

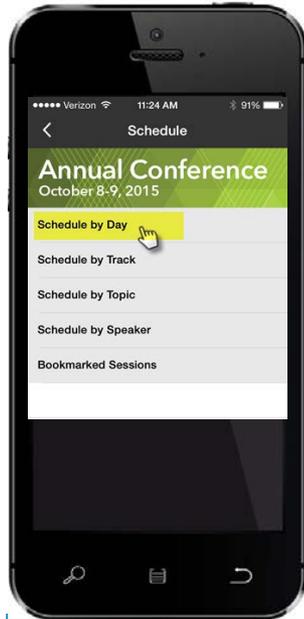
69th Annual Business Meeting



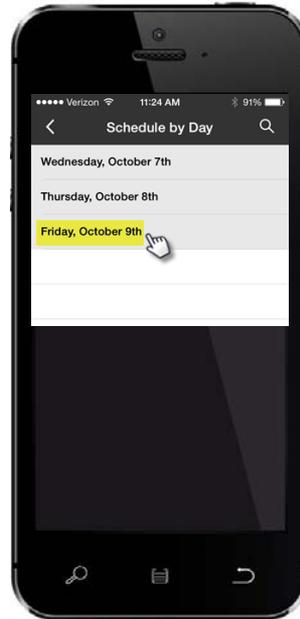
Locating Business Meeting Documents in the App



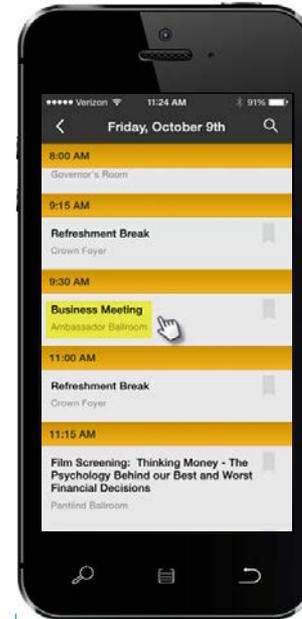
Step 1:
Select the
Schedule icon



Step 2:
Select Schedule
by Day



Step 3:
Select Friday,
October 9th



Step 4:
Select Business
Meeting



Step 5:
Select the
Minutes or
Agenda



State of MERS

Chris DeRose, MERS CEO



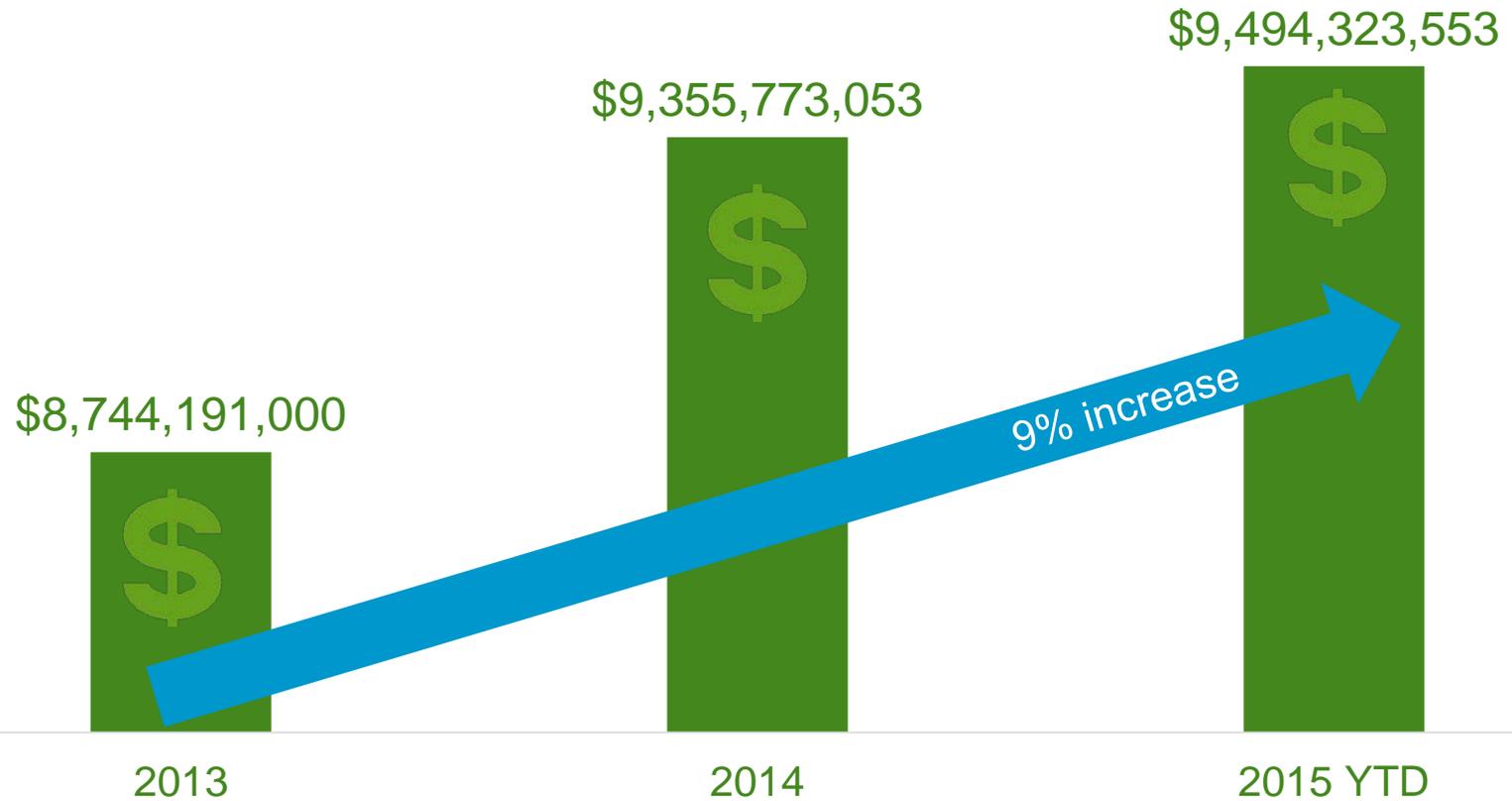
VISION

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.

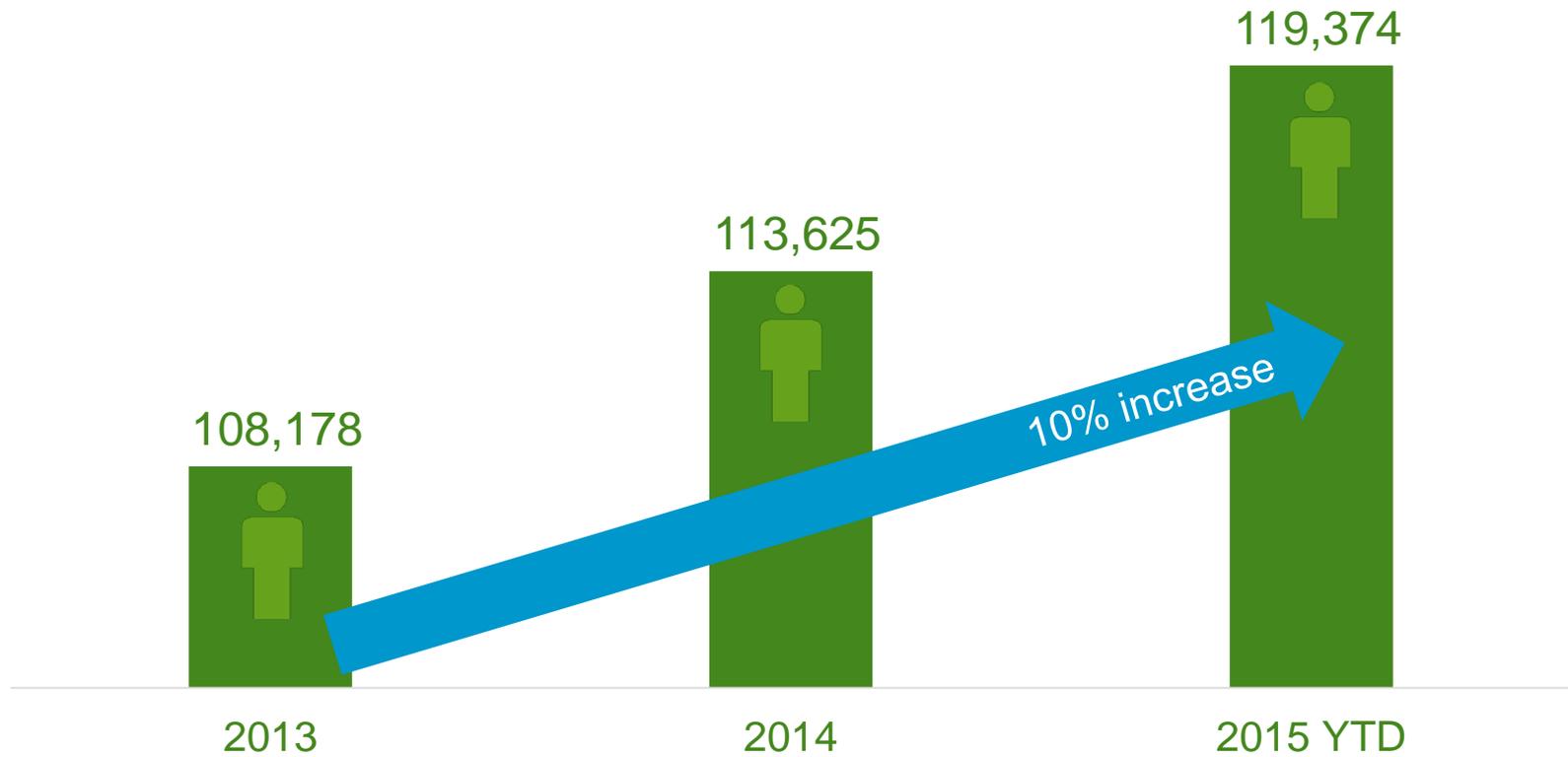
GROWTH



Total Assets



Total Accounts



New Groups

45th District Court

A Albert Township
Allegan County CMH

B City of Benton Harbor
Blair Township
Blendon Township
Boyne City Housing
Commission
Brandon Township Public Library
Burt Township

C Village of Centreville
Cheboygan Housing Commission
Chelsea District Library
Clarkston Ind. District Library
City of the Village Clarkston
Clarksville-Morrison Lake Sewer

D Delta Area Transit Authority
Detroit Wayne Mental
Health Authority

New Groups

E City of Eastpointe
Ellsworth Township
City of Eastpointe

H City of Hart
Humboldt Township
Huron Behavioral Health

F Fennville District Library
City of Flint
City of Fraser
Fruitport Township

J Jordan Valley EMS Authority

L Village of Lakewood Club
City of Linden

G Genesee District Library
Grand Ledge Area District Library
City of Grosse Pointe

New Groups

M Macomb Township
Village of Mancelona
Martha T. Berry Medical
Care Facility
Mayfield Township
Village of Michiana
Mid-State Health Network

