Michigan Judges Retirement System

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

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, 1999

MJRS

Prepared by:
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INTRODUCTORY SECTION

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The cost of printing this report was $1,179.16 ($3.14 each), which was paid for by the retirement system at no cost to the taxpayers

INTRODUCTORY SECTION

Certificate of Achievement

Certificate of Achievement for Excellence in Financial Reporting

Presented to

Michigan Judge's Retirement System

For its Comprehensive Annual Financial Report for the Fiscal Year Ended September 30, 1998

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

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

President

Executive Director

Letter of Transmittal

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STATE OF MICHIGAN

JOHN ENGLER, Governor

DEPARTMENT OF MANAGEMENT AND BUDGET

February 10, 2000

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 1999.

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 system. 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 1999 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.

MAJOR GOALS ACCOMPLISHED

Providing excellent service to Office of Retirement Services customers now and into the future requires a focused effort by management and staff. This year, ORS began strategic planning to move ORS towards its newly established mission and vision, which are:

Letter of Transmittal (Continued)

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.

The State of Michigan worked aggressively to ensure compliance with Year 2000 requirements for the state's critical information systems, including the state's retirement systems. In ORS, systems such as those which handle annual statements, member billings, service credit evaluations, beneficiary nominations, and the payment of retiree pensions and 1099R distribution were all completed by September 30, 1999.

ORS designed a contingency plan to make sure customer records were protected and business processes would continue on schedule if a natural disaster struck, or if systems and processes outside of ORS created potential business disruptions if they were not adequately compliant for Year 2000. Contingency plans were in place to ensure ORS could continue to provide essential services, such as issuing monthly pension payments, placing new pension recipients on payroll, and enrolling retirees in their appropriate insurance plans. ORS is pleased to report that no service or system disruptions were experienced due to Year 2000.

ORS is identified by other organizations across the country for the use of innovative solutions to problems. Several companies and governmental entities, including Blue Cross/Blue Shield of Michigan, the State of New Jersey Division of Pension and Benefits, Minnesota Teachers' Retirement System, Oregon Public Employees' Retirement System, and the Segal Company, sent representatives to hear about ORS' techniques for responding to major organizational changes, reengineering business processes, and striving to be a more customer-focused organization. One of the major areas of interest was the Customer Information Center (CIC) telephone response group. The CIC services approximately 240 personal counseling visits per month and handles an average of 13,733 of the 19,776 telephone calls ORS receives each month.

New channels of communication have been created to keep in touch with ORS' various customers. The *Connections* retiree newsletter continues to provide pension recipients with a link to current activities at ORS. Other newsletters reach ORS staff and human resource offices, with additional newsletters in development to reach other specialty audiences. Providing updates to interested parties has become easier with the introduction of ListServ technology which allows individuals to "subscribe" to an Internet notification system. ORS staff have been able to efficiently reach larger audiences in remote locations with timely information using video conferencing and satellite broadcasting.

In February 1999, ORS launched a new Internet web site to make available a wealth of information to interested parties, and allow interactive communications between customers and staff. ORS customers can now access copies of publications, forms, retirement acts, and pension calculation estimators, along with general information about the Retirement System.

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, 1998.

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.

Letter of Transmittal (Continued)

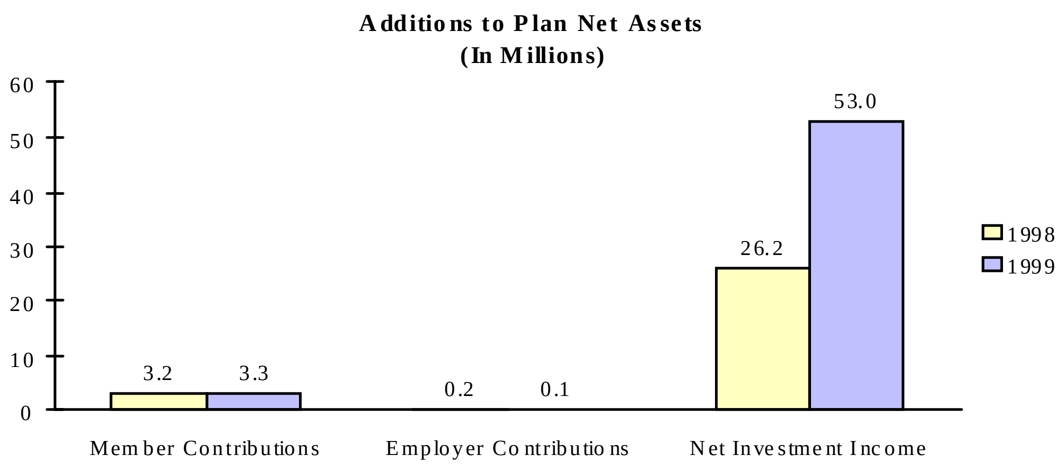
A Certificate of Achievement is valid for a period of one year only. We believe our current report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

FINANCIAL INFORMATION

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 1999 totaled approximately $56.4 million.

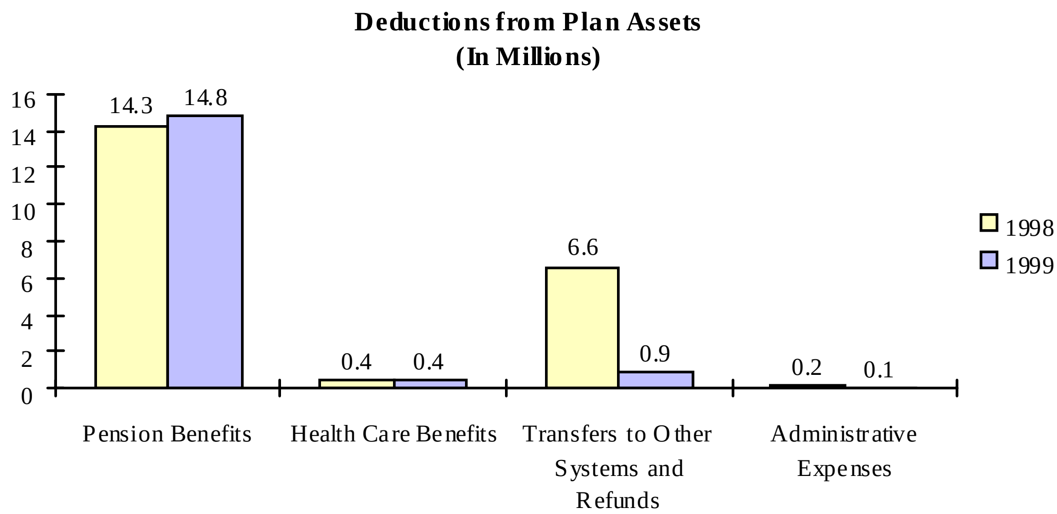
Total contributions and net investment income increased 89.8% from those of the prior year due primarily to an increase in net investment earnings. Employer contributions decreased 76.3% and net investment income increased 102.2% from the prior year. The Investment Section of this report reviews the results of investment activity for 1999.



Deductions From Plan 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 1998, the system also transferred $6.6 million to the defined contribution plan for the judges who chose that option. The option was offered for a limited time and the decision was irrevocable. Expenditures for health care increased $43,474 from $355,523 to $398,997 during the fiscal year. Total deductions for fiscal year 1999 were $16.3 million, a decrease of 24.3% from 1998 expenditures. If the $6.6 million transfer to defined contribution were eliminated from 1998 expenditures, 1999 expenditures would have increased 9.7% over 1998 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)



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 15.5%. For the last five years, the System has experienced an annualized dollar weighted rate of return of 15.8%. 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, 1999, the actuarial value of the assets and actuarial accrued liability of the System were $320.8 million and $243.5 million resulting in a funded ratio of 131.8%. As of September 30, 1998, the amounts were $289 million and $230 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.

Letter of Transmittal (Continued)

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 million and the employer's contribution rate would be 11.62%.

