

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.

REPORT ON INVESTMENT ACTIVITY

Jeb Burns, Chief Investment Officer

The MERS Retirement Board has the fiduciary responsibility and authority to direct the Retirement System's investment program. Members of the Board must follow the state law and prudent standards of diligence consistent with "discharging their duties in the interest of plan participants." The prudent person standard requires that the Board "exercise the same judgment, care, skill, prudence, and diligence under similar circumstances that which persons acting in a like capacity, and familiar with such matters, would use in the conduct of a similar enterprise with similar aims." MERS has numerous benefit programs including: Defined Benefit Plan, Defined Contribution Program, Investment Services Program (ISP), Health Care Savings Program (HCSP), Retiree Health Funding Vehicle (RHFV), and a Hybrid Program. The first portion of the Investment Section is devoted to the Defined Benefit Plan and the second portion to the Defined Contribution Program, with a short commentary on the MERS Hybrid, ISP, HCSP, and RHFV Programs.

A. Defined Benefit Plan

Investment Objectives and Activity

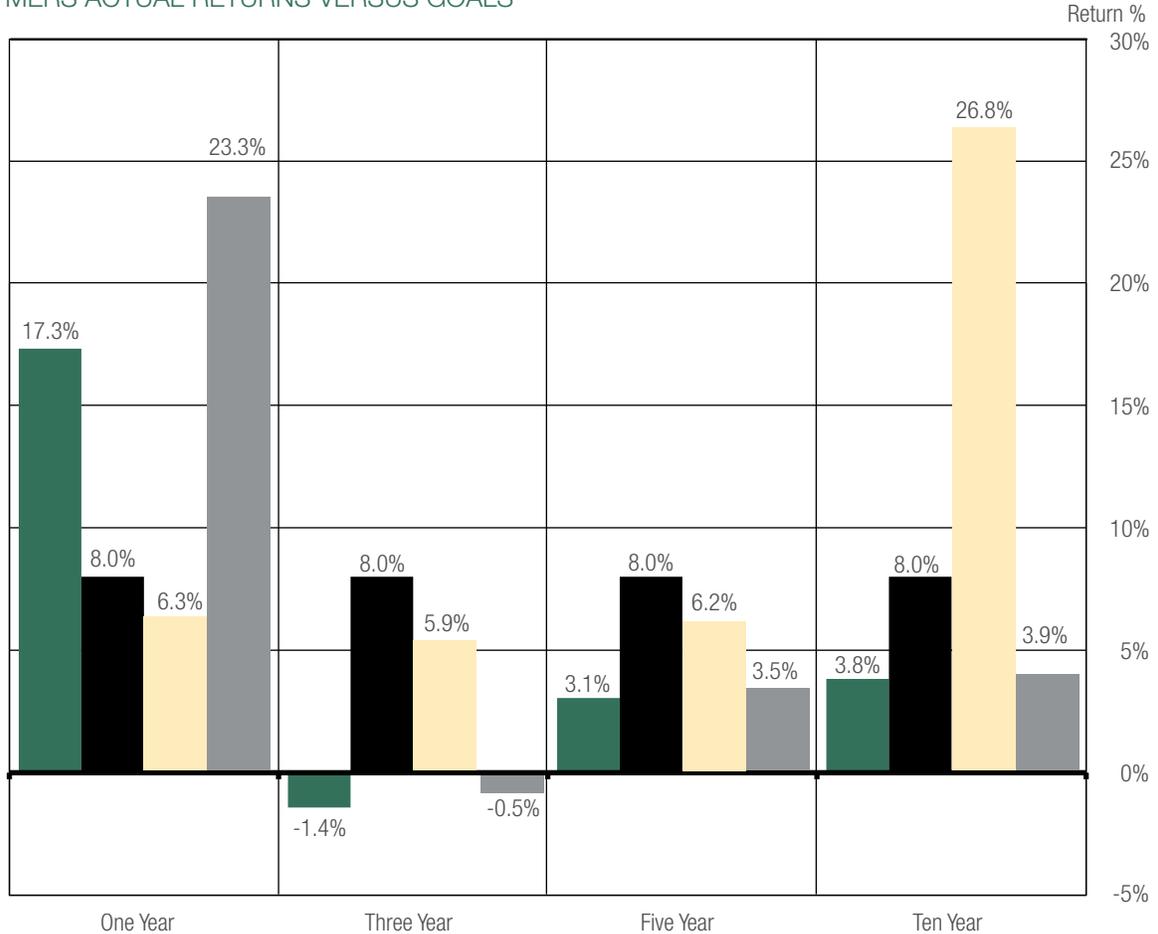
The primary investment objective is to maximize the long-term total rate of return on investments with a high degree of prudence and sufficient diversification. Actions based on this mindset helps to eliminate inordinate risks in conformity with the Michigan Public Employee Retirement System Investment 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

The real rate of return is defined as the rate at which the long-term total return on the system's assets exceeds the long-term inflation rate. The graph below illustrates MERS returns compared with the Consumer Price Index (CPI) plus 3.5% and the actuarial assumption rate of 8% over 10 years.

