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# ***SUMMARY ANNUAL REPORT***

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**For the Fiscal Year Ended  
June 30, 2021**

**CITY OF ANN ARBOR EMPLOYEES' RETIREMENT SYSTEM**

**532 S Maple Rd.**

**Ann Arbor, MI 48103**

**Phone (734) 794-6710 Fax: (734) 994-9205**

**Board of Trustees**

Jeremy Flack, Chairperson, Fire Member Trustee  
Alexa Nerdrum, Vice-Chairperson, Citizen Trustee  
David Monroe, Secretary, Police Member Trustee  
Joseph Peariso, General Member Trustee  
Marti Praschan, Chief Financial Officer  
Tony DiGiovanni, Citizen Trustee  
Brock Hastie, Citizen Trustee  
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Julie Lynch, Citizen Trustee

**Retirement System Staff**

Wendy Orcutt, Executive Director  
Daniel Gustafson, Pension Analyst  
Maria Buffone, Accountant  
Laura Hollabaugh, Management Assistant

**Actuary**

Gabriel, Roeder, Smith & Company (GRS)

**Auditors**

Yeo & Yeo CPA's

**CUSTODIAL BANK**

The Northern Trust Company

**INVESTMENT MANAGERS**

|                                 |                                |                                 |
|---------------------------------|--------------------------------|---------------------------------|
| 36 South                        | DRA Growth and Income Funds    | SKY Harbor Capital Management   |
| AEW Core Property Trust         | First Eagle                    | Stone Harbor Capital Management |
| Arboretum                       | GQG Partners                   | SVB Strategic Investors Fund    |
| Artisan International Value     | Income Research & Management   | Summit Credit Partners          |
| Beach Point Capital Partners    | INVESCO, Inc.                  | Torchlight Debt Fund VII        |
| BlackRock Global                | Loomis, Sayles & Company, L.P. | WCM                             |
| Carlyle                         | The Northern Trust Company     |                                 |
| Constitutional Capital Partners | Rhumblin HEDI                  |                                 |
| Dimensional Fund Advisor        | Sculptor Credit                |                                 |

**INVESTMENT MANAGEMENT CONSULTANT**

Meketa Investment Group

**LEGAL COUNSEL**

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

**WEB ADDRESS:** [www.a2gov.org](http://www.a2gov.org)

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**City of Ann Arbor**  
**Employees' Retirement System**  
**Board of Trustees**

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**532 S. Maple Rd. • Ann Arbor, Michigan 48103 (734) 794-6710 • Fax (734) 994-9205**

**CITY OF ANN ARBOR EMPLOYEES' RETIREMENT SYSTEM**  
**CHAIRPERSON'S LETTER**

We are pleased to submit the City of Ann Arbor Employees' Retirement System's (System) Summary Annual Report for the year ended June 30, 2021.

The Annual Report is presented in four sections: (1) the Introductory Section, which contains the Chairperson's Letter, and provides information of a general nature regarding the System and a Summary of Benefits; (2) the Investment Section which contains performance and asset allocation information for the System's assets, (3) the Actuarial Section, which contains information regarding the membership, benefit levels, funding and contribution requirements for the System, and (4) the Financial Section, which contains the Report of the Independent Accountants, the financial statements of the System and certain required supplementary information.

We hope that as you read the Annual Report you will find it useful for evaluation and recognition of the strong financial position of the System.

**ORGANIZATION**

The City Charter of the City of Ann Arbor, as amended April 1, 1968, provides for the adoption of an ordinance to establish the System, to provide for its operation through a Board of Trustees, and for financing the System through contributions by the membership and special tax to be levied annually on all personal and real property in the City of Ann Arbor. The purpose of the System is to secure and provide retirement, disability, and survivor benefits for long-term employees of the City of Ann Arbor.

The System is presently open to all active City employees who meet the definition of "member" in the Ann Arbor City Ordinance.

**ADMINISTRATION OF SYSTEM**

The Board of Trustees is vested with the general administration, management and responsibility for the proper operation of the System and for making effective and construing the provisions of the System Ordinance adopted pursuant to the Charter. The Board consists of nine Trustees:

- (1) Five Trustees are appointed by and serve at the pleasure of City Council;
- (2) The Chief Financial Officer of the City, who serves by virtue of the office;
- (3) One Trustee elected by the general City members from their own number including retirees (general City members being members other than sworn police and fire members);
- (4) One Trustee elected by the police members from their own number including retirees; and
- (5) One Trustee elected by the fire members from their own number including retirees.

The Board of Trustees retains an **Executive Director** to assist in the administration of the System and supervise the System's clerical staff. Additionally, the Board retains clerical staff to also assist in the administration of the System.



## **Professional Services**

The System has a fiduciary responsibility for the management of the System. The Board retains the services of the following various professionals to aid in the administration and management of the System:

An **Actuary** who prepares an annual actuarial valuation to determine the adequacy of the funding of retirement benefits and liabilities accrued by System members.

An **Investment Management Consultant** to assist in the development of the System's Statement of Investment Policy, the selection and performance measurement of the investment managers and to assist in other investment related services when deemed necessary.

**Investment Managers** to invest the System's assets consistent with the objectives and direction of the Board of Trustees and as specified in the Statement of Investment Policy.

An **Independent Auditor** to perform an annual audit of the System's records to insure that the financial statements accurately reflect the annual financial position of the System and conform to generally accepted accounting principles.

A **Medical Director** to review and evaluate medical evidence regarding applications for duty and non-duty disability retirements and conduct re-examinations of disability retirees.

A **Custodial Bank** for the safeguarding and maintenance of System assets, and the accounting and reporting of assets and benefit payments.

A **General Counsel** to serve as the Board's legal advisor and assist in the administration of the System in compliance with the Retirement Ordinance and in accordance with other applicable state and federal law.

## **ACCOUNTING SYSTEM AND REPORTS**

The accounting records of the System are maintained on an accrual basis and all System costs and expenses are borne by the System. Both a sample of benefit payment calculations and the financial statements are audited annually by the Independent Auditor.

