

# **KALAMAZOO COUNTY**

## **EMPLOYEES' RETIREMENT SYSTEM**



*In the Pursuit of Extraordinary Governance...*

### **Summary Annual Report**

### **2017**



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***Table of Contents***

<b>2017 SUMMARY ANNUAL REPORT .....</b>	<b>4</b>
ABOUT THE KALAMAZOO COUNTY EMPLOYEES' RETIREMENT SYSTEM .....	4
KALAMAZOO COUNTY EMPLOYEES' RETIREMENT SYSTEM SERVICE PROVIDERS .....	4
MEMBERSHIP .....	5
BENEFIT STRUCTURE .....	5
ASSETS & LIABILITIES .....	6
ADDITIONS AND DEDUCTIONS .....	7
MARKET FUNDED RATIOS & ACTUARIAL FUNDED RATIOS .....	7
INVESTMENT PHILOSOPHY & INVESTMENT RETURN .....	8
MEMBER AND EMPLOYER CONTRIBUTIONS .....	10
2017 PENSION PLAN EXPENDITURES .....	11
2017 BUDGET FOR PENSION PLAN ADMINISTRATIVE EXPENDITURES .....	11
ACTUARIAL ASSUMPTIONS .....	12

## **2017 SUMMARY ANNUAL REPORT**

### **ABOUT THE KALAMAZOO COUNTY EMPLOYEES' RETIREMENT SYSTEM**

This summary annual report is in compliance with Public Act 530 of 2016. The contents came from the Kalamazoo County Employees' Retirement System's Financial Statements and Requirement Supplementary Information, Annual Actuarial Valuation and additional analysis as of December 31, 2017.

The Kalamazoo County Employees' Retirement System was established by the Kalamazoo County Board of Commissioners and is administered by the Kalamazoo County Retirement Investment Committee. This committee consists of citizens who have extensive knowledge and background in the investment and management field, access to the national money managers employed by the Retirement System, and no business or political ties to the County, the Road Commission, Community Mental Health, or to the Plan.

The Retirement System is controlled by laws established by the State of Michigan. The Kalamazoo County Board of Commissioners approves changes to the Retirement Resolution (Plan Document). For Road Commission employees, the County Road Commission recommends changes to the County Board. For Mental Health employees, the Mental Health Board recommends changes to the County Board.

A Master Trustee, State Street Corporation, Boston, Massachusetts, acts as custodian and as a control and monitoring point for the performance and procedures of the managers. In this way, envisioning an organizational chart, the control over the Retirement System's assets is as follows:

- County Board of Commissioners
- Retirement Investment Committee
- State Street Corporation
- Individual Money Managers

From the County Board of Commissioners' monitoring of procedures to the four managers, performances and control flows from one level to the next.

### **KALAMAZOO COUNTY EMPLOYEES' RETIREMENT SYSTEM SERVICE PROVIDERS**

A service provider is an individual, third-party agent or consultant, or other entity that received direct or indirect compensation for consulting, investment management, brokerage, or custody services related to the system's assets. The System uses the following for professional services:

Clark Hill PLC – Legal Services  
Gabriel Roeder Smith – Actuarial Services  
Merion Capital – Consulting Services  
Rehmann Robson – Auditing Services  
State Street Bank – Custodial Services

Based upon the review and recommendations of the Retirement Investment Committee, the Plan's assets are invested with Blackrock Institutional Trust Company, N.A., Dimensional Fund Advisors, INC (DFA), Jennison Associates, LLC, RREEF America REIT II, Inc., and Vanguard.

## MEMBERSHIP

An eligible employee becomes a member in the System as of his or her date of regular employment. Participants become 100% vested for benefits after eight years of service. Terminated members vested in the System are eligible for deferred retirement benefits.

The System's membership as of the most recent annual actuarial valuation consisted of the following:

December 31, 2017				
	County	Road Commission	Authority	Total
Retirees and beneficiaries currently receiving benefits	333	36	45	414
Terminated employees entitled to but not yet receiving benefits	140	6	60	206
Vested active participants	305	21	85	411
Nonvested participants	341	20	144	505
<b>Total membership</b>	<b>1,119</b>	<b>83</b>	<b>334</b>	<b>1,536</b>

Retirement Allowances	
Average annual retirement allowance	\$19,536
Total annual retirement allowances being paid	\$6,505,530

## BENEFIT STRUCTURE

Regular retirement benefits begin at age 60 with 8 years or more of service for the Authority and the Road Commission employees, as well as the County employees hired before July 1, 2009. Regular retirement benefits begin at age 65 with eight years or more of service for the County employees hired on or after July 1, 2009. Certain County employees are eligible for normal retirement at age 55 with 25 years of service. Members may retire at age 55 with eight years of service for a reduced benefit if hired before July 1, 2009 and age 60 if hired on or after July 1, 2009..

