



Growing your future

MUNICIPAL EMPLOYEES'
RETIREMENT SYSTEM OF MICHIGAN

2010 summary annual financial report for the fiscal year ended 12.31.2010



MERS Vision

Our present is your future

MERS Mission

The Municipal Employees' Retirement System (MERS) of Michigan 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:
Accurate information
Excellent service
Commitment to innovation



Service

MERS offers excellent customer service and educational outreach to its members. We're available through one-on-one appointments, by phone or online through the myMERS Member Portal. You can rely on our professional in-house investment team, legal staff and representatives to provide comprehensive information regarding your programs. We offer many educational seminars and are available for on-site visits regardless of the size or location of your municipality. Delivering service, solutions, and security is our promise to our members.

About This Report

This booklet provides a summary of the MERS Comprehensive Annual Financial Report for the fiscal year which ended December 31, 2010. The Annual Report is prepared in accordance with Generally Accepted Accounting Principles (GAAP) and is subject to external audit. The complete 2010 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:

800.767.2308

Website:

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 07/29/11. 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.



Growing your future

Dear MERS Members:

It is a pleasure to submit the 2010 Summary Annual Financial Report for the Municipal Employees' Retirement System (MERS) of Michigan for fiscal year which ended December 31, 2010. The information contained in this report is condensed from the audited 2010 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 this year is **Growing Your Future**. Michigan is a great agriculture state with a variety of soil types. This diversity results in an ability to grow a large variety of crops – from fruit on the west side of the state, to sugar beets on the east, mint in the lower middle, and forests in the upper regions. Farms of all shapes and sizes dot the Michigan landscape. Planning, planting, growing and harvesting are similar to making choices for retirement. Likewise, MERS has diverse members with diverse plan types located all across the state.

Investments

Over the past two years, MERS has shown performance improvement as the MERS portfolio exceeded 17% in 2009 and 14% in 2010, following the meltdown of the financial markets in 2008. An updated Experience Study provided by MERS actuary, Gabriel, Roeder, Smith & Company, indicated that these returns leave the long-term return (30-plus years) more than 100 basis points above the Board-adopted 8% assumed investment rate of return.

Projects

The year 2010 was a big project year for MERS. Beginning in January, the Expanded Capabilities Project got underway. This project was the outgrowth of our exploration to undertake the administration of the Defined Contribution Plan. Since the adoption of MERS Defined Contribution Plan in 1996, our internal capabilities have greatly expanded. We felt it was time to examine the potential for managing the Defined Contribution Plan internally. After months

of planning and discussions, the Board issued a “go forward” vote in July. The actual conversion occurred in a very seamless fashion in January 2011.

As a result, the Service Center was expanded to better service approximately 3,500 calls per month by our well-trained staff. We also launched two new online portals – the myMERS Member Portal and the Employer Portal. Both are accessible through the MERS website, allowing our members immediate access to their accounts through a single, secure login.

Membership

In 2010, 16 new municipalities joined MERS, eight in the Defined Benefit Plan and eight in the Defined Contribution Plan. In addition, 11 new divisions in existing member municipalities also joined. In total, these new groups brought in more than \$97 million in assets.

Service

Our goal is to help our members prepare for retirement throughout their careers. A new seminar was added for those members in mid-career, called “Build a Better Retirement.” The various seminars continued to be very successful during the year with 419 attending the onsite retirement seminar; 232 attending the Successful Retirement Seminar; and 20 attending the Build a Better Retirement Seminar.

Off-site group presentations were provided to more than 2,000 members with separate one-on-one appointments provided to more than 1,400 members.

Other statistics: 1,723 Defined Benefit retirement applications were processed, 2,421 new membership applications, 1,107 deaths for retirees and/or their beneficiaries, and 868 verifications for service credit purchase estimates were provided. MERS is now requiring cash payment for all service credit purchases by either the employer or the employee.

