

CITY OF SOUTHFIELD FIRE & POLICE RETIREMENT SYSTEM

2015 SUMMARY ANNUAL REPORT (as of June 30, 2014)

Fire & Police Retirement System Board:

John Fisher, President
Emmereal Wells, Vice President
Audrey Harvey, Secretary
Irv Lowenberg, Trustee
Duane Garth, Trustee

Fire & Police Retirement System Staff:

Megan Battersby, Retirement Program Administrator

Phone:

(248)796-5220

2015 SUMMARY ANNUAL REPORT

Dear Member:

The City of Southfield Fire & Police Retirement System is a program designed to help its members meet the financial concerns of old age, disability, and death. This summary report is intended to give you a brief system operation overview.

The Retirement System is managed by a Board of Trustees, which in accordance with Public Act 345 includes the Treasurer of the City, one representative each from the Police and Fire departments, and two citizen representatives. The Board's duty is to supervise general administration of the system and invest the assets accumulating on behalf of all its members. The Board retains professional advisors to assist in fulfilling these fiduciary responsibilities.

It is not practical to cover all activities and provisions of the Retirement System in a summary report. The actual operation of the system is governed and controlled by the detailed provisions of Public Act 345, union contracts, and the Retirement Board's official rules, regulations, and resolutions.

Respectfully Submitted,

City of Southfield Fire & Police Retirement System Board of Trustees

RETIREMENT SYSTEM FUNDING

The basic financial objective of the Retirement System is to establish and receive contributions expressed as percents of active member payroll which will remain approximately level from year to year and will not have to be increased for future generations of taxpayers.

The annual actuarial valuation analyzes the retirement system's funding progress in order to establish a contribution rate that will allow the retirement system to function at a financially sound level. The Actuary calculates the contribution requirements and benefit values of the fund by applying actuarial assumptions to the benefit provisions and people information provided by the Retirement Program Administrator.

Actuarial valuations are conducted by Gabriel, Roeder, Smith & Company, an independent firm of consultants and actuaries. Results of the June 30, 2014 valuation are summarized below:

CONTRIBUTIONS EXPRESSED AS A PERCENTAGE OF PAYROLL

<u>Police & Fire Members¹</u>	<u>City²</u>
Last Fiscal Year:	
3.00 (Police) 5.00 (new hires)	31.68
5.00 (Police Command)	
3.00 (Fire) 5.00 (new hires)	
3.00 (Deputy Chiefs)	
Current Fiscal Year:	
3.00 (Police) 5.00 (new hires)	29.28
3.00 (Police Command)	
3.00 (Fire) 5.00 (new hires)	
3.00 (Deputy Chiefs)	

Notes:

¹The employee contribution rates for the "**Last Fiscal Year**" are those in effect from July 1, 2014 - June 30, 2015. Notwithstanding any changes in these rates, the percentages stated will be reported to the actuaries for the June 30, 2015 valuation.

²The City contribution rate for the "**Current Fiscal Year**" will be used during the fiscal year beginning July 1, 2015. The employer rate is expressed as a percent of active member payroll.

RETIREMENT SYSTEM SUMMARY

The City of Southfield Fire & Police Retirement System offers retirement benefits based on the provisions of Public Act No. 345 of 1937 and applicable collective bargaining agreements. Members covered by the SPOA, SFFA, SPCOA, and Deputy Chiefs bargaining agreements are eligible for a Regular retirement upon attaining a minimum of 20 years of service. The maximum service currently permitted for the calculation of a pension benefit, in accordance with these bargaining agreements, is 25 years. The current multiplier applied to Average Final Compensation for a Regular retirement, in accordance with the above collective bargaining agreements, is 2.8 with the exception of new Fire hires after September 12, 2011 and new Police hires after February 22, 2014 for whom it is 2.5.

Unless members elect another benefit option to provide for their beneficiaries, an eligible surviving spouse automatically receives 60% of the member's benefit, provided that the member retired with a Regular retirement pension. Pre-retirement death benefits to the survivor of a member are also available. The Retirement System provides disability benefits for its members with certain survivor options. More information on these various retirement options can be obtained by contacting the Retirement Program Administrator at (248)796-5220.

The City of Southfield Fire & Police Retirement System consists of two interrelated tax qualified plans: the Defined Benefit Plan and the Defined Contribution Plan. The Defined Benefit Plan is funded by the employer and payable to members meeting minimum service requirements for the various retirement options available. Members' Defined Contribution Plan accounts are comprised of their accumulated employee contributions and accrued interest. The refundable amount held in this plan may be withdrawn by a member upon Regular retirement or when terminating employment with the City of Southfield. If a vested member (one with 10 or more years of service) terminates employment with the City, the member has the option of leaving the balance of his or her contributions in the Retirement System's Defined Contribution Plan for the purpose of receiving vested retirement benefits. These benefits become effective upon application to the Board of Trustees on or after the date the member would have first become eligible to retire had the member continued City employment.

