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

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

M J R S

Prepared by:
Financial Services
for
Office of Retirement Services
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INTRODUCTORY SECTION

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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, 2005

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

INTRODUCTORY SECTION

Letter of Transmittal

Michigan Judges' Retirement System
P.O. Box 30171
Lansing, Michigan 48909-7671
Telephone 517-322-5103
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STATE OF MICHIGAN

JENNIFER M. GRANHOLM, Governor

DEPARTMENT OF MANAGEMENT AND BUDGET

December 8, 2006

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

Members of the Legislature
State of Michigan,

Retirement Board Members
and
Members, Retirees and Beneficiaries

Ladies and Gentlemen:

We are pleased to present the comprehensive annual financial report of the Michigan Judges' Retirement System (System) for fiscal year 2006.

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.

Public Pension Standards Award

Public Pension Coordinating Council

Public Pension Standards

2006 Award

Presented to

Michigan Office of Retirement Services

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

Presented by the Public Pension Coordinating Council, a confederation of

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

Alan H. Winkle
Program Administrator

Letter of Transmittal (Continued)

Internal Control Structure

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

Independent Auditors

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

Statute requires that an annual actuarial valuation be conducted. The purpose of the valuation is to evaluate the mortality, service, compensation and other financial experience of the System and to recommend employer-funding rates for the subsequent year. This annual actuarial valuation was completed by Gabriel Roeder Smith & Co. and the Segal Company for the fiscal years ended September 30, 2006 and 2005, respectively. Actuarial certification and supporting statistics are included in the Actuarial Section of this report.

Report

The 2006 comprehensive annual financial report is presented in five sections. The Introductory Section contains the transmittal letter and identifies the administrative organization and professional consultants used by the System. The Financial Section contains the independent auditor's report, management's discussion and analysis, financial statements and notes of the System and certain supplemental schedules. The Investment Section summarizes investment activities. The Actuarial Section contains the independent consulting actuary's certification, an outline of actuarial assumptions and methods, and other actuarial statistics. The Statistical Section contains statistical tables of significant data pertaining to the System, and a schedule of participating employers.

Management's Discussion and Analysis (MD&A)

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

PROFILE OF THE GOVERNMENT

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

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

ECONOMIC CONDITIONS AND OUTLOOK

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

Letter of Transmittal (Continued)

Investments

The State Treasurer is the investment fiduciary and custodian of all investments of the System pursuant to State law. The primary investment objective is to maximize the rate of return on the total investment portfolio, consistent with a high degree of prudence and sufficient diversity to eliminate inordinate risks and to meet the actuarial assumption for the investment return rate. The investment activity for the year produced a total rate of return on the portfolio of 12.5%. For the last five years, the System has experienced an annualized rate of return of 7.8%. A summary of asset allocation and rates of return can be found in the Investment Section of this report.

Accounting System

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

Funding

Funds are derived from the excess of additions to plan net assets over deductions from plan net assets. Funds are accumulated by the System in order to meet future benefit obligations to retirees and beneficiaries. The percentage computed by dividing the actuarial value of assets by the actuarial accrued liability is referred to as the "funded ratio." This ratio provides an indication of the funding status of the System and generally, the greater this percentage, the stronger the System. As of September 30, 2006, the actuarial value of the assets and actuarial accrued liability of the System were $282.8 million and $243.7 million, respectively, resulting in a funded ratio of 116.0%. As of September 30, 2005, the amounts were $278.4 million and $243.4 million, respectively. A historical perspective of funding levels for the System is presented on the Schedule of Funding Progress in the Required Supplementary Information in the Financial Section of this report.

Postemployment Benefits

The System also administers the postemployment health benefits (health, dental, and vision) offered to eligible retirees. The benefits are funded on a cash or "pay-as-you-go" basis. An actuarial valuation was completed to determine the actuarial accrued liability if the benefits were to be pre-funded. If these benefits were pre-funded, the actuarial accrued liability for these benefits would be approximately $3.4 million and the employer contribution for retiree health care benefits would be 3.90% of payroll.

MAJOR GOALS ACCOMPLISHED

The Michigan Department of Management and Budget, Office of Retirement Services continues to be proactive in identifying and meeting the needs of our customers in a timely and cost-effective manner. Moving forward with our Vision ORS technology project, we implemented a number of solutions that streamline internal process functions, thereby freeing staff to provide more personal one-on-one interactions with customers. Our greatest gains this year came when we converted from our old pension system (CPP) to a new, leading-edge pension payment processing system (Clarety). The new system permits staff access to up-to-date customer information all in a single place and enables us to process pension payments daily instead of once a month, which allows initial pension payments to be issued faster. Other improvements are highlighted below.

Focus on Our Customer

Planning and saving for retirement early in your career received significant emphasis as we interacted with our customers. We encouraged members to take a serious look at their retirement plans to help them be better prepared for a more secure and fulfilling experience when it is time to retire. We used a variety of easy to understand resources to deliver our messages.

Letter of Transmittal (Continued)

Most of our customers still view the telephone as their primary means of communicating; this year our Customer Service telephone center answered 216,650 calls. A growing number of customers have found email correspondence better meets their busy lifestyles as demonstrated by the 14,106 emails we responded to this year. Our Customer Service staff also provided face-to-face interaction with 5,387 individuals who visited our main office. Our Detroit office staff met with 2,903 customers who either scheduled an appointment or walked in with questions, and answered 5,606 telephone calls with customers.

Our customer base extends to employers also, and this year we continued enhancing these relationships through regular communications and updated support materials. To strengthen our rapport with our employers, we used email updates to stay connected with our contacts.

Staying in touch with our customers, whether they are active employees, pension recipients, or employers, is a priority. For retirees, the *Connections* newsletter, published twice a year, offers an annual financial report summary plus other pertinent information about retirement. Our ongoing surveys assist us in assessing our customers' needs and their level of satisfaction.

Continuously Improve Processes

For the last several years, we have invested substantial time and effort to transform ORS into a leading edge process-based organization. This year we celebrated some of our milestones – our on-line employer reporting and pay-period reporting process is fully implemented and stabilized, and we converted to our new pension payment processing system without incident. Both of these process enhancements are paying off through increased efficiencies and improved services to our external customers as well as our staff.

With the implementation of our new technology enhancements, our work processes are changing, which opens the door for other process improvements. Recognizing this opportunity, our reengineering team began assessing how six of our present processes, consisting of 47 tasks, function and then identified gaps to be resolved, efficiencies to be gained, and savings to reap.

ORS' influence is seen at the national level as well. Because of its reputation, ORS has provided leadership to the Board of National Sector Public Health Care Roundtable. This organization was instrumental in convincing Congress to include public sector health plans in the group eligible to receive the Medicare Part D subsidy. This subsidy is worth about $103 million annually to the State and the schools.

Promote a Positive Work Environment

Like many other progressive organizations, the need for change has become the norm rather than the exception. With the introduction of technology changes to our core processes, we needed to realign our organizational structure. Clear, straight-forward communications between managers and employees eased the transition.

Management has fostered an open, positive work environment where employees feel they are valued and appreciated. They are empathetic and supportive of others, generously giving to those in need, whether it's donating blood to the Red Cross, volunteering for Habitat for Humanity, or making contributions to United Way, the local food banks, troops stationed in Iraq, holiday giving trees, or a coworker experiencing personal hardships.

Management encourages employees to live out the values of Integrity, Inclusion, Excellence, and Teamwork. This year we instituted an awards program similar to DMB's annual Excellence Awards program to recognize individuals in the categories of Leadership, Innovation, Every Day Hero, Living the Values, and Customer Service. From this group of honorees, who were also nominated for the DMB Excellence Awards, a team of five ORS employees was honored with DMB's Innovator Award.

Letter of Transmittal (Continued)

Optimize Technology

Since the recent implementation of our new technology we've identified other ways to enhance our operations. Imaging of current correspondence and documents expanded to include employer correspondence as well as member and retiree correspondence. We've also undertaken an extensive project to begin converting existing paper files to electronic images so staff can quickly access them with a few clicks of a mouse rather than waiting for a paper file to be pulled. As part of this conversion, we scanned 4,680,816 images this year, providing more electronic access to insurance information, death records, tax deferred payment agreements, and pending retiree documentation, and further reducing our reliance on paper documents.

Future enhancements to our pension system continue to move forward. This year we completed the requirements gathering steps for web self service and automating the processing of our forms and letters by using bar coding to speed document handling and trigger work flow processes.

We've learned a number of lessons from our past Vision ORS implementation efforts, and we've used this knowledge to help avoid these pitfalls as we move forward. We're writing better requirements in the initial stages and doing extensive testing of processes before upgrading our system, which has paid off in much smoother program deployments.

AWARDS AND ACKNOWLEDGEMENTS

Certificate of Achievement

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the System for its comprehensive annual financial report for the fiscal year ended September 30, 2005. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both accounting principles generally accepted in the United States of America and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. The System has received a Certificate of Achievement for 15 consecutive years. We believe our current report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

Public Pension Standards Award

The Public Pension Coordinating Council, a confederation of the National Association of State Retirement Administrators (NASRA), the National Conference on Public Employee Retirement Systems (NCPERS), and the National Council on Teacher Retirement (NCTR), awarded Michigan Office of Retirement Services (ORS) the Public Pension Standards Award for recognition of meeting professional standards for plan design and administration as set forth in the standards for fiscal year.2006. This is the third year ORS has achieved this distinction.

Acknowledgments

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

Letter of Transmittal (Continued)

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

Sincerely,

Lisa Webb Sharpe, Director
Department of Management and Budget

Phillip J. Stoddard, Acting Director
Office of Retirement Services

Introductory Section

Administrative Organization

Retirement Board Members *

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

George M. Elworth
Representing Attorney General
Statutory Member

Mark Haas
Representing State Treasurer
Statutory Member

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

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

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

Administrative Organization

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

Advisors and Consultants

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

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

Legal Advisor
Mike Cox
Attorney General
State of Michigan

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

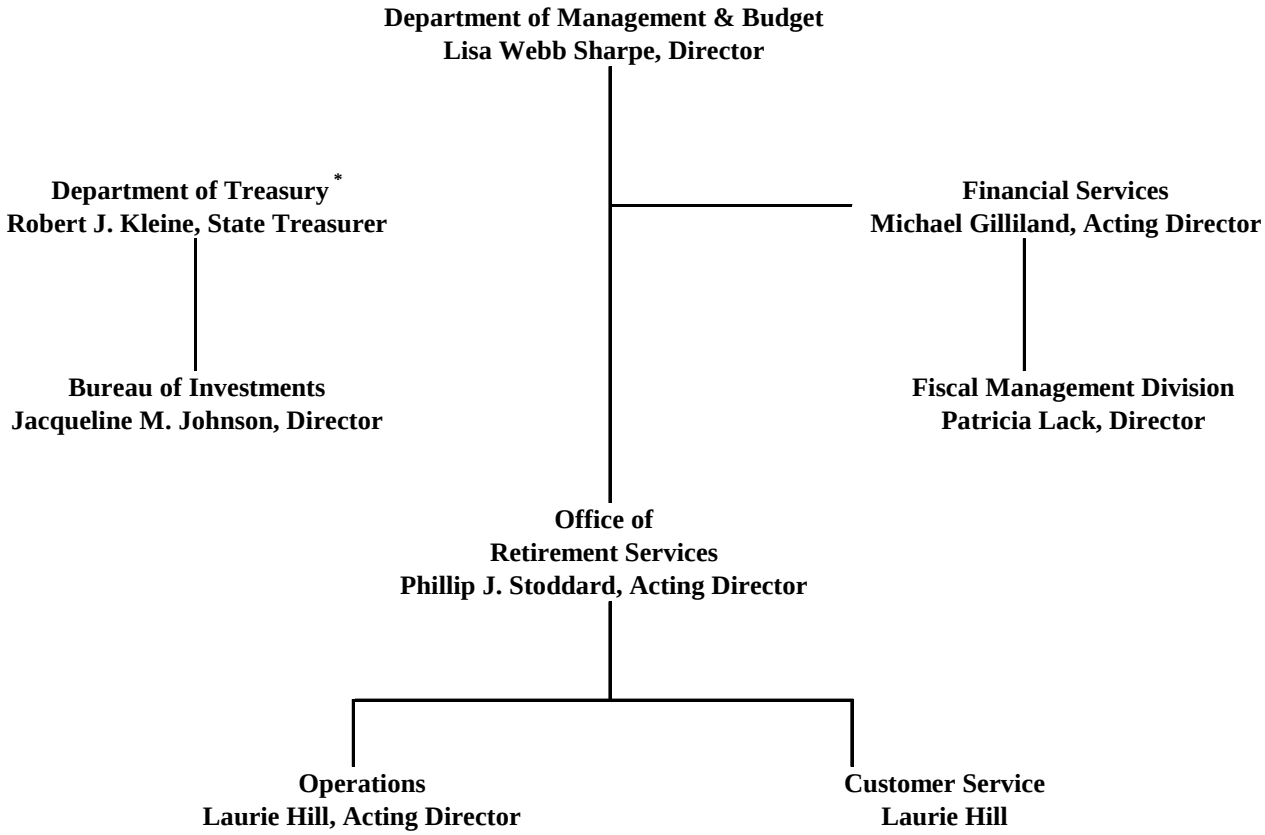
Andrews Hooper & Pavlik P.L.C.
Jeffrey J. Fineis, C.P.A.
Okemos, Michigan

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

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

Administrative Organization (Continued)

Organization Chart



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

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FINANCIAL SECTION

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

FINANCIAL SECTION

Independent Auditor's Report

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

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

We have audited the accompanying statements of pension plan and postemployment healthcare plan net assets of the Michigan Judges' Retirement System, as of September 30, 2006 and 2005, and the related statements of changes in pension plan and postemployment healthcare plan net assets for the years then ended. These financial statements are the responsibility of the management of the Michigan Judges' Retirement System. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial status of the Michigan Judges' Retirement System, as of September 30, 2006 and 2005, and the changes in its financial status for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 8, 2006 on our consideration of the Michigan Judges' Retirement System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in conjunction with this report in considering the results of our audit.

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

Independent Auditor's Report (continued)

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

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

Andrews Hooper & Pavlik P.L.C.

