

City of Royal Oak Retirement System

69th Actuarial Valuation Report

as of June 30, 2017



January 30, 2018

Board of Trustees
City of Royal Oak Retirement System
Royal Oak, Michigan

Dear Board Members:

The results of the June 30, 2017 annual actuarial valuation of the City of Royal Oak Retirement System are presented in this report. The purpose of the valuation was to measure the System's funding progress, provide actuarial information in connection with applicable Governmental Accounting Standards Board Statements and to determine the employer contribution for the 2018-2019 fiscal year. This report should not be relied upon for any other purpose. This report may be distributed to parties other than the System only in its entirety and only with the permission of the Board. GRS is not responsible for unauthorized use of this report.

The valuation was based upon information, furnished by the City, concerning Retirement System benefits, financial transactions, and individual members, terminated members, retirees and beneficiaries. Data was checked for internal and year to year consistency, but was not audited by us. As a result, we are unable to assume responsibility for the accuracy or completeness of the data provided.

Future actuarial measurements may differ significantly from those presented in this report due to such factors as experience differing from that anticipated by actuarial assumptions, changes in plan provisions, actuarial assumptions/methods or applicable law. Due to the limited scope of this assignment, we did not perform an analysis of the potential range of future measurements.

The computed contribution rates shown on page A-2 may be considered as minimum contribution rates that comply with the Board's funding policy. Users of this report should be aware that contributions made at that rate do not guarantee benefit security. Given the importance of benefit security to any retirement system, we suggest that contributions to the System in excess of those presented in this report be considered.

The contribution rates in this report are determined using the actuarial assumptions and methods disclosed in Section C of this report. The assumptions are established by the Board after consulting with the actuary. This report does not include a more robust assessment of the risks of future experience not meeting the actuarial assumptions. Additional assessment of risks was outside the scope of this assignment. We encourage a review and assessment of investment and other significant risks that may have a material effect on the plan's financial condition.

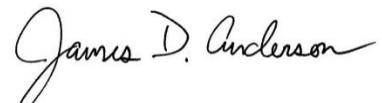
To the best of our knowledge, this report is complete and accurate and the valuation was conducted in accordance with standards of practice prescribed by the Actuarial Standards Board and in compliance with the applicable state statutes.

Mark Buis and James D. Anderson are independent of the plan sponsor and are Members of the American Academy of Actuaries (MAAA) who meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinions contained herein. It is our opinion that the actuarial assumptions used for the valuation produce results which are reasonable.

Respectfully submitted,



Mark Buis, FSA, FCA, EA, MAAA



James D. Anderson, FSA, EA, MAAA

MB/JDA:dj

Contents

<u>Section</u>	<u>Page</u>
A	Valuation Results
1-2	Computed Contributions
3	Derivation of Experience Gain (Loss)
4	Summary Statement of System Resources and Obligations
5-6	Funding Value of Assets
7-9	Comments
10-12	Comparative Statements
B	Summary of Benefit Provisions and Valuation Data
1-4	Summary of Benefit Provisions
5-7	Retired Life Data
8	Inactive Member Data
9-10	Active Member Data
11-13	Asset Information
14	Allocation of Unfunded Liability by Group and Department
C	Summary of Valuation Methods and Assumptions
1-2	Financial Objective
3-4	Financing Diagrams
5	Valuation Methods
6-11	Actuarial Assumptions Used in the Valuation
12	Miscellaneous and Technical Assumptions
13-14	Glossary
15	Meaning of Unfunded Actuarial Accrued Liabilities
16	Pensions in an Inflationary Environment
D	Financial Reporting
1-2	Supplementary Information

SECTION A

VALUATION RESULTS

Funding Objective

The funding objective of the Retirement System is to establish and receive contributions, expressed as percents of active member payroll, which will accumulate assets during members' periods of employment that will be sufficient to finance benefits throughout their retirement years.

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 reasonable period of future years the actuarial present value of benefits not covered by valuation assets and anticipated future normal costs (the unfunded actuarial accrued liability).

Computed contribution rates for the fiscal year beginning July 1, 2018 are shown on page A-2.

Contributions to Provide Benefits

Fiscal Year Beginning July 1, 2018

Total Contribution for	Computed Contributions Expressed as Percents of Active Member Payroll & Dollars		
	General & Water	Police Officers*** & Fire Fighters	Total **
Normal Cost			
Age and service benefits	11.06 %	14.38 %	13.24 %
Disability	0.84 %	2.20 %	1.73 %
Death	0.35 %	0.29 %	0.31 %
Deferred service pensions	1.10 %	0.71 %	0.84 %
Future refunds of member contributions	0.30 %	0.38 %	0.35 %
Totals	13.65 %	17.96 %	16.47 %
Member Contributions	5.49 %	5.87 %	5.74 %
Employer Normal Cost	8.16 %	12.09 %	10.73 %
Unfunded Actuarial Accrued Liability*	(\$191,162)	34.63 %	
Computed Employer Rate		46.72%	
Projected Payroll	\$4,903,700	\$11,550,420^	
Employer \$ Amount (Based on Projected Payroll)	208,980	5,396,356	\$5,605,336

* Amortized as a level dollar amount over 21 years for the General and Water Plan and level percent-of-payroll over 26 years for the Police Officers and Fire Fighters.

** Normal cost based on a weighted average of rates from each group.

*** Includes Police Service Aides.

^ Provided by the City of Royal Oak.

Determining Employer Dollar Contributions

For any period of time, the percent-of-payroll contribution rate should be converted to dollars -- and then contributed to the Retirement System.

Recommended Procedure: (1) at the end of each payroll period, multiply the active member payroll for the period by the employer contribution percent; and (2) promptly contribute the dollar amount so determined.

Applying the employer normal cost percentage to the General and Water member projected payroll and adding the unfunded actuarial accrued liability produces annual employer contributions of \$208,980 for the General and Water group. Applying the employer contribution rate of 46.72% to the Police and Fire member projected payroll produces annual employer contributions of \$5,396,356 for the Police and Fire group.

Derivation of Experience Gain (Loss)

Year Ended June 30, 2017

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 this year's experience gain (loss) is shown below:

<u>All Groups Combined</u>	
<u>(Amounts in Thousands)</u>	
(1) UAAL* at start of year	\$58,376
(2) Normal cost from last valuation	2,483
(3) Actual member and employer contributions	8,243
(4) Interest accrual	4,301
(5) Expected UAAL before changes	56,917
(6) Change in benefit provisions	0
(7) Change from assumption revision	0
(8) Expected UAAL after changes	56,917
(9) Actual UAAL	59,216
(10) Gain (loss): (8) - (9)	(2,299)
(11) % of beginning of year AAL	(1.1)%

* *Unfunded actuarial accrued liability.*

Valuation	Experience Gain (Loss)	
	Date	as % of Beginning of Year
	Accrued Liability	
6/30/2008		(1.5)%
6/30/2009		(7.7)%
6/30/2010		(6.1)%
6/30/2011		(8.8)%
6/30/2012		(1.9)%
6/30/2013		(1.0)%
6/30/2014		0.6%
6/30/2015		(1.1)%
6/30/2016		(2.1)%
6/30/2017		(1.1)%

Present Value of Future Benefits and Accrued Liability

	June 30, 2017		
	General	Police/Fire	Total
A. Accrued Liability			
1. For retirees and beneficiaries	\$ 52,670,167	\$ 103,792,540	\$ 156,462,707
2. For vested terminated members	1,311,838	687,907	1,999,745
3. For present active members			
a. Value of expected future benefit payments	28,357,895	51,245,613	79,603,508
b. Value of future normal costs	4,208,420	15,864,234	20,072,654
c. Active member accrued liability: (a) - (b)	<u>24,149,475</u>	<u>35,381,379</u>	<u>59,530,854</u>
4. Total accrued liability	78,131,480	139,861,826	217,993,306
B. Present Assets (Funding Value)	<u>80,158,368</u>	<u>78,618,480</u>	<u>158,776,848</u>
C. Unfunded Accrued Liability: (A.4) - (B)	<u>(2,026,888)</u>	<u>61,243,346</u>	<u>59,216,458</u>
D. Funding Ratio: (B) / (A.4)	<u>102.6%</u>	<u>56.2%</u>	<u>72.8%</u>

Development of Funding Value of Retirement System Assets

Year Ended June 30:	2016*	2017	2018	2019	2020
A. Funding Value Beginning of Year	\$133,358,876	\$134,718,477			
B. Market Value End of Year	124,994,849	154,966,938			
C. Market Value Beginning of Year	136,325,205	124,994,849			
D. Non-Investment Net Cash Flow	(7,917,780)	13,332,875			
E. Investment Income					
E1. Market Total: B-C-D	(3,412,576)	16,639,214			
E2. Amount for Immediate Recognition: (7.75)%	10,028,499	10,957,331			
E3. Amount for Phased-In Recognition: E1-E2	(13,441,075)	5,681,883			
F. Phased-In Recognition of Investment Income					
F1. Current Year: 0.25 x E3	(3,360,269)	1,420,471			
F2. First Prior Year	(1,350,785)	(3,360,269)	\$ 1,420,471		
F3. Second Prior Year	3,058,749	(1,350,785)	(3,360,269)	\$ 1,420,471	
F4. Third Prior Year	901,187	3,058,748	(1,350,785)	(3,360,268)	\$1,420,470
F5. Total Recognized Investment Gain (Loss)	(751,118)	(231,835)	(3,290,583)	(1,939,797)	1,420,470
G. Funding Value End of Year: A+D+E2+F5	134,718,477	158,776,848			
H. Difference Between Market & Funding Value	(9,723,628)	(3,809,910)	(519,327)	1,420,470	0
I. Recognized Rate of Return	7.2 %	7.6 %			
J. Market Value Rate of Return	(2.6)%	12.6%			
K. Ratio of Funding Value to Market Value	107.8%	102.5 %			

* Prior to Bond Issuance.

