City of Ann Arbor
Employees' Retirement System
Board of Trustees

532 S. Maple Rd. • Ann Arbor, Michigan 48103 (734) 794-6710 • Fax (734) 994-9205

Date: March 1, 2021

To: Honorable Mayor and City Council

From: Board of Trustees of the City of Ann Arbor Employees' Retirement System

Re: Actuarial Assumptions utilized for Optional Forms of Benefits

Dear Mayor and City Council Members,

The Board of Trustees respectfully requests that the Mayor and City Council give consideration to updating the mortality table used for optional forms of benefits as set forth in this memo.

The Board of Trustees of the City of Ann Arbor Employees Retirement System ("Board of Trustees") are vested with the general administration, and responsibility for the proper operation of the Retirement System and for making effective and construing the provisions of the Retirement Ordinance. Section 1:558 of the Retirement Ordinance provides in pertinent part that the System "shall be funded on an actuarial basis". The assumptions used for the annual funding valuation are not specified in the Retirement System Ordinance provisions and are determined by the Board of Trustees in furtherance of their fiduciary duty to the plan. After consultation with its actuary, the Board adopts such mortality and other tables of experience as are necessary for the funding of the Retirement System on an actuarial basis.

The Retirement Ordinance further provides that the Board of Trustees "shall review the actuarial funding assumptions used to fund the Retirement System." Over the years the Board has consulted with its actuary and adopted updated assumptions and methodologies for the computing of actuarial liabilities and the corresponding required City Contributions to the Retirement System.

The Board of Trustees has had several discussions and memoranda from its actuary regarding the assumptions utilized to determine the optional forms of benefits available to members upon retirement (See Attachments A, B & C). The benefits payable to a Member upon retirement are paid in the form of a single straight-life annuity benefit payable over the retiree's lifetime. Prior to the effective date of the Member's retirement, a Member may, in lieu of being paid a straight life Retirement Allowance for his/her life, elect to receive the "Actuarial Equivalent" of the straight life Retirement Allowance, in the form of a reduced Retirement Allowance Payment Option as set forth in the Retirement Ordinance. These "optional forms of benefits" allow for a retiree to take a reduced benefit and name a beneficiary to continue to receive a benefit in the event the retiree predeceases the named beneficiary. These optional forms of benefits are intended to be "Actuarial Equivalent" benefits. The actuarial assumptions utilized to determine the optional forms of benefits are set forth in the Retirement System Ordinance (See Attachment D – Applicable Provisions of the Retirement Ordinance). While the Board has the fiduciary authority and responsibility to adopt the assumptions utilized for the annual funding valuation, it does not have the authority to change or modify the assumptions utilized for determining the optional forms of benefits. The Ordinance requires the use of a 7% interest rate assumption and the 1971 group annuity mortality table set back to zero years for men and 5 years for women ("GA71") for the optional forms of benefits.

Several years ago, for purposes of the annual funding valuation, the Board updated the mortality table from the GA71 to the RP-2014 Healthy Annuitant table, with future mortality improvements projected to 2025 using scale MP-2017("RP2014"). This change in the mortality table reflects the longer life expectancies of the retirees.

This correspondence is provided to advise the City (with copies to the respective union representatives) of the issues surrounding the calculation of the optional forms of benefits payable from the Retirement System. The attached correspondence from the Board's Actuary outlines the issues. The City and its respective unions, as applicable, may wish to consider modifications to the actuarial assumptions as set forth on the Retirement Ordinance with respect to the optional forms of benefits available to employees upon retirement from the City.

If you have any questions or need any additional information please do not hesitate to contact the Retirement System's Executive Director, Wendy Orcutt, via email to WOrcutt@a2gov.org.

