

**'09** MUNICIPAL EMPLOYEES' RETIREMENT SYSTEM OF MICHIGAN  
**GROWTH IN MOTION**

2009 comprehensive annual financial report | for the fiscal year ended 12.31.2009



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MUNICIPAL EMPLOYEES' RETIREMENT SYSTEM OF MICHIGAN

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2009 comprehensive annual financial report | for the fiscal year ended 12.31.2009

Anne M. Wagner – Chief Executive Officer

Luke Huelskamp – Chief Financial Officer

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[www.mersofmich.com](http://www.mersofmich.com)



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## All Aboard for a New Train of Thought

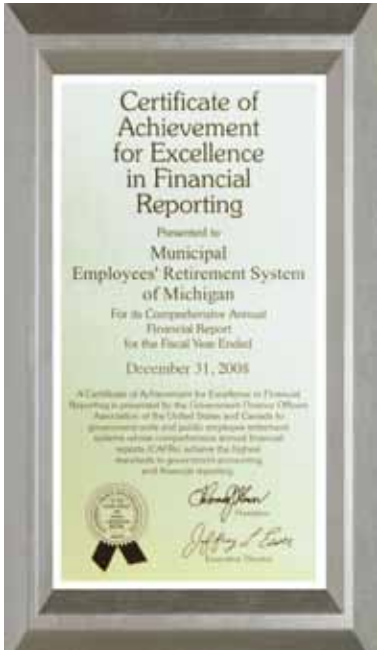
Experience growth in motion...  
forward thinking moves MERS –  
moves Michigan.





# ACHIEVEMENTS

2009



MERS received the Certificate of Achievement for Excellence in Financial Reporting from the Government Finance Officers Association for the December 31, 2008 Comprehensive Annual Financial Report. This marks the 21st consecutive year MERS has received this honor.



MERS also received the Public Pension Coordinating Council (PPCC), Public Pension Standards Award in 2009, 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 30, 2010

### Dear Board Members:

It is a pleasure to submit the *2009 Comprehensive Annual Financial Report* (CAFR) for the Municipal Employees' Retirement System of Michigan (MERS). This report contains important financial information regarding MERS activities during the fiscal year, ending December 31, 2009.

The activities outlined in this report demonstrate that we are well on our way to accomplishing the strategic goals set by the Retirement Board. These goals are designed to ensure all members receive accurate information, experience excellent service, and participate in a cost-effective, innovative retirement system. This is achieved by professional plan administration and sound investment practices. We continuously strive to exceed our member's expectations in all areas related to our products and services.

Our theme for 2009 is *Growth in Motion*. This theme reflects our continued growth over the last 64 years. Just like a train, MERS keeps on moving and delivering for our members. We are dedicated to working hard to provide excellent service, security, and solutions. We believe that what we do every day contributes to the future success of our members. The theme reflects our rich past and promising future and echoes our vision, "*our present is your future.*"

MERS primary objective is to protect the financial future of our current and former members. Following the meltdown of the financial markets beginning fall of 2008, and into the better part of 2009, the markets gradually improved toward the end of the fiscal year. Although the economy has not fully recovered from recession woes, as evidenced by a national unemployment rate around 10 percent and continued mortgage defaults. Institutional investors, though, have exhibited amazing resiliency in their ability to maintain equilibrium and withstand market volatility.

### Report Structure and Contents

MERS is responsible for the integrity and fairness of the information presented in this report. This CAFR has been prepared in compliance with the reporting requirements as stipulated by Michigan Complied Laws. The accounting policies followed in preparing the financial statements conform to U.S. Generally Accepted Accounting Principles (GAAP). The financial information incorporated throughout this report is consistent with the displayed financial statements. Where necessary, some figures are based on judgments and estimates using industry best business practices.

While the ultimate responsibility for this financial report rests with the Retirement Board, the staff and I assist with the

responsibilities. All necessary steps are taken to provide a system of internal controls and supporting processes to ensure transactions are authorized, assets safeguarded, and all supporting records are properly retained and managed. Controls cover a range of internal activities including, but not limited to, hiring and training staff, assessing and following proper processes, and communicating policies and guidelines to the members. Internal controls are reviewed and upgraded through an internal audit program. This includes a charter and list of all the required audits. Results are reported directly to the Retirement Board.

*“Our theme for 2009 is Growth in Motion. This theme reflects our continued growth over the last 64 years. Just like a train, MERS keeps on moving and delivering for our members.”*

Our external auditor, Andrews Hooper & Pavlik P.L.C. has conducted an independent audit of the financial statements in accordance with Generally Accepted Auditing Standards (GAAS). The Independent Auditor’s Report is described in the Financial Section. My management staff has provided the external auditors with unrestricted access to staff to discuss the audit and related findings. This process is repeated annually to ensure the independent substantiation of the plan’s financial reporting, and the sufficiency of our internal controls.

In addition to the *Financial Section*, this report includes an *Introductory Section* listing the system’s achievements and structure. The *Investment Section* reports investment activities and performance information. The *Actuarial Section* contains all the facts pertaining to the actuarial

assumptions and methods, as well as the actuary’s certification letter. Lastly, the *Statistical Section* provides schedules for the various aspects of the system, including a list of all our participating municipalities.

### MERS Profile

We are a statewide voluntary organization created in 1945 by the Michigan Legislature for the purpose of providing retirement benefits to employees of local government. We administer benefit provisions for each member municipality through pension trust funds. The Retirement Board serves as the fiduciary, providing oversight responsibilities for the system. Annually the Retirement Board approves the budgets for the administrative and investment divisions. The Board’s governance policy requires a budget amendment for all amounts that exceed the approved budget, including staff expansions.

In 1996, the system was granted independence by a vote of the Michigan Legislature, and our member employers. Today MERS manages over 1,000 plans and programs, including Defined Benefit Plans, Defined Contribution, Hybrid, Health Care Savings, Retiree Health Funding Vehicles, Group Life and Disability, and an Investment Savings Program. We continue to grow with 75 employers adopting one or more of these benefit programs in 2009, bringing in over \$191 million in assets.

### Retirement Board Governance Policy

The Retirement Board’s governance policy is reviewed and revised annually. It is comprised of four main sections: Ends Policies, Limitations on the CEO, the Board and CEO Relationship, and the Board’s Processes. With regard to processes, policies covering harassment and media

coverage were approved for inclusion this year. Succession planning and ethics were also updated and approved by the Board.

### ***Ends Policies***

The Board examined their established Ends Policies, namely providing all our members with accurate information, excellent service, and participation in a cost-effective, innovative system. The Board determined to keep them as the system's global goals.

These policies are the central focus of the governance model and provide the staff with a framework for the annual development of strategic initiatives. In the summer months, strategic planning retreats are held specifically to assess gaps, first with the Strategic Planning Group (SPG), comprised of our officers and managers, followed by the Retirement Board.

There are many discussions on the best course of action needed to implement the Ends Policies across our four business sectors namely, culture, processes, marketing results, and idea trends. Initiatives are identified within each sector to note which will improve and promote progress toward the Ends. Goal progress is measured by collecting data and reporting to the Board using a scorecard format. The data produced uses a baseline of information to report the status of initiatives and the resulting impact on members.

In 2009, as an outgrowth of these discussions, three new groups were formed using MERS staff to assist with project ideas and execution: Distributed Innovation Group (DIG) –focuses on identifying new trends and ideas. Enterprise Integration Group (EIG) has the task of managing all software projects requiring technology resources and IT support. Expanded Capabilities (ExCap) identifies

all the touch points of transition for new municipalities and new products.

### **2009 Initiatives**

The following projects were identified as the year's main initiatives for 2009: Medicare Advantage program, Defined Contribution Request For Information (RFI); software projects included Customer Relationship Management (CRM), Human Resources software, Finance and Accounting software, and member portals. All projects are in various stages of development at the end of the fiscal year.

The Medicare Advantage program was launched in November after selecting Humana Medicare Plans as the program provider. By year-end, 103 Medicare retirees were enrolled in the program.

The Defined Contribution RFI project was completed in the fall after an extensive look at candidates capable of filling the role as MERS third-party administrator. The current contract with ICMA-RC continues.

### ***Education Initiatives***

Continuing to provide our membership with solid educational offerings was also a key initiative for us. The Learning Division launched two on-demand, computer-based 10-Minute Trainers for employers accessible through the MERS website. The first trainer, "Annual Actuarial Valuation" provides a better understanding of the valuation report (used by 42 members during the year), the second entitled "Naming and Changing Your Beneficiary" is used to assist members with understanding their retirement beneficiary provisions.

In addition, the Learning Division developed internal training for staff and worked with the Office of Employee and Retiree Services to provide materials for

member workshops and seminars. The Defined Benefit Retirement Process and Successful Retirement Seminars continued to be very successful during the year, and were attended by approximately 400 members. The benefit education specialists held 257 on-site employer visits, covering over 1700 employees. There were 1,578 DB retirements processed, 3,473 retirement benefit estimates completed, 2,910 applications for new members, and 31,304 member calls placed to the Call Center.

*“Investment performance greatly improved in the latter part of 2009. The portfolio returned +17 percent on a net basis.”*

### **Technology Enhancements**

In addition to the new and ongoing initiatives, we continued to look at technology to enhance the member experience. The Information Technology (IT) staff worked to develop a Missing Membership Application to help identify municipalities that have not submitted membership forms for new hires. The program generates an e-mail to notify the municipality when a specific application is missing.

The IT staff has worked diligently to provide online tools and software to ensure accurate information and excellent service; including CRM, and the finance and accounting software.

Work also began in the fall to design the requirements needed for both employer and employee member portals. The expected rollout is fall 2010.

### **MERS Retirement Solutions**

During 2009, five new employers and nine divisions from existing employers joined the Defined Benefit Plan with assets of \$99 million. The Defined Contribution Program grew by three new employers and 17 divisions from existing employers with a total of \$28.9 million in assets. The Hybrid Program added two new employers and five divisions from existing employers with new start-up monies of \$20,000.

The first two Native American Tribes joined MERS Tribal Government Retirement System: the Pokagon Band of Potawatomi is located in Southwestern Michigan with tribal government functions in Dowagiac. The Lac Vieux Desert Band of Chippewa is located in Watersmeet, the western most region of the Upper Peninsula.

### **Investments**

Investment performance greatly improved in the latter part of 2009. The portfolio returned +17 percent on a net basis. Our actual returns for the one-year, three-year, five-year, and ten-year periods can be found on page 58.

The financial markets continued to wobble due somewhat to weak economic news. Any minor improvement resulted in stock market gains. By year-end, the southern part of Europe was beginning to show the strains of excessive government debt. Business in the United States began a slow climb to recovery, as the weaker dollar made U.S. products cheaper to overseas buyers.

As trading improved, our Investments staff rebalanced the portfolio in compliance with the target policy bands, and maintained fund liquidity throughout the crisis. The staff manages 13.8 percent of the portfolio

internally, using equity indexes and short-term fixed income strategies.

The Board's investment policy is reviewed annually, focusing on preserving the system's assets while maximizing long-term growth. This policy takes a disciplined approach regarding the selection of allocation percentages to asset classes by creating a diversified portfolio. The allocation model is determined after an extensive review of risk and return profiles from the various asset classes. Over the course of the year, allocations to equity and cash were rebalanced. The Board's Investment Committee retains oversight and approval authority for tactical recommendations by our internal Investments staff.

### **Group Health Solutions**

Group Life and Disability Insurance Programs (GL&D) This program allows MERS members to collectively purchase various life and disability insurance products through our partnership with The Standard Insurance Company of Portland, Oregon. GL&D has grown to over 120 groups, adding 19 employers in 2009. By removing the outside intermediary, we were able to improve the pricing to our member employers.

### **Health Care Savings Program and Retiree Health Funding Vehicle**

In response to GASB requirements to disclose funding liability on Other Post-Employment Benefits (OPEB), we created the Health Care Savings Program (HCSP) and Retiree Health funding Vehicle (RHFV). These programs continue to grow: HCSP added 31 new employers and 22 new divisions with assets in excess of \$16 million, RHFV added 15 employers with over \$48 million in assets. As of December 31, 2009, HCSP and RHFV had 139 and 104 active programs, respectively.

### **MERS Premier Health**

Due to declining membership and increased competition from high-deductible plans, we decided to close the Premier Health program. Discontinuation of the program will be completed in early 2010, following all the required processes as outlined by the State of Michigan Office of Financial and Insurance Regulation.

### **Summary of Financial Information**

The basic financial statements have been prepared in accordance with Generally Accepted Accounting Principles (GAAP), applied on a consistent basis as promulgated by the Governmental Accounting Standards Board and its predecessor, The National Council on Governmental 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 it.

### **Actuarial Overview**

#### **Funding**

The December 31, 2008 actuarial valuation reports the consolidated funding of all MERS member municipalities to be a decrease from 77.3 percent to 75.0 percent. This decrease is almost entirely attributable to the investment experience of 2008. We receive no state funded contributions. Each member municipality is legally responsible for funding the pensions earned by the employees under the provisions of the Michigan Constitution, and the MERS Plan Document. Each municipality has a separate trust account and pension obligations are paid from that account. We do not fund or borrow

from one municipality's account to cover another municipality's obligation to pay its pensioners.

### **Awards**

We received the following awards for 2009:

#### *Certificate of Achievement for Excellence in Financial Reporting*

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 (CAFR) for the fiscal year ended December 31, 2008. This was the 21st consecutive year we have achieved this prestigious award. The Certificate of Achievement is awarded to a governmental unit that publishes an easy-to-read and efficiently organized CAFR. The report must satisfy GAAP and applicable legal requirements. The Certificate is valid for one year only. We believe this CAFR continues to meet the Certificate of Achievement requirements, and we are submitting it to the GFOA to determine its eligibility for another certificate.

#### *Public Pension Standards Award*

We received the Public Pension Coordinating Council (PPCC), Public Pension Standards Award in 2009. This award is for public pension plans who meet professional standards for plan design and administration as provided 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).

### **Acknowledgments**

This report is the culmination of efforts from the staff and advisors working under your leadership. The intent of this report is to provide complete and reliable information regarding MERS in order to assist in the management-making decision process. It also serves as a means for determining compliance of legal requirements, and allows for the accurate and complete evaluation of responsible stewardship for the entire system. Again, this year as in the past, we received an unqualified opinion from the independent auditors on the financial statements in this report. This opinion can be found on page 13.

Copies of the CAFR are provided to the Governor, State Auditor General, and members of the Michigan Legislature. We hope all recipients find the information instructive and useful.

My sincere appreciation goes to the entire MERS staff for their unflinching efforts to ensure the successful operation of the system. A special note of thanks goes to you as members of the Board, for your commitment and wisdom in overseeing the system. In addition, I would like to extend my appreciation to the many organizations, advisors, and individuals who work in partnership with MERS to assist our efforts in managing the system.

*Respectfully submitted,*

*Anne Wagner*

*Chief Executive Officer*



## LETTER FROM THE CHAIRPERSON

June 18, 2010

### Dear Board Members:

On behalf of the MERS Retirement Board, it is a pleasure to present the 63rd Comprehensive Annual Financial Report (CAFR) of the Municipal Employees' Retirement System of Michigan for the fiscal year ended December 31, 2009. This financial report provides information on the status of our retirement system.

During the Annual Meeting of the Retirement System held September 15-17, 2009, at the Amway Grand Hotel in Grand Rapids, the member delegates duly elected Mr. John Ogden and Mrs. Lori Newberg to three-year terms on the Board. Mr. Ogden, finance director for the City of Port Huron, will serve as the officer member, and Mrs. Newberg, Employee Services Coordinator for Ingham County, will service as the employee member. I was appointed as the retiree Board member for the three-year term beginning January 1, 2010, and was elected to serve as the Board's chairperson for a one-year term. Ms. Sally Dreves will serve as vice-chairperson. Congratulations to all of these fine individuals as they continue their excellent service to the retirement system.

The Retirement Board is comprised of nine-members, three employer and three employee members elected by the membership; two expert investment professionals and one retiree member appointed by the Board, works diligently

to fulfill their fiduciary responsibilities and serve the membership. MERS is fortunate to have trustees with such diverse backgrounds, expertise and experience.

The system weathered the disastrous market downturn caused by the collapse of the financial markets in 2008. The markets remained fairly illiquid into the early months of 2009. MERS retained enough cash to ensure that pensions were paid on time without selling assets at a loss. Gradually, as the economic news began to improve,

*“MERS Investment Policy is reviewed annually with a fixed goal of preserving the system's assets and maximizing the long-term growth of those assets.”*

the equity markets began to appreciate, and trading resumed to a more normal level. This resulted in the portfolio returning 17.3 percent for the fiscal year, trailing the policy benchmark by six percent as the markets rebounded faster than the rebalancing to the asset targets could prudently occur.

MERS Investment Policy is reviewed annually with a fixed goal of preserving the system's assets and maximizing the long-term growth of those assets. Every five years an asset allocation study is undertaken. In 2010, the study will



examine all aspects of risk and portfolio construction.

MERS surveys the membership annually on ways to improve the system. The staff consistently receives high marks from our members for their level of service, as well

*“Our members can be confident that we remain focused on providing accurate information, excellent service, and a cost-effective, innovative system for all members to enjoy.”*

as their ability to manage the many complex Defined Benefit, Defined Contribution, and Hybrid Programs. The staff works diligently with our members to arrive at suitable retirement solutions in order to meet their needs.

In closing, I would like to take this opportunity to thank the members of the Board and the staff for their unwavering commitment to provide expertise and professionalism to our members during a very tough financial environment. MERS vision statement “*our present is your future*” reflects that what we do every day is important for the future of all our members. Our members can be confident that we remain focused on providing accurate information, excellent service, and a cost-effective, innovative system for all members to enjoy. It is my pleasure to serve as MERS chairperson.

*Sincerely,  
Larry Opelt, Chairperson  
MERS Board of Trustees*



MERS Retirement Board and Chief Executive Officer – 2008/2009

**Back row:** Ms. Sally Dreves, Ms. Beverly Crumley, Mr. Bruce Johnson, Mr. James Wiersma, Mr. Michael Brown, Mr. John Ogden, and Ms. Lori Newberg. **Front row:** Mr. Larry Opelt, Ms. Anne Wagner, and Mr. Randy Girard.

**Officer Members:** John Ogden, Michael Brown, Randy Girard

**Employee Members:** Sally Dreves, Beverly Crumley, Lori Newberg

**Public Members:** Bruce Johnson, James Wiersma

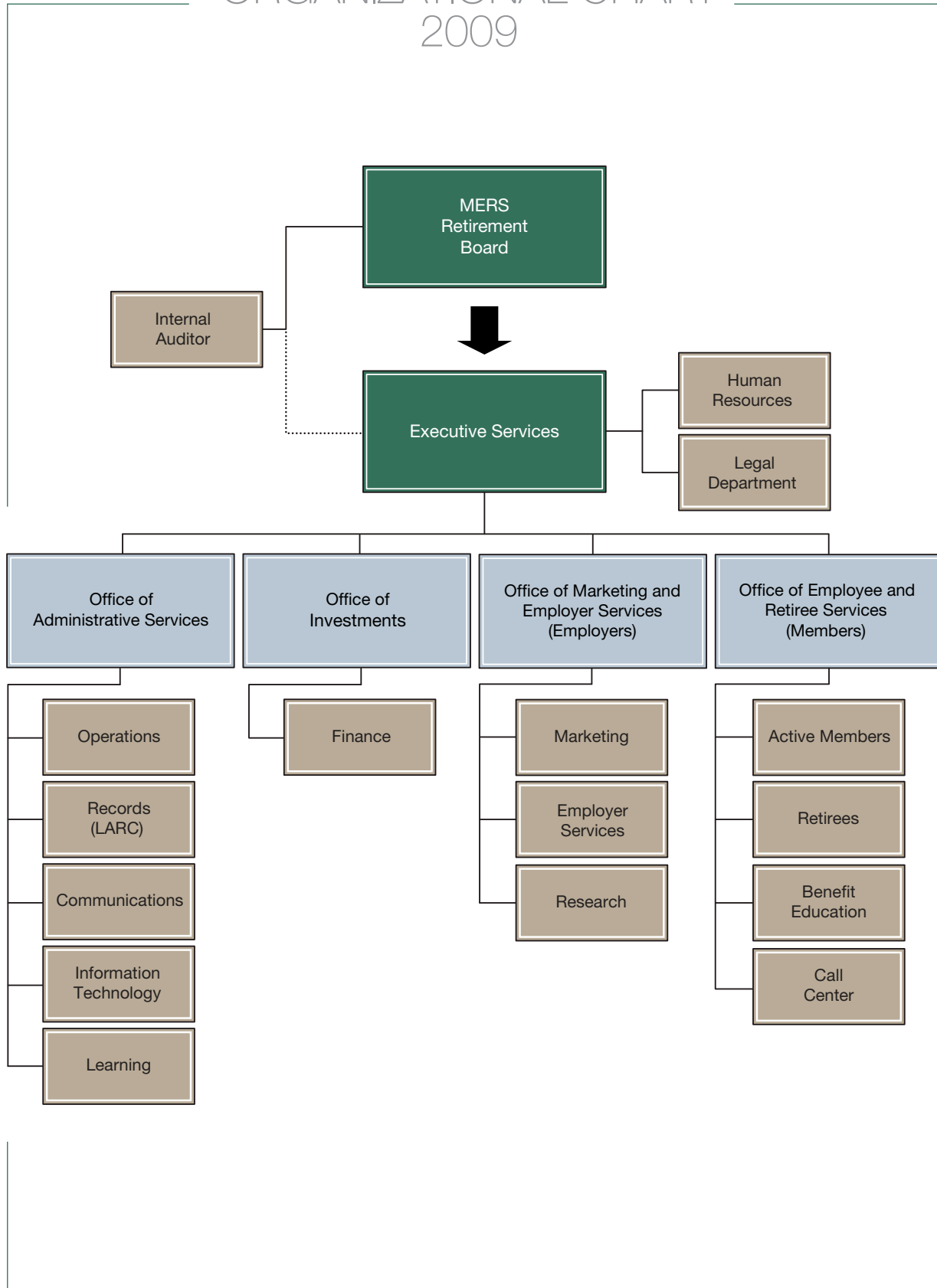
**Retiree Member:** Larry Opelt, Chairperson



MERS Officers – 2009

From left to right: Jeb Burns, Caryn Mateer, Mike Moquin, Anne Wagner, Carrie Lombardo, Luke Huelskamp, Debra Peake

# ORGANIZATIONAL CHART 2009



## OUTSIDE PROFESSIONAL SERVICES

### **Professional Consultants**

#### *Actuary*

Gabriel, Roeder, Smith & Company

#### *Actuary Auditor*

Segal Company

#### *Auditor*

Andrews Hooper & Pavlik PLC

#### *Defined Contribution Third-Party Administrator*

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

#### *Investment Custodian*

State Street Bank and Trust Company

#### *Legal Counsel*

Ice Miller, LLP

Miller, Canfield, Paddock & Stone, PLC

#### *Legislative Consultants*

Karoub Associates

#### *Medical Advisor*

Consulting Physicians

#### *Security Lending Agent*

State Street Bank and Trust Company

#### *Systems Implementation and Maintenance*

Tegrit Financial Group

Oracle/People Soft

#### *Third-Party Administrators*

Tegrit Administrators, LLC

### **Investment Managers**

#### *Domestic Equity*

AMBS Investments

BRC Investment Management

C.S. McKee

Delaware Investments

Kennedy Capital Management

Wellington Management

#### *International Equity*

Acadian Asset Management

Barclays Global Investors

Driehaus Global Growth

Hexam

Mondrian Investment Advisors

#### *Fixed Income*

Barclays Global Investors

C.S. McKee

Credit Suisse

First International Advisors

Reams Asset Management

#### *High Yield*

Stone Harbor

Stone Tower

#### *Real Estate*

The Townsend Group

AMB Institutional Alliance

ARA Fund Management

Blackstone Real Estate Partners

CB Richard Ellis Investors

Colony Investors

FIA Timber Partners

IL & FS Investment Managers

J.P. Morgan

LaSalle Investment Management

Prudential Real Estate Investors

Square Mile Capital Management

Starwood Capital

UBS Realty Investors

Hancock Timber

Urdang Capital Management

#### *Private Equity*

Credit Suisse

Mesirow Capital Partners

#### *Commodities*

Cargill Risk Management

Mount Lucas

# You're on the Right Track

We're moving full steam ahead to deliver the products and services you need. Keeping true to our values, we seek long-term economical solutions that will benefit you well into the future.



