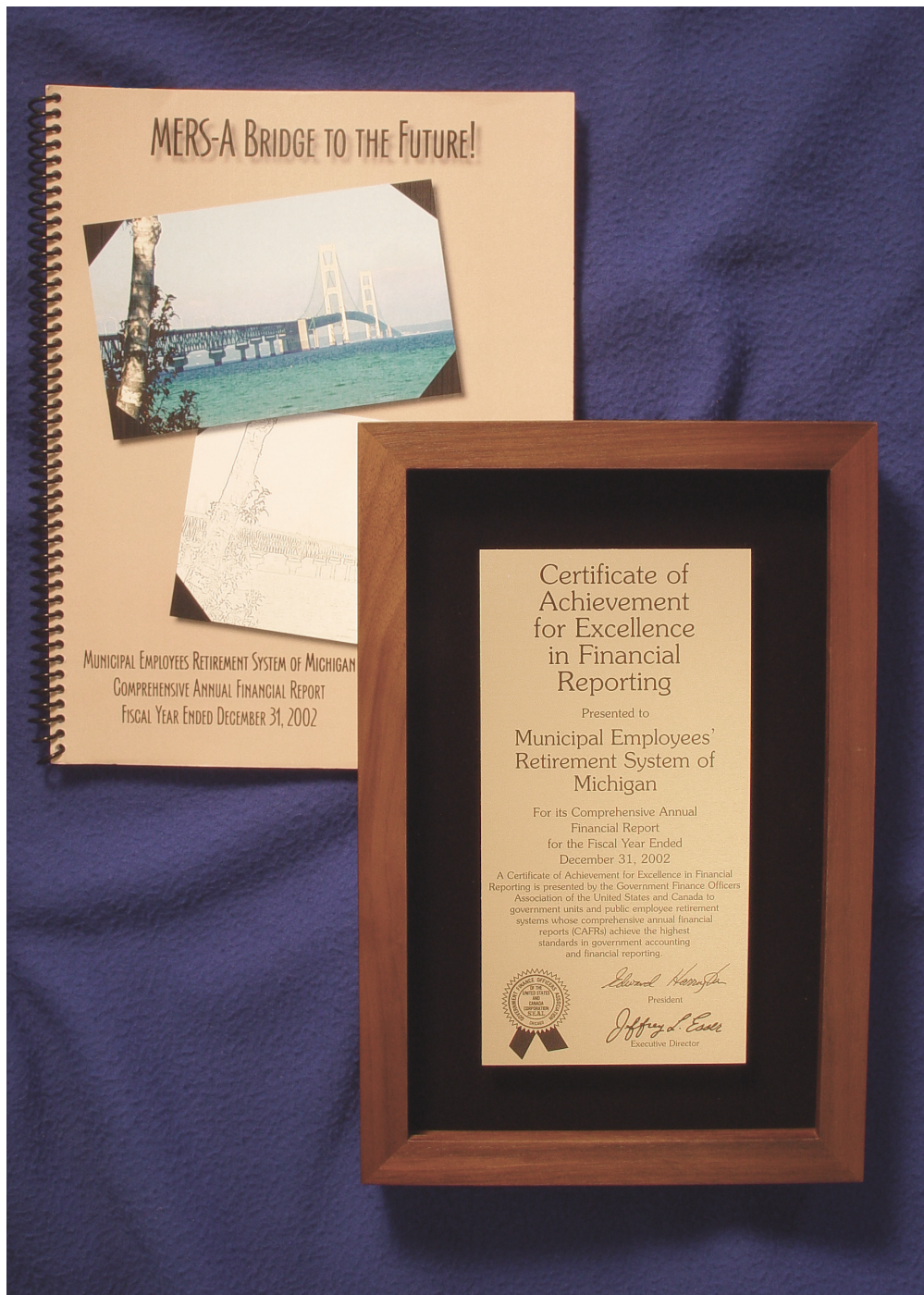


---

# INTRODUCTORY



MERS received the Certificate of Achievement for Excellence in Financial Reporting from the Government Finance Officer's Association for the December 31, 2002 Comprehensive Annual Financial Report. This marks the 15<sup>th</sup> consecutive year MERS has received this honor.





**Municipal Employees' Retirement System of Michigan**

1134 Municipal Way, Lansing, Michigan 48917

Phone (517) 703-9030 • 1-800-767-6377 • Fax (517) 327-8336 • Website: [www.mersofmich.com](http://www.mersofmich.com)

---

*Our Present is Your Future*

## LETTER OF TRANSMITTAL

May 28, 2004

The Retirement Board  
Municipal Employees' Retirement System of Michigan  
1134 Municipal Way  
Lansing, MI 48917

Dear Retirement Board Members:

I am pleased to present the Comprehensive Annual Financial Report (CAFR) of the Municipal Employees' Retirement System of Michigan (MERS) for fiscal year ended December 31, 2003.

Commemorating its 57<sup>th</sup> year in providing public retirement plan administration to its member municipalities across the great state of Michigan, 2003 was a banner year! MERS realized an abundance of new growth in membership, with 25 municipalities and 445 employees joining the retirement system for the first time. As a voluntary statewide organization, we are pleased by this significant increase in membership and the consistent faith shown in our leadership team.

MERS, from its inception under state legislation in 1945, has furnished the vehicle through which Michigan's local governing bodies are pooling their resources thereby enabling cost-efficient retirement plan administration for the welfare of every employee. As of December 31, 2003, MERS total membership consisted of 65,756 employees from 604 municipalities (see detailed list on pages 79-94). Innumerable advances have been made over time to improve the retirement benefits and services offered to our members.

Even though we find satisfaction in looking back over MERS 57-year record of outstanding accomplishments, we are focused on the future as we strive to be proactive for our members. We continue to work hard to provide excellent customer service and retain the trust of our constituents.



### **The 2003 CAFR is comprised of five sections:**

- **Introductory Section.** Letter of Transmittal, Letter from the Chairperson of the Board, Certificate of Achievement of Excellence in Financial Reporting, administrative organization details, and an overview of MERS activities.
- **Financial Section.** Independent Auditor's Report, Management's Discussion and Analysis, the retirement system's basic financial statements, and required supplemental information for the Defined Benefit Plan.
- **Investment Section.** Summary of investment activity, an explanation of investment policy, portfolio performance information, and various investment schedules for both the Defined Benefit and Defined Contribution Plans.
- **Actuarial Section.** Actuary's certification letter and summaries for MERS Defined Benefit Plan.
- **Statistical Section.** Significant statistical data for the Defined Benefit and Defined Contribution Plans.

### ***Financial Reporting***

Responsibility for the accuracy and completeness of the financial data reported and the fairness of the presentation rests with the Chief Executive Officer and the management of MERS. Our independent external auditors, Andrews, Hooper & Pavlik, PLC, have conducted an audit of the financial statements, performing such tests and other procedures as they deem necessary to express an opinion in their report to the Retirement Board (letter on page 15).

The basic financial statements have been prepared in accordance with Generally Accepted Accounting Principles (GAAP) applied on a consistent basis as promulgated by the Governmental Accounting Standards Board and its predecessor, the National Council on Government Accounting. Management's Discussion and Analysis (MD&A) provides a narrative introduction, overview, and analysis to accompany the basic financial statements. This Letter of Transmittal is designed to complement the MD&A and should be read in conjunction with it. The MD&A can be found in the Financial Section immediately following the Independent Auditor's report (on pages 16-21).

### ***Investments***

The stock market rebound during 2003 aided MERS Defined Benefit portfolio with a positive return after the 2000-2002 market downturn. The market value of the portfolio ended the fiscal year with \$4.1 billion in assets. The investment staff worked, and continues to work, diligently to rebalance the assets to match the target asset allocation model on an annual basis. This results in a well-diversified portfolio with the ability to take advantage of opportunities that occur as the markets rebound.

---

## INTRODUCTORY



Fiscal year ended 2003 found the markets divided between the first half of the year and the last half. The first half was spent building a bottom and a stop in the decline. The last half found the international markets staging a spectacular recovery with over a 17% gross increase during that time period.

This pattern is exemplified by the Defined Benefit Plan's assets, declining to a low of \$3,285,304,333 at the end of 2002 and rebounding by \$786,692,847 to \$4,071,997,180 at the close of 2003. The gain was driven by the U.S. and non-U.S. equity portfolios, each earning 38.0% and 36.1%, respectively, for the one-year period. The last quarter of the year exhibited the most substantial gains, with 14% for U.S. equities and 17.5% for non-U.S. equities.

The continued decline in interest rates to a 40-year low has been of benefit to the fixed income portfolio. Overall the fixed income portfolio generated a 5.9% return for the year.

### ***Funding***

The most recent actuarial valuation as of December 31, 2002, reveals that the Defined Benefit Plan is 80% funded. MERS receives no state-funded contributions. Each member municipality is legally responsible for funding the pensions earned by its employees under the provisions of the Michigan Constitution and the MERS Plan Document. Each municipality has a separate trust account in MERS. The pension obligations are paid from that account. MERS does not fund or borrow from one municipality's account to cover another municipality's obligation to pay its pension benefits.

### ***Initiatives***

- **Health Care.** After an extensive two-year feasibility study to determine the degree of interest and the probability of success, the MERS Retirement Board adopted several new initiatives designed to assist our members in obtaining affordable health care. To build on our long history of caring for our members, MERS will use its reputation and capacity for large volume buying to negotiate health care premiums and products that will allow all participating municipalities to choose more cost-efficient, high quality health care for their employees.

The new initiatives include:

- **Group Buying for Life, Accidental Death and Dismemberment, and Short-Term and Long-Term Disability Insurance.** This initiative provides a rate guarantee with significant savings on premiums for active employee insurances. The initiative has an effective date of January 1, 2004, with a renewal date of January 1, 2006. Chosen through a bidding processing, The Standard Insurance Company of Portland, Oregon, is the insurance program administrator.
- **Post-Employment Health Care Savings Program (HCSP).** The HCSP is designed to be employer-sponsored. It will allow employers to set aside pre-tax contributions to be used by employees after termination of employment *for medical expenses only* as defined by the Internal Revenue Service (IRS). This initiative will go into effect upon approval of MERS Private Letter Ruling by the IRS which is expected before the end of the second quarter in 2004.



---

## INTRODUCTORY

- **MERS Premier Health.** MERS Premier Health is a MERS-sponsored medical insurance initiative for active and retired members. This initiative will provide quality health, vision and dental care, and prescription medication coverage. An interim board has been selected by the MERS Retirement Board to oversee this medical insurance program with a start date targeted for January 1, 2005.
- **Technology.** MERS staff continues to use the latest Internet capabilities to ensure that we can effectively communicate with our members both now and in the future. Change is one of the constants in life. With that in mind, we are working on a new Wage and Service Program called “electronic Payroll and Service System” (ePASS) to facilitate ease of transferring payroll information from the employer to MERS via the web. In addition, the Retirement Board approved building a customized system that will replace the pension administration program currently in use. This will expand our ability to capture timely information, eliminate redundant entry, and raise data integrity to one of our top priorities.

### *Awards*

The Government Finance Officers Association (GFOA) of the United States and Canada awarded a Certificate of Achievement for Excellence in Financial Reporting to MERS for its Comprehensive Annual Financial Report for the year ended December 31, 2002. This was the 15<sup>th</sup> consecutive year that MERS achieved this prestigious award.

To be awarded the Certificate of Achievement, a government unit must publish an easily readable and efficiently organized comprehensive annual financial report. The report must satisfy both GAAP and applicable legal requirements. A Certificate of Achievement is valid for a period of one year only. MERS believes its 2003 report continues to meet the Certificate of Achievement Program requirements, and we submit it to the GFOA to determine its eligibility.

In addition, MERS was also awarded GFOA's Distinguished Budget Award in 2003. This award is valid for one year. It is the highest form of recognition in government budgeting.

### *Acknowledgments*

The compilation of this report reflects the combined efforts of the MERS staff under the leadership of the MERS Retirement Board. I commend them in creating another outstanding report. I also want to take this opportunity to express my gratitude to the staff, advisors and many other people and organizations who have worked so diligently to assure the successful operation of the Municipal Employees' Retirement System of Michigan.

Respectfully submitted,

Anne M. Wagner  
Chief Executive Officer



**Municipal Employees' Retirement System of Michigan**

1134 Municipal Way, Lansing, Michigan 48917

Phone (517) 703-9030 • 1-800-767-6377 • Fax (517) 327-8336 • Website: [www.mersofmich.com](http://www.mersofmich.com)

---

## LETTER FROM THE CHAIRPERSON

May 28, 2004

Dear Members:

On behalf of the Retirement Board, I am pleased to present the Municipal Employees' Retirement System's Fifty-Seventh (57th) Comprehensive Annual Financial Report (CAFR) for the fiscal year ended December 31, 2003. The report provides detailed financial information on the status of your retirement system. Significant changes that occurred during the year are highlighted.

Last year proved to be an excellent recovery period in the international and domestic equity markets. The diversification in the MERS portfolio delivered a 24.7% return for the year and 8.88% for the ten-year period. This was welcome news after enduring the previous three years of poor market performance. The Board's investment policy next fiscal year will continue to focus on preserving the retirement system's assets while maximizing the long-term growth of those assets.

MERS continued to offer educational retirement seminars in the home office for those members contemplating retirement in the next three to five years. Our marketing representatives serviced over 600 existing employer municipalities, while bringing into MERS membership approximately 500 brand new employee members. We embarked upon the task of redesigning the new wage and service software called "electronic Payroll and Service System" (ePASS) to expand the use of eCommerce to collect payroll information from our participating municipalities.

Delegates at the 2003 Annual Meeting elected Port Huron Finance Director John Ogden and St. Louis Deputy Treasurer Barbara Fandell to three-year terms on the Board as the employer and employee members, respectively. We are fortunate to have nine Retirement Board members who volunteer their time and work conscientiously to serve the membership and fulfill their fiduciary responsibilities. MERS greatly benefits from their diverse expertise and experience. It is a privilege for me to serve as chairperson along with trustees of such high caliber and dedication.

If you have any questions regarding this report, please contact us by calling 1-800-767-6377 or write to us at MERS, 1134 Municipal Way, Lansing, Michigan 48917.

In closing, I wish to thank the staff for continuing to maintain its high level of commitment and service to the retirement system's participants.

Sincerely,



Dale M. Walker, Chairperson  
MERS Retirement Board

---



---

## INTRODUCTORY

### MERS RETIREMENT BOARD



Standing (Left to Right): Dennis Murphy, Raymond Klosowski, Bruce Johnson, Larry Opelt, Gary Murphy, John Ogden  
Seated (Left to Right): Barbara Fandell, Dale Walker, Kristen Wade.

Chairperson-Officer Member  
Mr. Dale Walker, Chairperson  
City of Cadillac

Employee Member  
Mr. Raymond Klosowski  
Isabella County

Retiree Member  
Mr. Larry Opelt  
Adrian, MI

Chairperson Pro-Tem  
Employee Member  
Ms. Kristen Wade  
Muskegon County

Public Member  
Mr. Dennis Murphy  
Novi, MI

Employee Member  
Ms. Barbara Fandell  
City of St. Louis

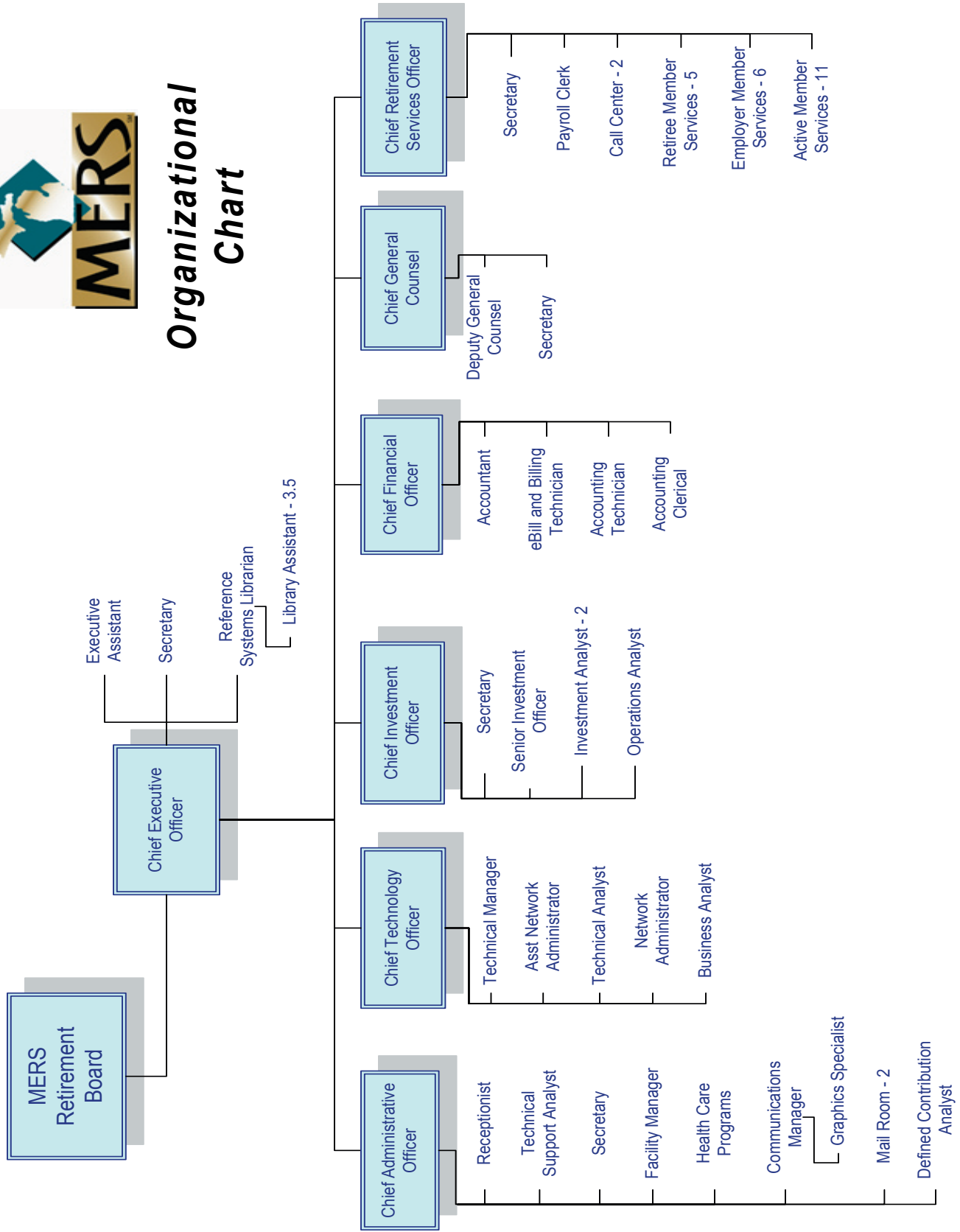
Officer Member  
Mr. Gary Murphy  
City of East Lansing

Public Member  
Mr. Bruce Johnson  
Holland, MI

Officer Member  
Mr. John Ogden  
City of Port Huron



# Organizational Chart







OUTSIDE PROFESSIONAL SERVICES

**Professional Consultants**

***Actuary***

Gabriel, Roeder, Smith & Company

***Auditor***

Andrews Hooper & Pavlik, PLC

***Defined Contribution Program***

***Third-Party Administrator***

International City/County Management  
Association Retirement Corporation  
(ICMA-RC)

***Investment Custodian***

The Northern Trust Company

***Legal Counsel***

Ice Miller Donadio & Ryan  
John Eggerston, P.C.  
Johnson, Rosati, LaBarge, Aseltyn &  
Field, P.C.  
Miller, Canfield, Paddock & Stone, PLC

***Legislative Consultants***

Karoub Associates

***Medical Advisor***

Associated Physicians  
Consulting Physicians

***Security Lending Agent***

The Northern Trust Company

***Systems Implementation and Maintenance***

Gabriel, Roeder, Smith & Company  
Logicalis  
PeopleSoft USA, Inc

**Investment Managers**

***Domestic Equity***

Ariel Capital Management  
Armstrong Shaw Associates  
Barclays Global Investors  
Comerica Bank  
Kennedy Capital Management  
Trust Company of West (TCW) Asset  
Management  
Wasatch Advisors  
Wellington Management  
World Asset Management

***Domestic Fixed Income***

Barclays Global Investors  
Delaware International Advisors  
Reams Asset Management  
Western Asset Management

***International Equity***

Acadian Asset Management  
Barclays Global Investors

***Private Equity***

Credit Suisse First Boston (CSFB)  
Mesirow Financial  
Money Management Group, Inc.

***Real Estate***

Townsend Group (Manager)  
AEW Capital Management  
The Campbell Group  
Hancock Timber Resources  
KBS Realty Advisors  
J.P. Morgan Investment Management  
Lend Lease Rosen  
Prudential Property Investment  
SSR Realty Advisors, Inc.  
UBS Realty Investors, LLC

---

# INTRODUCTORY



This page has intentionally been left blank



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

Independent Auditor's Report

Municipal Employees' Retirement System of Michigan Retirement Board:

We have audited the accompanying statements of plan net assets of the Municipal Employees' Retirement System of Michigan as of December 31, 2003, and the related statements of changes in plan net assets for the year then ended. These financial statements are the responsibility of the management of the Municipal Employees' Retirement System of Michigan. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year comparative information has been derived from the 2002 financial statements and, in our report dated April 25, 2003, we expressed an unqualified opinion on those financial statements.

We conducted our audit 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 audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides 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 Municipal Employees' Retirement System of Michigan as of December 31, 2003, and the changes in its financial status for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Our audit was conducted for the purpose of forming an opinion on the 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 Municipal Employees' Retirement System of Michigan'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 audit of the basic financial statements, and in our opinion, are fairly stated in all material respects when considered in relation to the basic financial statements taken as a whole.

The 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 April 29, 2004 on our consideration of the Municipal Employees' Retirement System of Michigan'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.*

Okemos, Michigan  
April 29, 2004

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



## MANAGEMENT'S DISCUSSION AND ANALYSIS

This narrative overview and analysis of MERS financial condition for fiscal year ended December 31, 2003, is presented in conjunction with the Chief Executive Officer's Letter of Transmittal. The financial section is comprised of two basic financial statements with explanatory notes, two required supplementary schedules with explanatory notes, three expense schedules, summation of 2003 financial highlights, analysis of plan net assets, investment activity, historical trends, and funding status.

MERS was created to provide retirement, survivorship and disability benefits to qualified members and their beneficiaries. The cost of administering such benefits includes: (1) payment of monthly benefits as designated by the Defined Benefit and Defined Contribution Plans, (2) refund of member contributions requested by employees that separate from employment, and (3) payment of all administrative and investment costs associated with administering the plans.

### *Financial Statements*

1. Statement of Plan Net Assets (p. 22)
2. Statement of Changes in Plan Net Assets (p. 23)
3. Notes to Financial Statements (p. 24)
4. Comparison Statement of Plan Net Assets (p. 18)
5. Comparison Statement of Changes in Plan Net Assets (p. 19)

The Defined Benefit and Defined Contribution Plans are premised upon long-term investing. Therefore, current financial statements alone do not provide the total perspective to properly assess the retirement system's long-term financial condition.

The "Statement of Plan Net Assets" and "Statement of Changes in Plan Net Assets" provide the current consolidated financial condition of the 594 individual municipal Defined Benefit Plans and 80 individual municipal Defined Contribution Plans administered by MERS. The "Comparison Statement of Plan Net Assets" and "Comparison Statement of Changes in Plan Net Assets" provide a comparative summary of the financial condition of the retirement system as a whole.

### *Required Supplemental Information*

1. Schedule of Funding Progress (p. 34)
2. Schedule of Employer Contributions (p. 34)
3. Notes to the Schedules of Required Supplementary Information (p. 35)

The "Schedule of Funding Progress" shows the progress MERS has made in accumulating sufficient assets to pay future retirement benefits when due. The schedule sets forth the actuarially funded status of the Defined Benefit Plan with historical trends in funding. The "Schedule of Employer Contributions" shows the current annual employer contributions and the historical trend of employer contributions. From a long-term investment perspective, these schedules provide a better understanding of the changes over time in the funded status of the plan.



## *Expense Schedules*

1. Schedule of Administrative Expenses (p. 36)
2. Schedule of Investment Expenses (p. 37)
3. Schedule of Payments to Consultants (p. 38)

The expense schedules summarize all expenses associated with administering the Defined Benefit Plan.

## *Financial Highlights*

The following financial highlights occurred during fiscal year ended December 31, 2003:

- Total plan net assets for both the Defined Benefit and Defined Contribution Plans increased by \$819 million during the 2003 fiscal year. This was due to net gains in investments of \$816 million dollars.
- Total Defined Benefit and Defined Contribution Plan pension benefits paid to retirees and beneficiaries increased \$19 million to a total of \$225 million. While combined Defined Contribution and Defined Benefit contributions exceeded pension benefit payouts by a slight margin in 2003 (primarily due to new municipalities joining MERS), the cash flow trend in the past few years has shown pension payouts are exceeding contributions. This is normal plan cycling as the plan matures and is due in large part to baby boomers reaching retirement age and drawing pension benefits.
- Refunds of Defined Benefit Plan employee contributions paid to former members upon termination of employment increased over the previous year by \$175,000.
- Transfers from the Defined Benefit Plan to the Defined Contribution Plan increased by \$3 million. Most of this transition was due to the favorable market conditions attracting employees who wanted to benefit from market gains.
- Total Defined Benefit and Defined Contribution employee contributions increased by 54% to \$66 million, and employer contributions increased by 25% to \$172 million. Again, the majority of these increases were due to new municipalities joining MERS. Employer and employee contributions from new municipalities were \$11 million and \$22 million, respectively.
- Administrative expenses totaled \$8 million, an increase of 15% compared to last fiscal year. Much of this increase was due to the added costs of hiring additional staff and depreciation of software, computer servers and office equipment used in administering its Defined Benefit Plan to 60,569 members and Defined Contribution Plan to 5,187 members.

# FINANCIAL



## *Using this Financial Report*

Because of the long-term nature of a defined benefit plan, financial statements alone cannot provide sufficient information to properly reflect the retirement system's ongoing plan perspective. This financial report consists of two financial statements and two required schedules of historical trend information. The "Statement of Plan Net Assets" and "Statement of Changes in Plan Net Assets" (pages 22 - 23) provide consolidated information about the activities of the 594 individual municipal pension plans administered by MERS in its Defined Benefit Plan and the 80 individual municipal plans in the Defined Contribution Plan, as well as comparative summary information about these activities for the retirement system as a whole.

The "Schedule of Funding Progress" (page 34) includes historical trend information about the actuarially funded status of the plan from a long-term, ongoing plan perspective and the progress made in accumulating sufficient assets to pay benefits when due. The "Schedule of Employer Contributions" (page 34) presents historical trend information about the annual actuarially required contributions of employers and the actual contributions made by employers in relation to this requirement. These schedules provide information that contributes to understanding the changes over time in the funded status of the plans.

