

# EMPLOYEES, RETIREES, AND BENEFICIARIES OF THE CITY OF KALAMAZOO EMPLOYEES' RETIREMENT SYSTEM

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The Summary Annual Report of the City of Kalamazoo Employees' Retirement System for the year ended December 31, 2020 is presented for your information. The material presented in this report is based on financial statements as audited by Maner Costerisan, and the 2020 Actuarial Valuation prepared by Gabriel, Roeder, Smith & Company.

The City Charter requires that the City maintain an employees' retirement system. The City of Kalamazoo Employees' Retirement System was established as a defined benefit plan on July 1, 1942. Its purpose is to provide long-term benefit payments to its members. Benefits are calculated using a formula based on age, years of service, and salary, and are guaranteed upon retirement. Membership includes all full time and some part time employees (as allowed by certain bargaining units). Assets of the System must be held and used for the exclusive benefit of members and their beneficiaries.

A Pension plan is well funded when it has sufficient assets to meet expected future obligations to participants. On December 31, 2020, the Employees' Retirement System held investments of \$704.5 million, an increase of \$27.4 million from 2019. The investment portfolio reported a net return of 9.25% for fiscal year 2020, net of fees. Although global markets saw extreme volatility in 2020, the plan continues to be in an overfunded position. The current ratio of actuarial assets to accrued liabilities is 130.8%. The System is in sound financial condition and the fiduciaries remain committed to meet the obligations of the defined benefit plan in a prudent manner.

Respectfully submitted,

Steve Vicenzi  
Director, Management Services

## INVESTMENT POLICY

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The financial objective of the Retirement System is to accumulate a pool of assets that will be sufficient to pay the benefits promised by the System, at the lowest possible cost, and to do so solely in the interest of the participants and beneficiaries. Within this objective, the System's assets are to be invested to achieve the maximum long term (3-4 market cycles) cumulative annual rate of return possible in relation to risk, under the laws and regulations which the assets can be invested. The Investment Committee has established an investment policy which provides that the maximum amount permitted under the laws and regulations will be targeted for investment in common stocks, with the balance invested in bonds, short-term securities, and real estate.

# MONEY MANAGERS AND PHILOSOPHY

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The Employees' Retirement System has five investment managers who are responsible for the investment of the System's assets in accordance with the Investment Committee's policies. Two of the money managers are common stock managers, one is a bond manager and two are real estate managers. There have been no changes in fund managers this year.

The assets of the System are invested in various asset classes (common stocks, bonds, etc.) and in different investment styles within the classes to mitigate volatility. Managers are hired for their management style and strategy within these classes of assets. If a manager deviates from the style and strategy for which that firm was hired and the new style and strategy conflicts with the investment policies, the manager is terminated.

## **BlackRock**

BlackRock, New York, NY, has over \$8.6 trillion in assets under management. The System's assets are invested in Blackrock's Equity Index Fund A, which replicates the S&P 500 Stock Index.

## **Dimensional Fund Advisors**

Dimensional Fund Advisors, Austin, TX, has over \$601 billion in assets under management. DFA manages the System's Large Cap Value, Small Cap Value, Micro Cap, International Small Cap Value, and Emerging Markets Value portfolios.

## **Jennison Associates LLC**

Jennison Associates, New York, NY, manages over \$218.9 billion in assets and serves as the System's intermediate fixed income manager.

## **RREEF Real Estate**

RREEF Real Estate, Chicago, IL, has over \$70 billion in assets under management. The System's assets are invested in RREEF's flagship core fund, RREEF America REIT II.

