
CITY OF ROYAL OAK RETIREMENT SYSTEM

SUMMARY ANNUAL REPORT TO MEMBERS FOR PERIOD ENDING JUNE 30, 2016

Dear Retirement System Member:

The retirement system, which is managed by the board of trustees, is designed to help you meet your financial needs should you become disabled, retire or die. The city also supports a retiree health insurance program, which is separate from the retirement system.

The board's fiduciary responsibility to you is to supervise the general administration of the system and invest its assets. The board retains professional employees and advisors to assist us in fulfilling these duties.

We have prepared this summary report to give you a brief overview of the retirement system and how it operates. We hope you will find it useful and informative. However, a summary cannot cover all the details of the system, which is governed by the provisions of the city's retirement ordinance, any applicable collective bargaining agreements, and the board's official rules and regulations. Additional information about the system and its financial operation is available in the finance director's office.

Retirement Board
City of Royal Oak Retirement System

- Lee Collick
- Donald VanOchten
- Donald Johnson
- David Poulton
- Pat Paruch

Plan Administrator

- Julie Rudd

Medical Director

- Med Source Services, Inc.

Custodial Bank

- SEI

Auditors/Accountants

- Rehmann

Legal Counsel

- Thomas Michaud, VanOverbeke, Michaud & Timmony P.C.

Actuaries and Consultants

- Gabriel Roeder Smith & Company

Investment Consultant

- SEI

Investment Managers

- Various (SEI)

Summary Results of the Actuarial Valuation

Your retirement system's financial objective is to accumulate assets necessary to pay the promised benefits in an orderly manner. To accomplish this, contribution rates are established in a manner that is designed to keep those rates approximately level as a percentage of payroll from year to year. The board of trustees of the retirement system provides for payment of the required employer contribution as described in Section 20m of the Michigan Public Act No. 728 of 2002.

To determine an appropriate employer contribution level for the ensuing year and to gauge how the system's funding is meeting this fundamental objective, an independent firm of actuaries and employee benefit consultants, Gabriel, Roeder, Smith & Company, conducts annual actuarial valuations.

These valuations are based on your system's past experience, information about current participation and financial markets, and assumptions concerning the system's future demographic and economic activity. The results of the June 30, 2016 valuation, based on continuing the established funding objective, are summarized below:

Valuation Date	June 30, 2016
Actuarial Cost Method	Entry Age Actuarial Cost Method
Amortization Method	Level Percent for Police and Fire
Remaining Amortization Period	Level Dollar for General and Water
Asset Valuation Method	Police and Fire: 27 Years Closed
Valuation Payroll	General and Water: 22 Years Closed
Annual Pensions Paid	4-Year Smoothed Market
Average Annual Pensions Paid	
Retirees and Beneficiaries Receiving Benefits	\$ 15,094,284
Terminated Plan Members Entitled to but not yet Receiving Benefits	\$ 15,482,808
Active Plan Members	\$ 28,253
Total	548
Principal Actuarial Assumptions:	25
– Investment Rate of Return	231
– Projected Salary Increases (includes step adjustments)	
– Includes Inflation at	7.75%
– Cost-of-Living Adjustments	3.0% - 5.9%
	3.0%
	None

Fiscal Year 2017 Employer Contribution Amounts

Contributions for	General & Water	Police Officers & Fire Fighters	Weighted Average	Funded Status	\$ Millions
Normal Cost of Benefits				Actuarial Accrued Liabilities	\$ 214.5
Total	13.69 %	18.07 %	16.45 %	Valuation Assets	
Member Portion	5.48 %	5.88 %	5.74%	(Smoothed Market Value)	\$ 156.1
Employer Portion	8.21 %	12.19 %	10.71 %	% Funded	72.8%
UAAL* Amortization	(\$ 112,468)	40.16 %			
Projected Payroll	\$ 5,214,703	\$ 9,713,665			
Estimated \$ Amount	\$ 315,659	\$ 5,085,104	\$ 5,400,763		

* *Unfunded Actuarial Accrued Liabilities.*

Actuary's Opinion

It is the actuary's opinion that the contribution amounts recommended in the most recent actuarial report are sufficient to meet the system's financial objective.

SUMMARY OF CURRENT ASSET INFORMATION

Revenues & Expenditures

	<u>2015-2016</u>	<u>2014-2015</u>
Market Value - July 1	\$136,325,205	\$139,262,845
Revenues		
Member Contributions	1,157,297	981,785
Employer Contributions	7,034,692	7,098,292
Investment Income	<u>(2,993,573)</u>	<u>5,136,193</u>
Total	5,198,416	13,216,270

Expenditures

Benefit Payments	15,287,988	14,666,641
Health Insurance Premiums for Retired Members	0	0
Refund of Member Contributions	821,781	794,248
Administrative and Investment Expenses	<u>419,003</u>	<u>693,021</u>
Total	16,528,772	16,153,910
	<u><u>\$124,994,849</u></u>	<u><u>\$136,325,205</u></u>

Market Value - June 30

Investment Performance (Net of Fees)

1-Year	(1.7)%
3-Year	6.4 %
5-Year	6.3 %
7-Year	9.0 %
10-Year	5.1 %

Projected Expenses for 2016-2017

Administrative	\$ 52,000
Investment	500,000
Professional	73,000

Actuarial Valuation of Assets & Reserves

Funding Valuation Assets	Reserves for		
Cash & Equivalents	\$ 1,436,182	Member Contributions	\$ 9,775,801
Other Short-Term	0	Employer Contributions	8,460,868
Receivables & Accruals	65,859	Retired Benefit Payments	144,339,047
Equities	64,159,847	Undistributed Investment Income	(37,580,867)
Fixed Income	42,183,686		
Other	17,387,310		
Accounts Payable	<u>(238,035)</u>		
Funding Value of Assets	\$ 124,994,849	Funding Value of Assets	\$ 124,994,849

Note: 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 tend to be greater than market value. The “actuarial funding method” is 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.