### MUNICIPAL EMPLOYEES' RETIREMENT SYSTEM OF MICHIGAN Comparison Statement of Plan Net Assets

	As of December 31, 2003	As of December 31, 2002	Increase (Decrease) Amount	Increase (Decrease) Percent
<b>Assets</b>				
Cash and Short-Term Investments	\$ 249,823,568	\$ 291,283,201	\$ (41,459,633)	-14.23%
Receivables	164,218,943	37,996,874	126,222,069	332.19%
Investments, at fair value	4,035,732,696	3,235,677,359	800,055,337	24.73%
Invested Securities Lending Collateral	401,662,820	260,060,272	141,602,548	54.45%
Other Assets/Prepays	608,994	469,787	139,207	29.63%
Net Capital Assets	3,010,286	2,748,652	261,634	9.52%
Total Assets	4,855,057,307	3,828,236,145	1,026,821,162	26.82%
<b>Liabilities</b>				
Purchase of Investments	259,995,239	195,095,671	64,899,568	33.27%
Securities Lending Collateral	401,662,820	260,060,272	141,602,548	54.45%
Administrative and Investment Costs	3,920,891	3,014,999	905,892	30.05%
Total Liabilities	665,578,950	458,170,942	207,408,008	45.27%
<b>Net assets held in trust for pension benefits</b>	\$ 4,189,478,357	\$ 3,370,065,203	\$ 819,413,154	24.31%



MUNICIPAL EMPLOYEES' RETIREMENT SYSTEM OF MICHIGAN  
Comparison Statement of Changes in Plan Net Assets

	Year ended December 31, 2003	Year ended December 31, 2002	Increase (Decrease) Amount	Increase (Decrease) Percent
<b>Additions</b>				
Contributions	\$ 238,651,367	\$ 181,178,490	\$ 57,472,877	31.72 %
Transfers from Defined Benefit Plan	3,839,296	491,096	3,348,200	681.78
Transfers from Other Plans and Other Items	199,702	3,557,813	(3,358,111)	-94.39
Investment net income(loss) investing activities	816,110,067	(330,611,876)	1,146,721,943	346.85
Investment net income-securities lending	827,198	803,823	23,375	2.91
Miscellaneous Income	822,347	1,085,887	(263,540)	-24.27
Total Additions	1,060,449,977	(143,494,767)	1,203,944,744	839.02 %
<b>Deductions</b>				
Benefits	225,227,429	206,341,439	18,885,990	9.15
Refunds of Contributions	3,542,264	3,366,464	175,800	5.22
Special Expenses and Fees	378,334	366,273	12,061	3.29
Transfers to Defined Contribution Program	3,839,296	491,096	3,348,200	681.78
Administrative Expense	8,049,500	7,002,946	1,046,554	14.94
Total Deductions	241,036,823	217,568,218	23,468,605	10.79 %
<b>Net Increase (decrease)</b>	819,413,154	(361,062,985)	1,180,476,139	326.94 %
<b>Net assets held in trust for pension benefits</b>				
Balance Beginning of Year	3,370,065,203	3,731,128,188	(361,062,985)	-9.68
Balance End of Year	\$ 4,189,478,357	\$ 3,370,065,203	\$ 819,413,154	24.31 %

*Analysis of Plan Net Assets*

Combined plan net assets increased by \$819 million over the previous fiscal year. Looking at additions to and deductions from plan net assets, the increase in net assets was primarily attributable to economic conditions (the stock market's significant rise) and municipalities increasing benefit multipliers and adopting benefit enhancements resulting in higher employer/employee contributions. Deductions from plan net assets were attributable to a 9% increase in pension benefit payouts to a greater number of retirees and post-retirement cost-of-living increases.

Employer contributions increased approximately \$34 million because of higher required actuarial contribution rates resulting from increases in salaries, benefit enhancements, and an increase in the number of employees. Employee contributions increased by approximately \$23 million for the same reasons.

In determining contribution rates, MERS actuary normally uses a five-year smoothing method to record market gains and losses, and this has tempered many of the market losses over the past three years. For 2003, the Retirement Board adopted a one time ad hoc adjustment to aggregate the yet unrecognized market gains and losses from 1999-2002 with the 2003 market gain. For 2003, no gain or loss will be recognized. The aggregate loss amount of \$388,778,035 will be recognized in four equal dollar installments in 2004-2007. In 2004, the normal five-year smoothing method will be reinstated. Employers are also shifting more of the responsibility for contribution requirements onto employees to pay for better benefit plans.

---

# FINANCIAL



MERS has capital assets of approximately \$3 million, most of which are software and computer servers needed to run the retirement system's programs.

MERS has no long-term liabilities. The bulk of MERS liabilities at year end related to investment purchases that did not settle until 2004.

## *Investment Activities*

The total fund investment performance on a relative basis to benchmarks was excellent. The positive gross return of 24.7% (net 24.5%) was substantially above the long-term net 8% actuarial return assumption target for the year. On both a three- and five-year basis, the average returns of 3.9% and 5.0%, respectively, compared favorably to the benchmarks. Net investment gains (net increase in fair value, plus investment earnings, less investment administrative expenses) increased by \$1.1 billion compared to the December 31, 2002, fiscal year. The stock market is in its first year of positive returns after three years of negative returns. A further detailed analysis of investment returns may be found in the Investment Section.

Retirement system investments are managed to control the extent of downside risk to which assets are exposed while maximizing long-term gain potential. This positions the retirement system to limit the impact of adverse market conditions. Portfolio diversification by asset class and style is an important element of investment risk control.

Investment activity is governed by the "prudent person rule." The prudent person rule establishes a standard for all fiduciaries that includes anyone who has authority with respect to the retirement system. The prudent person rule states that fiduciaries shall discharge their duties solely in the interest of the retirement system's participants and beneficiaries and with the degree of diligence, care, and skill that a prudent person would ordinarily exercise under similar circumstances.

The prudent person rule permits the Board to establish an investment policy based upon certain investment criteria and allows for the delegation of investment authority to professional investment managers. Investment constraints are outlined, including the appropriate degree of risk. Investment managers are hired to execute the investment policy. They have full discretion for investment decisions within statutory authority, Board policy, and their respective guidelines. A list of investment managers under contract with the retirement system as of December 31, 2003, is found on page 13 of this report. A summary of the total retirement system's assets can be found on page 22.

## *Historical Trends*

Accounting standards require that the "Statement of Plan Net Assets" state asset values at fair value and include only benefits and refunds due plan members and beneficiaries, and accrued investment and administrative expenses as of the reporting date. Information regarding the actuarial funding status of the Defined Benefit Plan is provided in the "Schedule of Funding Progress" (page 34). The asset value stated in the "Schedule of Funding Progress" is the actuarial value of assets as determined by calculating the ratio of market value to book value of assets over a five-year period. The funded ratio declined from 84% to 80% for the 2002 valuation. The decline,





while slight, was expected. Investment losses from 2000-2002, combined with municipalities adopting better benefit plans, influenced the funded ratio. This percentage has not materially changed over the last seven years. The actuarial assumptions used in the most recent valuation are identified by plan on “Notes to the Schedules of Required Supplementary Information” (page 35).

Annual required employer contributions as determined by the actuary and the actual contributions made by employers are provided in the “Schedule of Employer Contributions” (pages 34). This schedule indicates that employers are meeting their actuarially required contribution payments.

MERS overall financial condition improved for the fiscal year ended 2003, and the plan remains stable and viable for the years to come. The market upturn in 2003 and the downturns of 2000-2002 are historically considered to be normal market cycles in the overall economic process.

### ***Funding Status***

A pension plan is well funded when it has sufficient assets invested to meet all expected future obligations to participants. The greater the level of funding, the larger the ratio of assets to actuarial accrued liability. While the plan is not totally funded, annual contributions are being made at an actuarially determined rate to reach full funding. There is no single all-encompassing test for measuring a retirement system’s funding progress and current funded status. However, some common indicators of the progress that a retirement system has achieved in funding their obligations include observing the changes over time of the ratio of valuation assets to actuarial accrued liabilities, and the pattern of the unfunded actuarial accrued liability as a percentage of active payroll. These ratios and numbers are found in the Required Supplementary Information.

MERS Retirement Board has adopted funding methodology for the retirement system to achieve the following major objectives:

- Develop level required contribution rates as a percentage of payroll;
- Finance benefits earned by present employees on a current basis;
- Accumulate assets to enhance members’ benefit security;
- Produce investment earnings and interest on accumulated assets to help meet future benefit costs;
- Make it possible to estimate the long-term actuarial cost of proposed amendments to system provisions; and
- Assist in maintaining the retirement system’s long-term financial viability.

The actuarial method for calculating the accrued liability for all plans is Entry Age Normal with the objective of maintaining employer contributions approximately level as a percent of member payroll. A detailed discussion of the funding method is provided in the Actuarial Section of this report starting on page 58. Based upon the valuation results, MERS continues to be in sound financial health in accordance with actuarial principles of level percent of payroll financing.



**MUNICIPAL EMPLOYEES' RETIREMENT SYSTEM OF MICHIGAN**  
**Statement of Plan Net Assets**  
**As of December 31, 2003**

	December 31, 2003		December 31, 2002	
	Defined Benefit Plan	Defined Contribution Plan	Total Pension Trust Funds	Total Pension Trust Funds
<b>Assets</b>				
Cash and Short-Term Investments	\$ 229,060,550	\$ 20,763,018	\$ 249,823,568	\$ 291,283,201
Receivables				
Employer Contributions	16,305,155		16,305,155	13,548,644
Plan Member Contributions	3,309,342		3,309,342	3,037,010
Sale of Investments	129,187,161		129,187,161	7,143,089
Investment Income	10,701,627		10,701,627	13,125,774
Loans/Other	3,668,971	1,046,687	4,715,658	1,142,357
Total Receivables	163,172,256	1,046,687	164,218,943	37,996,874
Investments, at fair value				
Domestic Fixed Income	1,265,164,592	5,985,005	1,271,149,597	1,185,563,335
Domestic Equities	1,857,759,824	39,589,587	1,897,349,411	1,426,166,133
International Equities	526,595,081	2,072,750	528,667,831	387,361,322
Real Estate	221,889,457		221,889,457	191,978,811
Venture Capital & Partnerships	68,652,270		68,652,270	11,995,473
Balanced Funds		48,024,130	48,024,130	32,612,285
Total Investments	3,940,061,224	95,671,472	4,035,732,696	3,235,677,359
Invested Securities Lending Collateral	401,662,820		401,662,820	260,060,272
Prepaid Expenses	608,994		608,994	469,787
Capital Assets, at cost, net of accum. depreciation of \$8,459,661 in 2003 and \$7,166,666 in 2002	3,010,286		3,010,286	2,748,652
Total Assets	4,737,576,130	117,481,177	4,855,057,307	3,828,236,145
<b>Liabilities</b>				
Purchase of Investments	259,995,239		259,995,239	195,095,671
Securities Lending Collateral	401,662,820		401,662,820	260,060,272
Administrative and Investment Costs	3,920,891		3,920,891	3,014,999
Total Liabilities	665,578,950		665,578,950	458,170,942
<b>Net assets held in trust for pension benefits</b>	<b>\$ 4,071,997,180</b>	<b>\$ 117,481,177</b>	<b>\$ 4,189,478,357</b>	<b>\$ 3,370,065,203</b>

The "Schedule of Funding Progress" is presented in the Required Supplementary Information in the Financial Section of this report. The accompanying notes are an integral part of these Financial Statements.



# FINANCIAL

## MUNICIPAL EMPLOYEES' RETIREMENT SYSTEM OF MICHIGAN Statement of Changes in Plan Net Assets For the Year Ended December 31, 2003

	Year Ended December 31, 2003			Year Ended December 31, 2002
	Defined Benefit Plan	Defined Contribution Plan	Total Pension Trust Funds	Total Pension Trust Funds
<b>Additions</b>				
Contributions				
Employer Contributions	\$ 161,028,643	\$ 11,358,936	\$ 172,387,579	\$ 138,043,902
Plan Member Contributions	62,421,750	3,842,038	66,263,788	43,134,588
Transfers from Defined Benefit Plan				
Employer		3,732,569	3,732,569	438,040
Plan Member		106,727	106,727	53,056
Transfers from Other Plans and Other Items		199,702	199,702	3,557,813
Total Contributions and Transfers	<u>223,450,393</u>	<u>19,239,972</u>	<u>242,690,365</u>	<u>185,227,399</u>
Investment Income				
Net appreciation (depreciation) in fair value of plan investments	736,699,848	17,570,152	754,270,000	(403,066,500)
Interest Income	43,599,842		43,599,842	45,714,662
Dividend Income	23,123,127		23,123,127	30,999,530
Real Estate Operating Income, net	4,151,174		4,151,174	3,852,327
Commission Recapture Income	704,733		704,733	770,744
	<u>808,278,724</u>	<u>17,570,152</u>	<u>825,848,876</u>	<u>(321,729,237)</u>
Less Investment Expenses	9,738,809		9,738,809	8,882,639
Net Investment Income (Loss)	<u>798,539,915</u>	<u>17,570,152</u>	<u>816,110,067</u>	<u>(330,611,876)</u>
From Security Lending Activities				
Security Lending Income	5,294,319		5,294,319	4,902,231
Security Lending Expenses				
Borrower Rebates	4,112,667		4,112,667	3,755,385
Management Fees	354,454		354,454	343,023
Total Securities Lending Expenses	<u>4,467,121</u>		<u>4,467,121</u>	<u>4,098,408</u>
Net Income from Security Lending Activities	<u>827,198</u>		<u>827,198</u>	<u>803,823</u>
Total Net Investment Income (Loss)	<u>799,367,113</u>	<u>17,570,152</u>	<u>816,937,265</u>	<u>(329,808,053)</u>
Miscellaneous Income	822,347		822,347	1,085,887
Total Additions	<u>1,023,639,853</u>	<u>36,810,124</u>	<u>1,060,449,977</u>	<u>(143,494,767)</u>
<b>Deductions</b>				
Benefits	221,137,612	4,089,817	225,227,429	206,341,439
Refunds of Contributions				
Plan Member	3,542,264		3,542,264	3,366,464
Special Expenses and Fees	378,334		378,334	366,273
Transfers to Defined Contribution Plan				
Employer	3,732,569		3,732,569	438,040
Plan Member	106,727		106,727	53,056
Administrative Expense	8,049,500		8,049,500	7,002,946
Total Deductions	<u>236,947,006</u>	<u>4,089,817</u>	<u>241,036,823</u>	<u>217,568,218</u>
<b>Net Increase (decrease)</b>	<u>786,692,847</u>	<u>32,720,307</u>	<u>819,413,154</u>	<u>(361,062,985)</u>
<b>Net assets held in trust for pension benefits</b>				
Balance Beginning of Year	3,285,304,333	84,760,870	3,370,065,203	3,731,128,188
Balance End of Year	<u>\$ 4,071,997,180</u>	<u>\$ 117,481,177</u>	<u>\$ 4,189,478,357</u>	<u>\$ 3,370,065,203</u>



## NOTES TO FINANCIAL STATEMENTS

### YEAR ENDED DECEMBER 31, 2003

#### *1. Reporting Entity and Plan Description*

The Municipal Employees' Retirement System of Michigan (MERS) is an agent multiple-employer, statewide, public employee pension plan created under Public Act 135 of 1945, and now operates under Public Act 220 of 1996, and the MERS Plan Document, as revised. MERS was established to provide retirement, survivor and disability benefits on a voluntary basis to the State of Michigan's local government employees. The MERS Plan Document provides for both Defined Benefit and Defined Contribution Plans. See Note 6 for the Defined Contribution Plans (page 33).

Pursuant to Act 220, on August 15, 1996, MERS became an independent public non-profit corporation, which is an instrumentality of the participating municipalities and courts. Prior to that time, MERS was a component unit of the State of Michigan and operated within the Department of Management and Budget. MERS is now administered solely by a nine member Retirement Board consisting of the following members, each of whom, except for the retiree member and the Retirement Board appointees, shall be from a different county at the time of election:

- Two members appointed by the Retirement Board who have knowledge or experience in retirement systems, administration of retirement systems, or investment management or advisory services.
- One member who is a retiree of the retirement system, nominated by the Retirement Board and elected by the delegates to an annual meeting of the retirement system.
- Three members of the retirement system, who are officers of a participating municipality or of a participating court, who shall be elected as officer board members.
- Three employee members of the retirement system who are not officers of a participating municipality or of a participating court, who shall be elected as employee board members.

The regular term of office for members of the Retirement Board is three years. Members of the Retirement Board serve without compensation with respect to their duties, but are reimbursed by the retirement system for their actual and necessary expenses incurred in the performance of their duties.

#### **MERS Participating Municipalities as of December 31, 2003**

Counties	64
Cities and Villages	241
Townships	61
County Road Commissions	56
Authorities, Districts and Others	167
Closed Groups	<u>15</u>
Total	<u>604</u>



---

## FINANCIAL

Any municipality within the State may elect to become a participating member of MERS by a majority vote of the municipality's governing body or by an affirmative vote of the qualified electors. A municipality may elect to terminate participation by an affirmative vote of the qualified electors. Changes in benefit coverage are available to bargaining units after approval by a majority vote of the municipality's governing body.

### **MERS Defined Benefit Membership as of December 31, 2003**

Retirees and Beneficiaries Currently Receiving Benefits	
Retirement annuities	14,306
Survivor annuities	3,166
Disability annuities	<u>970</u>
Total	<u>18,442</u>
Vested former members	4,956
Current active employees	<u>37,171</u>
Total Membership	<u>60,569</u>

Benefit plans and provisions are established by the Retirement Board. All benefits vest after six, eight or ten years of service depending on the plan adopted by the municipality's governing body. The standard retirement age is 60 years; however, employees may retire after reaching several combinations of age and years of service to receive reduced early retirement benefits. Municipalities may also adopt various other benefit plan options allowing retirement at an earlier age with unreduced benefits based upon combinations of age and years of service, or just years of service. MERS also provides nonduty disability and nonduty death benefits to employees after vesting requirements are met. The vesting requirements provision is waived for duty disability and duty death benefits. Benefits are paid monthly over the employee's or survivor's lifetime and are equal to a specific percentage of the employee's final average compensation times the number of years of credited service. The specific percentage depends on the benefit plan or plans adopted by each municipality for its employees.

Pursuant to the Constitution of the State of Michigan, "The accrued financial benefits of each pension plan and retirement system of the State and its political subdivisions shall be a contractual obligation thereof which shall not be diminished or impaired thereby. Financial benefits arising on account of service rendered in each fiscal year shall be funded during that year and such funding shall not be used for financing unfunded accrued liabilities." Employees contribute to the retirement system at rates that range from 0 to 20.66% depending on the benefit plan adopted by the municipality. If an employee leaves employment or dies before becoming eligible for retirement benefits, accumulated employee contributions (plus interest) are refunded to the employee or designated beneficiary upon application.

The Defined Benefit Plan is a tax-qualified plan and subject to the Internal Revenue Code (IRC). These regulations include the taxability of pensions, annual compensation limits, and benefit limitations.

Under the Code, the major portion of a retiree's pension is immediately taxable upon distribution. Pursuant to IRC section 72(d), any "after tax contributions" are recovered tax free over the life expectancy of the retiree (or beneficiary, if applicable).



IRC section 401(a)(17) limits the amount of compensation that an active employee can receive for pension credit and, correspondingly, limits the amount of employee contributions. Compensation in excess of the 401(a)(17) limit (currently \$200,000 for 2003 and increasing to \$205,000 in 2004) will not be credited by MERS. Employee contributions in excess of the IRS limit will not be collected or accepted, nor figure into final average compensation for benefit purposes.

In addition, IRC section 415 imposes certain limitations on pension benefit payments. Any amounts that exceed the limitations shall be paid from a Qualified Excess Benefit plan Arrangement (QEBA), as authorized by IRC section 415(m) and Michigan Compiled Law 38.1686. The QEBA shall be a separate portion of the plan, and is annually funded by the affected participating municipality or court. The Retirement Board established a QEBA in 2003 solely for the purpose of providing to retirees and beneficiaries, that portion of the retirement allowance exceeding the section 415 limits and otherwise not payable under the terms of the plan. Retirees and beneficiaries do not have an election, directly or indirectly, to defer compensation to the QEBA.

## **2. Summary of Significant Accounting Policies**

### **Reporting Entity**

The Retirement Board is responsible for administration of the retirement system, has fiduciary responsibility for the investment of assets, and oversees all funds included in these financial statements. The Retirement Board appoints the Chief Executive Officer who manages and administers the retirement system under the supervision and direction of the Board.

Since MERS is an independent public corporation, MERS financial statements are not included in the financial statements of any other organization. MERS is the only entity included in this financial report.

### **Basis of Accounting**

The financial statements for MERS are prepared on the accrual basis in accordance with U.S. Generally Accepted Accounting Principles (GAAP). Employer and employee contributions are recognized when due pursuant to formal commitments, as well as statutory or contractual requirements. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

### **GASB 27**

Governmental Accounting Standards Board (GASB) Statement No. 27, "Accounting for Pensions by State and Local Governmental Employers," requires certain changes in reporting pensions by employers. The following section is required and pertains to MERS staff only. Prior to separation from the State of Michigan on August 25, 1996, the pension liability for MERS staff remained the obligation of its official employer, the State of Michigan. Therefore, MERS has no pension liability for staff prior to August 25, 1996, when it privatized and began independent payroll processing.

The Retirement Board, as an employer, elected to become a participating municipality in MERS Defined Benefit Plan to provide pension benefits for MERS staff. Vesting occurs after 6 years of credited service. Normal retirement age is age 60, although an employee may retire at age 55 with 30 years of credited service. The annual



# FINANCIAL

pension benefit is calculated by multiplying the employee's years of credited service by 2% and then multiplying it by the Final Average Compensation (FAC) based on the highest three of the last five years of compensation. MERS contributed 8.23% of compensation in 2003; employees contributed 2% of compensation in 2003.

The following pension information for GASB 27 applies to MERS staff only:

### Actuarial Accrued Liability from December 31, 2002, and December 31, 2001, Actuarial Valuations

	<b>2002</b>	<b>2001</b>
Retirees and beneficiaries currently receiving benefits	\$ 143,315	\$ 145,363
Vested former members	16,015	14,781
Current employees		
Accumulated employee contributions, including allocated investment income	246,835	132,313
Employer financed	<u>1,246,034</u>	<u>951,508</u>
Total Actuarial Accrued Liability	1,652,199	1,243,965
Net assets available for benefits at actuarial value (\$1,163,459 and \$965,953 at market value for December 31, 2002, and 2001, respectively)	<u>1,464,160</u>	<u>1,068,314</u>
Unfunded actuarial accrued liability	<u>\$ 188,039</u>	<u>\$ 175,651</u>

### Three-Year Trend Information

Fiscal Year Ended	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
December 31, 2001	130,359	100	-0-
December 31, 2002	146,906	100	-0-
December 31, 2003	162,168	100	-0-

### Schedule of Funding Progress

Actuarial Valuation Dec. 31	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded (Over) AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL As A % of Covered Payroll ((b-a)/c)
2000	775,096	881,378	106,282	87.9	1,624,802	6.54%
2001	1,068,314	1,243,965	175,651	85.8	1,970,436	8.91%
2002	1,464,160	1,652,199	188,039	88.6	2,305,146	8.20%



## **Fair Value of Investments**

In accordance with GASB 25, plan investments are presented at fair value. Short-term investments are valued at cost plus accrued interest, 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 upon equivalent values of comparable securities with similar yield and risk. Independent appraisals are the basis for valuing the fair value of real estate. Other investments that do not have established markets are recorded at an estimated fair value.

## **Property and Equipment**

Property and Equipment are carried at cost, less accumulated depreciation. Items of software, equipment and leasehold improvements are capitalized if the value exceeds \$5,000. These assets are depreciated on a straight-line basis and their estimated lives are either three or five years. Office equipment, software and computers have a three- to five-year life, while leasehold improvements have a five-year life.

## **Total Columns on Statements**

“Total” columns on the “Statement of Plan Net Assets” and “Statement of Changes in Plan Net Assets” are considered memorandum only and are presented to facilitate financial analysis. Amounts in these columns do not present the plan net assets and changes in plan net assets in conformity with the U.S. GAAP nor is such data comparable to a consolidation. Transactions between the Defined Benefit Plan and the Defined Contribution Plan have not been eliminated from the “Total” columns.

## **3. Contributions and Reserves**

### **Contributions**

Contribution funding requirements are actuarially determined using the “entry age normal” actuarial cost method and are based upon the benefit plan adopted by the municipality. Some municipalities fund their entire pension obligations solely from employer contributions. Other municipalities jointly fund pension obligations from employee and employer contributions. Monthly employee contributions are based upon a percentage of actual compensation as determined by an annual actuarial valuation. Employer contributions are based upon projected compensation as determined by an annual actuarial valuation. Employee contributions are held in individual member accounts that are currently credited with 1.5% interest annually. The employee contribution rates vary from 0% to 20.66% according to the benefit plan adopted. See “Schedule of Employer Contributions” (page 34).

### **Reserves**

Three Reserves have been established pursuant to the MERS Plan Document. See “Schedule of Changes in Reserves” (page 78).

- Reserve for Employee Contributions: Employee contributions and interest are credited to this reserve. Also credited to the reserve are monies received from the purchase of service credit and monies received in repayment of previously refunded contributions. The reserve is reduced by amounts paid to employees who terminate employment and request refunds and by amounts transferred into the “Reserve for Employer Contributions and Benefit Payments” upon an employee’s retirement. Interest is credited to each employee’s account in December of each year based on the accumulated balance from the prior December 31. The





current allocation rate of interest is set by the Retirement Board at 1.5%. The reserve's balance at year end December 31, 2003, is \$407,362,554. The "Reserve for Employee Contributions" was fully funded as of the December 31, 2002, actuarial valuation.

- **Reserve for Employer Contributions and Benefit Payments:** All employer contributions are credited to this reserve. Net income is allocated to this reserve from the "Reserve for Expenses and Undistributed Income." At retirement, an employee's accumulated contributions, if any, including interest, are transferred into this reserve from the "Reserve for Employee Contributions." Monthly benefits paid to retirees reduce this reserve. The December 31, 2003, balance is \$3,664,634,626. The unfunded liability was \$1,048,163,353 (based on the actuarial value of assets) as of the December 31, 2002, Actuarial Valuation.
- **Reserve for Expenses and Undistributed Investment Income:** All investment earnings and all other monies received that are not dedicated to other reserves are credited to this reserve. All administrative and investment expenses are paid from this reserve. Transfers from this reserve to the "Reserve for Employer Contributions and Benefit Payments" are at allocation rates determined by the Retirement Board. In 2003, the Retirement Board allocated 100% from the "Reserve for Expenses and Undistributed Investment Income" to the "Reserve for Employer Contributions and Benefit Payments," leaving a zero balance at year end.

