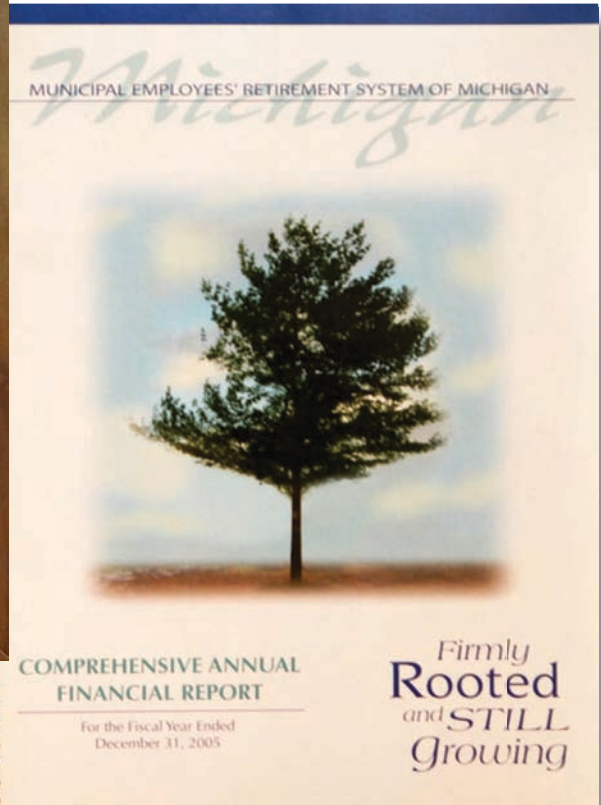
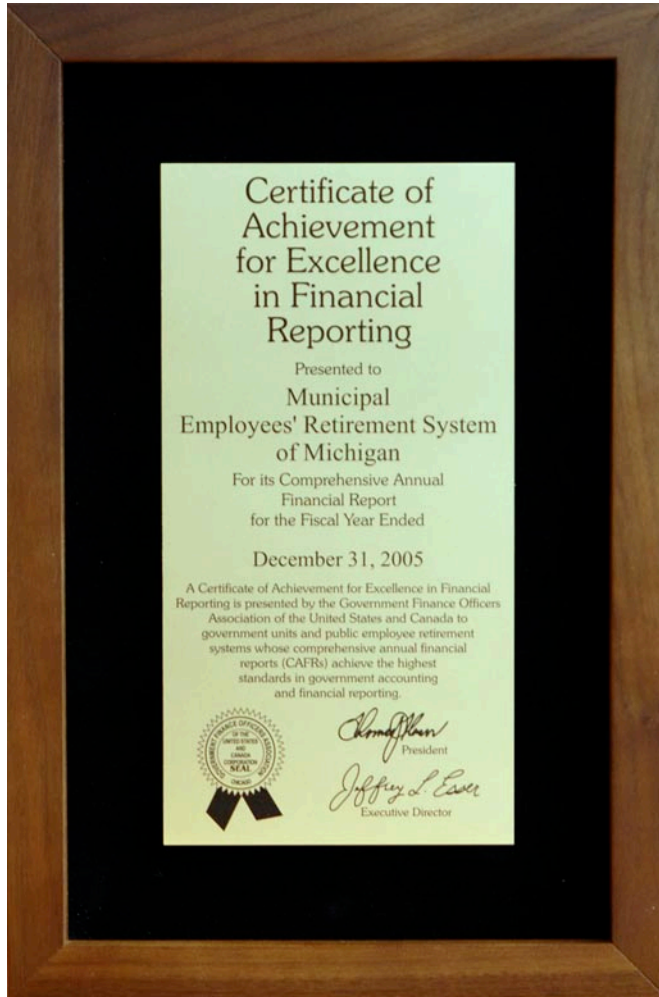


CERTIFICATES OF ACHIEVEMENT

MERS received the Certificate of Achievement for Excellence in Financial Reporting from the Government Finance Officers Association for the December 31, 2005 Comprehensive Annual Financial Report. This marks the 18th consecutive year MERS has received this honor.



MERS also received the Public Pension Coordinating Council (PPCC), Public Pension Standards Award in 2006, in recognition of meeting the professional standards for plan design and administration as set forth in the Public Pension Standards. This award is presented by the PPCC, a confederation of the National Association of State Retirement Administrators (NASRA), the National Conference on Public Employee Retirement Systems (NCPERS), and the National Council on Teacher Retirement (NCTR).

LETTER OF TRANSMITTAL



June 1, 2007

Dear Board Members:

It is with pleasure I submit for your review the 60th Comprehensive Annual Financial Report (CAFR) of the Municipal Employees' Retirement System of Michigan (MERS) for the fiscal year ended December 31, 2006. This Financial Report provides information on the status of our Retirement System.

MERS is a statewide voluntary organization created in 1945 by the state legislature. From its inception, and more particularly since independence in 1996, MERS seeks ways to expand services and provide economies of scale to all members. The MERS Retirement Board works diligently to provide strategic direction to the System for the benefit of the governing bodies who are members of MERS. MERS is the choice for more than 700 communities across the state to pool their resources, thus providing solid retirement plans for their employees.

The year 2006 was a hallmark year for MERS. We celebrated 60 years of operation and 10 years of being an independent System. The selected theme for the year was ***MERS 60&10 Anniversary: Celebrating MERS Growth***. The celebration continued throughout the year culminating with the Annual Meeting in September where the delegates and guests were provided a copy of MERS Commemorative Magazine. This magazine, produced by MERS Communications Department under Ann Cool's direction, details our history and growth since 1946. It may be viewed on MERS Web site.

The Retirement Board set very strategic goals for the System in 2006. These goals include to provide all employers and employees with accurate information, excellent service and a cost-effective plan. With these objectives guiding us, MERS pursues new ideas and develops programs to benefit all our members. Examples of 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.

The following sections are likewise included in this document:

- **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, 2006, MERS members included employees from 685 municipalities across the state (see page 33).

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 Management's Discussion and Analysis (MD&A) provides a narrative introduction, overview and analysis to accompany the basic financial statements. This Letter of Transmittal is designed to complement the MD&A and should be read in conjunction with the report. The MD&A can be found in the Financial Section immediately following the Independent Auditor's Report (see page 22-27).

Management's Responsibility for Financial Reporting

MERS management prepared the financial statements included in the CAFR for the year ended December 31, 2006. MERS management is responsible for the financial information presented in the report, and represents that sufficient internal accounting controls exist to provide reasonable assurance regarding the safekeeping of assets and fair presentation of the financial statements, supporting schedules and statistical tables. To the best of our knowledge, the enclosed data, charts, and graphs are accurate in all material respects and are reported in a manner designed to fairly present the financial position and results of MERS operations.

Andrews Hooper & Pavlik P.L.C., MERS independent auditing firm, has conducted an audit of the basic financial statements in accordance with generally accepted auditing standards, performing work as it deemed necessary to express an opinion in the CAFR. Their opinion letter is presented in the financial section of this CAFR.

Investments – Defined Benefit Portfolio

The U.S. economy remained fairly constant, submitting favorable earnings for the year and assisting the returns of the portfolio. The Federal Reserve (Fed) Bank paused on increasing the overnight rates to banks at their window. On a gross of fee basis, the overall portfolio returned 13.6 % for one year, 10.1% for two years, 9.8% for five years and 8.8% for ten years.

The portfolio ranked in the 42nd percentile for the five year period in The Northern Trust Universe of Public Funds. This universe is comprised of 38 plans with a total market value of 308 billion. The plans range in size from 21.1 million to 39.1 billion with a median market value of 4 billion. The portfolio ended the fiscal year with 5.9 billion assets.

The Defined Benefit Portfolio is well diversified and positioned to take advantage of market movements. It was the key in delivering a 13.6% return in 2006 for the one-year period and 8.8% for the ten-year period. These positive returns assist in exceeding our actuarial assumption rate of 8% and real rate of return of 3.5% over the Consumer Price Index. The Board's investment policy is reviewed annually with a steadfast focus on preserving the Retirement System's assets while maximizing the long-term growth of those assets. A combination of strong U.S. equity markets and the international equity allocation boosted the returns nicely in the fourth quarter. International equities returned 16.3 % making it the third year for a good run in foreign stocks.

MERS retains a tight discipline policy on the asset allocation. The model is determined after extensive examination of risk and return profiles approximately every five years. The portfolio is rebalanced annually to the target weightings. Following comprehensive analysis, MERS ventured into commodities by allocating a 2% position in the middle of the year.

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

Funding

The December 31, 2005, Actuarial Valuation reports the consolidated funding to be 76%. The decline from 76.7% in 2004 study is attributed to a combination of benefit provision changes requested by our members, and investment experience. 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

In 2003, MERS expanded into the health care arena by introducing a Group Life and Disability Insurance Program. This program has grown to over 120 member municipalities and allows the members to collectively purchase various life and disability insurance products through The Standard Insurance Company of Portland, Oregon.

The Health Care Savings Program (HCSP) and Retiree Health Funding Vehicle (RHFV) followed closely behind. These programs have grown over the past year: HCSP from 29 municipalities with \$4 million in assets to 56 groups with \$6.8 million; RHFV from 22 municipalities just over \$13 million in assets to 40 member groups with \$46 million in assets.

MERS Premier Health, with the oversight provided by a duly elected Board, provides group health coverage for public employers. This coverage includes employee and retiree medical, prescription drug, dental and vision benefits. It is a municipal risk pool regulated and authorized by the state of Michigan as the first Public Multiple Employer Welfare Arrangement (MEWA) in Michigan. The year 2005 closed with approximately 2,000 lives in the program and by year-end 2006, MERS Premier Health doubled that number.

The financial climate of Michigan has continued to decline. The budget problems faced by Michigan communities places a bigger burden on the taxpayer. MERS remains firmly committed to providing solutions in a variety of ways. We are dedicated to improving the health and economic welfare of our members. One such avenue is by providing economies of scale, continuity of service and cost-effective benefits in the health care area.

Education

Education played a continuing and significant role last year for the System's participants. MERS staff conducted Regional Meetings, Retirement Seminars, municipality meetings and the newly introduced *Successful Retirement Seminar*. Over 5,000 members attended one of these programs. *Retirement Process Seminars* cover MERS basics and are intended 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 Successful Retirement Seminar is designed to cover the contemplated aspects of retirement including financial planning, Social Security and health care.

Technology

MERS Automated Pension System (MAPS) software scheduled for testing by year-end 2006 has been rescheduled to begin testing mid-2007 with a target to finish by year-end 2007. This has been an enormous undertaking as this comprehensive project will replace the current PeopleSoft pension administration software currently in use. The goal of this project is to expand our capabilities to capture information, eliminate redundant entry and achieve superior data integrity.

MERS continues to expand web-based capabilities. Internal staff is continuously examining security-enhanced software and new ways to provide on-line services to our members and prospective members. We are committed to being proactive in technology as we address the future needs of our members and the System.

The major project undertaken to rewrite the Wage and Service software, “electronic Payroll and Service System” (ePASS), was completed in 2005 and continues to expand MERS use of eCommerce to collect payroll information from our participating municipalities.

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, 2005. This was the 18th consecutive year that MERS has earned this prestigious award.

In order to be awarded the Certificate of Achievement, a governmental unit must publish an easily read 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 are submitting it to the GFOA to determine its eligibility.

Acknowledgments

This report reflects the best combined efforts of the MERS staff under the leadership of the MERS Retirement Board. I would like to express my appreciation to the staff for their efforts in creating another outstanding report. Additionally, I want to extend my gratitude to the Retirement Board for their tireless efforts and dedication to the task of overseeing the System. Their conscientious service is exemplary to the staff and members of the System. I would like to thank the many organizations, advisors and individuals who work diligently to assure the success of the Municipal Employees’ Retirement System of Michigan.

Respectfully submitted,

Anne M. Wagner
Chief Executive Officer

LETTER FROM THE CHAIRPERSON



June 1, 2007

Dear Board Members:

It is my honor as the Chairman of the MERS Retirement Board to submit this Comprehensive Annual Financial Report of the Municipal Employees' Retirement System of Michigan for the fiscal year ended December 31, 2006. This financial report provides information on the status of our Retirement System.

The Defined Benefit Portfolio continues to be well diversified and positioned to take advantage of market movements. Strategically, this was the key to delivering a 13.6% gross return in 2006 for the one-year period and 8.8% for the ten-year period. These positive returns assist in exceeding our actuarial assumption rate of 8% and real rate of return of 3.5% over the Consumer Price Index. The Board's investment policy is reviewed annually with a steadfast focus on preserving the Retirement System's assets while maximizing the long-term growth of those assets.

Education played a continuing and significant role last year for the System's participants. MERS staff conducted Regional Meetings, retirement seminars, municipality meetings and the newly introduced "Successful Retirement" with over 5,000 members attending during the year. "Successful Retirement" is designed to cover the contemplated aspects of retirement for the employee including financial planning, Social Security and health care. Regional Meetings cover many topics, as well as pension benefits, health care, and insurance issues that are of interest to both the employer and the employee. Retirement seminars cover many topics such as MERS Retirement Process, which is intended for those members contemplating retirement in the next three to five years.

In addition, the MERS Retirement Board completed a multi-year project formulating a Board Governance Policy. This Policy provides the framework for allowing the Board to be fully participatory in measuring the strategic outcomes of the System while allowing the internal staff to do their daily tasks.

The delegates at the 2006 Annual Meeting elected Mr. John Ogden, Finance Officer at the city of Port Huron, as an employer member and Mrs. Sue Stahl, Deputy City Clerk for the city of Bad Axe, as an employee member to new three year terms (January 1, 2007 – January 1, 2010) on the MERS Retirement Board. The nine-member Board is a volunteer group of individuals comprised of three employers, three employees, two expert consultants and one retired member. This Board works conscientiously to fulfill their fiduciary responsibilities and serve the membership. MERS is the beneficiary of the Board members' diverse expertise and experience and is fortunate to have a Retirement Board of such high caliber and dedication.

Introductory Section

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. "Our Present is Your Future" is still a key and vital vision statement.

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

Sincerely,

Dale M. Walker, Chairman
MERS Retirement Board

MERS RETIREMENT BOARD – 2006



Standing left to right: Dennis Murphy, John Ogden, Harold Hailey, Bruce Johnson, Sally Dreves, Larry Opelt.

Seated left to right: Sue Stahl, Anne Wagner, Dale Walker, Raymond Klosowski.

Officer Members

Dale Walker, Chairperson, city of Cadillac
Harold Hailey, Ingham County
John Ogden, city of Port Huron

Employee Members

Sally Dreves, Grand Traverse County
Raymond Klosowski, Isabella County
Sue Stahl, city of Bad Axe

Public Members

Bruce Johnson, Holland
Dennis Murphy, Novi

Retiree Member

Larry Opelt, Chairperson Pro-tem, Adrian

ADMINISTRATIVE ORGANIZATION



Standing left to right: Debra Peake, Carrie Lombardo, Mike Moquin, Caryn Mateer, Lynda Blackshaw.

Seated left to right: Tama Allen, Jeb Burns, Anne Wagner, Luke Huelskamp, William SaintAmour.

Chief Executive Officer

Anne M. Wagner

Officers

Tama Allen, Chief Technology Officer

Lynda Blackshaw, Chief Marketing Officer

Jeb Burns, Chief Investments Officer

Luke Huelskamp, Chief Financial Officer

Carrie Lombardo, Chief Insurance Officer

Caryn Mateer, Chief Administrative Officer

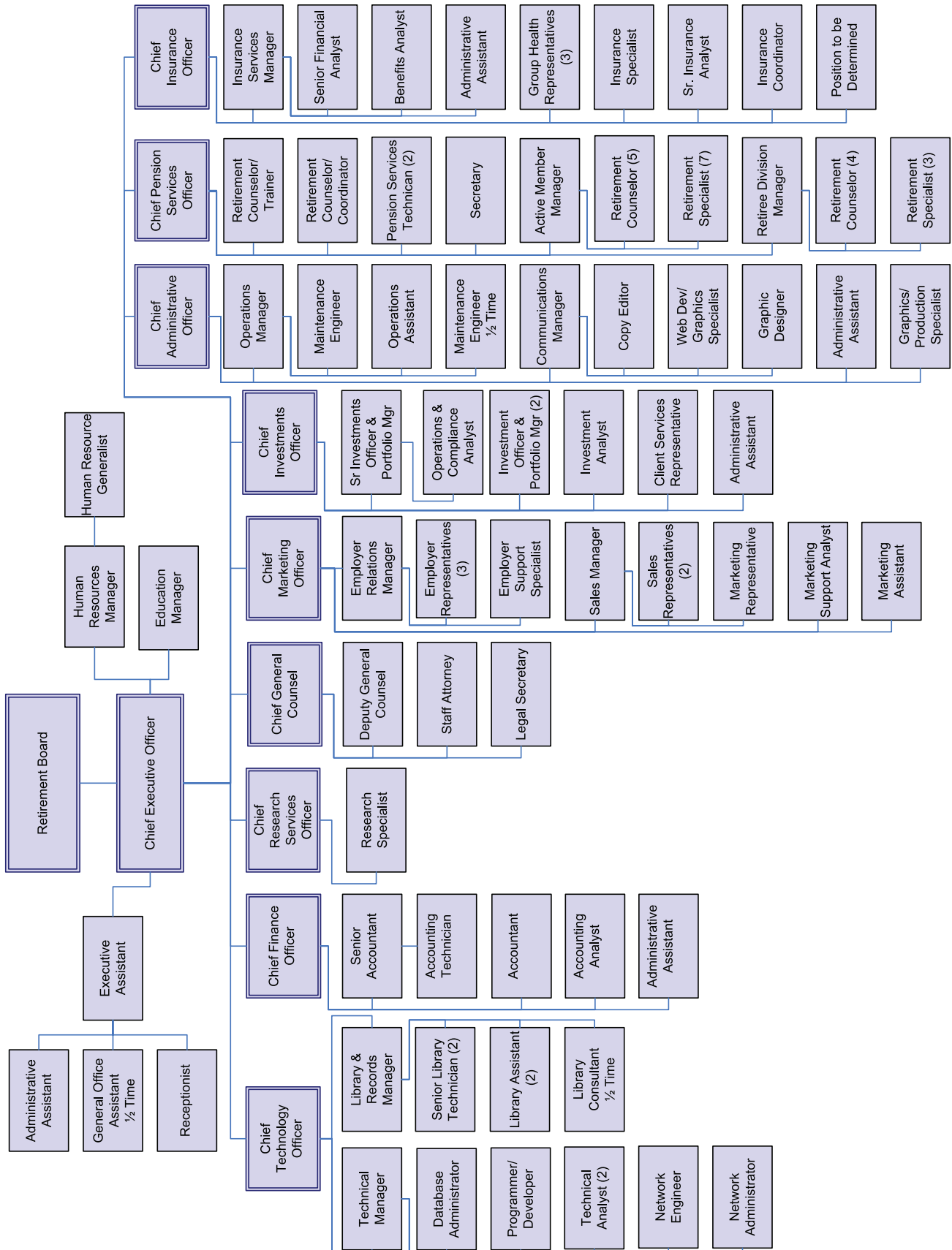
Mike Moquin, Chief General Counsel

Debra Peake, Chief Pension Services Officer

William SaintAmour, Chief Research Officer

Introductory Section

ORGANIZATIONAL CHART – 2006



OUTSIDE PROFESSIONAL SERVICES**Professional Consultants***Actuary*

Gabriel, Roeder, Smith & Company

Actuary Auditor

Segal Company

Auditor

Andrews Hooper & Pavlik, P.L.C.

Defined Contribution Third-Party Administrator

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

Investment Custodian

The Northern Trust Company

Legal Counsel

Ice Miller

Loomis, Ewert, Parsley, Davis & Gotting
Miller, Canfield, Paddock & Stone, PLC

Legislative Consultants

Karoub Associates

Matt Wesaw

Medical Advisor

Dr. Kent Anderson

Consulting Physicians

Peninsula Medical Center

Security Lending Agent

The Northern Trust Company

Systems Implementation and Maintenance

Gabriel, Roeder, Smith & Company

Oracle/PeopleSoft

Third-Party Administrators

Omega Recordkeeping Group, LLC

Investment Managers*Domestic Equity*

Ariel Capital Management

Delaware Investment Advisors

Kennedy Capital Management

LSV Asset Management

Trust Company of the West

Wasatch Advisors

Wellington Management Company

International Equity

Acadian Asset Management

Barclays Global Investors

Mondrian Investment Advisors

Fixed Income

Barclays Global Investors

Evergreen Investments

Reams Asset Management

Stone Harbor Investment Partners

Western Asset Management

Real Estate

Townsend Group Consultants

Blackstone Real Estate Partners

CB Richard Ellis Investors

FIA Timber Partners

Guggenheim Structures Real Estate Fund

Hancock Timber Resources

J.P. Morgan Investment Management

KBS Realty Advisors

LaSalle Investment Management

Prudential Property Management

Starwood Capital Group

UBS Realty Investors, LLC

Urdang Investment Management

Private Equity

Credit Suisse First Boston

Barclays Global Investors

Mesirow Capital Partners

Commodities

Cargill Risk Management



MERS Story

Celebrating
MERS Growth

MERS story began in 1946 when a small group of municipalities banded together, selected a Board of Directors, and formed a group that wanted to pool their resources and save money on the cost of administering pensions.

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, 2006, 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 2005 financial statements and, in our report dated April 24, 2006, 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, 2006, 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 June 20, 2007 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) on pages 22 through 27 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary 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 purposes of additional analysis and are not a required part of the basic financial statements. The Schedules of Funding Progress and Employer Contributions and related notes and the supporting schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The Introductory, Investment, Actuarial, and Statistical Sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Andrews Hooper & Paulik P.L.C.

Okemos, Michigan
June 20, 2007

MANAGEMENT'S DISCUSSION AND ANALYSIS

This narrative overview and analysis of MERS financial condition for fiscal year ended December 31, 2006, is presented in conjunction with the Chief Executive Officer's Letter of Transmittal. The financial section is comprised of the Independent Auditor's Report, Management's Discussion and Analysis, two basic financial statements with explanatory notes, two required supplementary schedules with explanatory notes and three supplementary expense schedules.

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, Investment Services Program, 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.

Basic Financial Statements

1. Statement of Plan Net Assets (pages 28-29)
2. Statement of Changes in Plan Net Assets (pages 30-31)
3. Notes to Basic Financial Statements (pages 32-48)
4. Comparison Statement of Plan Net Assets (page 24)
5. Comparison Statement of Changes in Plan Net Assets (page 25)

The Defined Benefit Plan, Defined Contribution Plan, Investment Services Program, 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 685 individual municipal Defined Benefit Plans, 133 individual municipal Defined Contribution Plans, 56 Health Care Savings Programs, 40 Retiree Health Funding Vehicle Plans and 2 Investment Services Programs administered by MERS.

The "Comparison Statement of Plan Net Assets" and "Comparison Statement of Changes in Plan Net Assets" presented later in the Management's Discussion and Analysis provide a comparative summary of the financial condition of the Retirement System as a whole.

