
CITY OF ANN ARBOR
**RETIREE HEALTH CARE BENEFIT
PLAN & TRUST (VEBA)**

***SUMMARY
ANNUAL REPORT***

**For the Fiscal Year Ended
June 30, 2019**

**CITY OF ANN ARBOR
RETIREE HEALTH CARE BENEFIT PLAN & TRUST
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Ann Arbor, MI 48103
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INVESTMENT MANAGEMENT CONSULTANT

Meketa Investment Group

LEGAL COUNSEL

Michael J. VanOverbeke; VanOverbeke, Michaud & Timmony, P.C.

WEB ADDRESS: www.a2gov.org

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CITY OF ANN ARBOR
RETIREE HEALTH CARE BENEFITS PLAN AND TRUST

Annual Report
For Year Ending June 30, 2019

The City of Ann Arbor Retiree Health Care Benefits Plan and Trust (VEBA Trust) was established to provide health and life insurance benefits or such other benefits approved by the City or approved by collective bargaining agreements for the welfare of the Retirees of the City who are eligible to receive a retirement benefit from the City of Ann Arbor Employees' Retirement System and the spouses and eligible dependents of such Retirees. Health care benefits under the Plan are provided for pursuant to the City of Ann Arbor Health Care Plan, Chapter 21 of the City Code.


The Health Care Benefits Plan began operation during the year ending June 30, 1999. The City is now "pre-funding" for the health and life insurance coverage provided to retirants and beneficiaries. Assets are being set aside during an active participant's career in order to provide health and life insurance coverage after retirement. This contrasts with a "pay as you go" practice of paying health and life insurance premiums as they come due.

The investment performance of the Plan was a positive 7.1% for Fiscal Year Ended June 30, 2019. The annual money weighted rate of return was 6.83%. These returns are net of fees.

The Actuarial Determined Contribution (ADC) is \$12,129,387 for Fiscal Year 2019/2020, and \$11,663,630 for Fiscal Year 2020/2021 as detailed in page 6 of this report. The projected annual required contribution rate for advance-funding of the post-retirement health and life insurance coverage for Fiscal Year 2021 is 19.70% of active participant payroll vs. 22.09% last year.

The City will not realize any short-term budgetary gain from advance-funding for post-retirement health and life insurance benefits. Long-range gains will occur, however, and the cushion associated with a reserve fund is a valuable side effect. Eventually, if the recommended funding contributions in subsequent years are made, the Plan will be fully actuarially funded. **In the year ending June 30, 2019, \$15,987,768 was contributed to the fund, including benefits paid from City assets. This contribution exceeded the recommended contribution requirement for the year ended 2019.**

Sincerely,


Jeremy Flack
Chairperson, Board of Trustees


Wendy Orcutt
Executive Director

Investment Summary & Highlights

Historical Asset Class Performance (%) By Calendar Year, Most Recent 12/31/2018

<u>Asset Class</u>	<u>1 Year</u> 12/31/2018	<u>3 Years</u> 12/31/2015	<u>5 Years</u> 12/31/2013	<u>7 Years</u> 12/31/2011	<u>10 Years</u> 12/31/2008
Total Plan	-4.8%	5.9%	4.1%	6.7%	8.9%
Domestic Equity	-6.6	8.8	6.7	11.8	14.1
International Developed Market Equity	-8.7	5.5	2.1	7	NA
International Emerging Market Equity	-12.8	10.6	3.0	2.7	NA
Investment Grade Fixed Income	0.1	1.9	2.5	2.3	3.9
High Yield Fixed Income	-2.4	6.8	3.6	5.6	NA
Treasury Inflation Protected Security	-0.3	1.9	1.2	NA	NA
Bank Loans	0.5	3.2	3	NA	NA
Emerging Market Debt	-9.8	4.3	-2.5	NA	NA
Natural Resources	-15.7	NA	NA	NA	NA
Real Estate	3.7%	6.2%	8.2%	9.2%	13.2%

Note: Source is Meketa Investment Group. Returns are net of fees on a rolling calendar year basis. May contain differences from audited financial statements due to timing, manner of presentation, and accounting requirements. Performance updates are available quarterly on the Retirement System's website.

