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

***SUMMARY
ANNUAL REPORT***

**For the Fiscal Year Ended
June 30, 2023**

**CITY OF ANN ARBOR
RETIREE HEALTH CARE BENEFIT PLAN & TRUST
532 S Maple Rd.
Ann Arbor, MI 48103**

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Carlyle	Mesirow Private Equity	Vanguard REIT
Dimensional Fund Advisors	The Northern Trust Company	WCM
DRA Growth and Income Funds	Rhumblin	
First Eagle	Rhumblin HEDI	

INVESTMENT MANAGEMENT CONSULTANT

Meketa Investment Group

LEGAL COUNSEL

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

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CITY OF ANN ARBOR

RETIREE HEALTH CARE BENEFITS PLAN AND TRUST

Annual Report For Year Ending June 30, 2023

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 was established during the year ending June 30, 1999. The City is now "pre-funding" for the health and life insurance coverage provided to retirees 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 9.7% for Fiscal Year Ended June 30, 2023. The annual money weighted rate of return was 9.94%. These returns are net of fees.

The Actuarial Determined Contribution (ADC) is \$7,085,771 for Fiscal Year 2023/2024, and \$7,529,098 for Fiscal Year 2024/2025 as detailed in page 6 of this report. The projected annual required contribution rate for advance-funding of the post-retirement health and life insurance coverage for Fiscal Year 2025 is 11.75% of active participant payroll vs. 11.55% last year.

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, and the reserve created is a valuable result. Eventually, if the recommended funding contributions in subsequent years are made, the Plan will be fully actuarially funded. **In the year ending June 30, 2023, \$15,340,861 was contributed to the fund, including benefits paid from City assets. This contribution exceeded the recommended contribution requirement for the year ended 2023.**

At the September 17, 2020 Board meeting, the Board of Trustees approved a change to the assumed rate of investment return (i.e., the discount rate) from 7.0% to 6.5% over a 5- year period, with a reduction of 0.1% per year starting with the 2020 valuation analysis. The actuary will only recognize the 0.1% reduction for all future years in the valuation. The Board will annually review the reduction in the assumed rate of return over this 5- year period to determine if additional modifications or time-line considerations should be addressed. Please note that the 6.70% discount rate is used to compute liabilities/future contributions in this valuation. The Fund assumed a 6.7% investment return during July 1, 2022 through June 30, 2023 and 6.7% thereafter.

Sincerely,

Jeremy Flack
Chairperson, Board of Trustees

Wendy Orcutt
Executive Director

Investment Summary & Highlights

Historical Asset Class Performance (%) Annualized Returns Over Rolling Calendar Year Periods as of December 31, 2022

Asset Class	<u>1 Year</u>	<u>3 Years</u>	<u>5 Years</u>	<u>7 Years</u>	<u>10 Years</u>
Total Plan	(11.2%)	4.9%	5.7%	7.4%	6.9%
Domestic Equity	(16.2)	7.7	8.8	11.2	11.7
International Developed Market Equity	(14.1)	5.0	6.0	8.1	7.3
International Emerging Market Equity	(16.1)	2.0	1.6	7.7	3.3
Investment Grade Fixed Income	(12.0)	(2.4)	0.2	0.9	1.1
High Yield Fixed Income	(13.2)	(0.2)	2.0	4.7	3.9
Treasury Inflation Protected Securities	(7.5)	1.9	2.5	2.6	N/A
Infrastructure	N/A	N/A	N/A	N/A	N/A
Natural Resources	(0.6)	6.1	7.0	N/A	N/A
Real Estate	(2.2%)	8.2%	8.5%	8.2%	8.4%

Note: Source is Meketa Investment Group. Returns are net of fees on a rolling calendar year basis. May contain differences from audited financial statements due to timing, manner of presentation, and accounting requirements. Performance updates are available quarterly on the Retirement System's website.

