<u>**Michigan Judges' Retirement System**</u>
A Pension and Other Employee Benefit Trust Fund of the State of Michigan

Comprehensive Annual Financial Report for the Fiscal Year Ended September 30, 2011

M J R S

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

Table of Contents

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, 2010

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

President

Executive Director

Public Pension Standards Award

Public Pension Coordinating Council

Public Pension Standards Award
For Funding and Administration
2011

Presented to

Michigan Office of Retirement Services

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

Presented by the Public Pension Coordinating Council, a confederation of

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

Alan H. Winkle

Alan H. Winkle
Program Administrator

INTRODUCTORY SECTION

Letter of Transmittal

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

STATE OF MICHIGAN

RICK SYNDER, Governor

DEPARTMENT OF TECHNOLOGY, MANAGEMENT & BUDGET

January 3, 2012

The Honorable Rick Snyder
Governor, State of Michigan,

Members of the Legislature
State of Michigan,

Retirement Board Members
and
Members, Retirees and Beneficiaries

Ladies and Gentlemen:

We are pleased to present the comprehensive annual financial report of the Michigan Judges' Retirement System (System) for fiscal year 2011.

INTRODUCTION TO REPORT

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

Responsibility

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

Letter of Transmittal (continued)

Internal Control Structure

The leadership team of the System is responsible for maintaining adequate internal accounting controls designed to provide reasonable assurance that transactions are executed in accordance with management's general or specific authorization, and are recorded as necessary to maintain accountability for assets and to permit preparation of financial statements in accordance with accounting principles generally accepted in the United States of America. The internal control structure is designed to provide reasonable assurance regarding the safekeeping of assets and reliability of all financial records. The concept of reasonable assurance recognizes that the cost of a control should not exceed the benefits likely to be derived and that the valuation of costs and benefits requires estimates and judgments by management. This internal control structure includes maintaining written policies and procedures. Discussion and analysis of net assets and related additions and deductions are presented in the Management Discussion and Analysis which can be found immediately following the Independent Auditor's Report.

Independent Auditors and Actuary

The Office of the Auditor General (OAG), independent auditors, conducted an annual audit of the System. The independent auditor's report on the System's financial statements is included in the Financial Section of this report.

Statute requires 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. The annual actuarial valuation was completed by Gabriel Roeder Smith & Company for the fiscal year ended September 30, 2011. Actuarial certification and supporting statistics are included in the Actuarial Section of this report.

Management's Discussion and Analysis (MD&A)

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

PROFILE OF THE GOVERNMENT

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

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

ECONOMIC CONDITIONS AND OUTLOOK

Despite challenging economic times, the System continues to show steady performance over the long term.

Investments

The State Treasurer is the investment fiduciary and custodian of all investments of the System pursuant to State law. The primary investment objective is to maximize the rate of return on the total investment portfolio, consistent with a high degree of prudence and sufficient diversity to eliminate inordinate risks and to meet the actuarial assumption for the investment return rate. The investment activity for the year produced a total rate of return on the portfolio of 6.1%. For the last five years, the System has experienced an annualized rate of return of 1.9%. A summary of asset allocation and rates of return can be found in the Investment Section of this report.

Letter of Transmittal (continued)

Accounting System

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

Funding

Funds are derived from the excess of additions to plan net assets over deductions from plan net assets. Funds are accumulated by the System 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, 2011, the actuarial value of the assets and actuarial accrued liability of the System were $267.2 million and $251.7 million, respectively, resulting in a funded ratio of 106.2%. As of September 30, 2010, the amounts were $284.4 million and $251.7 million, respectively. An historical perspective of funding levels for the System is presented on the Schedule of Funding Progress in the Required Supplementary Information in the Financial Section of this report.

Postemployment Benefits

An actuarial valuation is completed annually to determine the actuarial accrued liability if the postemployment benefits were to be pre-funded. If these benefits were pre-funded, the actuarial accrued liability as of September 30, 2011, would be $7.9 million. Statement No. 43 does not require retroactive application of the reporting changes. Therefore, only six valuation years are presented and included in the required supplementary information of this report.

MAJOR GOALS ACCOMPLISHED

The Michigan Department of Technology, Management & Budget, Office of Retirement Services (ORS) is an innovative retirement organization driven to empower our customers for a successful today and a secure tomorrow. During fiscal year 2011, we refreshed our strategic plan, using input from staff members of the organization across multiple processes. The diverse opinions offered a unique opportunity to capture goals and successes from all aspects of the business, so we can offer our members the highest level of customer service.

Additional accomplishments are highlighted below:

Best In Class Business Practices

Metrics for performance assessment - Each of the five major business processes is developing balanced scorecards that will align across the organization. Our leaders are establishing performance projections and targets to help us measure and manage process performance. The scorecards will also measure performance at different levels within each process, including team-level scorecards and individual scorecards.

Retirement benchmarking survey - In September, we participated in a benchmarking survey with four other retirement systems. The survey helped us gather member satisfaction data, and allowed us to compare our results with those of our peers. We surveyed 1,415 recently retired members of all four of our retirement systems, and had a high response rate of 65.3 percent.

Letter of Transmittal (continued)

Innovate & Improve Customer Service

Improvements in call center operations - Our focus on people, processes, and technology has resulted in improved efficiency and accuracy in our call center. Improvements in the call routing system means customers can access relevant information faster, and call center representatives can spend more time answering questions. A team of part-time call center staff, coupled with a skills-based call routing system, ensures that customer calls are answered quickly by knowledgeable staff.

HONORS

ORS received the following recognitions:

- The Office of Retirement Services is one of three systems to receive a Special Award of Distinction for our achievements in Effective Communication from The National Association of Government Defined Contribution Administrators Inc. (NAGDCA). This recognition was in response to our Personal Evaluation Campaign. Over 4,000 participants took action by getting involved in their retirement accounts and reviewing their asset allocation.

- ORS won the Public Pension Standards 2011 Award by the Public Pension Coordinating Council for meeting standards for public retirement system management and administration.

- Orion Development Group featured the Office of Retirement Services in their fall 2011 newsletter, highlighting the benefits of our process-focused management structure. In 1997, it could take up to six months for applicants to receive their first pension payments. As of June 2011, over 90 percent of initial pension payments are issued in the month of the retiree's effective date.

- The Government Finance Officers Association (GFOA) of the United Stated and Canada awarded ORS with the Certificate of Achievement for Excellence in Financial Reporting for our fiscal year 2010 Comprehensive Annual Finance Report (CAFR). This marks the 20th consecutive year ORS has received this prestigious award.

Acknowledgments

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

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

Sincerely,

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

Phillip J. Stoddard

Phillip J. Stoddard, Director
Office of Retirement Services

INTRODUCTORY SECTION

Administrative Organization

Retirement Board Members *

Robert L. Brackenbury
Representing State Treasurer
Statutory Member

Mark Boonstra
Trustee (General Public)
Term Expires March 31, 2015

George M. Elworth
Representing Attorney General
Statutory Member

Rick Simonson
Trustee (General Public)
Term Expires March 31, 2015

Judge Diane D'Agostini
Representing Active Judges
Term Expires March 31, 2013

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

Administrative Organization

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

Advisors and Consultants

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

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

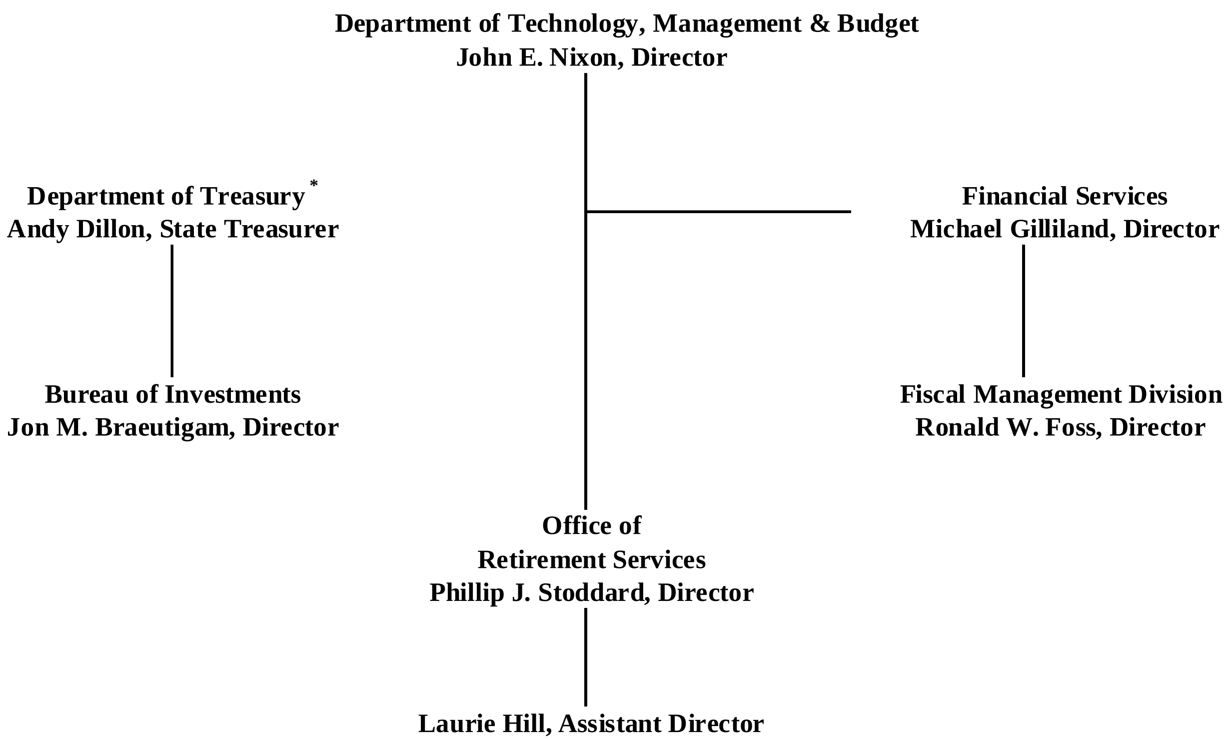
Investment Manager and Custodian
Andy Dillon
State Treasurer
State of Michigan

Legal Advisor
Bill Schuette
Attorney General
State of Michigan

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

Administrative Organization (continued)

Organization Chart



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

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FINANCIAL SECTION

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

FINANCIAL SECTION

Independent Auditor's Report

STATE OF MICHIGAN
OFFICE OF THE AUDITOR GENERAL
201 N. WASHINGTON SQUARE
LANSING, MICHIGAN 48913
(517) 334-8050
FAX (517) 334-8079

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

Independent Auditor's Report on
the Financial Statements

The Honorable Rick Simonson, Chair
Michigan Judges' Retirement System Board
General Office Building
and
John E. Nixon, C.P.A., Director
Department of Technology, Management, and Budget
George W. Romney Building
and
Mr. Phillip J. Stoddard, Director
Office of Retirement Services
Department of Technology, Management, and Budget
General Office Building - Third Floor
Lansing, Michigan

Dear Judge Simonson, Mr. Nixon, and Mr. Stoddard:

We have audited the accompanying basic financial statements of the Michigan Judges' Retirement System as of and for the fiscal years ended September 30, 2011 and September 30, 2010, as listed in the table of contents. These financial statements are the responsibility of the Michigan Judges' Retirement System's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the plan net assets of the Michigan Judges' Retirement System as of September 30, 2011 and September 30, 2010 and the changes in plan net assets for the fiscal years then ended in conformity with accounting principles generally accepted in the United States of America.

Independent Auditor's Report (continued)

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

The management's discussion and analysis on pages 16 through 19 and the required supplementary information and corresponding note on pages 41 through 43 are not required parts of the basic financial statements but are supplementary 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 the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The introductory, investment, actuarial, and statistical sections and the supporting schedules are presented for the purposes of additional analysis and are not a required part of the basic financial statements. The supporting schedules on pages 44 through 47 have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole. The introductory, investment, actuarial, and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Sincerely,

Thomas H. McTavish

Thomas H. McTavish, C.P.A.
Auditor General
December 30, 2011

Management's Discussion and Analysis

Our discussion and analysis of the Michigan Judges' Retirement System's (System) financial performance provides an overview of the System's financial activities for the fiscal year ended September 30, 2011. Please read it in conjunction with the transmittal letter in the Introductory Section on page 6 and the basic financial statements, which follow this discussion.

FINANCIAL HIGHLIGHTS

- System assets exceeded liabilities at the close of fiscal year 2011 by $224.6 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, 2011, the funded ratio was approximately 106.2% for pension benefits and the funded ratio for other postemployment benefits (OPEB) was 0.0%.
- Additions for the year were $12.4 million, which is comprised primarily of member contributions of $2.0 million and investment earnings of $10.0 million.
- Deductions decreased over the prior year from $21.3 million to $21.2 million or 0.8%. This decrease can be mostly attributed to a decrease in health care benefits paid.

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

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

The Statement of Pension Plan and Other Postemployment Benefit Plan Net Assets presents all of the System's assets and liabilities, with the difference between the two reported as net assets. Over time, increases and decreases in net assets measure whether the System's financial position is improving or deteriorating. *The Statement of Changes in Pension Plan and Other Postemployment Benefit Plan Net Assets* presents how the System's net assets changed during the most recent fiscal year. These two financial statements should be reviewed along with the Schedules of Funding Progress (page 41) and Schedules of Employer and Other Contributions (page 42) 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, 2011, were $258.5 million and were mostly comprised of cash, investments, and contributions due from employers. Total assets decreased $10.0 million or (3.7)% between fiscal years 2010 and 2011 due primarily to a decrease in net investment income. Total assets decreased $4.5 million or (1.7)% between fiscal years 2009 and 2010 due primarily to net investment losses.

Total liabilities as of September 30, 2011, were $33.9 million and were comprised of warrants outstanding, accounts payable, and obligations under securities lending. Total liabilities decreased $1.2 million or (3.5)% between fiscal years 2010 and 2011 due primarily to decreased obligations under securities lending. Total liabilities decreased $8.0 million or (18.5)% between fiscal years 2009 and 2010 due primarily to decreased obligations under securities lending.

System assets exceeded its liabilities at the close of fiscal year 2011 by $224.6 million. Total net assets held in trust for pension and OPEB benefits decreased $8.8 million or (3.8)% between fiscal years 2010 and 2011 due primarily to a decrease in net investment income. Total net assets increased $3.4 million or 1.5% between fiscal years 2009 and 2010 due primarily to net investment gains.

Net Assets
(in thousands)

	2011	Increase (Decrease)	2010	Increase (Decrease)	2009
Assets					
Cash	$ 1,134	47.2 %	$ 771	(61.2) %	$ 1,984
Receivables	151	(55.3)	337	164.5	128
Investments	257,206	(3.8)	267,396	(1.3)	270,937
Total Assets	258,491	(3.7)	268,504	(1.7)	273,048
Liabilities					
Warrants outstanding	10	(61.8)	27	(9.8)	30
Accounts payable and other accrued liabilities	18	(83.5)	111	(33.7)	168
Amounts due to other funds			28		
Obligations under securities lending	33,897	(3.2)	35,007	(18.5)	42,935
Total Liabilities	33,926	(3.5)	35,173	(18.5)	43,133
Total Net Assets	$ 224,565	(3.8) %	$ 233,331	1.5 %	$ 229,915

Management's Discussion and Analysis (continued)

ADDITIONS TO PLAN NET ASSETS

The reserves needed to finance pension and other postemployment benefits are accumulated through the collection of member contributions, earnings on investments, and court fees. Contributions, net investment income, and court fees for fiscal year 2011 totaled $12.4 million.

Total additions for fiscal year 2011 decreased approximately $12.4 million or (49.9)% from those of fiscal year 2010 due primarily to a decrease in investment income compared to an increase in investment income in 2010. Total additions for fiscal year 2010 increased approximately $43.5 million or 231.8% from those of fiscal year 2009 due primarily to an increase in net investment gains. Total contributions decreased between fiscal years 2010 and 2011 by $39.1 thousand or (1.9)%, and investment income decreased $11.9 million or (54.4)%. Total contributions decreased between fiscal years 2009 and 2010 by $112.5 thousand or (5.2)%, and investment income increased $43.3 million or 202.7%. Court fees totaled $353.2 thousand in fiscal year 2011 as compared to $755.2 thousand in fiscal year 2010. The decrease in court fees is the result of decreased OPEB expenses. The Investment Section of this report reviews the results of investment activity for 2011.

DEDUCTIONS FROM PLAN NET ASSETS

The primary deductions of the System include the payment of pension benefits to members and beneficiaries, payment for health, dental and vision benefits, and the cost of administering the System. Total deductions for fiscal year 2011 were $21.2 million, a decrease of (.8)% from fiscal year 2010 deductions. Total deductions for fiscal year 2010 were $21.3 million, an increase of 2.0% over fiscal year 2009 deductions.

