



**CITY OF BATTLE CREEK**  
**POLICEMEN AND FIREMEN RETIREMENT**  
**SYSTEM**



**ANNUAL REPORT AS OF JUNE 30, 2016**

The name of the retirement system is ‘City of Battle Creek Policemen and Firemen Retirement System’ and often referred to as Police and Fire Pension Fund/System in other publications. Further reference within this document shall be “P&F Pension Fund.”

**Board of Trustees**

|                                   |                       |                            |
|-----------------------------------|-----------------------|----------------------------|
| Joseph Newman, Chair              | Commission appointee  | term to expire 6/30/2019   |
| Stanley Chubinski, Vice Chair     | Commission appointee  | term to expire 6/30/2017   |
| Gail Budrow-Bradstreet, Treasurer | per Public Act 345    | Ex-Officio – no expiration |
| Capt. John Hausman, Trustee       | Fire Representative   | term to expire 6/30/2020   |
| Officer Doug Bagwell, Trustee     | Police Representative | term to expire 6/30/2018   |

The five-member Retirement Board are either elected or appointed in accordance with Public Act 345 of 1937 (“the Act). Two members shall be appointed by the legislative body of the city (the Commission) upon completing an application to serve. One member is an active member of the retirement system and elected by a majority vote of the active members of the police department. One member is an active member of the retirement system and elected by a majority vote of the active members of the fire department. The treasurer of the city is a member per the Act. All terms are four years.

**Investment Fiduciaries**

|                                     |  |
|-------------------------------------|--|
| Comerica Bank – Custodial Bank      | Earnest Partners Intermediate Duration |
| Harding Loevner International ADR   | Lazard Int’l Equity Select w/EM ADR    |
| Loomis Sayles Fixed Income          | Richmond Capital 1-10 Year TIPS        |
| The Boston Partners Large Cap Value | The Boston Partners Small Cap Value    |
| The Boston Company Large Cap Growth | Westfield Capital Mid Cap Growth       |
| World Asset Management 500 Index    |  |

**Actuary & Investment Consultant**

Gabriel Roeder Smith & Company – Actuary  
 Plante Moran Financial Advisors – Financial/Investment Consultant

**Legal Counsel**

Michael VanOverbeke  
 VanOverbeke, Michaud and Timmony, PC

**COMPARATIVE SUMMARY RESULTS**  
**of the June 30, 2014,**  
**June 30, 2015 and June 30, 2016 Actuarial Valuation Reports**

The objective of the P&F Pension Fund is to establish and receive contributions, expressed as percents of active member payroll, which will remain approximately level from year-to-year and will not have to be increased for future generations of citizens. This objective meets the requirements of Act No. 345 of the Public Acts of 1937, as amended, and the Michigan constitution.

To determine an appropriate Employer contribution level for the ensuing year and to gauge how the P&F Pension Fund's funding is meeting this fundamental objective, an independent firm of actuaries, Gabriel Roeder Smith & Company, conducts annual actuarial valuations.

These valuations are based on the P&F Pension Fund's past experience, information about current members, financial markets and assumptions concerning the future demographic and economic activity. The results of the June 30, 2015 valuation, June 30, 2016 valuation, based on the established funding objective, are summarized below:

**Employer Contribution Rates**  
**As a Percentage of Active Member Payroll**

| <b>Contributions to Provide Benefits</b> | <b>June 30, 2017</b> | <b>June 30, 2016</b> | <b>June 30, 2015</b> |
|--|----------------------|----------------------|----------------------|
| Normal Cost: Total                       | 26.10%               | 24.79%               | 26.26%               |
| Amortization Payment – Initial Unfunded  | 13.45%               | 12.91%               | 10.73%               |
| Total Contribution Requirement           | 39.55%               | 37.70%               | 37.02%               |
| Member Contribution – Average            | 8.54%                | 7.81%                | 7.81%                |
| Computed Employer Rate                   | 31.01%               | 29.89%               | 29.21%               |

**Funded Status**

|                             | <b>June 30, 2016</b> | <b>June 30, 2015</b> | <b>June 30, 2014</b> |
|-----------------------------|----------------------|----------------------|----------------------|
| Actuarial Accrued Liability | \$171,939,000        | \$166,935,000        | \$154,038,000        |
| Actuarial Value of Assets   | \$135,408,000        | \$131,758,000        | \$125,527,000        |
| Funded Ratio                | 78.8%                | 78.9%                | 81.5%                |

