



# **GENESEE COUNTY EMPLOYEES' RETIREMENT SYSTEM ANNUAL REPORT**

for the Year Ended  
December 31, 2008

## **RETIREMENT COMMISSION MEMBERS**

Chris Kwasneski, Elected Employee Representative, Chairperson  
Debra Kozan, Elected Employee Representative, Vice-Chairperson  
Warren Vyvyan, Elected Employee Representative  
Jeffrey Cyphert, Elected Retiree Representative  
George Martini, Secretary, Ex-Officio Commissioner  
John Northrup, Ex-Officio Commissioner  
Rose Bogardus, Ex-Officio Commissioner  
Dan Russell, Ex-Officio Commissioner  
Billy Bradshaw, Ex-Officio Commissioner

### **WHERE TO WRITE FOR INFORMATION:**

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Retirement Office Supervisor  
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Web site: [www.co.genesee.mi.us](http://www.co.genesee.mi.us)



Public Pension Coordinating Council

***Public Pension Standards Award  
For Funding and Administration  
2008***

Presented to

***Genesee County Employees' Retirement System***

In recognition of meeting professional standards for  
plan funding and administration as  
set forth in the Public Pension Standards.

*Presented by the Public Pension Coordinating Council, a confederation of*

National Association of State Retirement Administrators (NASRA)  
National Conference on Public Employee Retirement Systems (NCPERS)  
National Council on Teacher Retirement (NCTR)

A handwritten signature in cursive script, reading 'Alan H. Winkle'.

Alan H. Winkle  
Program Administrator

**INDEPENDENT AUDITORS**

Plante & Moran, PLLC

**ACTUARY**

Rodwan Consulting Company

**INVESTMENT MANAGERS**

AEW Value Investors, LP  
Arnhold and S. Bleichroeder, Inc.  
Barclay's Global Investors  
Bedrock Advisors, LLC  
Calamos Asset Management  
EARNEST Partners  
Guggenheim Real Estate Partners  
INTECH Investment Management, LLC  
Pacific Investment Management Company (PIMCO)  
Prudential Investments (PRISA)  
Western Asset Management  
World Asset Management (WAM)

**COMMISSION RECAPTURE FIRMS**

BNY-Convergex  
Russell Implementation Services

**CONSULTING SERVICES/EVALUATIONS/MANAGER SEARCHES**

Asset Strategies Portfolio Services, Inc.

**CUSTODIAL BANK & SECURITIES LENDING AGENT**

Comerica Bank

**ATTORNEYS**

VanOverbeke, Michaud & Timmony, P.C.  
Labaton Sucharow, L.L.P.  
Faruqi & Faruqi, L.L.P.

**MEDICAL DIRECTOR**

Consulting Physicians

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# **I. INTRODUCTORY SECTION**

**The Introductory Section Contains:**

- **Secretary's Letter**
- **Organization Chart**
- **Sources and Disbursements of Revenue**
- **Summary of Benefits**



## **Genesee County Employees' Retirement System Secretary's Letter**

Retirement System Members and Interested Citizens  
Genesee County, Flint, Michigan

We are pleased to submit the 30<sup>th</sup> Annual Report of the Genesee County Employees' Retirement System (also referred to as GCERS) for the year ended December 31, 2008.

The annual report is presented in four sections: (1) the Introductory Section which provides information of a general nature regarding the System; (2) the Financial Section consisting of the audited financial statements and the accompanying notes to the Financial Statements; (3) Investment Analysis and Supplemental Information concerning the System's investment performance; and (4) the Actuarial Section which summarizes the results of the annual actuarial report as of December 31, 2008.

### **ORGANIZATION**

The GCERS was organized pursuant to Section 12 (a) of Act #156, Public Acts of 1851 (MSA 5.333(1); MCLA 46.12a) as amended, State of Michigan. The GCERS was established in 1946, beginning with the General Unit and the County Road Commission. Water and Waste joined the System in 1956, Community Mental Health in 1966, City of Mt. Morris in 1969, and the Genesee District Library in 1980.

The GCERS is regulated under the Genesee County Employees' Retirement Ordinance and individual union/management collectively-bargained contracts. This Ordinance has been approved by the Genesee County Board of Commissioners and the State of Michigan Pension Plan Committee, during its existence.

### **ADMINISTRATION OF SYSTEM**

The administration and responsibility for the proper operation of the System is vested in the Genesee County Retirement Commission, which is comprised of the following representatives as defined by Ordinance:

- a. Three employee representatives elected by the System membership for three-year staggered terms, which results in the election of one employee Commissioner yearly.
- b. The Chairperson of the Genesee County Board of Commissioners by virtue of his or her election to that office, or other County Commissioner designated by the Chairperson as his or her designee during the Chairperson's term.

**Genesee County Employees' Retirement System  
Secretary's Letter (continued)**

- c. The Chairperson of the Genesee County Finance Committee by virtue of his or her appointment to that office.
- d. The Chairperson of the Board of County Road Commissioners by virtue of his or her election to that office.
- e. The Executive Director of the Community Mental Health services by virtue of his or her appointment to that office.
- f. The Genesee County Controller by virtue of his or her appointment to that position.
- g. A Retiree Representative elected by the retirees to a two-year term of office.

The following describes the Departments and outside firms that assist the Commission in carrying out its fiduciary responsibilities. The Organization Chart, Exhibit I, also illustrates these responsibilities

**PROFESSIONAL SERVICES**

The Retirement Commission has a fiduciary responsibility for the proper management of the System, and as such obtains the services of various professionals to aid it in its management. These professionals are:

The **County Controller** serves as Secretary to the Retirement Commission and as Plan Administrator.

The **Retirement Office Supervisor** serves as a staff aide to the Retirement Commission and works under the direct control of the Controller in the administration of the System.

The Commission has hired **outside legal counsel** as advisors to the Retirement Commission.

The respective **Employer Human Resources Departments** provide services regarding their employee members, as well as administer their retirees' health and life insurance plans.

The Commission appoints an **Actuary** who prepares an annual actuarial valuation to determine the adequacy of the funding of retirement benefit liabilities accrued by System members.

The Commission hires an outside **professional consultant** to evaluate investment manager performance, review the asset allocation mix, and perform investment manager searches.

An outside **Auditor** is engaged on an annual basis to ensure that the financial statements accurately reflect the financial position of the System and that the results of its yearly operations conform to generally accepted accounting principals.

Genesee County Employees' Retirement System  
Secretary's Letter (continued)

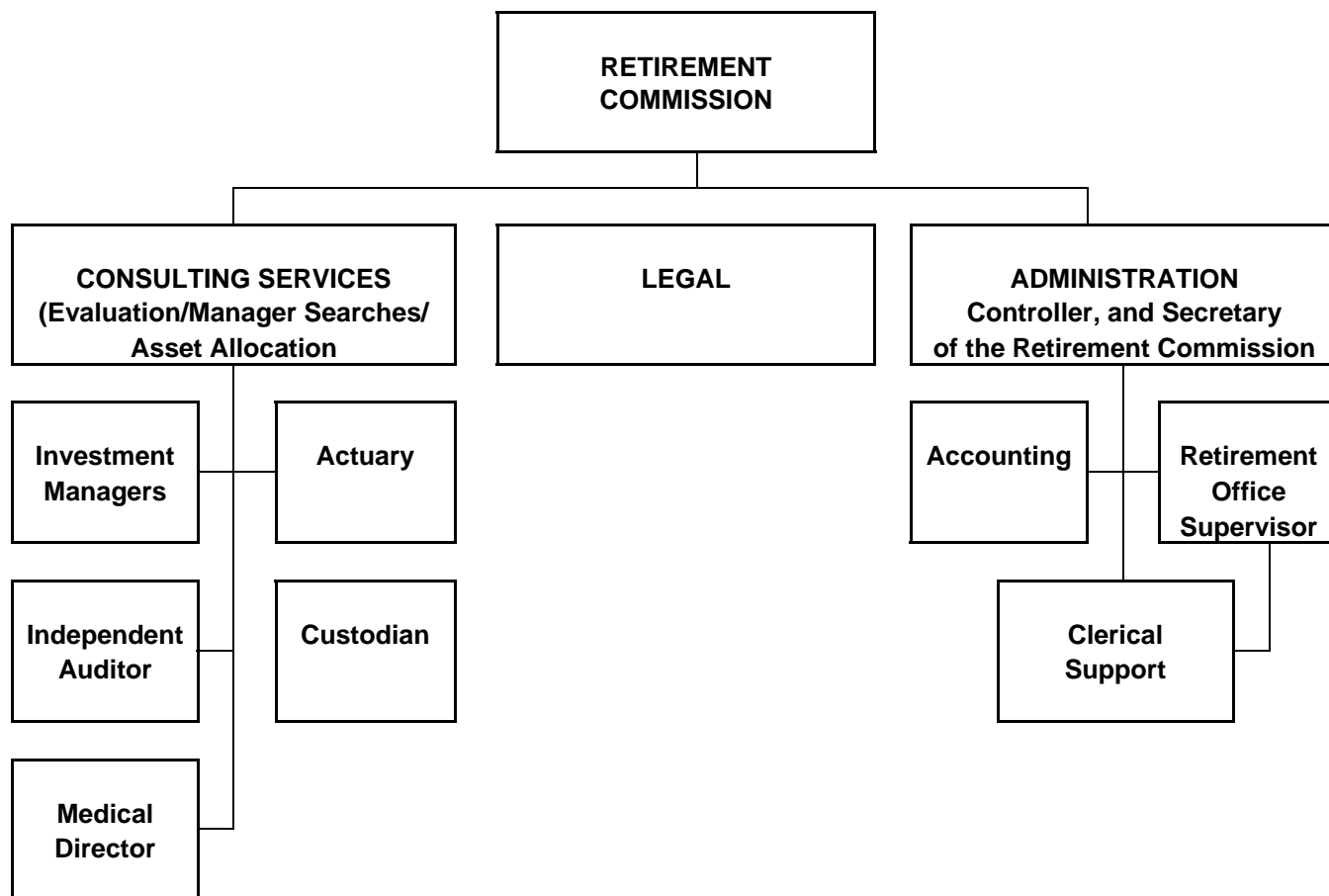
A **Medical Director** is appointed by the Commission to review and evaluate medical evidence and propose recommendations regarding applications for disability retirements.

