



**ANNUAL REPORT TO MEMBERSHIP  
JUNE 30, 2016  
CITY OF FARMINGTON HILLS  
EMPLOYEES' RETIREMENT SYSTEM AND RETIREE HEALTH PLAN**

Dear Member:

The year ended June 30, 2016 marked the 50th year of operation for the Employees' Retirement System, which began operation on January 1, 1966. The System provides defined pension benefits for its members and their beneficiaries. The administration of the System, outlined in the City's Retirement Ordinance, is vested with the City of Farmington Hills Retirement Board. This responsibility includes the management of the System's assets, establishing operating policies and procedures, adoption of by-laws and granting of pension benefits in conformity with the existing Retirement Ordinance and labor contracts. Any conflict between statements in this Report and the official documents will be governed by those documents.

All expenses of operating the System are paid for by the Retirement System. No soft dollars are used to pay expenses in this System. The dollars needed to finance retirement benefits are accumulated through the collection of employer and employee contributions combined with the income earned on investments.

The Retirement System continues to be in very good financial and actuarial condition. On behalf of the Farmington Hills Retirement Board, I have summarized below, some of the pertinent facts and results of operation of the Retirement System for the year ended June 30, 2016, including audited financial information, a listing of administrative and investment expenses, a summary of benefits and options, and a summary of the actuarial valuation report and investment results. If you have any questions regarding the pension plan, please call me at (248) 871-2446 or extension 2446.

Respectfully submitted,  
Dave Gajda  
Administrative Officer/Secretary/Treasurer

# City of Farmington Hills Employees' Retirement System

## Statement of Fiduciary Net Position June 30, 2016

|   |                              |
|---|------------------------------|
| <b>Assets</b>                                     |                              |
| Cash and cash equivalents                         | \$ 7,305,270                 |
| Investments (Note 3):                             |                              |
| Common stock                                      | 50,649,818                   |
| Pooled funds                                      | 66,436,026                   |
| Private equity funds                              | 13,375,662                   |
| Accrued interest, dividends and other receivables | 143,636                      |
| Due from other funds                              | <u>205,704</u>               |
| Total assets                                      | 138,116,116                  |
| <b>Liabilities</b>                                |                              |
| Accounts payable                                  | 140,954                      |
| Due to primary government                         | <u>34,355</u>                |
| Total liabilities                                 | <u>175,309</u>               |
| <b>Net Position Restricted for Pensions</b>       | <b><u>\$ 137,940,807</u></b> |

# City of Farmington Hills Employees' Retirement System

## Statement of Changes in Fiduciary Net Position Year Ended June 30, 2016

### Additions

|   |                    |
|---|--------------------|
| Investment income (expense):            |                    |
| Interest and dividends                  | \$ 2,573,301       |
| Net change in fair value of investments | (4,146,778)        |
| Investment expense                      | <u>(1,242,576)</u> |
| Net investment expense                  | (2,816,053)        |
| Contributions:                          |                    |
| Employer                                | 4,710,931          |
| Employee                                | <u>907,655</u>     |
| Total contributions                     | <u>5,618,586</u>   |
| Total additions - Net                   | 2,802,533          |

### Deductions

|                                     |                   |
|-------------------------------------|-------------------|
| Pension payments                    | 10,124,415        |
| Contributions returned to employees | <u>23,727</u>     |
| Total deductions                    | <u>10,148,142</u> |

### Net Decrease in Net Position Held in Trust

(7,345,609)

### Net Position Restricted for Pensions - Beginning of year

145,286,416

### Net Position Restricted for Pensions - End of year

\$ 137,940,807

# City of Farmington Hills

## Post-Retirement Healthcare Finance Fund

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### Statement of Plan Net Position June 30, 2016

#### Assets

|                           |                  |
|---------------------------|------------------|
| Cash and cash equivalents | \$ 6,369,644     |
| Investments (Note 4):     |                  |
| Pooled funds              | 23,515,282       |
| Exchange-traded funds     | 5,832,947        |
| Common stock              | 25,807,644       |
| Private equity funds      | <u>4,578,392</u> |
| Total investments         | 59,734,265       |
| Receivables               | 10,239           |
| Prepaid expenses          | <u>29,329</u>    |
| Total assets              | 66,143,477       |