The health, dental and vision care expenses decreased during the year by $677.9 thousand or (62.8)% from $1.1 million to $401.0 thousand. This compares to an increase of $258.2 thousand or 31.5% from $820.7 thousand to $1.1 million between fiscal years 2009 and 2010. This year decreases were due primarily to decreases in retiree health rates. The payment of pension benefits increased by $501.7 thousand or 2.5% between fiscal years 2010 and 2011, and by $181.9 thousand or 0.9% from fiscal year 2009 to 2010. In fiscal year 2011, the increase in pension benefit expense resulted from new retirees earning higher pension payments and the number of retirees decreased from 541 in 2010 to 539 in 2011. In fiscal year 2010, the increase in pension benefit expense resulted from new retirees earning higher pension payments, while the number of retirees decreased from 542 in 2009 to 541 in 2010. There were no contribution refunds during fiscal years 2011 and 2010. Administrative expenses decreased by $2 thousand or (1.1)% from $178.7 thousand to $176.7 thousand between fiscal years 2010 and 2011. This compares to a decrease of $25.4 thousand or (12.4)% from $204.0 thousand in fiscal year 2009 to $178.7 thousand in fiscal year 2010. The comparative year's decrease in administrative expenses is due primarily to a decrease in professional services expenses.

Management's Discussion and Analysis (continued)

Changes in Plan Net Assets
(in thousands)

	2011	Increase (Decrease)	2010	Increase (Decrease)	2009
Additions					
Member contributions	$ 2,020	(2.0) %	$ 2,061	(5.2) %	$ 2,173
Other governmental contributions	2	-	-	-	-
Net investment income (loss)	10,009	(54.4)	21,930	202.7	(21,344)
Court fees, transfers, and miscellaneous	362	(52.5)	762	97.6	386
Total Additions	12,393	(49.9)	24,753	231.8	(18,785)
Deductions					
Pension benefits	20,581	2.5	20,079	0.9	19,897
Health care benefits	401	(62.8)	1,079	31.5	821
Administrative expenses	177	(1.1)	179	(12.4)	204
Total Deductions	21,159	(0.8)	21,337	2.0	20,922
Net Increase (decrease)	(8,766)	(356.6)	3,416	108.6	(39,707)
Net Assets - Beginning of Year	233,331	1.5	229,915	(14.7)	269,622
Net Assets - End of Year	$ 224,565	(3.8) %	$ 233,331	1.5 %	$ 229,915

RETIREMENT SYSTEM AS A WHOLE

The System's combined net assets experienced a decrease in 2011 after an increase in 2010 and a decrease in 2009. The systems rate of return decreased an overall (0.9)% from a 7.0% return in fiscal year 2010 to a 6.1% return during fiscal year 2011. Management believes that the system remains financially sound and positioned to meet its ongoing benefit obligations due, in part, to a prudent investment program, cost controls, and strategic planning.

CONTACTING SYSTEM FINANCIAL MANAGEMENT

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

Statements of Pension Plan and Other Postemployment Benefit Plan Net Assets

As of September 30, 2011 and 2010

	September, 2011			September, 2010		
	Pension Plan	**OPEB Plan**	**Total**	**Pension Plan**	**OPEB Plan**	**Total**
Assets:						
Equity in Common Cash	$ 1,131,092	$ 3,082	$ 1,134,174	$ 770,569	$ 62	$ 770,631
Receivables:						
Amounts due from members	9,614		9,614	6,007		6,007
Amount due from other					199,202	199,202
Amounts due from employers	101,066	2,131	103,197	44,399	48,256	92,655
Interest and dividends	37,924	103	38,027	39,536	4	39,540
Total receivables	148,604	2,234	150,838	89,942	247,462	337,404
Investments:						
Short term investment pools	7,201,621	19,623	7,221,244	885,267	71	885,338
Fixed income pools	40,889,857	111,421	41,001,278	35,906,289	2,882	35,909,171
Domestic equity pools	66,740,535	181,862	66,922,397	88,763,259	7,125	88,770,384
Real estate pool	31,767,091	86,562	31,853,653	31,290,239	2,512	31,292,751
Alternative investments pool	37,804,205	103,013	37,907,218	38,888,402	3,122	38,891,524
International equities pools	29,504,676	80,398	29,585,074	35,190,249	2,825	35,193,074
Absolute return pools	15,469,330	42,153	15,511,483	9,183,332	737	9,184,069
Securities lending collateral	27,129,616	73,926	27,203,542	27,267,796	2,189	27,269,985
Total investments	256,506,931	698,958	257,205,889	267,374,834	21,462	267,396,296
Total assets	257,786,627	704,274	258,490,901	268,235,345	268,986	268,504,331
Liabilities:						
Warrants outstanding	10,398	28	10,426	27,294	2	27,296
Accounts payable and other accrued liabilities	4,208	14,184	18,392	7,573	103,699	111,272
Amounts due to other funds					28,262	28,262
Obligations under securities lending	33,804,981	92,115	33,897,096	35,003,712	2,810	35,006,522
Total liabilities	33,819,587	106,327	33,925,914	35,038,579	134,773	35,173,352
Net Assets (Liabilities) Held in Trust for Pension and OPEB Benefits	$ 223,967,040	$ 597,947	$ 224,564,987	$ 233,196,766	$ 134,213	$ 233,330,979

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

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

For Fiscal Years Ended September 30, 2011 and 2010

	September 30, 2011			September 30, 2010		
	Pension Plan	OPEB Plan	Total	Pension Plan	OPEB Plan	Total
Additions:						
Contributions:						
Member contributions	$ 1,468,068	$ 551,783	$ 2,019,851	$ 1,539,822	$ 520,707	$ 2,060,529
Other governmental contributions		1,617	1,617			
Total contributions	1,468,068	553,400	2,021,468	1,539,822	520,707	2,060,529
Investment income (loss):						
Net appreciation (depreciation) in fair value of investments	5,010,227	13,096	5,023,323	16,757,010	9,641	16,766,651
Interest, dividends, and other	5,373,883	24,880	5,398,763	5,513,359	3,298	5,516,657
Net investment income (loss)	10,384,110	37,976	10,422,086	22,270,369	12,939	22,283,308
Investment expenses:						
Real estate operating expenses	(19,423)	(51)	(19,474)	(20,239)	(12)	(20,251)
Other investment expenses	(756,037)	(1,976)	(758,013)	(771,409)	(444)	(771,853)
Securities lending activities:						
Securities lending income	472,505	1,235	473,740	596,568	343	596,911
Securities lending expenses	(108,833)	(284)	(109,117)	(157,691)	(91)	(157,782)
Net investment income (loss)	9,972,322	36,900	10,009,222	21,917,597	12,736	21,930,333
Court Fees	43,185	310,000	353,185	43,181	712,000	755,181
Miscellaneous income	8,824		8,824	5,267	1,373	6,640
Total additions	11,492,399	900,300	12,392,699	23,505,868	1,246,816	24,752,684
Deductions:						
Benefits paid to plan members and beneficiaries:						
Retirement benefits	20,580,971		20,580,971	20,079,292		20,079,292
Health benefits		265,202	265,202		859,602	859,602
Dental/vision benefits		135,825	135,825		219,313	219,313
Administrative expenses	141,155	35,539	176,694	143,470	35,212	178,682
Total deductions	20,722,126	436,566	21,158,692	20,222,762	1,114,127	21,336,889
Net Increase (decrease)	(9,229,727)	463,734	(8,765,993)	3,283,106	132,689	3,415,795
Net Assets Held in Trust for Pension and OPEB Benefits:						
Beginning of Year	233,196,766	134,213	233,330,979	229,913,660	1,524	229,915,184
End of Year	$ 223,967,040	$ 597,947	$ 224,564,987	$ 233,196,766	$ 134,213	$ 233,330,979

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

Notes to Basic Financial Statements
September 30, 2011 and 2010

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), created under Public Act 234 of 1992, consolidated the former Judges' and Probate Judges' Retirement Systems into one retirement system. Section 204 of this Act establishes the board's authority to promulgate or amend the provisions of the System. The System's pension plan was established to provide retirement, survivor and disability benefits to judges in the judicial branch of state government. In addition, the System's OPEB plan provides all retirees with the option of receiving health, dental, and vision coverage under the Michigan Judges' Retirement Act. There are 125 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 if elected prior to March 31, 1997. (Those officials elected on or after March 31, 1997, are part of the Defined Contribution Retirement Plan.). The System is a qualified pension trust fund under section 401(a) of the Internal Revenue Code.

The System's financial statements are included as a pension and other employee benefit 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 Technology, Management & Budget (DTMB). The Department Director appoints the Office Director who serves as Executive Secretary to the System's Board, with whom the general oversight of the System resides. The State Treasurer serves as the investment officer and custodian for the System.

MEMBERSHIP

At September 30, 2011, and 2010, the System's membership consisted of the following:

Retirees and beneficiaries currently receiving benefits:	**2011**	**2010**
Regular benefits	355	357
Survivor benefits	178	178
Disability benefits	6	6
Total	539	541
Current employees:		
Vested	204	220
Non-vested	1	1
Total	205	221
Inactive employees entitled to benefits and not yet receiving them	11	11
Total all members	755	773

Notes to Basic Financial Statements (continued)

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, 2011, and 2010, there were a total of 539 and 541 retirees, respectively, who are eligible to participate in the health/dental/vision plans. The number of participants is as follows:

Health, Dental, and Vision Plan	2011	2010
Eligible participants	539	541
Participants receiving benefits:		
Health	81	85
Dental	140	144
Vision	116	116

BENEFIT PROVISIONS – PENSION

Introduction

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 early with a 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.

Notes to Basic Financial Statements (continued)

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.

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 1) a member who has 8 or more years of credited service dies while in office, 2) a vested former member dies before retirement, or 3) a retiree dies following retirement.

Contributions

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

Publicly Financed Contributions - There are two public sources which fund retirement benefits: Court fees and State appropriations. The State contributes annually the greater of 3.5% of the aggregate annual compensation of State paid base salaries, or the difference between the total actuarial requirement of current service and unfunded accrued

Notes to Basic Financial Statements (continued)

liabilities minus the revenues from court filing fees and member contributions. If the court fees deposited in the reserve for employer contributions equal the amount needed in addition to other publicly financed contributions to sustain the required level of publicly financed contributions, Section 304(4) of Judges' Retirement Act requires court fees be deposited in the court fee fund. A chart showing the publicly financed contribution rates is included in the Schedules of Additions 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 2011, this amount was $310,000. The amount for fiscal year 2010 was $712,000.

BENEFIT PROVISIONS – OTHER POSTEMPLOYMENT

Introduction

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

Under the Michigan Judges' Retirement Act, Plan 1 or 2, members may enroll in the State Health Plan when they retire. Five percent of the health insurance premium is deducted from the monthly pension check until age 65, at which time Medicare provides primary health insurance coverage. All other members may enroll in the State Health Plan during an open enrollment period. The total premium is deducted from the monthly pension check. The active employee payroll contribution rate to fund health benefits for the Plan 1 or 2 members was 2.0% for 2011 and 2.0 % for 2010. 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 total premium is deducted from the monthly pension check.

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

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

Health, Dental, and Vision Plan	**2011**	**2010**
Eligible participants	539	541
Participants receiving benefits:		
Health	81	85
Dental	140	144
Vision	116	116
Expenses for the year	$ 436,566	$1,114,127
Employer payroll contribution rate	0%	0%

Notes to Basic Financial Statements (continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting and Presentation

The System's financial statements are prepared using the accrual basis of accounting. Court filing fees are recognized as revenue in the period received. Contributions from the State are recognized as revenue when due and payable. Benefits and refunds are recognized when due and payable in accordance with the terms of the System.

Reserves

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

<u>Reserve for Employee Contributions</u> - This reserve represents active member contributions, payments for the purchase of service credit, repayment of previously refunded contributions and interest less amounts transferred to the Reserve for Retirement Benefit Payments for regular and disability retirement, amounts refunded to terminated members, and transferring inactive reserves. At September 30, 2011, and 2010, the balance in this reserve was $48.5 million and $51.0 million, respectively.

<u>Reserve for Employer Contributions</u> - 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. At September 30, 2011, and 2010, the balance in this reserve was ($15.8) million and ($5.4) million, respectively.

<u>Reserve for Retired Benefit Payments</u> - 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 retiree, 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, 2011, and 2010, the balance in this reserve was $154.8 million and $149.0 million, respectively.

<u>Reserve for Undistributed Investment Income</u> - 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, 2011, and 2010, the balance in this reserve was $36.5 million and $38.5 million, respectively.

<u>Reserve for Health (OPEB) Benefits</u> - This reserve is credited with member contributions for health, dental and vision benefits. This reserve includes revenue from the federal government for early retiree reinsurance payment (ERRP) and retiree drug subsidy payment (RDS) pursuant to the provisions of Medicare Part D. The required contribution is based on pay-as-you-go funding and represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liability (or funding excess) over a period not to exceed thirty years. The actual annual contributions have been less than the annual required contribution (the ARC). Health, dental, and vision benefits are paid from this reserve. At September 30, 2011, and 2010, the balance in this reserve was $597,947 and $134,213 respectively.

Reporting Entity

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

Benefit Protection

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

Fair Value of Investments

Plan investments are reported at fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Corporate bonds not traded on a national or international exchange are based on equivalent values of comparable securities with similar yield and risk. 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. Securities purchased with cash collateral under securities lending activities are recorded at estimated fair value. Other investments not having an established market are recorded at estimated fair value.

Investment Income

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

Costs of Administering the System

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

Property and Equipment

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

	2011	2010
Building Rentals	$ 1,543	$ 1,869
Technological Support	12,355	14,045
Attorney General	15,523	14,909
Investment Services	62,637	67,943
Personnel Services	15,624	16,659

Cash - On September 30, 2011, and 2010, the System had $1.1 million and $771 thousand, 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 $1.2 thousand and $1.9 thousand for the years ended September 30, 2011, and 2010, respectively.

Notes to Basic Financial Statements (continued)

Excess Benefits

Internal Revenue Service (IRS) Code Section 415 requires that, for individuals who receive retirement benefits in excess of established limits, these benefits are recorded and reported outside of the pension plan in order to keep the qualified status of the plan. This includes coordination of benefit issues whereby a retiree participates in more than one qualified plan. In fiscal years 2011 and 2010, the System provided excess benefits to one retiree.

NOTE 3 - CONTRIBUTIONS AND FUNDED STATUS

Contributions

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

The State contributes annually the greater of 3.5% of the aggregate annual compensation of State paid base salaries, or the difference between the total actuarial requirement of current service and unfunded actuarial liabilities minus the revenues from court filing fees and member contributions. Although contributions are expressed as a percentage of payroll, because the system is a closed plan, the actuarial valuation calculates a level dollar amount for funding purposes. For fiscal years 2011 and 2010, no employer contributions were required based on the annual actuarial valuation. If the court fees deposited in the reserve for employer contributions equal the amount needed in addition to other publicly financed contributions to sustain the required level of publicly financed contributions, Section 304(4) requires court fees to be deposited in the court fee fund in the State Treasury. The State Treasurer transmits the money in the court fee fund, not exceeding $2.2 million in any fiscal year, to the court equity fund for operational expenses of trial courts.

Employer contributions to the System are determined on an actuarial basis using the entry age normal actuarial cost method. Under this method, the actuarial present value of the projected benefits of each individual included in the actuarial valuation is allocated on a level basis over the service of the individual between entry age and assumed exit age. The portion of this cost allocated to the current valuation year is called the normal cost. The remainder is called the actuarial accrued liability. Normal cost is funded on a current basis. For retirement and OPEB benefits, the unfunded (overfunded) actuarial accrued liability will be amortized over a 25 year period for the 2011 fiscal year and is amortized over a 26 year period for the 2010 fiscal year.

Actual contributions (court fees) for retirement benefits were $43.2 thousand and $43.2 thousand for fiscal years 2011 and 2010, respectively, representing 0.18% of annual covered payroll for the year ended September 30, 2011, and 0.16% of annual covered payroll for the year ended September 30, 2010. Required employer contributions based on previous year actuarial valuations for pensions included:

1. $2.4 million for fiscal year 2011 and $2.6 million for fiscal year 2010 for the normal cost of pensions representing 10.3% and 10.3% (before reconciliation) of annual covered payroll for fiscal years 2011 and 2010, respectively.

2. ($1.4) million and ($2.9) million for fiscal years 2011 and 2010, respectively, for amortization of overfunded actuarial accrued liability representing (5.9)% and (11.4)% (before reconciliation) of annual covered payroll for fiscal years 2011 and 2010, respectively.