Respectfully Submitted,

Jeremy Flack
Jeremy Flack (Feb 28, 2021 20:02 EST)

Jeremy Flack, Chair
Ann Arbor Employees Retirement System

CC:

AFSCME- Robert Sloan
TEAMSTER- Chuck Fojtik
AAPOA - Sean Stewart, Police
COAM - Shane Dennis,
DC - Jason Forsberg, Police
PSS - Susan Casey, Police
AAPPA - Renee Wagner, Police
AC - Marc Tyler, Fire
IAFF - Chris Buscemi Fire

MEMORANDUM

ATTACHMENT A

Date: July 15, 2020

To: Retirement Board – City of Ann Arbor Employees' Retirement System (CAAERS)

From: James D. Anderson, FSA, EA, FCA, MAAA, Richard C. Koch, Jr., ASA, EA, MAAA and Francois Pieterse, ASA, FCA, MAAA

Re: Requested Follow-up from the June 18, 2020 Pension Board Meeting

On June 18, GRS and the Board discussed a potential update to actuarial factors used for optional forms of payment. Currently, factors for optional forms of survivor benefits are calculated using a 7.00% interest rate assumption and the 1971 group annuity mortality table set back zero years for men and five years for women ("GA71"). Over the years, the mortality basis has been regularly updated for purposes of computing actuarial figures in the annual valuation. The most recent valuation update occurred a few years ago, to the RP-2014 Healthy Annuitant table, with future mortality improvements projected to 2025 using scale MP-2017 ("RP2014"). On June 18 we discussed how the optional form factors would change for future retirees/spouses if the mortality table were updated from GA71 to RP2014. As requested, this memorandum provides an estimated impact on Retirement System liabilities of updating the mortality table for optional form calcautions.

Examples Provided During June 18, 2020 Board Meeting

GRS reviewed examples with the Board (shared on screen) using actual CAAERS active members who subsequently retired at identical ages with identical straight life annuity benefits payable for their lives only. The examples then compare the present values of Joint & Survivor benefits when a 50% Joint & Survivor option was selected, yielding the following resulting present values ("PV"):

1.	2. **RP2014** Valuation Active Member PV	3. **GA71** Mortality Retired Member PV	4. **RP2014** Mortality Retired Member PV
Example 1	$950,600	$927,000	$945,600
Example 2	$923,600	$905,600	$930,000

During the meeting, GRS Noted the following:

- Column 2 represents the present value for each member from the June 30, 2019 actuarial valuation.
- Compare Column 2 to Column 3. Historically, there were consistent gains whenever a retiree elected a Joint & Survivor option. This can be seen in the chart above, comparing active members present values vs the retiree present values in the GA71 column.
- Compare Column 2 to Column 4. Updating the optional form mortality table to be consistent with the valuation RP2014 basis, results will vary by person – column 4 Is smaller than column 2 for Example 1 ($945,600 vs. $950,600) but larger for Example 2 ($930,000 vs. $923,600).

Impact on CAEERS System-wide Liability

As requested, we expanded upon the examples shown on the previous page to estimate the impact on the overall System accrued liability of updating the mortality basis for optional forms of payment. As of June 30, 2019:

- Retiree liability of $408,737,399 will not be impacted – current retirees elected forms of benefit payment in accordance with the Plan Document (GA71) and their benefit streams are valued using RP2014 mortality in the valuation. Going forward, RP2014 mortality will be used in deriving optional forms and actuarial accrued liability. This means that each and every Retiree electing an optional form of payment will receive a higher monthly benefit (relative to GA71), but the resulting retiree liability will be more in line with the calculated active member liability.
- Actives and Vested Terminated Member liability of $192,371,582 is currently based on RP2014 and will not change. As noted above, each time a person retires in the future, there will be less gain relative to the liability held in the valuation as an active member when compared to years when GA71 applied. We estimate that continued use of GA71 for optional forms is expected to generate approximately $2 million in gains over time. This estimate was derived by applying the optional form mortality basis (GA71) in active and vested termination valuation runs, and adjusting for potential adverse selection by plan members going forward. Again, this "expected decrease" would be realized over time and will not immediately lead to contribution savings.