#### **4. Investments**

##### **Investments**

The Retirement Board has the fiduciary responsibility and authority to oversee the investment portfolio. Various professional investment managers are contracted to manage the retirement system's assets. All investment decisions are subject to statutory regulations imposed under the Michigan Public Employees Retirement Systems' Investment Act, 1965 PA 314, as amended, and the investment policy established by the Retirement Board. Michigan law allows diverse investment in stocks, corporate and government bonds, mortgages, real estate, alternative investments, and other investments. The act sets forth prudence standards and requires that the assets of a retirement system be invested solely in the interest of the participants and beneficiaries. The investments shall be made for the exclusive purpose of providing benefits to the participants and the participants' beneficiaries, and defraying reasonable expenses of the retirement system.

The Retirement Board's investment policy requires independent performance measurement of investment managers and establishes total return objectives for the total portfolio and major categories of investments. As of December 31, 2003, all securities held met the required statutory provisions and Retirement Board policy. As of the same dates, no investments were in default or subject to bankruptcy proceedings. MERS did not hold a single organization's securities that exceeded 5% of the plan's net assets available for benefits as of December 31, 2003.

##### **Cash**

Cash deposits are classified according to credit risk to give an indication of the level of risk assumed by MERS. For custodial credit risk, the bank balances of deposits are disclosed.

Category 1      Insured or collateralized with securities held by MERS or its agent in MERS name.

---

# FINANCIAL



- Category 2 Collateralized with securities held by the pledging financial institution's trust department or agent in MERS name.
- Category 3 Uncollateralized or collateralized with securities held by the pledging financial institution or by its trust department or agent but not in MERS name.

### MERS Cash as of December 31, 2003

(Expressed in thousands)

	Category			Bank Balances Not Subject to Classification	Bank Balance	Book Value
	1	2	3			
Operating Cash			\$ 1,696		\$ 1,696	\$ 1,650
Investment Cash			355		355	156
	\$ -	\$ -	\$ 2,051	\$ -	\$ 2,051	\$ 1,806

#### Securities Lending

MERS policy authorizes participation in a securities lending program administered by its global custodian, the Northern Trust Company. MERS receives income as the owner of securities, as well as income from the lending of those securities. There are no dividends or coupon payments owing on the securities on loan. Securities lending earnings are credited to participating clients on approximately the fifteenth day of the following month. The securities loans are open contracts and, therefore, could be terminated at any time by either party.

The borrower collateralizes the loan with either cash or securities of 102% of market value plus accrued interest on domestic securities and 105% of market value plus accrued interest on international securities loaned. Cash open collateral is invested in a short-term investment pool, the Core Collateral Section, which had an average weighted maturity of 30 days as of December 31, 2003. Due to the nature of the program's collateralization of U.S. fixed income securities loans at 102% plus accrued interest, we believe that there is no credit risk per GASB 28 since the lender owes the borrower more than the borrower owes the lender. Cash collateral is invested for MERS in a dedicated short-term investment fund consisting of investment grade fixed income securities. The custodian provides for full indemnification to MERS for any losses that might occur in the event of borrower default resulting from negligence or intentional misconduct. Securities on loan are marked to market daily to ensure the adequacy of the collateral. There are no restrictions on the amount of securities that can be loaned at one time. Neither MERS nor the custodian has the ability to pledge or sell collateral securities delivered unless the borrower is in default.

MERS also invests in two index funds that participate in securities lending on a pooled basis.

MERS has never experienced a loss on securities lending transactions resulting from the default of a borrower or lending agent since it commenced lending securities in March 1995. The average number of days that MERS securities were borrowed was approximately 74 days as of December 31, 2003, producing a net income of \$827,198 in 2003.

**Collateral Held and Fair Value of Securities on Loan as of December 31, 2003**

Dollars In Thousands

Fair Value of Securities on Loan	Nature of Collateral	Collateral Held
\$ 391,115,676	Cash	\$ 401,662,820
53,642,752	Non-Cash	55,475,123
<u>\$ 444,758,428</u>		<u>\$ 457,137,943</u>

**Derivatives and Structured Financial Instruments**

In accordance with investment policy, the active international manager may, when deemed prudent, enter into forward foreign currency exchange contracts in the international portfolio to match settlement deadlines or to take advantage of favorable currency moves in the market. Forward contracts are used to hedge against changes in the exchange rates related to foreign equities, primarily denominated in European and Asian currencies. Forward currency contracts were used in the international large cap portfolio to hedge the United Kingdom sterling, the book cost as of December 31, 2003, was \$10,050,145, and the fair market value was \$10,626,462. This is used to reduce the risk of currency exposure in the portfolio.

Derivatives are neither used for speculation nor are they used to leverage the investment portfolio. The retirement system does not use swap agreements, stock options, caps/floors, or floating rate securities that are priced from underlying collateral. All derivatives are presented at fair value in the financial statements.

MERS uses futures contracts to equitize cash allocated to private equity markets that is awaiting investment. A futures contract is an agreement to buy or sell a specific amount of a commodity, currency, or financial instrument at a specified future date. Futures are exchange traded and the exchange assumes the risk of nonperformance by a counterparty. MERS is required to pledge to the broker cash or U.S. government securities (the initial margin) equal to a certain percentage of the contract amount. The fair value of cash collateral was \$3,357,609 as of December 31, 2003. Subsequent payments, known as "variation margin," are made or received by MERS each day, depending on the daily fluctuations in the value of the underlying security. Such variation margin is recorded as realized gain or loss in the financial statements. The fair value of the futures contract was \$41,647,500 as of December 31, 2003.

**Categories of Investment Risk**

The following table represents the total investments held as of December 31, 2003, categorized to give an indication of the level of risk assumed by MERS. All investments are governed primarily by an investment doctrine known as the prudent person rule. The prudent person rule establishes a standard for all fiduciaries, which includes anyone who has authority with respect to the funds. The Governmental Accounting Standards Board Statement Number 3 requires disclosure of investment securities within the following three categories of custodial risk. The category descriptions follow:

# FINANCIAL



- Category 1 Insured or registered securities held by MERS or its agent in MERS name.
- Category 2 Uninsured and unregistered securities collateralized with securities held by the counterparty's trust department or agent in MERS name.
- Category 3 Uninsured and unregistered securities with securities held by the counterparty, its trust department, or agent, but not in MERS name.

A security, for purposes of classification in the listed categories, is a transferable financial instrument that evidences ownership or creditorship. Securities do not include investments made with another party, real or direct investments in mortgages and other loans. Investments in mutual funds, annuity contracts, and guaranteed investment contracts are also not considered securities for purposes of custodial credit risk classification. Such investments are shown as not subject to classification.

There are no Category 2 investments. The Real Estate section consists of Real Estate equity holdings (REITs) and Real Estate. The Defined Contribution Plan assets are participant-directed mutual funds, which are not subject to GASB Statement No. 3 credit risk classification. The Short-Term Investment Funds that are Category 3 investments are in foreign currencies. The Domestic Equities, Fixed Income, International Equities that are not subject to classification below are investments that are unregistered, pending trades, mutual index funds, guaranteed investment contracts and direct investments in mortgages and other loans.

## Credit Risk of Investments as of December 31, 2003

(Expressed in Thousands)	Category			Securities not subject to Classification	Fair Values
	1	2	3		
Domestic Equities	\$ 1,572,770			\$ 284,990	\$ 1,857,760
Domestic Fixed Income	614,085		3,529	647,552	1,265,166
International Equities	267,471			259,124	526,595
Real Estate	65,887			156,002	221,889
Commercial Paper	223,304				223,304
Short Term Investment Funds			1,098	4,659	5,757
Private Equity & Venture Capital				68,652	68,652
Defined Contribution Plan				95,671	95,671
Securities Lending Collateral				401,663	401,663
	<u>\$ 2,743,517</u>	<u>\$ -</u>	<u>\$ 4,627</u>	<u>\$ 1,918,313</u>	<u>\$ 4,666,457</u>

### Reconciliation to Investments on Statement of Plan Net Assets

Totals above	\$ 4,666,457
Less Commercial Paper	(223,304)
Less Short Term Investments	(5,757)
Less Securities Lending Cash Collateral	(401,663)
	<u>\$ 4,035,733</u>



### **5. *Commitments and Contingencies***

In the normal course of business, benefit claims by members or employers are in various stages of determination through established administrative procedures with Retirement Board and judicial review thereafter. MERS does not anticipate any material loss as a result of these claims. Furthermore, the cost of successful benefit claims are ultimately the responsibility of the affected municipality and becomes its funding obligation. MERS maintains insurance for workers' compensation, owned and leased vehicles, blanket property, fiduciary, fidelity, and faithful performance to cover other risk of loss such as personal injury to employees or others, property damage, or other liability.

### **6. *Defined Contribution Plan***

#### **Plan Description**

MERS Defined Contribution Plan became operative July 8, 1997, under Section 401(a) of the Internal Revenue Code. MERS has contracted with International City Management Association Retirement Corporation (ICMA-RC) to serve as the third-party administrator for the plan. The plan is available to all MERS participating municipalities and may be adopted on a division-by-division basis. Plan provisions and requirements are specified in the MERS Plan Document.

Contributions to the Defined Contribution Plan are remitted directly to ICMA-RC by the participating municipalities and are separate from contributions made to the MERS Defined Benefit Plan. Both employer contributions and employee voluntary contributions are governed by the percentages allowable under the Internal Revenue Code. Employees electing to be in the Defined Contribution Plan may not change their contribution as a percent of payroll after enrollment. Participating municipalities may offer current Defined Benefit Plan employees an opportunity to opt into the Defined Contribution Plan. MERS then transfers the actuarial present value of the employee's accrued benefit in the Defined Benefit Plan into the employee's account in the Defined Contribution Plan (at a stipulated funded ratio that shall not exceed 100%). Employees direct their contributions to various investment options offered by ICMA-RC and may transfer their account balances between investment categories or make changes to the percentage allocation on a daily basis. As of December 31, 2003, there were 80 plans that had adopted the Defined Contribution Plan with 5,187 member accounts totaling \$117.5 million.

ICMA-RC offers a variety of investment opportunities for the Defined Contribution Plan. The Vantage Trust Funds include nine actively managed funds, five index funds, and five model portfolio funds. The Mutual Fund Series includes 17 segregated accounts, each with a different investment strategy.

#### **Significant Accounting Policies**

The Defined Contribution Plan financial statements are prepared using a cash basis of accounting (which approximates the accrual basis of accounting). Plan investments are presented at fair value. Plan participants select from 35 investment options.

#### **Reserve for Defined Contribution Plan**

All additions to and deductions from the Defined Contribution Plan are recorded in this reserve. ICMA-RC maintains the individual employee account records.


**REQUIRED SUPPLEMENTARY INFORMATION**
**SCHEDULE OF FUNDING PROGRESS**

(Dollars In Millions)

Actuarial Valuation Date <u>Dec. 31</u>	Actuarial Value Of Assets <u>(a)</u>	Actuarial Accrued Liability (AAL) <u>(b)</u>	Unfunded AAL (UAAL) <u>(b-a)</u>	Funded Ratio <u>(a/b)</u>	Covered Payroll <u>(c)</u>	UAAL as a Percentage of Covered Payroll <u>((b-a)/c)</u>
1997	2,692.7	3,285.2	592.5	82.0%	1,087.3	54.5%
1998	3,030.4	3,592.0	561.6	84.4%	1,163.1	48.3%
1999	3,464.9	3,835.5	370.6	90.3%	1,179.3	31.4%
2000	3,787.2	4,397.0	609.8	86.1%	1,226.0	49.7%
2001	4,034.4	4,783.9	749.5	84.3%	1,271.6	58.9%
2002	4,133.0	5,181.2	1,048.2	79.8%	1,327.4	79.0%

**SCHEDULE OF EMPLOYER CONTRIBUTIONS**

(Dollars in Millions)

Fiscal Year (See Note 1)	Annual Required Contribution	Accelerated Funding Credit	Percentage Contributed Before Credit	Percentage Contributed After Credit
1998	116.9	14.3	99%	113%
1999	119.6	6.8	111%	118%
2000	124.9	8.4	106%	113%
2001	118.2	14.5	103%	118%
2002	124.7	7.7	102%	109%
2003	133.2	4.5	121%	125%

See notes to the Schedules of Required Supplementary Information. Notes to the Schedules of Required Supplementary Information



NOTES TO THE SCHEDULES OF  
REQUIRED SUPPLEMENTARY INFORMATION

1. **Actuarial Valuation** - Actuarial valuations are prepared annually as of December 31 for each participating municipality. To facilitate budgetary planning needs, employer contribution requirements are provided for each municipality's unique fiscal year that commences after the following calendar year end. For example, the contribution requirements for fiscal years that began in 2003 were determined by actuarial valuations as of December 31, 2001.

Approximately 75% of the participating municipalities have fiscal years that begin January 1 or July 1.

The "Annual Required Contribution" and "Accelerated Funding Credit" shown in the preceding schedule represent the summation of each participating municipality's contribution requirements for its fiscal year commencing in the year stated. However, the calculations to determine the Percentage Contributed use contributions recorded during MERS fiscal year.

2. **Accelerated Funding Credits** - An Accelerated Funding Credits (AFC) Program was first established by the Retirement Board in 1984, and has since been modified several times. The current modified AFC program in effect reduces 2003 required contribution rates of municipalities with funded percentages in excess of 100%.
3. **Summary of Actuarial Methods and Assumptions** - The information presented in the required supplementary schedules was determined as part of the actuarial valuation at the dates indicated. Additional information as of the latest actuarial valuation may be found in the Actuarial Section.

Summary Information follows:

Valuation Date	December 31, 2002
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percent of Payroll, Open
Remaining Amortization Period	30 years. For new municipalities that first joined MERS prior to 2000, the amortization period was greater than 30 years and will decline one year annually until the period reaches 30 years.
Asset Valuation Method	5-Year Smoothed Market. For 2003, the Retirement Board adopted a one time ad hoc adjustment to aggregate the yet unrecognized market gains and losses from 1999-2002 with the 2003 market gain. No gain or loss will be recognized for 2003. The aggregate loss amount of \$388,778,035 will be recognized in four equal dollar installments in 2004-2007.
Actuarial Assumptions	
Investment Rate of Return	8%
Projected Salary Increases	4.5% for base inflation, plus 0.0% to 4.16% percent per year attributable to merit and longevity.
Post-Retirement Benefit Adjustment	2.5% annual post-retirement benefit adjustments if adopted by individual municipality.



SUPPORTING SCHEDULES

**Schedule of Administrative Expenses  
For the Year of Ended December 31, 2003**

<b>Administrative Expenses</b>	
Personnel Services	
Salaries	\$ 2,267,442
Social Security	169,796
Retirement	198,085
Insurance	315,355
Total Personnel Services	2,950,678
Professional Services	
Actuarial Services	499,379
Audit Services	40,500
Commercial Banking	85,105
Legal Services	158,054
Medical Advisory Services	38,560
Data Processing	13,953
Computer Maintenance	37,987
Consultants	35,923
Temporary Personnel	53,376
Recruitment Fees	5,217
Total Professional Services	968,054
Communication	
Copying	41,114
Record Retention	160,147
Mail & Postage	78,657
Promotional Supplies	19,904
Telephone / Communications	78,225
Travel and Meetings	104,578
Newsletter	26,878
Annual Meeting	222,759
Total Communication	732,262
Rentals	
Equipment Rental	121,183
Office Rental	604,500
Total Rentals	725,683
Miscellaneous	
Payroll Processing	2,941
Office Supplies	70,522
Operating Expenses	262,490
Equipment Expense	66,920
Software	12,368
Software Maintenance	506,335
Professional Development and Tutition	132,148
Insurance	168,533
Maintenance	175,408
Depreciation	1,275,158
Total Miscellaneous	2,672,823
<b>Total Administrative Expenses</b>	<b>\$ 8,049,500</b>





**Schedule of Investment Expenses  
For the Year Ended December 31, 2003**

<b>Investment Expenses</b>	
Personnel Services	
Salaries	\$ 275,727
Social Security	21,391
Retirement	22,840
Insurance	46,693
Total Personnel Services	<u>366,651</u>
Professional Services	
Commercial Banking	189,617
Investment Managers	8,791,476
Investment Performance Expense	79,500
Total Professional Services	<u>9,060,593</u>
Communication	
Travel and Meetings	27,524
Training and Subscriptions	99,142
Total Communication	<u>126,666</u>
Miscellaneous	
Operating Expenses	22,905
Equipment Expense	11,140
Software Maintenance	133,017
Depreciation	17,837
Total Miscellaneous	<u>184,899</u>
<b>Total Investment Expenses</b>	<u><u>\$ 9,738,809</u></u>



### **Schedule of Payments to Consultants For the Year Ended December 31, 2003**

<b>FIRM</b>	<b>NATURE OF SERVICE</b>	<b>FEE</b>
Gabriel, Roeder, Smith and Co.	Actuary and System Implementation	\$ 2,203,074
PeopleSoft	Systems Implementation and Maintenance	464,443
Andrews Hooper Pavlik, PLC	Auditor	40,500
Karoub Associates	Legislative Advisors	30,000
Associated Physicians	Medical Advisors	26,455
Beacon Application Services	Systems Implementation and Maintenance	20,478
New London Management Associates	Personnel and Human Resource Advisors	12,500
Consulting Physicians	Medical Advisors	10,755
Miller, Canfield, Paddock and Stone, PLC	Legal Counsel	7,901
<b>Total Payments to Consultants</b>		<b>\$ 2,816,106</b>

Note: Fees paid to investment managers are included in the Investment Section.

---

# I N V E S T M E N T

## REPORT ON INVESTMENT ACTIVITY

### **Introduction**

The MERS Retirement Board has the fiduciary responsibility and authority to direct the retirement system's investment program. Members of the Board must follow state law and prudent standards of diligence consistent with "discharging their duties in the interest of plan participants." The prudent person standard requires that the Board "exercise the same judgment, care, skill, prudence and diligence under the circumstances which persons acting in a like capacity and familiar with such matters would use in the conduct of a similar enterprise with similar aims." MERS has a Defined Benefit Plan and a Defined Contribution Plan. The first portion of the Investment Section is devoted to the Defined Benefit Plan and the second portion to the Defined Contribution Plan.

### ***A. Defined Benefit Plan***

#### **Investment Objectives and Activity**

The primary investment objective is to maximize the long-term total rate of return on investments with a high degree of prudence and sufficient diversification to eliminate inordinate risks in conformity with the Michigan Public Employee Retirement System's Investment Act, 1965 PA 314, as amended. In addition, the Retirement Board has established Investment Guidelines that are updated annually. These guidelines communicate long-term objectives, goals and performance expectations to the staff, investment managers, consultants, and all other interested parties. The Retirement Board strives to add incremental return relative to the market by employing active management strategies where appropriate. Every effort is made to minimize costs to the portfolio with the use of skilled internal and external resources without negatively affecting the performance of the portfolio.

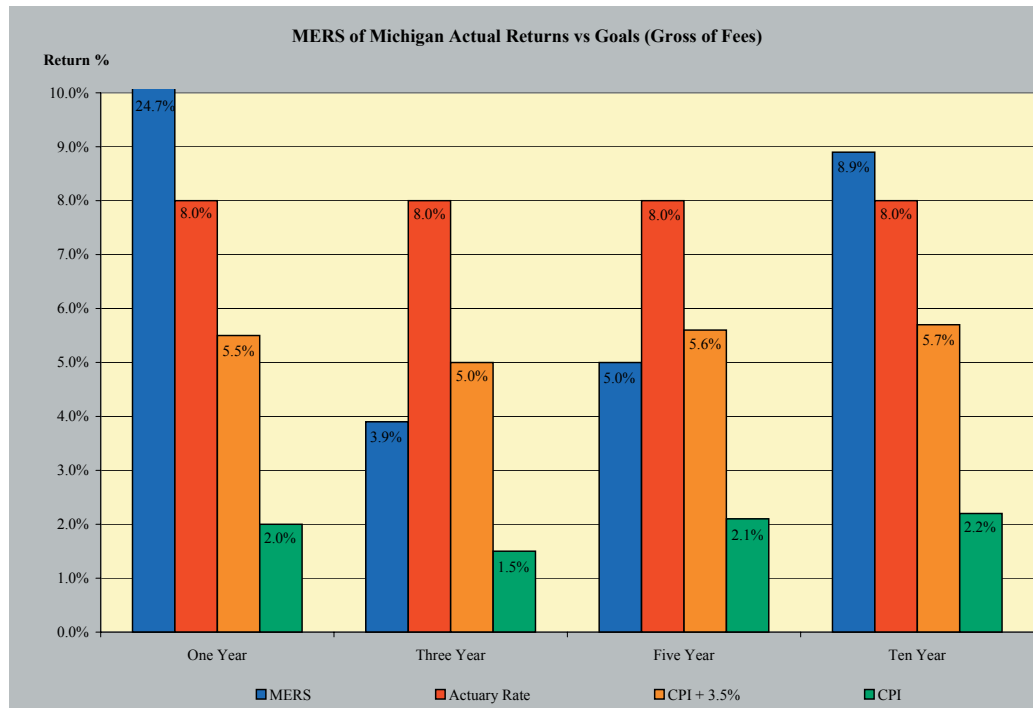
The long-term objectives for the investment assets are to annually achieve:

- a real rate of return of at least 3.5% over the long-term rate of inflation, and
- the actuarial assumption rate of 8%.

The real rate of return is defined as the rate at which the long-term total return on the Retirement System's assets exceeds the long-term inflation rate as measured by the Consumer Price Index (CPI) All Urban Wage Earners 1982 base. The graph on the following page illustrates that MERS has achieved returns over the CPI index plus 3.5%, as well as the actuarial assumption rate of 8% over 10 years.

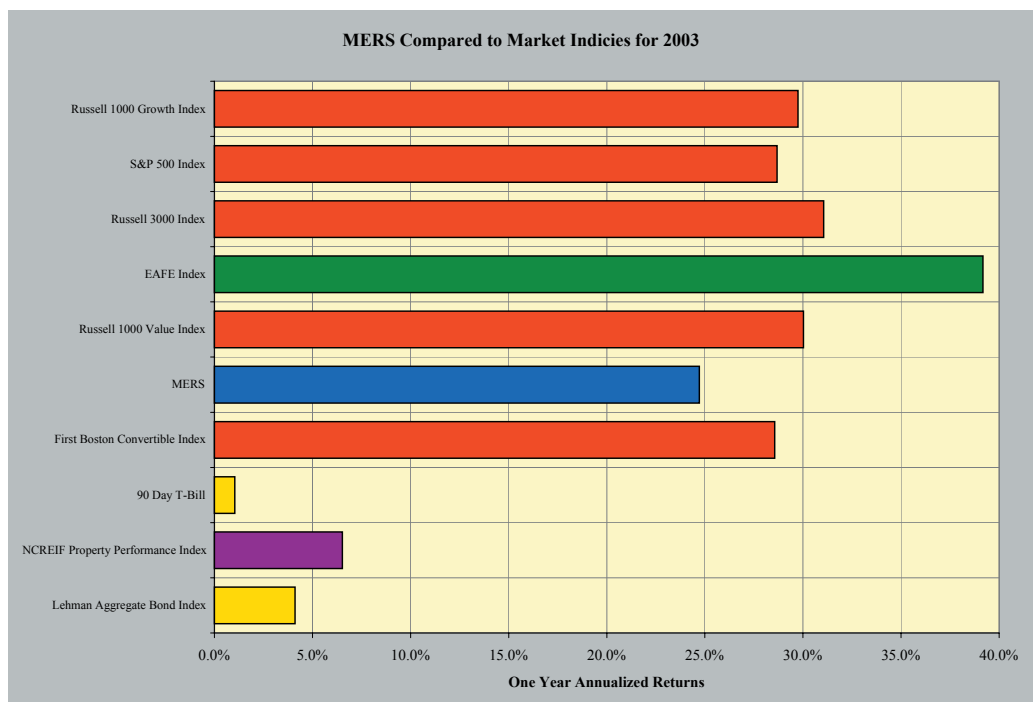


# INVESTMENT



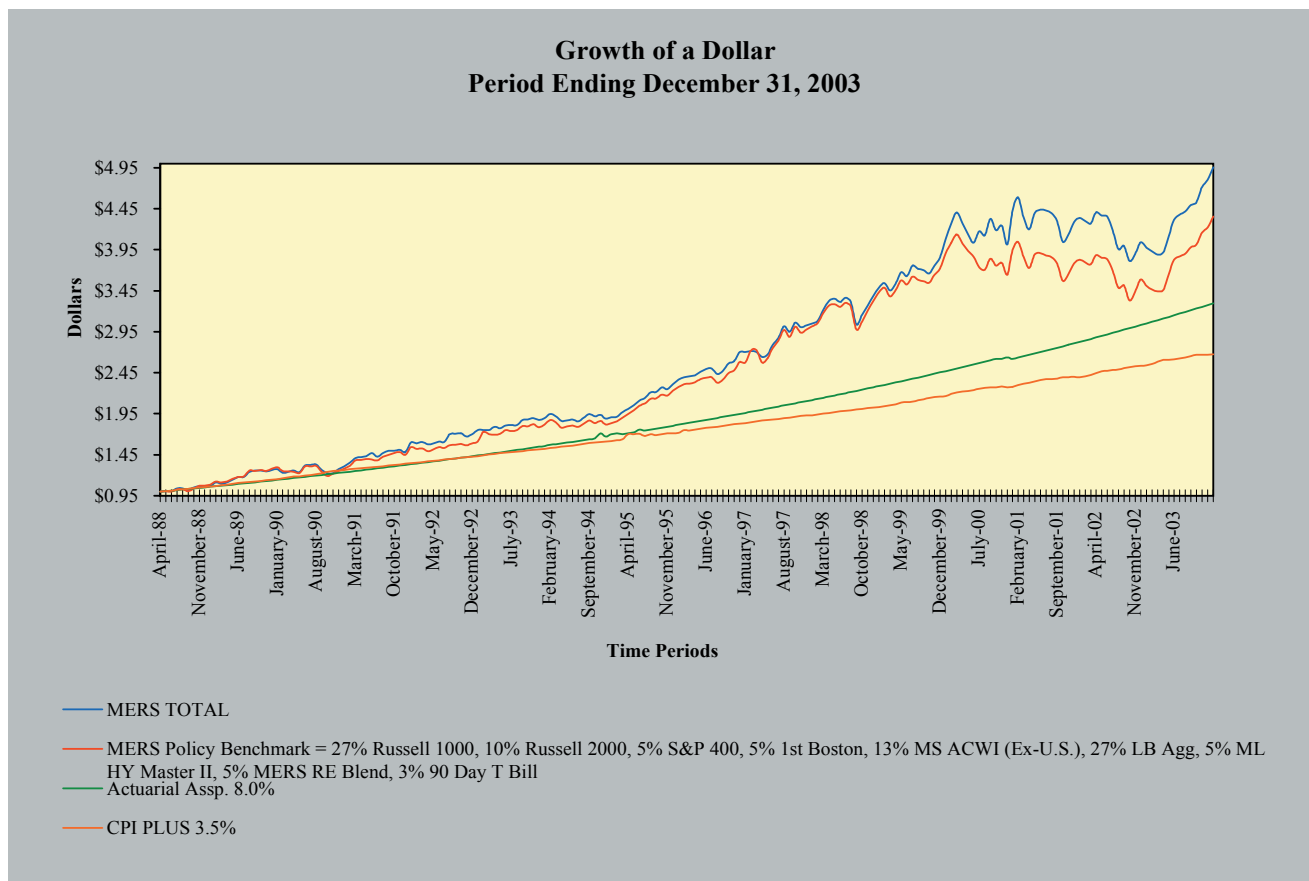
CPI Source: Bureau of Labor Statistics, U.S. Department of Labor

The portfolio is constructed to reduce volatility in down markets, yet still participate significantly when the equity markets rebound. The chart below compares MERS to the major market indices demonstrating the value of diversification and MERS ability to quickly rebound when market conditions are favorable.





