



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

SUMMARY ANNUAL REPORT

**For the Fiscal Year Ended
June 30, 2018**

CITY OF ANN ARBOR EMPLOYEES' RETIREMENT SYSTEM

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Ann Arbor, MI 48103

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Actuary

Findley

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SKY Harbor Capital Management
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SVB Strategic Investors Fund
Summit Credit Partners
TSE Capital
WCM

INVESTMENT MANAGEMENT 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
Employees' Retirement System
Board of Trustees

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

Mayor and City Council, Retirement System Members, and Interested Citizens:

We are pleased to submit the City of Ann Arbor Employees' Retirement System's Summary Annual Report for the year ended June 30, 2018.

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 Retirement 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, (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 Retirement 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 City of Ann Arbor Employees' Retirement System, to provide for its operation through a Board of Trustees, and for financing the Retirement 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 Retirement 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 Retirement System and for making effective and construing the provisions of the Retirement 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 his office;
- (3) One Trustee elected by the general City members from their own number including retirees (general City members being members other than uniform 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 Retirement System and supervise the Retirement System's clerical staff. Additionally, the Board retains clerical staff to also assist in the administration of the System.

Professional Services

The Board of Trustees for the City of Ann Arbor Employees' Retirement System has a fiduciary responsibility for the management of the Retirement 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 Retirement 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 Retirement System's records to insure that the financial statements accurately reflect the annual financial position of the Retirement 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 Retirement 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 City of Ann Arbor Employees' Retirement System are maintained on an accrual basis and all Retirement System costs and expenses are borne by the Retirement System. Both a sample of benefit payment calculations and the financial statements are audited annually by the external auditor.

FUNDING AND SYSTEM OPERATION

The Retirement 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 Retirement System is funded at 86.5% as of June 30, 2018, a slight increase from the prior year's 85.8% 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, group 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 \$3,185,448, including purchased service payments, to the Retirement System for the fiscal year ended June 30, 2018. The member contributions are calculated on all pensionable compensation, including overtime.

Contributions by the City: For the fiscal year ended June 30, 2018, the City's contribution was \$13,445,765, which covers the annual cost of providing benefits to the Members as well as a payment toward the underfunding in the Plan. The 2018 contribution exceeded the actuarially required amount. The City is expected to contribute \$13,464,778 for fiscal year 2018/2019, and \$14,092,966 for fiscal year 2019/2020. The City will contribute the greater of the actuarial requirement or the past year's contribution plus an inflation factor based on tax revenues.

Investment Income: Investment income is the third source of Retirement System revenues. For fiscal year ended June 30, 2018, the Retirement System's financial experience met its target return, as Plan Net Assets Available for Benefits increased to \$503.7 million as of June 30, 2018 from \$491.3 million the prior year. Investment performance on a fair value basis was a positive 7.0%. The System had net investment income of \$33,235,000. Investment income is a vital and major contributor to the City of Ann Arbor Employees' Retirement System.

RETIREMENT BOARD

In Fall 2018, the City Council appointed Citizen Trustee Jordan Schreier to the Retirement Board for the term 1-1-2018 through 12-31-2020.

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 Retirement 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 Retirement 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, 2018

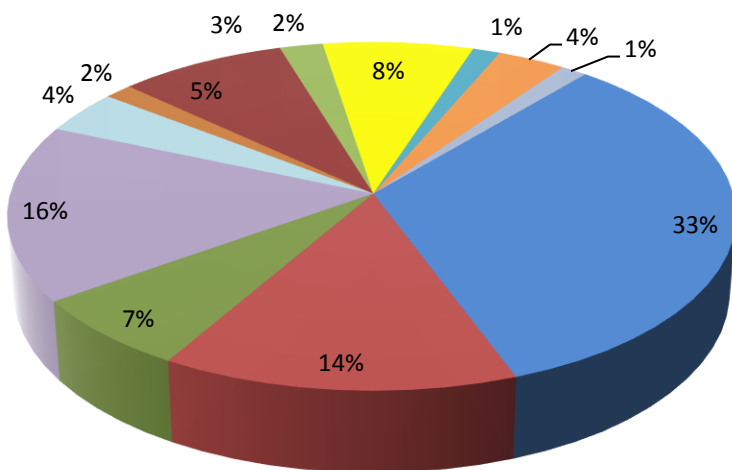
Asset Class	Market Value (\$ Millions)	% of Fund
Domestic Equity	\$167.5	33.3%
International Developed Market Equity	70.3	14.0
International Emerging Market Equity	34.0	6.8
Investment Grade Fixed Income	82.4	16.4
Treasury Inflation Protected Securities	20.2	4.0
High Yield Fixed Income	26.8	5.3
Emerging Market Debt	7.1	1.4
Real Estate	37.9	7.5
Bank Loans	15.5	3.1
Hedge Fund Assets	17.2	3.4
Natural Resources	6.9	1.4
Private Equity	10.9	2.2
Cash	6.6	1.2
Total	\$503.3	100%

