



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

For the Year Ended  
December 31, 2016

## **RETIREMENT COMMISSION MEMBERS**

Mark Young, Chairperson	Ex-Officio Commissioner
Jeffrey Cyphert, Vice-Chairperson	Elected Retiree Representative
Kristie Primeau	Ex-Officio Commissioner
John Mandelaris	Ex-Officio Commissioner
John Northrup	Ex-Officio Commissioner
Dan Russell	Ex-Officio Commissioner
William Brandon III	Elected Employee Representative
Vickie Hall	Elected Employee Representative
Warren Vyvyan	Elected Employee Representative

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

Genesee County Employees' Retirement System  
Retirement Services Administrator  
1101 Beach Street  
Flint, MI 48502  
Telephone: (810) 257-2626 or (800) 949-2627  
Fax: (810) 257-3560  
Email: [retirement@co.genesee.mi.us](mailto:retirement@co.genesee.mi.us)  
Web site: [www.gc4me.com](http://www.gc4me.com)

**INDEPENDENT AUDITORS**

Plante & Moran, PLLC

**ACTUARY**

Rodwan Consulting Company

**INVESTMENT MANAGERS**

AEW Value Investors, LP  
Alidade Capital  
All Blue, LP  
Barings Real Estate Advisers  
BlackRock  
Bloomfield Capital  
Cube Global  
EARNEST Partners  
First Eagle Investment Management  
JCR Capital Investment Company, LLC  
MacKay Shields, LLC  
Mitsubishi UFJ Fund Services  
Phoenix Capital Partners, LTD  
Prudential Investments (PRISA)  
Star Navigator  
World Asset Management

**COMMISSION RECAPTURE FIRMS**

BNY-Convergex  
Russell Implementation Services

**CONSULTING SERVICES/EVALUATIONS/MANAGER SEARCHES**

AndCo Consulting, Inc.

**CUSTODIAL BANK & SECURITIES LENDING AGENT**

Comerica Bank

**ATTORNEYS**

VanOverbeke, Michaud & Timmony, PC  
Labaton Sucharow, LLP  
Faruqi & Faruqi, LLP  
Robbins, Geller, Rudman & Dowd, LLP

**MEDICAL DIRECTOR**

Consulting Physicians, P.C.

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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 38th Annual Report of the Genesee County Employees' Retirement System (also referred to as GCERS or the System) for the year ended December 31, 2016.

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) the Investment Section with Information on the System's investment performance; and (4) the Actuarial Section which summarizes the results of the annual actuarial report as of December 31, 2016.

### **ORGANIZATION**

The GCERS was organized pursuant to Section 12 (a) of Act #156, Public Acts of 1851 (MSA 5.333(1); MCLA 46.12 (a) 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, Genesee Health Systems 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 and individual union/management collectively-bargained contracts. This Ordinance has been approved by the Genesee County Board of Commissioners.

### **ADMINISTRATION OF SYSTEM**

The administration and responsibility for the proper operation of the System is vested in the Genesee County Retirement Commission (the 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, or other Road Commissioner designated by the Chairperson of the Board of County Road Commissioners as his or her designee during the Chairperson's term.
- e. The Executive Director of the Genesee Health Systems 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 **Controller** serves as Secretary to the Retirement Commission and as the Administrative Officer.

The **Retirement Services Administrator** serves as a staff aide to the Retirement Commission and as the Plan Administrator.

The Commission has hired **Independent Legal Counsel** as advisors to the Retirement Commission.

The respective **Employer Human Resources Departments** provide services regarding their employee members, as well as administering 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 Investment 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 principles.

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

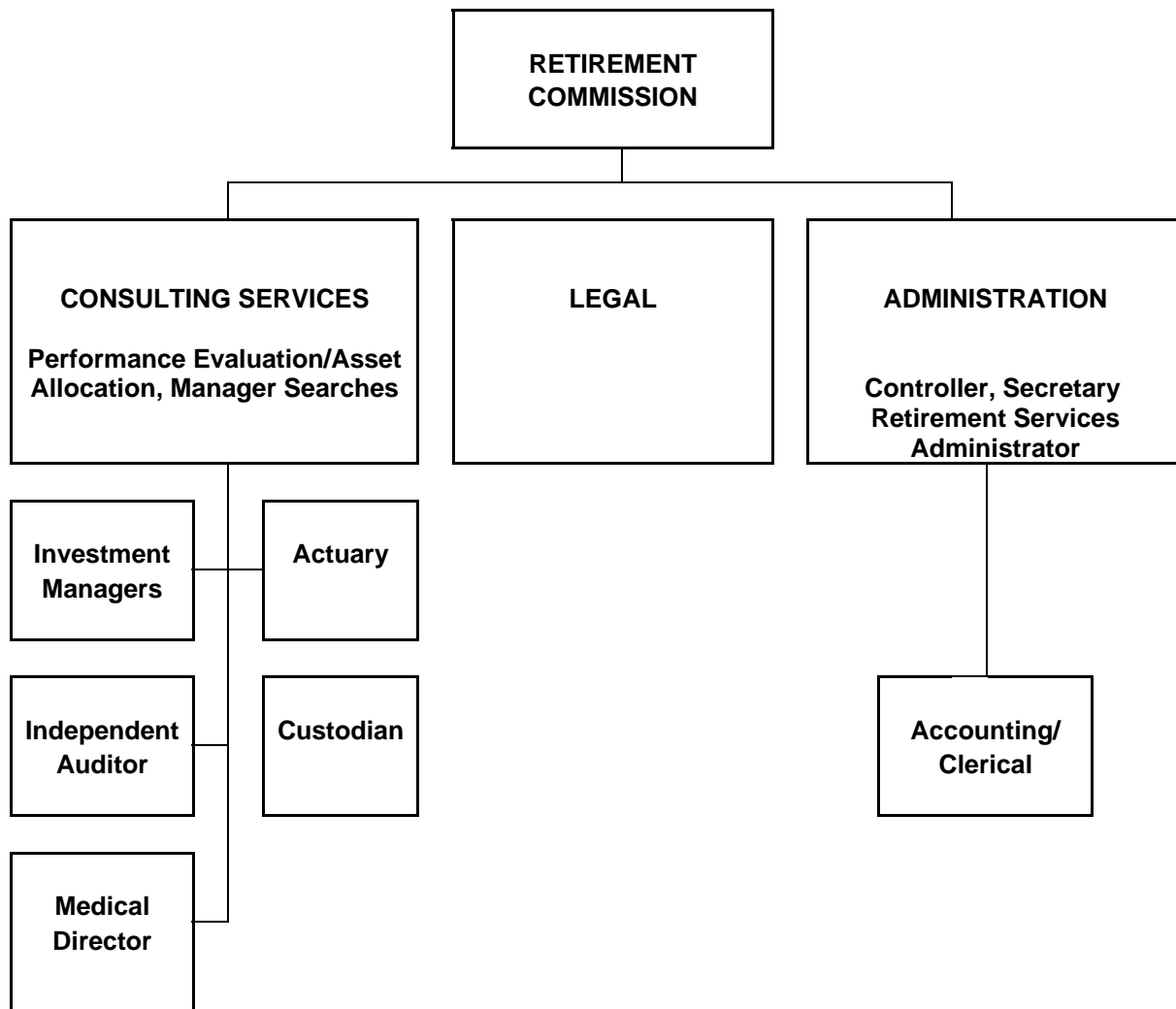
A **Medical Director** is appointed by the Commission to review and evaluate medical evidence and propose recommendations regarding applications for disability retirements.

