

City of Ann Arbor

Retiree Health Benefits Plan & Trust

GASB Statement Nos. 74 and 75, Accounting and Financial
Reporting for Postemployment Benefits Other Than Pensions
June 30, 2020





August 20, 2020

Board of Trustees
City of Ann Arbor
Retiree Health Benefits Plan & Trust
Ann Arbor, Michigan

Dear Trustees:

This report provides information on behalf of the City of Ann Arbor Retiree Health Benefits Plan & Trust in connection with the Governmental Accounting Standards Board (GASB) Statement Nos. 74 and 75. GASB Statement No. 74 is the accounting standard, which applies to other postemployment benefits (OPEB) plans that are administered through trusts or equivalent arrangements. GASB Statement No. 75 establishes accounting and financial reporting requirements for state and local government employers that provide their employees with postemployment benefits other than pension.

The calculation of the liability associated with the benefits described in this report was performed for the purpose of satisfying the requirements of GASB Statement Nos. 74 and 75. The Net OPEB Liability is not an appropriate measure for measuring the sufficiency of plan assets to cover the estimated cost of settling the employer's benefit obligation. The Net OPEB Liability is not an appropriate measure for assessing the need for or amount of future employer contributions. The calculation of the plan's liability for this report is not applicable for funding purposes of the plan. A calculation of the plan's liability for purposes other than satisfying the requirements of GASB Statement Nos. 74 and 75 may produce significantly different results. This report may be provided to parties other than the City of Ann Arbor Retiree Health Benefits Plan & Trust only in its entirety and only with the permission of the City of Ann Arbor Retiree Health Benefits Plan & Trust. GRS is not responsible for unauthorized use of this report.

This report complements the actuarial valuation report prepared as of June 30, 2019, and information herein should be considered along with the information from that report, especially for additional discussions of the nature of actuarial calculations and for more information related to participant data, economic, demographic, health care trend, morbidity assumptions, and benefit provisions.

This report is based upon information, furnished to us by the City of Ann Arbor Retiree Health Benefits Plan & Trust, concerning other postemployment benefits (OPEB), active members, deferred vested members, retirees and beneficiaries, and financial data. This information was checked for internal consistency, but it was not audited.

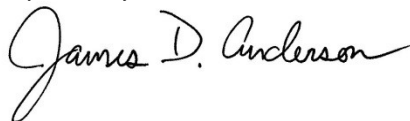
Based on the available data, the information contained in this report is accurate and fairly represents the actuarial position of the City of Ann Arbor Retiree Health Benefits Plan & Trust as of the reporting date. All calculations have been made in conformity with generally accepted actuarial principles and practices as well as the Actuarial Standards of Practice. If you have reason to believe that the information provided in this report is inaccurate, or is in any way incomplete, or if you need further information in order to make an informed decision on the subject matter of this report, please contact the authors of the report prior to making such decision.

Future actuarial measurements may differ significantly from the current measurements presented in this report due to such factors as the following: plan experience differing from that anticipated by the economic or demographic assumptions; changes in economic or demographic assumptions; increases or decreases expected as part of the natural operation of the methodology used for these measurements; and changes in plan provisions or applicable law.

Section I of the report details the calculation of the single discount rate and is not required to be included in your financial statements. However, this information may be requested by your auditors, therefore, we have included it in this report.

James D. Anderson and Francois Pieterse are Members of the American Academy of Actuaries (MAAA) and meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinions contained herein.

Respectfully submitted,



James D. Anderson, FSA, EA, FCA, MAAA



Francois Pieterse, ASA, FCA, MAAA

JDA/FP:dj

C0038



Auditor's Note – This information is intended to assist in preparation of the financial statements of the City of Ann Arbor Retiree Health Benefits Plan & Trust. Financial statements are the responsibility of management, subject to the auditor's review. Please let us know if the auditor recommends any changes.



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SECTION A

EXECUTIVE SUMMARY

Executive Summary as of June 30, 2020

Actuarial Valuation Date	June 30, 2019
Measurement Date of the Net OPEB Liability	June 30, 2020
Employer's Fiscal Year Ending Date (Reporting Date)	June 30, 2020

Membership

Number of ⁽¹⁾	
- Retirees and Beneficiaries	1,052
- Inactive, Nonretired Members	0
- Active Members	711
- Total	1,763
Covered Payroll ⁽²⁾	\$ 57,970,915

Net OPEB Liability

Total OPEB Liability	\$ 289,866,913
Plan Fiduciary Net Position	193,649,479
Net OPEB Liability	\$ 96,217,434
Plan Fiduciary Net Position as a Percentage of Total OPEB Liability	66.81 %
Net OPEB Liability as a Percentage of Covered Payroll	165.98 %

Development of the Single Discount Rate

Single Discount Rate	7.00 %
Long-Term Municipal Bond Rate ⁽³⁾	2.45 %

Total OPEB Expense \$ 13,165,028

Deferred Outflows and Deferred Inflows of Resources by Source to be Recognized in Future OPEB Expenses

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ 17,414,392	\$ 0
Changes in assumptions	0	17,074,841
Net difference between projected and actual earnings on OPEB plan investments	5,250,906	6,000
Total	\$ 22,665,298	\$ 17,080,841

⁽¹⁾ As of the actuarial valuation date. GRS does not have membership counts as of June 30, 2020. City of Ann Arbor staff and auditors may decide that providing membership counts as of the valuation date is sufficient. Alternatively, the City may decide to update the membership counts to be as of the Plan's fiscal year end.

⁽²⁾ Covered payroll was provided by the City of Ann Arbor and may or may not meet the GASB Statement Nos. 74 and 75 definition of Covered Payroll.

⁽³⁾ Source: Fixed-income municipal bonds with 20 years to maturity that include only federally tax-exempt municipal bonds as reported in Fidelity Index's "20-Year Municipal GO AA Index" as of June 30, 2020. In describing this index, Fidelity notes that the municipal curves are constructed using option-adjusted analytics of a diverse population of over 10,000 tax-exempt securities.



Discussion

Accounting Standard

For postemployment (OPEB) benefit plans that are administered through trusts or equivalent arrangements, Governmental Accounting Standards Board (GASB) Statement No. 74, "Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans," replaces the requirements of GASB Statement No. 43, "Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans." Similarly, GASB Statement No. 75 establishes standards for state and local government employers (as well as non-employer contributing entities) to account for and disclose net OPEB liability, OPEB expense, and other information associated with providing OPEB to their employees (and former employees) on their financial statements.

GASB Statement Nos. 74 and 75 are effective for fiscal years beginning after June 15, 2016 and June 15, 2017, respectively.

The following discussion provides a summary of the information that is required to be disclosed under these accounting standards. A number of these disclosure items are provided in this report. However, certain information, such as notes regarding accounting policies and investments, is not included in this report. As a result, the plan sponsor will be responsible for preparing and disclosing the non-actuarial information needed to comply with these accounting standards.

Financial Statements

GASB Statement No. 75 requires state and local government employers to recognize the net OPEB liability and the OPEB expense on their financial statements, along with the related deferred outflows and inflows of resources. The net OPEB liability is the difference between the total OPEB liability and the plan's fiduciary net position. In traditional actuarial terms, this is analogous to the accrued liability less the market value of assets.

