

MERS: the

constant affordable
pathfinder
ethical motivated loyal
diligent committed
innovative
willing
stable
secure
ready
stable
prepared
honest
confident creative
able
constant
strategic
innovative

of retirement

happy ready decisive
professional
innovative partner
dependable
stable
creative
trusting
visionary
ready
able
confident
steady

innovative
partner
professional
leader
experienced ready
decisive confident
stable
affordable
innovative
prepared
creative
invested
prepared
stable
apply

**MUNICIPAL EMPLOYEES'
RETIREMENT SYSTEM OF MICHIGAN**
2011 summary annual financial report

for the fiscal year ended
12.31.2011



About This Report

This booklet provides a summary of the MERS Comprehensive Annual Financial Report (CAFR) for the fiscal year which ended December 31, 2011. The annual report is prepared in accordance with Generally Accepted Accounting Principles (GAAP) and is subject to external audit. This Summary Annual Financial Report is also prepared in accordance with GAAP. The 2011 CAFR contains more detailed information and 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 07/31/12.

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.

FORM 4501 20120727 10

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.



Debra Peake, Interim Chief Executive Officer



Letter of Transmittal, June 29, 2012

Dear MERS Members:

It is my pleasure to submit the 2011 Summary Annual Financial Report for the Municipal Employees' Retirement System (MERS) of Michigan for fiscal year ended December 31, 2011. The information contained in this report is condensed from the audited 2011 Comprehensive Annual Financial Report (CAFR).

Although the negative returns of 2008 are still being recognized, MERS uses a 10-year smoothing method to account for gains and losses. The assumed rate of return on the portfolio is set at 8%. MERS continues to pursue sustainability by adhering to the asset allocation study adopted by the Board, and

This Summary does not replace the CAFR, but presents selected information on the System's revenues, spending and demographics in an informal format.

This year our theme is MERS: The Art of Retirement. After our more than 65 years of experience, we know there is an "art to retirement." At MERS, we are dedicated to mastering the art of retirement with skill and expertise.

After our more than 65 years of experience, we know there is an "art to retirement," and we will continue to use our skills to paint a secure path for our members.

Financial Summary

The U.S. financial markets "artfully" improved enough in the last quarter to provide positive returns for the year. The MERS portfolio returned 2.3%, and placed MERS in the top quartile for performance according to the State Street Universe of public funds.

closely managing the portfolio with a close eye on the world financial markets. MERS actuarial funded ratio declined somewhat for the 2010 valuations primarily due to recognition of investment losses from 2008. The 2010 actuarial valuation has MERS funded at 74.5% compared with a funding ratio of 75.5% with the 2009 valuation.

Key Initiatives For 2011

In January we launched the internal management of the MERS Defined Contribution Plan. This effort was the result of extensive research and planning from key staff. Over 9,000 accounts were successfully transferred from the previous third-party administrator, and offered at a lower cost to our members.

As part of the defined contribution initiative, we rolled out the myMERS portal, which allows all members 24-hour access to their personal accounts through one portal sign-on.

Following the success of the defined contribution project, we launched the MERS 457 Supplemental Retirement Program, and began enrollments near the end of 2011.

Membership Highlights

The year 2011 brought in new assets that included \$8 million in defined benefit and \$70 million in participant-directed accounts. Retirement service was expanded to include 12 new municipalities and five new divisions. Approximately 30 new employers joined the Health Care Savings Program, which now includes 7,000 participants. In addition, 176 divisions increased employee contributions, 63 divisions adopted a lower defined benefit for new hires, 14 divisions adopted Bridged Benefits, and 31 divisions adopted the Hybrid Plan.

Acknowledgements

In closing, my deep gratitude goes to the entire MERS staff for their hard work and dedication to ensure the successful operation of MERS. They champion innovative ideas using skill and imagination to “paint” the right retirement path for you.

