

# EMPLOYEES, RETIREES, AND BENEFICIARIES OF THE CITY OF KALAMAZOO, MICHIGAN 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, 2017 is presented for your information. The material presented in this report is based on financial statements as audited by Stevens, Kirinovic & Tucker, and the 2017 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 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.

A Pension plan is well funded when it has sufficient assets to meet expected future obligations to participants. At December 31, 2017, the Employees' Retirement System held investments of \$670.9 million, an increase of \$66.5 million from 2016. The investment portfolio reported a net return of 15.83% for fiscal year 2017, net of fees. The plan continues to be in an overfunded position, as the current ratio of actuarial assets to accrued liabilities is 136.8%. 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,

Melissa Fuller  
Deputy 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 under 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 in order 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 is in conflict with the investment policies, the manager is terminated.

## BlackRock

BlackRock, New York, NY, has over \$6.2 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 \$586 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 \$173.3 billion in assets and serves as the System's intermediate fixed income manager.

## RREEF Real Estate

RREEF Real Estate, Chicago, IL, has over \$63.1 billion in assets under management. The System's assets are invested in RREEF's flagship core fund, RREEF America REIT II.

## Vanguard Group, Inc.

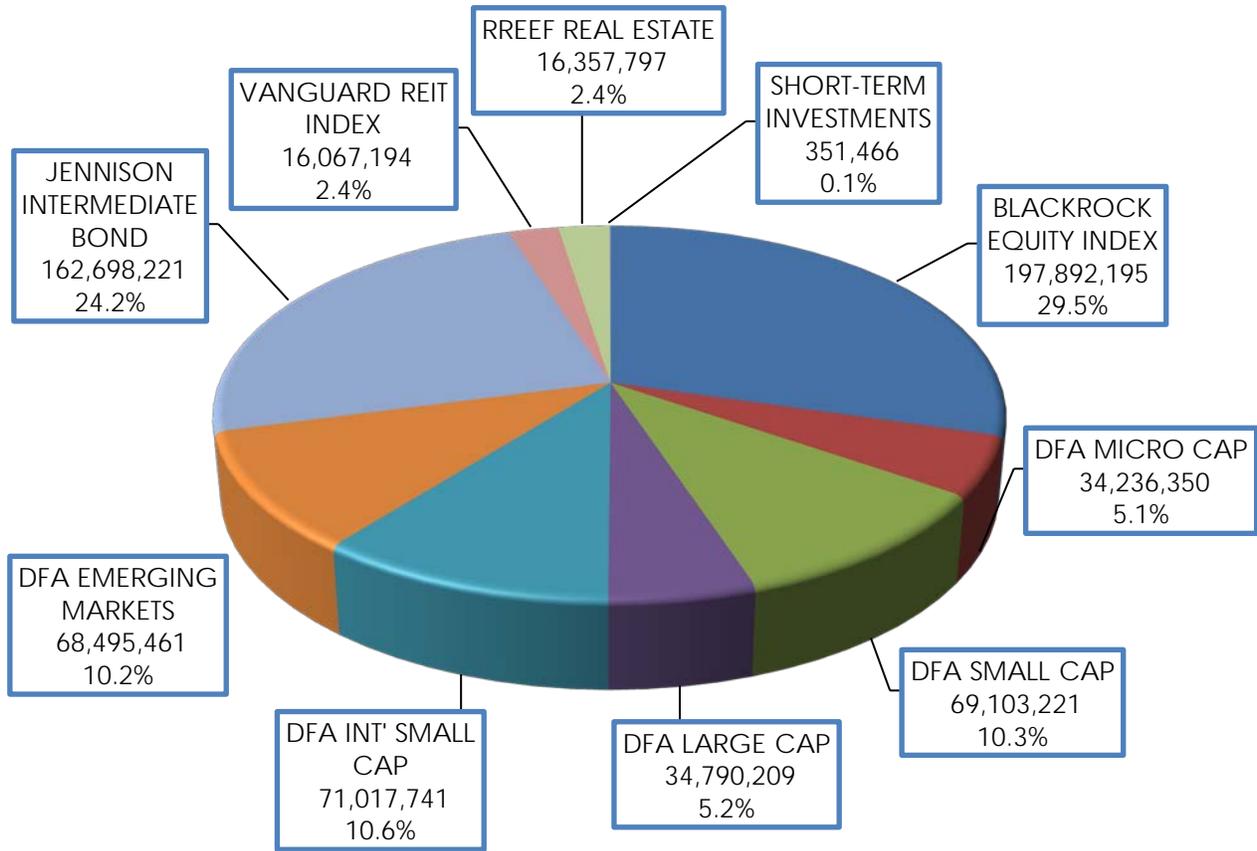
The Vanguard Group, Malvern, PA, has over \$5.1 trillion in assets under management. The System's assets are invested in Vanguard's Real Estate Investment Trust (REIT).