PROFESSIONAL SERVICES

An audit of the System for fiscal year ended September 30, 1999 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, 1999, and 1998. 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

Administrative Organization

Department of Management and Budget
Office of Retirement Services
P.O. Box 30171
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517-322-5103
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Advisors and Consultants

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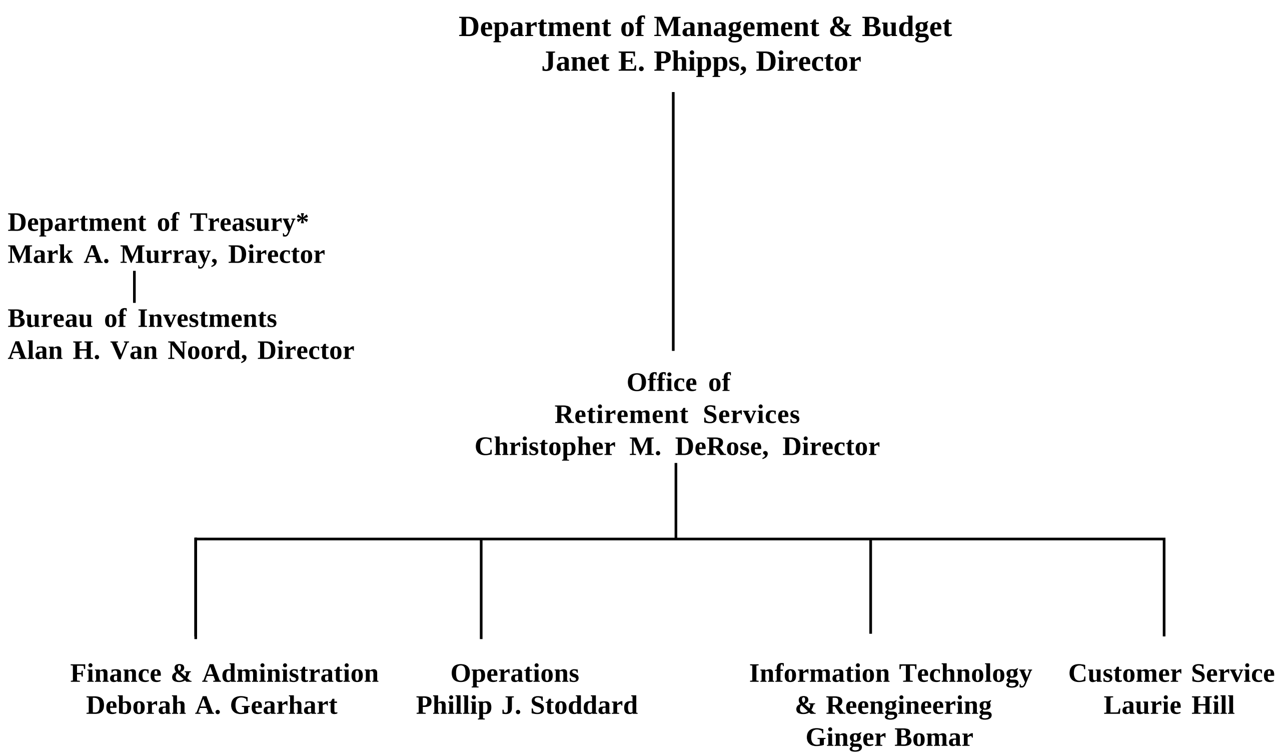
Investment Manager and Custodian
Mark A. Murray
State Treasurer
State of Michigan

Legal Advisor
Jennifer M. Granholm
Attorney General
State of Michigan

Investment Performance Measurement
Capital Resource Advisors
Chicago, Illinois

Administrative Organization

Organization Chart



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

FINANCIAL SECTION

Independent Auditors' Report

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 Systems
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, 1999 and 1998, 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 generally accepted auditing standards and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and 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 in the first paragraph present fairly, in all material respects, the financial position of the Michigan Judges Retirement System, as of September 30, 1999 and 1998, and the changes in plan net assets for the years then ended in conformity with generally accepted accounting principles.

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 System's management. The Schedules of Funding Progress and Employer Contributions and related notes on pages 26 to 28 and the supporting schedules on pages 30 to 33 have been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, are fairly stated in all material respects when considered in relation to the basic financial statements taken as a whole. The Year 2000 information on page 29 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and do not express an opinion on it. In addition, we do not provide assurance that Michigan Judges Retirement System is or will become year 2000 compliant, that Michigan Judges Retirement System year 2000 remediation efforts will be successful in whole or in part, or that parties with which Michigan Judges Retirement System does business are or will become year 2000 compliant.

In accordance with *Government Auditing Standards*, we have also issued a report dated January 27, 2000 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.

Andrews Hooper & Pavlik P.L.C.

January 27, 2000

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

Statements of Pension Plan and Postemployment Healthcare Plan Net Assets

As of fiscal year end September 30, 1999, and 1998

	September 30, 1999			September 30, 1998		
	Pension Plan	Health Plan	Total	Pension Plan	Health Plan	Total
Assets:						
Cash	$ 3,360,865	$ (1,981)	$ 3,358,884	$ 3,338	$ 1	$ 3,339
Receivables:						
Amounts due from employer	197,709	117	197,826	264,169	93	264,262
Interest and dividends	1,505,757		1,505,757	1,389,967		1,389,967
Sale of investments	217,941		217,941	233,382		233,382
Total receivables	1,921,407	117	1,921,524	1,887,518	93	1,887,611
Investments:						
Short term investments	36,939,943		36,939,943	11,561,197		11,561,197
Bonds, notes mortgages and preferred stock	73,928,298		73,928,298	82,097,068		82,097,068
Common stock	173,733,035		173,733,035	165,156,856		165,156,856
Real estate	27,260,263		27,260,263	26,305,950		26,305,950
Alternative investments	32,683,603		32,683,603	28,689,415		28,689,415
International investments	18,782,919		18,782,919	13,446,821		13,446,821
Collateral on loaned securities	14,253,678		14,253,678	13,623,046		13,623,046
Total investments	377,581,739		377,581,739	340,880,353		340,880,353
Total assets	382,864,011	(1,864)	382,862,147	342,771,209	94	342,771,303
Liabilities:						
Warrants outstanding	69,302	41	69,343	74,780	26	74,806
Accounts payable and other accrued liabilities	347,567	215,169	562,736	1,070,102	115,541	1,185,643
Deferred Revenue				2,263	1	2,264
Obligations under securities lending	14,253,678		14,253,678	13,623,046		13,623,046
Total liabilities	14,670,547	215,210	14,885,757	14,770,191	115,568	14,885,759
Net Asset Held in Trust for Pension and Healthcare Benefits*	$368,193,464	$ (217,074)	$367,976,390	$328,001,018	$ (115,474)	$327,885,544

* 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, 1999, and 1998

	September 30, 1999			September 30, 1998		
	Pension Plan	Health Plan	Total	Pension Plan	Health Plan	Total
Additions:						
Member contributions:						
Military	$ 8,282		$ 8,282	$ 43,591		$ 43,591
Other	3,011,161	297,397	3,308,558	2,887,279	283,836	3,171,115
Employer contributions						
General fund financing	58,499		58,499	246,659		246,659
Investment income:						
Investment income	53,299,818		53,299,818	26,448,496		26,448,496
Securities lending income	787,154		787,154	593,022		593,022
Investment expenses:						
Real estate operating expenses	(40,814)		(40,814)	(21,260)		(21,260)
Securities lending expenses	(742,313)		(742,313)	(574,406)		(574,406)
Other investment expenses	(295,362)		(295,362)	(230,595)		(230,595)
Miscellaneous	93		93	34,948		34,948
Total additions	56,086,518	297,397	56,383,915	29,427,734	283,836	29,711,570
Deductions:						
Benefits and refunds paid to plan members and beneficiaries						
Retirement benefits	14,832,575		14,832,575	14,304,553		14,304,553
Health benefits		398,997	398,997		355,523	355,523
Transfers to other systems	913,381		913,381	6,641,662		6,641,662
Administrative expenses	148,116		148,116	197,743		197,743
Total deductions	15,894,072	398,997	16,293,069	21,143,958	355,523	21,499,481
Net increase	40,192,446	(101,600)	40,090,846	8,283,776	(71,687)	8,212,089
Net Assets Held in Trust for Pension and Healthcare Benefits:						
Beginning of year	328,001,018	(115,474)	327,885,544	319,717,242	(43,787)	319,673,455
End of year*	368,193,464	$ (217,074)	$ 367,976,390	$ 328,001,018	$ (115,474)	$ 327,885,544

