

**WATERFORD TOWNSHIP
POLICE & FIRE PENSION BOARD**

2495 Crescent Lake Rd.
Waterford MI 48329-3773
(248) 618-7578

December 31, 2012

To all retirement system participants:

2012 was a strong year for the Retirement System, as solid performance from our investment portfolio allowed the System to gain 12.2% vs. our long term assumed rate of return of +7.0%. Performance was led for the year by our allocations to domestic and international stocks. We also had strong performance from our real estate and fixed income managers as the economy and housing markets continue to improve. As the Board looks to 2013 and beyond, we continue to work closely with our advisors to address any potential issues in the markets and the economy. Of particular focus in the near future is changes to our fixed income allocation to address the likelihood of increasing interest rates.

The Board of Trustees of the Waterford Township Police and Fire Retirement system is responsible for the administration of the Retirement System, including Management of the plan's assets. In the attached, report, you will find an overview of the retirement Systems for the year ending December 31, 2012.

Please note that in subsequent years the Summary Annual Reports will be available on the Township's Web Page. This move is being made to save on printing and mailing costs. The report will be posted at: www.twp.waterford.mi.us

**BOARD OF TRUSTEES OF THE WATERFORD TOWNSHIP POLICE AND FIRE
RETIREMNET SYSTEM**

MATTHEW J. COVEY, CHAIRMAN

Waterford Township Policemen and Firemen Retirement System

Summary Annual Report - December 31, 2012

Introduction

Dear Retirement System Member:

The Retirement System, which is managed by the Retirement Board, is designed to help you meet your financial needs you become disabled, retire, or die. *The Township also supports a Retiree Health Insurance Program, which is separate from the Retirement System.*

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

We have prepared this summary report to give a brief overview of the Retirement System and how it operates. However, a summary cannot cover all the details of the System, any applicable collective bargaining agreements, and the Retirement Board's official rules and regulations. Additional information about the System and its financial operation is available in the treasurer's office.

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. Contribution levels are expressed in terms of percents of the Township's active member payroll, and provide for the payment of the required employer contribution in compliance with Section 20m of Michigan Public Act 314 of 1965 as amended.

To determine the appropriate Employer contribution level for the next 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 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, 2012 valuation, based on the establish funding objective, are summarized in this report.

Actuary's Opinion

It is the actuary's opinion that the Retirement System is meeting its financial objective, based on continued receipt of the computed contribution, when due.

Plan Information

Board of Trustees

Matthew Covey, Chairmen/Firemember
Margaret Birch, Township Treasurer
Kevin Kazyak, Police Member & Sec.
Jan Richards, Citizen Member
J. Thomas Lesnau, Citizen Member

Investment Consultant

Graystone Consulting

Investment Managers

Seizert Capital Partners
Reinhart Partners
NorthPointe Capital
Hamlin Capital
Tradewinds Global Investors
WHV International
Research Affiliates
Franklin Templeton
Loomis Sayles
American Realty
Intercontinental Real Estate
Penn Square Real Estate

Plan Administrator

Charter Township of Waterford

Actuary

Gabriel Roeder Smith & Company

Auditors/Accountants

Plante Moran

Legal Counsel

VanOverbeke, Michaud & Timmony, PC

Custodial Bank

Comerica Bank

Waterford Township Policemen and Firemen Retirement System
Summary Annual Report - December 31, 2012

Asset and Investment Information

Changes in Plan Net Assets		Average Annual Market Rate of Return	
	2012	<i>Period Ending December 31, 2012</i>	
Additions		1 Year	12.17%
Contributions		3 Years	10.02%
Employer	\$ 3,356,274	5 Years	3.38%
Plan members	515,719	7 Years	5.57%
Total	<u>3,871,993</u>	10 Years	7.35%
Investment Income	<u>8,061,171</u>		
Total Additions	11,933,164		
Deductions:		Detailed Expenses	
Benefits Paid	\$ 6,415,903	Administrative	\$ 35,546
Refund of Contributions	-	Investment	319,239
Expenses	441,674	Professional	38,826
Total Deductions	<u>6,857,577</u>		
Net Increase	5,075,587	Projected Expenses for Next Fiscal Year	
Net assets held in Trust Fund at Fair Value:		Administrative	\$ 38,000
Beginning of year	\$ 69,537,152	Investment	390,000
End of year	\$ 74,612,739	Professional	40,000
Actuarial Value of Assets	\$ 73,420,924		

Actuarial Information

Funded Status - Pension Benefits	
Actuarial Accrued Liabilities	\$95,799,717
Actuarial Value of Assets	73,420,924
Percent Funded	76.6%
Contributions for the Fiscal Year Beginning January 1, 2014	
Valuation Payroll (12/31/2012)	\$8,780,319
Employer Normal Cost	17.51%
Total Employer Contribution	36.26%
Employee Contribution	5.58%
Computed Employer Dollar as of 12/31/2014	\$3,386,289
Annual Required Contribution as of December 31, 2012	\$3,356,274
Actual Employer Contribution	\$3,356,274
Percent Contributed	100%
Plan Membership	Actuarial Assumptions
Active Member	<i>Assumed Rate of Investment Return</i>
Count	7.0%
Payroll	\$8,780,319
Retirees/Beneficiaries	<i>Assumed Rate of Long-term Wage Inflation</i>
Count	4.0%
Total Annual Benefits	\$4,939,400
Average Annual Benefit	\$40,821
Deferred Vested Members	<i>Smoothing Method for Actuarial Value of Assets</i>
Count	4-year smoothed market
Total Annual Benefits	80%/120% Corridor
	<i>Amortization Method and Period</i>
	Closed, level percent of payroll
	18 years remaining
	<i>Actuarial Cost Method</i>
	Entry age actuarial cost method

