

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

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

**MJRS**

**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 \$1,188.90 (\$3.17 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 Judges'  
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. Esser*  
Executive Director

## Letter of Transmittal

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

The 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 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 communications 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.

Customers who prefer one-on-one contact can arrange an appointment at the Main Office in Lansing anytime during normal business hours.

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.

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.

## **A Year of Change**

This past year was one of transition for the Judges' Retirement System. Many proposed changes to the retirement plan that had been pending for several years were finally resolved this year through a settlement agreement in May. This settlement allowed trial judges who were active in the Defined Benefit Retirement Plan as of March 30, 1997 to elect to transfer to the new optional Defined Contribution Retirement Plan. The new Defined Contribution Retirement Plan is mandatory for judges who start employment after March 30, 1997.

Between June 1, 2000 and July 31, 2000, 170 members elected to transfer to this new Defined Contribution Retirement Plan. As a result, approximately 77 million dollars in retirement funds are scheduled for transfer to CitiStreet Investment Management Group at the end of October 2000.

Plans are underway to administer other settlement issues in 2001, including a new 401(h) health investment plan and a buy-in election for members remaining in the Defined Benefit Retirement Plan.

## **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. 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 meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.



# INTRODUCTORY SECTION

## Letter of Transmittal (Continued)

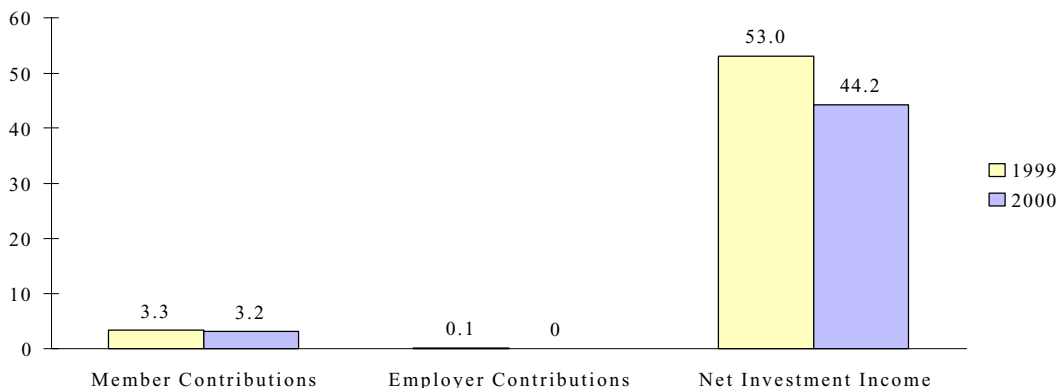
### FINANCIAL INFORMATION

#### *Additions to Plan Net Assets*

The reserves needed to finance retirement and health benefits are accumulated through the collection of employer and employee contributions and through earnings on investments. Contributions and net investment income for fiscal year 2000 totaled approximately \$47 million.

Total contributions and net investment income decreased 16% from those of the prior year due primarily to a decrease in net investment earnings. Since the system was overfunded and the total contributions rate was negative, there were no employer contributions during the year. Net investment income decreased 16.7% from the prior year. Investment income represented 93.2% of total revenue. The Investment Section of this report reviews the results of investment activity for 2000.

**Additions to Plan Net Assets  
(In Millions)**



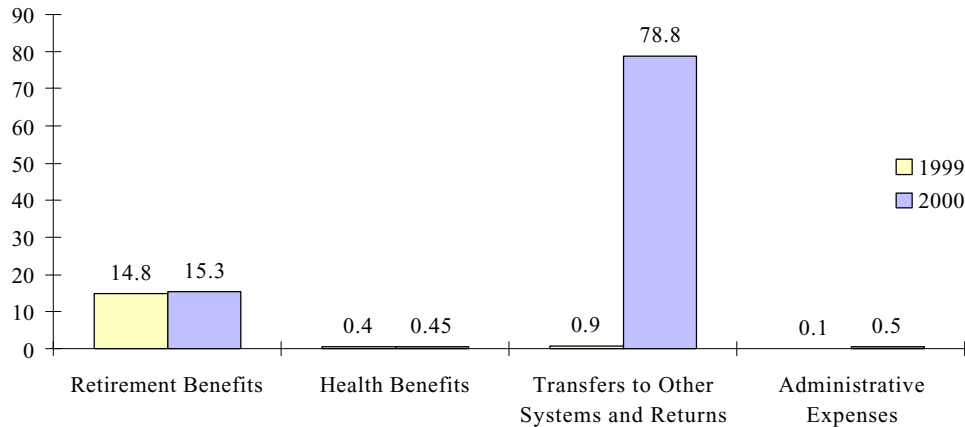
#### *Deductions From Plan Net Assets*

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. During fiscal year 2001, the system will transfer an estimated \$76.9 million to the Defined Contribution Retirement Plan for the judges who chose that option. Of that amount, \$59 million represents employee contributions. The transfer is in connection with the settlement of a lawsuit and is reflected in the financial statement and valuation for fiscal year 2000. Expenditures for health care increased \$51,348 from \$398,997 to 450,345 during the fiscal year. Total deductions for fiscal year 2000 were \$95 million, an increase of 483% from 1999 expenditures. If the \$76.9 million transfer to Defined Contribution Retirement Plan were eliminated from 2000 expenditures, 2000 expenditures would have increased 11% over 1999 expenditures. The increase in benefit expenses resulted from a combination of increased benefits payments per retiree and increased number of retirees paid.

**Letter of Transmittal  
(Continued)**

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**Deductions from Plan Assets  
(In Millions)**



***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 13.2%. For the last five years, the System has experienced an annualized dollar weighted rate of return of 15.1%. 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 \$274.8 million and \$204.2 million resulting in funded ratio of 134.6%. As of September 30, 1999, the amounts were \$320.9 million and \$243.5 million, respectively. A historical perspective of funding levels for the System is presented on the Schedule of Funding Progress in the Required Supplementary Information in the financial Section of this report.

# INTRODUCTORY SECTION

## Letter of Transmittal (Continued)

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### POSTEMPLOYEMENT 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 benefit were to be pre-funded. If these benefits were pre-funded, the actuarial accrued liability for these benefits would be approximately \$3.5 million and the employer's contribution rate would be 13.06%.

### PROFESSIONAL SERVICES

An audit of the System for fiscal year ended September 30, 2000 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 by the Segal Company for the fiscal years ended September 30, 2000, and 1999. Actuarial certification and supporting statistics are included in the Actuarial Section of this report.

### ACKNOWLEDGMENTS

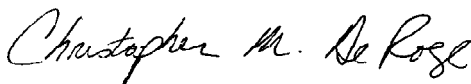
The preparation of this report was accomplished with the dedication and cooperation of many people. It is intended to provide complete and reliable information as a basis for making management decisions, as a means of determining compliance with legal provisions, and as a means for determining responsible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

Vacant  
Active Judge

Eric E. Doster  
Trustee (General Public)  
Term Expires March 31, 2003

Lyle Van Houten  
Trustee (General Public)  
Terms Expires March 31, 2003

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

George M. Elworth  
Representing Attorney General  
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

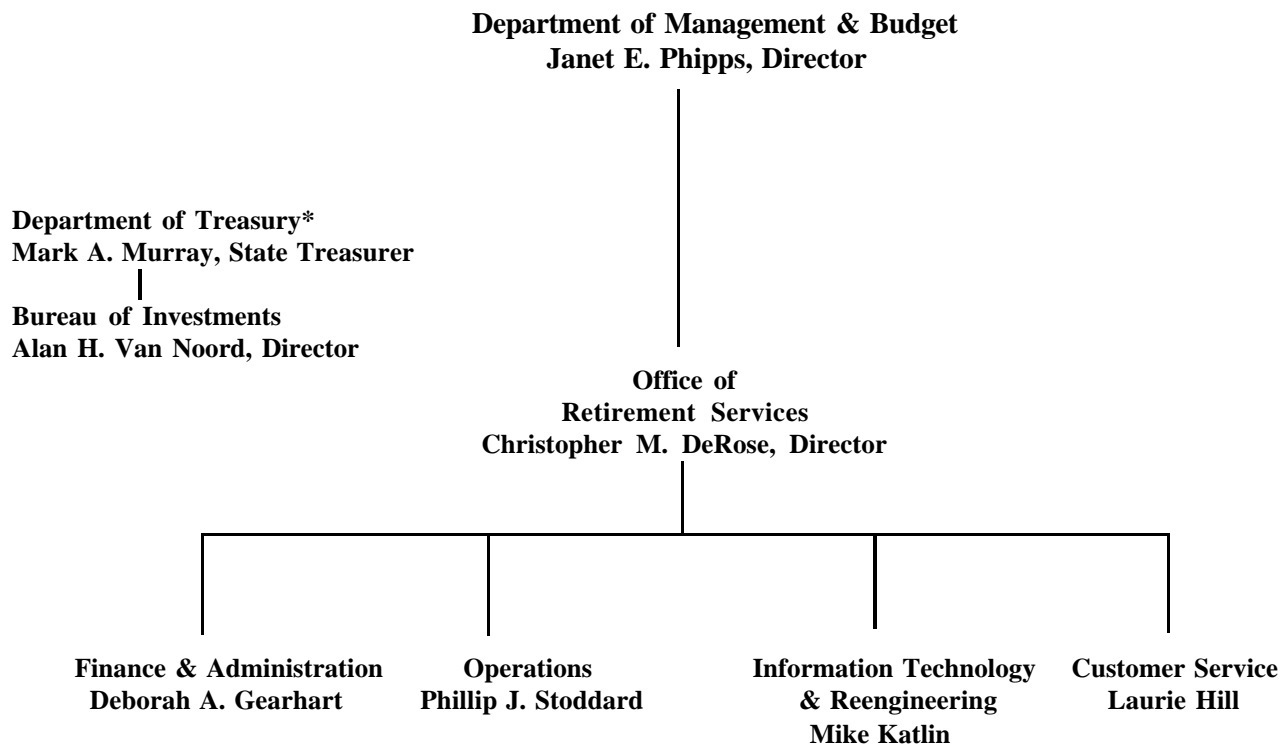
**Legal Advisor**  
Jennifer M. Granholm  
Attorney General  
State of Michigan

**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.

# **INTRODUCTORY SECTION**

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# 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 Judges  
Retirement System Board

We have audited the accompanying statements of pension plan and postemployment healthcare plan net assets of the Michigan Judges Retirement System, as of September 30, 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 Judges Retirement System. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the plan net assets of the Michigan Judges 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 Judges Retirement System's management. The Schedules of Funding Progress and Employer Contributions and related notes on pages 28 to 30 and the supporting schedules on pages 31 to 34 have been subjected to the auditing procedures applied in our audits of the basic financial statements, and in our opinion, are fairly stated in all material respects when considered in relation to the basic financial statements taken as a whole.

