

# 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, 2019 is presented for your information. The material presented in this report is based on financial statements as audited by Maner Costerisan, and the 2019 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, 2019, the Employees' Retirement System held investments of \$677.1 million, an increase of \$82.7 million from 2018. The investment portfolio reported a net return of 19.27% for fiscal year 2019, net of fees. US stocks soared to record highs in December, and global markets posted their best returns in a decade. The plan continues to be in an overfunded position; the current ratio of actuarial assets to accrued liabilities is 130.5%. 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 \$7.4 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 \$609 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 \$173.2 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.**

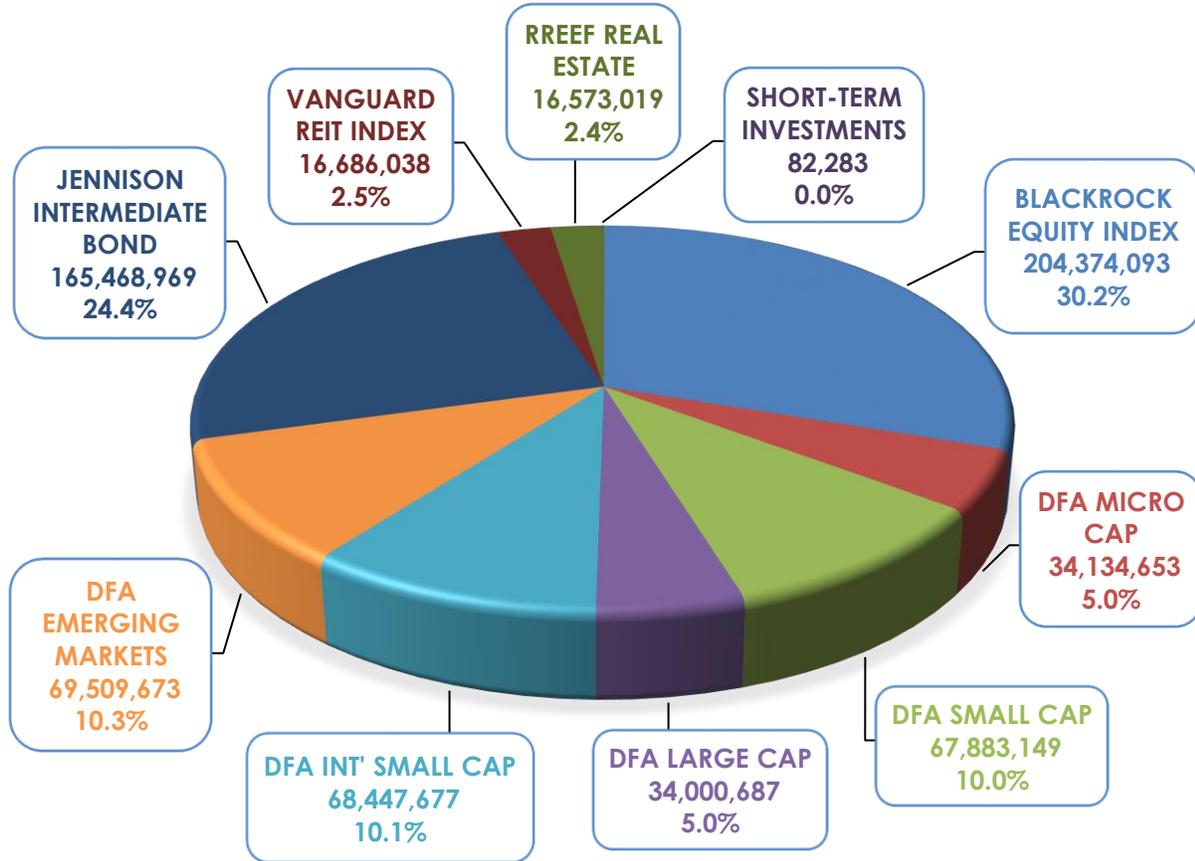
The Vanguard Group, Malvern, PA, has over \$6.2 trillion in assets under management. The System's assets are invested in Vanguard's Real Estate Investment Trust (REIT).

