



*Comprehensive Annual
Financial Report
for the Fiscal Year Ended
September 30, 2001*

*A Pension Trust Fund
of the State of Michigan
John Engler, Governor*

**Michigan
Judges
Retirement
System**

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

**Comprehensive Annual Financial Report
for the Fiscal Year Ended September 30, 2001**



MJRS

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

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The cost of printing this report was \$2,014.90 (\$3.56 each), which was paid for by the System at no cost to taxpayers.

INTRODUCTORY SECTION

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

INTRODUCTORY SECTION

Certificate of Achievement

Certificate of Achievement for Excellence in Financial Reporting

Presented to

Michigan Judges' Retirement System

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

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.



Imelda Bruwe
President

Jeffrey L. Essler
Executive Director

INTRODUCTORY SECTION

Letter of Transmittal

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

STATE OF MICHIGAN

JOHN ENGLER, Governor

DEPARTMENT OF MANAGEMENT AND BUDGET

February 25, 2002

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 2001.

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

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

The 2001 annual report is presented in five sections. The Introductory Section contains the transmittal letter and identifies the administrative organization and professional consultants used by the System. The Financial Section contains the independent auditors' report, management's discussion and analysis, financial statements and notes of the System and certain supplemental schedules. The Investment Section summarizes investment activities. The Actuarial Section contains the independent consulting actuary's certification, an outline of actuarial assumptions and methods, and other actuarial statistics. The Statistical Section contains statistical tables of significant data pertaining to the System, and a schedule of participating employers.

INTRODUCTORY SECTION

Letter of Transmittal (Continued)

MAJOR GOALS ACCOMPLISHED

Our Mission

The ORS mission is to deliver pensions, related benefits, and services to promote the future financial security of our customers. This year was one of continued service to the 378,247 working and 170,624 retired members of the four retirement systems we administer. In addition to delivering pension payments totaling \$2,445,538,314, we have sought to protect and preserve the benefits of our members and ensure long-term solvency of the systems.

Excellence in Service; Partners in Progress

This Department of Management and Budget (DMB) vision has guided our ORS focus on providing *fast, easy access to complete and accurate information and exceptional service*.

The year saw some very significant improvements in access to information and customer service. On a less visible but no less significant note, much energy this year was devoted to positioning the organization for future demands as well as investigating the increased capabilities offered by new technologies.

Fast, Easy Access

Recognizing that retirement applications will dramatically increase in the next decade as baby boomers leave the workforce, we've been undertaking an extensive examination of our existing capacities, the best practices in the field, and the array of new productivity tools and technologies. With customer needs guiding every decision, we have focused this past year on a technology partnership that can help us provide excellence in service, while preparing and streamlining key processes in anticipation of the plan rollout.

We have also successfully pared down our business operations to seven core processes where responsibility and accountability for every aspect of the business are "owned" by the people who understand the business best.

Moving to a process-based organization requires flexibility and planning, along with appropriate skills and knowledge of the process owners and leaders, open communication, and clear goals. To address these challenges, the following were implemented this year:

- Throughout the Department of Management and Budget, competency based training was implemented to identify and provide the skills and knowledge needed for staff to excel in their job tasks.
- Expanded communication channels across the organization help foster free idea sharing and problem solving among process owners and leaders.
- A department-wide Balanced Scorecard management tool was developed to track progress toward our strategic plan goals. Providing clear targets and metrics in such a way helps staff determine priorities and direction.

We already see results of these initiatives. Some "fast, easy access" accomplishments of the year include:

- The ORS information and document management arena was restructured in preparation for online access to member information.
- Service level agreements were established with the many vendors that we partner with to define common understandings about services, expectations, and responsibilities, while also clarifying communication channels.

INTRODUCTORY SECTION

Letter of Transmittal (Continued)

Complete and Accurate Information

Clear customer communication, with current and easily accessible information, remains a priority. Some highlights of the year's communication endeavors include:

- A newly launched ORS employer website provides up-to-date information, instructions, publications and forms, and answers to frequently asked questions to the human resource offices that employ our members.
- Under contract with CitiStreet, a new website for deferred compensation and defined contribution plan participants offers online access to personal account information along with the ability to activate, change, calculate, inquire, and assign with the click of a mouse.
- Expansions and improvements were also made to the main ORS website, with additional forms, publications, schedules, and information available.
- We reached out to customers in or near their communities, where ORS representatives presented programs to 8,909 members (a 7% increase over last year) during 177 pre-retirement information meetings throughout the State.
- We maintained communication with our 170,624 retired customers via *ORS Connections*, a semiannual newsletter and financial update mailed in March and October.

Exceptional Service

We believe that our standard of exceptional service has not lagged even as we work toward increasing our capacity to further improve service. The ORS Customer Information Center fielded 211,353 phone calls this year, an average of 852 each day. Another 15,734 callers took advantage of a new automated phone service for certain frequently requested services.

Personalized service was also provided by ORS retirement counselors who met with 3,740 customers at our main office in Lansing. At our Holland and Detroit outreach offices, counselors met with another 2,119 customers, in between answering nearly 50 customer phone calls each day (12,375 for the year).

Ever greater numbers are taking advantage of email; we have experienced nearly a 50% increase each year since it became available. Our representatives met the goal of responding to the 7,479 email requests received this year within one working day, on average.

Another significant accomplishment is the fact that, thanks to reengineering of our disability claims process and our new partnership with Disability Determination Services, we are now processing disability applications in one-third less time compared to the previous year. A milestone has also been achieved in retirement applications, with 95% of applications being processed to the pension payroll system before the retirement effective date.

Customer Satisfaction

In our ongoing efforts to improve customer service, we conduct semiannual customer satisfaction surveys. This year's surveys continued to show very positive results, with 95% of our retired respondents rating our services as good or excellent.

While the data tells us that we are making solid strides toward our vision, it also inspires us to work even harder. As our improvement plans take shape, our sights will continue to center on customer service—and we're confident that our customers' satisfaction will increase accordingly.

INTRODUCTORY SECTION

Letter of Transmittal (Continued)

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, 2000. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both accounting principles generally accepted in the United States of America and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. 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.

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 accounting principles generally accepted in the United States of America. The internal control structure is designed to provide reasonable assurance regarding the safekeeping of assets and reliability of all financial records.

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 -10.2%. For the last five years, the System has experienced an annualized rate of return of 9.5%. 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, 2001, the actuarial value of the assets and actuarial accrued liability of the System were \$291.0 million and \$224.7 million, respectively, resulting in a funded ratio of 129.5%. As of September 30, 2000, the amounts were \$274.8 million and \$204.2 million, respectively. A historical perspective of funding levels for the System is presented on the Schedule of Funding Progress in the Required Supplementary Information in the Financial Section of this report.

POSTEMPLOYMENT BENEFITS

The System also administers the postemployment health benefits (health, dental, and vision) offered to retirees. The benefits are funded on a cash or "pay as you go" basis. An actuarial valuation was completed to determine the actuarial accrued liability if the benefits were to be pre-funded. If these benefits were pre-funded, the actuarial accrued liability for these benefits would be approximately \$4.4 million and the employer contribution for health care benefits would be 10.5%.

INTRODUCTORY SECTION

Letter of Transmittal (Continued)

PROFESSIONAL SERVICES

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

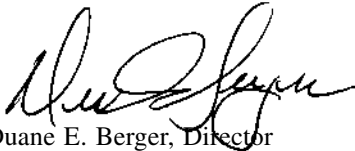
Statute requires that an annual actuarial valuation be conducted. The purpose of the valuation is to evaluate the mortality, service, compensation and other financial experience of the System and to recommend employer-funding rates for the subsequent year. This annual actuarial valuation was completed by the Segal Company for the fiscal years ended September 30, 2001 and 2000. Actuarial certification and supporting statistics are included in the Actuarial Section of this report.

ACKNOWLEDGMENTS

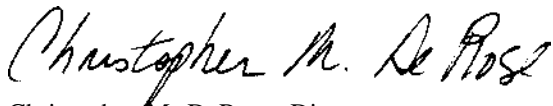
The preparation of this report was accomplished with the dedication and cooperation of many people. It is intended to provide complete and reliable information as a basis for making management decisions, as a means of determining compliance with legal provisions, and as a means for determining responsible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



Duane E. Berger, Director
Department of Management and Budget



Christopher M. DeRose, Director
Office of Retirement Services

INTRODUCTORY SECTION

Administrative Organization

Retirement Board Members

Judge Robert Ransom
Active Judge
Term Expires March 31, 2005

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

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

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

George M. Elworth
Representing Attorney General
Statutory Member

Administrative Organization

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

Advisors and Consultants

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

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

**Investment Manager and
Custodian**
Douglas B. Roberts
State Treasurer
State of Michigan

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

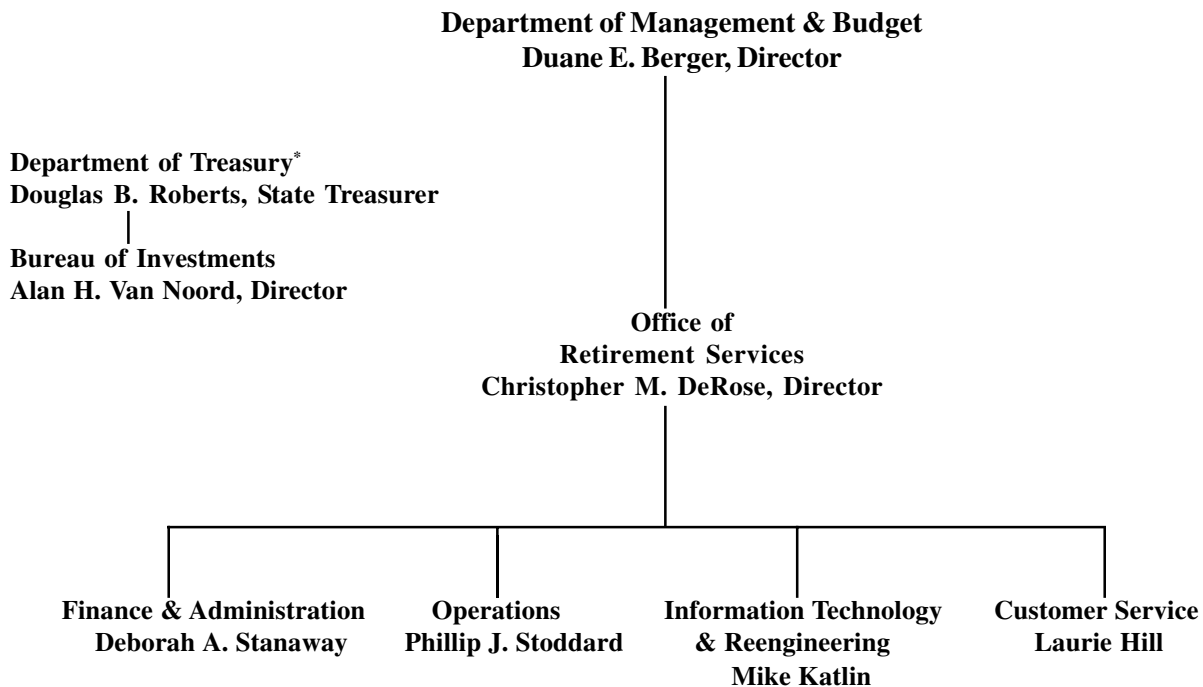
Legal Advisor
Jennifer M. Granholm
Attorney General
State of Michigan

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

INTRODUCTORY SECTION

Administrative Organization

Organization Chart**



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

**The chart represents the organizational structure as of the fiscal year ended 2001. The Department of Management and Budget reorganized its divisional structure in early fiscal year 2002.

FINANCIAL SECTION



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

Independent Auditor's Report



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

Mr. Duane Berger, Director, Department of Management and Budget
Mr. Christopher M. DeRose, Director, Office of Retirement Services
Mr. Thomas H. McTavish, CPA, Auditor General
Michigan Judges' Retirement System Board

We have audited the accompanying statements of pension plan and postemployment healthcare plan net assets of the Michigan Judges' Retirement System, as of September 30, 2001 and 2000, and the related statements of changes in pension plan and postemployment healthcare plan net assets for the years then ended. These financial statements are the responsibility of the management of the Michigan Judges' Retirement System. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial status of the Michigan Judges' Retirement System, as of September 30, 2001 and 2000, and the changes in its financial status for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

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

The Management's Discussion and Analysis (MD&A) is not a required part of the basic financial statements but is supplemental 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 this supplemental information. However, we did not audit the information and express no opinion on it. The Introductory, Investment, Actuarial, and Statistical Sections were not audited by us and, accordingly, we express no opinion on those sections.

