



Growing your future

MUNICIPAL EMPLOYEES'
RETIREMENT SYSTEM OF MICHIGAN

2010 comprehensive annual financial report for the fiscal year ended 12.31.2010



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Anne M. Wagner – Chief Executive Officer
Leon E. Hank, CPA – Chief Financial Officer

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ABOUT MERS

The Municipal Employees' Retirement System (MERS) of Michigan exists to provide quality retirement and related services with cost-effective plan administration for members and beneficiaries. We are an independent public nonprofit organization that has partnered with Michigan municipal organizations for more than 65 years, helping them deliver on their promise of a retirement for their employees.

WHAT WE OFFER

MERS Retirement Solutions

MERS Defined Benefit Plan – *Traditional pension that rewards longevity*

MERS Defined Benefit is a traditional pension plan that promises employees a lifetime retirement benefit. At retirement, members receive a specific monthly benefit calculated using a pre-determined formula based on salary and service. The plan is funded by the municipality (with or without pre-tax employee contributions). We also allow municipalities non-membership access to the MERS Total Market Fund, through our Investment Services Program. Groups benefit from our professionally managed fund and economies of scale, while maintaining local control of their pension administration.

MERS Defined Contribution Plan – *Individual accounts that employees manage*

MERS Defined Contribution Plan provides employees with an account they manage. At retirement, benefits are based solely on the amount contributed by the employee and employer, and the performance of investments. We offer access to MERS investments, while streamlining the number of funds, making for simple and strategic investing.

MERS Hybrid Plan – *Offers the best of both retirement plans*

MERS Hybrid Plan is two plans in one. Employees will have the security of a Defined Benefit Plan and the flexibility and investment choice of a Defined Contribution Plan. At retirement, employees receive a modest lifetime benefit and a separate account (made up of member and employer contributions and investment interest earned).

MERS OPEB Solutions

MERS Health Care Savings Program – *The flexible, affordable answer to rising health care costs*

MERS Health Care Savings Program is a tax-favored individual medical investment account sponsored by employers. Once the employee leaves, the account balance is available for tax-free reimbursement of medical expenses for the employee and eligible dependents.

MERS Retiree Health Funding Vehicle – *A simple approach to a complex problem*

The Retiree Health Funding Vehicle is a medical trust which allows municipalities to save and grow assets to offset retiree health care liability. The funding vehicle allows employers to proactively set aside assets to begin funding their liability, and to take advantage of the economies of scale of the MERS portfolios.

MERS Group Buying Solutions

MERS Premier Advantage – *An exciting health care option for Medicare-eligible members*

MERS Premier Advantage is a Medicare Advantage program, designed exclusively for MERS members who are eligible for Medicare. MERS partnered with Humana to cover all Medicare Part A and Part B benefits, as well as many other medical expenses and comprehensive prescription drug coverage, all at a lower out-of-pocket cost than Medicare.

MERS Group Life & Disability Insurance Program – *Secure. Smart. Simple.*

MERS pools employer purchasing power to preserve the quality and affordability of Life, Accidental Death and Dismemberment, Short Term Disability, and Long Term Disability Insurance. MERS partners with The Standard Insurance company to offer affordable insurance.

Table of Contents

Introductory Section	1
Achievements	1
Letter of Transmittal	2
Letter From the Chairperson	6
MERS Retirement Board and Chief Executive Officer	7
MERS Officers	7
Organizational Structure – 2010	8
Outside Professional Services	9
Acknowledgements	10
Financial Section	11
Independent Auditor’s Report	11
Management’s Discussion and Analysis	13
Financial Highlights	14
Using This Financial Report	15
Financial Statements	
Comparison Statement of Plan Net Assets	16
Comparison Statement of Changes in Plan Net Assets	17
Statement of Plan Net Assets	20
Statement of Changes in Plan Net Assets	22
Notes to Basic Financial Statements	24
(The notes to the Financial Statements are an integral part of the Financial Statements)	
MERS Participating Municipalities	26
MERS Membership	26
Schedule of Funding Progress	29
Actuarial Accrued Liability	29
Three-Year Trend Information Schedule of Employer Contributions	29
Capital Assets	30
Credit Ratings Summary	34
Effective Duration	36
Foreign Currency Risk	37
Collateral Held and Fair Value of Securities on Loan	38
Futures Contracts	39
Swap Contracts and Structured Notes	39
Foreign Currency Forward Contracts	39
Schedule of Funding Progress	40
Required Supplementary Information	41
Schedule of Funding Progress	41
Schedule of Employer Contributions	41
Notes to the Schedules of Required Supplementary Information	42
Summary Information	43
Supporting Schedules	
Schedule of Administrative Expenses	44
Schedule of Investment Expenses	45
Schedule of Payments for Consultants	46

Investment Section	47
Chief Investment Officer Report	47
Report on Investment Activity	49
Defined Benefit Plan	50
Investment Objectives and Activity.....	50
Fund Objective Considerations	50
Portfolio Highlights	51
Investment Strategy Implementation Process.....	52
Investment Themes.....	53
Total Market Fund Review	54
Asset Class Performance for 2010 and Contribution to Total Return.....	54
Performance versus Custom Benchmarks	55
Downside Protection Upside Participation	56
Growth of the Total Market Fund.....	56
Current Asset Allocation versus Target Allocation.....	57
Statistical Performance	58
Investment Summary for Defined Benefit Plan, Retiree Health Funding Vehicle, Health Care Savings, and Investment Services Programs	59
Equity Asset Class Summary	60
Public Equity Performance	61
Top Ten Equity Holdings	62
Public Equity – Investment Managers.....	62
Fixed Income and High Yield Asset Class Summary	63
Fixed Income Allocation	63
Fixed Income Performance.....	64
Top Ten Fixed Income Holdings	65
Fixed Income – Investment Managers.....	65
High Yield Allocation.....	66
High Yield Performance	66
High Yield – Investment Managers	66
Alternative Asset Class Summary.....	67
MERS Real Estate.....	67
Alternative Performance.....	68
Alternatives External – Investment Managers	68
Schedule of Investment Fees.....	69
Schedule of Investment Commissions	70
Securities Lending.....	70
Defined Contribution Plan	71
Asset Allocation of Defined Contribution Plan.....	71
Hybrid Plan	73
MERS Health Care Savings Program and MERS Retiree Health Funding Vehicle	73
MERS Total Market Fund Summary	74
Asset Allocation.....	74
MERS Established Market Fund Summary	75
Asset Allocation.....	75
MERS Diversified Bond Fund Summary.....	76
Asset Allocation.....	76
MERS Short Term Managed Income Fund Summary	77
Asset Allocation.....	77
MERS Investment Services Program	77

Actuarial Section 79

Actuary Certification Letter 79
Summary of Actuarial Assumptions and Methods 82
Assumptions and Method Changes 83
 Annual Percentage Increase in Salary 84
 Rates of Withdrawal (Excluding Death or Disability) from Active Employment
 Before Retirement 85
 Normal Retirement – Service Based Benefit F(N) Adopted 86
 Early Retirement – Reduced Benefit 86
 Rates of Withdrawal Due to Disability Percent Becoming Disabled
 Within Next Year 87
 Mortality Tables (Non-Disabled & Disabled) 88
 Schedule of Active Member Valuation Data 88
 Schedule of Retirees and Beneficiaries Added to and Removed from Rolls 89
 Solvency Test 90
Summary of Plan Document Provisions – Defined Benefit Plan 91
Summary of Plan Document Provisions – Hybrid Program 94

Statistical Section 97

Retirees in Michigan 97
Distribution of Benefit Recipients by Location 98
Schedule of Additions to Plan Net Assets – Defined Benefit Plan 99
Schedule of Average Benefit Payments – Defined Benefit Plan 99
Changes in Plan Net Assets – Last Ten Years 100
Schedule of Deductions from Plan Net Assets – Defined Benefit Plan 104
Schedule of Benefit Expenses by Type – Defined Benefit Plan 104
Schedule of Retired Members by Type of Benefit – Defined Benefit Plan 105
Schedule of Retired Members by Type of Option Selected – Defined Benefit Plan . . 106
Defined Contribution Plan Participants and Total MERS Participants 108
Comparisons of Member and Employer Contributions versus Pension Checks
and Refunds Paid Out for the Defined Benefit Plan 109
Schedule of Changes in Reserves 110
Active Members Per Pension Recipient 112
Benefits as Percent of Active Member Pay 112
Schedule of Participating Municipalities – Defined Benefit Plan 113
Schedule of Participating Municipalities – Defined Contribution Plan 128
Resources 133



Michigan cherries

Did You Know?

- Michigan produces more cherries than any other state
- It takes six to eight pounds of tart cherries to make one pound of dried cherries
- Cherries contain powerful antioxidants that help fight cancer and heart disease
- Eating the equivalent of 20 cherries per day may help arthritis and headaches
- Michigan produces about 190 million pounds of tart cherries, and 43 million pounds of sweet cherries

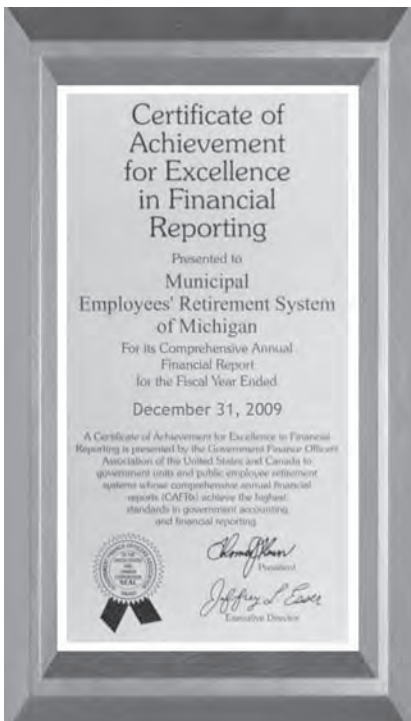


2010 ACHIEVEMENTS

Certificate of Achievement for Excellence in Financial Reporting

MERS received the Certificate of Achievement for Excellence in Financial Reporting from the Government Finance Officers Association for the December 31, 2009

Comprehensive Annual Financial Report. This marks the 22nd consecutive year MERS has received this honor.



Public Pension Standards Award in 2010

MERS also received the Public Pension Coordinating Council (PPCC), Public Pension Standards Award in 2010, 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, 2011

Dear Board Members:

It is a pleasure to submit the 2010 Comprehensive Annual Financial Report (CAFR) for the Municipal Employees' Retirement System (MERS) of Michigan. Included in this year's report is all of the required financial information regarding the System for the fiscal year ending December 31, 2010.

The activities and accomplishments in this report reflect MERS steady strides in fulfilling the goals determined by the Retirement Board, namely, all members will: 1) have accurate information regarding their benefit provisions, 2) experience excellent service and 3) participate in a cost-effective, innovative retirement system. Using professionally planned administration and sound investment practices, we continually strive to exceed member expectations in all aspects of service delivery.

Our theme this year is Growing Your Future. Planning, planting, growing and harvesting crops are similar to making choices for retirement. Michigan is a great agriculture state with a variety of soil types. This diversity results in an ability to grow a large variety of crops – from fruit on the west side of the state, to sugar beets on the east, mint in the lower middle and forests in the upper regions. Farms of all shapes and sizes dot the Michigan landscape. MERS likewise has diverse members with diverse plan types located all across the state. While U.S. financial markets have been persistent in recovery efforts, unemployment and declining housing values remain problematic in the economy. However, the past two years have shown performance improvement as the MERS portfolio exceeded 17% in 2009 and 14% in 2010, following the meltdown of the financial markets in 2008. An updated Experience Study provided by MERS

actuary, Gabriel, Roeder, Smith & Company, indicated that these returns leave the long-term return (30-plus years) more than 100 basis points above the Board-adopted 8% assumed investment rate of return.

Report Structure and Contents

MERS management staff has prepared these financial statements and is responsible for the integrity and fairness of the information presented. This report meets the reporting requirements of state law as stipulated by Michigan Complied Laws. The accounting policies used in preparing these financial statements conform with U.S. generally accepted accounting principles (GAAP). The financial information incorporated throughout this report is consistent with what is displayed in the financial statements. Where necessary, some amounts are based on judgments and estimates using industry best business practices.

Although the ultimate responsibility for the financial report rests with the Retirement Board, I as MERS CEO, and staff assist the Board members in fulfilling its responsibilities. All necessary steps have been 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 all members via various media avenues. Internal audits are conducted on a systematic but random basis. The Retirement Board reviews generated reports of audits no less than quarterly.

MERS external auditor, Andrews Hooper Pavlik PLC., conducted an independent audit

of the financial statements, in accordance with generally accepted auditing standards, on page 11. This audit is described in the Independent Auditor's Report located in the Financial Section. MERS management has provided the external auditors with unrestricted access to MERS staff to discuss their audit and related findings. This process is done annually to ensure the independent substantiation of the System's financial reporting, and the sufficiency of the internal controls.



The Management's Discussion and Analysis, located in the **Financial Section**, serves as a narrative and overview of the financial statements. MERS provides a full copy of this CAFR to the Governor, the members of both Michigan Legislative branches, and the Office of the State Treasurer as required by law.

This report also includes an **Introductory Section** outlining the System's achievements and structure; the **Investment Section** comprising investment activities and performance information; the **Actuarial Section** containing all the facts pertaining to the actuarial assumptions and methods, and includes the actuary's certification letter. Lastly, the **Statistical Section** provides schedules of various aspects of the system including a listing of all MERS participating municipalities.

MERS Profile

MERS is a statewide voluntary organization created in 1945 by the Michigan Legislature. In 1996, the System was granted independence by the Legislature. At that time MERS had fewer than 500 employer members. Today, more than

750 communities throughout Michigan have selected MERS as their retirement plan provider.

As a statewide voluntary organization, MERS provides an investment pool and system administration for retirement purposes to local governmental entities throughout Michigan. These include cities, counties, townships, road commissions, authorities, and medical care facilities to name a few. MERS offers a menu of benefit provisions through pension trust funds. These provisions may be adopted by member employers to create a retirement plan for their employees. The Retirement Board serves as the fiduciary of the funds while providing oversight responsibilities of the System.

MERS is committed to providing service, security and solutions to our member groups. Service to our segmented customer base is our highest priority including our employers, actively employed members and retired members. In addition, we have many deferred members. Security is likewise extremely important. Ensuring the integrity of the System's information database and investment assets are core requirements for providing retirement information and monthly distributions on a timely basis. Solutions are a mainstay of the MERS System. This means we work with our members to provide the best plan options to meet their needs at the local level.

In 2010, 16 new municipalities, eight in the Defined Benefit Plan and eight in the Defined Contribution Plan, joined MERS. In addition, 11 new divisions in existing member municipalities also joined. In total, these new groups brought in more than \$97 million in assets.

As MERS continues to grow, we will be flexible to innovation while at the same time safeguarding the rules and regulations required of a mature, well-managed retirement system. To that end, the Retirement Board operates from a Governance Policy that contains all the policies required for operating the system. These policies are outlined in four broad categories, namely: the Ends or Achievements as determined to be the harbinger of success for the System's operation, the limitations of the Chief Executive Officer, the relationship of

the Chief Executive Officer to the Retirement Board, and the Retirement Board's processes and procedures.

2010 Accomplishments

Awards

MERS was the proud recipient of the **Government Finance Officers Association (GFOA) Annual Award for our 2009 Comprehensive Annual Financial Report (CAFR)** for the 22nd consecutive year. We also received the GFOA award for MERS Popular Annual Financial Report, which was mailed to all active and retired members of the System.

Last year marks the eighth straight year we received the Budget Award from GFOA. MERS is one of four pension systems in the country to submit their budget for this award.

MERS Communication Department received the Bronze award in the annual Gold Ink Awards, a international print competition, for its entry of the MERS Retirement Solutions Handbook.

Projects

The year 2010 was a big project year for MERS. Beginning in January, the **Expanded Capabilities Project**, better known as ExCap, got underway. This project was the outgrowth of our exploration to undertake the administration of the Defined Contribution (DC) Plan and expand our transition capabilities. The project group was comprised of approximately 20 MERS staff members from every department. This group met bi-weekly to devise a project plan, identify inefficiencies and develop corresponding solutions.

The adoption of the MERS Defined Contribution Plan in 1996 occurred during a time of great change for MERS staff. It was the year the system became independent, moved the office and hired new staff members. The Retirement Board wisely selected an external third party administrator to administer the newly formed plan.

As MERS internal capabilities expanded, we felt the need to examine the potential for managing Defined Contribution internally. After months of planning and discussion, the ExCap members gave the project a "Go forward" vote in July and worked during the remainder of the year to design all of the details to ensure a smooth transition. The conversion occurred in a very seamless fashion in January 2011.

The MERS **Service Center** was expanded and training methods were improved as a result of the ExCap project. The center is equipped with competent, well-trained staff that handle telephone calls for all MERS products and services using call center industry standards. Approximately 3,500 calls per month were received, including refund requests, account changes, and tax withholding changes.

Another important landmark resulting from ExCap was the introduction of two new online portals: the **myMERS Member Portal** for employee members and the **Employer Portal** for employer members. Both portals are accessible through the MERS website. This new technology provides our members with immediate access to their various accounts through a single, secure login.

The first phase of the **Customer Relationship Management** (Microsoft CRM) project rolled out as well, with plans for additional features to be implemented in phase two in 2011. This system allows better coordination and tracks member touch points.

The MERS Finance Department has been working on the **Great Plains** software project that replaces PeopleSoft Financials. Development and testing have been completed and one final customization requirement is still needed before being fully implemented. MERS financial history for years 1999 through 2010 has been transitioned to this new software.

Service

On the **education** front, a new seminar was added for those members in mid-career, called "Build a Better Retirement." Our goal is to assist our members as early as possible in their careers, and start them thinking about retirement. Our various seminars continued to be very successful during the year with 419 attending the onsite retirement seminar; 232 attending Successful Retirement; and 20 attending the Build a Better Retirement Seminar.

Off-site group presentations were provided to more than 2,000 members with separate one-on-one appointments provided to more than 1,400 members.

Other statistics: 1,723 Defined Benefit retirement applications were processed, 2,421 new membership applications, 1,107 deaths for retirees and/or their beneficiaries, and 868 verifications for service credit purchase estimates were provided. MERS is now requiring cash payment for all service credit purchases by either the employer or the employee.

Our goal is to offer excellent service to our employers. Regional managers completed more than 1,231 service visits to MERS employers and prospective members. In addition, 257 actuarial requests were processed.

The MERS **Library and Records Center** manages the System's records and provides service to the MERS staff. In 2010, the Library staff scanned 337,976 pages and 80,479 member records. The record inventory in FileNet, our record system, houses over 139,000 records from MERS business units. The Library also worked with a vendor to create a database named ERIS to house all historical documents including, newsletters, Board motions, Board policies from 1983 to present, Attorney General opinions from 1946 to 1988, Plan Document changes, and all changes to MERS law from 1946 to the present. All foundational material is in the system and searchable by topic.

Leadership Development class was continued for a fourth year with approximately 54 MERS employees participating. The goal of the class is to provide a forum for discussion and growth for those staff members who are interested in expanding their leadership qualities and potential.

Meetings

The **Retirement Board** meets six times annually beginning in January and continues every other month through November. One of the meetings includes an annual retreat in July to discuss strategic planning for the system. Every fall, an Annual Meeting is held to conduct the system's business. Last year the meeting was in Kalamazoo with more than 400 members attending.

The MERS **Strategic Planning Group**, comprised of department officers and their managers, meets monthly, and each June the group participates in a strategic planning session. The recommendations and observations from the session are forwarded to the Retirement Board for its review and discussion at the Board's July retreat.

Acknowledgments

In closing, this report reflects the combined efforts of the MERS staff and the Retirement Board. My sincere appreciation goes to the entire staff for their unfailing efforts to ensure the successful operation of the system. I would also like to extend my deep appreciation to the Retirement Board members for their tireless efforts and dedication in overseeing the system. Their conscientious service and diligence is exemplary. I am also grateful to the many organizations and advisors who work in partnership with MERS to help assure the success of our system.

Respectfully submitted,

Anne M. Wagner
Chief Executive Officer

Letter from the Chairperson, June 30, 2011**Dear Board Members,**

It is a pleasure to present the 65th Comprehensive Annual Financial Report (CAFR) of the Municipal Employees' Retirement System (MERS) of Michigan on the behalf of the MERS Retirement Board. This report is for the fiscal year ending December 31, 2010 and provides the relevant financial information pertaining to the status of our Retirement System.

Each year, as stipulated by the MERS Plan Document, the Retirement Board convenes a meeting of member delegates to conduct such business as is required for the operation of the System, including election of board members. The meeting agenda includes the business meeting with reports from the board chairperson, the System's actuary, and updates on the performance of the investment portfolio, in addition to educational sessions. Last year the meeting was held in the city of Kalamazoo on September 13-15, 2010, at the Radisson Plaza Hotel.

During the Annual Meeting, the member delegates elected: Michael Brown, County Administrator for Barry County, as an employer board member; and Sally Dreves, Human Resource Technician from Grand Traverse County, as an employee member. Both were elected to three-year terms. The Board reappointed Bruce Johnson as one of our investment experts. At the January board meeting, I was selected by the Retirement Board to serve as chairperson for another one-year term and Michael Brown was selected to serve as chairperson pro tem. The Retirement Board is comprised of nine members: three employer and three employee members elected by the delegates on three-year rotating terms; as well as one retiree and two investment experts appointed by the Board.

The Retirement Board annually reviews the MERS investment policy with continued scrutiny of our investment assumption, which

is currently 8%. For 2010, the MERS investment portfolio returned in excess of 14%. This is the second straight year, following the disastrous financial markets of 2008, that the portfolio provided double digit returns.

A major project undertaken by the MERS staff in 2010 was the Expanded Capabilities Project, referred to as "ExCap." It resulted in smoothly transitioning the MERS Defined Contribution Plan (DC) from external to internal administration. The appeal for such an effort was two-fold, namely to provide increased education for those MERS members in Defined Contribution and lower the plan fees overall. With those goals accomplished, MERS is pleased to acknowledge the completion of this project and congratulates those staff members who worked so diligently to accomplish its success.

MERS is very fortunate to have members with diverse backgrounds and experience serve on the Retirement Board. Their expertise and knowledge allows them to diligently fulfill the Board's fiduciary responsibilities. Likewise, the MERS staff continues in their unwavering commitment to accomplish the Board's goals of providing accurate information, excellent service and cost-effective plan administration to all MERS members.

In closing, our members can remain confident in the security of the System as we focus on the long-term objectives of sustainable retirement and providing solutions to our members at all levels of the spectrum. MERS vision statement "Our present is your future," continually reminds us of the impact of what we do every day on the future of our members. It is indeed a privilege to serve as the chairperson of this outstanding organization.

Sincerely,

**Larry Opelt, Chairperson
MERS Retirement Board**



MERS RETIREMENT BOARD AND CHIEF EXECUTIVE OFFICER – 2009/2010

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

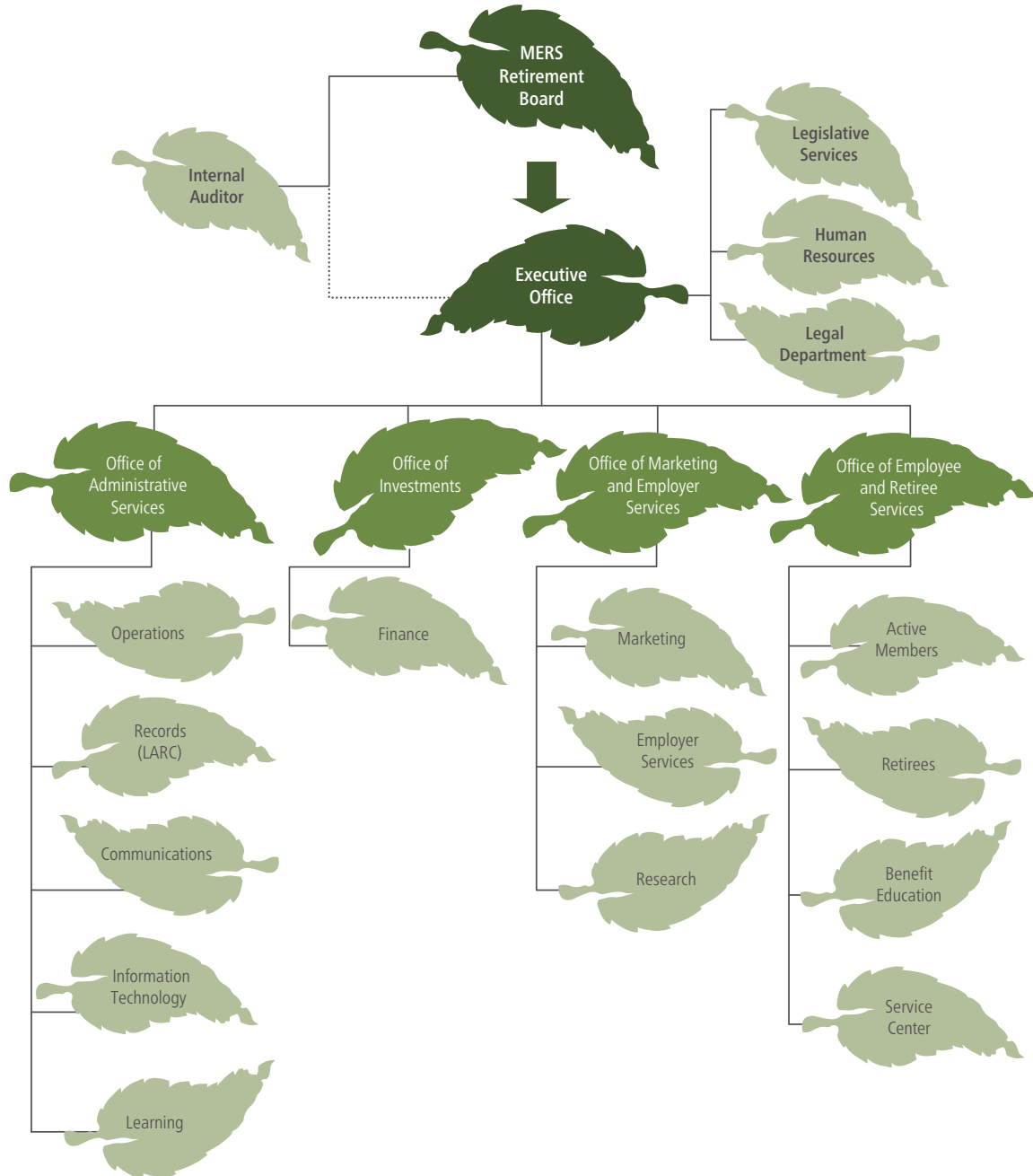


MERS OFFICERS – 2010

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

MUNICIPAL EMPLOYEES' RETIREMENT SYSTEM OF MICHIGAN

Organizational Structure – 2010



OUTSIDE PROFESSIONAL SERVICES

Professional Consultants

Actuary

Gabriel, Roeder, Smith & Company

Auditor

Andrews Hooper Pavlik PLC

Human Resource Advisors

Gallagher Benefit Services, Inc.