## **State Street Bank**

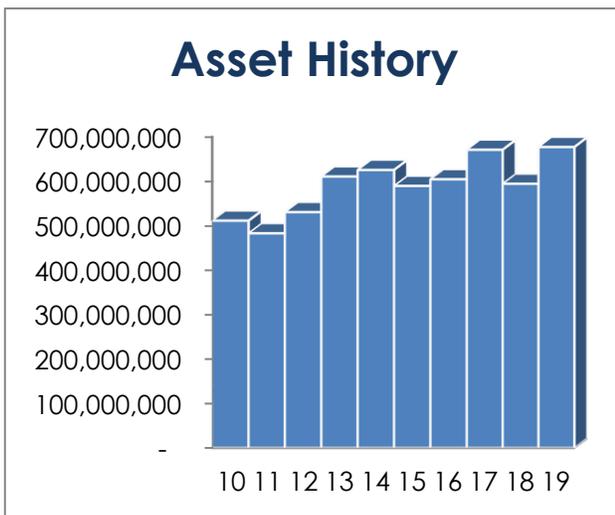
State Street Bank & Trust, Boston, MA, has over \$3.1 trillion in assets under management and serves as the System's Custodian and Trustee. The balance of the System's assets is held in cash equivalents in order to meet monthly benefit payments and administrative expenses. State Street Bank safeguards 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



## Asset History



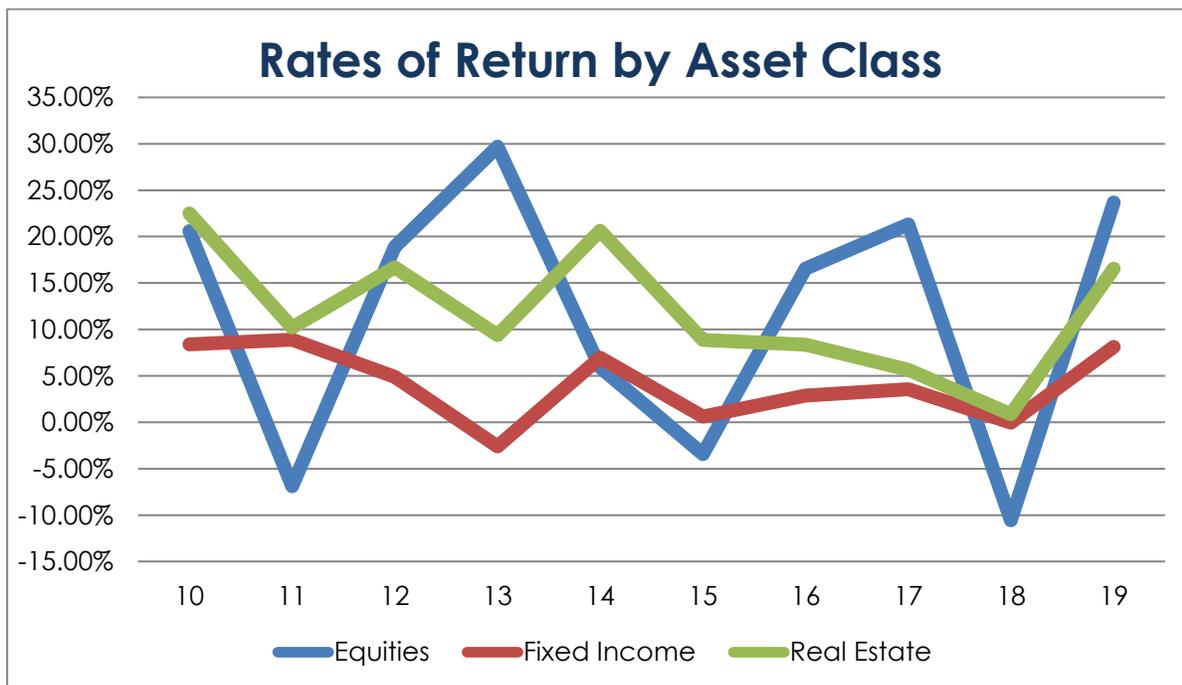
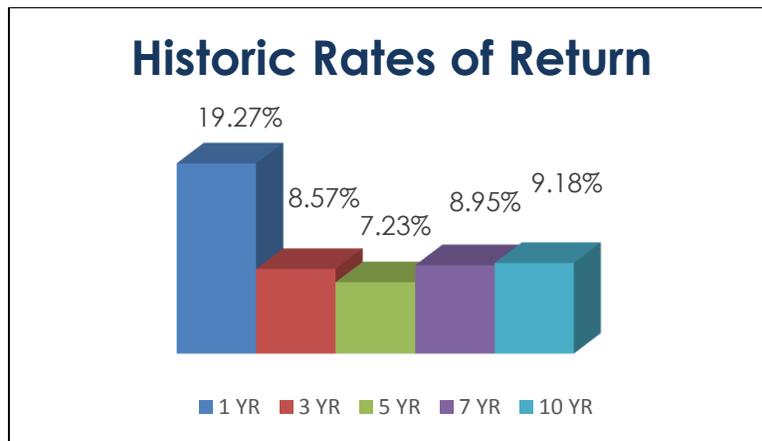
\*2016 reflects 30.3M CCTA split

