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

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

M J R S

Prepared by:
Financial Services
For
Office of Retirement Services
P.O. Box 30171
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INTRODUCTORY SECTION

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, 2003

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

GOVERNMENT FINANCE OFFICERS ASSOCIATION OF THE UNITED STATES AND CANADA CORPORATION SEAL CHICAGO

Nancy L. Zielke
President

Jeffrey R. Esser
Executive Director

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 3, 2004

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 2004.

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

The Michigan Judges' Retirement 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.

The 2004 comprehensive annual financial report is presented in five sections. The Introductory Section contains the transmittal letter and identifies the administrative organization and professional consultants used by the System. The Financial Section contains the independent auditor's report, management's discussion and analysis, financial statements and notes of the System and certain supplemental schedules. The Investment Section summarizes investment activities. The Actuarial Section contains the independent consulting actuary's certification, an outline of actuarial assumptions and methods, and other actuarial statistics. The Statistical Section contains statistical tables of significant data pertaining to the System, and a schedule of participating employers.

Letter of Transmittal (Continued)

MAJOR GOALS ACCOMPLISHED

The Michigan Department of Management and Budget, Office of Retirement Services continues to provide high-quality services to a large membership at an affordable cost. This level of service is achieved with the combination of management and staff that persistently questions, redefines and refines processes to stay responsive and timely. Our daily business activities are tied to achieving our mission of delivering pensions, related benefits, and services to promote the future financial security of our customers.

In this fiscal year, we embraced the realities of our Vision ORS technology solutions, sought and achieved ways to manage cost while enhancing service, and supported staff as they adapted to fast-paced changes to tools and policy. Here are some of the highlights.

Focus on Our Customer

During the 2004 fiscal year, ORS hosted 9,600 members at our pre-retirement information meetings and personally counseled 9,500 members. This is in addition to the 237,700 members who took advantage of our phone service for retirement information and services.

Customers are receiving more personal service faster when they call thanks to new interconnectivity between our toll-free phone service and our Customer Relationship Management network. This tool reduces call time by automatically populating the retirement representative's computer with the personal information of the incoming caller. The results are faster service for callers and more customers are able to resolve their questions each day.

Continuously Improve Processes and Optimize Technology

Last year, in the beginnings of our Vision ORS project, we deployed document scanning in our mailroom to get the daily documents that drive our business processed faster. For members of the Judges' Retirement System, all active member files have been scanned and are available online for our retirement representatives to view when you call. Our next step is to expand this technology to target some of the more recently retired members and those active members who will likely retire in the next few years.

Member surveys and letters, conversations with members and member organizations, and regular discussions with our staff tell us that we are making great strides toward our vision. This success inspires us to continue to improve. The continued deployment of our Vision Project technology will provide even more opportunities to evaluate and improve ORS' service to customers.

CERTIFICATE OF ACHIEVEMENT

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the System for its comprehensive annual financial report for the fiscal year ended September 30, 2003. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both accounting principles generally accepted in the United States of America and applicable legal requirements.

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

FINANCIAL INFORMATION

Please refer to Management's Discussion and Analysis in the Financial Section for condensed financial information and activities of the current and prior fiscal years.

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 that the accounting and administrative internal controls established by the System provide reasonable assurance that the System is carrying out its responsibilities in safeguarding its assets, in the reliability of the financial records for preparing the financial statements, and in maintaining accountability for its assets.

INTERNAL CONTROL

The leadership team of the System is responsible for maintaining adequate internal accounting controls designed to provide reasonable assurance that transactions are executed in accordance with management's general or specific authorization, and are recorded as necessary to maintain accountability for assets and to permit preparation of financial statements in accordance with 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.

INVESTMENT

The State Treasurer is the investment fiduciary and custodian of all investments of the System pursuant to State law. The primary investment objective is to maximize the rate of return on the total investment portfolio, consistent with a high degree of prudence and sufficient diversity to eliminate inordinate risks and to meet the actuarial assumption for the investment return rate. The investment activity for the year produced a total rate of return on the portfolio of 11.4%. For the last five years, the System has experienced an annualized rate of return of 3.3%. A summary of asset allocation and rates of return can be found in the Investment Section of this report.

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, 2004, the actuarial value of the assets and actuarial accrued liability of the System were $286.9 million and $236.4 million, respectively, resulting in a funded ratio of 121.3%. As of September 30, 2003, the amounts were $292.3 million and $235.2 million, respectively. A historical perspective of funding levels for the System is presented on the Schedule of Funding Progress in the Required Supplementary Information in the Financial Section of this report.

POSTEMPLOYMENT BENEFITS

The System also administers the postemployment health benefits (health, dental, and vision) offered to eligible retirees. The benefits are funded on a cash or "pay as you go" basis. An actuarial valuation was completed to determine the actuarial accrued liability if the benefits were to be pre-funded. If these benefits were pre-funded, the actuarial accrued liability for these benefits would be approximately $4.4 million and the employer contribution for health care benefits would be 6.36%.

PROFESSIONAL SERVICES

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

Statute requires that an annual actuarial valuation be conducted. The purpose of the valuation is to evaluate the mortality, service, compensation and other financial experience of the System and to recommend employer-funding rates for the subsequent year. This annual actuarial valuation was completed by the Segal Company for the fiscal years ended September 30, 2004, and 2003. Actuarial certification and supporting statistics are included in the Actuarial Section of this report.

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 many people who contributed to its preparation. We believe their combined efforts have produced a report that will enable the employers and plan members to better evaluate and understand the Michigan Judges' Retirement System. Their cooperation contributes significantly to the success of the System.

Sincerely,

Mitch Irwin, Director
Department of Management and Budget

Christopher M. DeRose, Director
Office of Retirement Services

Administrative Organization

Retirement Board Members*

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

Administrative Organization

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

Advisors and Consultants

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

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

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

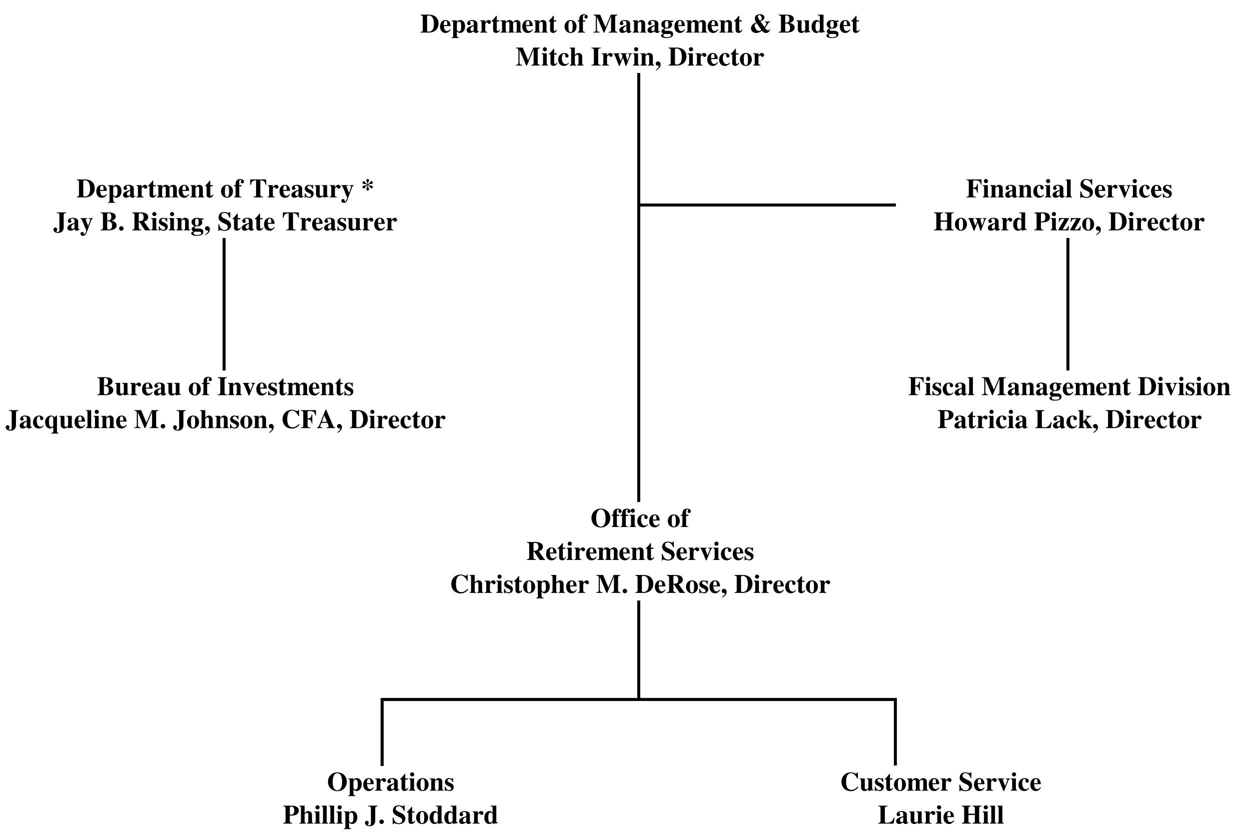
Investment Manager and Custodian
Jay B. Rising
State Treasurer
State of Michigan

Legal Advisor
Mike Cox
Attorney General
State of Michigan

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

Administrative Organization (Continued)

Organization Chart



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

FINANCIAL SECTION

FINANCIAL SECTION

Independent Auditor's Report

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

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

We have audited the accompanying statements of pension plan and postemployment healthcare plan net assets of the Michigan Judges' Retirement System, as of September 30, 2004 and 2003, 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, 2004 and 2003, 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.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The required supplementary information and supporting schedules listed in the table of contents are presented for the purpose of additional analysis and are not a required part of the basic financial statements. The required supplementary information and supporting schedules are the responsibility of the Michigan 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 Management's Discussion and Analysis (MD&A) is not a required part of the basic financial statements but is supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of this supplemental information. However, we did not audit the information and express no opinion on it. The Introductory, Investment, Actuarial, and Statistical Sections were not audited by us and, accordingly, we express no opinion on those sections.

In accordance with *Government Auditing Standards*, we have also issued a report dated December 1, 2004 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, and contracts. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Andrews Hooper & Pavlik P.L.C.

Okemos, Michigan
December 1, 2004

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Management's Discussion and Analysis (Continued)

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, 2004. Please read it in conjunction with the transmittal letter in the Introductory Section on page 5 and the basic financial statements, which follow this discussion.

FINANCIAL HIGHLIGHTS

- System assets exceeded liabilities at the close of fiscal year 2004 by $267.8 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, 2004, the funded ratio was approximately 121.3%.
- Revenues for the year were $31.7 million, which is comprised of member contributions of $2.6 million, court fees of $215.0 thousand, and investment gains of $28.8 million.
- Expenses increased over the prior year from $17.8 million to $18.4 million or 3.4%

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

This Comprehensive Annual Financial Report (CAFR) consists of two financial statements; *The Statement of Pension Plan and Postemployment Healthcare Plan Net Assets* (page 18) and *The Statement of Changes in Pension Plan and Postemployment Healthcare Plan Net Assets* (page 19). These financial statements report information about the System, as a whole, and about its financial condition that should help answer the question: Is the System, as a whole, better off or worse off as a result of this year's activities? These statements include all assets and liabilities using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis of accounting, all revenues and expenses are taken into account regardless of when cash is received or paid.