MERS ACTUAL RETURNS VERSUS GOALS



- MERS Total Market Fund
- Actuary Rate
- CPI + 3.5%
- MERS Policy Benchmark

Total Fund Investment Results

The investment portfolio produced a total gross return for the fiscal year of 17.31%. Total equity contributed significantly to the portfolio's performance in 2009, with MERS equity portfolio outperforming by 392 basis points. All public asset classes produced positive returns for the portfolio as both the credit and equity markets normalized and the beginnings of an economic recovery took hold. MERS private equity and real estate investments detracted from the overall returns of the portfolio, posting returns of -14.08% and -13.01%, respectively.

Universe of Public Fund Plans

The MERS portfolio was ranked in the 60th percentile within the State Street Extended Universe of Public Funds for the fiscal year ending December 31, 2009. MERS was ranked in 61st, 63rd, and 22nd percentiles for the three, five, and seven year periods, respectively. The State Street Extended Universe was comprised of 143 public fund plans for the full year period ended December 31, 2009. The State Street Extended Universe was comprised of 141 public fund plans for the year-to-date period ended March 31, 2010. The total market value was \$1.045 trillion as of March 31, 2010. The plans ranged in size from \$1.3 million to \$210.2 billion, with a median market value of \$546.1 million and an average market value of \$7.5 billion.

The portfolio returned -1.42%, 3.05%, and 7.56% for the three, five, and seven-year periods, respectively, versus its policy benchmark at -0.54%, 3.53%, and 7.38%. The policy portfolio benchmark reflects the return that would have been achieved if MERS had invested exclusively in passively managed index funds. Both high yield bonds and private equity do not have investable indices and their use in the policy benchmark is for comparative purposes only and do not reflect a real investment alternative to active management. The returns of the portfolio are calculated using a time-weighted rate of return. The table below shows the annualized returns gross of fees for fiscal year ending December 31, 2009. MERS active approach to portfolio investing has added value for longer time periods. It should be noted that recent underperformance is largely associated with benchmark issues related to private equity. Private equity is benchmarked to the Russell 2000 Small Cap Index, which returned 27.16% for the one-year, while the private equity portfolio returned -14.08% for the same time period. This reflects the delayed reporting of the asset class. This situation should normalize in 2010 and 2011.

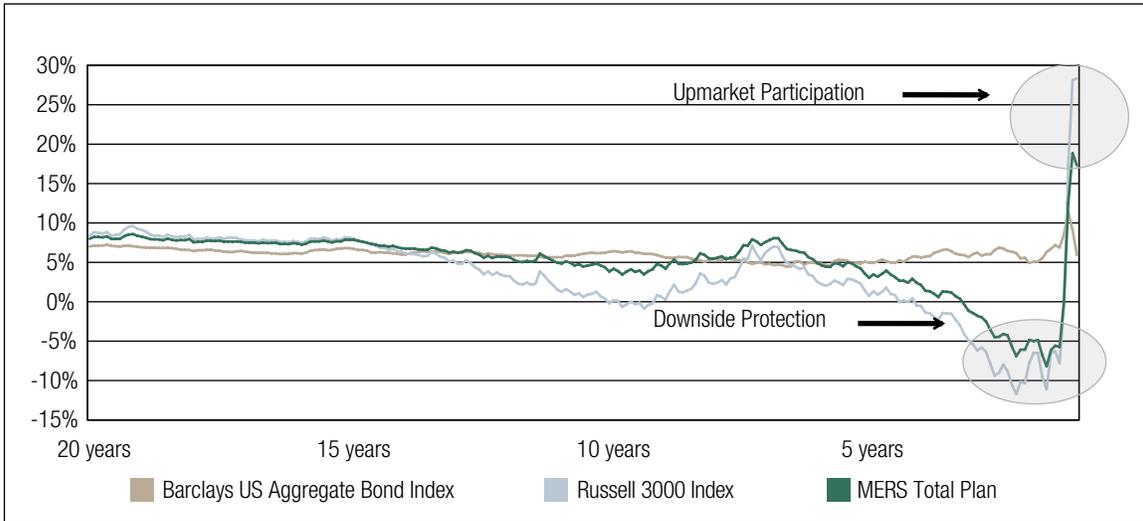
SCHEDULE OF INVESTMENT RESULTS GROSS OF FEES

	One Year Annualized	Three Year Annualized	Five Year Annualized
MERS Total Market Fund	17.31%	-1.42%	3.05%
MERS Total Market Fund Custom Benchmark	23.30%	-0.54%	3.53%
*Median Public Plan	18.51%	-1.07%	3.35%
Domestic Stocks	31.11%	-5.78%	-0.20%
Russell 3000 Index	28.34%	-5.42%	0.76%
International Stocks	36.03%	-5.95%	5.01%
MSCI ACWI ex USA	42.14%	-3.04%	6.30%
Fixed Income	12.44%	6.06%	5.07%
BC Bond Index	5.93%	6.04%	4.97%
High Yield Bond	48.76%	-0.40%	2.81%
Merrill Lynch High Yield Master II	57.51%	5.82%	6.34%
Real Estate	-13.01%	-6.31%	3.14%
NCREIF Property Performance	-22.11%	-1.29%	6.16%

