



**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

**Net Position Restricted for OPEB - Beginning of year** 73,176,327

**Net Position Restricted for OPEB - End of year** **\$ 77,153,010**

**Administrative and Investment Expenses  
Year Ended June 30, 2018**

<b><u>Administrative Expenses:</u></b>	<b><u>Amount</u></b>	<b><u>Prior Year</u></b>	<b><u>\$ Change</u></b>	<b><u>% Change</u></b>
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>
<b><u>Investment Expenses:</u></b>				
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>
<b>Total Administrative and Investment Expenses</b>	<b><u>\$ 552,598</u></b>	<b><u>\$ 448,726</u></b>	<b><u>\$ 103,872</u></b>	<b><u>23.15%</u></b>

**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**

<b>Retiree Health Plan***</b>	<b>General</b>	<b>Court</b>	<b>Police</b>	<b>Fire</b>	<b>Total</b>	<b>Prior Year</b>	<b>Change from Prior Year</b>
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	-
<b><u>Investment Performance</u></b>							
(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