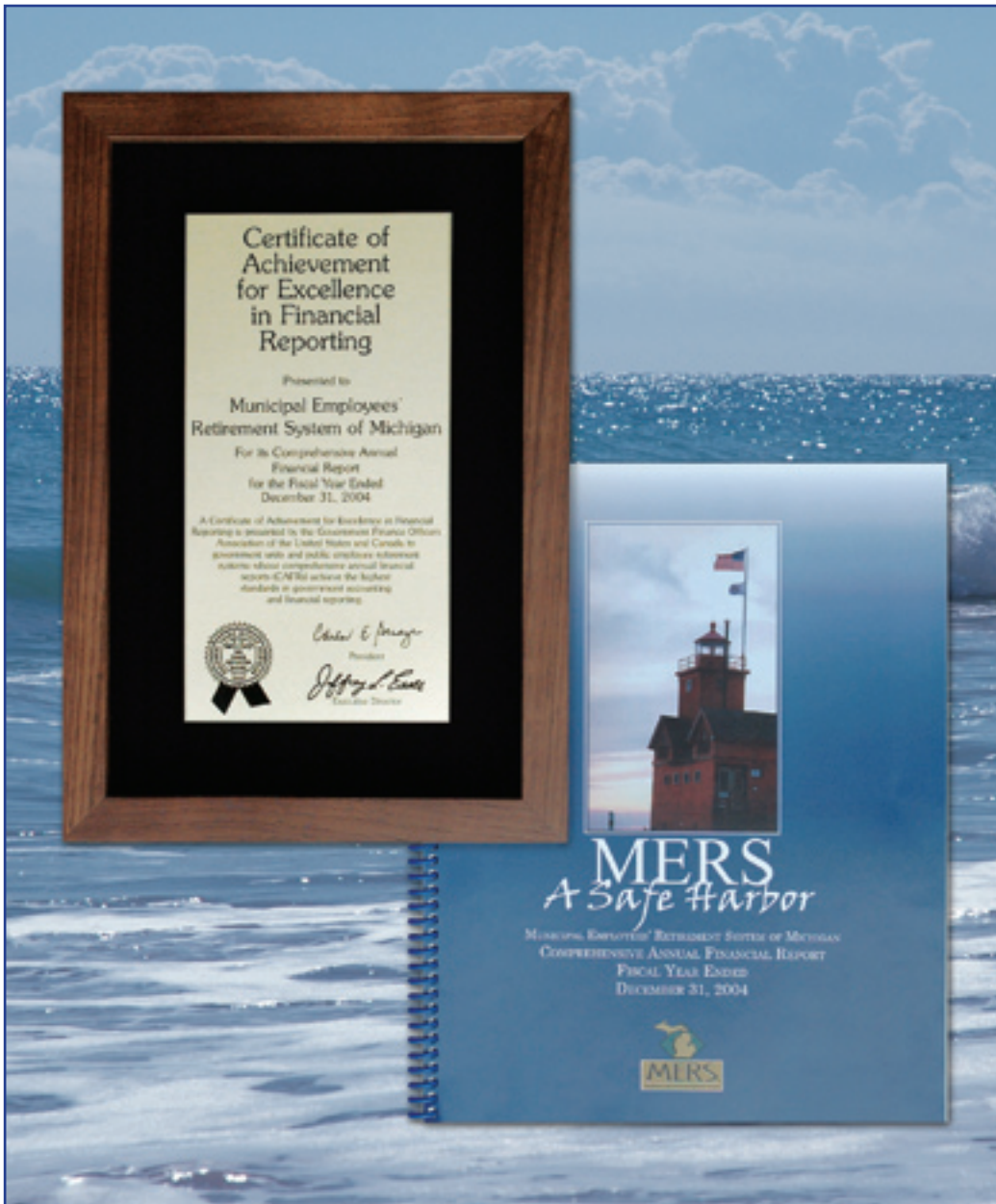


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# INTRODUCTORY SECTION



MERS received the Certificate of Achievement for Excellence in Financial Reporting from the Government Finance Officer's Association for the December 31, 2004 Comprehensive Annual Financial Report. This marks the 17<sup>th</sup> consecutive year MERS has received this honor.

## INTRODUCTORY SECTION

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# INTRODUCTORY SECTION

## LETTER OF TRANSMITTAL



*Our present is your future*

June 15, 2006

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

Dear Board Members:

It is with pleasure I submit the 2005 Comprehensive Annual Financial Report (CAFR) of the Municipal Employees' Retirement System of Michigan (MERS) for the fiscal year ended December 31, 2005. MERS has provided retirement plan administration to its member municipalities across the great state of Michigan for almost sixty years.

MERS, from its inception under state legislature in 1945, continues to provide an avenue for local governing bodies to pool their resources to provide retirement benefits for the welfare of their member employees. The MERS staff, in partnership with the Retirement Board, has worked diligently over the years to improve the benefits and services to members. The focus remains to bring economies of scale to the member municipalities across Michigan.

MERS, as a voluntary statewide organization, continues to add to the membership roster. Examples of our continuous growth may be found in the **Introductory Section**. This section includes the Letter of Transmittal, Letter from the Chairperson of the Retirement Board, the GFOA Certificate of Achievement, administrative organization details and a review of MERS activities covering the Defined Benefit (DB) Plan, the Defined Contribution (DC) Plan and the MERS Group Health Solutions Programs.

## INTRODUCTORY SECTION

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The following sections are also included in this CAFR:

- **Financial Section.** Management's Discussion and Analysis (MD&A), report of the independent auditor, and the retirement system's financial statements and supplemental information for the DB Plan.
- **Investment Section.** Summary of investment activity, an explanation of investment policy, portfolio performance information, and various investment schedules for both the DB and DC plans.
- **Actuarial Section.** Actuary's Certification Letter and summaries for the DB Plan.
- **Statistical Section.** Statistical information on all plans.

The responsibility for the accuracy and completeness of the financial data and the fairness of the presentation rests with the Chief Executive Officer and the management of MERS.

As of December 31, 2005, MERS members included employees from 659 municipalities across the state (see page 31).

### **Financial**

The basic financial statements have been prepared in accordance with Generally Accepted Accounting Principals (GAAP) applied on a consistent basis as promulgated by the Governmental Accounting Standards Board and its predecessor, the National Council on Government Accounting. The 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 (see pages 20-25).

### **Investments – Defined Benefit Portfolio**

The U.S. economy shifted slightly to a lower pace of growth during the year but the Federal Reserve Bank (Fed) continued to raise the overnight interest rates in response to inflationary fears. On a gross of fee basis, the overall portfolio returned 6.8% for one year, 10.8% for two years, 6.6% for five years and 8.7% for ten years.

The portfolio ranked in the 23<sup>rd</sup> percentile for the five year period in The Northern Trust universe of public funds. This universe is comprised of 34 plans with a total market value of \$237 billion. The plans range in size from \$56 million to \$36 billion with a median market value of \$3.7 billion. The portfolio ended the fiscal year with \$4.9 billion in assets.

Stellar performance in the non-U.S. equity markets summarized the equity returns for the 2005 calendar year. The international equity sector returned 19.3% versus the domestic portfolio at 3.8%.

The fixed income theme for the year was the flattening of the yield curve as short rates rose in response to the Fed tightening. The portfolio continued a modest pace during the year, providing marginally positive returns for the year at 2.2% versus the Lehman Aggregate Bond Index at 2.4%. The high yield segment produced returns of 6.0% versus the Merrill Lynch High Yield Master II Index at 2.7%. MERS strictly adheres to its strategic asset allocation model. This provides discipline as well as the ability to take advantage of opportunities that occur in the global market place. The MERS staff concluded the strategic asset allocation study which occurs every five years with recommendations to begin a commodities manager search and pursue a global high yield bond mandate. The portfolio is rebalanced annually to the selected target asset allocation model.

Please refer to the **Investment Section** for more detailed comments on the portfolio.

### **Funding**

The December 31, 2004, Actuarial Valuation reports the consolidated funding percentage of 77%. MERS receives no state-funded contributions. Each member municipality is legally responsible for funding the pensions earned by their employees under the provisions of the Michigan Constitution and the MERS Plan Document. Each municipality is 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 pensioners.

### **Group Health Solutions Programs**

MERS expanded into the health care arena in the fall of 2003 by introducing the Group Life and Disability Insurance Program. The program pools the buying power of the MERS membership to collectively purchase various life and disability insurance products through The Standard Insurance Company. At the close of 2005, there are a total of 101 employers enrolled in this program covering 6,600 lives with average savings of 35%. In 2004, MERS continued to broaden our benefits in response to the new Governmental Accounting Standards Board (GASB), Other Post Employment Benefits (OPEB) standards by creating the Health Care Savings Program and Retiree Health Funding Vehicle. The Health Care Savings Program covers over 800 members in twenty-nine municipalities across Michigan with over \$4 million in assets. The Retiree Health Funding Vehicle has twenty-two employers enrolled with over \$13 million being invested and saved for retiree health care costs.

MERS Premier Health, with oversight by an interim board, provides group health coverage for public employers including employee and retiree medical, prescription drug, dental and vision

## INTRODUCTORY SECTION

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benefits. MERS Premier Health is a municipal risk pool for employee health benefits and is regulated and authorized (licensed) by the state of Michigan as the first Public Multiple Employer Welfare Arrangement (MEWA). The innovative health plan began partnering with municipalities in May 2005 and, by year end, had already enrolled 14 municipalities.

Michigan communities are facing budget problems due to declining revenues combined with expanding health care costs. MERS remains committed to provide economies of scale, continuity of service, and quality, cost effective benefits for our membership, resulting in much needed relief in the area of health care. We are dedicated to improve the health and economic welfare of our members and the Michigan communities that they support through Group Health Solutions programs.

### **Technology**

MERS Electronic Payroll and Services System (ePASS) project was developed as a custom web-based payroll interface for our employers replacing the old wage and service software. ePASS went live on 10/1/2004 with a phased rollout ending on 9/30/2005. All MERS employers are now using the new software. Almost 90% rank the new program as very easy if not somewhat easy to use. We continue to make minor adjustments as time and resources allow.

MERS Automated Pension System (MAPS) will begin its final year of development in 2006. This comprehensive project is designed to replace the PeopleSoft pension administration software currently in use. The initial valuation component and the benefits calculator were completed and tested this year. The goal is to expand our capabilities to capture information, eliminate redundant entry, and achieve superior data integrity.

Expansion of web-based capabilities continues to remain a top priority at MERS. We continue to explore the use of security-enhanced software to allow communication, provide up-to-date information, and on-line services to our members and prospective members. We look back over MERS history with satisfaction and pride, while at the same time remaining committed to proactively address the future. We continue to work hard to provide excellent service and retain the trust of our membership.

### **Awards**

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to MERS for its Comprehensive Annual Financial Report for the year ended December 31, 2004. This was the 17th consecutive year that MERS has achieved this prestigious award.

In order to be awarded the Certificate of Achievement, a government unit must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy

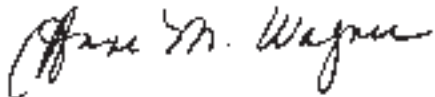
both GAAP and applicable legal requirements. A Certificate of Achievement is valid for a period of one year only. We believe this current report continues to meet the Certificate of Achievement Program requirements, and we are submitting it to the GFOA to determine its eligibility.

In addition, in 2005 MERS was awarded the GFOA Budget Award for its 2004 budget submission, as well as the 2004 Popular Annual Financial Report.

### **Acknowledgments**

This report reflects the best combined efforts of the MERS staff under the leadership of the MERS Retirement Board. I would like to take this opportunity to commend the efforts of the staff in creating another outstanding report. Additionally, I want to express my gratitude to the Retirement Board for their dedication and conscientious service to the System and the many other advisors, organizations, and individuals who have worked so conscientiously to assure the success of the Municipal Employees' Retirement System of Michigan.

Respectfully submitted,



Anne M. Wagner  
Chief Executive Officer



## LETTER FROM THE CHAIRPERSON

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*Our present is your future*

June 15, 2006

Dear Members:

On behalf of the MERS Retirement Board, I am pleased to present the Municipal Employees' Retirement System's 59th Comprehensive Annual Financial Report (CAFR) for the fiscal year ended December 31, 2005. This financial report provides information on the status of our retirement system.

Diversification was the key in the Defined Benefit portfolio as it delivered a 6.8% return for the one-year period and 8.7% for the ten-year period. These positive returns assist in meeting our actuarial benchmarks. The board's investment policy is reviewed periodically and it continues to focus on preserving the retirement system's assets while maximizing the long-term growth of those assets.

Regional meetings and retirement seminars continued in 2005 both in the home office and around the state. Retirement seminars are designed for those members contemplating retirement in the next three to five years. Regional meetings cover pension, benefit, health care, and insurance topics of interest for employers and employees. The major project undertaken to rewrite the wage and service software, "electronic Payroll and Service System" (ePASS), was completed in September expanding MERS' use of eCommerce to collect payroll information from our participating municipalities.

At the 2005 Annual Meeting in September, delegates elected Mr. Harold Hailey, Human Resource Director at Ingham County, as Officer member for a three-year term (January 1, 2006-January 1, 2009) and Ms. Sue Stahl, Administrator for the City of Bad Axe, to complete the remainder of the term (January 1, 2006-January 1, 2007), left vacant by Ms. Barbara Fandell's resignation from the Board to serve as Treasurer for the City of Ithaca. The Board appointed Mr. Bruce Johnson and Mr. Dennis Murphy as the Public members to three-year terms commencing January 1, 2006. The nine-member Retirement Board works conscientiously to fulfill its fiduciary responsibilities and serve the membership. MERS is the beneficiary of the Board members' diverse expertise and experience. It is a privilege for me to serve as your Chairman and to be able to serve alongside trustees of such high caliber and dedication.

If you have any questions regarding this report or other retirement questions, please contact us at (800) 767-6377, or send us a letter addressed to MERS, 1134 Municipal Way, Lansing, MI 48917.

In closing, I wish to thank the Board members and outstanding staff for continuing to maintain their high level of commitment and service to the retirement system's participants. The members of this retirement system should be very proud of the excellence and dedication presented to you in order that we all may have the necessary funds available to provide for retirement. "Our present is your future" is still a key and vital vision statement.

Sincerely,



Dale M. Walker, Chairman  
MERS Board of Trustees



MERS RETIREMENT BOARD  
2005



Back row (left to right): Bruce Johnson, Sue Stahl, John Ogden, Harold Hailey, Dennis Murphy. Seated (left to right): Dale Walker, Larry Opelt, Sally Dreves, Ray Klosowski.

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

Retiree Member - Chairperson ProTem  
Mr. Larry Opelt  
Adrian, MI

Employee Member  
Ms. Sally Dreves  
Grand Traverse County

Officer Member  
Mr. Harold Hailey  
Ingham County

Public Member  
Mr. Bruce Johnson  
Holland, MI

Employee Member  
Mr. Raymond Klosowski  
Isabella County

Public Member  
Mr. Dennis Murphy  
Novi, MI

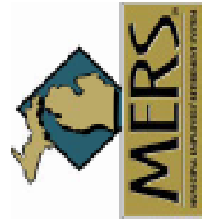
Officer Member  
Mr. John Ogden  
City of Port Huron

Employee Member  
Ms. Sue Stahl  
City of Bad Axe

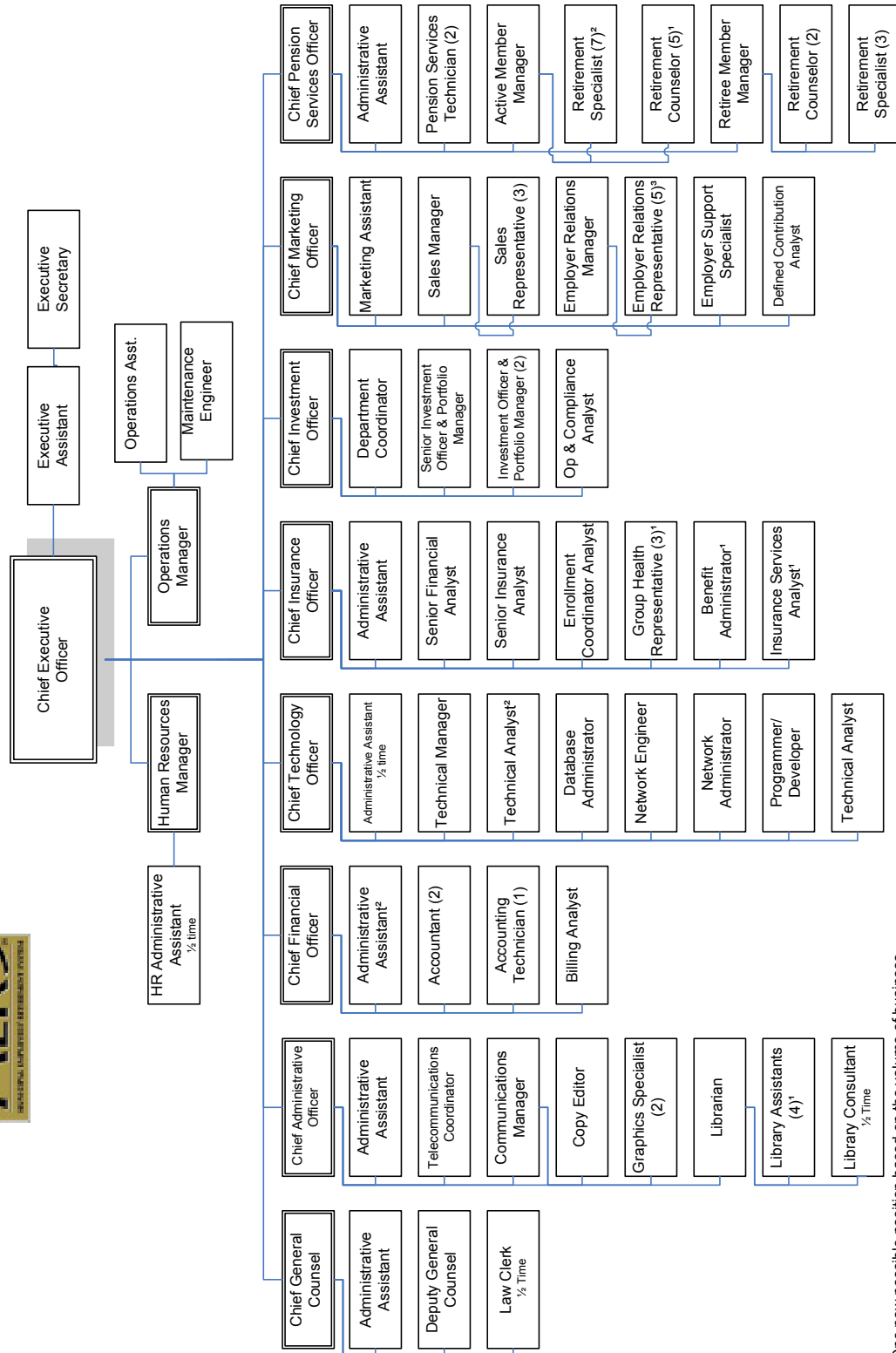
ADMINISTRATIVE ORGANIZATION



**Officers:** (Standing left to right): Jeb Burns, Chief Investments Officer; Luke Huelskamp, Chief Financial Officer; Kathy House, Chief Marketing Officer; William SaintAmour, Chief Administrative Officer; Michael Moquin, Chief General Counsel.  
(Seated left to right): Debra Peake, Chief Pension Services Officer; Anne M. Wagner, Chief Executive Officer; Carrie Lombardo, Chief Insurance Officer.  
(Not pictured) Tama Allen, Chief Technology Officer.



# ORGANIZATIONAL CHART - 2005



¹One new possible position based on the volume of business.  
 ²One new proposed position.  
 ³Two new possible positions based on the volume of business.

**Outside Professional Services**

**Professional Consultants**

***Actuary***

Gabriel, Roeder, Smith & Company

***Auditor***

Andrews, Hooper & Pavlik, PLC

***Defined Contribution Third-Party***

***Administrator***

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

***Investment Custodian***

The Northern Trust Company

***Legal Counsel***

Ice Miller  
John Eggersten, P.C.  
Loomis, Ewert, Parsley, Davis & Gotting  
Miller, Canfield, Paddock & Stone, PLC

***Legislative Consultants***

Karoub Associates  
Matt Wesaw

***Medical Advisor***

Associated Physicians  
Consulting Physicians

***Security Lending Agent***

The Northern Trust Company

***Systems Implementation and  
Maintenance***

Gabriel, Roeder, Smith & Company  
Oracle/ PeopleSoft

**Investment Managers**

***Domestic Equity***

Ariel Capital Management  
Barclays Global Investors  
Kennedy Capital Management  
Trust Company of the West  
Wasatch Advisors  
Wellington Management Company  
LSV Asset Management  
Delaware Investment Advisors

***International Equity***

Acadian Asset Management  
Barclays Global Investors  
Mondrian Investment Advisors

***Fixed Income***

Barclays Global Investors  
Evergreen Investments  
Reams Asset Management  
Western Asset Management

***Real Estate***

Urdang Investment Management  
Townsend Group Consultants  
Guggenheim Structures Real Estate Fund  
Hancock Timber Resources  
J.P. Morgan Investment Management  
KBS Realty Advisors  
Prudential Property Management  
SSR Realty Advisors  
UBS Realty Investors, LLC  
LaSalle Investment Management  
CB Richard Ellis Investors  
FIA Timber Partners  
Starwood Capital Group

***Private Equity***

Credit Suisse First Boston  
Mesirow Capital Partners  
Barclays Global Investors  
Money Management Group

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*“From harvest to finished product, timber is a six billion dollar industry in Michigan. Sawlog production is in excess of 500 million board feet annually. Farm woodlots in southern Michigan produce nearly 15 percent of the total cut of sawlogs, and are an extremely important source of hardwood timber due. Hardwoods comprise about 80 percent of the total sawlog harvest in the state.”*

*Norman F. Smith*

*“Trees of Michigan and the Upper Great Lakes”*

*Publisher: Samuel Speigel, Thunder Bay Press*

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# FINANCIAL SECTION

## INDEPENDENT AUDITOR'S REPORT



**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, 2005, 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 2004 financial statements and, in our report dated May 20, 2005, 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, 2005, 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 24, 2006 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, contracts, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The Introductory, Investment, Actuarial, and Statistical Sections and 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 Introductory, Investment, Actuarial, and Statistical Sections and 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 Introductory, Investment, Actuarial, and Statistical Sections were not audited by us and, accordingly, we express no opinion on those sections.

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

Okemos, Michigan  
April 24, 2006

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

### MANAGEMENT'S DISCUSSION AND ANALYSIS

This narrative overview and analysis of MERS' financial condition for fiscal year ended December 31, 2005, is presented in conjunction with the Chief Executive Officer's Letter of Transmittal. The Financial Section is comprised of the independent auditor's report, this management's discussion and analysis, two basic financial statements with explanatory notes, two required supplementary schedules with explanatory notes, three supplementary expense schedules, summation of 2005 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 Plan, Defined Contribution Plan, Health Care Savings Program and Retiree Health Funding Vehicle, (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 (pages 26-27)
2. Statement of Changes in Plan Net Assets (pages 28-29)
3. Notes to Basic Financial Statements (pages 30-45)
4. Comparison Statement of Plan Net Assets (page 22)
5. Comparison Statement of Changes in Plan Net Assets (page 23)

The Defined Benefit Plan, Defined Contribution Plan, Health Care Savings Program and Retiree Health Funding Vehicle 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 financial condition of the 645 individual municipal Defined Benefit Plans, 107 individual municipal Defined Contribution Plans, 31 Health Care Savings Programs and 16 Retiree Health Funding Vehicle 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 (page 46)
2. Schedule of Employer Contributions (page 46)
3. Notes to the Schedules of Required Supplementary Information (pages 47-48)

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 (page 49)
2. Schedule of Investment Expenses (page 50)
3. Schedule of Payments to Consultants (page 51)

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, 2005:

- Total plan net assets for the Defined Benefit Plan, Defined Contribution Plan, Health Care Savings Program and Retiree Health Funding Vehicle increased by \$323 million during the 2005 fiscal year. This was primarily due to net gains in investments of \$301 million dollars.
- Total pension benefits paid to retirees and beneficiaries increased \$30 million to a total of \$284 million. While contributions exceeded pension benefit payments by \$28 million in 2005 (primarily due to new municipalities joining MERS), the cash flow trend in the past few years has shown pension benefit payments are increasingly exceeding contributions. This is normal plan cycling as the defined benefit 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 \$.6 million.
- Transfers from the Defined Benefit Plan to the Defined Contribution Plan decreased by \$300 thousand. While there has been a steady decline in the number of Defined Benefit members transferring to Defined Contribution over the past few years, the number of new hires in Defined Contribution has increased relative to the Defined Benefit Plan members.
- Total employer contributions increased by 29% to \$236 million, and employee contributions increased by 27% to \$76 million. Again, much of these increases were due to new municipalities joining MERS Defined Benefit Plan, Defined Contribution Plan, Retiree Health Funding Vehicle, and Health Care Savings Program. Employer and employee contributions from new municipalities were \$49 million in 2005 compared to \$14 million in 2004. Employer contributions in the Defined Benefit Plan have increased in recent years due to municipalities adopting enhanced benefits and the market declines of 2000-2002.

