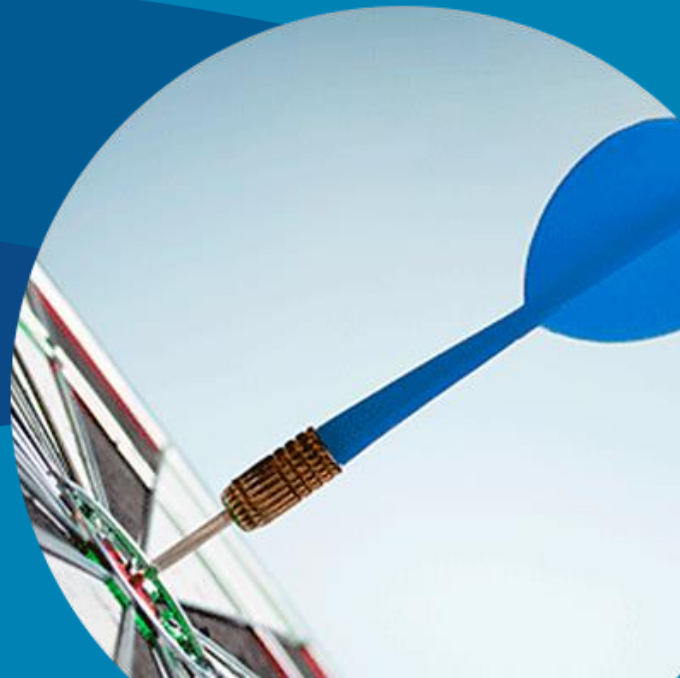




City of Ann Arbor Employees' Retirement System & Retiree Health Care Benefit Plan & Trust (VEBA)

Update for City Council Working Session
February 28, 2022

James D. Anderson, FSA, EA, FCA, MAAA
Richard C. Koch, Jr., ASA, EA, MAAA

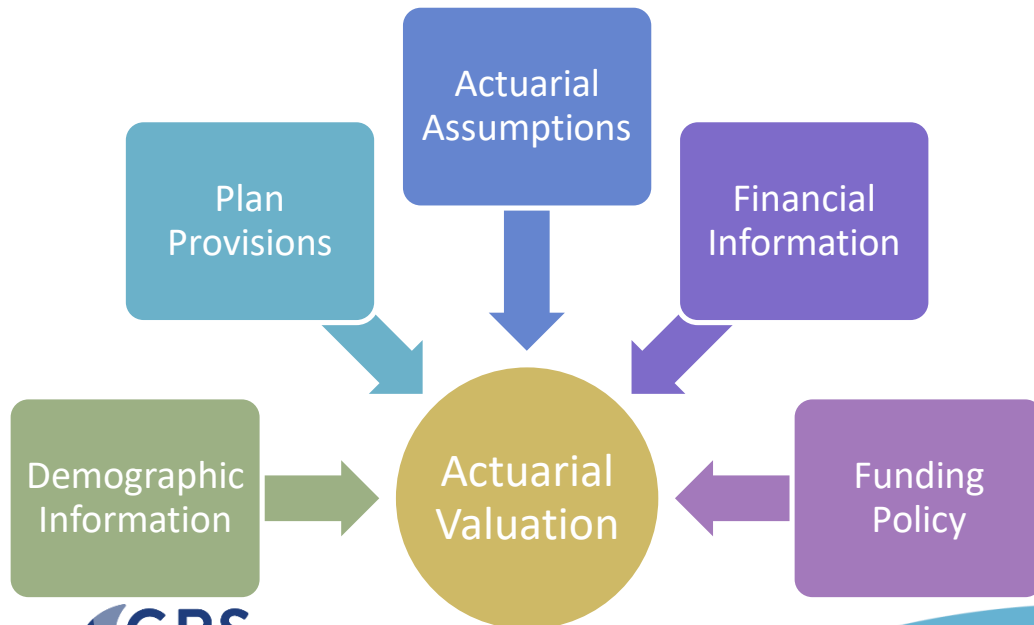


30,000 Foot View of Retirement Plan Financing

GRS mathematically combines people data, benefits, assumptions, & financial information



To produce digestible information for decision-making by the Board and City



Employer Contributions

Funded Status

Unfunded Liability

Funding Plan



Retirement System Demographic Information – Summary of Membership

Active Members as of June 30, 2021 Tabulated by Valuation Divisions

| Valuation Divisions | No. | Annual Payroll |
|-----------------------------|------------|----------------------|
| General | 334 | \$ 25,881,535 |
| General Hybrid | 184 | 10,969,217 |
| Police | 113 | 11,076,215 |
| Police Hybrid | 1 | 135,041 |
| Fire | 74 | 6,868,426 |
| Fire Hybrid | 1 | 117,397 |
| Total Active Members | 707 | \$ 55,047,831 |

Note: Hybrid Plan members have a benefit equal to ½ defined benefit and ½ defined contribution.