**Investment Managers** are hired to invest the System's assets consistent with the objectives and direction of the Commission. The System's investment performance is monitored externally by an independent evaluation service. The Retirement Commission has also retained two firms to recapture fees paid in commissions on the purchase and sale of assets.

The **Custodian** is hired by the Commission to handle the cash transactions due to the buying and selling of securities. The Custodian follows through on the Investment Managers' decisions on investments.

The Commission retains the services of **outside special counsel** for the purposes of monitoring securities litigation.

*Exhibit I – Organization Chart*





## ACCOUNTING SYSTEM AND REPORTS

The accounting records of the GCERS are maintained on an accrual basis and all System costs and expenses are borne by the System.

Annually, as required by the Retirement Ordinance, the Retirement Commission submits an Actuarial Valuation Report, a Statement of Plan Net Assets, and a Statement of Changes in Plan Net Assets to the Genesee County Board of Commissioners.

## HOW THE FUND OPERATES

The revenues essential to the sound funding of the System are derived from three sources. The chart of page six identifies the percentage of revenues and distribution of revenues by source.

**Contributions by Members:** Employee contributions are calculated on all monetary compensation, including overtime. The member contribution rates vary by employer and the respective collective bargaining agreements and/or personnel policies. These rates differ from 0.50% to 6.5%. The employee deposits are posted to individual accounts for each member. The accumulated amount in each account is used for the member's benefit if he or she remains in service. Members leaving service may withdraw the amount of their accumulated contributions together with interest that was credited to the individual account. Employees have a deferred retirement benefit that varies by employer, respective collective bargaining agreements and/or personnel policy, and employment starting dates. This benefit varies between 8 and 15 years of credited service, and allows an employee to leave employment after satisfying the required vesting period and commence a pension benefit when that employee would normally have met the age and service requirements had the employee not left employment. If a deferred member dies before retirement and no other death benefits are payable, his or her beneficiary or estate will receive his or her contributions. Employee contributions accounted for 16.18% of total income for 2008.

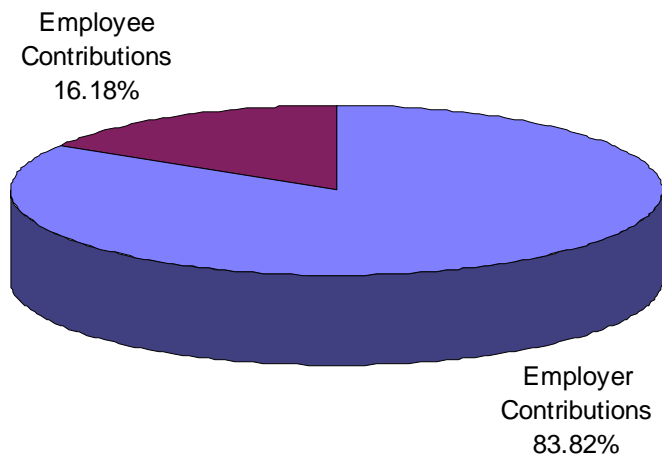
**Contributions by Employer:** While members are paying toward their retirement, the employer groups are depositing contributions on behalf of members employed by them. The GCERS provides for payment of required employer contributions, which rates vary among the employer groups and from year-to-year. The employer contribution rates are determined on the basis of the annual actuarial valuation, which indicates the needed revenues, in addition to the members' contributions and assumed investment income, to fund the allowances promised by the System. Employer contributions accounted for 83.82% of total income for 2008.

**Investment Income:** Investment income is the third source of System revenues and must be regarded as both a vital and major contributor to the GCERS. In 2008, in the midst of one of the worse stock market returns since 1937, the severe market downturn and turmoil in the financial sectors contributed to a loss in the market value of assets and an overall net decrease in assets held in trust for pension benefits.

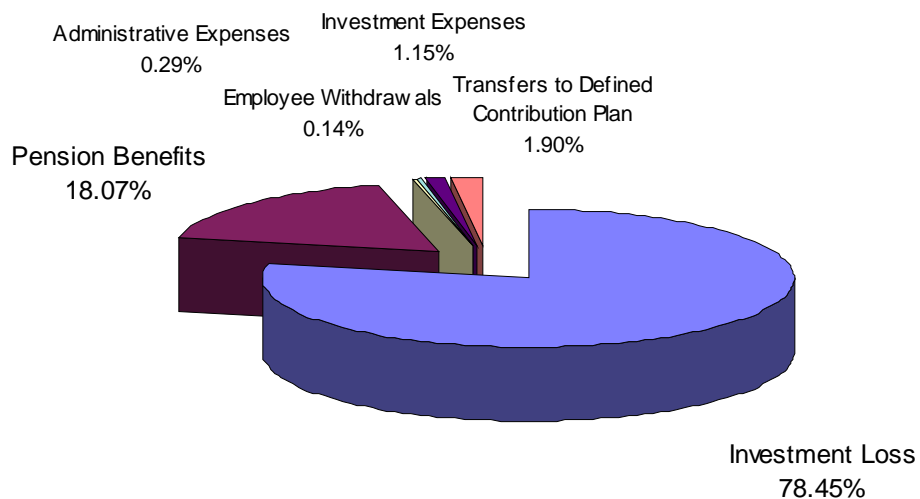
**Genesee County Employees' Retirement System  
Secretary's Letter (continued)**

**Expenditures of System:** The cost of all benefits, services, and operations are borne by the System. This totaled \$173,361,336 for 2008. The allocation of this cost was 78.45% in realized and unrealized investment loss, 18.07% for retiree pension benefits, 1.15% for investment related fees, 0.14% for employee withdrawal of contributions, 1.90% for transfers to a defined contribution plan and 0.29% for administrative expenses.

**SOURCES OF REVENUES - 2008**



**ALLOCATION/USE OF REVENUES & RESERVES - 2008**



## **HIGHLIGHTS**

The third and fourth quarters of 2008 will be remembered for being one of the worst periods of combined stock and bond investment results for all investors, the bursting of the dual liquidity and residential real estate bubbles, and the complete separation of investment fundamentals and normal outcomes.

In October 2008, President Bush announced a \$700 billion aid package to the ailing U.S. financial sector. The Federal Reserve also took aggressive measures, lowering the Federal Funds rate three times during the quarter, with the last one setting the target rate within a range of 0.00% to 0.25%.

The severe market downturn culminated in a dismal year for stock investors with all negative results in all economic sectors of the S&P 500. U.S. Treasury bond yields plummeted to an almost unprecedented low. High-yield issues suffered equity-like losses due to investors' flight to safety. Non U.S. markets also suffered dramatically.

Public and private sector retirement plans alike shared in the pain of dramatic investment losses and continue to face future economic challenges that will likely require creative planning and strategy to meet and overcome. The Retirement Commission of the Genesee County Employees' Retirement System continues in its role to preserve a stable lifetime income for retirement, and the economic protection of our public servants and their families, by making decisions in the best interests of plan members and beneficiaries reflective of the short and long-term needs of the community.

## **ACKNOWLEDGEMENTS**

The compilation of this report reflects the combined effort of the Retirement Office Supervisor and the Genesee County Controller's Office staff and is designed to provide the County Board of Commissioners, members of the System, and the public with detailed investment, financial, and actuarial information regarding the GCERS' operations.

I hope that this year's report will be of interest to you and will be useful in understanding, evaluating, and assuring the continued success of the System.

Respectfully submitted,

George Martini  
Secretary

## **SUMMARY OF BENEFITS – December 31, 2008**

(Subject to contractual or management changes – See matrix and applicable union contract for specific benefit provisions)

### **DESCRIPTION OF THE SYSTEM**

The Genesee County Employees' Retirement System is a contributory defined benefit plan that provides for pension and disability benefits for employee members. Because the Retirement System is a multiple-employer retirement fund, each employer has the ability to negotiate and/or establish through personnel policy retirement benefits with their respective employees. Subsequently, the employers and employees assume the related cost liabilities. The System requires contributions that will provide assets sufficient to meet the future benefits to be paid to members.

