

**CITY OF SOUTHFIELD EMPLOYEES RETIREMENT SYSTEM**  
FIFTIETH ACTUARIAL VALUATION REPORT  
AS OF JUNE 30, 2015

# CONTENTS

| <u>Section</u> | <u>Page</u> |   |
|----------------|-------------|---|
|                | 1           | <i>Introduction</i>                                       |
| <b>A</b>       |             | <i>Valuation Results</i>                                  |
|                | 1           | Funding Objective and Contribution Rates                  |
|                | 2           | Computed Contributions                                    |
|                | 3           | Valuation Assets and Unfunded Actuarial Accrued Liability |
|                | 4           | Derivation of Experience Gain (Loss)                      |
|                | 5           | Summary Statement of Resources and Obligations            |
|                | 6-9         | Comparative Statements                                    |
|                | 10-12       | Comments and Observations                                 |
| <b>B</b>       |             | <i>Summary of Benefit Provisions and Valuation Data</i>   |
|                | 1-6         | Summary of Benefit Provisions                             |
|                | 7-8         | Retired Life Data   |
|                | 9           | Inactive Vested Members                                   |
|                | 10-13       | Active Member Data  |
|                | 14-15       | Asset Information   |
| <b>C</b>       |             | <i>Summary of Valuation Methods and Assumptions</i>       |
|                | 1           | Actuarial Cost Method                                     |
|                | 2-6         | Actuarial Assumptions                                     |
|                | 7           | Miscellaneous and Technical Assumptions                   |
| <b>D</b>       |             | <i>Operation of the Retirement System</i>                 |
|                | 1-2         | Financial Objective                                       |
|                | 3           | Financing Diagram   |
|                | 4           | Flow of Money   |
|                | 5-6         | Glossary  |
| Appendix 1     |             | Actuarial Funding Policy                                  |
| Appendix 2     |             | Risk Measures   |

November 24, 2015

Board of Trustees  
City of Southfield Employees Retirement System  
Southfield, Michigan

Dear Trustees:

The results of the June 30, 2015 Annual Actuarial Valuation of the City of Southfield Employees Retirement System are presented in this report.

The purpose of the valuation is to measure the System's funding progress and to determine the employer contribution rate for the fiscal year ending June 30, 2017. A separate report will be issued to provide actuarial information for GASB Statements No. 67 and No. 68.

This report was prepared at the request of the Board and is intended for use by the Retirement System and those designated or approved by the Board. This report may be provided to parties other than the System only in its entirety and only with the permission of the Board. The report should not be relied upon for any purpose other than those described above.

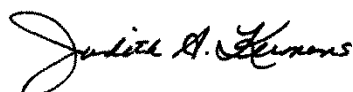
The valuation was based upon information furnished by the City, concerning Retirement System benefits, financial transactions, plan provisions and active members, terminated members, retirees and beneficiaries. We checked for internal and year-to-year consistency, but did not otherwise audit the data. We are not responsible for the accuracy or completeness of the information provided by the City.

Future actuarial measurements may differ significantly from the current measurements presented in this report due to such factors as the following: plan experience differing from that anticipated by the economic or demographic assumptions; changes in economic or demographic assumptions; increases or decreases expected as part of the natural operation of the methodology used for these measurements (such as the end of an amortization period or additional cost or contribution requirements based on the plan's funded status); and changes in plan provisions or applicable law. Due to the limited scope of the actuary's assignment, the actuary did not perform an analysis of the potential range of such future measurements.

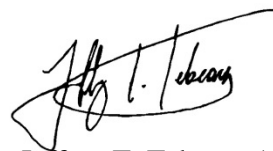
Judith A. Kermans and Jeffrey T. Tebeau are Members of the American Academy of Actuaries (MAAA) and meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion contained herein. The signing actuaries are independent of the plan sponsor.

This report has been prepared by actuaries who have substantial experience valuing public employee retirement systems. To the best of our knowledge, the information contained in this report is accurate and fairly presents the actuarial position of the City of Southfield Employees Retirement System as of the valuation date. All calculations have been made in conformity with generally accepted actuarial principles and practices, with the Actuarial Standards of Practice issued by the Actuarial Standards Board and with applicable statutes.

Respectfully submitted,



Judith A. Kermans, EA, FCA, MAAA



Jeffrey T. Tebeau, ASA, MAAA

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460

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**SECTION A**  
VALUATION RESULTS

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## FUNDING OBJECTIVE

**The funding objective of the Retirement System is to establish and receive contributions which, expressed as percents of active member payroll, will remain approximately level from year-to-year and will accumulate sufficient assets over each member's working lifetime to finance promised benefits throughout retirement.**

## CONTRIBUTION RATES

The Retirement System is supported by member contributions, City contributions and investment income from Retirement System assets.

Contributions which satisfy the funding objective are determined by the annual actuarial valuation and are sufficient to:

- Cover the actuarial present value of benefits allocated to the current year by the actuarial cost method described in Section C (the normal cost); and
- Finance over a period of future years the actuarial present value of benefits not covered by valuation assets and anticipated future normal costs (unfunded actuarial accrued liability).

***The computed City contribution rate*** for the 2016/2017 fiscal year is 19.23% of covered payroll. The details of this contribution rate are shown on page A-5.

The City contribution rate of 19.23% is sufficient to finance the employer normal cost and to amortize the unfunded actuarial accrued liability (full funding credit) as a level percent-of-payroll over a period of 25 years.

The Board of Trustees of the City of Southfield Employees Retirement System confirms that the System provides for payment of the required employer contribution as described in Section 20m of Michigan Public Act No. 728.

## CONTRIBUTIONS TO PROVIDE BENEFITS FOR THE 2016/2017 FISCAL YEAR

| Contributions for  | Contributions Expressed as<br>% of Active Member Payroll |             |                           |                               |             |              |
|--|--|-------------|---------------------------|-------------------------------|-------------|--------------|
|  | Union  | PSS         | Public<br>Safety<br>Tech. | Total<br>Without<br>Non Union | Non Union   | Total        |
| <b>Pension</b>   |  |             |                           |                               |             |              |
| <i>Normal cost</i>   |  |             |                           |                               |             |              |
| Age & service  | 7.84 %   | 6.56 %      | 7.50 %                    | 7.79 %                        | 7.57 %      | 7.73 %       |
| Disability   | 0.46   | 0.49        | 0.49                      | 0.46                          | 0.48        | 0.47         |
| Death-before-retirement                                      | 0.23   | 0.21        | 0.19                      | 0.23                          | 0.20        | 0.22         |
| Refunds of member contributions                              | 0.66   | 0.54        | 0.59                      | 0.65                          | 0.61        | 0.64         |
| Total  | <u>9.19</u>  | <u>7.80</u> | <u>8.77</u>               | <u>9.13</u>                   | <u>8.86</u> | <u>9.06</u>  |
| Member contributions (average)                               | 5.12   | 5.00        | 5.00                      | 5.11                          | 5.00        | 5.08         |
| Employer normal cost   | 4.07   | 2.80        | 3.77                      | 4.02                          | 3.86        | 3.98         |
| <i>Full funding credit</i> <sup>(1)</sup>                    |  |             |                           |                               |             | 0.00         |
| <i>Unfunded actuarial accrued liabilities</i> <sup>(1)</sup> |  |             |                           |                               |             | <u>15.25</u> |
| <b>Employer Pension Total</b>                                |  |             |                           |                               |             | 19.23 %      |

<sup>(1)</sup> Amortized as a level percent-of-payroll over a period of 25 years. Includes the effects of the lag between the valuation date and the contribution period.

### DETERMINING EMPLOYER DOLLAR CONTRIBUTIONS

For any period of time, the percent-of-payroll contribution rate needs to be converted to dollars and then contributed to the Retirement System in a timely manner.

The recommended and current procedure is: (1) *at the end of each payroll period, multiply the active member payroll for the period by the employer contribution percent*; and (2) *contribute the dollar amount so determined*.

The projected employer dollar contribution based on the payroll information provided for the valuation, adjusted to reflect assumed payroll increases between the valuation date and the fiscal year for which the contributions are being determined, is \$2,761,863.

**VALUATION ASSETS AND UNFUNDED ACTUARIAL ACCRUED LIABILITY  
JUNE 30, 2015**

*In financing the actuarial accrued liabilities*, the valuation assets of \$109,735,931 were distributed as follows:

| <b>Reserves for</b>      | <b>Present Assets Applied to</b>                                |                                     |                                | <b>Total</b>  |
|--------------------------|---|-------------------------------------|--------------------------------|---------------|
|                          | <b>Active &amp; Inactive<br/>Member Accrued<br/>Liabilities</b> | <b>Retired Life<br/>Liabilities</b> | <b>Contingency<br/>Reserve</b> |               |
| Employees' Contributions | \$ 4,592,900  |                                     |                                | \$ 4,592,900  |
| Employer Contributions   | 17,688,720  |                                     |                                | 17,688,720    |
| Retired Benefit Payments |   | \$87,454,311                        |                                | 87,454,311    |
| Pension Total            | \$22,281,620  | \$87,454,311                        | none                           | \$109,735,931 |

Assets were applied against actuarial accrued liabilities in determining unfunded actuarial accrued liabilities as follows:

|   | <b>Active and</b>     |                         | <b>Total</b>         |
|---|-----------------------|-------------------------|----------------------|
|   | <b>Retired Lives*</b> | <b>Inactive Members</b> |                      |
| Computed Actuarial<br>Accrued Liabilities         | \$87,454,311          | \$53,136,383            | \$140,590,694        |
| Applied Assets                                    | 87,454,311            | 22,281,620              | 109,735,931          |
| <b>Unfunded Actuarial<br/>Accrued Liabilities</b> | <b>\$ none</b>        | <b>\$30,854,763</b>     | <b>\$ 30,854,763</b> |

\* Represents actuarial accrued liability for all benefits for retirees who retired after 7/1/82 and ad-hoc COLA for retirees who retired prior to 7/1/82. Base retirement benefits for the "pre-82" retirees were funded through annuity purchases.

**DERIVATION OF EXPERIENCE GAIN (LOSS)  
YEAR ENDED JUNE 30, 2015**

Actual experience will never (except by coincidence) coincide exactly with assumed experience. Gains and losses often cancel each other over a period of years, but sizable year-to-year fluctuations are common. Detail on the derivation of the experience gain (loss) is shown below, along with a year by year comparative schedule.

|   |               |
|---|---------------|
| (1) UAAL* at start of year  | \$ 36,952,575 |
| (2) Total normal cost from last valuation (employer + member)   | 1,222,748     |
| (3) Actual contributions (employer + member)  | 3,945,011     |
| (4) Interest accrual: [(1) + 1/2 [(2) - (3)]] x 8%  | 2,847,315     |
| (5) Expected UAAL before changes: (1) + (2) - (3) + (4)   | 37,077,627    |
| (6) Change from revised assumptions/methods   | 0             |
| (7) Change from revised plan provisions   | 0             |
| (8) Expected UAAL after changes: (5) + (6) + (7)  | 37,077,627    |
| (9) Actual UAAL at end of year  | 30,854,763    |
| (10) Gain (loss): (8) - (9)   | 6,222,864     |
| (11) Gain (loss) as percent of actuarial accrued liabilities at start of year (\$139,291,088 pension) | 4.5%          |

\* *Unfunded actuarial accrued liabilities (full funding credit if in brackets).*

| <b>Valuation<br/>Date<br/>June 30</b> | <b>Experience Gain (Loss)<br/>as % of Beginning<br/>Accrued Liability</b> |
|---------------------------------------|---|
|                                       | <b>Pension</b>  |
| 2006                                  | (4.78) %  |
| 2007                                  | (0.48)  |
| 2008                                  | (1.24)  |
| 2009                                  | (3.02)  |
| 2010                                  | (5.22)  |
| 2011                                  | (0.46)  |
| 2012                                  | (4.87)  |
| 2013                                  | 1.01  |
| 2014                                  | 5.68  |
| 2015                                  | 4.47  |



**SUMMARY STATEMENT OF SYSTEM RESOURCES AND OBLIGATIONS  
JUNE 30, 2015**

*Present Resources and Expected Future Resources*

|  | <b>June 30, 2015</b> | <b>June 30, 2014</b> |
|--|----------------------|----------------------|
| A. Actuarial value of System assets:                         |                      |                      |
| 1. Net assets from System financial statement                | \$115,094,332        | \$ 118,028,927       |
| 2. Market value adjustment                                   | (5,358,401)          | (15,690,414)         |
| 3. Actual valuation assets                                   | 109,735,931          | 102,338,513          |
| <br>B. Present value of expected future contributions:       |                      |                      |
| 1. For normal costs  | 3,827,659            | 3,886,182            |
| 2. For unfunded actuarial accrued liabilities                | 30,854,763           | 36,952,575           |
| 3. Totals  | 34,682,422           | 40,838,757           |
| <br>C. Present value of expected future member contributions | 4,884,095            | 4,887,744            |
| <br><b>D. Total Present and Expected Future Resources</b>    | <b>\$149,302,448</b> | <b>\$148,065,014</b> |