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

2018

Allocation of Assets

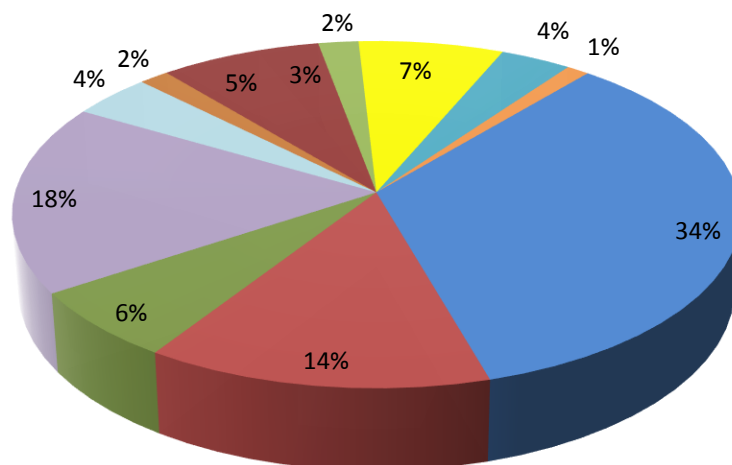


- Domestic Equity
- International Developed Market Equity
- International Emerging Market Equity
- Investment Grade Fixed Income
- Treasury Inflation Protected Securities
- Emerging Market Debt
- High Yield Fixed Income
- Bank Loans
- Private Equity
- Real Estate
- Natural Resources

City of Ann Arbor Employees Retirement System

2017

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
- Hedge Fund
- Cash

Historical Asset Class Performance (%)
By Calendar Year, Most Recent 12/31/2018

Asset Class	1 Year	3 Years	5 Years	7 Years	10 Years*
Total Retirement Plan	13.5%	7.2%	8.4%	7.6%	5.3%
Domestic Equity	19.1	11.3	15.5	13.4	9.2
International Developed Market Equity	26	8.2	7.4	5.5	2.7
International Emerging Market Equity	35.3	9.9	4.8	NA	NA
Investment Grade Fixed Income	2.9	2	2.1	3.2	4.6
High Yield Fixed Income	7.9	6.4	6	6.6	NA
Treasury Inflation Protected Securities	1.9	1.8	NA	NA	NA
Bank Loans	3.3	4	4.3	NA	NA
Emerging Market Debt	15.4	2.2	-3.1	NA	NA
Natural Resources	NA	NA	NA	NA	NA
Alternative	-3.8	-2.5	0.9	0.6	NA
Real Estate	8.3	10.7	13.1	12.8	4.7

*10 Year Total Plan Is Gross of Fees; 8.3% Return since October 1990.
Performance Updates Are Available Quarterly on the System's Website.

Expenditures of the System

The cost of all benefits, services, and operations, totaling \$ 38,011,422 in 2018, is borne by the Retirement System. The benefit payment amounts reflect actual annual outlays for the given year.

Expenditures of System	2018	2017
Benefit Payments	\$35,807,321	\$34,408,549
Refund of Contributions	907,847	1,027,656
Investment Expenses	602,683	802,859
Administrative Expenses	693,571	751,555
Total	\$38,011,422	\$36,990,619

Travel Expenditures

	Budget FY 17/18	Actual FY 17/18	Budget FY 18/19
Conference & Training	\$34,425	\$9,179	\$33,860
Due Diligence	\$30,000	\$0	\$15,000

Actuarial Valuation

Findley became the Board's Actuary effective with the June 30, 2018 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 Retirement System office at 532 S. Maple Rd., Ann Arbor, MI 48103, and on the Retirement 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

