



**ANNUAL REPORT TO MEMBERSHIP
JUNE 30, 2023**

City of Farmington Hills Post-Retirement Healthcare Finance Fund

Dear Member:

The year ended June 30, 2023, marked the 23rd year of operation for the Employees' Retirement System Post-Retirement Healthcare Finance Fund, which began operation on May 15, 2000. The Fund provides medical benefits for its members and their beneficiaries. The administration of the Fund, outlined in the City's Retirement Ordinance, is vested with the City of Farmington Hills Retirement Board. This responsibility includes the management of the Fund's assets, establishing operating policies and procedures, adoption of by-laws and granting of medical benefits in conformity with the existing Retirement Ordinance and labor contracts. Any conflict between statements in this Report and the official documents will be governed by those documents.

All expenses of operating the Post-Retirement Healthcare Finance Fund are paid for by the Healthcare Fund. No soft dollars are used to pay expenses in this Fund. The dollars needed to finance healthcare benefits are accumulated through the collection of employer and employee contributions combined with the income earned on investments.

The Post-Retirement Healthcare Finance Fund continues to be in very good financial and actuarial condition. On behalf of the Farmington Hills Retirement Board, I have summarized below, some of the pertinent facts and results of operation of the Retirement System for the year ended June 30, 2023, including audited financial information, a listing of administrative and investment expenses, and a summary of the actuarial valuation report and investment results. If you have any questions regarding the pension plan, please call me at (248) 871-2446.

Respectfully submitted,

A handwritten signature in blue ink that reads "Thomas C. Skrobola". The signature is fluid and cursive, with a long horizontal line extending to the right.

Thomas C. Skrobola
Finance Director/Treasurer/Pension Administrator

Statement of Plan Net Position
June 30, 2023

Assets

Cash and cash equivalents	\$ 1,198,403
Investments	91,650,485
Accrued Interest and other receivables	<u>37,926</u>
Total assets	<u>92,886,814</u>

Liabilities

Accounts payable	108,194
Due to primary government	<u>593,393</u>
Total liabilities	<u>701,587</u>

Net Position Restricted for OPEB **\$ 92,185,227**

Statement of Changes in Plan Net Position
Year Ended June 30, 2023

Additions

Investment income, net of expenses	\$ 7,282,879
Contributions:	
Employer	285,085
Employee	<u>178,282</u>
Total additions - Net	<u>7,746,246</u>

Deductions

Benefit payments	3,570,891
Contributions returned to employees	<u>22,449</u>
Total deductions	<u>3,593,340</u>

Net Increase in Restricted Net Position for OPEB **4,152,906**

Net Position Restricted for OPEB - Beginning of year 88,032,321

Net Position Restricted for OPEB - End of year **\$ 92,185,227**

Administrative and Investment Expenses Year Ended June 30, 2023

<u>Administrative Expenses:</u>	<u>Amount</u>	<u>Prior Year</u>	<u>\$ Change</u>	<u>% Change</u>
Accounting Services	\$16,489	\$15,043	\$1,446	
Actuarial Fees	30,750	13,500	17,250	
Administrative Services	5,131	5,273	(142)	
Audit Fees	3,224	1,633	1,591	
Custodial Fees	16,985	17,000	(15)	
Dues/PCORI Fee	957	137	820	
Fiduciary Insurance	5,311	5,071	240	
Legal Fees	647	1,246	(599)	
Professional Training/Education/Travel Expense	4,894	1,835	3,059	
Supplies	30	554	(524)	
Total Administrative Expenses	84,418	61,292	23,126	37.73%
<u>Investment Expenses:</u>				
Money Manager Fees	\$1,037,049	\$ 926,306	\$ 110,743	11.96%
Investment Advisory Fees	42,500	40,000	2,500	6.25%
Total Investment Expenses	1,079,549	966,306	113,243	11.72%
Total Administrative and Investment Expenses	\$1,163,967	\$1,027,598	\$ 136,369	13.27%

**Budget Report
2023/2024 Fiscal Year**

Administrative Expenses:

Accounting Services	\$ 15,750
Actuarial Fees	32,750
Administrative Services	9,000
Audit Fees	2,000
Custodial Fees	20,000
Dues & Memberships	340
Fiduciary Liability Insurance	5,100
Legal Fees	9,000
Meeting Supplies & Other	340
Professional Training/Education/Travel	8,500
Total Administrative Expenses	<u>102,780</u>

Investment Expenses:

Money Manager Fees	\$ 800,000
Investment Advisory Fees	43,775
Total Investment Expenses	<u>843,775</u>

Total Administrative and Investment Expenses	<u>\$ 946,555</u>
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MEDICAL BENEFITS

Medical Benefits are available for all qualifying retirees. Since age and service requirements, the amount of monthly premium covered, and the effective date of coverage vary between bargaining groups, check with Human Resources or the Finance Department for your respective coverage.

CHANGES IN MEDICAL BENEFIT PROVISIONS

Upon retirement, a retiree health care stipend of \$200/month for single coverage or \$400/month for double coverage will be credited to a retiree health care savings account each year for Tier 2 General, Court, Police, and Fire employees satisfying certain conditions at retirement.

The eligibility requirements to be satisfied at the time of retirement for the retiree health care stipend are as follows:

Police Patrol: 25 or more years of credited service

Police Command: attained age of 50 with 25 or more years of credited service, or 30 or more years of credited service regardless of age.

TPOAM (formerly AFSCME): upon attainment of full unreduced pension.

All Other Groups: attained age of 60 with 15 or more years of credited service.

For retiree health care stipend eligibility purposes, service back to date of hire is considered.

SUMMARY OF ACTUARIAL VALUATION

An Actuarial Valuation of the Retirement System and Retiree Health Plan, performed by Gabriel, Roeder, Smith & Company, involves the computation of the present value of future benefits to be paid by the System as well as the present value of future income of the System. These present values, when related to the assets currently held by the System, provide the actuary with the basis for computing the future contributions, which will be required of the employer to keep the System on a sound actuarial basis.

ACTUARIAL COST METHOD:

Normal cost and the allocation of benefit values between service rendered before and after the valuation date were determined using an individual entry-age actuarial cost method having the following characteristics:

The annual normal costs for each individual active member, payable from the hire date to the date of retirement, are sufficient to accumulate to the value of the member's benefit earned.

Each annual normal cost is a constant percentage of the member's year by year projected covered pay.

ASSET VALUATION SMOOTHING METHOD:

The actuarial value of assets recognizes assumed investment income fully each year. Differences between actual and assumed investment income are phased in over a closed five-year period.

INVESTMENTS

The goal of the System is to provide present and future retirement or survivor benefits for its members. Since investment income is a vital link to funding these benefits, the System's portfolio is managed by the following general policies:

1. Preservation of the principal value of the Plan.
2. Diversification of the portfolio to minimize volatility, market risk, and to maximize total rate of return.
3. Meet, with a high degree of probability, the assumed actuarial rate of return of 7% over a five-year period.
4. Achieve funding of vested pension benefits within the time period in which unfunded liabilities are amortized by actuary.

Investments on June 30, 2023, consisted of 60.8% Equities, 19.4% Fixed Income (Bonds), 19.7% Alternative Investments (Hedge Funds/Real Estate/Private Equity), and 0.1% Cash or Cash Equivalents.

To diversify the portfolio, the Retirement Board retained nine equity managers:

1. Hardman Johnston
2. Hamlin
3. Seizert
4. Reinhart Partners
5. Edgewood
6. Ancora
7. ABS
8. First Eagle
9. Fidelity

The Board retained three fixed income managers:

1. Baird
2. HIG Bayside
3. Marathon

The Board retained twelve private alternative investments:

1. Townsend
2. Corbin Capital
3. Entrust
4. Entrust III
5. Blackstone Tac Ops
6. McMorgan
7. Goldman Sachs
8. Blackstone BTAS IV
9. Valstone
10. PRISA II
11. Brookfield
12. TerraCap

The remainder of the portfolio is comprised of cash or cash equivalents. For 2023, the retirement system portfolio posted net investment gain of 8.26%.

