GRS Gabriel Roeder Smith & Company
Consultants & Actuaries

CITY OF ANN ARBOR
RETIREE HEALTH CARE BENEFITS PLAN

11TH ANNUAL ACTUARIAL VALUATION AND PROJECTION-REVISED

JUNE 30, 2009

OUTLINE OF CONTENTS

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November 18, 2009

The Board of Trustees
City of Ann Arbor Retiree Health Care Benefits Plan
Ann Arbor, Michigan

Submitted in this report are the results of the Eleventh Annual Actuarial Valuation and Projection of the assets, actuarial values and contribution requirements associated with benefits provided by the City of Ann Arbor Retiree Health Care Benefits Plan. The actuarial calculations were performed for purposes of complying with the requirements of Statements No. 43 and No. 45 of the Governmental Accounting Standards Board (GASB).

The date of the valuation was June 30, 2009.

Valuation results, comments and conclusions are contained in Section A.

Projections of population data, cash flow and assets are contained in Section B.

The valuation was based upon information, furnished by your staff, concerning Plan benefits, financial transactions, and individual participants, terminated participants and retirees. Data was checked for year-to-year consistency, but was not otherwise audited by us. This information is summarized in Section C.

Descriptions of the actuarial cost methods and actuarial assumptions are contained in Section D, along with a glossary of technical terms.

To the best of our knowledge, this report is complete and accurate and was made in accordance with generally recognized actuarial methods in compliance with the laws governing the operation of the Benefits Plan.

One or more of the actuaries submitting this report is a Member of the American Academy of Actuaries (MAAA) as indicated, and meets the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion contained herein.

Respectfully submitted,

Brad Lee Armstrong, ASA, MAAA, EA

David T. Kausch, FSA, MAAA, EA

BLA:bd

EXECUTIVE SUMMARY

EXECUTIVE SUMMARY

Annual Required Contribution

This report presents the annual expense required to be recognized by the plan sponsor for purposes of complying with the accounting requirements of the Governmental Accounting Standards Board (GASB) Statements No. 43 and No. 45.

The Annual Required Contribution (ARC) for the fiscal year beginning July 1, 2010 is estimated to be $14,395,148 or 26.31% of payroll, provided that the City intends to fully fund the OPEB. In the first year GASB Statement No. 45 is adopted, the annual OPEB cost required to be disclosed on the employer's financial statements is equal to the ARC. Actual claims and premiums may be treated as employer contributions in relation to the ARC and also act to reduce the Net OPEB Obligation (NOO) described below under Additional OPEB Reporting Requirements. The expected retiree health care claims and premium amounts paid during the fiscal year beginning July 1, 2010 are estimated to be $9,690,169. These amounts reflect the employer portion of the retiree only premium rates and the implicit subsidy for retirees and covered spouses. Therefore, the expected employer pre-funding contribution that would result in a zero NOO for June 30, 2011 is $4,699,508 ($14,395,148 - $9,690,169).

For additional details, please see Section A of the report.

Additional OPEB Reporting Requirements

In addition to the ARC described above, employers will have to disclose a NOO. The current NOO is the cumulative difference between annual OPEB costs (ARC plus amortization of the prior NOO) and annual employer contributions in relation to the ARC, accumulated with interest from the implementation of GASB Statement No. 45. The NOO Obligation is zero as of the beginning of the fiscal year that GASB Statement No. 45 is implemented, unless the employer chooses to recognize a beginning balance. The ARC and the NOO are strongly influenced by the employers' commitment to pre-funding future cash flows, i.e., the degree to which the City contributes amounts to the Retiree Health Care Plan to meet the ARC.

EXECUTIVE SUMMARY
(CONCLUDED)

The requirements for determining the employer's contributions in relation to the ARC are described in paragraph 13 g. of GASB Statement No. 45. Additional information required to be disclosed in the employer's financial statements is detailed in paragraphs 24 through 27 of GASB Statement No. 45.

Liabilities and Assets

Once again assuming full pre-funding, the present value of all benefits expected to be paid to current plan members as of June 30, 2009 is $268,410,785. The actuarial accrued liability, which is the portion of the $268,410,785 attributable to service accrued by plan members as of June 30, 2009, is $232,179,556. The assets currently set aside for GASB OPEB purposes as of June 30, 2009 are $70,769,776.

SECTION A

VALUATION RESULTS, COMMENTS AND CONCLUSIONS

FINANCIAL OBJECTIVE

The financial objective of the Benefits Plan is to establish and receive contributions, expressed as percents of active participant payroll, which will remain approximately level from year to year and will not have to be increased for future generations of citizens. Even though the benefits, health insurance and life insurance are not related to participant pays, expressing the contributions as percentages of pay assists the reader in comparing these costs to other fringe benefit costs.

CONTRIBUTION RATES

The Benefits Plan is supported by City contributions and investment income from Benefits Plan assets.

Contributions which satisfy the financial objective are determined by an annual actuarial valuation and are sufficient to:

(1) cover the actuarial present value of benefits assigned to the current year by the actuarial cost methods described in Section C (the normal cost); and

(2) amortize over a period of future years the actuarial present value of benefits not covered by valuation assets and anticipated future normal costs (unfunded actuarial accrued liability).

Contribution requirements for the fiscal year beginning July 1, 2010 are shown on page A-2. We direct the reader's attention to the note at the bottom of page A-2.

CITY'S COMPUTED CONTRIBUTIONS TO THE BENEFITS PLAN FOR THE FISCAL YEAR BEGINNING JULY 1, 2010

	City's Contributions Expressed as Percents and Dollars Based on Valuation Payroll			
	General Members	**Police Members**	**Fire Members**	**Totals**
Normal Cost				
Age & service	9.21%	9.1.00%	9.67%	
Disability	0.61	0.42	0.12	
Pre-retirement survivor	0.25	0.07	0.09	
Termination				
Deferred service benefits	0.00	0.00	0.00	
Refunds of member contrib.	0.00	0.00	0.00	
Total Normal Cost	10.07	9.59	9.88	
Members' Contributions	0.00	0.00	0.00	
City's Normal Cost - %	10.07%	9.59%	9.88%	9.95%
- $**				$ 5,440,527
Unfunded Actuarial Accrued Liabilities				
Retirants and beneficiaries				8.36
Active members*				8.00
Total - %				16.36%
- $**				$ 8,954,621
City's Contribution Rate - %				26.31%
- $**				$ 14,395,148

* *Financed as a level percent-of-payroll over 30 years.*

** *City's dollar contribution includes a payroll projection factor (1.0712) to project active participant payroll to the applicable fiscal year.*

Note: The above $14,395,148 computed contribution for the 2010/2011 fiscal year is composed of:

1) Benefit payout for the year, projected to be around $10.76 million, and
2) Additional contributions to fund for future years' benefit payout (pre-funding).

CITY'S COMPUTED CONTRIBUTIONS – COMPARATIVE SCHEDULE

Fiscal Year		Valuation Date June 30	As Percents of Valuation Payroll				Valuation Payroll	Dollar Contributions	
			General Division	Police Division	Fire Division	Weighted Average		Computed #	Actual &
1999-00									$ 6,998,989
2000-01		1999	9.79%	10.00%	10.08%	9.88%	$ 43,621,055	$ 4,661,437	6,006,879
2001-02		2000	13.35%	13.12%	13.12%	13.26%	44,092,030	6,323,686	6,996,824
2002-03		2001	13.51%	13.56%	13.09%	13.40%	47,449,008	6,876,994	6,810,310
2003-04		2002	15.84%	15.29%	15.12%	15.57%	46,744,055	7,871,938	7,803,872
2004-05		2003	17.12%	17.60%	17.03%	17.22%	46,212,713	8,607,188	4,099,026
2005-06		2004	15.98%	16.10%	16.27%	16.05%	47,109,470	8,099,607	7,065,913
2006-07		2005	20.50%	20.43%	20.70%	20.50%	47,224,565	10,370,568	7,616,064
2007-08		2006	23.25%	23.01%	23.66%	23.25%	49,626,746	12,360,028	12,360,028
2008-09		2007	25.62%	25.59%	25.68%	25.62%	50,677,914	13,908,444	9,590,242
2009-10	*	2008	26.25%	25.39%	25.77%	26.00%	51,287,330	14,284,470	
2010-11		2009	25.87%	25.30%	25.68%	25.71%	52,559,496	14,475,513	
2010-11	@	2009	26.43%	25.95%	26.24%	26.31%	51,075,730	14,395,148	

 # The computed dollar contributions include the expectation of health and life insurance benefit payouts from the Benefits Plan, which are currently being paid by the City.

** After changes to actuarial assumptions.*

& Beginning in Fiscal Year 2006-2007, actual contributions include health and life insurance benefits paid directly by the City.

@ After elimination of 18 police positions.

FINANCIAL OBJECTIVE ACHIEVEMENT TESTS

The 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. If the contributions to the Plan are level in concept and soundly executed, the Plan ***will pay all promised benefits when due -- the ultimate test of financial soundness***. Testing for level contribution rates is ***the long-term solvency test.*** Year by year computed contribution rates are displayed on page A-3.

There is no single all-encompassing test to measure a benefit plan's funding progress and current funded status. Measures based on the actuarial accrued liability are shown on page A-5, and are described below:

The ratio of valuation assets to the actuarial present value of future benefits for currently retired participants. The ratio is expected to gradually increase in the absence of benefit improvements and changes in actuarial assumptions.

The ratio of valuation assets to the total actuarial accrued liability for all participants. The ratio is expected to gradually increase in the absence of benefit improvements and changes in actuarial assumptions.

The ratio of the unfunded actuarial accrued liability to participant payroll. This ratio puts the unfunded liability into perspective, compared to other major financial obligations of the City. The ratio is expected to gradually decrease in the absence of benefit improvements and changes in actuarial assumptions.

