City of Farmington Hills Employees' Retirement System – Basic Retirement Benefits

Actuarial Valuation Report

as of June 30, 2025

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October 24, 2025

Retirement Board
City of Farmington Hills
Employees' Retirement System
31555 W. Eleven Mile Road
Farmington Hills, Michigan 48336

Re: City of Farmington Hills Employees' Retirement System Actuarial Valuation as of June 30, 2025
Actuarial Disclosures

Ladies and Gentlemen:

The results of the June 30, 2025 Annual Actuarial Valuation of the City of Farmington Hills Employees' Retirement System (System) are presented in this report.

This report was prepared at the request of the Board and is intended for use by the Retirement System and those designated or approved by the Board. This report may be provided to parties other than the System only in its entirety and only with the permission of the Board. GRS is not responsible for unauthorized use of this report.

The purposes of this valuation are to measure the System's funding progress and to determine the employer contribution for the fiscal year beginning July 1, 2026. This report should not be relied on for any purpose other than the purposes described herein. Determinations of financial results, associated with the benefits described in this report, for purposes other than those identified above may be significantly different.

The employer contribution in this report is determined using the actuarial assumptions and methods disclosed in Section D of this report. This report includes risk metrics on pages Appendix-2 and Appendix-3 but does not include a more robust assessment of the risks of future experience not meeting the actuarial assumptions. This report also includes a discussion of the required Low-Default-Risk Obligation Measure (LDROM) on page Appendix-4. Additional assessment of risks was outside the scope of this assignment. We encourage a review and assessment of investment and other significant risks which may have a material effect on the System's financial condition.

We have assessed that the contribution rate calculated under the current funding policy is a reasonable Actuarially Determined Employer Contribution (ADEC), and it is consistent with the plan accumulating adequate assets to make benefit payments when due.

This valuation assumed the continuing ability of the plan sponsor to make the contributions necessary to fund this plan. A determination regarding whether or not the plan sponsor is actually able to do so is outside our scope of expertise and was not performed.

The findings in this report are based on data and other information through June 30, 2025. This valuation was based upon information furnished by the System, concerning Retirement System benefits, financial transactions, plan provisions and active members, terminated members, retirees and beneficiaries. We checked for internal reasonability and year-to-year consistency, but did not audit the data. We are not responsible for the accuracy or completeness of the information provided by the System.

This report was prepared using assumptions adopted by the Board. All actuarial assumptions used in this report are reasonable for the purposes of this valuation. The combined effect of the assumptions is expected to have no significant bias (i.e., not significantly optimistic or pessimistic). All actuarial assumptions and methods used in the valuation follow the guidance in the applicable Actuarial Standards of Practice. Additional information about the actuarial assumptions is included in Section D of this report.

This report was prepared using our proprietary valuation model and related software which, in our professional judgment, has the capability to provide results that are consistent with the purposes of the valuation and has no material limitations or known weaknesses. We performed tests to ensure that the model reasonably represents that which is intended to be modeled.

This report has been prepared by actuaries who have substantial experience valuing public employee retirement systems. To the best of our knowledge, this report is accurate, complete and fairly presents the actuarial position of the City of Farmington Hills Employees' Retirement System as of the valuation date. All calculations have been made in conformity with generally accepted actuarial principles and practices and with the Actuarial Standards of Practice issued by the Actuarial Standards Board and applicable State statutes. James D. Anderson and Stephanie Sullivan are Members of the American Academy of Actuaries (MAAA). These actuaries meet the Academy's Qualification Standards to render the actuarial opinions contained herein.

The signing actuaries are independent of the plan sponsor.

Gabriel, Roeder, Smith & Company will be pleased to review this valuation and report with the Board of Trustees and to answer any questions pertaining to the valuation.

Respectfully submitted,
Gabriel, Roeder, Smith & Company

James D. Anderson

James D. Anderson, FSA, EA, FCA, MAAA

Stephanie Sullivan

Stephanie Sullivan, ASA, MAAA

JDA/SS:ah

C0481

SECTION A

EXECUTIVE SUMMARY

Executive Summary

1. Required Employer Contributions - Fiscal Year Beginning July 1, 2026

The required City contributions for each employment division are as follows:

	Required Employer Contribution	
Division	% of Payroll	$ Based on Projected Payroll
General	27.84%	$ 4,667,952
Court	34.83	550,971
Police	43.25	5,229,997
Fire	28.08	2,101,978

2. Contribution Comparison

The table below compares the results of this valuation with the results of the 2024 actuarial valuation of the System.

Required Contributions by Indicated Valuation Date		
Division	6/30/2024	6/30/2025
General	$ 4,454,988	$ 4,667,952
Court	536,228	550,971
Police	4,897,960	5,229,997
Fire	1,837,508	2,101,978
Total	$ 11,726,684	$ 12,550,898

3. 2025 Funding Position

This year's valuation assets represent 70% of accrued liabilities compared to last year's valuation where the funded percent was 70%. If the market value of assets was used in the development of the System's funded percent, the System would be 70% funded as of June 30, 2025.

4. Reasons for Change

There are three general reasons why contribution rates change from one valuation to the next.

1) The first is a change in the benefits or eligibility conditions of the Plan. This is discussed on the following page.
2) The second is a change in the valuation assumptions or methods used to predict future occurrences. There were no assumption changes for the 2025 valuation.
3) The third is the difference during the year between the System's actual experience and what the assumptions predicted. This is discussed on the following page.

5. Changes in Plan Provisions

It was reported to the actuary that the employee contribution rate for COAM employees increased from 4.50% to 5.50% effective July 1, 2025. The impact of the changes decreased the actuarial accrued liabilities by approximately $17 thousand and decreased the employer contribution requirements by approximately $36 thousand. The new benefit provisions are described in Section C of this report.

6. 2025 Plan Experience

System experience for the year ending June 30, 2025 was favorable for the General group and unfavorable for the Court, Police and Fire groups.

During the 2024-2025 plan year, the rate of investment return on System assets was higher than long-term expectations on both a market value basis and a valuation assets basis (i.e., a smoothed market value basis). The investment rate of return on a market value basis was 10.12%, while the investment rate of return on a valuation assets basis was 8.76%. For the valuation asset basis, the market smoothing techniques used in this valuation recognize both current and prior investment experience. In an effort to reduce employer contribution volatility associated with the future recognition of assets gains and losses over the next four years, the valuation assets were set equal to the market value of assets for the June 30, 2025 valuation. Additional information related to the investment experience is shown on pages C-4 and C-5 of this report.

As a whole, demographic experience for the year was unfavorable. Sources of negative demographic experience include: retiree mortality (General, Police, and Fire) and larger than assumed pay increases (all groups). This unfavorable demographic experience contributed to the increase in actuarial accrued liability and in computed City contributions to the System.

