

'09 MUNICIPAL EMPLOYEES' RETIREMENT SYSTEM OF MICHIGAN
GROWTH IN MOTION

2009 summary annual financial report | for the fiscal year ended 12.31.2009

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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, 2009. The Annual Report is prepared in accordance with Generally Accepted Accounting Principles (GAAP) and is subject to external audit. The complete 2009 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 website at www.mersofmich.com.

This publication contains a summary description of MERS benefits, policies or procedures. MERS has made every effort to ensure that the information provided is accurate and up to date (as of the date of publication 07/30/10). If this publication conflicts with the relevant provisions of the Plan Document, the Plan Document Controls. MERS, as a governmental plan, is exempted by state and federal law from registration with the SEC. However, it employs registered investment advisors to manage the trust fund in compliance with Michigan Public Employee Retirement System Investment Act. Past Performance is not a guarantee of future returns. Please make independent investment decisions carefully and seek the assistance of independent experts when appropriate.

Dear MERS Members:

I am pleased to present the 63rd Summary Annual Financial Report for the Municipal Employees' Retirement System of Michigan for the fiscal year ended December 31, 2009. The information contained in this report is condensed from the audited 2009 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.

Our theme for 2009 is Growth in Motion, reflecting our continued growth throughout the years. Just like a train, MERS keeps on moving and delivering for our members. We are dedicated to working hard to provide excellent service, security, and solutions. We believe that what we do every day contributes to the future success of our members. The theme reflects our rich past and promising future and echoes our vision, "*our present is your future.*"

Investments

MERS primary objective is to protect the financial future of our current and former members. Investment performance greatly improved in the latter part of 2009. The portfolio returned +17 percent on a net basis. As trading improved, our Investments staff rebalanced the portfolio in compliance with the target policy bands, and maintained fund liquidity. The staff manages 13.8 percent of the portfolio internally, using equity indexes and short-term fixed income strategies.

Our goal remains to meet our actuarial assumption rate of 8 percent and a real rate of return of + 3.5 percent over the Consumer Price Index.

"We are dedicated to working hard to provide excellent service, security, and solutions."



Anne M. Wagner – Chief Executive Officer

Funding

The December 31, 2008 actuarial valuation reports the consolidated funding of all MERS member municipalities to be a decrease from 77.3 percent to 75.0 percent. This decrease is almost entirely attributable to the investment experience of 2008. We receive no state funded contributions. Each member municipality is legally responsible for funding the pension earned by the employees under the provisions of the Michigan Constitution, and the MERS Plan Document. Each municipality has a separate trust account and pension obligations are paid from that account. We do not fund or borrow from one municipality's account to cover another municipality's obligation to pay its pensioners.

Membership

During 2009, five new employers and nine divisions from existing employers joined the Defined Benefit Plan with assets of \$99 million. The Defined Contribution Program grew by three new employers and 17 divisions from existing employers with a total of \$28.9 million in assets. The Hybrid Program added two new employers and five divisions from existing employers with new start-up monies of \$20,000.

The first two Native American Tribes joined MERS Tribal Government Retirement System: the Pokagon Band of Potawatomi, located in Southwestern Michigan with tribal government functions in Dowagiac; the Lac View Desert Band of Chippewa, located in Watersmeet, the western most region of the Upper Peninsula.

Group Health Solutions

Group Life and Disability Insurance Programs (GL&D)

This program allows MERS members to collectively purchase various life and disability insurance products through our partnership with The Standard Insurance Company of Portland, Oregon. GL&D has grown to over 120 groups, adding 19 employers in 2009.

Health Care Savings Program (HCSP) and Retiree Health Funding Vehicle (RHFV)

The Health Care Savings Program and Retiree Health Funding Vehicle have also grown over the past year. The HCSP added 31 new employers and 22 new divisions with assets in excess of \$16 million. The RHFV added 15 employers with over \$48 million in assets. As of December 31, 2009, HCSP and RHFV had 139 and 104 active programs, respectively.

MERS Premier Health

Due to declining membership and increased competition from high-deductible plans, we decided to close the Premier Health program. Discontinuation of the program will be completed in early 2010, following all the required processes as outlined by the State of Michigan Office of Financial and Insurance Regulation.

