

MUNICIPAL EMPLOYEES'
RETIREMENT SYSTEM
OF MICHIGAN

**SUMMARY ANNUAL
FINANCIAL REPORT**

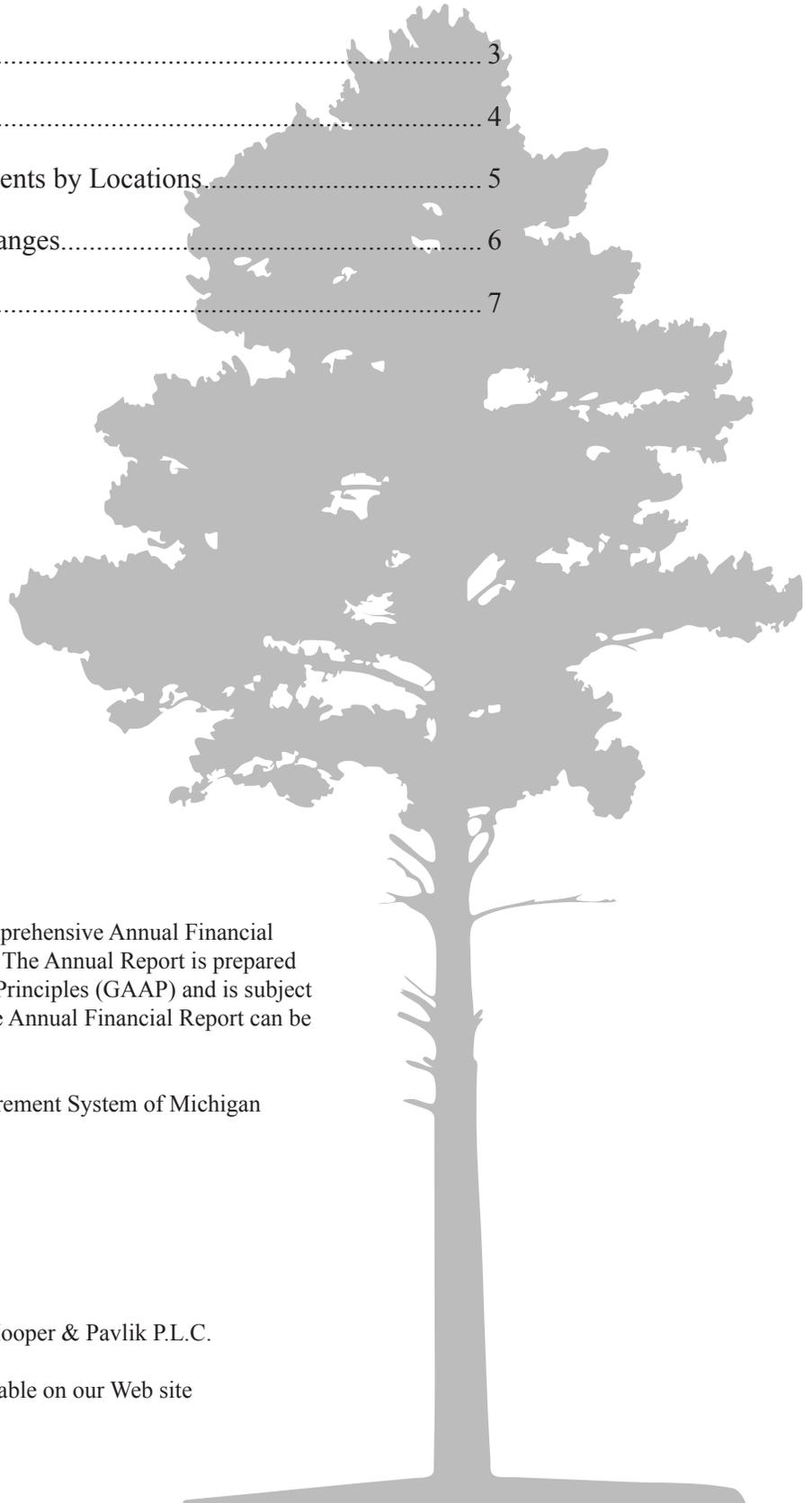
For the Fiscal Year Ended
December 31, 2005



Firmly
Rooted
and STILL
Growing

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This booklet provides a summary of the MERS Comprehensive Annual Financial Report for the fiscal year ended December 31, 2005. The Annual Report is prepared in accordance with Generally Accepted Accounting Principles (GAAP) and is subject to external audit. The complete 2005 Comprehensive Annual Financial Report can be obtained by contacting MERS:

By mail: Municipal Employees' Retirement System of Michigan
1134 Municipal Way
Lansing, MI 48917

By phone: (800) 767-6377

Web site: www.mersofmich.com

The financial statements were audited by Andrews Hooper & Pavlik P.L.C.

