

FINAL REPORT

CITY OF ANN ARBOR BLUE RIBBON COMMITTEE

MAY 20, 2005





INTRODUCTION

In the Fall of 2004, Mayor John Hieftje and City Council established a Blue Ribbon Committee (the Committee), composed of certain interested citizens, financial professionals, and retirement system beneficiaries, with the charge of reviewing the policies, administration, and management of the City of Ann Arbor Employees' Retirement System.

The Mayor's intended goal was for the Committee to provide observations and recommendations in order to properly position the City to address the financial realities of its economy so as to assure the City of its ability to provide retirement and health care benefits promised to those who have retired, and will retire, from employment with the City of Ann Arbor.

Given limited time, energy, budget and coordinated schedules, the Mayor and City Council asked that certain areas of inquiry be reviewed and prioritized to help determine the best practices that should be utilized for the benefit of the retirement system. In particular:

- What are the appropriate size, composition and responsibilities of the Retirement Board of Trustees?
- Are appropriate standards in place regarding systems audits, ethical behavior, conflicts of interest, investment policies and other such policy issues?
- How are advisory consultants selected? Do we have the right number and type of consultant support? What is the appropriate relationship between Board members and consultants? Are necessary policies in place?
- How does the Retirement Board obtain legal advice? How are legal services obtained? What is the appropriate relationship between the Board of Trustees and the City Attorney's office?
- What are the number and type of permanent staff necessary to properly support the functions of the retirement system? What is the appropriate relationship between the staff of the retirement system and the administrative staff of the City? Should the retirement staff be City employees?
- Are the retirement benefits offered to City employees appropriate, reasonable and affordable? How do retirement benefits offered Ann Arbor employees compare with retirement benefits offered to other comparable public organizations? Should the City consider alternatives to the present retirement plan for future employees?
- What are the City's options regarding funding for retiree health care? What long-term strategies do you recommend regarding health care benefits for retirees?



BACKGROUND INFORMATION

The recommendations in this report are based upon the Committee's understanding of best practices for retirement systems and organizations. The individual recommendations – in part or in whole – do not represent unanimous consent of the members of the Committee, but rather a majority.

Two Distinct Plans

The Committee recognizes the trust for the pension benefits, offered under the City of Ann Arbor Employees' Retirement System, is separate and distinct from the trust for retiree health benefits, offered under the City of Ann Arbor Retiree Health Care Benefits Plan.

The Committee recognizes that the current funding of both distinct benefits are unlimited tax general obligations of the City of Ann Arbor. The Committee acknowledges strong linkages between the Retirement System and the Retiree Health Care Plan; for example, strong ties exist in the temporary, start-up funding of the Retiree Health Care Benefits Plan trust by the Retirement System and in "like terms" for the determination of benefit eligibility.

There is no recommendation by this Committee to extend the retirement system obligation to funding retiree health care beyond any statute or ordinance currently in effect.

Development of the Charter

The Blue Ribbon Committee initiated its duties and defined its responsibilities in the adoption of the following charter:

For the benefit of employees, retirees, and the citizens of the City of Ann Arbor, Mayor Heiftje and City Council formed the Blue Ribbon Committee to explore and promote best practices within the City of Ann Arbor Employees' Retirement System. Given the current national trends in public and private pension retirement plans, health care costs, and available revenues, the Mayor and City Council wish to be proactive in ensuring the continued strength of the city's retirement system.

The Committee is a voluntary group of city residents, city employees, retirement system trustees, retirement system beneficiaries, and professionals with broad experiences in pension plan and financial matters. It is the intention of the Committee to act in an advisory capacity and provide non-binding recommendations to the Mayor and City Council.

By design, this committee is temporary, has not been limited to any specific retirement system issues, and it intends for this review process to be structured to include all interested parties.

