



# **CITY OF ESCANABA**

## **PUBLIC SAFETY RETIREMENT PLAN**

  

# **SUMMARY ANNUAL REPORT**

**As of 12/31/16**

**Prepared in Accordance With  
Michigan Public Act 314 as Amended**

**By**

**Robert Valentine  
City Treasurer**

## **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 have been added to the 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 on July 1, 1966 and closed to new members on 6/30/2014.

The plan serves 24 active members, 43 retired members, and 10 survivor beneficiaries. Retired members receive an average annual benefit of \$36,575, while survivor beneficiaries receive an average annual benefit of \$11,900. During the fiscal year ending on 6/30/2016, total benefit payments were \$1,691,738

## **Basis of Presentation**

In accordance with Michigan PA 314, investment returns are presented on a calendar year basis through 12/31/2016. All other disclosures, including actuarial and financial information, is reported on a Plan fiscal year basis, through the fiscal year ending on 6/30/2016.

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 community 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 12/31/16:**

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

### Service Providers

The Board of Directors has chosen 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, based on the perceived merits of their work. 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 advisory services.

In the case of Escanaba's Plan, assets are invested and managed 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 legal 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.

Since inception, the Plan has undergone an annual actuarial review. The actuary of record who performed the 6/30/16 valuation was Buck Consultants, LLC. Prior to the valuation dated 6/30/2015, all 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 6/30/16 examination was Rehman Robson, LLC. Other than the aforementioned, there were no additional outside service providers paid by the plan during the fiscal year ending on 6/30/2016.

### Plan Funding Level

The Plan's funded ratio on 6/30/2016 and 6/30/2015, as determined by Buck Consultants, was 80.43% and 83.55%, respectively. Funded ratios were derived as shown in the following Executive Summary.

#### EXECUTIVE SUMMARY

	<u>6/30/2015</u>	<u>6/30/2014</u>
1. Actuarial accrued liability (AAL):		
a) Active members	\$ 12,496,378	\$ 13,759,124
b) Terminated vested members	555,813	426,567
c) Retirees and beneficiaries in payment	<u>19,747,954</u>	<u>17,311,586</u>
d) Total	\$ 32,800,145	\$ 31,497,277
2. Actuarial value of assets (AVA)	\$ 26,380,651	\$ 26,315,991
3. Unfunded actuarial accrued liability (UAAL)		
(1.d) - (2)	\$ 6,419,494	\$ 5,181,286
4. Funded ratio: (2) / (1.d)	80.43%	83.55%

### **Employer Contributions**

The plan annually funds its Actuarially Determined Employer Contribution (ADEC). The ADEC for the fiscal year ending 6/30/2017 is **\$1,005,420**. The 6/30/2016 Valuation determines the contribution for the fiscal year starting on 7/1/2017 and ending on 6/30/2018, which is derived as follows:

<b>Actuarially Determined Employer Contribution:</b>	<b>FY 17/18</b>
<u>Dollar Amounts</u>	
Amortization of Projected UAAL	\$626,191
Projected Normal Cost	538,502
Minus Projected Member Contributions	-110,706
Projected Administrative Expense	14,482
<b>Total ADEC</b>	<b>\$1,068,479</b>
<u>As Rates of Projected Member Compensation</u>	
Amortization of Projected UAAL	33.94%
Projected Normal Cost	29.19%
Minus Projected Member Contributions	-6.00%
Projected Administrative Expense	0.78%
<b>Total ADEC</b>	<b>57.91%</b>
 Projected Member Compensation	 \$1,845,099

### **Revenues and Expenses**

Below are the Plan's revenues and expenses for the fiscal year ending on 6/30/2016.

<b>Additions</b>	
Investment income:	
Change in fair value of investments	\$ (341,616)
Dividend income	892,279
Net investment income	<u>550,663</u>
 Contributions:	
Employer	969,387
Plan members	149,195
Total contributions	<u>1,118,582</u>
 Total additions	<u>1,669,245</u>
 <b>Deductions</b>	
General and administrative	13,650
Benefit payments	1,590,935
Total deductions	<u>1,604,585</u>
 Change in net position	64,660
 Net position, beginning of year	<u>26,315,991</u>
 Net position, end of year	<u>\$ 26,380,651</u>

### **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 6/30/16 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 impossible, to separately quantify such costs.

Actuarial Fees – Buck Consultants	\$11,800
Audit Expense – 6/30/15 Audit	1,750
MAPERS Membership Dues	<u>100</u>
*Total	\$13,650*

**\*Note:** Administrative and Investing expenses are referred to as “General and Administrative” 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 over the respective time frames, net of all fees and investing 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 an additional basis of comparison. The BNY returns are compiled from quarterly surveys of large pension funds, endowments and trusts with objectives similar to those of the Escanaba Plan. 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>9.4%</b>	<b>5.7%</b>	<b>9.9%</b>	<b>9.6%</b>	<b>6.3%</b>
MERS Total Market Fund	10.1%	n/a	7.8%	n/a	4.6%
BNY Mellon Public Plan Universe	7.5%	n/a	8.2%	n/a	5.2%

**Assets an Liabilities**

	<u>6/30/16</u>
<b>Assets</b>	
Cash and equivalents	\$ 38,117
Investments at fair value:	
Mutual funds	<u>26,392,534</u>
<b>Total assets</b>	26,430,651
<b>Liabilities</b>	
Accounts payable	<u>50,000</u>
<b>Net position</b>	
Restricted for retiree pension benefits	<u>\$ 26,380,651</u>

**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. In accordance with the requirements of PA 314, a copy of this report is available on the City of Escanaba's web site at [www.escanaba.org/treasurer](http://www.escanaba.org/treasurer).