Okemos, Michigan
December 8, 2006

FINANCIAL SECTION

Management's Discussion and Analysis

Our discussion and analysis of the Michigan Judges' Retirement System's (System) financial performance provides an overview of the System's financial activities for the fiscal year ended September 30, 2006. 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 2006 by $303.2 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, 2006, the funded ratio was approximately 116.0%.
- Revenues for the year were $37.9 million, which is comprised of member contributions of $2.5 million, court fees of $868.9 thousand, miscellaneous revenue of $1thousand and investment gains of $34.5 million.
- Expenses increased over the prior year from $18.5 million to $18.7 million or 1.3%.

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

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

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

Management's Discussion and Analysis (Continued)

FINANCIAL ANALYSIS

System total assets as of September 30, 2006, were $351.9 million and were mostly comprised of cash and investments. Total assets increased $50.9 million or 16.9% between fiscal years 2005 and 2006 and increased $15.2 million or 5.3% between fiscal years 2004 and 2005.

Total liabilities as of September 30, 2006, were $48.7 million and were comprised of warrants outstanding, and obligations under securities lending. Total liabilities increased $31.7 million or 186.4% between fiscal years 2005 and 2006 and decreased $1.1 million or 6.1% between fiscal years 2004 and 2005.

System assets exceeded its liabilities at the close of fiscal year 2006 by $303.2 million. Total net assets held in trust for pension and health benefits increased $19.1 million or 6.7% between fiscal years 2005 and 2006 and increased $16.3 million or 6.1% between fiscal years 2004 and 2005.

Net Assets
(in thousands)

	2006	Increase (Decrease)	2005	Increase (Decrease)	2004
Assets					
Cash	$ 1,104	(23.1) %	$ 1,436	(33.4) %	$ 2,155
Receivables	186	106.7	90	34.3	67
Investments	350,659	17.1	299,568	5.6	283,702
Total Assets	351,949	16.9	301,094	5.3	285,924
Liabilities					
Warrants outstanding	48	9.1	44	(6.4)	47
Accounts payable and other accrued liabilities	-	(100.0)	1	(66.7)	3
Obligations under securities lending	48,687	186.8	16,973	(6.1)	18,077
Total Liabilities	48,735	186.4	17,018	(6.1)	18,127
Total Net Assets	$ 303,214	6.7 %	$ 284,076	6.1 %	$ 267,797

REVENUES - ADDITIONS TO PLAN NET ASSETS

The reserves needed to finance retirement and health benefits are accumulated through the collection of member contributions, earnings on investments, and court fees. Contributions, net investment income/(losses) and court fees for fiscal year 2006 totaled $37.9 million.

Total additions increased $3.1 million or 8.9% from those of fiscal year 2005 due primarily to increased investment earnings. Total additions increased $3.1 million or 9.8% from fiscal year 2004 to fiscal year 2005 due primarily to increased investment earnings. Investment income increased between fiscal years 2005 and 2006 by $2.5 million or 7.7%. Investment income increased between fiscal year 2004 and fiscal year 2005 by $3.2 million or 11.0%. Court fees totaled $868.9 thousand in fiscal year 2006 as compared to $249.8 thousand in fiscal year 2005. The Investment Section of this report reviews the results of investment activity for 2006.

Management's Discussion and Analysis (Continued)

EXPENSES - DEDUCTIONS FROM PLAN NET ASSETS

The primary expenses of the System include the payment of pension benefits to members and beneficiaries, payment for health, dental and vision benefits, and the cost of administering the System. Total deductions for fiscal year 2006 were $18.7 million, an increase of 1.3% from fiscal year 2005 expenses. Total deductions for fiscal year 2005 were $18.5 million, an increase of 0.4% from fiscal year 2004 expenses.

Health, dental and vision care expenses increased during the year by $86.6 thousand or 17.1% from $510.2 thousand to $596.8 thousand during the fiscal year due primarily to a increase in retiree health rates. This compares to a decrease of $65.8 thousand or 11.5% from $576.0 thousand to $510.2 thousand between fiscal years 2004 and 2005 due primarily to a decrease in retiree health rates. This rate decrease was caused in part by a decrease in the required contribution rate for health care. The payment of pension benefits increased by $154.9 thousand or 0.9% between fiscal years 2005 and 2006, and by $257.0 thousand or 1.5% from fiscal year 2004 to 2005. The increase between 2005 and 2006 and the increase between 2004 and 2005 was due primarily to increasing individual benefits for new retirees. There were no contribution refunds in fiscal years 2005 and 2006. The refund listed in fiscal year 2004 was to one member. Administrative expenses increased by $2.0 thousand or 1.1% between fiscal years 2005 and 2006. This increase was due primarily to an increase in technological support expenses. Administrative expenses decreased by $42.2 thousand or 20.0% between fiscal years 2004 and 2005. This decrease was due primarily to declines in consulting and audit expenses.

Changes in Plan Net Assets
(in thousands)

	2006	Increase (Decrease)	2005	Increase (Decrease)	2004
Member contributions	$ 2,536	0.3 %	$ 2,528	(3.8) %	$ 2,628
Net investment income	34,453	7.7	31,977	11.0	28,818
Court fees and miscellaneous income	869	247.6	250	16.3	215
Total Additions	37,858	8.9	34,755	9.8	31,661
Pension benefits	17,953	0.9	17,798	1.5	17,541
Health Care benefits	597	17.1	510	(11.5)	576
Refunds & Transfers to Other Systems	-	-	-	(100.0)	68
Administrative expenses	170	1.2	168	(20.0)	210
Total Deductions	18,720	1.3	18,476	0.4	18,395
Net Increase	19,138	17.6	16,279	22.7	13,266
Net Assets Beginning of Year	284,076	6.1	267,797	5.2	254,531
Net Assets End of Year	$ 303,214	6.7 %	$ 284,076	6.1 %	$ 267,797

Management's Discussion and Analysis (Continued)

RETIREMENT SYSTEM AS A WHOLE

The System's combined net assets experienced an increase for the fourth consecutive year, following decreases in 2001 and 2002. This increase is a result of a moderate national economic upturn that resulted in investment income earnings. Management believes, and actuarial studies concur, that the System is in a financial position to meet its current obligations. We believe the current financial position has improved, in part, due to a prudent investment program, cost controls, and strategic planning.

CONTACTING SYSTEM FINANCIAL MANAGEMENT

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

Statements of Pension Plan and Postemployment Healthcare Plan Net Assets

As of Fiscal Years Ending September 30, 2006 and 2005

	September 30, 2006			September 30, 2005		
	Pension Plan	Health Plan	Total	Pension Plan	Health Plan	Total
Assets:						
Equity in common cash	$ 1,103,912	$ 24	$ 1,103,936	$ 1,436,110	$ -	$ 1,436,110
Receivables:						
Amounts due from employer	177,225	4	177,229	87,162	40	87,202
Interest and dividends	8,646	-	8,646	2,224	-	2,224
Total receivables	185,871	4	185,875	89,386	40	89,426
Investments:						
Short term investment pools	3,693,425	81	3,693,506	8,027,276	-	8,027,276
Fixed income pools	51,920,052	1,145	51,921,197	51,498,667	-	51,498,667
Domestic equity pools	146,677,314	3,233	146,680,547	136,403,015	-	136,403,015
Real estate pool	34,804,609	767	34,805,376	31,688,729	-	31,688,729
Alternative investment pools	29,833,654	657	29,834,311	23,554,735	-	23,554,735
International equities pools	35,037,200	772	35,037,972	31,422,137	-	31,422,137
Cash collateral on loaned securities	48,685,513	1,073	48,686,586	16,973,727	-	16,973,727
Total investments	350,651,767	7,728	350,659,495	299,568,286	-	299,568,286
Total assets	351,941,550	7,756	351,949,306	301,093,782	40	301,093,822
Liabilities:						
Warrants outstanding	48,491	1	48,492	43,732	20	43,752
Accounts payable and other accrued liabilities	-	-	-	555	-	555
Internal balances (Note 2)	-	-	-	(129,626)	129,626	-
Obligations under securities lending	48,685,513	1,073	48,686,586	16,973,727	-	16,973,727
Total liabilities	48,734,004	1,074	48,735,078	16,888,388	129,646	17,018,034
Net Assets (Liabilities) Held in Trust for Pension and Health Benefits*	$ 303,207,546	$ 6,682	$ 303,214,228	$ 284,205,394	$ (129,606)	$ 284,075,788

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

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

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

For Fiscal Years Ended September 30, 2006 and 2005

	September 30, 2006			September 30, 2005		
	Pension Plan	Health Plan	Total	Pension Plan	Health Plan	Total
Additions:						
Contributions:						
Member contributions	$ 2,017,943	$ 518,057	$ 2,536,000	$ 2,077,550	$ 450,657	$ 2,528,207
Investment income (loss):						
Investment income (loss)	34,731,708	-	34,731,708	32,254,311	-	32,254,311
Investment expenses:						
Real estate operating expenses	(3,471)	-	(3,471)	(5,548)	-	(5,548)
Other investment expenses	(318,010)	-	(318,010)	(295,058)	-	(295,058)
Securities lending activities:						
Securities lending income	1,141,140	-	1,141,140	435,812	-	435,812
Securities lending expenses	(1,098,867)	-	(1,098,867)	(412,813)	-	(412,813)
Net investment income (loss)	34,452,500	-	34,452,500	31,976,704	-	31,976,704
Court Fees	653,587	215,000	868,587	34,765	215,000	249,765
Miscellaneous income	880	-	880	26	-	26
Total additions	37,124,910	733,057	37,857,967	34,089,045	665,657	34,754,702
Deductions:						
Benefits paid to plan members and beneficiaries:						
Retirement benefits	17,952,735	-	17,952,735	17,797,840	-	17,797,840
Health benefits	-	596,769	596,769	-	510,152	510,152
Administrative expenses	170,023	-	170,023	167,993	-	167,993
Total deductions	18,122,758	596,769	18,719,527	17,965,833	510,152	18,475,985
Net Increase (Decrease)	19,002,152	136,288	19,138,440	16,123,212	155,505	16,278,717
Net Assets (Liabilities) Held in Trust for Pension and Health Benefits:						
Beginning of Year	284,205,394	(129,606)	284,075,788	268,082,182	(285,111)	267,797,071
End of Year*	$ 303,207,546	$ 6,682	$ 303,214,228	$ 284,205,394	$ (129,606)	$ 284,075,788

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

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

Notes to Basic Financial Statements

NOTE 1 - PLAN DESCRIPTION

ORGANIZATION

The Michigan Judges' Retirement System (System) is a cost sharing, multiple employer, state-wide, defined benefit public employee retirement plan governed by the State of Michigan (State). The System, created under Public Act 234 of 1992, consolidated the former Judges' and Probate Judges' Retirement Systems into one retirement system. The System was established by the State to provide retirement, survivor and disability benefits to judges in the judicial branch of state government. There are 159 participating employers. The System also includes the Governor of the State of Michigan, Lieutenant Governor, Secretary of State, Attorney General, Legislative Auditor General, and the Constitutional Court Administrator.

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

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

MEMBERSHIP

At September 30, 2006, and 2005, the System's membership consisted of the following:

Retirees and beneficiaries currently receiving benefits:	2006	2005
Regular benefits	352	367
Survivor benefits	174	179
Disability benefits	7	6
Total	533	552
Current employees:		
Vested	290	292
Non-vested	1	10
Total	291	302
Inactive employees entitled to benefits and not yet receiving them	16	18
	840	872

Plan 1 or 2 members (Supreme Court Justice, Court of Appeals, or elected officials) may enroll in State Health Plan when they retire and their premium rate is subsidized. All other judges may enroll in the State Health Plan if they wish to, but they must pay the entire premium cost. At September 30, 2006, and 2005, there were a total of 533 and 552 retirees, respectively, who are eligible to participate in the health/dental/vision plans. The number of participants is as follows:

	2006	2005
Participants receiving benefits:		
Health	82	76
Dental	145	148
Vision	113	112

Notes to Basic Financial Statements (Continued)

BENEFIT PROVISIONS

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

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

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

Regular Retirement

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

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

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

Early Retirement

A member may retire with an early permanently reduced pension:

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

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

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.

Notes to Basic Financial Statements (Continued)

Pension Payment Options

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

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

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

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

Survivor Benefit

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

Contributions

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

Publicly Financed Contributions — There are two public sources which fund retirement benefits: Court fees and State appropriations. The State contributes annually the greater of 3.5% of the aggregate annual compensation of State paid base salaries, or the difference between the total actuarial requirement of current service and unfunded accrued liabilities minus the revenues from court filing fees and member contributions. For fiscal year 2006, an employer contribution rate of 1.74% of payroll was required based on the annual actuarial valuation. A contribution for fiscal year 2005 was not required. If the court fees deposited in the reserve for employer contributions equals the amount needed in addition to other publicly financed contributions to sustain the required level of publicly financed contributions, Section 304(4) requires court fees be deposited in the court fee fund. In accordance with Section 304(4) of the Judges' Retirement Act, the court fees are being deposited in the court fee fund in the State Treasury. A chart showing the publicly financed contribution rates is included in the Schedule of Revenue by Source in the Statistical Section.

Public Act 95 of 2002 authorizes the State Treasurer, if funds remain in the court fee fund after transfers, to transmit a portion of the money in the court fee fund and any earnings on those amounts to the reserve for health benefits. The purpose of this transfer is to pay expected health care costs for the subsequent fiscal year that are not covered as a result of employee contributions. For fiscal year 2006 and 2005, this amount was $115,000. In addition, the court fee fund shall transfer an amount not to exceed $100,000 in each fiscal year, to fund any health care costs not paid from the reserve for health benefits since fiscal year 1996-1997. The final transfer was made in fiscal year 2006.

Notes to Basic Financial Statements (Continued)

Other Postemployment Benefits

Under the Michigan Judges' Retirement Act, Plan 1 or 2, members may enroll in the State Health Plan when they retire. Five percent of the health insurance premium is deducted from the monthly pension check until age 65, at which time Medicare provides primary health insurance coverage. All other members may enroll in the State Health Plan during an open enrollment period. The total premium is deducted from the monthly pension check. The active employee payroll contribution rate to fund health benefits for the Plan 1 or 2 members was 2.0% for 2006 and 2005. There are no required employer contributions to fund health benefits.