**CITY OF ANN ARBOR
BLUE RIBBON COMMITTEE
MAY 2005**



The Committee recognized its task was for the benefit of all, forward thinking, and controversial by definition; involved wide-ranging perspectives and representation; required an open mind; and had to be dealt with over a finite period of time. Furthermore, the Committee recognized and reiterated that any recommendations flowing from this charter are not an indictment of any previous actions, current or former retirement system trustees, representatives or consultants.

The Economic Challenge of Public Retirement Plans

The Committee identified the general, but primary, economic challenges facing municipalities and the associated public retirement systems and retiree medical plans as the combination of a recently sustained, volatile investment environment, investment returns below plans' assumed rates of return, health care inflation, heavy financial commitments for funding retirement and health care benefits, and stable or shrinking revenue streams.

The Dedicated Millage and the Funding of the Retirement System

The Committee recognizes that the Retirement System enjoys the benefit of a dedicated millage that by Ordinance is first committed to funding the Retirement System. According to the Retirement System actuary, the dedicated millage should be sufficient to annually fund the Retirement System obligations, without regard to funding any other employee benefits, for the foreseeable future.

The Economic Issue for the City of Ann Arbor and Its Retirement System

In the context of the retirement system and the underlying retirement and retiree health benefits, the Committee synthesized these issues into a single underlying economic question:

If everything stays the same, how will the City of Ann Arbor provide the benefits it's promised?

To elaborate,

- If the revenue (the millage) produces the relatively same dollars going forward,
- If the return on investments remains lower than expected/necessary,
- If the obligations continue to grow due to increased retiree ranks and increasing costs, and
- If health care costs continue to double every five years or so,

Given the available resources for the retirement system, how will the City of Ann Arbor pay for the promised level of retiree health care and non-pension benefits?

This Committee is concerned that the past health care liabilities have not been funded and that the escalating increases in health care costs make future commitments difficult to satisfy without a heavy community burden such as increased taxes or reduced services.

**CITY OF ANN ARBOR
BLUE RIBBON COMMITTEE
MAY 2005**



Concentrating on the Broader Issues

All specific issues discussed by the Committee were categorized into five distinct areas:

1. Retirement System Funding
2. Retirement System Plan Design
3. Retirement System Governance
4. Retirement System Structure
5. Retiree Health Care

There was broad agreement that Retiree Health Care was the most obvious issue to address primarily because it is the greatest expense as a percent of active payroll, the benefits (although funded) are not well funded; and the costs continue to escalate at a rate greater than assumed in the most recent actuarial valuations. Recent experience is that health care costs double in less than every five years.

However, the Committee affirmed that Governance overlaps into virtually every issue and that any recommendations cannot be best affected, consistently administered, or perpetuated without appropriate governance in place.

With the recognition that there is an inevitable overlap in the issues, the Committee decided to address the issues weighting them in terms of immediate and sustained impact:

1. Retirement System Governance
2. Retiree Health Care
3. Retirement System Funding and
4. Retirement System Plan Design

Retirement System Structure was to be addressed generically if time permitted – it did not.

Good Faith Effort to Represent Facts Fairly and Accurately

THE BLUE RIBBON COMMITTEE DID ITS BEST TO REASONABLY SUMMARIZE AND REPRESENT ALL HISTORICAL DISCUSSIONS, COMMENTS, COMMUNICATIONS, REPRESENTATIONS AND WRITINGS AS FAIRLY AND ACCURATELY AS POSSIBLE. ANY PROJECTIONS, FORECASTS, ASSUMPTIONS, EXPRESSIONS OF OPINION, ESTIMATES AND OTHER BACKWARD-LOOKING RECONSTRUCTIONS OR FORWARD LOOKING STATEMENTS, WHICH THIS DOCUMENT MAY CONTAIN, ARE NOT TO BE CONSTRUED AS REPRESENTATIONS OF FACT, AND ARE QUALIFIED IN THEIR ENTIRETY BY THIS CAUTIONARY STATEMENT.