This Summary Annual Financial Report is also available on our Web site at www.mersofmich.com.

The White Pine shown on the cover was adopted as the state tree in 1955, nine years after MERS was established. The White Pine is considered to be the largest conifer in the northeastern United States.

Dear MERS Members:

It is a pleasure to present this consolidated version of the Comprehensive Annual Financial Report (CAFR) of the Municipal Employees' Retirement System of Michigan (MERS) for the fiscal year ended December 31, 2005.

Membership

For 59 years MERS has provided retirement plan administration to its member municipalities across Michigan. A voluntary statewide organization, municipalities continue to join the MERS membership roster. As of December 31, 2005, MERS membership included more than 63,000 employees and retirees from 659 municipalities across the state.

MERS Premier Health started quoting rates in May 2005 in an effort to give Michigan municipalities affordable health care. Approximately 30 municipalities have joined MERS Premier Health and are realizing a savings of \$700,000 across their communities.

Investment growth

MERS strict adherence to its strategic asset allocation model provides discipline as well as the ability to take advantage of opportunities that occur in the global market place. MERS conducts a strategic asset allocation study every five years and annually rebalances the assets to the selected target asset allocation model.

The portfolio returned 6.8% for the one-year period ending December 31, 2005, and 8.7% for the ten-year period. Stellar performance in the non-U.S. equity market summarized the equity returns for 2005. MERS international equity returned 19.3% versus the domestic portfolio at 3.8%. The portfolio ended the fiscal year with \$4.9 billion in assets.

Funding

The most recent actuarial valuation, as of December 31, 2003, revealed that the DB Plan has a funding percentage of 77%. MERS receives no state-funded contributions. Each member municipality is legally responsible for funding the pensions earned by their employees under the provisions of the Michigan Constitution and the MERS Plan Document. Each municipality is a separate trust account in MERS. The pension obligations are paid from that account. MERS does not fund or borrow from one municipality's account to cover another municipality's obligation to pay its pensioners.

Health care solutions

This was MERS second full year of offering employer adopted insurance products. Many MERS municipalities joined one or more of MERS insurance programs. Under the umbrella of MERS Group Health Solutions, these programs include: Health Care Savings Program, Retiree Health Funding Vehicle for Other Post Employment Benefits (OPEB), Group Life and Disability, and MERS Premier Health.

Technology

MERS continues to expand web site capabilities to ensure effective communication with its membership. We look back over MERS history with satisfaction and pride; we continue to work hard to provide excellent service, retain the trust of our membership and anticipate our members' needs. We provide employees with tools to make their retirement planning as effortless as possible. These tools include benefit calculators, online registration for various educational programs and up-to-the-minute information on all MERS plans and programs.

We provide forms and other information that make our employers' plan administration easy as well. The new Pension Administration system, "MERS Automated Pension System" (MAPS), is under construction. This software will replace the PeopleSoft pension administration software currently in use. The goal is to expand our capabilities to capture information, eliminate redundant entry and achieve superior data integrity.

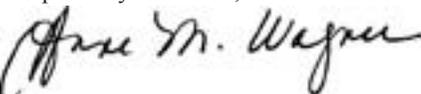
Awards

The Government Finance Officers Association of the United States and Canada (GFOA) "Award for Outstanding Achievement in Popular Annual Financial Reporting" was awarded to MERS for its Summary Financial Report for the year ended December 31, 2004.

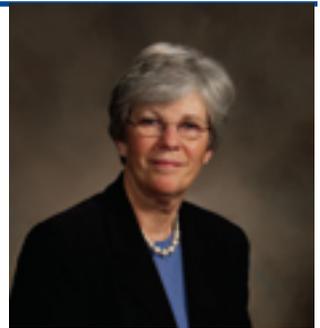
Acknowledgments

This booklet reflects the best combined efforts of the MERS staff under the leadership of the MERS Retirement Board. I want to express my gratitude to the staff, advisors and many other people and organizations who have worked so conscientiously to assure the success of the Municipal Employees' Retirement System of Michigan.

