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

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***SUMMARY***  
***ANNUAL REPORT***

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**For the Fiscal Year Ended**  
**June 30, 2020**

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**CITY OF ANN ARBOR  
RETIREE HEALTH CARE BENEFIT PLAN & TRUST  
532 S Maple Rd.  
Ann Arbor, MI 48103**

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**INVESTMENT MANAGEMENT CONSULTANT**

Meketa Investment Group

**LEGAL COUNSEL**

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

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# CITY OF ANN ARBOR RETIREE HEALTH CARE BENEFITS PLAN AND TRUST

## Annual Report For Year Ending June 30, 2020

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 was established during the year ending June 30, 1999. The City is now "pre-funding" for the health and life insurance coverage provided to retirees 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 3.7% for Fiscal Year Ended June 30, 2020. The annual money weighted rate of return was 3.52%. These returns are net of fees.

The Actuarial Determined Contribution (ADC) is \$11,663,630 for Fiscal Year 2020/2021, and \$13,001,479 for Fiscal Year 2021/2022 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 2022 is 21.60% of active participant payroll vs. 19.70% 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, 2020, \$12,241,536 was contributed to the fund, including benefits paid from City assets. This contribution met the recommended contribution requirement for the year ended 2020.**

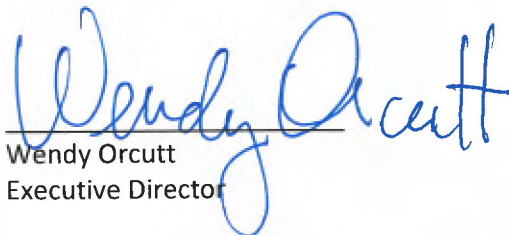
At the September 17, 2020 Board meeting, the Board of Trustees approved a change to the assumed rate of investment return (i.e., the discount rate) from 7.0% to 6.5% over a 5-year period, with a reduction of 0.1% per year starting with the 2020 valuation analysis. The actuary will only recognize the 0.1% reduction for all future years in the valuation. The Board will annually review the reduction in the assumed rate of return over this 5-year period to determine if additional modifications or time-line considerations should be addressed. Please note that the 6.9% discount rate is used to compute liabilities/future contributions in this valuation. The fund assumed a 7.0% investment return during July 1, 2019 through June 30, 2020 and 6.9% thereafter.

Sincerely,



Jeremy Flack (Dec 18, 2020 13:19 EST)

Jeremy Flack  
Chairperson, Board of Trustees



Wendy Orcutt  
Executive Director

# Investment Summary & Highlights

## Historical Asset Class Performance (%) By Calendar Year, Most Recent 12/31/2019

<u>Asset Class</u>	<u>1 Year</u> 12/31/2019	<u>3 Years</u> 12/31/2016	<u>5 Years</u> 12/31/2014	<u>7 Years</u> 12/31/2012	<u>10 Years</u> 12/31/2009
Total Plan	20.0%	8.8%	4.8%	12.3%	21.6%
Domestic Equity	30.6	14.2	9.5	17.7	31.4
International Developed Market Equity	26.9	1.2	-4.8	17.0	NA
International Emerging Market Equity	16.6	14.5	-0.1	8.3	NA
Investment Grade Fixed Income	8.4	2.6	6.4	5.8	7.0
High Yield Fixed Income	13.7	15.7	1.4	12.4	NA
Treasury Inflation Protected Security	7.0	4.1	.9	NA	NA
Bank Loans	9.2	5.9	2.7	NA	NA
Emerging Market Debt	13.1	9.0	-8.5	NA	NA
Natural Resources	39.1	NA	NA	NA	NA
Real Estate	14.2%	6.9%	15.4%	20.1%	29.6%

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>2020</u>	<u>2019</u>
Retirees and Beneficiaries currently covered	1070	1052
Spouses of Retirees currently covered	558	551
Active Participants		
Traditional Plan	318	343
RHRA Plan	<u>407</u>	<u>368</u>
Sub-total Active Participants	<u>725</u>	<u>711</u>
<b>Total</b>	<b>2353</b>	<b>2314</b>