The following is a description of the benefits of the Genesee County Employees' Retirement System. Complete details of the benefits and other aspects of the program may be found in the law and in the rules and regulations of the Retirement Commission.

Final Average Compensation (FAC) is a frequently used term describing Genesee County Employees' Retirement System benefits. It means the average of the highest two, three, or five years of earnings contained within the period of service being considered, usually, but not necessarily the last years of employment, depending upon the labor agreement and individual employer personnel policies.

### **BENEFIT PROVISIONS**

Eligible employees may become members of GCERS and are required to deposit from 0.50% to 6.5% of all monetary compensation, including overtime. Deposits are accumulated in individual accounts for each member remaining in service. If a member leaves service, he or she may withdraw his or her accumulated contributions together with the interest credited to his or her account; or members with eight years of service may elect a deferred annuity providing a lifetime benefit. Four employers have negotiated a fifteen-year service provision for the deferred annuity for new employees, each with a different effective date. The requirements for regular retirement vary by bargaining group from a 20 to 25 year anniversary date of employment or age 60 with the required years of credited service based upon collective bargaining agreement or personnel policy. Full retirement benefits vary by bargaining unit. Benefit computations also vary, but generally are computed at final average compensation times the sum of 2.3-2.5% for the first 25 years of service plus 1% for years of service in excess of 25 years. (NOTE: Some contracts allow 2.4% or 2.5% for all years of service.)

### **Duty Disability Retirement**

**Eligibility:** No age or service requirements. Must be in receipt of worker's compensation.

**Genesee County Employees' Retirement System  
Summary of Benefits (continued)**

**Annual Amount:** Computed as a regular retirement with additional service credit granted from date of retirement to date regular retirement age would have been attained. Prior to age 65, maximum benefit is 90% of FAC (increased by 2.5% for each year of retirement) less worker's compensation payments and/or other remuneration.

**Groups Covered:** All.

**Non-Duty Disability Retirement**

**Eligibility:** Generally 10 or more years of credited service. Water and Waste employees require 15 years of credited service.

**Annual Amount:** Computed as a regular retirement. Prior to age 65, maximum benefit is 90% of FAC (increased by 2.5% for each year of retirement) less long-term disability benefits and/or other remuneration.

**Groups Covered:** All.

**Duty Death Before Retirement**

**Eligibility:** No age or service requirements. Must be in receipt of worker's compensation.

**Annual Amount:** Refund of accumulated contributions. Upon termination of worker's compensation the same amount is paid by the Retirement System to the widow for life or until remarriage, to unmarried children under 18 and to dependent parents.

**Groups Covered:** All.

**Non-Duty Death Before Retirement**

**Eligibility:** 15 or more years of credited service or age 60 with 10 or more years of service.

**Annual Amount:** Computed as a regular retirement but actuarially reduced in accordance with a 100% joint and survivor election (Option A).

**Groups Covered:** All.

Nothing contained in this retirement Annual Report is intended, or shall be construed, as in any way creating or establishing any right or entitlement, for any purposes or in any manner whatsoever, for the applicant, until approved by the Actuary and the Retirement Commission.

GENESEE COUNTY EMPLOYEES' RETIREMENT SYSTEM  
(December 31, 2008)

	FAC PERIOD (YEARS)			COLA PERCENTAGE					BENEFIT ELIGIBILITY										MULTIPLIER					EMPLOYEE CONTRIBUTION RATES																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																											
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- Unique blend of age/service  
 -- Reduced early retirement available age 55-60 with 8 or 15 years credited service  
 --- Reduced early retirement available age 55 with 8 years credited service if hired prior to 7/1/2004; 58 with 15 years credited service if hired after 7/1/2004  
 # Increases are based on C.P. 1, up to stated maximum

## **II. FINANCIAL SECTION**

### **The Financial Section Contains:**

- **Management's Statement of Responsibility**
- **Auditor's Report**
- **Management's Discussion and Analysis**
- **Audited Financial Statements**
- **Notes to Financial Statements**
- **Supplemental Data**

## **MANAGEMENT'S STATEMENT OF RESPONSIBILITY FOR FINANCIAL STATEMENTS**

The following financial statements and related notes of the Genesee County Employees' Retirement System were prepared by management in accordance with generally accepted accounting principles. The Board of Commissioners through the Audit Subcommittee of the Finance Committee (composed of Commissioners) is responsible for assuring that management fulfills its responsibilities in the preparation of the financial statements.

Management is responsible for the integrity and objectivity of the financial statements that are presented in accordance with generally accepted methods of accounting. Established accounting procedures are designed to provide books, records, and accounts that fairly reflect the transactions of the System.

The training of qualified personnel and the assignment of duties are intended to provide good internal controls. This provides reasonable assurances that transactions are executed in accordance with management's authorization and that adequate accountability of System assets is maintained.

Plante & Moran, PLLC, independent public accountants, with direct access to the Retirement Commission, have examined the financial statements prepared by the System and their report follows.





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### Independent Auditor's Report

To the Board of  
Genesee County Employees' Retirement System

We have audited the accompanying statement of plan net assets of the Genesee County Employees' Retirement System (the "System") as of December 31, 2008 and the related statement of changes in plan net assets for the year then ended. These financial statements are the responsibility of the System's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Genesee County Employees' Retirement System as of December 31, 2008 and the results of its operations for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and required supplemental information (presented in Tables I - 4 within the Financial Section) are not a required part of the basic financial statements but are supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

*Plante & Moran, PLLC*

August 31, 2009



## **MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED December 31, 2008**

As the administrators of the Genesee County Employees' Retirement System, the Genesee County Retirement Commission and its management offer readers of the System's Annual Report and incorporated financial statements this narrative overview and analysis of the financial activities of the system.

### **Financial Highlights**

- The Retirement system's net assets held in trust for pension benefits decreased by \$159,105,499; from \$509,286,208 at December 31, 2007, to \$350,180,709 at December 31, 2008; mainly as a result of losses in the market value of assets.
- During the year, deductions representing the cost of all benefits, investment loss, and services and operations borne by the system totaled \$173,361,336. The allocation of this cost was 78.45% in realized and unrealized investment loss, 18.07% for retiree pension benefits, 1.15% for investment related fees, 0.14% for employee withdrawal of contributions, 1.90% for transfers to a Defined Contribution Plan and 0.29% for administrative expenses.
- During the year, additions representing employer and employee contributions by the system totaled \$14,255,837. The source of this revenue was 83.82% in employer contributions, 16.18% in employee contributions.
- The overall net decrease in net assets held in trust for pension benefits amounted to \$(159,105,499).

### **Using This Annual Report**

This annual report consists of the financial statements, notes to the financial statements and required supplementary information for the Genesee County Employees' Retirement System. The financial statements, related note disclosures and supplementary tables provide financial information about assets held in trust for six separate employer's pension plans.

### **Overview of the Financial Statements**

The Statement of Plan Net Assets (on page 17) and the Statement of Changes in Plan Net Assets (on page 18) report the retirement system's net assets and the changes in them. You can think of the retirement system's net assets – the difference between assets and liabilities – as one way to measure the system's financial health or financial position. Over time, increases or decreases in the system's net assets are one indicator of whether its financial health is improving or deteriorating. You will also need to consider other non-financial factors; such as favorable or unfavorable economic and demographic actuarial experience, as well as actuarial funding progress and current funded status in order to assess the overall health of the system.

**Genesee County Employees' Retirement System  
Management's Discussion & Analysis (continued)**

Genesee County is the trustee, or fiduciary, for its own and five other separate employer's pension plans. Fiduciary funds are used to account for resources held in trust for the benefit of parties outside the government. The retirement system's assets are held in trust for the sole purpose of the fund, its participants and beneficiaries. Fiduciary funds are not reflected in Genesee County's government-wide financial statement because the resources of those funds are not available to support Genesee County's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

The basic fiduciary fund financial statements can be found following the Management Discussion & Analysis Section of this Annual Report.

A comparison of plan net assets and the changes in plan assets from 2007 to 2008 is contained in the following tables:

	<b>Plan Net Assets (in Thousands)</b>	
	Pension Trust Fund 12/31	
	2008	2007
Cash, Short-Term Cash Investments and Receivables	\$ 28,687	\$ 34,585
Investments, at Fair Value	<u>339,859</u>	<u>509,693</u>
Total Assets	368,546	544,278
Amounts due to broker under securities lending agreement	17,554	29,110
Other Liabilities	<u>811</u>	<u>5,882</u>
Total Liabilities	18,365	34,992
Total Net Assets Held in Trust for Pension Benefits	<u>\$350,181</u>	<u>\$509,286</u>

	<b>Changes in Plan Net Assets (in Thousands)</b>	
	Pension Trust Fund 12/31	
	2008	2007
Net Investment Income (Loss)	\$(138,234)	\$ 29,438
Net Securities Lending Income	247	164
Contributions:		
Employee	2,306	2,467
Employer	<u>11,950</u>	<u>12,997</u>
Total Contributions	14,256	15,464
Benefits Paid to Retirees and Beneficiaries	31,332	30,690
Refunds to Terminated Employees	243	248
Other Expenses	<u>3,799</u>	<u>4,786</u>
Net Increase (Decrease) in Net Assets	<u>\$(159,105)</u>	<u>\$ 9,342</u>

**Genesee County Employees' Retirement System  
Management's Discussion & Analysis (continued)**

The reason for the decrease in the plan net assets for 2008 was due to a negative investment return market which provided a net depreciation in the fair value of investment of \$142.5 million. In 2007, the plan reported a \$25.6 million appreciation in fair value of investments.