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

Rimini Street

Summit Technologies

Robbins-Gioia

Service Express

Crowe-Horwath

Third-Party Administrators

Tegrit Administrators, LLC

Investment Managers

Domestic Equity

AMBS Investments

BRC Investment Management

C.S. McKee

Hellman Jordan

Irving Magee

Kennedy Capital Management

Seizert Capital

Wellington Management

International Equity

Acadian Asset Management

BlackRock

Driehaus Global Growth

Hexam

Mondrian Investment Advisors

Fixed Income

BlackRock

C.S. McKee

Credit Suisse

First International Advisors

Reams Asset Management

TCW Funds

High Yield

Stone Harbor

Stone Tower

Overlay

Clifton Group

Real Estate

The Townsend Group

Hancock Timber

Urdang Capital Management

Private Equity

Credit Suisse

Mesirow Financial

Commodities

Cargill Risk Management

Mount Lucas

ACKNOWLEDGEMENTS

The MERS Comprehensive Annual Financial Report (CAFR) for the fiscal year ended December 31, 2010 was prepared by the Office of Finance and Technology Services (OFT). Special thanks go out to the individuals who assisted with the report. All contributed significant amounts of time and energy to help complete this report. Preparation would not have been possible without the efforts of these individuals.

Office of Finance and Technology Services – Management

Betsy Waldofsky, Finance Director

Luke Huelskamp, Senior Finance & Budget Director

Marlaine Taylor, Municipal Accounting Supervisor

Office of Finance and Technology Services – Technical and Support Staff

Danielle Grice, Accounting Analyst

Jen Wyble, Office Administrator

Karen Butka, Administrative Assistant

Meaghan Krebs, Employer Support Specialist

Robin Towsley, Accounts Payable Coordinator

Sharlene Pallick, Accounting Technician

Additional MERS Staff

Ana Carlson, Senior Graphic Designer, Office of Marketing & Employer Services

Bekki Becsey, Editor, Office of Marketing & Employer Services

Bob Griffin, Investment Officer & Portfolio Manager, Office of Investments

Claudia Konieczny, Investment Analyst, Office of Investments

Jen Mausolf, Marketing/Product Development Manager, Office of Marketing & Employer Services

Joe Thompson, Internal Auditor

Lisa Bond-Brewer, Communications Director, Office of Marketing & Employer Services

Mike Charette, Senior Investment Officer & Portfolio Manager, Office of Investments

Nita Campbell, Digital Print and Mail Services Supervisor, Office of Organizational Development

Special thanks are also extended to our auditors Andrews Hooper Pavlik PLC, actuary Gabriel, Roeder, Smith & Company, and Tegrity Group.

Michigan Christmas Trees

Did You Know?

- Michigan ranks third in the nation for the number of Christmas trees harvested, supplying approximately three million fresh trees each year
- Michigan produces more than a dozen Christmas tree varieties, more than any other state
- Approximately 42,000 acres are used for Christmas tree production
- For every Christmas tree harvested, Michigan farmers plant three new trees

INDEPENDENT AUDITOR'S REPORT

Municipal Employees' Retirement System of Michigan



ANDREWS HOOPER PAVLIK PLC

4295 OKEMOS ROAD | SUITE 200 | OKEMOS, MI 48864

p: 517.706.0800 | f: 517.706.0011 | www.ahpplc.com

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, 2010, 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 2009 financial statements and, in our report dated June 29, 2010, 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Municipal Employees' Retirement System of Michigan's internal control over financial reporting. Accordingly, we express no such opinion. 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, 2010, 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, 2011, 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 Financial statements include summarized prior year comparative information. Such information does not include sufficient detail to constitute a presentation in conformity with U.S. generally accepted accounting principles. Accordingly, such information should be read in conjunction with the financial statements for the year ended December 31, 2009, from which summarized information was derived.

INDEPENDENT AUDITOR'S REPORT

Municipal Employees' Retirement System of Michigan

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, Schedule of Funding Progress, Schedule of Employer Contributions, and Notes to the Schedules of Required Supplementary Information be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information included in the Schedule of Administrative Expenses, Schedule of Investment Expenses, and the Schedule of Payments to Consultants and Services are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

The Introductory, Investment, Actuarial and Statistical sections 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 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 do not express an opinion or provide any assurance on them.

Andrew Hooper Paulik PLC

Okemos, Michigan
June 29, 2011

MANAGEMENT'S DISCUSSION AND ANALYSIS

This narrative overview and analysis of MERS financial condition for fiscal year ended December 31, 2010, 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 exists to provide quality retirement and related services with cost-effective plan administration for members and beneficiaries. The cost of administering such benefits includes: (1) payment of benefits, (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 Statement.

The "Statement of Plan Net Assets" and "Statement of Changes in Plan Net Assets" provide the current financial condition of the 717 individual municipal Defined Benefit Plans, 195 individual municipal Defined Contribution Plans, 155 Health Care Savings Programs, 116 Retiree Health Funding Vehicle Programs, and one Investment Services Program administered by MERS. The Hybrid Plan is included in the Defined Benefit and Defined Contribution totals.

The "Comparison Statement of Plan Net Assets" and "Comparison Statement of Changes in Plan Net Assets" presented in the Management's Discussion and Analysis, provides a comparative summary of the financial condition of the system as a whole.

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.

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, 2010:

- Total plan net assets for the Defined Benefit Plan, Defined Contribution Plan, Health Care Savings Program, Retiree Health Funding Vehicle and Investment Services Program increased by \$840 million during the 2010 fiscal year. MERS finished the year with \$6.6 billion in net assets, the highest in history.
- Total retirement benefits paid to retirees and beneficiaries increased \$45 million to a total of \$464 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.
- Administrative expenses increased 15% in 2010 to \$22 million. Much of this increase was due to hiring additional staff to handle the increased number of retirees, and an increase in legal services, computer consultants, and software maintenance.
- Investment expenses totaled \$20 million. This is a 12% increase from 2009 primarily due to higher investment manager fees. This increase was not unexpected with the market increases of the past year.



Did You Know?

Total farmland in Michigan is approximately 10 million acres

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 2,139 individual municipal plans administered by MERS in its Defined Benefit Plan, Defined Contribution Plan, Retiree Health Funding Vehicle, Health Care Savings Program and Investment Services Program, as well as comparative summary information about these activities for the 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.



Peaches

- Michigan's Red Haven peaches are famous throughout the country
- Michigan's first commercially successful fruit was the peach
- The first peach trees were planted in the 1780s

Comparison Statement of Plan Net Assets

	As of Dec. 31, 2010	As of Dec. 31, 2009	Increase (Decrease) Amount	Increase (Decrease) Percent
Assets				
Cash and Short-Term Investments	\$90,356,008	\$47,440,502	\$42,915,506	90.46%
Receivables	295,533,786	370,153,123	(74,619,337)	-20.16%
Interfund Receivables	-	953,983	(953,983)	-100.00%
Investments, at fair value	6,463,126,165	5,701,945,005	761,181,160	13.35%
Securities Lending Collateral	965,406,902	1,001,205,736	(35,798,835)	-3.58%
Other Assets/Prepays	173,239	703,273	(530,035)	-75.37%
Net Capital Assets	6,346,492	4,963,358	1,383,134	27.87%
Total Assets	7,820,942,592	7,127,364,980	693,577,612	9.73%
Liabilities				
Purchase of Investments	252,618,509	354,943,179	(102,324,670)	-28.83%
Securities Lending Collateral	972,419,765	1,017,278,740	(44,858,975)	-4.41%
Administrative and Investment Costs	11,661,471	9,735,724	1,925,747	19.78%
Interfund Payables	-	953,983	(953,983)	-100.00%
Other Accounts Payable	94,565	54,778	39,787	72.63%
Total Liabilities	1,236,794,310	1,382,966,404	(146,172,094)	-10.57%
Net Assets Held in Trust for Pension and Health Benefits and Investment Accounts Held for Others	\$6,584,148,282	\$5,744,398,576	\$839,749,706	14.62%



Wheat

- Michigan is ranked 14th in total U.S. wheat production
- Michigan has more than 600,000 acres of winter wheat

Comparison Statement of Changes in Plan Net Assets

	Year ended Dec. 31, 2010	Year ended Dec. 31, 2009	Increase (Decrease) Amount	Increase (Decrease) Percent
Additions				
Contributions	\$519,556,971	\$507,731,883	\$11,825,088	2.33%
Transfers from Defined Benefit Plan	1,005,605	198,729	806,876	406.02%
Transfers from Other Plans and Other Items	3,696,142	1,555,390	2,140,752	137.63%
Net Investment Income Investing Activities	812,538,191	853,883,014	(41,344,823)	4.84%
Net Investment Income-Securities Lending	3,294,781	4,623,005	(1,328,224)	-28.73%
Miscellaneous Income	1,726,190	1,387,459	338,731	24.41%
Total Additions	1,341,817,880	1,369,379,480	(27,561,600)	-2.01%
Deductions				
Benefits	464,089,382	418,734,712	45,354,670	10.83%
Refunds of Contributions	7,011,682	9,510,225	(2,498,543)	-26.27%
Special Expenses and Fees	1,648,860	1,341,348	307,512	22.93%
Transfers to Defined Contribution Plan	1,005,605	198,729	806,876	406.02%
Medical Disbursements Paid to Members	889,941	511,902	378,039	73.85%
Disbursements Paid to Municipalities	5,564,350	39,681,182	(34,116,832)	-85.98%
Forfeited Employer Contributions	85,142	64,171	20,971	32.68%
Administrative Expense	21,773,212	19,009,298	2,763,914	14.54%
Total Deductions	502,068,174	489,051,567	13,016,607	2.66%
Net Increase (Decrease)	839,749,706	880,327,913	(40,578,207)	-4.61%
Net Assets Held in Trust for Pension and Health Benefits and Investment Accounts Held for Others				
Balance Beginning of Year	5,744,398,576	4,864,070,663	880,327,913	18.10%
Balance End of Year	\$6,584,148,282	\$5,744,398,576	\$839,749,706	14.62%

Analysis of Plan Net Assets

Combined plan net assets increased by \$840 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), and net investment gains of \$817 million. The Health Care Savings Program saw a 45% increase in net assets from the previous year due to new groups joining the program. The Retiree Health Funding Vehicle also saw an increase in net assets of 41% compared to the previous year.

Employer and employee contributions increased by \$11.8 million due chiefly to an increase in municipalities joining MERS in 2010. 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. Total employer contributions declined slightly due to less employer contributions coming in from new groups joining MERS. Employer contributions from new groups joining MERS decreased from \$93 million in 2009 to \$67 million in 2010.

Employee contributions increased by 30% to \$92 million from the previous year. Employee contributions from new groups joining MERS increased from \$4 million in 2009 to \$19 million in 2010. Employee contributions are also increasing as a percentage of pay relative to employer contributions.

MERS has capital assets, net of accumulated depreciation, of approximately \$6 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 2011, accrued administrative and investment expenses, and securities' lending collateral.

Investment Activities

Performance for the Total Market Fund on a comparative basis to the benchmarks was favorable. The gross return of 14.12% was above the 8% actuarial return assumption target for the year. For both the five- and ten-year periods, the gross returns were 4.20% and 5.27% respectively, compared unfavorably to the actuarial return assumption. Net investment gains (net appreciation in fair value, less investment administrative expenses, plus securities lending income) were \$817 million for the year. A further detailed analysis of investment returns is 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, 2010, is in the Investment Section. A summary of the total system's assets, excluding the Defined Contribution Plan is on page 59.

Historical Trends

Accounting standards require 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 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 overall funded ratio increased from 75.0% to 75.5% for the 2009 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 improved in 2010 due to market gains. The plan continues to remain stable and viable for the years to come. Public pension plans use long-term investment strategies to fund future benefit obligations. The market downturns and upturns are historically considered 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 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 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, 2010

	Defined Benefit	Defined Contribution	Health Care Savings Program
Assets			
Cash and Short-Term Investments	\$4,232,008	\$39,285,613	\$157,819
Receivables			
Employer Contributions	28,724,691		
Plan Member Contributions	6,785,718		
Sale of Investments	243,973,829		
Investment Income	12,444,670		
Loans		3,281,585	
Interfund Receivables			
Other	323,293		
Total Receivables	292,252,201	3,281,585	-
Investments, at fair value			
Fixed Income	1,945,606,614	18,016,181	15,963,882
Equities	2,602,776,238	76,823,652	21,356,018
Private Equity	594,482,042	1,917,067	4,877,780
Commodities	324,348,773	1,045,950	2,661,312
Cash Equivalents	172,174,189	555,222	1,412,705
Balanced Funds		156,013,743	
Real Estate	301,939,890	973,686	2,477,445
Total Investments	5,941,327,746	255,345,501	48,749,142
Securities Lending Collateral	965,406,902		
Prepaid Expenses	173,239		
Capital Assets, at cost, net of accumulated depreciation	6,346,492		
Total Assets	7,209,738,585	297,912,699	48,906,961
Liabilities			
Purchase of Investments	252,618,509		
Securities Lending Collateral	972,419,765		
Administrative and Investment Costs	11,661,471		
Interfund Payables			
Other Accounts Payable			51,665
Total Liabilities	1,236,699,745	-	51,665
Net Assets Held in Trust for Pension and Health Benefits and Investment Accounts Held for Others	\$5,973,038,840	\$297,912,699	\$48,855,296

The "Schedule of Funding Progress" is presented in the Required Supplementary Information in the Financial Section of this report.

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

Retiree Health Funding Vehicle	Investment Services Program	Total Year Ended Dec. 31, 2010	Total Year Ended Dec. 31, 2009
\$125,353	\$6,488	\$43,807,281	\$47,440,502
		28,724,691	23,468,405
		6,785,718	4,371,936
		243,973,829	323,955,188
		12,444,670	14,766,272
		3,281,585	2,195,639
		-	953,983
		323,293	1,395,683
-	-	295,533,786	371,107,106
84,340,186	2,194,584	2,066,121,447	1,733,098,312
112,827,859	2,935,852	2,816,719,619	2,645,519,145
25,770,228	670,557	627,717,674	543,219,655
14,060,208	365,855	342,482,098	278,921,927
7,463,586	194,207	181,799,909	48,194,466
		156,013,743	121,643,378
13,088,805	340,579	318,820,405	331,348,122
257,550,872	6,701,634	6,509,674,895	5,701,945,005
		965,406,902	1,001,205,736
		173,239	703,273
		6,346,492	4,963,358
257,676,225	6,708,122	7,820,942,592	7,127,364,980
		252,618,509	354,943,179
		972,419,765	1,017,278,740
		11,661,471	9,735,724
		-	953,983
42,900		94,565	54,778
42,900	-	1,236,794,310	1,382,966,404
\$257,633,325	\$6,708,122	\$6,584,148,282	\$5,744,398,576

Statement of Changes in Plan Net Assets for the Year Ended December 31, 2010

	Defined Benefit	Defined Contribution	Health Care Savings Program
Additions			
Contributions and Transfers In			
Employer Contributions and Other	\$341,354,194	\$21,699,622	\$11,650,739
Plan Member Contributions	83,573,046	8,666,000	
Employer Transfers In		977,346	
Plan Member Transfers In		28,259	
Transfers from Other Plans and Other Items		3,696,142	
Total Contributions and Transfers In	424,927,240	35,067,369	11,650,739
Investment Income			
Net Appreciation/Depreciation in Fair Value	668,406,835		4,055,298
Interest Income	60,043,753		
Dividend Income	41,036,649		
Real Estate Operating Income	859,500		
DC Plan Investment Income/Loss		28,971,482	
	770,346,737	28,971,482	4,055,298
Less Investment Expense	20,093,406		
Net Investment Income Before Securities			
Lending Activities	750,253,331	28,971,482	4,055,298
Security Lending Activities			
Security Lending Income	5,545,534		
Security Lending Expenses			
Borrower Rebates	1,427,296		
Management Fees	823,457		
Total Securities Lending Expenses	2,250,753	-	-
Net Income from Security Lending Activities	3,294,781	-	-
Total Net Investment Income/Loss	753,548,112	28,971,482	4,055,298
Miscellaneous Income	462,612		377,183
Total Additions	1,178,937,964	64,038,851	16,083,220
Deductions			
Benefits	453,186,778	10,902,604	
Refunds of Contributions			
Employer	5,823		
Plan Member	7,005,859		
Special Expenses and Fees	389,025		373,441
Transfers to Defined Contribution Plan			
Employer	977,346		
Plan Member	28,259		
Medical Disbursements Paid to Members			889,941
Disbursements Paid to Municipalities			
Forfeited Employer Contributions			85,142
Administrative Expenses	20,951,372		(439,689)
Total Deductions	482,544,462	10,902,604	908,835
Net Assets			
Net Increase/Decrease	696,393,502	53,136,247	15,174,385
Net Assets Held in Trust for Pension and Health Benefits and Investment Accounts Held for Others			
Balance Beginning of Fiscal Period	5,276,645,338	244,776,452	33,680,911
Balance End of Fiscal Period	\$5,973,038,840	\$297,912,699	\$48,855,296

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

Retiree Health Funding Vehicle	Investment Services Program	Total Year Ended Dec. 31, 2010	Total Year Ended Dec. 31, 2009
\$52,613,370	\$ -	\$427,317,925	\$436,992,385
		92,239,046	70,739,498
		977,346	175,246
		28,259	23,483
		3,696,142	1,555,390
52,613,370	-	524,258,718	509,486,002
28,418,986	839,094	701,720,213	720,096,143
		60,043,753	71,103,261
		41,036,649	39,892,229
		859,500	860,500
		28,971,482	39,951,479
28,418,986	839,094	832,631,597	871,903,612
		20,093,406	18,020,598
28,418,986	839,094	812,538,191	853,883,014
		5,545,534	7,002,898
		1,427,296	1,224,308
		823,457	1,155,585
-	-	2,250,753	2,379,893
-	-	3,294,781	4,623,005
28,418,986	839,094	815,832,972	858,506,019
858,770	27,625	1,726,190	1,387,459
81,891,126	866,719	1,341,817,880	1,369,379,480
		464,089,382	418,734,712
		5,823	-
		7,005,859	9,510,225
858,770	27,624	1,648,860	1,341,348
		977,346	175,246
		28,259	23,483
		889,941	511,902
5,564,350		5,564,350	39,681,182
		85,142	64,171
1,039,649	221,880	21,773,212	19,009,298
7,462,769	249,504	502,068,174	489,051,567
74,428,357	617,215	839,749,706	880,327,913
183,204,968	6,090,907	5,744,398,576	4,864,070,663
\$257,633,325	\$6,708,122	\$6,584,148,282	\$5,744,398,576

NOTES TO BASIC FINANCIAL STATEMENTS

Year ended December 31, 2010

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.

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. It consists of the following members, each of whom, except for the retiree member and the Retirement Board appointees, shall be from a different county at the time of election:

- Two members, appointed by the Retirement Board, who have knowledge or experience in retirement systems, administration of retirement systems, investment management or advisory services.
- One member, a retiree of the system, is appointed by the Retirement Board.
- Three members of the system, 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 provides a Defined Benefit Plan, Defined Contribution Plan, Hybrid Plan, Investment Services Program, Health Care Savings Program, Retiree Health Funding Vehicle and MERS Group Buying Solutions.

MERS Defined Benefit is a traditional pension plan that promises employees a lifetime retirement benefit. At retirement, members receive a specific monthly benefit calculated using a predetermined formula based on salary and service. The plan is funded by the municipality (with or without pre-tax employee contributions). We also allow municipalities non-membership access to the MERS Total Market Fund through our Investment Services Program. Groups benefit from our professionally managed fund and economies of scale, while maintaining local control of their pension administration.

MERS Defined Contribution Plan became operative July 8, 1997, under Section 401(a) of the Internal Revenue Code. On this date, 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 a third party administrator for recordkeeping and administrative functions. 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.

MERS Defined Contribution Plan provides employees with an account they manage. At retirement, benefits are based solely on the

amount contributed by the employee and employer, and the performance of investments. We offer access to MERS investments.

The MERS Hybrid Plan is an 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 funds selected by the individual participant.

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.

The MERS Health Care Savings Program became operational in June 2004 and was made available to all municipalities in Michigan. The employer-sponsored program provides medical reimbursement accounts to participating employees. Medical expenses are reimbursed, as defined in Code Section 213(d), 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(d), 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.

The MERS Retiree Health Funding Vehicle became operational in the fall of 2004 and was made available to all municipalities in Michigan. 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.

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 \$6.6 billion currently in MERS Defined Benefit Plan, resulting in reduced costs and increased investment return opportunities for municipalities. The program was established by the MERS Board in March 2006 and began operations in June 2006.

MERS offers 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.

The MERS Group Buying Solutions include MERS Group Life and Disability Insurance Program, and MERS Premier Advantage. MERS Group Life and Disability Insurance is an employer-sponsored program that preserves the affordability of Life, Accidental Death and Dismemberment, Short Term Disability, and Long Term Disability Insurance. MERS partners with The Standard Insurance Company to offer competitive benefit features, a variety of plan designs and family-friendly provisions.

MERS Premier Advantage is a Medicare Advantage program, designed exclusively for MERS members and their spouses who are eligible for Medicare. The plan is provided through our partner, Humana.

Premiums and benefits under the MERS Group Buying Solutions are not reflected in the accompanying financial statements.

MERS Participating Municipalities as of December 31, 2010

	Defined Benefit	Defined Contribution	Health Care Savings Program	Retiree Health Funding Vehicle	Investment Services Program
Counties	66	30	29	11	0
Cities and Villages	265	77	59	49	1
Townships	93	16	13	17	0
County Road Commissions	59	7	14	13	0
Authorities, Districts and Others	219	65	40	26	0
Closed Groups	15	0	0	0	0
Total	717	195	155	116	1

Any "municipality" (a term 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 retirement plan coverage are available to bargaining units after approval by a majority vote of the municipality's governing body.

MERS Membership as of December 31, 2010

	Defined Benefit	Defined Contribution	Health Care Savings Program
Retirees and Beneficiaries Currently Receiving Benefits			
Retirement annuities	21,635		
Survivor annuities	4,012		
Disability annuities	1,308		
Total	26,955	0	0
Vested former members	6,615	1,631	
Current active members	35,829	7,005	7,340
Total Membership	69,399	8,636	7,340

The Retirement Board establishes the benefit plans and provisions that are available for adoption. The local municipality's governing body adopts all benefits of the plan. The various plans are discussed in the Actuarial Section.

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."

Employee contribution rates vary depending on the benefit plan adopted by the local government. 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 Internal Revenue Service issued the most recent Letter of Favorable Determination for MERS 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 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 2010 and 2011) will not be credited by MERS. Contributions in excess of the Internal Revenue Service 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. The 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 the 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 Defined Benefit Plan are allocated 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 combined for investment and administrative purposes, but maintained separately for accounting purposes.

The costs of administering the Defined Contribution Plan, Health Care Savings Program, Retiree Health Funding Vehicle, and Investment Services Program are allocated out to the municipalities and members based on an administrative expense percentage for each municipality and member.

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.

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.

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 combined 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.

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 combined basis subject to 1965 PA 314, and 1999 PA 149.

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 combined basis subject to 1965 PA 314.

Use of Estimates

Management of the System has made certain estimates and assumptions relative to the reporting of assets, liabilities, disclosure of contingent assets and liabilities, to prepare these financial statements in conformity with accounting principles generally accepted in the United States. Actual results could differ from these estimates.

GASB 27

The 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 of Michigan.

After separation from the State in 1996, the MERS Retirement Board (as an employer) elected to become a participating

municipality in the MERS Defined Benefit Plan, and to provide pension benefits for MERS staff. Vesting occurs after six years of credited service; normal retirement age is 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 by the final average compensation based on the highest consecutive three years of compensation.

In 2010 MERS contributed 12.74% of compensation; employees contributed 2% of compensation.

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)
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
2009	9,202,748	9,954,321	751,573	92.45	8,198,952	9.17

Actuarial Accrued Liability from December 31, 2009 and December 31, 2008 Actuarial Valuations

	2009	2008
Retirees and beneficiaries currently receiving benefits	\$922,787	\$929,963
Vested former members not yet receiving benefits	277,431	240,210
Non-vested, terminated employees (pending refunds of accumulated member contributions)	28,437	14,690
Current employees		
Accumulated employee contributions, including		
allocated investment income	1,090,160	847,859
Employer financed	7,635,506	7,358,247
Total Actuarial Accrued Liability	9,954,321	9,390,969
Net assets available for benefits at actuarial value (\$7,352,387 and \$5,098,808 at market value for December 31, 2009, and 2008, respectively)	9,202,748	7,094,900
Unfunded Actuarial Accrued Liability	\$751,573	\$2,296,069

Three-Year Trend Information Schedule of Employer Contributions

Fiscal Year Ended	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
December 31, 2008	\$668,016	100%	-
December 31, 2009	720,804	100	-
December 31, 2010	994,080	100	-

Post Employment Benefits

The Government Accounting Standards Board (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 the 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 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 below is a schedule of the capital asset account balances as of December 31, 2009, and December 31, 2010.

Capital Assets

Capital Assets	Office Furniture and Equipment	Software	Total Capital Assets
Balances December 31, 2009	\$3,386,933	\$15,335,764	\$18,722,697
Additions	388,600	3,326,522	3,715,122
Deletions and Transfers	(986,460)	(1,406,761)	(2,393,221)
Balances - December 31, 2010	\$2,789,073	\$17,255,525	\$20,044,598
Accumulated Depreciation			
Balances December 31, 2009	\$2,378,825	\$11,380,514	\$13,759,339
Depreciation Expense	398,064	1,933,924	2,331,988
Deletions and Transfers	(986,460)	(1,406,761)	(2,393,221)
Balances December 31, 2010	\$1,790,429	\$11,907,677	\$13,698,106
Net Capital Assets - December 31, 2010	\$998,644	\$5,347,848	\$6,346,492

Total Columns On Statements

The "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 Plan, Health Care Savings Plan, Retiree Health Funding Vehicle, and Investment Services Program have not been eliminated from the "Total" columns.

3. Contributions and Reserves

Contributions

The Defined Benefit Plan 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 the subsequent year for those employees requesting a refund of their contributions. The municipality determines the employee's contributions.

Contributions to the Defined Contribution Plan are remitted directly to MERS third party administrator 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. Municipalities may elect to have mandatory employee contributions where the member pays a fixed dollar or percentage. If the municipality has a match contribution type, the member will elect the amount of contribution at the time of enrollment and will not be allowed to make any changes. Municipalities may also choose to allow additional after-tax contributions through payroll deduction.

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 Defined Contribution account (at a stipulated funded ratio that shall not exceed 100%). Employees direct their contributions to various investment options offered by the third party administrator, and may transfer their account balances between investment categories or make changes to the percentage allocation on a daily basis.

Defined Benefit Plan Reserves

Three reserves have been established pursuant to the MERS Plan Document. 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 are monies received from the purchase of service credit and monies received in repayment of previously refunded contributions. The reserve is reduced by amounts paid to employees who terminate employment and request refunds, and by amounts transferred into the "Reserve for Employer Contributions and Benefit Payments" upon an employee's retirement. Interest is credited to each employee's account, as provided in the Board's November 9, 2005, Resolution. The reserve's balance at December 31, 2010, was \$658,189,773. The "Reserve for Employee Contributions" was fully funded as of the December 31, 2009, 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, 2010, balance was \$5,314,849,067. The unfunded actuarial liability was \$2,091,598,086 (based on the actuarial value of assets) as of the December 31, 2009, MERS Consolidated Actuarial Valuation.

- **Reserve for Expenses and Undistributed Investment Income**

All investment earnings and other monies received that are not dedicated to other areas 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 2010, 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.

Other Reserves

- **Reserve for Defined Contribution Plan**

All additions to and deductions from the Defined Contribution Plan are recorded in this reserve. MERS maintains the individual member account records.

- **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 individual member account records.

- **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 employer account records for all municipalities.

- **Reserve for Investment Services Program**

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



Maple Syrup

- The production of pure maple syrup is the oldest agricultural enterprise in the United States
- Forty gallons of maple sap are required to make one gallon of syrup
- Michigan ranks fifth in maple syrup production
- Only about one percent of Michigan's maple forest resource is used for syrup production
- Maple syrup is classified as one of nature's most healthful foods
- Maple syrup is one of the few agriculture crops in which demand exceeds supply

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 the assets of the 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, 2010, 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 recorded.

