



CITY OF BATTLE CREEK

POLICEMEN AND FIREMEN RETIREMENT SYSTEM



ANNUAL REPORT AS OF JUNE 30, 2023

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 Wolfersberger, 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
Loomis Sayles & Company

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, 2023, June 30, 2022 and June 30, 2021

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, 2023 valuation, June 30, 2022 valuation, and June 30, 2021 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, 2024 | July 1, 2023 | July 1, 2022 |
|--|---------------------|---------------------|---------------------|
| Normal Cost: Total | 30.33% | 30.22% | 26.54% |
| Amortization Payment - Initial Unfunded | 19.96% | 22.27% | 19.01% |
| Total Contribution Requirement | 50.29% | 52.49% | 45.55% |
| Member Contribution - Average | 12.01% | 11.15% | 10.68% |
| Computed Employer Rate | 38.28% | 41.34% | 34.87% |

COMPUTED AND ACTUAL CITY CONTRIBUTIONS

Comparative Statement

| Fiscal Year | Valuation Date | Budgeted/*Actual Dollar Contribution | Valuation Payroll | City's Computed % of Payroll Contributions |
|--------------------|-----------------------|---|--------------------------|---|
| 2024/25 | 2023 | N/A | 16,990,750 | 38.28% |
| 2023/24 | 2022 | N/A | 14,953,589 | 41.34% |
| 2022/23 | 2021 | \$6,323,009 | 14,258,999 | 34.87% |

FUNDED STATUS

| | June 30, 2023 | June 30, 2022 | June 30, 2021 |
|-----------------------------|---------------|---------------|---------------|
| Actuarial Accrued Liability | 235,094,000 | 229,419,000 | 210,849,000 |
| Actuarial Value of Assets | 174,441,000 | 170,222,000 | 165,872,000 |
| Funded Ratio | 74.20% | 74.20% | 78.70% |

SUMMARY OF CURRENT ASSET INFORMATION

Revenues & Expenses

| | 2022-23 | 2021-22 | 2020-21 |
|-------------------------------------|----------------|----------------|----------------|
| Market Value - July 1 | \$ 157,926,951 | \$ 186,019,846 | \$ 154,958,172 |
| Revenues: | | | |
| Member Contributions | \$ 1,922,364 | \$ 1,725,254 | \$ 1,593,679 |
| Employer Contributions | \$ 6,323,009 | \$ 6,368,077 | \$ 6,353,070 |
| Interest & Dividends | \$ 3,876,772 | \$ 6,223,014 | \$ 2,482,578 |
| Realized and Unrealized Gain (Loss) | \$ 12,928,149 | \$ -29,223,082 | \$ 33,699,729 |
| Total Revenues | \$ 25,050,294 | \$ -14,906,737 | \$ 44,129,056 |
| Expenditures: | | | |
| Refunds of Member Contributions | \$ 35,191 | \$ 109,594 | \$ -29,331 |
| Retirement Benefits Paid Out | \$ 13,537,067 | \$ 12,299,677 | \$ 11,949,168 |
| Administrative Expenses | \$ 196,493 | \$ 231,962 | \$ 164,187 |
| Health Insurance Premiums | \$ 271,367 | \$ 304,595 | \$ 331,308 |
| Investment Expense | \$ 138,495 | \$ 240,330 | \$ 652,050 |
| Total Expenses | \$ 14,178,613 | \$ 13,186,158 | \$ 13,067,382 |
| Market Value - June 30 | \$ 168,798,632 | \$ 157,926,951 | \$ 186,019,846 |

BATTLE CREEK P&F ASSET CLASS RETURN ASSUMPTIONS

| Asset Class | Projected Long-Term Real Returns (2023-2032) |
|-------------------------------|---|
| U.S. agencies | 1.10% |
| Domestic corporate securities | 4.65% |
| Domestic equities | 4.90% |
| American depositary receipts | -0.30% |
| International equities | 3.93% |
| Assumed Inflation | 2.60% |

ANNUAL BENEFITS

| | Age & Service Retirees | Disability Retirees | Survivor Beneficiaries |
|---------------------|------------------------|---------------------|------------------------|
| 2023 | | | |
| Number of retirees | 235 | 9 | 38 |
| Total benefits paid | \$11,402,604 | \$292,003 | \$749,041 |
| Average | \$48,522 | \$32,445 | \$19,712 |
| 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 |