	2018	2017	% Change
Total Annual Benefit Payments Trend	\$36,882,878	\$34,825,342	+5.9%
Average Annual Benefit Payment	34,567	33,846	+2.1
Average Accumulated Contributions	72,651	76,630	-5.2
Total Annual Valuation Salary	\$53,231,121	\$53,583,277	-0.6%

The Actuarial Report indicates that as of June 30, 2018, the Retirement System was funded at a ratio of 86.5%. The City's Annual Required Contribution for the fiscal year 2018/2019 will be \$13,464,778, and is projected to be \$14,092,966 for the fiscal year ending June 2020. The City's total contribution rate as a percentage of its payroll is 23.5% for the fiscal year beginning July 1, 2018.

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 Annual Required Contribution or the prior year's contribution increased at the same percentage of increase in General Fund revenue, but no less than 2%. The policy has contributed to the improvement in funding this year.

Actuarial Contributions

Fiscal Year Ending Development of Employer Contributions	June 30, 2020	June 30, 2019
Annual Payroll*	\$54,906,991	\$57,398,406
Total Accrued Liability	\$583,600,734	\$571,074,022
Actuarial Value of Assets**	\$505,014,630	\$489,943,346
Unfunded Actuarial Accrued Liability	\$78,586,104	\$81,130,676
Funded Ratio	86.53%	85.79%
UAAL as Percent of Annual Payroll	143.13%	141.35%
Amortization Payment for UAAL***		
a. Amount	\$6,739,779	\$6,838,408
b. As a % of Pay	12.27%	11.91%
Employer Normal Cost		
a. Amount	\$7,353,187	\$6,626,370
b. As a % of Pay	13.39%	11.54%
Actuarial Employer Contributions		
a. Amount	\$14,092,966	\$13,464,778
b. As a % of Pay	25.70%	23.45%
Funding Period	23	24

* 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 fiscal year ending June 30, 2026 and thereafter a 15-year amortization period is used. Actual FYE 2019 contribution will likely be higher than ADC since the minimum increase in contributions is the increase in City revenues.

Schedule of Funding Progress

(\$ 000's)

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded Actuarial Accrued Liability (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
June 30, 2008	\$428,689	\$430,438	\$1,749	99.59%	51,287	3.41%
June 30, 2009	426,283	455,219	28,936	93.64	50,120	57.73
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

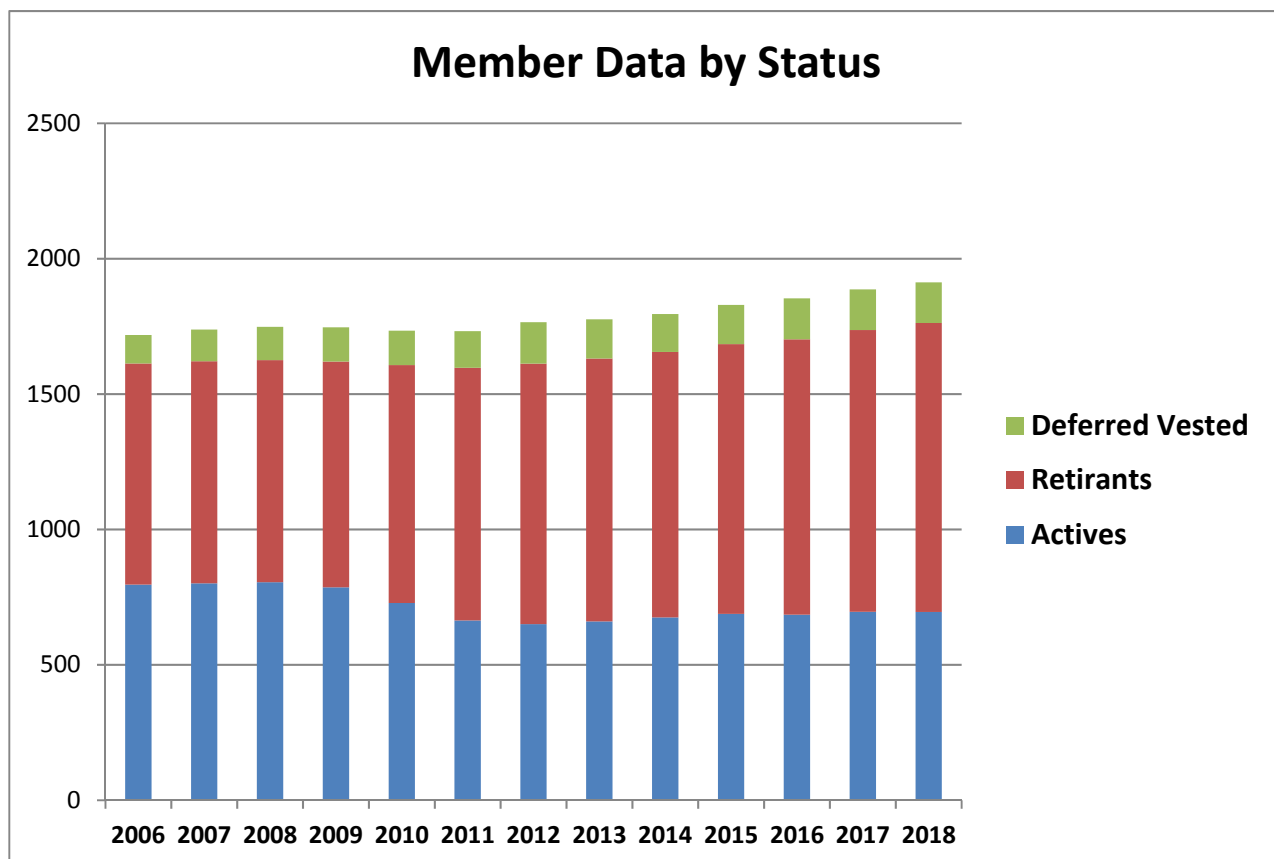
Schedule of Employer Contributions
(\$'s 000's)