Actuarial Section

MEMBERSHIP

	<u>2023</u>	<u>2022</u>
Retirees and Beneficiaries currently covered	1123	1084
Spouses of Retirees currently covered	582	567
Active Participants		
Traditional Plan	201	237
RHRA Plan	<u>527</u>	<u>474</u>
Sub-total Active Participants	<u>728</u>	<u>711</u>
Total	2433	2362

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.

Development of the Actuarially Determined Contributions for the Other Postemployment Benefits Fiscal Year Ending June 30, 2025

Contributions for	General	General RHRA	Police	Police RHRA	Fire	Fire RHRA	Total
1. Total Normal Cost of Benefits	\$ 990,373	\$ 437,731	\$ 166,330	\$ 99,458	\$ 308,172	\$ 78,221	\$ 2,080,285
2. Member Contributions	0	0	0	0	0	0	0
3. Employer Normal Cost (1. - 2.)	990,373	437,731	166,330	99,458	308,172	78,221	2,080,285
4. Payment for Active Unfunded Actuarial Liabilities (UAL)	565,179	0	104,203	0	147,077	0	816,459
5. Payment for Inactive UAL	2,496,268	0	1,200,124	0	687,826	0	4,384,218
6. Interest	138,086	14,918	50,120	3,390	38,956	2,666	248,136
7. Preliminary Actuarially Determined Contribution (ADC) (3. + 4. + 5. + 6.)	\$ 4,189,906	\$ 452,649	\$ 1,520,777	\$ 102,848	\$ 1,182,031	\$ 80,887	\$ 7,529,098
8. Projected Fiscal Year Payroll	\$ 12,155,256	\$ 33,283,043	\$ 1,779,159	\$ 8,866,237	\$ 3,054,866	\$ 4,932,150	\$ 64,070,711
9. Preliminary ADC as a Percent of Projected Payroll	34.47 %	1.36 %	85.48 %	1.16 %	38.69 %	1.64 %	11.75 %
10. Prior Fiscal Year Budgeted Contribution⁽¹⁾							\$ 15,248,635
11. Prior Fiscal Year Budgeted Contribution with 2% Increase							\$ 15,553,608
12. Estimated City Contribution (Greater of 7. & 11.)							\$ 15,553,608

⁽¹⁾ Provided by the City.

Unfunded actuarial accrued liabilities were amortized as a level dollar amount over a period of 16 years for fiscal year ending June 30, 2025. The amortization period decreases by two each year thereafter until a 15-year amortization period is reached. Once the Plan reaches a 15-year amortization period, layered amortization will be incorporated. Under a layered amortization approach, once the period reaches 15 years, the initial Unfunded Actuarial Liability would wind down until it is fully amortized. For each subsequent valuation, any new UAL created by gains/losses, assumptions changes and/or plan changes for that valuation will be amortized over a new, closed 15-year period.

Assumptions and Methods Used to Determine Contributions for the FYE June 30, 2023

Valuation Date:	6/30/2021
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	6.8%
Assumed Rate of Return	6.8%
Amortization Period	20 years*
Inflation	3.5%
Salary Increases	3.50% per annum plus merit component that varies by age
Healthcare cost trend rates	Initial trend of 7.50% decreasing to an ultimate trend rate of 3.50% in year 12.

*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.

