



MERS... on the Frontier of Change



**Municipal Employees' Retirement System
of Michigan**

Summary Annual Financial Report

Fiscal Year Ended December 31, 2003



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Page Headers: Map courtesy of Great Lakes Information Network (www.great-lakes.net), Great Lakes Commission.

ABOUT MERS OF MICHIGAN

MERS is a statewide public employee retirement plan that provides both Defined Benefit (DB) and Defined Contribution (DC) plans.

MERS was created in 1945 by the Michigan Legislature.

MERS became an independent public non-profit corporation on August 15, 1996.

MERS 65,756 membership consists of municipal employees working for local units of government.



INVESTMENT OVERVIEW

MERS has a Defined Benefit Plan and a Defined Contribution Plan. As of December 31, 2003, the Defined Benefit Plan had net assets of \$4,071,997,180 and 60,569 members. The Defined Contribution Plan had net assets of \$117,481,177 and 5,187 members.

MERS Participating Municipalities as of December 31, 2003

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

Defined Benefit Plan

The primary investment objective is to maximize the long-term total rate of return on investments with a high degree of prudence and sufficient diversification to eliminate inordinate risks in conformity with the Michigan Public Employee Retirement System's Investment Act, 1965 PA 314, as amended.

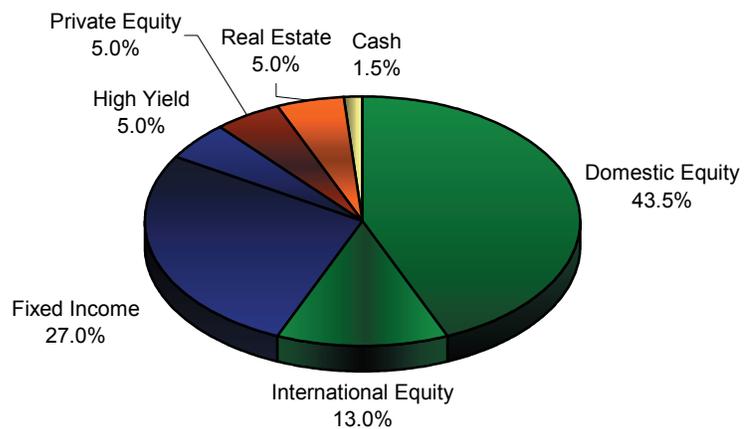
In addition, the Retirement Board has established Investment Guidelines that are updated annually. These guidelines communicate long-term objectives, goals and performance expectations to the staff, investment managers, consultants, and all other interested parties. The Retirement Board strives to add incremental return relative to the market by employing active management strategies where appropriate. Every effort is made to minimize costs to the portfolio with the use of skilled

internal and external resources without negatively affecting the performance of the portfolio.

The portfolio is constructed to reduce volatility in down markets, yet still participate significantly when the equity markets rebound. In 2003, MERS Defined Benefit portfolio had a one-year gross return of 24.7% allowing MERS to exceed its actuarial assumption rate of return for the ten-year period. The combination of passive and active management, diversification across asset classes, and disciplined adherence to its asset allocation plan has allowed MERS to provide value through multiple market cycles.

With long-term investment objectives as the central focus, the Retirement Board conducts a periodic asset allocation study to select a strategic asset allocation plan. The allocation plan designs a portfolio with the optimal mix of asset classes over the long-term horizon. The characteristics of expected return, risk and correlation of return for various asset categories are carefully projected. The result is a portfolio that is broadly diversified in domestic and international stocks, domestic fixed income securities, high yield bonds, real estate, private equity, and cash equivalents.

