

**MINUTES**  
**SPECIAL JOINT MEETING OF THE**  
**WASHTENAW COUNTY EMPLOYEES' RETIREMENT COMMISSION**  
**AND THE**  
**VOLUNTARY EMPLOYEES BENEFICIARY ASSOCIATION**  
**TUESDAY, JULY 30, 2013 at 10:30 a.m.**  
**Board of Commissioners Meeting Room 220 N. Main St., Ann Arbor, MI 48107**

**Meeting Called to Order**

Scott Miller called the WCERS meeting to order at 10:40 a.m.  
Peter Collinson called the VEBA meeting to order at 10:40 a.m.

**Roll Call**

Monica Boote called the roll.

**WCERS Members Present:** Nancy Heine, Scott Miller, Verna McDaniel, Deb Schmitt, Conan Smith, Dan Smith

**WCERS Members Absent:** Kelly Belknap (excused)

**VEBA Members Present:** Peter Collinson, Barbara Finch, Nancy Heine, Conan Smith

**VEBA Members Absent:** Bob Stanton (excused)

**Others Present:**

Monica Boote and Lisa Everton, Human Resources Retirement Office; Roberta Allen, AWARE Representative; Gary Lowe, Sheriff's Department; Brian Green, Graystone Consulting; Larry Langer and Dan Levin, Buck Consulting; Tom Michaud, VanOverbeke Michaud & Timmony; Catherine McClary, Treasurer's Office; Media and Others

**Public Participation**

None

**Approval of Regular Agenda**

Deb Schmitt seconded by Dan Smith motion to approve the regular agenda as presented. All in favor, motion carried.

**REGULAR AGENDA**

**Unfinished Business**

**A. 2013 Actuarial Experience Study for the Period Ending 12.31.12**

Verna McDaniel seconded by Conan Smith motion to receive and file the final 2013 Actuarial Experience Study for WCERS reflecting the change in the amortization schedule that was approved by the WCERS Board at their July 23, 2013 meeting.

Trustees discussed the difference between the unfunded actuarial liability and the market unfunded liability. Larry Langer of Buck Consultants explained that for the purposes of determining employee/employer contributions the market is not directly taken into consideration. A smoothed or averaged value of assets is provided to aid in predicting trends and the funded ratio. If the market has an adverse experience contributions may or may not increase because they are based on the actuarial value of assets to keep contributions at a level base. Trustees discussed whether or not the actuary and its report is required or governed by any law. Mr. Langer assured Trustees that while they are not bound by law there are strict standards of practice to which they adhere.

Trustees clarified the change in amortization period for members who may have missed last week's meeting. The amortization period was changed from a 27 year closed period with an annual 2 year deduction to a 27 year closed period.

WCERS Board members all in favor, motion carried.

Barb Finch seconded by Conan Smith motion to receive and file the final 2013 Actuarial Experience Study for VEBA reflecting the change in the amortization schedule accepted by the WCERS Board. All VEBA Board members in favor, motion carried.

Trustees discussed the need for an experience study policy. WCERS has adopted a resolution to undertake an experience study on a five year schedule which will be on VEBA's regular November meeting agenda for discussion.

## **New Business**

### **A. VEBA Actuarial Valuation Results as of 12.31.12**

Dan Levin of Buck Consultants presented the draft VEBA December 31, 2012 Actuarial Valuation Report.

The highlights of the report included a slight increase in retirees and separated employees entitled to benefits (deferred); updated actuarial assumptions; the 2014 impact of health care reform; and the direct impact on the results from the experience study.

Trustees discussed liabilities, contributions, amortization periods, closing the plan, GASB accounting rules, the Retiree Drug Subsidy or RDS and vesting requirements.

Plan payments consist of two parts; unfunded liabilities and normal costs for benefits earned in the current year. Annual growth rate of 5% and liabilities will continue to grow in an open plan normally. For practical purposes VEBA is considered to be a closed plan and will not be open to new hires beginning 1.1.14 and contributions for a closed plan will increase.

The VEBA plan is currently 33.11% funded and according the funding policy projections is on track to be 100% funded by 2028, which may slightly increase due to the expected change in the amortization period, but is still believed to be an impressive approach considering most OPEB (Other Pension Employee Benefits) plans are not funded at all at this time. The Washtenaw County VEBA plan is positively in the forefront.

The GASB accounting rules with a 30 year amortization period are for reporting only and do not apply to the real amortization period which is determined solely by the VEBA Board. The VEBA closed group funding projections are expected to be at normal costs in roughly 29 years as the medical trends build up and level out at zero.

There is a cash savings on top of the RDS for an employer group waiver plan and reduces the actuarial liability for Medicare prescriptions. There would be additional subsidy monies from the government to hire a pharmacy benefit manager to be the actual Plan D equaling more benefit for retirees.

