

CITY OF SOUTHFIELD FIRE & POLICE RETIREMENT SYSTEM

2016 SUMMARY ANNUAL REPORT (as of June 30, 2015)

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

2016 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, 2015 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)	29.28
3.00 (Police Command)	
3.00 (Fire) 5.00 (new hires)	
3.00 (Deputy Chiefs)	
Current Fiscal Year:	
3.00 (Police) 5.00 (new hires)	30.99
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, 2015 - June 30, 2016. Notwithstanding any changes in these rates, the percentages stated will be reported to the actuaries for the June 30, 2016 valuation.

²The City contribution rate for the "**Current Fiscal Year**" will be used during the fiscal year beginning July 1, 2016. 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 MedSource/Consulting Physicians.

The Retirement System's investment fiduciaries during the fiscal year ended June 30, 2015 were:

City of Southfield Fire and Police Retirement Board
Asset Strategies Portfolio Services
Avignon Holdings
Bradford & Marzec
Brandes Investment Partners
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, 2015, excluding reserves for inflation equity, the Retirement System's valuation assets were \$198,055,557 and its actuarial accrued liabilities were \$231,608,365, which produced a funded ratio of 84.6 %.

For the annual period ended June 30, 2015, the Retirement System's expenses were \$403,477. Benefit payments were \$15,485,612 and member refunds were \$7,936. 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, 2015. Detailed information on the system's funding is contained in the report of the Annual Actuarial Valuation as of June 30, 2015. 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, 2015 to June 30, 2016

Service/Provider	2014 - 2015 Budget	2014 - 2015 Actual	2015 - 2016 Budget
Investment Consultant	114,000	109,707	114,000
Custodian	40,000	40,103	41,000
Legal Counsel	35,000	14,184	35,000
Actuary	23,000	23,000	25,000
Property Consultant	18,000	10,375	18,000
Real Estate Expenses	60,000	53,095	60,000
Pension Management Software Expenses	7,000	7,000	5,000
Education/Training/Travel	25,000	20,939	25,000
Fiduciary Insurance	21,090	21,090	20,835
Medical Director	1,000	0	1,000
Miscellaneous Expenses	500	390	500
Pension Management System Maintenance Fee	2,000	0	2,000
Membership Dues	1,400	1,295	1,400
Administrator	60,000	60,000	60,000
TOTAL	407,990	361,179	408,735

INVESTMENT PERFORMANCE

Total Fund Return: (net of fees)	1 Year	2.16%
	2 Year	9.66%
	3 Year	10.00%
	5 Year	9.72%
	7 Year	5.45%
	10 Year	6.84%

**RETIRANTS AND BENEFICIARIES AS OF JUNE 30, 2015
TABULATED BY TYPE OF BENEFIT BEING PAID**

Pension Benefits		
Type of Benefit	No.	Annual Amount
Age and Service Pensions		
Regular Pension - terminating at death	73	\$ 2,342,057
- auto. 60% to spouse	190	9,287,094
Option I - 100% Joint and Survivor	5	171,368
Option II - 50% Joint and Survivor	1	38,252
Survivor Beneficiary	38	889,770
Age and Service Totals	307	\$ 12,728,541
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	318	\$ 12,958,831

RETIREEES AND BENEFICIARIES AS OF JUNE 30, 2015
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	3	\$ 60,252			3	\$ 60,252
45 - 49	13	545,056			13	545,056
50 - 54	29	1,406,653	4	\$ 86,187	33	1,492,840
55 - 59	35	1,741,226	1	26,916	36	1,768,142
60 - 64	52	2,476,144	1	4,984	53	2,481,128
65 - 69	65	2,396,251			65	2,396,251
70 - 74	59	2,154,642	3	75,797	62	2,230,439
75 - 79	29	1,037,527	2	36,406	31	1,073,933
80 - 84	11	456,847			11	456,847
85 - 89	7	265,021			7	265,021
90 - 94	4	188,922			4	188,922
Totals	307	\$ 12,728,541	11	\$230,290	318	\$12,958,831

Average Age at Retirement: 51.2 years

Average Age Now: 66.2 years

**ACTIVE MEMBERS AS OF JUNE 30, 2015
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	2							2	\$ 79,325
25-29	5	3						8	450,782
30-34	4	10	7					21	1,682,110
35-39	2	18	14	6				40	3,222,125
40-44	1	2	8	18	2			31	2,639,014
45-49			7	14	26	2		49	4,728,672
50-54			1	20	17	7		45	4,390,440
55-59		1		2	7	4		14	1,311,687
62					1			1	106,019
Totals	14	34	37	60	53	13	0	211	\$18,610,174

ACTUARIAL VALUE OF ASSETS

<u>Actuarial Value of Assets</u>		<u>Reserve for (1)</u>	
Cash & Short-Term	\$ 5,573,536	Employee's Contributions	\$ 11,455,281
		Employers Contribution	51,658,981
Bonds - Government	8,483,876	Retired Benefit Payments	133,403,324
- Corporate	9,660,222	Funding Value Adjustment	<u>1,537,971</u>
		Actuarial Value of Assets	<u><u>\$198,055,557</u></u>
Common Stock	88,365,553		
Real Estate	84,434,399	Funding Value of Pension Assets (2)	\$195,940,267
		Funding Value of Health Assets (3)	-
Funding Value Adjustment	<u>1,537,971</u>	Reserve for Inflation Equity	<u>2,115,290</u>
Actuarial Value of Assets	<u><u>\$198,055,557</u></u>	Actuarial Value of Assets	<u><u>\$198,055,557</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 \$5,902,324 of retiree account balances to be dispersed (\$976,671 of outstanding employee contributions and \$4,925,653 of outstanding DROP account balances).

Market value of assets was \$196,517,586.

REVENUES AND EXPENDITURES

	Pension	Reserve for Inflation Equity	Health	Totals
Actuarial Value 6/30/2014	\$ 192,685,680	\$ 2,192,991	\$ 0	\$ 194,878,671
Revenues				
Employee Contributions	466,794	0	0	466,794
Employer Contributions	5,933,162	0	0	5,933,162
Income (net of investment expenses)	12,497,365	160,718	0	12,658,083
Total Revenues	\$ 18,897,321	\$ 160,718	\$ 0	\$ 19,058,039
Expenditures				
Benefit Payments	15,247,193	238,419	0	15,485,612
Refund of Member Contributions	(7,936)	0	0	(7,936)
Expenses Paid from System	403,477	0	0	403,477
Total Expenditures	\$ 15,642,734	\$ 238,419	\$ 0	\$ 15,881,153
Actuarial Value 6/30/2015	\$ 195,940,267	\$ 2,115,290	\$ 0	\$ 198,055,557
Nominal Rate of Return*	6.65%	7.75%		6.66%

* 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, 2015**

	<u>Active Members</u>	<u>Retired Members</u>
Total	211	318
Valuation Payroll/ Pension Benefits	\$18,610,174	\$12,958,831
Health Insurance Premiums Being Paid By Retirement System	N/A	\$ 0
Average Age	43.8	66.2
Years of Service	15.9	N/A
Average Pay/Benefit	\$ 88,200	\$ 40,751

SUMMARY OF ACTUARIAL METHODS AND ASSUMPTIONS

Valuation Date:	June 30, 2015
Actuarial Cost Method:	Individual Entry-Age
Amortization Method:	Level percent-of-payroll
Amortization Period:	22 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, 2015, the date of the latest actuarial valuation:

Retirees and beneficiaries receiving benefits	318
Terminated plan members entitled to but not yet receiving benefits	2
Active plan members	<u>211</u>
Total members	531