## FINANCIAL SECTION

- Administrative expenses totaled \$12 million. 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 the Defined Benefit Plan with 63,394 members and Defined Contribution Plan with 7,393 members.
- Investment expenses totaled \$17 million. The largest expense is due to higher investment manager fees increasing to \$15 million. This is not unexpected with the market increases of the past year.

### *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 26-29) provide financial information about the activities of the 799 individual municipal plans administered by MERS in its Defined Benefit Plan, Defined Contribution Plan, Retiree Health Funding Vehicle, and Health Care Savings Program, as well as comparative summary information about these activities for the retirement system as a whole.

The "Schedule of Funding Progress" (page 46) 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 46) 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.

## COMPARISON STATEMENT OF PLAN NET ASSETS

Assets	As of		Increase (Decrease)	
	December 31, 2005	December 31, 2004	Amount	Percent
Cash and Short-Term Investments	\$ 266,259,383	\$ 197,094,797	\$ 69,164,586	35.09%
Receivables	157,534,335	119,378,154	38,156,181	31.96%
Interfund Receivables	434,593	436,427	(1,834)	-0.42%
Investments, at fair value	4,985,756,769	4,610,306,560	375,450,209	8.14%
Invested Securities Lending Collateral	719,094,377	659,513,777	59,580,600	9.03%
Other Assets/Prepays	433,475	465,270	(31,795)	-6.83%
Net Capital Assets	3,878,603	2,772,594	1,106,009	39.89%
Total Assets	6,133,391,535	5,589,967,579	543,423,956	9.72%
<b>Liabilities</b>				
Purchase of Investments	317,984,276	159,923,488	158,060,788	98.84%
Securities Lending Collateral	719,094,377	659,513,777	59,580,600	9.03%
Administrative and Investment Costs	6,563,876	3,772,173	2,791,703	74.01%
Interfund Payables	434,593	436,427	(1,834)	-0.42%
Unspecified Contributions	711	711	-	0.00%
Total Liabilities	1,044,077,833	823,646,576	220,431,257	26.76%
<b>Net assets held in trust for pension benefits</b>	<b>\$ 5,089,313,702</b>	<b>\$ 4,766,321,003</b>	<b>\$ 322,992,699</b>	<b>6.78%</b>

## COMPARISON STATEMENT OF CHANGES IN PLAN NET ASSETS

	Year ended December 31, 2005	Year ended December 31, 2004	Increase (Decrease) Amount	Increase (Decrease) Percent
<b>Additions</b>				
Contributions	\$ 312,245,705	\$ 243,019,370	\$ 69,226,335	28.49%
Transfers from Defined Benefit Plan	22,573	321,966	(299,393)	-92.99%
Transfers from Other Plans and Other Items	2,084,281	5,356,930	(3,272,649)	-61.09%
Investment net income investing activities	300,666,864	596,008,057	(295,341,193)	-49.55%
Investment net income-securities lending	2,135,791	1,341,339	794,452	59.23%
Miscellaneous Income	6,026,437	819,466	5,206,971	635.41%
Total Additions	623,181,651	846,867,128	(223,685,477)	-26.41%
<b>Deductions</b>				
Benefits	283,776,492	253,918,782	29,857,710	11.76%
Refunds of Contributions	4,157,567	5,252,652	(1,095,085)	-20.85%
Special Expenses and Fees	398,690	387,031	11,659	3.01%
Transfers to Defined Contribution Program	22,573	321,966	(299,393)	-92.99%
Administrative Expense	11,833,630	10,144,051	1,689,579	16.66%
Total Deductions	300,188,952	270,024,482	30,164,470	11.17%
<b>Net Increase</b>	322,992,699	576,842,646	(253,849,947)	-44.01%
<b>Net assets held in trust for pension benefits</b>				
Balance Beginning of Year	4,766,321,003	4,189,478,357	576,842,646	13.77%
Balance End of Year	\$ 5,089,313,702	\$ 4,766,321,003	\$ 322,992,699	6.78%

*Analysis of Plan Net Assets*

Combined plan net assets increased by \$323 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 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 12% increase in pension benefit payouts to a greater number of retirees and post-retirement cost-of-living increases.

Employer and employee contributions increased \$69 million chiefly due to municipalities joining MERS plans bringing in \$49 million. The remaining increases were due to higher required actuarial contribution rates resulting from increases in salaries, benefit enhancements, plan modifications, and an increase in the number of employees.

In determining contribution rates through 2005, MERS' actuary used a five-year smoothing method to recognize market gains and losses, and this has tempered many of the market losses over the three down market 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 was recognized. The aggregate loss amount of \$388,778,035 was to be recognized in four equal dollar installments in 2004-2007. In 2004, the normal five-year smoothing method was reinstated. In 2006, to further reduce the volatility of employer contribution rates, the MERS Board adopted a ten-year smoothing method for calculating valuation assets. Employers are also shifting more of the responsibility for contribution requirements onto employees to pay for better benefit plans.

## FINANCIAL SECTION

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MERS has capital assets of approximately \$4 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 2006.

### *Investment Activities*

The total fund investment performance on a relative basis to benchmarks was excellent. The positive gross return of 6.8% was below the long-term net 8% actuarial return assumption target for the year. On both a five and ten year basis, the gross returns of 6.6% and 8.7%, respectively, compared favorably to the actuarial return assumption. Net investment income (net increase in fair value, plus investment earnings, less investment administrative expenses) was \$303 million for the year. The stock market is in its third 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 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, 2005, is found on page 17 of this report. A summary of the total retirement system's assets can be found on page 64.

### *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 46). 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 79% to

77% for the 2004 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 declined over the last six years. The actuarial assumptions used in the most recent valuation are identified in the “Notes to the Schedules of Required Supplementary Information” (page 47).

Annual required employer contributions as determined by the actuary and the actual contributions made by employers are provided in the “Schedule of Employer Contributions” (page 46). This schedule indicates that employers are meeting their actuarially required contribution payments.

MERS’ overall financial condition improved for the fiscal year ended 2005, and the plan remains stable and viable for the years to come. The market upturn in 2005 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 69. Based upon the valuation results, MERS continues to be in sound financial health in accordance with actuarial principles of level percent of payroll financing.

## FINANCIAL SECTION

### STATEMENT OF PLAN NET ASSETS AS OF DECEMBER 31, 2005

	Defined Benefit Plan	Defined Contribution Plan
<b>Assets</b>		
Cash and Short-Term Investments	\$ 242,250,239	\$ 23,989,935
Receivables		
Employer Contributions	23,443,765	
Plan Member Contributions	6,419,675	
Sale of Investments	113,122,130	
Investment Income	11,384,979	
Interfund Receivables	434,593	
Loans/Other	1,666,286	1,497,500
Total Receivables	156,471,428	1,497,500
Investments, at fair value		
Domestic Fixed Income	1,282,070,827	7,469,182
International Fixed Income	216,862,161	
Domestic Equities	2,179,796,084	55,373,669
International Equities	786,788,308	3,880,618
Real Estate	363,439,022	
Balanced Funds		71,901,954
Total Investments	4,828,956,402	138,625,423
Invested Securities Lending Collateral	719,094,377	
Prepaid Expenses	433,475	
Capital Assets, at cost, net of accum. depreciation	3,878,603	
Total Assets	5,951,084,524	164,112,858
<b>Liabilities</b>		
Purchase of Investments	317,984,276	
Securities Lending Collateral	719,094,377	
Administrative and Investment Costs	6,563,876	
Interfund Payables		
Unspecified Contributions		
Total Liabilities	1,043,642,529	-
<b>Net assets held in trust for pension benefits</b>	<b>\$ 4,907,441,995</b>	<b>\$ 164,112,858</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 SECTION

		December 31, 2005		December 31, 2004	
Health Care Savings Program	Retiree Health Funding Vehicle	Total Trust Funds		Total Trust Funds	
\$ 19,209	\$	\$ 266,259,383	\$	197,094,797	
		23,443,765		21,266,351	
		6,419,675		4,647,766	
		113,122,130		81,792,243	
		11,384,979		9,074,331	
		434,593		436,427	
		3,163,786		2,597,463	
-	-	157,968,928		119,814,581	
1,182,392	3,642,991	1,294,365,392		1,215,828,750	
200,001	616,212	217,678,374		222,399,017	
2,010,321	6,193,869	2,243,373,943		2,182,584,944	
725,617	2,235,651	793,630,194		664,888,410	
335,182	1,032,708	364,806,912		261,084,483	
		71,901,954		63,520,956	
4,453,513	13,721,431	4,985,756,769		4,610,306,560	
		719,094,377		659,513,777	
		433,475		465,270	
		3,878,603		2,772,594	
4,472,722	13,721,431	6,133,391,535		5,589,967,579	
		317,984,276		159,923,488	
		719,094,377		659,513,777	
		6,563,876		3,772,173	
406,098	28,495	434,593		436,427	
711		711		711	
406,809	28,495	1,044,077,833		823,646,576	
\$ 4,065,913	\$ 13,692,936	\$ 5,089,313,702	\$	4,766,321,003	



## FINANCIAL SECTION

### STATEMENT OF CHANGES IN PLAN NET ASSETS FOR THE YEAR ENDED DECEMBER 31, 2005

	Defined Benefit Plan	Defined Contribution Plan
<b>Additions</b>		
Contributions		
Employer Contributions	\$ 207,123,552	\$ 14,244,769
Plan Member Contributions	71,324,903	4,732,864
Transfers from Defined Benefit Plan		
Employer		21,609
Plan Member		964
Transfers from Other Plans and Other Items		2,084,281
Total Contributions and Transfers	<u>278,448,455</u>	<u>21,084,487</u>
Investment Income		
Net Appreciation in Fair Value of Plan		
Investments	227,123,929	8,427,281
Interest Income	46,459,232	
Dividend Income	29,773,002	
Real Estate Operating Income, net	4,538,596	
Commission Recapture Income	229,939	
	<u>308,124,698</u>	<u>8,427,281</u>
Less Investment Expenses	16,500,475	
Net Investment Income	<u>291,624,223</u>	<u>8,427,281</u>
From Security Lending Activities		
Security Lending Income	22,620,518	
Security Lending Expenses		
Borrower Rebates	19,951,189	
Management Fees	533,538	
Total Securities Lending Expenses	<u>20,484,727</u>	<u>-</u>
Net Income from Security Lending Activities	<u>2,135,791</u>	
Total Net Investment Income	<u>293,760,014</u>	<u>8,427,281</u>
Miscellaneous Income	<u>6,020,448</u>	<u>29,511,768</u>
	<u>578,228,917</u>	<u>29,511,768</u>
<b>Deductions</b>		
Benefits	274,146,709	9,482,481
Refunds of Contributions		
Employer		
Plan Member	4,157,567	
Special Expenses and Fees	398,690	
Transfers to Defined Contribution Plan		
Employer	21,609	
Plan Member	964	
Administrative Expense	11,557,044	
	<u>290,282,583</u>	<u>9,482,481</u>
<b>Net Increase</b>	<u>287,946,334</u>	<u>20,029,287</u>
<b>Net assets held in trust for pension benefits</b>		
Balance Beginning of Year	4,619,495,661	144,083,571
Balance End of Year	<u>\$ 4,907,441,995</u>	<u>\$ 164,112,858</u>

The accompanying notes are an integral part of these Financial Statements.

FINANCIAL SECTION

		Year Ended December 31, 2005		Year Ended December 31, 2004	
Health Care Savings Program	Retiree Health Funding Vehicle	Total Trust Funds		Total Trust Funds	
\$ 2,856,908	\$ 11,947,714	\$ 236,172,943	\$ 183,219,829		
14,995		76,072,762	59,799,541		
		21,609	320,682		
		964	1,284		
		2,084,281	5,356,930		
2,871,903	11,947,714	314,352,559	248,698,266		
165,081	448,190	236,164,481	537,508,683		
2,089		46,461,321	41,907,508		
		29,773,002	23,447,373		
		4,538,596	4,727,762		
		229,939	478,380		
167,170	448,190	317,167,339	608,069,706		
		16,500,475	12,061,649		
167,170	448,190	300,666,864	596,008,057		
		22,620,518	7,513,231		
		19,951,189	5,725,036		
		533,538	446,856		
-	-	20,484,727	6,171,892		
		2,135,791	1,341,339		
167,170	448,190	302,802,655	597,349,396		
5,989		6,026,437	819,466		
3,045,062	12,395,904	623,181,651	846,867,128		
51,832	95,470	283,776,492	253,918,782		
		-	1,727,570		
		4,157,567	3,525,082		
		398,690	387,031		
		21,609	320,682		
		964	1,284		
250,436	26,150	11,833,630	10,144,051		
302,268	121,620	300,188,952	270,024,482		
2,742,794	12,274,284	322,992,699	576,842,646		
1,323,119	1,418,652	4,766,321,003	4,189,478,357		
\$ 4,065,913	\$ 13,692,936	\$ 5,089,313,702	\$ 4,766,321,003		

NOTES TO BASIC FINANCIAL STATEMENTS  
YEAR ENDED DECEMBER 31, 2005

***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, repealed and replaced by successor Municipal Employees Retirement Act of 1984 (PA 427), as last amended by 2004 PA 490, and the MERS Plan Document, as revised. MERS was established to provide a pooled program for retirement, survivor and disability benefits on a voluntary basis to the State of Michigan's local government employees. The MERS Plan Document provides for Defined Benefit Plan, Defined Contribution Plan, Health Care Savings Program and a Retiree Health Funding Vehicle. See Notes 6 and 7 for the Defined Contribution Plan, Health Care Savings Program and Retiree Health Funding Vehicle (page 42-43).

Pursuant to 1996 PA 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. Since then, MERS is 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, who are 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, is appointed by the Retirement Board.

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 by the delegates to an annual meeting of the retirement system.

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 by the delegates to an annual meeting of the retirement system.

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, 2005**

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Counties	66
Cities and Villages	252
Townships	74
County Road Commissions	56
Authorities, Districts and Others	195
Closed Groups	<u>16</u>
Total	<u><u>659</u></u>

Any “municipality” as that term is defined by Section 2b (2) of the Retirement Act, Michigan Compiled Law 38.1502b (2), 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, 2005**

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Retirees and Beneficiaries Currently Receiving Benefits	
Retirement annuities	15,826
Survivor annuities	3,305
Disability annuities	<u>1,040</u>
Total	<u><u>20,171</u></u>
Vested former members	5,596
Current active employees	<u>37,627</u>
Total Membership	<u><u>63,394</u></u>

Benefit plans and provisions that are available for adoption 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. 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. Employees may retire after reaching several combinations of age and years of service to receive reduced early retirement benefits. 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.

## FINANCIAL SECTION

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Pursuant to Article 9 Section 24 of 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 22.80% 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 MERS programs have been determined to be a governmental plan that is a tax-qualified trust, under Internal Revenue Code Section 401(a), and tax exempt under Section 501(a). MERS most recent Letter of Favorable Determination was issued by IRS on June 15, 2005. These regulations include the preferential deferred taxability of contributions, accumulated earnings, 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 employer and employee contributions. Compensation in excess of the 401(a) (17) limit (currently \$210,000 for 2005 and increasing to \$220,000 in 2006) will not be credited by MERS. 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 the MERS 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 by the trust under the terms of the plan. Internal Revenue Service approval of the QEBA was pursuant to Private Letter Ruling issued December 15, 2003. 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.

The costs of administering the plan are allocated out to the municipalities along with investment gains and losses on a quarterly basis.

**Basis of Accounting**

The financial statements for MERS are prepared on the accrual basis in accordance with 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 15, 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 15, 1996, when it began independent payroll processing separate and apart from, the State.

The Retirement Board, as an employer, elected after separation in 1996 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 pension benefit is calculated by multiplying the employee’s years of credited service by 2.25% and then multiplying it by the Final Average Compensation (FAC) based on the highest consecutive three years of compensation. MERS contributed 12.8% of compensation in 2005; employees contributed 2% of compensation in 2005.

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

**SCHEDULE OF FUNDING PROGRESS**

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Actuarial Valuation December 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)
2002	1,464,160	1,652,199	188,039	88.60	2,305,146	8.16
2003	2,012,358	2,393,016	380,658	84.10	2,678,027	14.21
2004	2,591,903	3,694,402	1,102,499	70.16	3,603,548	30.59

## FINANCIAL SECTION

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### ACTUARIAL ACCRUED LIABILITY FROM DECEMBER 31, 2004 AND DECEMBER 31, 2003 ACTUARIAL VALUATIONS

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	<b>2004</b>	<b>2003</b>
Retirees and beneficiaries currently receiving benefits	\$ 376,442	\$ 141,105
Vested former members not yet receiving benefits	23,557	17,358
Nonvested terminated employees (pending refunds of accumulated member contributions)	15,397	12,660
Current employees		
Accumulated employee contributions, including allocated investment income	404,576	380,673
Employer financed	2,874,430	1,841,220
Total Actuarial Accrued Liability	<u>3,694,402</u>	<u>2,393,016</u>
Net assets available for benefits at actuarial value (\$2,530,006 and \$1,837,500 at market value for December 31, 2004, and 2003, respectively)	2,591,903	2,012,358
Unfunded actuarial accrued liability	<u>\$ 1,102,499</u>	<u>\$ 380,658</u>

### THREE-YEAR TREND INFORMATION SCHEDULE OF EMPLOYER CONTRIBUTIONS

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<b>Fiscal Year Ended</b>	<b>Annual Pension Cost (APC)</b>	<b>Percentage of APC Contributed</b>	<b>Net Pension Obligation</b>
December 31, 2003	\$ 162,168	100%	\$ -
December 31, 2004	192,024	100%	-
December 31, 2005	259,500	100%	-



**Changes in Accounting Principles**

The plan adopted the provisions of the Governmental Accounting Standards Board (GASB) Statement No. 40 issued in March 2003, “Deposit and Investment Risk Disclosures,” effective in 2005. Statement No. 40 modifies and adds certain investment reporting requirements previously established by GASB Statement No. 3, Deposits with Financial Institutions, Investments and Reverse Repurchase Agreements. Statement No. 40 has had an impact on the presentation of the notes to the financial statements, but no effect on net assets or the changes in net assets in the prior or current year.

**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.

**Capital Assets**

Leasehold improvements, office furniture, equipment, and software with a value of \$5,000 or more are carried at cost, less accumulated depreciation. The capital assets are depreciated using the straight-line method over the estimated useful lives of the related assets varying from three- to five-year spans. The table below is a schedule of the capital asset account balances as of December 31, 2004, and December 31, 2005, and changes to those account balances during the year ended December 31, 2005.

**CAPITAL ASSETS**

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<b>Capital Assets</b>	<b>Leasehold Improvements</b>	<b>Office Furniture and Equipment</b>	<b>Software</b>	<b>Total Capital Assets</b>
Balances December 31, 2004	\$ 361,437	\$ 2,213,775	\$ 10,443,288	\$ 13,018,500
Additions		114,397	2,712,133	2,826,530
Balances December 31, 2005	<u>361,437</u>	<u>2,328,172</u>	<u>13,155,421</u>	<u>15,845,030</u>
Accumulated Depreciation				
Balances December 31, 2004	361,437	1,588,315	8,296,154	10,245,906
Depreciation Expense		289,336	1,431,185	1,720,521
Balances December 31, 2005	<u>361,437</u>	<u>1,877,651</u>	<u>9,727,339</u>	<u>11,966,427</u>
<b>Net capital assets December 31, 2005</b>	<u><u>\$ -</u></u>	<u><u>\$ 450,521</u></u>	<u><u>\$ 3,428,082</u></u>	<u><u>\$ 3,878,603</u></u>

### **Total Columns on Statements**

“Total” columns on the “Statement of Plan Net Assets” and “Statement of Changes in Plan Net Assets” 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 credited with interest annually; pursuant to Board Resolution adopted November 9, 2005, the rate for each year beginning in 2005 is the one year T-Bill rate as of December 1 each year for the ensuing December 31st employee interest calculation, and for interest calculations for the subsequent year for those employees requesting a refund of their contributions. The employee contribution rates vary from 0% to 22.80% according to the benefit plan adopted. See “Schedule of Employer Contributions” (page 46).

#### **Reserves**

Three Reserves have been established pursuant to the MERS Plan Document. See “Schedule of Changes in Reserves” (page 92).

- **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, as provided in the Board’s November 9, 2005 Resolution. The reserve’s balance at year end December 31, 2005, is \$477,442,506. The “Reserve for Employee Contributions” was fully funded as of the December 31, 2004 MERS consolidated 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, 2005, balance is \$4,429,999,489.

The unfunded liability was \$1,433,404,485 (based on the actuarial value of assets) as of the December 31, 2004 MERS consolidated 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 2005, 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 guidelines 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 prudent standards and requires that the assets of a retirement system be invested solely in the interest of the participants and beneficiaries. Under Plan Document Section 55(6), and 1965 PA 314, and Section 401(a)(2) of the Internal Revenue Code, 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, 2005, 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 that had not been written down previously.

##### Credit Risk

Credit Risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations to MERS. Credit risk exposure is dictated by each investment manager’s agreement. Each portfolio is managed in accordance with investment guidelines that are specific as to permissible credit quality ranges, exposure levels within individual security quality rating tiers, and/or the average credit quality of the overall portfolio.

As of December 31, 2005, the domestic fixed income portfolio consisted of the following fixed income investments with respective quality ratings, excluding those obligations of the U.S. Government. Investments issued by or explicitly guaranteed by the U.S. Government are not considered to have credit risk. The plan’s exposure to credit risk as of December 31, 2005, is presented on page 38, by investment category as rated by Standard & Poor’s.

# FINANCIAL SECTION

## CREDIT RATINGS SUMMARY - DECEMBER 31, 2005

Quality Rating	Corporate Bonds	Bond Index Fund	Mortgages	U.S. Agency Bonds	Global Fixed Income	Total	% of Portfolio
AAA	26,895,933	245,212,742	49,408,960	32,382,077	94,118,544	448,018,255	40%
AA+	1,043,700				3,600,802	4,644,502	0%
AA	4,688,397	27,698,712			8,090,346	40,477,455	4%
AA-	5,233,111				16,739,585	21,972,695	2%
A+	28,715,138			250,677	14,065,149	43,030,964	4%
A	11,822,536	53,972,919			34,915,906	100,711,361	9%
A-	12,831,272				18,919,582	31,750,854	3%
BBB+	13,953,316				4,481,877	18,435,193	2%
BBB	19,820,302	64,221,443			8,818,151	92,859,896	8%
BBB-	17,042,878				1,735,595	18,778,473	2%
BB+	15,692,032				1,028,535	16,720,568	1%
BB	26,167,204				927,646	27,094,850	2%
BB-	38,641,290				908,254	39,549,544	4%
B+	29,651,955					29,651,955	3%
B	32,498,197				629,880	33,128,077	3%
B-	13,645,355					13,645,355	1%
CCC+	4,045,680					4,045,680	0%
CCC	524,025	830,961				1,354,986	0%
CCC-	3,830,705					3,830,705	0%
CC						0	0%
C						0	0%
D	1,639,793					1,639,793	0%
NR	102,197,770	3,759,112	13,469,899		7,882,309	127,309,090	11%
Totals	410,580,589	395,695,889	62,878,859	32,632,754	216,862,161	1,118,650,251	100%
U.S Government Bonds and Agencies*				380,282,735		380,282,735	
Fixed Income	410,580,589	395,695,889	62,878,859	412,915,489	216,862,161	1,498,932,986	

\* Obligations of the U.S. government or obligations explicitly guaranteed by the U.S. government are not considered to have credit risk.

**Interest Rate Risk**

Interest rate risk is the risk that changes in interest rates, will adversely affect the fair value of an investment. Interest rate risk is controlled through diversification of portfolio management styles. Some investments' sensitivity to changing interest rates may derive from prepayment options embedded in an investment. Some corporate bonds with asset backed securities, collateralized mortgage obligations and mortgage backed securities are pass through securities that represent pooled debt obligations repackaged as securities that pass income and principal from debtors through the intermediary to investors. As of December 31, 2005, the Defined Benefit Plan exposure to interest rate risk as measured by the segmented time distribution maturity summary is listed below by investment class.