FINANCIAL OBJECTIVE ACHIEVEMENT TESTS - COMPARATIVE STATEMENT

Valuation Date June 30		(1) Valuation Assets	(2) Active Participant Payroll	Actuarial Accrued Liability (3) Retired Participants	Actuarial Accrued Liability (4) All Participants	Funded Ratio Retired Participants (1) ÷ (3)	Funded Ratio All Participants (1) ÷ (4)	Unfunded Accrued Liability (5) Dollars (4) - (1)	Unfunded Accrued Liability (6) % of Payroll (5) ÷ (2)
		($ amounts in thousands)							
1999		$ 3,075	$43,621	$ 28,785	$ 53,467	10.7 %	5.8 %	$ 50,392	115.5 %
2000		7,941	44,092	42,698	75,490	18.6	10.5	67,549	153.2
2001		14,531	47,449	51,107	88,235	28.4	16.5	73,704	155.3
2002		22,044	46,744	72,573	108,869	30.4	20.2	86,825	185.7
2003		29,789	46,213	86,130	126,918	34.6	23.5	97,129	210.2
2004		39,163	47,109	92,318	131,703	42.4	29.7	92,540	196.4
2005		45,256	47,225	115,606	166,824	39.1	27.1	121,568	257.4
2006		55,250	49,627	137,384	197,199	40.2	28.0	141,949	286.0
2007		60,090	50,678	144,064	215,949	41.7	27.8	155,859	307.5
2008		68,312	51,287	142,690	219,632	47.9	31.1	151,320	295.0
2008	*	68,312	51,287	146,961	225,998	46.5	30.2	157,686	307.5
2009		70,770	52,559	146,093	231,210	48.4	30.6	160,440	305.3
2009	@	70,770	51,076	153,194	232,180	46.2	30.5	161,410	316.0

* *After changes to actuarial assumptions.*

@ After reflection of vacated positions under the early retirement incentive.

COMMENTS AND CONCLUSIONS

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 1.1% versus 7.0% assumed based on the smoothed value of assets during the year ending June 30, 2009. In a plan with a funded ratio of 31%, this investment return underperformance is not as significant to experience in the short-term as it could be when the funded ratio approaches 100%. Valuation assets are $16.7 million higher than market value of assets as of June 30, 2009. This will exert upward pressure on the contribution rate and downward pressure on the funded ratio 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 26.31% of active participant payroll vs. 26.00% last year. The primary driver of the increase in the rate is the impact of the reduction in active participant's payroll over which the unfunded actuarial accrued liability is being amortized, offset by raw retiree premium rates which increased 5.6% for pre-65 retirees and 2.6% for post-65 retirees as compared to the anticipated trend of 9.5%.

COMMENT D

The City offered an early retirement window for Police members effective June 30, 2009. The impact of this window is incorporated in this report. The City made additional employer contributions of $1,699,505 to fund the increase in liability associated with this change.

COMMENTS AND CONCLUSIONS (CONCLUDED)

COMMENT E

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 F

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, 2009, $1,699,505 was contributed to the fund and benefits were paid from City assets to meet the recommended contribution requirement for the year. Failure to contribute the recommended contribution on a timely basis going forward will cause increases in contribution requirements, and increases in the net OPEB obligation.

CONCLUSION

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

SUMMARY STATEMENT OF PLAN RESOURCES AND OBLIGATIONS
JUNE 30, 2009

	General	Police	Fire	Total
A. Present valuation assets:				
1. Net assets from system financial statements				$ 54,058,692
2. Valuation asset adjustment				16,711,084
3. Valuation assets				70,769,776
B. Actuarial present value of expected future employer contributions:				
1. For normal costs	$22,908,522	$7,683,364	$5,639,343	36,231,229
2. For unfunded actuarial accrued liability				161,409,780
3. Total				197,641,009
C. Actuarial present value of expected future member contributions				0
D. Total Present and Expected Future Resources				$ 268,410,785

ACTUARIAL PRESENT VALUE OF EXPECTED FUTURE BENEFIT PAYMENTS

A. To retirants and beneficiaries:				
1. Health benefits	$87,166,528	$36,043,170	$28,276,922	$ 151,486,620
2. Life benefits	741,667	543,373	421,869	1,706,909
3. Total				153,193,529
B. To vested terminated members				0
C. To present active members:				
1. Allocated to service rendered prior to valuation date	51,663,591	16,576,240	10,746,196	78,986,027
2. Allocated to service likely to be rendered after valuation date	22,908,522	7,683,364	5,639,343	36,231,229
3. Total	74,572,113	24,259,604	16,385,539	115,217,256
D. Total Actuarial Present Value of Expected Future Benefit Payments				$ 268,410,785

POST-RETIREMENT HEALTH AND LIFE INSURANCE SENSITIVITY TESTS

Actuarial valuations deal with the cost of benefits to be paid in the future. The payments considered will range from one month in the future to decades from the valuation date (for a young, newly hired employee who may retire many years from now and live many years after that). In order to establish a present day cost for these future benefit obligations, the actuary bases the valuation on a number of assumptions about future occurrences. The occurrences that must be considered include employee turnover, disablement, retirements, deaths and investment income on anticipated Plan assets.

When the benefits being valued are health benefits, a key factor is the future cost of the medical benefits being promised. This is projected using the current cost of the Plan's health benefits and assumed rates of future health cost increases. The final cost of providing retiree health benefits will depend upon how the charges for health services actually increase in the future.

In order to demonstrate how the cost of these benefits can vary depending upon future health care cost increases, we have performed additional valuations based upon alternative health cost increase assumptions. The schedules on pages A-10 to A-12 compare (i) the computed cost of the retiree health and life insurance benefits using the valuation assumptions to (ii) results of alternate valuations. One of the alternate valuations is based upon a somewhat less optimistic cost increase assumption than was used for the valuation. The other is based upon a more pessimistic cost increase assumption. Please note that our pessimistic trend assumptions are not as pessimistic as last year. The schedule on page A-13 exhibits the cost increase assumptions used in each of the valuations.

SENSITIVITY TESTS - POST-RETIREMENT HEALTH AND LIFE INSURANCE
GENERAL DIVISION
COMPUTED CONTRIBUTIONS FOR THE FISCAL YEAR BEGINNING
JULY 1, 2010

	City's Contributions for Health/Life Insurance Expressed as a % of Active Participant Payroll		
	Optimistic Assumption	**Valuation Assumption**	**Pessimistic Assumption**
Normal Cost	8.98%	10.07%	10.95%
Participant Contributions	0.00	0.00	0.00
City's Normal Cost	8.98	10.07	10.95
Amortization Payment #	14.29	16.36	18.10
Total Contribution Requirement	23.27%	26.43%	29.05%

 # 30-year amortization.

SENSITIVITY TESTS - POST-RETIREMENT HEALTH AND LIFE INSURANCE
POLICE DIVISION
COMPUTED CONTRIBUTIONS FOR THE FISCAL YEAR BEGINNING
JULY 1, 2010

	City's Contributions for Health/Life Insurance Expressed as a % of Active Participant Payroll		
	Optimistic Assumption	**Valuation Assumption**	**Pessimistic Assumption**
Normal Cost	8.54%	9.59%	10.44%
Participant Contributions	0.00	0.00	0.00
City's Normal Cost	8.54	9.59	10.44
Amortization Payment #	14.29	16.36	18.10
Total Contribution Requirement	22.83%	25.95%	28.54%

 # 30-year amortization.

SENSITIVITY TESTS - POST-RETIREMENT HEALTH AND LIFE INSURANCE
FIRE DIVISION
COMPUTED CONTRIBUTIONS FOR THE FISCAL YEAR BEGINNING
JULY 1, 2010

	City's Contributions for Health/Life Insurance Expressed as a % of Active Participant Payroll		
	Optimistic Assumption	**Valuation Assumption**	**Pessimistic Assumption**
Normal Cost	8.81%	9.88%	10.74%
Participant Contributions	0.00	0.00	0.00
City's Normal Cost	8.81	9.88	10.74
Amortization Payment #	14.29	16.36	18.10
Total Contribution Requirement	23.10%	26.24%	28.84%

 # 30-year amortization.

SENSITIVITY TESTS - FUTURE HEALTH AND LIFE* COST INCREASES

	Assumed Rate of Per Person Cost Increases		
	Optimistic Assumption	**Valuation Assumption**	**Pessimistic Assumption**
2009/2010	7.00 %	9.00 %	11.00 %
2010/2011	6.50	8.25	10.00
2011/2012	6.00	7.50	9.00
2012/2013	5.50	6.75	8.00
2013/2014	5.00	6.25	7.25
2014/2015	4.50	5.75	6.50
2015/2016	4.00	5.25	5.75
2016/2017	3.50	4.75	5.00
2017/2018	3.50	4.25	4.25
2018/2019	3.50	3.50	3.50
2020 & Later	3.50	3.50	3.50

* *Life insurance benefits are assumed to increase with the assumed wage inflation of 3.5%.*

SECTION B

PROJECTION RESULTS

POST-RETIREMENT HEALTH
CASH FLOW PROJECTIONS

Until a benefit plan reaches a mature state, the number of participants receiving benefits will continue to increase, with commensurate increases in the amount of benefit disbursements. When the benefits being paid are health benefits, health costs can be expected to increase as the result of medical care inflation, changes in utilization and Medicare cost shifting. When all of these reasons for increased disbursements apply, as they do for the City of Ann Arbor Retiree Health Care Benefits Plan, it is reasonable to expect that the amount of the Plan's annual disbursements will increase for many years to come.

We have projected the Plan's disbursements for retiree health over the next 100 years. The projections are based upon the same assumptions as were used for the valuation of Plan costs. The schedule on page B-2 displays the anticipated health disbursements. Even though the actual health benefits are not related to participant pays, expressing the benefits as percentages of pay assists the reader in comparing these costs to other fringe benefit costs.

Finally, the schedule on page B-3 shows the buildup of assets in the Benefits Plan. In order for the Benefits Plan to eventually be 100% funded, the actuarially determined contribution needs to be made. We have graphed the projection results on page B-5, showing the funding progress. Once the plan is 100% funded, the actuarially determined contribution will be funding only for the normal cost of benefits. By that time the Benefits Plan will be paying out substantially more in benefit payments than it is receiving in contribution income.

