

# 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, 2018 is presented for your information. The material presented in this report is based on financial statements as audited by Maner Costerisan, and the 2018 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, 2018, the Employees' Retirement System held investments of \$594.4 million, a decrease of \$76.6 million from 2017. The investment portfolio reported a net return of -7.36% for fiscal year 2018, net of fees. Despite extreme volatility in global markets in 2018, which ended in a down year for both stocks and bonds, the plan continues to be in an overfunded position. The current ratio of actuarial assets to accrued liabilities is 134.7%. 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 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 \$6.5 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 \$576 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 \$176.4 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.

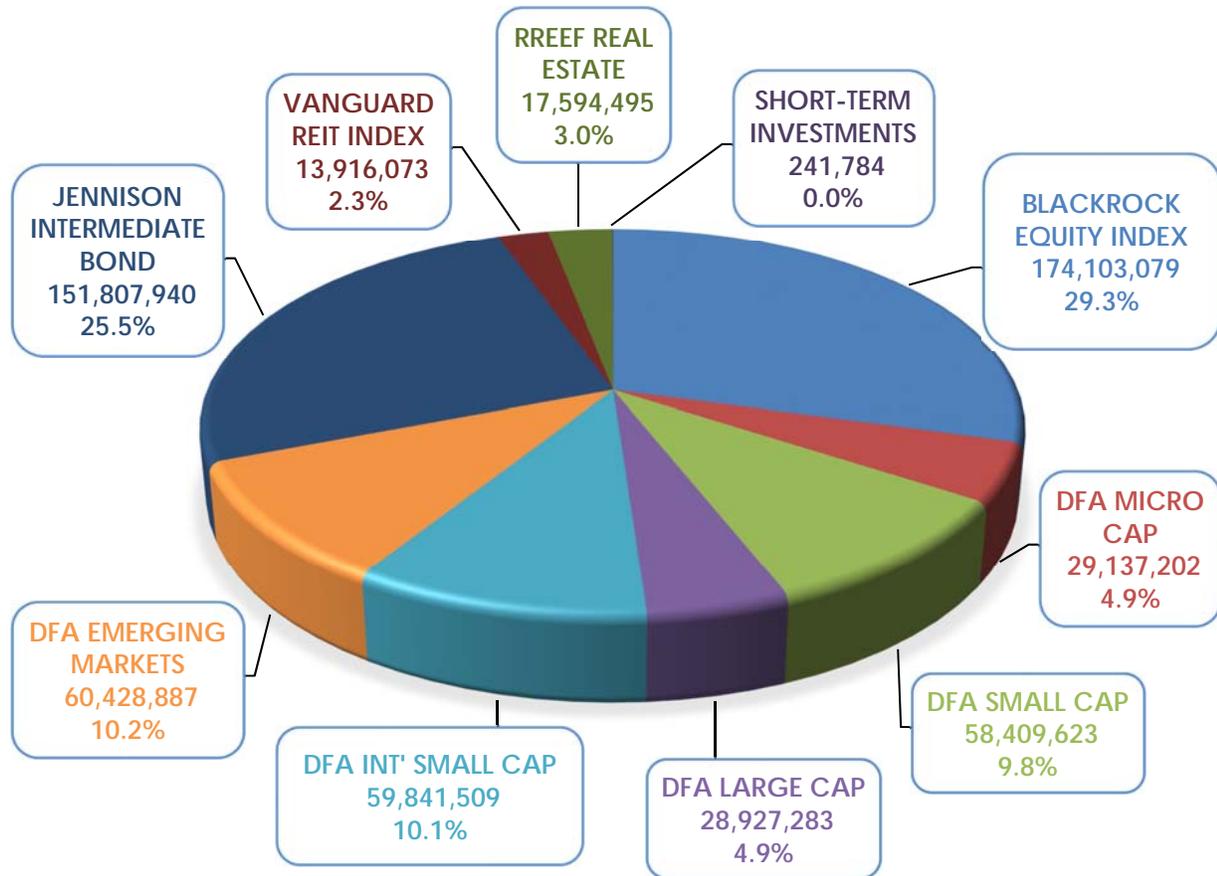
The Vanguard Group, Malvern, PA, has over \$5.3 trillion in assets under management. The System's assets are invested in Vanguard's Real Estate Investment Trust (REIT).