# INDEPENDENT AUDITORS 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 statement of plan net assets of the Municipal Employees' Retirement System of Michigan as of December 31, 2009, and the related statement 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 2008 financial statements and, in our report dated June 29, 2009, 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 the 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 plan net assets of the Municipal Employees' Retirement System of Michigan as of December 31, 2009, and the changes in plan net assets 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 29, 2010 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 grant agreements 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 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, Schedule of Funding Progress, Schedule of Employer Contributions, and Notes to the Schedules of Required Supplementary Information are not required parts of the basic financial statements but are 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 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 Schedule of Administrative Expenses, Schedule of Investment Expenses, and Schedule of Payments to Consultants 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 Sloop & Pavlik P.L.C.*

Okemos, Michigan  
June 29, 2010



# MANAGEMENT'S DISCUSSION AND ANALYSIS

*This narrative overview and analysis of MERS financial condition for fiscal year ended December 31, 2009, 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 Program, Investment Services Program, Health Care Savings Program and Retiree Health Funding Vehicle (2) refunds 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
2. Statement of Changes in Plan Net Assets
3. Notes to Basic Financial Statements

The Defined Benefit Plan, Defined Contribution Program, Investment Services Program, Health Care Savings Program and Retiree Health Funding Vehicle are premised upon long-term investing. The current financial statements alone do not provide the total perspective to properly assess the 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 703 individual municipal Defined Benefit Plans, 168 individual municipal Defined Contribution Programs, 139 Health Care Savings Programs, 104 Retiree Health Funding Vehicle Programs, 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, provides a comparative summary of the financial condition of the system as a whole.

### *Required Supplemental Information*

1. Schedule of Funding Progress
2. Schedule of Employer Contributions
3. Notes to the Schedules of Required Supplementary Information

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.

### *Supplementary Expense Schedules*

1. Schedule of Administrative Expenses
2. Schedule of Investment Expenses
3. Schedule of Payments to Consultants

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, 2009:*

- Total plan net assets for the Defined Benefit Plan, Defined Contribution Program, Health Care Savings Program, Retiree Health Funding Vehicle and Investment Services Program increased by \$880 million during the 2009 fiscal year. This was primarily due to net gains of \$859 million.
- Total pension benefits paid to retirees and beneficiaries increased \$34 million to a total of \$419 million. This is due to an aging population and an increase in retirements. This is not a cause of concern as this is built into the actuarial projections.
- Transfers from the Defined Benefit Plan to the Defined Contribution Program increased by \$97 thousand. This is due to the number of new hires in Defined Contribution continuing to increase relative to the Defined Benefit Plan members.
- Total employer contributions increased by 13% to \$437 million, but employee contributions decreased by 2% down to \$71 million. This is due to new municipalities who joined MERS bringing in more employer contributions and less member contributions than the prior year.
- Administrative expenses increased 7% in 2009 to \$20 million. Much of this increase was due to hiring additional staff and depreciation of software, computer servers, and office equipment.
- Investment expenses totaled \$18 million. This is a 2% increase from 2008 primarily due to higher investment manager fees. This was not unexpected with the market increases of the past year.

## USING THIS FINANCIAL REPORT

*Due to the long-term nature of a Defined Benefit Plan, financial statements alone cannot provide sufficient information to reflect the 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" provide financial information about the activities of the 1,116 individual municipal plans administered by MERS in its Defined Benefit Plan, Defined Contribution Program, Retiree Health Funding Vehicle, Health Care Savings Program and Investment Services Program, as well as comparative summary information about these activities for the system as a whole.

The "Schedule of Funding Progress" 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" presents historical trend information about the annual actuarially required contributions of employers and the actual contributions made by employers. These schedules provide information that contribute to understanding the changes over time in the funded status of the Defined Benefit Plans.

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**Railroads can move a ton of freight 423 miles on average per gallon of diesel—roughly equivalent to the distance from Detroit to Escanaba. On average, railroads are four times more fuel efficient than trucks. Moving freight by rail instead of truck reduces greenhouse gas emissions by 75 percent.**

**(Michigan Railroads Association)**

## COMPARISON STATEMENT OF PLAN NET ASSETS

	As of Dec. 31, 2009	As of Dec. 31, 2008	Increase (Decrease) Amount	Increase (Decrease) Percent
<b>Assets</b>				
Cash and Short-Term Investments	\$ 47,440,502	\$ 82,483,676	\$ (35,043,174)	-42.48%
Receivables	370,153,123	441,762,060	(71,608,937)	-16.21%
Interfund Receivables	953,983	1,249,403	(295,420)	-23.64%
Investments, at fair value	5,701,945,005	4,769,213,613	932,731,392	19.56%
Invested Securities Lending Collateral	1,001,205,736	395,539,655	605,666,081	153.12%
Other Assets/Prepays	703,273	251,429	451,844	179.71%
Net Capital Assets	4,963,358	6,675,401	(1,712,043)	-25.65%
<b>Total Assets</b>	<b>7,127,364,980</b>	<b>5,697,175,237</b>	<b>1,430,189,743</b>	<b>25.10%</b>
<b>Liabilities</b>				
Purchase of Investments	354,943,179	392,138,665	(37,195,486)	-9.49%
Securities Lending Collateral	1,017,278,740	427,740,299	589,538,441	137.83%
Administrative and Investment Costs	9,735,724	11,953,905	(2,218,181)	-18.56%
Interfund Payables	953,983	1,249,403	(295,420)	-23.64%
Other Accounts Payable	54,778	22,302	32,476	145.62%
<b>Total Liabilities</b>	<b>1,382,966,404</b>	<b>833,104,574</b>	<b>549,861,830</b>	<b>66.00%</b>
<b>Net Assets Held in Trust for Pension and Health Benefits and Investment Accounts Held for Others</b>	<b>\$5,744,398,576</b>	<b>\$4,864,070,663</b>	<b>\$880,327,913</b>	<b>18.10%</b>

## COMPARISON STATEMENT OF CHANGES IN PLAN NET ASSETS

	Year ended Dec. 31, 2009	Year ended Dec. 31, 2008	Increase (Decrease) Amount	Increase (Decrease) Percent
<b>Additions</b>				
Contributions	\$ 507,731,883	\$ 456,961,857	\$ 50,770,026	11.11%
Transfers from Defined Benefit Plan	198,729	101,542	97,187	95.71%
Transfers from Other Plans and Other Items	1,555,390	1,122,171	433,219	38.61%
Net Investment Income(Loss)-Investing Activities	853,883,014	(1,652,958,169)	2,506,841,183	151.66%
Net Investment Income-Securities Lending	4,623,005	8,548,421	(3,925,416)	-45.92%
Miscellaneous Income	1,387,459	712,879	674,580	94.63%
<b>Total Additions</b>	<b>1,369,379,480</b>	<b>(1,185,511,299)</b>	<b>2,554,890,779</b>	<b>215.51%</b>
<b>Deductions</b>				
Benefits	418,734,712	384,760,858	33,973,854	8.83%
Refunds of Contributions	9,510,225	6,944,841	2,565,384	36.94%
Special Expenses and Fees	1,341,348	570,520	770,828	135.11%
Transfers to Defined Contribution Program	198,729	101,542	97,187	95.71%
Medical Disbursements Paid to Members	511,902	462,448	49,454	10.69%
Disbursements Paid to Municipalities	39,681,182	4,607,234	35,073,948	761.28%
Forfeited Employer Contributions	64,171	57,716	6,455	11.19%
Administrative Expense	19,009,298	17,838,777	1,170,521	6.56%
<b>Total Deductions</b>	<b>489,051,567</b>	<b>415,343,936</b>	<b>73,707,631</b>	<b>17.75%</b>
Net Increase(Decrease)	880,327,913	(1,600,855,235)	2,481,183,148	154.99%
Net Assets Held in Trust for Pension and Health Benefits and Investment Accounts Held for Others				
Balance Beginning of Year	4,864,070,663	6,464,925,898	(1,600,855,235)	-24.76%
<b>Balance End of Year</b>	<b>\$5,744,398,576</b>	<b>\$4,864,070,663</b>	<b>\$880,327,913</b>	<b>18.10%</b>

### *Analysis of Plan Net Assets*

Combined plan net assets increased by \$880 million over the previous fiscal year. Looking at additions to and deductions from plan net assets, the increase was primarily attributable to economic conditions (the market recovery).

Employer and employee contributions increased \$51 million due chiefly to an increase in municipalities joining MERS in 2009. Some municipalities also had fluctuations due to changes in required actuarial contribution rates resulting from salary adjustments, benefit enhancements, plan modifications, and the number of employees.

MERS actuary used a ten-year smoothing method to determine employer contribution rates for 2009 and 2010. The market gains and losses used to calculate valuation assets reduce the volatility of employer contribution rates. This will temper some of the effects of the market losses of 2008 over the next ten years. Market gains and losses will also be spread out in the years to come, resulting in the stabilization of employer contribution rates. Employers are also shifting more of the responsibility for contribution requirements on to employees to pay for higher cost benefit options.

MERS has capital assets of approximately \$5 million, mostly comprised of software and computer servers needed to run the system's pension administration and financial programs. MERS has no long-term liabilities. The bulk of MERS liabilities at year-end are related to investment purchases that did not settle until early in 2010, and accrued administrative and investment expenses, and securities' leading collateral.

### *Investment Activities*

The total fund investment performance on a comparative basis to the benchmarks was favorable. The gross return of 17.3% was above the 8% actuarial return assumption target for the year. On both a five and ten year basis, the gross returns of 3.1% and 3.8% respectively, compared unfavorably to the actuarial return assumption. The total fund investment performance for the year (on a comparative basis to the benchmarks) was slightly favorable. Net investment gains (net appreciation in fair value, less investment administrative expenses, plus securities lending income) were \$859 million for the year. A further detailed analysis of investment returns may be found in the Investments Section.

MERS investments are managed to control the extent of downside risk that assets are exposed to while maximizing long-term gain potential. This positions the 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 system. The “prudent person rule” states that fiduciaries shall discharge their duties solely in the interest of the system participants and beneficiaries 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 on 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 MERS as of December 31, 2009, is found on page 12 of this report. A summary of the total system’s assets, excluding the Defined Contribution Program, can be found on page 68.

### *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, beneficiaries, 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”. 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 over a ten-year period. The funded ratio decreased from 77.3% to 75.0% for the 2008 valuation. The actuarial assumptions used in the most recent valuation are identified in the “Notes to the Schedules of Required Supplementary Information”.

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

MERS overall financial condition increased in 2009 due to market gains. The plan continues to remain stable and viable for the years to come. Public pension plans utilize long-term investment strategies to fund future benefit obligations. The market downturns and upturns are historically considered to be part of the market cycle 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 that a retirement system has achieved progress 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.

The MERS Retirement Board has adopted a funding methodology for the system in order to achieve the following major objectives:

- Develop level required contribution rates as a percentage of payroll
- Finance benefits earned by present employees on a current basis
- Accumulate assets to enhance benefit security
- Produce investment earnings and interest on accumulated assets to help meet future benefit costs
- Estimate the long-term actuarial cost of proposed amendments for system provisions
- Assist in maintaining the 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 percentage of member payroll. A detailed discussion of the funding method is provided in the Actuarial Section. 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, 2009

	Defined Benefit*	Defined Contribution	Health Care Savings Program
<b>Assets</b>			
Cash and Short-Term Investments	\$ 7,056,015	\$ 39,811,343	\$ 165,182
Receivables			
Employer Contributions	23,468,405		
Plan Member Contributions	4,371,936		
Sale of Investments	323,955,188		
Investment Income	14,766,272		
Loans		2,195,639	
Interfund Receivables	867,381		
Other	1,394,595		1,088
Total Receivables	368,823,777	2,195,639	1,088
Investments, at fair value			
Fixed Income	1,648,809,763	14,523,283	10,752,489
Equities	3,309,230,561	66,602,809	21,580,698
Balanced Funds		121,643,378	
Real Estate	317,897,100		2,073,123
Total Investments	5,275,937,424	202,769,470	34,406,310
Invested Securities Lending Collateral	1,001,205,736		
Prepaid Expenses	703,273		
Capital Assets, at cost, net of accumulated depreciation	4,963,358		
Total Assets	6,658,689,583	244,776,452	34,572,580
<b>Liabilities</b>			
Purchase of Investments	354,943,179		
Securities Lending Collateral	1,017,278,740		
Administrative and Investment Costs	9,735,724		
Interfund Payables	86,602		867,381
Other Accounts Payable			24,288
Total Liabilities	1,382,044,245	-	891,669
Net Assets Held in Trust for Pension and Health Benefits and Investment Accounts Held for Others	\$5,276,645,338	\$244,776,452	\$33,680,911

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

Retiree Health Funding Vehicle	Investment Services Program	As of Dec. 31, 2009	As of Dec. 31, 2008
\$ 207,220	\$ 200,742	\$ 47,440,502	\$ 82,483,676
		23,468,405	27,586,625
		4,371,936	4,856,915
		323,955,188	388,046,585
		14,766,272	18,902,831
		2,195,639	2,158,313
86,602		953,983	1,249,403
		1,395,683	210,791
86,602	-	371,107,106	443,011,463
57,172,012	1,840,765	1,733,098,312	1,691,088,978
114,746,632	3,694,493	3,515,855,193	2,604,282,919
		121,643,378	86,922,621
11,022,992	354,907	331,348,122	386,919,095
182,941,636	5,890,165	5,701,945,005	4,769,213,613
		1,001,205,736	395,539,655
		703,273	251,429
		4,963,358	6,675,401
183,235,458	6,090,907	7,127,364,980	5,697,175,237
		354,943,179	392,138,665
		1,017,278,740	427,740,299
		9,735,724	11,953,905
		953,983	1,249,403
30,490		54,778	22,302
30,490	-	1,382,966,404	833,104,574
\$183,204,968	\$6,090,907	\$5,744,398,576	\$4,864,070,663

## STATEMENT OF CHANGES IN PLAN NET ASSETS FOR THE YEAR ENDED DECEMBER 31, 2009

	Defined Benefit*	Defined Contribution	Health Care Savings Program
<b>Additions</b>			
Contributions and Transfers In			
Employer Contributions and Other	\$ 350,737,219	\$ 20,263,212	\$ 16,963,863
Plan Member Contributions	62,677,056	8,062,442	
Employer Transfers In		175,246	
Plan Member Transfers In		23,483	
Transfers from Other Plans and Other Items		1,555,390	
Total Contributions and Transfers In	413,414,275	30,079,773	16,963,863
Investment Income			
Net Appreciation(Depreciation) in Fair Value	690,270,304		2,978,138
Interest Income	71,103,261		
Dividend Income	39,892,229		
Real Estate Operating Income	860,500		
DC Plan Investment Income(Loss)		39,951,479	
Total Investment Income(Loss)	802,126,294	39,951,479	2,978,138
Less Investment Expense	18,020,598		
Net Investment Income(Loss) Before Securities			
Lending Activities	784,105,696	39,951,479	2,978,138
Security Lending Activities			
Security Lending Income	7,002,898		
Security Lending Expenses			
Borrower Rebates	1,224,308		
Management Fees	1,155,585		
Total Securities Lending Expenses	2,379,893	-	-
Net Income from Security Lending Activities	4,623,005	-	-
Total Net Investment Income(Loss)	788,728,701	39,951,479	2,978,138
Miscellaneous Income	1,070,596		263,366
<b>Total Additions</b>	<b>1,203,213,572</b>	<b>70,031,252</b>	<b>20,205,367</b>
<b>Deductions</b>			
Benefits	409,867,136	8,867,576	
Refunds of Contributions			
Employer			
Plan Member	9,510,225		
Special Expenses and Fees	460,455		258,013
Transfers to Defined Contribution Program			
Employer	175,246		
Plan Member	23,483		
Medical Disbursements Paid to Members			511,902
Disbursements Paid to Municipalities			
Forfeited Employer Contributions			64,171
Administrative Expenses	18,792,644		159,157
<b>Total Deductions</b>	<b>438,829,189</b>	<b>8,867,576</b>	<b>993,243</b>
<b>Net Assets</b>			
Net Increase(Decrease)	764,384,383	61,163,676	19,212,124
Net Assets Held in Trust for Pension and Health Benefits and Investment Accounts Held for Others			
Balance Beginning of Fiscal Period	4,512,260,955	183,612,776	14,468,787
<b>Balance End of Fiscal Period</b>	<b>\$5,276,645,338</b>	<b>\$244,776,452</b>	<b>\$33,680,911</b>

\* The accompanying notes are an integral part of these Financial Statements

Retiree Health Funding Vehicle	Investment Services Program	Year Ended Dec. 31, 2009	Year Ended Dec. 31, 2008
\$ 48,028,651	\$ 999,440	\$ 436,992,385	\$ 385,129,539
		70,739,498	71,832,318
		175,246	84,819
		23,483	16,723
		1,555,390	1,122,171
48,028,651	999,440	509,486,002	458,185,570
23,472,134	3,375,567	720,096,143	(1,724,889,279)
		71,103,261	91,663,858
		39,892,229	59,671,701
		860,500	-
		39,951,479	(61,678,689)
23,472,134	3,375,567	871,903,612	(1,635,232,409)
		18,020,598	17,725,760
23,472,134	3,375,567	853,883,014	(1,652,958,169)
		7,002,898	26,026,659
		1,224,308	15,341,192
		1,155,585	2,137,046
-	-	2,379,893	17,478,238
-	-	4,623,005	8,548,421
23,472,134	3,375,567	858,506,019	(1,644,409,748)
53,497		1,387,459	712,879
71,554,282	4,375,007	1,369,379,480	(1,185,511,299)
		418,734,712	384,760,858
		-	1,364,491
		9,510,225	5,580,350
622,880		1,341,348	570,520
		175,246	84,819
		23,483	16,723
		511,902	462,448
6,087,719	33,593,463	39,681,182	4,607,234
		64,171	57,716
53,497	4,000	19,009,298	17,838,777
6,764,096	33,597,463	489,051,567	415,343,936
64,790,186	(29,222,456)	880,327,913	(1,600,855,235)
118,414,782	35,313,363	4,864,070,663	6,464,925,898
\$183,204,968	\$6,090,907	\$5,744,398,576	\$4,864,070,663

# NOTES TO BASIC FINANCIAL STATEMENTS

*Year ended December 31, 2009*

## *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, embodied in 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.

MERS provides a Defined Benefit Plan, Defined Contribution Program, Hybrid Program, Investment Services Program, Health Care Savings Program, and the Retiree Health Funding Vehicle and Group Buying Programs. See Note 6 for the Defined Contribution Program, Note 7 for the Health Care Savings Program and Retiree Health Funding Vehicle, Note 8 for the Investment Services Program, Note 9 for the Hybrid Program and Note 10 for the Group Buying Programs.

On August 15, 1996, pursuant to 1996 PA 220, MERS became an independent statutory public nonprofit 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 1996, 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 system, is appointed by the Retirement Board.

Three members of the system, who are officers of a participating municipality or of a participating court, who are elected as officer Board members by the delegates at the MERS Annual Meeting.

Three employee members of the system, who are not officers of a participating municipality or of a participating court, who are elected as employee Board members by the delegates at the MERS Annual Meeting.

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 system for their actual and necessary expenses incurred in the performance of their duties.

#### MERS PARTICIPATING MUNICIPALITIES AS OF DECEMBER 31, 2009

Counties	68
Cities and Villages	270
Townships	93
County Road Commissions	58
Authorities, Districts and Others	227
Closed Groups	16
<b>Total</b>	<b>732</b>

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. 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, 2009

Retirees and Beneficiaries Currently Receiving Benefits	
Retirement annuities	20,145
Survivor annuities	3,841
Disability annuities	1,246
Total	25,232
Vested former members	6,463
Current active members	36,713
<b>Total Membership</b>	<b>68,408</b>

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 other benefit plan options allowing retirement at an earlier age with unreduced benefits based upon combinations of age and years of service, or just years of service. MERS also provides 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. Benefits 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.” Per the 2008 annual actuarial valuation, employee contribution rates varied from 0% to 19.61% based on the benefit plan adopted. 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 (the 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. MERS also applied for an updated application for a Letter of Favorable Determination on September 30, 2008 following Board approval at the September Board meeting. This updated application is part of the Internal Revenue Service’s Cycle C program for governmental plan Letters of Favorable Determination. The benefits of tax-qualified status include the preferential deferred taxability of contributions, accumulated earnings, pensions, rollovers, annual compensation limits, and benefit limitations.

Under the Code, the major portion of a retiree’s pension becomes taxable upon periodic 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 benefit calculation purposes and, correspondingly, limits the amount of employer and employee contributions. Compensation in excess of the 401(a) (17) limit (\$245,000 for 2009 and 2010) 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 (b)(1)(A) imposes certain limitations on pension benefit payments from the MERS qualified trust. Any amounts that exceed the limitations shall be paid from a Qualified Excess Benefit Arrangement (QEBA), as authorized by IRC Section 415(m) and Michigan Compiled Law 38.1686. The QEBA shall be a separate plan, and is annually cash funded by the affected participating municipality or court. The Retirement Board established the MERS QEBA in 2003 solely for the purpose of providing 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 MERS qualified 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 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.

### *Cost Allocation*

The costs of administering the plan are allocated out to the municipalities along with investment gains and losses on a quarterly basis. The funding and accounting for each municipality is separate. The liabilities of each member municipality remain with that municipality and the assets of one municipality cannot be used to pay the liabilities of another municipality. Additionally, the assets are commingled for investment and administrative purposes but maintained separately for accounting purposes.

### *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, and 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 12.26% of compensation in 2009; employees contributed 2% of compensation in 2009.

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)
2006	\$ 4,498,837	\$ 6,336,642	\$ 1,837,805	71.00%	\$ 5,374,269	34.20%
2007	5,681,887	7,312,780	1,630,893	77.70	5,879,341	27.74
2008	7,094,900	9,390,969	2,296,069	75.55	7,802,747	29.43

ACTUARIAL ACCRUED LIABILITY FROM DECEMBER 31, 2008 AND DECEMBER 31, 2007 ACTUARIAL VALUATIONS

	2008	2007
Retirees and beneficiaries currently receiving benefits	\$ 929,963	\$ 936,242
Vested former members not yet receiving benefits	240,210	191,225
Nonvested terminated employees (pending refunds of accumulated member contributions)	14,690	13,855
Current employees		
Accumulated employee contributions, including allocated investment income	847,859	699,514
Employer financed	7,358,247	5,471,944
<b>Total Actuarial Accrued Liability</b>	<b>9,390,969</b>	<b>7,312,780</b>
Net assets available for benefits at actuarial value (\$5,098,808 and \$5,748,169 at market value for December 31, 2008, and 2007, respectively)	7,094,900	5,681,887
<b>Unfunded actuarial accrued liability</b>	<b>\$2,296,069</b>	<b>\$1,630,893</b>

## THREE-YEAR TREND INFORMATION SCHEDULE OF EMPLOYER CONTRIBUTIONS

Fiscal Year Ended	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
December 31, 2007	\$ 541,572	100 %	-
December 31, 2008	668,016	100	-
December 31, 2009	720,804	100	-

*Post Employment Benefits*

GASB Statement No. 50, Pension Disclosures – an amendment of GASB Statements No. 25 and No. 27, more closely aligns the financial reporting requirements for pensions with those for other post-employment benefits. This enhances information disclosed in notes to financial statements or presented as required supplementary information by pension plans and employers.

MERS Retiree Health Funding Vehicle is designed to be an investment choice for municipalities rather than a plan for other post-employment benefits. The actual other post-employment benefit plan remains with the municipalities for their administration, and thus implementation of GASB Statement 50 will reside with them.

*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. Real estate investments typically have a quarter lag in reporting, which is an industry standard.

*Capital Assets*

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 on the following page is a schedule of the capital asset account balances as of December 31, 2008 and December 31, 2009.

## CAPITAL ASSETS

Capital Assets	Office Building	Office Furniture and Equipment	Software	Total Capital Assets
Balances December 31, 2008	\$ 805	\$ 3,071,852	\$ 19,696,583	\$ 22,769,240
Additions		579,406	1,247,572	1,826,978
Deletions and Transfers	(805)	(264,325)	(5,608,391)	(5,873,521)
Balances December 31, 2009	\$-	3,386,933	15,335,764	18,722,697
Accumulated Depreciation				
Balances December 31, 2008	\$-	2,196,103	13,897,735	16,093,838
Depreciation Expense		420,683	1,868,877	2,289,560
Deletions and Transfers		(237,961)	(4,386,098)	(4,624,059)
Balances December 31, 2009	-	2,378,825	11,380,514	13,759,339
Net Capital Assets December 31, 2009	\$-	\$1,008,108	\$3,955,250	\$4,963,358

*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 GAAP nor is such data comparable to a consolidation. Transactions between the Defined Benefit Plan, Defined Contribution Program, 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 31 employee interest calculation. It is also used for interest calculations for the subsequent year for those employees requesting a refund of their contributions. Per the 2008 annual actuarial valuation, employee contribution rates varied from 0% to 19.61% based on the benefit plan adopted.

