

# Bay County Employees' Retirement System

## SUMMARY ANNUAL REPORT TO MEMBERS DECEMBER 31, 2014

Dear Retirement System Members and Retirants:

The Retirement System, which is managed by the Retirement Board of Trustees, is designed to help you meet your financial needs should you become disabled, retire, or die. *The County also supports a retiree health insurance program, which is separate from the Retirement System.*

The Retirement Board's fiduciary responsibility to you is to oversee the general administration of the System and invest its assets. Our Board retains professional advisors to assist us in fulfilling these duties.

We have prepared this summary report to give you a brief overview of the Retirement System and how it operates. We hope you will find it useful and informative. However, a summary cannot cover all the details of the System, which is governed by the provisions of the County's Retirement Ordinance and the Retirement Board's official rules and regulations. Additional information about the System, including the Retirement Ordinance and the actuarial valuation, is available in the Finance Office or can be accessed via the County's website.

Respectfully submitted,

### ***Board of Trustees***

#### ***Bay County Employees' Retirement System***

- Steve Gray – Chairman
- Richard Brzezinski – Vice Chairman
- Kim Coonan
- Kristal Goetz
- Richard Gromaski
- Thomas Herek
- Jon Morse
- Matthew Pett
- Thomas Starkweather
- Crystal Hebert - Secretary

#### ***Auditors/Accountants***

- Rehmann

#### ***Legal Counsel***

- Shawna Walraven
- Amber Davis-Johnson

#### ***Investment Consultant***

- The Bogdahn Group

#### ***Medical Director***

- Kirk Herrick, D.O.

#### ***Custodial Bank***

- Northern Trust

#### ***Actuaries and Consultants***

- Gabriel Roeder Smith & Company

#### ***Plan Administrator***

- Rebecca Marsters

#### ***Investment Managers***

- Baird Advisors
- Loomis Sayles
- Mackay Shields
- Columbia Management
- Geneva Capital Management
- Eagle Asset Management
- Hotchkis & Wiley Capital Management
- Integrity Asset Management
- MFS Investment Management
- MFS International
- Schroder Investment Management
- Cornerstone Real Estate Advisers
- Vanguard

## Summary Results of the Actuarial Valuation

Your Retirement System's financial objective is to accumulate the assets necessary to pay the promised benefits in an orderly manner. To accomplish this, contribution rates are established in a manner that is designed to keep those rates approximately level as a percentage of payroll from year to year.

The Board of Trustees of the Bay County Employees' Retirement System provides for payment of the required employer contribution as described in Section 20m of Michigan Public Act No. 728.

To determine an appropriate employer contribution level for the ensuing year and to gauge how the System's funding is meeting this fundamental objective, an independent firm of actuaries and employee benefit consultants, Gabriel, Roeder, Smith & Company, conducts annual actuarial valuations.

These valuations are based on the System's past experience, information about current participation and financial markets, and assumptions concerning the System's future demographic and economic activity. The results of the December 31, 2014 valuation, based on the established funding objective, are summarized below:

Valuation Date	December 31, 2014
Actuarial Cost Method	Individual Entry Age Normal Cost
Amortization Method	Level dollar amount for Library. Level percent-of-payroll for all other groups.
Open/Closed Plan	The Bay County Employee's Retirement System is open to all future hires, except Library members hired on or after January 1, 2012.
Amortization Periods	28 years closed for groups that are underfunded (unfunded accrued liability is positive). 10 years open for groups that are overfunded (unfunded accrued liability is negative). 10 years closed for BABH Early Retirement Incentive Program (ERIP) starting with the contribution for the fiscal year beginning January 1, 2015.
Asset Valuation Method	Market value with 5-year smoothing of gains and losses.
Valuation Payroll	\$46,494,417
Annual Pensions Paid	\$16,332,767
Average Annual Pensions Paid	\$ 17,831
Deferred Vested Members Annual Benefits	\$ 1,055,969
Retirees and Beneficiaries Receiving Benefits	916
Deferred Vested Members	89
Active Plan Members	<u>1,160</u>
Total	2,165
Principal Actuarial Assumptions:	
- Net Investment Return	7.5%
- Projected Salary Increases	3.5% pay inflation plus merit and longevity
- Cost of Living Adjustments	None

### Fiscal Year Beginning January 1, 2016 Employer Contribution Rates as a Percentage of Active Member Payroll

Contributions For	General County	DWS	Library	BABH	MCF	Sheriff's Dept.	Road Comm.	Total
Valuation Payroll	\$14,709,914	\$ 2,197,529	\$ 1,613,739	\$10,219,867	\$ 10,609,021	\$ 4,059,143	\$ 3,085,204	\$46,494,417
Normal Cost								
Total	10.68%	11.03%	\$ 186,066	11.62%	10.71%	15.17%	14.84%	
Member	4.21	4.00	61,408	4.00	4.00	5.66	4.76	
Employer (ER)	6.47	7.03	124,658	7.62	6.71	9.51	10.08	
Amort. of ERIP UAL				3.46				
Amort. of UAL	(8.39)	7.13	(90,393)	0.28	(3.84)	(18.19)	8.01	
Computed ER Rate	<u>0.00%</u>	<u>14.16%</u>	<u>\$ 34,265</u>	<u>11.36%</u>	<u>2.87%</u>	<u>0.00%</u>	<u>18.09%</u>	<u>\$ 2,535,295</u>