**Notes to the Financial Statements**

The notes provide additional information that is essential to a full understanding of the data provided in the fund financial statements. The notes can be found in Notes A through F of this Annual report.

**Other Information**

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary funding and actuarial information. The information can be found in the Supplemental Data Section of this report.

**Economic Factors and Next Year's Employer Contribution Rates**

The Retirement System experience during the year ended December 31, 2008 was less favorable than expected based on long-term assumptions. The recognized rate of investment return based on the smoothed funding value of assets was less than the assumed rate ((.12)% vs. 8.00%).

Established employer contribution rates for January 1, 2010 to December 31, 2010 are computed to be General and Sheriff's 29.33%, Water and Waste 17.76%, District Library 11.64%, Community Mental Health 13.96%, Road Commission 18.34%, and Mt. Morris 20.40%.

**GENESEE COUNTY EMPLOYEES' RETIREMENT SYSTEM**  
**STATEMENT OF PLAN NET ASSETS – December 31, 2008**

**ASSETS:**

Cash and Short-Term Cash Investments	\$ 10,244,842
Cash and Inv. Held as Collateral for Securities Lending	<u>17,554,367</u>

Total Cash and Cash Equivalents	<u>27,799,209</u>
---------------------------------	-------------------

Receivables:

Contributions Receivable	94,368
Accrued Interest and Dividends	789,510
Other	<u>3,740</u>

Total Receivables	<u>887,618</u>
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Investments, at Fair Value:

U.S. Government Securities	9,108,790
Foreign Governments & Agencies	2,746,578
Corporate Bonds	54,365,861
Foreign Equity	57,637,295
Common Stock	73,174,098
Preferred Stock	3,277,161
Mutual Funds	105,395,932
Real Estate	24,153,063
Hedge Fund-of Funds	<u>10,000,000</u>

Total Investments	<u>339,858,778</u>
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Total Assets	368,545,605
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**LIABILITIES:**

Accounts Payable	810,529
Amounts Due Broker Under Securities Lending Agreement	<u>17,554,367</u>

Total Liabilities	<u>18,364,896</u>
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Net Assets held in Trust for Pension Benefits	<u>\$ 350,180,709</u>
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(A schedule of funding progress is presented  
on Page 27)

*The accompanying notes are an integral part of the financial statements.*

**GENESEE COUNTY EMPLOYEES' RETIREMENT SYSTEM**  
**STATEMENT OF CHANGES IN PLAN NET ASSETS**  
**FOR THE YEAR ENDED – December 31, 2008**

**ADDITIONS:**

Contributions

Employee Contributions	\$ 2,305,956
Employer Contributions	<u>11,949,881</u>

Total Contributions	<u>14,255,837</u>
---------------------	-------------------

Investment Income (Loss)

Net Depreciation in Fair Value of Investments	(142,475,269)
Interest on U.S. Government Securities	749,288
Interest on Corporate Bonds	3,911,024
Dividend Income	<u>1,570,861</u>

(136,244,096)

Less Investment Expense	<u>(1,989,536)</u>
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Net Investment Loss	<u>(138,233,632)</u>
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Securities Lending Income

Interest and Fees	718,844
Less Borrower Rebates and Bank Fees	<u>471,900</u>

Net Securities Lending Income	<u>246,944</u>
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Total Additions	(123,730,851)
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**DEDUCTIONS:**

Benefits Paid to Retirees and Beneficiaries	31,332,459
Refunds to Terminated Employees	242,544
Administrative Expenses	503,324
Rollover to Other Pension Plan	<u>3,296,321</u>

Total Deductions	<u>35,374,648</u>
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Net Decrease	(159,105,499)
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**Net Assets Held in Trust for Pension Benefits:**

Beginning of Year	<u>509,286,208</u>
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End of Year	<u>\$ 350,180,709</u>
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*The accompanying notes are an integral part of the financial statements.*

**GENESEE COUNTY EMPLOYEES' RETIREMENT SYSTEM  
NOTES TO FINANCIAL STATEMENTS**

**Note A – Plan Description, Provisions, and Reporting Entity:**

The Genesee County Employees' Retirement System (also known as GCERS) is a contributory agent multiple-employer defined benefit pension plan. The GCERS's current-year payroll for all covered employees was \$67,720,817.

The plan covers most employees who are paid by a GCERS employer more than 50% of all compensation received by them for personal services, unless they are a member of the defined contribution plan. Exemptions to the 50% rule include the County Board of Commissioners, Judges and County Juvenile Officers who are paid partially by the County and partially by the State. All new-hire General County and certain Community Mental Health new-hire employee groups may only join a defined contribution plan. Current membership in the GCERS is comprised of the following:

<u>Group</u>	<u>December 31, 2008</u>
Retirees and beneficiaries	
Currently receiving benefits	1,438
Vested terminated employees	88
Active employees:	
Fully vested	598
Non-vested	607
Number of participating employers	6

The GCERS was organized pursuant to Section 12a ACT #156, Public Acts of 1851 (MSA 5.333(I); MCLA 46.12a as amended, State of Michigan. The GCERS was established in 1946, beginning with the General Unit and the County Road Commission. Water and Waste joined the System in 1956, Community Mental Health in 1966, City of Mt. Morris in 1969, and the Genesee District Library in 1980. The GCERS is regulated under the Genesee County Employees' Retirement System Ordinance, the sections of which have been approved by the Genesee County Board of Commissioners and the State Pension Plan Committee, during its existence.

Eligible employee members of GCERS are required to deposit from 0.50% to 6.5% of all monetary compensation, including overtime. Deposits are accumulated in individual accounts for each member remaining in service. If a member leaves service, he may withdraw his accumulated contribution together with the interest credited to his account. All employers allow members with eight years of service to elect a deferred annuity providing a lifetime benefit. Four employers have a fifteen year service provision for the deferred annuity for new employees, each with a different effective date. The requirements for regular retirement varies by bargaining group from a 20 to 25 year anniversary date of employment; or age 60 with a minimum of 8 to 15 years of service. Full retirement benefits vary by bargaining unit. Benefit computations also vary, but generally are computed at final average compensation times the sum of 2.3-2.5% for the first 25 years of service, plus 1% for years of service in excess of 25 years. (NOTE: Some contracts allow 2.4% or 2.5% for all years of service.)

**Genesee County Employees' Retirement System  
Notes to Financial Statements (continued)**

The GCERS employers are required by the Retirement System Ordinance to make adequate contributions to fund the retirement allowances provided by the System. The contribution rates are determined by an annual actuarial valuation based on certain assumptions along with consideration of members' contributions and assumed investment income.

Reporting entity – The financial statements of the System are also included in the financial statements of Genesee County as a Pension Trust Fund.

**Note B – Summary of Significant Accounting Policies and Plan Asset Matters:**

The pension fund financial statements are reflected on the accrual basis of accounting; revenues are recorded when earned and expenses are recorded as incurred. Employer and employee contributions are recognized in the period in which the contributions are due. Benefits and refunds are recognized when due and payable. Genesee County is following GASB Statement No. 34, Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments. The Genesee County Employees' Retirement System implemented GASB No. 34 as of December 31, 2003.

The System's investment assets, which are trusted by Comerica of Detroit, are stated at fair value (as prescribed by the Michigan Public Employee Retirement Act) as determined and certified by the Trustee. Short-term investments are reported at cost, which approximates fair value. Securities traded on the national or international exchange are valued at the last reported sales price at current exchange rates. Mortgages are valued on the basis of future principle and interest payments and are discounted at prevailing interest rates for similar instruments.

The fair value of real estate investments is based on independent appraisals. Investments that do not have an established market are reported at estimated fair value.

The plan held no investment in any one organization that represented 5 percent or more of net assets available for benefits.

There were no loans outstanding to GCERS employers at December 31, 2008. Retirement investments are subject to a number of restrictions as to the type, quality and concentration of investments made, including limiting common stock to no more than 70% (market) of the portfolio and foreign equities to 20% of the portfolio as stated in Public Act 307 of 2000; the Amendments to Public Act 314 of 1965.

**Note C – Deposits and Investments:**

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan



**Genesee County Employees' Retirement System**  
**Notes to Financial Statements (continued)**

or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The System is also authorized by Michigan Public Act 314 of 1965, as amended, to invest in certain reverse repurchase agreements, stocks, diversified investment companies, annuity investment contracts, real estate leased to public entities, mortgages, real estate, debt or equity of certain small businesses, certain state and local government obligations, and certain other specified investment vehicles. The investment policy adopted by the board is in accordance with Public Act 196 of 1997 and has authorized the investments according to Michigan Public Act 314. The System's deposits and investment policies are in accordance with statutory authority.

