

CITY OF ANN ARBOR

RETIREE HEALTH CARE BENEFIT
PLAN & TRUST (VEBA)

***SUMMARY
ANNUAL REPORT***

For the Fiscal Year Ended
June 30, 2016

CITY OF ANN ARBOR

RETIREE HEALTH CARE BENEFIT PLAN & TRUST
532 S Maple Rd.
Ann Arbor, MI 48103
Phone (734) 794-6710 Fax: (734) 994-9205

Board of Trustees

Jeremy Flack, Chairperson, Fire Member Trustee
Alexa Nerdrum, Vice-Chairperson, Citizen Trustee
David Monroe, Secretary, Police Member Trustee
Terry Clark, General member Trustee
Tom Crawford, Chief Financial Officer
Brock Hastie, Citizen Trustee
Mark V. Heusel, Citizen Trustee
Julie Lynch, Citizen Trustee
Tony DiGiovanni, Citizen Trustee

Retirement System Staff

Nancy R. Walker, Executive Director
Daniel Gustafson, Pension Analyst
N. Gail Jarskey, Accountant
Lora Kluczynski, Management Assistant

ACTUARY

Buck Consultants

AUDITORS

Rehmann Robson

CUSTODIAL BANK

The Northern Trust Company

INVESTMENT ADVISORS

AEW Core Property Trust	Rhumblin
Beach Point Capital Management	Sky Harbor Capital Management
Dimensional Fund Advisors	Southern Sun Asset Management
DRA G&I Fund VIII Real Estate Management Trust	Stone Harbor Investment Partners
Fisher Investments	Summit Credit Partners
Income Research and Management	Vanguard
The Northern Trust Company	

INVESTMENT CONSULTANT

Meketa Investment Group

LEGAL COUNSEL

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

WEB ADDRESS: www.a2gov.org

CITY OF ANN ARBOR RETIREE HEALTH CARE BENEFITS PLAN AND TRUST

Annual Report
For Year Ending June 30, 2016

Dear Participant:

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 began operation during the year ending June 30, 1999. 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 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 positive .4% this year. The plan has returned 5.3% for the recent three-year average, and 5.8% for the recent 5-year average.

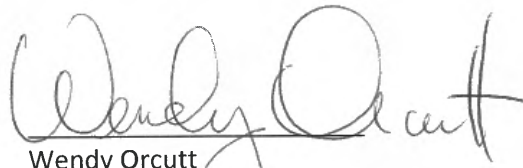
The projected annual required contribution rate for advance-funding of the post-retirement health and life insurance coverage is 20.67% of active participant payroll vs. 22.18% last year. The factors that have impacted plan costs include:

- Reduced 1-year investment performance at .4% compared to 7% target for 2016
- Updated census produced a 1.2% increase relative to expected liability
- Payroll increased by 3.1% relative to an expected 3.5% increase
- Contributions to the VEBA higher than the GASB minimum

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 subsequent years are made, the Plan will be fully actuarially funded. **In the year ending June 30, 2016, \$15,171,011 was contributed to the fund, including benefits paid from City assets. This contribution exceeded the recommended contribution requirement for the year ended 2016.** The actuary does not anticipate any material impact from the effect of Health Care Reform on the post-retirement medical obligations.

Sincerely,


Jeremy Flack
Chairperson, Board of Trustees


Wendy Orcutt
Executive Director (Effective 12/28/2016)

Investment Summary & Highlights

Asset Allocation and Performance Summary Table - Annualized Returns Periods Ending June 30, 2016

<u>Asset Class</u>	<u>Market Value</u> <u>\$ millions</u>	<u>% of Fund</u>	<u>% Return</u>	
			<u>1 Year</u>	<u>3 Year</u>
Domestic Equity	52.6	39.3	(.3)	9.6
International Developed Market Equity	12.9	9.6	(11.8)	1.5
International Emerging Market Equity	7.3	5.5	(8.6)	(1.3)
Investment Grade Bond	23.5	17.6	5.6	4.2
Treasury Inflation Protected Security	6.6	4.9	3.4	NA
High Yield	8.6	6.4	(.3)	3.3
Bank Loans	5.2	3.9	2.9	4.1
Emerging Market Debt	3.4	2.5	.1	(5.6)
Real Estate Assets	13.7	10.2	14.8	9.7
Cash			NA	NA
Total Fund	\$133.8	100%	.6	5.6

Note: source is Meketa Investment Group. May contain differences from audited financial statements due to timing, manner of presentation, and accounting requirements.

Actuarial Section

	<u>MEMBERSHIP</u>	
	<u>2016</u>	<u>2015</u>
Retirees and Surviving Spouses currently covered	1022	988
Spouses of Retirees currently covered	549	533
Active Participants	685	688
Total	<u>2256</u>	<u>2209</u>

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.

