

**CITY OF ANN ARBOR RETIREE HEALTH CARE BENEFIT PLAN & TRUST  
BOARD OF TRUSTEES  
Minutes for the Regular Board Meeting  
December 18, 2008**

The meeting was called to order by Nancy Sylvester, Chairperson, at 10:15 a.m.

**ROLL CALL**

Members Present: Boonstra, Crawford, Hescheles (*dep. 10:22*), Kahan, Kaur, Nerdrum, Sylvester  
Members Absent: Fraser, Heatley  
Staff Present: Kluczynski, Powell  
Others: Michael VanOverbeke, Legal Counsel  
Brad Armstrong, Gabriel, Roeder, Smith & Company  
David Kausch, Gabriel, Roeder, Smith & Company  
Alan Panter, Abraham & Gaffney, P.C.  
Jeremy Flack, Fire Employee  
David Diephuis, City Resident

**AUDIENCE COMMENTS - None**

**A. APPROVAL OF AGENDA**

It was **moved** by Crawford and **seconded** by Kaur to approve the agenda as submitted.  
**Approved**

**B. APPROVAL OF MINUTES**

**B-1 November 20, 2008 Regular Retiree Health Care Benefit Plan & Trust Board Meeting**

It was **moved** by Nerdrum and **seconded** by Crawford to approve the November 20, 2008 Board meeting minutes as submitted.  
**Approved**

**C. CONSENT AGENDA**

**C-1 Authorization for Payment of Invoices (\$5,901.70)**

**WHEREAS**, the Board of Trustees is vested with the general administration, management and responsibility for the proper operation of the Trust; and

**WHEREAS**, Section 1:746(1) of Chapter 21 of the Code of the City of Ann Arbor provides that the Trustees may use a portion of the income of the system for payment for reasonable and necessary professional services costs and expenses related to assisting the Trustees and Trust Administrator in the operation of the Trust; and

**WHEREAS**, the Board of Trustees is required 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; therefore be it

**RESOLVED**, that the Board of Trustees' custodial bank, The Northern Trust Company, is authorized and directed to provide payment to the following vendors and providers of service in the

amount as indicated upon receipt by the Board of appropriate invoices or as required by lease agreements, subject to (a) review and approval of said invoices and lease agreements by appropriate Board representatives and (b) payment authorization signed by Nancy Sylvester/Chairperson, Chris Heatley/Vice-Chairperson, or Jeffrey Kahan/Secretary, and Willie J. Powell, Executive Director.

	<u>PAYEE</u>	<u>AMOUNT</u>	<u>DESCRIPTION</u>
1.	Gray & Company	1,154.65	Investment Consultant Retainer – October 2008
2.	Gray & Company	1,089.30	Investment Consultant Retainer – November 2008
3.	VanOverbeke, Michaud & Timmony	2,157.75	Fees for Legal Services – 7/1/08 - 9/30/08
4.	Abraham & Gaffney, P.C.	1,500.00	Audit Report for the Year Ended June 30, 2008
	<b><u>TOTAL</u></b>	<b>5,901.70</b>	

It was **moved** by Crawford and **seconded** by Hescheles to approve the consent agenda as submitted.

**Approved**

**D. PRESENTATIONS:**

**D-1 Retiree Health Care Benefit Plan & Trust Financial Report for the Fiscal Years Ended June 30, 2008 and 2007**

Mr. Panter reviewed the Financial Report for the fiscal years ended June 30, 2008 and 2007, highlighting that the net assets held in trust for retiree health care benefits was \$63,792,443 as compared to \$64,021,836 in 2007. Employer contributions for the year ended June 30, 2008 were \$4,622,604.

**D-2 Report of the 10th Annual Actuarial Valuation for the Year Ended June 30, 2008**

Mr. Kausch and Mr. Armstrong reviewed the VEBA Actuarial Valuation for the year ended June 30, 2008, noting that much of the report was discussed at the November Board meeting and the information has not changed in the last month. For fiscal year beginning July 1, 2009, the City's contribution rate would be 26.00%, or \$14,284,470, which is composed of 1) Benefit payout for the year, projected to be around \$9.84 million, and 2) Additional contributions to fund for future years' benefit payout (pre-funding). Below are comments from the Summary:

**COMMENT A**

The Benefits Plan began operation during the year ending June 30, 1999. The purpose of the Plan is to provide a funding vehicle for retiree health and life insurance benefits. 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 the prior practice of paying health and life insurance premiums as they come due – an inherently increasing cost method.

