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

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***SUMMARY***  
***ANNUAL REPORT***

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**For the Fiscal Year Ended**  
**June 30, 2022**

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

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Daniel Gustafson, Pension Analyst  
Maria Buffone, Accountant  
Laura Hollabaugh, Management Assistant

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BlackRock	Loomis, Sayles & Company, L.P.	Vanguard REIT
Carlyle	The Northern Trust Company	WCM
Dimensional Fund Advisors	Rhumblin	
DRA Growth and Income Funds	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, 2022

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 a negative (7.5%) for Fiscal Year Ended June 30, 2022. The annual money weighted rate of return was (7.69%). These returns are net of fees.

The Actuarial Determined Contribution (ADC) is \$9,403,669 for Fiscal Year 2022/2023, and \$7,085,771 for Fiscal Year 2023/2024 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 2024 is 11.55% of active participant payroll vs. 15.95% 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 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, 2022, \$13,797,260 was contributed to the fund, including benefits paid from City assets. This contribution exceeded the recommended contribution requirement for the year ended 2022.**

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 6.8% investment return during July 1, 2021 through June 30, 2022 and 6.7% thereafter.

Sincerely,

  
Jeremy Flack (Jan 24, 2023 19:36 EST)

Jeremy Flack  
Chairperson, Board of Trustees

  
Wendy Orcutt (Jan 24, 2023 15:46 EST)

Wendy Orcutt  
Executive Director

## Investment Summary & Highlights

### Historical Asset Class Performance (%) Annualized Returns Over Rolling Calendar Year Periods as of December 31, 2021

Asset Class	<u>1 Year</u>	<u>3 Years</u>	<u>5 Years</u>	<u>7 Years</u>	<u>10 Years</u>
Total Plan	16.1%	16.0%	11.2%	8.9%	9.4%
Domestic Equity	26.0	24.8	17.0	13.7	15.6
International Developed Market Equity	15.7	19.6	14.7	10.4	10.6
International Emerging Market Equity	5.0	13.9	11.9	8.1	6.0
Investment Grade Fixed Income	(1.5)	4.6	3.4	2.8	3.0
High Yield Fixed Income	6.7	9.2	6.5	6.3	6.7
Treasury Inflation Protected Securities	5.6	7.0	4.5	3.7	N/A
Bank Loans	5.0	5.6	4.1	4.2	N/A
Emerging Market Debt	(8.2)	1.9	1.9	0.2	N/A
Natural Resources	(7.5)	18.6	N/A	N/A	N/A
Real Estate	30.2 %	14.0%	10.7%	9.7%	10.7%

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>2022</u>	<u>2021</u>
Retirees and Beneficiaries currently covered	1084	1048
Spouses of Retirees currently covered	567	552
Active Participants		
Traditional Plan	237	284
RHRA Plan	<u>474</u>	<u>423</u>
Sub-total Active Participants	<u>711</u>	<u>707</u>
<b>Total</b>	<b>2362</b>	<b>2307</b>

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, 2024

Contributions for	General		Police		Fire		Total
	General	RHRA	Police	RHRA	Fire	RHRA	
1. Total Normal Cost of Benefits:	\$ 1,027,216	\$ 413,964	\$ 252,935	\$ 104,681	\$ 314,369	\$ 68,794	\$ 2,181,959
2. Member Contributions	0	0	0	0	0	0	0
3. Employer Normal Cost (1. - 2.)	1,027,216	413,964	252,935	104,681	314,369	68,794	2,181,959
4. Payment for Active Unfunded Actuarial Liabilities (UAL)	535,398	0	156,160	0	140,487	0	832,045
5. Payment for Inactive UAL	2,192,354	0	1,022,575	0	623,313	0	3,838,242
6. Interest	127,970	14,108	48,791	3,568	36,744	2,344	233,525
<b>7. Preliminary Actuarially Determined Contribution (ADC) (3. + 4. + 5. + 6.)</b>	<b>\$ 3,882,938</b>	<b>\$ 428,072</b>	<b>\$ 1,480,461</b>	<b>\$ 108,249</b>	<b>\$ 1,114,913</b>	<b>\$ 71,138</b>	<b>\$ 7,085,771</b>
<b>8. Projected Fiscal Year Payroll</b>	<b>\$ 12,685,852</b>	<b>\$ 29,522,185</b>	<b>\$ 2,829,836</b>	<b>\$ 8,456,983</b>	<b>\$ 3,525,849</b>	<b>\$ 4,337,653</b>	<b>\$ 61,358,358</b>
<b>9. Preliminary ADC as a Percent of Projected Payroll</b>	<b>30.61 %</b>	<b>1.45 %</b>	<b>52.32 %</b>	<b>1.28 %</b>	<b>31.62 %</b>	<b>1.64 %</b>	<b>11.55 %</b>
<b>10. Prior Fiscal Year Budgeted Contribution<sup>(1)</sup></b>							<b>\$ 14,457,246</b>
<b>11. Prior Fiscal Year Budgeted Contribution with 2% Increase</b>							<b>\$ 14,746,391</b>
<b>12. Estimated City Contribution (Greater of 7. &amp; 11.)</b>							<b>\$ 14,746,391</b>

