Macomb County Employees' Retirement System
Financial Report
Year Ended December 31, 2015

MACOMB COUNTY EMPLOYEES' RETIREMENT SYSTEM

Statement of Net Position

December 31,

Assets	**2014**	**2015**
Cash and pooled investments	$ 21,189,473	$ 36,050,277
Receivables		
Accrued interest	450,730	456,316
Other	972,508	995,094
Due from other funds	100,871	-
Other assets	8,684	1,945
Total receivables and other assets	1,532,793	1,453,355
Investments, at fair value		
Corporate bonds	96,572	67,745
Common stock	382,423,181	296,193,037
Limited partnership	253,467,096	241,730,630
Fixed income common collective trusts	64,002,516	61,822,500
Equity common collective trusts	223,013,253	255,187,104
Total investments	923,002,618	855,001,016
Total Assets	945,724,884	892,504,648
Liabilities		
Accounts payable	1,444,085	2,275,540
Accrued compensation and benefits	4,024,639	4,776,605
Total Liabilities	5,468,724	7,052,145
Net position	$ 940,256,160	$ 885,452,503

MACOMB COUNTY EMPLOYEES' RETIREMENT SYSTEM

Statement of Changes In Net Position

Years Ended December 31,

ADDITIONS	**2014**	**2015**
Contributions		
Employer	$ 22,152,820	$ 21,281,612
Employee	3,597,063	3,667,705
Total contributions	25,749,883	24,949,317
Net appreciation in fair value of assets	60,282,265	(16,974,183)
Interest	85,129	243,069
Dividends	9,828,546	6,591,368
	70,195,940	(10,139,746)
Less: Management and custodial fees	5,782,515	5,809,052
Net investment income	64,413,425	(15,948,798)
Total additions	90,163,308	9,000,519
Deductions		
Benefit payments	57,744,672	62,808,671
Refunds of contributions	328,355	467,958
Administrative expense	523,640	527,547
Total deductions	58,596,667	63,804,176
Net increase (decrease) in net position	31,566,641	(54,803,657)
Net Position		
Beginning of year	908,689,519	940,256,160
End of year	$ 940,256,160	$ 885,452,503

Plan Description and Provision – The County sponsors and administers the Macomb County Employees' Retirement System (the "System"), a single employer defined benefit plan covering substantially all of the County's employees. The System was established in accordance with state statutes to provide retirement benefits for the employees of the County and its several offices, boards and departments, including the Department of Roads. At December 31, 2014 (date of the most recent actuarial valuation) the System's membership consisted of:

Retirees and beneficiaries receiving benefits	2,785
Terminated employees entitled to benefits but not yet receiving them	226
Active members covered by the plan	2,134
Total	5,145

Retirement Benefits- The following is a summary of the benefits provided to the members of the system. All members become vested in the System after 8 or 15 years of service, depending on their date of hire.

General County- Virtually all employees hired on or before December 21, 2001 may retire if their age plus years of service equals or exceeds 70 and they have attained a minimum age of 50. The annual retirement benefit, payable monthly for life, is computed at 2.4% of final average compensation for the first 26 years of service and 1% for every year thereafter, with a maximum employer pension of 65%. Employees hired between January 1, 2002 and December 31, 2011 and certain employees hired before that date not covered by the provisions described above may retire at age 55 with 25 or more years of service or age 60 with 8 years of service. Employees hired between January 1, 2012 and December 31, 2015 may retire at age 55 with 25 or more years of service or age 60 with 15 years of service. The annual retirement benefit, payable monthly for life, for employees in the latter two groups is computed at 2.2% of final average compensation for each year of service, with a maximum employer pension of 66%. The plan is closed to new hires effective January 1, 2016. The employer's normal cost of benefits was 13.10% of payroll and the employer's total contribution was 14.92% of payroll for the year ended December 31, 2015.