N Village of New Haven
NorthCare Network
Northfield Township Area Library
Nottawaseppi Huron Band
of the Potawatomi

P Park Township
Putnam Township

S Sanilac County
Somerset Township
Suttons Bay Bingham Fire Authority

T Tri Co Regional Planning Commission

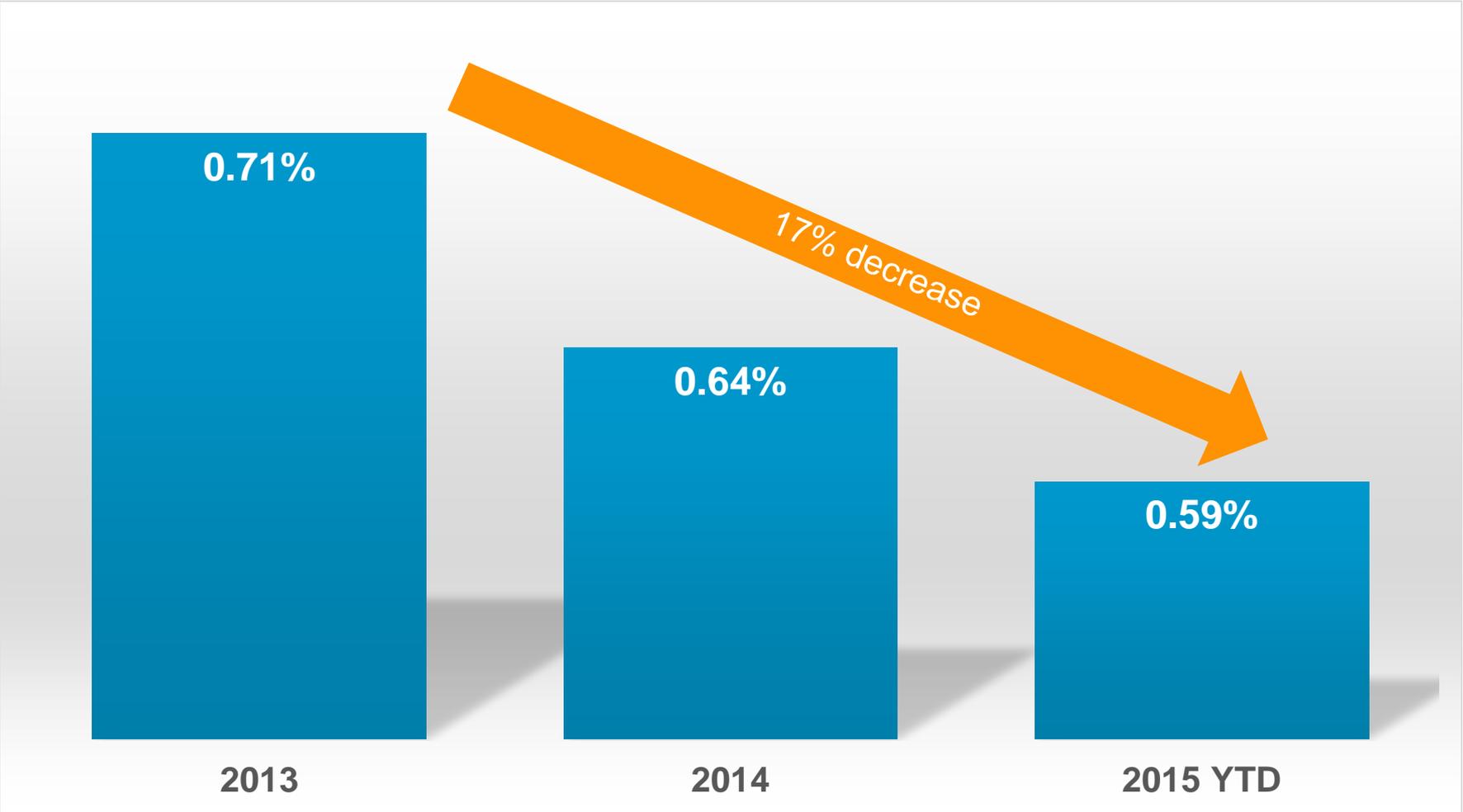
V Village of Vernon

W Warren Township
Charter Township of Watertown

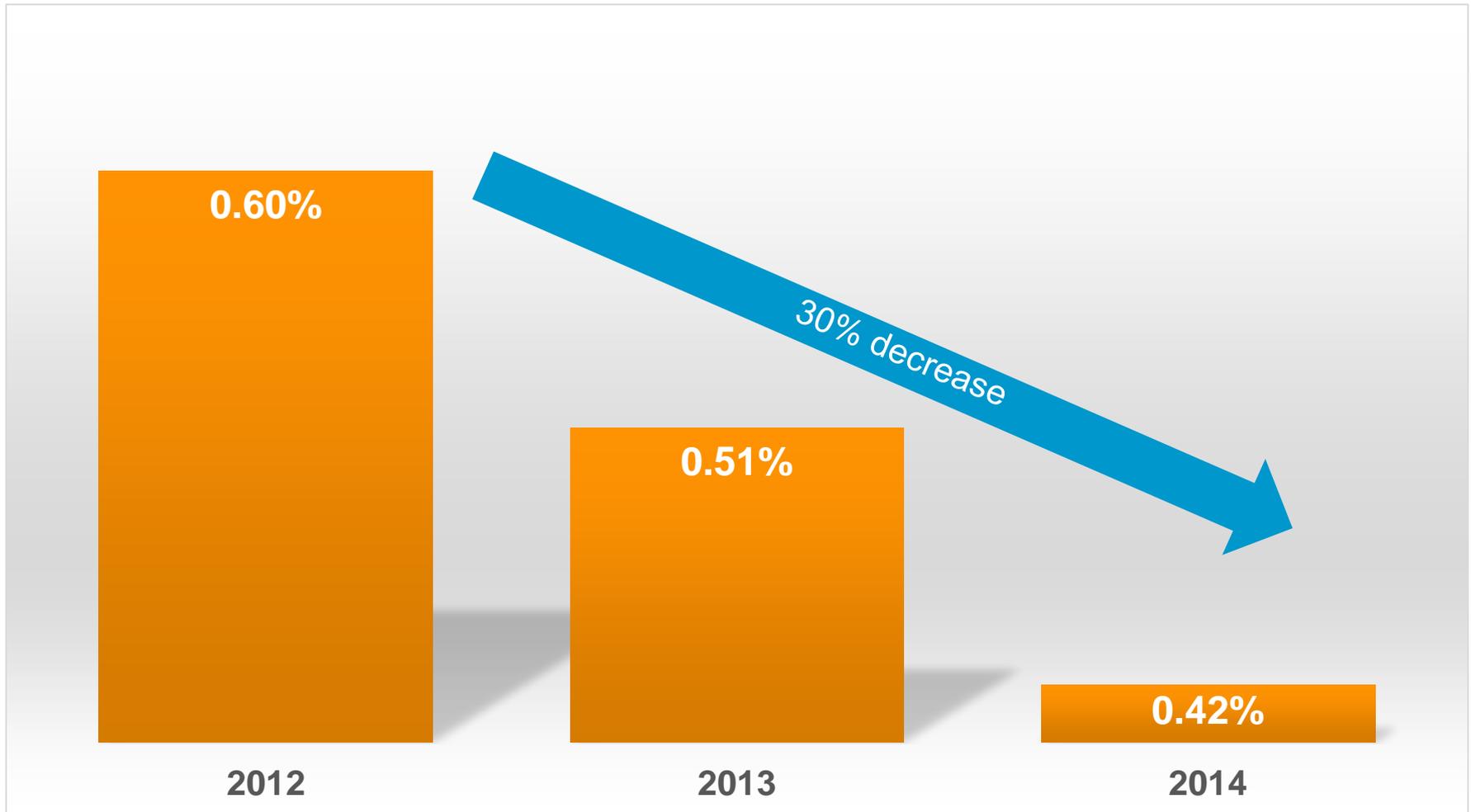
COST



Defined Contribution Plan Costs



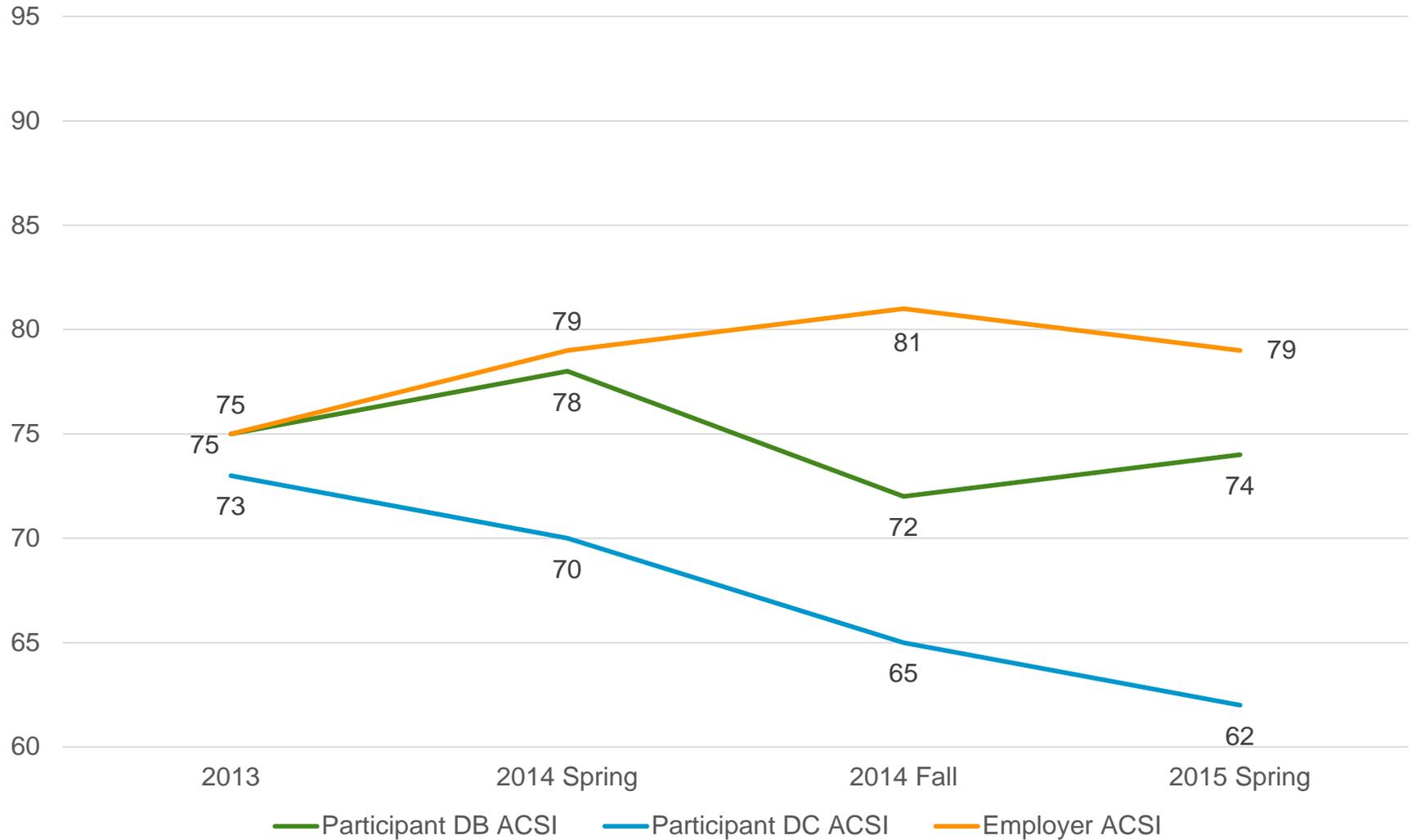
Defined Benefit Plan Costs



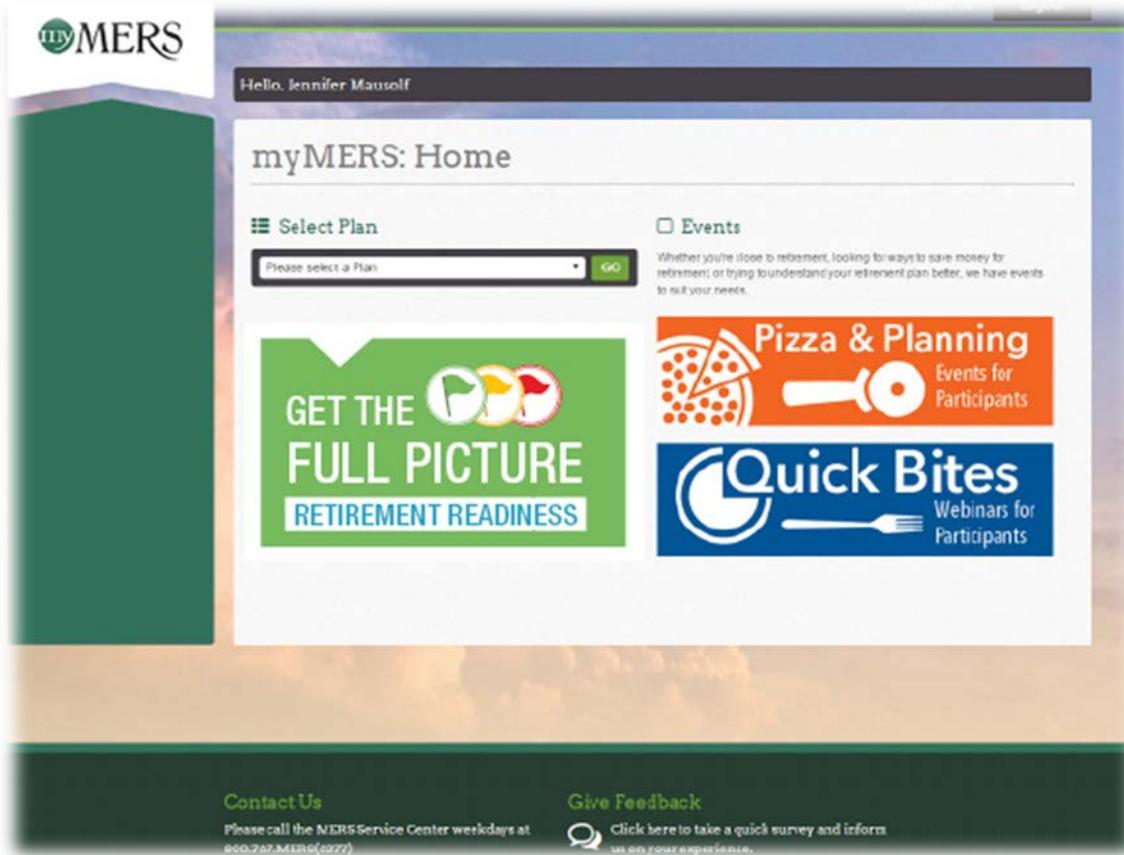
CUSTOMER SATISFACTION



Satisfaction Trends



The Fresh New Look of myMERS



Enhancements

- Added security
- Simpler password creation and reset process
- Mobile responsive
- Fresh new look with improved navigation
- Quick access to events
- Ability to access Retirement Readiness online tools

Other Enhancements for Participants

- Retirement Readiness Snapshot Reports
- Financial Resource Center
- Pizza & Planning Events
- Quick Bite Webinars



MERS Employer Portal

REDESIGNED

with your input in mind

Enhancements

- Added security
- Streamlined navigation
- Alerts
- Reporting enhancements

- Manage Site
 - Select Plan
 - Participant Search
 - Document Search
- Manage My Plan
 - Summary
 - Plan Features
 - Balances
 - Investment Performance
 - Manage Loans
 - Check Disbursements
- Manage My Participants
 - Select Participant
 - Pending Activity
