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

SUMMARY
ANNUAL REPORT

For the Fiscal Year Ended
June 30, 2018

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

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AEW Core Property Trust	Rhumblin
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Dimensional Fund Advisors	Southern Sun Asset Management
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First Eagle	Summit Credit Partners
GQG	SVB Strategic Investors Fund
Hexavest	Vanguard
Income Research and Management	WCM
The Northern Trust Company	

INVESTMENT MANAGEMENT CONSULTANT

Meketa Investment Group

LEGAL COUNSEL

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

WEB ADDRESS: www.a2gov.org

TABLE OF CONTENTS

INTRODUCTION:

Chairperson’s Letter.....4

INVESTMENT PERFORMANCE:

Asset Allocation.....5

ACTUARIAL INFORMATION:

Member Data.....5
City Computed Contributions.....6
Funding Schedules.....7
Accounting Information for GASB 74.....8
Notes to Actuarial Assumptions.....8

FINANCIAL INFORMATION:

Financial Statements &
Supplementary Information.....9

CITY OF ANN ARBOR RETIREE HEALTH CARE BENEFITS PLAN AND TRUST

Annual Report For Year Ending June 30, 2018

Dear Participant:

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 7.3% for Fiscal Year Ended June 30, 2018. The annual money weighted rate of return was 7.21%. These returns are net of fees.

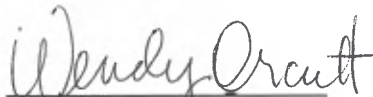
The Actuarial Determined Contribution (ADC) is \$9,234,000 for Fiscal Year 2018/2019, and \$12,129,387 for Fiscal Year 2019/2020 as detailed in page 6 of this report. The projected annual required contribution rate for advance-funding of the post-retirement health and life insurance coverage for Fiscal Year 2020 is 22.09% of active participant payroll vs. 16.77% 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, 2018, \$17,724,000 was contributed to the fund, including benefits paid from City assets. This contribution exceeded the recommended contribution requirement for the year ended 2018.**

Sincerely,



Jeremy Flack
Chairperson, Board of Trustees



Wendy Orcutt
Executive Director

Investment Summary & Highlights

Asset Allocation and Performance Summary Table Annualized Returns Periods Ending June 30, 2018

<u>Asset Class</u>	<u>Market Value</u> <u>\$ millions</u>	<u>% of Fund</u>	<u>% Return</u>		
			<u>1 Year</u>	<u>5 Year</u>	<u>10 Year*</u>
Domestic Equity	\$68.8	40.5%	13.7%	12.2%	10.5%
International Developed Market Equity	20.5	12.1	8.2	7.4	NA
International Emerging Market Equity	11.3	6.6	8.0	5.4	NA
Investment Grade Fixed Income	23.3	13.7	(0.4)	2.3	4.2
High Yield Fixed Income	9.6	5.6	2.8	5.4	NA
Treasury Inflation Protected Security	6.7	3.9	1.5	NA	NA
Bank Loans	5.5	3.2	3.5	4.1	NA
Emerging Market Debt	3.4	2.0	(4.5)	(3.1)	NA
Natural Resources	1.9	1.2	(6.8)	NA	NA
Private Equity	0.6	0.3	NA	NA	NA
Cash	3.0	1.8	NA	NA	NA
Real Estate	15.5	9.1	6.5	7.9	8.3
Total Fund	\$170.1	100%	7.3%	7.1%	6.9%

*10 year total plan is gross of fees.

Note: Source is Meketa Investment Group. 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>2018</u>	<u>2017</u>
Retirees and Beneficiaries currently covered	1052	1043
Spouses of Retirees currently covered	531	546
Active Participants		
Traditional Plan	376	
RHRA Plan	319	
Sub-total Active Participants	<u>695</u>	<u>696</u>
Total	2278	2285

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.

Actuarially Determined Contribution for Fiscal Year 2020

The Actuarially Determined Contribution for the plan is equal to the normal cost plus the amounts required to amortize the unfunded accrued liability over closed level basis. The amortization will decrease by two years annually until the amortization period reaches 15 years. Once the plan reaches 100% funded status, the amortization period will be set at 1 year.

An interest adjustment has been added to reflect payment at the midpoint of the fiscal year.

	General Traditional Plan	General RHRA Plan	Police Traditional Plan	Police RHRA Plan	Fire Traditional Plan	Fire RHRA Plan	Total
Normal Cost	1,639,710	124,058	565,347	25,582	459,094	8,422	2,822,213
Amortization of Unfunded Accrued Liability (active*)	1,181,559	0	526,885	0	359,597	0	2,068,041
Amortization of Unfunded Accrued Liability (inactive*)	4,120,715	0	1,671,435	0	1,003,877	0	6,796,027
Interest	263,218	4,704	104,789	970	69,106	319	443,106
Actuarially Determined Contribution (ADC)	7,205,202	128,762	2,868,456	26,552	1,891,674	8,741	12,129,387
Projected Pay	19,920,468	16,292,028	8,049,625	3,714,715	5,591,120	1,339,036	54,906,992
ADC as a percentage of projected pay	36.17%	0.79%	35.63%	0.71%	33.83%	0.65%	22.09%

*amortization is pro-rata on Actuarial Accrued Liability

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]
6/30/2018	\$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
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

The components of the New OPEB Liability of the City at June 30, 2018 are as follows:

Total OPEB Liability	\$261,367,000
Plan Fiduciary net position	171,807,000
New OPEB Liability	89,560,000
Plan Fiduciary net position as a percentage of the total OPEB Liability	65.73%

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

Decrease to 6%	Discount Rate - 7%	Increase to 8%
\$123,851,000	\$89,560,000	\$61,261,000

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

Decrease to 6%	Discount Rate - 7%	Increase to 8%
\$57,780,000	\$89,560,000	\$128,080,000

Assumptions, Methods, and Additional Information

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	28 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, 2018 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, 2018 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, 2018, 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 5, 2018

City of Ann Arbor
Retiree Health Care Benefits Plan and Trust
Statement of Fiduciary Net Position
June 30, 2018

Assets

Investments, at fair value	
Equities	\$ 102,781,024
Fixed income	48,373,401
Other	<u>17,254,237</u>
 Total investments	 168,408,662
 Equity in City of Ann Arbor pooled cash and investments	 3,335,702
Accrued interest and dividends	<u>205,928</u>
 Total assets	 <u>171,950,292</u>

Liabilities

Accrued liabilities	<u>142,938</u>
 Net position restricted for benefits	 <u>\$ 171,807,354</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, 2018

Additions

Investment income	
From investing activities	
Net appreciation in fair value of investments	\$ 8,394,269
Interest and dividends	<u>2,932,820</u>
Total investment income	11,327,089
Investment management fees	<u>(216,612)</u>
Net investment income from investing activities	<u>11,110,477</u>
From securities lending activities	
Gross earnings	11,564
Borrower rebates paid	(6,010)
Securities lending fees	<u>(1,654)</u>
Net investment income from securities lending activities	<u>3,900</u>
Total net investment income	11,114,377
Employer contributions	<u>17,723,985</u>
Total additions	<u>28,838,362</u>
Deductions	
Participant benefits	14,272,653
Administrative expenses	<u>97,461</u>
Total deductions	<u>14,370,114</u>
Change in net position	14,468,248
Net position - beginning of year	<u>157,339,106</u>
Net position - end of year	<u>\$ 171,807,354</u>