Municipal Employees' Retirement System of Michigan Target Asset Allocation

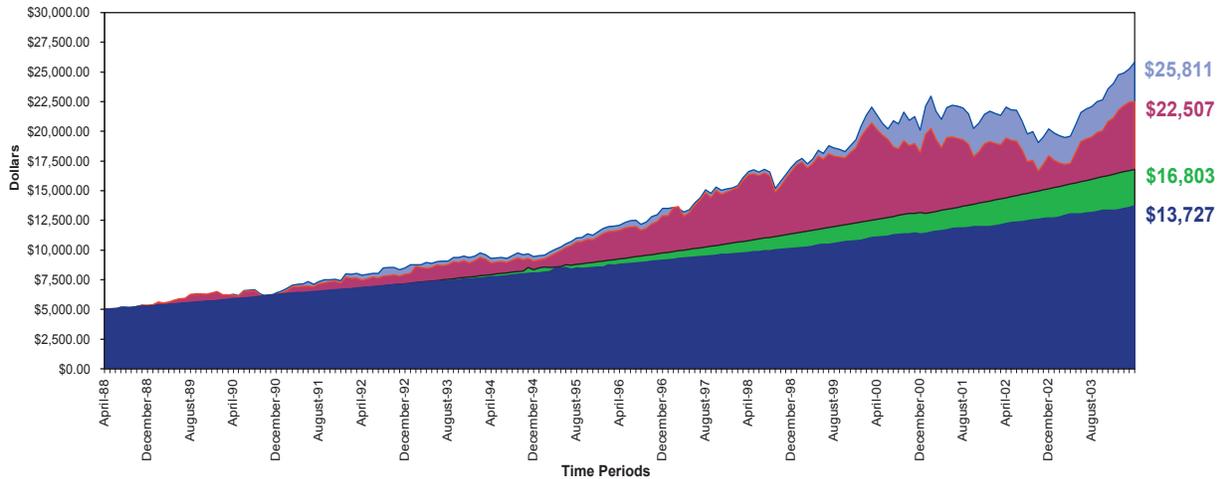


MERS Defined Contribution Plan

The plan is available for adoption by all MERS member municipalities. It is an alternative option to MERS Defined Benefit Plan. Each member is responsible for directing the investment of his or her accumulated account balance. Members receive investment performance information from MERS third-party administrator.



Example of Growth of \$5000 in MERS Defined Benefit Portfolio over 15 Years



	MERS TOTAL MARKET FUND
	MERS Policy Benchmark = 27% Russell 1000, 10% Russell 2000, 5% S&P 400, 5% 1 st Boston, 13% MS ACWI (Ex-U.S.), 27% LB Agg, 5% ML HY Master II, 5% MERS RE Blend, 3% 90 Day T Bill
	Actuarial Assumption 8%
	Consumer Price Index PLUS 3.5%

The chart above shows how an investment in MERS professionally managed portfolio over the last 15 years would have outperformed compared to three benchmarks. As illustrated, an investment in MERS Total Market Fund would have dramatically outperformed its broad market benchmarks.

MERS Customer Service for the year ended December 31, 2003

<u>Service</u>	<u>Customers Served</u>
Phone calls processed by the "Call Center"	18,105
Reirement seminar attendees	422
New membership applications	3,622
New retirees added during the year	1,555
New retirement applications processed	1,276
Deferred applications completed	631
Benefit estimates completed	1,757
Address changes	4,054
Refunds processed	845
Electronic fund transfer changes	672
Federal income tax withholding changes	443
Retirees receiving payroll checks	3,475
Retirees receiving electronic fund transfers	14,739



STATEMENT OF PLAN NET ASSETS

This brochure provides a summary of the MERS Comprehensive Annual Financial Report for the fiscal year ending December 31, 2003. The Annual Report is prepared in accordance with generally accepted accounting principles (GAAP) and is subject to external audit. The complete 2003 Annual Financial Report can be obtained by contacting MERS at:

MERS of Michigan
 1134 Municipal Way
 Lansing, MI 48917
 Toll free: 1 800 767-6377
 Website: www.mersofmich.com.