*Actuarial Present Value of Expected Future Benefit Payments*

|   |                      |                      |
|---|----------------------|----------------------|
| A. To retirees and beneficiaries  | \$ 87,454,311        | \$ 84,658,985        |
| B. To vested terminated members   | 2,909,704            | 2,730,003            |
| C. To present active members:   |                      |                      |
| 1. Allocated to service rendered prior to valuation date                | 50,226,679           | 51,902,100           |
| 2. Allocated to service likely to be rendered after valuation date      | 8,711,754            | 8,773,926            |
| 3. Totals   | 58,938,433           | 60,676,026           |
| <br><b>D. Total Actuarial Present Value of Expected Future Payments</b> | <b>\$149,302,448</b> | <b>\$148,065,014</b> |

## COMPUTED EMPLOYER CONTRIBUTIONS COMPARATIVE STATEMENT

| Valuation<br>Date<br>June 30 | Active Members |                     |                   |          |       | Retirees & Beneficiaries |                 |             |        | Annual Contributions<br>as Payroll Percents |         |       |
|------------------------------|----------------|---------------------|-------------------|----------|-------|--------------------------|-----------------|-------------|--------|---|---------|-------|
|                              | No.            | Ratio to<br>Retired | Valuation Payroll |          | %     | No.                      | Annual Benefits |             | Member | Employer                                    |         | Total |
|                              |                |                     | \$ Millions       | Average  |       |                          | Incr.           | \$ Millions |        | % of<br>Payroll                             | Pension |       |
| 1995*                        | 370            | 3.1                 | \$ 13.10          | \$35,304 | 2.7%  | 119                      | \$ 0.99         | 7.6%        | 0.97%  | 5.40%                                       | 1.54%   | 7.91% |
| 1996#                        | 369            | 2.8                 | 13.30             | 36,069   | 2.2   | 130                      | 1.13            | 8.5         | 1.01   | 3.05  | 1.39    | 5.45  |
| 1997                         | 401            | 3.0                 | 14.50             | 36,240   | 0.5   | 135                      | 1.18            | 8.1         | 1.02   | 0.98  | 1.30    | 3.30  |
| 1998#                        | 399            | 2.8                 | 15.10             | 37,895   | 4.6   | 136                      | 1.17            | 7.8         | 1.03   | 0.00  | 1.10    | 2.13  |
| 1999*                        | 381            | 2.6                 | 15.10             | 39,753   | 4.9   | 142                      | 1.37            | 9.1         | 1.01   | 0.00  | 0.70    | 1.71  |
| 2000                         | 412            | 2.7                 | 16.80             | 40,675   | 2.3   | 150                      | 1.81            | 10.8        | 0.84   | 0.00  | 0.56    | 1.40  |
| 2001                         | 433            | 2.7                 | 18.10             | 41,910   | 3.0   | 158                      | 1.95            | 10.8        | 0.84   | 0.00  | 0.54    | 1.38  |
| 2002*                        | 446            | 2.6                 | 19.30             | 43,342   | 3.4   | 171                      | 2.35            | 12.2        | 0.02   | 1.31  | **      | 1.33  |
| 2003#*                       | 454            | 2.6                 | 20.30             | 44,774   | 3.3   | 173                      | 2.58            | 12.7        | 0.02   | 6.78  | **      | 6.80  |
| 2004*                        | 464            | 2.5                 | 21.40             | 46,086   | 2.9   | 183                      | 3.03            | 14.2        | 0.00   | 13.03                                       | **      | 13.03 |
| 2005*                        | 428            | 2.0                 | 19.90             | 46,495   | 0.9   | 209                      | 4.00            | 20.1        | 0.00   | 14.56                                       | **      | 14.56 |
| 2006*#                       | 421            | 1.9                 | 19.90             | 47,255   | 1.6   | 220                      | 4.56            | 22.9        | 2.83   | 13.41                                       | **      | 16.24 |
| 2007@                        | 390            | 1.7                 | 19.60             | 50,226   | 6.3   | 232                      | 5.25            | 26.8        | 2.84   | 14.04                                       | **      | 16.88 |
| 2008^                        | 376            | 1.5                 | 19.20             | 51,055   | 1.7   | 248                      | 5.75            | 30.0        | 3.02   | 14.08                                       | **      | 17.10 |
| 2009*                        | 363            | 1.4                 | 18.70             | 51,643   | 1.2   | 259                      | 6.16            | 32.8        | 3.08   | 15.76                                       | **      | 18.84 |
| 2010#                        | 341            | 1.2                 | 17.80             | 52,217   | 1.1   | 279                      | 6.96            | 39.1        | 3.08   | 17.49                                       | **      | 20.57 |
| 2011#*                       | 325            | 1.1                 | 16.83             | 51,783   | (0.8) | 290                      | 7.61            | 45.2        | 4.96   | 16.98                                       | **      | 21.94 |
| 2012                         | 297            | 1.0                 | 15.35             | 51,690   | (0.2) | 310                      | 8.50            | 55.3        | 4.95   | 21.40                                       | **      | 26.35 |
| 2013*                        | 272            | 0.9                 | 14.05             | 51,670   | 0.0   | 312                      | 8.89            | 63.2        | 4.98   | 23.39                                       | **      | 28.37 |
| 2014*                        | 262            | 0.8                 | 13.46             | 51,357   | (0.6) | 317                      | 9.21            | 68.4        | 5.08   | 21.20                                       | **      | 26.28 |
| 2015                         | 266            | 0.8                 | 13.41             | 50,403   | (1.9) | 326                      | 9.58            | 71.4        | 5.08   | 19.23                                       | **      | 24.31 |

\* Retirement System amended in 1995, 1999, 2002, 2003, 2004, 2005, 2006, 2009, 2011, 2012, 2013, and 2014.

# Revised actuarial assumptions/methods in 1996, 1998, 2003, 2006, 2010, and 2011.

\*\* Health contributions now part of the actuarial valuation of the VEBA.

@ Union member valuation pay includes retroactive pay increases.

^ Reflects blended contribution rate due to mid-year benefit change.

**ACTUARIAL ACCRUED LIABILITIES AND VALUATION ASSETS  
COMPARATIVE STATEMENT  
(EXCLUDING HEALTH INSURANCE)**

| Valuation<br>Date<br>June 30 | Actuarial<br>Accrued<br>Liability<br>(AAL) | Valuation<br>Assets | Unfunded<br>Actuarial<br>Accrued<br>Liability(UAAL) | Ratio of<br>Present<br>Assets<br>to AAL | Ratio of<br>UAAL to<br>Valuation<br>Payroll |
|------------------------------|--|---------------------|---|---|---|
| 1995*                        | \$ 33,438,557                              | \$ 42,264,824       | \$ (8,826,267)                                      | 126.4%                                  | -   |
| 1996#                        | 36,050,638                                 | 47,783,717          | (11,733,079)  | 132.5                                   | -   |
| 1997                         | 38,802,443                                 | 55,364,751          | (16,562,308)  | 142.7                                   | -   |
| 1998#                        | 38,965,113                                 | 65,858,898          | (26,893,785)  | 169.0                                   | -   |
| 1999*                        | 51,591,096                                 | 76,331,784          | (24,740,688)  | 147.9                                   | -   |
| 2000                         | 57,336,233                                 | 84,841,744          | (27,505,511)  | 148.0                                   | -   |
| 2001                         | 62,544,823                                 | 90,496,433          | (27,951,610)  | 144.7                                   | -   |
| 2002*                        | 69,974,666                                 | 90,612,387          | (20,637,721)  | 129.5                                   | -   |
| 2003#*                       | 80,951,012                                 | 90,504,421          | (9,553,409)   | 111.8                                   | -   |
| 2004*                        | 96,624,389                                 | 91,135,221          | 5,489,168   | 94.3                                    | 25.7%                                       |
| 2005*                        | 102,530,307                                | 91,997,445          | 10,532,862  | 89.7                                    | 52.9  |
| 2006*#                       | 115,954,378                                | 91,650,440          | 24,303,938  | 79.0                                    | 122.2                                       |
| 2007                         | 121,719,792                                | 96,080,024          | 25,639,768  | 78.9                                    | 130.9                                       |
| 2008                         | 127,770,829                                | 99,525,002          | 28,245,827  | 77.9                                    | 147.1                                       |
| 2009*                        | 127,271,637                                | 97,988,621          | 29,283,016  | 77.0                                    | 156.2                                       |
| 2010#                        | 132,949,733                                | 96,159,875          | 36,789,858  | 72.3                                    | 206.6                                       |
| 2011#*                       | 133,961,485                                | 97,303,073          | 36,658,412  | 72.6                                    | 217.8                                       |
| 2012                         | 137,687,797                                | 93,600,010          | 44,087,787  | 68.0                                    | 287.2                                       |
| 2013*                        | 138,382,805                                | 94,231,591          | 44,151,214  | 68.1                                    | 314.1                                       |
| 2014*                        | 139,291,088                                | 102,338,513         | 36,952,575  | 73.5                                    | 274.6                                       |
| 2015                         | 140,590,694                                | 109,735,931         | 30,854,763  | 78.1                                    | 230.1                                       |

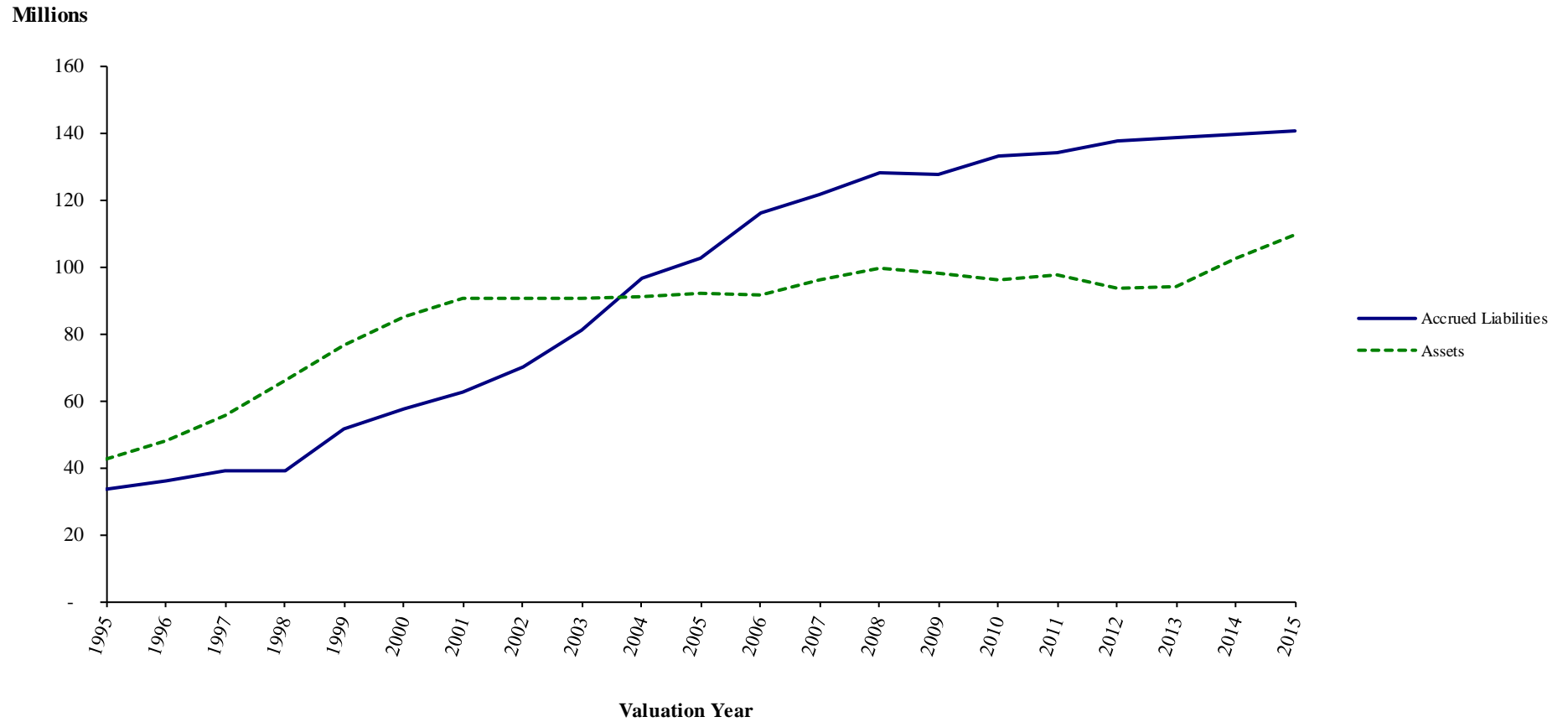
\* Retirement System amended.

