



CITY OF BATTLE CREEK

POLICEMEN AND FIREMEN RETIREMENT SYSTEM



ANNUAL REPORT AS OF JUNE 30, 2022

The name of the retirement system is 'City of Battle Creek Policemen and Firemen Retirement System' and is 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

Stanley Chubinski, Chair	Commission appointee	term to expire 6/30/2025
Edward Guzzo, Vice Chair	Commission appointee	term to expire 6/30/2023
Tammy Giannunzio, Treasurer	per Public Act 345	term to expire 6/30/2026
Lt. Jake Martin, Trustee	Fire Representative	term to expire 6/30/2024
Sgt. Chris Rabbitt, Trustee	Police Representative	term to expire 6/30/2026

The five-members of the 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 Equity	Lazard International Equity w/EM ADR
Loomis Sayles Fixed Income	Richmond Capital 1-10 Year TIPS
Robeco Boston Partners Large Cap Value	Boston Partners Small Cap Value Equity
Westfield Mid Cap Growth Equity	Loomis Sayles Large Cap Growth
World Asset Management 500 Index	

Actuary & Investment Consultant

Gabriel Roeder Smith & Company – Actuary
CAPTRUST – Financial/Investment Consultant

Legal Counsel

Michael VanOverbeke
VanOverbeke, Michaud and Timmony, PC

COMPARATIVE SUMMARY RESULTS of the June 30, 2022, June 30, 2021 and June 30, 2020 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. There are no closed divisions within the P&F Pension Fund. The results of the June 30, 2022 valuation, June 30, 2021 valuation, and June 30, 2020 valuation based on the established funding objective, are summarized below:

EMPLOYER CONTRIBUTION RATES As a Percentage of Active Member Payroll

Contributions to Provide Benefits	July 1, 2023	July 1, 2022	July 1, 2021
Normal Cost: Total	30.22%	26.54%	26.44%
Amortization Payment - Initial Unfunded	22.27%	19.01%	19.36%
Total Contribution Requirement	52.49%	45.55%	45.80%
Member Contribution - Average	11.15%	10.68%	10.20%
Computed Employer Rate	41.34%	34.87%	35.60%

COMPUTED AND ACTUAL CITY CONTRIBUTIONS Comparative Statement

Fiscal Year	Valuation Date	Budgeted/*Actual Dollar Contribution	Valuation Payroll	City's Computed % of Payroll Contributions
2023/24	2022	N/A	14,953,589	41.34%
2022/23	2021	N/A	14,258,999	34.87%
2021/22	2020	\$6,368,077	\$14,616,971	35.60%

FUNDED STATUS

	June 30, 2022	June 30, 2021	June 30, 2020
Actuarial Accrued Liability	229,419,000	210,849,000	204,208,000
Actuarial Value of Assets	170,222,000	165,872,000	154,625,000
Funded Ratio	74.20%	78.70%	75.70%

SUMMARY OF CURRENT ASSET INFORMATION

Revenues & Expenses

	2021-22	2020-21	2019-20
Market Value - July 1	\$ 186,019,846	\$ 154,958,172	\$ 150,109,694
Revenues:			
Member Contributions	\$ 1,725,254	\$ 1,593,679	\$ 1,580,109
Employer Contributions	\$ 6,368,077	\$ 6,353,070	\$ 5,869,972
Interest & Dividends	\$ 6,223,014	\$ 2,482,578	\$ 2,964,813
Realized and Unrealized Gain (Loss)	\$ -29,223,082	\$ 33,699,729	\$ 6,514,619
Total Revenues	\$ -14,906,737	\$ 44,129,056	\$ 16,929,513
Expenditures:			
Refunds of Member Contributions	\$ 109,594	\$ -29,331	\$ 72,458
Retirement Benefits Paid Out	\$ 12,299,677	\$ 11,949,168	\$ 10,858,751
Administrative Expenses	\$ 231,962	\$ 164,187	\$ 203,023
Health Insurance Premiums	\$ 304,595	\$ 331,308	\$ 428,009
Investment Expense	\$ 240,330	\$ 652,050	\$ 518,795
Total Expenses	\$ 13,186,158	\$ 13,067,382	\$ 12,081,036
Market Value - June 30	\$ 157,926,951	\$ 186,019,846	\$ 154,958,172

BATTLE CREEK P&F ASSET CLASS RETURN ASSUMPTIONS

Asset Class	Projected Long-Term Real Returns (2022-2031)
Domestic Large Cap equity	4.95%
Domestic Small/Mid Cap Equity	5.20%
International equity	4.73%
Broad Fixed income	-0.30%
Cash	-0.70%
Assumed Inflation	2.30%

