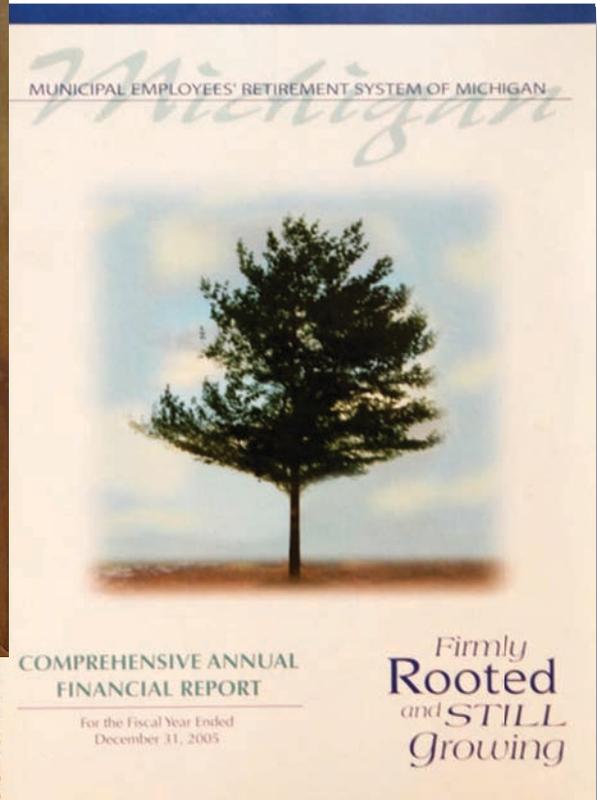
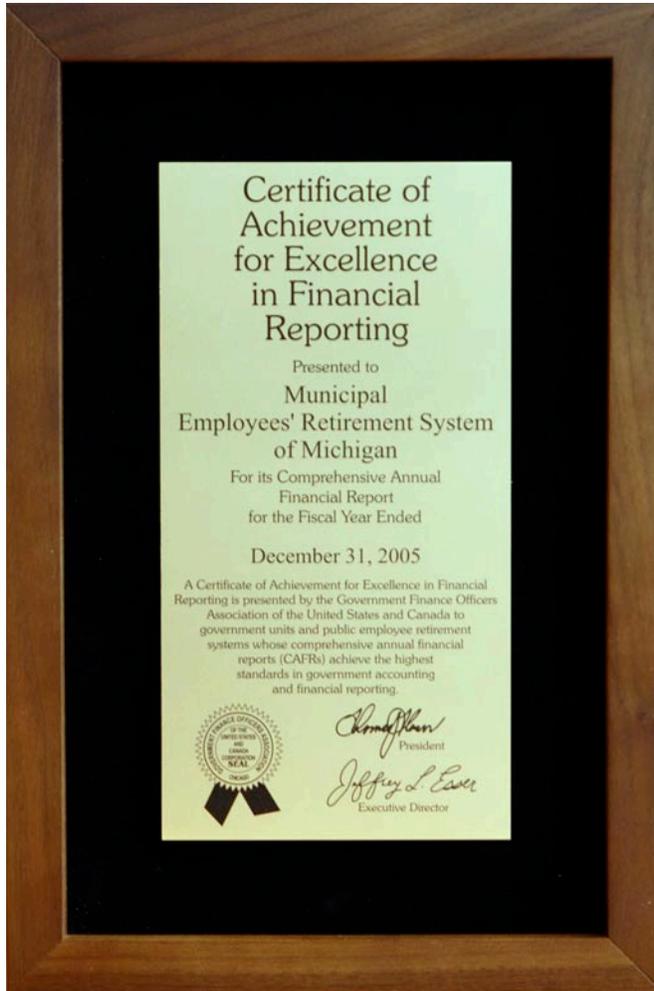


CERTIFICATES OF ACHIEVEMENT

MERS received the Certificate of Achievement for Excellence in Financial Reporting from the Government Finance Officers Association for the December 31, 2005 Comprehensive Annual Financial Report. This marks the 18th consecutive year MERS has received this honor.