# Revised actuarial assumptions and methods.

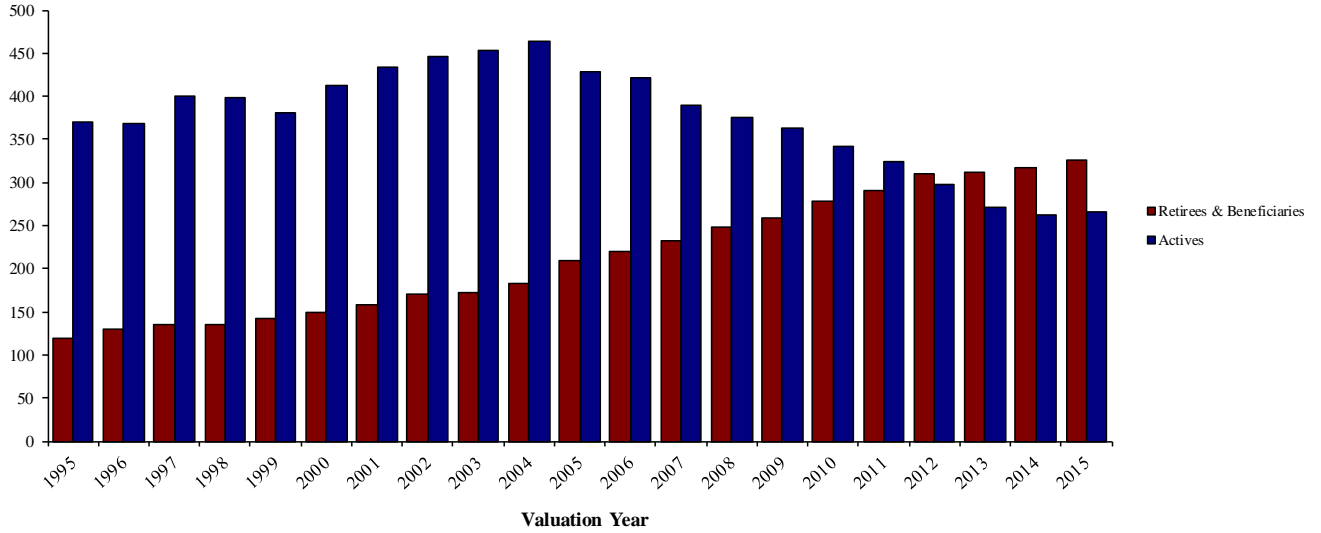
**The Ratio of Valuation Assets to AAL** is a traditional measure of a System's funding progress. Except in years when the System is amended or actuarial assumptions are revised, this ratio can be expected to gradually trend toward 100% if actuarial assumptions are met.

**The Ratio of UAAL to Valuation Payroll** is another relative index of condition. Unfunded actuarial accrued liabilities represent debt, while active member payroll represents the System's capacity to collect contributions to pay toward debt. The lower the ratio, the greater the financial strength, or vice-versa.

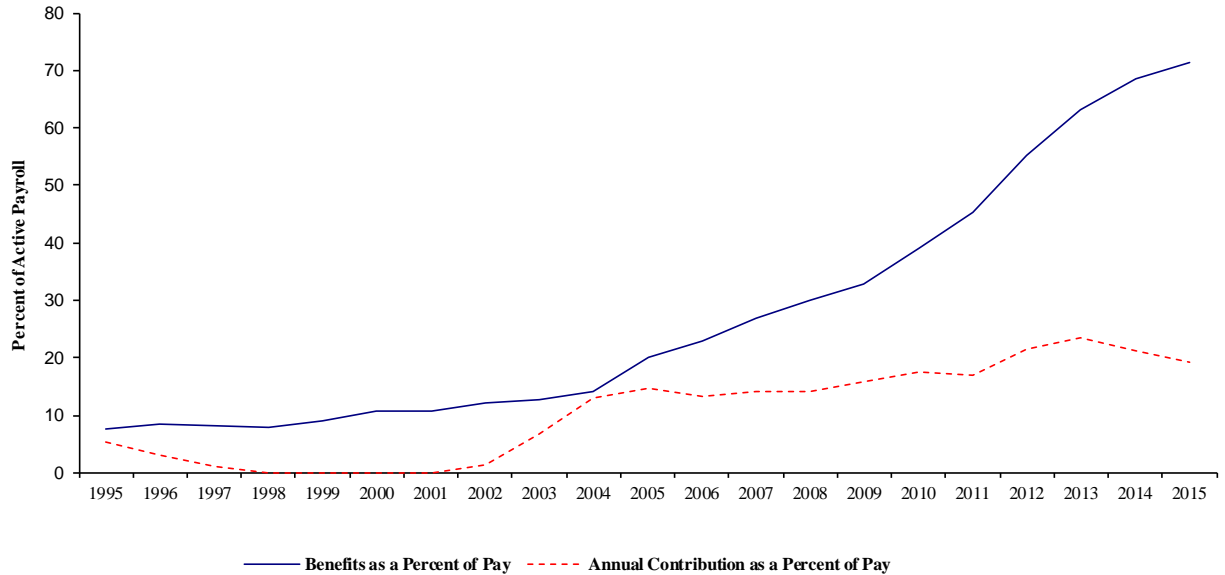
## ASSETS AND ACCRUED LIABILITIES (EXCLUDING HEALTH INSURANCE)



## Active and Retired Members



## Benefits and Employer Contributions as a Percent-of-Payroll



## COMMENTS

### SYSTEM EXPERIENCE

As of June 30, 2015, the funded ratio of the Retirement System is 78.1% based on the funding value of assets, which is higher than last year at 73.5%. The funded ratio is 81.9% based on the market value of assets.

Overall, fund experience was more favorable than assumed during the year ending June 30, 2015, producing an experience gain of approximately \$6.2 million. This gain is attributable to higher than assumed investment returns on the funding value of assets (from the recognition of past asset gains), and lower than assumed active member pay increases.

The market rate of return was 2.28% this year, which was significantly lower than the assumed rate of 8.0%. The valuation process employs a smoothing mechanism which recognizes investment gains and losses over a 5-year period. Essentially, 20% of this year's loss is recognized in this year's funding value of assets. The recognized portion of gains and losses from the prior 4 years was then combined with the recognized portion of the loss from this year (see page A-3) resulting in a rate of return on the System's funding value of assets of 13.02%. Recognition of investment gains and losses from current and prior years should put downward pressure on contribution rates in the next few years absent future investment losses. Actual investment performance during these years will contribute to the recognition of investment gains and losses over the next few years as well.

Annual pay for the year ending June 30, 2015 provided for valuation purposes by the City was adjusted to remove one-time lump sum payouts for 14 active members and to annualize pay for those members on leave. The lump sum amounts and the annualized pay for members on leave were provided by the City.

### SYSTEM CHANGES

None.

### ASSUMPTION/METHOD CHANGES

The payment for the Unfunded Actuarial Accrued Liabilities now includes an additional component that accounts for the effects of the lag between the valuation date and when the contribution is made. This calculation assumes the contributions that would be received in fiscal year 2016 are equal to the contributions (as a percent of payroll) developed in the valuation as of June 30, 2014.

## COMMENTS (CONCLUDED)

### LOOKING AHEAD

The System is due for an Experience Study for the period July 1, 2010 – June 30, 2015 based on a 5-year schedule. The actuarial assumptions and methods will be analyzed with respect to the System's experience and future expectations. It is likely that the results of the Experience Study will lead to a recommendation to update the mortality tables and lower the assumed rate of investment return and wage increase assumptions, the net impact of which will likely increase the contributions needed going forward compared with the current assumptions. At that time, we would also want to consider changing the actuarial funding method to a blended Normal Cost method and consider shortening the amortization period to help strengthen the funded percent of the System. We would also want to review the assumptions used for optional forms of payment at retirement, and any other miscellaneous and technical assumptions.

Please let us know if we can proceed with the Experience Study.

## **OTHER OBSERVATIONS**

### **FUNDING POLICY AND FUTURE EXPECTED SYSTEM CONTRIBUTIONS AND FUNDED STATUS**

Given the System's funding policy, if all actuarial assumptions are met (including the assumption of the System earning 8.0% on the funding value of assets), it is expected that:

- (1) The employer normal cost as a percentage of pay will remain level,
- (2) The unfunded actuarial accrued liabilities will be fully amortized after 25 years (June 30, 2041), and
- (3) The funded status of the plan will increase gradually towards a 100% funded ratio.

### **LIMITATIONS OF FUNDED STATUS MEASUREMENTS**

Unless otherwise indicated, a funded status measurement presented in this report is based upon the actuarial accrued liability and the actuarial value of assets. Unless otherwise indicated, with regard to any funded status measurements presented in this report:

- (1) The measurement is inappropriate for assessing the sufficiency of System assets to cover the estimated cost of settling the System's benefit obligations, for example: transferring the liability to an unrelated third party in a market value type transaction.
- (2) The measurement is dependent upon the actuarial cost method which, in combination with the System's amortization policy (funding policy), affects the timing and amounts of future contributions. The amounts of future contributions will most certainly differ from those assumed in this report due to future actual experience differing from assumed experience based upon the actuarial assumptions. The current funded status is 78.1%. Even if the funded status measurement in this report was 100%, it would not be synonymous with no required future contributions. If the funded status were 100%, the System would still require future normal cost contributions (i.e., contributions to cover the cost of the active membership accruing an additional year of service credit).



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## **SECTION B**

### **SUMMARY OF BENEFIT PROVISIONS AND VALUATION DATA**

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**SUMMARY OF BENEFIT PROVISIONS EVALUATED**  
**JUNE 30, 2015**  
**TIER I MEMBERS**

***Regular Retirement (no reduction factor for age)***

***Eligibility*** - Sum of age and service equals 82, or age 65 with 5 or more years of service.

***Annual Amount*** - Total service times 2.5% of FAC.

***Type of Final Average Compensation*** - Highest 3 consecutive years out of last 5.

***Normal Form of Payment*** - Ten-year certain and life.

***Early Retirement (age reduction factor used)***

***Eligibility*** - Age 57 with 20 or more years of service or age 60 with 10 years of service.

***Annual Amount*** - Computed as regular retirement, but reduced 1/2 of 1% for each month by which retirement date precedes attainment of age 62 with 20 or more years of service or age 65 with 10 or more years of service.

***Deferred Retirement (vested benefits)***

***Eligibility*** - 10 or more years of service. Reduced benefit may begin at age 60 with 10 or more years of service. Full benefit eligibility at age 57 with 25 or more years of credited service; or 62 with 20 to 25 years of credited service; or 65 with 10 to 20 years of credited service, or sum of frozen years of credited service plus age equals 82 points.

***Annual Amount*** - Computed as regular retirement but based upon service and final average compensation and benefit levels in place at termination of covered employment.

***Duty Disability***

***Eligibility*** - No service requirement.

***Annual Amount*** - Computed as a regular retirement with additional service credit granted from date of disability to age 60 if under age 60. Worker's Compensation payments are offset.

**SUMMARY OF BENEFIT PROVISIONS EVALUATED**  
**JUNE 30, 2015**  
**TIER I MEMBERS**  
**(CONTINUED)**

***Non-Duty Disability Retirement***

***Eligibility*** - 10 years of service.

***Annual Amount*** - Computed as regular retirement but based upon service and final average compensation at commencement of disability.

***Death-In-Service***

***Eligibility*** - 10 years of service.

***Annual Amount*** - Computed as regular retirement but based upon service and final average compensation on the day before death.

***Member Contributions***

AFSCME: 5.41%, made as a salary reduction under 414(h).

All Others: 5.00%, made as a salary reduction under 414(h).

***Refund of Member Contributions***

***Public Safety Technicians*** - Member receives a refund of account balance as of 6/30/95 (with interest) upon commencement of Normal Retirement, Early Retirement, Disability Retirement, Death-in-Service or Deferred Retirement benefits.

***Others*** - Member receives a refund of account balance as of 6/30/2009 (with interest) upon commencement of Normal Retirement, Early Retirement, Disability Retirement, Death-in-Service or Deferred Retirement benefits. (The recently added member contribution requirements of 5% or 5.41% are excluded from this refund provision.)

**SUMMARY OF BENEFIT PROVISIONS EVALUATED**  
**JUNE 30, 2015**  
**TIER I MEMBERS**  
**(CONCLUDED)**

*Covered Compensation*

Items of compensation recognized for Retirement System purposes include: base salary, longevity pay, pay in lieu of holiday and/or vacation time for the current year, lump sum vacation payoff at retirement up to 400 hours maximum, and residency bonus. Items of compensation not recognized for retirement purposes are overtime pay, expense allowances, and lump sum payments at retirement in consideration of unused sick leave.

*Tier I Members Definition*

Tier I members are defined as:

- PST members hired prior to February 2, 2009;
- PSS members hired prior to March 2, 2009;
- AFSCME 329 members hired prior to April 23, 2007;
- AFSCME 3636 members hired prior to March 6, 2007;
- TPOAM members hired prior to April 9, 2007; and
- All other covered employees hired prior to June 1, 2005.