#### Reserves

Three reserves have been established pursuant to the MERS Plan Document for the Defined Benefit Plan. See “Schedule of Changes in Reserves” in the statistical section.

- *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, 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 December 31, 2009 was \$609,778,704. The “Reserve for Employee Contributions” was fully funded as of the December 31, 2008 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, 2009 balance was \$4,666,866,634. The unfunded liability was \$2,076,345,792 (based on the actuarial value of assets) as of the December 31, 2008 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 2009, 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

The Retirement Board has the fiduciary responsibility and authority to oversee the investment portfolio. Various professional investment managers are contracted to manage the system’s assets. All investment decisions are subject to statutory regulations imposed under the Michigan Public Employee Retirement System 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, 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 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, 2009, 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 financial risk that an issuer or other counterparty will not fulfill its obligations to MERS. Credit risk exposure is dictated by each investment manager's agreement. Other criteria based on MERS Retirement Board's 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 use 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 use 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, 2009, the domestic fixed income portfolio consisted of the following fixed income investments on the following page 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, 2009, is presented on the following pages, by investment category as rated by Standard & Poors.

CREDIT RATINGS SUMMARY - DECEMBER 31, 2009

Quality Rating	Corporate Bonds	Mortgages	Asset Backed	Foreign	Municipals
AAA		\$ 19,147,311	\$ 21,757,274	\$ 151,887,234	
AA+	\$ 7,942,534	141,797		4,265,738	
AA	18,105,307	815,026		3,502,489	
AA-	7,051,953	1,681,090		1,460,875	
A+	11,194,627	5,909,021		24,531,006	
A	39,807,118	380,199		24,156,600	
A-	17,024,273	1,015,595	133,461	2,936,114	
BBB+	16,422,723	172,191	141,925	5,449,563	
BBB	15,733,999	965,104	2,176,476	4,937,402	
BBB-	14,104,276	920,822	823,613	3,235,432	
BB+	20,197,206	213,542	1,158,651	2,886,200	
BB	16,653,941	181,276	1,122,033	3,267,354	
BB-	15,070,585	189,088		10,135,785	
B+	13,238,153	1,268,055		5,149,882	
B	16,457,257	704,532		5,464,430	
B-	13,617,301	189,230	419,622	4,551,683	
CCC+	7,259,720				
CCC	7,340,236	4,880,887	1,641,716		
CCC-	1,026,469				
CC		482,848			
C					
D	648,689	64,927	3,237,834	1,754,286	
NR	2,580,378	21,137,233	7,061,005	10,395,905	\$ 10,423,934
<b>Totals</b>	<b>\$261,476,745</b>	<b>\$60,459,774</b>	<b>\$39,673,610</b>	<b>\$269,967,978</b>	<b>\$10,423,934</b>



Commingled Limited Partnership	Other	Yankee	Total	% of Portfolio
		\$ 1,659,780	\$ 194,451,599	16%
			12,350,069	1%
			22,422,822	2%
		6,011,809	16,205,727	1%
	\$ 178,988	8,196,852	50,010,494	4%
			64,343,917	5%
		6,198,872	27,308,315	2%
		224,325	22,410,727	2%
		23,982,967	47,795,948	4%
	332,404	10,935,831	30,352,378	2%
		3,841,523	28,297,122	2%
		2,170,200	23,394,804	2%
		11,556,420	36,951,878	3%
			19,656,090	2%
			22,626,219	2%
		2,076,139	20,853,975	2%
		191,813	7,451,533	1%
			13,862,839	1%
			1,026,469	0%
			482,848	0%
	344,487		344,487	0%
		348,040	6,053,776	0%
\$ 495,371,144	2,140,605	17,453,445	566,563,649	46%
\$495,371,144	\$2,996,484	\$94,848,016	\$1,235,217,685	100%

Agency*	187,596,195
U.S. Treasury	301,553,613
Total Fixed Income	<u>\$ 1,724,367,493</u>

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

### Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Interest rate risk is controlled through diversification of portfolio management styles. Duration is a measure of interest rate risk. The greater the duration of a bond, or a portfolio of bonds, the greater its price volatility will be in response to a change in interest rates and vice-versa. Sensitivity to changing interest rates may derive from prepayment options embedded in an investment. The Board policy, in regards to interest rate risk, is that the effective duration of the domestic portfolio shall be (+/-) 20% of the Barclays Capital Aggregate Index or the Barclays Universal Bond Index. The Board policy, in regards to interest rate risk, is that the effective duration of the global fixed income portfolio shall be (+/-) 20% of the Barclays Capital 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 Barclays Capital 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, 2009, the plan's exposure to interest rate risk (as measured by the effective duration method summary) is listed below by investment type:

#### EFFECTIVE DURATION – DECEMBER 31, 2009

Investment Type	Market Value	Weighted Effective Duration
Agency	\$ 119,584,677	3.05
Asset Backed	39,673,610	3.28
CMBS	19,448,943	4.04
CMO	29,373,799	6.65
Commingled Fund	2,061,682	5.36
Corporate	261,476,745	6.07
Euro	18,906,911	9.80
Foreign	239,593,011	5.36
Mortgages	90,567,894	3.38
Miscellaneous	548,683	5.96
Municipal	10,423,934	5.89
Preferred Stock	344,487	30.05
Private Placement	2,600,236	5.23
Swaps	51,761	12.20
US Treasury	301,553,613	4.99
Yankee (Intl bonds in U.S. dollars)	94,848,016	5.20
<b>Total</b>	<b>\$1,231,058,002</b>	

### *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. The 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 other than those issued or explicitly guaranteed by the U.S. government as of December 31, 2009.



did you know

**Michigan's first railroad was the horse-drawn**

**Erie & Kalamazoo Railroad, which began**

**operations in 1836.**

**(Detroit News – Michigan History)**

### 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, 2009 is summarized below:

#### FOREIGN CURRENCY RISK IN U.S. DOLLAR DENOMINATIONS – DECEMBER 31, 2009

Currency	Equities	Fixed Income	Cash	Real Estate	Total
Australian dollar	\$ 31,957,584	\$ 16,722,291	\$ 173		\$ 48,680,048
Brazilian real	3,690,036	4,509,862	61,663		8,261,561
British pound sterling	60,218,976	15,744,742	1,389,771		77,353,489
Canadian dollar	6,949,478	10,263,309	259,996		17,472,784
Colombian Peso		2,255,615			2,255,615
Danish krone	523,241	33,945,101	(54,611)		34,413,731
Euro	119,081,530	90,119,085	2,766,621		211,967,236
Hong Kong dollar	26,438,591		11,050		26,449,640
Hungarian forint			18,405		18,405
Indonesian rupiah	956,088	1,371,998	11,395		2,339,480
Israeli shekel	923,885		2,859		926,744
Japanese yen	88,019,745	1,443,687	291,861	\$ 62,587	89,817,880
Malaysian ringgit	758,292	9,641,678	100,645		10,500,615
Mexican peso	92,383	12,164,849	554,866		12,812,098
New Taiwan dollar	7,359,638		606,114		7,965,753
New Turkish lira	59,758		545		60,302
New Zealand dollar	1,486,022	16,292,441	312,837		18,091,300
Norwegian krone	867,322	16,564,863	72,291		17,504,475
Polish zloty	1,127,894	8,878,310	44,829		10,051,033
Singapore dollar	15,035,995		8,409		15,044,404
South African rand	6,813,766		298,804		7,112,570
South Korean won	3,930,520	8,466,171	46,800		12,443,491
Swedish krona	2,227,003	17,084,704	43,524		19,355,232
Swiss franc	11,853,938		105		11,854,043
Thai baht	1,230,530		33,658		1,264,187
Turkish lira	1,125,901				1,125,901
<b>Total International Investment Securities</b>	<b>\$392,728,115</b>	<b>\$265,468,706</b>	<b>\$6,882,610</b>	<b>\$62,587</b>	<b>\$665,142,017</b>

### Securities Lending

MERS policy authorizes participation in a securities lending program administered by its global custodian, State Street Bank and 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 MERS and other participating clients on approximately the fifteenth day of the following month. The securities loans are open contracts and, therefore, could be terminated at any time by either party.

The borrower collateralizes the loan with either cash or securities at 102% of market value plus accrued interest on domestic securities, and 105% of market value plus accrued interest on international securities loaned. Due to the nature of the program's collateralization of U.S. fixed income securities loans at 102% plus accrued interest, MERS management believes that there is no credit risk per GASB 40 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 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. In 2009, the fair market value of fixed income securities invested in the cash collateral pool dropped below the original cost, resulting in an unrealized loss of \$16,073,004 that is reflected in the financial statements. Security lending produced a net income of \$4,623,005 in 2009.

#### COLLATERAL HELD AND FAIR VALUE OF SECURITIES ON LOAN – DECEMBER 31, 2009

Fair Value of Securities on Loan	Nature of Collateral	Collateral Held
\$ 984,883,900	Cash	\$ 1,017,278,740
-	Non-Cash	-
<u>\$ 984,883,900</u>		<u>\$1,017,278,740</u>

## Derivatives

Derivative instruments are financial contracts whose value depends on the values of underlying assets, reference rates, or financial indexes. They include futures contracts, swap contracts, credit-linked notes (CLN) and forward foreign currency exchange. While the Board has no formal policy specific to derivatives, MERS holds investments in futures contracts, swap contracts, and forward foreign currency exchange. MERS enters into these derivative contracts primarily to enhance the performance and reduce the volatility of its portfolio. It enters swaps and futures contracts to gain or hedge exposure to certain markets and to manage interest rate risk and forward foreign exchange contracts primarily to hedge foreign currency exposure.

The following tables summarize the various contracts in the portfolio as of December 31, 2009. The notional value associated with these derivative instruments are generally not recorded on the financial statements; however, the amounts for the exposure (unrealized gains/losses) on these instruments are recorded. Interest rate risks associated with these investments are included in the table on the following page. MERS does not anticipate additional significant market risk from the swap arrangements.

### FUTURES CONTRACTS - DECEMBER 31, 2009

Futures Contract	Expiration Date	Long/Short	Notional Value	Market Value
US 2-Yr Treasury Note	4/6/10	Short	\$ (868,624)	\$ (865,064)
US 5-Yr Treasury Note	4/6/10	Long	4,644,360	4,575,320
US 10-Yr Treasury Note	3/31/10	Short	(2,837,256)	(2,770,872)
US 30-Yr Treasury Bond	3/20/09	Long	1,901,504	1,846,000
US Dollar / Japanese Yen Call Option	2/24/14	Long	217,000	361,702

### SWAP CONTRACTS AND STRUCTURED NOTES - DECEMBER 31, 2009

Index	Maturity Date	Position	Notional	Exposure*	Counter party
GSCI Total Return Index	5/28/10	Long	\$ 259,936,217	\$ 3,457,962	Cargill
Int. Rate Swap (USD)	12/9/19	Received Floating	2,030,000	59,963	Citigroup
CMBX Index	7/24/18	Short	(6,700,000)	1,140,999	Citigroup
CLN Indonesia Govt.	11/16/20	Long	465,011	475,783	HSBC
CLN Indonesia Govt.	6/15/21	Long	1,365,012	1,389,990	JP Morgan
P-Note Bharti (India)	10/19/10	Long	588,623	490,891	JP Morgan
P-Note Bharti (India)	9/9/14	Long	853,509	918,560	JP Morgan

\* Swap contracts are governed by International Swaps and Derivatives Association Master Agreements, MERS and counterparties. These agreements require collateral to be posted by either party when exposure exceeds the amount specified in the agreement (usually \$250,000 to \$5,000,000).

## FOREIGN CURRENCY FORWARD CONTRACTS

Pending Receivable	\$ 169,312,789
Pending Payable	(171,240,441)
Foreign Currency Forward Contract Asset (Liability)	<u>\$ (1,927,652)</u>

MERS could be exposed to risk if the counterparties to the contracts are unable to meet the terms of the contracts. MERS and its investment managers seek to control this risk through counterparty credit evaluations and approvals, counterparty credit limits, and exposure monitoring procedures. MERS anticipates that counterparties will be able to satisfy their obligations under the contracts. Investments in limited partnerships and commingled funds may include derivatives that are not shown in the derivatives totals.

### *Private Equity and Capital Calls*

MERS Board has approved \$862,866,742 for investment in private equity securities. As of December 31, 2009, \$717,026,892 was invested in private equity with \$55,024,592 recallable return of capital, leaving \$200,864,442 available for future investments.

## 5. *Commitments and Contingencies*

In the normal course of business, benefit claims are in various states of development. Determinations are made through established administrative procedures. The Retirement Board is responsible for making the final judgment but may be subject to judicial review. 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 Program

### *Plan Description*

MERS Defined Contribution Program 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 the 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. 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 Program 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 and mandatory contributions are governed by the contribution limits under the Internal Revenue Code. Employees in the Defined Contribution Program may not change their contribution after enrollment. Participating municipalities may, upon adoption of a Defined Contribution resolution for new hires, offer current Defined Benefit employees an opportunity to opt into Defined Contribution. MERS 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 Program (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, 2009, there were 168 plans that had adopted Defined Contribution with 8,351 member accounts totaling \$244.8 million.

The MERS Defined Contribution Program with ICMA-RC, offers a variety of investment opportunities, including the MERS Total Market Fund, (the same diversified fund used for the Defined Benefit portfolio) for the Defined Contribution participants. In addition, there are other funds offered from selected mutual fund families including Vantage Trust Funds, which include actively managed funds, index funds, and model portfolio funds.



### *Significant Accounting Policies*

The Defined Contribution 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 a wide range of investment options.

### *Reserve for Defined Contribution Program*

All additions to and deductions from Defined Contribution 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 participating employees. Medical expenses are reimbursed, as defined in Code Section 213, once employees 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 core investment portfolio options 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's 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 core investment portfolio options 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 an investment 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 \$5.3 billion currently in MERS DB Plan, 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 does not have a vote at the MERS Annual Meeting.

### *Significant Accounting Policies*

The Investment Services Program’s 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. *MERS Hybrid Program*

This is a pension plan option for members that includes both a Defined Benefit and a Defined Contribution component. The Defined Benefit component (Part I) is employer funded, with benefit multipliers of 1.0%, 1.25%, and 1.5%. The Defined Contribution component (Part II) is a combination of employer and employee contributions that are invested in mutual funds selected by the individual participant.

## 10. *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, 2009, interfund receivables and payables were as follows:

### INTERFUND RECEIVABLES AND PAYABLES - DECEMBER 31, 2009

	Interfund Receivables	Interfund Payables
Defined Benefit Plan	\$ 867,381	\$ 86,602
Health Care Savings Program		867,381
Retiree Health Funding Vehicle	86,602	
<b>Totals</b>	<b>\$953,983</b>	<b>\$953,983</b>

## 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)
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
2006	5,493.7	7,187.7	1,694.0	76.43	1,545.9	109.6
2007	5,973.0	7,723.9	1,750.9	77.33	1,581.6	110.7
2008	6,245.5	8,321.9	2,076.4	75.05	1,624.9	127.8

### SCHEDULE OF EMPLOYER CONTRIBUTIONS – (DOLLARS IN MILLIONS)

Fiscal Year*	Annual Required Contribution	Accelerated Funding Credit	Percentage Contributed Before Credit	Percentage Contributed After Credit
2004	\$ 156	\$ 2	108%	109%
2005	170	-	108	108
2006	199	-	107	107
2007	258	-	92	92
2008	224	-	109	109
2009	228	-	111	111

\* See Note 1 in the Notes to the Schedules of Required Supplementary Information on the following page.

*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 2009 were determined by actuarial valuations as of December 31, 2007.

Approximately 78% 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 reduces 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 when reviewing 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.

did you know

**One train can carry the load of 280 or more trucks. In 2008, 93.8 million tons of freight originated, terminated, or passed through Michigan. It would have taken approximately 5.2 million trucks to handle this freight.**

**(Association of American Railroads, 1993-2010)**

*Summary Information as follows:*

Valuation Date	December 31, 2008
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percent of Payroll, Open
Remaining Amortization Period	There are 28 years for positive unfunded liabilities, and 10 years for negative unfunded liabilities. The 28-year period will decline by one year in each of the next annual valuations until it reaches 20 years. At the March 11, 2009 Board meeting, the MERS Board voted to hold the 28-year amortization period for unfunded accrued liabilities in effect for the 2007 valuations, constant for the 2008 and 2009 valuations; then, to let it decline by one year each year with the 2010 and beyond valuations. The amortization for unfunded accrued liabilities will reach 20 years with the December 31, 2017 valuation. 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.
Asset Valuation Method	A 10-year smoothed market asset valuation method was adopted December 31, 2005 with prospective application. Prior to 2006, a five-year smoothing 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 recognized in four equal dollar installments in 2004-2007.)
Actuarial Assumptions	
Investment Rate of Return	8%
Projected Salary Increases	A 4.5% for base inflation, plus 0.0% to 8.4% per year attributable to merit and longevity.
Post-Retirement Benefit	A 2.5% annual post-retirement benefit adjustment if adopted by individual municipalities.

SCHEDULE OF ADMINISTRATIVE EXPENSES FOR THE YEAR ENDED DECEMBER 31, 2009  
DEFINED BENEFIT PLAN

<b>Administrative Expenses</b>	
<b>Personnel Services</b>	
Salaries	\$ 7,492,968
Social Security	533,030
Retirement	952,575
Insurance	1,612,658
<b>Total Personnel Services</b>	<b>10,591,231</b>
<b>Professional Services</b>	
Actuarial Services	1,259,250
Audit Services	65,646
Commercial Banking	117,280
Computer Maintenance	8,604
Consultants	94,718
Legal Services	120,767
Medical Services	44,900
Third Party Administrators	35,649
<b>Total Professional Services</b>	<b>1,746,814</b>
<b>Communication</b>	
Advertising / Promotional Supplies	8,296
Annual Meeting	202,966
Library and Records Storage	41,285
Postage / Shipping	140,560
Printing and Copying Services	89,274
Telephone / Communications	106,805
Travel and Meetings	301,001
<b>Total Communication</b>	<b>890,187</b>
<b>Rentals</b>	
Equipment Rental	121,004
Office Rental	860,500
<b>Total Rentals</b>	<b>981,504</b>
<b>Miscellaneous</b>	
Depreciation	2,289,560
Equipment Purchases	98,420
Insurance	269,893
Building / Equipment Maintenance	328,739
Office Supplies	97,669
Operating Expenses	781,940
Payroll Processing	16,256
Personnel Support	412,058
Professional Development & Tuition	419,397
Software Purchases and Maintenance	650,768
Subscriptions / Memberships	72,852
Service Fees	(854,644)
<b>Total Miscellaneous</b>	<b>4,582,908</b>
<b>Total Administrative Expenses</b>	<b>\$18,792,644</b>



SCHEDULE OF INVESTMENT EXPENSES FOR THE YEAR ENDED DECEMBER 31, 2009  
DEFINED BENEFIT PLAN

<b>Investment Expenses</b>	
<b>Personnel Services</b>	
Salaries	\$ 818,766
Social Security	59,525
Retirement	99,713
Insurance	124,046
<b>Total Personnel Services</b>	<b>1,102,050</b>
<b>Professional Services</b>	
Commercial Banking	727,357
Investment Managers	15,664,389
Investment Performance	101,500
Other Consultants	84,583
<b>Total Professional Services</b>	<b>16,577,829</b>
<b>Communication</b>	
Travel	37,239
<b>Total Communication</b>	<b>37,239</b>
<b>Miscellaneous</b>	
Operating Expenses	15,133
Software Purchases/Maintenance	288,347
<b>Total Miscellaneous</b>	<b>303,480</b>
<b>Total Investment Expenses</b>	<b>\$18,020,598</b>

## SCHEDULE OF PAYMENTS TO CONSULTANTS

Firm	Nature of Service	Amount
Gabriel, Roeder, Smith & Company	Actuary & System Implementation	\$ 1,322,971
Tegrit Financial Group	MAPS Software Support	1,003,759
Robbins-Gioia, LLC	FileNet System Implementation & Support	300,642
Oracle, USA Inc.	PeopleSoft Software Support	268,644
Dell Marketing, LP	Server Hardware & Support	150,911
Bloomberg Finance LLP	Bloomberg Access Support	99,132
Barra, Inc	BarraOne Support	83,200
Andrews Hooper & Pavlik P.L.C.	Auditors	72,566
Sungard Availability Services	Business Continuation Services	57,809
Logicalis	Server Hardware Support	50,237
Thomson Financial	Investment Financial Data Service	46,269
Consulting Physicians, PC	Medical Advisors	44,900
Interactive Business Systems	Software Support	43,355
Service Express, INC	Server Hardware Support	40,517
Gavekal Capital Management LTD	Investment Strategy Study	40,000
Pace and Partner, Inc.	Rebranding Initiative	37,136
CEM Benchmarking, INC.	Benchmark Data Production	35,000
New London Management	Human Resource & Career Advisors	33,875
Ice Miller	Legal Counsel	33,368
Karoub Associates	Legislative Advisors	30,000
Miller Canfield	Legal Counsel	28,968
Such Video	Audio/Video Production Services	28,476
IBM Corporation	FileNet Software Support	28,205
Management Recruiters of Lansing	Employment Recruiting	23,912
Zephyr Associates	Style Advisor Support	22,000
<b>Total Payments to Consultants</b>		<b>\$ 3,925,852</b>

Note: The above fees are included in the administrative and investment expenses.

# The Light at the End of the Tunnel isn't Always a Train

We champion unique solutions. We continually improve programs and services that strengthen the financial stability of Michigan and its residents.



# REPORT ON INVESTMENT ACTIVITY

*Jeb Burns, Chief Investment Officer*

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 similar circumstances that 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 numerous benefit programs including: Defined Benefit Plan, Defined Contribution Program, Investment Services Program (ISP), Health Care Savings Program (HCSP), Retiree Health Funding Vehicle (RHFV), and a Hybrid Program. The first portion of the Investment Section is devoted to the Defined Benefit Plan and the second portion to the Defined Contribution Program, with a short commentary on the MERS Hybrid, ISP, HCSP, and RHFV Programs.

## *A. Defined Benefit Plan*

### *Investment Objectives and Activity*

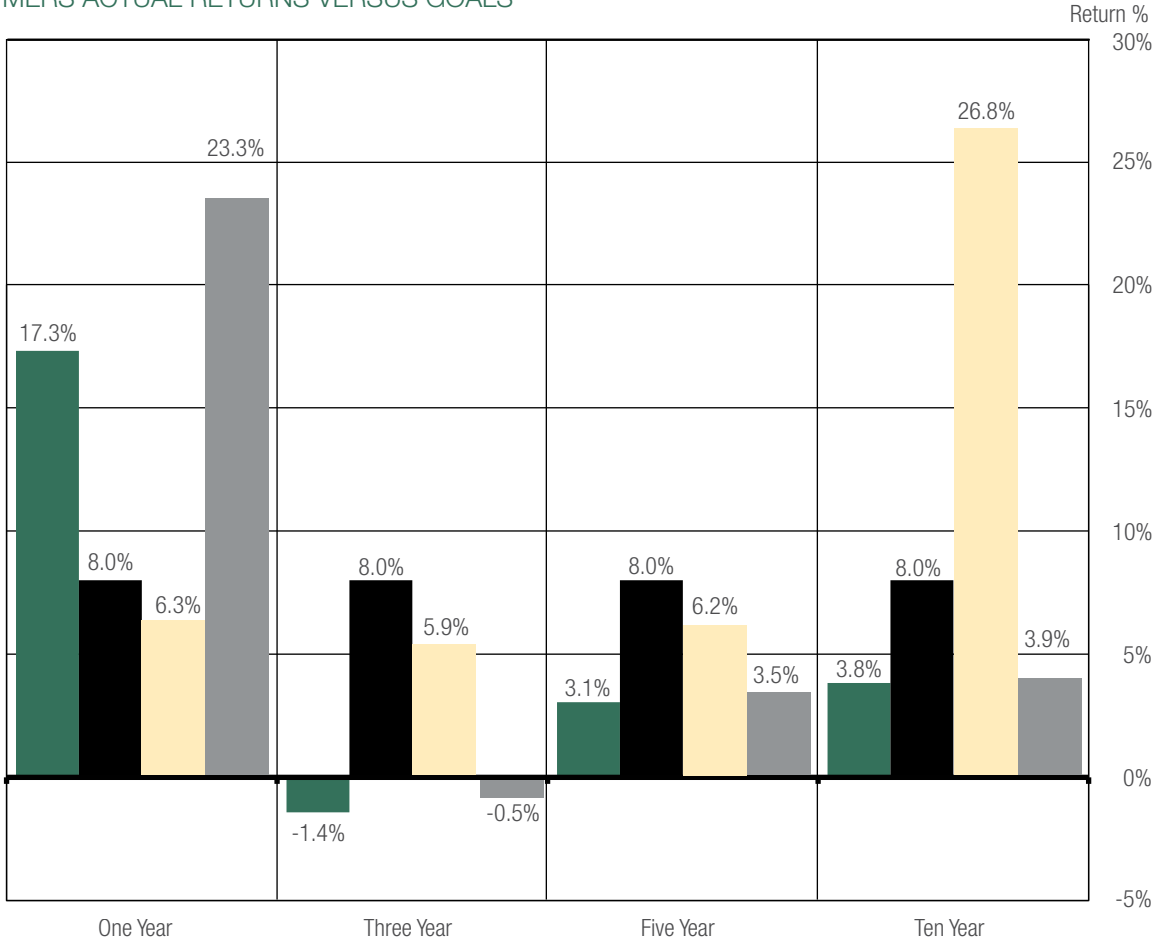
The primary investment objective is to maximize the long-term total rate of return on investments with a high degree of prudence and sufficient diversification. Actions based on this mindset helps to eliminate inordinate risks in conformity with the Michigan Public Employee Retirement System Investment 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 by using skilled internal and external resources without negatively affecting the performance of the portfolio.