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

Management's Discussion and Analysis (Continued)

FINANCIAL ANALYSIS

System total assets as of September 30, 2004, were $285.9 million and were mostly comprised of cash and investments. Total assets increased $24.3 million or 9.3% between fiscal years 2003 and 2004 and increased $17.9 million or 7.3% between fiscal years 2002 and 2003.

Total liabilities as of September 30, 2004, were $18.1 million and were comprised of warrants outstanding, accounts payable, and obligations under securities lending. Total liabilities increased $11.0 million or 154.2% between fiscal years 2003 and 2004 and decreased $1.9 million or 20.7% from fiscal year 2002 to fiscal year 2003.

System assets exceeded its liabilities at the close of fiscal year 2004 by $267.8 million. Total net assets held in trust for pension and health benefits increased $13.3 million or 5.2% between fiscal years 2003 and 2004 and increased $19.8 million or 8.4% between fiscal years 2002 and 2003.

Net Assets
(in thousands)

	2004	Increase/ (Decrease)	2003	Increase/ (Decrease)	2002
Assets					
Cash	$ 2,155	88.7 %	$ 1,142	(64.6) %	$ 3,223
Receivables	67	(91.4)	783	(30.6)	1,128
Investments	283,702	9.2	259,738	8.5	239,402
Total Assets	285,924	9.3	261,663	7.3	243,753
Liabilities					
Warrants outstanding	47	(38.1)	76	13.4	67
Accounts payable and other accrued liabilities	3	(96.3)	82	(59.6)	203
Obligations under securities lending	18,077	159.2	6,974	(20.1)	8,723
Total Liabilities	18,127	154.2	7,132	(20.7)	8,993
Total Net Assets	$ 267,797	5.2 %	$ 254,531	8.4 %	$ 234,760

Management's Discussion and Analysis (Continued)

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 2004 totaled $31.7 million.

Total contributions, net investment income, and court fees decreased $5.9 million from those of fiscal year 2003 due primarily to decreased investment earnings. Total contributions, court fees and net investment income increased $60.2 million or 265.6% from fiscal year 2002 to fiscal year 2003 due primarily to increased investment earnings. Investment income decreased between fiscal years 2003 and 2004 by $5.7 million. Investment income increased between fiscal year 2002 and fiscal year 2003 by $60.6 million or 232.9%. Court fees totaled $215.0 thousand. The Investment Section of this report reviews the results of investment activity for 2004.

Additions to Plan Net Assets
(in thousands)

	2004	Increase/ (Decrease)	2003	Increase/ (Decrease)	2002
Member Contributions	$ 2,628	(4.1) %	$ 2,740	(14.9) %	$ 3,220
Net Investment Income/Loss	28,818	(16.6)	34,560	232.9	(25,998)
Miscellanous Income	215	(18.9)	265	165.0	100
Total	$ 31,661	(15.7) %	$ 37,565	265.6 %	$ (22,678)

Management's Discussion and Analysis (Continued)

EXPENSES - DEDUCTIONS FROM PLAN NET ASSETS

The primary expenses of the System include the payment of pension benefits to members and beneficiaries, payment for health, dental and vision benefits, refund of contributions to former members, and the cost of administering the System. Total deductions for fiscal year 2004 were $18.4 million, an increase of 3.4% from fiscal year 2003 expenses. Total deductions for fiscal year 2003 were $17.8 million, an increase of 6.0% from fiscal year 2002 expenses.

The growth of health, dental and vision care expenses continued during the year and increased by $11.2 thousand or 1.9% from $564.8 thousand to $576.0 thousand during the fiscal year. This compares to an increase of $45.1 thousand or 8.6% from $519.7 thousand to $564.8 thousand between fiscal years 2002 and 2003. The payment of pension benefits increased by $812.9 thousand or 4.9% between fiscal years 2003 and 2004, and by $918.1 thousand or 5.8% from fiscal year 2002 to 2003. Refunds of contributions to members increased by $66.7 thousand or 6700.0% in fiscal year 2004, while refunds of contributions to members decreased by $51.8 thousand or 98.1% between fiscal years 2002 and 2003. Administrative expenses decreased by $290.0 thousand or 58.1% between fiscal years 2003 and 2004. Administrative expenses increased by $95.6 thousand or 23.7% between fiscal years 2002 and 2003.

Deductions from Plan Net Assets
(In Thousands)

	2004	Increase/ (Decrease)	2003	Increase/ (Decrease)	2002
Pension Benefits	$ 17,541	4.9 %	$ 16,728	5.8 %	$ 15,810
Health Care Benefits	576	1.9	565	8.7	520
Refunds & Transfers to Other Systems	68	6,700.0	1	(98.1)	53
Administrative Expenses	210	(58.1)	501	23.7	405
Total	$ 18,395	3.4 %	$ 17,795	6.0 %	$ 16,788

Management's Discussion and Analysis (Continued)

RETIREMENT SYSTEM AS A WHOLE

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

CONTACTING SYSTEM FINANCIAL MANAGEMENT

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

Statements of Pension Plan and Postemployment Healthcare Plan Net Assets

As of Fiscal Years Ending September 30, 2004 and 2003

	September 30, 2004			September 30, 2003		
	Pension Plan	Health Plan	Total	Pension Plan	Health Plan	Total
Assets:						
Equity in Common Cash	$ 2,155,181		$ 2,155,181	$ 1,141,546		$ 1,141,546
Receivables:						
Amounts due from employers	66,479	$ 71	66,550	67,539	$ 108	67,647
Interest and dividends	704		704	703,339		703,339
Sale of investments				12,007		12,007
Total receivables	67,183	71	67,254	782,885	108	782,993
Investments:						
Short term investments/pools	6,557,519		6,557,519	12,623,735		12,623,735
Bond and notes/fixed income pools	53,559,367		53,559,367	52,232,869		52,232,869
Common and preferred stock/pools	128,971,485		128,971,485	113,100,969		113,100,969
Real estate and mortgages/pools	26,141,157		26,141,157	28,718,203		28,718,203
Alternative investments/pools	25,002,751		25,002,751	24,858,846		24,858,846
International investments/pools	25,392,430		25,392,430	21,229,017		21,229,017
Cash collateral on loaned securities	18,077,376		18,077,376	6,974,336		6,974,336
Total investments	283,702,085	-	283,702,085	259,737,975	-	259,737,975
Total assets	285,924,449	71	285,924,520	261,662,406 -	108	261,662,514
Liabilities:						
Warrants outstanding	47,482		47,482	75,758	122	75,880
Accounts payable and other accrued liabilities	2,591		2,591	81,656		81,656
Internal balances	(285,182)	285,182		(408,020)	408,020	-
Obligations under securities lending	18,077,376		18,077,376	6,974,336		6,974,336
Total liabilities	17,842,267	285,182	18,127,449	6,723,730	408,142	7,131,872
Net Assets (Liabilities) Held in Trust for Pension and Health Benefits*	$ 268,082,182	$ (285,111)	$ 267,797,071	$ 254,938,676	$ (408,034)	$ 254,530,642

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

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

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

For the Fiscal Years Ending September 30, 2004 and 2003

	September 30, 2004			September 30, 2003		
	Pension Plan	Health Plan	Total	Pension Plan	Health Plan	Total
Additions:						
Member contributions	$ 2,143,714	$ 483,966	$ 2,627,680	$ 2,288,608	$ 451,035	$ 2,739,643
Investment income (loss):						
Investment income (loss)	29,145,657		29,145,657	34,904,136		34,904,136
Investment expenses:						
Real estate operating expenses	(2,467)		(2,467)	(8,887)		(8,887)
Other investment expenses	(346,090)		(346,090)	(359,526)		(359,526)
Securities lending activities:						
Securities lending income	193,922		193,922	143,857		143,857
Securities lending expenses	(172,742)		(172,742)	(119,304)		(119,304)
Net investment income (loss)	28,818,280	-	28,818,280	34,560,276	-	34,560,276
Court Fees		215,000	215,000		265,000	265,000
Miscellaneous	371		371	12		12
Total additions	30,962,365	698,966	31,661,331	36,848,896	716,035	37,564,931
Deductions:						
Benefits and refunds paid to plan members and beneficiaries:						
Retirement benefits	17,540,889		17,540,889	16,728,017		16,728,017
Health benefits		576,043	576,043		564,801	564,801
Return of contributions	67,792		67,792	1,074		1,074
Administrative expenses	210,178		210,178	500,590		500,590
Total deductions	17,818,859	576,043	18,394,902	17,229,681	564,801	17,794,482
Net increase (decrease)	13,143,506	122,923	13,266,429	19,619,215	151,234	19,770,449
Net Assets (Liabilities) Held in Trust for Pension and Health Benefits:						
Beginning of year	254,938,676	(408,034)	254,530,642	235,319,461	(559,268)	234,760,193
End of year*	$ 268,082,182	$ (285,111)	$ 267,797,071	$ 254,938,676	$ (408,034)	$ 254,530,642

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

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

Notes to Basic Financial Statements

NOTE 1 - PLAN DESCRIPTION

ORGANIZATION

The Michigan Judges' Retirement System (System) is a cost sharing, multiple employer, state-wide, defined benefit public employee retirement plan governed by the State of Michigan (State). The System, created under Public Act 234 of 1992, consolidated the former Judges' and Probate Judges' Retirement Systems into one retirement system. The System was established by the State to provide retirement, survivor and disability benefits to judges in the judicial branch of state government. There are 173 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, 2004, and 2003, the System's membership consisted of the following:

Retirees and beneficiaries currently receiving benefits:	**2004**	**2003**
Regular benefits	362	368
Survivor benefits	181	176
Disability benefits	6	7
Total	549	551
Current employees:		
Vested	285	282
Non-vested	40	55
Total	325	337
Inactive employees entitled to benefits and not yet receiving them	11	13
Total members	885	901

Plan 1 or 2 members (Supreme Court Justice, Court of Appeals, or elected officials) may enroll in the State Health Plan when they retire and their premium rate is subsidized. All other judges may enroll in the State Health Plan if they wish to, but they must pay the entire premium cost. At September 30, 2004, and 2003, there are a total of 549 and 551 retirees, respectively, who are eligible to participate in the health/dental/vision plans. The number of participants is on the following page:

Notes to Basic Financial Statements (Continued)

	2004	2003
Participants receiving benefits:		
Health	79	79
Dental	144	141
Vision	106	103

BENEFIT PROVISIONS

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

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

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

Regular Retirement

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

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

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

Early Retirement

A member may retire with an early permanently reduced pension:

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

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

Notes to Basic Financial Statements (Continued)

Deferred Retirement

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

Disability Benefit

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

Pension Payment Options

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

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

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

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

Survivor Benefit

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

Contributions

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

Notes to Basic Financial Statements (Continued)

Publicly Financed Contributions — There are two public sources which fund retirement benefits: Court fees and State appropriations. The State contributes annually the greater of 3.5% of the aggregate annual compensation of State paid base salaries, or the difference between the total actuarial requirement of current service and unfunded accrued liabilities minus the revenues from court filing fees and member contributions. Since the system was fully funded, the appropriation was not requested for fiscal years 2004 and 2003. If the court fees deposited in the reserve for employer contributions equals the amount needed in addition to other publicly financed contributions to sustain the required level of publicly financed contributions, Section 304(4) requires court fees be deposited in the court fee fund. In accordance with Section 304(4) of the Judges' Retirement Act, the court fees are being deposited in the court fee fund in the State Treasury. A chart showing the publicly financed contribution rates is included in the Schedule of Revenue by Source in the Statistical Section.