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

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting and Presentation

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

Reserves

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

Reserve for Employee Contributions — This 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 Benefits for regular and disability retirement, amounts refunded to terminated members, and transferring inactive accounts. At September 30, 2006, and 2005, the balance in this account was $44.9 million and $41.4 million, respectively.

Reserve for Employer Contributions — This reserve represents court fees, late fees, interest payments, employer contributions, and State appropriations. Amounts are transferred annually from this reserve to the Reserve for Retired Benefit Payments to fund that reserve. In addition, the reserve transfers court fees to the Supreme Court in accordance with statutory requirements. At September 30, 2006, and 2005, the balance in this account was $20.9 million and $27.9 million, respectively.

Reserve for Retired Benefit Payments — This reserve represents the reserves for payment of future retirement benefits to current retirees. At retirement, a member's accumulated contributions plus interest are transferred into this reserve from the Reserve for Employee Contributions and the Reserve for Employer Contributions. Monthly benefits, which are paid to the member, reduce the reserve. At the end of each fiscal year, an amount is transferred from the Reserve for Employer Contributions to bring the reserve into balance with the actuarial present value of retirement allowances. At September 30, 2006, and 2005, the balance in this account was $137.0 million and $132.9 million, respectively.

Reserve for Undistributed Investment Income — This reserve is credited with all investment earnings, changes in fair value, gifts to the System, and forfeited contributions. All administrative expenses are paid from this reserve and interest is transferred annually to the other reserves. At September 30, 2006, and 2005, the balance in this account was $100.4 million and $82.1 million, respectively.

Notes to Basic Financial Statements (Continued)

Reserve for Health Benefits — This reserve is credited with member contributions for health benefits. Health benefits are paid from this reserve. At September 30, 2006, and 2005, the balance in this account was $6,682 thousand and ($129.6 thousand), respectively. PA 95 of 2002 requires that an amount not to exceed $100,000 be transferred each fiscal year towards any health care costs not paid from the reserve for health benefits since fiscal year 1996-1997.

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

Reporting Entity

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

Benefit Protection

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

Fair Value of Investments

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

Investment Income

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

Costs of Administering the System

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

Property and Equipment

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

Notes to Basic Financial Statements (Continued)

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.

	2006	2005
Building Rentals	$ 1,071	$ 867
Technological Support	14,487	10,550
Attorney General	34,064	47,053
Investment Services	57,581	56,199
Personnel Services	15,712	14,726

Commitment and Contingency – The State has signed a contract with a vendor for technological support through 2006. As of September 30, 2006, the System's portion of this commitment is approximately $8,000.

Cash – On September 30, 2006, and 2005, the System had $1.1 million and $1.4 million, respectively in a common cash investment pool maintained for various State operating funds. The participating funds in the common cash pool earn interest at various rates depending upon prevailing short-term interest rates. Earnings from these activities amounted to $104.2 thousand and $54.2 thousand for the years ended September 30, 2006, and 2005, respectively.

Excess Benefits

Internal Revenue Service (IRS) Code Section 415 requires that, for individuals who receive retirement benefits in excess of established limits, these benefits be recorded and reported outside of the pension plan in order to keep the qualified status of the plan. This includes coordination of benefit issues whereby a retiree participates in more than one qualified plan. In fiscal years 2006 and 2005 the System provided excess benefits to one retiree.

Reclassification of Prior Year Amounts

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

NOTE 3 - CONTRIBUTIONS

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

The State contributes annually the greater of 3.5% of the aggregate annual compensation of State paid base salaries, or the difference between the total actuarial requirement of current service and unfunded accrued liabilities minus the revenues from court filing fees and member contributions. Since the System was fully funded, the appropriation was not requested for fiscal year 2005. In fiscal year 2006 an employer contribution rate of 1.74% of payroll was required based on the annual actuarial valuation. If the court fees deposited in the reserve for employer contributions equals the amount needed in addition to other publicly financed contributions to sustain the required level of publicly financed contributions, Section 304(4) requires court fees be deposited in the court fee fund. In accordance with Section 304(4) of the Judges' Retirement Act, the court fees are being deposited in the court fee fund in the State Treasury. The State Treasurer transmits the money in the court fee fund, not exceeding $2.2 million in any fiscal year, to the court equity fund for operational expenses of trial courts.

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

Notes to Basic Financial Statements (Continued)

There were no actual or required employer contributions for fiscal year 2005 because the contribution rate was negative. The required employer contribution for fiscal year 2006 was 1.74% of payroll or $607.9 thousand.

NOTE 4 - INVESTMENTS

Investment Authority

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

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

Derivatives

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

Derivatives are used in managing pension trust fund portfolios, but uses do not include speculation or leveraging of investments. Less than 12.0% of the total pension trust fund's portfolio has been invested from time to time in futures contracts, swap agreements, and option contracts. State investment statutes limit total derivative exposure to 15.0% of a fund's total asset value, and restrict uses to replication of returns and hedging of assets. Swap agreements represent the largest category of derivatives used, and they represented 8.4% of market value of total pooled assets on September 30, 2006, and 9.6% of market value of total pooled assets on September 30, 2005. Option contracts represent the second largest category of derivatives used, and they represented 0.6% of market value of total pooled assets on September 30, 2006, and 0.0% of market value of total pooled assets on September 30, 2005. Futures contracts represent the third largest category of derivatives used, and they represented 0.0% of market value of total pooled assets on September 30, 2006, and 0.3% of market value of total pooled assets on September 30, 2005.

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

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

To diversify the pension fund's portfolio, the State Treasurer has entered into swap agreements with investment grade counterparties, which are tied to stock market indices in the United States and twenty-two foreign countries. The notional amounts of the swap agreements at September 30, 2006, and 2005, were $18.5 million and $20.8 million, respectively. Approximately one half of the notional amount tied to foreign stock market indices is hedged against foreign currency fluctuations. The swap agreements provide that the Retirement System will pay quarterly, over the term of the swap agreements, interest indexed to the three month London Inter Bank Offer Rate (LIBOR), adjusted for an interest rate spread, on the notional amount stated in the agreements. At the maturity of the swap agreements, the

Notes to Basic Financial Statements (Continued)

pension fund will either receive the increase in the value of the equity indices from the level at the inception of the agreements, or pay the decrease in the value of the indices. Swap agreement maturity dates range from October 2006 to July 2009.

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

The value of these synthetic equity structures is a combination of the value of the swap agreements and the value of the notes and short-term investments. The book value represents the cost of the notes and short-term investments. The current value represents the current value of the notes and short-term investments and the change in value of the underlying indices from the inception of the swap agreements. The current value is used as a representation of the fair value based on the intention to hold all swap agreements until maturity. For fiscal years ending, September 30, 2006 and 2005, international equity investment programs involving swaps realized gains and earned interest income of $4.2 million and $1.8 million, respectively.

The unrealized gain of $6.9 million at September 30, 2006 and $6.6 million at September 30, 2005, primarily reflects the increase in international stock indices and changes in currency exchange rates. The combined swap structure realizes gains and losses on a rolling three year basis.

The respective September 30, 2006, and 2005 swap values are as follows:

	Notional Value	Current Value
9/30/06 (dollars in millions)	$ 18.5	$ 25.4
9/30/05 (dollars in millions)	20.8	27.4

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

Securities Lending

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

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

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

During the fiscal year, the System and the borrowers maintained the right to terminate all securities lending transactions on demand. The cash collateral received on each loan was invested in a collateral account dedicated to the System. As of September 30, 2006, such account had an average weighted maturity to next reset of 22 days and an average weighted maturity of 678 days. Because the loans were terminable at will, their duration did not generally match the

Notes to Basic Financial Statements (Continued)

duration of the investments made with cash collateral. On September 30, 2006, the System had no credit risk exposure to borrowers. The cash held for securities on loan for the System as of September 30, 2006 was $48,686,586. The carrying amount, which is the fair market value, of securities on loan for the System as of September 30, 2006, was $47,444,358.

Gross income from security lending for the fiscal year was $1,141,140. Expenses associated with this income were the borrower's rebate of $1,088,724 and fees paid to the agent of $10,143.

Risk

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

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

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

- Long Term Fixed Income Investments – These investments must be investment grade or better at the time of purchase unless specific requirements are met, as defined by PA 314 of 1965 as amended and the State Treasurer's investment policy. Law defines investment grade as investments in the top four major grades, rated by two national rating services, S&P (AAA, AA, A, BBB) and Moody's (Aaa, Aa, A, Baa). At September 30, 2006, 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, 2006 and 2005

	2006				2005			
Investment Type	**Fair Value**	**S&P**	**Fair Value**	**Moody's**	**Fair Value**	**S&P**	**Fair Value**	**Moody's**
Short Term	$ 12,509	A-1	$ 14,745	P-1	$ 10,872	A-1	$ 11,910	P-1
	430	A-2	602	P-2	493	A-2	493	P-2
	3,267	NR	859	NR	2,397	NR	1,359	NR
US Agency - Sponsored								
	17,540	AAA	17,540	Aaa	15,651	AAA	15,651	Aaa
	455	NR	455	NR				
Corporate Bonds & Notes								
	3,355	AAA	3,441	Aaa	4,236	AAA	4,236	Aaa
	4,698	AA	6,334	Aa	5,770	AA	6,861	Aa
	8,513	A	5,657	A	10,198	A	8,945	A
	2,107	BBB	2,710	Baa	2,384	BBB	3,004	Baa
	34	BB	126	Ba	1,920	BB	849	Ba
	20	B	-	B				
	474	NR	933	NR	388	NR	1,002	NR
International *								
	2,001	AAA	1,748	Aaa	4,335	AAA	4,335	Aaa
	4,460	AA	7,120	Aa	4,966	AA	8,494	Aa
	5,878	A	2,813	A	10,384	A	6,704	A
	-	BB	-	Ba	504	BB	504	Ba
	-	NR	658	NR			151	NR
Equity*	295	AA	1,863	Aa	295	AA	590	Aa
	1,568	A	-		295	A	-	
Total	$ 67,604		$ 67,604		$ 75,088		$ 75,088	

NR - not rated

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

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 AA at September 30, 2006. As of September 30, 2006, and 2005, government securities with a market value of $143 thousand and $312 thousand respectively were exposed to custodial credit risk. These securities were held by the counterparty not in the name of the System.

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

Other than obligations issued, assumed or guaranteed by the United States, its agencies or United States government sponsored enterprises, the System is prohibited by P.A. 314 of 1965, as amended, from investing in more than 5% of the 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, 2006, and 2005 there were no investments in a single issuer that accounted for more than 5% of the System's assets nor were there any investments totaling more than 5% of the obligations of any one issuer, other than U.S. Government Securities as described above.

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

The State Treasurer's policy states that cash equivalents are invested in short term fixed income securities with an average weighted maturity of less than one year to provide liquidity and safety of principal from capital market and default risk. At September 30, 2006, and September 30, 2005, the fair value of the System's prime commercial paper was $16,206 thousand and $13,762 thousand with the weighted average maturity of 41 days and 38 days, respectively.

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

Notes to Basic Financial Statements (Continued)

Debt Securities
(in thousands)
As of September 30, 2006 and 2005

	2006		2005	
	Fair Value	Effective Duration in Years	Fair Value	Effective Duration in Years
Government				
U. S. Treasury	$ 3,385	3.1	$ 2,494	4.3
U. S. Agencies - Backed	7,360	5.7	7,103	5.3
U. S. Agencies - Sponsored	17,995	3.7	15,651	2.5
Corporate	19,200	4.4	24,896	4.1
International*				
U. S. Treasury	506	0.5	-	-
U. S. Agencies - Sponsored	252	0.1	252	0.1
Corporate	12,088	0.1	19,937	0.2
Equities*	1,863	0.6	590	0.2
Total	$ 62,649		$ 70,923	

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

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

The System invests in various securities denominated in foreign currencies. These investments are limited to 20% of the total assets of the System with an additional limit of 5% of the outstanding foreign securities of any single issuer. No investment is allowed in a country that has been identified by the United States State Department as engaging in or sponsoring terrorism. These limits are set forth in P.A. 314 of 1965, as amended. The types of foreign investments include equities, fixed income, mutual funds, real estate, and limited partnerships. At September 30, 2006, and September 30, 2005, the total amount of foreign investment subject to foreign currency risk were $17,143 thousand and $11,337 thousand which amounted to 5.7% and 4.0% of total investments (exclusive of cash collateral on loaned securities) of the System, respectively.

Notes to Basic Financial Statements (Continued)

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

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

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

Notes to Basic Financial Statements (Continued)

Foreign Currency Risk
(in thousands)
As of 9/30/2005

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

* Note: International derivatives market value exposure to foreign currency risk is the net amount of unrealized gains and unrealized losses. Maturity dates on these investments range from October 2005 through September 2008 with an average maturity of 1.5 years.

Notes to Basic Financial Statements (Continued)

NOTE 5 – ACCOUNTING CHANGES

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

The GASB has issued Statement No. 44, *Economic Condition Reporting: The Statistical Section*, which provides guidance on the tables and narrative explanations in the statistical section. The requirements of this statement are effective for fiscal periods beginning after June 15, 2005. This statement was adopted in fiscal year 2006 and is reflected in this report.

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

The GASB has issued Statement No. 47, *Accounting for Termination Benefits*, which provides guidance on how employers should account for benefits associated with either voluntary or involuntary termination. The requirements of the new statement become effective for fiscal periods beginning after June 15, 2005 (except for those provisions involving other postemployement benefits, which only take effect upon the implementation of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployement Benefits Other than Pensions).* It has been determined, upon review of GASB Statement No. 47, that the Statement has no effect on reporting for the System.