**SUMMARY OF BENEFIT PROVISIONS EVALUATED**  
**JUNE 30, 2015**  
**TIER II MEMBERS**

***Regular Retirement (no reduction factor for age)***

***Eligibility*** - Age 57 with 25 years of service, age 62 with 20 years of service, or age 65 with 10 or more years of service.

***Annual Amount*** - Total service times 2.0% of FAC. Maximum benefit is 70% of FAC.

***Type of Final Average Compensation*** - Highest 5 consecutive years out of last 10.

***Normal Form of Payment*** - Ten-year certain and life.

***Early Retirement (age reduction factor used)***

***Eligibility*** - Age 57 with 20 or more years of service or age 60 with 10 years of service.

***Annual Amount*** - Computed as regular retirement, but reduced 1/2 of 1% for each month by which retirement date precedes attainment of age 62 with 20 or more years of service or age 65 with 10 or more years of service.

***Deferred Retirement (vested benefits)***

***Eligibility*** - 10 or more years of service. Reduced benefit may begin at age 60 with 10 or more years of service. Full benefit eligibility at age 57 with 25 or more years of credited service; or 62 with 20 to 25 years of credited service; or 65 with 10 to 20 years of credited service.

***Annual Amount*** - Computed as regular retirement but based upon service and final average compensation and benefit levels in place at termination of covered employment.

***Duty Disability***

***Eligibility*** - No service requirement.

***Annual Amount*** - Computed as a regular retirement with additional service credit granted from date of disability to age 60 if under age 60. Worker's Compensation payments are offset.

**SUMMARY OF BENEFIT PROVISIONS EVALUATED**  
**JUNE 30, 2015**  
**TIER II MEMBERS**  
**(CONTINUED)**

***Non-Duty Disability Retirement***

***Eligibility*** - 10 years of service.

***Annual Amount*** - Computed as regular retirement but based upon service and final average compensation at commencement of disability.

***Death-In-Service***

***Eligibility*** - 10 years of service.

***Annual Amount*** - Computed as regular retirement but based upon service and final average compensation on the day before death.

***Member Contributions***

AFSCME: 5.41%, made as a salary reduction under 414(h).

All Others: 5.00%, made as a salary reduction under 414(h).

***Refund of Member Contributions***

None.

***Covered Compensation***

Items of compensation recognized for Retirement System purposes include: base salary, longevity pay, pay in lieu of holiday and/or vacation time for the current year, lump sum vacation payoff at retirement up to 100 hours maximum, and residency bonus. Items of compensation not recognized for retirement purposes are overtime pay, expense allowances, and lump sum payments at retirement in consideration of unused sick leave.

**SUMMARY OF BENEFIT PROVISIONS EVALUATED  
JUNE 30, 2015  
TIER II MEMBERS  
(CONCLUDED)**

***Tier II Members Definition***

Tier II members are defined as:

- PST members hired on or after February 2, 2009;
- PSS members hired on or after March 2, 2009;
- AFSCME 329 members hired on or after April 23, 2007;
- AFSCME 3636 members hired on or after March 6, 2007;
- TPOAM members hired on or after April 9, 2007; and
- All other covered employees hired on or after June 1, 2005.

**RETIREES AND BENEFICIARIES ADDED TO AND REMOVED FROM ROLLS  
COMPARATIVE STATEMENT**

| Year Ended June 30 | Added to Rols |                 | Removed from Rols |                 | Rols End of Year |                 | Average Pension |
|--------------------|---------------|-----------------|-------------------|-----------------|------------------|-----------------|-----------------|
|                    | No.           | Annual Pensions | No.               | Annual Pensions | No.              | Annual Pensions |                 |
| 1995               | 12            | \$ 150,786      |                   |                 | 119              | \$ 990,595      | \$ 8,324        |
| 1996               | 12            | 161,284         | 1                 | \$ 22,994       | 130              | 1,128,885       | 8,684           |
| 1997               | 5             | 49,333          |                   |                 | 135              | 1,178,218       | 8,728           |
| 1998               | 6             | 43,438          | 5                 | 47,638          | 136              | 1,174,018       | 8,632           |
| 1999               | 13            | 244,846         | 7                 | 45,153          | 142              | 1,373,711       | 9,674           |
| 2000               | 13            | 526,417         | 5                 | 31,253          | 150              | 1,805,227       | 12,035          |
| 2001               | 8             | 148,596         |                   |                 | 158              | 1,953,823       | 12,366          |
| 2002               | 20            | 466,138         | 7                 | 70,436          | 171              | 2,349,525       | 13,740          |
| 2003               | 13            | 349,624         | 11                | 121,044         | 173              | 2,578,105       | 14,902          |
| 2004               | 15            | 474,390         | 5                 | 24,631          | 183              | 3,027,864       | 16,546          |
| 2005               | 33            | 1,051,230       | 7                 | 77,869          | 209              | 4,001,225       | 19,145          |
| 2006               | 15            | 627,079         | 4                 | 64,773          | 220              | 4,563,532       | 20,743          |
| 2007               | 21            | 776,448         | 9                 | 93,812          | 232              | 5,246,168       | 22,613          |
| 2008               | 22            | 608,934         | 6                 | 101,357         | 248              | 5,753,745       | 23,201          |
| 2009               | 20            | 540,900         | 9                 | 136,703         | 259              | 6,157,942       | 23,776          |
| 2010               | 22            | 823,801         | 2                 | 21,467          | 279              | 6,960,276       | 24,947          |
| 2011               | 20            | 748,778         | 9                 | 101,215         | 290              | 7,607,839       | 26,234          |
| 2012               | 26            | 956,865         | 6                 | 68,128          | 310              | 8,496,576       | 27,408          |
| 2013               | 20            | 612,810         | 18                | 224,308         | 312              | 8,885,078       | 28,478          |
| 2014               | 13            | 462,366         | 8                 | 140,283         | 317              | 9,207,161       | 29,045          |
| 2015               | 23            | 619,476         | 14                | 249,148         | 326              | 9,577,489       | 29,379          |



**RETIREES AND BENEFICIARIES JUNE 30, 2015**  
**TABULATED BY ATTAINED AGES**

| Attained<br>Ages | Age and Service |                     | Casualty  |                    | Totals     |                     |
|------------------|-----------------|---------------------|-----------|--------------------|------------|---------------------|
|                  | No.             | Annual<br>Pensions  | No.       | Annual<br>Pensions | No.        | Annual<br>Pensions  |
| 40 - 44          |                 |                     | 1         | \$ 21,879          | 1          | \$ 21,879           |
| 50 - 54          | 3               | \$ 117,226          | 1         | 14,142             | 4          | 131,368             |
| 55 - 59          | 24              | 983,349             | 2         | 37,717             | 26         | 1,021,066           |
| 60 - 64          | 54              | 2,176,954           | 4         | 95,447             | 58         | 2,272,401           |
| 65 - 69          | 76              | 2,604,935           | 1         | 12,717             | 77         | 2,617,652           |
| 70 - 74          | 52              | 1,478,051           | 8         | 278,320            | 60         | 1,756,371           |
| 75 - 79          | 32              | 826,067             | 2         | 35,653             | 34         | 861,720             |
| 80 - 84          | 30              | 498,909             | 1         | 7,448              | 31         | 506,357             |
| 85 - 89          | 23              | 286,962             | 1         | 9,853              | 24         | 296,815             |
| 90 - 94          | 7               | 46,653              | 1         | 6,501              | 8          | 53,154              |
| 95 - 99          | 3               | 38,706              |           |                    | 3          | 38,706              |
| <b>Totals</b>    | <b>304</b>      | <b>\$ 9,057,812</b> | <b>22</b> | <b>\$ 519,677</b>  | <b>326</b> | <b>\$ 9,577,489</b> |

Average Age at Retirement: 61.1 years

Average Age Now: 71.4 years

**INACTIVE VESTED MEMBERS JUNE 30, 2015**  
**TABULATED BY ATTAINED AGE**

| <b>Attained<br/>Age</b> | <b>No.</b> | <b>Estimated<br/>Annual<br/>Pensions</b> |
|-------------------------|------------|--|
| 35 - 39                 | 2          | \$ 30,781                                |
| 40 - 44                 | 6          | 114,084                                  |
| 45 - 49                 | 4          | 62,863                                   |
| 50 - 54                 | 13         | 206,440                                  |
| 55 - 59                 | 15         | 242,039                                  |
| 60 - 64                 | 1          | 10,338                                   |
| <b>Totals</b>           | <b>41</b>  | <b>\$ 666,545</b>                        |

Average Age at Termination: 43.3 years

Average Age Now: 51.9 years

The inactive vested member statistics above exclude 3 people waiting for a pending refund of member contributions; however, the total member contribution balance for these 3 individuals (\$32,606) is included in the inactive vested member liabilities.

**ACTIVE MEMBERS JUNE 30, 2015**  
**TABULATED BY VALUATION DIVISIONS**

| <b>Valuation Division</b> | <b>No.</b> | <b>Annual Payroll</b> | <b>Average Age</b> | <b>Average Service</b> |
|---------------------------|------------|-----------------------|--------------------|------------------------|
| Union Members             |            |                       |                    |                        |
| Tier I                    | 166        | \$ 8,363,318          | 52.9 years         | 17.9 years             |
| Tier II                   | 27         | 1,029,656             | 41.0               | 1.3                    |
| Public Safety Supervisors |            |                       |                    |                        |
| Tier I                    | 4          | 210,310               | 45.9               | 19.2                   |
| Tier II                   | 0          | 0                     | 0.0                | 0.0                    |
| Non-Union Members         |            |                       |                    |                        |
| Tier I                    | 36         | 2,276,440             | 50.3               | 19.4                   |
| Tier II                   | 18         | 827,881               | 42.7               | 4.6                    |
| Public Safety Technicians |            |                       |                    |                        |
| Tier I                    | 11         | 534,526               | 50.2               | 19.2                   |
| Tier II                   | 4          | 165,192               | 36.8               | 2.1                    |
| <b>Totals</b>             | <b>266</b> | <b>\$ 13,407,323</b>  | <b>50.2</b>        | <b>15.4</b>            |

## ACTIVE MEMBERS ADDED TO AND REMOVED FROM ROLLS

| Year Ended June 30 | Number Added During Year | Terminations During Year |       |          |     |                 |     |            |      |       |       | Active Members End of Year |
|--------------------|--------------------------|--------------------------|-------|----------|-----|-----------------|-----|------------|------|-------|-------|----------------------------|
|                    |                          | Normal Retirement        |       | Disabled |     | Died-In-Service |     | Withdrawal |      |       |       |                            |
|                    |                          | A                        | E     | A        | E   | A               | E   | A          | A    | Total |       |                            |
|                    |                          |                          |       |          |     |                 |     |            |      | A     | E     |                            |
| 1991               | 28                       | 2                        | 6.9   | 1        | 1.5 | 0               | 1.4 | 0          | 21 * | 21    | 22.4  | 405                        |
| 1992               | 25                       | 11                       | 10.6  | 0        | 1.2 | 0               | 1.1 | 2          | 8    | 10    | 19.7  | 409                        |
| 1993               | 14                       | 7                        | 9.8   | 1        | 1.2 | 0               | 1.1 | 1          | 17   | 18    | 18.0  | 397                        |
| 1994               | 24                       | 8                        | 13.5  | 1        | 1.1 | 4               | 1.1 | 2          | 19   | 21    | 15.6  | 387                        |
| 1995               | 2                        | 12                       | 11.3  | 0        | 1.2 | 0               | 1.0 | 0          | 9    | 9     | 15.2  | 370                        |
| 1996               | 33                       | 9                        | 11.0  | 1        | 1.2 | 1               | 1.0 | 2          | 19   | 21    | 12.1  | 369                        |
| 1997               | 56                       | 5                        | 10.8  | 1        | 1.2 | 0               | 1.0 | 4          | 14   | 18    | 13.8  | 401                        |
| 1998               | 24                       | 5                        | 9.0   | 0        | 1.3 | 0               | 1.1 | 4          | 17   | 21    | 17.4  | 399                        |
| 1999               | 26                       | 12                       | 10.5  | 1        | 1.4 | 2               | 1.1 | 4          | 25   | 29    | 16.5  | 381                        |
| 2000               | 64                       | 7                        | 11.7  | 1        | 1.0 | 1               | 0.9 | 2          | 22   | 24    | 14.5  | 412                        |
| 2001               | 44                       | 7                        | 7.9   | 0        | 1.0 | 1               | 1.0 | 4          | 11   | 15    | 20.4  | 433                        |
| 2002               | 42                       | 8                        | 8.7   | 2        | 1.0 | 1               | 1.0 | 3          | 15   | 18    | 21.6  | 446                        |
| 2003               | 24                       | 4                        | 11.3  | 0        | 1.0 | 1               | 1.1 | 4          | 7    | 11    | 21.4  | 454                        |
| 2004               | 31                       | 11                       | 11.5  | 1        | 0.8 | 0               | 1.1 | 1          | 8    | 9     | 13.8  | 464                        |
| 2005               | 10                       | 29                       | 14.5  | 0        | 0.8 | 2               | 1.2 | 2          | 13   | 15    | 24.7  | 428                        |
| 2006               | 11                       | 11                       | 11.9  | 0        | 0.9 | 0               | 1.1 | 1          | 6    | 7     | 20.9  | 421                        |
| 2007               | 4                        | 18                       | 12.9  | 0        | 1.0 | 2               | 1.1 | 5          | 10   | 15    | 15.9  | 390                        |
| 2008               | 11                       | 16                       | 12.7  | 0        | 0.9 | 1               | 1.1 | 1          | 7    | 8     | 15.7  | 376                        |
| 2009               | 7                        | 13                       | 12.0  | 2        | 0.9 | 0               | 1.1 | 2          | 3    | 5     | 14.1  | 363                        |
| 2010               | 2                        | 19                       | 12.9  | 0        | 1.0 | 1               | 1.2 | 1          | 3    | 4     | 12.8  | 341                        |
| 2011               | 4                        | 18                       | 13.0  | 0        | 1.1 | 0               | 1.3 | 1          | 1    | 2     | 10.7  | 325                        |
| 2012               | 1                        | 23                       | 13.3  | 1        | 0.9 | 0               | 0.4 | 1          | 4    | 5     | 6.7   | 297                        |
| 2013               | 2                        | 19                       | 12.3  | 0        | 0.8 | 0               | 0.3 | 6          | 2    | 8     | 5.4   | 272                        |
| 2014               | 10                       | 7                        | 11.6  | 2        | 0.8 | 1               | 0.3 | 5          | 5    | 10    | 4.5   | 262                        |
| 2015               | 29                       | 16                       | 14.0  | 1        | 0.6 | 0               | 0.4 | 4          | 4    | 8     | 4.9   | 266                        |
| 5-Year Totals      | 46                       | 83                       | 64.2  | 4        | 4.2 | 1               | 2.7 | 17         | 16   | 33    | 32.2  |                            |
| 10-Year Totals     | 81                       | 160                      | 126.6 | 6        | 8.9 | 5               | 8.3 | 27         | 45   | 72    | 111.6 |                            |