I am also very grateful to the Board members for their continued work and dedication. Their conscientious oversight and diligence is exemplary. I would also like to extend my appreciation to the many organizations and advisors who work in partnership with MERS to ensure the continued success of the System.

Finally, I wish to congratulate former CEO Anne Wagner on her retirement from MERS. Anne has been a driving force and a visionary behind MERS growth and innovation. We wish her all the best in her new role as a MERS retiree.

Respectfully submitted,

Debra Peake

Interim Chief Executive Officer



Chief Investment Officer Report

Dear MERS Members:

It is my pleasure to present the Report on Investment Activity for the MERS Summary Annual Financial Report for calendar year 2011. The information contained in this report is condensed from the audited 2011 Comprehensive Annual Financial Report (CAFR).

It seems that every year investing becomes a little more challenging or at least more interesting than the prior year. Factors like extreme market volatility, increasing and often unpredictable government policy interventions, an interconnected global economy, and the communication of data at ever increasing speeds has dramatically magnified the complexity and challenges in managing institutional assets. Yet, while the market conditions are complicated, the perspective of a disciplined approach to investing, combined with sound governance, adds value and keeps MERS strong and viable for the future.

The current global uncertainty reflects a generational transition point. Old orthodoxies are giving way to new governance and market structures. While I expect this transitional period to continue for some time, I sincerely believe that an extended period of global growth and a stronger economic framework will be the result. Monitoring

the situation and taking advantage of opportunities will be at the forefront of our investing strategy going forward.

The year 2011 can be divided into two parts. The first half from January through mid-July was really a continuation of the equity rally that started in July 2010. Optimism was cautiously high, and the MERS Total Market Fund (DB) was up 22.28% for the rolling one-year period ending June 30, 2011.

The second half of 2011 was much different and surprised on the downside – the S&P lost 226 points (approximately 20%) in just 12 trading days, and market turmoil eventually erased some \$6 trillion of value in the global stock market.

Regardless of economic and financial turmoil, the defined investment objective of the MERS fund is to grow assets at a rate which, when coupled with contributions, satisfies earned benefits to our members. The Office of Investments strives to achieve a real rate of return of at least 3.50% annually over the rate of inflation, and/or exceed the actuarial assumption rate of 8.00% annually. On an absolute return basis, the MERS Office of Investments desires better performance but feels confident about MERS performance relative to our benchmarks.

“

You know trust is one of the most important things to me. I think MERS is at its core about a long-term trust. But, they've also been innovative and an industry leader in making sure that we are able to change and provide products that continue that trust.

I am MERS because of their trust and commitment. ”

Michael Brown

Michael Brown is a County Administrator of Barry County, Michigan. He is also on the MERS Retirement Board.

He's been a MERS member since 1993.



“ I really feel like I have a security blanket waiting for me when the time comes when I’m able to retire. I always feel like I don’t have to worry. I know MERS is going to be there.

I am MERS because I have a secure future. ”

Akemi Gordon

Akemi Gordon is a Finance Director, UP Transportation Authority.

She’s been a MERS member since 2000.

2011 Highlights

- The MERS Total Market Fund (DB) return for 2011 was 2.30% gross of investment fees which underperformed the actuarially assumed rate of 8.00% by 5.7%.
- The MERS Total Market Fund (DB) outperformed its custom policy benchmark gross of investment fees by 1.33%. This outperformance is a testament of MERS portfolio asset allocation, active management, and tactical decision making. The fund generated \$63 million above what would have been earned if it had been invested passively. The MERS portfolio is specifically designed to provide downside protection during turbulent markets.
- At the broad asset class level, absolute returns gross of investment fees were as follows:

Total Equity	-5.33
Real Estate	5.98
Fixed Income	7.83
High Yield	7.64
Commodities	-1.15
Private Equity	15.70
Cash	1.64

A \$10,000 Total Market Fund (DB) investment made in 1988 would have been worth \$73,864 at the end of 2011. This is \$19,706 what would have been earned if the Total Market Fund (DB) had been invested passively, and \$12,846 above MERS actuarial assumption rate of 8.00%.