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

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

January 31, 2001

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# FINANCIAL SECTION

## 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  | \$ 34,458,028         |                     | \$ 34,458,028         | \$ 3,360,865          | \$ (1,981)          | \$ 3,358,884          |
| Receivables:                                      |                       |                     |                       |                       |                     |                       |
| Amounts due from employer                         | 154,068               | \$ 165              | 154,233               | 197,709               | 117                 | 197,826               |
| Interest and dividends                            | 1,424,260             |                     | 1,424,260             | 1,505,757             |                     | 1,505,757             |
| Sale of investments                               | 2,251,852             |                     | 2,251,852             | 217,941               |                     | 217,941               |
| Total receivables                                 | 3,830,180             | 165                 | 3,830,345             | 1,921,407             | 117                 | 1,921,524             |
| Investments:                                      |                       |                     |                       |                       |                     |                       |
| Short term investments                            | 42,000,180            |                     | 42,000,180            | 36,939,943            |                     | 36,939,943            |
| Bonds, notes, mortgages<br>and preferred stock    | 71,388,156            |                     | 71,388,156            | 73,928,298            |                     | 73,928,298            |
| Common stock                                      | 148,305,552           |                     | 148,305,552           | 173,733,035           |                     | 173,733,035           |
| Real estate                                       | 32,503,419            |                     | 32,503,419            | 27,260,263            |                     | 27,260,263            |
| Alternative investments                           | 46,645,676            |                     | 46,645,676            | 32,683,603            |                     | 32,683,603            |
| International investments                         | 20,130,510            |                     | 20,130,510            | 18,782,919            |                     | 18,782,919            |
| Collateral on<br>loaned securities                | 3,472,089             |                     | 3,472,089             | 14,253,678            |                     | 14,253,678            |
| Total investments                                 | 364,445,582           |                     | 364,445,582           | 377,581,739           |                     | 377,581,739           |
| <b>Total assets</b>                               | <b>402,733,790</b>    | <b>165</b>          | <b>402,733,955</b>    | <b>382,864,011</b>    | <b>(1,864)</b>      | <b>382,862,147</b>    |
| <b>Liabilities:</b>                               |                       |                     |                       |                       |                     |                       |
| Warrants outstanding                              | 56,725                | 61                  | 56,786                | 69,302                | 41                  | 69,343                |
| Accounts payable and<br>other accrued liabilities | 1,604,503             | 343,082             | 1,947,585             | 347,567               | 215,169             | 562,736               |
| Amount due to Defined<br>Contribution Plan        | 76,911,498            |                     | 76,911,498            |                       |                     |                       |
| Obligations under securities lending              | 3,472,089             |                     | 3,472,089             | 14,253,678            |                     | 14,253,678            |
| <b>Total liabilities</b>                          | <b>82,044,815</b>     | <b>343,143</b>      | <b>82,387,958</b>     | <b>14,670,547</b>     | <b>215,210</b>      | <b>14,885,757</b>     |
| <b>Net Assets (Liabilities) Held in Trust</b>     |                       |                     |                       |                       |                     |                       |
| <b>for Pension and Health Benefits*</b>           | <b>\$ 320,688,975</b> | <b>\$ (342,978)</b> | <b>\$ 320,345,997</b> | <b>\$ 368,193,464</b> | <b>\$ (217,074)</b> | <b>\$ 367,976,390</b> |

\* A schedule of funding progress is presented in the Required Supplementary Information in the Financial Section. The accompanying notes are an integral part of these financial statements.

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

For the Fiscal Years Ended September 30, 2000 and 1999

|  | September 30, 2000    |                     |                      | September 30, 1999    |                     |                      |
|--|-----------------------|---------------------|----------------------|-----------------------|---------------------|----------------------|
|  | Pension<br>Plan       | Health<br>Plan      | Total                | Pension<br>Plan       | Health<br>Plan      | Total                |
| <b>Additions:</b>  |                       |                     |                      |                       |                     |                      |
| Member contributions   | \$ 2,874,966          | \$ 324,441          | \$ 3,199,407         | \$ 3,019,443          | \$ 297,397          | \$ 3,316,840         |
| Employer contributions   |                       |                     |                      | 58,499                |                     | 58,499               |
| Investment income:   |                       |                     |                      |                       |                     |                      |
| Investment income  | 44,442,882            |                     | 44,442,882           | 53,299,818            |                     | 53,299,818           |
| Securities lending income  | 367,560               |                     | 367,560              | 787,154               |                     | 787,154              |
| Investment expenses:   |                       |                     |                      |                       |                     |                      |
| Real estate operating expenses   | (20,336)              |                     | (20,336)             | (40,814)              |                     | (40,814)             |
| Securities lending expenses  | (344,105)             |                     | (344,105)            | (742,313)             |                     | (742,313)            |
| Other investment expenses  | (281,915)             |                     | (281,915)            | (295,362)             |                     | (295,362)            |
| Miscellaneous  | 15                    |                     | 15                   | 93                    |                     | 93                   |
| <b>Total additions</b>   | <b>47,039,067</b>     | <b>324,441</b>      | <b>47,363,508</b>    | <b>56,086,518</b>     | <b>297,397</b>      | <b>56,383,915</b>    |
| <b>Deductions:</b>   |                       |                     |                      |                       |                     |                      |
| Benefits and refunds paid to plan members<br>and beneficiaries                     |                       |                     |                      |                       |                     |                      |
| Retirement benefits  | 15,260,878            |                     | 15,260,878           | 14,832,575            |                     | 14,832,575           |
| Health benefits  |                       | 450,345             | 450,345              |                       | 398,997             | 398,997              |
| Return of contributions  | 1,854,135             |                     | 1,854,135            |                       |                     |                      |
| Transfers to other systems   | 76,911,497            |                     | 76,911,497           | 913,381               |                     | 913,381              |
| Administrative expenses  | 517,046               |                     | 517,046              | 148,116               |                     | 148,116              |
| <b>Total deductions</b>  | <b>94,543,556</b>     | <b>450,345</b>      | <b>94,993,901</b>    | <b>15,894,072</b>     | <b>398,997</b>      | <b>16,293,069</b>    |
| <b>Net Increase (Decrease)</b>   | <b>(47,504,489)</b>   | <b>(125,904)</b>    | <b>(47,630,393)</b>  | <b>40,192,446</b>     | <b>(101,600)</b>    | <b>40,090,846</b>    |
| <b>Net Assets (Liabilities) Held in Trust<br/>for Pension and Health Benefits:</b> |                       |                     |                      |                       |                     |                      |
| <b>Beginning of year</b>   | <b>368,193,464</b>    | <b>(217,074)</b>    | <b>367,976,390</b>   | <b>328,001,018</b>    | <b>(115,474)</b>    | <b>327,885,544</b>   |
| <b>End of year*</b>  | <b>\$ 320,688,975</b> | <b>\$ (342,978)</b> | <b>\$320,345,997</b> | <b>\$ 368,193,464</b> | <b>\$ (217,074)</b> | <b>\$367,976,390</b> |

\* A schedule of funding progress is presented in the Required Supplementary Information in the Financial Section.  
The accompanying notes are an integral part of these financial statements.

# FINANCIAL SECTION

## Notes to General Purpose Financial Statements

### NOTE 1 - PLAN DESCRIPTION

#### ORGANIZATION

The Michigan Judges' Retirement System is a cost sharing, multiple employer, state-wide, defined benefit public employee retirement plan governed by the State of Michigan (State). The Michigan Judges' Retirement System, created under Public Act 234 of 1992, consolidated the former Judges' and Probate Judges' Retirement Systems into one retirement system. The System was established by the State to provide retirement, survivor and disability benefits to judges in the judicial branch of state government. There are 174 participating employers. The System also includes the Governor of the State of Michigan, Lieutenant Governor, Secretary of State, Attorney General, Legislative Auditor General and the Constitutional Court Administrator.

The System's financial statements are included as a pension trust fund in the combined financial statements of the State 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 Systems' Board, with whom the general oversight of the System resides. The State Treasurer serves as the investment officer and custodian for the System.

#### MEMBERSHIP

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

|  |             |              |
|--|-------------|--------------|
| Retirees and beneficiaries<br>currently receiving benefits:                        | <b>2000</b> | <b>1999</b>  |
| Regular benefits .....   | 355         | 355          |
| Survivor benefits .....  | 174         | 171          |
| Disability benefits .....  | 6           | 5            |
| <b>Total</b> .....   | <u>535</u>  | <u>531</u>   |
| <br>Current employees:   |             |              |
| Vested .....   | 261         | 411          |
| Non-vested .....   | 138         | 162          |
| <b>Total</b> .....   | <u>399</u>  | <u>573</u>   |
| <br>Inactive employees entitled<br>to benefits and not yet<br>receiving them ..... | <u>17</u>   | <u>22</u>    |
| <br><b>Total All Members*</b> .....  | <u>951</u>  | <u>1,126</u> |

\*Excludes members who transferred to the defined contribution plan in fiscal year 2001 - See Note 1

Plan 1 or 2 members (Supreme Court Justice, Court of Appeals or elected officials) may enroll in the State Health Plan when they retire and their premium rate is subsidized. All other judges may enroll in the State Health Plan if they wish to, but they must pay the entire premium cost. There are a total of 535 retirees who may participate in the health benefits. The number of participants is as follows:

|                                  |             |             |
|----------------------------------|-------------|-------------|
|                                  | <b>2000</b> | <b>1999</b> |
| Participants receiving benefits: |             |             |
| Health .....                     | 81          | 80          |
| Dental .....                     | 139         | 134         |
| Vision .....                     | 104         | 99          |

## Notes to General Purpose Financial Statements

### **BENEFIT PROVISIONS**

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

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

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

#### ***Regular Retirement***

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

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

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

#### ***Early Retirement***

If a member leaves judicial service but has not met the age requirement for regular retirement benefits, the member may retire with a reduced retirement allowance. To be eligible for early retirement, the member must be age 55 or over, but less than 60, with 12 or more, but less than 18, years of service

#### ***Deferred Retirement***

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

#### ***Disability Benefit***

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

# FINANCIAL SECTION

## Notes to General Purpose Financial Statements

### *Pension Payment Options*

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

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

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

### *Survivor Benefit*

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

### *Contributions*

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

Publicly Financed Contributions — There are two public sources which fund retirement benefits: Court fees and State appropriations. The State contributes annually the greater of 3.5% of the aggregate annual compensation of State paid base salaries, or the difference between the total actuarial requirement of current service and unfunded accrued liabilities minus the revenues from court filing fees and member contributions. Since the system was fully funded, the appropriation was not requested for fiscal years 2000 and 1999. If the court fees deposited in the reserve for employer contributions equals the amount needed in addition to other publicly financed contributions to sustain the required level of publicly financed contributions, Section 304(4) requires court fees be deposited in the court fee fund. In accordance with Section 304(4) of the Judges' Retirement Act, the court fees are being deposited in the court fee fund in the State Treasury. A chart showing the publicly financed contribution rates is included in the Schedule of Revenue by Source in the Statistical Section.

### *Other Postemployment Benefits*

Under the Michigan Judges' Retirement Act, plan 1 or 2, members may enroll in the State Health Plan when they retire. Five percent of the health insurance premium is deducted from the monthly pension check until age 65, at which time Medicare provides primary health insurance coverage. All other members may enroll in the State Health Plan during an open enrollment period. The total premium is deducted from the monthly pension check.

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

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

## Notes to General Purpose Financial Statements

### *Transfer to Defined Contribution Plan*

During fiscal year 1998, the Judges' Retirement Act provided members an opportunity to transfer to the defined contribution plan. The decision was irrevocable and the transfer was completed by September 30, 1998. A total of 13 vested individuals with funds totaling \$6,641,662 was transferred. Judges that were not vested were not transferred. This was a one-time opportunity. With the passage of the legislation permitting the transfer, the System also became a closed system. All new judges and officials are members of the defined contribution plan.

During fiscal year 2000, a lawsuit, filed in connection with the defined contribution legislation, was settled. As a result, approximately 170 judges will transfer to the defined contribution plan in fiscal year 2001. The estimated amount to be transferred is \$76.9 million, representing employee and employer contributions of \$59.3 million and \$17.6 million, respectively. The estimated transfer was accrued and membership statistics were adjusted to reflect the transfer.

## NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### *Basis of Accounting and Presentation*

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

### *Reserves*

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

Reserve for Member Contributions — This fund represents active member contributions, payments for the purchase of service credit, repayment of previously refunded contributions and interest less amounts transferred to the Reserve for Retirement Benefits for regular and disability retirement, amounts refunded to terminated members, and transferring inactive accounts. At September 30, 2000, and 1999, the balance in this account was \$32 million and \$47 million, respectively.

Reserve for Employer Contributions — This reserve represents Court fees, late fees, interest payments, employer contributions, and state appropriations. Amounts are transferred annually from this reserve to the Reserve for Retirement Benefits to fund that reserve. In addition, the reserve transfers court fees to the Supreme Court in accordance with statutory requirements. At September 30, 2000, and 1999, the balance in this account was \$49 million and \$106 million, respectively.

Reserve for Retirement Benefits — This reserve represents the reserves for payment of future retirement benefits to current retirees. At retirement, a member's accumulated contributions plus interest are transferred into this reserve from the Reserve for Member Contributions and the Reserve for Employer Contributions. Monthly benefits, which are paid to the member, reduce the reserve. At the end of each fiscal year, an amount is transferred from the Reserve for Employer Contributions to bring the reserve into balance with the actuarial present value of retirement allowances. At September 30, 2000, and 1999, the balance in this account was \$118 million and \$116 million, respectively.

Reserve for Investment Income — This reserve is credited with all investment earnings, changes in fair values, gifts to the System, and forfeited contributions. All administrative expenses are paid from this reserve and interest is transferred annually to the other reserves. At September 30, 2000, and 1999, the balance in this account was \$122 million and \$99 million, respectively.

Reserve for Health Benefits — This reserve is credited with member contributions for health benefits. Health benefits are paid from this reserve. At September 30, 2000, and 1999, the balance in this account was negative \$343 thousand and negative \$217 thousand, respectively.

# FINANCIAL SECTION

## Notes to General Purpose Financial Statements

### *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. Accordingly, the System is the only entity included in this financial report.

### *Fair Value of Investments*

Plan investments are presented 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 not having 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.

### *Property and Equipment*

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

### *Related Party Transactions*

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

|                             | <u>2000</u> | <u>1999</u> |
|-----------------------------|-------------|-------------|
| Building rentals .....      | \$ 1,211    | \$ 1,183    |
| Technological Support ..... | 8,096       | 16,379      |
| Attorney General .....      | 38,224      | 3,776       |
| Investment .....            | 65,700      | 63,600      |

Cash — On September 30, 2000 and 1999 the System had \$34.5 million and \$3.4 million, respectively in a common cash investment pool maintained for various State operating funds. The participating funds in the common cash pool earn interest at various rates depending upon prevailing short-term interest rates. Earnings from these activities amounted to \$ 860,420 and \$281,584 for the years ended September 30, 2000, and 1999, respectively.

## Notes to General Purpose Financial Statements

### *Reclassification of Prior Year Amounts*

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

### **NOTE 3 - CONTRIBUTIONS**

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

The State contributes annually the greater of 3.5% of the aggregate annual compensation of State paid base salaries, or the difference between the total actuarial requirement of current service and unfunded accrued liabilities minus the revenues from court filing fees and member contributions. Since the system was fully funded, the appropriation was not requested for fiscal year 1999 or 2000. If the court fees deposited in the reserve for employer contributions equals the amount needed in addition to other publicly financed contributions to sustain the required level of publicly financed contributions, Section 304(4) requires court fees be deposited in the court fee fund. In accordance with Section 304(4) of the Judges' Retirement Act, the court fees are being deposited in the court fee fund in the State Treasury. The State Treasurer transmits the money in the court fee fund, not exceeding \$2.2 million in any fiscal year, to the court equity fund for operational expenses of trial courts.

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

Employer contributions were \$58 thousand for fiscal year 1999. There were no employer contributions for fiscal year 2000 because the contribution rate was negative.

### **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 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



# FINANCIAL SECTION

## Notes to General Purpose Financial Statements

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 4.9% of 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 \$17.4 million and \$15.4 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 of the indices 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 upon the intention to hold all swap agreements until maturity. Since the inception of the international equity investment program, over \$5.8 million of gains on international equity exposure and excess interest received have been realized. The unrealized gain of \$2.0 million at September 30, 2000, reflects the increase in international stock indices and changes in currency exchange rates.

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) | \$ 17.4               | \$19.5               |
| 9/30/99 (dollars in millions) | 15.4                  | 18.5                 |

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

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

## Notes to General Purpose Financial Statements

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

During the fiscal year, the System and the borrowers maintained the right to terminate all securities lending transactions on demand. The cash collateral received on each loan was invested, together with the cash collateral of other qualified tax-exempt plan lenders, in a collective investment pool. As of September 30, 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 \$6,262,185 and \$5,882,232, respectively.

Gross income from security lending for the fiscal year was \$367,560. Expenses associated with this income amounted to \$336,192 for the borrower's rebate and \$7,913 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.

Category 1 includes investments that are insured, registered, or held by the Judges' Retirement 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 tables summarizes the investments:

# FINANCIAL SECTION

## Notes to General Purpose Financial Statements

| <u>Category 1</u>            | <u>2000</u>             | <u>1999 (Reclassified)</u> |
|------------------------------|-------------------------|----------------------------|
| Prime Commercial Paper       | \$ 40,100,686           | \$ 32,520,366              |
| Short Term Note              | 1,899,494               | 4,419,577                  |
| Government Securities        | 40,728,063              | 35,616,473                 |
| Corporate Bonds & Notes      | 25,898,968              | 25,035,782                 |
| Preferred Stock              | 12                      | 8                          |
| Common Stock                 | 147,383,843             | 169,955,064 <sup>3</sup>   |
| Real Estate                  | 1,969,052 <sup>1</sup>  | 2,299,339 <sup>1</sup>     |
| Alternative Investments      | 4,259,534 <sup>2</sup>  | 1,380,891 <sup>2</sup>     |
| International Investments    | 20,130,510              | 18,782,919 <sup>4</sup>    |
| <b>Total Category 1</b>      | <u>\$ 282,370,162</u>   | <u>\$ 290,010,419</u>      |
|                              |                         |                            |
| <u>Category 3</u>            |                         |                            |
| Government Securities        | \$ -                    | \$ 195,000                 |
|                              |                         |                            |
| <u>Non-Categorized</u>       |                         |                            |
| Private Placements           | \$ 2,189,049            | \$ 2,812,144               |
| Mortgages                    | 114,416                 | 114,719                    |
| Real Estate                  | 30,534,367 <sup>1</sup> | 24,960,924 <sup>1</sup>    |
| Alternative Investments      | 42,386,142 <sup>2</sup> | 31,302,712 <sup>2</sup>    |
| Cash Collateral              | 3,472,089               | 14,253,678                 |
| Securities on Loan:          |                         |                            |
| Government Securities        | 2,359,258               | 9,848,224                  |
| Corporate Bonds & Notes      | 98,390                  | 305,948                    |
| Common Stock                 | 921,709                 | 3,777,971                  |
| <b>Total Non-Categorized</b> | <u>\$ 82,075,420</u>    | <u>\$ 87,376,320</u>       |
|                              |                         |                            |
| <b>Grand Total</b>           | <u>\$ 364,445,582</u>   | <u>\$ 377,581,739</u>      |

<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 non publicly traded stocks and bonds.

<sup>3</sup> Changed name of Equities to Common Stock and moved the American Depository Receipts (ADR) Equities of \$258,624 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 - COMMITMENT AND CONTINGENCIES

#### *Michigan Judges Association et al v. State Treasurer et al*

Plaintiffs in the case obtained a restraining order to stop the implementation of an irrevocable date of Midnight June 30, 1998, concerning plaintiffs' election of pension plans (a switch from current Defined Benefit (DB) plan-Tier 1 to the State's Defined Contribution (DC) plan-Tier 2).

Under current law, the effective date for participation in the Defined Contribution Retirement Plan for members of the Judges' Retirement System was July 1, 1998. Because eligibility and compensation issues for Circuit, District and Probate Court Judges were still unanswered by the Internal Revenue Service on that date, full participation by those judges in the defined contribution plan was not allowed pending Internal Revenue Service determination.

The IRS issued a favorable determination in March 1999, and the Temporary Restraining Order has been continually extended by the Court while the parties engage in good faith discussions on a number of issues.

Attorneys for the parties met with representatives of various State agencies and came up with a tentative draft settlement proposal. Thereafter, the parties worked on finalizing the proposal for settlement, which included the preparation of draft legislation.

On November 22, 1999, a settlement conference was held in Federal Court culminating in a tentative settlement being read into the record. This settlement includes resolutions regarding the participation of trial judges in the DC plan, as well as a number of enhancements which have been thoroughly discussed with the Office of Retirement Services and are supported by the Governor's office.

The proposed settlement was effectuated through passage of legislation. Approximately \$76.9 million was transferred to the Defined Contribution Retirement Plan in October 2000. The transfer is reflected in the financial statements and the actuarial valuation.

#### *Harvey et al v. Judges' Retirement System*

The System is named as defendant in a case that alleges the statute discriminates against certain members as a result of differences in contribution rates and benefit allowances. The state's summary motion for disposition argued that the alleged inequity between out-state judges and 36th District Judges is not unconstitutional due to the interaction between the Judges' Retirement System and local government retirement plans, which are available to out-state judges and which can grant more benefits to out-state judges than are available to 36th District Judges.

On March 29, 2000, the Circuit Court Judge issued an opinion finding for the System. On April 21, 2000, an order was issued granting the System's motion for summary disposition and dismissing the case. Plaintiffs have appealed the order to the Court of Appeals.

#### *Other*

Under the Administrative Procedures Act, members may appeal a decision made 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. The cases are in the normal course of business and the System does not anticipate any material loss as a result of the contingent liabilities.

# FINANCIAL SECTION

## Required Supplementary Information

### Schedule of Funding Progress

Expressing the net assets available for benefits as a percentage of the actuarial accrued liability provides one indication of the System's funding status. Analysis of this percentage over time indicates whether the System is becoming financially stronger or weaker. Generally, the greater this percentage, the stronger the System. Trends in unfunded actuarial accrued liability and annual covered payroll are both affected by inflation. Expressing the unfunded or 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<br>Sept. 30 | Actuarial Value of Assets<br>(a) | Actuarial Accrued Liability (AAL)<br>(b) | Unfunded (Overfunded) Actuarial Accrued Liability<br>(b-a) | Funded Ratio<br>(a/b) | Covered Payroll<br>(c) | UAAL as a % of Covered Payroll<br>((b-a)/c) |
|----------------------------|----------------------------------|--|--|-----------------------|------------------------|---|
| 1991                       | \$ 162,053,379                   | \$171,279,850                            | \$ 9,226,471   | 94.6%                 | \$ 43,905,860          | 21.0 %                                      |
| 1992                       | 171,969,030                      | 179,495,676                              | 7,526,646  | 95.8                  | 43,840,733             | 17.2  |
| 1993                       | 187,736,576                      | 192,962,549                              | 5,225,973  | 97.3                  | 44,472,833             | 11.8  |
| 1993 <sup>+</sup>          | 189,133,980                      | 192,426,903                              | 3,292,923  | 98.3                  | 44,472,833             | 7.4   |
| 1994                       | 202,370,785                      | 196,990,884                              | (5,379,901)  | 102.7                 | 46,276,785             | (11.6)                                      |
| 1995                       | 222,229,865                      | 204,326,966                              | (17,902,899)   | 108.8                 | 48,195,528             | (37.1)                                      |
| 1996                       | 243,248,207                      | 211,500,798                              | (31,747,409)   | 115.0                 | 49,350,572             | (64.3)                                      |
| 1997                       | 271,457,805                      | 230,511,070                              | (40,946,735)   | 117.8                 | 49,000,856             | (83.6)                                      |
| 1998                       | 288,671,130                      | 236,520,337                              | (52,150,793)   | 122.0                 | 48,865,572             | (106.7)                                     |
| 1998*                      | 288,671,130                      | 230,316,941                              | (58,354,189)   | 125.3                 | 48,865,572             | (119.4)                                     |
| 1999                       | 320,869,444                      | 243,502,943                              | (77,366,501)   | 131.8                 | 49,626,160             | (155.9)                                     |
| 2000                       | 274,842,881                      | 204,225,343                              | (70,617,538)   | 134.6                 | 37,022,723             | (190.7)                                     |

<sup>+</sup> Revised actuarial assumptions and asset valuation method.