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 Investments 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, 2010, the domestic fixed income portfolio consisted of fixed income investments with respective quality ratings, excluding those obligations of the U.S. government. Investments issued by or explicitly guaranteed by the U.S. government are not considered to have credit risk. The plan's exposure to credit risk as of December 31, 2010, is presented on the following pages, by investment category as rated by Standard & Poors.

Credit Ratings Summary - December 31, 2010

Quality Rating	U.S. Agencies	Asset Backed	Corporate Bonds	Commingled Limited Part	Convertible Bonds	Foreign
AAA	\$219,987,818	\$16,658,368	\$29,110,788			
AA+		1,309,511	41,400,280			
AA	5,088,005	3,046,577	17,636,917			
AA-	6,664,636		7,782,217			
A+	28,348,649	2,824,605	26,655,726		\$39,738	
A	22,985,844	50,396	55,099,974			
A-	980,184	4,948,554	24,203,636			
BBB+	233,125	4,479,360	24,234,330			
BBB	12,131,304	58,258	12,706,054		133,708	
BBB-	16,460,575	598,742	12,545,813		64,665	
BB+	687,895	1,214,608	8,023,647		124,646	
BB	5,449,820	169,387	7,835,200		236,136	
BB-	3,706,728		12,264,482		85,060	
B+	251,720	475,153	24,806,941		174,590	
B	1,472,949	1	23,725,558		7,638	
B-	148,586		16,478,367		70,099	
CCC+			9,213,981		68,305	
CCC		1,776,824	3,428,538		42,968	
CCC-			1,340,577			
CC		280,416	87,780			
C			101,250			
D		4,450,431	452,000			
NA	37,778,823	4,647,903	9,952,700		953,316	
NR	256,921		16,860,346	\$242,698,330	3,134,327	\$46,807,083
Totals	\$362,633,582	\$46,989,094	\$385,947,100	\$242,698,330	\$5,135,196	\$46,807,083

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



Asparagus

- Michigan ranks third in the nation for asparagus production
- Michigan asparagus, unlike asparagus from other states, is hand-snapped above the ground. This method yields a more tender and flavorful product
- Michigan processes 95 percent of the U.S. crop

Mortgages	Municipals	Non-Security Assets	Other	Real Estate Inv. Trust	U.S. Treasuries	Total	% of Portfolio
\$77,366,169	\$3,177,630				\$379,086,860	\$725,387,633	35%
	8,481,403					51,191,194	3%
1,779,958	3,422,223					30,973,680	2%
	3,701,040					18,147,893	1%
	7,296,733					65,165,451	3%
290,966	7,277,413					85,704,593	4%
955,935				\$1,183,579		32,271,888	2%
						28,946,815	1%
145,178						25,174,502	1%
342,389						30,012,183	2%
						10,050,796	0%
286,840						13,977,383	1%
						16,056,270	1%
				5,119,383		30,827,787	2%
				767,249		25,973,395	1%
299,107				730,399		17,726,558	1%
						9,282,286	0%
1,503,751						6,752,081	0%
						1,340,577	0%
1,484,734						1,852,930	0%
						101,250	0%
1,621,736						6,524,167	0%
1,501,242				28,790		54,862,774	3%
10,468,154	6,826,388	\$3,409,509	\$256,956,826	180,343,081		767,760,965	37%
\$98,046,159	\$40,182,830	\$3,409,509	\$256,956,826	\$188,172,481	\$379,086,860	\$2,056,065,051	100%

Interest Rate Risk

Interest rate risk is the risk that an investment's value will change due to a change in the absolute level of interest rates. 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 regard 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. Board policy in regard 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, 2010, the plan's exposure to interest rate risk (as measured by the effective duration method summary) is listed on the following page by investment type.

Effective Duration – December 31, 2010

Investment Type	Market Value	Weighted Effective Duration
Agency	\$117,386,368	3.13
Asset Backed	47,431,555	4.28
CMBS	14,791,764	3.10
CMO	16,466,717	4.12
Commingled Fund	723,478	3.78
Corporate	250,654,060	4.96
Foreign	222,086,632	5.80
Mortgage Pass-Through	51,184,466	3.61
Miscellaneous	290,400	4.71
Municipal	14,588,650	4.93
Private Placement	3,473,745	0.60
Swaps	(672,779)	5.15
U.S. Treasury	341,248,306	7.14
Yankee (Intl bonds in U.S. dollars)	85,604,507	6.67
Total	\$1,165,257,869	

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, 2010.

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, 2010, is summarized on the following page.

Custodial Credit Risk

Custodial credit risk is the risk that deposits may not be recovered in the event of failure of a depository financial institution. As of December 31, 2010, the \$501.5 million carrying amount of the Plan's cash and cash equivalents was comprised of \$457.8 million of short-term investments, \$39.2 million of Defined Contribution investments and \$4.5 million in deposits. The \$4.5 million bank balance of deposits was subject to custodial credit risk because it was uninsured and uncollateralized.

Foreign Currency Risk in U.S. Dollar Denominations – December 31, 2010

Currency	Equities	Fixed Income	Cash	Real Estate	Total
Argentine peso		\$88,121			\$88,121
Australian dollar	\$10,127,298	31,404,511	\$108,897		41,640,706
Brazilian real	11,252,576	13,186,392	3,076,737		27,515,705
British pound sterling	48,181,064	18,142,665	140,853	28,790	66,493,372
Canadian dollar	16,215,091	22,575,085	483,242		39,273,418
Colombian peso		1,687,568			1,687,568
Czech koruna		9,632,219			9,632,219
Danish krone	2,656,766	10,462,148	(84,393)		13,034,521
Euro	47,093,165	21,659,926	2,937,056		71,690,147
Hong Kong dollar	46,590,620		9,841		46,600,461
Hungarian forint			42		42
Indonesian rupiah	151,083	2,300,264	9,800		2,461,147
Israeli shekel	562,950		5,716		568,666
Japanese yen	61,844,543		247,523	74,724	62,166,790
Malaysian ringgit	1,318,325	14,910,049	3,731		16,232,105
Mexican peso		14,700,395	536,497		15,236,892
New Russian ruble		790,212			790,212
New Taiwan dollar	12,327,038		852,435		13,179,473
New Turkish lira			60,389		60,389
New Zealand dollar	88,067	19,670,277	388,225		20,146,569
Norwegian krone	4,555,880	9,162,638	103		13,718,621
Philippine peso	369,479		1,783		371,262
Polish zloty	1,370,135	10,397,490	79,712		11,847,337
Singapore dollar	13,444,319		368		13,444,687
South African rand	3,331,858	534,243	53,128		3,919,229
South Korean won	12,781,286	10,946,340	152		23,727,778
Swedish krona	2,342,570	14,248,105	88,616		16,679,291
Swiss franc	2,042,304		105		2,042,409
Thai baht	3,698,079		1,576		3,699,655
Turkish lira	5,645,811		400		5,646,211
Total International Investment Securities	\$307,990,307	\$226,498,648	\$9,002,534	\$103,514	\$543,595,003



Grapes

- Michigan is the fourth-largest grape producing state in the nation
- About 2,000 acres are devoted to wine grapes
- Michigan has more than 70 commercial wineries

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. As of December 31, 2010, the fair market value of fixed income securities invested in the cash collateral pool was below the original cost, resulting in a cumulative unrealized loss of \$7,012,863 that is reflected in the financial statements. Security lending produced a net income of \$3,294,781 in 2010 excluding unrealized gains and losses.

Collateral Held and Fair Value of Securities on Loan – December 31, 2010

Fair Value of Securities on Loan	Nature of Collateral	Collateral Held
\$948,026,162	Cash	\$972,419,765
-	Non-Cash	-
\$948,026,162		\$972,419,765

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, credit linked notes, and forward foreign currency exchange. MERS enters into these derivative contracts primarily to obtain exposure to

different markets, enhance the performance, and reduce the volatility of the 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, 2010. 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. MERS does not anticipate additional significant market risk from the swap arrangements.

Futures Contracts - December 31, 2010

Futures Contract	Expiration Date	Long/Short	Notional Value	Market Value
S&P 500 E-Mini Index	3/18/11	Long	\$96,345,600	\$96,230,400
US 2-Yr Treasury Note	3/31/11	Short	(877,000)	(875,624)
US 5-Yr Treasury Note	3/31/11	Long	4,773,760	4,708,760
US 10-Yr Treasury Note	3/31/11	Short	(2,698,374)	(2,649,636)
US Long Treasury Bond	3/31/11	Long	3,264,814	3,175,250
US Dollar Put/Japanese Yen Call Option	2/24/14	Long	217,000	144,738
US Dollar Call / Euro Put Option	1/19/11	Long	269,700	8,309

Swap Contracts and Structured Notes - December 31, 2010

Index	Maturity Date	Position	Notional	Exposure*	Counterparty
S&P GSCI Total Return Index	5/31/11	Long	\$288,485,860	\$28,732,763	Cargill Risk Mgmt.
CLN Russia Govt.	7/6/11	Long	447,411	445,592	JP Morgan Chase
CLN Russia Govt.	12/17/14	Long	344,970	344,620	Barclays
CDX NA High Yield	12/20/15	Long	503,125	427,660	Citigroup
CDX ITRX Europe	12/20/15	Short	(699,208)	(588,452)	Citigroup
CLN Indonesia Govt.	9/15/19	Long	1,843,857	2,019,700	Barclays
Int. Rate Swap (USD)	12/9/19	Receive Floating	2,030,000	(64,926)	Citigroup
CLN Colombia Govt.	7/27/20	Long	584,388	614,712	Citigroup
CLN Indonesia Govt.	11/16/20	Long	502,677	578,024	HSBC
CLN Brazil Govt.	1/1/21	Long	275,481	271,316	JP Morgan Chase
CLN Indonesia Govt.	9/15/25	Long	286,718	280,563	JP Morgan Chase
CMBX Index	2/17/51	Short	(6,700,000)	(278,186)	Citigroup

* 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	\$187,768,802
Pending Payable	(187,410,130)

Foreign Currency Forward Contract Asset (Liability)	\$358,672
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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 combined funds may include derivatives that are not shown in the derivatives' totals.

Private Equity and Capital Calls

The MERS Board has approved \$862,866,742 for investment in private equity securities. As of December 31, 2010, \$828,850,434 was

invested in private equity with \$62,253,851 recallable return of capital, leaving \$96,270,159 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 a successful benefit claim is ultimately the responsibility of the affected municipality – it becomes a 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. Related Parties

MERS is the majority stockholder of Tegrit Group, and its division Tegrit Administrators. This is an investment in the MERS Strategic Opportunity Fund held within the MERS Total Market Fund. Tegrit is the recordkeeper for the MERS Defined Benefit Plan, Defined Contribution Plan, Hybrid Plan, Retiree Health Funding Vehicle, Investment Services Program, and the Health Care Savings Program. MERS paid Tegrit \$2,436,260 in 2010.

7. Subsequent Events

In 2011, MERS assumed full control of its Defined Contribution Plan by taking over the development and management of the investment lineup. Additionally, Tegrit Administrators, a MERS majority-owned subsidiary, assumed the Defined Contribution Plan administration, reporting and recordkeeping.

8. Funded Status and Funding Progress

The funded status of the MERS Defined Benefit Plan is as follows:

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)
2009	\$6,443.1	\$8,534.7	\$2,091.6	75.49%	\$1,636.5	127.8%

Actuarial assumptions include a 10-year smoothed market asset valuation method adopted December 31, 2005, with prospective application and an investment rate of return of 8%. The December 31, 2009 actuarial valuation reflects changes in actuarial assumptions for a temporary lower wage inflation assumption and revised rates of expected employee retirement.

The Schedule of Funding Progress immediately following the Notes to Basic Financial Statements presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing relative to actuarial accrued liability.

REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)

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)
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
2009	6,443.1	8,534.7	2,091.6	75.49	1,636.5	127.8

Schedule of Employer Contributions – (Dollars in Millions)

Fiscal Year*	Annual Required Contribution	Percentage Contributed
2005	\$170	108%
2006	199	107
2007	258	92
2008	224	109
2009	228	111
2010	258	105

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



Dry Edible Beans

- Michigan producers grow several classes of dry beans, including: Black Beans, Cranberry Beans, Great Northern Beans, Red Kidney Beans, Navy Beans, Pinto Beans, and Yellow Eye Beans
- Huron County is one of the top dry bean producing counties in the country
- Every day, "Michigan Bean Soup" is served at the U.S. Senate dining room in Washington, DC, dating back to 1904

Notes to the Schedules of Required Supplementary Information (Unaudited)

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 2010 were determined by actuarial valuations as of December 31, 2008.

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. 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 is in the Actuarial Section.



Honey

- Michigan ranks seventh in the nation for honey production
- About 50 percent of Michigan's fruit and vegetable industry is highly dependent on honey bee pollination

Summary Information

Valuation Date	December 31, 2009
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percent of Payroll, Open
Remaining Amortization Period	<p>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.</p>
Asset Valuation Method	<p>A 10-year smoothed market asset valuation method was adopted December 31, 2005, with prospective application. Prior to 2006, a 5-year smoothing method was used.</p>
Actuarial Assumptions	Investment Rate of Return – 8%
Projected Salary Increases	<p>A 4.5% for base inflation, plus 0.0% to 8.4% per year attributable to merit and longevity. For the 2009 valuation the base wage inflation assumption was 2% instead of 4.5%. For the 2010 through 2013 valuations the base wage inflation assumption will be 1% instead of 4.5%.</p>
Post-Retirement Benefit	<p>A 2.5% annual post-retirement benefit adjustment if adopted by individual municipalities.</p>

Schedule of Administrative Expenses for the Year Ended December 31, 2010
Defined Benefit Plan

Administrative Expenses	
Personnel Services	
Salaries	\$8,504,618
Social Security	588,046
Retirement	1,034,235
Insurance	1,393,177
Total Personnel Services	11,520,076
Professional Services	
Actuarial Services	1,167,114
Audit Services	99,500
Commercial Banking	128,856
Computer Maintenance	7,447
Consultants	226,803
Legal Services	252,355
Medical Services	63,349
Total Professional Services	1,945,424
Communication	
Advertising / Promotional Supplies	9,045
Annual Meeting	186,182
Board Travel and Meetings	21,142
Library and Records Storage	51,153
Postage / Shipping	170,649
Printing and Copying Services	137,910
Telephone / Communications	136,195
Travel and Meetings	406,025
Total Communication	1,118,301
Rentals	
Equipment Rental	95,267
Office Rental	859,500
Total Rentals	954,767
Miscellaneous	
Depreciation	2,331,988
Equipment Purchases	162,776
Insurance	172,876
Building / Equipment Maintenance	329,128
Office Supplies	116,544
Operating Expenses	953,726
Payroll Processing	16,836
Personnel Support	217,211
Professional Development & Tuition	427,979
Software Purchases and Maintenance	1,063,905
Subscriptions / Memberships	74,840
Service Fees	(455,005)
Total Miscellaneous	5,412,804
Total Administrative Expenses	\$20,951,372

Note: See accompanying Independent Auditor's Report.

Schedule of Investment Expenses for the Year Ended December 31, 2010

Defined Benefit Plan

Investment Expenses	
Personnel Services	
Salaries	\$904,091
Social Security	56,724
Retirement	107,510
Insurance	107,649
Total Personnel Services	1,175,974
Professional Services	
Commercial Banking	1,026,013
Investment Managers	17,373,045
Investment Performance	102,000
Other Consultants	84,556
Total Professional Services	18,585,614
Communication	
Travel	48,924
Total Communication	48,924
Miscellaneous	
Operating Expenses	17,860
Software Purchases/Maintenance	265,034
Total Miscellaneous	282,894
Total Investment Expenses	\$20,093,406

Note: See accompanying Independent Auditor's Report.



Corn

- About 300 AD, people began planting corn in Michigan
- Michigan corn production ranks 11th in the nation
- Corn adds nearly \$1.1 billion to Michigan's economy

Schedule of Payments for Consultants and Services

Firm	Nature of Service	Amount
Tegrit Financial Group, LLC	MAPS & Software and Design Support	\$2,165,319
Gabriel, Roeder, Smith & Company	Actuary	1,317,475
State Street Corporation	Depository Trust	919,834
Robbins-Gioia Financial Services Group	FileNet System Implementation & Support	347,477
Crowe Horwath, LLP	MicroSoft Great Plains Implementation	284,586
Tegrit Administrators	HCSF, RHFV & DC Support	270,941
Tek Systems	Software Implementation Advisor & Support	234,744
Ice Miller	Legal Counsel	168,801
DPM Consulting Services	Software Implementation Advisor & Support	161,415
Trivalent Group	Software Implementation Advisor & Support	129,856
Bloomberg Finance L.P.	Investment Financial Data Service	113,589
Kforce Technology	Software Implementation Advisor & Support	99,178
New London Management Associates, LLC	Human Resource & Career Advisors	95,160
Sungard Availability Services	Business Continuity Services	72,011
Andrews Hooper Pavlik PLC	Auditing Services	63,550
Consulting Physicians, PC	Medical Advisors	63,350
Oracle America	PeopleSoft Software Support	53,712
Daymark Software, LLC	CRM Software Support	52,309
Global Bridgebuilders	Employee Benefit Advisors	48,934
Thomson Reuters (Markets), LLC	Investment Financial Data Service	48,544
Miller Canfield	Legal Counsel	44,554
Gavekal Capital Management, LTD	Investment Financial Data Service	40,000
Interactive Business Systems	Software Implementation Advisor & Support	38,880
Service Express	Software Implementation Advisor & Support	37,607
MSCI	Software Implementation Advisor & Support	36,000
CEM Benchmarking	Benchmark Data Production	35,000
DHR International	Executive Recruiting	33,333
IBM Corporation	FileNet Software Support	31,536
Gallagher Benefit Services	Employee Benefit Advisors	30,000
Karoub Associates	Legislative Advisors	30,000
Ravenflow	Business Continuity Software Support	28,743
Davis Mendel and Regenstein	Investment Financial Data Service	25,000
NuView Systems	Software Implementation Advisor & Support	23,680
Zephyr Associates	Investment Financial Data Service	22,688
Presidio Network Solutions	Software Implementation Advisor & Support	22,053
Perceptive Software	Software Implementation Advisor & Support	21,969
Eggertsen Consulting	MERS Premier Health Advisor	21,611
Hedrick Associates	Software Implementation Advisor & Support	21,200
Total Payments to Consultants		\$7,254,636

Note: Fees paid to investment managers are included in the Investment Section. Payments to consultants are already included in the Administrative and Investments Expenses stated in the Statement of Changes in Plan Net Assets.

Note: See accompanying Independent Auditor's Report.

A close-up photograph of several blueberries. The berries are dark blue with a fine, white, powdery bloom. They are set against a bright, out-of-focus green background. The lighting is soft, highlighting the texture of the berries.

Michigan blueberries

Did You Know?

- Michigan leads the nation in growing blueberries
- Over 600 family farms contribute nearly \$101.8 million in blueberry production to the state's economy
- About 69 percent of the harvest is frozen or canned
- Blueberries promote heart health and help fight cancer
- A one cup serving gives you five grams of fiber and 15 percent of your daily vitamin C

CHIEF INVESTMENT OFFICER REPORT

Municipal Employees' Retirement System of Michigan

Dear Members:

It is my privilege to present the Report on Investment Activity for the MERS Comprehensive Annual Financial Report for the calendar year 2010. As of this report, MERS total plan had net assets of \$6.6 billion. In 2010, the Total Market Fund generated \$817 million in earnings.

The defined fund objective, based upon actuarial valuations, is to grow assets at a rate which, when coupled with contributions, satisfies earned benefits to MERS members. The Office of Investments strives to achieve a real rate of return of at least 3.5% annually over the rate of inflation, and/or exceed the actuarial assumption rate of 8% annually. On a relative basis versus our various objectives and peers, MERS performed very well in 2010. Below are a few highlights:

- The MERS Total Market Fund return for 2010 was 14.12% (net of fees), which outperformed the actuarially assumed rate of 8%. This will work favorably to reduce future contributions from MERS members.
- The MERS Total Market Fund outperformed its custom policy benchmark (net of fees) by 0.89%. This highlights that the Total Market Fund asset allocation, with active management, generated \$48 million above what would have been earned if it had been invested passively.
- At the broad asset class level, absolute returns (net of fees) for each class were positive in 2010:

▪ Total Equity	18.81%
▪ Real Estate	4.19%
▪ Fixed Income	7.88%
▪ High Yield	16.22%
▪ Commodities	15.04%
▪ Private Equity	15.52%
▪ Cash	2.01%

- A \$10,000 Total Market Fund investment made in 1988 would have been worth \$69,686 at the end of 2010. This is \$13,724 above what would have been earned if the Total Market Fund had been invested passively.

The past year was a carnival ride as the markets lurched back and forth between a constructive cyclical backdrop, and an extremely challenging set of structural issues that bubbled up due to the aftermath of the global financial crisis. Incredibly, the crisis in Europe was not enough to derail a fledgling recovery, and fears of a double-dip recession here in the U.S. were erased in the minds of many investment professionals by midyear.

In fact, U.S. stocks rose strongly for a second consecutive year, with the S&P 500 gaining 15.1%. Since the market's March 2009 bottom, the S&P has risen nearly 80% as corporate profitability exceeded expectations. Small and midcap sized companies substantially outperformed the larger ones as the Russell 2000 and midcap indices returned 26.9% and 25.5%, respectively, versus the Russell Top 200 Index's 12.5% return. The Federal Reserve's quantitative easing program (QE2) accounted for an overly positive view on equities, and risk in general.

QE2 also brought increased inflation expectations to Wall Street and higher Treasury yields at year-end, producing negative fixed-income results during the fourth quarter. Nevertheless, bond results were moderately strong for 2010 as Treasury yields fell, and the Barclays Aggregate Index returned 6.5%.

Most non-U.S. stock markets also posted reasonably strong returns in 2010. The MSCI EAFE Index rose 8.2% on sustained global growth, although results were divided between weaker European returns and strong results in Asia, Canada and many less-developed nations. Emerging market

returns varied substantially. Many smaller nations produced gains of 20 to 30% or more, driven by booming commodity prices and substantial capital inflows. However, China and Brazil lagged the broad MSCI EAFE Index, as these large markets grappled with rising

inflation, currency pressures, capital flow and lending restrictions.

Policy mistakes in developed nations continued to be of great concern for most market participants in 2010.

Total Market Fund

The MERS Office of Investments conducts a full asset allocation study every five years to assess portfolio construction and strategy. The MERS Board adopted our most recent asset allocation recommendation in July of 2010. The asset allocation is reviewed

annually per Board policy to rebalance where needed. The Board may revise the plan when necessary; the Office of Investments tactically allocates the portfolio within established asset class bands. (See chart below.)

Asset Class	Target Weight	Minimum Allocation	Maximum Allocation
Domestic Equity	34.50%	30.50%	38.50%
International Equity	10.00	6.00	14.00
Fixed Income	30.00	26.00	34.00
High Yield	5.00	1.00	9.00
Private Equity	7.00	3.00	11.00
Real Estate	7.00	3.00	11.00
Commodities	5.00	3.00	7.00
Cash	1.50	1.00	3.00

As the global economy floundered for most of 2010, we decided not to make any tactical bets versus our Policy Asset Allocation set by the MERS Board. Additionally, to help us rebalance back to our Policy more efficiently, we implemented a customized overlay

solution providing MERS Office of Investments a low-cost solution for managing risk and enhancing expected return. This solution generated an additional 9 basis points or \$5.6 million above what would have been earned had the strategy not been implemented.

Looking Ahead

As we look ahead at an ever-evolving investment world, we continue to be vigilant in our search for new investment opportunities. It is our view that the global landscape will continue to shrink at an unprecedented pace, and that a majority of global growth will come from non-developed nations. With this theme in mind, we are looking to position the portfolio to capture growth in terms of total return for the Total Market Fund and MERS members.

Conclusion

Lastly, I would like to thank the Retirement Board, the fiduciaries of the MERS plan, for their enthusiasm in creating a structure that provides the Office of Investments the ability to be flexible and innovative. Our structure is continually praised by investment managers and peers, and makes for a more efficient decision-making process in a world that now moves at blinding speeds.

Respectfully,

Jeb Burns
Chief Investment Officer

REPORT ON INVESTMENT ACTIVITY

MERS was established in 1946 under 1945 PA 135, and granted independence from the State of Michigan pursuant to 1996 PA 220, effective August 15, 1996. MERS is organized for the express purpose of using its collective resources to ensure that its member municipalities have sufficient financial resources to meet the pension obligations that each such municipality is individually responsible for under Constitution 1963, Article 9, Section 24. MERS is authorized to create subsidiary entities and to provide additional benefits and savings to its members at the direction of the Board. See 2004 PA 490, Section 36(2)(a); MCL 38.1536(2)(a).

The MERS Retirement Board (Board), as “investment fiduciary” under the Public Employee Retirement System Investment Act (PERSIA), 1965 PA 314, 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 for the exclusive benefit of plan participants.” The prudent person standard requires that the Board “exercise the same judgment, care, skill, prudence, and diligence under the circumstances which persons acting in a like capacity and familiar with such matters would use in the conduct of a similar enterprise with similar aims.” MERS has a Defined Benefit Plan, Health Care Saving Plan, Retiree Health Funding Vehicle, Hybrid Plan and a Defined Contribution Plan. The Board has granted full discretion to manage all investment management operations and activities to MERS Office of Investments, except those specifically reserved for the Board.

The Municipal Employees’ Retirement System Investment Management Plan outlines how the policy objectives described in the MERS Plan Document, Investment Guidelines, and the Asset Allocation Policy are to be achieved. The investment activity goals are to provide the highest quality investment management and administrative support. These goals are measured against established industry benchmarks and peer groups. The objective is to ensure that the investment activities are carried out within the framework established by MERS policy and administrative documents. The Investment Management Plan offers a map to assist the Board and staff in making prudent and informed investment decisions.



Did You Know?

A new combine, which farmers use to harvest corn, soybeans and other grains, could cost as much as \$300,000 or more

A. Defined Benefit Plan

INVESTMENT OBJECTIVES AND ACTIVITY

In conformity with PERSIA, the primary objective is to maximize the long-term total rate of return on investments. This should be done with a high degree of prudence to reduce risk. In addition, the Board and the Office of Investments 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 any other interested parties. The Board strives to add incremental returns relative to the market by employing active management strategies when needed. Every effort is made to minimize costs to the portfolio with the use of internal and external resources.

The defined fund objective, based upon actuarial valuations is to grow assets at a rate which, when coupled with contributions, satisfies promised benefits to MERS members. The Office of Investments strives to achieve a real rate of return of at least 3.5% annually over the rate of inflation; and exceed the actuarial assumption rate of 8% annually.

FUND OBJECTIVE CONSIDERATIONS

- Adopt a strategic asset allocation plan that reflects future liabilities and incorporates risk parameters
- Structure investment goals over a long-term horizon (five years)
- Use actuarial methods that decrease the impact of volatility
- Concentrate on asset classes that have added value over the rate of inflation
- Measure comparability to other plans to reflect the need to remain near industry standards
- Employ the use of beta strategies, where applicable, to form a core base in the portfolio and reduce costs
- Use commission recapture to reduce transaction costs and increase earnings to the total fund
- Employ a manager (i.e. custodian bank) to lend held securities of the total portfolio to add incremental income
- Use all asset classes to capitalize on global economic growth
- Allow investment managers increased flexibility so they can tactically exploit broad market trends
- Tactically allocate the portfolio to take advantage of short and long-term market inefficiencies, trends and dislocations which can add moderate returns above the policy benchmark

PORTFOLIO HIGHLIGHTS

Asset Allocation

Determining the system's asset allocation is regarded as one of the most important decisions in the investment management process. With this in mind, the Office of Investments conducts a full asset allocation study every five years to assess portfolio construction and strategy. Factors considered are: expected rate of return for each asset class, expected risk of each asset class, the correlation between the rates of return of each asset class and the investment objectives and risk constraints of the fund.