MERS also received the Public Pension Coordinating Council (PPCC), Public Pension Standards Award in 2006, in recognition of meeting the professional standards for plan design and administration as set forth in the Public Pension Standards. This award is presented by the PPCC, a confederation of the National Association of State Retirement Administrators (NASRA), the National Conference on Public Employee Retirement Systems (NCPERS), and the National Council on Teacher Retirement (NCTR).

LETTER OF TRANSMITTAL



June 1, 2007

Dear Board Members:

It is with pleasure I submit for your review the 60th Comprehensive Annual Financial Report (CAFR) of the Municipal Employees' Retirement System of Michigan (MERS) for the fiscal year ended December 31, 2006. This Financial Report provides information on the status of our Retirement System.

MERS is a statewide voluntary organization created in 1945 by the state legislature. From its inception, and more particularly since independence in 1996, MERS seeks ways to expand services and provide economies of scale to all members. The MERS Retirement Board works diligently to provide strategic direction to the System for the benefit of the governing bodies who are members of MERS. MERS is the choice for more than 700 communities across the state to pool their resources, thus providing solid retirement plans for their employees.

The year 2006 was a hallmark year for MERS. We celebrated 60 years of operation and 10 years of being an independent System. The selected theme for the year was ***MERS 60&10 Anniversary: Celebrating MERS Growth***. The celebration continued throughout the year culminating with the Annual Meeting in September where the delegates and guests were provided a copy of MERS Commemorative Magazine. This magazine, produced by MERS Communications Department under Ann Cool's direction, details our history and growth since 1946. It may be viewed on MERS Web site.

The Retirement Board set very strategic goals for the System in 2006. These goals include to provide all employers and employees with accurate information, excellent service and a cost-effective plan. With these objectives guiding us, MERS pursues new ideas and develops programs to benefit all our members. Examples of growth may be found in the **Introductory Section**. This section includes the Letter of Transmittal, Letter from the Chairperson of the Retirement Board, the GFOA Certificate of Achievement, administrative organization details and a review of MERS activities covering the Defined Benefit (DB) Plan, the Defined Contribution (DC) Plan and the MERS Group Health Solutions Programs.

The following sections are likewise included in this document:

- **Financial Section.** Management's Discussion and Analysis (MD&A), report of the independent auditor, and the Retirement System's financial statements and supplemental information for the DB Plan.
- **Investment Section.** Summary of investment activity, an explanation of investment policy, portfolio performance information, and various investment schedules for both the DB and DC Plans.
- **Actuarial Section.** Actuary's Certification Letter and summaries for the DB Plan.
- **Statistical Section.** Statistical information on all plans.

The responsibility for the accuracy and completeness of the financial data and the fairness of the presentation rests with the Chief Executive Officer and the management of MERS. As of December 31, 2006, MERS members included employees from 685 municipalities across the state (see page 33).

Financial

The basic financial statements have been prepared in accordance with Generally Accepted Accounting Principals (GAAP) applied on a consistent basis as promulgated by the Governmental Accounting Standards Board and its predecessor, the National Council on Government Accounting. The Management's Discussion and Analysis (MD&A) provides a narrative introduction, overview and analysis to accompany the basic financial statements. This Letter of Transmittal is designed to complement the MD&A and should be read in conjunction with the report. The MD&A can be found in the Financial Section immediately following the Independent Auditor's Report (see page 22-27).

Management's Responsibility for Financial Reporting

MERS management prepared the financial statements included in the CAFR for the year ended December 31, 2006. MERS management is responsible for the financial information presented in the report, and represents that sufficient internal accounting controls exist to provide reasonable assurance regarding the safekeeping of assets and fair presentation of the financial statements, supporting schedules and statistical tables. To the best of our knowledge, the enclosed data, charts, and graphs are accurate in all material respects and are reported in a manner designed to fairly present the financial position and results of MERS operations.