\* Revised actuarial assumptions.

**Required Supplementary Information  
(Continued)**

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**Schedule of Employer Contributions**

| <b>Fiscal Year<br/>Ending<br/>Sept. 30</b> | <b>Actuarial<br/>Required<br/>Contribution<br/>(ARC)</b> | <b>Actual<br/>Employer<br/>Contributions</b> | <b>Percentage<br/>Contributed</b> |
|--|--|--|-----------------------------------|
| 1991                                       | \$7,566,113  | \$7,923,138                                  | 104.7 %                           |
| 1992                                       | 7,137,221  | 7,996,188                                    | 112.0                             |
| 1993*                                      | 7,112,624  | -0-  | -0-                               |
| 1993                                       | 6,661,731  | 7,690,115                                    | 115.4                             |
| 1994                                       | 6,638,110  | 6,576,996                                    | 99.1                              |
| 1995                                       | 6,559,552  | 6,228,812                                    | 95.0                              |
| 1996                                       | 5,992,698  | 6,191,607                                    | 103.3                             |
| 1997                                       | 5,527,350  | 5,673,583                                    | 102.6                             |
| 1998                                       | 5,040,121  | 246,659                                      | 4.9                               |
| 1999                                       | 4,673,433  | -0-  | -0-                               |
| 1999*                                      | 1,260,694  | 58,499                                       | 4.6                               |
| 2000                                       | (408,741)  | -0-  | -0-                               |

\* Revised actuarial assumptions.

# FINANCIAL SECTION

## Notes to Required Supplemental 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 |
| Actuarial Assumptions:        |                        |
| Inflation Rate                | 4%                     |
| Investment Rate of Return     | 8%                     |
| Projected Salary Increases    | 4.5%                   |
| Cost-of-Living Adjustments    | None                   |

**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 Services:</b>                  |                   |                   |
| Staff salaries                              | \$ 225,551        | \$ 55,618         |
| Retirement and social security              | 43,939            | 10,707            |
| Other fringe benefits                       | 23,434            | 11,396            |
| <b>Total</b>                                | <b>292,924</b>    | <b>77,721</b>     |
| <b>Professional Services:</b>               |                   |                   |
| Actuarial                                   | 61,647            | 15,336            |
| Attorney general                            | 38,224            | 3,776             |
| Audit                                       | 32,513            | 24,209            |
| Consulting                                  | 68,886            | 253               |
| Medical                                     | 400               | -                 |
| <b>Total</b>                                | <b>201,670</b>    | <b>43,574</b>     |
| <b>Building and Equipment:</b>              |                   |                   |
| Building rentals                            | 1,211             | 1,183             |
| Equipment Purchase, Maintenance and Rentals | 1,163             | 716               |
| <b>Total</b>                                | <b>2,374</b>      | <b>1,899</b>      |
| <b>Travel and General:</b>                  |                   |                   |
| Travel and Board Meetings                   | 234               | 280               |
| Office Supplies                             | 254               | 423               |
| Postage, Telephone and Other                | 8,790             | 5,019             |
| Printing                                    | 2,705             | 2,821             |
| Technological Support                       | 8,096             | 16,379            |
| <b>Total</b>                                | <b>20,079</b>     | <b>24,922</b>     |
| <b>Total Administrative Expenses</b>        | <b>\$ 517,047</b> | <b>\$ 148,116</b> |



# FINANCIAL SECTION

## Supporting Schedules (Continued)

### Schedule of Investment Expenses

|                            | <u>2000</u>       | <u>1999</u>         |
|----------------------------|-------------------|---------------------|
| Real Estate                | \$ 20,336         | \$ 40,814           |
| Securities Lending Expense | 344,105           | 742,313             |
| Other Investment Expense*  | <u>281,915</u>    | <u>295,362</u>      |
| Total Investment Expenses  | <u>\$ 646,356</u> | <u>\$ 1,078,489</u> |

\*See investment section for fees paid to investment professionals

### Schedule of Payments to Consultants

|                      | <u>2000</u>       | <u>1999</u>      |
|----------------------|-------------------|------------------|
| Independent Auditors | \$ 32,513         | \$ 24,209        |
| Attorney General     | 38,224            | 3,776            |
| Actuary              | <u>61,647</u>     | <u>15,336</u>    |
| Total Payments       | <u>\$ 132,384</u> | <u>\$ 43,321</u> |

**Supporting Schedules (continued)**

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

|  | <u>Member<br/>Contributions</u> | <u>Employer<br/>Contributions</u> | <u>Retirement<br/>Benefits</u> | <u>Health<br/>Benefits</u> | <u>Investment<br/>Income</u> | <u>Total</u>          |
|--|---------------------------------|-----------------------------------|--------------------------------|----------------------------|------------------------------|-----------------------|
| <b>Additions:</b>  |                                 |                                   |                                |                            |                              |                       |
| Member contributions   | \$ 2,874,966                    |                                   |                                | \$ 324,441                 |                              | \$ 3,199,407          |
| Employer contributions   |                                 |                                   |                                |                            |                              |                       |
| Investment income:   |                                 |                                   |                                |                            |                              |                       |
| Investment income  |                                 |                                   |                                |                            | \$ 44,442,882                | 44,442,882            |
| Securities lending income  |                                 |                                   |                                |                            | 367,560                      | 367,560               |
| Investment expenses:   |                                 |                                   |                                |                            |                              |                       |
| Real estate operating expenses   |                                 |                                   |                                |                            | (20,336)                     | (20,336)              |
| Securities lending expenses  |                                 |                                   |                                |                            | (344,105)                    | (344,105)             |
| Other investment expenses  |                                 |                                   |                                |                            | (281,915)                    | (281,915)             |
| Miscellaneous  |                                 |                                   |                                |                            | 15                           | 15                    |
| <b>Total additions</b>   | <u>2,874,966</u>                |                                   |                                | <u>324,441</u>             | <u>44,164,101</u>            | <u>47,363,508</u>     |
| <b>Deductions:</b>   |                                 |                                   |                                |                            |                              |                       |
| Benefits and refunds paid to plan members<br>and beneficiaries:                    |                                 |                                   |                                |                            |                              |                       |
| Retirement benefits  |                                 |                                   | \$ 15,260,878                  |                            |                              | 15,260,878            |
| Health benefits  |                                 |                                   |                                | 450,345                    |                              | 450,345               |
| Return of contributions  | 1,854,135                       |                                   |                                |                            |                              | 1,854,135             |
| Transfers to other systems   | 17,588,888                      | \$ 59,322,609                     |                                |                            |                              | 76,911,497            |
| Administrative expenses  |                                 |                                   |                                |                            | 517,046                      | 517,046               |
| <b>Total deductions</b>  | <u>19,443,023</u>               | <u>59,322,609</u>                 | <u>15,260,878</u>              | <u>450,345</u>             | <u>517,046</u>               | <u>94,993,901</u>     |
| <b>Net Increase (Decreases)</b>  | (16,568,057)                    | (59,322,609)                      | (15,260,878)                   | (125,904)                  | 43,647,055                   | (47,630,393)          |
| <b>Other changes in net assets:</b>  |                                 |                                   |                                |                            |                              |                       |
| Interest allocation  | 3,558,534                       | 8,482,721                         | 9,255,876                      |                            | (21,297,131)                 | -                     |
| Transfers upon retirements   | (2,010,598)                     |                                   | 2,010,598                      |                            |                              | -                     |
| Transfers of employer shares   | -                               | (6,157,337)                       | 6,157,337                      |                            |                              | -                     |
| <b>Total other changes in net assets</b>   | <u>1,547,936</u>                | <u>2,325,384</u>                  | <u>17,423,811</u>              |                            | <u>(21,297,131)</u>          | <u>-</u>              |
| <b>Net Increase (Decrease)<br/>After Other Changes</b>                             | (15,020,121)                    | (56,997,225)                      | 2,162,933                      | (125,904)                  | 22,349,924                   | (47,630,393)          |
| <b>Net Assets (Liabilities) Held in Trust<br/>for Pension and Health Benefits:</b> |                                 |                                   |                                |                            |                              |                       |
| <b>Beginning of year</b>   | <u>47,217,637</u>               | <u>106,034,019</u>                | <u>115,698,456</u>             | <u>(217,074)</u>           | <u>99,243,352</u>            | <u>367,976,390</u>    |
| <b>End of year</b>   | <u>\$ 32,197,516</u>            | <u>\$ 49,036,794</u>              | <u>\$ 117,861,389</u>          | <u>\$(342,978)</u>         | <u>\$ 121,593,276</u>        | <u>\$ 320,345,997</u> |