Required Supplemental Information

1. Schedule of Funding Progress (page 49)
2. Schedule of Employer Contributions (page 49)
3. Notes to the Schedules of Required Supplementary Information (pages 50-51)

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 52)
2. Schedule of Investment Expenses (page 53)
3. Schedule of Payments to Consultants (page 54)

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, 2006:

- Total plan net assets for the Defined Benefit Plan, Defined Contribution Plan, Health Care Savings Program, Retiree Health Funding Vehicle and Investment Services Program increased by \$773 million during the 2006 fiscal year. This was primarily due to net gains in investments of \$659 million dollars.
- Total pension benefits paid to retirees and beneficiaries increased \$31 million to a total of \$315 million. While contributions exceeded pension benefit payments by \$124 million in 2006 (primarily due to new municipalities joining MERS and transfers into the Retiree Health Funding Vehicle and Investment Services Program), 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 \$600 thousand.
- Transfers from the Defined Benefit Plan to the Defined Contribution Plan increased by \$729 thousand. The number of new hires in Defined Contribution continues to increase relative to the Defined Benefit Plan members. See page 96.
- Total employer contributions increased by 48% to \$348 million, and employee contributions increased by 18% to \$91 million. Again, much of these increases were due to new municipalities joining MERS Defined Benefit Plan, Defined Contribution Plan, Retiree Health Funding Vehicle, Investment Services Program and Health Care Savings Program. Employer and employee contributions from new municipalities were \$99 million in 2006 compared to \$49 million in 2005. 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.
- Administrative expenses totaled \$13 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 65,100 members and Defined Contribution Plan with 6,831 members.
- Investment expenses totaled \$17 million. The largest expense is due to higher investment manager fees increasing to \$16 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 28-31) provide financial information about the activities of the 901 individual municipal plans administered by MERS in its Defined Benefit Plan, Defined Contribution Plan, Retiree Health Funding Vehicle, Health Care Savings Program and Investment Services Program, as well as comparative summary information about these activities for the Retirement System as a whole.

The "Schedule of Funding Progress" (page 49) includes historical trend information about the actuarially funded status of the Defined Benefit Plans 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 49) 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 Defined Benefit Plans.

Comparison Statement of Plan Net Assets

Assets	As of	As of	Increase (Decrease)	Increase (Decrease)
	December 31, 2006	December 31, 2005	Amount	Percent
Cash and Short-Term Investments	\$ 225,530,136	\$ 266,259,383	\$ (40,729,247)	-15.30%
Receivables	224,851,017	157,534,335	67,316,682	42.73%
Interfund Receivables	1,202,304	434,593	767,711	176.65%
Investments, at fair value	5,769,420,916	4,985,756,769	783,664,147	15.72%
Invested Securities Lending Collateral	905,007,240	719,094,377	185,912,863	25.85%
Other Assets/Prepays	337,474	433,475	(96,001)	-22.15%
Net Capital Assets	6,641,104	3,878,603	2,762,501	71.22%
Total Assets	7,132,990,191	6,133,391,535	999,598,656	16.30%
Liabilities				
Purchase of Investments	348,526,226	317,984,276	30,541,950	9.60%
Securities Lending Collateral	905,007,240	719,094,377	185,912,863	25.85%
Administrative and Investment Costs	15,890,222	6,563,876	9,326,346	142.09%
Interfund Payables	1,202,304	434,593	767,711	176.65%
Other Accounts Payable	16,843	711	16,132	2268.95%
Total Liabilities	1,270,642,835	1,044,077,833	226,565,002	21.70%
Net Assets Held in Trust for Pension and Health Benefits and Investment Accounts Held for Others	\$ 5,862,347,356	\$ 5,089,313,702	\$ 773,033,654	15.19%

Comparison Statement of Changes in Plan Net Assets

	Year ended	Year ended	Increase (Decrease)	Increase (Decrease)
	December 31, 2006	December 31, 2005	Amount	Percent
Additions				
Contributions	\$ 439,052,040	\$ 312,245,705	\$ 126,806,335	40.61%
Transfers from Defined Benefit Plan	751,160	22,573	728,587	3227.69%
Transfers from Other Plans and Other Items	8,112,862	2,084,281	6,028,581	289.24%
Investment net income-investing activities	656,892,178	300,666,864	356,225,314	118.48%
Investment net income-securities lending	2,524,348	2,135,791	388,557	18.19%
Miscellaneous Income	790,789	6,026,437	(5,235,648)	-86.88%
Total Additions	1,108,123,377	623,181,651	484,941,726	77.82%
Deductions				
Benefits	314,764,086	283,629,190	31,134,896	10.98%
Refunds of Contributions	4,711,038	4,157,567	553,471	13.31%
Special Expenses and Fees	542,942	398,690	144,252	36.18%
Transfers to Defined Contribution Program	751,161	22,573	728,588	3227.70%
Medical Disbursements Paid to Members	144,699	51,832	92,867	179.17%
Disbursements Paid to Municipalities	1,109,386	95,470	1,013,916	1062.03%
Forfeited Employer Contributions	44,724		44,724	100.00%
Administrative Expense	13,021,687	11,833,630	1,188,057	10.04%
Total Deductions	335,089,723	300,188,952	34,900,771	11.63%
Net Increase	773,033,654	322,992,699	450,040,955	139.33%
Net Assets Held in Trust for Pension and Health Benefits and Investment Accounts Held for Others				
Balance Beginning of Year	5,089,313,702	4,766,321,003	322,992,699	6.78%
Balance End of Year	\$ 5,862,347,356	\$ 5,089,313,702	\$ 773,033,654	15.19%

Analysis of Plan Net Assets

Combined plan net assets increased by \$773 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 an 11% increase in pension benefit payouts due to a greater number of retirees and post retirement cost-of-living increases.

Employer and employee contributions increased \$127 million due chiefly to municipalities joining MERS plans bringing in \$99 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 2006, MERS actuary used a five-year smoothing method to recognize market gains and losses. 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. On December 31, 2005, with prospective application, the MERS Board adopted a ten-year smoothing method for calculating valuation assets to further reduce the volatility of employer contribution rates. Employers are also shifting more of the responsibility for contribution requirements on to employees to pay for better benefit plans.

MERS has capital assets of approximately \$7 million, mostly comprised of software and computer servers needed to run the Retirement System's pension and financial programs.

MERS has no long-term liabilities. The bulk of MERS liabilities at year end related to investment purchases that did not settle until early in 2007 and securities lending collateral.

Investment Activities

The total fund investment performance on a comparative basis to the benchmarks was excellent. The positive gross return of 13.6% was above the long-term net 8% actuarial return assumption target for the year. On both a five and ten year basis, the gross returns of 9.8% and 8.8%, respectively, compared favorably to the actuarial return assumption. Net investment income (net increase in fair value, plus investment earnings, less investment administrative expenses) was \$659 million for the year. The stock market is in its fourth year of positive returns after three years of negative returns. A further detailed analysis of investment returns may be found in the Investment Section.

MERS 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 a 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, 2006, is found on page 17 of this report. A summary of the total Retirement System's assets can be found on page 66.

Historical Trends

Accounting standards require that the "Statement of Plan Net Assets" state investment 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 49). 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 77% to 76% for the 2005 valuation. The decline, while slight, was expected. Primarily, municipalities adopting better benefit plans and to a lesser extent, investment losses from 2000-2002, combined to influence 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 50).

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 49). This schedule indicates that employers are meeting their actuarially required contribution payments.

MERS overall financial condition improved for the fiscal year ended 2006, and the plan remains stable and viable for the years to come. The market upturn in 2006 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 a funding methodology for the Retirement System to achieve the following major objectives:

- To develop level required contribution rates as a percentage of payroll;
- To finance benefits earned by present employees on a current basis;
- To accumulate assets to enhance members’ benefit security;
- To produce investment earnings and interest on accumulated assets to help meet future benefit costs;
- To make it possible to estimate the long-term actuarial cost of proposed amendments to System provisions; and
- To 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 71. Based upon the valuation results, MERS continues to be in sound financial health in accordance with actuarial principles of level percent of payroll financing.

Statement of Plan Net Assets as of December 31, 2006

Assets	Defined Benefit*	Defined Contribution
Cash and Short-Term Investments	\$ 198,471,201	\$ 26,938,960
Receivables		
Employer Contributions	32,289,390	
Plan Member Contributions	9,045,805	
Sale of Investments	170,354,735	
Investment Income	11,181,004	
Loans		1,914,278
Interfund Receivables	673,283	
Other	65,805	
Total Receivables	<u>223,610,022</u>	<u>1,914,278</u>
Investments, at fair value		
Domestic Fixed Income	1,306,649,221	8,723,670
Domestic Equities	2,260,091,490	65,290,520
International Bonds	572,197,723	
International Equities	930,995,230	6,358,588
Real Estate	455,994,696	
Balanced Funds		93,889,086
Total Investments	<u>5,525,928,360</u>	<u>174,261,864</u>
Invested Securities Lending Collateral	<u>905,007,240</u>	-
Prepaid Expenses	<u>337,474</u>	-
Capital Assets, at cost, net of accumulated depreciation	6,641,104	-
Total Assets	<u>6,859,995,401</u>	<u>203,115,102</u>
Liabilities		
Purchase of Investments	348,526,226	
Securities Lending Collateral	905,007,240	
Administrative and Investment Costs	15,890,222	
Interfund Payables	529,021	
Other Accounts Payable		
Total Liabilities	<u>1,269,952,709</u>	-
Net Assets Held in Trust for Pension and Health Benefits and Investment Accounts Held for Others	<u>\$ 5,590,042,692</u>	<u>\$ 203,115,102</u>

* 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

Health Care Savings Program	Retiree Health Funding Vehicle	Investment Services Program	Year Ended December 31, 2006	Year Ended December 31, 2005
\$ 45,029	\$ 74,946		\$ 225,530,136	\$ 266,259,383
			32,289,390	23,443,765
			9,045,805	6,419,675
			170,354,735	113,122,130
			11,181,004	11,384,979
			1,914,278	3,163,786
		\$ 529,021	1,202,304	434,593
			65,805	
-	-	529,021	226,053,321	157,968,928
1,720,112	10,935,902	3,714,127	1,331,743,032	1,294,365,392
2,975,252	18,915,665	6,424,271	2,353,697,198	2,243,373,943
753,258	4,788,966	1,626,462	579,366,409	217,678,374
1,225,590	7,791,894	2,646,338	949,017,640	793,630,194
600,285	3,816,413	1,296,157	461,707,551	364,806,912
			93,889,086	71,901,954
7,274,497	46,248,840	15,707,355	5,769,420,916	4,985,756,769
-	-	-	905,007,240	719,094,377
-	-	-	337,474	433,475
-	-	-	6,641,104	3,878,603
7,319,526	46,323,786	16,236,376	7,132,990,191	6,133,391,535
			348,526,226	317,984,276
			905,007,240	719,094,377
			15,890,222	6,563,876
538,266	135,017		1,202,304	434,593
15,341	1,502		16,843	711
553,607	136,519	-	1,270,642,835	1,044,077,833
\$ 6,765,919	\$ 46,187,267	\$ 16,236,376	\$ 5,862,347,356	\$ 5,089,313,702

Statement of Changes in Plan Net Assets for the Year Ended as of December 31, 2006

Additions	Defined Benefit	Defined Contribution	Health Care Savings Program
Contributions and Transfers In			
Employer Contributions	\$ 286,227,456	\$ 15,962,041	\$ 1,415,669
Plan Member Contributions	84,124,396	5,543,549	885,628
Employer Transfers In		646,754	
Plan Member Transfers In		104,407	
Transfers from Other Plans and Other Items		8,112,861	
Total Contributions and Transfers In	<u>370,351,852</u>	<u>30,369,612</u>	<u>2,301,297</u>
Investment Income			
Net Appreciation in Fair Value of Investments	551,193,919		
Interest Income	49,381,422		
Dividend Income	34,417,629		
Real Estate Operating Income, net	13,445,618		
Commission Recapture Income	228,362		
DC Plan Investment Income		19,224,093	
Investment Income			752,559
Service Charge Revenue			59,046
Miscellaneous Revenue			32,772
	<u>648,666,950</u>	<u>19,224,093</u>	<u>844,377</u>
Less Investment Expense	<u>17,032,361</u>		
Net Investment Income Before Securities Lending Activities	631,634,589	19,224,093	844,377
Security Lending Activities			
Security Lending Income	43,559,939		
Security Lending Expenses			
Borrower Rebates	40,405,059		
Management Fees	630,532		
Total Securities Lending Expenses	<u>41,035,591</u>		
Net Income from Security Lending Activities	<u>2,524,348</u>		
Total Net Investment Income	<u>634,158,937</u>	<u>19,224,093</u>	<u>844,377</u>
Miscellaneous Income	790,789		
Total Additions	<u>1,005,301,578</u>	<u>49,593,705</u>	<u>3,145,674</u>
Deductions			
Benefits	304,172,625	10,591,461	
Refunds of Contributions			
Plan Member	4,711,038		
Special Expenses and Fees	526,047		
Transfers to Defined Contribution Plan			
Employer	646,754		
Plan Member	104,407		
Medical Disbursements Paid to Members			144,699
Disbursements Paid to Municipalities			44,723
Forfeited Employer Contributions			256,246
Administrative Expenses	12,540,010		
Total Deductions	<u>322,700,881</u>	<u>10,591,461</u>	<u>445,668</u>
Net Increase	<u>682,600,697</u>	<u>39,002,244</u>	<u>2,700,006</u>
Net Assets Held in Trust for Pension and Health Benefits and Investment Accounts Held for Others			
Balance Beginning of Fiscal Period	4,907,441,995	164,112,858	4,065,913
Balance End of Fiscal Period	<u>\$ 5,590,042,692</u>	<u>\$ 203,115,102</u>	<u>\$ 6,765,919</u>

Retiree Health Funding Vehicle	Investment Services Program	Year Ended December 31, 2006	Year Ended December 31, 2005
\$ 29,366,165	\$ 15,527,136	\$ 348,498,467	\$ 236,172,943
		90,553,573	76,072,762
		646,754	21,609
		104,407	964
		8,112,861	2,084,281
<u>29,366,165</u>	<u>15,527,136</u>	<u>447,916,062</u>	<u>314,352,559</u>
		551,193,919	227,115,851
		49,381,422	46,461,321
		34,417,629	29,773,002
		13,445,618	4,538,596
		228,362	229,939
		19,224,093	8,427,281
4,359,685	726,136	5,838,380	615,360
89,055		148,101	
14,243		47,015	5,989
<u>4,462,983</u>	<u>726,136</u>	<u>673,924,539</u>	<u>317,167,339</u>
		17,032,361	16,500,475
4,462,983	726,136	656,892,178	300,666,864
		43,559,939	22,620,518
		40,405,059	19,951,189
		630,532	533,538
		<u>41,035,591</u>	<u>20,484,727</u>
		2,524,348	2,135,791
<u>4,462,983</u>	<u>726,136</u>	<u>659,416,526</u>	<u>302,802,655</u>
		790,789	6,026,437
33,829,148	16,253,272	1,108,123,377	623,181,651
		314,764,086	283,629,190
		4,711,038	4,157,567
	16,895	542,942	398,690
		646,754	21,609
		104,407	964
		144,699	51,832
1,109,386		1,109,386	95,470
		44,724	
225,431		13,021,687	11,833,630
<u>1,334,817</u>	<u>16,895</u>	<u>335,089,723</u>	<u>300,188,952</u>
32,494,331	16,236,376	773,033,654	322,992,699
		13,692,936	-
		5,089,313,702	4,766,321,003
<u>\$ 46,187,267</u>	<u>\$ 16,236,376</u>	<u>\$ 5,862,347,356</u>	<u>\$ 5,089,313,702</u>

NOTES TO BASIC FINANCIAL STATEMENTS

Year ended December 31, 2006

1. Reporting Entity and Plan Description

The Municipal Employees' Retirement System (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, Investment Services Program, Health Care Savings Program and a Retiree Health Funding Vehicle. See Note 6 for the Defined Contribution Plan (page 45). See Note 7 for the Health Care Savings Program and Retiree Health Funding Vehicle (page 46). See Note 8 for the Investment Services Program (page 47).

Pursuant to 1996 PA 220, on August 15, 1996, MERS became an independent non-profit public 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 solely administered 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, 2006

Counties	66
Cities and Villages	260
Townships	82
County Road Commissions	57
Authorities, Districts and Others	203
Closed Groups	<u>17</u>
Total	<u><u>685</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, 2006

Retirees and Beneficiaries Currently Receiving Benefits	
Retirement annuities	16,879
Survivor annuities	3,528
Disability annuities	<u>1,098</u>
Total	<u><u>21,505</u></u>
Vested former members	5,769
Current active employees	<u>37,826</u>
Total Membership	<u><u>65,100</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 non-duty disability and non-duty death benefits to employees after vesting requirements are met. The vesting requirements provision is waived for duty disability and duty death benefits. Benefits are paid monthly over the employee's or survivor's lifetime and are equal to a specific percentage of the employee's final average compensation times the number of years of credited service. The specific percentage depends on the benefit plan or plans adopted by each municipality for its employees.

Pursuant to 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). The most recent Letter of Favorable Determination for MERS was issued by the 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 \$220,000 for 2006 and increasing to \$225,000 in 2007) 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 12.52% of compensation in 2006; employees contributed 2% of compensation in 2006.

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

Schedule of Funding Progress

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)
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%
2005	3,454,714	4,773,326	1,318,612	72.40	4,410,167	29.90%

Actuarial Accrued Liability from December 31, 2005 and December 31, 2004 Actuarial Valuations

	2005	2004
Retirees and beneficiaries currently receiving benefits	\$ 525,441	\$ 376,442
Vested former members not yet receiving benefits	41,211	23,557
Nonvested terminated employees (pending refunds of accumulated member contributions)	17,801	15,397
Current employees		
Accumulated employee contributions, including allocated investment income	509,802	404,576
Employer financed	3,679,071	2,874,430
Total Actuarial Accrued Liability	<u>4,773,326</u>	<u>3,694,402</u>
Net assets available for benefits at actuarial value (\$3,363,679 and \$2,530,006 at market value for December 31, 2005, and 2004, respectively)	3,454,714	2,591,903
Unfunded actuarial accrued liability	<u>\$ 1,318,612</u>	<u>\$ 1,102,499</u>

Three-Year Trend Information Schedule of Employer Contributions

Fiscal Year Ended	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
December 31, 2004	\$ 192,024	100%	-
December 31, 2005	259,500	100	-
December 31, 2006	451,164	100	-

Changes in Accounting Principles

The Plan adopted the provisions of the Governmental Accounting Standards Board (GASB) Statement No. 44 issued in May 2004, "Economic Condition Reporting: The Statistical Section, an Amendment of NCGA Statement 1" effective for periods beginning after June 15, 2005. Statement No. 44 modifies and adds certain ten year statistical reporting requirements previously established by NCGA Statement 1. Statement No. 44 has had an impact on the presentation of the schedules in the statistical section of the Comprehensive Annual Financial Report, 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, 2005, and December 31, 2006, and changes to those account balances during the year ended December 31, 2006.

Capital Assets

Capital Assets	Office Building	Leasehold Improvements	Office Furniture and Equipment	Software	Total Capital Assets
Balances December 31, 2005	\$ 15,183	\$ 361,437	\$ 2,312,989	\$ 13,155,421	\$ 15,845,030
Additions	2,159,262		90,337	3,922,942	6,172,541
Deletions	(1,974,540)	(361,437)	(428,188)	(81,303)	(2,845,468)
Balances December 31, 2006	199,905	-	1,975,138	16,997,060	19,172,103
Accumulated Depreciation					
Balances December 31, 2005		361,437	1,877,651	9,727,339	11,966,427
Depreciation Expense			176,583	1,258,917	1,435,500
Deletions		(361,437)	(428,188)	(81,303)	(870,928)
Balances December 31, 2006	-	-	1,626,046	10,904,953	12,530,999
Net Capital Assets December 31, 2006	\$ 199,905	\$ -	\$ 349,092	\$ 6,092,107	\$ 6,641,104

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, Defined Contribution Plan, Health Care Savings Program, Retiree Health Funding Vehicle and Investment Services Program 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 interest 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. It is also 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 49).

Reserves

Three reserves have been established pursuant to the MERS Plan Document for the Defined Benefit Plan. See "Schedule of Changes in Reserves" (pages 98-99).

- 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, 2006, is \$532,327,092. The "Reserve for Employee Contributions" was fully funded as of the December 31, 2005 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, 2006, balance is \$5,057,715,600. The unfunded liability was \$1,583,027,787 (based on the actuarial value of assets) as of the December 31, 2005 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 2006, 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 their 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, 2006, 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 previously written down.

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. Other criteria for active managers based on MERS Retirement Board Investment policy, includes that if a security is downgraded below investment grade after purchase, a review with a written explanation shall be forwarded to the investment staff. Board policy also allows that when calculating the average rating of the portfolio, the manager may utilize the highest rating of the major rating agencies to calculate the average. Board policy in regards to global fixed income securities is that no more than 10% of the portfolio may be invested in corporate bonds or sovereign bonds rated below investment grade, as defined by Moody's and Standard & Poors. Board policy for global fixed income securities, is that the average weighted credit of the portfolio will be a minimum of A-. When calculating the average rating of the global portfolio, the manager may utilize the highest rating of the major agencies to calculate the average. Board policy in regards to global non-investment grade fixed income securities includes criteria that credit quality must maintain a minimum of 10% of the portfolio in investment grade fixed income with at least two ratings of BBB-/Baa3 or higher (as assigned by Standard & Poors or Moody's). 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, 2006, 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, 2006, is presented on page 40, by investment category as rated by Standard & Poor's.

Credit Ratings Summary – December 31, 2006

Quality Rating	Corporate Bonds	Bond Index Fund	Mortgages	U.S. Agency Bonds	Municipals	Global Fixed Income	Total	% of Portfolio
AAA	\$ 44,879,906	\$ 28,695,172	\$ 65,010,528	\$ 126,101,384	\$ 2,659,556	\$ 149,051,751	\$ 416,398,296	35%
AA+	1,046,093						1,046,093	0%
AA	2,185,765					22,076,825	24,262,590	2%
AA-	6,730,608						6,730,608	1%
A+	9,115,030					1,705,457	10,820,487	1%
A	14,976,377	45,177,109		836,187		27,337,830	88,327,502	7%
A-	9,166,745					1,571,396	10,738,141	1%
BBB+	25,199,840					22,394,226	47,594,066	4%
BBB	21,182,974	55,295,517				18,789,307	95,267,798	8%
BBB-	14,663,578						14,663,578	1%
BB+	6,906,891					8,069,531	14,976,422	1%
BB	2,090,917					24,753,680	26,844,597	2%
BB-	1,315,612					14,456,938	15,772,549	1%
B+	1,956,172					3,185,728	5,141,900	0%
B	10,372,814					8,181,955	18,554,768	2%
B-	527,250						527,250	0%
CCC+	1,096,425						1,096,425	0%
CCC						1,983,731	1,983,731	0%
CCC-							-	0%
CC							-	0%
C							-	0%
D						2,749,633	2,749,633	0%
NR	80,867,720	8,576,931	22,882,590	197,870,306		71,004,424	381,201,971	32%
Totals	254,280,718	137,744,729	87,893,118	324,807,876	2,659,556	377,312,410	1,184,698,407	100%
Govt & Agencies*	4,825,410	257,505,570	26,977,897	226,324,489			515,633,366	
Total Fixed Income	\$ 259,106,128	\$ 395,250,299	\$ 114,871,015	\$ 551,132,365	\$ 2,659,556	\$ 377,312,410	\$ 1,700,331,773	

* 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 that 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. MERS Retirement Board Investment policy in regards to interest rate risk is that the effective duration of the domestic portfolio shall be (+/-) 20% of the Lehman Brothers Aggregate Index or the Lehman Universal Bond Index. MERS Retirement Board Investment policy in regards to interest rate risk is that the effective duration of the global fixed income portfolio shall be (+/-) 20% of the Lehman Brothers Global Aggregate Index. Board policy in regards to global non-investment grade fixed income securities is that the portfolio's duration is (+/-) 2 years of the benchmark duration. The benchmark for global non-investment grade fixed income securities is 1/3 Lehman Brothers U.S. Treasury Inflation Protected Securities Index, 1/3 Citigroup High Yield Market Index and 1/3 JP Morgan Emerging Markets Global Bond Index. As of December 31, 2006, 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, 2006

Investment Type	Market Value	Less than				Maturity not Determined
		1 Year	1 to 6 Years	6 to 10 Years	10+ Years	
Corporate and Global Bonds	\$ 636,418,538	\$ 49,449,804	\$ 275,102,053	\$ 157,877,796	\$ 97,423,894	\$ 56,564,992
Government Agencies	367,953,124	16,959,592	129,790,674	90,393,346	130,809,512	
Government Bonds	183,179,241	290,749	62,308,518	63,183,310	56,115,138	1,281,526
Mortgages	114,871,015		3,373,278	2,171,792	109,325,945	
Municipal/Provincial Bonds	2,659,556		1,639,417		1,020,139	
Bond Index*	395,250,299		3,130,993	2,015,804	71,357,466	
Total	\$ 1,700,331,773	\$ 66,700,145	\$ 475,344,933	\$ 315,642,048	\$ 466,052,094	\$ 57,846,518

* The Bond Index information on the segmented time distribution was unavailable. The effective duration in years for the Bond Index was 4.5 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 Retirement Board Investment Policy states securities representing debt and equity of any one company shall not exceed 5% 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, 2006.