CITY'S COMPUTED CONTRIBUTIONS TO THE BENEFITS PLAN
FOR THE FISCAL YEAR END JUNE 30, 2018

Item	General Members	Police Members	Fire Members	Totals
1. Active Members				
a. Health benefits	6.21%	6.91%	8.14%	
b. Life benefits	0.18%	0.09%	0.12%	
2. Total Normal Cost (As a % of pay)	6.39%	7.00%	8.26%	6.76%
3. Expected Member Contribution (As a % of pay)	0.23%	0.25%	0.31%	0.24%
4. Expected Member Contribution (Dollar amount)	4,846	1,773	1,671	8,290
5. Total Employer Normal Cost (As a % of pay)	6.16%	6.75%	7.95%	6.52%
a. Traditional plan	6.26%	7.04%	8.32%	6.71%
b. \$2,500/year design	0.33%	0.18%	0.09%	0.27%
6. Total Employer Normal Cost (Dollar amount)	\$2,107,000	\$709,000	\$539,000	\$3,355,000
7. Amortization of Unfunded Actuarial Liability Assets Allocated by AAL (As a % of pay)				
a. Actives (Traditional plan)	2.81%	3.88%	4.20%	
b. Actives (\$2,500/year design)	-0.31%	-0.39%	-0.44%	
c. Inactives	9.42%	12.25%	12.20%	
8. Total Unfunded Actuarial Liability Assets Allocated by AAL (As a % of pay)	11.92%	15.74%	15.96%	14.15%
9. Amortization of Unfunded Actuarial Accrued Liability (Dollar amount)	\$4,361,000	\$1,764,000	\$1,161,000	\$7,286,000
10. ARC (As a % of pay)	18.91%	23.55%	25.08%	20.67%
11. ARC (Dollar amount)	\$6,468,000	\$2,473,000	\$1,700,000	\$10,641,000
12. Adjustment to the ARC (Estimated Dollar Amount)				(\$50,000)
13. Interest on Net OPEB Obligation (Estimated Dollar Amount)				\$65,000
14. Annual OPEB cost (Estimated Dollar amount)				\$10,656,000

Actuarial Progress

City of Ann Arbor Retiree Health Care Benefits Plan and Trust

SCHEDULE OF FUNDING PROGRESS (\$ in thousands)

Actuarial Valuation Date	Value of Assets (a)	Liability (AAL) Entry Age (b)	AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	Percentage of covered Payroll [(b-a)/c]
6/30/2016	\$143,250	\$281,502	\$138,252	50.9%	\$50,057	276.2%
6/30/2015	132,162	275,912	143,750	47.9%	\$48,759	294.8%
6/30/2014	116,566	264,164	147,598	44.13%	47,957	307.77%
6/30/2013	99,822	258,583	159,031	38.60%	45,063	352.91%
6/30/2012	87,660	249,844	162,184	35.10%	44,004	368.60%
6/30/2011	82,416	241,122	158,706	34.20%	45,921	345.60%
6/30/2010	73,205	242,842	169,637	30.10%	48,688	348.40%

SCHEDULE OF EMPLOYER CONTRIBUTIONS

Year Ended June 30,	Annual Required Contribution	Current Premiums Paid by the City	Pre Funding Contributions to Trust	Percentage Contributed
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%
2011	14,395,148	9,181,437	4,839,659	97.4%
2010	14,284,470	9,349,438	927,417	71.9%

Financial Section

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

Statements of Fiduciary Net Position
June 30, 2016 and 2015

	2016	2015
Assets		
Investments, at fair value:		
Equities	\$ 72,154,266	\$ 75,073,418
Fixed income	47,044,138	41,633,632
Other	14,748,331	14,953,230
Total investments	133,946,735	132,190,314
Equity in City of Ann Arbor pooled cash and investments	2,919,003	1,050,543
Accrued interest and dividends	261,762	229,103
Due from broker for securities sold	132,650	78,549
Total assets	137,260,150	133,548,509
Liabilities		
Accrued liabilities	127,953	53,009
Due to broker for securities purchased	348,536	306,461
Total liabilities	476,489	359,470
Net position restricted for benefits	\$ 136,783,661	\$ 133,189,039

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

Statements of Changes in Fiduciary Net Position

For the Years Ended June 30, 2016 and 2015

	2016	2015
Additions		
Investment income:		
<i>From investing activities:</i>		
Net depreciation in fair value of investments	\$ (1,504,639)	\$ (105,662)
Interest and dividends	2,321,825	2,125,371
Total investment income	<u>817,186</u>	<u>2,019,709</u>
Investment management fees	(286,554)	(311,794)
Net investment income from investing activities	<u>530,632</u>	<u>1,707,915</u>
<i>From securities lending activities:</i>		
Gross earnings	39,090	29,232
Borrower rebates received	26,998	44,966
Securities lending fees	(19,722)	(22,161)
Net investment income from securities lending activities	<u>46,366</u>	<u>52,037</u>
Net investment income	576,998	1,759,952
Employer contributions	<u>15,171,011</u>	<u>14,979,732</u>
Total additions	<u>15,748,009</u>	<u>16,739,684</u>
Deductions		
Participant benefits	12,095,622	10,758,954
Administrative expenses	<u>57,765</u>	<u>16,858</u>
Total deductions	<u>12,153,387</u>	<u>10,775,812</u>
Change in net position	3,594,622	5,963,872
Net position, beginning of year	<u>133,189,039</u>	<u>127,225,167</u>
Net position, end of year	<u>\$ 136,783,661</u>	<u>\$ 133,189,039</u>