7. Retiree Reserve Balance

In each valuation, we develop the value of anticipated future benefit payments to retired members and their beneficiaries. We then compare this liability to the reported assets in the Retirement Reserve Fund. The liability amounts and the reported reserves are shown below:

	General/Court	Police	Fire	Total
Retiree Liability	$75,775,752	$72,108,930	$21,016,623	$168,901,305
Retiree Reserve	71,133,978	61,944,684	21,357,042	154,435,704
Shortfall / (Surplus)	4,641,774	10,164,246	(340,419)	14,465,601

8. Limitations of Funded Status Measurements

Unless otherwise indicated, a funded status measurement presented in this report is based on the actuarial accrued liability and the valuation assets. Unless otherwise indicated, with respect to any funded status measurement presented in this report:

- The measurement is inappropriate for assessing the sufficiency of System assets to cover the estimated cost of settling the System's benefit obligations.
- The measurement is inappropriate for assessing the need for or the amount of future employer contributions.
- The measurement will produce a different result if the market value of System assets is used instead of the valuation of System assets.

SECTION B

VALUATION RESULTS

Financial Objective

The financial objective of the Retirement System is to establish and receive contributions, expressed as a percentage of active member payroll (for open groups), which will remain approximately level from year to year and will not have to be increased for future generations of citizens. The contributions, when combined with present assets and future investment income, will be sufficient to meet the financial obligations of the fund to present and future retirees and beneficiaries. Your annual actuarial valuations determine how well the objective is being met.

The contribution requirements for the fiscal year beginning July 1, 2026 are presented on the following page.

General Implications of Contribution Allocation Procedure or Funding Policy on Future Expected Plan Contributions and Funded Status

Given the plan's contribution allocation procedure, if all actuarial assumptions are met (including the assumption of the plan earning 7.00% on the valuation assets), it is expected that:

(1) The employer normal cost as a percentage of pay for each group is expected to remain approximately level;
(2) The unfunded actuarial accrued liabilities will be fully amortized after 18 years; and
(3) The funded status of the plan will increase gradually towards a 100% funded ratio.

Contributions to Provide Benefits
for the Fiscal Year Beginning July 1, 2026
Member and Employer Portions

Contributions for	% of Active Payroll			
	General	Court	Police	Fire
Normal cost of benefits:				
Age and service	16.12%	18.10%	20.41%	19.71%
Disability	0.08	0.08	0.17	0.18
Death before retirement	0.30	0.28	0.46	0.47
Future refunds	0.80	0.32	0.41	0.35
Pension Medical Opt Out	0.01	0.01	0.02	0.01
Administrative expenses	0.59	0.59	0.59	0.59
Total	17.90	19.38	22.06	21.31
Member contributions	4.50	4.50	4.82	4.50
Employer normal cost	13.40	14.88	17.24	16.81
Unfunded actuarial accrued liability payment	14.44	19.95	26.01	11.27
Computed employer contribution	27.84%	34.83%	43.25%	28.08%

Unfunded Actuarial Accrued Liabilities (UAAL) were amortized using layered amortization over closed 15-year periods for the General and Court groups. Unfunded actuarial accrued liabilities were amortized using a single, closed 18-year period for the Police and Fire groups. Due to the open nature of these groups, a level percent-of-payroll amortization method was used. See page B-3 for documentation of the layered amortization schedules for the General and Court groups.

Layered Amortization Schedules

The tables below document the layered amortization schedules used in the development of the UAAL contribution requirements for the fiscal year beginning July 1, 2026 for the General and Court groups.

The UAAL as of June 30, 2025 is projected to the beginning of the fiscal year for which the contributions are being calculated, in this case July 1, 2026. This allows the June 30, 2025 valuation to account for expected future contributions that are based on prior valuations. The UAAL as of the beginning of the fiscal year for which contributions are being calculated is then amortized according to the schedules presented below:

General

			Amounts for Fiscal Year Beginning July 1, 2026		
Type of UAAL[1]	Original Amortization Period (in Years)	July 1, 2026 Outstanding UAAL Balance[2]	Remaining Amortization Period (in Years)	Annual Amortization Payment	% of Payroll Amortization Payment
Initial UAAL					
6/30/2024 and prior	15	$ 25,799,278	14	$ 2,412,855	
(Gain) Loss from Experience					
6/30/2025	15	$ 91,841	15	$ 8,157	
Totals		**$ 25,891,119**		**$ 2,421,012**	**14.44%**

Court

			Amounts for Fiscal Year Beginning July 1, 2026		
Type of UAAL[1]	Original Amortization Period (in Years)	July 1, 2026 Outstanding UAAL Balance[2]	Remaining Amortization Period (in Years)	Annual Amortization Payment	% of Payroll Amortization Payment
Initial UAAL					
6/30/2024 and prior	15	$ 3,338,355	14	$ 312,217	
(Gain) Loss from Experience					
6/30/2025	15	$ 37,575	15	$ 3,337	
Totals		**$ 3,375,930**		**$ 315,554**	**19.95%**

1 *Unfunded Actuarial Accrued Liability (UAAL).*

2 *This is the remaining balance as of the valuation date projected to the beginning of the fiscal year shown above.*

Determination of Unfunded Actuarial Accrued Liability as of June 30, 2025

	General	Court	Police	Fire	Total
A. Accrued Liability					
1. For retirees and beneficiaries	$67,716,750	$ 8,059,002	$72,108,930	$21,016,623	$168,901,305
2. For vested terminated members	1,167,803	231,940	1,936,510	0	3,336,253
3. For present active members					
a. Value of expected future benefit payments	55,705,863	6,458,876	66,874,957	37,196,924	166,236,620
b. Value of future normal costs	22,160,319	2,291,200	24,646,613	16,384,273	65,482,405
c. Active member liability: (a) - (b)	33,545,544	4,167,676	42,228,344	20,812,651	100,754,215
4. Total	102,430,097	12,458,618	116,273,784	41,829,274	272,991,773
B. Valuation Assets	75,858,259	9,011,777	75,604,905	30,916,873	191,391,814
C. Unfunded Actuarial Accrued Liability (A.4) - (B)	26,571,838	3,446,841	40,668,879	10,912,401	81,599,959
D. Funding Ratio: (B) / (A.4)	74%	72%	65%	74%	70%

Development of Experience Gain/(Loss)
Period Ended June 30, 2025

Actual experience will never (except by coincidence) exactly match assumed experience. It is hoped that gains and losses will cancel each other over a period of years, but sizable year-to-year fluctuations are common. Detail on the derivation of the experience gain (loss) is shown below:

	All Groups Combined
(1) UAAL at start of period	$ 78,922,883
(2) Normal cost for period	7,083,189
(3) Actual contributions	11,367,815
(4) Interest accrual on (1), (2) and (3)	5,374,640
(5) Expected UAAL before changes: (1) + (2) - (3) + (4)	80,012,897
(6) Change in plan provisions	(16,950)
(7) Change in actuarial assumptions/methods	0
(8) Expected UAAL after changes: (5) + (6) + (7)	79,995,947
(9) Actual UAAL at end of period	81,599,959
(10) Total gain/(loss): (8) - (9)	(1,604,012)
As percent of AAL at the start of the period	(0.62)%
(11) Investment gain/(loss)[1]	$ 3,132,642
As percent of AAL at the start of the period	1.21%
(12) Non-Investment gain/(loss): (10) - (11)	$ (4,736,654)
As percent of AAL at the start of the period	(1.82)%

