

MUNICIPAL EMPLOYEES' RETIREMENT SYSTEM OF MICHIGAN

# a new vision for tomorrow



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, 2008. The Annual Report is prepared in accordance with Generally Accepted Accounting Principles (GAAP) and is subject to external audit. The complete 2008 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](http://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](http://www.mersofmich.com).*

*Dear MERS Members:*

I am pleased to present the 62nd Summary Annual Financial Report for the Municipal Employees' Retirement System of Michigan for the fiscal year ended December 31, 2008. The information contained in this report is condensed from the audited 2008 Comprehensive Annual Financial Report (CAFR). This summary presents selected basic information with

regard to the system's revenues, spending, and demographics in an informal format. It is not intended to replace the actual CAFR.

*2008*

The year 2008 was a year that none of us will ever forget. The collapse of the world economic financial markets was sobering; the landscape of the American finance system has been changed forever.

Severe budget problems continue to plague Michigan at both the state and local level. We lead the country with the highest unemployment rates. MERS remains dedicated to providing our members with sustainable pensions. More than ever, we believe that what we do each day is important for the stability and protection of our members and their future.

*Investments*

On a relative scale, the MERS portfolio had a better performance than many of our peers in the public pension fund community. Although the DB portfolio suffered a 25% loss in 2008, it maintained above median peer ranking and outperformed the internal policy benchmark by 132 basis points gross of fees for the year. The portfolio responded to the market price decline the way it was designed to do. We use long-term

investment strategies and a disciplined approach. Our portfolio is well-diversified and maintains the necessary liquidity to meet the needs of the system. Our goal remains to meet our actuarial assumption rate of 8% and a real rate of return of +3.5% over the Consumer Price Index.



a vision  
of confidence

Even the biggest tree begins  
as a tiny seed...MERS roots  
are still growing strong after  
63 years.

*Funding*

The December 31, 2007 Actuarial Valuation reports the consolidated funding to be an increase from 76.4% in 2006 to 77.3% in 2007. This increase was attributable to investment experience, new municipalities, and limited benefit provision changes. There is an expectation the funding percentage will decrease by approximately 2% in the 2008 report due to the market decline.

*Membership*

MERS continues to grow strong. At year-end, we had over 730 Defined Benefit member plans. We added 11 new municipalities to the Defined Benefit Plan, with assets totaling \$75 million. The Defined Contribution Plan grew by 15 employer groups with \$16.7 million in assets. The Hybrid Plan grew by four new initial groups.

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

The Group Life and Disability program has grown to over 131 municipalities in 2008. This program allows members to collectively purchase products through MERS using The Standard Insurance Company in Portland, Oregon.

The Health Care Savings Program and Retiree Health Funding Vehicle have also grown over the past year. The HCSP has 111 municipalities and asset growth of \$14.5 million. The RHFV has 89 employer groups with \$118.4 million at year-end. MERS Premier Health, operating with its own duly elected board, closed the year with 57 groups covering 1,662 lives.

*Education*

The Learning Division developed the first training video entitled “Understanding Your Annual Actuarial Valuation.” The team continues to explore new avenues of technology and promises to deliver more

educational programs online. Other educational meetings continued throughout the year with the Retirement Process Seminars and the Successful Retirement Seminars. Both are offered several times during the year at the Lansing home office and around the state.

*Financial Condition of Your Retirement System*

Even though it has been a tough year, our system remains strong. We are committed to improving the health and economic welfare of our members and the great state of Michigan. We strive to provide you and your families our unwavering commitment of service, security, and solutions.

*Acknowledgements*

I appreciate the tireless dedication of the MERS Retirement Board in overseeing the system. I would also like to express my gratitude to the staff for their outstanding efforts in producing this year’s reports. I would also like to thank the many advisors, organizations, and individuals who have worked so diligently to help make MERS a success.

*Respectfully submitted,  
Anne M. Wagner  
Chief Executive Officer*

a vision  
of security

Growing to great heights doesn’t happen overnight.

