



St. Clair County Employees' Retirement System Summary Annual Report

Year Ending: December 31, 2019

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RETIREMENT BOARD OF TRUSTEES

Deborah Martin, Chairperson	Road Commission Employee
William Herpel, Vice Chairperson	Retiree
William Blumerich, Trustee	Road Commission Board Member
Geoffrey Donaldson, Trustee	St. Clair County Employee
Karen Farr, Trustee	Community Mental Health Employee
Karry Hepting, Trustee	St. Clair County Administrator
William Oldford, Trustee	Citizen
David Rushing, Trustee	St. Clair County Board of Commissioner
James Spadafore, Trustee	St. Clair County Employee



WHERE TO WRITE FOR INFORMATION:

St. Clair County Employee's Retirement System

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SUMMARY ANNUAL REPORT TO MEMBERS

DECEMBER 31, 2019

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 Retirement 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 Pension 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 at www.stclaircounty.org.

The County also provides postemployment health care benefits, which is separate from the Retirement System and managed by St. Clair County. Though this annual summary provides an overview of only the Pension System, some information regarding the County managed postemployment health care benefit can be found in the financial section of this summary. Additional information regarding postemployment benefits can be found on the County website at www.stclaircounty.org in the St. Clair County Comprehensive Annual Financial Report and the 2019 Actuarial Report for Retirement Health Care.

Respectfully submitted,

Board of Trustees

St. Clair County Employees' Retirement System

INVESTMENT FIDUCIARIES

BlueCrest Capital Management

Cushing Asset Management

First Eagle Investment Management, LLC

Garcia Hamilton Associates

Geneva Capital Management

International Farming Corporation

JCR Capital

Lazard Asset Management

Loomis Sayles & Company, PC

LS Investment Advisors

Morgan Stanley Real Estate

Pavilion Alternatives Group

Rice, Hall, James & Associates, LLC

SS&C GlobeOp Financial Services

Silver Creek

Silvercrest Asset Management Group, LLC

State Street Global Markets, LLC

The Brice Group—Morgan Stanley Graystone Consulting

The Bank of New York Mellon

WCM Investment Management

SERVICE PROVIDERS

Fifth Third Institutional Services

MedSource Services

Nyhart

Pension Benefit Information Research Services

Robbins, Geller, Rudman and Dowd

VanOverbeke, Michaud & Timmony, PC

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 experience/assumption study was performed, presented and accepted by the Board of Trustees to be applied beginning with the December 31, 2019 pension valuation report. The actuarial equivalence for optional forms of payment were approved to be implemented January 01, 2020.

For 2019, the experience/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.

ACTUARIAL METHODS

Name of plan

St. Clair County Employees Retirement System

Effective date

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

Cost Method (CO)

Individual Entry Age Level Percent of Pay Cost Method

Amortization Method (CO)

Mental Health 16 year level dollar amortization of Unfunded Actuarial Accrued Liability

General County 15 year level dollar closed amortization of Unfunded Actuarial Accrued Liability

Road Commission 15 year level dollar closed amortization of Unfunded Actuarial Accrued Liability

Each subsequent year after an employer who has closed participation reaches a 15 year amortization period of their unfunded accrued liability, a new amortization base for any assumption changes, plan changes, or actuarial gain/loss will be set up which will be fully amortized in 15 years.

Asset Valuation Method

20% Phase-In Method: Expected actuarial value of assets, adjusted by 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.

Interest Rates (CO)

7.00%

The interest rate is the expected long term rate of return on assets. This assumption is supported by the investment mix of the plan assets as of 12/31/2019.

Annual Pay Increases (FE)

Pay increase assumption applies to all groups and includes 2.25% inflation. Pay increases compounded with inflation are based on service as follows:

<u>Service</u>	<u>Increase</u>
1	7.0%
2	6.0%
3	5.0%
4	4.0%
5	3.0%
6-19	2.25%
20+	2.25%

FE indicates an assumption representing an estimate of future experience
CO indicates an assumption representing a combination of an estimate of future experience and observations of market data

PLAN PARTICIPATION

Participants	County General	Mental Health	Road Commission	Plan Total
Actives	349	148	52	549
Terminated Vested	73	60	9	142
Retirees & Beneficiaries	512	124	130	766
Total	934	334	194	1462

Retirement Benefits

Average monthly benefit	1,742	1,567	1,749	1715
Average annual benefit	20,904	18,804	20,988	20,580
Total monthly benefit	892,092	194,289	227,375	1,313,755
Total annual benefit	10,705,104	2,331,468	2,728,500	15,765,060

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, Road Commission and Mental Health.