[1] *Includes the impact of resetting the Valuation Assets to the Market Value of Assets as of June 30, 2025.*

SECTION C

SUMMARY OF BENEFIT PROVISIONS

Brief Summary of Basic Benefit Provisions
(June 30, 2025)

Normal Retirement (No reduction for age)						
Group	Eligibility	Age Change	FAC[1] Times Sum of: Up To 25 Years	FAC[1] Times Sum of: Over 25 Years	Maximum Benefit[2]	Member Contributions
TPOAM (f.k.a. AFSCME)	60 & 8 or Sum of Age & Service equals 80 (minimum age 55)	None	2.80 %	1.00 %	75 %	4.50%
Teamsters, Exempt, and Court[3]	60 & 8 or Sum of Age & Service equals 80 (minimum age 55)	None	2.80	1.00	80	4.50%
Dispatchers (Group D)	60 & 8 or Sum of Age & Service equals 80 (minimum age 55)	Until Age 67 At Age 67	2.80 2.375	1.00 1.00	75 70	4.50%
Executive	60 & 8 or Sum of Age & Service equals 80 (minimum age 55)	None	3.00	1.00	80	4.50%
Police Command	50 & 25 or 30 years of service with 25 years as Police Officer	None	3.00	1.00	80	5.50%
Fire and Police Patrol	25 & Out	None	2.80	1.00	75	4.50%

Early Retirement (Computed as regular retirement with an age reduction factor used.)		
Group	Eligibility	Reduction
Teamsters and Dispatchers	57 & 8	1/2 of 1% for each month by which retirement precedes age 60
TPOAM, Executive, Exempt, and Court	57 & 8	2/10 of 1% for each month by which retirement precedes age 60
Police Command	50 & 15 <50 & 25	2/10 of 1% for each month by which retirement precedes age 55 6/10 of 1% for each month by which retirement precedes age 50
Police Patrol	50 & 20	2.08/10 of 1% for each month by which retirement precedes age 55
Fire	50 & 20	2/10 of 1% for each month by which retirement precedes age 55

[1] *Type of Final Average Compensation (FAC): highest 3 consecutive years out of last 10. FAC includes longevity pay for Civilian members and longevity and holiday pay for Police, Fire and Dispatch members.*

[2] *Maximum benefit is computed as a percent of FAC.*

[3] *Three Court employees are covered by the Executive group benefit structure as of the valuation date.*

Brief Summary of Basic Benefit Provisions
(June 30, 2025)

Eligibility	Amount
Deferred Retirement	
General: 8 or more years of service. Benefit begins at age 60. Police and Fire: 15 or more years of service. Benefit generally begins at age 55.	Computed as a regular or early retirement but based upon service and final average compensation at termination date.
Non-Duty Death	
10 or more years of service, or age 57 with 8 years of service.	Computed as a regular retirement but actuarially reduced in accordance with a 100% joint and survivor option.
Duty Death	
No age or service requirements.	Surviving spouse pension computed as a duty disability retirement.
Duty Disability	
No age or service requirements.	General: 40% of compensation at time of disability, plus 10% of compensation (not to exceed 25% of total) for each unmarried child under age 18. Other disability payments offset. Police and Fire: 66-2/3% of final compensation.

Defined Benefit Plan Eligibility

The System is "open" to all employees. See Ordinance No. C-3-2023 for the excluded positions.

Other

Eligible Retiree Health Care (RHC) Plan members who also participate in this plan may elect to receive a monthly pension medical opt out benefit ranging from $200-$400 per month and paid from the pension trust. This medical opt out benefit is paid in lieu of traditional RHC plan benefits.

Brief Summary of Basic Benefit Provisions
(June 30, 2025)

Annuity Withdrawal Interest Rate

The interest rate basis used to determine the reduction in retirement allowance for annuity withdrawal purposes is described below:

General and Court

Effective Dates	Court	TPOAM	Non-TPOAM
For retirements that begin on or after July 1, 2023:	1.5%	2.5%	1.5%
For retirements that begin on or after July 1, 2024:	2.1%	2.5%	2.1%
For retirements that begin on or after July 1, 2025:	2.7%	2.7%	2.7%
For retirements that begin on or after July 1, 2026:	3.3%	3.3%	3.3%
For retirements that begin on or after July 1, 2027:	3.9%	3.9%	3.9%
For retirements that begin on or after July 1, 2028:	4.5%	4.5%	4.5%
For retirements that begin on or after July 1, 2029:	5.1%	5.1%	5.1%
For retirements that begin on or after July 1, 2030:	5.7%	5.7%	5.7%
For retirements that begin on or after July 1, 2031:	6.0%	6.0%	6.0%

Police

		Command Promoted	
Effective Dates	Patrol	Prior to January 1, 2024[1]	On or after January 1, 2024
For retirements that begin on or after July 1, 2023:	Varies monthly	2.0%	6.0%
For retirements that begin on or after July 1, 2024:	2.1%	2.0%	6.0%
For retirements that begin on or after July 1, 2025:	2.7%	2.0%	6.0%
For retirements that begin on or after July 1, 2026:	3.3%	2.0%	6.0%
For retirements that begin on or after July 1, 2027:	3.9%	2.0%	6.0%
For retirements that begin on or after July 1, 2028:	4.5%	2.0%	6.0%
For retirements that begin on or after July 1, 2029:	5.1%	2.0%	6.0%
For retirements that begin on or after July 1, 2030:	5.7%	2.0%	6.0%
For retirements that begin on or after July 1, 2031:	6.0%	2.0%	6.0%

[1] *2.0% or the interest rate established by the Pension Board of Trustees, whichever is lower.*

Fire

Effective Dates	Tier 1[1]	Tier 2[2]
For retirements that begin on or after July 1, 2023:	2.0%	6.0%
For retirements that begin on or after July 1, 2033:	6.0%	6.0%

[1] *2.0% or the interest rate established by the Pension Board of Trustees, whichever is lower.*

[2] *Hired on or after July 1, 2008.*

Reported Financial Information (Market Value) for Year Ending June 30, 2025

Revenues and Disbursements

Revenues:		
a. Member contributions	$ 1,577,610	
b. Employer contributions	9,790,205	
c. Interest and dividends	3,469,451	
d. Gain/(Loss) on sale of investments	15,725,327	
e. Miscellaneous Investment Income	0	
f. Total		$ 30,562,593
Disbursements:		
a. Refunds of member contributions	104,061	
b. Benefits paid	16,226,262	
c. Investment Expenses	1,368,659	
d. Administrative Expenses	180,103	
e. Other	0	
f. Total		17,879,085
Reserve Increase		
Total revenues minus total disbursements net increase in plan assets		$ 12,683,508

