

**SHELBY TOWNSHIP
RETIREE HEALTHCARE TRUST**

**SUMMARY ANNUAL REPORT TO MEMBERS
DECEMBER 31, 2016**

Dear Retirement System Member:

The Retirement System, which is managed by the Charter Township of Shelby Board of Trustees, is designed to help you meet your healthcare needs should you retire.

The Board's fiduciary responsibility to you is to supervise 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. Additional information about the System and its financial operation is available in the Financial Management Department.

Respectfully Submitted,

***Board of Trustees
Charter Township of Shelby***

BRIEF SUMMARY OF PLAN PROVISIONS

ELIGIBILITY FOR BENEFITS

911 Dispatch: Attain age 55 and provide 10 years of service (15 years of service for employees hired after July 30, 2008). Sum of age and years of service must equal at least 75.

Command: Must be hired prior to February 17, 2016, and provide 25 years of service.

Court: Must be hired prior to November 1, 2010. Employees eligible to retire as of December 31, 2012, must either attain age 50 and provide 25 years of service or attain age 55 and provide 10 years of service. All other eligible employees must attain age 55 and provide 15 years of service, where the sum of age and years of service must equal at least 75.

Fire: Provide 25 years of service.

Fire Chief: Provide 25 years of service plus attain age 50.

General: Must be hired prior to September 1, 2010, attain age 55 and provide 10 years of service (15 years of service for employees hired after February 4, 2007). Sum of age and years of service must equal at least 75.

Patrol: Must be hired prior to April 2, 2014, and provide 25 years of service.

Supervisory/Department Head/Court Appointed: Must be hired prior to September 1, 2010, attain age 55 and provide 10 years of service (15 years of service for employees hired after November 20, 2006). Sum of age and years of service must equal at least 75.

BENEFITS

911 Dispatch/Fire Chief: Eligible for subsidized medical, dental, and vision benefits. Healthcare coverage continues for surviving spouse of retirees.

Court: Eligible for subsidized medical, dental, and vision benefits. Also eligible for subsidized life insurance benefits. Healthcare coverage continues for surviving spouse of retirees and active employees.

Court Appointed/Department Head/General/Supervisory: Eligible for subsidized medical, dental, and vision benefits. Also eligible for subsidized life insurance benefits. Healthcare coverage continues for surviving spouse of retirees.

Command/Fire/Patrol: Eligible for subsidized medical, dental, and vision benefits. Healthcare coverage continues for surviving spouses of retirees and active employees.

COST SHARING

911 Dispatch: Employees hired after December 31, 2010, are required to contribute 50% of premium costs for the retiree and full cost of dependent coverage.

Court: Employees who retire at age 50 are required to pay the full cost of coverage until attaining age 55.

Fire: Employees hired after August 17, 2010, are required to contribute 50% of premium costs for the retiree and full cost of dependent coverage.

SUMMARY RESULTS OF 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 using a method that is designed to keep those rates approximately level as a percentage of payroll from year to year.

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, Nyhart, conducts actuarial valuations every two years.

These valuations are based on your 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, 2016 valuation, based on the established funding objective, are summarized on the following page.

Retirement System Service Providers

Actuary	Nyhart
Attorney(s)	Robert Huth
Auditors/Accountants	Plante & Moran
Plan Administrator	Shelby Township with assistance from Plan Actuary

SUMMARY RESULTS OF ACTUARIAL VALUATION (CONTINUED)

Valuation Date	December 31, 2016
Actuarial cost method	Projected unit credit with linear proration to decrement
Amortization method	Closed level percent of pay
Remaining amortization period	26 years
Asset valuation method	Market Value
Investment rate of return	6.50%
Projected salary increases	3.00%
Healthcare inflation	8.50% reduced by decrements to a rate of 5.00% by 2024
Valuation Payroll	\$13,897,076
Annual Retirement Benefits Paid	\$2,869,282
Average Annual Retirement Benefits Paid	\$15,679
Retirees and beneficiaries receiving benefits	183
Active plan members	210
Total	393

Fiscal Year 2016 Employer Contribution Rates As a Percentage of Active Member Payroll

Contributions for

Normal Cost of Benefits	
Total	12.93%
Member portion	<u>0.00%</u>
Employer portion	12.93%
Amortization of unfunded liability	26.36%
Computed Employer Rate	39.29%

Funded Status

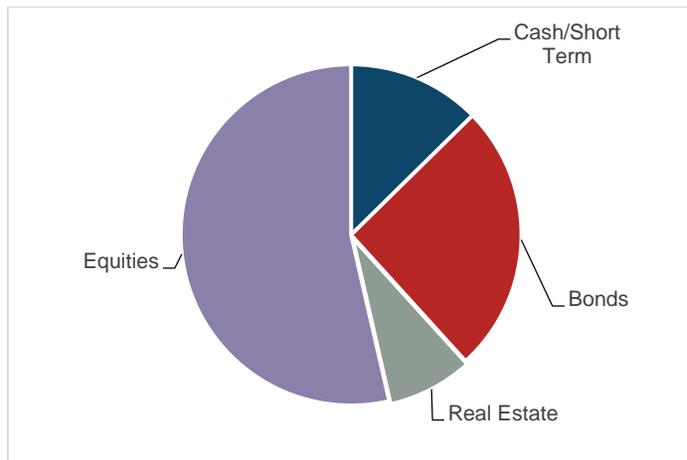
	<u>\$ Thousands</u>
Actuarial accrued liabilities	\$93,663
Applied assets	\$28,838
% funded	30.79%

SUMMARY OF CURRENT ASSET INFORMATION

Revenues & Expenditures

Balance on January 1, 2016	\$24,461,957
Receipts	
Employer’s contributions	5,142,960
Investment income	2,208,662
Disbursements	
Benefit payments	2,869,282
Investment and administrative expenses	<u>105,840</u>
Balance on December 31, 2016	\$28,838,457

Investments



SUMMARY OF CURRENT ASSET INFORMATION (CONTINUED)

Investment Performance (Net of Fees)

1-Year	9.60%
3-Year	6.16%
5-Year	N/A
7-Year	N/A
10-Year	N/A

Expenditures

	As of Fiscal Year Ending 12/31/2016	Projected Fiscal Year Ending 12/31/2017
Administrative	\$0	\$0
Investment (Including soft dollars)	\$105,840	\$104,800
Professional Training/Education	\$0	\$0

Investment Fiduciaries

AndCo Consulting

Investment Managers

HGK Asset Management | Bloomfield Capital | McMorgan & Co. | Clarkston Capital

Custodial Bank

Comerica Bank

TOWNSHIP FUNDING PLAN TO REDUCE LIABILITY

The Township continues to look at ways to reduce plan costs. Retiree healthcare is either completely removed for future hires or benefits offered cover 50% of the cost for the retiree with no dependent coverage. In addition to paying current costs as they are incurred, the Township also has established an OPEB Trust to set aside additional money to fund future retiree costs. Money is contributed to the Trust annually with contributions exceeding annual costs historically by \$1.5 - \$2.5 million each year. The Township is always looking for ways to increase the additional annual contribution in hopes of reaching 100% funding. Additional contributions are budgeted at approximately \$7.5 million for 2017 (due to an additional revenue source) and \$2.5 million for 2018.