Deferred members of the County hired before October 1, 2009, deferred members of the Authority hired before February 5, 2013, and all deferred members of the Road Commission may elect to receive a lump sum benefit at any time before or after reaching the retirement age. All deferred members may receive annuity benefits at the normal or early retirement age.

Benefits are determined at the member's retirement date based on a formula of the member's service credit, final average compensation, and a percentage factor. Service credit is determined by the total number of full or part-time (at least 20 hours per week) years and months of employment. Additional service may be credited for employees with military leave and Road

Commission employees with disability leave. The final average compensation is the average compensation received during the highest 5 consecutive years of the last 10 years of service or all years of service if the employee has less than 5 years of service. The percentage is determined by the participating employers of the System and ranged from 1.70% to 2.50% in 2017 and 2016. Annual benefits are reduced for early retirement or beneficiary benefits. Employees may choose to receive benefits in monthly payments or as a lump sum payment. Lump sum payments for employees hired before October 1, 2009, are calculated using the annual benefit, expected future lifetime, and a discount rate. Lump sum payments are no longer an option available for County employees hired on or after October 1, 2009, and Authority employees hired on or after February 5, 2013. The discount rate shall be the investment return assumption as adopted by the Retirement Investment Committee to be used in the annual actuarial valuation of the System.

### ASSETS & LIABILITIES

Total assets as of December 31, 2017 were \$240,173,720 and were comprised mostly of cash and investments. Total liabilities totaled \$11,943,815 resulting in an increase in net position of \$20,972,210 between 2016 and 2017.

Statement of Fiduciary Net Position		
	December 31,	
	2017	2016
<b>Assets</b>		
Cash and cash equivalents	\$9,199,587	\$6,049,513
Investments, at fair value:		
U.S. government securities	29,656,426	24,927,421
U.S. agency securities	5,774,105	4,944,620
Corporate obligations and mortgage-back funds	15,657,562	14,217,049
Foreign corporate obligations	2,815,126	2,965,905
Mortgage-backed funds	1,393,894	2,231,905
Domestic equity mutual funds/collective trust funds	115,019,507	104,483,967
Emerging market mutual funds	23,488,447	20,358,157
International equity mutual funds	23,116,620	20,677,006
Real estate investment trust	5,531,737	4,033,202
Real estate pooled separate account	5,895,094	6,090,455
Receivables:		
Sale of investments	2,173,622	532,567
Interest and dividends	368,500	334,628
Employer contributions	66,269	26,779
Other	17,224	74,231
<b>Total Assets</b>	<b>240,173,720</b>	<b>211,947,405</b>
<b>Liabilities</b>		
Accounts payable	111,072	97,248
Benefits payable	1,555,040	809,051
Purchase of investments	10,277,703	3,783,411
<b>Total liabilities</b>	<b>11,943,815</b>	<b>4,689,710</b>
<b>Net position restricted for pension benefits</b>	<b>\$228,229,905</b>	<b>\$207,257,695</b>