The System's cash and investments are subject to several types of risk, which are examined in more detail below:

**Custodial Credit Risk of Bank Deposits**

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The government does not have a deposit policy for custodial credit risk. At year end, the System did not have any bank deposits (certificates of deposit, checking, and savings accounts) that were uninsured and uncollateralized. The System believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the System evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution only; only those institutions with an acceptable estimated risk level are used as depositories.

**Interest Rate Risk**

Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The System's investment policy does not restrict investment maturities. At year end, the average maturities of investments broken down by years are as follows:

	<b><u>Fair Value</u></b>	<b><u>Less than 5</u></b>	<b><u>6 – 10</u></b>	<b><u>&gt;10</u></b>
U.S. Government Securities				
US Gov Agency	\$ 618,380	\$ 251,177	\$ 190,265	\$ 176,938
US Gov CMO	543,179	-	-	543,179
US Gov Mortgage Backed	638,826	-	-	638,826
US Gov TIPS	2,601,813	-	589,764	2,012,049
US Gov Treas, Notes & Bonds	46,931	-	-	46,931
Foreign Bonds				
Foreign Corporate	\$ 2,710,578	\$ 1,009,784	\$ 553,630	\$1,147,165
Foreign Government	36,000	-	36,000	-
Corporate Bonds				
Asset Backed	\$ 447,850	\$ -	\$ -	\$ 447,850
Corporate – CMO	4,659,661	-	-	4,659,661
Corporate – Bonds	50,782,805	17,293,888	5,531,606	27,957,311
Private Placement	2,638,955	651,544	1,423,324	564,087

**Genesee County Employees' Retirement System**  
**Notes to Financial Statements (continued)**

**Credit Risk**

State law does not limit investments in commercial paper for pension plans to certain quality ratings. Additionally, the System has no investment policy that would further limit its investment choices. As of year end, the credit quality ratings of debt securities are as follows:

<b><u>Investment and S&amp;P Rating</u></b>	<b><u>Fair Value(in \$000's)</u></b>
Asset Backed – AAA	\$ 448
Corporate Bonds – AAA	639
Corporate Bonds - AA	3,511
Corporate Bonds - A	18,490
Corporate Bonds - BBB	14,639
Corporate Bonds - BB	8,840
Corporate Bonds - B	357
Corporate Bonds – CCC and below	2,541
Corporate Bonds – N/R	1,767
Corporate CMO - AAA	2,736
Corporate CMO – AA	90
Corporate CMO – BBB	512
Corporate CMO – B	172
Corporate CMO – N/R	1,151
Private Placement – AAA	43
Private Placement - BBB	948
Private Placement - BB	453
Private Placement – B	408
Private Placement – CCC and below	284
Private Placement – N/R	503
Foreign Bonds - A	92
Foreign Bonds - BBB	2,431
Foreign Bonds - BB	188
Foreign Bonds – Government – BBB	36
US Government – Agency – AAA	329
US Government – Agency – A	211
US Government – Agency – BBB	33
US Government - Agency – N/R	45
US Government – CMO – N/R	543
US Government – Mortgage Backed – N/R	639
US Government – TIPS – N/R	2,602
US Government – Treasuries, Notes & Bonds - AAA	47

**Foreign Currency Risk**

Foreign currency risk is the risk that an investment denominated in the currency of a foreign country could reduce its U.S. dollar value as a result of changes in foreign currency exchange rates. The Retirement System does not restrict the amount of investments in foreign currency. The following security is subject to foreign currency risk:

**Genesee County Employees' Retirement System**  
**Notes to Financial Statements (continued)**

**Foreign Currency Risk (continued)**

Australian Dollar	299,052
British Pound	986,076
Canadian Dollar	123,374
Euro Currency	14,198,447
Hong Kong Dollar	1,733,218
Indonesian Rupiah	88,377
Japanese Yen	21,593,731
Malaysian Ringgit	1,140,651
Mexican Peso	48,083
New Zealand Dollar	8
Singapore Dollar	2,714,334
South Korean Won	2,166,784
Swiss Franc	2,501,930
Taiwan Dollar	566,414
Thai Baht	372,144

The categorization by investment type is not available.

**Securities Lending**

As permitted by state statutes and under the provisions of a securities lending authorization agreement, the System lends securities to broker-dealers and banks for collateral that will be returned for the same securities in the future. The System's custodial bank manages the securities lending program and receives cash as collateral. Borrowers are required to deliver collateral for each loan equal to not less than 100 percent of the market value of the loaned securities. During the year ended December 31, 2008, only United States currency was received as collateral.

The System did not impose any restrictions during the fiscal year on the amount of loans made on its behalf by the custodial bank. There were no failures by any borrowers to return loaned securities or pay distributions thereon during the fiscal year. Moreover, there were no losses during the fiscal year resulting from a default of the borrowers or custodial bank.

The Genesee County Employees' Retirement System and the borrower maintain the right to terminate all securities lending transactions on demand. The cash collateral received on each loan was invested, together with the cash collateral of other lenders, in an investment pool. The average duration of such investment pool as of December 31, 2008 was 65 days. Because the loans are terminable on demand, their duration did not generally match the duration of the investments made with cash collateral. On December 31, 2008, the System had no credit risk exposure to borrowers. The collateral based on cost and the fair market value of the underlying securities on loan for the System as of December 31, 2008 was \$17,554,367 and \$17,241,457 respectively, which consisted of U.S. government and agencies, U.S. corporate fixed income and U.S. equity securities.

**Genesee County Employees' Retirement System**  
**Notes to Financial Statements (continued)**

**Note D – Contributions Required and Contributions Made:**

The GCERS's funding policy provides for periodic employer contributions at actuarially determined rates that are expressed as percentages of annual covered payroll, which are designed to accumulate sufficient assets to pay benefits when due. The System has received the required employer contributions for the year covered in the Summary Annual Report. Employee contributions range from .50% to 6.50% of annual compensation and the remaining required contributions are paid by the employer. The normal cost is determined using an attained age actuarial funding method. Unfunded actuarial accrued liabilities were amortized as a level percent-of-payroll over 20 years in all employers, and added to the computed normal costs. Administrative costs are financed via investment earnings and employer contributions.

**Note E – Post retirement Benefits Contributions:**

Each employer pays directly to the group providers for their retirants' health and life insurance, with some including dental and optical, through General Fund appropriations.

**Note F – Reserves:**

State law requires employee contributions to be segregated. In addition, amounts must be set aside as determined by the actuary to fund benefits to retirees currently approved to receive benefits. As of December 31, 2008, the System's reserves have been fully funded as follows:

Reserved for employee contributions	\$ 26,436,412
Reserved for retired employees	310,667,882

**Note G – Funded Status and Funding Progress:**

The funded status of the plan as of December 31, 2008, the most recent actuarial valuation date, is as follows (dollar amounts in thousands):

Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) -- Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	(UAAL) as a percentage of Covered Payroll ((b-a)/c)
\$439,813	\$527,640	\$87,827	83.4	\$67,721	77.11

The schedules of funding progress, presented as required supplementary information (RSI) following the notes to financial statements, present multiyear trend information about whether the actuarial value of plan assets are increasing or decreasing over time relative to the AALs for benefits.

**Genesee County Employees' Retirement System**  
**Notes to Financial Statements (continued)**

**Note H – Additional Actuarial Information:**

Additional information as of the latest valuation follows:

Valuation date	December 31, 2008
Actuarial Cost Method	Individual Entry Age
Amortization Method	Level percent-of-payroll
Remaining amortization period	20 years
Asset valuation method	4 year smoothed market
Actuarial assumptions:	
Investment rate of return	8.0%
Projected salary increases	5.00% to 9.03%
Includes inflation at	5%

## **SUPPLEMENTAL DATA**

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

**TABLE 1**

**Schedule of Funding Progress**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) -- Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	(UAAL) as a % of Covered Payroll ((b-a)/c)
1998*	380,089,212	343,751,589	(36,337,623)	110.6	62,420,613	(58.23)
1999*	418,744,721	369,605,820	(49,138,901)	113.3	64,378,394	(76.33)
2000*	432,631,400	399,583,345	(33,048,055)	108.3	63,780,949	(51.81)
2001*	425,846,925	403,158,551	(22,688,374)	105.6	65,746,943	(34.50)
2002*	414,125,511	423,009,102	8,883,591	97.9	68,666,690	12.94
2003*	405,218,225	433,147,789	27,929,564	93.6	70,142,749	39.82
2004*	404,492,706	458,068,584	53,575,878	88.3	71,273,973	75.17
2005*	412,739,184	467,582,019	54,842,426	88.3	70,433,450	77.86
2006*	445,962,298	490,334,814	44,372,516	91.0	70,204,587	63.20
2007*	461,349,321	514,859,339	53,510,018	89.6	68,341,150	78.30
2008*	439,812,757	527,639,697	87,826,940	83.4	67,720,817	77.11

\*After changes in actuarial assumptions and/or benefit changes

**TABLE 2**

**Schedule of Employer Contributions**

Fiscal Year December 31	Valuation Date December 31	Contribution Rates <sup>(1) (2)</sup> As Percents of Valuation Payroll	Annual Required Contribution	Percentage Contribution
1998	1996	14.56	\$ 8,790,633	100%
1999	1997	12.64	\$ 8,030,107	100%
2000	1998	7.25	\$ 4,735,018	100%
2001	1999	9.22	\$ 4,311,457	100%
2002	2000	9.55	\$ 6,016,181	100%
2003	2001	9.55	\$ 6,448,412	100%
2004	2002	14.82	\$ 9,088,458	100%
2005	2003	16.01	\$10,787,720	100%
2006	2004	18.45	\$12,482,410	100%
2007	2005	19.08	\$12,996,937	100%
2008	2006	17.65	\$11,949,881	100%

<sup>(1)</sup> Net of amortization credit for assets in excess of accrued liabilities.