ANNUAL BENEFITS

	Age & Service Retirees	Disability Retirees	Survivor Beneficiaries
2022			
Number of retirees	234	9	32
Total benefits paid	\$11,338,083	\$301,704	\$637,653
Average	\$48,453	\$33,523	\$19,927
2021			
Number of retirees	229	9	32
Total benefits paid	\$10,878,500	\$278,053	\$628,781
Average	\$47,504	\$30,895	\$19,649
2020			
Number of retirees	218	9	36
Total benefits paid	\$10,007,067	\$278,052	\$672,688
Average	\$45,904	\$30,895	\$18,686

MEMBER AND RETIREE DATA

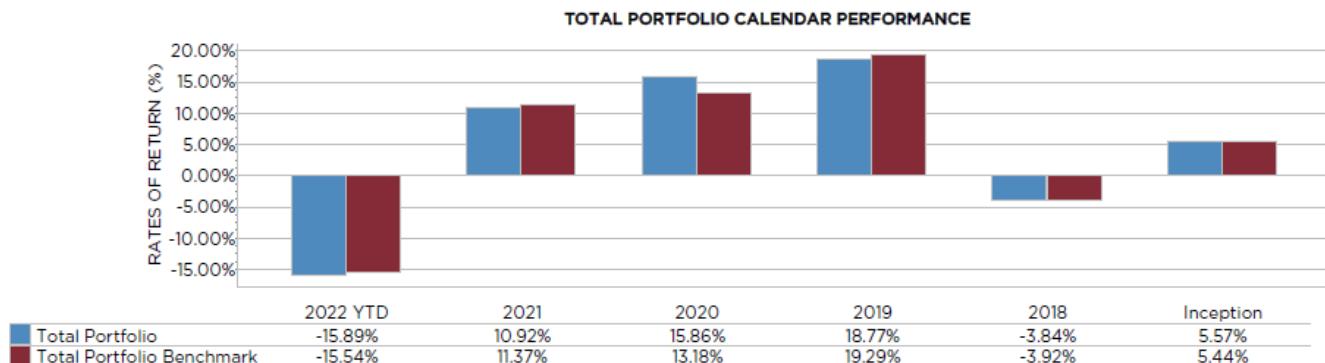
ACTIVE MEMBERS	2022	2021	2020
Police:			
Lieutenants	4	4	3
Sergeants (POLC)	16	17	17
Non-Supervisory (POLC)	78	78	76
Non-Represented	4	3	5
Lieutenants (DROP)	2	2	0
Non-Represented (DROP)	1	1	0
Fire:			
Chiefs (OSP)	3	3	3
Firefighters (IAFF)	69	67	72
Firefighters (IAFF) (DROP)	10	6	6
Non-Represented	0	1	1
RETIREE BENEFITS	2022	2021	2020
Age & Service Benefits:			
Straight Life benefit-terminates @ death	45	38	38
Straight Life benefit-60% survivor benefit	188	190	179
Option 1 benefit-100% joint & survivor	1	1	1
Option 2 benefit-50% joint & survivor	0	0	0
Survivor benefit (retiree deceased)	29	29	31
Casualty Benefits (<i>includes survivor beneficiaries</i>)			
Duty Disability benefits	5	5	6
Non-duty Disability benefits	4	4	4
Duty Death benefits	1	1	1
Non-duty Death benefits	2	2	3

ANNUAL BUDGET VERSUS ACTUAL

7/1/2021 - 6/30/2022

	<u>Budget</u> <u>2021/2022</u>	<u>Actual</u> <u>2021/2022</u>
REVENUE		
Member Contributions	\$1,584,318	\$1,725,254
Employer Contributions & Health Contribution	\$6,314,442	\$6,368,077
Investment Income		
Interest & Dividends	\$2,270,000	\$6,223,014
Realized & Unrealized Gains (Loss)	\$2,500,000	\$ -29,223,082
Other		
Securities Lending	\$19,000	\$0
TOTAL REVENUES	<u><u>\$12,687,760</u></u>	<u><u>\$ -14,906,737</u></u>
EXPENDITURES		
Benefit Payments	\$12,700,000	\$12,299,677
Health Insurance	\$500,000	\$304,595
Refunds of Member Contributions	\$0	\$109,594
Administrative Expense:		
Investment Settlement (SIGMA)	\$26,248	\$0
Investment Management Fees	\$652,050	\$242,086
Financial Consultant Fees	\$95,000	\$95,000
Custody Fees	\$82,000	\$63,692
Audit & Actuary	\$30,000	\$56,925
Administrative Services	\$12,000	\$12,120
Legal Fees	\$5,000	\$998
Memberships	\$200	\$200
Conference Expense	\$4,000	\$1,271
Medical Consultation	\$0	\$0
	<u><u>\$14,106,498</u></u>	<u><u>\$13,186,158</u></u>

INVESTMENT PERFORMANCE
CAPTRUST
City of Battle Creek Police and Fire Retirement System
Calendar Year Historical Performance as of 6/30/2022



SCHEDULE OF AMORTIZATIONS
For Development of Employer Contribution Rates
Attributable to Actuarial Gains and Losses and Changes

