

CITY OF SOUTHFIELD FIRE & POLICE RETIREMENT SYSTEM

2017 SUMMARY ANNUAL REPORT (as of June 30, 2016)

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 Director

Phone:

(248)796-5220

2017 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 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, 2016 valuation are summarized below:

CONTRIBUTIONS EXPRESSED AS A PERCENTAGE OF PAYROLL

<u>Police & Fire Members</u>¹	<u>City</u>²
Last 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)	
Current Fiscal Year:	
3.00 (Police) 5.00 (new hires)	35.40
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, 2016 - June 30, 2017. Notwithstanding any changes in these rates, the percentages stated will be reported to the actuaries for the June 30, 2017 valuation.

²The City contribution rate for the "**Current Fiscal Year**" will be used during the fiscal year beginning July 1, 2017. 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, as amended, and applicable collective bargaining agreements. Members covered by the SPOA, SFFA, SPCOA, and Deputy Chiefs collective 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 collective 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 Fire employees hired after September 12, 2011 and new Police employees hired 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 and the spouse was the member's spouse both at the time of retirement and at the time of the member's death. 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 consulting services are provided by AndCo Consulting (formerly The Bogdahn Group and formerly 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, 2016 were:

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

As reported in the actuarial valuation for the annual period ended June 30, 2016, excluding reserves for inflation equity, the Retirement System's valuation assets were \$197,671,992 and its actuarial accrued liabilities were \$248,037,025, which produced a funded ratio of 78.9 %.

For the annual period ended June 30, 2016, the Retirement System's expenses were \$431,274. Benefit payments were \$16,447,885 and member refunds were \$71,673. 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, 2016. Detailed information on the Retirement System's funding is contained in the Annual Actuarial Valuation as of June 30, 2016. 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, 2017 to June 30, 2018

Service/Provider	2015 - 2016 Budget	2015 - 2016 Actual	2016 - 2017 Budget
Investment Consultant	114,000	104,077	114,000
Custodian	41,000	40,198	41,000
Legal Counsel	35,000	22,388	35,000
Actuary	25,000	41,500	25,150
Property Consultant	18,000	5,700	12,000
Real Estate Expenses	60,000	108,771	94,200
Pension Management Software Expenses	5,000	0	5,000
Education/Training/Travel	25,000	18,540	25,000
Fiduciary Insurance	20,835	20,835	21,000
Medical Director	1,000	2,625	0
Miscellaneous Expenses	500	150	500
Pension Management System Maintenance Fee	2,000	0	2,000
Membership Dues	1,400	1,150	1,200
Administrator	60,000	60,000	60,000
TOTAL	408,735	425,934	436,050

INVESTMENT PERFORMANCE

	Total Fund Return	Net of Fees
1 Year	2.00%	1.18%
2 Year	2.08%	1.26%
3 Year	7.05%	
5 Year	5.93%	
7 Year	8.89%	
10 Year	5.93%	

**RETIRANTS AND BENEFICIARIES AS OF JUNE 30, 2016
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	\$ 2,380,182
- auto. 60% to spouse	195	9,648,858
Option I - 100% Joint and Survivor	6	182,588
Option II - 50% Joint and Survivor	2	58,507
Survivor Beneficiary	42	1,024,996
Age and Service Totals	318	\$ 13,295,131
Casualty Pensions		
Duty Disability	8	178,983
Non-Duty Disability	2	12,512
Non-Duty Death-Survivor Benefit	1	33,044
Casualty Totals	11	\$ 224,539
Total Pensions	329	\$ 13,519,670

RETIRES AND BENEFICIARIES AS OF JUNE 30, 2016
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	\$ 90,102			3	\$ 90,102
45 - 49	15	625,543			15	625,543
50 - 54	30	1,375,253	2	\$ 15,476	32	1,390,729
55 - 59	39	1,976,557	2	64,960	41	2,041,517
60 - 64	51	2,540,718	2	31,900	53	2,572,618
65 - 69	57	2,170,687			57	2,170,687
70 - 74	63	2,339,871	3	75,797	66	2,415,668
75 - 79	36	1,271,646	1	25,826	37	1,297,472
80 - 84	12	461,354	1	10,580	13	471,934
85 - 89	8	305,126			8	305,126
90 - 94	4	138,274			4	138,274
Totals	318	\$ 13,295,131	11	\$224,539	329	\$13,519,670