We strive to offer excellent service to our employers. Regional managers completed more than 1,231 service visits to MERS employers and prospective members. In addition, 257 actuarial requests were processed.

Acknowledgments

In closing, this report reflects the combined efforts of the MERS staff and the Retirement Board. My sincere appreciation goes to the entire staff for their unflinching efforts to ensure the successful operation of the system. I would also like to extend my deep appreciation to the Retirement Board members for their tireless efforts and dedication in overseeing the System. Their conscientious service and diligence is exemplary. I am also grateful to the many organizations and advisors who work in partnership with MERS to help assure the success of our System.

Respectfully submitted,
Anne M. Wagner
Chief Executive Officer



Did You Know?

- Michigan ranks third in the nation for the number of Christmas trees harvested, supplying approximately three million fresh trees each year
- Michigan produces more than a dozen Christmas tree varieties, more than any other state
- Approximately 42,000 acres are used for Christmas tree production
- For every Christmas tree harvested, Michigan farmers plant three new trees



Did You Know?

- Michigan produces more cherries than any other state
- It takes six to eight pounds of tart cherries to make one pound of dried cherries
- Cherries contain powerful antioxidants that help fight cancer and heart disease
- Eating the equivalent of 20 cherries per day may help arthritis and headaches
- Michigan produces about 190 million pounds of tart cherries, and 43 million pounds of sweet cherries



Chief Investment Officer Report

Dear MERS Members:

It is my privilege to present the Report on Investment Activity for the MERS Summary Annual Financial Report for calendar year 2010. As of this report, MERS total plan had net assets of \$6.6 billion, with the Total Market Fund generating \$817 million in earnings.

The Office of Investments strives to achieve a real rate of return of at least 3.5% annually over the rate of inflation, and/or exceed the actuarial assumption rate of 8% annually. The fund objective, based upon actuarial valuations, is to grow assets at a rate which, when coupled with contributions, satisfies earned benefits to MERS members. On a relative basis versus our various objectives and peers, MERS performed very well in 2010. Below are a few highlights:

- The MERS Total Market Portfolio is a fully diversified portfolio that combines traditional with alternative asset classes. The Fund returned 14.12% (net of fees) for 2010, which outperformed the actuarially assumed rate of 8%. This works favorably to reduce future contributions from MERS members
- The MERS Total Market Fund outperformed its custom policy benchmark by 0.89% (net of fees) generating \$48 million above what would have been earned if it had been invested passively

At the broad asset class level, absolute returns* (net of fees) for each class were positive in 2010:

■ Domestic Equity	21.23%	■ High Yield	16.22%
■ International Equity	13.14%	■ Commodities	15.04%
■ Real Estate	4.19%	■ Private Equity	15.52%
■ Fixed Income	7.88%	■ Cash	2.01%

- A \$10,000 Total Market Fund investment made in 1988 would have been worth \$69,686 at the end of 2010. This is \$13,724 above what would have been earned if the Total Market Fund had been invested passively

The MERS Office of Investments conducts a full asset allocation study every five years to assess portfolio construction and strategy. The MERS Board adopted our most recent asset allocation recommendation in July of 2010. The asset allocation is reviewed annually per Board policy to rebalance where needed. The Board may revise the plan when necessary; the Office of Investments tactically allocates the portfolio within established asset class bands. (See chart below.)

Asset Class	Target Asset Allocation	Minimum Allocation	Maximum Allocation
Domestic Equity	34.50%	30.50%	38.50%
International Equity	10.00	6.00	14.00
Fixed Income	30.00	26.00	34.00
High Yield	5.00	1.00	9.00
Private Equity	7.00	3.00	11.00
Real Estate	7.00	3.00	11.00
Commodities	5.00	3.00	7.00
Cash	1.50	1.00	3.00

*An absolute return is the return that an asset achieves over a certain period of time. An absolute return is concerned with a specific asset, and it is not compared to other measures or benchmarks.

