

# **Michigan State Police Retirement System**



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

*A Pension Trust Fund of the State of Michigan*

John Engler, Governor

**Michigan State Police Retirement System**  
a Pension Trust Fund of the State of Michigan

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



**MSPRS**

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

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The cost of printing this report was \$1,211.57 (3.03 each), which was paid for by the System at no cost to taxpayers.

# INTRODUCTORY SECTION

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

**Certificate of Achievement**

**Certificate of  
Achievement  
for Excellence  
in Financial  
Reporting**

Presented to

**Michigan State Police  
Retirement System**

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

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



*Anne Spray Kinney*  
President

*Jeffrey L. Essler*  
Executive Director

**Letter of Transmittal**

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

**STATE OF MICHIGAN**

JOHN ENGLER, Governor

**DEPARTMENT OF MANAGEMENT AND BUDGET**

February 9, 2001

The Honorable John Engler  
Governor, State of Michigan,

Members of the Legislature  
State of Michigan

Retirement Board Members  
and  
Members, Retirees and Beneficiaries

Ladies and Gentlemen:

We are pleased to present the annual report of the Michigan State Police Retirement System (System) for fiscal year 2000.

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

The Michigan State Police Retirement System was established by legislation under Public Act 251 of 1935. It now operates under the provisions of Public Act 182 of 1986, as amended, and is administrated 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 state police. The services performed by the staff provides benefits to members.

The 2000 annual report is presented in five sections. The Introductory Section contains the transmittal letter and identifies the administrative organization and professional consultants used by the System. The Financial Section contains the independent auditors' report, financial statements of the System and certain supplemental schedules. The Investment Section summarizes investment activities. The Actuarial Section contains the independent consulting actuary's certification, an outline of actuarial assumptions and methods, and other actuarial statistics. The Statistical Section contains statistical tables of significant data pertaining to the System.

# INTRODUCTORY SECTION

## Letter of Transmittal (Continued)

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### MAJOR GOALS ACCOMPLISHED

#### *Customer Service*

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

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

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

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

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

#### *Communications*

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

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

There were 3,559 individuals who met with Retirement Information Representatives at the Main Office, while the Outreach Offices handled another 2,573.

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

In October 1999, ORS released a brand new comprehensive information booklet, the *State Police Retirement Guidelines*, which provides State Police members with specific details about their retirement plan benefits.

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

## Letter of Transmittal (Continued)

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### *Future Direction*

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

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

### **CERTIFICATE OF ACHIEVEMENT**

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the System for its comprehensive annual financial report for the fiscal year ended September 30, 1999.

In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report, whose contents conform to program standards. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

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

### **FINANCIAL INFORMATION**

#### *Additions to Plan Net Assets*

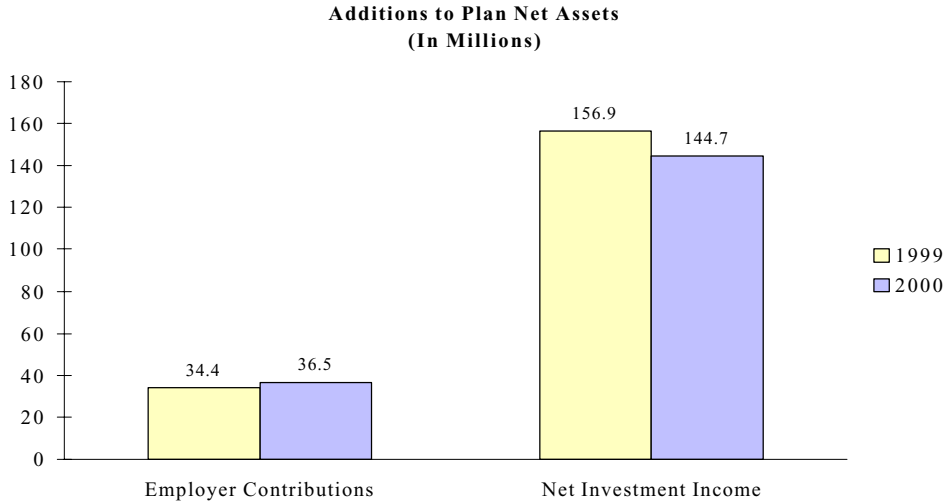
The reserves needed to finance retirement and health benefits are accumulated through the collection of employer contributions and through earnings on investments. Contributions and net investment income for fiscal year 2000 totaled approximately \$182 million.

Total contributions and net investment income decreased 5.2% from those of the prior year due primarily to decreased investment earnings. Employer pension contributions increased 6% and net investment income decreased 7.8% from the prior year. Investment income and employer contributions represented 79.4% and 20.0% respectively of total revenue. The Investment Section of this report reviews the results of investment activity for 2000.



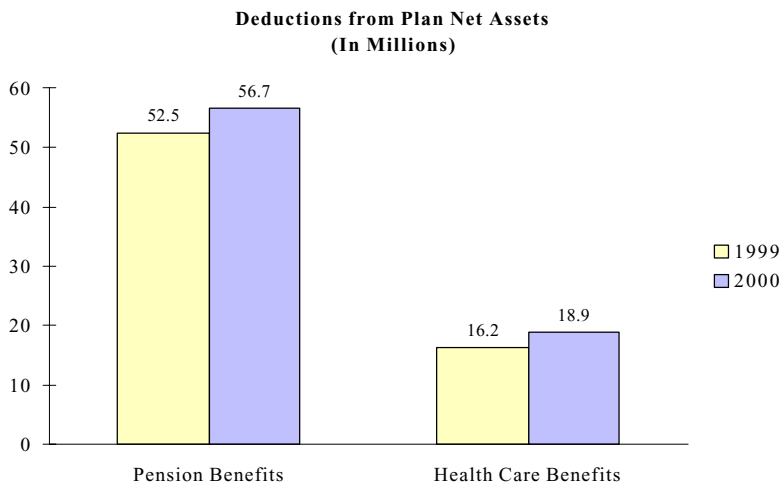
# INTRODUCTORY SECTION

## Letter of Transmittal (Continued)



### *Deductions From Plan Net Assets*

The primary expenditures of the System include the payment of pension benefits to members and beneficiaries, payments for health, dental and vision benefits, refund of contributions to former members, and cost of administering the System. Expenditures for health care increased by \$2.7 million from \$16.2 million to \$18.9 million during the fiscal year. Total deductions for fiscal year 2000 were \$75.8 million, an increase of 9.8% over 1999 deductions. The 8% increase in pension benefit expenditures resulted from a combination of increased benefit payments per retiree and increased number of retirees paid.



## Letter of Transmittal (Continued)

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### *Internal Control*

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

### **INVESTMENT**

The State Treasurer is the investment fiduciary and custodian of all investments of the System pursuant to state law. The primary investment objective is to maximize the rate of return on the total investment portfolio, consistent with a high degree of prudence and sufficient diversity to eliminate inordinate risks and to meet the actuarial assumption for the investment return rate. The investment activity for the year produced a total rate of return on the portfolio of 14.6%. For the last five years, the System has experienced an annualized dollar weighted rate of return of 15.3%. A summary of asset allocation and rates of return can be found in the Investment Section of this report.

### **FUNDING**

Funds are derived from the excess of additions to plan net assets over deductions from plan net assets. Funds are accumulated by the System in order to meet future benefit obligations to retirees and beneficiaries. The percentage computed by dividing the actuarial value of assets by the actuarial accrued liability is referred to as the "funded ratio." This ratio provides an indication of the funding status of the System and, generally, the greater this percentage, the stronger the System. As of September 30, 2000, the actuarial value of the assets and actuarial accrued liability of the System were \$1.113 billion and \$1.041 billion, respectively, resulting in a funded ratio of 106.9%. As of September 30, 1999, the amounts were \$1.037 billion and \$1.007 billion, 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.

### **POST EMPLOYMENT BENEFITS**

The system also administers the postemployment health benefits (health, dental, and vision) offered to retirees. The benefits are funded on a cash or "pay as you go" basis. An actuarial valuation was completed to determine the actuarial accrued liability if the benefits were to be pre-funded. If these benefits were pre-funded, the actuarial accrued liability for these benefits would be approximately \$472 million and the employer's contributions rate would be 29.09%.

### **PROFESSIONAL SERVICES**

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

Statute requires 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 for the fiscal years ended September 30, 2000 and 1999, by The Segal Company. Actuarial certification and supporting statistics are included in the Actuarial Section of this report.

### ACKNOWLEDGMENTS

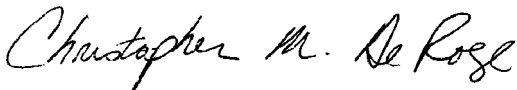
The preparation of this report was accomplished with the dedication and cooperation of many people. It is intended to provide complete and reliable information as a basis for making management decisions, as a means of determining compliance with legal provisions, and as a means for determining responsible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

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

Sincerely,



Janet E. Phipps, Director  
Department of Management and Budget



Christopher M. DeRose, Director  
Office of Retirement Services

## Administrative Organization

### Retirement Board Members

Dr. James S. Neubecker, C.P.A., Chair  
Representing Auditor General  
Statutory Member

Vacant  
Representing Sergeants and Below

Vacant  
Representing Lieutenant and Above

Lt. Col. James R. Snody, Jr.  
Retiree Member  
Term Expires December 31, 2001

Kenneth Harb  
General Public  
Term Expires December 31, 2000

Roy Pentilla, C.P.A.  
Representing State Treasurer  
Statutory Member

Jan Miller  
Representing State Employer  
Statutory Member

George M. Elworth  
Representing Attorney General  
Statutory Member

Capt. Richard J. Darling  
Representing Director, Dept. of  
State Police  
Statutory Member

### Administrative Organization

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

### Advisors and Consultants

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

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

**Investment Manager and  
Custodian**  
Mark A. Murray  
State Treasurer  
State of Michigan

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

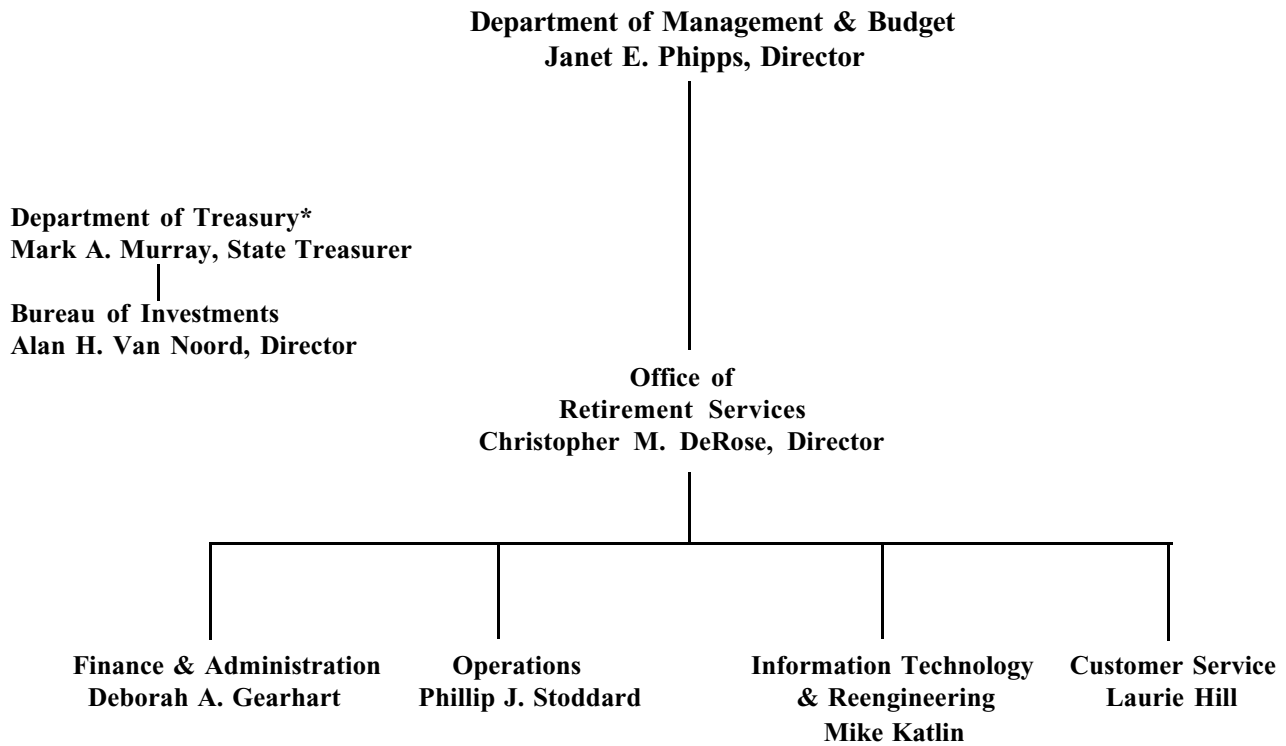
**Legal Advisor**  
Jennifer M. Granholm  
Attorney General  
State of Michigan