* The Median Public Plan returns are shown gross of fees

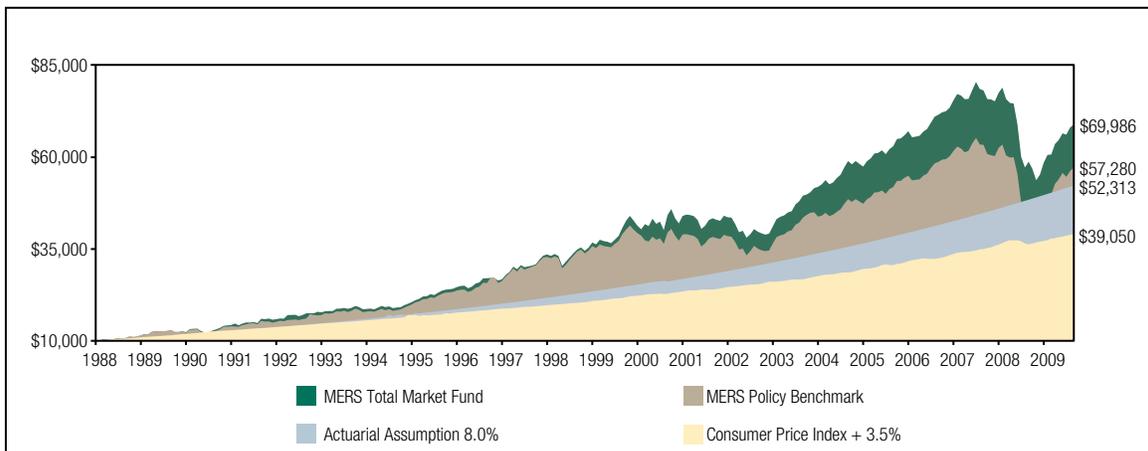
The portfolio is constructed to reduce volatility in down markets, yet still participate in up markets. The chart below, comparing MERS to the major market indices, demonstrates the value of diversification and MERS ability to quickly rebound in up market conditions.

DOWNSIDE PROTECTION UPMARKET PARTICIPATION – AS OF DECEMBER 2009



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. The chart below illustrates the growth of \$10,000 for over 20 years. It compares the fund to its various benchmarks and demonstrates the value added from active portfolio management.

GROWTH OF \$10,000 - PERIOD ENDED DECEMBER 31, 2009

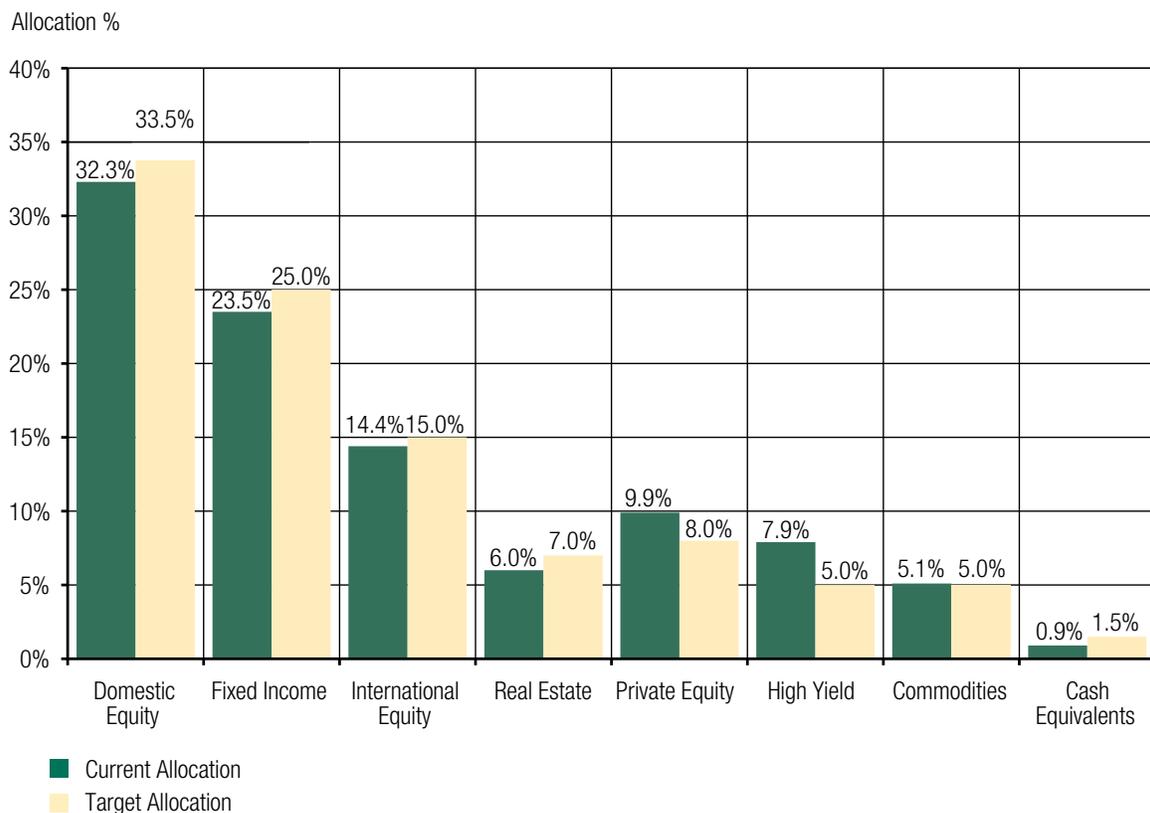


Asset Allocation

The allocation plan designs the portfolio with the optimal mix of asset classes for the long-term investment time horizon. The characteristics of expected return, risk, and correlation of return for various asset categories are carefully projected. The result 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. Both active and passive strategies are employed. Due to market movements, the different asset classes fluctuate in performance. Thus, it is reasonable to expect the actual allocation to differ from that of the target as is demonstrated in the chart below.