Retirees and Beneficiaries as of June 30, 2021 Tabulated by Valuation Divisions

| Valuation Divisions | No. | Annual Allowances |
|---------------------|--------------|---------------------|
| General | 716 | \$20,717,079 |
| Police | 228 | 11,309,455 |
| Fire | 177 | 8,388,366 |
| Total | 1,121 | \$40,414,900 |

Inactive Members Eligible for Deferred Benefits as of June 30, 2021 Tabulated by Valuation Divisions

| Valuation Divisions | No. | Estimated Annual Allowances |
|---------------------|------------|-----------------------------|
| General | 88 | \$1,225,877 |
| Police | 16 | 333,405 |
| Fire | 1 | 40,018 |
| Total | 105 | \$1,599,300 |



Retirement System Plan Provisions

- City of Ann Arbor Employees Retirement System
 - ❖ Defined Benefit (DB) elements – Percent of compensation times service.
 - ❖ Hybrid benefit elements – reduced DB plus Defined Contribution (DC).
 - ❖ Member contributions required.
- City of Ann Arbor Retiree Health Benefits Plan & Trust
 - ❖ Retiree health care coverage equivalent to coverage received on date of retirement for those hired before selected dates in 2011-2013.
 - ❖ Annual contribution ranging from \$2500 -\$4000 to notional account for those hired after selected dates.
 - ❖ Life insurance death benefit (\$10,000) for all retirees in receipt of City pension.

Retirement System Investment Return Assumption

- During 2020, 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, via a reduction of 0.1% per year starting with the 2020 valuation analysis.
- 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.
- Note that a 6.8% discount rate was used to compute liabilities/future contributions in the 2021 valuation.

Financial Reporting for Retirement Plans

- Governmental Accounting Standards (GASB)
 - ❖ Modified standards in the past 5 years to utilize estimated market values of liabilities and assets.
 - ❖ Results are incorporated into the City's financial statements.
 - ❖ Annual valuations reflect the volatility of the financial markets on June 30th of each year.
- Actuarial Standards of Practice
 - ❖ Govern funding valuations performed by an independent professional actuary.
 - ❖ Used to determine the Actuarially Determined Contribution (ADC) by the City for subsequent years.
 - ❖ Annual valuations reflect less volatility due to the use of rolling averages.

Funded Status – Accounting Standards

Funding of Retirement Plans

The City contributes funds to retirement plans so that when an employee retires from providing services to the City, adequate funds are available to pay for their retirement benefit. A trust is utilized to invest all employer and employee contributions. When the value of the investments in the trust are less than the value of the cost of the benefits, the fund is less than 100% funded.

Pension

The city has funded

100.2%

of current pension liability.

On a Market Value Basis

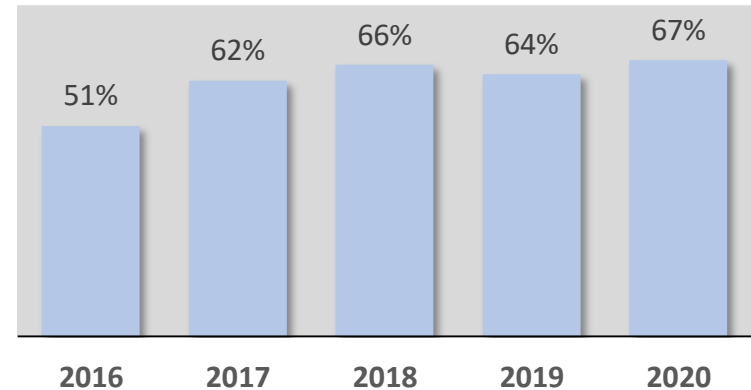
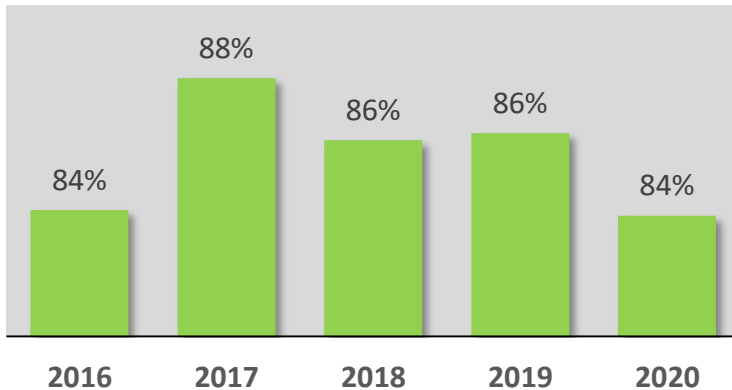
Health Care