There is a vesting requirement for Washtenaw County retirees to receive medical benefits at no additional cost. The County does allow for deferred vested members to receive the medical benefit at the full cost which is the illustrative rate defined by the carrier and not provided by the employer. This allows retirees to take advantage of the group rates obtained by the County.

In light of the situation in the City of Detroit, it would be prudent to use the experience study or studies when compiling the valuation reports as the market is continuously fluctuating.

Mr. Miller called for a short recess at 11:55 am before continuing with the WCERS Actuarial Valuation Results presentation.

Trustees returned at 12 noon.

### **B. WCERS Actuarial Valuation Results as of 12.31.12**

Larry Langer of Buck Consultants presented the draft WCERS December 31, 2012 Actuarial Valuation Report.

The events that impacted the report's results included; the results of the 2008 market returns have now been fully realized in this valuation; the market value returns were greater than assumed in 2011; the results of the Experience Review provided a change in assumptions; the impact to projections with new plan provisions.

Trustees discussed the member data inputs, benefit provisions, actuarial assumptions, funding methodology, actuarial value of assets, actuarial accrued liability, net actuarial gain or loss, funded ratio, and contributions.

Member contributions are based on the negotiated bargaining agreements and cannot be raised.

Revised actuarial assumptions were adopted at the experience review presentation which increased liabilities and costs of the plan.

The amortization period of the funding methodology should be reconsidered at a later date. The current adopted policy is respectable compared to other municipalities but Buck has advised this Board that it should be shorter to reflect the closing of the plan. The funding policy should reflect the systematic payment the unfunded liability over time.

Using the actuarial value of assets, the sum of interest and dividends and return divided by the assets, allows for a smoothing of unrealized gains and losses. The plan's contributions are representative of both employee and employer.

The actuarial accrued liability will begin to decrease due to the plan's closing.

A net actuarial gain is a lower unfunded liability than assumed and a loss is a higher than expected unfunded liability. WCERS unfunded liability saw an actuarial loss of 7.93% compared to last year's actuarial accrued liability.

The 2008 market returns are reflected completely in investment income. This report will be the last accounting of the 2008 data which has been a disproportionate amount compared to the last 5 years. Future reports may consider reflecting extraordinary events differently. Limiting contributions because of an extraordinary event may cause increases in the future and ultimately an unstable contribution schedule.

The funded ratio reflected as a percentage of pay and not a fixed dollar amount can catch up. VEBA's funded ratio is generated by the market whereas WCERS' benefit is directly linked to payroll. There are benefits to both methods and can be explored. Using the level dollar amount for VEBA provides the lowest amount allowable by the GASB standards with overall payroll decreasing. VEBA will need to clarify this with the GASB policy changes of 2005-2006. The funded ratio has decreased due to the decline in the market. Education of the Board and its stakeholders, annual monitoring and a fully funded course of action in the funding policy will help alleviate these declines.

*(Verna McDaniel excused herself at 12:47 pm)*

While the funded ratio projections imitate somewhat of a bell curve in the presentation based on the closing of plan, the realization of the assumptions and the returns on the market value assets achieved they also consider both the positive and negative returns. A decrease in contributions is a function of investment returns for both the employee and employer in compliance with the negotiated bargaining agreements.

*(Brian Green departed at 12:55 pm)*

There are potential contribution reductions due to the elimination of sheriff employees. In the year 2040 they will be almost zero because the unfunded liability will be accounted for. If the contributions can be afforded and kept at the recommended levels it will contribute to the pay off of the unfunded liability. With payroll projections increasing and contributions accounted as a percentage of payroll the contributions can be leveled if the assumptions are correct. But, since contributions are reflected as a flat dollar amount in the report; with declining membership and payroll due to the plan's closing; contributions will drop off appropriately and the dollar amounts are anticipated to increase 4%.

For historical reference when the defined benefit plan was closed previously, payroll increased but expenses did not. As a percentage of pay the contributions in the future are higher with actual payroll declining.

The expected changed to the GASB accounting standards for the 2012 actuarial valuation reports were also discussed. The trajectory that the WCERS plan is on is remarkable even though the funded ratio is currently at 60%.

Trustees would like to create a memo for staff regarding the changes in the GASB reporting standards for clarification.

Scott Miller thanked both Mr. Levin and Mr. Langer for their comprehensive presentation.

Each Board will discuss the appropriate resolutions and take any necessary action at their next perspective regular meetings.

### **Adjournment**

Conan Smith seconded by Dan Smith motion to adjourn the WCERS special meeting at 1:15 pm. All WCERS members in favor, motion carried.

Nancy Heine seconded by Conan Smith motion to adjourn the VEBA special meeting at 1:15 pm. All VEBA members in favor, motion carried.

### **Upcoming Board Meetings**

- VEBA Regular Meeting  
November 7, 2013 at 1:30 PM  
BOC Conference Room  
220 North Main Street, Ann Arbor, MI
- WCERS Regular Meeting  
August 27, 2013 at 8:30 AM  
BOC Conference Room  
220 North Main Street, Ann Arbor, MI