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**SUMMARY ANNUAL
FINANCIAL REPORT**
for the fiscal year ended 12.31.2014

A FOCUS ON
RETIREMENT READINESS

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ABOUT THIS REPORT

This report provides a summary of the MERS Comprehensive Annual Financial Report (CAFR) for the fiscal year which ended December 31, 2014. The CAFR is prepared in accordance with Generally Accepted Accounting Principles (GAAP) and is subject to external audit. This Summary Annual Financial Report is also prepared in accordance with GAAP. The 2014 CAFR contains more detailed information and can be obtained by contacting MERS:

Website:

www.mersofmich.com

By mail:

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

By phone:

800.767.MERS (6377)

The financial statements were audited by Plante & Moran, PLLC.

MERS LEADERSHIP



Debra Peake, Chief Employee and Retiree Services Officer

Chris DeRose, Chief Executive Officer

Jeb Burns, Chief Investments Officer

Carrie Lombardo, Chief Marketing & Employer Services Officer

Leon Hank, Chief Financial Officer

LETTER OF TRANSMITTAL, MAY 6, 2015

DEAR MERS PARTICIPANTS:

We are pleased to submit the Summary Annual Financial Report for the Municipal Employees' Retirement System (MERS) of Michigan for the fiscal year ending December 31, 2014.

MERS Profile

MERS is an independent nonprofit, professional retirement services company that serves members across the state of Michigan. We are one of the largest, most established, and successful shared services stories in Michigan, providing administration, investment expertise, fiduciary responsibility, and oversight for benefit plans. This allows local governments to focus on core services, leaving day-to-day administration to us.

Financial Summary

The world financial markets provided moderate, positive returns during the year ending December 31, 2014. The MERS Defined Benefit Portfolio earned a net return of 6.49% (after investment expenses). This placed MERS in the top half for investment return performance for the last ten-year period, according to the State Street Universe of Public Funds. This solid performance in the financial markets, plus a significant inflow of new money, increased the size of the MERS trust funds from \$8.8 billion to \$9.4 billion, an increase of 7% over last year.

One measure of a defined benefit retirement system's financial health is the percentage of its actuarial liabilities owed that is covered by its available actuarial assets. Using this ratio, most MERS' municipalities are well funded and many are very well funded. During the most recent MERS' actuarial valuation, as of December 31, 2013, 470 municipal governments in MERS were funded at 70% or higher (equaling 66% of all municipal governments in MERS).

Our participant directed accounts include the MERS Defined Contribution Plan (including the DC portion of the Hybrid Plan), 457 Supplemental Retirement Program, and Health Care Savings Program. These plans are designed to provide or supplement other pension-related benefits and help individuals achieve their retirement readiness goals. In 2014, the number of municipalities offering these products increased by 95 and total assets grew to nearly \$600 million. During the year, MERS lowered the recordkeeping costs for these programs by five basis points and also offered another five basis points reduction for those using MERS-managed funds.

Chris DeRose
Chief Executive
Officer



The MERS Retiree Health Funding Vehicle and Investment Services Program experienced excellent growth in 2014. These institutional investment programs were created specifically for municipalities interested in gaining access to MERS' professional investment services, while maintaining administration of their plan. During the year, MERS expanded the investment menu choices for employers and was able to lower the costs for a majority of customers.

With all our programs we strive to keep our operating costs low so we maximize the invested funds for our members, while also providing high levels of customer service. Through the growth of our pool, stronger cost-control measures, tighter budgeting techniques, and reengineering our business processes, we reduced our administrative costs by \$2.5 million in 2014, which is an 11.3% reduction over 2013. Our administrative costs are now running at the level of spending we had in 2009. On top of these savings, our investments team also realized investment manager fee savings of about \$2.3 million from actively managing our external investment managers and bringing more investment work in-house. To our members, this continued growth and cost reductions allow us to put more of their retirement assets to work for them while providing more efficient customer service.