64¢ of every dollar paid in Michigan public pensions comes from investment earnings, not taxpayer dollars. The remaining 36¢ comes from shared contributions between employers and employees.*

* Represents the pension payments of the State of Michigan's Office of Retirement Services and MERS retirees only.

As the global economy floundered for most of 2010, we decided not to make any tactical moves versus our Policy Asset Allocation set by the MERS Board. Additionally, to help us rebalance back to our Policy more efficiently, we hired a manager to make our rebalancing procedures more efficient. This solution generated an additional 9 basis points or \$5.6 million above what would have been earned had the strategy not been implemented.

As we look ahead at an ever-evolving investment world, we continue to be vigilant in our search for new investment opportunities. It is our view that the global landscape will continue to shrink at an unprecedented pace, and that a majority of global growth will come from non-developed nations. With this theme in mind, we are looking to position the portfolio to capture growth in terms of total return for the Total Market Fund and MERS members.

Lastly, I would like to thank the Retirement Board, the fiduciaries of the MERS plan, for their enthusiasm in creating a structure that provides the Office of Investments the ability to be flexible and innovative. Our structure is continually praised by investment managers and peers, and makes for a more efficient decision-making process in a world that now moves at blinding speeds.

Respectfully,
Jeb Burns
Chief Investment Officer

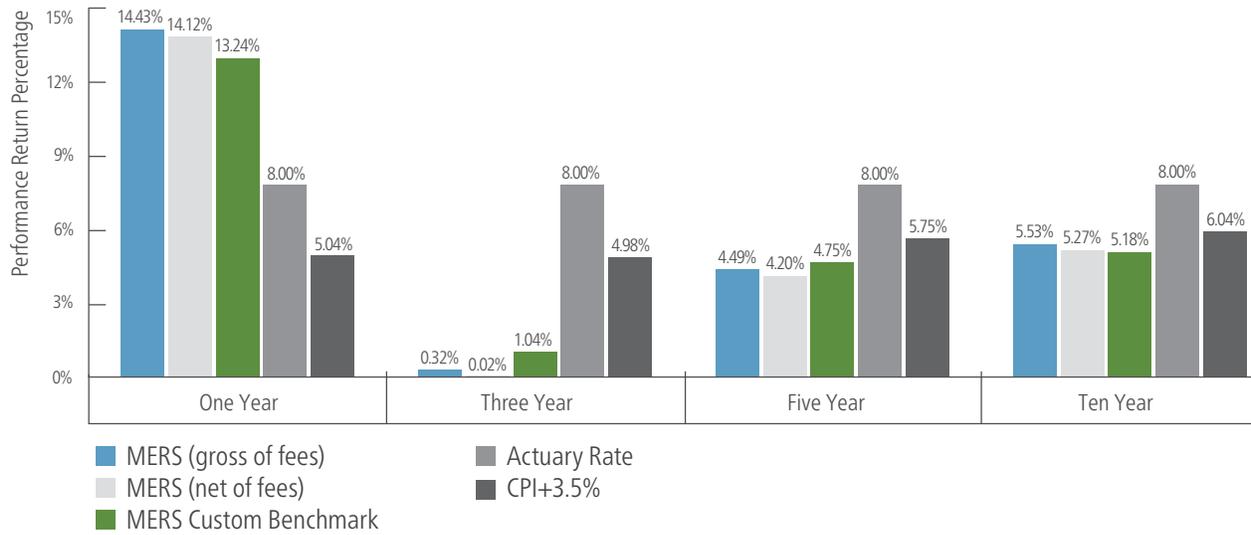


Did You Know?