Assets and Reserves

Investments		**Reserve Accounts**	
a. Cash and Short Term	$ 4,099,338	a. Member contributions	$ 19,635,043
b. Receivables	25,303	b. Reserve for benefits now being paid	154,435,704
c. Fixed Income	41,325,035	c. Reserve for future benefits	17,321,067
d. Equities	119,073,303	d. Reserve for undistributed income	0
e. Real Estate	21,181,114		
f. Other Assets	7,259,861		
g. Accounts Payable	(1,572,140)		
Total Net Assets	$191,391,814	**Total**	$191,391,814

Development of Valuation Assets

Valuation Date June 30:	2023	2024	2025	2026	2027	2028	2029
1. Beginning of Year Assets							
a) Market Value	$ 166,165,470	$ 174,119,650	$ 178,708,306				
b) Valuation Assets	172,178,208	177,832,827	180,917,546				
c) Audit Adjustment	0	0	0				
2. End of Year Market Value Net Assets	174,119,650	178,708,306	191,391,814				
3. Net Additions to Market Value							
a) Net Contributions and Other Income	11,518,990	8,972,255	11,367,815				
b) Net Investment Income	13,143,264	13,998,482	17,826,119				
c) Benefit Payments and Refunds[1]	(16,708,074)	(18,382,081)	(16,510,426)				
d) Total Additions to Market Value	7,954,180	4,588,656	12,683,508				
4. Average Valuation Assets	169,583,666	173,127,914	178,346,241				
5. Expected Income at Valuation Rate	11,870,857	12,118,954	12,484,237				
6. Gain (Loss) = (3b) - (5)	1,272,407	1,879,528	5,341,882				
7. Phased-In Recognition of Investment Return							
a) Current Year: 0.2 x (6)	254,481	375,906	5,341,882				
b) First Prior Year	(5,973,267)	254,481	1,503,622	$ 0			
c) Second Prior Year	7,470,226	(5,973,267)	763,445	0	$ 0		
d) Third Prior Year	(1,751,755)	7,470,226	(11,946,532)	0	0	$ 0	
e) Fourth Prior Year	(1,026,839)	(1,751,755)	7,470,225	0	0	0	$ 0
f) Total Recognized Investment Gain/(Loss)	(1,027,154)	375,591	3,132,642	0	0	0	0
8. Change in Valuation Assets (3a) + (3c) + (5) + (7f)	5,654,619	3,084,719	10,474,268				
9. End of Year Valuation Assets							
a) Preliminary End of Year Valuation Assets	177,832,827	180,917,546	191,391,814				
b) Corridor Percent	20%	20%	20%				
c) Upper Corridor Limit	$ 208,943,580	$ 214,449,967	$ 229,670,177				
d) Lower Corridor Limit	139,295,720	142,966,645	153,113,451				
e) End of Year Valuation Assets	177,832,827	180,917,546	191,391,814				
10. Recognized Rate of Return	6.39%	7.22%	8.76%				
11. Market Rate of Return	8.04%	8.26%	10.12%				

[1] *Includes administrative expenses.*

For the June 30, 2025 valuation, the Valuation Assets were set equal to the Market Value of Assets.

Retired and Inactive Members

Data as of June 30, 2025

	Total Number	Annual Benefits[1]	Average Age
Benefit Recipients	420	$15,210,030	69.7 yrs.
Deferred Vested Members	15	$ 394,774	49.3

[1] *Excludes pension medical opt out payments.*

Active Members

Comparative Schedule

Valuation Date	Active Members					Valuation Payroll	Average			
	General	Court	Police	Fire	Totals		Age	Service	Pay	% Inc.
2011	148	27	102	41	318	$21,236,510	45.8 yrs.	14.9 yrs.	$66,781	0.4%
2012	133	26	102	40	301	20,415,113	45.7	15.1	67,824	1.6
2013	123	26	105	45	299	19,898,614	45.0	14.6	66,551	(1.9)
2014	111	25	105	47	288	19,549,678	45.1	14.9	67,881	2.0
2015	108	24	103	48	283	20,047,647	45.7	15.3	70,840	4.4
2016	101	23	102	51	277	20,046,105	45.8	15.5	72,369	2.2
2017	94	23	101	51	269	20,089,578	46.2	15.8	74,682	3.2
2018	84	23	101	51	259	19,941,526	46.0	15.9	76,994	3.1
2019	77	21	104	58	260	20,521,228	45.3	15.7	78,928	2.5
2020	68	20	101	58	247	20,404,488	45.3	15.9	82,609	4.7
2021	59	18	105	59	241	20,294,306	44.3	15.2	84,209	1.9
2022	52	14	104	58	228	19,832,675	43.6	14.6	86,985	3.3
2023	201	21	111	60	393	31,307,511	43.3	10.2	79,663	(8.4)
2024	203	22	110	67	402	33,120,716	42.5	9.4	82,390	3.4
2025	210	22	111	69	412	35,749,939	41.8	9.4	86,772	5.3

Active Members by Age and Years of Service

Age	Years of Service on Valuation Date							Totals	
	0-4	5-9	10-14	15-19	20-24	25-29	30 Plus	No.	Valuation Payroll
20-24	22							22	$ 1,442,880
25-29	41	7						48	3,811,324
30-34	38	25	3					66	5,414,875
35-39	23	11	20	2				56	4,909,059
40-44	14	8	17	15	4			58	5,219,973
45-49	12	2	10	10	13	3		50	5,047,592
50-54	11	2	4	3	9	8	1	38	3,956,055
55-59	9	9	7	1	6	5	4	41	3,555,718
60	1		1		1			3	272,301
61	3		2					5	440,388
62	2	1						3	190,489
63	2	1	1					4	286,216
64	1				1			2	154,157
65	2	1	1					4	225,882
66	1		1		1			3	154,037
67			1	1				2	112,777
68					1			1	73,246
69			1		1			2	136,413
70							1	1	50,296
71							1	1	141,827
75							1	1	104,459
77			1					1	49,975
Totals	**182**	**67**	**70**	**32**	**37**	**16**	**8**	**412**	**$35,749,939**

Service amounts on this page refer to vesting service attributable to employment with the City of Farmington Hills only.

SECTION D

SUMMARY OF VALUATION METHODS AND ASSUMPTIONS

Valuation Methods

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; and
(ii) Each annual normal cost is a constant percentage of the member's year by year projected covered pay.

Asset Valuation Method: The actuarial value equals:

(a) Valuation assets from the previous valuation, plus
(b) employer and member contributions since the last valuation, minus
(c) benefit payments and refunds since the last valuation, plus
(d) estimated investment income at the assumed investment return, plus
(e) portion of gain (loss) recognized in the current valuation.

For this purpose, gain (loss) is defined as the excess during the period of the investment return on the market value of assets over the expected investment income. 20% of the difference is recognized over a five-year period in the valuation assets. The valuation assets are not permitted to deviate from the market value of assets by more than 20%. For the June 30, 2025 funding actuarial valuation, the valuation assets were set equal to the market value of assets.

The valuation assets are allocated between groups based on actual group experience and investment income such that each group's return equals the return for the System in total.

