



St. Clair County Employees' Retirement System Summary Annual Report

Year Ending: December 31, 2012

TABLE OF CONTENTS

INTRODUCTION

Letter to Members	2
Investment Fiduciaries & Service Providers	3

ACTUARIAL

Results Summary	4
Actuarial Methods	5
Plan Participation	6
Plan Results	7
Funding Progress	8

INVESTMENT

Investment Objectives	9
Asset Class Allocation	10
Fund Performance	11

FINANCIAL

Significant Accounting Policies	12
Statement of Fiduciary Net Position	13
Changes in Fiduciary Net Position	15
Administrative & Investment Expenses	16
Budgeted Expenditures for year ending 12/31/14	17

RETIREMENT BOARD OF TRUSTEES

William Herpel, Chairman	Retiree
Matthew Paulus, Vice Chairman	St. Clair County Employee
Gordon Bernhardt, Trustee	Citizen
William Blumerich, Trustee	Road Commission Board Member
Amy DeLange, Trustee	Community Mental Health Employee
William Kauffman, Trustee	St. Clair County Administrator
Debbie Martin, Trustee	Road Commission Employee
Michael McMillan, Trustee	St. Clair County Employee
Timothy Ward, Trustee	St. Clair County Board of Commissioner



WHERE TO WRITE FOR INFORMATION:

St. Clair County Employee's Retirement System

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SUMMARY ANNUAL REPORT TO MEMBERS

DECEMBER 31, 2012

Dear Retirement System Members:

The Retirement System, which is managed by the Retirement Board of Trustees, is designed to help meet your financial needs due to disability, retirement or death. The Retirement Board's fiduciary responsibility is to oversee the general administration of the System and invest its assets. The Board retains professional advisors to assist in the fulfillment of these duties.

This summary report has been prepared to give you an overview of the Retirement System and how it operates, which is governed by the provisions of the St. Clair County Retirement Ordinance and the Retirement Board's official rules and regulations. We hope you will find it useful and informative. As a summary cannot cover all the details of the System, additional information about the System, including the Retirement Ordinance, the actuarial valuation, and audited financials can be obtained from the St. Clair County Human Resource Office or accessed via the St. Clair County website.

Respectfully submitted,

Board of Trustees

St. Clair County Employees' Retirement System

INVESTMENT FIDUCIARIES AND SERVICE PROVIDERS

Asset Strategies Portfolio Services, Inc.

BlueCrest Capital Management

Blue Cross Blue Shield of Michigan

Calamos Investments

Credit Suisse AG

DeRoy & Deveraux

Fifth Third Institutional Services

First Eagle Investment Management, LLC

Fletcher, Fealko, Shoudy & Francis, PC

JCR Capital

Loomis Sayles & Company, PC

Morgan Stanley Real Estate

New York Life Trust Company

Nyhart

Part D Advisors

Pension Benefit Information

Silver Creek

State Street Global Markets, LLC

The Bank of New York Mellon

VanOverbeke, Michaud & Timmony, PC

Westwood Management

WHV Investment Management

VanGuard

ACTUARIAL RESULTS SUMMARY

The Retirement System's financial objective is to accumulate the assets necessary to pay the promised benefits in an orderly manner. To accomplish this, contribution rates are established in a manner designed to keep those rates approximately level as a percentage of payroll or as a level dollar amount from year to year.

The Board of Trustees of the St. Clair County Employees' Retirement System provides for payment of the required employer contribution as described in Section 20m of Michigan Public Act No. 728.

To determine an appropriate employer contribution level for the ensuing year and to gauge how the System's funding is meeting this fundamental objective, an independent firm of actuaries and employee benefit consultants conducts annual actuarial valuations.

These valuations are based on the System's past experience, information about current participation and financial markets, and assumptions concerning the System's future demographic and economic activity.

It is generally recommended that actuarial assumptions be evaluated and reviewed every three to five years. An assumption study was performed, presented and accepted by the Board of Trustees to be applied beginning with the December 31, 2012 pension valuation report.

For 2012, the assumption study and actuarial valuation was performed by Nyhart. The results are summarized on pages 5-8 of this annual report. Complete actuarial valuation reports for this and historical years can be reviewed via the St. Clair County website at www.stclaircounty.org.