Sheriff Department- Employees may retire at any age with 25 or more years of service or age 60 with 8 years of service. The annual retirement benefit for the Sheriff and deputies, payable monthly for life, is computed at 2.64% of final average compensation multiplied by credited years of service with a maximum employer pension of 66%. The factor for the undersheriff, captains, jail administrator, command officers, corrections officers and dispatchers is 2.4% for the first 26 years of service and 1% for every year thereafter, with a maximum employer pension of 66%. The plan is closed to new hires effective January 1, 2016. The employer's normal cost of benefits was 17.53% of payroll and the employer's total contribution was 19.98% of payroll for the year ended December 31, 2015.

Department of Roads- Employees may retire at age 55 with 25 or more years of service, at age 60 with 8 years of service or at age 55 if their age pl4us years of service equals or exceeds 70. The annual retirement benefit, payable monthly for life, is computed at 2.4% of final average compensation for the first 26 years of service and 1% for every year thereafter, with a maximum employer pension of 65%. The plan is closed to new hires effective January 1, 2016. The employer's normal cost of benefits was 14.97% of payroll and the employer's total contribution was 23.39% of payroll for the year ended December 31, 2015.

.Retirement Benefits- (concluded)

Martha T. Berry Medical Care Facility- Virtually all employees hired on or before December 21, 2001 may retire if their age plus years of service equals or exceeds 70 and they have attained a minimum age of 50. The annual retirement benefit, payable monthly for life, is computed at 2.4% of final average compensation for the first 26 years of service and 1% for every year thereafter, with a maximum employer pension of 65%. Employees hired between January 1, 2002 and December 31, 2011 and certain employees hired before that date not covered by the provisions described above may retire at age 55 with 25 or more years of service or age 60 with 8 years of service. Employees hired on or after January 1, 2012 may retire at age 55 with 25 or more years of service or age 60 with 15 years of service. The annual retirement benefit, payable monthly for life, for employees in the latter two groups is computed at 2.2% of final average compensation for each year of service, with a maximum employer pension of 66%. The employer's normal cost of benefits was 12.13% of payroll and the employer's total contribution was 10.67% of payroll for the year ended December 31, 2015.

The System also provides death and disability benefits. If an employee leaves covered employment or dies before they are vested, accumulated employee contributions plus interest at the rate of 3.5% per year is refunded to the employee or designated beneficiary.

Funding Policy – Article 9, Section 24 of the State of Michigan constitution requires that financial benefits arising on account of employee service rendered in each year be funded during that year. Accordingly, the Pension Board retains an independent actuary to determine the annual contribution. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by plan members during the year, with an additional amount to finance any unfunded accrued liability. Contribution requirements of plan members are established by collective bargaining agreement for union members. Contribution rates for nonunion members mirror those of union members with the same benefit levels. The County is required to contribute the difference between the actuarially determined rate and the contribution rate for employees. General County employees contribute 2.5% or 3.5% of their annual salary to the System depending upon classification. Department of Roads employees contribute 3.5% of their annual salary. Sheriff employees contribute 4.0% of their annual salary. The County's required contribution for 2015 was $21,281,602.

Annual Pension Cost and Net Pension Obligation – During the year ended December 31, 2015, employer contributions totaled $21,281,602, as determined by the actuarial valuation of the plan as of December 31, 2013. The normal cost and actuarial accrued liability are determined using an entry age actuarial funding method. Unfunded actuarial accrued liabilities (UAAL) are amortized as a level percent of payroll over a 20-year closed period. The County has historically contributed 100% of the annual required contribution. Ten-year trend information regarding the County's annual pension contribution is presented below.

Year Ended December 31	Actuarially Determined Contribution	Actual Amount Contributed
2006	$ 20,215,000	$ 20,215,000
2007	19,121,330	19,121,330
2008	18,658,075	18,658,075
2009	18,507,521	18,507,521
2010	15,170,777	15,170,777
2011	16,050,489	16,050,489
2012	16,604,841	16,604,841
2013	19,932,742	19,932,742
2014	22,152,820	22,152,820
2015	21,281,602	21,281,602

