

SUMMARY ANNUAL FINANCIAL REPORT

for fiscal year ending
12.31.2020



1134 Municipal Way
Lansing, Michigan 48917

800.767.MERS (6377)
www.mersofmich.com



ABOUT THIS REPORT

This report provides a summary of the MERS Annual Comprehensive Financial Report (ACFR) for the fiscal year which ended December 31, 2020. The ACFR 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 2020 ACFR contains more detailed information and can be obtained by contacting MERS:

Website:

www.mersofmich.com

By mail:

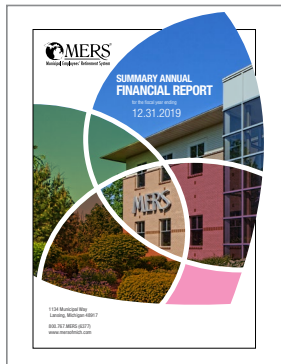
Municipal Employees' Retirement System of Michigan
1134 Municipal Way
Lansing, MI 48917

By phone:

800.767.6377

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

CERTIFICATE OF ACHIEVEMENT FOR EXCELLENCE IN FINANCIAL REPORTING



MERS received the Award for Outstanding Achievement in Popular Annual Financial Reporting from the Government Finance Officers Association for the 2019 Summary Annual Financial Report. This marks the 17th consecutive year MERS has received this honor.

MERS RETIREMENT BOARD

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(Chairperson)
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Marquette
County Road
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John Ogden
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MERS OFFICERS



Kerrie Vanden Bosch
MERS Chief Executive Officer



Denise Boucke
Chief Operating Officer



Jeb Burns
Chief Investment Officer



Carrie Lombardo
Chief Strategic and
External Affairs Officer

LETTER OF TRANSMITTAL, MAY 27, 2021

Dear Board Members:

We are pleased to submit the Summary Annual Financial Report for the Municipal Employees' Retirement System of Michigan (MERS) for the fiscal year ending December 31, 2020.

In a challenging and unique year, unlike any we have seen in our 74-year history, MERS has risen to the occasion with rapid adjustment of business practices, communication efforts, and modifications to the programs and services we provide our customers.

In March 2020, MERS staff shifted operations to a remote environment overnight while continuing to ensure that we remained responsive to our customers' needs, including supporting them as they managed their workforce and worked to ensure front line services like public safety and health and human services remained uninterrupted during the pandemic. During a time of transition and unknowns, MERS took action for our customers, implementing Plan Document changes in response to various federal legislation and managing temporary benefit modifications.

Recognizing that COVID-19 stay home orders, social distancing guidelines and reduced in-person contact greatly impacted MERS and our customers, MERS found new ways to connect with our customers in order to meet their needs. Some highlights of these adjustments include the following:

- Expanded Service Center capabilities to manage customer questions
- Virtual options for all seminars, meetings, and presentations within 2 weeks of statewide stay home restrictions
- Delivery of Annual Business Meeting and secure online voting as well as informational sessions to customers at no cost
- Expansion of online transaction availability
- Continuation of all critical mail and print functions to enable non-digital customer transactions and communications

In 2020, MERS extended and expanded the existing Strategic Plan to allow for operational adjustments and thorough evaluation of future needs. Overall, organizational performance remained high. Highlights include increased engagement with MERS financial wellness resources, investment returns outperforming actuarial rates and benchmarks, and significant reduction of operational costs. Our customer base continued to expand, partnering with 17 new municipalities and experiencing trends in cross-enrollment with three-quarters of our municipalities enrolled in more than one program – and more than half enrolling in three or more.

MERS Profile

MERS is a statutory public corporation that serves local units of government across the state of Michigan. We are 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. Our approach to efficiently managing retirement and other post-employment plans allows local governments to focus on their core services, leaving day-to-day plan administration and long-range management to us. Services we provide include: plan governance, internal auditing, legal counsel, actuarial services, financial management, fiduciary responsibility, information technology support, legislative advocacy, administration of benefits and investments. The MERS Retirement Board (Board) serves as the fiduciary of the funds and has oversight responsibilities.

