

Bay County Employees' Retirement System

SUMMARY ANNUAL REPORT TO MEMBERS DECEMBER 31, 2015

Dear Retirement System Members and Retirants:

The Retirement System, which is managed by the Retirement Board of Trustees, is designed to help you meet your financial needs should you become disabled, retire, or die. *The County also supports a retiree health insurance program, which is separate from the Retirement System.*

The Retirement Board's fiduciary responsibility to you is to oversee the general administration of the System and invest its assets. Our Board retains professional advisors to assist us in fulfilling these duties.

We have prepared this summary report to give you a brief overview of the Retirement System and how it operates. We hope you will find it useful and informative. However, a summary cannot cover all the details of the System, which is governed by the provisions of the County's Retirement Ordinance and the Retirement Board's official rules and regulations. Additional information about the System, including the Retirement Ordinance and the actuarial valuation, is available in the Finance Office or can be accessed via the County's website.

Respectfully submitted,

Board of Trustees

Bay County Employees' Retirement System

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- Amber Davis-Johnson

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- The Bogdahn Group

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- Kirk Herrick, D.O.

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- Northern Trust

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- Gabriel Roeder Smith & Company

Plan Administrator

- Katie Meeth

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- Loomis Sayles
- Mackay Shields
- Columbia Management
- Geneva Capital Management
- Eagle Asset Management
- Hotchkis & Wiley Capital Management
- Integrity Asset Management
- MFS Investment Management
- MFS International
- Schroder Investment Management
- Cornerstone Real Estate Advisers
- Vanguard

Summary Results of the Actuarial Valuation

Your 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 that is designed to keep those rates approximately level as a percentage of payroll from year-to-year.

The Board of Trustees of the Bay County Employees' Retirement System provides for payment of the required employer contribution as described in MCL 38.1140m and the Bay County Employees' Retirement System Ordinance.

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, Gabriel Roeder Smith & Company, 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. The results of the December 31, 2015 valuation, based on the established funding objective, are summarized below:

Valuation Date	December 31, 2015
Actuarial Cost Method	Individual Entry Age Normal Cost
Amortization Method	Level dollar amount for Library. Level percent-of-payroll for all other groups.
Open/Closed Plan	The Bay County Employee's Retirement System is open to all future hires, except Library members hired on or after January 1, 2012.
Amortization Periods	27 years closed for groups that are underfunded (unfunded accrued liability is positive). 10 years open for groups that are overfunded (unfunded accrued liability is negative). 10 years closed for BABH Early Retirement Incentive Program (ERIP) starting with the contribution for the fiscal year beginning January 1, 2015.
Asset Valuation Method	Market value with 5-year smoothing of gains and losses.
Valuation Payroll	\$46,989,813
Annual Pensions Paid	\$16,982,555
Average Annual Pensions Paid	\$ 18,300
Deferred Vested Members Annual Benefits	\$ 997,929
Retirees and Beneficiaries Receiving Benefits	928
Deferred Vested Members	86
Active Plan Members	<u>1,142</u>
Total	2,156
Principal Actuarial Assumptions:	
– Net Investment Return	7.5%
– Projected Salary Increases	3.5% pay inflation plus merit and longevity
– Cost of Living Adjustments	None

Fiscal Year Beginning January 1, 2017 Employer Contribution Rates as a Percentage of Active Member Payroll

Contributions For	General County	DWS	Library [^]	MCF	Sheriff's Dept.	Road Comm.	Total	BABH
Valuation Payroll	\$15,136,977	\$ 2,913,457	\$ 1,557,990	\$ 10,004,714	\$ 4,117,072	\$ 2,928,252	\$36,658,462	\$10,331,351
Normal Cost								
Total	10.51%	11.53%	\$ 176,616	10.63%	15.65%	14.93%		11.47%
Member	4.18	4.00	58,676	4.00	5.60	4.76		4.00
Employer (ER)	6.33	7.53	117,940	6.63	10.05	10.17		7.47
Amort. of ERIP UAL								1.28
Amort. of UAL	(11.08)	5.30	(60,932)	(6.36)	(18.69)	9.02		0.20
Computed ER Rate	0.00%	12.83%	\$ 57,008	0.27%	0.00%	19.19%	\$ 1,088,320	8.95%

[^] Beginning with the 2103 valuation, the Library contribution is calculated as a level dollar amount, since the Library is closed to future hires.