ONLY STATEMENTS MADE BY THE CITY IN AN OFFICIAL RELEASE OR SUBSEQUENT NOTICE OR ANNUAL REPORT, OR PUBLISHED IN A FINANCIAL NEWSPAPER OF GENERAL CIRCULATION ARE AUTHORIZED BY THE CITY. THE CITY SHALL NOT BE RESPONSIBLE FOR THE ACCURACY, COMPLETENESS OR FAIRNESS OF UNAUTHORIZED STATEMENTS.

**CITY OF ANN ARBOR
BLUE RIBBON COMMITTEE
MAY 2005**



Blue Ribbon Committee Members

Name	Resume Summary
Andrew Boonstra	Andrew Boonstra is an employee of the Ann Arbor City Fire Department and a member of Ann Arbor Fire Fighters Local 693. Andrew has been a Trustee on the City of Ann Arbor Employees' Retirement System for 2 years and is the Chairperson of the Administrative Policy Committee.
Tom Crawford	Tom Crawford is the Chief Financial Officer for the City of Ann Arbor, serving since July 2004. Prior to this position in the public sector, he worked nine years in the private sector for Ford Motor Company in various capacities within their financial management organization. Additionally, from 1987 to 1993 he worked as a bank examiner for the Office of Thrift Supervision evaluating policies and procedures to insure they were consistent with safe and sound business practices.
Calla J. Fette	Cal Fette is an Executive Vice President of United Bank & Trust responsible for the Trust & Investment Group. Ms. Fette has over 20 years of experience in the banking industry including the oversight of pension plans.
Norman Herbert	<p>Norman Herbert is a financial consultant, currently working with the Michigan Information Technology Center Foundation in Ann Arbor. For thirty-five years he was a part of the financial management team for the University of Michigan, retiring as Associate Vice President & Treasurer, a position he held from 1995 to 2002. His University responsibilities included management of the endowment and working capital, real estate acquisitions and dispositions, external financing activities and risk management.</p> <p>Norman has long been active with a number of professional, civic and non-profit organizations. He is a director of the Commonfund, Board chair of the Ann Arbor Area Community Foundation, a trustee of the Ann Arbor Rotary Endowment Foundation, president-elect of the Ann Arbor Rotary, and a member of the Earlham College Foundation Investment Committee.</p>
Jerry Lax	Jerold Lax is a partner in the Ann Arbor office of the law firm of Bodman LLP, specializing in municipal law, employment law, and civil litigation. He served as Ann Arbor City Attorney from 1969-1973, and again in 2002-2003. He is an emeritus associate professor of urban planning at the University of Michigan, where he taught from 1974-2002, and is former chairman of the Michigan Civil Service Commission Employment Relations Board.
Richard Martonchik	Richard Martonchik is currently Manager of Compensation, Performance Management and HRMS for the City of Ann Arbor. His extensive experience of over 25 years with global organizations encompasses Senior Level Administrative Management. His diverse areas of expertise include Human Resources, Compensation and Benefits, Pension and Investment Consulting, Research and Resource Management, Performance Management and Overall Operations Management. He has served on pension investment committees and chaired pension administrative committees for multi-national corporations.
Robert Pollock, Jr.	Rob Pollock has spent his entire career in the investment profession. He is an Investment Advisor and Senior Portfolio Manager at a local investment firm, Beacon Investment, where he manages a balance of personal, corporate, retirement, endowment and foundation portfolios. Mr. Pollock has been involved with many non-profit, community and professional organizations over the years including the YMCA, Mott Children's Hospital, Association for Investment Management and Research, Investment Analyst Society of Detroit, the Ann Arbor Area Community Foundation Finance Committee, Harbaugh Foundation and, as a Citizen Trustee, the City of Ann Arbor Retirement System.

