

# Macomb County Employees' Retirement System

## Summary Annual Report for the Year 2012

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.
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 Ashfield Capital Crammer Rosenthal McGlynn Earnest Partners Edgewood Management EnTrust Hartford Investment Management Inland American Intercontinental US Reif Invesco ITS Capital Loomis Sayles LS Advisors Merrill Lynch-Vesey Private Equity Mesirow Financial Navellier NorthPointe Penn Square Reinhart Partners Rizvi Traverse Tradewinds Wells LP IX WHV Wilton Private Equity World Asset Management

MACOMB COUNTY EMPLOYEES' RETIREMENT SYSTEM

Statement of Net Position

December 31, 2012

**Assets**

Cash and pooled investments \$ 29,373,617

Receivables

Accrued interest 292,936

Other 66,215

Total receivables and other assets 359,151

Investments, at fair value

Corporate bonds 130,666

Common stock 331,965,831

Limited partnership 156,681,176

Common collective trusts 270,258,756

Total investments 759,036,429

**Total Assets** 788,769,197

**Liabilities**

Accounts payable 813,097

Due to fiduciary funds 18,646

**Total Liabilities** 831,743

**Net position** \$ 787,937,454

MACOMB COUNTY EMPLOYEES' RETIREMENT SYSTEM

Statement of Changes In Net Position

Year Ended December 31, 2012

**ADDITIONS**

Contributions

Employer \$ 16,604,841

Employee 3,569,150

Total contributions 20,173,991

Net appreciation in fair value of assets 75,777,960

Interest 1,143,166

Dividends 8,867,567

85,788,693

Less: Management and custodial fees 2,686,802

Net investment income 83,101,891

Total additions 103,275,882

**Deductions**

Benefit payments 53,458,289

Refunds of contributions 555,489

Training and Education 10,206

Administrative expense 162,723

Total deductions 54,186,707

Net increase in net position 49,089,175

**Net Position**

Beginning of year 738,848,279

End of year \$ 787,937,454

**Macomb County Employees' Retirement System  
Notes to Financial Statements  
December 31, 2012**

Plan Description and Provision – The County of Macomb, Michigan 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, 2011 (date of the most recent actuarial valuation) the System's membership consisted of:

Retirees and beneficiaries currently receiving benefits	2,542
Terminated employees entitled to benefits but not yet receiving them	201
Active employees covered by the plan	2,198
 Total membership	 4,941

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 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%. The employer's normal cost of benefits was 14.07% of payroll and the employer's total contribution was 10.57% of payroll for the year ended December 31, 2012.

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 20.86% of payroll and the employer's total contribution was 14.99% of payroll for the year ended December 31, 2012.

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 17.40% of payroll and the employer's total contribution was 17.95% of payroll for the year ended December 31, 2012.

**Macomb County Employees' Retirement System**  
**Notes to Financial Statements (continued)**  
**December 31, 2012**

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 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%. The employer's normal cost of benefits was 14.58% of payroll and the employer's total contribution was 9.03% of payroll for the year ended December 31, 2012.

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 2012 was \$16,604,841. 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, 2012, employer contributions totaled \$16,604,841, as required by the actuarial valuation of the plan as of December 31, 2010. 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.

Year Ended December 31	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
2010	\$ 15,170,777	100	\$ -
2011	16,050,489	100	-
2012	16,604,841	100	-

**Macomb County Employees' Retirement System**  
**Notes to Financial Statements (concluded)**  
**December 31, 2012**

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, 2011, the date of the most recent actuarial valuation, the plan was 97% funded. The actuarial accrued liability for benefits was \$854,323,946 and the actuarial value of assets in the plan was \$828,692,442, resulting in an excess of actuarial accrued liability over assets of \$25,631,504. Covered payroll was \$108,900,180 and the ratio of the UAAL to covered payroll was (23.54) 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, 2012 totaled \$53,458,289 and the average annual retirement allowance was \$19,969.

**MACOMB COUNTY EMPLOYEES' RETIREMENT SYSTEM  
REQUIRED SUPPLEMENTARY INFORMATION**

**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	772,849,767	(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)
2011	828,692,442	854,323,946	25,631,504	97.00	108,900,180	23.54