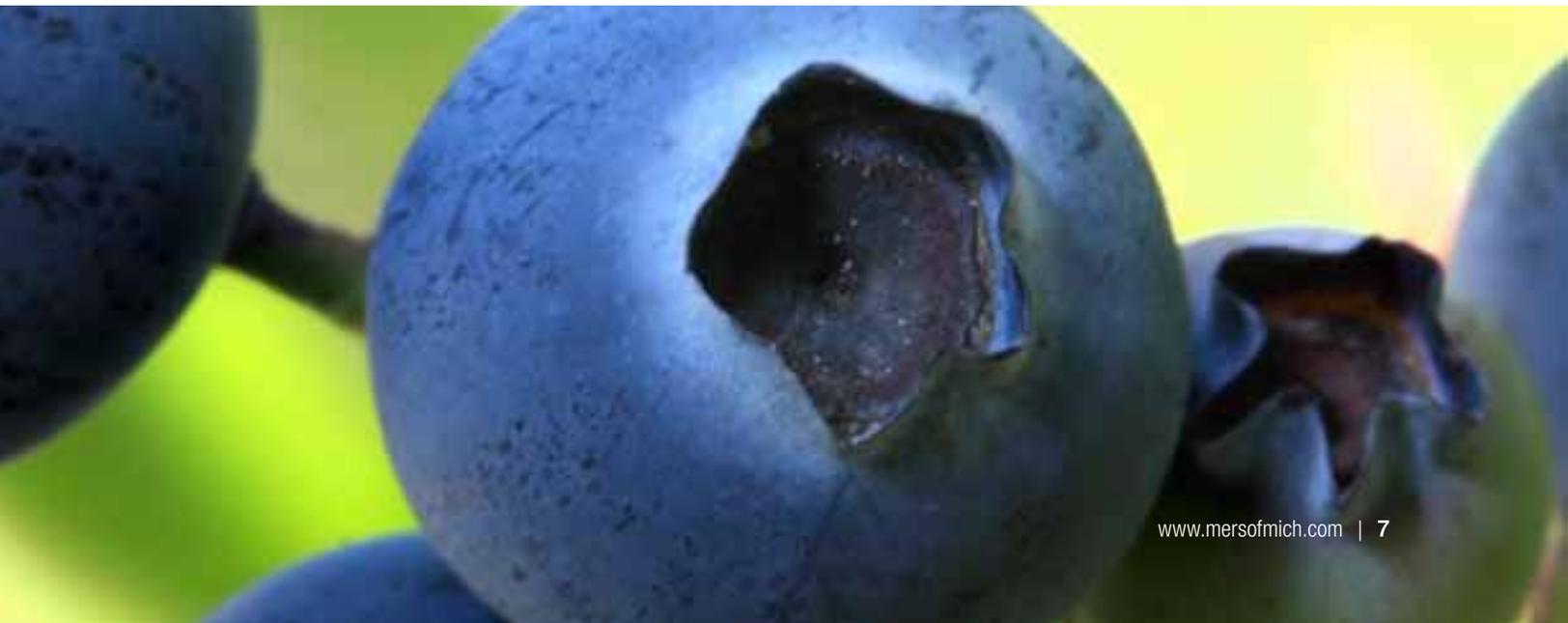
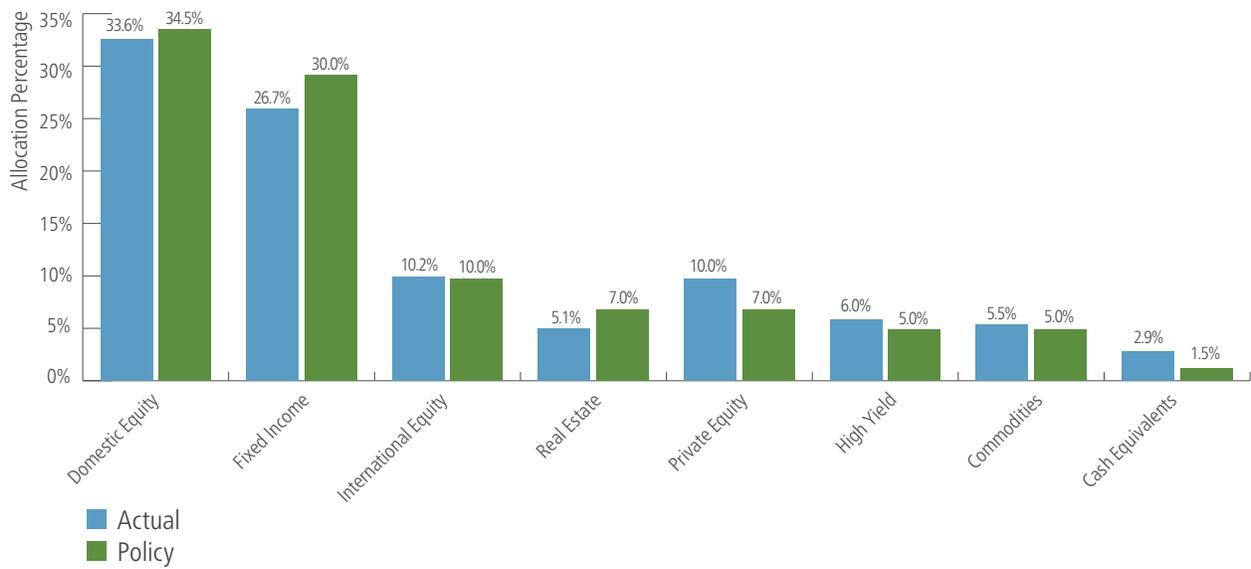
- Michigan leads the nation in growing blueberries
- Over 600 family farms contribute nearly \$101.8 million in blueberry production to the state's economy
- About 69 percent of the harvest is frozen or canned
- Blueberries promote heart health and help fight cancer
- A one cup serving gives you five grams of fiber and 15 percent of your daily vitamin C