We create solutions to simplify your financial life and keep your  
money working for you well into the future.

## Investment Overview

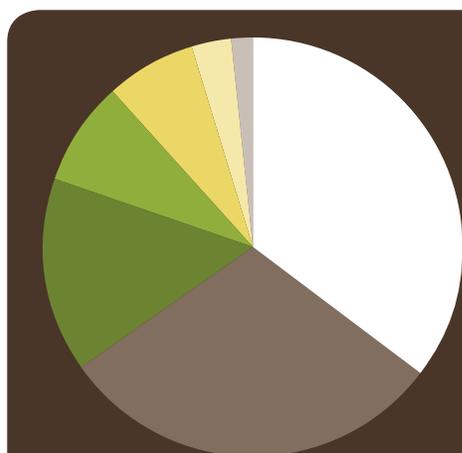
The primary investment objective is to maximize the long-term total rate of return on investments with a high degree of prudence and sufficient diversification to eliminate inordinate risks in conformity with the Michigan Public Employee Retirement System's Investment Act, 1965 PA 314, as amended. In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

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 characteristics of expected return, risk, and correlation of return for various asset categories are carefully projected. The result, as shown below, is a portfolio that is broadly diversified in domestic equity, fixed income, international equity, real estate, private equity, commodities, and cash equivalents.

In 2008, the world saw a global financial crisis attack all asset classes. Although the fund was down -24.79% for the year, it outperformed its policy benchmark by 132 basis points, providing downside protection while shielding the plan from additional market losses. The combination of passive and active management, diversification across asset classes, and its disciplined adherence to asset allocation has allowed MERS to provide value through multiple market cycles.



*MERS Policy Asset Allocation*

■ Domestic Equity	35.5%
■ Fixed Income	30.0%
■ International Equity	15.0%
■ Private Equity	8.0%
■ Real Estate	7.0%
■ Commodities	3.0%
■ Cash	1.5%

## Summary Plan Net Assets and Changes

### Comparison Statement of Plan Net Assets

	As of Dec 31, 2008	As of Dec 31, 2007	Increase (Decrease) Amount	Increase (Decrease) Percent
<b>Assets</b>				
Cash and Short-Term Investments	\$ 82,483,676	\$ 146,267,940	\$ (63,784,264)	-43.61%
Receivables	441,762,060	66,889,486	374,872,574	560.44%
Interfund Receivables	1,249,403	941,456	307,947	32.71%
Investments, at fair value	4,769,213,613	6,406,130,851	(1,636,917,238)	-25.55%
Invested Securities Lending Collateral	395,539,655	709,449	394,830,206	55653.08%
Other Assets/Prepays	251,429	259,216	(7,787)	-3.00%
Net Capital Assets	6,675,401	6,554,063	121,338	1.85%
<b>Total Assets</b>	<b>5,697,175,237</b>	<b>6,627,752,461</b>	<b>(930,577,224)</b>	<b>-14.04%</b>
<b>Liabilities</b>				
Purchase of Investments	392,138,665	146,851,175	245,287,490	167.03%
Securities Lending Collateral	427,740,299	709,449	427,030,850	60191.90%
Administrative and Investment Costs	11,953,905	14,295,008	(2,341,103)	-16.38%
Interfund Payables	1,249,403	941,456	307,947	32.71%
Other Accounts Payable	22,302	29,475	(7,173)	-24.34%
<b>Total Liabilities</b>	<b>833,104,574</b>	<b>162,826,563</b>	<b>670,278,011</b>	<b>411.65%</b>
<b>Net Assets Held in Trust for Pension and Health Benefits and Investment Accounts Held for Others</b>				
	<b>\$4,864,070,663</b>	<b>\$6,464,925,898</b>	<b>\$(1,600,855,235)</b>	<b>-24.76%</b>

a vision  
of stability

Branching out to diversify risk is a key component to adding value. More than 70,000 members put their trust in MERS...a responsibility not taken lightly.

