



# **CITY OF ESCANABA**

## **PUBLIC SAFETY RETIREMENT PLAN**

# **SUMMARY ANNUAL REPORT**

**As of 12/31/15**

**PREPARED IN ACCORDANCE WITH  
MICHIGAN PUBLIC ACT 314  
OF 1965 AS AMENDED**

### **Introduction**

The Summary Annual Report is a required annual disclosure statement prepared in accordance Michigan Public Act 314 as amended. In certain cases additional supporting schedules, and descriptive language has been added to the various required disclosures in an effort to help the reader better understand the overall condition of the Plan.

### **Plan Background**

The City of Escanaba Public Safety Retirement Plan is an independent, self-managed, defined benefit retirement plan which provides retirement, death and disability benefits to employees and retirees of the City of Escanaba Department of Public Safety. The Plan was established July 1, 1966 and closed to new members on 6/30/2014.

The plan serves 28 active members, 41 retired members, and 12 survivor beneficiaries. Retired members receive an average annual benefit of \$34,164, while survivor beneficiaries receive an average annual benefit of \$12,043. During the fiscal year ending on 6/30/2015, total benefit payments were \$1,538,201.

### **Basis of Presentation**

In accordance with Michigan PA 314, investment returns are presented on a calendar year basis through 12/31/2015. All other disclosures, including actuarial and financial information, is reported on a Plan fiscal year basis, through the fiscal year ending on 6/30/2015.

The annual actuarial report and all of the related information contained herein was prepared using a variety of methodologies and assumptions, the most notable of which are as follows:

1. Actuarial Cost Method: "Entry Age Normal Cost"
2. Smoothing Technique: None; Market Value Represents Actuarial Value
3. The Assumed Rate of Return: 7.5%
4. Wage Inflation Assumption: 3.25%
5. Policy for Amortization of Unfunded Liability: "20 Year Closed Period"

### **Fiduciaries**

Oversight of the plan is provided by a Board of Directors consisting of the City Treasurer, two members at large appointed by the Escanaba city Council, and two working plan members appointed by the Department of Public Safety. Each member of the Board of Directors is considered to be a plan Fiduciary and has been duly advised of his role as such.

#### **The following individuals are the named Fiduciaries as of 12/31/15:**

- |                     |                 |
|---------------------|-----------------|
| 1. Robert Valentine | City Treasurer  |
| 2. David Schaaf     | At Large Member |
| 3. Blake Cowen      | At Large Member |
| 4. Anthony Laplant  | At Large Member |
| 5. Brad Nault       | At Large Member |

### **Service Providers**

The plan has adopted a non-traditional operating model. Under a traditional operating model, assets are managed by one or more money managers, who are hired by the Board of Directors; those managers are typically monitored by an outside consultant, also hired by the Board. Under the traditional model, consultants also provide the board with performance reporting and other services.

In the case of Escanaba's Plan, assets are invested by the City Treasurer, subject to oversight from the Board of Directors. The Treasurer further provides monthly, quarterly and annual performance reporting, along with other services traditionally provided by consultants.

Benefits are administered by the City Treasurer, and accounting and recordkeeping are performed by the City Treasurer and the City Controller. Legal services are provided by the Ralph B.K. Peterson, City Attorney, under the City's blanket retainer agreement for legal services. Outside counsel is engaged on rare occasions for special projects. There was no use of outside counsel during the year covered by this report. The City of Escanaba does not allocate any administrative service charges to the plan for work performed by the Treasurer, the City Attorney, Controller or any other City staff member. Furthermore, there are no **soft dollar** arrangements involving plan assets and no service providers are paid using soft dollars.

The Plan has always undergone an annual actuarial valuation. The actuary of record who performed the 6/30/15 valuation was Buck Consultants. All previous valuations were performed by Gabriel Roeder Smith and Company. In addition, the plan undergoes an annual audit examination, and the auditor of record performing the 6/30/15 examination was Anderson Tackman and Company. Other than the aforementioned, there were no additional outside service providers paid by the plan during the fiscal year ending on 6/30/2015.

### **Funded Ratio**

The Plan's funded ratio on 6/30/2015 and 6/30/2014, as determined by Buck Consultants, was 83.55% and 84.03%, respectively. Funded ratios were derived as follows:

	<u>6/30/2015</u>	<u>6/30/2014</u>
1. Actuarial accrued liability (AAL):		
a) Active members	\$ 13,759,124	\$ 13,735,110
b) Terminated vested members	426,567	252,002
c) Retirees and beneficiaries in payment	<u>17,311,586</u>	<u>16,451,087</u>
d) Total	31,497,277	30,438,199
2. Actuarial value of assets (AVA)	26,315,991	25,576,018
3. Unfunded actuarial accrued liability (UAAL)		
(1.d) - (2)	5,181,286	4,862,181
4. Funded ratio: (2) / (1.d)	83.55%	84.03%

### **Employer Contributions**

The plan annually funds its Actuarially Determined Employer Contribution (ADEC). The ADEC for the fiscal years ending 6/30/2015 and 6/30/2016 was **\$997,405** and **\$973,332**, respectively. The 6/30/2015 Valuation determines the contribution for the fiscal year starting on 7/1/2016 which is derived as follows:

<b>Actuarially Determined Employer Contribution:</b>	<b><u>FY 16/17</u></b>
<u>Dollar Amounts</u>	
Amortization of Projected UAAL	\$500,033
Projected Normal Cost	627,051
Minus Projected Member Contributions	-128,915
Projected Administrative Expense	7,251
Total ADEC	<b><u>\$1,005,420</u></b>
<u>As Rates of Projected Member Compensation</u>	
Amortization of Projected UAAL	23.27%
Projected Normal Cost	29.18%
Minus Projected Member Contributions	-6.00%
Projected Administrative Expense	0.34%
Total ADEC	<u>46.79%</u>
Projected Member Compensation	\$2,148,586

### **Revenues and Expenses**

Below are the Plan's revenues and expenses for the fiscal year ending on 6/30/2015.