NOTE 6 - COMMITMENTS AND CONTINGENCIES

Ernst et al v. Murray et al

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

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

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

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

Notes to Basic Financial Statements (Continued)

Other

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

FINANCIAL SECTION

Required Supplementary Information

Schedule of Funding Progress

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

Retirement Benefits ($ in millions)

Valuation Date Sept 30	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded (Overfunded) Accrued Liability (UAAL) (b-a)	Funded Ratio AAL (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll ((b-a)/c)
1997	$ 271.5	$ 230.5	$ (41.0)	117.8 %	$ 49.0	(83.6) %
1998	288.7	236.5	(52.2)	122.0	48.9	(106.7)
1998 *	288.7	230.3	(58.4)	125.3	48.9	(119.4)
1999	320.9	243.5	(77.4)	131.8	49.6	(155.9)
2000	274.8	204.2	(70.6)	134.6	37.0	(190.7)
2001	291.0	224.7	(66.3)	129.5	42.5	(155.7)
2002	291.7	229.2	(62.5)	127.3	42.4	(147.3)
2003	292.3	235.2	(57.1)	124.3	38.9	(146.6)
2004 *	286.9	236.4	(50.5)	121.3	37.5	(134.6)
2005	278.4	243.4	(35.0)	114.4	34.9	(100.3)
2006	282.8	243.7	(39.1)	116.0	33.1	(118.1)

* Revised actuarial assumptions

Required Supplementary Information (Continued)

Schedule of Employer Contributions

Fiscal Year Ended Sept. 30		Annual Required Contribution (ARC)	Actual Contribution	Percentage Contributed
1997		$ 5,527,350	$ 5,673,583	102.6 %
1998		5,040,121	246,659	4.9
1999		4,673,433		0.0
1999	*	1,260,694	58,499	4.6
2000	**	(411,879)		0.0
2001	**	(955,186)		0.0
2002		(476,491)		0.0
2003		(135,812)		0.0
2004		(85,580)		0.0
2005	*	(441,948)	34,765	0.0
2006		607,883	607,883	100.0

* Revised actuarial assumptions.

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

Notes to Required Supplementary Information

NOTE A - DESCRIPTION

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

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

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

NOTE B - SUMMARY OF ACTUARIAL ASSUMPTIONS

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

Valuation Date	9/30/2006
Actuarial Cost Method	Entry Age, Normal
Amortization Method	Level Dollar, Closed
Remaining Amortization Period	30 years *
Asset Valuation Method	5-Year Smoothed Market
Actuarial Assumptions:	
Wage Inflation Rate	3.5%
Investment Rate of Return	8.0%
Projected Salary Increases	4.0%
Cost-of-Living Adjustments	Assumed 4% Compounded for those eligible

* 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 forty years for the fiscal periods beginning prior to June 15, 2006. After that date, the amortization period may not exceed 30 years.

Supporting Schedules

Comparative Summary Schedule of
Pension Plan Administrative Expenses
As of September 30, 2006 and 2005

	2006	2005
Personnel Services:		
Staff Salaries	$ 10,754	$ 10,143
Retirement and Social Security	2,945	2,781
Other Fringe Benefits	2,013	1,802
Total	15,712	14,726
Professional Services:		
Accounting	2,262	2,408
Actuarial	63,752	65,000
Attorney General	34,064	47,053
Audit	27,570	10,479
Consulting	2,914	7,179
Total	130,562	132,119
Building Equipment		
Building Rentals	1,071	867
Equipment Purchase, Maintenance, and Rentals	95	126
Total	1,166	993
Miscellaneous:		
Travel and Board Meetings	99	132
Office Supplies	125	137
Postage, Telephone and Other	5,665	7,745
Printing	2,207	1,591
Technological Support	14,487	10,550
Total	22,583	20,155
Total Administrative Expenses	$ 170,023	$ 167,993

Supporting Schedules (Continued)

Schedule of Investment Expenses

	2006	2005
Real Estate Operating Expenses	$ 3,471	$ 5,548
Securities Lending Expenses	1,098,867	412,813
Other Investment Expenses*		
ORS-Investment Expenses	57,581	56,199
Custody Fees	6,554	6,007
Management Fees-Real Estate	22,520	8,243
Management Fees-Alternative	224,982	218,522
Research Fees	6,373	6,087
Total Investment Expenses	$ 1,420,348	$ 713,419

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

Schedule of Payments to Consultants

	2006	2005
Independent Auditors	$ 27,570	$ 10,479
Consulting	2,914	7,179
Attorney General	34,064	47,053
Accounting	2,262	2,408
Actuary	63,752	65,000
Total Payment to Consultants	$ 130,562	$ 132,119

Supporting Schedules (Continued)

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

For the Year Ended September 30, 2006

	Employee Contributions	Employer Contributions	Retired Benefit Payments	Undistributed Investment Income	Health Related Benefits	Total
Additions:						
Member contributions	$ 2,017,943	-	-	-	$ 518,057	$ 2,536,000
Investment income (loss):						
Investment income (loss)	-	-	-	$ 34,731,708	-	34,731,708
Investment expenses:						
Real estate operating expenses	-	-	-	(3,471)	-	(3,471)
Other investment expenses	-	-	-	(318,010)	-	(318,010)
Securities lending activities:						
Securities lending income	-	-	-	1,141,140	-	1,141,140
Securities lending expenses	-	-	-	(1,098,867)	-	(1,098,867)
Net investment income (loss)	-	-	-	34,452,500	-	34,452,500
Court fees	-	$ 607,883	$ 45,704	-	215,000	868,587
Miscellaneous income	-	194	686	-	-	880
Total additions	2,017,943	608,077	46,390	34,452,500	733,057	37,857,967
Deductions:						
Benefits paid to plan members and beneficiaries:						
Retirement benefits	-	-	17,952,735	-	-	17,952,735
Health benefits	-	-	-	-	596,769	596,769
Administrative expenses	-	-	-	170,023	-	170,023
Total deductions	-	-	17,952,735	170,023	596,769	18,719,527
Net Increase (Decrease)	2,017,943	608,077	(17,906,345)	34,282,477	136,288	19,138,440
Other Changes in Net Assets:						
Interest allocation	3,148,083	2,228,116	10,631,300	(16,007,499)	-	-
Transfers upon retirement	(1,560,869)	(9,797,938)	11,358,807	-	-	-
Total other changes in net assets	1,587,214	(7,569,822)	21,990,107	(16,007,499)	-	-
Net Increase (Decrease) After Other Changes	3,605,157	(6,961,745)	4,083,762	18,274,978	136,288	19,138,440
Net Assets Held in Trust for Pension and Health Benefits:						
Beginning of Year	41,351,109	27,851,448	132,891,255	82,111,582	(129,606)	284,075,788
End of Year	$ 44,956,266	$ 20,889,703	$ 136,975,017	$ 100,386,560	$ 6,682	$ 303,214,228

Supporting Schedules (Continued)

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

For the Year Ended September 30, 2005

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

INVESTMENT SECTION

Prepared by Michigan Department of Treasury, Bureau of Investments

Jacqueline M. Johnson, CFA, Director

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

INVESTMENT SECTION

Report on Investment Activity

INTRODUCTION

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

The Investment Advisory Committee was created by Act 380 of the Public Acts of 1965. The three public members of the five-member committee are appointed by the Governor with the advice and consent of the Senate for three-year terms. The Director of the Department of Labor and Economic Growth and the Director of the Department of Management and Budget are ex-officio members. In fiscal 2006, members of the Committee were as follows: David G. Sowerby, CFA (public member), Robert E. Swaney, CFA (public member), Marina v.N. Whitman (public member), Robert W. Swanson (ex-officio member), and Lisa Webb Sharpe (ex-officio member). The public members serve without pay, but may be paid actual and necessary travel and other expenses.

INVESTMENT POLICY & GOALS

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

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

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

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

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

Report on Investment Activity (Continued)

Asset Allocation
(Excludes Collateral on Loaned Securities)

Investment Category	As of 9/30/06 Actual %		Five-Year Target %
Domestic Equity - Active	28.9%		26.0%
Large Cap Value Pool		12.8%	
Large Cap Growth Pool		13.0%	
Mid Cap Pool		2.1%	
Small Cap Pool		1.0%	
Domestic Equity - Passive	19.5%		19.0%
S&P 500 Index Pool		16.5%	
S&P MidCap Index Pool		2.2%	
Tactical Asset Allocation Pool		0.6%	
S&P Small Cap Index Pool		0.2%	
International Equity	11.6%		10.0%
International Equity Pool - Passive		9.7%	
International Equity Pool - Active		1.9%	
Alternative Investments Pool	9.8%		9.5%
Real Estate Pool	11.5%		12.0%
Fixed Income	17.1%		20.5%
Government Bond Pool		8.9%	
Corporate Bond Pools		6.2%	
Fixed Income Bond Pools		2.0%	
Short Term Investment Pool	1.6%		3.0%
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, 2006, the total System's rate of return was 12.5% as compiled by State Street Analytics. Annualized rates of return for the three-year period ending September 30, 2006, were 12.1%; for the five-year period were 7.8%; and for the ten-year period were 8.7%.

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

Report on Investment Activity (Continued)

Investment results were once again driven by double-digit returns from every major asset class except fixed income and short-term investments. Equity performance was strong much of the year in spite of soaring commodity and energy prices. Reversing a multi-year trend, the stocks of larger companies (S&P 500) outperformed those of mid-cap (S&P 400) and small cap (S&P 600), while non-U.S. markets performed better than U.S. indices. Residential housing experienced a meaningful slowdown during the year due to higher interest rates and stricter lending regulations. Alternative Investments continued to reap the benefits of a number of investments made in prior years as well as favorable markets for monetization of gains. Robust commercial real estate markets allowed the Real Estate pool to experience gains from both sales and appraisals of property. Bond markets struggled with the fear of higher inflation and a Federal Reserve intent on controlling inflation with higher short-term rates. Returns for the short-term pool climbed throughout the year to more than 4.5%.

For the fiscal year, the Dow Jones Industrial Average provided a total return of 13.3%, while the broader based S&P 500 returned 10.8%. The Lehman Brothers U.S. Government/Credit Bond Index appreciated 3.3%.

The U.S. economy grew at a rate of 3.1% in fiscal year 2006 as measured by real gross domestic product. The December quarter was negatively affected by the impact of last year's hurricane season, but growth came roaring back in the March quarter. The second half of the year settled back to more normal, sustainable growth levels. Corporate earnings remained strong, led by robust profits from energy companies. Strong demand sent commodity and energy prices climbing during most of the year, with oil coming close to $80 per barrel in August before selling off sharply to nearly $60 by the end of the year. Inflation, as measured by the consumer price index, increased 3.7%.

Federal Reserve Chairman Alan Greenspan retired after nineteen years at the helm and Ben Bernanke was appointed his successor on February 1, 2006. The Federal Reserve continued to raise short-term rates by 25 basis points at each of its first six meetings in the fiscal year, but left rates unchanged at 5.25% in both August and September after seventeen consecutive rate hikes.

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

Large Cap Value Pool

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

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

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

Report on Investment Activity (Continued)

The following summarizes the weightings of the pool as of September 30, 2006:

Financials	38.1 %
Industrials	13.7
Technology	10.0
Consumer Discretionary	8.6
Energy	8.5
Utilities	8.3
Materials	4.3
Other	3.5
Healthcare	2.7
Consumer Staples	2.3
Total	**100.0 %**

The System's Large Cap Value pool achieved a total rate of return of 15.8% for fiscal 2006. This compared with 14.0% for the S&P 500 Citigroup Value Index.

At the close of fiscal year 2006, the Large Cap Value pool represented 12.8% of total investments. This compares to 15.0% for fiscal year 2005. The following summarizes the System's 0.5% ownership share of the Large Cap Value pool at September 30, 2006:

Large Cap Value Pool
(in thousands)

Short Term Pooled Investments	$	1,313
Equities		37,633
Settlement Principal Payable		(36)
Settlement Proceeds Receivable		22
Accrued dividends		45
Total	**$**	**38,977**

Large Cap Growth Pool

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

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

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

Report on Investment Activity (Continued)

Citigroup Growth Index. The following summarizes the weightings of various sectors in the pool as of September 30, 2006:

Technology	22.4 %
Healthcare	20.3
Consumer Discretionary	12.5
Consumer Staples	12.1
Financials	11.1
Energy	10.7
Industrials	8.7
Other	1.0
Utilities	0.7
Materials	0.5
Total	**100.0 %**

The Large Cap Growth pool's total rate of return was 7.2% for the fiscal year versus 7.4% for the S&P 500 Citigroup Growth Index.

At the close of fiscal year 2006, the Large Cap Growth pool represented 13.0% of total investments. This compares to 15.5% for fiscal year 2005. The following summarizes the System's 0.5% ownership share of the Large Cap Growth pool at September 30, 2006:

Large Cap Growth Pool
(in thousands)

Short Term Pooled Investments	$	380
Equities		38,925
Settlement Principal Payable		(45)
Accrued dividends		29
Total	**$**	**39,289**

Mid Cap Pool

Five Mid Cap managers were selected in December 2005, and added to the four managers selected in May 2005. The new managers began managing assets for the System in December 2005 and they were funded out of the Large Cap Value and Growth pools. The investment objective of the Mid Cap manager pool is to generate a rate of return from investment in common stocks and equivalents that exceeds the S&P 400 Mid Cap Index.

The Mid Cap pool return for the fiscal year was 7.1% versus the benchmark's 6.6%.

At the close of fiscal year 2006, the Mid Cap pool represented 2.1% of total investments. This compares to 0.9% for fiscal year 2005.

Report on Investment Activity (Continued)

The following summarizes the System's ownership share and composition of the Mid Cap pool at September 30, 2006:

Mid Cap Value and Core Pools
(in thousands)

	Artisan Midcap Value	Cramer Rosenthal McGlynn Midcap Value	Los Angeles Capital Midcap Core	Wellington Management Midcap Core
Total Investment	$ 1,064	$ 995	$ 644	$ 961
Ownership Percentage	0.6%	0.6%	0.6%	0.6%

Mid Cap Growth Pools
(in thousands)

	Alliance Midcap Growth	Putnam Midcap Growth	Rainer Midcap Growth	UBS Midcap Growth	Wellington Midcap Growth
Total Investment	$ 675	$ 279	$ 592	$ 584	$ 607
Ownership Percentage	0.6%	0.6%	0.6%	0.6%	0.6%

Small Cap Pool

The primary investment objective is to generate a rate of return from investment in common stocks and equivalents that exceeds the S&P 600 Small Cap Index.