The fund is currently conducting a new asset allocation study, which will be presented to the Board in July of 2010.

CURRENT ASSET ALLOCATION VERSUS TARGET ALLOCATION – AS OF DECEMBER 31, 2009



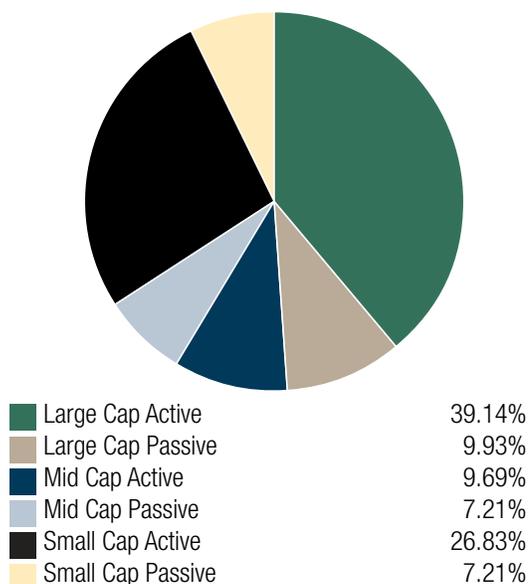
Universe of Public Fund Plans Greater than One Billion

The MERS portfolio was ranked in the 60th percentile within the State Street Extended Universe comprised of 54 Public Funds exceeding \$1 billion in assets for the fiscal year ending December 31, 2009. MERS ranked 45th for the three year time period and 23rd and 28th for the seven and ten-year periods, respectively, demonstrating the funds' ability to provide strong and consistent performance through multiple market cycles. The State Street Extended Universe is comprised of 57 public fund plans exceeding \$1 billion in assets for the quarter ended March 31, 2010. The total market value was \$1.02 trillion as of March 31, 2010. The plans ranged in size from \$1.0 billion to \$210.2 billion, with a median market value of \$5.10 billion and an average market value of \$17.96 billion.

Domestic Equities

The total equity portfolio includes U.S. common stocks and international stocks, representing 46.8% of the total portfolio, with domestic equities comprising 32.3%, as of December 31, 2009. The year-end composition of the equity portfolio is shown and is compared to the 2008 equity allocation.

TOTAL DOMESTIC EQUITY PORTFOLIO 2009



The returns for this asset class were positive in 2009 as the effects of the massive government stimulus effects took hold. The domestic common stock portfolio returned 31.11% versus the Russell 3000 Index with a return of 28.34%. MERS small cap portfolio returned 35.90% versus the Russell 2000 Index at 27.16%. Active management added significantly to the absolute returns, with small cap stocks outperforming large and mid cap domestic equities.

Passive management accounts for 11.72% of the U.S. equity portfolio and is expected to provide broad market diversification. These funds are designed to track the performance of the market at a low cost. MERS began managing the S&P 500 Index internally in 2003, the S&P 400 in 2004, and added the S&P 600 in 2005.

The non-passive management accounts are diversified by capitalization using small, mid, and large companies and by style using value and growth. The stocks within the portfolio can be classified by style: 0.5% large cap core, 5.7% large cap growth, 5.8 large cap value, 3.1% mid cap core, 5.2% small cap value, and 3.5% small cap core.

TOP TEN EQUITY HOLDINGS AS OF DECEMBER 31, 2009

Asset Description	Market Value	Percentage of Total Market Value
Apple, Inc.	\$ 22,560,768	0.41%
Intel Corporation	20,832,147	0.38%
Microsoft Corporation	18,809,891	0.34%
Cisco Systems, Inc.	18,103,700	0.33%
Lowe's Companies, Inc.	16,389,162	0.30%
Oracle Corporation	15,301,800	0.28%
Pfizer, Inc.	13,947,674	0.25%
Chevron Corporation	13,714,496	0.25%
Johnson & Johnson	12,673,530	0.23%
National-Oilwell Varco, Inc.	12,240,780	0.22%

International Equities

The allocation to non-U.S. stocks comprises 14.4% of the total portfolio. Of this, 4.9% is passively managed in the Barclays ACWI Index Fund, with the remaining actively managed in three separate active strategies. Mondrian Investment Partners Limited large cap value, Acadian Asset Management's small cap, and BGI's Active International Equity large cap. This strategy is employed in recognition of today's global economy and provides further diversification for the total equity portfolio.

Historically, international equities have tended to outperform domestic equities during bull markets and underperform during bear market conditions. This year, the international portfolio outperformed the domestic market by 4.92%.