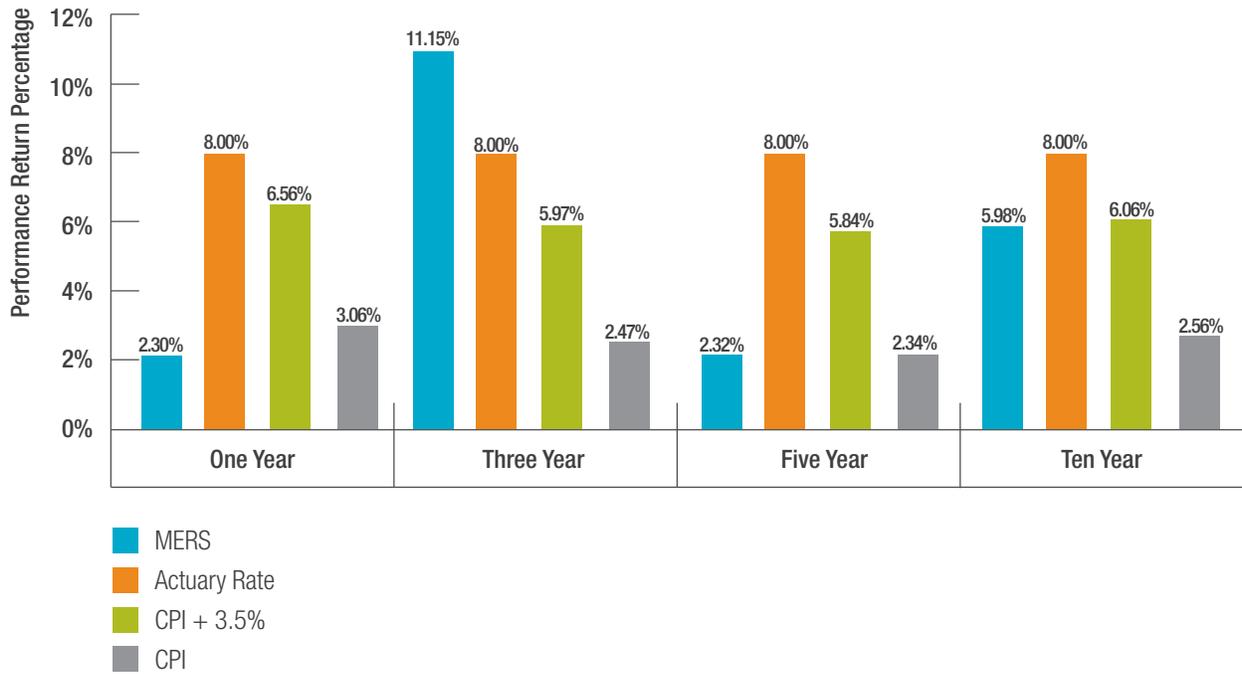
In conclusion, I would like to thank the Retirement Board, the fiduciaries of the MERS Plan, for their enthusiasm in creating a structure that provides the Office of Investments the ability to be flexible and innovative. Our structure is continually praised by investment professionals and peers. This relationship makes for a more efficient decision making process, and ultimately leads to a better risk/return performance for our membership.