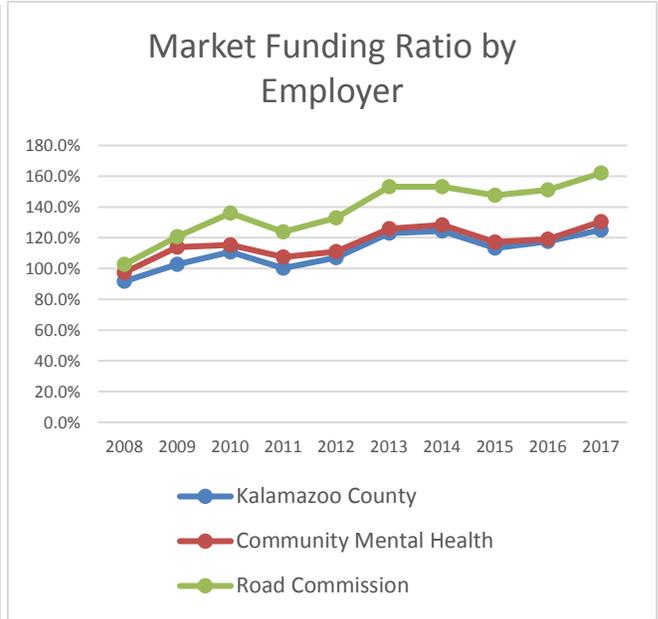
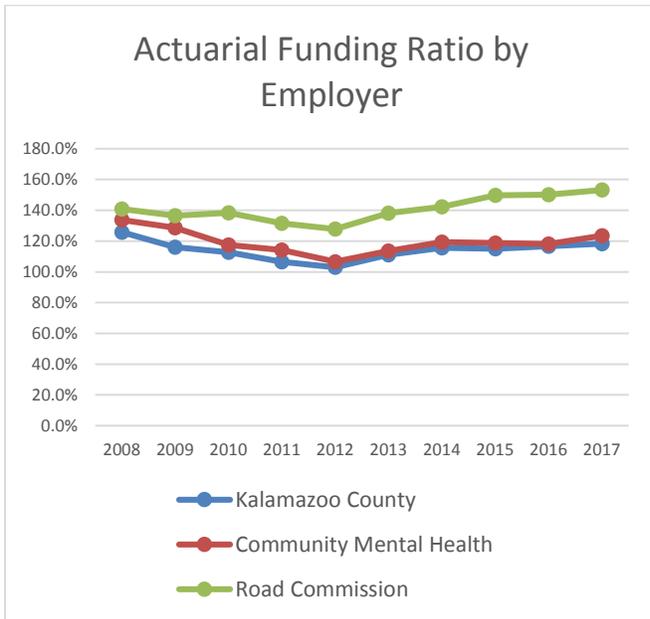
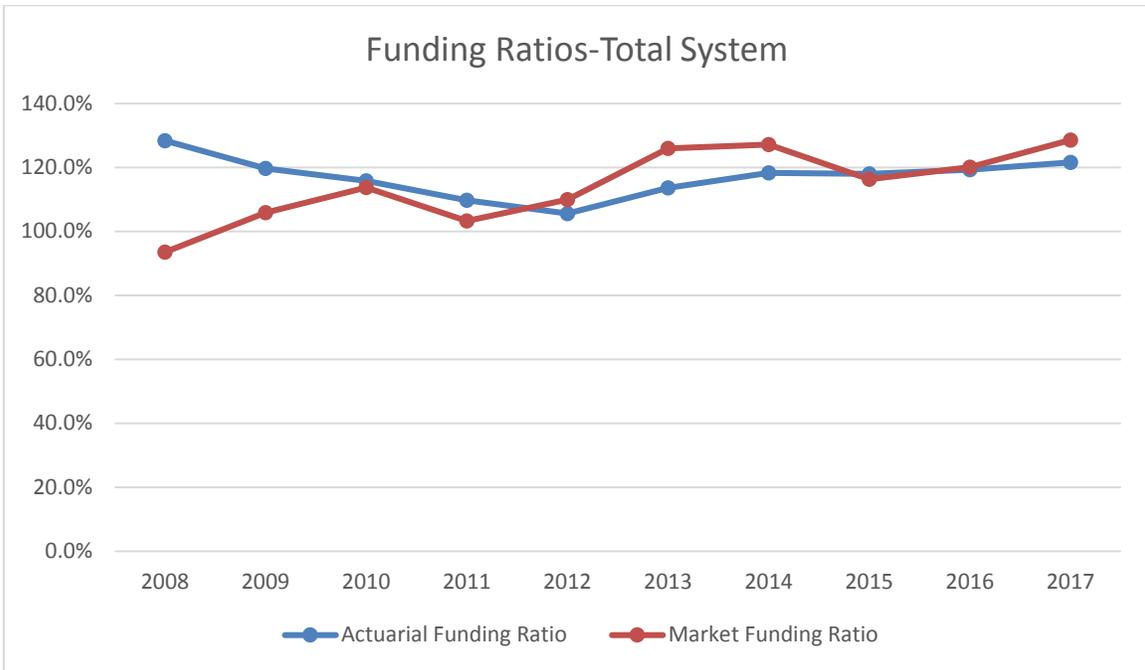
## ADDITIONS AND DEDUCTIONS

The reserves needed to finance the plan are accumulated through the collection of employer contributions and earnings on investments. Contributions and net investment income totaled \$33,577,702 for 2017.