Key 2014 Initiatives and Highlights

One key initiative in the Strategic Plan was to conduct process improvement reviews of all MERS' core and supporting processes. In 2014, we met a goal we set for ourselves to complete process reviews of 75% of our key processes. This work increases our capacity and helps ensure we are focusing on value-added activities. Our goal is to have retirement benefits that are easy for our employers to administer and meets their workforce needs. Making the defined benefit retirement process easier for employees was one example of process improvement that was implemented. Now retiring from MERS requires only one form, which is available online.

Work continues on our retirement readiness initiative, which when fully implemented in 2015-16, will provide participants with resources to understand the full scope of their MERS benefits and how they will work with other retirement programs such as Social Security in retirement. Through education, information, and general awareness, participants will learn more about retirement preparedness and get information on actions they can take to ensure they are on the path to meeting their post-employment financial goals.

Governmental Accounting Standards Board Statement No. 68 (GASB 68) is a new rule that changes the way government entities who offer defined benefit plans

report their pension liabilities. This change affects the annual reporting for those entities whose fiscal year begins after June 15, 2014. The team at MERS is working closely with our members to provide all of the information required to comply with new reporting rules. We have updated our information technology systems to calculate many of the financial numbers for our members. In addition, we are actively working with our members to provide them education and outreach support on this change. We formed a LinkedIn Group to help our members collaborate with other municipalities. We have collaborated with municipal finance experts, actuaries, and auditors to develop an easy to understand Implementation Guide that gives members step-by-step instructions, including journal entries, for complying with the rules. We also arranged with our outside audit firm to conduct a Service Operating Controls (SOC-1) review so that key data is ready for members to use with little to no additional audit work.