A = actual

E = expected

\* Includes people reported on leave of absence.

## ACTIVE MEMBERS AT YEAR END

| Year                | Number | Valuation<br>Payroll<br>\$ Millions | Averages     |                  |           |        |
|---------------------|--------|-------------------------------------|--------------|------------------|-----------|--------|
|                     |        |                                     | Age<br>Years | Service<br>Years | Pay       | % Inc. |
| 1991                | 405    | \$ 12.8                             | 43.8         | 9.8              | \$ 31,520 | 8.3%   |
| 1992                | 409    | 13.3                                | 43.8         | 10.0             | 32,513    | 3.2    |
| 1993                | 397    | 13.2                                | 44.1         | 10.6             | 33,235    | 2.2    |
| 1994                | 387    | 13.3                                | 44.4         | 11.0             | 34,343    | 3.3    |
| 1995                | 370    | 13.1                                | 45           | 11.8             | 35,304    | 2.8    |
| 1996                | 369    | 13.3                                | 45.1         | 11.7             | 36,069    | 2.2    |
| 1997                | 401    | 14.5                                | 45           | 11.3             | 36,240    | 0.5    |
| 1998                | 399    | 15.1                                | 45.7         | 11.8             | 37,895    | 4.6    |
| 1999                | 381    | 15.1                                | 46.2         | 12.3             | 39,753    | 4.9    |
| 2000                | 412    | 16.8                                | 46.0         | 11.6             | 40,675    | 2.3    |
| 2001                | 433    | 18.1                                | 46.1         | 11.5             | 41,910    | 3.0    |
| 2002                | 446    | 19.3                                | 46.2         | 11.5             | 43,342    | 3.4    |
| 2003                | 454    | 20.3                                | 46.8         | 11.9             | 44,774    | 3.3    |
| 2004                | 464    | 21.4                                | 47.3         | 12.1             | 46,086    | 2.9    |
| 2005                | 428    | 19.9                                | 47.5         | 12.2             | 46,495    | 0.9    |
| 2006                | 421    | 19.9                                | 48           | 12.5             | 47,255    | 1.6    |
| 2007 <sup>(1)</sup> | 390    | 19.6                                | 48.3         | 12.9             | 50,226    | 6.3    |
| 2008 <sup>(2)</sup> | 376    | 19.2                                | 48.6         | 13.4             | 51,055    | 1.7    |
| 2009                | 363    | 18.7                                | 49.2         | 13.8             | 51,643    | 1.2    |
| 2010                | 341    | 17.8                                | 49.5         | 14.4             | 52,217    | 1.1    |
| 2011                | 325    | 16.8                                | 50.0         | 14.8             | 51,783    | (0.8)  |
| 2012                | 297    | 15.4                                | 50.1         | 15.4             | 51,690    | (0.2)  |
| 2013                | 272    | 14.1                                | 50.7         | 15.8             | 51,670    | 0.0    |
| 2014                | 262    | 13.5                                | 51.2         | 16.2             | 51,357    | (0.6)  |
| 2015                | 266    | 13.4                                | 50.2         | 15.4             | 50,403    | (1.9)  |

<sup>(1)</sup> Union member valuation pay includes retroactive pay increases.

<sup>(2)</sup> Pay for Public Safety Supervisors and Public Safety Technicians includes load for expected contract increases.

**ACTIVE MEMBERS JUNE 30, 2015  
BY ATTAINED AGE AND YEARS OF SERVICE**

| Attained Age  | Years of Service to Valuation Date |           |           |           |           |           |          | Totals     |                      |
|---------------|------------------------------------|-----------|-----------|-----------|-----------|-----------|----------|------------|----------------------|
|               | 0-4                                | 5-9       | 10-14     | 15-19     | 20-24     | 25-29     | 30 Plus  | No.        | Valuation Payroll    |
| 20-24         | 4                                  |           |           |           |           |           |          | 4          | \$ 138,493           |
| 25-29         | 11                                 |           |           |           |           |           |          | 11         | 391,422              |
| 30-34         | 3                                  | 4         |           |           |           |           |          | 7          | 268,261              |
| 35-39         | 3                                  | 3         | 7         | 2         |           |           |          | 15         | 721,735              |
| 40-44         | 5                                  | 1         | 13        | 12        | 3         |           |          | 34         | 1,709,553            |
| 45-49         | 2                                  | 5         | 15        | 13        | 7         | 1         |          | 43         | 2,276,216            |
| 50-54         | 6                                  | 1         | 10        | 11        | 12        | 11        | 1        | 52         | 2,728,538            |
| 55-59         | 2                                  | 2         | 7         | 14        | 8         | 14        | 1        | 48         | 2,461,641            |
| 60-64         | 2                                  | 1         | 13        | 14        | 6         | 4         | 3        | 43         | 2,269,415            |
| 65-69         |                                    | 3         | 2         | 1         |           | 1         | 1        | 8          | 388,220              |
| 70-74         |                                    |           |           |           | 1         |           |          | 1          | 53,829               |
| <b>Totals</b> | <b>38</b>                          | <b>20</b> | <b>67</b> | <b>67</b> | <b>37</b> | <b>31</b> | <b>6</b> | <b>266</b> | <b>\$ 13,407,323</b> |

While not used in the financial computations, the following group averages are computed and shown because of their general interest.

Age: 50.2 years

Service: 15.4 years

Annual Pay: \$ 50,403

**SUMMARY OF  
CURRENT ASSET INFORMATION  
FURNISHED FOR VALUATION**

*Balance Sheet as of June 30, 2015*

| <b>Reported Assets - Market Value</b> | <b>Reserves for*</b>  |                          |                      |
|---------------------------------------|-----------------------|--------------------------|----------------------|
| Cash & equivalents                    | \$ 171,789            | Employees' contributions | \$ 4,592,900         |
| Receivables and accruals              | 107,406               | Employer contributions   | 23,047,121           |
| Other short-term investments          | 103,938               | Retired benefit payments | <u>87,454,311</u>    |
| Government bonds                      | 4,326,823             | Market value of assets   | <u>115,094,332</u>   |
| Corporate bonds                       | 4,883,537             |                          |                      |
| Other fixed income funds              | 0                     |                          |                      |
| Equities                              | 94,914,670            |                          |                      |
| Real estate                           | 11,526,496            |                          |                      |
| Other assets                          | 3,266,079             |                          |                      |
| Payable - security lending            | (3,414,583)           |                          |                      |
| Payable - due to brokers              | (321,255)             |                          |                      |
| Payable - due to primary gov          | <u>(470,568)</u>      |                          |                      |
| <b>Total Current Assets</b>           | <b>\$ 115,094,332</b> | <b>Total Reserves</b>    | <b>\$115,094,332</b> |

\* *These reserve amounts were not supplied by the City. 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 to allow the sum of the three reserves to equal the market value of assets submitted for the valuation.*

***Revenues and Expenditures***

|  | <b>Total</b>                |
|--|-----------------------------|
| <b><i>Market Value - July 1, 2014</i></b>                | <b>\$118,028,927</b>        |
| Revenues   |                             |
| Employees' contributions                                 | 711,807                     |
| Employer contributions                                   | 3,233,204                   |
| Net investment income                                    | <u>2,628,383</u>            |
| Total  | 6,573,394                   |
| Expenditures   |                             |
| Benefit payments (pension only)                          | 9,507,989                   |
| Refund of member contributions                           | 0                           |
| Health insurance premiums                                | <u>0</u>                    |
| Total  | 9,507,989                   |
| <b><i>Market Value - June 30, 2015</i></b>               | <b><u>\$115,094,332</u></b> |
| Investment return (net)/mean assets (market value basis) | 2.28%                       |

**DEVELOPMENT OF FUNDING VALUE OF SYSTEM ASSETS (VALUATION ASSETS)  
JUNE 30, 2015**

| Year Ended June 30:  | 2015               | 2016           | 2017           | 2018           | 2019           |
|--|--------------------|----------------|----------------|----------------|----------------|
| A. Funding Value Beginning of Year                                       | \$ 102,338,513     |                |                |                |                |
| B. Market Value End of Year  | 115,094,332        |                |                |                |                |
| C. Market Value Beginning of Year  | 118,028,927        |                |                |                |                |
| D. Non-Investment Net Cash Flow<br>(Contributions less benefit payments) | (5,562,978)        |                |                |                |                |
| E. Investment Income   |                    |                |                |                |                |
| E1. Market Total: B - C - D  | 2,628,383          |                |                |                |                |
| E2. Assumed Rate (i)   | 8.00%              |                |                |                |                |
| E3. Amount for Immediate Recognition: $i \times (A + D / 2)$             | 7,964,562          |                |                |                |                |
| E4. Amount for Phased-In Recognition: E1 - E3                            | (5,336,179)        |                |                |                |                |
| F. Phased-In Recognition of Investment Income                            |                    |                |                |                |                |
| F1. Current Year: $0.20 \times E4$                                       | (1,067,236)        |                |                |                |                |
| F2. First Prior Year   | 2,485,022          | \$ (1,067,236) |                |                |                |
| F3. Second Prior Year  | 1,863,636          | 2,485,022      | \$ (1,067,236) |                |                |
| F4. Third Prior Year   | (1,554,993)        | 1,863,636      | 2,485,022      | \$ (1,067,236) |                |
| F5. Fourth Prior Year  | 3,269,405          | (1,554,993)    | 1,863,634      | 2,485,023      | \$ (1,067,235) |
| F6. Total Recognized Investment Gain                                     | 4,995,834          | 1,726,429      | 3,281,420      | 1,417,787      | (1,067,235)    |
| <b>G. Funding Value End of Year: A + D + E3 + F6</b>                     | <b>109,735,931</b> |                |                |                |                |
| H. Difference Between Market & Funding Value                             | 5,358,401          |                |                |                |                |
| <b>I. Recognized Rate of Return - Funding Value</b>                      | <b>13.02%</b>      |                |                |                |                |
| <b>J. Recognized Rate of Return - Market Value</b>                       | <b>2.28%</b>       |                |                |                |                |
| <b>K. Ratio of Funding to Market Value of Assets</b>                     | <b>95.34%</b>      |                |                |                |                |

The Funding Value of Assets recognizes assumed investment income (line E3) fully each year. Differences between actual and assumed investment income (line E4) are phased-in over a closed 5-year period. During periods when investment performance exceeds the assumed rate, Funding Value of Assets will tend to be less than market value. During periods when investment performance is less than the assumed rate, Funding Value of Assets will be greater than market value. The Funding Value of Assets is *unbiased* with respect to Market Value. At any time it may be either greater or less than Market Value. If recognized and assumed rates of retirement income are exactly equal for 4 consecutive years, the Funding Value will become equal to Market Value.