[Click to link to St. Clair County Employee's Retirement System Actuarial Valuations](#)

ACTUARIAL METHODS

Name of plan

St. Clair County Employees Retirement System

Effective date

The plan was originally effective as of January 1, 1964.

Funding method

Annual Required Contribution – Entry Age Normal Cost Method

The actuarial cost method used in determining the Annual Required Contribution is the entry age normal cost method. In determining the Annual Required Contribution, the excess of the entry age actuarial accrued liability over the actuarial value of plan assets is amortized over a 20 year period for Mental Health as a level percent of payroll. General County amortizes the excess of the entry age actuarial accrued liability over the actuarial value of plan assets over 18 years as a level dollar amount since it became closed to new hires three years ago. Similarly, Road Commission does a level dollar amount amortization over 19 years since this is the second year the plan is closed to their new hires.

Asset valuation method

The actuarial value of assets is equal to the expected actuarial value of assets plus 20% of the asset gain/(loss) from the previous five years. Where the asset gain/(loss) for a particular year is defined as the difference between the actual market value return and the expected actuarial value return. This method was first used for the December 31, 2005 valuation.

Smoothing

The market value of plan assets has been adjusted for valuation purposes to smooth the effects of appreciation and/or depreciation in assets over a 5-year period.

Future pay increases

Pay increase assumption applies to all groups and includes 3% inflation. Pay increase are based on service as follows:

Service Increase	
1	8.0%
2	7.0%
3	6.5%
4	6.0%
5	5.5%
6-19	4.0%
20+	3.5%

Payroll Growth

For Mental Health's level percent of pay amortization payroll growth is assumed to be 2.0%.

Valuation interest rate 7.5%

PLAN PARTICIPATION

Participants	County General	Mental Health	Road Commission	Plan Total
Actives	519	205	79	803
Terminated Vested	83	47	17	147
Retirees & Beneficiaries	<u>420</u>	<u>77</u>	<u>145</u>	<u>642</u>
Total	1022	329	241	1592

Retirement Benefits

Average monthly benefit	1,563	1,431	1,482	1,529
Average annual benefit	18,756	17,172	17,784	18,348
Total monthly benefit	656,420	110,155	214,925	981,500
Total annual benefit	7,877,040	1,321,860	2,579,100	11,778,000

Participation

A county policeman, sheriff, or deputy sheriff who agrees to make required participant contributions shall become a participant on his/her date of hire. Plan is closed to new hires for most of General County employees and Road Commission. The plan is open to all new full time hires of the Community Mental Health Authority.

Changes since last valuation:

The salary increase, mortality, retirement and turnover assumptions were changed for the December 31, 2012 valuation to better reflect future anticipated experience of the plan. The assumptions are based on an assumption review reflecting the plan experience through December 31, 2012.

PLAN RESULTS

Total Plan Results	General County	Mental Health	Road Commission	Plan Total
Valuation Date				12/31/2012
For Fiscal Year Beginning				01/01/2014
Funded Position				
Active	\$ 58,845,356	\$ 19,167,269	\$ 12,527,226	\$ 90,539,851
Vested Terminated	4,691,662	2,524,685	1,209,432	8,425,779
Retirees & Beneficiaries	<u>82,831,432</u>	<u>13,889,571</u>	<u>25,804,426</u>	<u>122,525,729</u>
Total Accrued Liability	\$ 146,368,450	\$ 35,581,825	\$ 39,541,084	\$ 221,491,359
Actuarial Value of Assets	<u>119,989,595</u>	<u>28,855,330</u>	<u>31,113,997</u>	<u>179,949,922</u>
Unfunded Accrued Liability	\$ 26,387,855	\$ 6,726,495	\$ 8,427,087	\$ 41,541,437
Funded Ratio	82.0%	81.1%	78.7%	81.2%
Estimated Fiscal Year Payroll	\$ 26,897,465	\$ 11,495,716	\$ 4,068,643	\$ 42,461,824
Employer Contributions				
Normal Cost	\$ 1,979,151	\$ 706,250	\$ 217,172	\$ 2,902,573
Amortization Payment	<u>2,900,109</u>	<u>578,384</u>	<u>877,329</u>	<u>4,355,822</u>
Total Recommended Contribution	\$ 4,879,260	\$ 1,284,634	\$ 1,094,501	\$ 7,258,395
Percent of estimated fiscal year payroll	18.14%	11.17%	26.90%	17.09%