In conclusion, overall the change in optional form adjustment is expected to have a minor impact on valuation liabilities, less than 0.3% of actuarial accrued liabilities.

James D. Anderson, Richard C. Koch, Jr. and Francois Pieterse are members of the American Academy of Actuaries and meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinions contained herein.

GRS

MEMORANDUM

ATTACHMENT B

Date: September 2, 2020

To: Retirement Board – City of Ann Arbor Employees' Retirement System (CAAERS)

From: James D. Anderson, FSA, EA, FCA, MAAA, Richard C. Koch, Jr., ASA, EA, MAAA and Francois Pieterse, ASA, FCA, MAAA

Re: Requested Follow-up to July 15, 2020 Memorandum

The Audit Committee requested the following bulleted items (forwarded to GRS by the Executive Director in the format below) relating to actuarial factors used in determining optional forms of payment for discussion at their September meeting:

1. Where the System is, as currently stated in the ordinance.
2. GRS recommendation and rationale for the change.
3. Prevalence in the public sector market
4. The impact on the liabilities and cash contribution along with employee examples

1. Current Actuarial Basis Stated in the Ordinance ("**GA71**, 7%")
Per Ordinance Section 1:572:
"1:572. - Actuarial Equivalencies—Traditional Retirement Plan.
(1) "Actuarial Equivalency" or "Actuarially Equivalent" means a benefit of equivalent value to the benefit it replaces based upon the following actuarial assumptions to be used by the Retirement System's actuary in determinations hereunder:
(a) *Mortality:* 1971 Group Annuity Mortality Table for males set back (0 years for males and 5 years for females) blended 95% males and 5% females.
(b) *Interest:* For purposes of Actuarial Equivalency between the standard form of payment (straight life pension) described in section 1:557 and the optional forms of payment described in section 1:559(1): the Actuarial Equivalency Interest Rate set forth in section 1:552.1(4)."

Section 1:552.1(4) states: "*Actuarial Equivalency Interest Rate*. Effective as of February 1, 2011, the interest rate used for Actuarial Equivalency purposes, including (without limitation) calculating the effect of an annuity withdrawal under section 1:559(2) on a Member's Retirement Allowance, which is currently 7% per annum. This rate shall be subject to change by Ordinance amendment, and pursuant to collective bargaining where applicable."

2. GRS Recommendation and Rationale for Updating the Basis used for Optional Form Calculations
Over the years, the mortality basis has been regularly updated for purposes of computing actuarial figures in the annual valuation, most recently a few years ago to the RP-2014 Healthy Annuitant table, with future mortality improvements projected to 2025 using scale MP-2017 ("**RP2014**"). One rationale for updating the actuarial basis for optional forms is to align valuation calculations for funding purposes with actual retirement benefit calculation purposes (for those members electing benefits that provide income to a surviving beneficiary). In addition, during the June 18, 2020 Board meeting, we discussed the issue of lawsuits. The April 2019 and July 2020 issues of GRS

Insight (attached) include articles describing multiple complaints filed since December 2018 relating to mortality tables used to calculate optional forms of payment. While the lawsuits all related to large private sector plans and the claims put forth would not be directly applicable to governmental plans as framed, the cases should put governmental defined benefit plans on notice that retaining the status quo may not always be beyond legal challenge. For these 2 reasons, the Board may decide to update the factors at this time. In any event, to the extent that changes to interest and mortality assumptions are investigated, GRS will provide commentary and examples of optional forms as part of the next Experience Study. Please note that we are not attorneys and we recommend you obtain input from legal counsel on legal matters.

3. Prevalence in the Public Sector Market
To our knowledge, no compendium exists containing the actuarial equivalence basis used for calculating optional forms of payment for Retirement Systems in Michigan nor across the United States. Ann Arbor's Ordinance specifically identifies the actuarial equivalent basis as shown in item 1. of this Memo. Note that many Plan Ordinances/Documents simply define actuarial equivalence 'as determined by the actuary …' or something to that effect. Anecdotally, the authors know of a handful of plans that currently use GA71 for optional forms of payment. As discussed previously, some Boards update factors as part of each experience study (when interest and/or mortality assumptions are changed) while others do not.