# FINANCIAL SECTION

## Supporting Schedules (continued)

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

|  | <u>Member<br/>Contributions</u> | <u>Employer<br/>Contributions</u> | <u>Retirement<br/>Benefits</u> | <u>Health<br/>Benefits</u> | <u>Investment<br/>Income</u> | <u>Total</u>          |
|--|---------------------------------|-----------------------------------|--------------------------------|----------------------------|------------------------------|-----------------------|
| <b>Additions:</b>  |                                 |                                   |                                |                            |                              |                       |
| Member contributions   | \$ 3,019,443                    |                                   |                                | \$ 297,397                 |                              | \$ 3,316,840          |
| Employer contributions   |                                 | \$ 58,499                         |                                |                            |                              | 58,499                |
| Investment income:   |                                 |                                   |                                |                            |                              |                       |
| Investment income  |                                 |                                   |                                |                            | \$ 53,299,818                | 53,299,818            |
| Securities lending income  |                                 |                                   |                                |                            | 787,154                      | 787,154               |
| Investment expenses:   |                                 |                                   |                                |                            |                              |                       |
| Real estate operating expenses   |                                 |                                   |                                |                            | (40,814)                     | (40,814)              |
| Securities lending expenses  |                                 |                                   |                                |                            | (742,313)                    | (742,313)             |
| Other investment expenses  |                                 |                                   |                                |                            | (295,362)                    | (295,362)             |
| Miscellaneous  |                                 |                                   |                                |                            | 93                           | 93                    |
| <b>Total additions</b>   | <u>3,019,443</u>                | <u>58,499</u>                     |                                | <u>297,397</u>             | <u>53,008,576</u>            | <u>56,383,915</u>     |
| <b>Deductions:</b>   |                                 |                                   |                                |                            |                              |                       |
| Benefits and refunds paid to plan members<br>and beneficiaries:                    |                                 |                                   |                                |                            |                              |                       |
| Retirement benefits  |                                 |                                   | \$ 14,832,575                  |                            |                              | 14,832,575            |
| Health benefits  |                                 |                                   |                                | 398,997                    |                              | 398,997               |
| Transfers to other systems   | 309,477                         | 603,904                           |                                |                            |                              | 913,381               |
| Administrative expenses  |                                 |                                   |                                |                            | 148,116                      | 148,116               |
| <b>Total deductions</b>  | <u>309,477</u>                  | <u>603,904</u>                    | <u>14,832,575</u>              | <u>398,997</u>             | <u>148,116</u>               | <u>16,293,069</u>     |
| <b>Net Increase</b>  | 2,709,966                       | (545,405)                         | (14,832,575)                   | (101,600)                  | 52,860,460                   | 40,090,846            |
| <b>Other changes in net assets:</b>  |                                 |                                   |                                |                            |                              |                       |
| Interest allocation  | 3,269,469                       | 7,894,772                         | 9,510,444                      |                            | (20,674,685)                 | -                     |
| Transfers upon retirements   | (2,140,042)                     |                                   | 2,140,042                      |                            |                              | -                     |
| <b>Total other changes in net assets</b>   | <u>1,129,427</u>                | <u>7,894,772</u>                  | <u>11,650,486</u>              |                            | <u>(20,674,685)</u>          | <u>-</u>              |
| <b>Net Increase (Decrease)<br/>After Other Changes</b>                             | 3,839,393                       | 7,349,367                         | (3,182,089)                    | (101,600)                  | 32,185,775                   | 40,090,846            |
| <b>Net Assets (Liabilities) Held in Trust<br/>for Pension and Health Benefits:</b> |                                 |                                   |                                |                            |                              |                       |
| <b>Beginning of year</b>   | <u>43,378,244</u>               | <u>98,684,652</u>                 | <u>118,880,545</u>             | <u>(115,474)</u>           | <u>67,057,577</u>            | <u>327,885,544</u>    |
| <b>End of year</b>   | <u>\$ 47,217,637</u>            | <u>\$ 106,034,019</u>             | <u>\$ 115,698,456</u>          | <u>\$ (217,074)</u>        | <u>\$ 99,243,352</u>         | <u>\$ 367,976,390</u> |

# 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 that, 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 assumptions 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)**

| <b>Investment Category</b>     | <b>As of 9/30/00</b> |                 |
|--------------------------------|----------------------|-----------------|
|                                | <b>Actual %</b>      | <b>Target %</b> |
| Mortgages                      | 0.0%                 | 0.0%            |
| International Equities-Passive | 5.1%                 | 12.0%           |
| Real Estate                    | 8.2%                 | 8.5%            |
| Alternative Investments        | 11.8%                | 14.0%           |
| Short Term Investments         | 19.3%                | 2.5%            |
| Fixed Income                   | 18.1%                | 20.0%           |
| Domestic Equity                | 37.5%                | 43.0%           |
| <b>TOTAL</b>                   | <b>100.0%</b>        | <b>100.0%</b>   |

# 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 13.2% as compiled by Capital Resource Advisors. Annualized for the three-year period, the fund returned 12.3%, and for the five-year period the fund returned 15.1%.

During the fiscal year ending September 30, 2000, the nation's economy was characterized by full employment, low inflation, and moderate economic growth. The equity markets 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/Corporation 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 37.5% domestic equities, 18.1% fixed income, 11.8% alternative investments, 8.2% real estate, 19.3% short-term investments, and 5.1% international equities-passive. Short Term Investments increased to 19.3% as of September 30, 2000 from 11.0% as of September 30, 1999. Short Term Investments represent the most liquid portion of the portfolio. The portfolio's liquidity was increased in anticipation of a cash draw-down from participants who elected to switch to the Defined Contribution Retirement Plan.

#### *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

# INVESTMENT SECTION

## Report on Investment Activity

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 it's peak.

The actively managed domestic stock portfolio achieved a total rate of return of 6.0% 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 by 33.0% for capital goods. Three-year and five-year annualized rates of return for the actively-managed domestic stock portfolio were 10.0% and 18.0%, 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 22.6% of total System investments, compared with 33.4% 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, 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 it's benchmark's 13.3%. The S&P MidCap Index Fund return for the fiscal year was 45.0% versus it's benchmark's 43.2%. The enhancements to the returns were the result of strategic allocations of additional funds to passive equity investments during market corrections and the opportunistic use of derivative programs. During Fiscal Year 2000, \$2.5 million was added to U.S. index funds. At the end of the fiscal year, passive domestic stock portfolios represented 14.9% of total assets, the S&P 500 Index Fund accounting for 13.9% and the S&P MidCap Index Fund 1.0%. 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 US Dollar and the other half is affected by foreign currency exchange rate changes. The total passive international return of 10.6% in the fiscal year compared favorably with the Net Salomon 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 in exchange for international stock returns, and the total notional amount of the swap agreements is invested in the approximate proportions of the Net Salomon Broad Market Index (BMI) Europe and Pacific Composite (EPAC) country weightings in those country indices. Use of 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, \$2.3 million of exposure was added, holding passive international investments at 5.1% of total investment assets.

## Report on Investment Activity

The combination of fixed income LIBOR notes and equity swap agreements was valued at \$19.5 million on September 30, 2000. That valuation included a net unrealized gain of \$2.0 million on equity index exposures and an unrealized gain of \$10 thousand on LIBOR note investments held. During Fiscal Year 2000, \$2.5 million of gains on equity exposures were realized, and \$150 thousand 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 \$5.8 million since the program began.

### *Fixed Income*

For the fiscal year 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 6.5% for the five-year period.

During the year Treasury rates decreased but spreads widened. Fixed income markets rewarded higher grade portfolios. MJRS' 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 period 5.5% versus 5.8% and outperformed the index for the five-year period 6.5% versus 6.3%. Relative to the Salomon Brothers Broad Grade Index, MJRS matched the one-year time horizon, 6.9% to 6.9%, was behind in the three-year period 5.5% to 5.9% and was even in the five-year period 6.5% to 6.5%.

Fixed Income represented 18.1% of the total portfolio compared with 20.2% last year. The corporate sector represented 39.5% of fixed income securities with government securities accounting for 60.5%. Last year corporate securities were 38.2% of the fixed income portfolio with government securities representing 61.8%. The increased level of corporate securities was the result of quality spreads widening.

### *Real Estate Equity*

As of the year ending September 30, 2000, 8.2% of the total investment portfolio was invested in equity real estate. This compares to 7.4% and 8.0% for the fiscal years ending September 30, 1999 and 1998, respectively. 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 11.2%, 11.7% 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%. 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.



# INVESTMENT SECTION

## Report on Investment Activity

### *Real Estate Debt (Mortgages)*

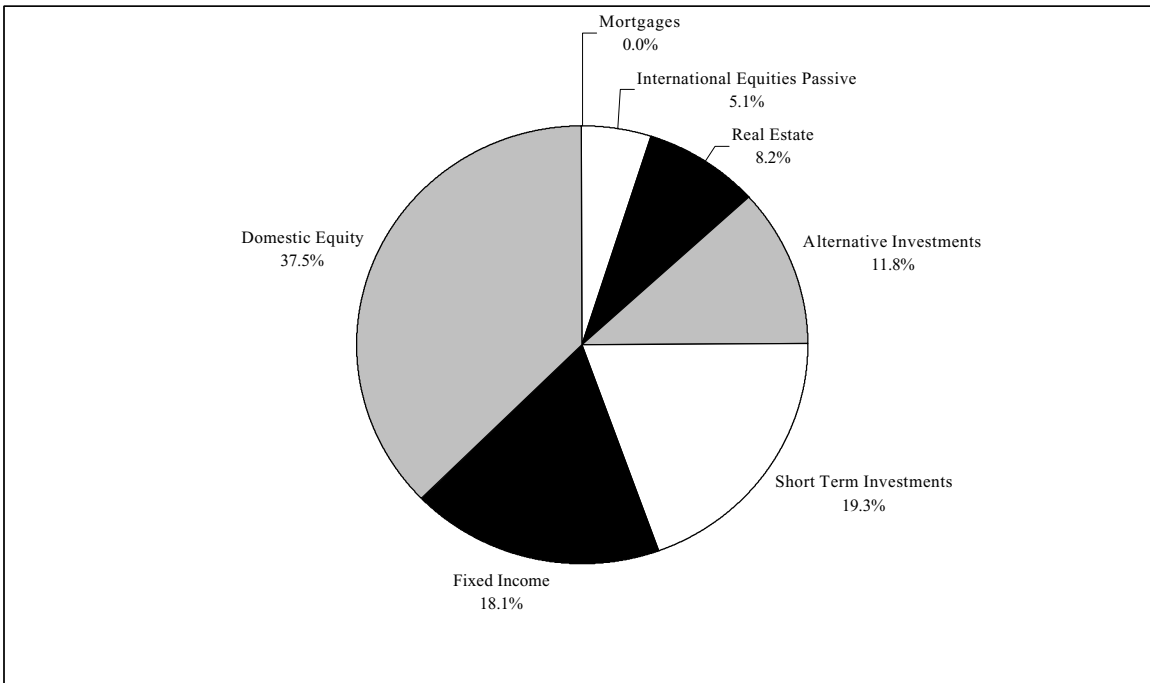
For the fiscal year ending September 30, 2000 less than 0.1% of the total investment portfolio was invested in direct mortgages. The asset allocation objective is to reduce mortgage holdings to 0.0% over time; a majority of the mortgage portfolio was sold in 1997 and 1998 to take advantage of the favorable 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%, 6.0% and 5.0%, respectively.

### *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 investment assets in alternative investments has consistently increased from 4.8% as of September 30, 1993, to 11.8% 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.

## Report on Investment Activity

### Asset Allocation



### Investment Results Period Ending September 30, 2000

| Investment Category                                    | Current Year | Annualized Rate of Return |         |          |
|--|--------------|---------------------------|---------|----------|
|  |              | 3 Years                   | 5 Years | 10 Years |
| Total Portfolio  | 13.2 %       | 12.3 %                    | 15.1 %  | 13.2 %   |
| Domestic Equities Stock - Active                       | 6.0          | 10.0                      | 18.0    | 16.8     |
| 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                       | 6.5     | 8.4      |
| 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          | 6.0                       | 5.0     | 1.9      |
| Salomon Smith Barney Broad Investment Grade Bond Index | 6.9          | 5.9                       | 6.5     | 8.1      |
| Real Estate - Equity                                   | 11.2         | 11.7                      | 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.

