

City of Kalamazoo
Employees Retirement System
Sixty-Ninth Annual Actuarial Valuation
December 31, 2020



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May 20, 2021

Retirement Investment Committee
Board of Trustees
City of Kalamazoo Employees Retirement System
Kalamazoo, Michigan

**Re: City of Kalamazoo Employees Retirement System Annual Actuarial Valuation
as of December 31, 2020 Actuarial Disclosures**

Ladies and Gentlemen:

The results of the December 31, 2020 Annual Actuarial Valuation of the City of Kalamazoo Employees Retirement System are presented in this report.

This report was prepared at the request of the Board and is intended for use by the Retirement System and those designated or approved by the Board. This report may be provided to parties other than the System only in its entirety and only with the permission of the Board. GRS is not responsible for unauthorized use of this report.

The purposes of the valuation are to measure the System's funding progress and to determine the employer contribution rate for the fiscal year ending December 31, 2020. This report should not be relied on for any purpose other than the purposes described herein. Determinations of financial results, associated with the benefits described in this report, for purposes other than those identified above may be significantly different.

The contribution rate in this report is determined using the actuarial assumptions and methods disclosed in Section D of this report. This report includes risk metrics starting on page A-4, but does not include a more robust assessment of the risks of future experience not meeting the actuarial assumptions. Additional assessment of risks was outside the scope of this assignment.

This valuation assumed the continuing ability of the plan sponsor to make the contributions necessary to fund this plan. A determination regarding whether or not the plan sponsor is actually able to do so is outside our scope of expertise and was not performed.

The findings in this report are based on data and other information through December 31, 2020. The valuation was based upon information furnished by the City, concerning Retirement System benefits, financial transactions, plan provisions and active members, terminated members, retirees and beneficiaries. We checked for internal reasonability and year-to-year consistency, but did not audit the data. We are not responsible for the accuracy or completeness of the information provided by the City.

This report was prepared using assumptions adopted by the Board. All actuarial assumptions used in this report are reasonable for the purposes of this valuation. Additional information about the actuarial assumptions is included in the section of this report entitled Actuarial Cost Methods and Assumptions.

This report was prepared using our proprietary valuation model and related software which in our professional judgment has the capability to provide results that are consistent with the purposes of the valuation and has no material limitations or known weaknesses. We performed tests to ensure that the model reasonably represents that which is intended to be modeled.

This report has been prepared by actuaries who have substantial experience valuing public employee retirement systems. To the best of our knowledge the information contained in this report is accurate and fairly presents the actuarial position of the City of Kalamazoo Employees Retirement System as of the valuation date. All calculations have been made in conformity with generally accepted actuarial principles and practices, and with the Actuarial Standards of Practice issued by the Actuarial Standards Board.

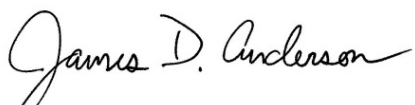
This report reflects the impact of COVID-19 experience through December 31, 2020. It does not reflect the ongoing impact of COVID-19, which is likely to influence demographic and economic experience, at least in the short-term. We will continue to monitor these developments and their impact on the City of Kalamazoo Employees Retirement System. Actual future experience will be reflected in each subsequent annual valuation, as experience emerges.

James D. Anderson and Michael D. Kosciuk are Members of the American Academy of Actuaries (MAAA) and meet the Academy's Qualification Standards to render the actuarial opinions contained herein.

The signing actuaries are independent of the plan sponsor.

Gabriel, Roeder, Smith & Company will be pleased to review this valuation and report with the Board and to answer any questions pertaining to the valuation.

Respectfully submitted,



James D. Anderson, FSA, EA, FCA, MAAA



Michael D. Kosciuk, ASA, EA, ACA, MAAA

JDA/MDK:ah

SECTION A

EXECUTIVE SUMMARY

Executive Summary

Computed Employer Contributions - Fiscal Year Beginning January 1, 2021.

As expected, based on last year's results, City contributions will not be required for the year beginning January 1, 2021.

The pensions provided by the City to its employees through the Retirement System are valuable financial benefits. Every year that City employees earn another year of credit toward their pensions, there is a cost associated with that credit. The cost of benefits accruing during the year, known as the normal cost, totals \$7.6 million for fiscal year beginning January 1, 2021. Refer to page B-2 for additional information. The reason that City contributions are not currently needed to support the Retirement System is that favorable experience over decades, and member contributions, have resulted in assets in excess of the accrued liability as of the valuation date. This overfunded liability is currently supporting the pension costs that would otherwise require City contributions. As employees accrue larger pensions by earning additional service each year, the cost of those larger pensions may use up the overfunded liability.

2020 Funding Position

This year valuation assets represent 130.8% of accrued liabilities; last year the ratio was 130.5%. The increase in funding position is primarily the result of favorable asset experience. The change to funding position is outlined in detail on page A-2.

Contribution Requirements Longer Term

The System continues to have an overfunding credit and application of the credit brings the required Employer contribution amount to \$0. Contributions are based on a smoothed (actuarial) value of assets that recognize a given year's asset gain or loss over the current and subsequent four years. Looking forward from December 31, 2020, scheduled recognition of prior gains will help strengthen the overfunding credit. Future investment gains could offer additional support to the overfunding. Conversely, future investment losses would reduce the credit. Any significant losses will hasten the emergence of a City contribution requirement.

We understand that certain groups have an employee contribution rate tied to the funded status of the plan. For example, if the plan is less than 120% funded, additional employee contributions are required. The funded percent as of December 31, 2020 is 130.8%. Please note that it is possible that the funded percent could fall below 120% at the next valuation as of December 31, 2021.



Executive Summary (Continued)

Reasons for Changes

There are three general reasons why contribution requirements change from one valuation to the next. The first is a change in the benefits or eligibility conditions of the System. The second is a change in the valuation assumptions used to predict future occurrences and the methods used to finance the benefits. The third is the difference during the year between the System's actual experience and what the assumptions predicted, or the plan experience.

Changes in Plan Provisions

The following changes in plan provisions were reflected in this valuation:

- The addition of the General Member Administrator group. This group follows the same eligibility requirements and benefit maximums as the General Exempt group: age 62 with 5 years of service and a benefit maximum of 92% or 70% of Final Average Compensation based on the date of hire. The General Member Administrator group is eligible for a 2.7% benefit multiplier and post-retirement benefit increases of 2%, compounded annually. This increased total Plan liabilities by approximately \$896,000.

Changes in Cost Methods and Actuarial Assumptions

There have been no changes in Cost Methods or Actuarial Assumptions since the 2019 valuation.

2020 Plan Experience

There was an experience gain of \$2,864,833 during 2020, primarily due to favorable asset experience. This represents 0.57% of the 2019 accrued liabilities. The effect of this gain was an increase in the overfunding credit.

Causes of the Gain

The market value of assets returned 8.73% in 2020 and the return on the (smoothed) valuation assets was 8.26%. Net investment income on the smoothed basis was greater than the long-term assumption of 7.25%, resulting in a gain of \$6,533,371. The remaining loss of \$3,668,538 represents demographic experience different than assumed (resulting from pay increases greater than expected and additional reciprocal service being reported for many employees for the first time in this valuation).

Investment gain (loss)	\$ 6,533,371
Remaining gain (loss)	<u>(3,668,538)</u>
Gain (loss) from all causes	\$ 2,864,833



Executive Summary (Continued)

Other Observations

Given the plan's contribution allocation procedure, if all actuarial assumptions are met (including the assumption of the plan earning 7.25% on the actuarial value of assets for the plan), it is expected that:

- (1) Total normal cost amounts as a percentage-of-payroll will remain approximately level year-to-year;
- (2) Employer normal cost amount as a percentage-of-payroll will fluctuate as the population make up and funded ratio of the plan changes (employee contributions for certain groups are tied to the plan's funding position);
- (3) The overfunding credit will be used up over a period of years; and
- (4) The funded status of the plan will decrease towards a 100% funded ratio.

Unless otherwise indicated, a funded status measurement presented in this report is based upon the actuarial accrued liability and the actuarial value of assets. Unless otherwise indicated, with regard to any funded status measurements presented in this report:

- (1) The measurement is inappropriate for assessing the sufficiency of plan assets to cover the estimated cost of settling the plan's benefit obligations.
- (2) The measurement is inappropriate for assessing the need for or the amount of future employer contributions.

Executive Summary (Continued)

Risk Commentary

Determination of the accrued liability, the employer contribution, and the funded ratio requires the use of assumptions regarding future economic and demographic experience. Risk measures, as illustrated in this report, are intended to aid in the understanding of the effects of future experience differing from the assumptions used in the course of the actuarial valuation. Risk measures may also help with illustrating the potential volatility in the accrued liability, the actuarially determined contribution and the funded ratio that result from the differences between actual experience and the actuarial assumptions.

Future actuarial measurements may differ significantly from the current measurements presented in this report due to such factors as the following: plan experience differing from that anticipated by the economic or demographic assumptions; changes in economic or demographic assumptions due to changing conditions; increases or decreases expected as part of the natural operation of the methodology used for these measurements (such as the end of an amortization period, or additional cost or contribution requirements based on the Plan's funded status); and changes in plan provisions or applicable law. The scope of an actuarial valuation does not include an analysis of the potential range of such future measurements.