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

Fiscal Year Ended June 30	Valuation Date June 30	Annual Required Contribution \$ Thousands	Percentage Contributed
2007	2005	\$5,039	100%
2008	2006	7,517	100
2009	2007	6,895	100
2010	2008	7,560	214
2011	2009	8,658^	166
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	

^ Revised based on the June 15, 2010 Supplemental Valuation.

Member Data by Status



MEMBERSHIP

	<u>2018</u>	<u>2017</u>
Active Participants	695	696
Inactive Participants	150	150
Retirees & Beneficiaries currently covered	<u>1067</u>	<u>1040</u>
Total	1912	1886

Assumptions, Methods, and Additional Information

Valuation Date:	6/30/2018
Actuarial Cost Method	Entry Age Normal
Amortization Method:	Level percent of payroll, closed
Remaining amortization period	23
Asset valuation method	5-year adjusted market value
Actuarial assumptions:	
- Investment Rate of Return	7%
- Projected Salary Increases	3.50%
- Payroll Increases	0.3%-6.0%
- Inflation Assumption	2.50%
- Cost of Living Adjustments	Adjustments are funded by financial gains, and are not guaranteed
Health Care Inflation	N/A

Accounting Information for GASB 67

The components of the net pension liability of the City at June 30, 2018 and the prior fiscal year are as follows:

	June 30, 2018	June 30, 2017
Total Pension Liability	\$ 586,147,000	\$ 559,386,000
Plan Fiduciary Net Position	503,735,000	491,274,000
City's net pension liability	82,412,000	68,112,000
Plan Fiduciary net position as a percentage of the total pension liability	85.9%	87.82%
Covered Employee Payroll	55,459,000	53,583,000
Net Pension Liability as a percentage of covered employee payroll	148.6	127.11%

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

Decrease to 6%	Current 7%	Increase to 8%
\$146,751,000	\$82,412,000	\$28,194,000

Description of Plan and Benefits

The City of Ann Arbor Employees' Retirement 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 Retirement 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, will 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 City of Ann Arbor Employees' Retirement 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 Retirement System was amended and restated to add to the existing defined benefit plan (to be called the "Traditional Retirement Plan"), a defined contribution money purchase pension plan (the "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 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.

General Non Union members, General AFSCME, Police Professional and TEAMSTER members, Fire Members, Police Department Chiefs, Police AAPOA, COAM and AAPOA for Police Specialists all contribute 6% of their annual compensation if hired prior to January 1, 2017. Non Union, Teamsters, Civilian Supervisors and AFSCME employees hired on or after January 1, 2017 contribute 3%. Assistant Fire Chiefs and Deputy Police Chiefs hired on or after July 1, 2017 and June 5, 2017 respectively, also contribute 3%. As noted above, members contributing 3% also participate in the Dual Retirement Plan. Deposits are posted to an individual account for each member.

