

**MERS: the**

constant affordable  
ethical motivated  
innovative  
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take  
daring  
partnership  
affordable  
honest  
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stable  
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**Secure**

**of retirement**

visionary unique  
progressive  
innovative  
happy  
ready  
decisive  
professional  
partner  
trusting  
stable  
confident  
steady

**stable**

**transparent**

decisive confident  
experienced  
innovative  
affordable  
prepared  
creative

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

for the fiscal year ended  
**12.31.2011**







## **ABOUT MERS**

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. We are an independent public nonprofit organization that has partnered with Michigan municipal organizations for more than 65 years, helping them deliver on their promise of a retirement for their employees.

## MERS Products

### MERS Defined Benefit Plan –

MERS Defined Benefit is a traditional pension plan that promises employees a lifetime retirement benefit. At retirement, members receive a specific monthly benefit calculated using a pre-determined formula based on salary and service. The plan is funded by the municipality (with or without pre-tax employee contributions). We also allow municipalities non-membership access to the MERS Total Market Fund, through our Investment Services Program. Groups benefit from our professionally managed fund and economies of scale, while maintaining local control of their pension administration.

### MERS Defined Contribution Plan –

MERS Defined Contribution Plan provides employees with an account they manage. At retirement, benefits are based solely on the amount contributed by the employee and employer, and the performance of investments. We offer access to MERS investments, while streamlining the number of funds, making for simple and strategic investing.

### MERS 457 Supplemental Retirement Program –

MERS 457 Program is a deferred compensation program for public sector employees, helping them save for the future above and beyond other retirement plans from their employers. The program offers each employee a self-directed account in which a portion of their salary is deposited into an invested account they manage. The employee decides the level of contributions and how to invest the assets to meet their goals and personal risk tolerance. When an employee leaves employment, their benefits are based on the total amount of money in their account.

### MERS Hybrid Plan –

MERS Hybrid Plan is two plans in one. Employees will have the security of a defined Benefit portion and the flexibility and investment

choice of a defined contribution portion. At retirement, employees receive a modest lifetime benefit and a separate account (made up of member and employer contributions and investment interest earned).

### MERS Health Care Savings Program –

MERS Health Care Savings Program is a tax-favored individual medical investment account sponsored by employers. Once the employee leaves, the account balance is available for tax-free reimbursement of medical expenses for the employee and eligible dependents.

### MERS Retiree Health Funding Vehicle –

The Retiree Health Funding Vehicle is a medical trust which allows municipalities to save and grow assets to offset retiree health care liability. The funding vehicle allows employers to proactively set aside assets to begin funding their liability, and to take advantage of the economies of scale of the MERS portfolios.

### MERS Premier Advantage –

MERS Premier Advantage is a Medicare Advantage program, designed exclusively for MERS members who are eligible for Medicare. MERS partnered with Humana to cover all Medicare Part A and Part B benefits, as well as many other medical expenses and comprehensive prescription drug coverage, all at a lower out-of-pocket cost than Medicare.

### MERS Group Life & Disability Insurance Program –

MERS pools employer purchasing power to preserve the quality and affordability of Life, Accidental Death and Dismemberment, Short Term Disability, and Long Term Disability Insurance. MERS partners with The Standard Insurance company to offer affordable insurance.



“ 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**

**introductory section**

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.



## 2011 ACHIEVEMENTS



### Certificate of Achievement for Excellence in Financial Reporting

MERS received the Certificate of Achievement for Excellence in Financial Reporting from the Government Finance Officers Association for the December 31, 2010 Comprehensive Annual Financial Report. This marks the 23rd consecutive year MERS has received this honor.

### Public Pension Standards Award in 2011

MERS also received the Public Pension Coordinating Council (PPCC), Public Pension Standards Award in 2011, 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 29, 2012**

**Dear Board Members:**

It is a pleasure to submit the 2011 Comprehensive Annual Financial Report (CAFR) for the Municipal Employees' Retirement System (MERS) of Michigan. This year's report includes all of the required financial information regarding the System for the fiscal year ending December 31, 2011.

MERS: The Art of Retirement is the theme for this year's publications. Art and various art forms can have many meanings depending on the audience. Britannica defines art as "the use of skill and imagination in the creation of aesthetic objects, environments, or experiences that can be shared with others." After our more than 65 years of experience, we know there is an "art to retirement," and we will continue to use our artistic skills to paint a secure path for our members.