The benchmark for the international equity portfolio is the MSCI ACWI Free Ex-U.S. Index for large cap mandates and the MSCI EAFE Small Cap for small cap mandates, both computed by Morgan Stanley Capital International. The international portfolio returned 36.03% for the one-year period ending December 31, 2009; the portfolio returned -5.95% and 5.01% for three and five years, respectively.

Fixed Income

Investment Grade

The U.S. fixed income markets provided additional diversification relative to equities. The targeted fixed income portfolio is 25% of the total portfolio, including high yield bonds. It serves to diversify the equity risk component within the fund, providing asset protection during market downturns. Fixed income usually serves as a liquidity source for the fund. This function was still somewhat impaired due to the nature of the global crisis which was a result of server dislocations in the credit market. The fixed income performance is measured against the Barclays Aggregate Bond Index and Barclays U.S. Universal. The long-term returns for this sector of the portfolio are 6.06% and 5.07% for the three and five-year periods, respectively; all are actively managed. 2009 was historic with a return of 12.44% for the fixed income portfolio.

High Yield Bonds

The high yield portfolio returned 48.76% versus its benchmark, the Merrill Lynch High Yield Master II Index, at 57.51%. Underperformance was the result of the higher quality positions held within MERS actively managed portfolios versus the policy benchmark. MERS high yield posted the highest absolute returns in the returns for 2009. The Board approved a tactical overweight to high yield in late 2008 of up to 10% of the total portfolio. As of December 31, 2009, the allocation was 7.9%.

TOP TEN FIXED INCOME HOLDINGS AS OF DECEMBER 31, 2009

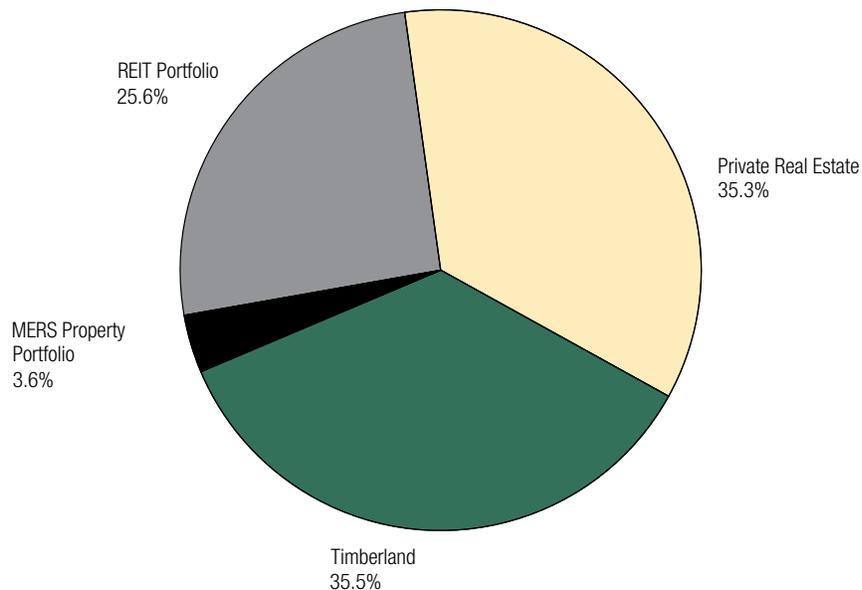
Asset Description	Market Value	Percentage of Total Market Value
United States Treasury 0.875% 2/29/2012	\$ 40,172,923	0.73%
United States Treasury 3.25% 3/31/2017	36,607,603	0.67%
United States Treasury 3.625% 2/15/2020	29,127,129	0.53%
United States Treasury 2.5% 3/31/2015	27,162,702	0.49%
Swedish Government Bond (B1FLSSII5)	17,724,087	0.32%
Norwegian Government Bond	17,515,341	0.32%
Swedish Government Bond (53573II2)	15,902,733	0.29%
Realkredit Danmark	15,163,800	0.28%
United States Treasury 2.5% 1/15/2029	14,888,202	0.27%
United States Treasury 0.625% 4/15/2013	14,825,664	0.27%

Real Estate Portfolio

MERS real estate investments represented 6.0% of the total portfolio at end of 2009. The portfolio has an overall target allocation of 3% to private real estate, 2% to public real estate, and 2% to timberland. The total portfolio returned -13.01% for the year against the MERS blended real estate benchmark at 0.90%. The benchmark consists of 42.86% of the NCREIF (National Council of Real Estate Investment Fiduciaries) Property Index, 28.57% of the NCREIF Timberland Index, and 28.57% of the EPRA/ (European Public Real Estate Association) NAREIT (North American Real Estate Investment Trust) Index. For the three, five, and ten year periods, the portfolio returned -6.31%, 3.14%, and 8.78%, respectively.

Private real estate and timberland produced returns of -37.81% and -0.63% versus the NCREIF Property Index at -22.11% and the NCREIF Timberland Index at 2.51%. Private real estate is diversified by property type, geographic region, and risk category. There is a target split of 40% core and 60% non-core. The return for the public securities portion of the portfolio was 40.75% versus the EPRA / NAREIT Index at -38.26%. Public real estate is comprised of Real Estate Investment Trusts (REIT).