4. The impact on the liabilities and cash contribution along with employee examples
Updating the mortality table for optional form calculations to match the current assumptions used in funding valuations will have differing impacts on different Retirement System members. Note that in the examples below, the member/spouse age and straight life benefits are identical.

Example 1: Female active member, age 51, spouse age 54.

Status	Monthly Straight Life Benefit	Monthly J&S 100% Benefit	Present Value of Benefit	Change in Present value: Active to Retired Status
Active – **RP2014**	$6,140	N/A	$950,600*	N/A
Retired J&S 100% -- **GA71**	$6,140	$5,465	$905,900	-$44,700
Retired J&S 100% -- **RP2014**	$6,140	$5,705	$941,000*	-$9,600

* *Despite identical mortality and interest bases, the present values differ due to Unisex requirements for optional forms of payment.*

For Example 1, the Retirement System held a higher liability (Present Value) for this person as an active member than the resulting liability as a retired member based on current option factors. Updating the mortality assumption reduces the variance as shown.

4. The impact on the liabilities and cash contribution along with employee examples (continued)

Example 2: Male active member, age 51, spouse age 54.

Status	Monthly Straight Life Benefit	Monthly J&S 100% Benefit	Present Value of Benefit	Change in Present value: Active to Retired Status
Active -- **RP2014**	$6,140	N/A	$923,600*	N/A
Retired J&S 100% -- **GA71**	$6,140	$5,465	$901,000	-$22,600
Retired J&S 100% -- **RP2014**	$6,140	$5,705	$936,900*	$13,300

* *Despite identical mortality and interest bases, the present values differ due to Unisex requirements for optional forms of payment.*

For Example 2, the Retirement System held a higher liability (Present Value) for this person as an active member than the resulting liability as a retired member based on current option factors. Updating the mortality assumption reverses this relationship for this example. Other ages will have different results.

Cost Summary

The Board has already incorporated RP2014 mortality into the valuation liability and contribution requirements. This mortality table will be in effect until the next experience study, or until the Board decides to update the mortality table in the future, if sooner.

If the Board elects to keep GA 71 option factors, valuation liabilities are unchanged. Looking ahead, our July 15, 2020 correspondence estimated that continued use of GA71 for optional forms would have a minor impact over the life of the plan – a gain of less than 0.3% of current valuation actuarial accrued liabilities. Overtime, the contribution might be slightly lower than if the factors were updated.

If the Board elects to update the option factors to RP-2014, valuation liabilities are unchanged. Looking ahead, as future retirees elect Survivor forms of payment there are fewer expected future gains. All else being equal, we expect a level contribution amount from aligning the optional forms basis with the valuation basis

James D. Anderson, Richard C. Koch, Jr. and Francois Pieterse are members of the American Academy of Actuaries and meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinions contained herein.

Orcutt, Wendy

From:	Jim.Anderson@grsconsulting.com
Sent:	Thursday, September 17, 2020 8:41 AM
To:	Alexa.Nerdrum@willistowerswatson.com
Cc:	Orcutt, Wendy; Hollabaugh, Laura; Horning, Matthew; Monroe, David; Mark.Buis@grsconsulting.com; Francois.Pieterse@grsconsulting.com; Rich.Koch@grsconsulting.com
Subject:	RE: Optional Forms of Payment Memo

Alexa-

Thanks for your note, and sorry for the late response - after this morning's Board meeting, I am going to find out why I never received your initial email. Using the numbering shown in your email below:

1. In our judgment, assumptions for actuarial equivalence do not have to be exactly the same as the assumptions used in the valuations. If valuation assumptions are not used, we do think that there should be a known and reasonable relationship between the two and such assumptions should reflect any objectives of the Retirement System. The mortality table used for the calculation of optional forms of payment impacts the benefits assumed to be paid to members and beneficiaries. The longer members are expected to live, the less likely it is that payments will be made to beneficiaries. This means that updating the mortality table to reflect longer life expectancies will result in increased benefits paid to members who elect optional forms of payment since the assumed value of beneficiary coverage is reduced. Moving from the mortality assumption in the current tables to an updated table will produce increased benefits for most ages.
    a. Pros of updating the optional forms assumption:
        i. Recognizes increases in life expectancy documented by mortality researchers.
        ii. Aligns valuation calculations for funding purposes with actual retirement benefit calculation purposes (for those members electing benefits that provide income to a surviving beneficiary).
    b. Cons of updating the optional forms assumption:
        i. Disparate amounts for members retiring and electing Joint & Survivor benefits before and after the update. Note that in these circumstances, retirement Boards sometimes provide a grace period for retiring members to receive the greater of the two factors.
        ii. May not meet Board objectives
2. Plan liabilities are valued using RP2014, and will continue on that basis until the next Experience Study (or if the Board elects to update the assumption before that time). There is no 'immediate' impact because liabilities are already valued with the new mortality. As members retire, there will likely be fewer gains since factors are closer the valuation actuarially equivalent basis. Our examples show that identically situated retiring members can have differing present values compared to the valuation liability held as an active member – Example one shows a gain, example 2 shows a loss – this is due to the unisex assumption used for benefit calculations vs. gender specific tables used in the valuation. When we ran this in aggregate for the entire population at June 30, 2019, there was a slight "Gain" – again, the results will emerge in the future as members retire and elect Joint & Survivor benefits.

Going forward, we continue to recommend that assumptions be reviewed and potentially revised at the time of each future experience study.

MEMORANDUM

ATTACHMENT D

Date: January 12, 2021

To: Retirement Board – City of Ann Arbor Employees' Retirement System (CAAERS)

From: James D. Anderson, FSA, EA, FCA, MAAA, Richard C. Koch, Jr., ASA, EA, MAAA and Francois Pieterse, ASA, FCA, MAAA

Re: Actuarial Option Factors

The purpose of this memo is to discuss the assumptions used for the calculation of optional forms of payment for retirement benefits, such as the 100% and 50% joint and survivor (with pop-up) and the 60, 120 and 180 month certain and life form of payment.

Background

The election of the optional payment forms listed above involves the concept of "actuarial present value" -- defined in the actuarial field as the present value of a contingent stream of payments based on a given set of actuarial assumptions. In this case, the stream of payments is a member's pension and calculating the actuarial present value of a stream of pension payments requires the use of actuarial assumptions regarding investment return and mortality. Two amounts that have the same actuarial present value are often called "actuarially equivalent" amounts. For the CAAERS, all optional forms of payment [100% or 50% joint and survivor (with pop-up), period certain and life] must be actuarially equivalent to the Straight Life form of payment according to the assumptions currently stated in the CAAERS Ordinance --

Per Ordinance Section 1:572:

"1:572. - Actuarial Equivalencies—Traditional Retirement Plan.

(1) "Actuarial Equivalency" or "Actuarially Equivalent" means a benefit of equivalent value to the benefit it replaces based upon the following actuarial assumptions to be used by the Retirement System's actuary in determinations hereunder:

(a) *Mortality:* 1971 Group Annuity Mortality Table for males set back (0 years for males and 5 years for females) blended 95% males and 5% females.

(b) *Interest:* For purposes of Actuarial Equivalency between the standard form of payment (straight life pension) described in section 1:557 and the optional forms of payment described in section 1:559(1): the Actuarial Equivalency Interest Rate set forth in section 1:552.1(4)."