PROJECTED HEALTH BENEFIT PAYMENTS
USING VALUATION ASSUMPTIONS

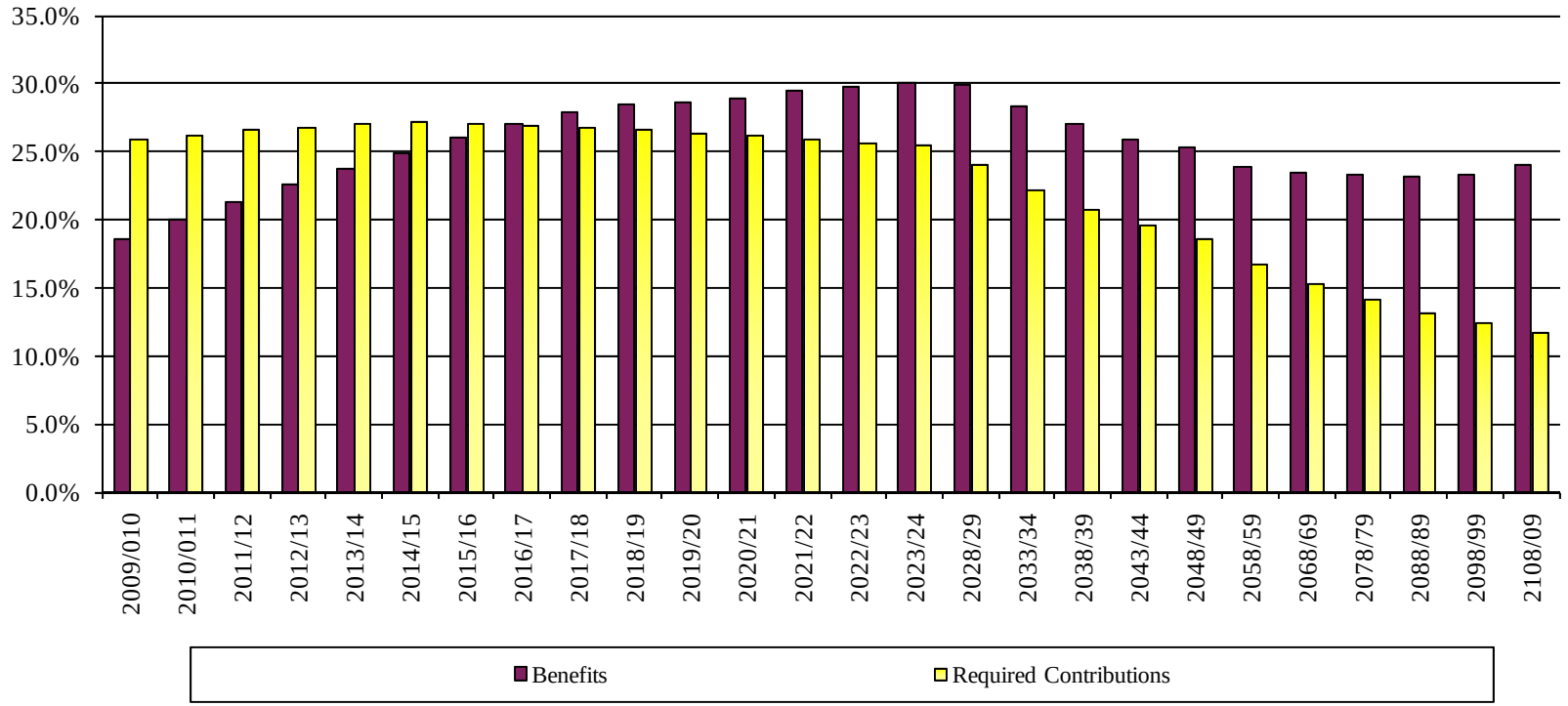
Year Ended	Projected Health Benefit Payments	
	Dollars	% of Payroll
2010	$ 9,690,169	18.61%
2011	10,761,494	20.03%
2012	11,835,235	21.35%
2013	12,916,479	22.60%
2014	14,021,043	23.77%
2015	15,109,432	24.87%
2016	16,238,062	25.99%
2017	17,318,861	27.00%
2018	18,392,468	27.85%
2019	19,365,303	28.44%
2020	20,125,234	28.62%
2021	20,958,121	28.97%
2022	21,901,111	29.44%
2023	22,830,610	29.76%
2024	23,744,295	30.00%
2029	28,114,559	29.93%
2034	31,955,621	28.39%
2039	36,100,000	26.97%
2044	41,150,027	25.95%
2049	47,688,250	25.36%
2059	63,641,032	23.95%
2069	87,972,472	23.48%
2079	123,210,402	23.31%
2089	173,250,690	23.23%
2099	244,521,569	23.25%
2109	344,820,022	24.06%

RETIREE HEALTH CASH FLOW PROJECTION
BASED ON VALUATION ASSUMPTIONS

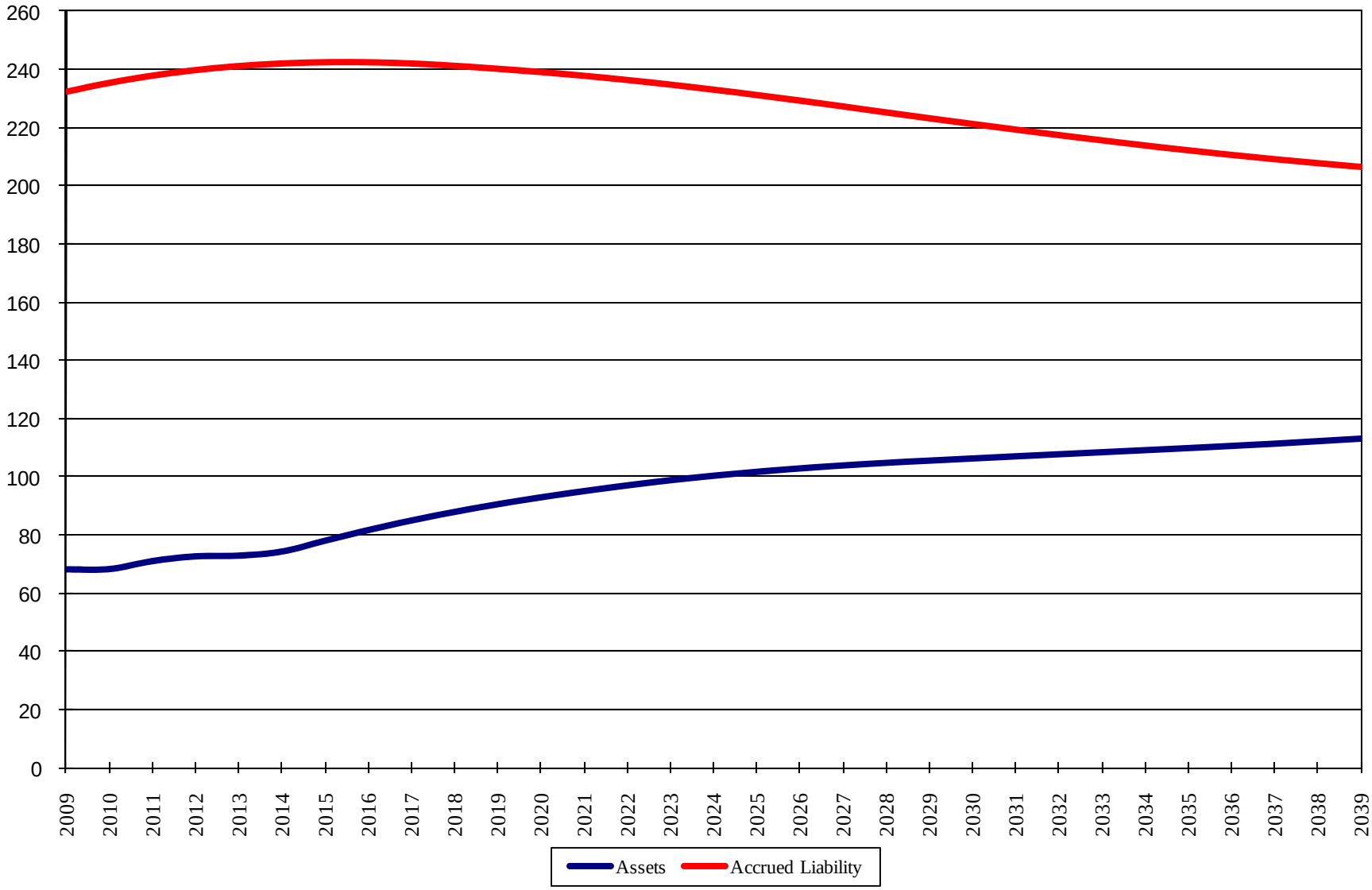
Year Ended June 30	Beginning Asset Value	Contribution	Benefits *	Net	Investment Income	End of Year Balance		Percent-of-Payroll	
						Inflated $	Constant $	Contribution	Benefits
2010	$ 70,769,776	$ 14,284,470	$ 9,690,169	$ 4,594,301	$ 723,762	$ 76,087,839	$ 76,087,839	26.00%	18.61%
2011	76,087,839	14,395,148	10,761,494	3,633,654	830,254	80,551,747	77,827,775	26.31%	20.03%
2012	80,551,747	14,854,579	11,835,235	3,019,344	85,189	83,656,280	78,094,033	26.63%	21.35%
2013	83,656,280	15,419,374	12,916,479	2,502,895	2,060,709	88,219,884	79,569,281	26.79%	22.60%
2014	88,219,884	16,098,832	14,021,043	2,077,789	5,602,073	95,899,746	83,571,088	27.11%	23.77%
2015	95,899,746	16,716,510	15,109,432	1,607,078	6,346,795	103,853,619	87,441,960	27.31%	24.87%
2016	103,853,619	17,152,557	16,238,062	914,495	7,063,024	111,831,138	90,974,703	27.14%	25.99%
2017	111,831,138	17,558,014	17,318,861	239,153	7,732,990	119,803,281	94,164,296	26.98%	27.00%
2018	119,803,281	17,943,164	18,392,468	(449,304)	8,333,804	127,687,781	96,967,576	26.81%	27.85%
2019	127,687,781	18,319,922	19,365,303	(1,045,381)	8,882,553	135,524,953	99,438,856	26.66%	28.44%
2020	135,524,953	18,707,556	20,125,234	(1,417,678)	9,428,282	143,535,557	101,755,057	26.44%	28.62%
2021	143,535,557	19,107,541	20,958,121	(1,850,580)	9,978,948	151,663,925	103,881,555	26.20%	28.97%
2022	151,663,925	19,523,713	21,901,111	(2,377,398)	10,531,638	159,818,165	105,764,992	25.92%	29.44%
2023	159,818,165	19,929,361	22,830,610	(2,901,249)	11,084,964	168,001,880	107,421,100	25.72%	29.76%
2024	168,001,880	20,333,714	23,744,295	(3,410,581)	11,640,420	176,231,719	108,872,747	25.52%	30.00%
2029	209,861,269	22,494,237	28,114,559	(5,620,322)	14,493,571	218,734,518	113,776,004	24.04%	29.93%
2034	257,667,985	24,988,039	31,955,621	(6,967,582)	17,792,894	268,493,297	117,588,555	22.27%	28.39%
2039	317,228,593	27,901,308	36,100,000	(8,198,692)	21,919,047	330,948,948	122,036,814	20.84%	26.97%
2044	393,125,254	31,289,911	41,150,027	(9,860,116)	27,173,664	410,438,802	127,431,419	19.71%	25.95%
2049	487,044,108	35,179,070	47,688,250	(12,509,180)	33,655,266	508,190,194	132,847,271	18.70%	25.36%
2059	746,775,067	44,738,115	63,641,032	(18,902,917)	51,612,653	779,484,803	144,454,313	16.84%	23.95%
2069	1,141,208,225	57,640,583	87,972,472	(30,331,889)	78,822,960	1,189,699,296	156,299,132	15.38%	23.48%
2079	1,717,570,795	74,990,669	123,210,402	(48,219,733)	118,542,265	1,787,893,327	166,516,574	14.19%	23.31%
2089	2,552,471,161	98,651,164	173,250,690	(74,599,526)	176,061,998	2,653,933,633	175,227,564	13.23%	23.23%
2099	3,750,413,843	130,935,773	244,521,569	(113,585,796)	258,553,466	3,895,381,513	182,330,309	12.45%	23.25%
2109	5,460,614,476	175,359,553	344,820,022	(169,460,469)	376,311,897	5,667,465,904	188,059,071	11.82%	24.06%

