

A NEW VISION,
A BETTER PARTNERSHIP,
A BRIGHTER FUTURE.

summary annual financial report
for the year ended 12.31.2013

MUNICIPAL EMPLOYEES'
RETIREMENT SYSTEM OF MICHIGAN



ABOUT THIS REPORT

This booklet provides a summary of the MERS Comprehensive Annual Financial Report (CAFR) for the fiscal year which ended December 31, 2013. 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 2013 CAFR contains more detailed information and can be obtained by contacting MERS:

Website:

www.mersofmich.com

By mail:

Municipal Employees' Retirement System of Michigan
1134 Municipal Way
Lansing, MI 48917

By phone:

800.767.MERS (6377)

The financial statements were audited by Plante & Moran, PLLC. This Summary Annual Financial Report is also available on our website at www.mersofmich.com.

OUR PROGRAMS & SERVICES

We offer a broad range of customizable plans to fit our member's budgets, needs and goals:

MERS Defined Benefit Plan
MERS Defined Contribution Plan
MERS Hybrid Plan
MERS 457 Supplemental Retirement Program
MERS Health Care Savings Program
MERS Retiree Health Funding Vehicle
MERS Investment Services Program
MERS Group Life & Disability provided by The Standard
MERS MERS Premier Advantage provided by Humana

ABOUT MERS

MERS is an independent nonprofit, professional retirement services company that serves municipal members across the state of Michigan. We manage 2,000 retirement and employee benefit plans for over 800 municipal members – with a combined value of nearly \$9 billion. MERS proudly serves more than 100,000 participants.

MERS VISION

By December 2016, MERS will deliver superior value to employers and participants by clearly identifying and prioritizing employer and participant needs and creating products, services, tools and processes that meet those needs.

MERS LEADERSHIP

Chris DeRose, Chief Executive Officer
Jeb Burns, Chief Investments Officer
Leon Hank, Chief Financial Officer
Carrie Lombardo, Chief Marketing and Employer Services Officer
Debra Peake, Chief Employee and Retiree Services Officer



Chris DeRose
Chief Executive Officer

Letter of Transmittal, April 30, 2014

DEAR MERS PARTICIPANTS:

We are pleased to submit the Summary Annual Financial Report for the Municipal Employees' Retirement System (MERS) of Michigan for the fiscal year ending December 31, 2013. The information contained in this report is condensed from the audited 2013 Comprehensive Annual Financial Report (CAFR), which is available on our website www.mersofmich.com. This summary presents selected information on the System's revenues, spending and demographics in an abbreviated format.

"A New Vision, A Better Partnership, A Brighter Future," is the theme for this year's publications. As we close out 2013, we are proud to announce our new Vision — a Vision we know will result in a better partnership and a brighter future for our members. The new Vision that is now driving MERS is based around providing outstanding customer service and value to members and participants: "By 2016, MERS will deliver superior value to employers and participants by clearly identifying and prioritizing employer and participant needs and creating products, services, tools, and processes that meet those needs."

As a measure of our strength and moving toward a brighter future, this year we celebrate another new record for us: our retirement trust funds at year end held \$8.8 billion for more than 100,000 participants enrolled in a variety of MERS products, the highest amounts in our history.

Financial Summary

The world financial markets provided strong, positive returns during the year ending December 31, 2013. The MERS Defined Benefit Portfolio earned a net return of 14.75% (after investment expenses), and placed MERS in the top half for performance for the last 10-year period according to the State Street Universe of Public Funds. This solid performance in the financial markets, plus a significant inflow of new money, increased the size of the MERS trust funds substantially from \$7.7 billion to \$8.8 billion, an increase of 13% over last year. More information regarding our investment management performance is found in the Investments Section.

New assets for 2013 include \$55 million in our Defined Benefit Plan for three new municipalities joining MERS. Hybrid Plan municipalities had excellent growth, increasing to 64 municipalities from 55 the previous year. In addition, another 24 new employers joined the Health Care Savings Program, bringing that total to 225 municipalities.