<sup>(1)</sup> Provided by the City.

Unfunded actuarial accrued liabilities were amortized as a level dollar amount over a period of 18 years for fiscal year ending June 30, 2024. The amortization period decreases by two each year thereafter until a 15-year rolling amortization is reached. Once the Plan reaches 100% funded status, the amortization period will be set at 1 year.

**Assumptions and Methods Used to Determine Contributions for the FYE June 30, 2022**

Valuation Date:	6/30/2020
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	6.9%
Assumed Rate of Return	6.9%
Amortization Period	22 years*
Inflation	3.5%
Salary Increases	3.50% per annum plus merit component that varies by age
Healthcare cost trend rates	Initial trend of 8.25% decreasing to an ultimate trend rate of 3.50% in year 10.

\*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**

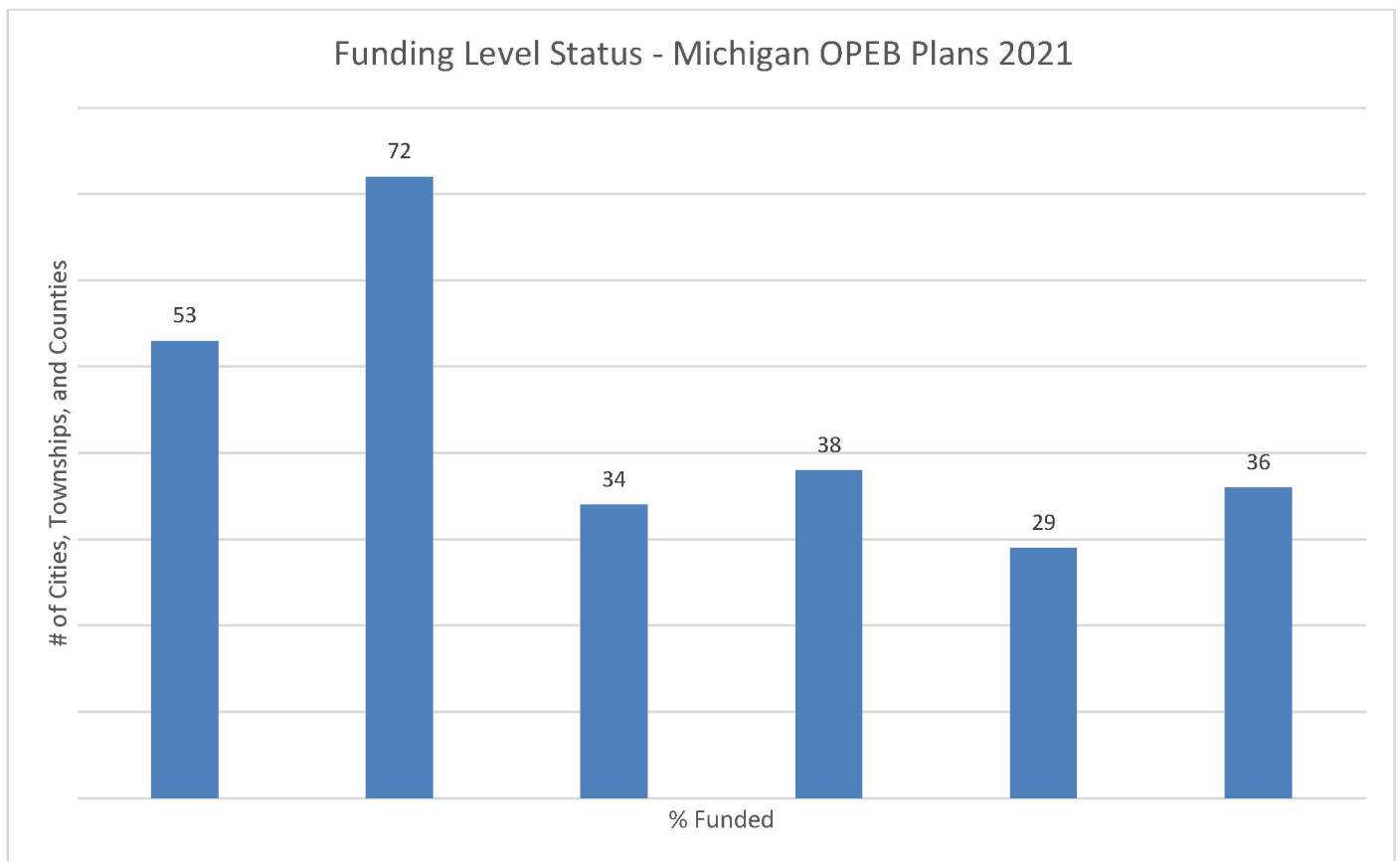
Year Ended June 30,	Annual Required Contribution	Current Premiums Paid by the City	Pre Funding Contributions to	
			Trust	Percentage Contributed
2022	\$13,001,479	\$13,036,696	\$760,564	106%
2021	11,663,630	14,516,628	1,108,867	134.0
*2020	12,129,387	11,468,614	772,922	101.0
2019	9,234,000	13,171,225	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
2012	14,859,285	8,889,686	2,163,202	74.4