## Comparison Statement of Changes in Plan Net Assets

	Year ended Dec 31, 2008	Year ended Dec 31, 2007	Increase (Decrease) Amount	Increase (Decrease) Percent
<b>Additions</b>				
Contributions	\$ 456,961,857	\$502,497,000	\$ (45,535,143)	-9.06%
Transfers from Defined Benefit Plan	101,542	1,725,549	(1,624,007)	-94.12%
Transfers from Other Plans and Other Items	1,122,171	1,184,321	(62,150)	-5.25%
Investment Net Income(Loss) Investing Activities	(1,652,958,169)	474,740,239	(2,127,298,408)	-448.10%
Investment Net Income (Loss)-Securities Lending	8,548,421	3,363,352	5,185,069	154.16%
Miscellaneous Income	712,879	1,067,367	(354,488)	-33.21%
<b>Total Additions</b>	<b>(1,185,511,299)</b>	<b>984,577,828</b>	<b>(2,170,089,127)</b>	<b>-220.41%</b>
<b>Deductions</b>				
Benefits	384,760,858	352,221,202	32,539,656	9.24%
Refunds of Contributions	6,944,841	6,288,216	656,625	10.44%
Special Expenses and Fees	570,520	1,171,617	(601,097)	-51.30%
Transfers to Defined Contribution Plan	101,542	1,725,549	(1,624,007)	-94.12%
Medical Disbursements Paid to Members	462,448	328,172	134,276	40.92%
Disbursements Paid to Municipalities	4,607,234	5,827,116	(1,219,882)	-20.93%
Forfeited Employer Contributions	57,716	29,295	28,421	97.02%
Administrative Expense	17,838,777	14,408,122	3,430,655	23.81%
<b>Total Deductions</b>	<b>415,343,936</b>	<b>381,999,289</b>	<b>33,344,647</b>	<b>8.73%</b>
Net Increase/Decrease	(1,600,855,235)	602,578,539	(2,203,433,774)	-365.67%
Net Assets Held in Trust for Pension and Health Benefits and Investment Accounts Held for Others				
Balance Beginning of Year	6,464,925,898	5,862,347,359	602,578,539	10.28%
<b>Balance End of Year</b>	<b>\$4,864,070,663</b>	<b>\$6,464,925,898</b>	<b>\$(1,600,855,235)</b>	<b>-24.76%</b>

a vision  
of reliability

Deep roots create an unshakable foundation.

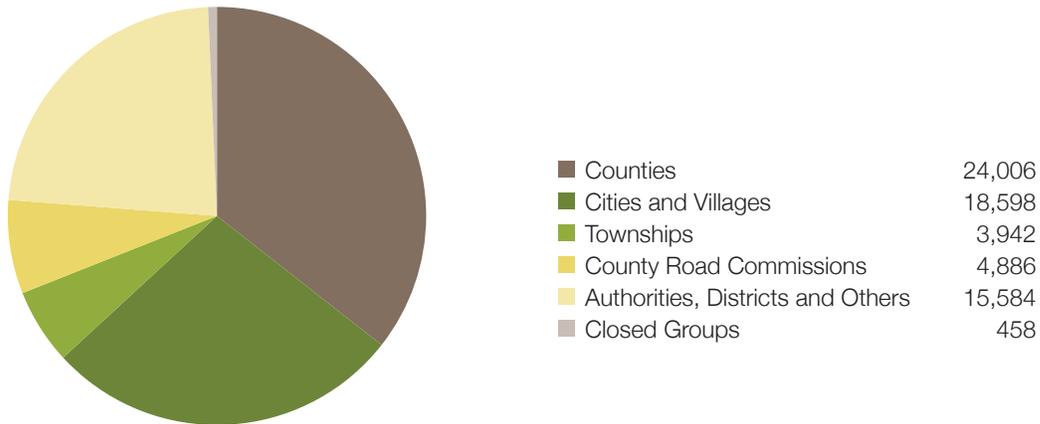
Our commitment to excellence, integrity, and

long-term solutions are the cornerstone of our system.

