



# SUMMARY ANNUAL FINANCIAL REPORT

for the fiscal year ended 12.31.2015

MERS of MICHIGAN

Transparency,  
Trends, and Fiscal  
Responsibility



## ABOUT THIS REPORT

This report provides a summary of the MERS Comprehensive Annual Financial Report (CAFR) for the fiscal year which ended December 31, 2015. 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 2015 CAFR contains more detailed information and can be obtained by contacting MERS:

**Website:**

[www.mersofmich.com](http://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.

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## 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 2014 Summary Annual Financial Report. This marks the 12th consecutive year MERS has received this honor.

## AN INDEPENDENT ELECTED BOARD

MERS is a nonprofit governed by an elected board that operates without compensation. Our board is committed to accountability and transparency, holding the line on costs, and watching out for the best interest of our members.

### Three Employee Members:

Non-officers of a participating municipality, elected by members

### Two Expert Members:

With experience in retirement systems or investment management, appointed by the Board

### Three Officer Members:

Officers of a participating municipality, elected by membership



### MERS Retirement Board

is responsible for administration of the system with fiduciary responsibility for the investment of assets and oversight.

### One Retiree Member:

Retiree of the system, appointed by the Board

## MERS LEADERSHIP



**Back row:** Debra Peake, Chief Employee and Retiree Services Officer; Chris DeRose, Chief Executive Officer; Jeb Burns, Chief Investments Officer

**Front row:** Carrie Lombardo, Chief Marketing and Employer Services Officer; Leon Hank, Chief Financial Officer

## MERS RETIREMENT BOARD AND CHIEF EXECUTIVE OFFICER



**Back row:** Philip LaJoy, Canton Township; Amy Deford, Saginaw County; James R. Wiersma, Haworth, Holland; Chris DeRose, MERS; John Ogden, City of Port Huron; Randy Girard, Charter Township of Marquette

**Front row:** Michael Brown, Barry County; Lori Newberg, Ingham County; Sally Dreves, Grand Traverse County; Michael Gilmore, Delta Dental, Okemos

## LETTER OF TRANSMITTAL, MAY 6, 2016

### 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, 2015.

In 2015, MERS embarked on several major efforts to strengthen our system for both the short and long-term. As part of our fiduciary responsibility, due diligence, and fiscal best practices, MERS and our actuarial firm completed a comprehensive Experience Study for the Defined Benefit and Defined Benefit portion of the Hybrid Plan. We perform this study every five years to compare actual experience of the plan with the actuarial assumptions to ensure each municipality's plan assets are sufficient to provide for the benefits that are expected to be paid. With this study, we have implemented systemic changes that will significantly strengthen our plans over the next two decades.

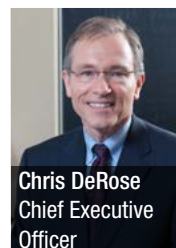
This year we also completed enhancements to both the myMERS and Employer Portal. The new look and features were a direct result of ideas and suggestions our customers provided, including improved navigation, added security and additional financial resources for participants, and enhanced reporting features for employers.

In 2015, MERS launched our first retirement readiness reports to over 23,000 active Defined Benefit participants. These free comprehensive personalized reports show participants how their MERS plan(s) will work together with Social Security to provide retirement income. Participants can then go online to enter in other retirement and personal information and personalize goals to receive a full retirement picture.

### MERS Profile

MERS is a statutory public corporation 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. Services include: plan governance, on-staff auditor, legal counsel, actuarial services, financial management, information technology support, legislative advocacy, administration of benefits, and investments.

MERS offers a full range of customizable plans and services. We work in partnership with our members to develop the plan that best meets their unique needs. We listen to our members and regularly add new, updated products and tools, such as new options to help manage unfunded liability and enhancements to the Defined Contribution Plan. The MERS Retirement Board (Board) serves as the fiduciary of the funds and has oversight responsibilities.