The long-term objectives for the investment assets are:

- To exceed the actuarial assumption rate of 8%
- Outperform the MERS policy benchmark
- Achieve a real rate of return of at least 3.5% annually over the rate of inflation

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

MERS ACTUAL RETURNS VERSUS GOALS



- MERS Total Market Fund
- Actuary Rate
- CPI + 3.5%
- MERS Policy Benchmark

Total Fund Investment Results

The investment portfolio produced a total gross return for the fiscal year of 17.31%. Total equity contributed significantly to the portfolio's performance in 2009, with MERS equity portfolio outperforming by 392 basis points. All public asset classes produced positive returns for the portfolio as both the credit and equity markets normalized and the beginnings of an economic recovery took hold. MERS private equity and real estate investments detracted from the overall returns of the portfolio, posting returns of -14.08% and -13.01%, respectively.

### Universe of Public Fund Plans

The MERS portfolio was ranked in the 60th percentile within the State Street Extended Universe of Public Funds for the fiscal year ending December 31, 2009. MERS was ranked in 61st, 63rd, and 22nd percentiles for the three, five, and seven year periods, respectively. The State Street Extended Universe was comprised of 143 public fund plans for the full year period ended December 31, 2009. The State Street Extended Universe was comprised of 141 public fund plans for the year-to-date period ended March 31, 2010. The total market value was \$1.045 trillion as of March 31, 2010. The plans ranged in size from \$1.3 million to \$210.2 billion, with a median market value of \$546.1 million and an average market value of \$7.5 billion.

The portfolio returned -1.42%, 3.05%, and 7.56% for the three, five, and seven-year periods, respectively, versus its policy benchmark at -0.54%, 3.53%, and 7.38%. The policy portfolio benchmark reflects the return that would have been achieved if MERS had invested exclusively in passively managed index funds. Both 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. The returns of the portfolio are calculated using a time-weighted rate of return. The table below shows the annualized returns gross of fees for fiscal year ending December 31, 2009. MERS active approach to portfolio investing has added value for longer time periods. It should be noted that recent underperformance is largely associated with benchmark issues related to private equity. Private equity is benchmarked to the Russell 2000 Small Cap Index, which returned 27.16% for the one-year, while the private equity portfolio returned -14.08% for the same time period. This reflects the delayed reporting of the asset class. This situation should normalize in 2010 and 2011.

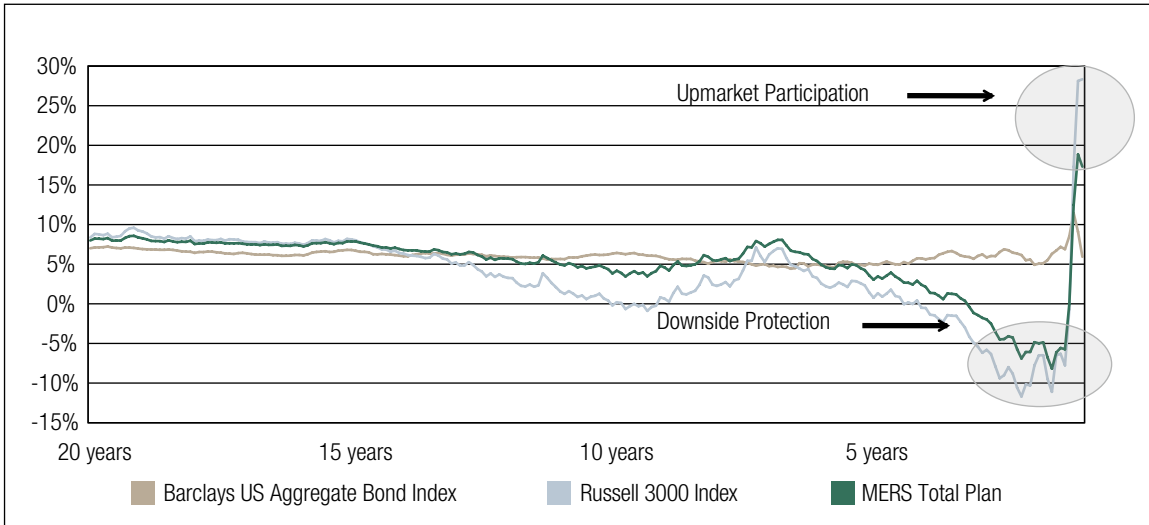
#### SCHEDULE OF INVESTMENT RESULTS GROSS OF FEES

	One Year Annualized	Three Year Annualized	Five Year Annualized
MERS Total Market Fund	17.31%	-1.42%	3.05%
MERS Total Market Fund Custom Benchmark	23.30%	-0.54%	3.53%
*Median Public Plan	18.51%	-1.07%	3.35%
Domestic Stocks	31.11%	-5.78%	-0.20%
Russell 3000 Index	28.34%	-5.42%	0.76%
International Stocks	36.03%	-5.95%	5.01%
MSCI ACWI ex USA	42.14%	-3.04%	6.30%
Fixed Income	12.44%	6.06%	5.07%
BC Bond Index	5.93%	6.04%	4.97%
High Yield Bond	48.76%	-0.40%	2.81%
Merrill Lynch High Yield Master II	57.51%	5.82%	6.34%
Real Estate	-13.01%	-6.31%	3.14%
NCREIF Property Performance	-22.11%	-1.29%	6.16%

\* The Median Public Plan returns are shown gross of fees

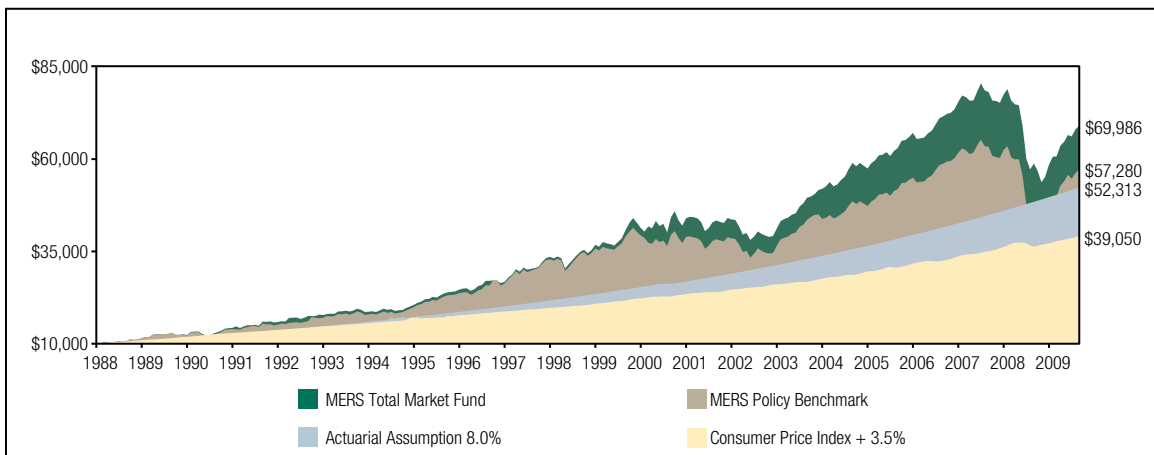
The portfolio is constructed to reduce volatility in down markets, yet still participate in up markets. The chart below, comparing MERS to the major market indices, demonstrates the value of diversification and MERS ability to quickly rebound in up market conditions.

DOWNSIDE PROTECTION UPMARKET PARTICIPATION – AS OF DECEMBER 2009



MERS Total Market Fund is specifically designed to provide protection in turbulent financial markets. After the market crisis of 2008, markets posted dramatic positive returns across all asset classes globally. The Total Market Fund posted a positive return of 17.31% for the year. The combination of passive and active management, diversification across asset classes, and its disciplined adherence to asset allocation has allowed MERS to provide value through multiple market cycles. The chart below illustrates the growth of \$10,000 for over 20 years. It compares the fund to its various benchmarks and demonstrates the value added from active portfolio management.

GROWTH OF \$10,000 - PERIOD ENDED DECEMBER 31, 2009



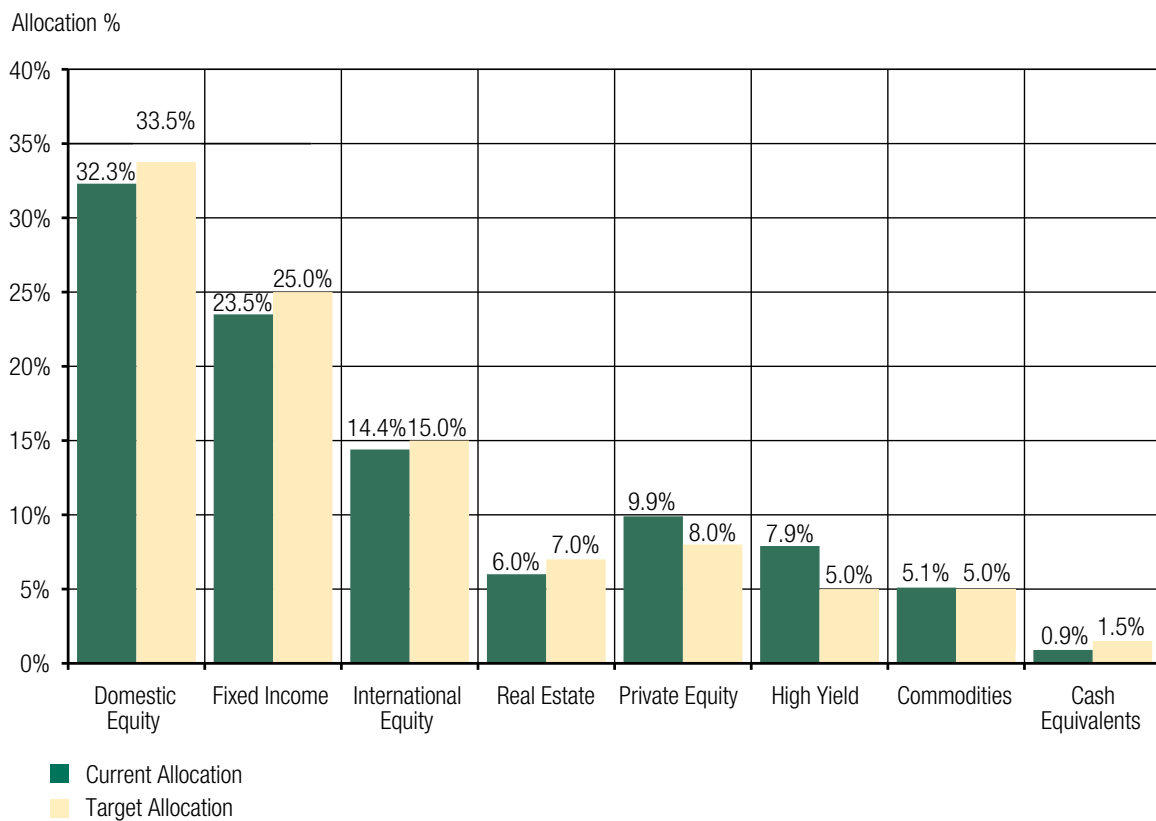


### Asset Allocation

The allocation plan designs the 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, commodities, 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 chart below.

The fund is currently conducting a new asset allocation study, which will be presented to the Board in July of 2010.

#### CURRENT ASSET ALLOCATION VERSUS TARGET ALLOCATION – AS OF DECEMBER 31, 2009



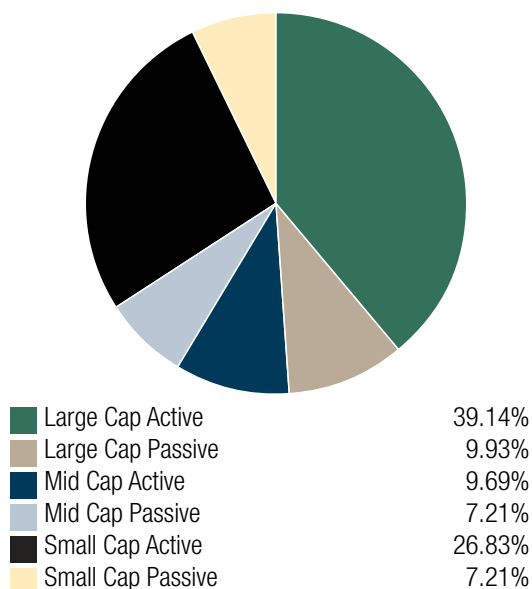
### *Universe of Public Fund Plans Greater than One Billion*

The MERS portfolio was ranked in the 60th percentile within the State Street Extended Universe comprised of 54 Public Funds exceeding \$1 billion in assets for the fiscal year ending December 31, 2009. MERS ranked 45th for the three year time period and 23rd and 28th for the seven and ten-year periods, respectively, demonstrating the funds' ability to provide strong and consistent performance through multiple market cycles. The State Street Extended Universe is comprised of 57 public fund plans exceeding \$1 billion in assets for the quarter ended March 31, 2010. The total market value was \$1.02 trillion as of March 31, 2010. The plans ranged in size from \$1.0 billion to \$210.2 billion, with a median market value of \$5.10 billion and an average market value of \$17.96 billion.

### Domestic Equities

The total equity portfolio includes U.S. common stocks and international stocks, representing 46.8% of the total portfolio, with domestic equities comprising 32.3%, as of December 31, 2009. The year-end composition of the equity portfolio is shown and is compared to the 2008 equity allocation.

#### TOTAL DOMESTIC EQUITY PORTFOLIO 2009



The returns for this asset class were positive in 2009 as the effects of the massive government stimulus effects took hold. The domestic common stock portfolio returned 31.11% versus the Russell 3000 Index with a return of 28.34%. MERS small cap portfolio returned 35.90% versus the Russell 2000 Index at 27.16%. Active management added significantly to the absolute returns, with small cap stocks outperforming large and mid cap domestic equities.

Passive management accounts for 11.72% 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 the S&P 500 Index internally in 2003, the S&P 400 in 2004, and added the S&P 600 in 2005.

The non-passive management accounts are 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: 0.5% large cap core, 5.7% large cap growth, 5.8 large cap value, 3.1% mid cap core, 5.2% small cap value, and 3.5% small cap core.

TOP TEN EQUITY HOLDINGS AS OF DECEMBER 31, 2009

Asset Description	Market Value	Percentage of Total Market Value
Apple, Inc.	\$ 22,560,768	0.41%
Intel Corporation	20,832,147	0.38%
Microsoft Corporation	18,809,891	0.34%
Cisco Systems, Inc.	18,103,700	0.33%
Lowe's Companies, Inc.	16,389,162	0.30%
Oracle Corporation	15,301,800	0.28%
Pfizer, Inc.	13,947,674	0.25%
Chevron Corporation	13,714,496	0.25%
Johnson & Johnson	12,673,530	0.23%
National-Oilwell Varco, Inc.	12,240,780	0.22%

*International Equities*

The allocation to non-U.S. stocks comprises 14.4% of the total portfolio. Of this, 4.9% is passively managed in the Barclays ACWI 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. 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 4.92%.

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 Cap for small cap mandates, both computed by Morgan Stanley Capital International. The international portfolio returned 36.03% for the one-year period ending December 31, 2009; the portfolio returned -5.95% and 5.01% for three and five years, respectively.

## Fixed Income

### Investment Grade

The U.S. fixed income markets provided additional diversification relative to equities. The targeted fixed income portfolio is 25% of the total portfolio, including high yield bonds. It serves to diversify the equity risk component within the fund, providing asset protection during market downturns. Fixed income usually serves as a liquidity source for the fund. This function was still somewhat impaired due to the nature of the global crisis which was a result of server dislocations in the credit market. The fixed income performance is measured against the Barclays Aggregate Bond Index and Barclays U.S. Universal. The long-term returns for this sector of the portfolio are 6.06% and 5.07% for the three and five-year periods, respectively; all are actively managed. 2009 was historic with a return of 12.44% for the fixed income portfolio.

### High Yield Bonds

The high yield portfolio returned 48.76% versus its benchmark, the Merrill Lynch High Yield Master II Index, at 57.51%. Underperformance was the result of the higher quality positions held within MERS actively managed portfolios versus the policy benchmark. MERS high yield posted the highest absolute returns in the returns for 2009. The Board approved a tactical overweight to high yield in late 2008 of up to 10% of the total portfolio. As of December 31, 2009, the allocation was 7.9%.

#### TOP TEN FIXED INCOME HOLDINGS AS OF DECEMBER 31, 2009

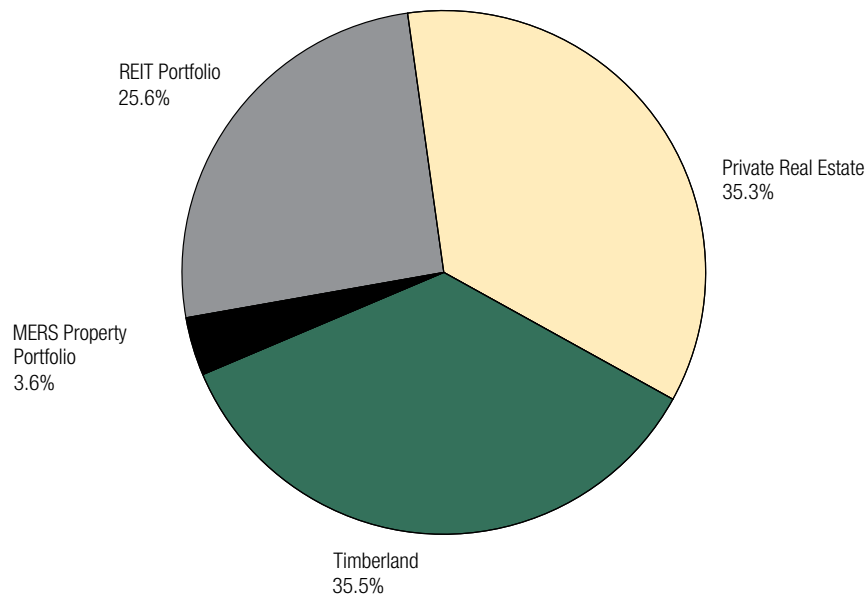
Asset Description	Market Value	Percentage of Total Market Value
United States Treasury 0.875% 2/29/2012	\$ 40,172,923	0.73%
United States Treasury 3.25% 3/31/2017	36,607,603	0.67%
United States Treasury 3.625% 2/15/2020	29,127,129	0.53%
United States Treasury 2.5% 3/31/2015	27,162,702	0.49%
Swedish Government Bond (B1FLSSII5)	17,724,087	0.32%
Norwegian Government Bond	17,515,341	0.32%
Swedish Government Bond (53573II2)	15,902,733	0.29%
Realkredit Danmark	15,163,800	0.28%
United States Treasury 2.5% 1/15/2029	14,888,202	0.27%
United States Treasury 0.625% 4/15/2013	14,825,664	0.27%

### Real Estate Portfolio

MERS real estate investments represented 6.0% of the total portfolio at end of 2009. The portfolio has an overall target allocation of 3% to private real estate, 2% to public real estate, and 2% to timberland. The total portfolio returned -13.01% for the year against the MERS blended real estate benchmark at 0.90%. The benchmark consists of 42.86% of the NCREIF (National Council of Real Estate Investment Fiduciaries) Property Index, 28.57% of the NCREIF Timberland Index, and 28.57% of the EPRA/ (European Public Real Estate Association) NAREIT (North American Real Estate Investment Trust) Index. For the three, five, and ten year periods, the portfolio returned -6.31%, 3.14%, and 8.78%, respectively.

Private real estate and timberland produced returns of -37.81% and -0.63% versus the NCREIF Property Index at -22.11% and the NCREIF Timberland Index at 2.51%. Private real estate is diversified by property type, geographic region, and risk category. There is a target split of 40% core and 60% non-core. The return for the public securities portion of the portfolio was 40.75% versus the EPRA / NAREIT Index at -38.26%. Public real estate is comprised of Real Estate Investment Trusts (REIT).

#### TOTAL REAL ESTATE PORTFOLIO 2009



### *Private Equity*

The MERS private equity portfolio invests predominately in private markets via such vehicles as venture capital, leveraged buyouts, distressed debt, and other special situational investment opportunities. The objective is to achieve higher total returns for the fund using a diversified portfolio within the risk budget established by the MERS Board. Credit Suisse's Customized Fund Investment Group serves as the consultant over all private equity investments. The portfolio is broadly diversified with investments in the U.S., Europe, and Asia. A co-investment fund program allows MERS to take larger positions in individual companies for the pursuit of higher returns. Cash awaiting deployment is invested in short-term cash instruments, S&P 500 futures contracts, and global macro total return funds.

The December 31, 2009 value of the private equity portfolio was \$543 million with returns of 1.09% and 5.85% for the three and five years, respectively.

### *Commodities*

MERS dedicated commodities allocation was increased from 3% to 5% in 2009. This portfolio seeks to take advantage of global growth and add further diversification from its low correlation to other asset classes. It also seeks to outperform the Goldman Sachs Commodities Index through the use of an enhanced swap, and active management of the cash collateral pool.

### *Cash Management*

All cash in the portfolio is actively managed within MERS. 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 principle risk.

INVESTMENT SUMMARY FOR DEFINED BENEFIT PLAN, RETIREE HEALTH FUNDING VEHICLE,  
HEALTH CARE SAVINGS AND INVESTMENT SERVICES PROGRAMS AS OF DECEMBER 31, 2009

Type of Investment	Market Value
<b>Fixed Income</b>	
Domestic and International Fixed Income	\$ 1,002,689,499
Limited Partnerships	288,274,522
High Yield	433,403,472
<b>Total Fixed Income</b>	<b>1,724,367,493</b>
<b>Equities</b>	
Domestic and International Stock	2,570,658,750
<b>Total Equities</b>	<b>2,570,658,750</b>
<b>Private Equity &amp; Commodities</b>	
Commodities	278,921,927
Private Equity	543,219,655
<b>Total Private Equity &amp; Commodities</b>	<b>822,141,582</b>
<b>Real Estate</b>	
Real Estate	331,348,121
<b>Total Real Estate</b>	<b>331,348,121</b>
<b>Sub Total Investments</b>	<b>5,448,515,946</b>
<b>Cash Equivalents</b>	
Cash Equivalents	48,194,466
<b>Total Cash Equivalents</b>	<b>48,194,466</b>
<b>Sub Total Investments &amp; Cash</b>	<b>5,496,710,412</b>
Payables - Purchases of Investments	359,429,651
Receivables - Sale of Investments & Interest	(338,721,460)
<b>Total Investments</b>	<b>\$5,517,418,603</b>

Note: Includes receivables and payables for sales and purchases of securities with settlement dates after December 31, 2009.