The Office of Investments uses risk management software to perform a strategic analysis of asset allocation levels on an ongoing basis. This process establishes a formal risk budget and quantifies asset allocation decisions.

The Board adopted the most recent asset allocation study in July 2010. The current plan is: Domestic Equity – 34.5%, International Equity 10%, Fixed Income – 30%, High Yield – 5%, Real Estate – 7%, Private Equity – 7%, Commodities – 5%, and Cash – 1.5%.

Tactical Asset Allocation

As the financial markets and economic conditions change, certain asset classes become more favorable than others. Therefore, it is necessary to engage in short-term, tactical deviations from the strategic allocation in order to capitalize on unusual or exceptional investment opportunities. Since the markets are so dynamic, these moves will be made very

quickly in an effort to take advantage of short-term systemic inefficiencies and broad market trends. MERS Office of Investments feels that engaging in such tactical deviations is necessary to produce superior investment returns from a risk/return perspective.

The team is well positioned to identify appealing investment opportunities through the use of countless quantitative and qualitative tools. These tools include insight from existing investment managers, research databases, third-party research, and financial publications, among numerous others. There is no timetable for these tactical deviations, but they will typically have a duration of less than one year. Once the short-term opportunities have run their course, the portfolio will be rebalanced to the overall strategic asset allocation.

Emerging Manager Program

Separating ourselves from a herd mentality is sometimes challenging and requires foresight. The MERS Emerging Manager Program seeks to do just that. The objective is to create additional alpha by establishing a "bullpen" of up and coming managers to replace probationary managers. Additionally, this program provides: access to a wider universe of talented investment managers, enhances internal manager searches and replacement processes, and creates a "think tank" or testing mechanism for appealing new investment strategies to determine if they should be included in the overall portfolio.

INVESTMENT THEMES

As the Fund continues to evolve, several prevalent themes have emerged as guiding philosophies for the Fund's structure. These broad-based themes will continue to be strongly considered in our decision-making process as we look for opportunities in the future.

Global Growth

Rapid economic growth in emerging markets such as China and India have created tremendous investment opportunities. Over the last few years, MERS has made numerous investments in an effort to diversify the portfolio and take advantage of global economic growth. MERS has made investments in commodities, emerging markets, frontier markets, and infrastructure bearing this theme in mind. Going forward, we expect to increase our allocation to these asset classes in addition to investing in new ones. We will make a shift toward global equity mandates rather than differentiating between international or domestic equity.

Active/Passive Mix

Historically, the fund has tried to maintain an active/passive mix of 2/3 active and 1/3 passive. However, in light of recent market events and unique investment opportunities, the Fund will exhibit a more passive approach. The new allocation will likely be a minimum 50/50 split between active and passive management. A more passive approach will allow for greater flexibility to invest in unique investment opportunities. Furthermore, active managers have struggled in recent years to beat passive benchmarks, and during the recent market turmoil they have offered little downside protection. A more passive allocation will also drastically decrease management fees without sacrificing returns.

Opportunistic Investing

The recent turmoil in the financial markets and the push for alternative energy and green technology has resulted in tremendous investment opportunities. In an effort to further diversify the portfolio and capture additional alpha, MERS Office of Investments will continue to seek out these opportunistic investments. This may result in the portfolio maintaining higher cash balances during certain time periods.

Expanded Mandates

In an effort to give skilled managers a better opportunity to deploy their skills, the Fund will move toward expanded mandates such as TAA Programs, all cap and core strategies, among several others.

TOTAL MARKET FUND REVIEW

MERS investments generated a return of 14.12% (net of fees) for the calendar year 2010. The Total Market Fund return exceeded its custom policy benchmark of 13.24%. Performance across all asset classes varied during the year with small cap and mid cap stocks generating some of the highest returns – 25.77% and 24.54% (net of fees), respectively. MERS total domestic stocks returned 21.23% (net of fees).

Asset Classes Performance for 2010 (net of fees) and Contribution to Total Return

Type	2010 Return	Contribution to Total Return
Domestic Stocks	21.23%	6.48%
International Stocks	13.14	1.72
Fixed Income	7.88	1.78
High Yield	16.22	1.14
Real Estate	4.19	0.22
Private Equity	15.52	1.50
Commodities	15.04	0.78

Portfolio Rebalance Policy

It is the responsibility of the Office of Investments to ensure that the portfolio remains within the asset allocation parameters established by the Board, and adheres to the system's rebalancing policy. The policy is designed to minimize drift within the portfolio, allow tactical shifts to take that advantage of market conditions, and ensure adequate cash levels are maintained within the cash account to meet ongoing pension fund expenses.

Daily Review and Optional Rebalance

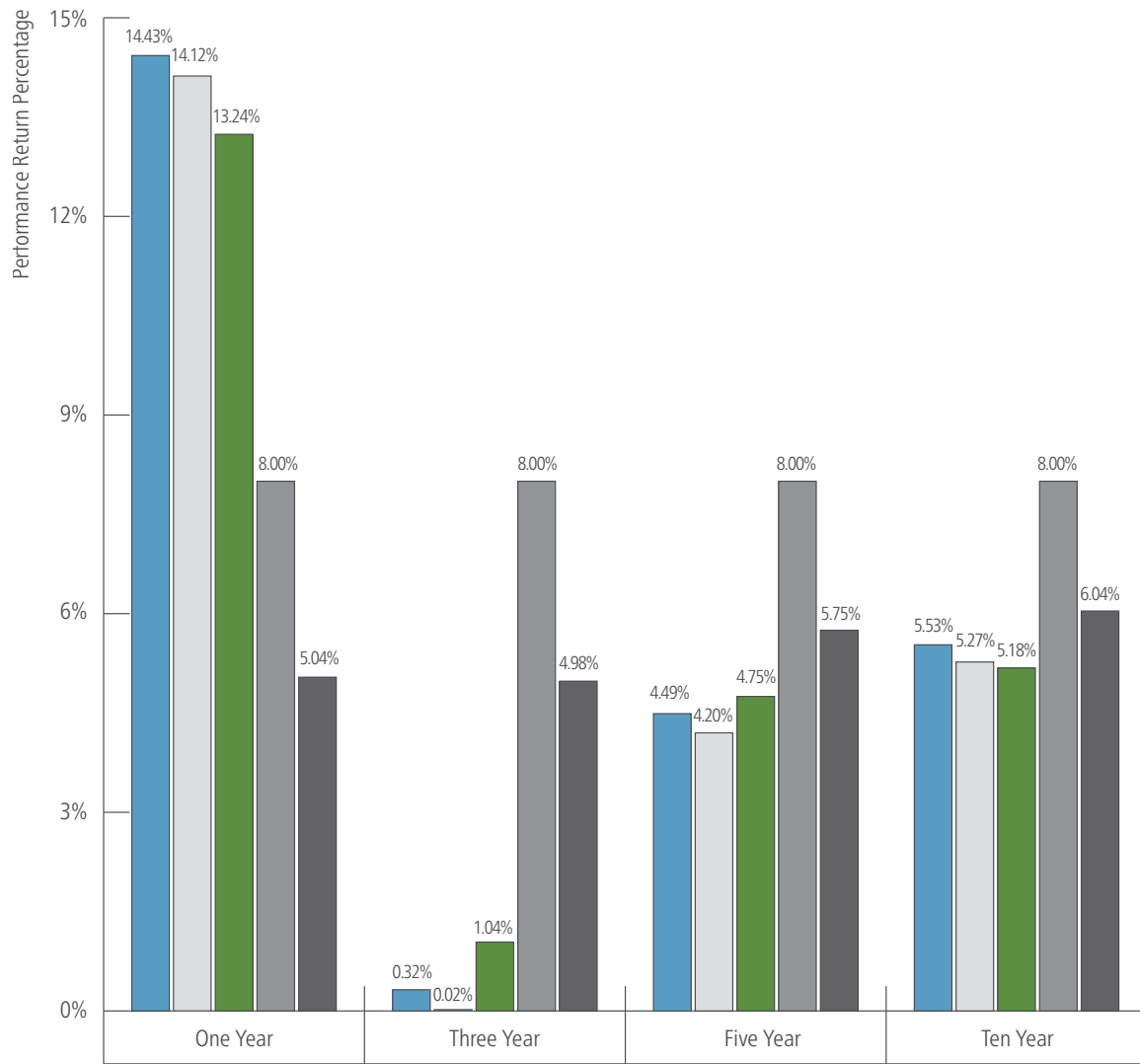
In an effort to minimize tracking errors at the total portfolio level, the Office of Investments works with the Clifton Group to implement a policy overlay using index futures.

Asset allocation levels for the various asset classes are monitored daily in relation to the predetermined variation bands and rebalanced using appropriate index futures. Adequate cash to cover the initial margin and variation margins for the futures exposure are made available and placed in accounts set up specifically for this purpose.

Annual Portfolio Rebalance

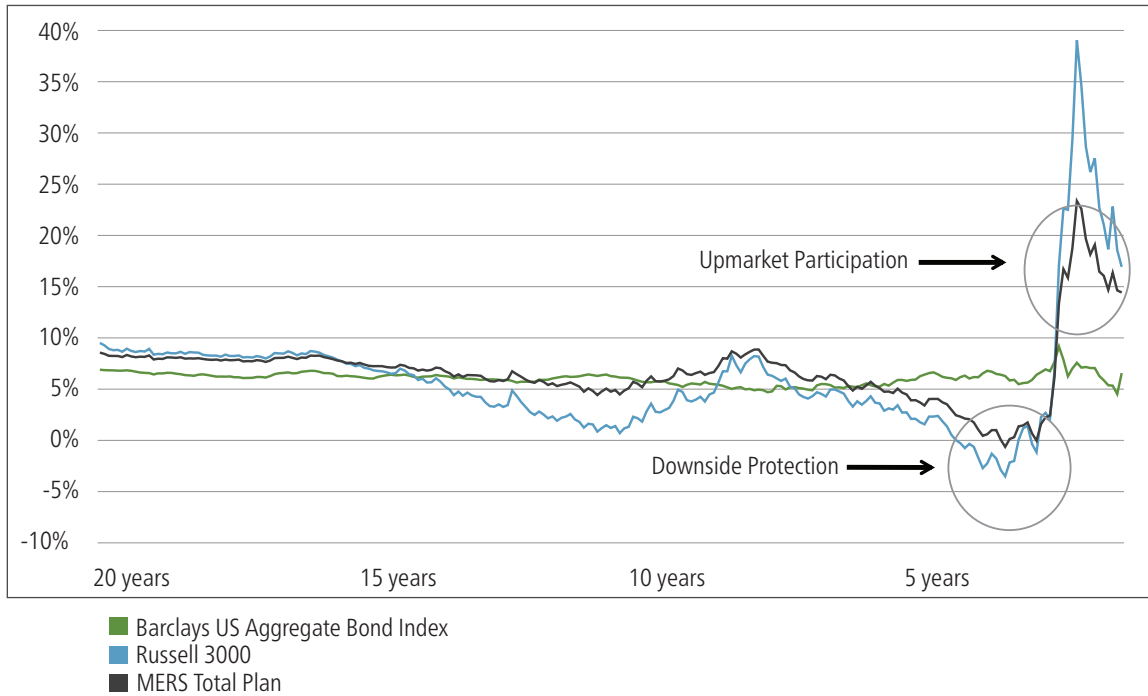
MERS Office of Investments performs an asset allocation analysis of the entire portfolio during the first quarter of every year. The Office of Investments has developed a rebalance plan based on this analysis.

Performance (gross and net) versus Custom Benchmarks as of December 2010



- MERS (gross of fees)
- MERS (net of fees)
- MERS Custom Benchmark
- Actuary Rate
- CPI+3.5%

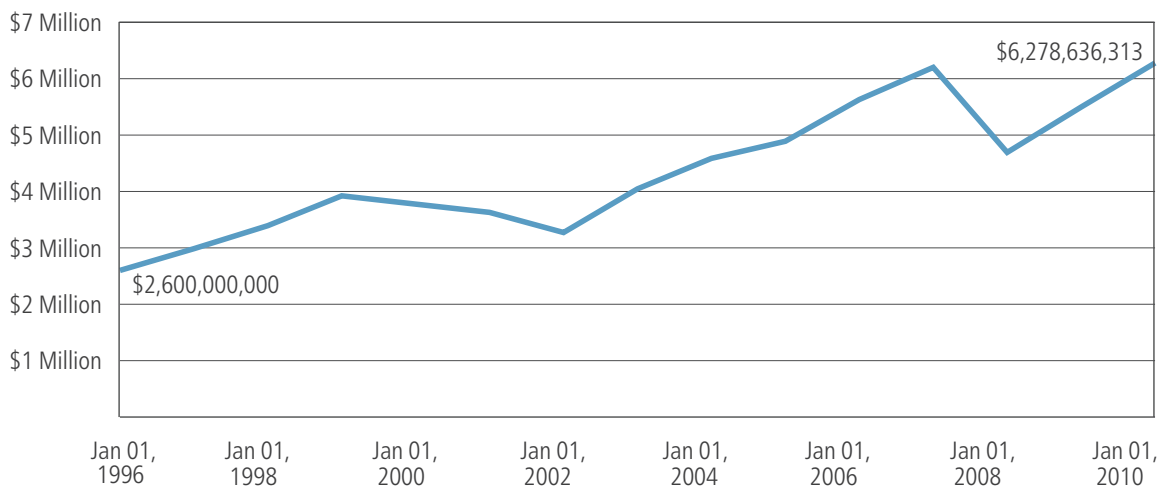
Downside Protection Upside Participation as of December 2010



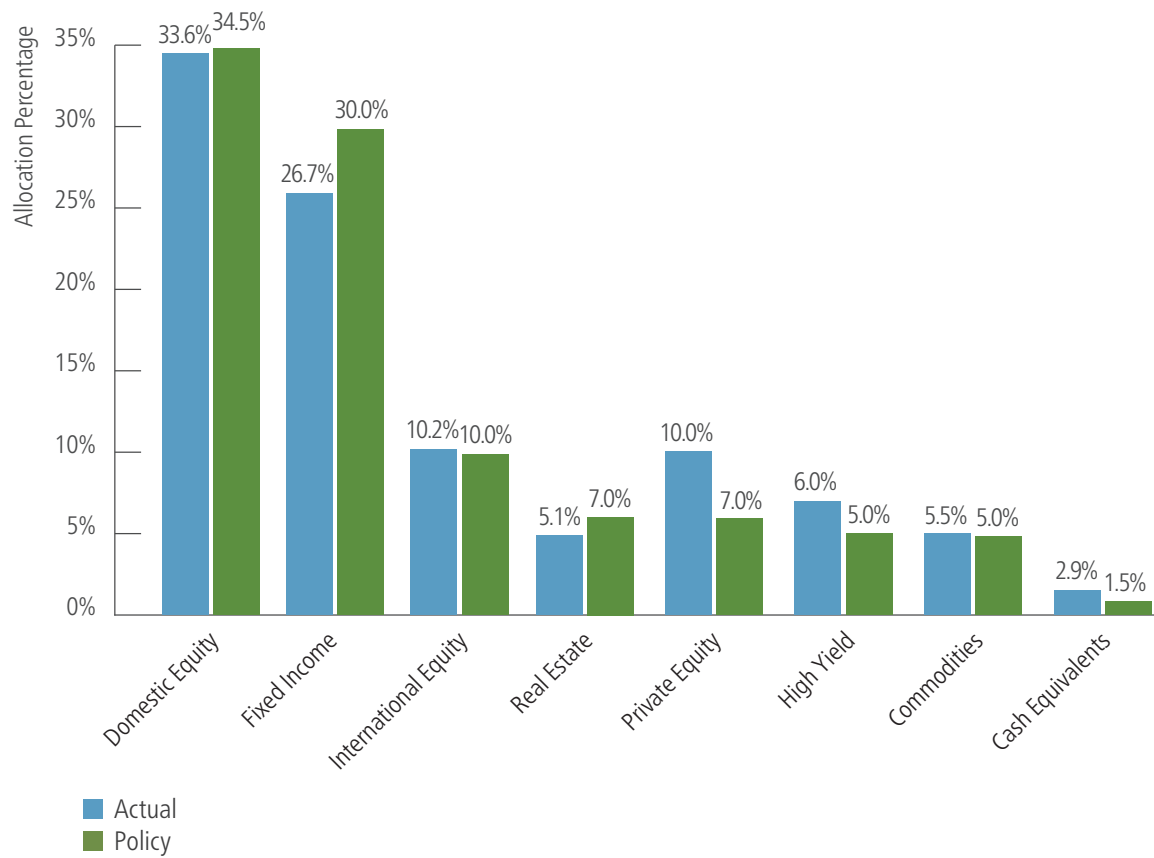
Diversification is a portfolio strategy designed to reduce exposure to the volatility of returns by combining a variety of investments (such as stocks, bonds, real estate, and commodities) which are unlikely to all move in the same direction. The goal of diversification is to reduce the risk in a portfolio.

While it is impossible to foresee all market risks, the strategic goal of the MERS asset allocation policy and the MERS Total Market Fund is to create a well-diversified portfolio, that provides downside market protection with upside market participation.

Growth of the Total Market Fund – as of December 2010



Current Asset Allocation versus Target Allocation as of December 2010



Statistical Performance (net of fees)

Portfolio Characteristics	1 Year	3 Year	5 Year	10 Year
Annualized Return (gross of fees)	14.43%	0.32%	4.49%	5.53%
Annualized Return (net of fees)	14.12%	0.02%	4.20%	5.27%
Annualized Standard Deviation	10.70%	13.78%	11.23%	10.10%
Sharpe Ratio	1.31	-0.05	0.17	0.30
Excess Return	0.31%	0.29%	0.28%	0.26%
Beta	0.84	0.84	0.85	0.90
Correlation to Policy Benchmark	1.00	0.99	0.99	0.98

Commission Recapture

MERS requests that all domestic equity managers direct a target of 25% of commission trades with the State Street Global Markets LLC (SSGM) for the purpose of commission recapture. Brokerage transactions in the normal course of business should only be directed to this broker if in so doing the obligation to achieve best execution of the Fund's transactions is fulfilled. The SSGM program provides a network of

brokers where trades can be executed. The recapture commissions are shared based on a contractual negotiated split of 90%/10% MERS/broker. Recapture dollars are used to offset the administrative, custodial, accounting and performance measurement costs incurred by the fund. For 2010, \$162,986.19 was directed by equity managers to SSGM of which \$93,113.40 was rebated to MERS.



Did You Know?

Governor Snyder proclaimed March 17, 2011, as
"Michigan Agriculture Day"

Investment Summary for Defined Benefit Plan, Retiree Health Funding Vehicle, Health Care Savings, and Investment Services Programs as of December 31, 2010

Type of Investment	Market Value
Fixed Income	
Domestic and International Fixed Income	\$2,056,065,052
Total Fixed Income	2,056,065,052
Equities	
Domestic and International Stock	2,750,544,339
Total Equities	2,750,544,339
Private Equity & Commodities	
Commodities	342,763,111
Private Equity	628,232,728
Total Private Equity & Commodities	970,995,839
Real Estate	
Real Estate	319,082,003
Total Real Estate	319,082,003
Subtotal Investments	6,096,687,233
Cash Equivalents	
Cash Equivalents	181,949,080
Total Cash Equivalents	181,949,080
Subtotal Investments & Cash	6,278,636,313
Payables - Purchases of Investments	255,230,791
Receivables - Sale of Investments & Interest	(256,418,499)
Total Investments	\$6,277,448,605

Note: Includes receivables and payables for sales and purchases of securities with settlement dates after December 31, 2010.

Reconciliation of Investments to Financial Statements

Investments on Financial Statements	\$6,509,674,895
Less Defined Contribution Investments	(255,345,501)
Total Investments less Defined Contribution	\$6,254,329,394
Total Investments from above chart	\$6,277,448,605
Total Market Portfolio in Defined Contribution Portfolio	(19,159,411)
Bonds in Default	(2,841,574)
Small Unit Adjustments	(1,118,226)
Investments on Financial Statements less Defined Contribution	\$6,254,329,394

EQUITY ASSET CLASS SUMMARY

As of December 31, 2010, the public equity portfolio had a market value of \$2.65 billion, representing 42.3% of the Total Market Fund. Performance for the total equity portfolio was 18.81% net of fees.

Highlights

Several strategic changes took place within the public equity portfolio in fiscal year 2010. The Board approved the most recent asset allocation in July 2010 and we spent the rest of the year transitioning to the new allocation. As part of this process, we replaced several managers and some allocations were altered. Here are a few of the highlights:

- We decreased the allocation to active large cap equity managers with the belief that the efficiency in this area of the market makes it hard for active managers to add value over time. Instead we are choosing to invest with active managers in less efficient areas such as small, micro cap, and emerging market equities.
- For the second half of the year we maintained a strategic overweight to U.S. equities since we felt the economic growth of the U.S. economy would continue to surprise on the upside and exceed other developed countries.
- In the fourth quarter of 2010, we moved to the target allocation of 10% for international equity.
- Three managers were terminated, two were promoted from the emerging manager program, and two were hired for the emerging manager program.

Summary of Portfolio

MERS maintains a significant allocation to publicly traded shares of corporations around the world. Broad exposure to the public equity markets is paramount to achieving the Fund's stated objectives and delivering the actuarial rate of return of 8%. The public equity portfolio has a target allocation of 44.5% of the total fund. As of December 31, 2010, the portfolio includes domestic equity, international developed equity, and emerging and frontier markets equity. Exposure is achieved through portfolios diversified by geographic region, styles, sectors, and market capitalizations. Active management is used to take advantage of less efficient areas of the market, while passive management is deployed in more efficient areas, and used to reduce fees. Allocations are monitored in relation to asset class bands on an ongoing basis and rebalances take place if deemed appropriate. This portfolio is expected to perform well in periods of low to falling inflation and rising economic growth. It is also expected to provide ongoing income through dividend payments as well as downside protection in volatile markets.

Market Overview

The world's equity markets finished 2010 with a roar with every major index in positive territory. Fiscal year 2010 was a tale of two halves as equity markets struggled in the first half of the year but posted strong returns in the second half. When fears of a European sovereign debt crisis and a double dip in the U.S. surfaced, government support in the form of European bailouts and QE2 calmed these fears and set the stage for an impressive second half rally.

Domestic equities posted impressive returns with small cap equities leading the way. The Russell 2000 finished the year up 26.9% while the S&P was up 15.5%. The consumer discretionary, industrials, and materials sectors posted the strongest returns at 30.1%, 27.3%, 25.2%, respectively. Returns for other developed market countries were also strong as the MSCI EAFE Index returned 8.2% for the year. Returns trailed U.S. indices as a result of European debt fears and slower economic growth. Emerging market equities were the

best performing asset class returning 18.9% for the year buoyed by strong economic growth and continual fund inflows. Across all geographic regions, growth stocks outpaced their value counterparts and small cap equities outperformed large cap equities.

It is tough to find consensus on what lies ahead for the markets. Some feel the global economy is poised to slow in the second half of 2011 citing worrisome developed country debt levels, inflation fears in China, continued high unemployment, and a housing market that appears to be headed for a double dip. However, corporate earnings continue to surprise on the upside and corporate balance sheets are in the best shape they have been in decades, providing continued fuel for an equity rally. One thing that is certain is market volatility is likely to persist as a sustainable economic recovery struggles to take hold.

Public Equity Performance as of December 31, 2010 (net of fees)

Portfolio Characteristics	1 Year	3 Year	5 Year	10 Year
Total Equity	18.81%	-2.79%	2.94%	4.33%
Russell 3000 Index	16.93	-2.01	2.74	2.16
Excess	1.88	-0.78	0.20	2.17
Domestic Equity	21.23	-1.27	2.74	4.18
Russell 3000	16.93	-2.01	2.74	2.16
Excess	4.30	0.74	0.00	2.02
International Equity	13.14	-5.97	3.63	4.25
MSCI ACWI ex. U.S.	11.60	-4.58	5.29	5.97
Excess	1.54	-1.39	-1.66	-1.72

Top Ten Equity Holdings as of December 31, 2010

Asset Description	Market Value	Percentage of Total Market Value
Apple	\$39,534,566	0.63%
Microsoft Corporation	21,171,456	0.34
Oracle Corporation	19,979,572	0.32
Google	19,859,980	0.32
Goldman Sachs Group	16,527,773	0.26
Paccar	16,204,268	0.26
EMC Corporation	15,876,089	0.25
Altera Corporation	13,995,748	0.22
Exxon Mobil Corporation	13,863,552	0.22
WMS Industries	13,479,981	0.21

Note: A complete list of portfolio holdings is available upon request.

Public Equity – Investment Managers

Investment Manager	Style	Portfolio Market Value
External Investment Manager		
Blockrock	Frontier Markets Enhanced Index	\$59,559,248
Acadian	International Small Cap	161,796,795
Blackrock	Global Macro Hedge Fund	29,735,640
Driehaus	All-Cap Global Growth	329,262,292
HEXAM	Emerging Markets	91,284,583
Hellman Jordan	All-Cap U.S. Core	26,308,081
Wellington	Large Cap U.S. Growth	377,857,066
BRC Investment Management	Large Cap U.S. 130/30	33,666,930
AMBS	Large Cap U.S. Value	27,931,188
C.S. McKee	Small Cap U.S. Core	248,106,425
Irving Magee	Small Cap U.S. Value	97,943,050
Kennedy	Small Cap U.S. Value	201,946,629
Wellington	Mid Cap U.S. Core	231,245,020
Seizert	SMID Cap U.S. Value	25,390,300
Other	N/A	757,336
Internal Investment Manager		
MERS S&P 400	S&P 400 Index	150,153,474
MERS S&P 500	S&P 500 Index	426,751,996
MERS S&P 600	S&P 600 Index	133,132,656
Total		\$2,652,828,709

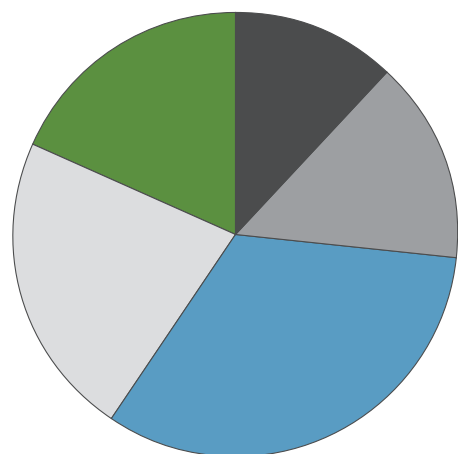
FIXED INCOME AND HIGH YIELD ASSET CLASS SUMMARY

As of December 31, 2010, the total fixed income portfolio had a market value of \$2.05 billion representing 32.7% (fixed income of 26.7% and high yield of 6.0%) of the Total Market Fund. Performance for fixed income and high yield was 7.88% and 16.22% net of fees, respectively.

Fixed Income

Fixed income is the bedrock of the MERS Total Market Fund providing exposure to high quality fixed income instruments that create stable cash flow and liquidity to the overall portfolio. Total fixed income assets as of December 31, 2010, were \$1.67 billion and were allocated into five strategies (see pie chart). Fixed Income provides meaningful diversification to the Total Market Fund covering a variety of different macroeconomic environments. Core fixed income tends to perform well in times of falling growth and stable inflation providing critical downside protection to the portfolio.