Examples of risk that may reasonably be anticipated to significantly affect the plan's future financial condition include:

- **Investment Risk** – actual investment returns may differ from the expected returns;
- **Asset/Liability Mismatch** – changes in asset values may not match changes in liabilities, thereby altering the gap between the accrued liability and assets and consequently altering the funded status and contribution requirements;
- **Contribution Risk** – actual contributions may differ from expected future contributions. For example, actual contributions may not be made in accordance with the plan's funding policy or material changes may occur in the anticipated number of covered employees, covered payroll, or other relevant contribution base;
- **Salary and Payroll Risk** – actual salaries and total payroll may differ from expected, resulting in actual future accrued liability and contributions differing from expected;
- **Longevity Risk** – members may live longer or shorter than expected and receive pensions for a period of time other than assumed; and
- **Other Demographic Risks** – members may terminate, retire or become disabled at times or with benefits other than assumed resulting in actual future accrued liability and contributions differing from expected.

The effects of certain trends in experience can generally be anticipated. For example, if the investment return since the most recent actuarial valuation is less (or more) than the assumed rate, the cost of the plan can be expected to increase (or decrease). Likewise, if longevity is improving (or worsening), increases (or decreases) in cost can be anticipated.

The computed contribution rate shown on page B-2 may be considered as a minimum contribution rate that complies with the Board's funding policy. The timely receipt of the actuarially determined contributions is critical to support the financial health of the plan. Users of this report should be aware that contributions made at the actuarially determined rate do not necessarily guarantee benefit security.



Executive Summary (Concluded)

PLAN MATURITY MEASURES

Risks facing a pension plan evolve over time. A young plan with virtually no investments and paying few benefits may experience little investment risk. An older plan with a large number of members in pay status and a significant trust may be much more exposed to investment risk. Generally accepted plan maturity measures include the following:

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
Ratio of the market value of assets to total payroll	17.6	17.3	15.9	19.2
Ratio of actuarial accrued liability to payroll	13.1	12.9	12.7	13.2
Ratio of actives to retirees and beneficiaries	0.6	0.7	0.6	0.6
Ratio of net cash flow to market value of assets	-4.3%	-4.3%	-4.9%	-4.1%

RATIO OF MARKET VALUE OF ASSETS TO TOTAL PAYROLL

The relationship between assets and payroll is a useful indicator of the potential volatility of contributions. For example, if the market value of assets is 15.0 times the payroll, a return on assets 5% different than assumed would equal 75% of payroll. A higher (lower) or increasing (decreasing) level of this maturity measure generally indicates a higher (lower) or increasing (decreasing) volatility in plan sponsor contributions as a percentage of payroll.

RATIO OF ACTUARIAL ACCRUED LIABILITY TO PAYROLL

The relationship between actuarial accrued liability and payroll is a useful indicator of the potential volatility of contributions for a fully funded plan. A funding policy that targets a funded ratio of 100% is expected to result in the ratio of assets to payroll and the ratio of liability to payroll converging over time.

RATIO OF ACTIVES TO RETIREES AND BENEFICIARIES

A young plan with many active members and few retirees will have a high ratio of actives to retirees. A mature open plan may have close to the same number of actives to retirees resulting in a ratio near 1.0. A super-mature or closed plan may have significantly more retirees than actives resulting in a ratio below 1.0.

RATIO OF NET CASH FLOW TO MARKET VALUE OF ASSETS

A positive net cash flow means contributions exceed benefits and expenses. A negative cash flow means existing funds are being used to make payments. A certain amount of negative net cash flow is generally expected to occur when benefits are prefunded through a qualified trust. Large negative net cash flows as a percent of assets may indicate a super-mature plan or a need for additional contributions.

ADDITIONAL RISK ASSESSMENT

Additional risk assessment is outside the scope of the annual actuarial valuation. Additional assessment may include scenario tests, sensitivity tests, stochastic modeling, stress tests, and a comparison of the present value of accrued benefits at low-risk discount rates with the actuarial accrued liability.

Conclusion

For years, the overfunded position enjoyed by the System has generated a funding credit which allowed the City to temporarily reduce (and then temporarily eliminate) annual contributions to the System trust.



SECTION B

VALUATION RESULTS

Computed Contributions to Provide Benefits

The Retirement System is supported by contributions from the City (when required) and active members and by the investment income earned on System assets. Member contribution rates are determined by the benefit provisions of the System and are summarized in Section B of this report. The City provides an actuarially determined contribution, the remainder, if any, needed to meet the financial objective.

Member and City contributions cover both (i) normal cost and (ii) financing of the unfunded accrued liability over a period of future years. The normal cost is the portion of System costs allocated to the current year by the valuation method described in Section D. The unfunded accrued liability is the portion of System costs not covered by present System assets and future normal costs.

For a plan that is overfunded, contribution income needs to cover the normal cost less an amortization credit on the overfunding. When a plan is extremely overfunded, the amortization credit may completely offset the normal cost, eliminating the need for employer contribution income. This can persist for years as long as investment income is sufficient to maintain the overfunding.

When contributions are once again required, we recommend one of the following procedures for determining City contributions to the Retirement System.

- (1) Contribute dollar amounts for a period which are equal to the City's percent-of-payroll contribution requirements on page B-2 multiplied by the covered active member payroll for the period. Adjustments should be made as necessary to exclude items of pay that are not covered compensation for Retirement System benefits and to include non-payroll payments that are covered compensation.
- (2) Contribute the dollar amounts on page B-2.

Computed Contributions to Provide Benefits Expressed as Percents and Dollars of Active Member Payroll

Contributions for the Year Beginning January 1,	2021	2020
Normal cost of benefits		
Age & service	16.63 %	16.66 %
Disability	1.18	1.26
Pre-retirement survivor	0.24	0.25
Refunds of member contributions	0.22	0.22
Total normal cost	18.27	18.39
Administrative expense allowance	0.75	0.75
Less: Member contributions*	3.21	3.21
Employer normal cost	15.81	15.93
Unfunded actuarial accrued liabilities^	(47.07)	(46.03)
Employer Contribution Requirement@	(31.26)	(30.10)

Contributions for the Year Beginning January 1,	2021	2020
Normal cost of benefits		
Age & service	\$ 6,881,923	\$ 6,762,037
Disability	488,314	511,415
Pre-retirement survivor	99,318	101,471
Refunds of member contributions	91,042	89,295
Total normal cost	7,560,597	7,464,218
Administrative expense allowance	310,369	304,413
Less: Member contributions*	1,328,381	1,302,889
Employer normal cost	6,542,585	6,465,742
Unfunded actuarial accrued liabilities^	(19,478,779)	(18,682,867)
Employer Contribution Requirement@	\$ (12,936,194)	\$ (12,217,125)
Valuation Payroll	\$ 39,983,168	\$ 39,215,899
Recommended Employer Contribution	\$ 0	\$ 0

* Weighted average of various contribution rates.

@ As the System cannot contribute back to the employer, no employer contribution is required. Payroll used to develop the Employer Contribution Requirement is adjusted for pay increases assumed to occur between the valuation date and the fiscal year of contribution.

^ Page B-4 displays the unfunded accrued liabilities (or overfunding) that are amortized by the contribution rates shown above.

History of City's Contribution Rates

Fiscal Year	Valuation Date Dec. 31	Contribution as Percent of Valuation Payroll	Recommended	Actual
2002 *	2001	0.00 %	\$ 0	\$ 0
2003 *@	2002	0.00	0	0
2004 *	2003	0.00	0	0
2005 @	2004	0.00	0	0
2006 *@	2005	0.00	0	0
2007 *	2006	0.00	0	0
2008 *	2007	0.00	0	0
2009 *	2008	0.00	0	0
2010 *@	2009	0.00	0	0
2011 *@	2010	0.00	0	0
2012 *	2011	0.00	0	0
2013 *#	2012	0.00	0	1,811,492
2014 @#	2013	0.00	0	760,912
2015 #	2014	0.00	0	1,602,053
2016	2015	0.00	0	0
2017 &	2016	0.00	0	0
2018	2017	0.00	0	0
2019 *	2018	0.00	0	0
2020 @	2019	0.00	0	0
2021 *	2020	0.00	0	!

* Retirement System amended.

@ Revised actuarial assumptions and/or methods.

Actual Employer contributions were to cover the cost of lump sum payments in relation to the Early Retirement Initiative.

! Not yet available.

& After spin-off of certain members and plan assets to the CCTA Pension Plan.