After the 2000-2002 market downturn, financial markets rebounded dramatically in 2003. MERS Defined Benefit portfolio had a one-year gross return of 24.7% allowing MERS to exceed its actuarial assumption rate of return for the ten-year period. The combination of passive and active management, diversification across asset classes, and disciplined adherence to its asset allocation plan has allowed MERS to provide value through multiple market cycles. The chart below illustrates the growth of a dollar over the last 14 years. It compares the fund to its various benchmarks and demonstrates the value added from active portfolio management.



## Asset Allocation

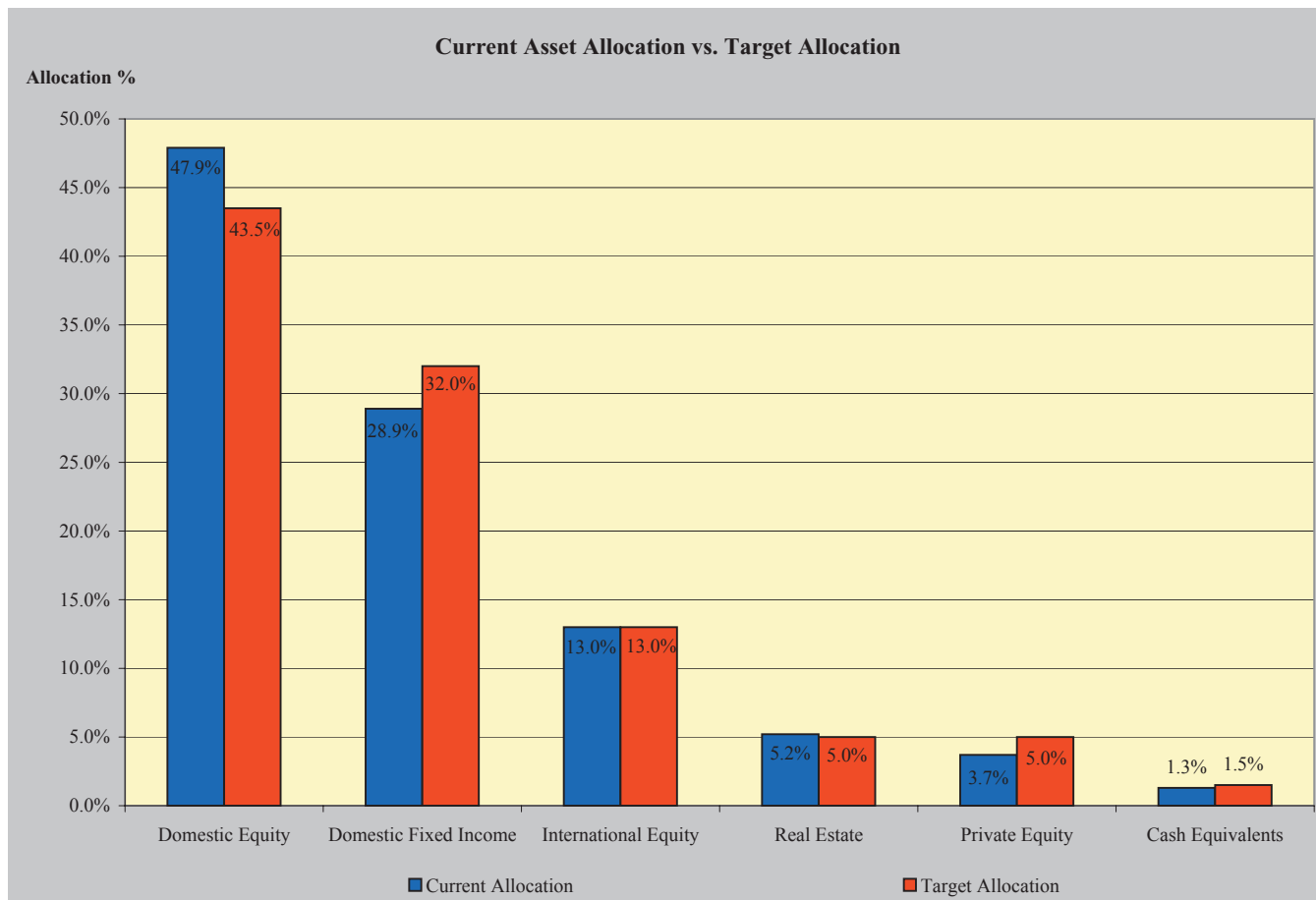
With long-term investment objectives as the central focus, the Retirement Board conducts a periodic asset allocation study to select a strategic asset allocation plan. A study was completed in 2001 resulting in two new asset classes (private equity and high yield bonds). The allocation plan designs a portfolio with the optimal mix of asset classes over the long-term horizon. The characteristics of expected return, risk and correlation of return for various asset categories are carefully projected. The result is a portfolio that is broadly diversified in domestic and international stocks, domestic fixed income securities, high yield bonds, real estate, private equity, and cash equivalents. Both active and passive strategies are employed. Due to market movements, the different asset

---

# INVESTMENT



classes fluctuate in performance. Thus, it is reasonable to expect the actual allocation to differ from that of the target as is demonstrated in the bar chart entitled “Current Asset Allocation vs. Target Allocation.”



## Total Fund Investment Results

MERS investment portfolio produced a total gross return for the fiscal year of 24.7% (net 24.5%). Domestic and International equities contributed significantly to the portfolio’s outstanding performance in 2003. MERS exposure to small cap stocks provided exceptional positive outperformance, returning 52.3% for the year. In contrast, fixed income markets produced modest returns of 5.9%, with the exception of high yield bonds that returned 30.5%. Real estate and cash also added positive returns to the overall portfolio. All major equity indices finished in positive territory. The technology heavy NASDAQ Index returned 50.0% for the year. The Dow Jones Industrial Average and the Russell 3000 returned yields of 25.3% and 31.1%, respectively.

MERS portfolio placed in the second quartile within the Northern Trust (TNT) Public Fund Universe and was ranked in the 30th percentile. MERS was ranked 42nd and 27th for the two and three-year periods, respectively. The TNT universe is comprised of 35 public plans with a total market value of \$180 billion. The plans range in size from \$190 million to \$30.4 billion, with a median market value of \$2.7 billion and an average market value

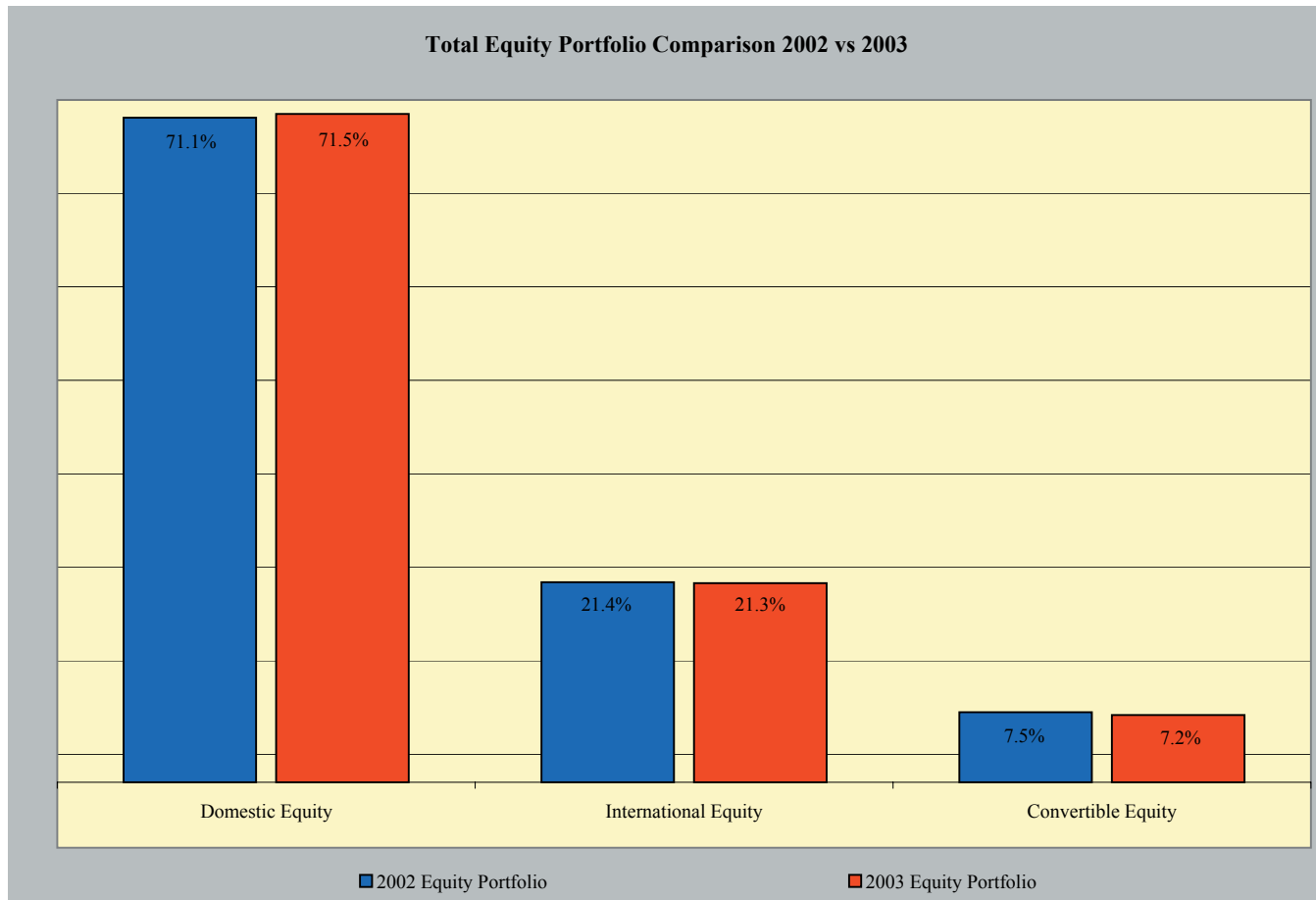


of \$5.1 billion. The portfolio returned 3.9% and 5.0% for the three- and five-year periods, respectively, versus its policy benchmark at 3.3% and 4.7%. The policy portfolio benchmark reflects the return that would have been achieved had MERS invested exclusively in passively managed index funds. However, it should be noted that convertible bonds, high yield bonds and private equity do not have investable indexes. Instead, they are used in the policy benchmark for comparative purposes only and do not reflect a real investment alternative to active management. MERS continues to achieve returns that outpace both inflation and the Defined Benefit fund's actuarial rate of 8%. The returns of the portfolio are calculated using a time-weighted rate of return in accordance with the standards of the Association for Investment Management and Research (AIMR). The table below shows the annualized returns gross of fees for fiscal year ended December 31, 2003.

Schedule of Investment Results Gross of Fees			
	One Year Annualized	Three Year Annualized	Five Year Annualized
MERS Total Fund	24.7%	3.9%	5.0%
<i>Policy Portfolio</i>	24.1%	3.3%	4.7%
* <i>Median Public Plan</i>	22.8%	2.8%	5.3%
Domestic Stocks	38.0%	3.5%	4.9%
<i>Russell 3000 Index</i>	31.1%	-3.1%	0.4%
Convertibles	27.9%	-1.6%	6.0%
<i>First Boston Convertible Index</i>	28.6%	3.4%	7.7%
International Stocks	36.1%	-5.1%	-2.3%
<i>MSCI Eafe Free Index</i>	39.2%	-2.6%	0.3%
Domestic Fixed Income	5.9%	7.7%	6.8%
<i>Lehman Aggregate Bond Index</i>	4.1%	7.6%	6.6%
High Yield Bond	30.5%	N/A	N/A
<i>Merrill Lynch High Yield Master II</i>	28.2%	N/A	N/A
Real Estate	14.8%	8.9%	9.3%
<i>NCREIF Property Performance</i>	6.5%	6.8%	9.2%

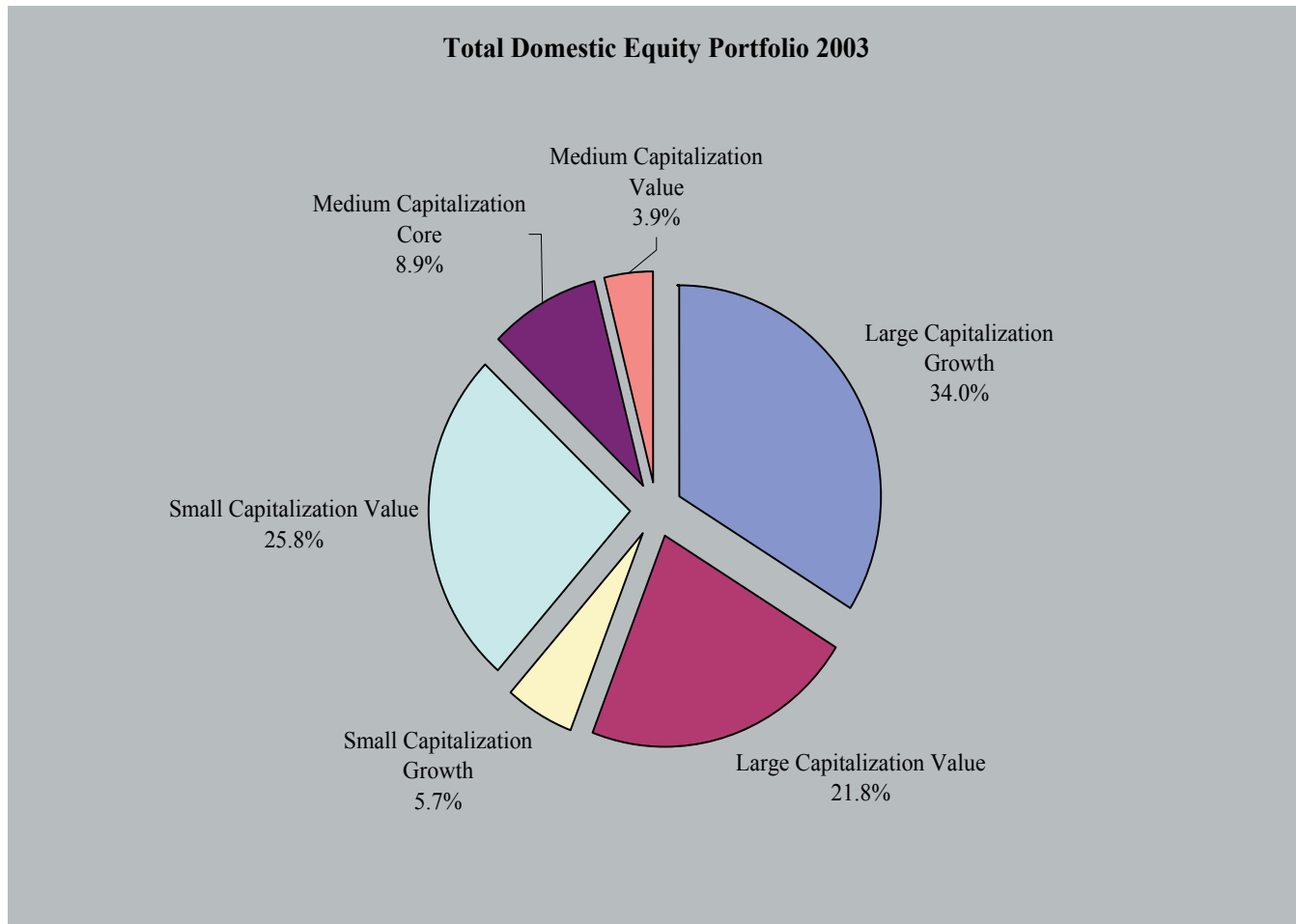
NOTE: \* The Median Public Plan returns are shown Gross of Fees

**Total Equities** – The total equity portfolio includes U.S. common stocks, international stocks and convertible securities, representing 61.0% of the total portfolio as of December 31, 2003. The year-end composition of the equity portfolio is shown on the next page and is compared to the 2002 equity allocation.



**Domestic Equities** – As of December 31, 2003, the U.S. stock portfolio had a market value of \$1.764 billion and represented just over 43.6% of the total portfolio. The Retirement Board employs U.S. stocks in the portfolio primarily because the historical returns of U.S. stocks over inflation help to preserve and enhance the Defined Benefit fund’s ability to achieve the long-term real rate of return objective.





Convertible bonds are categorized as equities in the portfolio but are not included in this chart.

The returns for this asset class returned to positive territory in 2003 as the economy grew at a higher-than-expected rate, with a real GDP increase over the previous year for the U.S. economy of 4.3%. During this period, the domestic common stock portfolio returned 38.0% versus the Russell 3000 Index with a return of 31.1%. The large cap growth portfolio had returns of 34.6% compared to the Russell 1000 Growth Index of 29.7%. MERS small cap portfolio returned 52.3% versus the Russell 2000 Index at 47.3%. Value style managers generally fared better than growth managers, but all sectors of the equity markets produced positive returns.

Passive management accounts for 9.6% of the Defined Benefit equity portfolio and is expected to provide broad market diversification. These index funds are designed to track the performance of the market at a low cost. MERS began managing an S&P 500 Index internally in 2003. Two external managers manage three additional indices: an enhanced S&P 500 Index, S&P 400 Index, and the Russell 1000 Enhanced Index. Enhanced indexes closely track the performance of the index seeking to capture small amounts of excess return with a similar risk profile.

---

## INVESTMENT



The U.S. equity asset class is diversified by capitalization using small and large companies and by style using value and growth. The stocks within the portfolio can be classified by style as follows: 34.0% large cap growth, 21.8% large cap value, 8.9% mid cap core, 3.9% mid cap value, 25.8% small cap value, and 5.7% small cap growth.

### Ten Largest Stock Holdings

Top Ten Equity Holdings as of December 31, 2003			
Asset Description	Shares	Market Value	Percentage of Total Market Value
Countrywide Financial Corp	306,466	23,245,437.98	0.57%
Dell Inc	622,200	21,142,356.00	0.52%
Guidant Corp	347,600	20,925,520.00	0.52%
Citigroup Inc	429,259	20,836,231.86	0.51%
Yahoo! Inc	460,410	20,732,262.30	0.51%
Apollo Group	297,500	20,173,475.00	0.50%
Omnicom Group	212,700	18,575,091.00	0.46%
First Data Corp	433,280	17,803,475.20	0.44%
Armor Holdings	671,500	17,667,165.00	0.44%
Eli Lilly & Co	250,880	17,644,390.40	0.44%

**International Equities** - The allocation to non-U.S. stocks comprises 13.0% of the total portfolio. This strategy is employed in recognition of today's global economy and provides further diversification for the total equity portfolio. Passively managed in the Barclays EAFE Index Fund is 24.6% of this total allocation with the remaining actively managed in three separate active strategies. Delaware Advisors large cap value, Acadian Asset Management's small cap, and BGI's Active International Equity large cap portfolios were added to the portfolio in 2003.

Historically, international equities have tended to outperform domestic equities during bear markets and underperform during bull market conditions. This year, the international portfolio outperformed most broad domestic market measures with the exception of small cap stocks. The European markets experienced double-digit gains after three years of losses.

The benchmark for the international equity portfolio is the MSCI ACWI Free ex-U.S. index for large cap mandates and the MSCI EAFE Small for small cap mandates, both computed by Morgan Stanley Capital International. The international portfolio returned 36.1% for the one-year period ending December 31, 2003; the portfolio returned -5.1% and -2.3% for three and five years, respectively.

**Convertibles** - The convertible portfolio is 4.4% of total portfolio assets and is part of the overall equity strategy. Convertible securities are used to lower the volatility of the equity portfolio while producing higher returns than are available in fixed income securities. The convertible section of the portfolio is managed by Trust Company of the West (TCW) and returned 27.9% for the fiscal year versus the First Boston Convertible Bond Index of 28.6%. The three and five-year returns for the portfolio are -1.6% and 6.0%, respectively, versus the benchmark of 3.4% and 7.7% for the same periods. The portfolio performed well given its quality mandate relative to the benchmark.



Major benchmarks saw lower quality issues outperforming. The portfolio outpaced its hurdle of achieving an 80% return on the S&P 500.

**Domestic Fixed Income** - The U.S. fixed income markets provided additional diversification, but underperformed relative to equities. Bonds are traditionally regarded as a hedge in a disinflationary or deflationary environment. They generally lag equities when the economy rebounds and low interest rates push yields lower. The fixed income portfolio is 28.9% of the total portfolio, including the high yield bonds discussed below. It serves to diversify the equity risk component within the fund, providing asset protection during market downturns.

The domestic fixed income performance is measured against the Lehman Brothers Aggregate Bond Index and Lehman Brothers U.S. Universal. The long-term returns for this sector of the portfolio are 7.6% and 6.6% for the three- and five-year periods, respectively. The portfolio is 58.8% actively managed and 41.2% passively managed.

### Ten Largest Fixed Income Holdings

Top Ten Fixed Income Holdings as of December 31, 2003			
Asset Description	Par Value	Market Value	Percentage of Total Market Value
US Treasury 5.375% 02/15/31	26,565,000	27,702,247.65	0.68%
GNMA 6.0% Jan 04 (TBA)	20,075,000	20,849,769.53	0.52%
US Treasury 4.25% 11/15/31	20,145,000	20,126,063.70	0.50%
US Treasury Inflation Index 3.875% 04/15/29	14,560,650	18,865,214.96	0.47%
US Treasury 3.375% 12/15/08	18,355,000	18,481,282.40	0.46%
GNMA 6.50% Jan 04 (TBA)	16,640,000	17,526,600.00	0.43%
GNMA 5.50% Jan 04 (TBA)	17,100,000	17,311,078.13	0.43%
FNMA 5.50% Jan 04 (TBA)	16,030,000	16,227,870.31	0.40%
FNMA 30 YR 4.50% Jan 04 (TBA)	16,000,000	15,817,500.00	0.39%
FOAMEX L.P. 9.875% 06/15/07	18,752,000	14,907,840.00	0.37%

**High Yield Bonds** - The Retirement Board adopted a new asset allocation structure in 2001 adding high yield bonds as a distinct asset class with a 5% allocation target within the portfolio. The portfolio seeks to invest in lower grade fixed income investments that provide higher returns than traditional core fixed income assets within the risk budget approved by the Board. The portfolio returned 30.5% versus its benchmark (the Merrill Lynch High Yield Master II Index) at 28.2%. High Yield Bonds contributed significantly to the performance of the overall portfolio.

**Real Estate Portfolio** - MERS real estate investments represented 5.2% of the total portfolio at year end and produced a total return of 14.8% for the year. The portfolio is well diversified by property type, geographic region and risk category. The publicly traded assets, comprised of Real Estate Investment Trusts (REITS), are 34.6% of the real estate portion. In commingled-pooled funds are 65.4% of these assets, which include timber investments.

The one-year return for the public securities portion of the portfolio was 26.1% versus the North American Real Estate Investment Trust (NAREIT) All Equity Index at 37.2%. The REIT markets participated in the equity rally driving out performance in the real estate portion of MERS portfolio. The private securities portion of the real estate allocation returned 9.5% versus the National Council of Real Estate Investment Fiduciaries (NCREIF)

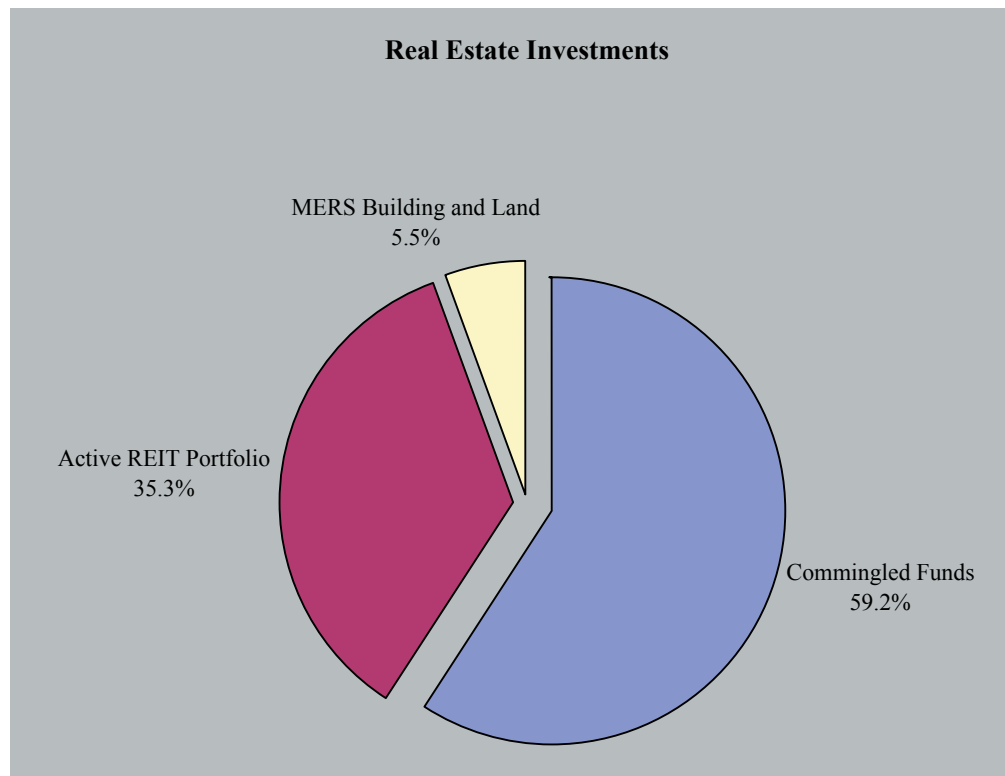
---

## INVESTMENT



Property Index of 6.5%. Private real estate is split between stable and enhanced properties that returned 9.47% and 10.6%, respectively. The NCREIF Index represents approximately 3,400 properties and encompasses retail, industrial, office and apartment property types geographically diversified across all regions of the country. The real estate portfolio had returns of 8.9% and 9.3% for the three- and five-year periods, respectively.

Property returns and total portfolio returns are reported with a one-quarter lag.



**Private Equity** - The Retirement Board adopted a new asset allocation structure in 2001, adding private equity as a distinct asset class with a 5% allocation target within the portfolio. This asset class invests predominately in private markets via such vehicles as venture capital, leveraged buyouts, distressed debt and other special situation investment opportunities. The objective is to achieve higher total returns for the fund utilizing a diversified portfolio within the risk budget established by the Retirement Board. In 2001, the fund committed \$50 million to two funds, Mesirow II and Mesirow VII.