* *Currently being paid directly by the City.*

PROJECTION OF HEALTH BENEFITS AND COMPUTED CONTRIBUTIONS AS A PERCENTAGE OF ACTIVE PARTICIPANT PAYROLL



ACCRUED LIABILITY AND ASSETS
(CONSTANT 2009 DOLLARS – MILLIONS)



COMMENTS

COMMENT A

If future financial experience is more favorable than the valuation assumptions (for example, investment return in excess of 7% per year), the Benefits Plan assets and accrued liability may converge more quickly than projected on page B-5. Conversely, if future financial experience is less favorable (for example, per person premiums increasing faster than 10% next year), convergence will be further delayed. Annual actuarial valuations and projections will monitor the funding progress, and keep policy makers aware of the near term financial progress of the Benefits Plan.

COMMENT B

As the funded ratio increases the actuarially determined contribution rate is expected to decrease. Much of the benefit payout will be financed out of investment income, as is the case with the Retirement System. As may be seen on pages B-3 and B-4, if actuarially determined contributions are made then the benefits paid from the VEBA will exceed the contributions being made to the VEBA in under 9 years. This is one of the primary reasons for establishing the Benefits Plan – to create the ability to pay out benefits in excess of contributions in a practical manner.

PRESENT ACTIVE PARTICIPANT POPULATION
2009-2059

6/30	Active Participants			6/30	Active Participants *		
	Present	Future	Total		Present	Future	Total
2009	760	0	760	2034	7	753	760
2010	707	53	760	2035	5	755	760
2011	656	104	760	2036	3	757	760
2012	606	154	760	2037	2	758	760
2013	558	202	760	2038	1	759	760
2014	513	247	760	2039	1	759	760
2015	469	291	760	2040	1	759	760
2016	424	336	760	2041	0	760	760
2017	379	381	760	2042	0	760	760
2018	339	421	760	2043	0	760	760
2019	304	456	760	2044	0	760	760
2020	273	487	760	2045	0	760	760
2021	236	524	760	2046	0	760	760
2022	202	558	760	2047	0	760	760
2023	172	588	760	2048	0	760	760
2024	144	616	760	2049	0	760	760
2025	119	641	760	2050	0	760	760
2026	96	664	760	2051	0	760	760
2027	78	682	760	2052	0	760	760
2028	62	698	760	2053	0	760	760
2029	49	711	760	2054	0	760	760
2030	38	722	760	2055	0	760	760
2031	28	732	760	2056	0	760	760
2032	20	740	760	2057	0	760	760
2033	14	746	760	2058	0	760	760
2034	10	750	760	2059	0	760	760

* *All active participants after 2040 will be future active participants and the group size is assumed to remain constant at 760 participants.*

Note: Within 8 years it is expected that over half of the active population will consist of people entering the Plan after the valuation date (June 30, 2009).

SECTION C

SUMMARY OF BENEFIT PROVISIONS AND VALUATION DATA

POST-RETIREMENT HEALTH CARE AND LIFE INSURANCE COVERAGE
BRIEF SUMMARY OF BENEFIT ELIGIBILITY CONDITIONS

The following general provisions apply:

1) All retired members, except persons retiring from deferred status, are eligible for health insurance coverage commencing when pension benefits begin. The City pays the full cost, except for certain optional riders. *

2) All spouses and dependents of retired members are eligible for City-paid coverage, as long as the retiree is alive.

3) Survivors of deceased members and deceased retired members are eligible for continued City-paid coverage, as long as a pension is payable to the survivor (the survivor's dependents are covered as well, while the survivor continues to receive a pension).

4) Retirees are required to apply for Medicare coverage.

5) All retired members are eligible for life insurance coverage commencing when pension benefits begin. The City pays the full cost.

6) Most of the health and life insurance provisions are specified in various collective bargaining agreements.

* *Effective July 1, 2004, all salaried (non-union) employees who retire will share in the cost of the monthly high option plan premium. F-rider premium payments will no longer apply to any salaried employee who retires on or after July 1, 2004, Supervisors who retire on or after November 15, 2006, and Police Professional Assistants who retire on or after January 1, 2007.*

BRIEF SUMMARY OF RETIREMENT ELIGIBILITY PROVISIONS - (JUNE 30, 2009)

REGULAR RETIREMENT (NO REDUCTION FACTOR FOR AGE):

Eligibility - General: Age 50 with 25 years of service, or age 60 with 5 years of service.
Police-Fire: 25 years of service, or age 55 with 5 years of service.

Mandatory Retirement Age - None.

EARLY RETIREMENT (NO REDUCTION FACTOR APPLIED TO RETIREE HEALTH BENEFIT):

Eligibility - General: Age 50 with 20 years of service.
Police-Fire: Age 50 with 20 years of service.

DEFERRED RETIREMENT (VESTED PENSION BENEFIT BUT NO RETIREE HEALTH BENEFIT):

Eligibility - 5 years of service.

DUTY DISABILITY RETIREMENT:

Eligibility - No age or service requirement.

NON-DUTY DISABILITY RETIREMENT:

Eligibility - 5 or more years of service.

DUTY DEATH BEFORE RETIREMENT:

Eligibility - No age or service requirement.

NON-DUTY DEATH BEFORE RETIREMENT:

Eligibility - 5 years of service.

LEDGER BALANCES

The ledger balances (market value) of the Benefits Plan, as of June 30, 2009, were reported by your staff to be $54,058,692.

Valuation assets are equal to reported market value of assets, except that 20% of gains and losses (realized or unrealized) are recognized each year. Such spreading reduces the fluctuation in the City's computed contribution rate which might otherwise be caused by market value fluctuations. The details of the spreading technique are shown on page C-6. The present method was adopted for the June 30, 1999 actuarial valuation.

ACCOUNTING INFORMATION SUBMITTED FOR VALUATION

Market Value of Assets

	June 30, 2009	June 30, 2008
Cash & Short-term Equivalents	$ 5,070,189	$ 1,037,781
Receivables (less payables)	(1,993)	1,957,641
Bonds	15,965,213	20,908,986
Real Estate	1,643,774	2,866,843
Stocks	31,381,509	37,021,192
Total Assets	$ 54,058,692	$ 63,792,443

Revenues and Expenses

	Year Ended June 30, 2009	Year Ended June 30, 2008
REVENUES:		
a. Participant contributions	$ -	$ -
b. Employer contributions	1,699,505	4,622,604
c. Investment income	(11,203,119)	(4,569,647)
d. Total revenues	$ (9,503,614)	$ 52,957
EXPENSES:		
a. Health benefits paid	$ -	$ -
b. Life insurance premiums	-	-
c. Investment and administrative expenses	230,137	282,350
d. Total expenses	$ 230,137	$ 282,350
RESERVE INCREASE:		
Total revenues minus total expenses	$ (9,733,751)	$ (229,393)

Cash disbursements outside the fund in the year ending June 30, 2009 were reported to be $7,890,737.

ASSET INFORMATION REPORTED FOR VALUATION
COMPARATIVE STATEMENT

Year Ended June 30	Revenues				Expenses			Assets Year-End
	Participant Contrib.	Employer Contrib.	Investment Income	Misc. Income	Health Insurance	Life Insurance	Misc. Expenses	
2000								$ 8,645,129
2001	$0	$6,006,879	$ (968,326)	$0	$0	$0	$ 61,838	13,621,844
2002	0	6,996,824	(1,447,264)	0	0	0	101,862	19,069,542
2003	0	6,810,310	1,398,455	0	0	0	126,801	27,151,506
2004	0	7,803,872	2,803,543	0	0	0	148,333	37,610,588
2005	0	4,099,026	3,448,728	0	0	0	195,002	44,963,340
2006	0	7,065,913	3,819,711	0	0	0	188,010	55,660,954
2007	0	0	8,588,741	0	0	0	227,859	64,021,836
2008	0	4,622,604	(4,569,647)	0	0	0	282,350	63,792,443
2009	0	1,699,505	(11,203,119)	0	0	0	230,137	54,058,692

DERIVATION OF VALUATION ASSETS
MARKET VALUE WITH 20% RECOGNITION OF THE DIFFERENCE BETWEEN THE MARKET RATE OF RETURN AND THE PROJECTED RATE OF RETURN