Assets are investments held by the plan. The investments are stated at market value. Liabilities represent “debts” of the plan, mostly investments MERS has agreed to purchase after December 31, 2003. Net Assets Held in Trust for Pension Benefits are maintained in several funds or accounts. Separate funds are maintained for (1) employee contributions, (2) employer contributions, (3) expenses of administration and maintenance of the plan, and (4) investment income and expenses to the plan.

MUNICIPAL EMPLOYEES' RETIREMENT SYSTEM OF MICHIGAN

Statement of Plan Net Assets As of December 31, 2003

	December 31, 2003		
	Defined Benefit Plan	Defined Contribution Plan	Total Pension Trust Funds
Assets			
Cash and Short-Term Investments	\$ 229,060,550	\$ 20,763,018	\$ 249,823,568
Receivables	163,172,256	1,046,687	164,218,943
Investments, at fair value	3,940,061,224	95,671,472	4,035,732,696
Invested Securities Lending Collateral	401,662,820		401,662,820
Prepaid Expenses	608,994		608,994
Capital Assets, at cost, Net of Accumulated Depreciation of \$8,459,661	3,010,286		3,010,286
Total Assets	<u>4,737,576,130</u>	<u>117,481,177</u>	<u>4,855,057,307</u>
Liabilities			
	<u>665,578,950</u>		<u>665,578,950</u>
Net Assets Held in Trust for Pension Benefits	<u>\$ 4,071,997,180</u>	<u>\$ 117,481,177</u>	<u>\$ 4,189,478,357</u>



THE STATEMENT OF CHANGES IN PLAN NET ASSETS

The Statement of Changes in Plan Net Assets summarizes the inflows and outflows of money to the plan throughout the year. Most of the additions are comprised of employee and employer contributions to MERS along with income earned from MERS investments. The outflows are comprised of payments to retirees, refunds of contributions to withdrawing members, and administrative expenses. The financial statements were audited by Andrews Hooper and Pavlik P.L.C.

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

	Year Ended December 31, 2003		
	Defined Benefit Plan	Defined Contribution Plan	Total Pension Trust Funds
Additions			
Contributions and Transfers	\$ 223,450,393	\$ 19,239,972	\$ 242,690,365
From Investment Activities			
Net appreciation in fair value of Plan Investments	736,699,848	17,570,152	754,270,000
Interest and Dividends	66,722,969		66,722,969
Other	4,855,907		4,855,907
Total Investing Activity Income	808,278,724	17,570,152	825,848,876
Less Investment Expenses	9,738,809		9,738,809
Net Investment Income from Investing Activities	798,539,915	17,570,152	816,110,067
From Security Lending Activities			
Security Lending Income	5,294,319		5,294,319
Security Lending Expenses	4,467,121		4,467,121
Net Income from Security Lending Activities	827,198	-	827,198
Total Net Investment Income	799,367,113	17,570,152	816,937,265
Miscellaneous Income	822,347		822,347
Total Additions	1,023,639,853	36,810,124	1,060,449,977
Deductions			
Benefits	221,137,612.00	4,089,817	225,227,429
Refunds of Contributions	3,542,264.00		3,542,264
Transfers, Special Expenses and Fees	4,217,630.00		4,217,630
Administrative Expense	8,049,500.00		8,049,500
Total Deductions	236,947,006.00	4,089,817	241,036,823
Net Increase	786,692,847	32,720,307	819,413,154
Net Assets Held in Trust for Pension Benefits			
Balance Beginning of Year	3,285,304,333	84,760,870	3,370,065,203
Balance End of Year	\$ 4,071,997,180	\$ 117,481,177	\$ 4,189,478,357



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

MISSION

“The Municipal Employees’ Retirement System of Michigan (MERS) exists to provide quality retirement and related services with cost-effective plan administration for members and beneficiaries.”

MERS Contact Information

Mailing Address:
1134 Municipal Way
Lansing, MI 48917

MERS Phone Numbers:
517-703-9030 or 1-800-767-6377

MERS Fax Number:
517-327-8336

Visit MERS Website at:
www.mersofmich.com