Public Act 95 of 2002 authorizes the State Treasurer, if funds remain in the court fee fund after transfers, to transmit a portion of the money in the court fee fund and any earnings on those amounts to the reserve for health benefits. The purpose of this transfer is to pay expected health care costs for the subsequent fiscal year that are not covered as a result of employee contributions. For fiscal year 2004, this amount was $115,000. In addition, the court fee fund shall transfer an amount not to exceed $100,000 in each fiscal year, to fund any health care costs not paid from the reserve for health benefits since fiscal year 1996-1997.

Other Postemployment Benefits

Under the Michigan Judges' Retirement Act, Plan 1 or 2, members may enroll in the State Health Plan when they retire. Five percent of the health insurance premium is deducted from the monthly pension check until age 65, at which time Medicare provides primary health insurance coverage. All other members may enroll in the State Health Plan during an open enrollment period. The total premium is deducted from the monthly pension check. The active employee payroll contribution rate to fund health benefits for the Plan 1 or 2 members was 2.0% for 2004 and 2003. There are no required employer contributions to fund health benefits.

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

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting and Presentation

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

Reserves

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

Reserve for Employee Contributions — This fund represents active member contributions, payments for the purchase of service credit, repayment of previously refunded contributions and interest less amounts transferred to the Reserve for Retirement Benefits for regular and disability retirement, amounts refunded to terminated members, and transferring inactive accounts. At September 30, 2004, and 2003, the balance in this account was $38.8 million and $36.3 million, respectively.

Notes to Basic Financial Statements (Continued)

Reserve for Employer Contributions — This reserve represents Court fees, late fees, interest payments, employer contributions, and State appropriations. Amounts are transferred annually from this reserve to the Reserve for Retired Benefit Payments to fund that reserve. In addition, the reserve transfers court fees to the Supreme Court in accordance with statutory requirements. At September 30, 2004, and 2003, the balance in this account was $37.2 million and $48.1 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, 2004, and 2003, the balance in this account was $125.8 million and $117.0 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, 2004, and 2003, the balance in this account was $66.3 million and $53.6 million, respectively.

Reserve for Health Benefits — This reserve is credited with member contributions for health benefits. Health benefits are paid from this reserve. At September 30, 2004, and 2003, the balance in this account was ($285.1 thousand) and ($408.0 thousand), respectively.

Internal Balances – At September 30, 2004 and 2003, the System reported deficits in the Health Plan. As a result, amounts reported in the Statement of Plan Net Assets have been recognized and eliminated using the internal balances process described in GASB Statement No. 34. While this concept was devised to eliminate the "grossing-up" effect within the governmental and business-type activities columns of the primary government, because of the relationship of the Health Plan to the Pension Plan, the concept was deemed to be appropriate for System presentation.

Reporting Entity

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

Benefit Protection

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

Internal Fund Pools

On July 1, 2004, the System's assets were invested in internal fund pools. The pools own the assets and may hold an interest in the short-term investment pool. These investments in the short-term pool provide necessary liquidity and/or protection of principal during market reversals. The 2004 classification of investments on the Statement of Net Assets will not be entirely comparable with the prior year's classification because of the holding of short-term investment interests within the other investment pools.

Notes to Basic Financial Statements (Continued)

Fair Value of Investments

For fiscal year 2004, plan investments are reported at fair value. For fiscal year 2003, investments are reported at fair value, except for short term investments, which are carried at cost and approximates fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Corporate bonds not traded on a national or international exchange are based on equivalent values of comparable securities with similar yield and risk. Real estate debt is valued on the basis of future principal and interest payments, and is discounted at prevailing interest rates for similar instruments. The fair value of real estate investments is based on independent appraisals. Other investments 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 general fund appropriation based on either a direct cost or allocation basis depending on the nature of the expense.

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.

	2004	2003
Building Rentals	$ 1,153	$ 1,324
Technological Support	13,495	14,889
Attorney General	25,048	19,374
Investment Services	56,187	33,054
Personnel Services	13,752	201,590

Commitment and Contingency – The State has signed a contract with a vendor for technological support through 2004. As of September 30, 2004, the System's portion of this commitment remaining is approximately $19,000.

Cash – On September 30, 2004, and 2003, the System had $2.2 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 $8.2 thousand and $15.0 thousand for the years ended September 30, 2004, and 2003, respectively.

Notes to Basic Financial Statements (Continued)

Reclassification of Prior Year Amounts

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

NOTE 3 - CONTRIBUTIONS

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

The State contributes annually the greater of 3.5% of the aggregate annual compensation of State paid base salaries, or the difference between the total actuarial requirement of current service and unfunded accrued liabilities minus the revenues from court filing fees and member contributions. Since the System was fully funded, the appropriation was not requested for fiscal years 2003 or 2004. If the court fees deposited in the reserve for employer contributions equals the amount needed in addition to other publicly financed contributions to sustain the required level of publicly financed contributions, Section 304(4) requires court fees be deposited in the court fee fund. In accordance with Section 304(4) of the Judges' Retirement Act, the court fees are being deposited in the court fee fund in the State Treasury. The State Treasurer transmits the money in the court fee fund, not exceeding $2.2 million in any fiscal year, to the court equity fund for operational expenses of trial courts.

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

There were no actual or required employer contributions for the fiscal years 2003 or 2004 because the contribution rate was negative.

NOTE 4 – INVESTMENTS

Risks and Uncertainties

The System's investments are exposed to various risks, such as interest rate, market, credit, and other. Due to these various risks, it is at least reasonably possible that changes in market values will occur in the near term and that such changes could materially affect the System and the amount reported in the statement of net assets as available for benefits.

Investment Authority

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

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

Notes to Basic Financial Statements (Continued)

Derivatives

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

Derivatives are used in managing pension trust fund pooled investments, but uses do not include speculation or leverage of investments. Less than 11.0% of the total pension trust fund's portfolio has been invested from time to time in futures contracts, collateralized mortgages and swap agreements. State investment statutes limit total derivative exposure to 15.0% of a fund's total invested 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 8.8% of market value of total pooled assets on September 30, 2004 and 7.9% of market value of total invested assets on September 30, 2003. Futures contracts represent the second largest category of derivatives used, and they represented .3% of market value of total pooled assets on September 30, 2004, and less than .1 % of market value of total invested assets on September 30, 2003.

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

To diversify the pension trust 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, 2004, and 2003, were $21.1 million and $21.7 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 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 investment pools 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 2004 to September 2007. U.S. domestic LIBOR based floating rate notes were purchased in the open market to correspond with the notional amount of the swap agreements. The State Treasurer maintains custody and control of these notes.

The value of these synthetic equity structures is a combination of the value of the swap agreements and the value of the notes. The book value represents the cost of the notes. The current value represents the current value of the notes and the change in value of the underlying indices from the inception of the swap agreements. The current value is used as a representation of the fair value based on the intention to hold all swap agreements until maturity. Since the inception of equity investment programs involving swaps, over $4.2 million of gains on equity exposure and excess interest received have been realized on matured swap agreements.

The unrealized gain of $2.3 million at September 30, 2004, primarily reflects the increases in international stock indices and changes in currency exchange rates. The combined swap structure realizes gains and losses on a rolling three year basis.

The respective September 30, 2004, and 2003 swap values are as follows:

	Notional Value	Current Value
9/30/04 (dollars in millions)	$ 21.1	$ 23.4
9/30/03 (dollars in millions)	21.7	20.0

The amounts shown above reflect both the total International Equity Pool's swap exposure, and the smaller swap exposure to the S&P 600 Small Cap Index Pool.

Notes to Basic Financial Statements (Continued)

Investments Exceeding 5% of Plan Net Assets

The System did not hold an individual investment (other than U. S. Government securities) that exceeded 5% of net assets available for benefits at September 30, 2003

On July 1, 2004, the System's investments were invested in internal pools, which own the investments. Through its investment in the pools, the System did not hold an individual investment (other than U. S. Government securities) that exceeded 5% of net assets available for benefits at September 30, 2004.

Securities Lending

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

During the fiscal year, the agent bank lent, at the direction of the System, the System's securities and received cash (United States and foreign currency), securities issued or guaranteed by the United States government, sovereign debt rated A or better, convertible bonds and irrevocable bank letters of credit as collateral. The agent bank did not have the ability to pledge or sell collateral securities delivered absent a borrower default. Borrowers were required to deliver collateral for each loan equal to (i) at least 102% of the market value of the loaned securities in the case of loaned securities denominated in the United States dollars or whose primary trading market was located in the United States or sovereign debt issued by foreign governments or (ii) 105% of the market value of the loaned securities in the case of loaned securities not denominated in the United States dollars or whose primary trading market was not located in the United States.

The System did not impose any restrictions during the fiscal year on the amount of the loans that the agent bank made on its behalf. There were no failures by any borrowers to return loaned securities or pay distributions thereon during the fiscal year. Moreover, there were no losses during the fiscal year resulting from a default of the borrowers or the agent bank.

During the fiscal year, the System and the borrowers maintained the right to terminate all securities lending transactions on demand. The cash collateral received on each loan was invested, together with the cash collateral of other qualified tax-exempt plan lenders, in a collective investment pool. As of September 30, 2004, such investment pool had an average duration of 42 days and an average expected maturity of 546 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, 2004 the System had no credit risk exposure to borrowers. The cash and non-cash collateral held for securities on loan for the System as of September 30, 2004 were $18,077,376 and $173,395, respectively. The carrying amount, which is the fair market value, of securities on loan for the System as of September 30, 2004 was $17,846,968.

Gross income from security lending for the fiscal year was $193,922. Expenses associated with this income were the borrower's rebate of $165,887 and fees paid to the agent of $6,855.

Categories of Investment Risk

Investments are categorized to give an indication of the level of risk that is assumed. Category 1 includes investments insured, registered or held by the System or its agent in the System's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counter party's trust department or agent in the System's name. Category 3 includes uninsured and unregistered investments held by the counterparty or by its trust department or agent, but not in the System's name.

At September 30, 2004, the System does not own any investments that are considered securities for purposes of assessing credit risk. All plan investments are held in State of Michigan – Department of Treasury investment administered pools.

Notes to Basic Financial Statements (Continued)

In July 2004, the System's investments were contributed to an investment pool structure. In the following table 2004 amounts represent a pro rata share based on the System's ownership of the investment pools. For fiscal year 2004 reporting purposes, the investments are presented on a comparative basis in the Non-Categorized section of the schedule of investment risk.