Respectfully,

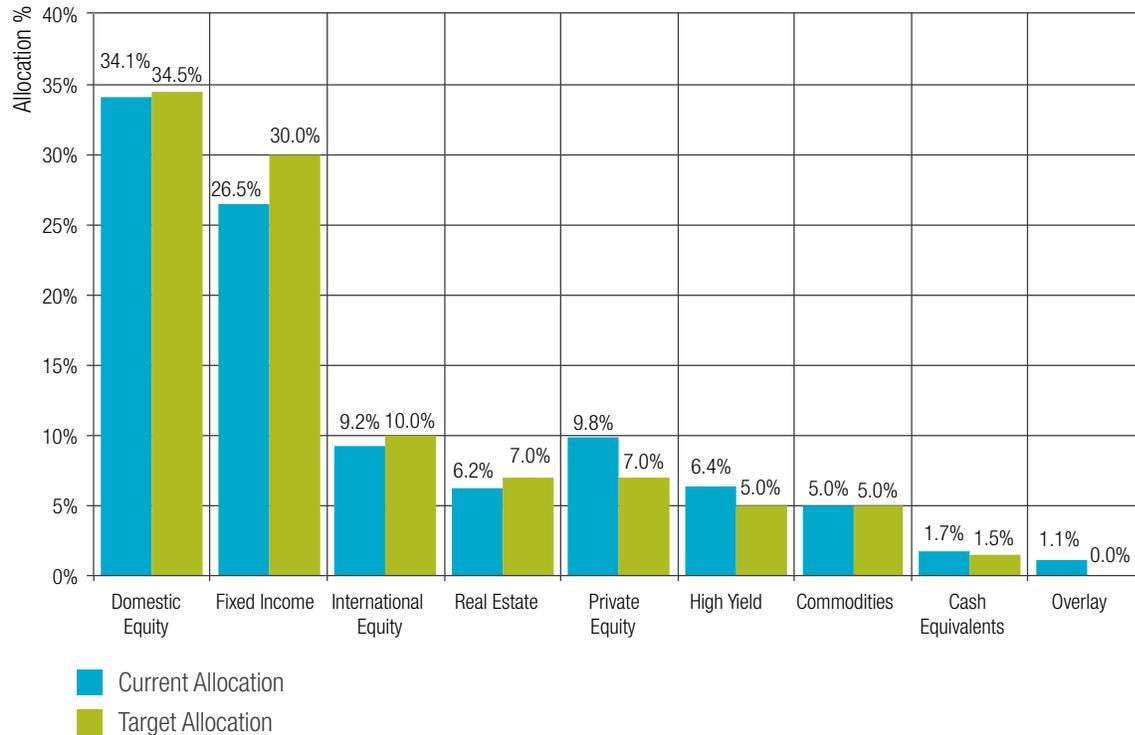
Jeb Burns,

Chief Investment Officer

Performance Versus Custom Benchmarks as of December 31, 2011 (gross of fees)



Current Asset Allocation versus Target Allocation as of December 31, 2011



Comparison Statement of Plan Net Assets

	As of Dec. 31, 2011	As of Dec. 31, 2010	Increase (Decrease) Amount	Increase (Decrease) Percent
Assets				
Cash and Short-Term Investments	\$104,657,607	\$43,807,281	\$60,850,326	138.90%
Receivables	346,321,828	292,252,201	54,069,627	18.50
Interfund Receivables	276,317	-	276,317	100.00
Loans	3,815,831	3,281,585	534,246	16.28
Investments, at fair value	6,533,652,171	6,509,674,895	23,977,276	0.37
Invested Securities Lending Collateral	771,417,923	965,406,902	(193,988,979)	-20.09
Other Assets/Prepays	66,004	173,239	(107,235)	-61.90
Net Capital Assets	7,300,506	6,346,492	954,014	15.03
Total Assets	7,767,508,187	7,820,942,592	(53,434,405)	-0.68
Liabilities				
Purchase of Investments	370,788,064	252,618,509	118,169,555	46.78
Securities Lending Collateral	776,695,757	972,419,765	(195,724,008)	-20.13
Administrative and Investment Costs	6,239,634	11,661,471	(5,421,837)	-46.49
Interfund Payables	276,317	-	276,317	100.00
Other Accounts Payable	10,621	94,565	(83,944)	-88.77
Total Liabilities	1,154,010,393	1,236,794,310	(82,783,917)	-6.69
Net Assets Held in Trust for Pension and Health Benefits and Investment Accounts Held for Others				
	\$6,613,497,794	\$6,584,148,282	\$29,349,512	0.45%