The System's Small Cap pool is invested with two Growth managers and three Value managers.

The Small Cap pool return for the fiscal year was 8.1% versus the benchmark's 7.2%.

At the close of fiscal year 2006, the Small Cap pool represented 1.0% of total investments. This compares to 0.8% for fiscal year 2005. The following summarizes the System's ownership share and composition of the Small Cap Pool at September 30, 2006:

Small Cap Pool
(in thousands)

	Delaware Growth	Putnam Growth	Putnam Value	Northpointe Value	Fisher Value
Total Investment	$ 938	$ 585	$ 501	$ 480	$ 537
Ownership Percentage	0.6%	0.6%	0.6%	0.6%	0.5%

Report on Investment Activity (Continued)

S&P 500 Index Pool

The objective of the enhanced S&P 500 Index pool is to closely match the return performance of its benchmark, the S&P 500 Index, and to use low risk strategies to offset transaction costs and add to performance when possible. The pool generally holds all 500 stocks that make up the Standard & Poor's 500 Index in proportion to their weighting in the index. The following summarizes the sector weightings of the pool as of September 30, 2006:

Financials	22.3 %
Information Technology	15.3
Healthcare	12.7
Industrials	10.9
Consumer Discretionary	10.1
Consumer Staples	9.6
Energy	9.3
Telecomm. Services	3.5
Utilities	3.4
Materials	2.9
Total	**100.0 %**

The S&P 500 Index pool return for the fiscal year was 10.8% versus the benchmark's 10.8%.

At the close of fiscal year 2006, the S&P 500 Index pool represented 16.5% of total investments. This compares to 13.4% for fiscal year 2005. The following summarizes the System's 0.6% ownership share of the S&P 500 Index pool at September 30, 2006:

S&P 500 Index Pool
(in thousands)

Short Term Pooled Investments	$ 218
Equities	49,915
Settlement Proceeds Receivable	3
Settlement Principal Payable	(12)
Accrued dividends	54
Total	**$ 50,178**

S&P MidCap Index Pool

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

The S&P MidCap Index pool return for the fiscal year was 6.9% versus its benchmark's 6.6%.

At the close of fiscal year 2006, the S&P MidCap Index pool represented 2.2% of total investments. This compares to 2.1% for fiscal year 2005.

Report on Investment Activity (Continued)

The following summarizes the System's 0.6% ownership share of the S&P MidCap Index pool at September 30, 2006:

S&P MidCap Index Pool
(in thousands)

Short Term Pooled Investments	$	54
Equities		6,485
Settlement Proceeds Receivable		12
Settlement Principal Payable		(19)
Accrued dividends		5
Total	**$**	**6,537**

S&P Small Cap Index Pool

The objective of the S&P Small Cap Index pool is to match the return of its benchmark, the S&P 600 Small Cap Index. The S&P Small Cap Index pool return for the fiscal year was 7.5% versus the benchmark's 7.2%.

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

At the close of fiscal year 2006, the S&P Small Cap Index pool represented 0.2% of total investments. This compares to 0.3% for fiscal year 2005. The following summarizes the System's 0.6% ownership share of the S&P Small Cap Index pool at September 30, 2006:

S&P Small Cap Index Pool
(in thousands)

Short Term Pooled Investments	$	5
Equities		146
Fixed Income Securities		295
Market Value of Equity Contracts		60
Accrued dividends and interest		1
Total	**$**	**507**

International Equity Pool - Passive

The objective of the International Equity Pool - Passive is to match the return performance of the S&P/Citigroup Broad Market Index (BMI) Europe and Pacific Composite (EPAC) adjusted for net dividends. Fifty percent of the benchmark is hedged to the U.S. Dollar and the other half is impacted by foreign currency exchange rate changes. The total passive international return for the fiscal year was 17.5% compared to the Citigroup BMI-EPAC return of 18.5%.

Core passive exposure to international equity returns is achieved primarily by investing in a combination of fixed income LIBOR notes, short-term fixed income investments, and equity swap agreements on foreign stock indices in developed markets. Interest on the dedicated notes and short-term fixed income investments is exchanged for

Report on Investment Activity (Continued)

international stock returns, and the total notional amount of the swap agreements is invested in the approximate proportions of the S&P/Citigroup Broad Market Index (BMI) Europe and Pacific Composite (EPAC) country weightings in related indices. Use of swap agreements for a core position began in 1993, an American Depository Receipts (ADR) and index-related security portfolio was added in June of 1999 to increase portfolio management flexibility, and a country fund portfolio with targeted capitalization was added in September of 2002 to improve exposure to the smallest companies in the BMI index.

The combination of notes, dedicated short-term investments and equity swap agreements was valued at $25.0 million on September 30, 2006. That valuation included a net unrealized gain of $6.9 million on equity index exposures and an unrealized gain of $13 thousand on LIBOR note investments held. The combined Swap agreements, notes and short-term investments together continue to perform like a stock index fund that realizes all gains and losses on a rolling three year basis. During fiscal year 2006, $3.7 million of gains on equity exposures were realized, $237 thousand of interest in excess of obligations on completed swaps was recognized, and $3 thousand of losses on LIBOR notes were realized.

At the close of fiscal year 2006, the International Equity – Passive pool represented 9.7% of total investments. This compares to 10.5% for fiscal year 2005. The following summarizes the System's 0.5% ownership share of the International Equity Pool - Passive at September 30, 2006:

International Equity Pool - Passive
(in thousands)

Short Term Pooled Investments	$	5,798
Equities		3,826
Fixed Income Securities		12,834
Market Value of Equity Contracts		6,773
Accrued dividends and interest		103
Total	**$**	**29,334**

International Equity Pool - Active

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

In fiscal year 2005, the System invested in AllianceBernstein International Style Blend, a mix of Large Cap Growth and Value, and in fiscal year 2006 achieved a total rate of return of 19.8% vs. Citigroup Broad Market Index World ex. U.S. of 19.3%. During fiscal year 2006, investments were made in the following funds: The Wellington Trust Company International Research Equity Fund, which for a nine month period achieved a total rate of return of 15.4% and the State Street Global Asset International Alpha Select Pool which achieved a total rate of return of 17.0%. For the same nine month period the benchmark S&P Citigroup Broad Market Index World ex. U.S. achieved a return of 13.9%.

At the close of fiscal year 2006, the International Equity - Active pool represented 1.9% of total investments. This compares to 0.6% for fiscal year 2005.

Report on Investment Activity (Continued)

The following summarizes the System's ownership share and composition of the pool at September 30, 2006:

International Equity Pool - Active
(in thousands)

	AllianceBernstein International	Wellington International	SSGA International
Total Investment	$ 1,984	$ 1,680	$ 2,040
Ownership Percentage	0.6%	0.6%	0.6%

Alternative Investments Pool

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

Alternative Investments are investments in the private equity market, primarily through limited partnerships. The following summarizes the weightings of the pool as of September 30, 2006:

Buyout Funds	56.5 %
Special Situation Funds	13.1
Venture Capital Funds	11.8
Fund of Funds	11.3
Mezzanine Funds	4.1
Hedge Funds	1.8
Short Term Investments	1.4
Total	**100.0 %**

The Alternative Investments pool had a return of 26.3% for the fiscal year ended September 30, 2006, versus the S&P 500 Index plus 300 basis points of 13.9%.

Credit Suisse Asset Management (CSAM) managed the stock distributions of the Alternative Investments. The CSAM return for the fiscal year ending September 30, 2006, was (19.8%).

At the close of fiscal year 2006, the Alternative Investments pool represented 9.8% of total investments and Credit Suisse Asset Management represented 0.01% of total investments. This compares to 8.2% for Alternative and 0.1% for CSAM for fiscal year 2005.

Report on Investment Activity (Continued)

The following summarizes the System's ownership share and composition of the Alternative Investments pool and Credit Suisse Asset Management at September 30, 2006:

Alternative Investments Pool
(in thousands)

	Alternative	CSAM
Short Term Pooled Investments	$ 405	$ -
Equities	29,403	4
Settlement Proceeds Receivable	-	22
Total	**$ 29,808**	**$ 26**
Ownership Percentage	0.4%	0.5%

Real Estate Pool

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

The Real Estate pool diversifies its holdings by:

- Geographic region - The pool is broadly diversified geographically. Emphasis is placed upon U.S. real estate investments, but may also include foreign real estate investments that are not expected to exceed ten percent of the value of the pool.
- Property (size and value) - The pool diversifies its holdings so that it is not concentrated in a few large real estate assets.
- Property type - The pool is diversified by type of property as summarized in the table below.

Multi-family apartments	24.5 %
Commercial office buildings	22.1
Hotels	15.1
Retail shopping centers	15.1
Industrial warehouse buildings	9.8
Senior Living	4.2
Short Term Investments	3.6
Land	2.9
For Sale Housing	2.7
Total	**100.0 %**

The Real Estate pool generated a return of 18.9% for fiscal year 2006, while the benchmark return was 16.3%. The benchmark is the National Council of Real Estate Investment Fiduciaries Property Index less 130 basis points. The Real

Report on Investment Activity (Continued)

Estate pool benefited from a robust real estate market. During the year the pool had strong appreciation and also realized strong gains on asset sales.

At the close of fiscal year 2006, the Real Estate pool represented 11.5% of total investments. This compares to 11.2% for fiscal year 2005. The following summarizes the System's 0.8% ownership share of the Real Estate pool at September 30, 2006:

Real Estate Pool
(in thousands)

Short Term Pooled Investments	$	1,245
Equities		33,560
Total	**$**	**34,805**

Government Bond Pool

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

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

For the fiscal year ending September 30, 2006, the Government Bond pool returned 4.3% which compared favorably to the Lehman Brothers Government Index of 3.3%.

Rates continued to be volatile during the year. Ten-year treasuries started the year at 4.32%, rose to 5.25%, then declined and ended at 4.63%. The yield curve shifted upward and continued to flatten from five to thirty years. From three months to three years the curve inverted.

The following summarizes the security type breakdown of the pool as of September 30, 2006:

U.S. Agency	61.8 %
GNMA	18.2
U.S. Guaranteed	8.7
U.S. Treasury	4.9
TIPS	4.3
Short Term Investments/Accruals	2.1
Total	**100.0 %**

At the close of fiscal year 2006, the Government Bond pool represented 8.9% of total investments. This compares to 9.0% for fiscal year 2005.

Report on Investment Activity (Continued)

The following summarizes the System's 0.6% ownership share of the Government Bond pool at September 30, 2006:

Government Bond Pool
(in thousands)

Short Term Pooled Investments	$	335
Fixed Income Securities		26,558
Accrued interest		239
Total	**$**	**27,132**

Corporate Bond Pool

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

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

For the fiscal year ending September 30, 2006, the Corporate Bond pool returned 3.6% compared to the Lehman Brothers Credit Index of 3.4%. The pool's performance improved as the year progressed due to the decline in rates later in the year.

The following summarizes the security type breakdown of the pool as of September 30, 2006:

Financials	29.4 %
Short Term Investments/Accruals	15.6
Health Care	12.3
Industrials	10.3
Consumer Discretionary	9.0
Consumer Staples	8.8
Utilities	5.1
Other	4.9
Materials	2.6
Information Technology	2.0
Total	**100.0 %**

At the close of fiscal year 2006, the Corporate Bond pool represented 6.2% of total investments. This compares to 9.1% for fiscal year 2005.

Report on Investment Activity (Continued)

The following summarizes the System's 0.6% ownership share of the Corporate Bond pool at September 30, 2006:

Corporate Bond Pool
(in thousands)

Short Term Pooled Investments	$	2,760
Fixed Income Securities		15,958
Accrued interest		184
Total	**$**	**18,902**

Fixed Income Core Pools

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

The System hired Delaware Investments, Dodge & Cox, Dupont Capital Management, Fidelity Management Trust, and Metropolitan West Asset Management.

The Fixed Income Core pools combined rate of return from inception to fiscal year end was 3.6%.

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

Fixed Income Core Pools
(in thousands)

	Delaware Fixed Income Core	Dodge & Cox Fixed Income Core	Dupont Fixed Income Core	Fidelity Fixed Income Core	Metro West Fixed Income Core
Total Investment	$ 593	$ 590	$ 296	$ 893	$ 594
Ownership Percentage	0.6%	0.6%	0.6%	0.6%	0.6%

Corporate Fixed Income Manager Pools

Four Corporate Fixed Income managers were selected in fiscal year 2006, and they began managing assets for the System beginning September 15, 2006. Their investment objective is to generate a rate of return exceeding the Lehman Credit Index net of fees.

The System hired Alliance Bernstein, Prudential Financial, Western Asset, and Taplin, Canida & Habacht.

The Corporate Fixed Income Manager pools combined rate of return from inception to fiscal year end was 0.7%.

Report on Investment Activity (Continued)

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

Corporate Fixed Income Manager Pools
(in thousands)

	Alliance Bernstein Corporate	Prudential Financial Corporate	Western Asset Corporate	Taplin, Canida & Habacht Corporate
Total Investment	$ 584	$ 1,025	$ 585	$ 727
Ownership Percentage	0.6%	0.6%	0.6%	0.6%

Short Term Investment Pool

The objective of the Short Term Investment pool is to closely match the return performance of its benchmark, the 30 day Treasury bill. The Short Term Investment pool return for the fiscal year was 4.7% versus the benchmark's 4.4%.

Potential areas of investment are:

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

As of September 30, 2006, the Short Term Investment pool was 100% invested in commercial paper because of its advantages in yield and flexibility in maturities.

At the close of fiscal year 2006, the Short Term Investment pool represented 1.6% of total investments. This compares to 3.3% for fiscal year 2005. The System's ownership share of the Short Term Investment pool at September 30, 2006 was $4,797,442 composed of fixed income securities and equity in common cash.

Tactical Asset Allocation Pool

A Tactical Asset Allocation (TAA) Pool was established in June 2006 to allow the System more flexibility in achieving its investment goals. The TAA can be used to capitalize on shorter-term windows of investment opportunities without disturbing the return/risk profiles of the longer-term strategies of the underlying investment pools.

The Tactical Asset Allocation pool return from inception to fiscal year end was 7.5%.

