

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

The City of Kalamazoo Employees' Retirement System has released its Summary Annual Report for the year ended December 31, 2024. The report is intended to provide information to its members and beneficiaries. The material presented in this report is based on financial statements audited by Maner Costerisan, and the 2024 Actuarial Valuation prepared by Gabriel, Roeder, Smith & Company.

The City Charter requires that the City maintain an employees' retirement system. The Employees' Retirement System was established as a defined benefit plan on July 1, 1942, with the purpose of providing long-term benefit payments to its members. Benefits are guaranteed upon retirement, and are calculated using a formula based on age, years of service, and salary. 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.

As of December 31, 2024, the Employees' Retirement System held investments of \$789.9 million, which is an increase of \$48.0 million from 2023. A resilient economy, easing inflation, and the prospect of lower interest rates led to an investment portfolio gain of 6.4%. The plan remains in an overfunded position, as the current ratio of actuarial assets to accrued liabilities is 130.3%. A Pension plan is well funded when it has sufficient assets to meet expected future obligations to participants. 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

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. The System's assets are invested to achieve the maximum long term 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

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 \$11.6 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 \$794 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 \$211 billion in assets and serves as the System's intermediate fixed income manager.

RREEF Real Estate

RREEF Real Estate, Chicago, IL, has over \$74 billion in assets under management. The System's assets are invested in RREEF's flagship core fund, RREEF America II.

Vanguard Group, Inc.

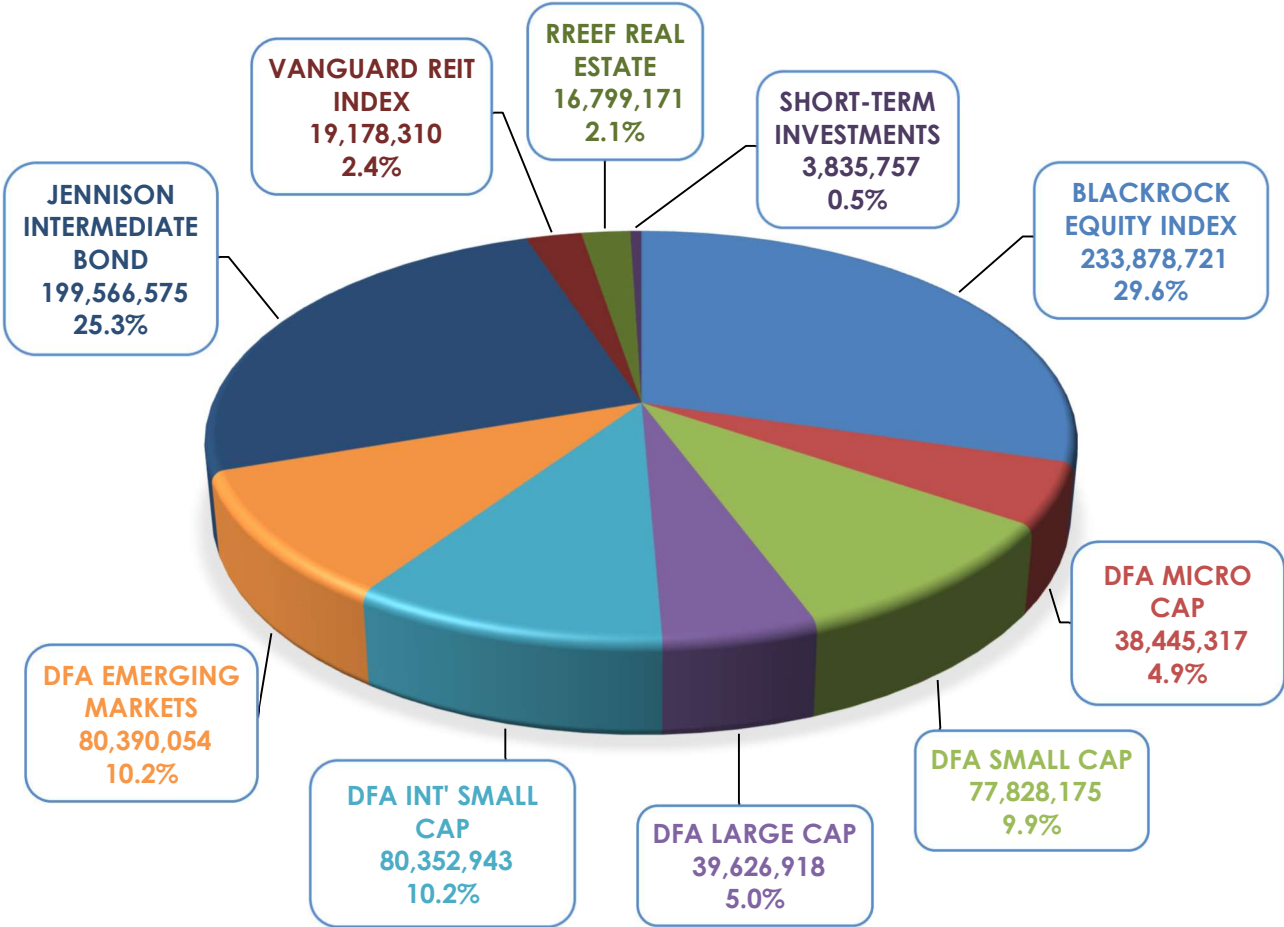
The Vanguard Group, Malvern, PA, has over \$10.4 trillion in assets under management. The System's assets are invested in Vanguard's Real Estate Investment Trust (REIT).