Fixed Income Allocation as of December 31, 2010



■ Enhanced Index (passive)	12.03%
■ Infrastructure (active)	14.83%
■ Core (active)	32.69%
■ Global (active)	22.36%
■ Emerging Market Debt (active)	18.09%

One result of the 2010 asset allocation study was the addition of emerging market debt as a sub-asset class within fixed income. MERS believes that emerging market debt is no longer a fad but a long term investment trend. This is evident by the fact that it has become a permanent player in the global fixed income investment universe. In fact, a number of broad market indices now have a dedicated allocation to the asset class.

Exposure to emerging market debt has historically been implemented via the "plus" portion of a core-plus portfolio and MERS is not unique in this regard. However, as MERS studied the asset class, it became clear that it needed to be a dedicated portfolio.

The case for a dedicated emerging market debt portfolio:

- Improving credit fundamentals
- Attractive reward risk profile
- Low correlations with both U.S. interest rate policy and credit products
- \$1.9 trillion market – 2.3x U.S. high yield market
- EMD corporate market is the fastest growing fixed income market globally
- EM local currency is an inflation hedge to USD debt
- Approximately 55% of index is now investment grade

The MERS Board approved the Office of Investments recommendation of hiring Trust Company of the West (TCW) for a dedicated emerging market debt mandate. TCW was hired and funded in November of 2010.

Market Commentary

At the beginning of 2010, most investors were no longer worried about another "Great Depression," but instead, were focused on whether a perceived global recovery had legs that would lead us back to a sense of market normalcy. Unfortunately, economic headwinds (high unemployment, U.S. deficit, a struggling housing market, inflation fears, etc.) created numerous challenges for the Federal Reserve and policy makers. In fact, in its final meeting of the year, the FOMC announced that it was retaining the target for the federal funds rate in a range from 0 to 0.25%. The FOMC noted the interest rate policy reflected that growth is "insufficient to bring down unemployment" and inflation has "continued to trend lower."

The U.S. Treasury yield curve remained steep in 2010. Short-term rates remained anchored near historic lows in response to the Federal Reserve's zero interest rate policy. Yields on longer dated maturities initially declined

due to global uncertainty and Federal Reserve policies. Ultimately, yields rebounded (prices dropped) late in the year due to investor concerns that economic growth would fuel inflation.

The U.S. credit markets had another solid year as corporate profits rebounded leading to improved fundamentals and credit quality.

Global fixed income markets, including emerging markets, were largely driven by the search for yield creating a divergence of performance between developed and emerging market countries. Generally speaking, the largest developed markets maintained low interest rate policies as a means to stimulate their respective domestic economies. These policies pushed fixed income investors toward higher interest rates offered by developing economies, sending debt for those regions higher for the year.

Fixed Income Performance as of December 31, 2010 (net of fees)

	1 Year	3 Year	5 Year	10 Year
MERS Fixed Income	7.88%	5.85%	6.05%	6.20%
BC Aggregate (Daily)	6.54	5.90	5.80	5.84
Excess	1.34	-0.05	0.25	0.36

Top Ten Fixed Income Holdings as of December 31, 2010

Asset Description	Market Value	Percentage of Total Market Value
United States Treasury 2.625% 11/15/2020	\$95,395,894	1.53%
United States Treasury 1.25% 7/15/2020	40,019,136	0.64
United States Treasury 0.625% 7/31/2012	25,930,597	0.42
Fannie Mae 2.0% 12/30/2022	22,960,731	0.37
United States Treasury 0.5% 4/15/2015	22,783,292	0.37
United States Treasury 3.875% 8/15/2040	19,246,259	0.31
United States Treasury 3.125% 4/30/2017	18,987,851	0.30
United States Treasury 4.625% 10/31/2011	17,277,644	0.28
United States Treasury 2.125% 5/31/2015	17,016,995	0.27
Swedish Government Bond (B0312GII8)	14,248,105	0.23

Note: A complete list of portfolio holdings is available upon request.

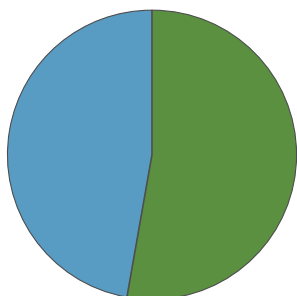
Fixed Income – Investment Managers

Investment Manager	Style	Portfolio Market Value
External Investment Manager		
BGI	Core Enhanced Index	\$201,900,509
Credit Suisse	Infrastructure	248,692,775
C.S McKee	Core Fixed Income	276,324,555
First International Advisors	Global Bonds	375,241,662
Reams Asset Management	Core Fixed Income	272,331,858
TCW	Emerging Market Debt	303,648,506

High Yield

The MERS high yield allocation provides additional diversification to the Total Market Fund through allocations to domestic and global high yield, emerging markets, and inflation protected securities. Total high yield assets as of December 31, 2010, were \$377,928,187 and were allocated into two strategies (see pie chart). This strategy employs opportunistic mandates that allow for duration bets versus benchmarks. A blended approach is expected to deliver returns in excess of U.S. high yield benchmarks with less volatility.

High Yield Allocation as of December 31, 2010



Global High Yield (active)	52.97%
Loan Credit Fund (active)	47.03%

Market Commentary

Risky assets rebounded late in 2010 and finished the year on a high note. The strength was derived from the Federal Reserve's QE2 announcement and President Obama's hint at tax cut extensions. In addition, economic data rebounded from a summer lull, suggesting modest growth. While Treasury bonds ended the year with a positive return, rates were notably higher in the fourth quarter (+74 bps), which ironically confirmed QE might be working by driving future inflation expectations higher. As a result, floating rate debt such as leveraged loans performed well and kept pace with high yield bonds.

High Yield Performance as of December 31, 2010 (net of fees)

	1 Year	3 Year	5 Year	10 Year
High Yield	16.22%	1.87%	4.42%	
BofAML High Yield Master II (Daily)	15.19	10.12	8.80	8.60
Excess	1.03	-8.25	-4.38	

High Yield – Investment Managers

Investment Manager	Style	Portfolio Market Value
External Investment Manager		
Stone Tower	Loan Credit Fund	\$177,739,952
Stone Harbor	High Yield/EMD/Tips	200,185,235

ALTERNATIVE ASSET CLASS SUMMARY

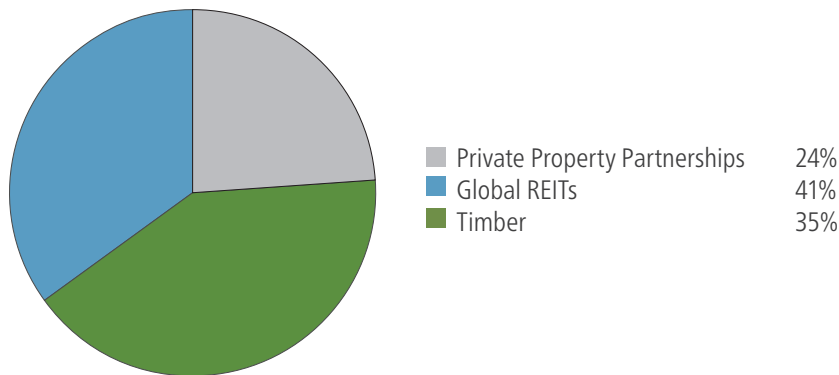
As of December 31, 2010, the alternative portfolio had a market value of \$1.29 billion representing 20.6% (real estate of 5.10%, commodities of 5.50% and private equity of 10.00%) of the Total Market Fund. Performance for real estate, commodities and private equity was 4.19%, 15.04% and 15.52% net of fees, respectively.

Real Estate

MERS Real Estate target allocation represents 7% of the total plan and is diversified among private property partnerships, global real estate investment

trusts (REITs), and timber partnerships. The allocation provides diversification, consistent income, and uncorrelated returns to the Total Market Fund.

MERS Real Estate



Commodities

The MERS commodities target allocation represents 5% of the Total Market Fund. Commodities exhibit low correlations to most traditional asset classes and therefore behave differently during market cycles. Unlike stocks and bonds, commodities are expected to perform well during periods of inflation creating a natural hedge in the portfolio. Exposure to the commodity markets is obtained through an enhanced swap agreement with Cargill. A dedicated collateral pool is set aside to provide 100% coverage for the commodity allocation and maintain a credit rating of AAA.

Private Equity

MERS private equity target allocation represents 7% of the total plan and adds diversification to the overall equity allocation of the Total Market Fund. Investments in private equity include U.S and international, and venture capital, buyout, and special situation funds.

Alternative Performance as of December, 31, 2010

	1 Year	3 Year	5 Year	10 Year
MERS Real Estate	4.19%	-7.45%	0.58%	6.96%
MERS Custom Real Estate Benchmark	7.28	-0.73	5.95	8.56
Excess Return	-3.09	-6.72	-5.37	-1.61
MERS Commodities	15.04	-6.88		
Goldman Sachs Commodity Index	9.02	-12.84	-5.70	1.77
Excess Return	6.02	5.96		
MERS Private Equity	15.52	1.44	5.96	
Russell 2000	26.85	2.22	4.47	6.33
Excess Return	-11.33	-0.79	1.49	

Alternatives – External Investment Managers

Investment Manager	Style	Portfolio Market Value
Real Estate		
Townsend	Private Real Estate	\$75,597,844
Urdang	Global REIT	132,839,295
Hancock	Timber	110,644,864
Commodities		
Cargill	Enhanced Index	314,056,961
Mt. Lucas	Commodity Hedge Fund	28,706,150
Private Equity		
Credit Suisse	Fund of Fund & Co Investments	594,414,259
Mesirow Capital Partners	Fund of Fund	33,818,469

Schedule of Investment Fees – as of December 31, 2010

Investment Managers	Average Assets Under Management	Annual Fee	Average Basis Points
Acadian Asset Management	\$161,986,056	\$711,921	43.95
AMBS Investment	27,944,481	50,462	18.06
Barclays Global Investors- Core Active	201,900,509	236,988	11.74
Barclays Global Investors- Frontier Markets	59,667,508	404,645	67.82
BRC Investment Management	33,687,192	77,337	22.96
Credit Suisse Customized Infrastructure	248,692,774	2,656,307	106.81
Credit Suisse Private Equity Fund	628,232,728	4,782,645	76.13
C.S. McKee	248,345,883	910,388	36.66
C.S. McKee- Fixed Income	276,432,465	421,994	15.27
Delaware Investment Advisors	318,045,182	470,612	14.80
Driehaus Global Growth	329,499,943	540,375	16.40
First International Advisors	375,458,309	830,426	22.12
Hellman Jordan	26,320,072	12,518	4.76
HEXAM	91,441,517	512,624	56.06
Irving Magee	97,989,210	131,409	13.41
Kennedy Capital Management	202,148,373	796,987	39.43
Mount Lucas	28,706,147	11,473	4.00
Reams Asset Management	272,358,141	276,266	10.14
Seizert Capital	25,390,299	6,899	2.72
Stone Harbor	200,348,830	679,069	33.89
Urdang Investment Management	133,009,459	605,922	45.55
Wellington Management	378,081,449	792,238	20.95
Wellington Management- Mid Cap	231,536,288	974,893	42.11
The Townsend Group	75,597,844	172,337	22.80
Total Investment Manager Fees	\$4,672,820,659	\$17,066,735	36.52
Investment Custodian			
State Street Bank and Trust		1,026,013	
Investment Performance Measurement Consultant			
State Street Bank and Trust		102,000	
Securities Lending Agent			
State Street Bank and Trust		823,457	
Total Investment Fees		\$19,018,205	

Schedule of Investment Commissions as of December 31, 2010

Brokerage Firm	Shares Traded	Total Dollars	Commission/Share
UBS Securities, LLC	44,689,261	\$20,060	0.0004
Morgan Keegan & Co.	38,584,676	9,289	0.0002
RBC Capital Markets	36,940,497	34,252	0.0009
Stifel Nicolaus & Co.	21,074,080	7,412	0.0004
National Financial Services Corp	20,050,066	8,066	0.0004
HSBC Securities	17,762,524	331	0.0000
Jefferies and Co.	13,257,709	26,829	0.0020
Merrill Lynch, Pierce, Fenner, and Smith	12,927,711	114,916	0.0089
Cantor Fitzgerald & Company	11,729,446	184,685	0.0157
Citi Group Global Markets	11,659,960	1,266	0.0001
Scott & Stringfellow	10,977,046	5,555	0.0005
JP Morgan	9,082,950	46,403	0.0051
Goldman Sachs & Company	6,268,077	13,898	0.0022
BMO Capital Markets	5,483,010	19,046	0.0035
Keybank Capital Markets	5,393,565	7,581	0.0014
Barclays Capital	5,354,661	46,356	0.0087
SG Securities	4,178,624	3,435	0.0008
Piper Jaffray	3,899,398	3,263	0.0008
Credit Research and Trading LLC	3,681,950	892	0.0002
Wedbush Morgan Securities	3,292,499	93,627	0.0284
William Smith Securities	2,924,771	88,806	0.0304
Sterne, Agee, and Leach	2,917,168	10,501	0.0036
Stephens	2,828,442	16,167	0.0057
Knight Securities	2,546,118	60,908	0.0239
Weeden & Company	2,532,593	52,499	0.0207
Subtotal (25 Largest)	300,036,802	876,043	0.0029
Remaining Total	60,143,698	1,055,799	0.0176
Total Commissions	360,180,500	\$1,931,842	0.0054

Securities Lending

In 2010, MERS earned \$3,294,781 through its securities lending program managed by State Street.

December 2010	US Corporate Bond & Equity	US Govt.	Non-US Equity	Non-US Fixed Income	Reinvested Earnings	Other Earnings	Monthly Earnings
First Quarter	\$751,894	\$114,845	\$28,299	\$6,071	\$ -	\$ -	\$901,109
Second Quarter	627,791	74,711	144,173	7,270	-	-	853,945
Third Quarter	796,085	109,648	28,667	5,654	-	4,527	944,581
Fourth Quarter	473,544	89,929	20,738	5,689	-	5,246	595,146
Total Earnings	\$2,649,314	\$389,133	\$221,877	\$24,684	-	\$9,773	\$3,294,781

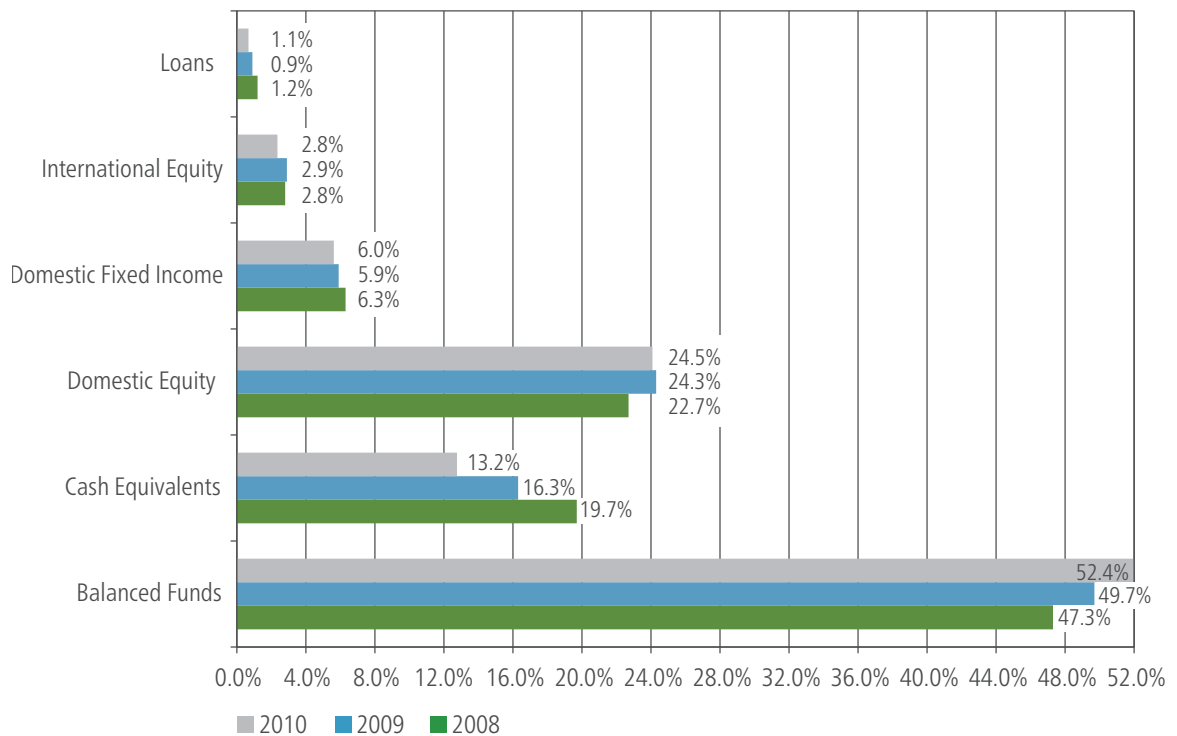
B. Defined Contribution Plan

Investment Activity

The MERS Defined Contribution Plan became operative on July 8, 1997, under Section 401(a) of the Internal Revenue Code. This plan is available for adoption by all member municipalities, and is an alternative option to MERS Defined Benefit Plan. As of December 31, 2010, the Defined Contribution Plan had net assets of \$298 million and 8,636 members. Each member is responsible

for directing the investments of their accumulated account balance. Members receive investment performance information from MERS third-party administrator. 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 Plan as of December 31, 2010



Investment Options

MERS offers the following investment options for the Defined Contribution Plan through a third-party administrator:

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 MERS Short-Term Managed Income Fund offers the short-term managed cash returns from the MERS Defined Benefit portfolio.
- The 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 Abbott 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 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. Hybrid Plan

MERS Hybrid Plan offers the stability and security of a Defined Benefit Plan with the flexibility and investment choice of a Defined Contribution Plan. 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. To view investment activity on the Defined Benefit component, see part A of the Investments Section and to view investment activity on the Defined Contribution component, see part B of the Investments Section.

D. MERS Health Care Savings Program and MERS Retiree Health Funding Vehicle

The MERS Health Care Savings Program and the Retiree Health Funding Vehicle are investment programs, meaning contributions are grown over time, through a choice of four Core Investment Options. MERS values a disciplined, diversified approach to investing, and must also follow Michigan state law and established standards of diligence, with strict oversight and management. The funds are professionally managed by a dedicated team of experienced investment professionals

and support staff, and are responsible for monitoring all investment activity.

The core funds, shown on next pages, are as follows:

- MERS Total Market Fund
- MERS Established Market Fund
- MERS Diversified Bond Fund
- MERS Short-Term Managed Income Fund

MERS Total Market Fund

MERS Total Market Fund is a fully diversified portfolio combining traditional with alternative asset classes. The objective is to provide growth and income while minimizing the volatility of the capital markets

Fund Summary – Assets as of December 31, 2010: \$6.2 billion

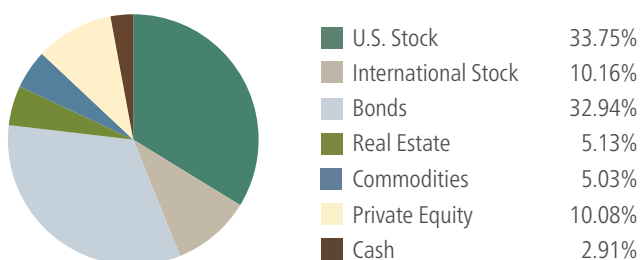
	1 Year	3 Year	5 Year	10 Year
MERS Total Market Fund	13.94%	0.10%	4.24%	5.29%
Custom Benchmark	13.65	1.16	4.83	5.22
Excess Return	0.29	-1.06	-0.59	0.07

Returns are presented Net of Investment Management Expenses only as of December 31, 2010. Returns for periods greater than one year are annualized.

Performance information prior to December 31, 2007, is linked with the returns of the MERS Defined Benefit Portfolio as the MERS Total Market Fund uses the same strategy. The returns from the MERS Defined Benefit Portfolio are Net of Investment Management Expenses only.

Past performance is no guarantee of future results. Current performance may be higher or lower. Investment returns and values will fluctuate, and shares when redeemed, may be worth more or less than their original cost. Please visit the MERS website at www.mersofmich.com for more recent performance information.

Asset Allocation as of December 31, 2010



Did You Know?

Michigan's agriculture is only second in diversity to California

MERS Established Market Fund

MERS Established Market Fund seeks to provide long-term growth of capital and income through a diversified mix of stocks and bonds. The objective is to outperform the traditional 60/40 mix of stocks to bonds (excludes private equity, real estate, and commodities).

Fund Summary – Assets as of December 31, 2010: \$4.3 billion

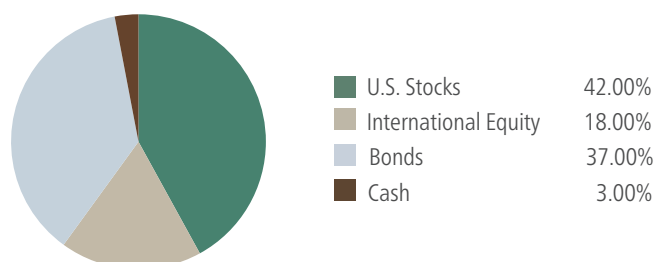
	1 Year	3 Year	5 Year	10 Year
MERS Established Market Fund	15.46%	3.18%	6.11%	7.55%
Custom Benchmark*	13.25	1.71	4.38	4.01
Excess Return	2.21	1.47	1.73	3.54

Returns are presented Net of Investment Management Expenses only as of December 31, 2010. Returns for periods greater than one year are annualized.

Return information prior to December 2, 2008, is linked with the component returns of the MERS Defined Benefit Portfolio as the MERS Established Market Fund is broadly the same strategy. The returns from the MERS Defined Benefit Portfolio are Net of Investment Management Expenses only.

Past performance is no guarantee of future results. Current performance may be higher or lower. Investment returns and values will fluctuate, and shares when redeemed, may be worth more or less than their original cost. Please visit the MERS website at www.mersofmich.com for more recent performance information.

Asset Allocation as of December 31, 2010



Did You Know?

Production agriculture, food processors and related business employ about one million Michiganians

MERS Diversified Bond Fund

MERS Diversified Bond Fund seeks current income and growth of capital by investing in a wide spectrum of fixed income securities both in the United States and abroad. The objective is to outperform the Barclays Capital U.S. Aggregate Bond Index.

Fund Summary – Assets as of December 31, 2010: \$1.4 billion

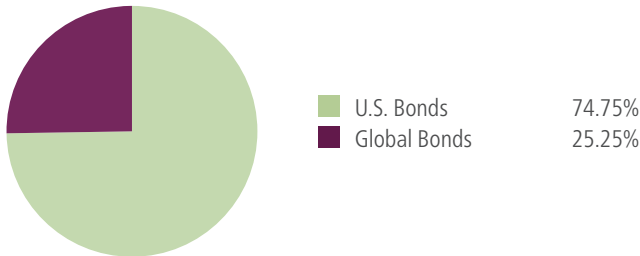
	1 Year	3 Year	5 Year	10 Year
MERS Diversified Bond Fund	8.31%	6.97%	6.75%	6.55%
Barclays Capital U.S. Aggregate	6.56	5.91	5.80	5.84
Excess Return	1.75	1.06	0.95	0.71

Returns are presented Net of Investment Management Expenses only as of December 31, 2010. Returns for periods greater than one year are annualized.

Return information prior to September 9, 2008, is linked with the component returns of the MERS Defined Benefit Portfolio as the MERS Diversified Bond Fund is broadly the same strategy. The returns from the MERS Defined Benefit Portfolio are Net of Investment Management Expenses only.

Past performance is no guarantee of future results. Current performance may be higher or lower. Investment returns and values will fluctuate, and shares when redeemed, may be worth more or less than their original cost. Please visit the MERS website at www.mersofmich.com for more recent performance information.

Asset Allocation as of December 31, 2010



Did You Know?

Average farm size is approximately 179 acres

MERS Short Term Managed Income Fund

MERS Short-Term Managed Income Fund seeks to obtain the maximum current income, consistent with preservation of capital and liquidity that is available through investments in investment-grade commercial paper, corporate bonds, and U.S. agencies. The objective is to outperform the Barclays Capital U.S. Treasury 1-3 Year Index.

Fund Summary – Assets as of December 31, 2010: \$0.18 billion

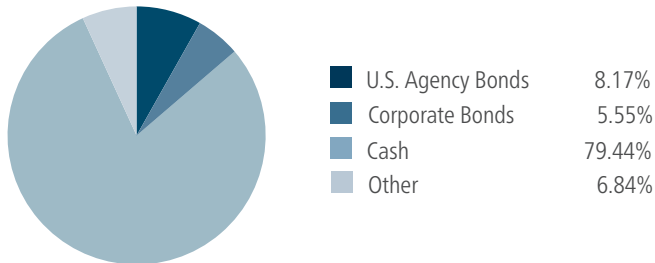
	1 Year	3 Year	5 Year	10 Year
MERS Short-Term Managed Income Fund	1.95%	3.69%	5.84%	6.65%
Barclays Capital U.S. Treasury 1-3 Year	2.39	3.26	4.19	3.94
Excess Return	-0.44	0.43	1.65	2.71

Returns are presented Net of Investment Management Expenses only as of December 31, 2010. Returns for periods greater than one year are annualized.

Return information prior to August 21, 2008, is linked with the component returns of the MERS Defined Benefit Portfolio as the MERS Short-Term Managed Income Fund is broadly the same strategy. The returns from the MERS Defined Benefit Portfolio are Net of Investment Management Expenses only.

Past performance is no guarantee of future results. Current performance may be higher or lower. Investment returns and values will fluctuate, and shares when redeemed, may be worth more or less than their original cost. Please visit the MERS website at www.mersofmich.com for more recent performance information.

Asset Allocation as of December 31, 2010



E. MERS Investment Services Program

The Investment Services Program provides municipalities with a 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. To view investment activity on the MERS Total Market Fund, see part A of the Investments Section.

Michigan Apples



Did You Know?

- Apples are one of the largest and most valuable fruit crops in Michigan
- There are over 7.5 million apple trees in production, covering 38,500 acres
- Michigan is the third largest apple producing state
- The annual economic impact is estimated at approximately \$800 million
- Sixty percent of Michigan apples are processed into other products



ACTUARY CERTIFICATION LETTER

Municipal Employees' Retirement System of Michigan



Gabriel Roeder Smith & Company
Consultants & Actuaries

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Southfield, MI 48076-3723

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248.799.9020 fax
www.gabrielroeder.com

September 8, 2010

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) fully cover the cost of benefits that members earn during the coming fiscal year, and
- (2) amortize the unfunded costs of benefits earned based on past service, and which
- (3) 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, 2009. These valuations determine the contribution rates for the fiscal years beginning in 2011.

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 2003 to 2008. 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.

ACTUARY CERTIFICATION LETTER

Municipal Employees' Retirement System of Michigan

Retirement Board
September 8, 2010
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
- Mortality Tables
- Schedule of Active Member Valuation Data
- 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. 2009 was more stable (and MERS earned a healthy 17+% investment return) but the volatility continues. The crisis has been focused on the financial sector. While the U.S. government and business leaders are doing all they can to address the issues, 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 (two-tenths, for 2008 and 2009) of the 2008 investment market losses were recognized in the 2009 actuarial valuation reports. The rest of the 2008 investment market loss is scheduled to be recognized in equal installments over the subsequent eight years. This reduces the volatility of the valuation results, which affects the required employer contribution and actuarial funded percentage.

As of December 31, 2009 the actuarial value of assets was 125% of market value (down from 139% in 2008). 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. By the time the 2008 market losses would be fully recognized (over the following 8 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

ACTUARY CERTIFICATION LETTER


Municipal Employees' Retirement System of Michigan

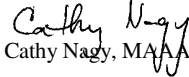
Retirement Board
September 8, 2010
Page 3

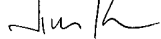
If the investment markets do not fully make up for the 2008 losses, employer contribution requirements can be expected to rise. MERS continues to do everything it can to make sure that if this proves to be the case, the increases are incremental as opposed to steep.