	2004	2003
Category 1		
Prime Commercial Paper		$ 12,623,735
Government Securities		28,751,847
Corporate Bonds and Notes		19,251,968
Common and Preferred Stock		110,154,482
Alternative Investments [2]		301,681
International Investments [3]		19,657,461
Total Category 1	-	190,741,174
Category 2		
Government Securities		363,231
Non-Categorized		
Real Estate and Mortgages [1]		28,718,203
Alternative Investments [2]		24,555,096
International Investments [3]		1,403,190
Cash collateral on loaned securities	$ 18,077,376	6,974,336
Securities on Loan:		
Government Securities		3,283,847
Corporate Bonds & Notes		581,976
Alternative Investments [2]		2,069
International Investments [3]		168,366
Common Stock		2,946,487
Fixed Income:		
Government Bond Pool	26,851,173	
Corporate Bond Pool	26,708,194	
Equity Pools	128,971,485	
Real Estate Pools	26,141,157	
Alternative Investment Pool	25,002,751	
International Investment Pool	25,392,430	
Short Term Investments Pool	6,557,519	
Total Non-Categorized	283,702,085	68,633,570
Grand Total	$ 283,702,085	$ 259,737,975

[1] Non-Categorized Real Estate consists of investments in real estate through various legal entities.

[2] In Category 1, the Alternative Investments are small-cap equities. Non-Categorized Alternative Investments consist of limited partnerships and securities on loan.

[3] In Category 1, the International Investments consist of International Swap Derivatives and ADRs (American Depository Receipts), the Non-Categorized International Investments consist of Primary Market and Extended Market Index Funds and securities on loan.

Notes to Basic Financial Statements (Continued)

NOTE 5 - COMMITMENT AND CONTINGENCIES

Ernst et al v. Murray et al

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

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

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

Hon. Thomas L. Gadola v. Michigan Judges' Retirement Board

On May 25, 2000, the petitioner filed a JRS DC Plan election form with JRS based on an APV Evaluation summary. JRS recalculated Petitioner's APV and on December 1, 2000, sent the Petitioner an adjusted APV that limits Petitioner to a retirement benefit that, when added to a retirement benefit from a county retirement plan, does not exceed 66 2/3% of his final compensation. The Board offered Petitioner 60 days to execute an election form and return to the State DB plan and the Genesee County Employees' DC Retirement Plan, and be made whole as if he had remained in the JRS DC plan. He declined the opportunity and administratively appealed the decision.

On October 29, 2001, a Proposal for Decision (PFD) was issued recommending that the December APV figure remain as the valid figure for purposes of Petitioner's election into the DC plan; that the Petitioner be afforded another opportunity to decide whether to continue in the DC plan or return to the DB plan; and that Respondent make Petitioner financially whole for any loss that Petitioner has or will incur as a result of not having a 10% annual contribution by Genesee County to his retirement plan, regardless of which state retirement plan Petitioner chooses. On January 23, 2003, the Board issued its final Decision and Order. Petitioner filed a Petition for Review on March 24, 2003. Both parties filed briefs. On September 27, 2003, the Petitioner died before filing a reply brief. On instructions from the court, the unsigned reply brief was filed on his behalf. On March 10, 2004, the court ordered the personal representative of the estate be substituted as plaintiff. Oral argument in this matter is scheduled for December 2, 2004.

Hon. Barry Grant v. Michigan Judges Retirement Board

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

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

Schedule of Funding Progress

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

Retirement Benefits ($ in millions)

Valuation Date Sept 30	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded (Overfunded) Accrued Liability (UAAL) (b-a)	Funded Ratio AAL (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll ((b-a)/c)
1995	$ 222.2	$ 204.3	$ (17.9)	108.8 %	$ 48.2	(37.1) %
1996	243.2	211.5	(31.7)	115.0	49.4	(64.3)
1997	271.5	230.5	(40.9)	117.8	49.0	(83.6)
1998	288.7	236.5	(52.2)	122.0	48.9	(106.7)
1998 *	288.7	230.3	(58.4)	125.3	48.9	(119.4)
1999	320.9	243.5	(77.4)	131.8	49.6	(155.9)
2000	274.8	204.2	(70.6)	134.6	37.0	(190.7)
2001	291.0	224.7	(66.3)	129.5	42.5	(155.7)
2002	291.7	229.2	(62.5)	127.3	42.4	(147.3)
2003	292.3	235.2	(57.1)	124.3	38.9	(146.6)
2004	286.9	236.4	(50.5)	121.3	37.5	(134.6)

* Revised actuarial assumptions

Required Supplementary Information (Continued)

Schedule of Employer Contributions

Fiscal Year Ended Sept. 30		Actuarial Required Contribution (ARC)*	Actual Contributions	Percentage Contributed
1995		$ 6,559,552	$ 6,228,812	95.0 %
1996		5,992,698	6,191,607	103.3
1997		5,527,350	5,673,583	102.6
1998		5,040,121	246,659	4.9
1999		4,673,433		0.0
1999	*	1,260,694	58,499	4.6
2000	**	(411,879)		0.0
2001	**	(955,186)		0.0
2002		(476,491)		0.0
2003		(135,812)		0.0
2004		(85,580)		0.0

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

Notes to Required Supplementary Information

NOTE A - DESCRIPTION

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

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

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

NOTE B - SUMMARY OF ACTUARIAL ASSUMPTIONS

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

Valuation Date	9/30/2004
Actuarial Cost Method	Entry Age, Normal
Amortization Method	Level Percent of Payroll, Closed
Remaining Amortization Period	32 years
Asset Valuation Method	5-Year Smoothed Market
Actuarial Assumptions:	
Inflation Rate	4%
Investment Rate of Return	8%
Projected Salary Increases	4.0%
Cost-of-Living Adjustments	None

Supporting Schedules

Comparative Summary Schedule of Pension Plan Administrative Expenses For the Years Ended September 30, 2004 and 2003

	2004	2003
Personnel Services:		
Staff Salaries	$ 9,689	$197,868
Retirement and Social Security	2,274	2,214
Other Fringe Benefits	1,789	1,508
Total	13,752	201,590
Professional Services:		
Accounting*	1,636	
Actuarial	65,000	123,775
Attorney General	25,048	19,374
Audit	27,646	30,328
Consulting	48,586	77,886
Total	167,916	251,363
Building and Equipment:		
Building Rentals	1,153	1,324
Equipment Purchase, Maintenance and Rentals	62	354
Total	1,215	1,678
Miscellaneous:		
Travel and Board Meetings	130	320
Office Supplies	142	123
Postage, Telephone and Other	10,876	27,470
Printing	2,652	3,157
Technological Support	13,495	14,889
Total	27,295	45,959
Total Administrative Expenses	$210,178	$500,590

* In 2003, accounting services were included as a component of Postage, Telephone and Other within the Miscellaneous section of this schedule.

Supporting Schedules (Continued)

Schedule of Investment Expenses

	2004	2003
Real Estate Operating Expenses	$ 2,467	$ 8,887
Securities Lending Expenses	172,742	119,304
Other Investment Expenses*	346,090	359,526
Total Investment Expenses	$ 521,299	$ 487,717

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

Schedule of Payments to Consultants

	2004	2003
Independent Auditors	$ 27,646	$ 30,328
Accounting	1,636	
Attorney General	25,048	19,374
Actuary	65,000	123,775
Consulting	48,586	77,886
Total Payment to Consultants	$ 167,916	$ 251,363

Supporting Schedules (Continued)

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

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

Supporting Schedules (Continued)

Detail of Changes in Plan Net Assets (Pension and Postemployment Healthcare Benefits)
For the Year Ended September 30, 2003

	Employee Contributions	Employer Contributions	Retired Benefit Payments	Undistributed Investment Income	Health Benefits	Total
Additions:						
Member contributions	$ 2,288,608				$ 451,035	$ 2,739,643
Investment income (loss):						
Investment income (loss)				$ 34,904,136		34,904,136
Investment expenses:						
Real estate operating expenses				(8,887)		(8,887)
Other investment expenses				(359,526)		(359,526)
Securities lending activities:						
Securities lending income				143,857		143,857
Securities lending expenses				(119,304)		(119,304)
Net investment income (loss)	-	-	-	34,560,276	-	34,560,276
Court fees					265,000	265,000
Miscellaneous				12		12
Total additions	2,288,608	-	-	34,560,288	716,035	37,564,931
Deductions:						
Benefits and refunds paid to plan members and beneficiaries:						
Retirement benefits			$ 16,728,017			16,728,017
Health benefits					564,801	564,801
Return of contributions	1,074					1,074
Transfers to other systems						-
Administrative expenses				500,590		500,590
Total deductions	1,074	-	16,728,017	500,590	564,801	17,794,482
Net increase (decrease)	2,287,534	-	(16,728,017)	34,059,698	151,234	19,770,449
Other changes in net assets:						
Interest allocation	2,640,550	$ 3,616,849	9,574,538	(15,831,937)		-
Transfers upon retirement	(3,720,288)	(774,162)	4,494,450			-
Total other changes in net assets	(1,079,738)	2,842,687	14,068,988	(15,831,937)	-	-
Net Increase (Decrease) After Other Changes	1,207,796	2,842,687	(2,659,029)	18,227,761	151,234	19,770,449
Net Assets (Liabilities) Held in Trust for Pension and Health Benefits:						
Beginning of year	35,103,679	45,210,615	119,681,719	35,323,448	(559,268)	234,760,193
End of year	$ 36,311,475	$ 48,053,302	$ 117,022,690	$ 53,551,209	$ (408,034)	$ 254,530,642

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INVESTMENT SECTION

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

INVESTMENT SECTION

Report on Investment Activity

INTRODUCTION

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

The Investment Advisory Committee was created by Act 380 of the Public Acts of 1965. The three public members of the five-member committee are appointed by the Governor with the advice and consent of the Senate for three-year terms. The Director of the Department of Labor and Economic Growth and the Director of the Department of Management and Budget are ex-officio members. In fiscal 2004, the members of the Committee were as follows: James B. Henry, PhD (public member), Robert E. Swaney, CFA (public member), David G. Sowerby, CFA (public member), David Hollister (ex-officio member), and Mitch Irwin (ex-officio member). The public members serve without pay, but are 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. The fiduciary is authorized to invest in government obligations, corporate obligations, various short-term obligations, corporate (domestic and international) stocks, venture capital interests, mutual funds, real estate interests, and other investments subject to specific parameters. Above all, pension fund assets are to be invested for the exclusive benefit of the members of the System.

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

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

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

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

Report on Investment Activity (Continued)

Asset Allocation
(Excludes Collateral on Loaned Securities)

Investment Category	As of 9/30/04 Actual %		Five-Year Target %
Domestic Equity – Active	32.9%		33.0%
Large Cap Value Pool		16.8%	
Large Cap Growth Pool		15.6%	
Small Cap Pools		0.5%	
Domestic Equity – Passive	15.8%		16.0%
S&P 500 Index Pool		13.5%	
S&P MidCap Index Pool		2.0%	
S&P Small Cap Index Pool		0.3%	
International Equity Pool	9.6%		10.0%
Alternative Investments Pool	9.4%		10.0%
Real Estate Pool	9.8%		13.0%
Fixed Income	20.0%		16.0%
Government Bond Pool		10.0%	
Corporate Bond Pool		10.0%	
Short Term Investment Pool	2.5%		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 plans: 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, 2004, the total System's rate of return was 11.4% as compiled by State Street Analytics. Annualized rates of return for the three-year period ending September 30, 2004, were 4.9%; for the five-year period were 3.3%; and for the ten-year period were 9.3%.

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

Report on Investment Activity (Continued)

These results were driven by double-digit returns from the Domestic and International Equity pools and from the Alternative Investments pool as markets continued their rebound early in the fiscal year. Later in the year, equity markets flattened out when they encountered slower economic growth, higher energy prices and continuing geopolitical worries. For those same reasons, bond markets were very volatile during fiscal 2004. Real estate and alternative investments experienced favorable environments in which they realized gains.