SCHEDULE OF EMPLOYER CONTRIBUTIONS

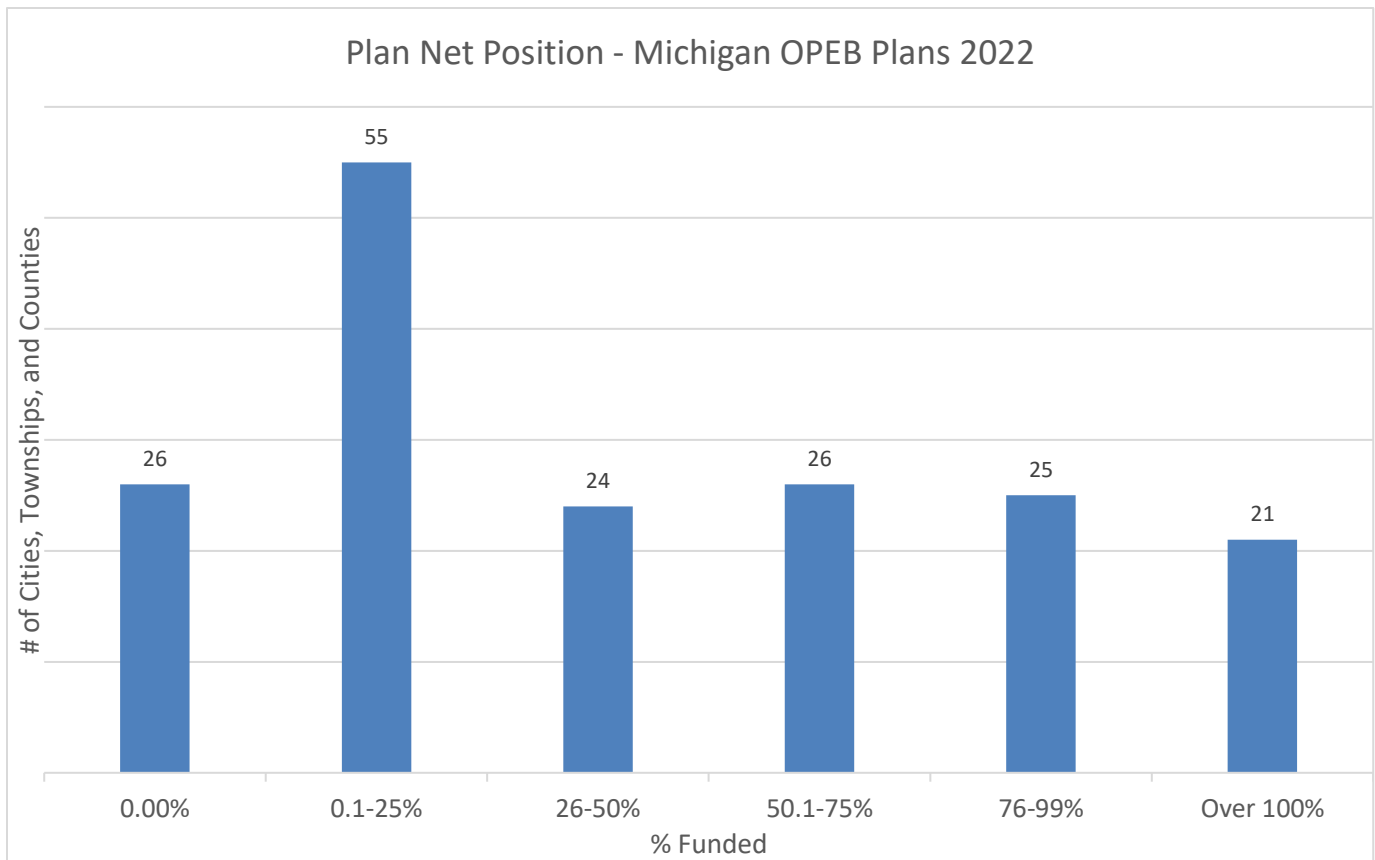
Year Ended June 30,	Annual Required Contribution	Current Premiums Paid by the City	Pre Funding Contributions to Trust	Percentage Contributed
2023	\$9,403,669	\$14,298,012	\$1,042,849	163.1%
2022	13,001,479	13,036,696	760,564	106.0
2021	11,663,630	14,516,628	1,108,867	134.0
2020*	12,129,387	11,468,614	772,922	101.0
2019	9,234,000	13,171,225	2,816,543	173.1
2018	10,641,000	14,272,653	3,451,332	166.6
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

*NOTE: Due to the COVID-19 crisis, the City temporarily suspended the funding policy for FYE20 & FYE21 and only contributed the ADC (Actuarially Determined Contribution).