**SEGMENTED TIME DISTRIBUTION - DECEMBER 31, 2005**

Investment Type	Market Value	Less than 1 Year	1 to 6 Years	6 to 10 Years	10+ Years	Maturity not Determined
Corporate Bonds	\$ 410,580,589	\$ 35,996,510	\$ 124,223,525	\$ 92,024,171	\$ 73,774,908	\$ 84,561,475
Government Agencies	305,542,091	17,996,056	19,287,242	31,760,500	111,666,839	124,831,454
Government Bonds	107,373,398	3,783,457	14,535,303	61,627,361	27,427,277	-
Global Fixed Income	216,862,161	6,857,823	114,042,956	69,395,194	18,683,879	7,882,309
Mortgages	62,878,860	-	564,480	4,160,362	51,628,644	6,525,374
Bond Index *	395,695,889					395,695,889
<b>Total</b>	<b>\$ 1,498,932,988</b>	<b>\$ 64,633,846</b>	<b>\$ 272,653,506</b>	<b>\$ 258,967,588</b>	<b>\$ 283,181,547</b>	<b>\$ 619,496,501</b>

\* The Bond Index information on the segmented time distribution was unavailable. The effective duration in years for the Bond Index was 4.29 years. Effective duration is a measure of the price sensitivity of a debt investment to changes in interest rates. It is calculated based on the weighted average of the present value for all cash flows.

**Concentration of Credit Risk Debt Securities**

Concentration of credit risk is the risk of loss attributed to the magnitude of an entity's exposure in a single issuer. MERS Investment Policy states securities representing debt and equity of any one company shall not exceed 5 percent of the fair value of the plan's portfolio. MERS did not hold a single organization's securities that exceeded 5% of the plan's net assets available for benefits other than those issued or explicitly guaranteed by the U.S. Government as of December 31, 2005.

**Custodial Credit Risk for Investments**

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, MERS will not be able to recover the value of investments or collateral securities that are in the possession of an outside-third party. As of December 31, 2005, MERS had deposits of \$2,473,726 that were exposed to credit risk with The Northern Trust that were uninsured and uncollateralized. MERS also had Investment Securities and other investments of \$23,967,964 where the exposure to custodial credit risk was not determined.

**Foreign Currency Risk**

Foreign currency risk is the risk that changes in exchange rates, will adversely affect the fair value of an investment. MERS currency risk exposure, or exchange rate risk, is primarily derived from its holdings in foreign currency denominated equities, and fixed income investments.

MERS exposure to foreign currency risk in U.S. dollars as of December 31, 2005 is on page 40.

**FOREIGN CURRENCY RISK - DECEMBER 31, 2005**

<b>Currency</b>	<b>Equities</b>	<b>Fixed Income</b>	<b>Cash</b>	<b>Total</b>
Australian dollar	\$ 39,931,063	\$ 21,609,278	\$ 41,328	\$ 61,581,669
British pound sterling	73,748,796	29,060,254	592,093	103,401,143
Canadian dollar	4,545,884	20,952,672	236,707	25,735,262
Danish krone	3,779,520	21,752,535	865	25,532,920
Euro	121,769,461	51,625,066	2,583,892	175,978,419
Hong Kong dollar	15,172,125	6,402,681	156,118	21,730,924
Hungarian forint		6,027,970		6,027,970
Indonesian rupiah	17			17
Japanese yen	99,190,862		90,219	99,281,081
Malaysian ringgit	836,442		4,726	841,168
Mexican peso		6,601,664	270,626	6,872,290
New Israeli shekel			207	207
New Taiwan dollar	4,463,710		27,651	4,491,361
New Zealand dollar	4,849,225	10,968,516	191,746	16,009,486
Norwegian krone	1,299,737	9,794,208	308	11,094,253
Polish zloty		6,520,485	7,363	6,527,848
Singapore dollar	2,828,981		2,424	2,831,405
South African rand		6,544,762	241	6,545,003
South Korean won	2,391,819			2,391,819
Swedish krona	1,323,716	10,782,422	308	12,106,446
Swiss franc	5,700,329		1,881	5,702,210
Turkish lira	3,702,813		1,226	3,704,039
<b>Total subject to foreign currency risk</b>	<b>385,534,500</b>	<b>208,642,513</b>	<b>4,209,927</b>	<b>598,386,940</b>
<b>Investments in International Securities payable in United States dollars</b>	<b>401,253,809</b>	<b>8,219,648</b>		<b>409,473,457</b>
<b>Total International Investment Securities</b>	<b>\$ 786,788,309</b>	<b>\$ 216,862,161</b>	<b>\$ 4,209,927</b>	<b>\$ 1,007,860,397</b>

**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 40 days as of December 31, 2005. 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 three commingled 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 81 days as of December 31, 2005, producing a net income of \$2,135,791 in 2005.

**COLLATERAL HELD AND FAIR VALUE OF SECURITIES ON LOAN  
AS OF DECEMBER 31, 2005**

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Dollars In Thousands		
Fair Value of Securities on Loan	Nature of Collateral	Collateral Held
\$ 697,030,426	Cash	\$ 719,094,377
59,521,862	Non-Cash	63,031,585
\$ 756,552,288		\$ 782,125,962



### **Derivatives and Structured Financial Instruments**

In accordance with investment policy, the active international managers may, when deemed prudent, enter into forward foreign currency exchange contracts 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, 2005, was \$176,126,236 and the fair market value was \$239,775,497. 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 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 \$3,487,730 as of December 31, 2005. 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 \$47,055,000 as of December 31, 2005.

### **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 the Retirement Board making the final decision, which may be subject to judicial review thereafter. MERS does not anticipate any material loss as a result of these claims. Furthermore, the cost of successful benefit claims is 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. This date is that on which MERS Plan Document of 1996 was first determined by Internal Revenue Service Letter of Favorable Determination to meet qualification as a “governmental plan” trust under Code Section 401(a), and tax exempt under Section 501(a). 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 upon adoption of a Defined Contribution resolution for new hires 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, 2005, there were 107 plans that had adopted the Defined Contribution Plan with 7,393 member accounts totaling \$164.1 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 14 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.

## ***7. MERS Health Trust Programs***

On January 13, 2004, MERS received a Private Letter Ruling allowing establishment of an Internal Revenue Code Section 115 "Integral Governmental Trust." MERS created two programs from this trust, the Health Care Savings Program and the Retiree Health Funding Vehicle.

### **A. Health Care Savings Program**

#### **Plan Description**

The MERS Health Care Savings Program is available to all municipalities in Michigan and became operational in June of 2004. The employer sponsored program provides medical reimbursement accounts to

the participating employees for reimbursement of their medical expenses, as defined in Code Section 213, once they terminate employment, are on medical leave for six months or longer, or are on disability from any public pension plan. There are four types of contributions that may be used in the program: 1. Basic Employer (tax-favored); 2. Mandatory Salary Reductions (tax-favored), 3. Mandatory Leave Conversions (tax-favored) and 4. Voluntary Employee Contributions (post-tax). As a result of the Private Letter Ruling, Code Section 213 reimbursements are tax-exempt for the employee, their spouse, and/or Code Section 152 dependent(s). The Health Care Savings Program accounts are invested in the MERS Total Market Fund portfolio and earnings are tax exempt as a result of the MERS Private Letter Ruling. Plan provisions and requirements are specified in the MERS Health Care Savings Program and Retiree Health Funding Vehicle Plan Document, and Trust.

### **Significant Accounting Policies**

The Health Care Savings Program financial statements are prepared using a cash basis of accounting (which approximates the accrual basis of accounting). Plan investments are presented at fair value. Contributions are pooled on a commingled basis subject to the Public Employee Retirement System Investment Act (“PERSIA”), 1965 PA 314, and pursuant to the Public Employee Health Care Fund Investment Act, 1999 PA 149.

### **Reserve for Health Care Savings Program**

All additions to and deductions from the Health Care Savings Program are recorded in this reserve. MERS maintains the separate individual member account records.

## **B. Retiree Health Funding Vehicle**

### **Plan Description**

The MERS Retiree Health Funding Vehicle is available to all municipalities in Michigan and became operational in the fall of 2004. Participating municipalities can contribute monies to the Trust and no contribution method other than “pay as you go” cash funding is required or imposed on the participating employer. These funds constitute a health care fund, which enable municipalities to accumulate funds to provide or subsidize health benefits for retirees and beneficiaries as defined by Code Section 213. The Retiree Health Funding Vehicle accounts are invested in the MERS Total Market Fund portfolio and earnings are tax exempt as a result of the MERS Private Letter Ruling. Plan provisions and requirements are specified in the MERS Health Care Savings Program and Retiree Health Funding Vehicle Plan Document, and Trust.

### **Significant Accounting Policies**

The Retiree Health Funding Vehicle financial statements are prepared using a cash basis of accounting (which approximates the accrual basis of accounting). Plan investments are presented at fair value. Contributions are pooled on a commingled basis subject to 1965 PA 314, and 1999 PA 149.

**Reserve for Retiree Health Funding Vehicle**

All additions to and deductions from the Retiree Health Funding Vehicle are recorded in this reserve. MERS maintains the separate municipality employer account records.

**8. Interfund Receivables and Payables**

The Defined Benefit Plan, Health Care Savings Program, and the Retiree Health Funding Vehicle are separate trusts with their own general ledgers and financial statements. Interfund receivables and payables have been created as an avenue for the Defined Benefit Plan to handle all transactions for the various funds.

As of December 31, 2005, interfund receivables and payables were:

**INTERFUND RECEIVABLES AND PAYABLES**

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	<u>Interfund Receivables</u>	<u>Interfund Payables</u>
Defined Benefit Plan	\$ 434,593	
Defined Contribution Plan		
Health Care Savings Program		406,098
Retiree Health Funding Vehicle		28,495
Totals	<u>\$ 434,593</u>	<u>\$ 434,593</u>

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF FUNDING PROGRESS

(Dollars in Millions)

Actuarial Valuation December 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)
1999	\$ 3,464.9	\$ 3,835.5	\$ 370.6	90.30%	\$ 1,179.3	31.40%
2000	3,787.2	4,397.0	609.8	86.10	1,226.0	49.70
2001	4,034.4	4,783.9	749.5	84.30	1,271.6	58.90
2002	4,133.0	5,181.2	1,048.2	79.80	1,327.4	79.00
2003	4,459.5	5,667.7	1,208.2	78.70	1,381.2	87.50
2004	4,731.4	6,164.8	1,433.4	76.70	1,437.2	99.80

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
1999	120	7	111%	118%
2000	125	8	106	113
2001	118	15	103	118
2002	125	8	102	109
2003	133	5	121	125
2004	156	2	108	109
2005	170	0	122	122

See notes to the Schedules of Required Supplementary Information.

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 2005 were determined by actuarial valuations as of December 31, 2003.

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 program reduced required contribution rates of municipalities with funded percentages in excess of 100%. The program was discontinued beginning with fiscal years starting in 2005.
- 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 as follows:

<i>Valuation Date</i>	December 31, 2004
<i>Actuarial Cost Method</i>	Entry Age Normal
<i>Amortization Method</i>	Level Percent of Payroll, Open
<i>Remaining Amortization Period</i>	30 years for positive unfunded liabilities and 10 years for negative unfunded liabilities. For divisions that are closed to new hires, the amortization period for positive unfunded liabilities is decreased annually by 2 years until the period reaches 5 years. Beginning in 2006, there will be a gradual reduction of the amortization period for open divisions from 30 years to 25 years

## FINANCIAL SECTION

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### *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 was recognized for 2003. The aggregate loss amount of \$388,778,035 was to be recognized in four equal dollar installments in 2004-2007.) In 2006 a 10-year Smoothed Market Asset Valuation Method will be implemented.

### *Actuarial Assumptions*

Investment Rate of Return	8%
Projected Salary Increases	4.5% for base inflation, plus 0.0% to 8.4% per year attributable to merit and longevity.
Post-Retirement Benefit	2.5% annual post-retirement benefit adjustments if adopted by individual municipality.

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**SCHEDULE OF ADMINISTRATIVE EXPENSES FOR THE YEAR ENDED DECEMBER 31, 2005**


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<b>Administrative Expenses</b>	
Personnel Services	
Salaries	\$ 3,539,976
Social Security	270,944
Retirement	463,932
Insurance	539,956
Total Personnel Services	<u>4,814,808</u>
Professional Services	
Actuarial Services	734,893
Audit Services	74,000
Commercial Banking	101,175
Legal Services	186,560
Medical Advisory Services	49,841
Consultants	163,153
Computer Maintenance	15,493
Total Professional Services	<u>1,325,115</u>
Communications	
Copying	76,358
Library Records	77,058
Mail & Postage	129,501
Promotional Supplies	9,784
Telephone / Communications	84,955
Travel and Meetings	169,689
Annual Meeting	223,325
Total Communications	<u>770,670</u>
Rentals	
Equipment Rental	148,298
Office Rental	604,500
Total Rentals	<u>752,798</u>
Miscellaneous	
Payroll Processing	7,800
Office Supplies	86,574
Operating Expenses	760,223
Equipment Expenses	86,756
Software	53,895
Software Maintenance	506,731
Professional Development & Tuition	255,569
Insurance	194,578
Maintenance	241,346
Depreciation	1,700,181
Total Miscellaneous	<u>3,893,653</u>
<b>Total Administrative Expenses</b>	<b><u><u>\$ 11,557,044</u></u></b>



## FINANCIAL SECTION

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### SCHEDULE OF INVESTMENT EXPENSES FOR THE YEAR ENDED DECEMBER 31, 2005

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#### Investment Expenses

Personnel Services		
Salaries	\$	248,949
Social Security		34,223
Retirement		58,527
Insurance		65,153
Total Personnel Services		<u>406,852</u>
Professional Services		
Commercial Banking		362,989
Investment Managers		15,399,522
Investment Performance Expense		66,500
Other Consultants		6,200
Total Professional Services		<u>15,835,211</u>
Communication		
Travel-Nontaxable		30,524
Travel-Taxable		40
Total Communication		<u>30,564</u>
Miscellaneous		
Operating Expenses		72,325
Equipment Expense		8,132
Software Maintenance		127,051
Depreciation		20,340
Total Miscellaneous		<u>227,848</u>
<b>Total Investment Expenses</b>	<b>\$</b>	<b><u><u>16,500,475</u></u></b>

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**SCHEDULE OF PAYMENTS TO CONSULTANTS FOR THE YEAR ENDED DECEMBER 31, 2005**


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<b>Firm</b>	<b>Nature of Service</b>	<b>Fee</b>
Gabriel, Roeder, Smith & Company	Actuary and System Implementation	\$ 2,971,023
PeopleSoft / Oracle	Systems Implementation and Maintenance	449,740
Ice Miller	Legal Counsel	146,228
SunGard	Disaster Recovery	67,709
Andrews, Hooper & Pavlik P.L.C.	Auditor	45,000
Consulting Physicians	Medical Advisors	43,758
Zephyr Associates	Investment Hedge Fund / Software	37,500
New London Management Associates	Personnel and Human Resource Advisors	33,007
Technology Advisors	Software	31,218
Karoub Associates	Legislative Advisors	30,000
Cost Effectiveness Measurement Inc.	Benchmarking Analysis	30,000
Service Express, Inc	Hardware Maintenance	22,590
Evestment Alliance, LLC	Investment Analytics System	11,000
<b>Total Payments to Consultants</b>		<u><u>\$ 3,918,773</u></u>

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

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*“Of Michigan’s total land area of 36 million acres, over 18 million acres are today classed as forest and wildland, more than one-third of which is in public ownership, mostly in state and national forests, wildlife areas and parks, with state ownership comprising over 4 million acres, and federal ownership nearly 3 million.”*

*Norman F. Smith*

*“Trees of Michigan and the Upper Great Lakes”*

*Publisher: Samuel Speigel, Thunder Bay Press*

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# INVESTMENT SECTION

## REPORT ON INVESTMENT ACTIVITY

BY JEB BURNS, CHIEF INVESTMENT OFFICER

### 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 the 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 returns relative to the market by employing active management strategies where appropriate. Every effort is made to minimize the costs to the portfolio with the use of skilled internal and external resources without negatively affecting the performance of the portfolio.

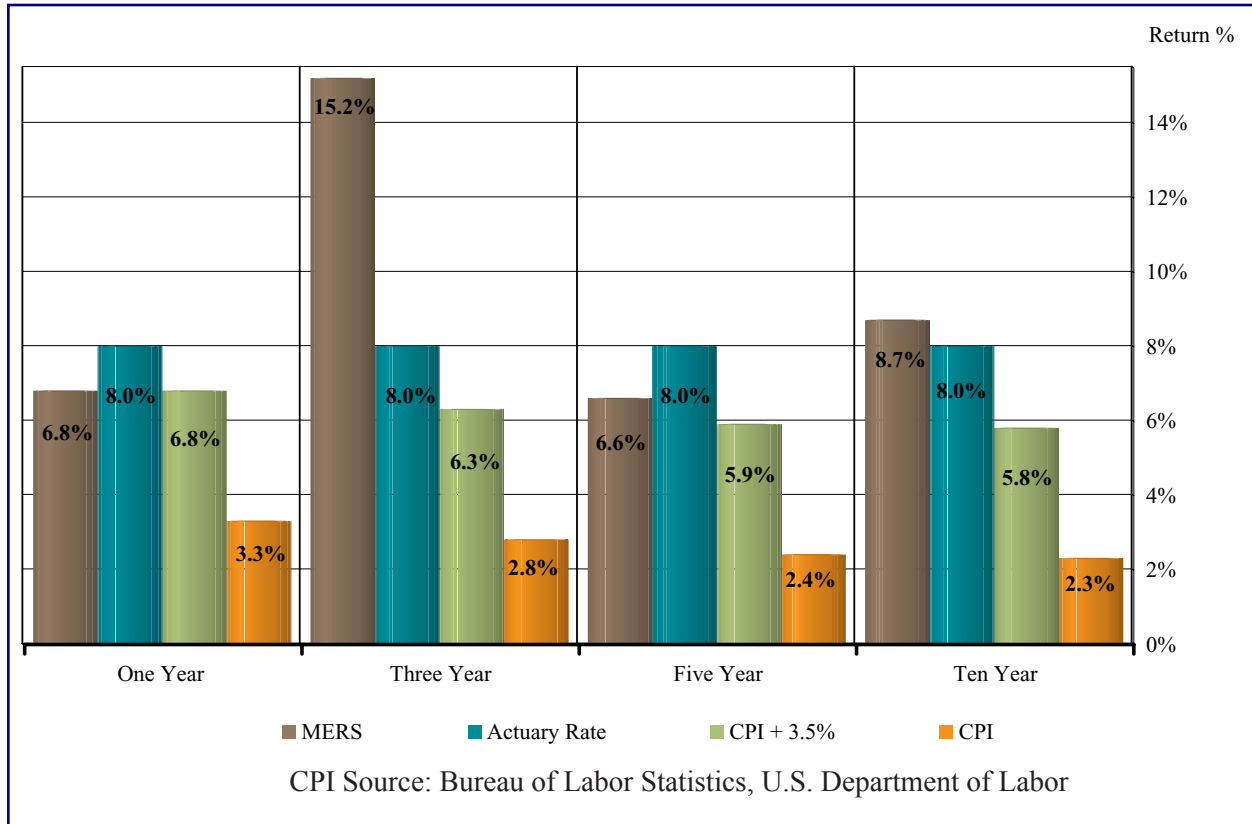
The long-term objectives for the investment assets are:

- Achieve a real rate of return of at least 3.5% annually over the rate of inflation
- Exceed the actuarial assumption rate of 8% annually

## INVESTMENT SECTION

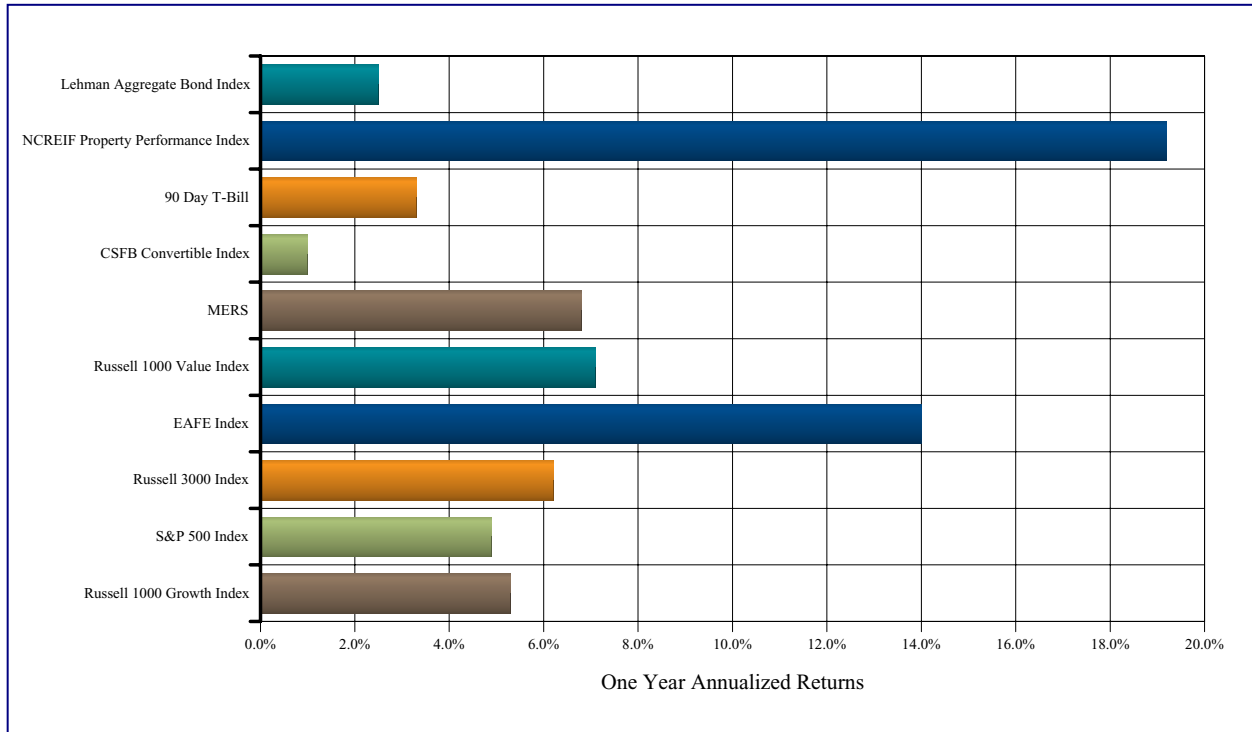
The real rate of return is defined as the rate at which the long-term total return on the Retirement System's assets exceeds the long-term inflation rate. The graph below illustrates that MERS has achieved returns greater than the Consumer Price Index (CPI) plus 3.5% and the actuarial assumption rate of 8% over 10 years.

### MERS ACTUAL RETURNS VERSUS GOALS



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

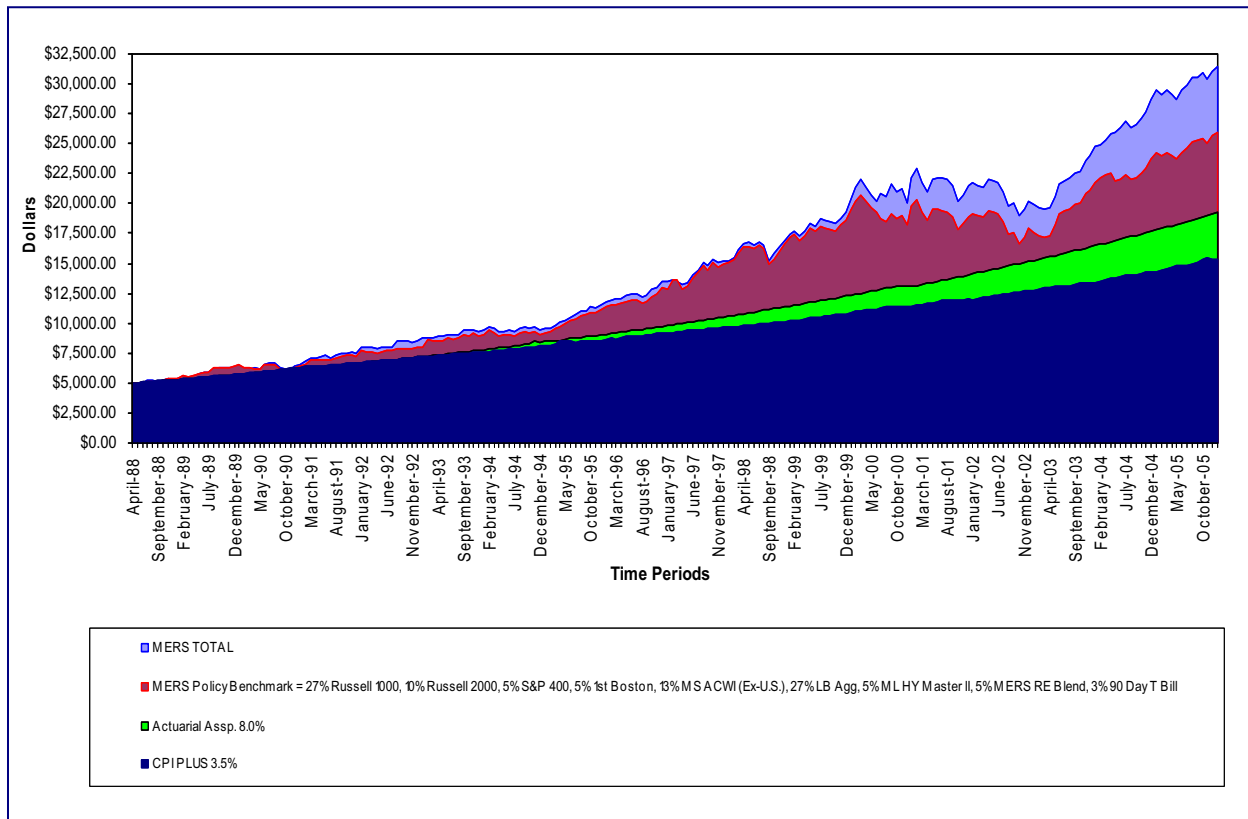
**MERS COMPARED TO MARKET INDICES FOR 2005**



## INVESTMENT SECTION

The portfolio has enjoyed its third consecutive positive year of performance. MERS' Defined Benefit portfolio had a one-year return of 6.8%, allowing MERS to exceed its actuarial assumption rate of return for the ten-year, three-year and two-year periods. The combination of passive and active management, diversification across asset classes and its disciplined adherence to its asset allocation plan has allowed MERS to provide value through multiple market cycles. The chart below illustrates the growth of \$5,000 for over 15 years. It compares the fund to its various benchmarks and demonstrates the value added from active portfolio management.

