



**ANNUAL REPORT TO MEMBERSHIP  
JUNE 30, 2022**

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

Dear Member:

The year ended June 30, 2022, marked the 22nd 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, 2022, 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,

A handwritten signature in blue ink, appearing to read "Thomas C. Skrobola", with a long horizontal flourish extending to the right.

Thomas C. Skrobola  
Finance Director/Treasurer/Pension Administrator

**Statement of Plan Net Position**  
**June 30, 2022**

**Assets**

Cash and cash equivalents	\$ 1,089,154
Investments	87,199,214
Accrued Interest and other receivables	<u>54,500</u>
Total assets	<u>88,342,868</u>

**Liabilities**

Accounts payable	103,641
Due to primary government	<u>206,906</u>
Total liabilities	<u>310,547</u>

**Net Position Restricted for OPEB**

**\$ 88,032,321**

**Statement of Changes in Plan Net Position**  
**Year Ended June 30, 2022**

**Additions**

Investment income, net of expenses	\$ (10,154,722)
Contributions:	
Employer	307,862
Employee	<u>195,527</u>
Total additions (loss) - Net	<u>(9,651,333)</u>

**Deductions**

Benefit payments	3,340,850
Contributions returned to employees	<u>36,671</u>
Total deductions	<u>3,377,521</u>

**Net Decrease in Restricted Net Position for OPEB** **(13,028,854)**

**Net Position Restricted for OPEB - Beginning of year** 101,061,175

**Net Position Restricted for OPEB - End of year** **\$ 88,032,321**

## Administrative and Investment Expenses Year Ended June 30, 2022

<u>Administrative Expenses:</u>	<u>Amount</u>	<u>Prior Year</u>	<u>\$ Change</u>	<u>% Change</u>
Accounting Services	\$15,043	\$13,804	\$1,239	
Actuarial Fees	13,500	29,000	(15,500)	
Administrative Services	5,273	5,635	(362)	
Audit Fees	1,633	2,750	(1,117)	
Custodial Fees	17,000	16,699	301	
Dues and Memberships	137	156	(19)	
Fiduciary Insurance	5,071	5,014	57	
Legal Fees	1,246	6,556	(5,310)	
Professional Training/Education & Travel Expenses	1,835	510	1,325	
Supplies	554	0	554	
Total Administrative Expenses	61,292	80,124	(18,832)	-23.50%
<u>Investment Expenses:</u>				
Money Manager Fees	926,306	696,737	229,569	32.95%
Investment Advisory Fees	40,000	37,500	2,500	6.67%
Total Investment Expenses	966,306	734,237	232,069	31.61%
<b>Total Administrative and Investment Expenses</b>	<b>\$1,027,598</b>	<b>\$ 814,361</b>	<b>\$ 213,237</b>	<b>26.18%</b>

**Budget Report  
2021/2022 Fiscal Year**

**Administrative Expenses:**

Accounting Services	\$ 15,750
Actuarial Fees	30,750
Administrative Services	9,000
Audit Fees	2,000
Custodial Fees	17,000
Dues & Memberships	340
Fiduciary Insurance	5,100
Legal Fees	10,000
Meeting Supplies & Other	340
Professional Training/Education/Travel Expenses	10,676
Total Administrative Expenses	<u>100,956</u>

**Investment Expenses:**

Money Manager Fees	700,000
Investment Advisory Fees	42,500
Total Investment Expenses	<u>742,500</u>

Total Administrative and Investment Expenses      **\$ 843,456**

## **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.

Investments on June 30, 2022, consisted of 55.4% Equities, 20.2% Fixed Income (Bonds), 24.2% Alternative Investments (Hedge Funds/Real Estate/Private Equity), and 0.2% 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. Fidelity

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 2022, the retirement system portfolio posted net investment loss of (10.16)%.

## Summary from Actuarial Valuation Reports Year Ended June 30, 2022

<u>Retiree Health Plan</u>	*	General	Court	Police	Fire	Total	Prior Year	Change from Prior Year
Membership		Closed	Closed	Closed	Closed	-	-	-
Funded Ratio	**	125%	113%	111%	96%	114%	128%	-14.00%
Number of Active Members		52	14	48	22	136	167	(31)
Number of Retirees/Beneficiaries:		144	15	99	19	277	275	2
Medical Insurance		110	10	77	18	215	214	1
Medical Opt Out Allowance		34	5	22	1	62	61	1
Total Annual Premiums Paid		N/A	N/A	N/A	N/A	\$3,340,850	\$3,236,904	\$103,946
Total Annual Valuation Payroll	***	N/A	N/A	N/A	N/A	\$12,435,716	\$15,005,716	(\$2,570,000)
City's Annual Required Contribution		\$66,776	\$43,620	\$0	\$197,466	\$307,862	\$540,667	(\$232,805)
City's Annual Required Contribution as a % of valuation payroll		0.54%	0.35%	0.00%	1.59%	2.48%	3.60%	1.12%
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%-7.5%	3.5%-7.5%	3.5%-7.5%	3.5%-7.5%	3.5%-7.5%	3.5%-9%	0.00%
Amortization Method Used		Level \$	Level \$	Level \$	Level \$	Level \$	Same	-
Amortization Period Used		14 Years	14 Years	14 Years	14 Years	14 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>		
		-9.83%	6.88%	6.50%	6.11%	6.72%		

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

\*\* From Actuarial Valuation Report.

\*\*\* Total Annual Valuation Payroll is based on Fiscal Year 2021-2022



**RETIREMENT BOARD MEMBERS**

(as of June 30, 2022)

3 Year Term Expires December 31

**Eric Gould, Chairperson**

Citizen Member  
Term Expires 2023

**Lauri Siskind, Vice Chairperson**

Citizen Member  
Term Expires 2022

**Domenic Lauria**

Police/Fire Member  
Term Expires 2024

**Mark Rash**

Police/Fire Member  
Term Expires 2023

**Stacy Parke**

General Employee Member  
Term Expires 2023

**Kevin McCarthy**

General Employee Member  
Term Expires 2024

**Thomas Skrobola**

Administrative Officer  
Secretary-Treasurer  
Ex-Officio Member

**INDEPENDENT AUDITORS**

Yeo & Yeo, CPAs

**ACTUARY**

Gabriel, Roeder, Smith & Company

**INVESTMENT MANAGERS**

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

**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:**

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Farmington Hills, Michigan 48336-1165  
(248) 871-2446