Actuarial Valuation of Assets 12/31/2011	179,169,959
Employee Contributions	2,208,258
Employer Contributions	6,749,798
Benefit Payments	12,240,437
Expenses	105,731
Investment Income	<u>4,168,075</u>
 Actuarial Value of Assets 12/31/2012	 179,949,922

TOTAL PLAN FUNDED RATIO 81.2%

SCHEDULE OF FUNDING PROGRESS

Required Pension Disclosure Under GASB #27

Valuation Date	Actuarial Value of Assets	Accrued Liability	Unfunded Accrued Liability	Funded Ratio	Covered Payroll	Unfunded Liability as % of Payroll
12/31/01	\$ 151,153,871	\$ 121,225,557	\$ (29,928,314)	124.7%	\$ 32,744,255	(91.4%)
12/31/02	148,949,978	129,997,328	(18,952,650)	114.6%	35,716,619	(53.1%)
12/31/03	146,556,581	139,409,729	(7,146,852)	105.1%	38,047,803	(18.8%)
12/31/04	144,411,118	149,377,188	4,966,070	96.7%	39,609,752	12.5%
12/31/05	153,016,205	159,090,379	6,074,174	96.2%	42,622,922	14.3%
12/31/06	165,525,909	171,374,116	5,848,207	96.6%	44,015,666	13.3%
12/31/07	176,628,933	181,439,996	4,811,063	97.3%	44,600,186	10.8%
12/31/08	175,091,222	191,638,371	16,547,149	91.4%	45,511,253	36.4%
12/31/09	176,924,494	203,602,461	26,677,967	86.9%	46,078,581	57.9%
12/31/10	180,051,710	209,379,385	29,327,675	86.0%	44,623,366	65.7%
12/31/11	179,169,959	216,285,667	37,115,708	82.8%	43,552,768	85.2%
12/31/12	179,949,922	221,491,359	41,541,437	81.2%	40,514,547	102.5%

INVESTMENT INFORMATION

PLAN INVESTMENT POLICY

The Retirement System is maintained to provide retirement benefits for the participants and their beneficiaries. The Retirement System is established in accordance with the laws of the State of Michigan whereby it operates and is controlled, as to its investments, by Act 314 and its amendments.

The Board of Trustees are authorized and permitted by the plan document and under Michigan law to engage the services of an investment manager(s), investment consultant and custodian and to set the direction for the investments. The Board requires that the investment manager(s), investment consultant and custodian comply with all applicable laws, rules and regulations. The investment manager will be given full discretion in managing the funds within the statement of investment policies, procedures and objectives.

PLAN INVESTMENT OBJECTIVES

The Board's attitude regarding Retirement System assets combines both growth of capital and appropriate risk-taking. The Board recognizes that risk (i.e., the uncertainty of future events), volatility (i.e., the potential for variability of asset values), and the potential of loss in purchasing power (due to inflation) are present to some degree with all types of investment vehicles. While high levels of risk are to be avoided, the assumption of an appropriate level of risk is warranted and encouraged in order to allow the opportunity to achieve satisfactory results consistent with the objectives and character of the Retirement System. The policies and restrictions contained in the Plan's Statement of Investment Policies, Procedures and Objectives should not impede the investment manager to attain the overall Retirement System objectives, nor should they exclude the investment manager from appropriate investment opportunities.