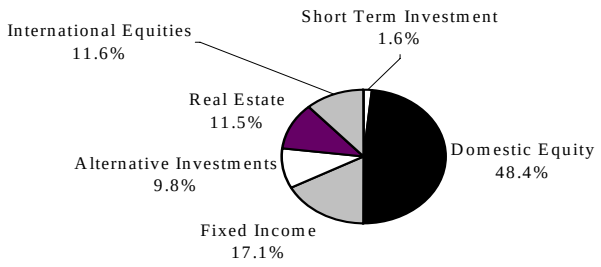
Report on Investment Activity (Continued)

At the close of fiscal year 2006, the Tactical Asset Allocation pool represented 0.6% of total investments. The following summarizes the System's 0.5% ownership share of the Tactical Asset Allocation pool at September 30, 2006:

Tactical Asset Allocation Pool
(in thousands)

Net Equities	$	181
Fixed Income Securities		1,568
Total	**$**	**1,749**

ASSET ALLOCATION – SECURITY TYPE ONLY



INVESTMENT SECTION

Investment Results for the Period Ending September 30, 2006

Investment Category	Current Year	Annualized Rate of Return[1] 3 Years	5 Years	10 Years
Total Portfolio	12.5 %	12.1 %	7.8 %	8.7 %
Total Domestic Equity	10.8	12.0	7.5	9.0
S&P 1500 Index	10.3	12.8	7.7	9.0
Large Cap Value Pool	15.8	15.9		
Large Cap Growth Pool	7.2	7.5		
Mid Cap Pool	7.1			
Small Cap Pool	8.1	12.4		
S&P 500 Index Pool	10.8	12.3		
S&P MidCap Index Pool	6.9	15.4		
S&P Small Cap Index Pool	7.5	17.5		
International Equity Pool - Passive	17.5	21.3	12.8	8.2
S&P Citigroup BMI - EPAC 50/50	18.5	22.3	13.4	7.8
International Equity Pool - Active	19.8			
Alternative Investments Pool	26.3	23.6	9.7	12.0
S&P 500 Index plus 300 Basis Points	13.9	15.4	10.3	12.1
Credit Suisse Asset Management (Stock Distributions)	(19.8)	(8.2)		
Real Estate Pool	18.9	13.7	11.1	11.3
NCREIF Property Blended Index[2]	16.3	15.4	11.6	11.7
Total Fixed Income	4.0	3.4	4.6	6.2
Lehman Brothers Government/Credit	3.3	3.1	5.0	6.5
Government Bond Pool	4.3	3.6		
Corporate Bond Pool	3.6	3.3		
Short Term Investment Pool	4.7	2.7	2.3	4.1
30 Day Treasury Bill	4.4	2.6	2.2	3.5

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

2 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

Largest Stock Holdings (By Market Value)[1]
September 30, 2006

Rank	Shares	Stocks	Market Value
1	67,476	Exxon Mobil Corporation	$ 4,527,660
2	110,022	General Electric Corporation	3,883,771
3	68,060	Citigroup Incorporated	3,380,527
4	54,863	Bank of America Corporation	2,939,011
5	96,622	Microsoft Corporation	2,640,682
6	89,412	Pfizer Incorporated	2,535,731
7	34,005	American International Group	2,253,195
8	34,530	Procter and Gamble Corporation	2,140,187
9	32,528	Johnson and Johnson	2,112,346
10	44,768	JP Morgan Chase & Co	2,102,306

Largest Bond Holdings (By Market Value)[1]
September 30, 2006

Rank	Par Amount	Description	Market Value
1	$ 1,627,610	Canadian Imperial Bank 0% Coupon Due 6-14-2007	$ 1,567,811
2	1,328,667	U.S. Treasury Strip 0% Coupon Due 11-15-2011	1,320,575
3	1,112,100	Treasury Inflation Index Due 7-15-14	1,175,928
4	1,042,345	US Bank NA 5.37% FRN Due 4-5-2007	1,043,272
5	1,012,616	Bank Novia Scotia 5.38188% FRN Due 10-12-2007	1,012,654
6	809,011	Wells Fargo & Company 5.42375% FRN Due 9-28-2007	809,769
7	809,011	Canadian Imperial Bank 5.42% FRN Due 1-5-2007	809,021
8	759,462	Household Finance Corporation 5.47375% FRN Due 10-22-2007	761,451
9	658,200	Citigroup Global Markets 5.555% FRN Due 1-30-2007	658,472
10	556,939	JP Morgan Chase & Co 5.50% FRN Due 1-5-2007	557,251

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

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

Schedule of Investment Fees

The State Treasurer is the investment fiduciary and custodian of the System's funds pursuant to State law. Outside advisors are utilized to augment the State Treasurer's internal staff. Only 26.1% 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 $58 thousand or two and six tenths basis points (.026%) of the market value of the Assets under Management by the State Treasurer.

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

Schedule of Investment Fees

Investment Managers' Fees:

	Assets under Management (in thousands)	Fees (in thousands)	Basis Points *
State Treasurer	$ 224,074	$ 58	2.6
Outside Advisors for			
Fixed Income	5,888	1	2.1
Mid Cap Equity	6,401	25	38.3
Small Cap Equity	3,041	20	67.1
International Equity	9,350	16	16.9
Alternative	29,410	223	75.8
Real Estate	24,913	23	9.0
Total	$ 303,077	$ 366	211.8

Other Investment Services Fees:

* Outside Advisors Fees are netted against the income for Fixed Income, Small Cap Equity, Mid Cap Equity, and International Equity. For Alternative partnership agreements that define the management fees, the asset management fees range from 150 to 250 basis points of the committed capital. For Real Estate, the asset management fees range from 50 to 150 basis points. Alternative and Real Estate fees, in most cases, are included in the net income of the partnership and are not reflected in the Schedule of Fees.

Schedule of Investment Commissions

	Fiscal Year Ended September 30, 2006						
	Actual Commissions Paid [1]	Actual Number of Shares Traded [1]	Average Commission Rate Per Share	Estimated Trade Costs Per Share	Estimated Research Costs Per Share	Estimated Trade Costs	Estimated Research Costs
Investment Brokerage Firms:							
ADP Clearing & Outsourcing Services, Inc	$ 3	61	$ 0.05	$ 0.02	$ 0.03	$ 1	$ 2
Baird, Robert W., Company Inc	7	135	0.05	0.03	0.02	4	3
Banc/America Secur.LLC Montgomey Div	439	13,114	0.03	0.01	0.02	131	308
Bear Stearns & Co Inc	6,916	287,179	0.02	0.01	0.01	2,872	4,044
Bridge Trading	1,236	34,114	0.04	0.02	0.02	682	554
Broadcort Capital	420	12,974	0.03	0.02	0.01	259	160
BNY Brokerage Inc	6	128	0.05	0.03	0.02	4	3
B-Trade Services LLC	12	616	0.02	0.01	0.01	6	6
Cantor Fitzgerald & Co	2,120	70,184	0.03	0.01	0.02	702	1,418
CIBC World Markets Corp	93	1,862	0.05	0.02	0.03	37	56
Citigroup Global Markets Inc	8,921	299,896	0.03	0.01	0.02	2,999	5,922
Credit Suisse First Boston Corporation	2,789	86,889	0.03	0.01	0.02	869	1,920
Deutsche Bank Securities Inc	1,251	35,956	0.03	0.01	0.02	360	891
Friedman Billings Ramsey	9	177	0.05	0.03	0.02	5	4
Fulcrum Global Partners	30	604	0.05	0.03	0.02	18	12
Goldman Sachs	4,444	148,219	0.03	0.01	0.02	1,482	2,962
Griswold Company	2,311	117,068	0.02	0.01	0.01	1,171	1,140
Howard Weil Division Legg Mason	149	3,736	0.04	0.02	0.02	75	75
Investment Technology Group Inc	65	3,227	0.02	0.01	0.01	32	32
Instinet	19	962	0.02	0.01	0.01	10	10
ISI Group Inc	1,416	37,978	0.04	0.02	0.02	760	656
Janney Montgomery, Scott Inc	2	40	0.05	0.03	0.02	1	1
J P Morgan Securities Inc	2,743	74,930	0.04	0.02	0.02	1,499	1,244
Jefferies Company Inc	28	678	0.04	0.02	0.02	14	15
Labranche Financial (MARA)	6	280	0.02	0.01	0.01	3	3
Leerink Swann & Co	502	13,118	0.04	0.02	0.02	262	239
Lehman Brothers Inc	6,278	195,416	0.03	0.01	0.02	1,954	4,324
Liquidnet Inc	35	1,744	0.02	0.01	0.01	17	17
Merrill Lynch, Pierce, Fenner & Smith, Inc	3,983	124,146	0.03	0.01	0.02	1,241	2,741
Midwest Research Securities	35	691	0.05	0.02	0.03	14	21
Mischler Financial Group, Inc	212	5,713	0.04	0.02	0.02	114	98
Morgan Keegean Co Inc	10	205	0.05	0.02	0.03	4	6
Morgan Stanley Co Inc	5,469	168,390	0.03	0.01	0.02	1,684	3,785
OTA Research	862	24,017	0.04	0.02	0.02	480	382
Pershing LLC	3	149	0.02	0.01	0.01	1	1
Prudential Equity Group	3,311	100,935	0.03	0.01	0.02	1,009	2,301
Raymond James and Associates Inc	41	1,036	0.04	0.02	0.02	21	21
SG Americas Securities LLC	55	1,162	0.05	0.03	0.02	35	20
S.G. Cowen & Co., LLC	1,680	48,126	0.03	0.01	0.02	481	1,199
Sanford Bernstein Co LLC	2,029	62,588	0.03	0.01	0.02	626	1,403
Stifel Nicolaus & Co Inc	41	827	0.05	0.03	0.02	25	17
Suntrust Capital Markets Inc	14	401	0.03	0.02	0.01	8	6
Thomas Weisel Partners	50	1,109	0.04	0.02	0.02	22	28
US Bancorp Piper Jaffray Inc	5	93	0.05	0.03	0.02	3	2
UBS Securities LLC	4,524	147,732	0.03	0.01	0.02	1,477	3,046
Wachovia Capital Markets, LLC	20	493	0.04	0.02	0.02	10	10
Wayne Company	188	4,688	0.04	0.02	0.02	94	94
Weeden & Co	13	267	0.05	0.03	0.02	8	5
WR Hambrecht & Co	-	9	0.05	0.03	0.02	-	-
Total	$ 64,795	2,134,062	$ 0.03 [2]	$ 0.02	$ 0.01	$ 23,586	$ 41,207

[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 commission per share for all brokerage firms.

Investment Summary

Fiscal Year Ended September 30, 2006

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

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

Investment Summary (Continued)

Fiscal Year Ended September 30, 2005

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

(a) Market value excludes $16,973,727 in cash collateral for security lending for fiscal year 2005.
(b) Total Investment & Interest Income excludes net security lending income of $22,999.

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ACTUARIAL SECTION

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

ACTUARIAL SECTION

Actuary's Certification

GRS Gabriel Roeder Smith & Company
Consultants & Actuaries
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www.gabrielroeder.com

November 30, 2006

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

Ladies and Gentlemen:

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

Actuarial valuations are prepared annually to determine MJRS's actuarial liabilities and the employer contributions required to fund the System in accordance with the actuarial reserve funding provisions of the governing State Statute. The most recent actuarial valuation as of September 30, 2006 included a total of 840 members of MJRS. The actuarial value of MJRS's assets amounted to approximately $283 million on September 30, 2006.

The actuarial assumptions used in the 2006 valuation are the same as those used in 2005 which reflect the results and recommendations of the 1997-2002 actuarial experience investigation. These assumptions produce valuation results which we consider to be reasonably indicative of the plan's underlying cost. Also, in our opinion, the actuarial assumptions and methods used for funding purposes meet the parameters for the disclosures presented in the financial section under GASB Statement No. 25.

Our actuarial valuation of MJRS as of September 30, 2006 was performed by qualified actuaries in accordance with accepted actuarial procedures. In our opinion, the calculated contribution meets the fundamental objectives of State law. Based on the 2006 valuation results, it is also our opinion that the Michigan Judges Retirement System continues in sound condition, in accordance with actuarial principles of level cost financing.

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

Sincerely,

Alan E. Sonnanstine

Alan E. Sonnanstine, ASA, MAAA

Mark H. Buis

Mark H. Buis, FSA, MAAA
AES/MHB:dm

Summary of Actuarial Assumptions and Methods

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

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

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

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

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

6. An individual entry age actuarial cost method of valuation was used in determining age and service allowance actuarial liabilities and normal cost. Unfunded actuarial accrued liabilities, including actuarial gains and losses, are financed over a period of 50 years and over a declining 40 year period for years beginning October 1, 1986. Adopted 1986.

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

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

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

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

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

Summary of Actuarial Assumptions and Methods (Continued)

SCHEDULE 1

Percent of Eligible Active Members Retiring Within Next Year

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

SCHEDULE 2

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

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

Actuarial Valuation Data

Schedule of Active Member Valuation Data

Valuation Date Sept. 30	Inactive Members Number	Active Members Number	Active Reported Annual Payroll*	Active Average Annual Pay	Active % Increase	Active Average Age	Active Average Service
1997	25	609	$ 49,000,856	$ 80,461	(0.5) %	52.8	11.4
1998	24	600	48,865,572	81,443	1.2	53.6	12.2
1999	22	573	49,626,160	86,608	6.3	54.8	13.5
2000	17	399	37,022,723	92,789	7.1	54.0	11.0
2001	15	380	42,543,811	111,957	20.7	54.4	11.7
2002	16	367	42,441,201	115,644	3.3	55.3	12.4
2003	13	337	38,900,163	115,431	(0.2)	55.4	13.2
2004	11	325	37,453,179	115,241	(0.2)	56.1	13.6
2005	18	302	34,935,846	115,682	0.4	57.0	14.8
2006	16	291	33,066,573	113,631	(1.8)	57.8	15.9

* 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
1997	40	$ 1,663,656	9	$ 359,441	512	$ 14,203,613	10.1%	$ 27,741
1998	26	696,745	24	556,833	514	14,343,525	1.0	27,906
1999	35	1,182,957	18	514,936	531	15,011,546	4.7	28,270
2000	16	656,659	12	449,123	535	15,219,082	1.4	28,447
2001	30	1,027,902	19	399,313	546	16,027,671	5.3	29,355
2002	8	310,381	19	659,722	535	15,678,330	(2.2)	29,305
2003	27	1,099,372	11	520,658	551	17,144,956	9.4	31,116
2004	13	836,992	15	562,582	549	17,572,770	2.5	32,009
2005	16	816,849	13	387,731	552	18,001,888	2.4	32,612
2006	19	827,419	38	877,683	533	17,951,624	(0.3)	33,680

* Restated based on more complete information.