Performance (gross and net) versus Custom Benchmarks as of December 2010



Current Asset Allocation versus Policy Allocation as of December 2010



Comparison Statement of Plan Net Assets

	As of Dec. 31, 2010	As of Dec. 31, 2009	Increase (Decrease) Amount	Increase (Decrease) Percent
Assets				
Cash and Short-Term Investments	\$90,356,008	\$47,440,502	\$42,915,506	90.46%
Receivables	295,533,786	370,153,123	(74,619,337)	-20.16%
Interfund Receivables	-	953,983	(953,983)	-100.00%
Investments, at fair value	6,463,126,165	5,701,945,005	761,181,160	13.35%
Securities Lending Collateral	965,406,902	1,001,205,736	(35,798,835)	-3.58%
Other Assets/Prepays	173,239	703,273	(530,035)	-75.37%
Net Capital Assets	6,346,492	4,963,358	1,383,134	27.87%
Total Assets	7,820,942,592	7,127,364,980	693,577,612	9.73%
Liabilities				
Purchase of Investments	252,618,509	354,943,179	(102,324,670)	-28.83%
Securities Lending Collateral	972,419,765	1,017,278,740	(44,858,975)	-4.41%
Administrative and Investment Costs	11,661,471	9,735,724	1,925,747	19.78%
Interfund Payables	-	953,983	(953,983)	-100.00%
Other Accounts Payable	94,565	54,778	39,787	72.63%
Total Liabilities	1,236,794,310	1,382,966,404	(146,172,094)	-10.57%
Net Assets Held in Trust for Pension and Health Benefits and Investment Accounts Held for Others	\$6,584,148,282	\$5,744,398,576	\$839,749,706	14.62%

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



Did You Know?

- Apples are one of the largest and most valuable fruit crops in Michigan
- There are over 7.5 million apple trees in production, covering 38,500 acres
- Michigan is the third largest apple producing state
- The annual economic impact is estimated at approximately \$800 million
- Sixty percent of Michigan apples are processed into other products