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, 2006, MERS had deposits of \$5,889,124 that were exposed to credit risk with The Northern Trust that were uninsured and uncollateralized. MERS also had investment securities and other investments of \$31,353,143 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 Retirement Board Investment Policy for the global non investment grade fixed income portfolio allows currency hedging to mitigate currency exposure. Hedging the non U.S. dollar currency exposure of the portfolio is permitted. The portfolio will be limited to the maximum net currency exposure of 25% at any given time.

MERS exposure to foreign currency risk in U.S. dollars as of December 31, 2006 is summarized below.

Foreign Currency Risk – December 31, 2006

Currency	Equities	Fixed Income	Cash	Total
Australian dollar	\$ 43,871,025	\$ 30,538,957	\$ 1,945	\$ 74,411,927
Brazilian real		3,164,496		3,164,496
British pound sterling	86,164,627	45,170,249	55,265	131,390,140
Canadian dollar	4,582,392	44,455,840	281,091	49,319,324
Columbian peso		1,979,035		1,979,035
Danish krone	768,490	30,991,700	298,131	32,058,320
Euro	173,922,988	12,422,925	175,944	186,521,858
Hong Kong dollar	11,910,700	9,078,886	572	20,990,157
Hungarian forint		9,026,047		9,026,047
Indonesian rupiah	132,707	1,232,029		1,364,736
Japanese yen	97,110,704		3,997,377	101,108,082
Malaysian ringgit	480,816			480,816
Mexican peso		9,923,859	404,201	10,328,059
New Israeli shekel			226	226
New Taiwan dollar	6,491,318		10,532	6,501,850
New Zealand dollar	3,398,989	16,164,583	673,305	20,236,877
Norwegian krone	1,959,411	15,069,672	9,500	17,038,582
Polish zloty		9,109,369		9,109,369
Singapore dollar	6,318,313	9,145,913	189,938	15,654,164
South African rand			216	216
South Korean won	6,491,270		26	6,491,296
Swedish krona	3,267,539	30,732,369	305,736	34,305,644
Swiss franc	8,466,940		255,714	8,722,654
Thai baht	152,295			152,295
Turkish lira	1,534,701	2,630,207	65,841	4,230,749
Uruguayan peso		1,491,532		1,491,532
Total subject to foreign currency risk	457,025,224	282,327,667	6,725,560	746,078,452
Investments in International Securities payable in United States dollars	664,660,726	94,984,743		759,645,469
Total International Investment Securities	\$ 1,121,685,950	\$ 377,312,410	\$ 6,725,560	\$ 1,505,723,921

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 anytime 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 39 days as of December 31, 2006. 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 154 days as of December 31, 2006, producing a net income of \$2,524,348 in 2006.

Collateral Held and Fair Value of Securities on Loan as of December 31, 2006

Dollars In Thousands			
Fair Value of Securities on Loan	Nature of Collateral	Collateral Held	
\$ 878,650,563	Cash	\$	905,007,240
43,966,632	Non-Cash		45,780,966
<u>\$ 922,617,195</u>		<u>\$</u>	<u>950,788,206</u>

Derivatives and Structured Financial Instruments

Derivatives are complex financial instruments that MERS employs to obtain exposure to commodities, international currency, and to invest in the S&P 500.

MERS does not use derivatives for speculation, nor are they used to leverage the investment portfolio. The Retirement System does not use stock options, interest rate caps/floors, or floating rate securities that are priced from underlying collateral. All derivatives are presented at fair value as of December 31, 2006 in the financial statements. Derivative values fluctuate on a daily basis.

In accordance with the Board Investment Guidelines, our international managers may, when deemed prudent, enter into forward foreign currency transactions to hedge currency risk or take advantage of favorable market conditions. As of December 31, 2006, the following forward foreign exchange transactions were in place:

Forward Foreign Exchange Transactions – December 31, 2006

Type	Currency Exchange	Nominal Value	Cost	Market Value	Gain/(Loss)
Sell	CAD vs. USD	\$ (25,940,000)	\$ 22,867,520	\$ 22,296,622	\$ 570,898
Buy	DKK vs. USD	175,454,000	30,812,757	31,052,093	239,337
Sell	DKK vs. USD	(175,454,000)	29,735,130	31,052,093	(1,316,963)
Buy	HUF vs. EUR	6,869,981	9,198,262	9,093,756	(104,506)
Sell	USD vs. AUD	(39,750,000)	29,521,331	31,324,432	(1,803,101)
Buy	USD vs. AUD	20,162,000	15,662,850	15,888,382	225,533
Sell	USD vs. GBP	(12,875,000)	24,319,735	25,200,789	(881,054)
Buy	USD vs. GBP	1,060,000	2,047,931	2,074,746	26,816
Sell	USD vs. NZD	(22,640,000)	15,151,594	15,871,773	(720,179)
Sell	EUR vs. USD	(2,394,975)	3,033,094	3,164,474	(131,380)
Sell	GBP vs. USD	(6,369,500)	12,130,824	12,468,704	(337,880)

MERS uses S&P 500 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 the 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 \$2,998,140 as of December 31, 2006. 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 \$53,565,000 as of December 31, 2006.

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. It is on this date that the MERS Plan Document of 1996 was first determined by Internal Revenue Service Letter of Favorable Determination to meet qualifications as a “governmental plan” trust under Code Section 401(a), and tax exempt under Section 501(a). MERS has contracted with International City/County 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, 2006, there were 133 plans that had adopted the Defined Contribution Plan with 6,831 member accounts totaling \$203.1 million.

The MERS Defined Contribution Plan with ICMA-RC offers a variety of investment opportunities, including the MERS Total Market Fund, (the same diversified fund utilized for its Defined Benefit portfolio) for the Defined Contribution Plan participants. In addition, there are other funds offered from selected mutual fund families including the Vantage Trust Funds, which 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 modified 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 modified 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. Investment Services Program**Plan Description**

The Investment Services Program (ISP) is a trust fund that is available to all municipalities to invest funds through the MERS portfolio while maintaining administrative functions at the municipal level. Assets are pooled with the existing \$5 billion currently in MERS fund, resulting in reduced costs and increased investment return opportunities for municipalities. The program was established by MERS Board in March 2006 and began operations in June of 2006. MERS offers to any “municipality” (Plan Section 2b(4); MCL 38.1502B(2) pension, “ancillary benefits, health and welfare benefits, and other post employment benefit programs” (Plan section 36(2)(a); MCL 38.1536(2)(a)). The Investment Services Program trust fund complies with all the requirements imposed by the Public Employee Retirement System Investment Act, 1965 Public Act 314. Participation in the Investment Services Program does not qualify as membership in MERS pension plans, and the participating employer is not able to vote at the MERS Annual Meeting.

Significant Accounting Policies

The Investment Services Program financial statements are prepared using a modified 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.

Reserve for Investment Services Program

All additions to and deductions from the Investment Services Program are recorded in this reserve. MERS maintains the separate municipality employer account records.

9. Interfund Receivables and Payables

The Defined Benefit Plan, Retiree Health Funding Vehicle, Investment Services Program, and the Health Care Savings Program 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, 2006, interfund receivables and payables were:

Interfund Receivables and Payables

	<u>Interfund Receivables</u>	<u>Interfund Payables</u>
Defined Benefit Plan	\$ 673,283	\$ 529,021
Defined Contribution Plan		
Health Care Savings Program		538,266
Investment Service Program	529,021	
Retiree Health Funding Vehicle		135,017
Totals	<u>\$ 1,202,304</u>	<u>\$ 1,202,304</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	31.4 %
2000	3,787.2	4,397.0	609.8	86.10	1,226.0	49.7
2001	4,034.4	4,783.9	749.5	84.30	1,271.6	58.9
2002	4,133.0	5,181.2	1,048.2	79.80	1,327.4	79.0
2003	4,459.5	5,667.7	1,208.2	78.70	1,381.2	87.5
2004	4,731.4	6,164.8	1,433.4	76.70	1,437.2	99.7
2005	5,026.1	6,609.1	1,583.0	76.05	1,462.4	108.2

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
2001	\$ 118	\$ 15	103 %	118 %
2002	125	8	102	109
2003	133	5	121	125
2004	156	2	108	109
2005	170	-	108	108
2006	199	-	107	107

See notes to the Schedules of Required Supplementary Information.

Notes to the Schedules of Required Supplementary Information

1. Actuarial Valuation - Actuarial valuations are prepared annually as of December 31 for each participating municipality. To facilitate budgetary planning needs, employer contribution requirements are provided for each municipality's unique fiscal year that commences after the following calendar year end. For example, the contribution requirements for fiscal years that began in 2006 were determined by actuarial valuations as of December 31, 2004.

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 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 the fiscal year 2005 but is useful for the reader for the Schedule of Employer Contributions.
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, 2005
<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

Asset Valuation Method

10-Year Smoothed Market Asset Valuation Method was adopted December 31, 2005 with prospective application. Prior to 2006 a five year smoothed method was used. (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.)

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.

Schedule of Administrative Expenses for the Year Ended December 31, 2006

Administrative Expenses	
Personnel Services	
Salaries	\$ 4,223,025
Social Security	309,694
Retirement	544,387
Insurance	651,292
Total Personnel Services	<u>5,728,398</u>
Professional Services	
Actuarial Services	786,106
Audit Services	57,000
Commercial Banking	90,118
Computer Maintenance	42,836
Consultants	36,491
Legal Services	122,815
Medical Services	50,025
Total Professional Services	<u>1,185,391</u>
Communication	
Advertising	4,576
Annual Meeting	249,758
Library and Records Storage	84,192
Postage / Shipping	115,868
Printing and Copying Services	96,646
Promotional Supplies	7,153
Telephone / Communications	97,841
Travel and Meetings*	253,093
Total Communication	<u>909,127</u>
Rentals	
Equipment Rental	150,462
Office Rental	704,500
Total Rentals	<u>854,962</u>
Miscellaneous	
Depreciation	1,415,160
Equipment Purchases	87,099
Insurance	231,953
Maintenance	236,218
Office Supplies	89,216
Operating Expenses	823,957
Payroll Processing	12,424
Professional Development & Tuition	324,927
Software Purchases and Maintenance	641,178
Total Miscellaneous	<u>3,862,132</u>
Total Administrative Expenses	<u><u>\$ 12,540,010</u></u>

* MERS Board members serve without compensation and are only reimbursed for their travel expenses.

Schedule of Investment Expenses for the Year Ended December 31, 2006

Investment Expenses

Personnel Services		
Salaries	\$	447,622
Social Security		39,295
Retirement		71,718
Insurance		72,014
Total Personnel Services		<u>630,649</u>
Professional Services		
Commercial Banking		471,511
Investment Managers		15,531,233
Investment Performance		79,500
Total Professional Services		<u>16,082,244</u>
Communication		
Travel		40,981
Total Communication		<u>40,981</u>
Miscellaneous		
Depreciation		20,340
Operating Expenses		3,131
Software Purchases/Maintenance		255,016
Total Miscellaneous		<u>278,487</u>
Total Investment Expenses	\$	<u><u>17,032,361</u></u>

Schedule of Payments to Consultants for the Year Ended December 31, 2006

Firm	Nature of Service	Fee
Gabriel, Roeder, Smith & Company	Actuary and System Implementation	\$ 2,908,422
Robbins-Gioia, LLC	FileNet System Implementation	197,000
Oracle (PeopleSoft) Corporation	System Implementation and Maintenance	170,541
Ice Miller	Legal Counsel	82,396
SunGard Availabilty Services	Disaster Recovery	55,200
Consulting Physicians, PC	Medical Advisors	45,400
Andrews Hooper & Pavlick P.L.C.	Auditor	38,500
Karoub Associates	Legislative Advisors	30,000
Slater and Slater, Inc.	System Security Advisor	30,000
New London Management	Human Resource and Career Advisors	29,290
Service Express	Hardware Maintenance	26,762
Matt Wesaw	Tribal Government Consultant	16,500
Ideal Solutions	Web Design Service	13,222
eVestment Alliance	Investment Analytics System	11,000
		<u>\$ 3,654,233</u>

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

REPORT ON INVESTMENT ACTIVITY - 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.

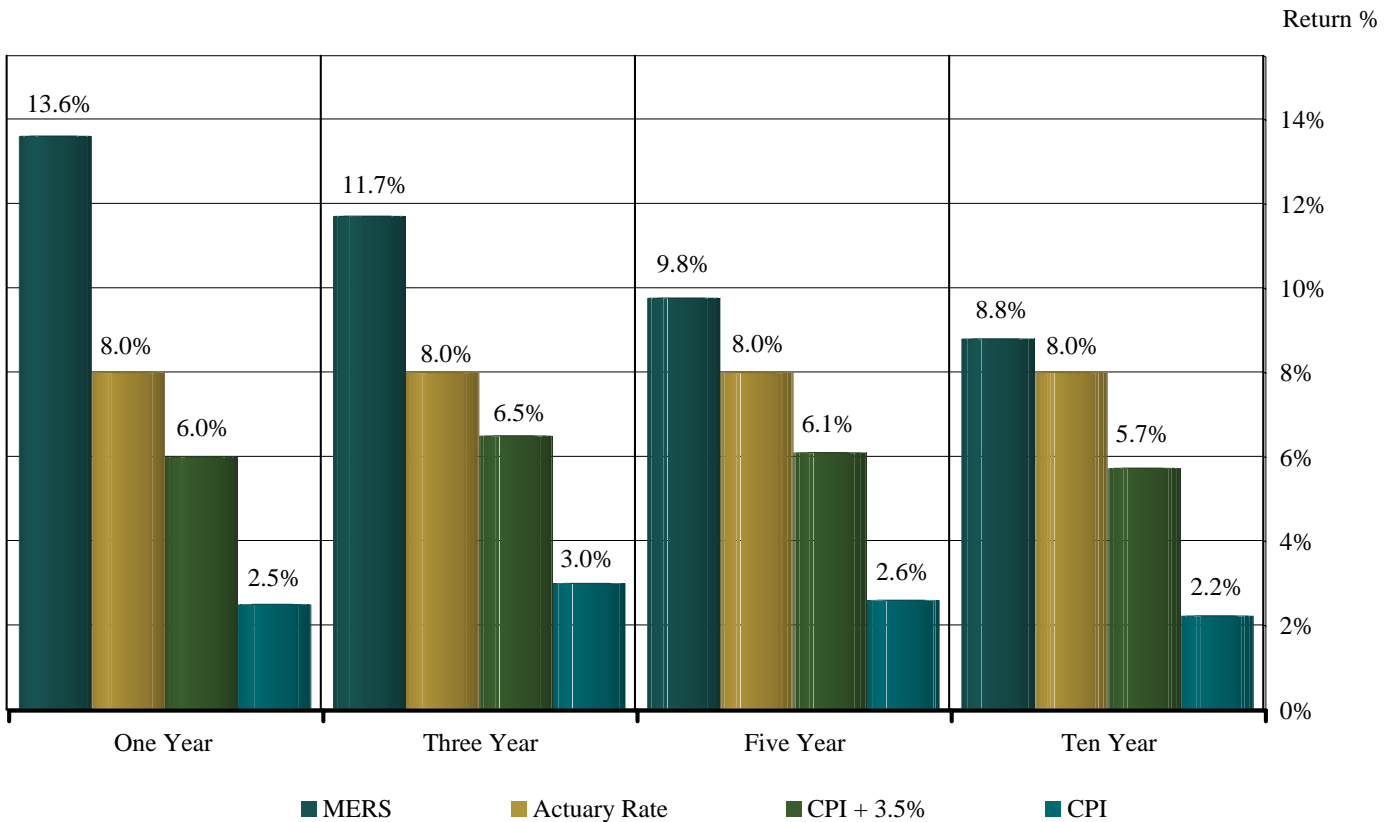
The long-term objectives for the investment assets are:

- 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

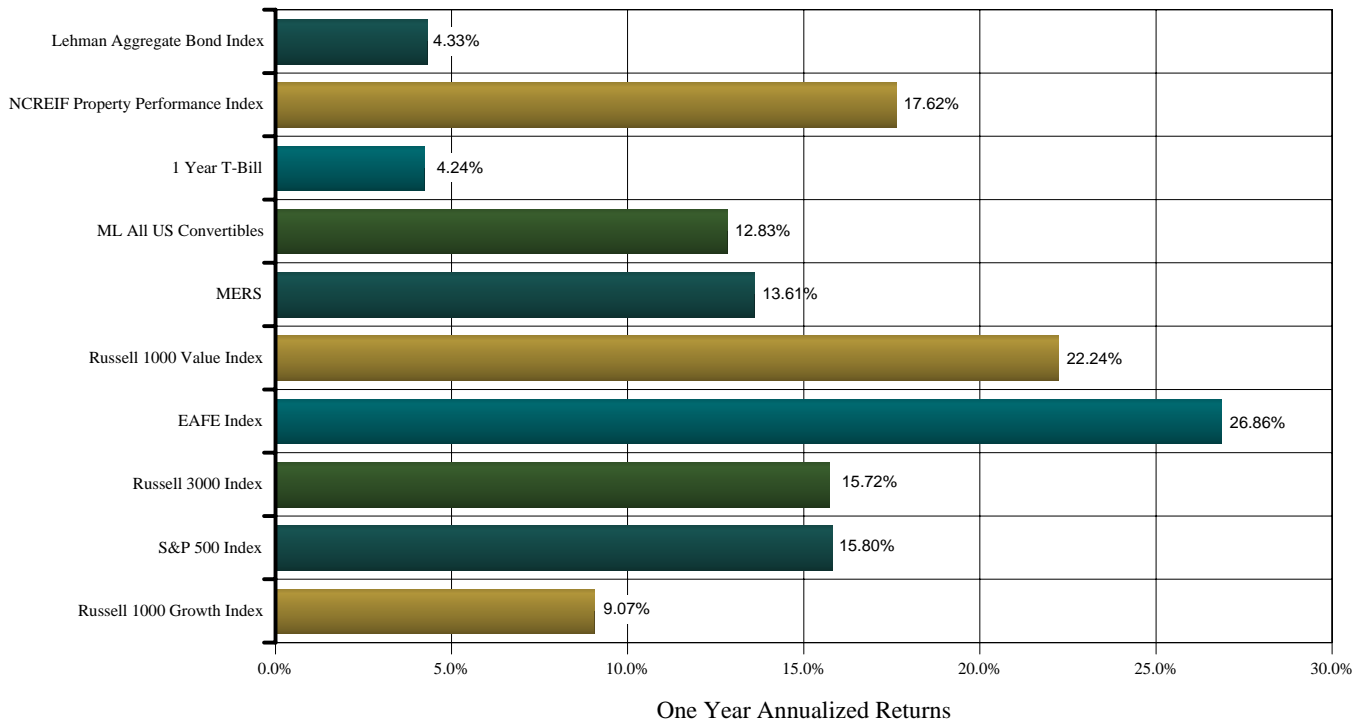
The real rate of return is defined as the rate at which the long-term total return on the Retirement System's assets exceeds the long-term inflation rate. The graph below illustrates that MERS has achieved returns greater than the Consumer Price Index (CPI) plus 3.5% and the actuarial assumption rate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

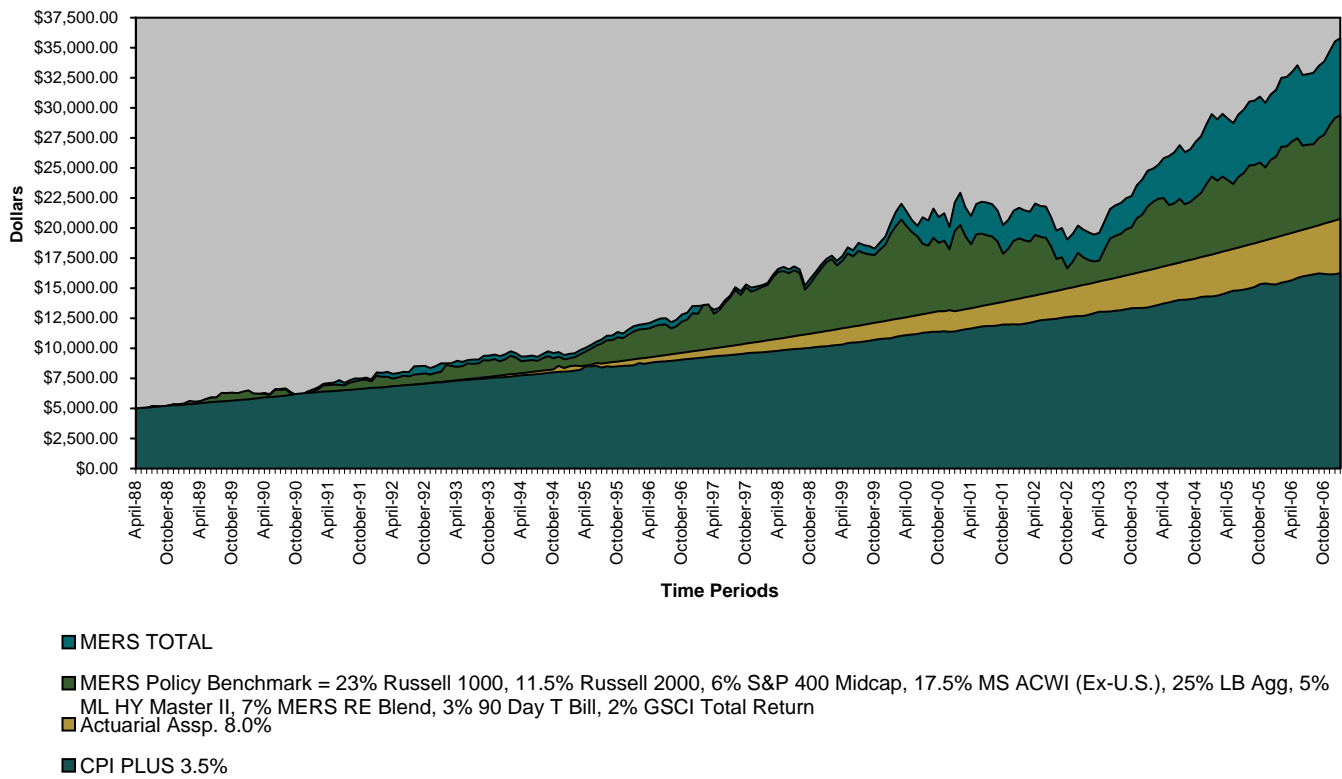
MERS Compared to Market Indices for 2006



Investment Section

The portfolio has enjoyed its fourth consecutive positive year of performance. MERS Defined Benefit portfolio had a one-year return of 13.6%, allowing MERS to exceed its actuarial assumption rate of return for the ten-year, five-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.

