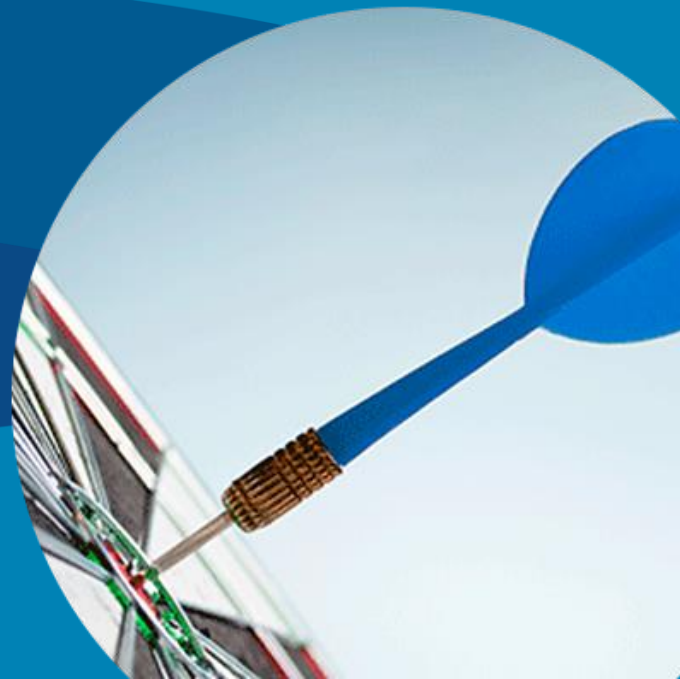




# City of Ann Arbor Employees' Retirement System & Retiree Health Care Benefit Plan & Trust (VEBA)

Update for City Council Working Session  
February 22, 2021

James D. Anderson, FSA, EA, FCA, MAAA  
Richard C. Koch, Jr., ASA, EA, MAAA

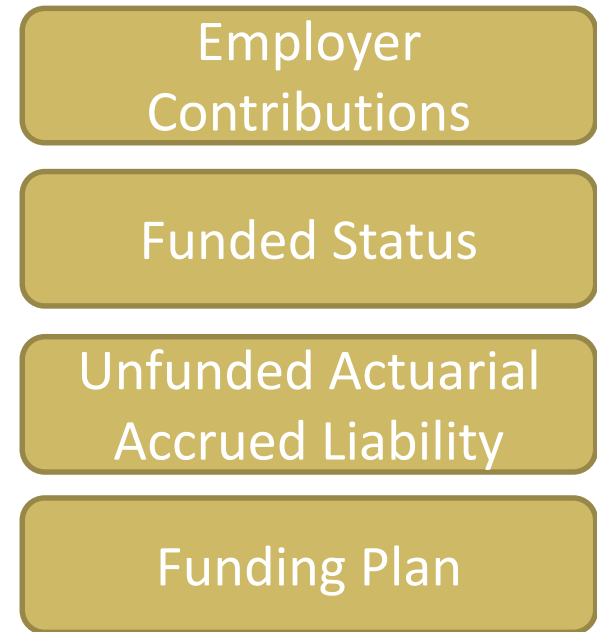
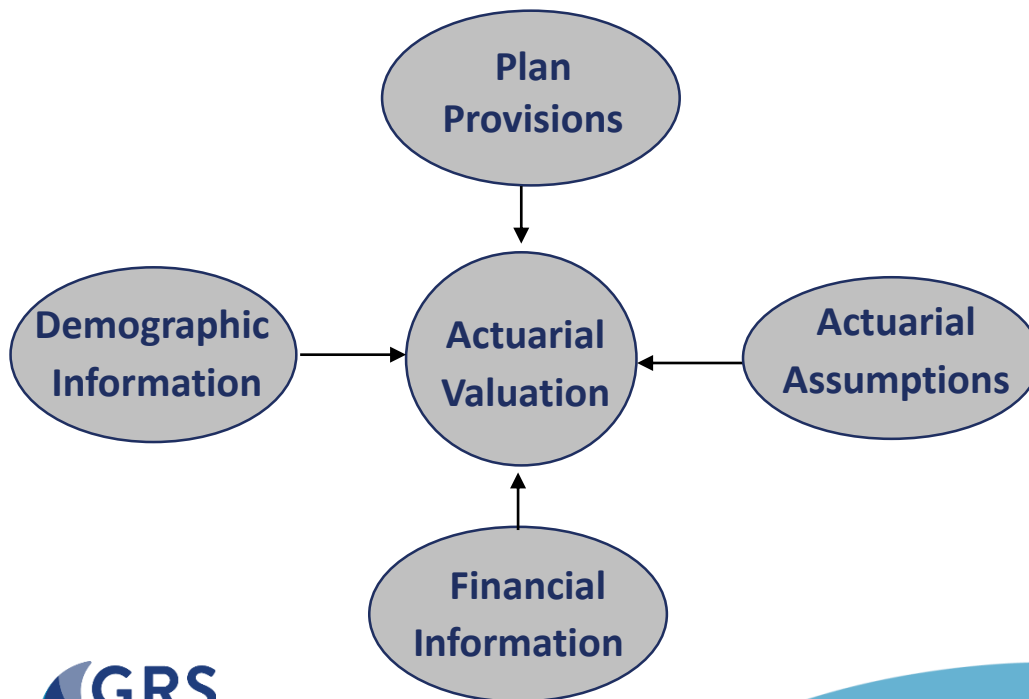