GASB Statement No. 75 states the employer contributions made to the OPEB plan subsequent to the measurement date and before the end of the employer's reporting period should be reported as a deferred outflow of resources. The information contained in this report does not incorporate any employer contributions made subsequent to the measurement date of June 30, 2020.

The OPEB expense recognized each fiscal year is equal to the change in the net OPEB liability from the beginning of the year to the end of the year, adjusted for deferred recognition of the liability and investment experience.

GASB Statement No. 74 requires defined benefit OPEB plans which are administered as trusts or equivalent arrangements to present two financial statements: a statement of fiduciary net position and a statement of changes in fiduciary net position. The statement of fiduciary net position presents the assets and liabilities of the OPEB plan at the end of the OPEB plan's reporting period. The statement of changes in fiduciary net position presents the additions, such as contributions and investment income, and deductions, such as benefit payments and expense, and net increase or decrease in the fiduciary net position.

Notes to Financial Statements

GASB Statement No. 75 requires the notes of the employer's financial statements to disclose the total OPEB expense, the OPEB plan's liabilities and assets, and deferred outflows of resources and inflows of resources related to OPEB.

GASB Statement Nos. 74 and 75 require the notes of the financial statements for employers and OPEB plans to include certain additional information. The list of disclosure items should include:

- The name of the OPEB plan, the administrator of the OPEB plan; and the identification of whether the OPEB plan is a single-employer, agent, or cost-sharing OPEB plan;
- A description of the benefits provided by the plan;
- A brief description of changes in benefit terms or assumptions that affected the measurement of the total OPEB liability since the prior measurement date;
- The number of plan members by category and if the plan is closed;
- A description of the plan's funding policy, which includes member and employer contribution requirements;
- The OPEB plan's investment policies;
- The OPEB plan's fiduciary net position and the net OPEB liability;
- The net OPEB liability using +/- 1% on the discount rate;
- The net OPEB liability using +/- 1% on the healthcare trend rate;
- Significant assumptions and methods used to calculate the total OPEB liability;
- Inputs to the discount rates; and
- Certain information about mortality assumptions and the dates of experience studies.

OPEB plans that are administered through trusts or equivalent arrangements are required to disclose additional information in accordance with GASB Statement No. 74. This information includes:

- The composition of the OPEB plan's Board and the authority under which benefit terms may be amended;
- A description of how fair value is determined;
- Information regarding certain reserves and investments, which include concentrations of investments greater than or equal to 5%, receivables, and insurance contracts excluded from plan assets; and
- Annual money-weighted rate of return.

Required Supplementary Information

GASB Statement No. 74 requires a 10-year fiscal history of:

- Sources of changes in the net OPEB liability;
- Information about the components of the net OPEB liability and related ratios, including the OPEB plan's fiduciary net position as a percentage of the total OPEB liability, and the net OPEB liability as a percent of covered-employee payroll;
- Comparison of the actual employer contributions to the actuarially determined contributions based on the plan's funding policy; and
- For plans with an actuarially determined contribution, the schedule covering each of the 10 most recent fiscal years of the actuarially determined contribution, contributions to the OPEB plan and related ratios.

General Implications of Contribution Allocation Procedure or Funding Policy on Future Expected Plan Contributions and Funded Status

Given the plan's contribution allocation procedure, if all actuarial assumptions are met (including the assumption of the plan earning 7.00% on the actuarial value of assets), then the following outcomes are expected:

1. The employer normal cost as a percentage of pay is expected to remain level as a percentage of payroll.
2. The unfunded liability will decrease in dollar amount for 15 years.
3. The funded status of the plan will increase gradually towards a 100% funded ratio.

This funding policy results in an expected crossover date in 2120 and a GASB single discount rate of 7.00%. The projections in this report are strictly for the purpose of determining the GASB single discount rate and are different from a funding projection for the ongoing plan.

Frequency and Timing of the Actuarial Valuation

An actuarial valuation to determine the total OPEB liability is required to be performed at least every two years. For the employer's financial reporting purposes, the net OPEB liability and OPEB expense should be measured as of the employer's "measurement date," which may not be earlier than the employer's prior fiscal year end-date. If the actuarial valuation used to determine the total OPEB liability is not calculated as of the measurement date, the total OPEB liability is required to be rolled forward from the actuarial valuation date to the measurement date.

The total OPEB liability shown in this report is based on a replication of the actuarial valuation performed as of June 30, 2019 and a measurement date of June 30, 2020. The total OPEB liability was "rolled forward" from June 30, 2019 to June 30, 2020 using generally accepted actuarial principles.

Single Discount Rate

Projected benefit payments are required to be discounted to their actuarial present values using a Single Discount Rate that reflects: (1) a long-term expected rate of return on OPEB plan investments (to the extent that the plan's fiduciary net position is projected to be sufficient to pay benefits); and (2) tax-exempt municipal bond rate based on an index of 20-year general obligation bonds with an average AA credit rating as of the measurement date (to the extent that the contributions for use with the long-term expected rate of return are not met).

For the purpose of this valuation, the expected rate of return on OPEB plan investments is 7.00%; the municipal bond rate is 2.45% (based on the daily rate closest to but not later than the measurement date of the Fidelity "20-Year Municipal GO AA Index"); and the resulting Single Discount Rate is 7.00%.

Actuarial Assumptions

The actuarial assumptions used to value the liabilities are outlined in detail in Section G. The assumptions include details on the health care trend assumption, the aging factors, as well as the cost method used to develop the OPEB expense.

Future Uncertainty or Risk

Future results may differ from those anticipated in this valuation. Reasons include, but are not limited to:

- Actual medical trend differing from expected;
- Changes in the healthcare plan designs offered to active and retired members; and
- Participant behavior differing from expected, e.g.,
 - Elections at retirement;
 - One-person versus two-person coverage elections; and
 - Time of retirement or termination.

Benefits Valued

The benefit provisions that were valued are described in Section I. The valuation is required to be performed on the current benefit terms and existing legal agreements. Consideration is to be given to the written plan document as well as other communications between the employer and plan members and an established pattern of practice for cost sharing. The summary of major plan provisions is designed to outline principal plan benefits. If the plan summary is not in accordance with the actual provisions, please alert the actuaries immediately, so they can both be sure the proper provisions are valued.

Effective Date and Transition

GASB Statement Nos. 74 and 75 are effective for fiscal years beginning after June 15, 2016, and June 15, 2017, respectively.



SECTION B

FINANCIAL STATEMENTS

Auditor's Note – This information is intended to assist in preparation of the financial statements of the City of Ann Arbor Retiree Health Benefits Plan & Trust. Financial statements are the responsibility of management, subject to the auditor's review. Please let us know if the auditor recommends any changes.

Statement of OPEB Expense Under GASB Statement No. 75

Fiscal Year Ended June 30, 2020

A. Expense

1. Service Cost	\$	2,169,920
2. Interest on the Total OPEB Liability		20,212,994
3. Current-Period Benefit Changes		0
4. Employee Contributions (made negative for addition here)		0
5. Projected Earnings on Plan Investments (made negative for addition here)		(13,064,041)
6. OPEB Plan Administrative Expense		177,731
7. Other Changes in Plan Fiduciary Net Position		0
8. Recognition of Outflow (Inflow) of Resources due to Liabilities		2,343,876
9. Recognition of Outflow (Inflow) of Resources due to Assets		1,324,548
10. Total OPEB Expense	\$	13,165,028

Recognition of Deferred Outflows and Inflows of Resources

Differences between expected and actual experience and changes in assumptions are recognized in the OPEB expense using a systematic and rational method over a closed period equal to the average of the expected remaining service lives of all employees that are provided with OPEB through the OPEB plan (active employees and inactive employees) determined as of the beginning of the measurement period.