RECONCILIATION OF INVESTMENTS TO FINANCIAL STATEMENTS

Investments on Financial Statements	\$ 5,701,945,005
Less Defined Contribution investments	(202,769,470)
<b>Total Investments less Defined Contribution</b>	<b>\$5,499,175,535</b>
Total Investments from above	\$ 5,517,418,603
Total market portfolio in Defined Contribution portfolio	(12,164,716)
Bonds in default	(5,792,464)
Small unit adjustments	(285,888)
<b>Investments on Financial Statements less Defined Contribution</b>	<b>\$5,499,175,535</b>



## SCHEDULE OF INVESTMENT COMMISSIONS – 2009

Brokerage Firm	Shares Traded	Total Dollars	Commission/Share
SG Securities	28,135,863	\$ 5,181	0.0002
JP Morgan	19,652,060	11,872	0.0006
National Financial Services Corp	15,200,288	23,018	0.0015
Citi Group Global Markets	14,328,784	6,125	0.0004
BNY Convergenx	12,955,879	208,382	0.0161
Goldman Sachs & Company	11,894,649	23,320	0.0020
Wachovia Capital Markets	11,429,350	27,369	0.0024
Stone and Youngberg	10,300,000	84,333	0.0082
Jefferies and Co. Inc.	10,227,855	26,467	0.0026
Daiwa Securities Inc	9,938,119	2,684	0.0003
Direct Trading Institutional Inc.	9,615,687	68,683	0.0071
Credit Research and Trading LLC	9,198,257	1,200	0.0001
Brockhouse & Cooper Inc.	8,408,544	4,193	0.0005
Cantor Fitzgerald & Company	8,357,703	183,918	0.0220
William Smith Securities	7,030,374	138,080	0.0196
BMO Capital Markets	6,070,950	7,678	0.0013
Ridge Clearing & Outsourcing Solutions	5,469,600	330	0.0001
Instinet	5,329,554	109,707	0.0206
ABN Amro	4,675,536	4,098	0.0009
Stephens, Inc.	4,230,814	22,166	0.0052
Weeden & Company	4,126,430	84,125	0.0204
Nomura International	4,077,335	3,752	0.0009
Merrill Lynch	3,994,654	8,361	0.0021
Abel Noser Corporation	3,888,579	65,504	0.0168
Pershing	3,696,009	3,789	0.0010
Subtotal (25 Largest)	232,232,873	1,124,335	0.0048
Remaining Total	56,456,393	1,048,129	0.0186
<b>Total Commissions</b>	<b>288,689,266</b>	<b>\$2,172,464</b>	<b>0.0075</b>

SCHEDULE OF INVESTMENT FEES – 2009

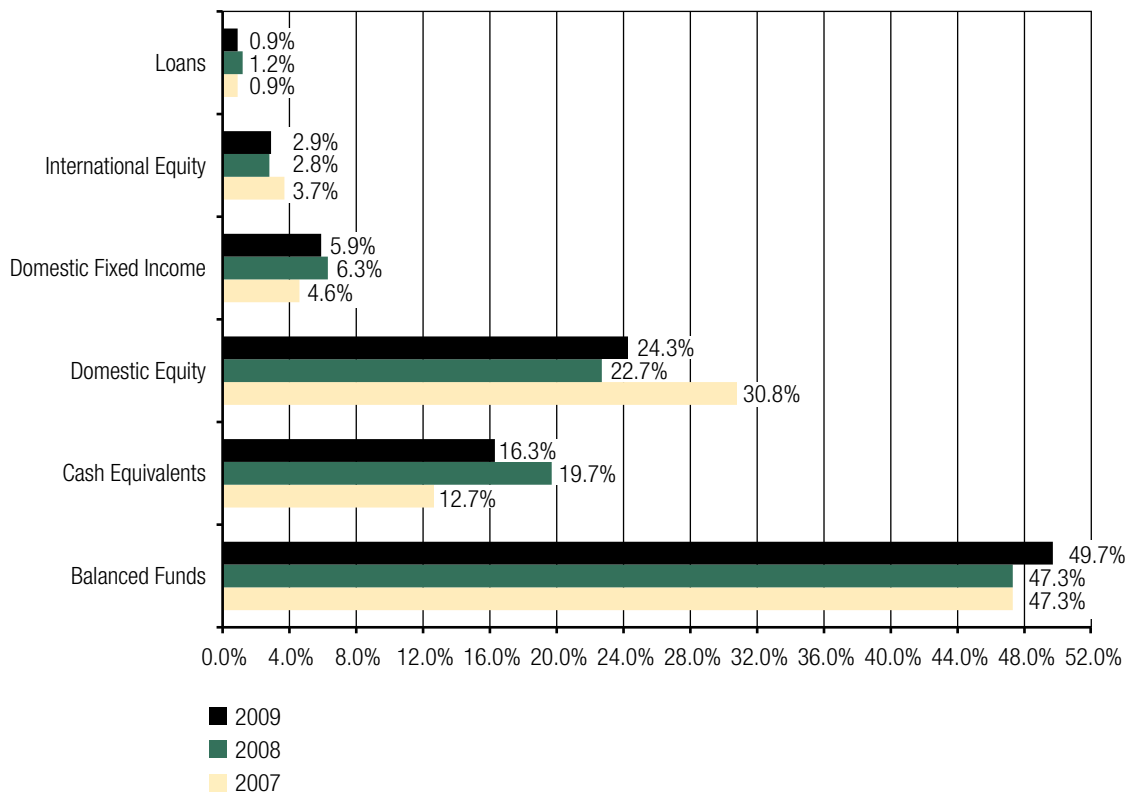
Investment Managers	Average Assets Under Management	Annual Fee	Average Basis Points
Acadian Asset Management	\$ 154,570,767	\$663,472	42.92
Barclays Global Investors- Core Active	191,767,345	52,614	2.74
Barclays Global Investors- AIE	176,033,236	161,134	9.15
Barclays Global Investors- ACWI	268,821,430	52,614	1.96
Barclays Global Investors- Efficient Frontiers	51,751,295	262,544	50.73
Barclays Global Investors- Global Ascent	27,048,520	598,788	221.38
BRC Investment Management	29,916,679	67,635	22.61
Credit Suisse Customized Infrastructure	175,635,708	2,103,053	119.74
Credit Suisse Private Equity Fund	543,219,655	5,590,053	102.91
C.S. McKee	190,634,523	690,727	36.23
C.S. McKee- Fixed Income	244,988,165	404,726	16.52
Delaware Investment Advisors	299,308,094	584,494	19.53
Delaware Strategic Advisors	77,938,931	117,916	15.13
Driehaus Global Growth	53,730,498	52,799	9.83
First International Advisors	346,783,741	698,887	20.15
Hexam	53,598,912	84,568	15.78
Johnson Investment Counsel	8,807,410	2,202	2.50
Kennedy Capital Management	207,972,160	756,485	36.37
LSV Asset Management	87,396,089	128,978	14.76
Mondrian International	211,783,954	540,965	25.54
Reams Asset Management	296,906,417	301,088	10.14
Stone Harbor	286,378,255	626,684	21.88
Urdang Investment Management	87,878,145	410,941	46.76
Wellington Management	314,365,973	680,089	21.63
Wellington Management- Mid Cap	172,134,458	877,125	50.96
The Townsend Group	121,202,510	218,047	17.99
<b>Total Investment Manager Fees</b>	<b>\$4,680,572,870</b>	<b>\$16,728,628</b>	<b>35.74</b>
<b>Investment Custodian</b>			
State Street Bank and Trust		727,357	
<b>Investment Performance Measurement Consultant</b>			
State Street Bank and Trust		101,500	
<b>Securities Lending Agent</b>			
State Street Bank and Trust		1,155,585	
<b>Total Investment Fees</b>		<b>\$18,713,070</b>	

## B. MERS Defined Contribution Program

### Investment Activity

The MERS Defined Contribution Program became operative on July 8, 1997, under Section 401(a) of the Internal Revenue Code. This program is available for adoption by all member municipalities, and an alternative option to MERS Defined Benefit Plan. As of December 31, 2009, the Defined Contribution Program had net assets of \$245 million and 8,351 members. Each member is responsible for directing the investment of their accumulated account balance. Members receive investment performance information from MERS third-party administrator, International City/County Management Association – Retirement Corporation (ICMA-RC). MERS allows its Defined Contribution participants to invest in the Total Market Fund, Established Market Fund, Diversified Bond Fund and Short-Term Managed Income Fund.

### ASSET ALLOCATION OF DEFINED CONTRIBUTION PROGRAM



## *Investment Options*

MERS offers the following investment options through our third-party administrator (ICMA-RC) for the DC Program:

### ***Plus Fund and Money Market***

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. The Cash Management Money Market offers a liquid position that seeks to maintain principal while earning a short-term yield.

### ***Bond Funds***

Bond funds offer investments into various bond types:

- The recently added MERS Short-Term Managed Income Fund offers the short-term managed cash returns from the MERS Defined Benefit portfolio.
- The recently added MERS Diversified Bond Fund offers a global bond fund from MERS Defined Benefit pension portfolio; Inflation Protected Securities Fund offers investment into Government Securities.
- PIMCO Total Return Fund and the Core Bond Index Fund offer diversified fixed income holdings; and the PIMCO High Yield fund offers lower grade but higher yielding fixed income positions.

### ***Equity Funds***

Equity funds actively manage funds invested in both domestic and international equities. Included in this category are:

- Aggressive Opportunities Fund, International Fund, Growth Fund, Growth and Income Fund, Equity Income Fund, Fidelity Diversified International Fund, American Century Value Fund, Ave Maria Fund, Lord Abbett Large Company Value Fund, Legg Mason Value Fund, Calvert Social Investment Fund, Fidelity ContraFund, Fidelity Magellan Fund, Goldman Sachs Mid Cap Value Fund, Third Avenue Value Fund, Rainier Small/Mid Cap Equity Fund, T. Rowe Price Small Cap Stock Fund, Royce Premier Fund, Fidelity Small Cap Retirement Fund, and the American Century Real Estate Investment Trust

### ***Equity Index Funds***

Equity index funds are comprised of:

- Overseas Equity Index Fund
- Mid/Small Company Index Fund, Broad Market Index Fund
- 500 Stock Index Fund

**Balanced Funds**

Balanced funds are comprised of managed allocation styles of stocks, bonds, cash, and/or other asset classes. A fund manager decides when and what proportion to move between them. Included are:

- Fidelity Puritan Fund
- Asset Allocation Fund
- MERS Established Market Fund
- MERS Total Market Fund

**Model Portfolio Funds**

Model portfolio funds consist of five funds invested 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. Included in descending order of market risk:

- All-Equity Growth Fund
- Long-Term Growth Fund
- Traditional Growth Fund
- Conservative Growth Fund
- Savings-Oriented Fund

**Target Date Funds**

Target date funds are a series of funds or portfolios designed for retirement dates at 5-10 year intervals. These broad asset-allocation portfolios are designed to seek high returns when retirement is many years off, and to gradually moderate risk over time.

Target date investing allows investors the opportunity to select one fully diversified fund 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 by combining existing mutual funds, creating a “fund of funds.” Once the asset mix is established, it will automatically rebalance at a predetermined future date based on a presumed age.

### *C. MERS Hybrid Program*

This is a pension plan option for members that includes both a Defined Benefit and a Defined Contribution component. The Defined Benefit component (Part I) is employer funded, with benefit multipliers of 1.0%, 1.25%, and 1.5%. The Defined Contribution component (Part II) is a combination of employer and employee contributions that are invested in mutual funds selected by the individual participant.

### *D. MERS Health Care Savings Program*

MERS Health Care Savings Program is a tax-favored individual medical savings account sponsored by employers. When a participant leaves employment, the account balance is available for tax-free reimbursement of medical expenses for the participant and eligible dependents. Participants choose from four MERS Core Investment Options to save and grow their account assets.

### *E. MERS Retiree Health Funding Vehicle*

The Retiree Health Funding Vehicle is a medical trust that allows municipalities to save and grow assets in one of MERS Core Investment Options to offset retiree health care liability. This funding vehicle also saves employers from forming their own trust to administer and direct investments.

### *F. MERS Investment Services Program*

A complete list of the portfolio holdings is available upon request.

The Investment Services Program provides municipalities non-membership access to the MERS Total Market Fund. Employers benefit from a professionally managed fund, economies of scale and lower administrative fees, while still maintaining local control of administration.

## **MERS Won't Leave You at the Station**

We strive to uphold our long-held  
commitment of providing you  
with outstanding service,  
security, and solutions.





# ACTUARY CERTIFICATION LETTER



October 29, 2009

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 28 years). The latest completed actuarial valuations were based upon population data, asset data, and plan provision data as of December 31, 2008. These valuations determine the contribution rates for the fiscal years beginning in 2010.

The actuarial valuations are based upon financial data, plan provision data, and participant data which are prepared by retirement system staff. The data is reviewed by us for internal and year-to-year consistency as well as general reasonableness, but is not otherwise audited by us. 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, rates of retirement, withdrawal, 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 10-year period.

Retirement Board  
October 29, 2009  
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 Withdrawal (Excluding Death or Disability)
- Rates of Withdrawal 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 dramatic price declines across the world financial markets in 2008 led to volatility unlike any experienced in decades. Since 2008, conditions have improved but have continued to be somewhat volatile. This is a crisis of the global economy focused on the financial sector. The U.S. government and business leaders are doing all they can to address the issues. Even so, it may be difficult in the short term to meet the investment assumption of 8% annual return, based on the actuarial value of assets.

The actuarial value of assets (funding value), used to determine both MERS' funded status and the required employer contributions, is based on a 10-year smoothed value of assets. Only a portion (one-tenth) of the 2008 investment market losses were recognized in the 2008 actuarial valuation reports. The rest of the 2008 investment market loss is scheduled to be recognized in equal installments over the subsequent nine years. This reduces the volatility of the valuation results, which affects the required employer contribution and actuarial funded percentage.

As of December 31, 2008 the actuarial value of assets was 139% of market value. This means that meeting the actuarial assumption in the next few years will require average annual market returns that substantially exceed the 8% investment return assumption. As was true for past market downturns, MERS expects the markets to continue to rebound over time. By the time the 2008 market losses would be fully recognized (over the following 9 years), future market gains are expected to partly or fully offset 2008 market losses. This smoothing method is a powerful tool for reducing the volatility of the required employer contributions.

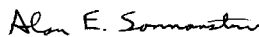
**Gabriel Roeder Smith & Company**

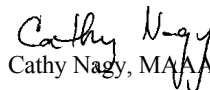
Retirement Board  
October 29, 2009  
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If the investment markets do not fully make up the 2008 losses, employer contribution requirements can be expected to rise. MERS is doing everything it can to make sure that if this proves to be the case, the increases are incremental as opposed to steep.

To the best of our knowledge, the actuarial valuations are complete and accurate and are made in accordance with generally recognized actuarial methods, in compliance with Act No. 220 of the Public Acts of 1996, as amended, and the MERS plan document, as revised. All of the undersigned are members of the American Academy of Actuaries (MAAA) and meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion contained herein. **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:lr

Gabriel Roeder Smith & Company

## SUMMARY OF ACTUARIAL ASSUMPTIONS AND METHODS

An actuarial valuation is the mathematical process that estimates plan liabilities and employer contribution requirements for the purpose of financing the retirement system. This process is repeated annually to update the liabilities and contribution requirements for changes in member census and plan features, and to reflect actual plan experience in the process. The valuation reflects the current language of the Municipal Employees' Retirement Act of 1984, as last amended by 2004 Public Act 490 embodied in the MERS Plan Document (as revised).

In addition to using current membership and financial data, an actuarial valuation requires the use of a series of assumptions regarding uncertain future events. The assumptions and methods used in the December 31, 2008 actuarial valuation are those adopted by the Retirement Board. The actuarial assumptions were last revised as of December 31, 2008, to study the results of the plan experience covering the period from December 31, 1998 through December 31, 2003.

There have been no changes in the funding method which was adopted by the Retirement Board commencing with the December 31, 1993 valuations. The basic funding method is entry age normal, and employer contribution amounts are developed as a level percentage of payroll.

To calculate MERS contribution requirements, assumptions are made about future events that could affect the amount and timing of benefits to be paid, and the assets to be accumulated. The economic and demographic assumptions include:

- An assumed rate of investment return that is used to discount liabilities and project what plan assets will earn
- A mortality table projecting the number of members who will die before retirement, and the duration of benefit payments after retirement
- Assumed retirement rates projecting when members will retire and commence receiving retirement benefits
- A set of withdrawal and disability rates to estimate the number of members who will leave the work force before retirement
- Assumed rate of pay increases to project member compensation in future years

Valuation assets (cash and investments) were valued for each municipality using a ten-year smoothing 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.

An individual entry age actuarial cost method of valuation was used to determine actuarial accrued liabilities and normal cost. Adopted 1994. The standard amortization periods used in the 2008 valuation are 28 years for positive unfunded liabilities, and 10 years for negative unfunded liabilities. At the March 11, 2009 Board meeting, the MERS Board voted to hold the 28-year amortization period for unfunded accrued liabilities in effect for the 2007 valuations, constant for the 2008 and 2009 valuations; then to let it decline by one year each year with the 2010 and beyond valuations until it reaches 20 years with the December 31, 2017 valuation. 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.

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 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. A new experience study covering the period January 1, 2004 through December 31, 2008 will be reflected in the 2009 actuarial valuations.

The Accelerated Funding Credit (AFC) program has been replaced with a new, less complicated program of contribution credits for overfunded 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 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 system. Municipalities have the ability to modify 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.

MERS staff has furnished the data about persons currently covered and present assets. Although examined for general reasonableness, the actuary has not audited the data.

### *Interest Rate*

Funding plan benefits involves the accumulation of assets to pay benefits in the future. These assets are invested and the net rate of investment earnings is a significant factor when determining the contributions required to support the ultimate cost of benefits. The investment return rate used in making the valuations is 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.

The reader should note that, given that the actuarial value of assets is currently 39% higher than the market value, meeting the actuarial assumption in the next few years will require average annual market returns that substantially exceed the 8% investment return assumption.

### *Retirement Rates*

A schedule of retirement rates is used to measure the probability of eligible members retiring during the next year. To reflect the impact plan design may have on the retirement experience, separate retirement rates apply to valuation divisions without Benefits F50, F55, or F(N), to those divisions that have adopted F55, F50, and F(N). The retirement rates in use for each category are shown on the next page. The normal retirement rates were first used for the December 31, 2004 actuarial valuations.

PROBABILITIES OF RETIREMENT FOR MEMBERS ELIGIBLE TO RETIRE  
 Percent of Eligible Active Members Retiring Within The 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 nonstandard 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.

did you know

**There are 3,590 miles of track in Michigan.**  
**(Michigan Railroads Association)**

**Each \$1 billion in new rail investment**  
**creates 20,000 jobs.**  
**(Association of American Railroads)**

NORMAL RETIREMENT - SERVICE BASED BENEFIT F(N) ADOPTED  
 Percent of Eligible Active Members Retiring Within the Next Year\*

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

\* Municipalities that have adopted a nonstandard 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



### Withdrawal Rates

The withdrawal rates are used to estimate the number of employees at each age that are expected to terminate employment before qualifying for retirement benefits. The withdrawal rates do not apply to members eligible to retire, and do not include separation due to death or disability. The assumed rates of withdrawal applied in the current valuation are based on years of service and scaled up or down according to each division's experience. The scaling factor is reported in each municipality's annual actuarial report.

The base withdrawal rates are multiplied by a scaling factor to obtain the assumed withdrawal rates.

Sample rates of withdrawal from active employment, prior to the scaling factor, are shown below. These rates were first used for the December 31, 2008 actuarial valuations.

#### RATES OF WITHDRAWAL (EXCLUDING DEATH OR DISABILITY) FROM ACTIVE EMPLOYMENT BEFORE RETIREMENT

Sample Years of Service	% of Active Members Withdrawing Within the Next Year
0	20.0%
1	17.0
2	14.0
3	11.0
4	9.0
5	6.5
10	5.0
15	3.7
20	3.0
25	2.7
30	2.6
34 and over	2

### Disability Rates

Disability rates are used in the valuation to estimate the incidence of member disability in future years.

The assumed rates of disablement at various ages are shown below. These rates were first used for the December 31, 2004 actuarial valuations.

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

Sample Years of Service	Percent of Active Members Becoming Disabled 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.

### Pay Increase

Because benefits are based on a member's final average compensation, it is necessary to make an assumption with respect to each member's estimated pay progression. The pay increase assumption used in the actuarial valuation projects annual pay increases of 4.5%, plus a percentage based on an age-related scale to reflect merit, longevity and promotional pay increases.

The pay increase assumption for sample ages is shown on the following page. The 4.5% wage inflation assumption was first used for the December 31, 1997 actuarial valuation. The merit and longevity pay increase assumption was first used for the December 31, 2004 actuarial valuation.

## 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

*Inflation*

Although no specific price inflation assumption is needed for this valuation, the 4.5% wage inflation assumption would be consistent with a price inflation of 3% to 4%.

The Board adopted a temporary 2% wage inflation for 5 years, 2010-2014, at the March 9, 2010 Board meeting, effective for 2009-2013 valuations.

*Payroll Growth*

For divisions that are not closed to new hires, the number of active members is projected to remain constant, and the total payroll is projected to increase 4.5% annually in the long term. This assumption was first used for the December 31, 1997 actuarial valuation.

### Mortality Tables

In estimating the amount of reserves required at retirement to pay a member's benefit for the remainder of their lifetime, it is necessary to make an assumption. This is based on the probability of surviving until retirement, and the 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 regular mortality table is used with a 10-year set forward in ages to reflect the higher expected mortality rates of disabled members. These mortality tables were first used for the December 31, 2004 actuarial valuations.

It is assumed that 90% of active members deaths are non-duty, and 10% of deaths are assumed to be duty related.

The life expectancies and mortality rates projected by the 1994 Group Annuity Mortality table for non-disabled and 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

#### 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 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
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
2006	668	36,846	1,545,886,480	41,955	4.6	6,235
2007	683	36,518	1,581,597,937	43,310	3.2	6,438
2008	692	36,092	1,624,855,145	45,020	3.9	6,662

SCHEDULE OF RETIREES AND BENEFICIARIES ADDED TO AND REMOVED FROM ROLLS

Valuation Dec. 31	Added to Rolls		Removed From Rolls		End-of-Year Rolls	
	Retirees/ Beneficiaries Number	Annual Allowance	Retirees/ Beneficiaries Number	Annual Allowance	Retirees/ Beneficiaries Number	Annual Allowance
1999	1,312	\$ 19,663,240	777	\$ 5,592,269	15,325	\$ 152,771,711
2000	1,319	23,588,044	369	2,810,133	16,275	173,549,622
2001	1,238	22,971,336	608	4,735,312	16,905	191,785,646
2002	1,275	25,079,342	642	5,882,066	17,538	210,982,922
2003	1,577	31,229,077	672	5,623,367	18,443	236,588,632
2004	1,553	32,303,049	725	6,669,694	19,271	262,221,987
2005	1,666	32,839,907	782	7,000,257	20,155	288,061,637
2006	2,071	38,752,141	762	4,291,133	21,464	322,522,645
2007	2,030	36,947,384	894	5,928,199	22,600	353,541,830
2008	2,015	43,573,642	783	5,156,426	23,832	391,959,046

Valuation Dec. 31	End-of-Year Rolls			
	Retirees/ Beneficiaries Number	Annual Allowance	% Increase in Annual Allowance	Average Annual Allowance
1999	15,325	\$ 152,771,711	10.1	\$ 9,969
2000	16,275	173,549,622	13.6	10,664
2001	16,905	191,785,646	10.5	11,345
2002	17,538	210,982,922	10.0	12,030
2003	18,443	236,588,632	12.1	12,828
2004	19,271	262,221,987	10.8	13,607
2005	20,155	288,061,637	9.9	14,292
2006	21,464	322,522,645	12.0	15,026
2007	22,600	353,541,830	9.6	15,643
2008	23,832	391,959,046	10.9	16,447

### 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, in the absence of benefit provision increases, the funded portion (of present value 3) will increase over time.

The Solvency Test illustrates the history of the obligation and reflects the MERS policy of following the discipline of level percent payroll financing. The solvency of the system remains sound. However, many municipalities have adopted richer benefits in recent years that have dampened the funding level. 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)
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
2006	518.0	3,314.5	3,355.2	5,493.8	100	100	49.5
2007	565.9	3,627.6	3,530.4	5,973.0	100	100	50.4
2008	591.9	4,029.2	3,700.7	6,245.5	100	100	43.9

# SUMMARY OF PLAN DOCUMENT PROVISIONS DEFINED BENEFIT PLAN

*The benefits summarized in this section are intended only as general information regarding the Municipal Employees' Retirement System. The CAFR and Valuation are not a substitute for the language of the MERS Act and the MERS Plan Document, as revised. If any conflict occurs between the information in this summary and the MERS Act or the MERS Plan Document, as revised, the provision of the Act and the MERS Plan Document govern.*

*The December 31, 2008 actuarial valuation was based on the provisions of the MERS Plan Document.*

## *Eligibility for Retirement*

Monthly retirement payments are made over the lifetime of the retirant and/or over the lifetime of the beneficiary. Payments are based on the 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 a 36-month period, FAC-5 is over a 60-month period.

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 of 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. Percentages vary from 1.3% to 2.5% and 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 the member is younger than the minimum retirement age.

### *Deferred Retirement*

Deferred retirement occurs when an employee leaves MERS covered employment after vesting, but before reaching the minimum retirement age. The member or beneficiary will become eligible for the deferred allowance once they reach the minimum retirement age. However, the member's contributions must 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 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. Future medical reexaminations 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 member suffers a duty death, the surviving spouse would receive the higher of 85% of the normal retirement at the time of death, 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.

### *Member Contributions*

Each municipality elects the member contribution rate(s) for its employees.