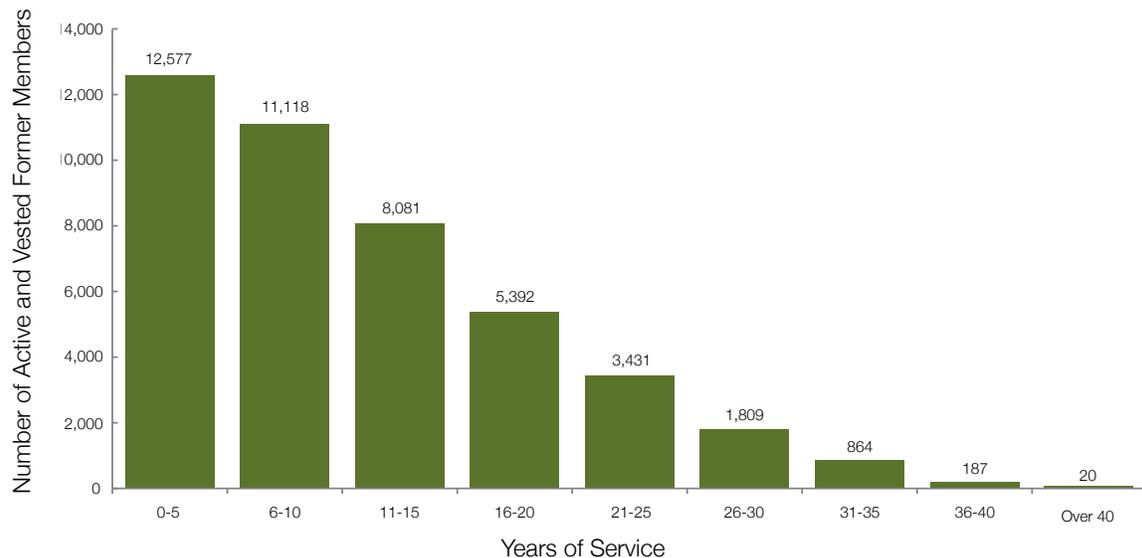
## Member Characteristics as of December 31, 2008

### Member Counts by Employer Type

There were 67,474 members participating in MERS Defined Benefit Plan.