Respectfully submitted,



Anne M. Wagner
Chief Executive Officer



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Chief Executive Officer

Investment Overview

MERS has a Defined Benefit Plan and a Defined Contribution Plan. As of December 31, 2005, the Defined Benefit Plan had net assets of \$4,907,441,995 and 63,394 members. The Defined Contribution Plan had net assets of \$164,112,858 and 7,393 members.

MERS Participating Municipalities As of December 31, 2005	
Counties	66
Cities and Villages	252
Townships	74
County Road Commissions	56
Authorities, District and Others	195
Closed Groups	16
Total	659

Defined Benefit Plan

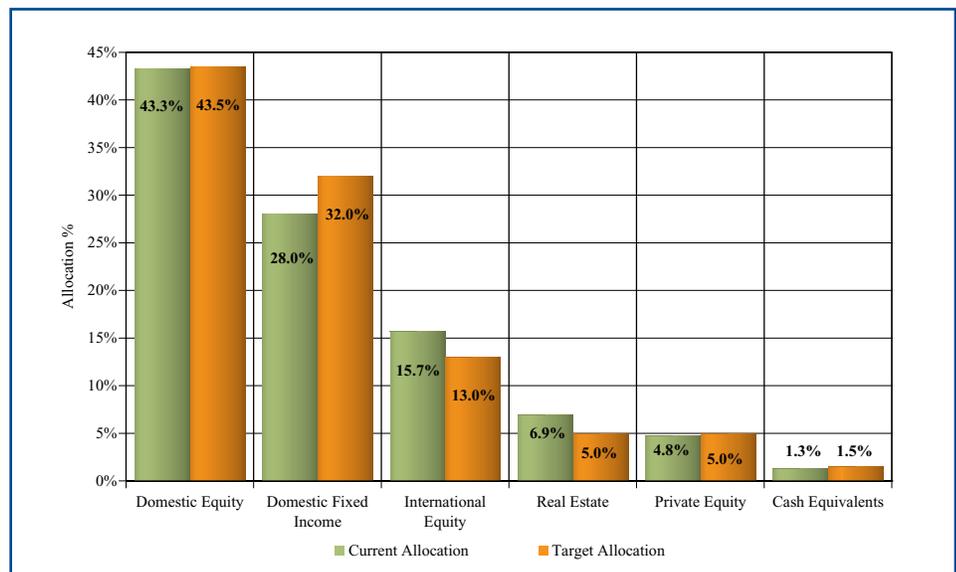
The primary investment objective is to maximize the long-term total rate of return on investments with a high degree of prudence and sufficient diversification to eliminate inordinate risks in conformity with the Michigan Public Employee Retirement System's Investment Act, 1965, PA 314, as amended.

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 2005, MERS Defined Benefit portfolio had a one-year gross return of 6.8% 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.

Current Asset Allocation vs. Target Allocation (as of December 31, 2005)



MERS Defined Contribution Plan

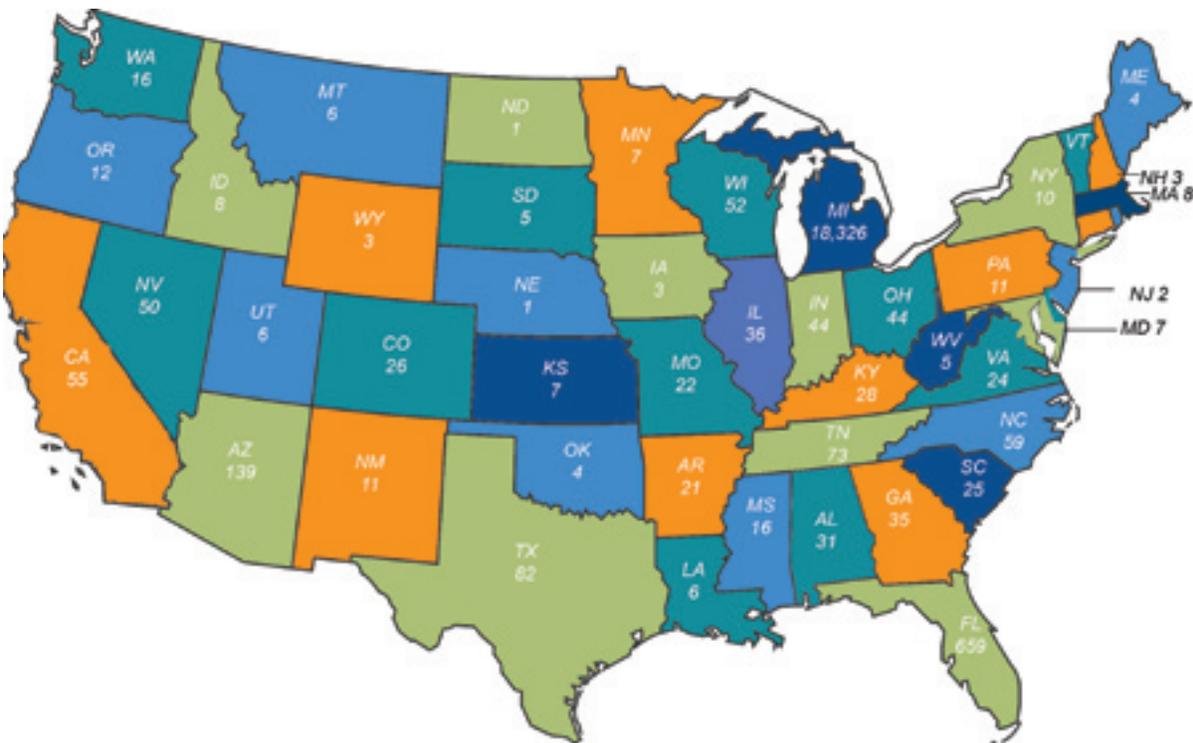
The plan is available for adoption by all MERS member municipalities. It is an alternative option to MERS Defined Benefit Plan. Each member is responsible for directing the investment of his or her accumulated account balance.