TOTAL REAL ESTATE PORTFOLIO 2009



Private Equity

The MERS private equity portfolio invests predominately in private markets via such vehicles as venture capital, leveraged buyouts, distressed debt, and other special situational investment opportunities. The objective is to achieve higher total returns for the fund using a diversified portfolio within the risk budget established by the MERS Board. Credit Suisse's Customized Fund Investment Group serves as the consultant over all private equity investments. The portfolio is broadly diversified with investments in the U.S., Europe, and Asia. A co-investment fund program allows MERS to take larger positions in individual companies for the pursuit of higher returns. Cash awaiting deployment is invested in short-term cash instruments, S&P 500 futures contracts, and global macro total return funds.

The December 31, 2009 value of the private equity portfolio was \$543 million with returns of 1.09% and 5.85% for the three and five years, respectively.

Commodities

MERS dedicated commodities allocation was increased from 3% to 5% in 2009. This portfolio seeks to take advantage of global growth and add further diversification from its low correlation to other asset classes. It also seeks to outperform the Goldman Sachs Commodities Index through the use of an enhanced swap, and active management of the cash collateral pool.

Cash Management

All cash in the portfolio is actively managed within MERS. Residual cash is invested daily in commercial paper. In addition, MERS employs a dedicated cash portfolio with a target allocation of 1.5%. The portfolio is designed to maintain adequate liquidity for the total fund's use while earning maximum short-term returns with a reasonable degree of principle risk.

INVESTMENT SUMMARY FOR DEFINED BENEFIT PLAN, RETIREE HEALTH FUNDING VEHICLE,
HEALTH CARE SAVINGS AND INVESTMENT SERVICES PROGRAMS AS OF DECEMBER 31, 2009

Type of Investment	Market Value
Fixed Income	
Domestic and International Fixed Income	\$ 1,002,689,499
Limited Partnerships	288,274,522
High Yield	433,403,472
Total Fixed Income	1,724,367,493
Equities	
Domestic and International Stock	2,570,658,750
Total Equities	2,570,658,750
Private Equity & Commodities	
Commodities	278,921,927
Private Equity	543,219,655
Total Private Equity & Commodities	822,141,582
Real Estate	
Real Estate	331,348,121
Total Real Estate	331,348,121
Sub Total Investments	5,448,515,946
Cash Equivalents	
Cash Equivalents	48,194,466
Total Cash Equivalents	48,194,466
Sub Total Investments & Cash	5,496,710,412
Payables - Purchases of Investments	359,429,651
Receivables - Sale of Investments & Interest	(338,721,460)
Total Investments	\$5,517,418,603

Note: Includes receivables and payables for sales and purchases of securities with settlement dates after December 31, 2009.

RECONCILIATION OF INVESTMENTS TO FINANCIAL STATEMENTS

Investments on Financial Statements	\$ 5,701,945,005
Less Defined Contribution investments	(202,769,470)
Total Investments less Defined Contribution	\$5,499,175,535
Total Investments from above	\$ 5,517,418,603
Total market portfolio in Defined Contribution portfolio	(12,164,716)
Bonds in default	(5,792,464)
Small unit adjustments	(285,888)
Investments on Financial Statements less Defined Contribution	\$5,499,175,535

SCHEDULE OF INVESTMENT COMMISSIONS – 2009

Brokerage Firm	Shares Traded	Total Dollars	Commission/Share
SG Securities	28,135,863	\$ 5,181	0.0002
JP Morgan	19,652,060	11,872	0.0006
National Financial Services Corp	15,200,288	23,018	0.0015
Citi Group Global Markets	14,328,784	6,125	0.0004
BNY Convergenx	12,955,879	208,382	0.0161
Goldman Sachs & Company	11,894,649	23,320	0.0020
Wachovia Capital Markets	11,429,350	27,369	0.0024
Stone and Youngberg	10,300,000	84,333	0.0082
Jefferies and Co. Inc.	10,227,855	26,467	0.0026
Daiwa Securities Inc	9,938,119	2,684	0.0003
Direct Trading Institutional Inc.	9,615,687	68,683	0.0071
Credit Research and Trading LLC	9,198,257	1,200	0.0001
Brockhouse & Cooper Inc.	8,408,544	4,193	0.0005
Cantor Fitzgerald & Company	8,357,703	183,918	0.0220
William Smith Securities	7,030,374	138,080	0.0196
BMO Capital Markets	6,070,950	7,678	0.0013
Ridge Clearing & Outsourcing Solutions	5,469,600	330	0.0001
Instinet	5,329,554	109,707	0.0206
ABN Amro	4,675,536	4,098	0.0009
Stephens, Inc.	4,230,814	22,166	0.0052
Weeden & Company	4,126,430	84,125	0.0204
Nomura International	4,077,335	3,752	0.0009
Merrill Lynch	3,994,654	8,361	0.0021
Abel Noser Corporation	3,888,579	65,504	0.0168
Pershing	3,696,009	3,789	0.0010
Subtotal (25 Largest)	232,232,873	1,124,335	0.0048
Remaining Total	56,456,393	1,048,129	0.0186
Total Commissions	288,689,266	\$2,172,464	0.0075