Actuarial Section

MEMBERSHIP

	<u>2019</u>	<u>2018</u>
Retirees and Beneficiaries currently covered	1052	1052
Spouses of Retirees currently covered	551	531
Active Participants		
Traditional Plan	343	376
RHRA Plan	<u>368</u>	<u>319</u>
Sub-total Active Participants	<u>711</u>	<u>695</u>
Total	2314	2278

The Retiree Health Care Benefits Plan financial objective is to meet long-term benefit promises through contributions that remain approximately level from year to year as a percent of active participant payroll.

CITY'S COMPUTED CONTRIBUTIONS TO THE BENEFITS PLAN
FOR THE FISCAL YEAR END JUNE 30, 2021

Contributions for	General	General RHRA	Police	Police RHRA	Fire	Fire RHRA	Total
1. Total Normal Cost of Benefits:	\$1,383,282	\$318,157	\$595,787	\$86,201	\$498,722	\$39,879	\$2,922,028
2. Member Contributions	0	0	0	0	0	0	0
3. Employer Normal Cost (1.- 2.)	1,383,282	318,157	595,787	86,201	498,722	39,879	2,922,028
4. Payment for Active Unfunded Actuarial Liabilities (UAL)	1,157,356	0	479,007	0	353,007	0	1,989,370
5. Payment for Inactive UAL	3,680,079	0	1,673,730	0	997,100	0	6,350,909
6. Interest	221,671	11,337	97,941	3,072	65,881	1,421	
7. Preliminary Actuarially Determined Contribution (ADC) (3. + 4. + 5. + 6.)	\$6,442,388	\$329,494	\$2,846,465	\$89,273	\$1,914,710	\$41,300	\$11,663,630
8. Projected Fiscal Year Payroll	\$16,399,302	\$22,568,110	\$6,128,527	\$6,114,602	\$5,313,908	\$2,681,833	\$59,206,282
9. Preliminary ADC as a Percent of Projected Payroll	39.28%	1.46%	46.45%	1.46%	36.03%	1.54%	19.70%

Unfunded actuarial accrued liabilities were amortized as a level dollar amount over a period of 24 years for fiscal year ending June 30, 2021. The amortization period decreases by two each year thereafter until a 15-year rolling amortization is reached. Once the Plan reaches 100% funded status, the amortization period will be set at 1 year.

SCHEDULE OF FUNDING PROGRESS

(\$ in thousands)

Actuarial Valuation Date	Value of Assets (a)	Liability (AAL) Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL Percentage of covered Payroll [(b-a)/c]
6/30/2019	\$186,331	\$293,406	\$107,074	63.51%	\$57,077	187.60%
6/30/2018	171,807	261,367	89,560	65.73	55,458	161.49
6/30/2017	157,339	254,029	96,690	61.94	53,583	180.45
6/30/2016	143,250	281,502	138,252	50.88	50,057	276.19
6/30/2015	132,162	275,912	143,750	47.90	48,759	294.82
6/30/2014	116,566	264,164	147,598	44.13	47,957	307.77
6/30/2013	99,822	258,583	159,031	38.60	45,063	352.91
6/30/2012	87,660	249,844	162,184	35.10	44,004	368.60
6/30/2011	82,416	241,122	158,706	34.20	45,921	345.60
6/30/2010	73,205	242,842	169,637	30.10	48,688	348.40

SCHEDULE OF EMPLOYER CONTRIBUTIONS

Year Ended June 30,	Annual Required Contribution	Current Premiums Paid by the City	Pre Funding Contributions to Trust	Percentage Contributed
2019	\$9,234,000	\$13,171,225	\$2,816,543	173.1%
2018	10,641,000	14,272,653	3,451,332	166.6
2017	11,168,000	13,360,000	3,460,057	150.6
2016	11,179,000	12,095,622	3,075,389	135.7
2015	11,974,000	10,758,954	4,220,778	125.1
2014	12,203,000	10,650,463	4,537,637	124.6
2013	12,379,000	9,207,043	5,790,086	121.1
2012	14,859,285	8,889,686	2,163,202	74.4
2011	14,395,148	9,181,437	4,839,659	97.4
2010	14,284,470	9,349,438	927,417	71.9

ACCOUNTING INFORMATION FOR GASB 74/75

The components of the New OPEB Liability of the City at June 30, 2019 are as follows:

Total OPEB Liability	\$293,406,401
Plan Fiduciary net position	186,331,562
New OPEB Liability	107,074,839
Plan Fiduciary net position as a percentage of the total OPEB Liability	63.51%