#### Liabilities

|                           |                |
|---------------------------|----------------|
| Accounts payable          | 55,024         |
| Due to primary government | 525,445        |
| Due to other funds        | <u>205,704</u> |
| Total liabilities         | <u>786,173</u> |

**Net Position Held in Trust for OPEB Benefits**

**\$ 65,357,304**

**City of Farmington Hills  
Post-Retirement Healthcare Finance Fund**

**Statement of Changes in Plan Net Position  
Year Ended June 30, 2016**

**Additions**

|   |                  |
|---|------------------|
| Investment income (expense):            |                  |
| Interest and dividends                  | \$ 1,414,301     |
| Net change in fair value of investments | (2,155,721)      |
| Less investment-related expenses        | <u>(408,135)</u> |
| Net investment expense                  | (1,149,555)      |
| Contributions:                          |                  |
| Employer                                | 1,808,068        |
| Employee                                | <u>262,809</u>   |
| Total contributions                     | <u>2,070,877</u> |
| Total additions - Net                   | 921,322          |

**Deductions**

|                                     |                  |
|-------------------------------------|------------------|
| Benefit payments                    | 2,214,684        |
| Contributions returned to employees | <u>12,104</u>    |
| Total deductions                    | <u>2,226,788</u> |

|   |                             |
|---|-----------------------------|
| <b>Net Decrease in Net Position</b>                                     | (1,305,466)                 |
| <b>Net Position Held in Trust for OPEB Benefits - Beginning of year</b> | <u>66,662,770</u>           |
| <b>Net Position Held in Trust for OPEB Benefits - End of year</b>       | <u><b>\$ 65,357,304</b></u> |

**CITY OF FARMINGTON HILLS  
EMPLOYEES' RETIREMENT SYSTEM AND RETIREE HEALTH PLAN  
ADMINISTRATIVE AND INVESTMENT EXPENSES  
YEAR ENDED JUNE 30, 2016**

|   | <u>Amount</u>           | <u>Prior Year</u>       | <u>\$ Change</u>      | <u>% Change</u>      |
|---|-------------------------|-------------------------|-----------------------|----------------------|
| <b><u>Administrative Expenses:</u></b>                  |                         |                         |                       |                      |
| Accounting Services                                     | 57,811                  | 59,030                  | (1,220)               |                      |
| Actuarial Fees  | 28,129                  | 46,350                  | (18,221)              |                      |
| Custodial Fees  | 35,339                  | 36,761                  | (1,422)               |                      |
| Administrative Services                                 | 15,307                  | 14,270                  | 1,037                 |                      |
| Fiduciary Insurance                                     | 13,971                  | 13,967                  | 4                     |                      |
| Audit Fees  | 10,690                  | 10,690                  | 0                     |                      |
| Professional Training/Education & Travel Expenses       | 9,464                   | 9,057                   | 407                   |                      |
| Legal Fees  | 20,703                  | 8,517                   | 12,186                |                      |
| Dues and Memberships                                    | 1,621                   | 1,627                   | (6)                   |                      |
| Secretarial Fees  | 675                     | 1,575                   | (900)                 |                      |
| Supplies  | 108                     | 116                     | (8)                   |                      |
| <b>Total Administrative Expenses</b>                    | <b>193,817</b>          | <b>201,960</b>          | <b>(8,143)</b>        | <b>-4.03%</b>        |
| <b><u>Investment Expenses:</u></b>                      |                         |                         |                       |                      |
| *Money Manager Fees - Employees' Retirement System      | 958,820                 | 799,437                 | 159,383               | 19.94%               |
| *Money Manager Fees - Retiree Health Plan               | 337,500                 | 239,622                 | 97,878                | 40.85%               |
| Investment Advisory Fees - Employees' Retirement System | 97,161                  | 101,956                 | (4,795)               | -4.70%               |
| Investment Advisory Fees - Retiree Health Plan          | 63,414                  | 46,766                  | 16,648                | 35.60%               |
| <b>Total Investment Expenses</b>                        | <b>1,456,894</b>        | <b>1,187,781</b>        | <b>269,113</b>        | <b>22.66%</b>        |
| <b>TOTAL ADMINISTRATIVE AND INVESTMENT EXPENSES</b>     | <b><u>1,650,711</u></b> | <b><u>1,389,741</u></b> | <b><u>260,970</u></b> | <b><u>18.78%</u></b> |

\*Includes new fees from Cambiar and Townsend and Pinehurst management fees.