**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 **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 Position, and a Statement of Changes in Plan Net Position 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 on page six identifies the percentage of revenues and distribution of revenues by source.

**Contributions by Members:** Employee contributions are calculated on all monetary compensation as defined by the Retirement Ordinance. The member contribution rates vary by employer and the respective collective bargaining agreements and/or personnel policies. These rates range from 1.0% to 9.5%. 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. Certain employee groups 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 service 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 4.61% of total income for 2016.

**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 32.82% of total income for 2016.

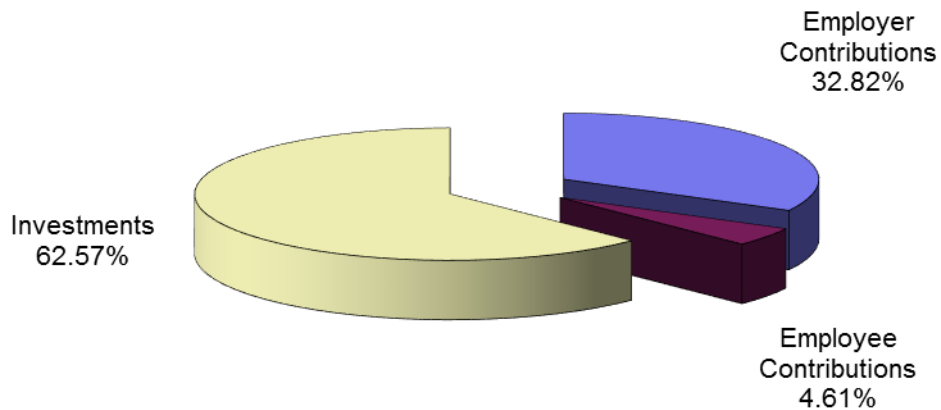
**Investment Income:** Investment income is the third source of System revenues and must be regarded as both a vital and major contributor to the GCERS. This income assists the governmental employer groups in controlling costs and protects the future security of System members. The investment income for 2016 accounted for 62.57% of the total income.



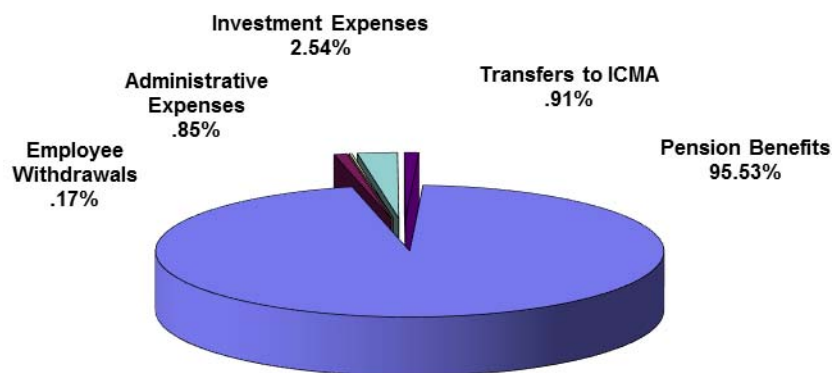
**Genesee County Employees' Retirement System  
Secretary's Letter (continued)**

**Expenditures of System:** The cost of all benefits, services, and operations are borne by the System. This totaled \$47,246,796 for 2016. The allocation of this cost was 95.53% for retiree pension benefits, 2.54% for investment-related fees, 0.17% for employee withdrawal of contributions, .91% for conversions to a defined contribution plan, and .85% for administrative expenses.

**SOURCES OF REVENUES - 2016**



**ALLOCATION/USE OF REVENUES & RESERVES - 2016**



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

**HIGHLIGHTS**

For the calendar year 2016, the GCERS portfolio had an overall return of almost 9%, again ranking near the top 10% among all U.S. public pension funds.

This strong investment result for Genesee County corresponds with a good year for the U.S. economy (about 2% growth) and good returns for U.S. stock, bond, and real estate investments as well. The unemployment rate fell below 5.0% and inflation remained subdued, averaging 2% for the year.

