



**ANNUAL REPORT TO MEMBERSHIP
JUNE 30, 2018**

City of Farmington Hills Post-Retirement Healthcare Finance Fund

Dear Member:

The year ended June 30, 2018 marked the 18th 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, 2018, 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 or extension 2446.

Respectfully submitted,

Steve Barr
Administrative Officer/Secretary/Treasurer

**Statement of Plan Net Position
June 30, 2018**

Assets

Cash and cash equivalents	\$ 6,502,856
Investments:	
Pooled funds	30,450,582
Exchange-traded funds	7,808,076
Common stock	<u>32,874,763</u>
Total investments	77,636,277
Receivables	<u>9,680</u>
Total assets	77,645,957

Liabilities

Accounts payable	74,549
Due to Employees' Retirement System	31,756
Due to primary government	<u>386,642</u>
Total liabilities	<u>492,947</u>

Net Position Restricted for OPEB **\$ 77,153,010**

**Statement of Changes in Plan Net Position
Year Ended June 30, 2018**

Additions

Investment income:	
Interest and dividends	\$ 1,723,660
Net change in fair value of investments	4,207,522
Less investment-related expenses	<u>(552,599)</u>
Net investment income	5,378,583

Contributions:

Employer	776,762
Employee	<u>249,325</u>
Total contributions	<u>1,026,087</u>
Total additions - Net	6,404,670

Deductions

Benefit payments	2,389,014
Contributions returned to employees	<u>38,973</u>
Total deductions	<u>2,427,987</u>

Net Increase in Restricted Net Position for OPEB	3,976,683
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Net Position Restricted for OPEB - Beginning of year	<u>73,176,327</u>
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Net Position Restricted for OPEB - End of year	<u>\$ 77,153,010</u>
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**Administrative and Investment Expenses
Year Ended June 30, 2018**

<u>Administrative Expenses:</u>	<u>Amount</u>	<u>Prior Year</u>	<u>\$ Change</u>	<u>% Change</u>
Actuarial Fees	\$ 12,540	\$ 15,000	\$ (2,460)	
Audit Fees	3,663	3,496	167	
Legal Fees	3,440	600	2,840	
Total Administrative Expenses	<u>19,643</u>	<u>19,096</u>	<u>547</u>	<u>2.86%</u>
<u>Investment Expenses:</u>				
Money Manager Fees	482,039	383,353	98,686	25.74%
Investment Advisory Fees	50,916	46,277	4,639	10.02%
Total Investment Expenses	<u>532,955</u>	<u>429,630</u>	<u>103,325</u>	<u>24.05%</u>
Total Administrative and Investment Expenses	<u>\$ 552,598</u>	<u>\$ 448,726</u>	<u>\$ 103,872</u>	<u>23.15%</u>

**Budget Report
2018/19 Fiscal Year**

Administrative Expenses:

Actuarial Fees	\$ 28,000
Audit Fees	4,000
Custodial Fees	17,000
Legal Fees	5,000
Total Administrative Expenses	<u>54,000</u>

Investment Expenses:

Money Manager Fees	500,000
Investment Advisory Fees	38,000
Total Investment Expenses	<u>538,000</u>

Total Administrative and Investment Expenses	<u>\$ 592,000</u>
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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 3.50%).
5. Achieve funding of vested pension benefits within the time period in which unfunded liabilities are amortized by actuary.

Investments at June 30, 2018 consisted of 60% Equities, 18% Fixed Income (Bonds), 16% Alternative Investments (Hedge Funds/Real Estate/Private Equity), and 6% Cash.

City of Farmington Hills Post-Retirement Healthcare Finance Fund – FY17/18 Annual Report

In order to diversify the portfolio, the Retirement Board retained nine equity managers:

1. Loomis Sayles & Co. - which employs a value investment policy
2. Hamlin - which employs a dividend paying strategy
3. Seizert - which employs a large cap core strategy
4. Reinhart Partners - which employs an All Cap strategy
5. Lazard - which employs an international emerging markets investment approach
6. Edgewood - which invests in growth companies it deems to be of high quality
7. Vanguard Russell - which is a passive investment vehicle that tracks the stocks that make up the Russell 2000 Small Cap Index
8. Vanguard Developed Markets - which is a passive investment that tracks the performance of the FTSE Developed Market Index and includes developed countries outside the US located in Canada, the major markets of Europe, and the Pacific region
9. 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 five fixed income managers:

1. Loomis Sayles & Co.
2. PIMCO
3. J.P. Morgan
4. Franklin Templeton
5. Bloomberg Barclays

The Board retained nine private equity alternative investments:

1. Townsend
2. Corbin Capital
3. Entrust
4. Entrust III
5. Blackstone Tac Opps
6. McMorgan
7. Goldman Sachs
8. Blackstone BTAS IV
9. Valstone

The remainder of the portfolio is comprised of cash. For 2018, the retirement system portfolio posted a net investment income of 7.16%.

**Summary from Actuarial Valuation Reports
Year Ended June 30, 2018**

<u>Retiree Health Plan***</u>	<u>General</u>	<u>Court</u>	<u>Police</u>	<u>Fire</u>	<u>Total</u>	<u>Prior Year</u>	<u>Change from Prior Year</u>
Membership	Closed	Closed	Closed	Closed	-	-	-
Funded Ratio*	N/A	N/A	N/A	N/A	102%	107%	-5.00%
Number of Active Members	84	23	66	31	204	233	(29)
Number of Retirees/Beneficiaries:	128	8	86	13	235	226	9
Medical Insurance	94	6	68	13	181	172	9
Medical Opt Out Allowance	34	2	18	0	54	54	0
Total Annual Premiums Paid	N/A	N/A	N/A	N/A	\$2,389,014	\$2,260,615	\$128,399
Total Annual Valuation Payroll****	N/A	N/A	N/A	N/A	\$16,003,657	\$17,092,987	(\$1,089,330)
City's Annual Required Contribution	\$204,418	\$58,154	\$319,802	\$194,388	\$776,762	\$1,794,724	(\$1,017,962)
City's Annual Required Contribution as a % of valuation payroll	1.28%	0.36%	2.00%	1.21%	4.85%	10.50%	5.65%
Employee Contribution Rate	1.50%	1.50%	1.50%	1.50%	1.50%	1.50%	0.00%
Actuarial Assumed Rate of:							
Investment Return	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%	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**	12 Years	12 Years	12 Years	12 Years	12 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>		
	7.25%	5.85%	6.53%	5.95%	5.31%		

* 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.

**** Previous Year Total Annual Valuation Payroll is based on Fiscal Year 2015-2016

RETIREMENT BOARD MEMBERS

(as of June 30, 2018)

3 Year Term Expires December 31

Lauri Siskind, Chairperson

Citizen Member
Term Expires 2019

Eric Gould, Vice Chairperson

Citizen Member
Term Expires 2020

Doug Muller

Police/Fire Member
Term Expires 2018

Mark Rash

Police/Fire Member
Term Expires 2020

Mark Saksewski

General Employee Member
Term Expires 2020

Kevin McCarthy

General Employee Member
Term Expires 2018

Steve Barr

Administrative Officer
Secretary-Treasurer
Ex-Officio Member

INDEPENDENT AUDITORS

Plante & Moran, CPAs

ACTUARY

Gabriel, Roeder, Smith & Company

INVESTMENT MANAGERS

Bloomberg Barclays
Blackstone BTAS IV
Blackstone Tactical Opportunities
Cambiar
Corbin Capital
Edgewood
Entrust
Goldman Sachs
Hamlin Capital
J.P. Morgan
Lazard
Loomis, Sayles & Company
McMorgan Infrastructure
PIMCO
Reinhart Partners
Seizert
Franklin Templeton
Townsend
Valstone
Vanguard

INVESTMENT PERFORMANCE

ADVISORS

Graystone Consulting
AndCo Consulting: Effective July 2, 2018

ATTORNEY

VanOverbeke, Michaud & Timmony, P.C.

CUSTODIAN

Morgan Stanley
Wells Fargo: Effective July 2, 2018

MEDICAL DIRECTOR

MedSource Services

PENSION ACCOUNTANT

Susan Hardy

CITY COUNCIL LIAISON

Theresa Rich

FOR FURTHER INFORMATION CONTACT:

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(248) 871-2446