**BENEFIT TABLE  
SUMMARY OF BASIC PENSION BENEFITS  
STRAIGHT LIFE (NO SURVIVOR BENEFIT)**

ELIGIBILITY

MULTIPLIERS

up to 25 yrs    Over 25    Max\*

BENEFIT GROUP A-AFSCME

Sum of age and service equals 80  
(minimum age 55) or age 60 with 8 years of service.

2.80%    1.00%    75%

Plan closed to new hires after July 1, 2006.

BENEFIT GROUPS:

G-GENERAL, J-COURT, T-TEAMSTERS

Sum of age and service equals 80  
(minimum age 55) or age 60 with 8 years of service.

2.80%    1.00%    80%

Plan closed to new hires in General Group after July 1, 2006.  
Plan closed to new hires in Teamsters after January 1, 2008.  
Plan closed to new hires in Court Group after September 1, 2015

BENEFIT GROUP EXECUTIVE

Sum of age and service equals 80  
(minimum age 55) or age 60 with 8 years of service.

3.00%    1.00%    80%

Plan closed to (City Executive) new hires after July 1, 2006.  
Plan closed to (Court Executive) new hires after September 1, 2015

BENEFIT GROUP D-DISPATCHERS

Sum of age and service equals 80                      Until age 67  
(minimum age 55) or age 60 with 8                      At age 67  
years of service.

2.65%    1.00%    70%  
2.375%    1.00%    70%

Plan closed to new hires after January 1, 2007.

BENEFIT GROUP F-FIREFIGHTERS

Hired Prior to July 1, 2008  
25 years of service regardless of age

2.80%    1.00%    75%

New hires after July 1, 2008:  
Minimum Age 50 with 25 years of service.

2.25%    1.00%    60%

BENEFIT GROUP C-POLICE COMMAND

Minimum Age 50 with 25 years of service, or  
30 years of service regardless of age with  
a minimum of 25 years as sworn Police Officer.

3.00%    1.00%    80%

BENEFIT GROUP P-POLICE OFFICER

Hired Prior to January 1, 2008  
25 years of service regardless of age.

2.80%    1.00%    75%

New hires after January 1, 2008:  
Minimum Age 50 with 25 years of service.

2.25%    1.00%    60%

\* Maximum benefit is computed as the indicated % of Final Average Compensation.

FAC IS FINAL AVERAGE COMPENSATION CONSISTING OF THE 3 HIGHEST CONSECUTIVE YEARS OUT OF THE LAST 10 YEARS. FAC INCLUDES LONGEVITY ON BASE PAY FOR ALL EMPLOYEES PLUS LUMP SUM HOLIDAY PAY FOR POLICE, FIRE AND DISPATCH MEMBERS.

**RETIREMENT SYSTEM PENSION ESTIMATE**

|                                 |         |           |       |   |             |
|---------------------------------|---------|-----------|-------|---|-------------|
| Your Final Average Compensation |         |           |       | = | TOTAL COMP. |
| Base Pay                        | Holiday | Longevity |       |   |             |
| Year 1                          | _____   | _____     | _____ |   | _____       |
| Year 2                          | _____   | _____     | _____ |   | _____       |
| Year 3                          | _____   | _____     | _____ |   | _____       |
| TOTAL                           |         |           |       |   | _____       |

Divide by 3 = \_\_\_\_\_  
 Final average compensation (F.A.C.) (A)

**Service Credits**

Years of Full Time Service X .0225, .025, .0265, .028, .030 (multiplier)  
 (up to 25 yrs. Max.) Select percentage from table on previous page.

Years \_\_\_\_\_ X \_\_\_\_\_ = \_\_\_\_\_

Additional Years \_\_\_\_\_ X .01 = \_\_\_\_\_

Total \_\_\_\_\_ 60%, 70%, 75%, or 80% maximums may apply.  
 (B) Please refer to the benefit table.