	2007	2008	2009	2010	2011	2012	2013
Beginning of Year:							
(1) Market Value	$55,660,954	$64,021,836	$63,792,443				
(2) Valuation Assets	55,249,682	60,090,318	68,312,132				
End of Year:							
(3) Market Value	64,021,836	63,792,443	54,058,692				
(4) Net Additions to Assets, Excluding Invest. Inc., Admin. Exp.	-	4,622,604	1,699,505				
(5) Total Investment Income =(3)-(1)-(4)	8,360,882	(4,851,997)	(11,433,256)				
(6) Projected Rate of Return	7.00%	7.00%	7.00%				
(7) Projected Investment Income =(6)x[(2)+.5x(4)]	3,867,478	4,368,113	4,841,332				
(8) Investment Income In Excess of Projected Income	4,493,404	(9,220,110)	(16,274,588)				
(9) Excess Investment Income Recognized This Year (5 year recognition)							
(9a) From This Year	898,681	(1,844,022)	(3,254,918)				
(9b) From One Year Ago	43,291	898,681	(1,844,022)	$ (3,254,918)			
(9c) From Two Years Ago	73,774	43,291	898,681	(1,844,022)	$ (3,254,918)		
(9d) From Three Years Ago	59,375	73,774	43,291	898,681	(1,844,022)	$ (3,254,918)	
(9e) From Four Years Ago	(101,963)	59,373	73,775	43,291	898,680	(1,844,022)	$ (3,254,916)
(10) Change in Valuation Assets =(4)+(7)+9[a..e]	4,840,636	8,221,814	2,457,644				
End of Year:							
(3) Market Value	64,021,836	63,792,443	54,058,692				
(11) Valuation Assets = (2)+(10)	60,090,318	68,312,132	70,769,776				
(12) Recognized Rate of Return	8.8%	5.8%	1.1%				
(13) Market Rate of Return	15.0%	(7.3)%	(17.7)%				
(14) Ratio of Funding Value to Market Value	93.9%	107.1%	130.9%				

Retirants and beneficiaries included in the valuation totaled 834*, distributed as follows:

	No.	Active Per Retired
General members	539	1.0
Police members	150	1.0
Fire members	145	0.6
Totals	834	0.9

** 788 retirees were valued for retirees health care benefits.*

RETIRANTS AND BENEFICIARIES COMPARATIVE SCHEDULE

Year Ended June 30	Number Added	Number Removed	Number End of Year	Active Participant Per Recipient	Expected Removals
1977	15	13	181	5.0	N/A
1978	28	8	201	4.0	N/A
1979	26	3	224	3.7	N/A
1980	17	8	233	3.6	N/A
1981	33	9	257	3.4	N/A
1982	21	12	266	3.2	8
1983	20	3	283	3.0	8
1984	30	15	298	2.8	10
1985	28	16	310	2.7	10
1986	29	10	329	2.6	10
1987	24	8	345	2.5	11
1988	27	23	349	2.5	12
1989	25	11	363	2.4	12
1990	30	7	386	2.2	12
1991	34	16	404	2.2	13
1992	65	4	465	1.9	13
1993	27	22	470	2.0	15
1994	37	11	496	1.9	15
1995	41	17	520	1.7	16
1996	37	27	530	1.8	17
1997	40	22	548	1.7	17
1998	35	25	558	1.7	17
1999	38	18	578	1.7	17
2000	43	18	603	1.6	18
2001	39	17	625	1.5	19
2002	95	15	705	1.3	20
2003	65	25	745	1.2	22
2004	37	25	757	1.1	22
2005	35	22	770	1.1	21
2006	65	18	817	1.0	22
2007	26	23	820	1.0	23
2008	21	21	820	1.0	24
2009	35	21	834	1.0	24

RETIRANTS AND BENEFICIARIES JUNE 30, 2009
TABULATED BY TYPE OF ALLOWANCES BEING PAID

Type of Allowances Being Paid	No.
Age and Service Allowances	
Regular allowance - benefit terminating at death of retirant	212
Option I allowance - cash refund annuity plus pension terminating at death of retirant	18
Option II allowance - joint and survivor benefit	303
Option III allowance - modified joint and survivor benefit	137
Allowance to survivor beneficiary of deceased age and service retirant	111
Total age and service allowances	781
Casualty Allowances	
Duty disability	
Straight Life	1
Option I	1
Option II	7
Option III	2
Totals	11
Non-duty disability	
Straight Life	6
Option I	1
Option II	11
Totals	18
Allowance to survivor beneficiary of deceased disability retirant - spouse	4
Allowance to survivor beneficiary of deceased member	
Duty death - spouse	
Non-duty death - spouse	20
Total casualty allowances	53
Total Allowances Being Paid	**834**

RETIRANTS AND BENEFICIARIES JUNE 30, 2009
TABULATED BY ATTAINED AGES

Attained Ages	Age and Service	Casualty	Totals
30-34		1	1
35-39	1	1	2
40-44	1	1	2
45-49	5	1	6
50-54	70	3	73
55-59	130	10	140
60-64	163	10	173
65-69	130	6	136
70-74	88	3	91
75	12	1	13
76	17	3	20
77	22	3	25
78	14	1	15
79	11		11
80	13		13
81	13		13
82	11	1	12
83	9	1	10
84	11	2	13
85	12	1	13
86	12	2	14
87	6		6
88	4	1	5
89	3	1	4
90	7		7
91	4		4
92	2		2
93	2		2
94	3		3
95	1		1
96	2		2
98	1		1
100	1		1
Totals	**781**	**53**	**834**

VESTED TERMINATED PARTICIPANTS JUNE 30, 2009

TABULATED BY ATTAINED AGES

Attained Ages	No.
31	1
33	4
34	2
36	2
37	3
38	4
39	4
40	2
41	6
42	5
43	1
44	7
45	3
46	4
47	4
48	7
49	3
50	8
51	3
52	5
53	3
54	4
55	10
56	4
57	6
58	2
59	4
60	5
61	7
62	1
63	1
64	1
Totals	**126**

Note: These persons are not eligible for retiree health or life insurance benefits.

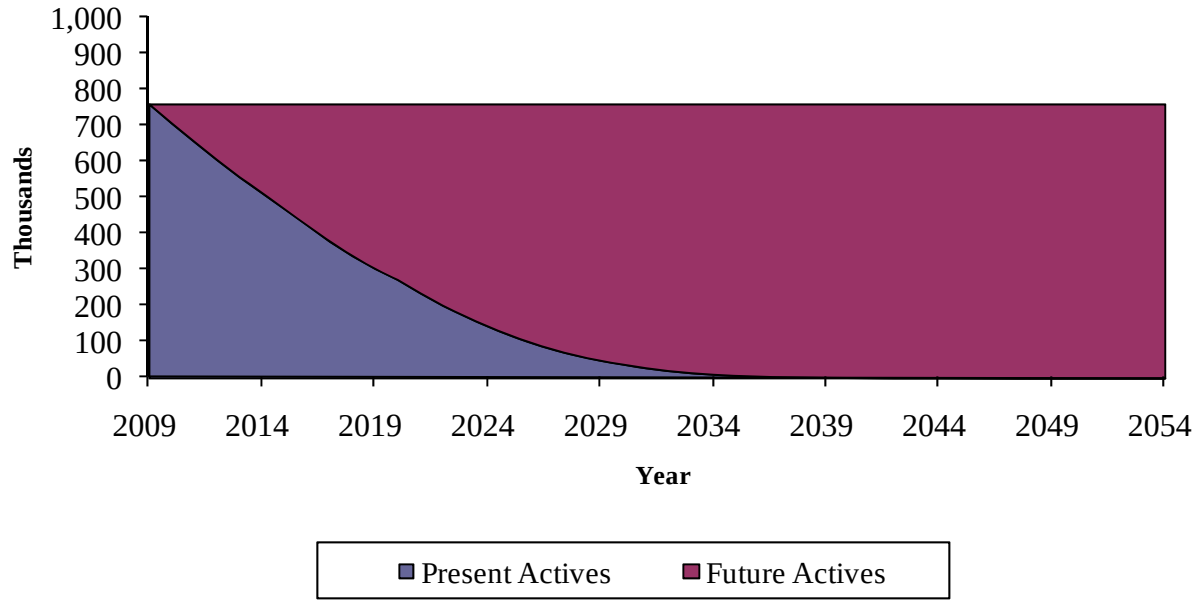
ACTIVE PARTICIPANTS JUNE 30, 2009
TABULATED BY VALUATION DIVISIONS

Valuation Divisions	No.	Annual Payroll
General	547	$ 33,465,740
Police	148	12,199,851
Fire	91	6,893,905
Total	786	$ 52,559,496

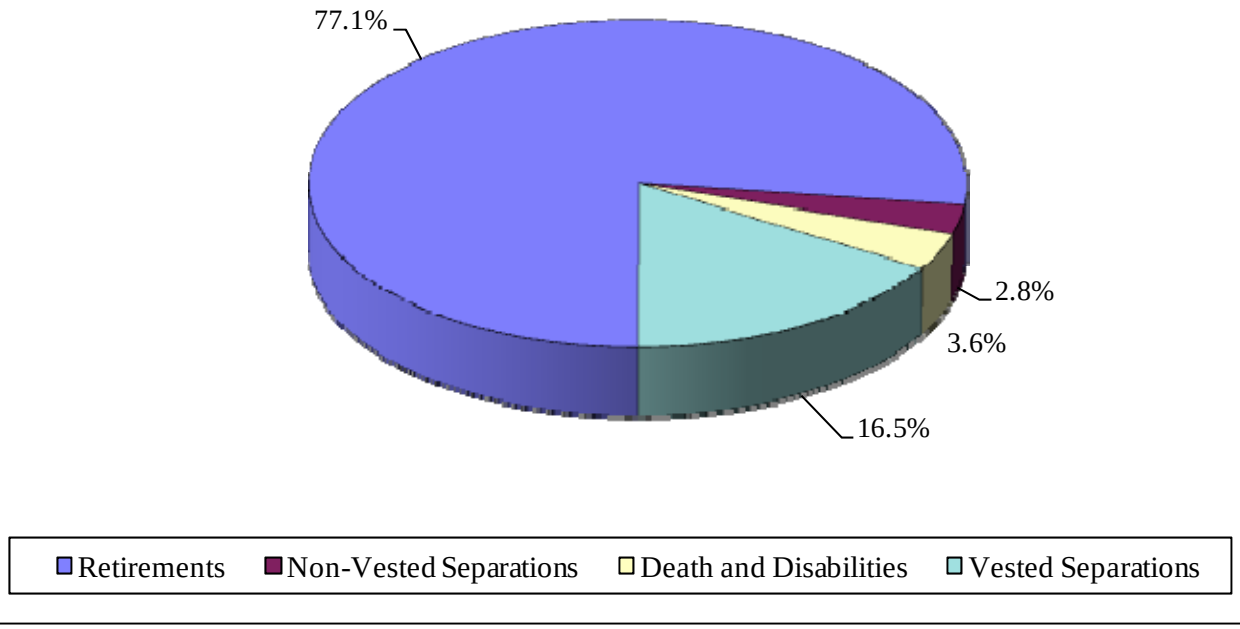
Active Participants
Comparative Schedule