**COMMENT B**

The Benefit Plan's investment return was 5.8% versus 7.0% assumed based on the smoothed value of assets. However, in a plan with a funded ratio of 30%, investment return is not as significant to experience in the short-term as it will be when the funded ratio approaches 100%.

Valuation assets are \$4.5 million higher than market value of assets as of June 30, 2008. This will exert upward pressure on the contribution rate over the next four years.

#### COMMENT C

The weighted average computed contribution rate for advance-funding of the post-retirement health and life insurance coverage is 26.00% of active participant payroll vs. 25.62% last year. The primary drivers of the increase are the changes in demographic assumptions and investment performance less than expected. Raw retiree premium rates increased 5.8% for pre-65 retirees and increased 4.9% for post-65 retirees compared to the anticipated trend of 9.5% from 2007 to 2008.

#### COMMENT D

The establishment of a program of advance-funding for post-retirement health insurance does not protect the City from the effects of runaway health care costs. Other steps may be required, by the city or the health care industry, to cure that ill. Some of these steps have been taken in the past few years.

Advance-funding can, however, protect against expected future demographic changes, such as the increasing ratio of retired participant to active participant number count. Advance-funding also provides some cushion against the effects of large one-year increases in premiums followed by years of moderate increases. Finally, advance-funding helps enhance the security of future health insurance benefits, decreasing the likelihood that benefits will be severely curtailed.

#### COMMENT E

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 this and subsequent reports are made, the Plan will be fully actuarially funded. Along the way, more and more of the benefit payout will be paid out of investment income. In the year ending June 30, 2008, \$4,622,604 was contributed to the fund and benefits were paid from City assets. Failure to contribute the recommended contribution on a timely basis will result in increasing contribution requirements.

#### COMMEND F

The June 30, 2008 actuarial valuation reflects the new demographic assumption changes as recommended in the City of Ann Arbor Employees' Retirement System 5-Year Experience Study for the period July 1, 2003 through June 30, 2008 issued October 9, 2008. The assumption changes increased the computed health contribution rate by 0.79% of payroll and decreased the funded ratio from 31.1% to 30.2%. It is GRS' understanding that the Board will address whether or not to adopt assumption changes during the presentation of this report. Results are presented to show the relative effects of adopting new demographic assumptions.

#### CONCLUSION

The City and the Board of Trustees should continue to be diligent about managing the financial position of the Retiree Health Care Benefit Plan.

It was **moved** by Kahan and **seconded** by Nerdrum to accept the June 30, 2008 Actuarial Valuation as submitted by Gabriel, Roeder, Smith & Company.

**Approved**

#### **E. ACTION ITEMS**

##### **E-1 Revised Asset Allocation**

Mr. Powell stated that the Investment Policy Committee has submitted the revised asset allocation

analysis as presented by Gray & Company at the December 2, 2008 IPC meeting. The allocation is requested to be approved as follows:

Fixed Income Allocation:	27.5%
Equity Allocation:	62.5%
Real Estate Allocation:	<u>10.0%</u>
<b>Total Fund:</b>	<b>100.0%</b>

It was **moved** by Kahan and **seconded** by Kaur to approve the proposed asset allocation changes as submitted.

**Approved**

## **E-2 Ordinance Language Revision: Duplicate Healthcare Coverage**

Mr. VanOverbeke reviewed the drafted Ordinance language regarding Duplicate Healthcare Coverage. The language currently refers to the event that there are two or more participants and/or retirees who are independently eligible for health care benefits from the City or the Plan and are each also eligible for health care benefits from the City or the Plan as a spouse or dependent of a participant or a retiree. The parties shall be eligible to participate in only one policy or program so that one party participates in the one policy or program as the principal insured and the other party participates in the same policy or program as a spouse or dependent of the participant or retiree. Mr. VanOverbeke stated that the following paragraph has been added to the draft:

*However, in the event the Spouse's or Dependent's health care benefits under the principal insured's policy or program are terminated in accordance with Section 1:720, a Spouse or Dependent who would have otherwise independently qualified for health care benefits under the plan will be eligible for coverage in the applicable policy as the principal insured. The requirement that the Retiree elect to receive coverage from the plan at the time of retirement as provided in section 1:717 is waived in the event duplicate coverage was disallowed pursuant to this Section.*

Mr. VanOverbeke also referred to the recent language change by the City, whereby they have changed the term, "Domestic Partner" to "Other Qualified Adult" throughout the City Ordinance, so he has also cleaned up that terminology in the proposed draft. Mr. VanOverbeke agreed to draft a cover letter with the draft that includes a statement with regards to the term "Domestic Partner" being changed to "Other Qualified Adult", and looking for the City's guidance as to the language they feel is appropriate.