Comparison Statement of Changes in Plan Net Assets

	Year ended Dec. 31, 2011	Year ended Dec. 31, 2010	Increase (Decrease) Amount	Increase (Decrease) Percent
Additions				
Contributions	\$451,389,816	\$519,556,971	\$(68,167,155)	-13.12%
Transfers from Defined Benefit Plan	133,792	1,005,605	(871,813)	-86.70
Transfers from Other Plans and Other Items		3,696,142	(3,696,142)	100.00
Investment Net Income Investing Activities	136,531,099	812,538,191	(676,007,092)	-83.20
Investment Net Income-Securities Lending	2,900,411	3,294,781	(394,370)	-11.97
Miscellaneous Income	446,219	1,726,190	(1,279,971)	-74.15
Total Additions	591,401,337	1,341,817,880	(750,416,543)	-55.93
Deductions				
Benefits*	517,664,569	464,089,382	53,575,187	11.54
Refunds of Contributions	7,956,336	7,011,682	944,654	13.47
Special Expenses and Fees	444,000	1,648,860	(1,204,860)	-73.07
Transfers to Defined Contribution Plan	133,792	1,005,605	(871,813)	-86.70
Medical Disbursements Paid to Members	1,473,832	889,941	583,891	65.61
Disbursements Paid to Municipalities	9,073,910	5,564,350	3,509,560	63.07
Forfeited Employer Contributions	16,106	85,142	(69,036)	-81.08
Administrative Expense	25,289,280	21,773,212	3,516,068	16.15
Total Deductions	562,051,825	502,068,174	59,983,651	11.95
Net Increase (Decrease)	29,349,512	839,749,706	(810,400,194)	-96.50
Net Assets Held in Trust for Pension and Health Benefits and Investment Accounts Held for Others				
Balance Beginning of Year	6,584,148,282	5,744,398,576	839,749,706	14.62
Balance End of Year	\$6,613,497,794	\$6,584,148,282	\$29,349,512	0.45%

* Benefits paid out increased due to baby boomers reaching retirement age. MERS retirees contribute more than \$500 million to Michigan's economy from pensions paid by MERS.

“ When I considered leaving my previous employer, MERS was at the top of the decision-making process. The retirement plan that they have here was great and I felt like I could stay. It's somewhere I could stay for the rest of my life. I had friends at my old job and it was hard to leave them, but the security I have with MERS was really the selling point.

I am MERS because I am secure. ”

Ron Coleman

Ron Coleman is an Electrical Distribution Tech II at Holland Board of Public Works.

He's been a MERS member since 1996.

MERS Service by the Numbers

We strive to meet our Board's Ends Policies by delivering accurate information, excellent service, and providing a cost-effective and innovative system to our members.

With that in mind, we're continually improving and expanding the benefits and services we offer you, such as seminars, newsletters, and one-on-one presentations. We've also created the myMERS section of our website — an online tool that offers up-to-the-minute information about your personal account and more.

Here's a look at our service to our members in 2011, by the numbers:

- **9,000+** members registered for myMERS
- **45,500** phone calls fielded by MERS Service Center
- **4,870+** one-on-one consultations with members
- **2,440+** members attended presentations
- **300+** trips to the Upper Peninsula by MERS Regional Team

myDreams. myFuture. myMERS.

Access Your Retirement Account, Online Anytime

The road to retirement is paved with preparation, and MERS gives you all the tools you need to reach your goals. You can view or change your investment selections, download publications and forms, and much more online at mymers.mersofmich.com.

Here's how to get started:

- Visit mymers.mersofmich.com
- Click "Register"
- Complete the online form, and click the link emailed to you to activate your account
- Log in and start using **myMERS**

If you have questions, please contact our Service Center at 800.767.2308 for help with your account.



MERS Member Benefit Changes

We continue to see an increase of requests from groups to reduce costs versus improve benefits. Groups are looking at merging divisions, exploring municipality consolidations and other MERS solutions. These charts show the number of divisions that have made changes in 2010 and 2011.