The United States (S&P 500) stock market finished the year up 12% while international stocks were positive but lagged far behind the U.S. stocks. Despite increasing short-term interest rates throughout the year, the U.S. bond market provided a 2.6% return to investors.

Commercial real estate was among the best performing asset class in 2016. Favorable low interest rates and investor appetite for income yield benefitted investors. Commercial real estate indices were up over 9% for the year.

**ACKNOWLEDGEMENTS**

The compilation of this report reflects the combined effort of the Retirement Services Administrator 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,

Kristie Primeau  
Secretary

## **SUMMARY OF BENEFITS – December 31, 2016**

(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 multi-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 1.0% to 9.5% of all monetary compensation that is defined as pensionable compensation in the Ordinance, or the applicable collective bargaining agreements. 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 or ten years of service may elect a deferred annuity providing a lifetime benefit. Several employers have negotiated a fifteen-year service provision for the deferred annuity for 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 2.0-2.5% for the first 25 years of service plus 1% for years of service in excess of 25 years. 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 workers' 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 workers' compensation.

**Annual Amount:** Refund of accumulated contributions. Upon termination of workers' compensation the same amount is paid by the Retirement System to the surviving spouse 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.



## **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 adequate 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.

## Independent Auditor's Report

To the Board of Commissioners  
Genesee County Employees' Retirement System

### **Report on the Financial Statements**

We have audited the accompanying basic financial statements of Genesee County Employees' Retirement System (the "System") as of and for the year ended December 31, 2016 and the related notes to the financial statements.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditor's Responsibility***

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



To the Board of Commissioners  
Genesee County Employees' Retirement System

***Opinion***

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the related financial position of the Genesee County Employees' Retirement System as of December 31, 2016 and the related changes in plan net position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

***Emphasis of Matter***

As explained in Note C, the financial statements include investments valued at \$162,196,212 (38 percent of net position) at December 31, 2016 whose fair values have been estimated by management in the absence of readily determinable market values. Management's estimates are based on information provided by fund managers and the partnership general partners.

***Other Matter***

***Required Supplemental Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and schedule of investment returns identified in the table of contents are to be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplemental information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

***Other Information***

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the System's basic financial statements. The introductory section, investment section, actuarial section, and management's statement of responsibility are presented for the purpose of additional analysis and are not a required part of the basic financial statements. The introductory section, investment section, actuarial section, and management's statement of responsibility have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

*Plante & Moran, PLLC*

June 19, 2017

## **MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED December 31, 2016**

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 Position held in trust for pension benefits increased by \$8,505,868; from \$423,186,229 at December 31, 2015, to \$431,692,097 at December 31, 2016.
- During the year, deductions representing the cost of all benefits, services and operations borne by the System totaled \$47,246,796. The allocation of this cost was 95.53% for retiree pension benefits, 2.54% for investment-related fees, 0.17% for employee withdrawal of contributions, .91% for conversions to a Defined Contribution Plan and .85% for administrative expenses.
- In 2016 the total additions to the system, including employer and employee contributions and investment income, totaled \$55,752,664. The source of this revenue was 32.82% in employer contributions, 4.61% in employee contributions and 62.57% in realized and unrealized investment income.

### **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 employers' pension plans.

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

The Statement of Plan Net Position (on page 18) and the Statement of Changes in Plan Net Position (on page 19) report the retirement system's net position and the changes therein. The retirement system's net position – the difference between assets and liabilities – is one way to measure the system's financial health or financial position. Over time, increases or decreases in the system's net position are one indicator of whether its financial health is improving or deteriorating. Also taken into consideration are 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 employers' 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's Discussion & Analysis Section of this Annual Report.

A comparison of plan net position and the changes in plan assets from 2015 to 2016 is contained in the following tables:

	<b>Plan Net Position (in Thousands)</b>	
	Pension Trust Fund	
	12/31	
	2016	2015
Cash, Short-Term Cash Investments and Receivables	\$ 14,354	\$ 20,103
Investments, at Fair Value	417,623	411,706
Cash and Investment Held as Collateral for Securities Lending	11,218	4,967
<b>Total Assets</b>	<b>443,195</b>	<b>436,776</b>
Amounts due to broker under securities lending agreement	11,218	4,967
Other Liabilities	285	8,623
<b>Total Liabilities</b>	<b>11,503</b>	<b>13,590</b>
<b>Total Net Position Held in Trust for Pension Benefits</b>	<b>\$431,692</b>	<b>\$423,186</b>

	<b>Changes in Plan Net Position (in Thousands)</b>	
	Pension Trust Fund	
	12/31	
	2016	2015
Net Investment Income	\$ 33,632	\$ 6,995
Net Securities Lending Income	82	45
Contributions:		
Employee	2,569	2,551
Employer	18,270	17,113
<b>Total Contributions</b>	<b>20,839</b>	<b>19,664</b>
Benefits Paid to Retirees and Beneficiaries	45,134	44,528
Refunds to Terminated Employees	81	360
Other Expenses	832	3,250
<b>Net Increase (Decrease) in Net Position</b>	<b>\$ 8,506</b>	<b>\$ (21,434)</b>

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

**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 on pages 20 through 29 of this Annual report.

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

Overall recognized experience of the Retirement System for the year ended December 31, 2016 produced results which were less favorable than expected based on the long-term assumptions. This loss is spread over 4 years for purpose of the funding value of assets. Salary increases, which were less than assumed, partially offset the unfavorable experience.

Established employer contribution rates, as a percentage of payroll, for January 1, 2018 to December 31, 2018 are computed to be General and Sheriff's 94.93%, Water and Waste 19.15%, District Library 23.98%, Genesee Health Systems 35.25%, Road Commission 32.78%, and City of Mt. Morris 14.15%.

