

**City of Madison Heights
Police and Fire Employees Retirement System
Summary Annual Report to Members
June 30, 2016**

Dear Retirement System Member:

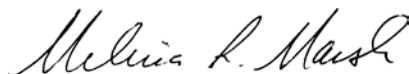
The Retirement System, which is managed by the Retirement Board, is designed to help you meet your financial needs should you become disabled, retire or die.

The Retirement Board's fiduciary responsibility to you is to supervise the general administration of the System and invest its assets. Our Board retains professional advisors to assist us in fulfilling these duties.

We have prepared this summary report to give you a brief overview of the Retirement System and how it operates. This report has been formatted to comply with the reporting requirements of PA 347 of 2012.

We hope you will find it useful and informative. However, a summary report cannot cover all details of the System which is governed by the provisions of Michigan Public Act 345, collective bargaining agreements, and the Retirement Board's official rules and regulations. Additional information about the System and its financial operations is available in the Finance Office.

Respectfully submitted,



Secretary

City of Madison Heights Police and Fire Employees Retirement System



FY 2015-16 Board Members

Jeff Geraldts, Chairman

Council Appointee

Corey Haines, Trustee

Police Department Representative

Kevin Powers, Trustee

Fire Department Representative

Melissa Marsh, Secretary

Deputy City Manager – Admin.

Mitch Namie, Trustee

Council Appointee

Investment Consultant

Kirk VanDagens

PNC Institutional Asset Management

Custodial Bank

PNC Bank

Investment Managers

Delaware Capital Mgmt.

Principal Global Investors

Vanguard

PNC Institutional Investments

iShares

Cambiar Investors

Lazard Global

Prudential

Dreyfus/Standish

Metropolitan West

Actuaries

Gabriel, Roeder, Smith & Co.

Attorney

Sherman & Sherman

Auditor

Plante Moran

Summary Results of Actuarial Valuation

Your Retirement System's financial objective is to establish and receive contributions that will remain approximately level from year-to-year and will not have to be increased for future generations of taxpayers. Contribution levels are expressed in terms of percent of the City's active member payroll, and provide for the payment of the required employer contribution in compliance with Section 20m of Michigan Public Act 314 as amended.

To determine an appropriate employer contribution level for the ensuing year and to gauge how the System's funding is meeting this financial objective, an independent firm of actuaries and employee benefits consultants, Gabriel, Roeder, Smith and Company, conducts an annual actuarial valuation. These valuations are based on your System's past experience, information about current participation and financial markets, and assumptions concerning the System's future demographic and economic activity. The results of the most recent valuation, June 30, 2015, based on the established financial objectives, are summarized below. The valuation as of June 30, 2016 is not available until approximately February 2017 and is used to set the rates for FY 2017-18. The report will be made available on the City's website at that time with a presentation at the Police and Fire Pension Board Meeting.

Membership

For members hired after July 1, 2009 the multiplier was reduced from 2.8% to 2.5%, final average compensation is base wages only and retirement age is 55 with 25 or more years of service or age 60 with 10 years; no other benefit changes have been implemented resulting in a Defined Benefit plan that remains open. As of June 30, 2015 there were 66 active employee members in the plan. During this same period there were 131 retirees and beneficiaries receiving benefits from the plan with an average retirement allowance of \$36,725. Total annual retirement allowances were \$4,811,004.

Contributions

As of June 30, 2015 the valuation payroll was \$5,282,238 with the employer normal cost being 13.77% of payroll and total contributions rate as a percentage of payroll at 39.35%. As of June 30, 2016, the Board of Trustees has confirmed that the System has received the required employer contribution for the current year in the amount of \$2,091,597; in FY 2015 this amount was \$1,860,442. Total accrued liabilities for the plan are \$78,426,714 with unfunded portion equaling \$31,043,1764; resulting in the fund being **60.4% funded compared to 70.5% as of June 30, 2014.**

During the year plan members also contribute to the plan at 8.9% of pay for Firefighters; 8.9% for Fire Command, 8.9% for Police Command; 8.9% for Police and 8.9% of pay for Police and Fire Department Heads. Total amount funded during the 2016 fiscal year \$490,998 and 2015 fiscal year \$501,899.