Unfunded Accrued Liability

	<u>Year Ending December 31,</u>	
	<u>2020</u>	<u>2019</u>
A. Accrued Liability		
1. For Retirees and Beneficiaries	\$388,605,679	\$370,273,377
2. For DROP Members	3,243,484	1,697,769
3. For Vested Terminated Members	6,653,331	6,911,867
4. For Present Active Members		
a. Value of expected future benefit payments	186,265,138	188,221,820
b. Value of future normal costs	61,831,405	60,588,535
c. Active member liability: (a) - (b)	124,433,733	127,633,285
5. Total	522,936,227	506,516,298
B. Present Assets		
1. Valuation Basis	684,053,464	661,055,564
2. Market Basis	704,576,783	677,139,268
C. Unfunded Accrued Liability (Excess Assets)		
1. Valuation Basis: (A.4) - (B.1)	(161,117,237)	(154,539,266)
2. Market Basis: (A.4) - (B.2)	(181,640,556)	(170,622,970)
D. Funded percent		
1. Valuation Basis: (B.1) / (A.4)	130.8%	130.5%
2. Market Basis: (B.2) / (A.4)	134.7%	133.7%

Reconciliation of DROP Accounts as Provided by the System

<u>Year Ended December 31</u>	<u>Balance at Beginning of Year</u>	<u>Credits</u>	<u>Interest</u>	<u>Distributions</u>	<u>Adjustments</u>	<u>Balance at End of Year</u>
2018	\$ -	\$ 55,575.91	\$ 1,111.52	\$ -	\$ -	\$ 56,687.43
2019	\$ 56,687.43	\$ 89,735.04	\$ 2,928.45	\$ -	\$ -	\$ 149,350.92
2020	\$ 149,350.92	\$ 131,673.76	\$ 5,620.49	\$ -	\$ -	\$ 286,645.17



Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry-Age (b)	Unfunded AAL (UAAL) (b)-(a)	Funded Ratio (a)/(b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b)-(a)]/(c)
12/31/11 @	\$509,931,421	\$380,802,126	\$ (129,129,295)	133.9%	\$42,305,663	(305.2)%
12/31/12	505,234,953	420,711,365	(84,523,588)	120.1	36,538,969	(231.3)
12/31/13	547,923,629	432,148,526	(115,775,103)	126.8	36,331,892	(318.7)
12/31/14 #	580,220,033	452,381,149	(127,838,884)	128.3	37,198,788	(343.7)
12/31/15	596,998,070	460,133,623	(136,864,447)	129.7	37,291,474	(367.0)
12/31/16 #&	604,411,432	450,930,640	(153,480,792)	134.0	32,780,965	(468.2)
12/31/17	630,918,080	461,297,142	(169,620,938)	136.8	34,999,543	(484.6)
12/31/18 @	639,298,190	474,712,377	(164,585,813)	134.7	37,425,219	(439.8)
12/31/19 #	661,055,564	506,516,298	(154,539,266)	130.5	39,215,899	(394.1)
12/31/20 @	684,053,464	522,936,227	(161,117,237)	130.8	39,983,168	(403.0)

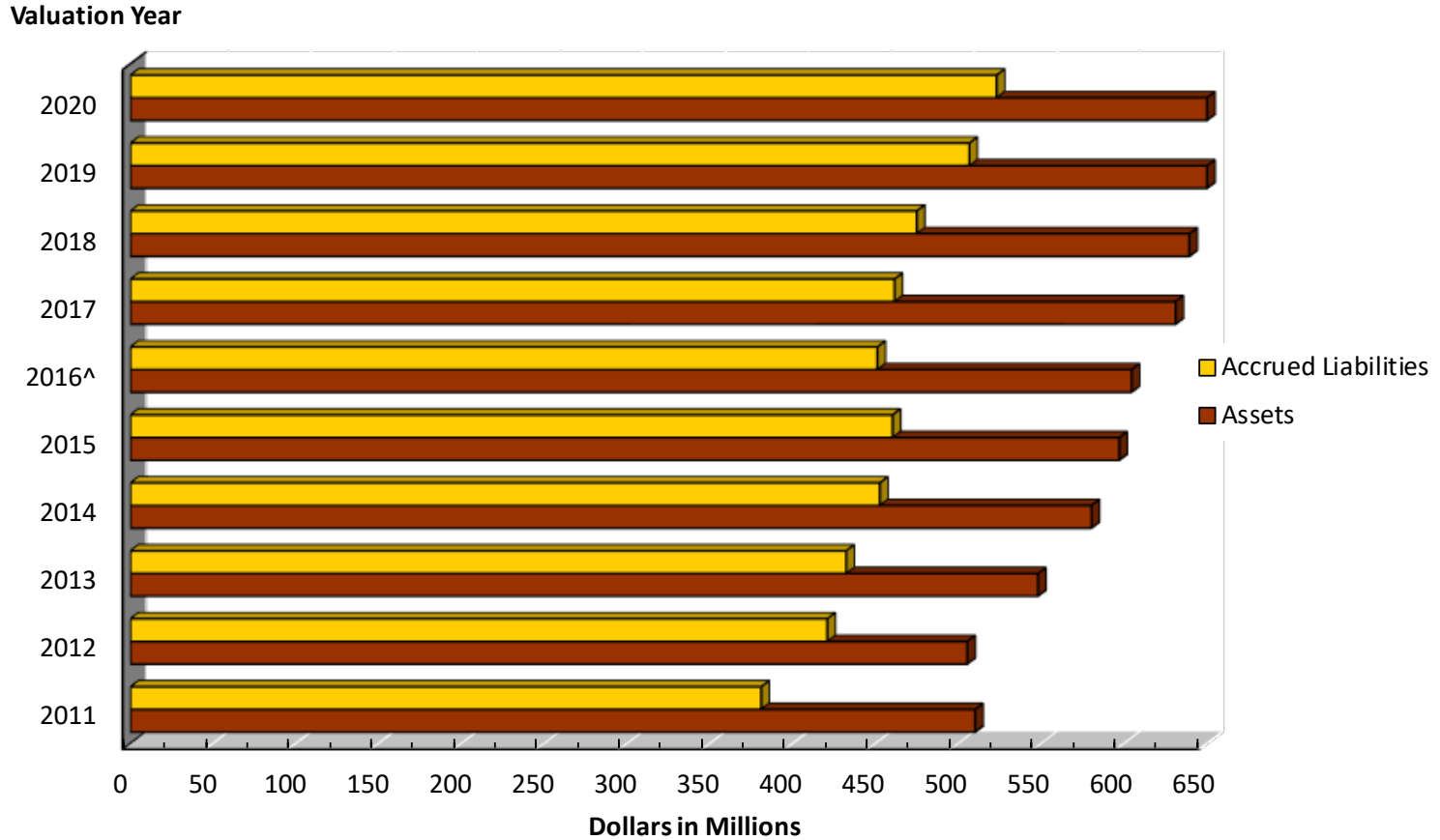
@ Plan amended.

Certain assumptions revised.

& After spin-off of certain members and plan assets to the CCTA Pension Plan.



Assets and Accrued Liabilities



2011 assets equaled 133.9% of accrued liabilities.
 2020 assets equaled 130.8% of accrued liabilities.

[^] After spin-off of certain members and plan assets to the CCTA Pension Plan.

Development of Experience Gain/(Loss) Year Ended December 31, 2020

Actual experience will never (except by coincidence) exactly match assumed experience. It is hoped that gains and losses will cancel each other over a period of years, but sizable year-to-year fluctuations are common. Detail on the development of the experience gain/(loss) is shown below:

	Year Ending December 31,	
	2020	2019
(1) UAAL* at start of year	\$(154,539,266)	\$(164,585,813)
(2) Normal cost from prior year	7,652,778	7,062,783
(3) Actual contributions	1,285,845	1,238,420
(4) Interest accruals on (1), (2), and (3)	(10,975,988)	(12,128,155)
(5) Expected UAAL before changes: (1) + (2) - (3) + (4)	(159,148,321)	(170,889,605)
(6) Impact of benefit changes	895,917	0
(7) Change from revised actuarial assumptions and/or methods	0	22,406,615
(8) Expected UAAL after changes: (5) + (6) + (7)	(158,252,404)	(148,482,990)
(9) Actual UAAL at end of year	(161,117,237)	(154,539,266)
(10) Gain/(loss): (8) - (9)	2,864,833	6,056,276
(11) Gain/(loss) as percent of actuarial accrued liabilities at start of year	0.57%	1.28%

* *Unfunded Actuarial Accrued Liabilities.*

Totals	2020 Gain/(Loss)	
	Investment	Non-Investment
\$2,864,833	\$6,533,371	\$(3,668,538)



Development of Valuation Assets

Year Ended December 31:	2018	2019	2020	2021	2022	2023	2024
A. Valuation Assets Beginning of Year	\$630,918,080	\$639,298,190	\$661,055,564				
B. Market Value End of Year	594,371,413	677,139,268	704,576,783				
C. Market Value Beginning of Year	670,927,960	594,371,413	677,139,268				
D. Non-Investment Net Cash Flow	(29,115,826)	(29,425,315)	(30,361,399)				
E. Investment Income							
E1. Market Total: B - C - D	(47,440,721)	112,193,170	57,798,914				
E2. Assumed Rate of Investment Return	7.50%	7.50%	7.25%				
E3. Amount for Immediate Recognition	46,227,013	46,843,915	46,825,928				
E4. Amount for Phased-In Recognition: E1-E3	(93,667,734)	65,349,255	10,972,986				
F. Phased-In Recognition of Investment Income							
F1. Current Year: 0.2 x E4	(18,733,547)	13,069,851	2,194,597				
F2. First Prior Year	10,002,470	(18,733,547)	13,069,851	\$ 2,194,597			
F3. Second Prior Year	0	10,002,470	(18,733,547)	13,069,851	\$ 2,194,597		
F4. Third Prior Year	0	0	10,002,470	(18,733,547)	13,069,851	\$ 2,194,597	
F5. Fourth Prior Year	0	0	0	10,002,470	(18,733,546)	13,069,851	\$ 2,194,598
F6. Mark to Market	0	0	0	0	0	0	0
F7. Total Phased-In Recognition	(8,731,077)	4,338,774	6,533,371	6,533,371	(3,469,098)	15,264,448	2,194,598
G. Valuation Assets End of Year: A + D + E2 + F7	639,298,190	661,055,564	684,053,464				
H. Difference between Market & Valuation Assets: B - G	(44,926,777)	16,083,704	20,523,319	13,989,948	17,459,046	2,194,598	0
I. Valuation Asset Recognized Rate of Return	6.08%	8.19%	8.26%				
J. Market Value Recognized Rate of Return	(7.23)%	19.36%	8.73%				

The Valuation Assets recognizes assumed investment income (line E2) fully each year. Differences between actual and assumed investment income (line E3) are phased-in over a closed 5-year period. During periods when investment performance exceeds the assumed rate, Valuation Assets will tend to be less than Market Value. During periods when investment performance is less than the assumed rate, Valuation Assets will tend to be greater than Market Value. The Valuation Assets are unbiased with respect to Market Value. At any time, it may be either greater or less than Market Value. If assumed rates are exactly realized for 4 consecutive years, it will become equal to Market Value.