OPERATING REVENUES:	
Member contributions	\$ 124,797
Employer contributions	1,033,739
Interest income	1,220
Dividend income	960,713
Net realized/unrealized loss on investments	164,540
TOTAL OPERATING REVENUES	<u>2,285,009</u>
OPERATING EXPENSES:	
Pension payments to retired employees	1,538,201
Trustee and transaction fees	6,835
TOTAL OPERATING EXPENSES	<u>1,545,036</u>
NET INCREASE IN NET POSITION	739,973
Net Position, beginning of year	<u>25,576,018</u>
NET POSITION, END OF YEAR	<b><u>\$ 26,315,991</u></b>

### **Budget**

PA 314 requires disclosure of the Plan's annual budget. The Plan is treated as a component unit of the City of Escanaba for governmental accounting purposes; as such, State Law does not require a separate budget for the Plan. Due to the difficulty in projecting future investment returns and retirement rates, the City of Escanaba has historically elected not to prepare a separate operating budget for the Plan. The Treasurer and the Plan's actuary do however prepare forward looking reports for review by the Board and other interested parties. Consideration will be given to development of an operating budget in future years.

### **Administrative and Investment Expense Disclosure**

Administrative and investment expenses incurred by the plan during the fiscal year ending 6/30/15 are detailed in the table below. The Plan has adopted an investing approach whereby the portfolio is comprised primarily of institutional share class mutual funds with low internal expense ratios. Because mutual fund operating expenses are netted out of asset pricing, it would be difficult, if not impossible, to separately quantify such costs.

Gabriel Roeder Smith and Company Actuarial Fees	\$6,100
Audit Expense (pass through charge from Anderson Tackman)	1,600
Supplies	135
MAPERS Membership Dues	<u>100</u>
	7,935
Less Credits from Prior Periods	<u>-1,100</u>
*Total	\$6,835*

**\*Note:** Administrative and Investing expenses are referred to as "Trustee and Transaction Fees" in the Statement of Revenues and Expenses found on the previous page.

### **Investing Returns**

In accordance with PA 314, the following are the Plan's historical investment returns. The below figures represent compound annual growth rates, net of all fees and expenses. Escanaba's returns are compared against the MERS Total Market Fund which mirrors the performance the \$9 billion MERS public pension system serving 800 local units of government. Median returns for BNY Mellon Public Fund Universe are also presented as a basis of comparison. The BNY returns are compiled from quarterly surveys of large public defined benefit plans. The MERS and BNY returns are included to help readers better understand the Plan's investment performance relative to the industry. Such comparisons are voluntary and not a requirement of PA 314.

	1 yr	3 yr	5 yr	7 yr	10 yr
<b>Escanaba</b>	<b>-0.63%</b>	<b>8.75%</b>	<b>8.40%</b>	<b>11.62%</b>	<b>6.45%</b>
MERS Total Market Fund	-1.53%	n/a	6.14%	n/a	4.95%
BNY Mellon Public Plan Universe	0.16%	n/a	6.96%	n/a	5.86%

**Assets and Liabilities**

6/30/15

ASSETS:	
Cash	\$ 1,308
Investments:	
Mutual funds at market value:	
Eaton Vance Income Fund of Boston	2,529,619
Vanguard Small-Cap Growth Index Fund	3,195,870
Vanguard 500 Index Fund	5,751,105
Vanguard Total Bond Market Index Fund	3,703,089
Vanguard REIT Index Fund	1,252,216
Vanguard Short Term Bond Index	3,254,396
JP Morgan Mid-Cap Value Fund	5,186,932
Dimensional International Value Portfolio	1,441,456
Total Investments	26,314,683
TOTAL ASSETS	\$ 26,315,991
LIABILITIES AND NET POSITION:	
LIABILITIES:	\$ -
TOTAL LIABILITIES	-
NET POSITION HELD IN TRUST FOR PENSION BENEFITS	
Restricted for:	
Members deposit account	1,784,185
Pension reserve account	9,040,948
Retirement reserve account	15,490,858
TOTAL NET POSITION HELD IN TRUST FOR PENSION BENEFITS	26,315,991
TOTAL LIABILITIES AND NET POSITION	\$ 26,315,991

**Additional Information**

Questions concerning the content of the Summary Annual Report should be directed to Robert Valentine, City Treasurer, via email at [bvalentine@escanaba.org](mailto:bvalentine@escanaba.org) or by phone at 906.789.7305. Additional information concerning the Public Safety Retirement plan is also contained in the annual actuarial valuation and in the annual audit report, both of which are available by contacting the City Treasurer's Office.