Valuation Methods (Concluded)

Amortization of Unfunded Actuarial Accrued Liabilities:

The Unfunded Actuarial Accrued Liabilities (UAAL) as of June 30, 2025 are projected to the beginning of the fiscal year for which the contributions are being determined, in this case July 1, 2026 (i.e., the beginning of fiscal year 2027). The projection procedure increases the UAAL as of June 30, 2025 with interest and decreases it with the expected UAAL contributions for the year between the actuarial valuation date and the beginning of the fiscal year for which contributions are being determined. The UAAL is projected separately for each of the General, Court, Fire and Police groups.

Court and General groups – UAAL as of the beginning of fiscal year 2027 was amortized by level (principal and interest combined) percent-of-payroll according to the 15-year layered amortization policy as adopted in conjunction with the most recent Experience Study.

Police and Fire groups – UAAL as of the beginning of fiscal year 2027 was amortized by level (principal and interest combined) percent-of-payroll over an 18-year period.

Active member payroll is assumed to increase 3.0% for purposes of determining the level-percent contributions.

In conjunction with the Experience Study covering the period July 1, 2018 through June 30, 2023, the Retirement Board adopted the continuation of the current amortization methodology until each respective amortization period reaches 15 years. Once a 15-year amortization period is reached (June 30, 2024 for the General and Court groups and June 30, 2028 for the Police and Fire groups), layered amortization will be implemented. The initial UAAL will wind down until it is fully amortized. For each subsequent valuation, any new UAAL created by gains/losses, assumption changes, and/or plan changes for that valuation will be amortized over a new, closed 15-year period.

Actuarial Assumptions Used for the Valuation

Assumption rationale: Assumptions are based upon a five-year Experience Study for the period July 1, 2018 through June 30, 2023, in a report dated June 24, 2024.

Investment return **(net of investment expenses):**
7.00% per year compounded annually. This rate consists of a real rate of return of 4.00% a year plus a long-term assumed rate of wage inflation of 3.00% per year. This assumption is used to equate the value of payments due at different points in time.

Approximate rates of investment return, for the purpose of comparisons with assumed rates, are shown below. Actual increases in average active member pay are also shown for comparative purposes.

	Period Ended June 30,				
	2025	**2024**	**2023**	**2022**	**2021**
Rate of Investment Return (Recognized on Valuation Assets)	8.8%	7.2%	6.4%	6.2%	10.7%

These rates of return should not be used for measurement of an investment advisor's performance or for comparisons with other systems.

Rate of price inflation**:** 2.50%

Pay projections: These assumptions are used to project current pays to those upon which benefits will be based.

Annual Rate of Pay Increase

Years of Service	General and Court Members		
	Base (Economic)	**Merit & Longevity**	**Total**
1 to 5	3.0%	4.0%	7.0%
6 to 10	3.0%	2.0%	5.0%
thereafter	3.0%	1.0%	4.0%

Years of Service	Police Members			Fire Members		
	Base (Economic)	**Merit & Longevity**	**Total**	**Base (Economic)**	**Merit & Longevity**	**Total**
1	3.0%	20.0%	23.0%	3.0%	17.0%	20.0%
2	3.0%	15.0%	18.0%	3.0%	12.0%	15.0%
3	3.0%	7.0%	10.0%	3.0%	12.0%	15.0%
thereafter	3.0%	1.0%	4.0%	3.0%	1.0%	4.0%

If the number of active members remains constant, the total active member payroll is expected to increase 3.0% annually, the base portion of the individual pay increase assumptions. This increasing payroll was recognized in amortizing unfunded actuarial accrued liabilities for all of the groups.

Actuarial Assumptions Used for the Valuation (Continued)

Changes actually experienced in pay have been as follows:

	Period Ended June 30,				
	2025	2024	2023	2022	2021
Average Increase in Pay[1]	7.6%	8.0%	7.3%	6.2%	4.9%

[1] *Excludes new hires and terminations.*

The mortality tables (a risk assumption) used in this valuation are described below:

General and Court

- **Pre-Retirement**: The Pub-2010 Amount-Weighted, General, Employee, Male and Female tables, with future mortality improvements using the fully generational MP-2021 projection scale from a base year of 2010.
- **Healthy Post-Retirement**: The Pub-2010 Amount-Weighted, General, Healthy Retiree, Male and Female tables, with future mortality improvements using the fully generational MP-2021 projection scale from a base year of 2010.
- **Disability Retirement**: The Pub-2010 Amount-Weighted, General, Disabled Retiree, Male and Female tables, with future mortality improvements using the fully generational MP-2021 projection scale from a base year of 2010.

Police and Fire

- **Pre-Retirement**: The Pub-2010 Headcount-Weighted, Safety, Employee, Male and Female tables, with future mortality improvements using the fully generational MP-2021 projection scale from a base year of 2010.
- **Healthy Post-Retirement**: The Pub-2010 Headcount-Weighted, Safety, Healthy Retiree, Male and Female tables, with future mortality improvements using the fully generational MP-2021 projection scale from a base year of 2010.
- **Disability Retirement**: The Pub-2010 Headcount-Weighted, Safety, Disabled Retiree, Male and Female tables, with future mortality improvements using the fully generational MP-2021 projection scale from a base year of 2010.

Actuarial Assumptions Used for the Valuation (Continued)

General and Court

Sample Ages[1]	Pre-Retirement Future Life Expectancy (Years)		Healthy Post-Retirement Future Life Expectancy (Years)		Disabled Retirement Future Life Expectancy (Years)	
	Men	Women	Men	Women	Men	Women
50	39.27	41.41	35.69	38.61	26.53	29.49
55	34.26	36.31	30.80	33.63	23.03	25.89
60	29.35	31.28	26.08	28.75	19.84	22.53
65	24.57	26.34	21.56	24.01	16.86	19.20
70	19.91	21.50	17.27	19.45	14.00	15.79
75	15.36	16.77	13.32	15.19	11.21	12.48
80	10.93	12.21	9.83	11.35	8.61	9.52

Police and Fire

Sample Ages[1]	Pre-Retirement Future Life Expectancy (Years)		Healthy Post-Retirement Future Life Expectancy (Years)		Disabled Retirement Future Life Expectancy (Years)	
	Men	Women	Men	Women	Men	Women
50	37.92	40.66	34.66	37.29	33.00	34.84
55	32.85	35.57	29.69	32.23	28.27	29.93
60	27.86	30.55	24.87	27.38	23.75	25.38
65	23.02	25.59	20.37	22.79	19.54	21.12
70	18.36	20.71	16.14	18.47	15.63	17.03
75	13.94	16.03	12.29	14.46	12.05	13.27
80	9.82	11.65	8.95	10.89	8.90	10.07

[1] *Life expectancy in future years is determined by the fully generational MP-2021 projection scale. The sample values shown are for individuals with the indicated attained ages in 2025.*

75% of deaths are assumed to be non-duty for the General and Court groups, while 50% of deaths are assumed to be non-duty for the Police and Fire groups.

Actuarial Assumptions Used for the Valuation (Continued)

Rates of normal retirement: These rates are used to measure the probability of eligible members retiring during the next year.