At the beginning of the current measurement period, the expected remaining service lives of all active employees in the plan was approximately 6,924 years as of the valuation date. Additionally, the total plan membership (active employees and inactive employees) was 1,763 as of the valuation date. As a result, the average of the expected remaining service lives for purposes of recognizing the applicable deferred outflows and inflows of resources established in the current measurement period is 3.9277 years.

Additionally, differences between projected and actual earnings on OPEB plan investments should be recognized in the OPEB expense using a systematic and rational method over a closed five-year period. For this purpose, the deferred outflows and inflows of resources are recognized in the OPEB expense as a level dollar amount over the closed period identified above.

Statement of Outflows and Inflows Arising from Current Reporting Period Fiscal Year Ended June 30, 2020

A. Outflows (Inflows) of Resources Due to Liabilities

1. Difference between expected and actual experience of the Total OPEB Liability (gains) or losses	\$ 8,453,222
2. Assumption Changes (gains) or losses	\$ (22,907,010)
3. Recognition period for Liabilities: Average of the expected remaining service lives of all employees {in years}	3.9277
4. Outflow (Inflow) of Resources to be recognized in the current OPEB expense for the difference between expected and actual experience of the Total OPEB Liability	\$ 2,152,207
5. Outflow (Inflow) of Resources to be recognized in the current OPEB expense for assumption changes	\$ (5,832,169)
6. Outflow (Inflow) of Resources to be recognized in the current OPEB expense due to Liabilities	\$ (3,679,962)
7. Deferred Outflow (Inflow) of Resources to be recognized in future OPEB expenses for the difference between expected and actual experience of the Total OPEB Liability	\$ 6,301,015
8. Deferred Outflow (Inflow) of Resources to be recognized in future OPEB expenses for assumption changes	\$ (17,074,841)
9. Deferred Outflow (Inflow) of Resources to be recognized in future OPEB expenses due to Liabilities	\$ (10,773,826)

B. Outflows (Inflows) of Resources Due to Assets

1. Net difference between projected and actual earnings on OPEB plan investments (gains) or losses	\$ 6,341,315
2. Recognition period for Assets {in years}	5.0000
3. Outflow (Inflow) of Resources to be recognized in the current OPEB expense due to Assets	\$ 1,268,263
4. Deferred Outflow (Inflow) of Resources to be recognized in future OPEB expenses due to Assets	\$ 5,073,052



Statement of Outflows and Inflows Arising from Current and Prior Reporting Periods Fiscal Year Ended June 30, 2020

A. Outflows and Inflows of Resources by Source to be Recognized in Current OPEB Expense

	Outflows of Resources	Inflows of Resources	Net Outflows of Resources
1. Differences between expected and actual experience	\$ 8,176,045	\$ 0	\$ 8,176,045
2. Assumption changes	0	5,832,169	(5,832,169)
3. Net difference between projected and actual earnings on OPEB plan investments	1,327,548	3,000	1,324,548
4. Total	\$ 9,503,593	\$ 5,835,169	\$ 3,668,424

B. Deferred Outflows and Deferred Inflows of Resources by Source to be Recognized in Future OPEB Expenses

	Deferred Outflows of Resources	Deferred Inflows of Resources	Net Deferred Outflows of Resources
1. Differences between expected and actual experience	\$ 17,414,392	\$ 0	\$ 17,414,392
2. Assumption changes	0	17,074,841	(17,074,841)
3. Net difference between projected and actual earnings on OPEB plan investments	5,250,906	6,000	5,244,906
4. Total	\$ 22,665,298	\$ 17,080,841	\$ 5,584,457

C. Deferred Outflows and Deferred Inflows of Resources by Year to be Recognized in Future OPEB Expenses

Year Ending June 30	Net Deferred Outflows of Resources
2021	\$ 3,668,424
2022	2,734,125
2023	(2,086,355)
2024	1,268,263
2025	0
Thereafter	0
Total	\$ 5,584,457

Recognition of Deferred Outflows and Inflows of Resources

Fiscal Year Ended June 30, 2020

Year Established	Initial Amount	Initial Recognition Period	Current Year Recognition	Remaining Recognition	Remaining Recognition Period
Deferred Outflow (Inflow) Due to Differences Between Expected and Actual Experience on Liabilities					
2018	\$ 0	0.0000	\$ 0	\$ 0	0.0000
2019	23,161,053	3.8449	6,023,838	11,113,377	1.8449
2020	8,453,222	3.9277	2,152,207	6,301,015	2.9277
Total			\$ 8,176,045	\$ 17,414,392	
Deferred Outflow (Inflow) Due to Assumption Changes					
2018	\$ 0	0.0000	\$ 0	\$ 0	0.0000
2019	0	3.8449	0	0	1.8449
2020	(22,907,010)	3.9277	(5,832,169)	(17,074,841)	2.9277
Total			\$ (5,832,169)	\$ (17,074,841)	
Deferred Outflow (Inflow) Due to Differences Between Projected and Actual Earnings on Plan Investments					
2018	\$ (15,000)	5.0000	\$ (3,000)	\$ (6,000)	2.0000
2019	296,424	5.0000	59,285	177,854	3.0000
2020	6,341,315	5.0000	1,268,263	5,073,052	4.0000
Total			\$ 1,324,548	\$ 5,244,906	

Statement of Fiduciary Net Position as of June 30, 2020

	2020
Assets	
Cash and Deposits	\$ 0
Receivables	
Accounts Receivable - Sale of Investments	\$ 0
Accrued Interest and Other Dividends	212,932
Contributions	0
Accounts Receivable - Other	666,784
Total Receivables	\$ 879,716
Investments	
Fixed Income	\$ 55,813,124
Domestic Equities	76,711,876
International Equities	33,314,717
Real Estate	18,280,855
Other	8,770,808
Total Investments	\$ 192,891,380
Total Assets	\$ 193,771,096
Liabilities	
Payables	
Accounts Payable - Purchase of Investments	\$ 0
Accrued Expenses	0
Accounts Payable - Other	121,617
Total Liabilities	\$ 121,617
Net Position Restricted for OPEB	\$ 193,649,479

Statement of Changes in Fiduciary Net Position for Year Ended June 30, 2020

	2020
Additions	
Contributions	
Employer ⁽¹⁾	\$ 12,241,536
Nonemployer contributing entities	0
Active Employees	0
Other	0
Total Contributions	\$ 12,241,536
Investment Income	
Net Appreciation in Fair Value of Investments	\$ 3,498,740
Interest and Dividends	3,431,382
Less Investment Expense	(207,396)
Net Investment Income	\$ 6,722,726
Other	\$ 0
Total Additions	\$ 18,964,262
 Deductions	
Benefit Payments ⁽¹⁾	\$ 11,468,614
OPEB Plan Administrative Expense	177,731
Other	0
Total Deductions	\$ 11,646,345
Net Increase in Net Position	\$ 7,317,917
 Net Position Restricted for OPEB	
Beginning of Year	\$ 186,331,562
End of Year	\$ 193,649,479

⁽¹⁾ Includes amount being paid outside of the Trust.

