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SUMMARY ANNUAL FINANCIAL REPORT

MICHIGAN ROCKS!

For the Fiscal Year Ended
December 31, 2007



MUNICIPAL EMPLOYEES' RETIREMENT
SYSTEM OF MICHIGAN



MERS Vision

Our present is your future.

MERS 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 Values

- Competence
- Teamwork
- Creativity
- Integrity

MERS Pledge

We will provide all of our members with:

- 1) Accurate information
- 2) Excellent service
- 3) Commitment to innovation



This booklet provides a summary of the MERS Comprehensive Annual Financial Report for the fiscal year ended December 31, 2007. The Annual Report is prepared in accordance with Generally Accepted Accounting Principles (GAAP) and is subject to external audit. The complete 2007 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 rock on the cover was taken on the shore of Lake Superior. Mosquito River Beach, Pictured Rocks National Lakeshore in the Upper Peninsula, Michigan.
Source: iStockPhoto.com*

*Photographs by:
Rebecca Lamb | iStockPhoto.com*

*"Michigan Rocks!" theme suggested by MERS staff member,
Thomas Petroni.*

Dear MERS Members:

I am pleased to present the 61st Summary Annual Financial Report for the Municipal Employees' Retirement System of Michigan for the fiscal year ended December 31, 2007. The information contained in this report is condensed from the audited 2007 Comprehensive Annual Financial Report (CAFR). This summary presents selected basic information about the system's revenues, spending, and demographics in an informal format. It is not intended to replace the larger more detailed CAFR.

Our theme in 2007 was *Michigan Rocks*. This theme was chosen to reflect our membership because MERS has many unique and rare gems – our members.

Membership

Currently, approximately 700 communities throughout Michigan have chosen to pool their resources with MERS. We continue to add new municipalities to the system. Sixteen new groups joined in 2007 with just over \$52 million in assets.

Retirement Board

Two years ago, the Board created an *Ends Policy* to provide a clear strategic direction. The policy's goals are to deliver: 1) accurate information, 2) excellent customer service and 3) cost-effective and innovative benefits. To fulfill these goals, we offered several educational opportunities and developed cost-saving programs and services to benefit our members. The information throughout this summary reflects those innovations.

Investments

Our portfolio is well-diversified and is positioned to take advantage of market movements. The portfolio gross return was 8.57% for the one-year period and 8.2 % for the ten-year period. These positive returns helped us to meet our actuarial assumption rate of 8% and a real rate of return of +3.5% to the Consumer Price Index.

Funding

Funding increased from 76.05% in 2005 to 76.43% in 2006. This increase is a result of investment performance, the addition of new municipalities and benefit provision changes.

Insurance Services - Group Life and Disability, Health Care Savings Program, Retiree Health Funding Vehicle and MERS Premier Health

MERS Group Life and Disability insurance program is growing. This program was first offered in 2003 and has 126 member municipalities as of December 31, 2007. The Health Care Savings Program and Retiree Health Funding Vehicle also increased their membership. The Health Care Savings Program has 83 municipalities and approximately \$10 million in assets, and the Retiree Health Funding Vehicle has 68 municipalities with \$113 million in assets. MERS Premier Health closed the year with 1,891 contracts or approximately 4,500 lives in the program.

Education

MERS developed a comprehensive education plan and hosted various meetings, seminars and workshops. Both the *MERS Retirement Process* and the *Successful Retirement Seminars* continue to be well attended by members nearing retirement. MERS education team is exploring the use of technology to deliver educational programs online and in other nontraditional ways.

Technology

We came closer to completing the MERS Automated Pension System (MAPS). This project replaces the current PeopleSoft pension administration software and will expand our capabilities to provide better and more accurate information to our members.

Security, Service and Solutions

Michigan continues to lead the country with the highest unemployment rate. The budget problems at both the state and local level plague the Michigan taxpayer and MERS continues to provide security, service and solutions.

Acknowledgments

I appreciate the tireless dedication of the MERS Retirement Board in overseeing the system. Their conscientious service is exemplary. I am grateful for our staff and their outstanding efforts to produce another report. I also thank the many organizations, advisors and individuals who work diligently to assure the success of MERS.