MEMBER AND RETIREE DATA

ACTIVE MEMBERS

| | 2023 | 2022 | 2021 |
|------------------------|------|------|------|
| Police: | | | |
| Lieutenants | 6 | 4 | 4 |
| Sergeants (POLC) | 17 | 16 | 17 |
| Non-Supervisory (POLC) | 91 | 78 | 78 |
| Non-Represented | 3 | 4 | 3 |
| Lieutenants (DROP) | 2 | 2 | 2 |
| Sergeants (DROP) | 1 | 1 | 1 |
| Fire: | | | |
| Chiefs (OSP) | 3 | 3 | 3 |
| Firefighters (IAFF) | 74 | 69 | 67 |
| Non-Represented | 1 | 0 | 1 |
| Firefighters (DROP) | 7 | 10 | 6 |
| Chiefs (DROP) | 1 | 0 | 0 |

RETIREES

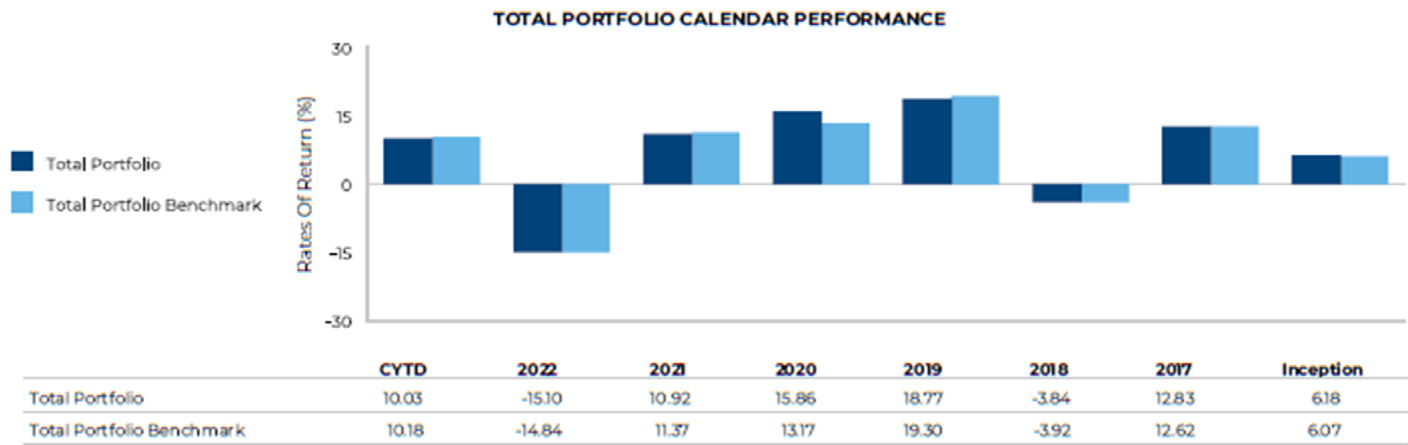
| | 2023 | 2022 | 2021 |
|--|------|------|------|
| Age & Service Benefits: | | | |
| Straight Life benefit-terminates @ death | 52 | 45 | 38 |
| Straight Life benefit-60% survivor benefit | 182 | 188 | 190 |
| Option 1 benefit-100% joint & survivor | 1 | 1 | 1 |
| Option 2 benefit-50% joint & survivor | 0 | 0 | 0 |
| Survivor benefit (retiree deceased) | 35 | 29 | 29 |
| Casualty Benefits <i>(includes survivor beneficiaries)</i> | | | |
| Duty Disability benefits | 5 | 5 | 5 |
| Non-duty Disability benefits | 4 | 4 | 4 |

| | | | |
|-------------------------|---|---|---|
| Duty Death benefits | 1 | 1 | 1 |
| Non-duty Death benefits | 2 | 2 | 2 |

ANNUAL BUDGET VERSUS ACTUAL
7/1/2022 - 6/30/2023

| | Budget 2022/2023 | Actual 2022/2023 |
|--|-----------------------------|-----------------------------|
| REVENUE | | |
| Member Contributions | \$1,705,700 | \$1,922,364 |
| Employer Contributions & Health Contribution | \$6,207,300 | \$6,323,009 |
| Investment Income | | |
| Interest & Dividends | \$6,345,500 | \$3,876,772 |
| Realized & Unrealized Gains (Loss) | \$2,000,000 | \$ 12,928,149 |
| TOTAL REVENUES | <u><u>\$16,258,500</u></u> | <u><u>\$ 25,050,294</u></u> |
| EXPENDITURES | | |
| Benefit Payments | \$12,923,300 | \$13,537,067 |
| Health Insurance | \$258,100 | \$271,367 |
| Refunds of Member Contributions | \$0 | \$35,191 |
| Administrative Expense: | | |
| Investment Management Fees | \$450,000 | \$138,495 |
| Financial Consultant Fees | \$95,000 | \$95,000 |
| Custody Fees | \$76,000 | \$52,715 |
| Audit & Actuary | \$44,000 | \$34,750 |
| Administrative Services | \$12,200 | \$12,250 |
| Legal Fees | \$4,000 | \$817 |
| Memberships | \$200 | \$200 |
| Conference Expense | \$8,000 | \$761 |
| Medical Consultation | \$0 | \$0 |
| | <u><u>\$14,106,498</u></u> | <u><u>\$14,178,613</u></u> |