# INVESTMENT SECTION

## Report on Investment Activity

### Largest Assets Held

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

| <u>Rank</u> | <u>Shares</u> | <u>Stocks</u>                         | <u>Market Value</u> |
|-------------|---------------|---------------------------------------|---------------------|
| 1           | 116,960       | General Electric Corporation          | \$ 6,747,130        |
| 2           | 120,929       | Pfizer Incorporated                   | 5,434,247           |
| 3           | 94,517        | Cisco Systems Incorporated            | 5,222,064           |
| 4           | 71,579        | Microsoft Corporation                 | 4,317,108           |
| 5           | 74,531        | Citigroup Incorporated                | 4,029,332           |
| 6           | 43,936        | Exxon Mobil Corporation               | 3,915,796           |
| 7           | 76,520        | Intel Corporation                     | 3,180,363           |
| 8           | 60,831        | Wal-Mart Stores Incorporated          | 2,927,492           |
| 9           | 46,043        | Home Depot Incorporated               | 2,443,157           |
| 10          | 33,731        | Federal National Mortgage Association | 2,411,767           |

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

| <u>Rank</u> | <u>Par Amount</u> | <u>Bonds &amp; Notes</u>                          | <u>Market Value</u> |
|-------------|-------------------|---|---------------------|
| 1           | \$ 5,181,000      | U.S. Treasury Bonds at 9.125% Due 5-15-2009       | \$ 5,677,236        |
| 2           | 2,145,000         | U.S. Treasury 0% Coupon Strips Due 8-15-2003      | 1,816,879           |
| 3           | 1,248,000         | Bankers Trust Corp FRN 6.74% Due 3-16-2001        | 1,248,686           |
| 4           | 1,770,600         | U.S. Treasury 0% Coupon Strips Due 11-15-2011     | 1,241,722           |
| 5           | 1,120,000         | Ford Motor Credit Corp FRN 6.59125% Due 10-9-2001 | 1,122,800           |
| 6           | 1,170,000         | FHLMC Debenture 6.70% Due 7-23-2008               | 1,116,075           |
| 7           | 1,244,000         | U.S. Treasury Tiger 0% Coupon Due 8-15-2004       | 976,851             |
| 8           | 905,608           | Chemical Bank FRN 6.775% Due 7-29-2003            | 914,444             |
| 9           | 858,000           | MTN Nations Bank FRN 6.76% Due 1-05-2004          | 858,386             |
| 10          | 887,250           | FHLMC Debentures 6.51% Due 8-18-2008              | 841,636             |

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

## 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 10.6% of the total investment portfolio is managed by fully discretionary outside advisors. Outside advisor's fees are netted against the partnership or trust fund income. The Michigan Department of Treasury's cost of operations applicable to the System for the fiscal year amounted to \$65.7 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.

***Investment Managers' Fees:***

|                                | <b>Asset under<br/>Management<br/>( in thousands)</b> | <b>Fees<br/>( in thousands)</b> | <b>Basis<br/>Points*</b> |
|--------------------------------|---|---------------------------------|--------------------------|
| State Treasurer                | \$ 353,655.3  | \$ 65.7                         | 1.9                      |
| Outside Advisors - Alternative | 40,860.8  | 210.8                           | 51.6                     |
| Real Estate                    | 1,263.5   | -                               | -                        |
| <b>Total</b>                   | <b>\$ 395,779.6</b>                                   |                                 |                          |

***Other Investment Services Fees:***

|                         | <b>Assets in<br/>Custody**<br/>( in thousands)</b> | <b>Fees<br/>( in thousands)</b> |
|-------------------------|--|---------------------------------|
| Custody & Research Fees | \$ 243,113.2                                       | \$ 5.4                          |
| Security Lending Fees   | 5,882.2  | 344.1                           |

\* 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 \$243,113.2 thousand; \$5,882.2 thousand of 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<br>Paid <sup>(1)</sup>   | Number of<br>Shares Traded | Average Commission<br>Rate Per Share |
| <b>Investment Brokerage Firms:</b>            |                                      |                            |                                      |
| Merrill Lynch & Co.                           | \$ 4,366                             | 88,027                     | 0.05                                 |
| Goldman, Sachs & Co.                          | 4,140                                | 80,649                     | 0.05                                 |
| C.S. First Boston Corporation                 | 3,706                                | 74,117                     | 0.05                                 |
| Morgan Stanley/Dean Witter                    | 3,686                                | 72,783                     | 0.05                                 |
| Salomon Smith Barney, Inc.                    | 3,337                                | 74,993                     | 0.04                                 |
| Bridge Trading Company                        | 2,731                                | 54,120                     | 0.05                                 |
| UBS Warburg                                   | 2,564                                | 52,470                     | 0.05                                 |
| Lehman Brothers, Inc.                         | 2,468                                | 48,086                     | 0.05                                 |
| Bear, Stearns & Co.                           | 2,444                                | 52,475                     | 0.05                                 |
| Donaldson, Lufkin & Jenrette Securities Corp. | 2,380                                | 49,444                     | 0.05                                 |
| Prudential Securities, Inc.                   | 1,651                                | 32,385                     | 0.05                                 |
| J.P. Morgan Securities, Inc.                  | 1,287                                | 25,732                     | 0.05                                 |
| Sanford C. Bernstein & Co.                    | 1,233                                | 23,420                     | 0.05                                 |
| S.G. Cowen & Company                          | 1,125                                | 22,152                     | 0.05                                 |
| CIBC World Market                             | 1,016                                | 20,312                     | 0.05                                 |
| Deutsche Bank                                 | 772                                  | 15,447                     | 0.05                                 |
| Standard & Poor's Securities                  | 586                                  | 11,718                     | 0.05                                 |
| Cantor Fitzgerald & Co.                       | 478                                  | 12,590                     | 0.04                                 |
| BancBoston Robertson Stephens                 | 448                                  | 7,680                      | 0.06                                 |
| Schroder & Co. Inc.                           | 378                                  | 7,559                      | 0.05                                 |
| Charles Schwab & Co., Inc.                    | 361                                  | 7,220                      | 0.05                                 |
| Banc of America Securities, LLC               | 297                                  | 5,942                      | 0.05                                 |
| First Union Securities                        | 274                                  | 5,478                      | 0.05                                 |
| ISI Group, Inc.                               | 229                                  | 4,574                      | 0.05                                 |
| Howard Weil Labouisse, Friedrichs, Inc.       | 196                                  | 3,428                      | 0.06                                 |
| Subtotal ( 25 highest)                        | \$ 42,153                            | 852,801                    | 0.05 <sup>(2)</sup>                  |
| All Other Brokerage Firms                     | 584                                  | 10,588                     | 0.06 <sup>(3)</sup>                  |
| Total   | \$ 42,737                            | 863,389                    | 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 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 Investment & Interest Income | Market Value <sup>(a)</sup>          | Percent of Total Market Value | Investment & Interest Income <sup>(c)</sup> | Percent of Investment & Interest Income |
| Fixed Income:                         |                                      |                               |   |   |                                      |                               |   |   |
| Government Bonds                      | \$ 43,087,321                        | 10.9%                         | \$ 2,986,833                                | 6.7%                                    | \$ 45,659,697                        | 12.5%                         | \$ (100,632)                                | (0.2)%                                  |
| Corporate Bonds & Preferred Stocks    | 28,186,419                           | 7.2%                          | 1,672,251                                   | 3.8%                                    | 28,153,882                           | 7.7%                          | 245,328                                     | 0.5%                                    |
| Mortgages                             | 114,416                              | 0.0%                          | 9,898                                       | 0.0%                                    | 114,719                              | 0.0%                          | 14,594                                      | 0.0%                                    |
| Total Fixed Income                    | 71,388,156                           | 18.1%                         | 4,668,982                                   | 10.5%                                   | 73,928,298                           | 20.2%                         | 159,290                                     | 0.3%                                    |
| Common Stock                          | 148,305,552                          | 37.5%                         | 15,354,261                                  | 34.6%                                   | 173,733,035                          | 47.4%                         | 39,270,656                                  | 73.7%                                   |
| Real Estate                           | 32,508,419                           | 8.2%                          | 3,220,647                                   | 7.2%                                    | 27,260,263                           | 7.4%                          | 3,052,371                                   | 5.7%                                    |
| Alternative Investments               | 46,645,676                           | 11.8%                         | 15,670,727                                  | 35.3%                                   | 32,683,603                           | 8.9%                          | 4,812,431                                   | 9.0%                                    |
| International Equities - Passive      | 20,130,510                           | 5.1%                          | 1,974,055                                   | 4.4%                                    | 18,782,919                           | 5.1%                          | 4,462,817                                   | 8.4%                                    |
| Short Term Investments <sup>(b)</sup> | 76,488,208                           | 19.3%                         | 3,554,210                                   | 8.0%                                    | 40,298,827                           | 11.0%                         | 1,542,253                                   | 2.9%                                    |
| <b>Total</b>                          | <b>\$ 395,431,521</b>                | <b>100.0%</b>                 | <b>\$ 44,442,882</b>                        | <b>100.0%</b>                           | <b>\$ 366,686,945</b>                | <b>100.0%</b>                 | <b>\$ 53,299,818</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 \$3,472,089 and \$14,253,678 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 \$23,455 and \$44,841 for fiscal year 2000 and 1999, respectively.

# ACTUARIAL SECTION



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

## 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 Judges Retirement System  
P.O. Box 30176  
Lansing, Michigan 48909

Ladies and Gentlemen:

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

Actuarial valuations are prepared annually to determine MJRS's actuarial liabilities and the employer contributions required to fund the System in accordance with the actuarial reserve funding provisions of the governing State Statute. The most recent actuarial valuation as of September 30, 2000 included a total of 951 members of MJRS. The actuarial value of MJRS's assets amounted to approximately \$275 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 MJRS 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 Judges Retirement System continues in sound condition, in accordance with actuarial principles of level cost financing.

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

Sincerely,



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



# ACTUARIAL SECTION

## 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, the 8% investment return rate translates to an assumed real rate of 4%. Adopted 1981.
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. Adopted 1998.
5. Total active member payroll is assumed to increase 0% per year, because new employees participate in the defined contribution program.
6. An individual entry age actuarial cost method of valuation was used in determining age and service allowance actuarial liabilities and normal cost. Unfunded actuarial accrued liabilities, including actuarial gain and losses, are financed over a period of 40 years from October 1, 1996.
7. Valuation assets (cash and investment) were valued using a five year smoothed market value method. For the 1993 valuation and later, the excess (shortfall) of actual investment income (including interest, dividends, realized and unrealized gains or losses) over the imputed income at the valuation interest rate is considered the gain (loss), which is spread over five years. Adopted 1993.
8. The data about persons now covered and about present assets was furnished by the System's administrative staff. Although examined for general reasonableness, the data was not audited by the actuary.
9. The actuarial valuation computations were made by or under the supervision of a Member of the American Academy of Actuaries (MAAA). The assumptions used in the actuarial valuations were adopted by the System's board after consulting with the actuary.

