

CITY OF SOUTHFIELD FIRE & POLICE RETIREMENT SYSTEM

2020 SUMMARY ANNUAL REPORT (as of June 30, 2019)

Fire & Police Retirement System Board:

John Fisher, President
Duane Garth, Vice President
Audrey Harvey, Secretary
Irv Lowenberg, Trustee
Brent Wilson, Trustee

Fire & Police Retirement System Staff:

Megan Battersby, Retirement Program Director

Phone:

(248)796-5220

2020 SUMMARY ANNUAL REPORT

Dear Member:

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

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

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

Respectfully Submitted,

City of Southfield Fire & Police Retirement System Board of Trustees

RETIREMENT SYSTEM FUNDING

The basic financial objective of the Retirement System is to establish and receive contributions expressed as percentages of active member payroll which will remain approximately level from year to year and will not have to be increased for future generations of taxpayers. The annual actuarial valuation analyzes the Retirement System's funding progress to establish a contribution rate that will allow the Retirement System to function at a financially sound level. The Actuary calculates the contribution requirements and benefit values of the fund by applying actuarial assumptions to the benefit provisions and people information provided by the Retirement Program Director. Actuarial valuations are conducted by Gabriel, Roeder, Smith & Company, an independent firm of consultants and actuaries. Results of the June 30, 2019 valuation are summarized below:

CONTRIBUTIONS TO PROVIDE BENEFITS FISCAL YEAR BEGINNING JULY 1, 2020

Contributions for	Contributions Expressed as %’s of Active Member Payroll
<i>Normal Cost of Benefits:</i>	
Age & service	18.87%
Disability	1.62
Death before retirement	0.40
Refunds of member contributions	0.11
Expenses	2.00
Total	23.00
<i>Member Contributions (weighted avg.)</i>	3.31
<i>Employer Normal Cost</i>	19.69
<i>Unfunded Actuarial Accrued Liabilities*</i>	23.18
Computed Employer Rate	42.87%
Minimum Dollar Contribution	\$8,479,000

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 \$8,479,000. Therefore, the actuary suggests a minimum contribution of this amount.

RETIREMENT SYSTEM SUMMARY

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

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

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

RETIREMENT SYSTEM OVERVIEW

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

The Retirement System's investment fiduciaries during the fiscal year ended June 30, 2019 were:

- City of Southfield Fire and Police Retirement Board
- AndCo Consulting
- Avignon Holdings
- Bloomfield Capital
- Brandes Investment Partners
- Fintan Partners
- JCR Capital
- KStone Partners
- LS Investment Advisors
- Landmark Partners
- Loomis, Sayles & Company
- Morgan Dempsey
- Nantucket Capital Management
- Northern Trust Global Investments
- Prudential
- QMA
- The Northern Trust Company
- Tortoise Credit
- 1607 Capital Partners

As reported in the actuarial valuation for the annual period ended June 30, 2019, excluding reserves for inflation equity, the Retirement System's valuation assets were \$199,221,702 and its actuarial accrued liabilities were \$275,413,862, which produced a funded ratio of 72.3 %.

For the annual period ended June 30, 2019, the Retirement System's expenses were \$218,585. Benefit payments were \$20,558,431 and member refunds were \$3,620. No services were paid for with soft dollars.

The Retirement System continues to be in sound financial condition in accordance with actuarial principles of level percent of payroll financing. The Retirement System has received the required employer contribution for the year ended June 30, 2019. Detailed information on the Retirement System's funding is contained in the Annual Actuarial Valuation as of June 30, 2019. For further information regarding the Retirement System's administration and policies, please contact the Retirement Program Director at (248)796-5220.

BUDGET

City of Southfield Fire & Police Retirement System Annual Budget: July 1, 2019 to June 30, 2020

Service/Provider	2018 - 2019 Budget	2018 - 2019 Actual	2019 - 2020 Budget
Investment Consultant	102,000	102,000	102,000
Custodian	41,000	41,019	42,000
Legal Counsel	35,000	13,494	25,000
Actuary	25,650	25,650	25,950
Property Consultant	12,000	9,874	0
Real Estate Expenses	40,000	39,650	0
Pension Management Software Expenses	2,000	0	2,000
Education/Training/Travel	25,000	21,027	25,000
Fiduciary Insurance	21,497	21,497	21,500
Medical Director	0	0	0
Miscellaneous Expenses	1,000	1,042	1,800
Pension Management System Maintenance Fee	2,000	0	2,000
Membership Dues	1,500	1,500	1,500
Retirement Administrator	77,400	77,400	77,400
TOTAL	386,047	354,153	326,150

INVESTMENT PERFORMANCE As of December 31, 2019

	Total Fund Return	Net of Fees
1 Year	14.98%	14.52%
2 Year	5.22%	4.76%
3 Year	8.04%	7.55%
4 Year	8.47%	7.94%
5 Year	6.70%	6.08%
7 Year	7.99%	
10 Year	7.54%	

**RETIRANTS AND BENEFICIARIES AS OF JUNE 30, 2019
TABULATED BY TYPE OF BENEFIT BEING PAID**

Pension Benefits		
Type of Benefit	No.	Annual Amount
Age and Service Pensions		
Regular Pension - terminating at death	79	\$ 2,568,630
- auto. 60% to spouse	227	11,587,321
Option I - 100% Joint and Survivor	9	243,721
Option II - 50% Joint and Survivor	3	58,508
Survivor Beneficiary	<u>48</u>	<u>1,186,343</u>
Age and Service Totals	366	\$ 15,644,523
Casualty Pensions		
Duty Disability	8	178,984
Non-Duty Disability	2	15,022
Non-Duty Death-Survivor Benefit	<u>2</u>	<u>46,008</u>
Casualty Totals	12	\$ 240,014
Total Pensions	378	\$ 15,884,537