**Chris DeRose**  
Chief Executive  
Officer



**Leon Hank**  
Chief Financial  
Officer

### Financial Summary

For 2015, MERS placed in the top half for performance of investment returns for the last ten-year period, according to the State Street Universe of Public Funds. Our portfolio performed as expected during a downturn in the world financial markets, positioning us to experience better results than many of our peers. Our return for 2015 was -0.85% (gross of fees).

Our cost levels today are at a level they were in 2009, when we were 38% smaller in asset size. Across the country, there are few public pension systems that have had this magnitude of success recently in reducing and flattening their costs. 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.

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, 2014, 462 municipal governments in MERS were funded at 70% or higher (equaling 65% of all municipal governments in MERS).

### Growth Summary

The Institutional Programs, which include the MERS Retiree Health Funding Vehicle and Investment Services Program, experienced continued growth in 2015. These programs were created specifically for municipalities interested in gaining access to MERS' professional investment services, while maintaining administration

of their plan. Nine new municipalities with almost \$93 million joined this year, bringing total participation to 157 municipalities with assets over \$701 million.

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. In 2015, these products also experienced growth as the number of municipalities offering these products increased by 107 bringing in almost \$42 million in new assets.

In addition, our Defined Benefit Program brought in four new municipalities and three new divisions, with assets over \$142 million.

### Best Practices

For the last three years, MERS has prepared to help local governments implement Governmental Accounting Standards Board Statement No. 68 (GASB 68) for the first time. This new reporting rule changes the way government entities account for and report their defined benefit plan costs and liabilities. We updated our information technology systems, prepared detailed implementation manuals, and provided other tools and

data to help our customers comply with the new standard. We also arranged with our outside audit firm to conduct a Service Operating Controls (2014 SOC-1) review so that key data is ready for our customers to use and share with their own auditors, avoiding higher costs to our local governments for additional audit work.

In 2015, MERS completed its second 2015 SOC-1 audit. For the first time, it considers all of MERS operations including our participant directed accounts and institutional funds.

We continually strive to sustain our standards at the highest level to ensure stability as a leader among our peers.

Respectfully submitted,

**Chris DeRose**  
Chief Executive Officer

**Leon E. Hank, CPA**  
Chief Financial Officer

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## FISCAL BEST PRACTICES

The team at MERS is made up of top industry experts who apply cutting edge technology and fiscal best practices to give our members peace of mind and security.



### Customizable Plans

We work with municipalities to design plans that fit budgets, needs, and goals of each group



### In-House Legal Staff

As a plan fiduciary, MERS has staff experts that monitor state and federal laws ensuring compliance and maintaining qualified status as a 401(a) plan with the Internal Revenue Service



### In-Person Service

Our Regional Teams are dedicated to providing responsive local service across Michigan, providing expert information and taking feedback from members



### 50% Funded Requirement to Join

To join MERS, municipalities must meet minimum requirements for plan funding



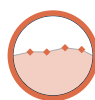
### 100% Funded Required for Improvements

For any benefit enhancements, municipal plans must be fully funded



### Actuarial Reports

Financial impacts of benefit improvements are required to ensure plan stability



### Actuarial Loads

Actuarial loads are applied to groups that have demonstrated a history of unexpected final average compensation spikes



## FINANCIAL HIGHLIGHTS

The following financial highlights occurred during the year ended December 31, 2015:

- 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 decreased by 1% during 2015. MERS finished the year with \$9.2 billion in net fiduciary position primarily due to an investment loss for the year.
- Defined Benefit investment returns saw a slight loss of 1.02% net of investment expenses for the year. The 30-year return of 8.35%, however, is above the target of MERS' expected investment rate of return of 7.75%.
- MERS reduced its Defined Benefit investment return assumption from 8.0% to 7.75%. This had the effect of increasing pension liabilities and costs for employers.
- Contribution revenue increased by 10% from \$829 million in 2014 to \$910 million in 2015. A majority of this increase was from bringing in new assets and Defined Benefit municipalities contributing extra voluntary contributions.
- Total annual retirement benefits and distributions paid to retirees and beneficiaries increased \$32 million to a total of \$817 million.
- Administrative expenses remained level in 2015 at \$19 million while MERS grew significantly and brought in 150 new municipal programs. MERS has continued to keep costs down due to the growth of our pool and stronger ongoing cost-control measures.
- Investment expenses totaled \$21 million. Most of this is related to investment manager fees and performance bonus achievements by managers during the year. Commercial banking expenses continued to decline because of negotiations for lower costs and more use of internal investment management.
- MERS' most recent actuarial valuation dated December 31, 2014, showed 462 of MERS' 713 Defined Benefit municipalities are funded 70% or better, with 88 municipalities over 100% funded.
- The difference between MERS' actuarial and market value assets widened in 2015, as the actuarial calculation is 114% of the market value of assets. Total Defined Benefit Plan actuarial assets and market value of assets were valued at \$9.0 billion and \$7.9 billion respectively at December 31, 2015.

## 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 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

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

	2015	2014	Increase (Decrease) Amount	Increase (Decrease) Percent
<b>Assets</b>				
Cash and Short-Term Investments	\$ 24,594	\$ 8,889	\$ 15,705	177%
Receivables	391,249	930,399	(539,150)	(58%)
Interfund Receivables	69	905	(836)	(92%)
Loans	5,005	4,396	609	14%
Investments, at fair value	9,133,777	9,255,942	(122,165)	(1%)
Invested Securities Lending Collateral	773,608	931,640	(158,032)	(17%)
Other Assets/Prepays	2,108	579	1,529	264%
Net Capital Assets	14,339	13,732	607	4%
<b>Total Assets</b>	<b>10,344,749</b>	<b>11,146,482</b>	<b>(801,733)</b>	<b>(7%)</b>
<b>Deferred Outflow of Resources</b>				
Outflows Related to Pension	2,424	-	2,424	100%
<b>Liabilities</b>				
Purchase of Investments	329,126	846,492	(517,366)	(61%)
Securities Lending Collateral	774,753	932,575	(157,822)	(17%)
Administrative/Investment Costs/Reserves	14,041	10,737	3,304	31%
Interfund Payables	69	905	(836)	(92%)
<b>Total Liabilities</b>	<b>1,117,989</b>	<b>1,790,709</b>	<b>(672,720)</b>	<b>(38%)</b>
<b>Deferred Inflow of Resources</b>			-	0%
<b>Net Position Restricted for Pension and Health Benefits and Investment Accounts Held for Others</b>	<b>\$ 9,229,184</b>	<b>\$ 9,355,773</b>	<b>\$ (126,589)</b>	<b>(1%)</b>

The Statements of Plan Net Position are summaries of what MERS owns and what it owes as of the end of the fiscal year.

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

	2015	2014	Increase (Decrease) Amount	Increase (Decrease) Percent
<b>Additions</b>				
Contributions	\$ 909,983	\$ 829,125	\$ 80,858	10%
Investment Net Income (Loss) Investing Activities	(166,023)	558,337	(724,360)	(129%)
Investment Net Income-Securities Lending	4,037	6,318	(2,281)	(36%)
Miscellaneous Income	2,380	1,801	579	32%
<b>Total Additions</b>	<b>750,377</b>	<b>1,395,581</b>	<b>(645,204)</b>	<b>(46%)</b>
<b>Deductions</b>				
Benefits/Transfers and Withdrawals	857,335	784,649	72,686	9%
Forfeitures and Miscellaneous	355	487	(132)	(27%)
Administrative Expense	19,276	19,433	(157)	(1%)
<b>Total Deductions</b>	<b>876,966</b>	<b>804,569</b>	<b>72,397</b>	<b>9%</b>
<b>Net Increase/Decrease</b>	<b>(126,589)</b>	<b>591,012</b>	<b>(717,601)</b>	<b>(121%)</b>
<b>Net Position-Restricted for Pension and Health Benefits and Investment Accounts Held for Others Balance Beginning of Year</b>	<b>9,355,773</b>	<b>8,764,761</b>	<b>591,012</b>	<b>7%</b>
<b>Balance End of Year</b>	<b>\$ 9,229,184</b>	<b>\$ 9,355,773</b>	<b>(126,589)</b>	<b>(1%)</b>

The Statements of Changes in Plan Net Position summarize the flow of money in and out of the fund throughout the fiscal year.