SECTION C

REQUIRED SUPPLEMENTARY INFORMATION

Auditor's Note – This information is intended to assist in preparation of the financial statements of the City of Ann Arbor Retiree Health Benefits Plan & Trust. Financial statements are the responsibility of management, subject to the auditor's review. Please let us know if the auditor recommends any changes.

Schedule of Changes in Net OPEB Liability and Related Ratios

Current Reporting Period

Fiscal Year Ended June 30, 2020

A. Total OPEB Liability	
1. Service cost	\$ 2,169,920
2. Interest on the Total OPEB Liability	20,212,994
3. Changes of benefit terms	0
4. Difference between expected and actual experience of the Total OPEB Liability	8,453,222
5. Changes of assumptions	(22,907,010)
6. Benefit payments, including refunds of employee contributions ⁽¹⁾	(11,468,614)
7. Net change in Total OPEB Liability	<u>(3,539,488)</u>
8. Total OPEB Liability – Beginning	<u>293,406,401</u>
9. Total OPEB Liability – Ending	<u><u>\$ 289,866,913</u></u>
B. Plan Fiduciary Net Position	
1. Contributions – employer ⁽¹⁾	\$ 12,241,536
2. Contributions – nonemployer contributing entities	0
3. Contributions – employee	0
4. Net investment income	6,722,726
5. Benefit payments, including refunds of employee contributions ⁽¹⁾	(11,468,614)
6. OPEB plan administrative expense	(177,731)
7. Other	0
8. Net change in Plan Fiduciary Net Position	<u>7,317,917</u>
9. Plan Fiduciary Net Position – Beginning	<u>186,331,562</u>
10. Plan Fiduciary Net Position – Ending	<u><u>\$ 193,649,479</u></u>
C. Net OPEB Liability	<u><u>\$ 96,217,434</u></u>
D. Plan Fiduciary Net Position as a percentage of the Total OPEB Liability	66.81 %
E. Covered-employee payroll⁽²⁾	\$ 57,970,915
F. Net OPEB Liability as a percentage of covered-employee payroll	165.98 %

⁽¹⁾ Includes amount being paid outside of the Trust.

⁽²⁾ Covered payroll was provided by the City of Ann Arbor and may or may not meet the GASB Statement Nos. 74 and 75 definition of Covered Payroll.

Schedules of Required Supplementary Information

Schedule of Changes in Net OPEB Liability and Related Ratios Multiyear

Measurement Date - June 30,	2020	2019 ⁽³⁾	2018	2017	2016	2015	2014	2013	2012	2011
Total OPEB Liability										
Service cost	\$ 2,169,920	\$ 2,623,068	\$ 3,331,000	\$ 3,071,000						
Interest on the Total OPEB Liability	20,212,994	17,926,505	17,099,000	17,058,000						
Changes of benefit terms ⁽⁴⁾	0	1,500,000	0	0						
Difference between expected and actual experience	8,453,222	23,161,053	0	0						
Changes of assumptions	(22,907,010)	0	0	0						
Benefit payments, including refunds of employee contributions ⁽¹⁾	(11,468,614)	(13,171,225)	(14,273,000)	(13,207,000)						
Net change in Total OPEB Liability	(3,539,488)	32,039,401	6,157,000	6,922,000						
Total OPEB Liability - Beginning	293,406,401	261,367,000	255,210,000	247,107,000						
Total OPEB Liability - Ending (a)	\$ 289,866,913	\$ 293,406,401	\$ 261,367,000	\$ 254,029,000						
Plan Fiduciary Net Position										
Employer contributions	\$ 12,241,536	\$ 15,987,768	\$ 17,724,000	\$ 16,667,000						
Nonemployer contributing entities contributions	0	0	0	0						
Employee contributions	0	0	0	0						
OPEB plan net investment income	6,722,726	11,824,566	11,114,000	17,225,000						
Benefit payments, including refunds of employee contributions ⁽¹⁾	(11,468,614)	(13,171,225)	(14,273,000)	(13,207,000)						
OPEB plan administrative expense	(177,731)	(116,900)	(97,000)	(130,000)						
Other	0	353	0	0						
Net change in Plan Fiduciary Net Position	7,317,917	14,524,562	14,468,000	20,555,000						
Plan Fiduciary Net Position - Beginning	186,331,562	171,807,000	157,339,000	136,784,000						
Plan Fiduciary Net Position - Ending (b)	\$ 193,649,479	\$ 186,331,562	\$ 171,807,000	\$ 157,339,000						
Net OPEB Liability - ending (a) - (b)	\$ 96,217,434	\$ 107,074,839	\$ 89,560,000	\$ 96,690,000						
Plan Fiduciary Net Position as a percentage of Total OPEB Liability										
	66.81 %	63.51 %	65.73 %	61.94 %						
Covered-employee payroll⁽²⁾	\$ 57,970,915	\$ 57,077,636	\$ 55,458,000	\$ 53,583,000						
Net OPEB Liability as a percentage of covered-employee payroll										
	165.98 %	187.60 %	161.49 %	180.45 %						

Notes to Schedule:

⁽¹⁾ Includes amount being paid outside of the Trust.

⁽²⁾ Covered payroll was provided by the City of Ann Arbor and may or may not meet the GASB Statement Nos. 74 and 75 definition of Covered Payroll.

⁽³⁾ Results for 2018 and prior years were calculated by the City's prior actuaries. The 2019 entry for "Differences between expected and actual experience" includes changes in liabilities due to actuarial gain/loss, prior actuary change in assumptions, and change in actuarial provider.

⁽⁴⁾ Cost for change in benefit terms for 2019 was calculated by prior actuary but not reflected in their GASB report.



Schedules of Required Supplementary Information

Schedule of the Net OPEB Liability Multiyear

FY Ending June 30,	Total OPEB Liability	Plan Net Position	Net OPEB Liability	Plan Net Position as a % of Total OPEB Liability	Covered Payroll ⁽¹⁾	Net OPEB Liability as a % of Covered Payroll
2011						
2012						
2013						
2014						
2015						
2016						
2017	\$ 254,029,000	\$ 157,339,000	\$ 96,690,000	61.94 %	\$ 53,583,000	180.45 %
2018	261,367,000	171,807,000	89,560,000	65.73 %	55,458,000	161.49 %
2019 ⁽²⁾	293,406,401	186,331,562	107,074,839	63.51 %	57,077,636	187.60 %
2020	289,866,913	193,649,479	96,217,434	66.81 %	57,970,915	165.98 %

⁽¹⁾ Covered payroll was provided by the City of Ann Arbor and may or may not meet the GASB Statement Nos. 74 and 75 definition of Covered Payroll.

⁽²⁾ Results for 2018 and prior years were calculated by the City's prior actuaries.

Schedule of Contributions Multiyear

FY Ending June 30,	Actuarially Determined Contribution	Actual Contribution ⁽³⁾	Contribution Deficiency (Excess)	Covered Payroll ⁽¹⁾	Actual Contribution as a % of Covered Payroll
2011					
2012					
2013					
2014					
2015					
2016					
2017	\$ 11,168,000	\$ 16,819,824	\$ (5,651,824)	\$ 53,583,000	31.39 %
2018	9,683,000	17,724,000	(8,041,000)	55,458,000	31.96 %
2019 ⁽²⁾	9,234,000	15,987,768	(6,753,768)	57,077,636	28.01 %
2020	12,129,387	12,241,536	(112,149)	57,970,915	21.12 %

⁽¹⁾ Covered payroll was provided by the City of Ann Arbor and may or may not meet the GASB Statement Nos. 74 and 75 definition of Covered Payroll.