RETIREMENT SYSTEM OVERVIEW

The name of the retirement system is the City of Southfield Fire and Police Retirement System. Investment services are provided by Asset Strategies Portfolio Services, Inc., legal services are provided by VanOverbeke Michaud & Timmony, P.C., actuarial services are provided by Gabriel Roeder Smith & Company, custodial services are provided by The Northern Trust Company, property consulting services are provided by Livingston, York Advisors and the medical director that serves the Plan is Consulting Physicians.

The Retirement System's investment fiduciaries during the fiscal year ended June 30, 2014 were:

- City of Southfield Fire and Police Retirement Board
- Asset Strategies Portfolio Services
- Avignon Holdings
- Bradford & Marzec
- Brandes Investment Partners
- Energy Opportunities Capital Management
- Fiduciary Management
- Invesco
- JCR Capital
- LS Investment Advisors
- Loomis, Sayles & Company
- Morgan Dempsey
- Nantucket Capital Management
- Northern Trust Global Investments
- Prudential
- The Northern Trust Company
- WHV Investment Management
- 1607 Capital Partners

As reported in the actuarial valuation for the annual period ended June 30, 2014, excluding reserves for inflation equity, the Retirement System's valuation assets were \$192,685,680 and its actuarial accrued liabilities were \$225,157,311, which produced a funded ratio of 85.6 %.

For the annual period ended June 30, 2014, the Retirement System's expenses were \$342,022. Benefit payments and member refunds were \$14,410,229. No services were paid for with soft dollars.

The Retirement System continues to be in sound financial condition in accordance with actuarial principles of level percent of payroll financing. The Retirement System has received the required employer contribution for the year ended June 30, 2014. Detailed information on the system's funding is contained in the report of the Annual Actuarial Valuation as of June 30, 2014. For further information regarding the Retirement System's administration and policies, please contact the Retirement Program Administrator at (248)796-5220.

BUDGET

City of Southfield Fire & Police Retirement System Annual Budget: July 1, 2014 to June 30, 2015

Service/Provider	2013 - 2014 Budget	2013 - 2014 Actual	2014 - 2015 Budget
Investment Consultant	86,625	86,625	114,000
Custodian	40,000	40,005	40,000
Legal Counsel	35,000	33,451	35,000
Actuary	17,000	27,500	23,000
Property Consultant	10,000	17,325	18,000
Real Estate Expenses	35,000	43,506	60,000
Pension Management Software Expenses	0	0	7,000
Education/Training/Travel	25,000	13,636	25,000
Fiduciary Insurance	21,478	21,478	21,090
Medical Director	1,000	0	1,000
Miscellaneous Expenses	500	324	500
Pension Management System Maintenance Fee	2,000	2,000	2,000
Membership Dues	1,400	1,160	1,400
Administrator	60,000	60,000	60,000
TOTAL	335,003	347,010	407,990

INVESTMENT PERFORMANCE

Total Fund Return: (net of fees)	1 Year	17.72%
	2 Year	14.15%
	3 Year	8.57%
	5 Year	11.74%
	7 Year	5.28%
	10 Year	7.50%

**RETIRANTS AND BENEFICIARIES AS OF JUNE 30, 2014
TABULATED BY TYPE OF BENEFIT BEING PAID**

Pension Benefits		
Type of Benefit	No.	Annual Amount
Age and Service Pensions		
Regular Pension - terminating at death	66	\$ 2,119,701
- auto. 60% to spouse	191	8,990,212
Option I - 100% Joint and Survivor	5	171,368
Option II - 50% Joint and Survivor	1	38,252
Survivor Beneficiary	34	809,612
Age and Service Totals	297	\$ 12,129,145
 Casualty Pensions		
Duty Disability	8	184,734
Non-Duty Disability	2	12,512
Non-Duty Death-Survivor Benefit	1	33,044
Casualty totals	11	\$ 230,290
 Total Pensions	 308	 \$ 12,359,435

**RETIREES AND BENEFICIARIES AS OF JUNE 30, 2014
TABULATED BY ATTAINED AGE AND TYPE OF RETIREMENT**

Attained Age	Age & Service		Casualty		Totals	
	No.	Annual Pensions	No.	Annual Pensions	No.	Annual Pensions
40 - 44	5	\$ 162,201			5	\$ 162,201
45 - 49	12	477,140			12	477,140
50 - 54	24	1,169,307	4	\$ 86,187	28	1,255,494
55 - 59	39	1,761,169	1	26,916	40	1,788,085
60 - 64	49	2,318,850	1	4,984	50	2,323,834
65 - 69	75	2,816,753			75	2,816,753
70 - 74	48	1,700,042	4	101,623	52	1,801,665
75 - 79	24	837,204	1	10,580	25	847,784
80 - 84	12	500,784			12	500,784
85 - 89	7	294,976			7	294,976
90 - 94	2	90,719			2	90,719
Totals	297	\$ 12,129,145	11	\$230,290	308	\$12,359,435