It was **moved** by Nerdrum and **seconded** by Boonstra to approve and forward to the City Attorney's Office the Duplicate Healthcare Coverage language provision subject to forwarding correspondence indicating that where the Plan references "Domestic Partner", we have inserted "Other Qualified Adult", we ask that they give consideration to the proper terminology to be used in light of the recent amendments, so that it does not need to be amended in the future as the terminology changes.

**Approved**

## **F. DISCUSSION ITEMS - None**

## **G. REPORTS**

### **G-1 Investment Policy Committee Report – December 2, 2008**

Following are the Retiree Health Care Benefit Plan & Trust Investment Policy Committee minutes from the meeting convened at 4:21 p.m. on December 2, 2008:

Member(s) Present: Heatley, Hescheles, Kahan  
 Member(s) Absent: Sylvester  
 Other Trustees Present: Crawford  
 Staff Present: Powell, Refalo  
 Others Present: Larry Gray, Gray & Company  
 Chris Kuhn, Gray & Company  
 Stewart Nelson, City Resident

**ASSET ALLOCATION AND IMPLEMENTATION**

Mr. Kuhn stated that the return target is the same as the Retirement System's, but the inflation target for healthcare is different, and hitting a 15% target would be impossible. Basically, the same asset allocation would work for both the Retirement System and VEBA. The thought is to get more proactive with the manager in the fixed income space and look at putting in place a core plus strategy; right now it is strictly indexed, and Gray is looking for a manager that would be more nimble and can dip into the high yield space. The proposed Implementation Plan is as follows:

Fixed Income Allocation: 27.5% (Priority 1)  
 Equity Allocation: 62.5% (Priority 3)  
 Real Estate Allocation: 10.0% (Priority 2)  
 100%

It was **moved** by Kahan and **seconded** by Heatley to recommend that the Board of Trustees approve the Asset Allocation Implementation Plan as submitted by Gray & Company.

**Approved**

**ADJOURNMENT**

It was **moved** by Kahan and **seconded** by Heatley to adjourn the meeting at 4:30 p.m.

**Meeting adjourned at 4:30 p.m.**

**G-2 Preliminary Investment Reports for the Month Ended November 30, 2008**

N. Gail Jarskey, Accountant, submitted the Financial Report for the month ended November 30, 2008, to the Board of Trustees:

11/30/2008 Asset Value (Preliminary)	\$47,617,423
10/31/2008 Asset Value (Audited by Northern)	\$49,460,360
Calendar YTD Increase/Decrease in Assets (excludes non-investment receipts and disbursements)	\$ (16,925,470)
Percent Gain <Loss>	-27.2%
<b>December 17, 2008 Asset Value</b>	<b>\$ 48,415,366</b>

**G-3 Legal Report - None**

**H. TRUSTEE COMMENTS**

Mr. Boonstra thanked the Board, Staff, and outside counsels for their work and help throughout his term, stating he thoroughly enjoyed his time on the Board and wished his best to everyone in the future.

Mr. Kahan stated it has been an honor and a pleasure working with Mr. Boonstra and wished him the best. Ms. Sylvester thanked Mr. Boonstra, stating that he is one of the most hard-working Trustees she knows, especially while chairing the Administrative Policy Committee which was a very challenging position.

I. **FUTURE AGENDA ITEMS - None**

J. **INFORMATION**

J-1 **Contribution Projection Letter from GRS**

Ms. Nerdrum stated that this is the same letter as submitted and discussed at the Retirement System's meeting.

K. **ADJOURNMENT**

It was **moved** by Boonstra and **seconded** by Crawford to adjourn the meeting at 11:17 a.m.  
**Meeting adjourned at 11:17 a.m.**

**Willie J. Powell, Executive Director  
City of Ann Arbor Employees' Retirement System**