State Street Bank

State Street Bank & Trust, Boston, MA, has over \$4.7 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.

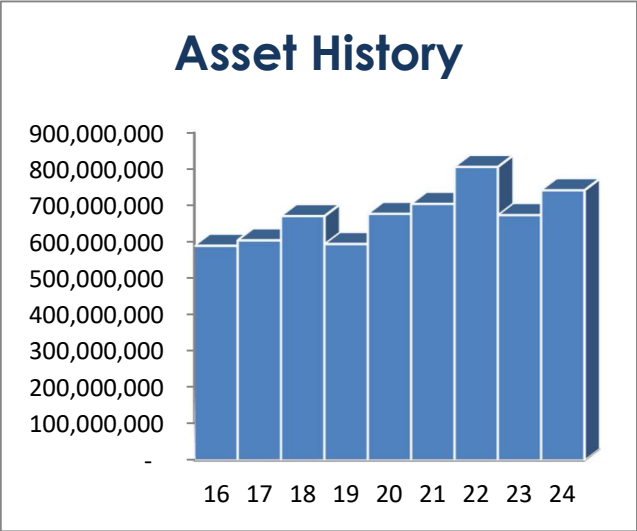
INVESTMENT SUMMARY

Asset Allocation



*2016 reflects 30.3M CCTA split.