**Investment Performance  
Measurement**  
Capital Resource Advisors  
Chicago, Illinois

# INTRODUCTORY SECTION

## Administrative Organization

### Organization Chart



\*The investments of the system are managed by the Michigan Department of Treasury. Information on the investments and the fiduciary, Michigan Department of Treasury, can be found in the Investment Section.

# FINANCIAL SECTION

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

## Independent Auditors' Report



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

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

We have audited the accompanying statements of pension plan and postemployment healthcare plan net assets of the Michigan State Police Retirement System, as of September 30, 2000 and 1999, and the related statements of changes in pension plan and postemployment healthcare plan net assets for the years then ended. These financial statements are the responsibility of the management of the Michigan State Police Retirement System. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the plan net assets of the Michigan State Police Retirement System, as of September 30, 2000 and 1999, and the changes in plan net assets for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Our audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The required supplementary information and supporting schedules listed in the table of contents are presented for the purpose of additional analysis and are not a required part of the basic financial statements. The required supplementary information and supporting schedules are the responsibility of the Michigan State Police Retirement System's management. The Schedules of Funding Progress and Employer Contributions and related notes on pages 26 to 28 and the supporting schedules on pages 29 to 32 have been subjected to the auditing procedures applied in our audit of the basic financial statements, and in our opinion, are fairly stated in all material respects when considered in relation to the basic financial statements taken as a whole.

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

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

January 31, 2001

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

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

As of Fiscal Years Ending September 30, 2000 and 1999

	September 30, 2000			September 30, 1999		
	Pension Plan	Health Plan	Total	Pension Plan	Health Plan	Total
<b>Assets:</b>						
Cash	\$ 4,388,200		\$ 4,388,200	\$ 5,110,202	\$ 9,659	\$ 5,119,861
Receivables:						
Amounts due						
from employer	875,691	\$ 559,868	1,435,559	1,171,716	2,215	1,173,931
Interest and dividends	4,437,208		4,437,208	4,661,288	8,810	4,670,098
Sale of investments	5,906,484		5,906,484	807,732	1,527	809,259
<b>Total receivables</b>	<b>11,219,383</b>	<b>559,868</b>	<b>11,779,251</b>	<b>6,640,736</b>	<b>12,552</b>	<b>6,653,288</b>
Investments:						
Short term investments	44,173,547		44,173,547	39,291,139	74,265	39,365,404
Bonds, notes, mortgages and preferred stock	240,462,567		240,462,567	240,702,516	454,954	241,157,470
Common stock	544,219,228		544,219,228	560,169,734	1,058,782	561,228,516
Real estate	99,979,814		99,979,814	81,941,157	154,877	82,096,034
Alternative investments	190,026,521		190,026,521	109,470,138	206,911	109,677,049
International investments	77,010,108		77,010,108	61,958,337	117,108	62,075,445
Collateral on loaned securities	15,971,609		15,971,609	28,453,575	53,781	28,507,356
<b>Total investments</b>	<b>1,211,843,394</b>		<b>1,211,843,394</b>	<b>1,121,986,596</b>	<b>2,120,678</b>	<b>1,124,107,274</b>
<b>Total assets</b>	<b>1,227,450,977</b>	<b>559,868</b>	<b>1,228,010,845</b>	<b>1,133,737,534</b>	<b>2,142,889</b>	<b>1,135,880,423</b>
<b>Liabilities:</b>						
Warrants outstanding	131,001		131,001	189,418	358	189,776
Accounts payable and other accrued liabilities	(1,334,833)	1,893,807	558,974	2,341,150	4,425	2,345,575
Obligations under securities lending	15,971,609		15,971,609	28,453,576	53,780	28,507,356
<b>Total liabilities</b>	<b>14,767,777</b>	<b>1,893,807</b>	<b>16,661,584</b>	<b>30,984,144</b>	<b>58,563</b>	<b>31,042,707</b>
<b>Net Assets (Liabilities) Held in Trust for Pension and Health Benefits*</b>	<b>\$ 1,212,683,200</b>	<b>\$ (1,333,939)</b>	<b>\$ 1,211,349,261</b>	<b>\$ 1,102,753,390</b>	<b>\$ 2,084,326</b>	<b>\$ 1,104,837,716</b>

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

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



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

For Fiscal Years Ended September 30, 2000 and 1999

	September 30, 2000			September 30, 1999		
	Pension	Health	Total	Pension	Health	Total
	Fund	Fund		Fund	Fund	
<b>Additions:</b>						
Members contributions	\$ 16,793	\$ 1,098,440	\$ 1,115,233	\$ 7,679	\$ 992,839	\$ 1,000,518
Employer contributions	22,107,292	14,421,517	36,528,809	21,609,520	12,838,366	34,447,886
Investment income:						
Investment income	146,168,854		146,168,854	157,966,090		157,966,090
Securities lending income	1,693,373		1,693,373	1,574,308		1,574,308
Investment expenses:						
Real estate operating expenses	(62,233)		(62,233)	(122,135)		(122,135)
Securities lending expenses	(1,582,883)		(1,582,883)	(1,484,626)		(1,484,626)
Other investment expenses	(1,559,305)		(1,559,305)	(1,036,909)		(1,036,909)
Miscellaneous income	37		37			
<b>Total additions</b>	<u>166,781,928</u>	<u>15,519,957</u>	<u>182,301,885</u>	<u>178,513,927</u>	<u>13,831,205</u>	<u>192,345,132</u>
<b>Deductions:</b>						
Benefits paid to plan members and beneficiaries:						
Retirement benefits	56,693,183		56,693,183	52,486,589		52,486,589
Health benefits		17,784,075	17,784,075		15,092,102	15,092,102
Dental/vision benefits		1,154,147	1,154,147		1,114,442	1,114,442
Refunds of member contributions				4,694		4,694
Administrative expenses	158,935		158,935	322,997		322,997
<b>Total deductions</b>	<u>56,852,118</u>	<u>18,938,222</u>	<u>75,790,340</u>	<u>52,814,280</u>	<u>16,206,544</u>	<u>69,020,824</u>
<b>Net Increase (Decrease)</b>	109,929,810	(3,418,265)	106,511,545	125,699,647	(2,375,339)	123,324,308
<b>Net Assets (Liabilities) Held in Trust for Pension and Health Benefits:</b>						
<b>Beginning of Year</b>	<u>1,102,753,390</u>	<u>2,084,326</u>	<u>1,104,837,716</u>	<u>977,053,743</u>	<u>4,459,665</u>	<u>981,513,408</u>
<b>End of Year*</b>	<u>\$ 1,212,683,200</u>	<u>\$ (1,333,939)</u>	<u>\$ 1,211,349,261</u>	<u>\$ 1,102,753,390</u>	<u>\$ 2,084,326</u>	<u>\$ 1,104,837,716</u>

\* 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 General Purpose Financial Statements

### NOTE 1 - PLAN DESCRIPTION

#### ORGANIZATION

The Michigan State Police Retirement System is a single employer, state-wide, defined benefit public employee retirement plan governed by the State of Michigan (State), originally created under Public Act 251 of 1935, recodified and currently operating under Public Act 182 of 1986. The System was established by the State to provide retirement, survivor and disability benefits to Michigan State Police. The System is a qualified trust fund under section 401(a) of the Internal Revenue Code.

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

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

#### MEMBERSHIP

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

Retirees and beneficiaries currently receiving benefits:	<b>2000</b>	<b>1999</b>
Regular benefits.....	1,838	1,763
Survivor benefits.....	351	338
Disability benefits .....	130	130
<b>Total</b> .....	<u>2,319</u>	<u>2,231</u>
Current employees:		
Vested .....	1,194	1,304
Non-vested .....	1,016	912
<b>Total</b> .....	<u>2,210</u>	<u>2,216</u>
Inactive employees entitled to benefits and not yet receiving them .....	<u>41</u>	<u>15</u>
<b>Total All Members</b> .....	<u><u>4,570</u></u>	<u><u>4,462</u></u>

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

<b>Health/Dental/Vision Plan</b>	<b>2000</b>	<b>1999</b>
Eligible participants .....	2,319	2,231
Participants receiving benefits:		
Health .....	2,079	2,003
Dental .....	2,047	1,969
Vision .....	2,050	1,972

# FINANCIAL SECTION

## Notes to General Purpose Financial Statements

### BENEFIT PROVISIONS

#### *Introduction*

Benefit provisions of the defined benefit pension plan are established by state statute, which may be amended. Public Act 182 of 1986, Michigan State Police Retirement Act, as amended, establishes eligibility and benefit provisions for the defined benefit pension plan. Retirement benefits are determined by final average compensation. Members are eligible to receive a monthly benefit when they meet certain age and service requirements. The System also provides duty disability, non-duty disability and survivor benefits.

A member who leaves Michigan State Police employment may request a refund of his or her member contribution account. A refund cancels a former member's rights to future benefits and there is no provision for repaying the refund of contributions to restore the service represented by the refund.

#### *Regular Retirement*

The retirement benefit is available if a member retires after 25 years of credited service (employment). The retirement benefit equals 60% of a member's final average compensation and is payable monthly over the lifetime of a member. Final average compensation is the average annual salary for a member's last two years of service with the Department of State Police.

#### *Deferred Retirement*

Any member with 10 or more years of credited service who terminates employment but has not reached the age of 50 is a deferred member and is entitled to receive a monthly allowance upon reaching age 50, provided the member's accumulated contributions have not been refunded. The deferred benefit is equal to two percent of the final average compensation times the years and partial years of service credit.

#### *Non-Duty Disability Benefit*

A member with 10 or more years of credited service who becomes totally and permanently disabled not due to performing duties as an employee of the Michigan State Police is eligible for a non-duty disability pension. The non-duty disability benefit is 2.4% of the final average compensation times years and partial years of credited service (but not more than 25 years).