Respectfully submitted,

Anne M. Wagner
Chief Executive Officer



Anne M. Wagner
Chief Executive Officer

More information

Readers who would like more detailed information can review the full CAFR on our Web site.

www.mersofmich.com
(click About Us and Financial Report)

Investment Overview

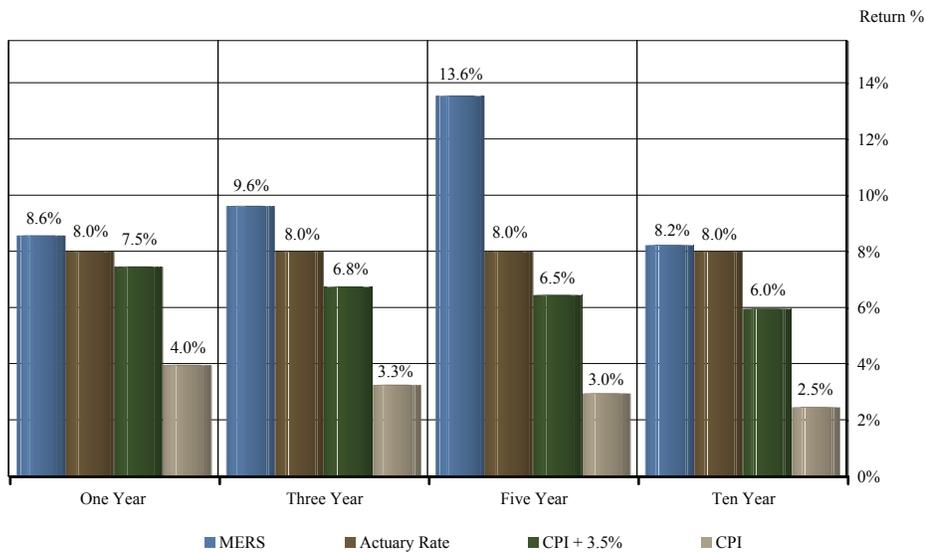
The primary investment objective is to maximize the long-term total rate of return on investments with a high degree of prudence and sufficient diversification to eliminate inordinate risks with conformity with the Michigan Public Employee Retirement System's Investment Act, 1965 PA 314, as amended. In addition, the Retirement Board has established Investment Guidelines that are updated annually. These guidelines communicate long-term objectives, goals, and performance expectations to the staff, investment managers, consultants, and all other interested parties. The Retirement Board strives to add incremental returns relative to the market by employing active management strategies where appropriate. Every effort is made to minimize the costs to the portfolio by utilizing skilled internal and external resources without negatively affecting the performance of the portfolio.

The long-term objectives for the investment assets are:

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

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

MERS Actual Returns versus Goals (Gross of Fees)



With long-term investment objectives as the central focus, the Retirement Board conducts a periodic asset allocation study to select a strategic asset allocation plan. A study was completed in 2005, resulting in the modification of MERS asset allocation mix. Commodities were added as a stand alone asset class and the fund's exposure to international and alternative investments were increased while reducing the overall risk of the portfolio. The allocation plan designs a portfolio with the optimal mix of asset classes for the long-term investment time horizon. The characteristics of expected return, risk, and correlation of return for various asset categories are carefully projected. The result is a portfolio that is broadly diversified in domestic and international stocks, domestic and global fixed income securities, high-yield bonds, real estate, private equity, commodities, and cash equivalents.

Summary Plan Net Assets and Changes

Summary Comparative Statements of Plan Net Assets

Assets	As of	As of	Increase (Decrease)	Increase (Decrease)
	December 31, 2007	December 31, 2006	Amount	Percent
Cash and Short-Term Investments	\$ 146,267,940	\$ 225,530,139	\$ (79,262,199)	-35.14%
Receivables	66,889,486	224,851,017	(157,961,531)	-70.25%
Interfund Receivables	941,456	1,202,304	(260,848)	-21.70%
Investments, at fair value	6,406,130,851	5,769,420,916	636,709,935	11.04%
Invested Securities Lending Collateral	709,449	905,007,240	(904,297,791)	-99.92%
Other Assets/Prepays	259,216	337,474	(78,258)	-23.19%
Net Capital Assets	6,554,063	6,641,104	(87,041)	-1.31%
Total Assets	6,627,752,461	7,132,990,194	(505,237,733)	-7.08%
Liabilities				
Purchase of Investments	146,851,175	348,526,226	(201,675,051)	-57.87%
Securities Lending Collateral	709,449	905,007,240	(904,297,791)	-99.92%
Administrative and Investment Costs	14,295,008	15,890,222	(1,595,214)	-10.04%
Interfund Payables	941,456	1,202,304	(260,848)	-21.70%
Other Accounts Payable	29,475	16,843	12,632	75.00%
Total Liabilities	162,826,563	1,270,642,835	(1,107,816,272)	-87.19%
Net Assets Held in Trust for Pension and Health Benefits and Investment Accounts Held for Others	\$ 6,464,925,898	\$ 5,862,347,359	\$ 602,578,539	10.28%

The Statements of Plan Net Assets are summaries of what MERS owns and what it owes as of the end of the fiscal year.