In accordance with *Government Auditing Standards*, we have also issued a report dated January 30, 2002 on our consideration of the Michigan Judges' Retirement System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, and contracts. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Andrews Hooper & Pavlik P.L.C.

January 30, 2002

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

FINANCIAL SECTION

Management's Discussion and Analysis

Our discussion and analysis of the Michigan Judges' Retirement System's (System) financial performance provides an overview of the System's financial activities for the fiscal year ended September 30, 2001. Please read it in conjunction with the transmittal letter in the Introductory Section on page 5 and the basic financial statements, which follow this discussion.

FINANCIAL HIGHLIGHTS

- System assets exceeded liabilities at the close of fiscal year 2001 by \$274.2 million (reported as *net assets*). Net assets are held in trust to meet future benefit payments.
- The System's funding objective is to meet long-term benefit obligations through contributions and investment income. As of September 30, 2001, the funded ratio was approximately 129.5%.
- Revenues for the year were (\$28,345,670), which is comprised of member contributions of \$2,649,892 and investment losses of (\$30,995,562).
- Expenses decreased over the prior year from \$94,993,901 to \$17,774,784 or 81.3%. This decrease was due to \$76.9 million being transferred to the Defined Contribution Retirement Plan in the previous year.

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

This Comprehensive Annual Financial Report (CAFR) consists of two financial statements; *The Statement of Pension Plan and Postemployment Healthcare Plan Net Assets* (page 18) and *The Statement of Changes in Pension Plan and Postemployment Healthcare Plan Net Assets* (page 19). These financial statements report information about the System, as a whole, and about its financial condition that should help answer the question: Is the System, as a whole, better off or worse off as a result of this year's activities? These statements include all assets and liabilities using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis of accounting, all revenues and expenses are taken into account regardless of when cash is received or paid.

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

FINANCIAL ANALYSIS

System total assets as of September 30, 2001 were \$285,091,359 and were mostly comprised of cash and investments. Total assets decreased \$117,642,596 or 29.2% from the prior year primarily due to decreased investment earnings.

Total liabilities as of September 30, 2001 were \$10,865,816 and were mostly comprised of warrants outstanding, administrative costs, and obligations under securities lending. Total liabilities decreased \$71,522,142 or 86.8% from the prior year, primarily due to a transfer in the prior year of \$76.9 million to the Defined Contribution Retirement Plan. If this transfer amount is taken out of the prior year's liabilities, then liabilities actually increased during the current year by \$5,389,356 or 98.4%, primarily due to an increase in obligations under securities lending.

System assets exceeded its liabilities at the close of fiscal year 2001 by \$274 million. Total net assets held in trust for pension and health benefits decreased \$46,120,454 or 14.4% from the previous year, primarily due to adverse market conditions and a decrease in investment earnings.

Management's Discussion and Analysis (Continued)

Michigan Judges' Retirement System Net Assets (In Thousands)

	<u>2001</u>	<u>2000</u>	<u>Total Percentage Change</u>
Assets			
Cash	\$ 4,326	\$ 34,458	(87.4) %
Receivables	1,156	3,830	(69.82)
Investments	<u>279,609</u>	<u>364,446</u>	<u>(23.3)</u>
Total Assets	285,091	402,734	(29.2)
Liabilities			
Warrants outstanding	64	57	12.3
Accounts payable and other accrued liabilities	1,071	1,948	(45.0)
Due to defined contribution retirement plan		76,911	(100.0)
Obligations under securities lending	<u>9,731</u>	<u>3,472</u>	<u>180.3</u>
Total Liabilities	<u>10,866</u>	<u>82,388</u>	<u>(86.8)</u>
Total Net Assets	<u>\$ 274,225</u>	<u>\$ 320,346</u>	<u>(14.4) %</u>

REVENUES - ADDITIONS TO PLAN NET ASSETS

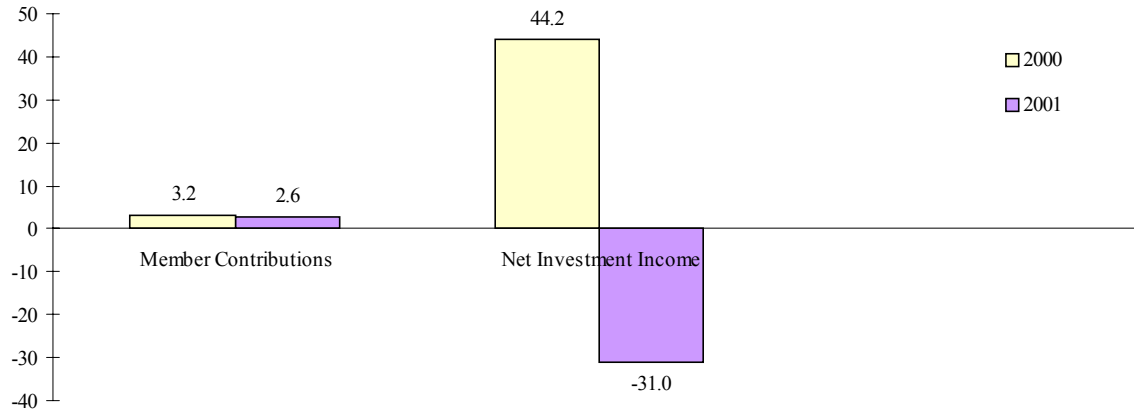
The reserves needed to finance retirement and health benefits are accumulated through the collection of employer and employee contributions and through earnings on investments. Contributions and net investment income/(losses) for fiscal year 2001 totaled (\$28,345,670).

Total contributions and net investment income decreased \$75,709,178 or 159.9% from those of the prior year, due to a drastic decline in market conditions and investment earnings. Since the System was over funded and the total contribution rate was negative, there were no employer contributions during the year. Investment income decreased from the previous year by \$75,159,663 or 170.2%. The Investment Section of this report reviews the results of investment activity for 2001.

FINANCIAL SECTION

Management's Discussion and Analysis (Continued)

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

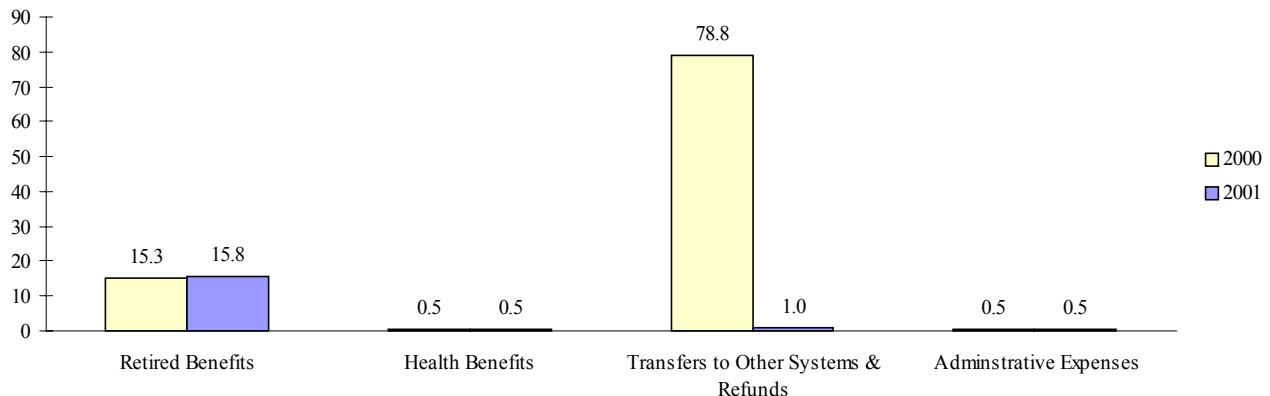


EXPENSES - DEDUCTIONS FROM PLAN NET ASSETS

The primary expenses of the System include the payment of pension benefits to members and beneficiaries, payment for health, dental and vision benefits, refund of contributions to former members, and the cost of administering the System. Total deductions for fiscal year 2001 were \$17,774,784, a decrease of 81.3% over year 2000 expenditures, due to a transfer of \$76.9 million in the prior year to the Defined Contribution Retirement Plan.

The growth of health, dental and vision care expenditures continued during the year and increased by \$55,114 or 12.2% from \$450,345 to \$505,459 during the fiscal year. The payment of pension benefits increased by \$532,313 or 3.5% from the previous year, primarily due to an increase in retirees (11) and an increase in benefit payments to retirees. Refunds of contribution to members decreased by \$1,789,181 or 96.5%, primarily due to refunds in the prior year of Defined Benefit contributions to members that transferred to the Defined Contribution Plan. Administrative expenses decreased by \$16,545 or 3.2% from the previous year. This net decrease was primarily due to an increase in consulting services related to the additional use of two vendors and a decrease in staff salaries resulting from less staff spending time on System related issues.

**Deductions in Plan Net Assets
(In Millions)**



Management's Discussion and Analysis (Continued)

RETIREMENT SYSTEM AS A WHOLE

The System's combined net assets have increased consistently over the years, with the exception of the decrease during the current fiscal year due to a sluggish investment market and the decrease in the prior year due to the transfer of funds to the Defined Contribution Retirement Plan. The System is currently overfunded and Management believes the current financial position will continue to improve due to a prudent investment program, cost controls, and strategic planning.

CONTACTING SYSTEM FINANCIAL MANAGEMENT

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

FINANCIAL SECTION

Statements of Pension Plan and Postemployment Healthcare Plan Net Assets

As of Fiscal Years Ending September 30, 2001 and 2000

	September 30, 2001			September 30, 2000		
	Pension Plan	Health Plan	Total	Pension Plan	Health Plan	Total
Assets:						
Cash	\$ 4,326,653		\$ 4,326,653	\$ 34,458,028		\$ 34,458,028
Receivables:						
Amounts due from employers	105,079	\$ 193	105,272	154,068	\$ 165	154,233
Interest and dividends	1,047,380		1,047,380	1,424,260		1,424,260
Sale of investments	3,370		3,370	2,251,852		2,251,852
Total receivables	1,155,829	193	1,156,022	3,830,180	165	3,830,345
Investments:						
Short term investments	20,254,558		20,254,558	42,000,180		42,000,180
Bonds, notes, mortgages, and preferred stock	59,128,855		59,128,855	71,388,156		71,388,156
Common stock	109,530,587		109,530,587	148,305,552		148,305,552
Real estate	31,776,623		31,776,623	32,503,419		32,503,419
Alternative investments	33,243,384		33,243,384	46,645,676		46,645,676
International investments	15,943,367		15,943,367	20,130,510		20,130,510
Collateral on loaned securities	9,731,310		9,731,310	3,472,089		3,472,089
Total investments	279,608,684		279,608,684	364,445,582		364,445,582
Total assets	285,091,166	193	285,091,359	402,733,790	165	402,733,955
Liabilities:						
Warrants outstanding	64,021	118	64,139	56,725	61	56,786
Accounts payable and other accrued liabilities	567,706	502,661	1,070,367	1,604,503	343,082	1,947,585
Amount due to Defined Contribution Plan				76,911,498		76,911,498
Obligations under securities lending	9,731,310		9,731,310	3,472,089		3,472,089
Total liabilities	10,363,037	502,779	10,865,816	82,044,815	343,143	82,387,958
Net Assets (Liabilities) Held in Trust for Pension and Health Benefits*	\$274,728,129	\$ (502,586)	\$ 274,225,543	\$ 320,688,975	\$ (342,978)	\$ 320,345,997