Valuation Asset Growth History

Year	Net Contribution Income	Net Investment Return	Benefit Payments and Refunds	Year End Assets*
2001	\$ 1,261,691	\$ 27,898,652	\$ 11,446,161	\$ 349,157,319
2002	1,313,297	9,341,851	11,157,971	348,654,496
2003	1,314,089	23,609,527	12,390,484	361,187,628
2004	1,360,815	41,621,866	13,555,032	390,615,277
2005	1,232,973	44,444,158	13,726,647	422,565,761
Five-Year Period	6,482,865	146,916,054	62,276,295	
2006	1,238,628	53,842,184	14,365,610	463,280,963
2007	1,344,408	52,089,141	15,926,268	500,788,244
2008	1,445,963	20,324,800	15,966,434	506,592,573
2009	1,368,975	17,762,035	16,663,174	509,060,409
2010	1,432,395	24,986,635	17,140,417	518,339,022
Five-Year Period	6,830,369	169,004,795	80,061,903	
2011	1,268,330	8,714,595	18,390,526	509,931,421
2012	951,916	19,419,524	25,067,907 &	505,234,954
2013 \$	2,652,485	67,194,702	27,158,512 &	547,923,629
2014 \$	1,595,508	58,503,025	27,802,129 &	580,220,033
2015 \$	2,386,196	42,748,541	28,356,700	596,998,070
Five-Year Period	8,854,435	196,580,387	126,775,774	
2016	771,383	65,468,983	28,496,870	634,741,566
2016	--	--	--	604,411,432 ^
2017	706,628	54,291,399	28,491,379	630,918,080
2018	815,591	37,495,936	29,931,417	639,298,190
2019	788,581	51,182,689	30,213,896	661,055,564
2020	751,145	53,359,299	31,112,544	684,053,464
Five-Year Period	3,833,328	261,798,306	148,246,106	

* Does not reflect future contributions to purchase service.

& Includes special distributions under the ERI.

\$ Includes an employer contribution of \$1,811,492 in 2013, \$760,912 in 2014, and \$1,602,053 in 2015 to cover the cost of lump sum payments related to the Early Retirement Initiative.

^ After transfer of \$30,330,134 to CCTA.



Valuation Asset Investment Experience History (\$'000 omitted)

Year	Assumed Net Investment Income		Net Dividends and Interest		Recognized Gains\Losses) *		Net Investment Income		Experience Gain\Loss
	Amount	%	Amount	%	Amount	%	Amount	%	
2001	\$ 24,477	7.50 %	\$5,705	1.75 %	\$ 22,171	6.79 %	\$ 27,876	8.54 %	\$ 3,398
2002	25,818	7.50	5,113	1.49	4,229	1.21	9,342	2.70	(16,476)
2003	25,734	7.50	5,790	1.69	17,819	5.21	23,610	6.90	(2,124)
2004	26,632	7.50	7,356	2.07	34,266	9.65	41,622	11.72	14,989
2005	28,828	7.50	15,466	4.02	28,978	7.54	44,444	11.56	15,617
2006	31,200	7.50	21,321	5.13	32,521	7.82	53,842	12.94	22,642
2007	34,199	7.50	24,659	5.41	27,430	6.02	52,089	11.42	17,890
2008	37,015	7.50	14,940	3.03	5,385	1.09	20,325	4.12	(16,690)
2009	37,421	7.50	7,655	1.53	10,107	2.03	17,762	3.56	(19,659)
2010	37,590	7.50	9,773	1.95	15,214	3.04	24,987	4.99	(12,604)
2011	38,233	7.50	9,511	1.87	(796)	(0.16)	8,715	1.71	(29,519)
2012	37,341	7.50	14,063	2.82	5,357	1.08	19,420	3.90	(17,921)
2013	36,974	7.50	13,899	2.82	53,296	10.81	67,195	13.63	30,221
2014	40,112	7.50	13,406	2.51	45,097	8.43	58,503	10.94	18,392
2015	42,543	7.50	14,413	2.54	28,336	5.00	42,749	7.54	206
2016 [^]	43,735	7.50	14,868	2.55	50,601	8.68	65,469	11.23	21,734
2017	44,289	7.50	17,533	2.97	36,758	6.22	54,291	9.19	10,002
2018	46,227	7.50	16,785	2.72	20,711	3.36	37,496	6.08	(8,731)
2019	46,844	7.50	13,423	2.15	37,760	6.04	51,183	8.19	4,339
2020	46,826	7.25	9,175	1.42	44,184	6.84	53,359	8.26	6,533

* In addition to net interest and dividends.

[^] Experience includes impact of Mark-to-Market.



Development of Valuation Investment Gain/(Loss) Year Ended December 31, 2020

To derive investment gain/loss for the year, we first look back to the December 31, 2019 valuation which assumed an average net return on valuation assets of 7.25% for future years, including 2020. Net investment return in excess of 7.25% represents a gain. If net investment return falls short of 7.25%, the difference between an income of 7.25% and the net return represents a loss. For the year ended December 31, 2020, the valuation anticipated an investment return of \$46,825,928 (see item E3 on page B-8). Total phased-in recognition amounted to a gain of \$6,533,371 for the year (see item F7 on page B-8), resulting in a return of 8.26% on a valuation basis (see item I on page B-8).

Please note that this analysis uses asset values and investment income as defined for the actuarial valuation (dollar weighted). It is not, therefore, appropriate as a measure of manager performance.

Rates of Return and Change in Pays and Liabilities

	Year Ended December 31,					5-Year Average*
	2020	2019	2018	2017	2016	
Increase in average salary#	4.6%	2.8%	8.7%	3.7%	3.6%	4.7%
Return on assets^	8.3	8.2	6.1	9.2	11.2	8.6
Liability growth !	3.2	6.7	2.9	0.0	3.1	3.2

* *Compound rate of increase.*

For members employed throughout the most recent two years.

^ *The nominal rate of return was computed using the approximate formula $i = I$ divided by $1/2 (A + B - I)$, where I is actual investment income net of expenses, A is the beginning of year asset value, and B is the end of year asset value.*

! *The liability growth for the year ended December 31, 2016 is net of the CCTA transfer liability.*

SECTION C

SUMMARY OF THE INFORMATION SUBMITTED FOR THE VALUATION

Brief Summary of Benefit Provisions*

as Reported for December 31, 2020 Valuation

Eligibility

Amount

REGULAR RETIREMENT (no reduction factor for age)

General: Age 57 with 25 years of service, or age 62 with 10 years of service. AFSCME members only may also retire at age 60 with 20 years of service. Exempt members & General Member Administrators only may also retire at age 62 with 5 years of service.

Total service multiplied by:

- 2.1% of FAC – KMEA – effective 1/1/08
- 2.7% of FAC – General Member Administrators
- 2.1% of FAC – AFSCME – effective 10/2/07
- 2.3% of FAC – Exempt members
- 2.7% of FAC – City Manager (2.3% if retires before 9/1/2023)
- 2.1% of FAC – Other General members–CSO – effective 1/1/08
- 2.7% of FAC – Public Safety members

FAC (Final Average Compensation) – Highest 3 consecutive years out of the last 10.

Maximum benefit for Exempt members hired on or before March 1, 1999 is equal to 92% of FAC.

Maximum benefit for Exempt members hired after March 1, 1999 is equal to 70% of FAC.

Public Safety: 25 years of service or age 50 with 10 years of service.

Maximum benefit for Public Safety members is equal to 70.2% of FAC.

EARLY RETIREMENT (age reduction factor used)

General: Age 55 with 15 years of service.

Computed as a regular retirement but reduced by 4/10 of 1% for each month and fraction of a month by which retirement precedes age 62 if less than 25 years of service or age 57 if 25 or more years of service.

Public Safety: 20 years of service.

2% of final average compensation multiplied by years of credited service.

DEFERRED RETIREMENT

10 years of service for most members, 5 years for Exempt, 9 years for AFSCME hired before 10/2/2016, and 8 years for KMEA hired before 1/1/2009. Benefit begins at age 62 for General employees, and at age 50 for Public Safety employees.

General: Computed as a regular or early retirement but based upon service and final average compensation at termination date.

Public Safety: Computed as early retirement.

NON-DUTY DEATH-IN-SERVICE

10 years of service for most members, 5 years for Exempt, 9 years for AFSCME hired before 10/2/2016, and 8 years for KMEA hired before 1/1/2009.

General: Computed as a regular retirement but actuarially reduced in accordance with a 100% joint and survivor election.