Investment Overview

MERS Customer Service for the year ended December 31, 2005

Service	Customers Served
Phone calls processed by the "Call Center"	19,500
Retirement seminar attendees	304
New membership applications	4,100
New retirees added during the year	1,550
New retirement applications processed	1,248
Deferred applications completed	529
Benefit estimates completed	2,680
Address changes	4,400
Refunds processed	834
Electronic fund transfer changes	1,150
Federal income tax withholding changes	890
Retirees receiving electronic fund transfers	17,100
Retirees receiving paper checks	2,860

Distribution of MERS Benefit Recipients by Locations



Recipients Outside Continental United States

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

Summary Plan Net Assets and Changes

Summary Comparative Statements of Plan Net Assets

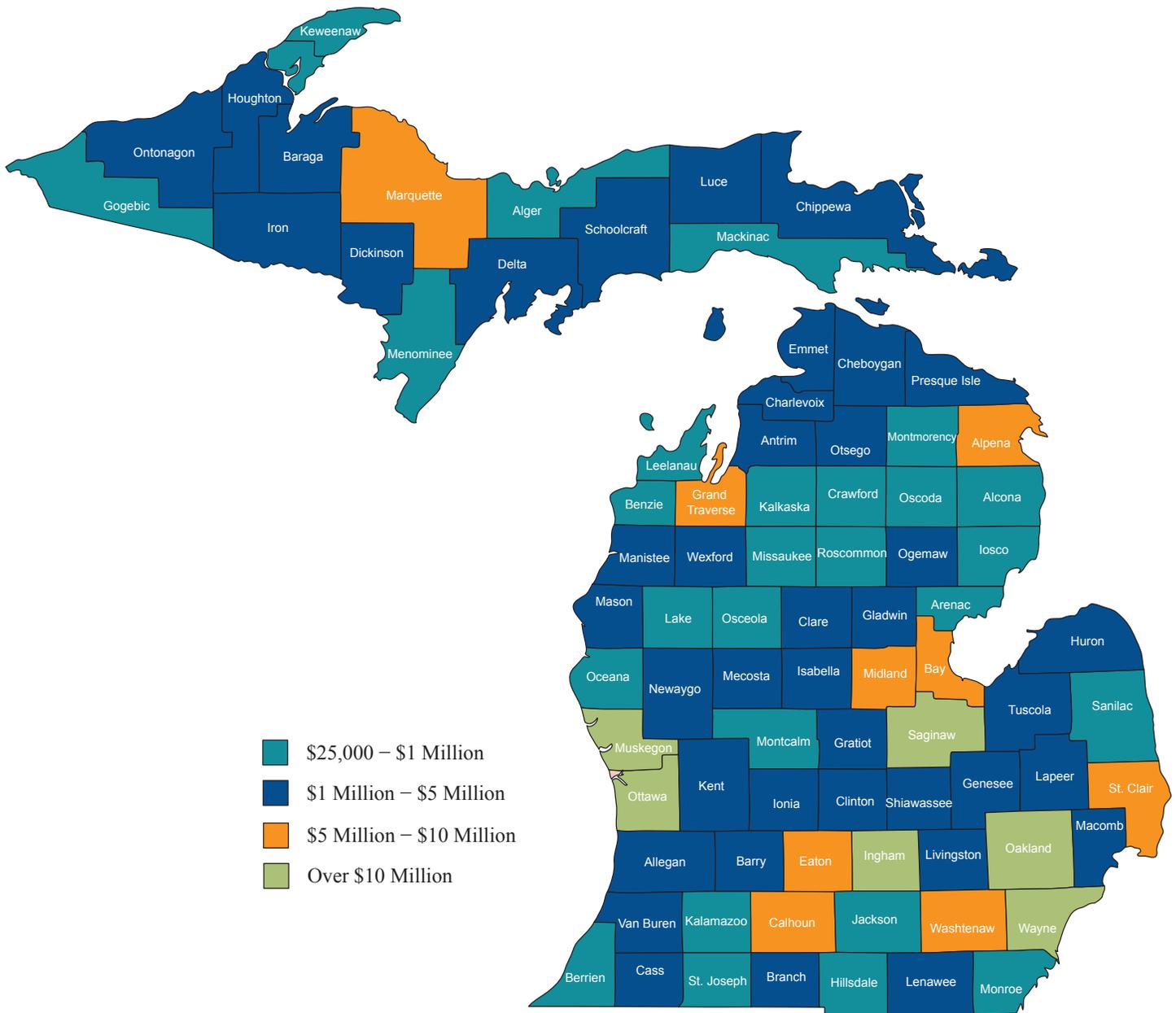
	As of		Amount of Change	Percentage of Change	
	December 31, 2005	December 31, 2004			
The Statements of Plan Net Assets are summaries of what MERS owns and what it owes as of the end of the fiscal year.	Cash and Short-Term Investments	\$ 266,259,383	\$ 197,094,797	\$ 69,164,586	35.09%
	Receivables	157,534,335	119,378,154	38,156,181	31.96%
	Interfund Receivables	434,593	436,427	(1,834)	-0.42%
	Investments, at fair value	4,985,756,769	4,610,306,560	375,450,209	8.14%
	Invested Securities Lending Collateral	719,094,377	659,513,777	59,580,600	9.03%
	Other Assets/Prepays	433,475	465,270	(31,795)	-6.83%
	Net Capital Assets	3,878,603	2,772,594	1,106,009	39.89%
	Total Assets	6,133,391,535	5,589,967,579	543,423,956	9.72%
	Purchase of Investments	317,984,276	159,923,488	158,060,788	98.84%
	Securities Lending Collateral	719,094,377	659,513,777	59,580,600	9.03%
Administrative and Investment Costs	6,564,587	3,772,884	2,791,703	73.99%	
Interfund Payables	434,593	436,427	(1,834)	-0.42%	