## **Vanguard Group, Inc.**

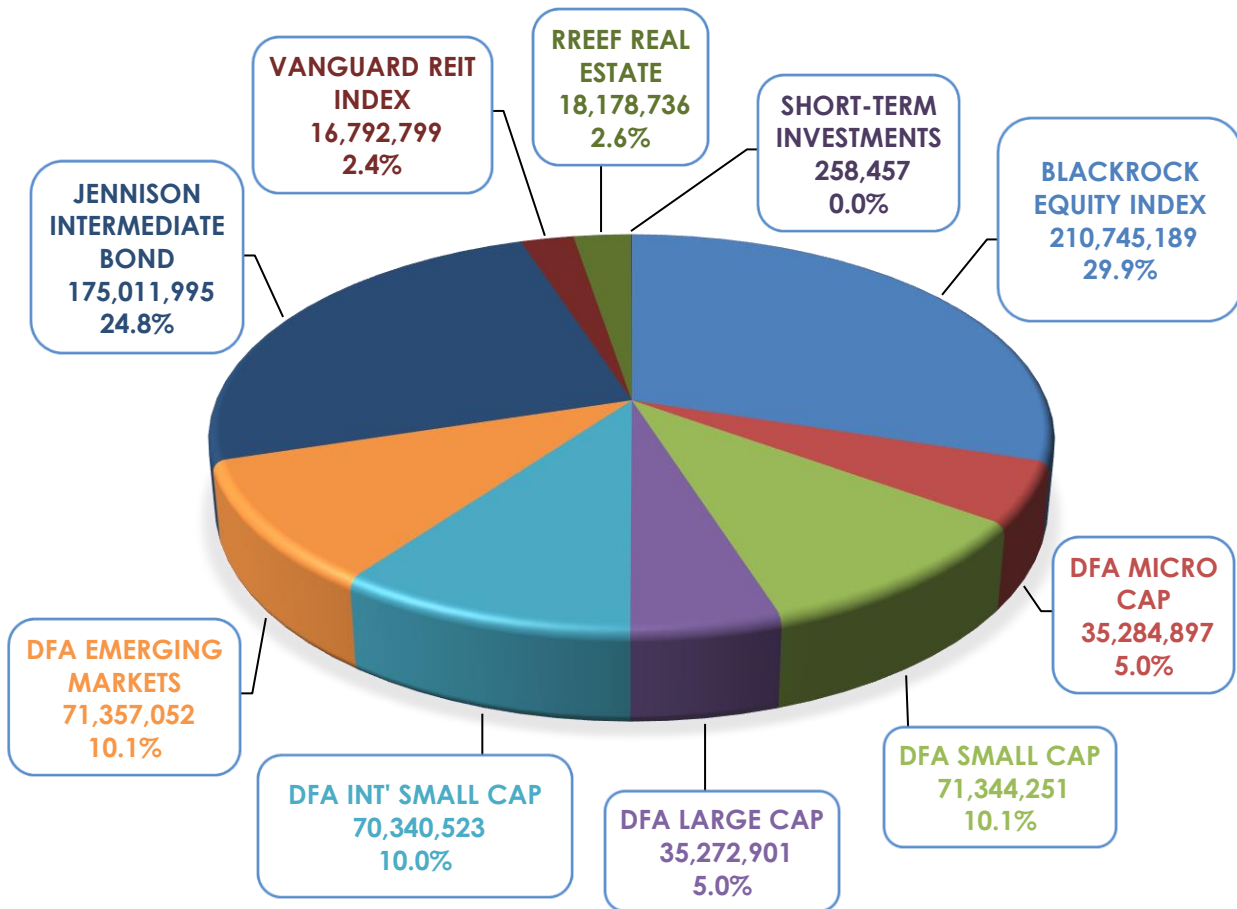
The Vanguard Group, Malvern, PA, has over \$7.1 trillion in assets under management. The System's assets are invested in Vanguard's Real Estate Investment Trust (REIT).

## **State Street Bank**

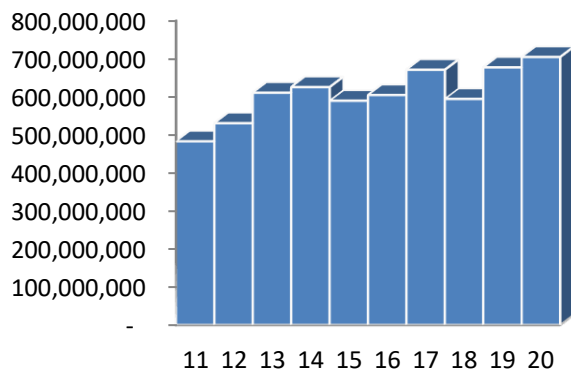
State Street Bank & Trust, Boston, MA, has over \$3.5 trillion in assets under management and serves as the System's Custodian and Trustee. The balance of the System's assets is held in cash equivalents to meet monthly benefit payments and administrative expenses. State Street Bank safeguards the System's assets and serves as the control and monitoring point for the performance and procedures of our investment managers.