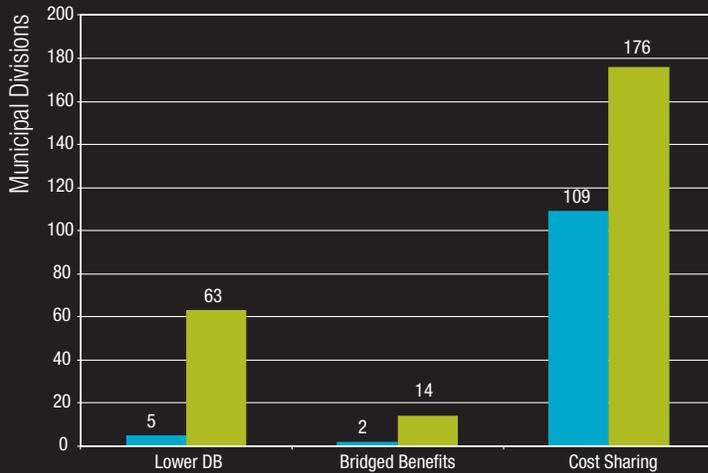
Cost Controlling Solutions

Cost Sharing: Include changes to employee rate changes without any other benefit changes

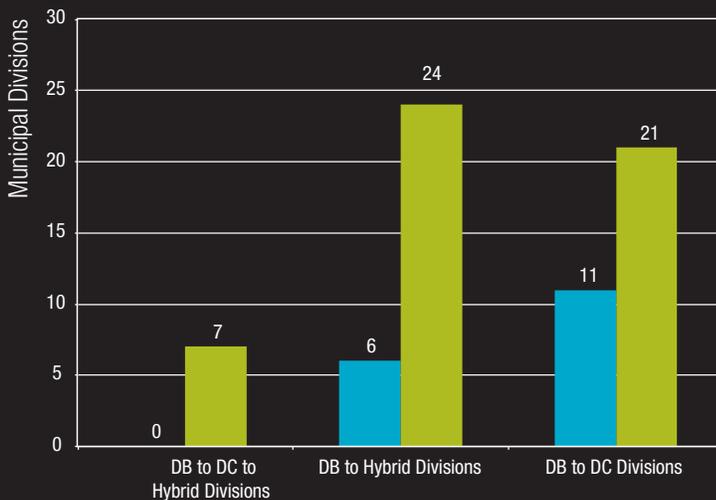
Bridged Benefits: Allows groups to lower long-term liability on a going forward basis, leaving earned benefits unchanged

Lower Defined Benefit: New division with lower benefits is adopted for new hires

Cost Controlling Solutions



Retirement Plan Changes



The retirement plan changes show the number of municipal divisions which have shifted from Defined Benefit to Defined Contribution or Hybrid in their plan design. Many of these changes have been done to prospectively lower costs to the local government.

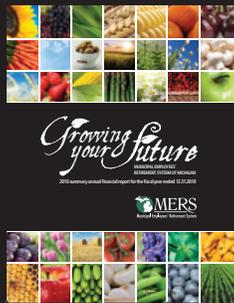
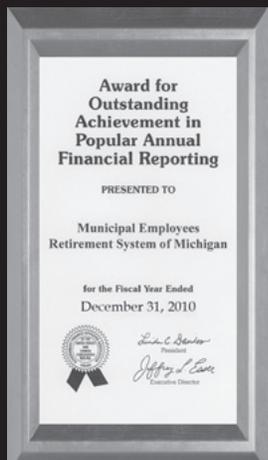


1134 Municipal Way
Lansing, MI 48917

800.767.2308
517.703.9030
517.327.8336 fax

www.mersofmich.com

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



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, 2010, Summary Annual Financial Report. This is the eighth year MERS has received this award.



MERS Retirement Board and Chief Executive Officer 2011

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.