## **FUNDING AND SYSTEM OPERATION**

The System's funding objective is to meet the City's long-term benefit commitment to retirees through contributions that remain approximately level as a percentage of member payrolls. The System is funded at 88.35% as of June 30, 2021, an increase from the prior year's 88.35% funded level. The long-term basis uses a "smoothed asset value" when calculating the funded status of the Plan.

To fund the retirement allowances promised by the City of Ann Arbor, contribution rates are determined on the basis of the annual actuarial valuation which indicates the required plan sponsor contributions, in addition to the members' contributions and assumed investment income. Funding is provided by these three sources as follows:

**Contributions by Members:** Members contributed \$3,194,016, including purchased service payments, to the System for the fiscal year ended June 30, 2021. The member contributions are calculated on all pensionable compensation, including overtime.

**Contributions by the City:** For the fiscal year ended June 30, 2021, the City's contribution was \$15,284,295, which covers the annual cost of providing benefits to the members as well as a payment toward the underfunding in the Plan. The 2021 contribution met the actuarially required amount. The City is projected to contribute \$16,125,556 for fiscal year 2021/2022 and \$16,448,067 for fiscal year 2022/2023. The City will contribute the greater of the actuarial requirement or the past year's contribution plus an inflation factor based on tax revenues. NOTE: Due to the COVID-19 crisis, the City temporarily suspended the funding policy for FYE20 and FYE21 and only contributed the ADC (Actuarially Determined Contribution).

**Investment Income:** Investment income is the third source of System revenues. For the fiscal year ended June 30, 2021, the System's financial experience exceeded its target return, as Plan net assets increased to \$626.2 million as of June 30, 2021 versus \$512.7 million the prior year. Investment performance on a fair value basis was a positive 27.1%. The System had net investment income of \$136,319,258. Investment income is a vital and major contributor to the System.

### **RETIREMENT BOARD**

A Retirement Board election was approved by the Board for December 8 & 9, 2021. The Board approved the re-election of David Monroe/Police Trustee and the election of Jennifer Grimes/General Member Trustee for the January 1, 2022 to December 31, 2024 term.

### **INVESTMENT PERFORMANCE**

The State of Michigan charges the Board of Trustees under the Public Employee Retirement System Investment Act with the responsibility of investing the System's portfolio in a prudent manner. Specifically, the Public Employee Retirement System Investment Act requires the Board of Trustees and the other investment fiduciaries to discharge their duties solely in the interest of participants and beneficiaries and to act with the same care, skill, prudence, and diligence under the circumstances then prevailing that a prudent person acting in a similar capacity and familiar with those matters would use in the conduct of a similar enterprise with similar aims. The law also requires the Board of Trustees to prepare and maintain written objectives, policies, and strategies with clearly defined accountability and responsibility for implementing and executing the System's investments as well as monitor the investment of the System's assets with regard to the limitations of the law. The Act permits assets to be invested in a mix of fixed income, securities, real estate or other instruments, and allows discretion regarding the investing of up to 70% of assets in global equity, up to 20% in equity real estate investment, up to 20% in foreign investment, and up to 20% in other forms of investment not otherwise qualified under the Act.

Extending the significant restructuring of the System's portfolio begun in 2011, Trustees and consultants continue initiatives to:

- Manage investment costs by moving to indexed strategies for certain asset classes for which markets tend to be more efficient
- Reduce risk by expanding asset allocation to a wider selection of asset types with more global participation
- Participate in investment vehicles that offer inflation protection and that may be less correlated to equity returns
- Restructure the hedge fund program to reduce overlap and add more focused strategies.

Assets will continue to be reallocated as appropriate investment opportunities are identified.

The System's portfolio distribution is continually monitored to ensure that it is in compliance with the State of Michigan Public Employee Retirement System Investment Act.

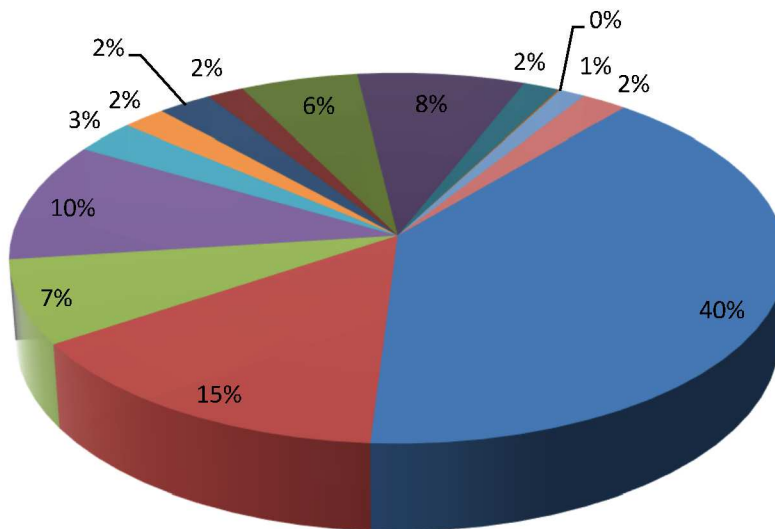
**CITY OF ANN ARBOR EMPLOYEES' RETIREMENT SYSTEM**  
**MARKET VALUE AND ASSET CLASS SUMMARY AS OF JUNE 30, 2021**

| <b>Asset Class</b>                             | <b>Market Value<br/>(\$ Millions)</b> | <b>% of Fund</b> |
|--|---------------------------------------|------------------|
| <b>Domestic Equity</b>                         | \$251.6                               | 39.9%            |
| <b>International Developed Market Equity</b>   | 92.2                                  | 14.6             |
| <b>International Emerging Market Equity</b>    | 46.3                                  | 7.3              |
| <b>Investment Grade Fixed Income</b>           | 65.9                                  | 10.4             |
| <b>Treasury Inflation Protected Securities</b> | 18.3                                  | 2.9              |
| <b>Emerging Market Debt</b>                    | 13.0                                  | 2.1              |
| <b>High Yield Fixed Income</b>                 | 15.8                                  | 2.5              |
| <b>Bank Loans</b>                              | 10.9                                  | 1.7              |
| <b>Private Equity</b>                          | 34.9                                  | 5.5              |
| <b>Real Estate</b>                             | 49.6                                  | 7.9              |
| <b>Natural Resources</b>                       | 10.7                                  | 1.7              |
| <b>Infrastructure</b>                          | 0.5                                   | 0.1              |
| <b>Hedge Fund</b>                              | 7.8                                   | 1.2              |
| <b>Cash</b>                                    | 13.4                                  | 2.1              |
| <b>Total</b>                                   | <b>\$630.9</b>                        | <b>100%</b>      |

Note: Source is Meketa Investment Group. May contain differences from audited financial statements due to timing, manner of presentation, and accounting requirements.