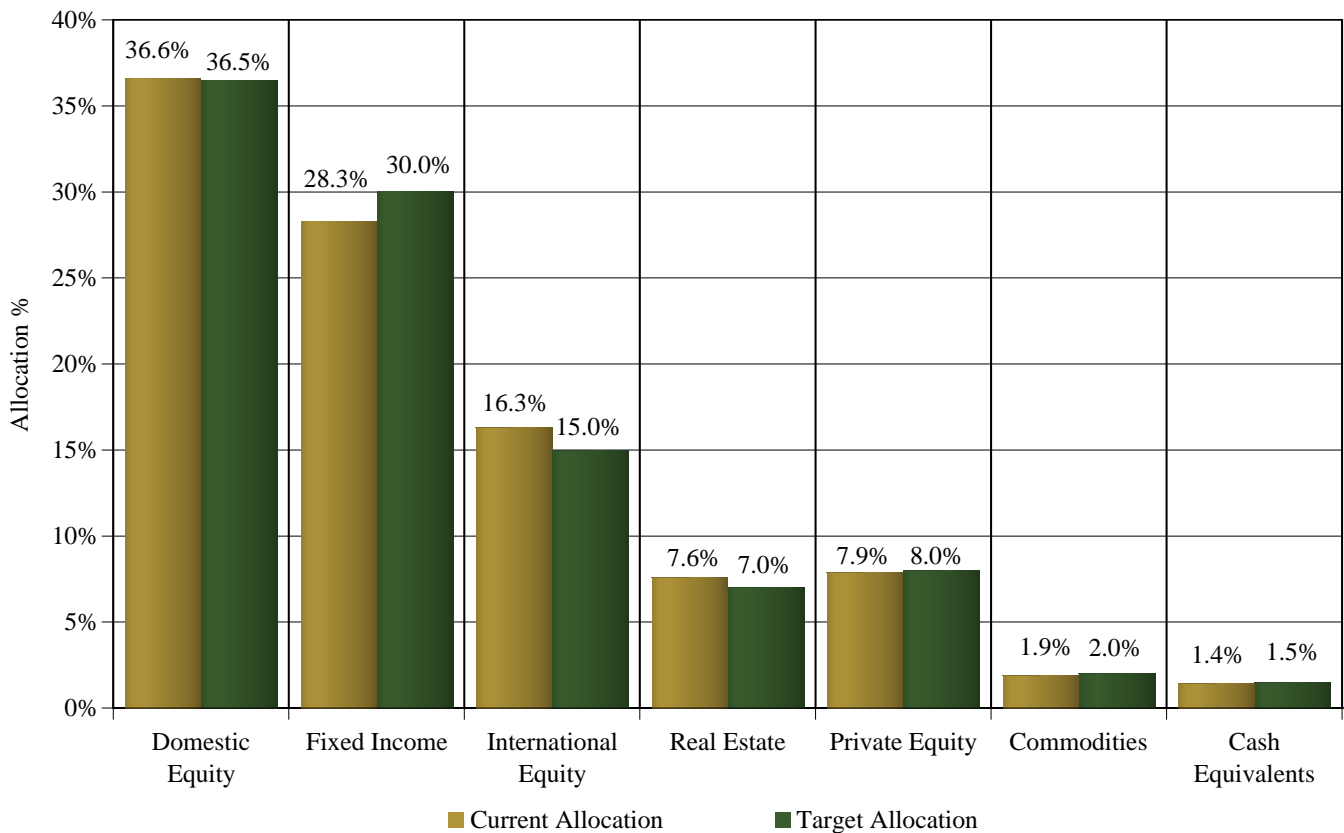
Growth of \$5,000 Period Ending December 31, 2006



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

Total Fund Investment Results

The investment portfolio produced a total gross return for the fiscal year of 13.6%. Domestic and international equities contributed significantly to the portfolio's performance in 2006, with MERS international portfolio returning 28.7%. MERS exposure to passive large caps and mid cap stocks provided significant positive complimentary performance, returning 15.7% and 10.1% for the year, respectively. Domestic small cap and value managers produced positive, strong returns for 2006. International small cap stocks also produced strong returns of 25.9%. Fixed income markets also produced positive returns of 4.3%, per the Lehman Brothers Aggregate Bond Index. MERS fixed income portfolio returned 5.0%. High yield bonds continued to add value, yielding 9.7%. 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 7.2% for the year. The Dow Jones Industrial Average and the Russell 3000 Index returned 19.5% and 15.7%, respectively, in 2006. MERS currently manages 14.9% of its assets internally.

The MERS portfolio was ranked in the 49th percentile within The Northern Trust (TNT) Public Fund Universe for the fiscal year ending December 31, 2006. MERS was ranked 38th and 42nd for the three and five-year periods, respectively. The TNT Universe is comprised of 38 public plans with a total market value of \$308 billion. The plans ranged in size from \$21.1 million to \$39.1 billion, with a median market value of \$4.0 billion and an average market value of \$7.9 billion. The portfolio returned 11.7% and 9.8% for the three and five-year periods, respectively, versus its policy benchmark at 10.6% and 9.0%. 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 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. The following table shows the annualized returns gross of fees for fiscal year ending December 31, 2006.

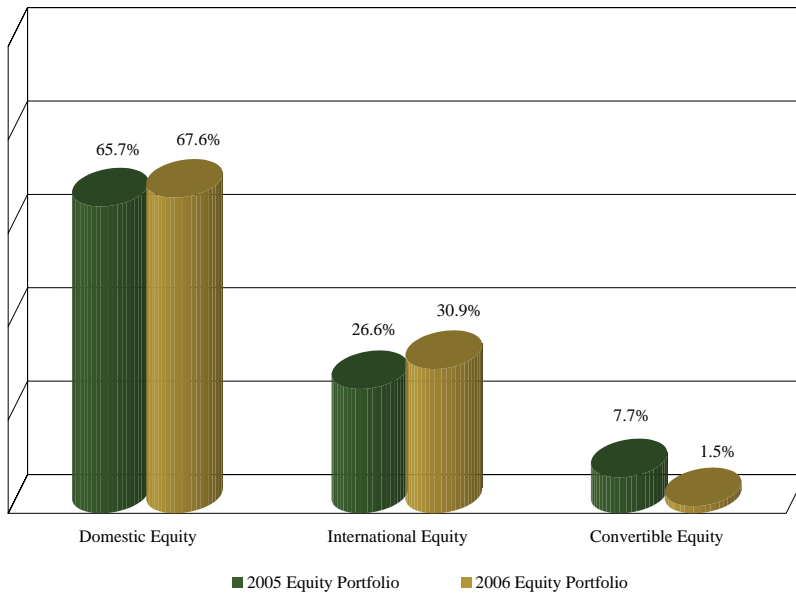
Schedule of Investment Results Gross of Fees

	One Year Annualized	Three Year Annualized	Five Year Annualized
MERS Total Fund	13.6%	11.7%	9.8%
Policy Portfolio	13.8	10.6	9.0
* Median Public Plan	13.6	11.6	9.5
Domestic Stocks	14.1	11.7	9.5
Russell 3000 Index	15.7	11.2	7.2
Convertibles	7.5	5.2	4.4
ML All US Convertibles	12.8	7.7	7.8
International Stocks	28.7	24.6	16.8
MSCI ACWI ex USA	27.2	21.8	16.9
Fixed Income	5.0	4.9	6.0
Lehman Aggregate Bond Index	4.3	3.7	5.1
High Yield Bond	9.7	8.2	8.8
Merrill Lynch High Yield Master II	11.8	8.4	9.9
Real Estate	21.6	18.6	15.2
NCREIF Property Performance	17.6	16.4	12.4

* The Median Public Plan returns are shown Gross of Fees

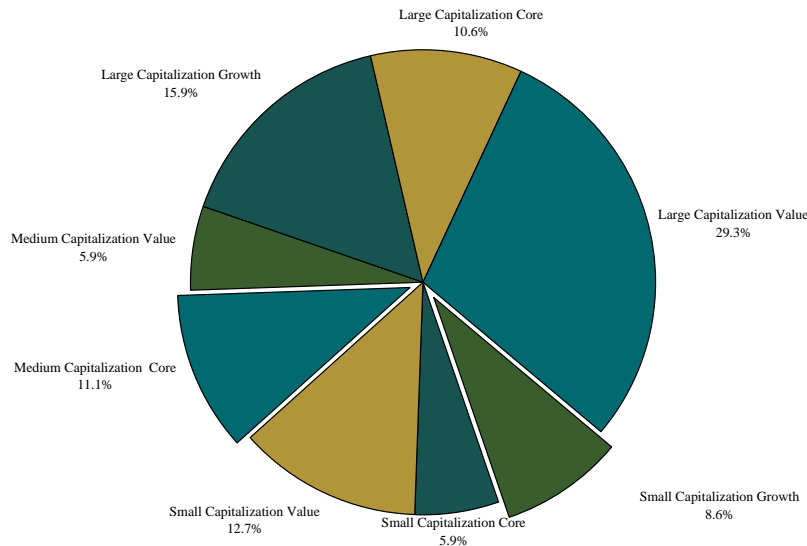
Total Equities – The total equity portfolio includes U.S. common stocks, international stocks, and convertible securities, representing 52.9% of the total portfolio as of December 31, 2006. The year-end composition of the equity portfolio is shown and is compared to the 2005 equity allocation.

Total Equity Portfolio Comparison 2005 versus 2006



Domestic Equities – As of December 31, 2006, the U.S. stock portfolio had a market value of \$2.058 billion and represented 36.6% 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.

Total Domestic Equity Portfolio 2006



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

Investment Section

The returns for this asset class were positive in 2006 as the economy grew at a 2.0% pace in the third quarter following a 2.6% gain in real GDP during the second quarter and rebounded at 2.5% in the fourth. During this period, the domestic common stock portfolio returned 14.1% versus the Russell 3000 Index with a return of 15.7%. The large cap growth portfolio had returns of 5.2% compared to the Russell 1000 Growth Index of 9.1%. MERS small cap portfolio returned 12.8% versus the Russell 2000 Index at 18.4%. Value style managers generally fared better than growth managers, but all sectors of the equity markets produced positive returns.

Passive management accounts for 21.6% 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 external 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: 10.6% large cap core, 15.9% large cap growth, 29.3% large cap value, 11.1% mid cap core, 5.9% mid cap value, 12.7% small cap value, 8.6% small cap growth and 5.9% small cap core.

Top Ten Equity Holdings as of December 31, 2006

Asset Description	Shares	Market Value	Percentage of Total Market Value
Exxon Mobil	355,600	\$ 27,249,628	0.48%
Pfizer	926,500	23,996,350	0.43
Chevron Texaco	289,100	21,257,523	0.38
Citigroup	364,700	20,313,790	0.36
ConocoPhillips	259,935	18,702,323	0.33
General Electric	502,150	18,685,002	0.33
Bank of America	337,019	17,993,444	0.32
AT&T	432,667	15,467,845	0.27
Morgan Stanley	189,700	15,447,271	0.27
Medtronic	280,140	14,990,291	0.27

International Equities - The allocation to non-U.S. stocks comprises 16.3% of the total portfolio. Of this, 7.7% 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 the domestic market by 14.59%.

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 28.7% for the one-year period ending December 31, 2006; the portfolio returned 24.6% and 16.8% for three and five years, respectively.

Convertibles - The convertible portfolio is 0.8% 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 7.5% for the fiscal year versus the Merrill Lynch All U.S. Convertible Bond Index of 12.8%. The three-year and five-year returns for the portfolio are 5.2% and 4.4%, respectively, versus the benchmark of 7.7% and 7.8% 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 25% 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 4.9% and 6.0% 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 utilizing enhanced or risk controlled portfolio strategies.

Top Ten Fixed Income Holdings as of December 31, 2006

Asset Description	Market Value	Percentage of Total Market Value
U.S. Treasury 4.88% 8/15/2016	\$ 36,692,859	0.65%
U.S. Treasury 4.50% 11/30/2011	27,284,239	0.48
U.S. Treasury 5.25% 2/15/2029	23,812,769	0.42
U.S. Treasury 2.00% 1/15/2016	21,770,311	0.39
U.S. Treasury 4.88% 10/31/2008	17,227,306	0.31
Sweden Government Bond 5.5% 8/10/2012	16,866,190	0.30
U.S. Treasury 3.38% 4/15/2032	16,585,724	0.29
Norway Government Bond 4.25% 9/05/2017	15,467,300	0.27
U.S. Treasury 3.38% 4/15/2032	15,312,956	0.27
Nykredit 5.00% 1/10/2035	14,794,711	0.26

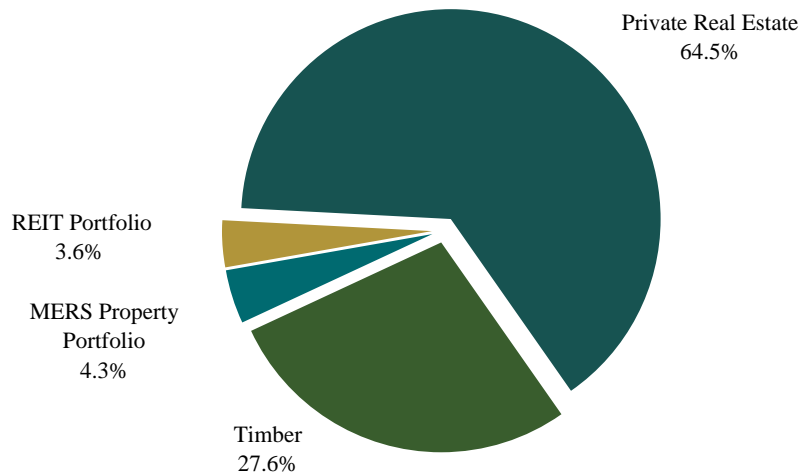
Investment Section

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 9.7% versus its benchmark, the Merrill Lynch High Yield Master II Index, at 11.8%. High Yield Bonds contributed significantly to the performance of the overall portfolio.

Real Estate Portfolio - MERS real estate investments represented 7.6% of the total portfolio at year-end and produced a total return of 21.6% 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 (REIT), are 27.5% of the real estate portion.

The return for the public securities portion of the portfolio was 35.6% versus the North American Real Estate Investment Trust (NAREIT) All Equity Index at 34.4%. 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 16.9% versus the National Council of Real Estate Investment Fiduciaries (NCREIF) Property Index of 17.6% and the National Council of Real Estate Investment Fiduciaries (NCREIF) Timber Index at 19.6%. Private real estate properties consist of timber real estate as well as a split in properties of 60% core and 40% non-core. The real estate portfolio had returns of 18.6% and 15.2% for the three-year and five-year periods, respectively.

Real Estate Investments



Private Equity - The MERS Board adopted a new asset allocation structure in 2001, adding private equity as a distinct asset class now with an 8% 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, Mesirow II and Mesirow VII. In 2002, MERS hired Credit Suisse First Boston's (CSFB) Customized Fund Investment Group to invest the remaining capital and to serve as the consultant over all future private equity investments. The portfolio is broadly diversified with investments in the U.S., Europe, and Asia. The portfolio has a value of \$312 million and has committed \$862.5 million in future 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 allowed 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.

Cash Management - All cash in the portfolio is actively managed within MERS. All residual cash is invested daily in commercial paper. In addition, MERS employs a dedicated cash portfolio with a target allocation of 1.5%. The portfolio is designed to maintain adequate liquidity for the total fund's use while earning maximum short-term returns with a reasonable degree of principal risk.

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

Investment Section

Investment Summary for Defined Benefit Plan, Health Care Savings Program, Retiree Health Funding Vehicle and Investment Services Program as of December 31, 2006

Type of Investment	Market Value	Percent of Market Value
Domestic Fixed Income		
US Government Bonds	\$ 183,179,241	3.26%
Corporate Bonds	259,106,128	4.61
Bond Index Funds	395,250,299	7.02
Mortgages	114,871,015	2.04
Municipals	2,659,556	0.05
US Agency Bonds	367,953,124	6.54
Sub Total Domestic Fixed Income	1,323,019,363	23.51
Global Fixed Income	377,312,410	6.71
Total Fixed Income	1,700,331,773	30.22
Equities		
Domestic Stock	1,938,806,058	34.46
Convertibles	36,700,211	0.66
Sub Total Domestic Equities	1,975,506,269	35.11
International Stock	939,094,912	16.69
International Index Funds	182,591,038	3.24
Sub Total International Equities	1,121,685,950	19.94
Total Equities	3,097,192,219	55.05
Venture Capital & Partnerships		
Hedge Funds	23,027,100	0.41
Private Equity	312,900,409	5.56
Total Venture Capital & Partnerships	335,927,509	5.97
Real Estate		
Private Securities	311,722,192	5.54
Public Securities Index Fund	149,985,359	2.67
Total Real Estate	461,707,551	8.21
Sub Total Investments	5,595,159,052	99.45
Cash Equivalents		
Commercial Paper and Cash	198,591,176	3.52
Total Cash Equivalents	198,591,176	3.52
Sub Total Investments & Cash		
Payables - Purchases of Investments	(348,526,226)	-6.20
Receivables - Sale of Investments & Interest	181,535,739	3.23
Total Investments	\$ 5,626,759,741	100.00%

Note: Includes receivables and payables for sales and purchases of securities with settlement dates after December 31, 2006

Schedule of Investment Fees - Year Ended December 31, 2006

Investment Managers	Average Assets Under Management	Annual Fee	Average Basis Points
Acadian Asset Management	\$ 192,881,874	\$ 899,163	46.62
Ariel Capital Management	100,636,160	428,341	42.56
Barclays Global Investors- AIE	208,088,574	308,738	14.84
Barclays Global Investors- EAFE	132,008,115	153,553	11.63
Barclays Global Investors- Core	388,084,878	378,733	9.76
Blackstone Real Estate	NA	139,229	NA
CBRE Strategic Partners	NA	110,877	NA
Credit Suisse Private Equity Fund	NA	4,397,394	NA
Delaware Investment Advisors	231,008,998	596,513	25.82
Evergreen Investments	278,818,962	658,236	23.61
Kennedy Capital Management	260,030,834	875,032	33.65
LSV Asset Management	342,495,220	513,658	15.00
Mondrian International	269,540,996	650,256	24.12
Reams Asset Management- Core	290,600,619	390,601	13.44
Reams Asset Management- High Yield	240,404,074	206,463	8.59
Stone Harbor	260,445,416	445,863	17.12
Trust Company of the West	129,369,146	509,058	39.35
Urdang Investment Management	99,196,866	553,532	55.80
Wasatch Advisors	167,921,070	1,343,179	79.99
Wellington Management	334,219,703	835,549	25.00
Wellington Management- Mid Cap	105,183,252	648,324	61.64
Western Asset Management	291,994,411	488,941	16.74
Total Investment Manager Fees	4,322,929,167	15,531,233	35.93
Investment Custodian			
The Northern Trust Company		471,512	
Investment Performance Measurement Consultant			
The Northern Trust Company		79,500	
Securities Lending Agent			
The Northern Trust Company		630,532	
Total Investment Fees		\$ 16,712,777	

Investment Section

Schedule of Investment Commissions

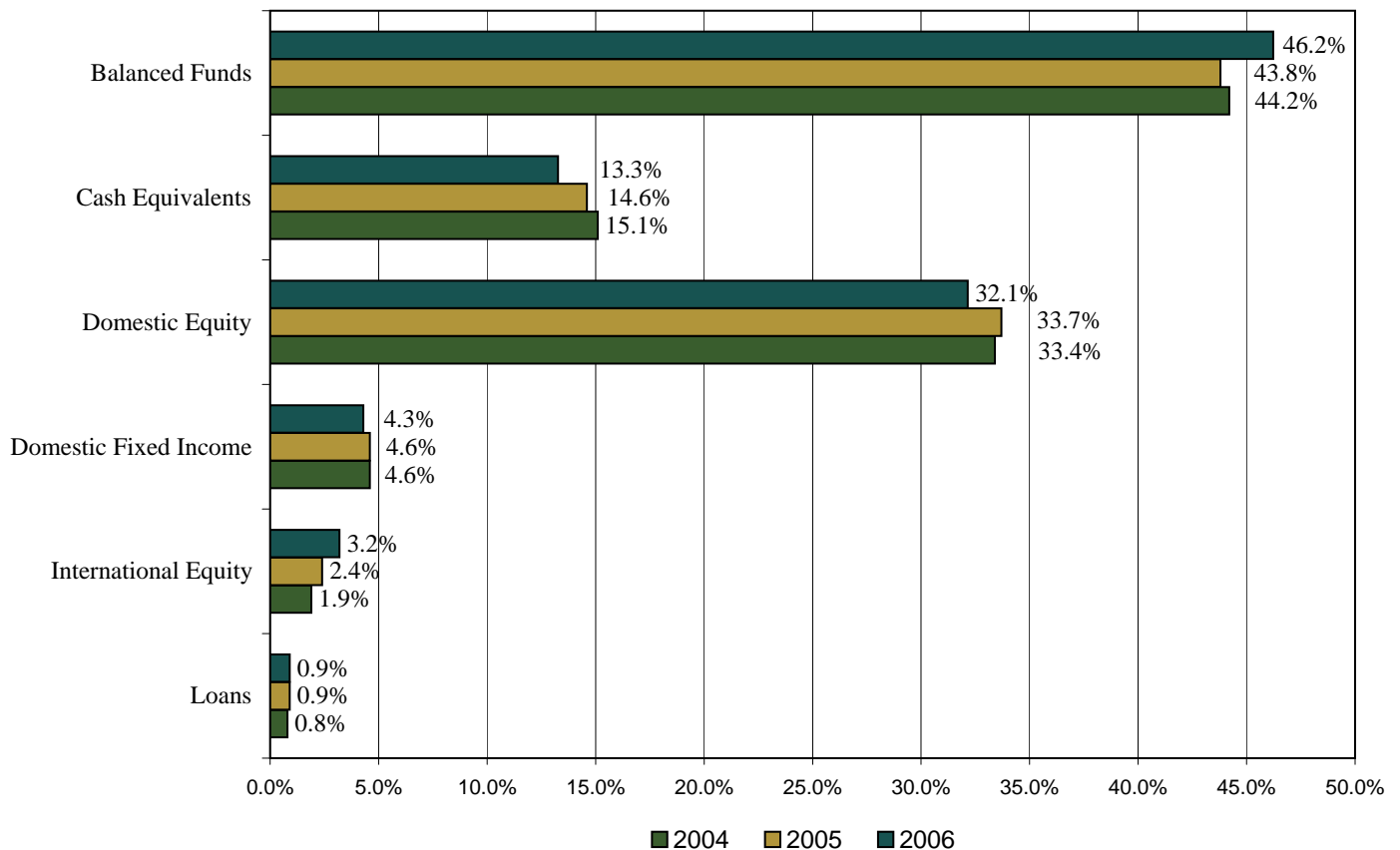
Brokerage Firm	Shares Traded	Total Dollars	Commission/Share
Cantor Fitzgerald & Company	3,168,545	\$ 105,231	\$ 0.03
Midwood Securities	3,279,329	93,637	0.03
Liquidnet Inc.	3,840,621	92,496	0.02
Cap Institutional Services Inc.	2,086,130	92,349	0.04
Investment Technology Group Inc.	4,662,923	91,662	0.02
Knight Securities L.P.	3,006,171	82,824	0.03
Goldman Sachs & Company	41,293,129	76,555	0.00
Citigroup Global Markets Inc./Smith Barney	13,304,330	72,389	0.01
UBS Warburg LLC	13,097,849	69,654	0.01
Banc America Security Montgomery Div.	17,692,548	68,427	0.00
Bear, Stearns, Securities Corporation	6,142,100	63,134	0.01
Credit Suisse First Boston Corporation	19,347,553	63,070	0.00
Direct Trading Institutional Inc.	6,283,338	63,005	0.01
Merrill Lynch Pierce Fenner & Smith	28,523,420	62,755	0.00
Lehman Brothers Inc. New York	64,464,339	54,765	0.00
Lynch Jones & Ryan	1,274,440	46,553	0.04
Morgan Guaranty	6,876,341	46,394	0.01
First Clearing LLC	1,066,213	38,997	0.04
J.P. Morgan Securities Inc.	14,646,663	37,001	0.00
Deutsche Bank Securities Inc.	10,194,490	36,499	0.00
SG Cowen Securities	734,768	29,635	0.04
CIBC World Markets Corporation New York	710,431	28,425	0.04
Baypoint Trading LLC	1,283,124	26,688	0.02
Jefferies & Company	2,618,700	24,789	0.01
PCS Dunbar Securities	604,805	23,287	0.04
Subtotal (25 Largest)	270,202,300	1,490,221	0.01
Remaining Total	44,671,531	843,462	0.02
Total Commissions	314,873,831	\$ 2,333,683	\$ 0.01

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, 2006, the Defined Contribution Plan had net assets of \$203.1 million and 6,831 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, 2006 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.