Andrews Hooper & Pavlik P.L.C., MERS independent auditing firm, has conducted an audit of the basic financial statements in accordance with generally accepted auditing standards, performing work as it deemed necessary to express an opinion in the CAFR. Their opinion letter is presented in the financial section of this CAFR.

Investments – Defined Benefit Portfolio

The U.S. economy remained fairly constant, submitting favorable earnings for the year and assisting the returns of the portfolio. The Federal Reserve (Fed) Bank paused on increasing the overnight rates to banks at their window. On a gross of fee basis, the overall portfolio returned 13.6 % for one year, 10.1% for two years, 9.8% for five years and 8.8% for ten years.

The portfolio ranked in the 42nd percentile for the five year period in The Northern Trust Universe of Public Funds. This universe is comprised of 38 plans with a total market value of 308 billion. The plans range in size from 21.1 million to 39.1 billion with a median market value of 4 billion. The portfolio ended the fiscal year with 5.9 billion assets.

The Defined Benefit Portfolio is well diversified and positioned to take advantage of market movements. It was the key in delivering a 13.6% return in 2006 for the one-year period and 8.8% for the ten-year period. These positive returns assist in exceeding our actuarial assumption rate of 8% and real rate of return of 3.5% over the Consumer Price Index. The Board's investment policy is reviewed annually with a steadfast focus on preserving the Retirement System's assets while maximizing the long-term growth of those assets. A combination of strong U.S. equity markets and the international equity allocation boosted the returns nicely in the fourth quarter. International equities returned 16.3 % making it the third year for a good run in foreign stocks.

MERS retains a tight discipline policy on the asset allocation. The model is determined after extensive examination of risk and return profiles approximately every five years. The portfolio is rebalanced annually to the target weightings. Following comprehensive analysis, MERS ventured into commodities by allocating a 2% position in the middle of the year.

Please refer to the **Investment Section** for more detailed comments on the portfolio.

Funding

The December 31, 2005, Actuarial Valuation reports the consolidated funding to be 76%. The decline from 76.7% in 2004 study is attributed to a combination of benefit provision changes requested by our members, and investment experience. MERS receives no state funded contributions. Each member municipality is legally responsible for funding the pensions earned by their employees under the provisions of the Michigan Constitution and the MERS Plan Document. Each municipality is a separate trust account in MERS. The pension obligations are paid from that account. MERS does not fund or borrow from one municipality's account to cover another municipality's obligation to pay its pensioners.

Group Health Solutions Programs

In 2003, MERS expanded into the health care arena by introducing a Group Life and Disability Insurance Program. This program has grown to over 120 member municipalities and allows the members to collectively purchase various life and disability insurance products through The Standard Insurance Company of Portland, Oregon.

The Health Care Savings Program (HCSP) and Retiree Health Funding Vehicle (RHFV) followed closely behind. These programs have grown over the past year: HCSP from 29 municipalities with \$4 million in assets to 56 groups with \$6.8 million; RHFV from 22 municipalities just over \$13 million in assets to 40 member groups with \$46 million in assets.

MERS Premier Health, with the oversight provided by a duly elected Board, provides group health coverage for public employers. This coverage includes employee and retiree medical, prescription drug, dental and vision benefits. It is a municipal risk pool regulated and authorized by the state of Michigan as the first Public Multiple Employer Welfare Arrangement (MEWA) in Michigan. The year 2005 closed with approximately 2,000 lives in the program and by year-end 2006, MERS Premier Health doubled that number.

The financial climate of Michigan has continued to decline. The budget problems faced by Michigan communities places a bigger burden on the taxpayer. MERS remains firmly committed to providing solutions in a variety of ways. We are dedicated to improving the health and economic welfare of our members. One such avenue is by providing economies of scale, continuity of service and cost-effective benefits in the health care area.

Education

Education played a continuing and significant role last year for the System's participants. MERS staff conducted Regional Meetings, Retirement Seminars, municipality meetings and the newly introduced *Successful Retirement Seminar*. Over 5,000 members attended one of these programs. *Retirement Process Seminars* cover MERS basics and are intended for those members contemplating retirement in the next

three to five years. Regional Meetings cover pension, benefit, health care, and insurance topics of interest for employers and employees. The Successful Retirement Seminar is designed to cover the contemplated aspects of retirement including financial planning, Social Security and health care.