# 30,000 Foot View of Retirement Plan Financing

GRS mathematically combines  
People, Benefits, Assumptions  
& Asset information



To produce digestible  
information for decision-making  
by the Board and City



# Retirement Program Sustainability Equation

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$$C + I = B + E$$

**B**<sub>enefits</sub> depend on

- ▶ Plan Provisions
- ▶ Experience

**C**<sub>ontributions</sub> depend on

- ▶ Short Term: Actuarial Assumptions & Cost Method
- ▶ Long Term: **I**vestment Income, **B**enefits, **E**xpenses



# Retirement System Demographic Information – Summary of Membership

## Active Members as of June 30, 2020 Tabulated by Valuation Divisions

Valuation Divisions	No.	Annual Payroll
General	357	\$ 27,707,492
General Hybrid	165	9,362,031
Police	121	11,674,796
Police Hybrid	1	141,177
Fire	80	7,181,683
Fire Hybrid	1	121,361
<b>Total Active Members</b>	<b>725</b>	<b>\$ 56,188,540</b>

Note: Hybrid Plan members have a benefit equal to ½ defined benefit and ½ defined contribution.

## Retirees and Beneficiaries as of June 30, 2020 Tabulated by Valuation Divisions

Valuation Divisions	No.	Annual Allowances
General	711	\$20,372,232
Police	222	10,851,545
Fire	169	7,830,326
<b>Total</b>	<b>1,102</b>	<b>\$39,054,103</b>

## Inactive Members Eligible for Deferred Benefits as of June 30, 2020 Tabulated by Valuation Divisions

Valuation Divisions	No.	Estimated Annual Allowances
General	88	\$1,174,704
Police	15	346,887
Fire	0	0
<b>Total</b>	<b>103</b>	<b>\$1,521,591</b>

# Retirement System Plan Provisions

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- City of Ann Arbor Employees Retirement System
  - ❖ Defined Benefit (DB) element – Percent of compensation times total years of service.
  - ❖ Hybrid Benefit (Dual Plan) element – reduced DB plus Defined Contribution (DC).
  - ❖ Member contributions required.
- City of Ann Arbor Retiree Health Benefits Plan & Trust
  - ❖ Retiree health care coverage equivalent to coverage received on date of retirement for those hired before selected dates in 2011-2013.
  - ❖ Members not eligible for Retiree health care earn annual amounts of \$2500/\$3500 per year. The City funds their account upon retirement.
  - ❖ Life insurance death benefit (\$10,000) for all retirees in receipt of City pension.

# Retirement System Investment Return Assumption

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- During 2020, the Board of Trustees approved a change to the assumed rate of investment return (i.e., the discount rate) from 7.0% to 6.5% over a 5-year period, via a reduction of 0.1% per year starting with the 2020 valuation analysis.
- The Board will annually review the reduction in the assumed rate of return over this 5- year period to determine if additional modifications or time-line considerations should be addressed.
- Note that a 6.9% discount rate was used to compute liabilities/future contributions in the 2020 valuation.

# Funding Status – Accounting Standards

## Funding of Retirement Plans

The City contributes funds to retirement plans so that when an employee retires from providing services to the City, adequate funds are available to pay for their retirement benefit. A trust is utilized to invest all employer and employee contributions. When the value of the investments in the trust are less than the value of the cost of the benefits, the fund is less than 100% funded.