Summary Comparative Statements of Changes in Plan Net Assets

Additions	Year ended	Year ended	Increase (Decrease)	Increase (Decrease)
	December 31, 2007	December 31, 2006	Amount	Percent
Contributions	\$ 502,497,000	\$ 439,052,040	\$ 63,444,960	14.45%
Transfers from Defined Benefit Plan	1,725,549	751,161	974,388	129.72%
Transfers from Other Plans and Other Items	1,184,321	8,112,861	(6,928,540)	-85.40%
Investment Net Income Investing Activities	474,740,239	656,892,178	(182,151,939)	-27.73%
Investment Net Income-Securities Lending	3,363,352	2,524,348	839,004	33.24%
Miscellaneous Income	1,067,367	790,789	276,578	34.97%
Total Additions	984,577,828	1,108,123,377	(123,545,549)	-11.15%
Deductions				
Benefits	352,221,202	314,764,086	37,457,116	11.90%
Refunds of Contributions	6,288,216	4,711,038	1,577,178	33.48%
Special Expenses and Fees	1,171,617	542,942	628,675	115.79%
Transfers to Defined Contribution Plan	1,725,549	751,161	974,388	129.72%
Medical Disbursements Paid to Members	328,172	144,699	183,473	126.80%
Disbursements Paid to Municipalities	5,827,116	1,109,386	4,717,730	425.26%
Forfeited Employer Contributions	29,295	44,724	(15,429)	-34.50%
Administrative Expense	14,408,122	13,021,687	1,386,435	10.65%
Total Deductions	381,999,289	335,089,723	46,909,566	14.00%
Net Increase	602,578,539	773,033,654	(170,455,115)	-22.05%
Net Assets Held in Trust for Pension and Health Benefits and Investment Accounts Held for Others				
Balance Beginning of Year	5,862,347,359	5,089,313,705	773,033,654	15.19%
Balance End of Year	\$ 6,464,925,898	\$ 5,862,347,359	\$ 602,578,539	10.28%

The Statements of Changes in Plan Net Assets summarize the flow of money in and out of the fund throughout the fiscal year.

Member Characteristics

MERS Customer Service for the Year Ended December 31, 2007

Service	Members Served
Pension Payroll	
New Retirees Added	1,918
Retirees Removed from Benefits	717
Active Members	
Address Changes	3,346
Beneficiary Changes	1,527
Benefit Estimates Completed	2,440
Disability Retirements Completed	77
Eligible Domestic Relations Orders	180
New Membership Applications	4,761
New Retirement Applications Processed	1,348
Option II Contingent Beneficiary Forms	713
Service Credit Purchases Completed	857
Deferred/Terminated Members	
Deferred Applications Completed	1,457
Refunds Processed	933
Retired Members	
Electronic Fund Transfer Changes	2,460
Federal Income Tax Withholding Changes	2,133
Income Verifications	596
Retirement Seminar Attendees	549
Telephone Calls Processed by "Call Center"	28,676