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## **SECTION C**

### **SUMMARY OF VALUATION METHODS AND ASSUMPTIONS**

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## ACTUARIAL COST METHOD

*Normal cost and the allocation of benefit values* between service rendered before and after the valuation date was determined using an individual entry-age actuarial cost method having the following characteristics:

- The annual normal cost for each individual active member, payable from the date of employment to the date of retirement, is sufficient to accumulate the value of the member's benefit at the time of retirement;
- each annual normal cost is a constant percentage of the member's year by year projected covered pay; and
- the normal cost is based on the benefit provisions applicable for Tier II members.

*Financing of Unfunded Actuarial Accrued Liabilities.* The Unfunded Actuarial Accrued Liability (UAAL) was determined using the funding value of assets and actuarial accrued liability calculated as of the valuation date. The UAAL amortization payment (one component of the contribution requirement), is the level percent of pay required to fully amortize the UAAL over a 25-year period beginning on the valuation date. This UAAL payment does reflect payments expected to be made between the valuation date and the date contributions determined by this report are scheduled to begin.

*Funding Value of Assets.* The Funding Value of Assets used for funding purposes is derived as follows: prior year Funding Value of Assets are increased by contribution and expected investment income and reduced by refunds, benefit payments and expenses. To this amount is added 20% of the difference between expected and actual investment income for each of the previous 5 years.

## ACTUARIAL ASSUMPTIONS USED FOR THE VALUATION

The actuary calculates the contribution requirements and benefit values of the System by applying actuarial assumptions to the benefit provisions and member information furnished, using the actuarial cost method described on the previous page.

The principal areas of financial risk which require assumptions about future experience are:

- Long-term rates of investment return to be generated by the assets of the System,
- patterns of pay increases to members,
- rates of mortality among members, retirees and beneficiaries,
- rates of withdrawal of active members (without entitlement to a retirement benefit),
- rates of disability among members, and
- the age patterns of actual retirements.

In a valuation, the actuary calculates the monetary effect of each assumption for as long as a present covered person survives - - - a period of time which can be as long as a century.

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Actual experience of the System will not coincide exactly with assumed experience, regardless of the accuracy of the assumptions, or the skill of the actuary and the precision of the many calculations made. Each valuation provides a complete recalculation of assumed future experience and takes into account all past differences between assumed and actual experience. The result is a continual series of adjustments (usually small) to the computed contribution rate.

From time to time it becomes appropriate to modify one or more of the assumptions, to reflect experience trends (but not random year-to-year fluctuations). The assumptions are established by the Board after consulting with the actuary. New assumptions were adopted for the June 30, 2011 valuation pursuant to the Experience Study dated July 27, 2011, which contains the rationale for those assumptions. All actuarial assumptions are based on future expectations, not market measures.

**The rate of investment return** was 8.0% per year, compounded annually (net of administrative and investment expenses). This assumption is used to make money payable at one point in time equal in value to a different amount of money payable at another point in time. The assumed real rate of return (the net return in excess of the wage inflation rate) was 4.5%. No specific price inflation assumption is needed for this valuation. Economic experience during the last 5 years is shown in the table below:

|                               | <b>Year Ending June 30</b> |             |             |             |             | <b>5-Year Average</b> |
|-------------------------------|----------------------------|-------------|-------------|-------------|-------------|-----------------------|
|                               | <b>2015</b>                | <b>2014</b> | <b>2013</b> | <b>2012</b> | <b>2011</b> |                       |
| 1) Nominal recognized rate    | 13.0%                      | 15.4%       | 7.3%        | 2.2%        | 6.0%        | 8.8%                  |
| 2) Increase in CPI            | 0.1                        | 2.1         | 1.8         | 1.7         | 3.6         | 1.8                   |
| 3) Average salary increase    | (1.9)                      | (0.6)       | 0.0         | (0.2)       | (0.8)       | (0.7)                 |
| 4) Real return as measured by |                            |             |             |             |             |                       |
| - CPI: (1)-(2)                |                            |             |             |             |             | 7.0                   |
| - Wage inflation: (1)-(3)     |                            |             |             |             |             | 9.5                   |

The nominal rate of return was computed using the approximate formula:  $i = I \text{ divided by } 1/2 (A+B-I)$ , where I is recognized investment income net of expenses, A is the beginning of year asset value and B is the end of year asset value.

**The rates of salary increase** used for individual members are in accordance with the following table. This assumption is used to project a member's current salary to the salaries upon which benefit amounts will be based.

| <b>Sample Ages</b> | <b>Salary Increase Assumptions for an Individual Member</b> |                        |                           |
|--------------------|---|------------------------|---------------------------|
|                    | <b>Merit &amp; Seniority</b>                                | <b>Base (Economic)</b> | <b>Increase Next Year</b> |
| 20                 | 6.0%  | 3.5%                   | 9.5%                      |
| 25                 | 5.0   | 3.5                    | 8.5                       |
| 30                 | 2.8   | 3.5                    | 6.3                       |
| 35                 | 1.5   | 3.5                    | 5.0                       |
| 40                 | 0.8   | 3.5                    | 4.3                       |
| 45                 | 0.8   | 3.5                    | 4.3                       |
| 50                 | 0.5   | 3.5                    | 4.0                       |
| 55                 | 0.5   | 3.5                    | 4.0                       |
| 60                 | 0.0   | 3.5                    | 3.5                       |
| 65                 | 0.0   | 3.5                    | 3.5                       |

If the number of active members remains constant, then the total active member payroll will increase 3.5% annually, the base portion of the individual salary increase assumptions. This increasing payroll was recognized in amortizing unfunded actuarial accrued liabilities.

*The mortality table* was RP-2000 mortality table projected to 2015 with a 1 year set-forward for males.

| <b>Sample<br/>Ages</b> | <b>Value at Retirement:<br/>\$1 Monthly for Life</b> |              | <b>Future Life<br/>Expectancy (years)</b> |              |
|------------------------|--|--------------|---|--------------|
|                        | <b>Men</b>   | <b>Women</b> | <b>Men</b>                                | <b>Women</b> |
| 50                     | \$136.67   | \$139.78     | 31.3                                      | 34.4         |
| 55                     | 129.36   | 133.53       | 26.7                                      | 29.6         |
| 60                     | 119.98   | 125.50       | 22.2                                      | 25.1         |
| 65                     | 108.65   | 115.70       | 18.0                                      | 20.8         |
| 70                     | 95.46  | 104.31       | 14.2                                      | 16.9         |
| 75                     | 80.15  | 91.31        | 10.7                                      | 13.3         |
| 80                     | 63.89  | 76.72        | 7.7                                       | 10.1         |

This assumption is used to measure the probabilities of each benefit payment being made after retirement. At the time of the most recent Experience Study, we estimated that these rates included a margin for future mortality improvement of approximately 3% for females and no margin for males.

Fifty percent of these rates are used to measure the probabilities of members dying before retirement.

*The rates of retirement* used to measure the probability of eligible members retiring during the next year were as follows:

| Retirement<br>Ages | Percents of Active Members Retiring Within Next Year |                  |            |
|--------------------|--|------------------|------------|
|                    | Normal Retirement                                    | Early Retirement | Rule of 82 |
| 50                 |  |                  | 20%        |
| 51                 |  |                  | 20         |
| 52                 |  |                  | 20         |
| 53                 |  |                  | 20         |
| 54                 |  |                  | 20         |
| 55                 |  |                  | 20         |
| 56                 |  |                  | 20         |
| 57                 | 20%  | 5%               | 20         |
| 58                 | 20   | 5                | 20         |
| 59                 | 20   | 10               | 20         |
| 60                 | 20   | 5                | 20         |
| 61                 | 20   | 5                | 20         |
| 62                 | 35   | 25               | 35         |
| 63                 | 15   | 10               | 15         |
| 64                 | 15   | 10               | 15         |
| 65                 | 15   | 100              | 15         |
| 66                 | 40   |                  | 40         |
| 67                 | 40   |                  | 40         |
| 68                 | 40   |                  | 40         |
| 69                 | 40   |                  | 40         |
| 70                 | 100  |                  | 100        |

**Tier I members:** Assumed to be eligible for normal retirement when the sum of their age and service is at least 82, or age 65 with 5 or more years of service. A member was assumed to be eligible for early retirement after attaining age 57 with 20 or more years of service or age 60 with 10 or more years of service.

**Tier II members:** Assumed to be eligible for normal retirement at age 57 with 25 or more years of service, age 62 with 20 or more years of service, or age 65 with 10 or more years of service. A member was assumed to be eligible for early retirement after attaining age 57 with 20 or more years of service or age 60 with 10 or more years of service.

**Rates of separation from active membership** were as shown below (rates do not apply to members eligible to retire and do not include separation on account of death or disability). This assumption measures the probabilities of members remaining in employment.

| <b>Sample<br/>Ages</b> | <b>Years of<br/>Service</b> | <b>% of Active<br/>Separating</b> |
|------------------------|-----------------------------|-----------------------------------|
| ALL                    | 0                           | 20.00%                            |
|                        | 1                           | 15.00                             |
|                        | 2                           | 10.00                             |
|                        | 3                           | 5.00                              |
|                        | 4                           | 5.00                              |
|                        | 5                           | 5.00                              |
|                        | 6                           | 5.00                              |
|                        | 7                           | 3.00                              |
|                        | 8                           | 2.50                              |
|                        | 9                           | 2.00                              |
|                        | 10 & Over                   |                                   |
| 20                     |                             | 9.00                              |
| 25                     |                             | 9.00                              |
| 30                     |                             | 5.45                              |
| 35                     |                             | 4.60                              |
| 40                     |                             | 2.95                              |
| 45                     |                             | 1.45                              |
| 50                     |                             | 0.95                              |
| 55                     |                             | 0.95                              |
| 60                     |                             | 0.95                              |
| 65                     |                             | 0.95                              |

*Rates of disability* were as follows:

| <b>Sample<br/>Ages</b> | <b>% of Active<br/>Becoming Disabled</b> |
|------------------------|--|
| 20                     | 0.04%                                    |
| 25                     | 0.04                                     |
| 30                     | 0.04                                     |
| 35                     | 0.05                                     |
| 40                     | 0.12                                     |
| 45                     | 0.23                                     |
| 50                     | 0.38                                     |
| 55                     | 0.67                                     |
| 60                     | 1.78                                     |
| 65                     | 0.00                                     |

*Expense Load.* None.

## MISCELLANEOUS AND TECHNICAL ASSUMPTIONS

|   |  |
|---|--|
| <b>Marriage Assumption:</b>                                       | 100% of members are assumed to be married for purposes of valuing death-in-service benefits.   |
| <b>Pay Increase Timing:</b>                                       | Beginning of the fiscal year.  |
| <b>Decrement Timing:</b>  | Decrements of all types are assumed to occur mid-year.   |
| <b>Eligibility Testing:</b>                                       | Eligibility for benefits is determined based upon the age nearest birthday and service nearest whole year on the date the decrement is assumed to occur.   |
| <b>Benefit Service:</b>   | Exact fractional service as of the valuation date is used to determine the amount of benefit payable.  |
| <b>Decrement Relativity:</b>                                      | Decrement rates are used directly from the experience study, without adjustment for multiple decrement table effects.  |
| <b>Other:</b>   | Disability and withdrawal decrements do not operate after member reaches retirement eligibility. All decrements operate during the first 10 years of service.  |
| <b>Miscellaneous Adjustment Factors:</b>                          | A load of 1.0% is used to approximate the value of the lump sum vacation payoff for the Tier II members. For Tier I members, a 3% load is used.  |
| <b>Actuarial Equivalence Basis for Optional Forms of Payment:</b> | 7.0% interest with a 90%/10% unisex blend of the 1971 Group Annuity Mortality Table set back 0 years and the 1971 Group Annuity Mortality Table set back 5 years.  |
| <b>Salary Adjustments:</b>  | Annual pay for the prior year provided for valuation purposes by the City was adjusted to remove one-time lump sum payouts and to annualize pay for those members on leave. The amounts of the lump sums included in the prior year payroll and the annualized pay for members on leave were provided by the City. |



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**SECTION D**

OPERATION OF THE RETIREMENT SYSTEM

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## **BASIC FINANCIAL OBJECTIVE AND OPERATION OF THE RETIREMENT SYSTEM**

***Benefit Promises Made Which Must Be Paid For.*** A retirement program is an orderly means of handing out, keeping track of, and financing contingent pension promises to a group of employees. As each member of the retirement program acquires a unit of service credit they are, in effect, handed an “IOU” which reads: “The Employees Retirement System promises to pay you one unit of retirement benefits, payments in cash commencing when you retire.”

The principal related financial question is: When shall the money required to cover the “IOU” be contributed? This year, when the benefit of the member’s service is received? Or, some future year when the “IOU” becomes a cash demand?