STRAIGHT LIFE PENSION: \_\_\_\_\_ X \_\_\_\_\_ = ANNUAL PENSION  
 (A) (B)

**EARLY RETIREMENT** The Early Retirement Benefit is actuarially reduced from Normal Retirement Age.

- General Employee Age 57 with 8 years of service.
- Patrol/Fire Employee Age 50 with 20 years of service.
- Police Command Employee Age 50 with 15 years of service or <50 years with 25 years of service as sworn Police Officer.

System Member is eligible for a Deferred Retirement Benefit (Vested Benefit) if a General Employee has 8 or more years of service (benefit begins at age 60) or a Police/Fire Employee has 15 or more years of service (benefit begins at age 55).

**DUTY DISABILITY**

In addition to the Normal, Early and Deferred Retirement provisions, the System provides for Duty Disability benefits to qualifying members.

## **DEATH-IN-SERVICE**

A pension (survivor option A) shall be paid for life to the surviving spouse provided the member attained age 57 and has 8 years of service or the member has 10 or more years of credited service regardless of age and died while an employee of the City.

## **RETIREMENT BENEFIT OPTIONS**

Prior to retirement, but not thereafter, a member may elect to receive a retirement benefit by one of the following four methods:

### 1) **STRAIGHT LIFE RETIREMENT BENEFITS**

This allowance is a benefit payable to the member throughout his/her life. This is a non-survivor benefit and terminates upon the death of the member.

### 2) **SURVIVOR ALLOWANCE OPTIONS**

Under three available options, a retiree receives a reduced Straight Life Benefit, payable for life. Upon death, the reduced pension benefit will continue to be paid throughout the beneficiary's life at the percentage option selected. The reduction of Straight Life Benefit is actuarially determined based on the ages of the member and his/her beneficiary at the time of retirement and the percentage option of primary benefit chosen. A greater reduction of Straight Life Benefit will be made to provide 100% of the Primary Pension Benefit than 75% or 50%. The Survivor Allowance Options are:

|                 |                                   |
|-----------------|-----------------------------------|
| <u>Option A</u> | - 100% of Primary Pension Benefit |
| <u>Option B</u> | - 75% of Primary Pension Benefit  |
| <u>Option C</u> | - 50% of Primary Pension Benefit  |

Should the named survivor beneficiary die before the retired member, the retired member's pension shall be recomputed (pop-up) to a Straight Life Pension.

### 3) **ANNUITY OPTION**

All City and Court employees are eligible for the annuity option.

### 4) **MEDICAL BENEFITS**

Medical Benefits are available for all qualifying retirees. Since age and service requirements, the amount of monthly premium covered, and the effective date of coverage vary between bargaining groups, check with Human Resources or the Finance Department for your respective coverage.

## **SUMMARY OF ACTUARIAL VALUATION**

An Actuarial Valuation of the Retirement System and Retiree Health Plan, performed by Gabriel, Roeder, Smith & Company, involves the computation of the present value of future benefits to be paid by the System as well as the present value of future income of the System. These present values, when related to the assets currently held by the System, provide the actuary with the basis for computing the future contributions, which will be required of the employer to keep the System on a sound actuarial basis.

### **Actuarial Cost Method:**

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

(i) the annual normal costs for each individual active member, payable from the hire date to the date of retirement, are sufficient to accumulate to the value of the member's benefit earned.

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

For the groups that have the tiered benefit structure (Police Patrol and Fire), the new benefit tier is used to determine the normal cost. The Actuarial Accrued Liability is then determined by subtracting the present value of future normal costs.

**Asset Valuation or Smoothing Method:**

The actuarial value of assets recognizes assumed investment income fully each year. Differences between actual and assumed investment income are phased in over a closed five year period.

**INVESTMENTS**

The goal of the System is to provide present and future retirement or survivor benefits for its members. Since investment income is a vital link to funding these benefits, the System's portfolio is managed by the following general policies:

- 1) Preservation of the principal value of the Plan.
- 2) Diversification of the portfolio to minimize volatility, market risk and to maximize total rate of return.
- 3) Meet, with a high degree of probability, the assumed actuarial rate of return of 7.5% over a five-year period.
- 4) Provide a real rate of return of 4% (rate of return must exceed the C.P.I. by 4%).
- 5) Achieve funding of vested pension benefits within the time period in which unfunded liabilities are amortized by actuary.