Comparison Statement of Changes in Plan Net Assets

	Year ended Dec. 31, 2010	Year ended Dec. 31, 2009	Increase (Decrease) Amount	Increase (Decrease) Percent
Additions				
Contributions	\$519,556,971	\$507,731,883	\$11,825,088	2.33%
Transfers from Defined Benefit Plan	1,005,605	198,729	806,876	406.02%
Transfers from Other Plans and Other Items	3,696,142	1,555,390	2,140,752	137.63%
Net Investment Income Investing Activities	812,538,191	853,883,014	(41,344,823)	4.84%
Net Investment Income Securities Lending	3,294,781	4,623,005	(1,328,224)	-28.73%
Miscellaneous Income	1,726,190	1,387,459	338,731	24.41%
Total Additions	1,341,817,880	1,369,379,480	(27,561,600)	-2.01%
Deductions				
Benefits	464,089,382	418,734,712	45,354,670	10.83%
Refunds of Contributions	7,011,682	9,510,225	(2,498,543)	-26.27%
Special Expenses and Fees	1,648,860	1,341,348	307,512	22.93%
Transfers to Defined Contribution Plan	1,005,605	198,729	806,876	406.02%
Medical Disbursements Paid to Members	889,941	511,902	378,039	73.85%
Disbursements Paid to Municipalities	5,564,350	39,681,182	(34,116,832)	-85.98%
Forfeited Employer Contributions	85,142	64,171	20,971	32.68%
Administrative Expense	21,773,212	19,009,298	2,763,914	14.54%
Total Deductions	502,068,174	489,051,567	13,016,607	2.66%
Net Increase (Decrease)	839,749,706	880,327,913	(40,578,207)	-4.61%
Net Assets Held in Trust for Pension and Health Benefits and Investment Accounts Held for Others				
Balance Beginning of Year	5,744,398,576	4,864,070,663	880,327,913	18.10%
Balance End of Year	\$6,584,148,282	\$5,744,398,576	\$839,749,706	14.62%

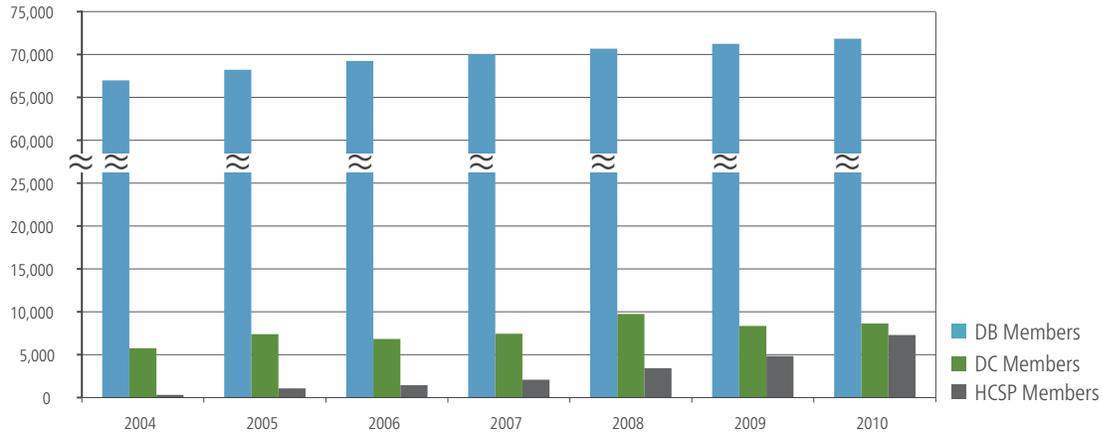
The Statements of Changes in Plan Net Assets summarize the flow of money in and out of the fund throughout the fiscal year.