FUNDING LEVEL STATUS

The City of Ann Arbor is “pre-funding” for the health insurance coverage provided to retirees and beneficiaries. In addition to contributing the Actuarial Determined Contribution (ADC), the City has historically contributed well above that amount. Per the June 30, 2022 GASB 74/75 Report, the Retiree Health Care Plan’s Net Position is 85.62%, an increase from the prior year’s 76.17% funded level. As referenced earlier on page 4, the Board has adopted a lower assumed rate of return which will also result in higher contributions to the Plan.

As you can see in the chart below, a great number of Systems are using a “pay as you go” approach. Of the 177 plans included in the sample, 15% are making no advance payments to their Plan, 45% of the plans are funded at 50% or less, with only 26% funded at 76% or higher.



* This graph includes 177 Cities, Townships and Counties with a minimum of \$1,000,000 in OPEB liabilities. The source of the data is the State of Michigan Local Retirement System Status Report.

ACCOUNTING INFORMATION FOR GASB 74/75

The components of the New OPEB Liability of the City at June 30, 2023 are as follows:

Total OPEB Liability	\$291,775,386
Plan Fiduciary net position	249,832,624
Net OPEB Liability	41,942,762
Plan Fiduciary net position as a percentage of the total OPEB Liability	85.62%

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

Decrease to 5.7%	Discount Rate – 6.7%	Increase to 7.7%
\$76,718,013	\$41,942,762	\$13,006,141

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

1% Decrease	Current	1% Increase
\$10,934,180	\$41,942,762	\$79,038,789

SCHEDULE OF REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF THE NET OPEB LIABILITY MULTIYEAR
(\$ in thousands)

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
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	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
2021	313,723,384	244,344,934	69,378,450	77.89	60,232,543	115.18
2022	297,184,636	226,358,005	70,826,631	76.17	62,187,947	113.89
2023	291,775,386	249,832,624	41,942,762	85.62	63,136,097	66.43

⁽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⁾ A 27th pay was included in this figure. Prospectively, this number will be prorated when there is a "split pay" at fiscal yearend.

FINANCIAL SECTION

The purpose of the Financial Section is to provide the reader with the present financial position and condition of the Plan & Trust.

This section contains:

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

**CITY OF ANN ARBOR, MICHIGAN
RETIREE HEALTH CARE BENEFITS PLAN AND TRUST**

Statement of Fiduciary Net Position

June 30, 2023

Assets

Investments, at fair value:

Equities	\$ 144,886,369
Fixed income	47,250,413
Other	<u>57,198,775</u>
Total investments	249,335,557

Equity in City of Ann Arbor pooled cash and investments	518,937
Accrued interest and dividends	<u>328,235</u>

Total assets 250,182,729

Liabilities

Accrued liabilities	<u>350,105</u>
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Net position restricted for other postemployment benefits \$ 249,832,624

**CITY OF ANN ARBOR, MICHIGAN
RETIREE HEALTH CARE BENEFITS PLAN AND TRUST**

Statement of Changes in Fiduciary Net Position

For the Year Ended June 30, 2023

Additions

Investment income:

From investing activities:

Net appreciation in fair value of investments	\$ 18,268,773
Interest and dividends	4,562,883
Total investment income	<u>22,831,656</u>
Investment management fees	(151,834)
Net investment income from investing activities	<u>22,679,822</u>

From securities lending activities:

Gross earnings	22,398
Borrower rebates received (paid)	(15,357)
Securities lending fees	11,320
Net investment income from securities lending activities	<u>18,361</u>

Net investment income 22,698,183

Employer contributions 15,340,861

Total additions 38,039,044

Deductions

Participant benefits	14,298,012
Administrative expenses	266,413

Total deductions 14,564,425

Change in net position 23,474,619

Net position, beginning of year 226,358,005

Net position, end of year \$ 249,832,624