25th Circuit Court
26th Circuit Court
27th Circuit Court
30th Circuit Court
31st Circuit Court
32nd Circuit Court
34th Circuit Court
35th Circuit Court
36th Circuit Court
37th Circuit Court
38th Circuit Court
39th Circuit Court
40th Circuit Court
41st Circuit Court
46th Circuit Court
56th Circuit Court
57th Circuit Court
03B District Court
05th District Court
07th District Court
08th District Court
10th District Court
14th District Court
15th District Court
16th District Court
17th District Court
18th District Court
19th District Court
21st District Court
22nd District Court
25th District Court
26th District Court
28th District Court
31st District Court
33rd District Court
36th District Court
37th District Court
39th District Court
40A District Court
41B District Court
42nd District Court
43rd District Court
44th District Court
45th District Court
46th District Court
48th District Court
51st District Court
52nd District Court
54B District Court
56A District Court
57th District Court
58th District Court
60th District Court
61st District Court
63rd District Court
64B District Court
65A District Court
66th District Court
67th District Court
68th District Court
70th District Court
71A District Court
71B District Court
74th District Court
76th District Court
77th District Court
78th District Court
80th District Court

Schedule of Participating Employers through 9/30/07

81st District Court
82nd District Court
84th District Court
85th District Court
86th District Court
87th District Court
88th District Court
90th District Court
91st District Court
95A District Court
95B District Court
97th District Court
98th District Court
Bay County Probate Court
Benzie County Probate Court
Berrien County Probate Court
Branch County Probate Court
Calhoun County Probate Court
Cass County Probate Court
Chippewa County Probate Court
Clare County Probate Court
Emmet County Probate Court
Gogebic County Probate Court
Huron County Probate Court
Iosco County Probate Court
Iron County Probate Court
Isabella County Probate Court
Kalamazoo County Probate Court
Kent County Probate Court
Lake County Probate Court
Leelanau County Probate Court
Macomb County Probate Court
Mason County Probate Court
Mecosta/Osceola Probate District 18
Monroe County Probate Court
Montmorency County Probate Court
Muskegon County Probate Court
Ontonagon County Probate Court
Oscoda County Probate Court
Ottawa County Probate Court
Recorders Court
Sanilac County Probate Court
Shiawassee County Probate Court
St Joseph County Probate Court
Washtenaw County Probate Court
Wayne County Probate Court
Wexford County Probate Court

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The *Michigan Judges' Retirement System Comprehensive Annual Financial Report* is prepared by Financial Services, Fiscal Management Division. Staff of the division for the fiscal year 2006-2007 report included:

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