 - View Statements
 - Transfer Participants
- Manage My Contributions
 - Contribution Deposits
 - Payroll Browse
- Files and Reports
 - Retrieve Files
 - Submit Files
 - Utilities
 - Request Reports
- plan resources
 - sponsor newsletter

Plan Summary

Alerts Manage Alert Settings

02/09/2015 Upload of Compliance Information

04/17/2014 Upload of Distribution Form

Plan Balances Plan Features

Plan Balance : \$236,062

Number of Investments : 30

Plan Outstanding Loan Balance : \$00

Go to Participant Activity Summary Investment Change

Enter PartID

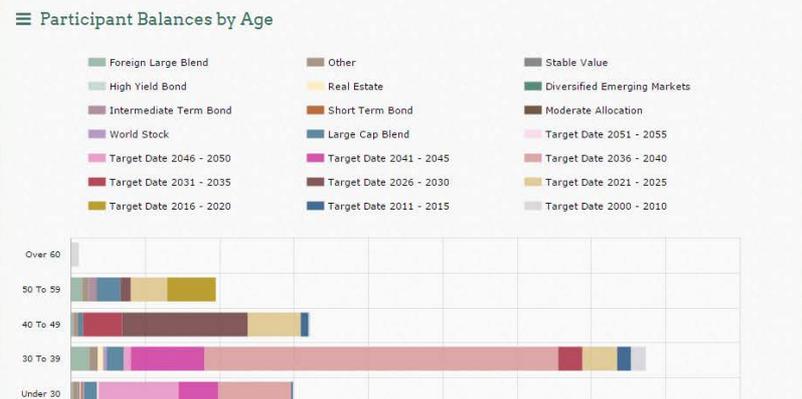
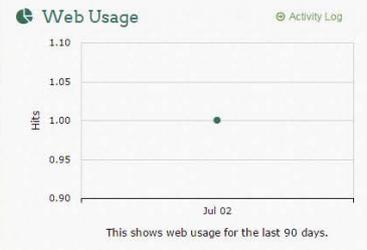
[Click here for name search](#)

Plan Dashboard

Participant Status

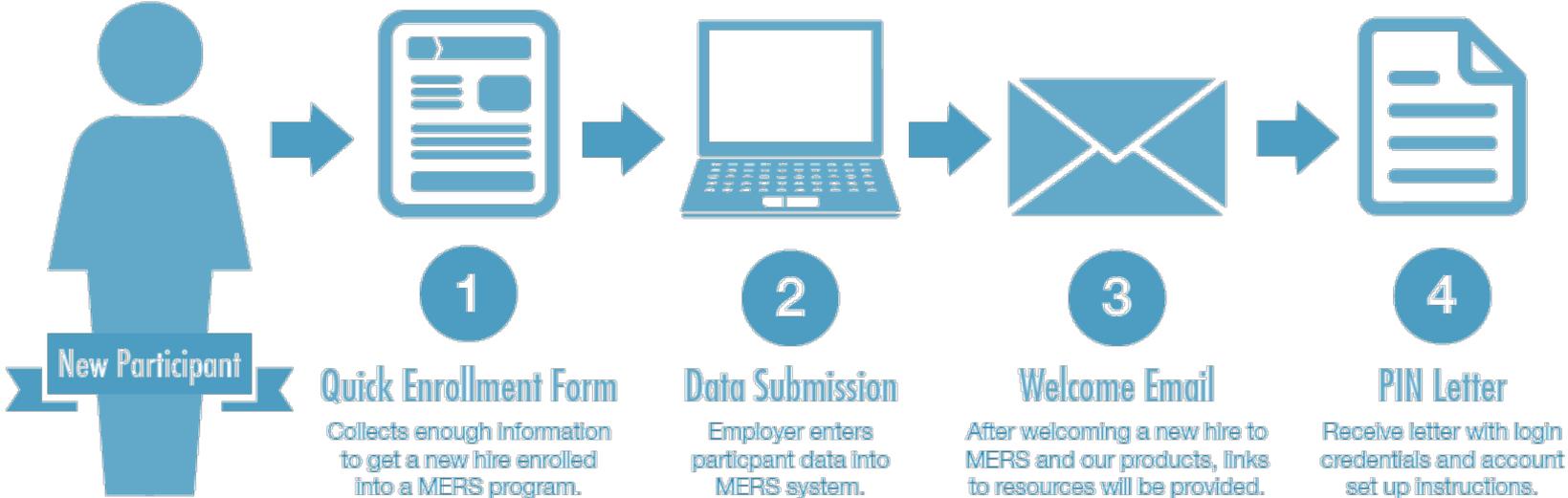
Disbursements

Counts are from 01/01/2015



New Enrollment Process

MERS New Participant Process



Employer Resources



plan-specific admin guides



employer new hire webpage



plan-specific formula templates



calculators



new participant video

Enhanced Annual Actuarial Valuations

- Based on your feedback, last year's report included several updates:
 - Accelerated funding information
 - Alternate scenarios
- This year we:
 - Moved the employee contribution rates up front
 - Added a five year budget projection, using various assumptions to provide you additional tools to manage and prepare for contributions
 - Added the newly required GASB 68 information