Changes since last valuation and key notes:

Beginning January 1, 2020, participating employees must agree to contribute 6% of their compensation to the plan (8% for Road Commission), with the exception of employees in the following units, who must agree to contribute 5% of their compensation:

- SDEI Corrections Officers
- FOCP Friend of Court Supervisors
- PCJC Probate Court Juvenile Counselors
- SDEE Sheriff Deputies
- SDSP Sheriff Supervisors
- CPEA/PCSP Circuit Court Supervisors, Family and Probate Employees

This change results in an increase in liability and a decrease in employer normal cost.

CHANGES SINCE LAST VALUATION AND KEY NOTES—Continued

An experience/assumption study dated December 13, 2019 was performed, presented and accepted by the Board of Trustees to be applied beginning with the December 31, 2019 pension valuation report.

The interest rate has decreased from 7.50% to 7.00%. This change results in an increase in liability and normal cost.

The mortality table has been updated from the RP-2014 mortality table with generational improvements from 2006 based on the SOA Scale MP-2018 for all groups to the following:

- General: Pub-2010 General mortality table with generational improvements from 2010 based on the SOA Scale MP-2019
- Sheriff: Pub-2010 Public Safety mortality table with generational improvements from 2010 based on the SOA Scale MP-2019
- Mental Health: Pub-2010 General mortality table with generational improvements from 2010 based on the SOA Scale MP-2019
- Road Commission: RP-2014 Blue Collar mortality table with generational improvements from 2006 based on the SOA Scale MP-2019

This change results in an increase in liability and normal cost.

The assumption for inflation was updated to reflect the recommended update from the Experience Study report dated December 13, 2019. This change is implicit with the interest rate assumption.

The assumption for annual pay increases was updated based on a study of actual experience for the plan during 2013-2018. This change results in a decrease in liability and a decrease in normal cost.

The following assumptions were updated based on a study of actual experience for the plan during 2013-2018. These changes result in an increase in liability and an increase in normal cost:

- retirement rates
- withdrawal rates
- participant payment form elections

PLAN RESULTS

Total Plan Results	General County	Mental Health	Road Commission	Plan Total
Valuation Date				12/31/2019
For Fiscal Year Beginning				01/01/2021
<u>Funded Position</u>				
Entry Age Accrued Liability	195,709,934	55,102,690	44,042,843	294,855,467
Actuarial Value of Assets	165,636,557	46,724,684	39,518,167	251,879,408
Unfunded actuarial accrued liability	30,073,377	8,378,006	4,524,676	42,976,059
Funded Ratio - Actuarial Basis	84.6%	84.8%	89.7%	85.4%
<u>Employer Contributions</u>				
Total Normal Cost	2,372,524	951,965	377,856	3,702,345
Expected Participant Contributions	1,128,885	553,367	252,782	1,935,034
Net Normal Cost	1,243,639	398,598	125,074	1,767,311
Administrative Expenses	138,096	38,956	32,948	210,000
Amortization UAAL	3,465,218	828,856	519,498	4,813,572
Applicable Interest	512,651	133,839	71,157	717,647
Total Recommended Contribution	5,359,604	1,400,249	748,677	7,508,530
Estimated Fiscal Year Payroll	20,004,413	8,920,174	2,977,119	31,901,706
Recommended Contribution as a percentage of estimated payroll	26.8%	15.7%	25.2%	23.5%
Actuarial Value of Assets, 12/31/2018	\$ 161,261,832	\$ 44,566,307	\$ 38,452,080	\$ 244,280,219
Employer Contributions	3,555,904	1,071,447	1,067,495	5,694,846
Employee Contributions	1,074,567	480,922	274,675	1,830,164
Benefit Payments	(10,696,956)	(2,310,246)	(2,766,481)	(15,773,683)
Expenses	(137,219)	(37,922)	(32,719)	(207,860)
Investment Income	10,578,429	2,954,176	2,523,117	16,055,722
Actuarial Value of Assets, 12/31/2019	\$ 165,636,557	\$ 46,724,684	\$ 39,518,167	\$ 251,879,408