Year Established	Initial Years	Years Remaining	Initial Amount	Previous Amount	Current Amount	Amortization Factor	Payment	Previous Payment	Percent of Payroll
<u>Initial Unfunded</u>									
2022		25			\$51,720,601	18.0267	\$2,869,112		18.54%
<u>Benefit Changes</u>									
2007	30	15	\$4,422,379	\$5,046,078	4,961,508	12.1915	406,965	\$399,711	2.63%
2008	30	16	390,603	448,171	442,358	12.8462	34,435	33,855	0.22%
2009	30	17	121,354	139,539	138,198	13.4840	10,249	10,087	0.07%
2014	30	20	(135,876)	(151,719)	(152,131)	15.3001	(9,943)	(9,155)	(0.06%)
2016	30	20	954,398	1,030,002	1,036,421	15.3001	67,740	58,645	0.44%
2017	30	20	1,322,624	1,405,558	1,416,490	15.3001	92,580	77,923	0.60%
2018	30	20	(111,600)	(116,265)	(117,335)	15.3001	(7,669)	(6,285)	(0.05%)
2019	30	20	(11,845)	(12,175)	(12,303)	15.3001	(804)	(643)	(0.01%)
2020	30	20	(174,306)	(176,552)	(178,626)	15.3001	(11,675)	(9,109)	(0.08%)
2021	30	20	(27,406)	(27,406)	(27,759)	15.3001	(1,814)	(1,384)	(0.01%)
2022	15	15	(31,003)	0	(31,003)	12.1915	(2,543)	0	(0.02%)

ACTUARIAL ASSUMPTIONS

Valuation date:	June 30, 2022
Actuarial cost method:	Entry-age actuarial cost method
Amortization method:	Layered, Level percent-of-payroll
Remaining amortization period:	15-year closed for benefit improvements 20-year closed for assumption and method changes 20-year closed for experience deviations 25-year closed for liabilities as of 6/30/22
Asset valuation method:	5-year smoothed market with 20% corridor
Investment rate of return:	6.25%
Projected salary increases:	3.50% - 15.75%
Assumed rate of payroll growth:	3.50%
Assumed rate of membership growth	0%
Cost-of-living adjustments:	N/A

Amortization Method: The Board adopted a layered amortization method beginning with the June 30, 2022 valuation. In particular:

- The Unfunded Actuarial Accrued Liability (UAAL) attributable to experiences deviations and assumption changes were consolidated and amortized over a closed 25-year period beginning with the June 30, 2022 valuation.
- The existing UAAL bases attributable to benefit changes were accelerated to be amortized over closed 20-year periods, if applicable.
- Future changes to the UAAL attributable to benefit, assumption/method changes, and experience deviations will be amortized separately as they occur over the following periods:
 - Benefit changes – Closed 15-year periods
 - Assumption/method changes – Closed 20-year periods
 - Experience deviations – Closed 20-year periods

The respective layers are amortized as a level percent of payroll. Absent actuarial gains or losses, a closed amortization period is expected to result in UAAL amortization payments that remain level as a percentage of payroll.

Benefit Changes: Member contribution rates for certain groups increased during the year and are reflected in the valuation:

- For Police Sergeants, the employee contribution rate was increased to 12.72%;
- For Police Non-Supervisory, the employee contribution rate was increased to 9.75%;
- For Firefighters, the employee contribution rate was increased to 12.04%; and

- For Non-Represented Command, the employee contribution rate was increased to 11.00%.

These provisions are reflected for the first time in the June 30, 2022 valuation.

ACTUARIAL COST METHODS USED FOR THE VALUATION

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

- (i) The annual normal costs for each individual active member (usually expressed as a percent-of-payroll), payable from the member's date of hire to the member's projected date of retirement, are sufficient to accumulate the actuarial present value of the member's projected benefit at the time of retirement; and
- (ii) The actuarial accrued liability under this method is equal to the assets which would have been accumulated had the normal cost contribution been made from the date of entry to the date of the valuation and had all actuarial assumptions been realized.

Casualty Benefits. Normal cost contributions were determined using a one-year term cost method. This method produces contributions sufficient to fund the value of (i) disability benefits likely to be incurred during the year (net of the member's accrued age and service benefits), and (ii) survivor benefits likely to be incurred during the year because of a member's death while employed.

Funding Value of Assets. The funding value of assets is derived as follows: prior year valuation assets are increased by contributions and expected investment income and reduced by refunds and benefit payments. To this amount is added 20% of the difference between expected and actual investment income for each of the previous five years. Funding value of assets may not be less than 80% nor more than 120% of market value.

Amortization of Unfunded Actuarial Accrued Liabilities. Unfunded actuarial accrued liabilities were amortized by level percent-of-payroll contributions (principal and interest combined) over periods described on page C-6.

Active member payroll was assumed to increase 3.50% per year for the purpose of determining the level percent contributions. Characteristics of this method of amortization are illustrated on page C-6