CITY OF ANN ARBOR
BLUE RIBBON COMMITTEE
MAY 2005



Name	Resume Summary
Michael Reid	Mike Reid is a Council member representing the city's 2nd Ward. In his professional life, Mr. Reid is Founder and Managing Director of Exchange Capital Management, Inc., an investment advisory firm serving financial institutions and private clients. A Chartered Financial Analyst (CFA), he brings more than 20 years of relevant investment management experience to the Blue Ribbon Committee.
Nancy Sylvester	Nancy Sylvester is the Chief Housing Inspector for the City of Ann Arbor. She has been a trustee of the City of Ann Arbor Retirement Board for three years, currently serving as vice-chair. She has received her Certificate of Achievement in Public Plan Policy and serves on the Pension Investment Policy Committee and Administrative Policy Committee.



Retirement System Governance

The Committee agreed that the underlying concepts of an independent, knowledgeable, monitoring and decision-making body is vital to sustain the integrity and long-term viability of complex organizations.

The Committee felt it necessary to address governance as an important issue so as to provide the citizens and participants with a high level of comfort.

Governance, in terms of trustee composition, is largely defined in the City of Ann Arbor Charter (section 17.2) as supplemented by Ordinance section 1:553. The composition of the Board of Trustees of the retirement system is nine (9) members:

- The City Administrator
- The Controller (or Finance Director)
- Three (3) Trustees appointed by City Council
- Two (2) Trustees elected by the general City members
- One (1) Trustee elected by fire members
- One (1) Trustee elected by police members

While contributions to the City of Ann Arbor Employees' Retirement System (the Retirement System) are made by both the employees and the City, only the City acts as the final guarantor of all benefits paid by the Retirement System. This ultimate guarantee of the Retirement System's ability to pay the specified benefits means that the primary stakeholders in the operation of the Retirement System itself are the citizens of the City of Ann Arbor.

At the heart of the concern is the independence of the Board members. Of the nine current members of the Retirement Board, a majority are direct beneficiaries of the Retirement System. The Committee acknowledges that the essence of pure independence cannot truly be attained by citizens who are not beneficiaries of the Retirement System either, since they also have stakes in funding the Retirement System through the payment of taxes; however, it is the opinion of the Committee that any conflict of independence associated with a retirement system beneficiary is inherently greater than a conflict associated with a taxpayer. The notion that independence doesn't matter since the Board is simply administrative is countered by the fact that the assumptions for determining liabilities and interest earnings for calculating the funding of the Retirement System, as well the annual cost of living increases for retiree benefits, are set and approved by the Board.

The issue of independence is further complicated by presence of a City Administrator as a Trustee whose influence may be perceived as directive.

The second significant issue is the technical skills required to understand the complex issues that are present in the administration of the Retirement System. The combination of the highly technical rules for pension administration and the need to understand the use of arcane actuarial science in the measurement of present and future Retirement System liabilities requires an experienced and trained Board member to effectively govern the Retirement System. While some may argue that the purpose of the Board member

**CITY OF ANN ARBOR
BLUE RIBBON COMMITTEE
MAY 2005**



is to set policy and that technical aspects are handled by trained professionals, a lack of understanding of the finer points of administration means that a Board member may be unable to ask meaningful questions.

Finally, there is an issue in communication between the City Council and the Retirement Board. Short of a formal joint task force, the Committee recognizes that there needs to be more interaction between the two entities on the issues of benefits provided, funding and revenue, investment returns, and the underlying assumptions.

Many private sector employers have adopted legislated independence practices. These organizations are held accountable by boards composed of members, with the majority of members legally “independent” of the organization itself. Most members of such boards are required to have deep technical understanding of the financial and operational underpinnings of the organization.

For all of these reasons, the Committee believes that the Retirement System, the beneficiaries, and the City would be better served by a Board composed of three additional independent, qualified professionals who have no vested interest in the Retirement System other than being taxpayers of the City. In addition, the Committee recommends removing the City Administrator as a member of the Board. Furthermore, the Committee recommends periodic rotation of professionals serving the Board to ensure independence of advice and perspective.

There was considerable debate and discussion on this topic. It should be noted that a minority of the members of the Committee, while acknowledging the value of having independent members on the board, did not feel that independent members need constitute a majority of board members.

The Committee recognizes that any changes may be subject to amendment of the charter and ordinance as well as collective bargaining.

