



St. Clair County Employees' Retirement System Summary Annual Report

Year Ending: December 31, 2018

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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, 2018

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 2018 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

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

Blue Cross Blue Shield of Michigan

Delta Dental

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 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 2018, the actuarial valuation was performed by Nyhart. The results are summarized on pages 5-7 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 17 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)

7.50%

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 12/31/2018.

Annual Pay Increases (FE)

Pay increase assumption applies to all groups and includes 3.5% inflation. Pay increases compounded with inflation are based on service as follows:

<u>Service</u>	<u>Increase</u>
1	4.5%
2	3.5%
3	3.0%
4	2.5%
5	2.0%
6-19	0.5%
20+	0.0%

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	366	157	55	578
Terminated Vested	77	59	8	144
Retirees & Beneficiaries	491	118	131	740
Total	934	334	194	1462

Retirement Benefits

Average monthly benefit	1,739	1,559	1,742	1,711
Average annual benefit	20,868	18,708	20,904	20,532
Total monthly benefit	853,797	183,904	228,138	1,265,839
Total annual benefit	10,245,564	2,206,848	2,737,656	15,190,068

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:

There have been no plan changes to the plan provisions since the last valuation.

The mortality table has been updated from the RP-2014 mortality table with generational improvements from 2006 based on the Social Security mortality improvement assumptions from the 2017 Trustee's Report to the RP-2014 mortality table with generational improvements from 2006 based on the Society of Actuaries mortality improvement assumptions from Scale MP-2018. The mortality table (RP-2014 Total) and the year in which improvements begin (2006) remain the same. This change results in a decrease in liability and normal cost.

PLAN RESULTS

Total Plan Results	General County	Mental Health	Road Commission	Plan Total
Valuation Date				12/31/2018
For Fiscal Year Beginning				01/01/2020
<u>Funded Position</u>				
Entry Age Accrued Liability	176,719,630	48,183,045	42,298,615	267,201,290
Actuarial Value of Assets	<u>161,261,832</u>	<u>44,566,307</u>	<u>38,452,080</u>	<u>244,280,219</u>
Unfunded actuarial accrued liability	15,457,798	3,616,738	3,846,535	22,921,071
Funded Ratio - Actuarial Basis	91.3%	92.5%	90.9%	91.4%
<u>Employer Contributions</u>				
Total Normal Cost	2,530,093	1,020,745	416,201	3,967,039
Expected Participant Contributions	<u>1,035,713</u>	<u>453,827</u>	<u>264,982</u>	<u>1,754,522</u>
Net Normal Cost	1,494,380	566,918	151,219	2,212,517
Administrative Expenses	105,624	29,190	25,186	160,000
Amortization UAAL	1,910,188	356,627	440,429	2,707,244
Applicable Interest	<u>398,030</u>	<u>108,012</u>	<u>69,682</u>	<u>575,724</u>
Total Recommended Contribution	3,908,222	1,060,747	686,516	5,655,485
Estimated Fiscal Year Payroll	21,225,409	9,089,594	3,168,817	33,483,820
Recommended Contribution as a percentage of estimated payroll	18.4%	11.7%	21.7%	16.9%
Actuarial Value of Assets, 12/31/2017	\$ 159,475,539	\$ 43,096,355	\$ 38,179,284	\$ 240,751,178
Employer Contributions	3,737,255	1,360,190	1,075,163	6,172,608
Employee Contributions	1,110,063	469,513	275,154	1,854,730
Benefit Payments	(10,190,567)	(2,308,681)	(2,780,880)	(15,280,128)
Expenses	(101,660)	(27,473)	(24,338)	(153,471)
Investment Income	<u>7,231,202</u>	<u>1,976,403</u>	<u>1,727,697</u>	<u>10,935,302</u>
Actuarial Value of Assets, 12/31/2018	\$ 161,261,832	\$ 44,566,307	\$ 38,452,080	\$ 244,280,219

TOTAL PLAN FUNDED RATIO 91.4% - Actuarial Value Basis

TOTAL PLAN FUNDED RATIO 83.4% - 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 7.50% over five-year rolling periods. Subtracting the assumed rate of payroll inflation (3.5%) produces a net 4.00% real rate of return. Achievement of this objective is likely to ensure the ability to pay retirement benefits for all current plan participants.