Key 2013 Initiatives and Highlights

In 2013, MERS completed its most important initiative in years. Teams of MERS employees reached out to employers across the entire state in several dozen listening sessions, where we asked what we do well and what we can do better. After hundreds of face-to-face discussions, we compiled that direct feedback for future action plans to address the issues we heard. Most important, we also completed a new, three-year Strategic Plan for 2014-2016 that incorporated what we heard from our customers. Completing the Strategic Plan took months of significant planning effort and involved all MERS staff. The new plan has a Vision Statement, major goals and targets, objectives, initiatives, and business plan projects that when completed will carry out and help achieve the Vision. One key initiative in the new Strategic Plan is to conduct re-engineering and process improvement reviews of all MERS core and supporting processes. This work began in 2013 and will continue for the next 18 months.

We also began a retirement readiness initiative in 2013, which when fully implemented in 2014-15, will provide participants

with resources to understand the full scope of their MERS benefits and how they will work in tandem with other retirement programs, such as Social Security.

Acknowledgement

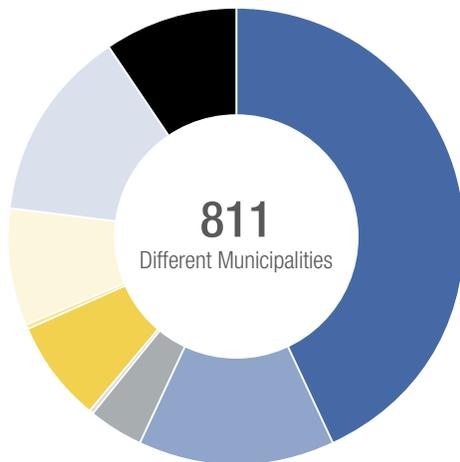
We are very grateful to our Board members for their time and dedication, which makes it possible for MERS to be successful at building “a better partnership and a brighter future” for our employers, members and retirees. Their conscientious oversight and diligence of our well-run system is much appreciated. We thank them for their dedication to public service. We also express our deep gratitude to the entire MERS staff for their hard work and dedication to ensure the successful operation of MERS. Our staff uses innovation, skill and a commitment to service every day to ensure the security of a retirement plan for all our members. Keeping MERS running as a strong organization also requires outstanding organizations and advisors who work in partnership with MERS to ensure our continued success. We also thank these talented firms and individuals for their work on our members’ behalf.

Respectfully submitted,
Chris DeRose
Chief Executive Officer

Leon E. Hank, CPA
Chief Financial Officer

“ ‘A New Vision, A Better Partnership, A Brighter Future,’ is the theme for this year’s publications. As we close out 2013, we are proud to announce our new Vision — a Vision we know will result in a better partnership and a brighter future for our members. ”

MERS Participating Municipalities as of December 31, 2013



Defined Benefit	714
Defined Contribution	229
Hybrid	64
Investment Services Program	2
457 Supplemental Retirement Program	123
Tribal Government Retirement System	3
Retiree Health Funding Vehicle	137
Health Care Savings Program	225
Group Life and Disability	153
	1,650

Note: There are 811 different municipalities that make up the 1,650 programs, as many municipalities have more than one product.

MERS Participants as of December 31, 2013

	Defined Benefit	Defined Contribution	Hybrid	Health Care Savings Program	457
Active	34,534	8,564	984	7,359	703
Deferred	8,063	NA	72	NA	NA
Retired	34,107	NA	13	NA	NA
Contributions not Vested	8,826	NA	133	NA	NA
Terminated	NA	2,776	NA	1,976	68
Product Totals	85,530	11,340	1,202	9,335	771
Total MERS Employment*					108,178
Total MERS Participants**					99,680

* Total Employment represents the total number of accounts within MERS; individuals may be represented multiple times across categories.

** Total participants represents the number of unique individuals that have a liability in a program. At least one of the individual's employments fell into the following categories: Active Status, Retired Status, Terminated Status DB vested, Terminated Status DB not vested but has a contribution balance, Terminated Status Hybrid vested, Terminated Status Hybrid not vested but has a contribution balance, Terminated Status DC with a contribution balance, or Terminated Status HCSP with a contribution balance.