<sup>(2)</sup> Average contribution rate for all six employers within GCERS.

**Genesee County Employees' Retirement System  
Supplemental Data (continued)**

**TABLE 3**

The information presented in the required supplementary schedule was determined as part of the actuarial valuations at the dates indicated. Additional information as of the latest actuarial valuation follows:

Valuation date:	December 31, 2008
Actuarial Cost Method:	Individual Entry Age
Amortization Method	Level percent-of-payroll
Remaining amortization period for unfunded actuarial accrued liability	20 years
Remaining amortization period for credit	10 years
Asset valuation method	4 year smoothed market
Actuarial assumptions:	
Investment rate of return	8.0%
Projected salary increases	5.00% to 9.03%
Includes inflation at	5%
Post Retirement adjustments	Yes, depending on Benefit Group

**TABLE 4**

The following table is a ten-year analysis of additions by source and deductions by type for GCERS.

Fiscal Year Dec 31	Employer Contributions	Employee Contributions	Investment Income (Loss)	Benefit Payments	Admin. Expenses	Refunds of Employee Contributions
1999	8,030,107	2,412,717	51,117,399 <sup>(1)</sup>	19,292,089	700,325 <sup>(a)</sup>	107,117
2000	4,735,018	2,615,818	8,816,574 <sup>(2)</sup>	21,024,197	346,790 <sup>(a)</sup>	250,514
2001	4,311,457	2,042,221	(6,530,016) <sup>(3)</sup>	22,909,501	326,947 <sup>(a)</sup>	161,978
2002	6,016,181	2,076,429	(36,568,322) <sup>(4)</sup>	23,643,413	342,825 <sup>(a)</sup>	284,130
2003	6,448,412	2,263,639	76,459,629 <sup>(5)</sup>	24,610,139	377,858 <sup>(a)</sup>	300,685
2004	9,088,459	2,148,473	37,474,631 <sup>(6)</sup>	25,909,403	382,311 <sup>(a)</sup>	410,930
2005	10,787,720	2,145,417	31,062,720 <sup>(7)</sup>	27,626,671	415,778 <sup>(a)</sup>	169,994
2006	12,482,410	2,295,981	53,089,557 <sup>(8)</sup>	28,994,941	475,979 <sup>(a)</sup>	273,168
2007	12,996,937	2,467,034	29,602,123 <sup>(9)</sup>	30,690,083	460,749 <sup>(a)</sup>	248,300
2008	11,949,881	2,305,956	(138,233,632) <sup>(10)</sup>	31,332,459	503,244 <sup>(a)</sup>	242,544

(1) Includes net appreciation in fair value of investments of \$21,919,831.

(2) Includes net depreciation in fair value of investments of \$25,521,562.

(3) Includes net depreciation in fair value of investments of \$13,100,598.

(4) Includes net depreciation in fair value of investments of \$26,575,020.

(5) Includes net appreciation in fair value of investments of \$68,174,647.

(6) Includes net appreciation in fair value of investments of \$30,045,812.

(7) Includes net appreciation in fair value of investments of \$26,384,710.

(8) Includes net appreciation in fair value of investments of \$51,374,725.

(9) Includes net appreciation in fair value of investments of \$25,590,661.

(10) Includes net depreciation in fair value of investments of \$142,475,269.

(a) GASB 25 requires investment fees to be netted against investment income for years beginning after December 31, 1998.



# **III. INVESTMENT SECTION**

## **The Investment Section Contains:**

- **Investment Goal**
- **Investment Policy**
- **Investment Portfolio Distribution**
- **Return on Investment**
- **Investment Performance**

## **GENESEE COUNTY EMPLOYEES' RETIREMENT SYSTEM INVESTMENT POLICY**

### **GOAL**

The objective of the Genesee County Employees' Retirement System is to provide present and future retirement or survivor benefits for its members. To achieve this goal, the Fund targets an average, annual return of 8.0% over periods greater than five years. Achievement of this target return will likely ensure the System's ability to pay benefits and result in stable contribution rates.

### **INVESTMENT POLICY**

The fund is long-term in nature and the selection of investments is regulated by (1) statutory limitations, (2) limits of acceptable risk and (3) the objective of a maximized total rate of return.

Investment decision shall be made within the framework of the goal established for the rate of return, limits of acceptable risk and fund objectives. At any point in time, certain types of investments have greater relative attractiveness than others. To maximize the realized rate of return, it is necessary to determine the relative values ascribed to differing types of investments within a given investment environment.

The System believes that individual holdings should stand alone on merit as well as complement the entire group of holdings.

Diversification shall be considered as part of the effort to minimize liquidity risks, maximize total rate of return and limit exposure to unanticipated business risks. Since the portfolio is long-term in nature and is constructed to avoid the necessity of liquidating holdings to meet benefit payments, liquidity is not a first consideration; however, every reasonable effort will be made to provide protection for the portfolio in future deteriorating markets.

No holding will be considered a "permanent" part of the portfolio. Any security can be sold at any time either to maximize gains or to minimize losses. The portfolio shall be continuously monitored in order to identify such instruments as overvalued stocks or low yield bonds in order to take appropriate action.

In making decisions, the Commission shall avail itself of the highest caliber advice obtainable, both internally and externally. The Commission has retained the services of a professional investment consultant to monitor investments, returns, and peer performance of the investment managers. Investment managers are hired to invest the System's assets on a daily basis in a variety of asset classes to maximize returns at a lower overall risk to the plan.

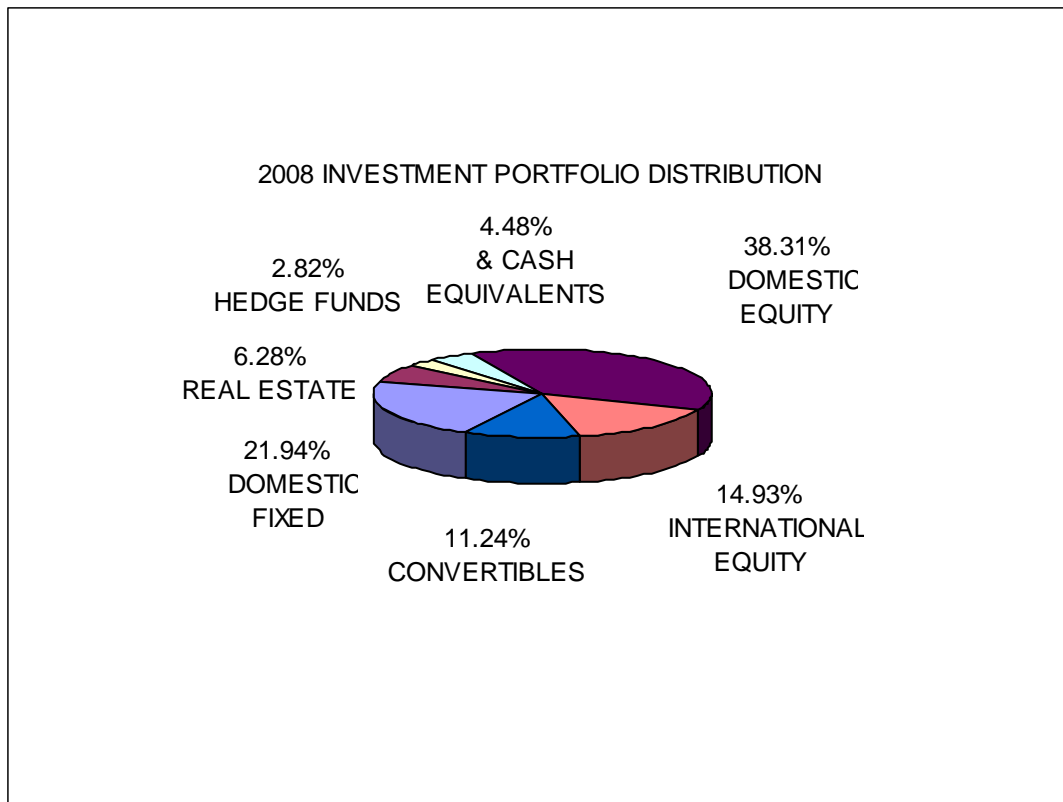
The Governmental Accounting Standards Board Statement Number 5 will be followed in accounting for the portfolio. Securities will be recorded at market values and will be reported to the Commission monthly. The firm engaged for the annual audit shall be consulted when questions concerning accounting procedures arise.