Funded Status	General County	DWS	Library	BMCF	Sheriff's Dept.	Road Comm.	Total	BABH
AAL#*	\$94.1	\$15.1	\$10.9	\$47.9	\$29.1	\$32.0	\$229.1	\$48.6
Applied assets * (smoothed market value)	108.7	12.3	11.3	53.5	35.8	27.4	249.2	46.9
%funded	115.6%	81.8%	104.5%	111.6%	123.0%	85.6%	108.7%	96.4%

Actuarial Accrued Liabilities
* \$ millions

Actuary's Opinion

It is the actuary's opinion that the contribution amounts recommended in the most recent actuarial report are sufficient to meet the System's financial objective.

Summary Financial Information

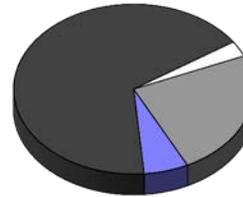
Revenues & Expenditures

	<u>2015</u>
Market Value - January 1	\$308,140,893
Revenues	
Member contributions	2,011,545
Employer contributions	5,175,435
Investment income	4,145,569
Miscellaneous income	<u>200,782</u>
Total	11,533,331
Expenditures	
Benefit payments	16,234,642
Refund of member contributions	191,002
Administrative expenses	264,272
Professional training/education expenses	14,226
Travel expenses	1,890
Investment expenses	1,980,463
Professional expenses	<u>39,500</u>
Total	18,725,995
Market Value - December 31	<u>\$300,948,229</u>

The Board of Trustees has confirmed that the employer contributions shown above represent the required employer contribution for the year covered.

Investments (Market Value)

Domestic Stocks – 67%



Cash Equivalents* – 3%

Bonds – 24%

Real Estate – 6%

* Adjusted for accruals net of payables.

The market rate of return on System assets net of expenses for the year ended December 31, 2015 was 0.77%.

Average Annual Market Rate of Return* Period Ending December 31, 2015

1-Year	0.8%
3-Year	10.2%
5-Year	8.3%
7-Year	11.9%
10-Year	5.9%

* Geometric averages of reported dollar-weighted annual returns (net of fees). Results may differ from investment manager's stated returns.

Projected Expenses for the Fiscal Year Ending December 31, 2016

Administrative	\$ 409,233
Professional Training/Education	16,500
Travel	3,000
Investment	2,182,500
Professional	71,000

Brief Summary of Primary Benefit Provisions

(Please refer to the Retirement Ordinance for a complete description)

Division Name	Normal Retirement Eligibility	Early Retirement Eligibility
Elected Officials and Department Heads (div. 1), Judges (div. 2), General County (div. 3), General Circuit Court (div. 4), General District Court (div. 5), General Probate Court (div. 6), BCAMPS (div. 7), USWA-General (div. 8), USWA Part-Time Employees (div. 9), District Court AFSCME (div. 15)	(d) or (f) ⁺	(b) ⁺
Nurses (div. 10)	(d) or (f) [#]	(b) [#]
Sheriff-Road Patrol (div. 11)	(h) or (f) ⁺	(b) ⁺
Sheriff Correctional Facility Officers (div. 12)	(c) or (f) ⁺	(h) or (b) ⁺
Dispatchers (div. 13)	(i) or (c) or (f) ⁺	(h) or (b) ⁺
Circuit Court G.E.L.C. (div. 14)	(d) or (f) [@]	(b) [@]
Probate Court USWA (div. 16)	(d) or (e)	(a)
Behavioral Health AFSCME (div. 23)	(d) or (e)/(g) ⁻	(b) ⁻
Behavioral Health General (div. 24)	(d) or (e)/(g) ^{&}	(b) ^{&}
Library-Employee Members of UWUA Local 542 (div. 18), General Library (div. 19), ICEA/PERA 1203 (div. 30), ICEA/PERA 612 (div. 31)	(d) or (f)!	(b)!
MCF United Steel Workers Local 15301 (div. 20), MCF RN & LPN Nursing Council – USW 15301-01 (div. 21), General MCF (div. 22)	(i) or (c) ⁺ or (f) ^{\$}	(b) ^{\$}
Road Commission AFSCME Local 1096 (div. 25), Road Commission Class I Supervisory and Admin. Employees (div. 26)	(i) or (f) [*]	(b) [*]
Water and Sewer UWUA Local 546 (div. 28), and Water and Sewer General (div. 29)	(i) or (f) [^]	(b) [^]
Road Patrol Supervisory Unit (div. 32)	(h) or (f) [@]	(b) [@]