### *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, selection is irrevocable after receipt of first payment. The options include:

1. Straight Life over the retirant's life only
2. A reduced benefit to cover retirant and beneficiary as long as either live
3. A reduced benefit 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

# SUMMARY OF PLAN DOCUMENT PROVISIONS - HYBRID PROGRAM

*The benefits summarized in this section are intended only as general information regarding the Municipal Employees' Retirement System. The CAFR and valuation are not a substitute for the language of the MERS Act and the MERS Plan Document, as revised. If any conflict occurs between the information in this summary and the MERS Act or the MERS Plan Document, as revised, the provision of the Act and the MERS Plan Document govern.*

*The December 31, 2008 actuarial valuation was based upon the provisions of the MERS Plan Document.*

## *Part I - Defined Benefit Portion of Hybrid Program*

### *Eligibility for Retirement*

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

Vesting occurs after six years of credited service.

Final average compensation (FAC) is computed using the FAC-3 under the Defined Benefit Plan.

Normal retirement for a member occurs after vesting and reaching age 60. (There is not a mandatory or early retirement provision.)

### *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. Percentages vary from 1.0% to 1.5% and may be selected by a participating municipality.

### *Deferred Retirement*

Deferred retirement occurs when an employee leaves MERS covered employment after vesting, but before reaching age 60. The member or beneficiary will become eligible for the deferred allowance once they reach age 60.

### *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 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 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. Future medical reexaminations 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*

There are no post retirement adjustments within the Hybrid Program.

### *Member Contributions*

There are no member contributions.

### *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, selection is irrevocable after receipt of first payment. The options include:

1. Straight Life over the retirant's life only
2. A reduced benefit to cover retirant and beneficiary as long as either live
3. A reduced benefit 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

### *Part II - Defined Contribution Portion of Hybrid Program*

There are three vesting schedules that an employer can adopt: Immediate vesting upon participation, 100% vesting after stated years (the maximum vesting period is 5 years), or graded vesting percentages per year of service (must be 100% vested after 6 years).

Member contributions are vested immediately.

### *Changes in Plan Provisions*

There have been no changes in the Plan Document that have had a material impact on the December 31, 2008, 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, although the Hybrid Program is not modifiable. These modifications were taken into consideration when determining the municipality contribution rates on the December 31, 2008, actuarial valuation.

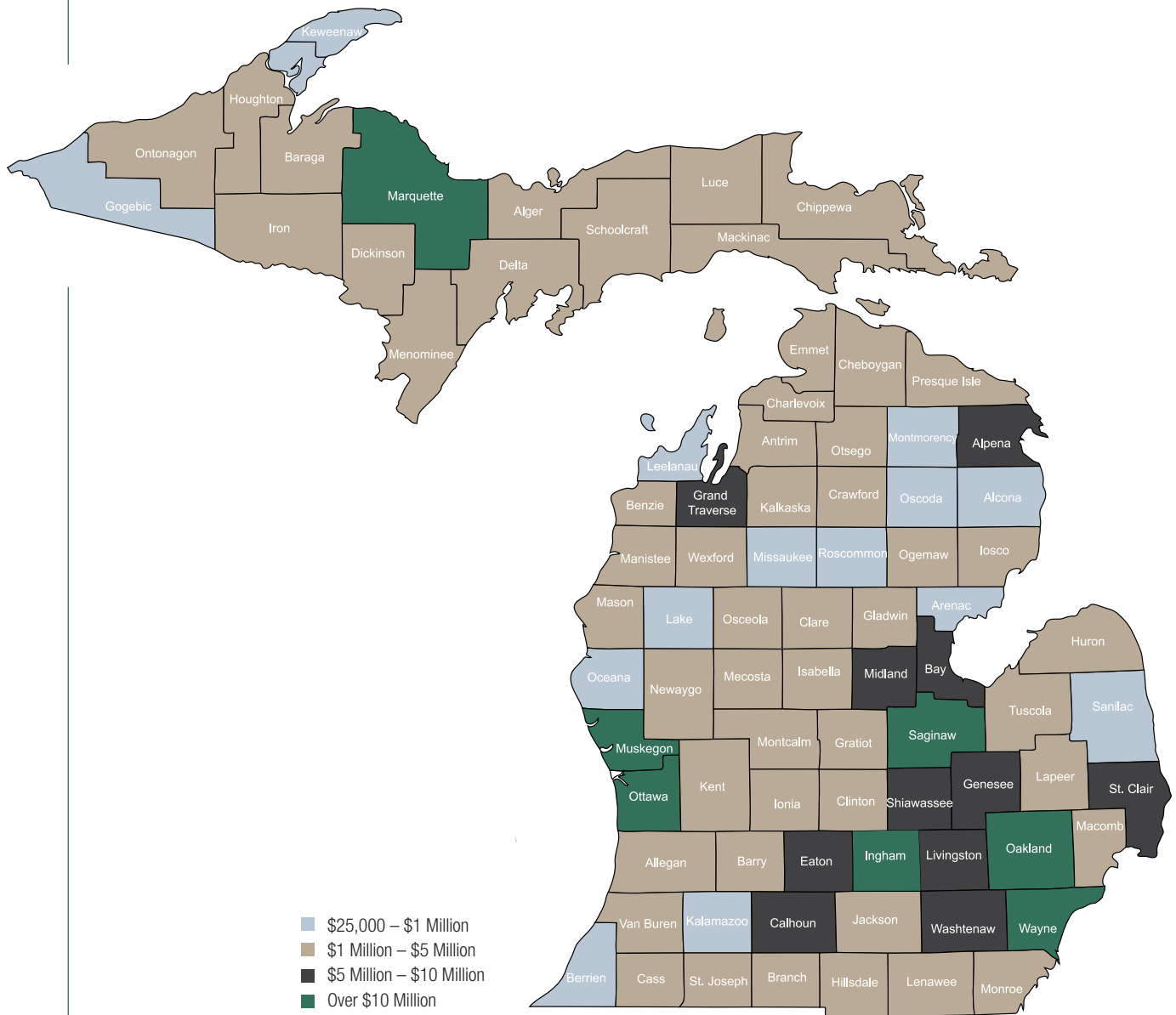
## Arrive At Your Destination Feeling Secure

Your financial security is our highest priority. With more than 60 years of investment experience, you won't be derailed.

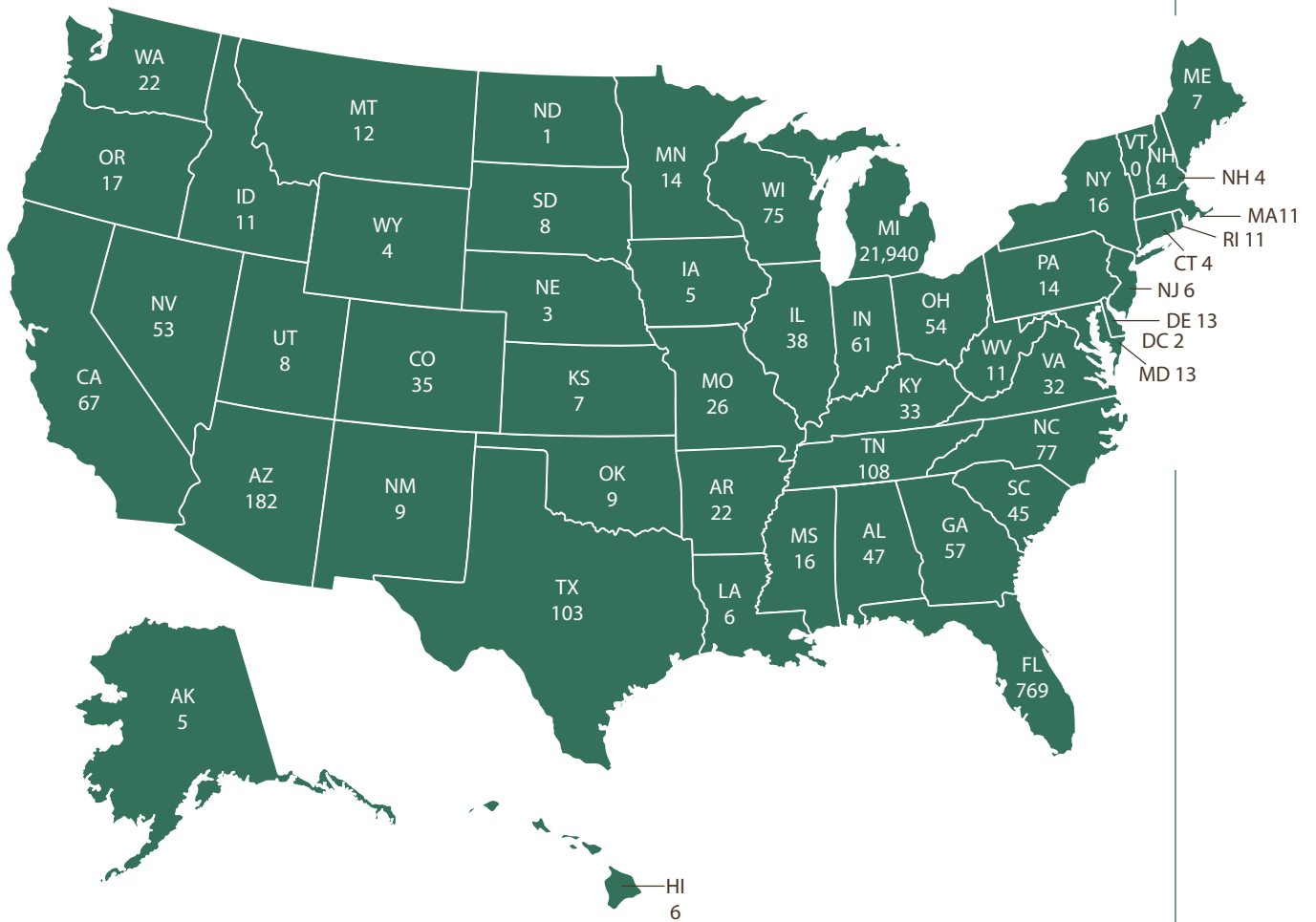


### Retirees in Michigan

Of the 25,232 retirees and beneficiaries in the MERS system, 22,450 (89 percent) remain Michigan residents. Benefit payments amounting to \$365 million were distributed throughout the state's communities and businesses, representing MERS impact on the state's economy.



Distribution of Benefit Recipients by Location – U.S. map



Recipients Outside United States

Antigua and Barbuda	1
Costa Rica	1
Ireland	1
Israel	1
Japan	1
Nova Scotia, Canada	1
Ontario, Canada	8
Philippines	1
Switzerland	1
Thailand	1
United Kingdom	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, 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
Dec. 31, 2007	61,772	320,203	19.2	456,281	838,256
Dec. 31, 2008	64,871	310,717	18.4	(1,533,327)	(1,157,739)
Dec. 31, 2009	62,677	350,737	20.2	789,799	1,203,213

SCHEDULE OF AVERAGE BENEFIT PAYMENTS - DEFINED BENEFIT PLAN

Valuation Date December 31	Number of Retirees and Beneficiaries	Average Yearly Benefit
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
2006	21,464	15,026
2007	22,600	15,643
2008	23,832	16,447

CHANGES IN PLAN NET ASSETS - LAST TEN YEARS ENDED DECEMBER 31, 2009

	2000	2001	2002	2003
<b>Defined Benefit Plan</b>				
<b>Additions:</b>				
Plan Member Contributions	\$ 30,823,197	\$ 32,163,587	\$ 39,625,328	\$ 62,421,750
Employer Contributions	131,880,680	121,939,889	127,802,230	161,028,643
Net Investment Gain (Loss)	(122,882,440)	(88,579,398)	(319,009,400)	799,367,113
Miscellaneous Income	475,066	1,070,240	1,085,887	822,347
<b>Total Additions to Plan Net Assets</b>	<b>40,296,503</b>	<b>66,594,318</b>	<b>(150,495,955)</b>	<b>1,023,639,853</b>
<b>Deductions:</b>				
Benefits	162,826,949	182,272,551	200,793,802	221,137,612
Plan Member Refunds	3,963,890	5,199,393	3,366,464	3,542,264
Employer Refunds	5,029,725	214,305	-	-
Administrative Expenses	6,488,045	5,756,722	7,002,946	8,049,500
Special Expenses & Fees	392,652	412,989	366,273	378,334
Plan Member Transfers to Defined Contribution	946,716	881,912	53,056	106,727
Employer Transfers to Defined Contribution	13,626,706	12,922,048	438,040	3,732,569
<b>Total Deductions from Plan Net Assets</b>	<b>193,274,683</b>	<b>207,659,920</b>	<b>212,020,581</b>	<b>236,947,006</b>
Net Increase (Decrease)	(152,978,180)	(141,065,602)	(362,516,536)	786,692,847
<b>Net Assets Held in Trust</b>				
Balance Beginning of Fiscal Period	3,941,864,651	3,788,886,471	3,647,820,869	3,285,304,333
<b>Balance End of Fiscal Period</b>	<b>\$3,788,886,471</b>	<b>\$3,647,820,869</b>	<b>\$3,285,304,333</b>	<b>\$4,071,997,180</b>
<b>Defined Contribution Plan</b>				
<b>Additions:</b>				
Plan Member Contributions	\$ 1,653,367	\$ 2,551,143	\$ 3,509,260	\$ 3,842,038
Employer Contributions	5,686,133	8,794,329	10,241,672	11,358,936
Plan Member Transfers from Defined Benefit	946,716	881,912	53,056	106,727
Employer Transfers from Defined Benefit	13,626,706	12,922,048	438,040	3,732,569
Transfers from Other Plans	3,776,905	826,992	3,557,813	199,702
Defined Contribution Income	(2,253,865)	(4,154,015)	(10,798,653)	17,570,152
<b>Total Additions to Plan Net Assets</b>	<b>23,435,962</b>	<b>21,822,409</b>	<b>7,001,188</b>	<b>36,810,124</b>
<b>Deductions:</b>				
Benefits	5,403,617	5,625,222	5,547,637	4,089,817
<b>Total Deductions from Plan Net Assets</b>	<b>5,403,617</b>	<b>5,625,222</b>	<b>5,547,637</b>	<b>4,089,817</b>
Net Increase (Decrease)	18,032,345	16,197,187	1,453,551	32,720,307
<b>Net Assets Held in Trust</b>				
Balance Beginning of Fiscal Period	49,077,787	67,110,132	83,307,319	84,760,870
<b>Balance End of Fiscal Period</b>	<b>\$67,110,132</b>	<b>\$83,307,319</b>	<b>\$84,760,870</b>	<b>\$117,481,177</b>

2004	2005	2006	2007	2008	2009
\$ 55,408,705	\$ 71,324,903	\$ 84,124,396	\$ 61,771,740	\$ 64,870,909	\$ 62,677,056
167,942,936	207,123,552	286,227,456	320,203,718	310,716,723	350,737,219
586,700,343	293,760,014	634,158,937	455,213,391	(1,533,383,713)	788,728,701
819,466	6,020,448	790,789	1,067,367	56,587	1,070,596
<b>810,871,450</b>	<b>578,228,917</b>	<b>1,005,301,578</b>	<b>838,256,216</b>	<b>(1,157,739,494)</b>	<b>1,203,213,572</b>
247,454,263	274,146,709	304,172,625	339,456,920	372,354,833	409,867,136
3,525,082	4,157,567	4,711,038	5,057,942	5,580,350	9,510,225
1,727,570	-	-	1,230,274	1,364,491	-
9,957,057	11,557,044	12,540,010	13,903,553	16,364,800	18,792,644
387,031	398,690	526,047	587,685	570,520	460,455
1,284	964	104,407	685,478	16,723	23,483
320,682	21,609	646,754	1,040,071	84,819	175,246
<b>263,372,969</b>	<b>290,282,583</b>	<b>322,700,881</b>	<b>361,961,923</b>	<b>396,336,536</b>	<b>438,829,189</b>
547,498,481	287,946,334	682,600,697	476,294,293	(1,554,076,030)	764,384,383
4,071,997,180	4,619,495,661	4,907,441,995	5,590,042,692	6,066,336,985	4,512,260,955
<b>\$4,619,495,661</b>	<b>\$4,907,441,995</b>	<b>\$5,590,042,692</b>	<b>\$6,066,336,985</b>	<b>\$4,512,260,955</b>	<b>\$5,276,645,338</b>
\$ 4,301,952	\$ 4,732,864	\$ 5,527,984	\$ 6,309,939	\$ 6,961,409	\$ 8,062,442
12,664,264	14,244,769	15,911,238	17,590,799	18,939,820	20,263,212
1,284	964	104,407	685,478	16,723	23,483
320,682	21,609	646,754	1,040,071	84,819	175,246
5,356,930	2,084,281	8,207,389	1,184,321	1,122,171	1,555,390
10,410,317	8,427,281	19,195,848	13,411,117	(61,678,689)	39,951,479
<b>33,055,429</b>	<b>29,511,768</b>	<b>49,593,620</b>	<b>40,221,725</b>	<b>(34,553,747)</b>	<b>70,031,252</b>
6,453,035	9,482,481	10,591,376	12,764,282	12,406,025	8,867,576
<b>6,453,035</b>	<b>9,482,481</b>	<b>10,591,376</b>	<b>12,764,282</b>	<b>12,406,025</b>	<b>8,867,576</b>
26,602,394	20,029,287	39,002,244	27,457,443	(46,959,772)	61,163,676
117,481,177	144,083,571	164,112,858	203,115,105	230,572,548	183,612,776
<b>\$144,083,571</b>	<b>\$164,112,858</b>	<b>\$203,115,102</b>	<b>\$230,572,548</b>	<b>\$183,612,776</b>	<b>\$244,776,452</b>

CHANGES IN PLAN NET ASSETS - LAST TEN YEARS ENDED DECEMBER 31, 2009

	2000	2001	2002	2003
<b>Health Care Savings Program*</b>				
<b>Additions:</b>				
Plan member Contributions	\$-	\$-	\$-	\$-
Employer Contributions	-	-	-	-
Net Investment Gain (Loss)	-	-	-	-
Miscellaneous Income	-	-	-	-
<b>Total Additions to Plan Net Assets</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Deductions:</b>				
Special Expenses & Fees	-	-	-	-
Medical Disbursements Paid to Members	-	-	-	-
Forfeited Employer Contributions	-	-	-	-
Administrative Expenses	-	-	-	-
<b>Total Deductions from Plan Net Assets</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
Net increase (Decrease)	-	-	-	-
<b>Net Assets Held in Trust</b>				
Balance Beginning of Fiscal Period	-	-	-	-
<b>Balance End of Fiscal Period</b>	<b>\$-</b>	<b>\$-</b>	<b>\$-</b>	<b>\$-</b>
<b>Retiree Health Funding Vehicle*</b>				
<b>Additions:</b>				
Employer Contributions	\$-	\$-	\$-	\$-
Net Investment Gain (Loss)	-	-	-	-
Miscellaneous Income	-	-	-	-
<b>Total Additions to Plan Net Assets</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Deductions:</b>				
Special Expenses & Fees	-	-	-	-
Disbursements Paid to Municipalities	-	-	-	-
Administrative Expenses	-	-	-	-
<b>Total Deductions from Plan Net Assets</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
Net Increase (Decrease)	-	-	-	-
<b>Net Assets Held in Trust</b>				
Balance Beginning of Fiscal Period	-	-	-	-
<b>Balance End of Fiscal Period</b>	<b>\$-</b>	<b>\$-</b>	<b>\$-</b>	<b>\$-</b>
<b>Investment Services Program**</b>				
<b>Additions:</b>				
Employer Contributions	\$-	\$-	\$-	\$-
Net Investment Gain (Loss)	-	-	-	-
<b>Total Additions to Plan Net Assets</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Deductions:</b>				
Disbursements Paid to Municipalities	-	-	-	-
Administrative Expenses	-	-	-	-
<b>Total Deductions from Plan Net Assets</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
Net Increase (Decrease)	-	-	-	-
<b>Net Assets Held in Trust</b>				
Balance Beginning of Fiscal Period	-	-	-	-
<b>Balance End of Fiscal Period</b>	<b>\$-</b>	<b>\$-</b>	<b>\$-</b>	<b>\$-</b>

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

\*\* Investment Services Program commenced operations in 2006.

2004	2005	2006	2007	2008	2009
\$88,884	\$14,995	\$-	\$-	\$-	\$-
1,300,103	2,856,908	2,301,297	2,927,102	10,127,358	16,963,863
128,680	165,081	752,559	719,462	(4,603,920)	2,978,138
7,329	8,078	91,818	96,313	161,587	263,366
1,524,996	3,045,062	3,145,674	3,742,877	5,685,025	20,205,367
-	-	59,046	89,102	153,775	258,013
11,484	51,832	144,699	328,172	462,448	511,902
-	-	44,723	29,295	57,716	64,171
181,438	250,436	197,200	243,953	360,573	159,157
192,922	302,268	445,668	690,522	1,034,512	993,243
1,332,074	2,742,794	2,700,006	3,052,355	4,650,513	19,212,124
-	1,323,119	4,065,913	6,765,919	9,818,274	14,468,787
<b>\$1,332,074</b>	<b>\$4,065,913</b>	<b>\$6,765,919</b>	<b>\$9,818,274</b>	<b>\$14,468,787</b>	<b>\$33,680,911</b>
\$1,312,526	\$11,947,714	\$29,366,165	\$67,013,503	\$42,376,883	\$48,028,651
108,716	448,190	4,359,685	6,144,495	(33,136,301)	23,472,134
-	-	103,298	341,804	494,705	53,497
1,421,242	12,395,904	33,829,148	73,499,802	9,735,287	71,554,282
-	225	89,055	332,016	486,939	622,880
-	95,470	1,109,386	5,827,116	3,857,234	6,087,719
2,590	25,925	136,376	185,108	319,161	53,497
2,590	121,620	1,334,817	6,344,240	4,663,334	6,764,096
1,418,652	12,274,284	32,494,331	67,155,562	5,071,953	64,790,186
-	1,418,652	13,692,936	46,187,267	113,342,829	118,414,782
<b>\$1,418,652</b>	<b>\$13,692,936</b>	<b>\$46,187,267</b>	<b>\$113,342,829</b>	<b>\$118,414,782</b>	<b>\$183,204,968</b>
\$-	\$-	\$15,527,136	\$26,680,199	\$2,968,755	\$999,440
-	-	726,136	2,177,009	(11,607,125)	3,375,567
-	-	16,253,272	28,857,208	(8,638,370)	4,375,007
-	-	-	-	750,000	33,593,463
-	-	16,895	238,322	153,529	4,000
-	-	16,895	238,322	903,529	33,597,463
-	-	16,236,376	28,618,886	(9,541,899)	(29,222,456)
-	-	-	16,236,376	44,855,262	35,313,363
<b>\$-</b>	<b>\$-</b>	<b>\$16,236,376</b>	<b>\$44,855,262</b>	<b>\$35,313,363</b>	<b>\$6,090,907</b>

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, 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
Dec. 31, 2007**	339,457	14,491	6,288	1,726	361,962
Dec. 31, 2008***	372,355	16,935	6,945	102	396,337
Dec. 31, 2009	409,867	19,253	9,510	199	438,829

SCHEDULE OF BENEFIT EXPENSES BY TYPE - DEFINED BENEFIT PLAN  
(THOUSANDS OF DOLLARS)

Fiscal Year Ended	Regular Benefits	Disability Benefits	Employee Refunds	Total
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
Dec. 31, 2007	326,666	12,791	5,058	344,515
Dec. 31, 2008	355,626	16,729	5,580	377,935
Dec. 31, 2009	391,613	18,254	9,510	419,377

SCHEDULE OF RETIRED MEMBERS BY TYPE OF BENEFIT – DEFINED BENEFIT PLAN  
 December 31, 2008, Tabulated by Optional Form of Benefit Being Paid

Monthly Benefit	All Retired Members	Type of Annuity					
		1	2	3	4	5	6
\$ 0-199	1,689	1,090	32	23	457	87	0
200-399	3,041	2,054	97	56	678	144	12
400-599	2,803	1,930	138	49	557	114	15
600-799	2,290	1,674	113	48	356	90	9
800-999	1,931	1,487	107	46	210	74	7
1,000-1,199	1,614	1,258	94	28	177	52	5
1,200-1,399	1,385	1,103	84	28	138	29	3
1,400-1,599	1,282	1,082	40	16	117	26	1
1,600-1,799	1,070	894	48	21	85	21	1
1,800-1,999	989	868	22	8	69	19	3
2,000 & over	5,738	5,455	69	27	131	51	5
Totals	23,832	18,895	844	350	2,975	707	61
Total Monthly Benefit	\$32,663,252	\$28,702,179	\$845,753	\$328,915	\$2,145,983	\$584,688	\$55,734

*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, 2008, Tabulated by Optional Form of Benefit Being Paid