Financial Summary

In 2020, MERS had an excellent year, significantly enhancing its financial condition and achieving market performance that exceeded goals for 10-year returns as well as 7-year comparisons to benchmarks. The

MERS Defined Benefit (DB) Portfolio returned a time weighted 13.59% over the year (net of investment expenses). This investment performance generated \$1.74 billion in investment income, the highest annual dollar level in our history. More information regarding our investment management performance, policies and processes are found in the Investments Section of the 2020 Annual Comprehensive Financial Report (ACFR).

MERS also grew its net position held for customers to a new record level of \$14.1 billion. Attributing to this growth beyond investment returns were increased contributions including \$190 million in new employer assets, \$52 million in voluntary employer bonding proceeds issued for pensions by employers and \$138 million in extra voluntary contributions. Strong cost control measures also helped MERS reduce its administrative costs, having a positive impact on overall net assets.

Participant directed plans continue to be the fastest growing segment of MERS. Assets for Defined Contribution, Health Care Savings Program, 457 and IRA were up in 2020 as compared to 2019 by 19.0%, 23.9%, 35.1% and 94.0%, respectively.

As an indicator of how municipalities are more aggressively addressing their other post-employment benefit (OPEB) obligations, the MERS Retiree Health Funding Vehicle and Investment Services Program also saw an increase in contributions and the overall plan assets were up 18.1% and 12.8% respectfully compared to 2019.

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, 54% of MERS' municipalities were funded at 70% or higher (400 municipalities). In early 2020, MERS completed a 5-year Experience Study review of its actuarial assumptions. As an outcome of the study, MERS adopted new economic and demographic actuarial assumption rates that will generally increase contribution levels for most defined benefit and hybrid plans, effective with the 2021 and 2022 fiscal years for employers. These changes will further strengthen plans and help ensure they can meet their future retirement plan obligations.

More detail on these financial metrics is included in the Management Discussion & Analysis section of the ACFR. A complete copy of the ACFR is provided to the Governor, the members of both the State House and Senate, and the Office of the State Treasurer, as required by law. The ACFR and Summary Report are available on our website, www.mersofmich.com.

Respectfully submitted,



Kerrie Vanden Bosch
Chief Executive Officer

FINANCIAL HIGHLIGHTS

- Total fiduciary net position for the Defined Benefit Plan, Defined Contribution Plan, Health Care Savings Program, Retiree Health Funding Vehicle, 457 Program, Investment Services Program, and Individual Retirement Accounts increased by 14%, primarily due to market increases for the year. MERS finished the year with over \$14.1 billion in net fiduciary position – the highest in MERS history.
- The portfolio investment returns saw a time weighted gain of 13.59% net of investment expenses for the year. The 10-year return was 7.89% net of investment expenses, which is above the long-term target of MERS’ expected investment rate of return of 7.35%. The portfolio investment income returned over \$1.7 billion in 2020, the highest amount in MERS history.
- Revenue from contributions and transfers in increased by 6% in 2020. 457 Program contributions revenues topped \$50 million in 2020.
- Total annual benefits, transfers, and withdrawals increased by \$41 million for a total of \$1.062 billion, up from \$1.021 billion in 2019.

Comparison Statement of Fiduciary Net Position (Dollars in Thousands)

	December 31, 2020	December 31, 2019	\$ Increase (De- crease)	% Increase (De- crease)
Assets				
Cash and Short-Term Investments	\$25,094	\$39,669	\$(14,575)	-37%
Receivables	59,182	66,285	(7,103)	-11%
Interfund Receivables		125	(125)	-100%
Loans	7,038	6,099	939	15%
Investments, at fair value	14,011,005	12,298,251	1,712,754	14%
Invested Securities Lending Collateral	556,744	164	556,580	339378%
Prepays/Other Assets	462	1,164	(702)	-60%
Net Capital Assets	21,974	19,919	2,055	10%
Total Assets	14,681,499	12,431,676	2,249,823	18%
Deferred Outflow of Resources				
Outflows Related to Pension	4,226	5,801	(1,575)	-27%
Liabilities				
Purchase of Investments	5,239	32,590	(27,351)	-84%
Securities Lending Collateral	556,744	164	556,580	339378%
Administrative/Investment Costs/Reserves	3,957	7,414	(3,457)	-47%
Interfund Payables		125	(125)	-100%
Total Liabilities	565,940	40,293	525,647	1305%
Deferred Inflow of Resources				
Inflows Related to Pension	-	-	-	-
Net Position - Restricted for:				
Pensions	12,162,307	10,777,099	1,385,208	13%
Postemployment Benefits Other than Pensions	1,901,195	1,570,204	330,991	21%
Pool Participants	56,283	49,881	6,402	13%
	\$14,119,785	\$12,397,184	\$1,722,601	14%