(a) Age 55 with 8 yrs of service (b) Age 55 with 8/10 yrs of service (c) Age 55 with 25 yrs of service (d) Age 55 with 30 yrs of service (e) Age 60 with 8 yrs of service
 (f) Age 60 with 8/10 yrs of service (g) Age 62 with 10 yrs of service (h) 25 yrs of service regardless of age (i) 30 yrs of service regardless of age

@ 10 years of service for members hired after 1/1/2006.
 * 10 years of service for members hired after 1/1/2007.
 # 10 years of service for members hired after 3/1/2007.
 ^ 10 years of service for members hired after 7/1/2008.
 ! 10 years of service for members hired after 3/1/2008.

~ 10 years of service (age 62 with 10 yrs of svc) for members hired on or after 10/1/2014.
 & 10 years of service (age 62 with 10 yrs of svc) for members hired after 1/1/2015.
 \$ 10 years of service for members hired on or after 7/30/2015.
 + Members hired before 7/30/2015 only.

Eligibility	Amount
<p>NORMAL RETIREMENT See Above.</p>	<p>Total service times FAC times: 2.00% for division 23 hired before 10/1/2014 2.25% for divisions 1-10, 14, 16 hired before 1/1/2012 2.25% for divisions 18, 19, and 28-31 2.25% for divisions 20-22 hired before 7/30/2015 2.50% for divisions 12, 13, and 15 hired before 1/1/2012 2.80% for divisions 11 and 32 hired before 1/1/2012 2.25% for division 24 hired on or before 1/1/2015 1.60% for divisions 1-16, and 32 hired on or after 1/1/2012* 1.60% for division 23 hired on or after 10/1/2014 1.60% for division 24 hired after 1/1/2015 1.75% for division 20-22 hired on or after 7/30/2015 2.50% for division 26 hired before 1/1/1996 2.50% for division 26 hired on or after 1/1/1996 for service through 3/31/2011 and 2.25% for service after 3/31/2011 2.50% for division 25 hired before 1/1/2011 2.25% for division 25 hired on or after 1/1/2011 Type of Final Average Compensation (FAC) - Highest 5 years. Some lump sums included. Maximum County-financed is 75% of FAC.</p>
<p>EARLY RETIREMENT See Above.</p>	<p>Normal retirement reduced to the actuarial equivalent.</p>
<p>DEFERRED RETIREMENT 8/10 or more years of credited service depending on date of hire. Benefit begins at age 60 or reduced at age 55.</p>	<p>Computed as a normal retirement but based on service and final average compensation at time of termination.</p>

The Retirement System also provides benefits for Non-Duty Death-in-Service, Duty Death-in-Service, Non-Duty Disability, and Duty Disability. Please check the Retirement Ordinance for a complete description of these benefit options.

POST-RETIREMENT COST-OF-LIVING ADJUSTMENTS

One-time increases have been granted at various amounts.

MEMBER CONTRIBUTIONS

6% of annual compensation for divisions 11-13, 15, and 32 for members hired before 1/1/2012. 4% of annual compensation for divisions 11-13, 15, and 32 hired on or after 1/1/2012.* 5% of annual compensation for division 25. 4% of annual compensation for remaining divisions. For certain employee groups, the employer pays the member contribution either by directly contributing to the Retirement System or by transferring funds from the employer to the employee reserves.

EMPLOYER CONTRIBUTIONS

Actuarially determined amounts which, together with member contributions, are sufficient to cover both (i) normal costs of the plan, and (ii) financing of unfunded accrued liabilities over a selected period of future years.

RETIREMENT SYSTEM ELIGIBILITY

Library members hired on or after January 1, 2012 are no longer eligible to participate in the Bay County Employees' Retirement System.

* Three members hired after 1/1/2012 continue to be eligible for the multiplier and member contribution rate in effect prior to the implementation of the 1.60% multiplier and 4% member contribution rate for members hired after 1/1/2012.