SCHEDULE OF INVESTMENT FEES – 2009

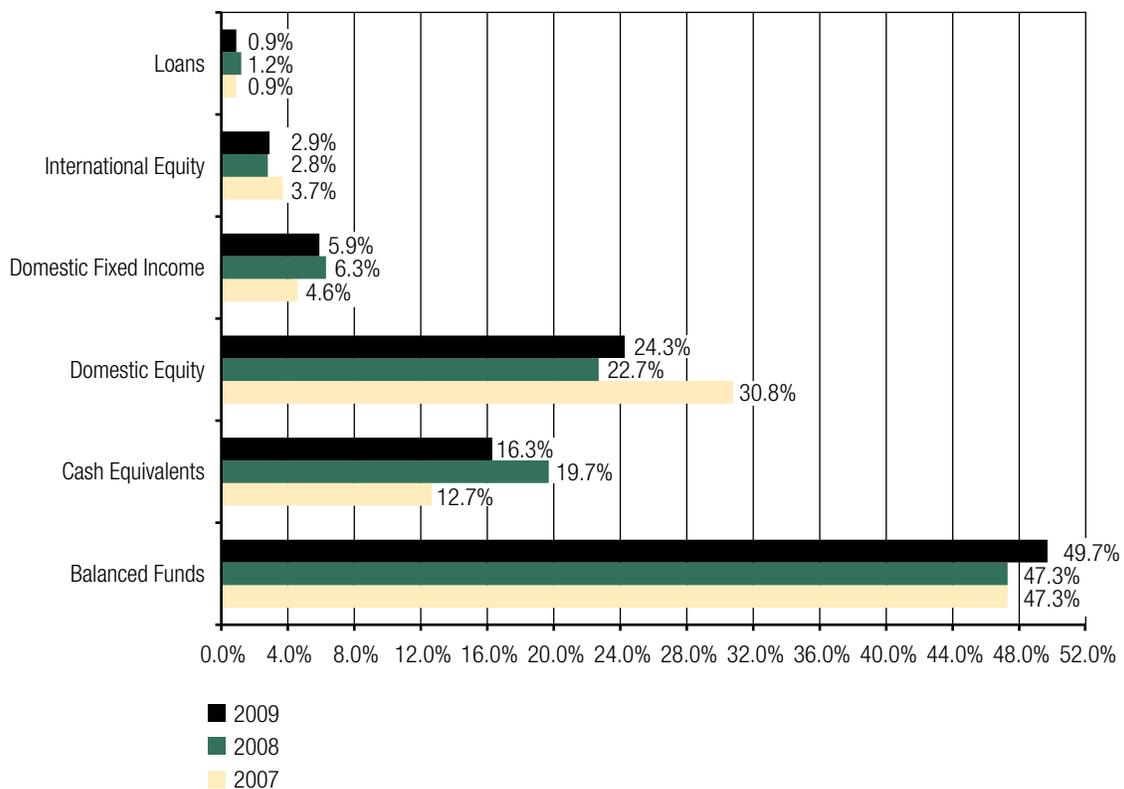
Investment Managers	Average Assets Under Management	Annual Fee	Average Basis Points
Acadian Asset Management	\$ 154,570,767	\$663,472	42.92
Barclays Global Investors- Core Active	191,767,345	52,614	2.74
Barclays Global Investors- AIE	176,033,236	161,134	9.15
Barclays Global Investors- ACWI	268,821,430	52,614	1.96
Barclays Global Investors- Efficient Frontiers	51,751,295	262,544	50.73
Barclays Global Investors- Global Ascent	27,048,520	598,788	221.38
BRC Investment Management	29,916,679	67,635	22.61
Credit Suisse Customized Infrastructure	175,635,708	2,103,053	119.74
Credit Suisse Private Equity Fund	543,219,655	5,590,053	102.91
C.S. McKee	190,634,523	690,727	36.23
C.S. McKee- Fixed Income	244,988,165	404,726	16.52
Delaware Investment Advisors	299,308,094	584,494	19.53
Delaware Strategic Advisors	77,938,931	117,916	15.13
Driehaus Global Growth	53,730,498	52,799	9.83
First International Advisors	346,783,741	698,887	20.15
Hexam	53,598,912	84,568	15.78
Johnson Investment Counsel	8,807,410	2,202	2.50
Kennedy Capital Management	207,972,160	756,485	36.37
LSV Asset Management	87,396,089	128,978	14.76
Mondrian International	211,783,954	540,965	25.54
Reams Asset Management	296,906,417	301,088	10.14
Stone Harbor	286,378,255	626,684	21.88
Urdang Investment Management	87,878,145	410,941	46.76
Wellington Management	314,365,973	680,089	21.63
Wellington Management- Mid Cap	172,134,458	877,125	50.96
The Townsend Group	121,202,510	218,047	17.99
Total Investment Manager Fees	\$4,680,572,870	\$16,728,628	35.74
Investment Custodian			
State Street Bank and Trust		727,357	
Investment Performance Measurement Consultant			
State Street Bank and Trust		101,500	
Securities Lending Agent			
State Street Bank and Trust		1,155,585	
Total Investment Fees		\$18,713,070	

B. MERS Defined Contribution Program

Investment Activity

The MERS Defined Contribution Program became operative on July 8, 1997, under Section 401(a) of the Internal Revenue Code. This program is available for adoption by all member municipalities, and an alternative option to MERS Defined Benefit Plan. As of December 31, 2009, the Defined Contribution Program had net assets of \$245 million and 8,351 members. Each member is responsible for directing the investment of their accumulated account balance. Members receive investment performance information from MERS third-party administrator, International City/County Management Association – Retirement Corporation (ICMA-RC). MERS allows its Defined Contribution participants to invest in the Total Market Fund, Established Market Fund, Diversified Bond Fund and Short-Term Managed Income Fund.