The Funding Value of Assets recognizes assumed investment income (line E2) fully each year. Differences between actual and assumed investment income (line E3) are phased-in over a closed 4-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 tend to 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 actual and assumed rates of investment income are exactly equal for 4 consecutive years, the Funding Value will become equal to Market Value.

Development of Funding Value of Retirement System Assets

Year Ended June 30:	General	Police	Total
A. Funding Value Beginning of Year	\$57,682,945	\$77,035,532	\$134,718,477
B. Market Value End of Year	78,778,953	76,187,985	154,966,938
C. Market Value Beginning of Year	53,519,540	71,475,309	124,994,849
D. Non-Investment Net Cash Flow	17,339,980	(4,007,105)	13,332,875
E. Investment Return			
E1. Market Total: B - C - D	7,919,433	8,719,781	16,639,214
E2. Amt. for Immediate Recognition	5,142,352	5,814,979	10,957,331
E3. Amt. for Phased-In Recognition: E1 - E2	2,777,081	2,904,802	5,681,883
F. Phased-in Recognition of Investment Return			
F1. Current Year: (.25 x E3)	694,270	726,201	\$1,420,471
F2. First Prior	(1,438,780)	(1,921,489)	(3,360,269)
F3. Second Prior	(568,596)	(782,189)	(1,350,785)
F4. Third Prior	1,306,197	1,752,551	3,058,748
F5. Total Recognized Investment Gain (Loss)	(6,909)	(224,926)	(231,835)
G. Funding Value End of Year: A+D+E2+F5	80,158,368	78,618,480	158,776,848
H. Difference between Market & Funding Value	(1,379,415)	(2,430,495)	(3,809,910)

Comments and Conclusion

Comment 1: The recommended contribution for the General group decreased from the prior year, due to favorable demographic experience. The recommended contribution for the Police group increased from the prior year, due to unfavorable demographic experience.

Comment 2: Investment return of 12.6% was greater than the assumed level of 7.75% on a market value basis. However, under the asset valuation method, investment gains and losses are spread over a 4-year period. Partial recognition of this year's loss was combined with the continued phase-in of investment gains and losses from prior years resulting in a small net recognized asset loss for 2017. The Funding Value of Assets now exceeds the Market Value by approximately \$3.8 million (see page A-5), which is the net amount of unrecognized prior year gains to be recognized over the coming three years.

Recommendation 1: The actuarial present value of benefits payable to General retirees and beneficiaries on the rolls as of June 30, 2017 exceeded the Reserve for Retired Benefit Payments for General members by \$2,554,436. The actuarial present value of benefits payable to Police/Fire retirees and beneficiaries on the rolls as of June 30, 2017, exceeded the reserves allocated to the Police/Fire division by \$4,438,819. In accordance with the Retirement System Ordinance, we recommend the transfer of \$2,554,436 from the Reserve for Employer Contributions to the General Reserve for Retired Benefit Payments and \$4,438,819 from the Reserve for Employer Contributions to the Police/Fire Reserve for Retired Benefit Payments. In accordance with the current administrative procedures, since the reserve for Undistributed Investment Income is less than 10% of the Market Value of the fund, no transfer should be made from the reserve for Undistributed Investment Income to the reserve for Employer Contributions.

Recommendation 2: Useful and reliable valuation results are dependent on an underlying set of appropriate actuarial assumptions. From time to time, the assumptions should be reevaluated in the light of emerging experience – the plan's own and the experience of similar groups – and expected future experience. With a plan the size of the City of Royal Oak Retirement System, credible experience is limited and can vary significantly from year to year. Over an extended period, however, some trends can be detected. We believe that it is timely for an analysis to be made of the Retirement System's experience during the last 5 years. The last experience study for the System was performed in 2012. **Additionally, the State of Michigan now requires that a study be performed at least once every 5 years.** Such a study would:

- Analyze retirement probabilities, termination probabilities, probabilities of disablement, mortality rates, and pay changes;
- Look at economic and demographic experience separately;
- Suggest appropriate changes in economic and demographic assumptions and show their effect on computed contribution rates; and
- Review the amortization policy.

It is recommended that an experience study be conducted prior to the next regular annual actuarial valuation.

Comments and Conclusion

Looking Ahead: Due to the asset smoothing method, only a portion of the current year's asset gain was recognized and portions of prior years' gains and losses remain to be recognized. If the Market Value of Assets were used (instead of smoothed value), the employer contribution would have been approximately \$5,900,000 (instead of \$5,562,678) and the funded status would have been about 71.1% (instead of 72.8%).

ACTUARIAL DISCLOSURE: The computed contribution rate shown on A-2 may be considered as a minimum contribution rate that complies with the Board's funding objective. Users of this report should be aware that contributions made at that rate do not guarantee benefit security. Given the importance of benefit security to any retirement system, we suggest that contributions to the System in excess of those presented in this report be considered.

The contribution rate in this report is determined using the actuarial assumptions and methods disclosed in Section C of this report. This report includes certain risk metrics on page D-1, but does not include a more robust assessment of the risks of future experience not meeting the actuarial assumptions. Additional assessment of risks was outside the scope of this assignment. We encourage a review and assessment of investment and other significant risks that may have a material effect on the plan's financial condition.

Comments and Conclusion

OTHER OBSERVATIONS:

General Implications of Contribution Allocation Procedure or Funding Policy on Future Expected Plan Contributions and Funded Status

Given the plan's contribution allocation procedure, if all actuarial assumptions are met (including the assumption of the plan earning 7.75% on the actuarial value of assets), it is expected that:

- 1) The employer normal cost as a percentage of pay is expected to remain level as a percentage of payroll.
- 2) The unfunded liability is expected to be paid off in approximately 26 years, which is the number of years remaining in the closed amortization schedule of the unfunded liability for the Police and Fire group.
- 3) The funded status of the plan is expected to reach a 100% funded ratio in approximately 26 years, which is the number of years remaining in the closed amortization schedule of the unfunded liability for the Police and Fire group.

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 regards to any funded status measurements presented in this report:

- 1) The measurement is inappropriate for assessing the sufficiency of plan assets to cover the estimated cost of settling the plan's benefit obligations.
- 2) The measurement is inappropriate for assessing the need for or the amount of future employer contributions.
- 3) The measurement would produce a different result if the market value of assets were used instead of the actuarial value of assets, unless the market value of assets is used in the measurement.

The funding level of the plan on a Market Value Basis is shown on page A-4.

Actuarial Accrued Liabilities & Assets Comparative Statement

Valuation Date	Actuarial Accrued Liability (AAL) (\$1,000s)	Unfunded Actuarial Accrued Liability (UAAL) (\$1,000s)	Ratio of Assets to AAL	Ratio of UAAL to Valuation Payroll
6-30-94*	\$ 88,519	\$ 88,519	\$ 0	100.0 %
6-30-95*	92,495	97,795	(5,300)	105.7 %
6-30-96	94,730	105,572	(10,842)	111.4 %
6-30-97	97,622	116,317	(18,695)	119.2 %
6-30-98	102,995	132,289	(29,294)	128.4 %
6-30-99	107,934	147,433	(39,499)	136.6 %
6-30-00	111,515	159,268	(47,753)	142.8 %
6-30-00*	113,215	159,268	(46,053)	140.7 %
6-30-01*	121,589	162,586	(40,997)	133.7 %
6-30-02	128,303	156,403	(28,100)	121.9 %
6-30-03*	136,529	146,740	(10,211)	107.5 %
6-30-04*	146,386	137,851	8,535	94.2 %
6-30-05*	152,016	134,773	17,243	88.7 %
6-30-06	158,239	137,264	20,975	86.7 %
6-30-07	162,782	143,619	19,163	88.2 %
6-30-08	166,957	145,561	21,396	87.2 %
6-30-09*	173,543	138,812	34,731	80.0 %
6-30-10*	178,656	132,168	46,488	74.0 %
6-30-11*	188,717	125,357	63,360	66.4 %
6-30-12*	190,595	124,013	66,582	65.1 %
6-30-13*	199,909	125,709	74,200	62.9 %
6-30-14*	203,770	130,740	73,030	64.2 %
6-30-15*	208,800	133,359	75,441	63.9 %
6-30-16^*	214,522	156,146	58,376	72.8 %
6-30-17	217,993	158,777	59,216	72.8 %
				380.7 %

* After changes in benefit provisions and/or actuarial assumptions and actuarial cost methods.

^ Reflects Bond Issuance of \$21.4 million subsequent to measurement date of June 30, 2016.

The Ratio of Present 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 increase (or decrease) gradually toward 100%.

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 - and vice-versa.