Actual employer contributions (court fees) for other postemployment benefits (OPEB) were $310 thousand and $712.0 thousand, respectively, for fiscal years 2011 and 2010, representing 5.7% of annual covered payroll for the year ended September 30, 2011 and 12.0% of annual covered payroll for the year ended September 30, 2010. Required employer contributions based on previous year actuarial valuations for OPEB included:

Notes to Basic Financial Statements (continued)

1. $257.2 thousand and $297.4 thousand for fiscal years 2011 and 2010, respectively, for the normal cost of OPEB representing 4.8% and 5.0% (before reconciliation) of annual covered payroll for fiscal years 2011 and 2010, respectively.

2. $339.8 thousand and $307.8 thousand for fiscal years 2011 and 2010, respectively, for amortization of unfunded actuarial accrued liability representing 6.3% and 5.2% (before reconciliation) of annual covered payroll for fiscal years 2011 and 2010, respectively.

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

Funded Status

Participating employers are required to contribute at an actuarially determined rate for both pension benefits and OPEB. For fiscal year 2011, the actuarial accrued liability (AAL) for pension benefits was $251.7 million, and the actuarial value of assets was $267.2 million, resulting in an overfunded actuarial accrued liability (UAAL) of $(15.5) million and a funded ratio of 106.2%. The covered payroll (annual payroll of active employees covered by the plan) was $23.6 million and the ratio of the UAAL to the covered payroll was (65.8)%.

For fiscal year 2011, the actuarial accrued liability (AAL) for OPEB benefits was $7.9 million, and the actuarial value of assets was $0, resulting in an unfunded actuarial accrued liability (UAAL) of $7.9 million and a funded ratio of 0.0%. The covered payroll (annual payroll of active employees covered by the plan) was $5.4 million, and the ratio of the UAAL to the covered payroll was 145.3%.

Actuarial Valuations and Assumptions

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

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

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

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

Notes to Basic Financial Statements (continued)

Summary of Actuarial Assumptions

Valuation Date	9/30/2011
Actuarial Cost Method	Entry Age, Normal
Amortization Method - Pension	Level dollar, Closed
Amortization Method - OPEB	Level Percent of Payroll, Closed
Remaining Amortization Period - Pension	25 Years*
Remaining Amortization Period - OPEB	25 Years*
Asset Valuation Method - Pension	5-Year Smoothed Market
Asset Valuation Method - OPEB	Market
Actuarial Assumptions:	
Wage Inflation Rate	3.5%
Investment Rate of Return - Pension	8.0%
Investment Rate of Return - OPEB	4.0%
Projected Salary Increases	4.0%
Cost-of-Living Pension Adjustments	Assumed 4% Compounded for those eligible
Healthcare Cost Trend Rate	9.0% Year 1 graded to 3.5% Year 10
Other Assumptions OPEB only:	
Opt Out Assumption	0% of eligible participants are assumed to opt out of the retiree health plan
Survivor coverage	75% of male retirees and 60% of female retirees are assumed to have coverage continuing after the retiree's death
Coverage Election at retirement	75% of male and 60% of female future retirees are assumed to elect coverage for 1 or more dependents

*Based on the provisions of GASB Statement No. 25, 43 and 45 when the actuarial accrued liability for a defined benefit pension plan is underfunded or overfunded, the difference should be amortized over a period not to exceed thirty years for the fiscal periods beginning on or after June 15, 2006.

NOTE 4 - INVESTMENTS

Investment Authority

Under Public Act 380 of 1965, as amended, the authority for the purchase and the sale of investments resides with the State Treasurer. Investments are made subject to the Public Employee Retirement Investment Act, Public Act 314 of 1965, as amended. The Public Employee Retirement 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 and other employee benefit trust funds (the trust funds).

Derivatives are used in managing the trust fund portfolios, but uses do not include speculation or leverage of investments. Less than 12% of the total trust funds' portfolio has been invested from time to time in future contracts, swap agreements, structured notes, option and forward contracts. State investment statutes limit total derivative exposure to 15% of a fund's total asset value, and restrict uses to replication of returns and hedging of assets. Swap agreements represent the largest category of derivatives used, and they represented 4.2% of market value of total pooled assets on September 30, 2011 and 6.8% of market value of total pooled assets on September 30, 2010. Structured notes represented 0.7% of market value of total pooled assets on September 30, 2011 and 0.3% of market value of total pooled assets on September 30, 2010. Future contracts represented 0.0% of market value of total pooled assets on September 30, 2011 and 2010. Option contracts represented 0.0% of market value of total pooled assets on September 30, 2011, and 2010. Forward contracts represented 0.0% of market value of total pooled assets on September 30, 2011. The derivative fair values are reported on the Statements of Pension Plan and Other Postemployment Benefit Plan Net Assets as of September 30, 2011 and 2010 statements, in their respective investment pools market value. Derivative net appreciation and depreciation are reported on the Statement of Changes in Pension Plan and Other Postemployment Benefit Plan Net Assets for fiscal years ended September 30, 2011 and 2010 statements, under "Investment income (loss)", in "Net appreciation (depreciation) in fair value of investments". Swap interest, payments, and dividends are reported under "Investment Income (loss)", in "Interest, Dividends, and other".

To diversify the trust funds' portfolio, the State Treasurer has entered into international swap agreements with investment grade counterparties, which are tied to stock market indices in twenty-two foreign countries. To provide downside protection and enhance cash returns in equity investments, swap agreements tied to domestic stock indices were added.

International Investments' swap equity agreement notional amounts at September 30, 2011, and 2010, were $8.8 million and $16.6 million, respectively. Approximately one quarter of the notional amount tied to foreign stock market indices is hedged against foreign currency fluctuations. The swap agreements provide that the System will pay quarterly over the term of the swap agreements, interest indexed to the three month London Inter Bank Offer Rate (LIBOR), adjusted for an interest rate spread, on the notional amount stated in the agreements. International equity swap agreement maturity dates range from October 2011 to July 2012. The U.S. Domestic LIBOR based floating rate notes and other investments earning short-term interest are held to correspond with the notional amount of the international swap agreements. The value of the international synthetic equity structures is a combination of the value of the swap agreements and the value of the notes and short-term investments. The book value represents the cost of the notes and short-term investments. The current value represents the current value of the notes and short-term investments and the change in the value of the underlying indices from the inception of the swap agreements. The current value $9.7 million is used as a representation of the fair value based on the intention to hold all swap agreements until maturity. At the maturity of the swap agreements, the trust funds will either receive the increase in the value of the equity indices from the level at the inception of the agreements, or pay the decrease in the value of the indices. The combined swap structure generally realizes gains and losses on a rolling multi- year basis.

For fiscal years ending September 30, 2011 and 2010, international equity investment programs involving swaps, incurred an investment income loss of ($0.6) million and an investment income gain of $1.1 million, respectively

International swaps appreciation/(depreciation) for fiscal years ending September 30, 2011, and 2010, of ($0.7) million and $0.8 million, respectively, primarily reflects fluctuations in currency exchange rates and increases in bond market values.

In May 2011, domestic equity swaps were added to the trust funds' portfolio for the Domestic Equity Pools. Equity Investments domestic swaps agreements notional amounts at September 30, 2011 were $3.8 million. Domestic equity swap agreement maturity dates range from October 2011 to July 2014. The swap agreements provide that the System will pay interest quarterly or annually over the term of the swap agreements, interest indexed to the LIBOR, adjusted for an interest rate spread, on the notional amount stated in the agreements. Domestic equity swaps value is a combination of the value of the swap agreements and the value of short-term investments. Book value represents the cost of short-term investments. Current value represents the fair value of the short-term investments and the change in the value of the underlying indices from the inception of the swap agreements. The current value $0.1 million is used as a representation of the fair value based on the intention to hold all swap agreements until maturity. For fiscal year ending September 30, 2011, the domestic equity investment swap program, incurred an investment income loss of ($0.1) million.

Domestic equity swaps' appreciation/(depreciation) of ($0.1) million for fiscal year September 30, 2011, primarily reflects the net changes in the domestic indices and increases in short-term investments.

The maximum loss due to counterparty credit risk is the amount that would be incurred if the counterparties to the derivative instrument failed to perform according to the terms of the contract, without respect to any collateral or other security, or netting arrangement. Counterparty credit risk will always be significantly less than the swap agreement notional totals. On September 30, 2011 and 2010, the maximum amount of counterparty credit risk for international equity swaps was $1.1 million and $2.0 million respectively. Domestic equity swaps counterparty credit risk at September 30, 2011, was $0.1 million.

The respective September 30, 2011 and 2010, swap values are as follows:

		Notional Value	Current Value
International Swaps	9/30/2011 (dollars in millions)	$ 8.8	$ 9.7
International Swaps	9/30/2010 (dollars in millions)	$ 16.6	$ 16.4
Domestic Swaps	9/30/2011 (dollars in millions)	$ 3.8	$ 0.1

In July 2011, an international currency forward investment agreement was added to the trust funds' portfolio for the Absolute Return Pools. The international currency forward had a notional value of $54.2 thousand. Fair value at September 30, 2011 was $2.3 thousand. This currency forward agreement will mature in July 2012. The value of this investment is the change in the forward rate. For fiscal year ending September 30, 2011, the currency forward had appreciation/ (depreciation) of $2.3 thousand. Investment income for fiscal year ending September 30, 2011was $2.3 thousand. Counterparty credit risk for the international currency forward is $2.3 thousand.

To get enhanced passive exposure to the Dow Jones UBS Commodity Total Return Index, the State Treasurer purchased structured notes from investment grade counterparties for the Absolute Return Pools. These notes are fully collateralized and pay cash rates on the underlying collateral, as well as, providing the enhanced index return. Similar to a swap agreement with prices changing with the underlying index fluctuations, the notes differ due to their daily put option which allows the structure to end and settle before its final maturity in November 2016. For the fiscal years ending September 30, 2011, and 2010, the notional value was $1.7 million and $0.7 million, respectively. The fair value of the structured notes for the fiscal years ending September 30, 2011 and 2010 was $1.7 million and $0.8 million, respectively. The structured notes' counterparty credit risk for fiscal year ending September 30, 2011, and 2010, was $1.7 million and $0.8 million, respectively. For fiscal year ending September 30, 2011, and 2010, the structured notes had appreciation/ (depreciation) of ($0.1) million and $18.1 thousand, respectively. Investment income for fiscal years ending September 30, 2011, and 2010, was ($0.1) million and $18.1 thousand, respectively.

To enhance management flexibility, the State Treasurer traded U. S. Treasury bond future contracts for the Fixed Income Pools. The U. S. Treasury bond future contracts were used to manage duration and yield curve exposure. U.S. Treasury bond future contracts' notional values at September 30, 2011, and 2010, were $0.1 million and $0.1 million, respectively. For the fiscal years ending September 30, 2011, and 2010, the fair values were $0.2 thousand and $0.1 thousand, respectively. The investment income for fiscal years ending September 30, 2011, and 2010, was $1.6 thousand and $1.4 thousand, respectively. For fiscal years ending September 30, 2011, and 2010, appreciation/ (depreciation) was $1.6 thousand and $1.4 thousand, respectively.

To provide downside protection and enhance current income, the State Treasurer traded covered equity options on single securities for the Absolute Return pools. Put options are used to protect against large negative moves in single stocks, as well as to express interest in a security that is trading well below its intrinsic value. Call options have been used to achieve current income on single equity securities that are trading near their intrinsic value. Equity options' notional values on September 30, 2011, and 2010, were $6.2 thousand and $0, respectively. For fiscal years ended September 30, 2011, and 2010, the fair values of the equity options were ($0.6) thousand and $0, respectively. The investment income on options for fiscal years ending September 30, 2011 and 2010, was $1.1 thousand and $16.3 thousand, respectively. The appreciation\ (depreciation) for fiscal years ending September 30, 2011, and 2010, was $1.1 thousand and 16.3 thousand, respectively.

Securities Lending

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

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

The agent bank agreed to indemnify the System by purchasing replacement securities, or returning cash collateral in the event borrower failed to return the loaned security or pay distributions thereon, due to the borrower's insolvency.

Under Master Securities Lending Agreements between the System and each borrower, the System and the borrowers have the right to terminate all securities lending transactions on demand. The cash collateral received on each loan was invested in assets held in a collateral account dedicated to the System. As of September 30, 2011 and 2010, such assets had an average weighted maturity to next reset of 3.3 years and 3.8 years respectively and an average weighted maturity of 10.8 years and 12.6 years respectively. Because the loans are terminable at will, their duration did not generally match the duration of the investments made with cash collateral. On September 30, 2011 and 2010, the System had no credit risk exposure to borrowers. The cash received for securities on loan for the System as of September 30, 2011 and 2010, was $33,897,096 and $35,006,522 respectively. The fair market value of assets held in the dedicated collateral account at the custodian for the System as of September 30, 2011 and 2010, was $27,203,542 and $27,269,985 respectively. The carrying amount, which is the fair market value, of securities on loan for the System as of September 30, 2011 and 2010, was $33,104,448 and $34,163,607 respectively.

Gross income, including capital gains and losses, from security lending for fiscal years ended September 30, 2011 and 2010 with Credit Suisse was $473,740 and $596,911 respectively. Expenses associated with this income were the borrower's rebate of $19,647 and $53,933 and fees paid to the agent bank of $89,470 and $103,848 respectively.

Notes to Basic Financial Statements (continued)

Risk

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

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

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

- Long-Term Fixed Income Investments – These investments must be investment grade or better at the time of purchase unless specific requirements are met as defined by Public Act 314 of 1965, as amended, and the State Treasurer’s investment policy. Law defines investment grade as investments in the top four major grades, rated by two national rating services, S&P (AAA, AA, A, BBB) and Moody’s (Aaa, Aa, A, Baa). At September 30, 2011 and 2010, the System was in compliance with the policy in all material aspects.

Notes to Basic Financial Statements (continued)

Rated Debt Investments
(in thousands)
As of September 30, 2011 and 2010

	2011				2010			
Investment Type	**Fair Value**	**S&P**	**Fair Value**	**Moody's**	**Fair Value**	**S&P**	**Fair Value**	**Moody's**
Short Term	$ 12,267	A-1	$ 12,024	P-1	$ 6,086	A-1	$ 5,983	P-1
	-	A-2	243	P-2	-	A-2	103	P-2
Government Securities								
US Agencies - Sponsored	-	AAA	3,530	Aaa	3,543	AAA	3,543	Aaa
	3,530	AA	-	Aa	-	AA	-	Aa
Corporate Bonds & Notes								
	446	AAA	616	Aaa	659	AAA	667	Aaa
	4,344	AA	3,508	Aa	3,559	AA	2,814	Aa
	12,521	A	12,920	A	9,717	A	10,197	A
	6,729	BBB	6,508	Baa	6,227	BBB	6,161	Baa
	760	BB	678	Ba	494	BB	383	Ba
	115	B	160	B	116	B	108	B
	60	CCC	53	Caa	49	CCC	77	Caa
	1	CC	6	Ca	-	CC	10	Ca
	-	C	1	C	-	C	-	C
	2	D	-	D	5	D	-	D
	2,401	NR	2,929	NR	1,231	NR	1,640	NR
International [1]								
	-	AAA	-	Aaa	-	AAA	-	Aaa
	3,971	AA	5,289	Aa	5,779	AA	7,821	Aa
	3,182	A	2,145	A	7,244	A	5,748	A
	-	BBB	893	Baa	820	BBB	1,862	Baa
	460	BB	-	Ba	1,042	BB	-	Ba
	1,658	NR	944	NR	546	NR	-	NR
Securities Lending Collateral								
	2,618	A-1	2,618	P-1	238	A-1	238	P-1
	5,081	AAA	4,928	Aaa	7,595	AAA	7,333	Aaa
	3,127	AA	12,107	Aa	3,456	AA	11,677	Aa
	1,807	A	1,657	A	3,241	A	4,096	A
	9,735	BBB	906	Baa	9,601	BBB	214	Baa
	-	BB	153	Ba	-	BB	149	Ba
	72	B	71	B	1,348	B	58	B
	1,412	CCC	1,097	Caa	352	CCC	1,850	Caa
	-	CC	315	Ca	-	CC	216	Ca
	3,257	NR	3,257	NR	1,338	NR	1,338	NR
Mutual Funds								
	19	A	-	A	-	A	-	A
	-	NR	19	NR	-	NR	-	NR
Total	$ 79,575		$ 79,575		$ 74,286		$ 74,286	

NR - not rated

[1] International Investment types consist of domestic floating rate note used as part of a Swap strategy.

Notes to Basic Financial Statements (continued)

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

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

- The counterparty or

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

The State Treasurer does not have a policy for custodial credit risk. However, the State's custodial bank had a credit rating of A+ at September 30, 2011. As of September 30, 2011 and 2010, no securities were exposed to custodial credit risk.