Investments by Asset Class	
Equities	478,349,931
Fixed Income	165,468,969
Real Estate	33,259,057
Short-Term	82,283
<b>Total</b>	<b>677,160,239</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.

	2019 1 Year	2015-2019 5 Year	Since 1982
Nominal Rate of Return	19.27%	7.23%	10.84%
Inflation	2.29%	1.82%	2.62%
Real Rate of Return	<b>16.98%</b>	<b>5.41%</b>	<b>8.22%</b>



# FINANCIAL SUMMARY

The City of Kalamazoo Employees' Retirement System total fiduciary net position held in trust for benefits at December 31, 2019 was \$677.1 million, a 13.9% increase from \$594.3 million at December 31, 2018. The return received on investments was 19.27%. Favorable market conditions resulted in gains across all portfolios.

## STATEMENT OF PLAN NET POSITION

	2019	2018
<b>Assets</b>		
Cash and Cash Equivalents	\$ 81,099	\$ 239,863
Receivables	2,966,890	1,239,153
Investments	674,112,250	592,928,859
<b>Total Assets</b>	<b>677,160,239</b>	<b>594,407,875</b>
<b>Liabilities</b>		
Accounts Payable	20,971	36,462
<b>Total Liabilities</b>	<b>20,971</b>	<b>36,462</b>
<b>Net Position Restricted for Pension Benefits</b>	<b>\$ 677,139,268</b>	<b>\$ 594,371,413</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 2019 were \$2.6 million, which is 0.45% of market assets. Our low expense ratio is a substantial cost savings to the System.

	EXPENSE	% OF MARKET ASSETS
Investment Management fees	\$ 2,003,323	0.34%
Custodial fees	\$ 213,484	0.04%
Administrative fees	\$ 449,839	0.08%
<b>Total</b>	<b>\$ 2,666,647</b>	<b>0.45%</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>2019</b>	<b>2018</b>
<b>Additions</b>		
Investment Income		
Change in fair value of investments	\$ 98,769,881	\$ (64,225,595)
Interest	4,503,471	4,332,926
Dividends	11,136,626	14,655,285
Investment expense	(2,216,808)	(2,203,337)
Net investment income	112,193,171	(47,440,721)
Contributions		
Plan Members	1,238,420	1,209,623
	113,431,591	(46,231,098)
<b>Deductions</b>		
Benefit Payments	30,034,033	29,858,901
Refunds of Contributions	179,863	72,516
Administrative Expenses	449,839	394,032
	30,663,735	30,325,449
<b>Net Change</b>	82,767,856	(76,556,547)
Net position beginning of year	594,371,413	670,927,960
Net position end of year	\$ 677,139,269	\$ 594,371,413