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

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

Notes to General Purpose Financial Statements

NOTE 1 - PLAN DESCRIPTION

ORGANIZATION

The Michigan Judges' Retirement System is a 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 316 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' 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, Office of Retirement Services. 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, 1999, and 1998, the System's membership consisted of the following:

Retirees and beneficiaries currently receiving benefits:	1999	1998
Regular benefits	355	349
Survivor benefits	171	152
Disability benefits	5	13
Total	531	514
Current employees:		
Vested	411	380
Non-vested	162	220
Total	573	600
Inactive employees entitled to benefits and not yet receiving them	22	24
Total All Members	1,126	1,138

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 531 retirees who may participate in the health benefits. The number of participants is as follows:

	1999	1998
Participants receiving benefits:		
Health	80	80
Dental	134	130
Vision	99	96

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.

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 1998 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 is 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.

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, 1999, and 1998, the balance in this account was $47 million and $43 million respectively.

Reserve for Employer Contributions — 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, 1999, and 1998, the balance in this account was $106 million and $99 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 balance into balance with the actuarial present value of retirement allowances. At September 30, 1999, and 1998, the balance in this account was $116 million and $119 million respectively.

Reserve for Investment Income — This reserve is credited with all investment earnings, changes in fair values, gifts to the Retirement System, and forfeited contributions. All administrative expenses are paid from this reserve and interest is transferred annually to the other reserves. At September 30, 1999, and 1998, the balance in this account was $99 million and $67 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, 1999, and 1998, the balance in this account was negative $217 thousand and negative $115 thousand respectively.

Notes to General Purpose Financial Statements

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.

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.

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 Plan Net Assets. Such assets are depreciated on a straight line basis over 10 years. The System does not have equipment that falls within these parameters.

Related Party Transactions

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

	1999	1998
Building rentals	$ 1,183	$ 1,073
Technological Support	16,379	16,418
Attorney General	3,776	2,318
Investment	63,600	55,725

Cash — On September 30, 1999 and 1998 the System had $3.4 million and $3,339 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 $ 281,584 and $72,837 for the years ended September 30, 1999, and 1998, respectively.

Reclassification of Prior Year Amounts

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

Notes to General Purpose Financial Statements

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 1998 or 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. 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 and $247 thousand for fiscal year 1999 and 1998, respectively.

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% of the System's assets in small business having more than one-half of assets or employees in Michigan as described in section 20(a) of the act and up to 15% 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 6% of the total pension trust fund's portfolio has been invested from time to time in futures contracts, collateralized mortgages and swap agreements. State investment statues limit total derivative exposure to 15% of a fund's total asset value, and restrict uses to replication of returns and hedging of assets. Swap agreements represent the largest category of derivatives used, and they represented 5.0% of market value of total assets on September 30, 1999.

Notes to General Purpose Financial Statements

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 eighteen foreign countries. The notional amounts of the swap agreements at September 30, 1999, and 1998, were $15.44 million and $13.72 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 1999 to August 2002. 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 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 $4.2 million of gains on international equity exposure and excess interest received have been realized. The unrealized gain of $3.0 million at September 30, 1999, reflects the increase in international stock indices and changes in currency exchange rates.

The respective September 30, 1999, and 1998 values are as follows:

	Notional Value	Current Value
9/30/99 (dollars in millions)	$ 15.44	$18.52
9/30/98 (dollars in millions)	13.72	13.45

In September, 1999, futures contracts on the S & P 500 and S & P MidCap indices were purchased as part of the allocation of funds to the Index Funds as the stock markets corrected. These transactions resulted in the purchase of $456 thousand of notional exposure to the indices, the designation of short term funds of an equal amount held in combination with the contracts and the placement and maintenance of Treasury bonds as collateral for the futures transactions. A very small gain on the combined synthetic equity position was recognized on September 30. Subsequently, the synthetic equity positions were increased by approximately $616 thousand in October, 1999, and dedicated commercial paper was purchased to replace short term cash fund balances held in combination with the futures contracts.

Investments Exceeding 5% of Plan Net Assets

The Judges' Retirement System did not hold an individual investment (other than US Government securities) that exceeded 5% of net assets available for benefits at September 30, 1999, or 1998.

Securities Lending

State statutes do not prohibit the System from participating 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 retirement 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 issued by a person other than the borrower or an affiliate of the borrower 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, 1999, such investment pool had an average duration of 64 days and an average weighted maturity of 489 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, 1999, the System had no credit risk exposure to borrowers. The collateral held and the market value of securities on loan for the retirement system as of September 30, 1999, were $16,258,536 and $15,891,520 respectively.

Gross income from security lending for the fiscal year was $787,154. Expenses associated with this income amounted to $727,382 for the borrower’s rebate and $14,931 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, 1999, all investments of the pension trust fund were classified as Category 1, and Category 3 except for certain investments that were not categorized.

Notes to General Purpose Financial Statements

The following table summarizes the investments:

Category 1	1999	1998
Prime Commercial Paper	$ 32,520,366	$ 7,311,413
Short Term Note	4,419,577	4,249,784
Government Securities	35,616,473	36,979,638
Corporate Bonds & Notes	25,035,782	33,258,294
Preferred Stock	8	8,762
Equities	170,213,689	160,098,246
Real Estate	2,299,339	2,437,295
Alternative Investments	1,380,891	1,065,975
Derivatives (International)	18,524,294	13,446,821
Total Category 1	$ 290,010,419	$ 258,856,228
Category 3		
Government Securities	$ 195,000	$ 0
Total Category 3	$ 195,000	$ 0
Non-Categorized		
Private Placements	$ 2,812,144	$ 3,542,905
Mortgages	114,719	272,031
Real Estate	24,960,924	23,868,655
Alternative Investments	31,302,712	27,623,440
Cash Collateral	14,253,678	13,623,046
Securities on Loan:		
Government Securities	9,848,224	7,358,715
Corporate Bonds & Notes	305,948	676,723
Equities	3,777,971	5,058,610
Total Non-Categorized	$ 87,376,320	$ 82,024,125
Grand Total	$ 377,581,739	$ 340,880,353

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.

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.

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 DB plan-Tier 1 to the states' DC plan-Tier 2).

Under current law, the effective date for participation in the defined contribution 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 terms of this proposed settlement will not be effectuated unless the Legislature is also in agreement through passage of legislation acceptable to the parties. Legislation has since been passed by the Senate and the House and was approved by the Governor. Since the legislation differed in two aspects from the settlement agreement, it remains to be seen if Plaintiffs will find it acceptable. In the event the legislation is not agreed to by Plaintiffs and incorporated into the settlement, this case will be put on a litigation track with a trial date set and motions to be filed. The outcome and range of potential loss cannot be determined.

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.

Cross motions for summary disposition were filed on January 24, 2000. In addition to arguing jurisdictional issues, the state's motion argues 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.

The state's motion also argues that the statutory scheme complained of meets the intermediate level of scrutiny by demonstrating it is substantially related to an important state interest.

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.

Required Supplementary Information

Schedule of Funding Progress

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

Retirement Benefits

Valuation Date Sept. 30	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded (Overfunded) Actuarial Accrued Liability (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll ((b-a)/c)
1990	$ 150,024,407	$ 163,107,674	$ 13,083,267	92.0 %	$ 43,081,777	30.4 %
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+	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

+ Revised actuarial assumptions and asset valuation method.
* Revised actuarial assumptions.