Val. Date	Valuation Division				Valuation	Average	
June 30	Gen.	Pol.	Fire	Total	Payroll	Age	Service
1985	577	154	116	847	$25,210,649	40.5 yrs.	11.3 yrs.
1986	576	149	118	843	25,898,357	40.5	11.6
1987	585	158	116	859	26,697,327	40.4	11.6
1988	600	163	112	875	28,329,677	40.5	11.8
1989	606	162	106	874	29,390,978	40.8	12.0
1990	592	170	106	868	29,455,430	40.9	12.2
1991	621	171	110	902	31,968,984	40.7	11.9
1992	619	176	110	905	33,174,983	39.9	11.0
1993	643	180	106	929	35,018,157	40.2	11.1
1994	644	175	107	926	35,828,594	40.3	11.2
1995	634	166	94	894	37,962,053	40.7	11.5
1996	645	176	109	930	39,426,082	40.6	11.0
1997	647	184	112	943	41,257,005	40.6	11.1
1998	655	186	117	958	42,419,256	41.0	11.2
1999	650	188	118	956	43,621,055	41.1	11.2
2000	670	186	121	977	44,092,030	41.2	11.0
2001	661	183	115	959	47,449,008	41.5	11.3
2002	614	177	109	900	46,744,055	41.1	10.2
2003	582	174	102	858	46,212,713	41.4	10.4
2004	581	161	100	842	47,109,470	42.1	10.9
2005	571	152	91	814	47,224,565	42.8	11.4
2006	554	154	88	796	49,626,746	42.7	11.0
2007	561	151	89	801	50,677,914	43.5	11.4
2008	564	149	92	805	51,287,330	44.2	11.8
2009	547	148	91	786	52,559,496	44.7	12.4

Expected Development of Active Participants Population



Expected Terminations from Active Employment for Current Active Participants



GENERAL ACTIVE PARTICIPANTS JUNE 30, 2009

BY ATTAINED AGE AND YEARS OF SERVICE

Attained Age	Years of Service to Valuation Date							Totals	
	0-4	5-9	10-14	15-19	20-24	25-29	30 Plus	No.	Valuation Payroll
20-24	1							1	$ 41,391
25-29	13	3						16	594,093
30-34	35	20	3					58	2,985,332
35-39	32	16	11	5				64	3,576,311
40-44	24	24	23	20	7			98	6,095,238
45-49	19	22	16	20	28	1		106	6,645,884
50-54	16	17	14	24	30	3	3	107	7,092,423
55-59	6	16	12	14	12	6		66	4,312,717
60		1	2	3	1		1	8	574,672
61	3		1	3				7	434,542
62	3	1		3	1			8	426,473
63		2					1	3	340,761
64		1						1	84,248
65		2					1	3	174,988
Totals	**153**	**125**	**82**	**92**	**79**	**10**	**6**	**547**	**$ 33,465,740**

While not used in the financial computations, the following group averages are computed and shown because of their general interest.

Age:	45.8 years
Service:	11.4 years
Annual Pay:	$61,181

POLICE ACTIVE PARTICIPANTS JUNE 30, 2009 *

BY ATTAINED AGE AND YEARS OF SERVICE

Attained Age	Years of Service to Valuation Date							Totals	
	0-4	5-9	10-14	15-19	20-24	25-29	30 Plus	No.	Valuation Payroll
25-29	1							1	$ 55,977
30-34	2	8	5					15	1,080,441
35-39		5	30	2				37	2,790,570
40-44	1	2	10	22	2			37	3,117,955
45-49			7	10	19	4		40	3,566,642
50-54			2	2	8	2		14	1,191,273
55-59	1				1	2		4	396,993
Totals	**5**	**15**	**54**	**36**	**30**	**8**		**148**	**$12,199,851**

While not used in the financial computations, the following group averages are computed and shown because of their general interest.

Age:	42.4 years
Service:	15.7 years
Annual Pay:	$82,431

** Prior to reflection of vacated positions under the early retirement incentive being held open.*

FIRE ACTIVE PARTICIPANTS JUNE 30, 2009
BY ATTAINED AGE AND YEARS OF SERVICE

Attained Age	Years of Service to Valuation Date							Totals	
	0-4	5-9	10-14	15-19	20-24	25-29	30 Plus	No.	Valuation Payroll
20-24	1							1	$ 55,589
25-29	1	1						2	112,957
30-34	2	5	2					9	642,494
35-39	7	4	15	1				27	1,899,842
40-44	1		9	11				21	1,632,871
45-49		1	4	9	1	1		16	1,248,889
50-54			2	8	1	1		12	1,009,787
55-59				1	1			2	174,360
66	1							1	117,116
Totals	**13**	**11**	**32**	**30**	**3**			**91**	**$6,893,905**

While not used in the financial computations, the following group averages are computed and shown because of their general interest.

Age:	41.8 years
Service:	13.0 years
Annual Pay:	$75,757

ACTIVE PARTICIPANTS JUNE 30, 2009
NUMBER ADDED TO AND REMOVED FROM ACTIVE PARTICIPATION

Year Ended June 30	Number Added During Year		Terminations During Year										Active Members End of Year
			Normal Retirement		Disability Retirement		Died-in Service		Withdrawals				
									Vested	Other*	Total		
	A	E	A	E	A	E	A	E	A	A	A	E	
GENERAL MEMBERS													
2005	39	49	14	15.8	0	1.0	0	1.1	9	26	35	27.3	571
2006	54	71	42	16.6	1	1.0	1	1.1	9	18	27	25.5	554
2007	35	28	6	13.0	0	1.0	0	1.1	13	9	22	26.7	561
2008	36	33	9	16.9	1	1.0	0	1.2	9	14	23	26.4	564
2009	21	38	23	21.6	1	1.0	0	0.7	8	6	14	24.1	547
5-Yr. Totals			94	83.9	3	5.0	1	5.2			121	130.0	
POLICE MEMBERS													
2005	0	9	5	5.1	0	0.2	0	0.2	1	3	4	1.9	152
2006	7	5	3	3.2	0	0.3	0	0.2	1	1	2	1.6	154
2007	1	4	1	2.8	0	0.3	0	0.2	2	1	3	1.9	151
2008	0	2	2	3.5	0	0.3	0	0.2	0	0	0	1.4	149
2009 **	0	1	0	5.9	0	0.3	1	0.1	0	0	0	1.2	148
5-Yr. Totals			11	20.5	0	1.4	1	0.9			9	8.0	
FIRE MEMBERS													
2005	0	9	2	2.3	1	0.0	0	0.2	1	5	6	1.0	91
2006	7	10	8	4.0	0	0.0	1	0.2	1	0	1	0.8	88
2007	4	3	3	1.7	0	0.0	0	0.1	0	0	0	0.9	89
2008	4	1	1	1.2	0	0.0	0	0.1	0	0	0	0.9	92
2009	0	1	0	1.6	0	0.0	0	0.1	0	1	1	1.1	91
5-Yr. Totals			14	10.8	1	0.0	1	0.7			8	4.7	

A represents actual number.
E represents expected number.
** Balancing item.*

*** Prior to reflection of vacated positions under the early retirement incentive being held open.*

SECTION D

FINANCIAL PRINCIPLES, ACTUARIAL VALUATION PROCESS, ACTUARIAL COST METHODS, ACTUARIAL ASSUMPTIONS AND DEFINITIONS OF TECHNICAL TERMS

BASIC FINANCIAL PRINCIPLES AND OPERATION OF THE BENEFIT PLAN

Benefit Promises Made Which Must Be Paid For. A benefit plan is an orderly means of handing out, keeping track of, and financing benefit promises to a group of employees. As each participant of the benefit plan works a year of service the participant is, in effect, handed an "IOU" which reads: "The City of Ann Arbor Retiree Health Care Benefits Plan promises to pay you one unit of benefits, payments in cash commencing when you retire."

The principal related financial question is: When shall the money required to cover the "IOU" be contributed? This year, when the benefit of the participant's service is received? Or, some future year when the "IOU" becomes a cash demand?

This Benefit Plan has as its ***financial objective the establishment and receipt of contributions, expressed as percents of active participant payroll, which will remain approximately level*** from year to year and will not have to be increased for future generations of taxpayers.

Translated into actuarial terminology, a level percent of payroll contribution objective means that the contribution rate must be at least:

> ***Normal Cost*** (the present value of future benefits assigned to participants' service being rendered in the current year)
>
> ... plus ...
>
> ***Interest on the Unfunded Actuarial Accrued Liability*** (the difference between the actuarial accrued liability and current plan assets).

The accumulation of invested assets ***is a by-product of level percent of payroll contributions, not the objective***. Investment income becomes the 2nd major contributor to the benefit plan, and the amount is directly related to the amount of contributions and investment performance.

If contributions to the benefit plan are less than the preceding amount, the difference, ***plus investment earnings not realized thereon***, will have to be contributed at some later time (or benefits will have to be reduced) to satisfy the fundamental fiscal equation under which all benefit plans must operate:

B = C + I - E

The aggregate amount of Benefit payments to any group of participants and their beneficiaries cannot exceed the sum of:

The aggregate amount of Contributions received on behalf of the group

... plus ...