#### *Duty Disability Benefit*

A member who becomes totally and permanently disabled from performing duties as a Michigan State Police Officer is eligible for a duty disability pension. The amount, payable monthly, is equal to 60% of the final average compensation.

#### *Survivor Benefit*

Upon the death of a member who completed at least 10 years of service, the surviving spouse receives a benefit based on 2.4% of the final average compensation for each year and partial years of credited service. If there is no spouse, surviving children are entitled to equally share the benefit until age 18. If death occurs in the line of duty, the surviving spouse receives a benefit of 60% of the final average compensation. Children receive \$100 each month until age 18. A \$1,500 funeral expense is also authorized by statute.

Effective October 1, 1996, the monthly pension paid to beneficiaries was increased 10% if certain requirements were met. This was a one time increase.

Each October 1, the benefit increases 2% (not to exceed \$500). This non-compounding increase is paid to beneficiaries who have been receiving benefits for 12 months.

## Notes to General Purpose Financial Statements

### *Post Retirement Adjustments*

Effective October 1, 1996, the monthly pension was increased 10% if certain requirements were met. This was a one time increase.

Each October 1, the benefits of all pension recipients increase 2% (not to exceed \$500). This non-compounding increase is paid to persons who have been retired 12 months.

### *Contributions*

Member Contributions — Members currently participate on a noncontributory basis. Under certain circumstances, members may contribute to the System for the purchase of creditable service, such as military, maternity or paternity leave, Peace Corps or VISTA service. If a member terminates employment before a retirement benefit is payable, the member's contribution and interest on deposit are refunded. If the member dies before being vested, the member's contribution and interest are refunded to the designated beneficiaries.

Employer Contributions — The statute requires that the employer contribute to finance the benefits of plan members. These employer contributions are determined annually by the System's actuary and are based upon level-percent-of-payroll funding principles so that the contribution rates do not have to increase over time. A chart showing the employer contribution rates is included on the Schedule of Revenues by Source in the Statistical Section.

### *Other Post Employment Benefits*

Under the Michigan State Police Retirement Act, all retirees have the option of continuing health, dental and vision coverage. Retirees with this coverage contribute 5% and 10% of the monthly premium amount for the health, dental and vision coverage, respectively. The State funds 95% of the health and 90% of the dental and vision insurance. The payroll contribution rate was 12% and 10.84% for 2000 and 1999, respectively.

Retirees are provided with life insurance coverage equal to 25% of the active life insurance coverage, \$1,000 for spouse and \$1,000 for each dependent under age 23. Premiums are fully paid by the State.

## NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### *Basis of Accounting and Presentation*

Financial statements are prepared using the accrual basis of accounting. Contributions from the State are recognized as revenue in the period in which employees provide service. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

### *Reserves*

Public Act 182 of 1986, as amended, created the Reserve for Employees' Contributions, Reserve for Retired Benefit Payments, Reserve for Employer Contributions, Reserve for Undistributed Investment Income, and Reserve for Health Benefits and Dental and Vision Benefits. The financial transactions of the plan are recorded in these accounts as required by Public Act 182 of 1986, as amended.

Reserve for Employees' Contributions — Members do not contribute to this fund except to purchase eligible service credit. This fund represents active member contributions and interest less amounts transferred to the Pension Reserve for regular and disability retirement, amounts refunded to terminated members, and unclaimed amounts transferred to the income account. At September 30, 2000, and 1999, the balance in this account was \$383 thousand and \$464 thousand, respectively.

# FINANCIAL SECTION

## Notes to General Purpose Financial Statements

Reserve for Retired Benefit Payments — This represents the reserves for payment of future retirement benefits to persons already on the retirement rolls. At retirement, a member's accumulated contributions plus interest are transferred into this reserve from the Reserve for Employees' Contributions. Monthly benefits, which are paid to the retirees, reduce this 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, 2000, and 1999, the balance in this account was \$633 million and \$583 million, respectively.

Reserve for Employer Contributions — All employer contributions are credited to this reserve. Interest from the Reserve for Undistributed Investment Income is credited annually. Amounts are transferred annually from this reserve to the Reserve for Retired Benefit Payments to fund that reserve. At September 30, 2000, and 1999, the balance in this account was \$194 million and \$216 million, respectively.

Reserve for Undistributed Investment Income — The reserve is credited with all investment earnings and changes in fair value of assets. Interest is transferred annually to the other reserves. Administrative expenses are paid from this reserve account. The legislature appropriates the funds necessary to defray and cover the administration of the plan. At September 30, 2000, and 1999, the balance of this reserve was \$385 million and \$304 million, respectively.

Reserve for Health Related Benefits — This reserve is credited with employer contributions for retirees' health benefits. From this reserve, the retirement system pays 95% of the premiums for hospitalization and medical coverage insurance and 90% of the monthly premium for dental and vision coverage insurance. At September 30, 2000, and 1999, the balance in this account was a negative \$1.3 million and a positive \$2.1 million, respectively.

### ***Reporting Entity***

The System is a pension trust fund of the State of Michigan. As such, the System is considered part of the State and is included in the State's comprehensive annual financial report as a pension trust fund. The System and its board are not financially accountable for any other entities or other organizations. Accordingly, the system is the only entity included in this financial report.

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

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

### ***Investment Income***

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

# FINANCIAL SECTION

## Notes to General Purpose Financial Statements

### *Property and Equipment*

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

### *Related Party Transactions*

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

	<u>2000</u>	<u>1999</u>
Building Rentals .....	\$ 4,808	\$ 4,845
Technological Support .....	32,161	48,218
Attorney General .....	21,282	7,553
Investment Services .....	186,100	177,400

Cash — On September 30, 2000, and 1999, the System had \$4 million and \$5 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 \$203,993 and \$162,404 for the years ended September 30, 2000, and 1999, respectively.

### *Reclassification of Prior Year Amounts*

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

## NOTE 3 - CONTRIBUTIONS

Members currently participate in the System on a noncontributory basis. Under certain circumstances, members may contribute to the System for the purchase of creditable service, such as military service or maternity leave. The State is required by Public Act 182 of 1986, as amended, to contribute amounts necessary to finance the benefits of its employees. Contribution provisions are specified by state statute and may be amended only by action of the state legislature.

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

Actual employer contributions for retirement benefits were \$22.1 million and \$21.6 million representing 20.8% and 21.0% of annual covered payroll, for the years ended September 30, 2000, and 1999, respectively. Required employer contributions for pensions included:

1. \$25.8 million and \$23.3 million for fiscal years 2000 and 1999, respectively, for normal cost of pensions representing 22.1% and 21.6%, respectively, of annual covered payroll.
2. (\$1.5) million and (\$595) thousand for fiscal years 2000 and 1999, respectively, for amortization of (overfunded)/unfunded actuarial accrued liability, representing (1.3%) and (0.55%), respectively, of annual covered payroll.

# FINANCIAL SECTION

## Notes to General Purpose Financial Statements

### NOTE 4 - INVESTMENTS

#### *Investment Authority*

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

Under Public Act 314 of 1965, as amended, the State Treasurer may invest up to 5.0% 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 15% (20.0% as of October 16, 2000) of the System's assets in investments not otherwise qualified under the act as described in section 20(d). Alternative investments include limited partnerships and distributions from these partnerships in the form of bonds, preferred stock, common stock and direct investments.

#### *Derivatives*

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

Derivatives are used in managing the pension trust fund portfolios, but uses do not include speculation or leverage of investments. Less than 7.0% of the total pension trust fund's portfolio has been invested from time to time in futures contracts, collateralized mortgages and swap agreements. State investment statutes limit total derivative exposure to 15.0% of a fund's total asset value, and restrict uses to replication of returns and hedging of assets. Swap agreements represent the largest category of derivatives used, and they represented 6.2% of the market value of total assets on September 30, 2000.

To diversify the pension fund's portfolio into international equities, the State Treasurer has entered into swap agreements with investment grade counterparties which are tied to stock market indices in twenty foreign countries. The notional amounts of the swap agreements at September 30, 2000, and 1999, were \$67.1 million and \$50.8 million, respectively. Approximately one half of the notional amount is hedged against foreign currency fluctuations. The swap agreements provide that the System will pay quarterly, over the term of the swap agreements, interest indexed to the three month London InterBank Offer Rate (LIBOR), adjusted for an interest rate spread, on the notional amount stated in the agreements. At the maturity of the swap agreements, the pension fund will either receive the increase in the value of the international equity indices from the level at the inception of the agreements, or pay the decrease in the value of the indices. Swap agreement maturities range from October 2000 to October 2003. U.S. domestic LIBOR based floating rate notes were purchased in the open market to correspond with the notional amount of the swap agreements. The State Treasurer maintains custody and control of these notes.

The value of these synthetic equity structures is a combination of the value of the swap agreements and the value of the notes. The book value represents the cost of the notes. The current value represents the current value of the notes and the change in value of the underlying indices from the inception of the swap agreements. The current value is used as a representation of the fair value based on the intention to hold all swap agreements until maturity. Since the inception of the international equity investment program, over \$22.0 million of gains on international equity exposure and excess interest received have been realized. The unrealized gain of \$7.5 million at September 30, 2000, reflects the increase in international stock indices and changes in currency exchange rates.

## Notes to General Purpose Financial Statements

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

	<u>Notional Value</u>	<u>Current Value</u>
9/30/00 (dollars in millions)	\$67.1	\$74.4
9/30/99 (dollars in millions)	50.8	61.0

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

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

### *Securities Lending*

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

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

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

During the fiscal year, the System and the borrowers maintained the right to terminate all securities lending transactions on demand. The cash collateral received on each loan was invested, together with the cash collateral of other qualified tax-exempt plan lenders, in a collective investment pool. As of September 30, 2000, such investment pool had an average duration of 75 days and an average weighted maturity of 490 days. Because the loans were terminable at will, their duration did not generally match the duration of the investments made with cash collateral. On September 30, 2000, the System had no credit risk exposure to borrowers because the collateral is marked to the required market value collateral percentage daily. The collateral held and the market value of securities on loan for the System as of September 30, 2000, were \$28,806,053 and \$27,058,268, respectively.

Gross income from security lending for the fiscal year was \$1,693,373. Expenses associated with this income amounted to \$1,546,484 for the borrower's rebate and \$36,399 for fees paid to the agent.

### *Categories of Investment Risk*

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



# FINANCIAL SECTION

## Notes to General Purpose Financial Statements

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

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

<b>Category 1</b>	<b>2000</b>	<b>1999 (Reclassified)</b>
Prime Commercial Paper	\$ 39,489,208	\$ 21,912,164
Short Term Note	4,684,339	17,453,240
Government Securities	131,580,501	129,959,750
Corporate Bonds & Notes	90,274,691	81,353,412
Preferred Stock	35	22
Common Stock	539,979,368	553,672,575 <sup>3</sup>
Real Estate	5,899,586 <sup>1</sup>	6,799,383 <sup>1</sup>
Alternative Investments	15,058,203 <sup>2</sup>	4,205,820 <sup>2</sup>
International Investments	77,010,108	62,075,445 <sup>4</sup>
<b>Total Category 1</b>	<b>\$ 903,976,039</b>	<b>\$ 877,431,811</b>
<b>Category 3</b>		
Government Securities	\$ -	\$ 577,500
<b>Non-Categorized</b>		
Private Placements	\$ 6,943,772	\$ 8,599,308
Mortgages	358,384	359,135
Real Estate	94,080,228 <sup>1</sup>	75,296,651 <sup>1</sup>
Alternative Investments	174,968,318 <sup>2</sup>	105,471,229 <sup>2</sup>
Cash Collateral	15,971,609	28,507,356
Securities on Loan:		
Government Securities	10,852,589	19,696,447
Corporate Bonds & Notes	452,595	611,896
Common Stock	4,239,860	7,555,941
<b>Total Non-Categorized</b>	<b>\$ 307,867,355</b>	<b>\$ 246,097,963</b>
<b>Grand Total</b>	<b>\$ 1,211,843,394</b>	<b>\$ 1,124,107,274</b>

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

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

<sup>3</sup> Changed name of Equities to Common Stock and moved the American Depository Receipts (ADR) Equities of \$1,077,428 from Common Stock to International Investments.

