



**ANNUAL REPORT TO MEMBERSHIP
JUNE 30, 2021**

City of Farmington Hills Post-Retirement Healthcare Finance Fund

Dear Member:

The year ended June 30, 2021, marked the 21st year of operation for the Employees' Retirement System Post-Retirement Healthcare Finance Fund, which began operation on May 15, 2000. The Fund provides medical benefits for its members and their beneficiaries. The administration of the Fund, outlined in the City's Retirement Ordinance, is vested with the City of Farmington Hills Retirement Board. This responsibility includes the management of the Fund's assets, establishing operating policies and procedures, adoption of by-laws and granting of medical 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 Post-Retirement Healthcare Finance Fund are paid for by the Healthcare Fund. No soft dollars are used to pay expenses in this Fund. The dollars needed to finance healthcare benefits are accumulated through the collection of employer and employee contributions combined with the income earned on investments.

The Post-Retirement Healthcare Finance Fund 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, 2021, including audited financial information, a listing of administrative and investment expenses, 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.

Respectfully submitted,

Thomas C. Skrobola
Finance Director/Treasurer/Pension Administrator

**Statement of Plan Net Position
June 30, 2021**

Assets

Cash and cash equivalents	\$ 999,261
Investments	100,032,736
Accrued Interest and other receivables	<u>500,357</u>
Total assets	<u>101,532,354</u>

Liabilities

Accounts payable	83,197
Due to primary government	<u>387,982</u>
Total liabilities	<u>471,179</u>

Net Position Restricted for OPEB **\$ 101,061,175**

Statement of Changes in Plan Net Position
Year Ended June 30, 2021

Additions	
Investment income, net of expenses	\$ 25,605,548
Contributions:	
Employer	540,667
Employee	<u>216,024</u>
Total additions - Net	<u>26,362,239</u>
Deductions	
Benefit payments	3,236,904
Contributions returned to employees	<u>77,380</u>
Total deductions	<u>3,314,284</u>
Net Increase in Restricted Net Position for OPEB	23,047,955
Net Position Restricted for OPEB - Beginning of year	<u>78,013,220</u>
Net Position Restricted for OPEB - End of year	<u>\$101,061,175</u>

**Administrative and Investment Expenses
Year Ended June 30, 2021**

<u>Administrative Expenses:</u>	<u>Amount</u>	<u>Prior Year</u>	<u>\$ Change</u>	<u>% Change</u>
Accounting Services	\$13,804	\$12,639	\$1,165	
Actuarial Fees	29,000	20,150	8,850	
Administrative Services	5,635	5,935	(300)	
Audit Fees	2,749	1,330	1,419	
Custodial Fees	16,699	16,533	166	
Dues and Memberships	156	0	156	
Fiduciary Insurance	5,014	5,014	0	
Legal Fees	6,556	14,412	(7,855)	
Professional Training/Education & Travel Expenses	510	1,863	(1,353)	
Total Administrative Expenses	<u>80,124</u>	<u>77,876</u>	<u>2,248</u>	<u>2.89%</u>
<u>Investment Expenses:</u>				
Money Manager Fees	696,737	467,900	228,837	48.91%
Investment Advisory Fees	37,500	37,500	0	0.00%
Total Investment Expenses	<u>734,237</u>	<u>505,400</u>	<u>228,837</u>	<u>45.28%</u>
Total Administrative and Investment Expenses	<u>\$ 814,361</u>	<u>\$ 583,276</u>	<u>\$ 231,085</u>	<u>39.62%</u>

**Budget Report
2021/2022 Fiscal Year**

Administrative Expenses:

Accounting Services	\$ 15,000
Actuarial Fees	13,500
Administrative Services	8,500
Audit Fees	3,000
Custodial Fees	17,000
Dues & Memberships	340
Fiduciary Insurance	5,100
Legal Fees	10,000
Meeting Supplies & Other	340
Professional Training/Education/Travel Expenses	8,500
Total Administrative Expenses	<u>81,280</u>

Investment Expenses:

Money Manager Fees	700,000
Investment Advisory Fees	40,000
Total Investment Expenses	<u>740,000</u>

Total Administrative and Investment Expenses **\$ 821,280**

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:

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.

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 Command, 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 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% over a five-year period.
4. Achieve funding of vested pension benefits within the time period in which unfunded liabilities are amortized by actuary.

City of Farmington Hills Post-Retirement Healthcare Finance Fund – FY20/21 Annual Report

Investments on June 30, 2021, consisted of 57% Equities, 20% Fixed Income (Bonds), 21% Alternative Investments (Hedge Funds/Real Estate/Private Equity), and 2% Cash or Cash Equivalents.