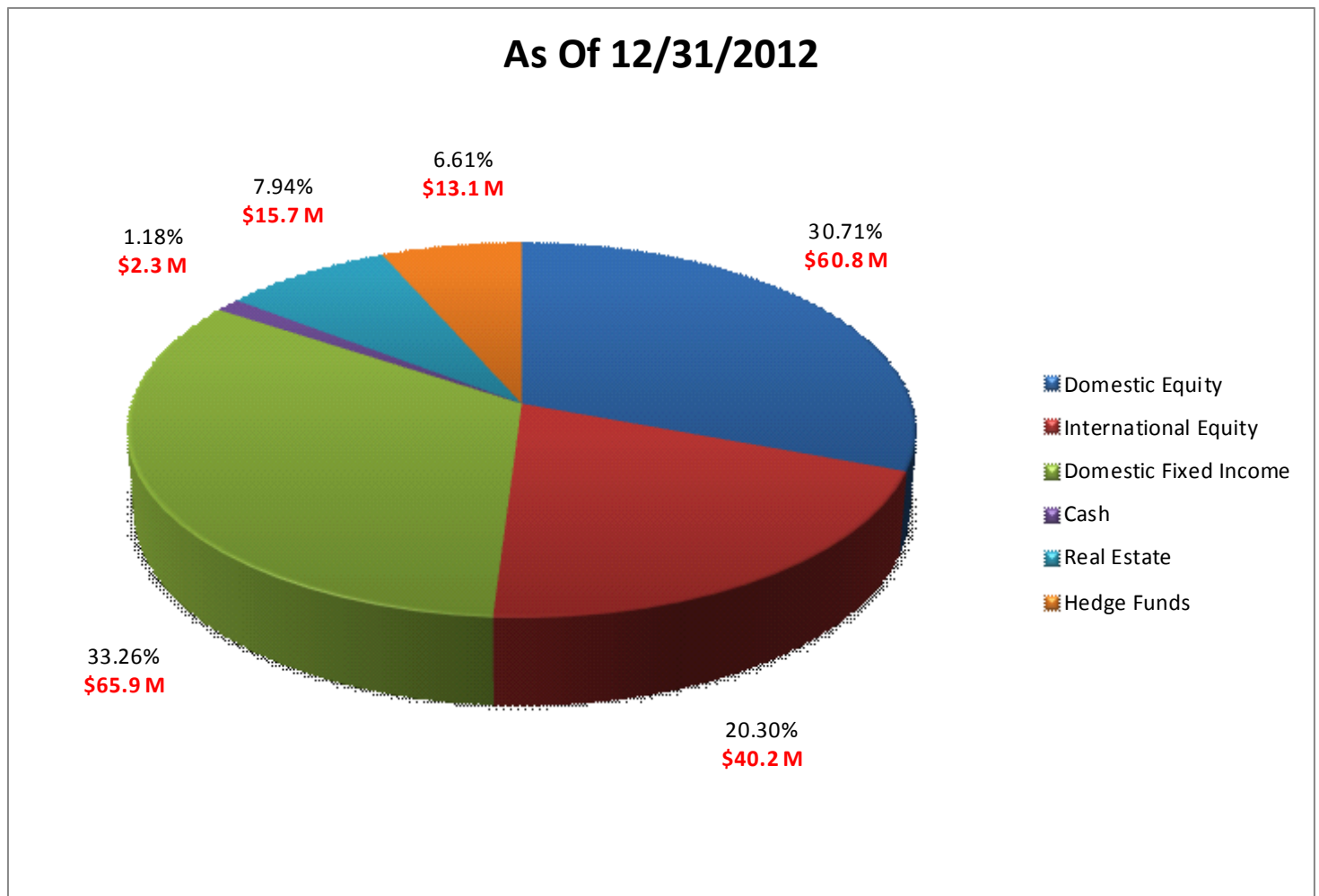
The Plan's overall investment objective is to earn an average, annual return of 7.50% over five-year rolling periods. Subtracting the assumed rate of payroll inflation (3.0%) produces a net 4.50% real rate of return. Achievement of this objective is likely to ensure the ability to pay retirement benefits for all current plan participants.

The Plan's objective is based on the expected returns under the strategic asset allocation policy. This asset allocation policy should result in normal fluctuation in the Plan's actual return, year to year. The expected level of volatility (return fluctuation) is appropriate given the Plan's current and expected tolerance for short-term return fluctuations. Appropriate diversification of Plan assets will reduce the Plan's investment return volatility.