Statement of Changes in Fiduciary Net Position		
	For the Year Ending December 31,	
	2017	2016
<b>Additions</b>		
Contributions:		
Employer	\$1,212,943	\$1,464,540
Employee	47,754	-
Total contributions	1,260,697	1,464,540
Investment income		
Net appreciation (depreciation) in fair value of investments	26,498,511	18,559,697
Income on mutual funds	5,071,046	4,173,139
Interest and dividends	1,368,093	1,311,100
Income on real estate pooled separate account	206,687	173,014
Total investment income (loss)	33,144,337	24,216,950
Investment expense	(827,332)	(768,331)
Net investment income (loss)	32,317,005	23,448,619
Total additions	33,577,702	24,913,159
<b>Deductions</b>		
Benefit payments	12,292,215	10,252,492
Administrative expenses	313,277	303,990
Total Deductions	12,605,492	10,556,482
Change in net position	20,972,210	14,356,677
Net position, beginning of year	207,257,695	192,901,018
Net position, end of year	\$228,229,905	\$207,257,695

## MARKET FUNDED RATIOS & ACTUARIAL FUNDED RATIOS

The actuarial funding ratio uses a five-year smoothing of gains and losses to reduce volatility while the market funding ratio is based on the market value of assets only. The actuarial funding ratio is commonly used by all pension plans to avoid volatility in the System's funding requirements.



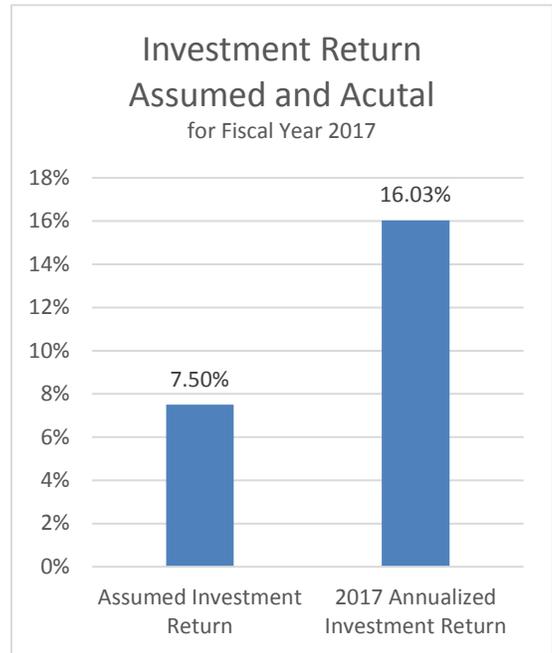
## INVESTMENT PHILOSOPHY & INVESTMENT RETURN

The Kalamazoo County Retirement Investment Committee administers all of the System's investments in accordance with the State of Michigan Public Act 307 of 2000, as amended, and the Retirement System's Investment Policy as approved by the County Board of Commissioners. The Retirement Investment Committee's goal is to find a balance or mix between the extremes, i.e., a philosophy that would prudently meet the objectives of properly funding present and future payments to participants. The present policy is seventy (70.00%) percent of Plan assets at market can be invested in corporate equities and five (5.00%) percent in real estate, which are the maximums allowed by State law.

The contribution rates are determined by an actuary based in part on an assumed investment return each year. When investments exceed the assumed rates of return, as they did in 2017, this results in a gain for the system. The actual rate of investment return in FY 2017 was 16.03% which is greater than the assumed rate of return.