Required Supplementary Information (Continued)

Schedule of Employer Contributions

Fiscal Year Ending Sept. 30	Annual Required Contribution (ARC)	Actual Employer Contributions	Percentage Contributed
1990	$ 7,276,275	$ 7,562,504	103.9 %
1991	7,566,113	7,923,138	104.7
1992	7,137,221	7,996,188	112.0
1993*	7,112,624		
1993	6,661,731	7,687,638	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		
1999*	1,260,694	58,499	4.6

* Revised actuarial assumptions.

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	09/30/99
Actuarial Cost Method	Entry Age, Normal
Amortization Method	Level Percent, Closed
Remaining Amortization Period	37 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

Required Supplementary Information (Continued)

YEAR 2000

In October 1998, the Governmental Accounting Standards Board (GASB) issued Technical Bulletin 98-1, entitled *Disclosures about Year 2000 Issues.* The provisions of the GASB technical bulletin, as amended by Technical Bulletin 99-1, require the System to make disclosures about its readiness in addressing year 2000 issues for its computer systems and other electronic equipment.

To address the year 2000 issues, the State established the Year 2000 Project Office within the Department of Management and Budget (DMB). The Year 2000 Project Office's mission is to lead, support, and facilitate achievement of year 2000 compliance throughout the state's executive branch to ensure uninterrupted service to Michigan's citizens. The Year 2000 Project Office is monitoring year 2000 compliance efforts at the various agencies and is providing assistance and assigning resources to accelerate compliance for all mission critical systems and equipment. Additional disclosure regarding the status of statewide systems year 2000 compliance efforts upon which the System is dependent can be found in the State of Michigan's Comprehensive Annual Financial Report.

The System in conjunction with the Year 2000 Project Office, DMB is subjecting those systems and equipment to the following stages of work to address year 2000 issues:

Awareness stage — Establishing a budget and project plan for dealing with the year 2000 issue.
Assessment stage — Identifying the systems and components for year 2000 compliance.
Remediation stage — Making changes to systems and equipment.
Validation/testing stage — Validating and testing the changes that were made during the remediation stage.

The System has identified the computer systems and electronic equipment that are critical to its operations, and the following is a summary of progress towards achieving year 2000 compliance:

Internal Systems:
Common Pension Payroll -- the System has completed the assessment, remediation, validation and testing stages of these systems.

External Factors:
There can be no assurance that organizations and governmental agencies with which the System interacts, including banks, vendors, customers, state and federal governments will be year 2000 compliant. With regard to these external organizations, the System obtained assurances that their systems will be ready for the year 2000. If issues are identified, action plans will be instituted as necessary. However, even if the systems of both are compliant in a timely manner, problems could arise with communications between systems if compliance is achieved through inconsistent approaches or methodologies.

Because of the unprecedented nature of the year 2000 issue, its effects and the success of related remediation efforts will not be fully determinable until the year 2000 and thereafter. Management believes that it has instituted a plan to minimize the impact that the year 2000 issue may have on critical operations.

Supporting Schedules

Comparative Summary Schedule of Pension Plan Administrative Expenses For the Years Ended September 30, 1999 and 1998

	1999	1998
Personnel Services:		
Staff salaries	$ 55,618	$ 86,376
Retirement and social security	10,707	2,092
Other fringe benefits	11,396	1,535
Total	77,721	90,003
Professional Services:		
Actuarial	15,336	32,560
Attorney general	3,776	2,318
Audit	24,209	46,851
Consulting	253	55
Total	43,574	81,784
Building and Equipment:		
Building rentals	1,183	1,073
Equipment Purchase, Maintenance and Rentals	716	2,027
Total	1,899	3,100
Travel and General:		
Travel and Board Meetings	280	379
Office Supplies	423	827
Postage, Telephone and Other	5,019	4,819
Printing	2,821	413
Technological Support	16,379	16,418
Total	24,922	22,856
Total Administrative Expenses	$ 148,116	$ 197,743

Supporting Schedules (Continued)

Schedule of Investment Expenses

	1999	1998
Real Estate	$ 40,814	$ 21,260
Securities Lending Expense	742,313	574,406
Other Investment Expense	295,362	230,595
Total Investment Expenses	$ 1,078,489	$ 826,261

Schedule of Payments to Consultants

	1999	1998
Independent Auditors	$ 24,209	$ 46,800
Attorney General	3,776	2,318
Actuary	15,336	32,560
Total Payments	$ 43,321	$ 81,678

Supporting Schedules (continued)

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

	Fiscal Year-to-Date Ending September 30, 1999					
	Member Contributions	Employer Contributions	Retirement Benefits	Health Benefits	Investment Income	Total
Additions:						
Member contributions:						
Military	$ 8,282					$ 8,282
Other	3,011,161			$ 297,397		3,308,558
Employer contributions						
Court fees						
Other		$ 58,499				58,499
Investment income:						
Investment income					$ 53,299,818	53,299,818
Securities lending income					787,154	787,154
Less 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
Total additions	3,019,443	58,499		297,397	53,008,576	56,383,915
Deductions:						
Benefits and refunds paid to plan members 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
Total deductions	309,477	603,904	14,832,575	398,997	148,116	16,293,069
Net increase	2,709,966	(545,405)	(14,832,575)	(101,600)	52,860,460	40,090,846
Other changes in net assets:						
Interest allocation	3,269,469	7,894,772	9,510,444		(20,674,685)	
Transfers upon retirements	(2,140,042)		2,140,042			
Transfers of employer shares						
Total other changes in net assets	1,129,427	7,894,772	11,650,486		(20,674,685)	
Net Increase (Decrease) After Other Changes	3,839,393	7,349,367	(3,182,089)	(101,600)	32,185,775	40,090,846
Net Assets Held in Trust for Pension and Healthcare Benefits:						
Beginning of year	43,378,244	98,684,652	118,880,545	(115,474)	67,057,577	327,885,544
End of year	$ 47,217,637	$ 106,034,019	$ 115,698,456	$ (217,074)	$ 99,243,352	$ 367,976,390

Supporting Schedules (continued)

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

	For Year Ended September 30, 1998					
	Member Contributions	Employer Contributions	Retirement Benefits	Health Benefits	Investment Income	Total
Additions:						
Member contributions:						
Military	$ 43,591					$ 43,591
Other	2,887,279			$ 283,836		3,171,115
Employer contributions						
Court fees						
General fund financing		$ 246,659				246,659
Investment income:						
Investment income					$ 26,448,496	26,448,496
Securities lending income					593,022	593,022
Less investment expenses:						
Real estate operating expenses					(21,260)	(21,260)
Securities lending expenses					(574,406)	(574,406)
Other investment expenses					(230,595)	(230,595)
Miscellaneous		34,948				34,948
Total additions	2,930,870	281,607		283,836	26,215,257	$ 29,711,570
Deductions:						
Benefits and refunds paid to plan members and beneficiaries						
Retirement benefits			$ 14,304,553			14,304,553
Health benefits				355,523		355,523
Transfers to other systems	1,013,715	5,627,947				6,641,662
Administrative expenses					197,743	197,743
Total deductions	1,013,715	5,627,947	14,304,553	355,523	197,743	21,499,481
Net increase (decrease)	1,917,155	(5,346,340)	(14,304,553)	(71,687)	26,017,514	8,212,089
Other changes in net assets:						
Interest allocation	2,995,286	8,264,521	9,220,295		(20,480,102)	-
Transfers upon retirements	(1,171,073)		1,171,073			-
Transfers of employer shares		(7,540,041)	7,540,041			-
Total other changes in net assets	1,824,213	724,480	17,931,409	-	(20,480,102)	-
Net Increase (Decrease) After Other Changes	3,741,368	(4,621,860)	3,626,856	(71,687)	5,537,412	8,212,089
Net Assets Held in Trust for Pension and Healthcare Benefits:						
Beginning of year	39,636,876	103,306,512	115,253,689	(43,787)	61,520,165	319,673,455
End of year	$ 43,378,244	$ 98,684,652	$118,880,545	$ (115,474)	$ 67,057,577	$327,885,544

INVESTMENT SECTION

Report on Investment Activity

INTRODUCTION

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

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

INVESTMENT POLICY & GOAL

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

1. To outperform the actuarial assumption over the long-term.
2. To produce competitive results at a low cost.
3. To achieve a delicate 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 which currently has seven different asset classes which provides for a well diversified portfolio.