Computed Employer Contributions

Comparative Statement

Valuation	Active Members					Retirees & Beneficiaries				Employer Contributions		
	Date	No.	Valuation Payroll			Active Per		Annual Allowances		General & Water	Police & Fire	Wt. Avg.
			Total	Average	% Incr.	No.	Retiree	\$	% of Payroll			
6-30-93*	364	\$ 13,664,416	\$37,540	6.4 %		407	0.89	\$ 4,597,263	33.6 %	17.02 %	22.50 %	
6-30-94*#	360	14,109,602	39,193	3.3 %		415	0.87	4,894,145	34.7 %	11.85 %	15.16 %	0.13 %
6-30-95*	370	14,595,387	39,447	3.4 %		427	0.87	5,375,306	36.8 %	9.45 %	9.75 %	9.59 %
6-30-96	371	14,991,326	40,408	2.7 %		427	0.87	5,529,852	36.9 %	5.07 %	6.20 %	5.62 %
6-30-97	384	15,949,326	41,535	6.4 %		430	0.89	5,647,518	35.4 %	0.60 %	0.42 %	0.53 %
6-30-98	392	17,181,869	43,831	7.7 %		426	0.92	5,865,307	34.1 %	0.00 %	0.00 %	0.00 %
6-30-99	385	17,501,352	45,458	1.9 %		429	0.90	6,051,286	34.6 %	0.00 %	0.00 %	0.00 %
6-30-00*	396	18,129,821	45,782	3.6 %		437	0.91	6,346,060	35.0 %	0.00 %	0.00 %	0.00 %
6-30-01*	397	18,962,345	47,764	4.6 %		447	0.89	6,865,032	36.2 %	0.00 %	0.00 %	0.00 %
6-30-02	394	19,368,385	49,158	2.1 %		458	0.86	7,429,422	38.4 %	0.00 %	0.00 %	0.00 %
6-30-03*	391	20,138,113	51,504	4.0 %		456	0.86	7,710,821	38.3 %	3.79 %	10.20 %	6.90 %
6-30-04*	378	20,569,285	54,416	2.1 %		474	0.80	8,575,578	41.7 %	16.27 %	22.87 %	19.55 %
6-30-05*	365	20,839,464	57,094	1.3 %		479	0.76	9,305,818	44.7 %	16.76 %	23.52 %	20.12 %
6-30-06	351	20,431,658	58,210	(2.0)%		479	0.73	9,908,394	48.5 %	18.25 %	24.30 %	21.33 %
6-30-07	346	20,327,590	58,750	(0.5)%		482	0.72	10,342,238	50.9 %	17.57 %	23.49 %	20.60 %
6-30-08	336	20,459,734	60,892	0.7 %		477	0.70	10,386,269	50.8 %	\$2,451,876	21.79 %	\$4,395,643
6-30-09*	317	20,139,069	63,530	(1.6)%		480	0.66	10,872,875	54.0 %	2,058,401	25.35 %	5,158,959
6-30-10*	287	18,373,382	64,019	(8.8)%		489	0.59	11,320,108	61.6 %	2,658,168	29.89 %	5,739,910
6-30-11*	252	16,804,600	66,685	(8.5)%		518	0.49	12,846,102	76.4 %	2,914,594	37.78 %	6,599,438
6-30-12*	242	15,846,779	65,483	(5.7)%		523	0.46	13,509,275	85.2 %	2,669,308	41.57 %	6,480,707
6-30-13#	244	15,296,167	62,689	(3.5)%		527	0.46	13,833,419	90.4 %	2,835,608	46.72 %	6,891,898
6-30-14*	246	15,336,530	62,344	0.3 %		536	0.46	14,369,883	93.7 %	2,679,570	46.30 %	6,852,495
6-30-15*	240	15,312,473	63,802	(0.2)%		555	0.43	14,983,560	97.9 %	2,406,510	46.52 %	7,009,728
6-30-16*^	231	15,094,284	65,343	(1.4)%		548	0.42	15,482,808	102.6 %	315,659	52.35 %	5,400,763
6-30-17	230	15,552,925	67,621	3.0 %		541	0.43	15,866,119	102.0 %	208,980	46.72 %	5,605,336

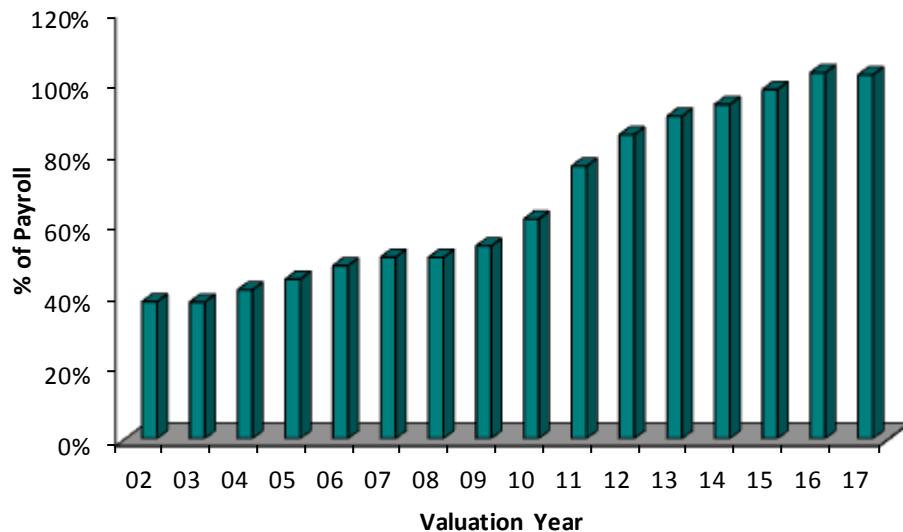
* After changes in benefit provisions.

Actuarial assumptions revised.

^ Reflects Bond Issuance of \$21.4 million subsequent to measurement date of June 30, 2016.

Active Members & Benefit Recipients

Benefits as a Percent of Payroll



SECTION B

SUMMARY OF BENEFIT PROVISIONS AND VALUATION DATA

Summary of Benefit Provisions Evaluated

June 30, 2017

Regular Retirement (no reduction factor for age):

The benefit amounts attributable to regular retirements and the conditions under which such benefits may be paid are described in tabular form on page B-4.

Deferred Retirement (vested benefit):

Eligibility:

TPOAM, Executive Department Heads, Department Heads and Deputies, Professional and Technical, 44th District Court, SEIU AFL-CIO Local 517M, Supervisors, Police Service Aides: 5 years of service.

Police Officers, Police Command, Detectives, Fire Fighters: 10 years of service.

Annual Amount:

Same as regular retirement but based upon service and final average compensation at time of termination.

TPOAM, Executive Department Heads, Department Heads and Deputies, Professional & Technical, 44th District Court, Police Service Aides: Payable at age 55 with 25 years of service or age 60 with 5 years of service.

Supervisors, SEIU AFL-CIO Local 517M: Payable at age 50 with 30 years of service or age 60 with 5 years of service.

Police Officers, Police Command, Detectives, Fire Fighters: Payable at age 55 with 10 years of service.

Duty Death Before Retirement:

Eligibility - No age or service requirements.

Annual Amount - Computed as regular retirement but with additional service credit from date of death until date age 60 would have been attained. Spouse is paid 75% of regular retirement benefit; 1 or 2 unmarried children under age 19 are paid 10% of regular retirement benefit per child; 3 or more unmarried children under age 19 are paid an equal share of 25% of regular retirement benefit. Worker's Compensation payments are offset.

Non-Duty Death Before Retirement:

Eligibility - 3 years of service.

Annual Amount - Same as duty death before retirement.

Summary of Benefit Provisions Evaluated

June 30, 2017

Duty Disability Retirement:

Eligibility - No age or service requirements.

Annual Amount:

TPOAM: 66-2/3% of base monthly salary at time of disability, with recomputation to 70% after 5 years of disability and 75% after 10 years. Benefit is payable until attaining minimum retirement requirements.

Executive Department Heads, Department Heads & Deputies: 66% of base monthly salary at time of disability. Benefit is payable until voluntary retirement age.

Professional & Technical, 44th District Court, Supervisors, and SEIU AFL-CIO Local 517M: 66-2/3% of base monthly salary at time of disability. Benefit is payable until voluntary retirement age for Professional & Technical and Supervisors until age 60 for and SEIU AFL-CIO Local 517M.

Police Officers, Police Command, Detectives, Police Service Aides: 66-2/3% of base monthly salary, where salary is adjusted for negotiated pay increases for physical disabilities and remains the salary at the time of disability for psychological disabilities. Workers' compensation is offset. Benefit is payable until age 55 for Police Officers, Police Command, and Detectives and until age 60 for Police Service Aides.

Fire Fighters: 66-2/3% of base monthly salary at time of disability. Worker's compensation is offset. Benefit is payable until voluntary retirement age.

Duty Disability Maximum Monthly Benefit:

Executive Department Heads, Department Heads & Deputies:	\$5,000
Professional & Technical, 44 th District Court:	\$3,500
TPOAM, SEIU AFL-CIO Local 517M, Supervisors, Police Officers, Police Command, Detectives, Police Service Aides, Fire Fighters:	No maximum

Non-Duty Disability Retirement:

Eligibility:

SEIU AFL-CIO Local 517M: 10 years of service.