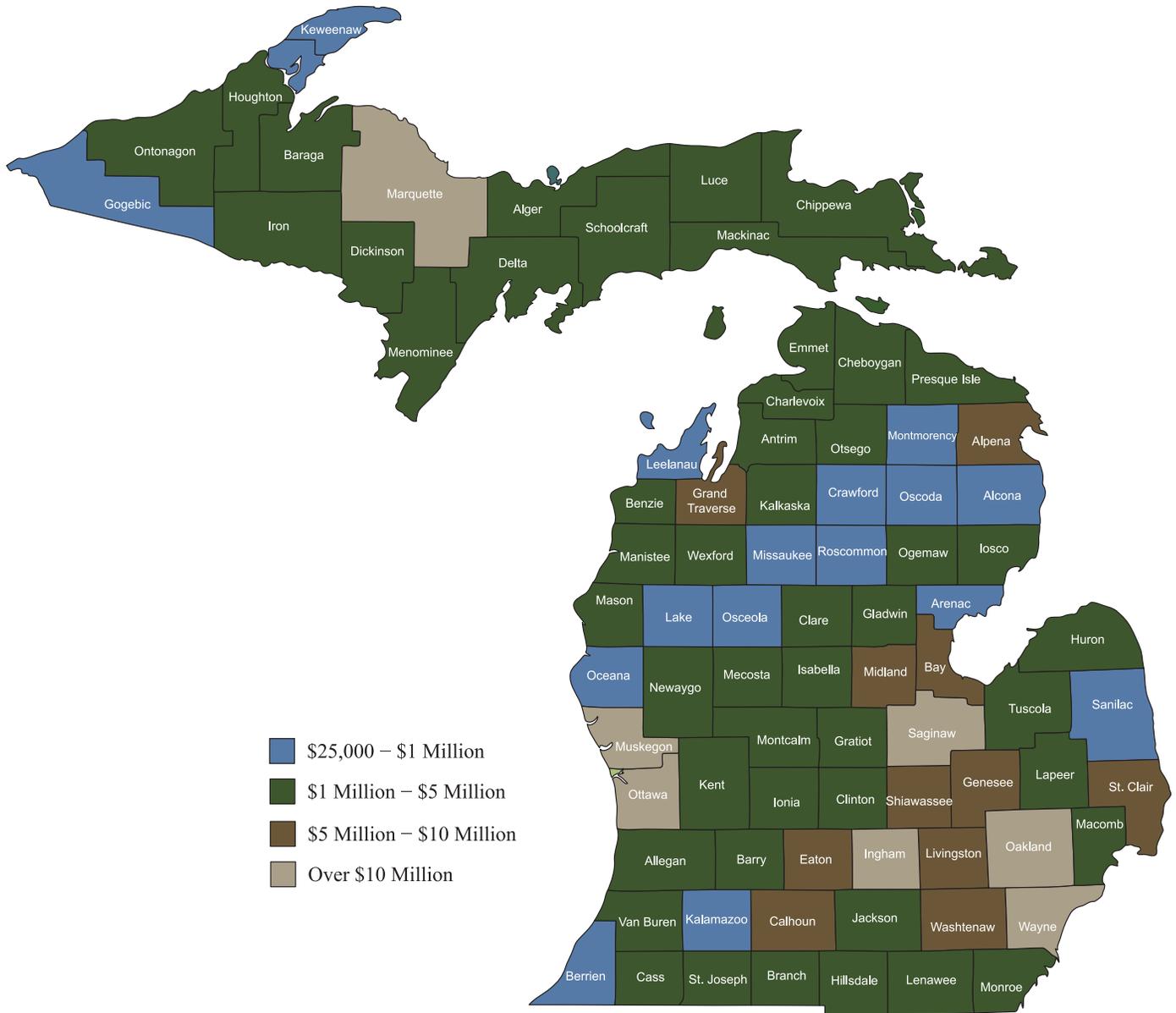
Defined Benefit Plan Member Characteristics

Item	December 31, 2006	December 31, 2005	December 31, 2004	December 31, 2003
Active Members				
Number of DB Active Members	36,846	36,467	36,766	37,159
Average Age	45.1	44.9	44.6	44.3
Average Benefits Service	11.2	11.1	10.8	10.5
Average Compensation	\$ 41,955	\$ 40,102	\$ 39,091	\$ 37,170
Vested Former Member				
Number of Members	6,235	6,126	5,804	5,575
Average Age	48.9	48.8	48.5	48.0
Average Annual Deferred Benefit	\$ 7,395	\$ 7,165	\$ 6,990	\$ 6,680
Retirees and Beneficiaries				
Number of Pensioners	21,464	20,155	19,271	18,443
Average Age	69.1	69.2	68.4	69.4
Average Annual Benefit	\$ 15,026	\$ 14,292	\$ 13,607	\$ 12,828

Member characteristic data for 2007 is not yet available.

Retirees in Michigan

Of the 22,737 retirees and beneficiaries in the MERS system, 20,811 (92 percent) remain Michigan residents. Benefit payments approaching \$339 million were distributed throughout the state's communities and businesses, representing MERS impact on the state's economy.





Municipal Employees' Retirement System of Michigan

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Lansing, MI 48917

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www.mersofmich.com

MERS Retirement Board - 2007

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.



From left to right: Sally Dreves - Employee Member, Beverly Crumley - Employee Member, John Ogden - Officer Member, Larry Opelt - Retiree Member, Randy Girard - Officer Member, Sue Stahl - Employee Member, Michael Brown - Officer Member, Dennis Murphy - Public Member, Anne Wagner - MERS Chief Executive Officer, Bruce Johnson - Public Member, *Not Pictured*

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, 2006, Summary Annual Financial Report. This is the fourth year MERS has received this award.