**GENESEE COUNTY EMPLOYEES' RETIREMENT SYSTEM**  
**STATEMENT OF PLAN NET POSITION – December 31, 2016**

**ASSETS:**

Cash and Short-Term Cash Investments	\$ 10,669,289
Prepaid Expenses	5,637

Receivables:

Contributions Receivable	1,863,511
Accrued Interest, Dividends and Other	848,202
Accounts Receivable-Pending Trades	<u>967,437</u>

Total Receivables	<u>3,679,150</u>
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Investments, at Fair Value:

U.S. Government Securities	50,185,049
Foreign Governments & Agencies	1,077,913
Corporate Bonds	40,832,083
Foreign Equity	106,285,358
Common Stock	124,725,581
Mutual Funds	304,736
Real Estate	93,189,575
Hedge Fund-of-Funds	<u>1,022,949</u>

Total Investments	<u>417,623,244</u>
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Cash and Investments Held as Collateral for  
Securities Lending:

Money Market and Mutual Funds	11,011,084
U.K. Corporate Floating Rate Note	<u>206,930</u>

Total Cash and Investments Held as Collateral for Securities Lending	<u>11,218,014</u>
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Total Assets	443,195,334
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**LIABILITIES:**

Accounts Payable	144,492
Amounts Due Broker under Securities Lending Agreement	11,218,014
Accounts Payable-Pending Trades	<u>140,731</u>

Total Liabilities	<u>11,503,237</u>
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Net Position held in Trust for Pension Benefits	<u><u>\$431,692,097</u></u>
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(A schedule of funding progress is presented on Page 37)  
The accompanying notes are an integral part of the financial statements.

**GENESEE COUNTY EMPLOYEES' RETIREMENT SYSTEM  
STATEMENT OF CHANGES IN PLAN NET POSITION  
FOR THE YEAR ENDED – December 31, 2016**

**ADDITIONS:**

Contributions

Employee Contributions	\$ 2,569,114
Employer Contributions	<u>18,269,647</u>

Total Contributions	<u>20,838,761</u>
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Investment Income

Net Appreciation in Fair Value of Investments	27,759,362
Interest on U.S. Government Securities	1,102,840
Interest on Corporate Bonds	2,026,529
Dividend Income	<u>3,942,917</u>
	34,831,648
Less Investment Expense	<u>1,199,876</u>

Net Investment Gain	<u>33,631,772</u>
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Securities Lending Income

Interest and Fees	12,549
Borrower Rebates and Bank Fees	<u>69,706</u>

Net Securities Lending Income	<u>82,255</u>
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Total Additions	54,552,788
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**DEDUCTIONS:**

Benefits Paid to Retirees and Beneficiaries	45,134,255
Refunds to Terminated Employees	80,955
Administrative Expenses	401,572
Rollover to Other Pension Plan	<u>430,138</u>

Total Deductions	<u>46,046,920</u>
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Net Increase	8,505,868
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**Net Position Held in Trust for Pension Benefits:**

Beginning of Year	<u>423,186,229</u>
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End of Year	<u>\$ 431,692,097</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, Administration, Provisions, and Reporting Entity**

The Genesee County Employees' Retirement System (also known as GCERS or the "System") is a contributory agent multi-employer defined benefit pension plan. The GCERS's current-year payroll for all covered employees was \$39,466,036.

The plan covers 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 a 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 Genesee Health Systems 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, 2016</u>
Retirees and beneficiaries	
Currently receiving benefits	1,734
Vested terminated employees	78
Active employees:	
Fully vested	414
Non-vested	213
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, Genesee Health Systems 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.

The administration and responsibility for the proper operation of the System is vested in the Genesee County Retirement Commission (the 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.
- c. The Chairperson of the Genesee County Finance Committee by virtue of his or her appointment to that office.

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

- d. The Chairperson of the Board of County Road Commissioners by virtue of his or her election to that office, or other Road Commissioner designated by the Chairperson of the Board of County Road Commissioners as his or her designee during the Chairperson's term.
- e. The Executive Director of the Genesee Health Systems 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.

Eligible employee members of GCERS are required to deposit from 1.0% to 9.5% of eligible monetary compensation. Deposits are accumulated in individual accounts for each member remaining in service. Members leaving service may withdraw their accumulated contributions together with the interest credited to their account. Employers allow members with 8 to 15 years of service to elect a deferred annuity providing a lifetime benefit which varies by employer and bargaining unit. The requirements for regular retirement vary 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 2.0-2.5% for the first 25 years of service, plus 1% for years of service in excess of 25 years. Some contracts allow 2.4% or 2.5% for all years of service.

The GCERS employers are required by the Retirement System Ordinance to make adequate contributions to fund the retirement allowances provided by the System. Because the Retirement System is a multi-employer retirement fund, each employer has the ability to negotiate and/or establish through personnel policy retirement benefits with their respective employees. 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. The System follows accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. Accounting and financial reporting pronouncements are promulgated by the Governmental Accounting Standards Board.



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

The System's investment assets, which are trustee by Comerica Bank 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 principal 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 of more than 5% of the outstanding stock of any one corporation, nor invested more than 5% of the system's assets in the stock of any one corporation.

There were no loans outstanding to GCERS employers at December 31, 2016. 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, and the Amendments to Public Act 347 of 2012.

**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 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 347 of 2012, 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 Commission is in accordance with Public Act 196 of 1997 and has authorized the investments according to Michigan Public Act 347. 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 System's deposits may not be returned.