⁽²⁾ Results for 2018 and prior years were calculated by the City's prior actuaries.

⁽³⁾ Includes amount being paid outside of the Trust.



Schedule of Investment Returns Multiyear

<u>FY Ending June 30,</u>	<u>Annual Return⁽¹⁾</u>
2011	
2012	
2013	
2014	
2015	
2016	
2017	11.78 %
2018	7.21 %
2019 ⁽²⁾	6.83 %
2020	3.52 %

⁽¹⁾ Annual money-weighted rate of return, net of investment expenses.

⁽²⁾ Calculations for 2018 and prior were pulled from the City's financial statements and were not confirmed or calculated by GRS.

SECTION D

NOTES TO FINANCIAL STATEMENTS

Auditor's Note – This information is intended to assist in preparation of the financial statements of the City of Ann Arbor Retiree Health Benefits Plan & Trust. Financial statements are the responsibility of management, subject to the auditor's review. Please let us know if the auditor recommends any changes.

Long-Term Expected Return on Plan Assets

The assumed rate of investment return was adopted by the plan's trustees after considering input from the plan's investment consultant(s) and actuaries. Additional information about the assumed rate of investment return is included in the June 30, 2019 valuation report done by the prior actuary.

The long-term expected rate of return on OPEB plan investments was determined by a prior actuary. We have confirmed that we believe the current expected rate of return assumption to be reasonable. For each major asset class that is included in the OPEB plan's target asset allocation as of June 30, 2020, these best estimates of geometric real rates of return are summarized in the following table:

Asset Allocation

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return⁽¹⁾</u>
Domestic Equity	33.00%	4.80%
Developed Foreign Equity	12.00%	5.30%
Emerging Markets Equity	7.00%	6.50%
Private Equity	3.00%	6.80%
Investment Grade Bonds	12.00%	0.40%
TIPS	7.00%	0.30%
High Yield Bonds	6.00%	2.60%
Bank Loans	4.00%	3.50%
Emerging Markets Debt	3.00%	2.20%
Real Estate	10.00%	4.90%
Natural Resources	3.00%	5.70%
Cash	0.00%	- 0.20%
Total	100.00 %	

⁽¹⁾ Real rate of return is based on investment manager inflation assumption of 2.60%.

The figures in the above table were supplied by the City of Ann Arbor Employees' Retirement Systems' investment manager(s). Gabriel, Roeder, Smith & Company does not provide investment advice.

Single Discount Rate

A Single Discount Rate of 7.00% was used to measure the total OPEB liability. This Single Discount Rate was based on the expected rate of return on OPEB plan investments of 7.00%. The projection of cash flows used to determine this Single Discount Rate assumed that employer contributions will be made at rates equal to the actuarially determined contribution rate. Based on these assumptions, the OPEB plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

Summary of Membership Information⁽¹⁾

The following table provides a summary of the number of participants in the plan:

Inactive Plan Members or Beneficiaries Currently Receiving Benefits	1,052
Inactive Plan Members Entitled to But Not Yet Receiving Benefits	0
Active Plan Members	<u>711</u>
Total Plan Members	1,763

⁽¹⁾ *As of the Actuarial Valuation Date, GRS does not have membership counts as of June 30, 2020. The City of Ann Arbor staff and auditors may decide that providing membership counts as of the valuation date is sufficient. Alternatively, the City may decide to update the membership counts to be as of the Plan's fiscal year end.*

Sensitivity of Net OPEB Liability

Regarding the sensitivity of the net OPEB liability to changes in the Single Discount Rate, the following presents the plan's net OPEB liability, calculated using a Single Discount Rate of 7.00%, as well as what the plan's net OPEB liability would be if it were calculated using a Single Discount Rate that is one percent lower or one percent higher:

Sensitivity of Net OPEB Liability to the Single Discount Rate Assumption

1% Decrease 6.00%	Current Single Discount Rate Assumption 7.00%	1% Increase 8.00%
\$ 130,763,088	\$ 96,217,434	\$ 67,525,159

Regarding the sensitivity of the net OPEB liability to changes in the health care cost trend rates, the following presents the plan's net OPEB liability, calculated using the assumed trend rates as well as what the plan's net OPEB liability would be if it were calculated using a trend rate that is one percent lower or one percent higher:

Sensitivity of Net OPEB Liability to the Health Care Cost Trend Rate Assumption

1% Decrease	Current Health Care Cost Trend Rate Assumption	1% Increase
\$ 64,934,685	\$ 96,217,434	\$ 133,804,474

SECTION E

DEVELOPMENT OF BASELINE CLAIMS COSTS

Development of Baseline Claims Costs

This report complements the actuarial valuation report prepared as of June 30, 2019, and information herein should be considered along with the information from that report, especially for additional discussions of the nature of actuarial calculations and for more information related to baseline claims costs.

SECTION F

SUMMARY OF PARTICIPANT DATA

Summary of Participant Data

This report complements the actuarial valuation report prepared as of June 30, 2019, and information herein should be considered along with the information from that report, especially for additional discussions of the nature of actuarial calculations and for more information related to participant data.

SECTION G

VALUATION METHODS AND ACTUARIAL ASSUMPTIONS

Valuation Methods

Actuarial Cost Method – Normal cost and the allocation of benefit values between service rendered before and after the valuation date were determined using an **Individual Entry-Age Actuarial Cost Method** having the following characteristics:

- (i) The annual normal cost for each individual active member, payable from the date of employment to the date of retirement, is sufficient to accumulate the value of the member's benefit at the time of retirement; and
- (ii) Each annual normal cost is a constant percentage of the member's year-by-year projected covered pay.

Actuarial gains/(losses), as they occur, reduce (increase) the Unfunded Actuarial Accrued Liability.

Financing of Unfunded Actuarial Accrued Liabilities. Unfunded actuarial accrued liabilities (full funding credit of assets exceed liabilities) are amortized by level dollar contributions.

Actuarial Value of Assets. The Actuarial Value of Assets is set equal to the reported market value of assets.

The City of Ann Arbor Retiree Health Benefits Plan & Trust is funded by Employer Contributions in accordance with the funding policy adopted by the Retirement Board, based on actuarially determined contributions (ADC), which require contributions be sufficient to pay the Normal Costs of active plan members, Plan expenses, and amortize the Unfunded Actuarial Accrued Liability over a declining period. The current amortization period is 24 years as of the June 30, 2019 valuation decreasing by two years annually until the amortization period reaches 15 years. Once the plan hits 100% funded status, the amortization period will be set at one year.

The retirement rates, rates of merit and seniority salary increase, rates of separation from active membership, and disability rates used in this valuation are based on the five-year experience study for the period July 1, 2013 through June 30, 2018 performed by the City's prior actuary. All assumptions are expectations of future experience, not market measures.

Actuarial Assumptions

The rate of net investment return was 7.00% a year, compounded annually net after investment expenses. Considering other assumptions used in the valuation, the 7.00% nominal rate translates to a net real return of 3.50% a year.