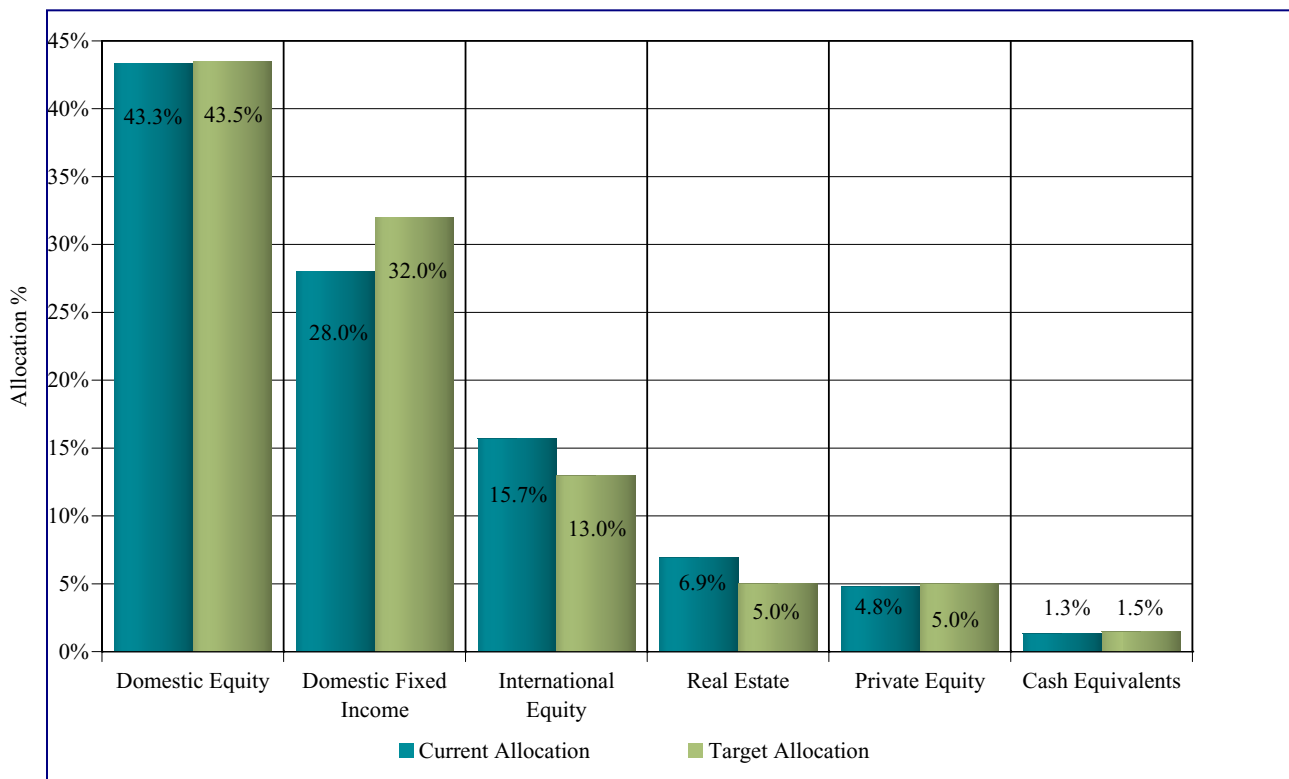
### GROWTH OF \$5,000 PERIOD ENDING DECEMBER 31, 2005



**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 2005, resulting in the modification of MERS’ asset allocation mix. Commodities were added as a stand alone asset class and the funds exposure to international and alternative investments were increased while reducing the overall risk of the portfolio. The allocation plan designs a portfolio with the optimal mix of asset classes for the long-term investment time 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 and global 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 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 following bar chart.

**CURRENT ASSET ALLOCATION VERSUS TARGET ALLOCATION**





## INVESTMENT SECTION

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### Total Fund Investment Results

The investment portfolio produced a total gross return for the fiscal year of 6.8%. Domestic and international equities contributed significantly to the portfolio's performance in 2005, with MERS international portfolio returning 19.3%. MERS exposure to passive large caps and mid cap stocks provided significant positive complimentary performance, returning 7.9% and 13.0% for the year respectively. Domestic small cap stocks and value managers struggled in 2005. International small cap also produced strong returns of 31.3%. Fixed income markets also produced strong returns of 2.4%, per the Lehman Brothers Aggregate Bond Index. MERS' fixed income portfolio returned 2.2%. High yield bonds continued to add value, yielding 6.0%. Real estate and cash positions also added positive returns to the overall portfolio. All major equity indices finished in positive territory. The technology heavy NASDAQ Index returned 2.2% for the year. The Dow Jones Industrial Average and the Russell 3000 Index returned 1.7% and 6.1%, respectively, in 2005. MERS currently manages 9.3% of its assets internally.

The MERS' portfolio was ranked in the 79th percentile within The Northern Trust (TNT) Public Fund Universe for the fiscal year ending December 31, 2005. MERS was ranked 30th and 23rd for the three and five-year periods, respectively. The TNT Universe is comprised of 34 public plans with a total market value of \$237 billion. The plans ranged in size from \$56 million to \$36 billion, with a median market value of \$3.7 billion and an average market value of \$6.8 billion. The portfolio returned 15.2% and 6.6% for the three and five-year periods, respectively, versus its policy benchmark at 13.9% and 5.6%. The policy portfolio benchmark reflects the return that would have been achieved had MERS invested exclusively in passively managed index funds. It should be noted that convertible bonds, high yield bonds and private equity do not have investable indices and their use in the policy benchmark is for comparative purposes only and do not

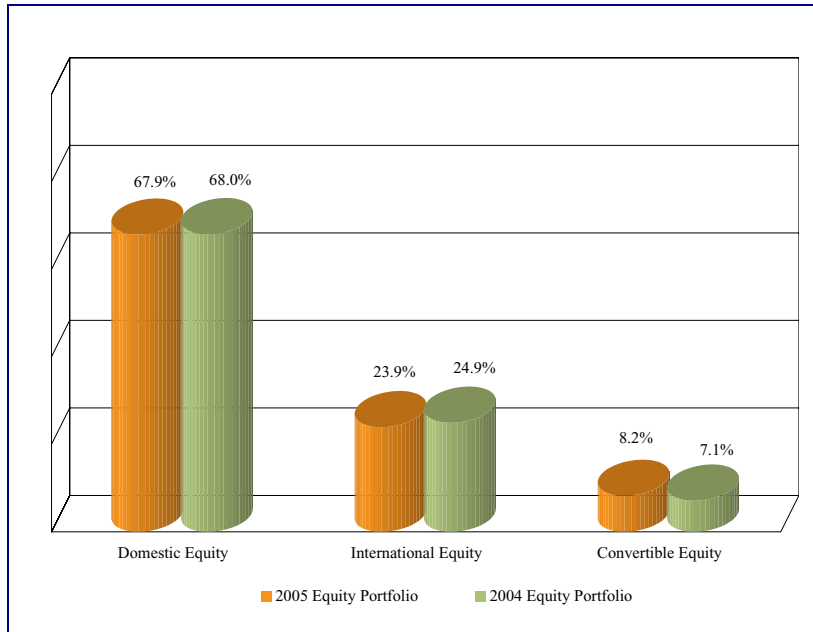
### SCHEDULE OF INVESTMENT RESULTS GROSS OF FEES

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	One Year Annualized	Three Year Annualized	Five Year Annualized
MERS Total Fund	6.8%	15.2%	6.6%
Policy Portfolio	6.8%	13.9%	5.6%
Median Public Plan	7.9%	14.7%	6.0%
Domestic Stocks	3.8%	18.7%	5.9%
Russell 3000 Index	6.1%	15.9%	1.6%
Convertibles	-1.2%	11.4%	0.6%
CSFB Convertible Index	1.0%	12.1%	4.2%
International Stocks	19.3%	26.9%	5.1%
MSCI Eafe Free Index	14.0%	24.2%	4.9%
Domestic Fixed Income	2.2%	5.2%	6.5%
Lehman Aggregate Bond Index	2.4%	3.6%	5.9%
High Yield Bond	6.0%	14.6%	N/A
Merrill Lynch High Yield Master II	2.7%	13.4%	N/A
Real Estate	22.7%	18.2%	13.2%
NCREIF Property Performance	19.2%	13.1%	11.0%

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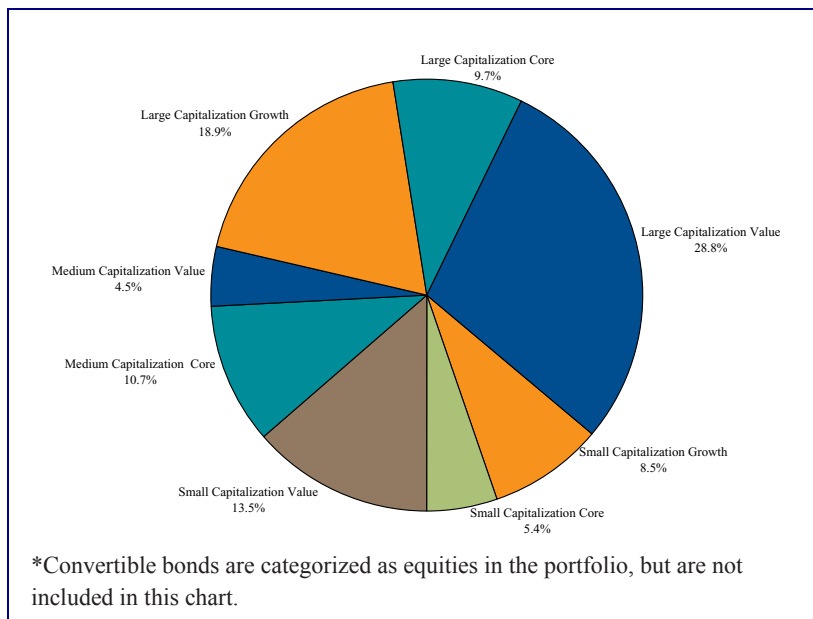
**TOTAL EQUITY PORTFOLIO COMPARISON 2004 VERSUS 2005**



reflect a real investment alternative to active management. MERS continues to achieve returns that outpace both inflation and the funds 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 following table shows the annualized returns gross of fees for fiscal year ending December 31, 2005.

**Total Equities** – The total equity portfolio includes U.S. common stocks, international stocks and convertible securities, representing 58.9% of the total portfolio as of December 31, 2005. The year-end composition of the equity portfolio is shown and is compared to the 2004 equity allocation.

**TOTAL DOMESTIC EQUITY PORTFOLIO 2005**



**Domestic Equities** – As of December 31, 2005, the U.S. stock portfolio had a market value of \$2.116 billion and represented just over 43.3% of the total portfolio. (Convertible bonds, which are treated as equities will be discussed separately.) The Retirement Board employs U.S. stocks in the portfolio primarily because their historical returns over inflation help to preserve and enhance the fund’s ability to achieve the long-term real rate of return objective.

## INVESTMENT SECTION

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The returns for this asset class were positive in 2005 as the economy continued to grow, although at a slower pace. GDP for the U.S. economy grew at a rate of 1.7%. During this period, the domestic common stock portfolio returned 3.8% versus the Russell 3000 Index with a return of 6.1%. The large cap growth portfolio had returns of 4.1% compared to the Russell 1000 Growth Index of 5.3%. MERS' small cap portfolio returned -2.2% versus the Russell 2000 Index at 4.5%. Value style managers generally fared worse than growth managers, but all sectors of the equity markets produced positive returns.

Passive management accounts for 18.4% of the U.S. equity portfolio and is expected to provide broad market diversification. These 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, the S&P 400 in 2004 and added the S&P 600 in 2005. An outside manager currently provides the management of the Russell 1000 Enhanced Index. Enhanced or risk controlled indexes closely track the performance of the index; seeking to capture small amounts of alpha with a similar risk profile.

The U.S. equity asset class is diversified by capitalization using small, mid and large companies and by style using value and growth. The stocks within the portfolio can be classified by style as follows: 18.9% large cap growth, 28.8% large cap value, 9.7% large cap core, 10.7% mid cap core, 4.5% mid cap value, 13.5% small cap value and 8.5% small cap growth, and 5.4% small cap core.

### TOP TEN EQUITY HOLDINGS AS OF DECEMBER 31, 2005

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Asset Description	Shares	Market Value	Percentage of Total Market Value
Exxon Mobil Corporation	566,700	31,831,539.00	0.65%
Pfizer Inc.	920,200	21,459,064.00	0.44%
The Boeing Company	286,290	20,109,009.60	0.41%
General Electric Company	540,040	18,928,402.00	0.39%
Yahoo! Inc.	475,900	18,645,762.00	0.38%
Citigroup Inc.	373,200	18,111,396.00	0.37%
UnitedHealth Group Inc.	283,860	17,639,060.40	0.36%
Medtronic Inc.	300,540	17,302,087.80	0.35%
Chevron Corporation	297,121	16,867,559.17	0.34%
Countrywide Financial Corporation	480,418	16,425,491.42	0.34%

**International Equities** - The allocation to non-U.S. stocks comprises 15.7% of the total portfolio. Of this, 23.6% is passively managed in the Barclays EAFE Index Fund, with the remaining actively managed in three separate active strategies. Mondrian Investment Partners Limited 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. This strategy is employed in recognition of today's global economy and provides further diversification for the total equity portfolio.

Historically, international equities have tended to outperform domestic equities during bull markets and underperform during bear market conditions. This year, the international portfolio outperformed most broad domestic market measures with the exception of small cap stocks. Although it should be noted that MERS' allocation to international small cap equities produced the highest absolute returns for the portfolio with a return of 31.3% for the year.

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 19.3% for the one-year period ending December 31, 2005; the portfolio returned 26.9% and 5.1% for three and five years, respectively.

**Convertibles** - The convertible portfolio is 4.5% 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 available in fixed income securities. The convertible section of the portfolio is managed by Trust Company of the West (TCW) and returned -1.2% for the fiscal year versus the Merrill Lynch All US Convertible Bond Index of 1.0%. The three-year and five-year returns for the portfolio are 11.4% and .63%, respectively, versus the benchmark of 12.1% and 4.2% for the same periods.

**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% of the total portfolio, including high yield bonds that are 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 5.2% and 6.5% for the three and five-year periods, respectively. The portfolio is 65.8% actively managed and 34.2% passively managed. The passive portion is managed within an enhanced or risk controlled portfolio.

### TOP TEN FIXED INCOME HOLDINGS AS OF DECEMBER 31, 2005

Asset Description	Par Value	Market Value	Percentage of Total Market Value
U.S. Treasury 4.13% 5/15/2015	\$ 30,000,000	\$ 29,342,700	0.60%
U.S. Treasury 4.25% 5/15/2015	15,410,000	15,210,749	0.31%
U.S. Treasury Inflation Index 1.88% 7/15/2015	15,134,420	14,883,794	0.30%
U.S. Treasury 5.25% 11/15/2028	13,215,000	14,413,601	0.29%
Teva Pharma Convertible 0.5% 2/1/2024	6,615,000	7,855,313	0.16%
Carnival Corp Convertible 1.13% 4/29/2033	9,130,000	7,167,050	0.15%
U.S. Treasury 4.25% 10/31/2007	6,660,000	6,640,486	0.14%
FNCL 6.0% 4/1/2035	5,821,262	5,876,273	0.12%
Schlumberger Convertible 2.13% 6/1/2023	4,500,000	5,827,500	0.12%
Tyco Int'l Convertible 3.13% 1/15/2023	3,880,000	5,286,500	0.11%

## INVESTMENT SECTION

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**High Yield Bonds** - The MERS 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 6.0% versus its benchmark, the Merrill Lynch High Yield Master II Index, at 2.7%. High Yield Bonds contributed significantly to the performance of the overall portfolio.

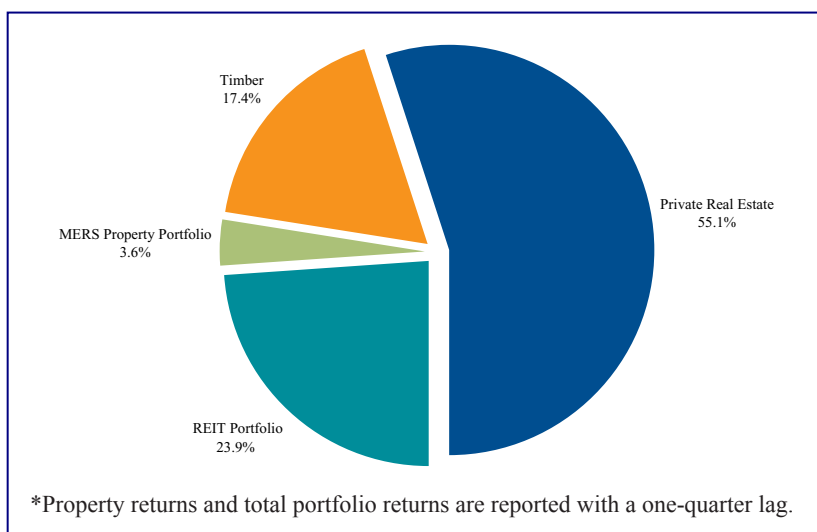
**Real Estate Portfolio** - MERS' real estate investments represented 6.9% of the total portfolio at year-end and produced a total return of 22.7% for the year. The portfolio is well diversified by property type, geographic region and risk category. The publicly traded assets, comprised of Real Estate Investment Trusts (REITS), are 23.9% of the real estate portion.

The return for the public securities portion of the portfolio was 14.6% versus the North American Real Estate Investment Trust (NAREIT) All Equity Index at 12.2%.

The REIT markets participated in the equity rally, driving strong positive performance in the real estate portion of MERS portfolio. The private securities portion of the real estate allocation returned 21.8% versus the National Council of Real Estate Investment Fiduciaries (NCREIF) Property Index of 20.1%. Private real estate is split between stable and enhanced properties that returned 23.2% and 27.4%, respectively. The NCREIF Index represents approximately 4,500 properties, with an aggregate value in excess of \$175 billion and encompasses retail, industrial, office and apartment property types geographically diversified across all regions of the country. The real estate portfolio had returns of 18.2% and 13.2% for the three-year and five-year periods, respectively.

**Private Equity** - The MERS 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 MERS Board. In 2001, the fund committed \$50 million to two funds, Mesiraw II and Mesiraw 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. The portfolio is broadly diversified with investments in the U.S., Europe and Asia. The portfolio has a value of \$152 million and has committed \$432.7 million in future

### REAL ESTATE INVESTMENTS



investments. The remaining funding will be called in the next two years enabling MERS plans to become fully invested in the asset class. Additional commitments will be made on an on-going basis to ensure that the fund is fully invested at the target level established by the board. In 2004 a co-investment fund was added to the program. This will allow MERS to take larger positions in individual companies in the pursuit of higher returns. 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 8.1%. 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.

### **Directed Brokerage/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. In the fiscal year ended December 31, 2005, MERS earned \$229,939 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, 2005, Mondrian Investment Partners Limited 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. MERS purchased 150 long S&P 500 futures contracts, expiring March 2006. 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 SECTION

### INVESTMENT SUMMARY FOR DEFINED BENEFIT PLAN AS OF DECEMBER 31, 2005

Type of Investment	Market Value	Percent of Market Value
<b>Domestic Fixed Income</b>		
US Government Bonds	\$ 107,373,399	2.20%
Corporate Bonds	410,580,590	8.42%
Bond Index Funds	395,695,889	8.11%
Mortgages	62,878,859	1.29%
US Agency Bonds	305,542,090	6.26%
<b>Sub Total Domestic Fixed Income</b>	<b>1,282,070,827</b>	<b>26.28%</b>
Global Fixed Income	216,862,161	4.45%
<b>Total Fixed Income</b>	<b>1,498,932,988</b>	<b>30.73%</b>
<b>Equities</b>		
Domestic Stock	1,450,607,014	29.74%
Domestic Index Funds	413,681,230	8.48%
Convertibles	160,995,931	3.30%
<b>Sub Total Domestic Equities</b>	<b>2,025,284,175</b>	<b>41.52%</b>
International Stock	428,749,407	8.79%
International Index Funds	337,558,721	6.92%
<b>Sub Total International Equities</b>	<b>766,308,128</b>	<b>15.71%</b>
<b>Total Equities</b>	<b>2,791,592,303</b>	<b>57.23%</b>
<b>Venture Capital &amp; Partnerships</b>		
Hedge Funds	20,480,180	0.42%
Private Equity	154,511,909	3.17%
<b>Total Venture Capital &amp; Partnerships</b>	<b>174,992,089</b>	<b>3.59%</b>
<b>Real Estate</b>		
Private Securities	256,001,844	5.25%
Public Securities Index Fund	107,437,178	2.20%
<b>Total Real Estate</b>	<b>363,439,022</b>	<b>7.45%</b>
<b>Sub Total Investments</b>	<b>4,828,956,402</b>	<b>99.00%</b>
<b>Cash Equivalents</b>		
Commercial Paper and Cash	242,250,239	4.97%
<b>Total Cash Equivalents</b>	<b>242,250,239</b>	<b>4.97%</b>
<b>Sub Total Investments &amp; Cash</b>	<b>5,071,206,641</b>	<b>103.97%</b>
Payables - Purchases of Investments	(317,984,276)	-6.52%
Receivables - Sale of Investments & Interest	124,507,109	2.55%
<b>Total Investments</b>	<b>\$ 4,877,729,474</b>	<b>100.00%</b>

Note: Includes receivables and payables for sales and purchases of securities with settlement dates after December 31, 2005



## INVESTMENT SECTION

### SCHEDULE OF INVESTMENT FEES YEAR ENDED DECEMBER 31, 2005

<b>Investment Managers</b>	<b>Average Assets Under Management</b>	<b>Annual Fee</b>	<b>Average Basis Points</b>
Acadian Asset Management	\$ 163,312,220	\$ 796,592	48.78
Ariel Capital Management	104,954,361	440,628	41.98
Barclays Global Investors- Russell 1000	510,625,962	399,740	7.83
Barclays Global Investors- Russell 2000	NA	620	NA
Barclays Global Investors- AIE	165,486,540	1,023,537	61.85
Barclays Global Investors- EAFE	159,784,012	109,558	6.86
Barclays Global Investors- Core	392,005,548	412,392	10.52
CSFB Private Equity Fund	NA	3,463,124	NA
Delaware Investment Advisors	213,701,232	418,293	19.57
Evergreen Investments	217,002,882	533,978	24.61
J.P. Morgan Strategic Property Fund	45,586,143	522,537	114.63
Kennedy Capital Management	334,016,204	949,016	28.41
LSV Asset Management	319,578,375	359,912	11.26
Mondrian International	224,689,490	473,110	21.06
Reams Asset Management- Core	257,679,526	357,680	13.88
Reams Asset Management- High Yield	229,663,244	574,158	25.00
Trust Company of the West	217,570,667	735,141	33.79
Urdang Investment Management	73,816,472	429,082	58.13
Wasatch Advisors	136,578,375	1,114,338	81.59
Wellington Management	372,395,772	930,989	25.00
Wellington Management- Mid Cap	95,413,800	599,776	62.86
Western Asset Management	263,264,572	459,614	17.46
The Townsend Group	NA	295,706	NA
<b>Total Investment Manager Fees</b>	<b>\$ 4,497,125,397</b>	<b>\$ 15,399,521</b>	<b>34.24</b>
<b>Investment Custodian</b>			
The Northern Trust Company		362,989	
<b>Investment Performance Measurement Consultant</b>			
The Northern Trust Company		66,500	
<b>Securities Lending Agent</b>			
The Northern Trust Company		533,538	
<b>Total Investment Fees</b>		<b>\$ 16,362,548</b>	