Asset Allocation
(Excludes Collateral on Loaned Securities)

Investment Category	As of 9/30/99 Actual %	Target %
Mortgages	0.0%	0.0%
International Equities Passive	5.1%	12.5%
Real Estate	7.4%	8.5%
Alternative Investments	8.9%	12.5%
Short Term Investments	11.0%	2.5%
Fixed Income	20.2%	20.0%
Domestic Equity	47.4%	44.0%
TOTAL	100.0%	100.0%

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, 1999, the total portfolio returned 15.5%, compared to the median of 15.4% of state plans, including this System, as compiled by Capital Resource Advisors. For the three-year period, the fund returned 15.7%, and for the five-year period the fund returned 15.8%. This compares with the median fund return of 14.9% for the three-year period and 15.5% for the five-year period.

During the fiscal year ending September 30, 1999, the nation's economy was characterized by full employment, low inflation, rising interest rates, and moderate economic growth. The equity markets experienced exceptional returns over the time period as the S&P 500 increased 27.8% with the Dow Jones Industrial Average ahead 34.1%. The technology portion of the S&P 500 paced the market with a 73.3% increase followed by the capital goods sector which increased 42.0% and the utility sector which appreciated 24.0%. The Federal Reserve increased the Federal Funds rate by 1/4% to 5.0% in June and boosted rates an additional 1/4% to 5.25% in August. As a result of these tightening moves, the yield on the 30 year Treasury increased from 5.0% at September 30, 1998 to 6.0% at September 30, 1999. Because of the rise in interest rates, Lehman Brothers Government/Corporate Index experienced a negative return of 1.6% for the year ending September 30, 1999.

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, 1999, the portfolio consisted of 47.4% domestic equities, 20.2% fixed income, 8.9% alternative investments, 7.4% real estate, 11.0% short-term investments, and 5.1% international equities.

Domestic Stocks - Active

The objective of actively-managed domestic stock investments is long-term capital appreciation by investing in publicly-traded stocks of primarily US-based companies.

Equity markets again experienced considerable volatility in fiscal year 1999 as economic conditions mirrored those of fiscal year 1998. The Federal Reserve moved to alleviate global economic difficulties by lowering rates three times in the quarter ending December 1998, sending equity markets rebounding from their earlier declines. Corporate earnings growth accelerated throughout the year and major foreign economies strengthened, sending equity markets to record highs by July. Later in the year, fears of inflation arose as commodity prices recovered from the previous year's lows and the US unemployment rate continued to inch lower. Combined with a strong economy, this caused the Federal Reserve to reverse two of its previous actions and equity markets to retreat from their record highs.

The actively-managed domestic stock portfolio achieved a total rate of return of 19.5% for the fiscal year, compared with 27.8% for the S&P 500 Index and 34.1% for the Dow Jones Industrial Average. This compared with a median return of 24.2% for state plans, including the System, as compiled by Capital Resource Advisors. The markets were led by a 73.3% gain for technology stocks, followed by 42.0% for capital goods and 24.0% for utilities. Three-year and five-year annualized returns for the actively-managed domestic stock portfolio were 20.5% and 21.2%, respectively. This compared with 25.1% and 25.0% for the S&P 500 and 21.9% for the median of state plans.

At the close of fiscal year 1999, actively-managed domestic stocks represented 33.4% of total System investments, compared with 38.3% at the end of fiscal year 1998, and 37.5% at the close of fiscal year 1997.

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 27.9% compared to the benchmark's 27.8%. The S&P MidCap Index Fund return for the fiscal year was 26.8% compared to the benchmark's 25.5%. 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 1999, $2.2 million was added to U.S. index funds. At the end of the fiscal year, passive domestic stock portfolios represented 13.8% of total assets, the S&P 500 Index Fund accounting for 12.9% and the S&P MidCap Index Fund 0.8%. Totals include both index fund portfolios of stocks and related synthetic equity positions, a combination of futures contracts and fixed income securities. Indexed stock portfolios represented 12.2% 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 Net Salomon 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 31.7% in the fiscal year compared favorably with the Net Salomon BMI-EPAC return of 31.4%. The passive international return of 14.0% for three years compared well with the benchmark's return of 12.1% 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 Pacifice Composite (EPAC) country weightings in those country indices. Use of swap agreements for a core position began in 1993, and an ADR and index-related security portfolio was added in June of 1999 to increase management flexibility. During fiscal year 1999, $1.8 million of exposure was added, raising passive international investments to 5.1% of total investment assets.

The combination of fixed income LIBOR notes and equity swap agreements was valued at $18.5 million on September 30, 1999. That valuation included a net unrealized gain of $3.0 million on equity index exposures and an unrealized loss of $17 thousand on LIBOR note investments held. During fiscal year 1999, $513 thousand of gains on equity exposures were realized, and $139 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 $4.2 million since the program began.

Report on Investment Activity

Fixed Income

For the fiscal year September 30, 1999, the fixed income portfolio returned a negative 0.3% compared to the median of negative 0.2% for the state plans, including the System, as compiled by Capital Resource Advisors evaluations. The fixed income portfolio returned 6.6% for the three year period and 8.2% for the five year period. These returns compare with the median portfolio returns of 6.9% for the three year and 8.2% for the five year periods.

During the year, rates increased steadily and spreads narrowed. Fixed income markets rewarded shorter duration portfolios. The System's fixed income portfolio was shorter than the Lehman Brothers Government Index. Consequently the fund outperformed the Lehman index for the one year period, negative 0.3% compared to negative 1.6%, underperformed for the three year period, 6.6% versus 6.8% and outperformed the index for the five year period, 8.2% versus 7.8%. Relative to the Salomon Smith Barney Broad Investment Grade Bond Index, the System matched the one year time horizon, negative 0.3% to negative 0.3%, was close in the three year period 6.6% to 6.8% and was ahead in the five year period 8.2% to 7.9%.

Fixed Income represented 20.2% of the total portfolio compared with 25% last year. The corporate sector represented 38.2% of fixed income securities with government securities accounting for 61.8%. Last year corporate securities were 46% of the fixed income portfolio with government securities representing 54%. The increased level of government securities was the result of quality spreads narrowing.

Real Estate Equity

As of the year ending September 30, 1999, 7.4% of the total portfolio was invested in equity real estate. This compares to 8.0% and 6.4% for the fiscal years ending September 30, 1998 and 1997, 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, 1999, were 12.5%, 13.1% and 11.7%, respectively, as compiled by Capital Resource Advisors. This compares to the National Council of Real Estate Investment Fiduciaries (NCREIF) Property Index returns of 11.9%, 13.7% and 11.6% relating to the same periods. As of September 30, 1999, the NCREIF portfolio of properties is heavily weighted in the office sector at 43%, compared to the System's portfolio at 25%. The historical volatility of the office sector returns makes it a more risky property type. The NCREIF Index returns are quoted on an unleveraged basis and before deducting fees/overhead, while the returns quoted above are leveraged after fees/overhead.

The real estate investments are broadly diversified geographically, across the country, by type of property, and by class of property, to reduce risk. Major property types as of September 30, 1999, included: apartments 37%, retail centers, including regional malls and neighborhood/community shopping centers 30%, commercial office buildings 25%, and miscellaneous other property types, such as: industrial, self storage, and hotel 8%. The System, through its advisors, controls, 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.

Mortgages

As of the year ending September 30, 1999, less than 0.5% of the total investment portfolio was invested in direct mortgages. The asset allocation objective is to reduce mortgage holdings to 0% over time; a majority of the mortgage portfolio has been sold during the previous two years 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, 1999,were a negative 2.9%, positive 3.9% and 6.3%, respectively.