# City of Ann Arbor Employees Retirement System

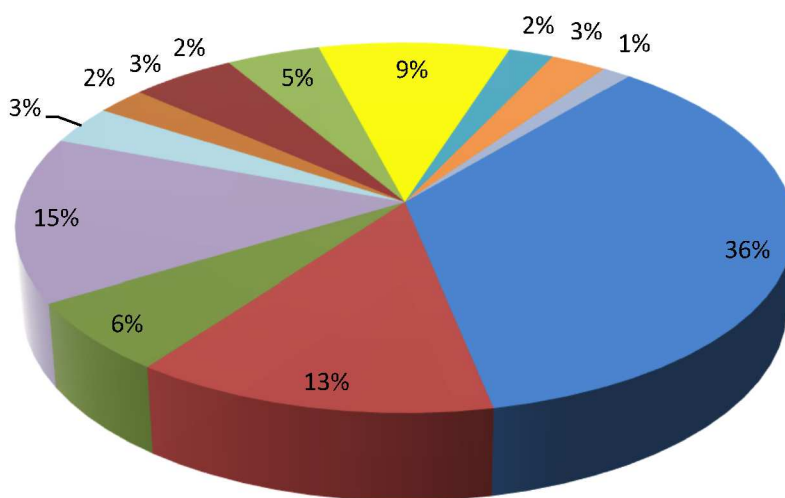
## 2021 Allocation of Assets



- Domestic Equity
- International Developed Market Equity
- International Emerging Market Equity
- Investment Grade Fixed Income
- Treasury Inflation Protected Securities
- Emerging Market Debt
- High Yield Fixed Income
- Bank Loans
- Private Equity
- Real Estate
- Natural Resources
- Infrastructure
- Hedge Fund
- Cash

# City of Ann Arbor Employees Retirement System

## 2020 Allocation of Assets



- Domestic Equity
- International Developed Market Equity
- International Emerging Market Equity
- Investment Grade Fixed Income
- Treasury Inflation Protected Securities
- Emerging Market Debt
- High Yield Fixed Income
- Bank Loans
- Private Equity
- Real Estate
- Natural Resources
- Hedge Fund
- Cash



**Historical Asset Class Performance (%)**  
**Annualized Returns Over Rolling Calendar Year Periods**  
**as of December 31, 2020**

| <b>Asset Class</b>                             | <b><u>1 Year</u></b> | <b><u>3 Years</u></b> | <b><u>5 Years</u></b> | <b><u>7 Years</u></b> | <b><u>10 Years</u></b> |
|--|----------------------|-----------------------|-----------------------|-----------------------|------------------------|
| <b>Total Retirement Plan</b>                   | 13.8%                | 8.8%                  | 9.7%                  | 7.7%                  | 8.0%                   |
| <b>Domestic Equity</b>                         | 17.3                 | 12.9                  | 14.6                  | 12.0                  | 13.3                   |
| <b>International Developed Market Equity</b>   | 12.9                 | 7.8                   | 9.9                   | 6.0                   | 6.2                    |
| <b>International Emerging Market Equity</b>    | 14.7                 | 4.7                   | 12.4                  | 6.2                   | NA                     |
| <b>Investment Grade Fixed Income</b>           | 6.3                  | 4.7                   | 3.9                   | 3.7                   | 3.7                    |
| <b>High Yield Fixed Income</b>                 | 7.3                  | 6.0                   | 8.2                   | 5.5                   | 6.4                    |
| <b>Treasury Inflation Protected Securities</b> | 8.4                  | 5.0                   | 4.2                   | 3.0                   | NA                     |
| <b>Bank Loans</b>                              | 2.8                  | 4.1                   | 4.3                   | 3.8                   | NA                     |
| <b>Emerging Market Debt</b>                    | 1.9                  | 1.3                   | 5.5                   | 0.2                   | NA                     |
| <b>Natural Resources</b>                       | 29.9                 | 15.0                  | NA                    | NA                    | NA                     |
| <b>Alternative</b>                             | 6.0                  | 2.2                   | 0.9                   | 0.6                   | 1.1                    |
| <b>Real Estate</b>                             | 2.0%                 | 6.0%                  | 6.3%                  | 10.2%                 | 10.7%                  |

Note: Source is Meketa Investment Group. Returns are net of fees on a rolling calendar year basis. Performance updates are available quarterly on the System's website.

**Expenditures of the System**

The cost of all benefits, services, and operations, totaling \$ 41,722,498 in 2021, is borne by the System. The benefit payment amounts reflect actual annual outlays for the given year.

| <b>Expenditures of System</b>  | <b>2021</b>         | <b>2020</b>         |
|--------------------------------|---------------------|---------------------|
| <b>Benefit Payments</b>        | \$39,937,793        | \$38,377,862        |
| <b>Refund of Contributions</b> | 638,555             | 1,227,436           |
| <b>Investment Expenses</b>     | 542,146             | 571,746             |
| <b>Administrative Expenses</b> | 604,004             | 689,228             |
| <b>Total</b>                   | <b>\$41,722,498</b> | <b>\$40,866,272</b> |

## Travel Expenditures

|                                  | Budget FY 20/21 | Actual FY 20/21 | Budget FY 21/22 |
|----------------------------------|-----------------|-----------------|-----------------|
| <b>Conference &amp; Training</b> | \$24,800        | \$135.00        | \$32,400        |
| <b>Due Diligence</b>             | \$15,000        | \$0             | \$15,000        |

## Actuarial Valuation

GRS became the Board's actuary effective with the June 30, 2019 valuation. The actuary conducts the actuarial valuations and as requested, experience studies and other analyses for the Board. A copy of the Actuarial Valuation Report is available in the System office at 532 S. Maple Rd., Ann Arbor, MI 48103, and on the System's website. Experience studies are conducted every five years by Board policy, with the most recent study conducted in 2018. All recommendations resulting from the experience study were accepted by the Board with the exception of the discount rate, the corridor around the market value of assets and the loading of System administrative expenses into the normal cost.