Technology

MERS Automated Pension System (MAPS) software scheduled for testing by year-end 2006 has been rescheduled to begin testing mid-2007 with a target to finish by year-end 2007. This has been an enormous undertaking as this comprehensive project will replace the current PeopleSoft pension administration software currently in use. The goal of this project is to expand our capabilities to capture information, eliminate redundant entry and achieve superior data integrity.

MERS continues to expand web-based capabilities. Internal staff is continuously examining security-enhanced software and new ways to provide on-line services to our members and prospective members. We are committed to being proactive in technology as we address the future needs of our members and the System.

The major project undertaken to rewrite the Wage and Service software, “electronic Payroll and Service System” (ePASS), was completed in 2005 and continues to expand MERS use of eCommerce to collect payroll information from our participating municipalities.

Awards

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to MERS for its Comprehensive Annual Financial Report for the year ended December 31, 2005. This was the 18th consecutive year that MERS has earned this prestigious award.

In order to be awarded the Certificate of Achievement, a governmental unit must publish an easily read and efficiently organized comprehensive annual financial report. This report must satisfy both GAAP and applicable legal requirements. A Certificate of Achievement is valid for a period of one year only. We believe this current report continues to meet the Certificate of Achievement Program requirements, and are submitting it to the GFOA to determine its eligibility.

Acknowledgments

This report reflects the best combined efforts of the MERS staff under the leadership of the MERS Retirement Board. I would like to express my appreciation to the staff for their efforts in creating another outstanding report. Additionally, I want to extend my gratitude to the Retirement Board for their tireless efforts and dedication to the task of overseeing the System. Their conscientious service is exemplary to the staff and members of the System. I would like to thank the many organizations, advisors and individuals who work diligently to assure the success of the Municipal Employees’ Retirement System of Michigan.

Respectfully submitted,

Anne M. Wagner
Chief Executive Officer

LETTER FROM THE CHAIRPERSON



June 1, 2007

Dear Board Members:

It is my honor as the Chairman of the MERS Retirement Board to submit this Comprehensive Annual Financial Report of the Municipal Employees' Retirement System of Michigan for the fiscal year ended December 31, 2006. This financial report provides information on the status of our Retirement System.

The Defined Benefit Portfolio continues to be well diversified and positioned to take advantage of market movements. Strategically, this was the key to delivering a 13.6% gross return in 2006 for the one-year period and 8.8% for the ten-year period. These positive returns assist in exceeding our actuarial assumption rate of 8% and real rate of return of 3.5% over the Consumer Price Index. The Board's investment policy is reviewed annually with a steadfast focus on preserving the Retirement System's assets while maximizing the long-term growth of those assets.

Education played a continuing and significant role last year for the System's participants. MERS staff conducted Regional Meetings, retirement seminars, municipality meetings and the newly introduced "Successful Retirement" with over 5,000 members attending during the year. "Successful Retirement" is designed to cover the contemplated aspects of retirement for the employee including financial planning, Social Security and health care. Regional Meetings cover many topics, as well as pension benefits, health care, and insurance issues that are of interest to both the employer and the employee. Retirement seminars cover many topics such as MERS Retirement Process, which is intended for those members contemplating retirement in the next three to five years.

In addition, the MERS Retirement Board completed a multi-year project formulating a Board Governance Policy. This Policy provides the framework for allowing the Board to be fully participatory in measuring the strategic outcomes of the System while allowing the internal staff to do their daily tasks.

The delegates at the 2006 Annual Meeting elected Mr. John Ogden, Finance Officer at the city of Port Huron, as an employer member and Mrs. Sue Stahl, Deputy City Clerk for the city of Bad Axe, as an employee member to new three year terms (January 1, 2007 – January 1, 2010) on the MERS Retirement Board. The nine-member Board is a volunteer group of individuals comprised of three employers, three employees, two expert consultants and one retired member. This Board works conscientiously to fulfill their fiduciary responsibilities and serve the membership. MERS is the beneficiary of the Board members' diverse expertise and experience and is fortunate to have a Retirement Board of such high caliber and dedication.