Retirement Ages	Percent of Eligible Active Members Retiring				
	General	Court	Police Command	Years of Service	Police Command
50			40%	25	
51			40	26	
52			40	27	
53			40	28	
54			40	29	
55	30%	20%	20	30	40%
56	25	15	15	31	40
57	25	15	15	32	40
58	25	15	15	33	40
59	25	15	15	34	40
60	25	20	100	35	100
61	25	25			
62	30	30			
63	20	20			
64	25	25			
65	25	25			
66	30	30			
67	30	30			
68	30	30			
69	30	30			
70	100	100			

Percent of Eligible Active Members Retiring		
Years of Service	Police Patrol	Fire
25	40%	30%
26	40	30
27	40	30
28	40	30
29	40	30
30	100	100

The incidence of retirement for firefighter members is assumed to be 100% at age 62.

Actuarial Assumptions Used for the Valuation (Continued)

Rates of early retirement:

Retirement Ages	Percent of Eligible Active Members Retiring (Early Retirement)	
	General & Court	Police & Fire
50		1%
51		1
52		1
53		1
54		1
55		1
56		1
57	1%	1
58	1	1
59	1	1

Rates of separation from active membership: The rates do not apply to members eligible for retirement and do not include separation on account of death or disability. This assumption measures the probabilities of members remaining in employment.

Sample Ages	Years of Service	% of Active Members Separating within Next Year			
		General	Court	Police	Fire
ALL	0	11.00%	12.00%	10.00%	7.00%
	1	10.00	12.00	8.00	5.00
	2	8.00	10.00	6.00	3.50
	3	8.00	9.00	4.00	3.50
	4	7.00	9.00	3.00	3.00
20	5 & Over	6.00	6.00	3.00	3.00
25		5.50	5.50	3.00	3.00
30		4.40	4.40	2.50	2.50
35		3.90	3.90	1.00	1.50
40		3.40	3.40	0.70	0.70
45		3.00	3.00	0.50	0.50
50		2.00	2.00	0.50	0.50
55		1.40	1.40	0.50	0.50
60		1.40	1.40	0.50	0.50

Actuarial Assumptions Used for the Valuation (Concluded)

Rates of disability: These rates represent the probabilities of active members becoming disabled.

Sample Ages	Number of Disabilities Per 100 Eligible Members
20	0.01
25	0.02
30	0.04
35	0.07
40	0.12
45	0.19
50	0.28
55	0.40
60	0.57

Load for administrative expenses: Administrative expenses used in the contribution determination are based on the average dollar amount over the last six years (a rolling period), ending on the valuation date one year preceding the current valuation date. The flat dollar portion of the administrative expense is then converted to a single percent of pay based on the projected fiscal year payroll for all groups.

Pension medical opt out payment election: Ten percent of eligible active RHC plan members are assumed to elect cash payments (the pension medical opt out payment).

Miscellaneous and Technical Assumptions

Benefit Service:	Exact fractional service is used to determine the amount of benefit payable.
Decrement Operation:	Disability and mortality decrements do not operate during the first five years of service. Disability also does not operate during retirement eligibility. General and Court employees are assumed to retire based on Tier 1 retiree medical eligibility.
Decrement Relativity:	Decrement rates are used directly from experience, without adjustment for multiple decrement table effects.
Decrement Timing:	Decrements of all types are assumed to occur mid-year.
Eligibility Service:	Effective with the June 30, 2024 funding actuarial valuation, the City of Farmington Hills began reporting service with non-Farmington Hills entities that participants could use for eligibility purposes. For purposes of the entry age actuarial cost method, the entry age is based upon a participant's age at employment with Farmington Hills.
Eligibility Testing:	Eligibility for benefits is determined using the age nearest birthday and the service nearest whole year on the date the decrement is assumed to occur.
Forfeiture Assumption:	General members who terminate close to retirement were assumed to elect a deferred retirement while those terminating with less service were assumed to elect a refund of their contributions in lieu of deferred retirement benefits. All non-General members were assumed to elect a deferred retirement benefit.
Incidence of Contributions:	Contributions are assumed to be received continuously throughout the year based upon the computed percent of payroll shown in this report, and the actual payroll payable at the time contributions are made.
Marriage Assumption:	100% of males and 100% of females are assumed to be married for purposes of death-in-service benefits. Male spouses are assumed to be three years older than female spouses.
Normal Form of Benefit:	The normal form of benefit is a straight life annuity.
Option Factors:	Factors for optional forms of payment (option factors) are based upon 7.0% interest, and: General & Court: Pub-2010 Amount-Weighted, General, Healthy Retiree, Male and Female tables, future mortality improvements projected to 2030 using scale MP-2021 (50% Male and 50% Female Unisex Blend). Police & Fire: Pub-2010 Headcount-Weighted, Safety, Healthy Retiree, Male and Female tables, future mortality improvements projected to 2030 using scale MP-2021 (90% Male and 10% Female Unisex Blend).
Pay Increase Timing:	Beginning of (Fiscal) year.
Service Credit Accruals:	It is assumed that members accrue one year of service credit per year.

Miscellaneous and Technical Assumptions (Concluded)

Annuity Withdrawal Loads: Active member liabilities were loaded to account for subsidized annuity withdrawal and promotions from the Police Patrol to Command units as follows:

General and Court

Effective Dates	Court	TPOAM	Non-TPOAM
For retirements that begin on or after July 1, 2023:	8.0%	7.0%	8.0%
For retirements that begin on or after July 1, 2024:	7.0%	7.0%	7.0%
For retirements that begin on or after July 1, 2025:	7.0%	7.0%	7.0%
For retirements that begin on or after July 1, 2026:	6.0%	6.0%	6.0%
For retirements that begin on or after July 1, 2027:	5.0%	5.0%	5.0%
For retirements that begin on or after July 1, 2028:	4.0%	4.0%	4.0%
For retirements that begin on or after July 1, 2029:	3.0%	3.0%	3.0%
For retirements that begin on or after July 1, 2030:	2.0%	2.0%	2.0%

Police

		Command Promoted	
Effective Dates	Patrol	Prior to January 1, 2024	On or after January 1, 2024
For retirements that begin on or after July 1, 2023:	10.0%	10.0%	3.0%
For retirements that begin on or after July 1, 2024:	10.0%	10.0%	3.0%
For retirements that begin on or after July 1, 2025:	9.0%	10.0%	3.0%
For retirements that begin on or after July 1, 2026:	8.0%	10.0%	3.0%
For retirements that begin on or after July 1, 2027:	7.0%	10.0%	3.0%
For retirements that begin on or after July 1, 2028:	6.0%	10.0%	3.0%
For retirements that begin on or after July 1, 2029:	5.0%	10.0%	3.0%
For retirements that begin on or after July 1, 2030:	4.0%	10.0%	3.0%
For retirements that begin on or after July 1, 2031:	3.0%	10.0%	3.0%

Fire

Effective Dates	Tier 1	Tier 2[1]
For retirements that begin on or after July 1, 2023:	13.0%	2.0%
For retirements that begin on or after July 1, 2033:	2.0%	2.0%

[1] *Hired on or after July 1, 2008.*

Glossary

Actuarial Accrued Liability – The difference between (i) the actuarial present value of future plan benefits, and (ii) the actuarial present value of future normal cost. Sometimes referred to as "accrued liability" or "past service liability." Under the actuarial cost method used the "AAL" differs somewhat from the value of future payments based on benefits earned as of the valuation date.