**Summary of Actuarial Assumptions and Methods  
(Continued)**

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**SCHEDULE 1**

Percent of Eligible Active Members Retiring Within Next Year

| Retirement<br>Ages | Percent of Eligible Active<br>Members Retiring Within<br>Next Year |
|--------------------|--|
| 55-59              | 8 %  |
| 60-64              | 12   |
| 65-69              | 12   |
| 70                 | 20   |
| 71                 | 30   |
| 72                 | 40   |
| 73                 | 50   |
| 74                 | 75   |
| 75                 | 100  |

**SCHEDULE 2**

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

| Sample<br>Ages | Percent of Active<br>Members Withdrawing<br>Within Next Year<br>(Men and Women) | Percent of<br>Active Members<br>Becoming Disabled<br>Within Next Year<br>(Men and Women) | Percent<br>Increase<br>In Pay During<br>Next Year |
|----------------|---|--|---|
| 20             |   | 0.00 %   | 4.5 %   |
| 25             |   | 0.01   | 4.5   |
| 30             | 1.5 %   | 0.02   | 4.5   |
| 35             | 1.5   | 0.04   | 4.5   |
| 40             | 1.5   | 0.11   | 4.5   |
| 45             | 1.5   | 0.26   | 4.5   |
| 50             | 1.5   | 0.45   | 4.5   |
| 55             | 1.5   | 0.65   | 4.5   |
| 60             | 1.5   | 0.90   | 4.5   |

# ACTUARIAL SECTION

## Actuarial Valuation Data

### Schedule of Active Member Valuation Data

| Valuation<br>Date<br>Sept. 30 | Inactive<br>Members<br>Number | Active            |                               |                          |               |                |                    |
|-------------------------------|-------------------------------|-------------------|-------------------------------|--------------------------|---------------|----------------|--------------------|
|                               |                               | Members<br>Number | Reported<br>Annual<br>Payroll | Average<br>Annual<br>Pay | %<br>Increase | Average<br>Age | Average<br>Service |
| 1991                          | 32                            | 603               | \$ 43,905,860                 | \$ 72,812                | (0.3) %       | 52.1 years     | 10.2 years         |
| 1992                          | 28                            | 604               | 43,840,733                    | 72,584                   | (0.3)         | 52.8           | 10.6               |
| 1993                          | 25                            | 611               | 44,472,833                    | 72,787                   | 0.2           | 52.8           | 10.5               |
| 1994                          | 26                            | 608               | 46,276,785                    | 76,113                   | 4.5           | 53.4           | 10.5               |
| 1995                          | 26                            | 614               | 48,195,528                    | 78,494                   | 3.1           | 52.8           | 10.9               |
| 1996                          | 28                            | 610               | 49,350,572                    | 80,903                   | 3.1           | 53.6           | 11.7               |
| 1997                          | 25                            | 609               | 49,000,856                    | 80,461                   | (0.5)         | 52.8           | 11.4               |
| 1998                          | 24                            | 600               | 48,865,572                    | 81,443                   | 1.2           | 53.6           | 12.2               |
| 1999                          | 22                            | 573               | 49,626,160                    | 86,608                   | 6.3           | 54.8           | 13.5               |
| 2000                          | 17                            | 399               | 37,022,723                    | 92,789                   | 7.1           | 54.0           | 11.0               |

### Schedule of Changes in the Retirement Rolls

| Year<br>Ended<br>Sept. 30 | Added to Rolls |                      | Removed from Rolls |                      | Rolls-End of Year |                      | % Increase<br>in Annual<br>Allowances | Average<br>Annual<br>Allowances |
|---------------------------|----------------|----------------------|--------------------|----------------------|-------------------|----------------------|---------------------------------------|---------------------------------|
|                           | No.            | Annual<br>Allowances | No.                | Annual<br>Allowances | No.               | Annual<br>Allowances |                                       |                                 |
| 1991                      | 45             | \$ 1,616,652         | 17                 | \$ 322,898           | 389               | \$ 9,225,031         | 16.3 %                                | \$ 23,715                       |
| 1992                      | 29             | 816,203              | 12                 | 217,417              | 406               | 9,823,817            | 6.5                                   | 24,197                          |
| 1993                      | 29             | 1,023,871            | 1                  | 16,135               | 434               | 10,831,553           | 10.3                                  | 24,957                          |
| 1994                      | 24             | 794,810              | 12                 | 303,091              | 446               | 11,323,272           | 4.5                                   | 25,389                          |
| 1995                      | 50             | 1,700,945            | 15                 | 409,064              | 481               | 12,615,153           | 11.4                                  | 26,227                          |
| 1996                      | 19             | 708,409              | 19                 | 424,164              | 481               | 12,899,398           | 2.3                                   | 26,818                          |
| 1997                      | 40             | 1,663,656            | 9                  | 359,441              | 512               | 14,203,613           | 10.1                                  | 27,741                          |
| 1998                      | 26             | 696,745              | 24                 | 556,833              | 514               | 14,343,525           | 1.0                                   | 27,906                          |
| 1999                      | 35             | 1,182,957            | 18                 | 514,936              | 531               | 15,011,546           | 4.7                                   | 28,270                          |
| 2000                      | 16             | 656,659              | 12                 | 449,123              | 535               | 15,219,082           | 1.4                                   | 28,447                          |

## Prioritized Solvency Test

The Michigan Judges' 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.

| <b>Actuarial Present Value of<br/>Accrued Liabilities (\$ in Thousands)</b> |                                   |                                   |   |           |   |     |     |       |       |   |       |   |
|---|-----------------------------------|-----------------------------------|---|-----------|---|-----|-----|-------|-------|---|-------|---|
|   |                                   |                                   |   |           | (1)   | (2) | (3) |       |       |   |       |   |
| Valuation<br>Date<br>Sept. 30   | Active<br>Member<br>Contributions | Retirants<br>and<br>Beneficiaries | Active and Inactive<br>Members (Employer<br>Financed Portion) | Assets    | <b>Portion of Present<br/>Value Covered<br/>by Assets</b> |     |     |       |       |   |       |   |
|   |                                   |                                   |   |           | (1)   | (2) | (3) | (4)** |       |   |       |   |
| 1991  | \$ 23,422                         | \$ 78,438                         | \$ 69,420   | \$162,053 | 100   | %   | 100 | %     | 86.7  | % | 94.6  | % |
| 1992  | 26,364                            | 82,451                            | 70,681  | 171,969   | 100   |     | 100 |       | 89.4  |   | 95.8  |   |
| 1993  | 28,922                            | 89,163                            | 74,878  | 187,737   | 100   |     | 100 |       | 93.0  |   | 97.3  |   |
| 1993*   | 28,922                            | 89,163                            | 74,342  | 189,134   | 100   |     | 100 |       | 95.6  |   | 98.3  |   |
| 1994  | 32,364                            | 89,649                            | 74,978  | 202,371   | 100   |     | 100 |       | 107.2 |   | 102.7 |   |
| 1995  | 34,358                            | 96,574                            | 73,395  | 222,230   | 100   |     | 100 |       | 124.4 |   | 108.8 |   |
| 1996  | 38,766                            | 96,633                            | 76,102  | 243,248   | 100   |     | 100 |       | 141.7 |   | 115.0 |   |
| 1997  | 39,637                            | 118,717                           | 72,157  | 271,458   | 100   |     | 100 |       | 156.7 |   | 117.8 |   |
| 1998  | 43,378                            | 116,264                           | 76,879  | 288,671   | 100   |     | 100 |       | 167.8 |   | 122.0 |   |
| 1998***   | 43,378                            | 116,645                           | 70,294  | 288,671   | 100   |     | 100 |       | 183.0 |   | 125.3 |   |
| 1999  | 43,047                            | 121,856                           | 78,600  | 320,869   | 100   |     | 100 |       | 198.4 |   | 131.8 |   |
| 2000  | 28,812                            | 120,480                           | 54,933  | 274,843   | 100   |     | 100 |       | 228.6 |   | 134.6 |   |

\* Revised actuarial assumptions and asset valuation method.

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

\*\*\* Revised actuarial assumptions.

# ACTUARIAL SECTION

## Summary Of Plan Provisions

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Our actuarial valuation of Judges' Retirement System as of September 30, 2000 is based on the present provision of Public Act No. 234 of 1992.

### ***Regular Retirement***

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

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

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

### ***Early Retirement (age reduction factor used)***

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

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

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

Eligibility — 8 years of credited service.

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

### ***Disability Retirement***

Eligibility — 8 years of credited service.

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

### ***Death Before or After Retirement (Spouse or Dependent Children)***

Eligibility — 8 years of credited service.

Annual Amount — 50% of the members accrued pension.

## **Summary Of Plan Provisions (Continued)**

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

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

### ***Member Contributions***

Non-Trial Judges: 5% of salary (1.5% for health benefits).

Trial Judges with Full Standardization: 7% of salary.

Trial Judges without Full Standardization: 3.5% of salary.

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

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

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

### ***Defined Contribution Legislation -- Public Act 523 of 1996***

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

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

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

# STATISTICAL SECTION

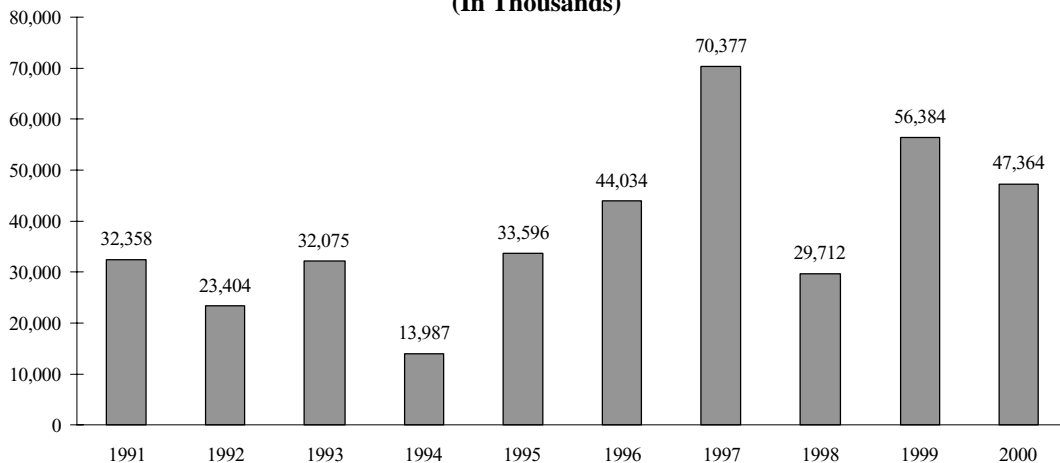


Schedule of Revenues by Source  
Schedule of Expenses by Type  
Schedule of Benefit Expenses by Type  
Schedule of Retired Members by Type of Benefit  
Schedule of Average Benefit Payments  
Ten Year History of Membership

Schedule of Revenues by Source

| Fiscal Year<br>Ended<br>Sept 30 | Member<br>Contributions | Net<br>Court<br>Fees | Employer Contributions |                                | Net Investment &<br>Other Income | Total         |
|---------------------------------|-------------------------|----------------------|------------------------|--------------------------------|----------------------------------|---------------|
|                                 |                         |                      | Dollars                | % of Annual<br>Covered Payroll |                                  |               |
| 1991                            | \$ 2,705,409            | \$5,661,204          | \$1,505,192            | 3.43 %                         | \$ 22,486,378                    | \$ 32,358,183 |
| 1992                            | 2,447,047               | 5,719,623            | 1,519,483              | 3.47                           | 13,718,217                       | 23,404,370    |
| 1993                            | 2,833,083               | 6,101,841            | 1,588,274              | 3.57                           | 21,551,382                       | 32,074,580    |
| 1994                            | 2,811,231               | 4,926,397            | 1,650,598              | 3.57                           | 4,598,657                        | 13,986,883    |
| 1995                            | 2,915,335               | 5,263,144            | 1,614,633              | 3.35                           | 23,803,055                       | 33,596,167    |
| 1996                            | 2,975,239               | 4,635,563            | 1,556,044              | 3.15                           | 34,867,041                       | 44,033,887    |
| 1997                            | 3,208,635               | 4,080,730            | 1,592,853              | 3.25                           | 61,494,465                       | 70,376,683    |
| 1998                            | 3,214,706               | 0                    | 246,659                | 0.50                           | 26,250,205                       | 29,711,570    |
| 1999                            | 3,316,840               | 0                    | 58,499                 | 0.00                           | 53,008,576                       | 56,383,915    |
| 2000                            | 3,199,407               | 0                    | 0                      | 0.00                           | 44,164,101                       | 47,363,508    |

Total Revenues  
Year Ended September 30  
(In Thousands)