Jeb Burns
Chief Investment Officer

I respectfully submit the investment activity report for the Municipal Employees' Retirement System (MERS) of Michigan's Summary Annual Financial Report for the year ending December 31, 2013.

As always, our goal as prudent investors is to provide our member municipalities with effective returns at efficient costs, while protecting the pensions and assets of our many members. Our investment returns consistently outperform our benchmarks and market averages, with a prudent, long-term approach designed to provide downside protection and upside market participation.

Economic Overview

The global markets experienced modest growth and improving employment levels, as the economic recovery continued to support asset price appreciation. This economic strength was dominated by the United States with tepid improvement in developed Europe; problems within the Eurozone banking sector continued to impede a full recovery. It was a difficult year for emerging markets and commodity-producing nations, as China's economic activity slowed as they began to implement a long-term shift to a more consumer-orientated economy. Governance mistakes contributed negatively to the financial sectors of many emerging market countries. These macro factors are likely to continue to dominate the markets for the foreseeable future, with increased volatility as the recovery enters its sixth year.

The Dow Jones Industrial Average settled in above 16,000 as the year-long rally solidified. The University of Michigan Survey of Consumer Confidence Sentiment jumped to 82.5 and U.S. GDP was strong at 3.2% for the fourth quarter. Headline unemployment in the U.S. dropped below 7.0% to 6.7% in December. The more robust U6 (the Bureau of Labor Statistics' category that includes the underemployed and those who have stopped seeking work) declined significantly to 13.1%. New jobs continue to be added to the economy at a pace above economists' estimates.

MERS Total Market Fund

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.

The Total Market Fund closed out the year with a return of 15.0% (14.75% after investment expenses), returning 5.05% for the fourth quarter and 1.32% for the month of December. The fund outperformed its policy benchmark by 65 basis points for the year.

MERS 2013 highlights:

- The MERS Total Market Fund return for 2013 was 15.00% gross of investment fees, outperforming the actuarially assumed rate of 8.00% by 7.00%.
- The MERS Total Market Fund outperformed its custom policy benchmark, gross of investment fees, by 0.65%. This performance is a testament of MERS' portfolio asset allocation, active management, and tactical decision-making. 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 for the year were as follows:

Total Equity	31.92%
Fixed Income	-0.04
Real Estate	8.47
Commodities	-9.99
Private Equity	19.19
Cash	0.12