Education Initiatives

A key initiative for 2009 was to continue providing our membership with solid educational offerings. The Learning Division launched two on-demand, computer-based 10-Minute Trainers for employers. The first trainer, "Annual Actuarial Valuation" provides a better understanding of the valuation report. The second, entitled "Naming and Changing Your Beneficiary" is used to assist members with the process and provisions of naming a retirement beneficiary.

We also continued to offer our Defined Benefit Retirement Process and the Successful Retirement Seminars. These have been very successful and were attended by approximately 400 members.

In addition, the benefit education specialists held 257 on-site employer visits, covering over 1,700 employees. There were 1,578 DB retirements processed, 3,473 benefit estimates completed, 2,910 applications for

new members, and 31,304 member calls placed to the Call Center.

MERS Financial Condition

Our economy has not fully recovered from recession woes, as evidenced by a national unemployment rate around 10 percent and continued mortgage defaults, yet institutional investors have exhibited amazing resiliency in their ability to maintain equilibrium and withstand market volatility. Although it's been another tough year, our system remains strong. MERS is committed to improving the health and economic welfare of our members across the great State of Michigan.

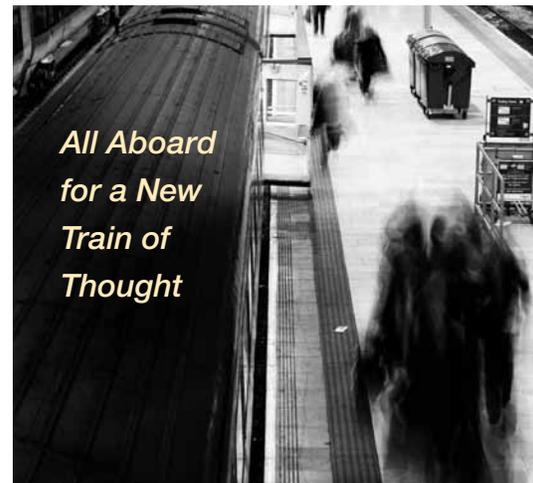
Acknowledgements

My sincere appreciation goes to the entire MERS staff for their unfailing efforts to ensure the successful operation of the system. This report is the culmination of those efforts, as well as the efforts of advisors working under the leadership of the Board. I would like to extend a special note of thanks to the members of the Board for their commitment and wisdom in overseeing the system. In addition, I would also like to thank the many organizations, advisors, and individuals who work in partnership with MERS to assist our efforts in managing the system.

Respectfully submitted,

Anne M. Wagner

Chief Executive Officer



*All Aboard
for a New
Train of
Thought*

**Experience growth in motion...
forward thinking moves MERS –
moves Michigan.**

Investments 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. Actions based on this mindset helps to eliminate inordinate risks in conformity with the Michigan Public Employee Retirement System 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 using skilled internal and external resources without negatively affecting the performance of the portfolio.

The long-term objectives for the investment assets are:

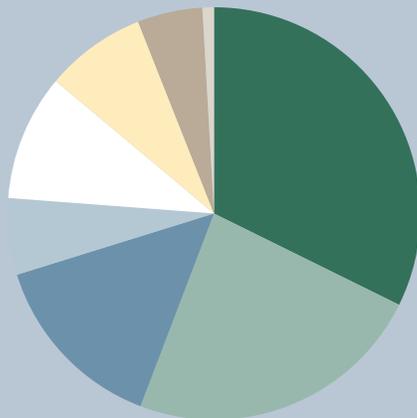
- *To exceed the actuarial assumption rate of 8%*
- *Outperform the MERS policy benchmark*
- *Achieve a real rate of return of at least 3.5% annually over the rate of inflation*

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.

We're moving full steam ahead to deliver the products and services you need. Keeping true to our values, we seek long-term economical solutions that will benefit you well into the future.

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 and international stocks, domestic and global fixed income securities, high-yield bonds, real estate, private equity, commodities, and cash equivalents. The fund is currently conducting a new asset allocation study, which will be presented to the Board in July of 2010.