The Constitution of the State of Michigan is directed to the question:

“Financial benefits arising on account of service rendered in each fiscal year shall be funded during that year and such funding shall not be used for financing unfunded accrued liabilities.”

This Retirement System meets this constitutional requirement by having the following ***Financial Objective: 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.

Translated into actuarial terminology, a level percent-of-payroll contribution objective means that the contribution rate must be at least:

***Normal Cost*** (the current value of benefits likely to be paid on account of members’ service being rendered in the current year)

. . . plus . . .

***Interest on the Unfunded Actuarial Accrued Liability*** (the difference between the actuarial accrued liability and current System assets).

If contributions to the retirement program are less than the preceding amount, the difference, **plus investment earnings not realized thereon**, will have to be contributed at some later time, or, benefits will have to be reduced, to satisfy the fundamental fiscal equation under which all retirement programs must operate; that is:

$$B = C + I - E$$

**Benefit** payments to any group of members and their beneficiaries cannot exceed the sum of:

**Contributions** received on behalf of the group

. . . plus . . .

**Ivestment** earnings on plan assets

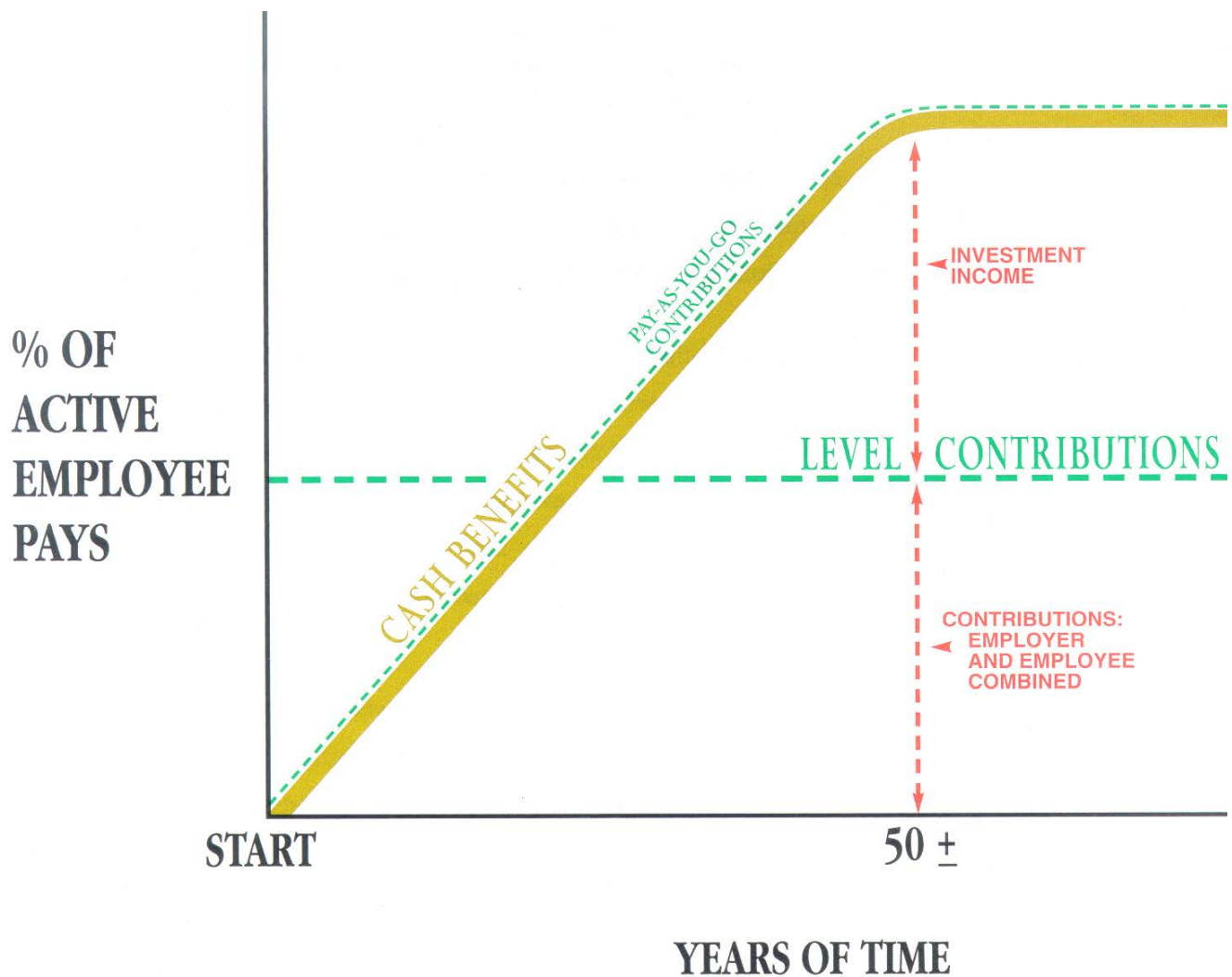
. . . minus . . .

**Expenses** incurred in operating the program.

There are retirement programs designed to defer the bulk of contributions far into the future. Lured by artificially low present contributions, the inevitable consequence of a relentlessly increasing contribution rate -- to a level which may be greatly in excess of the level percent-of-payroll rate -- is ignored. *This method of financing is prohibited in Michigan by the State Constitution.*

A by-product of a level percent-of-payroll contribution objective is the accumulation of invested assets for varying periods of time. Invested assets are a by-product of level percent-of-payroll contributions, not the objective. Investment income becomes the third and largest contributor to the retirement program, and the amount is directly related to the amount of contributions and investment performance.

***Computed Contribution Rate Needed To Finance Benefits.*** From a given schedule of benefits and from the data furnished, the actuary calculates the contribution rate ***by means of an actuarial valuation*** - the technique of assigning monetary values to the risks assumed in operating a retirement program.



**CASH BENEFITS LINE.** This relentlessly increasing line is the fundamental reality of retirement plan financing. It happens each time a new benefit is added for future retirements (and happens regardless of the design for contributing for benefits).

**LEVEL CONTRIBUTION LINE.** Determining the level contribution line requires detailed assumptions concerning a variety of experiences in future decades, including:

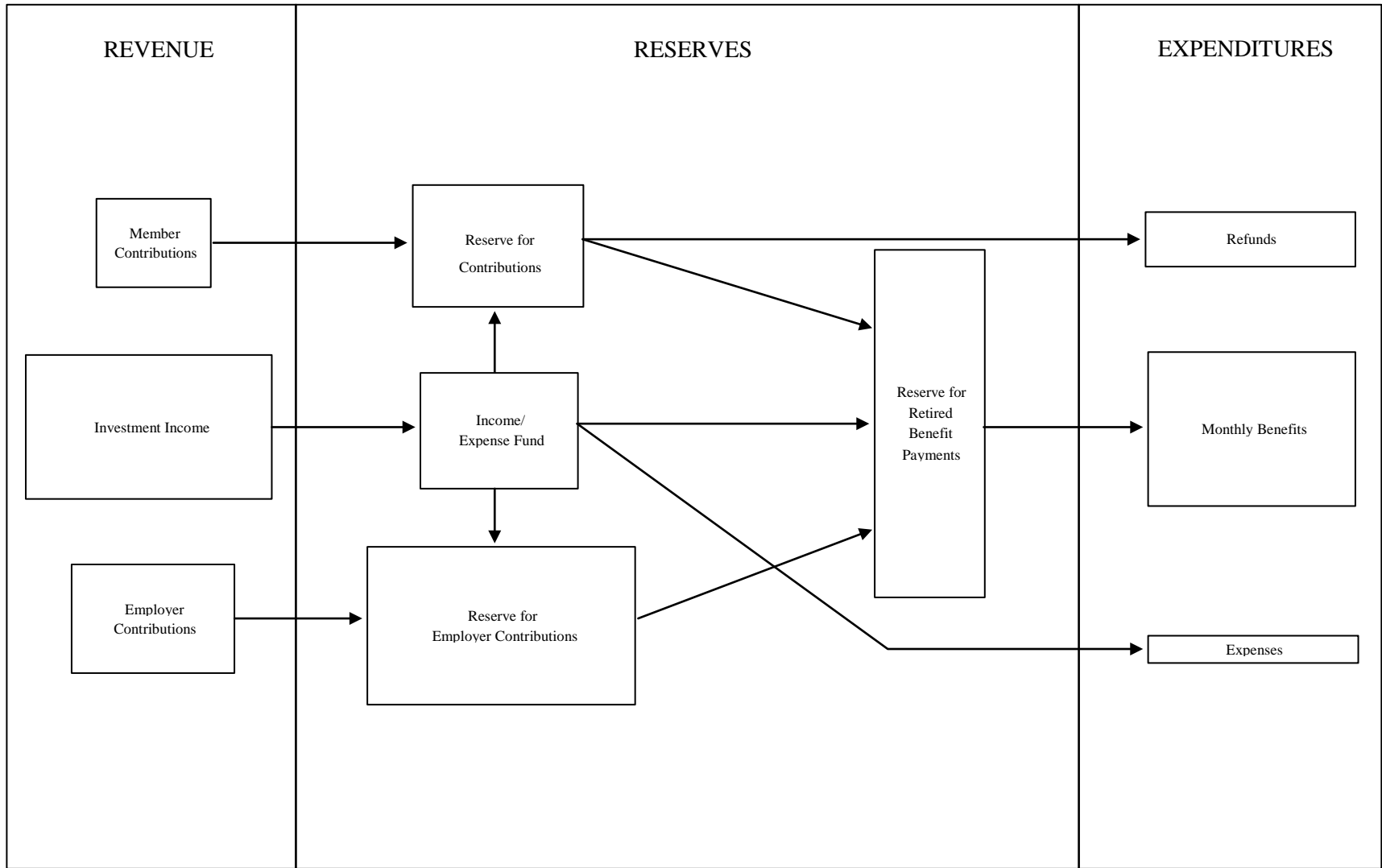
Economic Risk Areas

- Rates of investment return
- Rates of pay increase
- Changes in active member group size

Non-Economic Risk Areas

- Ages at actual retirement
- Rates of mortality
- Rates of withdrawal of active members (turnover)
- Rates of disability

## FLOW OF MONEY THROUGH THE RETIREMENT SYSTEM



## GLOSSARY

**Actuarial Accrued Liability** - The difference between (i) the actuarial present value of future plan benefits, and (ii) the actuarial present value of future normal cost. Sometimes referred to as “accrued liability” or “past service liability.”

**Accrued Service** - The service credited under the plan which was rendered before the date of the actuarial valuation.

**Actuarial Assumptions** - Estimates of future plan experience with respect to rates of mortality, disability, turnover, retirement, rate or rates of investment income and salary increases. Decrement assumptions (rates of mortality, disability, turnover and retirement) are generally based on past experience, often modified for projected changes in conditions. Economic assumptions (salary increases and investment income) consist of an underlying rate in an inflation-free environment plus a provision for a long-term average rate of inflation.

**Actuarial Cost Method** - A mathematical budgeting procedure for allocating the dollar amount of the “actuarial present value of future plan benefits” between the actuarial present value of future normal cost and the actuarial accrued liability. Sometimes referred to as the “actuarial funding method.”

**Actuarial Equivalent** - A single amount or series of amounts of equal value to another single amount or series of amounts, computed on the basis of the rate(s) of interest and mortality tables used by the plan.

**Actuarial Present Value** - The amount of funds presently required to provide a payment or series of payments in the future. It is determined by discounting the future payments at a predetermined rate of interest, taking into account the probability of payment.

**Amortization** - Paying off an interest-bearing liability by means of periodic payments of interest and principal, as opposed to paying it off with a lump sum payment.

**Experience Gain (Loss)** - A measure of the difference between actual experience and that expected based upon a set of actuarial assumptions during the period between two actuarial valuation dates, in accordance with the actuarial cost method being used.

**Normal Cost** - The annual cost assigned, under the actuarial funding method, to current and subsequent plan years. Sometimes referred to as “current service cost.” Any payment toward the unfunded actuarial accrued liability is not part of the normal cost.

## GLOSSARY

***Plan Termination Liability*** - The actuarial present value of future plan benefits based on the assumption that there will be no further accruals for future service and salary. The termination liability will generally be less than the liabilities computed on a “going-concern” basis and is not normally determined in a routine actuarial valuation.

***Reserve Account*** - An account used to indicate that funds have been set aside for a specific purpose and are not generally available for other uses.

***Unfunded Actuarial Accrued Liability*** - The difference between the actuarial accrued liability and valuation assets. Sometimes referred to as “unfunded accrued liability.”

***Valuation Assets*** - The value of current plan assets recognized for valuation purposes. Generally based on book value plus a portion of unrealized appreciation or depreciation.