The rates of salary increase used for individual members are in accordance with the following table. This assumption is used to project a member's current salary to the salaries upon which pension benefits will be based.

Sample Ages	% Increase in Salary at Sample Ages						
	Merit and Seniority			Base (Economic)	Increase Next Year		
	General	Police	Fire		General	Police	Fire
20	4.00%	7.50%	7.29%	3.50%	7.50%	11.00%	10.79%
25	3.58%	6.60%	6.52%	3.50%	7.08%	10.10%	10.02%
30	2.82%	4.74%	4.86%	3.50%	6.32%	8.24%	8.36%
35	2.14%	3.36%	3.44%	3.50%	5.64%	6.86%	6.94%
40	1.84%	2.70%	2.70%	3.50%	5.34%	6.20%	6.20%
45	1.47%	2.38%	2.38%	3.50%	4.97%	5.88%	5.88%
50	0.98%	2.18%	2.18%	3.50%	4.48%	5.68%	5.68%
55	0.68%	2.04%	2.04%	3.50%	4.18%	5.54%	5.54%
60	0.50%	1.80%	1.90%	3.50%	4.00%	5.30%	5.40%

Rates of separation from active membership were as shown below (rates do not apply to members eligible to retire and do not include separation on account of death or disability). This assumption measures the probabilities of members remaining in employment.

Sample Ages	Years of Service	% of Active Members Separating within Next Year			
		General		Police	Fire
		Males	Females		
	1	6.00%	16.00%	6.00%	4.50%
	2	4.80%	13.00%	6.00%	4.00%
	3	4.00%	11.00%	4.00%	3.60%
	4	3.20%	8.00%	3.00%	3.60%
	5	2.50%	6.00%	2.50%	3.60%
25	6 & Over	3.20%	4.50%	2.40%	1.40%
30		3.20%	4.50%	2.40%	1.10%
35		3.25%	3.50%	1.75%	0.90%
40		3.25%	3.50%	0.74%	1.00%
45		3.25%	3.50%	0.48%	0.90%
50		3.25%	3.50%	0.48%	0.50%
55		3.25%	3.50%	0.48%	0.50%
60		3.25%	3.50%	0.48%	0.50%
65		3.25%	3.50%	0.48%	0.50%



The mortality tables used are as follows:

- **Healthy Pre-Retirement:** The RP-2014 Employee Generational Mortality Tables, extended via cubic spline. This table is adjusted backwards to 2006 with the MP-2014 scale, resulting in a base year of 2006 with future mortality improvements assumed each year using scale MP-2017.
- **Healthy Post-Retirement:** The RP-2014 Healthy Annuitant Generational Mortality Tables, extended via cubic spline. This table is adjusted backwards to 2006 with the MP-2014 scale, resulting in a base year of 2006 with future mortality improvements assumed each year using scale MP-2017.
- **Disability Retirement:** The RP-2014 Disabled Mortality Table, extended via cubic spline. This table is adjusted backwards to 2006 with the MP-2014 scale, resulting in a base year of 2006 with future mortality improvements assumed each year using scale MP-2017.

Sample Attained Ages	Healthy Pre-Retirement		Healthy Post-Retirement		Disabled Retirement	
	Future Life		Future Life		Future Life	
	Expectancy (Years)*		Expectancy (Years)*		Expectancy (Years)*	
	Men	Women	Men	Women	Men	Women
55	31.16	35.41	29.64	32.04	21.23	24.97
60	26.24	30.40	25.09	27.29	18.21	21.44
65	21.61	25.51	20.78	22.75	15.35	18.04
70	17.32	20.75	16.72	18.44	12.62	14.67
75	13.36	16.18	12.95	14.40	9.99	11.51
80	9.80	11.87	9.60	10.78	7.61	8.77

* Based on retirements in 2019. Retirements in future years will reflect improvements in life expectancy.

This assumption is used to measure the probabilities of members dying before retirement and the probabilities of each benefit payment being made after retirement.

The rates of retirement used to measure the probability of eligible members retiring during the next year were as follows:

Retirement Ages	General		Police		Fire		Retirement Service	Police	Fire
	Normal	Early	Normal	Early	Normal	Early			
50	25%	10%		10%	10%	10%	25	50%	25%
51	25%	10%		10%	10%	10%	26	50%	25%
52	25%	10%		10%	10%	10%	27	50%	25%
53	25%	10%		10%	10%	10%	28	50%	25%
54	25%	10%		10%	10%	10%	29	50%	25%
55	25%	10%	50%		25%		30	50%	25%
56	25%	10%	50%		25%		31	50%	25%
57	25%	10%	50%		25%		32	50%	25%
58	25%	10%	50%		25%		33	50%	25%
59	25%	10%	50%		25%		34	50%	25%
60	30%		100%		100%		35	100%	100%
61	30%								
62	30%								
63	30%								
64	30%								
65	60%								
66	40%								
67	40%								
68	40%								
69	40%								
70	100%								

Rates of disability among active members.

Sample Ages	% Becoming Disabled within Next Year		
	General	Police	Fire
20	0.06%	0.08%	0.02%
25	0.06%	0.08%	0.02%
30	0.06%	0.08%	0.02%
35	0.06%	0.08%	0.02%
40	0.11%	0.14%	0.03%
45	0.24%	0.32%	0.08%
50	0.42%	0.56%	0.14%
55	0.65%	0.86%	0.22%
60	0.86%	1.14%	0.29%
65	0.99%	1.32%	0.33%

For General members, 75% of the disabilities are assumed to be non-duty and 25% of the disabilities are assumed to be duty related. For Police/Fire members, 50% of the disabilities are assumed to be non-duty and 50% of the disabilities are assumed to be duty related.



Percent of eligible members electing coverage at retirement was assumed to be 85%.

Percent of eligible members electing spousal coverage: 70% of those electing coverage at retirement were assumed to elect coverage for their spouse.

Retiree Opt-Out: 15% of future retirees eligible for retiree health care coverage were assumed to opt-out of coverage.

Health care trend rates used in the valuation were as shown below:

The cost of providing medical services has been increasing more rapidly than prices in general for many years. During the past 10 years, general inflation averaged about 2% to 3%, while health expenditures increased by an average of about 8% to 10% per year. If this trend is projected to continue for years to come, it implies that years from now virtually all our expenditures will be for health care. The seemingly more reasonable alternative is that in the not too distant future medical expense inflation will stabilize at a level at or near general inflation. It is on this basis that we project that retiree health care costs will continue to exceed general inflation in the near term, but by less each year until leveling off at an ultimate rate that factors in CPI health care trends, the trend in wage increases and projected GDP factors.

Year Beginning July 1,	Medical and Prescription Drugs
2020	8.25 %
2021	7.50
2022	7.00
2023	6.50
2024	6.00
2025	5.50
2026	5.00
2027	4.50
2028	4.00
2029 & later	3.50

Miscellaneous and Technical Assumptions

- Marriage Assumption:** 100% of males and 100% of females are assumed to be married for purposes of death-in-service benefits. Male spouses are assumed to be three years older than female spouses.
- Decrement Timing:** Decrements of all types are assumed to occur mid-year.
- Eligibility Testing:** Eligibility for benefits is determined based upon the age nearest birthday and service nearest whole year on the date the decrement is assumed to occur.
- Decrement Relativity:** Decrement rates are used directly from the experience study, without adjustment for multiple decrement table effects.
- Decrement Operation:** Disability and mortality decrements do not operate during the first 5 years of service.
- Other Liability Adjustments:** None.
- Health Care Coverage at Retirement:** The table below shows the assumed portion of future retirees electing one-person or two-person/family coverage, or opting-out of coverage entirely.