TOTAL PLAN FUNDED RATIO 85.4% - Actuarial Value Basis
TOTAL PLAN FUNDED RATIO 86.1% - Market Value Basis

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 net return of 7.0% over five-year rolling periods. Subtracting the assumed rate of payroll inflation (2.25%) produces a net 4.75% real rate of return. Achievement of this objective is likely to ensure the ability to pay retirement benefits for all current plan participants.

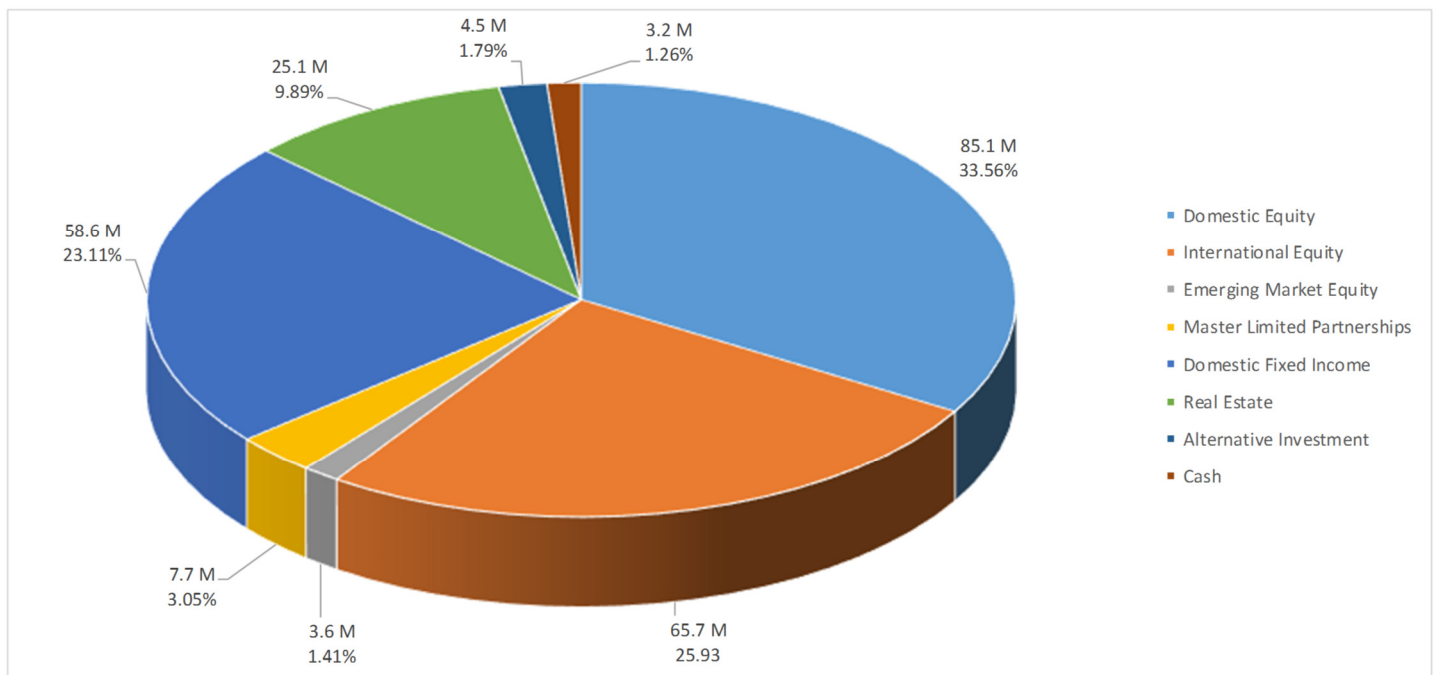
The Plan's objective is based on the expected returns under the strategic asset allocation policy. This asset allocation policy should result in normal fluctuation in the Plan's actual return, year to year. The expected level of volatility (return fluctuation) is appropriate given the Plan's current 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.