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, 2022**

<b>Contributions for</b>	<b>General</b>	<b>General RHRA</b>	<b>Police</b>	<b>Police RHRA</b>	<b>Fire</b>	<b>Fire RHRA</b>	<b>Total</b>
1. Total Normal Cost of Benefits:	\$1,390,524	\$345,752	\$570,497	\$101,927	\$493,852	\$54,324	\$2,956,876
2. Member Contributions	0	0	0	0	0	0	0
3. Employer Normal Cost (1.- 2.)	1,390,524	345,752	570,497	101,927	493,852	54,324	2,956,876
4. Payment for Active Unfunded Actuarial Liabilities (UAL)	1,272,972	0	567,136	0	398,459	0	2,238,567
5. Payment for Inactive UAL	4,325,819	0	1,892,285	0	1,146,863	0	7,364,967
6. Interest	245,436	12,141	106,398	3,579	71,607	1,908	441,069
<b>7. Preliminary Actuarially Determined Contribution (ADC) (3. + 4. + 5. + 6.)</b>	<b>\$7,234,751</b>	<b>\$357,893</b>	<b>\$3,136,316</b>	<b>\$105,506</b>	<b>\$2,110,781</b>	<b>\$56,232</b>	<b>\$13,001,479</b>
8. Projected Fiscal Year Payroll	\$15,196,613	\$24,513,187	\$5,330,772	\$7,326,793	\$4,669,226	\$3,123,978	\$60,190,569
9. Preliminary ADC as a Percent of Projected Payroll	47.61%	1.46%	58.83%	1.44%	44.92%	1.80%	21.60%
10. Prior Fiscal Year Budgeted Contribution^							\$11,663,630
11. Prior Fiscal Year Budgeted Contribution with 2% Increase <sup>1</sup>							\$11,663,630
12. Estimated City Contribution (Greater of 7. & 11.)							\$13,001,479

<sup>^</sup> Provided by the City.

<sup>1</sup>Funding policy temporarily suspended in 2020-2022 due to COVID-19.

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]
6/30/2020	\$193,649	\$289,866	\$96,217	66.81%	\$57,970	165.98%
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**

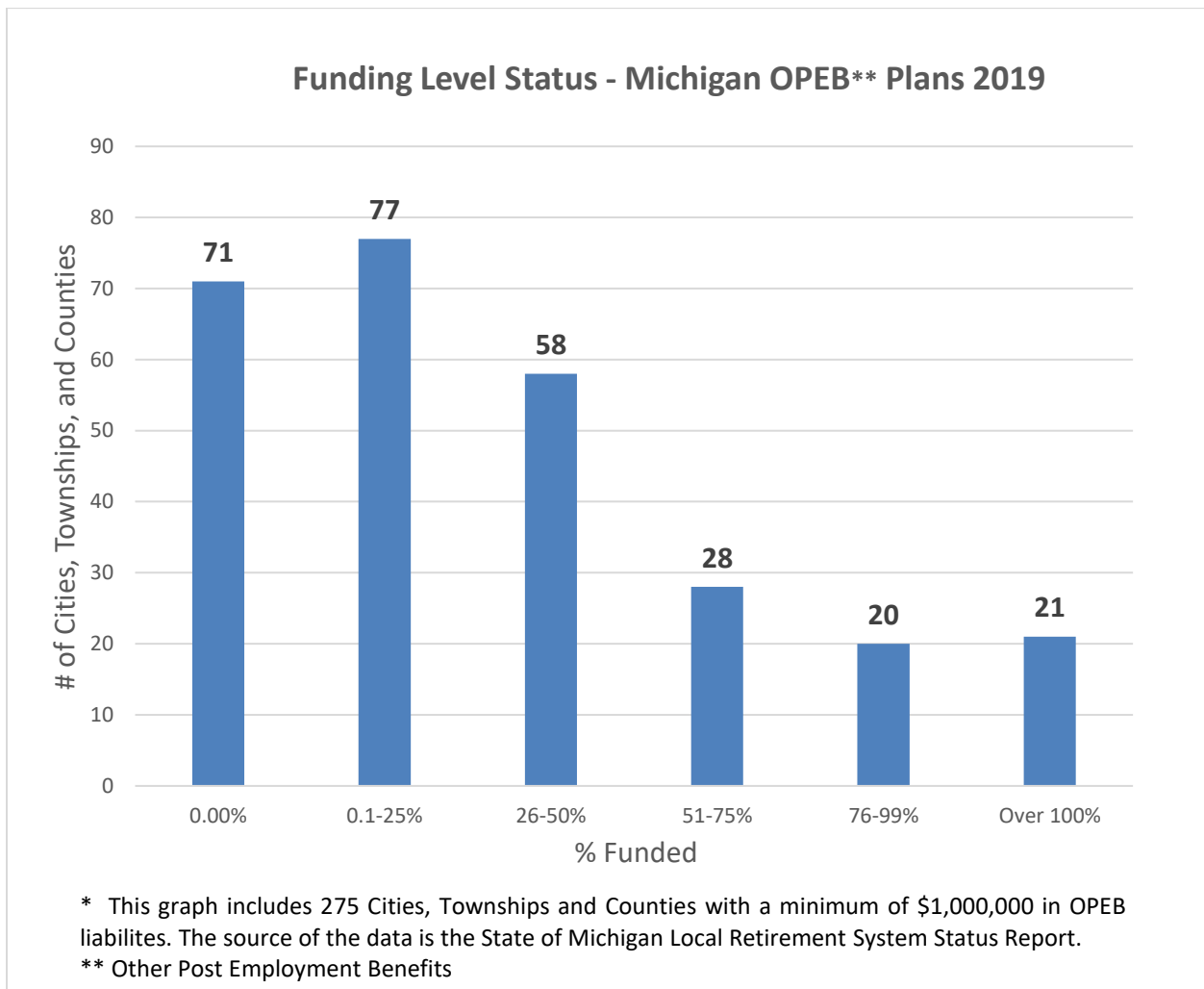
Year Ended June 30,	Annual Required Contribution	Current Premiums Paid by the City	Pre Funding Contributions to Trust	Percentage Contributed
*2020	\$12,129,387	\$11,468,614	\$772,922	101.0%
2019	9,234,000	13,171,225	2,816,543	173.1
2018	10,641,000	14,272,653	3,451,332	166.6
2017	11,168,000	13,360,000	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

