



CITY OF BATTLE CREEK

POLICEMEN AND FIREMEN RETIREMENT SYSTEM



ANNUAL REPORT AS OF JUNE 30, 2021

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 6/30/2022

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
The Boston Company Large Cap Growth	Westfield Mid Cap Growth Equity
World Asset Management 500 Index	Loomis Sayles Large Cap Growth

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, 2021, June 30, 2020 and June 30, 2019 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, 2021 valuation, June 30, 2020 valuation, and June 30, 2019 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, 2022	July 1, 2021	July 1, 2020
Normal Cost: Total	26.54%	26.44%	27.83%
Amortization Payment - Initial Unfunded	19.01%	19.36%	17.29%
Total Contribution Requirement	45.55%	45.80%	45.12%
Member Contribution - Average	10.68%	10.20%	9.95%
Computed Employer Rate	34.87%	35.60%	35.17%

COMPUTED AND ACTUAL CITY CONTRIBUTIONS Comparative Statement

Fiscal Year	Valuation Date	Budgeted/*Actual Dollar Contribution	Valuation Payroll	City's Computed % of Payroll Contributions
2022/23	2021	N/A	\$14,258,999	34.87%
2021/22	2020	N/A	\$14,616,971	35.60%
2020/21	2019	6,338,855	\$14,198,563	35.17%

FUNDED STATUS

	June 30, 2021	June 30, 2020	June 30, 2019
Actuarial Accrued Liability	210,849,000	204,208,000	195,637,000
Actuarial Value of Assets	165,872,000	154,625,000	149,653,000
Funded Ratio	78.70%	75.70%	76.50%

SUMMARY OF CURRENT ASSET INFORMATION

Revenues & Expenses

	2020-21	2019-20	2018-19
Market Value - July 1	\$ 154,958,172	\$ 150,109,695	\$ 144,588,463
Revenues:			
Member Contributions	\$ 1,593,679	\$ 1,580,109	\$ 1,473,592
Employer Contributions	\$ 6,353,070	\$ 5,869,972	\$ 5,544,586
Interest & Dividends	\$ 2,482,578	\$ 2,964,813	\$ 2,851,763
Realized and Unrealized Gain (Loss)	\$ 33,699,729	\$ 6,514,619	\$ 7,471,532
Total Revenues	\$ 44,129,056	\$ 16,929,513	\$ 17,341,473
Expenditures:			
Refunds of Member Contributions	\$ -29,331	\$ 72,458	\$ 164,866
Retirement Benefits Paid Out	\$ 11,949,168	\$ 10,858,751	\$ 10,452,759
Administrative Expenses	\$ 164,187	\$ 203,023	\$ 177,368
Health Insurance Premiums	\$ 331,308	\$ 428,009	\$ 484,052
Investment Expense	\$ 652,050	\$ 518,795	\$ 541,194
Total Expenses	\$ 13,067,382	\$ 12,081,036	\$ 11,820,239
Market Value - June 30	\$ 186,019,846	\$ 154,958,172	\$ 150,109,697

BATTLE CREEK P&F ASSET CLASS RETURN ASSUMPTIONS

Asset Class	Projected Real Returns (2021-2030)
Domestic Large Cap equity	4.50%
Domestic Small/Mid Cap Equity	4.70%
International equity	4.80%
Broad Fixed income	-0.25%
Cash	-1.00%
Assumed Inflation	2.00%

ANNUAL BENEFITS

	Age & Service Retirees	Disability Retirees	Survivor Beneficiaries
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
2019			
Number of retirees	215	10	38
Total benefits paid	\$9,577,411	\$286,692	\$701,125
Average	\$44,546	\$28,669	\$18,451

MEMBER AND RETIREE DATA

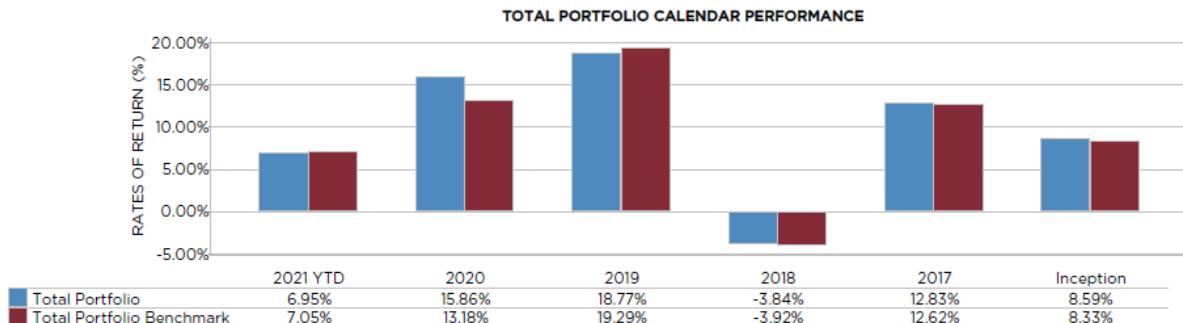
ACTIVE MEMBERS	2021	2020	2019
Police:			
Lieutenants	4	3	4
Sergeants (POLC)	17	17	16
Non-Supervisory (POLC)	78	76	79
Non-Represented	3	5	5
Lieutenants (DROP)	2	0	0
Non-Represented (DROP)	1	0	0
Fire:			
Chiefs (OSP)	3	3	4
Firefighters (IAFF)	67	72	68
Firefighters (IAFF) (DROP)	6	6	5
Non-Represented	1	1	1
RETIREES	2021	2020	2019
Age & Service Benefits:			
Straight Life benefit-terminates @ death	38	38	40
Straight Life benefit-60% survivor benefit	190	179	173
Option 1 benefit-100% joint & survivor	1	1	1
Option 2 benefit-50% joint & survivor	0	0	1
Survivor benefit (retiree deceased)	29	31	34
Casualty Benefits (<i>includes survivor beneficiaries</i>)			
Duty Disability benefits	5	6	6
Non-duty Disability benefits	4	4	4
Duty Death benefits	1	1	1
Non-duty Death benefits	2	3	3