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

FINANCIAL SECTION

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

For the Fiscal Years Ended September 30, 2001 and 2000

	September 30, 2001			September 30, 2000		
	Pension Plan	Health Plan	Total	Pension Plan	Health Plan	Total
Additions:						
Member contributions	\$ 2,304,041	\$ 345,851	\$ 2,649,892	\$ 2,874,966	\$ 324,441	\$ 3,199,407
Investment income (loss):						
Investment income (loss)	(30,751,715)		(30,751,715)	44,442,882		44,442,882
Securities lending income	322,960		322,960	367,560		367,560
Investment expenses:						
Real estate operating expenses	(13,743)		(13,743)	(20,336)		(20,336)
Securities lending expenses	(297,325)		(297,325)	(344,105)		(344,105)
Other investment expenses	(255,755)		(255,755)	(281,915)		(281,915)
Miscellaneous	16		16	15		15
Total additions	<u>(28,691,521)</u>	<u>345,851</u>	<u>(28,345,670)</u>	<u>47,039,067</u>	<u>324,441</u>	<u>47,363,508</u>
Deductions:						
Benefits and refunds paid to plan members and beneficiaries:						
Retirement benefits	15,793,191		15,793,191	15,260,878		15,260,878
Health benefits		505,459	505,459		450,345	450,345
Return of contributions	64,954		64,954	1,854,135		1,854,135
Transfers to other systems	910,679		910,679	76,911,497		76,911,497
Administrative expenses	500,501		500,501	517,046		517,046
Total deductions	<u>17,269,325</u>	<u>505,459</u>	<u>17,774,784</u>	<u>94,543,556</u>	<u>450,345</u>	<u>94,993,901</u>
Net increase (decrease)	<u>(45,960,846)</u>	<u>(159,608)</u>	<u>(46,120,454)</u>	<u>(47,504,489)</u>	<u>(125,904)</u>	<u>(47,630,393)</u>
Net Assets (Liabilities) Held in Trust for Pension and Health Benefits:						
Beginning of year	<u>320,688,975</u>	<u>(342,978)</u>	<u>320,345,997</u>	<u>368,193,464</u>	<u>(217,074)</u>	<u>367,976,390</u>
End of year*	<u>\$ 274,728,129</u>	<u>\$ (502,586)</u>	<u>\$274,225,543</u>	<u>\$ 320,688,975</u>	<u>\$(342,978)</u>	<u>\$320,345,997</u>

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

FINANCIAL SECTION

Notes to Basic Financial Statements

NOTE 1 - PLAN DESCRIPTION

ORGANIZATION

The Michigan Judges' Retirement System (System) is a cost sharing, multiple employer, state-wide, defined benefit public employee retirement plan governed by the State of Michigan (State). The 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 172 participating employers. The System also includes the Governor of the State of Michigan, Lieutenant Governor, Secretary of State, Attorney General, Legislative Auditor General, and the Constitutional Court Administrator.

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

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

MEMBERSHIP

At September 30, 2001, and 2000, the System's membership consisted of the following:

Retirees and beneficiaries		
currently receiving benefits:	2001	2000
Regular benefits	372	355
Survivor benefits	169	174
Disability benefits	5	6
Total	<u>546</u>	<u>535</u>
Current employees:		
Vested	268	261
Non-vested	112	138
Total	<u>380</u>	<u>399</u>
Inactive employees entitled		
to benefits and not yet		
receiving them	15	17
Total All Members*	<u>941</u>	<u>951</u>

*Excludes members who transferred to the defined contribution plan in fiscal year 2001.

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

	2001	2000
Participants receiving benefits:		
Health	80	81
Dental	134	139
Vision	98	104

FINANCIAL SECTION

Notes to Basic Financial Statements

BENEFIT PROVISIONS

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

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

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

Regular Retirement

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

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

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

Early Retirement

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

Deferred Retirement

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

Disability Benefit

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

FINANCIAL SECTION

Notes to Basic 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.

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

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

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

Survivor Benefit

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

Contributions

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

Publicly Financed Contributions — There are two public sources which fund retirement benefits: Court fees and State appropriations. The State contributes annually the greater of 3.5% of the aggregate annual compensation of State paid base salaries, or the difference between the total actuarial requirement of current service and unfunded accrued liabilities minus the revenues from court filing fees and member contributions. Since the system was fully funded, the appropriation was not requested for fiscal years 2001 and 2000. If the court fees deposited in the reserve for employer contributions equals the amount needed in addition to other publicly financed contributions to sustain the required level of publicly financed contributions, Section 304(4) requires court fees be deposited in the court fee fund. In accordance with Section 304(4) of the Judges' Retirement Act, the court fees are being deposited in the court fee fund in the State Treasury. 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. The active employee payroll contribution rate to fund health benefits for the Plan 1 or 2 members was 1.5% for 2001 and 2000.

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.

FINANCIAL SECTION

Notes to Basic Financial Statements

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.

Transfer to Defined Contribution Plan

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

During fiscal year 2000, a lawsuit, filed in connection with the defined contribution legislation, was settled. As a result, approximately 172 judges transferred to the defined contribution plan in fiscal year 2001. The amount of the transfer was \$77.8 million, representing employee and employer contributions of \$60 million and \$17.8 million, respectively. The transfer was accrued and membership statistics were adjusted to reflect the transfer as of the fiscal year ended 2000.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting and Presentation

These financial statements are prepared using the accrual basis of accounting. Court filing fees are recognized as revenue in the period received. Contributions from the State are recognized as revenue 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, 2001, and 2000, the balance in this account was \$31 million and \$32 million, respectively.

Reserve for Employer Contributions — This reserve represents Court fees, late fees, interest payments, employer contributions, and State appropriations. Amounts are transferred annually from this reserve to the Reserve for Retirement Benefits to fund that reserve. In addition, the reserve transfers court fees to the Supreme Court in accordance with statutory requirements. At September 30, 2001, and 2000, the balance in this account was \$50 million and \$49 million, respectively.

Reserve for Retirement Benefits — This reserve represents the reserves for payment of future retirement benefits to current retirees. At retirement, a member's accumulated contributions plus interest are transferred into this reserve from the Reserve for Member Contributions and the Reserve for Employer Contributions. Monthly benefits, which are paid to the member, reduce the reserve. At the end of each fiscal year, an amount is transferred from the Reserve for Employer Contributions to bring the reserve into balance with the actuarial present value of retirement allowances. At September 30, 2001, and 2000, the balance in this account was \$117 million and \$118 million, respectively.

Reserve for Investment Income — This reserve is credited with all investment earnings, changes in fair values, gifts to the System, and forfeited contributions. All administrative expenses are paid from this reserve and interest is transferred annually to the other reserves. At September 30, 2001, and 2000, the balance in this account was \$77 million and \$122 million, respectively.

FINANCIAL SECTION

Notes to Basic Financial Statements

Reserve for Health Benefits — This reserve is credited with member contributions for health benefits. Health benefits are paid from this reserve. At September 30, 2001, and 2000, the balance in this account was negative \$503 thousand and negative \$343 thousand, respectively.

Reporting Entity

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

Fair Value of Investments

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

Investment Income

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

Property and Equipment

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

Related Party Transactions

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

	<u>2001</u>	<u>2000</u>
Building Rentals	\$ 1,785	\$ 1,211
Technological Support	8,123	8,096
Attorney General	42,838	38,224
Investment	77,953	65,700

Cash — On September 30, 2001 and 2000 the System had \$4.3 million and \$34.5 million, respectively in a common cash investment pool maintained for various State operating funds. The participating funds in the common cash pool earn interest at various rates depending upon prevailing short-term interest rates. Earnings from these activities amounted to \$251,862 and \$860,420 for the years ended September 30, 2001, and 2000, respectively.

FINANCIAL SECTION

Notes to Basic Financial Statements

Reclassification of Prior Year Amounts

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

NOTE 3 - CONTRIBUTIONS

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

The State contributes annually the greater of 3.5% of the aggregate annual compensation of State paid base salaries, or the difference between the total actuarial requirement of current service and unfunded accrued liabilities minus the revenues from court filing fees and member contributions. Since the System was fully funded, the appropriation was not requested for fiscal years 2000 or 2001. 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.

There were no actual or required employer contributions for the fiscal years 2000 or 2001 because the contribution rate was negative.

NOTE 4 - INVESTMENTS

Investment Authority

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

Under Public Act 314 of 1965, as amended, the State Treasurer may invest up to 5% of the System's assets in small businesses having more than one-half of its assets or employees in Michigan as described in section 20(a) of the act and up to 20.0% of the System's assets in investments not otherwise qualified under the act as described in section 20(d). Alternative investments include limited partnerships and distributions from these partnerships in the form of bonds, preferred stock, common stock, and direct investments.

Derivatives

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

Derivatives are used in managing pension trust fund portfolios, but uses do not include speculation or leverage of investments. Less than 7% of the total pension trust fund's portfolio has been invested from time to time in futures

FINANCIAL SECTION

Notes to Basic Financial Statements

contracts, collateralized mortgages, and swap agreements. State investment statutes limit total derivative exposure to 15% of a fund's total asset value, and restrict uses to replication of returns and hedging of assets. Swap agreements represent the largest category of derivatives used, and they represented 5.6% of market value of total assets on September 30, 2001 and 4.9% of market value of total assets on September 30, 2000.

To diversify the pension fund's portfolio into international equities, the State Treasurer has entered into swap agreements with investment grade counterparties which are tied to stock market indices in twenty-two foreign countries. The notional amounts of the swap agreements at September 30, 2001, and 2000, were \$19.6 million and \$17.4 million, respectively. Approximately one half of the notional amount is hedged against foreign currency fluctuations. The swap agreements provide that the System will pay quarterly, over the term of the swap agreements, interest indexed to the three month London InterBank Offer Rate (LIBOR), adjusted for an interest rate spread, on the notional amount stated in the agreements. At the maturity of the swap agreements, the pension fund will either receive the increase in the value of the international equity indices from the level of the indices at the inception of the agreements, or pay the decrease in the value of the indices. Swap agreement maturity dates range from October 2001 to October 2004. U.S. domestic LIBOR based floating rate notes were purchased in the open market to correspond with the notional amount of the swap agreements. The State Treasurer maintains custody and control of these notes.

The value of these synthetic equity structures is a combination of the value of the swap agreements and the value of the notes. The book value represents the cost of the notes. The current value represents the current value of the notes and the change in value of the underlying indices from the inception of the swap agreements. The current value is used as a representation of the fair value based upon the intention to hold all swap agreements until maturity. Since the inception of the international equity investment program, over \$6.5 million of gains on international equity exposure and excess interest received have been realized. The unrealized loss of \$4.0 million at September 30, 2001 reflects the decline in international stock indices and changes in currency exchange rates.

The respective September 30, 2001 and 2000 values are as follows:

	Notional Value	Current Value
9/30/01 (dollars in millions)	\$ 19.6	\$15.5
9/30/00 (dollars in millions)	17.4	19.5

Investments Exceeding 5% of Plan Net Assets

The System did not hold an individual investment (other than U.S. Government securities) that exceeded 5% of net assets available for benefits at September 30, 2001 or 2000.

Securities Lending

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

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

FINANCIAL SECTION

Notes to Basic 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, 2001, such investment pool had an average duration of 75 days and an average weighted maturity of 551 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, 2001 the System had no credit risk exposure to borrowers. The collateral held and the market value of securities on loan for the System as of September 30, 2001 were \$10,289,630 and \$9,887,105, respectively.

Gross income from security lending for the fiscal year was \$322,960. Expenses associated with this income amounted to \$288,777 for the borrower's rebate and \$8,548 for fees paid to the agent.

Categories of Investment Risk

Investments made by the fund 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 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, 2001, all investments of the System were classified as Category 1 or Category 3, except for certain investments that were not categorized.