Accrued Service – The service credited under the plan that was rendered before the date of the actuarial valuation.

Actuarial Assumptions – Estimates of future plan experience with respect to rates of mortality, disability, retirement, investment income and salary increases. Decrement assumptions (rates of mortality, separation and retirement) are generally based on past experience, often modified for projected changes in conditions. Economic assumptions (salary increases and investment income) consist of an underlying rate appropriate in an inflation-free environment plus a provision for a long-term average rate of inflation.

Actuarial Cost Method – A mathematical budgeting procedure for allocating the dollar amount of the "actuarial present value of future plan benefits" between the normal costs to be paid in the future and the actuarial accrued liability. Sometimes referred to as the "actuarial funding method."

Actuarial Equivalent – Benefits whose actuarial present values are equal.

Actuarial Present Value – The amount of funds presently required to provide a payment or series of payments in the future. It is determined by discounting the future payments at a predetermined rate of interest, taking into account the probability of payment.

Amortization – Paying of an interest-bearing liability by means of periodic contributions of interest and principal, as opposed to a lump sum payment.

Experience Gain (Loss) – A measure of the difference between actual experience and experience anticipated by a set of actuarial assumptions during the period between two actuarial valuation dates, in accordance with the actuarial cost method being used.

Normal Cost – The annual cost assigned, under the actuarial funding method, to current and subsequent plan years. Sometimes referred to as "current service cost." An amortization payment toward the unfunded actuarial accrued liability is in addition to the normal cost.

Reserve Account – An account used to indicate that funds have been set aside for a specific purpose and are not generally available for other uses.

Unfunded Actuarial Accrued Liability – The difference between the actuarial accrued liability and valuation assets. Sometimes referred to as “unfunded accrued liability.”

Valuation Assets – The value of current plan assets recognized for valuation purposes.

SECTION E

FINANCIAL DISCLOSURE INFORMATION

Retirement System
Schedule of Pension Plan Funding Progress

Actuarial Valuation Date	Actuarial Value of Pension Assets (a)	Pension Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b) – (a)	Funded Ratio (a) / (b)	Covered Payroll (c)	UAAL as a % of Covered Payroll UAAL / (c)
06/30/16	$ 150,257,018	$ 177,254,145	$ 26,997,127	84.8 %	$20,046,105	134.7 %
06/30/17[2]	155,325,541	185,538,016	30,212,475	83.7	20,089,578	150.4
06/30/18[1]	159,892,090	192,830,969	32,938,879	82.9	19,941,526	165.2
06/30/19[1,2]	160,957,615	210,577,317	49,619,702	76.4	20,521,228	241.8
06/30/20	161,481,646	216,876,439	55,394,793	74.5	20,404,488	271.5
06/30/21	170,359,640	223,098,304	52,738,664	76.4	20,294,306	259.9
06/30/22	172,178,208	229,954,084	57,775,876	74.9	19,832,675	291.3
06/30/23[1]	177,832,827	244,009,722	66,176,895	72.9	31,307,511	211.4
06/30/24[2]	180,917,546	259,840,430	78,922,884	69.6	33,120,716	238.3
06/30/25[1]	191,391,814	272,991,773	81,599,959	70.1	35,749,939	228.3

[1] *Plan provision change.*

[2] *Certain assumptions or methods revised.*

Actuarial Cost Method	Individual Entry Age
Asset Valuation Method	Market Value with 5-Year Smoothing of Gains and Losses

Principal Actuarial Assumptions
(last revised for the 12/31/2024 valuation):

- Net Investment Return	7.00%
- Projected Salary Increases	
General and Court	4.0% to 7.0%
Police	4.0% to 23.0%
Fire	4.0% to 20.0%
- Post-Retirement Cost of Living Adjustments	None

APPENDIX

RISK MEASURES

UAAL Amortization Projection Example

(Police)

The table below is a simplified illustration for the Police group showing how the Unfunded Actuarial Accrued Liability as of June 30, 2025 is expected to be paid off if all actuarial assumptions are realized in future years.

Date	Period	Unfunded Liability (BOY)	Funded Ratio (BOY)	UAL Payment %	UAL Payment $	Interest	Unfunded Liability (EOY)
June 30, 2025		$ 40,668,879	65.0%				
July 1, 2026	18	40,375,836	66.3%	26.01%	$ 3,145,230	$ 2,717,467	$ 39,948,073
July 1, 2027	17	39,948,073	67.8%	26.01%	3,239,588	2,684,258	39,392,743
July 1, 2028	16	39,392,743	69.3%	26.01%	3,336,775	2,642,022	38,697,990
July 1, 2029	15	38,697,990	70.8%	26.01%	3,436,878	2,589,925	37,851,037
July 1, 2030	14	37,851,037	72.3%	26.01%	3,539,985	2,527,070	36,838,122
July 1, 2031	13	36,838,122	73.9%	26.01%	3,646,184	2,452,491	35,644,429
July 1, 2032	12	35,644,429	75.4%	26.01%	3,755,569	2,365,147	34,254,007
July 1, 2033	11	34,254,007	77.0%	26.01%	3,868,237	2,263,919	32,649,689
July 1, 2034	10	32,649,689	78.6%	26.01%	3,984,284	2,147,601	30,813,006
July 1, 2035	9	30,813,006	80.3%	26.01%	4,103,812	2,014,897	28,724,091
July 1, 2036	8	28,724,091	82.1%	26.01%	4,226,927	1,864,412	26,361,576
July 1, 2037	7	26,361,576	84.0%	26.01%	4,353,735	1,694,648	23,702,489
July 1, 2038	6	23,702,489	86.0%	26.01%	4,484,347	1,503,992	20,722,134
July 1, 2039	5	20,722,134	88.2%	26.01%	4,618,877	1,290,712	17,393,969
July 1, 2040	4	17,393,969	90.3%	26.01%	4,757,443	1,052,945	13,689,471
July 1, 2041	3	13,689,471	92.6%	26.01%	4,900,168	788,691	9,577,994
July 1, 2042	2	9,577,994	95.0%	26.01%	5,047,172	495,800	5,026,622
July 1, 2043	1	5,026,622	97.5%	26.01%	5,198,586	171,965	-
July 1, 2044		-	100.0%	0.00%	-	-	-
July 1, 2045		-	100.0%	0.00%	-	-	-

Risk Commentary

The determination of the actuarial liability and the actuarially determined contribution requires the use of assumptions regarding future economic and demographic experience. Risk measures, as illustrated in this report, are intended to aid in the understanding of the effects of future experience differing from the assumptions used in the course of the actuarial valuation. Risk measures may also help with illustrating the potential volatility in the actuarial liability and the actuarially determined contribution that result from the differences between actual experience and the actuarial assumptions.