**MERS Profile**

MERS was created in 1945 by the Michigan Legislature as a statewide voluntary organization. We provide system administration and are an investment vehicle for local governmental entities throughout Michigan including authorities, cities, counties, medical care facilities, road commissions, townships, tribal governments, etc.

In 1996, the System was granted independence by the Michigan Legislature. MERS started its independent status with just under 500 employer members. Today we proudly count nearly 90,000 participants enrolled in a variety of products offered by MERS.

Retirement options include the MERS Defined Benefit (DB), Defined Contribution (DC) and a Hybrid (H) Plan (a combination of DB and DC). MERS also offers a menu of benefit provisions through pension trust funds. These provisions may be adopted by member employers to

create a retirement plan for their employees. Each employer has a trust account in the System, and one municipality cannot borrow from another to balance their account. The MERS Retirement Board serves as the fiduciary of the funds and has oversight responsibilities for the System.

As challenges come our way, we draw on three key strategies adopted by our Board – namely the MERS Ends Policies. These policies state that all members will:

1. Receive accurate information.
2. Experience excellent service.
3. Participate in a cost-effective and innovative system.

These benchmarks drive our business decisions every day, and help identify where improvements are needed or where solutions are working. Our goal is to not just meet but to exceed these expectations.

**Report Structure and Contents**

The ultimate responsibility for this report rests with the Board; however the MERS management team is responsible for the preparation, integrity and fairness of the financial statements and other information presented in this report. All necessary internal controls have been identified and are in place to ensure that transactions are authorized, assets safeguarded, and all supporting records are properly retained and managed.

This document meets the reporting requirements of state law as stipulated by Michigan Compiled Laws. The accounting policies followed in preparing the financial statements conform to the U.S. Generally Accepted Accounting Principles (GAAP). The financial information shown throughout this

report is consistent with what is displayed in the financial statements. Where necessary, some amounts are based on judgments and estimates using banking and industry best practices.

Andrews Hooper Pavlik PLC, MERS external auditor, conducted an independent audit of the financial statements in accordance with GAAP (page 11). This audit is described in the Independent Auditor's Report in the Financial Section. MERS management provides the external auditors with unrestricted access to records and staff. This external audit is conducted annually to ensure the sufficiency of the internal controls and independent substantiation of the Plan's financial reporting.

This CAFR is divided into five sections, namely: *Introduction*, *Financial*, *Investment*, *Actuarial*, and *Statistical*. The **Introductory Section** outlines the System's achievements and structure; the **Financial Section** contains the Management's Discussion and Analysis, which serves as a narrative and overview of the financial statements. For financial reporting purposes, MERS is considered an independent component of the State of Michigan. The **Investment Section** is comprised of investment activities and performance information; the **Actuarial Section** contains all the facts pertaining to the actuarial assumptions and methods, as well as the actuary's certification letter, and lastly, the **Statistical Section** provides various schedules on member data.

### Financial Summary

The U.S. financial markets "artfully" improved enough in the last quarter to provide positive returns for the year ending December 31, 2011. The MERS portfolio returned 2.3%, and placed MERS in the top quartile for performance for the one, three, five and ten-year period according to the State Street Universe of public funds. Information regarding the investment managers is found in the Investments Section.

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.

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%. Conversations continue between MERS and the actuary about lowering that rate when appropriate. In the meantime, MERS pursues sustainability by adhering to the asset allocation study as adopted by the Board, and closely managing the portfolio with a close eye on the world financial markets.

### Legislative Issues

Last year we spent a significant amount of time on legislative issues – namely the new Economic Vitality Incentive Program (EVIP) and pension taxation. The EVIP includes provisions that stipulate communities certify their intent to implement employee compensation criteria for any new, modified or extended contract for employees not covered by a contract or employee agreement in order to qualify for state revenue sharing.

The House Bill 4361/PA38 reforms how businesses pay taxes. It also reduced or eliminated a number of state income tax exemptions, and the long-standing exemption on the taxation of public pensions.

MERS began collecting 4.35% state income tax from MERS retirees on January 1, 2012. This tax is imposed by age (exempt if born before 1946) and has various exemptions for those born between 1946 and 1952.

### Key Initiatives for 2011

In January we launched the internal management of the 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.