Respectfully submitted,

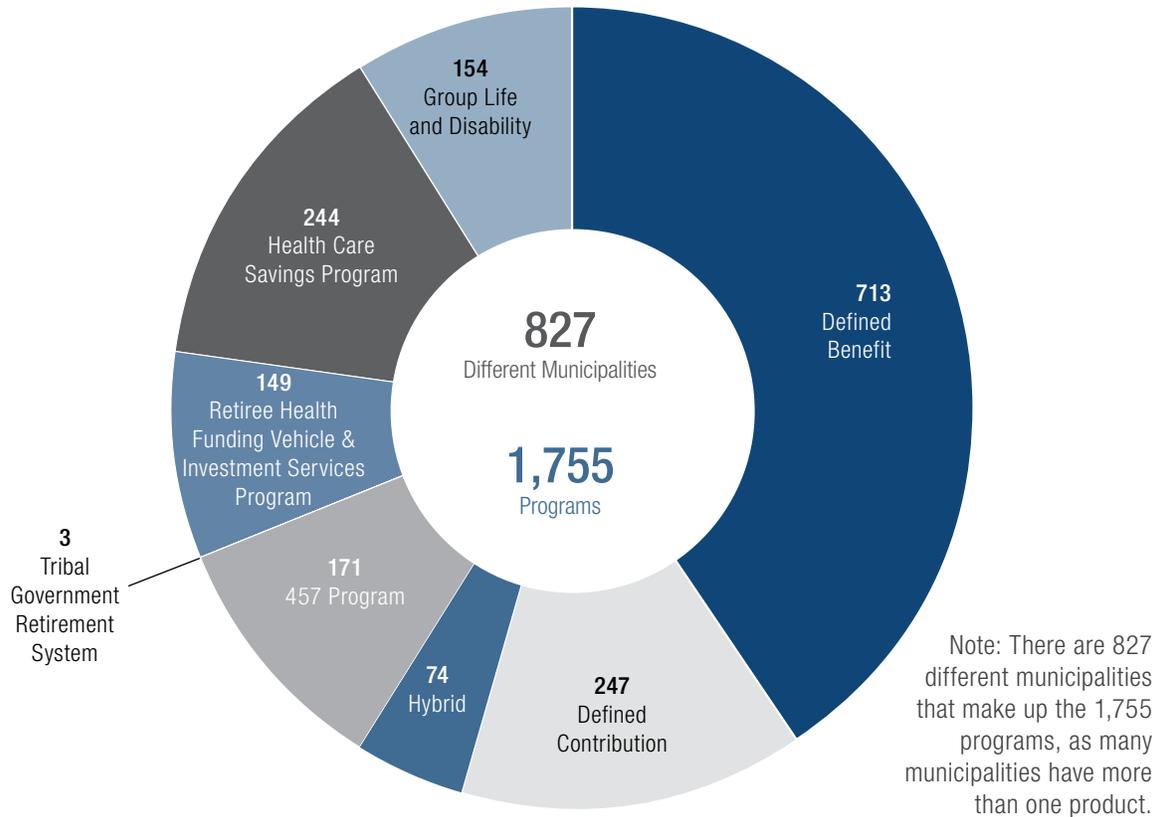
Chris DeRose
Chief Executive Officer

Leon E. Hank, CPA
Chief Financial Officer



RONALD COLEMAN
City of Holland

MERS Participating Municipalities as of December 31, 2014



MERS Participants as of December 31, 2014

	Defined Benefit	Defined Contribution	Hybrid	Health Care Savings Program	457
Active	34,232	9,091	1,343	8,383	1,093
Deferred	8,617		101		
Retired	35,391		20		
Contributions not Vested	9,421		224		
Terminated		3,148		2,454	106
Product Totals	87,661	12,239	1,688	10,837	1,199
Total MERS Employment*					113,624
Total MERS Participants**					107,134

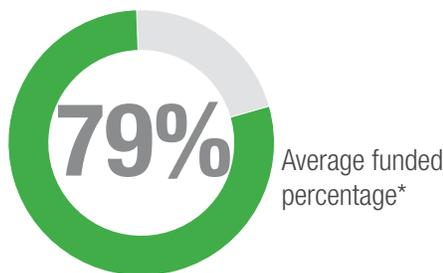
* Total Employment represents the total number of accounts within MERS; individuals may be represented multiple times across categories.

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

WELL-FUNDED STABILITY

MERS partners with municipalities, helping them set fiscal goals and discussing options, to find the programs and provisions that best fit the municipality's unique needs.

Our Plans



*Funding data as of 12/31/13

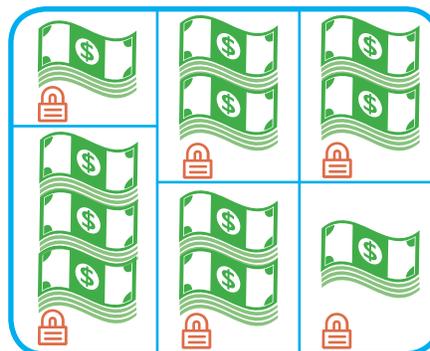
Funding %*	Municipalities
Over 100%	101
90-99%	73
80-89%	121
70-79%	175
60-69%	136
50-59%	67
Under 50%	39

Pooled Assets

Each municipality's retirement plan is maintained in a separate trust, which gives our members the benefits of pooling resources for investments while maintaining the integrity and individuality of each plan.

Additionally, MERS has a successful track record of improving the financial health of our members' retirement plans, including assistance with turning around and rehabilitating plans that are struggling financially when they enter MERS.

Pooled assets for buying power



Separate trusts to maintain each municipality's security

Shared Services

MERS is one of the largest, most established, and most successful shared services stories in Michigan, providing administration, investment expertise, fiduciary responsibility, and oversight for benefit plans. This allows local governments to focus on core services, leaving day-to-day administration to us. Services include:

- Plan Governance
- Internal Auditor
- Legal Counsel
- Legislative Advocacy
- Administration of Benefits

FINANCIAL HIGHLIGHTS

The following financial highlights occurred during the year ended December 31, 2014:

- Total fiduciary net position for the Defined Benefit Plan, Defined Contribution Plan, Health Care Savings Program, Retiree Health Funding Vehicle, 457 Program, and Investment Services Program increased by 7% during 2014. MERS finished the year with \$9.4 billion in net fiduciary position which is the highest asset level in MERS' history.
- Contribution revenue increased by 30% from \$636 million in 2013 to \$829 million in 2014. A majority of this increase was from a new Investment Services Program municipality bringing in new assets and Defined Benefit municipalities contributing extra voluntary contributions.
- Total annual retirement benefits and distributions paid to retirees and beneficiaries increased \$78 million to a total of \$785 million.
- Administrative expenses decreased by 11% in 2014 to \$19 million, while MERS grew significantly and brought in 130 new municipal programs. MERS has continued to decrease administrative expenses due to the growth of our pool and stronger ongoing cost-control measures.
- Investment expenses totaled \$18 million. This is an 11% decrease from 2013, primarily due to investment manager fees being renegotiated, bringing more investment work in-house and assets shifting to a pooling of investment vehicles.
- Defined Benefit investment returns saw a gain of 6.49% net of investment expenses for the year. The 30-year return of 9.17%, however, is above the target of MERS' expected investment rate of return of 8%.
- MERS' most recent actuarial valuation dated December 31, 2013, showed 470 of MERS' 712 Defined Benefit municipalities are funded 70% or better, with 101 municipalities over 100% funded.
- The difference between MERS' actuarial and market value assets remained unchanged in 2014, as the actuarial calculation is 106% of the market value of assets, the same as 106% in 2013. Total Defined Benefit Plan actuarial assets and market value of assets were valued at \$8.6 billion and \$8.1 billion respectively at December 31, 2014.

Comparison Statement of Fiduciary Net Position

(Dollars in Thousands)

	Year ended Dec. 31, 2014	Year ended Dec. 31, 2013	Increase (Decrease) Amount	Increase (Decrease) Percent
Assets				
Cash and Short-Term Investments	\$ 8,889	\$ 44,752	\$ (35,863)	(80%)
Receivables	930,399	949,153	(18,754)	(2)
Interfund Receivables	905	1,480	(575)	(39)
Loans	4,396	4,791	(395)	(8)
Investments, at fair value	9,255,942	8,648,688	607,254	7
Invested Securities Lending Collateral	931,640	1,033,070	(101,430)	(10)
Other Assets/Prepays	579	515	64	12
Net Capital Assets	13,732	14,403	(671)	(5)
Total Assets	11,146,482	10,696,852	449,630	4
Liabilities				
Purchase of Investments	846,492	878,653	(32,161)	(4)
Securities Lending Collateral	932,575	1,034,384	(101,809)	(10)
Administrative/Investment Costs/Reserves	10,737	17,574	(6,837)	(39)
Interfund Payables	905	1,480	(575)	(39)
Total Liabilities	1,790,709	1,932,091	(141,382)	(7)
Net Position-Restricted for Pension and Health Benefits and Investment Accounts Held for Others	\$ 9,355,773	\$ 8,764,761	\$ 591,012	7%

CERTIFICATE OF ACHIEVEMENT FOR EXCELLENCE IN FINANCIAL REPORTING



DEBRA WILHELM
Charter Township
of Northville

MERS received the Award for Outstanding Achievement in Popular Annual Financial Reporting from the Government Finance Officers Association for the December 31, 2013 Summary Annual Financial Report. This marks the 11th consecutive year MERS has received this honor.

Comparison Statement of Changes in Fiduciary Net Position

(Dollars in Thousands)

	Year ended Dec. 31, 2014	Year ended Dec. 31, 2013	Increase (Decrease) Amount	Increase (Decrease) Percent
Additions				
Contributions	\$ 829,125	\$ 635,983	\$ 193,142	30%
Investment Net Income Investing Activities	558,337	1,117,469	(559,132)	(50)
Investment Net Income-Securities Lending	6,318	5,074	1,244	25
Miscellaneous Income	1,801	121	1,680	1,388
Total Additions	1,395,581	1,758,647	(363,066)	(21)
Deductions				
Benefits and Withdrawals	784,649	706,270	78,379	11
Miscellaneous Expenses	18	71	(53)	(75)
Transfers and Forfeitures	469	626	(157)	(25)
Administrative Expense	19,433	21,912	(2,479)	(11)
Total Deductions	804,569	728,879	75,690	10
Net Increase/Decrease	591,012	1,029,768	(438,756)	(43)
Net Position-Restricted for Pension and Health Benefits and Investment Accounts Held for Others				
Balance Beginning of Year	8,764,761	7,734,993	1,029,768	13
Balance End of Year	\$ 9,355,773	\$ 8,764,761	\$ 591,012	7%