The primary uses of MERS assets are the payments of benefits to participants and their beneficiaries, refunds to terminated participants, and the cost of administering the system.

## INVESTING IN RETIREMENT



### PERSIA

#### 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.



#### 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.

## INVESTMENT HIGHLIGHTS:

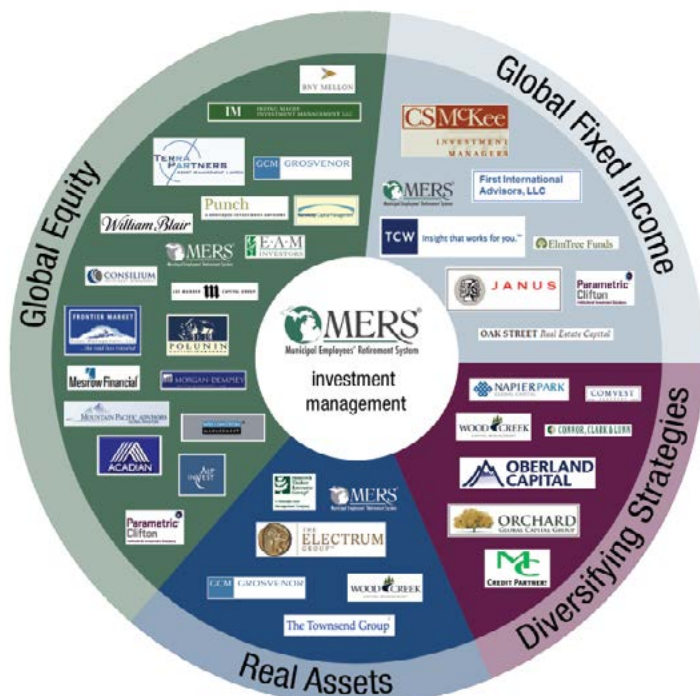
- The MERS Total Market Fund return for 2015 was -0.85%, gross of investment fees, outperforming its benchmark at -2.33%
- MERS continued to implement the new asset allocation from the 2013 allocation study. The broader main asset classes allow MERS to strategically navigate the markets while tactically 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	-2.36%
Global Fixed Income	1.55
Real Assets	-1.33
Diversifying Strategies	4.12

## INVESTMENT MANAGEMENT

MERS manages about a quarter of our assets internally while overseeing the remainder of the management through outside investment experts as shown in the chart to the right.

These external managers are regularly and rigorously reviewed to ensure that the MERS portfolio continues to benefit from the most effective, efficient balance of expertise available.