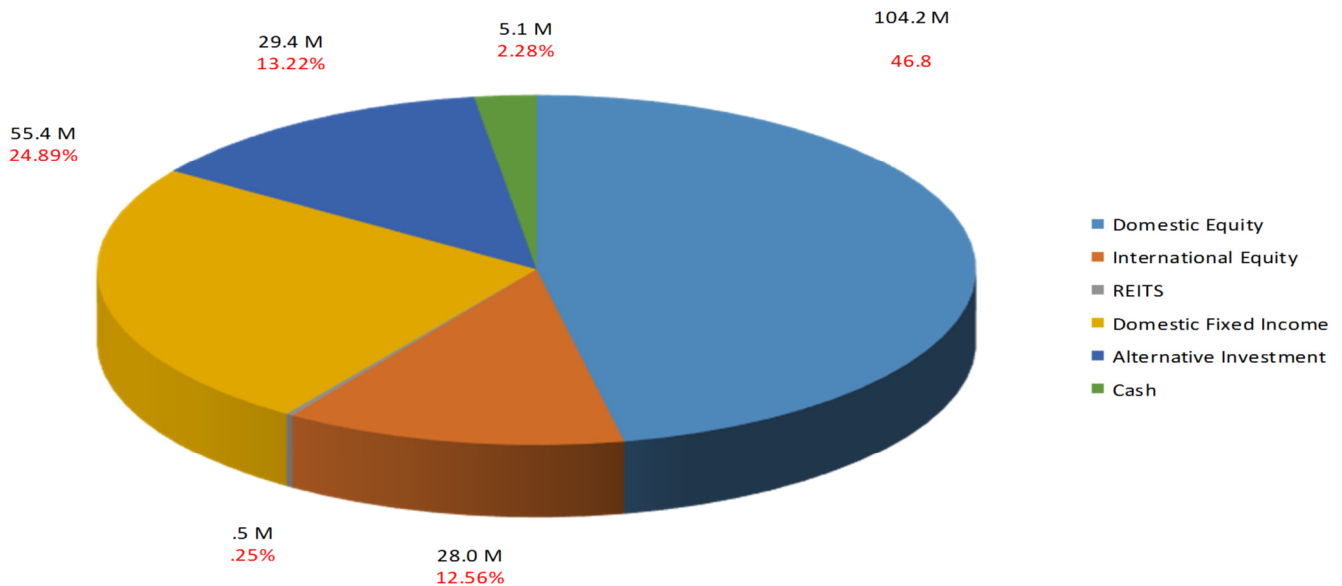
The Plan's objective is based on the expected returns under the strategic asset allocation policy. This asset allocation policy should result in normal fluctuation in the Plan's actual return, year to year. The expected level of volatility (return fluctuation) is appropriate given the Plan's current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

