



CITY OF ESCANABA

PUBLIC SAFETY RETIREMENT PLAN

SUMMARY ANNUAL REPORT

As of 12/31/17

**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 22 active members, 43 retired members, and 11 survivor beneficiaries. Retired members receive an average annual benefit of \$38,727, while survivor beneficiaries receive an average annual benefit of \$11,913. During the fiscal year ending on 6/30/2017, total benefit payments were \$1,781,664

Basis of Presentation

In accordance with Michigan PA 314, investment returns are presented on a calendar year basis through 12/31/2017. All other disclosures, including actuarial and financial information, is reported on a Plan fiscal year basis, through the fiscal year ending on 6/30/2017.

Actuarial Assumptions

The annual actuarial report is prepared using a variety of methodologies and assumptions. Changes to assumptions can have a significant impact on valuation results. The most significant assumptions used in the preparation of the valuation are as follows:

1. Actuarial Cost Method: "Entry Age Normal Cost"
2. Smoothing Technique: 5 Year Smoothing
3. The Assumed Rate of Return: 7.50%
4. Wage Inflation Assumption: 3.25%
5. Policy for Amortization of Unfunded Liability: Level Dollar Cost Reduced by One Year

Fiduciaries

Oversight of the plan is provided by a Board of Directors consisting of the City Treasurer, two community members appointed at large by the Escanaba city Council, and two active employee 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 12/31/17:

- | | |
|---------------------|--------------------|
| 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 manages the plan using 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 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. Therefore, 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 6/30/17 valuation was Conduent Human Resource Services. In addition, the plan undergoes an annual audit examination, and the auditor of record performing the 6/30/17 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 6/30/2017.

Plan Funding Level

The Plan's funded ratio on 6/30/2017 and 6/30/2016, as determined by the actuary of record, was 82.81% and 80.43%, respectively. Funded ratios were derived as shown in the following Executive Summary.

EXECUTIVE SUMMARY

	<u>6/30/2017</u>	<u>6/30/2016</u>
1. Actuarial accrued liability (AAL):		
a) Active members	\$ 12,007,166	\$ 12,496,378
b) Terminated vested members	589,520	555,813
c) Retirees and beneficiaries in payment	<u>21,137,034</u>	<u>19,747,954</u>
d) Total	\$ 33,733,720	\$ 32,800,145
2. Actuarial value of assets (AVA)	\$ 27,934,760	\$ 26,380,651
3. Unfunded actuarial accrued liability (UAAL) (1.d) - (2)	\$ 5,798,960	\$ 6,419,494
4. Funded ratio: (2) / (1.d)	82.81%	80.43%

Employer Contributions

The plan annually funds its Actuarially Determined Employer Contribution (ADEC) in full. The ADEC for the fiscal year ending 6/30/2018 is **\$1,068,469**, and the ADEC for fiscal year ending 6/30/2019 will be **\$985,230**.

	Year End	Year End
	6/30/2019	6/30/2018
Actuarially Determined Employer Contribution:		
<u>Dollar Amounts</u>		
Amortization of Projected UAAL	\$567,229	\$626,191
Projected Normal Cost	489,377	538,502
Minus Projected Member Contributions	-99,693	-110,706
Projected Administrative Expense	28,317	14,482
Total ADEC	985,230	1,068,469
 <u>As Rates of Projected Member Compensation</u>		
Amortization of Projected UAAL	34.14%	33.94%
Projected Normal Cost	29.45%	29.19%
Minus Projected Member Contributions	-6.00%	-6.00%
Projected Administrative Expense	1.70%	0.78%
Total ADEC	59.30%	57.91%
 Projected Member Compensation	 \$1,661,548	 \$1,845,099

Assets and Liabilities

Plan assets, less operating liabilities, determines the plan net position, which represents resources available to pay benefits to participants. As of 6/30/2017, the plan had no operating liabilities. Accordingly, the net position on that date was calculated as follows:

Assets	
Cash and equivalents	\$ 53,179
Investments at fair value:	
Mutual funds	28,554,996
Total assets	\$ 28,608,175
 Net position	
Restricted for retiree pension benefits	\$ 28,608,175

Revenues, Expenses and Net Position

Following are the Plan's revenues and expenses for the fiscal year ending on 6/30/2017. When revenues exceed expenses, net position is improved. The converse is true when expenses exceed revenues. Net position represents resources available to pay benefits.

Revenues Expenses and Net Position

Additions	
Investment income:	
Change in fair value of investments	\$ 2,798,891
Contributions:	
Employer	1,134,353
Plan members	102,635
Total contributions	1,236,988
Total additions	4,035,879
Deductions	
General and administrative	26,691
Benefit payments	1,781,664
Total deductions	1,808,355
Change in net position	2,227,524
Net position, beginning of year	26,380,651
Net position, end of year	\$ 28,608,175

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 of Directors 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 6/30/17 are detailed in the table below. The Plan has adopted an investing process whereby the portfolio is comprised primarily of institutional share class mutual funds with low internal expense ratios. Mutual fund administrative and investment expenses are netted out before the assets are priced, therefore, it would be impossible, to separately quantify such costs.

Actuarial Fees – Conduent	\$21,883
Audit Expense – 6/30/16 Audit	1,705
Trustee Education	1,636
Miscellaneous	1,367
MAPERS Membership Dues	<u>100</u>
Total	\$26,691

***Note:** The above expenses are categorized 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. The returns for Escanaba's plan are net of all fees and investing expenses. Escanaba's returns are compared against the MERS Total Market Fund, which mirrors the performance the \$11 billion MERS public pension system serving 800 local units of government. Returns for BNY Mellon Trust 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 whose objectives are similar to those of the Escanaba Plan. MERS and BNY Mellon returns were not available for the three and seven year periods ending on 12/31/17. 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.

	<u>1 yr</u>	<u>3 yr</u>	<u>5 yr</u>	<u>7 yr</u>	<u>10 yr</u>
Escanaba	12.8%	7.0%	9.7%	9.2%	6.9%
MERS Total Market Fund	12.6%	n/a	8.2%	n/a	5.1%
BNY Mellon Public Plan Universe	15.2%	n/a	8.5%	n/a	5.9%

Investment Holdings

PA 314 does not require disclosure of individual investment holdings. However, plan trustees believe that such disclosure is useful to readers in reaching a fuller understanding of the plan and its financial condition. Accordingly, investment holdings as of 12/31/2017 are presented below.

	<u>12/31/2017</u>	
	<u>\$ Value</u>	<u>% Total</u>
BONDS		
Vanguard Total Bond Mkt Idx	2,674,100	8.9%
Vanguard Short Term Bond Idx	4,588,325	15.2%
Eaton Vance Bonds	2,873,267	9.5%
Total Bonds	10,135,692	33.7%
STOCKS		
Vanguard 500 Stock Index	7,146,000	23.7%
Vanguard Sm Cap Gro Idx	3,831,378	12.7%
JP Morgan Mid Val	5,700,915	18.9%
Vanguard REIT Index	1,556,825	5.2%
DFA Int'l Value	1,729,793	5.7%
Total Stocks	19,964,911	66.3%
Total	30,100,603	100.0%

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 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. 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.