

# Macomb County Employees' Retirement System

## Financial Report for the Year 2011

Chairperson: Kathy Vosburg, 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  
Bob Hoepfner, Department of Roads Representative  
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.

Actuary: Gabriel, Roeder, Smith & Company

Custodian: Wells Fargo

Fiduciaries: Aetos  
Alidade Capital  
Angelo Gordon  
Ashfield Capital  
Crammer Rosenthal McGlynn  
Earnest Partners  
Edgewood Management  
Energy Opportunities Capital Management  
EnTrust  
Hartford Investment Management  
Inland American  
Intercontinental US Reif  
Invesco  
ITS Capital  
Loomis Sayles  
Lyster Watson  
Merrill Lynch-Vesey Private Equity  
Mesirow Financial  
Morgan Stanley Smith Barney  
Navellier  
NorthPointe  
Penn Square  
Reinhart Partners  
Rizvi Traverse  
Seizert Capital  
Tradewinds  
Wells  
WHV  
Wilton Private Equity  
World Asset Management

**MACOMB COUNTY, MICHIGAN**  
 Employees' Retirement Pension Trust Fund  
 Statement of Plan Net Assets  
 as of December 31, 2011 and 2010

<b>ASSETS</b>	<b>2011</b>	<b>2010</b>
Cash and pooled investments	\$ 39,320,107	\$ 34,151,456
Receivables		
Accrued interest receivable	501,304	826,007
Other	<u>39,451</u>	<u>24,527</u>
Total receivables	<u>540,755</u>	<u>850,534</u>
Investments, at fair value		
Corporate bonds	12,605,086	33,112,355
Preferred stock	745,620	621,511
Common stock	318,884,423	365,617,898
Limited partnerships	82,991,602	65,787,889
Mutual funds	<u>285,081,079</u>	<u>287,816,638</u>
Total investments	<u>700,307,810</u>	<u>752,956,291</u>
Total assets	<u>740,168,672</u>	<u>787,958,281</u>
 <b>LIABILITIES</b>		
Accounts payable	855,383	1,305,144
Due to other funds	<u>465,010</u>	<u>1,455,148</u>
Total liabilities	<u>1,320,393</u>	<u>2,760,292</u>
 <b>NET ASSETS</b>		
Net assets held in trust for pension and other post-employment benefits	<u>\$ 738,848,279</u>	<u>\$ 785,197,989</u>

**MACOMB COUNTY, MICHIGAN**  
 Employees' Retirement Pension Trust Fund  
 Statement of Changes In Plan Net Assets  
 for the Years Ended December 31, 2011 and 2010

<b>ADDITIONS</b>	<b>2011</b>	<b>2010</b>
Contributions		
Employer		
General	\$ 8,125,545	\$ 7,749,821
Road	2,285,642	1,688,351
Sheriff	5,039,922	5,007,673
Martha T. Berry	599,380	724,932
Total employer	<u>16,050,489</u>	<u>15,170,777</u>
Employee		
General	1,983,477	2,105,108
Road	534,279	484,460
Sheriff	1,077,111	1,131,507
Martha T. Berry	140,856	198,889
Total employee	<u>3,735,723</u>	<u>3,919,964</u>
Total contributions	<u>19,786,212</u>	<u>19,090,741</u>
Investment income		
Net appreciation (depreciation) in fair value of assets	(16,197,095)	86,019,968
Interest	989,476	825,513
Dividends	7,191,725	7,535,158
	(8,015,894)	94,380,639
Less investment expenses		
Management and custodial fees	<u>2,861,431</u>	<u>2,860,166</u>
Net investment income	<u>(10,877,325)</u>	<u>91,520,473</u>
Total additions	<u>8,908,887</u>	<u>110,611,214</u>
<b>DEDUCTIONS</b>		
Benefit payments		
General	33,457,232	30,331,978
Road	7,887,433	6,948,413
Sheriff	10,995,476	10,953,772
Martha T. Berry	2,414,585	1,921,613
Total benefits	<u>54,754,726</u>	<u>50,155,776</u>
Refunds of contributions	310,420	302,316
Administrative expense	<u>193,451</u>	<u>178,514</u>
Total deductions	<u>55,258,597</u>	<u>50,636,606</u>
Net increase (decrease) in net assets	(46,349,710)	59,974,608
<b>NET ASSETS</b>		
Beginning of year	<u>785,197,989</u>	<u>725,223,381</u>
End of year	<u>\$ 738,848,279</u>	<u>\$ 785,197,989</u>

**MACOMB COUNTY, MICHIGAN**  
**Notes to Basic Financial Statements**  
**December 31, 2011**

**Note 8 – Employees’ Retirement System**

*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 County Road Commission. At December 31, 2011 (date of the most recent actuarial valuation) the System’s membership consisted of:

Retirees and beneficiaries currently receiving benefits	2,439
Terminated employees entitled to benefits but not yet receiving them	221
Active employees covered by the plan	<u>2,257</u>
Total membership	<u><u>4,917</u></u>

*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 years of service.