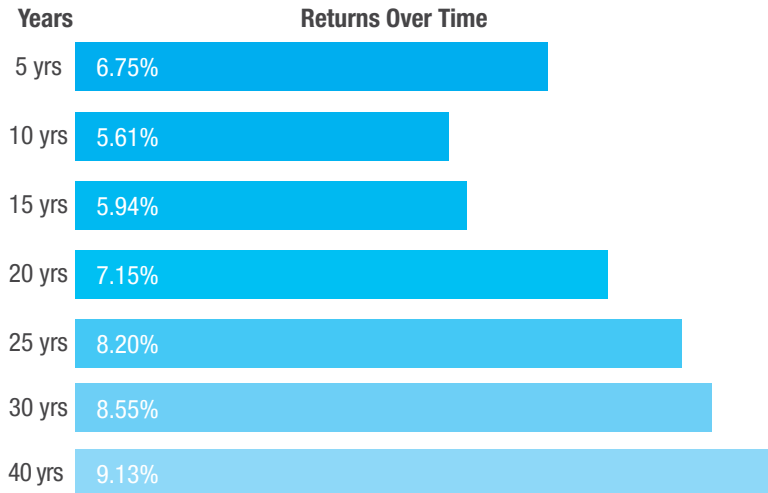


## A TRACK RECORD OF SUCCESS

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

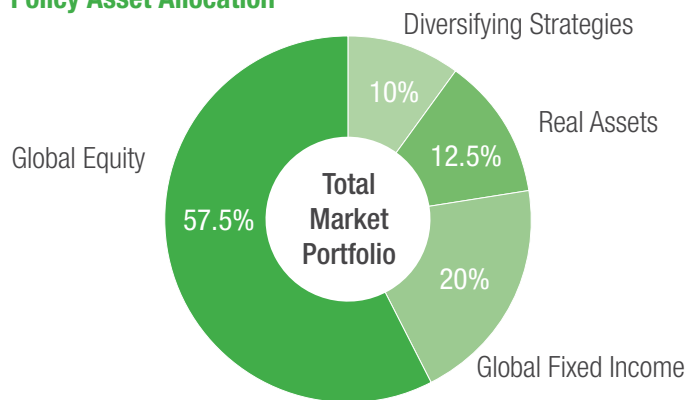
### MERS Long-Term Investment Returns

October 1975 – December 2015



*All rates are shown as gross of fees*

### Policy Asset Allocation



### Year-by-Year Returns

Year	Rate of Return
2015	-0.85%
2014	6.68
2013	15.00
2012	11.39
2011	2.30
2010	14.43
2009	17.31
2008	-24.79
2007	8.58
2006	13.61
2005	6.78
2004	14.90
2003	24.72
2002	-8.34
2001	-1.91
2000	-2.76
1999	17.01
1998	14.20
1997	14.43
1996	12.68
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

## PARTICIPANT COMMUNICATIONS

MERS makes communications with our customers a top priority. We use comprehensive participant data and clearly defined objectives to targeted audiences to create a thoughtfully designed plan that empowers our members and their employees.



### Mass Communication

Messaging appropriate to all active participants, available through mailings and regional seminars

- **Mailings and Alerts:** Encouraging online account reviews and information updating. Quarterly statements and news for participant-directed accounts.
- **Pizza & Planning Seminars:** Plan overviews presented at locally hosted regional meetings.

### Employment Lifecycle



MERS pays special attention to significant life events so participants can prepare for a safe, secure retirement.

- **New Hire:** New Hire packets, including information employers provide during onboarding, email containing benefit highlights, access to myMERS, and new hire video link.
- **Vesting:** Email alert offering congratulations and link to “Vested” page of website. Regional seminars focusing on vested participants.
- **Plan Changes:** Email alerts with links to additional information and resources.
- **Ready to Retire:** Employer and participant resources directing members to “Retirement Ready” section of website.



### Targeted Messaging

Focused information when it's relevant instead of overwhelming participants with everything at once

- **18-34:** Highlighting budgeting and the benefits of compounding.
- **35-49:** Highlighting budgeting tools and living in the “sandwich generation.”
- **50+:** Highlighting debt pay-off before retirement.

