

CITY OF SOUTHFIELD FIRE & POLICE RETIREMENT SYSTEM

2018 SUMMARY ANNUAL REPORT (as of June 30, 2017)

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

2018 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 percentages 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 Director.

Actuarial valuations are conducted by Gabriel, Roeder, Smith & Company, an independent firm of consultants and actuaries. Results of the June 30, 2017 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)	35.40
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)	37.45
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, 2017 - June 30, 2018. Notwithstanding any changes in these rates, the percentages stated will be reported to the actuaries for the June 30, 2018 valuation.

²The City contribution rate for the "**Current Fiscal Year**" will be used during the fiscal year beginning July 1, 2018. 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 Director 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), 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, 2017 were:

- City of Southfield Fire and Police Retirement Board
- AndCo Consulting
- Avignon Holdings
- 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
- Tortoise Credit (Bradford & Marzec)
- 1607 Capital Partners

As reported in the actuarial valuation for the annual period ended June 30, 2017, excluding reserves for inflation equity, the Retirement System's valuation assets were \$199,673,985 and its actuarial accrued liabilities were \$256,052,447, which produced a funded ratio of 78.0 %.

For the annual period ended June 30, 2017, the Retirement System's expenses were \$155,064. Benefit payments were \$17,546,473 and member refunds were \$32,735. 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, 2017. Detailed information on the Retirement System's funding is contained in the Annual Actuarial Valuation as of June 30, 2017. For further information regarding the Retirement System's administration and policies, please contact the Retirement Program Director at (248)796-5220.

BUDGET

City of Southfield Fire & Police Retirement System Annual Budget: July 1, 2017 to June 30, 2018

Service/Provider	2016 - 2017 Budget	2016 - 2017 Actual	2017 - 2018 Budget
Investment Consultant	114,000	105,809	102,000
Custodian	41,000	40,639	41,000
Legal Counsel	35,000	10,260	35,000
Actuary	25,150	25,150	25,450
Property Consultant	12,000	10,108	15,000
Real Estate Expenses	94,200	71,562	60,000
Pension Management Software Expenses	5,000	0	5,000
Education/Training/Travel	25,000	17,522	25,000
Fiduciary Insurance	21,000	0	21,000
Medical Director	0	0	0
Miscellaneous Expenses	500	639	1,000
Pension Management System Maintenance Fee	2,000	0	2,000
Membership Dues	1,200	1,345	1,500
Administrator	60,000	60,000	75,000
TOTAL	436,050	343,035	408,950

INVESTMENT PERFORMANCE

	Total Fund Return	Net of Fees
1 Year	11.53%	10.99%
2 Year	6.81%	6.10%
3 Year	5.15%	4.40%
5 Year	8.66%	
7 Year	8.85%	
10 Year	5.24%	

**RETIRANTS AND BENEFICIARIES AS OF JUNE 30, 2017
TABULATED BY TYPE OF BENEFIT BEING PAID**

Pension Benefits		
Type of Benefit	No.	Annual Amount
Age and Service Pensions		
Regular Pension - terminating at death	72	\$ 2,341,261
- auto. 60% to spouse	214	10,666,579
Option I - 100% Joint and Survivor	7	205,384
Option II - 50% Joint and Survivor	2	58,507
Survivor Beneficiary	<u>44</u>	<u>1,097,683</u>
Age and Service Totals	339	\$ 14,369,414
Casualty Pensions		
Duty Disability	8	178,983
Non-Duty Disability	2	12,512
Non-Duty Death-Survivor Benefit	<u>1</u>	<u>33,044</u>
Casualty Totals	11	\$ 224,539
Total Pensions	350	\$ 14,593,953

RETIREEES AND BENEFICIARIES AS OF JUNE 30, 2017
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	2	\$ 46,585			2	\$ 46,585
45 - 49	23	1,136,838			23	1,136,838
50 - 54	35	1,478,242	1	\$ 7,528	36	1,485,770
55 - 59	38	1,939,639	3	72,908	41	2,012,547
60 - 64	59	2,958,805	1	26,916	60	2,985,721
65 - 69	49	1,930,105	1	4,984	50	1,935,089
70 - 74	67	2,535,717	2	46,351	69	2,582,068
75 - 79	39	1,367,538	2	55,272	41	1,422,810
80 - 84	15	563,571	1	10,580	16	574,151
85 - 89	9	320,814			9	320,814
90 - 94	3	91,560			3	91,560
Totals	339	\$ 14,369,414	11	\$ 224,539	350	\$14,593,953

