

ANNUAL REPORT TO MEMBERSHIP
JUNE 30, 2023
City of Farmington Hills Employees' Retirement System

Dear Member:

The year ended June 30, 2023, marked the 57th 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, 2023, 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,

A handwritten signature in blue ink that reads "Thomas C. Skrobola". The signature is written in a cursive style with a horizontal line extending to the right.

Thomas C. Skrobola
Finance Director/Treasurer/Pension Administrator

Statement of Fiduciary Net Position
June 30, 2023

Assets

Cash and cash equivalents	\$ 6,941,278
Investments	167,679,037
Accrued interest, dividends, and other receivables	<u>116,144</u>
Total assets	<u>174,736,459</u>

Liabilities

Accounts payable	486,379
Due to primary government	<u>130,430</u>
Total liabilities	<u>616,809</u>

Net Position Restricted for Pensions **\$174,119,650**

Statement of Changes in Fiduciary Net Position
Year Ended June 30, 2023

Additions

Investment income, net of expenses	\$	12,978,560
Contributions:		
Employer		6,994,987
Employee		<u>4,524,002</u>
Total additions - Net		<u>24,497,549</u>

Deductions

Pension payments		16,496,103
Contributions returned to employees		<u>47,270</u>
Total deductions		<u>16,543,373</u>

Net Increase in Net Position Held in Trust **7,954,176**

Net Position Restricted for Pensions - Beginning of year 166,165,474

Net Position Restricted for Pensions - End of year **\$ 174,119,650**

Administrative and Investment Expenses Year Ended June 30, 2023

<u>Administrative Expenses:</u>	<u>Amount</u>	<u>Prior Year</u>	<u>\$ Change</u>	<u>% Change</u>
Accounting Services	\$ 84,983	\$ 77,528	\$ 7,455	
Actuarial Fees	30,900	35,200	(4,300)	
Administrative Services	10,658	10,951	(293)	
Audit Fees	6,154	3,117	3,037	
Custodial Fees	45,267	45,434	(167)	
Dues and Memberships	0	377	(377)	
Fiduciary Insurance	10,310	9,677	633	
Legal Fees	11,239	5,803	5,436	
Professional Training/Education/Travel Expenses	10,400	4,529	5,871	
Supplies	57	165	(108)	
Total Administrative Expenses	209,968	192,781	17,187	8.92%
<u>Investment Expenses:</u>				
Money Manager Fees	\$ 1,691,308	\$ 1,656,850	\$ 34,458	2.08%
Investment Advisory Fees	92,500	90,000	2,500	2.78%
Total Investment Expenses	1,783,808	1,746,850	36,958	2.12%
TOTAL ADMINISTRATIVE AND INVESTMENT EXPENSES	\$ 1,993,776	\$ 1,939,631	\$ 54,145	2.79%

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, 2023, consisted of 56.8% Equities, 15.3% Fixed Income (Bonds), 25.9% 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. 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 22/23, the retirement system portfolio posted a net investment gain of 8.11%.

Summary from Actuarial Valuation Reports Year Ended June 30, 2023

<u>Retirement System:</u>	General	Court	Police	Fire	Total	Prior Year	Change from Prior Year
Membership	Closed	Closed	Open	Open	-	-	-
Funded Ratio	*	77%	78%	68%	76%	73%	-3.00%
Number of Active Members	201	21	111	60	393	228	165
Number of Retirees/Beneficiaries	200	23	129	35	387	370	17
Total Annual Pensions Paid	N/A	N/A	N/A	N/A	\$16,496,102	\$16,388,539	\$107,563
Average Annual Pension Paid	N/A	N/A	N/A	N/A	\$42,626	\$44,293	(\$1,668)
Total Annual Valuation Payroll	N/A	N/A	N/A	N/A	\$31,307,511	\$19,832,675	\$11,474,836
City's Normal Cost %	**	12.41%	14.45%	15.80%	15.88%	N/A	N/A
City's Annual Required Contribution	\$2,178,109	\$247,138	\$3,266,116	\$1,303,613	\$6,994,976	\$7,180,321	(\$185,345)
City's Annual Required Contribution as a % of valuation payroll	6.96%	0.79%	10.43%	4.16%	22.34%	36.20%	13.86%
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%-9%	0.00%
Amortization Method Used:	Level % of Payroll	Level % of Payroll	Level % of Payroll	Level % of Payroll	-	**	-
Amortization Period Used	16 Years	16 Years	20 Years	20 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	Trailing	Trailing	Trailing	Trailing		
	<u>1 Year</u>	<u>3 Years</u>	<u>5 Years</u>	<u>7 Years</u>	<u>10 Years</u>		
	8.33%	9.40%	6.92%	8.04%	7.11%		

* 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, 2023)

3 Year Term Expires December 31

Lauri, Chairperson

Citizen Member
Term Expires 2025

Eric Gould, Vice Chairperson

Citizen Member
Term Expires 2023

Domenic Lauria

Police/Fire Member
Term Expires 2024

Brian Moore

Police/Fire Member
Term Expires 2023

Stacy Parke

General Employee Member
Term Expires 2023

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
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:

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