Introductory Section

In closing, I wish to thank the Board members and outstanding staff for continuing to maintain their high level of commitment and service to the Retirement System's participants. "Our Present is Your Future" is still a key and vital vision statement.

If you have any questions regarding this report or other retirement questions, please contact us at (800) 767-6377, or send a letter addressed to MERS, 1134 Municipal Way, Lansing, MI 48917.

Sincerely,

Dale M. Walker, Chairman
MERS Retirement Board

MERS RETIREMENT BOARD – 2006



Standing left to right: Dennis Murphy, John Ogden, Harold Hailey, Bruce Johnson, Sally Dreves, Larry Opelt.

Seated left to right: Sue Stahl, Anne Wagner, Dale Walker, Raymond Klosowski.

Officer Members

Dale Walker, Chairperson, city of Cadillac
Harold Hailey, Ingham County
John Ogden, city of Port Huron

Employee Members

Sally Dreves, Grand Traverse County
Raymond Klosowski, Isabella County
Sue Stahl, city of Bad Axe

Public Members

Bruce Johnson, Holland
Dennis Murphy, Novi

Retiree Member

Larry Opelt, Chairperson Pro-tem, Adrian

ADMINISTRATIVE ORGANIZATION



Standing left to right: Debra Peake, Carrie Lombardo, Mike Moquin, Caryn Mateer, Lynda Blackshaw.

Seated left to right: Tama Allen, Jeb Burns, Anne Wagner, Luke Huelskamp, William SaintAmour.

