

**THE CITY OF BIRMINGHAM
RETIREMENT AND RELIEF SYSTEM
RETIREMENT PLAN
AUDITED FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2017**

**THE CITY OF BIRMINGHAM
RETIREMENT AND RELIEF SYSTEM
RETIREMENT PLAN**

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INDEPENDENT AUDITOR'S REPORT

To the Pension Board of the
City of Birmingham Retirement and Relief
System Retirement Plan
Birmingham, Alabama

We have audited the accompanying financial statements of the City of Birmingham Retirement and Relief System Retirement Plan ("the Plan") which comprise the statement of fiduciary net position as of June 30, 2017, and the related statement of changes in fiduciary net position for the year ended, and the related notes to the financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



To the Pension Board of the
City of Birmingham Retirement and Relief
System Retirement Plan
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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the net position of the City of Birmingham Retirement and Relief System Retirement Plan, as of June 30, 2017, and the changes in net position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Accounting principles generally accepted in the United States of America require that the schedules identified in the table of contents as required supplementary information be presented to supplement the financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during the audit of the basic financial statements. We do not express an opinion or provide assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide assurance.

Management has omitted management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

December 9, 2017

Bank, Fruley White Co.

**THE CITY OF BIRMINGHAM
RETIREMENT AND RELIEF SYSTEM
RETIREMENT PLAN
STATEMENT OF PENSION NET POSITION
JUNE 30, 2017**

	2017
<u>ASSETS:</u>	
Cash and Cash Equivalents	\$ <u>32,201,676</u>
Total Cash and Cash Equivalents	<u>32,201,676</u>
Receivables	
Member loans	10,320,553
Interest and dividends	<u>2,987,778</u>
Total Receivables	<u>13,308,331</u>
Investments, at Market Value:	
U.S. Government Obligations	92,034,848
Domestic Corporate Bonds & Notes	127,282,198
Domestic Stocks	710,989,384
Alternative Investments	<u>78,563,027</u>
Total Investments	<u>1,008,869,457</u>
Total Assets	<u>\$ 1,054,379,464</u>
<u>LIABILITIES:</u>	
Accounts Payable	\$ <u>608,986</u>
Total Liabilities	<u>608,986</u>
Net Position Restricted for Pension Benefits	<u>\$ 1,053,770,478</u>

The notes are an integral part of the financial statements.

**THE CITY OF BIRMINGHAM
RETIREMENT AND RELIEF SYSTEM
RETIREMENT PLAN
STATEMENT OF CHANGES IN PENSION NET POSITION
FOR THE YEAR ENDED JUNE 30, 2017**

	2017
<u>Additions:</u>	
Employer Contributions	\$ 14,052,682
Employee Contributions	14,062,086
Firemen & Police Supplemental Contributions	<u>2,514,643</u>
Total Contributions	<u>30,629,411</u>
Investment Income:	
Interest	22,027,740
Investment Income	1,062,886
Gain/Loss on Sale of Investments	49,311,548
Net increase in fair value of investments	<u>42,105,377</u>
Total Investment Income	<u>114,507,551</u>
Miscellaneous	<u>66,438</u>
Total Additions	<u>\$ 145,203,400</u>
<u>Deductions:</u>	
Benefit Payments to Plan Members:	
Regular Service	\$ 55,345,527
VRIP	7,759,766
Disability	9,439,504
Survivors	6,309,491
Drops	<u>4,184,464</u>
Total Benefit Payments	<u>83,038,752</u>
Refunds of Contributions	1,726,976
Administrative Expenses:	
Professional fees	3,349,167
Salaries and benefits	190,868
Administrative Expenses	<u>13,207</u>
Total Administrative Expenses	<u>3,553,242</u>
Total Deductions	<u>\$ 88,318,970</u>
Net Increase in Net Position	<u>56,884,430</u>
Net Position Restricted for Pension Benefits, beginning of year (excluding accrued income) at market value	<u>996,886,048</u>
Net Position Restricted for Pension Benefits End of the Year at Market Value	<u>\$ 1,053,770,478</u>

The notes are an integral part of the financial statements.