Product Improvements

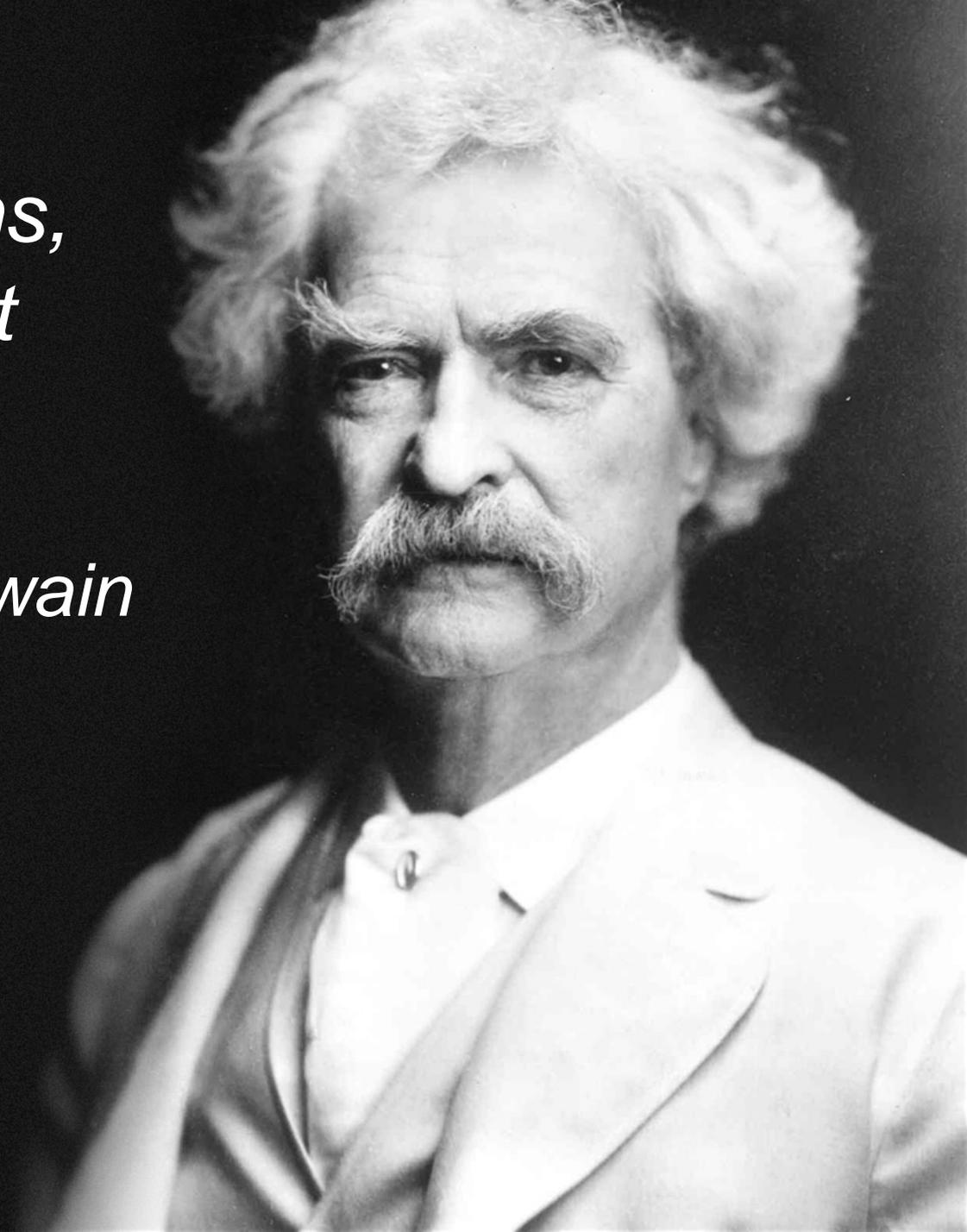
- Added a direct pension payment option to our Investment Services Program in May 2014
- Added a new Deferred Retirement Option Plan (DROP) provision to the Defined Benefit Plan in November 2014
- Made changes to the investment menu in December 2014 and July 2014
- Made enhancements to our Defined Contribution Plan that will take effect later this month
- Offering a new provision that allows employers to close their Defined Benefit Plan for active members by the end of this year

FUTURE



*“It is difficult to
make predictions,
especially about
the future”*

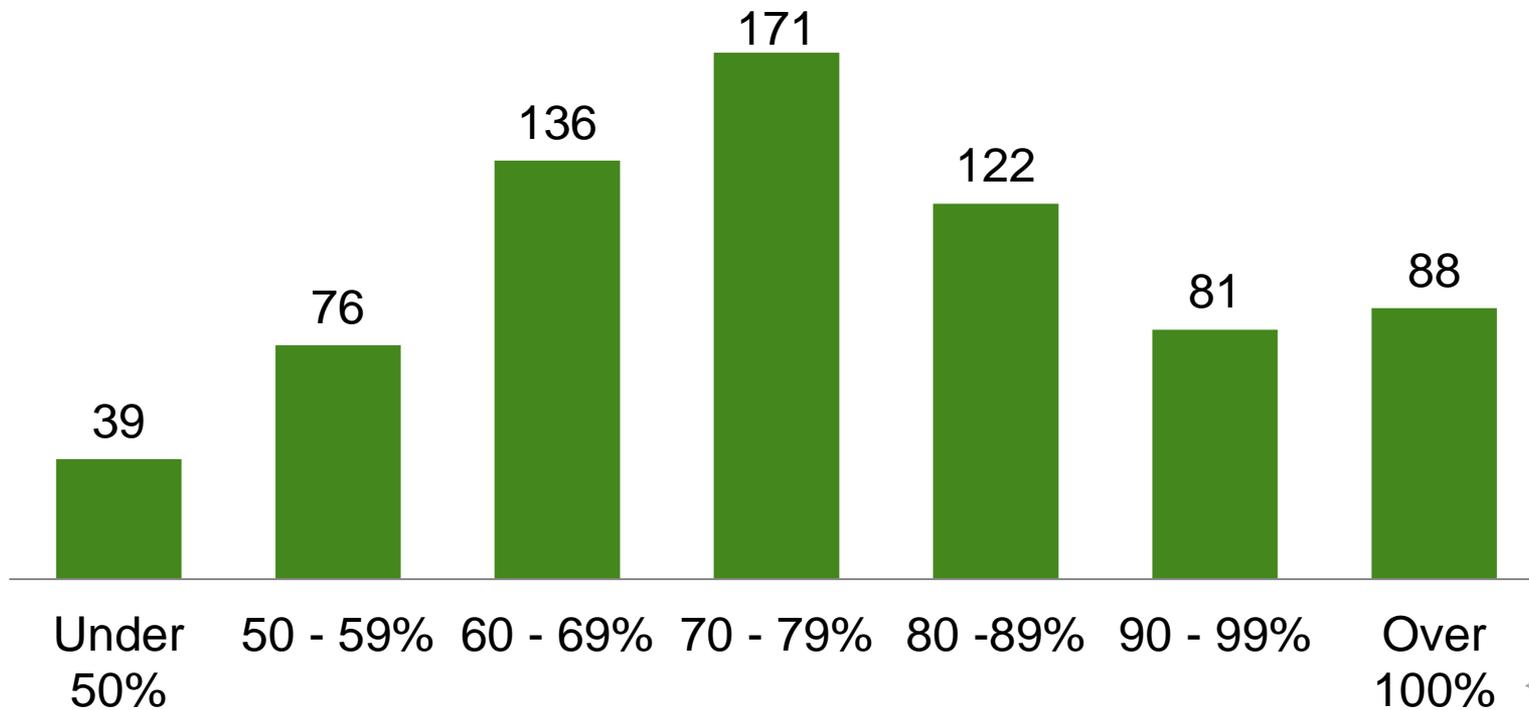
~Mark Twain



Distribution of Funded Percentage

Our Defined Benefit Plan is a multiple-employer plan

- Assets are pooled for investment purposes only
- Separate trusts are maintained for each individual employer
- We do not borrow from one municipality's account to cover another municipality's obligation



As of 12/31/14

Municipal Actions– Annual Trends

Strategy	Description	Trend					Impact
		2011	2012	2013	2014	2015	
Cost Sharing for Existing Employees	Employees contribute to help fund the overall cost of the plan	176	149	280	143	60	<ul style="list-style-type: none"> Reduces the employer cost, but does not affect total cost or the plan's unfunded liability
Lower Benefit to New Hires	New hires receive a lower tier of Defined Benefit provisions	63	49	53	43	38	<ul style="list-style-type: none"> Existing employees are not affected Reduces the liability for new hires
Bridged Benefits for Existing Employees	Benefits are offered in parts to existing employees Multiplier is then lowered on a going-forward basis	14	17	19	29	11	<ul style="list-style-type: none"> Leaves earned benefits unchanged Reduces the liability for new hires and existing employees
Hybrid for New Hires	New hires receive a Hybrid Plan	31	67	31	43	8	<ul style="list-style-type: none"> Existing employees are not affected Reduces liability for new hires
Defined Contribution for New Hires	New hires receive a defined Contribution Plan	21	20	45	30	31	<ul style="list-style-type: none"> Existing employees are not affected Eliminates liability for new hires
Bonding	Municipalities may bond for all or a portion of their unfunded accrued liabilities—pension or OPEB	0	0	0	4	0	<ul style="list-style-type: none"> Proceeds of the bond are deposited and potentially will fully fund the unfunded accrued liability No guarantee that future unfunded liabilities may not occur
Voluntary Contributions	Additional payments made into plan toward unfunded liability		180	211	200	170	<ul style="list-style-type: none"> Reduces existing liability Extra dollars are invested and recognize market returns