Actuarial Methods and Assumptions – Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions regarding the probability of the occurrence of events in the future. Examples of such assumptions include future employment and retirement patterns, mortality and investment rate returns. These assumptions are subject to continual revision as actual results are measured against past expectations and new estimates are made about the future. The schedule of funding progress presented as required supplemental information following the notes herein, presents multi-year trend information that indicates whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities of the benefits provided. Significant actuarial assumptions used in determining the annual required contribution include (a) a rate of return on the investment of present and future assets of 7.5% per year compounded annually, (b) projected salary increases of 5.0% per year compounded annually, attributable to inflation, (c) additional projected salary increases ranging from 1.0% to 7.0% for various members per year, depending on service, attributable to seniority/merit, and (d) the assumption that benefits will not increase after retirement. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a five-year period.

Funding Status and Progress – As of December 31, 2014, the date of the most recent actuarial valuation, the plan was 96.9% funded. The actuarial accrued liability for benefits was $911,095,833 and the actuarial value of assets in the plan was $882,565,132, resulting in an unfunded actuarial accrued liability (UAAL) of $28,530,701. Covered payroll was $110,159,044 and the ratio of the UAAL to covered payroll was 25.9%. A schedule of funding progress for the previous ten (10) years is presented below and provides information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Actuarial Valuation Date December 31	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded % (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
2005	$ 719,336,871	$ 682,144,687	$ (37,192,184)	105.5	$ 134,886,588	(27.6)
2006	781,450,248	721,657,669	(59,792,579)	108.3	128,820,986	(46.4)
2007	847,305,155	772,649,767	(74,655,388)	109.7	126,696,252	(58.9)
2008	855,265,571	785,688,661	(69,576,910)	108.9	121,822,674	(57.1)
2009	866,356,598	814,563,728	(51,792,870)	106.4	116,522,938	(44.5)
2010	862,915,501	837,167,835	(25,747,666)	103.1	110,795,240	(23.2)
2011	828,692,442	854,323,946	25,631,504	97.0	108,900,180	23.5
2012	795,605,544	867,218,699	71,613,155	91.7	105,392,874	68.0
2013	837,652,540	884,041,581	46,389,041	94.8	102,252,875	45.4
2014	882,565,132	911,095,833	28,530,701	96.9	110,159,044	25.9

Basis of Accounting – The financial statements of the System are prepared using the accrual basis of accounting. Employee and employer contributions are recognized in the period that the contributions are due. Benefits and refunds are recognized when due and payable according to the terms of the plan.

Benefit Payments - Benefit payments made during the year ended December 31, 2015 totaled $62,808,671 and the average annual retirement allowance was $22,552.

Deferred Retirement Option Program (DROP)- The County offers employees the ability to continue employment and be paid a salary after they are fully vested and also receive credits for the retirement benefit payments that would have been paid to them had they left County employment. Employees may receive up to 60 months of DROP credits. The accumulated credits are paid out; including interest at 3.5%, after the employee has fully retired (discontinued providing employee services to the County). The Plan had $24,827,872 accumulated in DROP accounts at December 31, 2015.

Investments- The pension plan's policy in regard to the allocation of invested assets is established and may be amended by the Pension Board by a majority vote of its members. It is the policy of the Pension Board to pursue an investment strategy that manages risk through the prudent diversification of the portfolio across a broad selection of distinct asset classes. The pension plan's investment policy discourages the use of cash equivalents, except for liquidity purposes, and aims to refrain from dramatically shifting asset class allocations over short time spans. The following was the Board's adopted asset allocation policy as of December 31, 2015:

Asset Class	Target Allocation
Cash and Equivalents	2.0%
Domestic Equity	37.0%
Hedge Funds	5.0%
High Yield Fixed Income	4.0%
Infrastructure	5.0%
International Equity	15.0%
International Fixed Income	4.0%
Investment Grade US Fixe	8.0%
Private Equity	10.0%
Real Estate	10.0%
Total	100.0%

Rate of Return – The annual money-weighted rate of return on pension plan investments for the year ended December 31, 2015 was (-0.59%). The money-weighted rate of return expressed investment performance, net of investment expense, adjusted for the changing amounts actually invested.