Total Liabilities	1,044,077,833	823,646,576	220,431,257	26.76%	
Net assets held in trust for pension benefits	\$ 5,089,313,702	\$ 4,766,321,003	\$ 322,992,699	6.78%	

Summary Comparative Statements of Changes in Plan Net Assets

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

Retirees in Michigan

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





Municipal Employees' Retirement System of Michigan

1134 Municipal Way
Lansing, MI 48917

(800) 767-6377
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MERS Retirement Board - 2005

MERS is administered solely by this nine member Retirement Board consisting of members from a different county at the time of election. Members of the Retirement Board are volunteers who serve without compensation with respect to their duties. They are reimbursed by the Retirement System for their actual and necessary expenses (chiefly travel) incurred in the performance of their duties. The regular term of office for members of the Retirement Board is three years.



Seated (left to right): Dale Walker, Chairperson, City of Cadillac; Larry Opelt, Retiree Member - Chairperson ProTem, Adrian; Sally Dreves, Employee Member, Grand Traverse County; Raymond Klosowski, Employee Member, Isabella County. *Standing (left to right):* Bruce Johnson, Public Member, Holland; Sue Stahl, Employee Member, City of Bad Axe; John Ogden, Officer Member, City of Port Huron; Harold Hailey, Officer Member, Ingham County; Dennis Murphy, Public Member, Novi.

Award for Outstanding Achievement

from the Government Finance Officer's Association



MERS received the Award for Outstanding Achievement in Popular Annual Financial Reporting from the Government Finance Officer's Association for the December 31, 2004, Summary Annual Financial Report. This is the second year MERS has received this award.