LISTENING



LOW COST



CUSTOMER SERVICE



PARTNERSHIP



RETIREMENT





MERS Investment Office Update

By Jeb Burns, Chief Investment Officer



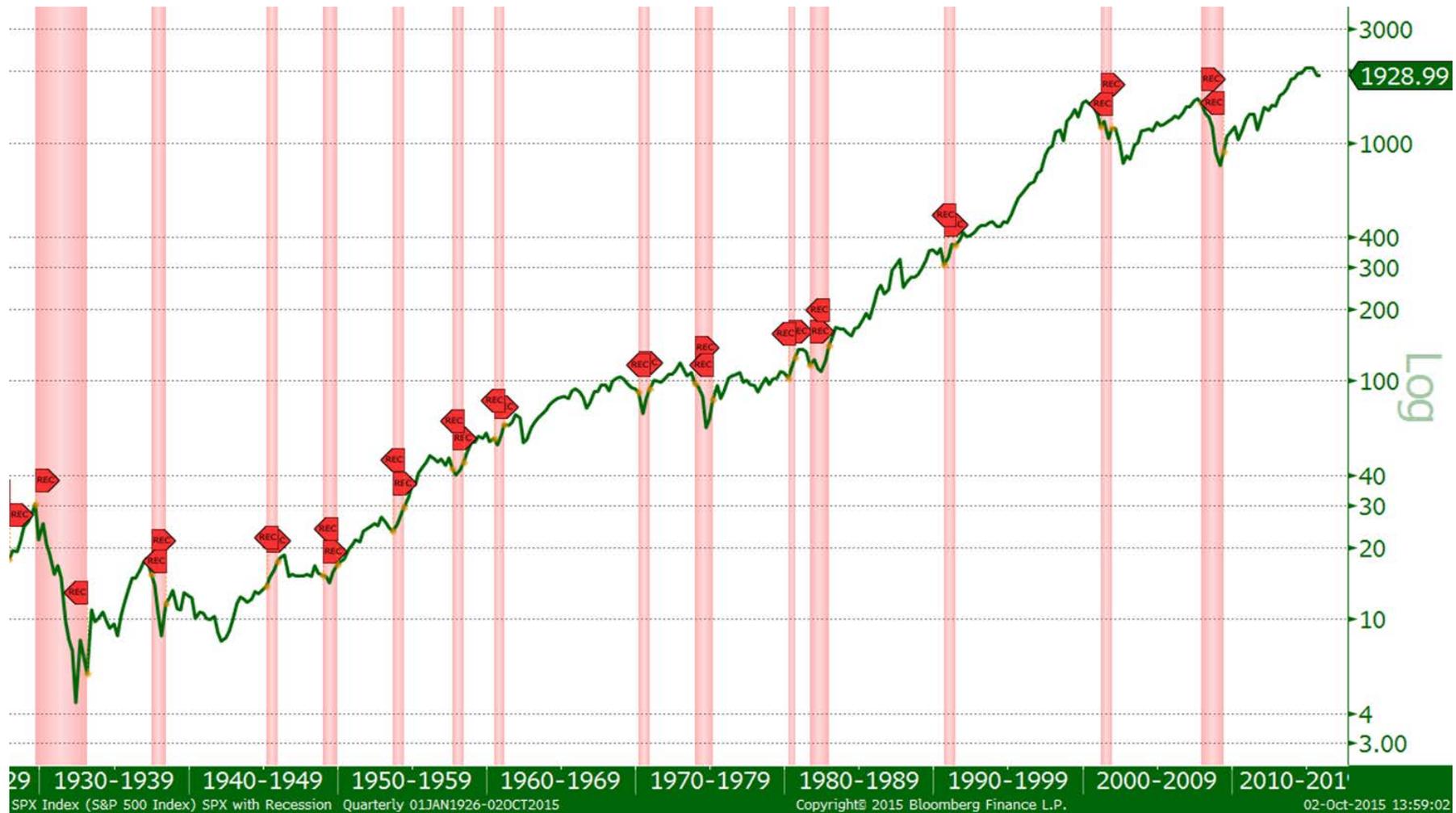
Overview

Historic Perspective

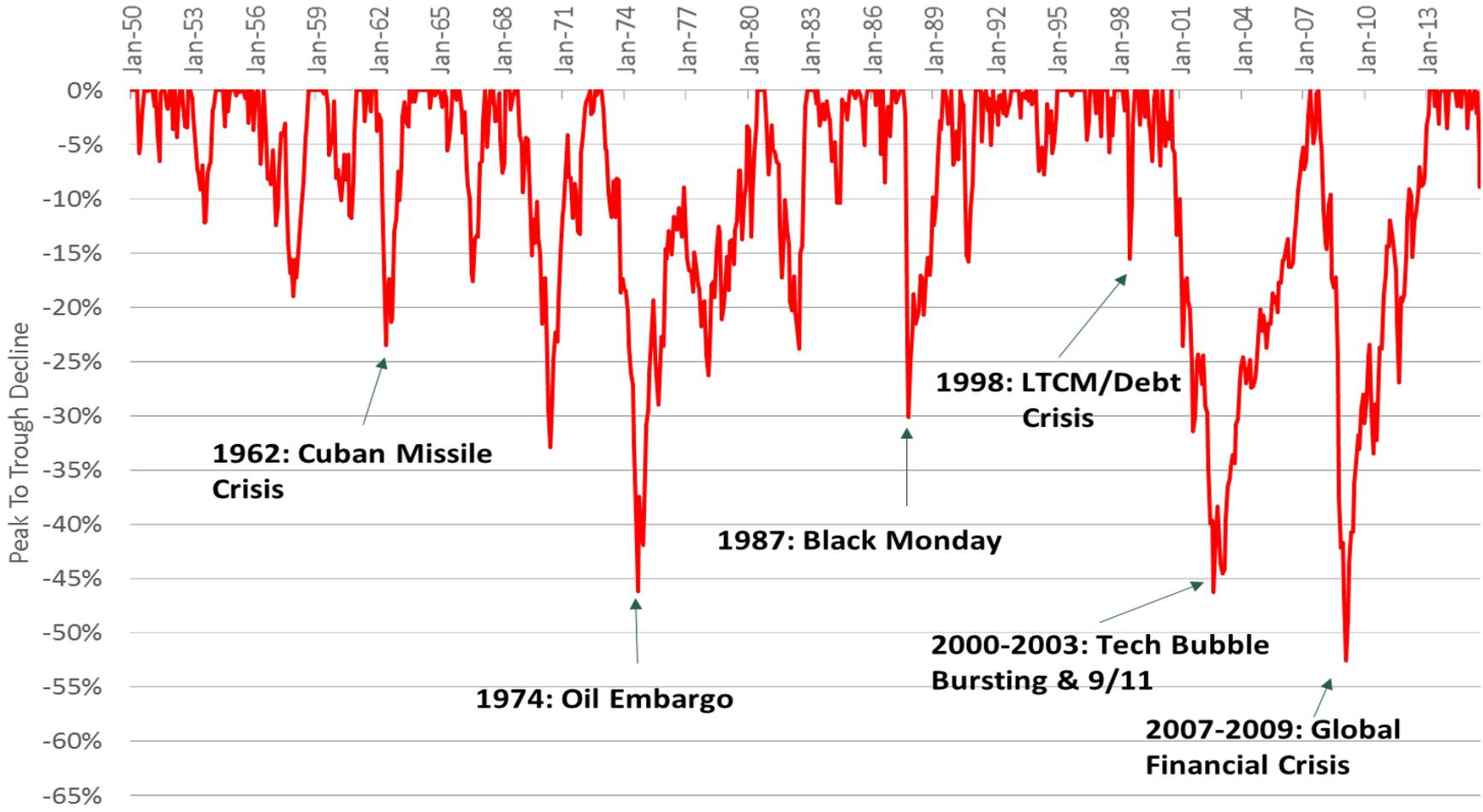
Current Market Environment

Portfolio Performance and Management

U.S. Stocks 1928 - Present (With Recessions Shaded)



U.S. Stock Market Historical Bear Markets



Current Global Economic Environment

Global growth expected to slow

- Eurozone showing modest growth, but migration crisis putting stress on political and social systems
- Geopolitical risks- Russia, Militarization of South China Sea, Middle East
- China economic transition and emerging markets

Monetary accommodation continues globally

- World inflation subdued with risk of deflation increasing
- European Central Bank, BOJ, and China continue QE Programs

Current U.S. Economic Environment

U.S. housing market recovery continuing

- Existing homes sales increasing

U.S. monetary policy expected to increase uncertainty in markets

- Federal Reserve rate lift off postponed – 2016?

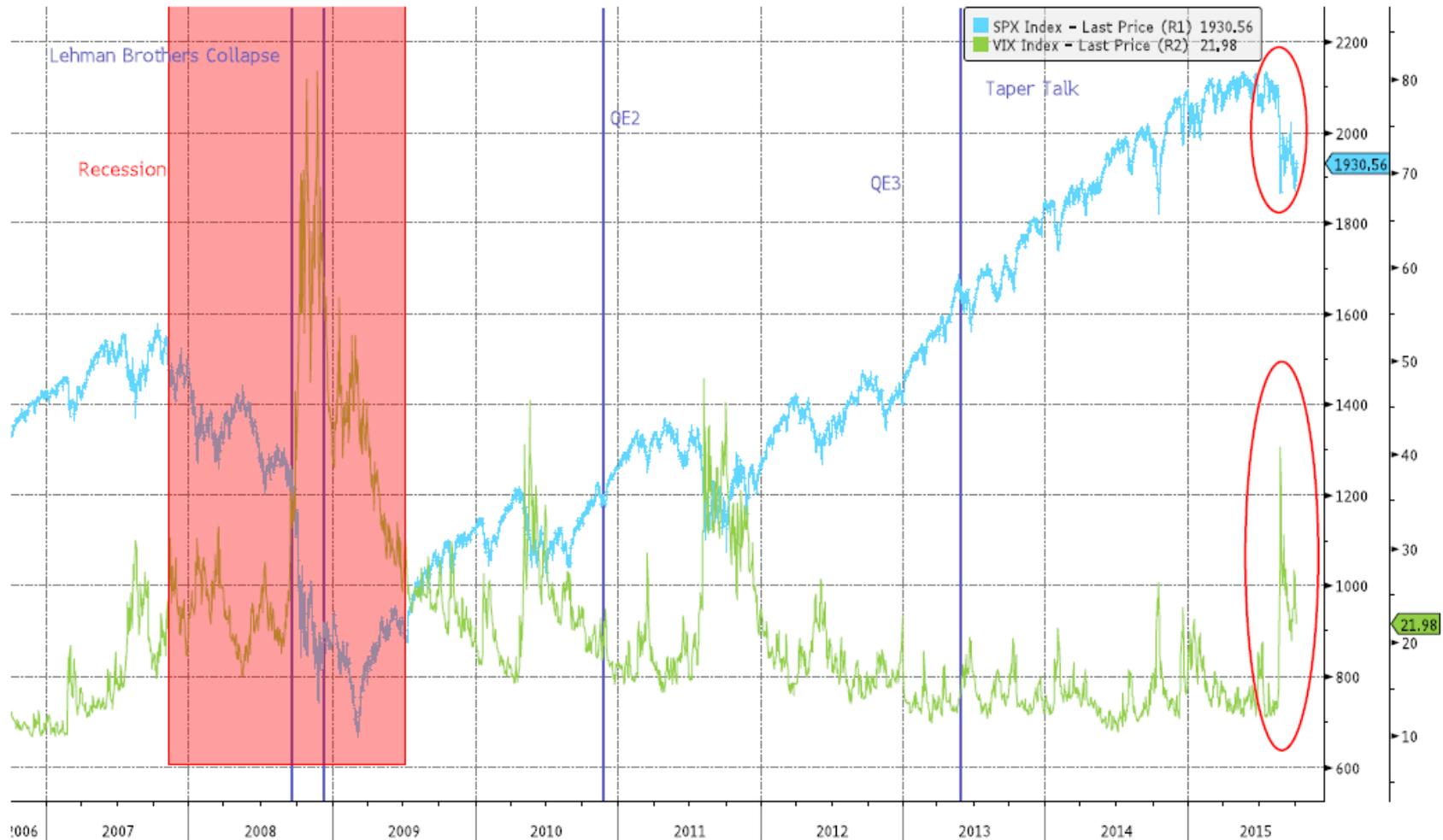
Recovery in U.S. labor markets continued in 2015

- Upward pressure on wages expected to continue in 2016

U.S. Stocks hit all time high in May 2015, but have fallen 10% from those highs

- Elevated market volatility expected to continue

Performance vs. Fear



Investment Life Cycle – Behavioral Economics



Complacent

Concerned

Capitulate

Barclays

Contributed by Jordan Kotick, Head of Technical Strategy of Barclays

Defined Benefit Portfolio Overview

MERS Roles and Responsibilities

MERS Retirement Board

- Acts as sole fiduciary and sets general investment policy

Investment Committee

- Serves as the Board's investment policy development arm
- Approves recommendations to hire and fire core mandate managers