## Highlights of the Valuation

|  | 2021         | 2020         | % Change |
|--|--------------|--------------|----------|
| <b>Total Annual Benefit Payments Trend</b> | \$40,414,900 | \$39,054,103 | 3.5%     |
| <b>Average Annual Benefit Payment</b>      | 36,053       | 35,439       | 1.7      |
| <b>Average Accumulated Contributions</b>   | 72,316       | 71,293       | 1.4      |
| <b>Total Annual Valuation Salary</b>       | \$55,047,831 | \$56,188,540 | -2.0%    |

The Actuarial Report indicates that as of June 30, 2021, the System was funded at a ratio of 88.35%. The City's Actuarial Determined Contribution for the fiscal year 2021/2022 will be \$16,125,556 and is projected to be \$14,301,037 for the fiscal year ending June 30, 2023. The City's total contribution rate as a percentage of its payroll is 26.7% for the fiscal year beginning July 1, 2021.

In 2013, City Council approved a policy that provides that the amount contributed by the City for pension funding in any year will be targeted to be the greater of the Actuarial Determined Contribution or the prior year's contribution increased at the same percentage of increase in General Fund revenue, but no less than 2%.

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 6.8% discount rate is used to compute liabilities/future contributions in this valuation. The fund assumed a 6.9% investment return during July 1, 2020 through June 30, 2021 and 6.8% thereafter.



## Actuarial Contributions

| Fiscal Year Ending<br>Development of Employer Contributions | June 30, 2023 | June 30, 2022 |
|---|---------------|---------------|
| Annual Payroll*   | \$58,968,613  | \$60,190,569  |
| Total Accrued Liability                                     | \$627,144,090 | \$614,077,223 |
| Actuarial Value of Assets**                                 | \$554,096,977 | \$520,439,737 |
| Unfunded Actuarial Accrued Liability                        | \$73,047,113  | \$93,637,486  |
| Funded Ratio  | 88.35%        | 84.75%        |
| UAAL as Percent of Annual Payroll                           | 123.87%       | 155.57%       |
| Amortization Payment for UAAL***                            |               |               |
| a. Amount   | \$6,567,471   | \$8,289,574   |
| b. As a % of Pay  | 11.14%        | 13.77%        |
| Employer Normal Cost  |               |               |
| a. Amount   | \$7,733,566   | \$7,835,982   |
| b. As a % of Pay  | 13.11%        | 13.02%        |
| Actuarial Employer Contributions                            |               |               |
| a. Amount   | \$14,301,037  | \$16,125,556  |
| b. As a % of Pay  | 24.25%        | 26.79%        |
| Funding Period  | 20            | 21            |

\* Includes a payroll projection factor of 1.0712 to project each active member to the applicable fiscal year.

\*\* Actuarial Value of Assets for the three employee groups are allocated proportional to Actuarial Accrued Liability.

\*\*\* At the July 20, 2017 Board meeting, the Board adopted a level dollar 24-year amortization for the fiscal year ending June 30, 2017 contribution. This period is scheduled to decline by one year each year until the fiscal year ending June 30, 2026 and thereafter a 15-year amortization period is used.

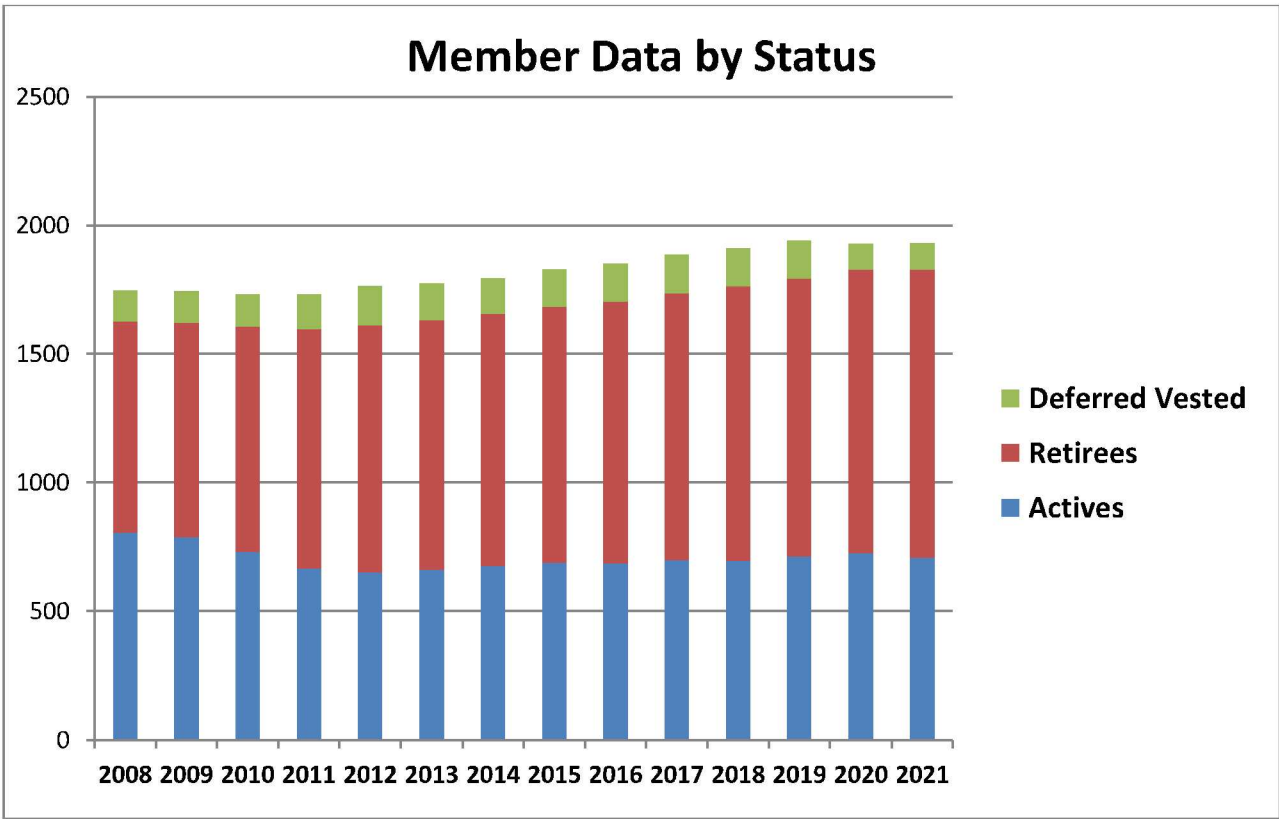
## Schedule of Funding Progress (\$ 000's)

