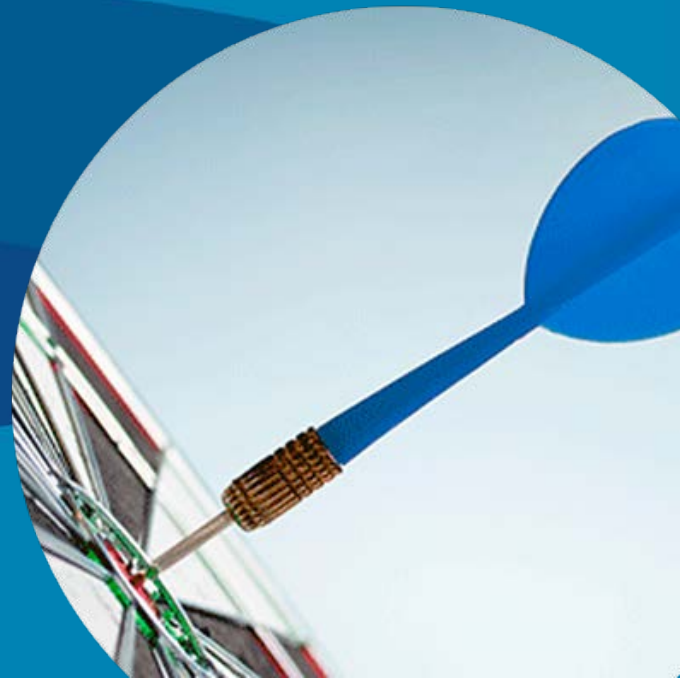




City of Ann Arbor Employees' Retirement System & Retiree Health Care Benefit Plan & Trust (VEBA)

Update for City Council Working Session
March 23, 2020

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



Retirement System

Active Members as of June 30, 2019 Tabulated by Valuation Divisions

Valuation Divisions	No.	Annual Payroll
General	382	\$ 28,940,639
General Hybrid	131	7,435,857
Police	117	11,296,685
Police Hybrid	1	132,406
Fire	79	7,340,329
Fire Hybrid	1	123,781
Total Active Members	711	\$ 55,269,697

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

Retirees and Beneficiaries as of June 30, 2019 Tabulated by Valuation Divisions

Valuation Divisions	No.	Annual Allowances
General	695	\$19,517,836
Police	220	10,678,478
Fire	166	7,572,234
Total	1081	\$37,768,548

Inactive Members Eligible for Deferred Benefits as of June 30, 2019 Tabulated by Valuation Divisions

Valuation Divisions	No.	Estimated Annual Allowances
General	139	\$1,923,019
Police	8	164,090
Fire	2	46,422
Total	149	\$2,133,531



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 Actuarial Determined Contribution (ADC) by the City for subsequent years.
 - ❖ Annual valuations reflect less volatility due to the use of rolling averages.

Funding 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

86.1%

of current pension liability.

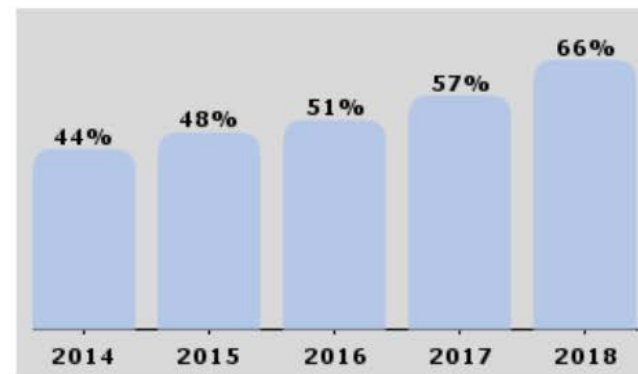
HEALTH CARE

The City has funded

63.5%

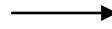
of its retiree health care liability.

How does this compare to the last 5 years?