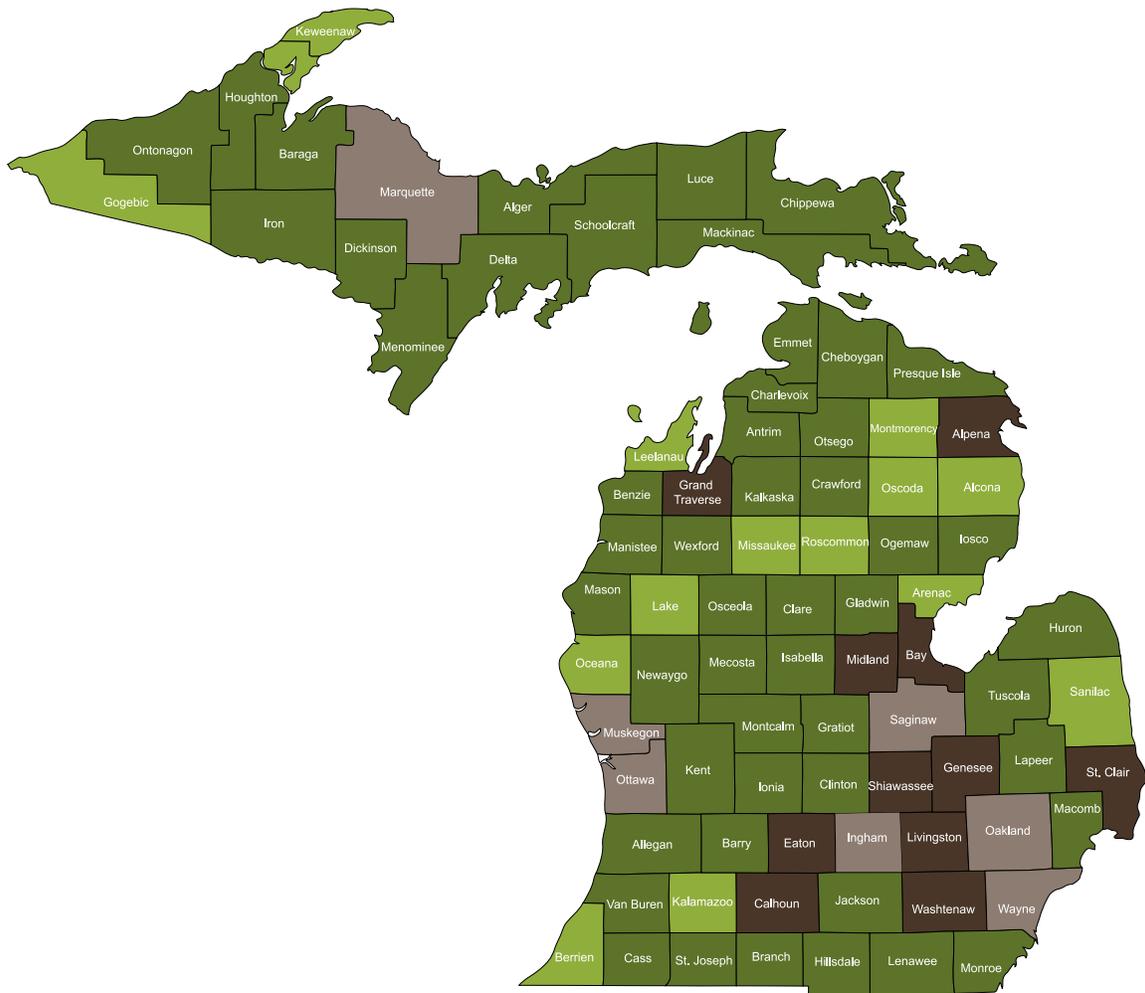
### Years of Service for Active and Vested Former Members



## Retirees in Michigan

Of the 23,995 retirees and beneficiaries in the MERS system, 21,940 (92 percent) remain Michigan residents. Benefit payments amounting to \$343 million were distributed throughout the

state's communities and businesses, representing MERS impact on the state's economy.



- \$25,000 – \$1 Million
- \$1 Million – \$5 Million
- \$5 Million – \$10 Million
- Over \$10 Million

## *MERS Retirement Board - 2008*

MERS is administered solely by a 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 expenses incurred in the performance of their duties. The regular term of office for members of the Retirement Board is three years.



*MERS Retirement Board and Chief Executive Officer – 2008/2009*

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

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

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

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

**Retiree Member:** Larry Opelt, Chairperson



# a vision of longevity

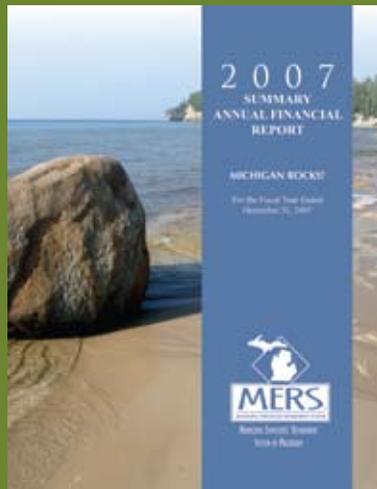
We are proud to stand tall and face the future with unflagging determination. Each day holds a new vision for tomorrow.



Presorted Standard  
US Postage  
PAID  
Lansing, MI  
Permit No. 204

1134 Municipal Way  
Lansing, MI 48917

800.767.6377  
517.703.9030  
517.327.8336 fax  
www.mersofmich.com



*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, 2007, Summary Annual Financial Report. This is the fifth year MERS has received this award.