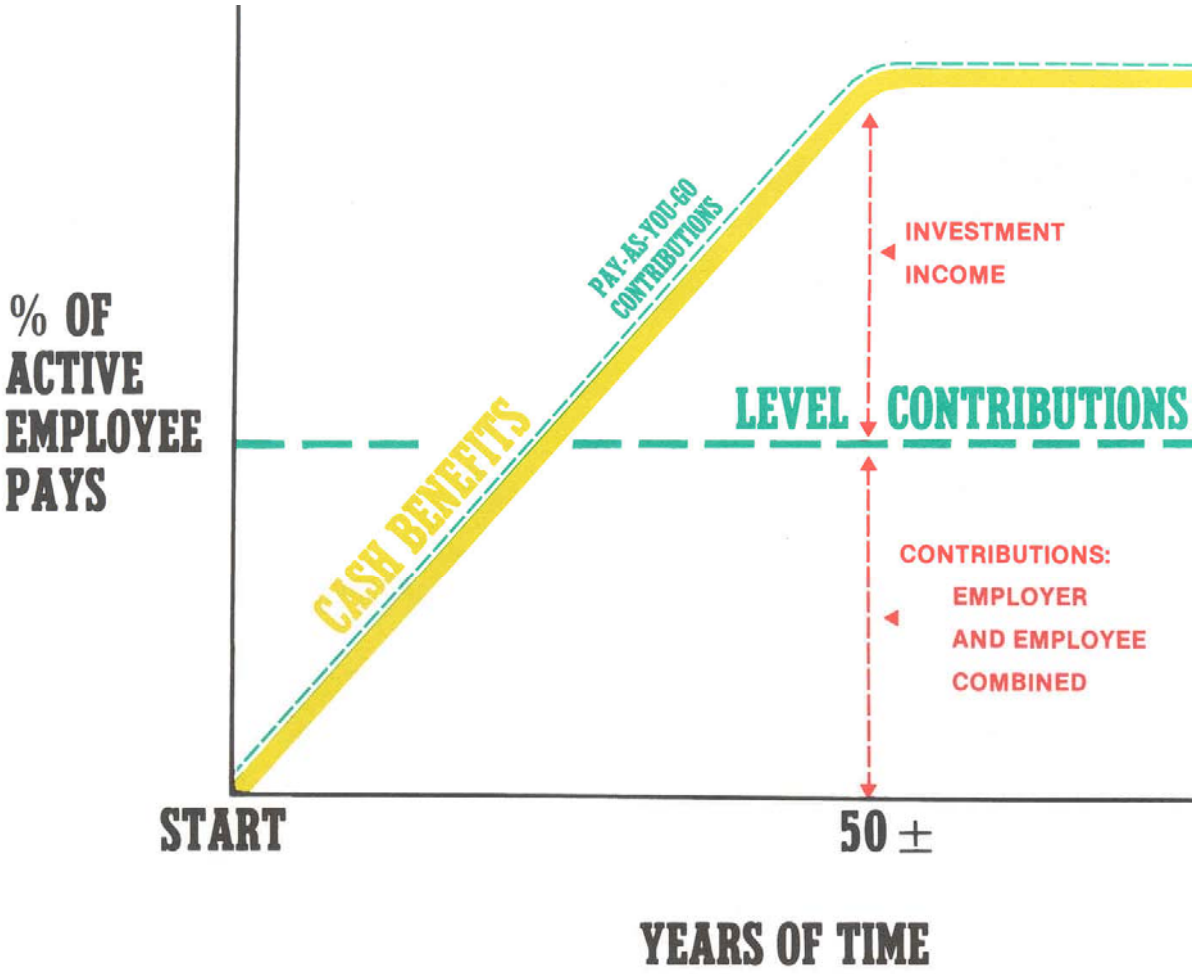
Investment earnings on contributions received and not required for immediate cash payments of benefits

... minus ...

The Expenses of operating the program.

There are benefit plans designed to defer the bulk of contributions far into the future. The present contribution rate for such plans is ***artificially low***. The fact that the contribution rate is destined to increase relentlessly to a much higher level, is often ignored.

Computed Contribution Rate Needed to Finance Benefits. From a given schedule of benefits and from the data furnished him, the actuary calculates the contribution rate ***by means of an actuarial valuation*** - the technique of assigning monetary values to the risks assumed in operating a benefit plan.



CASH BENEFITS LINE. **This relentlessly increasing line is the fundamental reality of retirement plan financing. It happens each time a new benefit is added for future retirements (and happens regardless of the design for contributing for benefits).**

LEVEL CONTRIBUTION LINE. **Determining the level contribution line requires detailed assumptions concerning a variety of experiences in future decades, including:**

Economic Risk Areas

- **Rates of investment return**
- **Rates of pay increase**
- **Changes in active member group size**

Non-Economic Risk Areas

- **Ages at actual retirement**
- **Rates of mortality**
- **Rates of withdrawal of active members (turnover)**
- **Rates of disability**

THE ACTUARIAL VALUATION PROCESS

The financing diagram on the previous page shows the relationship between the two fundamentally different philosophies of paying for retirement benefits: the method where contributions match cash benefit payments (or barely exceed cash benefit payments, as in the Federal Social Security program) which is an ***increasing contribution method***; and the ***level contribution method*** which equalizes contributions between the generations.

The actuarial valuation is the mathematical process by which the level contribution rate is determined, and the flow of activity constituting the valuation may be summarized as follows:

A. ***Covered Person Data***, furnished by plan administrator
   Retired lives now receiving benefits
   Former employees with vested benefits not yet payable
   Active employees

B. + ***Asset data*** (cash & investments), furnished by plan administrator

C. + ***Assumptions concerning future financial experience in various risk areas***, which assumptions are established by the Board of Trustees after consulting with the actuary

D. + ***The funding method*** for employer contributions (the long-term, planned pattern for employer contributions)

E. + ***Mathematically combining the assumptions, the funding method, and the data***

F. = Determination of:
   Plan financial position
   and/or New Employer Contribution Rate.

ACTUARIAL COST METHODS USED FOR THE VALUATION

Normal Costs. Normal cost and the allocation of actuarial present values between service rendered before and after the valuation date were determined using an individual entry-age actuarial cost method having the following characteristics:

(i) the annual normal costs for each individual active participant, payable from the participant's actual date of employment to projected date of retirement, are sufficient to accumulate the value of the participant's benefit at the time of retirement;

(ii) each annual normal cost is a constant percentage of the participant's year by year projected covered pay.

Actuarial Accrued Liabilities. The total actuarial present value of future benefits and future payroll were computed using the benefit provisions applicable to the present active members, retirants and beneficiaries. Subtracting the present value of future normal costs results in the actuarial accrued liability.

Amortization of Unfunded Actuarial Accrued Liabilities. Unfunded actuarial accrued liabilities were amortized by level (principal & interest combined) percent-of-payroll contributions over an open period of 30 years. Active participant payroll was assumed to increase 3.5% a year for the purpose of determining the level percent contributions.

ACTUARIAL ASSUMPTIONS IN THE VALUATION PROCESS

The actuary calculates contribution requirements and actuarial present values for a benefit plan by applying actuarial assumptions to the benefit provisions and people information of the plan, using the actuarial cost methods described on page D-5.

The principal areas of risk which require assumptions about future experience are:

(i) long-term rates of investment return to be generated by the assets of the plan

(ii) patterns of pay increases to participants

(iii) rates of mortality among participants, retirants and beneficiaries

(iv) rates of withdrawal of active participants

(v) rates of disability among active participants

(vi) the age patterns of actual retirements

(vii) rates of increase of health insurance premiums

In making a valuation, the actuary calculates the monetary effect of each assumption for as long as a present covered person survives - - - a period of time which can be as long as a century.

The employer contribution rate has been computed to remain level from year to year so long as benefits and the basic experience and make-up of participants do not change. Examples of favorable experience which would tend to reduce the employer contribution rate are:

(1) Investment returns in excess of 7.0% per year.

(2) Participant non-vested terminations at a higher rate than outlined on page D-10.

(3) Mortality among retirants and beneficiaries at a higher rate than indicated by the RP 2000 Combined Table projected to 2007.

(4) Increases in the number of active participants.

Examples of unfavorable experience which would tend to increase the employer contribution rate are:

(1) An increase in the rate of retirement over the rates outlined on page D-9.

(2) A pattern of hiring employees at older ages than in the past.

(3) Higher than projected increases in health insurance premium rates.

Actual experience of the plan will not coincide exactly with assumed experience, regardless of the choice of the assumptions, the skill of the actuary or the precision of the calculations. Each valuation provides a complete recalculation of assumed future experience and takes into account all past differences between assumed and actual experience. The result is a continual series of adjustments (usually small) to the computed contribution rate.

From time to time one or more of the assumptions is modified to reflect experience trends (but not random or temporary year-to-year fluctuations).

VALUATION ASSUMPTIONS

The rate of investment return, net of expenses, (regular interest) used in making the valuation was 7.0% per annum, compounded annually. This assumption is established by the Board of Trustees as provided in the Benefits Plan Ordinance, and was first used for the June 30, 1982 pension actuarial valuation.

Approximate internal rates of investment return, for the purposes of comparisons with assumed rates, have been as follows:

	Year Ended 6/30					3 Year	5 Year
	2009	2008	2007	2006	2005	Average	Average
Rate of Investment Return	1.1%	5.8%	8.8%	6.0%	4.8%	5.2%	5.3%

The nominal rate of return was computed using the approximate formula I = I divided by ½ (A+ B – I), where I is actual investment income net of expenses, A is the beginning of year asset value, and B is the end of year asset value.

These rates of return should not be used for measurement of an investment advisor's performance or for comparisons with other plans – ***to do so will mislead.***

The mortality table used to measure post-retirement mortality was the RP 2000 Combined Table projected to 2007 set forward 2 years for males and set back 3 years for females. Disabled mortality rates are the standard post-retirement mortality rates set forward 10 years. These tables were recommended to the Board of Trustees in the July 1, 2003 through June 30, 2008 experience study, and were first used for the June 30, 2008 actuarial valuation.

	Single Life Retirement Values							
	Present Value of $1 Monthly for Life				Future Life Expectancy (Years)			
Sample Ages	Men	Women	Disabled Men	Disabled Women	Men	Women	Disabled Men	Disabled Women
45	$154.56	$162.55	$137.10	$150.64	34.35	41.65	25.03	32.07
50	146.96	157.43	125.03	141.84	29.63	36.83	20.64	27.41
55	137.10	150.64	111.12	131.02	25.03	32.07	16.60	22.96
60	125.03	141.84	95.53	118.50	20.64	27.41	12.94	18.83
65	111.12	131.02	78.54	104.38	16.60	22.96	9.69	15.06
70	95.53	118.50	61.51	88.93	12.94	18.83	6.97	11.69
75	78.54	104.38	46.26	72.57	9.69	15.06	4.88	8.75
80	61.51	88.93	34.49	56.52	6.97	11.69	3.44	6.32

Probabilities of retirement for members eligible to retire were:

Retirement Age	Age Based						Service Based		
	General		Police		Fire		Years of Service	Police	Fire
	Normal	Early	Normal	Early	Normal	Early			
50	40	15 %		25 %		25 %	25	55 %	50 %
51	30	10		25		25	26	45	35
52	30	10		25		25	27	45	35
53	30	10		25		25	28	50	35
54	30	12		25		25	29	50	25
55	30		75 %		24 %		30	75	25
56	30		75		24		31	75	25
57	30		75		24		32	75	25
58	25		75		24		33	75	25
59	25		75		34		34	75	25
60	35		100		100		35	100	100
61	30								
62	30								
63	30								
64	30								
65	45								
66	30								
67	30								
68	30								
69	30								
70	100								

The assumed conditions for retirement were:

Group	Eligibility Conditions for Retirement
General	50 years of age with 20 or more years of service (reduced); or 50 years of age with 25 or more years of service; or, 60 years of age with 5 or more years of service.
Police-Fire	50 years of age with 20 or more years of service (reduced); or 25 or more years of service; or, 55 years of age with 5 or more years of service.