### Pension

The city has funded

**83.7%**

of current pension liability.

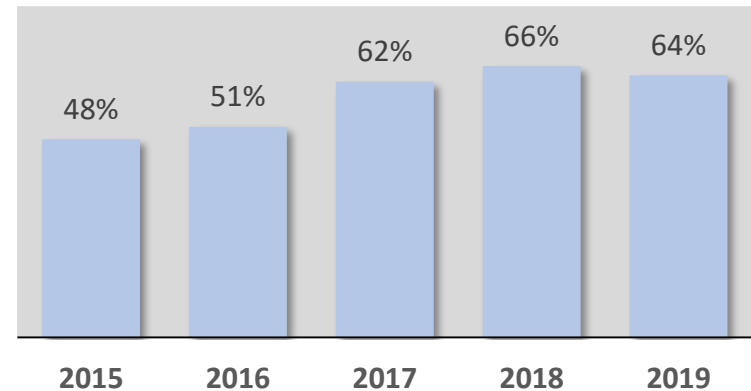
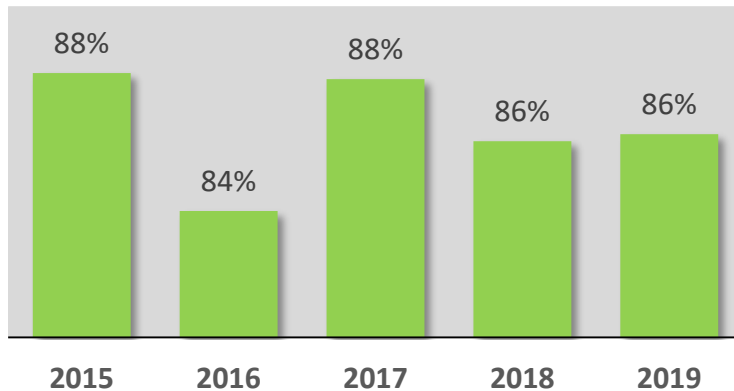
### Health Care

The city has funded

**66.8%**

of its retiree health care liability.

### How does this compare to the last 5 years?



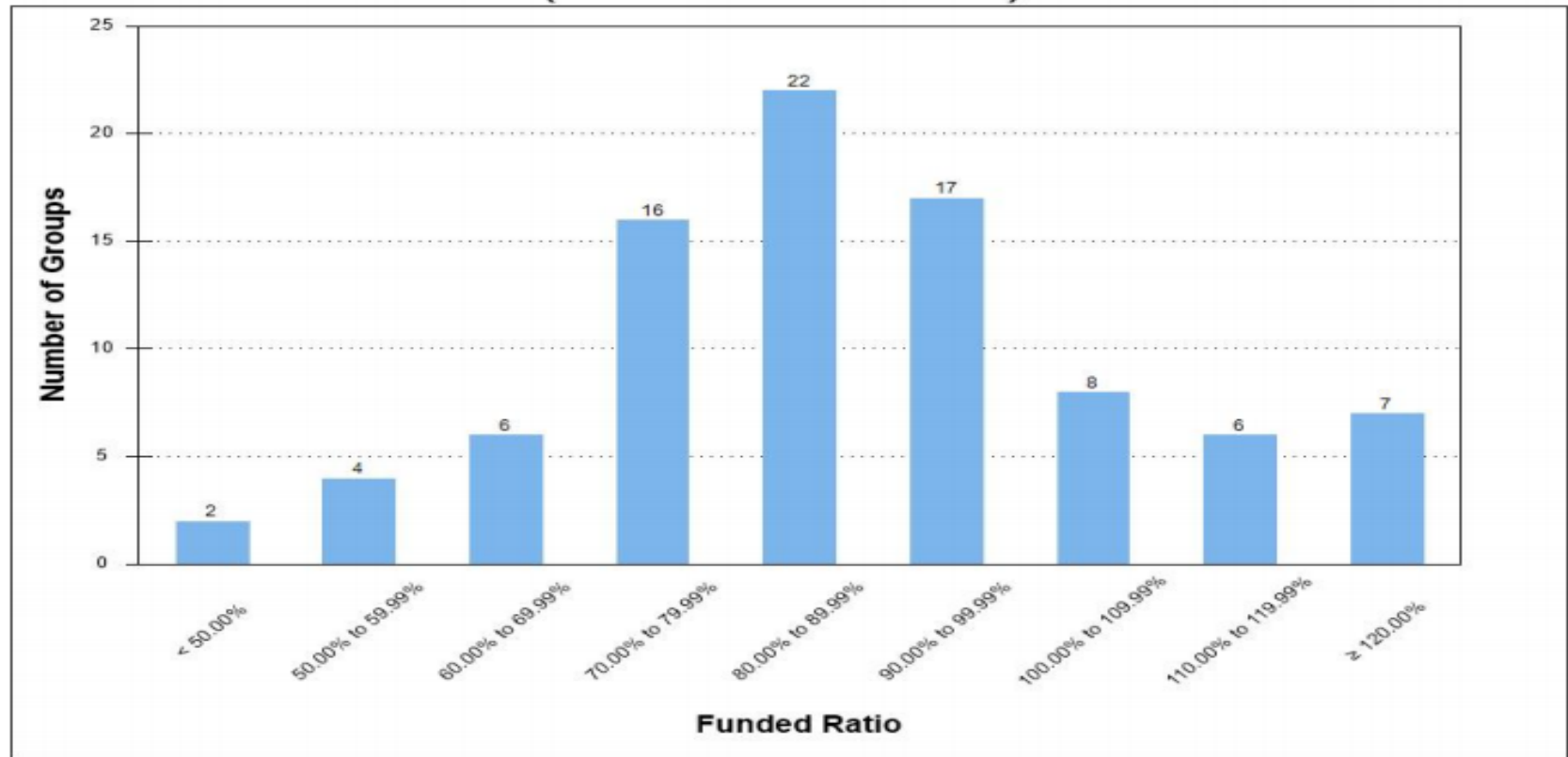
# Summary of Valuation Highlights - ERS and VEBA for the FYE June 30, 2020

