

ANNUAL REPORT TO MEMBERSHIP
JUNE 30, 2024
City of Farmington Hills Employees' Retirement System

Dear Member:

The year ended June 30, 2024, marked the 58th 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" (defined by statute as broker fees) 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, 2024, 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.

Respectfully submitted,



Thomas C. Skrobola
Finance Director/Treasurer/Pension Administrator

Statement of Fiduciary Net Position
June 30, 2024

Assets

Cash and cash equivalents	\$ 5,207,564
Investments	173,624,653
Accrued interest, dividends, and other receivables	<u>145,898</u>
Total assets	<u>178,978,115</u>

Liabilities

Accounts payable	\$ 151,215
Due to primary government	<u>118,594</u>
Total liabilities	<u>269,809</u>

Net Position Restricted for Pensions **\$ 178,708,306**

**Statement of Changes in Fiduciary Net Position
Year Ended June 30, 2024**

Additions

Investment income, net of expenses	\$ 13,828,455
Contributions:	
Employer	7,507,962
Employee	<u>1,464,293</u>
Total additions	<u>22,800,710</u>

Deductions

Pension payments	\$ 18,193,885
Contributions returned to employees	<u>18,169</u>
Total deductions	<u>18,212,054</u>

Net Increase in Net Position Held in Trust **4,588,656**

Net Position Restricted for Pensions - Beginning of year 174,119,650

Net Position Restricted for Pensions - End of year **\$ 178,708,306**

Administrative and Investment Expenses Year Ended June 30, 2024

<u>Administrative Expenses:</u>	<u>Amount</u>	<u>Prior Year</u>	<u>\$ Change</u>	<u>% Change</u>
Accounting Services	\$ 85,147	\$ 84,983	\$ 164	
Actuarial Fees	39,835	30,900	8,935	
Administrative Services	11,515	10,658	857	
Audit Fees	3,465	6,154	(2,689)	
Custodial Fees	37,525	45,267	(7,742)	
Dues and Memberships	201	0	201	
Fiduciary Insurance	10,310	10,310	(0)	
Legal Fees	10,534	11,239	(705)	
Professional Training/Education/Travel Expenses	8,139	10,400	(2,261)	
Meeting Supplies & Other	881	57	824	
Total Administrative Expenses	207,552	209,968	(2,416)	-1.15%
<u>Investment Expenses:</u>				
Money Manager Fees	\$ 1,734,948	\$ 1,691,308	\$ 43,640	2.58%
Investment Advisory Fees	95,275	92,500	2,775	3.00%
Total Investment Expenses	1,830,223	1,783,808	46,415	2.60%
Total Administrative and Investment Expenses	\$ 2,037,775	\$ 1,993,776	\$ 43,999	2.21%

**Budget Report
2024/25 Fiscal Year**

Administrative Expenses:

Accounting Services	\$	93,000
Actuarial Fees		59,785
Administrative Services		15,000
Audit Fees		8,000
Custodial Fees		45,700
Dues & Memberships		660
Fiduciary Liability Insurance		10,560
Legal Fees		18,000
Meeting Supplies & Other		660
Professional Training/Education/Travel Expenses		16,500
Total Administrative Expenses		267,865

Investment Expenses:

Money Manager Fees	\$	1,700,000
Investment Advisory Fees		98,133
Total Investment Expenses		1,798,133

Total Administrative and Investment Expenses	\$	2,065,998
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**BENEFIT TABLE
SUMMARY OF BASIC PENSION BENEFITS
STRAIGHT LIFE (NO SURVIVOR BENEFIT)**

ELIGIBILITY

MULTIPLIERS

Up to 25 yrs. Over 25 Max*

BENEFIT GROUP TPOAM FORMERLY 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%
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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%
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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%
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BENEFIT GROUP D-DISPATCHERS

Sum of age and service equals 80 (minimum age 55) or age 60 with 8 years of service.	Until age 67 At age 67	2.80% 2.375%	1.00% 1.00%	75% 70%
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BENEFIT GROUP F-FIREFIGHTERS

25 years of service regardless of age .	2.80%	1.00%	75%
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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%
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BENEFIT GROUP P-POLICE OFFICER

25 years of service regardless of age.	2.80%	1.00%	75%
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*Maximum benefit is computed as the indicated % of Final Average Compensation.

CHANGES IN BENEFIT PROVISIONS

The defined benefit (DB) pension plan was re-opened to General and Court employees (previously covered by a defined contribution plan) at the same DB pension multiplier, maximum pension, and pension benefit eligibility as existing General and Court employees covered by the defined benefit pension plan.