ASSET CLASS ALLOCATION

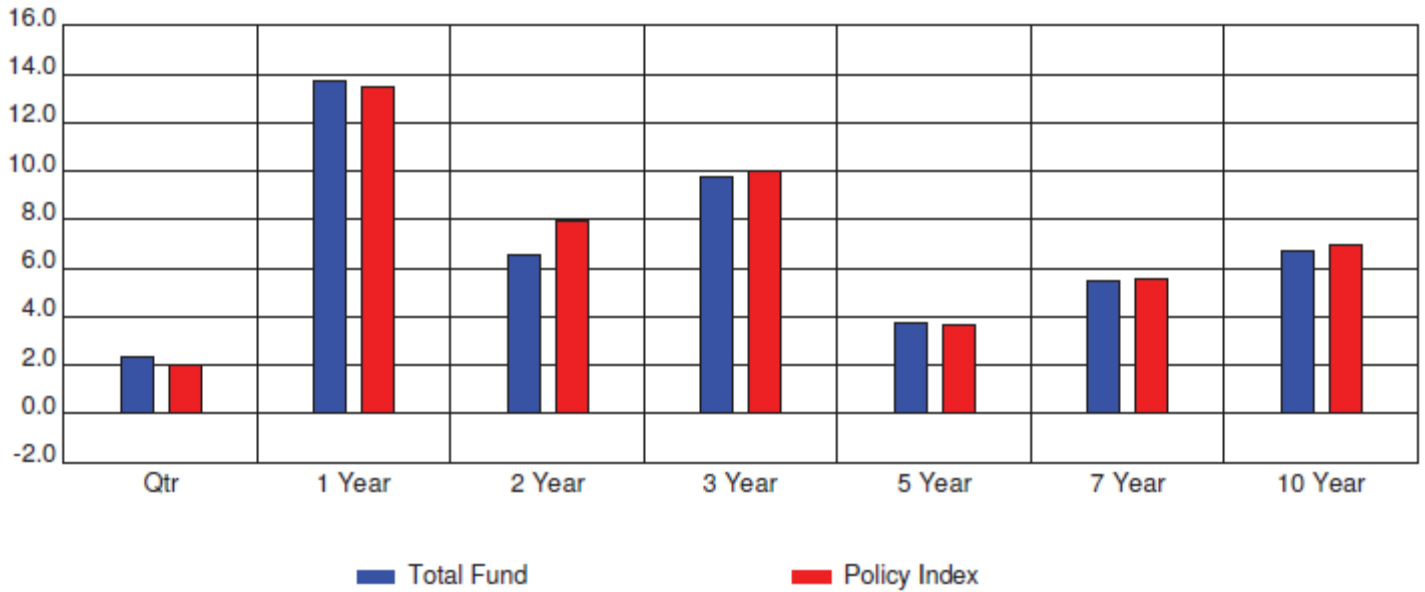
ASSET ALLOCATION POLICY

The strategic asset allocation policy is consistent with the achievement of the Plan's financial needs and overall investment objectives. Asset classes are selected based on their expected long-term returns, individual reward/risk characteristics, correlation with other asset classes, manager roles, and fulfillment of the Plan's long-term financial needs. Conformance with P.A. 314 of 1965 and amendments thereof is also considered.



FUND PERFORMANCE

St. Clair County Employees' Retirement Sys
Performance Bar Chart
Total Fund
Periods Ending 12/31/12



	Qtr	1 Year	2 Year	3 Year	5 Year	7 Year	10 Year
Total Return	2.31	13.74	6.56	9.74	3.72	5.50	6.70
Policy Index	2.01	13.45	7.97	10.00	3.66	5.53	6.95
Asset Growth (\$000)							
Beginning Market Value	195,751	183,177	192,993	177,593	217,718	190,457	153,896
Net Contributions & Withdrawals	-2,055	-9,322	-18,414	-30,092	-46,381	-57,999	-67,525
Gain/Loss + Income	4,302	24,144	23,419	50,497	26,662	65,541	111,627
Ending Market Value	197,998	197,998	197,998	197,998	197,998	197,998	197,998

NOTE: ASPS has recorded transaction data only since 01/01/2006.

- Above performance gross of fees.
- Performance net of fees to be available effective the 12/31/2013 annual report.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

DEFINED BENEFIT PLAN – PLAN DESCRIPTION

The St. Clair County Retirement System is a single employer, defined benefit pension plan, which was established by County ordinance in 1964 to provide retirement and pension benefits for substantially all employees of St. Clair County, the St. Clair County Road Commission, and St. Clair County Community Mental Health Authority (certain employees hired on or after January 1, 2009 are covered by a defined contribution plan). The system is administered, managed and operated by a Board composed of 9 trustees, the chairperson of the Board of Commissioners, or their appointee, a member of the Board of Commissioners, a member of the St. Clair County Road Commission Board, one appointed citizen, four elected employees of the retirement system and one retired member elected by the retired members. The benefit provisions are governed by Act No. 427 of the Michigan Public Acts of 1984, as amended. The plan may be amended by the County Board of Commissioners. The plan is audited within the scope of the audit of the basic financial statements. Separate audited financial statements are not issued.