In 2002, MERS hired Credit Suisse First Boston's (CSFB) Customized Fund Investment Group to invest the remaining capital and to serve as the consultant over all future private equity investments. They will be making investments domestically and in Europe over the next three years. Capital calls of \$27.11 million were made thus far; the remaining funding will be called in the next three years. MERS plans to become fully invested in the asset class over a three-year period. Cash awaiting deployment is invested in short-term cash instruments, S&P 500 futures contracts, and a global macro total return fund.



**Short-Term Cash Portfolio** - Cash equivalents are employed by the fund to meet the liquidity needs of funding pension benefit payments. These investments allow the external managers a vehicle for the investment of funds during brief periods of time between the sale of an existing security and the purchase of a replacement. The dedicated cash portfolio has an allocation of 1.5%. In addition, all residual cash from MERS actively managed portfolios are managed through this account. The portfolio is managed internally using various fixed income securities with investment guidelines designed for the preservation of principal, liquidity, and the highest credit quality.

A complete list of the holdings for all asset categories can be made available to the public upon request.



## Schedule of Investment Fees Year Ended December 31, 2003

<b>Investment Managers</b>	<b>Average Assets Under Management</b>	<b>Fees</b>	<b>Average Basis Points</b>
Acadian Asset Management	\$ 34,493,856	\$ 28,467	8.3
Ariel Capital Management	59,740,179	233,267	39.0
Armstrong Shaw Associates, Inc.	212,372,319	674,745	31.8
Barclays Global Investors	931,692,918	891,699	9.6
CSFB Private Equity Fund	N/A	598,590	N/A
Delaware International Advisers	132,677,465	137,288	10.3
J.P. Morgan Strategic Property Fund	29,447,587	347,424	118.0
Kennedy Capital Management	354,263,900	969,264	27.4
Lend Lease Rosen	68,309,032	348,956	51.0
Lombard Odier Darier Hentsch	184,798,341	528,146	28.6
Reams Asset Management Company	504,491,420	921,741	18.3
Trust Company of the West	157,534,697	539,629	34.3
Wasatch Advisors	86,314,176	708,736	82.1
Wellington Management Company, LLP	445,008,964	1,010,738	22.7
Western Asset Management Company	245,367,126	519,287	21.2
World Asset Management	180,305,531	44,703	2.6
The Townsend Group	N/A	288,797	N/A
<b>Total Investment Manager Fees*</b>	<b>\$ 3,626,817,511</b>	<b>\$ 8,791,476</b>	<b>24.2</b>

### **Investment Custodian**

The Northern Trust Company (Domestic and International) 189,617

### **Investment Performance Measurement Consultants**

The Northern Trust Company\*\* 79,500

### **Securities Lending Agent**

The Northern Trust Company 354,454

Total Investment Fees \$ 9,415,047

\* Investment manager fee for investments in Real Estate Private Securities are netted against the reported partnership or trust fund income.

\*\* Includes the addition of the Alerts product provided by TNT to measure guideline compliance.



**Schedule of Commissions**  
**Fiscal Year Ended December 31, 2003**

<b>Brokerage Firm</b>	<b>Shares Traded</b>	<b>Total Dollars</b>	<b>Commission / Share</b>
REDI/Spear Leads	23,652,304	\$ 316,190	\$ 0.01
Capital Institutional Services	6,374,360	287,869	0.05
Fano Securities	5,216,000	271,354	0.05
Smith Moore	7,250,100	258,236	0.04
Northern Trust	4,015,180	199,491	0.05
Rockhouse Securities	4,257,050	183,212	0.04
Cantor Fitzgerald	7,734,975	144,636	0.02
Wells Fargo	3,201,846	140,356	0.04
Barrett	3,743,486	129,658	0.03
Morgan Stanley	2,225,085	96,383	0.04
Direct Trading	6,395,466	95,932	0.02
UBS Warburg	1,845,740	92,287	0.05
William Smith	1,759,300	90,417	0.05
Merrill Lynch	2,327,625	90,305	0.04
Star Securities	1,805,100	75,372	0.04
Bridge Trading	1,510,600	70,712	0.05
Abel Noser	1,224,140	67,110	0.05
B. Riley & Company	1,774,400	65,864	0.04
Chapdelaine	1,315,900	65,795	0.05
Bank of America	1,266,220	63,219	0.05
Moness Cresp	1,477,400	63,083	0.04
Bear Stearns	1,140,997	59,374	0.05
Soundview FI	1,183,655	58,329	0.05
Goldman Sachs	1,287,250	53,890	0.04
CS First Boston	1,123,112	53,538	0.05
Subtotal (25 largest)	95,107,291	3,092,617	0.03
Other	63,856,201	1,502,476	0.02
<b>Total Commissions</b>	158,963,492	\$ 4,595,094	\$ 0.03

---

## INVESTMENT



### **Commission Recapture Program**

MERS utilizes commission recapture brokers to reduce expenses to the overall fund. Securities Exchange Commission (SEC) investment advisor guidelines stipulate that commissions are classified as assets of the fund, and a portion of those costs may be returned to the fund to offset expenses. For the fiscal year ended December 31, 2003, MERS earned \$704,733 in commission rebates.

### **Derivatives**

In accordance with the Investment Guidelines, MERS allows the active international manager to enter into forward foreign currency exchange contracts in the international portfolio to match settlement deadlines. Forward contracts are used to hedge against changes in exchange rates related to foreign equities, primarily denominated in European and Asian currencies. This is used to reduce the risk of currency exposure in the portfolio.

As of December 31, 2003, Delaware Advisors was utilizing forward currency contracts held in the international large cap value portfolio to hedge the U.K. sterling. This action was taken to protect the underlying assets from currency risk. Additionally, MERS began utilizing futures contracts to equitize residual cash in its portfolio. One hundred-fifty long-term S&P 500 futures contracts, expiring March 2004, were purchased. These contracts were backed by agency issues held in a segregated account with MERS futures broker. Derivatives are not used for speculation or used to leverage the investment portfolio.

The retirement system does not use swap agreements, stock options, caps/floors or floating rate securities that are priced from underlying collateral.





**Investment Summary for Defined Benefit Plan**  
as of December 31, 2003

Type of Investment	Market Value	Percent of Market Value
<b>Domestic Fixed Income</b>		
US Government Bonds	\$122,834,565	3.03%
Corporate Bonds	350,637,757	8.66%
Bond Index Funds	464,932,790	11.48%
Mortgages	91,033,504	2.25%
US Agency Bonds	235,725,976	5.82%
<b>Total Fixed Income</b>	<b>1,265,164,592</b>	<b>31.25%</b>
<b>Equities</b>		
Domestic Stock	1,355,228,503	33.47%
Domestic Index Funds	389,024,624	9.61%
Convertibles	113,506,697	2.80%
<b>Sub Total Domestic Equities</b>	<b>1,857,759,824</b>	<b>45.88%</b>
International Stock	272,770,319	6.74%
International Index Funds	253,824,762	6.27%
<b>Sub Total International Equities</b>	<b>526,595,081</b>	<b>13.01%</b>
<b>Total Equities</b>	<b>2,384,354,905</b>	<b>58.89%</b>
<b>Venture Capital &amp; Partnerships</b>		
Hedge Funds	40,901,862	1.01%
Private Equity	27,750,408	0.69%
<b>Total Venture Capital &amp; Partnerships</b>	<b>68,652,270</b>	<b>1.70%</b>
<b>Real Estate</b>		
Private Securities	86,029,399	2.12%
Public Securities Index Fund	135,860,058	3.36%
<b>Total Real Estate</b>	<b>221,889,457</b>	<b>5.48%</b>
<b>Sub Total Investments</b>	<b>3,940,061,224</b>	<b>97.31%</b>
<b>Cash Equivalents *</b>		
Commercial Paper	223,304,000	5.52%
Short-Term Investments/Cash	5,756,550	0.14%
<b>Total Cash Equivalents</b>	<b>229,060,550</b>	<b>5.66%</b>
<b>Sub Total Investments &amp; Cash*</b>	<b>4,169,121,774</b>	<b>102.97%</b>
Payables - Purchases of Investments	(259,995,239)	(5.97%)
Receivables - Sale of Investments & Interest	139,888,788	3.45%
<b>Total Investments</b>	<b>\$4,049,015,323</b>	<b>100.00%</b>

\* Note: Includes receivables and payables for sales and purchases of securities with settlement dates after December 31, 2003

---

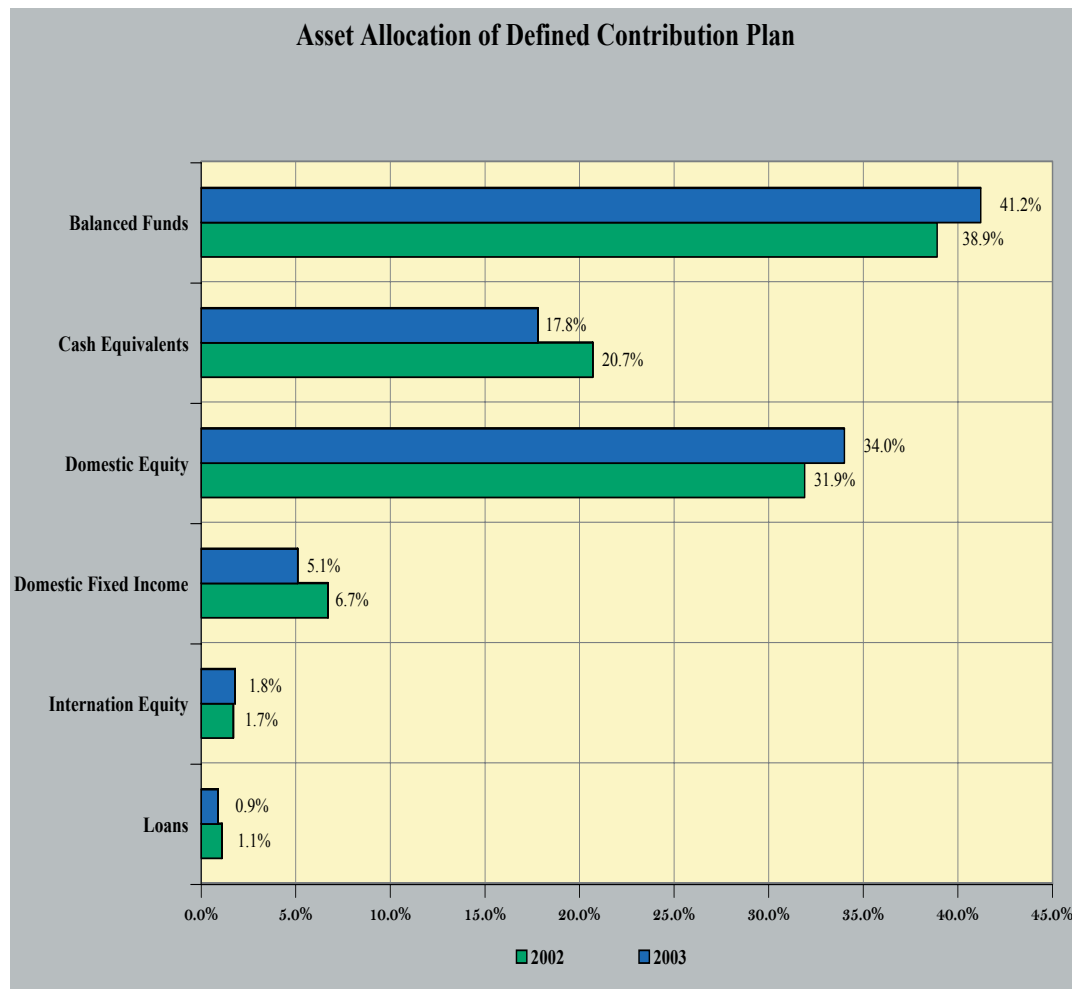
# INVESTMENT



## B. MERS Defined Contribution Plan

### Investment Activity

The MERS Defined Contribution Plan became operative on July 8, 1997, under Section 401(a) of the Internal Revenue Code. The plan is available for adoption by all MERS member municipalities. It is an alternative option to MERS Defined Benefit Plan. As of December 31, 2003, the Defined Contribution Plan had net assets of \$117.5 million and over 5,000 members. Each member is responsible for directing the investment of their accumulated account balance. Members receive investment performance information from MERS third-party administrator, International City/County Management Association - Retirement Corporation (ICMA-RC). On a consolidated basis, the assets as of December 31, 2003, are allocated as follows:





### Investment Options

ICMA-RC offers the following investment options:

**Total Return Funds** – The actively managed funds invest in both domestic and international equities, fixed income, balanced accounts, cash, and investment contracts. Included in this category are the Aggressive Opportunities Fund, International Fund, Growth Fund, Growth and Income Fund, Equity Income Fund, Asset Allocation Fund, U.S. Government Securities Fund, and Cash Management Fund. The index funds are comprised of the Overseas Equity Index Fund, Mid/Small Company Index Fund, Broad Market Index Fund, 500 Stock Index Fund, and Core Bond Index Fund.

**Plus Fund** – The Plus Fund consists primarily of portfolios of investment contracts purchased from financial institutions and, accordingly, maintains a stable capital value in the absence of credit default.

**Model Portfolio Funds** – These five funds invest in actively managed funds, index funds, and investment contracts in varying proportions. They allow the investor to choose one investment vehicle to provide the level of diversification that best meets their risk tolerance and investment objectives. In descending order of market risk, they are the All-Equity Growth Fund, Long-Term Growth Fund, Traditional Growth Fund, Conservative Growth Fund, and Savings Oriented Fund.

**Mutual Fund Series** - This is a group of 17 segregated accounts. The portfolio of each segregated account consists of shares of a single designated mutual fund that are acquired, held and redeemed by the Trust in response to investments and withdrawals from the account by participants. The series includes the following: PIMCO Total Return, PIMCO High Yield Fund, Fidelity Puritan Fund, Lord Abbott Large Company Value Fund, American Century Value Fund, Calvert Social Investment Fund Equity Portfolio, Fidelity Contrafund, Fidelity Magellan Fund, Gabelli Value Fund, MFS Large Company Growth Fund, American Century Ultra Fund, T. Rowe Price Small-Cap Value Fund, T. Rowe Price Small-Cap Stock Fund, and the INVESCO Small Company Growth Fund. Due to concerns regarding investment practices, the Putnam Voyager Fund, Putnam International Growth Fund, and the Janus Adviser Series Worldwide Fund were dropped from the Mutual Fund Series menu. These changes took effect December 19, 2003.

---

## INVESTMENT



This page has intentionally been left blank.



**GABRIEL, ROEDER, SMITH & COMPANY**  
Consultants & Actuaries

One Towne Square • Suite 800 • Southfield, Michigan 48076 • 248-799-9000 • 800-521-0498 • fax 248-799-9020

October 29, 2003

The Retirement Board  
Municipal Employees' Retirement System of Michigan  
1134 Municipal Way  
Lansing, Michigan 48917

Dear Board Members:

The basic financial objective of the Municipal Employees' Retirement System of Michigan (MERS) is to establish and receive contributions which:

- (1) when expressed in terms of percents of active member payroll will remain approximately level from generation to generation of Michigan citizens, and which
- (2) when combined with present assets and future investment return will be sufficient to meet the present and future financial obligations of MERS.

In order to measure progress toward this fundamental objective, MERS has annual actuarial valuations performed. Separate actuarial valuations are prepared for each participating municipality and court. The valuations (i) measure present financial position, and (ii) establish contribution rates that provide for the normal cost (current cost) and level percent of payroll amortization of unfunded actuarial accrued liabilities over a reasonable period (generally 30 – 33 years). The latest completed actuarial valuations were based upon data and assumptions as of December 31, 2002. These valuations determine the contribution rates for the fiscal years beginning in 2004.

The actuarial valuations are based upon financial and participant data which is prepared by retirement system staff, assumptions regarding future rates of investment return and inflation, and rates of retirement, turnover, death, and disability among MERS members and their beneficiaries. The data is reviewed by us for internal and year-to-year consistency as well as general reasonableness prior to its use in the actuarial valuations. It is also summarized and tabulated for the purpose of analyzing trends. The demographic assumptions were adopted by the Retirement Board and were based upon actual experience of MERS during the years 1993 to 1998. The economic assumptions were adopted by the Board in 1998. Assets are valued according to a method that fully recognizes expected investment return and averages unanticipated market return over a five-year period. The assumptions and methods utilized in this valuation, in our opinion, meet the parameters established by Governmental Accounting Standards Board Statement No. 25.

The current benefit structure is outlined in the actuarial section of the CAFR. We provided the information used in the supporting schedules in the actuarial section and some of the supporting schedules in the statistical section. In the financial section the Schedules of Funding Progress and the employer contributions shown in the Schedule of Employer Contributions are based on the actuarial valuations.

The actuarial valuations were performed by qualified actuaries in accordance with accepted actuarial principles in compliance with Act No. 220 of the Public Acts of 1996, as amended, and the MERS plan document, as revised. **Based upon the valuation results, it is our opinion that the Municipal Employees' Retirement System of Michigan continues in sound condition in accordance with actuarial principles of level percent of payroll financing.**

Respectfully submitted,

*Alan E. Sonnanstine*

Alan E. Sonnanstine, MAAA, ASA

*Cathy Nagy*

Cathy Nagy, MAAA, FSA

*W. James Koss*  
W. James Koss, MAAA, ASA



## SUMMARY OF ACTUARIAL ASSUMPTIONS AND METHODS

The investment return rate used in making the valuations was 8% per year, compounded annually. Adopted 1981. This rate of return is not the assumed real rate of return. The real rate of return is the rate of investment return in excess of the inflation rate. Considering other financial assumptions, the 8% investment return rate translated to an assumed real rate of return of 3.5% in excess of inflation. Adopted 1998.

Valuation assets (cash and investments) were valued for each municipality 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) that is spread over five years. Adopted 1994.

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 Retirement Board after consulting with the actuary.

The mortality table used to project the mortality experience of plan members is the 1994 Group Annuity Mortality Table. For disabled retirees, the ages in the regular mortality table have been adjusted by three years to reflect the higher expected mortality rates of disabled members. Adopted 2000.

Sample probabilities of retirement with an age and service allowance are shown on page 60-61. Adopted 2000.

Sample probabilities of separation from service before retirement due to disability or other causes are shown on pages 62. Adopted 2000.

The salary increase assumption projects annual salary increases of 4.5% plus a percentage based on an age-related scale to reflect merit, longevity and promotional increases. Sample rates are shown on page 63. Adopted 1998.

Total active member payroll is assumed to increase 4.5% plus a percentage based on an age-related scale to reflect merit, longevity and promotional increases. Sample rates are shown on page 63. Adopted 1998.

An individual entry age actuarial cost method of valuation was used to determine actuarial accrued liabilities and normal cost. Adopted 1994. Unfunded actuarial accrued liabilities are funded over periods ranging between 28 and 33 years, depending on the municipality.

For employers that adopt E-1 or E-2 post-retirement benefit increases, retirement benefits are assumed to increase by an annual, non-compounded rate of 2.5%. Adopted 1981.

The most recent experience study for the Retirement System was completed in April 2000 and covered the period January 1, 1993, through December 31, 1998. All assumptions and method changes adopted in 2000 are based on the results of that study.



The Accelerated Funding Credit (AFC) Program has been replaced with a new, less complicated program of contribution credits for over funded employee divisions. The new program eliminates the complexities of the AFC, simplifies the calculation of the required employer contribution rates, removes much of the variability of contribution rates, and satisfies the requirement of the Governmental Accounting Standards Board. Adopted 2002.

There have been no recent changes in the nature of the plan that have had an impact on the Retirement System. Municipalities have the ability to modify those plan provisions that apply to their individual plan. The individual municipality contribution rates are modified to account for changes in provisions of the plan selected by the municipality.

There have been no changes in the actuarial assumptions or methods that have had a material impact on the December 31, 2002, actuarial valuation results.

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



**PROBABILITIES OF RETIREMENT  
FOR MEMBERS ELIGIBLE TO RETIRE**

Percent of Eligible Active Members Retiring Within Next Year\*

Retirement <u>Ages</u>	Without F50 or <u>F55 or F(N)</u>	<u>With F55</u>	<u>With F50</u>
50			22%
51			22
52			22
53			22
54			24
55		18%	18
56		15	14
57		10	16
58		15	18
59		20	18
60	20%	20	20
61	24	24	24
62	24	24	24
63	24	24	24
64	27	27	27
65	30	30	30
66	30	30	30
67	30	30	30
68	30	30	30
69	30	30	30
70	100	100	100

\* Municipalities that adopted a non-standard benefit multiplier after December 31, 1996, that is in excess of the B-4 2.5% multiplier will have a retirement rate equal to 75% when they first reach age at which unreduced plan benefits are available.





**NORMAL RETIREMENT - SERVICE BASED  
BENEFIT F(N) ADOPTED**

<b>Years of Service</b>	<b>Percent of Eligible Active Members Retiring Within Next Year</b>	<b>Years of Service</b>	<b>Percent of Eligible Active Members Retiring Within Next Year</b>	<b>Years of Service</b>	<b>Percent of Eligible Active Members Retiring Within Next Year</b>
20	22%	31	22%	41	24%
21	22	32	22	42	24
22	22	33	22	43	24
23	22	34	24	44	27
24	22	35	18	45	30
25	22	36	14	46	30
26	22	37	16	47	30
27	22	38	18	48	30
28	22	39	18	49	30
29	22	40	20	50	100
30	22				

Municipalities that have adopted a non-standard benefit multiplier after December 31, 1996 that is in excess of the B-4, 2.5% multiplier, will have a retirement rate equal to 75% at the first age at which unreduced plan benefits are available.

**EARLY RETIREMENT - REDUCED BENEFIT**

<b>Retirement Ages</b>	<b>Percent of Eligible Active Members Retiring Within Next Year</b>
50	3%
51	2
52	5
53	8
54	15
55	4
56	4
57	4
58	8
59	10



**RATES OF SEPARATION (EXCLUDING DEATH)  
FROM ACTIVE EMPLOYMENT BEFORE RETIREMENT**

<u>Sample Ages</u>	<u>Years of Service</u>	<u>Percent of Active Members Separating Within Next Year</u>
	0	18.00%
	1	18.00
	2	16.00
	3	12.00
	4	10.00
20	5 & Over	9.00
25		9.00
30		9.00
35		7.00
40		5.00
45		4.00
50		4.00
55		3.00
60		3.00
65		2.00
70		0.00

**RATES OF SEPARATION DUE TO DISABILITY\*  
PERCENT BECOMING DISABLED WITHIN NEXT YEAR**

<u>Sample Ages</u>	<u>Percent of Active Members Separating Within Next Year</u>
20	0.02%
25	0.02
30	0.02
35	0.02
40	0.05
45	0.12
50	0.25
55	0.40
60	0.45
65	0.50

\* 85% of the disabilities are assumed to be non-duty, and 15% of the disabilities are assumed to be duty related. For those plans that have adopted disability provision D-2, 70% of the disabilities are assumed to be non-duty, and 30% are assumed to be duty related.



**ANNUAL PERCENTAGE INCREASE IN SALARY**

<u>Sample Ages</u>	<u>Base Inflation</u>	<u>Merit and Longevity</u>	<u>Total Percent Increase in Salary</u>
20	4.50%	4.16%	8.66%
25	4.50	2.88	7.38
30	4.50	1.98	6.48
35	4.50	1.52	6.02
40	4.50	1.10	5.60
45	4.50	0.66	5.16
50	4.50	0.32	4.82
55	4.50	0.14	4.64
60	4.50	0.00	4.50

**SCHEDULE OF ACTIVE MEMBER VALUATION DATA**

<u>Valuation Dec 31</u>	<u>Participating Municipalities</u>	<u>Active Members</u>	<u>Active Members Annual Payroll</u>	<u>Annual Average Pay</u>	<u>Percent Increase in Average Pay</u>	<u>Persons on Deferred Status</u>
1993	438	34,139	\$ 869,313,319	\$ 25,464	1.6%	1,941
1994	463	34,994	925,500,706	26,447	3.9	2,034
1995	490	35,611	972,975,649	27,322	3.3	2,322
1996	506	36,070	1,025,214,728	28,423	4.0	2,713
1997	529	36,547	1,068,597,733	29,239	2.9	3,752
1998	544	36,817	1,163,056,817	31,590	8.0	4,369
1999	552	36,472	1,179,274,854	32,334	2.4	4,794
2000	560	36,573	1,225,992,204	33,522	3.7	5,303
2001	561	36,583	1,271,563,960	34,758	3.7	5,799
2002	575	37,043	1,327,360,448	35,833	3.1	5,510



## MORTALITY TABLES

In estimating the amount of the reserves required at the time of retirement to pay a member's benefit for the remainder of the member's lifetime, it is necessary to make an assumption with respect to the probability of surviving to retirement and life expectancy after retirement.

The mortality table used to project the mortality experience of plan members is the 1994 Group Annuity Mortality Table. For disabled retirees, the ages in the regular mortality tables have been adjusted forward by three years to reflect the higher expected mortality rates of disabled members.

The life expectancies and mortality rates projected by the 1994 Group Annuity Mortality table for **non-disabled** members are shown below for selected ages:

<u>Age</u>	<u>Expected Years of Life Remaining</u>		<u>Mortality Rates</u>	
	<u>Male</u>	<u>Female</u>	<u>Male</u>	<u>Female</u>
20	58.90	63.60	0.05%	0.03%
25	54.06	58.69	0.07	0.03
30	49.25	53.77	0.08	0.04
35	44.45	48.88	0.09	0.05
40	39.64	44.01	0.11	0.07
45	34.88	39.18	0.16	0.10
50	30.19	34.39	0.26	0.14
55	25.65	29.67	0.44	0.23
60	21.33	25.09	0.80	0.44
65	17.34	20.77	1.45	0.86
70	13.79	16.80	2.37	1.37
75	10.62	13.10	3.72	2.27
80	7.87	9.81	6.20	3.94



The life expectancies and mortality rates projected by the 1994 Group Annuity Mortality table for **disabled** members are shown below for selected ages:

<u>Age</u>	<u>Expected Years of Life Remaining</u>		<u>Mortality Rates</u>	
	<u>Male</u>	<u>Female</u>	<u>Male</u>	<u>Female</u>
20	55.99	60.65	0.06%	0.03%
25	51.17	55.74	0.08	0.03
30	46.37	50.83	0.08	0.04
35	41.56	45.95	0.09	0.06
40	36.77	41.11	0.14	0.09
45	32.05	36.30	0.21	0.12
50	27.45	31.55	0.36	0.19
55	23.02	26.89	0.63	0.34
60	18.89	22.46	1.15	0.67
65	15.16	18.36	1.99	1.18
70	11.84	14.54	3.12	1.83
75	8.90	11.07	5.02	3.17
80	6.50	8.08	8.25	5.49



**SCHEDULE OF RETIREES AND BENEFICIARIES  
ADDED TO AND REMOVED FROM ROLLS**

Valuation <u>Dec 31</u>	<u>Added to Rolls</u>		<u>Removed From Rolls</u>		<u>End of Year Rolls</u>		<u>% Increase in Annual Allowance</u>	<u>Average Annual Allowance</u>
	<u>Retirees/ Beneficiaries Number</u>	<u>Annual Allowance</u>	<u>Retirees/ Beneficiaries Number</u>	<u>Annual Allowance</u>	<u>Retirees/ Beneficiaries Number</u>	<u>Annual Allowance</u>		
1993	1,024	\$ 12,219,419	601	\$ 2,300,023	12,040	\$ 80,964,212	14.0%	\$ 6,725
1994	946	12,978,853	494	2,716,142	12,492	91,226,923	12.7	7,303
1995	1,154	13,799,665	614	3,015,915	13,032	102,010,673	11.8	7,828
1996	824	10,582,845	593	2,752,328	13,263	109,841,190	7.7	8,282
1997	1,504	16,305,680	531	3,033,941	14,236	123,112,929	12.1	8,648
1998	1,122	19,230,034	568	3,642,223	14,790	138,700,740	12.6	9,378
1999	1,312	19,663,240	777	5,592,269	15,325	152,771,711	10.1	9,969
2000	1,319	23,588,044	369	2,810,133	16,275	173,549,622	13.6	10,664
2001	1,238	22,971,336	608	4,723,312	16,905	191,785,646	10.5	11,345
2002	1,275	25,079,342	642	5,882,066	17,538	210,982,922	10.0	12,030



**SOLVENCY TEST**

The solvency test is another means of checking a retirement system's progress under its funding program, based on the aggregate accrued liability. In this test, the plan's present assets (actuarial value) are compared with obligations in order of priority: (1) active member contributions on deposit; (2) the present value of future benefits to present retired lives; (3) the aggregate accrued liability for present active members. In a system that has been following the discipline of level percent of payroll financing, the obligation for active member contribution on deposit (present value 1) and the present value of future benefits to present retired lives (present value 2) will be fully converted by present assets (except in rare circumstances). In addition, the aggregate accrued liability for present active members (present value 3) will be partially covered by the remainder of present assets. Generally, if a retirement system has been using level cost financing, the funded portion of present value 3 will increase over time.