| Actuarial<br>Valuation Date | Actuarial Value<br>of Assets | Actuarial<br>Accrued<br>Liability<br>(AAL) | Unfunded<br>Actuarial<br>Accrued<br>Liability<br>(UAAL) | Funded<br>Ratio | Covered<br>Payroll | UAAL as a<br>Percentage<br>of Covered<br>Payroll |
|-----------------------------|------------------------------|--|---|-----------------|--------------------|--|
| June 30, 2010               | 421,387                      | 466,883                                    | 45,496  | 90.26           | 48,688             | 93.44  |
| June 30, 2011               | 423,734                      | 481,330                                    | 57,596  | 88.03           | 45,921             | 125.42   |
| June 30, 2012               | 410,709                      | 496,770                                    | 86,061  | 82.68           | 44,004             | 195.58   |
| June 30, 2013               | 407,170                      | 507,436                                    | 100,266   | 80.24           | 45,063             | 222.50   |
| June 30, 2014               | 433,854                      | 523,461                                    | 89,607  | 82.88           | 47,957             | 186.85   |
| June 30, 2015               | 459,480                      | 533,198                                    | 73,718  | 86.17           | 48,759             | 151.19   |
| June 30, 2016               | 470,029                      | 548,201                                    | 78,172  | 85.74           | 50,057             | 156.17   |
| June 30, 2017               | 489,943                      | 571,074                                    | 81,131  | 85.79           | 53,583             | 151.41   |
| June 30, 2018               | 505,014                      | 583,600                                    | 78,586  | 86.53           | 53,231             | 147.63   |
| June 30, 2019               | 513,611                      | 601,108                                    | 87,497  | 85.44           | 55,269             | 158.3  |
| June 30, 2020               | 520,439                      | 614,077                                    | 93,637  | 84.75           | 56,188             | 166.6  |
| June 30, 2021               | 554,097                      | 627,144                                    | 73,047  | 88.35           | 60,232             | 121.3  |

**Schedule of Employer Contributions**  
**(\$'s 000's)**

The GASB Statement No. 25 and 67 required contributions and actual percentages contributed over the last ten years are as follows:

| <b>Fiscal Year Ended June 30</b> | <b>Valuation Date June 30</b> | <b>Actuarial Determined Contribution \$ Thousands</b> | <b>Percentage Contributed</b> |
|----------------------------------|-------------------------------|---|-------------------------------|
| 2012                             | 2010                          | 9,440   | 142                           |
| 2013                             | 2011                          | 9,749   | 135                           |
| 2014                             | 2012                          | 11,217  | 100                           |
| 2015                             | 2013                          | 12,327  | 106                           |
| 2016                             | 2014                          | 12,233  | 109                           |
| 2017                             | 2015                          | 11,348  | 117                           |
| 2018                             | 2016                          | 11,757  | 114                           |
| 2019                             | 2017                          | 13,464  | 101%                          |
| 2020                             | 2018                          | 14,093  | 100%                          |
| 2021                             | 2019                          | 15,251  | 100%                          |
| 2022                             | 2020                          | 16,126  |                               |



### MEMBERSHIP

|  | <u>2021</u> | <u>2020</u> |
|--|-------------|-------------|
| Active Participants                        | 707         | 725         |
| Inactive Participants                      | 105         | 103         |
| Retirees & Beneficiaries currently covered | <u>1121</u> | <u>1102</u> |
| <b>Total</b>                               | <b>1933</b> | <b>1930</b> |

### Assumptions, Methods, and Additional Information

|                               |  |
|-------------------------------|--|
| Valuation Date:               | 6/30/2021  |
| Actuarial Cost Method         | Entry Age Normal   |
| Amortization Method:          | Level percent of payroll, closed                                     |
| Remaining amortization period | 20   |
| Asset valuation method        | 5-year adjusted market value   |
| Actuarial assumptions:        |  |
| - Investment Rate of Return   | 6.80%  |
| - Projected Salary Increases  | 3.50%  |
| - Payroll Increases           | 0.5%-7.5%  |
| - Inflation Assumption        | 2.50%  |
| - Cost of Living Adjustments  | Adjustments are funded by financial gains,<br>and are not guaranteed |
| Health Care Inflation         | N/A  |

## Accounting Information for GASB 67/68

The components of the net pension liability of the City at June 30, 2021 and the prior fiscal year are as follows:

|   | <b>June 30, 2021</b> | <b>June 30, 2020</b> |
|---|----------------------|----------------------|
| <b>Total Pension Liability</b>  | \$625,228,357        | \$612,806,044        |
| <b>Plan Fiduciary Net Position</b>  | 626,250,148          | 512,676,260          |
| <b>City's net pension liability</b>   | (1,021,791)          | 100,129,784          |
| <b>Plan Fiduciary net position as a percentage of the total pension liability</b> | 100.16%              | 83.66%               |
| <b>Covered Employee Payroll</b>   | 60,232,543           | 57,970,915           |
| <b>Net Pension Liability as a percentage of covered employee payroll</b>          | 1.70%                | 172.72%              |

Please note this net position and the associated funded level is more closely aligned to the current market value of assets and does not employ a smoothing of past market values.