The city has funded

77.9%

of its retiree health care liability.

How does this compare to the last 5 years?



Retirement Program Sustainability Equation

$$C + I = B + E$$

B_{enefits} depend on

- ▶ Plan Provisions
- ▶ Experience

C_{ontributions} depend on

- ▶ Short Term: Actuarial Assumptions & Cost Method
- ▶ Long Term: **I**vestment Income, **B**enefits, **E**xpenses

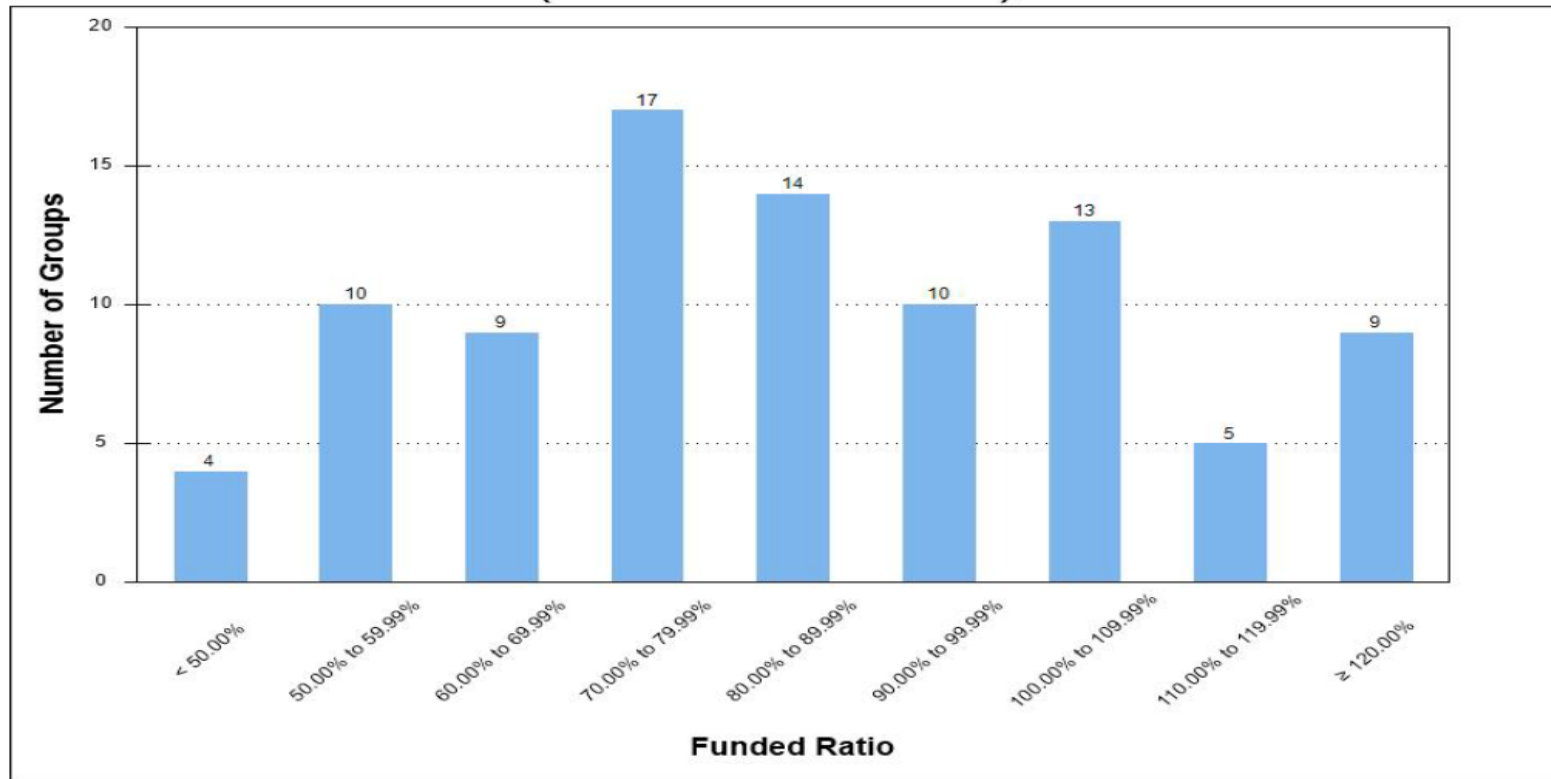
Summary of Valuation Highlights - ERS and VEBA for the FYE June 30, 2021