ACTUARY CERTIFICATION LETTER



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July 31, 2006

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, 2005. These valuations determine the contribution rates for the fiscal years beginning in 2007.

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.

Retirement Board
July 31, 2006
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

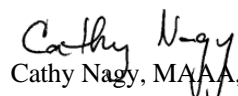
Statistical Section

- 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

AES/CN/WJK:dm

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 ten-year smoothed market value method. For the 2006 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 ten years. Adopted 2006.

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 a 50% male - 50% female blend of the 1994 Group Annuity Mortality Table. For disabled retirees, the ages in the regular mortality table have been adjusted forward by ten years to reflect the higher expected mortality rates of disabled members. Adopted 2005.

Sample probabilities of retirement with an age and service allowance are shown on page 75. Adopted 2000 and 2005.

Sample probabilities of separation from service before retirement due to disability or other causes are shown on page 77. 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 78. Adopted 1998 and 2005.

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 78. Adopted 1998 and 2005.

An individual entry age actuarial cost method of valuation was used to determine actuarial accrued liabilities and normal cost. Adopted 1994. The standard amortization period for financing positive unfunded liabilities is 30 years, beginning with the 2005 valuation. This period is scheduled to be reduced by one year in each of the following five valuations. The period will be reestablished at 25 years for each subsequent valuation, beginning with the 2011 valuation. The standard amortization period for negative unfunded liabilities is 10 years, with the 10 year period reestablished each year. Adopted 2006.

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

The most recent experience study for the Retirement System was completed in 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, 2005, 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.

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

Sample Ages	Years of Service	Percent of Active Members Withdrawing Within Next Year
	0	18%
	1	18
	2	16
	3	12
	4	10
20	5 and over	9
25		9
30		9
35		7
40		5
45		4
50		4
55		3
60		3
65		2
70		0

Rates of Withdrawal Due to Disability* Percent Becoming Disabled Within Next Year

Sample Ages	Percent of Active Members Withdrawing Within Next Year
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.

Annual Percentage Increase in Salary

Sample Ages	Base Inflation	Merit and Longevity	Total Percentage Increase in Salary
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

Valuation Dec 31	Participating Municipalities	Active Members	Active Members Annual Payroll	Annual Average Pay	Percent Increase in Average Pay	Persons on Deferred Status
1996	506	36,070	\$ 1,025,214,728	\$ 28,423	4.0%	2,713
1997	529	36,547	1,068,597,733	29,239	3.0	3,752
1998	541	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	615	36,766	1,437,211,517	39,091	5.2	5,804
2005	644	36,467	1,462,411,810	40,102	2.6	6,126

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:

Non-Disabled

Age	Expected Years of Life Remaining	Mortality Rates
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:

Disabled

Age	Expected Years of Life Remaining	Mortality Rates
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	5.07
75	6.81	8.25
80	4.85	13.46

Schedule of Retirees and Beneficiaries Added to and Removed from Rolls

Valuation Dec 31	Added to Rolls		Removed From Rolls		End-of-Year Rolls		% Increase in Annual Allowance	Average Annual Allowance
	Retirees/ Beneficiaries Number	Annual Allowance	Retirees/ Beneficiaries Number	Annual Allowance	Retirees/ Beneficiaries Number	Annual Allowance		
1996	824	\$ 10,582,845	593	\$ 2,752,328	13,263	\$ 109,841,190	7.7%	\$ 8,282
1997	1,504	16,305,680	531	3,033,941	14,236	123,112,929	12.1%	8,648
1998	1,122	19,230,034	568	3,642,223	14,790	138,700,740	12.7%	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
2005	1,666	32,839,907	782	7,000,257	20,155	288,061,637	9.9%	14,292

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 contributions 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 Covered by Valuation Assets		
		(1) Active Member Contributions	(2) Retirees and Beneficiaries	(3) Active Members (Employer-Financed Portion)		(1)	(2)	(3)
1996	*	\$ 269.3	\$ 1,041.1	\$ 1,688.6	\$ 2,416.4	100%	100%	65.5%
1997	**	277.5	1,174.7	1,833.0	2,692.7	100	100	67.7
1998		291.9	1,316.2	1,983.9	3,030.4	100	100	71.7
1999		305.5	1,463.2	2,066.9	3,464.9	100	100	82.1
2000		318.4	1,744.6	2,334.0	3,787.2	100	100	73.9
2001		336.5	1,944.6	2,502.8	4,034.4	100	100	70.1
2002		359.2	2,159.1	2,662.8	4,133.0	100	100	60.6
2003		396.7	2,435.2	2,835.8	4,459.5	100	100	57.4
2004		422.5	2,696.6	3,045.7	4,732.2	100	100	53.0
2005		463.0	2,966.2	3,179.9	5,026.1	100	100	50.2

* 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. 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, 2005 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.

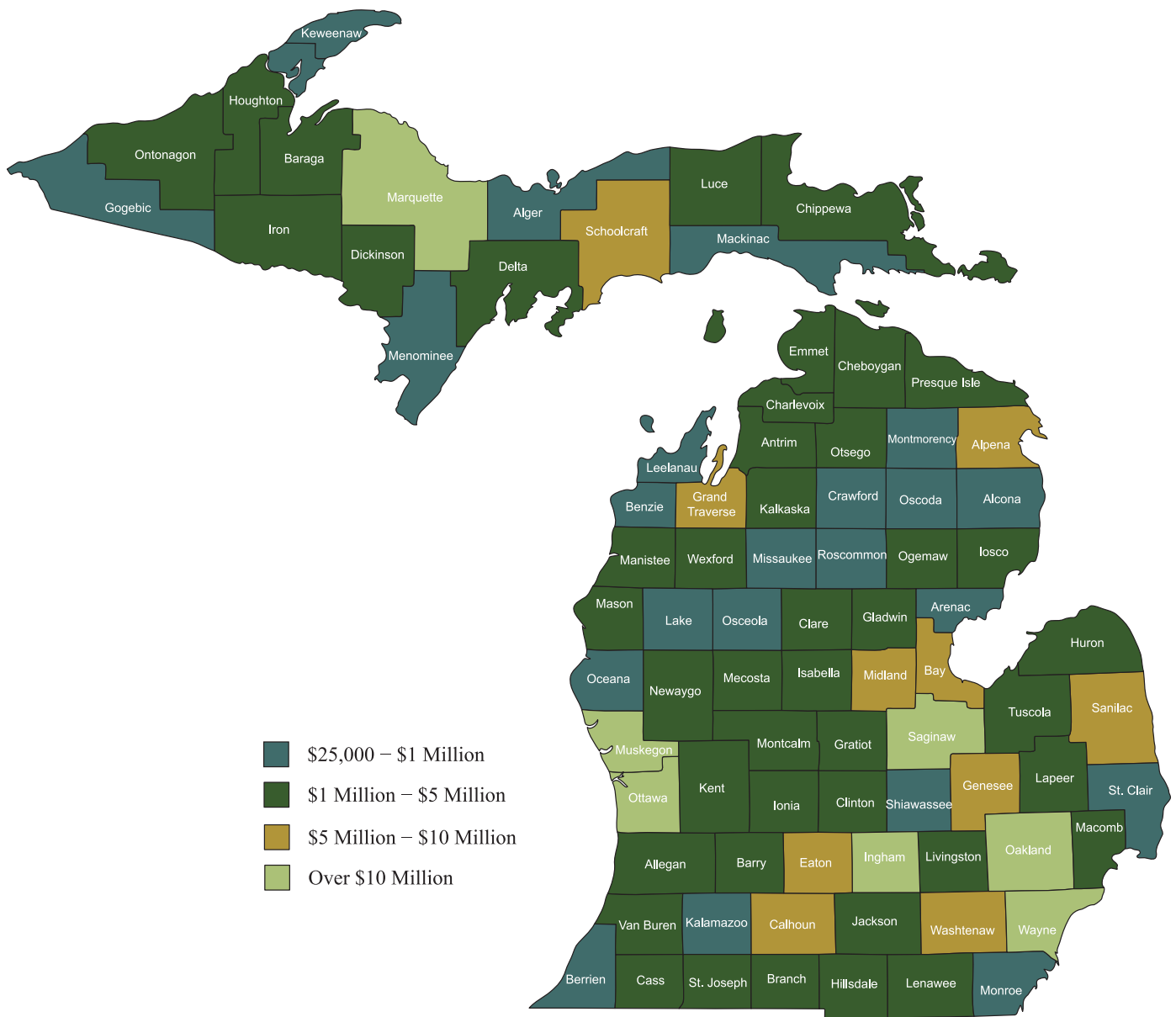
Changes in Plan Provisions

There have been no changes in the Plan Document that have had a material impact on the December 31, 2005, Actuarial Valuation.

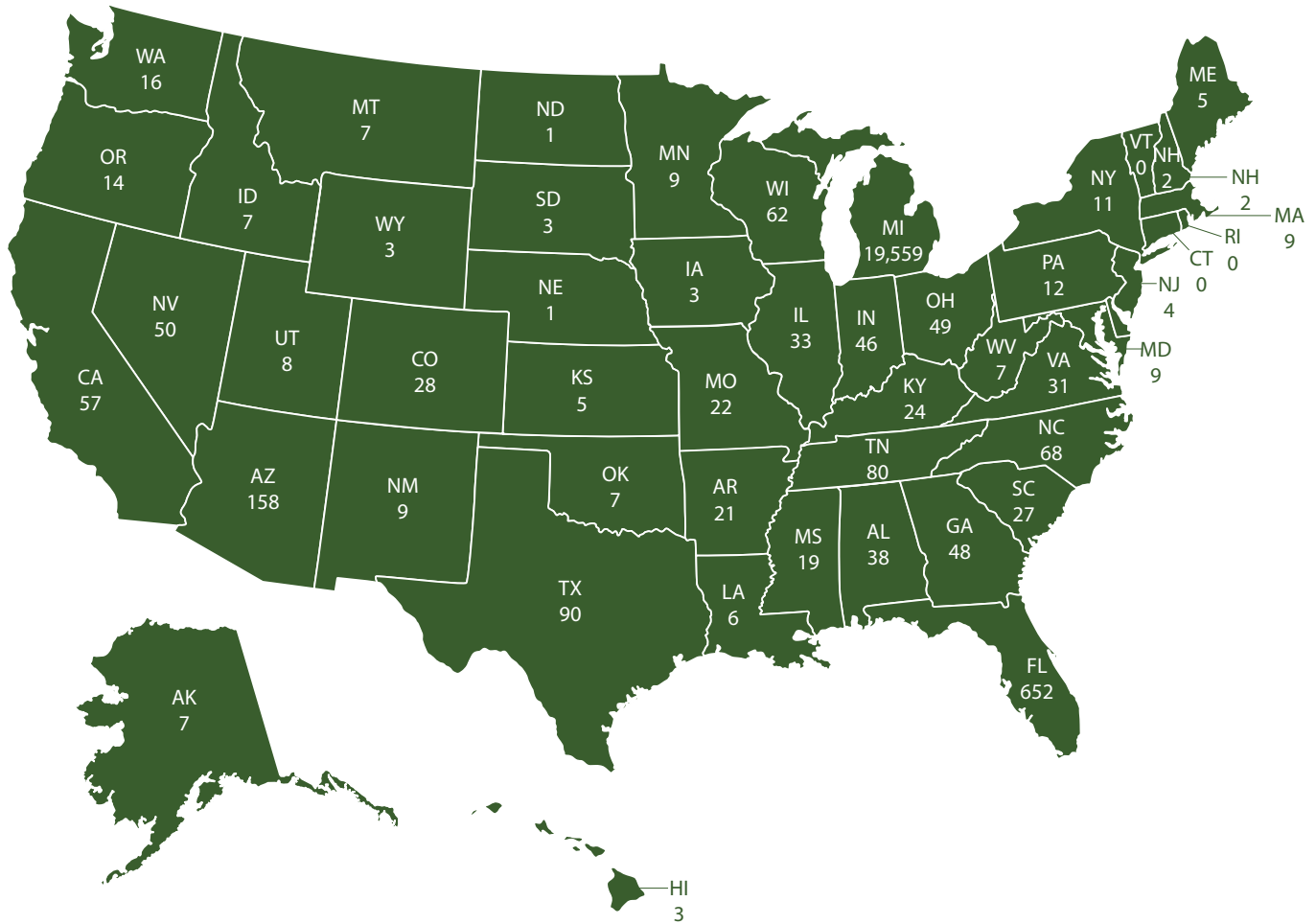
Pursuant to a collective bargaining agreement, a participating municipality may provide for retirement benefits that are modifications of standard retirement benefits otherwise included in the plan. These modifications were taken into consideration when determining the municipality contribution rates on the December 31, 2005, Actuarial Valuation.

Retirees in Michigan

Of the 21,505 retirees and beneficiaries in the MERS system, 19,559 (91 percent) remain Michigan residents. Benefit payments approaching \$308 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



Recipients Outside United States

Nova Scotia, Canada	1
Ontario, Canada	6
Ireland	2
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		
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
Dec. 31, 2006	84,124	286,227	17.7	634,950	1,005,301

* 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.

Changes in Plan Net Assets – Last Ten Years Ended December 31, 2006

Year	1997 (15 Months)*	1998	1999	2000
Defined Benefit Plan				
Additions:				
Plan Member Contributions	\$ 28,507,640	\$ 27,632,698	\$ 27,977,055	\$ 30,823,197
Employer Contributions	113,711,273	115,955,693	132,556,567	131,880,680
Net Investment Gain (Loss)	476,919,277	416,174,409	561,188,970	(122,882,440)
Miscellaneous Income	120,395	530,350	1,378,150	475,066
Total Additions to Plan Net Assets	619,258,585	560,293,150	723,100,742	40,296,503
Deductions:				
Benefits	146,224,637	131,689,850	147,833,013	162,826,949
Plan Member Refunds	4,084,653	3,743,077	4,432,671	3,963,890
Employer Refunds	-	4,026,046	3,839,610	5,029,725
Administrative expenses	5,526,846	4,871,240	5,484,487	6,488,045
Special Expenses & Fees	-	-	437,000	392,652
Plan Member Transfers to Defined Contribution	-	633,845	2,544,049	946,716
Employer Transfers to Defined Contribution	-	7,668,089	27,853,789	13,626,706
Total Deductions from Plan Net Assets	155,836,136	152,632,147	192,424,619	193,274,683
Net Increase (Decrease)	463,422,449	407,661,003	530,676,123	(152,978,180)
Net Assets Held in Trust				
Balance Beginning of Fiscal Period	2,540,105,076	3,003,527,525	3,411,188,528	3,941,864,651
Balance End of Fiscal Period	\$ 3,003,527,525	\$ 3,411,188,528	\$ 3,941,864,651	\$ 3,788,886,471
Defined Contribution Plan **				
Additions:				
Plan Member Contributions	\$ -	\$ 266,761	\$ 926,598	\$ 1,653,367
Employer Contributions	-	1,413,483	3,009,387	5,686,133
Plan Member Transfers from Defined Benefit	-	633,845	2,544,049	946,716
Employer Transfers from Defined Benefit	-	7,668,089	27,853,789	13,626,706
Transfers from Other Plans	-	2,405,641	437,422	3,776,905
Defined Contribution Income	-	612,726	4,922,822	(2,253,865)
Total Additions to Plan Net Assets	-	13,000,545	39,694,067	23,435,962
Deductions:				
Benefits	-	149,580	3,467,245	5,403,617
Total Deductions from Plan Net Assets	-	149,580	3,467,245	5,403,617
Net Increase (Decrease)	-	12,850,965	36,226,822	18,032,345
Net Assets Held in Trust				
Balance Beginning of Fiscal Period	-	-	12,850,965	49,077,787
Balance End of Fiscal Period	\$ -	\$ 12,850,965	\$ 49,077,787	\$ 67,110,132

* MERS switched to a December year end fiscal close with the independence from the state of Michigan.

** Defined Contribution Program commenced operations in 1998.

	2001	2002	2003	2004	2005	2006
\$	32,163,587	\$ 39,625,328	\$ 62,421,750	\$ 55,408,705	\$ 71,324,903	\$ 84,124,396
	121,939,889	127,802,230	161,028,643	167,942,936	207,123,552	286,227,456
	(88,579,398)	(319,009,400)	799,367,113	586,700,343	293,760,014	634,158,937
	1,070,240	1,085,887	822,347	819,466	6,020,448	790,789
	66,594,318	(150,495,955)	1,023,639,853	810,871,450	578,228,917	1,005,301,578
	182,272,551	200,793,802	221,137,612	247,454,263	274,146,709	304,172,625
	5,199,393	3,366,464	3,542,264	3,525,082	4,157,567	4,711,038
	214,305	-	-	1,727,570	-	-
	5,756,722	7,002,946	8,049,500	9,957,057	11,557,044	12,540,010
	412,989	366,273	378,334	387,031	398,690	526,047
	881,912	53,056	106,727	1,284	964	104,407
	12,922,048	438,040	3,732,569	320,682	21,609	646,754
	207,659,920	212,020,581	236,947,006	263,372,969	290,282,583	322,700,881
	(141,065,602)	(362,516,536)	786,692,847	547,498,481	287,946,334	682,600,697
	3,788,886,471	3,647,820,869	3,285,304,333	4,071,997,180	4,619,495,661	4,907,441,995
\$	3,647,820,869	\$ 3,285,304,333	\$ 4,071,997,180	\$ 4,619,495,661	\$ 4,907,441,995	\$ 5,590,042,692
\$	2,551,143	\$ 3,509,260	\$ 3,842,038	\$ 4,301,952	\$ 4,732,864	\$ 5,543,549
	8,794,329	10,241,672	11,358,936	12,664,264	14,244,769	15,962,041
	881,912	53,056	106,727	1,284	964	104,407
	12,922,048	438,040	3,732,569	320,682	21,609	646,754
	826,992	3,557,813	199,702	5,356,930	2,084,281	8,112,861
	(4,154,015)	(10,798,653)	17,570,152	10,410,317	8,427,281	19,224,093
	21,822,409	7,001,188	36,810,124	33,055,429	29,511,768	49,593,705
	5,625,222	5,547,637	4,089,817	6,453,035	9,482,481	10,591,461
	5,625,222	5,547,637	4,089,817	6,453,035	9,482,481	10,591,461
	16,197,187	1,453,551	32,720,307	26,602,394	20,029,287	39,002,244
	67,110,132	83,307,319	84,760,870	117,481,177	144,083,571	164,112,858
\$	83,307,319	\$ 84,760,870	\$ 117,481,177	\$ 144,083,571	\$ 164,112,858	\$ 203,115,102

Changes in Plan Net Assets – Last Ten Years Ended December 31, 2006

Year	1997 (15 Months)	1998	1999	2000
Health Care Savings Plan*				
Additions:				
Plan Member contributions	\$ -	\$ -	\$ -	\$ -
Employer contributions	-	-	-	-
Net Investment Gain (Loss)	-	-	-	-
Miscellaneous Income	-	-	-	-
Total Additions to Plan Net Assets	-	-	-	-
Deductions:				
Medical Disbursements Paid to Members	-	-	-	-
Forfeited Employer Contributions	-	-	-	-
Administrative Expenses	-	-	-	-
Total Deductions from Plan Net Assets	-	-	-	-
Net Increase (Decrease)	-	-	-	-
Net Assets Held in Trust				
Balance Beginning of Fiscal Period	-	-	-	-
Balance End of Fiscal Period	\$ -	\$ -	\$ -	\$ -
Retiree Health Funding Vehicle*				
Additions:				
Employer Contributions	\$ -	\$ -	\$ -	\$ -
Net Investment Gain (Loss)	-	-	-	-
Total Additions to Plan Net Assets	-	-	-	-
Deductions:				
Disbursements Paid to Municipalities	-	-	-	-
Administrative Expenses	-	-	-	-
Total Deductions from Plan Net Assets	-	-	-	-
Net Increase (Decrease)	-	-	-	-
Net Assets Held in Trust				
Balance Beginning of Fiscal Period	-	-	-	-
Balance End of Fiscal Period	\$ -	\$ -	\$ -	\$ -
Investment Services Program**				
Additions:				
Employer Contributions	\$ -	\$ -	\$ -	\$ -
Net Investment Gain (Loss)	-	-	-	-
Total Additions to Plan Net Assets	-	-	-	-
Deductions:				
Special Expenses and Fees	-	-	-	-
Total Deductions from Plan Net Assets	-	-	-	-
Net Increase (Decrease)	-	-	-	-
Net Assets Held in Trust				
Balance Beginning of Fiscal Period	-	-	-	-
Balance End of Fiscal Period	\$ -	\$ -	\$ -	\$ -

* Health Care Savings Plan and Retiree Health Funding Vehicle commenced operations in 2004.