INVESTMENT HIGHLIGHTS

- The MERS Total Market Fund return for 2014 was 6.68% gross of investment fees (6.49% after investment expenses).
- 2014 marked the implementation of a new asset allocation for the portfolio. The broader main asset classes allow MERS to strategically navigate the markets while tactically allocating amongst sub-asset classes.

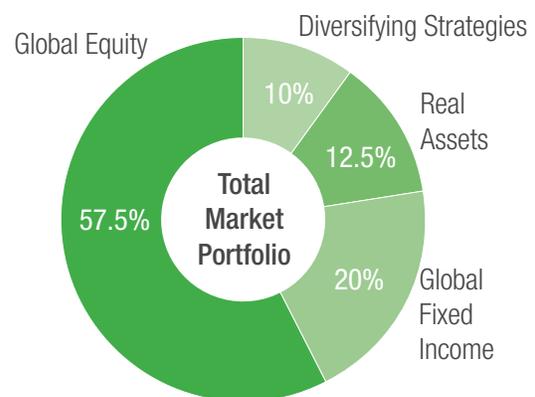
- At the broad asset class level, absolute returns gross of investment fees for the year were as follows:

Global Equity	7.15%
Global Fixed Income	4.16%
Real Assets	8.07%
Diversifying Strategies	7.50%

Asset Allocation

The portfolio's asset allocation is the single most important determinant of achieving the stated investment goals. MERS' Office of Investments conducts a full asset allocation study every three years to assess portfolio construction and strategy. MERS adopts and implements an asset allocation policy that is predicated on a number of factors, including:

- A projection of actuarial assets, liabilities and benefit payments, and the cost of contributions;
- Historical and expected long-term capital market risk and returns for each asset class;
- Expected correlations of returns among various asset classes;
- An assessment of future economic conditions, including inflation and interest rate levels;
- Various risk/return scenarios; and
- Liquidity requirements.



INVESTING IN RETIREMENT



Law and Regulation

MERS must follow **Michigan state law** and prudent standards of diligence. We maintain strict oversight and management. Our assets are invested in accordance with the **Public Employee Retirement System Investment Act (PERSIA)**. MERS conducts quarterly compliance reviews.

PERSIA



Performance

MERS consistently **outperforms its benchmarks** and market averages, with a prudent, long-term approach designed to provide downside protection and upside market participation.



Investment Earnings

For more than 20 years, approximately **2 out of every 3 dollars** from MERS' retirement benefits have come from Investment earnings, not taxpayer dollars. Investing your assets into a total asset allocation portfolio means that administrative and investment costs are shared and affordable.

