

Macomb County Employees' Retirement System

Summary Annual Report for the Year 2013

Chairperson:	Robert Hoepfner, Macomb County Board of Commissioners Chair
Vice-Chairperson:	Darra Slanec, Employee Representative
Members:	Gary Cutler, Employee Representative Mark Deldin, County Executive's Office Representative Carol Grant, Employee Representative David Flynn, Board of Commissioners Chairman Jerry Moffitt, Treasurer's Office Representative
Non-Voting Member:	Leonard Reinowski, Retiree Representative
Treasurer:	Ted B. Wahby, County Treasurer
Secretary:	Peter M. Provenzano, County Finance Director
Legal Advisor:	George E. Brumbaugh, Jr., County Corporation Counsel
Special Legal Counsel:	VanOverbeke, Michaud & Timmony, P.C.
Investment Consultant:	Graystone Consulting
Actuary:	Gabriel, Roeder, Smith & Company
Custodial Bank:	Wells Fargo
Auditor:	Plante & Moran
Medical Director:	MES Solutions
Fiduciaries:	Aetos Alidade Capital Angelo Gordon Crammer Rosenthal McGlynn Earnest Partners Edgewood Management EnTrust Inland American Intercontinental US Reif Invesco ITS Capital Loomis Sayles LS Advisors Merrill Lynch-Vesey Private Equity Mesirow Financial NorthPointe Penn Square Reinhart Partners Rizvi Traverse Franklin Templeton Wells LP IX WHV Wilton Private Equity World Asset Management

MACOMB COUNTY EMPLOYEES' RETIREMENT SYSTEM

Statement of Net Position

December 31, 2013

Assets	
Cash and pooled investments	\$ 24,339,662
Receivables	
Accrued interest	571,051
Other	678,879
Due from other funds	<u>105,240</u>
Total receivables and other assets	<u>1,355,170</u>
Investments, at fair value	
Corporate bonds	122,351
Common stock	400,447,854
Limited partnership	176,003,311
Fixed income common collective trusts	141,004,409
Equity common collective trusts	<u>170,973,967</u>
Total investments	<u>888,551,892</u>
Total Assets	<u>914,246,724</u>
Liabilities	
Accounts payable	1,555,205
Accrued compensation and benefits	<u>4,002,000</u>
Total Liabilities	<u>5,557,205</u>
Net position	<u><u>\$ 908,689,519</u></u>

MACOMB COUNTY EMPLOYEES' RETIREMENT SYSTEM

Statement of Changes In Net Position

Year Ended December 31, 2013

ADDITIONS

Contributions

Employer \$ 19,932,742

Employee 3,719,676

Total contributions 23,652,418

Net appreciation in fair value of assets 157,241,288

Interest 432,030

Dividends 7,462,367

165,135,685

Less: Management and custodial fees 4,627,754

Net investment income 160,507,931

Total additions 184,160,349

Deductions

Benefit payments 62,721,398

Refunds of contributions 503,386

Administrative expense 183,500

Total deductions 63,408,284

Net increase in net position 120,752,065

Net Position

Beginning of year 787,937,454

End of year \$ 908,689,519

MACOMB COUNTY EMPLOYEES' RETIREMENT SYSTEM
Notes to Basic Financial Statements
December 31, 2013

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, 2013 (date of the most recent actuarial valuation) the System's membership consisted of:

Retirees and beneficiaries receiving benefits	2,591
Terminated employees entitled to benefits but not yet receiving them	235
Active members covered by the plan	2,079
 Total	 4,905

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 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 these employees 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 14.00% of payroll and the employer's total contribution was 13.22% of payroll for the year ended December 31, 2013.

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 employer's normal cost of benefits was 20.85% of payroll and the employer's total contribution was 17.83% of payroll for the year ended December 31, 2013.

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 plus 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 employer's normal cost of benefits was 17.27% of payroll and the employer's total contribution was 21.46% of payroll for the year ended December 31, 2013.

MACOMB COUNTY, MICHIGAN
Notes to Basic Financial Statements (continued)
December 31, 2013

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 these employees 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 14.56% of payroll and the employer's total contribution was 10.56% of payroll for the year ended December 31, 2013.

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 – The System's funding policy provides for periodic employer contributions at actuarially determined amounts that, expressed as percentages of annual covered payroll, are designed to accumulate sufficient assets to pay benefits when due. The County's required contribution for 2013 was \$19,932,742. Administrative costs of the System are financed from investment earnings. 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 contributes the remaining amounts necessary to fund the System, using the actuarial basis specified by statute.

Annual Pension Cost and Net Pension Obligation – During the year ended December 31, 2013, employer contributions totaled \$19,932,742, as required by the actuarial valuation of the plan as of December 31, 2011. 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. Three-year trend information regarding the County's annual pension cost, percent contribution and net pension obligation are presented below.

Year Ended December 31	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
2011	\$ 16,050,489	100	\$ -
2012	16,604,841	100	-
2013	19,932,742	100	-

MACOMB COUNTY, MICHIGAN
Notes to Basic Financial Statements (concluded)
December 31, 2013

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, 2013, the date of the most recent actuarial valuation, the plan was 94.75% funded. The actuarial accrued liability for benefits was \$884,041,581 and the actuarial value of assets in the plan was \$837,652,540, resulting in an excess of actuarial accrued liability over assets of \$46,389,041. Covered payroll was \$102,252,875 and the ratio of the UAAL to covered payroll was (45.37) percent. The required schedule of funding progress immediately following the notes to the financial statements presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

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, 2013 totaled \$62,721,398 and the average annual retirement allowance was \$20,235.