- Administrative expenses decreased in 2020 to \$19.9 million compared to \$21.5 million in 2019. Much of this decrease is attributed to the pandemic with MERS staff working from home and reduced travel.
- Investment expenses declined due to lower investment manager fees. The decrease in investment manager expense was due to shifting assets from traditional active managers to exchange traded funds.
- The most recent MERS actuarial valuation, dated December 31, 2019, showed 400 of 745 Defined Benefit municipalities were funded 70% or better, with 54 municipalities over 100% funded.
- The difference between the MERS actuarial and fair value assets declined from last year, as the actuarial calculation for 2019 is 97% of the fair value of assets as calculated by the actuaries (the ratio was 109.3% as of December 31, 2018). Total Defined Benefit Plan actuarial assets and fair value of assets were valued at \$10.7 billion and \$11.0 billion respectively at December 31, 2020.
- As part of the MERS 2020 Strategic Plan, MERS invested \$5.4 million in capital assets. This includes \$4.7 million for key projects to upgrade the pension administration and actuarial valuation software. The MERS investment in all capital assets is \$21.9 million, net of accumulated depreciation.

Comparison Statement of Changes in Fiduciary Net Position (Dollars in Thousands)

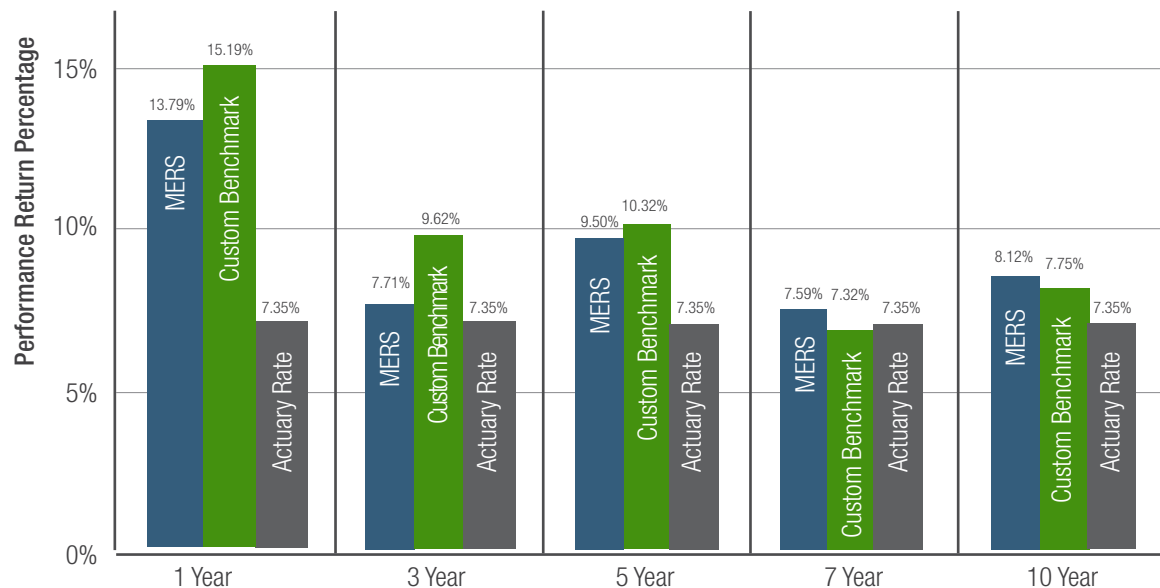
	December 31, 2020	December 31, 2019	\$ Increase (Decrease)	% Increase (Decrease)
Additions				
Contributions/Transfers in	\$1,060,565	\$1,003,170	\$57,395	6%
Investment Net Income (Loss) Investing Activities	1,741,975	1,523,215	218,760	14%
Investment Net Income-Securities Lending	2,288	2,159	129	6%
Miscellaneous Income	161	20	141	705%
Total Additions	2,804,989	2,528,564	276,425	11%
Deductions				
Benefits/Transfers and Withdrawals	1,062,426	1,021,166	41,260	4%
Forfeitures, Miscellaneous	14	4	10	100%
Administrative Expense	19,948	21,522	(1,574)	-7%
Total Distributions	1,082,388	1,042,692	39,696	4%
Net Increase/Decrease	1,722,601	1,485,872	236,729	16%
Net Position - Beginning of Fiscal Period	12,397,184	10,911,312	1,485,872	14%
Net Position - End of Fiscal Period	\$14,119,785	\$12,397,184	\$1,722,601	14%