Future actuarial measurements may differ significantly from the current measurements presented in this report due to such factors as the following: plan experience differing from that anticipated by the economic or demographic assumptions; changes in economic or demographic assumptions due to changing conditions; increases or decreases expected as part of the natural operation of the methodology used for these measurements (such as the end of an amortization period, or additional cost or contribution requirements based on the System's funded status); and changes in plan provisions or applicable law. The scope of an actuarial valuation does not include an analysis of the potential range of such future measurements.

Examples of risk that may reasonably be anticipated to significantly affect the plan's future financial condition include:

1. **Investment Risk** – actual investment returns may differ from the expected returns;
2. **Asset/Liability Mismatch** – changes in asset values may not match changes in liabilities, thereby altering the gap between the actuarial liability and assets and consequently altering the funded status and contribution requirements;
3. **Contribution Risk** – actual contributions may differ from expected future contributions. For example, actual contributions may not be made in accordance with the plan's funding policy or material changes may occur in the anticipated number of covered employees, covered payroll, or other relevant contribution base;
4. **Salary and Payroll Risk** – actual salaries and total payroll may differ from expected, resulting in actual future actuarial liability and contributions differing from expected;
5. **Longevity Risk** – members may live longer or shorter than expected and receive pensions for a period of time other than assumed; and
6. **Other Demographic Risks** – members may terminate, retire or become disabled at times or with benefits other than assumed resulting in actual future actuarial liability and contributions differing from expected.

The effects of certain trends in experience can generally be anticipated. For example, if the investment return since the most recent actuarial valuation is less (or more) than the assumed rate, the cost of the plan can be expected to increase (or decrease). Likewise, if longevity is improving (or worsening), increases (or decreases) in cost can be anticipated.

Risk Commentary (Concluded)

Plan Maturity Measures

Risks facing a pension plan evolve over time. A young plan with virtually no investments and paying few benefits may experience little investment risk. An older plan with a large number of members in pay status and a significant trust may be much more exposed to investment risk. Generally accepted plan maturity measures include the following:

	2025	2024	2023	2022	2021
Ratio of the market value of assets to payroll	5.35	5.40	5.56	8.38	9.50
Ratio of actuarial accrued liability to payroll	7.64	7.85	7.79	11.59	10.99
Ratio of actives to retirees and beneficiaries	0.98	0.98	1.02	0.62	0.67
Ratio of net cash flow to market value of assets (BOY)	-2.9%	-5.4%	-3.1%	-4.4%	-5.3%

Ratio of Market Value of Assets to Payroll

The relationship between assets and payroll is a useful indicator of the potential volatility of contributions. For example, if the market value of assets is 5.0 times the payroll, a return on assets 5% different than assumed would equal 25% of payroll. A higher (lower) or increasing (decreasing) level of this maturity measure generally indicates a higher (lower) or increasing (decreasing) volatility in plan sponsor contributions as a percentage of payroll.

Ratio of Actuarial Accrued Liability to Payroll

The relationship between actuarial accrued liability and payroll is a useful indicator of the potential volatility of contributions for a fully funded plan. A funding policy that targets a funded ratio of 100% is expected to result in the ratio of assets to payroll and the ratio of liability to payroll converging over time. The ratio of liability to payroll may also be used as a measure of sensitivity of the liability itself. For example, if the actuarial accrued liability is 10 times the payroll, a change in liability 2% other than assumed would equal 20% of payroll. A higher (lower) or increasing (decreasing) level of this maturity measure generally indicates a higher (lower) or increasing (decreasing) volatility in liability (and also plan sponsor contributions) as a percentage of payroll.

Ratio of Actives to Retirees and Beneficiaries

A young plan with many active members and few retirees will have a high ratio of actives to retirees. A mature open plan may have close to the same number of actives to retirees resulting in a ratio near 1.0. A super-mature or closed plan may have significantly more retirees than actives resulting in a ratio below 1.0.

Ratio of Net Cash Flow to Market Value of Assets

A positive net cash flow means contributions exceed benefits and expenses. A negative cash flow means existing funds are being used to make payments. A certain amount of negative net cash flow is generally expected to occur when benefits are prefunded through a qualified trust. Large negative net cash flows as a percent of assets may indicate a super-mature plan or a need for additional contributions.

Additional Risk Assessment

Additional risk assessment is outside the scope of the annual actuarial valuation. Additional assessment may include scenario tests, sensitivity tests, stochastic modeling, stress tests, and a comparison of the present value of accrued benefits at low-risk discount rates with the actuarial accrued liability.

Low-Default-Risk Obligation Measure

Introduction

In December 2021, the Actuarial Standards Board (ASB) adopted a revision to Actuarial Standard of Practice (ASOP) No. 4, *Measuring Pension Obligations and Determining Pension Plan Costs or Contributions*. The revised ASOP No. 4 requires the calculation and disclosure of a liability referred to by the ASOP as the "Low-Default-Risk Obligation Measure" (LDROM). The rationale that the ASB cited for the calculation and disclosure of the LDROM was included in the Transmittal Memorandum of ASOP No. 4 and is presented below (emphasis added):

> "The ASB believes that the calculation and disclosure of this measure provides **appropriate, useful information for the intended user regarding the funded status of a pension plan**. The calculation and disclosure of this additional measure is **not intended to suggest that this is the "right" liability measure** for a pension plan. However, the ASB does believe that **this additional disclosure provides a more complete assessment of a plan's funded status and provides additional information regarding the security of benefits that members have earned as of the measurement date.**"

Comparing the Accrued Liabilities and the LDROM

One of the fundamental financial objectives of the City of Farmington Hills Employees' Retirement System (System) is to finance each member's retirement benefits over the period from the member's date of hire until the member's projected date of retirement (entry age actuarial cost method) as a level percentage of payroll. To fulfill this objective, the discount rate that is used to value the accrued liabilities of the System is set equal to the **expected return** on the System's diversified portfolio of assets (referred to sometimes as the investment return assumption). For the System, the investment return assumption is 7.00%.

The LDROM is meant to approximately represent the lump sum cost to a plan to purchase low-default-risk fixed income securities whose resulting cash flows essentially replicate in timing and amount the benefits earned (or the costs accrued) as of the measurement date. The LDROM is very dependent upon market interest rates at the time of the LDROM measurement. The lower the market interest rates, the higher the LDROM, and vice versa. The LDROM results presented in this report are based on the entry age actuarial cost method and discount rates based upon the June 2025 Treasury Yield Curve Spot Rates (end of month). The 1-, 5-, 10- and 30-year rates follow: 4.10%, 4.00%, 4.43% and 5.05%. This measure may not be appropriate for assessing the need for or amount of future contributions. This measure may not be appropriate for assessing the sufficiency of plan assets to cover the estimated cost of settling the plan's benefit obligation.

The difference between the two measures (Valuation and LDROM) is one illustration of the savings the sponsor anticipates by taking on risk in a diversified portfolio.

Accrued Liabilities and LDROM

Valuation Accrued Liabilities	LDROM
$272,991,773	$353,104,137