ASSET ALLOCATION OF DEFINED CONTRIBUTION PROGRAM



Investment Options

MERS offers the following investment options through our third-party administrator (ICMA-RC) for the DC Program:

Plus Fund and Money Market

The Plus Fund consists primarily of portfolios of investment contracts purchased from financial institutions and accordingly, maintains a stable capital value in the absence of credit default. The Cash Management Money Market offers a liquid position that seeks to maintain principal while earning a short-term yield.

Bond Funds

Bond funds offer investments into various bond types:

- The recently added MERS Short-Term Managed Income Fund offers the short-term managed cash returns from the MERS Defined Benefit portfolio.
- The recently added MERS Diversified Bond Fund offers a global bond fund from MERS Defined Benefit pension portfolio; Inflation Protected Securities Fund offers investment into Government Securities.
- PIMCO Total Return Fund and the Core Bond Index Fund offer diversified fixed income holdings; and the PIMCO High Yield fund offers lower grade but higher yielding fixed income positions.

Equity Funds

Equity funds actively manage funds invested in both domestic and international equities. Included in this category are:

- Aggressive Opportunities Fund, International Fund, Growth Fund, Growth and Income Fund, Equity Income Fund, Fidelity Diversified International Fund, American Century Value Fund, Ave Maria Fund, Lord Abbett Large Company Value Fund, Legg Mason Value Fund, Calvert Social Investment Fund, Fidelity ContraFund, Fidelity Magellan Fund, Goldman Sachs Mid Cap Value Fund, Third Avenue Value Fund, Rainier Small/Mid Cap Equity Fund, T. Rowe Price Small Cap Stock Fund, Royce Premier Fund, Fidelity Small Cap Retirement Fund, and the American Century Real Estate Investment Trust

Equity Index Funds

Equity index funds are comprised of:

- Overseas Equity Index Fund
- Mid/Small Company Index Fund, Broad Market Index Fund
- 500 Stock Index Fund

Balanced Funds

Balanced funds are comprised of managed allocation styles of stocks, bonds, cash, and/or other asset classes. A fund manager decides when and what proportion to move between them. Included are:

- Fidelity Puritan Fund
- Asset Allocation Fund
- MERS Established Market Fund
- MERS Total Market Fund

Model Portfolio Funds

Model portfolio funds consist of five funds invested in actively managed funds, index funds, and investment contracts in varying proportions. They allow the investor to choose one investment vehicle to provide the level of diversification that best meets their risk tolerance and investment objectives. Included in descending order of market risk:

- All-Equity Growth Fund
- Long-Term Growth Fund
- Traditional Growth Fund
- Conservative Growth Fund
- Savings-Oriented Fund

Target Date Funds

Target date funds are a series of funds or portfolios designed for retirement dates at 5-10 year intervals. These broad asset-allocation portfolios are designed to seek high returns when retirement is many years off, and to gradually moderate risk over time.

Target date investing allows investors the opportunity to select one fully diversified fund designed to meet their individual time horizons and risk tolerance. This strategy can be accomplished through either the allocation of individual stocks, bonds and cash, or by combining existing mutual funds, creating a “fund of funds.” Once the asset mix is established, it will automatically rebalance at a predetermined future date based on a presumed age.

C. MERS Hybrid Program

This is a pension plan option for members that includes both a Defined Benefit and a Defined Contribution component. The Defined Benefit component (Part I) is employer funded, with benefit multipliers of 1.0%, 1.25%, and 1.5%. The Defined Contribution component (Part II) is a combination of employer and employee contributions that are invested in mutual funds selected by the individual participant.

D. MERS Health Care Savings Program

MERS Health Care Savings Program is a tax-favored individual medical savings account sponsored by employers. When a participant leaves employment, the account balance is available for tax-free reimbursement of medical expenses for the participant and eligible dependents. Participants choose from four MERS Core Investment Options to save and grow their account assets.

E. MERS Retiree Health Funding Vehicle

The Retiree Health Funding Vehicle is a medical trust that allows municipalities to save and grow assets in one of MERS Core Investment Options to offset retiree health care liability. This funding vehicle also saves employers from forming their own trust to administer and direct investments.

F. MERS Investment Services Program

A complete list of the portfolio holdings is available upon request.

The Investment Services Program provides municipalities non-membership access to the MERS Total Market Fund. Employers benefit from a professionally managed fund, economies of scale and lower administrative fees, while still maintaining local control of administration.