RECOMMENDATION #1A

The Committee recommends a Retirement System Board of Trustees composed of eleven (11) members in total:

- (a) The City’s Chief Financial Officer, to serve by virtue of the respective office.
- (b) Six (6) Independent Citizen Trustees appointed by the Council, to serve at the pleasure of the Council.
- (c) Two (2) Trustees elected by the general City members from their own number, including retirees.
- (d) One (1) Trustee elected by the fire members from their own number, including retirees.
- (e) One (1) Trustee elected by the police members from their own number, including retirees.

The Independent Citizen Trustees will serve with staggered terms of three years each, with a two consecutive term maximum. Such appointees should have the professional qualifications of a college degree and/or relevant professional certifications, and significant experience in any of the following areas, including, but not limited to:

**CITY OF ANN ARBOR
BLUE RIBBON COMMITTEE
MAY 2005**



- Pension administration
- Pension actuarial practices
- Investment management (including real estate)
- Finance
- Business
- Banking
- Certified public accounting
- Law

or similar credentials or experience as the Council deems appropriate. Such appointees will, preferably, be residents of the City of Ann Arbor but cannot be City employees, participants (direct or indirectly through a direct family member) of the Retirement System, nor can such appointees have any other personal interests which would be, or create the appearance of, a conflict of interest with the duties of a Trustee.

RECOMMENDATION #1B

The Committee recommends a City of Ann Arbor Retiree Health Care VEBA Board of Trustees composed of eleven (11) members in total:

- (a) The City's Chief Financial Officer, to serve by virtue of the respective office.
- (b) Six (6) Independent Citizen Trustees appointed by the Council, to serve at the pleasure of the Council.
- (c) Two (2) Trustees elected by the general City members from their own number, including retirees.
- (d) One (1) Trustee elected by the fire members from their own number, including retirees.
- (e) One (1) Trustee elected by the police members from their own number, including retirees.

The Independent Citizen Trustees will serve with staggered terms of three years each, with a two consecutive term maximum. Such appointees will have the professional qualifications of a college degree and/or relevant professional certifications, and significant experience in any of the following areas, including, but not limited to:

- Health care administration
- Health care actuarial practices
- Investment management (including real estate)
- Finance
- Business
- Banking
- Certified public accounting
- Law

**CITY OF ANN ARBOR
BLUE RIBBON COMMITTEE
MAY 2005**



or similar credentials or experience as the Council deems appropriate. Such appointees will, preferably, be residents of the City of Ann Arbor but cannot be City employees, participants (direct or indirectly through a direct family member) of the Retiree Health Care Plan, nor can such appointees have any other personal interests which would be, or create the appearance of, a conflict of interest with the duties of a Trustee.

Further, the Committee acknowledges that the membership of the Retirement System Board of Trustees and the Retiree Health Care VEBA Board of Trustees need not be identical. The Committee recommends that all members of each distinct board require distinct election and/or appointment processes.

RECOMMENDATION #2A

The Committee recommends that the City Council:

1. Direct the Retirement System Board of Trustees to adopt rules and procedures that require the periodic rotation of the primary principal, partner, and/or other designated contact that holds the ultimate decision making authority relating to services provided to the Retirement System, and of non-financial professional advisors, including, but not limited to, actuaries, attorneys, auditors, and pension consultants.
2. Direct the Retirement System Board of Trustees to adopt rules and procedures that require the periodic Request for Proposals for professional service providers including, but not limited to, actuaries, attorneys, auditors, and pension consultants.
3. Direct the Retirement System Board of Trustees to adopt rules and procedures that require the establishment of a Code of Conduct that applies to:
 - a. Board members and their interactions with all current and potential vendors, including but not limited to financial advisors, actuaries, attorneys, auditors, and consultants; and
 - b. All current vendors, including but not limited to financial advisors, actuaries, attorneys, auditors, and consultants.
4. Direct the Retirement System Board of Trustees to form an audit subcommittee composed of members of the Board of Trustees with a majority of Independent Citizen Trustees. The purview of such subcommittee is to determine the scope of the annual trust audit and to contribute to the auditor and actuary selection process.