During the summer months, the Health Care Savings Program and Retiree Health Funding Vehicle underwent an enhancement project. We streamlined the investment menu and aligned fund performance and pricing across all participant-directed accounts. All member statements were improved to provide clearer account information.

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

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

### Internal Projects

The Office of Finance and Technology had many projects and included enhancements to Great Plains software, the establishment of SharePoint, and the selection of the human resources software. Network improvements centered on video conferencing, security, server virtualization, and firewall upgrades.

The Library and Records Center’s FileNet software system was upgraded to allow member and municipal file conversion from ImageNow into FileNet. New scanners were installed along with the development of a release and deployment process for records.

MERS Service Center continued a quality assurance initiative to ensure accuracy on calls

using a SharePoint platform. New processes including queue messaging and scheduling kept average call abandon rates below 5.8%.

### 2011 Highlights

New assets for 2011 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.

The Internal Auditor completed 14 audits with no material weaknesses found. Opportunities for improvement were identified and put into development.

### Best Practices

We continually strive to keep our standards at the highest level to ensure stability as a leader among our peers. We are honored that for the 23rd consecutive year, MERS was the proud recipient of the Government Finance Officers Association (GFOA) annual award for our 2010 Comprehensive Annual Financial Report. MERS Summary Annual Financial Report, which summarizes the CAFR, also received the GFOA award, which is mailed to all active and retired members of the System. For 2011, we are also pleased to accept the Budget Award from GFOA for the ninth consecutive year.

A complete copy of the CAFR is provided to the Governor, the members of both Legislative branches, and the Office of the State Treasurer, as required by law.

## Acknowledgement

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 use innovation, skill and a commitment to service to paint the right retirement plan for all our members.

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**



## Letter from the Chairperson, June 29, 2012

### Dear Board Members:

On behalf of the MERS Retirement Board, it is a pleasure to present the 66th Comprehensive Annual Financial Report (CAFR) of the Municipal Employees' Retirement System of Michigan for the fiscal year ended December 31, 2011. This financial report provides information on the status of our Retirement System.

The MERS 2011 Annual Meeting was held at the Grand Traverse Resort in Traverse City with a record turnout of member delegates, guests and staff. During the business meeting, the delegates duly elected Mr. Randy Gerard, Township Manager of Marquette Township, and Mrs. Amy Deford, Retirement Administrator of Saginaw County, each to a three-year term on the Board beginning January 1, 2012. Mr. Gerard will serve as the officer member and Mrs. Deford as the employee member. The Board also appointed Mr. Jim Wiersma to a three-year term serving as one of the two external expert professionals. The Board is delighted to have these fine individuals serve the System and I extend my sincere congratulations to everyone. In addition, at the 2012 January Board meeting, I was elected to serve as the chairperson, and Mr. Michael Brown, County Administrator of Barry County, was elected as chairperson pro tem.

The Retirement Board is comprised of nine volunteer members, three employer and three employee members elected by the membership; two expert investment professionals and one retiree member appointed by the Retirement Board. This group works diligently to fulfill their fiduciary responsibilities in serving the membership. MERS is fortunate to have trustees with such diverse backgrounds, expertise and experience.

Each year the Board reviews the MERS Investment Policy along with the Investment Management Plan. The goal of the review is to assure the proper risk targets are being met, and to preserve and maximize the long term growth of the System's assets. Every five years a full asset allocation study is undertaken. Preparations will start in 2014 for the next study which examines all aspects of risk and portfolio construction. The target completion date will be 2015.

Our members can remain confident that we are focused on providing accurate information, excellent service, and a cost-effective, innovative System. MERS vision statement our present is your future reflects how seriously we believe what we do every day is for the future of all of our members

Annually, MERS surveys the membership for ways to improve the System. Overall the staff receives high marks for the level of service they provide. Using various benchmarks as comparison to other public systems, MERS scores high in administering retirement plans and related products. The staff works diligently to find the appropriate solutions to meet our member's needs.

In closing, I would like to take this opportunity to thank the members of the Board and the staff for their unwavering commitment to provide expertise and professionalism to our members. It has been my pleasure to serve as MERS chairperson.