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

The System 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:

	<u>Fair Value</u>	<u>Less than 5</u>	<u>6 – 10</u>	<u>&gt;10</u>
U.S. Gov Mortgage Backed	\$ 13,895,171	\$ -	\$ 4,897	\$ 13,890,274
U.S. Gov CMO	3,620,008	-	588,238	3,031,770
U.S. Gov Treas, Notes & Bonds	30,268,870	19,055,840	11,213,030	-
Foreign Bonds				
Foreign Corporate	\$ 1,077,913	\$ -	\$ 1,077,913	\$ -
Municipal	4,514,188	833,203	861,991	2,818,994
Corporate Bonds				
Asset Backed	\$ 2,840,885	\$ 1,818,538	\$ 532,693	\$ 489,654
Corporate – CMO	2,400,999	-	370,433	2,030,566
Corporate – Bonds	29,364,807	11,569,844	16,406,086	1,388,877
Private Placement	4,112,204	1,408,465	2,703,739	-

**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:

<u>Investment and S&amp;P Rating</u>	<u>Fair Value (in \$000's)</u>
Asset Backed – AA	\$ 277
Asset Backed – A	1,058
Asset Backed – BBB	213
Asset Backed – N/R	1,292
Corporate Bonds – AAA	601
Corporate Bonds – AA	5,026
Corporate Bonds – A	12,498
Corporate Bonds – BBB	10,943
Corporate Bonds – N/R	296

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

Corporate CMO – AAA	239
Corporate CMO – AA	195
Corporate CMO – N/R	1,967
Private Placement – AA	491
Private Placement – A	588
Private Placement – BBB	2,523
Private Placement – N/R	511
Foreign Bonds – BBB	1,078
Municipal – AAA	516
Municipal – AA	1,343
Municipal – A	257
Municipal – NR	2,399
U.S. Government – CMO – NR	3,620
U.S. Government – Mortgage Backed – N/R	13,895
U.S. Government – Treasuries, Notes & Bonds – N/R	30,269

**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. At December 31, 2016, the System did not hold any securities that are subject to foreign currency risk.

**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, 2016, 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. The System presently owns \$206,930 of Sigma Finance Medium Term Note which is a defaulted investment. There were no failures by any borrowers to return loaned securities or pay distributions thereon during the fiscal year.

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

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 the investments in the cash collateral pool are deemed to mature on the cash collateral pool's next business day as per the Reinvestment Guidelines, with the exception of the Sigma Medium Term Note (Impaired). Because the loans are terminable on demand, maturity of the investments does not exceed the loan duration. The collateral, based on cost and the fair market value of the underlying securities on loan for the System, as of December 31, 2016 was \$11,218,014 and \$10,938,965, respectively, which consisted of short-term money market mutual funds and Sigma Finance Term Note.

**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 1.0% to 9.5% 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 dollar amount over 25 years for General County and Genesee Health Systems, and added to the computed normal costs. Unfunded actuarial accrued liabilities were amortized as a level percent-of-payroll over 25 years in all other employers, and added to the computed normal costs. Administrative costs are financed via investment earnings and employer contributions.

Established employer contribution rates, as a percentage of payroll, for January 1, 2018 to December 31, 2018 are computed to be General and Sheriff's 94.93%, Water and Waste 19.15%, District Library 23.98%, Genesee Health Systems 35.25%, Road Commission 32.78%, and City of Mt. Morris 14.15%.

**Note E – Postretirement Benefits Contributions**

Each employer pays directly to the group providers for their retirees' health and life insurance, with some including dental and optical.

**Note F – Pension Plan Reserves**

In accordance with State Law, the following reserves are required to be set aside within the pension plan:

The retiree reserve is to be computed annually by the actuary as the present value of estimated benefit payments for all current retirees. The amounts reserved may be used solely to pay monthly retiree benefit payments.

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

The **employee reserve** is credited as employee contributions are received throughout the year; the plan maintains a record of the amount contributed by each employee and credits interest annually at a rate of 3.0 percent. For any employee who terminates before vesting in the pension plan, their balance is returned to them; for those who stay until retirement, the balance is transferred into the retiree reserve.

The **employer reserve account** is used to account for the residual net position balance in the pension plan after funding the above two reserves.

As of December 31, 2016, the System's reserves (except for certain employer reserves; General -\$64,306,590, Water & Waste -\$1,710,453, Roads -\$6,414,558, City of Mt. Morris -\$4,308,311, Genesee Health Systems -\$5,639,444) had been fully funded as follows:

	<u>Required Reserve</u>	<u>Amount Funded</u>
Reserved for employee contributions	\$ 28,139,474	\$ 28,139,474
Reserved for retired employees	453,963,634	431,692,342

**Note G – Pension Plan**

**Pension Plan Investments - Policy and Rate of Return**

**Investment Policy** - The pension plan's policy in regard to the allocation of invested assets is established and may be amended by the Pension Board by a majority vote of its members. It is the policy of the Pension Board to pursue an investment strategy that manages risk through the prudent diversification of the portfolio across a broad selection of distinct asset classes.

The pension plan's investment policy discourages the use of cash equivalents, except for liquidity purposes, and aims to refrain from dramatically shifting asset class allocations over short time spans. The following was the Board's adopted asset allocation policy as of 12/31/2016:

<u>Asset Class</u>	<u>Target Allocation</u>
U.S. Equities Active or Passive	37%
Non-U.S. Equities	18%
Domestic Fixed Income	25%
Commercial Real Estate	18%
Alternative Investment Hedge Funds	0%
Cash Equivalents	<u>2%</u>
Total Fund	100%

**Concentrations** - At December 31, 2016 the plan held approximately 37.95% of its investment portfolio in U.S. equities.

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

**Note H – Change in Accounting**

During the year, the System adopted GASB Statement No. 72, *Fair Value Measurement and Application*. As a result, the notes to the financial statements now include enhanced disclosures about fair value measurement, the level of fair value hierarchy, and valuation techniques.

**Note I – Fair Value Measurement**

The Genesee County Employees' Retirement System categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. Investments that are measured at fair value using the net asset value per share (or its equivalent) as a practical expedient are not classified in the fair value hierarchy below.