# INVESTMENT PERFORMANCE

Plante Moran Financial Advisors

PORTFOLIO ACTIVITY REPORT

## City of Battle Creek Police and Fire Retirement System

Performance Account(s)

|   | 12/31/2015<br>To<br>12/31/2016 | 12/31/2013<br>To<br>12/31/2016 | 12/31/2011<br>To<br>12/31/2016 |
|---|--------------------------------|--------------------------------|--------------------------------|
| Beginning Portfolio Value with Accrued Interest | 129,385,000                    | 126,985,414                    | 107,138,601                    |
| Net Contributions/Withdrawals                   | -4,280,061                     | -10,943,099                    | -18,995,860                    |
| Realized Gains                                  | -413,312                       | -48,377                        | 13,935,497                     |
| Unrealized Gains                                | 5,602,802                      | 9,681,271                      | 19,704,238                     |
| Interest and Dividends                          | 5,602,802                      | 8,665,351                      | 13,745,095                     |
| Management Fees                                 | -458,975                       | -1,416,458                     | -2,513,505                     |
| Portfolio Fees                                  | -66,770                        | -160,834                       | -250,797                       |
| Portfolio Value with Accrued Interest           | <u>132,878,552</u>             | <u>132,878,552</u>             | <u>132,878,552</u>             |
| Total Fees                                      | -525,745                       | -1,577,291                     | -2,764,303                     |
| Total Gain After Fees                           | 7,774,840                      | 16,720,953                     | 44,620,527                     |
| Time Weighted Return                            | 6.14%                          | 13.68%                         | 43.72%                         |
| Annualized Return                               | 6.14%                          | 4.37%                          | 7.54%                          |
| Evaluation Benchmark                            | 6.90%                          | 14.37%                         | 43.11%                         |
| Annualized Benchmark                            | 6.90%                          | 4.58%                          | 7.44%                          |
| <b>Cumulative Market Indices</b>                |                                |                                |                                |
| Barclays Capital U.S. Aggregate Bond Index      | 2.65%                          | 9.37%                          | 11.67%                         |
| S&P 500 Index                                   | 11.96%                         | 29.05%                         | 98.18%                         |
| MSCI EAFE (USD) Index                           | 1.00%                          | -4.73%                         | 37.22%                         |

## SUMMARY OF CURRENT ASSET INFORMATION

### *Revenues & Expenses*

|                                     | <u>2015-16*</u>      | <u>2014-15*</u>      | <u>2013-14</u>      |
|-------------------------------------|----------------------|----------------------|---------------------|
| Market Value – July 1*              | \$ 133,850,434       | \$ 133,938,665       | \$121,026,984       |
| <b>Revenues:</b>                    |                      |                      |                     |
| Member Contributions                | \$ 1,077,632         | \$ 1,076,523         | \$ 991,792          |
| Employer Contributions              | \$ 4,664,957         | \$ 4,612,446         | \$ 4,316,203        |
| Interest & dividends                | \$ 2,841,493         | \$2,941,508          | \$ 2,727,504        |
| Realized and Unrealized Gain (Loss) | \$ 221,390           | \$ 2,210,591         | \$14,477,569        |
| <b>Total Revenues</b>               | <b>\$ 8,805,472</b>  | <b>\$ 10,841,068</b> | <b>\$22,513,068</b> |
| <b>Expenditures:</b>                |                      |                      |                     |
| Refunds of Member contributions     | \$ 3,067             | \$ 22,952            | \$ 47,356           |
| Retirement Benefits Paid Out        | \$ 9,441,511         | \$ 9,362,852         | \$ 8,389,950        |
| Administrative Expenses             | \$ 216,729           | \$ 200,499           | \$ 197,492          |
| Health Insurance premiums           | \$ 500,000           | \$ 1,018,000         | \$ 512,795          |
| Investment Expense                  | \$ 445,606           | \$ 324,996           | \$ 453,794          |
| <b>Total Expenses</b>               | <b>\$ 10,606,913</b> | <b>\$ 10,929,299</b> | <b>\$ 9,601,387</b> |
| Market Value – June 30              | \$ 132,048,993       | \$133,850,434        | \$133,938,665       |

\*Revised

## Annual Budget July 1 through June 30

| <b>REVENUE</b>         | <b>2016/2017</b>     | <b>2015/2016</b>     |
|------------------------|----------------------|----------------------|
| Member Contributions   | 1,200,000            | 1,020,000            |
| Employer Contributions | 4,300,000            | 4,654,884            |
| Investment Income      |                      |                      |
| Interest               | 2,030,000            | 1,934,667            |
| Dividends              | 682,000              | 901,000              |
| Realized Gains         | 2,623,000            | 2,203,889            |
| Unrealized Gain        | (400,000)            | (600,000)            |
| Other                  |                      |                      |
| Class Action/Spinoffs  | 0                    | 0                    |
| Securities Lending     | 14,000               | 14,000               |
| Corporate Actions      | 0                    | 0                    |
| Health Contribution    | 500,000              | 500,000              |
| <b>TOTAL REVENUES</b>  | <b>\$ 10,958,000</b> | <b>\$ 10,247,664</b> |