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## **APPENDIX 1**

### **ACTUARIAL FUNDING POLICY**

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# CITY OF SOUTHFIELD EMPLOYEES RETIREMENT SYSTEM ACTUARIAL FUNDING POLICY

**Adopted: September 23, 2014**

**WHEREAS**, the City of Southfield Employees Retirement System (“Retirement System”) is established and administered pursuant to Title I, Chapter 9 of the City of Southfield Code of Ordinances, as amended, applicable collective bargaining agreements, and applicable state and federal laws including, but not limited to Public Act 314 of 1965, as amended (“Act 314”) [MCL 38.1132 *et seq.*], and

**WHEREAS**, the Board of Trustees of the Retirement System (“Board”) is vested with the authority and fiduciary responsibility for the proper administration and operation of the Retirement System, and

**WHEREAS**, the Board, in consultation with its Actuary, has an obligation to establish the economic and demographic assumptions to be utilized in performing the required actuarial valuation of the Retirement System and in determining the required annual employer contribution to the Retirement System, and

**WHEREAS**, the Board is aware of upcoming changes to the accounting and reporting standards approved by the Governmental Accounting Standards Board (GASB) for public pension plans, and

**WHEREAS**, the Board wishes to establish a formal Actuarial Funding Policy addressing the funding objectives and actuarial assumptions to be utilized in determining the funding status of the Retirement System, therefore be it

**RESOLVED**, that the Board hereby adopts the following Actuarial Funding Policy:

## **I. GENERAL**

### **A. Purpose**

In light of upcoming changes to the GASB financial accounting and reporting standards for public pension plans, the Board of Trustees of the Retirement System desires to establish a formal Actuarial Funding Policy to ensure the systematic funding of future pension obligations of the Retirement System.

### **B. Policy Objectives**

- (1) Maintain adequate levels of assets sufficient to fund all benefits expected to be paid to members and beneficiaries when due.
- (2) Maintain stability of employer contributions rates, consistent with other funding objectives.
- (3) Support the public policy goals of accountability and transparency.
- (4) Monitor material risks to assist in any risk management strategies the Board deems appropriate.

- (5) Promote intergenerational equity. Each generation of members and employers should incur the cost of benefits for the employees who provide services to them, rather than deferring costs to future members and employers.
- (6) Provide a reasonable margin for adverse experience to offset risk.
- (7) Review the Plan's investment return assumption, potentially in conjunction with a periodic asset liability study and in consideration of the Board's risk profile.
- (8) Continue the systematic reduction of the Plan's Unfunded Actuarial Accrued Liabilities (UAAL).

## **II. LEGAL**

### **A. Annual Actuarial Valuation**

Section 20h(4) of Act 314 [MCL 38.1140h(4)], requires the Retirement System to have an actuarial valuation performed annually as follows:

Except as otherwise provided in this subsection, a system shall have an annual actuarial valuation with assets valued on a market-related basis. The actuarial present value of total projected benefits shall include all pension benefits to be provided by the system to members or beneficiaries pursuant to the terms of the system and any additional statutory or contractual agreements to provide pension benefits through the system that are in force at the actuarial valuation date, including, but not limited to, service credits purchased by members, deferred retirement option plans, early retirement programs, and postretirement adjustment programs. A system that has less than \$20,000,000.00 is only required to have an actuarial valuation as required under this subsection done every other year.

### **B. Annual Employer Contribution**

The Board is required, pursuant to Section 20m of Act 314 [MCL 38.1140m], to annually certify the annual required contribution to be made by the employer as follows:

The governing board vested with the general administration, management, and operation of a system or other decision-making body that is responsible for implementation and supervision of any system shall confirm in the annual actuarial valuation required under section 20h and the summary annual report required under section 13 that each system under this act provides for the payment of the required employer contribution as provided in this section and shall confirm in the summary annual report that the system has received the required employer contribution for the year covered in the summary annual report. The required employer contribution is the actuarially determined contribution amount. An annual required employer contribution in a system under this act shall consist of a current service cost payment and a payment of at least the annual accrued amortized interest on any unfunded actuarial liability and the payment of the annual accrued amortized portion of the unfunded principal liability. For fiscal years that begin before January 1, 2006, the required employer contribution shall not be determined using an amortization period greater than 40 years. Except as otherwise provided in this section, for

fiscal years that begin after December 31, 2005, the required employer contribution shall not be determined using an amortization period greater than 30 years. . . . In a plan year, any current service cost payment may be offset by a credit for amortization of accrued assets, if any, in excess of actuarial accrued liability. A required employer contribution for a system administered under this act shall allocate the actuarial present value of future plan benefits between the current service costs to be paid in the future and the actuarial accrued liability. The governing board vested with the general administration, management, and operation of a system or other decision-making body that is responsible for implementation and supervision of a system shall act upon the recommendation of an actuary and the board and the actuary shall take into account the standards of practice of the actuarial standards board of the American academy of actuaries in making the determination of the required employer contribution.

### **III. POLICY**

#### **A. Actuarial Cost Method**

- (1) The individual entry age actuarial cost method of valuation shall be utilized in determining actuarial accrued liability and normal cost with the following characteristics:
  - (a) the annual normal costs for each individual active member, payable from the date of employment to the date of retirement, are sufficient to accumulate the value of the member's benefit at the time of retirement; and
  - (b) each annual normal cost is a constant percentage of the member's year by year projected covered pay; and
  - (c) the normal cost is based upon the benefit provisions applicable for employees hired on or after June 1, 2005 (February 2, 2009 for PST and March 2, 2009 for PSS).
- (2) Differences in the past between assumed experience and actual experience (actuarial gains and losses) shall be factored into the actuarial accrued liability.
- (3) The normal cost shall be determined on an individual basis for each active member.

#### **B. Asset Smoothing Method**

The investment gains or losses of each valuation period, resulting from the difference between actual investment return and assumed investment return, shall be recognized annually in level amounts over a period not to exceed five (5) years in calculating the funding value of assets.

#### **C. Amortization Method**

- (1) A level percent of payroll amortization method shall be used to systematically pay off the unfunded actuarial accrued liabilities over a closed amortization period not to exceed 30 years.
- (2) Unfunded liabilities associated with benefit changes or assumption changes shall be funded over a period determined by the Board in consultation with its actuary.

- (3) Unfunded liabilities arising from benefit changes provided to retirees or in conjunction with early retirement incentive programs offered by the employer shall be separately funded over a period determined by the Board in consultation with its actuary.

**D. Assumptions**

The economic and demographic actuarial assumptions utilized to determine the contribution requirements and benefit values of the Retirement System shall be determined by the Board in consultation with its actuary and its investment consultant with respect to its economic assumptions.

**E. Funding Target**

- (1) The targeted funded ratio of the Retirement System shall be 100%.
- (2) The employer contribution rate shall at least be equal to the normal cost unless the funded ratio of the Retirement System exceeds 120%.
- (3) A funding plan shall be developed by the Board in consultation with its actuary if the funded ratio of the Retirement System falls below 50%, which may include additional funding requirements.

**F. Risk Management**

- (1) Assumption Changes
  - (a) The actuarial assumptions utilized to determine the annual contribution requirements and valuations shall be those last adopted by the Board based on the most recent experience study and upon the advice and recommendation of the Board's actuary. The Board's actuary shall conduct an experience study once every five years unless the Board, due to unique circumstances, elects to have such a study performed at an earlier or later date. The results of the experience study shall be the basis for the actuarial assumptions recommended to the Board.
  - (b) The actuarial assumptions may be revised during the five-year period between experience studies if significant plan design changes or other significant economic events occur, as advised by the actuary.
- (2) Risk Measures. The following risk measures will be annually determined to provide quantifiable measurements of risk as it applies to the Retirement System.
  - (a) Funded ratio;
  - (b) Unfunded actuarial accrued liabilities – the years required to pay down the unfunded liabilities of the Retirement System based upon the current funding schedule;
  - (c) Total unfunded actuarial accrued liabilities as a percentage of total payroll;
  - (d) Total assets as a percentage of total payroll; and
  - (e) Total actuarial accrued liabilities as a percentage of total payroll.

(3) Risk Control

- (a) The Board shall carefully monitor the risk measures identified above and shall consider steps to mitigate risk, particularly as the funded ratio increases.

**IV. REVIEW AND AMENDMENT**

**A. Periodic Review**

This Actuarial Funding Policy shall be reviewed no less frequently than once every five years in conjunction with the required experience study performed by the Board's actuary, and may be reviewed at any time in the Board's discretion.

**B. Amendment**

The Board, in consultation with its Actuary and Legal Counsel, may amend this Actuary Funding Policy at any time as deemed necessary to address changes in the makeup, benefit structure and/or funding status of the Retirement System.

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**APPENDIX 2**  
**RISK MEASURES**

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## RISK MEASURES

| Actuarial<br>Valuation<br>Date | (1)<br>Actuarial<br>Value of<br>Assets | (2)<br>Actuarial<br>Accrued<br>Liability<br>(AAL)<br>Entry Age | (3)<br>Unfunded<br>AAL<br>(UAAL)<br>(2) - (1) | (4)<br>Covered<br>Payroll | (5)<br>Funded<br>Ratio<br>(1) / (2) | (6)<br>Assets /<br>Payroll<br>(1) / (4) | (7)<br>Liability /<br>Payroll<br>(2) / (4) | (8)<br>Unfunded /<br>Payroll<br>(3) / (4) |
|--------------------------------|--|--|---|---------------------------|-------------------------------------|---|--|---|
| 6/30/2006 <sup>(a)</sup>       | \$ 91,650,440                          | \$115,954,378  | \$24,303,938                                  | \$19,894,215              | 79.0 %                              | 460.7 %                                 | 582.9 %                                    | 122.2 %                                   |
| 6/30/2007                      | 96,080,024                             | 121,719,792  | 25,639,768                                    | 19,587,988                | 78.9                                | 490.5                                   | 621.4                                      | 130.9                                     |
| 6/30/2008                      | 99,525,002                             | 127,770,829  | 28,245,827                                    | 19,196,679                | 77.9                                | 518.4                                   | 665.6                                      | 147.1                                     |
| 6/30/2009 <sup>(a)</sup>       | 97,988,621                             | 127,271,637  | 29,283,016                                    | 18,746,378                | 77.0                                | 522.7                                   | 678.9                                      | 156.2                                     |
| 6/30/2010 <sup>(a)</sup>       | 96,159,875                             | 132,949,733  | 36,789,858                                    | 17,806,105                | 72.3                                | 540.0                                   | 746.7                                      | 206.6                                     |
| 6/30/2011 <sup>(a)</sup>       | 97,303,073                             | 133,961,485  | 36,658,412                                    | 16,829,469                | 72.6                                | 578.2                                   | 796.0                                      | 217.8                                     |
| 6/30/2012                      | 93,600,010                             | 137,687,797  | 44,087,787                                    | 15,351,949                | 68.0                                | 609.7                                   | 896.9                                      | 287.2                                     |
| 6/30/2013 <sup>(a)</sup>       | 94,231,591                             | 138,382,805  | 44,151,214                                    | 14,054,199                | 68.1                                | 670.5                                   | 984.6                                      | 314.1                                     |
| 6/30/2014 <sup>(a)</sup>       | 102,338,513                            | 139,291,088  | 36,952,575                                    | 13,455,647                | 73.5                                | 760.6                                   | 1035.2                                     | 274.6                                     |
| 6/30/2015                      | 109,735,931                            | 140,590,694  | 30,854,763                                    | 13,407,323                | 78.1                                | 818.5                                   | 1048.6                                     | 230.1                                     |

(a) Revised actuarial assumptions, methods, and/or benefit changes.

(5) The Funded Ratio is the most widely known measure of a retirement system's financial strength, but the trend in the funded ratio is much more important than the absolute ratio. The funded ratio should trend to 100%. As it approaches 100%, it is important to re-evaluate the level of investment risk in the portfolio and potentially to re-evaluate the assumed rate of return.

(6) and (7) The ratios of assets and liabilities to payroll gives an indication of both maturity and volatility. Many systems have ratios between 500% and 700%. Ratios significantly above that range may indicate difficulty in supporting the benefit level as a level % of pay. For systems that are closed to new hires, it is expected that these ratios will grow as payroll declines.

(8) The ratio of the unfunded liability to payroll gives an indication of the retirement system sponsor's ability to actually pay off the unfunded liability. A ratio above approximately 300% or 400% may indicate difficulty in discharging the unfunded liability within a reasonable time frame.

November 24, 2015

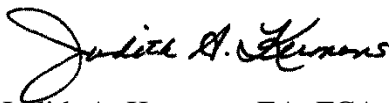
Ms. Lauri Siskind  
Assistant Director of Human Resources  
City of Southfield  
26000 Evergreen Road  
Southfield, Michigan 48076

Dear Lauri:

Enclosed are 30 copies of the report of the Fiftieth Annual Actuarial Valuation as of June 30, 2015 for the City of Southfield Employees Retirement System.

This report provides contribution requirements and funded status results based on a measure of assets and liabilities on June 30, 2015.

Sincerely,



Judith A. Kermans, EA, FCA, MAAA

JAK:bd  
Enclosures