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

## **Notes to General Purpose Financial Statements**

### **NOTE 5 - COMMITMENTS AND CONTINGENCIES**

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

# 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 overfunded actuarial accrued liability as a percentage of annual covered payroll approximately adjusts for the effects of inflation and aids analysis of progress made in accumulating sufficient assets to pay benefits when due. Generally, the smaller this percentage, the stronger the System.

#### Retirement Benefits

Valuation Date Sept 30	Actuarial Value of Assets (a)	Actuarial Accrued Liability <sup>3</sup> (AAL) Entry Age (b)	Unfunded (Overfunded) Accrued Liability (UAAL) (b-a)	Funded Ratio AAL (a/b)	Covered Payroll <sup>(2)</sup> (c)	UAAL as a % of Covered Payroll ((b-a)/c)
1991	\$ 468,303,512	\$ 595,180,034	\$ 126,876,522	78.7%	\$ 91,626,979	138.5%
1992	488,711,130	632,040,727	143,329,597	77.3	89,899,102	159.4
1992 <sup>1</sup>	488,711,130	644,370,241	155,659,111	75.8	89,899,102	173.1
1993	526,192,904	680,511,499	154,318,595	77.3	86,791,793	177.8
1993 <sup>2</sup>	530,936,296	680,511,499	149,575,203	78.0	86,791,793	172.3
1994	566,541,199	709,298,262	142,757,063	79.9	88,623,068	161.1
1994 <sup>4</sup>	566,541,199	711,840,905	145,299,706	79.6	88,623,068	164.0
1995	622,625,951	798,820,493	176,194,542	77.9	104,500,048	168.6
1996	697,922,641	823,461,255	125,538,614	84.8	106,826,290	117.5
1997	787,239,852	880,325,872	93,086,020	89.4	110,085,960	84.6
1997 <sup>2</sup>	928,714,323	880,325,872	(48,388,451)	105.5	110,085,960	(44.0)
1997 <sup>5</sup>	928,714,323	876,759,081	(51,955,242)	105.9	110,085,960	(47.2)
1998	974,364,628	943,724,818	(30,639,810)	103.2	108,183,040	(28.3)
1998 <sup>4</sup>	974,364,628	962,468,406	(11,896,222)	101.2	108,183,040	(11.0)
1999	1,036,840,136	1,006,528,278	(30,311,858)	103.0	116,910,216	(25.9)
2000	1,113,065,173	1,040,713,611	(72,351,562)	107.0	116,558,417	(62.1)

<sup>1</sup> Benefits amended.

<sup>2</sup> Change in asset valuation method.

<sup>3</sup> Based on entry age normal actuarial method.

<sup>4</sup> Assumption change.

<sup>5</sup> Change in inflation.

**Required Supplementary Information  
(Continued)**

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**Schedule of Employer Contributions**

<b>Fiscal Year Ending Sept. 30</b>	<b>Actuarial Required Contribution (ARC)*</b>	<b>Actual Contributions</b>	<b>Percentage Contributed</b>
1991	\$ 23,045,761	\$ 22,154,215	96.1 %
1992	23,277,902	20,555,646	88.3
1993	23,909,930	22,997,155	96.2
1994	23,768,031	23,360,943	98.3
1995	27,916,677	25,047,023	89.7
1996	35,149,438	35,994,833	102.4
1997	30,821,696	35,142,572	114.0
1998	20,257,237	20,003,807	98.7
1999	22,733,833	21,609,520	95.1
2000	24,266,567	22,107,291	91.1

\* The ARC has been recalculated based on the covered payroll for each year.

# FINANCIAL SECTION

## 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 pension plan is presented in the Statistical and Actuarial Sections of the report. This information is presented to enable the reader to assess the progress made by the System in accumulating sufficient assets to pay pension benefits as they become due.

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

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

### NOTE B - SUMMARY OF ACTUARIAL ASSUMPTIONS

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

Valuation Date	09/30/00
Actuarial Cost Method	Entry Age, Normal
Amortization Method	Level Percent, Closed
Remaining Amortization Period	36 Years
Asset Valuation Method	5-Year Smoothed Market Value
Actuarial Assumptions:	
Investment Rate of Return	8%
Projected Salary Increases	4.7% - 84%
Includes Inflation at	4%
Cost-of-Living Adjustments	2% annual non-compounded with maximum annual increase of \$500

**Supporting Schedules**

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

	<b>2000</b>	<b>1999</b>
<b>Personnel Service:</b>		
Staff Salaries	\$ 56,179	\$ 53,745
Retirement and Social Security	10,853	9,338
Other Fringe Benefits	8,622	7,483
<b>Total</b>	<b>75,654</b>	<b>70,566</b>
<b>Professional Services:</b>		
Actuarial	40,454	19,294
Attorney General	21,282	7,553
Audit	37,766	26,871
Consulting	9,336	973
Medical	2,381	733
<b>Total</b>	<b>111,219</b>	<b>55,424</b>
<b>Building and Equipment:</b>		
Building Rentals	4,808	4,845
Equipment Purchase, Maintenance, and Rentals	4,620	2,758
<b>Total</b>	<b>9,428</b>	<b>7,603</b>
<b>Miscellaneous:</b>		
Travel and Board Meetings	574	925
Office Supplies	1,008	1,384
Postage, Telephone and Other	(78,214)	134,630
Printing	7,105	4,247
Technological Support	32,161	48,218
<b>Total</b>	<b>(37,366)</b>	<b>189,404</b>
<b>Total Administrative Expenses</b>	<b>\$ 158,935</b>	<b>\$ 322,997</b>

# FINANCIAL SECTION

## Supporting Schedules (Continued)

### Schedule of Investment Expenses

	<u>2000</u>	<u>1999</u>
Securities Lending Expense	\$1,582,883	\$1,484,626
Real Estate Operating Expense	62,233	122,135
Other Investment Expenses*	<u>1,559,305</u>	<u>1,036,909</u>
<b>Total Investment Expenses</b>	<u><u>\$3,204,421</u></u>	<u><u>\$2,643,670</u></u>

\*see Investments Section for fees paid to investment professionals

### Schedule of Payments to Consultants

	<u>2000</u>	<u>1999</u>
Independent Auditors	\$ 37,766	\$ 26,871
Attorney General	21,282	7,553
Actuary	<u>40,454</u>	<u>19,294</u>
<b>Total Payment to Consultants</b>	<u><u>\$ 99,502</u></u>	<u><u>\$ 53,718</u></u>

**Supporting Schedules (Continued)**

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

	<u>Employee Contributions</u>	<u>Employer's Contributions</u>	<u>Retired Benefits Payments*</u>	<u>Undistributed Investment Income</u>	<u>Health Related Benefits</u>	<u>Total</u>
<b>Additions:</b>						
Members contributions	\$ 16,793				\$ 1,098,440	\$ 1,115,233
Employer contributions		\$ 22,107,292			14,421,517	36,528,809
Investment income:						
Investment income				\$ 146,168,854		146,168,854
Securities lending income				1,693,373		1,693,373
Investment expenses						
Real estate operating expenses				(62,233)		(62,233)
Securities lending expenses				(1,582,883)		(1,582,883)
Other investment expenses				(1,559,305)		(1,559,305)
Miscellaneous income				37		37
<b>Total additions</b>	<u>16,793</u>	<u>22,107,292</u>		<u>144,657,843</u>	<u>15,519,957</u>	<u>182,301,885</u>
<b>Deductions:</b>						
Benefits paid to plan members and beneficiaries:						
Retirement benefits			\$ 56,693,183			56,693,183
Health benefits					17,784,075	17,784,075
Dental/vision benefits					1,154,147	1,154,147
Administrative expenses				158,935		158,935
<b>Total deductions</b>			<u>56,693,183</u>	<u>158,935</u>	<u>18,938,222</u>	<u>75,790,340</u>
<b>Net Increase (Decrease)</b>	<u>16,793</u>	<u>22,107,292</u>	<u>(56,693,183)</u>	<u>144,498,908</u>	<u>(3,418,265)</u>	<u>106,511,545</u>
<b>Other Changes in Net Assets:</b>						
Interest allocation	14,493	17,260,301	46,607,809	(63,882,603)		-
Transfers upon retirements	(111,917)		111,917			-
Transfers of employer shares		(60,686,197)	60,686,197			-
<b>Total other changes in net assets</b>	<u>(97,424)</u>	<u>(43,425,896)</u>	<u>107,405,923</u>	<u>(63,882,603)</u>		<u>-</u>
<b>Net Increase (Decrease) After Other Changes</b>	<u>(80,631)</u>	<u>(21,318,604)</u>	<u>50,712,740</u>	<u>80,616,305</u>	<u>(3,418,265)</u>	<u>106,511,545</u>
<b>Net Assets (Liabilities) Held in Trust for Pension and Health Benefits:</b>						
<b>Beginning of Year</b>	<u>463,870</u>	<u>215,753,762</u>	<u>582,597,608</u>	<u>303,938,150</u>	<u>2,084,326</u>	<u>1,104,837,716</u>
<b>End of Year</b>	<u>\$ 383,239</u>	<u>\$ 194,435,158</u>	<u>\$ 633,310,348</u>	<u>\$ 384,554,455</u>	<u>\$ (1,333,939)</u>	<u>\$1,211,349,261</u>

\*Casualty Reserve is included.