**THE CITY OF BIRMINGHAM
RETIREMENT AND RELIEF SYSTEM
RETIREMENT PLAN
NOTES TO FINANCIAL STATEMENTS**

1. PLAN DESCRIPTION

The *City of Birmingham Retirement and Relief System Retirement Plan* (the “Plan”) covers all eligible civil service employees, elected officials, and appointed employees. Membership is mandatory for covered employees and is effective upon employment. Appointed and elected employees have the option of participating in this plan or in an alternative retirement plan. The City and employees each contribute one-half of the required contribution payable as a percent of compensation for the year, exclusive of overtime and subject to statutory limits. The plan is funded by contributions from employees, the City, and income from the investment of accumulated funds. The plan was established by state law and is administered by a board of managers.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting –The Plan’s financial statements are prepared using the accrual basis of accounting. Plan member contributions are recognized in the period in which the contributions are due. Employer contributions to each plan are recognized when due. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

Reporting Entity - The financial statements presented are only for the City of Birmingham Retirement and Relief System Retirement Plan and are not intended to present the basic financial statements of the City of Birmingham, Alabama (the “City”).

The City of Birmingham Retirement and Relief System Retirement Plan is included in the City’s Comprehensive Annual Financial Report (CAFR) for the year ended June 30, 2017. Anyone wishing further information about the City is referred to the City’s CAFR.

The City of Birmingham Retirement and Relief System Retirement Plan is a pension trust fund (fiduciary fund type) of the City which accounts for the single employer defined benefit pension plan for employees. The provisions of the Plan provide for retirement, disability and survivor benefits.

Financial Statement Presentation - The Plan adopted Governmental Accounting Standards Board (GASB) Statement No. 67 *Financial Reporting for Pension Plans* for the fiscal year ended June 30, 2014. In addition to other disclosures, GASB Statement No. 67 requires the following schedules be included in the Required Supplementary Information section of this report:

- A 10-year schedule of changes in the net pension liability.
- A 10-year schedule of contributions.
- A 10-year schedule of the annual money-weighted rate of return on pension plan investments.

Until a full 10-year trend is compiled, the Plan will present information for those years for which information is available.

Estimates – The preparation of financial statements prepared in conformity with generally accepted accounting principles requires the Board to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results may differ from those estimates.

**THE CITY OF BIRMINGHAM
RETIREMENT AND RELIEF SYSTEM
RETIREMENT PLAN
NOTES TO FINANCIAL STATEMENTS**

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Deposits & Investments – Cash and cash equivalents include cash on hand, demand deposits, savings accounts, and short-term investments with maturities of three months or less at the time of purchase.

The Plan's investments are stated at fair value. Quoted market prices are used to value investments. Investment transactions are recorded on the trade date. Realized gains and losses from sales of securities are determined using the average cost basis. In accordance with the provisions of the Plan, in order to state investments at market value, net unrealized appreciation or depreciation for the year is reflected in the statement of changes in pension net position.

Actuarial Present Value of Accumulated Plan Benefits – Accumulated plan benefits are those future periodic payments, including lump-sum distributions that are attributable under the Plan's provisions to the service employees have rendered. Accumulated plan benefits include benefits expected to be paid to (a) retired or terminated employees or their beneficiaries, (b) beneficiaries of employees who have died, and (c) present employees or their beneficiaries. Benefits under the Plan are based on employees' compensation during their last ten years of credited service. The accumulated plan benefits for active employees are based on their average compensation during the five years ending on the date as of which the benefit information is presented (the valuation date). Benefits payable under all circumstances – retirement, death, disability, and termination of employment – are included, to the extent they are deemed attributable to employee service rendered to the valuation date. Benefits to be provided via annuity contracts are excluded from Plan assets are excluded from accumulated plan benefits.