The Solvency Test illustrates the history of the obligation of the Retirement System and reflects the MERS policy of following the discipline of level percent payroll financing. The solvency of the system remains sound. The recent market downturn has affected the funding level of the system somewhat; however, many municipalities have adopted richer benefits in recent years that have dampened the funding level of the system. The system as a whole remains on track for meeting its obligations.

**Solvency Test  
(Dollars In Millions)**

Valuation Date Dec 31	<u>Aggregate Accrued Liabilities</u>				<u>Portion of Accrued Liabilities</u>		
	(1)	(2)	(3)	Valuation Assets	(1)	(2)	(3)
	Active Member Contributions	Retirees and Beneficiaries	Active Members (Employer- Financed Portion)		100%	100%	76.8%
1993 *	\$ 221.2	\$ 704.9	\$ 1,220.9	\$ 1,863.3	100%	100%	76.8%
1994	239.0	844.4	1,385.9	1,986.6	100	100	65.2
1995	250.6	968.4	1,524.8	2,166.9	100	100	62.2
1996 **	269.3	1,041.1	1,688.6	2,416.4	100	100	65.5
1997 ***	277.5	1,174.7	1,833.0	2,692.7	100	100	67.7
1998	291.9	1,316.2	1,983.9	3,030.4	100	100	71.7
1999	305.5	1,463.2	2,066.9	3,464.9	100	100	82.1
2000	318.4	1,744.6	2,334.0	3,787.2	100	100	73.9
2001	336.5	1,944.6	2,502.8	4,034.4	100	100	70.1
2002	359.2	2,159.1	2,662.8	4,133.0	100	100	60.6

\* 1993 had revised actuarial method, and revised economic and non-economic assumptions.

\*\* 1996 includes accrued liabilities for member contributions, retirees, beneficiaries, and active member (employer-financed portion) amounting to \$4.0 million, \$6.1 million and \$13.2 million, respectively; and related assets of \$29.6 million for 14 municipalities that in various years have separated from MERS, but have remaining obligations for retirees or deferred plan members entitled to MERS' pension benefits. Exclusive of these liabilities and assets, the active members (employer-financed portion) would have been 64.8% funded.

\*\*\* 1997 had revised economic assumptions.



## SUMMARY OF PLAN DOCUMENT PROVISIONS

The benefits summarized in this section are intended only as general information regarding the Municipal Employees' Retirement System (MERS) of Michigan. They are not a substitute for Act No. 220 of the Public Acts of 1996 and the MERS Plan Document, as revised. If any conflict occurs between the information in this summary and Act No. 220 of the Public Acts of 1996 or the MERS Plan Document, as revised, the provision of Act No. 220 and the MERS Plan Document govern.

The December 31, 2002, Actuarial Valuation was based upon the provisions of the MERS Plan Document summarized below. This information related to the MERS Defined Benefit Plan.

Monthly retirement payments are made over the lifetime of the retirant and/or over the lifetime of the beneficiary, depending upon choice of benefits adopted by each municipality and final payment option elected by the retiring member.

Vesting occurs after ten years of credited service unless the municipality selects a lesser number of years.

Final Average Compensation (FAC) is the highest monthly average of a member's compensation over a consecutive period of months of credited service. The municipality selects the number of months. FAC-3 is over 36 months. FAC-5 is over 60 months.

Normal retirement for a member occurs after vesting and attaining age 60. The municipality may choose other combinations of age and service, such as age 55 and 15 years service, age 50 and 25 years of service, etc. There is no mandatory retirement age.

### ***Benefit Formula***

The annual benefit equals a specified percentage of the member's FAC multiplied by the number of years and months of credited service. The plan has several benefit programs available with percentages that vary from 1.3% to 2.5% that may be selected by a participating municipality.

### ***Early Retirement***

Early retirement occurs if the vested member meets the credited service requirements but not the age requirement. The monthly payment is reduced (unless waived by the municipality) for each month that the member is younger than the minimum retirement age.

### ***Deferred Retirement***

Deferred retirement occurs when the employee leaves MERS covered employment after vesting but before reaching the minimum retirement age. This member or beneficiary will become eligible for the deferred allowance once the member reaches the minimum retirement age provided the member's contributions remain on deposit with MERS.

### ***Disability Benefit – Duty or Non-Duty***

Duty disability is available to a member who becomes totally and permanently disabled due to a duty-related injury or disease. This benefit is calculated like a normal allowance without regard to the vesting requirement or to age. The benefit shall not be less than 25% of FAC.





Non-duty disability is available to a vested member who becomes totally and permanently disabled for reasons other than from duty-related causes. This allowance is calculated like a normal allowance without regard to age.

Benefits for duty and non-duty disability retirants who have not attained age 60 shall not exceed the difference between 100% of FAC and the amount of the retirant's considered income. Continuing medical examinations may be required.

***Survivor Benefit***

Upon death of a vested non-retired member, the eligible surviving dependents would receive a portion of the normal retirement at the time of death. The surviving spouse would receive 85%. If no surviving spouse, each unmarried child under 21 would receive an equal share of 50%. If the death were duty related, the surviving spouse would receive the higher of 85% or 25% of the FAC after waiver of the vesting requirement.

***Post-Retirement Adjustments***

Each municipality may elect to provide post-retirement adjustments to retirees and their beneficiaries. The municipality can choose one-time adjustments or an annual adjustment for all retirees or for future retirees only. This Cost of Living Adjustment (COLA)-type of increase is effective in January of each year.

***Forms of Benefit Payment***

The member elects one of the following payment options as part of the retirement application process. Once the election is made, it is irrevocable after receipt of first payment. The options include:

1. Straight life over the retirant's life only.
2. Reduced to cover retirant and beneficiary as long as either live.
3. Reduced to cover retirant for their lifetime and further reduced to 75% or 50% of the original reduced amount to cover beneficiary if the beneficiary outlives the retirant.
4. A reduced benefit for the retirant's life guaranteed for a specified number of years. The reduced benefit continues for the beneficiary even if the retirant dies, but terminates after the guaranteed number of years.

***Changes in Plan Provisions***

There have been no changes in the Plan Document that have had a material impact on the December 31, 2002, actuarial valuation.

Pursuant to a collective bargaining agreement, a participating municipality may provide for retirement benefits that are modifications of standard retirement benefits otherwise included in the plan. These modifications were taken into consideration when determining the municipality contribution rates on the December 31, 2002, actuarial valuation.



This page has intentionally been left blank.

# S T A T I S T I C A L

## SCHEDULE OF ADDITIONS TO PLAN NET ASSETS DEFINED BENEFIT PLAN (Thousands of Dollars)

<u>Fiscal Year Ended</u>	<u>Employer Contributions</u>					<u>Total</u>
	<u>Member Contributions</u>	<u>Dollars</u>	<u>% of Annual Covered Payroll</u>	<u>Investment and Misc. Income</u>		
Sept. 30, 1994	\$ 24,607	\$ 38,537	4.4%	\$ 33,838	\$	96,982
Sept. 30, 1995	20,999	49,471	5.3	354,731		425,201
Sept. 30, 1996	26,611	67,329	6.9	280,705		374,645
Dec. 31, 1997*	28,508	113,711	8.9	477,040		619,259
Dec. 31, 1998	27,633	115,956	9.9	416,705		560,294
Dec. 31, 1999	27,977	132,557	11.2	562,567		723,101
Dec. 31, 2000	30,823	131,881	9.5	(122,407)		40,297
Dec. 31, 2001	32,164	121,940	10.1	(87,510)		66,594
Dec. 31, 2002	39,625	127,802	11.6	(317,923)		(150,496)
Dec. 31, 2003	62,422	161,029	N/A	800,189		1,023,640

\* The 1997 Revenue covered 15 months. The Employer Contributions as a percentage of Annual Covered Payroll was calculated on an annualized basis. Investment Income and Total Income has been restated for prior years to be consistent with the requirements of GASB 25.





**SCHEDULE OF DEDUCTIONS FROM PLAN NET ASSETS  
DEFINED BENEFIT PLAN  
(Thousands of Dollars)**

<u>Fiscal Year Ended</u>	<u>Benefit Payments</u>	<u>Administrative and Special Expenses</u>	<u>Refunds</u>	<u>Transfers to MERS DC Program</u>	<u>Total</u>
Sept. 30, 1994	\$ 85,391	\$ 1,892	\$ 4,370		\$ 91,653
Sept. 30, 1995	94,245	1,980	3,204		99,429
Sept. 30, 1996	104,627	2,594	4,666		111,887
Dec. 31, 1997*	146,225	5,526	4,085		155,836
Dec. 31, 1998	131,690	4,871	7,769	\$ 8,302	152,632
Dec. 31, 1999	147,833	5,922	8,272	30,398	192,425
Dec. 31, 2000	162,827	6,881	8,994	14,573	193,275
Dec. 31, 2001	182,272	6,170	5,414	13,804	207,660
Dec. 31, 2002	200,794	7,370	3,366	491	212,021
Dec. 31, 2003	221,137	8,428	3,542	3,840	236,947

\* Fiscal 1997 included 15 months of expenses.

**SCHEDULE OF BENEFIT EXPENSES BY TYPE  
DEFINED BENEFIT PLAN  
(Thousands of Dollars)**

<u>Fiscal Year Ended</u>	<u>Regular Benefits</u>	<u>Disability Benefits</u>	<u>Employee Refunds</u>	<u>Total</u>
Sept. 30, 1994	\$ 83,340	\$ 2,051	\$ 4,370	\$ 89,761
Sept. 30, 1995	91,720	2,525	3,204	97,449
Sept. 30, 1996	101,280	3,347	4,666	109,293
Dec. 31, 1997 *	141,749	4,476	4,085	150,310
Dec. 31, 1998 **	127,608	4,082	3,743	135,433
Dec. 31, 1999	143,309	4,524	4,433	152,266
Dec. 31, 2000	155,853	6,974	3,964	166,791
Dec. 31, 2001	174,635	7,638	5,199	187,472
Dec. 31, 2002	192,540	8,254	3,366	204,160
Dec. 31, 2003	212,612	8,526	3,542	224,680

\* Fiscal 1997 included 15 months of expenses.

\*\* Disability benefits estimated based on prior fiscal year's ratio to total benefits.



**SCHEDULE OF RETIRED MEMBERS BY TYPE OF BENEFIT  
DEFINED BENEFIT PLAN  
December 31, 2002  
Tabulated by Optional Form of Benefit Being Paid**

Monthly Benefit	All Retired Members	Type of Annuity					
		1	2	3	4	5	6
\$ 0-199	2,063	1,300	47	26	560	128	2
200-399	3,176	2,168	136	59	638	162	13
400-599	2,464	1,752	148	49	397	105	13
600-799	1,891	1,433	100	37	240	73	8
800-999	1,441	1,132	76	28	139	60	6
1,000-1,199	1,199	965	63	23	110	35	3
1,200-1,399	971	816	38	10	81	24	2
1,400-1,599	769	656	31	7	54	18	3
1,600-1,799	680	604	20	6	33	17	0
1,800-1,999	560	512	18	1	19	9	1
2,000 & over	2,324	2,240	13	5	39	26	1
<b>Totals</b>	<b>17,538</b>	<b>13,578</b>	<b>690</b>	<b>251</b>	<b>2,310</b>	<b>657</b>	<b>52</b>
Total Monthly Benefit	\$17,581,911	\$15,183,129	\$521,895	\$168,984	\$1,243,117	\$428,173	\$36,613

**Type of Annuity**

1. Normal Retirement for age and service
2. Non-Duty Disability\*
3. Duty Disability\*
4. Beneficiaries
5. Non-Duty Death
6. Duty Death

\* At age 60, these annuity types are converted to Type 1, normal retirement for age and service.



**SCHEDULE OF RETIRED MEMBERS BY TYPE OF OPTION SELECTED  
DEFINED BENEFIT PLAN**

**December 31, 2002**

**Tabulated by Optional Form of Benefit Being Paid**

Monthly Benefit	All Retired Members	Form of Annuity									
		1	2	3	4	5	6	7	8	9	10
\$ 0-199	2,063	659	9	0	300	62	14	8	9	9	993
200-399	3,176	849	19	0	407	86	24	29	14	15	1,733
400-599	2,464	708	31	1	330	58	22	22	14	14	1,264
600-799	1,891	515	29	0	295	43	34	31	8	14	922
800-999	1,441	367	23	1	269	28	29	28	5	7	684
1,000-1,199	1,199	352	29	1	230	26	14	24	7	8	508
1,200-1,399	971	299	33	0	215	14	8	6	2	6	388
1,400-1,599	769	256	35	1	163	15	10	7	2	5	275
1,600-1,799	680	225	39	0	141	17	11	7	2	4	234
1,800-1,999	560	167	27	0	146	10	7	7	2	4	190
2,000 & over	2,324	667	200	2	585	51	27	30	11	15	736
Totals	17,538	5,064	474	6	3,081	410	200	199	76	101	7,927
Total Monthly Benefit	\$17,581,911	\$5,097,525	\$909,766	\$8,799	\$3,757,073	\$383,529	\$221,411	\$219,559	\$71,646	\$107,394	\$6,805,209

**Type of Annuity**

1. Beneficiary draws 100% of retiree's benefit
2. Beneficiary draws 75% of retiree's benefit
3. Beneficiary draws 60% of retiree's benefit
4. Beneficiary draws 50% of retiree's benefit
5. Equated option (changing at social security age)
6. 5 year certain and life
7. 10 year certain and life
8. 15 year certain and life
9. 20 year certain and life
10. Straight life allowance



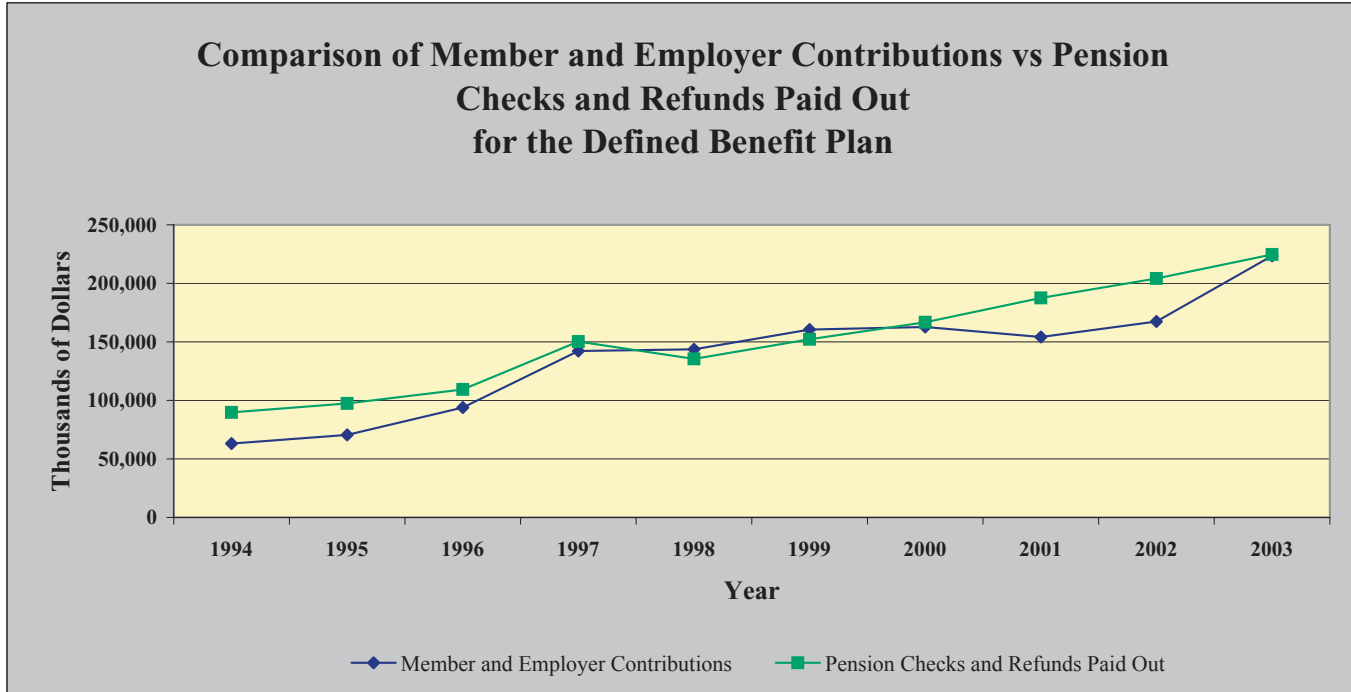
**SCHEDULE OF AVERAGE BENEFIT  
PAYMENTS  
DEFINED BENEFIT**

<u>Valuation Date</u> <u>December 31</u>	<u>Number of Retirees</u> <u>and Beneficiaries</u>	<u>Average</u> <u>Yearly Benefit</u>
1993	12,040	\$ 6,725
1994	12,492	7,303
1995	13,032	7,828
1996	13,263	8,282
1997	14,192	8,770
1998	14,790	9,378
1999	15,325	9,975
2000	16,275	10,664
2001	16,905	11,345
2002	17,538	12,030

Although defined contribution program participants are not included in the annual actuarial evaluation of the MERS defined benefit plan, the trend in defined contribution participation is of interest. Numerous municipality divisions have established defined contribution program benefits for future new employees. Existing defined benefit plan active members in those divisions were offered the choice of plans. The table below shows recent trends in defined contribution program participation and overall MERS participants.

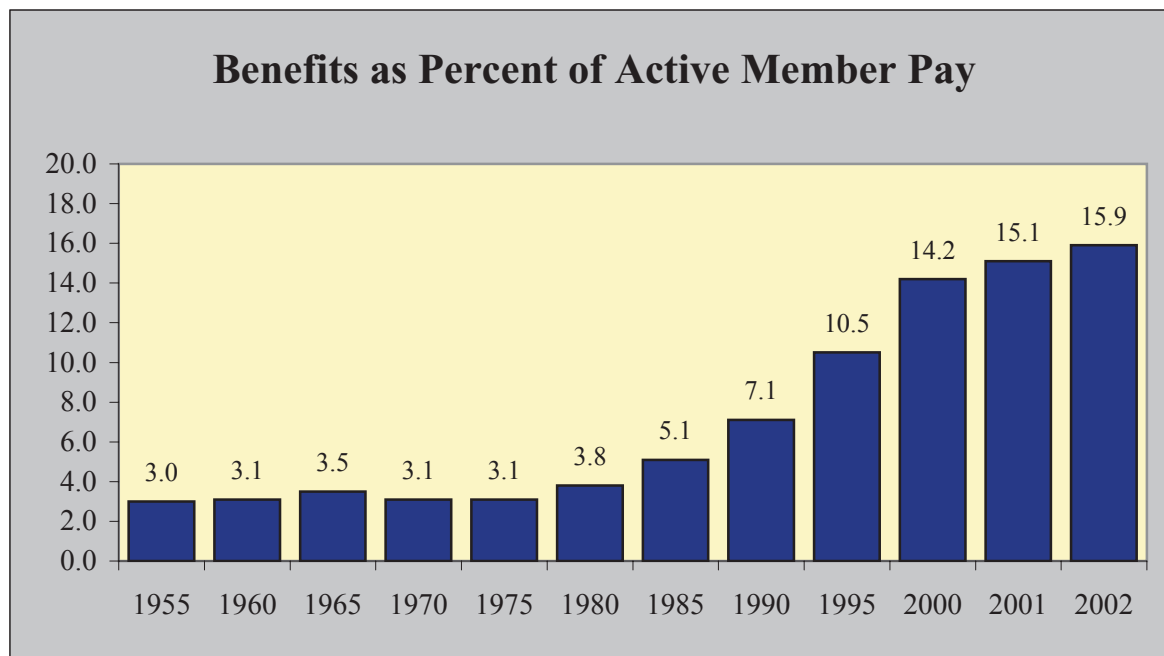
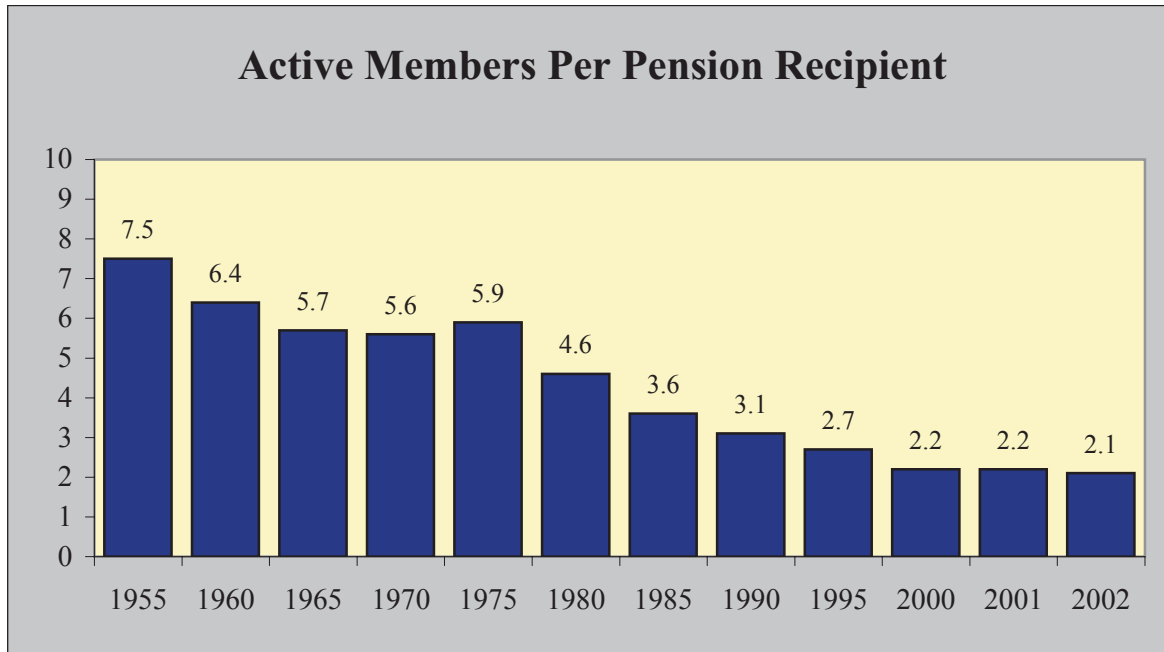
**DEFINED CONTRIBUTION PLAN PARTICIPANTS AND  
TOTAL MERS PARTICIPANTS**

<b>Item</b>	<b>December 31, 2003</b>	<b>December 31, 2002</b>	<b>December 31, 2001</b>	<b>December 31, 2000</b>
Number of Participants				
Total	65,756	64,086	63,714	61,595
Defined Benefit Plan	60,569	59,343	59,287	58,151
% of Total	92.1%	92.6%	93.1%	94.4%
Defined Contribution Program	5,187	4,743	4,427	3,444
% of Total	7.9%	7.4%	6.9%	5.6%



The graph above shows the maturation of MERS for the Defined Benefit plan. An aging population and an increase in employees retiring over the past few years has resulted in more pension funds paid out than MERS received in employee/employer contributions. This is considered normal cycling for a mature retirement system. MERS received \$223,450,393 from employer/employee contributions in 2003 (\$33,017,608 of that amount was from new municipalities). MERS paid out \$224,679,876 (\$221,137,612 in pension payments and \$3,542,264 in employee refunds).





Charts 1 and 2 illustrate how MERS has matured over the years. Over time, the number of active members per retiree has declined from 7 to around 2. The benefit payout as a percentage of active member payrolls has increased to over 15%.