## INVESTMENT SECTION

### SCHEDULE OF INVESTMENT COMMISSIONS

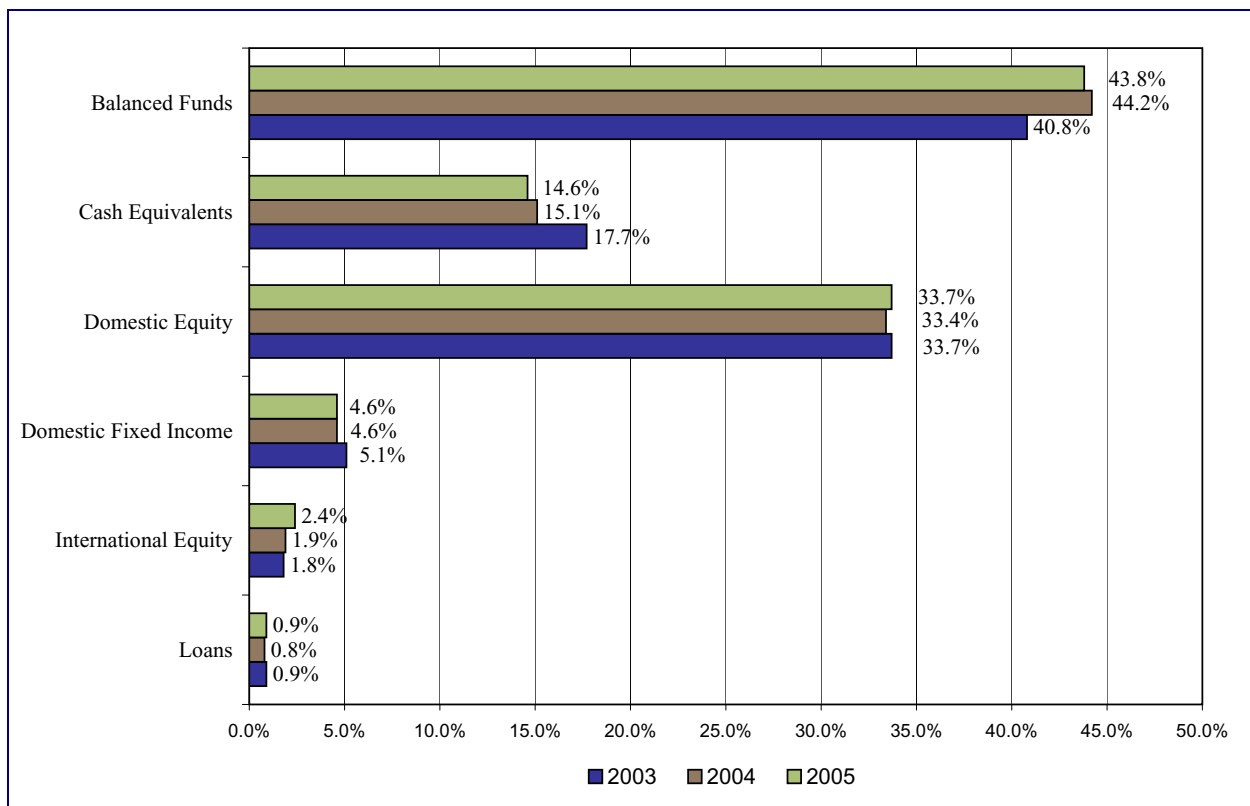
<b>Brokerage Firm</b>	<b>Shares Traded</b>	<b>Total Dollars</b>	<b>Commission/Share</b>
REDI	35,753,852	\$ 362,513	\$ 0.01
Smith, Moore & Co	5,883,502	189,182	0.03
Barrett	4,497,850	151,896	0.03
William Smith	3,593,250	125,854	0.04
Midwood Securities Inc.	6,388,519	104,908	0.02
Capital Institutional Services	2,497,353	104,257	0.04
First Albany	2,579,919	97,852	0.04
Tejas Securities c/t Natl Finl	2,728,294	91,292	0.03
Merrill Lynch	2,265,193	90,773	0.04
Fano Securities	2,345,802	87,152	0.04
Cantor Fitzgerald	2,620,478	80,797	0.03
Liquidnet	3,361,485	76,810	0.02
Abel Noser	2,373,436	72,835	0.03
Investment Technology	2,922,243	63,007	0.02
Morgan Stanley	3,830,539	60,013	0.02
Bear Stearns	1,475,122	59,669	0.04
Jefferies & Co	1,742,971	59,121	0.03
Goldman Sachs	3,565,577	54,940	0.02
Friedman Billings & Ramsey	1,162,490	54,078	0.05
Investor's Capital	1,675,293	52,589	0.03
Banc of America	2,210,930	52,378	0.02
Moness, Crespi, Hardt & Co., Inc	929,500	43,048	0.05
Wells Fargo	1,081,135	41,919	0.04
Citigroup Global Markets	1,286,360	41,741	0.03
Knight Securities	1,566,733	41,714	0.03
Subtotal (25 Largest)	100,337,826	2,260,338	0.02
Remaining Total	35,803,069	1,229,545	0.03
<b>Total Commissions</b>	<b>136,140,895</b>	<b>\$ 3,489,883</b>	<b>\$ 0.03</b>

**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. This plan is available for adoption by all of MERS member municipalities. It is an alternative option to MERS' Defined Benefit Plan. As of December 31, 2005, the Defined Contribution Plan had net assets of \$164.1 million and 7,393 members. Each member is responsible for directing the investment of his or her accumulated account balance. Members receive investment performance information from MERS' third-party administrator, International City/County Management Association - Retirement Corporation (ICMA-RC). The assets as of December 31, 2005, are allocated as follows:

**ASSET ALLOCATION OF DEFINED CONTRIBUTION PLAN**



### **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.

**Lifestyle Investing** – Allows investors the opportunity to select one fully diversified fund that is designed to meet their individual time horizons and risk tolerance. This strategy can be accomplished through either the allocation of individual stocks, bonds and cash, or it can be done by combining existing mutual funds, creating a “fund of funds.” Once the asset mix is established it will automatically be rebalanced at a predetermined future date based upon your age.

**Mutual Fund Series** - This is a group of 14 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.

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# ACTUARIAL SECTION

## ACTUARY CERTIFICATION LETTER



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August 11, 2005

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 financial obligations of MERS to present and future retirees and beneficiaries.

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 years). The latest completed actuarial valuations were based upon population data, asset data, and plan provision data as of December 31, 2004. These valuations determine the contribution rates for the fiscal years beginning in 2006.

The actuarial valuations are based upon financial data, plan provision data, and participant data which is prepared by retirement system staff. 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.

Actuarial valuations are based on assumptions regarding future rates of investment return and inflation, and rates of retirement, turnover, death, disability, and pay increase among MERS members and their beneficiaries. These assumptions are adopted by the Board after considering the advice of the actuary and other professionals. The assumptions and methods utilized in this valuation comply with the requirements of Governmental Accounting Standards Board Statement No. 25. The demographic assumptions were adopted by the Retirement Board and were based upon actual experience of MERS during the years 1998 to 2003. The economic assumptions were adopted by the Board in 1998.

Assets are valued on a market related basis that fully recognizes expected investment return and averages unanticipated market return over a five-year period.

# ACTUARIAL SECTION

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Retirement Board  
August 11, 2005  
Page 2

Based on the actuarial valuations, MERS staff prepared and we reviewed the following supporting schedules in the Comprehensive Annual Financial Report:

## Financial Section

- Schedule of Funding Progress
- Schedule of Employer Contributions (Annual Required Contribution)

## Actuarial Section

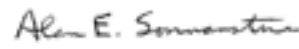
- Summary of Actuarial Assumptions and Methods
- Probabilities of Retirement
- Rates of Separation (Excluding Death)
- Rates of Separation Due to Disability
- Annual Percentage Increase in Salary
- Schedule of Active Member Valuation Data
- Mortality Tables
- Schedule of Retirees and Beneficiaries Added To and Removed From Rolls
- Solvency Test
- Summary of Plan Document Provisions

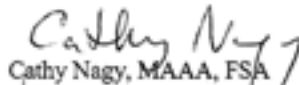
## Statistical Section

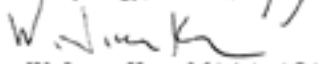
- Schedule of Retired Members by Type of Benefit
- Schedule of Retired Members by Type of Option Selected
- Active Members Per Pension Recipient
- Benefits as Percent of Active Member Pay

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 is meeting its basic financial objective and continues in sound condition in accordance with actuarial principles of level percent of payroll financing.**

Respectfully submitted,

  
Alan E. Sonnanstine, MAAA, ASA

  
Cathy Nagy, MAAA, FSA

  
W. James Koss, MAAA, ASA

Gabriel Roeder Smith & Company

## 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 Retirement Board adopted the assumptions used in the actuarial valuations 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 73. Adopted 2000.

Sample probabilities of separation from service before retirement due to disability or other causes are shown on page 75. 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 76. 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 76. 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.

## ACTUARIAL SECTION

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The most recent experience study for the Retirement System was completed in March 2005 and covered the period January 1, 1999, through December 31, 2003. All assumptions and method changes adopted in 2005 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, 2004, actuarial valuation results.

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



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

Percent of Eligible Active Members Retiring Within Next Year\*

Retirement Ages	Without F50 or F55 or F(N)	With F55	With F50
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 the age at which unreduced plan benefits are available.

## ACTUARIAL SECTION

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

---

Percent of Eligible Active Members Retiring Within		Percent of Eligible Active Members Retiring Within		Percent of Eligible Active Members Retiring Within	
Age	Next Year	Age	Next Year	Age	Next Year
40	22%	51	22%	61	24%
41	22	52	22	62	24
42	22	53	22	63	24
43	22	54	24	64	27
44	22	55	18	65	30
45	22	56	14	66	30
46	22	57	16	67	30
47	22	58	18	68	30
48	22	59	18	69	30
49	22	60	20	70	100
50	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

---

Retirement Ages	Percent of Eligible Active Members Retiring Within Next Year
50	2%
51	2
52	3
53	5
54	8
55	4
56	4
57	4
58	6
59	8

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

<b>Sample Ages</b>	<b>Years of Service</b>	<b>Percent of Active Members Withdrawing Within Next Year</b>
	0	18.00%
	1	18.00
	2	16.00
	3	12.00
	4	10.00
20	5 and 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 WITHDRAWAL DUE TO DISABILITY\*  
PERCENT BECOMING DISABLED WITHIN NEXT YEAR**

<b>Sample Ages</b>	<b>Percent of Active Members Withdrawing Within Next Year</b>
20	0.02%
25	0.02
30	0.02
35	0.06
40	0.06
45	0.11
50	0.24
55	0.41
60	0.41
65	0.41

\* 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.

## ACTUARIAL SECTION

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### ANNUAL PERCENTAGE INCREASE IN SALARY

---

<b>Sample Ages</b>	<b>Base Inflation</b>	<b>Merit and Longevity</b>	<b>Total Percentage Increase in Salary</b>
20	4.50%	8.40%	12.90%
25	4.50	5.33	9.83
30	4.50	3.26	7.76
35	4.50	2.05	6.55
40	4.50	1.30	5.80
45	4.50	0.81	5.31
50	4.50	0.52	5.02
55	4.50	0.30	4.80
60	4.50	0.00	4.50

### SCHEDULE OF ACTIVE MEMBER VALUATION DATA

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<b>Valuation Dec 31</b>	<b>Participating Municipalities</b>	<b>Active Members</b>	<b>Active Members Annual Payroll</b>	<b>Annual Average Pay</b>	<b>Percent Increase in Average Pay</b>	<b>Persons on Deferred Status</b>
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
2003	594	37,159	1,381,197,725	37,170	3.7%	5,575
2004	614	36,766	1,437,211,517	39,091	5.2%	5,804

## 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 a 50% Male – 50% Female blend of the 1994 Group Annuity Mortality Table. For disabled retirees, the ages in the regular mortality table is used with a 10-year set forward in ages 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:

<b>Age</b>	<b>Expected Years of Life Remaining</b>	<b>Mortality Rates</b>
20	61.55	0.04%
25	56.68	0.05
30	51.82	0.06
35	46.97	0.07
40	42.13	0.09
45	37.34	0.13
50	32.60	0.20
55	27.98	0.34
60	23.53	0.62
65	19.40	1.16
70	15.66	1.87
75	12.24	2.99
80	9.25	5.07

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

<b>Age</b>	<b>Expected Years of Life Remaining</b>	<b>Mortality Rates</b>
20	51.82	0.06%
25	46.97	0.07
30	42.13	0.09
35	37.34	0.13
40	32.60	0.20
45	27.98	0.34
50	23.53	0.62
55	19.40	1.16
60	15.66	1.87
65	12.24	2.99
70	9.25	5.01
75	6.81	8.25
80	4.85	13.46

# ACTUARIAL SECTION

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

---

Valuation Dec 31	Added to Rols		Removed From Rols		End-of-Year Rols		% Increase in Annual Allowance	Average Annual Allowance
	Retirees/ Beneficiaries Number	Annual Allowance	Retirees/ Beneficiaries Number	Annual Allowance	Retirees/ Beneficiaries Number	Annual Allowance		
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	14,263	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	4,735,312	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
2003	1,577	31,229,077	672	5,623,367	18,443	236,588,632	12.1%	12,828
2004	1,553	32,303,049	725	6,669,694	19,271	262,221,987	10.8%	13,607

## 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 covered 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 previous years 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	Aggregate Accrued Liabilities				Valuation Assets	Portion of Accrued Liabilities		
	(1)	(2)	(3)	Valuation		(1)	(2)	(3)
	Active Member Contributions	Retirees and Beneficiaries	Active Members (Employer- Financed Portion)			Assets		
1995	\$ 250.6	\$ 968.4	\$ 1,524.8	\$ 2,166.9	100%	100%	62.20%	
1996 *	269.3	1,041.1	1,688.6	2,416.4	100	100	65.50%	
1997 **	277.5	1,174.7	1,833.0	2,692.7	100	100	67.70%	
1998	291.9	1,316.2	1,983.9	3,030.4	100	100	71.70%	
1999	305.5	1,463.2	2,066.9	3,464.9	100	100	82.10%	
2000	318.4	1,744.6	2,334.0	3,787.2	100	100	73.90%	
2001	336.5	1,944.6	2,502.8	4,034.4	100	100	70.10%	
2002	359.2	2,159.1	2,662.8	4,133.0	100	100	60.60%	
2003	396.7	2,435.2	2,835.8	4,459.5	100	100	57.40%	
2004	422.5	2,696.6	3,045.7	4,732.2	100	100	53.00%	

\* 1996 includes accrued liabilities for member contributions, retirees, beneficiaries, and active members (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 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, 2004 Actuarial Valuation was based upon the provisions of the MERS' Plan Document summarized below. This information is 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, 2004, 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, 2004, actuarial valuation.

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*“Even though southern Michigan was covered with lush stands of sugar beech, beech, ash, oak, and hickory, the region was virtually ignored by lumbermen because hardwood trees had a limited market value. Demand was for the creamy white cork pine and Norway pine found in abundance in central and northern Michigan. Clearing of these pine forests, whose lumber was used primarily for home building and home furnishings, occurred at the rate of 33,000 acres per year during the last four decades of the nineteenth century. By 1882, the Saginaw Valley had contributed over one half of the 8 billion board feet of white pine cut throughout the entire Old Northwest.”*

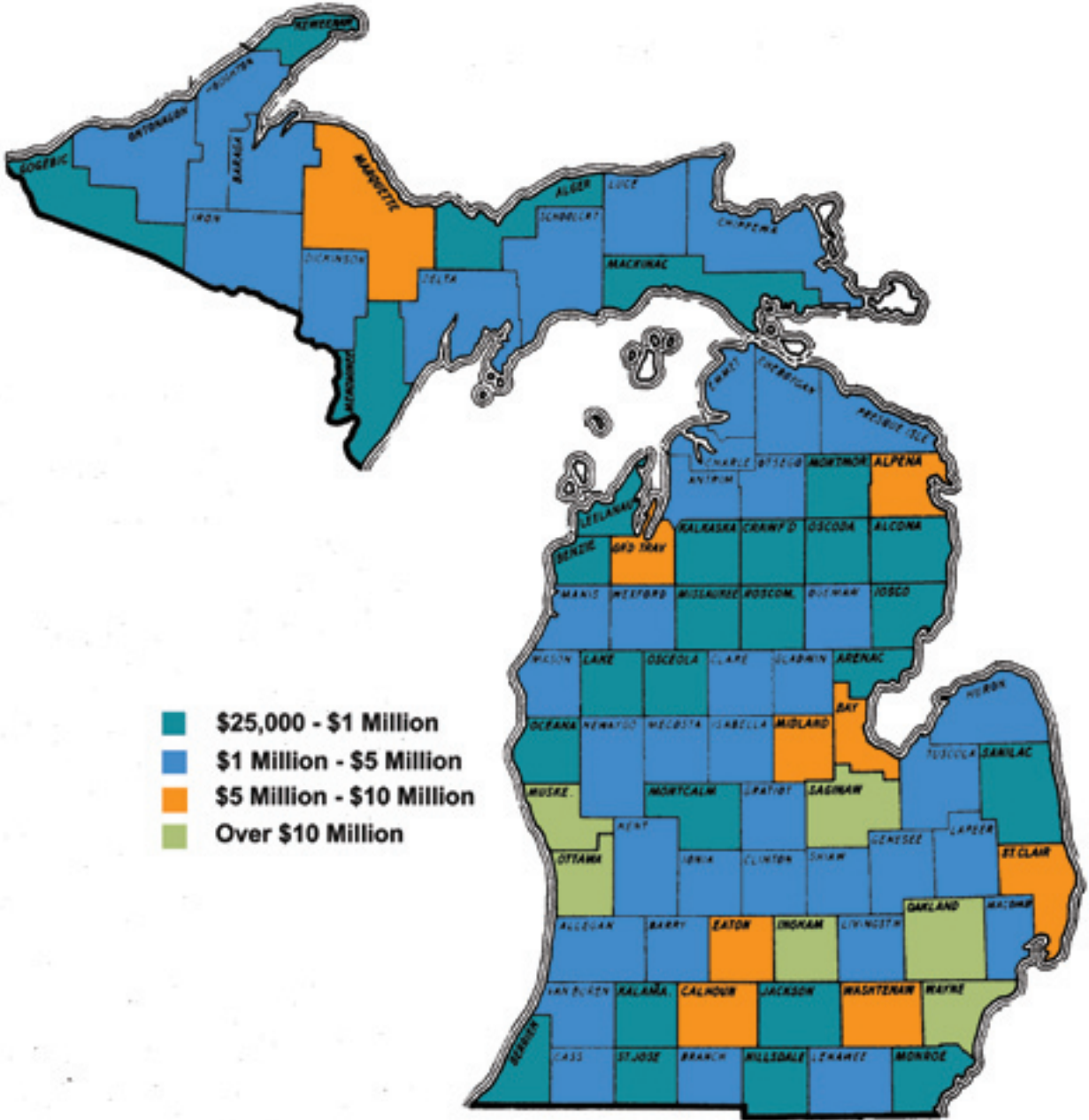
*Bruce A. Rubenstein & Lawrence E. Ziewacz*  
*“Michigan —A History of the Great Lakes”*  
Publisher: Harlan Davidson, Inc.

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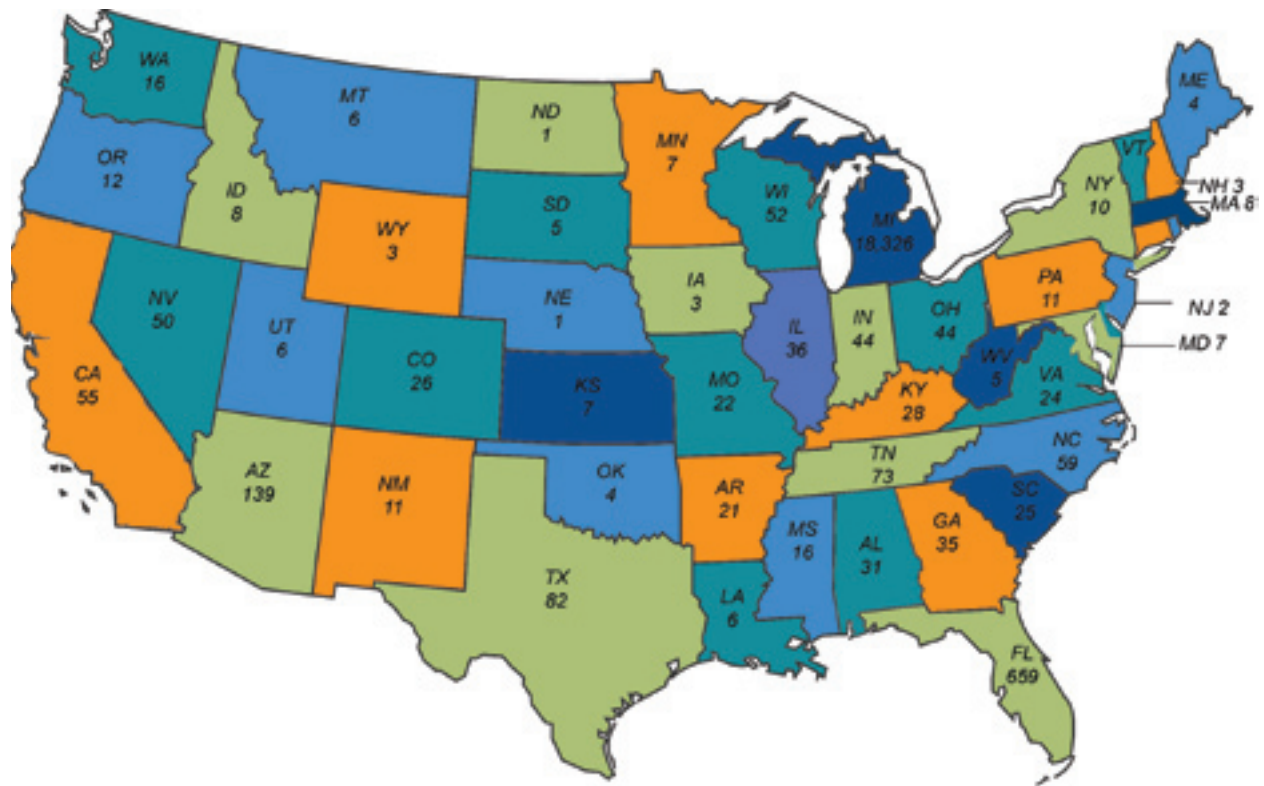
# STATISTICAL SECTION

## RETIREES IN MICHIGAN

Of the 20,171 retirees and beneficiaries in the MERS system, 18,326 (91 percent) remain Michigan residents. Benefit payments of \$274.1 million this year are distributed throughout the State's communities and businesses, representing MERS impact on the State's economy.



DISTRIBUTION OF BENEFIT RECIPIENTS  
BY LOCATION  
DECEMBER 2005



Recipients Outside Continental United States

Alaska	7	Nova Scotia, Canada	1	Ireland	2
Hawaii	5	Ontario, Canada	5	Israel	1

**SCHEDULE OF ADDITIONS TO PLAN NET ASSETS - DEFINED BENEFIT PLAN**

(Thousands of Dollars)

Fiscal Year Ended	Member Contributions	Employer Contributions			Investment and Misc. Income	Total
		Dollars	% of Annual Covered Payroll			
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	11.7	800,189	1,023,640	
Dec. 31, 2004	55,409	167,943	11.4	587,519	810,871	
Dec. 31, 2005	71,325	207,124	13.3	299,780	578,229	

\* 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.

## STATISTICAL SECTION

### SCHEDULE OF DEDUCTIONS FROM PLAN NET ASSETS - DEFINED BENEFIT PLAN

(Thousands of Dollars)

Fiscal Year Ended	Benefit Payments	Administrative and Special Expenses	Refunds	Transfers to MERS DC Program	Total
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
Dec. 31, 2004**	247,454	10,344	5,253	322	263,373
Dec. 31, 2005	274,147	11,956	4,157	23	290,283

\* Fiscal 1997 included 15 months of expenses.