MERS Total Market Fund is specifically designed to provide protection in turbulent financial markets. After the market crisis of 2008, markets posted dramatic positive returns across all asset classes globally. The Total Market Fund posted a positive return of 17.31% for the year. 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

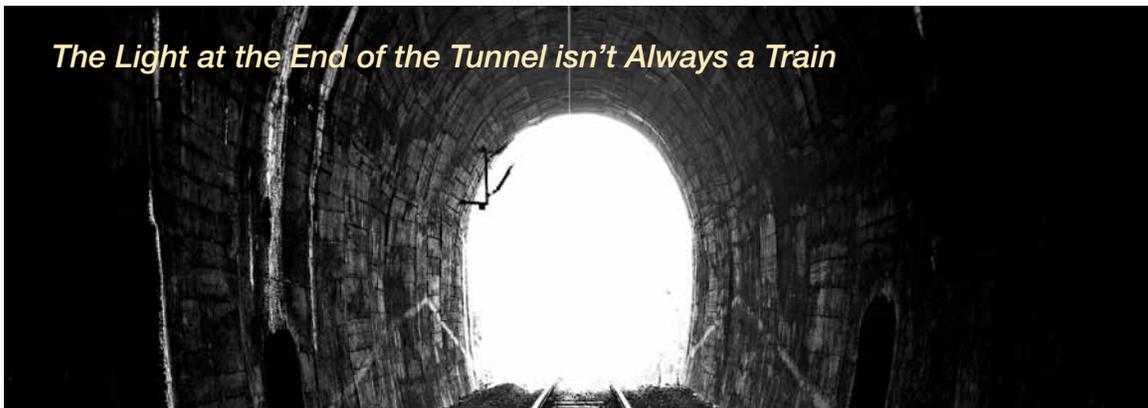
■ Domestic Equity	32.3%
■ Fixed Income	23.5%
■ International Equity	14.4%
■ Real Estate	6.0%
■ Private Equity	9.9%
■ High Yield	7.9%
■ Commodities	5.1%
■ Cash	0.9%

Summary Plan Net Assets and Changes

Comparison Statement of Plan Net Assets

	As of Dec. 31, 2009	As of Dec. 31, 2008	Increase (Decrease) Amount	Increase (Decrease) Percent
Assets				
Cash and Short-Term Investments	\$ 47,440,502	\$ 82,483,676	\$ (35,043,174)	-42.48%
Receivables	370,153,123	441,762,060	(71,608,937)	-16.21%
Interfund Receivables	953,983	1,249,403	(295,420)	-23.64%
Investments, at fair value	5,701,945,005	4,769,213,613	932,731,392	19.56%
Invested Securities Lending Collateral	1,001,205,736	395,539,655	605,666,081	153.12%
Other Assets/Prepays	703,273	251,429	451,844	179.71%
Net Capital Assets	4,963,358	6,675,401	(1,712,043)	-25.65%
Total Assets	7,127,364,980	5,697,175,237	1,430,189,743	25.10%
Liabilities				
Purchase of Investments	354,943,179	392,138,665	(37,195,486)	-9.49%
Securities Lending Collateral	1,017,278,740	427,740,299	589,538,441	137.83%
Administrative and Investment Costs	9,735,724	11,953,905	(2,218,181)	-18.56%
Interfund Payables	953,983	1,249,403	(295,420)	-23.64%
Other Accounts Payable	54,778	22,302	32,476	145.62%
Total Liabilities	1,382,966,404	833,104,574	549,861,830	66.00%
Net Assets Held in Trust for Pension and Health Benefits and Investment Accounts Held for Others	\$5,744,398,576	\$4,864,070,663	\$880,327,913	18.10%

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



The Light at the End of the Tunnel isn't Always a Train

We champion unique solutions. We continually improve programs and services that strengthen the financial stability of Michigan and its residents.