\*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 is funded at 76.17%, a decrease from the prior year’s 77.89% 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 262 plans included in the sample, 20% are making no advance payments to their Plan, 40% of the plans are funded at 50% or less, with only 24% funded at 76% or higher.



\* This graph includes 262 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, 2022 are as follows:

Total OPEB Liability	\$297,184,636
Plan Fiduciary net position	226,358,005
Net OPEB Liability	70,826,631
Plan Fiduciary net position as a percentage of the total OPEB Liability	76.17%

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

Decrease to 5.8%	Discount Rate – 6.8%	Increase to 7.8%
\$107,598,883	\$70,826,631	\$40,410,686

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

1% Decrease	Current	1% Increase
\$38,035,610	\$70,826,631	\$110,343,799

**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 <sup>(1)</sup>	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

<sup>(1)</sup> 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.

<sup>(2)</sup> A 27<sup>th</sup> pay was included in this figure. Prospectively, this number will be prorated when there is a "split pay" at fiscal yearend.

## **FINANCIAL SECTION**

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**The purpose of the Financial Section is to provide the reader with the present financial position and condition of the 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, 2022

**Assets**

Investments, at fair value:

Equities	\$ 130,739,156
Fixed income	57,700,518
Other	<u>37,495,121</u>

Total investments 225,934,795

Equity in City of Ann Arbor pooled cash and investments 484,612

Accrued interest and dividends 186,458

**Total assets** 226,605,865

**Liabilities**

Accrued liabilities 247,860

**Net position restricted for other postemployment benefits** \$ 226,358,005

**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, 2022

**Additions**

Investment income (loss):

*From investing activities:*

Net depreciation in fair value of investments	\$ (22,306,157)
Interest and dividends	3,901,932
Total investment loss	<u>(18,404,225)</u>
Investment management fees	(185,473)
Net investment loss from investing activities	<u>(18,589,698)</u>

*From securities lending activities:*

Gross earnings	563
Borrower rebates received (paid)	(2,553)
Securities lending fees	932
Net investment loss from securities lending activities	<u>(1,058)</u>

Net investment loss (18,590,756)

Employer contributions 13,797,260

**Total additions** (4,793,496)

**Deductions**

Participant benefits	13,036,696
Administrative expenses	<u>156,737</u>

**Total deductions** 13,193,433

**Change in net position** (17,986,929)

Net position, beginning of year 244,344,934

**Net position, end of year** \$ 226,358,005