Average Age at Retirement: 51.1 years

Average Age Now: 66.3 years

**ACTIVE MEMBERS AS OF JUNE 30, 2016
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	7							7	\$ 309,804
25-29	7	3						10	607,796
30-34	4	7	6					17	1,434,107
35-39	4	10	17	1				32	2,710,924
40-44		2	12	21	4			39	3,400,337
45-49	1		4	11	17	6		39	3,909,669
50-54			2	11	28	9		50	5,136,361
55-59					6	3		9	845,270
60		1			1	1		3	262,090
63					1			1	125,069
Totals	23	23	41	44	57	19	0	207	\$18,741,427

ACTUARIAL VALUE OF ASSETS

<u>Actuarial Value of Assets</u>		<u>Reserve for (1)</u>	
US Cash	\$ 2,447,589	Employee's Contributions	\$ 10,717,214
US Fixed Income	39,773,045	Employers Contribution	30,544,072
US Equity	66,005,900	Retired Benefit Payments	146,779,745
International Equity	27,487,996	Funding Value Adjustment	<u>9,630,961</u>
Hedge Fund	29,154,613	Actuarial Value of Assets	<u><u>\$197,671,992</u></u>
US Private Real Estate	23,338,317		
Pending Trades	(166,429)	Funding Value of Pension Assets (2)	\$195,645,031
		Funding Value of Health Assets (3)	-
Funding Value Adjustment	<u>9,630,961</u>	Reserve for Inflation Equity	<u>2,026,961</u>
Actuarial Value of Assets	<u><u>\$197,671,992</u></u>	Actuarial Value of Assets	<u><u>\$197,671,992</u></u>

(1) Note that these reserve amounts were not supplied by staff. We have set the Employees' 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 \$7,920,230 of retiree account balances to be dispersed (\$729,113 of outstanding employee contributions and \$7,191,117 of outstanding DROP account balances).

Market value of assets was \$188,041,031.

REVENUES AND EXPENDITURES

	Pension	Reserve for Inflation Equity	Health	Totals
Actuarial Value 6/30/2015	\$ 195,940,267	\$ 2,115,290	\$ 0	\$ 198,055,557
Revenues				
Employee Contributions	444,861	0	0	444,861
Employer Contributions	5,664,576	0	0	5,664,576
Income (net of investment expenses)	10,159,960	154,524	0	10,314,484
Total Revenues	<u>\$ 16,269,397</u>	<u>\$ 154,524</u>	<u>\$ 0</u>	<u>\$ 16,423,921</u>
Expenditures				
Benefit Payments	16,205,032	242,853	0	16,447,885
Refund of Member Contributions	(71,673)	0	0	(71,673)
Health Insurance Premiums	0	0	0	0
Expenses Paid from System	431,274	0	0	431,274
Total Expenditures	<u>\$ 16,564,633</u>	<u>\$ 242,853</u>	<u>\$ 0</u>	<u>\$ 16,807,486</u>
Actuarial Value 6/30/2016	\$ 195,645,031	\$ 2,026,961	\$ 0	\$ 197,671,992
Nominal Rate of Return*	5.33%	7.75%		5.35%

* 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, 2016**

	<u>Active Members</u>	<u>Retired Members</u>
Total	207	329
Valuation Payroll/ Pension Benefits	\$18,741,427	\$13,519,670
Health Insurance Premiums Being Paid By Retirement System	N/A	\$ 0
Average Age	43.6	66.3
Years of Service	15.6	N/A
Average Pay/Benefit	\$ 90,538	\$ 41,093

SUMMARY OF ACTUARIAL METHODS AND ASSUMPTIONS

Valuation Date:	June 30, 2016
Actuarial Cost Method:	Individual Entry-Age
Amortization Method:	Level percent-of-payroll
Amortization Period:	30 years
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	7.50%
Projected salary increases*	3.25% - 8.25%
* Includes wage inflation at	4.25%
Cost-of-living adjustments	None

Membership of the plan consisted of the following at June 30, 2016, the date of the latest actuarial valuation:

Retirees and beneficiaries receiving benefits	329
Terminated plan members entitled to but not yet receiving benefits	2
Active plan members	<u>207</u>
Total members	538