Public Safety: A benefit of 33-1/3% of final compensation is paid to the surviving spouse. Unmarried children under 18 years of age receive equal shares of 25% of final compensation.

* This represents a brief summary of Plan provisions. As always official Plan documents, including the Ordinance and any applicable Collective Bargaining Agreements, will ultimately govern the benefits payable from the Plan.



Brief Summary of Benefit Provisions*

as Reported for December 31, 2020 Valuation (Continued)

Eligibility	Amount
DUTY DEATH-IN-SERVICE	
Payable to the survivors of a member who died in the line of duty.	A benefit of 33-1/3% of final compensation is paid to the surviving spouse. Unmarried children under 18 years of age receive equal shares of 25% of final compensation. Worker's compensation payments are offset.
NON-DUTY DISABILITY	
10 years of service for most members, 5 years for General Exempt, 9 years for AFSCME hired before 10/2/2016, and 8 years for KMEA hired before 1/1/2009.	Computed as regular retirement. Reduced on a dollar-for-dollar basis by amount of worker's compensation, if any.
DUTY DISABILITY	
No age or service requirements.	<p>General: Computed as regular retirement with additional service credit granted from day of actual retirement to date of voluntary retirement eligibility.</p> <p>Public Safety: Computed as regular retirement. During worker's compensation period benefit cannot exceed the difference between final compensation and worker's compensation.</p>
DEATH AFTER RETIREMENT	
All Members	Beneficiaries are eligible for a \$1,000 lump sum death benefit (does not apply to deferred retirements)
Spouse of Public Safety member retired on or after July 1, 1972.	50% of the regular retirement benefit the deceased retiree was receiving.
POST-RETIREMENT ADJUSTMENTS (Eligibility for PRAs vary by retirement type)	
AFSCME members who retire on or after 10/25/1999.	1% increases compounded annually, beginning one year after retirement; 2% compounded annually beginning at age 75.
KMEA members.	1.5% increases compounded annually, beginning the latter of the Retirees 64 th birthday and one year after retirement; 2% compounded annually beginning at age 75 (effective in 2002).
Public Safety members who retired on and after 1/1/95 with 25 or more years of service, General Member Administrators, and City Manager.	2% increases compounded annually.
Exempt members.	1.5% increases compounded annually one year after retirement for members who elected to contribute by May 2006.

* This represents a brief summary of Plan provisions. As always official Plan documents, including the Ordinance and any applicable Collective Bargaining Agreements, will ultimately govern the benefits payable from the Plan.



Brief Summary of Benefit Provisions*

as Reported for December 31, 2020 Valuation (Continued)

Eligibility

Amount

13TH CHECKS

Retired by 12/31/1999; retired at least 5 years; have attained age 70 prior to June 1 of the year preceding the periodic payment to be made; had at least 25 years of service with the City; ineligible for post-retirement benefit increases; pension less than \$20,000. Continuation of this program is conditional as described in the ordinance.

The periodic payment described herein shall be made in June every third year, commencing 2001; however, no payment shall be made in any year in which the fund's actuary projects (based upon a valuation of the fund as of December 31 of the prior year) the need for City contributions to the fund (for one or more actuarial grouping) within 10 years of the projection nor if the actuary recommends a contribution by the City (for one or more actuarial grouping) for that year. In the event a periodic payment is not made in a year in which it would otherwise occur (because of the actuary's projection or recommendation), then the payment shall be made in the next year in which no such actuarial projection or recommendation is made. In the event that a periodic payment is so delayed, future periodic payments shall be made every third year thereafter (so long as not prohibited by an actuarial projection or recommendation).

MEMBER CONTRIBUTIONS

AFSCME members:

1% - effective 10/2/06. If funding % goes below 120%, contribution rate reverts to 2%.

KMEA members:

1% of AC. If City contributions become necessary, contribution rate increases up to a maximum of 2%.

Exempt members:

1.5% of AC, 3% of AC for Exempt Members hired after 6/1/2006, 3.5% for Exempt Members who signed up for the PRA by May of 2006.

Non-Sworn Public Safety members:

1% of AC.

Sworn Public Safety members:

4.5% of AC. If funding % goes below 120% contribution rate reverts to 6.5%.

CITY CONTRIBUTIONS

Actuarially determined amounts, which, together with member contributions, are sufficient to cover both (i) normal costs of the plan, and (ii) financing of unfunded accrued benefit values over a selected period of future years.

* This represents a brief summary of Plan provisions. As always official Plan documents, including the Ordinance and any applicable Collective Bargaining Agreements, will ultimately govern the benefits payable from the Plan.

Brief Summary of Benefit Provisions*

as Reported for December 31, 2020 Valuation (Concluded)

DROP PROGRAM

Effective Date: April 12, 2018

Eligibility: Public safety administrators meeting relevant provisions for an unreduced retirement allowance, authorization by the City Manager, and approval of the City Commission.

Maximum DROP Participation Period: 8 years.

DROP Benefit: Regular monthly benefit frozen at date of DROP election.

DROP Account:

- **Amount credited:** 100% of the DROP Benefit.
- **Interest credit rate:** 2% per annum.

PRA: Election of DROP is the trigger for purposes of determining the date of the first post-retirement increase.

Member Contributions: Cease upon DROP date.

Payout of Vacation/Sick Leave Balance: Not included in the DROP program.

** This represents a brief summary of Plan provisions. As always official Plan documents, including the Ordinance and any applicable Collective Bargaining Agreements, will ultimately govern the benefits payable from the Plan.*

Reported Financial Information

Year Ended December 31, 2020

Market Value

Income and Expenses

Revenues:

a. Member contributions	\$ 1,285,845	
b. Employer contributions	0	
c. Interest and dividends	11,252,954	
d. Net Appreciation in Fair Value of Investments	48,623,966	
e. Miscellaneous	<u>0</u>	
f. Total		<u>\$61,162,765</u>

Expenditures:

a. Benefit payments, including refunds of member contributions	31,112,544	
b. Administrative expenses	534,700	
c. Investment expenses	<u>2,078,006</u>	
Total		<u>33,725,250</u>

Reserve Increase:

Total revenues minus total expenditures		<u><u>\$27,437,515</u></u>
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Reported Financial Information (Valuation Basis)

Year Ended December 31, 2020

Assets on Valuation Basis

Assets:

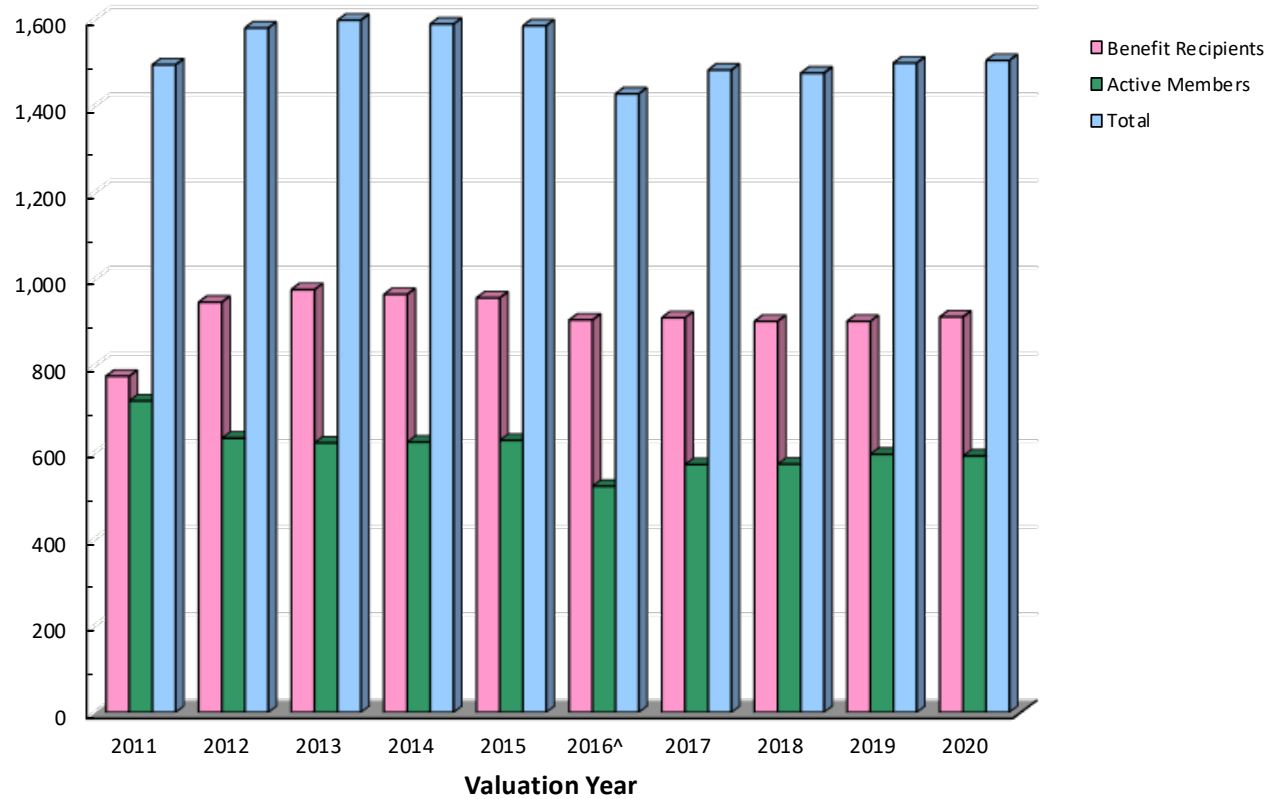
a. Cash or Equivalents	\$ 258,457
b. Receivables Net of Payables	(11,567,901)
c. Stocks	494,344,812
d. Fixed Income	186,569,880
e. Real Estate Investment Fund	34,971,535
f. Funding Value Adjustment	<u>(20,523,319)</u>
Total	<u>\$684,053,464</u>

Reserve for Retired Benefit Payments

Part of the internal reserve tracking process is to maintain the reserve for retired benefit payments at a level equal to 100% of the value of future benefit payments to retirees and beneficiaries. As of December 31, 2020, the value of future benefit payments to retirees and beneficiaries is \$391,257,716. This valuation assumes any transfer necessary to maintain a 100% funding of the reserve for retired benefit payments has been made as of January 1, 2021.