ANNUAL BUDGET VERSUS ACTUAL

7/1/2020 - 6/30/2021

	<u>Budget</u> <u>2020/2021</u>	<u>Actual</u> <u>2020/2021</u>
REVENUE		
Member Contributions	\$1,442,000	\$1,593,679
Employer Contributions & Health Contribution	\$6,329,231	\$6,353,070
Investment Income		
Interest & Dividends	\$2,725,000	\$2,482,578
Realized & Unrealized Gains		
(Loss)	\$2,045,000	\$33,699,729
Other		
Securities Lending	\$19,500	\$0
TOTAL REVENUES	<u>\$12,560,731</u>	<u>\$44,129,056</u>
EXPENDITURES		
Benefit Payments	\$11,125,195	\$11,906,679
Health Insurance	\$500,000	\$331,308
Refunds of Member Contributions	\$0	\$13,159
Administrative Expense:		
Investment Settlement (SIGMA)	\$26,248	\$0
Investment Management Fees	\$550,000	\$652,050
Financial Consultant Fees	\$95,000	\$95,000
Custody Fees	\$75,000	\$80,657
Audit & Actuary	\$30,000	\$25,000
Administrative Services	\$11,339	\$11,339
Legal Fees	\$5,000	\$2,700
Memberships	\$200	\$200
Conference Expense	\$4,000	\$0
Medical Consultation	\$0	\$800
TOTAL EXPENSES	<u>\$12,421,982</u>	<u>\$13,118,892</u>

INVESTMENT PERFORMANCE
CAPTRUST
City of Battle Creek Police and Fire Retirement System
Calendar Year Historical Performance as of 6/30/2021



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>									
2021		23			\$24,403,857	16.5728	\$1,472,525		9.98%
<u>Benefit Changes</u>									
2007	30	16	\$4,422,379	\$5,098,900	5,046,078	12.6243	399,711	\$372,278	2.71%
2008	30	17	390,603	451,313	448,171	13.2379	33,855	31,465	0.23%
2009	30	18	121,354	140,089	139,539	13.8341	10,087	9,355	0.07%
2014	30	23	(135,876)	(150,604)	(151,719)	16.5728	(9,155)	(8,404)	(0.06)%
2016	30	25	954,398	1,019,084	1,030,002	17.5633	58,645	53,599	0.40%
2017	30	26	1,322,624	1,388,663	1,405,558	18.0377	77,923	71,082	0.53%
2018	30	27	(111,600)	(115,055)	(116,265)	18.4988	(6,285)	(6,073)	(0.04)%
2019	30	28	(11,845)	(12,034)	(12,175)	18.9468	(643)	(621)	0.00%
2020	30	29	(174,306)	(174,306)	(176,552)	19.3823	(9,109)	(8,801)	(0.06)%
2021	30	30	(27,406)	0	(27,406)	19.8055	(1,384)	0	(0.01)%
<u>Actuarial Cost Methods/Assumptions</u>									
2009	30	18	1,503,821	1,735,958	1,729,145	13.8341	124,991	115,922	0.85%
2015	30	24	6,841,876	7,401,656	7,469,315	17.0751	437,439	400,567	2.96%
2017	30	26	4,645,879	4,854,584	4,899,266	18.0377	271,612	262,427	1.84%
2019	30	28	(353,340)	(358,974)	(363,191)	18.9468	(19,169)	(18,521)	(0.13%)
2020	30	29	(737,719)	(737,719)	(747,225)	19.3823	(38,552)	(37,248)	(0.26%)
2021	30	30	0	0	0	19.8055	0	0	0.00%

ACTUARIAL ASSUMPTIONS

Valuation date:	June 30, 2021
Actuarial cost method:	Entry-age actuarial cost method
Amortization method:	Level percent-of-payroll
Remaining amortization period:	30-year closed for benefit improvements and assumption changes 25-year closed for all other liabilities
Asset valuation method:	5-year smoothed market with 20% corridor
Investment rate of return:	6.50%
Projected salary increases:	3.50% - 15.50%
Assumed rate of payroll growth:	3.50%
Assumed rate of membership growth	0%
Cost-of-living adjustments:	N/A

Amortization Method: The current method for amortizing Unfunded Actuarial Accrued Liability (UAAL) is a level percent of pay approach over a closed period of 30 years beginning July 1, 2015 and ending June 30, 2045 (23 years remaining as of the June 30, 2021 valuation, which determines the fiscal year 2023 contribution). Benefit changes and assumption changes are separately amortized over 30 years as they occur. 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: The following new benefit provisions were reported for this valuation:

- For Non-Represented Fire, a Deferred Retirement Option Plan (DROP) was adopted effective July 1, 2021;
- For Police Sergeants, the employee contribution rate was changed to 12.22%;
- For Police Non-Supervisory, the employee contribution rate was changed to 9.25%; and
- For Firefighters, the employee contribution rate was changed to 11.54%.

These provisions are reflected for the first time in the June 30, 2021 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 of the Actuarial Valuation Report.

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 of the Actuarial Valuation Report.