\*\* Refunds for 2004 includes \$1,727,570 in Employer refunds.

### SCHEDULE OF BENEFIT EXPENSES BY TYPE - DEFINED BENEFIT PLAN

(Thousands of Dollars)

Fiscal Year Ended	Regular Benefits	Disability Benefits	Employee Refunds	Total
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
Dec. 31, 2004	237,916	9,538	3,525	250,979
Dec. 31, 2005	263,839	10,308	4,158	278,305

\* 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, 2004**  
**Tabulated by Optional Form of Benefit Being Paid**

Monthly Benefit	All Retired Members	Type of Annuity					
		1	2	3	4	5	6
\$ 0-199	1,881	1,198	46	26	508	102	1
200-399	3,090	2,086	117	54	665	156	12
400-599	2,517	1,773	145	50	422	114	13
600-799	1,999	1,482	113	39	279	76	10
800-999	1,605	1,245	83	38	162	70	7
1,000-1,199	1,352	1,080	78	21	127	42	4
1,200-1,399	1,068	873	50	13	109	21	2
1,400-1,599	918	783	34	14	65	21	1
1,600-1,799	827	729	25	7	45	18	3
1,800-1,999	705	642	16	5	29	12	1
2,000 & over	3,309	3,169	33	7	64	35	1
<b>Totals</b>	<b>19,271</b>	<b>15,060</b>	<b>740</b>	<b>274</b>	<b>2,475</b>	<b>667</b>	<b>55</b>
Total Monthly Benefit	\$ 21,851,832	\$19,023,406	\$618,855	\$207,951	\$1,480,603	\$478,667	\$42,350

**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.

# STATISTICAL SECTION

## SCHEDULE OF RETIRED MEMBERS BY TYPE OF OPTION SELECTED - DEFINED BENEFIT PLAN

December 31, 2004 - Tabulated by Optional Form of Benefit Being Paid

	Monthly Benefit	All Retired Members	Form of Annuity			
			1	2	3	4
\$	0-199	1,881	596	10	0	256
	200-399	3,090	825	16	1	408
	400-599	2,517	704	39	1	316
	600-799	1,999	546	34	0	292
	800-999	1,605	407	39	1	275
	1,000-1,199	1,352	408	54	2	251
	1,200-1,399	1,068	327	41	1	207
	1,400-1,599	918	299	39	0	205
	1,600-1,799	827	260	58	1	167
	1,800-1,999	705	223	37	0	163
	2,000 & over	3,309	947	337	2	812
	Totals	19,271	5,542	704	9	3,352
Total Monthly Benefit		\$21,851,832	\$6,327,185	\$1,447,388	\$11,790	\$4,637,099

### 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



Form of Annuity					
5	6	7	8	9	10
64	18	10	9	9	909
94	21	30	16	21	1,658
58	25	24	17	19	1,314
51	31	31	8	18	988
27	37	29	10	13	767
21	17	26	8	9	556
13	10	7	3	7	452
9	11	12	5	6	332
12	10	11	2	7	299
6	8	6	4	4	254
41	35	42	19	31	1,043
396	223	228	101	144	8,572
\$333,919	\$258,854	\$267,323	\$113,696	\$175,167	\$8,279,411

**SCHEDULE OF AVERAGE BENEFIT PAYMENTS - DEFINED BENEFIT PLAN**

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<b>Valuation Date December 31</b>	<b>Number of Retirees and Beneficiaries</b>	<b>Average Yearly Benefit</b>
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
2003	18,443	12,828
2004	19,271	13,607

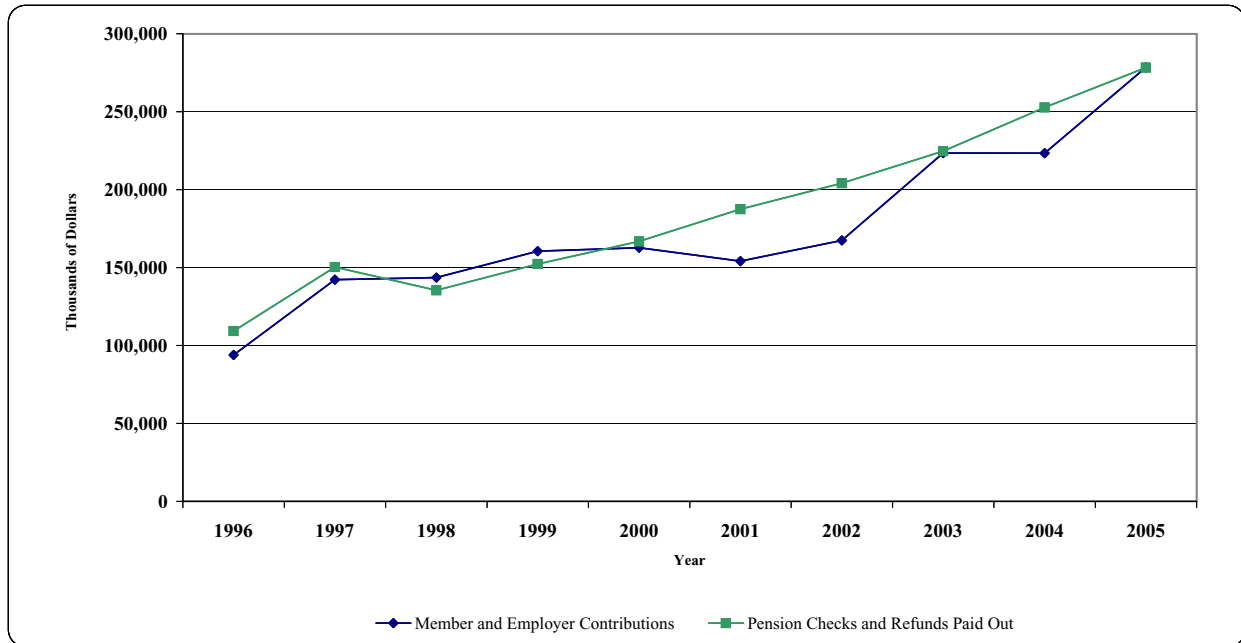
**DEFINED CONTRIBUTION PLAN PARTICIPANTS AND TOTAL MERS PARTICIPANTS**

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	<b>Number of Participants Total</b>	<b>Defined Benefit</b>	<b>% of Total</b>	<b>Defined Contribution</b>	<b>% of Total</b>
December 31, 2005	70,787	63,394	89.6%	7,393	10.4%
December 31, 2004	67,100	61,346	91.4%	5,754	8.6%
December 31, 2003	65,756	60,569	92.1%	5,187	7.9%
December 31, 2002	64,086	59,343	92.6%	4,743	7.4%
December 31, 2001	63,714	59,287	93.1%	4,427	6.9%

Although Defined Contribution Plan (DC) participants are not included in the annual actuarial evaluation of the MERS Defined Benefit Plan (DB), the trend in DC participation is of interest. Numerous municipality divisions have established DC benefits for future new employees. Existing DB active members in those divisions were offered the choice of plans. The table above shows recent trends in DC participation and overall MERS participants.

**COMPARISONS OF MEMBER AND EMPLOYER CONTRIBUTION VS. PENSION CHECKS AND REFUNDS PAID OUT FOR THE DEFINED BENEFIT PLAN**



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 \$278,448,455 from employer/employee contributions in 2005 (\$49,415,564 of that amount was from new municipalities). MERS paid out \$278,304,276 (\$274,146,709 in pension payments and \$4,157,567 in employee refunds). Also 1997 was a 15 month year which reflects higher contributions and pension checks that caused both trend lines to jump for that year.

# STATISTICAL SECTION

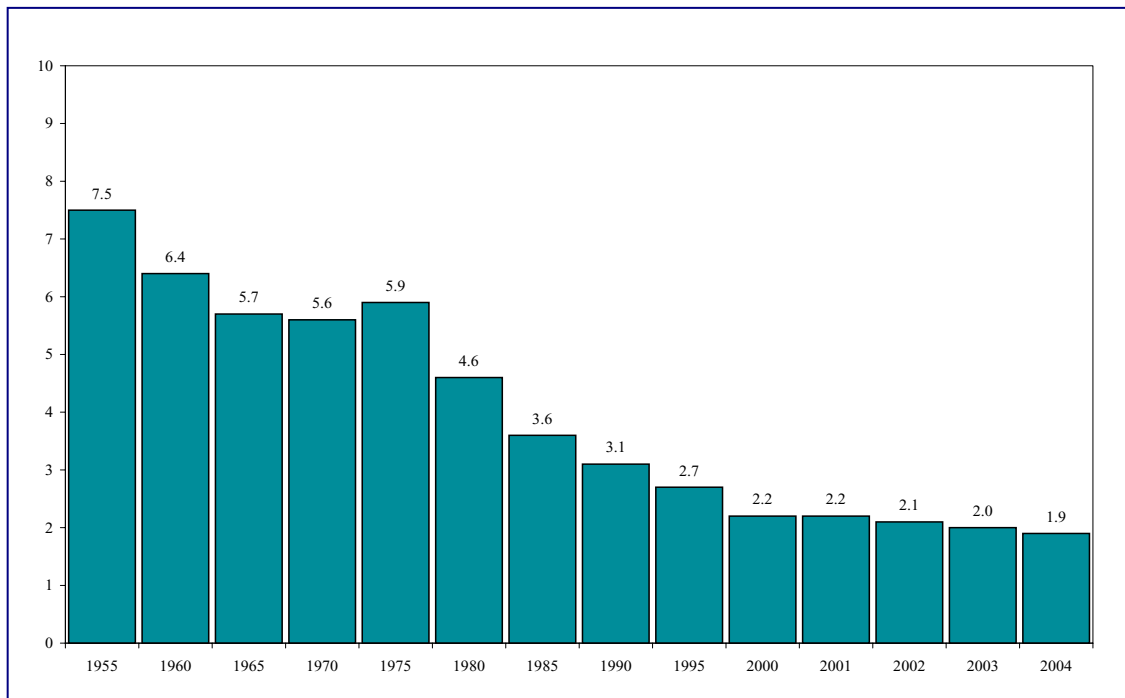
## SCHEDULE OF CHANGES IN RESERVES FOR THE FISCAL YEAR ENDED DECEMBER 31, 2005

	Reserve for Employee Contributions	Reserve for Employer Contributions and Benefit Payments	Reserve for Expenses and Undistributed Investment Income	Total Reserve for Defined Benefit Plan
<b>Additions</b>				
Member Contributions				
Regular	\$ 65,176,012			\$ 65,176,012
Purchase of Service Credit	6,148,891	\$ 507,935		6,656,826
Employer contributions		206,615,617		206,615,617
Net Investment Income			\$ 293,760,014	293,760,014
Miscellaneous Income			6,020,448	6,020,448
Transfers from Defined Benefit Plan				
Transfers from Other Plans				
<b>Total Additions</b>	<b>71,324,903</b>	<b>207,123,552</b>	<b>299,780,462</b>	<b>578,228,917</b>
<b>Deductions</b>				
Retirement Benefits		274,146,709		274,146,709
Refund of Contributions	4,157,567			4,157,567
Administrative Expense			11,557,044	11,557,044
Special Expenses and Fees		398,690		398,690
Transfers to DC Plan	964	21,609		22,573
<b>Total Deductions</b>	<b>4,158,531</b>	<b>274,567,008</b>	<b>11,557,044</b>	<b>290,282,583</b>
<b>Net Increase (Decrease)</b>	<b>67,166,372</b>	<b>(67,443,456)</b>	<b>288,223,418</b>	<b>287,946,334</b>
Other Changes in Reserves				
Investment Income Allocations	8,428,151	279,795,267	(288,223,418)	
Retirement and Unclaimed Transfers	(32,384,838)	32,384,838		
<b>Total Other Changes in Reserves</b>	<b>(23,956,687)</b>	<b>312,180,105</b>	<b>(288,223,418)</b>	
Net Increase (Decrease) in Reserves After Other Changes	43,209,685	244,736,649		287,946,334
<b>Reserve Balance Beginning of Year</b>	<b>434,232,821</b>	<b>4,185,262,840</b>		<b>4,619,495,661</b>
<b>Reserve Balance End of Year</b>	<b>\$ 477,442,506</b>	<b>\$ 4,429,999,489</b>	<b>\$ -</b>	<b>\$ 4,907,441,995</b>

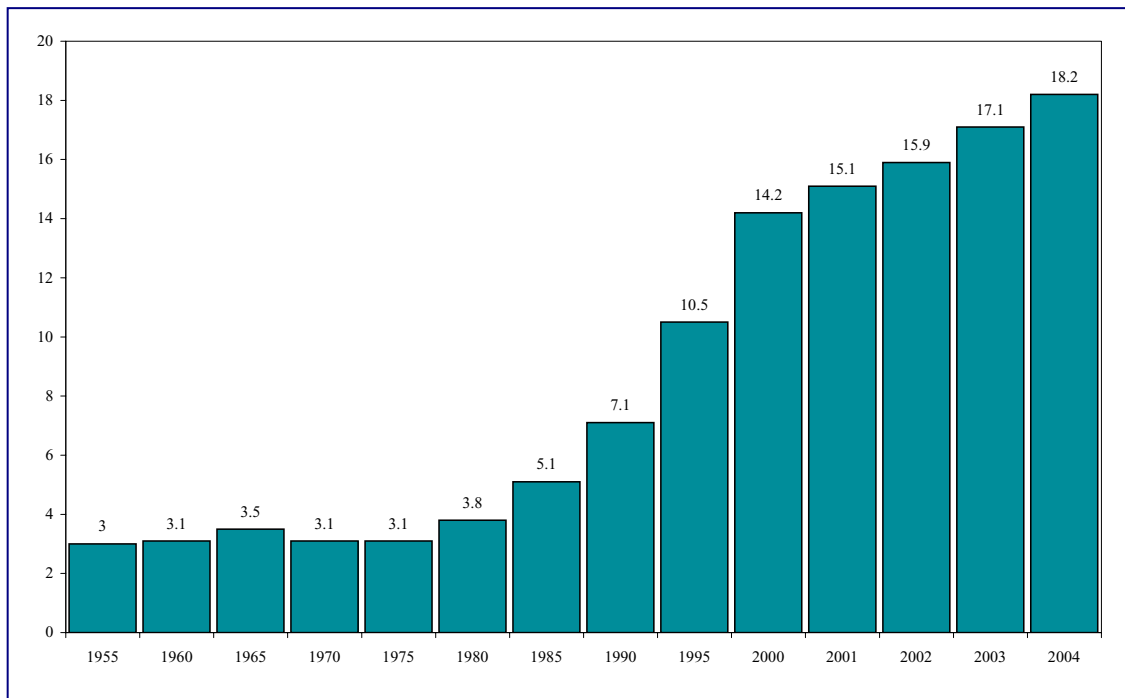
	Reserve for Defined Contribution Plan	Reserve for Health Care Savings Program	Reserve for Retiree Health Funding Vehicle	Total Reserve for Pension Trust Funds
\$	4,732,864	\$ 14,995	\$	69,923,871
				6,656,826
	14,244,769	2,856,908	\$ 11,947,714	235,665,008
	8,427,281	167,170	448,190	302,802,655
		5,989		6,026,437
	22,573			22,573
	2,084,281			2,084,281
	29,511,768	3,045,062	12,395,904	623,181,651
	9,482,481	51,832	95,470	283,776,492
				4,157,567
		250,436	26,150	11,833,630
				398,690
				22,573
	9,482,481	302,268	121,620	300,188,952
	20,029,287	2,742,794	12,274,284	322,992,699
	20,029,287	2,742,794	12,274,284	322,992,699
	144,083,571	1,323,119	1,418,652	4,766,321,003
\$	164,112,858	\$ 4,065,913	\$ 13,692,936	\$ 5,089,313,702

# STATISTICAL SECTION

## ACTIVE MEMBERS PER PENSION RECIPIENT



## BENEFITS AS PERCENT OF ACTIVE MEMBER PAY



Charts 1 and 2 illustrate how MERS has matured over the years. Over time, the number of active members per retiree has declined from 7.5 to 1.9. The benefit payout as a percentage of active member payrolls has increased to over 18%.

**SCHEDULE OF PARTICIPATING MUNICIPALITIES - DEFINED BENEFIT PLAN  
FOR THE YEAR ENDED DECEMBER 31, 2005**

Name	Number of Actives	Number of Vested	Number of Retirees/ Beneficiaries	Balance Reserve for Employee Contributions	Balance Reserve for Employer Contributions	Total Reserves
Alcona County	57	7	42	\$ 243,718	\$ 5,664,273	\$ 5,907,991
Addison Fire Department	2	0	0	-	27,109	27,109
Adrian, City of	162	16	111	4,184,871	31,170,179	35,355,050
Albion, City of	47	25	105	336,620	14,060,568	14,397,188
Alger County	34	5	19	126,258	4,935,780	5,062,038
Alger County Road Commission	30	2	38	928,099	5,200,453	6,128,552
Algonac, City of	27	6	5	782,435	2,046,000	2,828,435
Allegan County	148	103	198	2,475,521	30,543,073	33,018,594
Allegan County Road Commission	69	3	53	2,412,127	10,877,262	13,289,389
Allegan, City of	11	4	3	4,342	1,549,196	1,553,538
Alma, City of	85	7	65	2,381,116	12,914,159	15,295,275
Almont, Village of	15	0	1	234,520	723,765	958,285
Alpena County	101	19	65	254,583	9,292,929	9,547,512
Alpena County Road Commission	35	2	34	197,907	7,220,788	7,418,695
Alpena General Hospital	520	49	290	3,597,653	88,438,702	92,036,355
Alpena Senior Citizens Center	2	2	5	-	298,631	298,631
Alpha, Village of	1	1	0	-	28,250	28,250
Antrim County	307	44	116	934,415	16,535,635	17,470,050
Antrim County Road Commission	44	0	41	144,322	5,981,929	6,126,251
Arenac County	82	19	42	440,521	4,751,369	5,191,890
Arenac County Road Commission	28	1	23	25,029	2,562,168	2,587,197
Ash Township	3	0	3	35,249	151,023	186,272
Au Gres, City of	5	1	4	-	967,183	967,183
Auburn, City of	7	0	3	234,129	914,325	1,148,454
Bad Axe, City of	26	1	6	299,972	2,192,059	2,492,031
Bangor, City of	15	4	11	147,998	1,726,915	1,874,913
Baraga County	33	7	16	11,106	3,252,398	3,263,504
Baraga County Road Commission	29	0	32	10,946	4,078,847	4,089,793
Baraga County Memorial Hospital	163	23	76	243,495	8,175,068	8,418,563
Baraga, Village of	10	2	6	-	1,352,500	1,352,500
Baroda Township	3	0	0	20,148	15,328	35,476
Barry County	391	31	148	1,512,403	22,358,206	23,870,609
Barry County Community Mental Health	46	3	0	115,435	1,527,058	1,642,493
Barry-Eaton District Health Department	93	32	39	1,021,918	7,577,777	8,599,695
Barton Hills, Village of	3	0	1	-	427,827	427,827
Bates Township	2	0	1	-	120,807	120,807
Bath Charter Township	20	1	2	640,031	1,464,529	2,104,560
Battle Creek, City of	423	33	242	6,204,352	65,412,913	71,617,265
Bay City Housing Commission	17	0	18	106,387	3,956,925	4,063,312
Bay City, City of	128	18	269	1,993,905	34,206,901	36,200,806
Bay Metro Transit Authority	96	11	18	180,614	3,173,829	3,354,443
Bayliss Public Library	8	0	5	77,911	961,769	1,039,680
Beecher Metropolitan District Sewage & Water System	12	2	9	299,466	3,379,786	3,679,252
Belding, City of	8	0	3	143,547	544,855	688,402
Belleville, City of	20	5	11	133,213	2,733,866	2,867,079
Benzie County Council on Aging	9	1	0	-	300,297	300,297
Benzie County	80	33	28	83,597	5,794,615	5,878,212
Benzie County Medical Care Facility (Maples)	91	17	19	304,199	4,004,814	4,309,013
Benzie County Road Commission	35	3	22	262,405	2,493,196	2,755,601
Benzie Shores District Library	1	0	0	12,779	84,186	96,965
Benzie/Leelanau District Health Department	4	0	1	-	275,021	275,021
Berkley, City of	57	10	58	1,259,258	12,809,969	14,069,227
Berrien Springs, Village of	20	6	10	102,579	2,099,449	2,202,028
Bessemer, City of	13	1	17	234,450	1,546,707	1,781,157
Beverly Hills, Village of	15	7	8	36,962	2,124,482	2,161,444
Big Rapids Housing Commission	5	2	3	9,823	585,763	595,586
Big Rapids, City of	42	8	39	382,680	6,654,827	7,037,507
Birch Run, Village of	17	2	2	183,666	206,362	390,028
Bishop International Airport Authority	28	4	3	619,336	2,136,808	2,756,144
Blackman Charter Township	26	0	6	843,371	1,562,081	2,405,452
Blissfield, Village of	20	0	4	322,319	1,598,458	1,920,777
Bloomfield Hills, City of	28	2	37	1,188,946	13,127,558	14,316,504
Blue Water Transportation Commission	44	3	7	40,105	2,022,691	2,062,796
Boyer City, City of	36	4	26	1,132,878	4,668,981	5,801,859
Branch County Sheriff's Department	37	0	0	82,342	237,762	320,104
Brandon Township	34	0	0	1,913,519	823,842	2,737,361
Breckenridge, Village of	9	2	6	147,622	1,191,893	1,339,515
Bridgeport Charter Township	41	17	22	213,217	3,881,841	4,095,058
Brighton Area Fire Authority	6	1	0	2,681	264,132	266,813

# STATISTICAL SECTION

## SCHEDULE OF PARTICIPATING MUNICIPALITIES - DEFINED BENEFIT PLAN FOR THE YEAR ENDED DECEMBER 31, 2005

Name	Number of Actives	Number of Vested	Number of Retirees/ Beneficiaries	Balance Reserve for Employee Contributions	Balance Reserve for Employer Contributions	Total Reserves
Brighton Township	15	5	3	239,499	723,421	962,920
Brighton, City of	55	4	21	195,035	5,940,894	6,135,929
Britton, Village of	2	0	1	56,977	165,171	222,148
Branch-Hillsdale-St. Joseph District Health	69	11	32	993,649	7,440,659	8,434,308
Bronson, City of	4	1	1	72,525	146,417	218,942
Brooklyn, Village of	3	0	4	146,098	612,238	758,336
Buchanan Dist Library	4	0	0	26,471	423	26,894
Buchanan, City of	33	4	36	797,118	5,401,875	6,198,993
Buena Vista Charter Township	36	6	12	977,084	4,515,753	5,492,837
Burton, City of	98	11	42	1,298,568	12,172,064	13,470,632
Butman Township	0	4	0	-	102,127	102,127
Cadillac/Wexford Transit Authority	16	0	3	49,640	509,404	559,044
Cadillac, City of	65	10	46	213,199	9,790,278	10,003,477
Capital Area District Library	77	1	0	597,075	773,310	1,370,385
Calhoun County	164	2	26	5,521,411	1,979,610	7,501,021
Calhoun County Road Commission	82	13	26	136,310	6,291,014	6,427,324
Canton Public Library	16	1	1	934,724	797,840	1,732,564
Canton Township	121	0	8	16,402,677	10,658,812	27,061,489
Capac, Village of	8	4	10	-	832,003	832,003
Capital Region Airport Authority	48	7	28	164,770	7,229,135	7,393,905
Carleton, Village of	7	1	2	150,268	320,065	470,333
Carrollton Township	22	0	0	690,670	182,072	872,742
Cascade Charter Township	43	2	3	1,728,915	713,911	2,442,826
Caseville, Village of	12	0	5	250,345	417,747	668,092
Caspian, City of	6	2	6	-	481,559	481,559
Cass County	153	13	56	2,681,249	9,616,080	12,297,329
Cass County Medical Care Facility	76	6	23	983,441	2,873,960	3,857,401
Cass District Library	12	1	5	65,849	566,242	632,091
Cedar Springs, City of	15	1	9	305,922	1,492,324	1,798,246
Center Line, City of	28	1	45	533,814	5,421,414	5,955,228
Central Dispatch of Muskegon County	24	2	17	478,908	2,893,196	3,372,104
Central Michigan District Health Department	107	36	51	842,672	8,902,265	9,744,937
Central Wayne County Sanitation Authority	0	8	22	58,062	3,206,725	3,264,787
Charlevoix County Road Commission	36	4	38	177,654	4,138,251	4,315,905
Charlevoix County	377	28	114	573,580	16,895,324	17,468,904
Charlevoix, City of	40	4	31	893,750	5,311,012	6,204,762
Charlotte District Library	6	0	2	15,935	274,044	289,979
Charlotte, City of	54	13	37	695,356	9,721,836	10,417,192
Cheboygan County	130	14	53	1,935,723	8,872,442	10,808,165
Cheboygan County Road Commission	51	4	53	690,701	7,943,564	8,634,265
Cheboygan, City of	33	1	32	904,935	4,948,627	5,853,562
Chelsea, City of	27	4	18	23,392	4,833,666	4,857,058
Chesaning, Village of	12	2	10	-	475,152	475,152
Chesterfield Township	115	2	4	2,582,673	1,309,363	3,892,036
Chesterfield Township Library	7	0	0	163,153	176,999	340,152
Chippewa County	187	35	90	1,642,938	18,906,510	20,549,448
Chippewa County Road Commission	60	4	68	47,292	9,800,621	9,847,913
Chippewa River District Library	19	0	0	344,788	1,022,627	1,367,415
City Harbor Springs	26	0	1	1,147,967	263,296	1,411,263
City of Bridgman	13	0	0	195,887	122,112	317,999
City of Clio	12	0	0	213,988	88,424	302,412
City of Gladwin	29	3	0	691,726	512,479	1,204,205
City of Hancock	13	0	0	407,477	346,572	754,049
City of Laingsburg	8	0	0	40,795	87,280	128,075
City of Litchfield	11	0	0	277,565	25,147	302,712
City of Manistee	57	0	46	2,368,254	10,740,861	13,109,115
City of Monroe Housing Commission	6	0	0	235,013	611,817	846,830
City of Muskegon	1	0	0	1,564,579	4,892,189	6,456,768
City of Petersburg	6	0	0	52,946	30,857	83,803
City of Richmond	10	1	0	552,725	50,392	603,117
Clare County	149	10	54	1,954,500	8,712,114	10,666,614
Clare County Road Commission	38	2	43	789,340	6,700,056	7,489,396
Clare, City of	26	9	15	662,538	3,292,393	3,954,931
Clawson, City of	30	2	53	138,657	11,200,081	11,338,738
Clay Township	38	4	12	701,912	2,155,038	2,856,950
Clearwater Township	1	0	0	-	27,845	27,845
Clinton County	212	29	93	696,245	21,110,837	21,807,082
Clinton County Road Commission	54	3	44	1,144,636	8,765,293	9,909,929
Clinton Township	227	15	118	6,847,922	30,719,713	37,567,635
Clinton, Village of	18	4	7	141,902	2,488,133	2,630,035
Clinton-Eaton-Ingham Mental Health	629	123	177	5,303,598	55,949,180	61,252,778
Community Mental Health for Central Michigan	302	94	68	1,454,672	28,528,615	29,983,287
Coldwater Board of Public Utilities	26	6	36	559,905	6,301,227	6,861,132
Coldwater, City of	33	11	53	1,585,358	11,049,970	12,635,328
Coleman, City of	7	1	6	153,822	841,969	995,791