Active Members & Benefit Recipients

Covered Persons



[^] After spin-off of certain members and plan assets to the CCTA Pension Plan.

Retirements During 2020 Tabulated by Annual Amount of Benefit

Annual Amount	Age and Service	Disability	Survivors	Totals
6,000 - 7,999	3			3
8,000 - 9,999	1			1
10,000 - 11,999	1		1	2
20,000 - 21,999	1			1
24,000 - 25,999	3	1		4
26,000 - 27,999	2			2
38,000 - 39,999	1			1
42,000 - 43,999	1			1
44,000 - 45,999	1			1
46,000 - 47,999	1			1
48,000 - 49,999	3			3
52,000 - 53,999	5			5
56,000 - 57,999	3			3
58,000 - 59,999	1	1		2
60,000 - 61,999	1			1
64,000 - 65,999	1			1
68,000 - 69,999	3			3
70,000 - 71,999	1			1
76,000 - 77,999	1			1
82,000 - 83,999	1			1
Totals	35	2	1	38

This exhibit does not include new alternate payees due to EDRO or new beneficiaries from retirees.

Retirements During 2020 Tabulated by Age Nearest Birthday and Type of Retirement

Ages	Age and Service		Disability		Survivors		Totals	
	No.	Annual Allowances	No.	Annual Allowances	No.	Annual Allowances	No.	Annual Allowances
41			1	\$ 59,947			1	\$ 59,947
45	1	\$ 68,980					1	68,980
47	1	53,741					1	53,741
48	2	106,646					2	106,646
49	5	308,337					5	308,337
50	3	163,339					3	163,339
51	2	101,665					2	101,665
52	4	244,838					4	244,838
54					1	\$ 11,793	1	11,793
55	1	11,558					1	11,558
56	3	166,324					3	166,324
58	1	52,032	1	24,810			2	76,842
59	1	26,135					1	26,135
60	1	43,005					1	43,005
61	4	110,974					4	110,974
63	2	63,574					2	63,574
65	1	24,794					1	24,794
66	2	13,534					2	13,534
73	1	8,356					1	8,356
Totals	35	\$ 1,567,832	2	\$ 84,757	1	\$ 11,793	38	\$ 1,664,382

This exhibit does not include new alternate payees due to EDRO or new beneficiaries from retirees.

Retirees and Beneficiaries as of December 31, 2020 Tabulated by Nearest Age and Type of Retirement*

Attained Age	Age and Service		Disability		Survivors		Totals	
	No.	Annual Allowances	No.	Annual Allowances	No.	Annual Allowances	No.	Annual Allowances
0 - 39			2	\$ 110,502	2	\$ 30,715	4	\$ 141,217
40 - 44			2	101,906			2	101,906
45 - 49	15	\$ 769,937	2	120,063	1	11,793	18	901,793
50 - 54	63	3,653,528	4	229,582			67	3,883,110
55 - 59	79	3,709,691	11	359,421	2	55,363	92	4,124,475
60 - 64	131	5,317,412	10	286,111	2	47,160	143	5,650,683
65 - 69	150	5,871,506	9	211,255	1	21,817	160	6,104,578
70 - 74	155	5,667,850	7	120,901	3	36,011	165	5,824,762
75 - 79	106	3,182,673	6	60,140	1	3,654	113	3,246,467
80	21	355,114					21	355,114
81	13	372,580			1	13,267	14	385,847
82	10	220,752	1	1,922			11	222,674
83	14	311,358	1	1,827	1	12,827	16	326,012
84	15	233,436					15	233,436
85	6	96,586	1	10,705			7	107,291
86	12	151,588					12	151,588
87	7	82,277					7	82,277
88	4	42,247	1	5,491			5	47,738
89	6	84,406	1	7,943			7	92,349
90 & Over	34	348,713					34	348,713
Totals	841	\$30,471,654	58	\$ 1,627,769	14	\$ 232,607	913	\$32,332,030

* The retired members with service in more than one group are displayed as if each person were receiving two pensions.

Average Age at Retirement: 53.5 Years.

Average Age Now: 68.7 Years.

Retirees and Beneficiaries - December 31, 2020 Tabulated by Years Retired - Nearest Year

Years Retired	Service Retirement	Disability Retirement	Death-in-Service	Beneficiary of Retiree	Totals	Cumulative Percent
47		1			1	0.1%
46		1		1	2	0.3%
44				1	1	0.4%
43		1	1		2	0.7%
42				2	2	0.9%
41	3	1		1	5	1.4%
40				1	1	1.5%
39	1		1	1	3	1.9%
38	5			6	11	3.1%
37	3			5	8	3.9%
36	6			9	15	5.6%
35	4	1			5	6.1%
34	6	1		1	8	7.0%
33	5	1		4	10	8.1%
32	7	1		6	14	9.6%
31	8			4	12	11.0%
30	11	1			12	12.3%
29	5			1	6	12.9%
28	4	1		1	6	13.6%
27	15	2	1	3	21	15.9%
26	17		1	8	26	18.7%
25	34	2		6	42	23.3%
24	15	1		4	20	25.5%
23	19		1	2	22	27.9%
22	12	1		1	14	29.5%
21	16			4	20	31.7%
20	16	2	1		19	33.7%
19	9	3		2	14	35.3%
18	38	3	2	7	50	40.7%
17	14	1			15	42.4%
16	18	1		2	21	44.7%
15	14	4	1	1	20	46.9%
14	15	3			18	48.8%
13	19	1		2	22	51.3%
12	15	5		2	22	53.7%
11	16	1			17	55.5%
10	25	3	1	4	33	59.1%
9	91	2		3	96	69.7%
8	97			2	99	80.5%
7	31	1			32	84.0%
6	2	2	1		5	84.6%
5	10	1	1		12	85.9%
4	25	2			27	88.8%
3	25	4			29	92.0%
2	14	1	1	1	17	93.9%
1	29	1	1		31	97.3%
Less than 1	24	1			25	100.0%
Totals	743	58	14	98	913	



Retiree and Beneficiary Comparative Schedule[@]

Year Ended Dec. 31	Added to Rolls#		Removed from Rolls		Rolls End of Year		% Incr. in Annual Allowances	Average Allowances	Discounted Value of Allowances	
	No.	Annual Allowances*	No.	Annual Allowances	No.	Annual Allowances			Totals	Average
2001	24	\$ 530,225	18	\$ 147,375	652	\$ 10,601,433	3.7 %	\$ 16,260	\$ 124,502,845	\$ 190,955
2002	47	1,227,293	20	191,684	679	11,637,042	9.8	17,139	136,218,282	200,616
2003	40	929,269	24	208,928	695	12,357,383	6.2	17,780	145,275,896	209,030
2004	32	841,492	18	191,402	709	13,007,473	5.3	18,346	153,594,898	216,636
2005	31	1,367,707	25	268,275	715	14,106,905	8.5	19,730	168,715,852	235,966
2006	24	697,001	19	54,017	720	14,749,889	4.6	20,486	175,276,935	243,440
2007	31	863,128	17	134,800	734	15,478,217	4.9	21,087	181,074,645	246,696
2008	35	1,051,335	19	185,258	750	16,344,294	5.6	21,792	188,654,437	251,539
2009	25	1,554,246	22	247,330	753	17,651,210	8.0	23,441	191,338,855	254,102
2010	47	458,377	40	364,571	760	17,745,016	0.5	23,349	202,420,395	266,343
2011	46	1,104,498	30	132,052	776	18,717,462	5.5	24,120	212,102,413	273,328
2012	191	7,069,939	20	139,920	947	25,647,481	37.0	27,083	300,896,407	317,736
2013	51	2,374,598	22	345,230	976	27,676,849	7.9	28,357	325,233,541	333,231
2014	21	623,969	32	466,386	965	27,834,432	0.6	28,844	334,310,975	346,436
2015	15	621,680	23	370,675	957	28,085,437	0.9	29,347	333,147,365	348,116
2016 [^]	35	1,675,602	86	1,548,816	906	28,212,223	0.5	31,139	334,517,262	369,224
2017	34	1,470,169	29	401,633	911	29,280,759	3.8	32,141	346,085,750	379,897
2018	21	1,050,823	29	410,399	903	29,921,183	2.2	33,135	349,992,899	387,589
2019	34	1,493,270	34	577,881	903	30,836,572	3.1	34,149	371,971,146	411,928
2020	52	2,334,040	42	838,582	913	32,332,030	4.8	35,413	391,849,163	429,189

[@] The retired members with service in more than one group are displayed as if each person were receiving two pensions.