	One-Person	Two-Person/Family		Opt-Out
		Electing	Continuing	
Male	15%	70%	100%	15%
Female	15%	70%	100%	15%

SECTION H

CALCULATION OF THE SINGLE DISCOUNT RATE

Calculation of the Single Discount Rate

GASB Statement No. 74 includes a specific requirement for the discount rate that is used for the purpose of the measurement of the Total OPEB Liability. This rate considers the ability of the fund to meet benefit obligations in the future. To make this determination, employer contributions, employee contributions, benefit payments, expenses and investment returns are projected into the future. The Plan Net Position (assets) in future years can then be determined and compared to its obligation to make benefit payments in those years. As long as assets are projected to be on hand in a future year, the assumed valuation discount rate is used. In years where assets are not projected to be sufficient to meet benefit payments, the use of a municipal bond rate is required, as described in the following paragraph.

The Single Discount Rate (SDR) is equivalent to applying these two rates to the benefits that are projected to be paid during the different time periods. The SDR reflects: (1) the long-term expected rate of return on OPEB plan investments (during the period in which the fiduciary net position is projected to be sufficient to pay benefits); and (2) tax-exempt municipal bond rate based on an index of 20-year general obligation bonds with an average AA credit rating as of the measurement date (to the extent that the contributions for use with the long-term expected rate of return are not met).

For the purpose of this valuation, the expected rate of return on OPEB plan investments is 7.00%; the municipal bond rate is 2.45%; and the resulting Single Discount Rate is 7.00%.

We have assumed the funding policy for the Plan is to contribute the greater of the actuarial determined contribution and the prior year increased by 2%. Based on information received from the Retirement System, we have assumed the funding policy for accelerated contributions will be temporarily suspended for fiscal years 2020 and 2021 and will resume effective with fiscal year 2022. This funding policy results in an expected crossover date in 2120 and a GASB single discount rate of 7.00%.

The City of Ann Arbor Retiree Health Care Benefits Plan is funded by Employer Contributions in accordance with the funding policy adopted by the Retirement Board, based on actuarially determined contributions (ADC), which require contributions be sufficient to pay the Normal Costs of active plan members, Plan expenses, and amortize the Unfunded Actuarial Accrued Liability over a declining period. The amortization period begins at 30 years as of June 30, 2017 decreasing by two years annually until the amortization period reaches 15 years. Once the plan hits 100% funded status, the amortization period will be set at one year.

SECTION I

SUMMARY OF BENEFITS

City of Ann Arbor Retiree Health Care Benefits Plan

Brief Summary of Benefit Provisions Evaluated

June 30, 2019

Regular Retirement

Union	5 Year Vesting	10 Year Vesting	Eligibility
Non-Union	Hired before July 1, 2011	Hired after July 1, 2011	Age 50 with 25 years of service or Age 60 and vested
American Federation of State, County, and Municipal Employees, AFL CIO (AFSCME)	Hired before August 29, 2011	Hired after August 29, 2011	Age 50 with 25 years of service or Age 60 and vested
Ann Arbor Police Officers Association (AAPOA)	Hired before January 1, 2012	Hired after January 1, 2012	25 years of service or Age 55 and vested
International Association of Fire Fighters (IAFF)	Hired before July 1, 2012	Hired after July 1, 2012	25 years of service or Age 55 and vested
Teamsters Fire Assistant Chief	Hired before January 1, 2016	Hired after January 1, 2016	25 years of service or Age 55 and vested
Teamsters Civilian Supervisors	Hired before July 2, 2012	Hired after July 2, 2012	Age 50 with 25 years of service or Age 60 and vested
Teamsters Police Professional Assistants	Hired before July 2, 2012	Hired after July 2, 2012	Age 50 with 25 years of service or Age 60 and vested
Teamsters Police Deputy Chiefs	Hired before July 2, 2012	Hired after July 2, 2012	25 years of service or Age 55 and vested
Police Service Specialists	Hired before July 1, 2013	Hired after July 1, 2013	Age 50 with 25 years of service or Age 60 and vested
Command Officers Association of Michigan (COAM)	Hired before July 1, 2013	Hired after July 1, 2013	25 years of service or Age 55 and vested

City of Ann Arbor Retiree Health Care Benefits Plan

Brief Summary of Benefit Provisions Evaluated

June 30, 2019

Early Retirement

Eligibility – All Members: Age 50 with 20 or more years of service.

Deferred Retirement (vested benefit)

Eligibility – Not eligible for retiree health care benefits.

Duty Disability Retirement

Eligibility - No age or service requirement.

Non-Duty Disability Retirement

Eligibility - Must be vested. Refer to table on page 30.

Duty Death Before Retirement

Eligibility - No age or service requirements.

Non-Duty Death Before Retirement

Eligibility - Must be vested. Refer to table on page 30.

City of Ann Arbor Retiree Health Care Benefits Plan

Brief Summary of Benefit Provisions Evaluated

June 30, 2019

Retiree Health Care Benefits

Coverage - For members with a 5-year vesting period (refer to the table on page 30), the City of Ann Arbor will provide retiree health care coverage equivalent to the level of health care coverage the member was receiving on the date of retirement to eligible retirees. Retirees electing the high option will be required to pay for a portion of their health care coverage.

All other members are not eligible for City paid retiree health care coverage. These members earn the amounts below per year for each year of active service. The City funds their account upon retirement.

<u>Employee Group</u>	<u>Effective Date</u> <u>\$2,500 per Year</u>	<u>Effective Date</u> <u>\$3,500 per Year</u>	<u>Effective Date</u> <u>\$4,000 per Year</u>
AAPOA	1/1/2012	1/1/2017	
AFSCME	8/29/2011		
CSS/PSS	7/1/2013	1/1/2018	
DEPCHIEFS	7/2/2012	1/1/2019	
FIRE	7/1/2012	1/1/2017	1/1/2020
NON-UNION	7/1/2011	1/1/2018	
POLICEPRO/PPA	7/2/2012	1/1/2018	
TEAMSTERS	7/2/2012	1/1/2018	
COAM	7/1/2013	1/1/2018	
ASST FIRE CHIEF	7/1/2012	1/1/2019	

Life Insurance Benefits

Coverage - \$10,000 lump sum death benefit for all retirees (except those collecting a deferred benefit) in receipt of a City pension.