\*NOTE: Due to the COVID-19 crisis, the City temporarily suspended the funding policy for FYE20 and only contributed the ADC (Actuarially Determined Contribution).

## FUNDING LEVEL STATUS

The City of Ann Arbor is “pre-funding” for the health insurance coverage provided to retirees and beneficiaries. In addition to contributing the Actuarial Determined Contribution (ADC), the City has historically contributed well above that amount. As of June 30, 2020, the Retiree Health Care Plan is funded at 66.8%, an increase from the prior year’s 63.5% funded level. As referenced earlier on page 4, this year the Board adopted a lower assumed rate of return which will also result in higher contributions to the Plan.

As you can see in the chart below, a great number of Systems are using a “pay as you go” approach. Of the 275 plans included in the sample, 25% are making no advance payments to their Plan and 49% are funded at less than 50%.





**ACCOUNTING INFORMATION FOR GASB 74/75**

The components of the New OPEB Liability of the City at June 30, 2020 are as follows:

Total OPEB Liability	\$289,866,913
Plan Fiduciary net position	193,649,479
New OPEB Liability	96,217,434
Plan Fiduciary net position as a percentage of the total OPEB Liability	66.81%

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

Decrease to 6%	Discount Rate - 7%	Increase to 8%
\$130,763,088	\$96,217,434	\$67,525,159

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

Decrease to 6%	Discount Rate - 7%	Increase to 8%
\$64,934,685	\$96,217,434	\$133,804,474

**Assumptions and Methods Used to Determine Contributions for the FYE June 30, 2020**

Valuation Date: 6/30/2018

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	24 years*
Inflation	3.5%
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**

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**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**

**City of Ann Arbor**  
**Retiree Health Care Benefits Plan and Trust**  
**Statement of Fiduciary Net Position**  
**June 30, 2020**

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**Assets**

Investments, at fair value	
Equities	\$ 110,026,592
Fixed income	56,613,125
Other	<u>26,251,663</u>
 Total investments	 192,891,380
 Equity in City of Ann Arbor pooled cash and investments	 666,784
Accrued interest and dividends	<u>212,931</u>
 Total assets	 <u>193,771,095</u>

**Liabilities**

Accrued liabilities	<u>121,616</u>
 Net position restricted for benefits	 <u>\$ 193,649,479</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, 2020**

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**Additions**

Investment income	
From investing activities	
Net appreciation in fair value of investments	\$ 3,493,224
Interest and dividends	<u>3,431,382</u>
Total investment income	6,924,606
Investment management fees	<u>(203,401)</u>
Net investment income from investing activities	<u>6,721,205</u>
From securities lending activities	
Gross earnings	5,515
Borrower rebates paid	(3,354)
Securities lending fees	<u>(640)</u>
Net investment income from securities lending activities	<u>1,521</u>
Total net investment income	6,722,726
Employer contributions	<u>12,241,536</u>
Total additions	<u>18,964,262</u>
<b>Deductions</b>	
Participant benefits	11,468,614
Administrative expenses	<u>177,731</u>
Total deductions	<u>11,646,345</u>
Change in net position	7,317,917
Net position - beginning of year	<u>186,331,562</u>
Net position - end of year	<u>\$ 193,649,479</u>