	Employees' Retirement System	Retiree Health Care Benefit Plan & Trust (VEBA)
Actuarial Value of Assets	\$ 520,440,000	\$ 198,914,000
Total Actuarial Accrued Liability	\$ 614,077,000	\$ 306,171,000
Unfunded Actuarial Accrued Liability	\$ 93,637,000	\$ 107,257,000
FYE 2022 Estimated Contribution	\$ 16,126,000	\$ 13,001,000
Funded Ratio	85%	65%
Projected Year to Attain 100% Funded Status	2041	2036



# GRS Trendline: MI City/County Plans Retirement System Funded Status

Distribution of Funded Ratio (Actuarial Value of Assets)

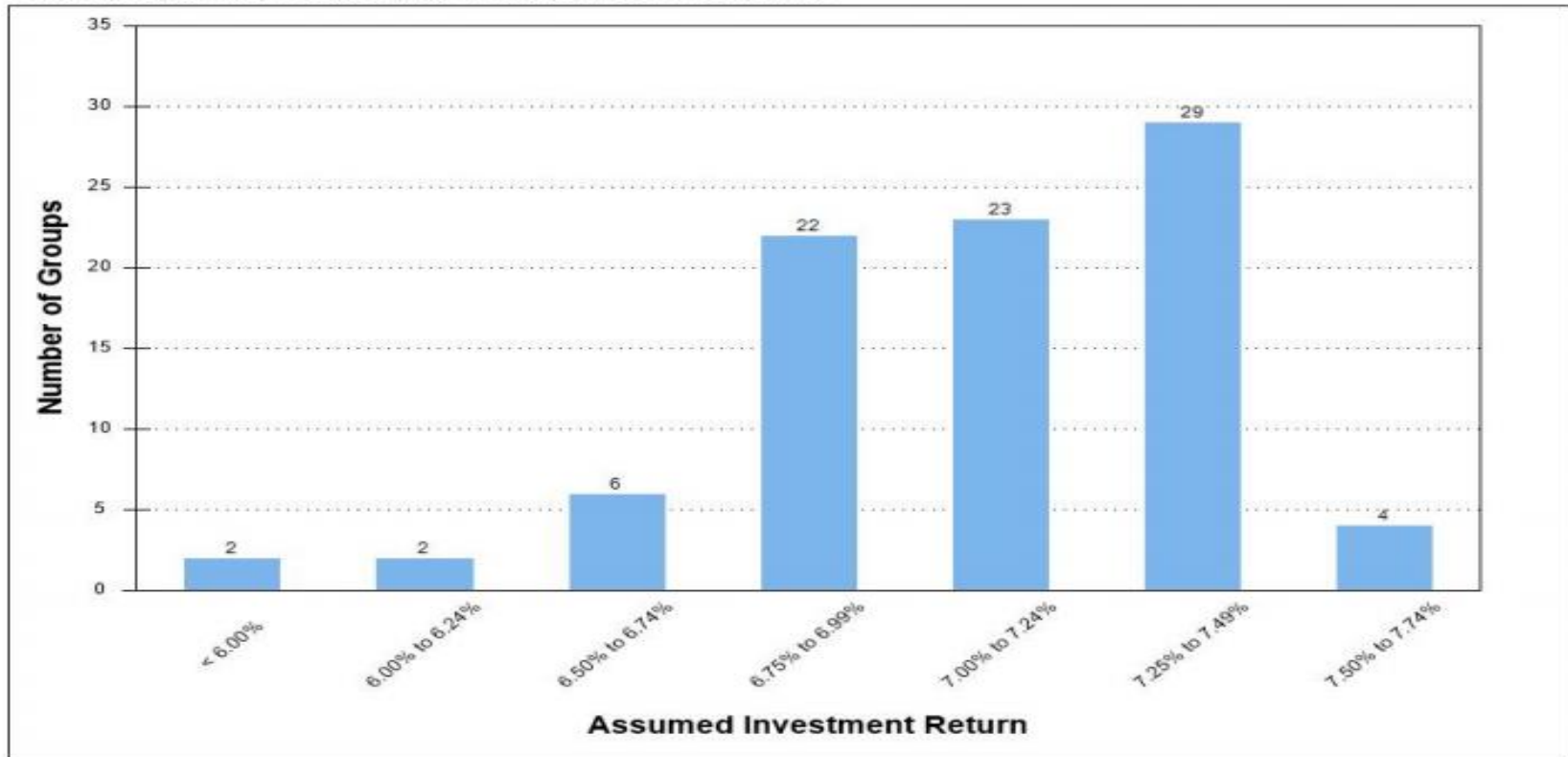


This exhibit was generated using the following criteria: Valuation Date: 12/31/2019, 06/30/2020, 09/30/2020; Type of Employees: General, Public Safety, Other (Mixed); Amount of Assets: < \$100 Million, \$100 to \$999.9 Million; Number of Members (Active and Retired): < 1,000, 1,000 to 49,999, 50,000 to 99,999, 100,000+; Group Status: Open, Closed; State: Michigan; Level of Government: City, County, Other.  
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# GRS Trendline: MI City/County Plans Assumed Investment Return