# INVESTMENT SUMMARY

## Asset Allocation



## Asset History



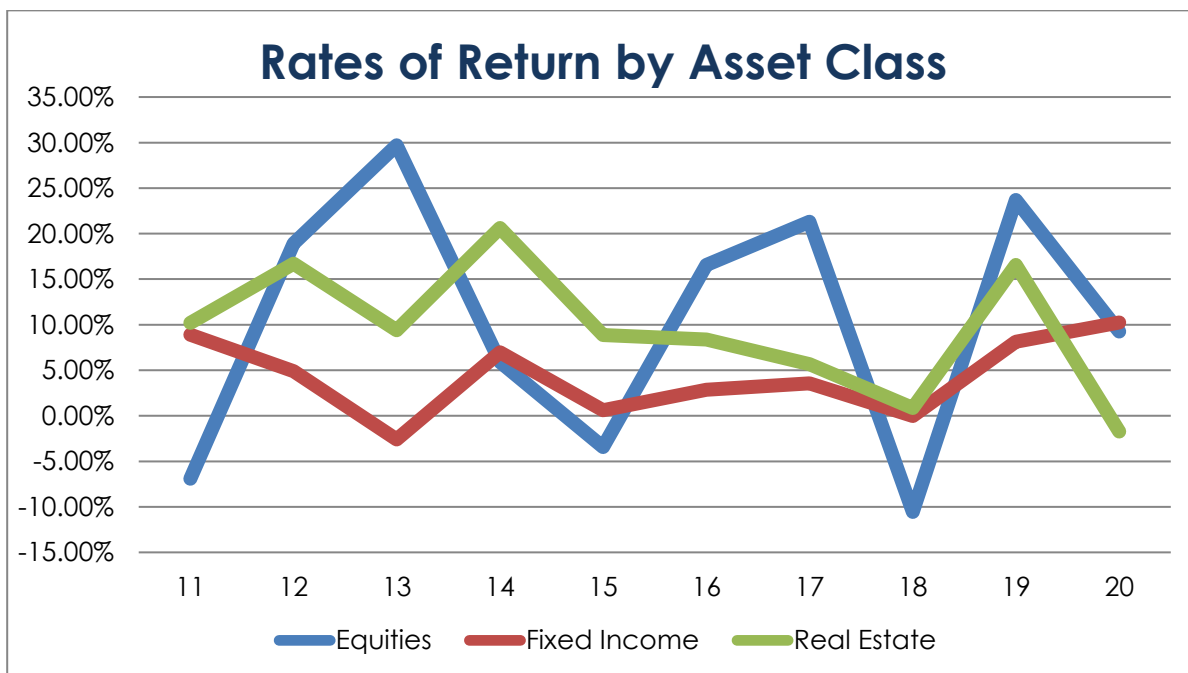
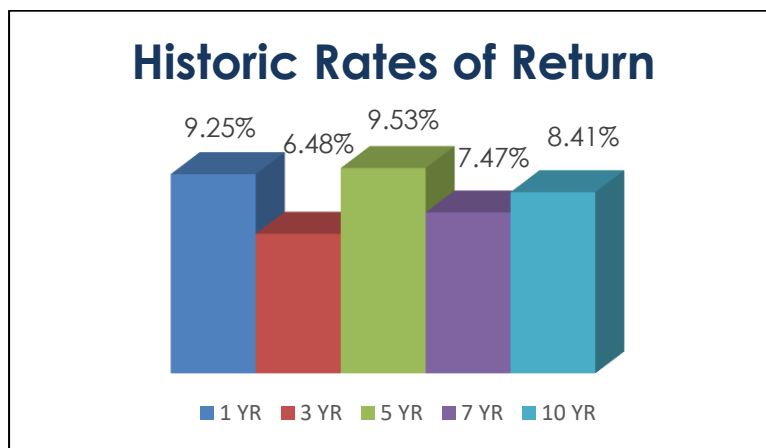
\*2016 reflects 30.3M CCTA split.