Section 1:552.1(4) states: "*Actuarial Equivalency Interest Rate*. Effective as of February 1, 2011, the interest rate used for Actuarial Equivalency purposes, including (without limitation) calculating the effect of an annuity withdrawal under section 1:559(2) on a Member's Retirement Allowance, which is currently 7% per annum. This rate shall be subject to change by Ordinance amendment, and pursuant to collective bargaining where applicable."

Actuarial Valuation Assumptions

In the past few years, the Retirement Board adopted revised actuarial assumptions for actuarial valuation purposes including investment return (interest rate of 6.9%) and mortality rates [the RP-2014 Healthy Annuitant table, with future mortality improvements projected using scale MP-2017 ("**RP2014**")]. The main assumptions affecting calculations for the System's optional forms of benefit are the interest rate, mortality rates, and the mix of males and females electing optional forms of payment. When actuarial assumptions are updated for valuation purposes, it is common practice for Retirement Boards to consider whether it is also appropriate to change the actuarial assumptions to be used for calculations of optional payment amounts. In our judgment, assumptions for actuarial equivalence do not have to be exactly the same as the assumptions used in the valuations. If valuation assumptions are not used, we think that such assumptions should reflect objectives of the Retirement System.

Mortality Component – Impact on Optional Forms of Payment

The mortality table used for the calculation of optional forms of payment impacts the benefits assumed to be paid to members and beneficiaries. The longer members are expected to live, the less likely it is that payments will be made to beneficiaries. This means that updating the mortality table to reflect longer life expectancies will result in increased benefits paid to members who elect optional forms of payment since the assumed value of beneficiary coverage is reduced. Moving from the mortality assumption in the current tables to an updated table will produce increased benefits for most ages (with the exception of a few outliers under the alternate assumptions).

Interest Rate Component– Impact on Optional Forms of Payment

Decreasing/Increasing the interest rate assumption will act to decrease/increase the amounts paid to retirees who elect optional forms of payment.

Looking Forward

CAAERS may continue using the current mortality and interest basis for calculating optional forms of payment. Anecdotally, the authors know of a handful of Michigan plans that currently use the mortality table listed in the Ordinance for optional forms of payment. Some Boards update factors as part of each experience study (when interest and/or mortality assumptions are changed) while others do not. Going forward, we recommend that assumptions applicable to optional forms be reviewed and potentially revised at the time of each future experience study.

James D. Anderson, Richard C. Koch, Jr. and Francois Pieterse are members of the American Academy of Actuaries and meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinions contained herein.

ATTACHMENT E

Applicable Optional Forms of Benefits Provisions

Chapter 18 - EMPLOYEES RETIREMENT SYSTEM

1:552.1. - Definitions A—F.

The following words and phrases used in this chapter shall have the following meanings, unless a different meaning is clearly required by the context:

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(3) ***"Actuarial Equivalency" or "Actuarially Equivalent"*** means a benefit of equivalent value to the benefit it replaces, as further provided in section 1:572.

(4) **Actuarial Equivalency Interest Rate** . Effective as of February 1, 2011, the interest rate used for Actuarial Equivalency purposes, including (without limitation) calculating the effect of an annuity withdrawal under section 1:559(2) on a Member's Retirement Allowance, which is currently 7% per annum. This rate shall be subject to change by Ordinance amendment, and pursuant to collective bargaining where applicable.

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1:572. - Actuarial Equivalencies—Traditional Retirement Plan.

(1) "Actuarial Equivalency" or "Actuarially Equivalent" means a benefit of equivalent value to the benefit it replaces based upon the following actuarial assumptions to be used by the Retirement System's actuary in determinations hereunder:

(a) *Mortality:* 1971 Group Annuity Mortality Table for males set back (0 years for males and 5 years for females) blended 95% males and 5% females.

(b) *Interest:* For purposes of Actuarial Equivalency between the standard form of payment (straight life pension) described in section 1:557 and the optional forms of payment described in section 1:559(1): the Actuarial Equivalency Interest Rate set forth in section 1:552.1(4). For purposes of determining the remaining amount of pension payable in the straight life form after a Member has withdrawn his Accumulated Contributions under section 1:559(2) the Actuarial Equivalency Interest Rate set forth in section 1:552.1(4).