**SCHEDULE OF CHANGES IN RESERVES  
For the Fiscal Year Ended December 31, 2003**

**Defined Benefit Plan**

	<b>Reserve for Employee Contributions</b>	<b>Reserve for Employer Contributions and Benefit Payments</b>	<b>Reserve for Expenses and Undistributed Investment Income</b>	<b>Total Defined Benefit Plan</b>	<b>Total Defined Contribution Plan</b>	<b>Total Pension Trust Funds</b>
<b>Additions</b>						
Member Contributions						
Regular	\$ 57,145,281			\$ 57,145,281	\$ 3,842,038	\$ 60,987,319
Purchase of Service Credit	5,276,469			5,276,469		5,276,469
Employer contributions		\$ 161,028,643		161,028,643	11,358,936	172,387,579
Net Investment Income			\$ 799,367,113	799,367,113	17,570,152	816,937,265
Miscellaneous Income			822,347	822,347		822,347
Transfers from Defined Benefit Plan					3,839,296	3,839,296
Transfers from Other Plans					199,702	199,702
<b>Total Additions</b>	<b>62,421,750</b>	<b>161,028,643</b>	<b>800,189,460</b>	<b>1,023,639,853</b>	<b>36,810,124</b>	<b>1,060,449,977</b>
<b>Deductions</b>						
Retirement Benefits		221,137,612		221,137,612	4,089,817	225,227,429
Refund of Contributions	3,542,264			3,542,264		3,542,264
Administrative Expense			8,049,500	8,049,500		8,049,500
Special Expenses and Fees		378,334		378,334		378,334
Transfers to DC Plan	106,727	3,732,569		3,839,296		3,839,296
<b>Total Deductions</b>	<b>3,648,991</b>	<b>225,248,515</b>	<b>8,049,500</b>	<b>236,947,006</b>	<b>4,089,817</b>	<b>241,036,823</b>
<b>Net Increase (Decrease)</b>	<b>58,772,759</b>	<b>(64,219,872)</b>	<b>792,139,960</b>	<b>786,692,847</b>	<b>32,720,307</b>	<b>819,413,154</b>
<b>Other Changes in Reserves</b>						
Investment Income Allocations	5,163,808	786,976,152	(792,139,960)			
Retirement and Unclaimed Transfers	(28,035,325)	28,035,325				
<b>Total Other Changes in Reserves</b>	<b>(22,871,517)</b>	<b>815,011,477</b>	<b>(792,139,960)</b>			
<b>Net Increase (Decrease) in Reserves After Other Changes</b>	<b>35,901,242</b>	<b>750,791,605</b>		<b>786,692,847</b>	<b>32,720,307</b>	<b>819,413,154</b>
<b>Reserve Balance Beginning of Year</b>	<b>371,461,312</b>	<b>2,913,843,021</b>		<b>3,285,304,333</b>	<b>84,760,870</b>	<b>3,370,065,203</b>
<b>Reserve Balance End of Year</b>	<b>\$407,362,554</b>	<b>\$ 3,664,634,626</b>	<b>\$ -</b>	<b>\$ 4,071,997,180</b>	<b>\$ 117,481,177</b>	<b>\$ 4,189,478,357</b>



## Schedule of Participating Municipalities Defined Benefit Plan For the Year Ended December 31, 2003

Name	Number of Actives	Number of Vested	Number of Retirees/ Beneficiaries	Balance Reserve for Employee Contributions	Balance Reserve for Employer Contributions	Total Reserves
Adrian, City of	161	14	107	\$ 3,955,024	\$ 27,310,728	\$ 31,265,752
Albion, City of	57	23	111	309,147	12,873,859	13,183,006
Alcona County	67	7	40	264,235	4,620,405	4,884,640
Alger County	36	4	18	134,571	3,992,052	4,126,623
Alger County Road Commission	33	1	40	912,558	4,577,869	5,490,427
Algonac, City of	31	5	3	661,966	1,468,045	2,130,011
Allegan County	175	103	188	2,161,592	25,638,126	27,799,718
Allegan County Road Commission	73	3	54	2,253,254	9,399,607	11,652,861
Allegan, City of	11	4	3	32,168	1,144,053	1,176,221
Alma, City of	87	8	63	2,304,807	11,381,553	13,686,360
Almont, Village of	15	0	1	188,343	532,129	720,472
Alpena County	109	17	54	262,121	7,641,350	7,903,471
Alpena County Road Commission	36	0	34	241,925	6,266,201	6,508,126
Alpena General Hospital	572	39	273	4,170,132	74,244,197	78,414,329
Alpena Senior Citizens Center	4	3	3	-	240,277	240,277
Alpha, Village of	1	0	0	-	22,667	22,667
Antrim County	335	38	108	806,837	13,064,390	13,871,227
Antrim County Road Commission	44	1	35	288,952	5,313,087	5,602,039
Arenac County	89	13	41	495,155	3,775,670	4,270,825
Arenac County Road Commission	28	0	24	23,391	2,283,108	2,306,499
Ash Township	3	0	2	70,983	110,582	181,565
Au Gres, City of	5	1	5	-	750,387	750,387
Auburn, City of	7	0	3	197,920	727,525	925,445
Bad Axe, City of	26	1	5	150,231	1,780,462	1,930,693
Bangor, City of	14	4	12	142,826	1,526,697	1,669,523
Baraga County	34	7	16	10,718	2,711,325	2,722,043
Baraga County Memorial Hospital	184	18	71	338,862	6,320,766	6,659,628
Baraga County Road Commission	31	0	30	31,853	3,798,727	3,830,580
Baraga, Village of	10	1	6	-	1,122,331	1,122,331
Barry County	387	26	137	1,343,999	17,854,772	19,198,771
Barry County Community Mental Health Authority	43	3	0	97,241	1,022,229	1,119,470
Barry-Eaton District Health Department	92	28	30	916,180	5,836,976	6,753,156
Barton Hills, Village of	3	0	1	-	363,876	363,876
Bates Township	1	0	1	-	97,394	97,394
Bath Charter Township	20	1	2	558,304	1,008,684	1,566,988
Battle Creek, City of	438	30	222	5,638,613	54,374,798	60,013,411
Bay City Housing Commission	17	1	17	70,837	3,481,180	3,552,017
Bay City, City of	150	19	266	1,708,085	32,345,576	34,053,661
Bay Metro Transit Authority	103	9	6	291,965	1,869,048	2,161,013
Bayliss Public Library	7	0	6	59,929	840,465	900,394
Beecher Metropolitan District Sewage and Water System	15	1	7	314,657	2,754,301	3,068,958
Belding, City of	8	0	3	91,225	490,521	581,746
Belleville, City of	22	4	10	85,552	2,213,039	2,298,591
Benzie County	92	26	21	-	4,682,768	4,682,768
Benzie County Commission on Aging	8	0	0	-	157,978	157,978



**Schedule of Participating Municipalities  
Defined Benefit Plan  
For the Year Ended December 31, 2003**

Name	Number of Actives	Number of Vested	Number of Retirees/ Beneficiaries	Balance Reserve for Employee Contributions	Balance Reserve for Employer Contributions	Total Reserves
Benzie County Medical Care Facility	96	12	15	231,813	3,114,214	3,346,027
Benzie County Road Commission	38	2	15	399,428	1,888,379	2,287,807
Benzie Shores District Library	1	0	0	9,993	60,104	70,097
Benzie/Leelanau District Health Department	4	0	1	-	197,233	197,233
Berkley, City of	51	8	54	1,290,746	11,464,597	12,755,343
Berrien Springs, Village of	20	6	11	106,991	1,758,411	1,865,402
Bessemer, City of	14	1	19	248,705	1,435,711	1,684,416
Beverly Hills, Village of	13	7	9	35,670	1,719,886	1,755,556
Big Rapids Housing Commission	5	2	3	9,480	495,823	505,303
Big Rapids, City of	46	9	38	386,339	5,483,490	5,869,829
Birch Run, Village of	17	1	3	131,265	126,972	258,237
Bishop International Airport Authority	26	2	2	494,299	1,514,986	2,009,285
Blackman Charter Township	28	0	3	970,628	947,078	1,917,706
Blissfield, Village of	19	0	4	334,184	1,208,377	1,542,561
Bloomfield Hills, City of	33	3	28	1,387,507	10,857,144	12,244,651
Blue Water Transportation Commission	44	1	5	38,704	1,536,899	1,575,603
Boyne City, City of	40	5	23	1,182,891	3,620,430	4,803,321
Branch-Hillsdale-St. Joseph District Health	80	7	25	935,819	6,012,430	6,948,249
Breckenridge, Village of	10	2	5	140,465	983,434	1,123,899
Bridgeport Charter Township	40	16	22	185,737	3,332,103	3,517,840
Brighton Area Fire Authority	5	0	0	2,587	135,446	138,033
Brighton Township	16	5	4	207,464	399,099	606,563
Brighton, City of	53	4	15	51,810	4,613,269	4,665,079
Britton, Village of	2	0	1	48,841	139,559	188,400
Bronson, City of	5	0	1	60,151	108,130	168,281
Brooklyn, Village of	4	0	2	141,279	513,429	654,708
Buchanan, City of	32	4	34	745,674	4,838,050	5,583,724
Buena Vista Charter Township	49	3	8	1,010,235	3,526,754	4,536,989
Burton, City of	103	9	30	1,100,630	9,576,852	10,677,482
Butman Township	0	4	0	-	77,647	77,647
Cadillac, City of	77	13	46	183,073	8,996,874	9,179,947
Cadillac-Wexford Transit Authority	16	0	2	24,087	315,916	340,003
Calhoun County	160	1	22	3,825,092	851,666	4,676,758
Calhoun County Road Commission	82	10	23	95,267	5,052,211	5,147,478
Canton Public Library	15	0	0	875,754	308,738	1,184,492
Canton Township	109	0	3	16,041,879	4,177,479	20,219,358
Capac, Village of	11	2	10	-	695,525	695,525
Capital Area District Library	53	1	0	176,751	259,813	436,564
Capital Region Airport Authority	56	6	22	129,828	6,063,741	6,193,569
Carleton, Village of	7	1	1	148,344	238,452	386,796
Caseville, Village of	12	1	2	207,826	252,085	459,911
Caspian, City of	6	3	5	401	397,067	397,468
Cass County	134	8	49	2,338,296	7,947,381	10,285,677
Cass County Medical Care Facility	69	3	21	869,020	2,373,417	3,242,437
Cass District Library	12	0	5	50,598	511,637	562,235



## Schedule of Participating Municipalities Defined Benefit Plan For the Year Ended December 31, 2003

Name	Number of Actives	Number of Vested	Number of Retirees/ Beneficiaries	Balance Reserve for Employee Contributions	Balance Reserve for Employer Contributions	Total Reserves
Cedar Springs, City of	14	1	8	235,783	1,317,645	1,553,428
Center Line, City of	32	2	41	742,030	4,940,748	5,682,778
Central Dispatch of Muskegon County	25	4	13	541,966	2,398,520	2,940,486
Central Michigan District Health Department	102	30	46	684,985	7,479,229	8,164,214
Central Wayne County Sanitation Authority	0	11	17	88,917	2,915,369	3,004,286
Charlevoix County	328	24	102	571,853	12,578,905	13,150,758
Charlevoix County Road Commission	39	4	39	238,348	3,620,424	3,858,772
Charlevoix, City of	41	3	26	870,667	4,170,937	5,041,604
Charlotte District Library	6	0	2	10,101	243,248	253,349
Charlotte, City of	56	13	33	591,824	8,414,161	9,005,985
Cheboygan County	131	10	47	1,770,995	7,003,998	8,774,993
Cheboygan County Road Commission	52	3	54	519,382	6,892,769	7,412,151
Cheboygan, City of	33	1	29	1,004,841	4,116,668	5,121,509
Chelsea, Village of	30	3	18	20,785	4,001,535	4,022,320
Chesaning, Village of	13	2	7	-	356,016	356,016
Chippewa County	181	30	86	1,458,224	15,503,929	16,962,153
Chippewa County Road Commission	67	4	62	85,165	8,705,226	8,790,391
Chippewa River District Library	18	0	0	281,721	723,736	1,005,457
City of Monroe Housing Commission	6	0	0	226,800	397,887	624,687
Clare County	122	15	51	1,908,660	7,148,377	9,057,037
Clare County Road Commission	39	0	42	917,732	5,948,342	6,866,074
Clare, City of	28	4	10	731,696	2,526,010	3,257,706
Clawson, City of	36	2	52	100,807	10,636,479	10,737,286
Clay Township	41	3	13	521,240	1,561,487	2,082,727
Clearwater Township	1	0	0	-	11,099	11,099
Clinton County	203	25	86	450,519	17,015,657	17,466,176
Clinton County Road Commission	57	3	47	1,069,827	7,581,853	8,651,680
Clinton Township	264	6	95	6,608,732	24,676,311	31,285,043
Clinton, Village of	17	4	8	76,996	1,932,652	2,009,648
Clinton-Eaton-Ingham Mental Health	575	118	160	4,667,588	45,207,914	49,875,502
Coldwater Board of Public Utilities	30	5	37	589,066	5,723,811	6,312,877
Coldwater, City of	39	9	52	1,572,246	9,991,861	11,564,107
Coleman, City of	6	1	5	210,664	634,135	844,799
Columbiaville, Village of	2	0	3	38,895	130,222	169,117
Community Mental Health of Central Michigan	321	76	51	1,378,053	22,364,377	23,742,430
Coopersville, City of	17	2	5	215,104	929,533	1,144,637
Corunna City of	15	3	9	41,384	2,182,936	2,224,320
Crawford County	64	17	48	264,080	4,962,121	5,226,201
Crawford County Road Commission	35	2	12	261,991	1,653,317	1,915,308
Crawford County Transit Authority	23	0	3	257,249	1,779,099	2,036,348
Croswell, City of	36	0	15	359,361	2,761,092	3,120,453
Crystal Falls Community Hospital	0	85	43	34,521	3,056,953	3,091,474
Crystal Falls, City of	28	3	19	71,068	4,628,145	4,699,213
Davison Township	12	0	3	688,691	588,929	1,277,620
Davison, City of	13	0	1	723,593	817,435	1,541,028



## Schedule of Participating Municipalities Defined Benefit Plan For the Year Ended December 31, 2003

Name	Number of Actives	Number of Vested	Number of Retirees/ Beneficiaries	Balance Reserve for Employee Contributions	Balance Reserve for Employer Contributions	Total Reserves
Deerfield, Village of	5	0	2	48,257	738,028	786,285
Delta Charter Township	29	1	7	1,025,430	3,256,098	4,281,528
Delta County	120	9	67	448,646	11,372,179	11,820,825
Delta County Road Commission	45	4	15	-	2,375,400	2,375,400
Delta-Menominee District Health Department	54	16	7	440,278	3,550,776	3,991,054
Detour, Village of	7	1	1	-	117,051	117,051
Dewitt Charter Township	14	2	1	378,011	628,856	1,006,867
Dewitt, City of	16	8	6	84,507	933,631	1,018,138
Dexter Township	10	0	3	104,331	180,730	285,061
Dexter, Village of	20	2	2	411,146	1,077,703	1,488,849
Dickinson County	107	14	35	807,828	10,252,597	11,060,425
Dickinson County Road Commission	36	5	38	262,084	4,453,830	4,715,914
Dickinson-Iron District Health Department	55	14	18	281,571	3,824,592	4,106,163
Dimondale, Village of	6	0	2	-	299,458	299,458
District Health Department Number 10	51	26	69	281,384	10,751,012	11,032,396
District Health Department Number 2	43	6	15	329,966	2,932,232	3,262,198
District Health Department Number 4	58	11	17	839,947	6,269,432	7,109,379
Douglas, Village of	17	2	4	10,653	820,500	831,153
Dowagiac Housing Commission	4	1	0	2,177	62,179	64,356
Dowagiac, City of	72	11	31	1,369,749	4,731,883	6,101,632
Dryden, Village of	1	1	1	29,384	249,974	279,358
Dundee, Village of	12	0	5	549,132	1,328,157	1,877,289
Durand, City of	23	2	16	77,265	2,321,113	2,398,378
East China, Township of	16	1	9	538,237	2,742,153	3,280,390
East Grand Rapids, City of	16	5	43	445,852	11,797,466	12,243,318
East Jordan, City of	23	4	12	211,839	1,795,738	2,007,577
East Lansing, City of	302	57	224	2,902,842	75,721,548	78,624,390
Eastern Upper Peninsula Transit Authority	27	2	15	9,133	3,541,870	3,551,003
Eaton County	394	37	150	10,405,738	31,998,444	42,404,182
Eaton County Medical Care Facility	129	6	34	659,008	2,785,311	3,444,319
Eaton Rapids, City of	47	1	6	307,719	3,351,628	3,659,347
Eau Claire, Village of	4	0	3	73,828	146,781	220,609
Ecorse, City of	67	3	97	175,374	13,576,272	13,751,646
Elderly Housing Commission	14	1	9	193,394	1,148,064	1,341,458
Elkton, Village of	3	2	4	118,695	288,038	406,733
Elsie, Village of	6	3	2	68,303	70,285	138,588
Emmet County Road Commission	20	4	46	113,695	7,003,690	7,117,385
Emmet, Charter Township of	22	0	2	532,835	750,155	1,282,990
Essexville, City of	134	9	85	139,631	15,191,392	15,331,023
Essexville, City of	20	3	21	566,226	3,650,960	4,217,186
Evart Local Development Finance Authority	2	0	0	-	95,047	95,047
Evart, City of	13	2	0	51,153	571,308	622,461
Farmington Community Library	29	3	14	544,340	4,353,399	4,897,739
Fenton, City of	48	3	27	166,570	5,623,846	5,790,416
Ferrysburg, City of	9	3	4	164,681	302,354	467,035



## Schedule of Participating Municipalities Defined Benefit Plan For the Year Ended December 31, 2003

Name	Number of Actives	Number of Vested	Number of Retirees/ Beneficiaries	Balance Reserve for Employee Contributions	Balance Reserve for Employer Contributions	Total Reserves
Flat Rock, City of	71	2	37	1,574,276	6,574,265	8,148,541
Flint Charter Township	63	3	3	2,847,632	5,557,950	8,405,582
Flint Public Library	27	0	0	-	131,896	131,896
Flushing, Charter Township of	10	1	0	233,681	422,975	656,656
Flushing, City of	35	4	23	273,613	5,814,358	6,087,971
Forsyth Township	20	2	4	608,640	1,046,192	1,654,832
Fowler, Village of	2	1	2	-	218,915	218,915
Fowlerville District Library	2	0	0	20,475	46,798	67,273
Fowlerville, Village of	14	2	7	295,034	1,748,548	2,043,582
Frankenmuth, City of	33	3	17	792,528	5,855,443	6,647,971
Frankfort, City of	15	0	10	100,207	1,178,104	1,278,311
Franklin, Village of	14	1	4	188,092	1,535,898	1,723,990
Fraser, City of	0	4	3	110,551	127,753	238,304
Fremont Area District Library	8	0	2	6,989	464,665	471,654
Fremont, City of	27	3	15	3,011	4,148,788	4,151,799
Gaastra, City of	2	0	0	-	49,376	49,376
Gaylord, City of	37	3	12	233,417	3,560,880	3,794,297
Genesee Charter Township	56	1	22	311,206	3,832,745	4,143,951
Genoa Township	1	0	0	1,644	8,305	9,949
Gladstone, City of	26	5	29	99,299	4,302,459	4,401,758
Gladwin County	110	16	42	1,524,507	5,795,820	7,320,327
Gladwin County Road Commission	33	0	29	1,127,715	6,185,887	7,313,602
Gladwin, City of	32	0	0	624,730	180,842	805,572
Gogebic-Iron Wastewater Authority	8	0	2	271,807	544,121	815,928
Grand Blanc Charter Township	48	1	7	563,237	1,904,530	2,467,767
Grand Blanc, City of	14	2	0	299,808	1,018,111	1,317,919
Grand Haven, City of	197	22	111	4,154,787	46,796,955	50,951,742
Grand Ledge Emergency Services Authority	5	0	0	80,885	53,386	134,271
Grand Rapids Housing	5	1	1	60,298	324,805	385,103
Grand Traverse County	566	113	224	702,737	36,146,217	36,848,954
Grand Traverse County Road Commission	22	4	54	64,541	6,830,709	6,895,250
Grandville, City of	40	11	40	332,618	7,946,511	8,279,129
Gratiot County	89	24	69	314,048	10,462,468	10,776,516
Gratiot County Road Commission	41	2	45	1,002,400	7,592,760	8,595,160
Grayling, City of	21	1	6	-	1,885,769	1,885,769
Great Lakes Community Mental Health	74	25	38	12,453	11,136,301	11,148,754
Green Oak Township	13	0	0	149,286	366,715	516,001
Greenville, City of	20	1	8	331,280	2,203,901	2,535,181
Grosse Ile Township	63	9	25	135,438	9,732,082	9,867,520
Grosse Pointe Park, City of	86	4	79	3,122,801	16,383,192	19,505,993
Grosse Pointes-Clinton Refuse Disposal Authority	0	5	14	336,031	3,066,576	3,402,607
Hamburg Township	12	0	2	81,920	320,550	402,470
Hamtramck, City of	141	13	301	5,134,311	45,807,869	50,942,180
Hancock, City of	12	0	0	324,612	138,979	463,591
Harbor Beach, City of	20	3	13	826,678	2,601,120	3,427,798



## Schedule of Participating Municipalities Defined Benefit Plan For the Year Ended December 31, 2003

Name	Number of Actives	Number of Vested	Number of Retirees/ Beneficiaries	Balance Reserve for Employee Contributions	Balance Reserve for Employer Contributions	Total Reserves
Harrison, City of	13	1	7	180,673	1,098,381	1,279,054
Hastings, City of	75	6	53	469,187	6,815,750	7,284,937
Health Source of Saginaw	340	55	185	1,396,011	20,308,244	21,704,255
Helen Newberry Joy Hospital	90	7	47	965,193	7,400,265	8,365,458
Henika District Library	2	0	0	544	199,654	200,198
Herrick District Library	46	3	20	2,974	2,849,971	2,852,945
Hiawatha Community Mental Health Authority	128	28	13	603,927	6,019,405	6,623,332
Highland Park, City of	28	9	48	2,986,552	4,812,804	7,799,356
Hillsdale County	43	0	5	499,001	435,586	934,587
Hillsdale County Road Commission	51	2	15	604,455	2,468,062	3,072,517
Hillsdale, City of	91	11	44	2,184,090	10,547,484	12,731,574
Holland Hospital	0	24	82	56,931	2,710,990	2,767,921
Holland, City of	347	47	230	2,631,966	62,253,465	64,885,431
Holly, Village of	37	2	11	364,994	4,694,959	5,059,953
Homer, Village of	15	4	6	31,259	764,121	795,380
Houghton County	108	9	54	478,168	8,508,156	8,986,324
Houghton County Road Commission	9	0	8	17,002	2,210,155	2,227,157
Houghton Lake Public Library	6	0	0	-	140,551	140,551
Howard City, Village of	9	1	7	183	650,100	650,283
Howard Township	2	0	0	-	11,177	11,177
Howell Area Fire Authority	2	0	0	15,432	126,887	142,319
Howell Carnegie District Library	9	1	3	2,569	429,760	432,329
Howell, City of	73	19	24	1,040,650	6,299,019	7,339,669
Hudsonville, City of	11	3	10	42,672	986,494	1,029,166
Huntington Woods, City of	33	3	46	839,160	8,897,272	9,736,432
Huron Charter Township	48	0	7	1,083,767	2,715,561	3,799,328
Huron County	357	47	170	7,480,949	31,830,604	39,311,553
Huron County Road Commission	69	1	70	1,777,325	13,312,499	15,089,824
Imlay City, City of	24	8	6	16,822	2,302,076	2,318,898
Independence Township	33	0	2	678,849	1,387,063	2,065,912
Indianfields Township	7	4	4	-	52,593	52,593
Ingham County	1,224	239	605	22,869,432	114,359,240	137,228,672
Ingham County Road Commission	104	14	90	899,154	17,173,546	18,072,700
Interurban Transit Authority	7	0	0	11,182	481,985	493,167
Ionia County	45	4	2	420,844	1,060,577	1,481,421
Ionia County Central Dispatch	10	2	0	138,529	161,576	300,105
Ionia County Road Commission	44	3	32	419,722	2,961,573	3,381,295
Ionia Housing Commission	5	0	0	30,472	457,347	487,819
Ionia, City of	63	4	25	214,755	3,972,103	4,186,858
Iosco County	240	24	90	366,339	9,363,315	9,729,654
Iosco County Road Commission	39	1	20	647,395	2,960,785	3,608,180
Iron County	317	18	124	1,349,087	10,447,705	11,796,792
Iron County Housing Commission	6	1	2	-	181,142	181,142
Iron County Road Commission	30	1	47	15,789	4,437,926	4,453,715
Iron Mountain, City of	30	3	46	882,856	5,003,598	5,886,454





## Schedule of Participating Municipalities Defined Benefit Plan For the Year Ended December 31, 2003

Name	Number of Actives	Number of Vested	Number of Retirees/ Beneficiaries	Balance Reserve for Employee Contributions	Balance Reserve for Employer Contributions	Total Reserves
Iron Mountain-Kingsford Sewage Treatment	5	0	2	134,100	106,795	240,895
Iron River, City of	26	2	31	241,864	3,559,703	3,801,567
Isabella County	297	49	106	620,810	18,772,692	19,393,502
Isabella County Road Commission	49	2	34	1,124,729	5,287,526	6,412,255
Ishpeming Area Joint Wastewater Treatment Facility	5	1	1	115,510	216,324	331,834
Ishpeming, City of	42	5	33	1,228,802	4,711,936	5,940,738
Ithaca, City of	18	1	10	484,787	1,662,217	2,147,004
Jackson District Library	37	10	13	723,996	3,350,529	4,074,525
Jackson Transportation Auth	78	2	2	327,308	1,219,417	1,546,725
Jordan Valley District Library	2	0	1	-	97,380	97,380
Kalamazoo Lake Sewer and Water Authority	8	4	2	4,926	487,197	492,123
Kalamazoo Public Library	43	0	0	-	922,509	922,509
Kalkaska County	107	16	26	621,799	6,353,241	6,975,040
Kalkaska County Road Commission	33	1	38	655	4,129,072	4,129,727
Kalkaska Public Transit Authority	19	0	1	166,372	568,209	734,581
Kalkaska, Village of	14	0	7	266,609	1,765,049	2,031,658
Keego Harbor, City of	15	7	6	71,684	1,197,583	1,269,267
Kent County Community Mental Health	111	1	1	1,388,116	8,826,199	10,214,315
Keweenaw County	18	1	4	84,294	646,438	730,732
Keweenaw County Road Commission	24	0	12	55,040	3,306,867	3,361,907
Kinde, Village of	1	0	0	43,959	33,650	77,609
Kingsford, City of	23	2	17	553,262	2,733,709	3,286,971
Lainsburg, City of	7	1	0	52,629	44,366	96,995
Lake County	123	10	26	466,671	3,375,051	3,841,722
Lake County Road Commission	34	2	29	281,073	3,944,243	4,225,316
Lake Linden, Village of	7	2	3	-	406,426	406,426
Lake Odessa, Village of	0	0	3	-	62,769	62,769
Lake Orion, Village of	19	1	11	217,495	2,446,641	2,664,136
Lakeland Library Cooperative	12	0	0	94,674	297,521	392,195
Lakeshore Coordinating Council	6	1	1	-	497,425	497,425
L'Anse, Village of	21	2	3	529,821	1,446,009	1,975,830
Lansing Housing Commission	49	6	16	23,911	5,140,657	5,164,568
Lapeer County	807	76	166	2,198,469	34,618,719	36,817,188
Lapeer County Road Commission	60	4	51	1,566,786	4,502,317	6,069,103
Lapeer District Library	28	2	8	97,903	1,071,844	1,169,747
Lapeer, City of	77	12	40	233,017	8,332,621	8,565,638
Lathrup Village, City of	22	1	14	858,800	3,341,788	4,200,588
Laurium, Village of	12	2	13	-	744,578	744,578
Lawrence, Village of	1	3	2	-	118,672	118,672
Leelanau County	110	14	28	234,132	6,435,472	6,669,604
Leelanau County Road Commission	42	2	12	454,627	868,558	1,323,185
Leoni Township	38	3	6	1,216,310	1,801,198	3,017,508
Leslie, City of	9	0	2	131,884	326,006	457,890
Lexington, Village of	15	1	2	137,096	450,487	587,583
Library Network	38	7	18	707,536	2,904,151	3,611,687



