

CITY OF ANN ARBOR RETIREE HEALTH CARE BENEFIT PLAN & TRUST  
BOARD OF TRUSTEES  
Minutes for the Regular Board Meeting  
November 18, 2010

The meeting was called to order by Nancy Sylvester, Chairperson, at 10:17 a.m.

**ROLL CALL**

Members Present: Clark, Flack, Hastie, Kaur, Monroe, Nerdrum, Sylvester  
Members Absent: Crawford, Fraser  
Staff Present: Kluczynski, Powell, Refalo  
Others: Michael VanOverbeke, Legal Counsel  
Brad Armstrong, Gabriel, Roeder, Smith & Company  
David Diephuis, City Resident

**AUDIENCE COMMENTS - None**

**A. APPROVAL OF AGENDA**

It was **moved** by Nerdrum and **seconded** by Monroe to approve the agenda as presented.  
**Approved**

**B. APPROVAL OF MINUTES**

**B-1 October 21, 2010 Regular Retiree Health Care Benefit Plan & Trust Board Meeting**

It was **moved** by Nerdrum and **seconded** by Flack to approve the October 21, 2010 Board meeting minutes as submitted.  
**Approved**

**C. CONSENT AGENDA - None**

**D. ACTION ITEMS - None**

**E. DISCUSSION ITEMS - None**

**F. PRESENTATION - Report of the 12<sup>th</sup> Annual Actuarial Valuation for the Year Ended June 30, 2010 – Brad Armstrong, GRS**

Mr. Armstrong of Gabriel, Roeder, Smith & Company presented the 12<sup>th</sup> Annual Actuarial Valuation for the Year Ended June 30, 2010. The summary is as follows:

**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. The total employer contribution for the fiscal year ending June 30, 2010 was 72% of the ARC. It is our understanding that the City intends to fully fund the ARC in future years.

**COMMENT B**

The Benefit Plan’s investment return was 2.1% versus 7.0% assumed based on the smoothed value of assets during the year ending June 30, 2010. In a plan with a funded ratio of 30%, 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 \$9.8 million higher than market value of assets as of June 30, 2010. This will exert upward pressure on the contribution rate and downward pressure on the funded ratio over the next three years.

**COMMENT C**

The weighted average computed contribution rate for advance-funding of the post-retirement health and life insurance coverage is 28.49% of active participant payroll vs. 26.31% last year. The primary driver of the increase in the rate was the decrease in active payroll of 4.7% compared to an expectation of an *increase* of 3.5%.

**COMMENT D**

The establishment of a program of advance-funding for post-retirement health insurance does not protect the City from the effects of runaway health care costs. Other steps may be required, by the City or the health care industry, to cure that ill. Some of these steps have been taken in the past few years. Advance-funding can, however, protect against expected future demographic changes, such as the increasing ratio of retired participant to active participant number count. Advance-funding also provides some cushion against the effects of large one-year increases in premiums followed by years of moderate increases. Finally, advance-funding helps enhance the security of future health insurance benefits, decreasing the likelihood that benefits will be severely curtailed.

**COMMENT E**

The City will not realize any short-term budgetary gain from advance-funding for post-retirement health and life insurance benefits. Long range gains will occur, however, and the cushion associated with a reserve fund is a valuable side effect. Eventually, if the recommended funding contributions in this and subsequent reports are made, the Plan will be actuarially fully funded. Along the way, more and more of the benefit payout will be paid out of investment income. In the year ending June 30, 2010, \$927,417 was contributed to the fund and benefits were paid from City assets to reach 72% of 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.

It was **moved** by Nerdrum and **seconded** by Monroe to receive and file the 12<sup>th</sup> Annual Actuarial Valuation for the Year Ended June 30, 2010 subject to revisions to pages A-6 and 1.

**Approved**

**G. REPORTS**

**G-1 Investment Policy Committee Minutes – November 2, 2010**

Following are the Retiree Health Care Benefit Plan & Trust Investment Policy Committee minutes from the meeting convened at 4:52 p.m. on November 2, 2010:

- Member(s) Present:* Flack, Monroe, Sylvester
- Member(s) Absent:* None
- Other Trustees Present:* None
- Staff Present:* Kluczynski, Powell
- Others Present:* Larry Gray, Gray & Company

**VEBA QUARTERLY PERFORMANCE REPORT FOR SEPTEMBER 30, 2010**

Mr. Gray and Mr. Kuhn reviewed the Executive Overview of the portfolio. The Fund's total market value as of September 30, 2010 was \$69.9 million. The Fund had a return of 10.64% for the current quarter, and a return of 14.18% for the last twelve months.

Summary of Assets as of September 30, 2010:

<b>Managers</b>	<b>Market Value</b>
Domestic Equity Composite	34,373,000
International Equity Composite	10,164,000
Fixed Income	19,603,000
Real Estate	2,924,000
Cash	2,706,000
Other (Oaktree)	129,000
<b>Total Plan</b>	<b>\$69,899,000</b>

**ADJOURNMENT**

It was **moved** by Flack and **seconded** by Monroe to adjourn the meeting at 5:00 p.m.  
**Meeting adjourned at 5:00 p.m.**

**G-2 Preliminary Investment Reports for the Month Ended October 31, 2010**

N. Gail Jarskey, Accountant, submitted the Financial Report for the month ended October 31, 2010, to the Board of Trustees:

10/31/2010 Asset Value (Preliminary)	\$70,321,884
9/30/2010 Asset Value (Audited by Northern)	\$68,860,498
Calendar YTD Increase/Decrease in Assets (excludes non-investment receipts and disbursements)	\$6,265,907
Percent Gain <Loss>	9.9%
<b>November 17, 2010 Asset Value</b>	<b>\$72,388,821</b>

**G-3 Legal Report**

Mr. VanOverbeke stated that Mr. Ceo's request to the Board of Trustees at the Retirement Board meeting is actually a VEBA issue, and even though Mr. Fraser stated that he would follow up on Mr. Ceo's request, it may be prudent for the VEBA Board to issue correspondence to the City indicating that the Board would like clarification as to their true basis for denial. Mr. VanOverbeke reviewed Chapter 21 for the language in question, which does not indicate a discrepancy with coming back to the Plan after being enrolled under a spouse's plan, and there is no language that provides a timeline for the retiree to return to the City's healthcare plan. It was decided that Mr. Powell will forward to Mr. VanOverbeke the contract that Mr. Ceo retired under along with his original correspondence to the City for further review.

**H. TRUSTEE COMMENTS - None**

**I. FUTURE AGENDA ITEMS - None**

**J. INFORMATION**

**J-1 Record of Paid Invoices**

The following invoices have been paid since the last Board meeting.

	<b>PAYEE</b>	<b>AMOUNT</b>	<b>DESCRIPTION</b>
<b>1</b>	<b>Gray &amp; Company</b>	1,578.05	Investment Consultant Retainer – September 2010
<b>2</b>	<b>Bradford &amp; Marzec, Inc.</b>	10,347.27	Investment Mgmt. Fees – 7/1/10 – 9/30/10
<b>3</b>	<b>Southern Sun Asset Management</b>	17,952.00	Investment Mgmt. Fees – 7/1/10 – 9/30/10
<b>4</b>	<b>RhumbLine Advisers</b>	3,125.00	Investment Mgmt. Fees – 7/1/10 – 9/30/10
	<b>TOTAL</b>	<b>33,002.32</b>	

**K. ADJOURNMENT**

It was **moved** by Nerdrum and **seconded** by Flack to adjourn the meeting at 11:23 a.m.  
**Meeting adjourned at 11:23 a.m.**

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