Assumptions

The actuary calculated the contribution requirements and benefit values of the System by applying actuarial assumptions. These valuation assumptions were as follows:

Rate of investment return	7.5% a year, compounded annually
Rate of long-term wage inflation	5.5% annually, (step, overtime, longevity, general increases)
Mortality Table	RP-2014 mortality projected to 2015)
Actuarial cost method	Individual entry-age actuarial cost method
Asset valuation method	4-Year Smoothed Market
Amortization method	Level percent-of-payroll
Amortization period	29-year closed
Funded Ratio	60.4%

Summary Results of Current Asset Information

Balance Sheet as of June 30, 2016
Fund 732 - Police And Fire Retirement

GL Number	Description	Balance at June 30, 2016	Balance at June 30, 2015
** Assets**			
732-000-0011-000	Claim On Cash	0	0
732-000-0560-100	Accrued Interest Receivable	100,933	185,392
732-000-1200-100	Money Market	1,382,631	1,014,070
732-000-1200-106	Other Fixed	36,033	0
732-000-1202-100	Gov't Securities Fixed 88664	4,213,893	4,114,813
732-000-1203-100	Gov't Agency 88664	502,454	0
732-000-1204-100	Corp. Bonds Fixed 88664	3,473,217	3,982,546
732-000-1205-100	Mortgage Backed Sec. Fixed 88664	9,803	727,769
732-000-1207-109	Common Stock	26,704,165	9,334,727
732-000-1207-111	Asset Backed Securities	1,468,442	0
732-000-1212-107	Mutual Funds M/F Cust 88703	3,262,054	26,083,527
732-000-1820-000	Employee Contribution Rec	35,813	36,012
732-000-1821-000	Employer Contribution Rec	416,781	223,659
732-000-1822-000	Employer Rec-Admin Charges	0	219,696
	Total Assets	41,606,219	45,922,212
Fund Balance			
732-000-3832-000	Reserve For Employee Contrib	7,366,544	7,759,769
732-000-3833-000	Reserve For Employer Contrib	4,668,607	9,023,218
732-000-3834-000	Reserve For Retiree Annuity	29,571,068	29,139,055
	Total Fund Balance	41,606,219	49,644,533
	Beginning Fund Balance	45,922,212	49,654,422
	Net of Revenues VS Expenditures	(4,315,993)	(3,732,210)
	Fund Balance Adjustments	0	0
	Ending Fund Balance	41,606,219	45,922,212
	Total Liabilities And Fund Balance	41,606,219	45,922,212

Investment Performance shown is not fully inclusive of all investment management and administrative costs
 1 year -1.08% 3 year 4.58% 5 year 3.28% 7 year 5.81% 10 year n/a

Fiscal Year 2016-17 Projected Budget

Revenues:	FY 2015-16 Actual	FY 2016-17 Budget
Member's contributions	\$ 490,999	\$ 515,000
Employer's contributions	2,091,597	2,313,339
Investment Income	(462,587)	3,120,466
Total Revenues	\$2,120,009	\$ 5,948,805
Expenditures:		
<u>Benefit Payments</u>		
Pension payments	\$ 4,969,535	\$ 5,269,530
Refund of Member contributions	1,073,439	628,000
Retiree health insurance	0	0
Total Benefit Payments	6,042,974	5,897,530
<u>Contracted Services</u>		
Legal Services	3,411	3,500
Actuarial Services	25,690	26,000
Auditing Services	8,750	8,750
Total Contracted Services	37,851	38,250
<u>Administrative expenses</u>		
Pension Administration	186,856	185,000
Investment expenses	167,258	175,000
Travel	0	1,000
Conferences and Workshops	0	1,250
Memberships and Dues	1,061	160
Total Administrative	355,175	362,410
Total Expenditures	\$ 6,436,000	\$6,298,190
Net Revenues over/(under) expenditures	\$ (4,315,991)	\$ (349,385)