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, 2009, actuarial valuation are those adopted by the Retirement Board. The actuarial assumptions were last revised as of December 31, 2009, to study the results of the plan experience covering the period from December 31, 2003, through December 31, 2008.

There have been no changes in the funding method that 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.

Valuation assets (cash and investments) were valued for each municipality using a 10-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 10 years. (Board adopted in 2006.)

The individual entry age actuarial cost method was used to determine actuarial accrued liabilities and normal cost. (Adopted 1994) The standard amortization periods used in the 2009 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 two years until the period reaches five 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%. (Board adopted in 1981.)

The most recent experience study for the system was completed in March 2010 and covered the period January 1, 2004, through December 31, 2008.



Did You Know?

Michigan exports about a third of its agricultural commodities each year, generating more than \$1 billion and supporting nearly 13,000 jobs

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. (Board adopted in 2002.)

There have been no recent changes that have had an impact on the system. Municipalities have the ability to modify 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.

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.

ASSUMPTIONS AND METHOD CHANGES

The December 31, 2009, actuarial valuation reflects the following changes in the actuarial assumptions:

- Temporary lower wage inflation assumption
- Revised rates of expected employee retirement

Actuarial Assumptions

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 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

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. For the 2009 actuarial valuation, the net long-term investment yield is assumed to be 8%. This assumption was first used for December 31, 1981, actuarial valuation.

The reader should note that, given that the actuarial value of assets is currently 25% 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.

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 below. 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.

The Board adopted a temporary 2% wage inflation at the March 9, 2010, Board Meeting, effective for the 2009 valuation. The Board adopted a temporary 1% wage inflation at the March 9, 2011, Board Meeting, effective for the 2010 through 2013 valuations.

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%.

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	2.4



Cabbage

Michigan produces several varieties of cabbage in staggered harvests, producing a longer season in which consumers may find fresh cabbage.

Retirement Rates

A schedule of retirement rates is used to measure the probability of eligible members retiring during the next year. The retirement rates for normal retirement are determined by each member's replacement index at the time of retirement. The replacement index is defined as the approximate percentage of the member's pay (after reducing for MERS member contributions) that will be replaced by the member's benefit at retirement. The index is calculated as: Replacement Index = 100 multiplied by Accrued Benefit ÷ by [Pay - Member Contributions]. The revised normal retirement rates were first used for the December 31, 2009, actuarial valuations.

Retirement rates for early reduced retirement are determined by the member's age at early retirement. The revised Normal Retirement rates below were first used for the December 31, 2009, actuarial valuations. The early retirement rates were first used for the December 31, 2004, actuarial valuations.

Normal Retirement - Service Based Benefit F(N) Adopted

Sample Replacement Index	Percent of Eligible Active Members Retiring Within Next Year
5	5%
10	11
15	16
20	19
25	20
30	20
35	20
40	20
45	20
50	20
55	21
60	22
65	24
70	24
75	28
80	32
85	38
90	45
95	48
100	+50

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

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

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 with respect to the probability of surviving to 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 on the following page for sample ages.

Mortality Tables (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

Mortality Tables (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
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
2009	699	35,598	1,636,501,282	45,972	2.1	6,726



Chestnuts

Michigan chestnuts are sold fresh, peeled, frozen, sliced, or as flour. Chestnut flour is a gluten-free alternative to wheat flour.

Schedule of Retirees and Beneficiaries Added to and Removed from Rolls

Valuation Dec. 31	Added to Rolls		Removed From Rolls	
	Retirees/ Beneficiaries Number	Annual Allowance	Retirees/ Beneficiaries Number	Annual Allowance
2000	1,319	\$23,588,044	369	\$2,810,133
2001	1,238	22,971,336	608	4,735,312
2002	1,275	25,079,342	642	5,882,066
2003	1,577	31,229,077	672	5,623,367
2004	1,553	32,303,049	725	6,669,694
2005	1,666	32,839,907	782	7,000,257
2006	2,071	38,752,141	762	4,291,133
2007	2,030	36,947,384	894	5,928,199
2008	2,015	43,573,642	783	5,156,426
2009	1,871	36,164,024	773	4,545,379

Valuation Dec. 31	End-of-Year Rolls			
	Retirees/ Beneficiaries Number	Annual Allowance	% Increase in Annual Allowance	Average Annual Allowance
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
2009	24,930	423,577,691	8.1	16,991



Cranberries

Cranberries are grown on 280 acres throughout Michigan, including the Upper Peninsula, the northern part of the Lower Peninsula, and Southwest Michigan.

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)
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
2009	604.2	4,342.0	3,588.5	6,443.1	100	100	41.7

SUMMARY OF PLAN DOCUMENT PROVISIONS

There were no recent changes in the nature of the plan that would have a material impact on the actuarial valuations for December 31, 2009. 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 Plan is not modifiable. To the extent the actuary was made aware of them, these modifications were taken into consideration when determining the municipality contribution rates in the December 31, 2009, actuarial valuation.

Defined Benefit Plan

The benefits summarized in this section are intended only as general information regarding the Municipal Employees' Retirement System. The Comprehensive Annual Financial Report 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, 2009, 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 retiree and/or over the lifetime of the beneficiary. Payments are based on the choice of benefits adopted by each municipality and the final payment option elected by the retiring member.

Vesting occurs after 10 years of credited service unless the municipality selects a lesser number of years.

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.

Early retirement benefits are available if the vested member meets either the age 55 with 15 years of service or age 50 with 25 years of service eligibility requirements. The monthly payment is reduced (unless waived by the municipality) for each month the member is younger than the age unreduced retirement benefits are available.

Benefit Formula

The annual benefit equals a specified percentage of the member's final average compensation, multiplied by the number of years and months of credited service. The plan has several benefit multipliers available. The benefit multipliers vary from 1.3% to 2.5%, and are adopted by a participating municipality.

Mandatory Retirement

There is no mandatory 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.

Maximum Benefit Payable By MERS

Section 415 of the Internal Revenue Code governs the maximum benefit that may be paid by MERS. All benefits in excess of the maximum benefit will be paid by the MERS Excess Benefit Plan.

Reciprocal Retirement Act – Act 88

If a municipality elects to come under the provision of Act 88, service with former and future public employers in Michigan may be used to satisfy the service eligibility conditions of MERS.

Final Average Compensation

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. A FAC-3 is over a 36-month period, a FAC-5 is over a 60-month period. The compensation used in calculating the final average compensation cannot exceed the limit set by Internal Revenue Code Section 401(a)(17).

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 the final average compensation.

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 retirees, who have not attained age 60, shall not exceed the difference between 100% of the final average compensation, and the amount of the retiree's considered income. Future medical reexaminations may be required.

Death Allowance – Duty Or Non-Duty

Upon the death of a vested non-retired member, a monthly survivor allowance may be payable. The vesting requirement is waived if the death occurs as the natural and proximate result of performance of duty with a participating municipality (this is known as a duty death benefit).

The eligible surviving dependents would receive a portion of the normal retirement at the time of death. The surviving spouse would receive the greater of 85% of the accrued normal retirement benefit or the benefit payable under Option II, reduced for early commencement. If there is no surviving spouse or other named survivor beneficiary, each unmarried child under 21 would receive an equal share of 50% of the Straight Life benefit. If no retirement benefits are payable on death, the beneficiary or the decedent's estate would receive a refund of the employee's contributions.

If a member suffers a duty death, the surviving spouse would receive the greater of the benefit described above, or 25% of the final average compensation. If there is no surviving spouse or other named survivor beneficiary, unmarried children under 21 will equally share at least 25% of the final average compensation.

Member Contributions

Each member may contribute a percentage of their annual compensation, if selected by the municipality, up to the compensation limit under Section 401(a)(17) of the Internal Revenue Code. Interest is credited to accumulated member contributions each December 31 at a rate determined by MERS. Currently MERS is using the one-year U.S. Treasury bill rate determined as of December 31. The interest rate credited for the 12-month period ending on the valuation date was 0.43%.

If a member leaves the municipality, or dies without a retirement allowance or other benefit payable on their account, the member's accumulated contributions plus interest are refunded with spousal consent to the member, if living, or to the member's surviving spouse, or a named beneficiary.

Post-Retirement Adjustments

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

Forms of Benefit Payment

The member elects a payment option as part of the retirement application process. Once the election is made, the selection is irrevocable after receipt of first payment.

The payment options include:

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

DROP+ Delayed Retirement Option Partial Lump Sum

Any member (covered or not covered by the Benefit Program DROP+) who is eligible to retire with full, immediate retirement benefits, has the option to retire and receive a monthly benefit payable immediately, or delay the retirement date and continue to work.

If a member is covered by the Benefit Program DROP+ and retires at least 12 months after first becoming eligible for unreduced benefits, they have the option to receive a partial lump sum and a reduced monthly benefit at actual retirement. The member can elect a lump sum equal to 12, 24, 36, 48, or 60 times their monthly accrued benefit. For each 12 months included in the lump sum, the member's lifetime benefit is reduced by the DROP+ percentage adopted by the employer. The employer can adopt any of the following DROP+ reduction percentages: 4, 5, 6, 7, or 8%.



SUMMARY OF PLAN DOCUMENT PROVISIONS

Hybrid Plan

The benefits summarized in this section are intended only as general information regarding the Municipal Employees' Retirement System. The Comprehensive Annual Financial Report 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, 2009, actuarial valuation was based upon the provisions of the MERS Plan Document.

Part I - Defined Benefit Portion of Hybrid Plan

Eligibility for Retirement

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

Vesting occurs after six years of credited service.

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 final average compensation multiplied by the number of years and months of credited service. Percentage options are 1, 1.25, and 1.5%, and may be selected by a participating municipality.

Mandatory Retirement

There is no mandatory 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.

Maximum Benefit Payable By MERS

Section 415 of the Internal Revenue Code governs the maximum benefit that may be paid by MERS. Benefits in excess of the maximum benefit will be paid by the MERS Excess Benefit Plan.

Reciprocal Retirement Act – Act 88

If the municipality has elected to come under the provision of Act 88, service with former and future public employers in Michigan may be used to satisfy the service eligibility conditions of MERS.

Final Average Compensation

Final average compensation (FAC) is computed using the FAC-3 under the Defined Benefit Plan. The compensation used in calculating final average compensation cannot exceed the limit set by Internal Revenue Code Section 401(a)(17).

Disability Benefit – Duty Or Non-Duty

Benefits are the same as are provided in the Defined Benefit Plan, except that optional benefit program D-2 does not apply.

Death Allowance – Duty Or Non-Duty

Benefits are the same as are provided in the Defined Benefit Plan, except that optional benefit program D-2 does not apply.

Post Retirement Adjustments

There are no post retirement adjustments within the Hybrid Plan.

Member Contributions

There are no member contributions.

Forms of Benefit Payment

The member elects a payment option as part of the retirement application process. Once the election is made, the selection is irrevocable after receipt of the first payment.

The payment options include:

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

Delayed Retirement Option Partial Lump Sum – DROP+

There is no DROP+ option in the Hybrid Plan.

Part II - Defined Contribution Portion of Hybrid Plan

Contributions – Employer and Member

Member contributions are vested immediately.

Employer contributions have three optional vesting schedules for an employer to adopt:

- Immediate vesting upon participation,
- 100% vesting after stated years (the maximum vesting period is five years), or
- Graded vesting percentages per year of service (must be 100% vested after six years).



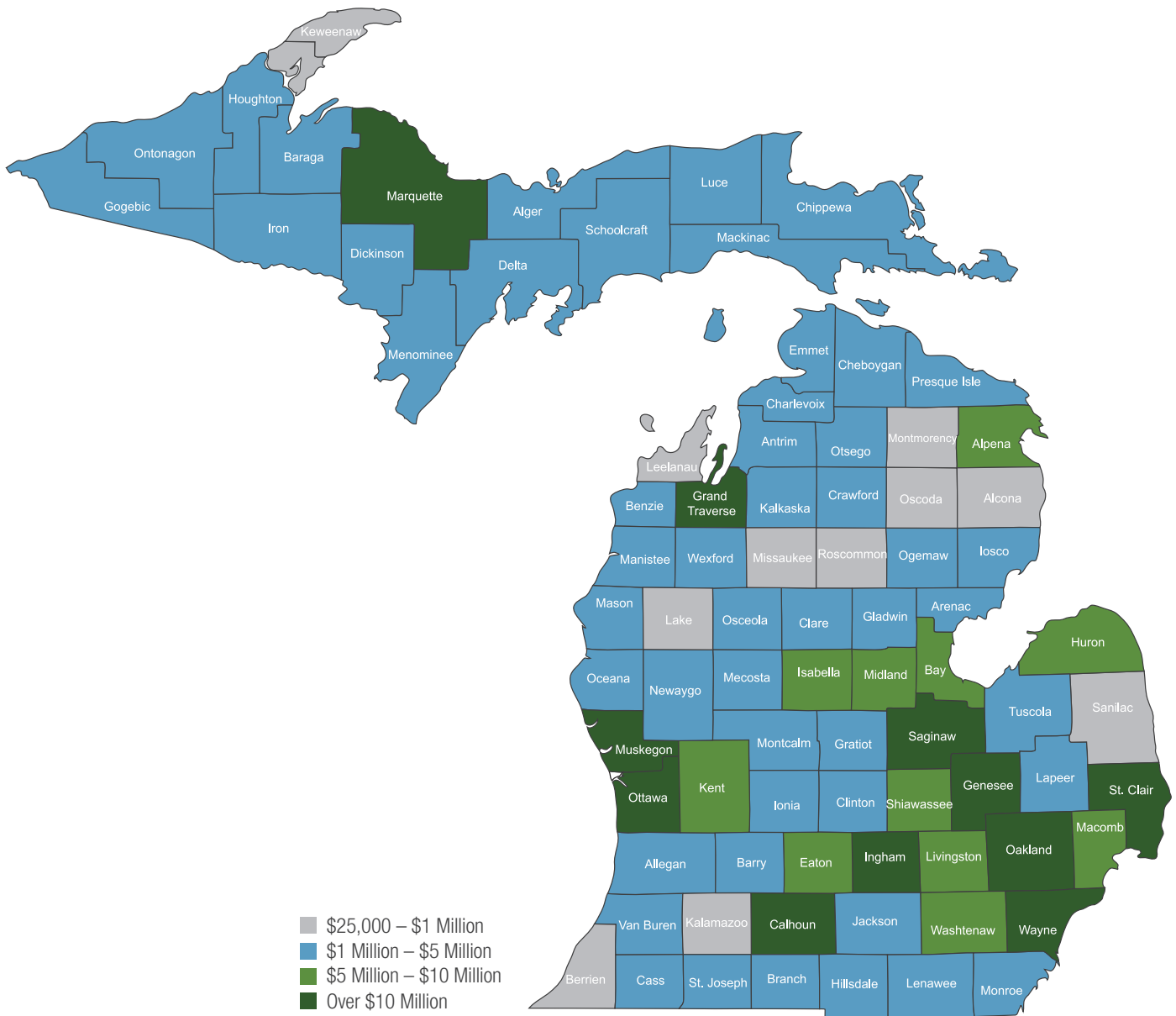
Floriculture Michigan

Did You Know?

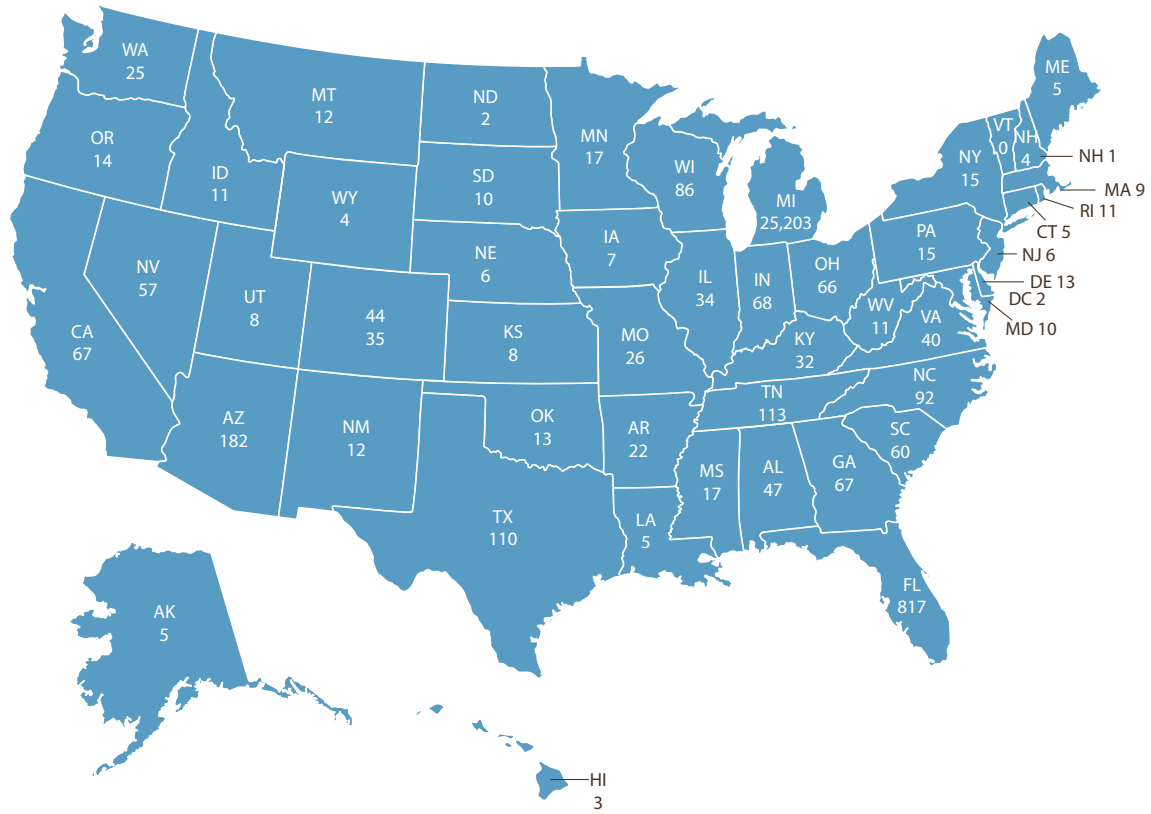
- Michigan leads the nation in geraniums, potted hostas, marigold flats, and Easter lilies
- Michigan's number one cut flower is the gladiolus with approximately 33.9 million spikes sold annually
- Michigan is the third largest floriculture producer, only surpassed by Florida and California
- It is estimated that floriculture provides more than 14,000 jobs in Michigan

Retirees in Michigan

Of the 26,955 retirees and beneficiaries in the MERS system, 25,203 (94%) remain Michigan residents. Benefit payments amounting to \$453 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

Virgin Islands	1
Canada	9
Costa Rica	2
Greece	1
Israel	1
Switzerland	1
United Kingdom	1

**Schedule of Additions to Plan Net Assets – Defined Benefit Plan
(Dollars in Thousands)**

Fiscal Year Ended	Member Contributions	Employer Contributions		Investment and Misc. Income	Total
		Dollars	% of Annual Covered Payroll		
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
Dec. 31, 2010	83,573	341,354	19.9	754,011	1,178,938

Schedule of Average Benefit Payments - Defined Benefit Plan

Valuation Date December 31	Number of Retirees and Beneficiaries	Average Yearly Benefit
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
2009	24,930	16,991

Changes in Plan Net Assets - Last 10 Years Ended December 31, 2010

	2001	2002	2003	2004
Defined Benefit Plan				
Additions:				
Plan Member Contributions	\$32,163,587	\$39,625,328	\$62,421,750	\$55,408,705
Employer Contributions	121,939,889	127,802,230	161,028,643	167,942,936
Net Investment Gain (Loss)	(88,579,398)	(319,009,400)	799,367,113	586,700,343
Miscellaneous Income	1,070,240	1,085,887	822,347	819,466
Total Additions to Plan Net Assets	66,594,318	(150,495,955)	1,023,639,853	810,871,450
Deductions:				
Benefits	182,272,551	200,793,802	221,137,612	247,454,263
Plan Member Refunds	5,199,393	3,366,464	3,542,264	3,525,082
Employer Refunds	214,305	-	-	1,727,570
Administrative Expenses	5,756,722	7,002,946	8,049,500	9,957,057
Special Expenses & Fees	412,989	366,273	378,334	387,031
Plan Member Transfers to Defined Contribution	881,912	53,056	106,727	1,284
Employer Transfers to Defined Contribution	12,922,048	438,040	3,732,569	320,682
Total Deductions from Plan Net Assets	207,659,920	212,020,581	236,947,006	263,372,969
Net Increase (Decrease)	(141,065,602)	(362,516,536)	786,692,847	547,498,481
Net Assets Held in Trust				
Balance Beginning of Fiscal Period	3,788,886,471	3,647,820,869	3,285,304,333	4,071,997,180
Balance End of Fiscal Period	\$3,647,820,869	\$3,285,304,333	\$4,071,997,180	\$4,619,495,661
Defined Contribution Plan				
Additions:				
Plan Member Contributions	\$2,551,143	\$3,509,260	\$3,842,038	\$4,301,952
Employer Contributions	8,794,329	10,241,672	11,358,936	12,664,264
Plan Member Transfers from Defined Benefit	881,912	53,056	106,727	1,284
Employer Transfers from Defined Benefit	12,922,048	438,040	3,732,569	320,682
Transfers from Other Plans	826,992	3,557,813	199,702	5,356,930
Defined Contribution Income	(4,154,015)	(10,798,653)	17,570,152	10,410,317
Total Additions to Plan Net Assets	21,822,409	7,001,188	36,810,124	33,055,429
Deductions:				
Benefits	5,625,222	5,547,637	4,089,817	6,453,035
Total Deductions from Plan Net Assets	5,625,222	5,547,637	4,089,817	6,453,035
Net Increase (Decrease)	16,197,187	1,453,551	32,720,307	26,602,394
Net Assets Held in Trust				
Balance Beginning of Fiscal Period	67,110,132	83,307,319	84,760,870	117,481,177
Balance End of Fiscal Period	\$83,307,319	\$84,760,870	\$117,481,177	\$144,083,571

2005	2006	2007	2008	2009	2010
\$71,324,903	\$84,124,396	\$61,771,740	\$64,870,909	\$62,677,056	\$83,573,046
207,123,552	286,227,456	320,203,718	310,716,723	350,737,219	341,354,194
293,760,014	634,158,937	455,213,391	(1,533,383,713)	788,728,701	753,548,112
6,020,448	790,789	1,067,367	56,587	1,070,596	462,612
578,228,917	1,005,301,578	838,256,216	(1,157,739,494)	1,203,213,572	1,178,937,964
274,146,709	304,172,625	339,456,920	372,354,833	409,867,136	453,186,778
4,157,567	4,711,038	5,057,942	5,580,350	9,510,224	7,005,859
-	-	1,230,274	1,364,491	-	5,823
11,557,044	12,540,010	13,903,553	16,364,800	18,792,644	20,951,372
398,690	526,047	587,685	570,520	460,455	389,025
964	104,407	685,478	16,723	23,483	28,259
21,609	646,754	1,040,071	84,819	175,246	977,346
290,282,583	322,700,881	361,961,923	396,336,536	438,829,189	482,544,462
287,946,334	682,600,697	476,294,293	(1,554,076,030)	764,384,383	696,393,502
4,619,495,661	4,907,441,995	5,590,042,692	6,066,336,985	4,512,260,955	5,276,645,338
\$4,907,441,995	\$5,590,042,692	\$6,066,336,985	\$4,512,260,955	\$5,276,645,338	\$5,973,038,840
\$4,732,864	\$5,527,984	\$6,309,939	\$6,961,409	\$8,062,442	\$8,666,000
14,244,769	15,911,238	17,590,799	18,939,820	20,263,212	21,699,622
964	104,407	685,478	16,723	23,483	28,259
21,609	646,754	1,040,071	84,819	175,246	977,346
2,084,281	8,207,389	1,184,321	1,122,171	1,555,390	3,696,142
8,427,281	19,195,851	13,411,117	(61,678,689)	39,951,479	28,971,482
29,511,768	49,593,623	40,221,725	(34,553,747)	70,031,252	64,038,851
9,482,481	10,591,376	12,764,282	12,406,025	8,867,576	10,902,604
9,482,481	10,591,376	12,764,282	12,406,025	8,867,576	10,902,604
20,029,287	39,002,247	27,457,443	(46,959,772)	61,163,676	53,136,247
144,083,571	164,112,858	203,115,105	230,572,548	183,612,776	244,776,452
\$164,112,858	\$203,115,105	\$230,572,548	\$183,612,776	\$244,776,452	\$297,912,699

Changes in Plan Net Assets - Last 10 Years Ended December 31, 2010

	2001	2002	2003	2004
Health Care Savings Program*				
Additions:				
Plan Member Contributions	\$-	\$-	\$-	\$88,884
Employer Contributions	-	-	-	1,300,103
Net Investment Gain (Loss)	-	-	-	128,725
Miscellaneous Income	-	-	-	7,329
Total Additions to Plan Net Assets	-	-	-	1,525,041
Deductions:				
Special Expenses & Fees	-	-	-	-
Medical Disbursements Paid to Members	-	-	-	11,484
Forfeited Employer Contributions	-	-	-	-
Administrative Expenses	-	-	-	181,438
Total Deductions from Plan Net Assets	-	-	-	192,922
Net Increase (Decrease)	-	-	-	1,332,119
Net Assets Held in Trust				
Balance Beginning of Fiscal Period	-	-	-	-
Balance End of Fiscal Period	\$-	\$-	\$-	\$1,332,119
Retiree Health Funding Vehicle*				
Additions:				
Employer Contributions	\$-	\$-	\$-	\$1,312,526
Net Investment Gain (Loss)	-	-	-	108,716
Miscellaneous Income	-	-	-	-
Total Additions to Plan Net Assets	-	-	-	1,421,242
Deductions:				
Special Expenses & Fees	-	-	-	-
Disbursements Paid to Municipalities	-	-	-	-
Administrative Expenses	-	-	-	2,590
Total Deductions from Plan Net Assets	-	-	-	2,590
Net Increase (Decrease)	-	-	-	1,418,652
Net Assets Held in Trust				
Balance Beginning of Fiscal Period	-	-	-	-
Balance End of Fiscal Period	\$-	\$-	\$-	\$1,418,652
Investment Services Program**				
Additions:				
Employer Contributions	\$-	\$-	\$-	\$-
Net Investment Gain (Loss)	-	-	-	-
Miscellaneous Income	-	-	-	-
Total Additions to Plan Net Assets	-	-	-	-
Deductions:				
Disbursements Paid to Municipalities	-	-	-	-
Administrative Expenses	-	-	-	-
Total Deductions from Plan Net Assets	-	-	-	-
Net Increase (Decrease)	-	-	-	-
Net Assets Held in Trust				
Balance Beginning of Fiscal Period	-	-	-	-
Balance End of Fiscal Period	\$-	\$-	\$-	\$-