| | Employees' Retirement System | Retiree Health Care Benefit Plan & Trust (VEBA) |
|--|------------------------------------|---|
| Actuarial Value of Assets* | \$ 554,097,000 | \$ 219,502,000 |
| Total Actuarial Accrued Liability | \$ 627,144,000 | \$ 290,086,000 |
| Unfunded Actuarial Accrued Liability | \$ 73,047,000 | \$ 70,584,000 |
| FYE 2023 ADC | \$ 14,301,037 | \$ 9,403,669 |
| Funded Ratio | 88% | 76% |
| Projected Year to Attain 100% Funded Status | 2025 | 2027 |

*Note use of "Smoothed" Actuarial Value of Assets for funding calculations

GRS Trendline: MI City/County Plans Retirement System Funded Status

Distribution of Funded Ratio (Actuarial Value of Assets)

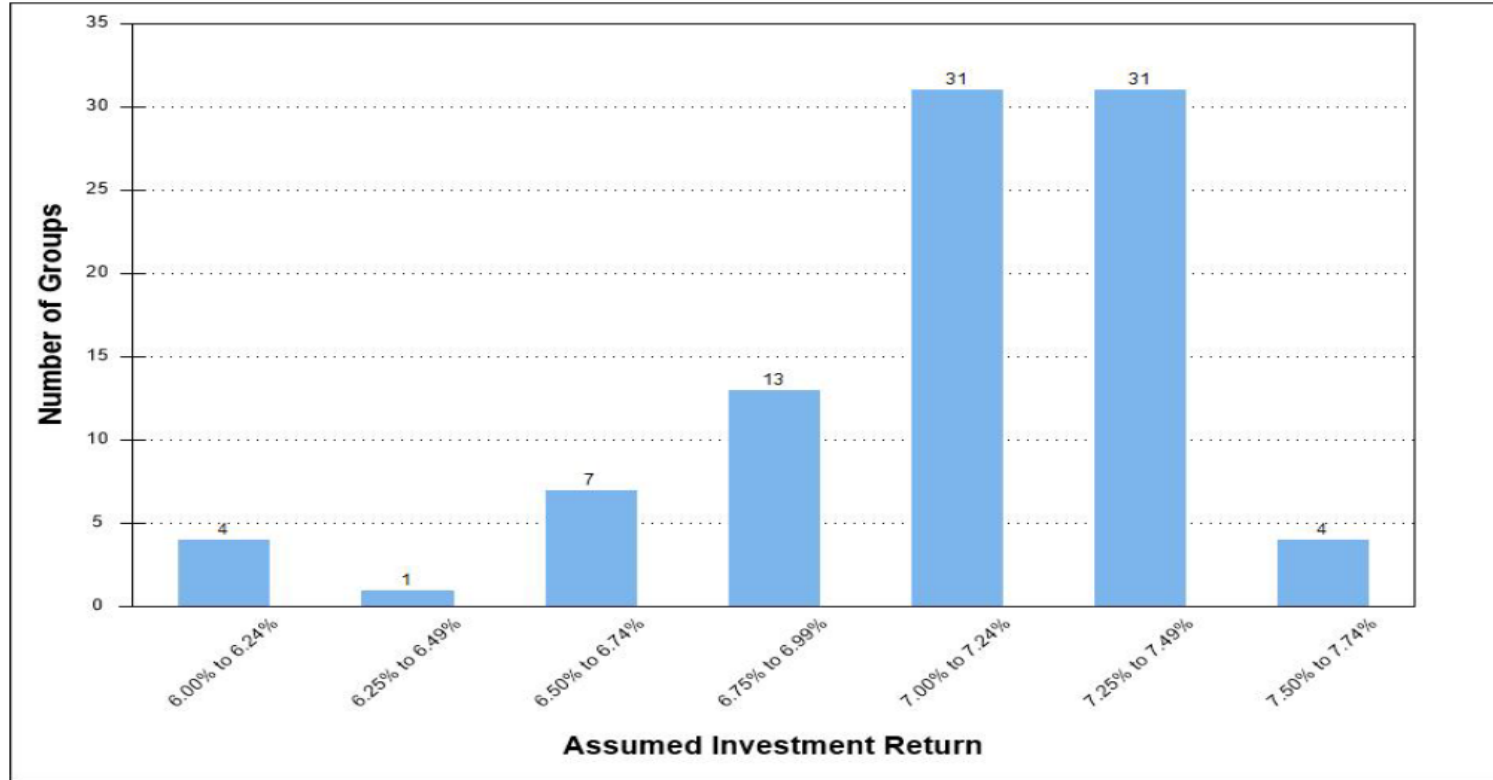


This exhibit was generated using the following criteria: Valuation Date: 06/30/2020, 09/30/2020, 12/31/2020; Type of Employees: General, Public Safety, Other (Mixed); Amount of Assets: < \$100 Million, \$100 to \$999.9 Million; Number of Members (Active and Retired): < 1,000, 1,000 to 49,999, 50,000 to 99,999, 100,000+; Group Status: Open, Closed; State: Michigan; Level of Government: City, County, Other.
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GRS Trendline: MI City/County Plans Assumed Investment Return

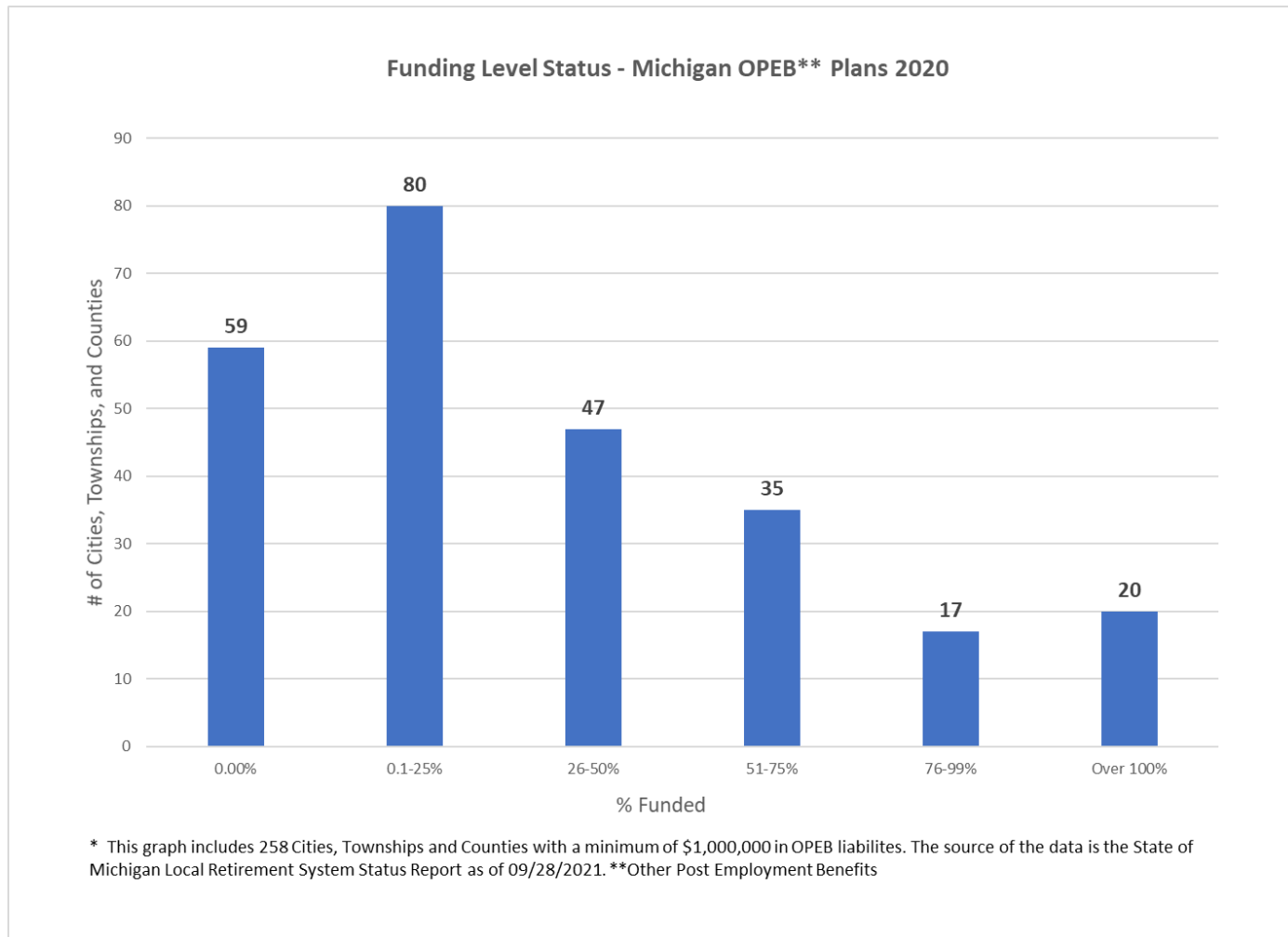
Distribution of Assumed Investment Returns