In instances whereby inputs used to measure fair value fall into different levels in the fair value hierarchy, fair value measurements in their entirety are categorized based on the lowest level input that is significant to the valuation. GCERS's assessment of the significance of particular inputs to these fair value measurements requires judgment and considers factors specific to each asset or liability.

GCERS has the following recurring fair value measurements as of December 31, 2016:

**Assets and Liabilities Measured at Fair Value on a Recurring Basis**

		<u>Fair Value Measurements Using</u>		
	Balance at 12/31/16	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b>Investments by fair value level:</b>				
Debt Securities				
U.S. government	\$ 50,185,049	\$ 30,268,870	\$18,861,534	\$1,054,645
Corporate bonds	40,832,083		40,183,913	648,170
Foreign governments	<u>1,077,913</u>		<u>1,077,913</u>	
Total debt securities	92,095,045	30,268,870	60,123,360	1,702,815
Equity Securities				
Mutual funds	11,522,750	11,522,750		
Common stock	<u>124,725,581</u>	<u>124,725,581</u>		
Total equity securities	136,248,331	136,248,331		
Commercial Real Estate				
Real estate investment trusts	<u>61,929,948</u>		<u>6,143,859</u>	<u>55,786,089</u>
Total real estate securities	61,929,948		6,143,859	55,786,089
Total investments by fair value level		<u>\$166,517,201</u>	<u>\$66,267,219</u>	<u>\$57,488,904</u>
<b>Investments measured at net asset value (NAV)</b>				
Foreign equity		106,285,358		
Real estate investment trusts		31,259,627		
Partnerships alt. investments		<u>1,022,949</u>		
Total investments measured at NAV		<u>138,567,934</u>		
Total inv. measured at fair value including securities lending		<u>\$428,841,258</u>		

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

Debt and equity securities classified in Level 1 are valued using prices quoted in active markets for those securities.

The fair value of debt securities and real estate investment trusts at December 31, 2016 was determined primarily based on Level 2 inputs. The System estimates the fair value of these investments using prices quoted in active market for those securities and other inputs that are observable, such as interest rates and yield curves that are observable at commonly quoted intervals.

The fair value of closely held commercial real estate funds at December 31, 2016 was determined primarily based on Level 3 inputs. The System estimates the fair value of these investments using investment manager's estimates calculated from pricing models, discounted cash flow methodologies or similar techniques taking into account the characteristics of the asset.

**Investments in Entities that Calculate Net Asset Value per Share**

The System holds shares or interests in investment companies where the fair values of the investments are measured on a recurring basis using net asset value per share (or its equivalent) as a practical expedient.

At the year ended December 31, 2016, the fair value, unfunded commitments and redemption rules of those investments are as follows:

	<u>Fair Value</u>	<u>Unfunded Commitments</u>	<u>Redemption Frequency, if Eligible</u>	<u>Redemption Notice Period</u>
Foreign equity	\$106,285,358	-	Monthly	30 days
Real estate investment trusts	31,259,627	-	Quarterly	90 days
Partnerships alt. investments	<u>1,022,949</u>	<u>-</u>	Annually	60 – 90 days
Total investments measured at NAV	<u>\$138,567,934</u>	<u>-</u>		

The foreign equity funds class includes investments in funds that invest predominantly in equity securities of non-U.S. companies. The funds invest in developed and emerging market countries and utilize investments across the capitalization spectrum from large to small companies. The fair values of the investments in this class have been estimated using the net asset value per share of the investments.

The real estate investment trust funds class includes investments in funds whose objective is to operate a core portfolio of real estate investments predominately located in the U.S. The funds acquire ownership in underlying investments either through direct real estate ownership or ownership in real estate companies or the equity of real estate investment trusts. The funds predominantly target purchases in office, industrial, retail, or multifamily real estate classes. The fair value of the investments in this class have been estimated using the net asset value per share of the investments.

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

**Disclosures Regarding Redemption and Liquidation**

The investments in the partnerships in alternative investment funds listed above have been redeemed in 2016 and the cash held back is expected to be returned in 2017.

**Disclosures Regarding Planned Sales**

GCERS did not have any investments planned to be sold. However, it is assumed that when investments are sold, they will be sold at the market value.

**Note J – Upcoming Accounting Pronouncements**

The Governmental Accounting Standards Board issued GASB Statement No. 84, *Fiduciary Activities*. This standard improves guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported.

The focus of the criteria generally is on (1) whether government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom the fiduciary relationship exists. The provisions of this statement are effective for the System's financial statements for the year ending December 31, 2019. The applicability of this standard is currently being reviewed by management of the System.



# **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 decisions shall be made within the framework of the goals 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.