The following table summarizes the investments at market value:

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Notes to Basic Financial Statements

<u>Category 1</u>	<u>2001</u>	<u>2000 (Reclassified)</u>
Prime Commercial Paper	\$ 18,654,558	\$ 40,100,686
Short Term Investments	1,000,000	1,899,494
Government Securities	23,693,779	40,728,063
Corporate Bonds & Notes	27,475,098	28,088,017 ²
Preferred Stock	15	12
Common Stock	107,528,479	147,383,843
Real Estate	721,816	1,969,052 ¹
Alternative Investments	1,438,433	5,323,801 ³
International Investments	15,943,367	20,130,510
Total Category 1	\$ 196,455,545	\$ 285,623,478
<u>Category 3</u>		
Government Securities	\$ 408,525	\$ -
<u>Non-Categorized</u>		
Short Term Investments	\$ 600,000	\$ -
Mortgages	114,887	114,416
Real Estate	31,054,807	30,534,367 ¹
Alternative Investments	31,804,951	41,321,875 ³
Cash Collateral	9,731,310	3,472,089
Securities on Loan:		
Government Securities	7,137,847	2,359,258
Corporate Bonds & Notes	298,704	98,390
Common Stock	2,002,108	921,709
Total Non-Categorized	\$ 82,744,614	\$ 78,822,104
Grand Total	\$ 279,608,684	\$ 364,445,582

¹ 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.

² Private Placements were reclassified from Non-Categorized to Corporate Bonds and Notes Category 1 in the amount of \$2,189,049 for FYE 2000.

³ Alternative investments were reclassified in the amount of \$1,064,267 from Non-Categorized to Category 1 for FYE 2000.

FINANCIAL SECTION

Notes to Basic Financial Statements

NOTE 5 - COMMITMENT AND CONTINGENCIES

Michigan Judges' Association et al v. State Treasurer et al

In accordance with 1999 PA 215 and the terms of the May 2000 Settlement Agreement, most trial judges remaining in the Defined Benefit (DB) plan (Tier 1) after the 2000 Defined Contribution (DC) (Tier 2) election window were given the option to purchase the actuarial value of standardized local salary previously unconverted to the State base salary for computation of a retirement benefit from the System. (Plan 3 members were given a choice to convert part of the State salary standardization payment on or after September 30, 1981). Following purchase, member contributions and retirement benefits are determined from total judicial salary.

Favorable IRS determination in October 2000 allowed the "buy-in" election program to open June 15, 2001. Currently, valid elections allowed payment through transfer of funds from another qualified plan, a "rollover IRA" (consisting only of funds previously transferred from another qualified plan), a lump-sum payment by the member on a post-tax basis, or any combination thereof. IRS approval of payment through pre-tax payroll deductions is currently pending; the election program will end 60 days following IRS notification.

The Settlement Agreement also calls for administration of a "medical benefit account" under Section 401(h) of the Internal Revenue Code. Plan participants will use pre-retirement savings, adjusted by investment experience, to defray eligible post-retirement medical expenses. Self-funding is required under statute; administrative expenses for the 401(h) plan are funded by up to 25 percent of the absolute value of investment experience. The System is currently seeking IRS approval for implementation of this program on a pre-tax basis.

Harvey et al v. Judges' Retirement System

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

Subsequent to a March 29, 2000 Circuit Court opinion for the System, an order was issued granting the System's motion for summary disposition and dismissing the case. Petitioners appealed this decision. Oral arguments were heard by the Court of Appeals on January 9, 2002; a ruling is expected later this year.

Ernst et al v. Roberts et al

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

Other

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

FINANCIAL SECTION

Required Supplementary Information

Schedule of Funding Progress

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

Retirement Benefits

Valuation Date Sept 30	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded (Overfunded) Accrued Liability (UAAL) (b-a)	Funded Ratio AAL (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll ((b-a)/c)
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)
2000	274,842,881	204,225,343	(70,617,538)	134.6	37,022,723	(190.7)
2001	290,997,921	224,737,086	(66,260,835)	129.5	42,543,811	(155.7)

+ Revised actuarial assumptions and asset valuation method

* Revised actuarial assumptions

Required Supplementary Information (Continued)

Schedule of Employer Contributions

Fiscal Year Ended Sept. 30	Actuarial Required Contribution (ARC)	Actual Employer Contributions	Percentage Contributed
1992	\$ 7,137,221	\$ 7,996,188	112.0 %
1993*	7,112,624	-0-	-0-
1993	6,661,731	7,690,115	115.4
1994	6,638,110	6,576,996	99.1
1995	6,559,552	6,228,812	95.0
1996	5,992,698	6,191,607	103.3
1997	5,527,350	5,673,583	102.6
1998	5,040,121	246,659	4.9
1999	4,673,433	-0-	-0-
1999*	1,260,694	58,499	4.6
2000	(408,741)	-0-	-0-
2001	(1,068,253)	-0-	-0-

*Revised actuarial assumptions.

FINANCIAL SECTION

Notes to Required Supplementary Information

NOTE A - DESCRIPTION

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

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

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

NOTE B - SUMMARY OF ACTUARIAL ASSUMPTIONS

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

Valuation Date	09/30/01
Actuarial Cost Method	Entry Age, Normal
Amortization Method	Level Percent, Closed
Remaining Amortization Period	35 years
Asset Valuation Method	5-Year Smoothed Market
Actuarial Assumptions:	
Inflation Rate	4%
Investment Rate of Return	8%
Projected Salary Increases	4.5%
Cost-of-Living Adjustments	None

Supporting Schedules

Comparative Summary Schedule of Pension Plan Administrative Expenses For the Years Ended September 30, 2001 and 2000

	2001	2000
Personnel Services:		
Staff Salaries	\$ 146,350	\$ 225,551
Retirement and Social Security	45,188	43,939
Other Fringe Benefits	22,062	23,434
Total	213,600	292,924
Professional Services:		
Actuarial	67,358	61,647
Attorney General	42,838	38,224
Audit	18,963	32,513
Consulting	135,655	68,886
Medical	0	400
Total	264,814	201,670
Building and Equipment:		
Building Rentals	1,785	1,211
Equipment Purchase, Maintenance and Rentals	572	1,163
Total	2,357	2,374
Travel and General:		
Travel and Board Meetings	322	234
Office Supplies	302	254
Postage, Telephone and Other	7,627	8,790
Printing	3,356	2,705
Technological Support	8,123	8,095
Total	19,730	20,078
Total Administrative Expenses	\$ 500,501	\$ 517,046

FINANCIAL SECTION

Supporting Schedules (Continued)

Schedule of Investment Expenses

	<u>2001</u>	<u>2000</u>
Securities Lending Expenses	\$ 297,325	\$ 344,105
Real Estate Operating Expenses	13,743	20,336
Other Investment Expenses*	<u>255,755</u>	<u>281,915</u>
Total Investment Expenses	<u>\$ 566,823</u>	<u>\$ 646,356</u>

* See Investment Section for fees paid to investment professionals

Schedule of Payments to Consultants

	<u>2001</u>	<u>2000</u>
Independent Auditors	\$ 18,963	\$ 32,513
Attorney General	42,838	38,224
Actuary	67,358	61,647
Consulting	135,655	68,886
Medical	<u>0</u>	<u>400</u>
Total Payment to Consultants	<u>\$ 264,814</u>	<u>\$ 201,670</u>

FINANCIAL SECTION

Supporting Schedules (Continued)

Detail of Changes in Plan Net Assets (Pension and Postemployment Healthcare Benefits) For the Year Ended September 30, 2001

	<u>Member Contributions</u>	<u>Employer Contributions</u>	<u>Retirement Benefits</u>	<u>Health Benefits</u>	<u>Investment Income</u>	<u>Total</u>
Additions:						
Member contributions	\$ 2,304,041			\$ 345,851		\$ 2,649,892
Investment income (loss):						
Investment income (loss)					\$ (30,751,715)	(30,751,715)
Securities lending income					322,960	322,960
Investment expenses:						
Real estate operating expenses					(13,743)	(13,743)
Securities lending expenses					(297,325)	(297,325)
Other investment expenses					(255,755)	(255,755)
Miscellaneous					16	16
Total additions	<u>2,304,041</u>			<u>345,851</u>	<u>(30,995,562)</u>	<u>(28,345,670)</u>
Deductions:						
Benefits and refunds paid to plan members and beneficiaries:						
Retirement benefits			\$ 15,793,191			15,793,191
Health benefits				505,459		505,459
Return of contributions	51,373		13,581			64,954
Transfers to other systems	(309,505)	\$ 683,422	536,762			910,679
Administrative expenses					500,501	500,501
Total deductions	<u>(258,132)</u>	<u>683,422</u>	<u>16,343,534</u>	<u>505,459</u>	<u>500,501</u>	<u>17,774,784</u>
Net increase (decrease)	2,562,173	(683,422)	(16,343,534)	(159,608)	(31,496,063)	(46,120,454)
Other changes in net assets:						
Interest allocation	(613,333)	3,922,944	9,428,911		(12,738,522)	-
Transfers upon retirement	(3,111,838)		3,111,838			-
Transfers of employer shares		(2,618,182)	2,618,182			-
Total other changes in net assets	<u>(3,725,171)</u>	<u>1,304,762</u>	<u>15,158,931</u>		<u>(12,738,522)</u>	<u>-</u>
Net Increase (Decrease) After Other Changes	(1,162,998)	621,340	(1,184,603)	(159,608)	(44,234,585)	(46,120,454)
Net Assets (Liabilities) Held in Trust for Pension and Health Benefits:						
Beginning of year	<u>32,197,516</u>	<u>49,036,794</u>	<u>117,861,389</u>	<u>(342,978)</u>	<u>121,593,276</u>	<u>320,345,997</u>
End of year	<u>\$ 31,034,518</u>	<u>\$ 49,658,134</u>	<u>\$ 116,676,786</u>	<u>\$ (502,586)</u>	<u>\$ 77,358,691</u>	<u>\$ 274,225,543</u>

FINANCIAL SECTION

Supporting Schedules (Continued)

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

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

INVESTMENT SECTION

Prepared by Michigan Department of Treasury, Bureau of Investments

Alan H. Van Noord, Director

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

INVESTMENT SECTION

Report on Investment Activity

INTRODUCTION

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

The Investment Advisory Committee was created by Act 380 of the Public Acts of 1965. The three public members of the five-member committee are appointed by the Governor with the advice and consent of the Senate for three-year terms. The Director of the Department of Consumer and Industry Services and the Director of the Department of Management and Budget are ex-officio members. The members of the committee are as follows: James B. Henry, PHD (public member), Robert E. Swaney, CFA (public member), David G. Sowerby (public member), Kathleen M. Wilbur (ex-officio member), and Duane E. Berger (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 achieve a balance between risk and return.
2. To outperform the actuarial assumptions over the long term.
3. To perform in the top half of the Capital Resource Advisors public plan universe.
4. To exceed individual asset class benchmarks over the long term.
5. Seek to maintain a fully funded position.
6. To produce competitive results while operating in a cost-effective manner relative to peers.

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

Asset Allocation (Excludes Collateral on Loaned Securities)

<u>Investment Category</u>	<u>As of 9/30/01 Actual %</u>	<u>Five-Year Target %</u>
Mortgages	0.0%	0.0%
International Equities-Passive	5.8%	10.0%
Real Estate	11.6%	10.0%
Alternative Investments	12.1%	10.0%
Short Term Investments	9.0%	2.0%
Fixed Income	21.6%	23.4%
Domestic Equity	<u>39.9%</u>	<u>44.6%</u>
TOTAL	<u>100.0%</u>	<u>100.0%</u>

INVESTMENT SECTION

Report on Investment Activity

STATE LAW

Pursuant to State Law (Section 91 of Act No. 380 of the Public Acts of 1965, as amended), the State Treasurer 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 restructures 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, 2001, the total portfolio returned -10.2% as compiled by Capital Resource Advisors. Annualized for the three-year period, the fund returned 5.5%, and for the five-year period, the fund returned 9.5%.

During the fiscal year ending September 30, 2001, the nation's economy experienced an economic slowdown, rising unemployment, reduced consumer spending, and corporate earnings that did not meet expectations. On September 11, 2001, all hopes of an economic recovery were dashed by terrorist attacks on New York City and Washington, D.C. As a result, the economy experienced a decline in the nation's real gross domestic product of -0.4% for the fourth quarter of the fiscal year. In hopes of stimulating the economy, the Federal Reserve reduced rates by three and one-half percent over eight different occasions throughout the fiscal year.

As a result of the economic conditions, the broad based S&P 500 index declined 26.6% over the fiscal year with the Dow Jones Industrial Average off 15.5%. Value stocks, in turn, outperformed growth stocks during this period. Given the reductions in interest rates by the Federal Reserve, the Lehman Brothers Government/Corporate bond index appreciated 13.2%.