TPOAM, Executive Department Heads, Department Heads and Deputies, Professional and Technical, 44th District Court, Supervisors, Police Officers, Police Command, Detectives, Police Service Aides, Fire Fighters: 5 years of service.

Summary of Benefit Provisions Evaluated

June 30, 2017

Annual Amount:

TPOAM: 66-2/3% of base monthly salary at time of disability. Benefit is payable until attaining minimum retirement requirements.

Fire Fighters: 50% of base monthly salary at time of disability. Benefits are payable the same as duty disability.

Executive Department Heads, Department Heads and Deputies, Professional and Technical, Local 270M, Supervisors, Police Officers, Police Command, Police Service Aides, Detectives: Benefits are the same as duty disability.

Automatic Death Benefit After Retirement:

75% of a retiree's straight life pension will be continued to an eligible surviving spouse upon retiree's death with no corresponding reduction in straight life pension.

Lump Sum Death Benefit After Retirement:

\$4,000 for all divisions.

Annuity Withdrawal:

Members may withdraw their accumulated member contributions upon retirement with a corresponding reduction in pension amount.

Covered Compensation:

TPOAM, Executive Department Heads, Department Heads and Deputies, Professional and Technical, Local 270M, Supervisors: Covered compensation includes base salary, longevity and up to 96 hours of sick leave incentive pay.

Police Command: Covered compensation includes base salary, longevity, payment in lieu of holidays, personal business (up to 120 hours) and vacation (up to 200 hours).

Fire Fighters: Covered compensation includes base salary, longevity, payment in lieu of holidays, uniform allowance, cleaning allowance, food allowance, sick pay, paramedic premium, personal business (24 hours) and vacation.

Police Officers, Police Service Aides: Covered compensation includes base salary, longevity, payment in lieu of holidays, up to 120 hours of sick and personal business days, and up to 200 hours from the vacation bank.

Detectives: Covered compensation includes base salary, longevity and payment in lieu of holidays, 24 personal business hours, up to 96 hours sick leave incentive pay and up to 200 hours from the vacation bank.

Summary of Benefit Provisions Evaluated

June 30, 2017

Group	Code	Eligibility	Benefit Multiplier		Maximum FAS	Years in FAS	Member Contribution Rates		Date of Closure to New Hires
			Date of Change	Benefit Formula			To Social Security Wage Base	Over Social Security Wage Base	
Executive Department Heads	10	Age 50 & 25 yrs., or age 55 & 20 yrs., or age 60 & 5 yrs.	Before 7/1/2010 After 6/30/2010	2.5% for 20 yrs., 2.2% after 2.3% for 20 yrs., 2.0% after	80%^	2	5.00%	7.00%	5/1/2008
SEIU AFL-CIO Local 517M	11	Any age & 30 yrs., or age 50 & 25 yrs., or age 55 & 20 yrs., or age 60 & 5 yrs.	Before 7/1/2011 After 6/30/2011	2.5% for 20 yrs., 2.2% after 2.25% for first 10 yrs., 2.5% for next 10 yrs., 2.2% after	75%	2	7.00%	9.00%	7/1/2006
Department Heads and Deputies	12	Age 50 & 25 yrs., or age 55 & 20 yrs., or age 60 & 5 yrs.	Before 9/1/2011 After 8/31/2011	2.5% for 20 yrs., 2.2% after 2.25% for 20 yrs., 2.2% after	80%^	2	5.00%	7.00%	7/1/2008
44th District Court	13	Age 50 & 25 yrs., or age 55 & 20 yrs., or age 60 & 5 yrs.	Before 1/1/2012 After 12/30/2011	2.5% for 20 yrs., 2.2% after 2.25% for 20 yrs., 2.2% after	75%	2	4.00%	4.00%	7/1/2007
Professional and Technical	33	Age 50 & 25 yrs., or age 55 & 20 yrs., or age 60 & 5 yrs.	Before 7/1/2011 After 6/30/2011	2.5% for 20 yrs., 2.2% after 2.25% for 20 yrs., 2.2% after	80%^	2	5.00%	7.00%	7/1/2007
TPOAM (AFSCME)	14	Age 50 & 25 yrs., or age 55 & 20 yrs., or age 60 & 5 yrs.	Before 9/1/2011 After 8/31/2011	2.5% for 20 yrs., 2.2% after 2.25% for 20 yrs., 2.2% after***	80%^	2	4.50%	6.50%	7/1/2005
Foremen and Supervisors	15	Age 50 & 30 yrs., or age 50 & 25 yrs., or age 55 & 20 yrs., or age 60 & 5 yrs.	Before 9/14/2011 After 9/13/2011	2.5% for 20 yrs., 2.2% after 2.25% for first 10 yrs., 2.5% for next 10 yrs., 2.2% after	80%^	2	7.00%	7.00%	7/1/2006
Police Service Aides	22	Age 55 & 20 yrs., or age 60 & 5 yrs., or age 50 & 25 yrs.		2.5% for 20 yrs., 2.2% after	80%	2	4.00%	6.00%	
Police Officers	92	Any age & 25 yrs., or age 55 & 10 yrs.		2.8% for all yrs.	80%^	2	6.00%	6.00%	
Hired before 6/1/2012									
Hired after 5/30/2012		Any age & 25 yrs.* or age 55 & 10 yrs.		2.5% for all yrs.	80%^	3	6.00%	6.00%	
Fire Fighters	93	Any age & 25 yrs., or age 55 & 10 yrs.		2.8% for all yrs.	75%	2	6.00%	6.00%	
Hired before 10/1/2009									
Hired after 9/30/2009		Age 50 & 25 yrs., or age 55 & 10 yrs.**		2.5% for all yrs.	75%	3	6.00%	6.00%	
Police Command	94	Any age & 25 yrs., or age 55 & 10 yrs.		2.8% for all yrs.	80%^	2	6.00%	6.00%	
Detectives	95	Any age & 25 yrs., or age 55 & 10 yrs.		2.8% for all yrs.	80%^	2	6.00%	6.00%	
Fire Department Heads	96	Any age & 25 yrs., or age 55 & 10 yrs.		2.8% for all yrs.	75%	2	6.00%	6.00%	
Police Department Heads	97	Any age & 25 yrs., or age 55 & 10 yrs.		2.8% for all yrs.	80%^	2	6.00%	6.00%	

* For Police Officers hired after 5/30/2012, a member must have at least 25 years of actual service to be eligible to retire and receive a pension.
This is actual service and does not include the purchase of service time.

** For Fire Fighters hired after 9/30/2009, service for eligibility must be actual service and does not include the purchase of service time.

*** Service time previously purchased will be computed utilizing the multiplier in effect at the time of purchase.

^ 1% multiplier after 75% up to 80%.

Retirees and Beneficiaries Added to and Removed from Rolls

Comparative Statement

Valuation Date	Added to Rolls*		Removed from Rolls #			Net Increase		Rolls End of Year	
	No.	Annual Allowances	No.	A	Annual Allowances	No.	Annual Allowances	No.	Annual Allowances
6/30/93	27	\$ 408,146	15	13.9	\$ 127,994	12	\$ 280,152	407	\$ 4,597,263
6/30/94	26	456,550	18	14.3	159,668	8	296,882	415	4,894,145
6/30/95	21	513,916	9	13.5	32,755	12	481,161	427	5,375,306
6/30/96	12	272,020	12	13.5	117,474	0	154,546	427	5,529,852
6/30/97	19	349,731	16	9.8	232,065	3	117,666	430	5,647,518
6/30/98	12	300,261	16	6.8	82,472	(4)	217,789	426	5,865,307
6/30/99	24	369,781	21	15.2	183,802	3	185,979	429	6,051,286
6/30/00	25	532,563	17	15.6	237,789	8	294,774	437	6,346,060
6/30/01	18	585,533	8	16.2	66,561	10	518,972	447	6,865,032
6/30/02	27	648,282	16	17.3	83,892	11	564,390	458	7,429,422
6/30/03	24	512,343	26	18.1	230,945	(2)	281,399	456	7,710,821
6/30/04	31	1,003,875	13	18.4	139,118	18	864,757	474	8,575,578
6/30/05	27	953,722	22	19.5	223,481	5	730,240	479	9,305,818
6/30/06	21	824,024	21	16.4	221,448	0	602,576	479	9,908,394
6/30/07	24	631,164	21	17.4	197,320	3	433,844	482	10,342,238
6/30/08	16	402,955	21	18.0	358,924	(5)	44,031	477	10,386,269
6/30/09	23	698,353	20	18.8	211,747	3	486,606	480	10,872,875
6/30/10	24	694,019	15	19.3	246,786	9	447,233	489	11,320,108
6/30/11	48	1,739,131	19	20.1	213,137	29	1,525,994	518	12,846,102
6/30/12	31	995,284	26	20.7	332,111	5	663,173	523	13,509,275
6/30/13	21	546,902	17	20.7	222,758	4	324,144	527	13,833,419
6/30/14	31	958,208	22	20.3	421,744	9	536,464	536	14,369,883
6/30/15	23	696,302	4	21.5	82,625	19	613,677	555	14,983,560
6/30/16	24	927,420	31	23.7	428,172	(7)	499,248	548	15,482,808
6/30/17	21	724,111	28	23.7	340,800	(7)	383,311	541	15,866,119

* Includes beneficiaries of deceased retirees.