Sincerely,

**Larry Opelt, Chairperson**  
**MERS Board of Trustees**



### MERS RETIREMENT BOARD AND CHIEF EXECUTIVE OFFICER 2011

**Back row from left to right:** Ms. Sally Dreves, Ms. Beverly Crumley, Mr. Bruce Johnson, Mr. James Wiersma, Mr. Michael Brown, Mr. John Ogden, and Ms. Lori Newberg. **Front row from left to right:** Mr. Larry Opelt, Ms. Anne Wagner, and Mr. Randy Girard.

**Officer Members:** John Ogden, Michael Brown, Randy Girard

**Employee Members:** Sally Dreves, Beverly Crumley, Lori Newberg

**Public Members:** Bruce Johnson, James Wiersma

**Retiree Member:** Larry Opelt, Chairperson

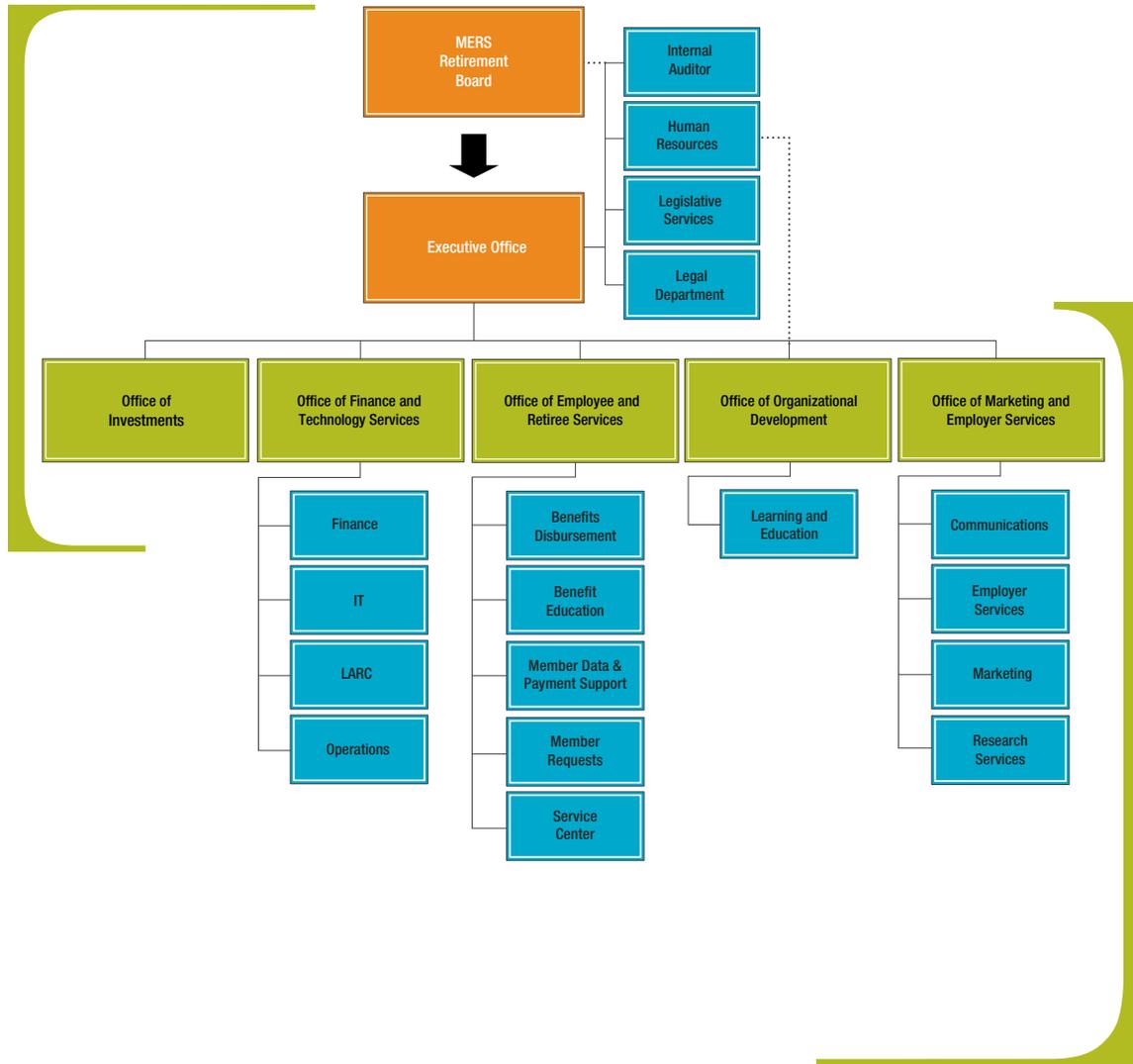
### MERS OFFICERS 2011



**From left to right:** Jeb Burns, Debra Peake, Mike Moquin, Anne Wagner, Carrie Lombardo, Leon Hank, Caryn Mateer

# MUNICIPAL EMPLOYEES' RETIREMENT SYSTEM OF MICHIGAN

## Organizational Structure – 2011



## OUTSIDE PROFESSIONAL SERVICES

### Professional Consultants

#### Actuary

Gabriel, Roeder, Smith & Company

#### Auditor

Andrews Hooper Pavlik PLC

#### Human Resource Advisors

Gallagher Benefit Services, Inc.

#### Investment Custodian

State Street Bank and Trust Company

#### Legal Counsel

Ice Miller, LLP

Miller, Canfield, Paddock & Stone, PLC

Reinhart Boerner Van Deuren S.C.

#### Legislative Consultants

Karoub Associates

#### Medical Advisor

Consulting Physicians

#### Security Lending Agent

State Street Bank and Trust Company

#### Systems Implementation and Maintenance

Crowe Horwath

JoHo Technology

IBM Corporation

Maner Costerisan

Robbins-Gioia, LLC

Summit Technologies

Tegrit Financial Group

#### Third-Party Administrator

Tegrit Administrators, LLC

### Investment Managers

#### Domestic Equity

AMBS Investments

BRC Investment Management

C.S. McKee

Hellman Jordan

Irving Magee

Kennedy Capital Management

Seizert Capital

Wellington Management

Mellon Capital

Punch Investments

Morgan Dempsey

EAM Investors

#### International Equity

Acadian Asset Management

BlackRock

Driehaus Global Growth

Hexam

#### Fixed Income

BlackRock

C.S. McKee

Credit Suisse

First International Advisors

Reams Asset Management

TCW Funds

#### High Yield

Stone Harbor

Stone Tower

#### Overlay

Clifton Group