Funded Status	General County	DWS	Library	BABH	BMCF	Sheriff's Dept.	Road Comm.	Total
AAL#*	\$93.5	\$14.6	\$10.3	\$46.9	\$47.7	\$27.8	\$31.3	\$272.0
Applied assets * (smoothed market value)	104.5	11.7	10.9	42.8	51.3	34.2	26.8	282.2
%funded	111.8%	80.5%	106.2%	91.1%	107.5%	123.0%	85.8%	103.7%

# Actuarial Accrued Liabilities  
\* \$ millions

### Actuary's Opinion

It is the actuary's opinion that the contribution amounts recommended in the most recent actuarial report are sufficient to meet the System's financial objective.

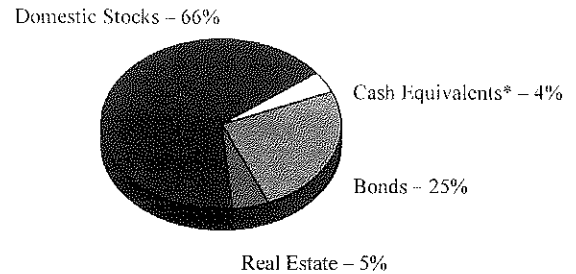
# Summary Financial Information

## Revenues & Expenditures

	<u>2014</u>
Market Value - January 1	\$295,388,098
Revenues	
Member contributions	2,120,927
Employer contributions	3,611,945
Investment income	25,018,523
Miscellaneous income	334,420
Total	<u>31,085,815</u>
Expenditures	
Benefit payments	15,527,700
Refund of member contributions	380,778
Administrative expenses	220,933
Professional training/education expenses	11,975
Travel expenses	2,556
Investment expenses	<u>2,189,078</u>
Total	<u>18,333,020</u>
Market Value - December 31	<u>\$308,140,893</u>

The Board of Trustees has confirmed that the employer contributions shown above represent the required employer contribution for the year covered.

## Investments (Market Value)



\* Adjusted for accruals net of payables.

The market rate of return on System assets net of expenses for the year ended December 31, 2014 was 7.98%.

### Average Annual Market Rate of Return\* Period Ending December 31, 2014

1-Year	8.0%
3-Year	14.4%
5-Year	11.7%
7-Year	6.1%
10-Year	6.3%

\* Geometric averages of reported dollar-weighted annual returns (net of fees). Results may differ from investment manager's stated returns.

### Projected Expenses for the Next Fiscal Year

Administrative	\$ 251,426
Professional Training/Education	16,500
Travel	2,300
Investment	1,870,000
Professional	41,000

# Brief Summary of Primary Benefit Provisions

(Please refer to the Retirement Ordinance for a complete description)

Division Name	Normal Retirement Eligibility	Early Retirement Eligibility
Elected Officials and Department Heads (div. 1), Judges (div. 2), General County (div. 3), General Circuit Court (div. 4), General District Court (div. 5), General Probate Court (div. 6), BCAMPS (div. 7), USWA-General (div. 8), USWA Part-Time Employees (div. 9), District Court AFSCME (div. 15)	(d) or (f) <sup>r</sup>	(b) <sup>r</sup>
Nurses (div. 10)	(d) or (f) <sup>r</sup>	(b) <sup>r</sup>
Sheriff-Road Patrol (div. 11)	(h) or (f) <sup>r</sup>	(b) <sup>r</sup>
Sheriff Correctional Facility Officers (div. 12)	(c) or (f) <sup>r</sup>	(h) or (b) <sup>r</sup>
Dispatchers (div. 13)	(i) or (c) or (f) <sup>r</sup>	(h) or (b) <sup>r</sup>
Circuit Court G.E.L.C. (div. 14)	(d) or (f) <sup>st</sup>	(b) <sup>st</sup>
Probate Court USWA (div. 16)	(d) or (e)	(a)
Behavioral Health AFSCME (div. 23)	(d) or (e)/(g) <sup>~</sup>	(b) <sup>~</sup>
Behavioral Health General (div. 24)	(d) or (e)/(g) <sup>~</sup>	(b) <sup>~</sup>
Library-Employee Members of UWUA Local 542 (div. 18), General Library (div. 19), ICEA/PERA 1203 (div. 30), ICEA/PERA 612 (div. 31)	(d) or (f) <sup>!</sup>	(b) <sup>!</sup>
MCF United Steel Workers Local 15301 (div. 20), MCF RN & LPN Nursing Council - USW 15301-01 (div. 21), General MCF (div. 22)	(i) or (c) <sup>-</sup> or (f) <sup>s</sup>	(b) <sup>s</sup>
Road Commission AFSCME Local 1096 (div. 25), Road Commission Class J Supervisory and Admin. Employees (div. 26)	(i) or (f) <sup>*</sup>	(b) <sup>*</sup>
Water and Sewer UWUA Local 546 (div. 28), and Water and Sewer General (div. 29)	(i) or (f) <sup>^</sup>	(b) <sup>^</sup>
Road Patrol Supervisory Unit (div. 32)	(h) or (f) <sup>@</sup>	(b) <sup>@</sup>