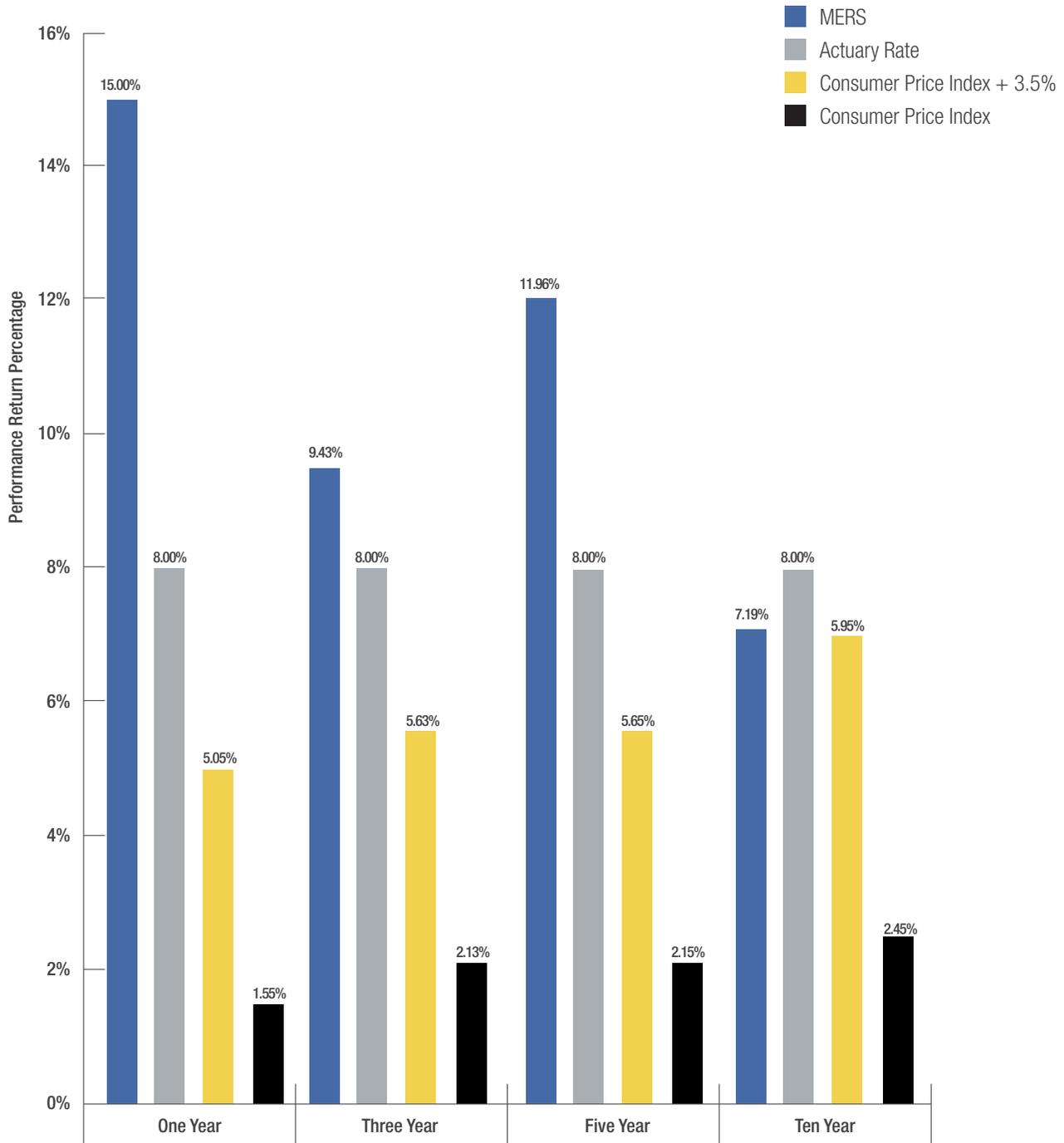
In conclusion, I would like to thank the Retirement Board, the fiduciaries of the MERS Plan, for their continued support of the Office of Investments. The clarity of MERS' governance structure and the functional checks and balances has allowed the investment program to be successful for our members. This relationship makes for a more efficient decision-making process, benefiting our membership through stronger, risk-adjusted returns.

Respectfully,
Jeb Burns, Chief Investment Officer

Annual Portfolio Rebalance

The Office of Investments monitors the portfolio's asset allocation on an ongoing basis, making strategic and tactical adjustments within the guidelines of the plan. MERS feels a more robust portfolio-rebalancing regimen can add additional value and reduce the overall risk to the portfolio in certain market environments.

Performance Versus Custom Benchmarks as of December 31, 2013 (gross of fees)



Comparison Statement of Plan Net Position (Dollars in Thousands)

	As of Dec. 31, 2013	As of Dec. 31, 2012	Increase (Decrease) Amount	Increase (Decrease) Percent
Assets				
Cash and Short-Term Investments	\$44,752	\$47,927	\$(3,175)	-7%
Receivables	949,153	945,682	3,471	0
Interfund Receivables	1,480	305	1,175	385
Loans	4,791	3,932	859	22
Investments, at fair value	8,648,688	7,634,304	1,014,384	13
Invested Securities Lending Collateral	1,033,070	618,756	414,314	67
Other Assets/Prepays	515	284	231	81
Net Capital Assets	14,403	8,508	5,895	69
Total Assets	10,696,852	9,259,698	1,437,154	16
Liabilities				
Purchase of Investments	878,653	893,464	(14,811)	-2
Securities Lending Collateral	1,034,384	620,739	413,645	67
Administrative/Investment Costs/Forfeitures	17,574	10,197	7,377	72
Interfund Payables	1,480	305	1,175	385
Total Liabilities	1,932,091	1,524,705	407,386	27
Net Position-Restricted for Pension and Health Benefits and Investment Accounts Held for Others	\$8,764,761	\$7,734,993	\$1,029,768	13%

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



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, 2012, Summary Annual Financial Report. This is the tenth year MERS has received this award.