| Investments by Asset Class |                    |
|----------------------------|--------------------|
| Equities                   | 494,344,812        |
| Fixed Income               | 175,011,995        |
| Real Estate                | 34,971,535         |
| Short-Term                 | 258,457            |
| <b>Total</b>               | <b>704,586,799</b> |

# INVESTMENT SUMMARY

The investment objective is to achieve a “real” rate of return (nominal rate less inflation) of 5% over time. This objective has been achieved since the inception of the current organization in 1982.

|                        | 2020<br>1 Year | 2016-2020<br>5 Year | Since<br>1982 |
|------------------------|----------------|---------------------|---------------|
| Nominal Rate of Return | 9.25%          | 9.53%               | 10.80%        |
| Inflation              | 1.36%          | 1.95%               | 2.59%         |
| Real Rate of Return    | <b>7.89%</b>   | <b>7.58%</b>        | <b>8.21%</b>  |



# FINANCIAL SUMMARY

The City of Kalamazoo Employees' Retirement System total fiduciary net position held in trust for benefits on December 31, 2020 was \$704.5 million, a 4.05% increase from \$677.1 million on December 31, 2019. The return received on investments was 9.25%. Favorable market conditions resulted in gains across all portfolios except for Real Estate, which showed a modest loss. (Numbers may not add up precisely to totals due to rounding.)

## STATEMENT OF PLAN NET POSITION

|   | 2020                  | 2019                  |
|---|-----------------------|-----------------------|
| <b>Assets</b>                                       |                       |                       |
| Cash and Cash Equivalents                           | \$ 258,457            | \$ 81,099             |
| Receivables   | 4,377,988             | 2,966,890             |
| Investments   | 699,982,257           | 674,112,250           |
| <b>Total Assets</b>                                 | <b>704,618,702</b>    | <b>677,160,239</b>    |
| <b>Liabilities</b>                                  |                       |                       |
| Accounts Payable                                    | 41,919                | 20,971                |
| <b>Total Liabilities</b>                            | <b>41,919</b>         | <b>20,971</b>         |
| <b>Net Position Restricted for Pension Benefits</b> | <b>\$ 704,576,783</b> | <b>\$ 677,139,268</b> |

The City of Kalamazoo Employees' Retirement System continues to be managed very cost effectively. All fees and expenses are reviewed and approved in open committee meetings. Total expenses for the plan in 2020 were \$2.6 million, which is 0.44% of market assets. Our low expense ratio is a substantial cost savings to the System.

|                            | EXPENSE             | % OF<br>MARKET ASSETS |
|----------------------------|---------------------|-----------------------|
| Investment Management fees | \$ 1,825,825        | 0.31%                 |
| Custodial fees             | \$ 252,182          | 0.04%                 |
| Administrative fees        | \$ 534,700          | 0.09%                 |
| <b>Total</b>               | <b>\$ 2,612,707</b> | <b>0.44%</b>          |

# FINANCIAL SUMMARY

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Revenue sources include employer contributions, employee contributions, and earnings on investments. Plan expenses consist of pension benefits to members and beneficiaries, contribution refunds to those who exit the System, fund management fees, and general administrative costs.

## SUMMARY OF CHANGES IN PLAN NET POSITION

|                                     | <b>2020</b>    | <b>2019</b>    |
|-------------------------------------|----------------|----------------|
| <b>Additions</b>                    |                |                |
| Investment Income                   |                |                |
| Change in fair value of investments | \$ 48,623,967  | \$ 98,769,881  |
| Interest                            | 3,510,852      | 4,503,471      |
| Dividends                           | 7,742,102      | 11,136,626     |
| Investment expense                  | (2,078,006)    | (2,216,808)    |
| Net investment income               | 57,798,914     | 112,193,171    |
| Contributions                       |                |                |
| Plan Members                        | 1,285,845      | 1,238,420      |
| <br>                                |                |                |
| Total additions to net position     | 59,084,759     | 113,431,591    |
| <br>                                |                |                |
| <b>Deductions</b>                   |                |                |
| Benefit Payments                    | 31,065,811     | 30,034,033     |
| Refunds of Contributions            | 46,733         | 179,863        |
| Administrative Expenses             | 534,700        | 449,839        |
| <br>                                |                |                |
| Total deductions from net position  | 31,647,244     | 30,663,735     |
| <br>                                |                |                |
| <b>Net Change</b>                   | 27,437,515     | 82,767,856     |
| <br>                                |                |                |
| Net position beginning of year      | 677,139,269    | 594,371,413    |
| Net position end of year            | \$ 704,576,783 | \$ 677,139,269 |

