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# CITY OF ROYAL OAK RETIREMENT SYSTEM

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## SUMMARY ANNUAL REPORT TO MEMBERS FOR PERIOD ENDING JUNE 30, 2015

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
- Jeremy Mahrle

### ***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, 2015 valuation, based on continuing the established funding objective, are summarized below:

|  |                                    |
|--|------------------------------------|
| Valuation Date   | June 30, 2015                      |
| 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 |
|  | Police and Fire: 28 Years Closed   |
|  | General and Water: 23 Years Closed |
| Asset Valuation Method   | 4-Year Smoothed Market             |
| Valuation Payroll  | \$ 15,312,473                      |
| Annual Pensions Paid   | \$ 14,983,560                      |
| Average Annual Pensions Paid                                       | \$ 26,997                          |
| Retirees and Beneficiaries Receiving Benefits                      | 555                                |
| Terminated Plan Members Entitled to but not yet Receiving Benefits | 26                                 |
| Active Plan Members  | <u>240</u>                         |
| Total  | 821                                |
| Principal Actuarial Assumptions:                                   |                                    |
| – Investment Rate of Return  | «int_rate_»75%                     |
| – Projected Salary Increases (includes step adjustments)           | 3.0% - 5.9%                        |
| – Includes Inflation at  | 3.0%                               |
| – Cost-of-Living Adjustments                                       | None                               |

### Fiscal Year 2016 Employer Contribution Amounts

| Contributions for          | General & Water     | Police Officers & Fire Fighters | Weighted Average    | Funded Status                 | \$ Millions  |
|----------------------------|---------------------|---------------------------------|---------------------|-------------------------------|--------------|
| Normal Cost of Benefits    |                     |                                 |                     | Actuarial Accrued Liabilities | \$ 208.8     |
| Total                      | 13.80 %             | 17.63 %                         | 16.22 %             | Valuation Assets              |              |
| Member Portion             | 5.47 %              | 5.89 %                          | 5.73%               | (Smoothed Market Value)       | \$ 133.4     |
| Employer Portion           | 8.33 %              | 11.74 %                         | 10.49 %             | % Funded                      | <b>63.9%</b> |
| UAAL* Amortization         | \$ 1,957,300        | 34.78 %                         |                     |                               |              |
| Projected Payroll          | \$ 5,392,682        | \$ 9,895,138                    |                     |                               |              |
| <b>Estimated \$ Amount</b> | <b>\$ 2,406,510</b> | <b>\$ 4,603,218</b>             | <b>\$ 7,009,728</b> |                               |              |

\* *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>2014-2015</u>  | <u>2013-2014</u>  |
|------------------------|-------------------|-------------------|
| Market Value - July 1  | \$139,262,845     | \$124,075,188     |
| <b>Revenues</b>        |                   |                   |
| Member Contributions   | 981,785           | 1,603,846         |
| Employer Contributions | 7,098,292         | 6,503,436         |
| Investment Income      | <u>5,136,193</u>  | <u>22,669,350</u> |
| <b>Total</b>           | <b>13,216,270</b> | <b>30,776,632</b> |

## Investment Performance (Net of Fees)

|         |        |
|---------|--------|
| 1-Year  | 3.30%  |
| 3-Year  | 10.90% |
| 5-Year  | 10.70% |
| 7-Year  | 6.70%  |
| 10-Year | 6.30%  |

## Expenditures

| Projected Expenses for 2015-2016              |                |                |                            |
|---|----------------|----------------|----------------------------|
| Benefit Payments                              | 14,666,641     | 14,148,795     |                            |
| Health Insurance Premiums for Retired Members | 0              | 0              |                            |
| Refund of Member Contributions                | 794,248        | 494,979        | Administrative \$ 6,000    |
| Administrative and Investment Expenses        | <u>693,021</u> | <u>945,201</u> | Investment 621,000         |
| Total   | 16,153,910     | 15,588,975     | Professional <u>74,100</u> |
| Market Value - June 30                        | \$136,325,205  | \$139,262,845  | \$ 701,100                 |

## Projected Expenses for 2015-2016

## Actuarial Valuation of Assets & Reserves

## Funding Valuation Assets

## Reserves for

|                                |                       |                                 |                       |
|--------------------------------|-----------------------|---------------------------------|-----------------------|
| Cash & Equivalents             | \$ 232,840            | Member Contributions            | \$ 9,561,317          |
| Other Short-Term               | 0                     | Employer Contributions          | 8,576,407             |
| Receivables & Accruals         | 66,610                | Retired Benefit Payments        | 139,868,003           |
| Equities                       | 88,207,606            | Undistributed Investment Income | (21,680,522)          |
| Fixed Income                   | 47,915,243            |                                 |                       |
| Other                          | 0                     |                                 |                       |
| Accounts Payable               | (97,094)              |                                 |                       |
| <b>Funding Value of Assets</b> | <b>\$ 136,325,205</b> | <b>Funding Value of Assets</b>  | <b>\$ 136,325,205</b> |

**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.

# BRIEF SUMMARY OF PRIMARY BENEFIT PROVISIONS

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

| GROUP  | ELIGIBILITY  | STRAIGHT LIFE AMOUNT*   |
|--|--|---|
| <b>REGULAR RETIREMENT</b>  |  |   |
| TPOAM, Department Heads and Deputies, Professional and Technical, 44 <sup>th</sup> District Court, hired prior to dates shown below. | 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 <sup>th</sup> District Court) 1% multiplier for the next 5 years to a maximum of 80% of FAC. Effective date shown below.              |
| Executive Department Heads, Judges   | 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 75% 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 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 <sup>th</sup> 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.  |

## DEATH AFTER RETIREMENT SURVIVOR'S BENEFITS

|             |             |   |
|-------------|-------------|---|
| 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 <sup>th</sup> 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.