RETIREEES AND BENEFICIARIES AS OF JUNE 30, 2019
TABULATED BY ATTAINED AGE AND TYPE OF RETIREMENT

Attained Age	Age & Service		Casualty		Totals	
	No.	Annual Pensions	No.	Annual Pensions	No.	Annual Pensions
45 - 49	13	\$ 557,225			13	\$ 557,225
50 - 54	42	\$ 1,943,563			42	1,943,563
55 - 59	55	2,765,194	4	\$ 82,946	59	2,848,140
60 - 64	53	2,481,362	2	39,880	55	2,521,242
65 - 69	49	2,310,146	1	4,984	50	2,315,130
70 - 74	73	2,658,828			73	2,658,828
75 - 79	45	1,566,370	4	101,624	49	1,667,994
80 - 84	22	794,858	1	10,580	23	805,438
85 - 89	9	401,013			9	401,013
90 - 94	4	139,561			4	139,561
95 - 99	1	26,403			1	26,403
Totals	366	\$ 15,644,523	12	\$ 240,014	378	\$15,884,537

Average Age at Retirement: 51.4 years

Average Age Now: 66.7 years

**ACTIVE MEMBERS AS OF JUNE 30, 2019
BY ATTAINED AGE AND YEARS OF SERVICE**

Attained Age	Years of Service to Valuation Date						No.	Valuation Payroll
	0-4	5-9	10-14	15-19	20-24	25-29		
20-24	21						21	\$ 1,120,294
25-29	37						37	2,514,523
30-34	7	1	3				11	885,930
35-39	3	5	17	2			27	2,404,578
40-44	1	6	17	12	5		41	3,851,633
45-49		1	6	11	11		29	2,756,195
50-54			2	5	15	6	28	2,996,278
55-59				2	9	6	17	1,807,296
60					1		1	125,731
62					1		1	90,409
Totals	69	13	45	32	42	12	213	\$ 18,552,867

ACTUARIAL VALUE OF ASSETS

Actuarial Value of Assets		Reserve for (1)	
Cash & cash equivalents	\$ 1,853,067	Employee's Contributions	\$ 8,335,193
Debt securities	33,341,934	Employers Contribution	144,360
Equity securities	148,468,498	Retired Benefit Payments	185,766,966
Short-term investments	4,746,876	Funding Value Adjustment	<u>6,436,488</u>
Other investments	6,090,033	Actuarial Value of Assets	<u>\$ 200,683,007</u>
Collateral for securities lending	26,903,566		
Accounts Receivable	7,337	Funding Value of Pension Assets (2)	\$ 199,221,702
Accounts Payable	(27,164,792)	Funding Value of Health Assets (3)	-
Funding Value Adjustment	<u>6,436,488</u>	Reserve for Inflation Equity	<u>1,461,305</u>
Actuarial Value of Assets	<u>\$ 200,683,007</u>	Actuarial Value of Assets	<u>\$ 200,683,007</u>

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

(2) The funding value of pension assets includes \$15,227,363 of retiree account balances to be dispersed (\$1,175,243 of outstanding employee contributions and \$14,052,120 of outstanding DROP account balances).

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

Market value of assets was \$194,246,519.

REVENUES AND EXPENDITURES

	Pension	Reserve for Inflation Equity	Health	Totals
Actuarial Value 6/30/2018	\$ 202,682,130	\$ 1,735,292	\$ 0	\$ 204,417,422
Revenues				
Employee Contributions	506,015	0	0	506,015
Employer Contributions	7,009,077	0	0	7,009,077
Income (net of investment expenses)	9,408,381	115,540	0	9,523,921
Total Revenues	\$ 16,923,473	\$ 115,540	\$ 0	\$ 17,039,013
Expenditures				
Benefit Payments	20,168,904	389,527	0	20,558,431
Refund of Member Contributions	(3,620)	0	0	(3,620)
Other - Audit Adjustment	32	0	0	32
Expenses Paid from System	218,585	0	0	218,585
Total Expenditures	\$ 20,383,901	\$ 389,527	\$ 0	\$ 20,773,428
Actuarial Value 6/30/2019	\$ 199,221,702	\$ 1,461,305	\$ 0	\$ 200,683,007
Nominal Rate of Return*	4.79%	7.50%		4.82%

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

The net change in assets for the plan year was (\$3,734,415).

**COMPARISON OF ACTIVE AND RETIRED DATA
AS OF JUNE 30, 2019**

	<u>Active Members</u>	<u>Retired Members</u>
Total	213	378
Valuation Payroll/ Pension Benefits	\$18,552,867	\$15,884,537
Health Insurance Premiums Being Paid By Retirement System	N/A	\$ 0
Average Age	39.6	66.7
Years of Service	12.5	N/A
Average Pay/Benefit	\$ 87,103	\$ 42,022

SUMMARY OF ACTUARIAL METHODS AND ASSUMPTIONS

Valuation Date:	June 30, 2019
Actuarial Cost Method:	Individual Entry-Age
Amortization Method:	Level percent-of-payroll
Amortization Period:	27 years
Asset Valuation Method:	5-year smoothed market, starting June 30, 2012
Actuarial Assumptions:	
Investment rate of return	7.00%
Projected salary increases*	3.25% - 8.25%
* Includes wage inflation at	3.75%
Cost-of-living adjustments	None

Membership of the plan consisted of the following at June 30, 2019, the date of the latest actuarial valuation:

Retirees and beneficiaries receiving benefits	378
Terminated plan members entitled to but not yet receiving benefits	1
Active plan members	<u>213</u>
Total members	592