Investments at June 30, 2016 consisted of 49% Equities, 26% Fixed Income (Bonds), 22% Alternative Investments (Hedge Funds/Real Estate/Private Equity), and 3% Cash and Equivalents.

In order to diversify the portfolio, the Retirement Board retained ten equity managers; Loomis Sayles & Co. which employs a value investment policy, Hamlin which employs a dividend paying strategy, Seizert which employs a large cap core strategy, Reinhart Partners using an All Cap strategy, Entrust and Corbin Capital which employ an alternative investment Hedge Fund strategy, Lazard which employs an International Investment approach, Edgewood which invests in growth companies it deems to be of high quality, Vanguard which seeks to track the performance of a benchmark index that measures the investment return of stocks issued by companies located in Canada and the major markets of Europe and the Pacific region, and Cambiar which is designed to identify compelling international investment opportunities that possess the desired combination of attractive valuations and potential for multiple expansion. The Board retained four fixed income managers; BC Aggregate, PIMCO, Loomis Sayles, and Templeton which specialize in managing fixed income securities (bonds). The Board also retained four private equity alternative investments; Penn Square/Townsend, Goldman Sachs, Blackstone and McMorgan. The remainder of the portfolio is comprised of cash. For 2016 the retirement system portfolio posted a net investment loss of 1.90%, and the post-retirement healthcare posted a net investment loss of 1.70%.

City of Farmington Hills Employees' Retirement System and Retiree Health Plan at June 30, 2016

|  | General         | Court            | Police           | Fire             | Total             | Previous Year | Change From Previous Year |
|--|-----------------|------------------|------------------|------------------|-------------------|---------------|---------------------------|
| <u>Retirement System:</u>                                    |                 |                  |                  |                  |                   |               |                           |
| Membership   | Closed          | Closed           | Open             | Open             | -                 | ****          | -                         |
| Funded Ratio*  | 87%             | 88%              | 83%              | 83%              | 85%               | 86%           | -1%                       |
| Number of Active Members                                     | 101             | 23               | 102              | 51               | 277               | 283           | (6)                       |
| Number of Retirees/Beneficiaries                             | N/A             | N/A              | N/A              | N/A              | 293               | 283           | 10                        |
| Total Annual Pensions Paid                                   | N/A             | N/A              | N/A              | N/A              | \$8,827,068       | \$8,372,248   | \$454,820                 |
| Average Annual Pension Paid                                  | N/A             | N/A              | N/A              | N/A              | \$30,126.51       | \$29,584      | \$543                     |
| Total Annual Valuation Payroll                               | N/A             | N/A              | N/A              | N/A              | \$20,046,105      | \$20,047,647  | (\$1,542)                 |
| City's Normal Cost \$ or %                                   | \$697,823       | \$148,456        | 14.62%           | 15.11%           | N/A               | N/A           | N/A                       |
| City's Total Contribution Rate \$ or %                       | \$1,967,147     | \$249,180        | 23.68%           | 20.57%           | N/A               | N/A           | N/A                       |
| Employee Contribution Rate                                   | 4.50%           | 4.50%            | 4.50%            | 4.50%            | 4.50%             | 4.50%         | 0%                        |
| Actuarial Assumed Rate of Investment Return                  | 7.50%           | 7.50%            | 7.50%            | 7.50%            | 7.50%             | 7.50%         | 0%                        |
| Actuarial Assumed Rate of Long-term Wage Inflation           | 3.50%           | 3.50%            | 3.50%            | 3.50%            | 3.50%             | 3.50%         | 0.00%                     |
| Health Care Inflation  | N/A             | N/A              | N/A              | N/A              | N/A               | N/A           | N/A                       |
| Amortization Method Used                                     | Level \$        | Level % of       | Level % of       | Level % of       | -                 | ****          | -                         |
| Amortization Period Used**                                   | 11 Years        | 14 Years         | 27 Years         | 27 Years         | -                 | **            | **                        |
| <u>Investment Performance as of 09/30/2016 (net of fees)</u> |                 |                  |                  |                  |                   |               |                           |
|  | Trailing 1 Year | Trailing 3 Years | Trailing 5 Years | Trailing 7 Years | Trailing 10 Years |               |                           |
| Retirement System  | 8.49%           | 4.63%            | 7.87%            | 7.36%            | 5.73%             |               |                           |
| <u>Retiree Health Plan***</u>                                |                 |                  |                  |                  |                   |               |                           |
| Membership   | Closed          | Closed           | Closed           | Closed           | -                 | ****          | -                         |
| Funded Ratio*  | N/A             | N/A              | N/A              | N/A              | 100%              | 88%           | 12%                       |
| Total Annual Valuation Payroll                               | N/A             | N/A              | N/A              | N/A              | \$17,092,987      | \$17,633,733  | (\$540,746)               |
| City's Total Contribution Rate \$ or %                       | \$204,418       | \$58,154         | \$319,802        | \$194,388        | \$776,762         | \$1,794,724   | (\$1,017,962)             |
| Employee Contribution Rate                                   | 1.50%           | 1.50%            | 1.50%            | 1.50%            | 1.50%             | 1.50%         | 0%                        |
| Actuarial Assumed Rate of Investment Return                  | 7.50%           | 7.50%            | 7.50%            | 7.50%            | 7.50%             | 7.50%         | 0%                        |
| Health Care Inflation  | 3.5% - 9.0%     | 3.5% - 9.0%      | 3.5% - 9.0%      | 3.5% - 9.0%      | 3.5% - 9.0%       | 3.5% - 9.0%   | 0%                        |
| Amortization Method Used                                     | Level \$        | Level \$         | Level \$         | Level \$         | Level \$          | Same          | -                         |
| Amortization Period Used**                                   | 14 Years        | 14 Years         | 14 Years         | 14 Years         | 14 Years          | **            | **                        |
| <u>Investment Performance as of 09/30/2016 (net of fees)</u> |                 |                  |                  |                  |                   |               |                           |
|  | Trailing 1 Year | Trailing 3 Years | Trailing 5 Years | Trailing 7 Years | Trailing 10 Years |               |                           |
| Retiree Health Plan  | 8.82%           | 4.55%            | 7.51%            | 6.87%            | 4.58%             |               |                           |