* Includes post-retirement adjustments.

Includes survivors of newly deceased retirees and alternate payees under EDRO.

[^] Includes impact of CCTA spin-off.



Retirees and Beneficiaries December 31, 2020 Tabulated by Type of Allowances Being Paid*

Option Elected	Age & Service	Disability		Death		Totals
		Non-Duty	Duty	Non-Duty	Duty	
Regular	278	4	9			291
Regular - 50% J& S	235		9			244
A-Cash refund	1					1
B-100% J & S	135	4	14			153
C-50% J & S	88	2	4			94
D-10 Year Certain	4					4
E-15 Year Certain	1		2			3
Survivor	99	6	4	11	3	123
Totals	841	16	42	11	3	913

* The retired members with service in more than one group are displayed as if each person were receiving two pensions.

**Terminated Members with a Deferred Vested Benefit
December 31, 2020
Tabulated by Nearest Age and Estimated Allowance**

Attained Age	No.	Deferred Allowances
32	2	\$ 26,316
35	2	41,637
36	2	39,479
37	2	13,982
39	1	28,732
41	1	19,273
42	1	24,146
43	2	35,606
45	3	44,559
46	1	19,223
47	3	50,362
48	2	19,825
49	5	76,351
50	5	98,241
51	4	49,568
52	1	13,486
53	4	42,003
54	5	58,488
55	1	10,483
56	3	38,465
57	3	35,666
58	4	40,633
59	2	25,139
60	4	68,065
61	1	13,302
62	2	20,319
Totals	66	\$953,349

Active Members as of December 31, 2020 by Attained Age and Years of Service

Attained Age	Years of Service to Valuation Date							Totals	
	0-4	5-9	10-14	15-19	20-24	25-29	30 Plus	No.	Valuation Payroll
20-24	22							22	\$ 1,043,188
25-29	58	7						65	3,551,405
30-34	42	31	7					80	5,034,548
35-39	33	29	28	11				101	7,342,542
40-44	30	19	8	17	10	1		85	5,947,991
45-49	16	13		9	37	9		84	6,368,882
50-54	19	6	4	8	15	14	4	70	5,031,799
55-59	9	7		6	8	5	6	41	2,662,363
60	1			1	2	2	2	8	587,339
61	3	1	1		1			6	405,447
62	1		2	2				5	300,606
63		4		1				5	328,249
64		3		2	1	2	2	10	638,030
65				1		3		4	322,054
66						1	1	2	115,814
67			1					1	129,857
68		1		1				2	113,917
74		1						1	59,137
Totals	234	122	51	59	74	37	15	592	\$39,983,168

While not used in the financial computations, the following group averages are computed and shown because of their general interest.

Age: 42.0 years.

Service: 10.7 years.

Annual Pay: \$67,539.



SECTION D

ACTUARIAL COST METHODS AND ASSUMPTIONS

Valuation Methods

In accordance with Subsection 2-252.2c (10) of the Retirement System Ordinance, the actuarial assumptions are recommended to the City Commission by the Retirement Investment Committee (RIC). The actuarial assumptions used for this report were based upon the results of an Experience Study for the City of Kalamazoo Employees Retirement System covering the period January 1, 2014 through December 31, 2018. A report dated January 7, 2020 presented the results of this experience study. Unless otherwise noted, the assumptions were first used with the actuarial valuation date of December 31, 2019. The actuarial assumptions represent estimates of future experience.

The normal cost was computed as follows:

The series of contributions necessary to accumulate the present value at time of retirement of the portion of a member's pension attributable to service likely to be rendered after the valuation date was computed so that each contribution in the series was a constant percentage of the member's year-by-year projected covered compensation. This is the individual entry age normal actuarial cost method.

The accrued liability was computed and financed as follows:

Retirees and Beneficiaries: The discounted value of pensions likely to be paid retirees and beneficiaries was computed using the investment return and mortality assumptions. This amount was financed by applicable accrued assets.

Active and Inactive members: The discounted value of benefits likely to be paid active and inactive members on account of service rendered prior to the valuation date was computed using the assumptions outlined on the following pages. The computed amount was reduced by applicable valuation assets and the remainder (or overfunding) was financed as a level percent-of-payroll over a rolling period of 10 years.

Asset valuation method: Last year's valuation assets are increased by contributions and expected investment income on last year's valuation assets and non-investment net cash flow and reduced by refunds, benefit payments and expenses. To this amount is added the phased-in recognition of investment income. The phased-in recognition is the sum over the five years ending on the valuation date of 20% of the difference between each year's expected return and actual market return.

Actuarial Assumptions Used for the Valuation

Investment Return. The rate of investment return is compounded annually net of investment expenses.

Investment Return	7.25%
Wage Inflation	3.50%
Price Inflation	2.25%
Spread Between Investment Return and Wage Inflation	3.75%
Spread Between Investment Return and Price Inflation	5.00%

These assumptions are used to equate the value of payments due at different points in time. Approximate net rates of investment return, for the purpose of comparisons with assumed rates, are shown below. Actual increases in active member pays are also shown for comparative purposes.

	Year Ended December 31					5-Year Average*
	2020	2019	2018	2017	2016	
Rate of Investment Return [^]	8.3%	8.2%	6.1%	9.2%	11.2%	8.6%
Increase in Average Pay [#]	4.6	2.8	8.7	3.7	3.6	4.7
Real Rate of Return	3.7	5.4	(2.6)	5.5	7.6	3.9

* *Compound rate of increase.*

For members employed throughout the most recent two years.

[^] *The nominal rate of return was computed using the approximate formula $i = I$ divided by $1/2 (A + B - I)$, where I is actual investment income net of expenses, A is the beginning of year asset value, and B is the end of year asset value.*

These rates of return should not be used for measurement of an investment advisor's performance or for comparisons with other systems.

Investment Expenses. 0.50% of average valuation assets.

Administrative Expenses. 0.75% of covered member payroll was added to the Normal Cost in anticipation of administrative expenses expected to be paid during the fiscal year.

Actuarial Assumptions Used for the Valuation (Continued)

Pay Projections. These assumptions are used to project current pays to those upon which benefits will be based.

The annual rate of pay increases consists of two parts:

- (i) a long-term rate of pay inflation equal to 3.5%; and
- (ii) merit and longevity increases which vary according to age or length of service. These rates are illustrated below.

Years of Service	KMEA	AFSCME	Exempt	Non-Sworn Public Safety	Public Safety
1	6.0%	8.0%	6.0%	8.0%	12.0%
2	5.0	3.0	6.0	7.0	12.0
3	4.0	3.0	1.0	6.0	5.5
4	2.0	2.0	1.0	4.0	4.5
5	1.0	2.0	1.0	3.0	4.5
6	1.0	1.0	1.0	1.5	4.0
7	1.0	0.0	0.5	1.5	4.0
8	1.0	0.0	0.5	1.5	4.0
9	0.0	0.0	0.5	1.5	1.5
10	0.0	0.0	0.5	1.5	1.3
11	0.0	0.0	0.3	0.5	1.0
12	0.0	0.0	0.3	0.3	1.0
13	0.0	0.0	0.3	0.3	0.5
14	0.0	0.0	0.3	0.3	0.5
thereafter	0.0	0.0	0.3	0.3	0.5

If the number and distribution of active members remain constant, then the total active member payroll is expected to increase 3.5% annually for the base portion of the salary increase assumptions. This increasing payroll was recognized in amortizing unfunded actuarial accrued liabilities.

Actuarial Assumptions Used for the Valuation (Continued)

The mortality tables used are described below:

Non-Public Safety

- **Healthy Pre-Retirement:** The Pub-2010 Amount-Weighted, General, Employee, Male and Female tables, with future mortality improvements projected to 2025 using scale MP-2019.
- **Healthy Post-Retirement:** The Pub-2010 Amount-Weighted, General, Healthy Retiree, Male and Female tables, with future mortality improvements projected to 2025 using scale MP-2019.
- **Disability Retirement:** The Pub-2010 Amount-Weighted, General, Disabled Retiree, Male and Female, with future mortality improvements projected to 2025 using scale MP-2019.

Sample Attained Ages	Healthy Pre-Retirement		Healthy Post-Retirement		Disabled Retirement	
	Future Life Expectancy (Years)		Future Life Expectancy (Years)		Future Life Expectancy (Years)	
	Men	Women	Men	Women	Men	Women
55	32.90	34.92	29.19	31.95	21.41	23.96
60	28.28	30.17	24.84	27.44	18.65	21.11
65	23.77	25.48	20.67	23.03	16.03	18.18
70	19.34	20.87	16.67	18.76	13.44	15.08
75	14.99	16.36	12.94	14.75	10.86	12.04
80	10.73	11.98	9.63	11.12	8.43	9.29

Public Safety

- **Healthy Pre-Retirement:** The Pub-2010 Amount-Weighted, Safety, Employee, Male and Female tables, with future mortality improvements projected to 2025 using scale MP-2019.
- **Healthy Post-Retirement:** The Pub-2010 Amount-Weighted, Safety, Healthy Retiree, Male and Female tables, with future mortality improvements projected to 2025 using scale MP-2019.
- **Disability Retirement:** The Pub-2010 Amount-Weighted, Safety, Disabled Retiree, Male and Female, with future mortality improvements projected to 2025 using scale MP-2019.