### Sensitivity of the Net Pension Liability to Changes In Discount Rates

| <b>Decrease to 5.9%</b> | <b>Current 6.9%</b> | <b>Increase to 7.9%</b> |
|-------------------------|---------------------|-------------------------|
| \$67,089,113            | \$(1,021,791)       | \$(58,424,583)          |

## **Description of Plan and Benefits**

The System consists of a contributory defined benefit plan and a defined contribution plan which provide for pension and disability benefits for substantially all City of Ann Arbor employees. The System is composed of “General” and “Police and Fire” members. A number of members within the two groups have the ability to negotiate retirement benefits with the City. Those members not covered by collective bargaining agreements have retirement benefits established through Personnel Rules and Regulations. The System requires both employee and employer contributions, which in conjunction with investment returns, is intended to provide assets sufficient to meet the benefits to be paid to members. The System is open to new hires, although retirement provisions may change according to bargaining unit and date of hire.

The following is a summary of the benefits of the System. Complete details of the benefits and other aspects of the program may be found in Chapter 18 of the City Code and in the Rules and Regulations of the Retirement Board.

## **Benefit Provisions**

Effective January 1, 2017, the System was amended and restated to add to the existing defined benefit plan (Traditional Retirement Plan), a defined contribution money purchase pension plan (Dual Retirement Plan) which will only apply to non-union, AFSCME, and Teamsters Civilian Supervisor employees first hired or rehired on or after January 1, 2017 and to Deputy Police Chiefs and Assistant Fire Chiefs on or after June 5, 2017, and July 1, 2017, respectively. Employees who are members of the Dual Retirement Plan will also participate in and accrue benefits under the Traditional Retirement Plan, but at a rate of accruals that is 50% of the rate of accruals for members of the Traditional Retirement Plan who were hired prior to January 1, 2017. Certain collective bargaining units may agree that newly hired or rehired members of that union will be covered by the Dual Retirement Plan on dates after January 1, 2017. The Traditional Retirement Plan and the Dual Retirement Plan are together called the City of Ann Arbor Employees Retirement System.

The benefit formula provides a monthly benefit – the retirement allowance - for a participant’s lifetime or for a participant and beneficiary’s lifetimes with several actuarially adjusted benefit options. The retirement allowance is composed of 1) an “annuity,” which is the lifetime actuarial value of a member’s contributions plus imputed interest accrued over the working lifetime of the member, and 2) a “pension,” which is the amount added by the City to complete the funding required to equal the total retirement allowance.



# City of Ann Arbor Employees' Retirement System

## Brief Summary of Benefit Provisions Evaluated

**June 30, 2021**

**Regular Retirement (no reduction factor for age):**

| Union   | 5 Year Vesting                    |                                   | 10 Year Vesting                   |                                    | Eligibility   | Annual Amount  |
|---|-----------------------------------|-----------------------------------|-----------------------------------|------------------------------------|---|--|
|   | 3 Year / 36 Mo FAC <sup>(1)</sup> | 5 Year / 60 Mo FAC <sup>(2)</sup> | 5 Year / 36 Mo FAC <sup>(1)</sup> | 10 Year / 60 Mo FAC <sup>(2)</sup> |   |  |
| Non-Union   | Hired before July 1, 2011         | Hired on/after July 1, 2011       |                                   |                                    | Age 50 with 25 years of service or<br>Age 60 and vested | Hired before 1/1/2017: 2.5% of FAC times total years of service<br>Hired after 1/1/2017: 1.25% of FAC times total years of service   |
| American Federation of State, County, and Municipal Employees, AFL CIO (AFSCME) | Hired before August 29, 2011      | Hired on/after August 29, 2011    |                                   |                                    | Age 50 with 25 years of service or<br>Age 60 and vested | Hired before 1/1/2017: 2.5% of FAC times total years of service<br>Hired after 1/1/2017: 1.25% of FAC times total years of service   |
| Ann Arbor Police Officers Association (AAPOA)                                   | Hired before January 1, 2012      | Hired on/after January 1, 2012    |                                   |                                    | 25 years of service or<br>Age 55 and vested             | 2.75% of FAC times total years of service  |
| International Association of Fire Fighters (IAFF)                               | Hired before July 1, 2012         | Hired on/after July 1, 2012       |                                   |                                    | 25 years of service or<br>Age 55 and vested             | 2.75% of FAC times total years of service  |
| Fire Assistant Chief  | Hired before January 1, 2016      | Hired on/after January 1, 2016    |                                   |                                    | 25 years of service or<br>Age 55 and vested             | Hired before 1/1/2017: 2.75% of FAC times total years of service<br>Hired after 1/1/2017: 1.375% of FAC times total years of service |
| Teamsters Civilian Supervisors  | Hired before July 2, 2012         | Hired on/after July 2, 2012       |                                   |                                    | Age 50 with 25 years of service or<br>Age 60 and vested | Hired before 1/1/2017: 2.5% of FAC times total years of service<br>Hired after 1/1/2017: 1.25% of FAC times total years of service   |
| Police Professional Assistants  | Hired before July 2, 2012         | Hired on/after July 2, 2012       |                                   |                                    | Age 50 with 25 years of service or<br>Age 60 and vested | Hired before 1/1/2018: 2.5% of FAC times total years of service<br>Hired after 1/1/2018: 1.25% of FAC times total years of service   |
| Police Deputy Chiefs  | Hired before July 2, 2012         | Hired on/after July 2, 2012       |                                   |                                    | 25 years of service or<br>Age 55 and vested             | Hired before 6/5/2017: 2.75% of FAC times total years of service<br>Hired after 6/5/2017: 1.375% of FAC times total years of service |
| Police Service Specialists  | Hired before July 1, 2013         | Hired on/after July 1, 2013       |                                   |                                    | Age 50 with 25 years of service or<br>Age 60 and vested | Hired before 1/1/2018: 2.5% of FAC times total years of service<br>Hired after 1/1/2018: 1.25% of FAC times total years of service   |
| Command Officers Association of Michigan (COAM)                                 | Hired before July 1, 2013         | Hired on/after July 1, 2013       |                                   |                                    | 25 years of service or<br>Age 55 and vested             | 2.75% of FAC times total years of service  |

<sup>(1)</sup> Highest 3 consecutive calendar years out of last 10 or the last 36 months for members with 5 year vesting.