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, 2001, the portfolio consisted of 39.9% domestic equities, 21.6% fixed income, 12.1% alternative investments, 11.6% real estate, 9.0% short-term investments, and 5.8% 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 U.S.-based companies. Monies are invested in a portfolio of large company Value stocks and a portfolio of large company Growth stocks. Since historical rates of return for value and growth strategies have been negatively correlated, this allows for further diversification and focused selection of investments. Value investing derives its returns from the market's tendency to periodically undershoot a stock's fair value and then eventually corrects back to fair value. Growth stock returns accrue from longer-term broad themes from which companies evolve that will grow faster than the economy. Both portfolios are diversified among various securities and industries.

INVESTMENT SECTION

Report on Investment Activity

As we reported one year ago, the Federal Reserve took action to put the brakes on a rapidly expanding economy. The Federal Reserve raised rates six times between June 1999 and June 2000, taking the Fed Funds rate from 4.75% to 6.50%. As a result, both U.S. real Gross Domestic Product (GDP) and corporate earnings growth came to a screeching halt. Real GDP finally fell into negative territory in the September 2001 quarter, declining .4%, while corporate earnings realized negative year-over-year comparisons for the entire fiscal year. Operating earnings for the S&P 500 declined 26.6% for the 12-month period ending September 2001. Obviously, the terrorist acts of September 11 had a significant negative impact on the U.S. economy for the final month of the fiscal year.

As a result of the dismal state of the economy, equity markets continued the declines begun in the spring of 2000. Total return for the Dow Jones Industrial Average was -15.5% for the 12 months ending September 2001, while the broader S&P 500 was -26.6%. The NASDAQ's price fell by more than half at -59.2%. No S&P 500 sector produced positive returns during the fiscal year. Technology was the most impacted, declining 59.0%

On a positive note, the Federal Reserve reversed course quickly, lowering short-term rates eight times between January 2001 and September 2001, for a total reduction of 3.50 percentage points. Congress moved to stimulate the economy by enacting over \$1 trillion in federal tax cuts, including rebate checks. Energy prices declined and inflation fell to an annual rate of 2.6% as measured by the CPI.

The System's large company Value portfolio achieved a total rate of return of -3.0% for fiscal 2001. This compared very favorably with -16.9% for the S&P 500 BARRA Value Index due to the fund's significant investment in financial stocks and little exposure to technology and telecommunication stocks. The large company Growth portfolio's total rate of return was -34.8% for the fiscal year versus -35.7% for the S&P 500 BARRA Growth Index. The fund performed better than the index because of positions in the healthcare sector and less-than-average exposure to the technology group. Because these two portfolios were created effective January 31, 2000, we do not have three-year or five-year rates of return.

On a consolidated basis, the actively managed domestic stock portfolio had a total rate of return of -20.2% for fiscal year 2001 compared to -26.6% for the S&P 500 Index. Three-year and five-year annualized returns were 0.4% and 8.2%. This compared with 2.0% and 10.2% for the S&P 500.

At the close of fiscal year 2001, large company Value stocks represented 13.1% of total investments; large company Growth stocks represented 12.5%. Consolidated actively managed domestic stocks represented 25.6% of total investments, compared to 22.6% at the end of fiscal year 2000.

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 -26.2% versus its benchmark's -26.6%. The S&P MidCap Index Fund return for the fiscal year was -17.7% versus its benchmark's -19.0%. The relative 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 2001, \$3.4 million was added to U.S. index funds. At the end of the fiscal year, passive domestic stock portfolios represented 14.0% of total assets, the S&P 500 Index Fund accounting for 12.8% and the S&P MidCap Index Fund 1.2%. Indexed stock portfolios represented 14.9% of total investment assets at the end of the prior fiscal year.

International Equities - Passive

The objective of the passive international equity portfolios is to match the return performance of the Salomon Smith Barney Broad Market Index (BMI) Europe and Pacific Composite (EPAC) adjusted for net dividends. Fifty percent of the benchmark is hedged to the U.S. Dollar and the other half is impacted by foreign currency exchange rate changes. The total passive international return of -27.1% in the fiscal year compared favorably with the Net Salomon BMI-EPAC return of -27.7%. The passive international return of 2.0% for three years compared well with the benchmark's return of 1.6% over the same period.

INVESTMENT SECTION

Report on Investment Activity

Core passive exposure to international equity returns is achieved by investing in a combination of fixed income notes and equity swap agreements on foreign stock indices in developed markets. Interest on the dedicated notes in exchange for international stock returns, and the total notional amount of the swap agreements is invested in the approximate proportions of the Net Salomon Broad Market Index (BMI) Europe and Pacific Composite (EPAC) country weightings in those country indices. Use of swap agreements for a core position began in 1993, and an American Depository Receipts (ADR) and index-related security portfolio was added in June of 1999 to increase management flexibility. During fiscal year 2001, \$4.2 million of exposure was added, raising passive international investments to 5.8% of total investment assets.

The combination of fixed income LIBOR notes and equity swap agreements was valued at \$15.5 million on September 30, 2001. That valuation included a net unrealized loss of \$4.0 million on equity index exposures and an unrealized loss of \$10 thousand on LIBOR note investments held. During fiscal year 2001, \$552 thousand of gains on equity exposures were realized, and \$150 thousand of interest in excess of obligations on completed swaps was also recognized. At the end of the fiscal year, total realized gains and net interest received in excess of counterparty obligations on completed agreements reached a record \$6.5 million since the program began.

Fixed Income (Excluding Mortgages)

For the fiscal year ending September 30, 2001, the fixed income portfolio returned 12.3% as compiled by Capital Resource Advisors. The portfolio also returned 6.2% for three years, and 7.8% for five-years.

Rates continued to decline during the year in response to the Federal Reserve's repeated reductions in rates and the Treasury's intention to cease further issuance of thirty-year bonds. In addition to rates declining in all maturities there was also a significant steepening of the yield curve. Given the mathematics of bond calculation, long-term government bonds tended to outperform most other sectors.

As rates approached their lowest levels in twenty or more years, a defensive reinvestment program concentrating on shorter-term intermediate issues and floating rate securities was opted. While offering greater liquidity and protection from rising rates they tend to under perform in a declining rate market.

Fixed income represented 21.6% of the total portfolio compared with 18.1% last year. The corporate sector represented 47.1% of fixed income securities with government securities accounting for 52.9%. Last year corporate securities were 39.5% of the total with government securities representing 60.5%. The increased level of corporate securities was the result of quality spreads widening.

Real Estate Equity

As of the year ending September 30, 2001, 11.6% of the total investment portfolio was invested in equity real estate. This compares to 8.2% and 7.4% for the fiscal years ending September 30, 2000 and 1999, respectively. The five-year target asset allocation for equity real estate investments is 10.0%.

The one-year, three-year and five-year total equity real estate net returns for the fiscal year ending September 30, 2001 were 9.3%, 11.0% and 11.9%, respectively, as compiled by Capital Resource Advisors. This compares to the National Council of Real Estate Investment Fiduciaries (NCREIF) Property Index returns of 9.4%, 10.6% and 11.9% relating to the same periods. As of September 30, 2001, the NCREIF portfolio of properties is more weighted in the office sector at 42.0%, versus the System's portfolio at 24.0%. The historical volatility of the office sector returns makes it generally a more risky property type, especially during economic downturns. Because the NCREIF Index returns are quoted before advisor fees/overhead and the System's returns are quoted after all advisor fees/overhead, the NCREIF returns stated above have been adjusted downward by 75 basis points to approximate comparable returns.

The real estate investments are broadly diversified geographically across the country, by type of property and class of property, to reduce risk. Major property types as of September 30, 2001, included apartments (42%); retail centers, including regional malls and grocery anchored neighborhood/community shopping centers (28%); commercial office buildings

INVESTMENT SECTION

Report on Investment Activity

(24%); and miscellaneous property types such as industrial and self storage (6%). The System, through its advisors and operating joint ventures, 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 negotiates approval rights over critical decisions in order to further mitigate risk. The properties are regularly valued by independent appraisers to establish fair market values.

Real Estate Debt (Mortgages)

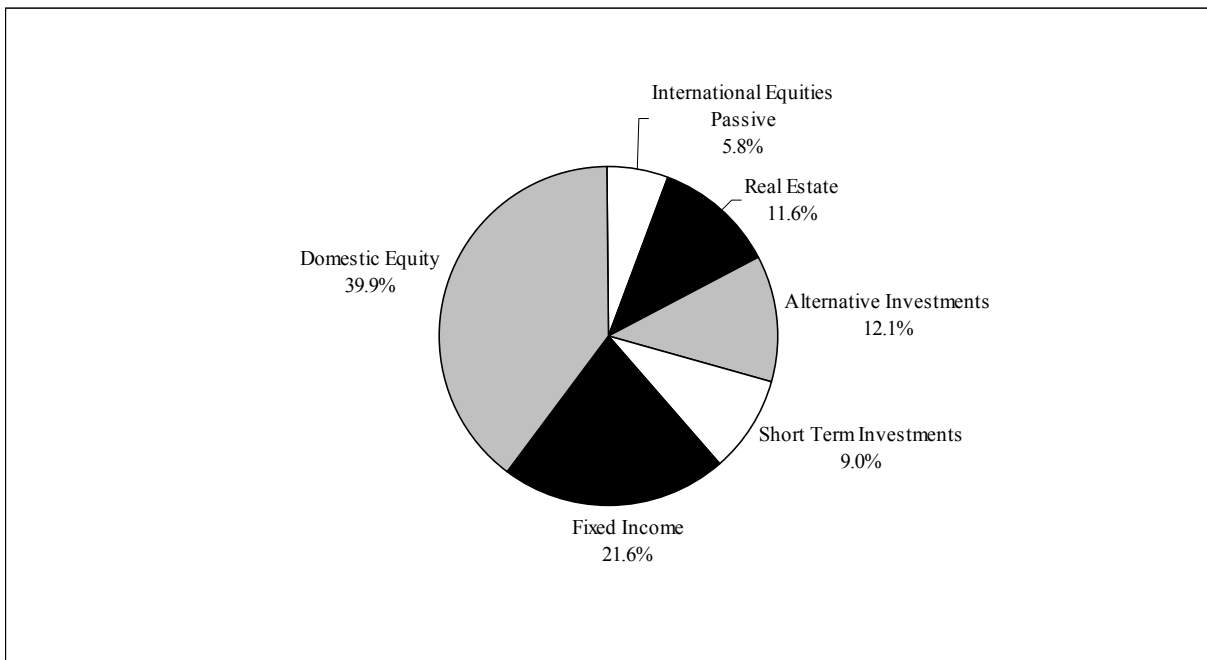
For the fiscal year ending September 30, 2001 less than 0.1% of the total investment portfolio was invested in direct mortgages. The asset allocation objective is to reduce mortgage holdings to 0.0% over time, a majority of the mortgage portfolio was sold in 1997 and 1998. The one-year, three-year, and five-year total returns for the mortgage portfolio for the fiscal year ending September 30, 2001 were 8.2%, 3.8% and 5.3%, respectively.

Alternative Investments

Alternative Investments are investments in the private equity market, either directly in companies or indirectly through limited partnerships. Through September 30, 2001 approximately 96.0% of alternative investments were made through limited partnerships. Of the investments in limited partnerships, approximately 12.0% were in partnerships investing internationally. The remaining 4.0% were direct private equity investments and public stock distributions received from the limited partnerships. The percentage of assets in alternative investments has consistently increased from 4.8% as of September 30, 1993, to 12.1% as of September 30, 2001. The asset allocation range for alternative investments is 15% to 20% while the long-term target asset allocation is 10.0%. The one-year, three-year and five-year total alternative investment returns for the fiscal year ending September 30, 2001 were -16.9%, 10.0% and 14.4%, respectively.