**SCHEDULE OF PARTICIPATING MUNICIPALITIES - DEFINED BENEFIT PLAN  
FOR THE YEAR ENDED DECEMBER 31, 2005**

Name	Number of Actives	Number of Vested	Number of Retirees/ Beneficiaries	Balance Reserve for Employee Contributions	Balance Reserve for Employer Contributions	Total Reserves
Coloma Township	6	0	0	52,782	56,398	109,180
Columbiaville, Village of	2	0	3	49,062	142,197	191,259
Coopersville, City of	17	2	5	278,365	1,124,419	1,402,784
Corunna City of	13	4	10	24,622	2,523,017	2,547,639
Crawford County Transit Authority	25	0	5	248,792	2,318,427	2,567,219
Crawford County	71	16	49	382,569	6,066,917	6,449,486
Crawford County Road Commission	34	2	15	328,222	2,138,426	2,466,648
Croswell, City of	37	0	15	379,812	3,504,621	3,884,433
Crystal Falls Community Hospital	0	77	50	35,771	3,665,804	3,701,575
Crystal Falls, City of	24	4	22	36,514	5,331,138	5,367,652
Davison Township	39	1	4	1,993,788	1,481,792	3,475,580
Davison, City of	17	0	6	234,678	3,006,352	3,241,030
Deerfield, Village of	5	0	2	50,005	836,623	886,628
Delta Charter Township	30	2	8	1,103,748	4,174,537	5,278,285
Delta County	118	13	72	375,414	14,199,857	14,575,271
Delta County Road Commission	41	4	18	-	3,226,745	3,226,745
Delta-Menominee District Health Department	48	18	9	426,158	4,654,375	5,080,533
Detour, Village of	7	1	2	-	176,911	176,911
Dewitt Charter Township	12	2	1	468,463	920,185	1,388,648
Dewitt, City of	16	12	8	99,395	1,245,101	1,344,496
Dexter Township	12	1	2	140,895	223,675	364,570
Dexter, Village of	19	1	5	400,010	1,523,576	1,923,586
Dickinson County	96	17	47	871,494	12,615,651	13,487,145
Dickinson County Road Commission	35	4	42	179,532	5,134,092	5,313,624
Dickinson-Iron District Health Department	37	21	27	222,174	4,678,708	4,900,882
Dimondale, Village of	5	1	2	-	385,990	385,990
District Health Department No. 2	39	6	16	330,293	3,663,224	3,993,517
District Health Department No. 4	50	14	21	1,095,900	7,717,120	8,813,020
District Health Department No. 10	46	26	75	258,776	12,266,081	12,524,857
Douglas, Village of	18	3	5	11,039	1,073,014	1,084,053
Dowagiac District Library	2	0	0	6,812	5,284	12,096
Dowagiac Housing Commission	5	2	0	2,256	82,670	84,926
Dowagiac, City of	60	13	42	1,468,558	6,163,458	7,632,016
Drummond Island Township	3	0	0	581	16,258	16,839
Dryden, Village of	3	1	1	34,419	269,923	304,342
Dundee, Village of	13	0	5	651,613	1,586,499	2,238,112
Durand, City of	22	2	13	95,497	2,704,522	2,800,019
East China, Township of	17	1	11	475,886	3,382,529	3,858,415
East Grand Rapids, City of	13	4	47	392,400	12,052,833	12,445,233
East Jordan, City of	24	4	12	260,981	2,157,454	2,418,435
East Lansing, City of	280	60	239	3,089,759	85,999,844	89,089,603
Eastern Upper Peninsula Transit Authority	23	3	16	9,464	4,194,670	4,204,134
Eastpointe Housing Commission	5	0	0	141,279	52,375	193,654
Eaton County Medical Care Facility	126	6	35	741,185	3,417,795	4,158,980
Eaton County	384	31	167	12,559,388	39,658,834	52,218,222
Eaton Rapids, City of	44	3	10	449,709	4,345,487	4,795,196
Eau Claire, Village of	4	0	3	38,905	199,118	238,023
Ecorse, City of	73	6	97	139,758	14,718,529	14,858,287
Elderly Housing Commission	14	1	9	239,130	1,317,036	1,556,166
Elkton, Village of	3	2	4	131,948	319,728	451,676
Elsie, Village of	2	2	2	54,262	114,881	169,143
Emmet County Road Commission	18	3	48	116,180	7,620,451	7,736,631
Emmet, Charter Township of	25	1	4	462,767	1,210,361	1,673,128
Escanaba, City of	108	12	101	139,705	17,608,478	17,748,183
Essexville, City of	20	3	21	590,277	3,973,062	4,563,339
Ewart Local Development Finance Authority	1	0	1	47,229	146,097	193,326
Ewart, City of	11	3	1	53,005	802,993	855,998
Farmington Community Library	22	2	20	483,032	5,364,459	5,847,491
Farwell, Village of	0	0	0	69,204	765	69,969
Fenton, City of	54	3	27	210,474	6,675,903	6,886,377
Ferrysburg, City of	8	3	4	198,056	436,444	634,500
Flat Rock, City of	78	2	37	1,997,145	7,561,410	9,558,555
Flint Charter Township	60	4	5	3,365,575	7,639,723	11,005,298
Flint Public Library	29	0	0	-	325,459	325,459
Flushing, Charter Township of	24	1	2	708,312	1,010,469	1,718,781
Flushing, City of	36	4	26	202,738	7,013,258	7,215,996
Forsyth Township	20	2	6	553,011	1,559,680	2,112,691
Fowler, Village of	2	1	2	-	226,384	226,384
Fowlerville District Library	2	0	0	27,321	74,854	102,175
Fowlerville, Village of	11	7	6	351,062	2,119,843	2,470,905
Frankenmuth, City of	31	3	17	861,306	6,854,811	7,716,117
Frankfort, City of	13	0	13	115,017	1,386,280	1,501,297
Franklin, Village of	13	1	4	236,586	2,026,628	2,263,214
Fraser, City of	0	4	2	114,554	159,798	274,352
Fremont Area District Library	9	1	3	7,242	546,356	553,598

# STATISTICAL SECTION

## SCHEDULE OF PARTICIPATING MUNICIPALITIES - DEFINED BENEFIT PLAN FOR THE YEAR ENDED DECEMBER 31, 2005

Name	Number of Actives	Number of Vested	Number of Retirees/ Beneficiaries	Balance Reserve for Employee Contributions	Balance Reserve for Employer Contributions	Total Reserves
Fremont, City of	28	2	17	2,313	4,961,345	4,963,658
Gaastra, City of	2	0	0	-	71,571	71,571
Gaylord, City of	36	3	13	319,142	4,437,531	4,756,673
Genesee Charter Township	54	2	24	472,306	5,142,858	5,615,164
Genoa Township	1	0	0	1,704	19,936	21,640
Gladstone, City of	24	5	29	85,756	5,084,922	5,170,678
Gladwin County	96	21	46	1,533,659	7,556,486	9,090,145
Gladwin County Road Commission	35	0	33	962,773	7,253,499	8,216,272
Gogebic-Iron Wastewater Authority	7	0	4	199,041	809,980	1,009,021
Grand Blanc Charter Township	49	1	9	1,503,435	2,961,049	4,464,484
Grand Blanc, City of	34	1	1	2,634,221	2,052,220	4,686,441
Grand Haven, City of	190	27	117	3,899,428	53,949,821	57,849,249
Grand Ledge Emergency Services	10	0	0	83,814	149,525	233,339
Grand Rapids Housing	5	1	1	81,906	483,474	565,380
Grand Traverse County Road Commission	21	3	50	48,000	7,258,712	7,306,712
Grand Traverse County	145	59	203	362,222	33,904,348	34,266,570
Grand Traverse Pavilions	356	57	67	593,535	8,437,821	9,031,356
Grandville, City of	30	14	47	297,005	9,132,349	9,429,354
Gratiot County	85	21	76	250,414	12,835,954	13,086,368
Gratiot County Road Commission	42	2	45	1,054,967	8,594,315	9,649,282
Grayling, City of	21	1	7	-	2,215,836	2,215,836
Green Oak Township	13	1	0	205,496	652,156	857,652
Greenville, City of	16	2	8	444,103	2,577,403	3,021,506
Grosse Ile Township	56	11	26	192,334	12,253,139	12,445,473
Grosse Pointe Park, City of	85	3	82	3,427,268	18,140,834	21,568,102
Grosse Pointes-Clinton Refuse Disposal Authority	0	4	15	288,431	2,657,228	2,945,659
Groveland Township	0	0	0	20,462	45	20,507
Hackley Public Library	6	0	0	-	15,909	15,909
Hamburg Township	13	0	2	110,831	531,251	642,082
Hamtramck, City of	122	13	284	5,264,600	50,785,853	56,050,453
Harbor Beach, City of	20	4	12	1,006,466	3,215,975	4,222,441
Harrison, City of	13	1	7	212,805	1,332,110	1,544,915
Hartland Deerfield Tyrone Fire	4	0	0	-	49,936	49,936
Hastings, City of	68	7	56	376,832	7,841,817	8,218,649
Health Source of Saginaw	332	67	187	1,162,966	24,198,366	25,361,332
Helen Newberry Joy Hospital	79	10	45	1,060,161	8,867,808	9,927,969
Henika District Library	2	0	0	564	261,346	261,910
Herrick District Library	45	4	20	37,374	3,525,635	3,563,009
Hiawatha Community Mental Health Authority	86	33	20	724,920	8,160,334	8,885,254
Highland Park, City of	19	8	52	2,523,773	4,758,919	7,282,692
Hillsdale County	40	1	8	749,881	799,104	1,548,985
Hillsdale County Road Commission	50	2	18	767,070	3,155,424	3,922,494
Hillsdale, City of	84	15	45	2,366,153	12,292,251	14,658,404
Holland Hospital	0	22	76	41,066	2,853,376	2,894,442
Holland Swimming Pool Authority	19	0	0	25,678	47,002	72,680
Holland, City of	325	47	250	2,389,133	70,308,582	72,697,715
Holly, Village of	35	4	14	369,413	5,986,376	6,355,789
Homer, Village of	12	7	6	32,391	887,251	919,642
Houghton County	97	11	57	693,065	10,350,424	11,043,489
Houghton County Road Commission	8	0	11	-	2,525,495	2,525,495
Houghton Lake Public Library	6	0	0	-	221,561	221,561
Howard City, Village of	9	1	7	189	737,775	737,964
Howard Township	3	0	0	-	23,406	23,406
Howell Area Fire Authority	4	0	0	27,358	206,404	233,762
Howell Carnegie District Library	9	1	2	2,662	583,029	585,691
Howell, City of	70	20	32	1,071,291	8,196,123	9,267,414
Hudsonville, City of	9	4	10	44,218	1,078,990	1,123,208
Huntington Woods, City of	37	2	46	1,152,700	9,551,700	10,704,400
Hurley Medical Center	986	18	12	1,767,962	3,511,587	5,279,549
Huron Charter Township	57	0	8	1,430,233	4,104,347	5,534,580
Huron County	336	52	186	7,971,182	39,659,285	47,630,467
Huron County Road Commission	68	2	68	1,958,257	14,662,805	16,621,062
Imlay City, City of	22	10	5	17,431	2,939,087	2,956,518
Independence Township	33	0	2	713,094	2,312,854	3,025,948
Indianfields Township	6	4	5	-	52,206	52,206
Ingham County	1,238	249	670	28,903,787	140,026,872	168,930,659
Ingham County Road Commission	98	14	93	822,740	19,982,011	20,804,751
Interurban Transit Authority	6	0	0	11,587	625,709	637,296
Ionia Community Library	5	0	1	-	161,115	161,115
Ionia County	61	4	2	706,040	1,872,285	2,578,325
Ionia County Road Commission	43	3	35	496,867	3,523,355	4,020,222
Ionia Housing Commission	4	0	1	36,503	550,286	586,789
Ionia, City of	59	6	26	209,287	4,992,714	5,202,001
Iosco County	230	26	98	343,579	11,692,231	12,035,810
Iosco County Road Commission	38	1	21	895,982	3,551,187	4,447,169

**SCHEDULE OF PARTICIPATING MUNICIPALITIES - DEFINED BENEFIT PLAN  
FOR THE YEAR ENDED DECEMBER 31, 2005**

Name	Number of Actives	Number of Vested	Number of Retirees/Beneficiaries	Balance Reserve for Employee Contributions	Balance Reserve for Employer Contributions	Total Reserves
Iron County	332	27	129	1,637,252	13,142,963	14,780,215
Iron County Housing Commission	5	1	2	-	238,069	238,069
Iron County Road Commission	28	2	46	111	5,101,788	5,101,899
Iron Mountain-Kingsford Sewage Treatment	5	1	2	159,025	160,219	319,244
Iron Mountain, City of	26	2	45	736,666	5,565,226	6,301,892
Iron River, City of	27	3	31	253,646	4,163,393	4,417,039
Isabella County Transit Commission	12	0	0	393,848	313,423	707,271
Isabella County	263	52	119	587,960	23,243,149	23,831,109
Isabella County Road Commission	45	2	38	934,926	6,334,485	7,269,411
Ishpeming Area Joint Wastewater Treatment Facility	5	1	1	136,516	311,840	448,356
Ishpeming Township	11	0	2	443,203	85,716	528,919
Ishpeming, City of	31	6	37	1,117,097	5,810,759	6,927,856
Ithaca, City of	16	4	10	541,171	2,052,912	2,594,083
Jackson District Library	35	8	21	585,889	4,199,963	4,785,852
Jackson Transportation Authority	63	3	2	524,717	1,803,082	2,327,799
Jordan Valley District Library	2	0	1	-	117,545	117,545
Kalamazoo Lake Sewage & Water Authority	8	4	2	5,104	608,084	613,188
Kalamazoo Public Library	50	0	2	52,270	1,437,725	1,489,995
Kalkaska County	98	15	33	514,861	8,251,014	8,765,875
Kalkaska County Road Commission	34	2	37	679	4,524,750	4,525,429
Kalkaska Public Transit Authority	13	3	5	103,384	862,801	966,185
Kalkaska, Village of	14	0	7	275,110	2,039,405	2,314,515
Keego Harbor, City of	12	6	7	132,937	1,544,857	1,677,794
Kent County Community Mental Health Authority	106	8	4	2,016,620	11,633,995	13,650,615
Keweenaw County	18	3	5	93,379	896,107	989,486
Keweenaw County Road Commission	21	0	14	19,112	3,734,639	3,753,751
Kinde, Village of	1	0	1	1,642	79,584	81,226
Kingsford, City of	22	1	18	598,985	3,287,555	3,886,540
Lake County	117	12	26	469,281	4,531,574	5,000,855
Lake County Road Commission	33	2	30	257,257	4,662,261	4,919,518
Lake Linden, Village of	8	2	3	-	524,325	524,325
Lake Odessa, Village of	0	0	3	-	67,682	67,682
Lake Orion, Village of	19	1	11	214,998	2,683,419	2,898,417
Lakeland Library Cooperative	11	0	1	113,364	434,731	548,095
Lakeshore Coordinating Council	6	1	2	-	657,997	657,997
L'Anse, Village of	19	3	7	445,063	2,030,072	2,475,135
Lansing Housing Commission	53	6	16	24,777	5,989,214	6,013,991
Lapeer County	716	79	195	2,012,940	45,193,974	47,206,914
Lapeer County Road Commission	61	2	51	1,707,396	5,255,152	6,962,548
Lapeer District Library	24	2	10	166,046	1,865,377	2,031,423
Lapeer, City of	75	13	42	246,004	9,838,454	10,084,458
Lathrup Village, City of	17	1	14	826,155	4,011,434	4,837,589
Laurium, Village of	12	2	14	-	865,911	865,911
Lawrence, Village of	1	3	1	-	136,714	136,714
Leelanau County	119	18	30	248,812	8,512,211	8,761,023
Leelanau County Road Commission	40	3	13	563,137	1,200,282	1,763,419
Leoni Township	34	4	10	1,371,009	2,397,935	3,768,944
Leslie, City of	10	1	2	189,010	558,040	747,050
Lexington, Village of	13	0	3	177,774	643,333	821,107
Library Network	34	8	21	786,671	3,469,590	4,256,261
Lima Township	6	0	3	63,326	110,648	173,974
Livingston County	538	69	185	690,164	50,537,053	51,227,217
Livingston County Road Commission	67	6	48	739,816	11,470,182	12,209,998
Livingston County Community Mental Health Authority	116	27	14	16,573	7,713,028	7,729,601
Luce-Mackinac-Alger-Schoolcraft District Health Department	92	119	37	7,942	6,531,832	6,539,774
Looking Glass Fire	4	0	0	-	23,926	23,926
Loutit District Library	14	0	2	64,906	606,888	671,794
Lowell, City of	42	5	18	1,506,545	4,735,669	6,242,214
Luce County	36	14	16	16,108	2,220,227	2,236,335
Luce County Road Commission	25	2	30	3,718	4,008,381	4,012,099
Ludington, City of	53	7	54	53,617	11,199,508	11,253,125
Ludington-Mason District Library	12	0	4	5,661	993,115	998,776
Luna Pier, City of	7	0	12	134,197	2,400,251	2,534,448
Mackinac County Housing Commission	3	0	0	-	200,849	200,849
Mackinac County	53	26	57	101,014	7,515,444	7,616,458
Mackinac County Road Commission	24	6	27	8,600	3,487,667	3,496,267
Mackinac Straits Hospital & Health Center	206	9	27	1,288,356	6,396,303	7,684,659
Madison Heights, City of	103	16	98	953,681	22,860,370	23,814,051
Madison Township	11	1	4	191,932	242,866	434,798
Manistee County Road Commission	43	4	28	-	3,949,139	3,949,139
Manistee County	295	40	112	1,129,917	18,199,068	19,328,985
Manistee Housing Commission	7	1	1	195,111	74,257	269,368
Manistique, City of	25	0	29	32,324	4,770,531	4,802,855
Manlius Township	6	0	0	33,910	74,329	108,239
Manton, City of	7	1	8	122,671	490,282	612,953

# STATISTICAL SECTION

## SCHEDULE OF PARTICIPATING MUNICIPALITIES - DEFINED BENEFIT PLAN FOR THE YEAR ENDED DECEMBER 31, 2005

Name	Number of Actives	Number of Vested	Number of Retirees/ Beneficiaries	Balance Reserve for Employee Contributions	Balance Reserve for Employer Contributions	Total Reserves
Marine City, City of	0	0	4	-	57,338	57,338
Marion, Village of	6	1	4	62,862	246,421	309,283
Marquette Board of Light & Power	68	3	88	2,582,273	19,657,470	22,239,743
Marquette Charter Township	13	1	1	349,456	92,379	441,835
Marquette County Transit Authority	20	2	5	348,715	1,322,771	1,671,486
Marquette County	372	55	196	3,266,871	38,786,382	42,053,253
Marquette County Airport	7	1	6	38,490	1,258,413	1,296,903
Marquette County Road Commission	75	5	47	1,420,816	8,054,777	9,475,593
Marquette Waste Mangement	9	3	1	215,333	467,908	683,241
Marquette, City of	127	16	96	3,920,029	21,049,667	24,969,696
Marshall Area Fire/Ambulance Authority	12	0	0	13,838	7,045	20,883
Marshall District Library	0	0	1	-	238,908	238,908
Marshall, City of	94	9	64	2,904,479	18,099,683	21,004,162
Mason County	187	47	128	89,226	28,400,140	28,489,366
Mason County Road Commission	40	1	8	485,711	1,840,396	2,326,107
Mason, City of	43	3	23	1,830,811	7,125,397	8,956,208
Mason-Oceana 911 Central Dispatch	17	0	0	165,845	430,717	596,562
Mastodon Township	0	0	1	-	50,355	50,355
Midland-Bay City-Saginaw International Airport	28	2	13	154,933	4,744,224	4,899,157
Mecoola Central Dispatch	17	3	2	506	758,542	759,048
Mecosta County	96	43	74	531,234	16,497,471	17,028,705
Mecosta County Medical Center	0	130	80	353,050	7,852,978	8,206,028
Mecosta County Road Commission	49	4	40	1,206,899	5,508,076	6,714,975
Melvindale Housing Commission	7	2	1	7,517	405,906	413,423
Melvindale, City of	69	2	53	2,359,986	12,787,298	15,147,284
Menominee County	91	16	60	585,295	8,841,971	9,427,266
Menominee County Road Commission	14	0	8	7,033	2,084,931	2,091,964
Menominee, City of	48	12	45	226,082	5,767,644	5,993,726
Meridian Charter Township	132	14	27	1,759,411	14,552,931	16,312,342
Metamora Township	7	0	0	84,035	164,320	248,355
Michigan Municipal Risk Management Authority	1	0	0	76,000	45,654	121,654
Michigan South Central Power Agency	46	11	13	316,018	5,099,884	5,415,902
Michigan Grand River Watershed	0	0	1	-	14,533	14,533
Mid Michigan District Health Department	80	17	32	442,668	4,525,033	4,967,701
Mid Peninsula Library Cooperative	0	1	5	5,490	292,963	298,453
Middleville, Village of	7	2	5	144,543	627,969	772,512
Midland Authority for Central Dispatch	18	0	1	209,004	570,588	779,592
Midland County Road Commission	44	1	47	1,145,610	6,808,894	7,954,504
Midland, City of	268	18	229	3,067,050	67,718,766	70,785,816
Mid-Michigan Library League	5	1	0	3,913	465,138	469,051
Milan Library	4	0	1	-	193,768	193,768
Milan, City of	26	7	21	201,865	5,635,488	5,837,353
Milford, Village of	33	5	17	112,340	5,733,150	5,845,490
Millington, Village of	4	3	2	207,974	829,273	1,037,247
Missaukee County	28	2	4	140,460	1,655,742	1,796,202
Montmorency-Oscoda-Alpena Solid Waste Management	5	0	2	-	494,198	494,198
Montague, City of	16	3	3	438,847	1,361,667	1,800,514
Montcalm County Road Commission	54	1	31	741,658	7,082,384	7,824,042
Montmorency County	56	9	49	45,655	4,312,280	4,357,935
Montrose, City of	6	4	2	41,540	316,213	357,753
Mt. Morris, Township of	59	4	34	329,357	11,523,615	11,852,972
Mt. Pleasant, City of	104	20	52	2,596,881	11,819,290	14,416,171
Muir, Village of	3	0	2	23,765	204,217	227,982
Municipal Employees Retirement System of Michigan	78	2	7	549,153	2,814,522	3,363,675
Mundy, Charter Township	19	0	0	303,219	829,519	1,132,738
Munising, City of	25	3	24	20,543	4,517,383	4,537,926
Muskegon County	1,130	187	532	5,562,721	130,592,245	136,154,966
Muskegon County Road Commission	84	11	81	381,082	15,810,081	16,191,163
Muskegon Heights Housing Commission	13	0	2	166,422	491,418	657,840
Muskegon Heights, City of	79	13	108	2,272,942	23,387,489	25,660,431
Muskegon Housing Commission	7	0	0	56,477	159,232	215,709
Muskegon, Charter Township of	53	3	33	1,485,972	7,705,351	9,191,323
North Houghton County Water & Sewage Authority	4	0	0	-	145,377	145,377
North Muskegon, City of	17	4	17	545,384	3,215,738	3,761,122
Northpointe Behavioral Healthcare System	67	23	14	758,309	5,646,546	6,404,855
Northeast Ottawa District Library	4	0	0	-	153,304	153,304
Negaunee, City of	37	1	39	93,272	6,270,662	6,363,934
Newaygo County	87	20	76	122,347	16,040,626	16,162,973
Newaygo County Mental Health	3	2	4	782	2,040,079	2,040,861
Newaygo Medical Care Facility	157	15	73	1,124,395	7,279,057	8,403,452
Newaygo Soil & Water Conservation District	2	1	0	10,018	47,304	57,322
Newberry, Village of	19	3	20	15,300	2,492,201	2,507,501
Niles District Library	14	0	0	82,886	294,182	377,068
North Michigan Community Mental Health	0	0	1	-	58,022	58,022
Northern Lakes Community Mental Health	63	28	46	60,144	14,987,023	15,047,167