# FINANCIAL SECTION

## Supporting Schedules (Continued)

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

	Employee Contributions	Employer's Contributions	Retired Benefits Payments	Undistributed Investment Income	Health Related Benefits	Total
<b>Additions:</b>						
Members contributions	\$ 7,679				\$ 992,839	\$ 1,000,518
Employer contributions		\$ 21,609,520			12,838,366	34,447,886
Investment income:						
Investment income				\$ 157,966,090		157,966,090
Securitized lending income				1,574,308		1,574,308
Investment expenses						
Real estate operating expenses				(122,135)		(122,135)
Securities lending expenses				(1,484,626)		(1,484,626)
Other investment expenses				(1,036,909)		(1,036,909)
<b>Total additions</b>	<u>7,679</u>	<u>21,609,520</u>		<u>156,896,728</u>	<u>13,831,205</u>	<u>192,345,132</u>
<b>Deductions:</b>						
Benefits paid to plan members and beneficiaries:						
Retirement benefits			\$ 52,486,589			52,486,589
Health benefits					15,092,102	15,092,102
Dental/vision benefits					1,114,442	1,114,442
Refunds of member contributions	4,694					4,694
Administrative expenses				322,997		322,997
<b>Total deductions</b>	<u>4,694</u>		<u>52,486,589</u>	<u>322,997</u>	<u>16,206,544</u>	<u>69,020,824</u>
<b>Net Increase (Decrease)</b>	<u>2,985</u>	<u>21,609,520</u>	<u>(52,486,589)</u>	<u>156,573,731</u>	<u>(2,375,339)</u>	<u>123,324,308</u>
<b>Other Changes in Net Assets:</b>						
Interest allocation	18,518	19,668,561	41,743,051	(61,430,130)		-
Transfers upon retirements	(171,681)		171,681			-
Transfers of employer shares		(71,381,333)	71,381,333			-
Total other changes in net assets	<u>(153,163)</u>	<u>(51,712,772)</u>	<u>113,296,065</u>	<u>(61,430,130)</u>		<u>-</u>
<b>Net Increase (Decrease) After Other Changes</b>	<u>(150,178)</u>	<u>(30,103,252)</u>	<u>60,809,476</u>	<u>95,143,601</u>	<u>(2,375,339)</u>	<u>123,324,308</u>
<b>Net Assets (Liabilities) Held in Trust for Pension and Health Benefits:</b>						
<b>Beginning of Year</b>	<u>614,048</u>	<u>245,857,014</u>	<u>521,788,132</u>	<u>208,794,549</u>	<u>4,459,665</u>	<u>981,513,408</u>
<b>End of Year</b>	<u>\$ 463,870</u>	<u>\$ 215,753,762</u>	<u>\$ 582,597,608</u>	<u>\$ 303,938,150</u>	<u>\$ 2,084,326</u>	<u>\$1,104,837,716</u>

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# INVESTMENT SECTION

Prepared by Michigan Department of Treasury, Bureau of Investments

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



# INVESTMENT SECTION

## Report on Investment Activity

### INTRODUCTION

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

The Investment Advisory Committee was created by Act 380 of the Public Acts of 1965. The three public members of the five-member committee are appointed by the Governor with the advice and consent of the Senate for three-year terms. The Director of the Department of Consumer and Industry Services and the Director of the Department of Management and Budget are ex-officio members. The members of the committee are as follows: Mr. Samuel Valenti III (public member), Robert E. Swaney, CFA (public member), David G. Sowerby (public member), Kathleen M. Wilbur (ex-officio member), and Janet E. Phipps (ex-officio member). The public members serve without pay, but are paid actual and necessary travel and other expenses.

### INVESTMENT POLICY & GOAL

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

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

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

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

<u>Investment Category</u>	<u>As of 9/30/00</u> <u>Actual %</u>	<u>Target %</u>
Mortgages	0.0%	0.0%
International Equities-Passive	6.4%	12.0%
Real Estate	8.3%	8.5%
Alternative Investments	15.9%	14.0%
Short Term Investments	4.0%	2.5%
Fixed Income	20.0%	20.0%
Domestic Equity	45.4%	43.0%
TOTAL	<u>100.0%</u>	<u>100.0%</u>

# INVESTMENT SECTION

## Report on Investment Activity

### STATE LAW

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

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

### PROXY VOTING POLICY

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

### INVESTMENT RESULTS

#### *Total Portfolio Result*

For the fiscal year ended September 30, 2000, the total portfolio returned 14.6% as compiled by Capital Resource Advisors. Annualized for the three-year period, the fund returned 12.7%, and for the five-year period the fund returned 15.3%.

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

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

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

The System is well diversified among asset classes. As of September 30, 2000, the portfolio consisted of 45.4% domestic equities, 20.0% fixed income, 15.9% alternative investments, 8.3% real estate, 4.0% short-term investments, and 6.4% international equities-passive.

#### *Domestic Stocks - Active*

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

Equity markets began the fiscal year with leadership concentrated in the technology sector. However, the exuberance peaked in March, accompanied by a flurry of initial public offerings (IPOs), primarily in the technology and telecommunication equipment sectors. In the meantime, corporate earnings continued their double-digit gains, employment remained high, and energy and other commodity prices came roaring back from 1998 lows. In response, the Federal Reserve acted to put the brakes on the economy by raising rates four times during the fiscal year for a total of 1 1/4% points. This created even more market volatility than had been witnessed in recent years, with both the S&P 500 and Dow Jones Industrial Average finishing the fiscal year 6% below their springtime peaks and the NASDAQ 27% off its peak.

# INVESTMENT SECTION

## Report on Investment Activity

The actively-managed domestic stock portfolio achieved a total rate of return of 9.1% for the fiscal year, compared with 13.3% for the S&P 500 Index and 4.6% for the Dow Jones Industrial Average. The markets were led by a 34.0% gain for financial stocks, followed closely by 33.0% for capital goods. Three-year and five-year annualized returns for the actively-managed domestic stock portfolio were 11.8% and 19.1%, respectively. This compared with 16.4% and 21.7% for the S&P 500.

At the close of Fiscal Year 2000, actively-managed domestic stocks represented 30.4% of total System investments, compared to 37.4% at the end of Fiscal Year 1999.

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

### *Domestic Stocks - Passive*

The objective of the enhanced S&P 500 and S&P MidCap Index Funds is to closely match the return performance of their benchmarks, and use low risk strategies to offset transaction costs and add to performance when possible. The S&P 500 Index Fund return for the fiscal year was 13.7% versus the benchmark's 13.3%. The S&P MidCap Index Fund return for the fiscal year was 45.0% versus its benchmark's 43.2%. The returns were enhanced by strategic allocations of additional funds to passive equity investments during market corrections and the opportunistic use of derivative programs. During Fiscal Year 2000, \$7.6 million was added to U.S. index funds. At the end of the fiscal year, the passive domestic stock portfolio represented 15.0% of total assets, the S&P 500 Index Fund accounting for 13.8% and the S&P MidCap Index Fund 1.2%. Indexed stock portfolios represented 13.8% of total investment assets at the end of the prior fiscal year.

### *International Equities - Passive*

The objective of the passive international equity portfolio is to match the return performance of the Salomon Smith Barney Broad Market Index (BMI) Europe and Pacific Composite (EPAC) adjusted for net dividends. Fifty percent of the benchmark is hedged to the U.S. Dollar and the other half is impacted by foreign currency exchange rate changes. The total passive international return of 10.6% in the fiscal year compared favorably with the Salomon Smith Barney BMI-EPAC return of 10.4%. The passive international return of 11.6% for three years compared well with the benchmark's return of 10.1% over the same period.

Core passive exposure to international equity returns is achieved by investing in a combination of fixed income notes and equity swap agreements on foreign stock indices in developed markets. Interest on the dedicated notes is exchanged for international stock returns, and the total notional amount of the swap agreements is invested in the approximate proportions of the Salomon Smith Barney Broad Market Index (BMI) Europe and Pacific Composite (EPAC) country weightings in those country indices. Use of the swap agreements for a core position began in 1993, and an American Depository Receipts (ADR) and index-related security portfolio was added in June of 1999 to increase management flexibility. During Fiscal Year 2000, \$8.7 million of exposure was added, raising passive international investments to 6.4% of total investment assets.

The combination of fixed income LIBOR notes and equity swap agreements was valued at \$74.3 million on September 30, 2000. That valuation included a net unrealized gain of \$7.5 million on equity index exposures and an unrealized gain of \$20 thousand on LIBOR note investments held. During Fiscal Year 2000, \$7.4 million of gains on equity exposures were realized, and \$1.1 million of interest in excess of obligations on completed swaps was also recognized. At the end of the fiscal year, total realized gains and net interest received in excess of counterparty obligations on completed agreements reached a record \$22.0 million since the program began.

# INVESTMENT SECTION

## Report on Investment Activity

### *Fixed Income*

For the fiscal year ending September 30, 2000, the fixed income portfolio returned 6.9% as compiled by Capital Resource Advisors. The portfolio returned 5.5% for the three-year period and 6.4% for the five-year period.

During the fiscal year, Treasury rates decreased but spreads widened. Fixed income markets rewarded higher grade portfolios. MPSRS' fixed income portfolio was weighted toward governments. The fund outperformed the Lehman Index for the one-year period 6.9% versus 6.7%, underperformed for the three-year year period 5.5% versus 5.8% and outperformed the index for the five-year period 6.4% versus 6.3%. Relative to the Salomon Brothers Broad Grade Index, MSPRS matched in the one-year time horizon 6.9% to 6.9%, was behind in the three-year period 5.5% to 5.9% and the five-year period 6.4% to 6.5%.

Fixed income represented 20.0% of the total portfolio compared with 21.9% last year. The corporate sector represented 40.7% of fixed income securities with government securities accounting for 59.3%. Last year corporate securities were 37.6% of the total with government securities representing 62.4%. The increased level of corporates was the result of quality spreads widening.

### *Real Estate Equity*

As of the year ending September 30, 2000, 8.3% of the total investment portfolio was invested in equity real estate. This compares to 7.5% for the fiscal year ending September 30, 1999. The target asset allocation for equity real estate investments is 8.5%.

The one-year, three-year and five-year total equity real estate net returns for the fiscal year ending September 30, 2000, were 11.3%, 11.9% and 11.9%, respectively, as compiled by Capital Resource Advisors. This compares to the National Council of Real Estate Investment Fiduciaries (NCREIF) Property Index returns of 10.9%, 12.9% and 11.5% relating to the same periods. As of September 30, 2000, the NCREIF portfolio of properties is heavily weighted in the office sector at 40.0% versus the System's portfolio at 27.0%. The historical volatility of the office sector returns makes it a more risky property type. Because the NCREIF Index returns are quoted before advisor fees/overhead and the System's returns are quoted after all advisor fees/overhead, the NCREIF returns stated above have been adjusted downward by 75 basis points to approximate comparable returns.

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

### *Real Estate Debt (Mortgages)*

As of the year ending September 30, 2000, less than 0.1% of the total investment portfolio was invested in direct mortgages. The asset allocation objective is to reduce mortgage holdings to 0.0% over time; a majority of the mortgage portfolio was sold in 1997 and 1998 to take advantage of the favorable low interest rate environment. The one-year, three-year, and five-year total returns for the mortgage portfolio for the fiscal year ending September 30, 2000 were 6.5%, 7.4%, and 6.8%, respectively.