Asset History

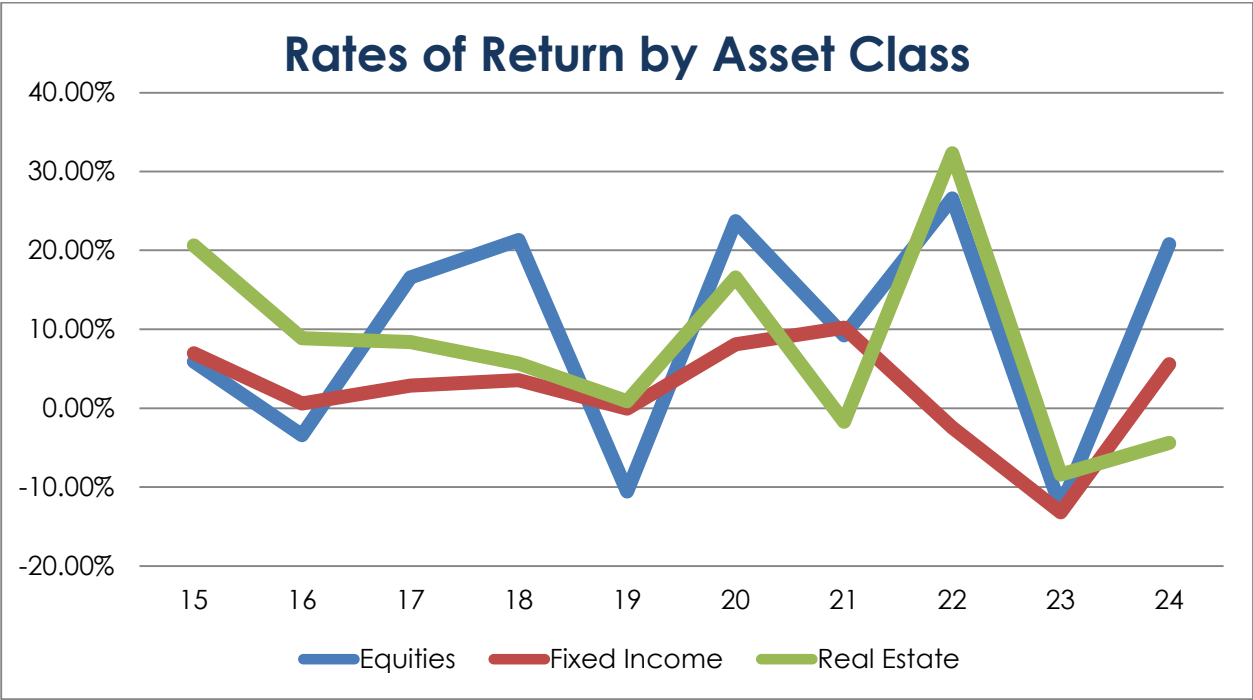
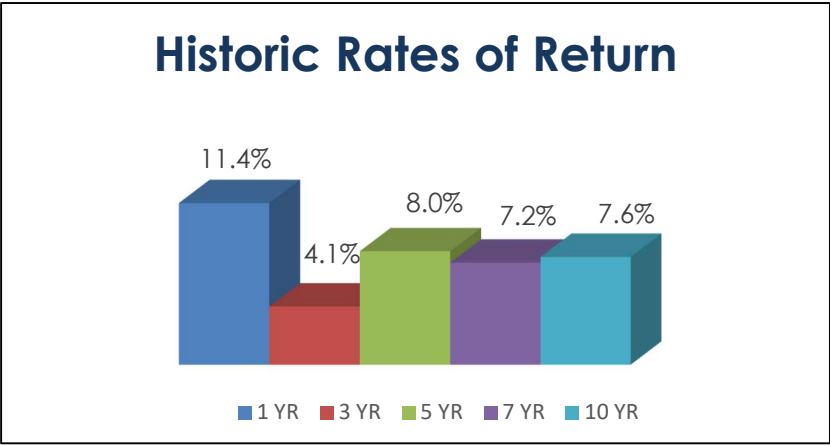


Investments by Asset Class	
Equities	550,522,128
Fixed Income	199,566,575
Real Estate	35,977,482
Short-Term	3,835,757
Total	789,901,941

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.

	2024 1 Year	2020-2024 5 Year	Since 1982
Nominal Rate of Return	11.43%	8.02%	10.50%
Inflation	2.89%	4.20%	2.81%
Real Rate of Return	8.54%	3.82%	7.67%



FINANCIAL SUMMARY

The City of Kalamazoo Employees' Retirement System total fiduciary net position held in trust for benefits on December 31, 2024, was \$789.9 million, a 6.4% increase from \$741.9 million on December 31, 2023. The return on investments was 11.40%. Favorable market conditions resulted in gains across Equity and Fixed Income portfolios. (Numbers may not add up precisely to totals due to rounding.)

STATEMENT OF PLAN NET POSITION

	2024	2023
Assets		
Cash and Cash Equivalents	\$ 3,827,705	\$ 203,103
Receivables	3,387,585	1,760,102
Investments	782,686,652	739,935,779
Total Assets	789,901,941	741,898,983
Liabilities		
Accounts Payable	30,284	22,885
Total Liabilities	30,284	22,885
Net Position Restricted for Pension Benefits	\$ 789,871,657	\$ 741,876,098

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 2024 were \$2.7 million, which is 0.45% of market assets. This low expense ratio is a substantial cost savings to the System.

