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

SUMMARY
ANNUAL REPORT

For the Fiscal Year Ended
June 30, 2017

**CITY OF ANN ARBOR
RETIREE HEALTH CARE BENEFIT PLAN & TRUST
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
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Retirement System Staff

Wendy Orcutt, Executive Director – Effective December 28, 2016
Daniel Gustafson, Pension Analyst
N. Gail Jarskey, Accountant – Retired effective January 10, 2017
Corbin Hammond, Accountant – Effective November 7, 2016
Lora Kluczynski, Management Assistant – Retired effective July 22, 2017
Laura Hollabaugh, Management Assistant – Effective June 5, 2017

ACTUARY

Conduent

AUDITORS

Yeo & Yeo

CUSTODIAL BANK

The Northern Trust Company

INVESTMENT ADVISORS

AEW Core Property Trust	Rhumblin
Beach Point Capital Management	Sky Harbor Capital Management
Dimensional Fund Advisors	Southern Sun Asset Management
DRA G&I Fund VIII Real Estate Management Trust	Stone Harbor Investment Partners
Fisher Investments	Summit Credit Partners
Income Research and Management	SVB Strategic Investors Fund
The Northern Trust Company	Vanguard

INVESTMENT CONSULTANT

Meketa Investment Group

LEGAL COUNSEL

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

WEB ADDRESS: www.a2gov.org

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CITY OF ANN ARBOR RETIREE HEALTH CARE BENEFITS PLAN AND TRUST

Annual Report
For Year Ending June 30, 2017

Dear Participant:

The City of Ann Arbor Retiree Health Care Benefits Plan and Trust (VEBA Trust) was established to provide health and life insurance benefits or such other benefits approved by the City or approved by collective bargaining agreements for the welfare of the Retirees of the City who are eligible to receive a retirement benefit from the City of Ann Arbor Employees' Retirement System and the spouses and eligible dependents of such Retirees. Health care benefits under the Plan are provided for pursuant to the City of Ann Arbor Health Care Plan, Chapter 21 of the City Code.

The Health Care Benefits Plan began operation during the year ending June 30, 1999. The City is now "pre-funding" for the health and life insurance coverage provided to retirants and beneficiaries. Assets are being set aside during an active participant's career in order to provide health and life insurance coverage after retirement. This contrasts with a "pay as you go" practice of paying health and life insurance premiums as they come due.

The investment performance of the plan was a positive 12.2% this year. The annual money weighted rate of return was 11.78%. These returns are net of fees.

The projected annual required contribution rate for advance-funding of the post-retirement health and life insurance coverage is 16.77% of active participant payroll vs. 20.67% last year. The factors that have impacted plan costs include:

- 1-year investment performance at 12.2% compared to 7% target for 2017
- Payroll increased by 5.5% relative to an expected 3.5% increase
- Contributions to the VEBA higher than the GASB minimum

The City will not realize any short-term budgetary gain from advance-funding for post-retirement health and life insurance benefits. Long-range gains will occur, however, and the cushion associated with a reserve fund is a valuable side effect. Eventually, if the recommended funding contributions in subsequent years are made, the Plan will be fully actuarially funded. **In the year ending June 30, 2017, \$16,820,000 was contributed to the fund, including benefits paid from City assets. This contribution exceeded the recommended contribution requirement for the year ended 2017.** The actuary does not anticipate any material impact from the effect of Health Care Reform on the post-retirement medical obligations.

Sincerely,



Jeremy Flack
Chairperson, Board of Trustees



Wendy Orcutt
Executive Director

Investment Summary & Highlights

Asset Allocation and Performance Summary Table - Annualized Returns Periods Ending June 30, 2017