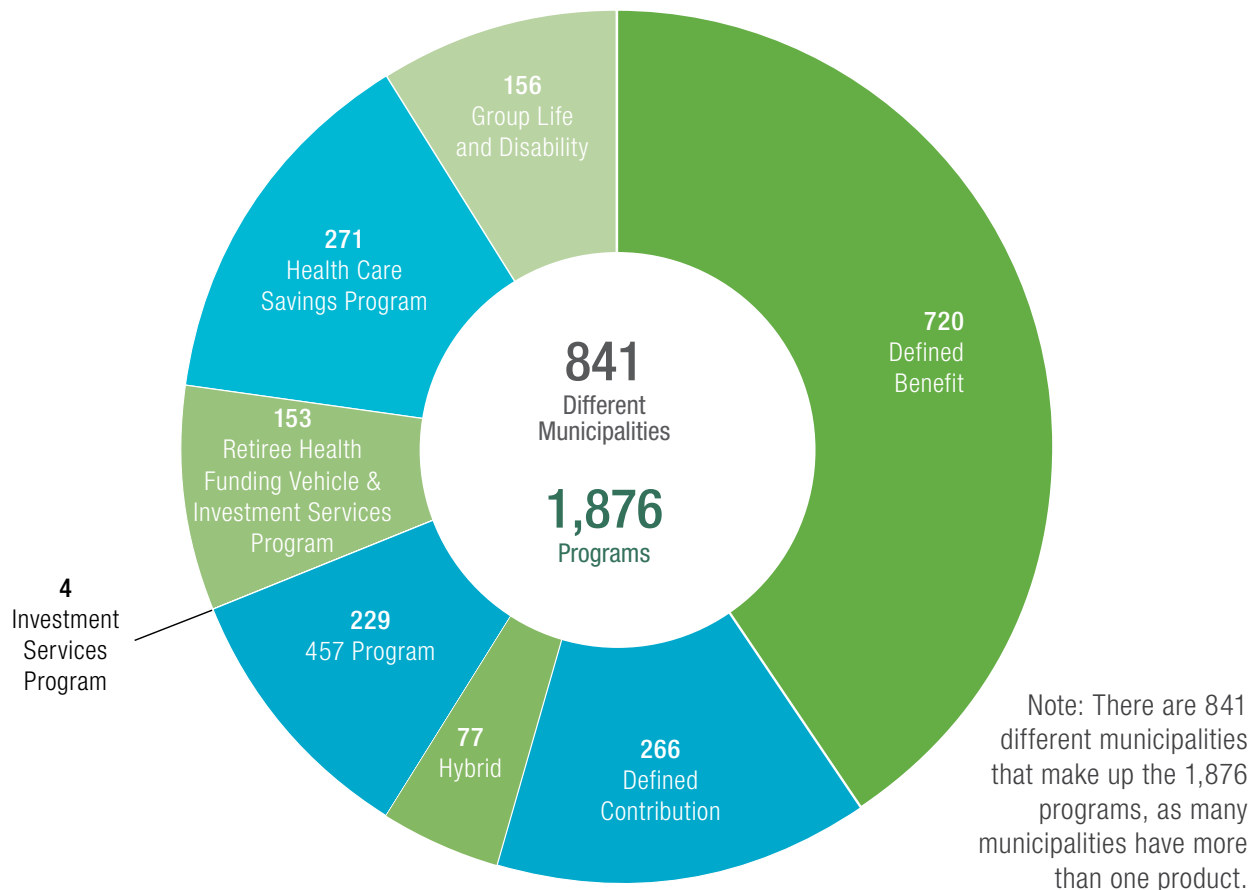
## MERS Participants as of December 31, 2015

	Defined Benefit	Defined Contribution	Hybrid	Health Care Savings Program	457
Active	33,801	10,388	1,822	11,269	1,923
Deferred	9,079	NA	136	NA	NA
Retired	37,412	NA	27	NA	NA
Contributions not Vested	10,145	NA	401	NA	NA
Terminated	NA	3,524	NA	3,235	206
<b>Product Totals</b>	<b>90,437</b>	<b>13,912</b>	<b>2,386</b>	<b>14,504</b>	<b>2,129</b>
Total MERS Accounts*					123,368
Total MERS Participants**					114,191

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

\*\* Total MERS 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.

## MERS Participating Municipalities as of December 31, 2015





1134 Municipal Way, Lansing, MI 48917 | 800.767.MERS (6377) | [www.mersofmich.com](http://www.mersofmich.com)

*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 05/25/16). 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.*