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

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

At September 30, 2011, and 2010, there were no investments in any single issuer that accounted for more than 5% of the System's assets nor were there any investments totaling more than 5% of the obligations of any one issuer, other than U.S. Government Securities as described above.

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

The State Treasurer's policy states that cash equivalents are invested in short-term fixed income securities with an average weighted maturity of less than one year to provide liquidity and safety of principal from capital market and default risk. At September 30, 2011, and 2010, the fair value of the System's prime commercial paper was $12.3 million and $6.1 million with the weighted average maturity of 13 days and 8 days, respectively.

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

Notes to Basic Financial Statements (continued)

Debt Securities
(in thousands)
As of September 30, 2011 and 2010

	2011		2010	
	Fair Value	Effective Duration in Years	Fair Value	Effective Duration in Years
Government				
U. S. Treasury	866	8.3	$ 1,327	5.6
U. S. Agencies - Backed	9,175	3.9	8,407	4.4
U. S. Agencies - Sponsored	3,530	3.0	3,543	2.5
Corporate	27,379	4.3	22,057	4.7
International*				
Corporate	9,272	0.2	15,431	0.2
Mutual Funds	19	4.4		
Total	$ 50,241		$ 50,765	

Debt securities are exclusive of securities lending collateral.

*International contains Corporate Debt Securities as a part of their derivative strategies. The interest rates reset on a quarterly basis for these securities.

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

The System invests in various securities denominated in foreign currencies. These investments are limited to 20% of the total assets of the System with an additional limit of 5% of the outstanding foreign securities of any single issuer. No investment is allowed in a country that has been identified by the United States State Department as engaging in or sponsoring terrorism. These limits are set forth in Public Act 314 of 1965, as amended. The types of foreign investments include equities, fixed income, mutual funds, real estate, and limited partnerships. At September 30, 2011, and 2010, the total amount of foreign investment subject to foreign currency risk was $29.7 million and $27.9 million which amounted to 12.8% and 11.6% of total investments (exclusive of securities lending collateral) of the System, respectively.

Notes to Basic Financial Statements (continued)

Foreign Currency Risk
(in thousands)
As of September 30, 2011

Region	Country	Currency	Alt. Invest. Market Value in U.S. $	Equity Market Value in U.S. $	Real Estate Market Value in U.S. $	International Equities Market Value in U.S. $	International Derivatives Market Value in U.S. $ *
AMERICA							
	Canada	Dollar					$ 28
	Mexico	Peso		$ 13			
EUROPE							
	European Union	Euro	$ 4,028	32		$ 48	(45)
	Switzerland	Franc		423			89
	Sweden	Krona				40	70
	Denmark	Krone				7	6
	Norway	Krone					23
	U.K.	Sterling	52	434		16	105
PACIFIC							
	Australia	Dollar					86
	China	Renminbi		4			
	Hong Kong	Dollar		34			1
	Japan	Yen	3			2	186
	New Zealand	Dollar					17
	Singapore	Dollar		40		46	(8)
	South Korea	Won				34	37
MIDDLE EAST							
	Israel	Shekel		85			
AFRICA							
	South Africa	Rand		2			
VARIOUS					$ 5,770	17,987	
	Total		$ 4,083	$ 1,067	$ 5,770	$ 18,180	$ 595

*International derivatives' market value exposure to foreign currency risk is the net amount of unrealized gains and unrealized losses. Maturity dates on these investments range from October 2011 through July 2012, with an average maturity of .3 years.

Notes to Basic Financial Statements (continued)

Foreign Currency Risk
(in thousands)
As of September 30, 2010

Region	Country	Currency	Alt. Invest. Market Value in U.S. $	Equity Market Value in U.S. $	Real Estate Market Value in U.S. $	International Equities Market Value in U.S. $	International Derivatives Market Value in U.S. $ *
AMERICA							
	Brazil	Real		$ 12			
	Canada	Dollar					$ 37
EUROPE							
	European Union	Euro	$ 3,899	178		$ 90	(151)
	Switzerland	Franc		756			63
	Sweden	Krona				57	121
	Denmark	Krone				8	13
	Norway	Krone					32
	U.K.	Sterling	55	632		17	98
PACIFIC							
	Australia	Dollar					173
	China	Renminbi		28			
	Hong Kong	Dollar		41			48
	Japan	Yen	6	2		1	(7)
	New Zealand	Dollar					12
	Singapore	Dollar		42		31	15
	South Korea	Won				44	81
MIDDLE EAST							
	Israel	Shekel		19			
AFRICA							
	South Africa	Rand		2			
VARIOUS					$ 5,150	16,306	
	Total		$ 3,960	$ 1,712	$ 5,150	$ 16,554	$ 535

*International derivatives' market value exposure to foreign currency risk is the net amount of unrealized gains and unrealized losses. Maturity dates on these investments range from October 2010 through April 2012, with an average maturity of .8 years.

Notes to Basic Financial Statements (continued)

NOTE 5 – ACCOUNTING CHANGES

During fiscal year 2010, the System implemented GASB Statement No. 53, *Accounting and Financial Reporting for Derivatives Instruments*. This statement addresses the recognition, measurement, and disclosure of information regarding derivative instruments. Note 4 includes disclosure regarding derivative instruments held as investments by the System; no other types of derivative instruments were used by System during the fiscal years.

As a result of the implementation, the System made additional note disclosures regarding the investment derivative instrument; however, since the derivative instruments were held and accounted for as investments, there were no accounting changes or restatements required.

NOTE 6 - COMMITMENTS AND CONTINGENCIES

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

Required Supplementary Information

Schedules of Funding Progress

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

Pension Benefits ($ in millions)

Valuation Date Sept 30	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded (Overfunded) Accrued Liability (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll ((b-a)/c)
2002	$ 291.7	$ 229.2	$ (62.5)	127.3 %	$ 42.4	(147.3) %
2003	292.3	235.2	(57.1)	124.3	38.9	(146.6)
2004 *	286.9	236.4	(50.5)	121.3	37.5	(134.6)
2005	278.4	243.4	(35.0)	114.4	34.9	(100.3)
2006	282.8	243.7	(39.1)	116.0	33.1	(118.1)
2007	301.0	247.1	(53.9)	121.8	29.7	(181.5)
2008	303.7	247.0	(56.7)	123.0	29.5	(192.2)
2009	295.6	245.2	(50.4)	120.6	27.0	(186.6)
2010	284.4	251.7	(32.7)	113.0	25.5	(128.4)
2011	267.2	251.7	(15.5)	106.2	23.6	(65.8)

* Revised actuarial assumptions

Other Postemployment Benefits ($ in millions)

Valuation Date Sept 30	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded (Overfunded) Accrued Liability (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll ((b-a)/c)
2006		$ 6.4	$ 6.4	0 %	$ 6.1	105.3 %
2007		6.6	6.6	0	6.1	107.5
2008		6.7	6.7	0	5.9	113.0
2009		6.6	6.6	0	6.1	108.2
2010		7.4	7.4	0	5.9	124.5
2011		7.9	7.9	0	5.4	145.3

Required Supplementary Information (continued)

Schedules of Employer and Other Contributions

Pension Benefits

Fiscal Year Ended Sept. 30	Annual Required Contribution (ARC)	Actual Contribution	Percentage Contributed
2002	$ (476,491)		0.0 %
2003	(135,812)		0.0
2004	(85,580)		0.0
2005 [1]	(441,948)	$ 34,765	0.0
2006	607,883	653,587	108.0
2007	186,180	231,235	124.0
2008		44,406	N/A
2009		43,108	N/A
2010		43,181	N/A
2011		43,185	N/A

[1] Revised actuarial assumptions.

Other Postemployment Benefits

Fiscal Year Ended Sept. 30	Annual Required Contribution (ARC)	Actual Contribution	Other Governmental Contribution	Percentage Contributed
2007	$ 473,742	$ 115,000		24.3 %
2008	481,673	115,000		23.9
2009	514,850	335,000		65.1
2010	490,129	712,000		145.3
2011	605,112	310,000	$ 1,617	51.5

Note to Required Supplementary Information

NOTE A - DESCRIPTION

Ten year historical trend information designed to provide information about the System's progress made in accumulating sufficient assets to pay benefits when due is presented in the preceding schedules. Other ten-year historical trend information related to the System is presented in the Statistical and Actuarial Sections of the report. This information is presented to enable the reader to assess the progress made by the System in accumulating sufficient assets to pay pension and other postemployment benefits as they become due. Because this is the fifth year the System is reporting other post employment benefits in accordance with GASB Statement No. 43, only five years of historical trend information is provided

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

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

Supporting Schedules

Comparative Summary Schedule of
Pension Plan Administrative Expenses
For Fiscal Years Ended September 30, 2011 and 2010

	2011	2010
Personnel Services:		
Staff Salaries	$ 9,822	$ 10,608
Retirement and Social Security	3,429	3,576
Other Fringe Benefits	2,373	2,475
Total	15,624	16,659
Professional Services:		
Accounting	2,324	2,037
Actuarial	49,970	48,182
Attorney General	15,523	14,909
Audit	36,951	36,951
Consulting		1,708
Total	104,768	103,786
Building Equipment:		
Building Rentals	1,543	1,869
Equipment Purchase, Maintenance, and Rentals	55	56
Total	1,598	1,925
Miscellaneous:		
Travel and Board Meetings	26	71
Office Supplies	64	46
Postage, Telephone and Other	5,038	4,347
Printing	1,681	2,592
Technological Support	12,355	14,045
Total	19,164	21,100
Total Administrative Expenses	$ 141,154	$ 143,471

Comparative Summary Schedule of
OPEB Plan Administrative Expenses
For Fiscal Years Ended September 30, 2011 and 2010

	2011	2010
Health Fees	$ 29,703	$ 29,879
Dental Fees	4,832	4,307
Vision Fees	1,005	1,026
Total Administrative Expenses	$ 35,540	$ 35,212

Supporting Schedules (continued)

Schedule of Investment Expenses
For Fiscal Years Ended September 30, 2011 and 2010

	2011	2010
Real Estate Operating Expenses	$ 19,474	$ 20,251
Securities Lending Expenses	109,117	157,782
Other Investment Expenses[1]		
ORS-Investment Expenses[2]	62,637	67,943
Custody Fees	4,287	4,209
Management Fees	678,901	687,730
Research Fees	12,188	11,970
Total Investment Expenses	$ 886,604	$ 949,885

[1]Refer to Investment Section for fees paid to investment professionals.
[2]Does not exclude Treasury Civil Service fees of $755.01 recorded as a pass-through in the Schedule of Investment Fees - State Treasurer.

Schedule of Payments for Professional Services
For Fiscal Years Ended September 30, 2011 and 2010

	2011	2010
Accounting	$ 2,324	$ 2,037
Actuary	49,970	48,182
Attorney General	15,523	14,909
Independent Auditors	36,951	36,951
Consulting		1,708
Total Payment for Professional Services	$ 104,768	$ 103,786

Supporting Schedules (continued)

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

For the Year Ended September 30, 2011

	Employee Contributions	Employer Contributions	Retired Benefit Payments	Undistributed Investment Income	OPEB	Total
Additions:						
Member contributions	$ 1,468,068				$ 551,783	$ 2,019,851
Other governmental contributions					1,617	1,617
Investment income (loss):						
Net appreciation (depreciation) of fair value of investments				$ 5,010,227	13,096	5,023,323
Interest, dividends, and other				5,373,883	24,880	5,398,763
Investment expenses:						
Real estate operating expenses				(19,423)	(51)	(19,474)
Other investment expenses				(756,037)	(1,976)	(758,013)
Securities lending activities:						
Securities lending income				472,505	1,235	473,740
Securities lending expenses				(108,833)	(284)	(109,117)
Net investment income (loss)				9,972,322	36,900	10,009,222
Court fees			$ 43,185		310,000	353,185
Miscellaneous income			7,813	1,011		8,824
Total additions	1,468,068		50,998	9,973,333	900,300	12,392,699
Deductions:						
Benefits paid to plan members and beneficiaries:						
Retirement benefits			20,580,971			20,580,971
Health benefits					265,202	265,202
Dental/vision benefits					135,825	135,825
Administrative expenses				141,155	35,539	176,694
Total deductions			20,580,971	141,155	436,566	21,158,692
Net Increase (Decrease) Before Other Changes	1,468,068		(20,529,973)	9,832,179	463,734	(8,765,993)
Other Changes in Net Assets:						
Interest allocation			11,921,384	(11,921,384)		
Transfers upon retirement	(3,910,363)	$ (10,464,038)	14,374,401			
Total other changes in net assets	(3,910,363)	(10,464,038)	26,295,785	(11,921,384)		
Net Increase (Decrease)	(2,442,295)	(10,464,038)	5,765,812	(2,089,206)	463,734	(8,765,993)
Net Assets Held in Trust for Pension and OPEB Benefits:						
Beginning of Year	50,987,178	(5,361,898)	149,017,299	38,554,188	134,213	233,330,979
End of Year	$ 48,544,883	$ (15,825,936)	$ 154,783,111	$ 36,464,983	$ 597,947	$ 224,564,987

Supporting Schedules (continued)

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

For the Year Ended September 30, 2010

	Employee Contributions	Employer Contributions	Retired Benefit Payments	Undistributed Investment Income	OPEB	Total
Additions:						
Member contributions	$ 1,539,822				$ 520,707	$ 2,060,529
Investment income (loss):						
Net appreciation (depreciation) of fair value of investments				$ 16,757,010	9,641	16,766,651
Interest, dividends, and other				5,513,359	3,298	5,516,657
Investment expenses:						
Real estate operating expenses				(20,239)	(12)	(20,251)
Other investment expenses				(771,409)	(444)	(771,853)
Securities lending activities:						
Securities lending income				596,568	343	596,911
Securities lending expenses				(157,691)	(91)	(157,782)
Net investment income (loss)				21,917,597	12,736	21,930,333
Court fees			$ 43,181		712,000	755,181
Miscellaneous income			5,069	198	1,373	6,640
Total additions	1,539,822		48,251	21,917,795	1,246,816	24,752,684
Deductions:						
Benefits paid to plan members and beneficiaries:						
Retirement benefits			20,079,292			20,079,292
Health benefits					859,602	859,602
Dental/vision benefits					219,313	219,313
Administrative expenses				143,470	35,212	178,682
Total deductions			20,079,292	143,470	1,114,127	21,336,889
Net Increase (Decrease) Before Other Changes	1,539,822		(20,031,041)	21,774,325	132,689	3,415,795
Other Changes in Net Assets:						
Interest allocation	3,658,594	$ 218,905	11,715,239	(15,592,738)		
Transfers upon retirement	(2,575,497)	(8,317,113)	10,892,610			
Total other changes in net assets	1,083,097	(8,098,208)	22,607,849	(15,592,738)		
Net Increase (Decrease)	2,622,919	(8,098,208)	2,576,809	6,181,587	132,689	3,415,795
Net Assets Held in Trust for Pension and OPEB Benefits:						
Beginning of Year	48,364,259	2,736,310	146,440,490	32,372,601	1,524	229,915,184
End of Year	$ 50,987,178	$ (5,361,898)	$ 149,017,299	$ 38,554,188	$ 134,213	$ 233,330,979

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INVESTMENT SECTION

Prepared by Michigan Department of Treasury, Bureau of Investments

Jon M. Braeutigam, Director

INVESTMENT SECTION

Report on Investment Activity

INTRODUCTION

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

The Investment Advisory Committee was created by Act 380 of the Public Acts of 1965. The three public members of the five-member committee are appointed by the Governor with the advice and consent of the Senate for three-year terms. The Director of the Department of Licensing and Regulatory Affairs and the Director of the Department of Technology, Management and Budget are ex-officio members. As of September 30, 2011, members of the Committee were as follows: David G. Sowerby, CFA (public member), James B. Nicholson (public member), Roger D. Robinson (public member), Steven H. Hilfinger (ex-officio member), and Phillip J. Stoddard (ex-officio member). The public members serve without pay, but may be paid actual and necessary travel and other expenses.

INVESTMENT POLICY & GOALS

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

The System's Proxy Voting Policy sets forth directives on 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 along with health and other postemployment benefits to its members. The State Treasurer is the sole investment fiduciary and custodian of the System's investments pursuant to State law. The goals of the System are:

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

Report on Investment Activity (Continued)

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

Asset Allocation
(Excludes Collateral on Loaned Securities)

Investment Category	As of 9/30/11 Actual %	Two-Year Target %
Domestic Equity Pools	29.0 %	31.0 %
International Equity Pools	12.8	15.0
Alternative Investment Pools	16.4	12.0
Real Estate Pool	13.8	10.0
Fixed Income Pools	17.7	20.0
Absolute Return Pools	6.7	10.0
Short Term Investment Pools	3.6	2.0
TOTAL	**100.0** %	**100.0** %

INVESTMENT AUTHORITY

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

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

INVESTMENT RESULTS

Total Portfolio Results

For the fiscal year ended September 30, 2011, the total System's rate of return was 6.1% as compiled by State Street Investment Analytics. Annualized rates of return for the three, five, and ten year periods ending September 30, 2011 were: 2.1%, 1.9%, and 4.8% respectively.