The U.S. economy grew at a rate of 4.5% in fiscal year 2004 as measured by real gross domestic product. The first half was stronger while the second half of the year was buffeted by escalating oil prices, slower retail sales, slow job growth and a series of hurricanes that hit the Southeast. Corporate earnings remained robust, helped by several years of cost-cutting and clean balance sheets. Inflation, as measured by the consumer price index, increased only 2.5% as higher commodity prices were, for the most part, absorbed by producers.

The Federal Reserve began its “measured pace” of monetary tightening by raising the Fed Funds rate by 0.25% at each of its Federal Open Market Committee meetings in June, August and September of 2004. This resulted in a Fed Funds rate of 1.75% by the end of fiscal 2004, up from its 50-year low of 1.00% last spring.

For the fiscal year, the Dow Jones Industrial Average provided a total return of 11.0%, while the broader S&P 500 returned 13.9%. The Lehman Brothers U.S. Aggregate Bond Index appreciated 3.7%.

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

On July 1, 2004, the System’s assets were invested in internal fund pools. The pools own the assets and may hold an interest in the short-term investment pool. These investments in the short-term pool provide necessary liquidity and/or protection of principal during market reversals. Because prior year results only include returns on assets and not the pools, results are not entirely comparable.

Large Cap Value Pool

The primary objective of the pool of large company value stocks is to generate a rate of return from investment in common stocks and equity equivalents that exceeds that of the S & P Barra Value Index. A second objective is to generate a rate of return that exceeds the annualized median return of the State Street public plan universe of large-cap value equity managers.

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 price-to-earnings and/or price-to-book value ratios and below fair value as determined by quantitative and qualitative models. The focus is on companies with a strong presence in depressed categories, experienced management and conservative accounting practices. At times a portion of the pool may be invested in fixed-income short-term securities with maturities of less than one year.

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

Report on Investment Activity (Continued)

The following summarizes the weightings of the pool as of September 30, 2004:

Finance	39.8 %
Energy	13.3
Consumer Non-Durable	11.2
Short Term Investments	8.1
Manufacturing	5.0
Consumer Durable	5.0
Basic Industries	4.7
Utilities	4.6
Technology	3.8
Capital Goods	3.0
Other	1.5
Total	**100.0** %

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

The System's Large Cap Value pool achieved a total rate of return of 19.3% for fiscal 2004. This compared with 20.5% for the S&P 500 Barra Value Index.

At the close of fiscal year 2004, the Large Cap Value pool represented 16.8% of total investments. This compares to 14.8% for fiscal year 2003. The following summarizes the System's 0.6% ownership share of the Large Cap Value pool at September 30, 2004:

Large Cap Value Pool
(in thousands)

Short Term Pooled investments	$ 3,230
Equities	41,354
Settlement Principal Payable	(10)
Settlement Proceeds Receivable	19
Accrued dividends	38
Total	**$ 44,631**

Large Cap Growth Pool

The primary investment objective is to generate a rate of return from investment in common stocks and equity equivalents that exceeds that of the S & P Barra Growth Index. A second objective is to generate a rate of return that exceeds the annualized median return of the State Street public plan universe of large-cap growth equity managers.

The pool invests primarily in equities and equity-related securities of U.S. companies with market capitalization generally greater than $5 billion whose earnings growth rates are expected to exceed the growth rate of the S & P 500 Index by at least 50% and are priced at or below fair value as determined by quantitative and qualitative models. The focus is on companies with a strong presence in categories anticipated to be fast growing, with high rates of unit sales growth and seasoned management. At times a portion of the pool may be invested in fixed-income short-term securities with maturities of less than one year.

Report on Investment Activity (Continued)

The pool invests in equities and equity related securities that are listed on U.S. national securities exchanges, including American Depository Receipts (ADRs). It may also invest in stocks that are traded over-the-counter. The pool diversifies its investments by allocating its equities with weightings that approximate the weightings of the S & P Barra Growth Index. The following summarizes the weightings of various sectors in the pool as of 9/30/04:

Consumer Non Durable	42.6 %
Technology	29.8
Manufacturing	11.1
Basic Industries	5.1
Short Term Investments	3.5
Capital Goods	2.5
Energy	2.0
Finance	2.0
Other	1.4
Total	**100.0 %**

The Large Cap Growth pool's total rate of return was 6.7% for the fiscal year versus 7.5% for the S&P 500 Barra Growth Index.

At the close of fiscal year 2004, the Large Cap Growth pool represented 15.6% of total investments. This compares to 14.8% for fiscal year 2003. The following summarizes the System's 0.6% ownership share of the Large Cap Growth pool at September 30, 2004:

Large Cap Growth Pool
(in thousands)

Short Term Pooled investments	$	1,397
Equities		39,742
Settlement Principal Payable		(75)
Settlement Proceeds Receivable		233
Accrued dividends		44
Total	**$**	**41,341**

Small Cap Pools

The primary investment objective is to generate a rate of return from investment in common stocks and equivalents that exceeds the Russell 2000 Growth Index.

The System invests in the Delaware and Putnam pools. These are investment positions with the small company growth managers at Delaware Investment Advisors (Delaware) and Putnam Investments (Putnam).

The System's Small Cap pool invested with Delaware achieved a total rate of return of 14.0% for fiscal 2004. This out-performed the Russell 2000 Growth Index, which was 11.9% for the same period.

Report on Investment Activity (Continued)

At the close of fiscal year 2004, the two Small Cap pools represented 0.5% of total investments. This compares to 0.4% for fiscal year 2003. The following summarizes the System's ownership share and composition of the two Small Cap pools at September 30, 2004:

Small Cap Pools
(in thousands)

	Delaware	Putnam
Total Equities	$809	$373
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, 2004:

Financials	20.8 %
Information Technology	15.7
Health Care	13.1
Industrials	11.6
Consumer Discretionary	11.0
Consumer Staples	10.7
Energy	7.4
Telecomm. Services	3.7
Materials	3.1
Utilities	2.9
Total	**100.0 %**

The S&P 500 Index pool return for the fiscal year was 13.9% versus the benchmark's 13.9%.

At the close of fiscal year 2004, the S&P 500 Index pool represented 13.5% of total investments. This compares to 12.6% for fiscal year 2003. The following summarizes the System's 0.5% ownership share of the S&P 500 Index pool at September 30, 2004:

S&P 500 Index Pool
(in thousands)

Short Term Pooled investments	$	777
Equities		35,090
Hedge Contracts		*
Settlement Principal Payable		(1)
Accrued dividends		41
Total	**$**	**35,907**

* less than one thousand

Report on Investment Activity (Continued)

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 17.6% versus its benchmark's 17.6%.

At the close of fiscal year 2004, the S&P MidCap Index pool represented 2.0% of total investments. This compares to 1.8% for fiscal year 2003. The following summarizes the System's 0.6% ownership share of the S&P Midcap Index pool at September 30, 2004:

S&P Midcap Index Pool
(in thousands)

Short Term Pooled investments	$	106
Equities		5,140
Hedge Contracts		1
Settlement Principal Payable		(45)
Settlement Proceeds Receivable		5
Accrued dividends		3
Total	**$**	**5,210**

S&P Small Cap Index Pool

The objective of the S&P Small Cap Index pool is to match the return of its benchmark, the S&P 600 Small Cap Index. The S&P Small Cap Index pool return for the fiscal year was 24.6% versus the benchmark's 24.6%.

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

At the close of fiscal year 2004, the S&P Small Cap Index pool represented 0.3% of total investments. This compares to 0.2% for fiscal year 2003. The following summarizes the System's 0.6% ownership share of the S&P Small Cap Index pool at September 30, 2004:

S&P Small Cap Index Pool
(in thousands)

Short Term Pooled investments	$	4
Equities		91
Debt Securities		590
Hedge Contracts		13
Accrued dividends and interest		1
Total	**$**	**699**

Report on Investment Activity (Continued)

International Equities Pool - Passive

The objective of the International Equities Pool - Passive is to match the return performance of the S&P Citigroup Broad Market Index (BMI) Europe and Pacific Composite (EPAC) adjusted for net dividends. Fifty percent of the benchmark is hedged to the U.S. Dollar and the other half is impacted by foreign currency exchange rate changes. The total passive international return of 19.3% in the fiscal year approximately matched the S&P Citigroup BMI-EPAC return of 19.5%.

Core passive exposure to international equity returns is achieved primarily by investing in a combination of fixed income notes and equity swap agreements on foreign stock indices in developed markets. Interest on the dedicated notes is exchanged for international stock returns, and the total notional amount of the swap agreements is invested in the approximate proportions of the S&P Citigroup Broad Market Index (BMI) Europe and Pacific Composite (EPAC) country weightings in related indices. Use of swap agreements for a core position began in 1993, an American Depository Receipts (ADR) and index-related security portfolio was added in June of 1999 to increase management flexibility, and a country fund portfolio was added in September of 2002 to improve exposure to the smallest companies in the BMI index. During fiscal year 2004, $138 thousand was withdrawn, bringing passive international investments to 9.5% of total investment assets.

The combination of fixed income LIBOR notes and equity swap agreements was valued at $22.8 million on September 30, 2004. That valuation included a net unrealized gain of $2.3 million on equity index exposures and an unrealized loss of $3 thousand on LIBOR note investments held. The combined swap agreement and LIBOR portfolio structure continues to perform like a stock index fund that realizes all gains and losses on a rolling three year basis. During fiscal year 2004, $620 thousand of losses on equity exposures were realized, $417 thousand of interest in excess of obligations on completed swaps was recognized, and $388 thousand of gains on LIBOR notes were realized. At the end of the fiscal year, total realized gains and net interest received in excess of counterparty obligations on completed agreements were $4.1 million since the program began.

At the close of fiscal year 2004, the International Equities Pool – Passive represented 9.6% of total investments. This compares to 8.4% for fiscal year 2003. The following summarizes the System's 0.5% ownership share of the International Equities Pool – Passive at September 30, 2004:

International Equities Pool - Passive
(in thousands)

Short Term Pooled investments	$	269
Equities		2,292
Debt Securities		20,461
Hedge Contracts		2,312
Accrued dividends and interest		58
Total	**$**	**25,392**

Alternative Investments Pool

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

Alternative Investments are investments in the private equity market, primarily through limited partnerships. Of the investments, approximately 61.8% were in partnerships investing in buyouts, 16.2% in venture capital, 10.4% in special situations, and 4.3% in mezzanine. The remaining 7.3% were investments in fund of funds, hedge funds, and short term investments. The asset allocation range for alternative investments is 8.0% to 12.0%, while the long-term target asset allocation target is 10.0%.

Report on Investment Activity (Continued)

The Alternative Investments pool had a return of 22.7% for the fiscal year ended September 30, 2004 as compiled by State Street Analytics versus the S&P 500 Index plus 300 basis points of 16.9%.

Credit Suisse Asset Management (CSAM) manages the stock distributions of the Alternative Investments. The CSAM return for the fiscal year ending September 30, 2004 was 6.0%.