<u>Asset Class</u>	<u>Market Value</u>		<u>% Return</u>		
	<u>\$ millions</u>	<u>% of Fund</u>	<u>1 Year</u>	<u>5 Year</u>	<u>10 Year</u>
Domestic Equity	62.5	40.3	18.9	14.2	7.6
International Developed Market Equity	16.3	10.5	26.4	9.4	NA
International Emerging Market Equity	9.2	5.9	25.3	4.5	NA
Investment Grade Bond	23.4	15.1	(.6)	2.4	5.1
Treasury Inflation Protected Security	6.6	4.2	(.3)	NA	NA
High Yield	9.0	5.8	13.3	6.5	NA
Bank Loans	5.4	3.5	4.4	5.2	NA
Emerging Market Debt	3.6	2.3	6.4	(2.5)	NA
Real Estate Assets	14.6	9.5	4.0	8.5	6.5
Cash	4.4	2.8	NA	NA	NA
Private Equity	.1	.10	NA	NA	NA
Total Fund	\$155.1	100%	12.2	8.0	NA

Note: source is Meketa Investment Group. May contain differences from audited financial statements due to timing, manner of presentation, and accounting requirements. Numbers shown are net of fees.

Actuarial Section

	<u>MEMBERSHIP</u>	
	<u>2017</u>	<u>2016</u>
Retirees and Surviving Spouses currently covered	1043	1022
Spouses of Retirees currently covered	546	549
Active Participants	696	685
Total	<u>2285</u>	<u>2256</u>

The Retiree Health Care Benefits Plan financial objective is to meet long-term benefit promises through contributions that remain approximately level from year to year as a percent of active participant payroll.

**CITY'S COMPUTED CONTRIBUTIONS TO THE BENEFITS PLAN
FOR THE FISCAL YEAR END JUNE 30, 2019**

Item	General Members	Police Members	Fire Members	Totals
1. Active Members				
a. Health Benefits	5.37%	6.02%	7.43%	
b. Life Benefits	0.18%	0.08%	0.10%	
2. Total Normal Cost (As a % of pay)	5.55%	6.10%	7.53%	5.91%
3. Expected Member Contribution (As a % of pay)	0.20%	0.21%	0.27%	0.21%
4. Expected Member Contribution (Dollar amount)	3,958	1,373	1,382	6,713
5. Total Employer Normal Cost (As a % of pay)	5.35%	5.89%	7.26%	5.70%
a. Traditional plan	5.40%	6.16%	7.51%	5.83%
b. \$2,500/year design	0.37%	0.23%	0.16%	0.31%
6. Total Employer Normal Cost (Dollar amount)	\$1,979,000	\$654,000	\$512,000	\$3,145,000
7. Amortization of Unfunded Actuarial Liability Assets Allocated by AAL (As a % of pay)				
a. Actives (Traditional plan)	2.04%	2.78%	3.13%	
b. Actives (\$2,500/year design)	-0.31%	0.41%	-0.47%	
c. Inactives	6.98%	9.70%	9.21%	
8. Total Unfunded Actuarial Liability Assets Allocated by AAL (As a % of pay)	8.71%	12.07%	11.87%	11.06%
9. Amortization of Unfunded Actuarial Accrued Liability (Dollar amount)	\$3,633,000	\$1,505,000	\$951,000	\$6,089,000
10. ADC (As a % of pay)	15.20%	19.45%	20.77%	16.77%
11. ADC (Dollar amount)	\$5,612,000	\$2,159,000	\$1,463,000	\$9,234,000
12. Adjustment to the ADC (Estimated Dollar Amount)				\$270,000
13. Interest on Net OPEB Obligation (Estimated Dollar Amount)				(\$324,000)
14. Annual OPEB cost (Estimated Dollar amount)				\$9,180,000

Actuarial Progress

City of Ann Arbor Retiree Health Care Benefits Plan and Trust

SCHEDULE OF FUNDING PROGRESS (\$ in thousands)

Actuarial Valuation Date	Value of Assets (a)	Liability (AAL) Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL Percentage of covered Payroll [(b-a)/c]
6/30/2017	\$157,924	\$254,029	\$96,105	62.2%	\$53,583	179.4%
6/30/2016	143,250	281,502	138,252	50.9%	50,057	276.2%
6/30/2015	132,162	275,912	143,750	47.9%	48,759	294.8%
6/30/2014	116,566	264,164	147,598	44.13%	47,957	307.77%
6/30/2013	99,822	258,583	159,031	38.60%	45,063	352.91%
6/30/2012	87,660	249,844	162,184	35.10%	44,004	368.60%
6/30/2011	82,416	241,122	158,706	34.20%	45,921	345.60%
6/30/2010	73,205	242,842	169,637	30.10%	48,688	348.40%