Distribution of Assumed Investment Returns



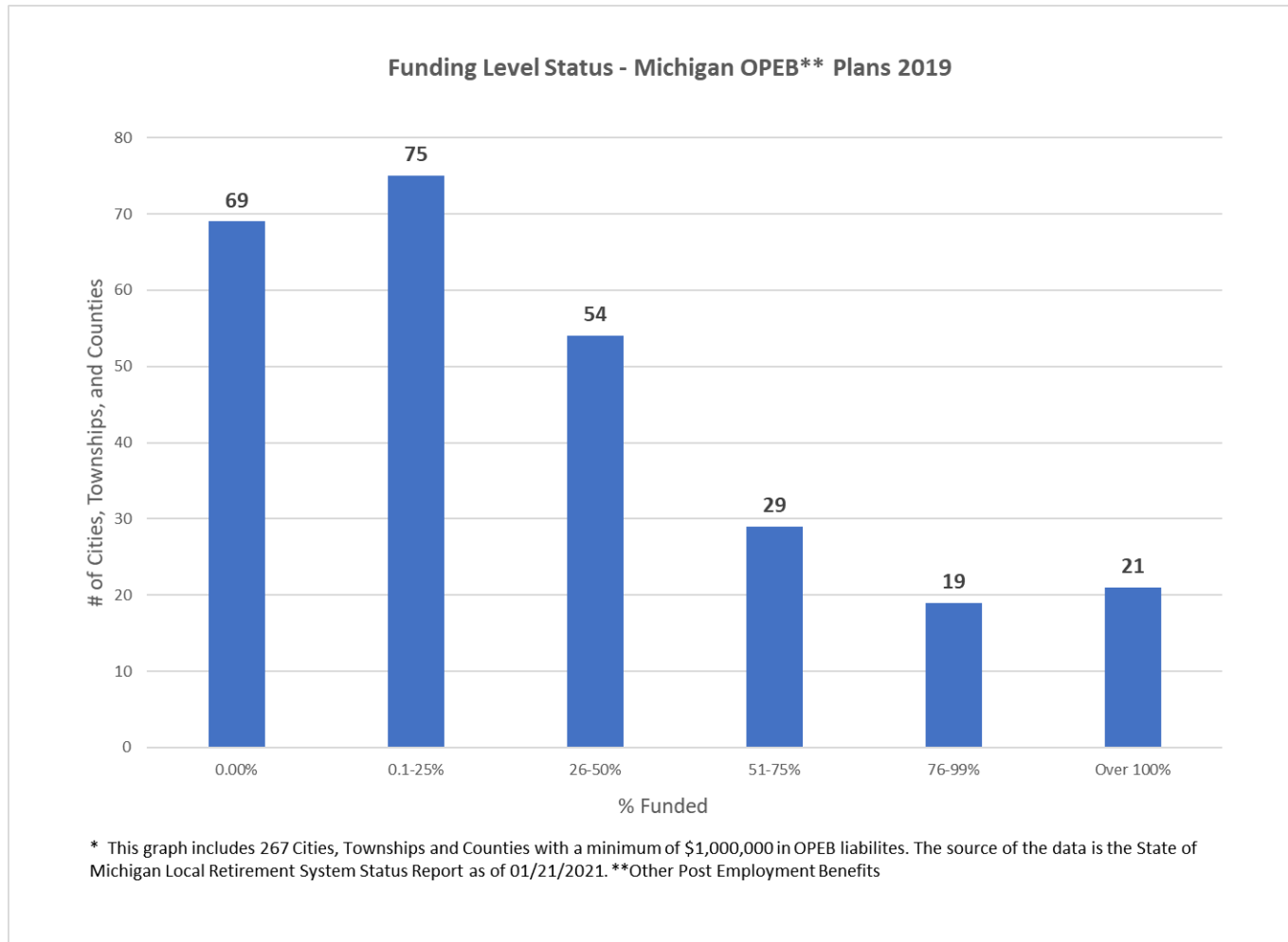
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# Michigan VEBA Funded Status (from PA 202)



# Michigan VEBA Funded Status (from PA 202<sup>1</sup>)

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- Ann Arbor ahead of most Local Units in funding the obligation
  - Ann Arbor Funded Percent = 62.2%
  - Average Funded Percent = 35.8%\*
  - Median Funded Percent = 20.4%\*
  - Nearly 22% reporting have \$0 assets

\* Excludes the City of Kentwood, which reports 4,000% funding

<sup>1</sup> Source: MI Department of Treasury.

“Summary\_Reporting\_Uniform\_Assumptions\_11-5-20\_70701\_7.xlsx”

# Risk Management

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- Board Governance – Prudent Practices in Place
  - Perform an experience study every 5 years and review assumptions
  - Review funding policy contribution at least every 5 years:
    - Provides for contribution  $\geq$  the Actuarially Determined Contribution
    - Provides for contribution stability
  - Declining amortization period until both plans reach 15 Years
  - Level dollar amortization unique for funding Public Sector Retirement benefits
- Actions taken to address liability growth/risk
  - Dual Plan approach provides new benefit tier for certain post-2016 hires for Retirement System
  - VEBA provides new benefit tier for all hired after 2011-2012 effective dates
- Will lead to ultimate contribution reduction and stability, relative to historical benefits

# Investment Highlights – 2020

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(Provided by Meketa – the System’s Investment Consultant)

- The System protected well during the severe Q1 downturn as the conservative positions fared very well, resulting in top-quartile performance for the quarter.
- The System’s risk mitigating strategy worked as designed posting very strong calendar 2020 returns.
- Implementing the Rebalancing Plan approved in 2019, The Board increased the equity exposure after the first quarter market declines, resulting in strong market capture of approximately \$8.5 million as equity markets rebounded.
- The discount rate used for the System was re-evaluated and adjusted to reflect a more realistic outlook for expected returns going forward.

# Investment Program Overview

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- Well diversified investment portfolio, with combination of growth and capital preservation asset classes designed to meet or exceed the return assumption.
- Highly effective alternative investment program including; private equity, private debt, real estate, infrastructure, and risk mitigating hedge funds.
- Low cost management structure due to an efficient blend of passive and active management strategies – approximately half the median cost of the System’s peer group.



# QUESTIONS?