The actuarial present value of accumulated plan benefits is determined by an actuary from The Segal Group, Inc. and it is that amount that results from applying actuarial assumptions to adjust the accumulated plan benefits to reflect the time value of money (through discounts for interest) and the probability of payment (by means of decrements such as for death, disability, withdrawal, or retirement) between the valuation date and the expected date of payment. The significant actuarial assumptions used in the valuations as of July 1, 2016 were (a) life expectancy of participants (using the RP-2014 Blue Collar Employee Mortality Table), (b) retirement age assumptions, and (c) investment return.

The foregoing actuarial assumptions are based on the presumption that the Plan will continue. Were the Plan to terminate, different actuarial assumptions and other factors might be applicable in determining the actuarial present value of accumulated plan benefits.

3. FUNDING POLICY

The contribution requirements of the plan members are established and may be amended by the State Legislature. Plan members were required to contribute 7% of their annual covered salary in 2017. The City was required to contribute at a rate of 7% of the employees annual covered salary for 2017. For the Health Department employees, Plan members were required to contribute 7% of compensation and the employer contributes the additional required amount. All contributions made during 2017 were cash contributions. Administrative costs of the Plan are financed through investment earnings.

**THE CITY OF BIRMINGHAM
RETIREMENT AND RELIEF SYSTEM
RETIREMENT PLAN
NOTES TO FINANCIAL STATEMENTS**

4. BENEFITS

A participant retiring at his normal retirement date is entitled to a benefit, payable in monthly installments equal to one-twelfth of the participant's accrued retirement income, which is calculated as 2.5% of final average salary multiplied by years of creditable service.

The Plan also provides adjusted benefits, in the case of early retirement and death or disability of a participant. Benefit provisions are established and may be amended by the State Legislature.

5. VESTING

Participants are at all times fully vested in their individual contributions to the Plan. Participants become fully vested in the retirement benefits attributable to them under the Plan, upon the completion of five years of creditable service with the City; however, benefits are not payable until the employee reaches age 60.

6. INVESTMENTS

The Plan categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The Plan has the following recurring fair value measurements as of June 30, 2017:

<u>Investment type</u>	<u>Fair Value</u>	<u>Fair Value Measure Using</u>		
		<u>Quoted prices in active markets for identical assets (Level I)</u>	<u>Significant other observable inputs (Level II)</u>	<u>Significant unobservable input (Level III)</u>
U.S. Treasury Bonds & Notes	\$ 58,154,609	\$ 58,154,609	\$ -	\$ -
U.S. Government Agency Obligations	33,880,239	-	33,880,239	-
U.S. Corporate Debt	127,282,198	-	127,282,198	-
Alternatives	78,563,027	-	-	78,563,027
U.S. Corporate Stock	<u>710,989,384</u>	<u>710,989,384</u>	<u>-</u>	<u>-</u>
	<u>\$ 1,008,869,457</u>	<u>\$ 769,143,993</u>	<u>\$ 161,162,437</u>	<u>\$ 78,563,027</u>

Debt and equity securities classified in Level 1 of the fair value hierarchy are valued using prices quoted in active markets for those securities. Debt securities classified in Level 2 of the fair value hierarchy are valued using a matrix pricing technique. Matrix pricing is used to value securities based on the securities' relationship to benchmark quoted prices. Alternative investments classified in Level 3 are valued using discounted cash flow techniques, comparable transactions, and publicly quoted companies methods.

The valuation method for investments measured at the net asset value (NAV) per share (or its equivalent) is presented on the following table.