RECOMMENDATION #2B

The Committee recommends that the City Council:

1. Direct the City of Ann Arbor Retiree Health Care VEBA Board of Trustees to adopt rules and procedures that require the periodic rotation of the primary principal, partner, and/or other designated contact that holds the ultimate decision making authority relating to services provided to the Retiree Health Care Plan, and of non-financial professional advisors, including, but not limited to, actuaries, attorneys, auditors, and consultants.

**CITY OF ANN ARBOR
BLUE RIBBON COMMITTEE
MAY 2005**



2. Direct the City of Ann Arbor Retiree Health Care VEBA Board of Trustees to adopt rules and procedures that require the periodic Request for Proposals for professional service providers including, but not limited to, actuaries, attorneys, auditors, and consultants.
 3. Direct the City of Ann Arbor Retiree Health Care VEBA Board of Trustees to adopt rules and procedures that require the establishment of a Code of Conduct that applies to:
 - a. Board members and their interactions with all current and potential vendors, including but not limited to financial advisors, actuaries, attorneys, auditors, and consultants, and
 - b. All current vendors, including but not limited to financial advisors, actuaries, attorneys, auditors, and consultants.
 4. Direct the City of Ann Arbor Retiree Health Care VEBA Board of Trustees to form an audit subcommittee composed of members of the Board of Trustees with a majority of Independent Citizen Trustees. The purview of such subcommittee is to determine the scope of the annual trust audit and to contribute to the auditor and actuary selection process.
-



Retiree Health Care

For the fiscal year beginning July 1, 2005, the City's overall contribution rate for retiree medical benefits is approximately 16% of payroll. However, this contribution is based upon the assumption that future health care inflation is limited to approximately 6.00% per year through the year 2009, dropping to 3.50% per year thereafter. If the health care cost inflation were instead estimated to grade down to 3.50% per year in the year 2015 from 14.00% in the year 2004, the City's Contribution rate is estimated to be in excess of 24% of payroll.

The unfunded liability related to the City's retiree medical benefit commitment is a large, looming problem. The problem is not exclusively related to its size, but is related to the fact that it is hidden and is being deferred out to future years' taxpayers. Although the valuation assets are approaching \$40 million in 2004 compared to \$3 million in 1999 and the funded ratio is nearly 30% in 2004 compared to less than 6% in 1999, the unfunded accrued liability is in excess of \$90 million in 2004 compared with \$50 million in 1999.

While the Committee recognizes that monies have been contributed to initiate the funding of the associated retiree health liabilities, these benefits are currently being covered by a largely pay-as-you go basis and partially out of earnings of the retirement system. The Committee recommends that such a practice should stop once any current statute or ordinance in effect to the contrary expires.

RECOMMENDATION #3

While upcoming accounting rules require the accounting and funding transparency for the retiree medical benefit liabilities, it does not address the ability or inability of the City to fund the already-existing unfunded liability. While an in-depth review of the retiree medical benefits is outside the charter of this Committee, we recommend that the City should conclude, as soon as possible, whether the current employees have a vested right to retiree health care in its current form without modification. If the answer is no, the employees should be given that information. If the answer is yes, a plan for payment of the liability should be immediately developed.

RECOMMENDATION #4

For the City to remain an employer of choice, to provide the citizens of the City with effective and efficient services, to encourage and reward responsible health behavior, to supplement and support the current and ongoing activities of the City's Human Resource Department, to contain the dramatic rise in health care costs, and to secure the long-term viability and high level of quality of health care for active and retired employees, this Committee recommends that the City study and report to City Council the costs and return on investment of integrated claims data modeling, health risk assessments, and wellness and disease management programs. Additionally, the City should study and report to City Council the financial impact of health care plan design changes, including increasing copayments and deductibles as well as limiting the annual amounts paid by the City.