Report on Investment Activity

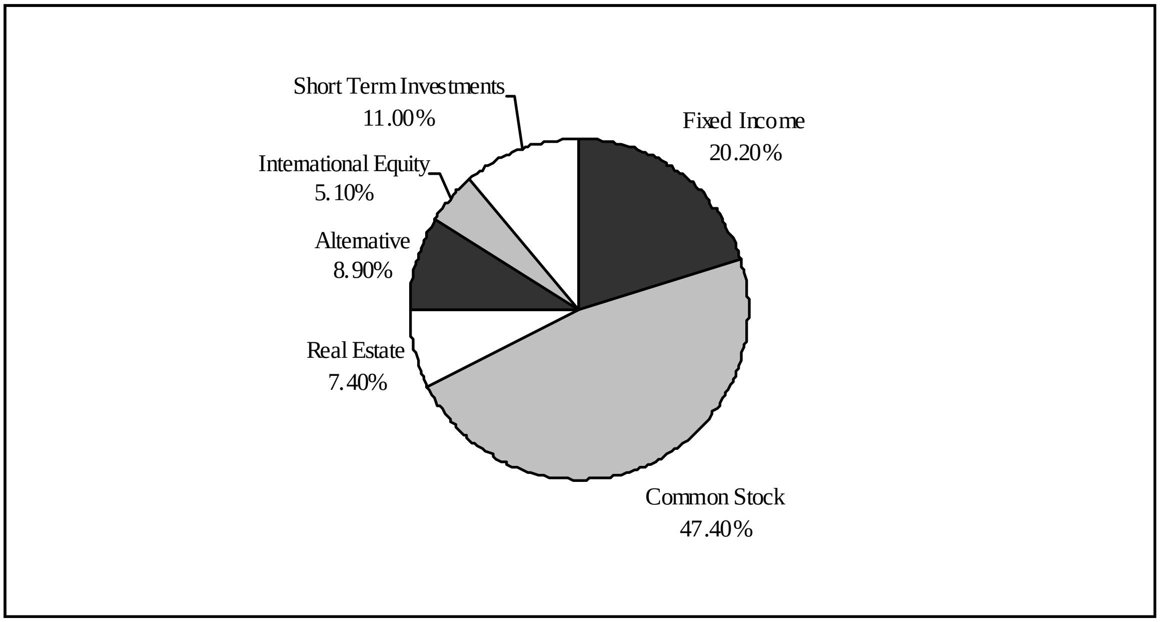
Alternative Investments

Alternative Investments are investments in the private equity market, either directly in companies or indirectly through limited partnerships. Through September 30, 1999, approximately 92% of alternative investments were made through limited partnerships. Of the investments in limited partnerships, approximately 10% were in partnerships investing internationally. The remaining 8% 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 8.9% as of September 30, 1999. The asset allocation for alternative investments is 8.9% while the long-term target asset allocation is 12.5%. 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, 1999 were 11.8%, 18.1% and 20.7%, respectively. Based on returns for quarters ending June 30 and September 30, 1999 of 6.45% and 7.10% respectively, the alternative investments are experiencing returns at an annualized rate of return of 27.1%.

Report on Investment Activity

Asset Allocation



Investment Results Periods Ending September 30, 1999

Investment Category	Current Year	Annualized Rate of Return 3 Years	5 Years	10 Years
Total Portfolio	15.5 %	15.7 %	15.8 %	11.4 %
Median	15.4	14.9	15.5	11.5
Domestic Equities Stock - Active	19.5	20.5	21.2	13.9
Domestic Equities Stock - Passive*	27.9	24.7	24.8	17.3
Standard & Poor's (S&P 500)	27.8	25.1	25.0	16.8
Median of State Plans (Domestic Equities - Active)	24.2	21.4	21.9	14.8
Standard & Poor's (MidCap)	25.5	17.8	18.6	15.6
International Equities - Passive	31.7	14.0	12.7	N/A
Net Salomon BMI - EPAC 50/50	31.4	12.1	10.7	N/A
Fixed Income Bonds (U.S. Corp and Govt)	(0.3)	6.6	8.2	8.5
Salomon Smith Barney Broad Investment Grade Bond Index	(0.3)	6.8	7.9	8.2
Lehman Brothers Government/Corporate	(1.6)	6.8	7.8	8.1
Median of State Plans	(0.2)	6.9	8.2	8.5
Real Estate - Debt	(2.9)	3.9	6.3	2.6
Salomon Smith Barney Broad Investment Grade Bond Index	(0.3)	6.8	7.9	8.2
Real Estate - Equity	12.5	13.1	11.7	5.1
NCREIF	11.9	13.7	11.6	5.6
Alternative Investments	11.8	18.1	20.7	16.4

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

Report on Investment Activity

Largest Assets Held

Largest Stock Holdings (By Market Value)
September 30, 1999

Rank	Shares	Stocks	Market Value
1	80,414	Microsoft Corporation	$ 7,282,493
2	52,722	General Electric Corporation	6,250,852
3	96,415	Wal-Mart Stores Incorporated	4,585,738
4	126,909	Pfizer Incorporated	4,552,860
5	37,838	BP Amoco PLC	4,192,923
6	94,630	Citigroup Incorporated	4,163,720
7	62,284	Warner-Lambert Company	4,134,101
8	45,069	Cisco Systems Incorporated	3,090,043
9	73,596	Coastal Corporation	3,012,836
10	31,515	Procter & Gamble Company	2,954,531

Largest Bond Holdings (By Market Value)
September 30, 1999

Rank	Par Amount	Bonds & Notes	Market Value
1	$ 5,181,000	US Treasury Bonds at 9.125% Due 5-15-2009	$ 5,789,768
2	2,145,000	US Treasury 0% Coupon Strips Due 8-15-2003	1,710,938
3	2,496,780	US Treasury 0% Callable Principal Due 5-15-2011	1,674,965
4	1,248,000	Bankers Trust Corp FRN 5.59% Due 3-16-2001	1,249,173
5	1,770,600	US Treasury 0% Coupon Strips Due 11-15-2011	1,151,952
6	1,170,000	FHLMC Debenture 6.70% Due 7-23-2008	1,130,878
7	1,120,000	Ford Motor Credit Corp FRN 5.63% Due 10-9-2001	1,120,560
8	1,244,000	US Treasury Tiger 0% Coupon Due 8-15-2004	920,796
9	905,608	Chemical Bank FRN 5.3545% Due 7-29-2003	911,990
10	858,000	Nationsbank Corp FRN 5.61% Due 1-5-2004	851,608

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

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 8.5% 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 retirement system for the fiscal year amounted to $63.6 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.

	Management (in thousands)	Fees (in thousands)	Basis Points*
State Treasurer	$ 335,651.9	$ 63.6	1.9
Outside Advisors - Alternative	29,822.1	230.4	77.2
Real Estate	1,212.9	-	-
Total	$ 366,686.9		

Other Investment Services Fees:

	Assets in Custody**	Fees (in thousands)
Custody & Research Fees	$ 206,651.0	$ 1.4
Security Lending Fees	15,891.5	742.3

* 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 $206,651.1 thousand; $15,891.5 thousand of assets were on loan at fiscal year end.