Comparison Statement of Changes in Plan Net Position (Dollars in Thousands)

	Year ended Dec. 31, 2013	Year ended Dec. 31, 2012	Increase (Decrease) Amount	Increase (Decrease) Percent
Additions				
Contributions	\$635,983	\$996,946	\$(360,963)	-36%
Investment Net Income Investing Activities	1,117,469	746,132	371,337	50
Investment Net Income-Securities Lending	5,074	3,759	1,315	35
Miscellaneous Income	121	94	27	29
Total Additions	1,758,647	1,746,931	11,716	1
Deductions				
Benefits	706,270	598,752	107,518	18
Special Expenses and Fees	71	71	-	0
Transfers and Forfeitures	626	760	(134)	-18
Administrative Expense	21,912	25,853	(3,941)	-15
Total Deductions	728,879	625,436	103,443	17
Net Increase (Decrease)	1,029,768	1,121,495	(91,727)	-8
Net Position-Restricted for Pension and Health Benefits and Investment Accounts Held for Others				
Balance Beginning of Year	7,734,993	6,613,498	1,121,495	17
Balance End of Year	\$8,764,761	\$7,734,993	1,029,768	13%

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

FINANCIAL HIGHLIGHTS

The following financial highlights occurred during the year ended December 31, 2013:

- Total net position for the Defined Benefit Plan, Defined Contribution Plan, Health Care Savings Program, Retiree Health Funding Vehicle, 457 Program, and Investment Services Program increased by 13% during 2013. MERS finished the year with \$8.8 billion in net position, \$1.1 billion higher than the previous year and the highest asset level in MERS' history.
- Investment returns saw a gain of 14.75% net of investment expenses for the year. The 10-year return of 6.91% is below the target of MERS' expected investment rate of return of 8%.
- MERS' most recent actuarial valuation dated December 31, 2012, showed 479 of MERS' 711 municipalities are funded 70% or better, with 108 municipalities over 100% funded.
- Overall administrative expenses decreased by 15% in 2013 to \$22 million, while MERS grew significantly and brought in 106 new municipal programs. This decrease is significantly lower than previous years' administrative expenses, reflecting stronger cost-control measures implemented in 2012.
- Investment expenses totaled \$20 million. This is an 11% increase from 2012, primarily due to higher investment manager fees associated with a 13% increase in assets under management.
- Contribution revenue declined by 36% from \$997 million in 2012 to \$636 million in 2013. A one-time contribution of \$467 million from the City of Flint in 2012 is the cause of the decline.
- Total annual retirement benefits paid to retirees and beneficiaries increased \$108 million to a total of \$706 million.
- The difference between MERS' actuarial and market value assets improved in 2013, as the actuarial calculation is 106% of the market value of assets, when compared to 114% in 2012. Total Defined Benefit Plan actuarial assets and market value of assets were valued at \$8.2 billion and \$7.7 billion, respectively, as of Dec. 31, 2013.