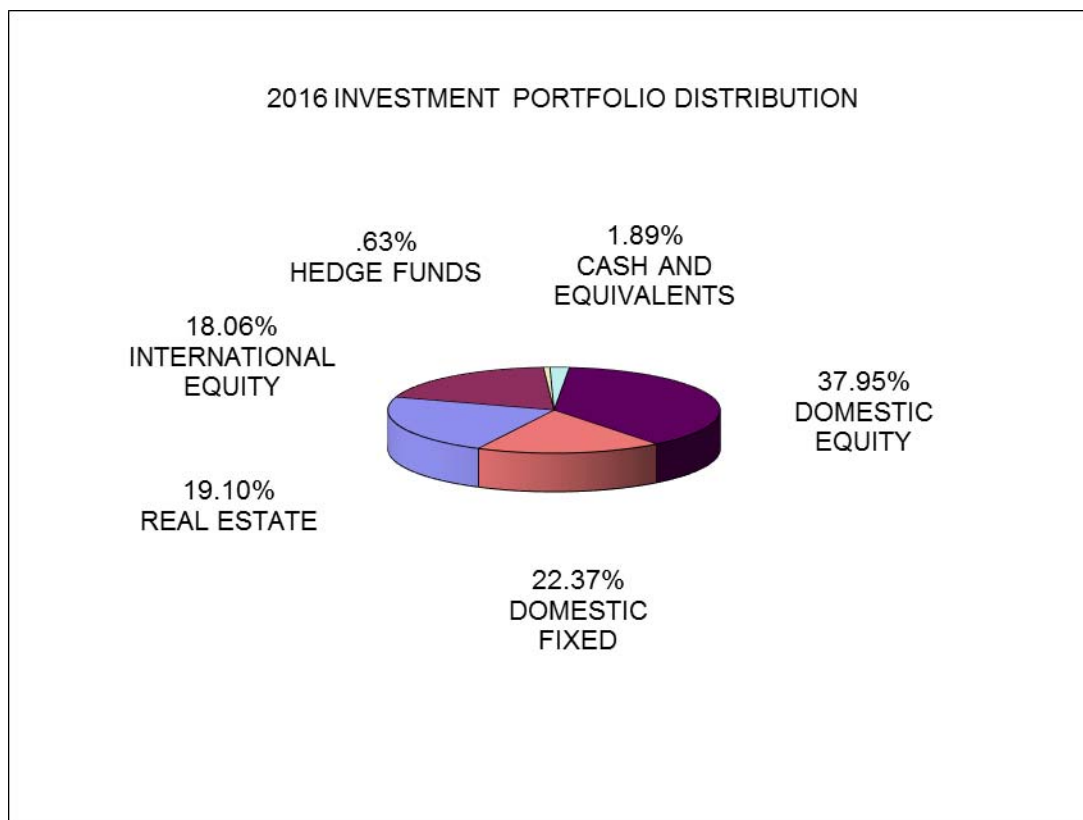
The Governmental Accounting Standards Board Statement Number 5 will be followed in accounting for the portfolio. Securities will be recorded at market values and will be reported to the Commission monthly. The firm engaged for the annual audit shall be consulted when questions concerning accounting procedures 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 valuation 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, 2016, the market value of the portfolio distribution of investments was as follows: 37.95% in domestic equities, 18.06% in international equities, 22.37% in domestic fixed income securities, 19.10% in real estate, .63% in hedge fund-of-funds and 1.89% in cash and equivalents (receivables and accruals).



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

**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. 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.

- The return for 2016 was 8.98%. The three, five and ten year total returns were 5.95%, 8.82% and 5.07%, respectively.

## **IV. ACTUARIAL SECTION**

### **The Actuarial Section Contains:**

- **Actuarial Principles**
- **Present Actuarial Status**
- **Member Statistics**
- **Employer Computed Contributions**

## **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 NEEDED 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 recognized experience of the Retirement System for the year ended December 31, 2016 produced results which were less favorable than expected based on the long-term assumptions. This loss is spread over 4 years for purpose of the funding value of assets. Salary increases, which were less than assumed, partially offset the unfavorable experience.

In all divisions, the computed retiree liabilities were greater than the Reserve for Retirement Benefit Payments as of December 31, 2016. Transfers were recommended to be made to the Reserve for Retired Benefit Payments so that it equals the retired life liabilities as of December 31, 2016.

The ratio of the funding value of accrued assets to accrued liabilities was 69.6%.

### 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, 2016 By Divisions (\$ in thousands)

	General & Sheriffs	Water & Waste	District Library	Mental Health	Road Commission	City of Mt. Morris	TOTALS
Actuarial Accrued Liability & Reserves:	\$328,123	\$58,037	\$16,860	\$111,523	\$78,275	\$ 5,977	\$598,795
Assets Allocated to Funding:	\$222,562	\$40,663	\$12,153	\$ 82,209	\$53,666	\$ 5,670	\$416,923
Unfunded Actuarial Accrued Liability:	\$105,562	\$17,374	\$ 4,707	\$ 29,314	\$24,608	\$ 307	\$181,872
Funded Ratio:	67.8%	70.1%	72.1%	73.7%	68.6%	94.9%	69.6%
Funded Ratio: Prior Year	72.0%	75.5%	79.9%	76.8%	77.1%	96.8%	74.3%



**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 it 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 ratio 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-year fluctuations are common.

**Summary of Benefit Provision Changes in December 31, 2016 Valuation**

**General Unit:**

AFSCME 496-00 Ratified 3/14/2016; 496-01 Ratified 12/7/2015; 496-03 and PCOA Ratified 1/19/2016; Judicial Admin. Secretaries Ratified 10/10/16; Teamsters Local 214-Parks Ratified 7/20/15

AFSCME 496-00:

Retirement Employee Contribution Rate:

- Retirement employee contribution rate was changed to 9.5%, effective March 14, 2016.

AFSCME 496-01:

Retirement Employee Contribution Rate:

- Retirement employee contribution rate was changed to 9.5%, effective October 1, 2016.

AFSCME 496-03:

Retirement Employee Contribution Rate:

- Retirement employee contribution rate was changed to 11%, effective January 1, 2016.

PCOA:

Retirement Employee Contribution Rate:

- Retirement employee contribution rate was changed to 9.5%, effective January 1, 2016.

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

Judicial Admin. Secretaries:

Retirement Employee Contribution Rate:

- Retirement employee contribution rate was changed to 9.5%, effective October 10, 2016.