<sup>(2)</sup> Highest 5 consecutive calendar years out of last 10 or the last 60 months for members with 10 year vesting.

**Annuity Withdrawal** - Upon regular retirement, a member may elect to withdraw his or her accumulated contributions. If this lump sum election is made, the retirement allowance is reduced by the actuarial equivalent of the amount withdrawn.



**Regular Retirement (no reduction factor for age):**

**Eligibility -**

General: Age 50 with 25 years of service, or age 60 with 5 or 10 years of service depending on date of hire. Mandatory Retirement Age - None.

Police-Fire: 25 years of service, or age 55 with 5 or 10 years of service depending on date of hire. Mandatory Retirement Age - None.

**Annual Amount -**

General: If hired before January 1, 2017, total service times 2.5% of final average compensation. If hired on or after January 1, 2017, total service times 1.25% of final average compensation. *(Dual Plan Participants)*

Deputy Police  
Chiefs/  
Assistant Fire

Chiefs: If hired on or after 6/5/2017 & 1/1/17 (AFC), total service times 1.375% of final average compensation. *(Dual Plan Participants)*

Police-Fire: Total service times 2.75% of final average compensation.

**Early Retirement (age reduction factor used):**

**Eligibility -**

General: Age 50 with 20 years of service.

Police-Fire: Age 50 with 20 years of service.

**Annual Amount -**

Computed as regular retirement but the pension portion of the allowance is reduced by .33% for each month by which retirement precedes:

General: Earlier of a) age 60, or b) the age the member would have earned 25 years of credited service.

Police-Fire: Earlier of a) age 55 or b) the age the member would have earned 25 years of Credited service.

The annuity portion of the retirement allowance is unreduced, when applying the early reduction factor, since it has already been actuarially adjusted.

**Deferred Retirement (vested benefit):**

**Eligibility** - 5 or 10 years of service depending on date of hire, payable at age 60.

**Annual Amount** - Same as regular retirement but based upon service and final average compensation at termination. (A member may elect to receive their accumulated contributions at termination, if the member's age plus service total at least 50, and receive a lesser benefit at age 60).

**Duty Disability Retirement:**

**Eligibility** - No age or service requirement.

**Annual Amount** –

General: Computed similar to a regular retirement. Minimum to age 60 is 18% of final average compensation. Minimum after age 60 is sum of a) 12% of the portion of final average compensation not in excess of Social Security base, plus b) 18% of final average compensation in excess of Social Security base. Upon termination of worker's compensation, additional service credit is granted for period in receipt of worker's compensation and benefit is recomputed.

Police-Fire: Computed similar to a regular retirement. Minimum benefit is 25% of final average compensation. Upon termination of worker's compensation, additional service credit is granted for period in receipt of worker's compensation and benefit is recomputed.

**Non-Duty Disability Retirement:**

**Eligibility** - 5 or 10 years of service depending on date of hire.

**Annual Amount** –

General: Computed similar to a regular retirement. Minimum to age 60 is 18% of final average compensation. Minimum after age 60 is sum of a) 12% of the portion of final average compensation not in excess of Social Security base, plus b) 18% of final average compensation in excess of Social Security base.

Police-Fire: Computed similar to a regular retirement. Minimum benefit is 25% of final average compensation.

**Duty Death before Retirement:**

**Eligibility** - No age and service requirement.

**Annual Amount** - Computed similar to a regular retirement but actuarially reduced in accordance with a 100% joint and survivor election. If the member had less than 25 years of service at time of death, a minimum of 25 years of service will be used to compute the benefits. Worker's compensation payments made to the member's beneficiary will offset the benefits paid by the System. Upon termination of worker's compensation payments the amount paid to the beneficiary will be the greatest of the annual worker's compensation payment and the computed 100% joint and survivor retirement benefit.

**Non-Duty Death before Retirement:**

**Eligibility** - 5 or 10 years of service depending on date of hire.

**Annual Amount** - Computed similar to a regular retirement but actuarially reduced in accordance with a 100% joint and survivor election. If there is no named beneficiary, a lump sum will be payable to the estate.

**Post-Retirement Adjustments:**

Adjustments may be made every July 1 to retirees and beneficiaries who have been receiving a benefit for at least 12 months. Adjustments are funded by financial gains, and are not guaranteed. Participants whose benefit falls below a minimum benefit amount as adjusted by inflation, may receive an increase in benefit, prorated by credited service at retirement.

**Member Contributions:**

AFSCME, Non-Union and Teamsters hired on/after 1/1/2017, Assistant Fire Chiefs hired on/after 1/1/2017, Police Deputy Chiefs hired on/after 6/5/2017, Police Service Specialist and Police Professional Assistants hired on/after 01/01/2018: 3.0% of annual compensation.

Fire hired prior to 7/1/2012: 6.0% of annual compensation until 1/1/2022.

Fire hired on/after 7/1/2012: 6.5% of annual compensation.

All Others: 6.0% of annual compensation.

**MEMBER INTEREST CREDITS**

Member interest credits on member contributions are calculated annually, depending on a rolling period of investment returns. Effective January 1, 2021, member's individual accounts will be credited with interest at 1.85 % per quarter for an annual return of 7.6 %.