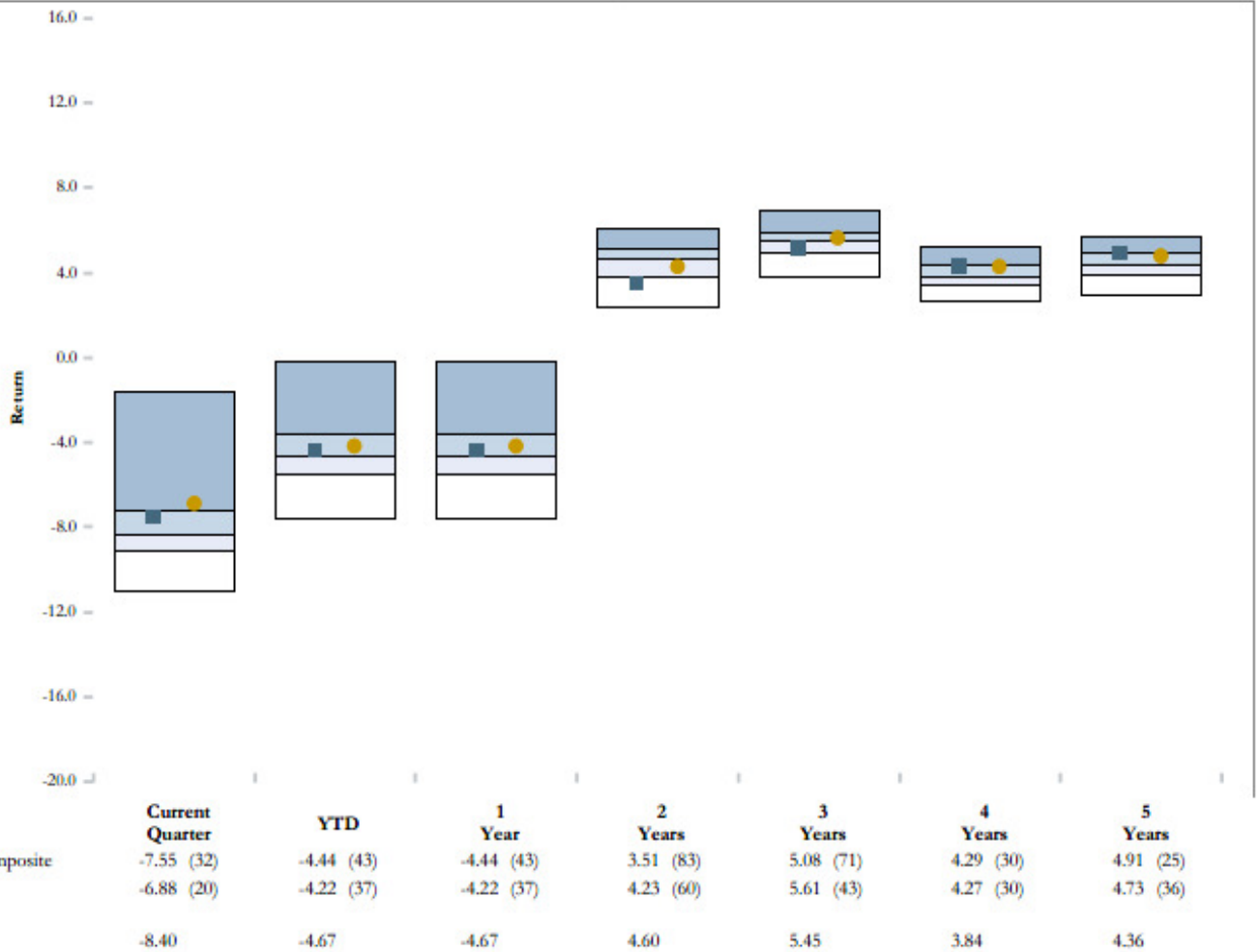
As of 12/31/2018



Asset Allocation Compliance

	Asset Allocation (\$)	Current Allocation (%)	Minimum Allocation (%)	Maximum Allocation (%)	Target Allocation (%)
Domestic Equity	104,208,791.23	46.80	11.00	51.00	40.00
International Equity	27,968,754.17	12.56	10.00	20.00	20.00
REITS	548,545.50	0.25	10.00	20.00	12.50
Domestic Fixed Income	55,415,521.00	24.89	20.00	45.00	25.00
Alternative Investment	29,439,416.10	13.22	0.00	10.00	2.50
Cash Equivalent	5,065,719.65	2.28	0.00	5.00	0.00
Total Fund	222,646,747.65	100.00	-	-	100.00

FUND PERFORMANCE



Financial Reconciliation Year to Date

	Market Value 01/01/2018	Net Transfers	Contributions	Distributions	Management Fees	Income	Apprec/Deprec	Market Value 12/31/2018
Total Fund	241,330,714.41	-	62,114,769.96	(69,696,575.65)	(770,246.09)	2,726,523.20	(13,088,438.18)	222,646,747.65

Comparative Performance

	QTR	YTD	1 YR	3 YR	5 YR	7 YR	10 YR	Inception	Inception Date
Total Fund	-7.55	-4.44	-4.44	5.08	4.91	7.51	9.45	5.16	07/01/1998
Benchmark Policy Index	-6.88	-4.22	-4.22	5.61	4.73	7.57	8.89	5.84	
Ranking Public Plans < \$250 M	32	43	43	71	25	41	9	79	
Total Fund (Net of Fees)	-7.63	-4.76	-4.76	4.61	4.30	N/A	N/A	N/A	01/01/2013

2018 Gross Trailing Return - 4.44

2018 Net Trailing Return - 4.76

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 12/31/2018 using the 2018 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, 2018, contributions totaling \$8,027,338 (\$6,172,608 employer and \$1,854,730 employee) were made in accordance with contribution requirements determined by an actuarial valuation for the Plan as of December 31, 2016. The required employer contributions were \$3,517,819 for General County, \$725,154 for the Road Commission and \$1,153,083 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, 2016 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, 2016, of 19 years for Community Mental Health and amortized as a level dollar on a closed period with a remaining amortization period, as of December 31, 2016, 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, 2018