*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 on or after January 1, 2002 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. 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%.

*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%.

*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 regardless of age 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 multiplied for the first 26 years of service and 1% for every year thereafter, with a maximum employer pension of 65%.

The System also provides death and disability benefits. If an employee leaves covered employment or dies before 8 years of credited service, accumulated employee contributions plus interest at the rate of 3.5% per year is refunded to the employee or designated beneficiary.

**MACOMB COUNTY, MICHIGAN**  
**Notes to Basic Financial Statements**  
**December 31, 2011**

**Note 8– Employees’ Retirement System (continued)**

*Funding Policy* – The System’s funding policy provides for periodic employer contributions at actuarially determined rates 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 2011 was \$16,050,489. 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. Employees of the Department of Roads 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, 2011, employer contributions totaled \$16,050,489, as required by the actuarial valuation of the plan as of December 31, 2009. 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 open 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.

<u>Year Ended</u> <u>December 31</u>	<u>Annual Pension</u> <u>Cost (APC)</u>	<u>Percentage of</u> <u>APC Contributed</u>	<u>Net Pension</u> <u>Obligation</u>
2009	\$ 18,507,521	100	\$ -
2010	15,170,777	100	-
2011	16,050,489	100	-

*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 1.2% to 5.0% 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, 2010, the date of the most recent actuarial valuation, the plan was 103.1% funded. The actuarial accrued liability for benefits was \$837,167,835 and the actuarial value of assets in the plan was \$862,915,501, resulting in an excess of assets over the actuarial accrued liability of \$25,747,666. Covered payroll was \$110,795,240 and the ratio of the UAAL to covered payroll was 23.2 percent.

**MACOMB COUNTY, MICHIGAN**  
**Notes to Basic Financial Statements**  
**December 31, 2011**

**Note 8-- Employees' Retirement System (continued)**

*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.

*Method Used to Value Investments* – In accordance with GASB Statement 25, "Financial Reporting for Defined Benefit Plans and Note Disclosures for Defined Contribution Plans", investments are reported at fair value, as indicated by quoted market prices as of December 31, 2011.

**MACOMB COUNTY, MICHIGAN**  
**REQUIRED SUPPLEMENTARY INFORMATION - EMPLOYEES' RETIREMENT SYSTEM**

**SCHEDULE OF FUNDING PROGRESS**

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL) Entry Age	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
December 31	(a)	(b)	(b-a)	(a/b)	(c)	((b-a)/c)
2004	\$ 674,857,869	\$ 664,487,155	\$ (10,370,714)	101.56	\$ 134,258,243	(7.72)
2005	719,336,871	682,144,687	(37,192,184)	105.45	134,886,588	(27.57)
2006	781,450,248	721,657,669	(59,792,579)	108.29	128,820,986	(46.42)
2007	847,305,155	772,649,767	(74,655,388)	109.66	126,696,252	(58.92)
2008	855,265,571	785,688,661	(69,576,910)	108.86	121,822,674	(57.11)
2009	866,356,598	814,563,728	(51,792,870)	106.36	116,522,938	(44.45)
2010	862,915,501	837,167,835	(25,747,666)	103.08	110,795,240	(23.24)

**SCHEDULE OF EMPLOYER CONTRIBUTIONS**

Year Ended December 31	General Employees		Sheriff Employees		Road Employees		Martha T Berry Employees		Total
	Annual Required Contribution	Percentage Contributed	Annual Required Contribution	Percentage Contributed	Annual Required Contribution	Percentage Contributed	Annual Required Contribution	Percentage Contributed	
2005	\$ 8,282,000	100	\$ 4,196,000	100	\$ 2,376,000	100	\$ -	100	\$ 14,854,000
2006	11,807,000	100	5,329,000	100	3,079,000	100	-	100	20,215,000
2007	11,286,334	100	5,169,283	100	2,665,713	100	-	100	19,121,330
2008	11,962,653	100	4,503,282	100	2,192,140	100	-	100	18,658,075
2009	11,940,369	100	4,557,635	100	2,009,517	100	-	100	18,507,521
2010	7,749,821	100	5,007,673	100	1,688,351	100	724,932	100	15,170,777
2011	8,125,545	100	5,039,922	100	2,285,642	100	599,380	100	16,050,489