## State Street Bank

State Street Bank & Trust, Boston, MA, has over \$2.5 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	410,847,583
Fixed Income	151,807,940
Real Estate	31,510,568
Short-Term	241,784
<b>Total</b>	<b>594,407,874</b>

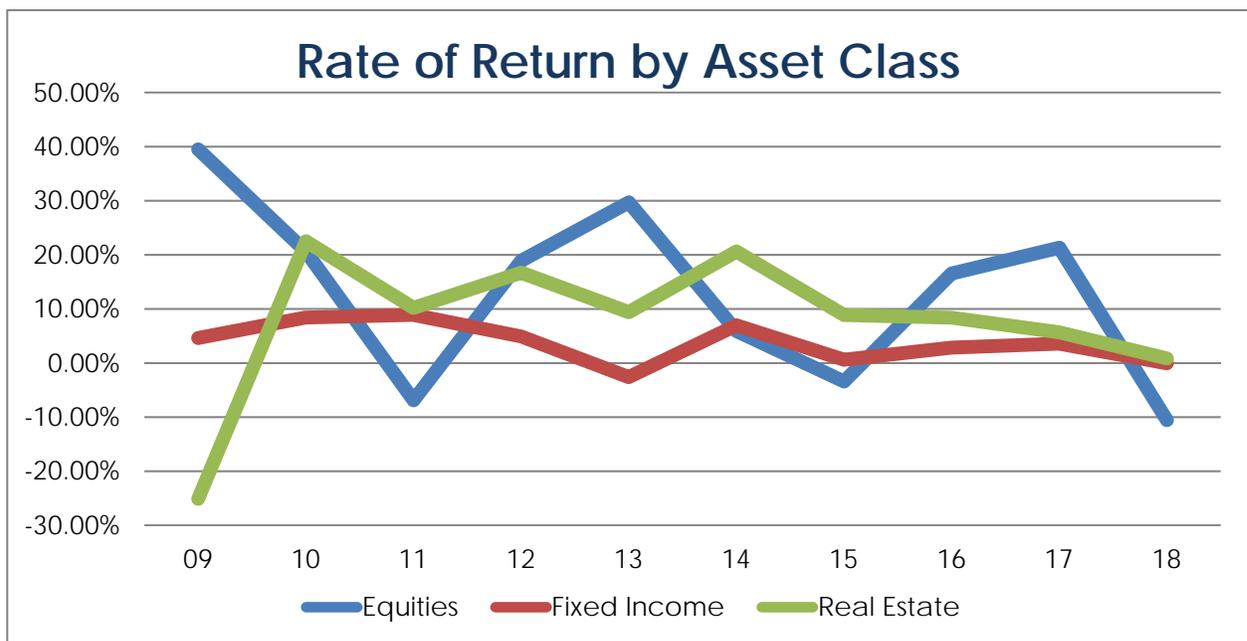
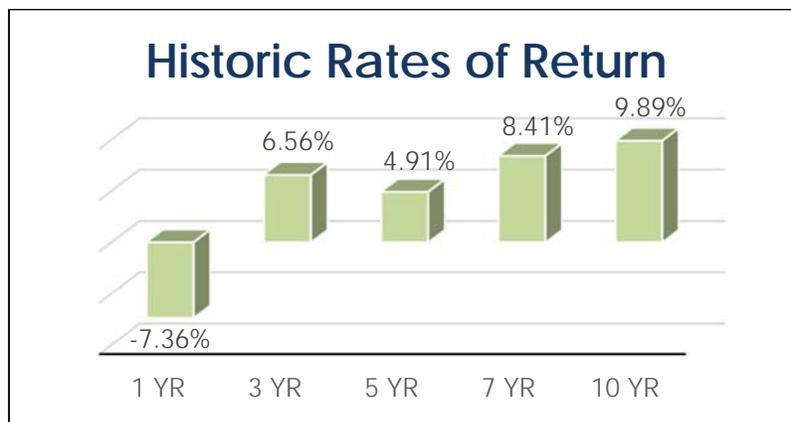


\*2016 reflects 30.3M CCTA split

# 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.

	2018 1 Year	2014-2018 5 Year	Since 1982
Nominal Rate of Return	-7.36%	4.91%	10.62%
Inflation	1.91%	1.52%	2.66%
Real Rate of Return	<b>-9.27%</b>	<b>3.39%</b>	<b>7.96%</b>



# FINANCIAL SUMMARY

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The City of Kalamazoo Employees' Retirement System total fiduciary net position held in trust for benefits at December 31, 2018 was \$594.3 million, an 11% decrease from \$670.9 million at December 31, 2017. The return received on investments was -7.36%. Unfavorable market conditions resulted in losses across all portfolios except for Real Estate, which showed a modest return.

## STATEMENT OF PLAN NET POSITION

	2018	2017
<b>Assets</b>		
Cash and Cash Equivalents	\$ 239,863	\$ 350,464
Receivables	1,239,153	2,748,967
Investments	<u>592,928,859</u>	<u>667,910,423</u>
Total Assets	594,407,875	671,009,854
<b>Liabilities</b>		
Accounts Payable	<u>36,462</u>	<u>81,894</u>
Total Liabilities	36,462	81,894
<b>Net Position Restricted for Pension Benefits</b>	<u>\$ 594,371,413</u>	<u>\$ 670,927,960</u>