	Basic Retirement System	Other Postemployment Benefits	Total
Assets:			
Cash and cash equivalents	\$ 5,580,338	\$ 2,510,201	\$ 8,090,539
Investments, at fair value -			
Corporate Debt	-	12,165,472	12,165,472
Hedge Funds	54,373	-	54,373
Stocks	106,002,413	21,028,548	127,030,961
Mutual Funds	-	7,451,746	7,451,746
Partnerships	111,072,959	-	111,072,959
Municipal Bonds	-	200,308	200,308
Receivables -			
Interest and dividends	137,182	117,181	254,363
Other	105,301	172,197	277,498
Due from other funds	199,258	-	199,258
	<u>223,151,824</u>	<u>43,645,653</u>	<u>266,797,477</u>
Liabilities:			
Accounts payable	206,423	18,805	225,228
Accrued liabilities	4,569	-	4,569
Due to other funds	-	199,258	199,258
	<u>210,992</u>	<u>218,063</u>	<u>429,055</u>
Net Position:			
Restricted for pension benefits	222,940,832	-	222,940,832
Restricted for other postemployment benefits	-	43,427,590	43,427,590
	<u>\$ 222,940,832</u>	<u>\$ 43,427,590</u>	<u>\$ 266,368,422</u>

CHANGES IN FIDUCIARY NET POSITION

ST. CLAIR COUNTY, MICHIGAN COMBINING SCHEDULE OF CHANGES IN FIDUCIARY NET POSITION BASIC RETIREMENT SYSTEM FOR THE YEAR ENDED DECEMBER 31, 2018

	Member Contributions	Employer Contributions	Pension Payments	Total
Additions:				
Contributions				
Member Contributions	1,854,730	-	-	1,854,730
Employer contributions	-	6,172,608	-	6,172,608
Total contributions	1,854,730	6,172,608	-	8,027,338
Investment income				
Net depreciation in fair value of investments	-	(14,081,572)	-	(14,081,572)
Interest/Dividends	-	3,502,507	-	3,502,507
Less investment expense	-	(668,881)	-	(668,881)
Net investment income	-	(11,247,946)	-	(11,247,946)
Total Additions	1,854,730	(5,075,338)	-	(3,220,608)
Deductions:				
Retirement payroll	-	-	15,085,540	15,085,540
Health/dental insurance	-	-	-	-
Death benefits	-	-	49,000	49,000
Employee refunds	145,588	-	-	145,588
Administration	-	153,471	-	153,471
Total Deductions	145,588	153,471	15,134,540	15,433,599
Net Increase (Decrease) before Transfers	1,709,142	(5,228,809)	(15,134,540)	(18,654,207)
Interfund Transfers In (Out):				
Retirees obligation	(1,521,178)	(193,287)	1,714,465	-
Interest	610,385	7,741,736	(8,352,121)	-
Net Increase (Decrease)	798,349	2,319,640	(21,772,196)	(18,654,207)
Net Position Restricted for Pension Benefits and Other Postemployment Benefits:				
Beginning of year	30,447,804	58,395,299	152,751,936	241,595,039
End of Year	31,246,153	60,714,939	130,979,740	222,940,832

ADMINISTRATIVE & INVESTMENT EXPENSES

(YTD Activity through 12/31/2018)

Expenditures

Administration -

Salaries and Fringes	118,570.62
Mileage and Travel	2,763.70
Food & Operating Supplies	64.85
Postage	5,248.72
Conferences and Training	1,200.00
Printing and Publishing	1,109.43
Miscellaneous	358.14

Professional Fees -

Morgan Stanley	85,000.00
Vanoverbeke	28,817.00
Howard Nyhart	41,450.00
Pension Benefit	3,000.00
Medsource	4,825.00

Investment Fees -

Fifth-Third Bank	35,905.65
Lazard Asset Management	23,831.98
Loomis Sayles	34,300.58
LS Investment Advisors	65,063.41
Silvercrest Asset Mgmt Group	24,693.00
Swank Capital	67,672.77
WCM Investment Mgmt	193,353.21
Rice, Hall, James & Assoc LLC	26,925.00

Retirement Benefits -

Retirement Payroll	15,085,539.87
Refunds	125,889.10
Interest	19,698.61

Death Benefits	49,000.00
Other Funds	15,533.11

Total Expenditures	<u>16,059,813.75</u>
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BUDGETED EXPENDITURES

(Calendar Year Ending 12/31/2020)

Expenditures

Administration -

Salaries and Fringes	121,500.00
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	37,700.00
Stewart, Beauvais, & Whipple	3,000.00
Vanoverbeke	30,000.00
Fletcher Fealko	
Asset Strategies / Graystone	89,500.00
Pension Benefit	1,000.00
MedSource	5,000.00

Investment Fees -

Fifth-Third Bank	36,500.00
Manager Fees	638,000.00

Retirement Benefits -

Retirement Payroll	16,800,000.00
Employee Refunds - Principal	270,000.00
Employee Refunds - Interest	30,500.00

Death Benefits	45,500.00
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Total Expenditures	18,135,400.00
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