Portfolio Review Committee

- Internal decision making group
- Makes recommendations to Investment Committee

Office of Investments

- Responsible for day to day investment management activities

MERS Portfolio Objectives

Positioned to outperform in down markets

May lag in periods of extended bull markets

Provide superior risk-adjusted returns

Hedge against inflation

Maintain adequate liquidity

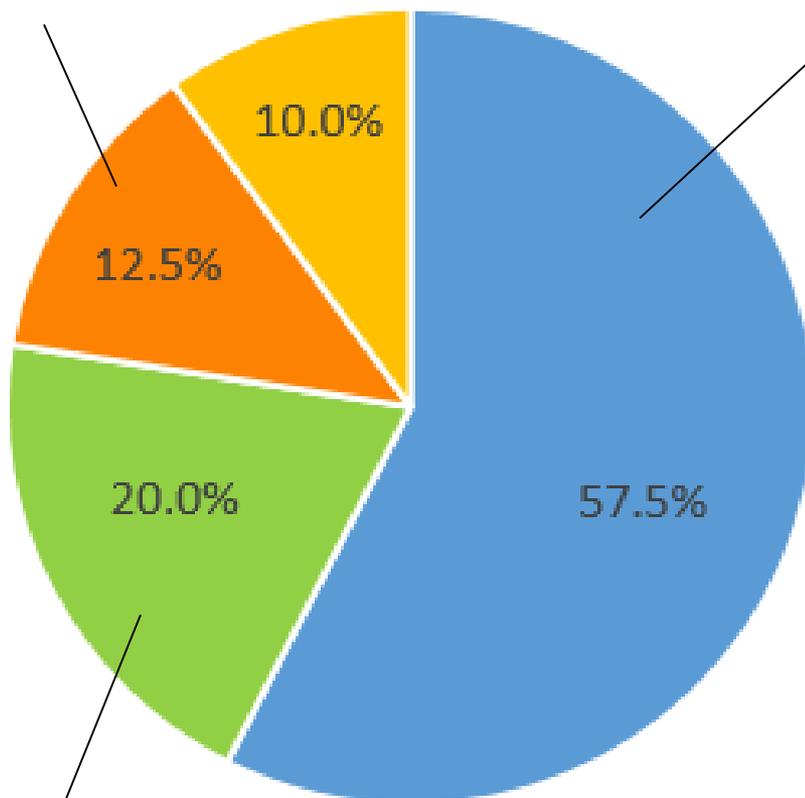
Minimize costs

Exceed the actuarial investment assumption on a long-term basis

Policy Asset Allocation

Inflation Protection/
Real Return

Capital Growth/ Appreciation



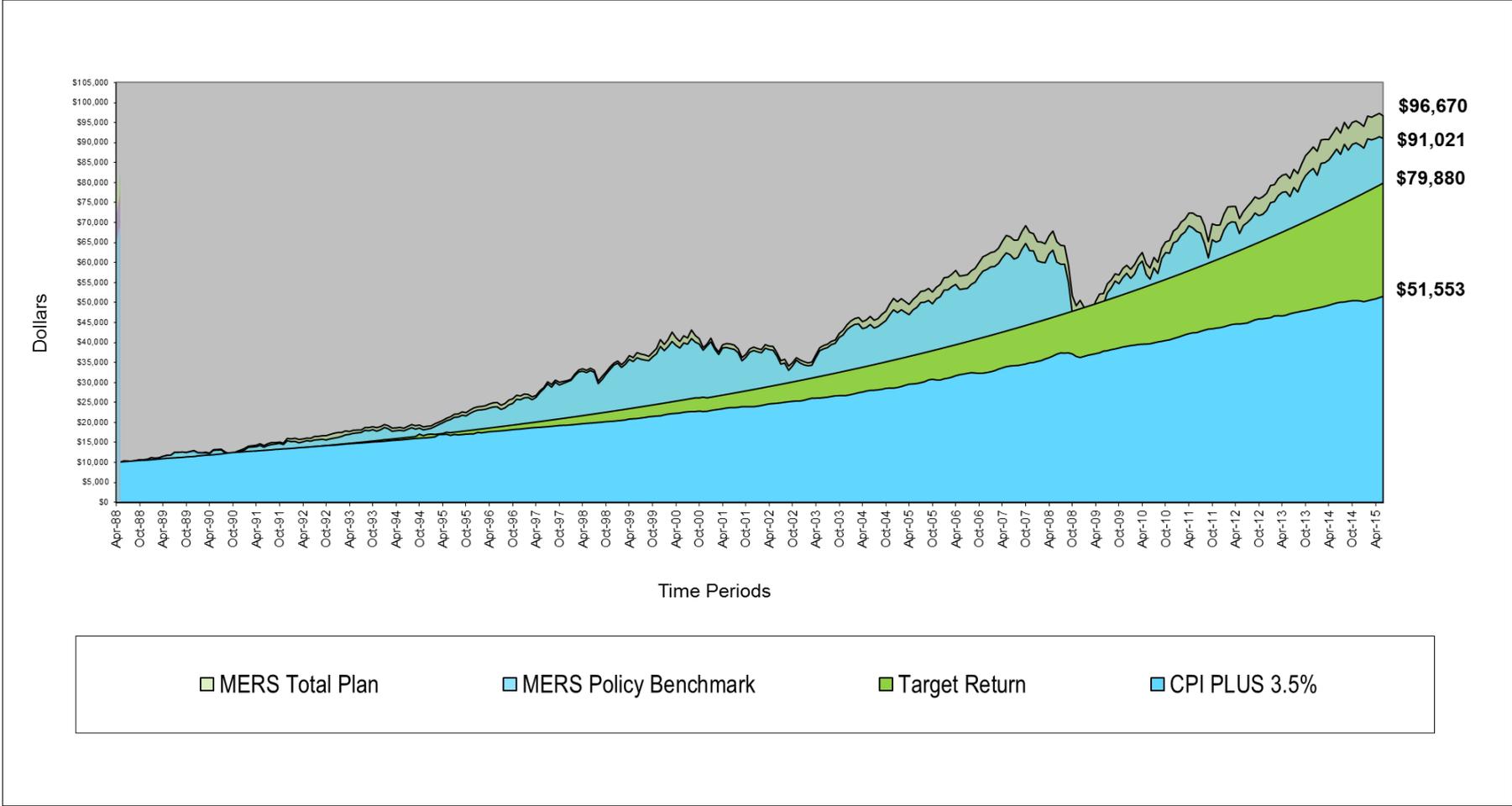
- Global Equity
- Global Fixed Income
- Real Assets
- Diversifying Strategies

Capital Preservation/ Income Producing

Investment Objectives

Investment Rate Assumption	7.75% Return
Real Rate of Return	Consumer Price Index (CPI) + 3.5%

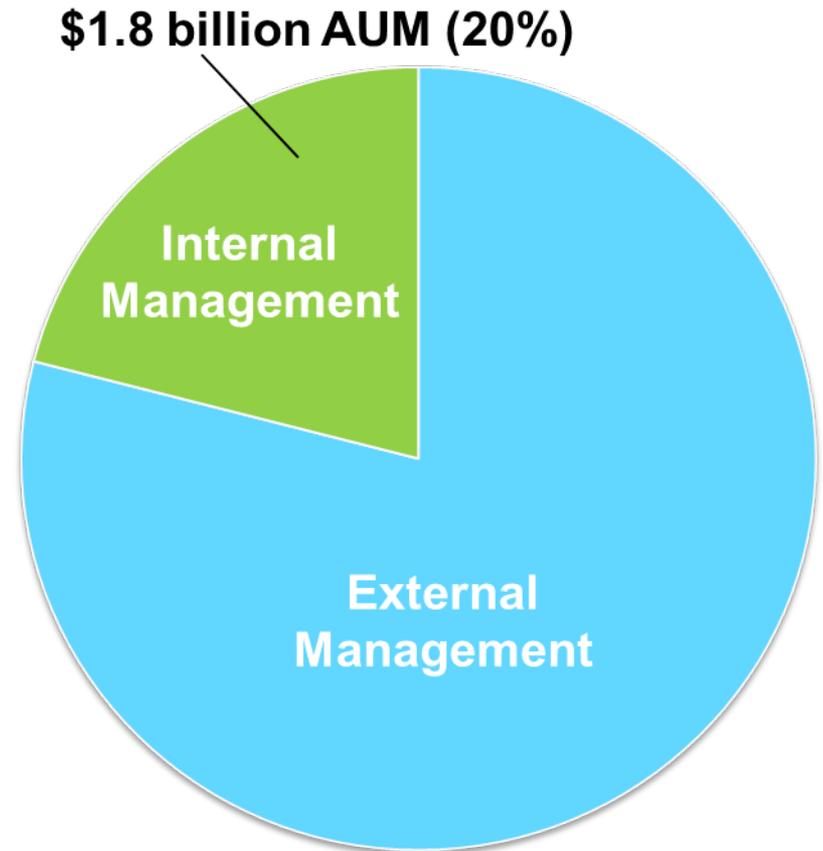
Growth of \$10,000



As of June 30, 2015

MERS Internal Asset Management

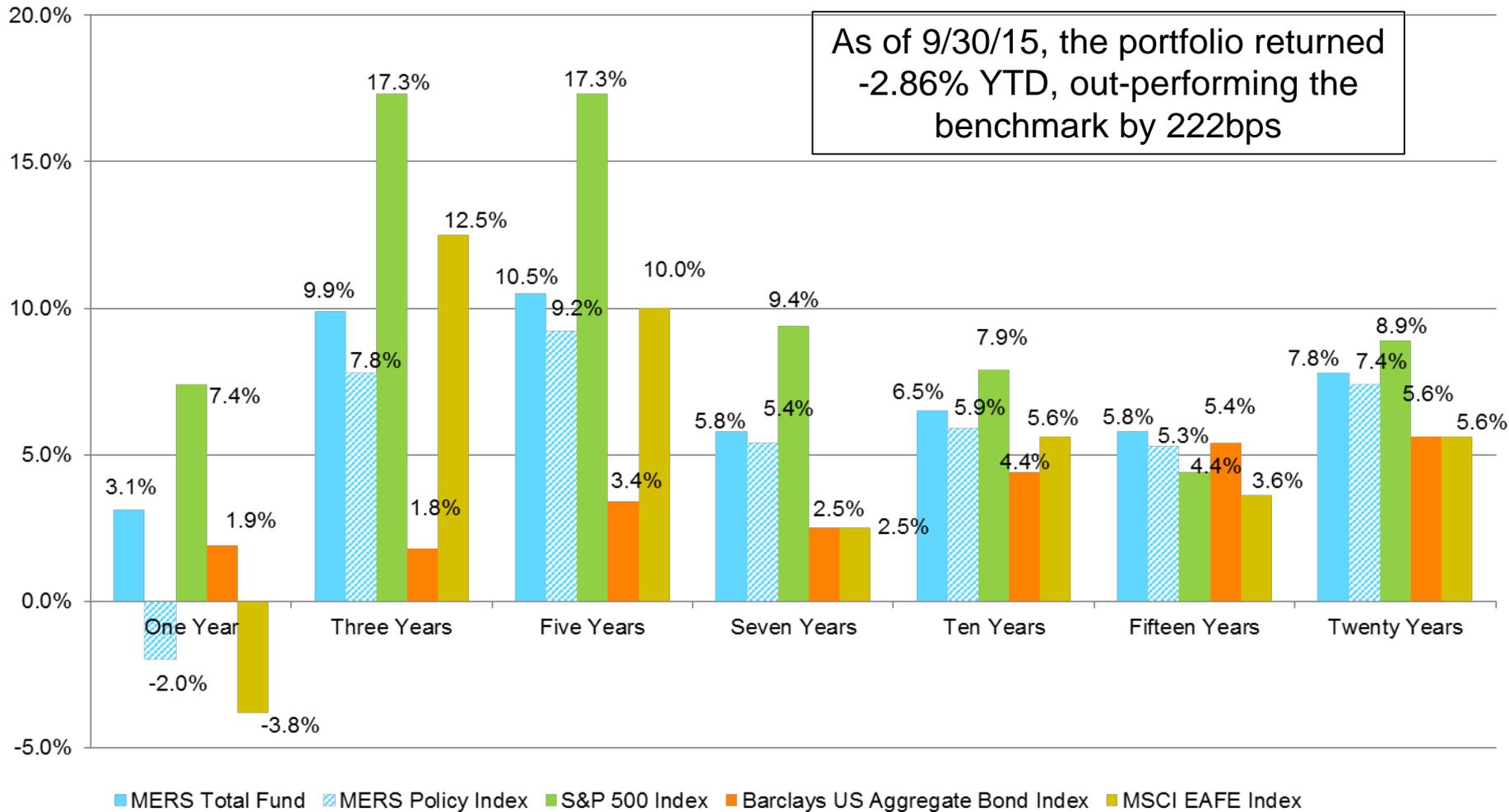
- Domestic Equity Indices
 - S&P 500 Index (Large Cap)
 - S&P 400 Index (Mid Cap)
 - S&P 600 Index (Small Cap)
- Domestic Equity Active Management
 - Micro Cap
 - Enhanced Large Cap
 - Enhanced Small Cap coming 2016
- Internal Private Real Estate
- Internal Private Equity
- Short-term Fixed Income Portfolios
 - Short Duration
- Tactical Cash Management