At the close of fiscal year 2004, the Alternative Investments pool represented 9.3% of total investments and Credit Suisse Asset Management represented 0.1% of total investments. This compares to 9.7% for Alternative and 0.1% for CSAM for fiscal year 2003. The following summarizes the System's ownership share and composition of the Alternative Investments pool and the Credit Suisse Asset Management pool at September 30, 2004:

Alternative Investments Pool
(in thousands)

	Alternative	CSAM
Short Term Pooled investments	$ 306	$ 6
Equities	24,445	245
Total	**$ 24,751**	**$ 251**
Ownership percentage	0.4%	0.6%

Real Estate Pool

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

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

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

The Real Estate pool diversifies its holdings by:

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

Report on Investment Activity (Continued)

Major property types as of September 30, 2004:

Multi-family apartments	41.3	%
Commercial office buildings	21.5	
Retail shopping centers	14.5	
Industrial warehouse buildings	8.5	
For sale housing, senior living facilities, land, hotels and self-storage facilities	14.2	
Total	**100.0**	%

The net total return for the fiscal year ending September 30, 2004, was 8.0%, as compiled by State Street Analytics. This compares to the benchmark return of 11.7%. The benchmark is the National Council of Real Estate Investment Fiduciaries Property Index (NPI) less 75 basis points. The adjustment to the NPI is made to approximate industry comparable returns due to the fact that the Real Estate pool's returns are calculated net of all overhead and management fees, while the NPI calculates returns on a gross property level basis before overhead and standard investment management fees.

At the close of fiscal year 2004, the Real Estate pool had a total net equity value of $26 million that represented 9.8% of total investments. This compares to 11.3% for fiscal year 2003. The following summarizes the System's 0.8% ownership share of the Real Estate pool at September 30, 2004:

Real Estate Pool
(in thousands)

Short Term Pooled investments	$ 292
Equities	25,829
Debt Securities	20
Accrued Interest	*
Total	**$ 26,141**

* less than one thousand

Government Bond Pool

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

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

For the fiscal year ending September 30, 2004, the Government Bond pool returned 3.1% compared to the Lehman Brothers Government Index of 2.5%.

During the year rates were somewhat volatile reaching a low point in mid-March, increasing more than one hundred basis points by mid-June and finally declining again through September. In addition to the general volatility of rates, the yield curve flattened with short and intermediate rates rising while longer term rates remained constant or exhibited a modest decline, all of which tended to favor longer term portfolios.

Report on Investment Activity (Continued)

At the close of fiscal year 2004, the Government Bond pool represented 10.0% of total investments. This compares to 12.8% for fiscal year 2003. The following summarizes the System's 0.7% ownership share of the Government Bond pool at September 30, 2004:

Government Bond Pool
(in thousands)

Short Term Pooled investments	$	3,658
Debt Securities		23,107
Settlement Principal Payable		(79)
Accrued dividends		165
Total	**$**	**26,851**

Corporate Bond Pool

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

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

For the fiscal year ending September 30, 2004 the Corporate Bond pool returned 4.1% compared to the Lehman Brothers Credit Index of 4.4%.

During the year rates were somewhat volatile reaching a low point in mid-March, increasing more than one hundred basis points by mid-June and finally declining again through September. In addition to the general volatility of rates, the yield curve flattened with short and intermediate rates rising while longer term rates remained constant or exhibited a modest decline, all of which tended to favor longer term portfolios.

At the close of fiscal year 2004, the Corporate Bond pool represented 10.0% of total investments. This compares to 7.8% for fiscal year 2003. The following summarizes the System's 0.6% ownership share of the Corporate Bond pool at September 30, 2004:

Corporate Bond Pool
(in thousands)

Short Term Pooled investments	$	978
Debt Securities		26,480
Settlement Principal Payable		(1,064)
Intransit Interest Receivable		7
Accrued dividends		307
Total	**$**	**26,708**

Short Term Investment Pool

The objective of the Short Term Investment pool is to closely match the return performance of its benchmark, the 91 day Treasury bill. The Short Term Investment pool return for the fiscal year was 1.1% versus the benchmark's 1.1%.

Potential areas of investment are:

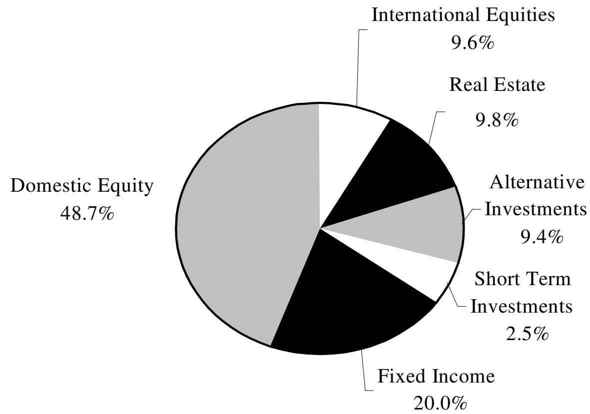
- Obligations of the United States or its agencies.
- Banker's acceptances, commercial accounts, certificates of deposit or depository receipts.
- Repurchase agreements for the purchase of securities issued by the US government or its agencies.
- Commercial paper rated at the time of purchase within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

Report on Investment Activity (Continued)

As of September 30, 2004, 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 2004, the Short Term Investment pool represented 2.5% of total investments. This compares to 5.4% for fiscal year 2003. The System's 0.5% ownership share of the Short Term Investment pool at September 30, 2004 was $6,557,519 composed of debt securities.

Asset Allocation – Security Type Only



Investment Results for the Period Ending September 30, 2004

Investment Category	Current Year	Annualized Rates of Return[1] 3 Years	5 Years	10 Years
Total Portfolio	11.4 %	4.9 %	3.3 %	9.3 %
Total Domestic Equity	13.4	5.0	(0.1)	11.5
S&P 1500 Index	14.6	5.1	(0.1)	N/A
Large Cap Value Pool	19.3			
Large Cap Growth Pool	6.7			
Small Cap Pools	12.5			
S&P 500 Index Pool	13.9			
S&P Midcap Index Pool	17.6			
S&P Small Cap Index Pool	24.6			
International Equity Pool - Passive	19.3	6.9	(0.3)	6.0
S&P Citigroup BMI - EPAC 50/50	19.5	7.0	(0.4)	5.0
Alternative Investments Pool	22.7	1.1	4.2	12.1
S&P 500 Index plus 300 Basis Points	16.9	7.1	1.7	14.1
Credit Suisse Asset Management (Stock Distributions)	6.0			
Real Estate Pool	8.0	7.6	8.6	10.2
NCREIF Property Index minus 75 Basis Points	11.7	7.9	8.8	9.8
Total Fixed Income	3.6	5.4	7.0	7.6
Lehman Brothers Government/Credit	3.3	6.3	7.7	7.8
Government Bond Pool	3.1			
Corporate Bond Pool	4.1			
Short Term Investment Pool	1.1	1.5	3.1	4.5
91 Day Treasury Bill	1.1	1.5	3.1	4.3

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

Largest Assets Held

Largest Stock Holdings (By Market Value)*
September 30, 2004

Rank	Shares	Stocks	Market Value
1	130,649	General Electric Corporation	$ 4,327,307
2	153,795	Microsoft Corporation	4,201,660
3	86,281	Exxon Mobil Corporation	4,080,135
4	91,271	Citigroup Incorporated	3,949,665
5	124,380	Pfizer Incorporated	3,767,008
6	47,975	Wal-Mart Stores Incorporated	2,514,131
7	58,486	Bank of America Corporation	2,481,467
8	40,126	Wells Fargo & Company	2,351,275
9	32,291	American International Group	2,146,687
10	35,502	BP PLC	2,004,864

Largest Bond Holdings (By Market Value)*
September 30, 2004

Rank	Par Amount	Bonds & Notes	Market Value
1	$ 1,523,283	U.S. Treasury Strip 0% Coupon Due 11-15-2011	$ 1,441,026
2	1,342,100	FHLB FRN Due 1-12-2007	1,342,103
3	1,099,106	US Bank NA 2.0275% FRN Due 4-5-2007	1,099,068
4	959,370	Wells Fargo & Company 2.03% FRN Due 9-28-2007	959,370
5	895,065	Canadian Imperial Bank 2.0775% FRN Due 1-5-2007	895,034
6	792,004	Wells Fargo & Company 1.72% FRN Due 8-4-2006	791,874
7	766,455	Bayerische Landesbank NY 1.91313 FRN Due 3-17-2006	766,296
8	664,261	Citigroup Global Markets 1.75% FRN Due 1-30-2007	664,173
9	638,713	Key Bank NA 1.73% FRN Due 7-31-2006	638,622
10	638,712	JPMorgan Chase & Co 1.76188% FRN Due 7-28-2006	638,621

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

Schedule of Investment Fees

The State Treasurer is the investment fiduciary and custodian of the System's funds pursuant to State law. Outside advisors are utilized to augment the State Treasurer's internal staff in the real estate and alternative investment markets. Only 9.2% of the total investment portfolio is managed by fully discretionary outside advisors. Outside advisor's fees are netted against the partnership or trust fund income. The Michigan Department of Treasury's cost of operations applicable to the System for the fiscal year amounted to $56,200 or less than three basis points (.026%) of the market value of the portfolio.

State law created an Investment Advisory Committee (Committee) comprised of the directors of the Department of Labor and Economic Growth and the Department of Management and Budget, or their duly authorized representatives, and three public members appointed by the Governor with the advice and consent of the Senate. The public members serve without pay, but are paid actual and necessary travel and other expenses. The Committee meets quarterly to review investments, goals and objectives and may submit recommendations to the State Treasurer. The Committee may also, by a majority vote, direct the State Treasurer to dispose of any holding which in the Committee's 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	$ 215,389.9	$ 56.2	2.6
Outside Advisors for			
Small Cap Growth - Delaware	809.0	4.4	54.2
Small Cap Growth - Putnam	373.3	3.4	91.6
International	1,772.3	0.5	2.5
Alternative	24,690.7	278.1	113.6
Real Estate	22,589.5		
Total	$ 265,624.7		

Other Investment Services Fees:

Custody & Research Fees	$ 259,067.0	$ 11.8
Securities Lending Fees	17,847.0	6.9

* Outside Advisors Fees are netted against income for Small Cap Growth and International. For Alternative partnership agreements that define the management fees, which range from 150 to 250 basis points of the committed capital; in most cases the fees are netted against income. For Real Estate the asset management fee ranges from 25 to 90 basis points and is netted against current year's income.