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

** Investment Services Program commenced operations in 2006

2005	2006	2007	2008	2009	2010
\$14,995	\$-	\$-	\$-	\$-	\$-
2,856,908	2,301,297	2,927,102	10,127,358	16,963,863	11,650,739
165,081	752,559	719,462	(4,603,920)	2,978,138	4,055,298
8,078	91,818	96,313	161,587	263,366	377,183
3,045,062	3,145,674	3,742,877	5,685,025	20,205,367	16,083,220
-	59,046	89,102	153,775	258,013	373,441
51,832	144,699	328,172	462,448	511,902	889,941
-	44,723	29,295	57,716	64,171	85,142
250,436	197,200	243,953	360,573	159,157	(439,689)
302,268	445,668	690,522	1,034,512	993,243	908,835
2,742,794	2,700,006	3,052,355	4,650,513	19,212,124	15,174,385
1,323,119	4,065,913	6,765,919	9,818,274	14,468,787	33,680,911
\$4,065,913	\$6,765,919	\$9,818,274	\$14,468,787	\$33,680,911	\$48,855,296
\$11,947,714	\$29,366,165	\$67,013,503	\$42,376,883	\$48,028,651	\$52,613,370
448,190	4,359,685	6,144,495	(33,136,301)	23,472,134	28,418,986
-	103,298	341,804	494,705	53,497	858,770
12,395,904	33,829,148	73,499,802	9,735,287	71,554,282	81,891,126
225	89,055	332,016	486,939	622,880	858,770
95,470	1,109,386	5,827,116	3,857,234	6,087,719	5,564,350
25,925	136,376	185,108	319,161	53,497	1,039,649
121,620	1,334,817	6,344,240	4,663,334	6,764,096	7,462,769
12,274,284	32,494,331	67,155,562	5,071,953	64,790,186	74,428,357
1,418,652	13,692,936	46,187,267	113,342,829	118,414,782	183,204,968
\$13,692,936	\$46,187,267	\$113,342,829	\$118,414,782	\$183,204,968	\$257,633,325
\$-	\$15,527,136	\$26,680,199	\$2,968,755	\$999,440	\$-
-	726,136	2,177,009	(11,607,125)	3,375,567	839,094
-	-	-	-	-	27,625
-	16,253,272	28,857,208	(8,638,370)	4,375,007	866,719
-	-	-	750,000	33,593,463	-
-	16,895	238,322	153,529	4,000	249,504
-	16,895	238,322	903,529	33,597,463	249,505
-	16,236,376	28,618,886	(9,541,899)	(29,222,456)	617,215
-	-	16,236,376	44,855,262	35,313,363	6,090,907
\$-	\$16,236,376	\$44,855,262	\$35,313,363	\$6,090,907	\$6,708,122

**Schedule of Deductions from Plan Net Assets - Defined Benefit Plan
(Dollars in Thousands)**

Fiscal Year Ended	Benefit Payments	Administrative and Special Expenses	Employer & Employee Refunds	Transfers to MERS DC Program	Total
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
Dec. 31, 2010****	453,187	21,340	7,011	1,006	482,544

* Refunds for 2004 include \$1,727,570 in employer refunds

** Refunds for 2007 include \$1,040,171 in employer refunds

*** Refunds for 2008 include \$1,364,491 in employer refunds

**** Refunds for 2010 include \$5,823 in employer refunds

**Schedule of Benefit Expenses by Type - Defined Benefit Plan
(Dollars in Thousands)**

Fiscal Year Ended	Regular Benefits	Disability Benefits	Employee Refunds	Total
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
Dec. 31, 2010	433,778	19,415	7,006	460,199

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

December 31, 2009, Tabulated by Optional Form of Benefit Being Paid

Monthly Benefit	All Retired Members	Type of Annuity					
		1	2	3	4	5	6
\$0-199	1,665	1,083	32	22	443	85	0
200-399	3,047	2,067	93	61	670	147	9
400-599	2,863	1,963	138	47	582	117	16
600-799	2,357	1,715	119	44	374	98	7
800-999	2,025	1,569	111	45	218	74	8
1,000-1,199	1,658	1,295	94	29	178	58	4
1,200-1,399	1,451	1,140	91	32	149	35	4
1,400-1,599	1,340	1,131	48	17	119	24	1
1,600-1,799	1,154	979	49	21	82	22	1
1,800-1,999	1,042	904	23	12	81	19	3
2,000 & over	6,328	6,005	75	30	156	56	6
Totals	24,930	19,851	873	360	3,052	735	59
Total Monthly Benefit	\$35,298,141	\$31,091,470	\$893,561	\$347,383	\$2,288,934	\$618,605	\$58,188

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



Potatoes

- In volume and sales, potatoes are Michigan's largest vegetable crop
- Michigan is the nation's leading producer of potatoes for potato chip production
- The average person consumes 132 pounds of potatoes per year – 50 pounds in fresh and 82 pounds in chips, frozen and other potato products

Schedule of Retired Members by Type of Option Selected – Defined Benefit Plan
December 31, 2009, Tabulated by Optional Form of Benefit Being Paid

Monthly Benefit	All Retired Members	Type of Annuity			
		1	2	3	4
\$0 - 199	1,665	536	25	1	206
200 - 399	3,047	858	31	1	338
400 - 599	2,863	808	80	5	359
600 - 799	2,357	685	60	5	305
800 - 999	2,025	554	77	4	299
1,000 - 1,199	1,658	535	81	12	252
1,200 - 1,399	1,451	444	79	9	250
1,400 - 1,599	1,340	423	83	3	267
1,600 - 1,799	1,154	366	91	6	216
1,800 - 1,999	1,042	323	79	7	196
2,000 & over	6,328	2,040	724	70	1,388
Totals	24,930	7,572	1,410	123	4,076
Total Monthly Benefit	\$35,298,141	\$11,069,798	\$3,152,325	\$293,421	\$6,931,676

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



Did You Know?

Each Michigan farmer feeds approximately 155 people

5	6	7	8	9	10
50	15	14	12	18	788
91	23	38	25	27	1,615
52	23	27	21	43	1,445
52	28	42	11	22	1,147
24	38	41	14	21	953
23	17	30	13	18	677
12	14	18	5	17	603
3	21	12	6	15	507
6	9	17	4	11	428
3	8	14	1	10	401
22	54	72	33	61	1,864
338	250	325	145	263	10,428
\$241,066	\$337,227	\$427,497	\$184,481	\$343,790	\$12,316,860



Tomatoes

- Michigan grows tomatoes for both fresh and processed uses
- In 2009, Michigan produced 265 million pounds for processing and 60 million pounds of tomatoes for fresh market

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, 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	67,140	61,841	92.1	5,299	7.9
December 31, 2005	68,915	62,748	91.1	6,167	8.9
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	75,605	67,254	89.0	8,351	11.0
December 31, 2010	78,035	69,399	88.9	8,636	11.1



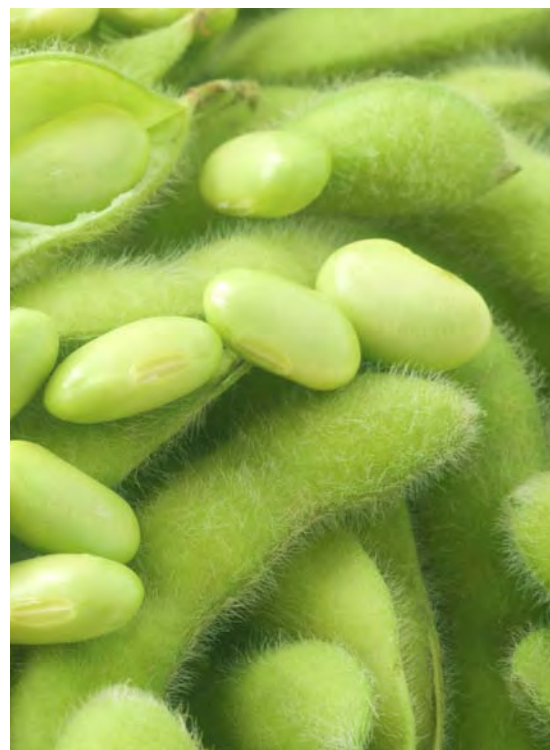
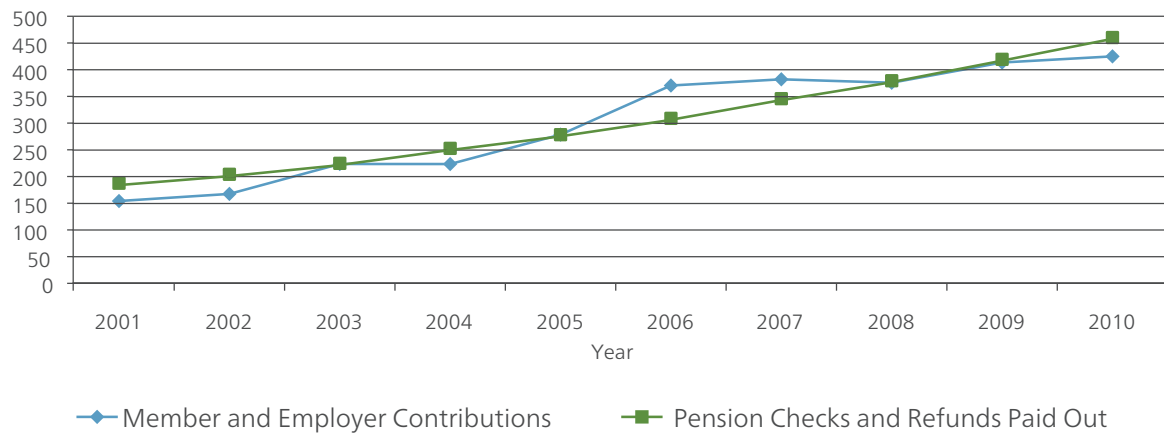
Sugar Beets

- Over four million tons of beets are processed every year
- Michigan produces more than one billion pounds of sugar annually
- There are approximately 1,100 sugar beet farms, totaling more than 150,000 acres

The graph below shows the maturation of MERS Defined Benefit Plan. An aging population and an increase in employees retiring have 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 \$424,927,239 from

employer/employee contributions, which was lower than the distributions paid out totaling \$460,198,460 (\$453,186,778 in pension payments and \$7,011,681 in refunds). Of the employer and employee contributions coming in, \$85,758,875 of the contributions came from new municipality assets.

Comparison of Member and Employer Contributions versus Pension Checks and Refunds Paid Out for the Defined Benefit Plan



Soybeans

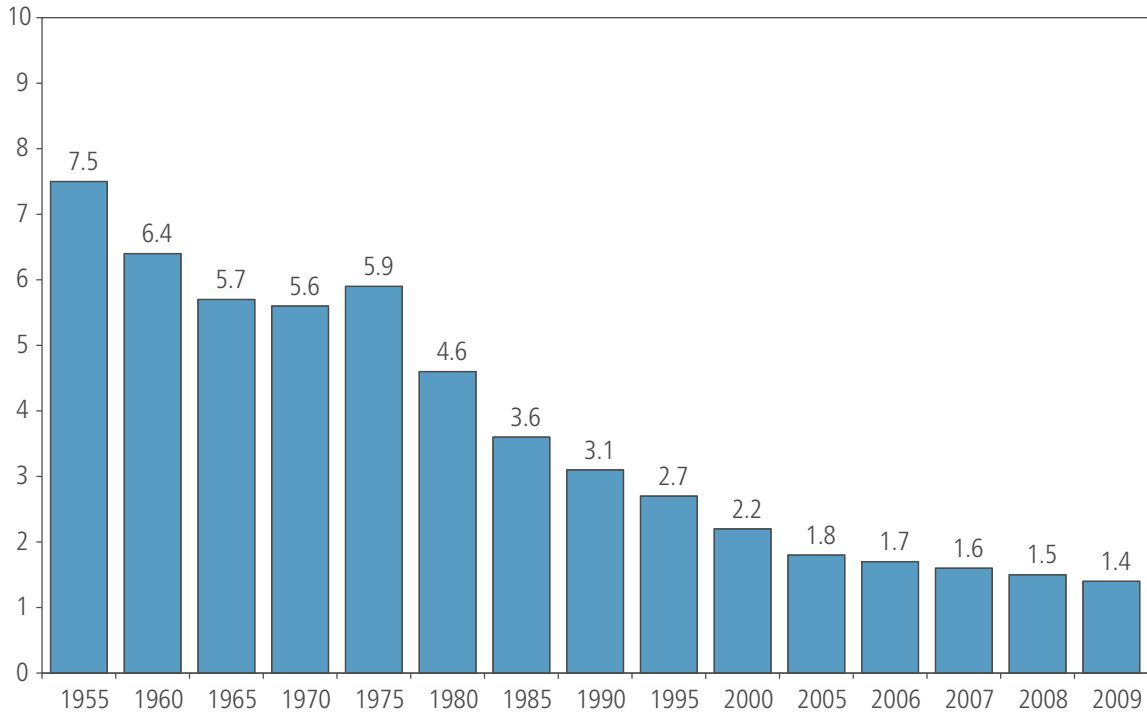
- Michigan soybeans have an economic impact of over \$1 billion
- Nearly 7,000 jobs in Michigan result from the soybean industry
- Nearly two million acres of soybeans are planted annually in Michigan

Schedule of Changes in Reserves – Fiscal Year Ended December 31, 2010

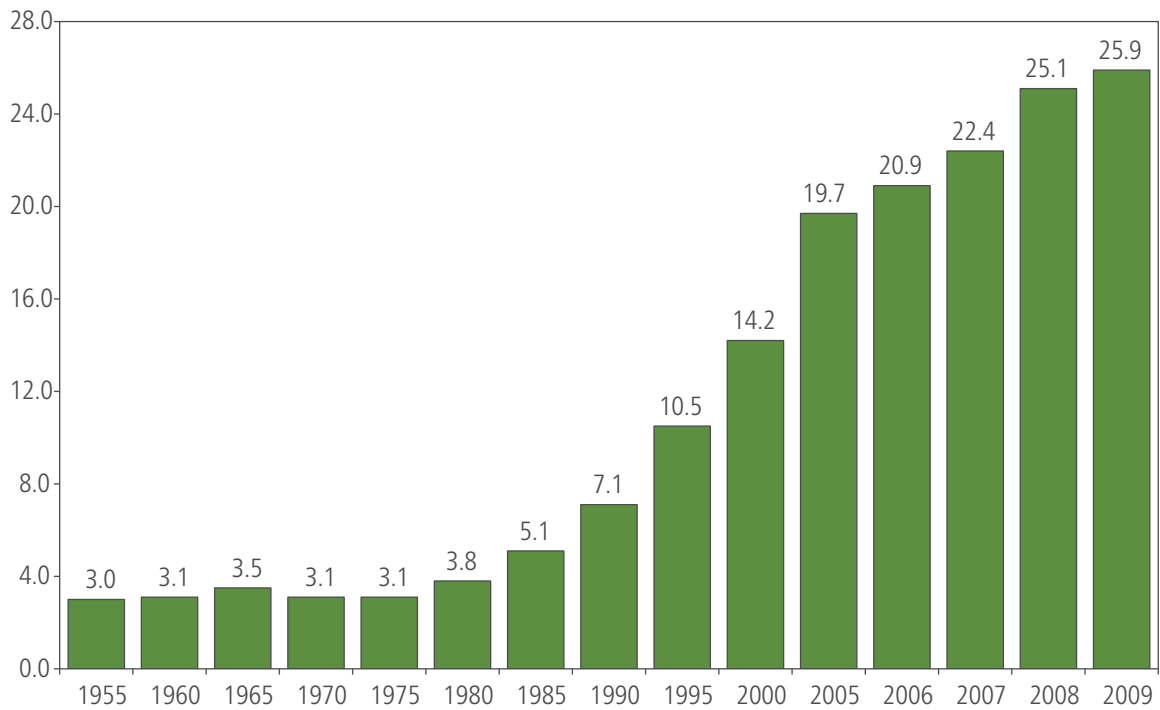
	Reserve for Employee Contributions	Reserve for Employer Contributions and Benefit Payments	Reserve for Expenses and Undistributed Investment Income
Additions			
<u>Member Contributions</u>			
Regular	\$78,072,048		
Purchase of Service Credit	5,500,998		
<u>Employer Contributions</u>			
Regular		\$340,382,289	
Purchase of Service Credit		971,905	
Net Investment Income			\$753,548,112
Miscellaneous Income			462,612
Transfers from Defined Benefit Plan			
Transfers from Other Plans			
Total Additions	83,573,046	341,354,194	754,010,724
Deductions			
Retirement Benefits		453,186,778	
Medical Disbursements Paid to Members			
Disbursements Paid to Municipalities			
Forfeited Employer Contributions			
Refund of Contributions	7,005,859	5,823	
Administrative Expense			20,951,372
Special Expenses and Fees		389,025	
Transfers to DC Plan	28,259	977,346	
Total Deductions	7,034,118	454,558,972	20,951,372
Net Increase (Decrease)	76,538,928	(113,204,778)	733,059,352
<u>Other Changes in Reserves</u>			
Investment Income Allocations	1,648,372	731,410,980	(733,059,352)
Retirement and Unclaimed Transfers	(40,955,180)	40,955,180	
Total Other Changes in Reserves	(39,306,808)	772,366,160	(733,059,352)
Net Increase in Reserves			
After Other Changes	37,232,120	659,161,382	
Reserve Balance Beginning of Year	620,957,653	4,655,687,685	
Reserve Balance End of Year	\$658,189,773	\$5,314,849,067	\$-

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
\$78,072,048	\$8,666,000				\$86,738,048
5,500,998					5,500,998
340,382,289	21,699,622	\$11,650,739	\$52,613,370		426,346,020
971,905					971,905
753,548,112	28,971,482	4,055,298	28,418,986	\$ 839,094	815,832,972
462,612		377,183	858,770	27,625	1,726,190
	1,005,605				1,005,605
	3,696,142				3,696,142
1,178,937,964	64,038,851	16,083,220	81,891,126	866,719	1,341,817,880
453,186,778	10,902,604				464,089,382
		889,941			889,941
			5,564,350		5,564,350
		85,142			85,142
7,011,682					7,011,682
20,951,372		(439,689)	1,039,649	221,880	21,773,212
389,025		373,441	858,770	27,624	1,648,860
1,005,605					1,005,605
482,544,462	10,902,604	908,835	7,462,769	249,504	502,068,174
696,393,502	53,136,247	15,174,385	74,428,357	617,215	839,749,706
-					-
-					-
-	-	-	-	-	-
696,393,502	53,136,247	15,174,385	74,428,357	617,215	839,749,706
5,276,645,338	244,776,452	33,680,911	183,204,968	6,090,907	5,744,398,576
\$5,973,038,840	\$297,912,699	\$48,855,296	\$257,633,325	\$6,708,122	\$6,584,148,282

Active Members Per Pension Recipient



Benefits as Percent of Active Member Pay



The above charts illustrate how MERS has matured over the years. Over time, the number of active members per retiree has declined from 7.5 to 1.4. 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, 2010**

Name	Total Reserves
Addison Fire Department	\$121,514
Adrian, City of	35,476,549
Aitkin Memorial Library	66,938
Albion, City of	13,132,862
Alcona County	6,717,918
Alger County	5,917,727
Alger County Road Commission	5,633,352
Algonac, City of	3,740,124
Allegan County	34,889,051
Allegan County Road Commission	12,928,893
Allegan, City of	2,480,369
Alma, City of	14,849,042
Almont, Village of	1,387,213
Alpena County	10,591,198
Alpena County Road Commission	7,253,911
Alpena Regional Medical Center	98,275,853
Alpena Senior Citizens Center	177,937
Alpha, Village of	37,939
Antrim County	21,673,469
Antrim County Road Commission	5,485,793
Arenac County	6,154,668
Arenac County Road Commission	2,350,794
Ash Township	244,857
Au Gres, City of	1,276,871
Auburn, City of	1,203,462
Bad Axe Area District Library	38,172
Bad Axe, City of	3,098,829
Bancroft, Village of	29,849
Bangor, City of	1,901,375
Baraga County	3,533,914
Baraga County Memorial Hospital	10,059,271
Baraga County Road Commission	3,595,729
Baraga, Village of	1,432,624
Baroda Township	141,067
Barry County	31,432,142
Barry County Community Mental Health Authority	3,288,122
Barry-Eaton District Health Department	10,263,188
Barton Hills, Village of	496,129
Bates Township	135,798
Bath Charter Township	3,129,345
Battle Creek, City of	75,884,496
Bay Area Transportation Authority	2,504,524
Bay City Housing Commission	5,047,046
Bay City, City of	39,336,900
Bay Metro Transit Authority	5,587,260
Bayliss Public Library	1,056,804
Beecher Metropolitan District Sewage & Water System	3,931,813
Belding, City of	828,744

**Schedule of Participating Municipalities – Defined Benefit Plan
For the Year Ended December 31, 2010**

Name	Total Reserves
Belleville, City of	3,434,160
Benzie County	7,759,099
Benzie County Council on Aging	507,832
Benzie County Medical Care Facility (Maples)	5,115,519
Benzie County Road Commission	2,637,612
Benzie Shores District Library	152,965
Benzie Transportation Authority	261,439
Benzie-Leelanau District Health Department	438,833
Berkley, City of	12,555,892
Berrien Springs, Village of	1,341,886
Bessemer, City of	1,483,342
Beverly Hills, Village of	2,361,983
Big Rapids Housing Commission	925,937
Big Rapids, City of	7,404,112
Bingham Farms, Village of	126,663
Birch Run, Village of	675,134
Bishop International Airport	4,271,738
Blackman Charter Township	3,553,162
Blissfield, Village of	2,516,242
Bloomfield Hills, City of	13,494,676
Blue Water Transportation Commission	3,352,801
Boyne City, City of	6,051,326
Branch County	1,434,816
Branch-Hillsdale-St. Joseph District Health Department	9,464,467
Brandon Township	3,774,850
Breckenridge, Village of	1,135,897
Bridgeport Charter Township	4,354,601
Bridgman, City of	704,060
Brighton Area Fire Authority	316,679
Brighton Township	1,391,407
Brighton, City of	8,602,310
Britton, Village of	267,764
Bronson, City of	762,078
Brooklyn, Village of	689,932
Brownstown Charter Township	9,860,820
Buchanan District Library	146,671
Buchanan, City of	6,162,589
Buena Vista Charter Township	6,397,324
Burton, City of	16,061,959
Butman Township	139,204
Cadillac, City of	9,949,229
Cadillac-Wexford Transit Authority	1,054,981
Calhoun County	13,232,301
Calhoun County Central Dispatch Authority	55,966
Calhoun County Road Commission	7,139,771
Canton Public Library	2,801,798
Canton Township	54,860,159
Capac, Village of	755,157

**Schedule of Participating Municipalities – Defined Benefit Plan
For the Year Ended December 31, 2010**

Name	Total Reserves
Capital Area District Library	4,008,838
Capital Region Airport Authority	9,173,819
Carleton, Village of	625,205
Carrollton Township	1,799,570
Cascade Charter Township	4,014,533
Caseville, Village of	1,138,806
Caspian, City of	565,971
Cass County	14,283,470
Cass County Medical Care Facility	4,352,304
Cass District Library	635,223
Cedar Springs, City of	2,102,740
Center Line, City of	4,543,769
Central Dispatch of Muskegon County	3,626,925
Central Lake, Village of	63,103
Central Michigan District Health Department	10,897,767
Central Wayne County Sanitation Authority	2,386,069
Charlevoix County	22,757,102
Charlevoix County Road Commission	4,223,637
Charlevoix, City of	7,073,006
Charlotte District Library	296,405
Charlotte, City of	10,940,475
Cheboygan County	13,325,759
Cheboygan County Road Commission	8,422,794
Cheboygan, City of	5,688,208
Chelsea Area Fire Authority	178,660
Chelsea, City of	5,932,847
Chesaning, Village of	520,981
Chesterfield Charter Township	14,141,880
Chesterfield Township Library	845,512
Chikaming Township	1,024,990
Chippewa County	23,712,981
Chippewa County Road Commission	9,028,322
Chippewa River District Library	1,917,662
Chocolay, Charter Township of	712,694
Clare County	11,864,135
Clare County Road Commission	6,563,903
Clare County Transit Authority	92,515
Clare, City of	4,281,542
Clawson, City of	9,568,226
Clay Township	4,122,555
Clearwater Township	74,538
Clinton County	27,519,569
Clinton County Road Commission	10,432,124
Clinton Township	37,724,966
Clinton, Village of	3,735,067
Clinton-Eaton-Ingham Community Mental Health	80,639,988
Clio, City of	650,379
Coldwater Board of Public Utilities	6,268,242

**Schedule of Participating Municipalities – Defined Benefit Plan
For the Year Ended December 31, 2010**

Name	Total Reserves
Coldwater, City of	11,318,283
Coleman, City of	1,119,837
Coloma Charter Township	1,053,340
Coloma, City of	381,425
Columbiaville, Village of	243,171
Community Mental Health for Central Michigan	39,787,446
Coopersville Area District Library	196,733
Coopersville, City of	1,629,780
Corunna, City of	2,528,434
Corwith Township	45,067
Covert Township	518,681
Crawford County	9,552,154
Crawford County Road Commission	2,767,461
Crawford County Transit Authority	3,050,290
Croswell, City of	4,254,219
Crystal Falls Community Hospital	3,541,203
Crystal Falls, City of	4,892,451
Davison Richfield Senior Citizens Authority	139,893
Davison Township	5,360,118
Davison, City of	4,593,209
Dearborn, City of	1,947,710
Deerfield, Village of	939,445
Delta Charter Township	6,674,761
Delta County	20,775,419
Delta County Road Commission	4,006,112
Delta-Menominee District Health Department	6,644,032
De Tour, Village of	183,371
Detroit Housing Commission	8,177,306
DeWitt Charter Township	2,314,340
DeWitt, City of	1,954,255
Dexter Area Fire Department	372,396
Dexter Township	459,366
Dexter, Village of	2,266,092
Dickinson County	15,320,962
Dickinson County Road Commission	5,018,262
Dickinson-Iron District Health Department	4,739,931
Dimondale, Village of	531,783
District Health Department No. 4	10,245,566
District Health Department No. 10	13,014,629
District Health Department No. 2	4,394,123
Douglas, Village of	1,454,179
Dowagiac District Library	41,518
Dowagiac Housing Commission	136,551
Dowagiac, City of	7,831,364
Drummond Island Township	70,838
Dryden, Village of	292,747
Dundee, Village of	2,433,290
Durand, City of	3,101,265

**Schedule of Participating Municipalities – Defined Benefit Plan
For the Year Ended December 31, 2010**

Name	Total Reserves
East China, Township of	4,269,765
East Grand Rapids, City of	9,704,930
East Jordan, City of	2,815,194
East Lansing, City of	85,263,176
Eastern Upper Peninsula Transportation Authority	4,469,183
Eastpointe Housing Commission	427,917
Eaton County	62,067,902
Eaton County Medical Care Facility	5,395,492
Eaton Rapids, City of	6,741,782
Eau Claire, Village of	189,714
Ecorse, City of	18,902,550
Elderly Housing Commission	1,533,420
Elkton, Village of	431,054
Elsie, Village of	170,414
Emmett County Road Commission	6,964,635
Emmett, Charter Township of	2,305,785
Erie, Township of	5,004
Escanaba, City of	17,289,794
Essexville, City of	4,401,811
EUP Regional Planning & Development Commission	83,784
Ewart Local Development Finance Authority	277,248
Ewart, City of	1,199,873
Farmington Community Library	5,906,215
Farmington, City of	17,112,989
Farwell, Village of	239,476
Fenton, City of	8,078,827
Ferndale Housing Commission	237,010
Ferrysburg, City of	962,109
Flat Rock, City of	10,105,185
Flint Charter Township	14,890,229
Flint Public Library	896,083
Flushing, Charter Township of	2,818,030
Flushing, City of	7,972,988
Forsyth Township	2,648,441
Forty-One B District Court	5,135,008
Fowler, Village of	200,077
Fowlerville District Library	194,872
Fowlerville, Village of	2,609,222
Frankenmuth, City of	8,188,942
Frankfort, City of	1,462,048
Franklin, Village of	2,956,280
Fraser, City of	256,848
Fremont Area District Library	635,799
Fremont, City of	5,302,942
Gaastra, City of	125,205
Garden City	48,196,151
Gaylord, City of	5,994,654
Genesee Charter Township	7,202,785