EDUCATIONAL EVENTS

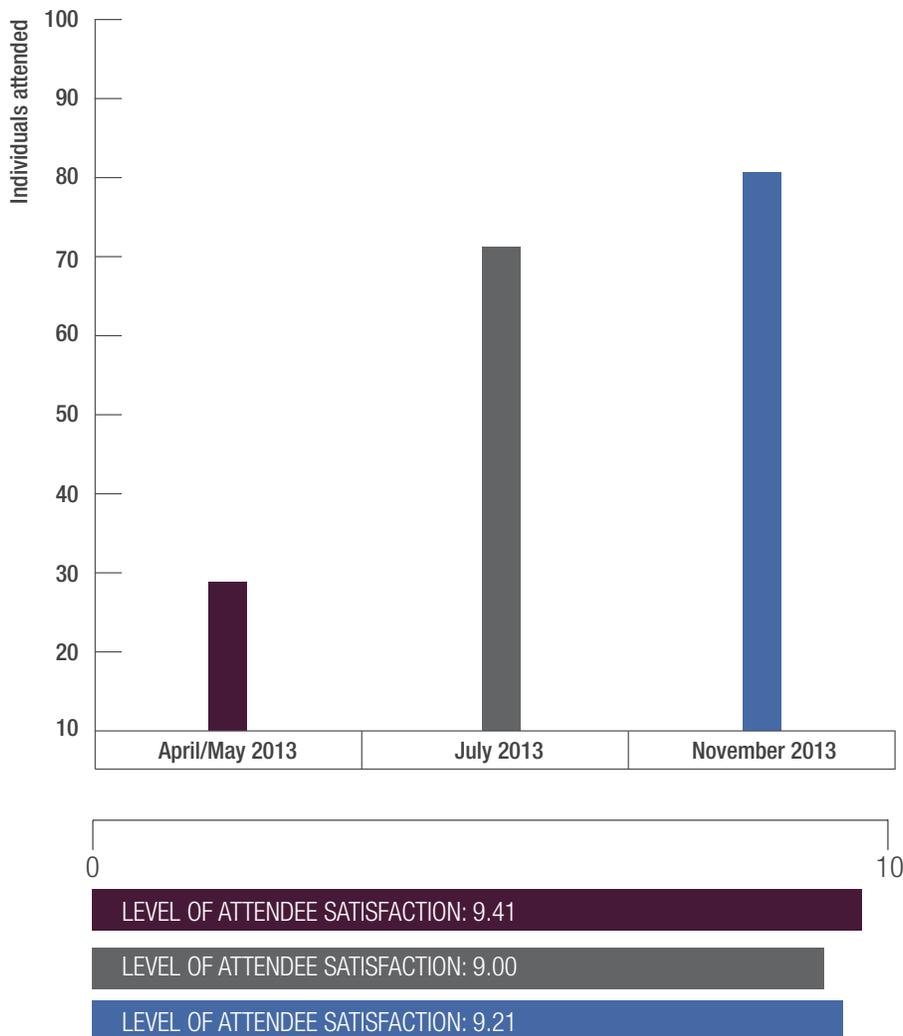
As a part of our Strategic Objective to create consultative relationships with our customers, we offer a variety of informative sessions presented around the state. These are designed to keep our members informed about their MERS programs and other important retirement topics.

Our three main types of events are Morning Breaks with MERS, quarterly employer-focused meetings; Pizza & Planning, educational employee events; and the MERS Annual Meeting, designed to deliver important information for all MERS members, boards and stakeholders.

Morning Breaks with MERS

Morning Breaks with MERS are quarterly regional meetings hosted by a MERS Regional Manager and are employer-focused in nature. Typically, meetings run for one hour on a weekday morning and focus on a topical issue employers are facing. Meeting topics thus far have included “Retirement Trends and Policy Points,” “Overview of the MERS Annual Actuarial Valuation,” “Unfunded Accrued Liability,” and “Economic Vitality Incentive Program (EVIP) Category 3 Compliance Updates.”