INVESTMENT PERFORMANCE
CAPTRUST
City of Battle Creek Police and Fire Retirement System
Calendar Year Historical Performance as of 6/30/2023



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

| Year Established | Initial Years | Years Remaining | Unf'd. Act. Accr. Liab. (UAAL) | | Fiscal Year Beginning 2024 | | | |
|---------------------|------------------|--------------------|--------------------------------|-------------------|----------------------------|------------------------|-------------------------|------------------------------|
| | | | Initial Amount | Current Amount | Projected UAAL | Amortization Factor | Amortization Payment | % of Payroll Contribution |
| Initial Unfunded | | | | | | | | |
| 2022 | 25 | 24 | \$ 51,720,601 | \$ 51,995,273 | \$ 51,883,783 | 17.5096 | \$ 2,963,163 | 16.28 % |
| Benefit Changes | | | | | | | | |
| 2007 | 30 | 14 | 4,422,379 | 4,852,048 | 4,678,497 | 11.5194 | 406,142 | 2.23 |
| 2008 | 30 | 15 | 390,603 | 434,505 | 421,777 | 12.1915 | 34,596 | 0.19 |
| 2009 | 30 | 16 | 121,354 | 136,269 | 132,095 | 12.8462 | 10,283 | 0.06 |
| 2014 | 30 | 19 | (135,876) | (151,389) | (149,973) | 14.7105 | (10,195) | (0.06) |
| 2016 | 30 | 19 | 954,398 | 1,031,362 | 1,016,053 | 14.7105 | 69,070 | 0.38 |
| 2017 | 30 | 19 | 1,322,624 | 1,409,577 | 1,388,899 | 14.7105 | 94,415 | 0.52 |
| 2018 | 30 | 19 | (111,600) | (116,762) | (114,995) | 14.7105 | (7,817) | (0.04) |
| 2019 | 30 | 19 | (11,845) | (12,243) | (11,195) | 14.7105 | (761) | 0.00 |
| 2020 | 30 | 19 | (174,306) | (177,754) | (174,360) | 14.7105 | (11,853) | (0.07) |
| 2021 | 30 | 19 | (27,406) | (27,624) | (27,537) | 14.7105 | (1,872) | (0.01) |
| 2022 | 15 | 14 | (31,003) | (30,319) | (28,588) | 11.5194 | (2,482) | (0.01) |
| 2023 | 15 | 15 | (146,358) | (146,358) | (155,505) | 12.1915 | (12,755) | (0.07) |
| Experience Changes | | | | | | | | |
| 2023 | 20 | 20 | 1,456,264 | 1,456,264 | 1,547,281 | 15.3001 | 101,129 | 0.56 |
| Assumption Changes | | | | | | | | |
| Totals | | 22.37 | | \$60,652,849 | \$60,406,232 | | \$3,631,064 | 19.96 % |

ACTUARIAL ASSUMPTIONS

| | |
|-----------------------------------|---|
| Valuation date: | June 30, 2023 |
| Actuarial cost method: | Entry-age actuarial cost method |
| Amortization method: | Layered, Level percent-of-payroll |
| Amortization periods: | 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 6/30/23 |
| 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: The following new benefit provisions were valued for this report:

- For Police Sergeants, a Deferred Retirement Option Plan (DROP) was adopted effective July 1, 2022 and expiring June 30, 2024;
- For Police Sergeants, the employee contribution rate was changed from 12.72% to 13.22%;

- For Police Lieutenants, the employee contribution rate was changed from 11.00% to 12.50%;
- For Police Non-Supervisory, the employee contribution rate was changed from 9.75% to 10.75%;
- For Firefighters, the employee contribution rate was changed from 12.04% to 13.04%; and
- For Non-Represented Command, the employee contribution rate was changed from 11.00% to 10.00%.

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. Beginning with the June 30, 2022 valuation, the unfunded actuarial accrued liabilities are amortized as level percent of payroll contributions (principal and interest combined) over the following periods:

- Initial Period
 - UAAL attributable to experience deviations and assumption changes as of June 30, 2022 is over a closed 25-year amortization period.
- Benefit changes
 - Bases before June 30, 2022 – Accelerated to closed 20-year amortization periods, if applicable.
 - Future bases – Closed 15-year amortization periods.
- Assumption/method changes
 - Future bases – Closed 20-year amortization periods.
- Changes from experience deviations
 - Future bases – Closed 20-year amortization periods.

Active member payroll was assumed to increase 3.50% per year for the purpose of determining the level percent contributions.