Comparison Statement of Changes in Plan Net Assets

	Year ended Dec. 31, 2009	Year ended Dec. 31, 2008	Increase (Decrease) Amount	Increase (Decrease) Percent
Additions				
Contributions	\$ 507,731,883	\$ 456,961,857	\$ 50,770,026	11.11%
Transfers from Defined Benefit Plan	198,729	101,542	97,187	95.71%
Transfers from Other Plans and Other Items	1,555,390	1,122,171	433,219	38.61%
Net Investment Income(Loss)-Investing Activities	853,883,014	(1,652,958,169)	2,506,841,183	151.66%
Net Investment Income-Securities Lending	4,623,005	8,548,421	(3,925,416)	-45.92%
Miscellaneous Income	1,387,459	712,879	674,580	94.63%
Total Additions	1,369,379,480	(1,185,511,299)	2,554,890,779	215.51%
Deductions				
Benefits	418,734,712	384,760,858	33,973,854	8.83%
Refunds of Contributions	9,510,225	6,944,841	2,565,384	36.94%
Special Expenses and Fees	1,341,348	570,520	770,828	135.11%
Transfers to Defined Contribution Program	198,729	101,542	97,187	95.71%
Medical Disbursements Paid to Members	511,902	462,448	49,454	10.69%
Disbursements Paid to Municipalities	39,681,182	4,607,234	35,073,948	761.28%
Forfeited Employer Contributions	64,171	57,716	6,455	11.19%
Administrative Expense	19,009,298	17,838,777	1,170,521	6.56%
Total Deductions	489,051,567	415,343,936	73,707,631	17.75%
Net Increase(Decrease)	880,327,913	(1,600,855,235)	2,481,183,148	154.99%
Net Assets Held in Trust for Pension and Health Benefits and Investment Accounts Held for Others				
Balance Beginning of Year	4,864,070,663	6,464,925,898	(1,600,855,235)	-24.76%
Balance End of Year	\$5,744,398,576	\$4,864,070,663	\$880,327,913	18.10%

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



MERS Won't Leave You at the Station

We strive to uphold our long-held commitment of providing you with outstanding service, security, and solutions.

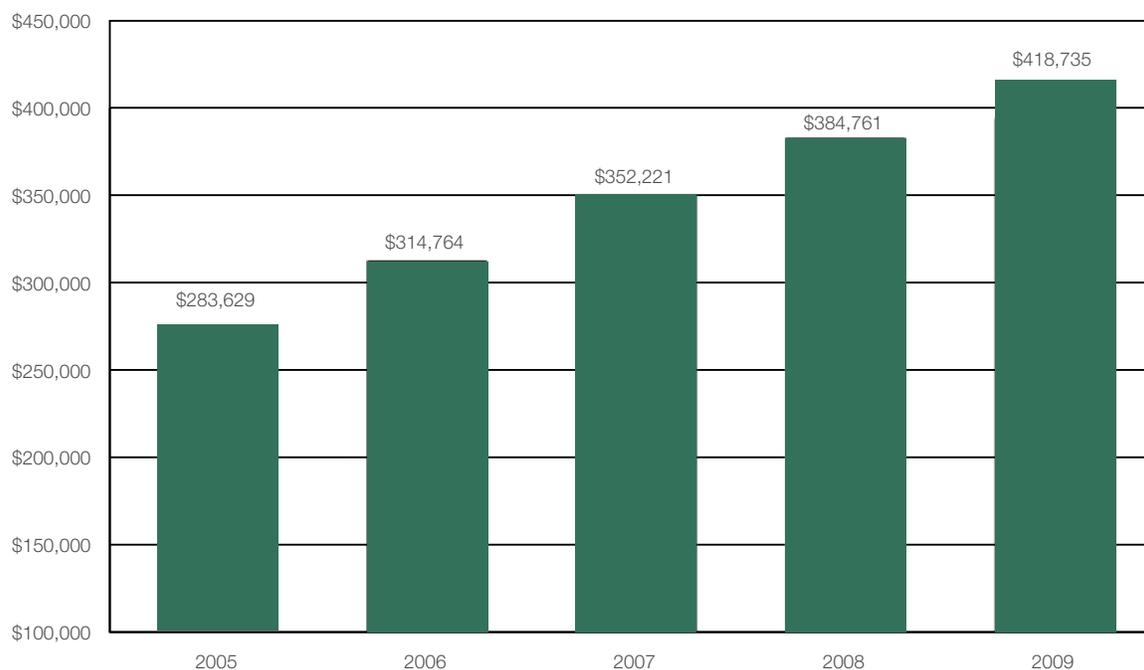
Member Characteristics

Defined Benefit Plan Member Characteristics

	Dec. 31, 2008*	Dec. 31, 2007	Dec. 31, 2006	Dec. 31, 2005	Dec. 31, 2004
Active Members					
Number of DB Active Members	36,092	36,518	36,846	36,467	36,766
Average Age	45.6	45.5	45.1	44.9	44.6
Average Benefits Service	11.6	11.5	11.2	11.1	10.8
Average Compensation	\$45,020	\$43,310	\$41,955	\$40,102	\$39,091
Vested Former Member					
Number of Members	6,662	6,438	6,235	6,126	5,804
Average Age	49.5	49.1	48.9	48.8	48.5
Average Annual Deferred Benefit	\$8,127	\$7,787	\$7,395	\$7,165	\$6,990
Retirees and Beneficiaries					
Number of Pensioners	23,832	22,600	21,464	20,155	19,271
Average Age	69.0	69.1	69.1	69.2	68.4
Average Annual Benefit	\$16,447	\$15,643	\$15,026	\$14,292	\$13,607

* Member characteristic data for 2009 is not yet available.