ACTUARIAL SECTION

Prioritized Solvency Test

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

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

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

($ in thousands)

Valuation Date Sept. 30	Actuarial Accrued Liability (1) Active Member Contributions	(2) Retirants and Beneficiaries	(3) Active and Inactive Members (Employer Financed Portion)	Valuation Assets	Portion of Present Value Covered by Assets (1)	(2)	(3)	(4) [1]
1997	$ 39,637	$ 118,717	$ 72,157	$ 271,458	100 %	100 %	156.7 %	117.8 %
1998	43,378	116,264	76,879	288,671	100	100	167.8	122.0
1998 [2]	43,378	116,645	70,294	288,671	100	100	183.0	125.3
1999	43,047	121,856	78,600	320,869	100	100	198.4	131.8
2000	28,812	120,480	54,933	274,843	100	100	228.6	134.6
2001	29,469	125,097	70,171	290,998	100	100	194.4	129.5
2002	33,457	120,456	75,309	291,730	100	100	183.0	127.3
2003	34,355	131,719	69,167	292,258	100	100	182.4	124.2
2004 [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	282,823	100	100	167.2	116.1

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

[2] Revised actuarial assumptions.

Analysis of Financial Experience

Gains/(Losses) in Accrued Liabilities During Year Ended September 30, 2006
Resulting from Differences Between Assumed Experience & Actual Experience

	Type of Activity	Gain/(Loss)
1.	**Retirements (including Disability Retirement).** If members retire at older ages or with lower final average pay than assumed, there is a gain. If younger ages or higher average pays, a loss.	$ 1,589,694
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.	270,228
3.	**Pay Increases.** If there are smaller pay increases than assumed, there is a gain. If greater increases, a loss.	3,524,596
4.	**Investment Income.** If there is greater investment income than assumed, there is a gain. If less income, a loss.	(1,982,228)
5.	**Death After Retirement.** If retirants live longer than assumed, there is a loss. If not as long, a gain.	2,388,770
6.	**New entrants.** New entrants into the System will generally result in an actuarial loss. This does not apply to plans closed to new entrants.	-
7.	**Other.** Miscellaneous gains and losses resulting from data adjustments, timing of financial transactions, etc.	(1,078,808)
8.	**Composite Gain (or Loss) During Year**	$ 4,712,252

ACTUARIAL SECTION

Summary of Plan Provisions

Our actuarial valuation of the System as of September 30, 2006, is based on the present provision of Public Act No. 234 of 1992.

Regular Retirement

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

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

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

Early Retirement (age reduction factor used)

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

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

Deferred Retirement (vested benefit)

Eligibility — 8 years of credited service.

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

Disability Retirement

Eligibility — 8 years of credited service.

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

Death Before or After Retirement (Spouse or Dependent Children)

Eligibility — 8 years of credited service.

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

Summary of Plan Provisions (Continued)

Post Retirement Cost-of-Living Adjustments

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

Member Contributions

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

Trial Judges with Full Standardization: 7% of salary.

Trial Judges without Full Standardization: 3.5% of salary.

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

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

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

Defined Contribution Legislation — Public Act 523 of 1996

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

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

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STATISTICAL SECTION

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

STATISTICAL SECTION

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

Contents

Financial Trends

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

- Schedule of Pension Plan Revenues by Source
- Schedule of Health Plan Revenues by Source
- Schedule of Pension Plan Expenses by Type
- Schedule of Health Plan Expenses by Type
- Total Changes in Net Assets – Pension Plan
- Total Changes in Net Assets – Health Plan
- Schedule of Benefit and Refund Deductions by Type

Operating Information

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

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

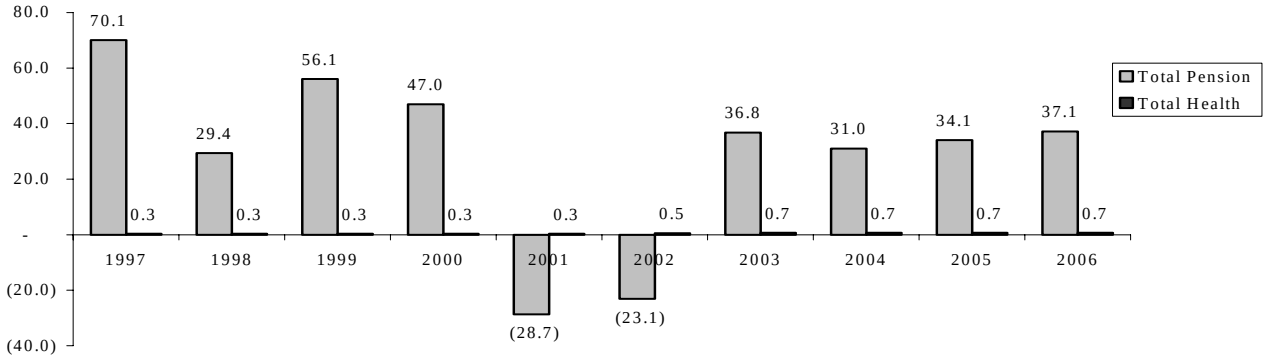
Schedule of Pension Plan Revenues by Source

Fiscal Year Ended Sept. 30	Member Contributions	Employer Contributions		Net Investment & Other Income	Total
		Dollars	% of Annual Covered Payroll		
1997	$ 2,928,906	$ 5,673,583	N/A	$ 61,494,465	$ 70,096,954
1998	2,930,870	246,659	N/A	26,250,205	29,427,734
1999	3,019,443	58,499	N/A	53,008,576	56,086,518
2000	2,874,966	-	0.00	44,164,101	47,039,067
2001	2,304,041	-	0.00	(30,995,562)	(28,691,521)
2002	2,857,224	-	0.00	(25,998,096)	(23,140,872)
2003	2,288,608	-	0.00	34,560,288	36,848,896
2004	2,143,714	-	0.00	28,818,651	30,962,365
2005	2,077,550	-	0.00	32,011,495	34,089,045
2006	2,017,943	-	0.00	35,106,967	37,124,910

Schedule of Health Plan Revenues by Source

Fiscal Year Ended Sept. 30	Member Contributions	Net Court Fees	Total
1997	$ 279,729	$ -	$ 279,729
1998	283,836	-	283,836
1999	297,397	-	297,397
2000	324,441	-	324,441
2001	345,851	-	345,851
2002	362,987	100,000	462,987
2003	451,035	265,000	716,035
2004	483,966	215,000	698,966
2005	450,657	215,000	665,657
2006	518,057	215,000	733,057

Total Revenue
Year Ended September 30
(in millions)



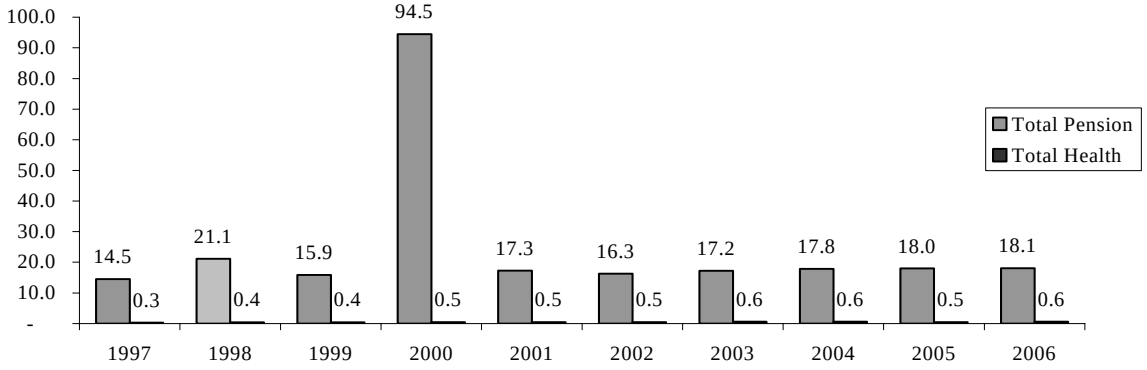
Schedule of Pension Plan Expenses by Type

Fiscal Year Ended Sept. 30	Benefit Payments	Refunds and Transfers	Administrative and Other Expenses	Total
1997	$ 13,839,289	$ 236,326	$ 395,428	$ 14,471,043
1998	14,304,553	6,641,662	197,743	21,143,958
1999	14,832,575	913,381	148,116	15,894,072
2000	15,260,878	78,765,632	517,046	94,543,556
2001	15,793,191	975,633	500,501	17,269,325
2002	15,809,951	52,862	404,983	16,267,796
2003	16,728,017	1,074	500,590	17,229,681
2004	17,540,889	67,792	210,178	17,818,859
2005	17,797,840	-	167,993	17,965,833
2006	17,952,735	-	170,023	18,122,758

Schedule of Health Plan Expenses by Type

Fiscal Year Ended Sept. 30	Benefit Payments
1997	$ 317,751
1998	355,523
1999	398,997
2000	450,345
2001	505,459
2002	519,669
2003	564,801
2004	576,043
2005	510,152
2006	596,769

Total Expenses
Year Ended September 30
(in millions)



Total Changes in Net Assets-Pension Plan

Last Ten Years

(in thousands)

	Fiscal Year									
	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Member contributions	$ 2,928	$ 2,930	$ 3,019	$ 2,875	$ 2,304	$ 2,857	$ 2,289	$ 2,144	$ 2,078	$ 2,018
Employer contributions	5,674	247	58	-	-	-	-	-	-	-
Net investment income	61,495	26,251	53,010	44,164	(30,996)	(25,998)	34,560	28,818	32,011	35,107
Total Additions	$ 70,097	$ 29,428	$ 56,087	$ 47,039	$ (28,692)	$ (23,141)	$ 36,849	$ 30,962	$ 34,089	$ 37,125
Pension benefits	$ 13,839	$ 14,305	$ 14,833	$ 15,261	$ 15,793	$ 15,810	$ 16,728	$ 17,541	$ 17,798	$ 17,953
Refunds of member contributions	236	6,642	913	78,766	976	53	1	67	-	-
Administrative expenses	396	197	148	517	500	405	501	210	168	170
Total Deductions	$ 14,471	$ 21,144	$ 15,894	$ 94,544	$ 17,269	$ 16,268	$ 17,230	$ 17,818	$ 17,966	$ 18,123
Changes in net assets	$ 55,626	$ 8,284	$ 40,193	$ (47,505)	$ (45,961)	$ (39,409)	$ 19,619	$ 13,144	$ 16,123	$ 19,002

Total Changes in Net Assets-Health Plan

Last Ten Years

(in thousands)

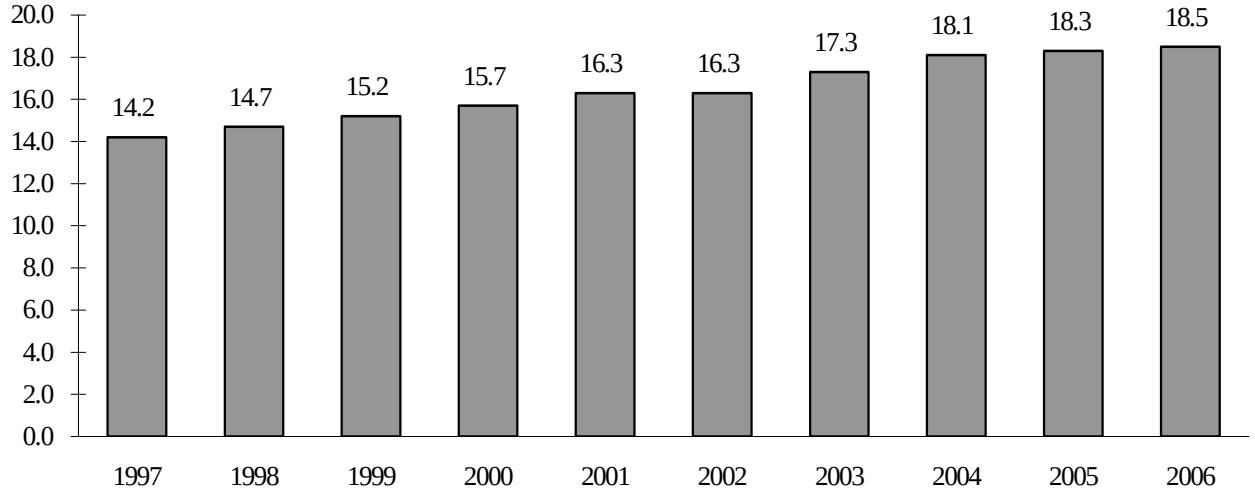
	Fiscal Year									
	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Member contributions	$ 279	$ 284	$ 297	$ 324	$ 346	$ 363	$ 451	$ 484	$ 451	$ 518
Employer contributions	-	-	-	-	-	-	-	-	-	-
Court fees	-	-	-	-	-	100	265	215	215	215
Net investment income	-	-	-	-	-	-	-	-	-	-
Total Additions	$ 279	$ 284	$ 297	$ 324	$ 346	$ 463	$ 716	$ 699	$ 666	$ 733
Pension benefits	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Health care benefits	318	356	399	450	505	520	565	576	510	597
Refunds of member contributions	-	-	-	-	-	-	-	-	-	-
Administrative expenses	-	-	-	-	-	-	-	-	-	-
Total Deductions	$ 318	$ 356	$ 399	$ 450	$ 505	$ 520	$ 565	$ 576	$ 510	$ 597
Changes in net assets	$ (39)	$ (72)	$ (102)	$ (126)	$ (159)	$ (57)	$ 151	$ 123	$ 156	$ 136

STATISTICAL SECTION

Schedule of Benefit and Refund Deductions by Type

Fiscal Year Ended Sept. 30	Regular Benefits	Disability Benefits	Survivor Benefits	Health Benefits	Total	Refunds
1997	$ 13,491,097	$ 348,192	$ -	$ 317,751	$ 14,157,040	$ 236,326
1998	13,922,718	381,835	-	355,523	14,660,076	6,641,662
1999	14,435,420	397,155	-	398,997	15,231,572	913,381
2000	14,818,706	442,172	-	450,345	15,711,223	78,765,632
2001	15,352,750	440,441	-	505,459	16,298,650	975,633
2002	15,375,626	434,325	-	519,669	16,329,620	52,862
2003	16,236,804	491,213	-	564,801	17,292,818	1,074
2004	17,011,125	529,764	-	576,043	18,116,932	67,792
2005	17,269,422	528,418	-	510,152	18,307,992	-
2006	14,611,531	297,408	3,043,796	596,769	18,549,504	-

Total Benefit Expenses
For Year Ended September 30
(in millions)



Schedule of Retired Members by Type of Pension Benefit

September 30, 2006

Amount of Monthly Benefit	Number of Retirees	Type of Retirement *					Selected Option**		
		1	2	3	4	5	Opt 1	Opt 2	Opt 3
$ 001 - 400	3	1	1	1	0	0	3	0	0
401 - 800	39	8	26	5	0	0	36	3	0
801 - 1,200	49	23	18	4	2	2	39	9	1
1,201 - 1,600	50	25	18	7	0	0	43	6	1
1,601 - 2,000	69	27	31	9	1	1	61	8	0
2,001 - 2,400	31	15	12	2	1	1	16	15	0
2,401 - 2,800	42	30	11	0	0	1	33	8	1
2,801 - 3,200	26	20	4	0	0	2	12	14	0
3,201 - 3,600	41	36	4	1	0	0	27	13	1
3,601 - 4,000	71	62	4	3	1	1	55	15	1
Over 4,000	112	105	3	1	2	1	98	14	0
Totals	533	352	132	33	7	9	423	105	5

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

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

Source: Gabriel Roeder Smith & Co.