This exhibit was generated using the following criteria: Valuation Date: 06/30/2020, 09/30/2020, 12/31/2020; Type of Employees: General, Public Safety, Other (Mixed); Amount of Assets: < \$100 Million, \$100 to \$999.9 Million; Number of Members (Active and Retired): < 1,000, 1,000 to 49,999, 50,000 to 99,999, 100,000+; Group Status: Open, Closed; State: Michigan; Level of Government: City, County, Other.
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Michigan VEBA Funded Status (from PA 202)



Michigan VEBA Funded Status (from PA 202¹)

- Ann Arbor ahead of most Local Units in funding the obligation

- Ann Arbor Funded Percent = 72.9%

- Average Funded Percent = 42.9%*

- Median Funded Percent = 26.6%*

- Nearly 23% reporting have \$0 assets

* Excludes the City of Kentwood, which reports 4,000% funding and Orion Township Public Library, which reports 3,000% funding

¹ Source: MI Department of Treasury.

“Summary_Reporting_Uniform_Assumptions_11-5-20_70701_7.xlsx”

Risk Management

- Board Governance – Prudent Practices in Place
 - Perform an experience study every 5 years and review assumptions
 - Review funding policy contribution at least every 5 years:
 - Provides for contribution \geq the Actuarially Determined Contribution
 - Provides for contribution stability
 - Declining amortization period until both plans reach 15 Years
 - Level dollar amortization unique for funding Public Sector Retirement benefits
- Actions taken to address liability growth/risk
 - Dual Plan approach provides new benefit tier for certain post-2016 hires for Retirement System
 - VEBA provides new benefit tier for all hired after 2011-2012 effective dates
- Will lead to ultimate contribution reduction and stability, relative to historical benefits

Investment Highlights – 2021

(Provided by Meketa – the System’s Investment Consultant)

- The System performed well in 2021, with both the ERS and the VEBA exceeding expectations and outperforming their benchmarks. The ERS returned approximately XX% during the calendar year and the VEBA returned XX% during this same period.
- The System carried an overweight position relative to the target in domestic equity, which was the primary driver of outperformance for the year.
- All active managers in the System outperformed their respective benchmarks during the calendar year with the exception of Beach Point, the bank loan portfolio.
- Given the lower return projections from the capital markets, the Board of Trustees approved new asset allocations for both ERS and the VEBA.
- Pursuant to the new allocations, new managers were added for both infrastructure and direct lending strategies. Both will be funded early in calendar year 2022.

Investment Program Overview

(Provided by Meketa – the System’s Investment Consultant)

- Well diversified investment portfolio, with combination of growth and capital preservation asset classes designed to meet or exceed the return assumption.
- Highly effective alternative investment program including; private equity, private debt, real estate, infrastructure, and risk mitigating hedge funds.
- Low cost management structure due to an efficient blend of passive and active management strategies – approximately half the median cost of the System’s peer group.