General and Court employees newly covered by the defined benefit pension plan received credit for their vesting service back to date of employment and credit for benefit service earned prospectively from date of re-entry into the defined benefit pension plan.

General and Court employees newly covered by the defined benefit pension plan were given a onetime opportunity to purchase prior benefit service in any amount up to service credit earned since date of employment.

Tier 1 Police and Fire defined benefit pension multiplier, maximum pension, and pension eligibility was extended to Police and Fire active employees previously covered by Tier 2 Police and Fire defined benefit coverage.

The interest rate basis used to determine the reduction in retirement allowance for annuity withdrawal purposes was updated for most groups.

FINAL AVERAGE COMPENSATION

Final Average Compensation (FAC) consists of the three (3) highest consecutive years, as of July 1st, out of the last ten (10) years. FAC includes longevity on base pay for all employees plus lump sum holiday pay for Police, Fire and Dispatch members.

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 or age 55 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.

DEFERRED RETIREMENT

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 generally 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 three 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.

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:

1. 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.
2. Each annual normal cost is a constant percentage of the member's year by year projected covered pay.

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% 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, 2024, consisted of 63.5% Equities, 14.7% Fixed Income (Bonds), 18.5% Alternative Investments (Hedge Funds/Real Estate/Private Equity), and 3.3% 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 thirteen private alternative investments:

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

The remainder of the portfolio is comprised of cash or cash equivalents. For FY 23/24, the retirement system portfolio posted a net investment gain of 8.15%.

Summary from Actuarial Valuation Reports Year Ended June 30, 2024

<u>Retirement System:</u>	General	Court	Police	Fire	Total	Prior Year	Change from Prior Year
Membership	Open	Open	Open	Open	-	-	-
Funded Ratio	* 73%	72%	65%	74%	70%	73%	-3.00%
Number of Active Members	203	22	110	67	402	393	9
Number of Retirees/Beneficiaries	215	25	131	39	410	387	23
Total Annual Pensions Paid	N/A	N/A	N/A	N/A	\$18,193,885	\$16,496,102	\$1,697,783
Average Annual Pension Paid	N/A	N/A	N/A	N/A	\$44,375	\$42,626	\$1,750
Total Annual Valuation Payroll	N/A	N/A	N/A	N/A	\$33,120,716	\$31,307,511	\$1,813,205
City's Normal Cost %	** 13.59%	15.11%	17.05%	16.41%	N/A	N/A	N/A
City's Annual Required Contribution	\$2,254,673	\$343,226	\$3,554,741	\$1,355,322	\$7,507,962	\$6,994,976	\$512,986
City's Annual Required Contribution as a % of valuation payroll	6.81%	1.04%	10.73%	4.09%	22.67%	22.34%	-0.33%
Employee Contribution Rate	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%	0.00%
Actuarial Assumed Rate of Investment Return	7.00%	7.00%	7.00%	7.00%	7.00%	7.00%	0.00%
Actuarial Assumed Rate of:							
Long-term Wage Inflation	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	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%-7.5%	0.00%
Amortization Method Used:	Level % of Payroll	Level % of Payroll	Level % of Payroll	Level % of Payroll	-	**	-
Amortization Period Used	15 Years	15 Years	19 Years	19 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>		
	8.77%	2.00%	7.43%	6.99%	5.78%		

* From Actuarial Valuation Report.

** A level dollar amortization method was previously used for the General and Court groups. With the reopening of these groups in fiscal year 2023, a level percent of payroll amortization method was used for all groups.

RETIREMENT BOARD MEMBERS

(as of June 30, 2024)

3 Year Term Expires December 31

Eric Gould, Chairperson

Citizen Member
Term Expires 2026

Lauri Siskind, Vice Chairperson

Citizen Member
Term Expires 2025

Domenic Lauria

Police/Fire Member
Term Expires 2024

Thomas Allen

Police/Fire Member
Term Expires 2026

Paul Wonfor

General Employee Member
Term Expires 2026

Tim Waker

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
First Eagle
Goldman Sachs
Hamlin Capital
Hardman
HIG
Marathon
McMorgan Infrastructure
Penn Square
PRISA II
Reinhart Partners
Seizert
Terracap
Townsend
Fidelity
Valstone

INVESTMENT PERFORMANCE

ADVISORS

Mariner Consulting

ATTORNEY

VanOverbeke, Michaud & Timmony, P.C.

CUSTODIAN

Comerica

MEDICAL DIRECTOR

MediSource Services

SENIOR PENSION ACCOUNTANT

Susan Hardy

CITY COUNCIL LIAISON

William Dwyer

FOR FURTHER INFORMATION CONTACT:

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31555 W. 11 Mile Road
Farmington Hills, Michigan 48336-1165
(248) 871-2446