# FINANCIAL SUMMARY

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## BUDGET AND EXPENSES

|                           | <b>2020 BUDGET</b>   | <b>2020 ACTUAL</b>   |
|---------------------------|----------------------|----------------------|
| Actuary Fees              | \$ 85,000            | \$ 99,435            |
| Admin Fees                | 224,903              | 224,903              |
| Attorney Fees             | 10,000               | 1,065                |
| Audit Fees                | 5,500                | 5,300                |
| Benefit Payments          | 30,600,000           | 31,065,811           |
| Consulting Fees           | 155,000              | 154,985              |
| Custodial Fees            | 205,000              | 252,182              |
| Disability Physical Exams | 1,000                | -                    |
| Due Diligence/Conferences | 10,000               | 1,299                |
| Liability Insurance       | 45,000               | 17,166               |
| Management Fees           | 2,100,000            | 1,825,825            |
| Miscellaneous Expense     | 3,500                | -                    |
| Refunds of Contributions  | 75,000               | 46,733               |
| Retiree Services Fees     | 20,000               | 30,549               |
|                           | <b>\$ 33,539,903</b> | <b>\$ 33,725,251</b> |

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# ACTUARIAL SUMMARY

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## MEMBERSHIP DATA

|                            | <b>2020</b>                                | <b>2019</b>         |
|----------------------------|--|---------------------|
| Retirees and Beneficiaries | 913  | 903                 |
| Active Members             | 592  | 596                 |
| Inactive Members           | 66   | 68                  |
|                            | <b>1,571</b>                               | <b>1,567</b>        |
|                            | <b>Average annual retirement allowance</b> | <b>\$ 35,413</b>    |
|                            | <b>Total annual retirement allowances</b>  | <b>\$32,332,030</b> |

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# ACTUARIAL SUMMARY

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Employer contributions, if applicable, are made in accordance with funding levels recommended by Gabriel, Roeder, Smith & Company in the annual Actuarial Valuation Report. Funding level calculations are based on a smoothed (actuarial) value of assets rather than the market value in order to moderate annual fluctuations caused by market conditions. By policy, annual asset gain or loss will be recognized over five years (smoothed), however, actuarial assets may not be less than 80% of the market value of assets.

According to the 2020 valuation, City contributions are not currently needed, as the System's assets are in excess of the accrued liability. The current ratio of assets to liabilities is 130.8%.

Employee contributions are made in accordance with union contracts or provisions within the code of ordinances.

## ACTUARIAL FUNDING (\$000)

| Year Ended | Actuarial Assets | Actuarial Liabilities | Funded Ratio |
|------------|------------------|-----------------------|--------------|
| 1970       | \$ 6,782         | \$ 10,921             | 62.1%        |
| 1980       | \$ 28,151        | \$ 42,848             | 65.7%        |
| 1990       | \$ 99,014        | \$ 100,981            | 98.1%        |
| 2000       | \$ 331,443       | \$ 208,070            | 159.3%       |
| 2010       | \$ 518,339       | \$ 367,423            | 141.1%       |
| 2020       | \$ 684,053       | \$ 522,936            | 130.8%       |

Assets and Liabilities no longer include Metro/CCTA as of 2016.

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|  |              |
|--|--------------|
| Member Contributions                                   |              |
| Weighted average                                       | 3.21%        |
| Employer Contributions                                 |              |
| Computed Normal Cost of benefits                       |              |
| expressed a a percentage of valuation payroll          | 15.93%       |
| Unfunded Actuarial Accrued Liability contribution rate |              |
| expressed a a percentage of valuation payroll          | -30.10% *    |
| Valuation Payroll                                      | \$39,215,899 |