## Report on Investment Activity

### *Alternative Investments*

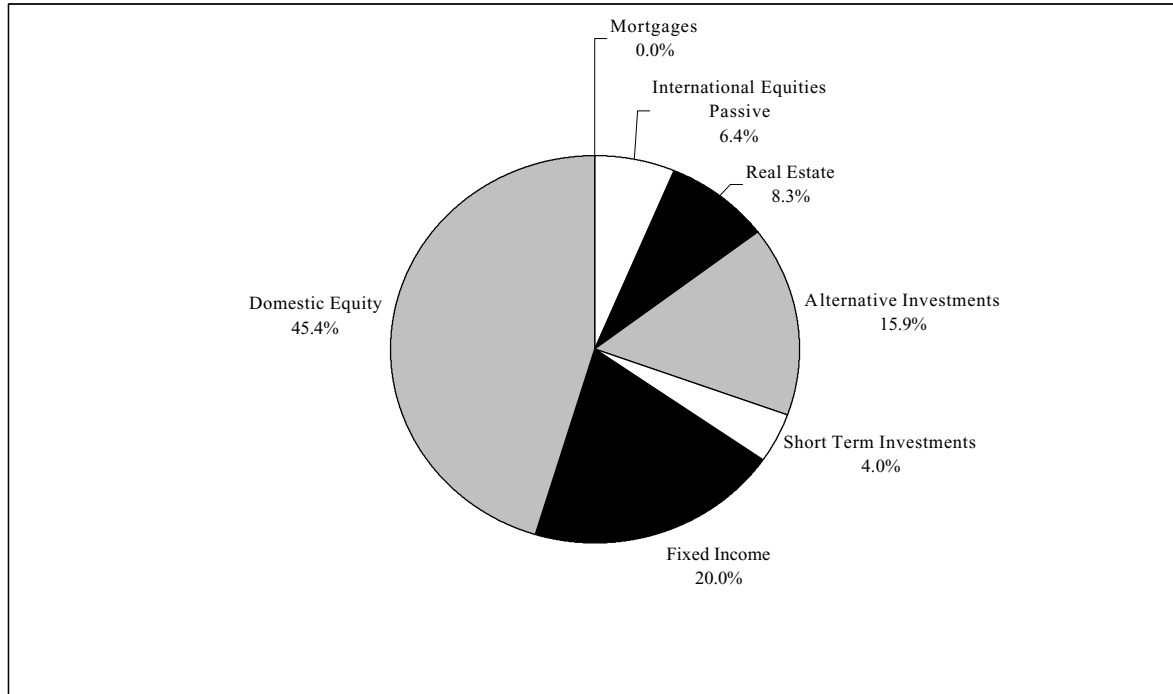
Alternative Investments are investments in the private equity market, either directly in operating companies or indirectly through limited partnerships. Through September 30, 2000, approximately 89.0% of alternative investments were made through limited partnerships. Of the investments in limited partnerships, approximately 11.0% were in partnerships investing internationally. The remaining 11.0% were direct private equity investments and public stock distributions received from the limited partnerships. The percentage of assets in alternative investments has consistently increased from 4.8% as of September 30, 1993, to 15.9% as of September 30, 2000. The target asset allocation for alternative investments is 14.0%. The System operates within a five-year range of 10%-15%. The one-year, three-year and five-year total alternative investment returns for the fiscal year ending September 30, 2000, were 43.3%, 26.5% and 26.0%, respectively.



# INVESTMENT SECTION

## Report on Investment Activity

### Asset Allocation



### Investment Results Period Ending September 30, 2000

<u>Investment Category</u>	<u>Current Year</u>	<u>Annualized Rate of Return</u>		
		<u>3 Years</u>	<u>5 Years</u>	<u>10 Years</u>
Total Portfolio	14.6 %	12.7 %	15.3 %	13.4 %
Domestic Equities Stock - Active	9.1	11.8	19.1	18.3
Domestic Equities Stock - Passive*	15.6	17.0	22.0	19.9
Standard & Poor's ( S&P 500 )	13.3	16.4	21.7	19.4
Standard & Poor's (MidCap)	43.2	19.0	21.7	21.8
International Equities - Passive	10.6	11.6	13.2	N/A
Net Salomon BMI - EPAC 50/50	10.4	10.1	12.0	N/A
Fixed Income Bonds ( U.S. Corp and Govt )	6.9	5.5	6.4	8.3
Salomon Smith Barney Broad Investment Grade Bond Index	6.9	5.9	6.5	8.1
Lehman Brothers Government/Corporate	6.7	5.8	6.3	8.1
Mortgages	6.5	7.4	6.8	7.0
Salomon Smith Barney Broad Investment Grade Bond Index	6.9	5.9	6.5	8.1
Real Estate - Equity	11.3	11.9	11.9	6.0
NCREIF minus 75 Basis Points	10.9	12.9	11.5	5.4
Alternative Investments	43.3	26.5	26.0	19.9

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

## Report on Investment Activity

### Largest Assets Held

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

Rank	Shares	Stocks	Market Value
1	454,292	General Electric Corporation	\$ 26,206,970
2	501,340	Pfizer Incorporated	22,528,966
3	319,353	Cisco Systems Incorporated	17,644,253
4	313,009	Citigroup Incorporated	16,922,049
5	272,780	Microsoft Corporation	16,452,044
6	163,265	Exxon Mobil Corporation	14,550,993
7	230,767	Wal-Mart Stores Incorporated	11,105,662
8	256,507	Intel Corporation	10,661,072
9	118,248	Coastal Corporation	8,765,133
10	161,814	Home Depot Incorporated	8,586,255

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

Rank	Par Amount	Bonds & Notes	Market Value
1	\$ 7,957,000	U.S. Treasury Bonds at 9.125% Due 5-15-2009	\$ 8,719,121
2	6,352,500	U.S. Treasury 0% Coupon Strips Due 8-15-2003	5,380,758
3	4,660,000	Ford Motor Credit Corp FRN 6.59125% Due 10-9-2001	4,671,650
4	3,696,000	Bankers Trust Corp FRN 6.74% Due 3-16-2001	3,698,033
5	5,243,700	U.S. Treasury 0% Coupon Strips Due 11-15-2011	3,677,407
6	3,465,000	FHLMC Debenture 6.70% Due 7-23-2008	3,305,298
7	3,685,000	U.S. Treasury Tiger 0% Coupon Due 8-15-2004	2,893,646
8	2,832,619	Chemical Bank FRN 6.775% Due 7-29-2003	2,858,485
9	2,827,867	First Chicago Corp FRN 6.8375% Due 7-28-2003	2,832,554
10	2,541,000	MTN Nations Bank FRN 6.76% Due 1-05-2004	2,542,143

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

# INVESTMENT SECTION

## Report on Investment Activity

### Schedule of Investment Fees

The State Treasurer is the investment fiduciary and custodian of the System's funds pursuant to state law. Outside advisors are utilized to augment the State Treasurer's internal staff in the real estate and alternative investment markets. Only 14.5% of the total investment portfolio is managed by fully discretionary outside advisors. Outside advisors' fees are netted against the partnership or trust fund income. The Michigan Department of Treasury's cost of operations applicable to the System for the fiscal year amounted to \$186.1 thousand or less than two basis points (.02%) of the market value of the portfolio.

State law created an Investment Advisory Committee comprised of the directors of the Department of Consumer and Industry Services and Management and Budget, or their duly authorized representatives, and three public members appointed by the Governor with the advice and consent of the Senate. The public members serve without pay, but are paid actual and necessary travel and other expenses. The committee meets quarterly to review investments, goals and objectives and may submit recommendations to the State Treasurer. The committee may also, by a majority vote, direct the State Treasurer to dispose of any holding which in the committee's judgement is not suitable for the fund involved, and may by unanimous vote direct the State Treasurer to make specific investments.

#### Schedule of Investment Fees

##### *Investment Managers' Fees:*

	<b>Asset under Management ( in thousands)</b>	<b>Fees ( in thousands)</b>	<b>Basis Points*</b>
State Treasurer	\$ 1,026,771.0	\$ 186.1	1.8
Outside Advisors - Alternative	169,575.9	1,351.7	79.7
Real Estate	4,002.5	-	-
<b>Total</b>	<b>\$ 1,200,349.4</b>		

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

	<b>Assets in Custody** ( in thousands)</b>	<b>Fees ( in thousands)</b>
Custody & Research Fees	\$ 873,688.1	\$ 21.5
Security Lending Fees	27,058.3	1,582.9

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

\*\* Other investment service fees are charged on assets managed by the State Treasurer at its custodial bank in the amount of \$873,688.1 thousand; \$27,058.3 thousand of the assets were on loan at fiscal year end.

# INVESTMENT SECTION

## Report on Investment Activity

### Schedule of Investment Commissions

	Fiscal Year Ended September 30, 2000		
	Commissions Paid <sup>(1)</sup>	Number of Shares Traded	Average Commission Rate Per Share
	<b>Investment Brokerage Firms:</b>		
Merrill Lynch & Co.	\$ 20,085	404,923	0.05
Goldman, Sachs & Co.	19,045	370,988	0.05
C.S. First Boston Corporation	17,047	340,938	0.05
Morgan Stanley/Dean Witter	16,956	344,801	0.05
Salomon Smith Barney, Inc.	15,350	344,967	0.04
Bridge Trading Company	12,563	248,954	0.05
UBS Warburg	11,796	241,361	0.05
Lehman Brothers, Inc.	11,354	221,197	0.05
Bear Stearns & Co.	11,245	241,385	0.05
Donaldson, Lufkin & Jenrette Securities Corp.	10,948	227,443	0.05
Prudential Securities, Inc.	7,593	148,972	0.05
J.P. Morgan Securities, Inc.	5,918	118,366	0.05
Sanford C. Bernstein & Co.	5,673	107,731	0.05
S.G. Cowen & Company	5,175	101,900	0.05
CIBC World Market	4,672	93,434	0.05
Deutsche Bank	3,553	71,054	0.05
Standard & Poor's Securities	2,695	53,901	0.05
Cantor Fitzgerald & Co.	2,199	57,915	0.04
BancBoston Robertson Stephens	2,059	35,328	0.06
Schroder & Co. Inc.	1,739	34,771	0.05
Charles Schwab & Co., Inc.	1,660	33,210	0.05
Banc of America Securities, LLC	1,367	27,335	0.05
First Union Securities	1,260	25,197	0.05
ISI Group, Inc.	1,052	21,038	0.05
Howard Weil Labouisse, Friedrichs, Inc.	903	15,767	0.06
Subtotal ( 25 highest)	\$ 193,907	3,932,876	0.05 <sup>(2)</sup>
All Other Brokerage Firms	2,688	48,703	0.06 <sup>(3)</sup>
Total	\$ 196,595	3,981,579	0.05 <sup>(4)</sup>

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

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

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

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

# INVESTMENT SECTION

## Investment Summary

	Fiscal Year Ended September 30, 2000			Fiscal Year Ended September 30, 1999		
	Market Value <sup>(a)</sup>	Percent of Total Market Value	Investment & Interest Income <sup>(c)</sup>	Percent of Total Market Value	Investment & Interest Income <sup>(c)</sup>	Percent of Investment & Interest Income
Fixed Income:						
Government Bonds	\$ 142,433,090	11.9%	\$ 9,987,016	13.6%	\$ (278,183)	(0.2%)
Corporate Bonds & Preferred Stocks	97,671,093	8.1%	5,607,633	8.3%	776,249	0.5%
Mortgages	358,384	0.0%	31,037	0.0%	100,522	0.1%
Total Fixed Income	240,462,567	20.0%	15,625,686	21.9%	598,588	0.4%
Common Stock	544,219,228	45.4%	59,301,723	51.0%	115,866,103	73.3%
Real Estate	99,979,814	8.3%	9,675,131	7.5%	9,360,111	5.9%
Alternative Investments	190,026,521	15.9%	52,986,422	10.0%	14,804,560	9.4%
International Equities	77,010,108	6.4%	6,131,487	5.6%	14,389,895	9.1%
Short Term Investments <sup>(b)</sup>	48,561,747	4.0%	2,448,405	4.0%	2,946,833	1.9%
<b>Total</b>	<b>\$ 1,200,259,985</b>	<b>100.0%</b>	<b>\$ 146,168,854</b>	<b>100.0%</b>	<b>\$ 157,966,090</b>	<b>100.0%</b>

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

<sup>(b)</sup> Includes equity in the State Treasurer's Common Cash Fund. Market Values for short term investments excludes the amounts payable and receivable for sales and purchases of securities with a settlement date after September 30 for each fiscal year. The amount also excludes \$15,971,609 and \$28,507,356 in cash collateral for security lending for fiscal year 2000 and 1999, respectively.