# FINANCIAL SUMMARY

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## BUDGET AND EXPENSES

	<b>2019 BUDGET</b>	<b>2019 ACTUAL</b>
Actuary Fees	\$ 75,000	\$ 53,227
Admin Fees	220,934	220,934
Attorney Fees	10,000	-
Audit Fees	5,300	5,300
Benefit Payments	30,000,000	30,034,033
Consulting Fees	155,000	154,380
Custodial & Retiree Services Fees	225,000	224,963
Disability Physical Exams	1,000	-
Due Diligence/Conferences	10,000	4,519
Management Fees	2,000,000	2,003,323
Miscellaneous Expense	3,500	-
Refunds of Contributions	65,000	179,863
	<u>\$ 32,770,734</u>	<u>\$ 32,880,543</u>

# ACTUARIAL SUMMARY

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## MEMBERSHIP DATA

	<b>2019</b>	<b>2018</b>
Retirees and Beneficiaries	903	903
Active Members	596	573
Inactive Members	68	66
Total Members	1,567	1,542

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Average annual retirement allowance \$ 34,149

Total annual retirement allowances \$ 30,836,572

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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 2019 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 130.5%.

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%
2019	\$ 661,056	\$ 506,516	130.5%

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

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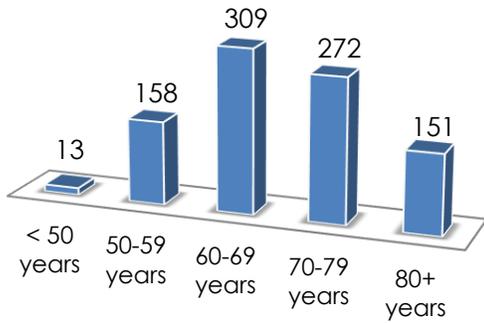
Member Contributions	
Weighted average	3.21%
Employer Contributions	
Computed Normal Cost of benefits expressed a a percentage of valuation payroll	14.80%
Unfunded Actuarial Accrued Liability contribution rate expressed a a percentage of valuation payroll	-37.13% *
Valuation Payroll	\$37,425,219

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

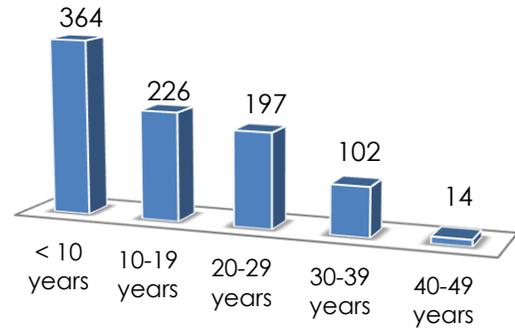
Actuary assumptions include 7.5% Investment rate of return and 3.5% Wage inflation rate. Cost Method is Entry Age, Normal.

# ACTUARIAL SUMMARY

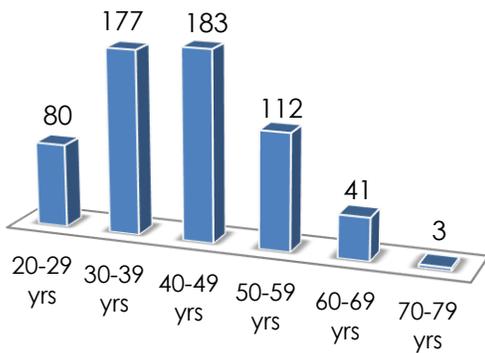
## Age Profile of Retirees and Beneficiaries



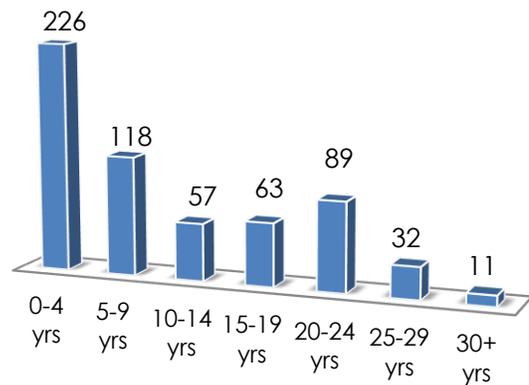
## Years Retired



## Age Profile of Active Members



## Active Members Years of Service



# 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
*pending election results	Public Safety Member	vacant
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
Janice Van Der Kley		3/31/2022
Dean Bergy		3/31/2022
Sandi Doctor		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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