Benefit Payments (Dollars in Thousands)



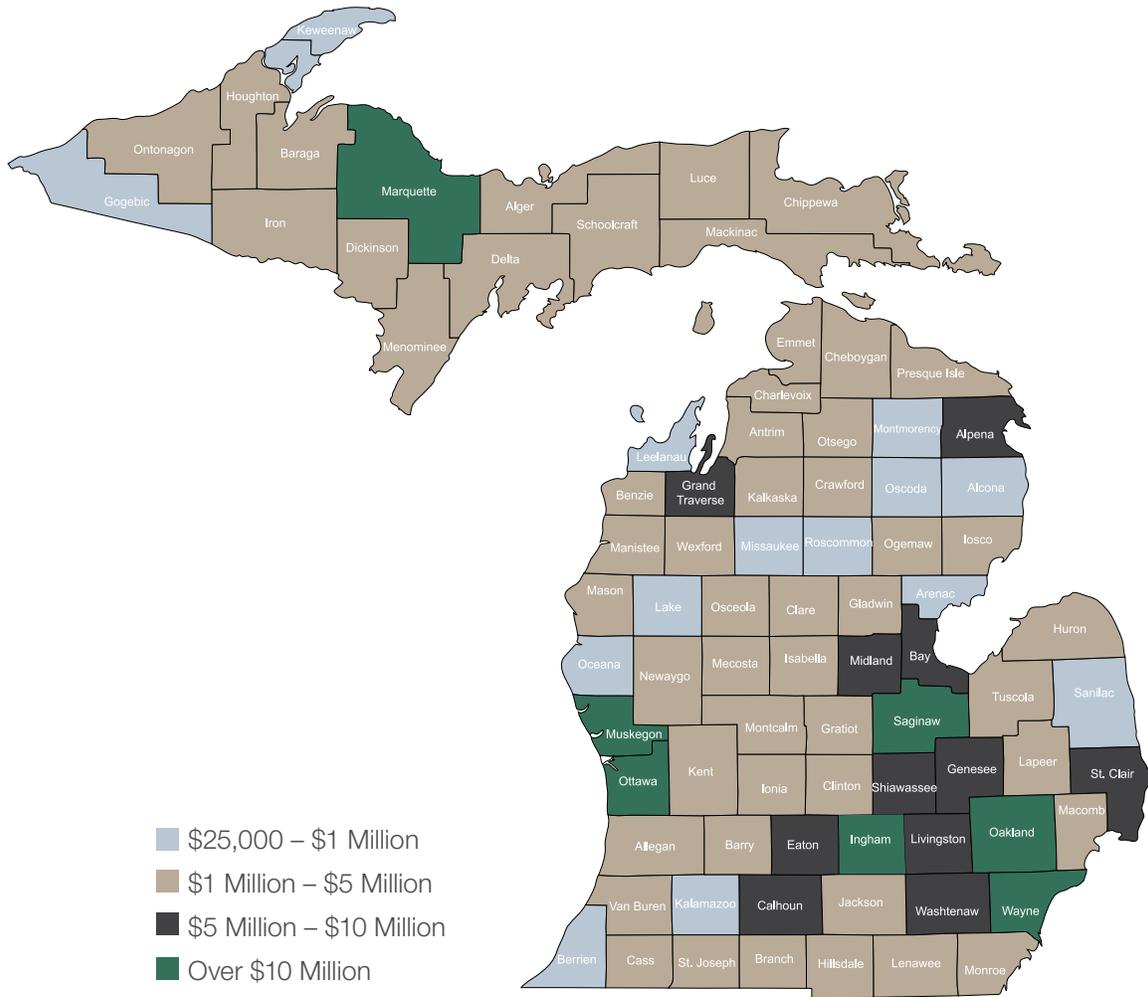
The above chart shows the benefit payments paid to Defined Benefit and Defined Contribution members over the last 5 years.