**Schedule of Participating Municipalities  
Defined Benefit Plan  
For the Year Ended December 31, 2003**

<b>Name</b>	<b>Number of Actives</b>	<b>Number of Vested</b>	<b>Number of Retirees/ Beneficiaries</b>	<b>Balance Reserve for Employee Contributions</b>	<b>Balance Reserve for Employer Contributions</b>	<b>Total Reserves</b>
Lima Township	6	0	4	45,151	72,805	117,956
Livingston County	592	63	156	788,725	39,798,154	40,586,879
Livingston County Community Mental Health Authority	117	22	12	20,329	5,764,660	5,784,989
Livingston County Road Commission	68	3	46	802,131	9,512,561	10,314,692
Loutit District Library	12	0	1	50,333	405,909	456,242
Lowell, City of	46	3	19	1,245,164	3,870,801	5,115,965
Luce County	36	15	17	15,545	1,785,858	1,801,403
Luce County Road Commission	27	2	31	13,115	3,544,843	3,557,958
Luce-Mackinac-Alger-Schoolcraft District Health	97	111	32	7,665	5,574,237	5,581,902
Ludington, City of	56	8	51	60,140	9,761,714	9,821,854
Ludington-Mason District Library	12	0	3	5,463	778,638	784,101
Luna Pier, City of	13	0	6	436,888	1,880,516	2,317,404
Lyons, Village of	3	0	0	2,895	6,388	9,283
Mackinac County	65	23	56	73,664	6,299,377	6,373,041
Mackinac County Road Commission	25	6	30	8,300	2,923,169	2,931,469
Mackinac Straits Hospital and Health Center	213	5	21	1,418,517	3,695,180	5,113,697
Madison Heights, City of	121	13	91	1,146,525	20,018,995	21,165,520
Madison Township	10	1	4	144,187	183,693	327,880
Manistee County	276	33	103	922,911	14,335,404	15,258,315
Manistee County Road Commission	43	3	24	-	3,398,186	3,398,186
Manistique, City of	31	1	25	117,661	4,113,598	4,231,259
Manlius Township	6	0	0	19,878	38,152	58,030
Manton, City of	7	2	6	117,797	390,235	508,032
Marine City, City of	0	0	4	-	56,839	56,839
Marion, Village of	6	1	3	51,112	195,677	246,789
Marquette Board of Light and Power	71	2	80	2,816,853	17,208,655	20,025,508
Marquette County	418	47	160	2,685,028	31,974,277	34,659,305
Marquette County Airport	9	0	5	29,487	1,086,077	1,115,564
Marquette County Road Commission	74	5	45	1,144,898	6,790,922	7,935,820
Marquette County Transit Authority	25	1	4	359,471	954,050	1,313,521
Marquette Waste Mgmt	8	3	0	175,259	339,585	514,844
Marquette, City of	142	13	76	3,986,380	16,676,630	20,663,010
Marshall District Library	1	0	0	35,382	162,877	198,259
Marshall, City of	96	5	60	2,586,521	16,148,470	18,734,991
Mason County	205	45	116	151,670	23,842,079	23,993,749
Mason County Road Commission	40	1	5	476,051	948,281	1,424,332
Mason, City of	46	2	18	1,791,616	5,794,222	7,585,838
Mason-Oceana 911 Central Dispatch	19	0	0	150,029	241,170	391,199
Mastodon Township	0	0	1	-	48,749	48,749
MBS International Airport	27	2	11	197,105	4,085,503	4,282,608
Meceola Central Dispatch	17	2	1	488	550,151	550,639
Mecosta County	108	41	67	516,715	13,421,533	13,938,248
Mecosta County General Hospital	0	89	76	377,960	7,162,527	7,540,487
Mecosta County Road Commission	49	5	43	1,073,344	4,836,627	5,909,971
Melvindale Housing Commission	7	2	1	7,254	316,217	323,471



## Schedule of Participating Municipalities Defined Benefit Plan For the Year Ended December 31, 2003

Name	Number of Actives	Number of Vested	Number of Retirees/ Beneficiaries	Balance Reserve for Employee Contributions	Balance Reserve for Employer Contributions	Total Reserves
Melvindale, City of	78	3	46	2,399,890	9,993,090	12,392,980
Menominee County	90	17	60	506,066	7,162,097	7,668,163
Menominee County Road Commission	14	0	9	6,788	1,687,809	1,694,597
Menominee, City of	50	12	45	248,239	5,086,940	5,335,179
Meridian Charter Township	138	9	17	1,194,869	10,969,004	12,163,873
Metamora Township	7	0	0	81,098	64,427	145,525
Michigan Grand River Watershed	0	0	1	-	17,212	17,212
Michigan South Central Power Agency	48	11	12	323,643	3,882,532	4,206,175
Mid Michigan District Health Department	83	15	32	379,061	3,655,353	4,034,414
Mid Peninsula Library Cooperative	0	2	4	9,425	284,249	293,674
Middleville, Village of	7	4	4	132,925	511,548	644,473
Midland Authority for Central Dispatch	17	0	1	160,908	385,256	546,164
Midland County Road Commission	47	1	45	967,147	6,272,067	7,239,214
Midland, City of	274	17	214	4,033,813	58,194,371	62,228,184
Milan Library	5	0	1	-	161,155	161,155
Milan, City of	31	6	18	222,977	4,666,164	4,889,141
Milford, Village of	32	4	15	181,628	4,708,810	4,890,438
Millington, Village of	7	0	2	202,241	686,918	889,159
Missaukee County	29	2	3	93,656	1,142,080	1,235,736
Montague, City of	17	1	3	348,789	1,055,140	1,403,929
Montcalm County Road Commission	51	1	29	796,749	5,772,049	6,568,798
Montmorency County	56	9	42	42,851	3,919,727	3,962,578
Montmorency-Oscoda-Alpena Solid Waste Management	5	0	0	-	102,855	102,855
Montrose, City of	6	4	1	43,794	214,377	258,171
Mt. Morris, Township of	63	5	31	202,889	9,639,688	9,842,577
Mt. Pleasant, City of	101	18	51	2,362,323	9,529,917	11,892,240
Muir, Village of	3	0	2	18,814	184,057	202,871
Mundy, Charter Township	19	0	0	207,234	450,466	657,700
Municipal Employees Retirement System	54	1	3	396,747	1,440,745	1,837,492
Munising, City of	32	3	18	80,388	3,887,380	3,967,768
Muskegon County	1,166	167	480	4,419,282	110,634,704	115,053,986
Muskegon County Road Commission	93	9	76	501,619	14,533,374	15,034,993
Muskegon Heights, City of	97	12	105	2,555,491	21,938,969	24,494,460
Muskegon Housing Commission	9	0	0	54,503	85,890	140,393
Muskegon, Charter Twp of	54	5	32	1,305,002	6,321,834	7,626,836
Negaunee, City of	38	1	38	124,990	5,422,585	5,547,575
Newaygo County	102	21	63	108,995	13,738,905	13,847,900
Newaygo County Mental Health	3	2	4	754	1,842,554	1,843,308
Newaygo Medical Care Facility	167	12	66	957,429	6,084,029	7,041,458
Newaygo Soil and Water Conservation District	4	1	0	7,192	35,655	42,847
Newberry, Village of	24	3	18	31,420	2,165,750	2,197,170
Niles District Library	15	0	0	16,557	173,437	189,994
North East Ottawa District Library	4	0	0	-	98,156	98,156
North Houghton County Water and Sewage Authority	3	0	0	-	103,628	103,628
North Muskegon, City of	21	2	14	595,174	2,758,947	3,354,121



## Schedule of Participating Municipalities Defined Benefit Plan For the Year Ended December 31, 2003

Name	Number of Actives	Number of Vested	Number of Retirees/ Beneficiaries	Balance Reserve for Employee Contributions	Balance Reserve for Employer Contributions	Total Reserves
North Pointe Behavioral Healthcare System	65	21	13	707,806	4,619,823	5,327,629
Northern Michigan Community Mental Health	0	0	1	-	57,363	57,363
Northport, Village of	0	0	1	-	809	809
Northville Charter Township	37	0	3	1,082,984	2,085,876	3,168,860
Northville District Library	14	3	3	-	759,166	759,166
Northville, City of	39	12	41	138,774	8,591,761	8,730,535
Northwest Michigan Community Health	22	13	22	19,623	3,081,163	3,100,786
Northwestern Regional Airport Commission	18	3	4	44,944	1,668,220	1,713,164
Norton Shores, City of	98	10	55	216,926	14,494,053	14,710,979
Norway, City of	34	1	40	755,937	5,984,092	6,740,029
Novi, City of	276	25	49	2,261,964	24,867,760	27,129,724
Oceana County	313	20	74	2,727,631	10,292,397	13,020,028
Ogemaw County	144	14	60	2,108,767	10,492,406	12,601,173
Ogemaw County Road Commission	34	2	32	720,512	3,120,574	3,841,086
Olive Township	3	1	0	55,805	112,560	168,365
Onaway, City of	5	1	1	8,166	282,646	290,812
Ontonagon County	50	15	21	22,387	3,909,031	3,931,418
Ontonagon County Economic Development Corporation	1	0	0	-	53,400	53,400
Ontonagon County Road Commission	53	1	30	-	5,874,621	5,874,621
Ontonagon Memorial Hospital	162	8	72	2,139,161	6,210,619	8,349,780
Ontonagon, Village of	13	4	12	28,691	1,506,993	1,535,684
Orchard Lake, City of	13	2	7	80,457	2,105,499	2,185,956
Osceola County	107	21	38	128,233	6,113,225	6,241,458
Osceola County Road Commission	32	2	32	185,217	4,168,087	4,353,304
Oscoda Charter Township	12	1	3	473,050	911,876	1,384,926
Oscoda County	58	12	25	414,872	3,718,003	4,132,875
Otisville, Village of	8	1	1	49,800	453,289	503,089
Otsego County	200	17	44	927,128	7,165,691	8,092,819
Otsego County Road Commission	45	3	37	68,947	4,947,388	5,016,335
Ottawa County	923	119	239	4,192,563	78,355,392	82,547,955
Ottawa County Central Dispatch Authority	15	5	1	26,963	903,547	930,510
Ottawa County Road Commission	140	6	119	1,755,870	23,993,628	25,749,498
Otter Lake, Village of	1	0	0	5,663	19,646	25,309
Owosso, City of	5	0	7	188,943	2,521,909	2,710,852
Oxford Police, Fire Emergency Medical Commission	5	4	10	49,963	2,388,513	2,438,476
Oxford, Village of	18	1	3	24,682	1,191,560	1,216,242
Parchment, City of	12	2	11	389,633	1,396,425	1,786,058
Pathways	188	59	108	1,514,800	22,595,280	24,110,080
Paw Paw Lake Regional Joint Sewage Disposal Board	4	0	3	111,049	544,966	656,015
Paw Paw, Village of	29	2	12	813,075	3,618,563	4,431,638
Pellston, Village of	3	0	0	24,551	72,256	96,807
Pennfield Charter Township	13	0	1	474,846	96,189	571,035
Pentwater, Village of	10	2	4	180,838	645,663	826,501
Perrinton, Village of	1	0	0	6,137	11,925	18,062
Petersburg, City of	5	0	0	31,548	7,349	38,897



## Schedule of Participating Municipalities Defined Benefit Plan For the Year Ended December 31, 2003

Name	Number of Actives	Number of Vested	Number of Retirees/ Beneficiaries	Balance Reserve for Employee Contributions	Balance Reserve for Employer Contributions	Total Reserves
Petoskey, City of	66	9	62	108,536	10,878,128	10,986,664
Pewamo, Village of	2	0	0	6,340	27,936	34,276
Pigeon, Village of	5	1	4	105,880	484,898	590,778
Pinckney, Village of	10	1	1	189,861	685,964	875,825
Pinconning, City of	14	2	15	211,635	1,092,427	1,304,062
Pittsfield Charter Township	112	11	10	1,925,089	3,395,030	5,320,119
Pleasant Ridge, City of	12	12	13	22,078	2,276,974	2,299,052
Plymouth District Library	14	0	2	-	1,597,480	1,597,480
Plymouth, City of	14	11	56	46,189	9,447,020	9,493,209
Port Austin Area Sewer and Water Authority	0	2	0	43,838	51,326	95,164
Port Austin, Village of	5	2	2	71,524	141,222	212,746
Port Huron, City of	344	33	293	3,905,031	83,289,732	87,194,763
Port Sanilac, Village of	6	2	1	36,871	147,365	184,236
Portland, City of	35	6	27	275,769	5,110,754	5,386,523
Presque Isle County	68	10	36	796,592	3,985,118	4,781,710
Presque Isle County Road Commission	32	1	37	129,048	5,225,607	5,354,655
Ravenna, Village of	3	1	0	13,874	159,867	173,741
Reading, City of	6	2	2	-	142,639	142,639
Redford Township	154	21	110	546,023	24,228,313	24,774,336
Redford Township District Library	10	3	1	88,276	900,639	988,915
Reed City, City of	25	11	21	10,213	2,109,429	2,119,642
Richfield Township (Genesee County)	9	0	0	224,008	394,043	618,051
Richfield Township (Roscommon County)	17	4	4	282,926	654,996	937,922
Richland Township	12	0	1	104,044	931,377	1,035,421
Rochester, City of	60	4	28	1,856,698	8,230,272	10,086,970
Rockford, City of	42	7	10	50,916	2,087,310	2,138,226
Rogers City, City of	28	3	20	682,033	4,200,389	4,882,422
Romeo District Library	24	2	4	199,696	705,055	904,751
Romeo, Village of	26	4	13	145,960	2,478,648	2,624,608
Romulus, City of	67	2	16	1,960,895	8,552,990	10,513,885
Roosevelt Park, City of	17	5	11	58,827	2,161,790	2,220,617
Roscommon County	154	14	47	700,144	8,883,776	9,583,920
Rose City, City of	9	1	2	79,884	350,021	429,905
Rose Township	5	0	6	9,754	174,393	184,147
Royal Oak Township	24	2	15	332,040	5,623,840	5,955,880
Saginaw County	302	80	416	4,993,069	70,225,002	75,218,071
Saginaw County 911 Center	27	6	5	219,233	4,520,509	4,739,742
Saginaw County Community Mental Health Authority	53	38	45	237,009	9,018,069	9,255,078
Saginaw County Road Commission	82	4	88	2,658,992	17,325,779	19,984,771
Saginaw Public Libraries	16	1	0	90,014	268,333	358,347
Saginaw Township	34	1	12	747,002	6,505,462	7,252,464
Saginaw Transit System Authority	8	5	0	124,423	487,764	612,187
Saginaw, City of	243	21	440	7,983,228	62,859,888	70,843,116
Saginaw-Midland Municipal Waste and Soil Commission	11	0	16	246,199	1,958,427	2,204,626
Saline, City of	68	12	37	273,348	8,575,460	8,848,808



**Schedule of Participating Municipalities  
Defined Benefit Plan  
For the Year Ended December 31, 2003**

<b>Name</b>	<b>Number of Actives</b>	<b>Number of Vested</b>	<b>Number of Retirees/ Beneficiaries</b>	<b>Balance Reserve for Employee Contributions</b>	<b>Balance Reserve for Employer Contributions</b>	<b>Total Reserves</b>
Sandusky District Library	1	1	0	22,559	40,070	62,629
Sandusky, City of	24	1	8	299,542	535,293	834,835
Saugatuck Township	7	1	4	12,249	434,218	446,467
Saugatuck, City of	7	3	5	26,001	750,843	776,844
Sault Ste. Marie, City of	100	2	65	3,201,615	13,438,805	16,640,420
Schoolcraft County	174	11	59	1,715,365	9,945,307	11,660,672
Schoolcraft County Road Commission	30	0	35	143,169	5,467,615	5,610,784
Schoolcraft Memorial Hospital	90	14	51	2,437,772	7,856,763	10,294,535
Sebewaing, Village of	19	1	18	555,766	3,057,561	3,613,327
Shepherd, Village of	6	2	0	61,477	232,059	293,536
Shiawassee Council on Aging	8	0	3	90,983	226,478	317,461
Shiawassee County	656	116	225	1,208,133	44,104,623	45,312,756
Shiawassee County Road Commission	48	3	45	1,197,135	7,998,200	9,195,335
Shiawassee District Library	7	0	1	265,310	786,966	1,052,276
Sims Whitney Utilities Authority	2	1	0	-	68,113	68,113
Smart	994	142	362	6,212,800	90,453,470	96,666,270
South East Oakland County Research Recovery	23	3	26	98,376	3,936,004	4,034,380
South East Oakland County Water Authority	24	1	20	120,717	3,866,855	3,987,572
South Haven Emergency Service Authority	12	0	1	721,191	895,375	1,616,566
South Haven, City of	79	3	67	2,274,911	14,795,829	17,070,740
South Lyon, City of	49	1	15	360,808	3,627,694	3,988,502
Southeast Michigan Council of Governments	81	26	32	58,941	19,982,843	20,041,784
Southern Clinton County Municipal Utilities Authority	16	6	3	427,002	1,012,771	1,439,773
Sparta, Village of	19	1	5	208,099	893,781	1,101,880
Springfield, City of	35	3	30	473,892	5,562,667	6,036,559
St. Charles, Village of	11	3	4	125,944	1,165,420	1,291,364
St. Clair Area Fire Authority	1	0	0	-	34,133	34,133
St. Clair Shores Housing Commission	9	1	2	186,865	577,085	763,950
St. Clair, City of	45	4	29	729,370	6,476,670	7,206,040
St. Ignace, City of	35	4	14	88,826	3,533,840	3,622,666
St. Johns, City of	42	8	27	298,787	7,119,189	7,417,976
St. Joseph County	48	3	11	272,973	6,231,182	6,504,155
St. Louis Housing Commission	4	0	0	-	123,635	123,635
St. Louis, City of	19	8	27	472,647	3,988,044	4,460,691
Stambaugh Township	1	0	1	6,993	42,503	49,496
Standish, City of	6	5	6	60,232	1,029,736	1,089,968
Stanton, City of	0	1	1	14,030	61,051	75,081
Stephenson, City of	3	0	1	-	57,285	57,285
Sterling, Village of	1	0	1	14,264	148,917	163,181
Stockbridge, Village of	2	0	2	33,073	117,665	150,738
Summit Township	38	1	11	194,390	4,250,668	4,445,058
Sumpter Township	15	1	4	445,602	388,780	834,382
Superior Charter Township	9	0	1	256,377	789,967	1,046,344
Superiorland Library Cooperative	3	1	0	109,506	367,404	476,910
Swan Creek Township	6	0	2	47,334	138,316	185,650



## Schedule of Participating Municipalities Defined Benefit Plan For the Year Ended December 31, 2003

Name	Number of Actives	Number of Vested	Number of Retirees/ Beneficiaries	Balance Reserve for Employee Contributions	Balance Reserve for Employer Contributions	Total Reserves
Swartz Creek, City of	18	1	13	394,814	5,543,906	5,938,720
Sylvan Lake, City of	10	0	8	263,271	1,041,925	1,305,196
Tawas Police Authority	6	0	1	113,081	95,147	208,228
Taylor Housing Commission	5	0	0	22,841	35,395	58,236
Thirty-Fifth District Court	15	0	0	1,378,967	113,698	1,492,665
Three Rivers Hospital	0	0	5	-	18,358	18,358
Three Rivers, City of	74	8	30	1,197,493	6,274,722	7,472,215
Traverse Area District Library	46	0	9	17,150	1,575,339	1,592,489
Traverse City, City of	151	20	128	887,297	29,087,957	29,975,254
Trenton, City of	74	4	98	3,583,341	22,309,093	25,892,434
Tri-County Aging Consortium	72	10	25	25,649	4,116,688	4,142,337
Trio Council on Aging	0	4	0	18,697	190,034	208,731
Tuscarora Township	10	0	0	28,360	300,203	328,563
Tuscola County	177	8	77	2,641,260	12,671,628	15,312,888
Tuscola County Community Mental Health	117	15	15	1,873,134	4,657,591	6,530,725
Tuscola County Health Department	37	3	8	842,442	3,084,798	3,927,240
Tuscola County Medical Care Facility	213	11	54	1,939,026	5,653,948	7,592,974
Tuscola County Road Commission	20	0	7	604,519	1,132,087	1,736,606
Twenty-Sixth Judicial Circuit Court	31	10	7	23,537	1,858,844	1,882,381
Twenty-Third Judicial District Court	18	3	1	413,196	988,882	1,402,078
Twin Cities Public Safety Authority	0	3	0	44,382	27,651	72,033
Ubly, Village of	4	0	0	183,044	40,561	223,605
Utica, City of	23	0	1	443,540	931,496	1,375,036
Van Buren County	69	0	3	1,494,329	785,696	2,280,025
Vassar, City of	24	2	16	454,247	2,764,806	3,219,053
Vicksburg District Library	1	0	1	-	32,029	32,029
Vicksburg, Village of	11	2	8	-	1,101,463	1,101,463
Wakefield, City of	21	1	22	503,482	2,136,417	2,639,899
Walled Lake, City of	46	5	15	740,028	1,431,050	2,171,078
Washtenaw County	255	6	6	6,025,473	7,750,841	13,776,314
Washtenaw County Road Commission	145	9	96	4,184,963	17,591,047	21,776,010
Wayland, City of	21	4	8	73,205	1,904,634	1,977,839
Webberville, Village of	3	1	1	47,518	26,371	73,889
West Branch, City of	21	3	9	434,233	1,475,207	1,909,440
West Iron County Sewer Authority	4	1	2	32,221	391,149	423,370
West Michigan Community Mental Health System	10	5	17	160,512	3,852,601	4,013,113
West Michigan Shoreline Regional Development	9	5	1	25,452	2,532,528	2,557,980
Western Upper Peninsula District Health	94	25	42	7,861	5,483,670	5,491,531
Westland, City of	212	20	193	400,069	40,750,592	41,150,661
Westphalia, Village of	2	1	0	-	194,565	194,565
Wexford County	140	11	57	1,462,836	8,424,413	9,887,249
Wexford County Road Commission	41	3	51	153,430	5,268,838	5,422,268
White Cloud Community Library	3	1	0	30,075	95,699	125,774
White Cloud, City of	6	3	1	-	244,996	244,996
White Lake Charter Township	79	1	13	2,842,397	4,745,143	7,587,540



**Schedule of Participating Municipalities  
Defined Benefit Plan  
For the Year Ended December 31, 2003**

Name	Number of Actives	Number of Vested	Number of Retirees/ Beneficiaries	Balance Reserve for Employee Contributions	Balance Reserve for Employer Contributions	Total Reserves
White Pine Library	3	0	3	13,817	84,783	98,600
Whitehall, City of	21	3	12	15,216	2,657,768	2,672,984
Willard Public Library	23	1	0	140,294	212,022	352,316
Williamston, City of	18	4	10	363,974	1,476,931	1,840,905
Wixom, City of	65	10	20	793,938	6,960,407	7,754,345
Wolverine Lake, Village of	12	1	3	228,060	307,175	535,235
Ypsilanti Community Utilities Authority	138	10	62	747,939	18,422,039	19,169,978
Ypsilanti, City of	74	3	45	1,456,338	12,338,423	13,794,761
Ypsilanti, Township of	91	8	27	1,615,460	6,737,174	8,352,634
Total Number of Members and Amounts	37,171	4,956	18,442	\$ 407,362,554	\$ 3,664,634,626	\$ 4,071,997,180
Average Size of Municipalities Members and Amounts	63	8	31	\$ 685,796	\$ 6,169,419	\$ 6,855,214





**Schedule of Participating Municipalities  
Defined Contribution Plan  
For the Year Ending December 31, 2003**

<b>Plan Name</b>	<b>Number of Members</b>	<b>Defined Contribution Plan Balance</b>
Albion, City of	25	\$ 158,852
Alcona County	34	116,612
Allegan County	582	11,854,023
Alma, City of	6	75,468
Alpena General Hospital	352	3,239,769
Augres, City of	3	24,388
Baraga County Hospital	17	473,440
Bay City	183	9,272,864
Beaverton, City of	1	3,263
Big Rapids Housing Commission	10	69,841
Big Rapids, City of	20	590,964
Charlotte, City of	1	21,786
Cheboygan County Road Commission	1	37,920
Chelsea Area Construction	2	30,478
Chelsea, Village of	26	282,792
Clawson, City of	14	310,855
Clinton County	3	47,292
Clinton-Eaton-Ingham Community Mental Health	9	430,602
Coldwater Board of Public Utilities	19	238,559
Coldwater, City of	53	1,339,482
District Health Dept #2	32	223,015
District Health Dept #4	20	223,780
District Health Dept #10	134	2,548,722
East Grand Rapids, City of	66	4,796,118
East Lansing, City of	188	2,715,742
Elkton, Village of	3	56,512
Emmet County Road Commission	31	638,866
Farmington Community Library	34	439,669
Flint Charter Township	28	1,000,735
Gladstone, City of	22	460,171
Grand Rapids Housing Commission	60	863,279
Grand Traverse County	310	6,048,190
Grand Traverse County Road Commission	47	1,130,669
Grandville, City of	15	1,673,777
Gratiot County	48	651,181
Grayling, City of	1	26,950
Great Lakes Community Mental Health Authority	36	417,119
Helen Newberry Joy Hospital	247	292,919
Hiawatha Behavioral Health	46	406,440
Highland Park Housing Commission	9	327,719
Highland Park, City of	106	2,714,580
Holland Board of Public Works	22	271,230



**Schedule of Participating Municipalities  
Defined Contribution Plan  
For the Year Ending December 31, 2003**

Plan Name	Number of Members	Defined Contribution Plan Balance
Holland, City of	54	2,986,034
Howell Downtown Development Authority, City of	3	12,035
Hudsonville, City of	16	459,445
Huntington Woods, City of	26	318,849
Ingham County Capital Area District Library	59	314,301
Iosco Steelworkers #10	21	103,267
Isabella County	22	49,586
Lakeland Library Co-op	1	37,552
Livingston County	18	54,028
Mackinac County	6	15,090
Manistee, City of	1	16,786
Marquette Board of Light and Power	5	115,649
Marquette County	171	4,290,690
Marquette, City of	12	931,856
Mecosta County	70	397,930
Mid-Michigan District Health Department	1	13,634
Milan, City of	23	159,483
Milford, Village of	18	703,107
Montrose Township	13	49,915
Newaygo County	141	2,300,815
Newaygo County Mental Health Center	62	1,525,531
Northpointe Behavioral Health	2	26,228
Northville, City of	20	365,083
Northwest Michigan Community Health	166	5,148,733
Oakview Medical Care	23	26,685
Ottawa County General Dispatch	25	154,294
Pathways	166	1,148,422
Plymouth, City of	79	6,666,268
Roscommon, Village of	6	49,119
Saginaw County	520	19,543,096
Saginaw County Community Mental Health	218	4,760,581
Saginaw, City of	83	1,213,555
Saginaw-Midland Municipal Water Corp	4	26,534
Schoolcraft Memorial Hospital	104	1,892,099
Southfield Downtown Authority	5	76,678
St. Louis, City of	16	159,893
Standish, City of	4	22,616
West Michigan Community Health	137	4,799,077
	<b>5,187</b>	<b>\$ 117,481,177</b>