Actual investment performance is reviewed and reported quarterly to the Retirement Investment Committee and is summarized as follows:

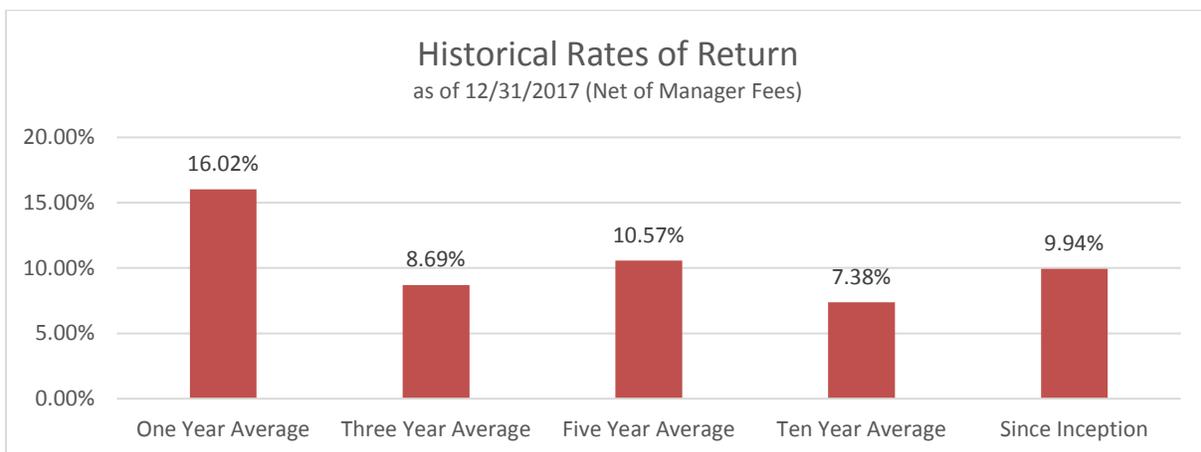
The market value of portfolio assets increased from \$219,627,423 million to \$245,597,878 during 2017, an increase of \$25,970,455 or 11.82%. The 1-year annualized net return was 16.02%, and the return since April 1988, net of manager fees, through the end of the quarter has been 9.94%.



Equities comprised 70.50% of the County portfolio at the end of the year. The equity portion of the County portfolio returned 21.25% year-on-year. Fixed income comprised 22.60% of the County portfolio at the end of the year and total fixed income returned 3.53%. At the end of the year, real estate investments were 5.00% of the portfolio and the one year return on real estate was 5.74%.

The portfolio closed the year with 70.50% in equities, 22.6% in fixed income, 5.0% in real estate, and 2.0% in cash.

The year-on-year inflation rate as of December 31, 2017 was 2.11%, the one year real return was 13.91%. Since April 1988, the return on the portfolio, net of manager fees, has been 9.94% nominal and 7.39% real.



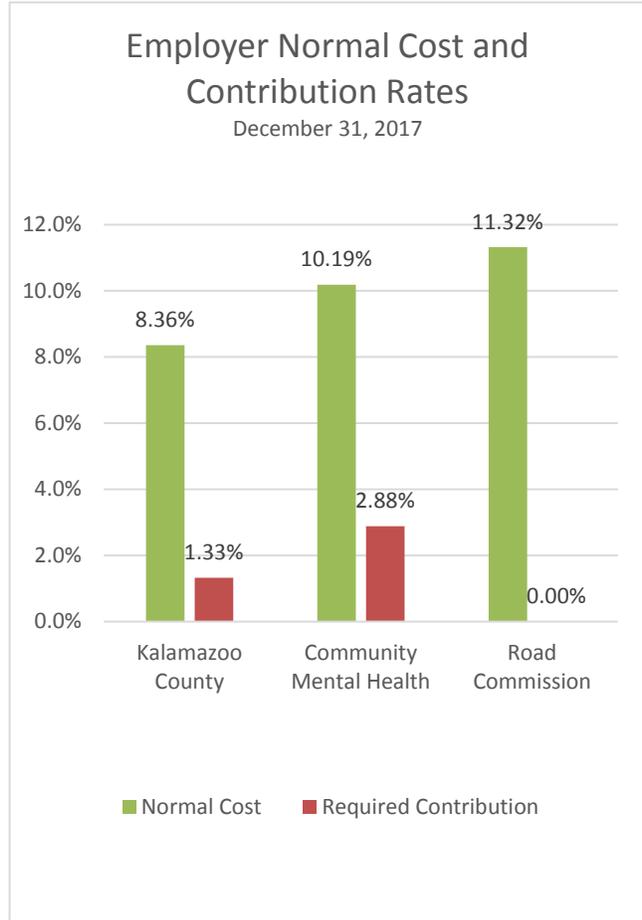
## MEMBER AND EMPLOYER CONTRIBUTIONS

It is required by the Michigan Constitution to fund financial benefits arising on account of service rendered in the fiscal year. Contributions made to cover the normal cost satisfy this requirement. The actuary calculates the total annual contribution to the Retirement System as the normal cost plus a contribution towards unfunded actuarial accrued liability. The Kalamazoo County Employees' Retirement System currently has an overfunded liability.