Includes deceased retirees with beneficiaries.

A - Represents actual number.

E - Represents expected number based on actuarial assumptions.

Retirees and Beneficiaries June 30, 2017

Tabulated by Type of Allowance Being Paid

Type of Allowances Being Paid	Annual Retirement Allowances					
	General & Water		Police Officers & Fire Fighters		Totals	
	No.	Amount	No.	Amount	No.	Amount
Age and Service Allowances						
Regular allowance						
Terminating at death of retirant	70	\$ 1,285,881	27	\$ 918,386	97	\$ 2,204,267
75% of benefit continuing to spouse	141	3,610,734	169	7,809,643	310	11,420,377
100% Joint & Survivor benefit	2	40,246	2	70,773	4	111,019
50% Joint & Survivor benefit	2	47,790			2	47,790
Survivor beneficiary of deceased retirant	45	500,754	49	853,592	94	1,354,346
Domestic Relations Order Recipient	6	66,443	5	82,615	11	149,058
Total Age and Service Allowances	266	5,551,848	252	9,735,009	518	15,286,857
Casualty Allowances						
Duty Disability Allowances						
Terminating at death of retirant	1	1,916	1	41,842	2	43,758
Joint & Survivor benefit	1	33,801	1	22,778	2	56,579
Survivor beneficiary of deceased retirant						
Totals	2	35,717	2	64,620	4	100,337
Non-Duty Disability Allowances						
Terminating at death of retirant	1	28,208	2	82,071	3	110,279
Joint & Survivor benefit			2	102,944	2	102,944
Survivor beneficiary of deceased retirant						
Totals	1	28,208	4	185,015	5	213,223
Duty Death Allowances						
Survivor beneficiary			1	4,860	1	4,860
Child(ren) beneficiary						
Totals			1	4,860	1	4,860
Non-Duty Death Allowances						
Spouse beneficiary	7	128,965	5	128,988	12	257,953
Child(ren) beneficiary	1	2,889			1	2,889
Totals	8	131,854	5	128,988	13	260,842
Total Casualty Allowances	11	195,779	12	383,483	23	579,262
Total Allowances Being Paid	277	\$5,747,627	264	\$10,118,492	541	\$15,866,119

Retirees and Beneficiaries June 30, 2017

Tabulated by Nearest Ages

Attained Ages	Age and Service		Casualty		Totals	
	No.	Annual Allowances	No.	Annual Allowances	No.	Annual Allowances
Under 40			1	\$ 2,889	1	\$ 2,889
40-44			3	123,310	3	123,310
45-49	12	\$ 748,440	1	62,726	13	811,166
50-54	29	1,455,946	4	118,278	33	1,574,224
55-59	43	2,165,681	2	58,787	45	2,224,468
60-64	73	2,760,049			73	2,760,049
65-69	90	2,784,692	5	129,167	95	2,913,859
70-74	69	1,917,108	2	6,776	71	1,923,884
75-79	70	1,617,063	2	33,707	72	1,650,770
80-84	42	823,173	2	32,076	44	855,249
85-89	51	697,193	1	11,547	52	708,740
90 & Over	39	317,511			39	317,511
Totals	518	\$15,286,856	23	\$579,263	541	\$15,866,119

Inactive Members June 30, 2017

Tabulated by Nearest Ages

Also included in the valuation were 16 General members and 6 Police/Fire members who are eligible for annual deferred allowances with an estimated value of \$342,138 upon retirement. Some of these 22 inactive members are presently covered under either a long-term disability insurance policy or worker's compensation.

Attained Ages	No.	Estimated Deferred Annual Allowances
36	1	\$ 22,815
40	1	11,685
44	1	18,744
45	1	14,016
46	2	36,440
48	1	19,644
49	1	10,555
50	1	5,460
51	1	4,100
53	1	35,034
54	5	91,368
57	1	6,024
58	1	5,469
59	1	12,814
60	2	42,900
62	1	5,070
Totals	22	\$342,138

Active Members – Comparative Schedule

Valuation Date	Active Members	Valuation Payroll	Average			
			Age	Service	Pay	% Pay Increase
6-30-98	392	\$17,181,869	41.8 yrs.	10.8 yrs.	\$43,831	5.5 %
6-30-99	385	17,501,352	42.4	11.5	45,458	3.7 %
6-30-00	396	18,129,821	42.2	11.0	45,782	0.7 %
6-30-01	397	18,962,345	42.7	11.1	47,764	4.3 %
6-30-02	394	19,368,385	43.1	10.9	49,158	2.9 %
6-30-03	391	20,138,113	43.2	11.1	51,504	4.8 %
6-30-04	378	20,569,285	43.5	10.9	54,416	5.7 %
6-30-05	365	20,839,464	43.7	11.0	57,094	4.9 %
6-30-06	351	20,431,658	43.9	11.4	58,210	2.0 %
6-30-07	346	20,327,590	44.1	11.8	58,750	0.9 %
6-30-08	336	20,459,734	44.9	12.6	60,892	3.6 %
6-30-09	317	20,139,069	45.6	13.5	63,530	4.3 %
6-30-10	287	18,373,382	45.9	14.5	64,019	0.8 %
6-30-11	252	16,804,600	45.8	14.6	66,685	4.2 %
6-30-12	242	15,846,779	46.0	14.7	65,483	(1.8)%
6-30-13	244	15,296,167	46.0	14.8	62,689	(4.3)%
6-30-14	246	15,336,530	45.4	14.4	62,344	(0.6)%
6-30-15	240	15,312,473	45.1	14.5	63,802	2.3 %
6-30-16	231	15,094,284	45.2	14.8	65,343	2.4 %
6-30-17	230	15,552,925	44.7	14.6	67,621	3.5 %

Active Members – June 30, 2017

Group	Active Members	Valuation Payroll
Local 270M	32	\$ 1,671,863
Department Heads and Deputies	7	605,418
Executive Department Heads	6	641,066
44th District Court	14	764,144
Professional & Technical	7	482,670
AFSCME	18	942,756
Foremen and Supervisors	4	301,049
Police Service Aides	12	566,068
Police	55	3,629,519
Fire	49	3,686,212
Police Command	14	1,216,685
Police Detectives	8	623,325
Fire Department Heads	2	211,681
Police Department Heads	2	210,469
Total	230	\$15,552,925

Active Members Added to and Removed from Rolls

Year Ended	Number Added During Year		Terminations During Year								Active Members End of Year	
			Normal Retirement		Disabled		Death-in-Service		Other Terminations			
	A	E	A	E	A	E	A	E	A	E		
6-30-98	23	15	9	11.2	0	1.4	0	0.8	6	14.5	392	
6-30-99	21	28	11	10.5	0	1.4	0	0.7	17	14.5	385	
6-30-00	38	27	12	10.1	0	1.3	0	0.9	15	13.5	396	
6-30-01	27	26	13	9.5	1	1.3	0	0.9	12	14.9	397	
6-30-02	25	28	15	7.4	1	1.3	2	0.9	10	14.6	394	
6-30-03	16	19	12	9.8	2	1.3	0	0.8	5	14.1	391	
6-30-04	19	32	21	10.8	0	1.3	1	0.9	10	12.5	378	
6-30-05	14	27	20	9.5	0	1.3	0	0.9	7	12.1	365	
6-30-06	7	21	18	5.9	2	1.4	0	0.7	1	7.7	351	
6-30-07	13	18	13	4.8	0	1.5	0	0.7	5	6.5	346	
6-30-08	2	12	7	6.9	1	1.5	0	0.6	4	6.0	336	
6-30-09	0	9	13	7.9	1	1.6	0	0.7	5	5.1	317	
6-30-10	0	7	17	6.6	0	1.6	0	0.7	13	4.1	287	
6-30-11	1	16	34	7.2	0	1.5	0	0.6	2	4.1	252	
6-30-12	10	13	11	5.3	2	1.4	1	0.5	6	2.5	242	
6-30-13	14	8	8	5.5	1	1.3	1	0.5	2	3.0	244	
6-30-14	18	7	13	8.9	0	0.8	0	0.4	3	4.2	246	
6-30-15	12	8	13	8.4	2	0.7	0	0.4	3	5.1	240	
6-30-16	9	14	13	7.5	1	0.7	0	0.4	4	5.0	231	
6-30-17	14	8	13	10.7	0	0.6	0	0.4	2	4.6	230	
Last 5 Years	67	45	60	41.0	4	4.1	1	2.1	14	21.9		

A - Represents actual number.

E - Represents expected number based on actuarial assumptions.