** Investment Services Program commenced operations in 2006.

	2001	2002	2003	2004	2005	2006
\$	-	\$ -	\$ -	\$ 88,884	\$ 14,995	\$ 885,628
	-	-	-	1,300,103	2,856,908	1,415,669
	-	-	-	130,020	167,170	844,377
	-	-	-	-	5,989	-
	-	-	-	1,519,007	3,045,062	3,145,674
	-	-	-	11,484	51,832	144,699
	-	-	-	-	-	44,723
	-	-	-	184,404	250,436	256,246
	-	-	-	195,888	302,268	445,668
	-	-	-	1,323,119	2,742,794	2,700,006
	-	-	-	-	1,323,119	4,065,913
\$	-	\$ -	\$ -	\$ 1,323,119	\$ 4,065,913	\$ 6,765,919
\$	-	\$ -	\$ -	\$ 1,312,526	\$ 11,947,714	\$ 29,366,165
	-	-	-	108,716	448,190	4,462,983
	-	-	-	1,421,242	12,395,904	33,829,148
	-	-	-	-	95,470	1,109,386
	-	-	-	2,590	26,150	225,431
	-	-	-	2,590	121,620	1,334,817
	-	-	-	1,418,652	12,274,284	32,494,331
	-	-	-	-	1,418,652	13,692,936
\$	-	\$ -	\$ -	\$ 1,418,652	\$ 13,692,936	\$ 46,187,267
\$	-	\$ -	\$ -	\$ -	\$ -	\$ 15,527,136
	-	-	-	-	-	726,135
	-	-	-	-	-	16,253,271
	-	-	-	-	-	16,895
	-	-	-	-	-	16,895
	-	-	-	-	-	16,236,376
	-	-	-	-	-	-
\$	-	\$ -	\$ -	\$ -	\$ -	\$ 16,236,376

Schedule of Deductions from Plan Net Assets – Defined Benefit Plan

(Thousands of Dollars)

Fiscal Year Ended	Benefit Payments	Administrative and Special Expenses	Employer & Employee Refunds	Transfers to MERS DC Program	Total
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
Dec. 31, 2006	304,173	13,066	4,711	751	322,701

* 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
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
Dec. 31, 2006	293,138	11,035	4,711	308,884

* 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, 2005
 Tabulated by Optional Form of Benefit Being Paid

Monthly Benefit	All Retired Members	Type of Annuity					
		1	2	3	4	5	6
\$ 0-199	1,811	1,156	41	24	492	97	1
200-399	3,049	2,067	114	56	649	152	11
400-599	2,589	1,811	146	51	456	112	13
600-799	2,053	1,517	113	38	292	82	11
800-999	1,679	1,293	89	41	179	70	7
1,000-1,199	1,399	1,119	80	22	129	45	4
1,200-1,399	1,137	918	59	16	119	23	2
1,400-1,599	990	846	35	15	69	24	1
1,600-1,799	870	757	31	9	53	17	3
1,800-1,999	766	700	14	5	34	12	1
2,000 & over	3,812	3,645	39	10	77	39	2
Totals	20,155	15,829	761	287	2,549	673	56
Total Monthly Benefit	\$ 24,005,137	\$ 20,968,617	\$ 660,111	\$ 226,671	\$ 1,598,429	\$ 505,118	\$ 46,191

Type of Annuity

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

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

Schedule of Retired Members by Type of Option Selected – Defined Benefit Plan

December 31, 2005

Tabulated by Optional Form of Benefit Being Paid

Monthly Benefit	All Retired Members	Form of Annuity			
		1	2	3	4
\$ 0 - 199	1,811	568	11	0	246
200 - 399	3,049	821	17	1	379
400 - 599	2,589	710	47	1	330
600 - 799	2,053	567	38	0	306
800 - 999	1,679	426	48	1	276
1,000 - 1,199	1,399	416	59	2	247
1,200 - 1,399	1,137	351	48	1	211
1,400 - 1,599	990	314	43	0	222
1,600 - 1,799	870	273	66	1	169
1,800 - 1,999	766	246	42	0	170
2,000 & over	3,812	1,123	408	2	905
Totals	20,155	5,815	827	9	3,461
Total Monthly Benefit	\$ 24,005,128	\$ 7,031,773	\$ 1,718,519	\$ 12,005	\$ 5,002,091

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
61	18	10	10	13	874
96	22	33	19	21	1,640
63	27	23	16	23	1,349
49	29	30	8	20	1,006
27	41	34	9	13	804
20	16	27	9	13	590
10	11	7	4	10	484
5	13	13	7	7	366
12	10	10	2	9	318
4	8	6	2	5	283
40	34	47	24	32	1,197
387	229	240	110	166	8,911
\$ 318,707	\$ 264,381	\$ 290,479	\$ 132,560	\$ 196,346	\$ 9,038,267

Schedule of Average Benefit Payments – Defined Benefit Plan

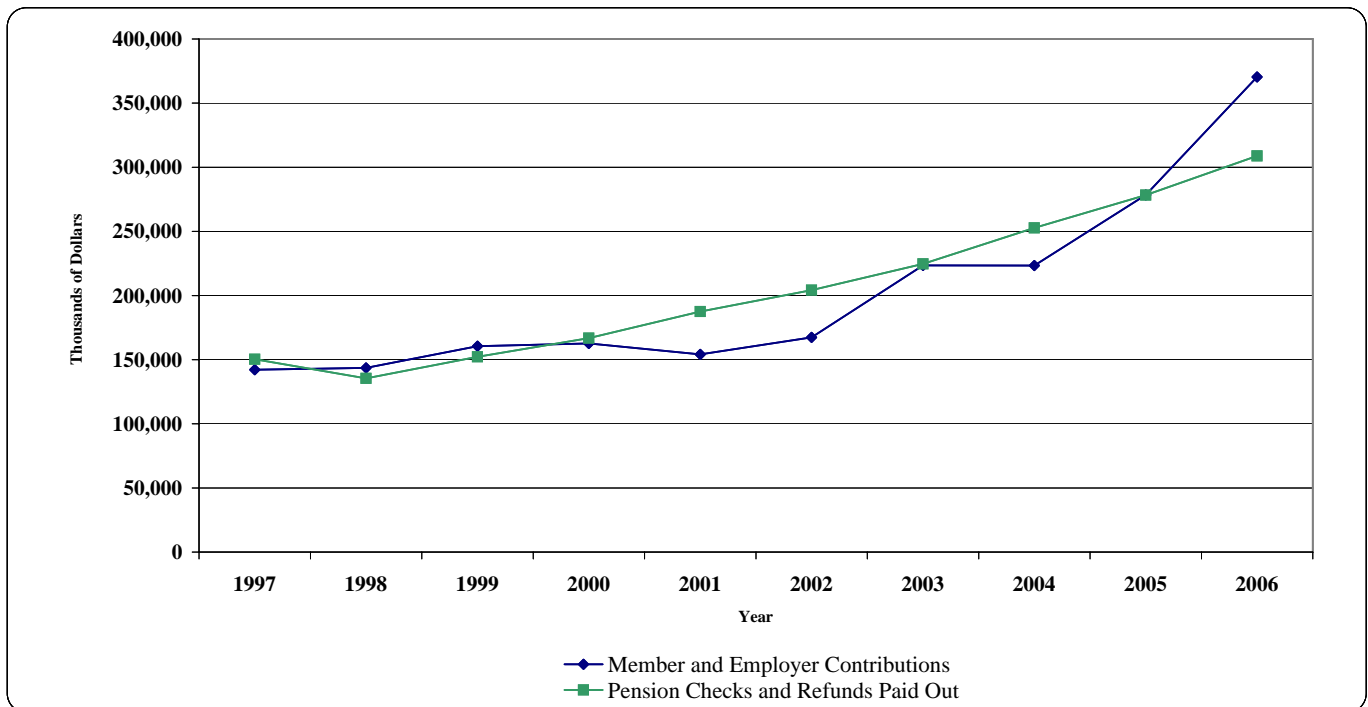
Valuation Date December 31	Number of Retirees and Beneficiaries	Average Yearly Benefit
1996	13,263	\$ 8,282
1997	14,192	8,770
1998	14,790	9,378
1999	15,325	9,975
2000	16,275	10,664
2001	16,905	11,345
2002	17,538	12,030
2003	18,443	12,828
2004	19,271	13,607
2005	20,155	14,292

Defined Contribution Plan Participants and Total MERS Participants

	Number of Participants Total	Defined Benefit	% of Total	Defined Contribution	% of Total
December 31, 1998	52,778	51,961	98.5%	817	1.5%
December 31, 1999	58,275	56,591	97.1	1,684	2.9
December 31, 2000	61,595	58,151	94.4	3,444	5.6
December 31, 2001	63,714	59,287	93.1	4,427	6.9
December 31, 2002	64,086	59,343	92.6	4,743	7.4
December 31, 2003	65,756	60,569	92.1	5,187	7.9
December 31, 2004	67,100	61,346	91.4	5,754	8.6
December 31, 2005	70,787	63,394	89.6	6,226	8.8
December 31, 2006	71,931	65,100	90.5	6,831	9.5

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

Comparisons of Member and Employer Contribution vs. Pension Checks and Refunds Paid Out for the Defined Benefit Plan



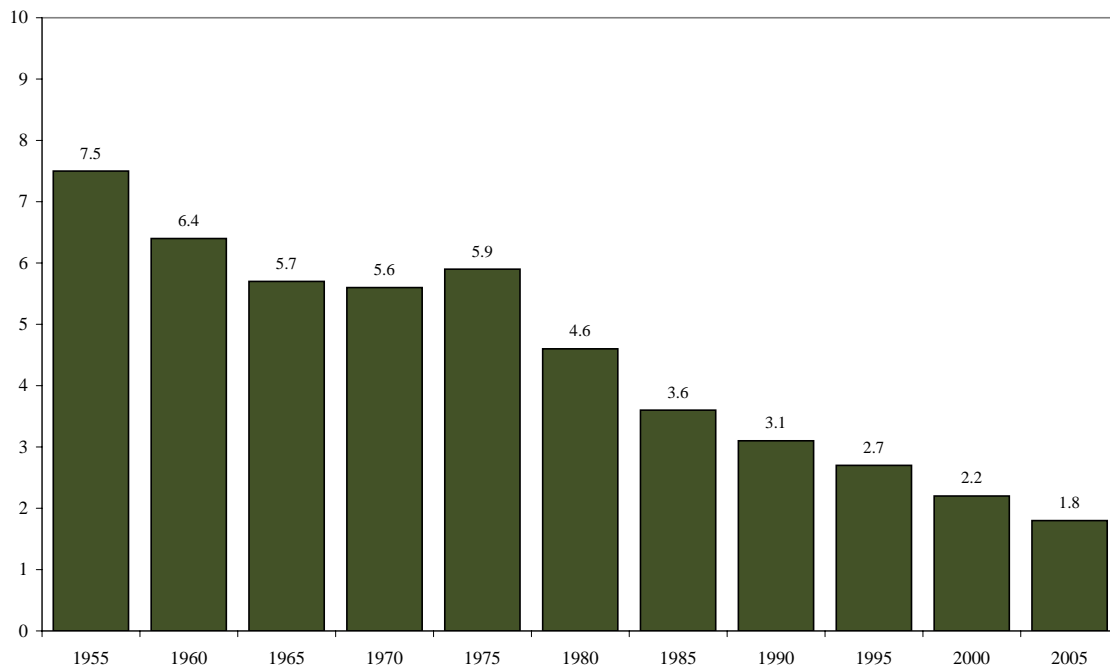
The graph above shows the maturation of MERS for the Defined Benefit Plan. In past years, an aging population and an increase in employees retiring has resulted in more pension funds paid out than MERS received in employee/employer contributions. This is considered normal cycling for a mature retirement system. In 2006, however, MERS received \$370,351,852 from employer/employee contributions, which surpassed the distributions paid out totaling \$308,883,663 (\$304,172,625 in pension payments and \$4,711,038 in employee refunds) due to \$99,347,251 of the contributions coming from new municipalities. Also, 1997 was a 15 month year which reflects higher contributions and pension checks that caused both trend lines to jump for that year.

Schedule of Changes in Reserves for the Fiscal Year Ended December 31, 2006

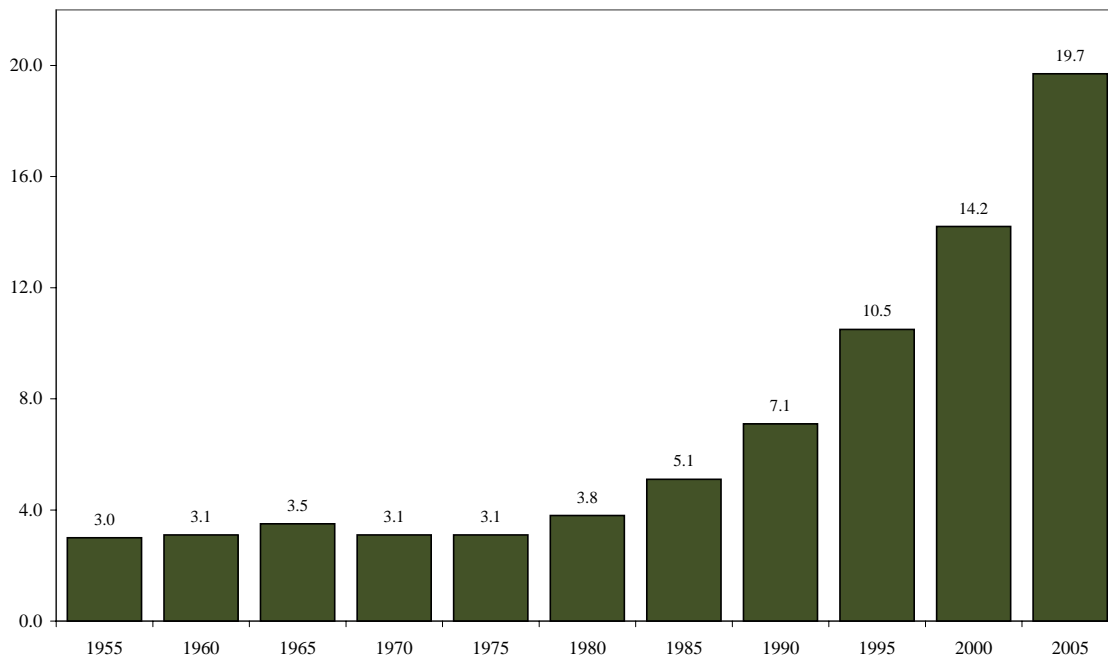
	Reserve for Employee Contributions	Reserve for Employer Contributions and Benefit Payments	Reserve for Expenses and Undistributed Investment Income	Total Reserve for Defined Benefit Plan
Additions				
Member Contributions				
Regular	\$ 77,909,393			\$ 77,909,393
Purchase of Service Credit	6,215,003			6,215,003
Employer Contributions				
Regular		\$ 286,099,336		286,099,336
Purchase of Service Credit		128,120		128,120
Net Investment Income			\$ 634,158,937	634,158,937
Miscellaneous Income			790,789	790,789
Transfers from Defined Benefit Plan				
Transfers from Other Plans				
Total Additions	84,124,396	286,227,456	634,949,726	1,005,301,578
Deductions				
Retirement Benefits		304,172,625		304,172,625
Medical Disbursements Paid to Members				
Disbursements Paid to Municipalities				
Forfeited Employer Contributions				
Refund of Contributions	4,711,038			4,711,038
Administrative Expense			12,540,010	12,540,010
Special Expenses and Fees		526,047		526,047
Transfers to DC Plan	104,407	646,754		751,161
Total Deductions	4,815,445	305,345,426	12,540,010	322,700,881
Net Increase (Decrease)	79,308,951	(19,117,970)	622,409,716	682,600,697
Other Changes in Reserves				
Investment Income Allocations	19,071,699	603,338,017	(622,409,716)	
Retirement and Unclaimed Transfers	(43,496,064)	43,496,064		
Total Other Changes in Reserves	(24,424,365)	646,834,081	(622,409,716)	-
Net Increase in Reserves After Other Changes	54,884,586	627,716,111		682,600,697
Reserve Balance Beginning of Year	477,442,506	4,429,999,489		4,907,441,995
Reserve Balance End of Year	\$ 532,327,092	\$ 5,057,715,600	\$ -	\$ 5,590,042,692

Reserve for Defined Contribution Plan	Reserve for Health Care Savings Program	Reserve for Retiree Health Funding Vehicle	Reserve for Investment Services Program	Total Reserve for Pension Trust Funds
\$ 5,543,549				\$ 83,452,942 6,215,003
15,962,041	\$ 2,301,297	\$ 29,366,165	\$ 15,527,136	349,255,975
19,224,093	844,377	4,462,983	726,135	659,416,526 790,789
751,161				751,161
8,112,861				8,112,861
49,593,705	3,145,674	33,829,148	16,253,271	1,108,123,376
10,591,461				314,764,086 144,699
	144,699			1,109,386
	44,723	1,109,386		44,723
	256,246	225,431		4,711,038
				13,021,687
			16,895	542,942
				751,161
10,591,461	445,668	1,334,817	16,895	335,089,722
39,002,244	2,700,006	32,494,331	16,236,376	773,033,654
				-
				-
				-
39,002,244	2,700,006	32,494,331	16,236,376	773,033,654
164,112,858	4,065,913	13,692,936	-	5,089,313,702
\$ 203,115,102	\$ 6,765,919	\$ 46,187,267	\$ 16,236,376	\$ 5,862,347,356

Active Members Per Pension Recipients



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 1.8. The benefit payout as a percentage of active member payrolls has increased to over 19%.

Schedule of Participating Municipalities – Defined Benefit Plan for the Year Ended December 31, 2006

Name	Number of Members	Balance Reserve for Employee Contributions	Balance Reserve for Employer Contributions	Total Reserves
Addison Fire Department	2	\$ -	\$ 44,763	\$ 44,763
Adrian, City of	294	5,018,052	34,215,864	39,233,916
Albion, City of	170	275,030	15,165,682	15,440,712
Alcona County	106	258,885	6,364,964	6,623,849
Alger County	58	129,345	5,564,661	5,694,006
Alger County Road Commission	67	945,662	5,696,161	6,641,823
Algonac, City of	38	789,892	2,475,451	3,265,343
Allegan County	438	2,467,631	33,854,635	36,322,266
Allegan County Road Commission	121	2,375,078	12,108,276	14,483,354
Allegan, City of	18	4,530	1,825,586	1,830,116
Alma, City of	163	2,457,164	14,147,905	16,605,069
Almont, Village of	16	228,764	894,899	1,123,663
Alpena County	184	296,589	10,363,480	10,660,069
Alpena County Road Commission	71	188,256	7,932,303	8,120,559
Alpena General Hospital	851	3,999,513	98,205,901	102,205,414
Alpena Senior Citizens Center	8	-	299,961	299,961
Alpha, Village of	2	-	32,057	32,057
Antrim County	477	964,090	18,935,347	19,899,437
Antrim County Road Commission	83	150,556	6,420,278	6,570,834
Arenac County	137	449,350	5,341,661	5,791,011
Arenac County Road Commission	52	24,997	2,761,850	2,786,847
Ash Township	5	38,073	158,365	196,438
Au Gres, City of	10	-	1,113,802	1,113,802
Auburn, City of	10	251,255	1,041,443	1,292,698
Bad Axe, City of	33	351,441	2,508,528	2,859,969
Bancroft, Village of	2	-	40,544	40,544
Bangor, City of	29	154,392	1,884,035	2,038,427
Baraga County	55	3,178	3,612,786	3,615,964
Baraga County Road Commission	62	3,813	4,319,299	4,323,112
Baraga County Memorial Hospital	258	244,642	9,291,075	9,535,717
Baraga, Village of	18	-	1,526,007	1,526,007
Baroda Township	3	24,031	29,422	53,453
Barry County	575	1,654,401	25,576,452	27,230,853
Barry County Community Mental Health Authority	54	132,890	1,883,951	2,016,841
Barry-Eaton District Health Department	166	1,035,733	8,739,418	9,775,151
Barton Hills, Village of	4	-	476,468	476,468
Bates Township	3	-	138,409	138,409
Bath Charter Township	25	613,024	1,853,561	2,466,585
Battle Creek, City of	700	6,654,688	72,974,501	79,629,189
Bay Area Transportation Authority	62	333,203	137,774	470,977
Bay City Housing Commission	34	127,570	4,358,696	4,486,266
Bay City, City of	410	1,945,948	37,209,315	39,155,263
Bay Metro Transit Authority	129	174,033	3,878,582	4,052,615
Bayliss Public Library	11	91,232	1,060,407	1,151,639
Beecher Metropolitan District Sewage & Water System	23	325,595	3,796,515	4,122,110
Belding, City of	10	210,146	596,740	806,886
Belleville, City of	36	164,465	3,123,268	3,287,733
Benzie County	149	132,461	6,588,371	6,720,832
Benzie County Council on Aging	12	-	387,711	387,711
Benzie County Medical Care Facility (Maples)	156	350,853	4,584,639	4,935,492

Schedule of Participating Municipalities – Defined Benefit Plan for the Year Ended December 31, 2006

Name	Number of Members	Balance Reserve for Employee Contributions	Balance Reserve for Employer Contributions	Total Reserves
Benzie County Road Commission	62	307,628	2,729,272	3,036,900
Benzie Shores District Library	1	14,617	100,800	115,417
Benzie-Leelanau District Health Department	5	-	329,155	329,155
Berkley, City of	127	1,194,464	13,952,155	15,146,619
Berrien Springs, Village of	35	110,864	2,331,629	2,442,493
Bessemer, City of	30	215,156	1,664,457	1,879,613
Beverly Hills, Village of	31	38,558	2,423,646	2,462,204
Big Rapids Housing Commission	10	52,192	665,431	717,623
Big Rapids, City of	86	439,030	7,480,241	7,919,271
Bingham Farms, Village of	2	-	65,690	65,690
Birch Run, Village of	21	208,596	267,382	475,978
Bishop International Airport Authority	36	694,106	2,574,279	3,268,385
Blackman Charter Township	34	1,037,662	1,801,527	2,839,189
Blissfield, Village of	28	345,957	1,843,409	2,189,366
Bloomfield Hills, City of	68	1,154,213	14,229,568	15,383,781
Blue Water Transportation Commission	55	41,838	2,371,869	2,413,707
Boyne City, City of	65	1,150,893	5,268,098	6,418,991
Branch County	37	132,422	423,088	555,510
Branch-Hillsdale-St. Joseph District Health	124	1,095,762	8,353,461	9,449,223
Brandon Township	34	1,956,637	1,319,472	3,276,109
Breckenridge, Village of	18	165,940	1,319,638	1,485,578
Bridgeport Charter Township	78	236,998	4,283,943	4,520,941
Bridgman, City of	15	301,610	128,547	430,157
Brighton Area Fire Authority	6	2,797	322,561	325,358
Brighton Township	22	271,654	898,210	1,169,864
Brighton, City of	81	294,951	7,183,938	7,478,889
Britton, Village of	4	63,724	184,559	248,283
Bronson, City of	6	81,007	173,761	254,768
Brooklyn, Village of	8	59,193	739,699	798,892
Buchanan District Library	4	32,846	10,467	43,313
Buchanan, City of	72	884,206	5,850,103	6,734,309
Buena Vista Charter Township	52	988,414	5,135,270	6,123,684
Burton, City of	154	1,482,527	13,910,710	15,393,237
Butman Township	4	-	117,325	117,325
Cadillac, City of	124	195,877	10,768,054	10,963,931
Cadillac-Wexford Transit Authority	20	35,728	636,966	672,694
Calhoun County	193	6,238,011	2,967,267	9,205,278
Calhoun County Road Commission	119	149,075	7,130,959	7,280,034
Canton Public Library	19	906,614	1,142,767	2,049,381
Canton Township	274	25,513,978	22,554,732	48,068,710
Capac, Village of	20	974	902,501	903,475
Capital Area District Library	80	759,302	1,164,988	1,924,290
Capital Region Airport Authority	89	177,928	8,026,445	8,204,373
Carleton, Village of	10	166,628	365,730	532,358
Carrollton Township	23	589,863	594,704	1,184,567
Cascade Charter Township	49	1,897,844	1,188,247	3,086,091
Caseville, Village of	17	249,841	554,456	804,297
Caspian, City of	14	-	540,571	540,571
Cass County	218	2,950,338	10,866,451	13,816,789
Cass County Medical Care Facility	105	1,080,989	3,235,936	4,316,925