**THE CITY OF BIRMINGHAM
RETIREMENT AND RELIEF SYSTEM
RETIREMENT PLAN
NOTES TO FINANCIAL STATEMENTS**

6. INVESTMENTS (CONTINUED):

Investments Measured at the NAV

	Fair Value	Redemption Frequency (if Currently Eligible)	Redemption Notice Period
Mesirow Financial -Multi- manager/Multi-strategy Fund of hedge funds	\$ 78,563,027	Quarterly	95 days

Mesirow Financial Multi-manager/Multi-strategy Fund of hedge funds. This type includes investment in 53 managed hedge funds that pursue multiple strategies to diversify risks and reduce volatility. The fund's strategy allocation is shown in the chart below:

STRATEGY ALLOCATION AS OF 7/1/2017	
Mesirow Institutional Multi-Strategy Fund, L.P.	
STRATEGY	%
Credit	28.98
Long / Short Credit	4.41
Long-Biased Credit	14.68
Sovereign Credit	1.22
Structured Credit	8.67
Event	10.75
Event Equity	2.27
Merger Arb	0.98
Multi-Strategy Event	4.48
Reinsurance	3.02
Hedged Equity	24.75
Long-Biased Equity	4.17
Loose Neutral Equity	4.54
Opportunistic Equity	13.85
Short-Biased Equity	2.20
Macro & Commodity	7.56
Diversified Global Macro	7.56
Multi Strategy	6.12
Multi-Strategy	6.12
Relative Value	17.44
Multi-Strategy Relative Value	10.79
Strict Market Neutral	4.59
Volatility Arbitrage	2.05
Liquidating/Cash	4.40
Liquidating	2.79
Cash	1.61

**THE CITY OF BIRMINGHAM
RETIREMENT AND RELIEF SYSTEM
RETIREMENT PLAN
NOTES TO FINANCIAL STATEMENTS**

6. INVESTMENTS (CONTINUED):

Interest Rate Risk – is the risk that changes in interest rates will adversely affect the fair value of an investment. Duration (period of time to maturity or redemption) is the primary measure of the sensitivity of investment risk. The Plan has a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk – is the risk that an issuer or other counterparty to an investment will not fulfill its obligation. The Board of Managers recognizes that some risk is necessary to produce long-term investment results that are sufficient to meet the Plan’s objectives. However, the investment managers are to make reasonable efforts to control risk, and will be evaluated regularly to ensure that the risk assumed is commensurate with the given investment style and objectives.

Custodial Credit Risk – is the risk that the party holding the funds might not be able to pay those funds to the Trust upon maturity or demand. Bank deposits are covered by federal depository insurance (FDIC) or are collateralized by a multiple financial institution collateral pool administered by the State Treasurer.

Concentration of Investments - the Plan did not hold investments in any one organization that represented 5 percent or more of the Pension Plan’s fiduciary net position.

Fair Value of Investments- Investments are reported at fair value, based on quoted market prices.

7. NET PENSION LIABILITY:

The components of the net pension liability of the Plan at June 30, 2017 were as follows:

Total Pension Liability	<u>\$ 1,745,211,041</u>
Plan Fiduciary Net Position	<u>1,038,084,945</u>
The Plan’s Net Pension Liability	<u>\$ 707,126,096</u>
Plan Fiduciary Net Position as a percentage of Total Pension Liability	59.48%

<i>Health Department Employees</i>	
Total Pension Liability	<u>\$ 10,822,003</u>
Plan Fiduciary Net Position	<u>15,685,790</u>
The Plan’s Net Pension Liability	<u>\$ (4,863,787)</u>
Plan Fiduciary Net Position as a percentage of Total Pension Liability	144.94%

Actuarial Assumptions:

The total pension liability was determined by an actuarial valuation as of July 1, 2016, using the following actuarial assumptions, applied to all periods included in the measurement, with the results rolled forward to June 30, 2017:

Inflation	2.50%
Salary increases	2.50%, plus age-related salary scale based on participant group
Investment rate of return	7.50%, including inflation, net of pension plan investment expense

Health Mortality rates were based on the sex distinct RP-2014 Blue Collar Employee Mortality Table, set forward two years for males and four years for females. Disabled Mortality rates were based on the sex distinct RP-2014 Disabled Retiree Mortality Table.