\* From Actuarial Valuation Report.

\*\* Closed Amortization Period, reduced 1 year for each actuarial valuation.

\*\*\* Actuarial Valuations for the Retiree Health Care Plan are completed bi-annually.

\*\*\*\* Same, except Court was open until September 1, 2015.

**RETIREMENT BOARD MEMBERS**

(as of June 30, 2016)

Terms Expire December 31

**Lauri Siskind, Chairperson**

Citizen Member  
Term Expires 2016

**Mike Lasley, Vice Chairperson**

General Employee Member  
Term Expires 2018

**Doug Muller**

Police/Fire Member  
Term Expires 2018

**James Knittel**

Police/Fire Member  
Term Expires 2017

**Dave Gajda**

Administrative Officer  
Secretary-Treasurer  
Ex-Officio Member

**Eric Gould**

Citizen Member  
Term Expires 2017

**Mark Saksewski**

General Employee Member  
Term Expires 2017

**INDEPENDENT AUDITORS**

Plante & Moran, CPAs

**ACTUARY**

Gabriel, Roeder, Smith & Company

**INVESTMENT MANAGERS**

Seizert  
Loomis, Sayles & Company  
Reinhart Partners  
Entrust  
Hamlin Capital  
Corbin Capital  
Edgewood  
Lazard  
BC Aggregate  
Vanguard  
Penn Square  
Templeton Global  
Cambiar  
Blackstone Tactical Opportunities  
PIMCO  
Goldman Sachs  
McMorgan Infrastructure  
Townsend

**INVESTMENT PERFORMANCE  
ADVISORS**

Graystone Consulting

**ATTORNEY**

VanOverbeke, Michaud &  
Timmony, P.C.

**CUSTODIAN**

Wells Fargo

**ACCOUNTANT**

Susan Tadeusiak

**CITY COUNCIL LIAISON**

Theresa Rich

**FOR FURTHER INFORMATION CONTACT:**

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