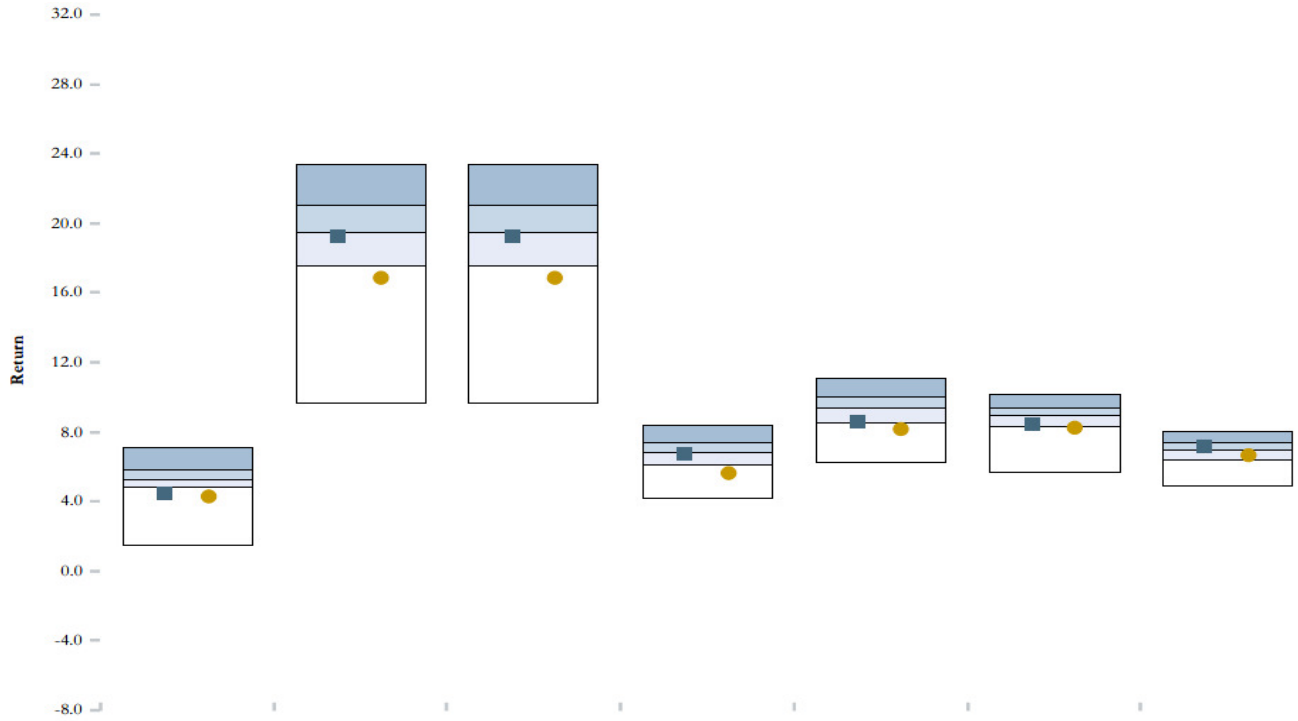
As of 12/31/2019



Asset Allocation Compliance

	Asset Allocation (\$)	Current Allocation (%)	Minimum Allocation (%)	Maximum Allocation (%)	Target Allocation (%)
Domestic Equity	85,082,632.25	33.56	11.00	51.00	30.00
International Equity	65,744,274.52	25.93	10.00	30.00	20.00
Emerging Market Equity	3,562,173.52	1.41	0.00	10.00	5.00
Master Limited Partnerships	7,725,218.47	3.05	0.00	3.00	0.00
Domestic Fixed Income	58,595,238.41	23.11	20.00	45.00	25.00
Real Estate	25,060,625.09	9.89	10.00	20.00	12.50
Alternative Investment	4,542,653.34	1.79	0.00	10.00	2.50
Real Estate Investment Trusts	0.00	0.00	0.00	10.00	5.00
Cash Equivalent	3,204,382.74	1.26	0.00	5.00	0.00
Total Fund	253,517,198.34	100.00	-	-	100.00