Summary from Actuarial Valuation Reports Year Ended June 30, 2023

<u>Retiree Health Plan</u>	*	General	Court	Police	Fire	Total	Prior Year	Change from Prior Year
Membership		Closed	Closed	Closed	Closed	-	-	-
Funded Ratio	**	129%	116%	113%	96%	116%	114%	2.00%
Number of Active Members		46	14	42	18	120	136	(16)
Number of Retirees/Beneficiaries:		152	15	106	23	296	277	19
Medical Insurance		114	10	83	22	229	215	14
Medical Opt Out Allowance		36	5	23	1	65	62	3
RHS Healthcare Stipend		2	0	0	0	2	0	2
Total Annual Premiums Paid		N/A	N/A	N/A	N/A	\$3,570,891	\$3,340,850	\$230,041
Total Annual Valuation Payroll	***	N/A	N/A	N/A	N/A	\$11,656,686	\$12,435,716	(\$779,030)
City's Annual Required Contribution		\$54,040	\$40,283	\$0	\$190,762	\$285,085	\$307,862	(\$22,777)
City's Annual Required Contribution as a % of valuation payroll		0.46%	0.35%	0.00%	1.64%	2.45%	2.48%	0.03%
Employee Contribution Rate		1.50%	1.50%	1.50%	1.50%	1.50%	1.50%	0.00%
Actuarial Assumed Rate of:								
Investment Return		7.00%	7.00%	7.00%	7.00%	7.00%	7.00%	0.00%
Health Care Inflation		3.5%-7.5%	3.5%-7.5%	3.5%-7.5%	3.5%-7.5%	3.5%-7.5%	3.5%-9%	0.00%
Amortization Method Used		Level \$	Level \$	Level \$	Level \$	Level \$	Same	-
Amortization Period Used		13 Years	13 Years	13 Years	13 Years	13 Years	**	**
Amortization Smoothing Method Used		5 Year	5 Year	5 Year	5 Year	5 Year	5 Year	-
 <u>Investment Performance</u>								
(net of fees)		Trailing	Trailing	Trailing	Trailing	Trailing		
		<u>1 Year</u>	<u>3 Years</u>	<u>5 Years</u>	<u>7 Years</u>	<u>10 Years</u>		
		8.54%	9.42%	7.06%	7.99%	7.01%		

* Actuarial Valuations for the Retiree Health Care Plan are completed bi-annually.

** From Actuarial Valuation Report.

*** Total Annual Valuation Payroll is based on Fiscal Year 2022-2023

RETIREMENT BOARD MEMBERS

(as of June 30, 2023)

3 Year Term Expires December 31

Lauri Siskind, Chairperson

Citizen Member
Term Expires 2025

Eric Gould, Vice Chairperson

Citizen Member
Term Expires 2023

Domenic Lauria

Police/Fire Member
Term Expires 2024

Brian Moore

Police/Fire Member
Term Expires 2023

Stacy Parke

General Employee Member
Term Expires 2023

Tim Waker

General Employee Member
Term Expires 2024

Thomas Skrobola

Administrative Officer
Secretary-Treasurer
Ex-Officio Member

INDEPENDENT AUDITORS

Yeo & Yeo, CPAs

ACTUARY

Gabriel, Roeder, Smith & Company

INVESTMENT MANAGERS

ABS
Ancora
Baird
Blackstone BTAS IV
Blackstone Tactical Opportunities
Brookfield Premier
Corbin Capital
Edgewood
Entrust
First Eagle
Goldman Sachs
Hamlin Capital
Hardman
HIG
Marathon
McMorgan Infrastructure
Penn Square
PRISA II
Reinhart Partners
Seizert
Terracap
Townsend
Fidelity
Valstone

INVESTMENT PERFORMANCE

ADVISORS

AndCo. Consulting

ATTORNEY

VanOverbeke, Michaud & Timmony, P.C.

CUSTODIAN

Comerica

MEDICAL DIRECTOR

MedSource Services

SENIOR PENSION ACCOUNTANT

Susan Hardy

CITY COUNCIL LIAISON

Ken Massey

FOR FURTHER INFORMATION CONTACT:

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Farmington Hills, Michigan 48336-1165
(248) 871-2446