**Schedule of Participating Municipalities – Defined Benefit Plan
For the Year Ended December 31, 2010**

Name	Total Reserves
Genoa Township	107,215
Gladstone, City of	5,118,497
Gladwin City Housing Commission	1,548,104
Gladwin County	10,614,927
Gladwin County District Library	666,536
Gladwin County Road Commission	7,452,031
Gladwin, City of	682,705
Gogebic-Iron Wastewater Authority	1,428,027
Grand Beach, Village of	58,872
Grand Blanc Charter Township	7,527,280
Grand Blanc, City of	6,334,724
Grand Haven, City of	59,621,436
Grand Ledge Emergency Services	656,970
Grand Ledge, City of	1,270,272
Grand Rapids Housing Commission	999,872
Grand Traverse County	34,952,746
Grand Traverse County Road Commission	5,979,648
Grand Traverse Pavilions	14,692,997
Grandville, City of	10,134,342
Gratiot County	14,861,519
Gratiot County Road Commission	9,185,163
Grayling, City of	2,302,694
Green Oak Township	1,583,111
Greenville, City of	3,392,670
Grosse Ile Township	14,920,492
Grosse Pointe Park, City of	21,578,311
Grosse Pointe-Clinton Refuse Disposal Authority	2,563,737
Groveland Township	1,012,349
Hackley Public Library	70,988
Hamburg Township	1,557,713
Hamtramck Housing Commission	3,112,982
Hamtramck, City of	46,759,323
Hancock, City of	1,407,038
Harbor Beach, City of	4,632,645
Harbor Springs Sewage Authority	452,554
Harbor Springs, City of	2,199,006
Harrison, City of	1,786,966
Hartland Deerfield Tyrone Fire Authority	235,692
Hastings, City of	7,884,711
Hazel Park, City of	36,762,093
Health Source of Saginaw	27,843,966
Helen Newberry Joy Hospital	9,808,038
Henika District Library	332,847
Herrick District Library	4,492,814
Hiawatha Community Mental Health Authority	10,772,632
Hillsdale County	2,784,023
Hillsdale County Road Commission	4,914,203
Hillsdale, City of	15,849,266

**Schedule of Participating Municipalities – Defined Benefit Plan
For the Year Ended December 31, 2010**

Name	Total Reserves
Holland Hospital	2,167,914
Holland Swimming Pool Authority	473,222
Holland, City of	69,561,575
Holly, Village of	6,477,003
Homer, Village of	1,051,317
Houghton County	12,405,790
Houghton County Road Commission	2,429,053
Houghton Lake Public Library	391,952
Houghton, City of	2,003,032
Howard City, Village of	508,363
Howard Township	58,685
Howell Area Fire Authority	506,074
Howell Carnegie District Library	824,269
Howell, City of	10,552,175
Hudsonville, City of	1,144,418
Huntington Woods, City of	10,105,684
Hurley Medical Center	145,148,969
Huron Charter Township	9,029,408
Huron County	54,135,261
Huron County Road Commission	15,123,165
Imlay, City of	3,681,429
Independence Township	4,987,506
Indianfields Township	28,865
Ingham County	195,913,626
Ingham County Road Commission	19,813,634
Interurban Transit Authority	843,222
Ionia Community Library	302,669
Ionia County	4,309,492
Ionia County Road Commission	4,289,808
Ionia Housing Commission	682,768
Ionia, City of	6,740,753
Iosco County	13,939,658
Iosco County Road Commission	5,572,618
Iron County	18,707,122
Iron County Housing Commission	345,500
Iron County Road Commission	4,549,444
Iron Mountain, City of	5,369,341
Iron Mountain-Kingsford Sewage Treatment	510,996
Iron River, City of	4,977,800
Ironwood, City of	9,136,878
Isabella County	29,837,996
Isabella County Road Commission	7,163,556
Isabella County Transportation Commission	1,449,728
Ishpeming Area Joint Wastewater Treatment Facility	710,378
Ishpeming Township	790,711
Ishpeming, City of	6,874,715
Ithaca, City of	2,566,438
Jackson District Library	5,094,794

**Schedule of Participating Municipalities – Defined Benefit Plan
For the Year Ended December 31, 2010**

Name	Total Reserves
Jackson Transportation Authority	3,666,603
Jordan Valley District Library	146,844
Kalamazoo Lake Sewer & Water Authority	824,612
Kalamazoo Public Library	2,921,536
Kalamazoo, Charter Township of	6,763,879
Kalkaska County	11,513,652
Kalkaska County Road Commission	3,973,661
Kalkaska Public Transit Authority	1,428,505
Kalkaska, Village of	2,466,311
Keego Harbor, City of	2,075,441
Kent County Road Commission	158,328
Keweenaw County	1,415,303
Keweenaw County Road Commission	3,465,865
Kinde, Village of	69,518
Kingsford, City of	4,472,965
Lac Vieux Desert Band of Lake Superior Chippewa Indians	118,962
Laingsburg, City of	265,377
Lake County	7,446,446
Lake County Road Commission	4,865,828
Lake Linden, Village of	603,238
Lake Odessa, Village of	165,781
Lake Orion, Village of	2,624,188
Lakeland Library Cooperative	755,221
Lakeshore Coordinating Council	861,519
L'Anse, Village of	2,628,475
Lansing Charter Township	4,825,361
Lansing Housing Commission	6,487,566
Lapeer County	63,225,939
Lapeer County Road Commission	7,521,852
Lapeer District Library	2,550,132
Lapeer, City of	12,151,457
Lathrup Village, City of	4,677,830
Laurium, Village of	979,501
Lawrence, Village of	129,426
Leelanau County	11,916,228
Leelanau County Road Commission	2,773,266
Leoni Township	3,971,122
Leslie Township	169,735
Leslie, City of	988,753
Lexington, Village of	1,220,573
Library Network	4,671,650
Lima Township	287,333
Litchfield, City of	903,694
Livingston County	61,468,217
Livingston County Community Mental Health Authority	12,276,552
Livingston County Road Commission	13,779,526
Looking Glass Regional Fire Authority	109,180
Loutit District Library	1,144,537

**Schedule of Participating Municipalities – Defined Benefit Plan
For the Year Ended December 31, 2010**

Name	Total Reserves
Lowell, City of	7,309,369
Luce County	3,118,214
Luce County Road Commission	3,974,211
Luce-Mackinac-Alger-Schoolcraft District Health Department	6,820,028
Ludington, City of	11,087,009
Ludington-Mason District Library	1,302,148
Luna Pier, City of	2,364,374
Lyons, Village of	92,593
Mackinac County	8,914,238
Mackinac County Housing Commission	182,767
Mackinac County Road Commission	3,597,204
Mackinac Straits Hospital & Health Center	13,434,257
Mackinaw City, Village of	525,459
Madison Heights, City of	22,828,429
Madison Township	642,099
Manlius Township	239,479
Manistee County	24,796,295
Manistee County Road Commission	4,866,990
Manistee Housing Commission	390,220
Manistee, City of	12,634,852
Manistique, City of	5,292,975
Manton, City of	629,980
Marenisco Township	180,693
Marine City, City of	43,524
Marlette, City of	913,479
Marquette Board of Light & Power	20,108,073
Marquette Charter Township	1,024,877
Marquette County	46,830,415
Marquette County Airport	1,447,942
Marquette County Road Commission	9,655,097
Marquette County Transit Authority	2,241,217
Marquette Waste Management	1,395,278
Marquette, City of	26,701,920
Marshall Area Fire/Ambulance Authority	295,329
Marshall District Library	164,419
Marshall, City of	20,033,186
Mason County	30,106,617
Mason County Road Commission	3,275,097
Mason, City of	9,566,167
Mason-Oceana 911 Central Dispatch	1,108,978
Mastodon Township	40,526
MBS International Airport	5,170,982
Meceola Central Dispatch	1,194,203
Mecosta County	23,703,391
Mecosta County Medical Center	7,959,997
Mecosta County Road Commission	6,745,729
Melvindale Housing Commission	632,500
Melvindale, City of	15,978,224

**Schedule of Participating Municipalities – Defined Benefit Plan
For the Year Ended December 31, 2010**

Name	Total Reserves
Menominee County	11,150,966
Menominee County Road Commission	2,231,715
Menominee, City of	6,385,312
Meridian Charter Township	23,383,205
Metamora Township	612,935
Michigan Grand River Watershed	7,437
Michigan Municipal Risk Management Authority	622,508
Michigan South Central Power Agency	7,547,200
Mid Michigan District Health Department	5,964,896
Mid Peninsula Library Cooperative	193,361
Middleville, Village of	979,508
Midland Authority for Central Dispatch	1,486,368
Midland County Road Commission	8,773,337
Midland, City of	68,935,123
Mid-Michigan Library League	528,085
Milan Library	218,002
Milan, City of	5,256,493
Milford, Village of	6,587,926
Millington, Village of	1,110,401
Missaukee County	2,748,013
Monroe Housing Commission	853,597
Montague, City of	2,557,895
Montcalm County Road Commission	8,301,853
Montmorency County	5,033,728
Montmorency-Oscoda-Alpena Solid Waste Management	617,277
Montrose, City of	429,178
Mt. Morris Charter Township	13,968,739
Mt. Pleasant, City of	16,076,591
Muir, Village of	244,365
Mundy, Charter Township	3,404,156
Municipal Employees' Retirement System of Michigan	9,757,623
Munising, City of	4,612,645
Muskegon Area District Library	1,023,303
Muskegon County	148,821,662
Muskegon County Road Commission	13,948,256
Muskegon Heights Housing Commission	643,876
Muskegon Heights, City of	22,070,710
Muskegon Housing Commission	416,502
Muskegon, Charter Township of	10,868,603
Muskegon, City of	76,368,344
Negaunee Township	186,933
Negaunee, City of	6,149,125
Network 180	18,828,016
New Baltimore, City of	5,129,088
New Buffalo, City of	1,160,651
Newaygo County	16,478,813
Newaygo County Mental Health	2,908,300
Newaygo County Road Commission	5,652,569

**Schedule of Participating Municipalities – Defined Benefit Plan
For the Year Ended December 31, 2010**

Name	Total Reserves
Newaygo Medical Care Facility	8,506,848
Newaygo Soil & Water Conservation District	92,954
Newberry, Village of	2,348,392
Niles District Library	648,757
North Houghton County Water & Sewage Authority	249,670
North Michigan Community Mental Health	42,570
North Muskegon, City of	3,995,366
Northern Lakes Community Mental Health	18,013,462
Northfield Township	762,554
Northpointe Behavioral Healthcare System	7,944,766
Northville Charter Township	14,675,714
Northville District Library	1,569,653
Northville, City of	9,802,832
Northwest Michigan Community Health Agency	3,846,154
Northwestern Regional Airport Commission	3,006,658
Norton Shores, City of	17,228,662
Norway, City of	7,438,256
Novi, City of	42,339,138
Oceana County	21,832,368
Oceola Township	501,010
Ogemaw County	16,693,863
Ogemaw County EMS Authority	1,539,682
Ogemaw County Road Commission	4,277,111
Olive Township	239,529
Onaway, City of	495,312
Ontonagon County	5,366,157
Ontonagon County Economic Development Corporation	69,070
Ontonagon County Road Commission	8,045,550
Ontonagon, Village of	10,086,953
Orchard Lake, City of	3,353,682
Oronoko Charter Township	1,049,150
Osceola County	10,134,285
Osceola County Road Commission	4,491,775
Oscoda Charter Township	2,133,470
Oscoda County	5,446,392
Oscoda -Wurtsmith Airport Authority	200,284
Otisville, Village of	740,770
Otsego County	10,393,401
Otsego County Road Commission	5,520,092
Ottawa County	131,008,777
Ottawa County Central Dispatch Authority	1,494,220
Ottawa County Road Commission	28,092,110
Otter Lake, Village of	64,044
Owosso, City of	3,130,463
Oxford Fire Department	2,399,559
Oxford, Village of	1,600,739
Parchment, City of	2,113,126
Pathways	26,876,463

**Schedule of Participating Municipalities – Defined Benefit Plan
For the Year Ended December 31, 2010**

Name	Total Reserves
Paw Paw Lake Regional Joint Sewage Disposal Board	945,917
Paw Paw, Village of	5,345,962
Pellston, Village of	205,567
Pennfield Charter Township	1,164,601
Pentwater, Village of	1,106,782
Perrinton, Village of	49,237
Petersburg, City of	238,040
Petoskey, City of	14,996,227
Pewamo, Village of	120,351
Pigeon, Village of	611,349
Pinckney, Village of	1,539,845
Pinconning, City of	1,366,889
Pittsfield Charter Township	12,752,219
Pleasant Ridge, City of	2,357,268
Plymouth District Library	2,856,699
Plymouth, Charter Township of	14,251,259
Plymouth, City of	7,484,722
Pokagon Band of Potawatomi Indians	5,766,797
Port Austin Area Sewer & Water Authority	132,324
Port Austin, Village of	429,108
Port Huron Charter Township	1,680,135
Port Huron Housing Commission	4,213,457
Port Huron, City of	82,330,547
Port Sanilac, Village of	499,200
Port Sheldon Township	556,553
Portland, City of	6,122,142
Pottersville, City of	301,856
Presque Isle County	6,649,164
Presque Isle County Road Commission	4,879,342
Pride Youth Programs	406,227
Ravenna, Village of	347,057
Reading, City of	236,848
Redford Township	29,677,851
Redford Township District Library	1,527,520
Reed, City of	3,183,069
Richfield Township (Genesee County)	1,205,231
Richfield Township (Roscommon County)	1,754,180
Richland Township	1,914,444
Richmond, City of	1,046,674
Rochester, City of	12,685,798
Rockford, City of	3,871,836
Rockwood, City of	1,790,188
Rogers City, City of	5,238,440
Romeo District Library	1,440,022
Romeo, Village of	3,811,173
Romulus, City of	17,152,209
Roosevelt Park, City of	2,689,674
Roscommon County	13,952,081

**Schedule of Participating Municipalities – Defined Benefit Plan
For the Year Ended December 31, 2010**

Name	Total Reserves
Roscommon County Transit Authority	1,493,492
Rose City, City of	502,529
Rose Township	241,657
Royal Oak Township	3,917,571
Saginaw Charter Township	9,646,722
Saginaw County	78,037,985
Saginaw County 911 Central Authority	6,485,809
Saginaw County Community Mental Health Authority	9,031,811
Saginaw County Road Commission	20,969,511
Saginaw Housing Commission	1,771,155
Saginaw Public Libraries	1,261,426
Saginaw Transit System Authority	1,236,748
Saginaw, City of	60,564,905
Saginaw-Midland Municipal Waste & Soil Commission	2,373,543
Saline, City of	12,005,868
Sandusky District Library	152,050
Sandusky, City of	1,758,037
Sanilac County Road Commission	4,209,060
Saranac Housing Commission	341,566
Saugatuck Township	267,314
Saugatuck Township Fire District	319,576
Saugatuck, City of	1,090,692
Sault Ste. Marie Housing Commission	1,051,511
Sault Ste. Marie, City of	18,133,507
Schoolcraft County	16,547,919
Schoolcraft County Road Commission	5,801,405
Schoolcraft Memorial Hospital	12,942,594
Scio Township	1,177,957
Scottville, City of	376,759
Sebewaing, Village of	3,833,241
Shepherd, Village of	383,526
Shiawassee Council on Aging	498,781
Shiawassee County	51,470,229
Shiawassee County Community Mental Health Authority	8,111,825
Shiawassee County Road Commission	9,655,003
Shiawassee District Library	1,328,049
Sims-Whitney Utilities Authority	155,002
South Haven Emergency Services Alliance	2,838,389
South Haven, City of	18,656,157
South Lyon, City of	6,728,273
Southeast Michigan Area Rapid Transit	135,506,789
Southeast Michigan Council of Governments	22,797,405
Southeast Oakland County Resource Recovery Authority	3,519,911
Southeast Oakland County Water Authority	4,639,059
Southern Clinton County Municipal Utilities Authority	2,353,801
Southwest Shiawassee Emergency Services Alliance	302,529
Sparta, Village of	2,007,029
Spring Lake, Village of	1,863,345

**Schedule of Participating Municipalities – Defined Benefit Plan
For the Year Ended December 31, 2010**

Name	Total Reserves
Spring Lake District Library	1,010,169
Springfield, City of	6,419,105
St. Charles, Village of	1,971,342
St. Clair Area Fire Authority	78,983
St. Clair Housing Commission	332,966
St. Clair Shores Housing Commission	1,070,894
St. Clair, City of	9,935,802
St. Ignace, City of	5,393,835
St. Johns, City of	8,226,743
St. Joseph County	26,965,593
St. Louis Housing Commission	423,935
St. Louis, City of	4,618,006
Stambaugh Township	60,618
Standish, City of	1,280,554
Stanton, City of	95,038
Stephenson, City of	166,008
Sterling, Village of	218,437
Stockbridge, Village of	404,235
Sturgis Housing Commission	36,425
Summit Township	6,057,243
Sumpter Township	3,037,037
Superior Charter Township	3,301,374
Superiorland Library Cooperative	723,946
Swan Creek Township	383,497
Swartz Creek, City of	6,814,560
Sylvan Lake, City of	1,499,982
Tawas Police Authority	516,161
Taylor Housing Commission	280,615
Thirty-Fifth District Court	2,605,268
Thirty-Fourth District Court	3,429,483
Three Rivers, City of	9,607,404
Tittabawassee, Township of	1,693,818
Traverse Area District Library	3,426,414
Traverse City, City of	35,772,109
Trenton, City of	24,964,265
Tri-County Aging Consortium	5,728,417
Tri-County Office on Aging	272,242
Tuscarora Township	805,377
Tuscola County	20,138,287
Tuscola County Community Mental Health	9,775,323
Tuscola County Health Department	5,869,169
Tuscola County Medical Center Facility	9,714,425
Tuscola County Road Commission	2,656,900
Twenty-First Judicial District Court	1,159,753
Twenty-Sixth Judicial Circuit Court	2,653,027
Twenty-Third Judicial District Court	2,268,087
Twin Cities Public Safety Authority	97,873
Udly, Village of	415,419

**Schedule of Participating Municipalities – Defined Benefit Plan
For the Year Ended December 31, 2010**

Name	Total Reserves
Utica, City of	2,510,981
Van Buren County	13,897,862
Van Buren District Library	1,156,236
Van Buren Township	6,982,500
Vassar, City of	4,188,053
Vevay Township	274,645
Vicksburg District Library	69,226
Vicksburg, Village of	1,389,571
Vienna Charter Township	793,510
Village of Marion	365,775
Wakefield, City of	2,534,871
Walker, City of	8,799,689
Walled Lake, City of	4,032,335
Washtenaw County	38,244,112
Washtenaw County Road Commission	28,508,361
Wayland, City of	3,631,088
Wayne Housing Commission	345,723
Wayne, City of	62,004,182
Webberville, Village of	215,939
West Branch District Library	279,269
West Branch, City of	2,804,013
West Iron County Sewer Authority	548,731
West Michigan Community Mental Health System	3,867,199
West Michigan Shoreline Regional Development Commission	3,498,118
Western Upper Peninsula Development Regional Community	925,095
Western Upper Peninsula District Health Department	7,588,113
Westland, City of	49,414,657
Westphalia, Village of	298,433
Wexford County	14,617,355
Wexford County Road Commission	6,118,483
White Cloud Community Library	265,313
White Cloud, City of	431,008
White Cloud/Sherman Utilities	137,320
White Lake Charter Township	14,394,730
White Pigeon, Village of	84,639
White Pine Library	108,394
Whitehall, City of	3,336,113
Willard Public Library	1,379,321
Williamston, City of	2,444,086
Wixom, City of	13,437,386
Wolverine Lake, Village of	1,137,711
Ypsilanti Community Utilities Authority	24,780,446
Ypsilanti Housing Commission	594,227
Ypsilanti, City of	15,302,563
Ypsilanti, Township of	12,047,112
Total Reserves	\$5,973,038,840
Average Size Reserves	\$8,330,598

**Schedule of Participating Municipalities – Defined Contribution Plan
For the Year Ended December 31, 2010**

Name	Total Reserves
Alaiedon Township	\$6,224
Albion District Library	67,008
Albion, City of	382,089
Alcona County	812,749
Allegan County	19,942,066
Allen Park, City of	456,270
Alma, City of	441,235
Alpena County	374,377
Alpena Regional Medical Center	14,074,920
Arenac County	154,535
Au Gres, City of	105,748
Baraga County Memorial Hospital	1,684,119
Battle Creek, City of	683
Bay Area Transportation Authority	696,411
Bay City Housing Commission	984,777
Bay City, City of	11,778,711
Beaverton, City of	51,243
Beecher Metropolitan District Sewer and Water	65,334
Belding, City of	60,198
Bellevue Area District Library	17,498
Benzie Transportation Authority	39,191
Benzie/Leelanau District Health Department	1,364,446
Big Rapids Housing Commission	152,651
Big Rapids, City of	1,460,453
Bloomfield Hills, City of	17,340
Boyne City, City of	116,394
Breitung, Charter Township of	293,365
Brighton Area Fire Authority	42,482
Brighton, Charter Township of	22,149
Brown City, City of	57,157
Canton, Charter Township of	22,879
Capital Area District Library	597,095
Central Michigan District Health Department	291,037
Central Wayne County Sanitation Authority	2,706
Charlotte, City of	115,837
Chelsea Area Construction Agency	95,956
Chelsea, City of	1,199,490
Chesaning, Village of	3,705
Chippewa County	1,414
Clawson, City of	1,240,074
Clinton County Road Commission	79,441
Clinton County	327,734
Clinton-Eaton-Ingham Community Mental Health	1,358,874
Coldwater Board of Public Utilities	1,164,219
Coldwater Housing Commission	73,048
Coldwater, City of	3,915,113
Crawford County	63,127
Delta County	506,957

**Schedule of Participating Municipalities – Defined Contribution Plan
For the Year Ended December 31, 2010**

Name	Total Reserves
Detroit Wayne County Health Authority	275,098
DeWitt Charter Township	39,182
DeWitt, City of	26,785
Dickinson-Iron District Health Department	77,625
District Health Department No. 4	713,602
District Health Department No. 10	5,731,529
District Health Department No. 2	884,609
Douglas, Village of	32,740
Dowagiac District Library	3,692
Dowagiac, City of	53,966
East Grand Rapids, City of	7,727,849
East Lansing, City of	9,354,143
Elkton, Village of	148,769
Emmet County Road Commission	1,485,318
Escanaba, City of	383,804
Farmington Community Library	942,988
Fenton, City of	59,409
Ferndale Housing Commission	960
Flint, Charter Township of	1,352,687
Flushing, Charter Township of	529
Flushing, City of	48,509
Fowlerville, Village of	285,275
Frankenmuth, City of	2,884
Genesee County Land Bank Authority	329,259
Gibraltar, City of	27,874
Gladstone, City of	1,272,696
Grand Rapids Housing Commission	2,429,122
Grand Traverse County Road Commission	2,478,484
Grand Traverse County	16,313,923
Grandville, City of	4,782,976
Gratiot County	2,346,559
Grayling, City of	257,284
Hamtramck, City of	60,033
Hartland Township	208,725
Hastings, City of	34,894
Hazel Park, City of	22,061
Health Source of Saginaw	583,158
Helen Newberry Joy Hospital	772,739
Helena Township Public Library	14,878
Hiawatha Behavioral Health	847,647
Highland Park Housing Commission	168,512
Highland Park, City of	3,063,853
Holland, City of	5,673,397
Howard City, Village of	69,550
Howell Area Fire Authority	61,372
Howell, City of	196,285
Hudsonville, City of	1,436,763
Huntington Woods, City of	1,365,256

**Schedule of Participating Municipalities – Defined Contribution Plan
For the Year Ended December 31, 2010**

Name	Total Reserves
Huron County Economic Development Corporation	6,594
Iosco County	529,850
Iron County	223,313
Iron River, City of	1,579
Isabella County	1,518,330
Ithaca, City of	129,151
Jackson County	427,119
Kimball Township	282,084
Lake Erie Transportation Commission	73,129
Lake Orion, Village of	164,380
Lakeland Library Cooperative	95,311
Larkin Charter Township	281,183
Leslie, City of	27,037
Litchfield, City of	10,228
Livingston County	2,460,776
Logan Township	3,098
Macatawa Area Express Transportation Authority	93,465
Mackinac County Road Commission	94,659
Mackinac County	292,310
Madison Heights, City of	62,277
Manistee, City of	151,871
Marquette Board of Light & Power	1,819,855
Marquette County Airport	209,426
Marquette County	6,780,247
Marquette County Transit Authority	22,333
Marquette, City of	1,045,663
Marshall, City of	20,177
Mason County	1,274,927
MBS International Airport	1,082
Mecosta County	2,786,780
Melvindale, City of	130,151
Mid Michigan District Health Department	97,098
Midland County Road Commission	3,358
Midland, City of	731,184
Milan, City of	744,981
Milford, Village of	1,282,969
Montcalm County	3,300,299
Montrose Township	246,891
Mundy, Charter Township of	81,356
Muskegon County Road Commission	1,523
Muskegon County	153,115
Muskegon Heights, City of	44,237
Muskegon, City of	1,886,798
Newaygo County Mental Health	3,551,163
Newaygo County	5,145,865
North Kent Sewer Authority	124,285
Northern Lakes Community Mental Health	7,814,454
Northpointe Behavioral Health System	3,009

**Schedule of Participating Municipalities – Defined Contribution Plan
For the Year Ended December 31, 2010**

Name	Total Reserves
Northville, City of	1,293,192
Northwest Michigan Community Health Agency	7,725,894
Novi, City of	927,089
Oak Park, City of	548,575
Oceana County	40,206
Ogemaw County	201,755
Orchard Lake, City of	268,493
Oscoda-Wurtsmith Airport Authority	17,027
Otsego County	64,245
Ottawa County Central Dispatch Authority	967,623
Pathways	3,077,632
Paw Paw Housing Commission, Village of	63,122
Pere Marquette Charter Township	291,913
Plymouth, City of	9,755,655
Port Huron, City of	18,967
Prairieville Township	3,823
Quincy, Village of	112,441
Richland Community Library	60,395
Rochester, City of	59,025
Rogers City, City of	45,369
Romeo District Library	223,012
Roscommon County	1,589
Roscommon, Village of	269,788
Saginaw County 911 Central Authority	757,331
Saginaw County Mental Health Authority	10,705,723
Saginaw County	36,585,251
Saginaw Housing Commission	312,044
Saginaw, City of	6,287,074
Saginaw-Midland Municipal Water Corporation	158,196
Saline, City of	4,991
Sanilac Economic Alliance	26,820
Saugatuck, City of	55,609
Schoolcraft Memorial Hospital	5,223,539
Shiawassee County	151,220
Southfield Downtown Development Authority	194,780
Southwestern Michigan Commission	188,518
St. Johns, City of	145,661
St. Louis, City of	642,755
Standish, City of	156,928
Swartz Creek, City of	332,803
The Library Network	137,492
Traverse City, City of	28,295
Twenty-Fifth District Court	47,100
Walled Lake, City of	3,760
Watersmeet Township	45,539
West Michigan Community Mental Health System	17,853,334
Western Townships Utilities Authority	469,239
Western Upper Peninsula District Health Department	104,522

**Schedule of Participating Municipalities – Defined Contribution Plan
For the Year Ended December 31, 2010**

Name	Total Reserves
Williamston, City of	19,293
Wixom, City of	32,286
Woodhaven, City of	3,745,024
Total Reserves	\$297,912,699
Average Size Reserves	\$1,527,757

RESOURCES

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