General and Water Members by Attained Age and Years of Service

Age Group	Years of Accrued Service							Totals Salary
	0-4	5-9	10-14	15-19	20-24	25-29	30 & Up	
30-34								
35-39	1	2	1				4	\$ 246,503
40-44		4	4	2			10	640,658
45-49		4	7	2			13	694,887
50-54		1	9	7	2	1	20	1,304,368
55-59		1	9	7	4	3	24	1,428,438
60			3	2	1		6	393,502
61			1			1	2	100,411
62		1	1				2	119,597
63		1		1			2	113,141
64			1				1	54,108
65						1	1	42,217
66		1					1	135,164
67		1					1	89,245
70						1	1	46,727
Totals	1	16	36	21	7	7	88	\$5,408,966

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

Group Averages

Age: 52.9 years
 Service: 19.9 years
 Annual Pay: \$61,466

Police and Fire Members (Includes Police Service Aides) by Attained Age and Years of Service

Age Group	Years of Accrued Service							Totals	
	0-4	5-9	10-14	15-19	20-24	25-29	30 & Up	No.	Salary
20-24	2							2	\$ 104,668
25-29	18	1						19	1,123,366
30-34	21	4	3					28	1,866,782
35-39	11	2	10					23	1,507,182
40-44	4	1	4	9	1			19	1,381,457
45-49	2		2	13	13	1		31	2,467,250
50-54			1	3	6	4		14	1,145,630
55-59			1	1	1	3		6	547,624
Totals	58	8	21	26	21	8		142	\$10,143,959

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

Group Averages

Age: 39.7 years
 Service: 11.3 years
 Annual Pay: \$71,436

Summary of Reported Asset Information as of June 30, 2017 (Market Value)

Balance Sheet

Reported Assets		Reserves for	
Cash & equivalents	\$ 835,711	Member contributions	\$ 10,178,745
Other short-term	0	Employer contributions	29,937,236
Receivables & accruals	74,430	Retired benefit payments	149,469,452
Equities	0	Undistributed investment income	(34,618,495)
Fixed income	154,402,946		
Other	0		
Accounts payable	(346,149)		
Total Current Assets	\$154,966,938	Total Reserves	\$154,966,938

Revenues and Expenditures

	2016-17	2015-16
Balance - Beginning of year	\$124,994,849	\$136,325,205
Revenues		
Member contributions	1,064,886	1,157,297
Employer contributions	28,605,368	7,034,692
Investment income	17,512,405	(2,993,573)
Total	47,182,659	5,198,416
Expenditures		
Benefit payments	15,649,303	15,287,988
Health insurance premiums for retired members	0	0
Refund of member contributions	688,076	821,781
Administrative & investment expenses	873,191	419,003
Total	17,210,570	16,528,772
Balance - End of year	\$154,966,938	\$124,994,849

Allocation of Unfunded Liability by Group and Department

	Group		
	General & Water	Police Officers & Fire Fighters	Total
Actuarial Liability	\$78,131,480	\$139,861,826	\$217,993,306
Assets	80,158,368	78,618,480	158,776,848
Unfunded Liability	\$(2,026,888)	\$ 61,243,346	\$ 59,216,458

Department	Unfunded Liability	Amortization Payment for Unfunded Liability
General	\$ (944,241)	\$ (89,056)
Major Streets	(201,063)	(18,963)
Local Streets	0	0
Public Safety	61,243,346	3,999,910
Solid Waste	(87,246)	(8,228)
Library	(138,008)	(13,016)
Community Development Block Grant	(7,138)	(673)
State Construction Code	0	0
Senior Center	(21,812)	(2,057)
Recreation	(36,485)	(3,441)
Auto Parking	(21,812)	(2,057)
Water & Sewer	(336,691)	(31,754)
Ice Arena	(7,138)	(673)
Information Systems	(28,950)	(2,730)
Motor Pool	(196,304)	(18,514)
	\$59,216,458	\$3,808,748

The entire Unfunded Liability for the Police/Fire and Police Services Aides, \$61,243,346, was allocated to the Public Safety Department in the table above. The Unfunded Liability for the General group, (\$2,026,888) was allocated to the remaining Departments according to an allocation provided by the City to GRS.

SECTION C

SUMMARY OF VALUATION METHODS AND ASSUMPTIONS

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 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 member's 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 ...

Investment earnings on contributions received.

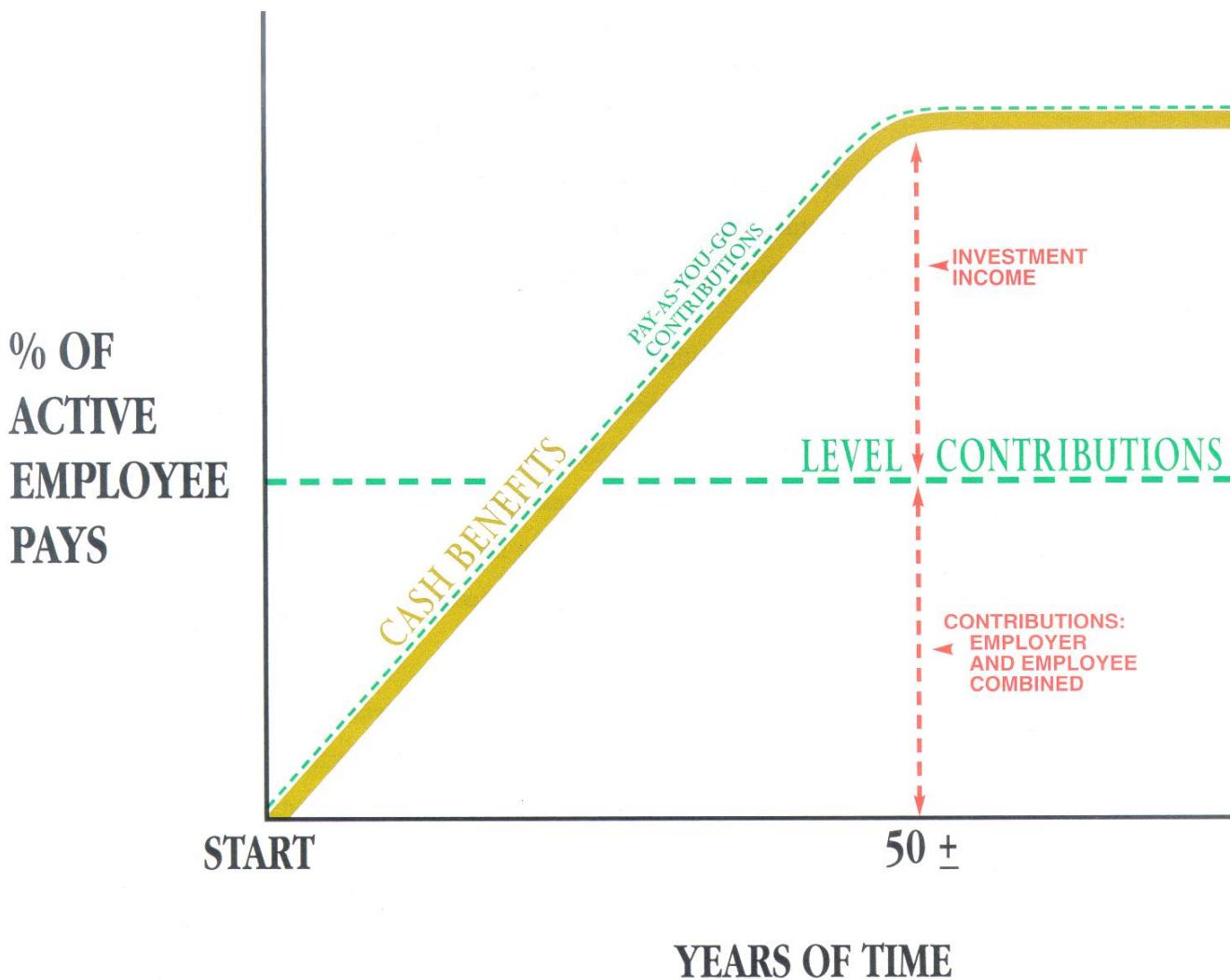
... minus ...

Expenses incurred in operating the program.

A by-product of the 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 a major contributor to the retirement program, and the amount is directly related to the amount of contributions and investment performance.

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

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:

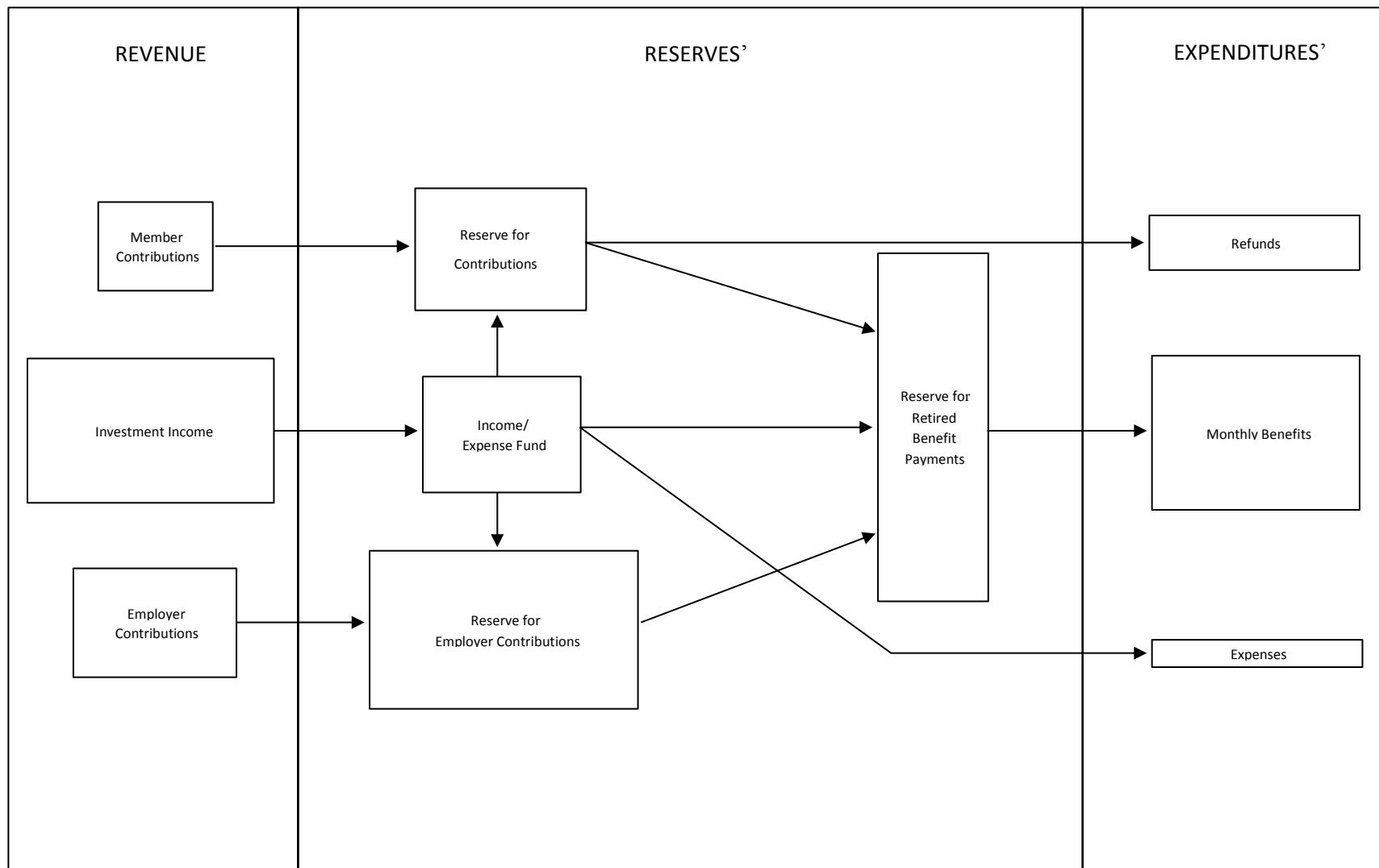
Economic Risk Areas

- 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



Valuation Methods

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

- 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
- each annual normal cost is a constant percentage of the member's year-by-year projected covered pay.

Financing of Unfunded Actuarial Accrued Liabilities: Unfunded actuarial accrued liabilities were amortized by level (principal & interest combined) percent-of-payroll contributions over a period of 26 years for the police and firefighter plans and a 21-year level dollar amount for the general and water plans.

Actuarial Assumptions Used in the Valuation

The actuary calculates the contribution requirements and benefit values of the plan by applying actuarial assumptions to the benefit provisions and census data furnished, using the valuation method described on page C-5.

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

- long-term rates of investment income
- patterns of salary increases
- rates of mortality before and after retirement
- rates of withdrawal from active membership
- rates of disability among members and their subsequent rates of recovery
- probabilities of retirement at various ages after benefit eligibility

In a valuation the monetary effect of each assumption, for each distinct experience group, is projected for the next year and for each year over the next half-century or longer.

Actual experience will not coincide exactly with assumed experience, regardless of the skill of the actuary, the completeness of the data and the precision of the many calculations that are made. Each valuation provides a complete recalculation of system obligations based upon assumptions regarding future experience and takes into account all past differences between assumed and actual experience. The result is a continual series of small adjustments of the computed contribution rate.

From time-to-time it is appropriate to modify one or more of the assumptions to reflect basic experience trends (but not random year-to-year fluctuations).

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.

Sample Ages	Annual Rate of Salary Increase for Sample Age			
	Base (Economic)	Merit & Longevity		
		General, Water & Police Service Aids	Police-Fire	
20	3.0%	2.9%	2.3%	
25	3.0%	2.3%	2.3%	
30	3.0%	2.0%	2.3%	
35	3.0%	1.8%	1.6%	
40	3.0%	1.6%	0.6%	
45	3.0%	1.3%	0.2%	
50	3.0%	0.9%	0.1%	
55	3.0%	0.5%	0.0%	
60	3.0%	0.1%	0.0%	
65	3.0%	-	-	
Ref		417	418	

The rate of investment return was 7.75% per year, compounded annually, net after 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 return for funding purposes is the net rate of return in excess of average salary increases. Considering other assumptions used in the valuation, the 7.75% translates to a real return of approximately 4.75%.

	Year Ending June 30					5-Year Average
	2017	2016	2015	2014	2013	
(1) Nominal rate*	7.6 %	7.2 %	7.9 %	9.4 %	6.9 %	7.8 %
(2) Increase in CPI	1.6 %	1.0 %	0.1 %	2.1 %	1.8 %	1.3 %
(3) Average salary increase	3.5 %	2.4 %	2.3 %	(0.6)%	(4.3)%	0.6 %
(4) Real return						
- investment purposes						6.5 %
- funding purposes						7.2 %

* 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, A is the beginning of year funding value and B is the end of year funding value.

The mortality table used was the RP-2000 Mortality Table, projected 20 years (multiplied by 110%). This assumption is used to measure the probabilities of members dying before retirement and the probabilities of each benefit payment being made after retirement. Rates for disabled members were set-forward 10 years.

Sample Attained	Single Life Retirement Values				
	Present Value of \$1 Monthly for Life		Future Life Expectancy (years)		
	Ages	Men	Women	Men	Women
50		\$140.84	\$142.50	31.97	33.76
55		133.42	135.62	27.27	29.03
60		123.85	126.91	22.72	24.49
65		112.22	116.44	18.47	20.24
70		98.78	104.40	14.58	16.34
75		83.03	90.78	11.01	12.82
80		66.03	75.55	7.93	9.66
Ref.	454	x 1.10	455	x 1.10	

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

Retirement Ages	Percents of Active Members Retiring Within Next Year			
	General	Police Service Aides	Fire Hired Before 10/1/09 & All Police	Fire Hired After 10/1/09
45-49				
50	20%	20%		40%
51	15%	15%		40%
52	15%	15%		40%
53	15%	15%		25%
54	15%	15%		25%
55	15%	15%	25%	25%
56	15%	15%	25%	25%
57	15%	15%	25%	25%
58	15%	15%	25%	25%
59	15%	15%	25%	25%
60	15%	15%	25%	25%
61	15%	15%	25%	25%
62	35%	35%	25%	25%
63	20%	20%	25%	25%
64	20%	20%	25%	25%
65	55%	100%	100%	100%
66	45%			
67	45%			
68	45%			
69	45%			
70	100%			
Ref.	2321	2322	2323	2323

Years of Service	Percent of Eligible Active Members Retiring	
	All Police, Police and Fire Department Heads, and Fire Hired Before 10/1/09	
25		40%
26		40%
27		40%
28		25%
29		25%
30		25%
31		25%
32		25%
33		25%
34		25%
35		25%
36		25%
37		25%
38		25%
39		25%
40		100%

Ref.

2323

A member was assumed to be eligible for retirement after satisfying the following requirements:

Group	Eligibility Requirements for Retirement
SEIU AFL-CIO Local 517M and Foremen & Supervisors	30 years of service regardless of age (age 50 required for Foremen & Supervisors); or 50 years of age with 25 years of service; or 55 years of age with 20 years of service; or 60 years of age with 5 years of service.
Other General & Water	50 years of age with 25 years of service; or 55 years of age with 20 years of service; or 60 years of age with 5 years of service.
All Police, Fire Hired Before 10/1/2009 and Police & Fire Department Heads	25 years of service regardless of age; or 55 years of age with 10 or more years of service.
Fire Hired After 9/30/2009	50 years of age with 25 years of service; or 55 years of age with 10 years of service.
Police Service Aides	50 years of age with 25 years of service; or 55 years of age with 20 years of service; or 60 years of age with 5 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 terminating employment before eligibility for an immediate benefit.

Sample Ages	Years of Service	% of Active Members Separating Within Next Year	
		General & Police Service Aids	Police & Fire
ALL	0	12.00%	10.00%
	1	9.00%	7.00%
	2	7.00%	5.00%
	3	5.00%	4.00%
	4	4.50%	3.50%
25	5 & Over	4.50%	3.00%
30		4.00%	2.50%
35		3.50%	1.50%
40		2.50%	1.00%
45		2.00%	0.75%
50		1.50%	0.50%
55		1.00%	0.25%
60		1.00%	0.25%
65		1.00%	0.25%
Ref.		29	30

Rates of disability were as follows. This assumption measures the probability of members retiring with a disability benefit.

Sample Ages	% of Active Members Becoming Disabled Within Next Year		
	General, Water & Police Service Aids	Male	Female
20	0.04%	0.02%	0.08%
25	0.05%	0.03%	0.11%
30	0.05%	0.04%	0.19%
35	0.07%	0.07%	0.23%
40	0.11%	0.10%	0.53%
45	0.16%	0.14%	0.60%
50	0.26%	0.23%	0.71%
55	0.46%	0.38%	0.83%
60	0.77%	0.55%	0.90%
Ref.	33	34	45

Loading Factor for Final Average Compensation: In the valuation process, a person's salary is assumed to increase by a certain percentage each year (see page C-7). However, compensation for benefit purposes includes things such as sick leave incentive pay which are not reported for the valuation. In order to more accurately calculate contribution requirements, the General active normal retirement liabilities were increased by 3.0% to account for the items not reported for valuation purposes, and Police/Fire active normal retirement liabilities were increased by 7.0%. As additional experience emerges, the ratios will be periodically adjusted to better estimate the effect of inclusion of additional items in final average compensation.