Retirement System Funding

For the fiscal year beginning July 1, 2005, the City's overall contribution rate for retirement benefits is less than 6.00% of payroll. The City's normal contribution rate is 13.40% of payroll but it is reduced by 7.70% of payroll due to the amortization of the over funding. The amortization of the over funding effectively allows the assets of the retirement system to pay for non-pension related benefits in an amount equal to 7.70% of payroll.

Beginning in the 1998/99 fiscal year, and for a period not to exceed ten years, retiree health care expenses are being paid out of the Retirement System. Each year the actuary completes a test to verify compliance with the Ordinance. Currently, the Retirement System actuaries have represented that the Retirement System continues to be well funded and is in compliance with the Ordinance.

Although the funded status of the Retirement System, that is, the ratio of valuation assets to liabilities, is in excess of 110%, the contribution rate is likely to increase over each of the next four years if the investment returns are less than the assumed investment returns.

While the dedicated millage makes the long-term viability of the retirement system, with its current census composition and an assumed rate of investment return, reasonably sustainable, the Committee believes that funding to an amount greater than 100% of liabilities is prudent given general market volatility.

RECOMMENDATION #5

This Committee recommends, based upon prudent actuarial assumptions being utilized in the actuarial valuation, that the ratio of valuation assets to liabilities should equal or exceed 100% on an annual basis.

RECOMMENDATION #6

While the Committee recognizes that monies have been contributed to initiate the funding of the associated retiree medical liabilities, these benefits are partially funded out of earnings of the Retirement System. The Committee recommends that such a practice stop once any current statute or ordinance in effect to the contrary expires.



Retirement System Plan Design

The major plan design alternative consideration was for that of a defined contribution style retirement plan versus the current defined benefit style. There are a variety of potentially positive and negative effects of defined contribution plans versus defined benefit plans.

The Committee acknowledges that 1) the Retirement System funding is adequate at this time 2) the dedicated millage has been determined by the actuary to be sufficient for near future and 3) the benefits reviewed for similar municipalities generally appear to be comparable to the benefits provided by the City of Ann Arbor, even though such a comparison is difficult, if not impossible.

RECOMMENDATION #7

This Committee recommends further evaluation of the basic design of the retirement system retirement benefits in the context of: 1) defined benefit versus defined contribution plans, 2) comparable public and private organizations, and 3) the City's ability to sustain the funding of all retirement benefits within the existing and projected revenue structure.

**CITY OF ANN ARBOR
BLUE RIBBON COMMITTEE
MAY 2005**



Trustee Communication with City Council

The Committee recognizes that there needs to be more meaningful interaction between the City Council and the Retirement System Board of Trustees and the Retiree Health Care VEBA Board of Trustees on the issues of benefits provided, funding and revenue, investment returns, underlying assumptions, and rapidly growing liabilities and obligations. Such enhanced and formalized interaction will assist and direct the City Council to where its attention needs to be focused and will inform it as to the City's ability to sustain the level of all the benefits that are currently provided.

RECOMMENDATION #8

The Committee recommends that the City Council direct the Retirement System Board of Trustees and the Retiree Health Care VEBA Trust Board of Trustees to meet with the City Council and establish communication criteria, including specifications on the type and timing of information to be provided to the City Council.

**CITY OF ANN ARBOR
BLUE RIBBON COMMITTEE
MAY 2005**



Conclusion

The Committee recommends progress through a partnership and a strong working relationship between the Retirement System and the City Council. Fiscal responsibility in dealing with benefit obligations is something that is owed to taxpayers and employees – setting the appropriate benefit levels and recognizing the corresponding liabilities is necessary for the future health of the City and the retirement system.

Adoption of the recommendations made in this report will require additional effort in formulating resolutions for adoption by the City Council, the Retirement System Board of Trustees, and the Retiree Health Care VEBA Board of Trustees. To fully adopt some of the recommendations of the Committee, it will be necessary to 1) amend the Charter by a vote of the citizens of the City of Ann Arbor and 2) amend the Ordinance by action of the City Council.