## State Street Bank

State Street Bank & Trust, Boston, MA, has over \$2.7 trillion in assets under administration and serves as the System's Custodian and Trustee. The balance of the System's assets is held in cash equivalents in order 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



Investments by Asset Class	
Equities	475,535,176
Fixed Income	162,698,221
Real Estate	32,424,990
Short-Term	351,466
<b>Total</b>	<b>671,009,854</b>

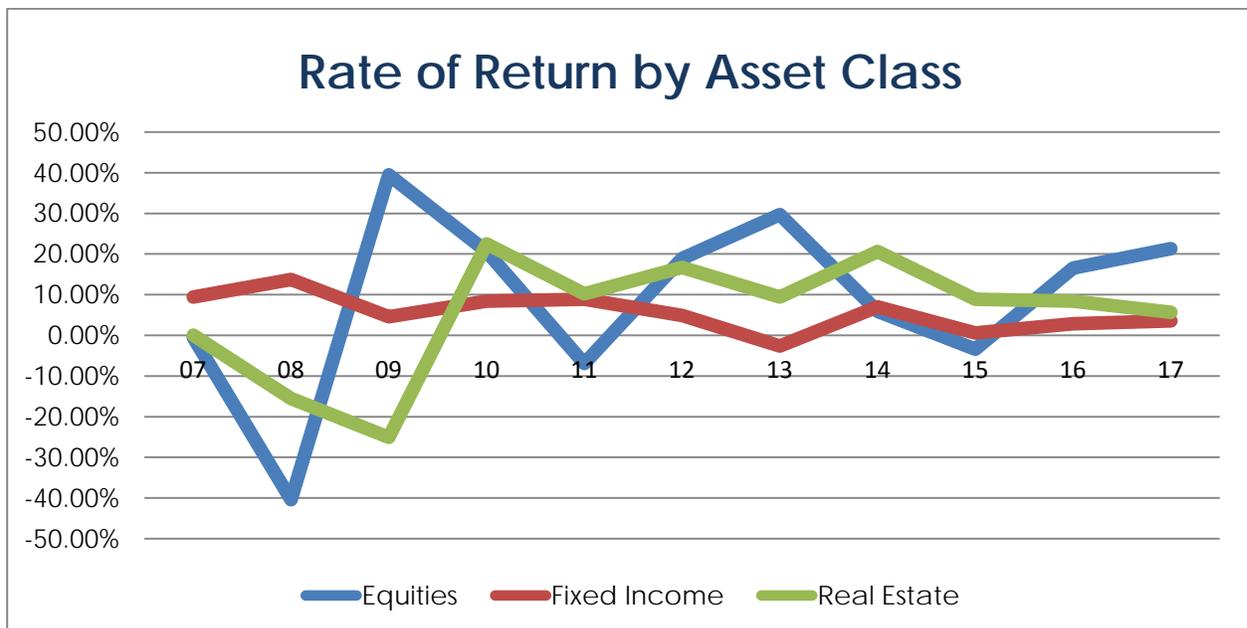
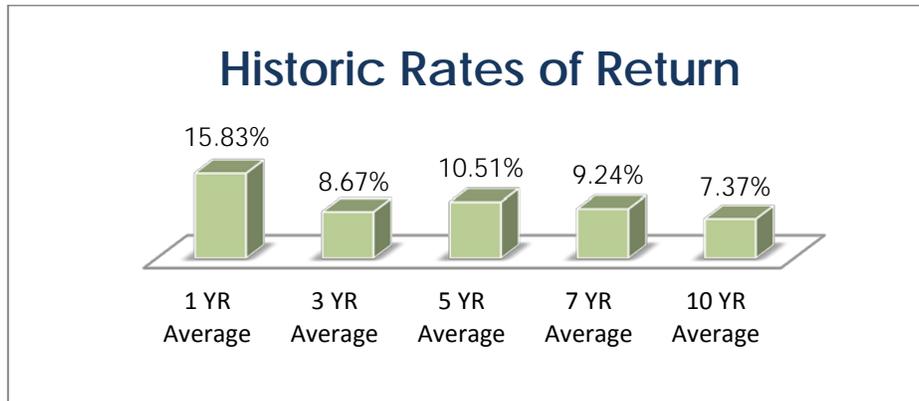