The accumulated amount in each account is used for the member's benefit if the member remains in service until retirement. If a member leaves service, the member may withdraw all or a portion of the amount of accumulated contributions together with interest credited to the member's individual account. With five or more years of service (*10 years for general non-union post 7/1/2011, 10 years depending on date of hire for bargaining units as reflected in their individual contracts*), a member may elect a deferred retirement commencing at age 60. If an active member dies prior to retirement and no monthly survivor benefits are payable under the Retirement System's provisions, the member's named beneficiary or legal representative will receive a refund of the member's contributions.

A member's contributions may be withdrawn in increments of 25%, up to a total withdrawal. Such withdrawals reduce or eliminate the annuity portion of the retirement allowance.

Final Average Compensation (FAC) is a term used when describing City of Ann Arbor Employees' Retirement System Benefits. It means the average of the highest three, or five consecutive years of compensation out of the last ten years, depending on date of hire. Some lump sum payments are included in a member's FAC.

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 & 7/1/17 (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.

MEMBER INTEREST CREDITS

Member interest credits on member contributions are calculated annually, depending on a rolling period of investment returns. Effective January 1, 2018, member's individual accounts will be credited with interest at 1.20 % per quarter for an annual return of 4.8 %.

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 all or a portion of 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 as 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 as 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 as 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 as regular retirement. Minimum benefit is 25% of final average compensation.

Duty Death before Retirement:

Eligibility - No age and service requirement.

Annual Amount - Computed as 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 Retirement 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 as 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 retirants 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:

*General Non-Union:	6% beginning 7/1/2010
*General Police Professional & Teamster Civilian:	6% beginning 8/1/2010
*General AFSCME and CSS:	6% beginning 11/20/2011
Fire:	6%, beginning 2/1/2010
Police Department Chiefs:	6% beginning 8/1/2010
Police AAPOA:	6% beginning 1/1/2012
AAPOA for Police Service Specialists:	6% beginning 8/14/2011
Police COAM:	6% beginning 5/6/2012
Assistant Fire Chiefs	3% beginning 7/1/2017
Deputy Police Chiefs	3% beginning 6/5/2017

*If hired on or after January 1, 2017, member contributions for the noted Labor Groups are 3% to the Retirement System.

FINANCIAL SECTION

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**



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Independent Auditors' Report

To the Board of Directors
City of Ann Arbor Employees' Retirement System

We have audited the accompanying statements of fiduciary net position of the City of Ann Arbor Employees' Retirement System (the "System") as of June 30, 2018, and the related statements of changes in fiduciary net position for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Independent Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on auditor judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the System's net position restricted for retirement benefits at June 30, 2018 and changes therein for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Emphasis of a Matter

As discussed in Note 1, the financial statements present only the City of Ann Arbor Employees' Retirement System pension trust fund and do not purport to, and do not, present fairly the financial position of the City of Ann Arbor as of June 30, 2018, and the changes in its financial position for the year then ended, in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters:

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the schedules of pension information, as listed in the table of contents, be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Yeo & Yeo, P.C.

Ann Arbor, Michigan
October 5, 2018

City of Ann Arbor
Employees' Retirement System
Statement of Fiduciary Net Position
June 30, 2018

Assets

Investments, at fair value	
Equities	\$ 288,898,243
Fixed income	155,315,811
Other	<u>58,519,016</u>
 Total investments	 502,733,070
 Equity in City of Ann Arbor pooled cash and investments	 4,228,465
Accrued interest and dividends	270,506
Due from other funds	113,377
Capital assets, net	350,826
Other assets	<u>300,310</u>
 Total assets	 <u>507,996,554</u>

Deferred Outflows of Resources

Deferred amount of pension expense related to net pension liability	292,866
Deferred amount of OPEB expense related to net OPEB liability	<u>37</u>
 Total deferred outflows of resources	 <u>292,903</u>
 Total assets and deferred outflows of resources	 <u>508,289,457</u>