Average Age at Retirement: 51.1 years

Average Age Now: 65.6 years

**ACTIVE MEMBERS AS OF JUNE 30, 2014
BY ATTAINED AGE AND YEARS OF SERVICE**

Attained Age	Years of Service to Valuation Date							No.	Valuation Payroll
	0-4	5-9	10-14	15-19	20-24	25-29	30 plus		
20-24	1							1	\$ 20,176
25-29	1	3						4	306,108
30-34	5	17	2					24	1,797,595
35-39	6	17	13	5				41	3,103,612
40-44	1	6	11	13	3			34	2,796,205
45-49		2	5	19	26			52	4,905,841
50-54			2	16	15	9		42	4,051,899
55-59		1		3	5	6		15	1,368,707
61					1			1	102,358
Totals	14	46	33	56	50	15	0	214	\$18,452,501

ACTUARIAL VALUE OF ASSETS

Actuarial Value of Assets		Reserve for (1)	
Cash & Short-Term	\$ 4,356,682	Employee's Contributions	\$ 11,656,700
		Employers Contribution	63,446,664
Bonds - Government	8,111,129	Retired Benefit Payments	127,796,315
- Corporate	12,372,894	Funding Value Adjustment	<u>(8,021,008)</u>
		Actuarial Value of Assets	<u><u>\$194,878,671</u></u>
Common Stock	94,621,103		
Real Estate	83,437,871	Funding Value of Pension Assets (2)	\$192,685,680
		Funding Value of Health Assets (3)	-
Funding Value Adjustment	<u>(8,021,008)</u>	Reserve for Inflation Equity	<u>2,192,991</u>
Actuarial Value of Assets	<u><u>\$194,878,671</u></u>	Actuarial Value of Assets	<u><u>\$194,878,671</u></u>

(1) Note that these reserve amounts were not supplied by staff. We have set the Employee's Contributions Reserve to the sum of the employee contributions submitted for each individual in the valuation. The Retired Benefit Payments Reserve has been set equal to the liability for retired members. The Employer Contribution Reserve is a balancing item.

(2) The funding value of pension assets includes \$5,058,318 of retiree account balances to be dispersed (\$879,535 of outstanding employee contributions and \$4,178,783 of outstanding DROP account balances).

(3) The Retiree Health insurance Fund has been exhausted.

Market value of assets was \$202,899,679.

REVENUES AND EXPENDITURES

	Pension	Reserve for Inflation Equity	Health	Totals
Actuarial Value 6/30/2013	\$ 181,342,197	\$ 2,208,016	\$ 0	\$ 183,550,213
Revenues				
Employee Contributions	475,435	0	0	475,435
Employer Contributions	5,256,046	0	0	5,256,046
Income (net of investment expenses)	20,185,051	164,177	0	20,349,228
Total Revenues	<u>\$ 25,916,532</u>	<u>\$ 164,177</u>	<u>\$ 0</u>	<u>\$ 26,080,709</u>
Expenditures				
Benefit Payments	14,241,732	179,202	0	14,420,934
Refund of Member Contributions	(10,705)	0	0	(10,705)
Health Insurance Premiums	0	0	0	0
Expenses Paid from System	342,022	0	0	342,022
Total Expenditures	<u>\$ 14,573,049</u>	<u>\$ 179,202</u>	<u>\$ 0</u>	<u>\$ 14,752,251</u>
Actuarial Value 6/30/2014	\$ 192,685,680	\$ 2,192,991	\$ 0	\$ 194,878,671
Nominal Rate of Return*				11.4%

* The nominal rate of return was computed using the approximate formula: $i = I$ divided by $1/2 (A+B-I)$, where I is recognized investment income, plus the additional market value adjustment, A is the beginning of year asset value and B is the end of year asset value.

**COMPARISON OF ACTIVE AND RETIRED DATA
AS OF JUNE 30, 2014**

	<u>Active Members</u>	<u>Retired Members</u>
Total	214	308
Valuation Payroll/ Pension Benefits	\$18,452,501	\$12,359,435
Health Insurance Premiums Being Paid By Retirement System	N/A	\$ 0
Average Age	43.8	65.6
Years of Service	15.8	N/A
Average Pay/Benefit	\$ 86,227	\$ 40,128

SUMMARY OF ACTUARIAL METHODS AND ASSUMPTIONS

Valuation Date:	June 30, 2014
Actuarial Cost Method:	Individual Entry-Age
Amortization Method:	Level percent-of-payroll
Amortization Period:	23 years (closed)
Asset Valuation Method:	5-year smoothed market, starting June 30, 2012 4-year smoothed market, prior to June 30, 2012
Actuarial Assumptions:	
Investment rate of return	7.75%
Projected salary increases*	4.00% - 9.00%
* Includes wage inflation at	4.00%
Cost-of-living adjustments	None

Membership of the plan consisted of the following at June 30, 2014, the date of the latest actuarial valuation:

Retirees and beneficiaries receiving benefits	308
Terminated plan members entitled to but not yet receiving benefits	2
Active plan members	<u>214</u>
Total members	524