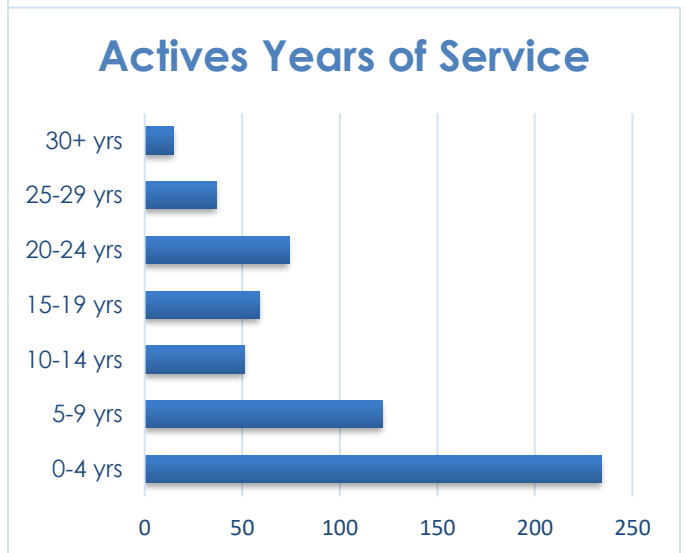
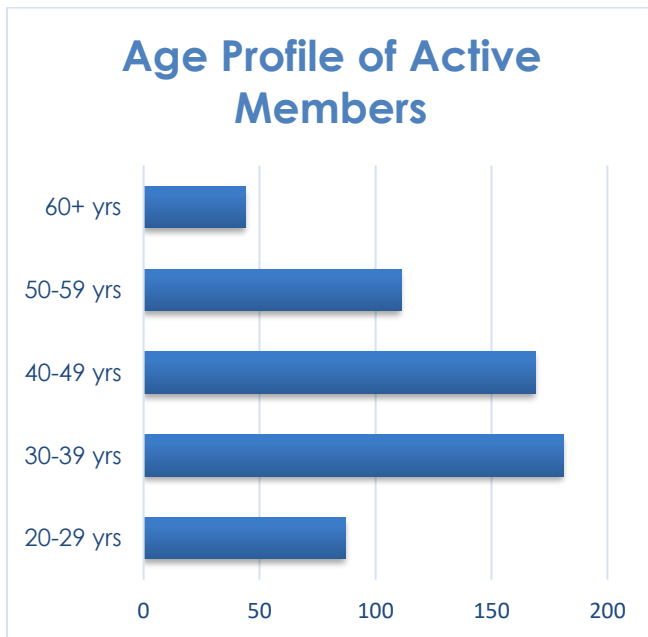
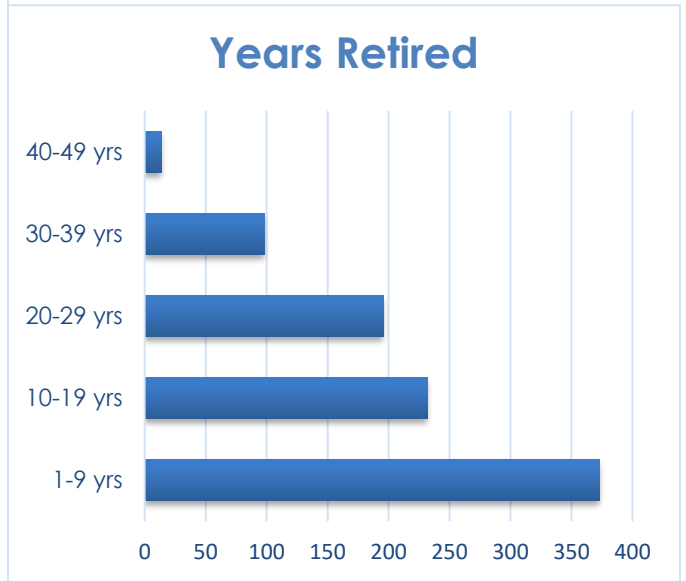
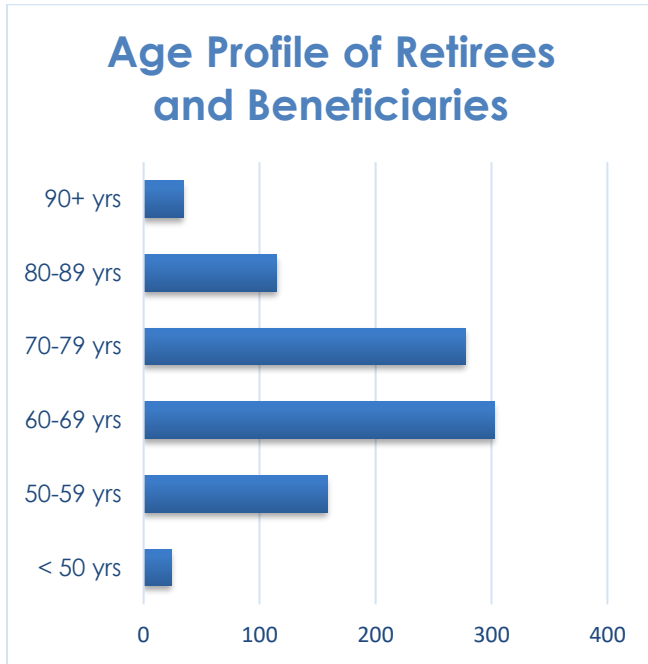
\*The overfunded liability is currently supporting pension costs that would otherwise require City contributions.