Customer Service for the Year Ended December 31, 2009

Service	Members Served
Pension Payroll	
New Retirees Added	2,071
Retirees Removed from Benefits	762
Active Members	
Address Changes	3,520
Beneficiary Changes	1,530
Benefit Estimates Completed	2,437
Disability Retirements Completed	86
Eligible Domestic Relations Orders	200
New Membership Applications	2,910
New Retirement Applications Processed	1,578
Service Credit Purchase Estimates Completed	630
Education	
# of Members Attending Group Presentations	1,954
# of Members Attending One-on-One Consultations	1,438
Retirement Seminar Attendees	396
Deferred/Terminated Members	
Deferred Members Processed	1,052
Refunds Processed	859
Retired Members	
Electronic Fund Transfer Changes	1,399
Federal Income Tax Withholding Changes	4,152
Income Verifications	748
All Members	
Telephone Calls Processed by "Call Center"	31,304

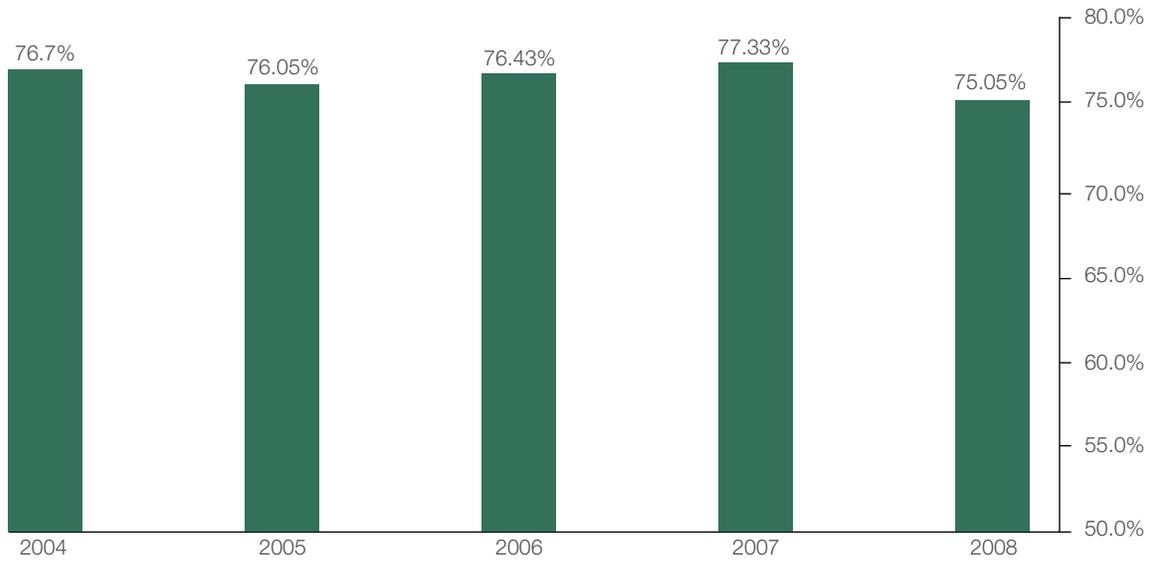
Retirees in Michigan

Of the 25,232 retirees and beneficiaries in the MERS system, 22,450 (89 percent) remain Michigan residents. Benefit payments amounting to \$365 million were distributed throughout the state's communities and businesses, representing MERS impact on the state's economy.



MERS Characteristics

Funded Ratio



The above chart shows the funded ratio for the MERS Defined Benefit Plan as a whole. Each municipality receives a separate valuation each year as 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.



MERS Won't Leave You at the Station

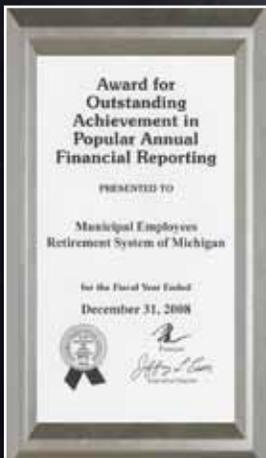
Your financial security is our highest priority. With more than 60 years of investment experience, you won't be derailed.



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*Award for Outstanding Achievement
from the Government Finance Officer's Association*

MERS received the Award for Outstanding Achievement in Summary Annual Financial Reporting from the Government Finance Officer's Association for the December 31, 2008, Summary Annual Financial Report. This is the sixth year MERS has received this award.

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