| <b>EXPENDITURES</b>             | <b>2015/2016</b>     | <b>2014/2015</b>    |
|---------------------------------|----------------------|---------------------|
| Benefit Payments                | \$ 9,100,000         | \$ 8,729,000        |
| Health Insurance                | 500,000              | 500,000             |
| Refunds of Member Contributions | 0                    | 0                   |
| Administrative Expense:         |                      |                     |
| Counseling Fees                 | 95,289               | 88,000              |
| Investment Management Fees      | 480,000              | 480,000             |
| Custody Fees                    | 45,000               | 45,000              |
| Audit & Actuary                 | 18,400               | 18,400              |
| Legal Fees                      | 2,000                | 2,000               |
| Memberships                     | 125                  | 100                 |
| Conference Expense              | 4,000                | 4,000               |
| <b>TOTAL EXPENSES</b>           | <b>\$ 10,247,664</b> | <b>\$ 9,732,094</b> |

## MEMBER and RETIREE DATA

| <b>ACTIVE MEMBERS</b>                      | <u>2016</u> | <u>2015</u> | <u>2014</u> |
|--|-------------|-------------|-------------|
| Police:                                    |             |             |             |
| Lieutenants                                | 4           | 3           | 3           |
| Sergeants (POLC)                           | 16          | 14          | 15          |
| Non-Supervisory (POLC)                     | 80          | 86          | 84          |
| Non-Represented                            | 6           | 6           | 3           |
| Fire:                                      |             |             |             |
| Chiefs (OSP)                               | 4           | 1           | 2           |
| Firefighters (IAFF)                        | 77          | 77          | 74          |
| Non-Represented                            | 1           | 1           | 1           |
| <b>RETIREES</b>                            | <u>2016</u> | <u>2015</u> | <u>2014</u> |
| Age & Service Benefits:                    |             |             |             |
| Straight Life benefit-terminates @ death   | 47          | 49          | 46          |
| Straight Life benefit-60% survivor benefit | 163         | 166         | 167         |
| Option 2 benefit-50% joint & survivor      | 1           | 1           | 1           |
| Survivor benefit (retiree deceased)        | 30          | 28          | 30          |
| Casualty Benefits                          |             |             |             |
| Duty Disability benefits                   | 4           | 4           | 3           |
| Non-duty Disability benefits               | 2           | 1           | 1           |
| Non-duty Death benefits                    | 3           | 3           | 3           |

| <b>ANNUAL BENEFITS</b> | <u>Age &amp; Service Retirees</u> | <u>Disability Retirees</u> | <u>Survivor Beneficiaries</u> |
|------------------------|-----------------------------------|----------------------------|-------------------------------|
| 2016                   |                                   |                            |                               |
| Number of              | 210                               | 6                          | 34                            |
| Total benefits paid    | \$8,693,339                       | \$134,573                  | \$618,276                     |
| 2015                   |                                   |                            |                               |
| Number of              | 215                               | 5                          | 32                            |
| Total benefits paid    | \$8,750,843                       | \$122,225                  | \$566,996                     |
| 2014                   |                                   |                            |                               |
| Number of              | 214                               | 4                          | 33                            |
| Total benefits paid    | \$8,531,164                       | \$93,452                   | \$545,511                     |

### **COMPUTED AND ACTUAL CITY CONTRIBUTIONS COMPARATIVE STATEMENT**

| Fiscal Year | Valuation Date<br>June 30 | Actual Dollar Contribution | Valuation Payroll | City's Computed % of payroll Contributions |
|-------------|---------------------------|----------------------------|-------------------|--|
| 2017/18     | 2016                      | N/A                        | \$13,470,636      | 31.01%                                     |
| 2016/17     | 2015                      | N/A                        | \$13,495,955      | 29.89%                                     |
| 2015/16     | 2014                      | \$4,664,957                | \$12,656,141      | 29.21%                                     |

### **BATTLE CREEK P&F ASSET CLASS RETURN ASSUMPTIONS**

| <u>Asset Class</u>            | <u>Projected Real Returns (2017-2026)</u> |
|-------------------------------|---|
| Domestic Large Cap equity     | 4.50%                                     |
| Domestic Small/Mid Cap Equity | 4.75%                                     |
| International equity          | 4.75%                                     |
| Broad Fixed income            | 0.75%                                     |
| Cash                          | 0.00%                                     |
| Assumed Inflation             | 2.25%                                     |

### **ACTUARIAL ASSUMPTIONS**

**Assumed Rate of Investment Return:** 6.75% per year, compounded annually

**Assumed rate of long-term wage inflation** 4.25% annually