At the beginning of the 2011 fiscal year, the health of the United States economy was in question. The unemployment rate was 9.7%, GDP was growing only at a 2% annualized rate, and inflation (CPI) was measured at 1.1%. On November 3, 2010 the Federal Open Market Committee (FOMC) determined that a second round of quantitative easing was necessary in order to reduce the unemployment rate and to fight a threat of deflation. The policy, sometimes referred to as QE2, called for a purchase of $600 billion of longer-term Treasury securities by the end of June 30, 2011. The adoption of the policy was controversial and its overall effectiveness is likely to be debated for years to come. However, during the first three quarters of the fiscal year, when QE2 was implemented, the System's rate of return was 13.6% earning a positive rate of return in each quarter.

Report on Investment Activity (Continued)

In February, the 10-Year U.S. Treasury hit its highest yield for the fiscal year at just over 3.7%. Global equity markets peaked in the spring of 2011 and the S&P 500 hit its closing fiscal year high at 1363.61 on April 29, 2011. On March 11, 2011 a massive 9.1-magnitude earthquake struck an area of the Pacific Ocean east of Japan. As a result of the earthquake, a giant tsunami devastated parts of the country. Hit especially hard was the Fukushima Daiichi nuclear power plant, the largest nuclear accident since the 1986 Chernobyl disaster. As a result, many Japanese companies were unable to operate. Since Japan is a major supplier to the global economy, manufacturers reported shortages for key components, crimping global output.

The price paid for a barrel of crude oil was especially volatile in the winter months due to a loosely-linked series of demonstrations, government protests, and revolutions known as “Arab Spring”. These events occurred across a number of Middle East and North African countries, many of which are oil producing exporters. In one instance, oil prices jumped by over 8.5% as unrest in Libya intensified.

By early summer, many economists came to believe that the Arab Spring and the Japanese tsunami caused a temporary weakness in the global economy that would resolve itself in the second half of the year. About the same time, however, European sovereign debt concerns began to re-emerge. Soaring interest rates in some highly indebted countries were forcing politicians to adopt various austerity measures. Adding complexity to the situation, many large European banks are holding sovereign debt as low-risk capital, placing an enormous strain on the health of the European banking industry.

At home, U.S. politicians were debating the wisdom for raising the federal debt ceiling as the legal limit would be reached by July 31. After tense negotiations, a last hour compromise was reached, but not without consequence. Five days later Standard & Poor’s, a major debt rating agency, down-graded the credit rating of U.S. debt from AAA to AA.

The prospects of slower global growth, austerity measures, sovereign credit risks, and the end of QE2 apparently were too much for the capital markets to bear. In the final two months of the fiscal year, the S&P 500 lost over 12% of its value while foreign markets lost over 18% in value. Despite the downgrade by Standard & Poor’s, the 10-year U.S. Treasury hit an all-time low of 1.72% on September 22, as it remained a global safe-haven. The System ended the fiscal 2011 year with a positive 6.1% return.

At the end of Fiscal 2011, the health of the U.S. economy remained a top concern. The unemployment rate is still over 9% and GDP is barely growing at a rate of 1.3%. The inflation rate has increased to 3.8%, though many economists believe the elevated inflation rate to be transitory given the employment situation and the sluggish economy. In response to the weak economic backdrop, the FOMC is again attempting to stimulate growth. On September 21, 2011 a plan to purchase $400 billion of bonds with maturities of 6 to 30 years by selling bonds with maturities of less than 3 years was announced. Like QE2, the plan known as “Operation Twist” is an attempt to lower longer-term borrowing rates. However, unlike QE2 this plan is not an expansion for the Federal Reserve’s balance sheet or seen as printing money. While it is still too early to determine the effects of Operation Twist; it will be important to closely monitor its success, the 2012 presidential election, the European debt situation, the Arab Spring, and the slowing global growth well into the 2012 fiscal year.

Domestic Equity Pools

The objective for investments made in domestic equities is to meet or exceed the total return of the S&P 1500 Super Composite for one, three, and five-year periods and a market cycle.

Report on Investment Activity (Continued)

For active management strategies, the objective is to earn returns that exceed the most relevant S&P Index (or the most relevant Russell Index), adjusting for market capitalization and style, for one, three, and five-year periods and a market cycle. Rank above median in a universe of managers possessing a similar market cap and style characteristics.

For index, or passive return strategies, the objective is to return within 20 basis points of the S&P 500 Index, 50 basis points for the S&P 400 mid-cap, and 60 basis points for the S&P 600 small-cap over one, three, and five-year periods and a market cycle.

The pools are invested primarily in equities or equity-related securities of U.S. companies through internal and externally managed strategies. The goal is to build a portfolio of strategies that will provide excess returns relative to the S&P 1500 while providing minimal tracking error to the index. At times a portion of the pools may be invested in exchange traded funds (ETFs) and fixed-income short-term securities with maturities of less than one year.

The pools invest in equities and equity related securities that are listed on U.S. national securities exchanges, including American Depository Receipts (ADRs). It may also invest in stocks that are traded over-the-counter. The pools diversify their investments by allocating their equity strategies with consideration of the capitalization weightings of the S&P 1500 Index.

The following summarizes the weightings of the pools as of September 30, 2011:

Active	60.3 %
Passive	39.7
Total	**100.0 %**

Large Cap	82.7 %
Mid Cap	9.4
Small Cap	7.9
Total	**100.0 %**

The System's Domestic Equity pools total rate of return was (1.5)% for fiscal year 2011. This compared with 0.9% for the S&P 1500 Index.

At the close of fiscal year 2011, the Domestic Equity pools represented 29.0% of total investments. This compares to 36.8% for fiscal year 2010. The following summarizes the System's 0.6% ownership share of the Domestic Equity pools at September 30, 2011:

Domestic Equity Pools
(in thousands)

Short Term Pooled Investments	$	1,445
Equities		65,601
Market Value of Equity Contracts		(132)
Settlement Principal Payable		(222)
Settlement Proceeds Receivable		164
Accrued Dividends		66
Total	**$**	**66,922**

Report on Investment Activity (Continued)

International Equity Pools

The objective for investments made in international equity pools is to meet or exceed the total return of the MSCI ACWI Ex-US Gross for one, three, and five-year periods and a market cycle.

For active management strategies, the objective is to earn returns that exceed the most relevant S&P Index (or the most relevant Russell Index), adjusting for market capitalization, style and geography for one, three, and five-year periods and a market cycle. Rank above median in a universe of managers possessing a similar market capitalization, style and geography characteristics.

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

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

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

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

The following summarizes the weightings of the pools as of September 30, 2011:

Active	38.9 %
Passive	61.1
Total	**100.0 %**

Developed	82.6 %
Emerging	17.4
Total	**100.0 %**

The System's International Equity pools total rate of return was (10.1)% for fiscal year 2011. This compared with (10.4)% for the MSCI ACWI Ex US Gross.

Report on Investment Activity (Continued)

At the close of fiscal year 2011, the International Equity pools represented 12.8% of total investments. This compares to 14.6% for fiscal year 2010. The following summarizes the System's 0.6% ownership share of the International Equity Pools at September 30, 2011:

International Equity Pools
(in thousands)

Short Term Pooled Investments	$	549
Equities		19,358
Fixed Income Securities		9,272
Market Value of Equity Contracts		388
Accrued Dividends and Interest		18
Total	**$**	**29,585**

Alternative Investment Pools

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

Alternative Investments are investments in the private equity market, primarily through limited partnerships. The following summarizes the weightings of the pools as of September 30, 2011:

Buyout Funds	55.6	%
Special Situation Funds	20.0	
Venture Capital Funds	10.8	
Fund of Funds	5.1	
Liquidation Portfolio	3.8	
Other	2.5	
Mezzanine Funds	2.2	
Total	**100.0**	**%**

The Alternative Investment pools had a return of 29.9% for the fiscal year ended September 30, 2011, versus the benchmark of 33.2%.

Report on Investment Activity (Continued)

At the close of fiscal year 2011, the Alternative Investment pools represented 16.4% of total investments. This compares to 16.2% for fiscal year 2010. The following summarizes the System's 0.4% ownership share of the Alternative Investment pools at September 30, 2011:

Alternative Investment Pools
(in thousands)

Short Term Pooled Investments	$ 476
Equities	37,431
Total	**$ 37,907**

Real Estate Pool

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

The Real Estate pool diversifies its holdings by:

- Geography - The pool is diversified geographically with emphasis placed upon domestic (U.S.) real estate investments. Foreign real estate investments are limited to 20% of the value of the pool.
- Property Size and Value - The pool diversifies its holdings by size so that it is not concentrated in a limited number of large real estate investments.
- Property Type - The pool is diversified by type of property as summarized in the table below.

Multi-family apartments	22.4 %
Commercial office buildings	19.2
Hotel	22.5
Retail shopping centers	17.0
Industrial warehouse buildings	7.6
For Sale Housing	6.5
Land	2.5
Senior Living	1.1
Short Term Investments	1.2
Total	**100.0 %**

The Real Estate pool generated a return of 16.9% for fiscal year 2011. The two benchmark returns from the National Council of Real Estate Investment Fiduciaries (NCREIF): the National Property Blended Index (less 130 basis points) was 14.6% and the Open-End Diversified Core Equity Index was 17.2%. The Real Estate pool benefited from increased valuations as commercial real estate fundamentals improved in all property types. Transaction activity increased from historical low levels as investors bid up property prices on top quality cash flowing assets in major markets.

Report on Investment Activity (Continued)

At the close of fiscal year 2011, the Real Estate pool represented 13.8% of total investments. This compares to 13.0% for fiscal year 2010. The following summarizes the System's 0.6% ownership share of the Real Estate pool at September 30, 2011:

Real Estate Pool
(in thousands)

Short Term Pooled Investments	$	419
Equities		31,435
Total	**$**	**31,854**

Fixed Income Pools

The objective for investments made in the fixed income pools is to meet or exceed the total blended return of 50% of the Barclays U.S. Government Index and 50% of the Barclays U.S. Credit Index over one, three, and five-year periods and market cycles. Rank above median in a nationally recognized universe of managers possessing a similar style.

For fixed income sub-strategies, the objective return is to meet or exceed the most relevant Barclays benchmark index.

The pools are invested primarily in fixed income securities of U.S. companies through internal and externally managed strategies. The goal is to build a portfolio of strategies that will provide excess returns relative to the blended benchmark while providing minimal tracking error to the index. At times a portion of the pools may be invested in exchange traded funds (ETFs) and fixed-income short-term securities with maturities of less than one year.

The pools invest in fixed income and related securities in a diversified portfolio of investment grade corporate issues, treasuries, agencies, government sponsored enterprises and government guaranteed mortgages. The pools diversify their investments by allocating its strategies with consideration of credit risk.

The System's Fixed Income pools total rate of return was 4.7% for fiscal year 2011. This compared with 5.1% for the blended return of 50% of the Barclays U.S. Government Index and 50% of the Barclays U.S. Credit Index.

Report on Investment Activity (Continued)

At the close of fiscal year 2011, the Fixed Income pools represented 17.7% of total investments. This compares to 14.9% for fiscal year 2010. The following summarizes the System's 0.6% ownership share of the Fixed Income pools at September 30, 2011:

Fixed Income Pools
(in thousands)

Short Term Pooled Investments	$	2,001
Fixed Income Securities		39,185
Settlement Proceeds Receivable		1
Settlement Principal Payable		(473)
Accrued interest		287
Total	**$**	**41,001**

Absolute Return Pools

The Absolute Return pools consist of the Absolute Return Strategies pool and the Real Return and Opportunistic Investment pools.

The primary investment objective of the Absolute Return Strategies pool is to generate a rate of return that meets or exceeds T-bills by 400 basis points net of fees over the one, three, and five-year periods and a market cycle. Also, exceed the appropriate HFN Fund of Funds median net of fees over one, three, and five-year periods and a market cycle.

The Absolute Return Strategies pool rate of return for the fiscal year was 1.9% versus the benchmark’s 2.4%.

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

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

The Real Return and Opportunistic Investments pools rate of return for the fiscal year was 5.5%.

Report on Investment Activity (Continued)

At the close of fiscal year 2011, the Absolute Return pools represented 6.7% of total investments. This compares to 3.8% for fiscal year 2010. The following summarizes the System's 0.5% ownership share of the Absolute Return pools at September 30, 2011:

Absolute Return Pools
(in thousands)

Absolute Return Strategies Pool	$	8,543
Real Return and Opportunistic Investment Pool		
Short Term Pooled investments		198
Equities		6,551
Market Value of Equity Contracts		2
Fixed Income Securities		230
Settlement Principal Payable		(19)
Accrued Dividends and Interest		7
Total	**$**	**15,512**

Short Term Investment Pools

The objective of the Short Term Investment pools is to closely match the return performance of its benchmark, the 30 day Treasury bill. The Short Term Investment pools return for the fiscal year was 0.2% versus the benchmark's 0.1%.

Potential areas of investment are:

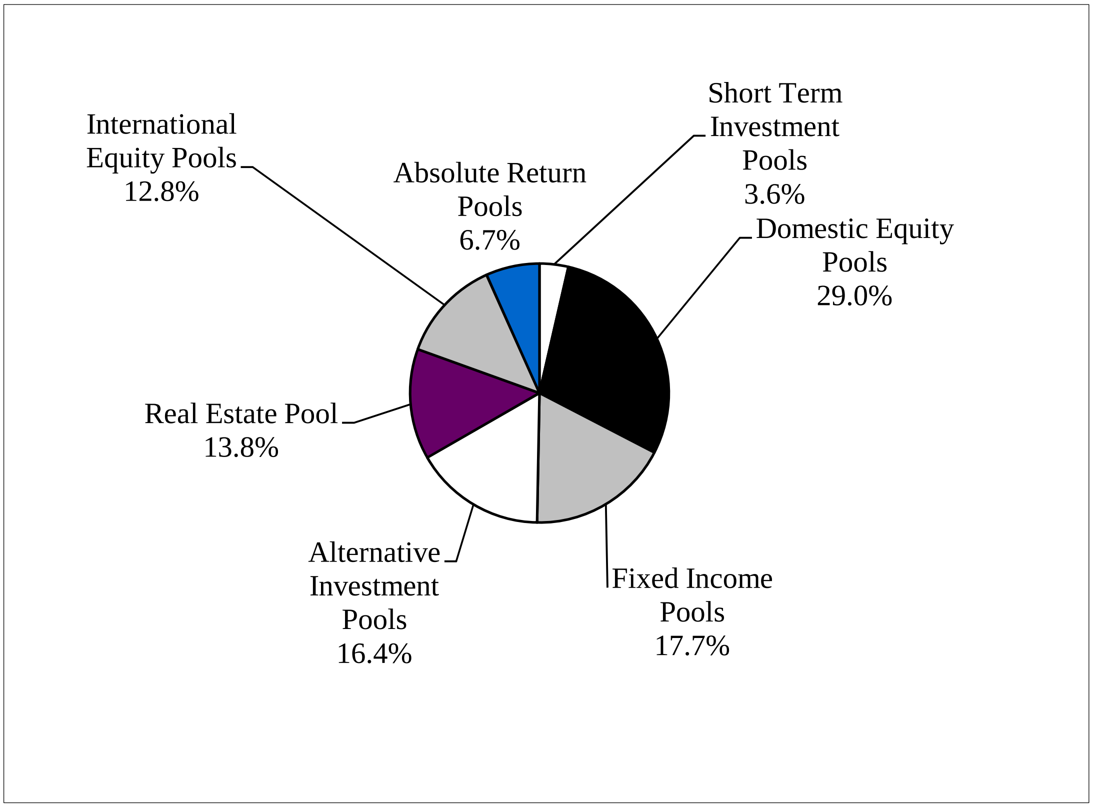
- Obligations of the United States or its agencies.
- Banker's acceptances, commercial accounts, certificates of deposit or depository receipts.
- Repurchase agreements for the purchase of securities issued by the US government or its agencies.
- Commercial paper rated at the time of purchase within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

At the close of fiscal year 2011, the Short Term Investment pools represented 3.6% of total investments. This compares to 0.7% for fiscal year 2010. The following summarizes the System's 0.6% ownership share of the Short Term Investment pools at September 30, 2011:

Short Term Investment Pools
(in thousands)

Short Term Pooled Investments	$	8,312
Fixed Income Securities		43
Total	**$**	**8,355**

Asset Allocation – Security Type Only



Investment Results for the Period Ending September 30, 2011

Investment Category	Current Year	Annualized Rate of Return[1] 3 Years	5 Years	10 Years
Total Portfolio	6.1 %	2.1 %	1.9 %	4.8 %
Domestic Equity Pools	(1.5)	1.4	(0.9)	3.2
S&P 1500 Index	0.9	1.4	(0.9)	3.3
International Equity Pools	(10.1)	0.7	(3.4)	4.4
International Blended Benchmark [2]	(10.4)	(1.2)	(4.1)	4.3
Alternative Investment Pools	29.9	6.7	10.8	10.2
Alternative Blended Benchmark [3]	33.2	13.3	7.3	8.8
Real Estate Pool	16.9	(9.2)	(0.8)	5.0
NCREIF Property Blended Index [4]	14.6	(2.7)	2.1	6.7
Fixed Income Pools	4.7	9.2	7.4	6.0
Barclays Government/Credit	5.1	8.4	6.5	5.7
Absolute Return Pools				
Total Absolute Return	1.9	(1.9)		
HFRI Fund of Fund Cons 1 month lag	2.4	(1.9)		
Total Real Return and Opportunistic	5.5			
Short Term Investment Pools	0.2	1.1	1.2	1.8
30 Day Treasury Bill	0.1	0.1	1.5	1.8

1 Calculations used a time-weighted rate of return based on the market rate of return in accordance with industry standards. Excludes income and investment gains and losses from securities lending.