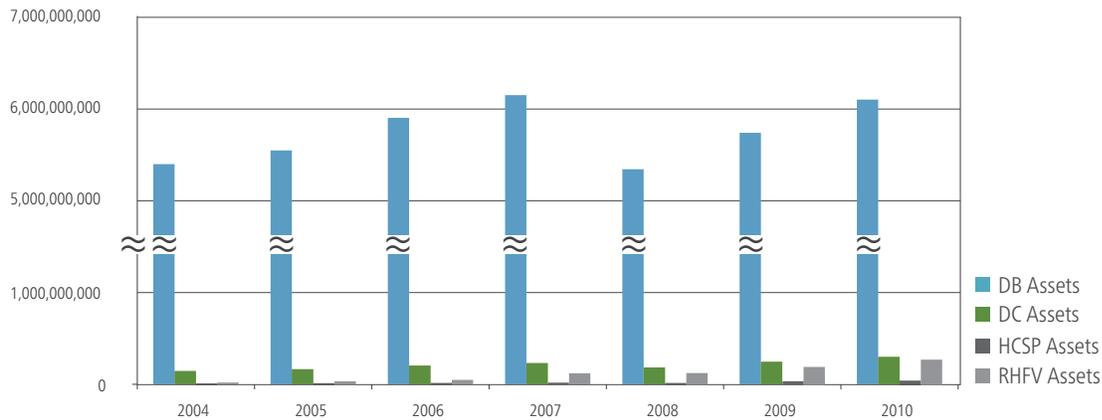
Growth Statistics

There's strength — and savings — in our numbers. Through the pooling power of our municipalities, we are able to keep costs low, and pass the savings on to you. MERS has saved Michigan municipalities money by leveraging our membership's purchasing power to provide quality and affordable pension benefits and insurance.

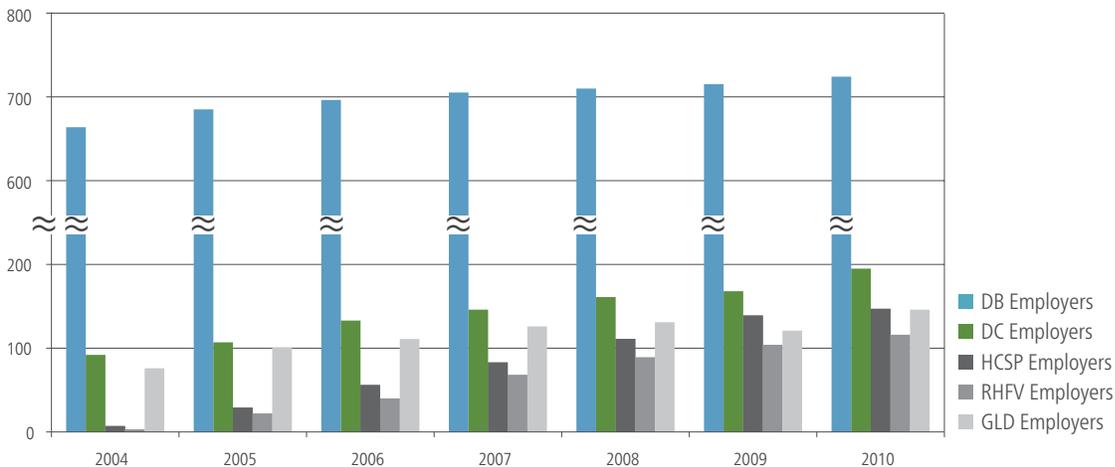
Growth in Members



Growth in Assets



Growth in Employers



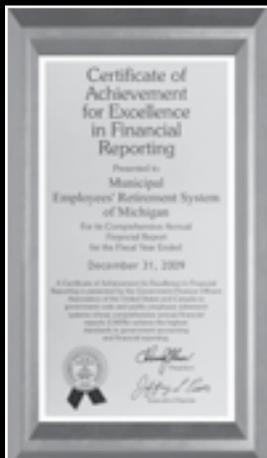


1134 Municipal Way
Lansing, MI 48917

800.767.2308
517.703.9030
517.327.8336 fax

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Award for Outstanding Achievement from the Government Finance Officers Association

MERS received the Award for Outstanding Achievement in Summary Annual Financial Reporting from the Government Finance Officers Association for the December 31, 2009, Summary Annual Financial Report. This is the seventh year MERS has received this award.



MERS Retirement Board and Chief Executive Officer 2009/2010

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.