(2) In the event of a change in these actuarial assumptions as applicable to any Member, Actuarially Equivalent benefits for affected Members after the date of such change shall be the greater of (a) or (b) below:

(a) The Actuarial Equivalent of the benefit accrued to the date of change, based upon the Member's Final Average Compensation and Credited Service (both determined as of the date of change) and the provisions of the Retirement Ordinance as of the date of change, including the Actuarial Equivalency factors prior to the date of change, or

(b) The Actuarial Equivalent of a benefit based upon all Final Average Compensation and Credited Service determined as of the date of calculation after the amendment, and based upon the terms of the Retirement Ordinance after the amendment, applying the new Actuarial Equivalency factors.

(3) The actuarial Early Retirement reduction and reduction of the dollar limit if the employee has less than 10 years of participation under IRC § 415 do not apply to income received as a Pension or Annuity as a result of an employee's personal injury, sickness or death and shall be administered in accordance with IRC § 415(b)(2), as amended.

(Ord. No. 16-28, § 1, 1-3-17)

1:559. - Alternate forms of payment options—Traditional Retirement Plan.

(1) Prior to the effective date of the Member's Normal, Early, Disability, or Deferred Vested Retirement, but not thereafter, a Member may, in lieu of being paid a straight life Retirement Allowance for his/her life pursuant to section 1:557(1), elect

to receive the **Actuarial Equivalent** of the straight life Retirement Allowance, computed as of the effective date of his Retirement, in the form of a reduced Retirement Allowance Payment Option as described under Options I, II, III, IV or V below.

Option I—Modified Cash Refund. A Retirant shall be paid a reduced Retirement Allowance for life with the provision that upon the Retirant's death, the difference, if any, between the Retirant's Accumulated Contributions at the time of Retirement and the aggregate amount of cash refund annuity payments (as defined below) made shall be paid to such person or persons as he/she shall have nominated by written designation duly executed and filed with the Board. If no such designated person survives the Retirant, then such difference, if any, shall be paid to his or her legal representatives. As used in this Option, the term "annuity payments" means the portion of the Retirant's Retirement Allowance derived from the Retirant's Accumulated Contributions at the time of Retirement, as determined by the actuary.

Option II—100% Survivor. A Retirant shall be paid a reduced Retirement Allowance for life with the provision that upon the death of a Retirant, the reduced Retirement Allowance shall be continued throughout the life of and paid to such person as the Retirant shall have nominated by written designation duly executed and filed with the Board prior to the effective date of Retirement. If the nominated survivor Beneficiary dies prior to the Retirant, the amount of the Retirant's monthly Retirement Allowance shall revert to the straight life Retirement Allowance amount described in (1) above and shall be paid to the Retirant for the remainder of his life. If both the Retirant and Beneficiary die before receiving an aggregate amount of Retirement Allowance payments equal to the Member's Accumulated Contributions at Retirement, as reduced by any payment under section 1:559(2), the difference, if any, between said Retirant's Accumulated Contributions and the aggregate amount of Retirement Allowance paid, shall be paid from the Pension Reserve Fund to the legal representative of the Retirant or Beneficiary, whomever died last.

Option III—50% Survivor. A Retirant shall be paid a reduced Retirement Allowance for life with the provision that upon the death of a Retirant, ½ the reduced Retirement Allowance shall be continued throughout the life of and paid to such person as the Retirant shall have nominated by written designation duly executed and filed with the Board prior to the effective date of Retirement. If the nominated survivor Beneficiary dies prior to the Retirant, the amount of the Retirant's monthly Retirement Allowance shall revert to the straight life Retirement Allowance amount described in (1) above and shall be paid to the Retirant for the remainder of his life. If both the Retirant and Beneficiary die before receiving an aggregate amount of Retirement Allowance payments equal to the Member's Accumulated Contributions at Retirement, as reduced by any payment under section 1:559(2), the difference, if any, between said Retirant's Accumulated Contributions and the aggregate amount of Retirement Allowance paid, shall be paid from the Pension Reserve Fund to the legal representative of the Retirant or Beneficiary, whomever died last.