STATISTICAL SECTION

Schedule of Retired Members by Type of Health Benefit

September 30, 2006

		Type of Other Post - Employment Benefits		
Amount of Monthly Benefit	**Eligible Retirees**	**Health**	**Dental**	**Vision**
$ 001 - 400	3	1	0	1
401 – 800	39	5	7	4
801 – 1,200	49	7	13	7
1,201 – 1,600	50	4	8	5
1,601 - 2,000	69	10	12	6
Over 2,000	323	56	104	88
Totals	533	83 *	144 *	111 *

*Participating member totals displayed in this schedule and the information presented in Note 1 of this report may differ. These variances are the result of a mid-year data conversion.

Schedule of Average Pension Benefit Payments
Last Ten Years

Payment Periods	Credited Service (Years)							
	0-5	5-10	10-15	15-20	20-25	25-30	30+	Total
Period 10/1/96 to 9/30/97:								
Average Monthly Benefit	$ 911	$ 1,228	$ 1,561	$ 2,472	$ 2,883	$ 2,439	$ 3,089	$ 2,312
Average Final Average Salary	3,250	54,667	47,584	56,426	62,947	56,764	64,058	55,663
Number of Active Retirants	6	26	110	181	118	50	21	512
Period 10/1/97 to 9/30/98:								
Average Monthly Benefit	$ 860	$ 1,161	$ 1,568	$ 2,478	$ 2,942	$ 2,499	$ 3,113	$ 2,325
Average Final Average Salary	2,437	53,853	49,030	57,069	64,355	76,821	63,379	58,228
Number of Active Retirants	8	26	110	180	119	51	20	514
Period 10/1/98 to 9/30/99:								
Average Monthly Benefit	$ 908	$ 1,148	$ 1,630	$ 2,522	$ 2,948	$ 2,476	$ 3,409	$ 2,356
Average Final Average Salary	1,950	55,804	50,535	59,340	65,753	76,643	68,504	68,504
Number of Active Retirants	10	29	113	181	127	52	19	531
Period 10/1/99 to 9/30/00:								
Average Monthly Benefit	$ 923	$ 1,240	$ 1,637	$ 2,588	$ 2,990	$ 2,429	$ 3,477	$ 2,371
Average Final Average Salary	1,147	58,188	49,653	58,814	66,470	77,869	68,504	58,893
Number of Active Retirants	17	30	112	184	124	49	19	535
Period 10/1/00 to 9/30/01:								
Average Monthly Benefit	$ 1,144	$ 1,365	$ 1,668	$ 2,618	$ 3,080	$ 2,628	$ 3,761	$ 2,446
Average Final Average Salary	7,066	59,526	51,362	60,795	67,803	83,459	73,014	60,618
Number of Active Retirants	23	31	109	188	128	47	20	546
Period 10/1/01 to 9/30/02:								
Average Monthly Benefit	$ 1,144	$ 1,363	$ 1,712	$ 2,618	$ 3,015	$ 2,718	$ 3,904	$ 2,442
Average Final Average Salary	7,066	60,075	53,476	62,450	67,578	84,054	76,199	61,683
Number of Active Retirants	23	32	109	180	125	47	19	535
Period 10/1/02 to 9/30/03:								
Average Monthly Benefit	$ 1,026	$ 1,251	$ 1,978	$ 2,771	$ 3,217	$ 2,722	$ 4,197	$ 2,593
Average Final Average Salary	813	49,406	48,531	56,406	61,051	58,177	59,739	53,211
Number of Active Retirants	24	31	118	188	121	46	23	551
Period 10/1/03 to 9/30/04:								
Average Monthly Benefit	$ 1,026	$ 1,247	$ 2,016	$ 2,917	$ 3,317	$ 2,940	$ 3,871	$ 2,667
Average Final Average Salary	813	49,810	48,982	55,299	61,840	59,355	59,739	53,149
Number of Active Retirants	24	33	118	188	117	46	23	549
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

Source: Gabriel Roeder Smith & Co.

Schedule of Average Benefit Payments - Health

September 30, 2006

Retirement Effective Dates	Years Credited Service							
	0 - 5	5 - 10	10 - 15	15 - 20	20 - 25	25 - 30	30 +	Total
Period 10/1/05 to 9/30/06								
Average Monthly Benefit	17	2,102	2,146	3,232	3,905	4,034	5,860	3,177
Average FAC	19,500	84,638	62,904	73,461	90,082	99,290	131,721	78,169
Number of Active Retirants	1	3	20	31	18	8	2	83 *

*Participating member totals displayed in this schedule and the information presented in Note 1 of this report may differ. These variances are the result of a mid-year data conversion.

Schedule of Average Benefit Payments - Dental

September 30, 2006

Retirement Effective Dates	Years Credited Service							
	0 - 5	5 - 10	10 - 15	15 - 20	20 - 25	25 - 30	30 +	Total
Period 10/1/05 to 9/30/06								
Average Monthly Benefit	-	1,923	2,345	3,191	3,586	3,871	4,018	3,194
Average FAC	-	84,070	65,233	71,751	80,940	91,624	88,821	76,183
Number of Active Retirants	-	5	28	53	35	16	7	144 *

*Participating member totals displayed in this schedule and the information presented in Note 1 of this report may differ. These variances are the result of a mid-year data conversion.

Schedule of Average Benefit Payments - Vision

September 30, 2006

Retirement Effective Dates	Years Credited Service							
	0 - 5	5 - 10	10 - 15	15 - 20	20 - 25	25 - 30	30 +	Total
Period 10/1/05 to 9/30/06								
Average Monthly Benefit	17	2,186	2,528	3,519	4,026	4,132	4,066	3,524
Average FAC	19,500	96,442	68,336	75,181	88,813	98,228	99,110	81,790
Number of Active Retirants	1	3	19	38	32	13	5	111 *

*Participating member totals displayed in this schedule and the information presented in Note 1 of this report may differ. These variances are the result of a mid-year data conversion.

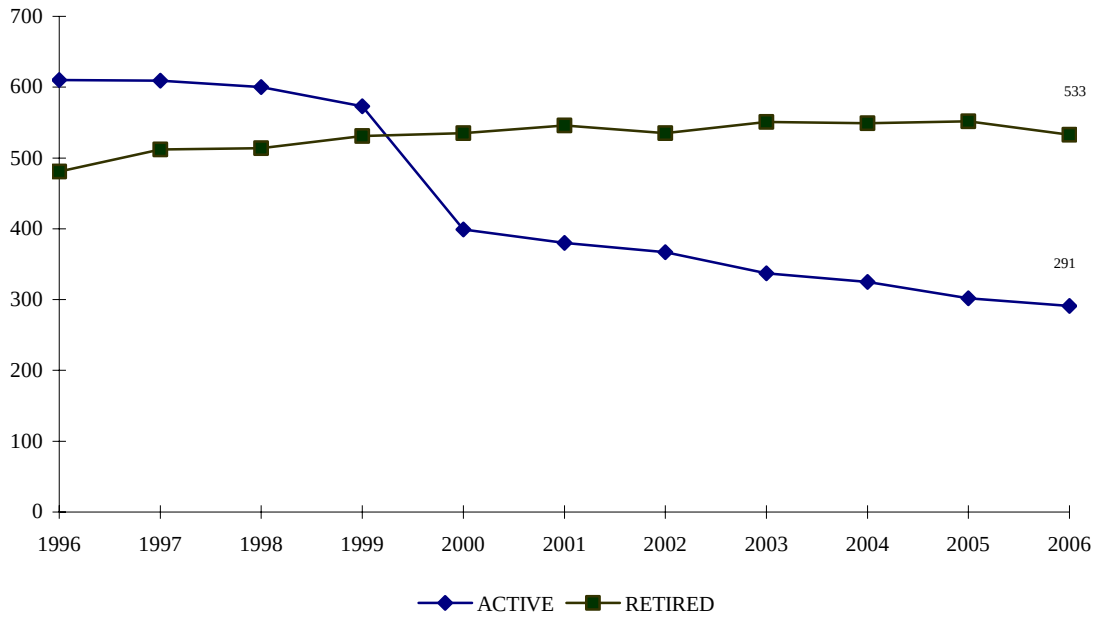
Schedule of Principal Participating Employers

Participating Employers	2006 Covered Employees	2006 Percentage of Total System	1997 Covered Employees	1997 Percentage of Total System
3rd Circuit Court	27	3.21%	N/A	N/A
Court of Appeals	16	1.90%	N/A	N/A
36th District Court	15	1.79%	N/A	N/A
6th Circuit Court	7	0.83%	N/A	N/A
Wayne County Probate Court	6	0.71%	N/A	N/A
61st District Court	5	0.60%	N/A	N/A
16th Circuit Court	5	0.60%	N/A	N/A
Supreme Court	5	0.60%	N/A	N/A
14th Circuit Court	4	0.48%	N/A	N/A
70th District Court	4	0.48%	N/A	N/A
All other	746	88.80%	N/A	N/A
Total	840	100.00%	N/A	N/A

STATISTICAL SECTION

Ten Year History of Membership

Fiscal Year Ended September 30



Source: Gabriel Roeder Smith & Co.

Schedule of Participating Employers through 9/30/06

Elected Offices
Supreme Court
Court Of Appeals
02nd Circuit Court
03rd Circuit Court
04th Circuit Court
05th Circuit Court
06th Circuit Court
07th Circuit Court
08th Circuit Court
09th Circuit Court
10th Circuit Court
12th Circuit Court
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39th Circuit Court
40th Circuit Court
41st Circuit Court
42nd Circuit Court
46th Circuit Court
56th Circuit Court
57th Circuit Court
03B District Court
05th District Court
07th District Court
08th District Court
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14A District Court
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17th District Court
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28th District Court
31st District Court
33rd District Court
36th District Court
37th District Court
39th District Court
40th District Court
41A District Court
41B District Court
42nd District Court
43rd District Court
44th District Court
45A District Court
46th District Court
48th District Court
50th District Court
51st District Court
52nd District Court
53rd District Court
54B District Court
56A District Court
57th District Court
58th District Court
60th District Court
61st District Court
63rd District Court
64B District Court
65A District Court
66th District Court
67th District Court
68th District Court
70th District Court
71A District Court
71B District Court
72nd District Court
73A District Court
73B District Court
74th District Court
76th District Court
77th District Court
78th District Court
80th District Court

STATISTICAL SECTION

Schedule of Participating Employers through 9/30/06

81st District Court
82nd District Court
84th District Court
85th District Court
86th District Court
87th District Court
88th District Court
90th District Court
91st District Court
95A District Court
95B District Court
97th District Court
98th District Court
Alcona County Probate Court
Alpena County Probate Court
Bay County Probate Court
Benzie County Probate Court
Berrien County Probate Court
Branch County Probate Court
Calhoun County Probate Court
Cass County Probate Court
Chippewa County Probate Court
Clare/Gladwin Probate District 17
Crawford County Probate Court
Charlevoix/Emmet Probate District 7
Gogebic County Probate Court
Huron County Probate Court
Iosco County Probate Court
Iron County Probate Court
Isabella County Probate Court
Jackson County Probate Court
Kalamazoo County Probate Court
Kent County Probate Court
Lake County Probate Court
Leelanau County Probate Court
Livingston County Probate Court
Mackinac/Luce Probate District 6
Macomb County Probate Court
Mason County Probate Court
Mecosta/Osceola Probate District 18
Monroe County Probate Court
Montcalm County Probate Court
Muskegon County Probate Court
Oceana County Probate Court
Ogemaw County Probate Court
Ontonagon County Probate Court
Oscoda County Probate Court
Ottawa County Probate Court
Presque Isle County Probate Court
Sanilac County Probate Court
Shiawassee County Probate Court
St Clair County Probate Court
St Joseph County Probate Court
Washtenaw County Probate Court
Wayne County Probate Court
Wexford County Probate Court

ACKNOWLEDGMENTS

The *Michigan Judges' Retirement System Comprehensive Annual Financial Report* is prepared by Financial Services, Fiscal Management Division. Staff of the division for the fiscal year 2005-2006 report included:

Management:

Patricia Lack, CPA, Director
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The report may be viewed on-line at: www.michigan.gov/ors