To diversify the portfolio, the Retirement Board retained nine equity managers:

1. Hardman Johnston
2. Hamlin
3. Seizert
4. Reinhart Partners
5. Edgewood
6. Ancora
7. ABS
8. First Eagle
9. Vanguard

The Board retained three fixed income managers:

1. Baird
2. HIG Bayside
3. Marathon

The Board retained twelve private equity alternative investments:

1. Townsend
2. Corbin Capital
3. Entrust
4. Entrust III
5. Blackstone Tac Ops
6. McMorgan
7. Goldman Sachs
8. Blackstone BTAS IV
9. Valstone
10. PRISA II
11. Brookfield
12. TerraCap

The remainder of the portfolio is comprised of cash or cash equivalents. For 2021, the retirement system portfolio posted net investment income of 32.62%.

**Summary from Actuarial Valuation Reports
Year Ended June 30, 2021**

Retiree Health Plan***	General	Court	Police	Fire	Total	Prior Year	Change from Prior Year
Membership	Closed	Closed	Closed	Closed	-	-	-
Funded Ratio*	N/A	N/A	N/A	N/A	128%	108%	19.75%
Number of Active Members	59	18	64	26	167	176	(9)
Number of Retirees/Beneficiaries:	149	11	99	16	275	259	16
Medical Insurance	112	8	78	16	214	198	16
Medical Opt Out Allowance	37	3	21	0	61	56	5
Total Annual Premiums Paid	N/A	N/A	N/A	N/A	\$3,236,904	\$2,920,432	\$316,472
Total Annual Valuation Payroll****	N/A	N/A	N/A	N/A	\$15,005,716	\$15,005,716	\$0
City's Annual Required Contribution	\$310,047	\$36,216	\$0	\$194,404	\$540,667	\$559,360	(\$18,693)
City's Annual Required Contribution as a % of valuation payroll	2.07%	0.24%	0.00%	1.30%	3.60%	3.73%	0.13%
Employee Contribution Rate	1.50%	1.50%	1.50%	1.50%	1.50%	1.50%	0.00%
Actuarial Assumed Rate of:							
Investment Return	7.00%	7.00%	7.00%	7.00%	7.00%	7.00%	0.00%
Health Care Inflation	3.5%-9%	3.5%-9%	3.5%-9%	3.5%-9%	3.5%-9%	3.5%-9%	0.00%
Amortization Method Used	Level \$	Level \$	Level \$	Level \$	Level \$	Same	-
Amortization Period Used**	10 Years	10 Years	10 Years	10 Years	10 Years	**	**
Amortization Smoothing Method Used	5 Year	5 Year	5 Year	5 Year	5 Year	5 Year	-
<u>Investment Performance</u>							
(net of fees)	Trailing <u>1 Year</u>	Trailing <u>3 Years</u>	Trailing <u>5 Years</u>	Trailing <u>7 Years</u>	Trailing <u>10 Years</u>		
	32.62%	11.70%	10.94%	7.28%	7.66%		

* 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.

**** Total Annual Valuation Payroll is based on Fiscal Year 2019-2020

RETIREMENT BOARD MEMBERS

(as of June 30, 2021)

3 Year Term Expires December 31

Eric Gould, Chairperson

Citizen Member
Term Expires 2023

Lauri Siskind, Vice Chairperson

Citizen Member
Term Expires 2022

Doug Muller

Police/Fire Member
Term Expires 2021

Mark Rash

Police/Fire Member
Term Expires 2023

Stacy Parke

General Employee Member
Term Expires 2023

Kevin McCarthy

General Employee Member
Term Expires 2021

Thomas Skrobola

Administrative Officer
Secretary-Treasurer
Ex-Officio Member

INDEPENDENT AUDITORS

Yeo & Yeo, CPA's

ACTUARY

Gabriel, Roeder, Smith & Company

INVESTMENT MANAGERS

ABS
Ancora
Baird
Blackstone BTAS IV
Blackstone Tactical Opportunities
Brookfield Premier
Corbin Capital
Edgewood
Entrust
First Eagle
Goldman Sachs
Hamlin Capital
Hardman
HIG
Marathon
McMorgan
PRISA II
Reinhart Partners
Seizert
TerraCap
Townsend
Valstone
Vanguard

INVESTMENT PERFORMANCE

ADVISORS

AndCo Consulting

ATTORNEY

VanOverbeke, Michaud & Timmony, P.C.

CUSTODIAN

Comerica

MEDICAL DIRECTOR

MedSource Services

SENIOR PENSION ACCOUNTANT

Susan Hardy

CITY COUNCIL LIAISON

Ken Massey

FOR FURTHER INFORMATION CONTACT:

Thomas Skrobola, Administrative Officer/Secretary/Treasurer
31555 W. 11 Mile Road, Farmington Hills, Michigan 48336-1165
(248) 871-2446