Teamsters Local 214-Parks:

Retirement Employee Contribution Rate:

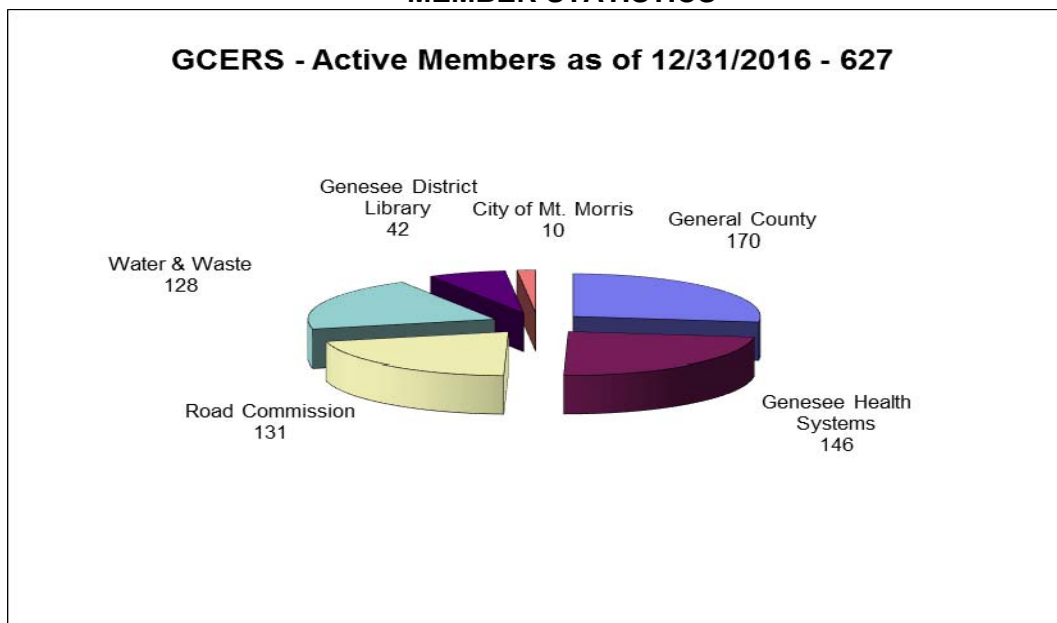
- Retirement employee contribution rate was changed to 9%, effective January 1, 2016.

**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 certified that the December 31, 2016 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 December 31, 2016. The actuarial assumptions used in this valuation are reasonably related to past experience of the System and produce results which we believe are reasonable.

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



**Genesee County Employees' Retirement System  
Member Statistics (continued)**

**COMPARATIVE SCHEDULE**

Valuation Date Dec 31	Total Active Members	Valuation Payroll*	Average Age	Average Service	Average Annual Pay	% Increase
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
2009	1,151	65,511	46.3	12.9	56,917	1.3
2010	1,002	57,795	46.3	13.0	57,679	1.3
2011	902	52,237	46.7	13.3	57,912	0.4
2012	840	49,737	47.2	13.6	59,210	2.2
2013	793	47,628	47.6	14.2	60,060	1.4
2014	713	43,724	48.3	14.7	61,324	2.1
2015	671	41,687	48.6	15.1	62,167	1.4
2016	627	39,466	48.5	15.7	62,944	1.3

*\*in thousands*

**Genesee County Employees' Retirement System  
Member Statistics (continued)**

**EMPLOYER COMPUTED CONTRIBUTIONS-COMPARABLE SCHEDULE**

Valuation Date Dec.	General & Sheriffs	Water & Waste	District Library	Mental Health	Road Commission	City of Mt. Morris	Valuation Payroll*
1986	6.04%	4.99%	7.22%	6.54%	9.63%	4.34%	\$46,136
1987 (a)	11.40	4.79	5.72	6.44	9.07	3.35	50,282
1988 (a)	12.51	2.32	4.67	10.43	9.12	2.72	50,342
1989 (a)	15.66	0.45	4.42	9.14	6.54	1.24	50,694
1990 (a)	16.21	6.82	4.15	9.12	9.31	1.62	53,332
1991	17.03	6.19	8.27	8.97	15.98	0.58	53,167
1992	21.09	7.98	6.63	9.41	19.89	0.62	57,807
1993	23.34	13.41	6.36	10.67	19.91	0.23	60,516
1994	22.53	14.19	4.50	10.34	20.66	0.23	65,137
1995	18.44	9.99	.69	7.17	23.34	0.00	69,200
1996	20.19	3.22	0.00	4.69	26.04	3.78	66,206
1997	17.32	10.88	0.00	5.68	19.33	3.76	61,108
1998	11.09	4.14	0.00	1.89	13.78	0.00	62,421
1999	10.29	2.08	0.00	1.20	10.95	0.00	64,378
2000	10.70	3.02	0.00	8.97	12.02	0.00	63,781
2001	10.39	4.71	0.00	8.09	16.93	5.22	65,765
2002	15.52**	14.00**	0.56**	9.44**	16.42**	11.56**	68,667
2003	19.27	15.94	5.40	11.47	18.19	14.96	70,143
2004	22.31	17.11	8.95	13.61	19.57	18.47	71,274
2005	24.28	17.58	12.68	12.80	18.18	18.76	70,433
2006	23.48	15.94	11.20	11.49	16.00	18.21	70,205
2007	25.38	16.49	8.58	11.63	16.60	20.56	68,341
2008	29.33	17.76	11.64	13.96	18.34	20.40	67,721
2009	31.74	18.81	12.00	15.16	19.46	21.46	65,511
2010	40.58	16.62	12.85	16.65	19.89	26.74	57,795
2011	53.48	20.30	16.87	21.09	25.18	28.43	52,237
2012	52.70	20.35	15.93	19.58	25.15	24.34	49,737
2013	54.36	18.41	14.34	20.02	23.29	16.45	47,628
2014	64.38	16.20	17.65	26.11	23.67	12.52	43,724
2015	71.59	15.94	19.53	29.19	24.34	11.15	41,687
2016	94.93	19.15	23.98	35.25	32.78	14.15	39,466

\* \$ 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, salary and 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 recordkeeping and management are often part of an audit. An annual audit is conducted by Plante & Moran, PLLC, 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.