	EXPENSE	% OF MARKET ASSETS
Investment Management fees	\$ 1,813,347	0.23%
Custodial fees	\$ 262,703	0.03%
Administrative fees	\$ 626,975	0.08%
Total	\$ 2,703,026	0.45%

FINANCIAL SUMMARY

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

	2024	2023
Additions		
Investment Income		
Change in fair value of investments	\$ 65,973,444	\$ 83,749,562
Interest	7,357,325	6,482,731
Dividends	11,983,696	13,701,727
Investment expense	(2,076,051)	(1,902,744)
Net investment income	83,238,415	102,031,275
Contributions		
Plan Members	1,581,587	1,475,439
Total additions to net position	84,820,002	103,506,714
Deductions		
Benefit Payments	35,896,484	34,583,776
Refunds of Contributions	300,982	132,567
Administrative Expenses	626,975	644,728
Total deductions from net position	36,824,442	35,361,071
Net Change	47,995,560	68,145,643
Net position beginning of year	741,876,098	673,730,455
Net position end of year	\$ 789,871,657	\$ 741,876,098

FINANCIAL SUMMARY

BUDGET AND EXPENSES

	2024 BUDGET	2024 ACTUAL
Actuary Fees	\$ 100,000	\$ 63,825
Admin Fees	344,696	344,696
Attorney Fees	10,000	
Audit Fees	6,300	6,000
Benefit Payments	36,825,000	35,896,484
Consulting Fees	160,000	154,540
Custody Fees	280,000	262,703
Disability Physical Exams		
Due Diligence/Conferences	10,000	2,658
Liability Insurance	27,000	25,112
Management Fees	2,100,000	1,813,347
Miscellaneous Expense	3,000	-
Refunds of Contributions	145,000	300,982
Retiree Services Fees	31,000	30,145
	<u>\$ 40,041,996</u>	<u>\$ 38,900,493</u>

ACTUARIAL SUMMARY

MEMBERSHIP DATA

	2024	2023
Retirees and Beneficiaries	949	941
Active Members	637	623
Inactive Members	76	76
Total Members	1,662	1,640

Average annual retirement allowance	\$ 39,067
Total annual retirement allowances	\$ 37,074,424

ACTUARIAL SUMMARY

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 2024 valuation, City contributions are not currently needed, as the System's assets are more than the accrued liability. The current ratio of assets to liabilities is 126.0%.

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%
2023	\$ 755,536	\$ 568,443	132.9%
2024	\$ 778,955	\$ 599,784	129.9%