Schedule of Investment Commissions

	Fiscal Year Ended September 30, 2004		
	Commissions Paid [1]	Number of Shares Traded	Average Commission Rate Per Share
Investment Brokerage Firms:			
Alex Brown and Sons	$ 89	2,228	$ 0.04
Banc America Securities	428	8,569	0.05
Bear, Stearns & Co. Inc.	1,632	34,825	0.05
Bridge Trading, A Reuters Company	2,949	59,805	0.05
B-Trade Services LLC	10	506	0.02
Cantor Fitzgerald & Co.	311	10,006	0.03
Cap Institutional Services Inc.	3	57	0.05
Charles Schwab & Co., Inc.	457	9,138	0.05
CIBC World Markets Corp.	9	224	0.04
Citigroup Global Markets, Inc.	4,286	108,144	0.04
Credit Suisse First Boston Corporation	1,691	33,825	0.05
Davidson D.A. & Company Inc.	13	431	0.03
Deutsche Bank Securities Inc.	1,281	29,179	0.04
First Albany Corp.	20	402	0.05
Goldman Sachs & Co.	2,816	62,075	0.05
Griswold Company	793	36,048	0.02
Howard Weil	149	2,977	0.05
Investment Technology Group Inc.	7	351	0.02
ISI Group Inc.	745	14,890	0.05
J P Morgan Securities Inc.	1,508	30,246	0.05
Jefferies Company Inc.	44	880	0.05
Knight Securities	15	370	0.04
Lehman Brothers Inc.	2,595	60,070	0.04
Liquidnet Inc.	29	1,434	0.02
OTA Research	561	11,228	0.05
Merrill Lynch, Pierce, Fenner, & Smith Inc.	1,748	38,245	0.05
Morgan Stanley Co. Inc.	1,341	26,823	0.05
Piper Jaffray & Co.	7	133	0.05
Prudential Equity Group	1,362	27,249	0.05
Raymond James & Associates Inc.	20	404	0.05
S.G. Cowen & Co., LLC	370	7,408	0.05
Salomon Smith Barney	8	252	0.03
Sanders Morris Mundy	40	810	0.05
Sanford C Bernstein Co. LLC	837	16,733	0.05
State Street Brokerage Services	5	113	0.05
Thinkequity Partners LLC	23	456	0.05
Thomas Weisel Partners	140	3,087	0.05
UBS Securities LLC	1,471	31,488	0.05
Wachovia Capital Markets LLC	23	454	0.05
Weeden & Co.	158	3,316	0.05
Wells Fargo Securities LLC	23	514	0.04
Total	$ 30,017	675,393	$ 0.04 [2]

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

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

Investment Summary

Fiscal Year Ended September 30, 2004

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

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

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

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

Investment Summary (Continued)

Fiscal Year Ended September 30, 2003

	Market Value [a]	Percent of Total Market Value	Investment & Interest Income [c]	Percent of Investment & Interest Income
Fixed Income:				
Government Bonds	$ 32,398,935	12.8%	$ 962,956	2.8%
Corporate Bonds	19,833,934	7.8%	1,723,357	4.9%
Total Fixed Income	52,232,869	20.6%	2,686,313	7.7%
Common and Preferred Stock	113,100,969	44.5%	24,900,774	71.4%
Real Estate and Mortgages	28,718,203	11.3%	1,872,315	5.4%
Alternative Investments	24,858,846	9.8%	1,491,689	4.3%
International Equities	21,229,017	8.4%	3,755,459	10.8%
Short Term Investments [b]	13,765,281	5.4%	197,586	0.6%
Total	$ 253,905,185	100.0%	$ 34,904,136	100.0%

[a] Short Term Investments are at cost, which approximates market value.

[b] Excludes the amounts payable and receivable for sales and purchases of securities with a settlement date after September 30 for each fiscal year. Amount also excludes $6,974,336 in cash collateral for security lending for fiscal year 2003.

[c] Total Investment & Interest Income excludes net security lending income of $24,553 for fiscal year 2003.

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ACTUARIAL SECTION

ACTUARIAL SECTION

Actuary's Certification

SEGAL

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November 10, 2004

Mr. Mitch Irwin
Director
Department of Management and Budget
and
Retirement Board
Michigan Judges Retirement System
P.O. Box 30176
Lansing, Michigan 48909

Ladies and Gentlemen:

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

Actuarial valuations are prepared annually to determine MJRS's actuarial liabilities and the employer contributions required to fund the System in accordance with the actuarial reserve funding provisions of the governing State Statute. The most recent actuarial valuation as of September 30, 2004 included a total of 885 members of MJRS. The actuarial value of MJRS's assets amounted to approximately $287 million on September 30, 2004.

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

Our actuarial valuation of MPSERS as of September 30, 2004 was performed by qualified actuaries in accordance with accepted actuarial procedures. In our opinion, the calculated contribution rate meets the fundamental objectives of State law. Based on the 2004 valuation results, it is also our opinion that the Michigan Judges Retirement System continues in sound condition, in accordance with actuarial principles of level cost financing.

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

Sincerely,

Michael Karlin

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

Summary of Actuarial Assumptions and Methods

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

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

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

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

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

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

7. Valuation assets (cash and investment) were valued using a five-year smoothed market value method. For the 1993 valuation and later, the excess (shortfall) of actual investment income (including interest, dividends, realized and unrealized gains or losses) over the imputed income at the valuation interest rate is considered the gain (loss), which is spread over five years. Adopted 1993.

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

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

Summary of Actuarial Assumptions and Methods (Continued)

SCHEDULE 1

Percent of Eligible Active Members Retiring Within Next Year

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

Schedule 2

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

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

Actuarial Valuation Data

Schedule of Active Member Valuation Data

Valuation Date Sept. 30	Inactive Members Number	Active Members Number	Active Reported Annual Payroll	Active Average Annual Payroll	Active % Increase	Active Average Age	Active Average Service
1995	26	614	$ 48,195,528	$ 78,494	3.1 %	52.8	10.9
1996	28	610	49,350,572	80,903	3.1	53.6	11.7
1997	25	609	49,000,856	80,461	(0.5)	52.8	11.4
1998	24	600	48,865,572	81,443	1.2	53.6	12.2
1999	22	573	49,626,160	86,608	6.3	54.8	13.5
2000	17	399	37,022,723	92,789	7.1	54.0	11.0
2001	15	380	42,543,811	111,957	20.7	54.4	11.7
2002	16	367	42,441,201	115,644	3.3	55.3	12.4
2003	13	337	38,900,163	115,431	(0.2)	55.4	13.2
2004	11	325	37,453,179	115,241	(0.2)	56.1	13.6

Schedule of Changes in the Retirement Rolls

Year Ended Sept. 30	Added to Rolls No.	Added to Rolls Annual Allowances	Removed from Rolls No.	Removed from Rolls Annual Allowances	Rolls–End of Year No.	Rolls–End of Year Annual Allowances	% Increase in Annual Allowances	Average Annual Allowances
1995	50	$ 1,700,945	15	$ 409,064	481	$ 12,615,153	11.4 %	$ 26,227
1996	19	708,409	19	424,164	481	12,899,398	2.3	26,818
1997	40	1,663,656	9	359,441	512	14,203,613	10.1	27,741
1998	26	696,745	24	556,833	514	14,343,525	1.0	27,906
1999	35	1,182,957	18	514,936	531	15,011,546	4.7	28,270
2000	16	656,659	12	449,123	535	15,219,082	1.4	28,447
2001	30	1,027,902	19	399,313	546	16,027,671	5.3	29,355
2002	9	310,381	19	659,722	535	15,678,330	(2.2)	29,305
2003	38	1,099,372	22	520,658	551	17,298,360	10.3	31,395
2004	13	836,992	15	562,582	549	17,572,770	1.6	32,009

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.

	Actuarial Present Value of Actuarial Accrued Liability ($ in millions)				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]
1995	$ 34,358	$ 96,574	$ 73,395	$ 222,230	100 %	100 %	124.4 %	108.8 %
1996	38,766	96,633	76,102	243,248	100	100	141.7	115.0
1997	39,637	118,717	72,157	271,458	100	100	156.7	117.8
1998	43,378	116,264	76,879	288,671	100	100	167.8	122.0
1998 [2]	43,378	116,645	70,294	288,671	100	100	183.0	125.3
1999	43,047	121,856	78,600	320,869	100	100	198.4	131.8
2000	28,812	120,480	54,933	274,843	100	100	228.6	134.6
2001	29,469	125,097	70,171	290,998	100	100	194.4	129.5
2002	33,457	120,456	75,309	291,730	100	100	183.0	127.3
2003	34,355	131,719	69,167	292,258	100	100	182.4	124.2
2004	37,089	138,141	61,219	286,873	100	100	182.4	121.3

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

[2] Revised actuarial assumptions

Analysis of Financial Experience

Gains/(Losses) in Accrued Liabilities During Year Ended September 30, 2004
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.	$ 1,130,585
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.	(708,904)
3.	**Pay Increases.** If there are smaller pay increases than assumed, there is a gain. If greater increases, a loss.	4,443,840
4.	**Investment Income.** If there is greater investment income than assumed, there is a gain. If less income, a loss.	(12,681,448)
5.	**Death After Retirement**. If retirants live longer than assumed, there is a loss. If not as long, a gain.	(1,352,253)
6.	**New entrants.** New entrants into the System will generally result in an actuarial loss. This does not apply to plans closed to new entrants.	-
7.	**Other.** Miscellaneous gains and losses resulting from data adjustments, timing of financial transactions, etc.	138,950
8.	**Composite Gain (or Loss) During Year**	$ (9,029,230)

Summary of Plan Provisions

Our actuarial valuation of the System as of September 30, 2004, 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 (1.5% for health benefits).

Trial Judges with Full Standardization: 7% of salary.

Trial Judges without Full Standardization: 3.5% of salary.

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

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

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

Defined Contribution Legislation — Public Act 523 of 1996

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

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

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

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STATISTICAL SECTION

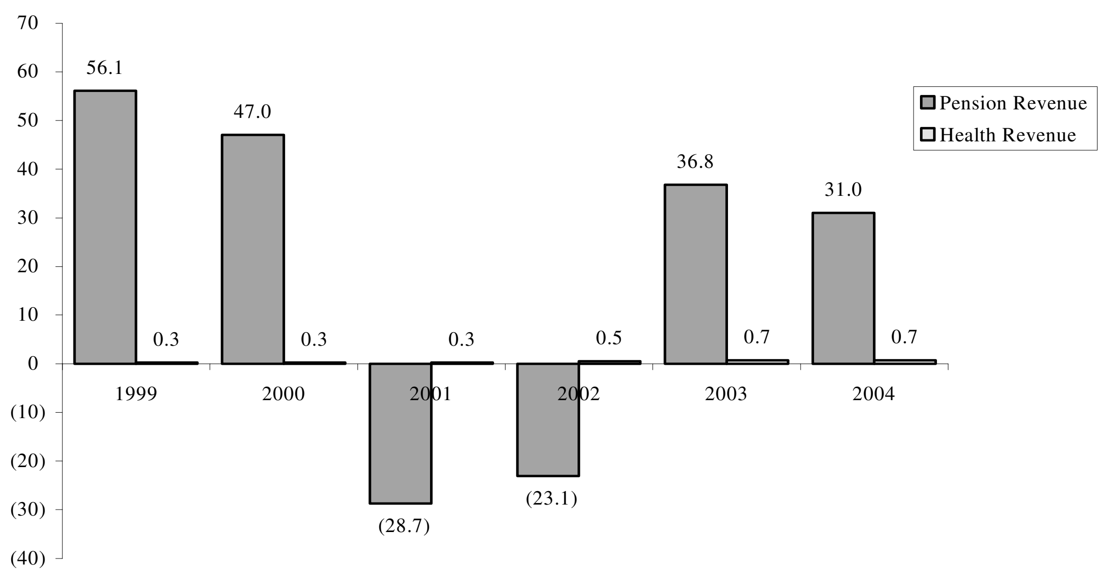
Schedule of Pension Plan Revenues by Source