Public Act 530 of 2016 Disclosure Requirement:

This system does not pay healthcare benefits therefore there is not an assumed rate of healthcare inflation. The police officers and firefighters plan is approximately 56% funded. The city is contributing the ARC to decrease the unfunded actuarial accrued liability.

BRIEF SUMMARY OF PRIMARY BENEFIT PROVISIONS

(Please refer to Retirement Ordinance for a complete description.)

GROUP	ELIGIBILITY	STRAIGHT LIFE AMOUNT*
TPOAM, Department Heads and Deputies, Professional and Technical, 44 th District Court, hired prior to dates shown below.	REGULAR RETIREMENT Age 50 with 25 years of service, age 55 with 20 years of service, or age 60 with 5 years of service.	2.5% for 20 years then 2.2% after for service prior to effective date and 2.25% for service after effective date for the first 20 years of service, then 2.2% to 75% of FAC, plus (for all groups except 44 th District Court) 1% multiplier for the next 5 years to a maximum of 80% of FAC. Effective date shown below.
Executive Department Heads	Age 50 with 25 years of service, age 55 with 20 years of service, or age 60 with 5 years of service.	2.5% for 20 years then 2.2% after for service prior to effective date and 2.3% for service after effective date for the first 20 years of service, then 2.0% to 75% of FAC, plus (for Executive Department Heads) 1% multiplier for the next 5 years to a maximum of 80% of FAC. Effective date shown below.
Police Service Aides	Age 55 with 20 years of service or age 50 with 25 years of service or age 60 with 5 years of service.	Total service years multiplied by 2.5% for the first 20 years of service and 2.2% thereafter of FAC with a maximum allowance of 80% of FAC.
Foreman and Supervisors, SEIU AFL-CIO Local 517M hired prior to dates shown below.	Age 50 (any age for SEIU) with 30 years of service, age 50 with 25 years of service, age 55 with 20 years of service, or age 60 with 5 years of service.	2.5% for 20 years then 2.2% after for service prior to effective date and 2.25% for service after effective date for the first 10 years of service, then 2.5% for next 10 years of service, and 2.2% to 75% of FAC, plus (for Foreman and Supervisors) 1% multiplier for the next 5 years to a maximum of 80% of FAC. Effective date shown below.
Detectives	Any age with 25 years of service or age 55 with 10 years of service.	Total service years multiplied by 2.8% of FAC with a maximum allowance of 80% of FAC.
Police Officers Hired before 6/1/2012 and Police Command (regardless of date of hire)	Any age with 25 years of service or age 55 with 10 years of service.	Total service years multiplied by 2.8% of FAC to 75% of FAC, plus 1% multiplier for the next 5 years to a maximum of 80% of FAC.
Fire Fighters Hired before 10/1/2009	Any age with 25 years of service or age 55 with 10 years of service.	Total service years multiplied by 2.8% of FAC with a maximum allowance of 75% of FAC.
Fire Fighters Hired after 9/30/2009	Age 50 with 25 years of actual service or age 55 with 10 years of actual service.	Total service years multiplied by 2.5% of FAC with a maximum allowance of 75% of FAC.
Police Officers Hired after 5/30/2012	Any age with 25 years of actual service or age 55 with 10 years of service.	Total service years multiplied by 2.5% of FAC to 75% of FAC, plus 1% multiplier for the next 5 years to a maximum of 80% of FAC.

TYPE OF FINAL AVERAGE COMPENSATION (FAC)

TPOAM, Executive Department Heads, Professional & Technical, Supervisors, Police Command, Detectives and Fire Fighters hired prior to 10/1/2009: Highest 2 years out of last 10 years.

Department Heads and Deputies, SEIU AFL-CIO Local 517 M, Police Officers hired before 6/1/2012, and Police Service Aides: Highest 2 consecutive years out of last 10 years.

Fire Fighters: Hired on or after 10/1/2009 and Police Officers hired after 5/30/2012 highest 3 years out of last 10 years.

DEFERRED RETIREMENT

TPOAM, Executive Department Heads, Department Heads and Deputies, Technical and Professional, 44 th District Court, Police Service Aides	5 years of service. Benefit begins at age 55 with 25 years of service or age 60 with 5 years of service.	Computed as a regular retirement benefit based on service and FAC at date of termination.
Supervisors, SEIU AFL-CIO Local 517 M	5 years of service. Benefit begins at age 50 with 30 years of service or age 60 with 5 years of service.	Same as above.
Police Command, Fire Fighters, Police Officers, Detectives	10 years of service. Benefit begins at age 55 with 10 years of service.	Same as above.
All Members	Retirement.	75% of a straight life pension to a spouse. \$4,000 Lump sum benefit.

DISABILITY AND DEATH-IN-SERVICE

A variety of duty and non-duty disability and death-in-service benefits are payable depending on coverage group.

OTHER INFORMATION

Group	Date of Closure to New Hires	Date of Change in Multiplier
SEIU AFL-CIO Local 517M	7/1/2006	7/1/2011
Department Heads and Deputies	7/1/2008	9/1/2011
Professional & Technical	7/1/2007	7/1/2011
44 th District Court	7/1/2007	1/1/2012
TPOAM	7/1/2005	9/1/2011
Foremen and Supervisors	7/1/2006	9/14/2011
Executive Department Heads & Judges	5/1/2008	7/1/2010

* Reduced optional forms of payment are also available to provide a benefit for an eligible survivor.