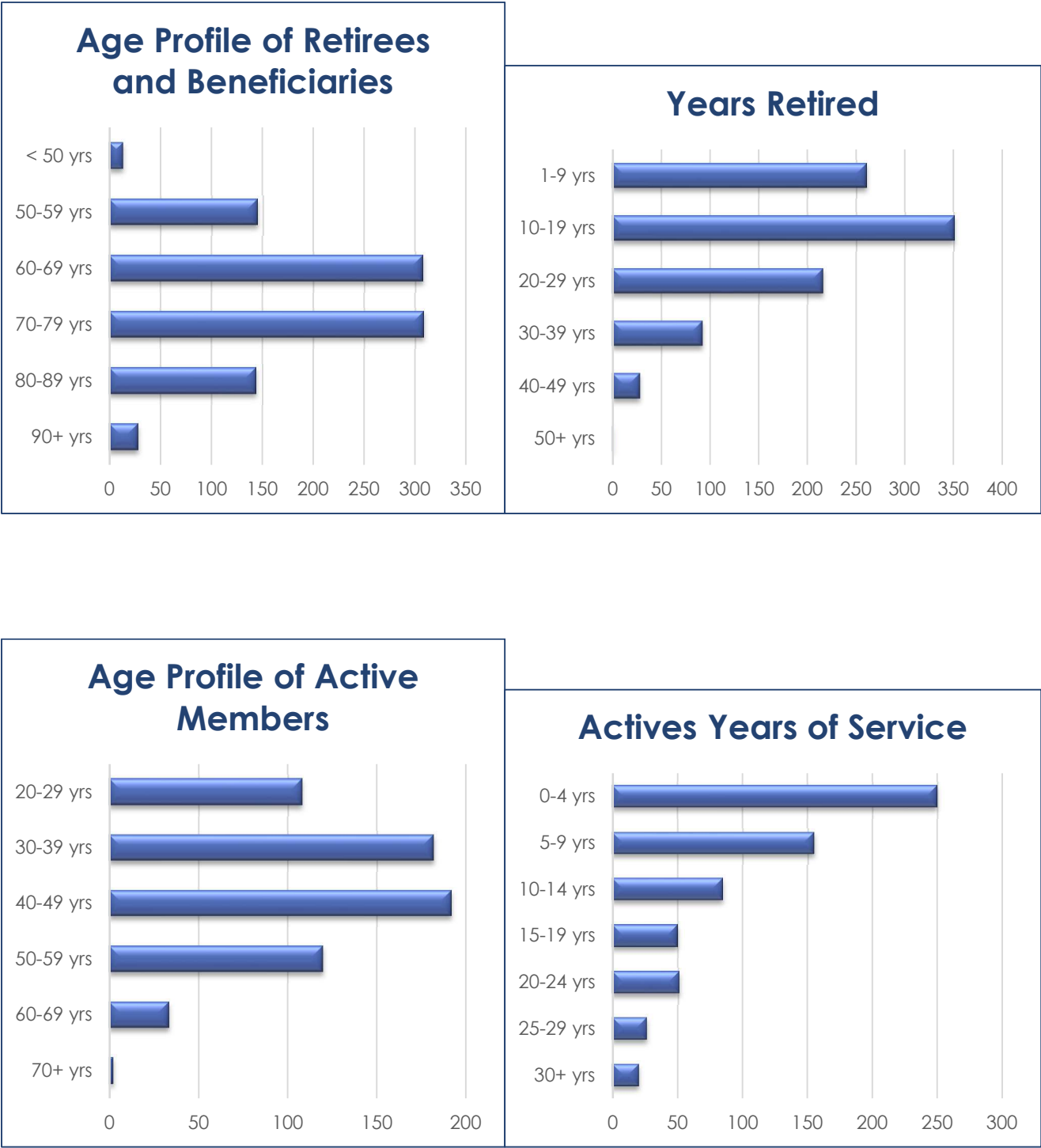
Assets and Liabilities no longer include Metro/CCTA as of 2016.

Member Contributions	
Weighted average	3.18%
Employer Contributions	
Computed Normal Cost of benefits	
expressed a a percentage of valuation payroll	16.02%
Unfunded Actuarial Accrued Liability contribution rate	
expressed a a percentage of valuation payroll	-47.99% *
Valuation Payroll	\$45,533,932

*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



PLAN ADMINISTRATION

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.

Board Members as of 12/31/24

Dr. Randall Eberts	Citizen at Large
Charles Mason	Public Safety Member
Michelle Emig	General Member
James Ritsema	City Manager - Chairman Pro Tem
Qianna Decker	City Commissioner

City of Kalamazoo Liaison: Steve Vicenzi, Chief Financial Officer

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.

Board Members as of 12/31/24

Robert Salisbury	Chair
Dr. Randall Eberts	Vice Chair
Daniel DeMent	
Dean Bergy	
Sandi Doctor	
Joshua Sledge	
Nick Griffith	

City Commission Liaison: David Anderson
City of Kalamazoo Liaison: Steve Vicenzi, Chief Financial Officer

PLAN ADMINISTRATION

ADVISORS & CONSULTANTS

Actuary	Gabriel, Roeder, Smith & Company
Attorney	Ice Miller
Auditor	Maner Costerisan
Custodian	State Street Bank and Trust
Investment Advisor	Zhang Financial

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.kalamazoocity.org.

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

City of Kalamazoo 241 West South Street Kalamazoo, MI 49007		
Lisa Brown	269-337-8472	pension@kalamazoocity.org