## **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 System.**

**This section contains:**

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

**City of Ann Arbor**  
**Employees' Retirement System**  
**Statement of Fiduciary Net Position**  
**June 30, 2021**

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**Assets**

|                            |                   |
|----------------------------|-------------------|
| Investments, at fair value |                   |
| Equities                   | \$ 437,519,322    |
| Fixed income               | 128,439,272       |
| Other                      | <u>66,259,684</u> |

Total investments 632,218,278

|   |                |
|---|----------------|
| Equity in City of Ann Arbor pooled cash and investments | 980,963        |
| Accounts Receivable                                     | 1,500          |
| Accrued interest and dividends                          | 344,947        |
| Due from other funds                                    | 139,463        |
| Capital assets, net                                     | <u>323,958</u> |

Total assets 634,009,109

**Deferred Outflows of Resources**

|   |               |
|---|---------------|
| Deferred amount of pension expense related to net pension liability | 52,963        |
| Deferred amount of OPEB expense related to net OPEB liability       | <u>79,987</u> |

Total deferred outflows of resources 132,950

Total assets and deferred outflows of resources 634,142,059

**Liabilities**

|   |                |
|---|----------------|
| Accounts payable and accrued liabilities    | 3,548,113      |
| Mortgage payable, due in one year           | 34,106         |
| Mortgage payable, due in more than one year | 35,640         |
| Net pension liability                       | 272,089        |
| Net OPEB liability                          | <u>469,296</u> |

Total liabilities 4,359,244

**Deferred Inflows of Resources**

|  |               |
|--|---------------|
| Deferred amount on net pension liability | 295,639       |
| Deferred amount on OPEB liability        | <u>18,605</u> |

Total deferred inflows of resources 314,244

Total liabilities and deferred inflows of resources 4,673,488

**Net position restricted for pensions** \$ 629,468,571

**City of Ann Arbor**  
**Employees' Retirement System**  
**Statement of Changes in Fiduciary Net Position**  
**For the Year Ended June 30, 2021**

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**Additions**

|  |                    |
|--|--------------------|
| Investment income  |                    |
| From investing activities                                |                    |
| Net appreciation in fair value of investments            | \$ 131,247,289     |
| Interest and dividends                                   | <u>6,291,276</u>   |
| Total investment income                                  | 137,538,565        |
| Investment management fees                               | <u>(540,311)</u>   |
| Net investment income from investing activities          | <u>136,998,254</u> |
| <br>   |                    |
| From securities lending activities                       |                    |
| Gross earnings   | 698                |
| Borrower rebates paid                                    | (1,254)            |
| Securities lending fees                                  | <u>584</u>         |
| Net investment income from securities lending activities | <u>28</u>          |
| <br>   |                    |
| Total net investment income                              | <u>136,998,282</u> |
| <br>   |                    |
| Contributions  |                    |
| Employer   | 15,805,164         |
| Plan members   | <u>3,536,902</u>   |
| Total contributions                                      | <u>19,342,066</u>  |
| <br>   |                    |
| Total Additions  | <u>156,340,348</u> |

**Deductions**

|                                  |                       |
|----------------------------------|-----------------------|
| Benefits                         | 39,937,793            |
| Refunds                          | 674,096               |
| Administrative expenses          | <u>555,410</u>        |
| <br>                             |                       |
| Total Deductions                 | <u>41,167,299</u>     |
| <br>                             |                       |
| Change in net position           | 115,173,049           |
| <br>                             |                       |
| Net position - beginning of year | <u>514,295,522</u>    |
| <br>                             |                       |
| Net position - end of year       | <u>\$ 629,468,571</u> |



**City of Ann Arbor  
Projected Budget**

|                               | <u><b>Budget</b></u>              |
|-------------------------------|-----------------------------------|
|                               | <u><b>FY21/22</b></u>             |
| Salary and Fringes            | \$482,637                         |
| Insurance Premiums            | \$31,252                          |
| Actuary                       | \$50,000                          |
| Actuary-Additional projects   | \$10,000                          |
| Attorney                      | \$55,000                          |
| Auditor                       | \$4,600                           |
| Professional Services         | \$5,000                           |
| Electricity                   | \$1,940                           |
| Gas                           | \$940                             |
| Contracted Services           | \$500                             |
| Telecommunications            | \$430                             |
| Equipment Maintenance         | \$580                             |
| Building Maintenance          | \$4,500                           |
| Printing                      | \$1,300                           |
| Conf & Training               | \$32,400                          |
| Due Diligence                 | \$15,000                          |
| Government Functions          | \$3,600                           |
| Contingency/Miscellaneous     | \$7,200                           |
| Postage                       | \$1,200                           |
| Supplies                      | \$1,220                           |
| Equipment <5000               | \$1,150                           |
| Dues/Subscriptions            | \$1,800                           |
| IT Charges                    | \$28,900                          |
| Software - Actuarial          | \$10,000                          |
| Software Maintenance          | \$25,000                          |
| Interest on Mortgage          | \$2,728                           |
| Principal on Mortgage         | \$34,106                          |
|                               | <hr/>                             |
| Total Administrative Costs    | \$812,983                         |
|                               | <br>                              |
| Total Investment Services     | \$2,305,000                       |
|                               | <hr/>                             |
| Benefit/Refund Payments       | \$1,125,000                       |
| Benefit Payments              | \$42,145,000                      |
|                               | <hr/>                             |
| Total Benefit/Refund Payments | \$43,270,000                      |
|                               | <br>                              |
| <b>Total Budget</b>           | <b><u><u>\$46,387,983</u></u></b> |

City of Ann Arbor  
Employees' Retirement System

**ACKNOWLEDGMENTS**

We thank Daniel Gustafson, Maria Buffone, and Laura Hollabaugh of the System staff for their assistance in preparing this report for City Council, members of the System, and the public.

*Jeremy Flack*

Jeremy Flack (Dec 21, 2021 16:40 EST)

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**Jeremy Flack, Chairperson  
City of Ann Arbor  
Employees' Retirement System**

*Wendy Orcutt*

Wendy Orcutt (Dec 21, 2021 15:19 EST)

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**Wendy Orcutt, Executive Director  
City of Ann Arbor  
Employees' Retirement System**