INVESTMENT OBJECTIVES AND ACTIVITY

In conformity with PERSIA, the primary goal of MERS' investment program is to grow assets at a rate which, when coupled with employer and employee contributions, satisfies promised benefits to MERS members. To achieve this objective, the Investment Committee allocates MERS' assets with a strategic, long-term perspective and a high degree of prudence to reduce risk by:

- Identifying investments that meet or beat the annual actuarial investment assumption of 7.35% on a long-term basis.
- Maintaining adequate liquidity to pay promised benefits.
- Adopting a strategic asset allocation plan that reflects current and future liabilities, minimizes volatility, and seeks to exceed the annual actuarial investment assumption.
- Minimizing the costs associated with the implementation of the asset allocation through the efficient use of internal and external resources.
- Maintaining above median peer rankings for the 10-year time period.
- Making investments that will meet or beat the return of the Portfolio's Policy Benchmark. The Policy Benchmark currently consists of 45% Russell 3000, 25% Bloomberg Barclays Global Aggregate Bond Index, 20% MSCI ACWI IMI ex-US, and 10% Bloomberg Barclays Global Aggregate ex US.

Performance Versus Custom Benchmarks (gross of fees)



MERS INVESTMENT HIGHLIGHTS

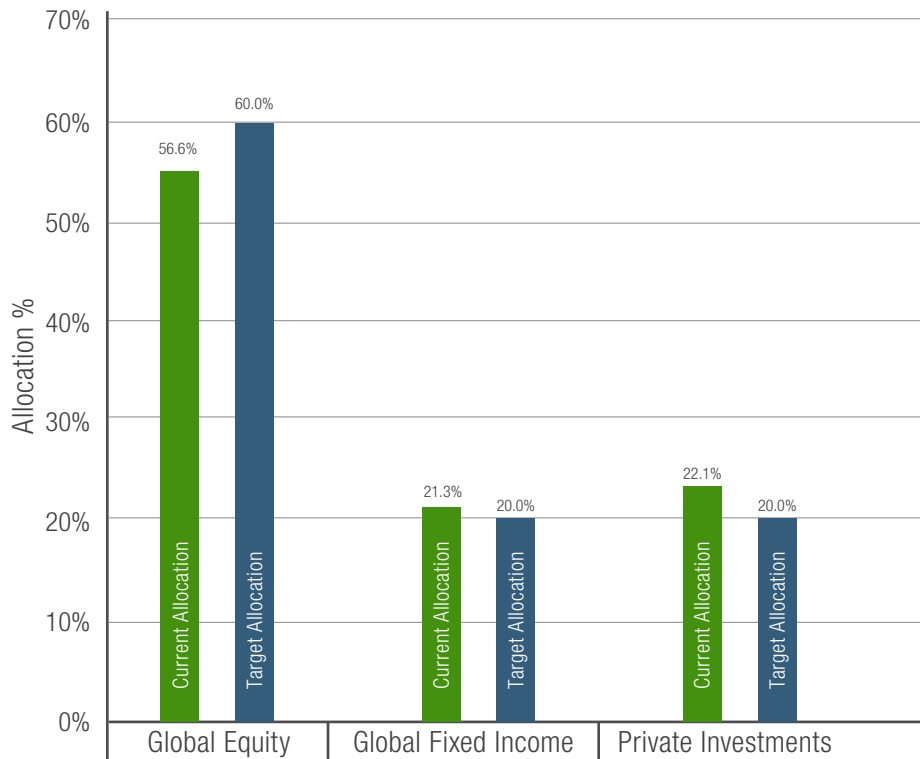
- MERS Total Market Portfolio returned 13.79% gross of fees for the year, underperforming its policy benchmark by 1.40%.
- MERS Total Market Portfolio outperformed its benchmark at the seven-year and ten-year time periods.
- Portfolio returned 8.14% at the ten-year mark and outperformed the policy benchmark by 0.39%.
- Portfolio outperformed the actuarial rate for all time periods through the ten-year mark.
- Strong fund performance versus industry peers.
- The Office of Investments expands work on a Valuation Based Allocation approach to its investment program.
- The base asset allocation breakdown is shown below:

Global Equity	60.00%
Global Fixed Income	20.00%
Private Investments	20.00%

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

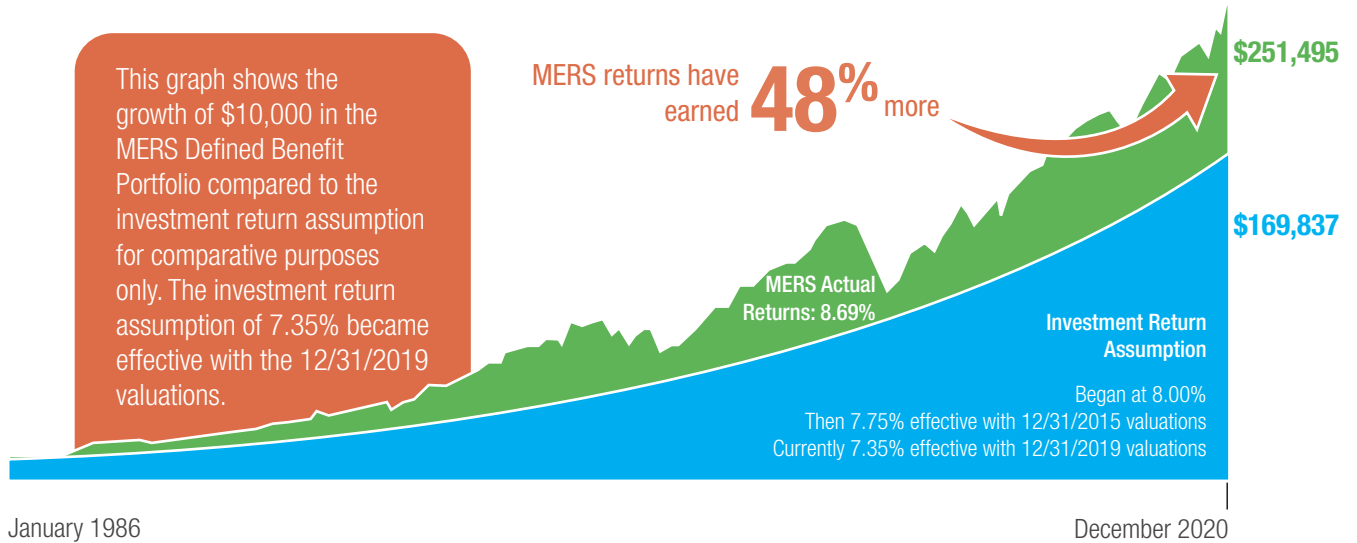
Global Equity	13.34%
Global Fixed Income	13.69%
Private Investments	
Private Equity	21.36%
Real Assets	12.60%
Diversifying Strategies	6.10%

Current Asset Allocation versus Base Allocation



A TRACK RECORD OF SUCCESS

As retirement plans operate over long-term time horizons, it's important to focus on long-term rates rather than any single year. The investment return assumption of 7.35% is projected over the lifetime of the participants covered in the plan, typically more than 30 years. For municipalities that wish to project a more conservative approach, MERS provides tools to do so within our annual valuation reports.