The actuarial assumptions used in the July 1, 2016 valuation were based on the results of an experience study for the period July 1, 2010 to June 30, 2015.

**THE CITY OF BIRMINGHAM
RETIREMENT AND RELIEF SYSTEM
RETIREMENT PLAN
NOTES TO FINANCIAL STATEMENTS**

7. NET PENSION LIABILITY: (CONTINUED)

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2017 are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic equity	35%	6.9%
Small and mid-cap domestic equity	10%	7.8%
International equity	20%	6.7%
Core fixed income	10%	2.9%
Short-term high yield fixed income	5%	4.9%
REITs	5%	5.5%
Hedge fund	<u>15%</u>	<u>3.7%</u>
Total	100%	

Discount rate:

Retirement and Relief System: The blended discount rate used to measure the total pension liability was 5.43%. The projection of cash flows used to determine the discount rate assumed contributions will continue to be made at 7.00% of compensation from plan members and 7.00% of compensation from the City. For this purpose, only employer contributions that are intended to fund the service costs of future plan members and their beneficiaries are included. Projected employer contributions that are intended to fund benefits of current plan members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs of future plan members and their beneficiaries are excluded, as are projected employee contributions from future plan members. Based on these assumptions, the System's fiduciary net position was not projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on the System's investments was applied to the first 29 periods of projected benefit payments and a 3.58% municipal bond rate was applied to all periods thereafter to determine the total pension liability. The 3.58% municipal bond rate was based on an index of 20-year, tax-exempt general obligation bonds, published weekly by the Federal Reserve. (The chosen rate is the Bond Buyer 20-Bond GO Index rate published closest to, but not later than, the measurement date of June 30, 2017.)

Health Department Employees: The discount rate used to measure the total pension liability is 7.50%. The projection of cash flows used to determine the discount rate assumed plan member contributions will be made at 6.00% of compensation from plan members and no contributions will be made from the City. Based on these assumptions, the Department's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on the Department's pension investments was applied to all periods of projected benefit payments to determine the total pension liability.

**THE CITY OF BIRMINGHAM
RETIREMENT AND RELIEF SYSTEM
RETIREMENT PLAN
NOTES TO FINANCIAL STATEMENTS**

7. NET PENSION LIABILITY: (CONTINUED)

Sensitivity of the net pension liability to changes in the discount rate:

Retirement and Relief System: The following presents the net pension liability of the City, calculated using the discount rate of 5.43%, as well as what the Plan's net pension liability would be if it were calculated using a discount rate that is one-percentage-point lower (4.43%) or one-percentage-point higher (6.43%) than the current rate:

	1% Decrease (4.43%)	Current Discount (5.43%)	1% Increase (6.43%)
Net pension liability	\$934,877,904	\$707,126,096	\$517,749,069

Health Department Employees

Sensitivity of the net pension liability to changes in the discount rate: The following presents the net pension liability of the Health Department, calculated using the discount rate of 7.50%, as well as what the Plan's net pension liability would be if it were calculated using a discount rate that is one-percentage-point lower (6.50%) or one-percentage-point higher (8.50%) than the current rate:

	1% Decrease (6.50%)	Current Discount (7.50%)	1% Increase (8.50%)
Net pension liability	\$(3,904,096)	\$(4,863,787)	\$(5,695,169)

8. MEMBERSHIP INFORMATION

Membership of the Plan consisted of the following at June 30, 2016, the date of the latest actuarial valuation:

Active employees	3,852
Inactive Participants	421
Retired Participants and Beneficiaries	<u>3,017</u>
	<u>7,290</u>

Health Department Employees

Active employees	9
Retired Participants and Beneficiaries	<u>37</u>
	<u>46</u>

10. DATE OF MANAGEMENT'S REVIEW

In preparing these financial statements, the Plan has evaluated events and transactions for potential recognition or disclosure through the date of this report.