Final Average Compensation with and without Extra Compensation Items New General Retirees

Year Ending June 30	Final Average Compensation		Ratio
	With Extras	Without Extras	
2008	\$ 265,708	\$ 257,527	1.032
2009	411,886	397,403	1.036
2010	927,695	909,791	1.020
2011	1,142,006	1,109,451	1.029
2012	399,988	398,597	1.003
2013	166,105	166,105	1.000
2014	555,114	537,827	1.032
2015	672,736	654,355	1.028
2016	306,019	301,092	1.016
2017	553,032	536,505	1.031
Totals	\$5,400,289	\$5,268,653	1.025

Final Average Compensation with and without Extra Compensation Items New Police/Fire Retirees

Year Ending June 30	Final Average Compensation		Ratio
	With Extras	Without Extras	
2008	\$ 235,078	\$ 207,897	1.131
2009	620,166	557,307	1.113
2010	197,108	173,178	1.138
2011	1,455,696	1,280,714	1.137
2012	956,833	840,669	1.138
2013	473,934	418,537	1.132
2014	555,114	537,827	1.032
2015	420,130	378,238	1.111
2016	991,105	873,419	1.135
2017	598,296	526,550	1.136
Totals	\$6,503,460	\$5,794,336	1.122

Miscellaneous and Technical Assumptions

June 30, 2017

Marriage Assumption:

90% of males and 90% of females are assumed to be married for purposes of death-in-service benefits. Male spouses are assumed to be three years older than female spouses.

Pay Increase Timing:

Beginning of (Fiscal) year. This is equivalent to assuming that reported pays represent amounts paid to members during the year ended on the valuation date.

Pay Annualization:

Reported pay for members with less than twelve contributing months was annualized by the ratio of 12 to the number of contribution months in the year.

Decrement Timing:

Decrements of all types are assumed to occur mid-year.

Eligibility Testing:

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.

Decrement Relativity:

Decrement rates are used directly from the experience study, without adjustment for multiple decrement table effects.

Decrement Operation:

All decrements the first 5 years of service. Only mortality operates during retirement eligibility.

Service Credit Accruals:

It is assumed that members accrue one year of service credit per year.

Loads:

Age and Service Retirement Present Values for General and PSA, and Police/Fire members were loaded by 3.0% and 7.0% respectively to account for the additional amount included in the FAC due to unused sick time and unused vacation time. An additional loading factor of 3.0% was applied to each division for Annuity Withdrawal paid at retirement in lump sums.

Incidence of Contributions:

Contributions are assumed to be received continuously throughout the year based upon the computed percent-of-payroll shown in this report, and the actual payroll payable at the time contributions are made.

Normal Form of Benefit:

A 75% automatic joint and survivor payment is the assumed normal form of benefit for married people.

Benefit Service:

Exact fractional service is used to determine the amount of benefit payable.

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.

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.

Glossary

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.

Meaning of “Unfunded Actuarial Accrued Liabilities”

“**Actuarial accrued liabilities**” are ***the portion of the present value of plan promises to pay benefits in the future not covered by future normal cost contributions***. A liability has been established (“accrued”) because service has been rendered, but the resulting monthly cash benefit may not be payable until years in the future. Actuarial accrued liabilities are the results of complex mathematical calculations, which are made annually by the plan’s actuary.

If “actuarial accrued liabilities” at any time exceed the plan’s accrued assets, the difference is ***“unfunded actuarial accrued liabilities.”*** This is the common condition. If the plan’s assets equaled the plan’s “actuarial accrued liabilities,” the plan would be termed “fully-funded.” This is an unusual condition.

Each time a plan adds a new benefit which applies to service already rendered, an “actuarial accrued liability” is created, which is also an “unfunded actuarial accrued liability” because assets do not immediately increase to cover the value of the new benefit promises. Payment for such unfunded actuarial accrued liabilities is spread over a period of years, commonly in the 20-40 year range.

Unfunded actuarial accrued liabilities can occur in another way: if actual experience is less favorable than assumed experience, the difference is added to unfunded actuarial accrued liabilities. For example, in plans where benefits are directly related to pay near time of retirement, unfunded actuarial accrued liabilities increase when unexpected rates of pay increase create additional actuarial accrued liabilities which are not offset by higher than assumed investment income. Most unexpected pay increases are the direct result of inflation, which is a very destructive force affecting financial stability.

The existence of unfunded actuarial accrued liabilities is not a cause for concern, but the changes from year to year in amount of unfunded actuarial accrued liabilities are important.

Nor are unfunded actuarial accrued liabilities a bill payable immediately. However, it is important that policy-makers prevent the amount from becoming unreasonably high and ***it is vital for a plan to have a sound method for making payments toward them*** so that they are controlled.

Pensions in an Inflationary Environment

**Value of \$1,000/month Retirement Benefit
to an Individual Who Retires at Age 55
in an Environment of 3.0% Inflation**

Age	COLA Rate	
	2.5%	0%
55	\$1,000	\$1,000
56	995	971
57	990	943
58	986	915
59	981	888
60	976	863
65	953	744
70	930	642
75	907	554
80	885	478
85	864	412

The life expectancy of a 55-year-old male retiree is to age 82. The life expectancy for a 55-year-old female retiree is to age 84. Half of the people will outlive their life expectancy. The effects of even moderate amounts of inflation can be significant for those who live to an advanced age.

SECTION D

FINANCIAL REPORTING

NOTE: GASB Statements No. 67 and No. 68 are effective for Governmental Retirement Plans for the fiscal year beginning after June 15, 2013 (GASB Statement No. 67) and the fiscal year beginning after June 15, 2014 (GASB Statement No. 68). These statements replace GASB Statements No. 25 and No. 27.

Supplementary Information

The information presented in the required supplementary schedules was determined as part of the actuarial valuations at the dates indicated. Additional information as of the latest actuarial valuation follows:

Valuation date:	June 30, 2017
Actuarial cost method:	Entry-Age
Amortization method:	Level percent for Police and Fire Level dollar for General and Water
Remaining amortization period:	26 years closed for Police and Fire 21 years closed for General and Water
Asset valuation method:	4-year smoothed market
Actuarial assumption:	
Investment rate of return	7.75%
Projected salary increases	3.0% - 5.9%
Includes inflation at	3.0%
Cost-of-living adjustments	None

Membership of the plan consisted of the following at June 30, 2017, the date of the latest actuarial valuation.

Retirees and beneficiaries receiving benefits	541
Terminated plan members entitled to but not yet receiving benefits	22
Active plan members	<u>230</u>
Total	793

This information is presented in draft form for review by the City's auditor. Please let us know if there are any changes so that we may maintain consistency with the City's financial statements.

Supplementary Information

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL) Entry-Age	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a % of Covered Payroll
6-30-08	\$145,560,741	\$ 166,957,321	\$ 21,396,580	87.2 %	\$20,459,734	104.6%
6-30-09	138,811,772	173,542,642	34,730,870	80.0 %	20,139,069	172.5%
6-30-10	132,168,268	178,656,736	46,488,468	74.0 %	18,373,382	253.0%
6-30-11	125,356,684	188,716,644	63,359,960	66.4 %	16,804,600	377.0%
6-30-12	124,013,356	190,595,369	66,582,013	65.1 %	15,846,779	420.2%
6-30-13	125,708,944	199,908,548	74,199,604	62.9 %	15,296,167	485.1%
6-30-14	130,739,595	203,769,951	73,030,356	64.2 %	15,336,530	476.2%
6-30-15	133,358,876	208,799,571	75,440,695	63.9 %	15,312,473	492.7%
6-30-16^	156,145,763	214,521,936	58,376,173	72.8 %	15,094,284	386.7%
6-30-17	158,776,848	217,993,306	59,216,458	72.8 %	15,552,925	380.7%

[^] Reflects Bond Issuance of \$21.4 million subsequent to measurement date of June 30, 2016.

Schedule of Employer Contributions

Fiscal Year Beginning	Computed Dollar Contribution Based on Projected Payroll	Actual Annual Contributions
7-1-09	\$ 4,395,643	\$ 4,373,351
7-1-10	5,158,959	4,562,789
7-1-11	5,739,910	5,268,941
7-1-12	6,599,438	6,208,560
7-1-13	6,480,707	6,503,436
7-1-14	6,891,898	7,098,292
7-1-15	6,852,495	7,034,692
7-1-16	7,009,728	28,605,368
7-1-17	5,400,763	
7-1-18	5,605,336	

January 30, 2018

Ms. Julie Rudd
Finance Director
City of Royal Oak
211 S. Williams Street
Royal Oak, Michigan 48067

Re: City of Royal Oak Retirement System

Dear Ms. Rudd:

Enclosed are fifteen copies of the report of the annual actuarial valuation as of June 30, 2017.

Sincerely,



Mark Buis, FSA, EA, FCA, MAAA

MB: dj
Enclosures