2 As of 10/1/10, index is MSCI ACWI Ex US Gross. History prior to 1/1/10 is S&P Developed BMI EPAC Net 50/50. History 1/1/10 to 9/30/10 is S&P Developed BMI EPAC Net 75/25.

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

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

Largest Assets Held[1]

Largest Stock Holdings (By Market Value)
September 30, 2011

Rank	Shares	Stocks	Market Value
1	5,356	Apple Inc.	$ 2,041,576
2	2,629	Google Inc.	1,352,052
3	19,050	Johnson & Johnson	1,213,676
4	14,344	Exxon Mobil Corporation	1,041,796
5	18,137	Abbott Laboratories	927,506
6	28,060	Merck & Company Inc.	917,843
7	36,078	Microsoft Corp	897,978
8	48,457	Pfizer Inc.	856,725
9	14,622	Amgen Inc.	803,457
10	6,788	SPDR S&P 500 ETF Trust	768,213

Largest Bond Holdings (By Market Value)[2]
September 30, 2011

Rank	Par Amount	Description	Market Value
1	$ 1,214,489	JPMorgan Chase & Co .40395% FRN Due 11-1-2012	$ 1,211,344
2	1,251,606	General Electric Cap Corp .45617% FRN Due 2-15-2017	1,117,192
3	850,142	Wachovia Corp .383% FRN Due 4-23-2012	850,253
4	728,694	Toyota Motor Credit Corp 3.74605% Due 1-9-2012	735,320
5	728,694	JPMorgan Chase & Co .8525% FRN Due 9-21-2012	729,257
6	490,730	Barclays Bank PLC Due 11-7-2016	549,863
7	485,796	Wells Fargo & Company .343% FRN Due 1-24-2012	485,838
8	485,796	Rabobank Nederland .59975% FRN Due 1-17-2014	485,804
9	485,796	Barclays Bank PLC 1.10605% FRN Due 1-13-2014	469,789
10	485,796	Textron Financial Corp 1.21428% FRN Due 2-26-2013	460,202

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

2 Largest Bond Holdings are exclusive of securities lending collateral.

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

Schedule of Investment Fees

The State Treasurer is the investment fiduciary and custodian of the System's funds pursuant to State law. Outside advisors are utilized to augment the State Treasurer's internal staff. 54.75% of the total investment portfolio is managed by fully discretionary outside advisors. The Michigan Department of Treasury's cost of operations applicable to the retirement system for the fiscal year end amounted to $63 thousand or six basis points (0.060%) of the market value of the Assets under Management by the State Treasurer.

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

Schedule of Investment Fees

Investment Managers' Fees:

	Assets under Management (in thousands)	Fees (in thousands)	Basis Points*
State Treasurer	$ 104,580	$ 63	6.0
Outside Advisors for			
Fixed Income	7,997	16	20.2
Absolute Return	14,526	51	35.0
International Equity	14,970	37	24.4
Domestic Equity	19,303	147	76.3
Alternative	37,907	309	81.4
Real Estate	31,854	119	37.5
Total	$ 231,137	$ 742	

Other Investment Services Fees:

Assets in Custody	$ 229,998	$ 16
Securities on Loan	33,104	89

* Alternative Investment partnership agreements that define the management fees, the asset management fees range from 75 basis points on remaining assets under management to 250 basis points of the committed capital. For Real Estate, the asset management fees range from 50 to 200 basis points. For Absolute Return, the asset management fees range from 20 to 200 basis point. These fees, in most cases, are netted against income.

Schedule of Investment Commissions

	Fiscal Year Ended September 30, 2011						
	Actual Commissions Paid[1]	Actual Number of Shares Traded[1]	Average Commission Per Share	Estimated Trade Costs Per Share	Estimated Research Costs Per Share	Estimated Trade Costs	Estimated Research Costs
Investment Brokerage Firms:							
Banc Of America Securities LLC	$ 224	5,752	$ 0.04	$ 0.01	$ 0.03	$ 58	$ 173
Barclays Capital Inc.	1,186	41,695	0.03	0.01	0.02	417	834
BNY Convergex Execution Solutions LLC	249	12,546	0.02	0.01	0.01	125	125
BTIG LLC	2,680	236,721	0.01	0.01		2,368	
The Buckingham Research Group Inc.	682	22,722	0.03	0.01	0.02	227	454
Cantor Fitzgerald & Co.	1,634	81,693	0.02	0.01	0.01	817	817
Capital Institutional Services Inc.	1,241	41,365	0.03	0.01	0.02	414	827
Citigroup Global Markets Inc.	1,783	66,965	0.03	0.01	0.02	670	1,339
Cowen & Company LLC	1,106	36,874	0.03	0.01	0.02	369	738
Credit Suisse Securities LLC	3,234	143,045	0.02	0.01	0.01	1,430	1,430
Deutsche Bank - Alex Brown	2	71	0.03	0.01	0.02	1	1
Deutsche Bank Securities Inc.	12	392	0.03	0.01	0.02	4	8
Goldman, Sachs & Co.	1,021	34,036	0.03	0.01	0.02	340	681
The Griswold Company Inc.	790	57,427	0.01	0.01		574	
ISI Capital LLC	1,370	46,744	0.03	0.01	0.02	467	935
J. P. Morgan Securities Inc.	1,114	49,973	0.02	0.01	0.01	500	500
Keefe, Bruyette & Woods Inc.	45	1,333	0.03	0.01	0.02	13	27
Merrill Lynch,Pierce,Fenner & Smith Inc.	1,945	64,837	0.03	0.01	0.02	648	1,297
MF Global Inc	233	7,756	0.03	0.01	0.02	78	155
Mischler Financial Group Inc.	569	18,954	0.03	0.01	0.02	190	379
Morgan Stanley & Co. Inc.	973	31,203	0.03	0.01	0.02	312	624
Oppenheimer & Co. Inc.	27	904	0.03	0.01	0.02	9	18
OTA LLC	623	20,772	0.03	0.01	0.02	208	415
Raymond James and Associates Inc.	252	7,532	0.03	0.01	0.02	75	151
Sanford C. Bernstein & Co. LLC	1,229	41,290	0.03	0.01	0.02	413	826
Soleil Securities Corporation	145	4,824	0.03	0.01	0.02	48	96
Stifel, Nicolaus & Co. Inc.	68	1,722	0.04	0.01	0.03	17	52
UBS Securities LLC	579	21,454	0.03	0.01	0.02	215	429
Weeden & Co. LP	3,357	335,648	0.01	0.01		3,356	
Western International Securities Inc.	154	7,707	0.02	0.01	0.01	77	77
Total	$ 28,527	1,443,957	$ 0.03[2]	$ 0.01[2]	$ 0.02[2]	$ 14,440	$ 13,408

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

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

Investment Summary

Fiscal Year Ended September 30, 2011

	Market Value[1]	Percent of Total Market Value	Investment & Interest Income[2]	Percent of Total Investment & Interest Income
Fixed Income Pools	$ 41,001,278	17.7%	$ 1,677,492	17.9%
Domestic Equity Pools	66,922,397	29.0%	463,830	4.9%
Real Estate Pool	31,853,653	13.8%	3,935,961	42.0%
Alternative Investment Pools	37,907,218	16.4%	6,207,759	66.2%
International Equity Pools	29,585,074	12.8%	(3,040,843)	(32.4%)
Absolute Return Pools	15,511,483	6.7%	127,382	1.3%
Short Term Investment Pools	8,355,419	3.6%	7,426	0.1%
Total	$ 231,136,522	100.0%	$ 9,379,007	100.0%

1 Market value excludes $27,203,542 in securities lending collateral for fiscal year 2011.

2 Total Investment & Interest Income excludes net security lending income of $364,623 and gain of $1,042,982 for securities lending collateral.

Investment Summary

Fiscal Year Ended September 30, 2010

	Market Value[1]	Percent of Total Market Value	Investment & Interest Income[2]	Percent of Total Investment & Interest Income
Fixed Income Pools	$ 35,909,171	14.9%	$ 3,575,562	17.5%
Domestic Equity Pools	88,770,384	36.8%	8,985,749	43.9%
Real Estate Pool	31,292,751	13.0%	(586,788)	(2.9%)
Alternative Investment Pools	38,891,524	16.2%	5,680,919	27.8%
International Equity Pools	35,193,074	14.6%	2,318,244	11.3%
Absolute Return Pools	9,184,069	3.8%	426,944	2.1%
Short Term Investment Pools	1,655,969	0.7%	65,942	0.3%
Total	$ 240,896,942	100.0%	$ 20,466,572	100.0%

1 Market value excludes $27,269,985 in securities lending collateral for fiscal year 2010.

2 Total Investment & Interest Income excludes net security lending income of $596,911 and gain of $1,816,731 for securities lending collateral.

ACTUARIAL SECTION

ACTUARIAL SECTION

Actuary's Certification

GRS
Gabriel Roeder Smith & Company
Consultants & Actuaries

One Towne Square
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Southfield, MI 48076-3723

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November 22, 2011

Mr. John E. Nixon, Director
Department of Technology, Management and Budget
and
The Retirement Board
Michigan Judges' Retirement System
P.O. Box 30171
Lansing, Michigan 48909

Ladies and Gentlemen:

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

The purpose of the September 30, 2011 annual actuarial valuations was to determine the contribution requirements for the fiscal year ending September 30, 2012, to measure the System's funding progress, and to provide actuarial information in connection with applicable Governmental Accounting Standards Board Statements. The valuations should not be relied upon for any other purpose. The valuation process develops employer contributions that are sufficient to fund the System's normal cost (i.e., the costs assigned by the valuation method to the year of service about to be rendered), as well as to fund any unfunded accrued liabilities over a reasonable period. The valuation was completed based upon population data, asset data and plan provisions in effect on September 30, 2011.

The valuation was based upon information provided by the System's administrative staff concerning System benefit provisions, financial transactions, and individual members, terminated members, retirees and beneficiaries. We checked the data for internal and year to year consistency, but did not otherwise audit the data. As a result, we do not assume responsibility for the accuracy or completeness of the data provided by the System's administrative staff. The actuary summarizes and tabulates population data in order to analyze long term trends. The System's external auditor audits the actuarial data annually.

Annual actuarial valuations are based upon assumptions regarding future activity in specific risk areas including the rate of investment return and payroll growth, eligibility for the various classes of benefits and longevity among retired lives. These assumptions are adopted by the Board and the Department after considering the advice of the actuary and other professionals. The assumptions and the methods comply with the disclosure requirements of GASB Statement Nos. 25 and 43. Each actuarial valuation takes into account all prior differences between actual and assumed experience in each risk area and adjusts the contribution requirements as needed.

Actuary's Certification (continued)

Mr. John E. Nixon
November 22, 2011
Page 2

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

Financial Section

- Note 1 - Table of System's Membership
- Note 3 - Summary of Actuarial Assumptions
- Schedules of Funding Progress
- Schedules of Employer Contributions (Annual Required Contribution)

Actuarial Section

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

Statistical Section

- Schedule of Retired Members by Type of Pension Benefit
- Schedule of Retired Members by Type of Health Benefit
- Schedules of Average Benefit Payments – Pension, Medical, Dental, and Vision

Although our firm provided supporting schedules in connection with GASB Statement Nos. 43 and 45, we recommend consultation with legal counsel and the auditors to determine whether Statement No. 43 applies.

The September 30, 2011 valuations were based upon assumptions that were recommended in connection with a study of System experience covering the period from October 1, 2002 through September 30, 2007. Future actuarial measurements may differ significantly from those presented in the annual valuations due to such factors as experience differing from that anticipated by actuarial assumptions, or changes in plan provisions, actuarial assumption/methods or applicable law. Due to the limited scope of the assignment, we did not perform an analysis of the potential range of future measurements.

Gabriel Roeder Smith & Company

Actuary's Certification (continued)

Mr. John E. Nixon
November 22, 2011
Page 3

The signing actuaries are independent of the plan sponsor.

The actuarial valuations of JRS as of September 30, 2011 were performed by qualified actuaries in accordance with standards of practice prescribed by the Actuarial Standards Board and in compliance with applicable state statutes. The undersigned are Members of the American Academy of Actuaries (MAAA) and meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion contained herein. It is our opinion that the calculated employer contribution meets the financial objective of the Retirement System.

Respectfully submitted,

Mark Buis

Alan E. Sonnanstine

Mark Buis, FSA, EA, MAAA　　Alan Sonnanstine, ASA, MAAA

MB:rmn

Gabriel Roeder Smith & Company

Summary of Actuarial Assumptions and Methods

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

2. The healthy life mortality table used in evaluating allowances to be paid was 95% of the RP-2000 Male Combined Healthy Mortality Table, adjusted for mortality improvements to 2020 using projection scale AA, and 107% of the RP-2000 Female Combined Healthy Mortality Table, adjusted for mortality improvements to 2020 using projection scale AA. Adopted 2010.

3. Sample probabilities of retirement with an age and service allowance are shown in Schedule 1 on the next page. Adopted 2010.

4. Sample probabilities of withdrawal from service and disability, together with individual pay increase assumptions, are shown in Schedule 2 on the next page. Adopted 2010.

5. The active member population is closed to new hires. This will result in a gradual reduction in the total active member payroll over time. Adopted 1997.

6. An individual entry age actuarial cost method of valuation was used in determining age and service and deferred retirement actuarial liabilities and normal cost. Adopted 1975. Unfunded actuarial accrued liabilities, including actuarial gains and losses, are financed over a declining 40-year period beginning October 1, 1996. Adopted or re-adopted 1996.

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

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

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

10. A 5-year experience investigation, covering the period from September 30, 2002 through September 30, 2007 was completed in May 2010. The purpose of the study was to analyze the actual experience of the System versus that anticipated by actuarial assumptions then in use. The combined effect of the recommended changes in assumptions was an increase in actuarial accrued liabilities of approximately 1.8% and no change in computed employer contributions (remains at zero). Adopted 2010.

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

Summary of Actuarial Assumptions and Methods (continued)

SCHEDULE 1

Percent of Eligible Active Members Retiring Within Next Year

Retirement Ages	
55-59	6 %
60	10
61	8
62	10
63	8
64	8
65	18
66-68	8
69	12
70	25
71	30
72	35
73	40
74	50
75	100

SCHEDULE 2

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

Sample Ages	Percent of Active Members Withdrawing Within Next Year (Men and Women)	Percent of Active Members Becoming Disabled Within Next Year	Percent Increase In Pay During Next Year
20		0.00 %	4.0 %
25		0.00	4.0
30	2.25 %	0.00	4.0
35	2.25	0.02	4.0
40	2.25	0.06	4.0
45	2.25	0.12	4.0
50	2.25	0.18	4.0
55	2.25	0.24	4.0
60	2.25	0.36	4.0

Actuarial Valuation Data

Schedule of
Active Member Valuation Data

Valuation Date Sept. 30	Inactive Number	Active Number	Active Reported Annual Payroll*	Active Average Annual Pay	Active % Increase Decrease	Active Average Age	Active Average Service
2002	16	367	$ 42,441,201	$ 115,644	3.3 %	55.3	12.4
2003	13	337	38,900,163	115,431	(0.2)	55.4	13.2
2004	11	325	37,453,179	115,241	(0.2)	56.1	13.6
2005	18	302	34,935,846	115,682	0.4	57.0	14.8
2006	16	291	33,066,573	113,631	(1.8)	57.8	15.9
2007	16	260	29,716,615	114,295	0.6	58.4	16.5
2008	13	257	29,475,726	114,692	0.3	59.4	17.5
2009	9	234	27,027,185	115,501	0.7	59.9	18.3
2010	11	221	25,504,058	115,403	(0.1)	60.7	19.1
2011	11	205	23,565,252	114,952	(0.4)	61.5	20.1

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

Schedule of
Changes in the Retirement Rolls

Year Ended Sept. 30	Added to Rolls 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
2002	8	$ 310,381	19	$ 659,722	535	$ 15,678,330	(2.2) %	$ 29,305
2003	27	1,099,372	11	520,658	551	17,144,956	9.4	31,116
2004	13	836,992	15	562,582	549	17,572,770	2.5	32,009
2005	16	816,849	13	387,731	552	18,001,888	2.4	32,612
2006	19	827,419	38	877,683	533	17,951,624	(0.3)	33,680
2007	38	1,797,377	29	657,528	542	19,091,473	6.3	35,224
2008	25	879,299	27	927,730	540	19,043,042	(0.3)	35,265
2009*	44	1,987,777	42	1,316,828	542	19,713,991	3.5	36,373
2010	23	1,104,282	24	722,169	541	20,096,104	1.9	37,146
2011	24	1,305,312	26	815,215	539	20,586,201	2.4	38,193

* Restated based on more complete information.