SECTION J

GLOSSARY OF TERMS

Glossary of Terms

Accrued Service	Service credited under the system that was rendered before the date of the actuarial valuation.
Actuarial Accrued Liability (AAL)	The AAL is the difference between the actuarial present value of all benefits and the actuarial value of future normal costs. The definition comes from the fundamental equation of funding which states that the present value of all benefits is the sum of the Actuarial Accrued Liability and the present value of future normal costs. The AAL may also be referred to as “accrued liability” or “actuarial liability.”
Actuarial Assumptions	These assumptions are estimates of future experience with respect to rates of mortality, disability, turnover, retirement, rate or rates of investment income and compensation increases. Actuarial assumptions are generally based on past experience, often modified for projected changes in conditions. Economic assumptions (compensation increases, payroll growth, inflation and investment return) consist of an underlying real rate of return plus an assumption for a long-term average rate of inflation.
Actuarial Cost Method	A mathematical budgeting procedure for allocating the dollar amount of the actuarial present value of the OPEB trust benefits between future normal cost and actuarial accrued liability. The actuarial cost method may also be referred to as the actuarial funding method.
Actuarial Equivalent	A single amount or series of amounts of equal actuarial value to another single amount or series of amounts, computed on the basis of appropriate actuarial assumptions.
Actuarial Gain (Loss)	The difference in liabilities between actual experience and expected experience during the period between two actuarial valuations is the gain (loss) on the accrued liabilities.
Actuarial Present Value (APV)	The amount of funds currently required to provide a payment or series of payments in the future. The present value is determined by discounting future payments at predetermined rates of interest and probabilities of payment.
Actuarial Valuation	The actuarial valuation report determines, as of the actuarial valuation date, the service cost, total OPEB liability, and related actuarial present value of projected benefit payments for OPEB.
Actuarial Valuation Date	The date as of which an actuarial valuation is performed.

Glossary of Terms

Actuarially Determined Contribution (ADC) or Annual Required Contribution (ARC)	A calculated contribution into an OPEB plan for the reporting period, most often determined based on the funding policy of the plan. Typically, the Actuarially Determined Contribution has a normal cost payment and an amortization payment.
Amortization Method	The method used to determine the periodic amortization payment may be a level dollar amount, or a level percent of pay amount. The period will typically be expressed in years, and the method will either be “open” (meaning, reset each year) or “closed” (the number of years remaining will decline each year).
Amortization Payment	The amortization payment is the periodic payment required to pay off an interest-discounted amount with payments of interest and principal.
Cost-of-Living Adjustments	Postemployment benefit changes intended to adjust benefit payments for the effects of inflation.
Cost-Sharing Multiple-Employer Defined Benefit OPEB Plan (cost-sharing OPEB plan)	A multiple-employer defined benefit OPEB plan in which the OPEB obligations to the employees of more than one employer are pooled and OPEB plan assets can be used to pay the benefits of the employees of any employer that provides benefits through the OPEB plan.
Covered-Employee Payroll	The payroll of employees that are provided with benefits through the OPEB plan.
Deferred Inflows and Outflows	The deferred inflows and outflows of OPEB resources are amounts used under GASB Statement No. 75 in developing the annual OPEB expense. Deferred inflows and outflows arise with differences between expected and actual experiences; changes of assumptions. The portion of these amounts not included in the OPEB expense should be included in the deferred inflows or outflows of resources.
Discount Rate	For GASB purposes, the discount rate is the single rate of return that results in the present value of all projected benefit payments to be equal to the sum of the funded and unfunded projected benefit payments, specifically: <ol style="list-style-type: none">1. The benefit payments to be made while the OPEB plans’ fiduciary net position is projected to be greater than the benefit payments that are projected to be made in the period; and2. The present value of the benefit payments not in (1) above, discounted using the municipal bond rate.

Glossary of Terms

Entry Age Actuarial Cost Method (EAN)	The EAN is a cost method for allocating the costs of the plan between the normal cost and the accrued liability. The actuarial present value of the projected benefits of each individual included in an actuarial valuation is allocated on a level basis (either level dollar or level percent of pay) over the earnings or service of the individual between entry age and assumed exit age(s). The portion of the actuarial present value allocated to a valuation year is the normal cost. The portion of this actuarial present value not provided for at a valuation date by the actuarial present value of future normal costs is the actuarial accrued liability. The sum of the accrued liability plus the present value of all future normal costs is the present value of all benefits.
Fiduciary Net Position	The fiduciary net position is the market value of the assets of the trust dedicated to the defined benefit provisions.
GASB	The Governmental Accounting Standards Board is an organization that exists in order to promulgate accounting standards for governmental entities.
Long-Term Expected Rate of Return	The long-term rate of return is the expected return to be earned over the entire trust portfolio based on the asset allocation of the portfolio.
Money-Weighted Rate of Return	The money-weighted rate of return is a method of calculating the returns that adjusts for the changing amounts actually invested. For purposes of GASB Statement No. 74, the money-weighted rate of return is calculated as the internal rate of return on OPEB plan investments, net of OPEB plan investment expense.
Multiple-Employer Defined Benefit OPEB Plan	A multiple-employer plan is a defined benefit OPEB plan that is used to provide OPEB payments to the employees of more than one employer.
Municipal Bond Rate	The Municipal Bond Rate is the discount rate to be used for those benefit payments that occur after the assets of the trust have been depleted.
Net OPEB Liability (NOL)	The NOL is the liability of employers and non-employer contributing entities to plan members for benefits provided through a defined benefit OPEB plan.
Non-Employer Contributing Entities	Non-employer contributing entities are entities that make contributions to an OPEB plan that is used to provide OPEB payments to the employees of other entities. For purposes of the GASB accounting statements, plan members are not considered non-employer contributing entities.

Glossary of Terms

Normal Cost	The portion of the actuarial present value allocated to a valuation year is called the normal cost. For purposes of application to the requirements of this Statement, the term normal cost is the equivalent of service cost.
Other Postemployment Benefits (OPEB)	All postemployment benefits other than retirement income (such as death benefits, life insurance, disability, and long-term care) that are provided separately from a pension plan, as well as postemployment health care benefits regardless of the manner in which they are provided. Other postemployment benefits do not include termination benefits.
Real Rate of Return	The real rate of return is the rate of return on an investment after adjustment to eliminate inflation.
Service Cost	The service cost is the portion of the actuarial present value of projected benefit payments that is attributed to a valuation year.
Total OPEB Expense	The total OPEB expense is the sum of the following items that are recognized at the end of the employer's fiscal year: <ol style="list-style-type: none">1. Service Cost2. Interest on the Total OPEB Liability3. Current-Period Benefit Changes4. Employee Contributions (made negative for addition here)5. Projected Earnings on Plan Investments (made negative for addition here)6. OPEB Plan Administrative Expense7. Other Changes in Plan Fiduciary Net Position8. Recognition of Outflow (Inflow) of Resources due to Liabilities9. Recognition of Outflow (Inflow) of Resources due to Assets
Total OPEB Liability (TOL)	The TOL is the portion of the actuarial present value of projected benefit payments that is attributed to past periods of member service.
Unfunded Actuarial Accrued Liability (UAAL)	The UAAL is the difference between actuarial accrued liability and valuation assets.
Valuation Assets	The valuation assets are the assets used in determining the unfunded liability of the plan. For purposes of GASB Statement Nos. 74 and 75, the valuation assets are equal to the market value of assets.



August 20, 2020

Ms. Wendy Orcutt, CPA
Executive Director
City of Ann Arbor
Retiree Health Benefits Plan & Trust
532 S. Maple Road
Ann Arbor, Michigan 48103

Dear Ms. Orcutt:

Please find enclosed 20 copies of the GASB Statement Nos. 74 and 75 report of the City of Ann Arbor Retiree Health Benefits Plan & Trust.

Sincerely,

A handwritten signature in black ink that reads "James D. Anderson". The signature is written in a cursive, flowing style.

James D. Anderson, FSA, EA, FCA, MAAA

JDA:dj
Enclosures