FUND PERFORMANCE



	Current Quarter	YTD	1 Year	2 Years	3 Years	4 Years	5 Years
■ Total Fund Composite	4.40 (86)	19.21 (56)	19.21 (56)	6.73 (51)	8.50 (77)	8.45 (70)	7.12 (43)
● Policy Index	4.27 (88)	16.83 (82)	16.83 (82)	5.58 (84)	8.14 (84)	8.21 (77)	6.64 (65)
Median	5.28	19.46	19.46	6.76	9.41	8.93	6.93

Financial Reconciliation Year to Date

	Market Value 01/01/2019	Net Trans- fers	Contributions	Distributions	Management Fees	Income	Apprec/Deprec	Market Value 12/31/2019
Total Fund	224,739,359.65	-	172,633,348.90	(181,270,294.40)	(1,157,716.06)	4,314,551.45	34,526,058.91	253,517,198.34

Comparative Performance

	QTR	YTD	1 YR	3 YR	5 YR	7 YR	10 YR	Inception	Inception Date
Total Fund	4.40	19.21	19.21	8.50	7.12	8.23	8.69	5.78	07/31/1998
Benchmark Policy Index	4.27	16.83	16.83	8.14	6.64	7.95	8.52	6.31	
Ranking Public Plans < \$250 M	86	56	56	77	43	47	27	80	
Total Fund (Net of Fees)	4.26	18.65	18.65	8.10	6.57	7.61	8.18	5.49	07/31/1998

2019 Gross Trailing Return 19.21

2019 Net Trailing Return 18.65

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 eligible employees of St. Clair County, the St. Clair County Road Commission, and St. Clair County Community Mental Health Authority. Employees not in this plan are covered by a defined contribution plan. Effective January 1, 2016, the Plan is closed to all but the Sheriff deputies bargaining unit. 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. Additional financial information can be reviewed in the Comprehensive Annual Financial Report year ending 12/31/2019 using the 2019 Audit/CAFR link in the on the St. Clair County website at www.stclaircounty.org.

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 value.

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 designed to accumulate sufficient assets to pay benefits when due. During the year ended December 31, 2019, contributions totaling \$7,525,010 (\$5,694,846 employer and \$1,830,164 employee) were made in accordance with contribution requirements determined by an actuarial valuation for the Plan as of December 31, 2017. The required employer contributions were \$3,500,277 for General County, \$647,111 for the Road Commission and \$1,027,434 for Community Mental Health. Employee contributions represent 5.0% of covered payroll, except the Road Commission where the employees contributed 8%. 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, excluding Sheriff Deputies is closed to new hires.

The required contribution rate was determined as part of the December 31, 2017 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 3.5% to 8.0% per year, which includes pay inflation at 3.5%. 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 dollar on an open period, with a remaining amortization period as of December 31, 2017, of 18 years for Community Mental Health and amortized as a level dollar on a closed period with a remaining amortization period, as of December 31, 2017, of 15 years for General Employees and 15 years for the Road Commission.

STATEMENT OF FIDUCIARY POSITION

ST. CLAIR COUNTY, MICHIGAN

STATEMENT OF FIDUCIARY NET POSITION PENSION AND OTHER EMPLOYEE BENEFIT TRUST FUNDS DECEMBER 31, 2019

	Basic Retirement System	Other Postemployment Benefits	Total
Assets:			
Cash and cash equivalents	\$ 5,601,842	\$ 3,089,704	\$ 8,691,546
Investments, at fair value -			
U.S. Government/Agencies	28,564,819	-	28,564,819
Corporate Debt	29,727,083	12,205,997	41,933,080
Stocks	129,136,675	16,727,578	145,864,253
Mutual Funds	-	19,059,043	19,059,043
Partnerships	60,478,796	-	60,478,796
Receivables -			
Interest and dividends	426,704	104,736	531,440
Other	224,388	12,044	236,432
Total Assets	254,160,307	51,199,102	305,359,409
Liabilities:			
Accounts payable	317,842	16,047	333,889
Accrued liabilities	5,528	-	5,528
Total Liabilities	323,370	16,047	339,417
Net Position:			
Restricted for pension benefits	253,836,937	-	253,836,937
Restricted for other postemployment benefits	-	51,183,055	51,183,055
	\$ 253,836,937	\$ 51,183,055	\$ 305,019,992