\*2016 reflects 30.3M CCTA split

# 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.

	2017 1 Year	2013-2017 5 Year	Since 1982
Nominal Rate of Return	15.83%	10.51%	11.17%
Inflation	2.11%	1.43%	2.68%
Real Rate of Return	<b>13.72%</b>	<b>9.08%</b>	<b>8.49%</b>



# FINANCIAL SUMMARY

The City of Kalamazoo Employees' Retirement System total fiduciary net position held in trust for benefits at December 31, 2017 was \$670.9 million, an 11% increase from \$604.4 million at December 31, 2016. The return received on investments was 15.83%. Favorable market conditions resulted in increased gains across all portfolios.

## STATEMENT OF PLAN NET POSITION

	2017	2016
<b>Assets</b>		
Cash and Cash Equivalents	\$ 350,464	\$ 375,575
Receivables	2,748,967	1,212,348
Investments	667,910,423	602,877,848
Total Assets	671,009,854	604,465,771
<b>Liabilities</b>		
Accounts Payable	81,894	54,339
Total Liabilities	81,894	54,339
<b>Net Position Restricted for Pension Benefits</b>	<b>\$ 670,927,960</b>	<b>\$ 604,411,432</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 2017 were \$2.5 million, which is 0.37% of market assets. Our low expense ratio is a substantial cost savings to the System.

	EXPENSE	% OF MARKET ASSETS
Investment Management fees	\$ 1,907,685	0.28%
Custodial fees	\$ 212,877	0.03%
Administrative fees	\$ 379,629	0.06%
Total	<b>\$ 2,500,191</b>	<b>0.37%</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, and general administrative costs.

## SUMMARY OF CHANGES IN PLAN NET POSITION

	2017	2016
<b>Additions</b>		
Investment Income		
Change in fair value of investments	\$ 76,768,193	\$ 58,071,951
Interest	4,177,224	3,714,047
Dividends	15,476,424	13,177,492
Investment expense	(2,120,562)	(2,023,500)
Net investment income	94,301,279	72,939,990
Contributions		
Plan Members	1,086,258	1,085,940
 Total additions to net position	 95,387,536	 74,025,930
<b>Deductions</b>		
Benefit Payments	28,407,023	28,474,218
Refunds of Contributions	84,357	22,652
Administrative Expenses	379,629	328,746
 Total deductions from net position	 28,871,009	 28,825,617
<b>Special Item</b>		
CCTA Pension spinoff	-	(30,315,942)
 <b>Net Change</b>	 66,516,528	 14,884,371
 Net position beginning of year	 604,411,432	 589,527,061
Net position end of year	\$ 670,927,960	\$ 604,411,432

# FINANCIAL SUMMARY

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## BUDGET AND EXPENSES

	2017 BUDGET	2017 ACTUAL
Actuary Fees	\$ 62,600	\$ 77,808
Admin Fees	147,099	147,099
Attorney Fees	3,000	8,728
Audit Fees	5,000	4,900
Benefit Payments	28,500,000	28,407,023
Consulting Fees	67,000	90,141
Custodial & Retiree Services Fees	219,000	212,877
Disability Physical Exams	1,000	225
Due Diligence/Conferences	20,000	5,584
Liability Insurance	20,000	42,147
Management Fees	1,779,000	1,907,685
Miscellaneous Expense	4,000	2,998
Refunds of Contributions	60,000	84,357
	<u>\$ 30,887,699</u>	<u>\$ 30,991,571</u>

# ACTUARIAL SUMMARY

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## MEMBERSHIP DATA

	2017	2016
Retirees and Beneficiaries	911	906
Active Members	572	522
Inactive Members	54	53
Total Members	1,537	1,481
Average annual retirement allowance	\$ 32,141	
Total annual retirement allowances	\$ 29,280,759	

# 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 2017 valuation, City contributions are not currently needed, as the System's assets are in excess of accrued liabilities. The current ratio of assets to liabilities is 136.8%.