REQUIRED SUPPLEMENTARY INFORMATION

**THE CITY OF BIRMINGHAM
RETIREMENT AND RELIEF SYSTEM
RETIREMENT PLAN
REQUIRED SUPPLEMENTARY INFORMATION
FOR YEAR ENDED JUNE 30, 2017**

Schedule of Changes in the Plan's Net Pension Liability and Related Ratios

	2017	2016	2015	2014
<u>Total Pension Liability</u>				
Service Cost	\$ 61,202,895	\$ 43,377,051	\$ 36,945,277	\$ 35,473,452
Interest	81,787,344	80,457,568	80,340,821	78,078,837
Changes of Benefit Terms	-	(337,185)	-	-
Differences Between Expected and Actual Experience	(31,185,752)	19,757,884	11,335,035	-
Changes of Assumptions	(304,984,286)	382,927,078	89,619,076	-
Benefit Payments, Including Refunds of Employee Contributions	(83,864,528)	(78,753,617)	(76,439,094)	(72,124,342)
Net Change in Total Pension Liability	(277,044,627)	447,428,779	141,801,115	41,427,947
Total Pension Liability – Beginning	2,022,255,36	1,574,826,58	1,433,025,474	1,391,597,527
Total Pension Liability - Ending (a)	\$ 1,745,211,041	\$ 2,022,255,368	\$ 1,574,826,589	\$ 1,433,025,474
<u>Plan fiduciary net position</u>				
Contributions – Employer	\$ 16,554,808	\$ 16,370,100	\$ 14,464,552	\$ 14,039,103
Contributions- Employee	14,030,922	13,843,088	12,227,545	11,984,752
Net Investment Income	109,852,441	4,081,529	43,686,697	143,936,432
Benefit Payments, Including Refunds of Employee Contributions	(83,864,528)	(78,753,617)	(76,439,094)	(72,124,342)
Administrative Expense	(284,778)	(266,304)	(178,807)	(186,812)
Other	-	-	-	-
Net Change in Plan Fiduciary Net Position	56,288,865	(44,725,204)	(6,239,107)	97,649,133
Plan Fiduciary Net Position – Beginning	981,796,080	1,026,521,284	1,032,760,391	935,111,258
Plan Fiduciary Net Position - Ending (b)	1,038,084,945	981,796,080	1,026,521,284	1,032,760,391
The Plan's Net Pension Liability - Ending (a) – (b)	\$ 707,126,096	\$ 1,040,459,288	\$ 548,305,305	\$ 400,265,083
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	59.48%	48.55%	65.18%	72.07%

Covered Employee Payroll	\$ 200,441,743	\$ 197,758,400	\$ 188,116,077	\$ 184,380,800
The Plan's Net Pension Liability as a Percentage of covered Employee Payroll	352.78%	526.13%	291.47%	217.09%

Schedule of Investment Returns

Annual money-weighted rate of return, net of investment expense	11.79%	1.38%	4.68%
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Notes to the above schedule:

Benefit changes: The only change in benefit provisions since GASB 67 implementation was an increase in the Retirement and Relief contribution rate from 6.50% to 7.00%, reflected in the June 30, 2016 disclosure.

Change of assumptions: The discount rate for GASB reporting purposes increased from 4.13% as of June 30, 2016 to 5.43% as of June 30, 2017. A detailed study of experience for the City's Retirement and Relief System for the five-year period ending June 30, 2015 was performed and the recommendations of the experience study were approved by the Board in May, 2016. The following assumptions changes were reflected for the first time in the June 30, 2016 disclosure:

- The investment return assumption was increased from 7.00% to 7.50%.
- The inflation assumption was lowered from 3.00% to 2.50%.
- The payroll growth rate assumption (used for determining the amortization of the unfunded actuarial accrued liability) was lowered from 3.00% to 2.50%.
- The age-based salary scale assumption for General Employees was maintained, with the individual rates lowered. The salary scale assumption for Fire and Police was restructured from an age-related to service-related set of rates, to reflect actual plan experience.
- The administrative expense assumption was increased from \$150,000 to \$175,000.
- The pre-retirement mortality assumption was changed from the sex-distinct RP-2000 Combined Health Mortality Table, with rates set forward two years for both males and females, to the sex-distinct RP-2014 Blue Collar Employee Mortality Table with rates set forward two years for males and four years for females. This table is projected generationally with Scale MP-2015.
- The post-retirement mortality assumption for healthy annuitants was changed from the sex-distinct RP-2000 Combined Healthy Mortality Table, with rates set forward two years for both males and females, to the sex-distinct RP-2014 Blue Collar Healthy Annuitant Mortality Table with rates set forward two years for males and four years for females. This table is projected generationally with Scale MP-2015.
- The mortality assumption for disable retirees was changed from the sex-distinct RP-2000 Disabled Retiree Mortality Table, multiplied by 70%, to the sex-distinct RP-2014 Disabled Retiree Mortality Table. This table is projected generationally with Scale MP-2015
- Retirement rates were modified for all groups to better reflect actual experience and expected future patterns.
- The BackDROP utilization assumption was lowered from 100% for all groups to 40% for General Employees, 90% for Firefighters and 70% for Police Officers.
- The turnover assumption for all groups was modified from a five-year select-and ultimate assumption based on age to an assumption based on years of service. The rates reflect higher rates during earlier periods of employment. The rates for General Employees are higher than the rates for Police and Fire. The ultimate rate was set to zero for Police and Fire employees with twenty or more years of service.
- The disability rates were modified for all groups to better reflect actual experiences and expected future patterns. The on-the-job disability assumption was lowered from 100% to 80% of all disabilities for Firefighters only.
- The percent married assumption was lowered from 80% to 75%.

<i>Health Department Employees</i>	2017	2016	2015	2014
<u>Total Pension Liability</u>				
Service Cost	\$ 49,939	\$ 61,004	\$ 64,181	\$ 62,675
Interest	778,040	749,345	764,708	765,878
Changes of Benefit Terms	-	-	-	-
Differences Between Expected and Actual Experience	70,755	(187,011)	(202,192)	-
Changes of Assumptions	-	(84,528)	-	-
Benefit Payments, Including Refunds of Employee Contributions	(901,200)	(838,553)	(853,769)	(836,771)
Net Change in Total Pension Liability	(2,466)	(299,743)	(227,072)	(8,218)
Total Pension Liability – Beginning	10,824,469	11,124,212	11,351,284	11,359,502
Total Pension Liability - Ending (a)	\$ 10,822,003	\$ 10,824,469	\$ 11,124,212	\$ 11,351,284
Plan fiduciary net position				
Contributions – Employer	\$ 12,517	\$ 12,474	\$ 13,888	\$ 14,707
Contributions- Employee	31,164	31,055	34,556	36,616
Net Investment Income	1,662,389	61,975	665,531	2,288,551
Benefit Payments, Including Refunds of Employee Contributions	(901,200)	(838,553)	(853,769)	(836,771)
Administrative Expense	-	-	-	-
Other	-	-	-	-
Net Change in Plan Fiduciary Net Position	804,870	(733,049)	(139,794)	1,503,103
Plan Fiduciary Net Position – Beginning	14,880,920	15,613,969	15,753,763	14,250,660
Plan Fiduciary Net Position - Ending (b)	15,685,790	14,880,920	15,613,969	15,753,763
The Plan’s Net Pension Liability - Ending (a) - (b)	\$ (4,863,787)	\$ (4,056,451)	\$ (4,489,757)	\$ (4,402,479)
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability				
	144.94%	137.47%	140.36%	138.78%
Covered Employee Payroll	\$ 519,400	\$ 517,583	\$ 575,933	\$ 610,267
The Plan’s Net Pension Liability as a Percentage of covered Employee Payroll	-936.42%	-783.73%	-779.56%	-721.40%

Notes to the above schedule:

Benefit changes: There have been no changes to benefits provisions since the implementation of GASB 67.