SCHEDULE OF EMPLOYER CONTRIBUTIONS

Year Ended June 30,	Annual Required Contribution	Current Premiums Paid by the City	Pre Funding Contributions to Trust	Percentage Contributed
2017	\$11,168,000	\$13,360,000	\$3,460,057	150.6%
2016	11,179,000	12,095,622	3,075,389	135.7%
2015	11,974,000	10,758,954	4,220,778	125.1%
2014	12,203,000	10,650,463	4,537,637	124.6%
2013	12,379,000	9,207,043	5,790,086	121.1%
2012	14,859,285	8,889,686	2,163,202	74.4%
2011	14,395,148	9,181,437	4,839,659	97.4%
2010	14,284,470	9,349,438	927,417	71.9%

ACCOUNTING INFORMATION FOR GASB 74

The components of the New OPEB Liability of the City at June 30, 2017 are as follows:

Total OPEB Liability	\$254,029,000
Plan Fiduciary net position	157,339,000
New OPEB Liability	96,690,000
Plan Fiduciary net position as a percentage of the total OPEB Liability	61.94%

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

Decrease to 6%	Discount Rate - 7%	Increase to 8%
131,239,000	96,690,000	69,153,000

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

Decrease to 6%	Discount Rate - 7%	Increase to 8%
67,256,000	96,690,000	132,636,000

Assumptions, Methods, and Additional Information

Valuation Date: 6/30/2017

Methods and assumptions:

Actuarial cost method	Entry Age Normal; level percent of pay
Amortization method	Level percent of pay
Asset valuation method	Actuarial value
Discount Rate	7%
Assumed Rate of Return	7%
Amortization Period	30 years*
Inflation	3.00%
Salary Increases	3.50% per annum plus merit component that varies by age
Healthcare cost trend rates	Medical Pre-65: 8.25% decreasing 0.25% per year to an ultimate of 4.50%; Medical Post-65 6.25% decreasing to an ultimate of 4.50% in 2031.

*At the September 21, 2017 meeting, the Board adopted a closed level dollar amortization starting at 30 years, decreasing 2 years annually until the amortization period reaches 15 years

Financial Section

**City of Ann Arbor
Retiree Health Care Benefits Plan and Trust
Statement of Fiduciary Net Position
June 30, 2017**

Assets

Investments, at fair value	
Equities	\$ 87,103,067
Fixed income	48,070,527
Other	<u>20,022,675</u>
 Total investments	 155,196,269
 Equity in City of Ann Arbor pooled cash and investments	 2,172,821
Accrued interest and dividends	<u>252,980</u>
 Total assets	 <u>157,622,070</u>

Liabilities

Accrued liabilities	102,124
Due to broker for securities purchased	<u>180,840</u>
 Total liabilities	 <u>282,964</u>
 Net position restricted for benefits	 <u>\$ 157,339,106</u>

See Accompanying Notes to the Financial Statements

City of Ann Arbor
Retiree Health Care Benefits Plan and Trust
Statement of Changes in Fiduciary Net Position
For the Year Ended June 30, 2017

Additions

Investment income	
From investing activities	
Net appreciation in fair value of investments	\$ 14,504,896
Interest and dividends	2,816,875
Total investment income	17,321,771
Investment management fees	(260,886)
Net investment income from investing activities	<u>17,060,885</u>
From securities lending activities	
Gross earnings	20,360
Borrower rebates paid	(4,431)
Securities lending fees	(4,745)
Net investment income from securities lending activities	<u>11,184</u>
Total net investment income	17,072,069
Employer contributions	<u>16,819,824</u>
Total additions	<u>33,891,893</u>

Deductions

Participant benefits	13,206,887
Administrative expenses	<u>129,561</u>
Total deductions	<u>13,336,448</u>
Change in net position	20,555,445
Net position - beginning of year	<u>136,783,661</u>
Net position - end of year	<u>\$ 157,339,106</u>

See Accompanying Notes to the Financial Statements