<sup>(c)</sup> Total Investment & Interest Income excludes net security lending income of \$110,490 and \$89,682 for fiscal year 2000 and 1999, respectively.

# ACTUARIAL SECTION



Actuary's Certification  
Summary of Actuarial Assumptions and Methods  
Schedule of Active Member Valuation Data  
Retirant and Beneficiary Data  
Prioritized Solvency Test  
Summary of Plan Provisions

# ACTUARIAL SECTION

## Actuary's Certification

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### THE SEGAL COMPANY

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

January 18, 2001

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

Ladies and Gentlemen:

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

Actuarial valuations are prepared annually to determine MSPRS's actuarial liabilities and the employer contributions required to fund the System in accordance with the actuarial reserve funding provisions of the governing State Statute. The most recent actuarial valuation as of September 30, 2000 included a total of 4,570 members of MSPRS. The actuarial value of MSPRS's assets amounted to approximately \$1,113.1 million on September 30, 2000.

The actuarial assumptions used in the 2000 valuation are the same as those used in the previous annual actuarial valuation. These assumptions produce valuation results which we consider to be reasonably indicative of the plan's underlying cost. Also, in our opinion, the actuarial assumptions and methods used for funding purposes meet the parameters for the disclosures presented in the financial section by GASB Statement No. 25.

Our actuarial valuation of MSPRS as of September 30, 2000 was performed by qualified actuaries in accordance with accepted actuarial procedures. In our opinion, the calculated contribution rate meets the fundamental objectives of State law. Based on the 2000 valuation results, it is also our opinion that the Michigan State Police Retirement Retirement System continues in sound condition, in accordance with actuarial principles of level cost financing.

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

Sincerely,



---

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

Atlanta Boston Chicago Cleveland Denver Edmonton Hartford Houston Los Angeles Minneapolis  
New Orleans New York Phoenix St. Louis San Francisco Seattle Toronto Washington, D.C. West Palm Beach



Multinational Group of Actuaries and Consultants: Amsterdam Antwerp  
Barcelona Hamburg Lausanne London Melbourne Mexico City Oslo Paris

## **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%.
2. The mortality table used in evaluating allowances to be paid was the 1994 Group Annuity Mortality Table, set forward one year for both men and women. Adopted 1998.
3. Sample probabilities of retirement with an age and service allowance are shown in Schedule 1 on the next page. Adopted 1998.
4. Sample probabilities of withdrawal from service and disability, together with individual pay increase assumptions, are shown in Schedule 2 on the next page.
5. Total active member payroll is assumed to increase 4% per year. This represents the portion of the individual pay increase assumptions attributable to inflation. In effect, this assumes no change in the number of active members.
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 declining period of 50 years, beginning October 1, 1986.
7. During 1998, 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.
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).



# ACTUARIAL SECTION

## Summary of Actuarial Assumptions and Methods (Continued)

### SCHEDULE 1

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

<u>Retirement Ages</u>	<u>Percent of Eligible Active Members Retiring Within Next Year</u>
44-49 (first year eligible to retire)	50 %
44-49 (after first year eligible to retire)	25
50-57	25
58	35
59	50
60	65
61	80
62-63	100

### SCHEDULE 2

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

<u>Sample Ages</u>	<u>Years of Service</u>	<u>Percent of Active Members Withdrawing Within Next Year (Men and Women)</u>	<u>Percent of Active Members Becoming Disabled Within Next Year</u>	<u>Percent Increase In Pay During Next Year*</u>
All	0	6.50 %		
	1	4.00		
20	2 & Over	2.00	0.30 %	11.30 %
25	"	2.00	0.31	10.70
30	"	1.50	0.31	7.85
35	"	0.60	0.32	6.10
40	"	0.35	0.36	5.24
45	"	0.35	0.43	4.89
50	"		0.53	4.86
55	"		0.63	4.68
60	"		0.75	4.68

\*These rates apply after 3 years of service. During the first 3 years, the assumed increases are 84%, 19% and 14% respectively.

## Actuarial Valuation Data

### Schedule of Active Member Valuation Data

Valuation Date Sept. 30	Number	Reported Annual Payroll	Average Annual Pay	% Increase	Average Age	Average Service
1991	2,139	\$ 91,626,979	\$ 42,836	8.7 %	39.2 years	15.4 years
1992	1,985	89,899,102	45,289	5.7	39.4	15.3
1993	1,885	86,791,793	46,043	1.7	39.9	15.1
1994	1,992	88,623,068	44,490	(3.4)	38.8	13.4
1995	2,181	104,500,048	47,914	7.7	37.9	13.0
1996	2,135	106,826,272	50,036	4.4	38.2	13.1
1997	2,090	110,085,960	52,673	5.3	38.2	12.9
1998	2,220	108,183,040	48,731	(7.5)	37.5	11.6
1999	2,216	116,910,216	52,757	8.3	37.0	11.5
2000	2,210	116,558,417	52,471	(0.0)	37.2	11.6

### Retirant and Beneficiary Data Rolls End of Year

Year Ended Sept. 30	Number			Average Monthly Benefit			Average Age		
	Pensioners	Widows	Children	Pensioners	Widows	Children	Pensioners	Widows	Children
1991	1,142	263	3	\$ 1,510	\$ 854	\$ 100	60.8	66.6	13.4
1992	1,267	281	3	1,620	868	100	60.4	66.6	14.4
1993	1,357	282	3	1,697	879	100	60.4	66.7	15.3
1994	1,483	273	3	1,721	938	100	60.5	69.5	16.4
1995	1,548	279	4	1,770	962	100	60.8	69.6	14.8
1996	1,612	397	6	1,845	1,001	100	61.6	69.3	10.3
1997	1,703	310	5	1,963	1,192	419	62.5	70.4	10.7
1998	1,820	314	5	2,062	1,225	499	62.8	71.0	10.1
1999	1,893	334	4	2,141	1,263	499	63.1	71.5	10.8
2000	1,968	345	6	2,227	1,308	366	61.9	71.9	10.4

# ACTUARIAL SECTION

## Prioritized Solvency Test

The Michigan State Police Retirement 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 byproduct of level percent of payroll funding methods.

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

Valuation Date Sept. 30	Actuarial Accrued Liability (\$ in Thousands)			Valuation Assets	Portion of Present Value Covered by Assets			
	(1)	(2)	(3)		(1)	(2)	(3)	(4)**
	Active Member Contributions	Retirants and Beneficiaries	Active and Inactive Members (Employer Financed Portion)					
1991	\$ 2,747	\$251,716	\$ 340,717	\$ 468,304	100 %	100 %	72.8 %	78.7 %
1992	2,127	301,927	340,316	488,711	100	100	54.3	75.8
1993	2,133	330,629	347,749	526,193	100	100	55.6	77.3
1993***	2,133	330,629	347,749	530,936	100	100	57.0	78.0
1994	1,770	370,681	336,847	566,541	100	100	57.6	79.9
1994*	1,770	394,292	315,779	566,541	100	100	54.0	79.6
1995	1,497	422,960	374,363	622,626	100	100	52.9	77.9
1996	1,183	459,985	362,293	697,923	100	100	65.3	84.8
1997	847	516,379	363,100	787,240	100	100	74.4	89.4
1997***	847	516,379	363,100	928,714	100	100	113.3	105.5
1997+	847	516,379	395,533	928,714	100	100	104.0	101.7
1998	614	593,169	349,941	974,365	100	100	108.8	103.2
1998*	614	604,724	357,130	974,365	100	100	103.3	101.2
1999	273	643,284	362,971	1,036,840	100	100	108.4	103.0
2000	198	685,272	355,244	1,113,065	100	100	120.4	106.9

\* Revised actuarial assumptions.

\*\*\* Revised asset valuation method.

\*\* Percent funded on a total valuation asset and total actuarial accrued liability basis.

+ Revised inflation assumption

## Summary Of Plan Provisions

Our actuarial valuation of MSPRS as of September 30, 2000, is based on the present provisions of Public Act 182 of 1986, as amended.

### ***Regular Retirement***

Eligibility — 25 years of credited service with no age requirement; or age 50 with 10 years credited service.

Annual Amount — If member has 25 or more years of credited service, 60% of final average compensation; if member has less than 25 years of credited service, total credited service times 2% of final average compensation.

Type of Final Annual Compensation — Average of 2 final years.

### ***Early Retirement***

None.

### ***Deferred Retirement (vested benefit)***

Eligibility — 10 years of credited service. Benefit commences at age 50.

Annual Amount — Computed as Regular Retirement benefit based on credited service and final average compensation at termination.

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

Eligibility — No age or service requirement.

Annual Amount — 60% of final average compensation. Disability benefit plus workers' compensation benefit, if any, shall not exceed 100% of final average compensation.

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

Eligibility — 10 years of credited service.

Annual Amount — 2.4% of final average compensation times years of credited service, to a maximum of 60% of final average compensation.

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

Eligibility — No age or service requirement

Annual Amount — 60% of final average compensation is payable to surviving spouse; additional \$1,200 per year for each child under 18 is also payable. If no surviving spouse, children under 18 share in 60% benefit until attainment of age 18. If no spouse or children, dependent parents are eligible for 60% benefit (plus \$1,200 per dependent sibling under 18). Retirement benefit plus workers' compensation, if any shall not exceed 100% of final average compensation.

Lump Sum Payment — A \$1,500 funeral benefit is also payable.

# ACTUARIAL SECTION

## Summary Of Plan Provisions (Continued)

### *Non-Duty Death Before Retirement*

Eligibility — 10 years of credited service.

Annual Amount — 2.4% of final average compensation times years of credited service, to a maximum of 60% of final average compensation, payable to surviving spouse. If no surviving spouse, children under 18 share in benefit until attainment of age 18.

### *Death After Retirement*

The retired member's benefit continues to the surviving spouse. If no surviving spouse, children under 18 share in the continued benefit until attainment of age 18.

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

All members retiring (or leaving employment with vested benefits), and their survivors, are eligible for automatic 2% annual (non-compounded) benefit increases, with a maximum annual increase of \$500.

### *Post - Retirement Health Insurance Coverage*

Persons in receipt of retirement allowances, and their dependents, are eligible for 95% State-paid health insurance coverage and 90% State-paid dental and vision insurance.

### *Member Contributions*

None.