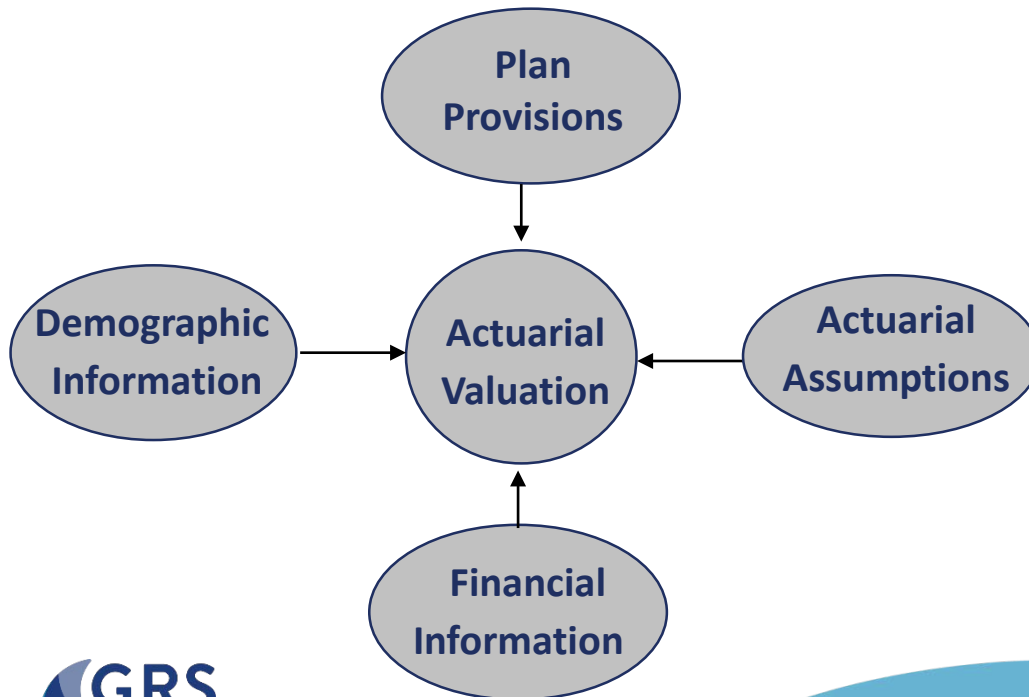


So Why is an Actuary Here Tonight?

GRS mathematically combines
People, Benefits, Assumptions
& Asset information



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



- Employer Contributions
- Funded Status
- Unfunded Actuarial Accrued Liability
- Funding Plan