INVESTMENT SECTION

Asset Allocation



Investment Results for the Period Ending September 30, 2001

Investment Category	Current Year	Annualized Rate of Return		
		3 Years	5 Years	10 Years
Total Portfolio	(10.2) %	5.5 %	9.5 %	10.2 %
Domestic Equities Stock - Active	(20.2)	0.4	8.2	12.4
Domestic Equities Stock - Passive*	(25.7)	3.2	10.7	13.3
Standard & Poor's (S&P 500)	(26.6)	2.0	10.2	12.7
Standard & Poor's (MidCap)	(19.0)	13.3	13.7	14.5
Standard & Poor's (S&P 1500)	(25.7)	3.0	10.2	N/A
International Equities - Passive	(27.1)	2.0	3.7	N/A
Net Salomon BMI - EPAC 50/50	(27.7)	1.6	2.4	N/A
Fixed Income Bonds (U.S. Corp and Govt)	12.3	6.2	7.8	8.1
Salomon Smith Barney Broad Investment Grade Bond Index	13.1	6.4	8.1	7.8
Lehman Brothers Government/Corporate	13.2	5.9	8.0	7.8
Mortgages	8.2	3.8	5.3	6.3
Salomon Smith Barney Broad Investment Grade Bond Index	13.1	6.4	8.1	7.8
Real Estate - Equity	9.3	11.0	11.9	7.3
NCREIF minus 75 Basis Points	9.4	10.6	11.9	6.7
Alternative Investments	(16.9)	10.0	14.4	14.4

* 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.

N/A Not available.

INVESTMENT SECTION

Largest Assets Held

Largest Stock Holdings (By Market Value)* September 30, 2001

<u>Rank</u>	<u>Shares</u>	<u>Stocks</u>	<u>Market Value</u>
1	329,100	I Shares S&P Index Fund	\$ 34,358,040
2	91,155	Pfizer Incorporated	3,655,316
3	38,250	I Shares S&P Midcap 400	3,314,363
4	77,422	General Electric Corporation	2,880,098
5	66,779	Citigroup Incorporated	2,704,550
6	44,750	Wal-Mart Stores Incorporated	2,215,125
7	41,274	Microsoft Corporation	2,111,991
8	52,172	Exxon Mobil Corporation	2,055,577
9	23,029	Federal National Mortgage Association	1,843,702
10	37,424	Wells Fargo & Company	1,663,497

Largest Bond Holdings (By Market Value)* September 30, 2001

<u>Rank</u>	<u>Par Amount</u>	<u>Bonds & Notes</u>	<u>Market Value</u>
1	\$ 5,181,000	U.S. Treasury Bonds at 9.125% Due 5-15-2009	\$ 5,899,035
2	2,145,000	U.S. Treasury 0% Coupon Strips Due 8-15-2003	2,032,988
3	1,770,600	U.S. Treasury 0% Coupon Strips Due 11-15-2011	1,444,633
4	1,244,000	U.S. Treasury Tiger 0% Coupon Due 8-15-2004	1,124,775
5	1,120,000	Ford Motor Credit Corp FRN 6.59125% Due 10-9-2001	1,120,000
6	800,000	Bank One NA Chicago ILL MTN 3.35% Due 3-16-2004	801,000
7	761,280	U.S. Treasury 0% Coupon Strips Due 5-15-2009	680,965
8	681,000	Textron Financial Corp 3.87% Due 5-15-2003	675,041
9	668,256	First Chicago Corp FRN 6.8375% Due 7-28-2003	670,595
10	616,608	Chemical Bank FRN 6.775% Due 7-29-2003	618,150

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

INVESTMENT SECTION

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 12.3% of the total investment portfolio is managed by fully discretionary outside advisors. Outside advisor's fees are netted against the partnership or trust fund income. The Michigan Department of Treasury's cost of operations applicable to the System for the fiscal year amounted to \$78.0 thousand or less than three basis points (.03%) of the market value of the portfolio.

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

Schedule of Investment Fees

Investment Managers' Fees:

	Assets under Management (in thousands)	Fees (in thousands)	Basis Points*
State Treasurer	\$ 240,533.7	\$ 78.0	3.2
Outside Advisors - Alternative	32,184.5	168.9	52.5
Real Estate	1,485.8	-	-
Total	\$ 274,204.0		

Other Investment Services Fees:

Assets in Custody	\$ 188,651.1	\$ 8.9
Securities on Loan	9,887.1	297.3

* 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 fee ranges from 25 to 90 basis points and is netted against current year's income.

INVESTMENT SECTION

Schedule of Investment Commissions

	Fiscal Year Ended September 30, 2001		
	Commissions Paid ⁽¹⁾	Number of Shares Traded	Average Commission Rate Per Share
Investment Brokerage Firms:			
Salomon Smith Barney, Inc.	\$ 3,515	88,050	0.04
Merrill Lynch & Co.	3,138	63,491	0.05
Morgan Stanley Dean Witter & Co.	2,762	55,289	0.05
Lehman Brothers, Inc.	2,444	52,032	0.05
Goldman, Sachs & Co.	1,718	34,387	0.05
Paine Webber, Inc.	1,637	33,250	0.05
Bear Stearns & Co.	1,615	35,003	0.05
Bridge Trading Company	1,565	35,319	0.04
Prudential Securities, Inc.	1,427	28,535	0.05
C.S. First Boston Corporation	1,321	28,024	0.05
Sanford C. Bernstein & Co.	1,158	23,163	0.05
J.P. Morgan Securities, Inc.	726	14,514	0.05
S.G. Cowen & Company	700	13,991	0.05
OTA Research	632	12,635	0.05
Oppenheimer & Company	591	11,815	0.05
Cantor Fitzgerald & Co.	519	13,047	0.04
Deutsche Bank	485	9,700	0.05
BancBoston Robertson Stephens	460	9,157	0.05
Banc of America Securities, LLC	348	6,960	0.05
ISI Group, Inc.	206	4,128	0.05
First Union Securities	180	3,592	0.05
Barrington Research	178	3,572	0.05
Wit Capital Corp	154	3,080	0.05
Instinet Group Inc.	149	3,856	0.04
Charles Schwab & Co., Inc.	135	2,704	0.05
Subtotal (25 highest)	\$ 27,763	589,294	0.05 ⁽²⁾
All Other Brokerage Firms	271	5,413	0.05 ⁽³⁾
Total	\$ 28,034	594,707	0.05 ⁽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 September 30, 2001				Fiscal Year Ended September 30, 2000			
	Market Value *	Percent of Total Market Value	Investment & Interest Income ***	Percent of Investment & Interest Income	Market Value *	Percent of Total Market Value	Investment & Interest Income ****	Percent of Investment & Interest Income
Fixed Income:								
Government Bonds	\$ 31,240,151	11.4%	\$ 5,017,886	-16.3%	\$ 43,087,321	10.9%	\$ 2,986,833	6.7%
Corporate Bonds & Preferred Stocks	27,773,818	10.1%	2,911,906	-9.5%	28,186,419	7.1%	1,672,251	3.8%
Mortgages	114,886	0.0%	10,461	0.0%	114,416	0.0%	9,898	0.0%
Total Fixed Income	59,128,855	21.6%	7,940,253	-25.8%	71,388,156	18.1%	4,668,982	10.5%
Common Stock	109,530,587	39.9%	(30,293,334)	98.5%	148,305,552	37.5%	15,354,261	34.6%
Real Estate	31,776,623	11.6%	2,988,784	-9.7%	32,503,419	8.2%	3,220,647	7.2%
Alternative Investments	33,243,384	12.1%	(7,132,922)	23.2%	46,645,676	11.8%	15,670,727	35.3%
International Equities - Passive	15,943,367	5.8%	(5,783,392)	18.8%	20,130,510	5.1%	1,974,055	4.4%
Short Term Investments **	24,581,211	9.0%	1,528,896	-5.0%	76,458,208	19.3%	3,554,210	8.0%
Total	\$ 274,204,027	100.0%	\$ (30,751,715)	100.0%	\$ 395,431,521	100.0%	\$ 44,442,882	100.0%

* Short Term Investments are at cost, which approximates market value.

** Excludes the amounts payable and receivable for sales and purchases of securities with a settlement date after September 30 for each fiscal year. Amount also excludes \$9,731,310 and \$3,472,089 in cash collateral for security lending for fiscal year 2001 and 2000, respectively.

ACTUARIAL SECTION



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

Actuary's Certification



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Michael J. Karlin, F.S.A., M.A.A.A.
Senior Vice President & Actuary
mkarlin@segalco.com

February 19, 2002

Mr. Duane E. Berger
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, 2001 included a total of 941 members of MJRS. The actuarial value of MJRS's assets amounted to approximately \$291 million on September 30, 2001.

The actuarial assumptions used in the 2001 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, 2001 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 2001 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, F.S.A., M.A.A.A.
Senior Vice President & Actuary

Benefits, Compensation and HR Consulting ATLANTA BOSTON CHICAGO CLEVELAND DENVER HARTFORD HOUSTON LOS ANGELES MINNEAPOLIS
NEW ORLEANS NEW YORK PHILADELPHIA PHOENIX SAN FRANCISCO SEATTLE TORONTO WASHINGTON, DC

Multinational Group of Actuaries and Consultants AMSTERDAM BARCELONA GENEVA HAMBURG LONDON MELBOURNE MEXICO CITY OSLO PARIS

ACTUARIAL SECTION

Summary of Actuarial Assumptions and Methods

1. The investment return rate used in making the valuations was 8% per year, compounded annually. This rate of return is not the assumed real rate of return. Considering other financial assumptions, the 8% investment return rate translates to an assumed real rate of 4%. Adopted 1981.
2. The mortality table used in evaluating allowances to be paid was the 1994 Group Annuity Mortality Table, set forward one year for both men and women. Adopted 1998.
3. Sample probabilities of retirement with an age and service allowance are shown in Schedule 1 on the next page. Adopted 1998.
4. Sample probabilities of withdrawal from service and disability, together with individual pay increase assumptions, are shown in Schedule 2 on the next page. Adopted 1998.
5. Total active member payroll is assumed to increase 0% per year, because new employees participate in the defined contribution program. Adopted 1996.
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 on a declining basis beginning October 1, 1996. Adopted 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.

ACTUARIAL SECTION

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 Next 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 SECTION

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
1992	28	604	\$ 43,840,733	\$ 72,584	(0.3) %	52.8	10.6
1993	25	611	44,472,833	72,787	0.2	52.8	10.5
1994	26	608	46,276,785	76,113	4.5	53.4	10.5
1995	26	614	48,195,528	78,494	3.1	52.8	10.9
1996	28	610	49,350,572	80,903	3.1	53.6	11.7
1997	25	609	49,000,856	80,461	(0.5)	52.8	11.4
1998	24	600	48,865,572	81,443	1.2	53.6	12.2
1999	22	573	49,626,160	86,608	6.3	54.8	13.5
2000	17	399	37,022,723	92,789	7.1	54.0	11.0
2001	15	380	42,543,811	111,957	20.7	54.4	11.7

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		
1992	29	\$ 816,203	12	\$ 217,417	406	\$ 9,823,817	6.5 %	\$24,197
1993	29	1,023,871	1	16,135	434	10,831,553	10.3	24,957
1994	24	794,810	12	303,091	446	11,323,272	4.5	25,389
1995	50	1,700,945	15	409,064	481	12,615,153	11.4	26,227
1996	19	708,409	19	424,164	481	12,899,398	2.3	26,818
1997	40	1,663,656	9	359,441	512	14,203,613	10.1	27,741
1998	26	696,745	24	556,833	514	14,343,525	1.0	27,906
1999	35	1,182,957	18	514,936	531	15,011,546	4.7	28,270
2000	16	656,659	12	449,123	535	15,219,082	1.4	28,447
2001	30	1,027,902	19	399,313	546	16,027,671	5.3	29,355

Prioritized Solvency Test

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

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

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

Valuation Date	Actuarial Present Value of Accrued Liabilities (\$ in Thousands)			Valuation Assets	Portion of Present Value Covered by Assets			
	(1)	(2)	(3)		(1)	(2)	(3)	(4)**
	Active Member Contributions	Retirants and Beneficiaries	Active and Inactive Members (Employer Financed Portion)					
Sept. 30								
1992	\$ 26,364	\$ 82,451	\$ 70,681	\$ 171,969	100 %	100 %	89.4 %	95.8 %
1993	28,922	89,163	74,878	187,737	100	100	93.0	97.3
1993*	28,922	89,163	74,342	189,134	100	100	95.6	98.3
1994	32,364	89,649	74,978	202,371	100	100	107.2	102.7
1995	34,358	96,574	73,395	222,230	100	100	124.4	108.8
1996	38,766	96,633	76,102	243,248	100	100	141.7	115.0
1997	39,637	118,717	72,157	271,458	100	100	156.7	117.8
1998	43,378	116,264	76,879	288,671	100	100	167.8	122.0
1998***	43,378	116,645	70,294	288,671	100	100	183.0	125.3
1999	43,047	121,856	78,600	320,869	100	100	198.4	131.8
2000	28,812	120,480	54,933	274,843	100	100	228.6	134.6
2001	29,469	125,097	70,171	290,998	100	100	194.4	129.5

* Revised actuarial assumptions and asset valuation method.