Summary of Significant Accounting Policies

Basis of Accounting -

The St. Clair County Retirement System utilizes the accrual basis of accounting and is reported within the County's reporting entity as a separate Pension Trust Fund. Contributions from employees are recognized in the period in which contributions are paid. Employer contributions are recognized when due and the employer has made a formal commitment to provide contributions. Benefits and refunds are recognized when due and payable, in accordance with the terms of the Plan.

Method Used to Value Investments -

Investments are reported at fair value. Short-term investments are reported at cost, which approximates fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Investments that do not have an established market are reported at estimated fair values.

Contribution and Funding Policy -

The Plan's funding policy provides for periodic employer contributions at actuarially determined rates that, expressed as a level dollar amount for General County employees and as percentages of annual covered payroll for Community Mental Health and Road Commission employees, are designed to accumulate sufficient assets to pay benefits when due. During the year ended December 31, 2012, contributions totaling \$8,958,056 (\$6,749,798 employer and \$2,208,258 employee) were made in accordance with contribution requirements determined by an actuarial valuation for the plan as of December 31, 2010. The required employer contributions were \$4,490,006 for Gen-

County and 10.36% and 18.90% for Community Mental Health and Road Commission, respectively, of covered payroll. Employee contributions represent 5.0% of covered payroll. (For the Road Commission, employees contributed 7%.) The contribution requirement of a plan member and the County are established by the St. Clair County Retirement Board and may be amended by the St. Clair County Board of Commissioners. Most administrative costs of the plan are paid with retirement assets. The defined benefit plan for various units of the County and Sheriff, along with the Road Commission, are closed to new hires.

The required contribution rate was determined as part of the December 31, 2010 actuarial valuation using the individual entry age normal cost method. The actuarial assumptions included (a) 7.5% net investment rate of return, and (b) projected salary increases of 5.5% to 11.0% per year, which includes pay inflation at 5.0%. There are no projected cost of living adjustments. The actuarial value was determined using techniques that smooth the effect of short-term volatility in the market value of investments over a five-year period. The Plan's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open period with a remaining amortization period as of December 31, 2010, of 20 years for Community Mental Health and the Road Commission and amortized as a level dollar on a closed period with a remaining amortization period, as of December 31, 2010, of 19 years for General Employees.

Annual Pension Cost and Net Pension Asset -

The County and its component units annual pension cost is calculated based on the annual required contribution of the employer (ARC), and amount actuarially determined. The ARC represents the level of funding necessary to cover the normal cost each year and the amortization of any unfunded actuarial liabilities (or funding excess) amortized over a period of 20 years for Community Mental Health and the Road Commission and 19 years for the General County.

The following pages contain the Plan's net position as of December 31, 2012, a summary of expenditures through December 31, 2012 and projected budget of expenditures for year ending December 31, 2014.

STATEMENT OF FIDUCIARY POSITION

ST. CLAIR COUNTY, MICHIGAN

STATEMENT OF FIDUCIARY NET POSITION PENSION AND OTHER EMPLOYEE BENEFIT TRUST FUND DECEMBER 31, 2012

	<u>Basic Retirement System</u>	<u>Other Postemployment Benefits</u>	<u>Total</u>
ASSETS:			
Cash and cash equivalents	\$ 7,340,705	\$ 2,942,011	\$ 10,282,716
Investments, at fair value			
U.S. Government/Agencies	7,112,906	404,717	7,517,623
Corporate Debt	33,485,937	2,434,144	35,920,081
Equity Funds	42,751,114	-	42,751,114
Stocks	65,474,087	8,809,592	74,283,679
Foreign Bonds	17,374,747	-	17,374,747
Mutual Funds	13,071,986	6,378,910	19,450,896
Real Estate Investment Trust	9,908,824	-	9,908,824
Municipal Bonds	161,242	253,136	414,378
Receivables -			
Interest and dividends	590,451	26,753	617,204
Other	221,601	12,359	233,960
Due from other funds	199,258	14,067,953	14,267,211
Total Assets	<u>197,692,858</u>	<u>35,329,575</u>	<u>233,022,433</u>
LIABILITIES:			
Accounts payable	373,259	-	373,259
Accrued liabilities	55,979	-	55,979
Due to other funds	14,067,953	199,258	14,267,211
Total Liabilities	<u>14,497,191</u>	<u>199,258</u>	<u>14,696,449</u>
NET POSITION:			
Restricted for pension benefits	183,195,667	-	183,195,667
Restricted for other postemployment benefits	-	35,130,317	35,130,317
	<u>\$ 183,195,667</u>	<u>\$ 35,130,317</u>	<u>\$ 218,325,984</u>