Retirement Program Sustainability Equation

$$C + I = B + E$$

Benefits depend on

- ▶ Plan Provisions
- ▶ Experience

Contributions depend on

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

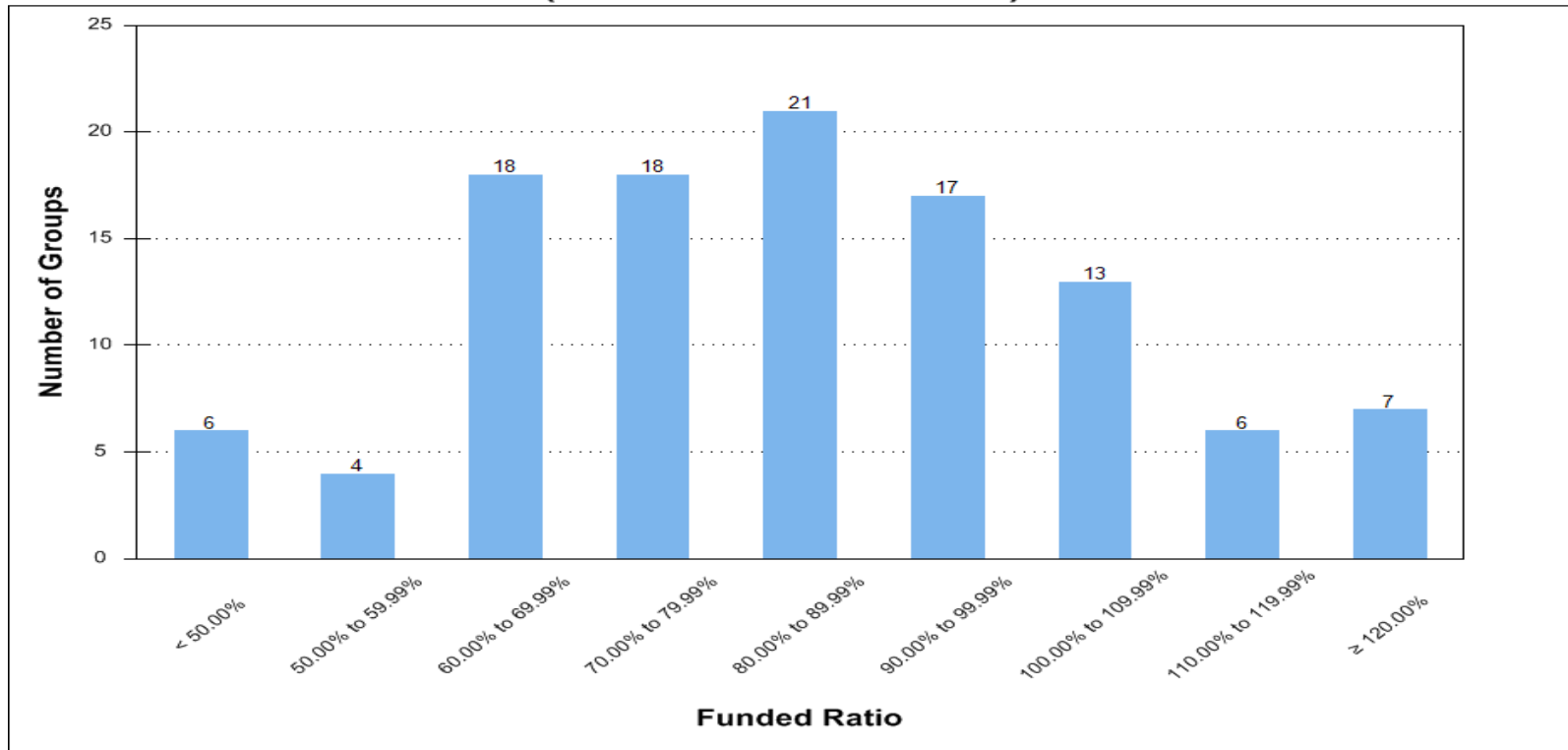


Summary of Valuation Highlights - ERS and VEBA for the FYE June 30, 2019

	Employees' Retirement System	Retiree Health Care Benefit Plan & Trust (VEBA)
Actuarial Value of Assets	\$ 513,611,000	\$ 186,568,000
Total Actuarial Accrued Liability	\$ 601,109,000	\$ 282,357,000
Unfunded Actuarial Accrued Liability	\$ 87,498,000	\$ 95,789,000
FYE 2021 Estimated Contribution	\$ 15,251,000	\$ 16,878,000
Funded Ratio	85%	66%
Projected Year to Attain 100% Funded Status	2039	2028

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

Distribution of Funded Ratio (Actuarial Value of Assets)