Fiscal Year Ended Sept. 30	Member Contributions	Employer Contributions Dollars	Employer Contributions % of Annual Covered Payroll	Net Investment & Other Income	Total
1999	$ 3,019,443	$58,499	0.12 %	$ 53,008,576	$ 56,086,518
2000	2,874,966	0	0.00	44,164,101	47,039,067
2001	2,304,041	0	0.00	(30,995,562)	(28,691,521)
2002	2,857,224	0	0.00	(25,998,096)	(23,140,872)
2003	2,288,608	0	0.00	34,560,288	36,848,896
2004	2,143,714	0	0.00	28,818,651	30,962,365

Schedule of Health Plan Revenues by Source

Fiscal Year Ended Sept. 30	Member Contributions	Net Court Fees	Total
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

Total Revenue
Year Ended September 30
(in millions)



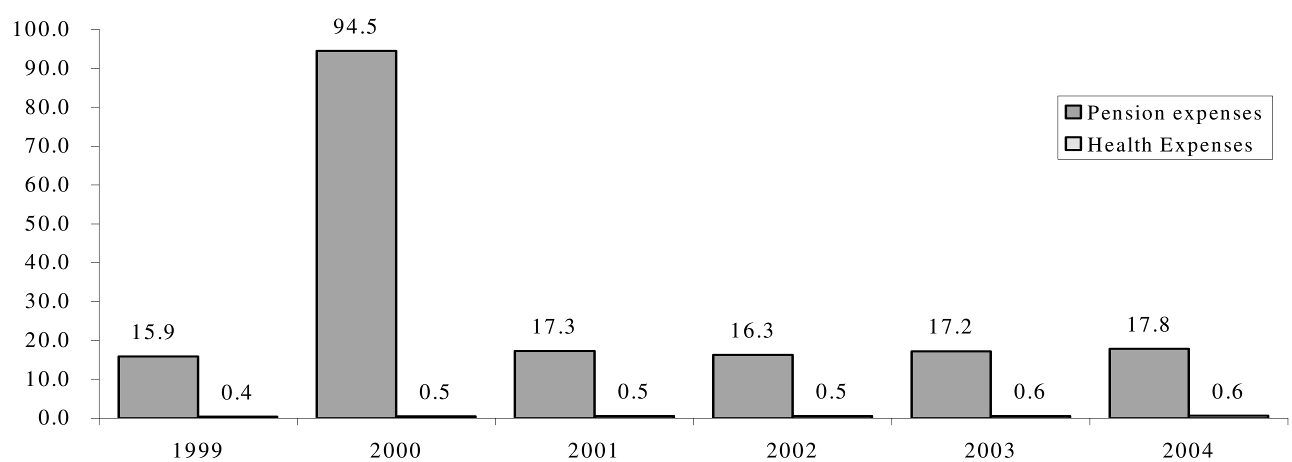
Schedule of Pension Plan Expenses by Type

Fiscal Year Ended Sept. 30	Benefit Payments	Refunds and Transfers	Administrative Expenses	Total
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

Schedule of Health Plan Expenses by Type

Fiscal Year Ended Sept. 30	Benefit Payments
1999	$ 398,997
2000	450,345
2001	505,459
2002	519,669
2003	564,801
2004	576,043

Total Expenses
Year Ended September 30
(in millions)

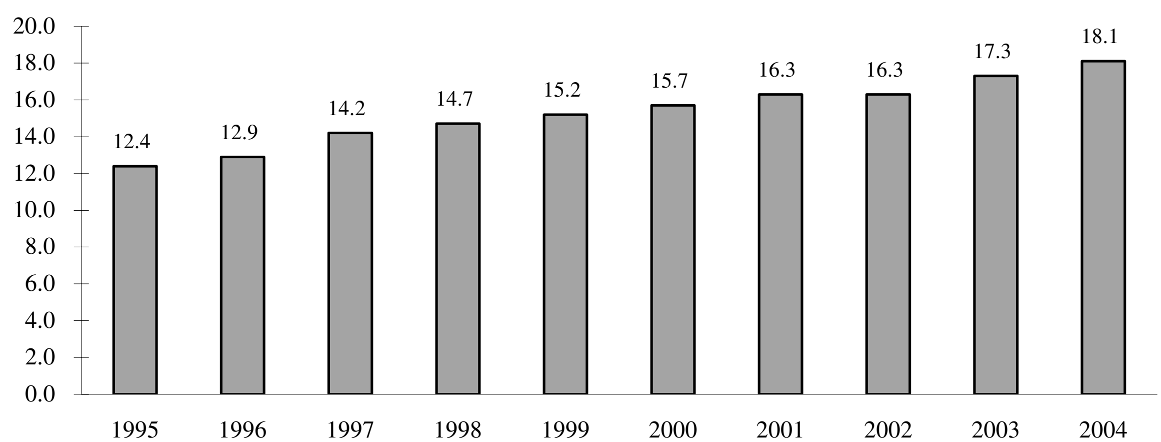


Schedule of Benefit Expenses by Type

Fiscal Year Ended Sept. 30	Regular Benefits	Disability Benefits	Health Benefits*	Total
1995	$ 12,012,426	$ 273,424	$ 118,457	$ 12,404,307
1996	12,464,285	294,976	118,267	12,877,528
1997	13,491,097	348,192	317,751	14,157,040
1998	13,922,718	381,835	355,523	14,660,076
1999	14,435,420	397,155	398,997	15,231,572
2000	14,818,706	442,172	450,345	15,711,223
2001	15,352,750	440,441	505,459	16,298,650
2002	15,375,626	434,325	519,669	16,329,620
2003	16,236,804	491,213	564,801	17,292,818
2004	17,011,125	529,764	576,043	18,116,932

* Includes dental and vision benefits.

Total Benefit Expenses
Year Ended September 30
(In Millions)



Schedule of Retired Members by Type of Benefit

September 30, 2004

Amount Monthly Benefit	Number of Retirees	Type of Retirement* 1	2	3	4	5	Selected Option** Opt 1	Opt 2	Opt 3
1-400	7	1	4	2	0	0	7	0	0
401-800	47	13	29	5	0	0	39	7	1
801-1,200	54	25	21	5	3	0	43	9	2
1,201-1,600	53	27	19	7	0	0	45	7	1
1,601-2,000	71	28	31	9	3	0	61	7	3
2,001-2,400	31	16	12	2	1	0	15	16	0
2,401-2,800	44	32	11	0	1	0	35	7	2
2,801-3,200	27	23	2	0	2	0	13	14	0
3,201-3,600	46	41	4	1	0	0	30	15	1
3,601-4,000	68	62	2	2	1	1	56	11	1
4,001-4,400	101	94	3	1	3	0	90	11	0
Totals	549	362	138	34	14	1	434	104	11

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

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

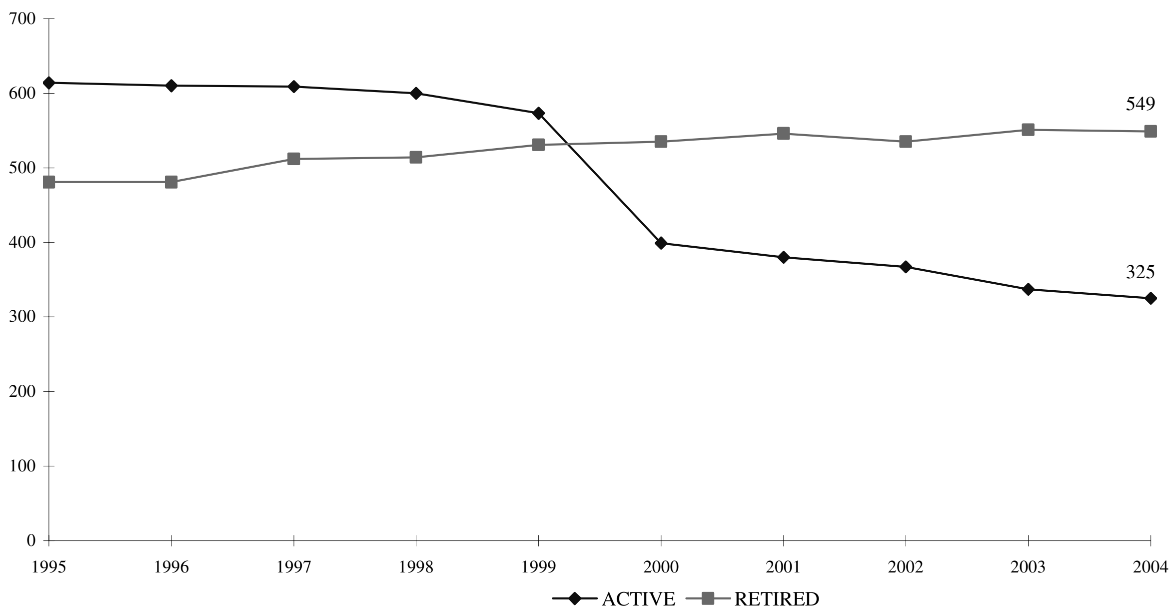
Source: The Segal Company

Schedule of Average Benefit Payments

Retirement Effective Dates	Years Credited Service							
	0-4	05-09	10-14	15-19	20-24	25-29	30+	Total
Period 10/1/96 to 9/30/97:								
Average Monthly Benefit	$ 911	$ 1,228	$ 1,561	$ 2,472	$ 2,883	$ 2,439	$ 3,089	$ 2,312
Average Final Average Salary	3,250	54,667	47,584	56,426	62,947	56,764	64,058	55,663
Number of Active Retirants	6	26	110	181	118	50	21	512
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

Source: The Segal Company

Ten Year History of Membership
Fiscal Years Ended September 30



Source: The Segal Company

STATISTICAL SECTION

Schedule of Participating Employers through 9/30/04

Elected Offices
Supreme Court
Court Of Appeals
Recorders Court
02nd Circuit Court
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
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16th Circuit Court
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72nd District Court
73rd District Court

Schedule of Participating Employers through 9/30/04 (Continued)

74th District Court
75th District Court
76th District Court
77th District Court
78th District Court
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81st District Court
82nd District Court
84th District Court
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95th District Court
97th District Court
98th District Court
Alcona Probate Court
Alpena Probate Court
Barry Probate Court
Bay Probate Court
Berrien Probate Court
Branch Probate Court
Calhoun Probate Court
Cass Probate Court
Chippewa Probate Court
Clare Probate Court
Clinton Probate Court
Crawford Probate Court
Emmet Probate Court
Genesee Probate Court
Gogebic Probate Court
Houghton Probate Court
Huron Probate Court
Ionia Probate Court
Iosco Probate Court
Iron Probate Court
Isabella Probate Court
Jackson Probate Court
Kalamazoo Probate Court
Kent Probate Court
Lake Probate Court
Leelanau Probate Court
Lenawee Probate Court
Livingston Probate Court
Luce Probate Court
Mackinac Probate Court
Macomb Probate Court
Mason Probate Court
Mecosta Probate Court
Monroe Probate Court
Montcalm Probate Court
Muskegon Probate Court
Oceana Probate Court
Ogemaw Probate Court
Ontonagon Probate Court
Oscoda Probate Court
Ottawa Probate Court
Presque Isle Probate Court
Sanilac Probate Court
Shiawassee Probate Court
St Clair Probate Court
St Joseph Probate Court
Washtenaw Probate Court
Wayne Probate Court
Wexford Probate Court

ACKNOWLEDGMENTS

The *Michigan Judges' Retirement System Comprehensive Annual Financial Report* is prepared by Financial Services, Fiscal Management Division. Staff of the division for the fiscal year 2003-2004 report included:

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