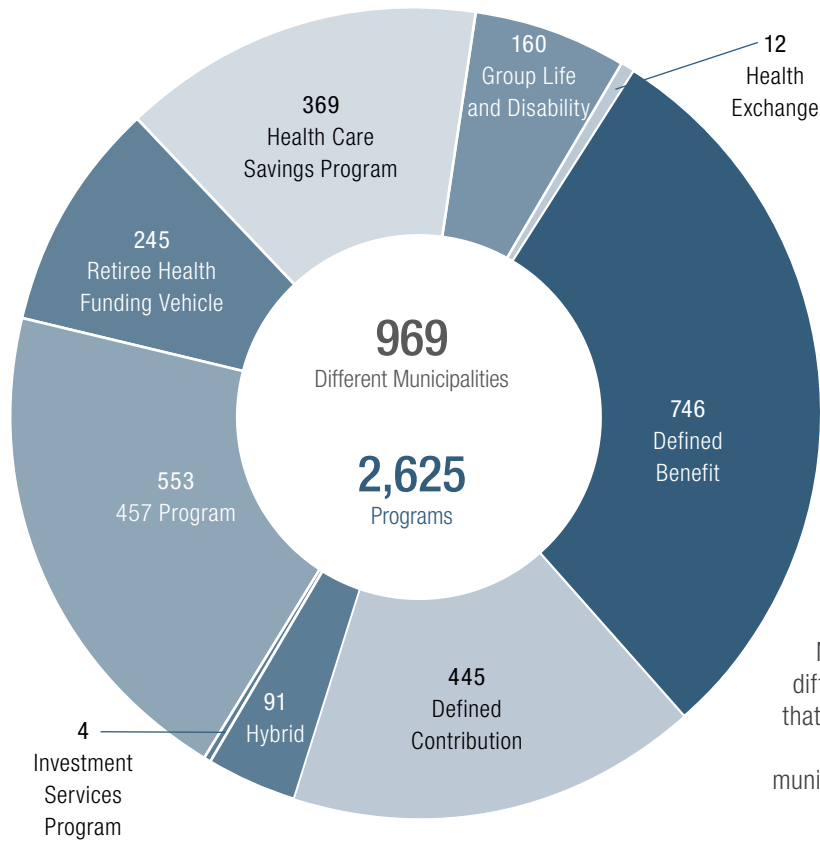
Year-by-Year Returns (35 years: 1986-2020)

Year	Rate of Return	Year	Rate of Return	Year	Rate of Return
2020	13.79%	2008	-24.79%	1996	12.68%
2019	14.06	2007	8.58	1995	23.95
2018	-3.51	2006	13.61	1994	0.52
2017	13.40	2005	6.78	1993	9.67
2016	11.10	2004	14.90	1992	8.05
2015	-0.85	2003	24.72	1991	22.14
2014	6.68	2002	-8.34	1990	2.94
2013	15.00	2001	-1.91	1989	19.10
2012	11.39	2000	-2.76	1988	11.20
2011	2.30	1999	17.01	1987	5.51
2010	14.43	1998	14.20	1986	13.55
2009	17.31	1997	14.43		

Annualized 35-year rate of return for MERS Defined Benefit: 8.69%

Performance numbers on this page are gross of fees.

MERS Participating Municipalities



Note: There are 969 different municipalities that make up the 2,625 programs, as many municipalities have more than 1 product.

MERS Participants

	Defined Benefit	Defined Contribution	Hybrid	Health Care Savings Program	457	Health Exchange	IRA
Active	28,677	15,957	3,719	19,728	7,854	399	212
Deferred	9,449	NA	365	NA	NA	NA	NA
Retired	43,322	NA	149	NA	NA	NA	NA
Contributions not Vested	14,703	NA	8	NA	NA	NA	NA
Terminated	NA	7,230	NA	8,172	1,489	NA	NA
Product Totals	96,151	23,187	4,241	27,900	9,343	399	212
Total MERS Accounts*							161,433

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



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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 06/14/2021). 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.