Schedule of Participating Municipalities – Defined Benefit Plan for the Year Ended December 31, 2006

Name	Number of Members	Balance Reserve for Employee Contributions	Balance Reserve for Employer Contributions	Total Reserves
Cass District Library	19	75,461	612,249	687,710
Cedar Springs, City of	25	355,323	1,643,217	1,998,540
Center Line, City of	69	545,757	5,673,830	6,219,587
Central Dispatch of Muskegon County	45	459,507	3,229,821	3,689,328
Central Michigan District Health Department	198	996,247	9,887,056	10,883,303
Central Wayne County Sanitation Authority	30	60,570	3,379,747	3,440,317
Charlevoix County	523	578,518	19,639,559	20,218,077
Charlevoix County Road Commission	75	156,304	4,517,967	4,674,271
Charlevoix, City of	76	844,461	6,064,360	6,908,821
Charlotte District Library	8	19,518	300,098	319,616
Charlotte, City of	102	809,314	10,646,542	11,455,856
Cheboygan County	212	1,982,271	10,250,726	12,232,997
Cheboygan County Road Commission	111	720,968	8,722,643	9,443,611
Cheboygan, City of	66	1,013,187	5,372,138	6,385,325
Chelsea, City of	50	21,240	5,393,089	5,414,329
Chesaning, Village of	25	-	520,564	520,564
Chesterfield Charter Township	132	2,638,304	2,321,126	4,959,430
Chesterfield Township Library	7	179,030	242,300	421,330
Chikaming Township	13	474,432	95,865	570,297
Chippewa County	323	1,802,822	21,234,301	23,037,123
Chippewa County Road Commission	135	52,560	10,575,783	10,628,343
Chippewa River District Library	20	390,328	1,226,389	1,616,717
Clare County	208	2,200,552	9,691,121	11,891,673
Clare County Road Commission	82	769,706	7,208,517	7,978,223
Clare, City of	50	621,480	3,724,579	4,346,059
Clawson, City of	84	184,378	11,665,004	11,849,382
Clay Township	51	787,018	2,571,720	3,358,738
Clearwater Township	1	-	36,927	36,927
Clinton County	337	745,553	24,042,637	24,788,190
Clinton County Road Commission	99	1,267,137	9,677,802	10,944,939
Clinton Township	319	6,668,558	32,182,632	38,851,190
Clinton, Village of	29	181,661	2,906,348	3,088,009
Clinton-Eaton-Ingham Mental Health	979	6,648,538	63,797,510	70,446,048
Clio, City of	14	227,843	169,879	397,722
Coldwater Board of Public Utilities	67	584,093	6,851,868	7,435,961
Coldwater, City of	99	1,659,190	11,897,326	13,556,516
Coleman, City of	14	174,014	926,954	1,100,968
Coloma Township	6	71,753	76,218	147,971
Columbiaville, Village of	7	62,362	158,559	220,921
Community Mental Health for Central Michigan	477	1,636,671	33,135,994	34,772,665
Coopersville, City of	26	309,039	1,293,128	1,602,167
Corunna, City of	28	25,686	2,738,746	2,764,432
Corwith Township	6	5,095	355	5,450
Crawford County	154	494,370	6,935,963	7,430,333
Crawford County Road Commission	51	366,748	2,428,613	2,795,361
Crawford County Transportation Authority	29	279,518	2,614,390	2,893,908
Croswell, City of	49	232,789	4,086,121	4,318,910
Crystal Falls Community Hospital	127	37,316	4,005,281	4,042,597
Crystal Falls, City of	51	9,800	5,774,374	5,784,174
Davison Township	46	1,608,510	2,455,064	4,063,574

Schedule of Participating Municipalities – Defined Benefit Plan for the Year Ended December 31, 2006

Name	Number of Members	Balance Reserve for Employee Contributions	Balance Reserve for Employer Contributions	Total Reserves
Davison, City of	26	285,021	3,392,677	3,677,698
Deerfield, Village of	7	52,165	918,807	970,972
Delta Charter Township	40	1,365,357	4,665,371	6,030,728
Delta County	203	368,579	16,903,400	17,271,979
Delta County Road Commission	67	-	3,732,264	3,732,264
Delta-Menominee District Health Department	81	440,133	5,450,119	5,890,252
Detour, Village of	11	-	207,150	207,150
Detroit Housing Commission	137	-	1,555,016	1,555,016
Dewitt Charter Township	18	517,273	1,141,490	1,658,763
Dewitt, City of	37	114,696	1,475,384	1,590,080
Dexter Township	15	153,460	259,475	412,935
Dexter, Village of	28	395,666	1,811,162	2,206,828
Dickinson County	163	1,043,662	14,045,362	15,089,024
Dickinson County Road Commission	80	187,381	5,592,966	5,780,347
Dickinson-Iron District Health Department	81	229,733	5,082,062	5,311,795
Dimondale, Village of	8	-	445,666	445,666
District Health Department Number Four	80	1,285,603	8,675,438	9,961,041
District Health Department Number Ten	144	259,838	13,406,689	13,666,527
District Health Department Number Two	60	357,683	4,145,489	4,503,172
Douglas, Village of	27	12,218	1,286,328	1,298,546
Dowagiac District Library	2	11,420	9,997	21,417
Dowagiac Housing Commission	7	2,354	101,210	103,564
Dowagiac, City of	116	1,618,642	6,674,201	8,292,843
Drummond Island	3	606	27,731	28,337
Dryden, Village of	5	36,109	290,237	326,346
Dundee, Village of	18	724,508	1,779,485	2,503,993
Durand, City of	37	107,873	3,011,268	3,119,141
East China, Township of	28	536,626	3,731,749	4,268,375
East Grand Rapids, City of	64	435,192	12,474,344	12,909,536
East Jordan, City of	41	257,584	2,450,370	2,707,954
East Lansing, City of	581	2,831,909	94,056,171	96,888,080
Eastern Upper Peninsula Transportation Authority	43	4,665	4,643,288	4,647,953
Eastpointe Housing Commission	5	155,671	90,289	245,960
Eaton County	588	14,349,101	44,307,239	58,656,340
Eaton County Medical Care Facility	172	859,455	3,862,950	4,722,405
Eaton Rapids, City of	59	586,165	5,035,989	5,622,154
Eau Claire, Village of	7	49,020	208,896	257,916
Ecorse, City of	219	145,795	25,319,500	25,465,295
Elderly Housing Commission	24	270,929	1,454,339	1,725,268
Elkton, Village of	10	142,353	348,081	490,434
Elsie, Village of	4	44,349	134,304	178,653
Emmet County Road Commission	68	123,862	8,140,371	8,264,233
Emmet, Charter Township of	30	536,126	1,394,584	1,930,710
Escanaba, City of	221	204,399	18,738,536	18,942,935
Essexville, City of	45	607,555	4,270,880	4,878,435
Ewart Local Development Finance Authority	2	50,276	172,744	223,020
Ewart, City of	17	46,294	948,352	994,646
Farmington Community Library	44	511,097	5,917,617	6,428,714
Farwell, Village of	3	97,928	46,285	144,213
Fenton, City of	82	292,552	7,505,796	7,798,348

Schedule of Participating Municipalities – Defined Benefit Plan for the Year Ended December 31, 2006

Name	Number of Members	Balance Reserve for Employee Contributions	Balance Reserve for Employer Contributions	Total Reserves
Fenton, City of	82	292,552	7,505,796	7,798,348
Ferrysburg, City of	16	208,660	536,464	745,124
Flat Rock, City of	117	2,241,708	8,359,102	10,600,810
Flint Charter Township	69	3,825,582	9,025,594	12,851,176
Flint Public Library	28	-	451,925	451,925
Flushing, Charter Township of	28	749,770	1,415,170	2,164,940
Flushing, City of	67	154,167	7,890,272	8,044,439
Forsyth Township	29	609,960	1,809,219	2,419,179
Fowler, Village of	5	-	238,767	238,767
Fowlerville District Library	2	31,893	94,330	126,223
Fowlerville, Village of	23	329,207	2,420,363	2,749,570
Frankenmuth, City of	56	793,511	7,672,064	8,465,575
Frankfort, City of	28	113,425	1,543,360	1,656,785
Franklin, Village of	20	223,577	2,398,845	2,622,422
Fraser, City of	6	90,895	208,610	299,505
Fremont Area District Library	13	7,554	609,833	617,387
Fremont, City of	50	2,413	5,531,063	5,533,476
Gaastra, City of	2	-	86,389	86,389
Gaylord, City of	54	342,247	5,038,776	5,381,023
Genesee Charter Township	83	516,283	6,010,666	6,526,949
Genoa Township	2	1,778	34,426	36,204
Gladstone, City of	58	61,092	5,572,213	5,633,305
Gladwin County	161	1,443,535	8,319,675	9,763,210
Gladwin County District Library	11	105,977	477,794	583,771
Gladwin County Road Commission	67	1,069,261	7,763,534	8,832,795
Gladwin, City of	33	583,491	939,223	1,522,714
Gogebic-Iron Wastewater Authority	10	225,391	856,485	1,081,876
Grand Blanc Charter Township	62	1,449,278	4,172,499	5,621,777
Grand Blanc, City of	37	2,483,577	2,980,193	5,463,770
Grand Haven, City of	341	4,302,477	59,151,862	63,454,339
Grand Ledge Emergency Services	9	87,435	226,487	313,922
Grand Rapids Housing	7	95,517	595,501	691,018
Grand Traverse County	403	337,229	36,871,480	37,208,709
Grand Traverse County Road Commission	72	50,073	7,675,962	7,726,035
Grand Traverse Pavilions	497	859,452	10,136,022	10,995,474
Grandville, City of	86	343,387	9,836,282	10,179,669
Gratiot County	177	234,928	14,467,277	14,702,205
Gratiot County Road Commission	91	1,060,406	9,464,510	10,524,916
Grayling, City of	30	-	2,490,705	2,490,705
Green Oak Township	14	246,680	846,086	1,092,766
Greenville, City of	27	507,534	2,824,386	3,331,920
Grosse Ile Township	99	185,652	13,959,460	14,145,112
Grosse Pointe Park, City of	168	3,731,096	19,670,369	23,401,465
Grosse Pointe-Clinton Refuse Disposal Authority	19	156,818	2,956,463	3,113,281
Groveland Township	15	456,057	362,363	818,420
Hackley Public Library	6	-	27,291	27,291
Hamburg Township	16	139,120	695,626	834,746
Hamtramck, City of	421	5,314,293	55,031,514	60,345,807
Hancock, City of	12	496,755	483,392	980,147
Harbor Beach, City of	38	1,061,603	3,701,870	4,763,473

Schedule of Participating Municipalities – Defined Benefit Plan for the Year Ended December 31, 2006

Name	Number of Members	Balance Reserve for Employee Contributions	Balance Reserve for Employer Contributions	Total Reserves
Harbor Springs, City of	27	1,344,514	488,078	1,832,592
Harrison, City of	20	234,931	1,505,273	1,740,204
Hartland Deerfield Tyrone Fire Department	4	-	83,033	83,033
Hastings, City of	137	324,405	8,630,877	8,955,282
Health Source of Saginaw	594	1,143,635	26,935,991	28,079,626
Helen Newberry Joy Hospital	132	1,051,481	10,093,129	11,144,610
Henika District Library	2	588	298,616	299,204
Herrick District Library	70	38,989	3,988,621	4,027,610
Hiawatha Community Mental Health Authority	135	894,539	9,445,367	10,339,906
Highland Park, City of	78	2,421,820	2,557,331	4,979,151
Hillsdale County	50	897,345	1,010,391	1,907,736
Hillsdale County Road Commission	75	897,594	3,673,284	4,570,878
Hillsdale, City of	142	2,554,422	13,596,892	16,151,314
Holland Hospital	95	42,421	2,947,918	2,990,339
Holland Swimming Pool Authority	19	51,786	95,992	147,778
Holland, City of	618	2,451,479	76,443,153	78,894,632
Holly, Village of	51	385,372	6,763,957	7,149,329
Homer, Village of	26	33,791	991,308	1,025,099
Houghton County	166	766,851	11,549,305	12,316,156
Houghton County Road Commission	19	-	2,688,260	2,688,260
Houghton Lake Public Library	5	-	272,026	272,026
Howard City, Village of	13	-	587,959	587,959
Howard Township	3	-	32,256	32,256
Howell Area Fire Authority	4	35,299	263,055	298,354
Howell Carnegie District Library	12	2,777	685,271	688,048
Howell, City of	125	1,127,811	9,344,939	10,472,750
Hudsonville, City of	20	67,874	1,192,796	1,260,670
Huntington Woods, City of	83	1,174,686	10,307,826	11,482,512
Hurley Medical Center	984	4,437,068	13,728,178	18,165,246
Huron Charter Township	67	1,692,635	5,029,507	6,722,142
Huron County	575	8,518,221	44,769,130	53,287,351
Huron County Road Commission	138	2,102,486	15,784,247	17,886,733
Imlay City, City of	37	18,184	3,382,954	3,401,138
Independence Township	35	787,488	2,865,709	3,653,197
Indianfields Township	15	-	56,321	56,321
Ingham County	2,216	32,574,138	157,405,228	189,979,366
Ingham County Road Commission	206	804,340	21,933,609	22,737,949
Interurban Transit Authority	6	12,088	721,465	733,553
Ionia Community Library	6	-	197,218	197,218
Ionia County	70	814,453	2,351,949	3,166,402
Ionia County Road Commission	80	507,688	3,888,047	4,395,735
Ionia Housing Commission	5	41,228	609,661	650,889
Ionia, City of	92	227,956	5,740,749	5,968,705
Iosco County	363	361,170	13,253,112	13,614,282
Iosco County Road Commission	61	1,009,173	4,002,599	5,011,772
Iron County	480	1,702,311	15,079,564	16,781,875
Iron County Housing Commission	8	-	278,655	278,655
Iron County Road Commission	72	116	5,536,524	5,536,640
Iron Mountain, City of	75	721,161	5,894,300	6,615,461
Iron Mountain-Kingsford Sewage Treatment	8	175,463	201,272	376,735

Schedule of Participating Municipalities – Defined Benefit Plan for the Year Ended December 31, 2006

Name	Number of Members	Balance Reserve for Employee Contributions	Balance Reserve for Employer Contributions	Total Reserves
Iron River, City of	58	264,604	4,652,743	4,917,347
Isabella County	428	594,828	26,318,551	26,913,379
Isabella County Road Commission	82	958,543	6,878,668	7,837,211
Isabella County Transportation Commission	13	422,176	420,477	842,653
Ishpeming Area Joint Wastewater Treatment Facility	7	150,496	380,426	530,922
Ishpeming Township	14	342,922	265,878	608,800
Ishpeming, City of	76	1,105,161	6,415,443	7,520,604
Ithaca, City of	29	393,839	2,453,740	2,847,579
Jackson District Library	67	657,249	4,617,932	5,275,181
Jackson Transportation Authority	68	616,060	2,183,726	2,799,786
Jordan Valley District Library	3	-	133,098	133,098
Kalamazoo Lake Sewer & Water Authority	14	5,324	698,579	703,903
Kalamazoo Public Library	59	54,528	1,793,646	1,848,174
Kalkaska County	163	514,438	9,448,542	9,962,980
Kalkaska County Road Commission	69	708	4,872,061	4,872,769
Kalkaska Public Transit Authority	25	58,822	993,788	1,052,610
Kalkaska, Village of	21	232,646	2,367,211	2,599,857
Keego Harbor, City of	28	147,601	1,783,423	1,931,024
Keweenaw County	27	117,483	1,046,861	1,164,344
Keweenaw County Road Commission	35	19,937	4,093,204	4,113,141
Kinde, Village of	2	3,243	84,287	87,530
Kingsford, City of	39	664,759	3,659,543	4,324,302
Laingsburg, City of	8	48,633	116,112	164,745
Lake County	166	470,874	5,420,137	5,891,011
Lake County Road Commission	67	264,939	5,114,782	5,379,721
Lake Linden, Village of	14	-	604,053	604,053
Lake Odessa, Village of	3	-	70,257	70,257
Lake Orion, Village of	31	251,605	2,864,568	3,116,173
Lakeland Library Cooperative	12	135,905	509,801	645,706
Lakeshore Coordinating Council	9	-	748,224	748,224
L'Anse, Village of	30	359,825	2,377,798	2,737,623
Lansing Housing Commission	73	25,848	6,705,654	6,731,502
Lapeer County	992	2,117,316	54,207,750	56,325,066
Lapeer County Road Commission	111	1,860,475	5,799,086	7,659,561
Lapeer District Library	38	205,767	2,133,446	2,339,213
Lapeer, City of	134	236,025	11,063,009	11,299,034
Lathrup Village, City of	33	768,385	4,554,826	5,323,211
Laurium, Village of	26	-	956,782	956,782
Lawrence, Village of	5	-	148,831	148,831
Leelanau County	168	365,803	9,917,565	10,283,368
Leelanau County Road Commission	58	645,356	1,424,021	2,069,377
Leoni Township	52	1,535,849	2,752,762	4,288,611
Leslie Township	3	87,713	19,668	107,381
Leslie, City of	13	215,916	683,256	899,172
Lexington, Village of	16	176,435	785,728	962,163
Library Network	63	851,958	3,880,400	4,732,358
Lima Township	9	74,792	136,583	211,375
Litchfield, City of	12	316,981	82,210	399,191
Livingston County	782	622,214	57,622,372	58,244,586
Livingston County Road Commission	122	771,776	12,818,543	13,590,319

Schedule of Participating Municipalities – Defined Benefit Plan for the Year Ended December 31, 2006

Name	Number of Members	Balance Reserve for Employee Contributions	Balance Reserve for Employer Contributions	Total Reserves
Livingston County Community Health Authority	157	523,030	9,027,313	9,550,343
Looking Glass Fire Authority	3	-	42,240	42,240
Loutit District Library	18	87,631	726,636	814,267
Lowell, City of	65	1,667,565	5,379,514	7,047,079
Luce County	69	55,674	2,557,191	2,612,865
Luce County Road Commission	55	3,878	4,390,607	4,394,485
Luce-Mackinac-Alger-Saginaw District Health Department	249	8,285	7,280,601	7,288,886
Ludington, City of	119	29,221	12,203,548	12,232,769
Ludington-Mason District Library	15	5,906	1,136,926	1,142,832
Luna Pier, City of	19	154,736	2,499,896	2,654,632
Lyons, Village of	3	14,424	33,689	48,113
Mackinac County	135	117,953	8,529,766	8,647,719
Mackinac County Housing Commission	3	-	230,510	230,510
Mackinac County Road Commission	55	8,972	3,889,100	3,898,072
Mackinac Straits Hospital & Health Center	233	1,339,692	8,077,013	9,416,705
Mackinaw City, Village of	5	263,772	114,064	377,836
Madison Heights, City of	215	1,012,571	24,734,465	25,747,036
Madison Township	16	211,845	288,653	500,498
Manistee County	429	1,249,375	20,929,351	22,178,726
Manistee County Road Commission	72	-	4,378,934	4,378,934
Manistee Housing Commission	9	120,230	202,042	322,272
Manistee, City of	102	2,523,243	11,644,364	14,167,607
Manistique, City of	56	29,270	5,201,327	5,230,597
Manlius Township	6	42,693	98,815	141,508
Manton, City of	16	139,623	509,241	648,864
Marenisco Township	4	-	73,954	73,954
Marine City, City of	4	-	58,914	58,914
Marion, Village of	11	55,217	291,070	346,287
Marlette, City of	11	563,516	85,350	648,866
Marquette Board of Light & Power	152	2,708,168	21,286,923	23,995,091
Marquette Charter Township	16	406,539	239,516	646,055
Marquette County	614	3,426,637	43,568,269	46,994,906
Marquette County Airport	14	45,744	1,394,077	1,439,821
Marquette County Road Commission	127	1,487,199	9,019,566	10,506,765
Marquette County Transit Authority	30	321,614	1,557,433	1,879,047
Marquette Waste Management	14	246,011	565,568	811,579
Marquette, City of	248	3,547,287	23,780,829	27,328,116
Marshall Area Fire/Ambulance Authority	13	44,372	25,573	69,945
Marshall District Library	1	-	251,442	251,442
Marshall, City of	166	3,228,667	19,581,674	22,810,341
Mason County	352	77,400	31,443,021	31,520,421
Mason County Road Commission	47	494,331	2,230,535	2,724,866
Mason, City of	73	2,090,586	7,836,237	9,926,823
Mason-Oceana 911 Central	18	181,612	540,555	722,167
Mastodon Township	1	-	52,609	52,609
Meceola Central Dispatch	22	528	901,240	901,768
Mecosta County	214	556,073	19,882,229	20,438,302
Mecosta County Medical Center	209	357,802	8,589,600	8,947,402
Mecosta County Road Commission	93	1,339,272	6,069,549	7,408,821
Melvindale Housing Commission	10	7,842	469,082	476,924

**Schedule of Participating Municipalities – Defined Benefit Plan
for the Year Ended December 31, 2006**

Name	Number of Members	Balance Reserve for Employee Contributions	Balance Reserve for Employer Contributions	Total Reserves
Melvindale, City of	122	2,431,795	14,306,417	16,738,212
Menominee County	167	548,155	10,107,062	10,655,217
Menominee County Road Commission	23	5,077	2,378,426	2,383,503
Menominee, City of	102	213,011	6,368,792	6,581,803
Meridian Charter Township	177	2,209,740	17,022,204	19,231,944
Metamora Township	7	87,666	230,850	318,516
Michigan Grand River Watershed	1	-	13,280	13,280
Michigan Municipal Risk Management Authority	1	175,434	95,161	270,595
Michigan South Central Power Agency	70	273,245	5,930,606	6,203,851
Mid Michigan District Health Department	133	471,803	5,148,063	5,619,866
Mid Peninsula Library Cooperative	6	5,727	302,161	307,888
Middleville, Village of	15	167,227	710,363	877,590
Midland Authority for Central Dispatch	19	253,183	716,720	969,903
Midland County Road Commission	90	1,150,201	7,385,631	8,535,832
Midland, City of	506	3,078,127	74,134,114	77,212,241
Midland-Bay City-Saginaw International Airport	43	114,076	5,314,672	5,428,748
Mid-Michigan Library League	7	4,082	529,089	533,171
Milan Library	4	-	209,248	209,248
Milan, City of	55	165,858	6,224,468	6,390,326
Millford, Village of	54	157,969	6,256,786	6,414,755
Millington, Village of	9	184,848	958,303	1,143,151
Missaukee County	35	167,835	1,999,707	2,167,542
Monroe Housing Commission, City of	9	170,038	811,764	981,802
Montague, City of	22	502,343	1,595,185	2,097,528
Montcalm County Road Commission	85	818,726	7,962,793	8,781,519
Montmorency County	118	48,506	4,855,212	4,903,718
Montmorency-Oscoda-Alpena Solid Waste Management	8	-	548,915	548,915
Montrose, City of	12	43,335	381,836	425,171
Mt. Morris, Township of	98	466,161	12,834,063	13,300,224
Mt. Pleasant, City of	177	2,517,563	13,671,979	16,189,542
Muir, Village of	5	26,961	220,972	247,933
Mundy Charter Township	35	377,092	1,086,319	1,463,411
Municipal Employees' Retirement System of Michigan	99	652,529	3,909,232	4,561,761
Munising, City of	52	21,431	4,914,946	4,936,377
Muskegon County	1,884	6,827,335	145,777,461	152,604,796
Muskegon County Road Commission	180	312,662	16,811,254	17,123,916
Muskegon Heights Housing Commission	12	184,588	556,535	741,123
Muskegon Heights, City of	201	2,453,030	24,897,497	27,350,527
Muskegon Housing Commission	7	58,917	208,514	267,431
Muskegon, Charter Township of	90	1,655,735	8,622,194	10,277,929
Muskegon, City of	486	6,033,374	58,509,219	64,542,593
Negaunee Township	4	100,257	3,689	103,946
Negaunee, City of	74	54,443	6,865,524	6,919,967
Network 180	125	2,275,720	13,400,480	15,676,200
Newaygo County	178	141,668	17,636,735	17,778,403
Newaygo County Mental Health	9	815	2,302,360	2,303,175
Newaygo Medical Care Facility	240	1,174,518	8,018,861	9,193,379
Newaygo Soil & Water Conservation	4	12,055	56,969	69,024
Newberry, Village of	44	15,961	2,694,121	2,710,082
Niles District Library	14	99,039	369,261	468,300