As of June 30, 2015

Investment Results

As of 6/30/15,
35 year return: 9.5%



Conclusion

Strong governance

Portfolio performing as designed

Economic growth likely to continue, but risks are present



Actuary Report

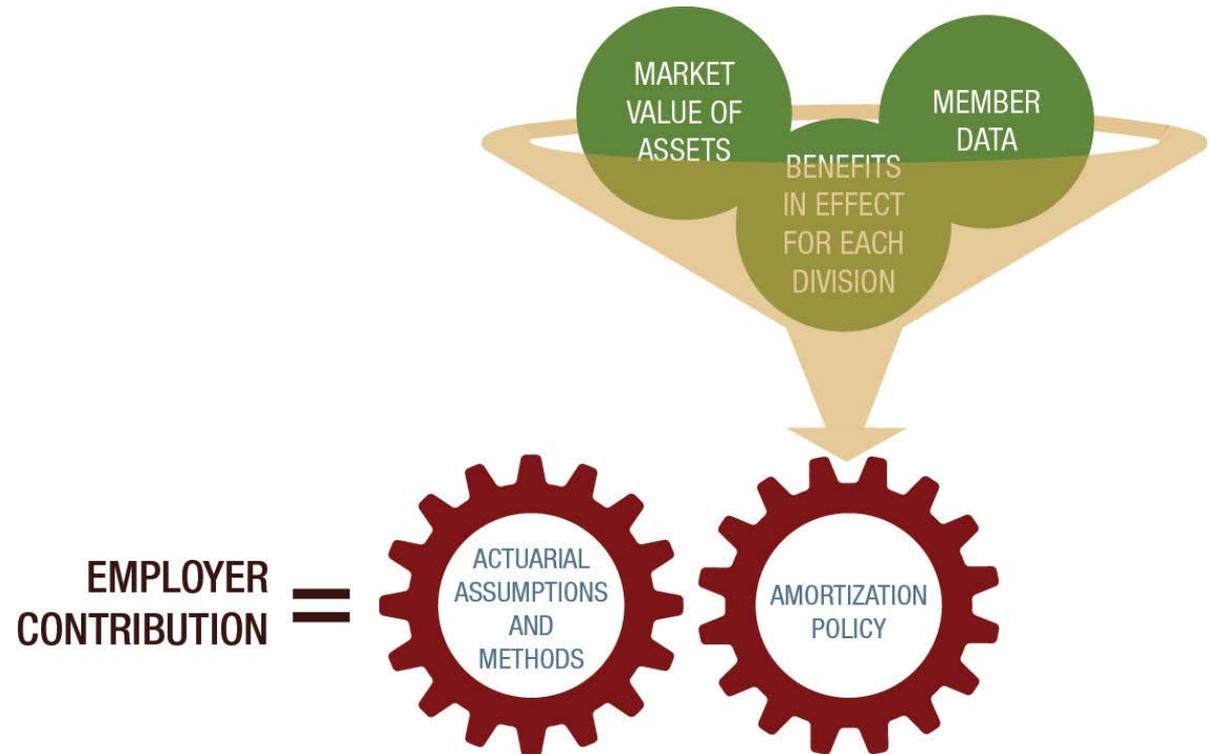
*Presented by
Jim Koss, Senior Consulting Actuary,
CBIZ Retirement Plan Services*



Annual Actuarial Valuation

- An important tool to help you budget for your municipality's retirement benefits, with information specific to your municipality's retirement plan
 - Each entity is responsible for the employer contributions needed to provide benefits for its employees and former employees
- Provides a picture of your MERS Defined Benefit Plan as of December 31 each year
- Provides insight into your plan's liabilities, funding levels, contributions for both the employer and member, and important GASB Information
- Reports the contribution requirements for each member division for your following fiscal year
 - If you are reviewing the valuation for December 31, 2014, the contribution requirements go into effect the first day of your fiscal year starting in 2016

How is the Employer Contribution Calculated?