**Genesee County Employees' Retirement System  
Investment Policy (continued)**

A quarterly evaluation of the System's portfolio will be conducted to monitor the investment performance by each of the Investment Managers. In addition, the annual external audit and the annual actuarial valuations shall be reviewed in conjunction with the evaluation of investment performance. All evaluations will be related to the Commission's stated goals. Because these goals are long-term, cumulative performance results will be considered as more important than performance in any single year.

**INVESTMENT PORTFOLIO DISTRIBUTION**

The State of Michigan charges the Retirement Commission with the responsibility of investing the System's portfolio in a prudent manner and in a fiduciary capacity. On December 31, 2008, the market value of the portfolio distribution of investments was as follows: 38.31% in domestic equities, 14.93% in international equities, 21.94% in various fixed income securities, 11.24% in convertibles, 6.28% in real estate, 2.82% in hedge fund-of-funds and 4.48% in cash and equivalents (receivables and accruals).



## **RETURN ON INVESTMENT**

The return on investments, which is defined as the income plus or minus the appreciation or depreciation in value, is analyzed each quarter. The Genesee County Employees' Retirement System's investment performance is compared with the results within a universe of other public funds.

- Total return for 2008 of -27.69% ranks in the 84th percentile among public funds.
- The three and five year total returns of -4.97% and 0.21% respectively, rank 93rd and 86th percentiles among all public funds. (Statistics according to Asset Strategies Portfolio Services' December 31, 2008 Cumulative Performance Comparison)
- The following expenses were paid by soft dollars totaling \$224,403 (of which \$20,180 was recaptured).
  - Execution of securities trading
  - Investment Research

## **INVESTMENT PERFORMANCE ANALYSIS**

The investment performance of the System is continually monitored through the use of a number of different methods. The performance of the domestic equity, international equity, fixed income, and real estate portfolios is monitored by a highly respected portfolio evaluation service and consultant in the United States. A hedge fund-of-fund manager is employed to select and monitor the best performing funds.

A summary of the Genesee County Employees' Retirement System's performance results, along with a brief description of issues to be considered in interpreting the results follow. Since the purpose of the summary is to provide an overview, the reader is cautioned against forming conclusions that may be premature.

The Genesee County Employee's Retirement System Report is provided as a profile of the System's performance. The reader may note that the yields of the audited financial statements will vary from the rates of return presented in this section. The variation is attributable to asset appreciation being included in the determination of rates of return, whereas only dividends and interest are used to determine yields in the Financial Section.

### **Total Cumulative Annual Rate of Return:**

This shows how the Genesee County Employees' Retirement System performed over multi-year periods compared with other public plan funds. The System's return is tabulated along with a segmentation of the group's results. Percent rank indicates what proportion of the group outperformed the System; a low percent indicates a relatively higher return. The reader can

**Genesee County Employees' Retirement System  
Investment Policy (continued)**

choose a time period of particular interest and examine the return the Genesee County Employees' Retirement System earned for that period. In the past, a market cycle has generally covered a four-year period. For any time period one chooses to examine, the median serves as an effective standard for determining what a "reasonable" return for that period would have been. (The median is that return that outranked 50 percent of the funds in the group and that was outranked by 50 percent of the funds).

This summary should be regarded only as an introduction to evaluating the Genesee County Employees' Retirement System's investment performance results. Nevertheless, it is hoped that this brief overview will be of some assistance.

## **IV. ACTUARIAL PRINCIPLES**

**The Actuarial Section Contains:**

- **Actuarial Principles**
- **Present Actuarial Status**
- **Member Statistics**

## **GENESEE COUNTY EMPLOYEES' RETIREMENT SYSTEM ACTUARIAL PRINCIPLES**

Promises Made, and Eventually Paid – As each year is completed, the Genesee County Employees' Retirement System in effect hands an "IOU" to each member then acquiring a year of service credit – the "IOU" says: "The Genesee County Employees' Retirement System owes you a retirement benefit, payments to be made in cash commencing when you qualify for retirement."

The principal related financial question is: "When shall the money required to cover the "IOU" be contributed?"

The year when the benefit of the member's service is received, or some future year when the "IOU" becomes a cash demand.

The Constitution of the State of Michigan is directed to the question:

*"Financial benefits arising on account of service rendered in each fiscal year shall be funded during that year and such funding shall not be used for financing unfunded accrued liabilities."*

The majority of public employers meet this constitutional requirement by level percent-of-payroll contributions.

Translated into actuarial terminology, a level percent-of-payroll contribution objective means that the contribution rate must be at least:

Normal Cost – (the present value of benefits likely to be paid on account of members' service being rendered in the current year).

### **...PLUS**

The Financing of Unfunded Actuarial Accrued Liabilities – (unfunded actuarial accrued liabilities are the difference between (1) the actuarial accrued liability, and (2) the valuation assets of the retirement program).

A byproduct of a level percent-of-payroll contribution objective is the accumulation on invested assets of varying periods of time. Invested assets are a byproduct of level percent-of-payroll contributions, not the objective. Investment income becomes the third major contributor to the retirement program, and the amount is directly related to the amount of contributions and investment performance.

If contributions to the retirement program are less than the preceding amount, the difference plus investment earnings not realized thereon, will have to be contributed at some later time or benefits will have to be reduced to satisfy the fundamental fiscal equation under which all retirement programs must operate; that is;

The aggregate amount of benefit payments to any group of members and their beneficiaries cannot exceed the sum of:

**Genesee County Employees' Retirement System  
Actuarial Principles (continued)**

The aggregate amount of contributions received on behalf of the group

**...PLUS**

Investment earnings on contributions received and not required for immediate cash payments of benefits

**...MINUS**

The expenses of operating the program.

There are retirement programs designed to defer the bulk of contributions far into the future. Lured by artificially low present contributions, the inevitable consequence of a relentlessly increasing contribution rate – to a level that may be greatly in excess of the level percent-of-payroll rate – is ignored.

This method of financing is prohibited in Michigan by the State Constitution.

**COMPUTED CONTRIBUTION RATE NEED TO FINANCE BENEFITS**

The actuary calculates the contribution requirements and benefit values of the Fund by applying actuarial assumptions to the benefit provisions and people information furnished, using the actuarial cost methods described on the previous page.

The principal areas of financial risk which require assumptions about future experiences are:

- a. Long-term rates of investment return to be generated by the assets of the Fund.
- b. Rates of mortality among members, retirees, and beneficiaries.
- c. Patterns of actual retirements.
- d. The age patterns of actual retirements.
- e. Rates of withdrawal of active members (without entitlement to a retirement benefit).
- f. Rates of disability among members.

In making a valuation, the actuary calculates the monetary effect of each assumption for as long as a present covered person survives – a period of time which can be as long as a century.

Actual experience of the Fund will not coincide with assumed experience, regardless of the wisdom of the assumptions, or the skill of the actuary and the precision of the many calculations made. Each valuation provides a complete recalculation of assumed future experience and takes in account all past differences between assumed and actual experience. The result is a continual series of adjustments (usually small) to the computed contribution rate.

From time to time it becomes appropriate to modify one or more of the assumptions to reflect experience trends (but not random year to year fluctuations).



## GENESEE COUNTY EMPLOYEES' RETIREMENT SYSTEM ACTUARIAL STATUS

Overall experience of the Retirement System for the year ended December 31, 2008, produced results which were less favorable than expected based on long-term assumptions. The recognized rate of investment return based on the smoothed funding value of assets was less than the assumed rate ((0.12)% vs. 8.00%).

Actuarial accrued liabilities exceeded the funding value of assets in all groups. The unfunded amount was amortized over 20 years and added to the employer normal cost. The 20 year amortization was first used in the December 31, 2003 valuation.

The ratio of the funding value of accrued assets to accrued liabilities was 83.4%

### FUNDING PROGRESS INDICATORS

There is no single all-encompassing indicator that measures a retirement system's funding progress and current funded status.

A traditional measure has been the relationship of valuation assets to actuarial accrued liability – a measure that is influenced by the choice of actuarial cost method. This relationship is as follows:

#### GCERS Unfunded Actuarial Accrued Liability As of December 31, 2008 By Divisions (\$ in thousands)

	General & Sheriffs	Water & Waste	District Library	Mental Health	Road Commission	Mt. Morris	TOTALS
Actuarial Accrued Liability & Reserves:	\$306,733	\$46,856	\$14,391	\$90,334	\$64,629	\$4,697	\$527,640
Assets Allocated to Funding:	\$250,205	\$37,330	\$14,135	\$78,827	\$55,603	\$3,713	\$439,813
Unfunded Actuarial Accrued Liability:	\$ 56,529	\$ 9,526	\$ 256	\$ 11,507	\$ 9,026	\$ 983	\$ 87,827
Funded Ratio:	81.6%	79.7%	98.2%	87.3%	86.0%	79.1%	83.4%
Funded Ratio: Prior Year	87.0%	87.1%	109.5%	96.4%	91.9%	79.4%	89.6%

**Genesee County Employees' Retirement System**  
**Actuarial Status (continued)**

We believe an understanding of short-term funding progress and status can be achieved using the following indicators:

- (1) The ratio of the unfunded actuarial accrued liability to participant payroll.** In a soundly financed retirement system, the amount of the unfunded actuarial accrued liability will be controlled and prevented from increasing in the absence of benefit improvements. However, in an inflationary environment is seldom practical to impose this control on dollar amounts that are depreciating in value. The ratio is a relative index of condition where inflation is present in both items. The ration is expected to decrease over time but the basic trend may be interrupted by benefit improvements.
- (2) The ratio of the funding value of assets to the actuarial accrued liability.** The ratio is expected to increase over time but the basic trend may be interrupted by benefit improvements.
- (3) The actuarial present value of gains or losses realized in the operation of the retirement system.** Gains and losses are expected to cancel each other over a period of years but sizable year-to-date fluctuations are common.