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

*** Revised actuarial assumptions.

ACTUARIAL SECTION

Summary of Plan Provisions

Our actuarial valuation of the System as of September 30, 2001 is based on the present provision of Public Act No. 234 of 1992.

Regular Retirement

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

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

Final Annual Compensation — Annual State salary at time of retirement plus State salary standardization, if any. For former 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.

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

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

Defined Contribution Legislation — Public Act 523 of 1996

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

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

On June 30, 1998, a case was filed by various Judges' Associations and Judges in connection with the Defined Contribution Plan. On November 22, 1999, a tentative settlement was read into the record. This settlement includes resolutions regarding the participation of trial judges in the DC plan, as well as a number of enhancements which have been thoroughly discussed with the Office of Retirement Services and are supported by the Governor's office. The proposed settlement was effectuated through passage of legislation. Approximately \$77.8 million was transferred to the Defined Contribution Retirement Plan in fiscal year 2001. The transfer was accrued in the financial statements and the membership statistics and actuarial valuation reflected the transfer as of the fiscal year ended 2000.

STATISTICAL SECTION

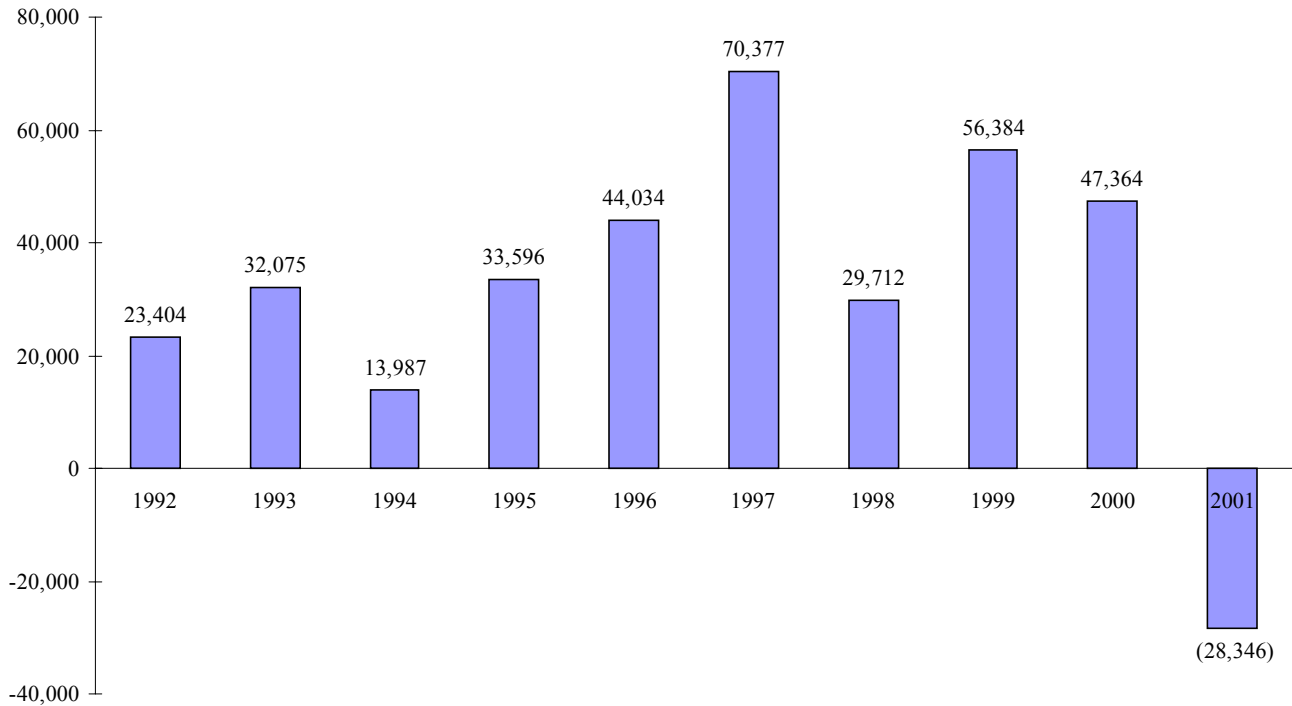
Schedule of Revenues by Source
Schedule of Expenses by Type
Schedule of Benefit Expenses by Type
Schedule of Retired Members by Type of Benefit
Schedule of Average Benefit Payments
Ten Year History of Membership
Schedule of Participating Employers

STATISTICAL SECTION

Schedule of Revenues by Source

Fiscal Year Ended Sept 30	Member Contributions	Net Court Fees	Employer Contributions		Net Investment & Other Income	Total
			Dollars	% of Annual Covered Payroll		
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	0.12	53,008,576	56,383,915
2000	3,199,407	0	0	0.00	44,164,101	47,363,508
2001	2,649,892	0	0	0.00	(30,995,562)	(28,345,670)

Total Revenues
Year Ended September 30
(In Thousands)



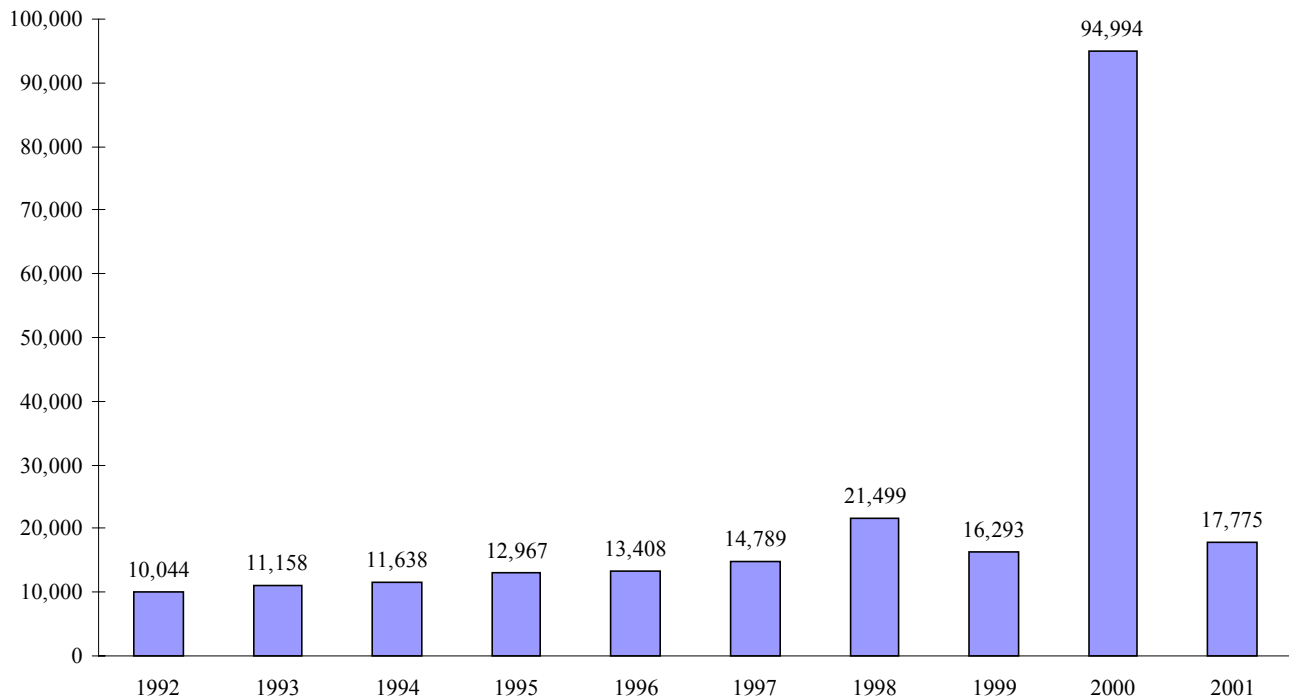
STATISTICAL SECTION

Schedule of Expenses by Type

<u>Fiscal Year Ended Sept. 30</u>	<u>Benefit Payments*</u>	<u>Refunds and Transfers</u>	<u>Administrative Expenses</u>	<u>Total</u>
1992	\$ 9,631,114	\$ 18,366	\$ 394,632	\$ 10,044,112
1993	10,733,285	25,639	399,530	11,158,454
1994	11,173,171	28,444	436,764	11,638,379
1995	12,404,307	91,861	470,760	12,966,928
1996	12,877,528	16,266	514,406	13,408,200
1997	14,157,040	236,326	395,428	14,788,794
1998	14,660,076	6,641,662	197,743	21,499,481
1999	15,231,572	913,381	148,116	16,293,069
2000	15,711,223	78,765,632	517,046	94,993,901
2001	16,298,650	975,633	500,501	17,774,784

*Includes health, dental and vision benefits.

Total Expenses
Year Ended September 30
(In Thousands)



STATISTICAL SECTION

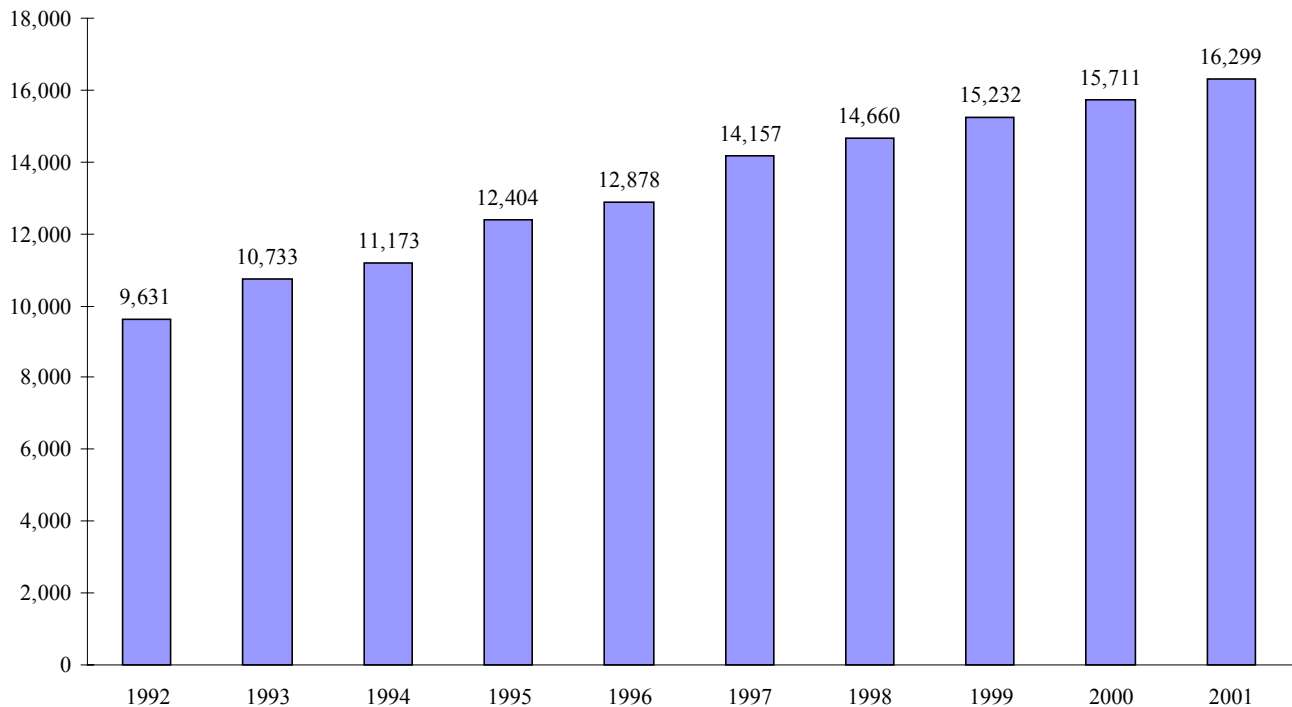
Schedule of Benefit Expenses by Type

<u>Fiscal Year Ended Sept. 30</u>	<u>Regular Benefits</u>	<u>Disability Benefits</u>	<u>Health Benefits**</u>	<u>Total</u>
1992	\$ 9,522,704	*	\$ 108,410	\$ 9,631,114
1993	10,598,915	*	134,370	10,733,285
1994	11,041,755	*	131,416	11,173,171
1995	12,012,426	\$ 273,424	118,457	12,404,307
1996	12,464,285	294,976	118,267	12,877,528
1997	13,491,097	348,192	317,751	14,157,040
1998	13,922,718	381,835	355,523	14,660,076
1999	14,435,420	397,155	398,997	15,231,572
2000	14,818,706	442,172	450,345	15,711,223
2001	15,352,750	440,441	505,459	16,298,650