Monthly Benefit	All Retired Members	Type of Annuity			
		1	2	3	4
0 - 199	1,689	542	23	1	214
200 - 399	3,041	852	25	2	351
400 - 599	2,803	777	75	5	360
600 - 799	2,290	657	54	5	294
800 - 999	1,931	520	71	2	295
1,000 - 1,199	1,614	506	80	10	257
1,200 - 1,399	1,385	425	75	8	239
1,400 - 1,599	1,282	399	74	3	269
1,600 - 1,799	1,070	346	80	5	196
1,800 - 1,999	989	317	73	4	197
2,000 & over	5,738	1,800	659	65	1,281
Totals	23,832	7,141	1,289	110	3,953
Total Monthly Benefit	\$32,663,252	\$10,049,043	\$2,857,259	\$264,174	\$6,510,343

*Type of Annuity*

1. Beneficiary draws 100% of retirees' benefit
2. Beneficiary draws 75% of retirees' benefit
3. Beneficiary draws 60% of retirees' benefit
4. Beneficiary draws 50% of retirees' 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



5	6	7	8	9	10
53	16	15	13	16	796
93	21	40	22	25	1,610
55	26	28	21	39	1,417
49	29	40	9	21	1,132
21	37	41	12	17	915
25	17	28	14	17	660
9	15	18	4	15	577
3	19	13	5	14	483
5	9	16	5	10	398
6	7	10	1	9	365
28	46	68	33	54	1,704
347	242	317	139	237	10,057
\$258,109	\$311,783	\$404,296	\$179,069	\$308,812	\$11,520,364

did you know

- **4,377 employees work for Michigan's railroads**
- **75 percent of finished automobiles move by rail**
- **Michigan railroad companies spend over \$100 million annually on tracks**

**(Michigan Railroads Association)**

- **Michigan railroads handle almost 94 million tons of cargo per year**

**(MDOT/Michigan.gov)**

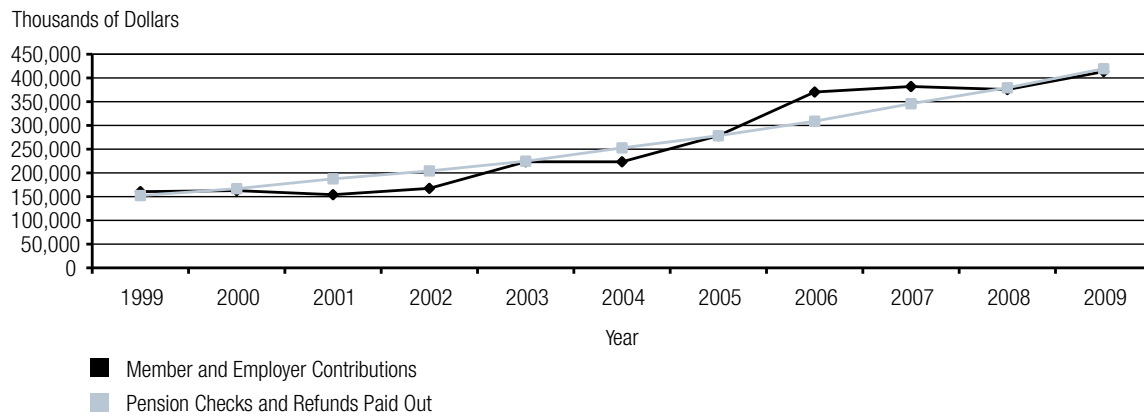
Although Defined Contribution participants are not included in the annual actuarial valuation of the MERS Defined Benefit Plan, the trend in Defined Contribution participation is of interest. Numerous municipal divisions have established Defined Contribution benefits for future new employees. The existing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

DEFINED CONTRIBUTION PLAN PARTICIPANTS AND TOTAL MERS PARTICIPANTS

Fiscal Year Ended	Number of Participants Total	Defined Benefit	% of Total	Defined Contribution	% of Total
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	61,841	91.4	5,299	8.6
December 31, 2005	70,787	62,748	89.6	6,167	8.8
December 31, 2006	71,572	64,545	90.2	7,027	9.8
December 31, 2007	72,932	65,556	89.9	7,376	10.1
December 31, 2008	74,400	66,586	89.5	7,814	10.5
December 31, 2009	76,759	68,408	89.1	8,351	10.9

The graph below shows the maturation of MERS Defined Benefit Plan. 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. MERS received \$413,414,275 from employer/employee contributions, which was lower than the distributions paid out totaling \$419,377,361 (\$409,867,136) in pension payments and \$9,510,224 in employee refunds). Of the employer and employee contributions coming in, \$96,630,753 of the contributions came from new municipality assets.

COMPARISON OF MEMBER AND EMPLOYER CONTRIBUTIONS VS. PENSION CHECKS AND REFUNDS PAID OUT FOR THE DEFINED BENEFIT PLAN

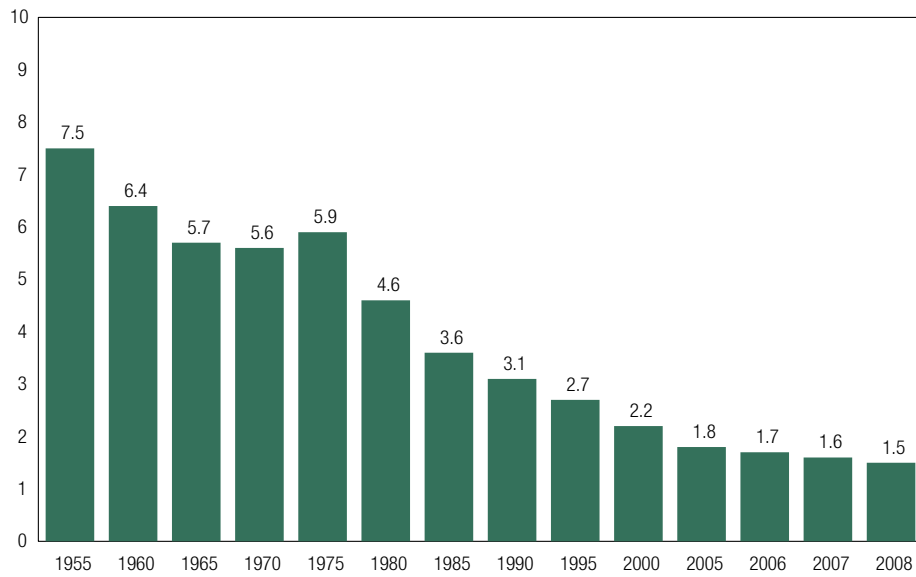


SCHEDULE CHANGES IN RESERVES – FISCAL YEAR ENDED DECEMBER 31, 2009

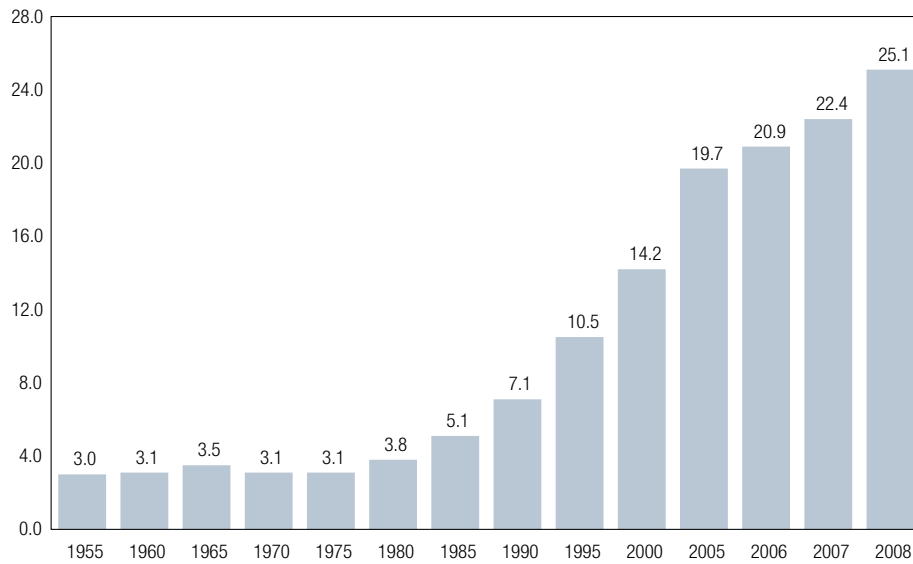
	Reserve for Employee Contributions	Reserve for Employer Contributions and Benefit Payments	Reserve for Expenses and Undistributed Investment Income
<b>Additions</b>			
<u>Member Contributions</u>			
Regular	\$59,092,732		
Purchase of Service Credit	3,584,324		
<u>Employer Contributions</u>			
Regular		\$350,420,253	
Purchase of Service Credit		316,966	
Net Investment Income			\$788,728,701
Miscellaneous Income			1,070,596
Transfers from Defined Benefit Plan			
Transfers from Other Plans			
<b>Total Additions</b>	<b>62,677,056</b>	<b>350,737,219</b>	<b>789,799,297</b>
<b>Deductions</b>			
Retirement Benefits		409,867,136	
Medical Disbursements Paid to Members			
Disbursements Paid to Municipalities			
Forfeited Employer Contributions			
Refund of Contributions	9,510,225		
Administrative Expense			18,792,644
Special Expenses and Fees		460,455	
Transfers to DC Plan	23,483	175,246	
<b>Total Deductions</b>	<b>9,533,708</b>	<b>410,502,837</b>	<b>18,792,644</b>
<b>Net Increase (Decrease)</b>	<b>53,143,348</b>	<b>(59,765,618)</b>	<b>771,006,653</b>
<b>Other Changes in Reserves</b>			
Investment Income Allocations	2,509,015	768,497,638	(771,006,653)
Retirement and Unclaimed Transfers	(41,422,337)	41,422,337	
<b>Total Other Changes in Reserves</b>	<b>(38,913,322)</b>	<b>809,919,975</b>	<b>(771,006,653)</b>
<b>Net Increase in Reserves</b>			
After Other Changes	14,230,026	750,154,357	
Reserve Balance Beginning of Year	595,548,678	3,916,712,277	
<b>Reserve Balance End of Year</b>	<b>\$609,778,704</b>	<b>\$4,666,866,634</b>	<b>\$-</b>

Total Reserve for Defined Benefit Plan	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
\$59,092,732	\$8,062,442				\$67,155,174
3,584,324					3,584,324
350,420,253	20,263,212	\$16,963,863	\$48,028,651	\$999,440	436,675,419
316,966					316,966
788,728,701	39,951,479	2,978,138	23,472,134	3,375,567	858,506,019
1,070,596		263,366	53,497		1,387,459
	198,729				198,729
	1,555,390				1,555,390
1,203,213,572	70,031,252	20,205,367	71,554,282	4,375,007	1,369,379,480
409,867,136	8,867,576				418,734,712
		511,902			511,902
			6,087,719	33,593,463	39,681,182
		64,171			64,171
9,510,225					9,510,225
18,792,644		159,157	53,497	4,000	19,009,298
460,455		258,013	622,880		1,341,348
198,729					198,729
438,829,189	8,867,576	993,243	6,764,096	33,597,463	489,051,567
764,384,383	61,163,676	19,212,124	64,790,186	(29,222,456)	880,327,913
					-
					-
-	-	-	-	-	-
764,384,383	61,163,676	19,212,124	64,790,186	(29,222,456)	880,327,913
4,512,260,955	183,612,776	14,468,787	118,414,782	35,313,363	4,864,070,663
\$5,276,645,338	\$244,776,452	\$33,680,911	\$183,204,968	\$6,090,907	\$5,744,398,576

### ACTIVE MEMBERS PER PENSION RECIPIENT



### BENEFITS AS PERCENT OF ACTIVE MEMBER PAY



Charts 1 and 2 illustrate how MERS has matured over the years. Over time, the number of active members per retiree has declined from 7.5 to 1.5. The benefit payout as a percentage of active member payrolls has increased to over 25%.

SCHEDULE OF PARTICIPATING MUNICIPALITIES – DEFINED BENEFIT PLAN  
FOR THE YEAR ENDED DECEMBER 31, 2009

Name	Total Reserves
Addison Fire Department	\$91,396
Adrian, City of	32,654,532
Aitkin Memorial Library	53,106
Albion, City of	12,219,442
Alcona County	6,023,013
Alger County	5,268,136
Alger County Road Commission	5,269,857
Algonac, City of	3,255,389
Allegan County	31,659,868
Allegan County Road Commission	12,036,444
Allegan, City of	2,075,978
Alma, City of	13,722,426
Almont, Village of	1,175,424
Alpena County	9,547,088
Alpena County Road Commission	6,712,775
Alpena General Hospital	88,991,157
Alpena Senior Citizens Center	193,336
Alpha, Village of	32,266
Antrim County	19,037,866
Antrim County Road Commission	5,056,026
Arenac County	5,416,941
Arenac County Road Commission	2,232,476
Ash Township	213,385
Au Gres, City of	1,110,242
Auburn, City of	1,155,749
Bad Axe Area District Library	26,880
Bad Axe, City of	2,754,424
Bancroft, Village of	29,099
Bangor, City of	1,727,648
Baraga County	3,162,413
Baraga County Memorial Hospital	8,802,877
Baraga County Road Commission	3,260,089
Baraga, Village of	1,347,084
Baroda Township	94,817
Barry County	27,339,609
Barry County Community Mental Health Authority	2,619,706
Barry-Eaton District Health Department	9,091,000
Barton Hills, Village of	438,612
Bates Township	118,981
Bath Charter Township	2,644,952
Battle Creek, City of	69,643,786
Bay Area Transportation Authority	2,013,951
Bay City Housing Commission	3,999,770
Bay City, City of	35,413,608
Bay Metro Transit Authority	4,673,975
Bayliss Public Library	970,331
Beecher Metropolitan District Sewage & Water System	3,692,977
Belding, City of	716,091
Belleville, City of	3,100,739
Benzie County	6,725,192

SCHEDULE OF PARTICIPATING MUNICIPALITIES – DEFINED BENEFIT PLAN  
FOR THE YEAR ENDED DECEMBER 31, 2009

Name	Total Reserves
Benzie County Council on Aging	425,832
Benzie County Medical Care Facility (Maples)	4,527,153
Benzie County Road Commission	2,462,197
Benzie Shores District Library	127,490
Benzie Transportation Authority	144,823
Benzie-Leelanau District Health Department	365,652
Berkley, City of	11,820,111
Berrien Springs, Village of	1,213,132
Bessemer, City of	1,408,282
Beverly Hills, Village of	2,189,500
Big Rapids Housing Commission	743,976
Big Rapids, City of	6,787,684
Bingham Farms, Village of	98,930
Birch Run, Village of	555,175
Bishop International Airport	3,546,795
Blackman Charter Township	2,972,342
Blissfield, Village of	2,157,971
Bloomfield Hills, City of	12,504,414
Blue Water Transportation Commission	2,753,324
Boyne City, City of	5,495,593
Branch County	1,064,255
Branch-Hillsdale-St.Joseph District Health Department	8,501,373
Brandon Township	3,349,223
Breckenridge, Village of	1,128,641
Bridgeport Charter Township	3,923,381
Bridgman, City of	560,320
Brighton Area Fire Authority	277,919
Brighton Township	1,223,704
Brighton, City of	7,477,659
Britton, Village of	229,867
Bronson, City of	263,654
Brooklyn, Village of	644,337
Brownstown Charter Township	7,694,884
Buchanan District Library	117,423
Buchanan, City of	5,581,692
Buena Vista Charter Township	5,724,861
Burton, City of	14,664,835
Butman Township	118,040
Cadillac, City of	9,203,965
Cadillac-Wexford Transit Authority	877,482
Calhoun County	10,895,687
Calhoun County Road Commission	6,411,373
Canton Public Library	2,521,479
Canton Township	47,411,806
Capac, Village of	698,042
Capital Area District Library	3,135,603
Capital Region Airport Authority	7,563,628
Carleton, Village of	527,032
Carrollton Township	1,459,866
Cascade Charter Township	3,426,148



SCHEDULE OF PARTICIPATING MUNICIPALITIES – DEFINED BENEFIT PLAN  
FOR THE YEAR ENDED DECEMBER 31, 2009

Name	Total Reserves
Caseville, Village of	933,884
Caspian, City of	528,111
Cass County	12,565,717
Cass County Medical Care Facility	3,917,516
Cass District Library	575,959
Cedar Springs, City of	1,856,655
Clinton-Eaton-Ingham Community Mental Health	69,412,080
Center Line, City of	4,516,720
Central Dispatch of Muskegon County	3,230,406
Central Lake, Village of	43,543
Central Michigan District Health Department	9,776,505
Central Wayne County Sanitation Authority	2,404,356
Charlevoix County	19,888,886
Charlevoix County Road Commission	3,839,794
Charlevoix, City of	6,304,930
Charlotte District Library	281,352
Charlotte, City of	9,901,722
Cheboygan County	11,621,553
Cheboygan County Road Commission	7,846,053
Cheboygan, City of	5,281,432
Chelsea Area Fire Authority	102,190
Chelsea, City of	5,198,906
Chesaning, Village of	501,511
Chesterfield Charter Township	11,733,756
Chesterfield Township Library	706,666
Chikaming Township	809,890
Chippewa County	21,106,580
Chippewa County Road Commission	8,394,840
Chippewa River District Library	1,636,445
Clare County	10,651,551
Clare County Road Commission	6,229,053
Clare County Transit Authority	79,660
Clare, City of	3,862,801
Clawson, City of	9,023,940
Clay Township	3,425,692
Clearwater Township	60,431
Clinton County	23,886,431
Clinton County Road Commission	9,499,874
Clinton Township	34,141,961
Clinton, Village of	3,202,683
Clio, City of	536,367
Community Mental Health for Central Michigan	34,298,356
Coldwater Board of Public Utilities	5,927,551
Coldwater, City of	10,639,431
Coleman, City of	990,612
Coloma Township	892,972
Columbiaville, Village of	211,389
Coopersville Area District Library	172,594
Coopersville, City of	1,482,260
Corunna, City of	2,303,877

SCHEDULE OF PARTICIPATING MUNICIPALITIES – DEFINED BENEFIT PLAN  
FOR THE YEAR ENDED DECEMBER 31, 2009

Name	Total Reserves
Corwith Township	33,026
Covert Township	388,131
Crawford County	8,581,043
Crawford County Road Commission	2,509,228
Crawford County Transit Authority	2,695,035
Croswell, City of	3,868,289
Crystal Falls Community Hospital	3,238,457
Crystal Falls, City of	4,599,957
Davison Richfield Senior Citizens Authority	111,494
Davison Township	4,475,630
Davison, City of	3,911,206
De Tour, Village of	172,556
Dearborn, City of	1,154,896
Deerfield, Village of	842,562
Delta Charter Township	5,788,778
Delta County	18,365,170
Delta County Road Commission	3,432,274
Delta-Menominee District Health Department	5,817,910
Detroit Housing Commission	6,683,409
DeWitt Charter Township	1,901,854
DeWitt, City of	1,804,328
Dexter Area Fire Department	322,741
Dexter Township	401,795
Dexter, Village of	1,909,455
Dickinson County	13,660,189
Dickinson County Road Commission	4,686,639
Dickinson-Iron District Health Department	4,349,926
Dimondale, Village of	453,614
District Health Department Number Four	9,064,329
District Health Department Number Ten	11,673,254
District Health Department Number Two	3,978,680
Douglas, Village of	1,255,683
Dowagiac District Library	32,978
Dowagiac Housing Commission	114,722
Dowagiac, City of	7,074,310
Drummond Island Township	54,273
Dryden, Village of	270,759
Dundee, Village of	2,326,659
Durand, City of	2,764,359
East China, Township of	3,823,541
East Grand Rapids, City of	9,342,209
East Jordan, City of	2,485,007
East Lansing, City of	79,079,744
Eastern Upper Peninsula Transportation Authority	4,051,831
Eastpointe Housing Commission	335,032
Eaton County	54,894,042
Eaton County Medical Care Facility	4,603,615
Eaton Rapids, City of	5,721,955
Eau Claire, Village of	181,038
Ecorse, City of	18,746,178

SCHEDULE OF PARTICIPATING MUNICIPALITIES – DEFINED BENEFIT PLAN  
FOR THE YEAR ENDED DECEMBER 31, 2009

Name	Total Reserves
Elderly Housing Commission	1,492,524
Elkton, Village of	397,724
Elsie, Village of	147,842
Emmett County Road Commission	6,440,034
Emmett, Charter Township of	1,930,415
Escanaba, City of	15,854,715
Essexville, Village of	4,079,683
EUP Regional Planning & Development Commission	26,971
Ewart Local Development Finance Authority	254,856
Ewart, City of	1,041,415
Farmington Community Library	5,414,999
Farwell, Village of	190,670
Fenton, City of	7,226,875
Ferrysburg, City of	825,509
Flat Rock, City of	9,230,257
Flint Charter Township	13,028,821
Flint Public Library	701,332
Flushing, Charter Township of	2,530,755
Flushing, City of	7,210,782
Forsyth Township	2,351,002
Forty-One B District Court	4,588,782
Fowler, Village of	183,049
Fowlerville District Library	155,398
Fowlerville, Village of	2,369,741
Frankenmuth, City of	7,359,697
Frankfort, City of	1,349,997
Franklin, Village of	2,587,212
Fraser, City of	239,326
Fremont Area District Library	563,859
Fremont, City of	4,844,227
Gaastra, City of	103,572
Gaylord, City of	5,227,157
Genesee Charter Township	6,443,068
Genoa Township	77,672
Gladstone, City of	4,827,508
Gladwin City Housing Commission	1,277,811
Gladwin County	9,343,713
Gladwin County District Library	590,666
Gladwin County Road Commission	6,987,776
Gladwin, City of	554,026
Gogebic-Iron Wastewater Authority	1,029,785
Grand Beach, Village of	10,742
Grand Blanc Charter Township	6,377,497
Grand Blanc, City of	5,481,587
Grand Haven, City of	54,048,510
Grand Ledge Emergency Services	510,809
Grand Ledge, City of	1,044,657
Grand Rapids Housing Commission	831,489
Grand Traverse County	31,516,752
Grand Traverse County Road Commission	5,740,118

SCHEDULE OF PARTICIPATING MUNICIPALITIES – DEFINED BENEFIT PLAN  
FOR THE YEAR ENDED DECEMBER 31, 2009

Name	Total Reserves
Grand Traverse Pavilions	12,280,106
Grandville, City of	9,255,756
Gratiot County	13,277,490
Gratiot County Road Commission	8,604,790
Grayling, City of	2,183,246
Green Oak Township	1,309,000
Greenville, City of	2,980,860
Grosse Ile Township	13,552,087
Grosse Pointe Park, City of	19,756,037
Grosse Pointe-Clinton Refuse Disposal Authority	2,377,583
Groveland Township	888,326
Hackley Public Library	51,835
Hamburg Township	1,178,161
Hamtramck Housing Commission	120,217
Hamtramck, City of	47,169,647
Hancock, City of	1,154,955
Harbor Beach, City of	4,198,260
Harbor Springs Sewage Authority	355,283
Harbor Springs, City of	1,900,427
Harrison, City of	1,586,236
Hartland Deerfield Tyrone Fire Authority	162,249
Hastings, City of	7,369,225
Hazel Park, City of	34,142,880
Health Source of Saginaw	25,029,730
Helen Newberry Joy Hospital	9,279,729
Henika District Library	289,222
Herrick District Library	3,875,771
Hiawatha Community Mental Health Authority	9,598,080
Hillsdale County	2,294,391
Hillsdale County Road Commission	4,348,659
Hillsdale, City of	14,291,238
Holland Hospital	2,084,946
Holland Swimming Pool Authority	348,948
Holland, City of	64,403,205
Holly, Village of	6,039,777
Homer, Village of	923,148
Houghton County	11,070,428
Houghton County Road Commission	2,283,391
Houghton Lake Public Library	319,634
Howard City, Village of	466,645
Howard Township	45,291
Howell Area Fire Authority	399,649
Howell Carnegie District Library	707,277
Howell, City of	9,438,283
Hudsonville, City of	1,052,413
Huntington Woods, City of	9,148,143
Hurley Medical Center	125,578,623
Huron Charter Township	7,611,987
Huron County	48,328,893
Huron County Road Commission	14,217,470