Waterford Township Policemen and Firemen Retirement System
Summary Annual Report - December 31, 2012

Brief Summary of Benefit Provisions

Eligibility	Amount
Service Retirement	
25 years of service, regardless of age or age 60 regardless of service.	2.5% of AFC times years of service. The maximum benefit at retirement is 75% of AFC.
Type of average final compensation. (AFC)	Highest 3 out of last 10 years.
<i>Police Officers and Police Supervisors hired after January 1, 2004 and Firefighters hired between February 12, 2007 and December 31, 2011:</i>	
Normal Retirement eligibility at age 55 with 25 years of service or 60 and 10 years.	2.3% of AFC times years of service up to 25 years and 1.5 % for each year of service beyond 25 years of service to a maximum of 71% of AFC.
<i>Firefighters</i> can also retire at any age with 30 years of service.	
Type of average final compensation. (AFC)	Highest 3 out of last 5 years.
Covered Compensation	
<i>Management</i> : Average Final Compensation includes base pay.	
<i>Non-Management</i> : Average Final Compensation includes base pay plus holiday, overtime, and longevity pay, if any.	
Deferred Retirement	
8 years of service for Management & Administrative.	Computed as service retirement but based upon service, AFC and benefit formula in effect at termination. Benefit begins at date retirement would have occurred had member remained in employment.
<i>All others</i> : 10 or more years of service.	
Death After Retirement Survivor's Pension	
Payable to a surviving spouse, if any, upon the death of a retired member who was receiving a straight life pension which was effective July 1, 1975 or later.	Spouse's pension equals 60% of the straight life pension the deceased retiree was receiving.
Non-Duty Death-In-Service Survivor's Pension	
Payable to a surviving spouse, if any, upon the death of a member with 20 or more years of service. (10 years of service for Fire and COAM.)	Accrued straight life pension actuarially reduced in accordance with an Option I election.
Duty Death-In-Service Survivor's Pension	
Payable upon the expiration of Worker's Compensation to the survivors of a member who died in the line of duty.	Same amount that was paid by Worker's Compensation.
Duty Disability	
Payable upon the total and permanent disability of a member in the line of duty.	<i>To Age 55</i> : 50% of AFC (62.5% for Police). <i>At Age 55</i> : Same as Service Retirement Pension with service credit from date of disability to age 55.
Non-Duty Disability	
Payable upon the total and permanent disability of a member with 5 or more years of service.	<i>To Age 55</i> : 1.5% of AFC times years of service. <i>At Age 55</i> : Same as Service Retirement Pension.
Member Contributions	
<i>Police Patrol Union</i> : 7% of pay	
<i>Management</i> : 5% of pay.	
<i>Others</i> : 5% of pay.	
Refund of member contributions at retirement permitted.	
Merrill Lynch Bond Index determines interest rate used in adjusting pension.	

Waterford Township Policemen and Firemen Retirement System

Summary Annual Report - December 31, 2012

Brief Summary of Benefit Provisions (Concluded)

Eligibility	Amount
Post-Retirement Benefit Increases	
Police and Fire Management & Administrative with 25 years of service at Retirement.	Up to 10 annual increases of 2.0% of the original benefit depending upon manager service earned after retirement eligibility. (Each year of manager service in excess of retirement eligibility will entitle a retired manager to 2 annual increases). Purchased service is used in calculating eligibility for the increases.

Service Purchases	
<i>Fire:</i>	Military service prior to employment may be purchased.
<i>Police Officers and Police Supervisors (as of 1/1/2003):</i>	Military and/or sworn service time may be purchased.

Employer Contributions

Employer pays an annual contribution based on an actuarial valuation. The employer's actuarially determined rate covers all costs net of employee contributions.

Deferred Retirement Option Program (DROP)

Employees in the Police Officer Union are ineligible to participate in the DROP. Effective January 1, 2012, Police Supervisors are ineligible to DROP.

All Others : A member may participate in the DROP after attaining the minimum requirements for a normal service retirement. A monthly amount equal to the amount that would have been paid had the member retired and current member contributions accumulate in a DROP account. The account is credited with the system's prior calendar year's market rate of return (but not greater than 4% interest) each year. Additions cease at the earlier of 5 years of DROP participation or separation from service, although interest on the DROP account will continue to accrue during such time. Management DROP participants may continue in covered employment after 5 years of participation, but do not accumulate additional service credit or make member contributions. DROP service for Management participants is included for purposes of eligibility for the escalator. Fire DROP participants may continue in covered employment after 5 years of participation or until their 33rd year of service, but do not accumulate additional service credit. Upon actual retirement the member may receive the DROP account balance in the form of a lump sum or as an additional annuity. Member contributions during the DROP period are not included in the computation of the annuity withdrawal reduction. Upon exit from the DROP, the original monthly amount established upon entry in the DROP continues in addition to any other benefits or adjustments.

Membership

All current and future Police Officers and Police Supervisors participate in this plan. Firefighters hired prior to January 1, 2012 participate in this plan. Firefighters hired on or after January 1, 2012 participate in a different plan.