* Disability benefits included with regular benefits

** Includes dental and vision benefits

Benefit Expenses
Year Ended September 30
(In Thousands)



STATISTICAL SECTION

Schedule of Retired Members by Type of Benefit September 30, 2001

Amount Monthly Benefit	Number of Retirees	Type of Retirement*					Selected Option**		
		1	2	3	4	5	Opt 1	Opt 2	Opt 3
\$ 0-400	7	2	2	3	0	0	7	0	0
401-800	64	17	40	6	1	0	58	6	0
801-1,200	50	26	16	5	3	0	37	12	1
1,201-1,600	59	30	22	7	0	0	48	9	2
1,601-2,000	65	29	23	11	2	0	58	7	0
2,001-2,400	37	22	11	2	2	0	20	17	0
2,401-2,800	41	35	5	0	1	0	34	6	1
2,801-3,200	34	32	1	0	1	0	21	13	0
3,201-3,600	55	51	4	0	0	0	40	14	1
3,601-4,000	69	66	1	0	1	1	61	7	1
Over 4,000	65	62	1	0	2	0	63	2	0
Totals	546	372	126	34	13	1	447	93	6

* Type of Retirement

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

**Selected Option

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

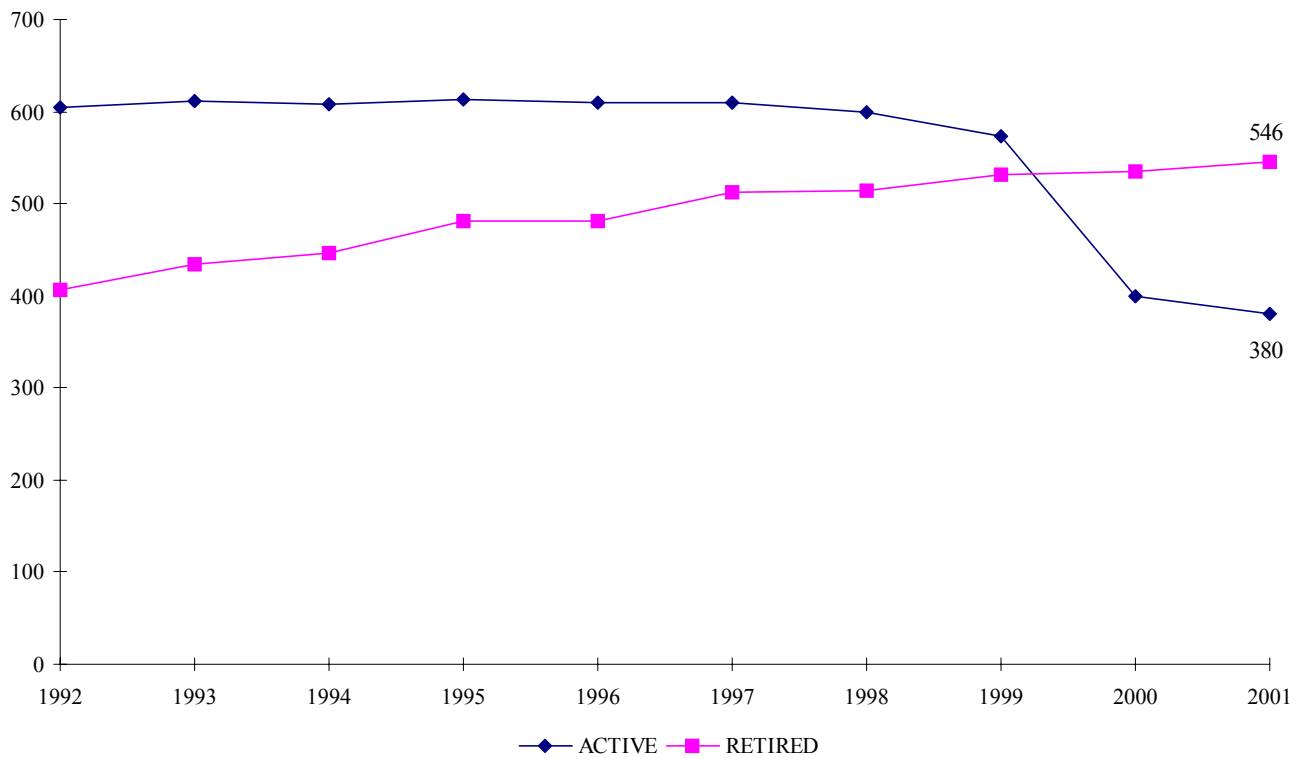
STATISTICAL SECTION

Schedule of Average Benefit Payments

Retirement Effective Dates	Years Credited Service							Total
	0-5	5-10	10-15	15-20	20-25	25-30	30+	
Period 10/1/94 to 9/30/95:								
Average Monthly Benefit	\$ 580	\$ 1,158	\$ 1,502	\$ 2,350	\$ 2,845	\$ 2,316	\$ 2,469	\$ 2,186
Average Final Average Salary	4,875	50,179	45,218	52,217	60,194	52,693	51,738	51,893
Number of Active Retirants	4	27	109	173	105	46	17	481
Period 10/1/95 to 9/30/96:								
Average Monthly Benefit	\$ 824	\$ 1,197	\$ 1,555	\$ 2,396	\$ 2,844	\$ 2,327	\$ 2,624	\$ 2,228
Average Final Average Salary	3,900	51,478	46,294	53,387	61,170	52,693	54,972	52,911
Number of Active Retirants	5	26	108	172	108	46	16	481
Period 10/1/96 to 9/30/97:								
Average Monthly Benefit	\$ 911	\$ 1,228	\$ 1,561	\$ 2,472	\$ 2,883	\$ 2,439	\$ 3,089	\$ 2,312
Average Final Average Salary	3,250	54,667	47,584	56,426	62,947	56,764	64,058	55,663
Number of Active Retirants	6	26	110	181	118	50	21	512
Period 10/1/97 to 9/30/98:								
Average Monthly Benefit	\$ 860	\$ 1,161	\$ 1,568	\$ 2,478	\$ 2,942	\$ 2,499	\$ 3,113	\$ 2,325
Average Final Average Salary	2,437	53,853	49,030	57,069	64,355	76,821	63,379	58,228
Number of Active Retirants	8	26	110	180	119	51	20	514
Period 10/1/98 to 9/30/99:								
Average Monthly Benefit	\$ 908	\$ 1,148	\$ 1,630	\$ 2,522	\$ 2,948	\$ 2,476	\$ 3,409	\$ 2,356
Average Final Average Salary	1,950	55,804	50,535	59,340	65,753	76,643	68,504	68,504
Number of Active Retirants	10	29	113	181	127	52	19	531
Period 10/1/99 to 9/30/00:								
Average Monthly Benefit	\$ 923	\$ 1,240	\$ 1,637	\$ 2,588	\$ 2,990	\$ 2,429	\$ 3,477	\$ 2,371
Average Final Average Salary	1,147	58,188	49,653	58,814	66,470	77,869	68,504	58,893
Number of Active Retirants	17	30	112	184	124	49	19	535
Period 10/1/00 to 9/30/01:								
Average Monthly Benefit	\$ 1,144	\$ 1,365	\$ 1,668	\$ 2,618	\$ 3,080	\$ 2,628	\$ 3,761	\$ 2,446
Average Final Average Salary	7,066	59,526	51,362	60,795	67,803	83,459	73,014	60,618
Number of Active Retirants	23	31	109	188	128	47	20	546

STATISTICAL SECTION

10 Year History of Membership Fiscal Years Ended September 30



Schedule of Participating Employers thru 9/30/01

Elected Offices	14th District Court
Supreme Court	15th District Court
Court Of Appeals	16th District Court
Recorders Court	17th District Court
02nd Circuit Court	18th District Court
03rd Circuit Court	19th District Court
04th Circuit Court	21st District Court
05th Circuit Court	22nd District Court
06th Circuit Court	24th District Court
07th Circuit Court	25th District Court
08th Circuit Court	26th District Court
09th Circuit Court	28th District Court
10th Circuit Court	29th District Court
12th Circuit Court	30th District Court
13th Circuit Court	31st District Court
14th Circuit Court	33rd District Court
15th Circuit Court	34th District Court
16th Circuit Court	36th District Court
17th Circuit Court	37th District Court
18th Circuit Court	39th District Court
20th Circuit Court	40th District Court
21st Circuit Court	41st District Court
22nd Circuit Court	42nd District Court
24th Circuit Court	43rd District Court
25th Circuit Court	44th District Court
26th Circuit Court	45th District Court
27th Circuit Court	46th District Court
28th Circuit Court	47th District Court
29th Circuit Court	48th District Court
30th Circuit Court	50th District Court
31st Circuit Court	51st District Court
32nd Circuit Court	52nd District Court
34th Circuit Court	53rd District Court
35th Circuit Court	54th District Court
36th Circuit Court	55th District Court
37th Circuit Court	56th District Court
38th Circuit Court	57th District Court
39th Circuit Court	58th District Court
40th Circuit Court	60th District Court
42nd Circuit Court	61st District Court
46th Circuit Court	62nd District Court
56th Circuit Court	63rd District Court
57th Circuit Court	64th District Court
01st District Court	65th District Court
03rd District Court	66th District Court
05th District Court	67th District Court
07th District Court	68th District Court
08th District Court	70th District Court
09th District Court	71st District Court
10th District Court	71st District Court
12th District Court	72nd District Court

STATISTICAL SECTION

Schedule of Participating Employers thru 9/30/01 (Continued)

73rd District Court
74th District Court
75th District Court
76th District Court
77th District Court
78th District Court
79th District Court
80th District Court
81st District Court
82nd District Court
84th District Court
85th District Court
86th District Court
87th District Court
88th District Court
90th District Court
91st District Court
92nd District Court
93rd District Court
94th District Court
95th District Court
97th District Court
98th District Court

Alcona Probate Court
Alpena Probate Court
Barry Probate Court
Bay Probate Court
Berrien Probate Court
Branch Probate Court
Calhoun Probate Court
Cass Probate Court
Chippewa Probate Court
Clare Probate Court
Clinton Probate Court
Crawford Probate Court
Emmet Probate Court
Genesee Probate Court
Gogebic Probate Court
Houghton Probate Court
Huron Probate Court
Ionia Probate Court
Iosco Probate Court
Iron Probate Court
Isabella Probate Court
Jackson Probate Court
Kalamazoo Probate Court
Kent Probate Court
Lake Probate Court
Leelanau Probate Court
Lenawee Probate Court
Livingston Probate Court

Mackinac Probate Court
Macomb Probate Court
Mason Probate Court
Mecosta Probate Court
Monroe Probate Court
Montcalm Probate Court
Muskegon Probate Court
Oceana Probate Court
Ogemaw Probate Court
Ontonagon Probate Court
Oscoda Probate Court
Ottawa Probate Court
Presque Isle Probate Court
Shiawassee Probate Court
St Clair Probate Court
St Joseph Probate Court
Washtenaw Probate Court
Wayne Probate Court
Wexford Probate Court