Sensitivity of the Net OPEB Liability to Changes in the Discount Rate

Decrease to 6%	Discount Rate - 7%	Increase to 8%
\$146,506,609	\$107,074,839	\$74,811,662

Sensitivity of the Net OPEB Liability to Changes in Healthcare Cost Trend Rate

Decrease to 6%	Discount Rate - 7%	Increase to 8%
\$66,752,939	\$107,074,839	\$156,579,406

Assumptions, Methods, and Additional Information

Valuation Date: 6/30/2019

Methods and assumptions:

Actuarial cost method	Entry Age Normal; level percent of pay
Amortization method	Level percent of pay
Asset valuation method	Actuarial value
Discount Rate	7%
Assumed Rate of Return	7%
Amortization Period	26 years*
Inflation	2.5%
Salary Increases	3.50% per annum plus merit component that varies by age
Healthcare cost trend rates	Medical Pre-65: 8.25% decreasing 0.25% per year to an ultimate of 4.50%; Medical Post-65 6.25% decreasing to an ultimate of 4.50% in 2031.

*At the September 21, 2017 meeting, the Board adopted a closed level dollar amortization starting at 30 years, decreasing 2 years annually until the amortization period reaches 15 years

FINANCIAL SECTION

The purpose of the Financial Section is to provide the reader with the present financial position and condition of the Plan & Trust.

This section contains:

**Independent Auditors' Report &
Audited Financial Statements**



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Independent Auditors' Report

To the Board of Directors
City of Ann Arbor Retiree Health Care Benefits Plan and Trust

We have audited the accompanying statements of fiduciary net position of the City of Ann Arbor Retiree Health Care Benefits Plan and Trust, a voluntary employees beneficiary association (VEBA) (hereinafter referred to as the "Plan" or "VEBA") as of June 30, 2019 and the related statements of changes in fiduciary net position for the year then ended, and the related notes to the financial statements.

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.

Independent Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits 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 of 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 auditor 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.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the VEBA's net position restricted for healthcare benefits at June 30, 2019 and changes therein for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Emphasis of a Matter

As discussed in Note 1, the financial statements present only the City of Ann Arbor Retiree Health Care Benefits Plan and Trust and do not purport to, and do not, present fairly the financial position of the City of Ann Arbor as of June 30, 2019, and the changes in its financial position for the year then ended, in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the schedules of changes in net OPEB liability and related ratios, employer contributions, and investment returns, as listed in the table of contents, be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the financial statements in an 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 financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Yeo & Yeo, P.C.

Ann Arbor, Michigan
October 18, 2019

City of Ann Arbor
Retiree Health Care Benefits Plan and Trust
Statement of Fiduciary Net Position
June 30, 2019

Assets

Investments, at fair value	
Equities	\$ 105,014,227
Fixed income	53,977,280
Other	<u>26,502,098</u>
 Total investments	 185,493,605
 Equity in City of Ann Arbor pooled cash and investments	 716,018
Accrued interest and dividends	<u>217,234</u>
 Total assets	 <u>186,426,857</u>

Liabilities

Accrued liabilities	<u>95,295</u>
 Net position restricted for benefits	 <u>\$ 186,331,562</u>

City of Ann Arbor
Retiree Health Care Benefits Plan and Trust
Statement of Changes in Fiduciary Net Position
For the Year Ended June 30, 2019

Additions

Investment income	
From investing activities	
Net appreciation in fair value of investments	\$ 8,738,562
Interest and dividends	<u>3,296,314</u>
Total investment income	12,034,876
Investment management fees	<u>(212,385)</u>
Net investment income from investing activities	<u>11,822,491</u>
From securities lending activities	
Gross earnings	9,854
Borrower rebates paid	(6,901)
Securities lending fees	<u>(877)</u>
Net investment income from securities lending activities	<u>2,076</u>
Total net investment income	11,824,567
Employer contributions	<u>15,987,768</u>
Total additions	<u>27,812,335</u>
Deductions	
Participant benefits	13,171,225
Administrative expenses	<u>116,902</u>
Total deductions	<u>13,288,127</u>
Change in net position	14,524,208
Net position - beginning of year	<u>171,807,354</u>
Net position - end of year	<u>\$ 186,331,562</u>