Average Age at Retirement: 51.2 years

Average Age Now: 66.1 years

**ACTIVE MEMBERS AS OF JUNE 30, 2017
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	10							10	\$ 493,406
25-29	13	2						15	899,672
30-34	6	5	6					17	1,344,209
35-39	5	3	20	1				29	2,555,203
40-44	1	4	13	14	4			36	3,322,246
45-49	1		5	12	12	3		33	3,391,288
50-54			1	8	22	7		38	4,157,340
55-59					16	1		17	1,654,509
60					1			1	80,288
61		1				1		2	183,846
64					1			1	122,750
Totals	36	15	45	35	56	12	0	199	\$ 18,204,757

*Reported pays were adjusted by 26/27 to account for an additional pay period during 2017 Fiscal Year.

ACTUARIAL VALUE OF ASSETS

Actuarial Value of Assets	Reserve for (1)		
US Cash	\$ 7,431,191	Employee's Contributions	\$ 9,271,670
US Fixed Income	41,692,820	Employers Contribution	24,532,597
US Equity	68,818,596	Retired Benefit Payments	163,433,450
International Equity	33,759,727	Funding Value Adjustment	4,346,534
Hedge Fund	23,064,793	Actuarial Value of Assets	\$ 201,584,251
US Private Real Estate	22,723,472	Funding Value of Pension Assets (2)	\$ 199,673,985
Accounts Payable/Receivable*	(252,882)	Funding Value of Health Assets (3)	-
Funding Value Adjustment	4,346,534	Reserve for Inflation Equity	1,910,266
Actuarial Value of Assets	\$201,584,251	Actuarial Value of Assets	\$ 201,584,251

* Includes an adjustment of \$75,934 to match the reported total market value of \$197,237,717.

(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 \$12,364,019 of retiree account balances to be dispersed (\$866,110 of outstanding employee contributions and \$11,497,909 of outstanding DROP account balances).

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

Market value of assets was \$197,237,717.

REVENUES AND EXPENDITURES

	Pension	Reserve for Inflation Equity	Health	Totals
Actuarial Value 6/30/2016	\$ 195,645,031	\$ 2,026,961	\$ 0	\$ 197,671,992
Revenues				
Employee Contributions	457,293	0	0	457,293
Employer Contributions	6,241,527	0	0	6,241,527
Income (net of investment expenses)	14,739,932	142,309	0	14,882,241
Total Revenues	\$ 21,438,752	\$ 142,309	\$ 0	\$ 21,581,061
Expenditures				
Benefit Payments	17,287,469	259,004	0	17,546,473
Refund of Member Contributions	(32,735)	0	0	(32,735)
Health Insurance Premiums	0	0	0	0
Expenses Paid from System	155,064	0	0	155,064
Total Expenditures	\$ 17,409,798	\$ 259,004	\$ 0	\$ 17,668,802
Actuarial Value 6/30/2017	\$ 199,673,985	\$ 1,910,266	\$ 0	\$ 201,584,251
Nominal Rate of Return*	7.75%	7.50%		7.74%

* 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, 2017**

	<u>Active Members</u>	<u>Retired Members</u>
Total	199	350
Valuation Payroll/ Pension Benefits	\$18,204,757	\$14,593,953
Health Insurance Premiums Being Paid By Retirement System	N/A	\$ 0
Average Age	42.6	66.1
Years of Service	14.6	N/A
Average Pay/Benefit	\$ 91,481	\$ 41,697

SUMMARY OF ACTUARIAL METHODS AND ASSUMPTIONS

Valuation Date:	June 30, 2017
Actuarial Cost Method:	Individual Entry-Age
Amortization Method:	Level percent-of-payroll
Amortization Period:	29 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, 2017, the date of the latest actuarial valuation:

Retirees and beneficiaries receiving benefits	350
Terminated plan members entitled to but not yet receiving benefits	2
Active plan members	<u>199</u>
Total members	551