Prioritized Solvency Test

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

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

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

Pension Benefits
($ in thousands)

	Actuarial Accrued Liability (AAL)				Portion of AAL Covered by Assets			
	(1)	(2)	(3)					
Valuation Date Sept. 30	Active Member Contributions	Retirants and Beneficiaries	Active and Inactive Members (Employer Financed Portion)	Valuation Assets	(1)	(2)	(3)	(4) [1]
2002	$ 33,457	$ 120,456	$ 75,309	$ 291,730	100 %	100 %	183.0 %	127.3 %
2003	34,355	131,719	69,167	292,258	100	100	182.4	124.2
2004 [2]	37,089	138,141	61,219	286,873	100	100	182.4	121.3
2005	38,695	142,689	61,987	278,423	100	100	156.5	114.4
2006	43,094	142,384	58,230	282,822	100	100	167.2	116.0
2007	42,250	151,691	53,142	301,047	100	100	201.5	121.8
2008	48,109	149,608	49,293	303,746	100	100	215.1	123.0
2009	46,561	154,758	43,879	295,625	100	100	214.9	120.6
2010	48,853	159,481	43,361	284,439	100	100	175.5	113.0
2011	50,099	163,522	38,071	267,193	100	100	140.7	106.2

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

Prioritized Solvency Test (continued)

Other Postemployment Benefits
($ in thousands)

	Actuarial Accrued Liability (AAL)							
	(1)	(2)	(3)					
Valuation Date Sept. 30	Active Member Contributions	Retirants and Beneficiaries	Active and Inactive Members (Employer Financed Portion)	Valuation Assets	Portion of AAL Covered by Assets (1)	(2)	(3)	(4)[1]
2007	$ -	$ 3,082	$ 3,633	$ -	0%	0%	0%	0%
2008	-	3,082	3,633	-	0	0	0	0
2009	-	2,974	3,619	-	0	0	0	0
2010	-	3,207	4,186	-	0	0	0	0
2011	-	2,799	5,068	-	0	0	0	0

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

Analysis of System Experience

Gains/(Losses) in Accrued Liabilities During Year Ended September 30, 2011
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.	$ 681,937
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.	(168,729)
3.	**Pay Increases.** If there are smaller pay increases than assumed, there is a gain. If greater increases, a loss.	3,098,829
4.	**Investment Income.** If there is greater investment income than assumed, there is a gain. If less income, a loss.	(20,166,819)
5.	**Death After Retirement.** If retirants live longer than assumed, there is a loss. If not as long, a gain.	(990,199)
6.	**Rehires.** Rehires into the System will generally result in an actuarial loss.	-
7.	**Other.** Miscellaneous gains and losses resulting from data adjustments, timing of financial transactions, etc.	381,647
8.	**Composite Gain (or Loss) During Year**	$ (17,163,334)

Summary of Plan Provisions

Our actuarial valuation of the System as of September 30, 2011, is based on the present provisions of the Judges' Retirement Act (Public Act No. 234 of 1992, as amended).

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 66.67% 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 66.67% of final annual compensation if elected.

Final Annual Compensation - Annual state salary at time of retirement plus state salary standardization, if any. For former Probate 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 Court 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 0.5% for each month by which the commencement age is less than 60.

Deferred Retirement (vested benefit)

Eligibility - 8 years of credited service.

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

Disability Retirement

Eligibility - 8 years of credited service.

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

Death Before or After Retirement (Spouse or Dependent Children)

Eligibility - 8 years of credited service.

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

Summary of Plan Provisions (continued)

Post Retirement Cost-of-Living Adjustments

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

Member Contributions

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

Trial Judges with Full Standardization - 7% of salary.

Trial Judges without Full Standardization - 3.5% of salary.

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

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

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

Defined Contribution Legislation - (Public Act 523 of 1996)

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

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

STATISTICAL SECTION

STATISTICAL SECTION

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

Contents

Financial Trends

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

- Schedule of Pension Plan Additions by Source
- Schedule of OPEB Plan Additions by Source
- Schedule of Pension Plan Deductions by Type
- Schedule of OPEB Plan Deductions by Type
- Schedule of Changes in Net Assets – Pension Plan
- Schedule of Changes in Net Assets – OPEB Plan
- Schedule of Pension Benefits and Refunds by Type
- Schedule of OPEB Benefits by Type

Operating Information

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

- Schedule of Retired Members by Type of Pension Benefit
- Schedule of Retired Members by Type of Other Postemployment Benefit
- Schedule of Other Post Employment Benefits
- Schedule of Average Benefit Payments - Pension
- Schedule of Average Benefit Payments - OPEB
- Schedule of Principal Participating Employers
- Ten Year History of Membership
- Schedule of Participating Employers

Schedule of Pension Plan Additions by Source
Last Ten Years

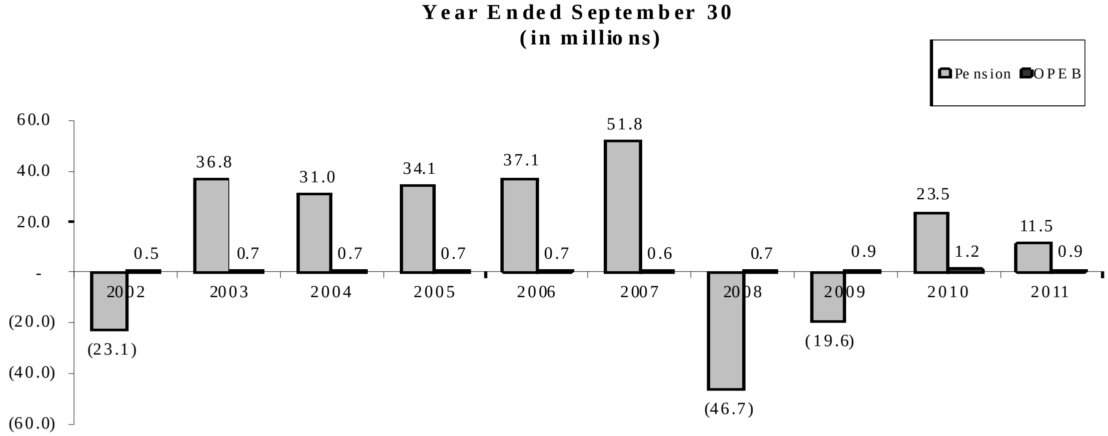
Fiscal Year Ended Sept. 30	Member Contributions	Net Investment & Other Income	Total
2002	$ 2,857,224	$ (25,998,096)	$ (23,140,872)
2003	2,288,608	34,560,288	36,848,896
2004	2,143,714	28,818,651	30,962,365
2005	2,077,550	32,011,495	34,089,045
2006	2,017,943	35,106,967	37,124,910
2007	1,845,878	49,974,396	51,820,274
2008	1,738,459	(48,472,838)	(46,734,379)
2009	1,644,585	(21,294,298)	(19,649,713)
2010	1,539,822	21,966,046	23,505,868
2011	1,468,068	10,024,331	11,492,399

Since System is fully funded, no employer contributions are required.

Schedule of OPEB Plan Additions by Source
Last Ten Years

Fiscal Year Ended Sept. 30	Member Contributions	Net Investment & Other Income	Total
2002	$ 362,987	$ 100,000	$ 462,987
2003	451,035	265,000	716,035
2004	483,966	215,000	698,966
2005	450,657	215,000	665,657
2006	518,057	215,000	733,057
2007	530,336	115,535	645,871
2008	539,440	145,130	684,570
2009	528,402	336,280	864,682
2010	520,707	726,109	1,246,816
2011	551,783	348,517	900,300

Total Additions
Year Ended September 30
(in millions)



STATISTICAL SECTION

Schedule of Pension Plan Deductions by Type

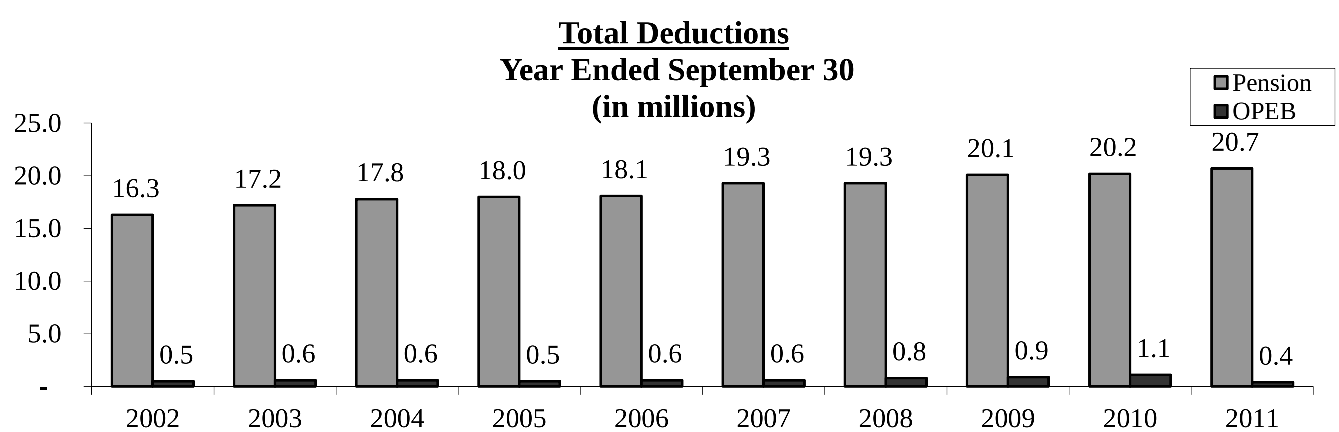
Last Ten Years

Fiscal Year Ended Sept. 30	Benefit Payments	Refunds and Transfers	Administrative and Other Expenses	Total
2002	$ 15,809,951	$ 52,862	$ 404,983	$ 16,267,796
2003	16,728,017	1,074	500,590	17,229,681
2004	17,540,889	67,792	210,178	17,818,859
2005	17,797,840		167,993	17,965,833
2006	17,952,735		170,023	18,122,758
2007	18,919,433	247,941	181,848	19,349,222
2008	19,180,381		144,188	19,324,569
2009	19,897,368		158,909	20,056,277
2010	20,079,292		143,470	20,222,762
2011	20,580,971		141,155	20,722,126

Schedule of OPEB Plan Deductions by Type

Last Ten Years

Fiscal Year Ended Sept. 30	Benefit Payments	Administrative Expenses	Total
2002	$ 519,669		$ 519,669
2003	564,801		564,801
2004	576,043		576,043
2005	510,152		510,152
2006	596,769		596,769
2007	611,246		611,246
2008	789,975	$ 41,978	831,953
2009	820,694	45,133	865,827
2010	1,078,915	35,212	1,114,127
2011	401,027	35,539	436,566



Schedule of Changes in Net Assets - Pension Plan

Last Ten Years

(in thousands)

	Fiscal Year 2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Member contributions	$ 2,857	$ 2,289	$ 2,144	$ 2,078	$ 2,018	$ 1,846	$ 1,738	$ 1,645	$ 1,540	$ 1,468
Employer contributions										
Net investment income	(25,998)	34,560	28,818	31,977	34,452	49,716	(48,525)	(21,344)	21,918	9,972
Court fees				34	654	231	44	43	43	43
Miscellaneous income					1	27	8	7	5	9
Total Additions	(23,141)	36,849	30,962	34,089	37,125	51,820	(46,735)	(19,650)	23,506	11,492
Pension benefits	15,810	16,728	17,541	17,798	17,953	18,919	19,180	19,897	20,079	20,581
Refunds of member contributions	53	1	67			248				
Administrative expenses	405	501	210	168	170	182	144	159	143	141
Total Deductions	16,268	17,230	17,818	17,966	18,123	19,349	19,324	20,056	20,222	20,722
Changes in net assets	$ (39,409)	$ 19,619	$ 13,144	$ 16,123	$ 19,002	$ 32,471	$ (66,059)	$ (39,706)	$ 3,283	$ (9,230)

Schedule of Changes in Net Assets - OPEB Plan

Last Ten Years

(in thousands)

	Fiscal Year 2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Member contributions	$ 363	$ 451	$ 484	$ 451	$ 518	$ 530	$ 539	$ 528	$ 521	$ 552
Other govt. contributions										$ 1
Net investment income							8	1	13	37
Court fees	100	265	215	215	215	115	115	335	712	310
Tranfer from other systems							15			
Miscellaneous income						1	7	1	1	
Total Additions	463	716	699	666	733	646	684	865	1,247	900
Health care benefits	520	565	576	510	597	611	790	821	1,079	401
Administrative expenses							42	45	35	36
Total Deductions	520	565	576	510	597	611	832	866	1,114	437
Changes in net assets	$ (57)	$ 151	$ 123	$ 156	$ 136	$ 35	$ (148)	$ (1)	$ 133	$ 464

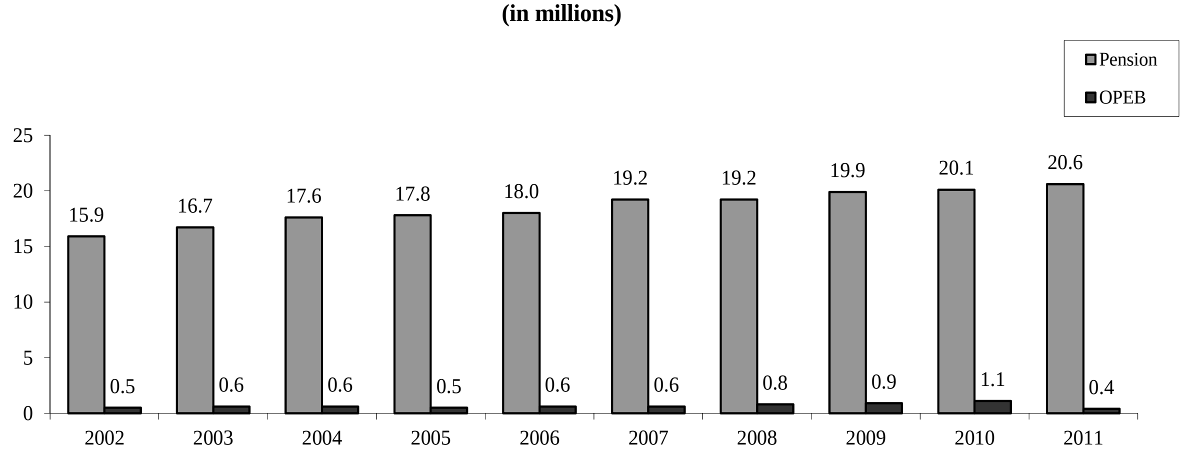
Schedule of Pension Benefits and Refunds by Type
Last Ten Years

Fiscal Year Ended Sept. 30	Regular Benefits	Disability Benefits	Survivor Benefits	Refunds: Employee Contribution	Refunds: Retired Benefit	Total
2002	$ 15,375,626	$ 434,325		$ 52,862		$ 15,862,813
2003	16,236,804	491,213		1,074		16,729,091
2004	17,011,125	529,764		67,792		17,608,681
2005	17,269,422	528,418				17,797,840
2006	14,611,531	297,408	$ 3,043,796			17,952,735
2007	14,996,160	260,585	3,662,688	246,389	$ 1,552	19,167,374
2008	15,231,453	233,700	3,715,228			19,180,381
2009	15,741,513	211,077	3,944,778			19,897,368
2010	15,694,797	211,078	4,173,417			20,079,292
2011	16,134,758	211,078	4,235,135			20,580,971

Schedule of OPEB Benefits by Type
Last Ten Years

Fiscal Year Ended Sept. 30	Health Benefits	Dental Benefits	Vision Benefits	Administrative Expenses	Total
2002	$ 441,453	$ 69,927	$ 8,289		$ 519,669
2003	482,449	73,619	8,733		564,801
2004	489,225	77,691	9,127		576,043
2005	422,261	78,495	9,396		510,152
2006	486,112	98,652	12,005		596,769
2007	500,954	98,160	12,132		611,246
2008	720,335	62,770	6,870	$ 41,978	831,953
2009	747,808	65,013	7,873	45,133	865,827
2010	859,602	167,845	51,468	35,212	1,114,127
2011	265,202	136,341	(516)	35,539	436,566

Total Benefit Expenses
Year Ended September 30
(in millions)



Schedule of Retired Members by Type of Pension Benefit

September 30, 2011

Amount of Monthly Pension Benefit	Number of Retirees	Type of Retirement *					Selected Option**		
		1	2	3	4	5	Opt 1	Opt 2	Opt 3
$ 1 - 400	3	1	1	1			3		
401 - 800	32	7	21	4			29	3	
801 - 1,200	41	22	14	2	2	1	34	6	1
1,201 - 1,600	35	12	17	6			28	6	1
1,601 - 2,000	71	23	39	6	1	2	63	7	1
2,001 - 2,400	36	15	17	2	1	1	22	14	
2,401 - 2,800	36	22	13			1	28	8	
2,801 - 3,200	23	15	6			2	11	12	
3,201 - 3,600	33	28	4	1			21	12	
3,601 - 4,000	55	45	6	3		1	40	14	1
Over 4,000	174	165	4	2	2	1	152	21	1
Totals	539	355	142	27	6	9	431	103	5

* Type of Retirement
1 - Normal retirement for age & service
2 - Survivor payment - normal retirement or early retirement
3 - Survivor payment - death in service
4 - Non-duty disability retirement (incl. survivors)
5 - Survivor payment - disability retirement

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

Source: Gabriel Roeder Smith & Co.