Report on Investment Activity

Schedule of Commissions

	Fiscal Year Ended 9-30-99		
	Commissions Paid[1]	Number of Shares Traded	Average Commission Rate Per Share
Investment Brokerage Firms:			
Paine Webber, Inc.	$ 4,046	68,003	0.06
Merrill Lynch & Co.	3,520	60,940	0.06
Goldman, Sachs & Co.	3,093	54,275	0.06
Morgan Stanley Dean Witter & Co.	2,605	43,420	0.06
CS First Boston Corporation	2,596	43,620	0.06
Salomon Smith Barney, Inc.	2,301	40,119	0.06
Donaldson, Lufkin & Jenrette Securities Corp.	2,084	34,953	0.06
Schroder & Co., Inc.	1,788	29,802	0.06
Prudential Securities, Inc.	1,718	29,151	0.06
Lehman Brothers, Inc.	1,619	27,817	0.06
Bridge Trading Company	1,592	26,534	0.06
Sanford C. Bernstein & Co.	1,588	26,470	0.06
Bear, Stearns & Co.	1,245	21,115	0.06
Capital Institutional Services, Inc.	1,245	20,748	0.06
Oppenheimer & Company	1,216	20,289	0.06
J.P. Morgan Securities, Inc.	1,175	20,051	0.06
SG Cowen & Company	1,171	19,769	0.06
Standard & Poor's Securities, Inc.	1,011	16,843	0.06
Charles Schwab & Co., Inc.	811	13,510	0.06
Everen Securities, Inc.	599	9,983	0.06
Deutsche Bank Securities	440	7,332	0.06
Bank of America Securities	386	6,775	0.06
Wilshire Associates	352	5,863	0.06
BancBoston Robertson Stephens	207	5,595	0.04
The Citation Group	193	3,220	0.06
Subtotal (25 highest)	$ 38,601	656,197	0.06 [2]
All Other Brokerage Firms	2,441	42,822	0.06 [3]
Total	$ 41,042	699,019	0.06 [4]

(1) These amounts are included in purchase and sale prices of investments.
(2) The average commission rate per share for the top 25 brokerage firms.
(3) The average commission rate per share for all other brokerage firms, excluding the top 25 brokerage firms.
(4) The average commission rate per share for all brokerage firms.

Investment Summary

	Fiscal Year Ended 9-30-99				Fiscal Year Ended 9-30-98			
	Market Value [a]	Percent of Total Market Value	Investment & Interest Income [c]	Percent of Investment & Interest Income	Market Value [a]	Percent of Total Market Value	Investment & Interest Income [c]	Percent of Investment & Interest Income
Fixed Income:								
Government Bonds	$ 45,659,697	12.50%	$ (100,632)	(0.19%)	$ 44,338,352	13.54%	$ 4,717,690	17.84%
Corporate Bonds & Preferred Stocks	28,153,882	7.70%	245,328	0.46%	37,486,684	11.45%	3,275,980	12.39%
Mortgages	114,719	0.00%	14,594	0.03%	272,032	0.08%	65,969	0.25%
Total Fixed Income	73,928,298	20.20%	159,290	0.30%	82,097,068	25.08%	8,059,639	30.48%
Common Stock	173,733,035	47.40%	39,270,656	73.68%	165,156,856	50.47%	9,289,186	35.12%
Real Estate	27,260,263	7.40%	3,052,371	5.73%	26,305,950	8.04%	2,411,656	9.12%
Alternative	32,683,603	8.90%	4,812,431	9.03%	28,689,415	8.77%	6,069,784	22.95%
International Equities - Passive	18,782,919	5.10%	4,462,817	8.37%	13,446,821	4.11%	(1,033,028)	(3.91%)
Short Term Investments[b]	40,298,827	11.00%	1,542,254	2.89%	11,564,536	3.53%	1,651,259	6.24%
Total	$ 366,686,945	100.00%	$ 53,299,819	100.00%	$ 327,260,646	100.00%	$ 26,448,496	100.00%

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

[b] Includes equity in the State Treasurer's Common Cash Fund. Market Values for short term 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 $14,253,678 and $13,623,046 in cash collateral for security lending for fiscal year 1999 and 1998 respectively.

[c] Total Investment & Income excludes net security lending income of $44,841 and $18,616 for fiscal year 1999 and 1998 respectively.

ACTUARIAL SECTION

Actuary's Certification

ACTUARIAL SECTION

THE SEGAL COMPANY

One Park Avenue
New York, New York
10016-5895
212-251-5321
FAX: 212-251-5490

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

January 14, 2000

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, 1999 included a total of 1,126 members of MJRS. The actuarial value of MJRS's assets amounted to approximately $321 million on September 30, 1999.

The actuarial assumptions used in the 1999 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, 1999 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 1999 valuation results, it is also our opinion that the Michigan Judges Retirement System continues in sound condition, in accordance with actuarial principles of level cost financing.

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

Sincerely,

Michael Karlin

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

Summary of Actuarial Assumptions and Methods

1. The investment return rate used in making the valuations was 8% per year, compounded annually. 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 probabililties 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 4.0% per year, which is the portion of the individual pay increase assumptions attributable to inflation. In effect, this assumes no change in the number of active members. Adopted 1998.

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)

SCHEDULE 1

Percent of Eligible Active Members Retiring Within Next Year

Retirement Ages	Percent of Eligible Active Members Retiring Within 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 Ages	Percent of Active Members Withdrawing Within Nex Year (Men and Women)	Percent of Active Members Becoming Disabled Within Next Year (Men and Women)	Percent Increase In Pay During Next Year
20		0.00 %	4.5 %
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 Valuation Data

Schedule of Active Member Valuation Data

Valuation Date Sept. 30	Inactive Members Number	Active					
		Members Number	Reported Annual Payroll	Average Annual Pay	% Increase	Average Age	Average Service
1990	26	590	$ 43,081,777	$ 73,020	(10.1)	53.0 years	10.8 years
1991	32	603	43,905,860	72,812	(0.3)	52.1	10.2
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

Schedule of Changes in the Retirement Rolls

Year Ended Sept. 30	Added to Rolls		Removed from Rolls		Rolls–End of Year		% Increase in Annual Allowances	Average Annual Allowances
	No.	Annual Allowances	No.	Annual Allowances	No.	Annual Allowances		
1990	20	$ 642,636	15	$ 316,220	361	$ 7,931,277	4.3 %	$ 21,970
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

Prioritized Solvency Test

The 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.

	Actuarial Present Value of Accrued Liabilities ($ in Thousands)				Portion of Present Value Covered by Assets			
	(1)	(2)	(3)					
Valuation Date Sept. 30	Active Member Contributions	Retirants and Beneficiaries	Active and Inactive Members (Employer Financed Portion)	Assets	(1)	(2)	(3)	(4)**
1990	$ 21,760	$ 67,449	$ 73,898	$ 150,024	100 %	100 %	82.3 %	92.0 %
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

* Revised actuarial assumptions and asset valuation method.

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

*** Revised actuarial assumptions.

Summary Of Plan Provisions

Our actuarial valuation of Judges Retirement System as of September 30, 1999 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)

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 $980.00

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.

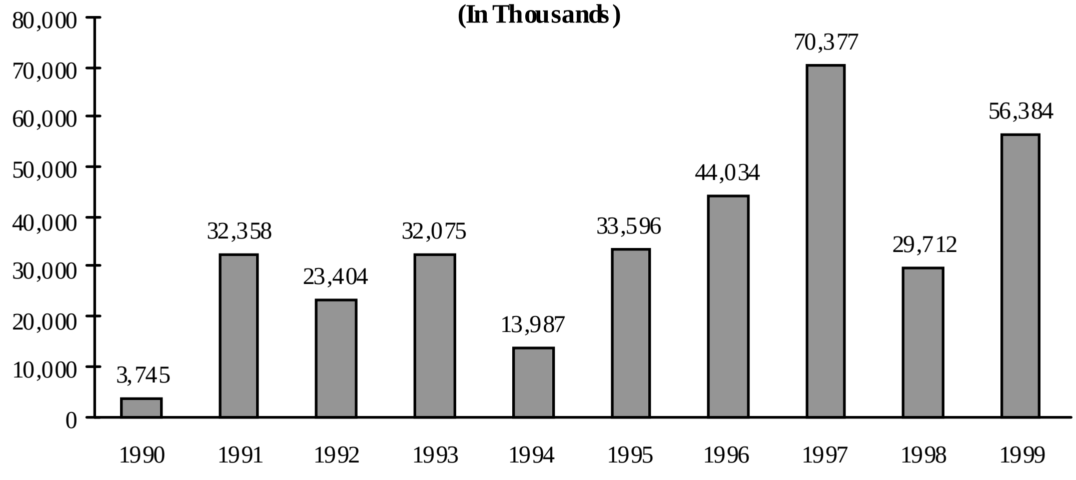
On June 30, 1998, a case was filed by various Judges Associations and Judges in connection with the Defined Contribution Plan. On November 22, 1999, a tentative settlement was read into the record. The terms of the proposed settlement will not be effectuated unless the Legislature is also in agreement through passage of legislation acceptable to the parties. On December 28, 1999, Public Act 215 was enacted. Since the legislation differed in two aspects from the settlement agreement, it remains to be seen if the Plantiff will find it acceptable. (See Note 5 - Commitments and Contingencies in the Financial Section).