SCHEDULE OF PARTICIPATING MUNICIPALITIES – DEFINED BENEFIT PLAN  
FOR THE YEAR ENDED DECEMBER 31, 2009

Name	Total Reserves
Imlay, City of	3,190,528
Independence Township	4,178,524
Indianfields Township	29,195
Ingham County	175,140,103
Ingham County Road Commission	18,590,918
Interurban Transit Authority	726,973
Ionia Community Library	249,704
Ionia County	3,568,524
Ionia County Road Commission	3,829,557
Ionia Housing Commission	601,780
Ionia, City of	5,665,617
Iosco County	12,430,456
Iosco County Road Commission	4,583,249
Iron County	16,246,613
Iron County Housing Commission	290,582
Iron County Road Commission	4,306,900
Iron Mountain, City of	5,134,592
Iron Mountain-Kingsford Sewage Treatment	425,151
Iron River, City of	4,473,141
Ironwood, City of	7,206,086
Isabella County	26,306,729
Isabella County Road Commission	6,597,634
Isabella County Transportation Commission	936,115
Ishpeming Area Joint Wastewater Treatment Facility	582,411
Ishpeming Township	680,769
Ishpeming, City of	6,386,145
Ithaca, City of	2,369,359
Jackson District Library	4,607,580
Jackson Transportation Authority	3,065,880
Jordan Valley District Library	127,258
Kalamazoo Lake Sewer & Water Authority	711,181
Kalamazoo Public Library	2,337,006
Kalkaska County	10,154,845
Kalkaska County Road Commission	3,745,659
Kalkaska Public Transit Authority	1,270,702
Kalkaska, Village of	2,283,945
Keego Harbor, City of	1,947,628
Kent County Road Commission	221,703
Keweenaw County	1,205,927
Keweenaw County Road Commission	3,324,648
Kinde, Village of	66,615
Kingsford, City of	3,958,507
Laingsburg, City of	212,548
Lake County	6,227,918
Lake County Road Commission	4,452,086
Lake Linden, Village of	541,073
Lake Odessa, Village of	136,392
Lake Orion, Village of	2,460,495
Lakeland Library Cooperative	672,024
Lakeshore Coordinating Council	755,035

SCHEDULE OF PARTICIPATING MUNICIPALITIES – DEFINED BENEFIT PLAN  
FOR THE YEAR ENDED DECEMBER 31, 2009

Name	Total Reserves
L'Anse, Village of	2,380,835
Lansing Charter Township	4,091,834
Lansing Housing Commission	5,949,192
Lapeer County	55,516,258
Lapeer County Road Commission	6,710,981
Lapeer District Library	2,251,205
Lapeer, City of	10,638,794
Lathrup Village, City of	4,321,441
Laurium, Village of	866,206
Lawrence, Village of	119,994
Leelanau County	10,345,204
Leelanau County Road Commission	2,258,750
Leoni Township	3,745,589
Leslie Township	136,733
Leslie, City of	850,803
Lexington, Village of	1,033,114
Library Network	4,301,240
Lima Township	240,297
Litchfield, City of	766,526
Livingston County	55,364,442
Livingston County Community Mental Health Authority	10,441,505
Livingston County Road Commission	12,222,443
Looking Glass Regional Fire Authority	79,286
Loutit District Library	941,334
Lowell, City of	6,516,882
Luce County	2,703,471
Luce County Road Commission	3,654,065
Luce-Mackinac-Alger-Schoolcraft District Health Department	6,314,886
Ludington, City of	10,208,206
Ludington-Mason District Library	1,121,202
Luna Pier, City of	2,196,497
Lyons, Village of	73,934
Mackinac County	7,889,943
Mackinac County Housing Commission	176,957
Mackinac County Road Commission	3,314,767
Mackinac Straits Hospital & Health Center	11,207,851
Mackinaw City, Village of	449,481
Madison Heights, City of	21,226,959
Madison Township	530,905
Manilus Township	191,893
Manistee County	21,547,613
Manistee County Road Commission	4,157,154
Manistee Housing Commission	324,336
Manistee, County of	11,628,376
Manistique, City of	4,729,313
Manton, City of	558,366
Marenisco Township	131,000
Marine City, City of	42,310
Marlette, City of	786,270
Marquette Board of Light & Power	18,929,750

SCHEDULE OF PARTICIPATING MUNICIPALITIES – DEFINED BENEFIT PLAN  
FOR THE YEAR ENDED DECEMBER 31, 2009

Name	Total Reserves
Marquette Charter Township	831,267
Marquette County	42,159,656
Marquette County Airport	1,296,795
Marquette County Road Commission	8,927,330
Marquette County Transit Authority	1,965,227
Marquette Waste Management	1,180,188
Marquette, City of	23,875,568
Marshall Area Fire/Ambulance Authority	208,140
Marshall District Library	166,440
Marshall, City of	18,682,574
Mason County	27,208,641
Mason County Road Commission	2,806,650
Mason, City of	8,686,717
Mason-Oceana 911 Central Dispatch	892,853
Mastodon Township	39,028
MBS International Airport	4,668,519
Meceola Central Dispatch	1,014,893
Mecosta County	21,598,494
Mecosta County Medical Center	7,316,563
Mecosta County Road Commission	6,274,163
Melvindale Housing Commission	524,195
Melvindale, City of	14,525,210
Menominee County	9,950,831
Menominee County Road Commission	2,052,724
Menominee, City of	5,814,567
Meridian Charter Township	20,237,505
Metamora Township	496,540
Michigan Grand River Watershed	3,881
Michigan Municipal Risk Management Authority	401,270
Michigan South Central Dispatch	6,270,837
Mid Michigan District Health Department	5,274,248
Mid Peninsula Library Cooperative	199,700
Middleville, Village of	859,838
Midland Authority for Central Dispatch	1,219,608
Midland County Road Commission	6,942,827
Midland, City of	63,764,104
Mid-Michigan Library League	477,668
Milan Library	193,398
Milan, City of	4,946,371
Milford, Village of	5,886,328
Millington, Village of	995,188
Missaukee County	2,308,027
Monroe Housing Commission	782,773
Montague, City of	2,225,679
Montcalm County Road Commission	7,657,547
Montmorency County	4,520,209
Montmorency-Oscoda-Alpena Solid Waste Management	544,070
Montrose, City of	388,536
Mt. Morris, Township of	12,558,344
Mt. Pleasant, City of	14,287,356

SCHEDULE OF PARTICIPATING MUNICIPALITIES – DEFINED BENEFIT PLAN  
FOR THE YEAR ENDED DECEMBER 31, 2009

Name	Total Reserves
Muir, Village of	219,198
Mundy, Charter Township	2,797,107
Municipal Employees' Retirement System of Michigan	7,352,387
Munising, City of	4,194,925
Muskegon Area District Library	838,407
Muskegon County	134,899,298
Muskegon County Road Commission	13,060,673
Muskegon Heights Housing Commission	609,174
Muskegon Heights, City of	21,063,382
Muskegon Housing Commission	339,611
Muskegon, Charter Township of	9,594,266
Muskegon, City of	69,252,869
Negaunee Township	146,493
Negaunee, City of	5,681,115
Network 180	16,101,075
Newaygo County	15,152,191
Newaygo County Mental Health	2,198,092
Newaygo County Road Commission	5,025,290
Newaygo Medical Care Facility	7,766,487
Newaygo Soil & Water Conservation District	76,335
Newberry, Village of	2,163,106
New Buffalo, City of	952,541
Niles District Library	540,375
North Michigan Community Mental Health	41,357
North Houghton County Water & Sewage Authority	205,650
North Muskegon, City of	3,604,096
Northern Lakes Community Mental Health	16,745,970
Northfield Township	596,778
Northpointe Behavioral Healthcare System	7,035,509
Northville Charter Township	9,663,824
Northville District Library	1,310,200
Northville, City of	9,051,682
Northwest Michigan Community Health Agency	3,502,335
Northwestern Regional Airport Commission	2,595,747
Norton Shores, City of	15,887,449
Norway, City of	6,837,616
Novi, City of	36,999,854
Oceana County	19,021,897
Oceola Township	392,055
Ogemaw County	14,947,539
Ogemaw County EMS Authority	1,248,668
Ogemaw County Road Commission	3,910,769
Olive Township	218,225
Onaway, City of	433,296
Ontonagon County	4,804,608
Ontonagon County Economic Development Corporation	66,220
Ontonagon County Road Commission	7,313,483
Ontonagon, Village of	9,860,130
Orchard Lake, City of	2,925,616
Oronoko Charter Township	950,818



SCHEDULE OF PARTICIPATING MUNICIPALITIES – DEFINED BENEFIT PLAN  
FOR THE YEAR ENDED DECEMBER 31, 2009

Name	Total Reserves
Osceola County	8,810,696
Osceola County Road Commission	4,261,613
Oscoda Charter Township	1,935,475
Oscoda County	4,917,629
Oscoda -Wurtsmith Airport Authority	167,167
Otisville, Village of	659,965
Otsego County	9,151,183
Otsego County Road Commission	5,226,435
Ottawa County	113,981,497
Ottawa County Central Dispatch Authority	1,337,449
Ottawa County Road Commission	25,766,786
Otter Lake, Village of	52,728
Owosso, City of	2,881,256
Oxford Fire Department	2,222,634
Oxford, Village of	1,485,635
Parchment, City of	1,904,178
Pathways	24,974,860
Paw Paw Lake Regional Joint Sewage Disposal Board	840,460
Paw Paw, Village of	4,884,917
Pellston, Village of	169,150
Pennfield Charter Township	993,024
Pentwater, Village of	993,689
Perrinton, Village of	41,264
Petersburg, City of	182,973
Petoskey, City of	13,358,338
Pewamo, Village of	95,771
Pigeon, Village of	568,545
Pinckney, Village of	1,328,680
Pinconning, City of	1,281,035
Pittsfield Charter Township	10,248,739
Pleasant Ridge, City of	2,166,620
Plymouth Charter Township	12,091,692
Plymouth District Library	2,539,443
Plymouth, City of	7,264,657
Pokagon Band of Potawatomi (TGRS)	4,137,238
Port Austin Area Sewer & Water Authority	121,376
Port Austin, Village of	385,168
Port Huron Charter Township	1,475,521
Port Huron Housing Commission	3,037,721
Port Huron, City of	78,020,002
Port Sanilac, Village of	412,046
Port Sheldon Township	465,917
Portland, City of	5,569,464
Pottersville, City of	240,928
Presque Isle County	5,924,518
Presque Isle County Road Commission	4,641,538
Pride Youth Programs	362,333
Ravenna, Village of	290,871
Reading, City of	204,317
Redford Township	27,246,266

SCHEDULE OF PARTICIPATING MUNICIPALITIES – DEFINED BENEFIT PLAN  
FOR THE YEAR ENDED DECEMBER 31, 2009

Name	Total Reserves
Redford Township District Library	1,345,891
Reed, City of	2,839,711
Richfield Township (Genesee County)	1,073,236
Richfield Township (Roscommon County)	1,430,150
Richland Township	1,621,110
Richmond, City of	856,946
Rochester, City of	11,627,246
Rockford, City of	3,316,683
Rockwood, City of	1,603,094
Rogers City, City of	4,902,984
Romeo District Library	1,283,794
Romeo, Village of	3,424,697
Romulus, City of	15,172,216
Roosevelt Park, City of	2,474,809
Roscommon County	12,104,211
Roscommon County Transit Authority	1,254,735
Rose City, City of	453,464
Rose Township	212,940
Royal Oak Township	3,627,991
Saginaw County	74,285,303
Saginaw County 911 Central Authority	5,858,093
Saginaw County Community Mental Health Authority	8,597,060
Saginaw County Road Commission	19,546,320
Saginaw Housing Commission	1,592,244
Saginaw Public Libraries	1,008,740
Saginaw Township	8,578,219
Saginaw Transit System Authority	1,023,561
Saginaw, City of	57,762,187
Saginaw-Midland Municipal Waste & Soil Commission	2,167,406
Saline, City of	10,460,816
Sandusky District Library	128,724
Sandusky, City of	1,528,327
Saranac Housing Commission	312,970
Saugatuck Township	541,356
Saugatuck, City of	964,178
Sault Ste. Marie, City of	16,684,891
Sault Ste. Marie Housing Commission	965,631
Schoolcraft County	14,805,862
Schoolcraft County Road Commission	5,436,745
Schoolcraft Memorial Hospital	11,559,973
Scio Township	918,059
Sebewaing, Village of	3,584,023
Shepherd, Village of	343,896
Shiawassee Council on Aging	437,365
Shiawassee County	46,631,513
Shiawassee County Community Mental Health Authority	7,144,934
Shiawassee County Road Commission	9,021,892
Shiawassee District Library	1,214,962
Sims-Whitney Utilities Authority	132,033
South Haven Emergency Services Alliance	2,474,205

SCHEDULE OF PARTICIPATING MUNICIPALITIES – DEFINED BENEFIT PLAN  
FOR THE YEAR ENDED DECEMBER 31, 2009

Name	Total Reserves
South Haven, City of	17,115,438
South Lyon, City of	5,775,562
Southeast Michigan Area Rapid Transit	122,123,631
Southeast Michigan Council of Governments	20,907,406
Southeast Oakland County Resource Recovery Authority	3,377,857
Southeast Oakland County Water Authority	4,186,301
Southern Clinton County Municipal Utilities Authority	2,047,855
Southwest Shiawassee Emergency Services Alliance	190,525
Sparta, Village of	1,712,565
Spring Lake, Village of	1,583,557
Spring Lake District Library	846,073
Springfield, City of	5,973,512
St. Charles, Village of	1,737,535
St. Clair Area Fire Authority	69,219
St. Clair Shores Housing Commission	947,135
St. Clair, City of	9,257,432
St. Ignace, City of	4,775,952
St. Johns, City of	7,668,557
St. Joseph County	24,005,669
St. Louis Housing Commission	344,699
St. Louis, City of	4,306,497
Stambaugh Township	53,868
Standish, City of	1,190,140
Stanton, City of	88,768
Stephenson, City of	132,696
Sterling, Village of	194,664
Stockbridge, Village of	277,043
Sturgis Housing Commission	20,161
Summit Township	5,474,318
Sumpter Township	2,428,431
Superior Charter Township	2,739,563
Superiorland Library Cooperative	669,061
Swan Creek Township	326,450
Swartz Creek, City of	6,248,649
Sylvan Lake, City of	1,353,492
Tawas Police Authority	460,947
Taylor Housing Commission	215,573
Thirty-Fifth District Court	2,412,749
Thirty-Fourth District Court	2,850,094
Three Rivers Hospital	5,581
Three Rivers, City of	8,696,262
Traverse Area District Library	2,899,521
Traverse City, City of	32,740,520
Trenton, City of	23,520,925
Tri-County Aging Consortium	5,174,885
Trio Council on Aging	245,763
Tuscarora Township	658,733
Tuscola County	18,107,998
Tuscola County Community Mental Health	8,547,984
Tuscola County Health Department	5,268,637

SCHEDULE OF PARTICIPATING MUNICIPALITIES – DEFINED BENEFIT PLAN  
FOR THE YEAR ENDED DECEMBER 31, 2009

Name	Total Reserves
Tuscola County Medical Center Facility	8,665,471
Tuscola County Road Commission	2,309,553
Twenty-First Judicial District Court	973,596
Twenty-Sixth Judicial Circuit Court	2,354,085
Twenty-Third Judicial District Court	2,014,711
Twin Cities Public Safety Authority	89,277
Ubyly, Village of	358,542
Utica, City of	2,208,924
Van Buren County	11,611,906
Van Buren District Library	925,647
Van Buren Township	5,483,885
Vassar, City of	3,758,522
Vevay Township	248,754
Vicksburg District Library	56,620
Vicksburg, Village of	1,233,688
Vienna Charter Township	646,673
Village of Marion	322,393
Wakefield, City of	2,437,516
Walker, City of	7,892,534
Walled Lake, City of	3,625,302
Washtenaw County	30,554,426
Washtenaw County Road Commission	25,735,535
Wayland, City of	3,100,865
Wayne Housing Commission	236,875
Wayne, City of	57,708,412
Webberville, Village of	166,112
West Branch District Library	230,382
West Branch, City of	2,463,732
West Iron County Sewer Authority	502,792
West Michigan Community Mental Health System	3,644,150
West Michigan Shoreline Regional Development Commission	3,113,059
Western Upper Peninsula Development Regional Community	787,891
Western Upper Peninsula District Health Department	6,768,773
Westland, City of	45,469,840
Westphalia, Village of	265,194
Wexford County	13,009,607
Wexford County Road Commission	5,557,278
White Cloud Community Library	233,497
White Cloud, City of	392,583
White Cloud/Sherman Utilities	104,595
White Lake Charter Township	12,421,015
White Pigeon, Village of	60,984
White Pine Library	97,036
Whitehall, City of	2,996,368
Willard Public Library	1,083,664
Williamston, City of	2,207,409
Wixom, City of	11,643,586
Wolverine Lake, Village of	1,005,523
Ypsilanti Community Utilities Authority	22,443,196
Ypsilanti Housing Commission	496,053

SCHEDULE OF PARTICIPATING MUNICIPALITIES – DEFINED BENEFIT PLAN  
FOR THE YEAR ENDED DECEMBER 31, 2009

Name	Total Reserves
Ypsilanti, City of	14,042,674
Ypsilanti, Township of	10,528,339
Total Reserves	\$5,276,645,338
Average Size Reserves	\$7,505,897

SCHEDULE OF PARTICIPATING MUNICIPALITIES - DEFINED CONTRIBUTION PLAN  
FOR THE YEAR ENDED DECEMBER 31, 2009

Name	Defined Contribution Plan Balance
Albion District Library	\$60,974
Albion, City of	314,355
Alcona, County Of	669,729
Allegan County	17,251,795
Allen Park, City of	321,014
Alma, City of	341,949
Alpena County	258,645
Alpena General Hospital	11,216,405
Arenac County	76,971
Au Gres, City of	83,958
Baraga County Memorial Hospital	1,328,031
Bay Area Transportation Authority	589,552
Bay City Housing Commission	949,983
Bay City, City of	10,315,679
Beaverton, City of	38,315
Beecher Metropolitan District Sewer and Water	49,603
Belding, City of	49,593
Benzie Transportation Authority	22,304
Benzie-Leelanau District Health Department	1,142,681
Big Rapids Housing Commission	145,800
Big Rapids, City of	1,110,977
Bloomfield Hills, City of	13,574
Boyne City, City of	82,401
Breitung, Charter Township of	249,851
Brighton Area Fire Authority	30,530
Brighton, Charter Township of	8,951
Brown City, City of	50,540
Central Michigan District Health Department	168,123
Central Wayne County Sanitation Authority	3,112
Charlotte, City of	92,704
Chelsea Area Construction Agency	80,612
Chelsea, City of	922,330
Clawson, City of	885,512
Clinton County	211,037
Clinton County Road Commission	45,002
Clinton-Eaton-Ingham Community Mental Health	1,235,632
Coldwater Board of Public Utilities	903,300
Coldwater Housing Commission	54,126
Coldwater, City of	3,358,268
Crawford County	27,141
Delta County	357,300
Detroit Wayne County Health Authority	165,522
Dewitt Charter Township	26,383
Dickinson-Iron District Health Department	54,849
District Health Department Number Four	571,980
District Health Department Number Ten	4,787,997
District Health Department Number Two	743,291
Douglas, Village of	19,927
Dowagiac District Library	3,473
Dowagiac, City of	29,445

SCHEDULE OF PARTICIPATING MUNICIPALITIES - DEFINED CONTRIBUTION PLAN  
FOR THE YEAR ENDED DECEMBER 31, 2009

Name	Defined Contribution Plan Balance
East Grand Rapids, City of	6,810,355
East Lansing, City of	7,599,743
Elkton, Village of	123,043
Emmett County Road Commission	1,217,266
Escanaba, City of	259,541
Farmington Community Library	778,782
Fenton, City of	43,055
Flint, Charter Township of	1,146,647
Flushing, City of	30,443
Fowlerville, Village of	211,064
Frankenmuth, City of	1,318
Genesee County Land Bank Authority	257,650
Gibraltar, City of	16,064
Gladstone, City of	1,089,800
Grand Rapids Housing Commission	2,048,196
Grand Traverse County	13,349,449
Grand Traverse County Road Commission	2,136,490
Grandville, City of	2,043,658
Gratiot County	1,981,008
Grayling, City of	206,748
Hamtramck, City of	56,165
Hartland Township	185,536
Hastings, City of	4,941
Hazel Park, City of	14,189
Health Source of Saginaw	175,102
Helen Newberry Joy Hospital	680,291
Hiawatha Behavioral Health	705,562
Highland Park, City of	3,542,643
Holland, City of	5,076,221
Howard City, Village of	71,359
Howell Area Fire Authority	46,839
Howell, City of	154,913
Hudsonville, City of	1,173,289
Huntington Woods, City of	1,174,944
Huron County Economic Development Corporation	2,777
Ingham County Capital Area District Library	559,061
Iosco County	434,806
Iron County	159,101
Isabella County	1,171,509
Ithaca, City of	85,266
Jackson County	221,903
Lake Erie Transportation Commission	52,403
Lake Orion, Village of	130,830
Lakeland Library Cooperative	79,579
Larkin Charter Township	307,558
Leslie, City of	15,101
Litchfield, City of	7,972
Livingston County	1,062,102
Logan Township	1,868
Mackinac County	193,416

SCHEDULE OF PARTICIPATING MUNICIPALITIES - DEFINED CONTRIBUTION PLAN  
FOR THE YEAR ENDED DECEMBER 31, 2009

Name	Defined Contribution Plan Balance
Mackinac County Road Commission	61,909
Madison Heights, City of	37,984
Manistee, City of	118,728
Marquette Board of Light and Power	1,229,767
Marquette County	5,864,778
Marquette County Transportation Authority	19,534
Marquette, City of	864,878
Marshall, City of	17,786
Mason County	968,960
MBS International Airport	69
Mecosta County	2,174,534
Melvindale, City of	81,995
Midland County Road Commission	1,164
Midland, City of	478,863
Mid-Michigan District Health Department	87,621
Milan, City of	593,707
Milford, Village of	1,116,732
Montcalm County	2,753,276
Montrose Township	188,222
Mundi, Charter Township of	62,131
Muskegon County	19,569
Muskegon, City of	1,528,387
Newaygo County	4,354,593
Newaygo County Mental Health	3,005,492
North Kent Sewer Authority	59,317
Northern Lakes Community Mental Health Authority	6,586,629
Northpointe Behavioral Healthcare Systems	2,938
Northville, City of	1,072,847
Northwest Michigan Community Health	6,546,249
Novi, City of	662,477
Oak Park, City of	381,919
Ogemaw County	107,200
Orchard Lake, City of	208,277
Oscoda-Wurtsmith Airport Authority	7,787
Otsego County	43,981
Ottawa County Central Dispatch Authority	749,664
Ottawa County Road Commission	10,153
Pathways	2,457,316
Paw Paw Housing, Village of	49,747
Pere Marquette Charter Township	243,455
Plymouth, City of	8,493,023
Quincy, Village of	93,334
Rochester, City of	28,470
Rogers City, City of	29,835
Romeo District Library	161,886
Roscommon County	207,936
Saginaw County	31,465,405
Saginaw County 911	583,598
Saginaw County Community Mental Health	8,883,760
Saginaw Housing Commission	260,488



SCHEDULE OF PARTICIPATING MUNICIPALITIES - DEFINED CONTRIBUTION PLAN  
FOR THE YEAR ENDED DECEMBER 31, 2009

Name	Defined Contribution Plan Balance
Saginaw, City of	4,908,521
Sanilac Economic Alliance	18,949
Saugatuck, City of	36,860
Schoolcraft Memorial Hospital	4,436,979
Shiawassee County	117,563
Southfield Downtown Development Authority	176,761
Southwestern Michigan Commission	152,591
St. Johns, City of	93,245
St. Louis, City of	518,398
Standish, City of	120,713
Swartz Creek, City of	277,288
The Library Network	92,710
Traverse City, City of	4,370
Twenty-Fifth District Court	38,559
West Michigan Community Health	15,022,365
Western Upper Peninsula District Health Department	94,619
Wixom, City of	20,684
Woodhaven, City of	3,198,116
<b>Total Reserves</b>	<b>\$244,776,452</b>
<b>Average Size Reserves</b>	<b>\$1,457,003</b>


did you know

**The steam locomotive that pulls the Polar Express is modeled after the Pere Marquette #1225 built in 1941 in Lima, OH. Decommissioned in 1951 and slated for scraping, it was acquired by Michigan State University in 1957 and is exhibited on campus. The locomotive is listed on the U.S. National Register of Historical Places.**

**The locomotive is a massive 794,500-pound behemoth. Many of the train's sound effects, such as the whistle blowing and steam exhausting, were created from live samplings of #1225 while still in operation.**

**(Steam Railroading Institute)**





**1134 Municipal Way | Lansing, MI 48917 | (517) 703-9030 | (800) 767-6377**  
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*This publication contains a summary description of MERS benefits, policies or procedures. MERS has made every effort to ensure that the information provided is accurate and up to date (as of the date of publication 06 /25/10). If this publication conflicts with the relevant provisions of the Plan Document, the Plan Document Controls. MERS, as a governmental plan, is exempted by state and federal law from registration with the SEC. However, it employs registered investment advisors to manage the trust fund in compliance with Michigan Public Employee Retirement System Investment Act. Past Performance is not a guarantee of future returns. Please make independent investment decisions carefully and seek the assistance of independent experts when appropriate.*