Sample Attained Ages	Healthy Pre-Retirement		Healthy Post-Retirement		Disabled Retirement	
	Future Life Expectancy (Years)		Future Life Expectancy (Years)		Future Life Expectancy (Years)	
	Men	Women	Men	Women	Men	Women
55	32.15	34.54	29.07	30.90	27.84	29.83
60	27.45	29.78	24.56	26.38	23.55	25.62
65	22.85	25.04	20.27	22.06	19.52	21.61
70	18.37	20.36	16.25	17.95	15.74	17.75
75	14.09	15.83	12.54	14.12	12.23	14.09
80	10.08	11.56	9.28	10.71	9.16	10.71

Actuarial Assumptions Used for the Valuation (Continued)

The rates of retirement used to measure the probability of eligible members retiring during the next year were as follows:

Retirement Ages	KMEA	AFSCME	Exempt	Non-Sworn Public Safety
55	2%	5%	7%	7%
56	2	5	7	7
57	5	8	20	20
58	5	5	20	20
59	10	5	15	15
60	20	25	20	20
61	20	20	20	20
62	50	55	25	25
63	15	25	15	15
64	10	25	15	15
65	100	100	100	100

Years of Service	Public Safety
20	2%
21	2
22	2
23	2
24	2
25	80
26	30
27	45
28	25
29	25
30	100

Retirement probabilities were applied for General members after both attaining age 55 and completing 15 years of service, or age 62 with 10 years of service (5 years for Exempt and General Member Administrators, 9 years for AFSCME hired before 10/2/2016 and 8 years for KMEA hired before 1/1/2009). AFSCME members are also considered eligible for retirement at age 60 with 20 or more years of service. Retirement probabilities were applied for Public Safety members upon completion of 20 years of service with 100% retirement probability assumed at age 60 with 10 years of service.

Actuarial Assumptions Used for the Valuation (Concluded)

Rates of disability were as follows:

Sample Ages	% of Active Members Becoming Disabled within Next Year	
	Public Safety AFSCME	KMEA Exempt CSO
	20	0.23%
25	0.27	0.04
30	0.32	0.04
35	0.40	0.04
40	0.55	0.10
45	0.76	0.13
50	1.45	0.25
55	2.84	0.45
60	0.00	0.71

The assumptions above were first used for the December 31, 2009 valuation.

Rates of separation from active membership were as shown below (rates do not apply to members eligible to retire and do not include separation on account of death or disability). This assumption measures the probabilities of members remaining in employment.

Sample Ages	Years of Service	% of Active Members Separating within Next Year				
		KMEA	AFSCME	All Exempt	Non-Sworn Public Safety	Public Safety
	0	16.0%	16.0%	16.0%	16.0%	7.5%
	1	15.0	15.0	15.0	15.0	5.0
	2	12.0	12.0	12.0	12.0	3.8
	3	10.0	10.0	10.0	10.0	3.0
	4	8.0	8.0	8.0	8.0	3.0
25	5 or Over	8.0	8.0	8.0	8.0	2.5
30		7.0	7.0	7.0	7.0	2.2
35		6.0	6.0	6.0	6.0	1.4
40		5.0	5.0	5.0	5.0	1.1
45		4.0	4.0	4.0	4.0	0.8
50		3.0	3.0	3.0	3.0	0.6
55		2.4	2.4	2.4	2.4	0.4
60	2.4	2.4	2.4	2.4	0.4	

Miscellaneous and Technical Assumptions

Active Member Group Size	The number of active members was assumed to remain constant.
Marriage Assumption	100% of males and 100% of females are assumed to be married for purposes of death-in-service benefits. Male spouses are assumed to be three years older than female spouses.
Pay Increase Timing	Was assumed to occur in the middle of the year. This means that the pays reported for the valuation are assumed to be rates of pay on the valuation date.
Decrement Timing	Decrements are assumed to occur at the middle of the fiscal year.
Eligibility Testing	Eligibility for benefits is determined based upon the age nearest birthday and service nearest whole year on the date the decrement is assumed to occur.
Benefit Service	Exact fractional service is used to determine the amount of benefit payable.
Decrement Relativity	Decrement rates are used directly from the experience study, without adjustment for multiple decrement table effects.
Decrement Operation	Death-in-service decrement does not operate until member becomes vested. Withdrawal does not operate during retirement eligibility.
Normal Form of Benefit	The assumed normal form of benefit is straight life form. For public safety members, the assumed normal form of benefit is an automatic 50% Joint and Survivor form. 90% of public safety members were assumed to be married for the purposes of this benefit.
Incidence of Contributions	Contributions are assumed to be received continuously throughout the year based upon the computed percent-of-payroll shown in this report, and the actual payroll payable at the time contributions are made. New entrant normal cost contributions are applied to the funding of new entrant benefits.
Actuarial Equivalence Basis for Optional Forms of Payment	7.25% interest rate assumption with an 80%/20% unisex blend of the Pub-2010 Amount-Weighted, General, Healthy Retiree, Male and Female tables, with future mortality improvements projected to 2025 using scale MP-2019, effective January 1, 2021.

**Post-Retirement Adjustment
Timing**

Post-retirement adjustments (PRAs) were assumed to be paid on January 1 of each year for Public Safety, Exempt, and General Member Administrator retirees (beginning the year immediately following retirement for Public Safety retirees and the second year following retirement for Exempt retirees). PRAs were assumed to be paid on the first of the month immediately following the retiree's birthday for all other groups.

Active Member Pay Adjustments

New hire pays were annualized. Pays were adjusted for members on Worker's Compensation or Leave of Absence for part of the valuation year.

Glossary

Actuarial Accrued Liability. The difference between (i) the actuarial present value of future plan benefits, and (ii) the actuarial present value of future normal cost. Sometimes referred to as “accrued liability” or “past service liability.” Under the actuarial cost method used the “AAL” differs somewhat from the value of future payments based on benefits earned as of the valuation date.

Accrued Service. The service credited under the plan which was rendered before the date of the actuarial valuation.

Actuarial Assumptions. Estimates of future plan experience with respect to rates of mortality, disability, retirement, investment income and salary increases. Decrement assumptions (rates of mortality, separation, and retirement) are generally based on past experience, often modified for projected changes in conditions. Economic assumptions (salary increases and investment income) consist of an underlying rate appropriate in an inflation-free environment plus a provision for a long-term average rate of inflation.

Actuarial Cost Method. A mathematical budgeting procedure for allocating the dollar amount of the “actuarial present value of future plan benefits” between the normal costs to be paid in the future and the actuarial accrued liability. Sometimes referred to as the “actuarial funding method.”

Actuarial Equivalent. Benefits whose actuarial present values are equal.

Actuarial Present Value. The amount of funds presently required to provide a payment or series of payments in the future. It is determined by discounting the future payments at a predetermined rate of interest, taking into account the probability of payment.

Amortization. Payment of an interest-bearing liability by means of periodic contributions of interest and principal, as opposed to a lump sum payment.

Experience Gain (Loss). A measure of the difference between actual experience and experience anticipated by a set of actuarial assumptions during the period between two actuarial valuation dates, in accordance with the actuarial cost method being used.

Normal Cost. The annual cost assigned, under the actuarial funding method, to current and subsequent plan years. Sometimes referred to as “current service cost.” An amortization payment toward the unfunded actuarial accrued liability is in addition to the normal cost.

Reserve Account. An account used to indicate that funds have been set aside for a specific purpose and are not generally available for other uses.

Unfunded Actuarial Accrued Liability. The difference between the actuarial accrued liability and valuation assets. Sometimes referred to as “unfunded accrued liability.”

Valuation Assets. The value of current plan assets recognized for valuation purposes.

APPENDIX

10-Year Contribution Projection

This Appendix shows estimated projected contribution requirements for the coming 10 fiscal years, based on the data, methods and assumptions used for this report and assuming a stable population. The ability to make a periodic payment, to certain retirees, as described in Article X: Sub-section 2-246.5 of the Retirement System Ordinance is in part contingent on the level of projected employer contributions for the coming 10 fiscal years. The purpose of the projection is to determine estimated employer contribution rates for the next 10 fiscal years. If the projected employer contribution is 0% for 10 years, the City of Kalamazoo Board may review the remaining requirements in order to determine if a periodic payment may be made. If the projected employer contribution is not 0% for 10 years, a periodic payment may not be made.

The last periodic payment was made during June 2018.

Please note: Future actuarial measurements may differ significantly from the current measurements presented in this report due to such factors as the following: plan experience differing from that anticipated by the economic or demographic assumptions; changes in economic or demographic assumptions; increases or decreases expected as part of the natural operation of the methodology used for these measurements (such as the end of an amortization period or additional cost or contribution requirements based on the plan's funded status); and changes in plan provisions or applicable law.

Date	Employer NC%	UAL Payment %	Employer Contribution %
January 1, 2021	15.81%	-47.07%	0.00%
January 1, 2022	15.81%	-43.08%	0.00%
January 1, 2023	15.81%	-39.43%	0.00%
January 1, 2024	15.81%	-36.08%	0.00%
January 1, 2025	15.81%	-33.03%	0.00%
January 1, 2026	15.81%	-30.23%	0.00%
January 1, 2027	15.81%	-27.66%	0.00%
January 1, 2028	15.81%	-25.32%	0.00%
January 1, 2029	15.81%	-23.17%	0.00%
January 1, 2030	15.81%	-21.21%	0.00%