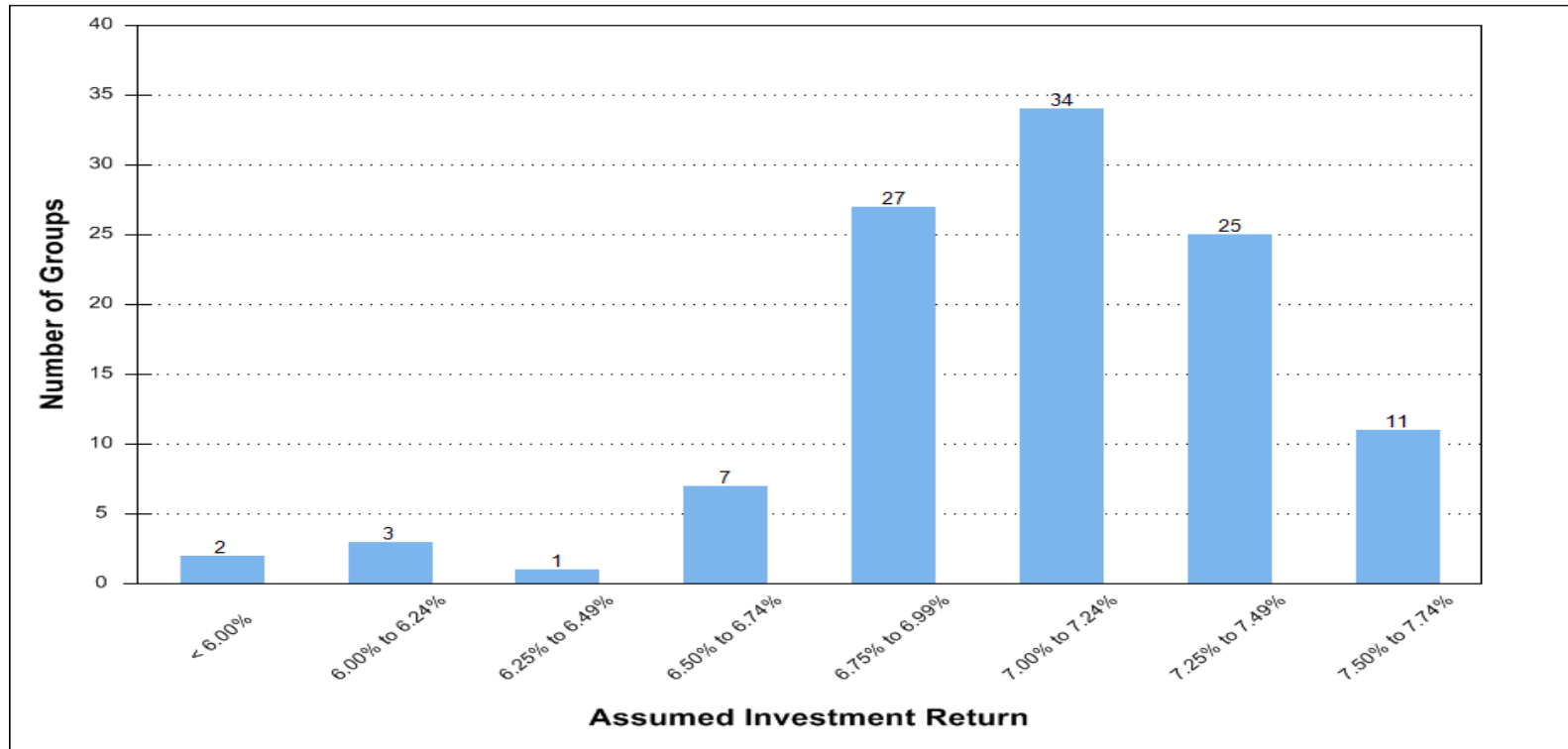


This exhibit was generated using the following criteria: Valuation Date: 12/31/2018, 06/30/2019, 09/30/2019; Type of Employees: General, Public Safety, Other (Mixed); Amount of Assets: < \$100 Million, \$100 to \$999.9 Million; Number of Members (Active and Retired): < 1,000, 1,000 to 49,999, 50,000 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: 12/31/2018, 06/30/2019, 09/30/2019; 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 Results (from PA 202¹)

- Ann Arbor ahead of most cities in funding the obligation
 - Average Funded Percent = 43.1%
 - Median Funded Percent = 16.8%
 - Nearly 30% reporting have \$0 assets

¹ Source: MI Department of Treasury.
“Summary_Reporting_2019-11-12_671784_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

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

- Very well diversified plans, structured to meet or exceed return assumption
- Highly effective private markets investment programs including private equity, private debt, and private real estate
- Low cost management structure - approximately half the median cost of other public funds of its size
- Recent investment in a Global Renewable Power Fund

QUESTIONS?