CHANGES IN FIDUCIARY NET POSITION

ST. CLAIR COUNTY, MICHIGAN

SCHEDULE OF CHANGES IN FIDUCIARY NET POSITION PENSION BENEFIT FUND FOR THE YEAR ENDED DECEMBER 31, 2019

	Basic Retirement System			
	Member Contributions	Employer Contributions	Pension Payments	Total
Additions:				
Contributions				
Member contributions	\$ 1,830,164	\$ -	\$ -	\$ 1,830,164
Employer contributions	-	5,694,846	-	5,694,846
Total contributions	1,830,164	5,694,846	-	7,525,010
Investment income				
Net appreciation in fair value of investments	-	35,290,690	-	35,290,690
Interest/Dividends	-	4,771,788	-	4,771,788
Less investment expense	-	(732,902)	-	(732,902)
Net investment income	-	39,329,576	-	39,329,576
Other	-	23,062	-	23,062
Total Additions	1,830,164	45,047,484	-	46,877,648
Deductions:				
Retirement payroll	-	-	15,655,365	15,655,365
Health/dental insurance	-	-	-	-
Death benefits	-	-	42,000	42,000
Employee refunds	76,318	-	-	76,318
Administration	-	207,860	-	207,860
Total Deductions	76,318	207,860	15,697,365	15,981,543
Net Increase (Decrease) before Transfers	1,753,846	44,839,624	(15,697,365)	30,896,105
Interfund Transfers In (Out):				
Retirees obligation	(1,923,413)	(25,630,405)	27,553,818	-
Interest	617,171	(28,873,120)	28,255,949	-
Net Increase (Decrease)	447,604	(9,663,901)	40,112,402	30,896,105
Net Position Restricted for Pension Benefits:				
Beginning of year	31,246,153	60,714,939	130,979,740	222,940,832
End of year	\$ 31,693,757	\$ 51,051,038	\$ 171,092,142	\$ 253,836,937

ADMINISTRATIVE & INVESTMENT EXPENSES

(YTD Activity through 12/31/2019)

Expenditures

Administration -

Salaries and Fringes	126,304.57
Mileage and Travel	4,184.10
Food & Operating Supplies	107.00
Postage	3,274.36
Conferences and Training	1,800.00
Printing and Publishing	471.55
Miscellaneous	1,164.60

Professional Fees -

Morgan Stanley	85,000.00
Vanoverbeke	18,373.20
Howard Nyhart	42,219.00
Pension Benefit	3,000.00
Medsource/Medical Evaluations	5,460.00

Investment Fees -

Fifth-Third Bank	35,597.15
Lazard Asset Management	23,918.60
Loomis Sayles	16,036.51
LS Investment Advisors	62,640.73
Garcia Hamilton	74,955.26
Silvercrest Asset Mgmt Group	44,862.00
Swank Capital	86,003.00
WCM Investment Mgmt	222,188.11
Rice, Hall, James & Assoc LLC	50,683.00

Retirement Benefits -

Retirement Payroll	15,655,365.08
Refunds	53,267.49
Interest	23,050.31

Death Benefits 42,000.00

Other Funds 4,483.72

Total Expenditures 16,686,409.34

BUDGETED EXPENDITURES

(Calendar Year Ending 12/31/2021)

Expenditures

Administration -

Salaries and Fringes	131,500.00
Mileage and Travel	5,500.00
Food & Operating Supplies	3,500.00
Postage	5,500.00
Conferences and Training	10,000.00
Printing and Publishing	1,200.00
Miscellaneous	1,500.00

Professional Fees -

Nyhart Actuaries	44,000.00
Stewart, Beauvais, & Whipple	3,000.00
Vanoverbeke	30,000.00
Asset Strategies / Graystone	85,000.00
MedSource	6,000.00

Investment Fees -

Fifth-Third Bank	36,500.00
Manager Fees	580,000.00

Retirement Benefits -

Retirement Payroll	17,000,000.00
Employee Refunds - Principal	270,000.00
Employee Refunds - Interest	30,500.00

Death Benefits	<u>45,500.00</u>
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Total Expenditures	<u>18,289,200.00</u>
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