These assumptions were first used for the June 30, 2008 actuarial valuation.

Salary Adjustment Factors for Projections of Current Salaries to FAC

Sample Ages	Percent Increase in Salary During Next Year			
		Merit & Longevity		
	Base	General	Police	Fire
20	3.5 %	4.0 %	6.0 %	5.8 %
25	3.5	3.6	5.1	5.0
30	3.5	2.8	3.2	3.4
35	3.5	2.1	1.9	1.9
40	3.5	1.8	1.2	1.2
45	3.5	1.5	0.9	0.9
50	3.5	1.0	0.7	0.7
55	3.5	0.7	0.5	0.5
60	3.5	0.5	0.3	0.4

Probabilities of Becoming Disabled

Sample Ages	Percent Becoming Disabled Within Next Year		
	General	Police	Fire
20	0.06 %	0.08 %	0.02 %
25	0.06	0.08	0.02
30	0.06	0.08	0.02
35	0.06	0.08	0.02
40	0.10	0.14	0.03
45	0.24	0.32	0.08
50	0.42	0.56	0.14
55	0.65	0.86	0.22
60	0.86	1.14	0.29

Sample Rates of Separation From Active Employment Before Retirement, Death, or Disability

Sample Ages	Years of Service	% of Active Members Separating Within Next Year			
		General		Police	Fire
		Male	Female		
ALL	0	12.00 %	15.00 %	12.00 %	2.25 %
	1	9.60	12.00	6.00	2.00
	2	8.00	10.00	4.00	1.80
	3	6.40	8.00	3.00	1.80
	4	4.80	6.00	2.50	1.80
20	5 and Over	3.60	5.40	2.40	1.80
25		3.60	5.40	2.40	1.80
30		3.60	5.40	2.40	1.50
35		2.80	4.20	1.52	1.20
40		2.80	4.20	0.64	1.20
45		2.80	4.20	0.32	0.90
50		2.80	4.20	0.32	0.60
55		2.80	4.20	0.32	0.60
60		2.80	4.20	0.32	0.60
65		2.80	4.20	0.32	0.60

The above assumptions were first used for the June 30, 2008 actuarial valuation.

RETIREE PREMIUM RATE DEVELOPMENT

The initial per capita costs were developed separately for the two classes of retirees (pre-65 and post-65) using claims experience for fiscal years 2007, 2008 and 2009 from the City, in conjunction with census data for the retired members of the health care program. Separate claim costs for the traditional and PPO plans were also provided. These claims were projected on an incurred claim basis, adjusted for large claims and loaded for administrative expenses and stop-loss premiums.

Using the above methodology, the initial per capita costs were calculated separately for the current Traditional and PPO plans. In 2007, the City changed the benefit design of the PPO plan for salaried employees and for several of its union employees for the recent and future retirees. Therefore, separate pre-65 and post-65 costs for future retirees were also developed to reflect the newly negotiated PPO benefits by adjusting the expected cost differences between the PPO plan and the new PPO plans. On page D-13 is a chart that highlights the PPO benefit provisions reflected in this valuation for each respective group.

Age graded and sex distinct premiums are utilized in this valuation. These costs are appropriate for the current unique age and sex distribution. Over the future years covered by this valuation, the age and sex distribution will most likely change. Therefore, our process "distributes" the average premium over all age/sex combinations and assigns a unique premium for each combination. The age/sex specific costs more accurately reflect the health care utilization and cost at that age.

The monthly per person premium including medical and prescription drug benefits at select ages are shown below:

	Monthly Premium Rates by Age					
	Traditional Retirees		PPO Retirees		Future Retirees	
Age	Male	Female	Male	Female	Male	Female
45	$348.47	$456.21	$377.19	$493.81	$365.81	$478.91
50	471.45	534.19	510.30	578.21	494.91	560.76
55	616.18	633.38	666.96	685.57	646.84	664.89
60	774.10	744.08	837.89	805.40	812.61	781.10
65	484.20	445.88	493.51	454.45	463.09	426.45
70	558.52	502.22	569.25	511.87	534.17	480.33
75	620.05	550.28	631.97	560.86	593.02	526.30

RETIREE PREMIUM RATE DEVELOPMENT

It was assumed that 90% of members elect coverage, that 75% of active members are married, and that 95% of those members will elect some form of joint and survivor coverage.

Brian T. Morris, FSA, MAAA

RETIREE PREMIUM RATE DEVELOPMENT

Key Plan Provisions	Teamsters Supervisors Police Professional Assistants Salaried Employees		IAFF	CSA/PSA COAM	AFSCME	AAPOA	Deputy Chief	Current Retirees (Suffixs 900-922)
	High	Low	Eff. 5/1/2007	Eff. 7/1/05 & 7/1/06	Eff. 7/1/2010	Current PPO	Current PPO	Traditional
In-Network								Basic
Deductible	$100/$200	$250/$500	$250/$500	$250/$500	$225/$450	$0/$0	$0/$0	$0/$0
Coinsurance	95%	90%	100%	100%	100%	100%	100%	$5 or 10%
Out-of-pocket Maximum	$500/$1000	$1000/$2000	n/a	n/a	n/a	n/a	n/a	n/a
Out-of-Network								Master Medical
Deductible	$200/$400	$500/$1000	$500/$1000	$500/$1000	$500/$1000	$250/$500	$250/$500	$50/$100
Coinsurance	80%	70%	80%	80%	80%	80%	80%	90%
Out-of-pocket Maximum	$1000/$2000	$2000/$4000	$2000/$4000	$2000/$4000	$2000/$4000	$2000/$4000	$2000/$4000	$1000/$1000
Office Vist Copay								
Primary Care Physician	$10	$15	$15	$15	$15	$10	$10	90%
Specialist	$10	$15	$15	$15	$15	$10	$10	90%
Rx Copay								
Retail (Generic/Brand)	$10/$30	$20/$40	$10/$20	$10/$25	$10/$25	$10/$10	$10/$20	$2/$2
Mail Order (Generic/Brand)	$10/$30	$20/$40	$10/$20	$10/$25	$10/$25	$10/$10	$10/$20	$2/$2

ACTUARIAL PROJECTION METHOD

For Present Retired and Inactive Employees: People are assumed to live and die in accordance with valuation assumptions.

For Present Active Employees: The projection deals with certain specific events in a participant's lifetime: retirement, terminating, dying, becoming disabled and receiving pay increases. For each future year and each event, the probability that the event occurs is determined and the financial effect (adjusted for the probability of occurrence of the event) is included in the projection.

For Future Active Employees: Future active participants are assumed to have characteristics (age, sex, pay rate) that are similar to the characteristics of current employees at the time they were hired.

Present non-economic assumptions were used for all projections.

GLOSSARY

Actuarial Accrued Liability. The difference between (i) the actuarial present value of future plan benefits, and (ii) the actuarial present value of future normal cost. Sometimes referred to as "accrued liability" or "past service liability".

Accrued Service. The service credited under the plan which was rendered before the date of the actuarial valuation.

Actuarial Assumptions. Estimates of future plan experience with respect to rates of mortality, disability, turnover, retirement, rate or rates of investment income and salary increases. Demographic assumptions (rates of mortality, disability, turnover and retirement) are generally based on past experience, often modified for projected changes in conditions. Economic assumptions (salary increases, investment income and health care cost increases) consist of an underlying rate in an inflation-free environment plus a provision for a long-term average rate of inflation.

Actuarial Cost Method. A mathematical budgeting procedure for allocating the dollar amount of the "actuarial present value of future plan benefits" between the actuarial present value of future normal cost and the actuarial accrued liability. Sometimes referred to as the "actuarial funding method".

Actuarial Equivalent. A single amount or series of amounts of equal value to another single amount or series of amounts, computed on the basis of the rate(s) of interest and mortality tables used by the plan.

Actuarial Present Value. The amount of funds presently required to provide a payment or series of payments in the future. It is determined by discounting the future payments at a predetermined rate of interest, taking into account the probability of payment.

Amortization. Paying off an interest-bearing liability by means of periodic payments of interest and principal, as opposed to paying it off with a lump sum payment.

Experience Gain (Loss). A measure of the difference between actual experience and that expected based upon a set of actuarial assumptions during the period between two actuarial valuation dates, in accordance with the actuarial cost method being used.

GLOSSARY

Normal Cost. The annual cost assigned, under the actuarial funding method, to current and subsequent plan years. Sometimes referred to as "current service cost". Any payment toward the unfunded actuarial accrued liability is not part of the normal cost.

Unfunded Actuarial Accrued Liability. The difference between the actuarial accrued liability and valuation assets. Sometimes referred to as "unfunded accrued liability".

Valuation Assets. The value of current plan assets recognized for valuation purposes. Generally based on market value with a smoothing of gains and losses.

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November 18, 2009

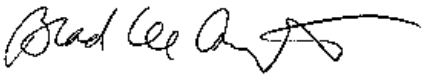
Mr. Willie Powell
Executive Director
City of Ann Arbor
532 S. Maple Road
Ann Arbor, Michigan 48103

Dear Willie:

Enclosed please find fifteen copies of the June 30, 2009 Eleventh Annual Actuarial Valuation and Projection report for the City of Ann Arbor Retiree Health Care Benefits Plan.

Please contact us if you have any questions.

Sincerely,



Brad Lee Armstrong,
ASA, MAAA, EA

BLA:bd
Enclosures