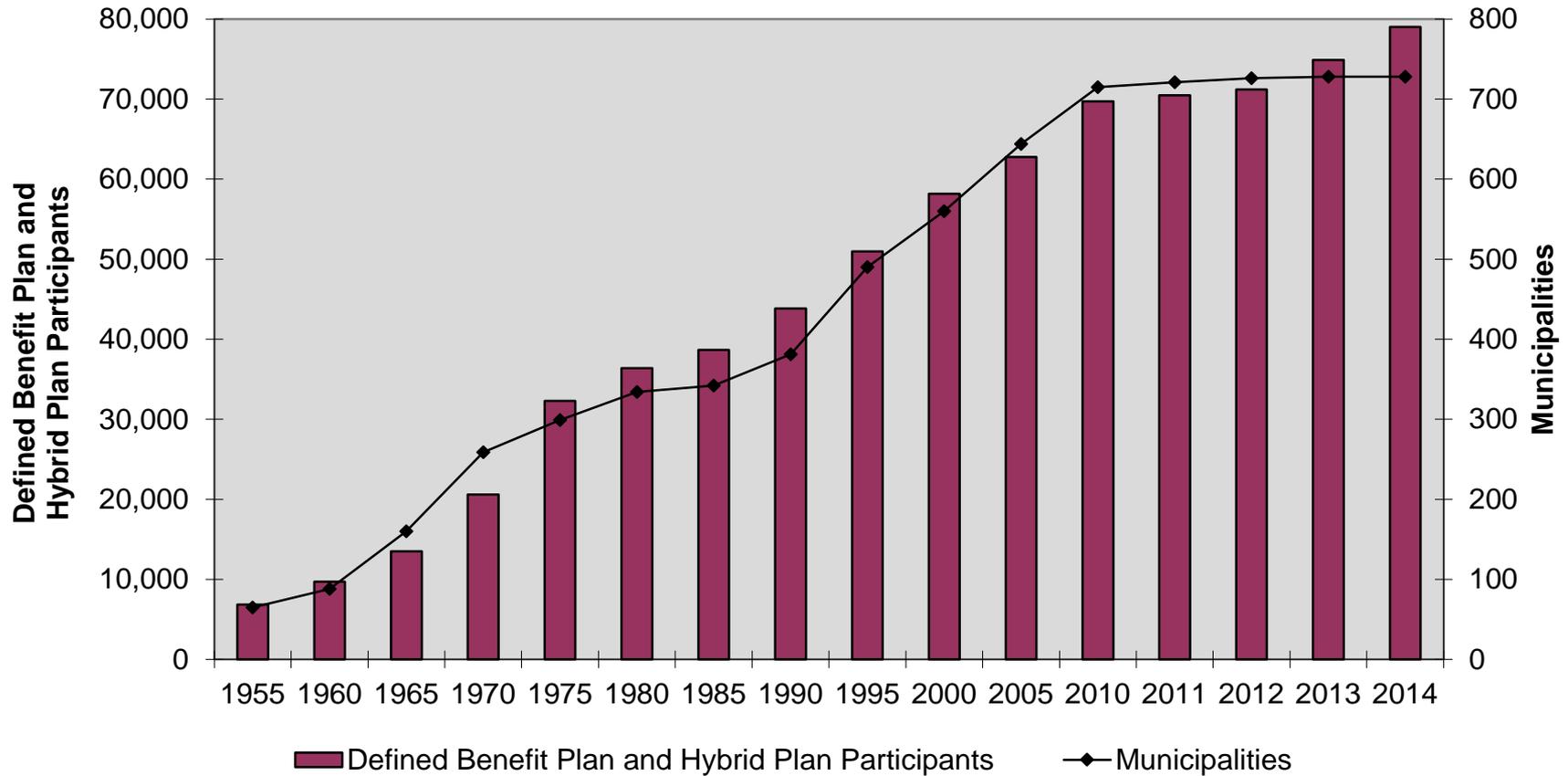


Actuarial Assumptions and Methods are established by the Retirement Board

Assumption and Method Changes

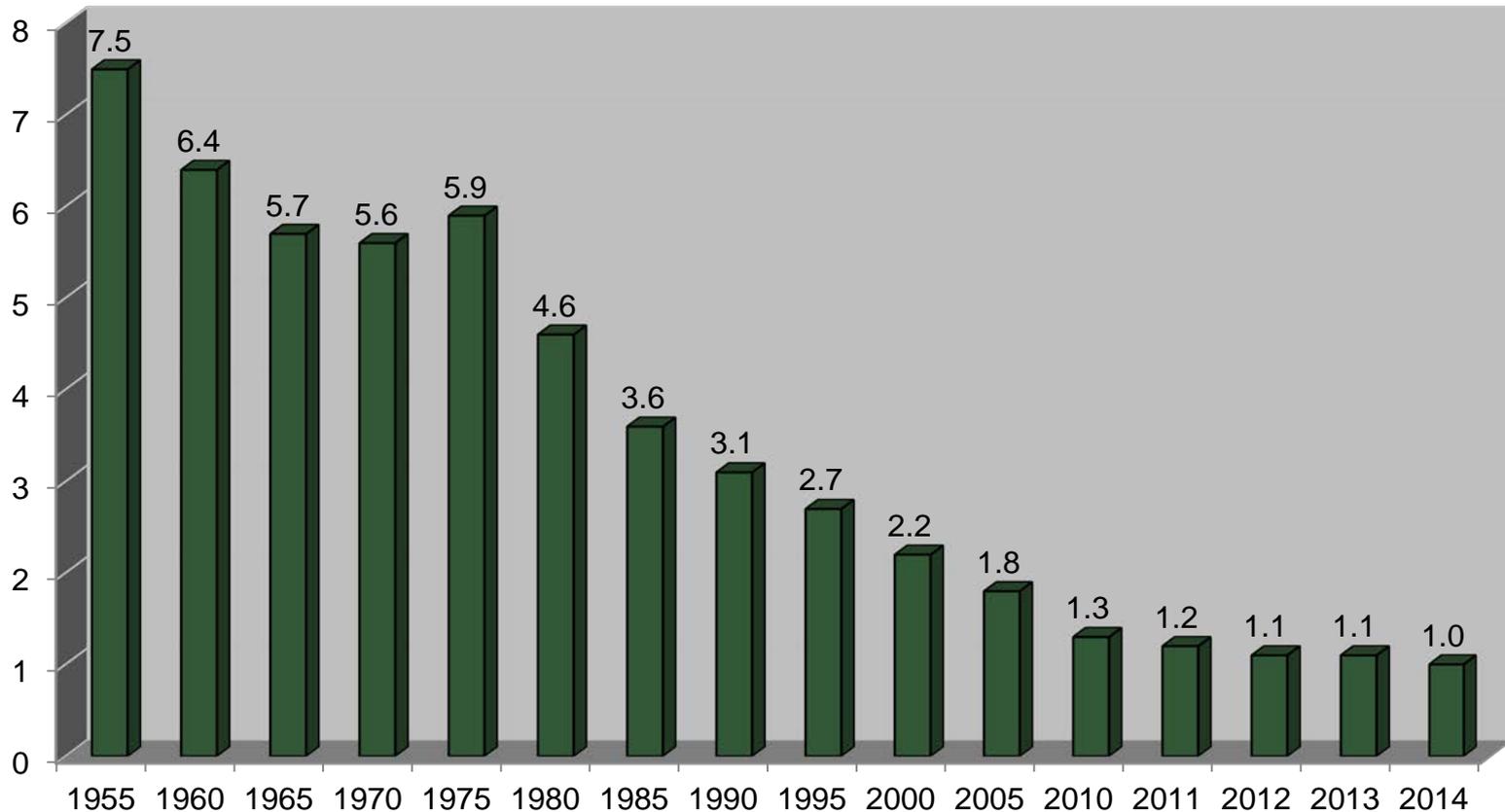
- There were no changes in actuarial assumptions or methods reflected in the December 31, 2014 annual actuarial valuation reports
- The Experience Study completed this summer resulted in the Board adopting assumption and method changes which will be recognized in the December 31, 2015 annual actuarial valuation report

MERS Continues to Grow



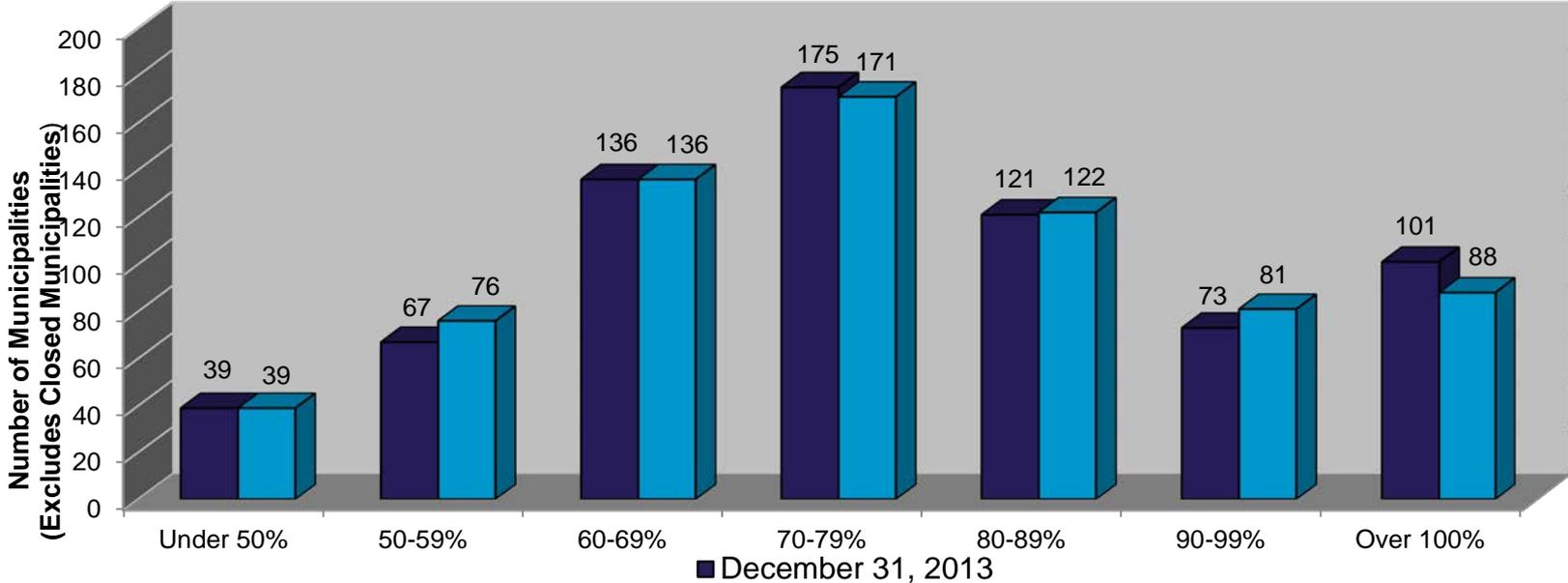
MERS Becoming More Mature

Active Members Per Pension Recipient



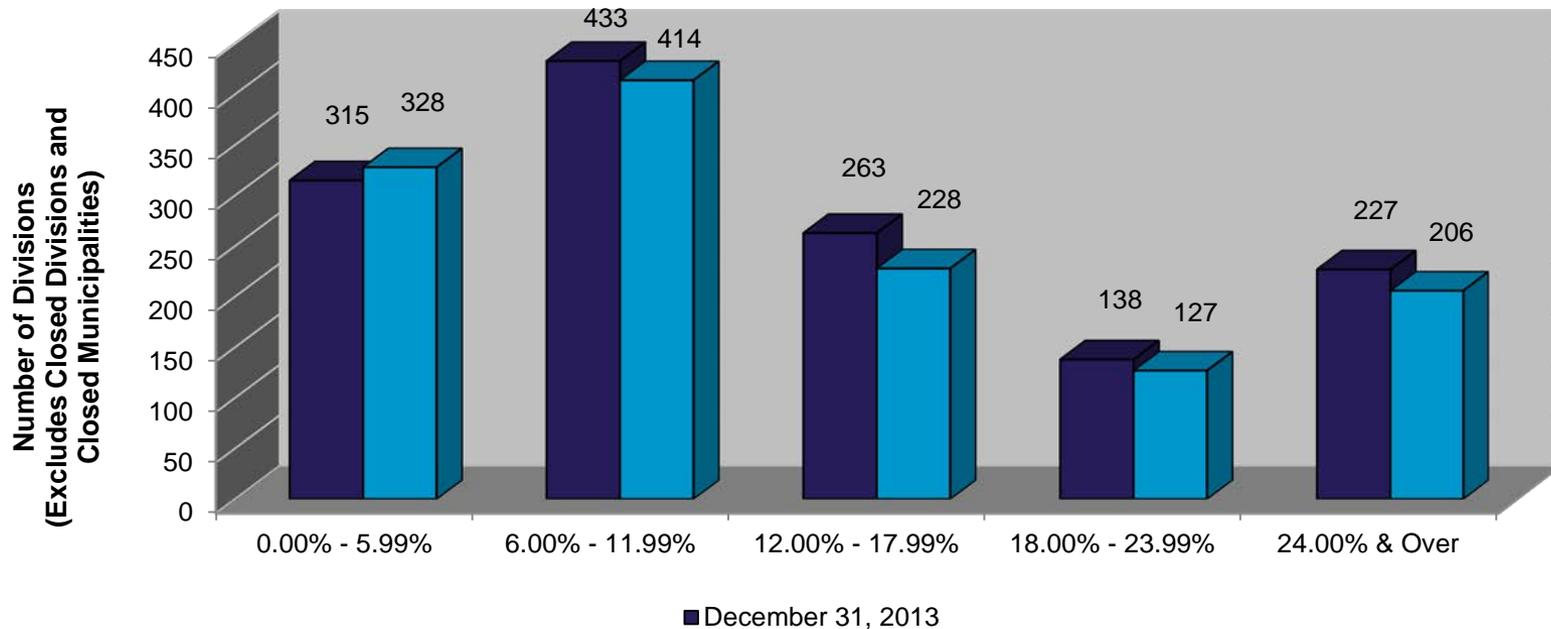
Distribution of Funded Percentages

2013 and 2014 Valuations



65% of all municipalities in MERS are funded at 70% or higher. 12% of all municipalities are funded at 100% or more. The average funded percentage is 78% in 2014 and 79% in 2013.

Distribution of Employer Contribution Rates



Employer contribution rates vary between divisions as a result of differences in demographics, benefit provisions, and cost-sharing arrangements.

2014 Actuarial Valuation Results

- Every MERS employer stands on its own
- Average funded percentage of employers decreased slightly
 - Normal increase from amortization schedule (+1%)
 - Offset by market loss recognition (-2%)
 - Other experience: retirement, mortality, disability, new benefits, etc. (0%)
- On average, employer contributions increased by around 8 cents on the dollar, in order to head back toward 100% funded
 - Increases due to the financial markets (2008 market loss)
 - Increases due to amortization policy
 - Decreases or increases due to changes in active member pays
 - Other changes due to changes in benefit provisions and other experience
 - This average includes all MERS divisions, both open divisions with new hires, closed divisions with no new hires entering the division, and new MERS municipalities
- **Most MERS employers remain in a very strong financial condition**

2009 – 2013 Experience Study

- Periodic review every 5 years
- Covers economic and demographic assumptions, funding policy
- Board approved recommended changes, including:
 - Updated Mortality Table (longer expected lifetimes)
 - Investment Rate of Return: 7.75%/yr. (was 8.0%/yr.)
 - Base Wage Increases: 3.75%/yr. (was 4.5%/yr.)
 - 5-year smoothing of asset gain/loss (was 10-year)
 - Fixed amortization periods for future changes in unfunded liability
- Changes effective with December 31, 2015 valuations
- Impact on contributions will be phased in over 5-year period
 - First impact seen with FY beginning in 2017

What Does the Future Hold?

- MERS will remain in a very strong financial position
 - For employers that have regularly remitted and continue to remit the required contributions, all benefits will be paid
 - Most MERS employers have assets equal to many times their current benefit payout
- Contributions will increase as impact of assumption changes phased in over 5 years
- A better than 7.75% market return is needed to avoid additional increases in average employer contributions (to make up for 2008)
- Small divisions will continue to have more volatile actuarial valuation results
- Closed divisions will continue to experience increases in required employer contributions of about 5-10% annually, until full funding is reached
- Very mature divisions (with current benefit payout far exceeding contribution income) will see declining funded percentages before the percentage starts heading toward 100%
- MERS will continue to mature
 - More retirees and higher benefit payout
 - Normal for a prefunded retirement plan like MERS

69th Annual Business Meeting