Schedule of Participating Municipalities – Defined Benefit Plan for the Year Ended December 31, 2006

Name	Number of Members	Balance Reserve for Employee Contributions	Balance Reserve for Employer Contributions	Total Reserves
North Houghton County Water & Sewage Authority	4	-	176,384	176,384
North Michigan Community Mental Health	1	-	59,705	59,705
North Muskegon, City of	36	604,890	3,484,422	4,089,312
Northeast Ottawa District Library	4	2,766	177,449	180,215
Northern Lakes Community Mental Health	137	62,742	18,199,235	18,261,977
Northfield Township	11	347,069	60,208	407,277
Northpointe Behavioral Health Care System	111	807,714	6,491,655	7,299,369
Northport, Village of	1	-	465	465
Northville Charter Township	78	1,209,040	6,909,383	8,118,423
Northville District Library	21	-	1,213,231	1,213,231
Northville, City of	85	82,400	10,984,536	11,066,936
Northwest Michigan Community Health	57	21,212	3,981,738	4,002,950
Northwestern Regional Airport Commission	28	48,583	2,497,664	2,546,247
Norton Shores, City of	172	111,208	18,518,994	18,630,202
Norway, City of	73	803,796	7,496,893	8,300,689
Novi, City of	367	3,417,231	35,927,633	39,344,864
Oceana County	448	3,058,487	16,050,420	19,108,907
Ogemaw County	191	2,318,758	14,158,433	16,477,191
Ogemaw County EMS Authority	16	174,503	795,390	969,893
Ogemaw County Road Commission	67	850,697	3,860,289	4,710,986
Olive Township	5	46,947	194,061	241,008
Onaway, City of	9	17,534	408,985	426,519
Ontonagon County	89	22,172	5,282,616	5,304,788
Ontonagon County Economic Development Corporation	1	-	86,199	86,199
Ontonagon County Road Commission	85	-	8,197,225	8,197,225
Ontonagon Memorial Hospital	253	2,699,401	9,142,333	11,841,734
Ontonagon, Village of	27	27,181	1,910,643	1,937,824
Orchard Lake, City of	21	95,414	2,921,234	3,016,648
Osceola County	184	159,549	8,786,867	8,946,416
Osceola County Road Commission	64	214,462	5,229,852	5,444,314
Osceola Township	14	232,192	33,392	265,584
Oscoda Charter Township	18	454,143	1,586,962	2,041,105
Oscoda County	102	472,541	5,145,625	5,618,166
Otisville, Village of	7	34,118	701,194	735,312
Otsego County	234	749,624	11,249,342	11,998,966
Otsego County Road Commission	83	74,530	6,295,155	6,369,685
Ottawa County	1,369	7,594,284	110,453,135	118,047,419
Ottawa County Central Dispatch Authority	20	59,114	1,412,560	1,471,674
Ottawa County Road Commission	260	1,690,464	29,875,724	31,566,188
Otter Lake, Village of	1	8,325	36,906	45,231
Owosso, City of	17	312,162	3,401,847	3,714,009
Oxford Fire Department	29	32,816	2,633,838	2,666,654
Oxford, Village of	24	21,074	1,668,058	1,689,132
Parchment, City of	23	456,939	1,750,935	2,207,874
Pathways	354	1,480,445	28,773,745	30,254,190
Paw Paw Lake Regional Joint Sewage Disposal Board	9	147,785	766,218	914,003
Paw Paw, Village of	49	753,741	4,877,813	5,631,554
Pellston, Village of	3	33,286	116,183	149,469
Pennfield Charter Township	17	359,802	596,522	956,324
Pentwater, Village of	19	157,784	918,831	1,076,615

Schedule of Participating Municipalities – Defined Benefit Plan for the Year Ended December 31, 2006

Name	Number of Members	Balance Reserve for Employee Contributions	Balance Reserve for Employer Contributions	Total Reserves
Perrinton, Village of	1	9,563	19,532	29,095
Petersburg, City of	6	65,338	51,753	117,091
Petoskey, City of	143	85,286	14,142,104	14,227,390
Pewamo, Village of	2	10,630	62,633	73,263
Pigeon, Village of	11	140,029	581,484	721,513
Pinckney, Village of	13	225,798	1,105,647	1,331,445
Pinconning, City of	29	242,225	1,297,685	1,539,910
Pittsfield Charter Township	150	2,853,606	6,288,442	9,142,048
Pleasant Ridge, City of	35	3,971	2,706,282	2,710,253
Plymouth Charter Township	71	8,091,714	3,350,787	11,442,501
Plymouth District Library	17	131,365	2,445,933	2,577,298
Plymouth, City of	80	21,585	9,986,093	10,007,678
Port Austin Area Sewer & Water Authority	2	47,388	82,846	130,234
Port Austin, Village of	9	95,783	204,459	300,242
Port Huron Charter Township	19	951,724	459,764	1,411,488
Port Huron, City of	691	3,143,285	101,351,320	104,494,605
Port Sanilac, Village of	9	57,586	290,725	348,311
Portland, City of	70	248,190	6,487,412	6,735,602
Presque Isle County	121	878,941	5,739,419	6,618,360
Presque Isle County Road Commission	69	83,525	6,098,422	6,181,947
Pride Youth Programs	2	-	346,754	346,754
Ravenna, Village of	5	19,755	253,720	273,475
Reading, City of	10	-	207,739	207,739
Redford Township	279	972,744	31,432,651	32,405,395
Redford Township District Library	18	86,693	1,344,962	1,431,655
Reed City, City of	56	11,040	2,959,021	2,970,061
Richfield Township (Genesee County)	16	422,726	844,060	1,266,786
Richfield Township (Roscommon County)	23	141,567	1,084,300	1,225,867
Richland Township	17	56,803	1,517,665	1,574,468
Richmond, City of	12	511,776	215,737	727,513
Rochester, City of	90	2,311,044	11,037,138	13,348,182
Rockford, City of	54	55,498	3,154,897	3,210,395
Rockwood, City of	19	-	1,547,889	1,547,889
Rogers City, City of	52	619,737	5,429,310	6,049,047
Romeo District Library	27	163,287	1,199,705	1,362,992
Romeo, Village of	42	210,324	3,428,351	3,638,675
Romulus, City of	108	2,636,501	13,154,773	15,791,274
Roosevelt Park, City of	34	36,855	2,882,785	2,919,640
Roscommon County	216	1,018,499	11,618,138	12,636,637
Roscommon County Transit Authority	23	4,471	1,149,136	1,153,607
Rose City, City of	6	77,031	449,342	526,373
Rose Township	10	15,264	224,546	239,810
Royal Oak Township	29	282,070	4,972,613	5,254,683
Saginaw County	776	5,050,705	88,169,383	93,220,088
Saginaw County 911 Central Authority	38	160,221	6,348,477	6,508,698
Saginaw County Community Mental Health Authority	134	187,644	10,924,620	11,112,264
Saginaw County Road Commission	180	2,366,073	21,756,153	24,122,226
Saginaw Housing Commission	20	647,144	1,133,277	1,780,421
Saginaw Public Libraries	21	154,427	587,107	741,534
Saginaw Township	50	731,682	8,664,800	9,396,482

Schedule of Participating Municipalities – Defined Benefit Plan for the Year Ended December 31, 2006

Name	Number of Members	Balance Reserve for Employee Contributions	Balance Reserve for Employer Contributions	Total Reserves
Saginaw Transit System Authority	17	100,669	878,119	978,788
Saginaw, City of	638	6,487,052	69,638,574	76,125,626
Saginaw-Midland Municipal Waste & Soil Commission	27	253,383	2,237,321	2,490,704
Saline, City of	123	186,025	11,272,989	11,459,014
Sandusky District Library	3	33,932	80,760	114,692
Sandusky, City of	32	396,932	985,962	1,382,894
Saranac Housing Commission	6	156,314	191,431	347,745
Saugatuck Township	13	6,689	644,422	651,111
Saugatuck, City of	14	28,106	1,052,272	1,080,378
Sault Ste. Marie Housing Commission	11	240,148	742,611	982,759
Sault Ste. Marie, City of	156	3,367,992	16,334,145	19,702,137
Schoolcraft County	281	1,913,468	14,294,657	16,208,125
Schoolcraft County Road Commission	62	87,262	6,666,255	6,753,517
Schoolcraft Memorial Hospital	146	2,388,406	10,930,756	13,319,162
Scio Township	4	47,687	43,294	90,981
Sebewaing, Village of	40	693,892	3,692,566	4,386,458
Shepherd, Village of	8	33,653	362,209	395,862
Shiawassee Council on Aging	11	121,074	330,229	451,303
Shiawassee County	837	1,091,307	52,008,023	53,099,330
Shiawassee County Community Mental Health Authority	164	37,100	7,577,585	7,614,685
Shiawassee County Road Commission	97	1,191,581	10,105,589	11,297,170
Shiawassee District Library	8	336,286	1,083,645	1,419,931
Sims-Whitney Utilities Authority	3	-	117,043	117,043
South Haven Emergency Services Authority	14	955,200	1,487,605	2,442,805
South Haven, City of	153	2,195,569	18,562,747	20,758,316
South Lyon, City of	68	384,428	5,340,502	5,724,930
Southeast Michigan Area Rapid Transit	1,550	5,952,549	128,448,563	134,401,112
Southeast Michigan Council of Governments	139	28,165	25,093,384	25,121,549
Southeast Oakland County Resource Recovery Authority	51	53,490	4,403,521	4,457,011
Southeast Oakland County Water Authority	44	107,262	4,844,797	4,952,059
Southern Clinton County Municipal Utilities Authority	24	466,193	1,600,752	2,066,945
Sparta, Village of	26	358,764	1,353,027	1,711,791
Spring Lake District Library	8	251,731	504,488	756,219
Spring Lake, Village of	17	942,932	562,522	1,505,454
Springfield, City of	71	625,553	6,868,575	7,494,128
St. Charles, Village of	18	136,143	1,660,589	1,796,732
St. Clair Area Fire Authority	1	-	65,005	65,005
St. Clair Shores Housing Commission	15	198,722	857,886	1,056,608
St. Clair, City of	83	640,776	9,493,762	10,134,538
St. Ignace, City of	56	83,695	5,006,232	5,089,927
St. Johns, City of	75	175,177	9,006,532	9,181,709
St. Joseph County	64	555,189	8,600,346	9,155,535
St. Louis Housing Commission	4	-	267,932	267,932
St. Louis, City of	51	511,676	4,959,673	5,471,349
Stambaugh Township	2	11,555	49,253	60,808
Standish, City of	16	38,095	1,384,794	1,422,889
Stanton, City of	2	15,166	83,226	98,392
Stephenson, City of	4	-	96,597	96,597
Sterling, Village of	2	25,569	191,584	217,153
Stockbridge, Village of	7	53,149	164,045	217,194

**Schedule of Participating Municipalities – Defined Benefit Plan
for the Year Ended December 31, 2006**

Name	Number of Members	Balance Reserve for Employee Contributions	Balance Reserve for Employer Contributions	Total Reserves
Summit Township	52	149,989	5,871,164	6,021,153
Sumpter Township	18	657,071	730,605	1,387,676
Superior Charter Township	27	900,351	1,577,761	2,478,112
Superiorland Library Cooperative	4	134,231	545,485	679,716
Swan Creek Township	8	68,844	236,968	305,812
Swartz Creek, City of	30	387,772	6,858,648	7,246,420
Sylvan Lake, City of	18	273,284	1,306,697	1,579,981
Tawas Police Authority	9	168,956	239,748	408,704
Taylor Housing Commission	5	48,441	94,851	143,292
Thirty-Fifth District Court	21	1,300,228	1,290,536	2,590,764
Thirty-Fourth District Court	32	1,475,376	856,455	2,331,831
Three Rivers Hospital	2	-	14,118	14,118
Three Rivers, City of	105	1,152,465	8,791,527	9,943,992
Traverse Area District Library	59	39,443	2,445,159	2,484,602
Traverse City, City of	301	911,936	37,262,850	38,174,786
Trenton, City of	174	2,617,833	27,814,766	30,432,599
Tri-County Aging Consortium	115	23,636	5,683,900	5,707,536
Trio Council on Aging	4	20,211	280,879	301,090
Tuscarora Township	10	30,656	513,980	544,636
Tuscola County	262	3,088,057	17,329,665	20,417,722
Tuscola County Community Mental Health	150	2,118,912	6,969,378	9,088,290
Tuscola County Health Department	54	876,124	4,689,575	5,565,699
Tuscola County Medical Care Facility	320	2,342,850	7,519,206	9,862,056
Tuscola County Road Commission	29	306,079	2,061,987	2,368,066
Twenty-First Judicial District Court	0	-	871,143	871,143
Twenty-Sixth Judicial Circuit Court	48	25,443	2,550,694	2,576,137
Twenty-Third Judicial District Court	22	487,144	1,608,784	2,095,928
Twin Cities Public Safety Authority	3	36,888	62,875	99,763
Ubly, Village of	6	96,569	265,281	361,850
Utica, City of	24	671,839	1,607,624	2,279,463
Van Buren County	220	6,340,002	4,472,234	10,812,236
Van Buren District Library	12	381,388	286,553	667,941
Van Buren Township	43	2,469,063	1,274,759	3,743,822
Vassar, City of	43	575,267	3,646,674	4,221,941
Vevay Township	6	151,930	47,931	199,861
Vicksburg District Library	3	-	48,737	48,737
Vicksburg, Village of	24	-	1,362,974	1,362,974
Vienna Charter Township	11	348,530	151,493	500,023
Wakefield, City of	46	452,222	2,688,798	3,141,020
Walker, City of	89	362,445	8,543,823	8,906,268
Walled Lake, City of	67	1,040,556	2,371,475	3,412,031
Washtenaw County	274	8,817,973	15,587,136	24,405,109
Washtenaw County Road Commission	261	5,169,419	23,527,647	28,697,066
Wayland, City of	32	79,133	2,934,146	3,013,279
Webberville, Village of	6	58,015	37,922	95,937
West Branch, City of	31	568,516	2,142,380	2,710,896
West Iron County Sewer Authority	6	10,369	563,708	574,077
West Michigan Community Mental Health System	31	146,075	4,571,591	4,717,666
West Michigan Shoreline Regional Development Commission	16	18,904	3,444,059	3,462,963
Western Upper Peninsula Development Regional Community	7	557,071	127,670	684,741

Schedule of Participating Municipalities – Defined Benefit Plan for the Year Ended December 31, 2006

Name	Number of Members	Balance Reserve for Employee Contributions	Balance Reserve for Employer Contributions	Total Reserves
Western Upper Peninsula District Health Department	165	6,270	7,384,831	7,391,101
Westland, City of	435	585,822	52,522,034	53,107,856
Westphalia, Village of	3	-	282,579	282,579
Wexford County	217	1,943,344	12,012,431	13,955,775
Wexford County Road Commission	93	279,978	6,382,775	6,662,753
White Cloud Community Library	5	35,264	195,300	230,564
White Cloud, City of	12	-	406,363	406,363
White Cloud/Sherman Utilities	3	53,419	12,283	65,702
White Lake Charter Township	108	3,467,602	8,242,901	11,710,503
White Pigeon, Village of	4	3,516	18,930	22,446
White Pine Library	6	19,715	95,222	114,937
Whitehall, City of	41	16,448	3,425,322	3,441,770
Willard Public Library	26	253,093	556,286	809,379
Williamston, City of	37	509,737	1,874,890	2,384,627
Wixom, City of	95	1,443,726	10,365,514	11,809,240
Wolverine Lake, Village of	17	363,726	645,592	1,009,318
Ypsilanti Community Utilities Authority	224	1,055,733	24,140,421	25,196,154
Ypsilanti Housing Commission	15	104,487	337,338	441,825
Ypsilanti, City of	113	1,137,241	15,913,482	17,050,723
Ypsilanti, Township of	128	2,125,371	9,532,079	11,657,450
Total Number of Members and Reserves	65,100	\$ 532,327,093	\$ 5,057,715,599	\$ 5,590,042,692
Average Size of Municipalities Members & Reserves	97	\$ 794,518	\$ 7,548,829	\$ 8,343,347

Schedule of Participating Municipalities – Defined Contribution Plan for the Year Ended December 31, 2006

Name	Number of Members	Defined Contribution Plan Balance
Albion, City of	26	\$316,918
Alcona County	54	412,646
Allegan County	323	9,365,225
Allegan County Community Mental Health	173	5,302,782
Allegan County Medical Care Facility	114	2,299,501
Allen Park, City of	9	30,119
Alma, City of	11	225,557
Alpena County	6	37,512
Alpena General Hospital	534	8,167,551
Arenac County	1	1,717
Au Gres, City of	3	62,690
Baraga County Memorial Hospital	44	986,289
Bay Area Transportation Authority	48	128,698
Bay City Housing Commission	10	841,640
Bay City, City of	166	10,170,564
Beaverton, City of	3	14,509
Beecher Metropolitan District	2	22,068
Belding, City of	1	33,023
Benzie-Leelanau District Health Department	22	945,859
Big Rapids Housing Commission	6	148,225
Big Rapids, City of	18	707,065
Bloomfield Hills, City of	4	2,015
Boyne City, City of	6	34,740
Charlotte, City of	2	68,794
Chelsea Area Construction	2	88,761
Chelsea, City of	28	602,912
Clawson, City of	21	493,631
Clinton County	1	73,761
Clinton-Eaton-Ingham Community Mental Health	14	833,586
Coldwater Board of Public Utilities	21	651,038
Coldwater, City of	54	2,650,369
Crawford County	1	3,212
Dewitt Charter Township	1	3,938
Dickinson-Iron District Health	5	19,497
District Health Department Number Four	23	431,154
District Health Department Number Ten	130	4,188,558
District Health Department Number Two	37	515,398
East Grand Rapids, City of	76	7,122,559
East Lansing, City of	225	5,561,927
Elkton, Village of	3	102,073

Schedule of Participating Municipalities – Defined Contribution Plan for the Year Ended December 31, 2006

Name	Number of Members	Defined Contribution Plan Balance
Emmet County Road Commission	30	1,077,552
Escanaba, City of	2	516,631
Farmington Community Library	46	630,054
Fenton, City of	2	14,231
Flint Charter Township	29	1,224,267
Fowlerville, Village of	3	18,111
Genesee County Land Bank Authority	9	96,904
Gladstone, City of	23	893,405
Grand Rapids Housing Commission	59	1,683,171
Grand Traverse County	388	10,344,152
Grand Traverse County Road Commission	56	2,208,358
Grandville, City of	14	2,197,306
Gratiot County	62	1,471,960
Grayling, City of	8	131,951
Hazel Park, City of	3	3,078
Helen Newberry Joy Hospital	297	503,355
Hiawatha Behavioral Health	82	381,529
Highland Park Housing Commission	6	322,567
Highland Park, City of	101	2,945,848
Holland Board of Public Works	26	726,302
Holland, City of	74	2,831,369
Howard City, Village of	5	218,170
Howell Area Fire Department	14	8,102
Howell Downtown Development Authority, City of	4	43,493
Howell, City of	1	42,764
Hudsonville, City of	16	824,621
Huntington Woods, City of	25	642,805
Ingham County Capital Area District Library	53	489,253
Iosco Steelworkers Number Ten	31	261,764
Iron County	13	60,833
Isabella County	43	334,702
Isabella County Medical Care Facility	29	115,636
Ithaca, City of	5	15,409
Lake Erie Transportation Commission	6	19,175
Lakeland Library Co-op	1	76,340
Larkin Charter Township	10	265,611
Library Network	2	40,190
Litchfield, City of	6	21,440
Livingston County	65	701,387
Mackinac County	11	74,894

Schedule of Participating Municipalities – Defined Contribution Plan for the Year Ended December 31, 2006

Name	Number of Members	Defined Contribution Plan Balance
Mackinac County Road Commission	4	6,075
Manistee, City of	1	70,433
Marquette Board of Light and Power	19	399,069
Marquette County	120	5,135,630
Marquette County Health Department	38	1,183,287
Marquette County Transit Authority	1	23,254
Marquette, City of	13	966,116
Mecosta County	96	1,216,534
Midland, City of	27	34,907
Mid-Michigan District Health Department	1	53,196
Milan, City of	23	448,409
Milford, Village of	16	1,144,845
Montcalm County	88	2,064,729
Montrose Township	12	117,237
Muskegon Fire, City of	3	1,006,929
Muskegon, City of	7	108,511
Newaygo County	152	3,972,411
Newaygo County Mental Health Center	64	2,398,835
Northern Lakes Community Mental Health	263	5,703,048
Northpointe Behavioral Health	1	2,595
Northville, City of	27	753,874
Northwest Michigan Community Health	178	7,353,341
Novi, City of	13	97,738
Oak Park, City of	8	54,594
Oakview Medical Care Facility	47	260,409
Orchard Lake, City of	3	115,900
Ottawa County General Dispatch	34	442,322
Pathways	180	2,070,028
Paw Paw Housing Commission, Village of	2	6,070
Plymouth, City of	84	8,628,549
Quincy, Village of	6	91,753
Romeo District Library	12	53,315
Roscommon, Village of	8	130,943
Saginaw County	558	27,822,841
Saginaw County 911	17	399,473
Saginaw County Community Mental Health	244	7,698,481
Saginaw Housing Commission	8	112,709
Saginaw, City of	107	3,070,544
Saginaw-Midland Municipal Water Corporation	4	85,966
Sanilac County Economic Development	3	68,879

Schedule of Participating Municipalities – Defined Contribution Plan for the Year Ended December 31, 2006

Name	Number of Members	Defined Contribution Plan Balance
Saugatuck, City of	4	17,150
Schoolcraft Memorial Hospital	147	3,857,374
Shiawassee County	1	52,258
Southfield Downtown Development Authority	8	169,560
Southwestern Michigan Commission	9	99,429
St. Johns, City of	3	15,001
St. Louis, City of	18	382,769
Standish, City of	6	92,194
Swartz Creek, City of	10	215,232
Twenty-Fifth District Court	4	22,464
West Michigan Community Health	191	12,369,431
Western UP District Health Department	8	5,383
Woodhaven, City of	42	2,296,307
Total Number of Members and Balances	6,831	\$ 203,115,100
Average Size of Municipalities Members and Balances	51	\$ 1,527,181



Celebrating MERS Growth

2000s



2002

In May, MERS office moved to 1134 Municipal Way.



2004

In 2004, some MERS staff moved to a building nearby awaiting an addition to be built onto 1134 Municipal Way.



LEADERS

Anne M. Wagner, CEO
2000 - current