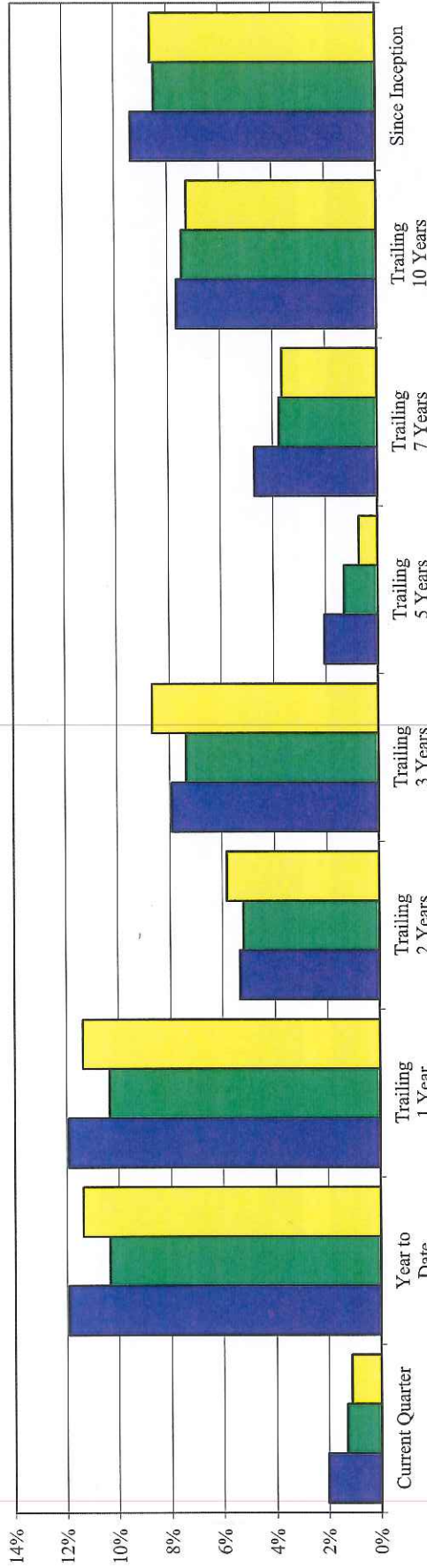
**SCHEDULE OF EMPLOYER CONTRIBUTIONS**

Year Ended	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	
December 31									
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	11,940,389	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

# Total Fund Performance

Macomb County Employees' Retirement System

As of 12/31/2012



■ Total Fund - Gross of Fees ■ Macomb Custom Index\* ■ Macomb Policy Index\*\*

	Current Quarter	Year to Date	Trailing 1 Year	Trailing 2 Years	Trailing 3 Years	Trailing 5 Years	Trailing 7 Years	Trailing 10 Years	Since Inception	Inception Date
<b>Total Fund - Gross of Fees</b>	2.03%	11.92%	11.92%	5.35%	7.92%	2.06%	4.70%	7.65%	9.39%	Dec-85
<b>Total Fund - Net of Fees</b>	1.97%	11.67%	11.67%	5.08%	7.61%	1.74%	4.37%	7.29%	8.99%	
<i>Macomb Custom Index*</i>	1.29%	10.33%	10.33%	5.21%	7.36%	1.29%	3.76%	7.45%	8.51%	
<i>Macomb Policy Index**</i>	1.10%	11.36%	11.36%	5.84%	8.68%	0.70%	3.65%	7.26%	8.64%	
S&P 500 Index	-0.38%	16.00%	16.00%	8.84%	10.87%	1.66%	4.12%	7.10%	9.86%	

**Change in Value (000's)**

Beginning Market Value	\$778,286	\$738,938	\$738,938	\$789,156	\$728,741	\$905,452	\$749,682	\$480,008	\$88,616
Net Flow	(\$7,169)	(\$37,843)	(\$37,843)	(\$78,185)	(\$97,270)	(\$130,525)	(\$148,776)	(\$139,304)	(\$96,988)
Investment Earnings	\$15,798	\$85,820	\$85,820	\$75,944	\$155,445	\$11,988	\$186,009	\$446,212	\$795,287
Ending Market Value	\$786,916	\$786,916	\$786,916	\$786,916	\$786,916	\$786,916	\$786,916	\$786,916	\$786,916

\*Custom Index = Actual beginning of month manager asset allocation used with appropriate style indices

\*\*Policy Index: 52% Russell 3000, 15% MSCI EAFE, 12% BC Aggregate, 10% NCREIF Real Estate, 5% HFRI Fund of Funds, 5% Private Equity and 1% 90 Day T-Bills



Macomb County Employees' Retirement System  
 Projected Budget  
 Year ended December 31, 2014

	2012 Actual	2013 Projected	2014 Projected
Benefit Payments	53,458,289	58,974,495	64,872,000
Refunds of Contributions	555,489	508,503	530,000
Supplies and Services	59,633	54,333	71,900
Conferences & Training	10,206	5,515	11,000
Professional Fees	53,090	55,000	70,000 *
Administrative Services	50,000	50,000	300,000
Investment and Custodial Fees	<u>2,686,802</u>	<u>3,000,000</u>	<u>3,200,000</u>
	<u><u>56,873,509</u></u>	<u><u>62,647,846</u></u>	<u><u>69,054,900</u></u>

\*Professional Fees include: Actuary, Election Certification, Legal