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Option V—Social Security Adjustment Option. A General City Member who retires prior to the age the General City Member becomes entitled to full social security benefits may elect to be paid a straight life Retirement Allowance actuarially equated to provide an increased Retirement Allowance payable to the aforementioned age and a reduced Retirement Allowance thereafter. The Retirant's increased Retirement Allowance, payable to such age, shall approximate the sum of the reduced Retirement Allowance to be payable after that age, and the primary social security benefits to which the Retirant will be entitled.

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(2) *Annuity option.*

(a) In addition to the options under subsection (1) above, a Member who:

(i) Has attained his Early Retirement under section 1:556(1) or Normal Retirement under section 1:556(2) while in City employment (or, in the case of former City Health Department and Ann Arbor Training and Employment Center employees, while in Washtenaw County employment) and who has elected to retire in accordance with section 1:556;

(ii) Has attained age 60 and is eligible for a Deferred Vested Retirement Allowance under section 1:558; or

(iii) Qualifies for a Disability Retirement under section 1:561 while in City employment, and who elects to retire in accordance with said section, may elect to be paid in a single payment 25%, 50%, 75% or 100% of the Member's Accumulated Contributions and thereafter shall be paid a reduced Retirement Allowance as provided at section 1:559(2)(c).

(b) The election by a Terminated Vested Member whose age and Service total at least 50 at the time of termination of employment to make a partial or 100% withdrawal of Accumulated Contributions as provided in section 1:559(2)(a) may generally be exercised only (i) at the time a Member terminates employment with the City, or (ii) when payment of a Retirement Allowance begins. An election by a Member to withdraw Accumulated Contributions other than at the times described in (i) or (ii), shall require that the Member withdraw 100% of the balance of the Member's Accumulated Contributions credited to the Member's individual account in lieu of any partial withdrawal option of 25%, 50%, or 75% of his Accumulated Contributions.

(c) Effective as of February 1, 2011, if a Member withdraws Accumulated Contributions pursuant to this section 1:559(2), the Member's straight life Retirement Allowance shall be reduced by the **Actuarial Equivalent** of the amounts withdrawn. For purposes of determining Actuarial Equivalency under this section 1:559(2), the following shall apply in lieu of any conflicting provisions of this chapter.

(i) The withdrawn Accumulated Contributions shall be credited with hypothetical interest at the Actuarial Equivalency Interest Rate set forth in section 1:552.1(4) from the date of withdrawal to the Member's Normal Retirement under section 1:556 (or if later, the date on which Retirement Allowance payments are to begin after Normal Retirement under section 1:556).

(ii) The resulting single sum shall be converted to an **Actuarially Equivalent amount of straight life Normal Retirement Allowance using the 1971 group annuity mortality table for males set back (0 years for males and 5 years for females) blended 95% male and 5% female mortality table and 7% interest factors, provided that in the case of a withdrawal under section 1:559(2)(a)(iii) such conversion shall be performed using the 1971 group annuity mortality table for males, set forward 10 years for males and set back 5 years for females, blended 95% male and 5% female.**

(d) The Actuarial Equivalency Interest Rate provision of section 1:559(2)(c) shall also apply to deferral periods on or after February 1, 2011 for Annuity withdrawals which occurred prior to that date. The interest rate applied to such withdrawals prior to February 1, 2011, shall be at the rates of Regular Interest as previously provided under the Ordinance and as determined by the Board through this date. For purposes of this subparagraph (d), the term "Regular Interest" shall mean that as previously provided under the prior Ordinance for the period through January 31, 2011.

Optional Forms of Benefits Correspondence to Council

Final Audit Report 2021-03-01

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