STATISTICAL SECTION

Schedule of Revenues by Source

Fiscal Year Ended Sept. 30	Member Contributions	Net Court Fees	Employer Contributions Dollars	Employer Contributions % of Annual Covered Payroll	Net Investment & Oher Income	Total
1990	2,450,879	5,329,496	1,486,911	3.45	(5,522,705)	3,744,581
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

Total Revenues
Year Ended September 30
(In Thousands)

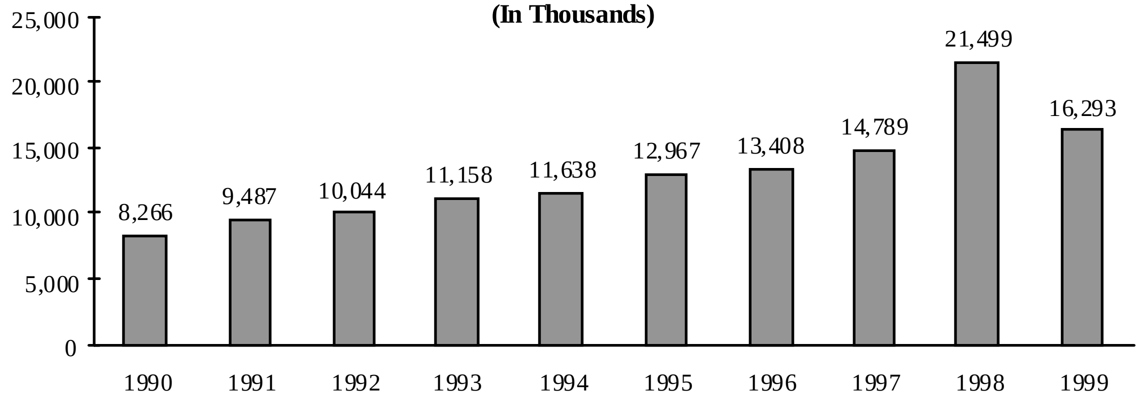


Schedule of Expenses by Type

Fiscal Year Ended Sept. 30	Benefit Payments*	Refunds and Transfers	Administrative Expenses	Total
1990	7,884,438	72,319	309,058	8,265,815
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

* Includes health benefits.

Total Expenses
Year Ended September 30
(In Thousands)

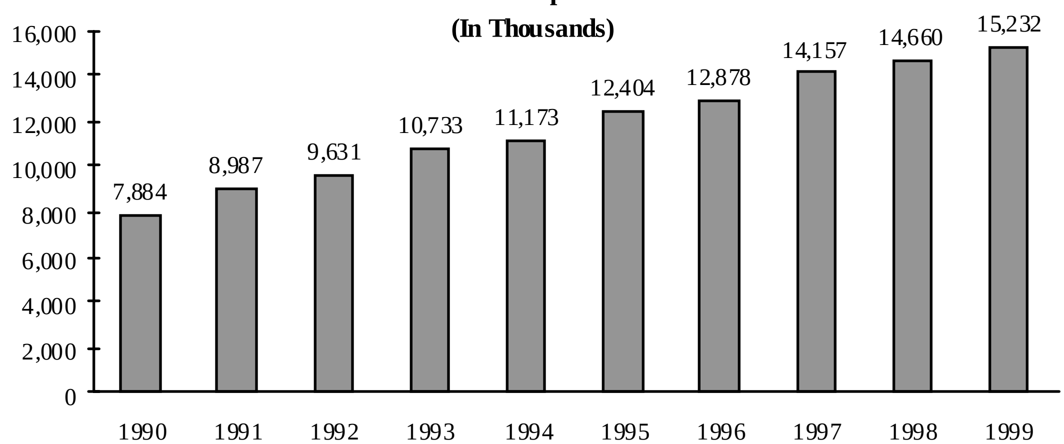


Schedule of Benefit Expenses by Type

Fiscal Year Ended Sept. 30	Regular Benefits	Disability Benefits	Health Benefits**	Total
1990	$ 7,811,812	*	$ 72,626	$ 7,884,438
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

* Disability benefits included with regular benefits.
**Includes vision and dental benefits.

Benefit Expenses
Year Ended September 30
(In Thousands)



Schedule of Retired Members by Type of Benefit
September 30, 1999

Amount Monthly Benefit	Number of Retirees	Type of Retirement * 1	2	3	4	5	Selected Option** Opt. 1	Opt. 2	Opt. 3
$ 001 - 400	8	3	2	3	0	0	8	0	0
401 - 800	65	16	39	9	1	0	59	6	0
801 - 1,200	49	24	16	6	3	0	34	13	2
1,201 - 1,600	70	29	28	12	1	0	60	9	1
1,601 - 2,000	56	27	20	8	1	0	49	7	0
2,001 - 2,400	33	21	9	1	2	0	17	16	0
2,401 - 2,800	43	37	4	1	1	0	34	8	1
2,801 - 3,200	38	36	1	0	1	0	27	11	0
3,201 - 3,600	58	56	2	0	0	0	45	12	1
3,601 - 4,000	65	62	1	0	1	0	60	4	1
Over 4,000	46	44	0	0	2	1	44	2	0
Totals	531	355	122	40	13	1	437	88	6

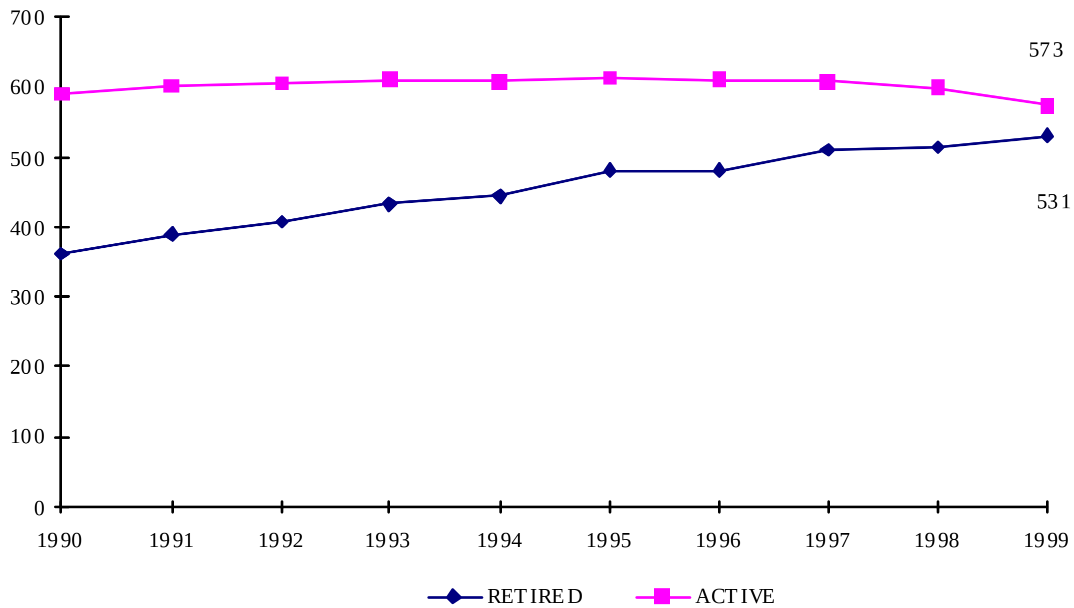
* Type of Retirement
1 - Normal retirement for age & service
2 - Survivor payment - normal retirement
3 - Survivor payment - Death in sevice
4 - Non-duty disability retirement
5 - Survivor payment - Disability retirement

**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							
	0-5	5-10	10-15	15-20	20-25	25-30	30+	Total
Period 10/1/94 to 9/30/95:								
Average Monthly Benefit	$ 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

Ten Year History of Membership
Fiscal Years Ended September 30



ACKNOWLEDGMENTS

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