**Summary of Benefit Provision Changes in December 31, 2008 Valuation**

**City of Mt. Morris:**

Non-Union Members

The voluntary service requirements for retirement were changed from 25 to 22 years of credited service with no age restriction.

**Assumption and Method Changes**

Probabilities of retirement were revised for the Water & Waste employee group to reflect a change in eligibility for post-retirement health care benefits.

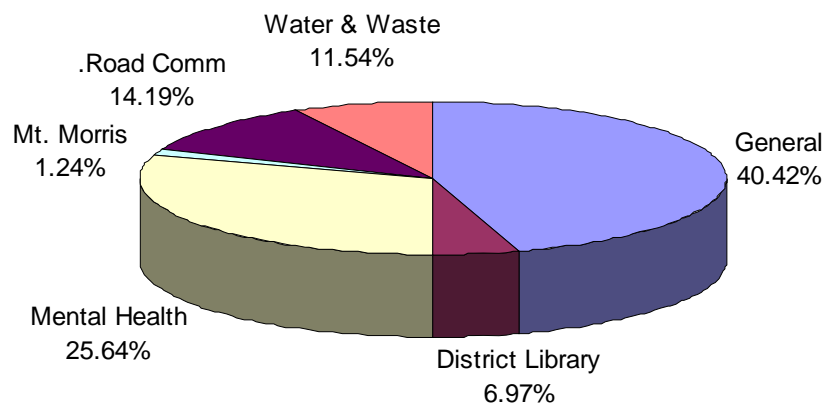
**ACTUARIAL CONCLUSION**

The Retirement System is financing benefits as they accrue in accordance with a sound level percent-of-payroll funding objective.

**CERTIFICATION:** Rodwan Consulting Company certifies that the December 31, 2008 actuarial valuation has been conducted in accordance with generally accepted actuarial principles and practices. Data concerning active members, retirees, beneficiaries and assets was provided by the County. This data has been reviewed for reasonableness, but no attempt has been made to audit such information. The valuation was based on the provisions of the Retirement System as amended through January 1, 2009. The actuarial assumptions used in this valuation are reasonably related to past experience of the System and represent reasonable expectations of future experience under the System.

**GENESEE COUNTY EMPLOYEES' RETIREMENT SYSTEM  
MEMBER STATISTICS**

**GCERS Active Members as of 12/31/2008 TOTAL - 1,205**



### COMPARATIVE SCHEDULE

Valuation Date Dec 31	Total Active Members	Valuation Payroll*	Average Age	Average Service	Average Annual Pay	% Increase
1994	1,783	65,137	42.0	9.3	36,532	4.8
1995	1,821	69,200	42.2	9.6	38,001	4.0
1996	1,661	65,206	42.5	10.0	39,257	3.3
1997	1,496	61,108	42.6	10.1	40,848	4.1
1998	1,502	62,421	42.8	10.4	41,558	1.7
1999	1,521	64,378	42.7	9.9	42,326	1.8
2000	1,474	63,781	42.8	10.4	43,271	2.2
2001	1,447	65,765	42.8	10.2	45,449	4.8
2002	1,481	68,667	43.5	10.2	46,365	2.0
2003	1,450	70,143	43.7	10.6	48,374	4.3
2004	1,395	71,274	43.8	10.8	51,092	5.3
2005	1,399	70,433	44.1	10.8	50,346	(1.5)
2006	1,346	70,205	44.6	11.2	52,115	3.5
2007	1,261	68,341	45.2	12.0	54,196	4.0
2008	1,205	67,721	45.8	12.4	56,200	3.6

*\*\*in thousands*

### EMPLOYER COMPUTED CONTRIBUTIONS-COMPARABLE SCHEDULE

Valuation Date Dec.	General & Sheriffs	Water & Waste	District Library	Mental Health	Road Commission	City of Mt. Morris	Valuation Payroll*	Dollar Contributions*
1984	9.59	7.05	9.33	3.04	9.97	6.74	41,454	3,534
1985 (a)	8.01	6.37	7.91	7.03	10.24	4.90	44,068	3,795
1986	6.04	4.99	7.22	6.54	9.63	4.34	46,136	3,231
1987 (a)	11.40	4.79	5.72	6.44	9.07	3.35	50,282	5,235
1988 (a)	12.51	2.32	4.67	10.43	9.12	2.72	50,342	5,882
1989 (a)	15.66	0.45	4.42	9.14	6.54	1.24	50,694	6,631
1990 (a)	16.21	6.82	4.15	9.12	9.31	1.62	53,332	7,463
1991	17.03	6.19	8.27	8.97	15.98	0.58	53,167	9,448
1992	21.09	7.98	6.63	9.41	19.89	0.62	57,807	10,410
1993	23.34	13.41	6.36	10.67	19.91	0.23	60,516	10,614
1994	22.53	14.19	4.50	10.34	20.66	0.23	65,137	12,549
1995	18.44	9.99	.69	7.17	23.34	0.00	69,200	12,397
1996	20.19	3.22***	0.00	4.69	26.04	3.78	66,206	11,996
1997	17.32	10.88	0.00	5.68	19.33	3.76	61,108	9,502
1998	11.09	4.14	0.00	1.89	13.78	0.00	62,421	8,791
1999	10.29	2.08	0.00	1.20	10.95	0.00	64,378	8,030
2000	10.70	3.02	0.00	8.97	12.02	0.00	63,781	4,735
2001	10.39	4.71	0.00	8.09	16.93	5.22	65,765	4,311
2002	15.52**	14.00**	0.56**	9.44**	16.42**	11.56**	68,667	6,016
2003	19.27	15.94	5.40	11.47	18.19	14.96	70,143	6,448
2004	22.31	17.11	8.95	13.61	19.57	18.47	71,274	9,088
2005	24.28	17.58	12.68	12.80	18.18	18.76	70,433	10,788
2006	23.48	15.94	11.20	11.49	16.00	18.21	70,205	12,482
2007	25.38	16.49	8.58	11.63	16.60	20.56	68,341	12,997
2008	29.33	17.76	11.64	13.96	18.34	20.40	67,721	11,949

\* \$ In Thousands

\*\* Rate represents those adopted by Retirement Commission on 6/16/2003.

## **V. GLOSSARY OF KEY INVESTMENT AND ACTUARIAL TERMS**

## **Glossary of Key Investment and Actuarial Terms:**

### **ACTUARIAL ACCRUED LIABILITY-**

The difference between the actuarial present value of system benefits and the actuarial value of future normal costs. Sometimes referred to as "accrued liability".

### **ACTUARIAL ASSUMPTIONS-**

Estimates of future experience with respect to rates of mortality, disability, turnover, retirement, rate or rates of investment income and salary increases. Decrement assumptions (rates of mortality, disability, turnover, and retirement) are generally based on past experience, often modified for projected changes in conditions. Economic assumptions (salary increases and investment income) consist of an underlying rate in an inflation-free environment plus a provision for a long-term average rate of inflation.

### **ACTUARIAL RESERVE-**

A fund for the purpose of paying benefits which will not be paid in the very near future but which have already been earned. An actuarial reserve retirement fund sets aside money for benefits earned before the benefits will actually have to be paid.

### **ACTUARIAL VALUATION-**

An examination by an actuary of a group of people, with regard to certain characteristics of the people in that group. Some of the characteristics are age, service, salaries, rate of turnover by death or termination. The actuary can then determine whether contributions are sufficient to fund liabilities earned. An annual actuarial valuation of active and retired members is conducted by Rodwan Consulting Company, the actuary for the Genesee County Employees' Retirement System.

### **AMORTIZE-**

To pay off an interest-discounted amount with periodic payments of interest and principal as opposed to paying off with a lump sum payment.

### **AUDIT-**

An examination by someone or some firm outside an organization of accounting records developed by the staff of the organization. Recommendations and suggestions for better record keeping and management are often part of an audit. An annual audit is conducted by Plante & Moran, PLLC, the independent auditors for the Genesee County Employees' Retirement System.

### **CORPORATE OBLIGATION-**

An investment in a corporation with specified payments of principal and interest over a definite period of time.

### **DIVERSIFICATION-**

The practice of investing in several different investment areas in order to minimize total portfolio risks.

### **LEVEL-COST FINANCING-**

A method of financing a retirement system in which contributions, as a percentage of payroll, remain level from generation to generation, if benefit provisions are not changed.