Actuary assumptions include 7.25% Investment rate of return and 3.5% Wage inflation rate. Cost Method is Entry Age, Normal.



# ACTUARIAL SUMMARY

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# PLAN ADMINISTRATION

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## BOARD OF TRUSTEES

The City Commission established a five-member Board of Trustees to administer the System in accordance with the provisions set forth in the Code of Ordinances of the City of Kalamazoo. The Board of Trustees consists of a City Commissioner selected by the City Commission, the City Manager, a citizen who is appointed by the City Commission, a public safety member elected by the public safety members, and a general member elected by the general members.

| <u>Board Members</u> |                                 | <u>Term Expires</u> |
|----------------------|---------------------------------|---------------------|
| Dr. Randall Eberts   | Citizen at Large                | 3/31/2021           |
| Charles Mason        | Public Safety Member            | 3/31/2024           |
| Michelle Emig        | General Member                  | 3/31/2022           |
| James Ritsema        | City Manager - Chairman Pro Tem |                     |
| Chris Praedel        | City Commissioner               |                     |

## INVESTMENT COMMITTEE

The City Commission created the Investment Committee on October 19, 1981. The Investment Committee is charged with the management of the System's assets and has full authority to invest and reinvest such assets subject to the provisions of applicable state and local laws, ordinances, and the investment policy. The Investment Committee is composed of as many as seven members, all have an extensive financial background, and none are participants in the System. The members are appointed by the Mayor with the consent of the City Commission and serve three-year terms.

| <u>Board Members</u> |            | <u>Term Expires</u> |
|----------------------|------------|---------------------|
| Robert Salisbury     | Chair      | 3/31/2023           |
| Dr. Randall Eberts   | Vice Chair | 3/31/2023           |
| Daniel DeMent        |            | 3/31/2023           |
| Dean Bergy           |            | 3/31/2022           |
| Sandi Doctor         |            | 3/31/2022           |
| Joshua Sledge        |            | 3/31/2022           |
| Nick Griffith        |            | 3/31/2022           |

City Commission Liaison: David Anderson

# PLAN ADMINISTRATION

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## ADVISORS & CONSULTANTS

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|                    |                                  |
|--------------------|----------------------------------|
| Actuary            | Gabriel, Roeder, Smith & Company |
| Attorney           | Ice Miller                       |
| Auditor            | Maner Costerisan                 |
| Custodian          | State Street Bank and Trust      |
| Investment Advisor | Merion Capital LLC               |

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## FOR FURTHER INFORMATION

If you would like to see the Retirement Ordinance, Actuarial Valuation, or the Audited Financial Report, these are available during regular business hours in the Management Services Division of City Hall or at the City of Kalamazoo website, [www.kalamazoo.org](http://www.kalamazoo.org).

If you have questions regarding the Retirement System, or need to make changes to beneficiary or general contact information, please contact:

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City of Kalamazoo  
241 West South Street  
Kalamazoo, MI 49007

Lisa Brown      269-337-8472      [pension@kalamazoo.org](mailto:pension@kalamazoo.org)

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