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%	
2017	\$ 630,918	\$ 461,297	136.8%	

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

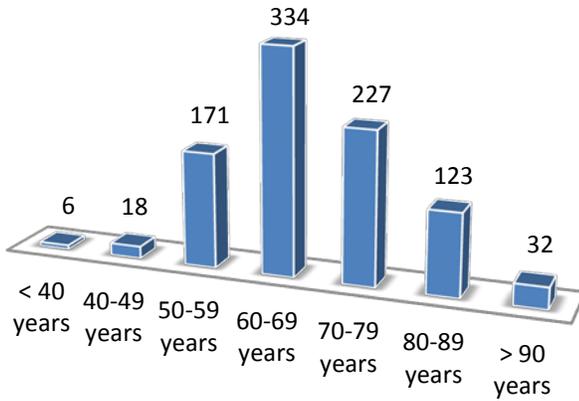
Member Contributions	
Weighted average	3.14%
Employer Contributions	
Computed Normal Cost of benefits expressed a a percentage of valuation payroll	14.63%
Unfunded Actuarial Accrued Liability contribution rate expressed a a percentage of valuation payroll	-42.60% *
Valuation Payroll	\$ 34,999,543

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

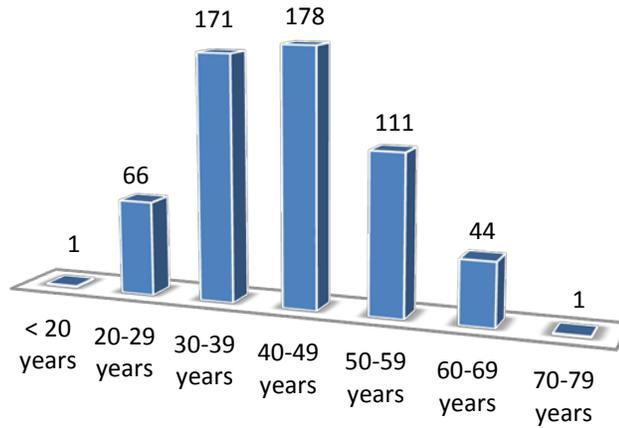
Actuary assumptions include 7.5% Investment rate of return and 3.5% Wage inflation rate. Cost Method is Entry Age, Normal.

# ACTUARIAL SUMMARY

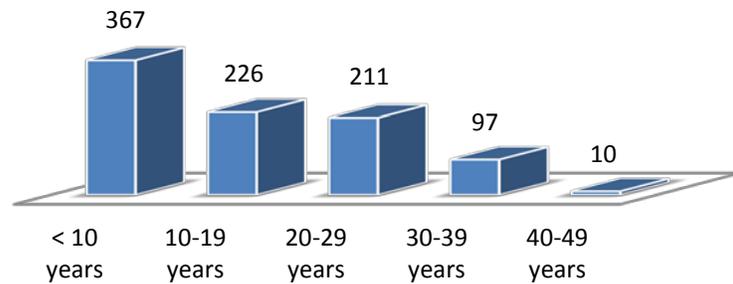
## Age Profile of Retirees and Beneficiaries



## Age Profile of Active Members



## Years Retired



# 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.

Board Members		Term Expires
Dr. Randall Eberts	Citizen at Large	3/31/2021
Thomas Maher	Public Safety Member	3/31/2020
Robert Bauckham	General Member	3/31/2019
James Ritsema	City Manager - Chairman Pro Tem	
Vacant	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.

Board Members		Term Expires
Robert Salisbury	Chair	3/31/2020
Dr. Randall Eberts	Vice Chair	3/31/2020
Daniel DeMent		3/31/2020
Janice Van Der Kley		3/31/2019
Dean Bergy		3/31/2019
Sandi Doctor		3/31/2019
Joel Wittenberg		3/31/2019

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	Stevens, Kirinovic & Tucker, P.C.
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 or need information regarding the Retirement System, please contact:

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City of Kalamazoo  
241 West South Street  
Kalamazoo, MI 49007

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