CHANGES IN FIDUCIARY NET POSITION

ST. CLAIR COUNTY, MICHIGAN

COMBINING SCHEDULE OF CHANGES IN FIDUCIARY NET POSITION PENSION AND OTHER EMPLOYEE BENEFIT TRUST FUND FOR THE YEAR ENDED DECEMBER 31, 2012

	Basic Retirement System			
	Member Contributions	Employer Contributions	Pension Payments	Total
Additions:				
Contributions				
Member contributions	\$ 2,208,258	\$ -	\$ -	\$ 2,208,258
Employer contributions	-	6,749,798	-	6,749,798
Total contributions	2,208,258	6,749,798	-	8,958,056
Investment income				
Net appreciation (depreciation) in fair value of investments	-	17,317,918	-	17,317,918
Interest/Dividends	-	4,637,288	-	4,637,288
Less investment expense	-	(1,013,738)	-	(1,013,738)
Net investment income	-	20,941,468	-	20,941,468
Other				
Medicare Part D reimbursements	-	-	-	-
Total Additions	2,208,258	27,691,266	-	29,899,524
Deductions:				
Retirement payroll	-	-	11,651,429	11,651,429
Health/dental insurance	-	-	-	-
Death benefits	63,000	-	-	63,000
Employee refunds	370,614	-	-	370,614
Administration	-	105,731	-	105,731
Professional fees	-	37,911	-	37,911
Total Deductions	433,614	143,642	11,651,429	12,228,685
Net Increase (Decrease) Before Transfers	1,774,644	27,547,624	(11,651,429)	17,670,839
Interfund Transfers In (Out):				
Retirees obligation	(1,671,753)	(18,230,619)	19,902,372	-
Interest	567,828	(16,067,676)	15,499,848	-
Net Increase (Decrease)	670,719	(6,750,671)	23,750,791	17,670,839
Net position restricted for pension benefits and other postemployment benefits:				
Beginning of year	28,289,477	38,238,233	98,997,118	165,524,828
End of year	<u>\$ 28,960,196</u>	<u>\$ 31,487,562</u>	<u>\$ 122,747,909</u>	<u>\$ 183,195,667</u>

ADMINISTRATIVE & INVESTMENT EXPENSES

(YTD Activity through 12/31/2012)

Expenditures

Administration -

Salaries and Fringes	93,305.54
Mileage and Travel	4,774.59
Food & Operating Supplies	116.00
Postage	2,974.53
Conferences and Training	1,800.00
Miscellaneous	100.00

Medical Insurance -

County	3,327,316.63
Community Mental Health	529,841.46
Road Commission	1,520,926.05

Professional Fees -

Actuarial Services	7,085.00
Legal Services	8,944.05
Investment Consulting Services	74,304.00
Other	68,156.16

Investment Fees -

Custodial Fees	75,306.25
Investment Manager Fees	823,558.68

Retirement Benefits -

Retirement Payroll	11,648,037.96
Employee Refunds - Principal	494,793.88
Employee Refunds - Interest	34,605.49
DROP Distributions	-

Death Benefits

59,500.00

Total Expenditures

18,775,446.27

BUDGETED EXPENDITURES

(Calendar Year Ending 12/31/2014)

Expenditures

Administration -

Salaries and Fringes	107,750.00
Mileage and Travel	2,000.00
Food & Operating Supplies	3,900.00
Postage	4,700.00
Conferences/Training incl. Mileage & Travel	10,000.00
Miscellaneous	1,500.00

Medical Insurance -

County	1,788,562.68
Community Mental Health	323,382.80
Road Commission	793,707.18

Professional Fees -

Actuarial Services	35,000.00
Legal Services	12,000.00
Investment Consulting Services	74,304.00
Other	1,000.00

Investment Fees -

Custodial Fees	77,800.00
Investment Manager Fees	875,000.00

Retirement Benefits -

Retirement Payroll	12,300,000.00
Employee Refunds - Principal	525,000.00
Employee Refunds - Interest	35,000.00
DROP Distributions	

Death Benefits

65,000.00

Total Expenditures

17,035,606.66