Chief Executive Officer

Anne M. Wagner

Officers

Tama Allen, Chief Technology Officer

Lynda Blackshaw, Chief Marketing Officer

Jeb Burns, Chief Investments Officer

Luke Huelskamp, Chief Financial Officer

Carrie Lombardo, Chief Insurance Officer

Caryn Mateer, Chief Administrative Officer

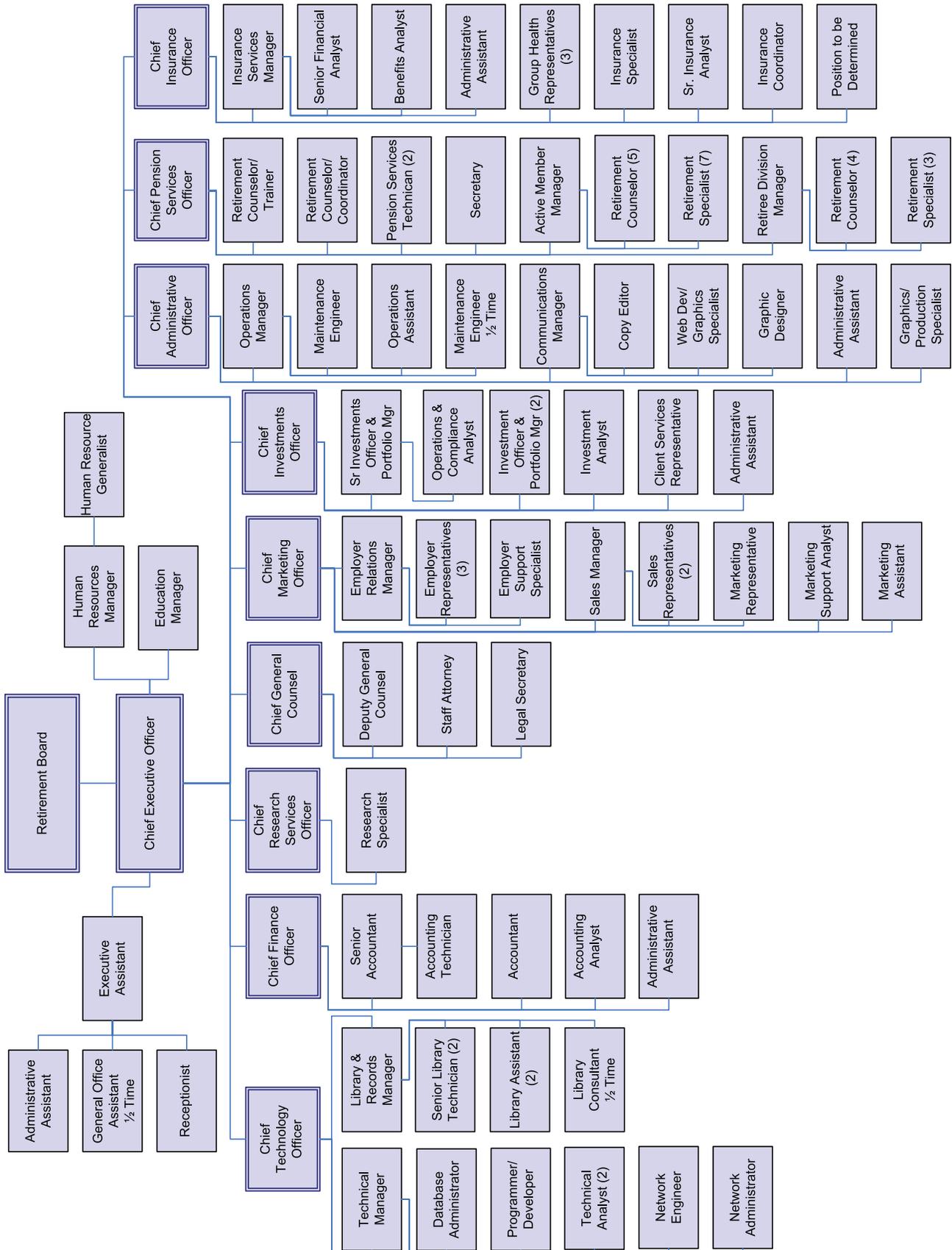
Mike Moquin, Chief General Counsel

Debra Peake, Chief Pension Services Officer

William SaintAmour, Chief Research Officer

Introductory Section

ORGANIZATIONAL CHART – 2006



OUTSIDE PROFESSIONAL SERVICES**Professional Consultants***Actuary*

Gabriel, Roeder, Smith & Company

Actuary Auditor

Segal Company

Auditor

Andrews Hooper & Pavlik, P.L.C.

Defined Contribution Third-Party Administrator

International City/County Management Association
Retirement Corporation (ICMA-RC)

Investment Custodian

The Northern Trust Company

Legal Counsel

Ice Miller

Loomis, Ewert, Parsley, Davis & Gotting
Miller, Canfield, Paddock & Stone, PLC

Legislative Consultants

Karoub Associates

Matt Wesaw

Medical Advisor

Dr. Kent Anderson

Consulting Physicians

Peninsula Medical Center

Security Lending Agent

The Northern Trust Company

Systems Implementation and Maintenance

Gabriel, Roeder, Smith & Company

Oracle/PeopleSoft

Third-Party Administrators

Omega Recordkeeping Group, LLC

Investment Managers*Domestic Equity*

Ariel Capital Management

Delaware Investment Advisors

Kennedy Capital Management

LSV Asset Management

Trust Company of the West

Wasatch Advisors

Wellington Management Company

International Equity

Acadian Asset Management

Barclays Global Investors

Mondrian Investment Advisors

Fixed Income

Barclays Global Investors

Evergreen Investments

Reams Asset Management

Stone Harbor Investment Partners

Western Asset Management

Real Estate

Townsend Group Consultants

Blackstone Real Estate Partners

CB Richard Ellis Investors

FIA Timber Partners

Guggenheim Structures Real Estate Fund

Hancock Timber Resources

J.P. Morgan Investment Management

KBS Realty Advisors

LaSalle Investment Management

Prudential Property Management

Starwood Capital Group

UBS Realty Investors, LLC

Urdang Investment Management

Private Equity

Credit Suisse First Boston

Barclays Global Investors

Mesirow Capital Partners

Commodities

Cargill Risk Management