Liabilities

Accounts payable and accrued liabilities	3,187,455
Mortgage payable, due in one year	29,887
Mortgage payable, due in more than one year	134,225
Net pension liability	616,591
Net OPEB liability	<u>273,844</u>
 Total liabilities	 <u>4,242,002</u>

Deferred Inflows of Resources

Deferred amount on net pension liability	<u>1,101</u>
 Total liabilities and deferred inflows of resources	 <u>4,243,103</u>

Net position restricted for pensions \$ 504,046,354

City of Ann Arbor
Employees' Retirement System
Statement of Changes in Fiduciary Net Position
For the Year Ended June 30, 2018

Additions

Investment income	
From investing activities	
Net appreciation in fair value of investments	\$ 30,609,989
Interest and dividends	<u>3,585,416</u>
Total investment income	34,195,405
Investment management fees	<u>(596,024)</u>
Net investment income from investing activities	<u>33,599,381</u>
From securities lending activities	
Gross earnings	13,552
Borrower rebates paid	(3,717)
Securities lending fees	<u>(2,945)</u>
Net investment income from securities lending activities	<u>6,890</u>
Total net investment income	<u>33,606,271</u>
Contributions	
Employer	13,616,365
Plan members	<u>3,291,231</u>
Total contributions	<u>16,907,596</u>
Total Additions	<u>50,513,867</u>

Deductions

Benefits	35,807,321
Refunds	910,311
Administrative expenses	<u>727,899</u>
Total Deductions	<u>37,445,531</u>
Change in net position	<u>13,068,336</u>
Net position - beginning of year	491,273,658
Restatement for net OPEB liability	<u>(295,640)</u>
Net position - beginning of year (as restated)	<u>490,978,018</u>
Net position - end of year	<u>\$ 504,046,354</u>

Reconciliation of Plan Fiduciary Net Position

The System modified the retirement plan in 2017 to a contribution and benefit plan for participants. The fiduciary net position.

The reconciliation of the “Plan fiduciary net position per Schedule of Changes in Net Position and Related Ratios” and “Net position per Statement of Fiduciary Net Position” of the System at June 30, 2018, is as follows:

	<u>2018</u>
Plan fiduciary net position per Schedule of Changes in Net Position and Related Ratios	\$ 503,735,000
Defined contribution plan assets for the year ended	341,865
Defined contribution plan liabilities for the year ended	(1,114)
Other*	<u>(29,397)</u>
Net position per Statement of Fiduciary Net Position	<u>\$ 504,046,354</u>

*Other items include the rounding of the GASB entry.

**City of Ann Arbor
Projected Budget**

	<u>Budget</u> <u>FY18/19</u>
Salary and Fringes	\$446,012
Insurance Premiums	\$32,735
Actuary	\$60,000
Actuary-Additional projects	\$10,000
Attorney	\$50,000
Auditor	\$5,000
Professional Services	\$5,000
Building Maintenance	\$12,300
Printing	\$1,270
Conf & Training	\$33,860
Due Diligence	\$15,000
Government Functions	\$3,760
Contingency/Miscellaneous	\$7,520
Postage	\$1,000
Supplies	\$1,120
Equipment <5000	\$1,500
Dues/Subscriptions	\$1,880
IT Charges	\$31,614
Software - Actuarial	\$10,000
Software Maintenance	\$30,000
Interest on Mortgage	\$5,227
Principal on Mortgage	<u>\$22,487</u>
 Total Administrative Costs	 \$787,285
 Total Investment Services	 <u>\$2,236,000</u>
 Benefit/Refund Payments	 \$1,500,000
Benefit Payments	<u>\$37,000,000</u>
 Total Benefit/Refund Payments	 \$38,500,000
 Total Budget	 <u><u>\$41,523,285</u></u>

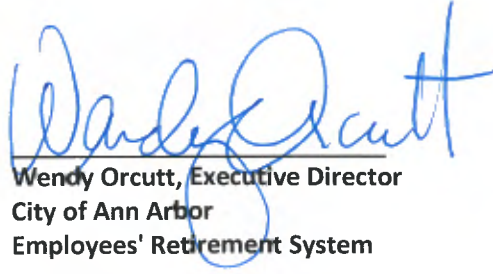
City of Ann Arbor
Employees' Retirement System

ACKNOWLEDGMENTS

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



Jeremy Black, Chairperson
City of Ann Arbor
Employees' Retirement System



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