#### Real Estate

The Townsend Group

Hancock Timber

Urdang Capital Management

#### Private Equity

Credit Suisse

Mesirow Financial

AlpInvest Partners

#### Commodities

Cargill Risk Management

Mount Lucas

## ACKNOWLEDGEMENTS

The MERS Comprehensive Annual Financial Report (CAFR) for the fiscal year ended December 31, 2011, was prepared by the Office of Finance and Technology Services. Special thanks to the individuals who contributed significant amounts of time and energy to help complete this report. Preparation would not have been possible without their efforts.

### Office of Finance and Technology Services – Management

Betsy Waldofsky, Finance Director

Luke Huelskamp, Senior Finance & Budget Director

### Office of Finance and Technology Services – Technical and Support Staff

Courtney Overfield, Accounting Analyst

Danielle Grice, Accounting Analyst

Jen Wyble, Office Administrator

Karen Butka, Administrative Assistant

Robin Towsley, Accounts Payable Coordinator

### Additional MERS Staff

Ana Carlson, Senior Graphic Designer, Office of Marketing & Employer Services

Bekki Becsey, Communications Specialist II, Office of Marketing & Employer Services

Betsy Schaeffer, Digital Print and Mail Services Supervisor, Office of Marketing & Employer Services

Bob Griffin, Investment Officer & Portfolio Manager, Office of Investments

Claudia Konieczny, Investment Analyst, Office of Investments

Jamison Smythe, Senior Investment Officer & Portfolio Manager, Office of Investments

Jen Mausolf, Marketing/Product Development Director, Office of Marketing & Employer Services

Joe Thompson, Internal Auditor

Lisa Bond Brewer, Communications Director, Office of Marketing & Employer Services

Mike Charette, Senior Investment Officer & Portfolio Manager, Office of Investments

Michael Schrauben, Investment Officer & Portfolio Manager, Office of Investments

Nita Campbell, Digital Print and Mail Services Supervisor, Office of Marketing & Employer Services

Richard Taylor, Print Production Specialist, Office of Marketing & Employer Services

Special thanks are also extended to our auditors Andrews Hooper Pavlik PLC, actuary Gabriel, Roeder, Smith & Company, Tegrit Administrators, and Tegrit Financial Group.