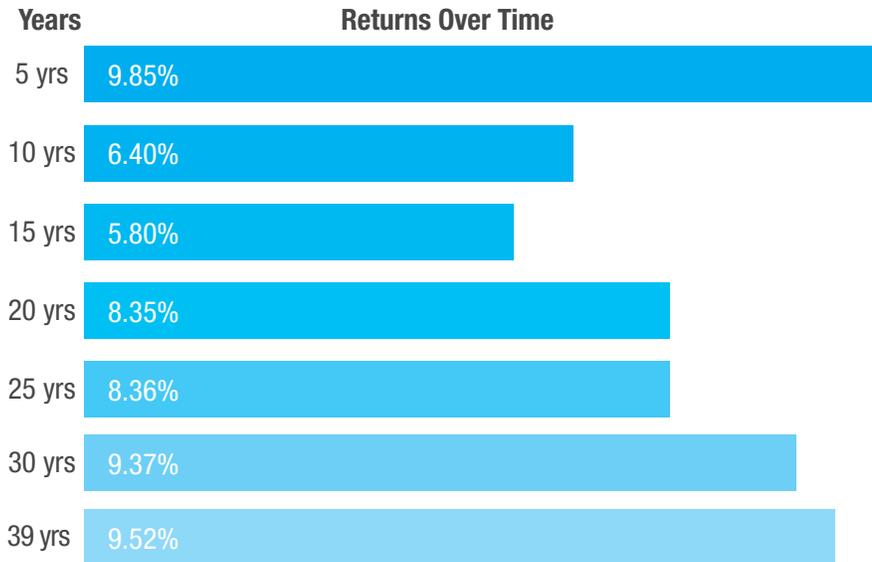
A TRACK RECORD OF SUCCESS

MERS is dedicated to providing our municipalities with excellent returns at affordable costs, while protecting the pensions and assets of our many members.

Investment History

MERS Long-Term Investment Returns

October 1975 – December 2014
Not annualized if less than 1 year



All rates are shown as gross of fees

Year-by-Year Returns

Year	Gross Rate of Return
2014	6.68%
2013	15.00
2012	11.39
2011	2.29
2010	14.43
2009	17.31
2008	(24.81)
2007	8.58
2006	13.62
2005	6.62
2004	14.91
2003	24.70
2002	(8.34)
2001	(1.92)
2000	(2.76)
1999	16.99
1998	14.18
1997	14.44
1996	12.69
1995	23.95
1994	0.52
1993	9.67
1992	8.05
1991	22.14
1990	2.94
1989	19.10
1988	11.20
1987	5.51
1986	13.55
1985	24.33
1984	4.50
1983	21.50



JENNIFER SEMAN
Grand Traverse County

“ We stress to our new employees that it’s never too early and it’s never too late to start saving for retirement. MERS makes it easy for them to do this by providing many great tools to be able to save for the future. ”

READYING MICHIGAN FOR RETIREMENT

We are dedicated to helping employers and participants understand their MERS plans and resources to find answers they need to prepare for retirement.



Online Resources

myMERS offers participants up-to-the-minute account information, online calculators, and other resources to help stay on the right retirement track.



Retirement Readiness

Individualized retirement readiness reports will be sent to participants, offering a comprehensive view of how the MERS benefits can work with other retirement income – and whether they're on track to meet their retirement goals.



MERS Events and Seminars

The MERS Regional Teams hold quarterly meetings at convenient locations throughout the state. *Pizza & Planning* events are free and open to all MERS' participants and their beneficiaries. *Morning Breaks with MERS* focus on employer and administrative topics.



Publications, Statements, and News

MERS provides employers and participants with a variety of publications and resources about their retirement plan.



On-site Education

We are available to hold group presentations, attend benefit fairs, and hold one-on-one meetings for all MERS programs.



MERS Service Center

The MERS Service Center offers, knowledgeable, over-the-phone assistance for a wide variety of benefit questions, including support with participant online account information. The Service Center is available weekdays at 800.767.MERS (6377).



JANETTE DAVIS
Detroit Wayne County
Health Authority



MERS RETIREMENT BOARD AND CHIEF EXECUTIVE OFFICER

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

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

OFFICER MEMBERS:

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

EMPLOYEE MEMBERS:

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

EXPERT MEMBERS:

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

RETIREE MEMBER:

John Ogden, City of Port Huron



1134 Municipal Way
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This publication contains a summary description of MERS benefits, policies or procedures. MERS has made every effort to ensure that the information provided is accurate and up to date (as of the date of publication 06/05/14). If this publication conflicts with the relevant provisions of the Plan Document, the Plan Document Controls. MERS, as a governmental plan, is exempted by state and federal law from registration with the SEC. However, it employs registered investment advisors to manage the trust fund in compliance with Michigan Public Employee Retirement System Investment Act. Past performance is not a guarantee of future returns. Please make independent investment decisions carefully and seek the assistance of independent experts when appropriate.

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