# STATISTICAL SECTION

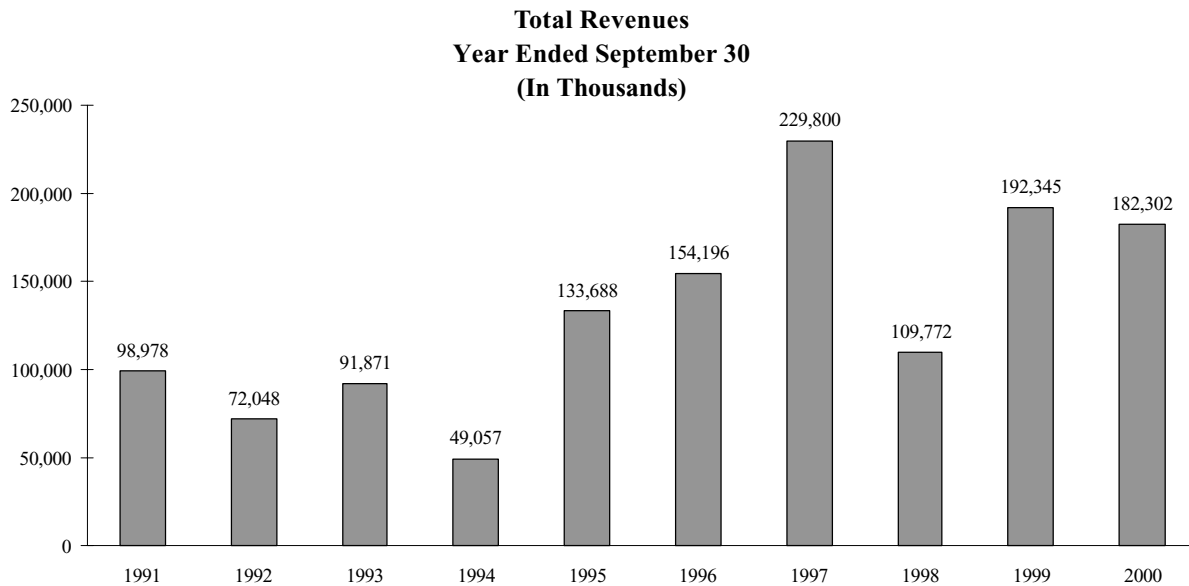


Schedule of Revenues by Source  
Schedule of Expenses by Type  
Schedule of Benefit Expenses by Type  
Schedule of Retired Members by Type of Benefit  
Schedule of Average Benefit Payments  
Ten Year History of Membership

# STATISTICAL SECTION

## Schedule of Revenues by Source

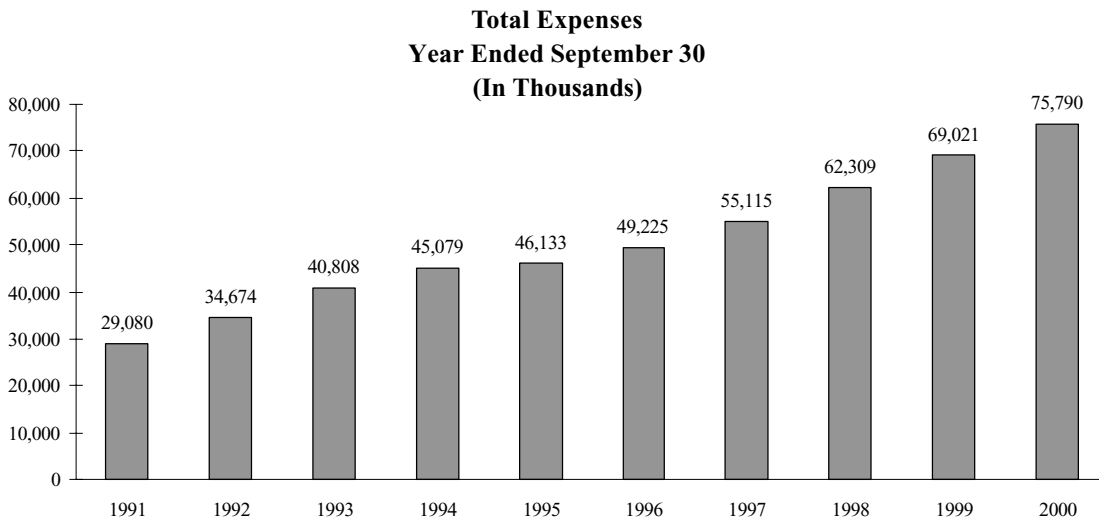
Fiscal Year Ended Sept. 30	Member Contributions	Employer Contributions		Net Investment & Other Income	Total
		Dollars	% of Annual Covered Payroll		
1991	\$ 57,617	\$ 28,732,958	31.4 %	\$ 70,187,267	\$ 98,977,842
1992	72,117	29,203,071	32.5	42,772,851	72,048,039
1993	30,065	31,183,021	35.9	60,657,772	91,870,858
1994	45,384	35,945,995	40.6	13,065,959	49,057,338
1995	71,008	37,754,338	36.1	95,862,258	133,687,604
1996	76,743	53,135,642	49.7	100,983,575	154,195,960
1997	712,799	51,851,631	47.1	177,235,892	229,800,322
1998	922,736	33,123,384	30.6	75,726,277	109,772,397
1999	1,000,518	34,447,886	29.1	156,926,728	192,345,132
2000	1,115,233	36,528,809	18.4	144,657,843	182,301,885



Schedule of Expenses by Type

Fiscal Year Ended Sept. 30	Benefit Payments*	Refunds and Transfers	Administrative Expenses	Total
1991	\$ 28,686,901		\$ 393,003	\$ 29,079,904
1992	34,207,792	\$ 586	465,435	34,673,813
1993	40,446,933	1,743	359,160	40,807,836
1994	44,629,521		449,033	45,078,554
1995	45,639,290		493,400	46,132,690
1996	48,795,509		429,986	49,225,495
1997	54,912,395		202,828	55,115,223
1998	62,083,435		225,327	62,308,762
1999	68,693,133	4,694	322,997	69,020,824
2000	75,631,405		158,935	75,790,340

\*Includes health, dental and vision benefits.



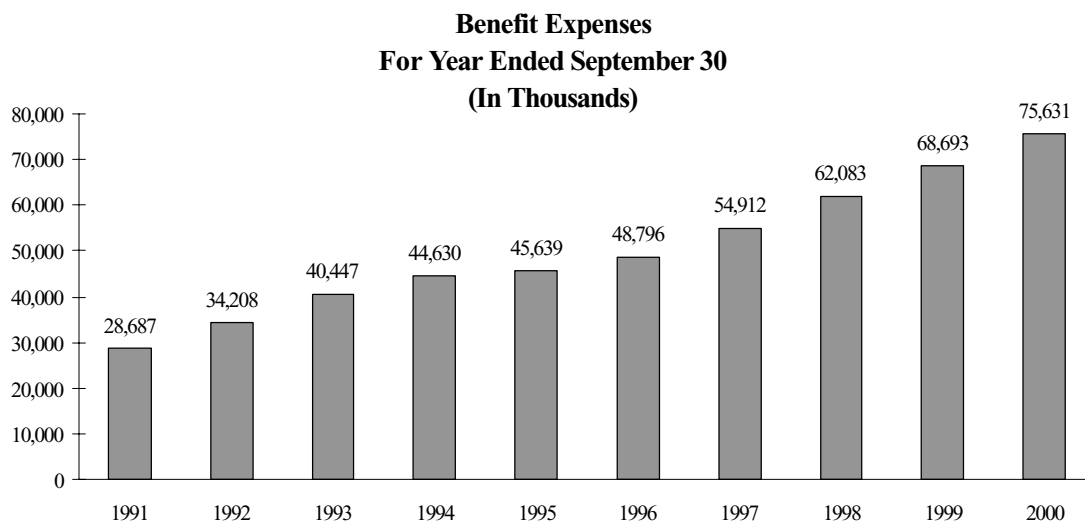


# STATISTICAL SECTION

## Schedule of Benefit Expenses by Type

Fiscal Year Ended Sept. 30	Regular Benefits	Disability Benefits	Funeral Benefits	Health Benefits*	Total
1991	\$ 20,573,564	\$ 1,534,544		\$ 6,578,793	\$ 28,686,901
1992	23,797,297	1,760,059	\$ 3,000	8,647,436	34,207,792
1993	27,681,161	1,957,605	1,500	10,806,667	40,446,933
1994	30,915,357	2,127,957	3,000	11,583,207	44,629,521
1995	33,141,186	2,366,398		10,131,706	45,639,290
1996	35,794,961	2,482,429	1,500	10,516,619	48,795,509
1997	40,536,134	2,782,100		11,594,161	54,912,395
1998	45,216,692	3,010,640		13,856,103	62,083,435
1999	49,330,784	3,155,805		16,206,544	68,693,133
2000	53,466,268	3,223,915	3,000	18,938,222	75,631,405

\*Includes vision and dental benefits



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

Amount Monthly Benefit	Number of Retirees	Type of Retirement *						Option**
		1	2	3	4	5	6	Life
\$ 001 - 400	42	33	1	2	1	3	2	42
401 - 800	123	89	6	3	10	0	15	123
801 - 1,200	425	212	152	30	5	17	9	425
1,201 - 1,600	307	209	47	27	11	6	7	307
1,601 - 2,000	161	125	10	12	4	3	7	161
2,001 - 2,400	211	158	23	19	7	1	3	211
2,401 - 2,800	400	374	9	8	3	2	4	400
2,801 - 3,200	402	392	4	4	2	0	0	402
3,201 - 3,600	169	167	0	0	0	0	2	169
3,601 - 4,000	48	47	0	1	0	0	0	48
Over 4,000	31	31	0	0	0	0	0	31
Totals	2,319	1,837	252	106	43	32	49	2,319

**\* Type of Retirement**

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

**\*\*Selected Option**

Life - 100% Joint and Survivors

# STATISTICAL SECTION

## Schedule of Average Benefit Payments

Retirement Effective Dates	Years Credited Service							
	0-5	5-10	10-15	15-20	20-25	25-30	30+	Total
Period 10/1/94 to 9/30/95:								
Average Monthly Benefit	\$ 742	\$ 1,038	\$ 763	\$ 938	\$ 1,253	\$ 1,730	\$ 2,137	\$ 1,644
Average Final Average Salary	4,160	15,508	19,504	20,169	24,718	31,818	40,964	30,364
Number of Active Retirants	74	18	59	63	96	1,322	199	1,831
Period 10/1/95 to 9/30/96:								
Average Monthly Benefit	\$ 757	\$ 952	\$ 775	\$ 959	\$ 1,255	\$ 1,814	\$ 2,180	\$ 1,709
Average Final Average Salary	3,752	18,858	20,419	20,860	25,543	33,351	41,832	31,620
Number of Active Retirants	82	20	61	64	98	1,383	207	1,915
Period 10/1/96 to 9/30/97:								
Average Monthly Benefit	\$ 750	\$ 1,112	\$ 789	\$ 1,016	\$ 1,324	\$ 1,971	\$ 2,295	\$ 1,840
Average Final Average Salary	2,411	18,858	21,369	21,482	25,967	34,903	42,786	32,846
Number of Active Retirants	86	20	70	67	98	1,463	214	2,018
Period 10/1/97 to 9/30/98:								
Average Monthly Benefit	\$ 731	\$ 1,188	\$ 819	\$ 1,114	\$ 1,351	\$ 2,084	\$ 2,392	\$ 1,936
Average Final Average Salary	2,116	21,238	23,006	22,791	26,112	36,912	44,432	34,509
Number of Active Retirants	98	22	75	70	98	1,548	227	2,138
Period 10/1/98 to 9/30/99:								
Average Monthly Benefit	\$ 746	\$ 1,196	\$ 856	\$ 1,120	\$ 1,401	\$ 2,173	\$ 2,489	\$ 2,006
Average Final Average Salary	1,852	22,257	24,530	22,790	27,318	38,441	45,879	35,702
Number of Active Retirants	112	23	85	70	102	1,601	238	2,231
Period 10/1/99 to 9/30/00:								
Average Monthly Benefit	\$ 938	\$ 1,408	\$ 854	\$ 1,124	\$ 1,421	\$ 2,267	\$ 2,569	\$ 2,086
Average Final Average Salary	8,313	25,199	24,827	23,537	27,727	39,975	47,088	37,065
Number of Active Retirants	141	25	86	67	103	1,651	246	2,319

**10 Year History of Membership**  
**Fiscal Years Ended September 30**