**SCHEDULE OF PARTICIPATING MUNICIPALITIES - DEFINED BENEFIT PLAN  
FOR THE YEAR ENDED DECEMBER 31, 2005**

Name	Number of Actives	Number of Vested	Number of Retirees/ Beneficiaries	Balance Reserve for Employee Contributions	Balance Reserve for Employer Contributions	Total Reserves
Northport, Village of	0	0	1	-	562	562
Northville Charter Township	55	0	5	1,268,869	3,437,463	4,706,332
Northville District Library	13	4	4	-	1,029,999	1,029,999
Northville, City of	34	9	44	118,622	9,897,551	10,016,173
Northwest Michigan Community Health	20	14	23	20,334	3,604,380	3,624,714
Northwestern Regional Airport Commission	20	3	5	46,571	2,158,801	2,205,372
Norton Shores, City of	96	8	65	133,253	16,847,378	16,980,631
Norway, City of	33	1	42	858,524	6,750,306	7,608,830
Novi, City of	276	30	64	3,098,684	31,541,228	34,639,912
Oceana County	332	21	86	2,860,031	13,806,428	16,666,459
Ogemaw County	133	20	62	2,405,756	13,106,496	15,512,252
Ogemaw County Road Commission	33	2	30	804,566	3,491,875	4,296,441
Olive Township	3	0	2	40,219	172,375	212,594
Onaway, City of	6	2	1	14,013	352,827	366,840
Ontonagon County Economic Development Corporation	1	0	0	-	75,918	75,918
Ontonagon County	49	16	23	23,197	4,701,691	4,724,888
Ontonagon County Road Commission	50	1	35	-	7,260,493	7,260,493
Ontonagon Memorial Hospital	167	8	79	2,468,930	8,001,872	10,470,802
Ontonagon, Village of	12	5	11	29,730	1,732,609	1,762,339
Orchard Lake, City of	12	2	7	80,178	2,593,163	2,673,341
Osceola County	108	24	44	143,452	7,694,775	7,838,227
Osceola County Road Commission	30	3	31	205,520	4,775,619	4,981,139
Oscoda Charter Township	12	1	4	425,484	1,340,876	1,766,360
Oscoda County	55	16	29	435,013	4,583,532	5,018,545
Otisville, Village of	6	1	1	51,603	589,742	641,345
Otsego County	174	29	53	797,525	9,643,628	10,441,153
Otsego County Road Commission	45	2	36	71,444	5,703,406	5,774,850
Ottawa County	941	126	263	6,310,748	97,199,956	103,510,704
Ottawa County Central Dispatch Authority	12	7	1	52,110	1,226,155	1,278,265
Ottawa County Road Commission	138	7	116	1,696,784	27,287,157	28,983,941
Otter Lake, Village of	1	0	0	7,288	29,902	37,190
Owosso, City of	7	0	9	283,130	3,083,256	3,366,386
Oxford Fire Department	5	5	10	65,559	2,511,450	2,577,009
Oxford, Village of	18	1	5	2,603	1,530,040	1,532,643
Parchment, City of	12	1	11	416,210	1,586,290	2,002,500
Pathways	151	79	128	1,524,786	26,051,917	27,576,703
Paw Paw Lake Regional Joint Sewage Disposal Board	5	0	3	131,812	668,515	800,327
Paw Paw, Village of	35	2	13	825,607	4,334,440	5,160,047
Pellston, Village of	3	0	0	28,805	97,024	125,829
Pennfield Charter Township	14	0	3	320,811	483,761	804,572
Pentwater, Village of	8	5	5	176,962	783,712	960,674
Perrinton, Village of	1	0	0	8,261	16,067	24,328
Petoskey, City of	69	10	63	92,235	12,777,964	12,870,199
Pewamo, Village of	2	0	0	8,995	48,811	57,806
Pigeon, Village of	6	1	4	125,848	534,951	660,799
Pinckney, Village of	9	2	3	201,650	960,194	1,161,844
Pinconning, City of	13	1	15	224,866	1,206,276	1,431,142
Pittsfield Charter Township	124	12	12	2,471,638	5,079,414	7,551,052
Pleasant Ridge, City of	10	12	14	3,806	2,548,277	2,552,083
Plymouth District Library	14	0	3	125,925	2,140,359	2,266,284
Plymouth Township	27	0	2	3,842,179	867,961	4,710,140
Plymouth, City of	7	10	63	64,981	9,652,985	9,717,966
Port Austin Area Sewage & Water Authority	0	2	0	45,426	70,184	115,610
Port Austin, Village of	5	2	2	86,079	176,972	263,051
Port Huron Charter Township	18	0	1	897,363	297,837	1,195,200
Port Huron, City of	350	31	306	3,470,380	93,568,879	97,039,259
Port Sanilac, Village of	6	2	1	49,621	233,936	283,557
Portland, City of	34	7	29	237,912	5,911,571	6,149,483
Presque Isle County Road Commission	28	0	44	87,952	5,744,894	5,832,846
Presque Isle County	71	12	36	871,042	5,008,160	5,879,202
Pride Youth Programs	2	0	0	-	296,369	296,369
Ravenna, Village of	4	1	0	17,387	215,401	232,788
Reading, City of	5	2	3	-	182,662	182,662
Redford Township	139	24	122	991,037	28,623,954	29,614,991
Redford Township District Library	11	3	3	83,103	1,159,322	1,242,425
Reed City, City of	25	11	19	10,583	2,603,705	2,614,288
Richfield Township (Genesee County)	14	0	1	354,613	682,973	1,037,586
Richfield Township (Roscommon County)	11	3	8	199,886	927,001	1,126,887
Richland Township	11	2	4	53,568	1,317,801	1,371,369
Rochester, City of	61	4	27	2,231,742	9,659,093	11,890,835
Rockford, City of	36	8	9	53,200	2,690,022	2,743,222
Rogers City, City of	27	3	22	630,387	4,925,559	5,555,946
Romeo District Library	17	3	7	145,948	1,064,181	1,210,129
Romeo, Village of	26	4	11	178,887	3,020,468	3,199,355
Romulus, City of	80	1	23	2,445,916	11,488,713	13,934,629

# STATISTICAL SECTION

## SCHEDULE OF PARTICIPATING MUNICIPALITIES - DEFINED BENEFIT PLAN FOR THE YEAR ENDED DECEMBER 31, 2005

Name	Number of Actives	Number of Vested	Number of Retirees/ Beneficiaries	Balance Reserve for Employee Contributions	Balance Reserve for Employer Contributions	Total Reserves
Roosevelt Park, City of	14	5	12	35,329	2,604,770	2,640,099
Roscommon County	134	23	47	890,566	10,146,700	11,037,266
Roscommon County Transit Authority	21	0	2	4,286	971,601	975,887
Rose City, City of	2	1	2	71,753	408,608	480,361
Rose Township	5	0	5	13,094	202,563	215,657
Royal Oak Township	14	2	16	327,675	4,556,301	4,883,976
Southern Clinton County Municipal Utilities Authority	16	4	4	460,765	1,364,566	1,825,331
Saginaw County Community Mental Health Authority	43	37	54	205,439	10,136,767	10,342,206
Saginaw County 911 Central Authority	21	6	10	191,475	5,679,928	5,871,403
Saginaw County	264	85	441	4,930,943	80,671,674	85,602,617
Saginaw County Road Commission	84	7	87	2,780,145	19,555,436	22,335,581
Saginaw Public Libraries	19	1	0	123,175	449,877	573,052
Saginaw Township	33	2	12	747,261	7,712,372	8,459,633
Saginaw Transit System Authority	14	6	0	53,431	790,993	844,424
Saginaw, City of	205	23	442	7,014,093	67,015,352	74,029,445
Saginaw-Midland Municipal Waste & Soil Commission	11	0	17	217,571	2,122,567	2,340,138
Saline, City of	69	12	41	208,404	10,165,553	10,373,957
Sandusky District Library	2	1	0	29,541	65,070	94,611
Sandusky, City of	23	1	8	350,517	802,026	1,152,543
Saranac Housing Commission	6	0	0	216,397	80,121	296,518
Saugatuck Township	6	1	5	6,412	581,154	587,566
Saugatuck, City of	6	4	4	26,942	928,789	955,731
Sault Ste. Marie, City of	93	3	67	3,292,246	15,624,039	18,916,285
Schoolcraft County	200	14	65	1,758,409	12,560,837	14,319,246
Schoolcraft County Road Commission	28	0	34	109,237	6,145,489	6,254,726
Schoolcraft Memorial Hospital	74	20	57	2,458,809	9,690,998	12,149,807
Scio Township	4	0	0	41,252	22,157	63,409
South East Oakland County Research Recovery Authority	21	6	26	51,275	4,174,621	4,225,896
South East Oakland County Water Authority	24	1	18	102,820	4,419,642	4,522,462
Sebewaing, Village of	21	1	19	623,514	3,415,092	4,038,606
Shepherd, Village of	7	1	1	28,308	327,448	355,756
Shiawassee Council on Aging	8	0	3	108,796	287,606	396,402
Shiawassee County	518	87	235	1,111,424	46,961,228	48,072,652
Shiawassee County Road Commission	47	3	45	1,306,914	9,227,718	10,534,632
Shiawassee County Community Mental Health Authority	81	55	24	35,564	6,726,397	6,761,961
Shiawassee District Library	7	0	1	311,475	958,876	1,270,351
Sims-Whitney Utilities Authority	2	1	0	-	96,707	96,707
SMART	943	164	424	5,845,888	113,515,045	119,360,933
South Haven Emergency Service Authority	13	0	1	859,506	1,234,346	2,093,852
South Haven, City of	77	4	71	2,178,911	16,990,549	19,169,460
South Lyon, City of	50	2	15	368,508	4,606,670	4,975,178
Southeast Michigan Council of Governments	71	28	33	54,488	22,966,680	23,021,168
Sparta, Village of	19	1	5	300,932	1,165,283	1,466,215
Spring Lake District Library	0	0	0	-	400,887	400,887
Springfield, City of	33	5	31	569,345	6,324,353	6,893,698
St. Clair Shores Housing Commission	8	1	5	197,405	750,871	948,276
St. Joseph County	46	2	14	435,129	7,579,250	8,014,379
St. Louis Housing Commission	4	0	0	-	197,995	197,995
St. Charles, Village of	10	3	7	130,505	1,440,977	1,571,482
St. Clair Area Fire Authority	1	0	0	-	51,715	51,715
St. Clair, City of	45	4	31	712,509	8,262,607	8,975,116
St. Ignace, City of	35	4	17	88,379	4,398,977	4,487,356
St. Johns, City of	37	6	34	167,922	8,280,396	8,448,318
St. Louis, City of	18	8	26	548,216	4,487,428	5,035,644
Stambaugh Township	1	0	1	9,795	45,693	55,488
Standish, City of	4	5	8	36,517	1,260,271	1,296,788
Stanton, City of	0	1	1	14,538	73,969	88,507
Stephenson, City of	3	0	1	-	79,788	79,788
Sterling, Village of	1	0	1	21,527	172,595	194,122
Stockbridge, Village of	4	0	2	48,121	128,264	176,385
Summit Township	32	2	17	147,262	5,215,448	5,362,710
Sumpter Township	15	1	4	590,959	584,652	1,175,611
Superior Charter Township	25	0	3	843,194	1,257,619	2,100,813
Superiorland Library Cooperative	3	1	0	123,614	473,965	597,579
Swan Creek Township	6	0	2	60,355	197,084	257,439
Swartz Creek, City of	16	1	13	421,201	6,212,639	6,633,840
Sylvan Lake, City of	9	0	9	242,036	1,216,463	1,458,499
Tawas Police Authority	6	1	2	163,073	169,402	332,475
Taylor Housing Commission	4	0	0	36,718	70,569	107,287
Thirty-Fifth District Court	17	0	3	1,395,224	872,469	2,267,693
Thirty-Fourth District Court	32	0	1	1,360,379	561,117	1,921,496
Three Rivers Hospital	0	0	3	-	15,610	15,610
Three Rivers, City of	72	9	28	1,213,667	7,702,676	8,916,343
Traverse Area District Library	47	0	10	17,771	2,060,946	2,078,717
Traverse City, City of	149	20	134	883,500	33,753,253	34,636,753

**SCHEDULE OF PARTICIPATING MUNICIPALITIES - DEFINED BENEFIT PLAN  
FOR THE YEAR ENDED DECEMBER 31, 2005**

Name	Number of Actives	Number of Vested	Number of Retirees/ Beneficiaries	Balance Reserve for Employee Contributions	Balance Reserve for Employer Contributions	Total Reserves
Trenton, City of	55	3	118	2,733,054	25,890,901	28,623,955
Tri-County Aging Consortium	76	11	30	23,808	5,035,164	5,058,972
Trio Council on Aging	0	3	1	19,374	247,240	266,614
Tuscarora Township	8	0	2	29,387	424,739	454,126
Tuscola County Community Mental Health	117	16	17	2,255,009	5,855,890	8,110,899
Tuscola County Health Department	33	4	12	853,113	4,047,968	4,901,081
Tuscola County Medical Care Facility	223	14	59	2,210,628	6,727,358	8,937,986
Tuscola County	161	13	86	2,875,550	15,433,147	18,308,697
Tuscola County Road Commission	17	1	10	251,217	1,886,566	2,137,783
Twenty-Sixth Judicial Circuit Court	27	12	8	24,390	2,272,047	2,296,437
Twenty Third Judicial District Court	17	3	2	434,844	1,398,584	1,833,428
Twin Cities Public Safety Authority	0	3	0	45,989	41,520	87,509
Ubly, Village of	3	0	1	208,271	111,688	319,959
Utica, City of	23	0	2	627,929	1,360,261	1,988,190
Van Buren County	201	5	9	5,858,110	3,054,932	8,913,042
Van Buren District Library	12	0	0	365,594	141,151	506,745
Van Buren Township	40	0	0	2,227,407	635,499	2,862,906
Vassar, City of	24	4	15	565,225	3,221,031	3,786,256
Vevay Township	6	0	0	101,701	36,390	138,091
Vicksburg District Library	1	0	1	-	39,717	39,717
Vicksburg, Village of	12	2	8	-	1,241,416	1,241,416
Vienna Charter Township	10	0	0	334,097	60,909	395,006
Village of Bingham Farms	2	0	0	-	47,015	47,015
Village of Lyons	3	0	0	10,208	22,547	32,755
Village of Mackinaw City	5	0	0	246,873	61,015	307,888
Village of Spring Lake	9	0	1	540,748	424,860	965,608
Village of White Pigeon	4	0	0	1,455	7,384	8,839
West Michigan Community Mental Health System	9	5	17	166,325	4,245,004	4,411,329
West Michigan Shoreline Regional Development Commission	10	5	1	26,373	3,073,558	3,099,931
Western Upper Peninsula District Health Department	88	29	48	6,010	6,575,724	6,581,734
Wakefield, City of	19	1	25	416,415	2,502,539	2,918,954
Walled Lake, City of	42	7	17	881,247	2,036,559	2,917,806
Washtenaw County	250	7	8	7,851,573	12,345,055	20,196,628
Washtenaw County Road Commission	149	7	103	4,778,873	20,966,024	25,744,897
Wayland, City of	18	7	8	75,856	2,516,991	2,592,847
Webberville, Village of	3	1	1	58,374	27,746	86,120
West Branch, City of	21	2	8	506,907	1,862,917	2,369,824
West Iron County Sewer Authority	4	1	2	9,940	512,097	522,037
Westland, City of	212	22	198	648,127	47,445,129	48,093,256
Westphalia, Village of	2	0	1	-	246,435	246,435
Wexford County	140	15	59	1,734,996	10,532,050	12,267,046
Wexford County Road Commission	40	3	50	209,067	5,887,337	6,096,404
White Cloud Community Library	3	1	0	33,804	156,989	190,793
White Cloud, City of	6	3	2	-	339,293	339,293
White Lake Charter Township	84	3	16	3,023,716	7,057,260	10,080,976
White Pine Library	3	0	3	17,328	89,413	106,741
Whitehall, City of	23	3	14	15,767	3,088,493	3,104,260
Willard Public Library	24	1	0	214,394	417,650	632,044
Williamston, City of	22	3	12	434,840	1,702,678	2,137,518
Wixom, City of	63	12	22	1,149,193	9,013,724	10,162,917
Wolverine Lake, Village of	12	1	4	331,835	389,683	721,518
WUPPDR	0	0	0	403,197	18,608	421,805
Ypsilanti Comm Utilities Authority	137	13	67	991,022	21,671,787	22,662,809
Ypsilanti Housing Commission	9	1	1	83,189	273,529	356,718
Ypsilanti, City of	61	5	47	1,464,922	14,143,582	15,608,504
Ypsilanti, Township of	89	6	35	1,901,990	8,376,567	10,278,557
<b>Total Number of Members and Reserves</b>	<b>37,627</b>	<b>5,596</b>	<b>20,171</b>	<b>\$ 477,442,506</b>	<b>\$ 4,429,999,489</b>	<b>\$ 4,907,441,995</b>
<b>Average Size of Municipalities Members and Reserves</b>	<b>58</b>	<b>9</b>	<b>31</b>	<b>\$ 734,161</b>	<b>\$ 6,815,749</b>	<b>\$ 7,549,911</b>



## STATISTICAL SECTION

### SCHEDULE OF PARTICIPATING MUNICIPALITIES - DEFINED CONTRIBUTION PLAN FOR THE YEAR ENDED DECEMBER 31, 2005

Name	Number of Members	Defined Contribution Plan Balance
25th District Court	2	\$ 7,684
Albion, City of	27	271,651
Alcona County	51	277,247
Allegan County	347	8,256,168
Allegan County Community Mental Health	191	4,656,897
Allegan County Medical Care Facility	147	2,144,136
Alma, City of	8	164,266
Alpena General Hospital	522	6,113,602
Alpena County	5	11,572
AuGres, City of	3	47,293
Baraga County Memorial Hospital	39	763,824
Bay City Housing Commission	10	769,612
Bay City, City of	186	10,239,581
Beaverton, City of	2	9,023
Beecher Metropolitan District	2	11,153
Belding, City of	1	24,768
Big Rapids Housing Commission	11	149,249
Big Rapids, City of	24	532,053
Charlotte, City of	1	46,507
Cheboygan County Road Commission	1	3,043
Chelsea Area Construction	2	63,747
Chelsea, City of	44	451,957
Clawson, City of	19	360,543
Clinton County	3	80,122
Clinton-Eaton-Ingham Community Mental Health	11	714,441
Coldwater Board of Public Utilities	22	486,373
Coldwater, City of	55	2,090,182
District Health Department #10	137	3,466,958
District Health Department #2	35	403,300
District Health Department #4	22	384,809
East Grand Rapids, City of	77	6,007,268
East Lansing, City of	230	4,337,287
Elkton, Village of	3	82,848
Emmet County Road Commission	32	852,377
Farmington Community Library	45	540,653



**SCHEDULE OF PARTICIPATING MUNICIPALITIES - DEFINED CONTRIBUTION PLAN  
FOR THE YEAR ENDED DECEMBER 31, 2005**

<b>Name</b>	<b>Number of Members</b>	<b>Defined Contribution Plan Balance</b>
Fenton, City of	1	16,187
Flint Charter Township	33	1,078,650
Genesee County Land Bank Authority	10	29,031
Gladstone, City of	23	764,704
Grand Rapids Housing Commission	66	1,434,863
Grand Traverse County	389	8,569,714
Grand Traverse County Road Commission	53	1,760,523
Grandville, City of	16	2,009,561
Gratiot County	66	1,156,901
Grayling, City of	12	95,898
Helen Newberry Joy Hospital	291	407,757
Hiawatha Behavioral Health	89	575,675
Highland Park Housing Commission	8	345,655
Highland Park, City of	118	2,811,592
Holland Board of Public Works	28	569,849
Holland, City of	70	2,887,828
Howell Area Fire Authority	17	839
Howell Downtown Development Authority, City of	5	31,500
Howell, City of	1	25,554
Hudsonville, City of	15	667,465
Huntington Woods, City of	30	470,807
Ingham County Capital Area District Library	59	419,384
Iosco Steelworkers #10	30	165,297
Iron County	6	7,502
Isabella County	40	194,237
Isabella County Medical Care Facility	19	38,128
Lake Erie Transportation Commission	6	11,939
Lakeland Library Co-op	1	62,833
Library Network	2	23,311
Litchfield, City of	7	13,511
Livingston County	66	511,721
Mackinac County	11	48,389
Manistee, City of	1	49,492
Marquette Board of Light and Power	11	209,508
Marquette County	133	4,529,547
Marquette County Health Department	41	1,023,129
Marquette County Transit Authority	1	20,424
Marquette, City of	19	877,060
Mecosta County	105	884,299
Mid-Michigan District Health Department	1	37,024

## STATISTICAL SECTION

### SCHEDULE OF PARTICIPATING MUNICIPALITIES - DEFINED CONTRIBUTION PLAN FOR THE YEAR ENDED DECEMBER 31, 2005

<b>Name</b>	<b>Number of Members</b>	<b>Defined Contribution Plan Balance</b>
Milan, City of	25	337,802
Milford, Village of	18	933,843
Montcalm County	81	1,722,844
Montrose Township	16	107,845
Newaygo County	159	3,227,966
Newaygo County Mental Health Center	75	2,104,952
Northern Lakes Community Mental Health	259	5,057,059
Northpointe Behavioral Health	2	12,419
Northville, City of	23	600,112
Northwest Michigan Community Health	181	6,238,914
Oakview Medical Care Facility	38	171,689
Orchard Lake, City of	3	75,429
Ottawa County General Dispatch	30	324,221
Pathways	234	1,705,244
Paw Paw Housing Commission, Village of	3	2,013
Plymouth, City of	90	7,484,141
Romeo District Library	7	31,289
Roscommon, Village of	9	95,749
Saginaw County	1139	23,664,952
Saginaw County 911	23	341,088
Saginaw County Community Mental Health	260	6,447,739
Saginaw, City of	105	2,299,826
Saginaw-Midland Municipal Water Corporation	4	60,263
Saugatuck, City of	2	13,773
Schoolcraft Memorial Hospital	168	3,067,609
Shiawassee County	1	28,688
Southfield Downtown Authority	7	132,179
St. Johns, City of	2	7,981
St. Louis, City of	18	301,763
Standish, City of	6	59,062
West Michigan Community Health	151	6,088,460
Woodhaven, City of	37	1,706,464
<b>Total Number of Members and Balances</b>	<b>7,393</b>	<b>\$ 164,112,858</b>
<b>Average Size of Municipalities Members and Balances</b>	<b>69</b>	<b>\$ 1,533,765</b>