Change of assumptions: The following changes were reflected for the first time in the June 30, 2016 disclosure:

- The investment return assumption was increased from 7.00% to 7.50%, and the inflation assumption was lowered from 3.00% to 2.50%.
- Individual salary scale rates were lowered at each age in conjunction with the decrease in the inflation assumption.
- The pre-retirement mortality assumption was changed from the sex-distinct RP-2000 Combined Healthy Mortality Table, with rates set forward two years for both males and females, to the sex-distinct RP-2014 Blue Collar Employee Mortality Table with rates set forward two years for males and four years for females.
- The post-retirement mortality assumption for healthy annuitants was changed from the sex-distinct RP-2000 Combined Health Mortality Table, with rates set forward two years for both males and females, to the sex-distinct RP-2014 Blue Collar Healthy Annuitant Mortality Table with rates set forward two years for males and four years for females.
- The mortality assumption for disabled retirees was changed from the sex-distinct RP-2000 Disabled Retiree Mortality Table, multiplied by 70%, to the sex-distinct RP-2014 Disable Retiree Mortality Table.
- All mortality tables are projected generationally with Scale MP-2015.

**THE CITY OF BIRMINGHAM
RETIREMENT AND RELIEF SYSTEM
RETIREMENT PLAN
REQUIRED SUPPLEMENTARY INFORMATION
FOR YEAR ENDED JUNE 30, 2017**

Schedule of the Employer's Contributions

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Actuarially Determined Contributions	\$30,564,212	\$29,898,918	\$ 30,398,187	\$ 30,553,712
Contributions in Relation to the Actuarially Determined Contributions	<u>16,554,808</u>	<u>16,370,100</u>	<u>14,464,552</u>	<u>14,039,103</u>
Contribution Deficiency (Excess)	<u>14,009,404</u>	<u>13,528,818</u>	<u>15,933,635</u>	<u>16,514,609</u>
Covered Employee Payroll*	200,441,743	197,758,400	188,116,077	184,380,800
Contributions as a Percentage of Covered Employee Payroll	8.26%	8.28%	7.69%	7.61%

Schedule of the Employer's Contributions

Health Department Employees

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Actuarially Determined Contributions	\$ -	\$ -	\$ -	\$ -
Contributions in Relation to the Actuarially Determined Contributions	<u>12,517</u>	<u>12,474</u>	<u>13,888</u>	<u>14,707</u>
Contribution Deficiency (Excess)	<u>(12,517)</u>	<u>(12,474)</u>	<u>(13,888)</u>	<u>(14,707)</u>
Covered Employee Payroll*	519,400	517,583	575,933	610,267
Contributions as a Percentage of Covered Employee Payroll	2.41%	2.41%	2.41%	2.41%

Notes to Schedule:

*Payroll is estimated based on the actual employee contributions received and a 7.00% contribution rate, for Health Department Employees the rate is 6.00%. Historical information prior to implementation of GASB 67/68 is not required.

**THE CITY OF BIRMINGHAM
RETIREMENT AND RELIEF SYSTEM
RETIREMENT PLAN
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**

1. The information presented in the required supplementary schedules was determined as part of the actuarial valuations at the dates indicated. Additional information as of the latest actuarial valuation follows.

Valuation date	7/1/16
Actuarial cost method	Entry Age Normal Cost
Amortization method	Level percent of payroll, using 2.5% annual increases
Remaining amortization period	Rolling 30 years
Asset valuation method	Market value of assets less unrecognized returns in each of the last five years. Unrecognized return is equal to the difference between the actual market return and the expected return on the market value, and is recognized over a 5 year period, further adjusted, if necessary, to be within 20% of the market value.

Actuarial assumptions:

Investment rate of return	7.50%, including inflation, net of pension plan investment expense
Projected salary increase participant group	2.50%, plus age-related salary scale based on
Inflation rate	2.50%
Cost of living adjustments	N/A