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 2018 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 MARKET ASSETS
Investment Management fees	\$ 2,003,554	0.34%
Custodial fees	\$ 199,783	0.03%
Administrative fees	<u>\$ 394,032</u>	<u>0.07%</u>
Total	<u>\$ 2,597,369</u>	<u>0.44%</u>

# 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

	2018	2017
<b>Additions</b>		
Investment Income		
Change in fair value of investments	\$ (64,225,595)	\$ 76,768,193
Interest	4,332,926	4,177,224
Dividends	14,655,285	15,476,424
Investment expense	(2,203,337)	(2,120,562)
Net investment income	(47,440,721)	94,301,279
Contributions		
Plan Members	1,209,623	1,086,258
Total additions to net position	(46,231,098)	95,387,536
<b>Deductions</b>		
Benefit Payments	29,858,901	28,407,023
Refunds of Contributions	72,516	84,357
Administrative Expenses	394,032	379,629
Total deductions from net position	30,325,449	28,871,009
<b>Net Change</b>	(76,556,547)	66,516,528
Net position beginning of year	670,927,960	604,411,432
Net position end of year	\$ 594,371,413	\$ 670,927,960

# FINANCIAL SUMMARY

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## BUDGET AND EXPENSES

	<b>2018 BUDGET</b>	<b>2018 ACTUAL</b>
Actuary Fees	\$ 75,000	\$ 71,013
Admin Fees	147,100	147,100
Attorney Fees	3,000	11,819
Audit Fees	5,100	5,100
Benefit Payments	28,500,000	29,858,901
Consulting Fees	100,000	154,380
Custodial & Retiree Services Fees	220,000	199,783
Disability Physical Exams	1,000	-
Due Diligence/Conferences	10,000	4,510
Management Fees	1,850,000	2,003,554
Miscellaneous Expense	3,500	110
Refunds of Contributions	65,000	72,516
	<b>\$ 30,979,700</b>	<b>\$ 32,528,785</b>

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# ACTUARIAL SUMMARY

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## MEMBERSHIP DATA

	<b>2018</b>	<b>2017</b>
Retirees and Beneficiaries	903	911
Active Members	573	572
Inactive Members	66	54
Total Members	1,542	1,537

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Average annual retirement allowance	\$ 33,135
Total annual retirement allowances	\$ 29,921,183

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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 2018 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 134.7%.

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%
2018	\$ 639,298	\$ 474,712	134.7%

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	14.80%
Unfunded Actuarial Accrued Liability contribution rate	
expressed a a percentage of valuation payroll	-37.13% *
Valuation Payroll	\$ 37,425,219

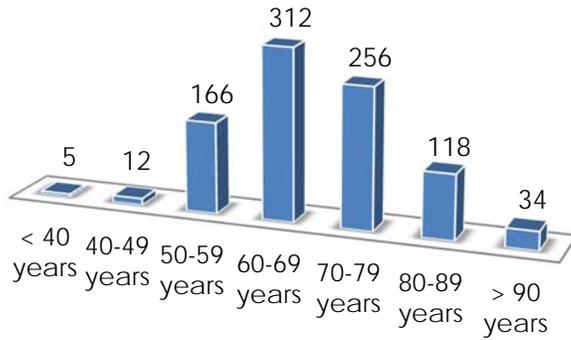
\*The overfunded liability is currently supporting pension costs that would otherwise require City contributions.

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

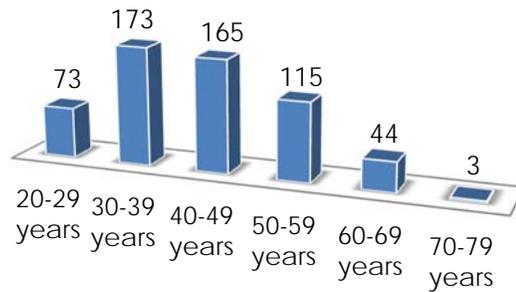
# ACTUARIAL SUMMARY

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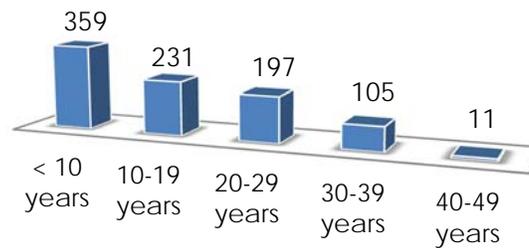
## Age Profile of Retirees and Beneficiaries



## 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.

<u>Board Members</u>		<u>Term Expires</u>
Dr. Randall Eberts	Citizen at Large	3/31/2021
Thomas Maher	Public Safety Member	3/31/2020
Michelle Emig	General Member	3/31/2022
James Ritsema	City Manager - Chairman Pro Tem	
Vacant	City Commissioner	

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## 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	3/31/2020
Dr. Randall Eberts	Vice Chair	3/31/2020
Daniel DeMent		3/31/2020
Janice Van Der Kley		3/31/2022
Dean Bergy		3/31/2022
Sandi Doctor		3/31/2022

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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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