Normal Cost is the annual cost assigned, under the actuarial funding method, to current and subsequent plan years. Sometimes referred to as "current service cost." This is set using the assumed rate of investment return in addition to other actuarial assumptions.

The Kalamazoo County Employees' Retirement System is supported by contributions from the sponsoring entities and by the investment income earned on System assets. Employees do not contribute to the plan. The employer's contribution rates are determined annually by the system's actuary and are determined by the benefit provisions of the System. The employer's contribution is the remainder needed to meet the financial objective.

The net County contribution requirements have decreased relative to the 2016 valuation due to overfunded liability. This overfunding reduces the required contribution below normal cost.



Employer Pension Contributions for 2018		
Computed Normal Cost of benefits expressed as a percentage of valuation payroll	County	8.36%
	Authority	10.19%
	Road Commission	11.32%
Computed Annual Required Contribution expressed as a percentage of valuation payroll	County	1.33%
	Authority	2.88%
	Road Commission	0.00%
Covered Payroll	County	\$31,090,984
	Authority	\$11,833,751
	Road Commission	\$ 2,700,098

## 2017 PENSION PLAN EXPENDITURES

Pension Plan Expenses for the Year Ended December 31, 2017	
Administrative and Other Expenses	
Actuary	\$78,950
Insurance	15,836
Audit	14,000
Consulting Fees	87,723
Legal Fees	2,354
Due Diligence/Travel	5,139
Miscellaneous Administration	109,275
Total Administrative Expenses	<u>313,277</u>
Investment Expenses	
Custody Fees	161,108
Advisor Fees	666,224
Total Investment Expenses	<u>827,332</u>
Benefits Paid to Members	
Retirement Benefits	12,292,215
Total Benefits Paid to Members	<u>12,292,215</u>
Total 2017 Pension Plan Expenditures	<u>\$13,442,924</u>

## 2017 BUDGET FOR PENSION PLAN ADMINISTRATIVE EXPENDITURES

Budget for Pension Plan Expenses for the Year Ended December 31, 2017	
Administrative and Other Expenses	\$400,000
Investment Expenses	
Custody Fees	150,000
Advisor Fees	585,000
Total Investment Expenses	<u>735,000</u>
Total 2017 Pension Plan Budget	\$1,135,000

## ACTUARIAL ASSUMPTIONS

The actuarial assumptions used in 2017 were based upon the results of an Experience Study for the County of Kalamazoo Employees' Retirement System covering the period January 1, 2009 through December 31, 2013. A report dated February 20, 2015 presented the results of this Experience Study. The actuarial assumptions represent estimates of future experience. Unless otherwise noted, the assumptions were first used with the actuarial valuation date of December 31, 2014.

Actuarial Assumptions for the Year Ending December 31, 2017			
Valuation Date	12/31/2017		
Actuarial Cost Method	Entry-age normal		
Amortization Method	Level percentage of payroll, open period		
Remaining Amortization Period	10 years		
Asset Valuation Method	Market value with 5-year smoothing		
Inflation Rate	3.5%		
Projected Salary Increases (including inflation)		<u>2017</u>	<u>2016</u>
	County	3.50% to 7.50%	3.50% to 5.50%
	Road commission	3.50% to 7.23%	3.50% to 7.20%
	Authority	3.50% to 5.50%	4.00% to 5.50%
Investment Rate of Return	7.5% net of investment expenses		
Retirement Age	Experience-based table of rates that are specific to the type of eligibility condition. Last updated for the 2014 valuation pursuant to an experience study of the period 2009 -2013.		
Mortality	RP-2000 mortality combined healthy tables, projected 20 years with U.S. Projection Scale BB.		



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## MISSION STATEMENT

In the Pursuit of Extraordinary Governance,  
Kalamazoo County government provides  
equitable programs and excellent services to  
promote the health and safety of everyone in  
Kalamazoo County.

## FINANCE DEPARTMENT

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This report can be found online at  
[www.kalcounty.com/finance/2017KCERSSummaryAnnualReport](http://www.kalcounty.com/finance/2017KCERSSummaryAnnualReport)