- (a) Age 55 with 8 yrs of service (b) Age 55 with 8/10 yrs of service (c) Age 55 with 25 yrs of service (d) Age 55 with 30 yrs of service (e) Age 60 with 8 yrs of service  
 (f) Age 60 with 8/10 yrs of service (g) Age 62 with 10 yrs of service (h) 25 yrs of service regardless of age (i) 30 yrs of service regardless of age
- @ 10 years of service for members hired after 1/1/2006. ~ 10 years of service (age 62 with 10 yrs of svc) for members hired on or after 10/1/2014.  
 \* 10 years of service for members hired after 1/1/2007. & 10 years of service (age 62 with 10 yrs of svc) for members hired after 1/1/2015.  
 # 10 years of service for members hired after 3/1/2007. \$ 10 years of service for members hired on or after 7/30/2015.  
 ^ 10 years of service for members hired after 7/1/2008. + Members hired before 7/30/2015 only.  
 ! 10 years of service for members hired after 3/1/2008.

## Eligibility

## Amount

### NORMAL RETIREMENT

See Above.

Total service times FAC times:

- 2.00% for division 23 hired before 10/1/2014
  - 2.25% for divisions 1-10, 14, 16 hired before 1/1/2012
  - 2.25% for divisions 18, 19, and 28-31
  - 2.25% for divisions 20-22 hired before 7/30/2015
  - 2.50% for divisions 12, 13, 15, and 32 hired before 1/1/2012
  - 2.80% for division 11 hired before 1/1/2012
  - 2.25% for division 24 hired on or before 1/1/2015
  - 1.60% for divisions 1-16, and 32 hired on or after 1/1/2012\*
  - 1.60% for division 23 hired on or after 10/1/2014
  - 1.60% for division 24 hired after 1/1/2015
  - 1.75% for division 20-22 hired on or after 7/30/2015
  - 2.50% for division 26 hired before 1/1/1996
  - 2.50% for division 26 hired on or after 1/1/1996 for service through 3/31/2011 and 2.25% for service after 3/31/2011
  - 2.50% for division 25 hired before 1/1/2011
  - 2.25% for division 25 hired on or after 1/1/2011
- Type of final average compensation (FAC) - Highest 5 years. Some lump sums included.  
 Maximum County-financed is 75% of FAC.

### EARLY RETIREMENT

See Above.

Normal retirement reduced to the actuarial equivalent.

### DEFERRED RETIREMENT

8/10 or more years of credited service depending on date of hire. Benefit begins at age 60 or reduced at age 55.

Computed as a normal retirement but based on service and final average compensation at time of termination.

The Retirement System also provides benefits for Non-Duty Death-in-Service, Duty Death-in-Service, Non-Duty Disability, and Duty Disability. Please check the Retirement Ordinance for a complete description of these benefit options.

### POST-RETIREMENT COST-OF-LIVING ADJUSTMENTS

One-time increases have been granted at various amounts.

### MEMBER CONTRIBUTIONS

6% of annual compensation for divisions 11-13, 15, and 32 for members hired before 1/1/2012. 4% of annual compensation for divisions 11-13, 15, and 32 hired on or after 1/1/2012.\* 5% of annual compensation for division 25. 4% of annual compensation for remaining divisions. For certain employee groups, the employer pays the member contribution either by directly contributing to the Retirement System or by transferring funds from the employer to the employee reserves.

### EMPLOYER CONTRIBUTIONS

Actuarially determined amounts which, together with member contributions, are sufficient to cover both (i) normal costs of the plan, and (ii) financing of unfunded accrued liabilities over a selected period of future years.

### RETIREMENT SYSTEM ELIGIBILITY

Library members hired on or after January 1, 2012 are no longer eligible to participate in the Bay County Employees' Retirement System.

\* Three members hired after 1/1/2012 continue to be eligible for the multiplier and member contribution rate in effect prior to the implementation of the 1.60% multiplier and 4% member contribution rate for members hired after 1/1/2012.