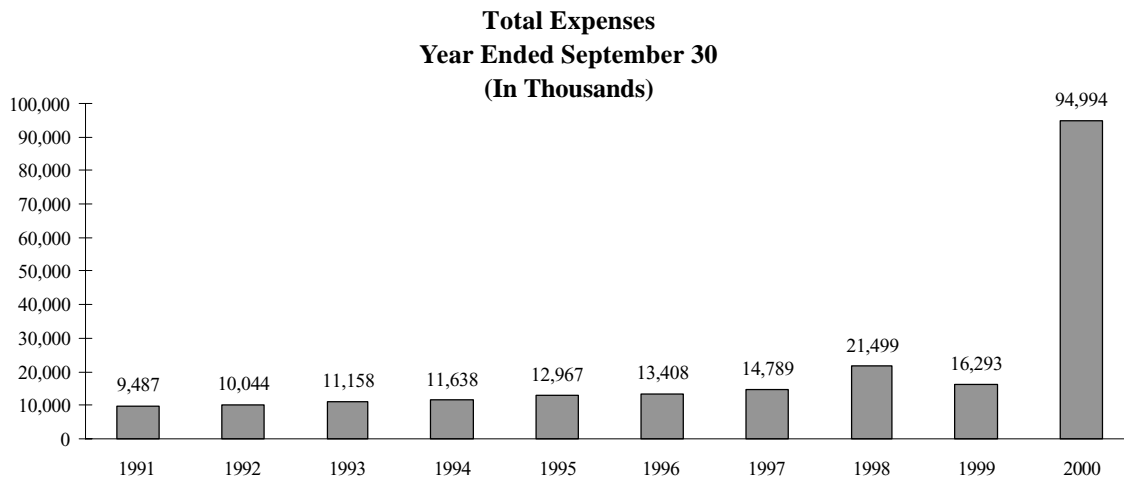


# STATISTICAL SECTION

## Schedule of Expenses by Type

| <u>Fiscal Year<br/>Ended<br/>Sept. 30</u> | <u>Benefit<br/>Payments*</u> | <u>Refunds<br/>and Transfers</u> | <u>Administrative<br/>Expenses</u> | <u>Total</u> |
|---|------------------------------|----------------------------------|------------------------------------|--------------|
| 1991                                      | \$ 8,987,239                 | \$ 120,343                       | \$ 379,034                         | \$ 9,486,616 |
| 1992                                      | 9,631,114                    | 18,366                           | 394,632                            | 10,044,112   |
| 1993                                      | 10,733,285                   | 25,639                           | 399,530                            | 11,158,454   |
| 1994                                      | 11,173,171                   | 28,444                           | 436,764                            | 11,638,379   |
| 1995                                      | 12,404,307                   | 91,861                           | 470,760                            | 12,966,928   |
| 1996                                      | 12,877,528                   | 16,266                           | 514,406                            | 13,408,200   |
| 1997                                      | 14,157,040                   | 236,326                          | 395,428                            | 14,788,794   |
| 1998                                      | 14,660,076                   | 6,641,662                        | 197,743                            | 21,499,481   |
| 1999                                      | 15,231,572                   | 913,381                          | 148,116                            | 16,293,069   |
| 2000                                      | 15,711,223                   | 78,765,632                       | 517,046                            | 94,993,901   |

\*Includes health benefits.

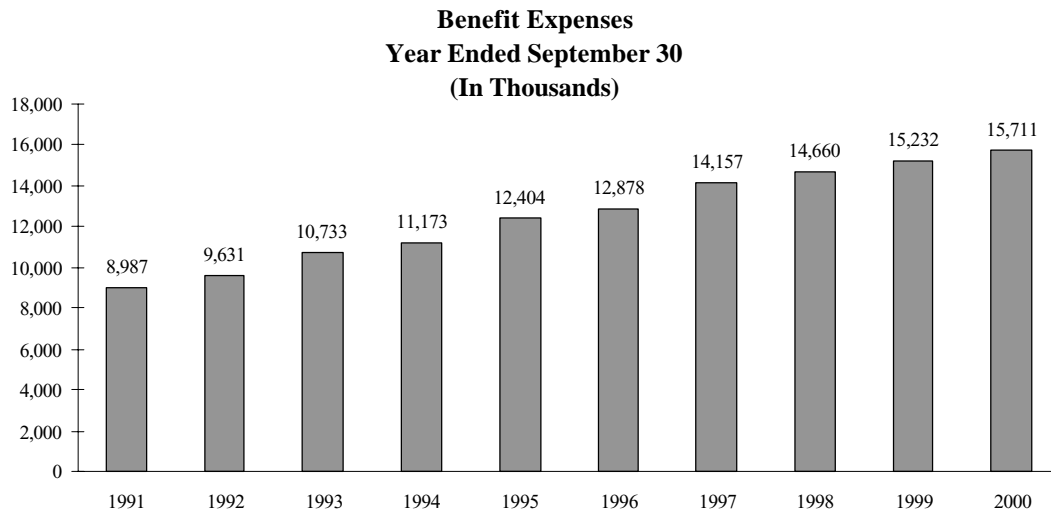


## Schedule of Benefit Expenses by Type

| Fiscal Year<br>Ended<br>Sept. 30 | Regular<br>Benefits | Disability<br>Benefits | Health<br>Benefits** | Total        |
|----------------------------------|---------------------|------------------------|----------------------|--------------|
| 1991                             | \$ 8,905,532        | *                      | \$ 81,707            | \$ 8,987,239 |
| 1992                             | 9,522,704           | *                      | 108,410              | 9,631,114    |
| 1993                             | 10,598,915          | *                      | 134,370              | 10,733,285   |
| 1994                             | 11,041,755          | *                      | 131,416              | 11,173,171   |
| 1995                             | 12,012,426          | \$ 273,424             | 118,457              | 12,404,307   |
| 1996                             | 12,464,285          | 294,976                | 118,267              | 12,877,528   |
| 1997                             | 13,491,097          | 348,192                | 317,751              | 14,157,040   |
| 1998                             | 13,922,718          | 381,835                | 355,523              | 14,660,076   |
| 1999                             | 14,435,420          | 397,155                | 398,997              | 15,231,572   |
| 2000                             | 14,818,706          | 442,172                | 450,345              | 15,711,223   |

\* Disability benefits included with regular benefits.

\*\*Includes vision and dental benefits.



# STATISTICAL SECTION

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

| Amount<br>Monthly<br>Benefit | Number of<br>Retirees | Type of Retirement* |     |    |    |   | Selected Option** |       |       |
|------------------------------|-----------------------|---------------------|-----|----|----|---|-------------------|-------|-------|
|                              |                       | 1                   | 2   | 3  | 4  | 5 | Opt 1             | Opt 2 | Opt 3 |
| \$ 0-400                     | 7                     | 2                   | 2   | 3  | 0  | 0 | 7                 | 0     | 0     |
| 401-800                      | 67                    | 18                  | 40  | 8  | 1  | 0 | 61                | 6     | 0     |
| 801-1,200                    | 52                    | 26                  | 17  | 6  | 3  | 0 | 38                | 12    | 2     |
| 1,201-1,600                  | 64                    | 28                  | 24  | 11 | 1  | 0 | 54                | 9     | 1     |
| 1,601-2,000                  | 60                    | 26                  | 24  | 9  | 1  | 0 | 53                | 7     | 0     |
| 2,001-2,400                  | 34                    | 21                  | 10  | 1  | 2  | 0 | 19                | 15    | 0     |
| 2,401-2,800                  | 43                    | 38                  | 3   | 1  | 1  | 0 | 34                | 8     | 1     |
| 2,801-3,200                  | 33                    | 30                  | 2   | 0  | 1  | 0 | 20                | 13    | 0     |
| 3,201-3,600                  | 59                    | 57                  | 2   | 0  | 0  | 0 | 47                | 11    | 1     |
| 3,601-4,000                  | 64                    | 61                  | 1   | 0  | 1  | 1 | 58                | 5     | 1     |
| Over 4,000                   | 52                    | 48                  | 1   | 0  | 3  | 0 | 50                | 2     | 0     |
| Totals                       | 535                   | 355                 | 126 | 39 | 14 | 1 | 441               | 88    | 6     |

\* Type of Retirement

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

\*\*Selected Option

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

## Schedule of Average Benefit Payments

| Retirement Effective Dates   | Years Credited Service |          |          |          |          |          |          | Total    |
|------------------------------|------------------------|----------|----------|----------|----------|----------|----------|----------|
|                              | 0-5                    | 5-10     | 10-15    | 15-20    | 20-25    | 25-30    | 30+      |          |
| Period 10/1/94 to 9/30/95:   |                        |          |          |          |          |          |          |          |
| Average Monthly Benefit      | \$ 580                 | \$ 1,158 | \$ 1,502 | \$ 2,350 | \$ 2,845 | \$ 2,316 | \$ 2,469 | \$ 2,186 |
| Average Final Average Salary | 4,875                  | 50,179   | 45,218   | 52,217   | 60,194   | 52,693   | 51,738   | 51,893   |
| Number of Active Retirants   | 4                      | 27       | 109      | 173      | 105      | 46       | 17       | 481      |
| Period 10/1/95 to 9/30/96:   |                        |          |          |          |          |          |          |          |
| Average Monthly Benefit      | \$ 824                 | \$ 1,197 | \$ 1,555 | \$ 2,396 | \$ 2,844 | \$ 2,327 | \$ 2,624 | \$ 2,228 |
| Average Final Average Salary | 3,900                  | 51,478   | 46,294   | 53,387   | 61,170   | 52,693   | 54,972   | 52,911   |
| Number of Active Retirants   | 5                      | 26       | 108      | 172      | 108      | 46       | 16       | 481      |
| Period 10/1/96 to 9/30/97:   |                        |          |          |          |          |          |          |          |
| Average Monthly Benefit      | \$ 911                 | \$ 1,228 | \$ 1,561 | \$ 2,472 | \$ 2,883 | \$ 2,439 | \$ 3,089 | \$ 2,312 |
| Average Final Average Salary | 3,250                  | 54,667   | 47,584   | 56,426   | 62,947   | 56,764   | 64,058   | 55,663   |
| Number of Active Retirants   | 6                      | 26       | 110      | 181      | 118      | 50       | 21       | 512      |
| Period 10/1/97 to 9/30/98:   |                        |          |          |          |          |          |          |          |
| Average Monthly Benefit      | \$ 860                 | \$ 1,161 | \$ 1,568 | \$ 2,478 | \$ 2,942 | \$ 2,499 | \$ 3,113 | \$ 2,325 |
| Average Final Average Salary | 2,437                  | 53,853   | 49,030   | 57,069   | 64,355   | 76,821   | 63,379   | 58,228   |
| Number of Active Retirants   | 8                      | 26       | 110      | 180      | 119      | 51       | 20       | 514      |
| Period 10/1/98 to 9/30/99:   |                        |          |          |          |          |          |          |          |
| Average Monthly Benefit      | \$ 908                 | \$ 1,148 | \$ 1,630 | \$ 2,522 | \$ 2,948 | \$ 2,476 | \$ 3,409 | \$ 2,356 |
| Average Final Average Salary | 1,950                  | 55,804   | 50,535   | 59,340   | 65,753   | 76,643   | 68,504   | 68,504   |
| Number of Active Retirants   | 10                     | 29       | 113      | 181      | 127      | 52       | 19       | 531      |
| Period 10/1/99 to 9/30/00:   |                        |          |          |          |          |          |          |          |
| Average Monthly Benefit      | \$ 923                 | \$ 1,240 | \$ 1,637 | \$ 2,588 | \$ 2,990 | \$ 2,429 | \$ 3,477 | \$ 2,371 |
| Average Final Average Salary | 1,147                  | 58,188   | 49,653   | 58,814   | 66,470   | 77,869   | 68,504   | 58,893   |
| Number of Active Retirants   | 17                     | 30       | 112      | 184      | 124      | 49       | 19       | 535      |

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