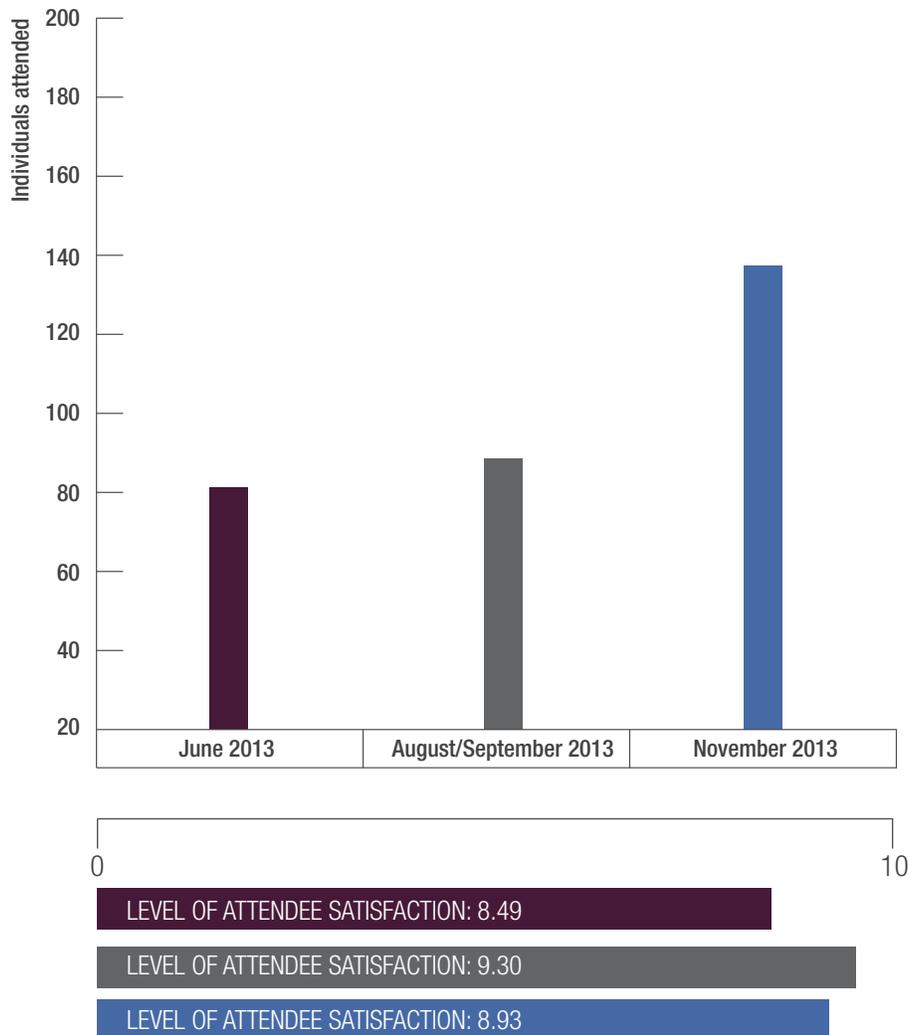
2013 Morning Breaks with MERS Attendance and Satisfaction Ratings



Pizza & Planning

Pizza & Planning meetings are quarterly regional events hosted by a Benefit Education Specialist and are participant-focused in nature. Typically, meetings run for two hours after a workday during the week and focus on retirement plan-specifics. Meeting topics thus far have included “Defined Benefit Overview,” and “Defined Contribution Overview.”

2013 Pizza & Planning Attendance and Satisfaction Ratings





1134 Municipal Way
Lansing, MI 48917

800.767.MERS (6377)

www.mersofmich.com



MERS RETIREMENT BOARD AND CHIEF EXECUTIVE OFFICER

BACK ROW FROM LEFT TO RIGHT: Philip LaJoy,
Amy Deford, James R. Wiersma, Chris DeRose, John Ogden,
Randy Girard

FRONT ROW FROM LEFT TO RIGHT: Michael Brown, Lori
Newberg, Sally Dreves, Michael Gilmore

OFFICER MEMBERS: Michael Brown – Chairperson, Barry County;
Randy Girard, Charter Township of Marquette;
Philip LaJoy, Canton Township

EMPLOYEE MEMBERS: Sally Dreves, Grand Traverse County;
Lori Newberg, Ingham County;
Amy Deford, Saginaw County

PUBLIC MEMBERS: Michael Gilmore, Delta Dental, Okemos;
James R. Wiersma, Haworth, Holland

RETIREE MEMBER: John Ogden, City of Port Huron

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 06/05/14). 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.