Schedule of Retired Members by Type of Other Postemployment Benefit
September 30, 2011

Amount of Monthly Pension Benefit	Eligible Retirees	Type of Other Postemployment Benefits: Health	Dental	Vision
$ 1 – 400	3	1		1
401 – 800	32	4	6	5
801 – 1,200	41	7	11	6
1,201 – 1,600	35	2	5	3
1,601 – 2,000	71	12	12	8
2,001 - 2,400	36	7	11	11
2,401 - 2,800	36	2	11	7
2,801 - 3,200	23	3	2	1
3,201 - 3,600	33	2	8	5
3,601 - 4,000	55	11	21	19
Over 4,000	174	30	53	50
Totals	539	81	140	116

Source: Gabriel Roeder Smith & Co.

Schedule of Other Postemployement Benefits
For Years Ended September 30, 2011 and 2010

	2011	2010
Claims		
Health insurance	$ 255,119	$ 765,484
Vision insurance	(878)	47,228
Dental insurance	132,601	162,594
Total Claims	386,842	975,307
Estimated Claims Liability		
Health insurance	10,083	94,118
Vision insurance	362	4,240
Dental insurance	3,740	5,251
Total Estimated Claims Liability	14,185	103,608
Administrative Fees		
Health insurance	29,702	29,879
Vision insurance	4,832	1,026
Dental insurance	1,005	4,307
Total Administrative Fees	35,539	35,212
Grand Total	$ 436,566	$ 1,114,127

Schedule of Average Benefit Payments - Pension
Last Ten Years

Payment Periods	Credited Service (Years) as of September 30							
	0 - 5	5 - 10	10 - 15	15 - 20	20 - 25	25 - 30	30 +	Total
Period 10/1/01 to 9/30/02:								
Average Monthly Benefit	$ 1,144	$ 1,363	$ 1,712	$ 2,618	$ 3,015	$ 2,718	$ 3,904	$ 2,442
Average Final Average Salary	7,066	60,075	53,476	62,450	67,578	84,054	76,199	61,683
Number of Active Retirants	23	32	109	180	125	47	19	535
Period 10/1/02 to 9/30/03:								
Average Monthly Benefit	$ 1,026	$ 1,251	$ 1,978	$ 2,771	$ 3,217	$ 2,722	$ 4,197	$ 2,593
Average Final Average Salary	813	49,406	48,531	56,406	61,051	58,177	59,739	53,211
Number of Active Retirants	24	31	118	188	121	46	23	551
Period 10/1/03 to 9/30/04:								
Average Monthly Benefit	$ 1,026	$ 1,247	$ 2,016	$ 2,917	$ 3,317	$ 2,940	$ 3,871	$ 2,667
Average Final Average Salary	813	49,810	48,982	55,299	61,840	59,355	59,739	53,149
Number of Active Retirants	24	33	118	188	117	46	23	549
Period 10/1/04 to 9/30/05:								
Average Monthly Benefit	$ 1,057	$ 1,263	$ 2,074	$ 2,984	$ 3,382	$ 2,986	$ 3,850	$ 2,718
Average Final Average Salary	780	51,605	48,782	53,902	62,131	58,827	59,739	52,634
Number of Active Retirants	25	34	117	193	116	44	23	552
Period 10/1/05 to 9/30/06:								
Average Monthly Benefit	$ 1,023	$ 1,411	$ 2,098	$ 3,013	$ 3,364	$ 2,953	$ 3,569	$ 2,807
Average Final Average Salary	3,250	71,249	61,140	69,683	76,983	75,353	92,016	70,441
Number of Active Retirants	6	30	112	193	117	49	26	533
Period 10/1/06 to 9/30/07:								
Average Monthly Benefit	$ 888	$ 1,467	$ 2,126	$ 3,228	$ 3,440	$ 3,064	$ 3,569	$ 2,935
Average Final Average Salary	3,900	70,222	63,067	72,137	80,455	81,286	93,887	73,280
Number of Active Retirants	5	31	109	202	124	45	26	542
Period 10/1/07 to 9/30/08:								
Average Monthly Benefit	$ 888	$ 1,467	$ 2,164	$ 3,265	$ 3,323	$ 3,074	$ 3,704	$ 2,939
Average Final Average Salary	3,900	70,222	64,589	72,403	81,027	80,861	97,424	73,861
Number of Active Retirants	5	31	107	206	123	44	24	540
Period 10/1/08 to 9/30/09:								
Average Monthly Benefit	$ 888	$ 1,421	$ 2,303	$ 3,377	$ 3,401	$ 3,211	$ 3,793	$ 3,031
Average Final Average Salary	37,149	74,389	67,177	78,416	83,236	81,197	90,472	77,308
Number of Active Retirants	5	32	109	210	126	40	20	542
Period 10/1/09 to 9/30/10:								
Average Monthly Benefit	$ 888	$ 1,421	$ 2,389	$ 3,459	$ 3,429	$ 3,257	$ 4,004	$ 3,096
Average Final Average Salary	37,149	74,389	69,084	79,411	84,463	82,687	94,002	78,630
Number of Active Retirants	5	32	110	204	127	42	21	541
Period 10/1/10 to 9/30/11:								
Average Monthly Benefit	$ 888	$ 1,398	$ 2,423	$ 3,597	$ 3,449	$ 3,539	$ 3,879	$ 3,183
Average Final Average Salary	37,149	74,389	70,443	81,961	84,631	86,761	94,002	80,306
Number of Active Retirants	5	32	106	207	124	44	21	539

Source: Gabriel Roeder Smith & Co.

Schedule of Average Benefit Payments - Health

Last Five Years

Payment Periods	Credited Service (Years) as of September 30							
	0 - 5	5 - 10	10 - 15	15 - 20	20 - 25	25 - 30	30 +	Total
Period 10/1/06 to 9/30/07								
Average Monthly Benefit	$ 17	$ 2,102	$ 2,235	$ 3,544	$ 3,791	$ 4,426	$ 5,859	$ 3,351
Average Final Average Salary	19,500	84,638	63,913	79,862	88,876	105,084	131,721	81,436
Number of Active Retirants	1	3	20	33	19	9	2	87
Period 10/1/07 to 9/30/08								
Average Monthly Benefit	$ 17	$ 2,102	$ 2,264	$ 3,456	$ 3,488	$ 4,648	$ 5,859	$ 3,287
Average Final Average Salary	19,500	84,638	66,144	78,843	88,876	105,720	131,721	81,745
Number of Active Retirants	1	3	18	32	19	8	2	83
Period 10/1/08 to 9/30/09								
Average Monthly Benefit	$ 17	$ 2,102	$ 2,264	$ 3,699	$ 3,337	$ 5,392	$ 5,859	$ 3,361
Average Final Average Salary	19,500	84,638	66,144	85,685	89,254	125,557	131,721	85,455
Number of Active Retirants	1	3	18	30	20	6	2	80
Period 10/1/09 to 9/30/10								
Average Monthly Benefit	$ 17	$ 2,102	$ 2,264	$ 3,804	$ 3,367	$ 5,392	$ 5,859	$ 3,378
Average Final Average Salary	19,500	84,638	65,338	79,121	90,360	125,557	131,721	82,664
Number of Active Retirants	1	3	20	32	21	6	2	85
Period 10/1/10 to 9/30/11								
Average Monthly Benefit	$ 17	$ 202	$ 2,146	$ 3,864	$ 3,418	$ 5,798	$ 5,859	$ 3,465
Average Final Average Salary	19,500	84,638	63,592	84,583	92,892	131,136	131,721	85,891
Number of Active Retirants	1	3	19	31	18	7	2	81

Source: Gabriel Roeder Smith & Co.

Schedule of Average Benefit Payments - Dental

Last Five Years

Payment Periods	Credited Service (Years) as of September 30							
	0 - 5	5 - 10	10 - 15	15 - 20	20 - 25	25 - 30	30 +	Total
Period 10/1/06 to 9/30/07								
Average Monthly Benefit	$ -	$ 1,923	$ 2,408	$ 3,471	$ 3,599	$ 4,088	$ 4,017	$ 3,349
Average Final Average Salary	-	84,070	65,954	76,790	79,234	95,142	88,821	78,270
Number of Active Retirants	-	5	28	55	38	17	7	150
Period 10/1/07 to 9/30/08								
Average Monthly Benefit	-	$ 1,923	$ 2,510	$ 3,447	$ 3,513	$ 4,178	$ 3,990	$ 3,354
Average Final Average Salary	-	84,070	68,761	77,730	81,887	94,839	88,958	79,829
Number of Active Retirants	-	5	25	56	38	16	6	146
Period 10/1/08 to 9/30/09								
Average Monthly Benefit	-	$ 1,923	$ 2,616	$ 3,510	$ 3,505	$ 4,429	$ 4,054	$ 3,394
Average Final Average Salary	-	84,070	70,379	81,063	83,005	101,786	99,613	82,293
Number of Active Retirants	-	5	26	55	37	14	4	141
Period 10/1/09 to 9/30/10								
Average Monthly Benefit	-	$ 1,923	$ 2,631	$ 3,639	$ 3,503	$ 4,447	$ 4,054	$ 3,456
Average Final Average Salary	-	84,070	72,415	78,988	84,063	102,499	99,613	82,374
Number of Active Retirants	-	5	26	55	39	15	4	144
Period 10/1/10 to 9/30/11								
Average Monthly Benefit	-	$ 1,923	$ 2,658	$ 3,769	$ 3,526	$ 4,250	$ 4,054	$ 3,541
Average Final Average Salary	-	84,070	73,097	83,097	83,661	106,381	99,613	84,703
Number of Active Retirants	-	5	24	53	38	16	4	140

Source: Gabriel Roeder Smith & Co.

Schedule of Average Benefit Payments - Vision

Last Five Years

Payment Periods	Credited Service (Years) as of September 30							
	0 - 5	**5 - 10**	**10 - 15**	**15 - 20**	**20 - 25**	**25 - 30**	**30 +**	**Total**
Period 10/1/06 to 9/30/07								
Average Monthly Benefit	$ 17	$ 2,186	$ 2,526	$ 3,795	$ 4,003	$ 4,377	$ 4,065	$ 3,651
Average Final Average Salary	19,500	96,442	67,760	80,314	86,286	102,028	99,110	83,177
Number of Active Retirants	1	3	20	42	35	14	5	120
Period 10/1/07 to 9/30/08								
Average Monthly Benefit	$ 17	$ 2,186	$ 2,588	$ 3,801	$ 3,775	$ 4,510	$ 4,038	$ 3,618
Average Final Average Salary	19,500	96,442	70,418	81,753	86,286	102,184	101,887	84,189
Number of Active Retirants	1	3	18	42	35	13	4	116
Period 10/1/08 to 9/30/09								
Average Monthly Benefit	$ 17	$ 2,186	$ 2,728	$ 3,916	$ 3,719	$ 4,624	$ 4,317	$ 3,667
Average Final Average Salary	19,500	96,442	72,545	85,688	87,123	106,348	111,045	86,469
Number of Active Retirants	1	3	19	43	35	12	3	116
Period 10/1/09 to 9/30/10								
Average Monthly Benefit	$ 17	$ 2,186	$ 2,749	$ 3,955	$ 3,753	$ 4,624	$ 5,372	$ 3,707
Average Final Average Salary	19,500	96,442	75,332	83,630	88,016	106,348	137,252	86,723
Number of Active Retirants	1	3	19	42	37	12	2	116
Period 10/1/10 to 9/30/11								
Average Monthly Benefit	17	2,186	2,706	4,052	3,785	4,700	5,372	3,773
Average Final Average Salary	19,500	96,442	74,044	88,977	87,701	110,830	137,252	89,139
Number of Active Retirants	1	3	18	43	36	13	2	116

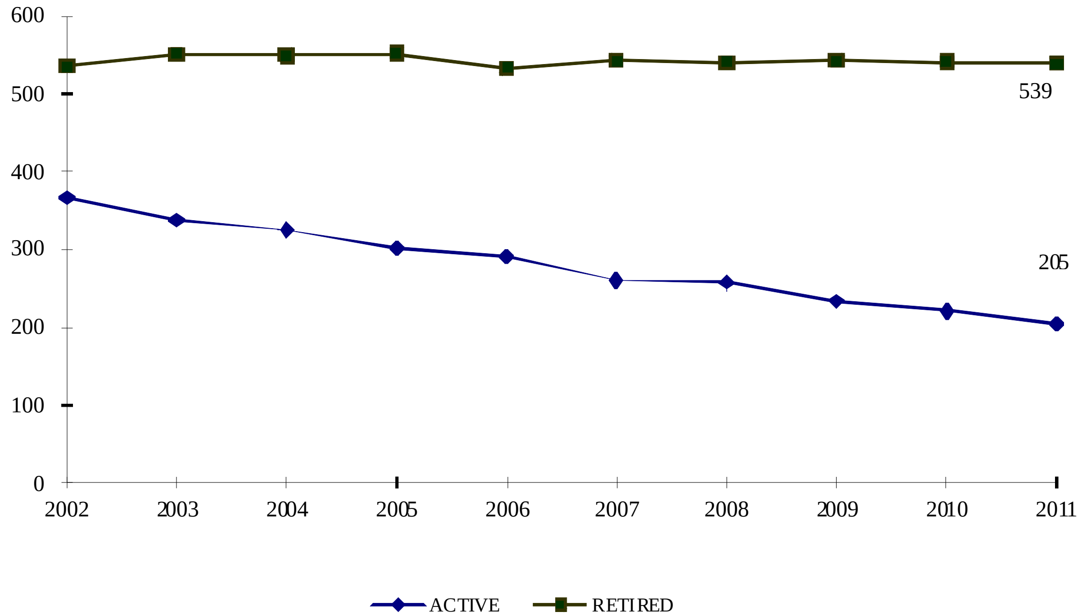
Source: Gabriel Roeder Smith & Co.

Schedule of Principal Participating Employers
For Fiscal Years Ending September 30, 2011 and 2002

	2011		2002	
Participating Employers	Employees	Percentage of Total System	Employees	Percentage of Total System
03rd Circuit	19	9.2 %	27	7.7 %
Court of Appeals	15	7.3	21	6.0
36th District	9	4.4	18	5.2
06th Circuit	7	3.4	9	2.6
07th Circuit	4	1.9	4	1.1
08th District	4	1.9	5	1.4
14th Circuit	4	1.9	4	1.1
16th Circuit	4	1.9	5	1.4
22nd Circuit	4	1.9	4	1.1
61st District	4	1.9	5	1.4
All other	132	64.1	247	70.8
Total	206	100.0 %	349	100.0 %

STATISTICAL SECTION

<u>Ten Year History of Membership</u>
Fiscal Year Ended September 30



Source: Gabriel Roeder Smith & Co.

Schedule of Participating Employers through 9/30/11

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

Schedule of Participating Employers through 9/30/11 (continued)

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

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